

FIGURES | PORTLAND OFFICE | Q4 2022

Tenants seek smaller, higher-quality office footprints amidst economic uncertainty

▲ 21.4%
Vacancy Rate

▼ (271k)
SF Net Absorption

▲ 642k
SF Under Construction

▲ \$32.43
Asking Lease Rate, FSG

Note: Arrows indicate change from previous quarter.

MARKET SUMMARY

- The Portland metro area’s overall vacancy rate grew to 21.4%, an 80 basis point (bps) increase year-over-year (YOY).
- In Q4 2022, sublease availability across the overall office market increased to 2.5 million sq. ft., up 36.2% from the previous quarter and 96.3% YOY.
- Construction has begun at Terminal 1 in Vancouver. ZoomInfo has the 366,000 sq. ft. office building pre-leased and plans to move in in 2025. Two other notable projects in Portland’s office development pipeline, The Offices at 11W (117,285 sq. ft.) and Block 216 (158,464 sq. ft.), both in the CBD, are on target for their expected delivery dates.
- The average direct asking lease rate in the metro area was \$32.43 per sq. ft. full-service gross (FSG), for a 0.6% increase quarter-over-quarter (QOQ) and a 3.2% increase YOY.
- The Q4 Suburban average asking rental rate was \$28.97 per sq. ft. FSG, a 1.9% increase QOQ and a 6.2% increase YOY.
- The Q4 Downtown average asking rental rate was \$34.52 per sq. ft. FSG, a 0.2% increase QOQ and a 2.3% increase YOY.

FIGURE 1: Downtown vs Suburban Market Statistics

	NRA (SF)	Vacancy Rate (%)	Sublease Availability (SF)	Q4 Net Absorption (SF)	Average Direct Asking Rate (\$/SF/YR FSG)	Under Construction (SF)
DOWNTOWN						
Class A	12,047,457	25.2%	720,311	(63,813)	\$39.89	275,749
Class B	8,418,881	28.1%	557,187	(101,039)	\$32.84	-
Class C	2,774,853	30.0%	74,928	(33,041)	\$28.81	-
Class D	3,274,118	31.1%	194,825	(43,891)	\$26.17	-
Total	26,515,309	27.4%	1,547,251	(241,784)	\$34.52	275,749
SUBURBAN						
Class A	10,844,851	17.9%	335,884	(77,373)	\$33.31	366,000
Class B	11,854,124	13.2%	573,150	(8,992)	\$25.47	-
Class C	2,030,559	10.4%	-	56,959	\$19.18	-
Class D	67,000	0.0%	-	-	-	-
Total	24,796,534	15.0%	909,034	(29,406)	\$28.97	366,000
METRO TOTAL	51,311,843	21.4%	2,456,285	(271,190)	\$32.43	641,749

Source: CBRE Research, Q4 2022

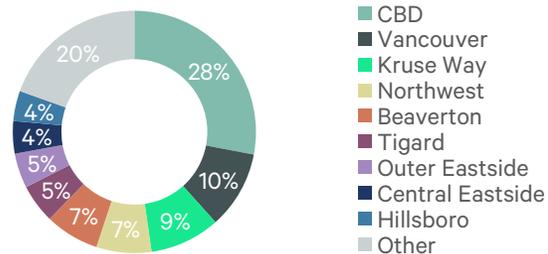
Leasing Activity

Leasing activity stayed flat in the fourth quarter of 2022. Across the Portland metro area, 626k sq. ft. transacted, in line with the 2022 quarterly average of 652k sq. ft. While that figure represents an increase of 88.2% compared to 2020, it's an 18.4% decrease in quarterly leasing volume compared to 2021.

Since 2020, various Software as a Service (SaaS) companies left the downtown core in favor of work-from-home arrangements (e.g., Tripwire, Coinbase), while professional services tenants tended to relocate to the suburbs while maintaining a hybrid work schedule (e.g., Umpqua Bank, Liberty Mutual). Still, the Central Business District (CBD) saw the most leasing activity in every quarter of 2022, with companies Quantum Spatial, Inc. and CONSOR Engineers, LLC committing to the area in Q4.

Tenants like iHeartMedia continued to sign renewals ahead of unpredictable economic headwinds expected in H1 2023. Many tenant requirements, both for renewals and new leases, have focused on "right-sizing." Salesforce and Momentive (SurveyMonkey), for example, both inked Q4 deals for less space than their previous leases. Tenants who want an inviting space for in-person collaboration but don't expect full occupancy five days a week continued to pursue experience-driven Class A space at a premium. Notably, law firm Orrick, Herrington & Sutcliffe signed a 12,339 sq. ft., 11-year lease in the nearly finished Offices at 11W, even as high sublease and direct availability downtown meant there were plenty of cheaper options available.

FIGURE 3: Leasing Activity by Submarket, 2022



Source: CBRE Research, Q4 2022

FIGURE 2: Top Lease Transactions

Tenant	Size (SF)	Location	Submarket	Lease Type	Class
Salesforce	51,845	2035 NW Cornelius Pass Rd	Hillsboro	Renewal	A
Quantum Spatial, Inc.	25,385	421 SW 6 th Ave	CBD	Renewal	B
iHeartMedia	24,739	13333 SW 68 th Ave	Tigard	Renewal	C
CONSOR Engineers, LLC	17,891	1 SW Columbia St	CBD	New Lease	A
Oregon Health Authority	13,631	421 SW Oak St	CBD	New Lease	B
Orrick, Herrington & Sutcliffe	12,339	1102-1116 SW Washington St	CBD	New Lease	A

Source: CBRE Research, Q4 2022

FIGURE 4: Historical Leasing Activity



Source: CBRE Research, Q4 2022

Supply and Demand

The Portland metro area office market closed the fourth quarter of 2022 with an overall vacancy rate of 21.4%, up 80 bps from the 20.8% recorded in the third quarter, and up 180 bps YOY. Downtown, the office market closed the fourth quarter of 2022 with an overall vacancy rate of 27.4%, up 90 bps from the previous quarter and up 220 bps YOY. In the suburbs, the vacancy rate was 15.0%, up 20 bps from the previous quarter and up 130 bps YOY.

In Q4 2022, the total availability rate across the metro hit 25.2%, up 320 bps YOY, with 12,941,987 sq. ft. available. Sublease availability across the overall office market jumped to 2,456,285 sq. ft., up 36.2% from the prior quarter. Downtown, 1,547,251 sq. ft. of available sublease space accounted for 18.3% of the total 8,441,399 sq. ft. available at the end of the year. In the suburbs, 909,034 sq. ft. of available sublease space accounted for 20% of the total 4,500,588 sq. ft. available. Portland’s office market recorded 271,190 sq. ft. of negative absorption in Q4 2022, bringing the year-to-date figure to negative 749,794 sq. ft.

Two notable projects in Portland’s office development pipeline, The Offices at 11W (117,285 sq. ft.) and Block 216 (158,464 sq. ft.), both in the CBD, remain on target for their expected delivery dates. Additionally, construction has begun at ZoomInfo’s preleased 366,000 sq. ft. office building at Terminal 1 in Vancouver, WA.

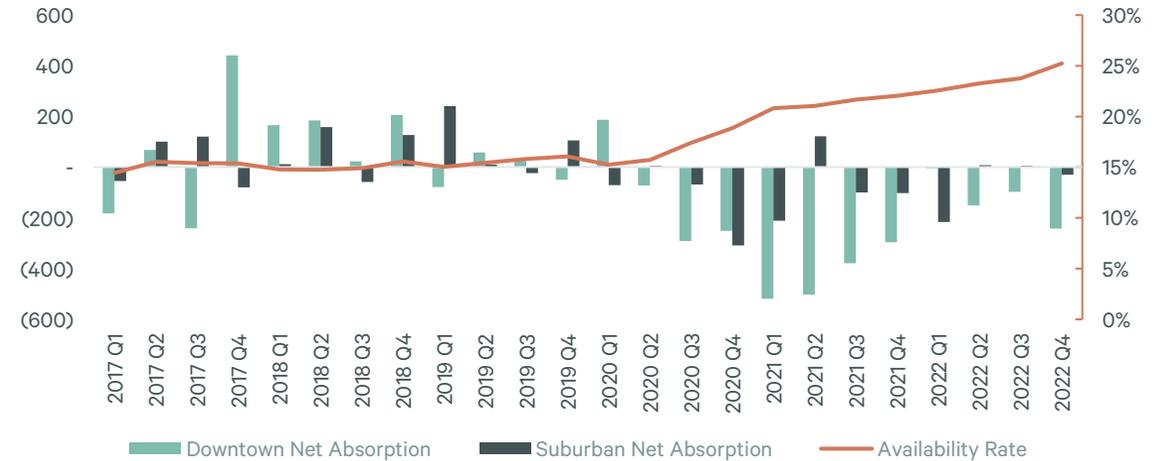
Rent Trends

Direct asking rental rates market-wide ended the year at \$32.43 per sq. ft. per year on a full-service gross basis (FSG), up \$1.02 from the end of 2021. Downtown, the average asking rates hit \$34.52 per sq. ft. FSG, while the suburbs reached \$28.97 per sq. ft. FSG. While some buildings both downtown and in the suburbs advertised lower rates in Q4 than in earlier quarters to attract tenants, a more common strategy was to withhold asking rates in hopes to negotiate with potential clients.

Investment

Rising vacancy, increased debt rates, and uncertainty about who will fill the demand void left largely by SaaS companies kept investors largely sidelined through Q4 as pricing expectations are unclear going into 2023. Nationally, per the CBRE 2023 U.S. Investor Intentions survey, more than half of investors expect to decrease purchasing activity in 2023 compared with 2022 levels. Amid lower pricing dynamics, 60% of respondents say they will either sell less than last year or not sell at all.

FIGURE 5: Absorption (Thousand Sq. Ft.) vs. Availability Rate



Source: CBRE Research, Q4 2022.

FIGURE 6: FSG Asking Rental Rates (\$/SF/YR FSG)



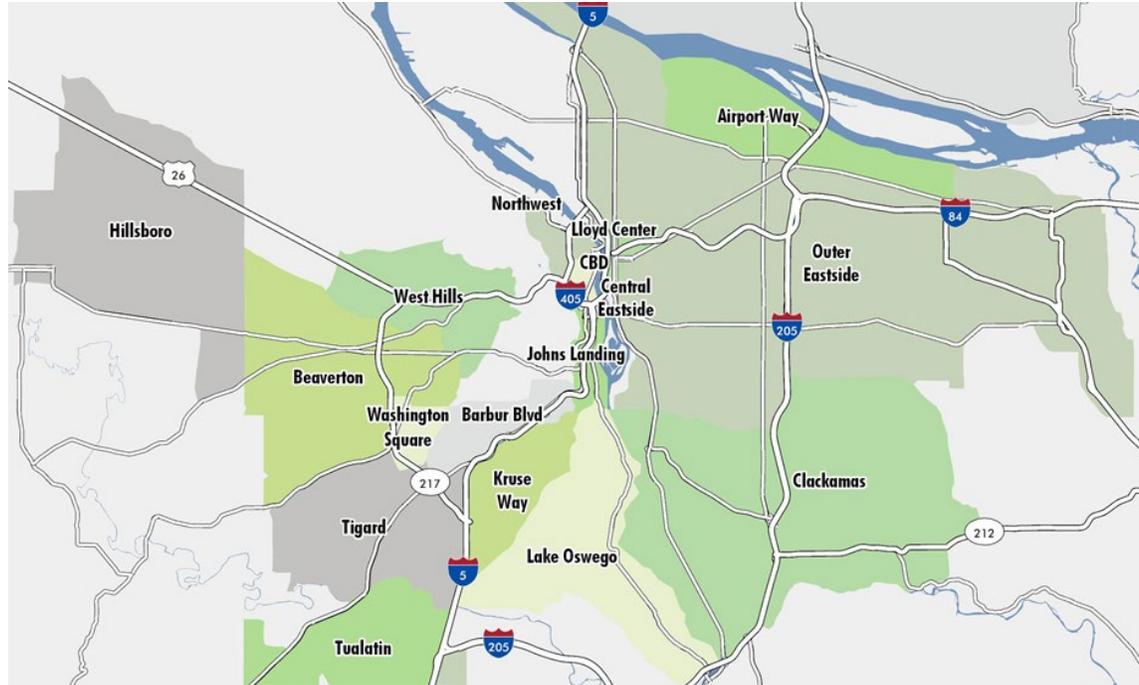
Source: CBRE Research, Q4 2022.

FIGURE 7: Metro Market Statistics

Submarket	NRA (SF)	Vacant Direct (SF)	Vacant Sublease (SF)	Vacancy Rate (%)	Q4 2022 Net Absorption (SF)	YTD Net Absorption (SF)	Under Construction (SF)	Average Asking Rate (\$/SF/YR FSG)
CBD	16,314,542	3,642,851	570,958	25.8%	(39,839)	(356,750)	275,749	\$34.51
Central Eastside	2,278,740	513,875	145,547	28.9%	(45,757)	(12,269)	-	\$35.14
Lloyd Center	1,778,737	216,585	27,337	13.7%	(57,451)	(97,709)	-	\$36.37
Northwest	6,143,290	1,773,543	365,000	34.8%	(98,737)	(24,673)	-	\$33.95
Total Downtown	26,515,309	6,146,854	1,108,842	27.4%	(241,784)	(491,401)	275,749	\$34.52
Airport Way	547,741	88,061	49,426	25.1%	7,045	(50,001)	-	\$20.26
Barbur Blvd	425,159	51,876	20,874	17.1%	(651)	(2,440)	-	\$18.68
Beaverton	2,928,348	468,850	67,481	18.3%	(27,624)	(54,702)	-	\$25.15
Clackamas	1,179,014	97,786	-	8.3%	4,410	(107)	-	\$28.11
Hillsboro	2,239,626	348,196	11,528	16.1%	2,011	39,272	-	\$23.18
John's Landing	1,717,467	386,134	34,818	24.5%	(3,569)	(87,015)	-	\$31.98
Kruse Way	2,572,050	493,731	101,699	23.2%	(41,630)	(146,683)	-	\$40.99
Lake Oswego	441,831	45,802	15,219	13.8%	(2,788)	11,549	-	\$29.66
Out of Submarket	233,122	15,650	-	6.7%	3,550	(1,961)	-	\$23.97
Outer Eastside	1,945,814	191,603	6,803	10.2%	(4,769)	16,660	-	\$21.78
Tigard	2,192,535	161,849	53,505	9.8%	31,237	619	-	\$25.36
Tualatin	785,315	148,590	-	18.9%	(1,268)	11,349	-	\$26.57
Vancouver	4,799,723	449,278	57,851	10.6%	17,823	6,293	366,000	\$26.30
WA Square	1,195,521	221,003	35,413	21.4%	(17,674)	(35,713)	-	\$33.61
West Hills	870,944	72,507	5,000	8.9%	4,867	23,699	-	\$22.98
Wilsonville	722,324	12,970	-	1.8%	(376)	10,788	-	\$24.28
Total Suburban	24,796,534	3,253,886	459,617	15.0%	(29,406)	(258,393)	366,000	\$28.97
Total Market	51,311,843	9,400,740	1,568,459	21.4%	(271,190)	(749,794)	641,749	\$32.43

Source: CBRE Research, Q4 2022

Market Area Overview



Definitions

Available Sq. Ft.: Space in a building, ready for occupancy within six months; can be occupied or vacant. **Availability Rate:** Total Available Sq. Ft. divided by the total building Area. **Average Asking Lease Rate:** A calculated average that includes net and gross lease rate, weighted by their corresponding available square footage. **Building Area:** The total floor area sq. ft. of the building, typically taken at the “drip line” of the building. **Gross Activity:** All sale and lease transactions completed within a specified time period. Excludes investment sale transactions. **Gross Lease Rate:** Rent typically includes real property taxes, building insurance, and major maintenance. **Net Absorption:** The change in Occupied Sq. Ft. from one period to the next. **Net Lease Rate:** Rent excludes one or more of the “net” costs (real property taxes, building insurance, and major maintenance) typically included in a Gross Lease Rate. **Occupied Sq. Ft.:** Building Area not considered vacant. **Vacancy Rate:** Total Vacant Sq. Ft. divided by the total Building Area. **Vacant Sq. Ft.:** Space that can be occupied immediately.

Survey Criteria

Includes all office buildings 10,000 sq. ft. and greater in size in Multnomah, Washington, Clackamas, and Clark counties. Buildings which have begun construction as evidenced by site excavation or foundation work.

Contacts

Samuel Hatcher

Field Research Manager
+1 503 946 4940
Samuel.Hatcher@cbre.com

Dan Peterson

Field Research Analyst
+1 612 396 3959
Dan.Peterson1@cbre.com

Jason Green

Managing Director
+1 503 221 4810
Jason.Green@cbre.com

CBRE Office

1300 SW Fifth Ave, Suite 3500
Portland, OR 97201
+1 503 221 1900