

## Portland Industrial

Submitted by Tom Dechenne, associate vice president with the Portland, Oregon office of NAI Norris, Beggs & Simpson.  
Published Online 05-23-08.

### What area is your expertise?

Sales and leasing of industrial and commercial property in Portland, Oregon.

### What trends do you see presently in industrial development in your area?

Industrial development continues to be fairly strong, provided land can be found to be developed. Overall, within the Portland Metropolitan Area industrial land supply is short on top-quality sites. Consequently, secondary and redevelopment sites, though limited in supply, continue to be the choices available to development firms.

### What type of industrial product is doing well in your area?

There are two types that seem to be doing fairly well. One is 40,000 to 50,000 square foot and larger spaces for warehouse/distribution use in newer developments that are located along major freeways with easy access. The others are 5,000 to 20,000 square foot spaces for local or semi-regional companies with a need for corporate headquarters, assembly manufacturing and/or warehousing.

### Who are the active industrial developers in your area?

Locally, firms such as Specht Development, Pacific NW Properties, PacTrust Development; national companies such as Opus, Prologis, Birtcher and Trammel Crow continue to be very active in our area.

### Please name one or two significant industrial developments in your area. What impact will these projects have on the market?

Probably the two largest industrial corridors are the North/Northeast submarket, encompassing the Rivergate area, and the Northeast Columbia Corridor/Airport Way area. There are currently about 1 to 1.5 million square feet of newly constructed, big-box industrial/warehouse space for distribution users needing 50,000 square feet and larger near the Portland International Airport. The market has been a bit softer in the last few months, but overall it continues to show reasonable activity in light of the weakness of the national economy.

### Where is the majority of development taking place? Why is this area doing well?

The North/Northeast corridor. This area is doing well because there has been industrial land available to develop.

### What area do you expect to be the next big industrial development market? Why?

North and South of the Portland Metropolitan area along the I-5 corridor. Within the Metropolitan area, we will be seeing primarily in-fill development. It is very difficult to find a developable site that is five acres or larger.

### Please describe the industrial leasing activity in your area.

Industrial leasing activity is fairly steady, and rental rates have crept up steadily throughout 2007. Demand has eased off slightly over the past few months, however, tenant concessions and the push to raise rental rates continues. Vacancies have reduced slightly during this time, excepting the big box user –

new development where over 1.5 million square feet of new construction has increased the vacancy rate on that particular submarket.

**Please describe the industrial sales activity in your area.**

Rising interest rates haven't dampened demand, which continues to exceed supply. In our market there are two distinct factors that drive the sale price of industrial property: owner-user versus investor/acquisition purchases. Owner-user purchases tend to purchase at a five to 15 percent higher value over investor-purchased property.

**Please give a measure of industrial vacancy rates and a measure of available sublease space.**

Vacancy rate for First Quarter 2008 was 11.2 percent for Portland and Vancouver, WA. Approximately 1.5 million square feet of industrial property came online in the last two to three quarters but again, a good share of that is larger distribution warehouse complexes.

**What impact do current interest rates have on the industrial market? What predictions do you have for interest rates and their effect on the industrial market in the next year?**

Like every real estate market, interest rates have a huge effect on purchases and overall returns. However, relative to the value of the property and historical interest rates, these rates are still extremely low.

**What industries do you expect to expand in the next year to absorb a great deal of industrial space? What areas will be affected?**

We expect demand to continue for big box distribution space, which right now includes food distribution and other staple items. Likewise, consolidation and revamping of existing warehouse space where some companies are consolidating or downsizing locations, but not necessarily changing their square footage, should continue. The push is to reduce costs in light of slimmer profit margins. Perhaps the larger change to come will be by submarket more than industry type.

**Would you like to make any additional observations about the industrial market in your area?**

Overall, demand continues to be fairly steady, but the supply is extremely short. With the shortage of available land, prices have continued to increase as vacancy has dropped over the last two years. We will continue to see a relatively tight market as far as new construction, tempered by available space that has come online with reasonable demand for those users of 50,000 square feet and more. Overall outlook for the Portland industrial market is steady to slightly improving over the remainder of 2008.