

## PORTLAND OFFICE MARKET



OVERVIEW

## PORTLAND'S VACANCY DECREASES TO 11.2%

### Net Absorption Positive 485,808 SF in the Quarter

The Portland Office market ended the fourth quarter 2010 with a vacancy rate of 11.2%. The vacancy rate was down over the previous quarter, with net absorption totaling positive 485,808 square feet in the fourth quarter. Vacant sublease space decreased in the quarter, ending the quarter at 499,140 square feet. Rental rates ended the fourth quarter at \$20.02, an increase over the previous quarter. A total of one building delivered to the market in the quarter totaling 1,680 square feet, with 263,007 square feet still under construction at the end of the quarter.

#### Absorption

Net absorption for the overall Portland office market was positive 485,808 square feet in the fourth quarter 2010. That compares to positive 125,561 square feet in the third quarter 2010, positive 167,722 square feet in the second quarter 2010, and negative (91,690) square feet in the first quarter 2010.

Tenants moving out of large blocks of space in 2010 include: Louisiana-Pacific Corporation moving out of 122,685 square feet at Fox Tower; Port of Portland moving out of 119,998 square feet at 121 NW Everett St; and Northwest Evaluation Association moving out of 108,448 square feet at Kruse Woods V.

Tenants moving into large blocks of space in 2010 include: General Service Administration (four departments) into a total of 266,919 square feet at First & Main Bldg; Port of Portland moving into 150,000 square feet at 7200 NE Airport Way; and Northwest Evaluation Association moving into 103,629 square feet at 121 NW Everett St (Former Port of Portland Bldg).

The Class-A office market recorded net absorption of posi-

tive 294,702 square feet in the fourth quarter 2010, compared to positive 250,309 square feet in the third quarter 2010, negative (98,092) in the second quarter 2010, and negative (157,845) in the first quarter 2010.

The Class-B office market recorded net absorption of positive 250,420 square feet in the fourth quarter 2010, compared to negative (52,428) square feet in the third quarter 2010, positive 245,131 in the second quarter 2010, and positive 17,325 in the first quarter 2010.

The Class-C office market recorded net absorption of negative (59,314) square feet in the fourth quarter 2010 compared to negative (72,320) square feet in the third quarter 2010, positive 20,683 in the second quarter 2010, and positive 48,830 in the first quarter 2010.

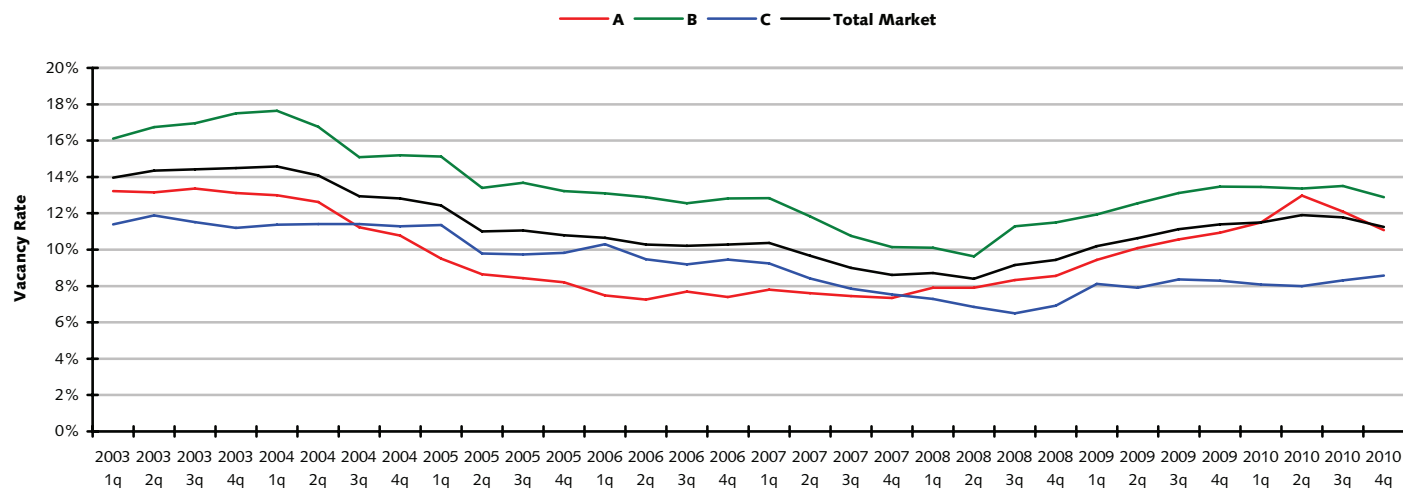
Net absorption for Portland's central business district was positive 238,315 square feet in the fourth quarter 2010. That compares to positive 265,504 square feet in the third quarter 2010, negative (50,164) in the second quarter 2010, and negative (24,087) in the first quarter 2010.

Net absorption for the suburban markets was positive 247,493 square feet in the fourth quarter 2010. That compares to negative (139,943) square feet in third quarter 2010, positive 217,886 in the second quarter 2010, and negative (67,603) in the first quarter 2010.

#### Vacancy

The office vacancy rate in the Portland market area decreased to 11.2% at the end of the fourth quarter 2010. The vacancy rate was 11.8% at the end of the third quarter 2010,

## VACANCY RATES BY CLASS 2003-2010



Source: CoStar Property®



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12.0% at the end of the second quarter 2010, and 11.5% at the end of the first quarter 2010.

Class-A projects reported a vacancy rate of 11.1% at the end of the fourth quarter 2010, 12.1% at the end of the third quarter 2010, 13.0% at the end of the second quarter 2010, and 11.5% at the end of the first quarter 2010.

Class-B projects reported a vacancy rate of 12.9% at the end of the fourth quarter 2010, 13.5% at the end of the third quarter 2010, 13.4% at the end of the second quarter 2010, and 13.5% at the end of the first quarter 2010.

Class-C projects reported a vacancy rate of 8.6% at the end of the fourth quarter 2010, 8.3% at the end of third quarter 2010, 8.0% at the end of the second quarter 2010, and 8.1% at the end of the first quarter 2010.

The overall vacancy rate in Portland’s central business district at the end of the fourth quarter 2010 decreased to 9.5%. The vacancy rate was 10.4% at the end of the third quarter 2010, 11.5% at the end of the second quarter 2010, and 10.0% at the end of the first quarter 2010.

The vacancy rate in the suburban markets decreased to 11.9% in the fourth quarter 2010. The vacancy rate was 12.3% at the end of the third quarter 2010, 12.1% at the end of the second quarter 2010, and 12.1% at the end of the first quarter 2010.

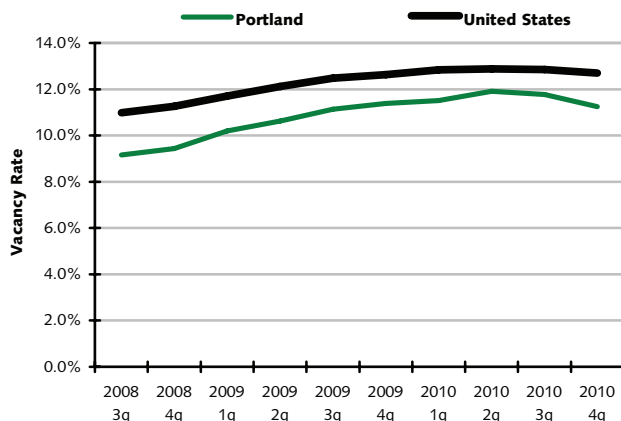
### Largest Lease Signings

The largest lease signings occurring in 2010 included: the 191,573-square-foot lease signed by Nike, Inc. at Tektronix Howard Vollum - Bldg 55 & 58 in the Southwest market; the 142,850-square-foot lease signed by Hewlett Packard at Columbia Center at Columbia Tech Center in the Clark County market; and the 134,308-square-foot lease signed by General Service Administration - IRS at Columbia Center at Columbia Tech Center in the CBD market.

### Sublease Vacancy

## U.S. VACANCY COMPARISON

Past 10 Quarters



Source: CoStar Property

The amount of vacant sublease space in the Portland market decreased to 499,140 square feet by the end of the fourth quarter 2010, from 583,103 square feet at the end of the third quarter 2010. There was 608,335 square feet vacant at the end of the second quarter 2010 and 621,261 square feet at the end of the first quarter 2010.

Portland’s Class-A projects reported vacant sublease space of 203,057 square feet at the end of fourth quarter 2010, down from the 204,500 square feet reported at the end of the third quarter 2010. There were 239,644 square feet of sublease space vacant at the end of the second quarter 2010, and 275,326 square feet at the end of the first quarter 2010.

Class-B projects reported vacant sublease space of 270,534 square feet at the end of the fourth quarter 2010, down from the 349,524 square feet reported at the end of the third quarter 2010. At the end of the second quarter 2010 there were 327,728 square feet, and at the end of the first quarter 2010 there were 303,678 square feet vacant.

Class-C projects reported decreased vacant sublease space from the third quarter 2010 to the fourth quarter 2010. Sublease vacancy went from 29,079 square feet to 25,549 square feet during that time. There was 40,963 square feet at the end of the second quarter 2010, and 42,257 square feet at the end of the first quarter 2010.

Sublease vacancy in Portland’s central business district stood at 147,941 square feet at the end of the fourth quarter 2010. It was 132,412 square feet at the end of the third quarter 2010, 168,802 square feet at the end of the second quarter 2010, and 152,120 square feet at the end of the first quarter 2010.

Sublease vacancy in the suburban markets ended the fourth quarter 2010 at 351,199 square feet. At the end of the third quarter 2010 sublease vacancy was 450,691 square feet, was 439,533 square feet at the end of the second quarter 2010, and was 469,141 square feet at the end of the first quarter 2010.

### Rental Rates

The average quoted asking rental rate for available office space, all classes, was \$20.02 per square foot per year at the end of the fourth quarter 2010 in the Portland market area. This represented a 2.8% increase in quoted rental rates from the end of the third quarter 2010, when rents were reported at \$19.47 per square foot.

The average quoted rate within the Class-A sector was \$23.63 at the end of the fourth quarter 2010, while Class-B rates stood at \$18.64, and Class-C rates at \$15.45. At the end of the third quarter 2010, Class-A rates were \$23.70 per square foot, Class-B rates were \$18.12, and Class-C rates were \$15.11.

The average quoted asking rental rate in Portland’s CBD was \$21.40 at the end of the fourth quarter 2010, and \$19.58 in the suburban markets. In the third quarter 2010, quoted rates were \$21.21 in the CBD and \$18.97 in the suburbs.

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### Deliveries and Construction

During the fourth quarter 2010, one building totaling 1,680 square feet were completed in the Portland market area. This compares to one building totaling 7,500 square feet that were completed in the third quarter 2010, two buildings totaling 607,000 square feet completed in the second quarter 2010, and 14,000 square feet in one building completed in the first quarter 2010.

There were 263,007 square feet of office space under construction at the end of the fourth quarter 2010.

Some of the notable 2010 deliveries include: First & Main Bldg, a 368,800-square-foot facility that delivered in second quarter 2010 and is now 95% occupied, and Providence Office Building, a 238,200-square-foot building that delivered in second quarter 2010 and is now 100% occupied.

The largest projects underway at the end of fourth quarter 2010 were Meier & Frank Building, a 133,258-square-foot building with 84% of its space pre-leased, and Overton, a 62,200-square-foot facility that is 59% pre-leased.

### Inventory

Total office inventory in the Portland market area amounted to 91,382,675 square feet in 4,569 buildings as of the end of the fourth quarter 2010. The Class-A office sector consisted of 28,621,744 square feet in 180 projects. There were 1,312 Class-B buildings totaling 40,166,702 square feet, and the Class-C sector consisted of 22,594,229 square feet in 3,077 buildings. Within the Office market there were 137 owner-occupied buildings accounting for 7,143,244 square feet of office space.

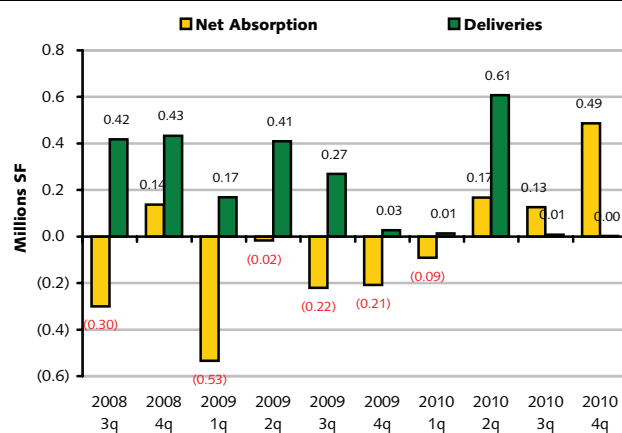
### Sales Activity

Tallying office building sales of 15,000 square feet or larger, Portland office sales figures rose during the third quarter 2010 in terms of dollar volume compared to the second quarter of 2010.

In the third quarter, seven office transactions closed with a total volume of \$53,025,000. The seven buildings totaled 386,093 square feet and the average price per square foot equated to \$137.34 per square foot. That compares to six transactions

## ABSORPTION & DELIVERIES

### Past 10 Quarters



Source: CoStar Property\*

totaling \$43,700,000 in the second quarter 2010. The total square footage in the second quarter was 321,117 square feet for an average price per square foot of \$136.09.

Total office building sales activity in 2010 was down compared to 2009. In the first nine months of 2010, the market saw 17 office sales transactions with a total volume of \$158,455,500. The price per square foot averaged \$134.40. In the same first nine months of 2009, the market posted 15 transactions with a total volume of \$162,188,441. The price per square foot averaged \$116.46.

Cap rates have been higher in 2010, averaging 8.70% compared to the same period in 2009 when they averaged 8.30%.

One of the largest transactions that has occurred within the last four quarters in the Portland market is the sale of One Main Place in Portland. This 315,133-square-foot office building sold for \$57,000,000, or \$180.88 per square foot. The property sold on 2/5/2010, at a 9.00% cap rate.

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