

FIGURES | PORTLAND OFFICE | Q1 2023

Changing Tenant Footprints An Emerging Trend in Portland’s Evolving Office Market

▲ 21.5%
Vacancy Rate

▲ (211K)
SF Net Absorption

▲ 642K
SF Under Construction

▲ \$32.45
Asking Lease Rate, FSG

Note: Arrows indicate change from previous quarter.

MARKET SUMMARY

- The Portland metro area’s overall vacancy rate grew to 21.5% in Q1 2023, a 120-basis point (bps) increase year-over-year (YOY).
- In Q1 2023, sublease availability across the overall office market increased to 2.7 million sq. ft., up 10.1% from the previous quarter and 87.3% YOY.
- 43% of Portland’s active office development pipeline is within a three-block radius Downtown. The Offices at 11W (117,285 sq. ft.) and Block 216 (158,464 sq. ft.), both in the CBD, are on schedule to deliver this Spring. Block 216 has not yet seen any pre-leasing. However, 11W recently secured a lease with a National law firm for the full 6th and 7th floors.
- Construction is also underway at Terminal 1 on the Vancouver Waterfront. ZoomInfo has the 366,000 sq. ft. office building pre-leased and plans to occupy in 2025.
- In Q1 2023, the average direct asking lease rate across the metro area was \$32.45 per sq. ft. full-service gross (FSG), remaining relatively flat quarter-over-quarter (QOQ). However, measured from the same period in 2022, overall direct asking rates have increased 3.4%.
- The Suburban average asking rental rate was \$29.47 per sq. ft. FSG, a 1.5% increase QOQ and a 7.6% increase YOY.
- In Q1 2023, the Downtown average asking rental rate was \$34.26 per sq. ft. FSG, a 1.7% increase YOY.

FIGURE 1: Downtown vs Suburban Market Statistics

| | NRA (SF) | Vacancy Rate (%) | Availability Rate (%) | Vacant SF - Sublease (SF) | Available SF - Sublease (SF) | QTD Net Absorption (SF) | Avg. Direct Rent (\$/SF/YR FSG) |
|--------------------|-------------------|------------------|-----------------------|---------------------------|------------------------------|-------------------------|---------------------------------|
| DOWNTOWN | | | | | | | |
| Class A | 12,047,457 | 25.8% | 31.0% | 533,742 | 851,633 | (76,486) | \$39.99 |
| Class B | 8,418,881 | 25.6% | 31.2% | 438,751 | 575,641 | (24,176) | \$32.45 |
| Class C | 2,774,853 | 30.3% | 33.7% | 64,226 | 64,226 | (23,879) | \$28.60 |
| Class D | 3,274,118 | 30.5% | 36.3% | 55,448 | 156,953 | 8,025 | \$26.00 |
| Total | 26,515,309 | 26.8% | 32.0% | 1,092,167 | 1,648,453 | (116,516) | \$34.26 |
| SUBURBAN | | | | | | | |
| Class A | 10,844,851 | 18.6% | 20.9% | 340,665 | 405,683 | (82,068) | \$34.20 |
| Class B | 11,854,124 | 14.2% | 18.0% | 290,697 | 686,181 | (29,302) | \$26.14 |
| Class C | 2,030,559 | 11.0% | 12.9% | - | - | 16,399 | \$19.41 |
| Class D | 67,000 | 0.0% | 0.0% | - | - | - | - |
| Total | 24,796,534 | 15.8% | 18.8% | 631,362 | 1,091,864 | (94,971) | \$29.47 |
| METRO TOTAL | 51,311,843 | 21.5% | 25.6% | 1,723,529 | 2,740,317 | (211,427) | \$32.45 |

Source: CBRE Research, Q1 2023

Leasing Activity

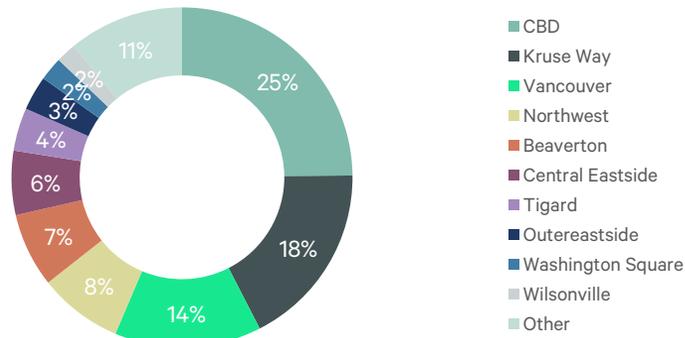
Including new leases signed and renewals, 668k sq. ft. transacted in Q1 2023, keeping relatively flat with the 2022 quarterly average of 652k sq. ft. When identifying potential emerging themes from the significant lease transactions inked in Q1 2023, Renewals vs. Relocations seems to stand out.

Miller Nash LLP, has signed a lease for 34,428 sq. ft. of office space at the Offices at 11W. The lease will see the law firm take up two floors of the newly constructed office building, a move aimed at modernizing their office environment after previously occupying three floors at the U.S. Bancorp Tower.

The Bureau of Labor & Industries (BOLI) has signed a lease for 18,723 sq. ft. in downtown Portland at Harrison Square. The deal will see BOLI relocate its offices from their current location on Portland's east side. Additionally, D.R. Horton, one of the largest homebuilders in the United States, has also been active in the leasing market. An effort to relocate their operations to be closer in proximity to their active projects, the company recently signed a new lease for 16,075 sq. ft. in Kruse Way.

Finally, K&L Gates LLP, a leading international law firm, has recently renewed their lease at Umpqua Bank Plaza for 15,764 sq. ft. While a decision was made to contract their footprint in the building, the law firm has been a tenant at Umpqua Bank Plaza for several years, and the renewal of their lease is a testament to their confidence in the city and the building.

FIGURE 3: Leasing Activity by Submarket, Q1 2023



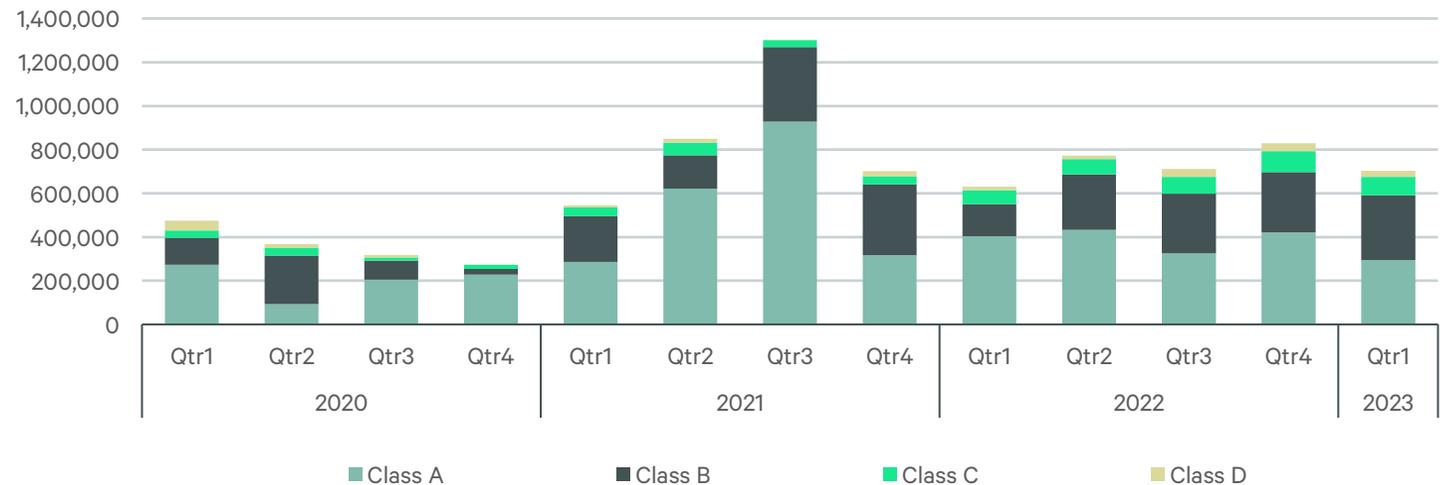
Source: CBRE Research, Q1 2023

FIGURE 2: Top Lease Transactions

| Tenant | Size (SF) | Location | Submarket | Lease Type | Class |
|-----------------------------------|-----------|-------------------------|-----------|------------|-------|
| Miller Nash LLP | 34,428 | Offices at 11W | CBD | New Lease | A |
| Bureau of Labor & Industry | 18,723 | Harrison Square | CBD | New Lease | B |
| Confidential Tenant | 16,648 | Upland Office | Vancouver | New Lease | A |
| Burns & McDonnell Engineering Co. | 16,148 | Stonemill Business Park | Vancouver | Renewal | B |
| D.R. Horton | 16,075 | Arneson Building | Kruse Way | New Lease | B |
| K&L Gates LLP | 15,764 | Umpqua Bank Plaza | CBD | Renewal | A |

Source: CBRE Research, Q1 2023

FIGURE 4: Historical Leasing Activity



Source: CBRE Research, Q1 2023

Supply and Demand

The market for office space in Portland can be separated into three tiers - the top, middle, and bottom. The top tier, Class A product in desired submarkets, is expected to remain more stable in the long term, while the middle tier will likely need to attract more cost-conscious tenants. The hardest hit office buildings, the bottom tier is likely to face certain hurdles and may need to consider future alternative uses such as residential or even demolition.

The Portland metro area office market closed the first quarter of 2023 with an overall vacancy rate of 21.5%, up 150 bps YOY. The Downtown office market closed the first quarter of 2023 with an overall vacancy rate of 26.8%, up 160 bps YOY. In Q1 2023, the total availability rate across the metro hit 25.6%, up 300 bps YOY. Portland’s Downtown office availability rate is 32.0%. Companies continue to contract and evaluate their space needs, which has pushed the amount of space available for sublease to 2.7 million sq. ft., equating to a sublet availability rate of 5.3%.

Sublease availability across the overall office market is up 10.1% from the prior quarter. Downtown, 1,640,988 sq. ft. of available sublease space accounted for 19.4% of the total 8,480,426 sq. ft. available at the end of the first quarter. Portland’s office market recorded 211,487 sq. ft. of negative net absorption in Q1 2023, continuing the trend, and on par with the quarterly average in 2022. The largest contribution to the negative net absorption figure is attributed to the 90,000 sq.-ft. space given back, formerly occupied by Liberty Mutual in the Lloyd Center submarket. In the suburbs., Avamere Health has given back roughly 24,000 sq. ft. in Wilsonville. Additionally, in Hillsboro at Sunset Corporate Park Bldg. B, a tenant who formerly occupied 22,711 sq. ft. in the building has moved out.

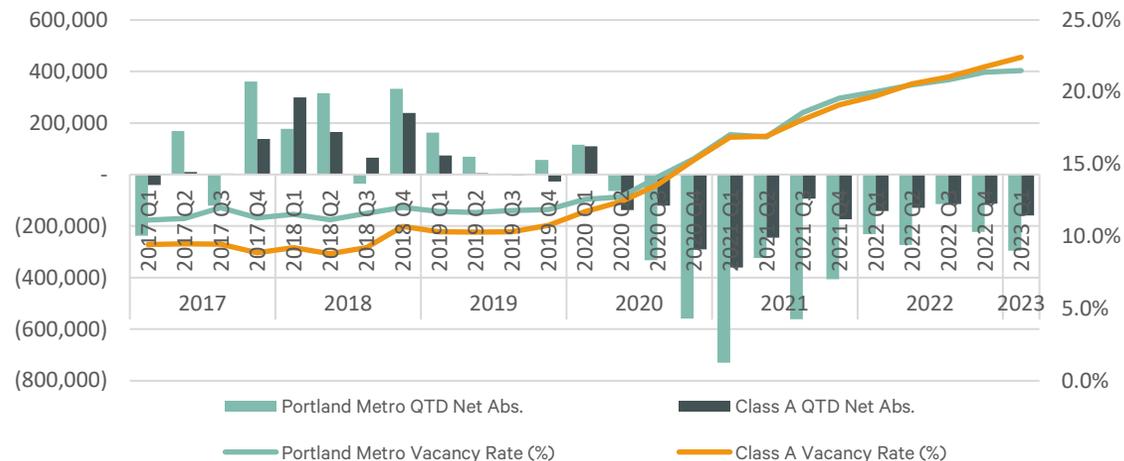
Rent Trends

Direct asking rental rates market-wide closed Q1 2023 at \$32.45 per sq.-ft. per year on a full-service gross basis (FSG), up \$1.04 from the same tracking period in 2022. Downtown, the average asking rate hit \$34.52 per sq. ft. FSG, while the suburban rate reached \$29.47 per sq.-ft. FSG. Despite a vacancy rate inching towards 25% in Kruse Way, current demand dynamics with tenants seeking prime locations and high-quality amenities allow landlords to ask for premium rates of \$40.89 per sq.-ft. FSG.

Investment

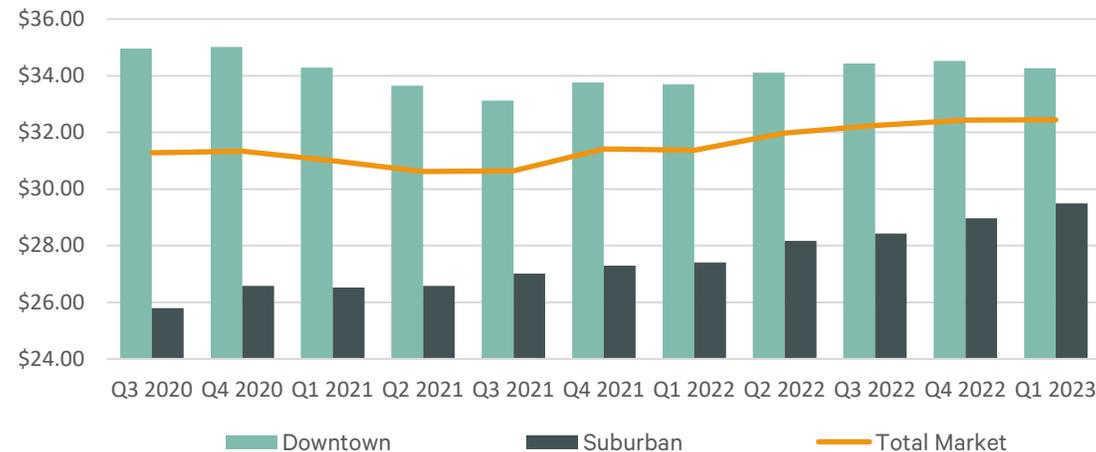
Office investment remains paused so far in 2023. Concerns over rising interest rates, tighter financial conditions and a looming recession are negatively impacting investor sentiment, not just in Portland, but Nationally. This will continue to weigh on commercial real estate investment activity in the first half of 2023. CBRE forecasts that overall investment volume in 2023 will be down roughly 15.0% from last year. As interest rates and economic conditions are expected to stabilize in the second half of the year, we anticipate investment activity will pick up.

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



Source: CBRE Research, Q1 2023.

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



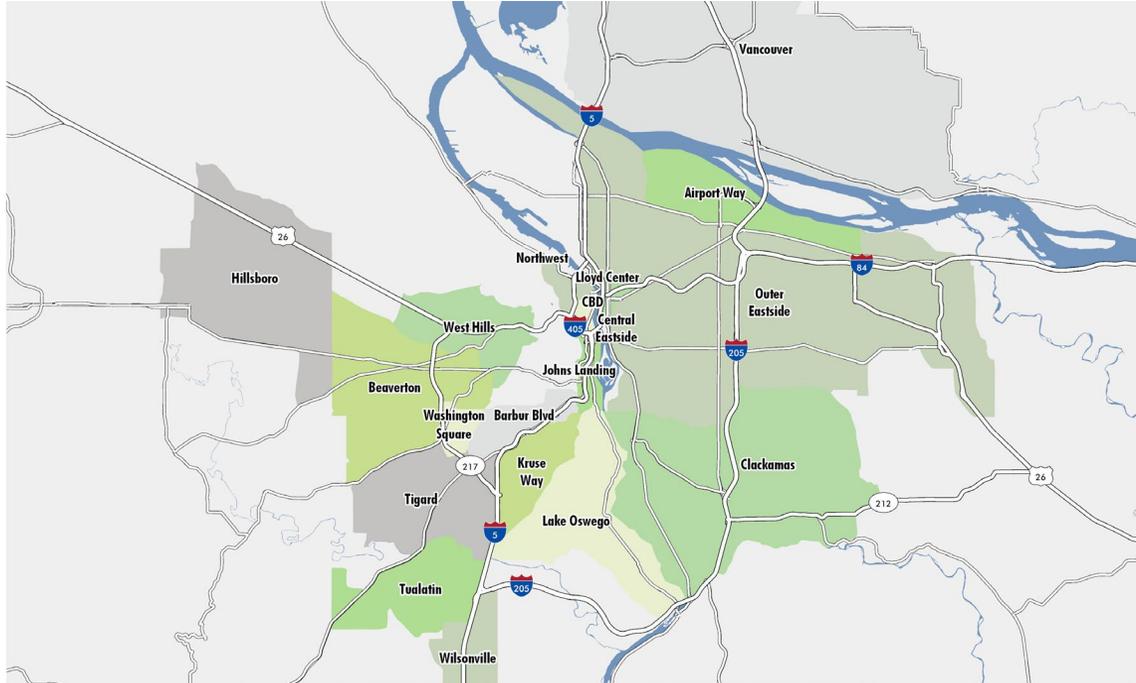
Source: CBRE Research, Q1 2023.

FIGURE 7: Metro Market Statistics

| Submarket | NRA (SF) | Vacant Direct (SF) | Vacant Sublease (SF) | Vacancy Rate (%) | Availability Rate (%) | Q1 2023 Net Absorption (SF) | YTD Net Absorption (SF) | Under Construction (SF) | Average Asking Rate (\$/SF/YR FSG) |
|-----------------------|-------------------|--------------------|----------------------|------------------|-----------------------|-----------------------------|-------------------------|-------------------------|------------------------------------|
| CBD | 16,314,542 | 3,551,138 | 486,969 | 24.8% | 29.7% | (28,101) | (28,101) | 275,749 | \$34.20 |
| Central Eastside | 2,278,740 | 505,982 | 113,189 | 27.2% | 32.8% | 7,893 | 7,893 | - | \$33.27 |
| Lloyd Center | 1,778,737 | 201,931 | 120,399 | 18.1% | 26.0% | (78,408) | (78,408) | - | \$36.07 |
| Northwest | 6,143,290 | 1,752,719 | 371,610 | 34.6% | 39.4% | (17,900) | (17,900) | - | \$34.37 |
| Total Downtown | 26,515,309 | 6,011,770 | 1,092,167 | 26.8% | 32.0% | (116,516) | (116,516) | 275,749 | \$34.26 |
| Airport Way | 547,741 | 81,689 | 67,574 | 27.3% | 31.8% | (11,776) | (11,776) | - | \$18.74 |
| Barbur Blvd | 425,159 | 50,625 | - | 11.9% | 13.4% | 1,251 | 1,251 | - | \$18.82 |
| Beaverton | 2,928,348 | 485,955 | 65,506 | 18.8% | 28.7% | 7,340 | 7,340 | - | \$25.50 |
| Clackamas | 1,179,014 | 129,368 | 4,806 | 11.4% | 14.3% | (36,388) | (36,388) | - | \$28.46 |
| Hillsboro | 2,239,626 | 307,757 | 143,009 | 20.1% | 21.1% | (39,197) | (39,197) | - | \$24.75 |
| John's Landing | 1,717,467 | 393,029 | 41,534 | 25.3% | 27.7% | 18,848 | 18,848 | - | \$32.07 |
| Kruse Way | 2,572,050 | 501,708 | 118,486 | 24.1% | 28.7% | (18,459) | (18,459) | - | \$40.89 |
| Lake Oswego | 441,831 | 42,260 | 4,645 | 10.6% | 11.3% | 14,116 | 14,116 | - | \$29.52 |
| Out of Submarket | 233,122 | 15,650 | - | 6.7% | 6.9% | - | - | - | \$24.35 |
| Outer Eastside | 1,945,814 | 189,177 | 6,803 | 10.1% | 12.2% | 2,426 | 2,426 | - | \$21.47 |
| Tigard | 2,192,535 | 175,626 | 67,189 | 11.1% | 13.6% | (281) | (281) | - | \$26.01 |
| Tualatin | 785,315 | 143,476 | - | 18.3% | 22.0% | 14,477 | 14,477 | - | \$26.82 |
| Vancouver | 4,799,723 | 441,903 | 58,476 | 10.4% | 10.6% | (2,490) | (2,490) | 366,000 | \$24.17 |
| WA Square | 1,195,521 | 250,543 | 24,949 | 23.0% | 27.2% | (19,076) | (19,076) | - | \$33.38 |
| West Hills | 870,944 | 70,790 | 5,000 | 8.7% | 9.9% | 1,717 | 1,717 | - | \$22.36 |
| Wilsonville | 722,324 | 17,064 | 23,385 | 5.6% | 5.5% | (27,479) | (27,479) | - | \$23.76 |
| Total Suburban | 24,796,534 | 3,296,620 | 631,362 | 15.8% | 18.8% | (94,971) | (94,971) | 366,000 | \$29.47 |
| Total Market | 51,311,843 | 9,308,390 | 1,723,529 | 21.5% | 25.6% | (211,487) | (211,487) | 641,749 | \$32.45 |

Source: CBRE Research, Q1 2023

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.

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