

Portland Office

Submitted by Charlie Floberg, broker with NAI Norris, Beggs & Simpson in Portland, Oregon. Posted Online 05-13-08.



Floberg

What area is your expertise?

Central Business District, Portland

What trends do you see presently in office development in your area?

We see a lot of new class A properties coming out of the ground, delivering approximately 2010, with a lot of rehab in the Class B market.

Who are the active office developers in your area?

Shorenstein, based out of San Francisco; TMT, a local developer; Winkler; and Unico are a few of the most active companies right now.

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

First & Main will be the next new construction out of the ground in the downtown core. It is a 13-story Class A office building with a completion date set for First Quarter 2010.



First & Main
Downtown Portland, 2010

Construction on TMT Development's Park Avenue West has recently begun, also in the downtown core. This will be an office/retail/condo mixed-use building that delivers approximately late 2010 or early 2011. These projects will have a huge impact on the market, where the Class A supply is very tight.

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

There is a lot of development and rehab taking place in the downtown core (Southwest) and in the Pearl District to the Northwest, close to the Willamette River. Unico's mixed-use retail/office/residential project, The Lovejoy, is under construction in the Pearl District. One Waterfront Place is being developed by Jim Winkler and Bill Naito, also in the Northwest neighborhood. Shorenstein's First & Main project is going up at the mouth of the Hawthorne Bridge on the river's Western side in the heart of the Central Business District. Tenant demand to be there has not slackened — Class A CBD vacancy is under 7 percent.

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

Vancouver, just over the Washington state line, is a growing market and a 15-minute drive from downtown Portland. With as much migration to Vancouver as we are seeing, it will be an active development market soon. Portland's suburban market is also experiencing a lot of development. Our East/West commuter rail is already one of the most-used mass transit systems in America, and expansion plans are in the works. There will be increased development to Southern suburbs like Wilsonville and the area surrounding the 217 freeway.

What areas are doing well in terms of office leasing? Which areas are struggling with office leasing?

As mentioned, the downtown core is doing well. The 217 and Kruse Way submarkets are struggling somewhat, partially due to the credit crunch. Many mortgage and related companies

were located there and took a heavy hit. A lot of sublease space come available. Historically, those submarkets have been some of our best performers.

Please give a measure of office vacancy rates. Please give a measure of available sublease space.

In First Quarter 2008, Central City vacancy for direct available space was at 10.19 percent vacancy, total availability including sublease space was 11.08 percent. Suburban office for direct available space was at 15.22 percent, total availability including sublease space was 17.13 percent. These are both for Portland. Vancouver suburban vacancy was at 15.48 percent direct, 17.88 percent total, including sublease space.

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

The climate has become a lot tighter for owner/users, especially smaller owner/users, to purchase buildings due to tightening credit standards and the challenge of obtaining a favorable rate. It's becoming a lot harder to get approved for loans. For the leasing side this means tenant improvement dollars are being stretched thin, and it's becoming a lot harder to get the dollars to put into the space. A lot of companies are having to borrow money to build out the space. I think interest rates will come down, but I see a big problem with the loan approval application process. I think we will see a lot of mid-sized developers struggling to get buildings out of the ground if they don't want to take on extra risk to get a loan.

What is the status of job growth/(un)employment rates and what bearing will it have on the office market?

Job growth in the Portland metro area is down slightly, but unemployment is essentially flat. We haven't been hit as hard as some parts of the country, but we are struggling a bit in the office market. A lot of sublease space becoming available, as well as a lot of companies having to downsize in their office needs. So movement is still taking place, but its movement from a large scale to a smaller scale, while trying to absorb existing space.

Is there any type of office tenant absorbing a majority of space? What industries do you expect to expand in the next year to absorb a great deal of office space? What areas will be affected?

Law tenants in the downtown core, and alternative energy companies in suburban submarkets.