Portland Metro

2021 Market Insight Report

Q2 2021 Industrial Market

cresa

Fremont Bridge

Portland Metro Overview

The brief pause of 2Q 2020 due to COVID is a distant memory compared to the market dynamics of 2Q 2021. Occupancy costs are at all-time highs along with construction costs for everything from basic materials, labor, parts and equipment. Exacerbating this situation is a very tight supply of existing spaces and substantial pre-leasing of new construction which leaves very little time for occupiers to evaluate options whether to relocate or renew. Despite the “Vacancy Rate” shown below which captures a variety of industrial buildings, market centric buildings (particularly warehouse and manufacturing) are limited. As an example, there are currently fewer than 10 buildings available for lease on a combined basis in the entire Metro area outside of Airport Way area of the NE Portland submarket if someone wants 30-100K sf of existing space. This includes Sunset Corridor, I-5 Corridor, 217 Corridor, NW Portland and SE Portland. Even with the Delta variant and potential partial shutdowns as a result of a resurgence, it is likely that this trend will continue throughout 2021 and into early 2022. Our advice is to start strategic planning and real estate decisions at least 18-24 months in advance.

Cost of Occupancy Soars

Just like upgrading/remodeling homes or buying/renting them, the costs to build, remodel or acquire new industrial space has soared in the last 12 months. The brief period of low commodity prices and landlord uncertainty of 12 months ago is long gone. Since, the opposite has happened. Rents and prices are at all time highs and look to continue for the foreseeable future. Anyone with new facility or renewal needs in the next 18-36 months needs to start planning now so that there is time to evaluate as many alternatives as possible.

Timelines

These high costs come, in part, due to tight supply, limited new construction, and stubborn landlords. Many firms looking for space in the Portland Metro have few quality options to consider, whether it is an existing building, new construction or land to develop. This coupled with longer lead times for materials, equipment and municipal permits, extends the process versus the pre-Covid norm. Again, this extended time frame seems to be the “new normal” for the foreseeable future. The best solution for tenants and occupiers is to start considering possible solutions as early as possible.

Tenant Improvements/Build-to-Suits

These days, waiting for 6-9 months before a lease expiration to consider a relocation and/or major improvements to an existing space likely creates a more difficult situation and often gives more leverage to landlords (not ideal). In addition, it may compress the design value engineering and bidding time to get the best cost solution. The same is true for a BTS, but on a much larger scale with many more moving parts. We suggest a minimum of 24 months to navigate a BTS on a shovel-ready site.

Properties to Buy/Seller’s Market

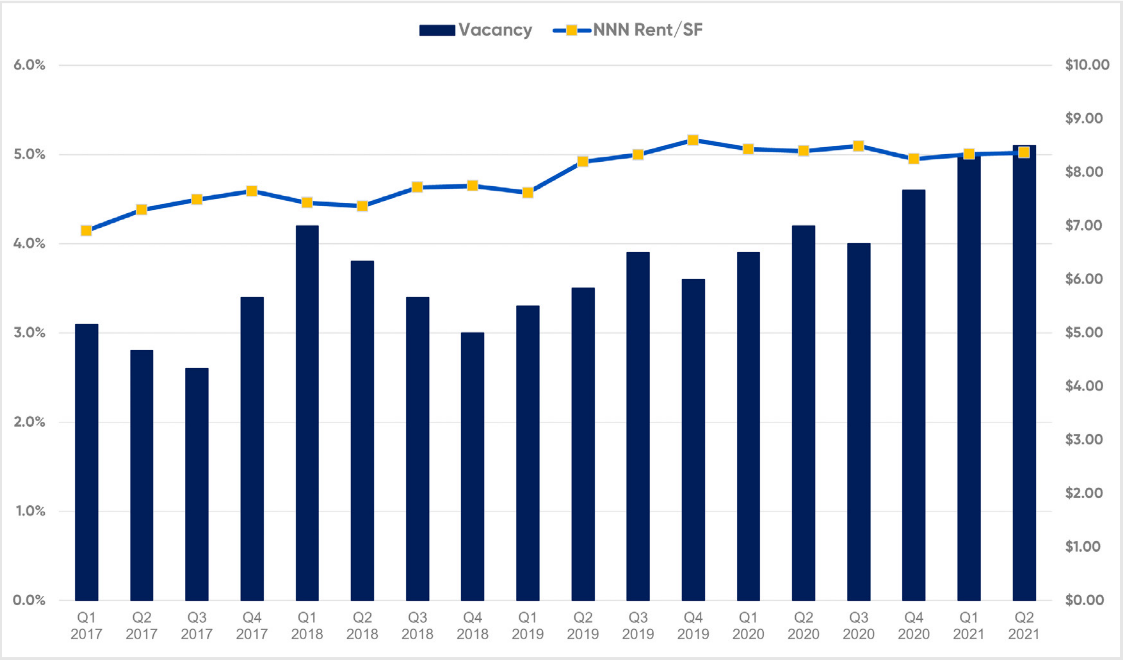
As you might already know or guess, if you are looking to buy a property, options are even fewer these days than in the past. We have clients actively looking for existing industrial properties for over a year and finding little or nothing that fits. The ones that might work are often bid up and in contract quickly. This all translates to high prices. Conversely, occupiers that own have unique opportunities to provide working capital (if needed) or other strategies with their owned real estate. Creative debt/equity strategies and structured finance (beyond just sale-leasebacks) are very compelling alternatives that Cresa can assist with.

Portland Metro

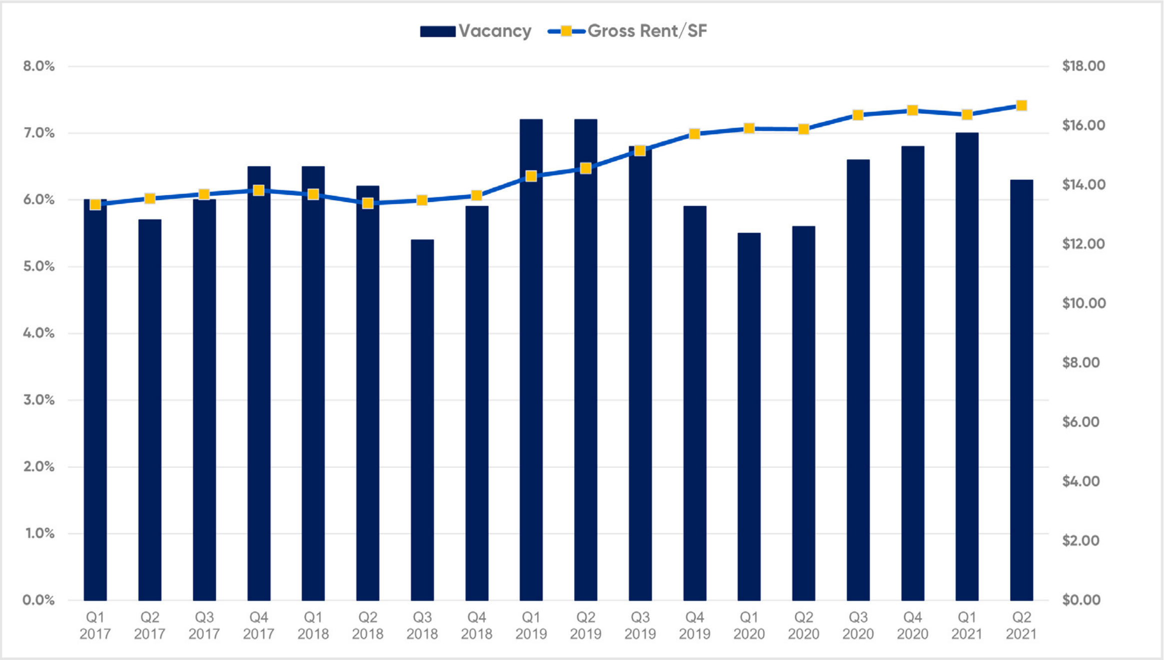
	SUPPLY	VACANCY	AVERAGE RENT	SUBLEASE
Warehouse & Manufacturing	200,742,498 SF	5.1%	$8.37/SF	1,309,880 SF
Flex	22,763,532 SF	6.3%	$16.68/SF	59,186 SF

Historical Rent & Vacancy

Industrial & Manufacturing

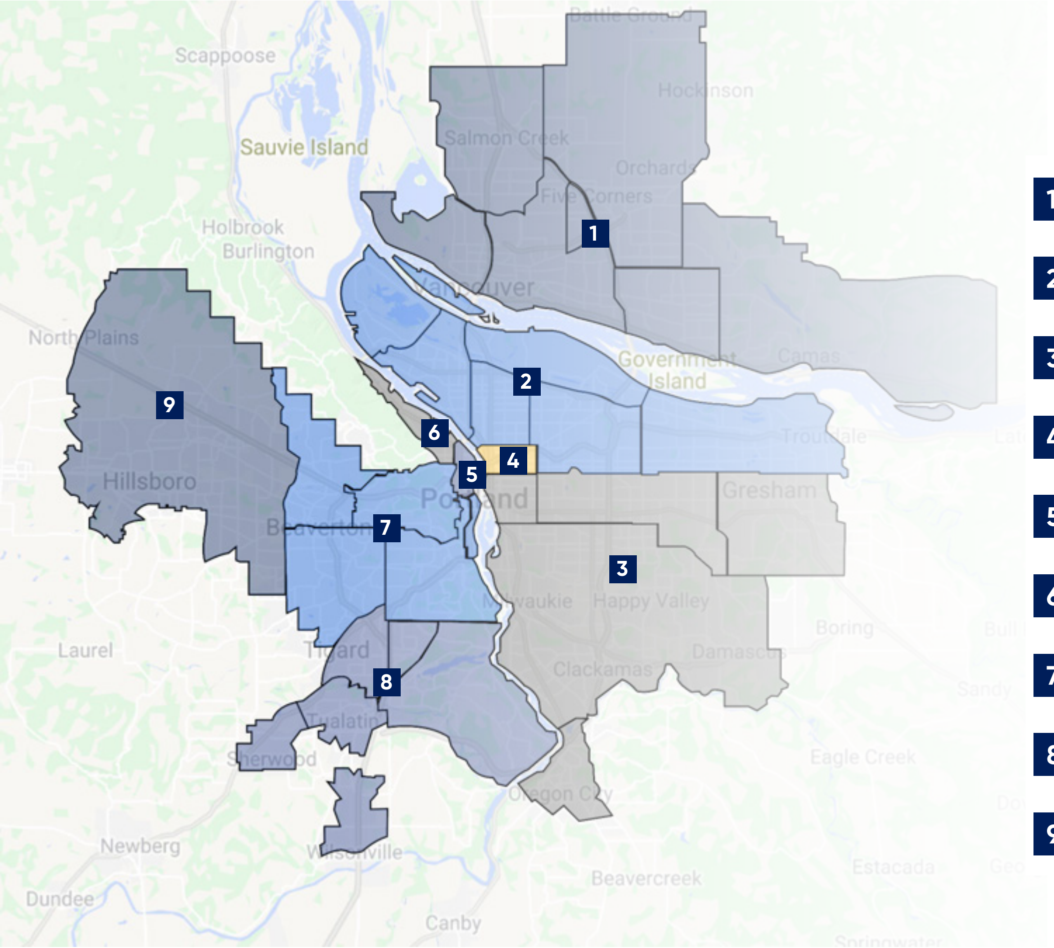


Flex



Data: End of Q2 2021. Portland Metro Submarkets. All Industrial (A,B,C)

Submarket Overview: Industrial & Flex



	Submarket	Market Size (SF)	Warehouse		Manufacturing		Flex	
			Available %	NNN Rent/SF	Available %	NNN Rent/SF	Available %	NNN Rent/SF
1	Clark County	28 M	3.80%	$8.18	1.80%	$7.87	7.00%	$8.75
2	Northeast	82.3 M	7.60%	$7.91	1.80%	$7.39	10.90%	$13.31
3	Southeast	37.4 M	4.90%	$8.50	4.40%	$9.69	9.10%	$19.11
4	Lloyd District	2.6 M	12.70%	$19.21	NA	NA	9.30%	$20.62
5	CBD	NA	NA	NA	NA	NA	NA	NA
6	Northwest	13.5 M	4.20%	$7.89	2.40%	$8.88	0.00%	$22.10
7	217 Corridor/ SW	8.8 M	10.80%	$7.80	1.40%	$8.77	9.60%	$16.82
8	I-5 Corridor	33.3 M	3.40%	$7.59	8..3%	$8.84	6.50%	$13.86
9	Sunset Corridor	24.8 M	1.10%	$11.33	1.00%	$8.76	5.50%	$17.27

Development Pipeline

	Development	Location	Developer/Owner	Size (SF)	Available (SF)	Delivery Date	Status
1	Brookwood Pky	Hillsboro	Majestic Realty Co	850,000	0	Q3 2022	Under Construction
2	Prologis Meadows	Portland (NE)	Prologis	700,000	350,000	Q1 2023	Proposed
3	Bridge Point	Vancouver	Bridge	619,800	619,800	Q1 2023	Proposed
4	Prologis Broadmoor	Portland (NE)	Prologis	268,749	268,749	Q1 2023	Proposed
5	3600 NE Huffman St	Hillsboro	Trammell Crow	195,550	0	Q4 2021	Under Construction
6	Northwest Logistics Center	Portland (NW)	Prologis	187,546	187,546	Q3 2022	Under Construction
7	Vancouver Logistics	Vancouver	Panattoni	170,089	170,089	Q2 2022	Under Construction
8	Sandy Blvd Industrial Park II	Portland (NE)	Phelan Development	137,991	137,991	Q2 2022	Under Construction
9	Myslony Industrial	Tualatin	Phelan Development	129,975	129,975	Q3 2022	Proposed

12.9 Million SF
Under Development

Permitted Development
9,208,326 SF

Under Construction
3,717,835 SF

Building Material Costs - A Bubble Soon to Pop?

After the initial Covid shutdown in the Spring of 2020, uncertainty carried the day. For the building materials industry, the shutdown was very short-lived and not only reversed quickly, but demand sent prices of some materials to record levels that to continue today. Are increased material costs here to stay? Most likely not, and the bubble may pop sooner versus later.

By April of 2020, Covid was everywhere, and need-based panic buying was the norm (remember the run on toilet paper!). The building materials industry's initial pause soon gave way to a surge in DIY, staycation upgrades, and remodeling. You do not have to look any further than Home Depot for evidence of this situation. Pre-pandemic (1Q20) versus most recent quarter (1Q21), Home Depot reported a 32.7% increase in sales. Year Over Year, 2020 sales grew 20% compared to 2019 (with a several-month shutdown baked in for 2020). It is interesting to note that Home Depot is not providing any guidance on revenues for 2021. Are they concerned about a drop-off? Nonetheless, not only is lumber still at high prices (still trading at 2-3 times its average price over the last 20 years, not to mention even higher prices as recently as 3 months ago), but high costs have reached other common building materials like copper, steel, concrete, and even bricks.

Mutual Materials is a large masonry company based in Bellevue, Washington that manufactures a variety of brick, pavers, and other masonry products for residential and non-residential construction. What makes Mutual Materials different is that they are privately owned and manufacture their products in the US, versus many other building materials firms, which get products from overseas (over 30% of the building products sold in the US are produced in China). Trevor Fearn, their Commercial Sales Manager for several states including Oregon, told me in an interview that they had record sales for 2020, despite manufacturing slowdowns due to Covid and a tight labor market. Almost halfway through 2021, he said sales are ahead of 2020 levels and are projected to continue through the rest of this year into 2022. Trevor said that Mutual Materials has done their best to keep price increases to a minimum, but production costs have forced them to implement higher than normal increases. Interestingly, when asked about whether the sales increases were due to an increase in pricing, in volume sold, or a combination, he said primarily due to pricing. This situation would suggest that much of the increase in revenue is coming from price increases on products and an inability to meet demand, versus higher sales volume. So, if prices fall (due to less demand or other factors) will an increase in sales volume offset to keep building materials sales at elevated levels?

What gets lost in the headlines is that...

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Article by Sean Heaton, Principal | July 2021

> **Not only is lumber still at high prices, but high costs have reached other common building materials like copper, steel, concrete, and even bricks.**

Photo Credit: Mutual Materials

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Dr. Mike Wilkerson, Senior Economist for ECONorthwest on the Uneven Recession, Automation, and the Future of Portland's Growth

The Uneven Recession & Unknown Recovery

Now that a decent amount of time has passed, we are getting a clearer picture as to which industries have been affected the most. Knowledge workers and those who have been able to work from home have suffered less. Mike noted that overall savings rates have gone up during the recession, and for the most impacted industries (restaurants/hospitality) the recovery is still unknown as some shut-downs and restrictions continue. The professional services industry has remained fairly unimpacted, but while construction continues to go on smoothly it could be heavily impacted by a downcycle.

Manufacturing Impact

Transportation makes up a large part of the local industrial sector. Since this has been one of the industries impacted most by the pandemic, our local manufacturing has taken a larger hit because of the...

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interview by Jack Foy, Advisor | May 2021

Think Beyond Space | The PDX Workplace Insider Podcast

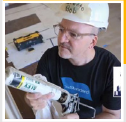
Cresa Portland's new podcast!

Click to listen to the podcast

Episode 8: Evolving to a Hybrid Workplace

Colleen Murray, Director of Operations for Perkins & Coe

Colleen Murray is a shareholder and the Director of Operations for Perkins & Co, on this episode host Blake St. Onge talks with Colleen about how they are evolving their workplace to a hybrid model to ensure they meet the needs of all employees.



Episode 9: How a Culture Rooted in Philanthropy Supports Employees through Uncertainty

Bob Speltz, Senior Director of Community Relations for The Standard

Bob Speltz is the Senior Director of Community Relations for The Standard. In this episode, host Blake St. Onge sits down with Bob to learn how The Standard's deep roots in Portland and their culture of philanthropy helped them support their 3,000 employees the past 15 months.

Episode 10: Portland Office Trends and Opportunities in the New Workplace

Sean Connors, Senior Advisor with Cresa

Sean Connors is a Senior Advisor for Cresa Portland. In this episode, host Blake St. Onge and Sean discuss the current state of the Portland office market, and opportunities for companies in the new workplace.

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Meet the Team

Click to learn more about our advisors

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About Cresa Portland

Cresa is the world's largest commercial real estate advisory firm that exclusively represents occupiers and specializes in the delivery of fully integrated real estate solutions. We work with our clients to align their business plans and their real estate needs, increase their productivity, and consistently save them money — results that have earned us numerous industry awards along the way. Our team of real estate advisors, project managers, strategic planners, analysts, and space planners listen to tenants' needs, meticulously research market conditions, firmly negotiate terms, and manage the design and construction of projects to customize the best possible occupancy solutions.

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