2Q24

Portland Office Market Overview

Market Observations

Economy

- Portland's labor market maintained an unemployment rate of 4.2%, slightly above the national average.
- Office-occupying industries continued to decline in jobs for another consecutive quarter, contributing to negative year-over-year total nonfarm growth in the Portland area.
- Positive job growth was observed only in the government sector (1.9%) and the education & health sectors (3.9%).
- The negative trend in office-based employment remained a concern for the leasing market. As companies reassess their workforce needs and office space requirements, tenants are expected to continue releasing unnecessary office space back into the market.

Leasing Market Fundamentals

- In the second quarter of 2024, net absorption totaled negative 117,252 SF. The CBD experienced a notable increase in leasing activity and recorded positive absorption for the first time since 2019. Conversely, the Close-In Northwest submarket was the most heavily impacted, with negative absorption of 130,957 SF for the quarter.
- There are currently no new office projects under development in the Portland market, a trend expected to persist due to market saturation and unfavorable economic conditions, which discourage office construction as an investment for developers.
- Vacancy rates across the Portland market remained consistent at 22.1%, unchanging from the levels reached in the first quarter of 2024. Asking rates saw an adjustment which may suggest that landlords are beginning to discount properties to combat soft market conditions.

Major Transactions

- Oregon Health & Science University acquired the Crossing at First, a complex comprising 263,931 square feet of office space, which had previously defaulted, for $17.68 million.
- Clean Water Services purchased the former Sage Software building, an 83,287-square-foot Class B office asset located at 15195 NW Greenbrier Parkway in the Sunset Corridor, for $11.5 million, approximately $138.08 per square foot.
- Streimer bought the former Audio Precision building, a 27,900-square-foot Class B office building situated at 5750 SW Arctic Drive in Beaverton, for $5.0 million, approximately $179.21 per square foot.

Outlook

- Historically high vacancy rates are expected to continue in the coming months as pre-pandemic leases begin to come to term in urban submarkets.
- Rents outside of premier assets are beginning to decline after a prolonged period of growth, despite weak market fundamentals. This trend is expected to continue as buildings change ownership and reassess their leasing strategies and market positions.
- With new construction projects for office assets in Portland unlikely, the leasing market for top-tier properties will become increasingly competitive, given the steady inventory.

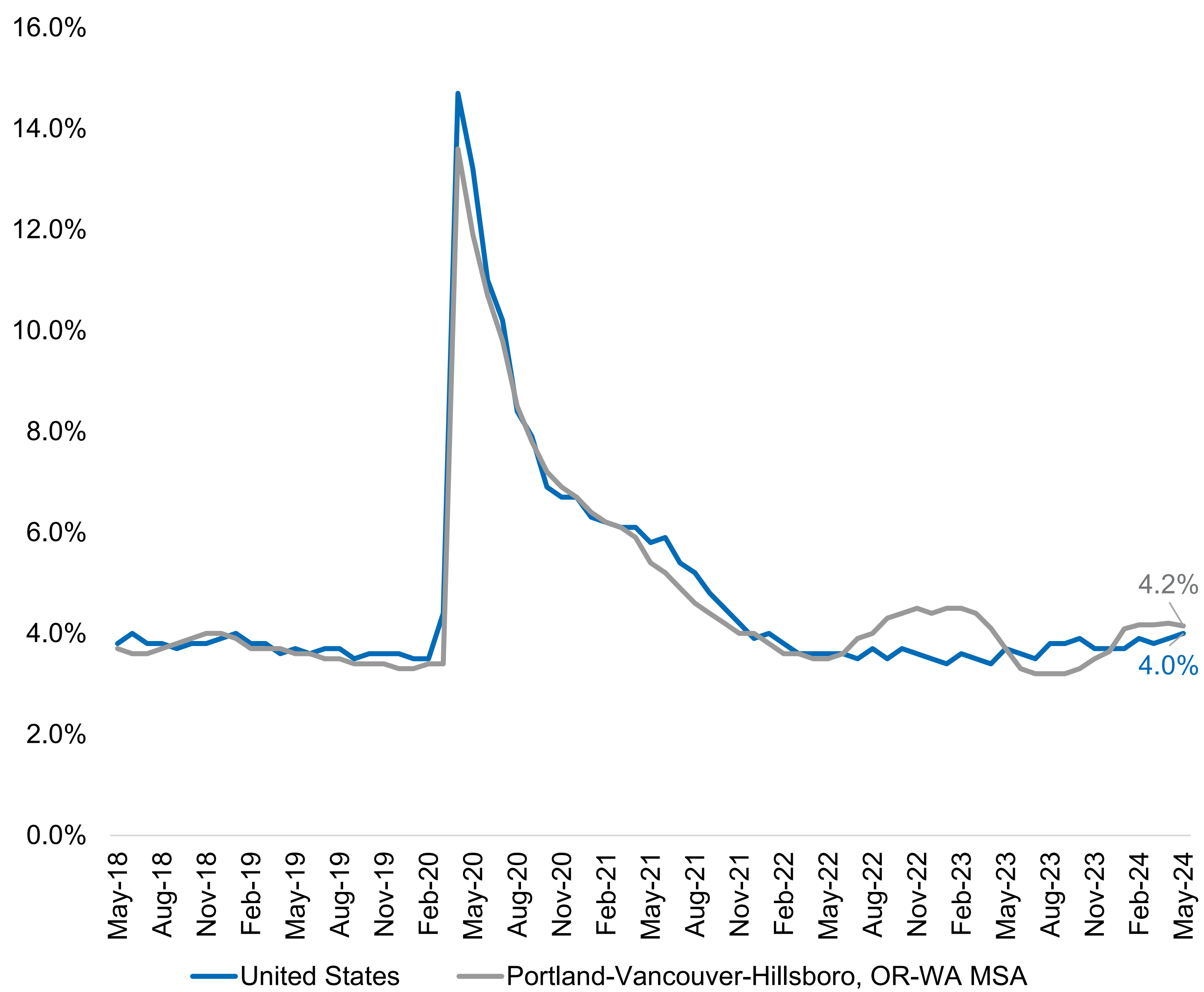
1. Economy
2. Leasing Market Fundamentals

Economy

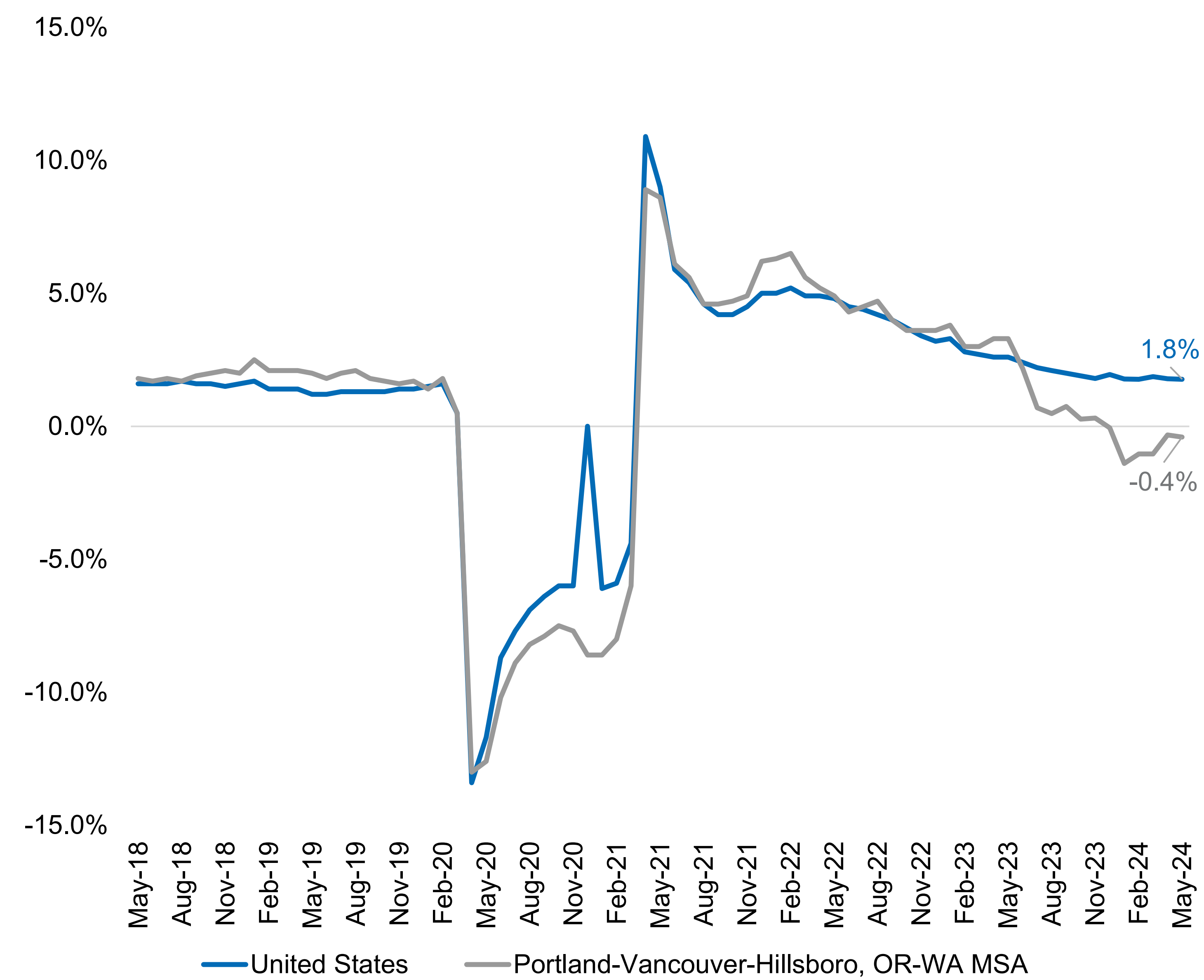
Portland Area Employment Numbers Plateau

The unemployment rate in the Portland area held steady at 4.2% for the second consecutive quarter in 2024. This rate remained slightly higher than the national average by 20 basis points. Year-over-year employment growth has continued to decline, a trend observed since November 2023.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Seasonally Adjusted, 12-Month % Change

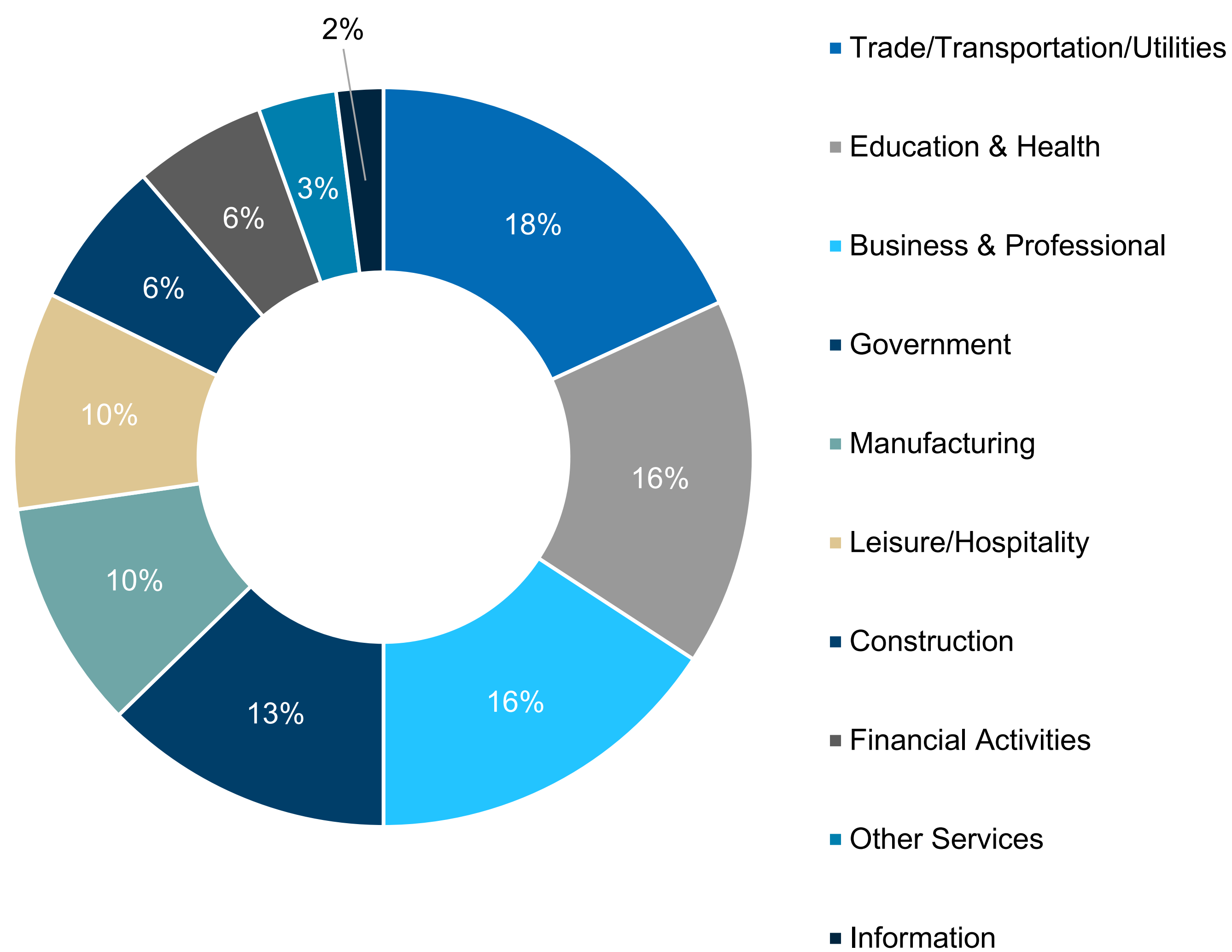


Source: U.S. Bureau of Labor Statistics, Portland-Vancouver-Hillsboro, OR-WA MSA

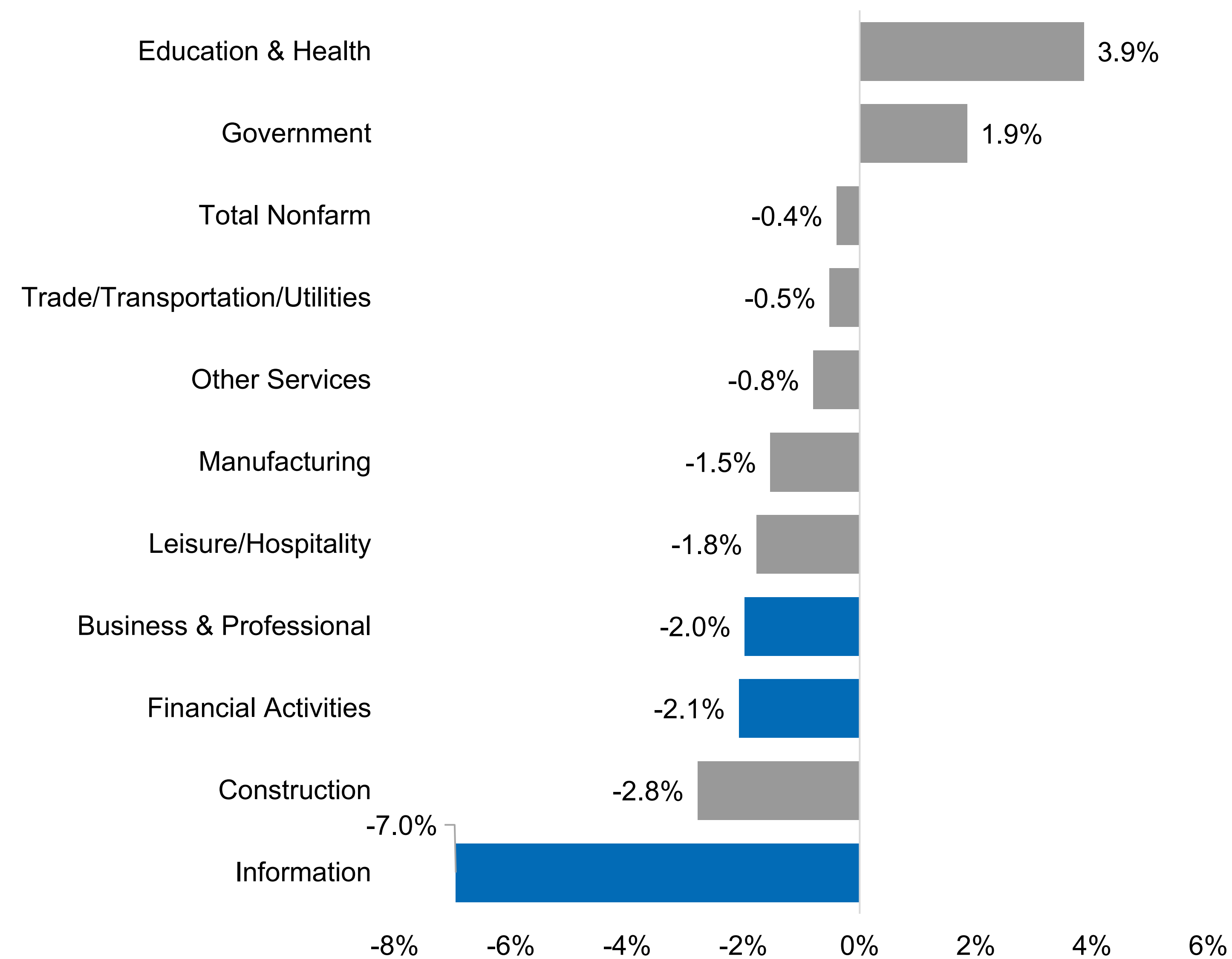
Total Employment Continued Year-Over-Year Regression

Major office-occupying industries continued to be the primary drivers of negative job growth in the metropolitan area. Over the past 12 months, only two major sectors, Education & Health and Government, have shown positive job growth.

Employment by Industry, May 2024



Employment Growth by Industry, 12-Month % Change, May 2024

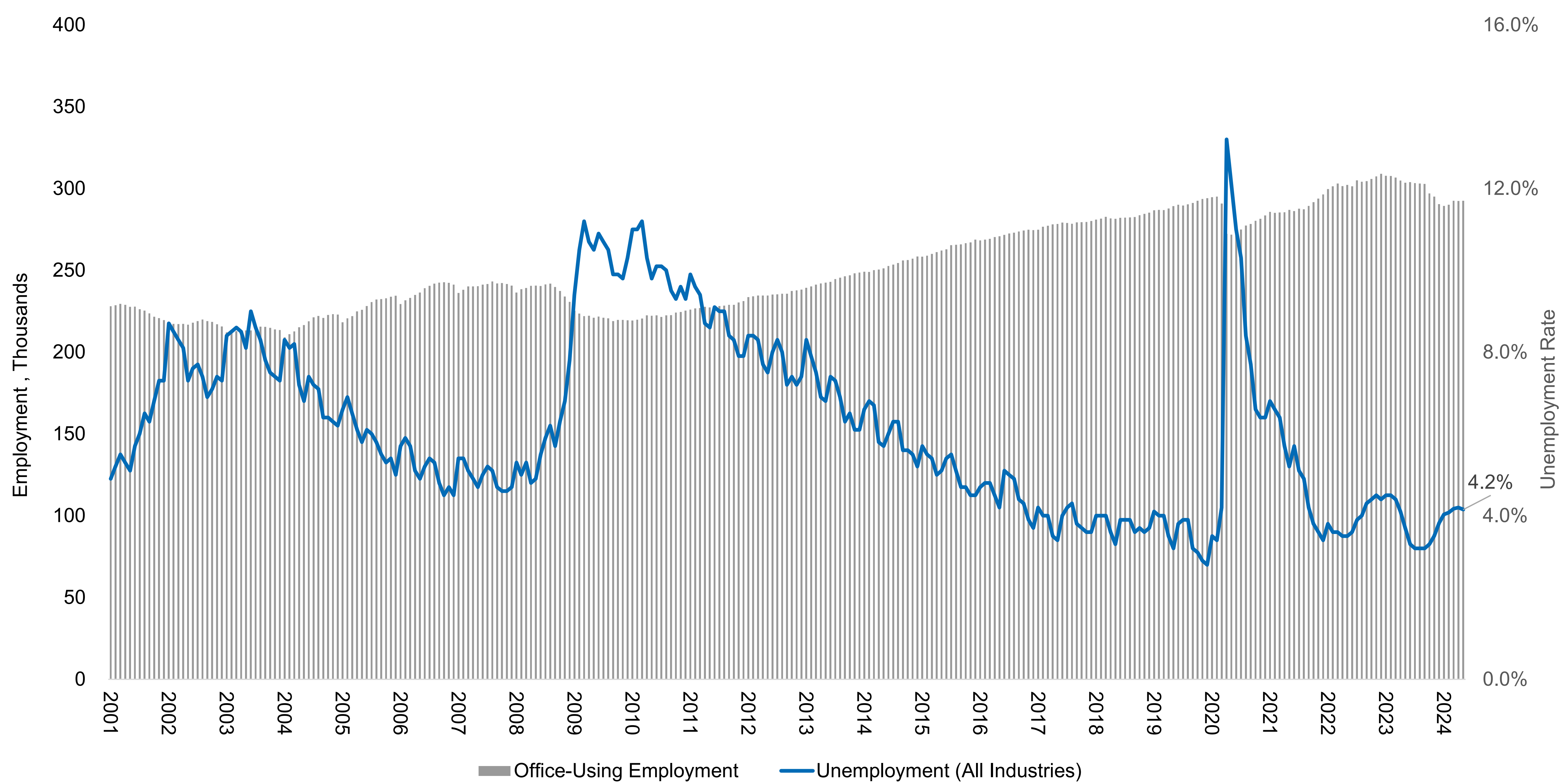


Source: U.S. Bureau of Labor Statistics, Portland-Vancouver-Hillsboro, OR-WA MSA

Office-Using Employment Invariable in 2Q24

Portland has seen a slight 40 basis point decrease in year-over-year total nonfarm job growth, suggesting potential stagnation in the employment market. Office-using employment numbers have remained stable in the second quarter of 2024.

Office-Using Employment* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics, Portland-Vancouver-Hillsboro, OR-WA MSA
*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

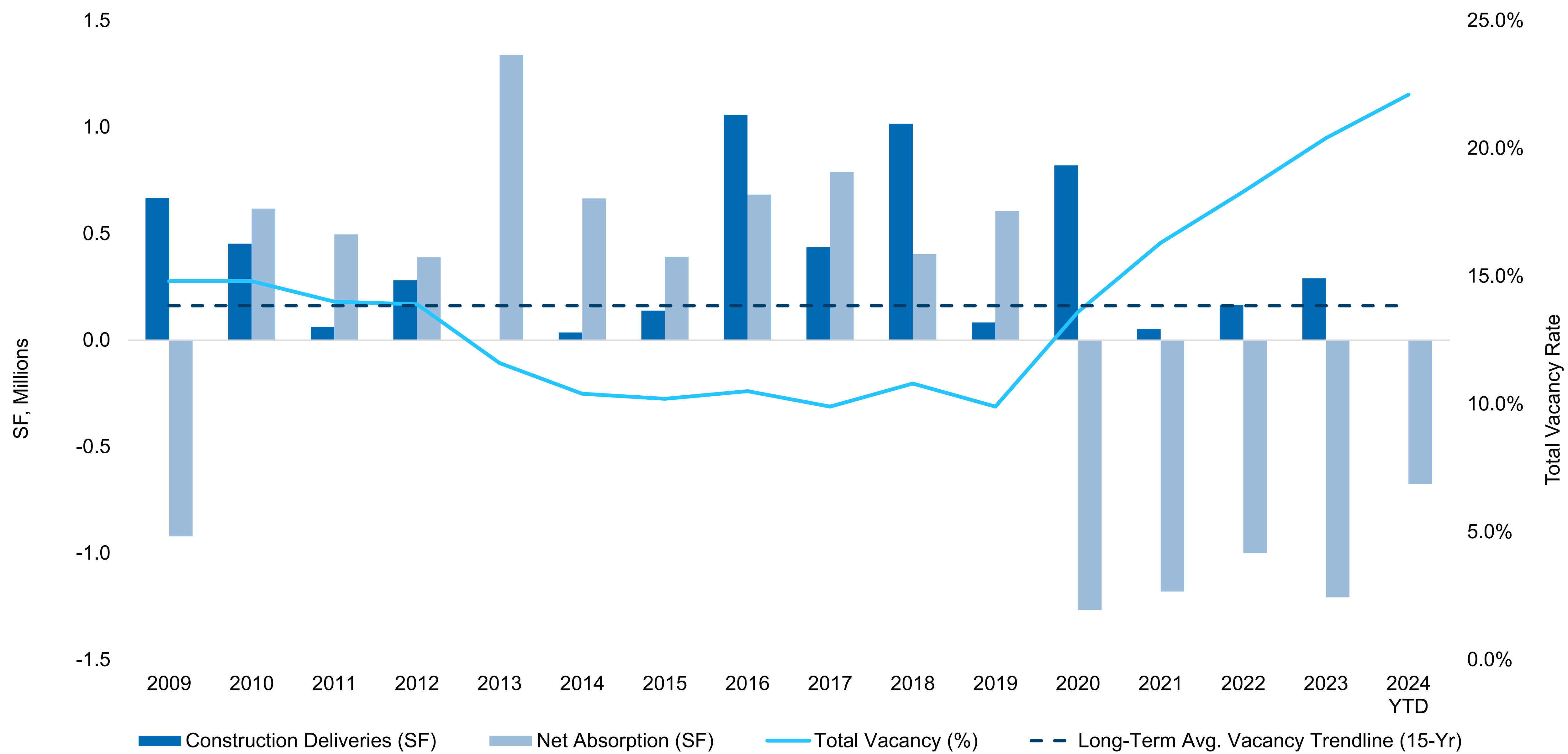
2Q24

Leasing Market Fundamentals

Vacancy Remained Historically High

Vacancy remained consistent in the second quarter of 2024 at 22.1% market-wide as a marked increase in leasing activity helped to offset additional inventory reaching the market. Vacancy has recorded a 170-basis-point increase since the fourth quarter of 2023, and current levels remain the highest recorded vacancy rates in recent history. Net absorption across the entire market totaled negative 117,252 SF which brought the year-to-date total net absorption to negative 675,797 SF.

Historical Construction Deliveries, Net Absorption, and Vacancy

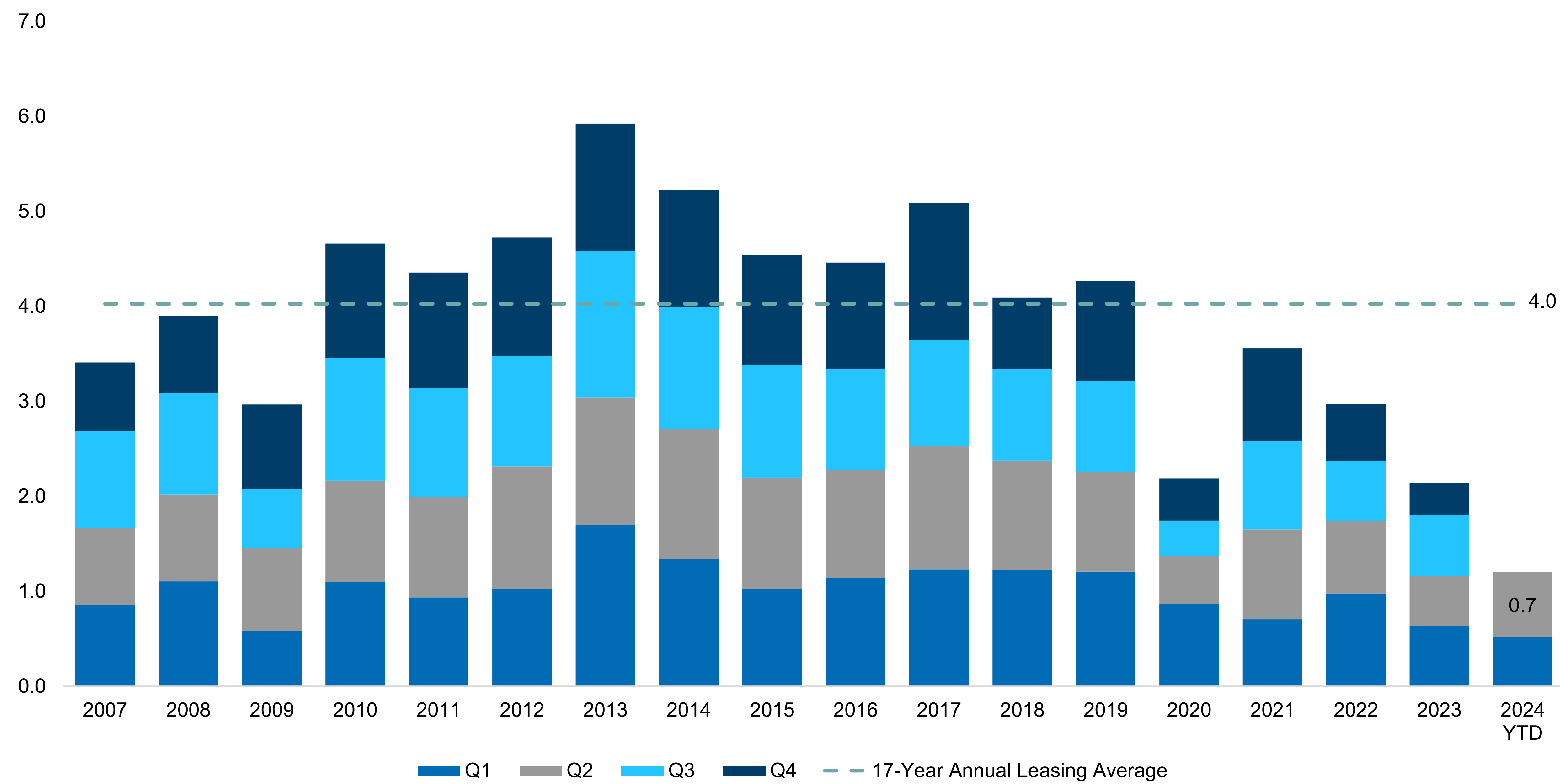


Source: Newmark Research

Leasing Activity Accelerated in 2Q24

Despite experiencing negative net absorption in the second quarter of 2024, the Greater Portland market witnessed a significant uptick in office leasing activity. This increase was primarily concentrated in the Central Business District and the surrounding urban submarkets. However, it is important to note that transaction volume remained well below the 17-year annual leasing averages.

Total Leasing Activity (msf)

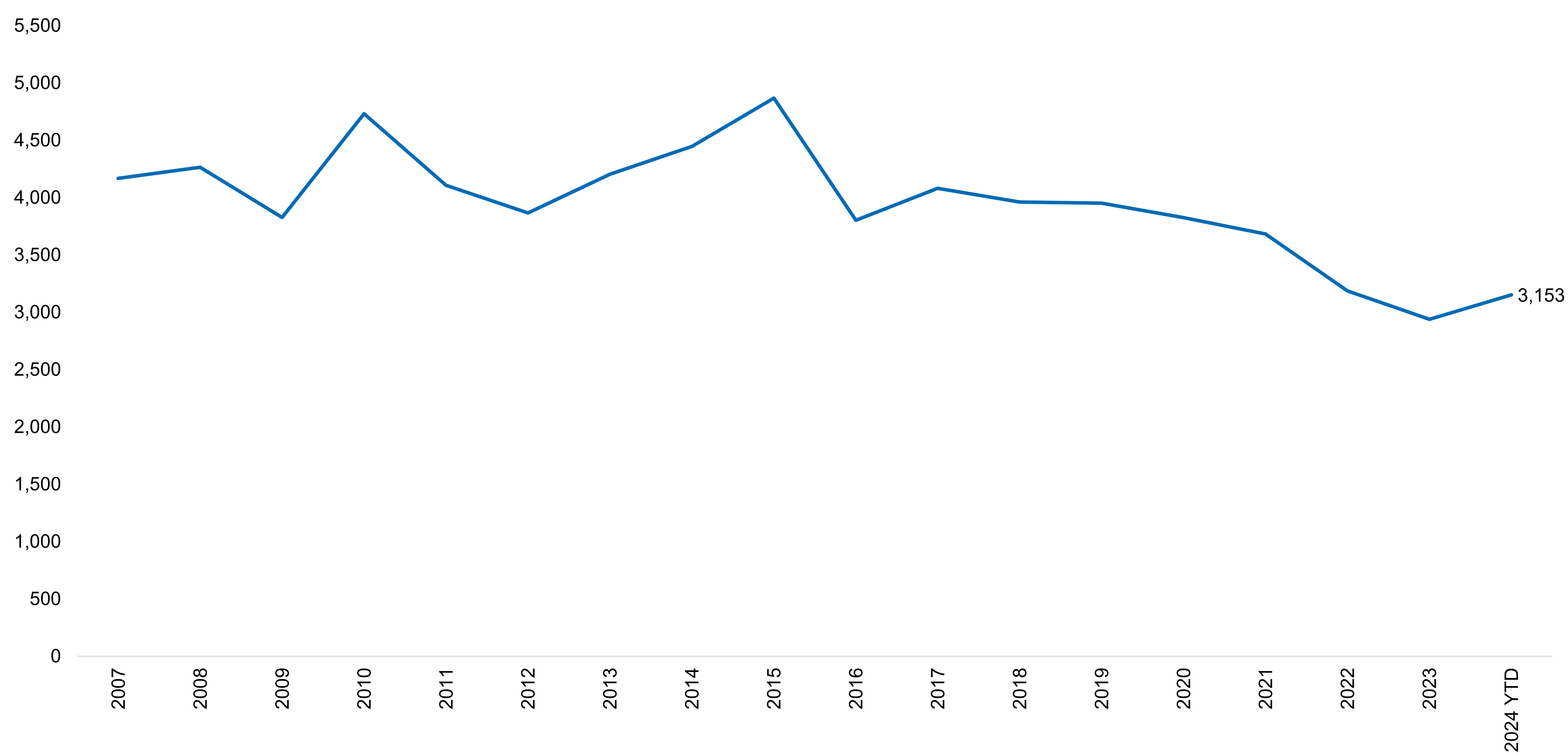


Source: Newmark Research, CoStar

Average Deal Size Up in 2024

The average deal size signed was 3,153 square feet, marking a 3.9% increase from the previous quarter. This rise in average lease size, coupled with heightened activity levels, suggests that companies may be starting to capitalize on favorable leasing conditions for tenants in the market.

Average Lease Size (sf)



Source: Newmark Research, CoStar

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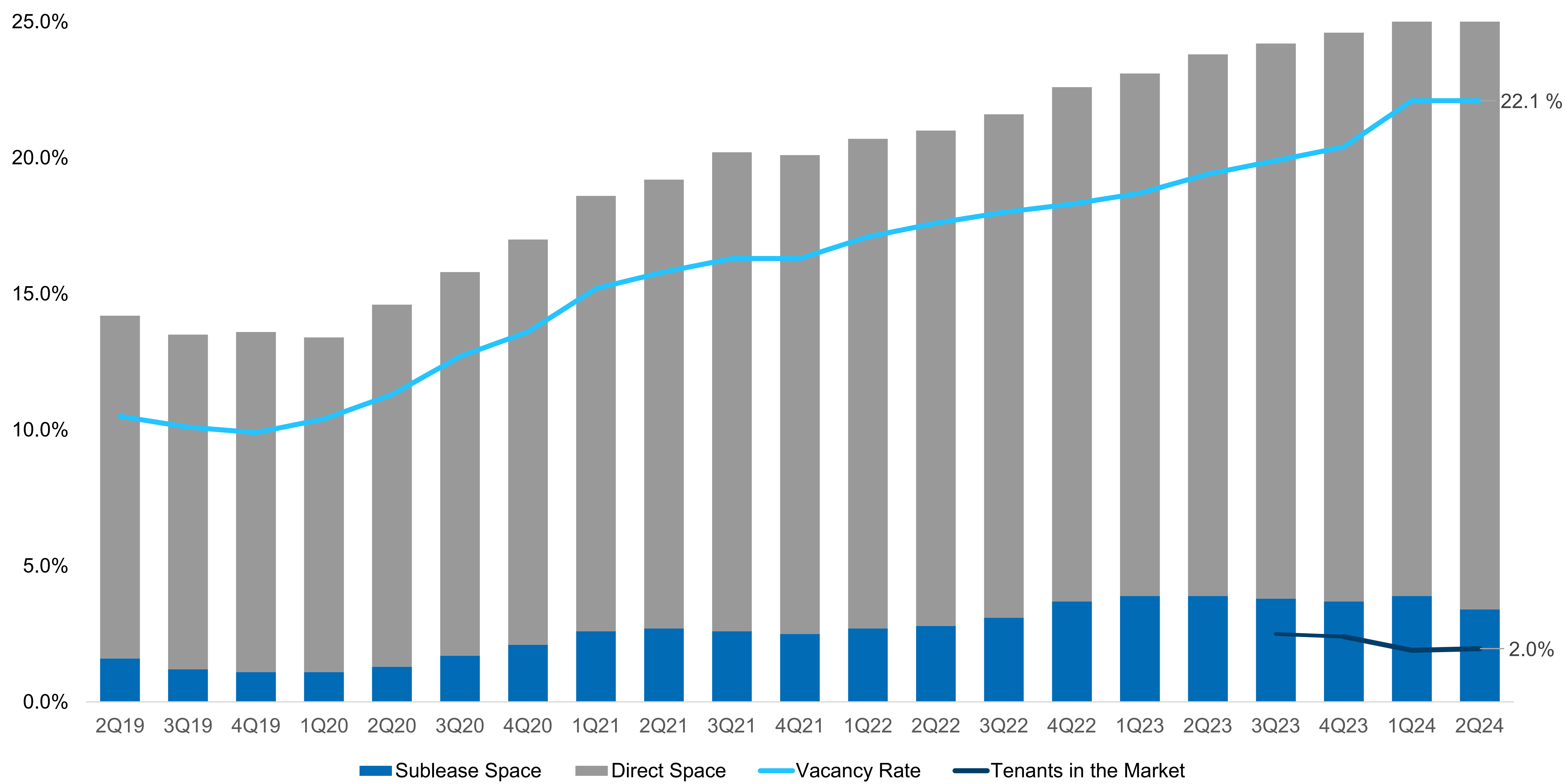
Newmark business contact for this information

Tenant Demand Constant as Availability Increased

Total tracked office requirements remained relatively consistent in the second quarter of 2024. While available sublease space decreased market-wide, direct availability increased. This trend suggests that many subleases are expiring before securing new tenants.

Available Space and Tenant Demand as Percent of Overall Market



Source: Newmark Research

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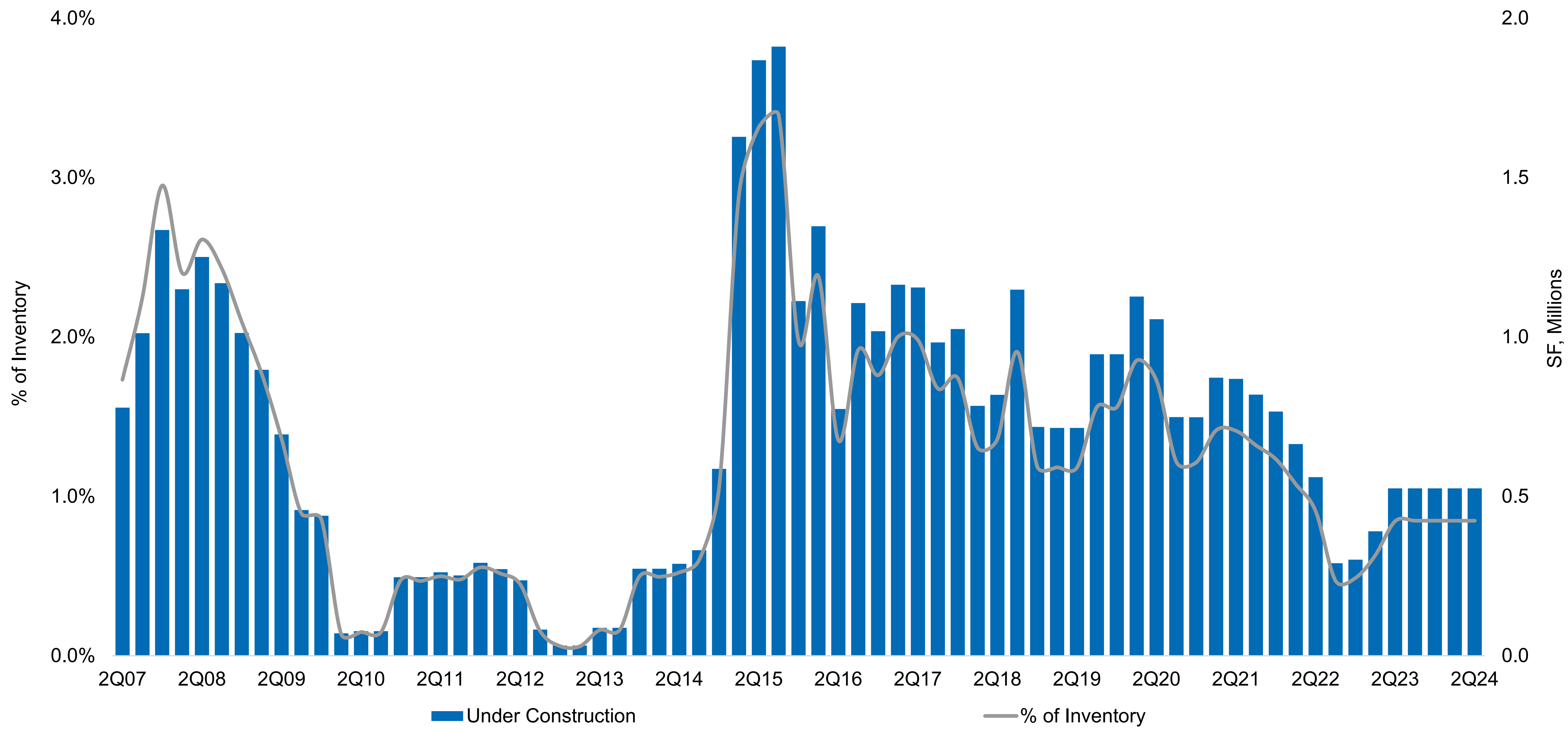
No New Office Developments on the Horizon for 2024

As of the second quarter of 2024, there were no new office projects under development in the Portland market. However, construction on Terminal 1, located on the Vancouver waterfront in Clark County, has been making progress and is expected to be completed in the first half of 2025.

Office Under Construction and % of Inventory



Source: Newmark Research, CoStar

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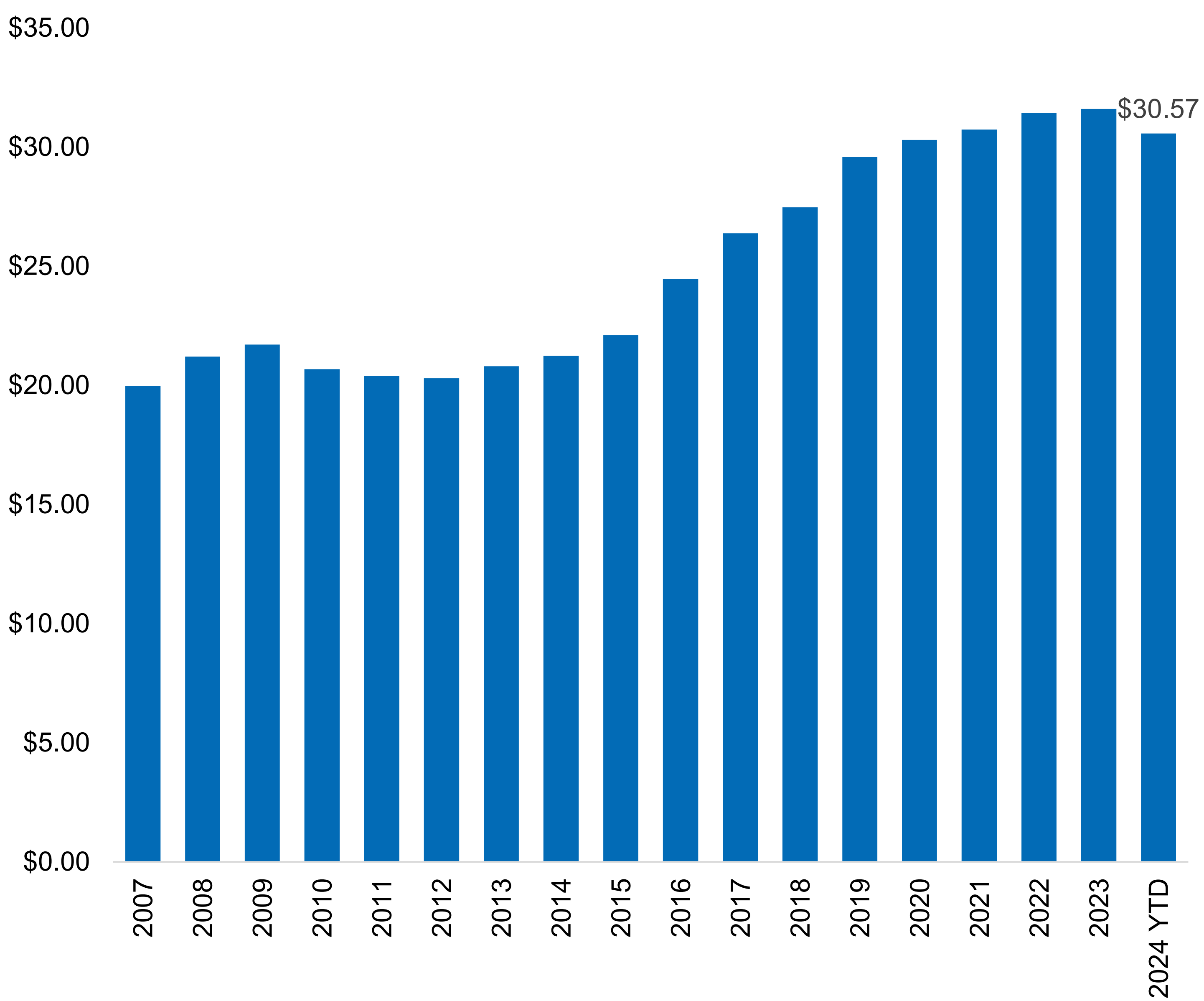
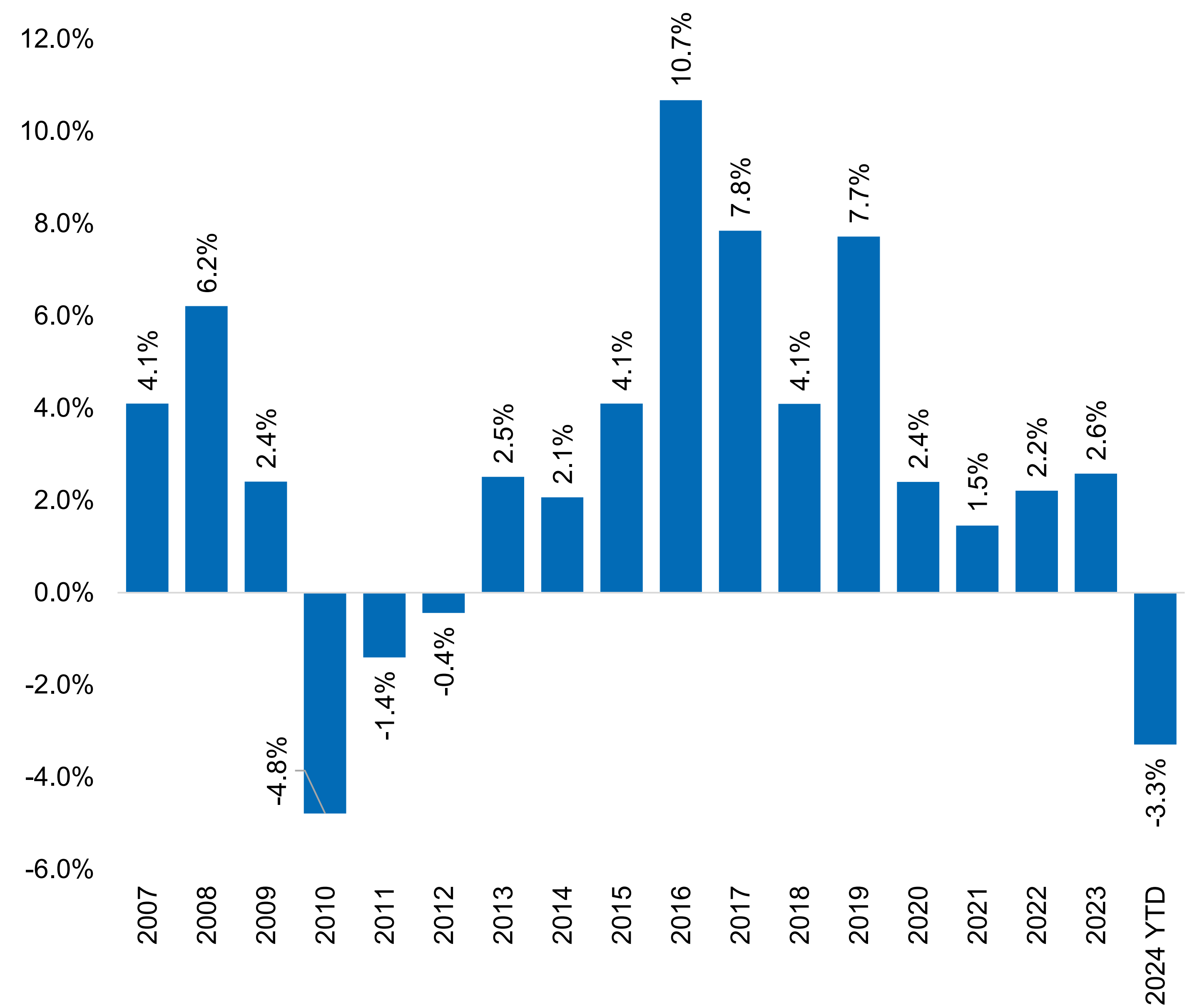
Market Wide Asking Rates Trend Downward

Average asking rates for office spaces across all classes fell to $30.57 per square foot. This represents a year-over-year decrease of 3.3% in asking rates across the market. This downward trend in rents is expected to persist as vacancy rates rise and market saturation for office properties worsens.

Office Average Asking Rent, $/SF, FS



Year-over-Year Asking Rent Growth Rate

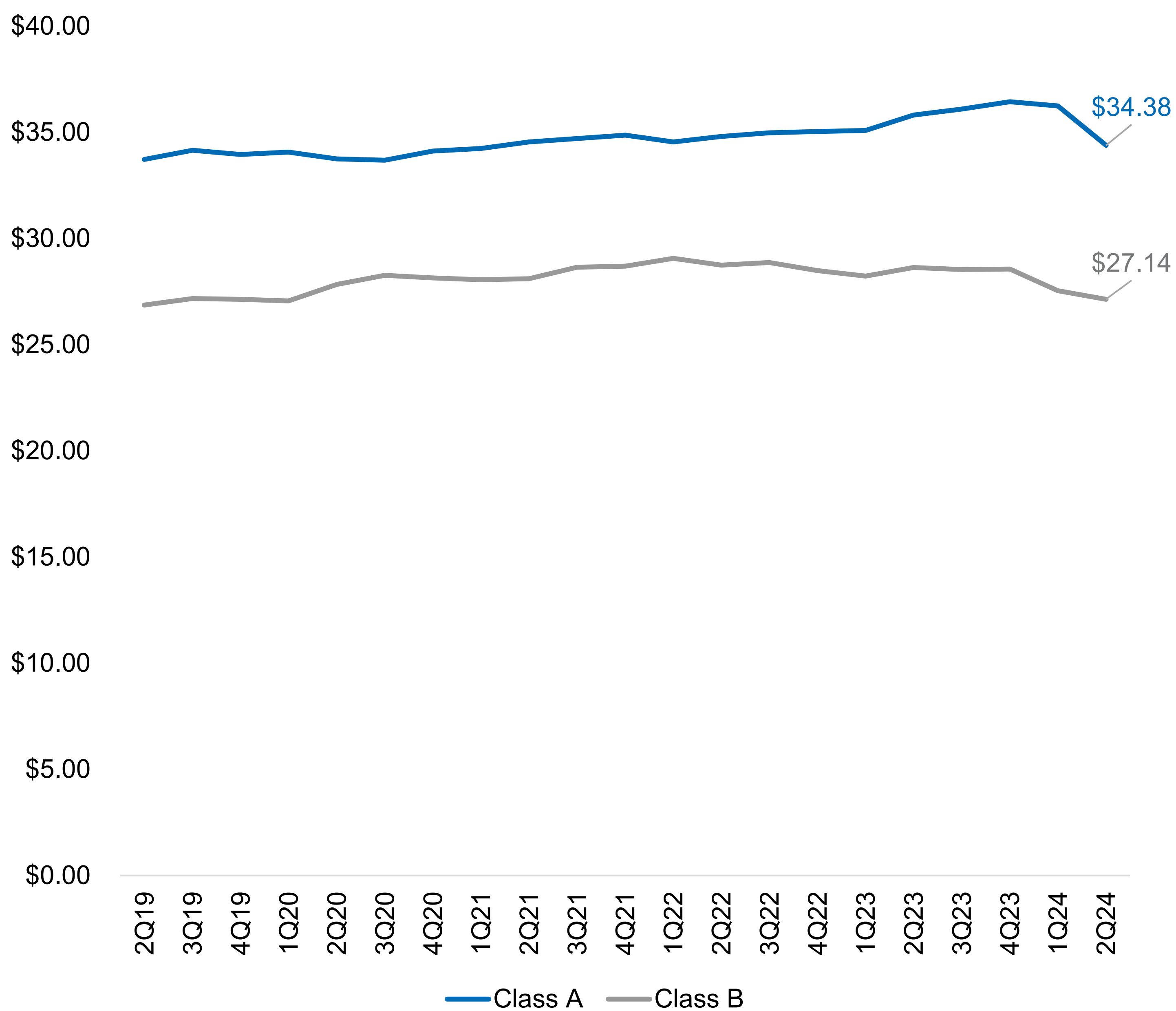


Source: Newmark Research, CoStar

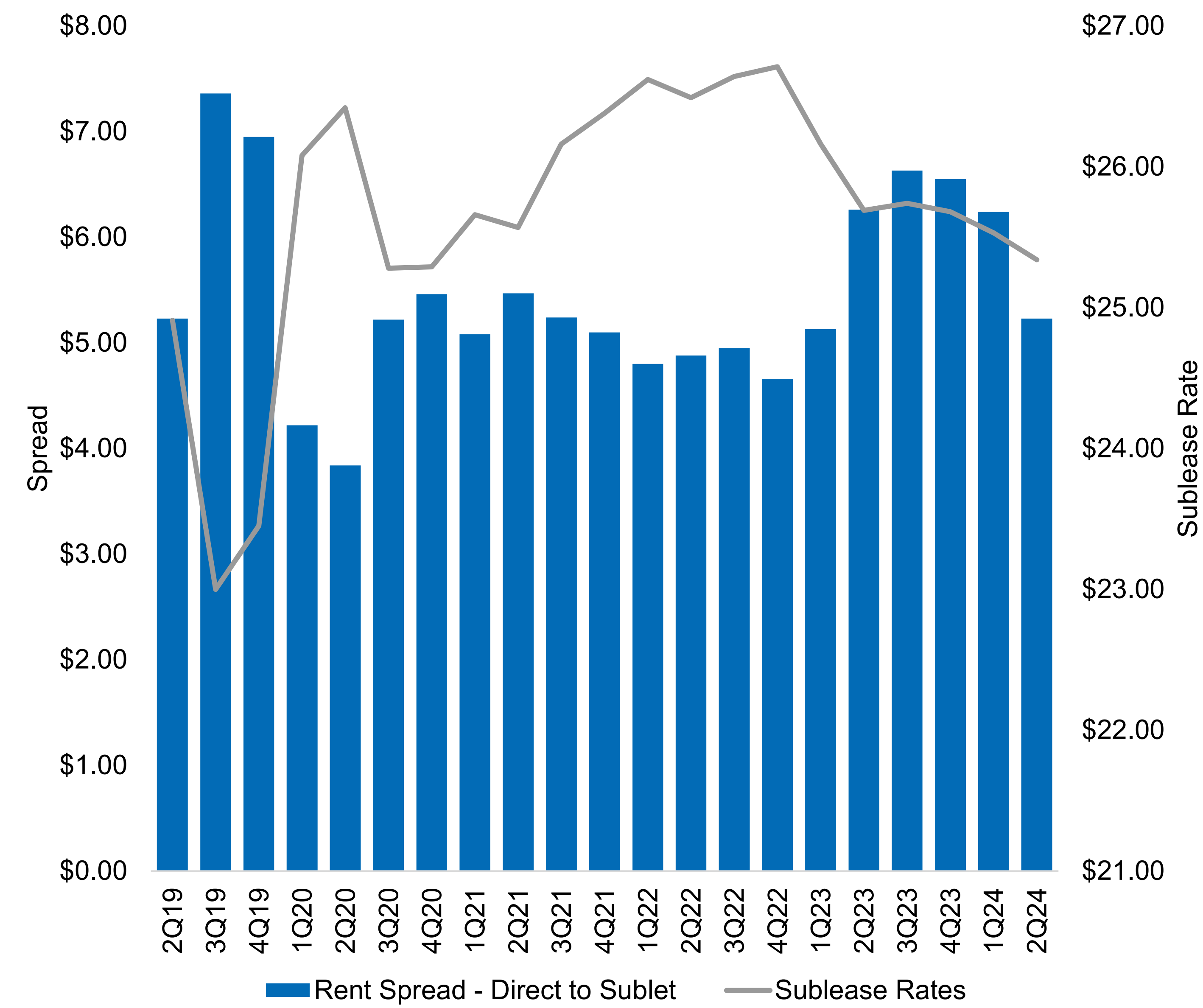
Class B Rents Down Significantly from 2023 Levels

Class B asking rents saw a notable decrease in asking rent in the second quarter of 2024. Across the entire market, Class B rates were measured at $27.14/SF, indicating a 520 basis-point decline as compared to 2023 numbers. Sublease rates in the Portland area dropped slightly, marking the fourth consecutive quarter of rate decline in the secondhand space market.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar

Multiple Large Tenants Inked Leases in 2Q24

Market activity in Portland increased notably, driven by several large block leases primarily concentrated in the Central Business District (CBD). The commitment of companies to long-term leases in Portland's downtown core is significant for the office market, particularly as the CBD has been heavily impacted since the start of the pandemic.

Notable 2Q24 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Tonkon Torp LLP	1300 SW Fifth Ave	CBD	Direct Lease	61,243
Tonkon Torp committed to downtown Portland by signing a long-term lease at Wells Fargo Center.				
Decker Brands	1750 SW Yamhill St	CBD	Direct Lease	56,808
In a new to market deal, shoe company HOKA took three floors at Canvas at Press Blocks.				
Lam Research	2345 NE Overlook Dr	Sunset Corridor/Hillsboro	Expansion	42,028
Lam Research renewed and expanded into additional space in the Sunset Corridor.				
Interface Engineering	100 SW Main St	CBD	Direct Lease	19,678
The engineering firm took the 16th floor at First & Main.				
Warren Allen LLP	9600 NE Cascades Pkwy	Airport Way	Direct Lease	16,077
Warren Allen signed a long-term deal at Cascade Station.				

Source: Newmark Research

For more information:

Dexter Muller
Research Analyst
Portland Research
Dexter.Muller@nmrk.com

Portland
760 SW 9th Ave, Suite 200
Portland, OR 97205
t 503.972.5456

New York Headquarters
125 Park Ave.
New York, NY 10017
t 212-372-2000

nmrk.com

Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Research Reports are available at nmrk.com/insights.

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