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4Q24

# Portland Office Market Overview



**NEWMARK**

# Market Observations

## Economy

- Unemployment rose slightly in Portland in the fourth quarter of 2024, reaching 4.1% overall, slightly ahead of the national average.
- A strong fourth quarter for overall employment drove year-over-year growth to a positive 0.5%, following a slow start earlier in the year.
- Positive job growth remained concentrated primarily in two sectors: education and health (6.1%) and government (1.9%).
- Office-occupying employment numbers were relatively stable throughout 2024, suggesting that there has been little adjustment to workforce numbers for these sectors.

## Major Transactions

- Felton Properties, Inc. acquired Kruse Woods V, a 191,000-SF office building in Lake Oswego, for \$47.5 million, or approximately \$249/SF. Newmark represented the seller, Shorenstein Properties, in the transaction.
- Hoffman Construction purchased Kruse Oaks III, a 108,454-SF Class A office asset located at 5500 Meadows Rd in Lake Oswego, for \$33.8 million, or approximately \$312/SF. Newmark represented the seller, Shorenstein Properties, in this transaction.
- BH Properties acquired Elevate at Cornelius Pass, a 225,666-SF office complex, for \$17.5 million, or approximately \$78/SF.

## Leasing Market Fundamentals

- Net absorption totaled negative 289,662 SF in the fourth quarter of 2024, bringing the year's total to negative 1,247,799 SF.
- Office vacancy rose by 60 basis points during the fourth quarter, reaching 23.1% market-wide.
- The Central Business District (CBD) was the weakest-performing submarket in 2024 by the numbers. Total net absorption for the year reached negative 615,652 SF, despite the CBD accounting for the highest percentage of leasing activity among all submarkets.

## Outlook

- The office market is likely to continue to see an increase in vacancy and availability as demand remains far below 2019 levels.
- Rental rates are likely to continue to fluctuate as the gap in demand widens between asset classes. Well-amenitized, Class A products continue to see the bulk of tenant demand, which may contribute to a decrease in asking rates at Class B and C assets in an effort to attract potential tenants.
- Office sale activity saw a substantial increase in 2024 as properties began to transact at heavily discounted rates across Portland. This is expected to continue as operators and investors reposition themselves within the market.

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1. Economy
  2. Leasing Market Fundamentals



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# Economy

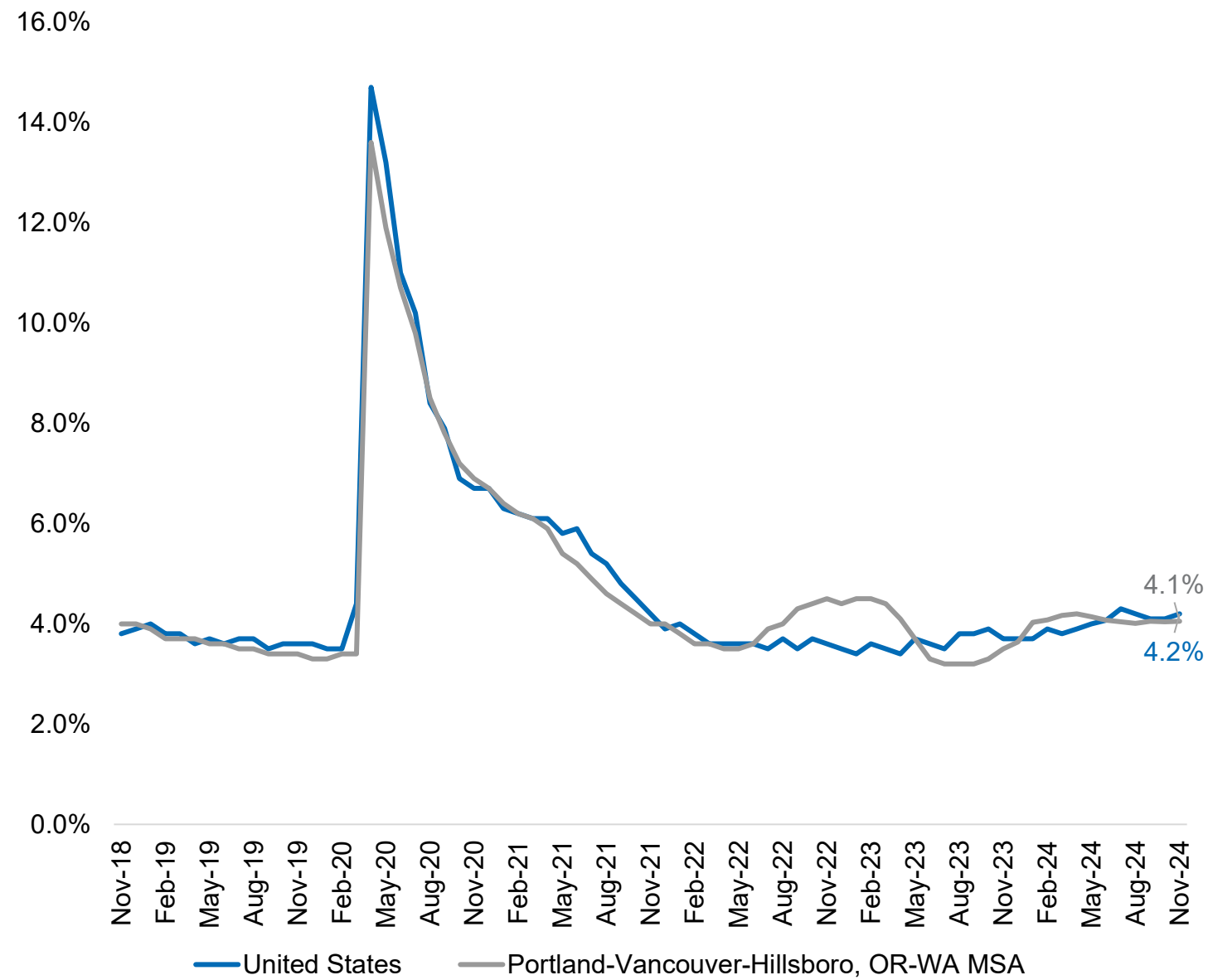




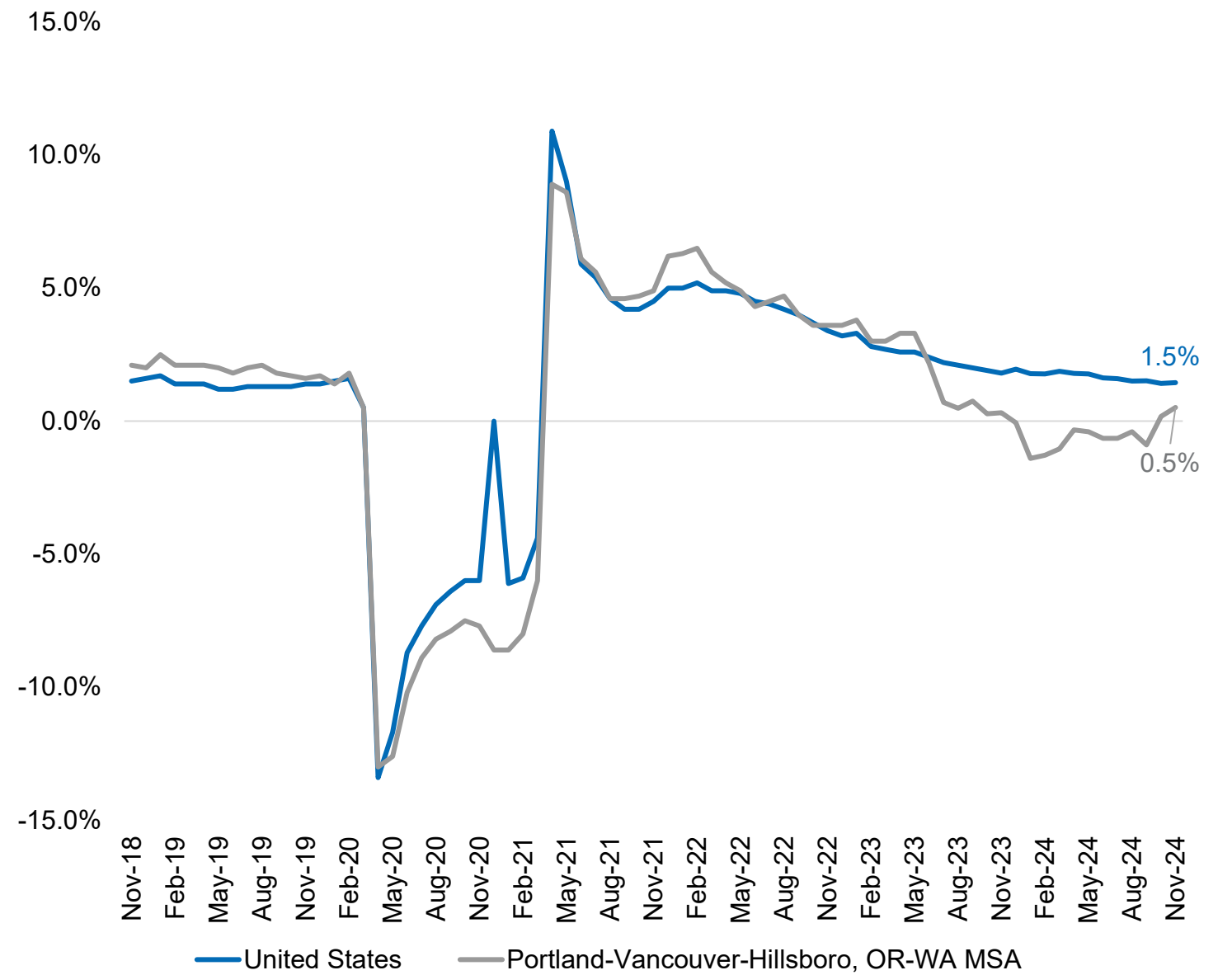
# Year-Over-Year Employment Improved in 4Q24

Portland concluded the year slightly below the national average for its unemployment rate. Despite a sluggish economic start to the year, the labor market rebounded in the final quarter, recording modest employment growth over the 12-month period.

Unemployment Rate, Seasonally Adjusted



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

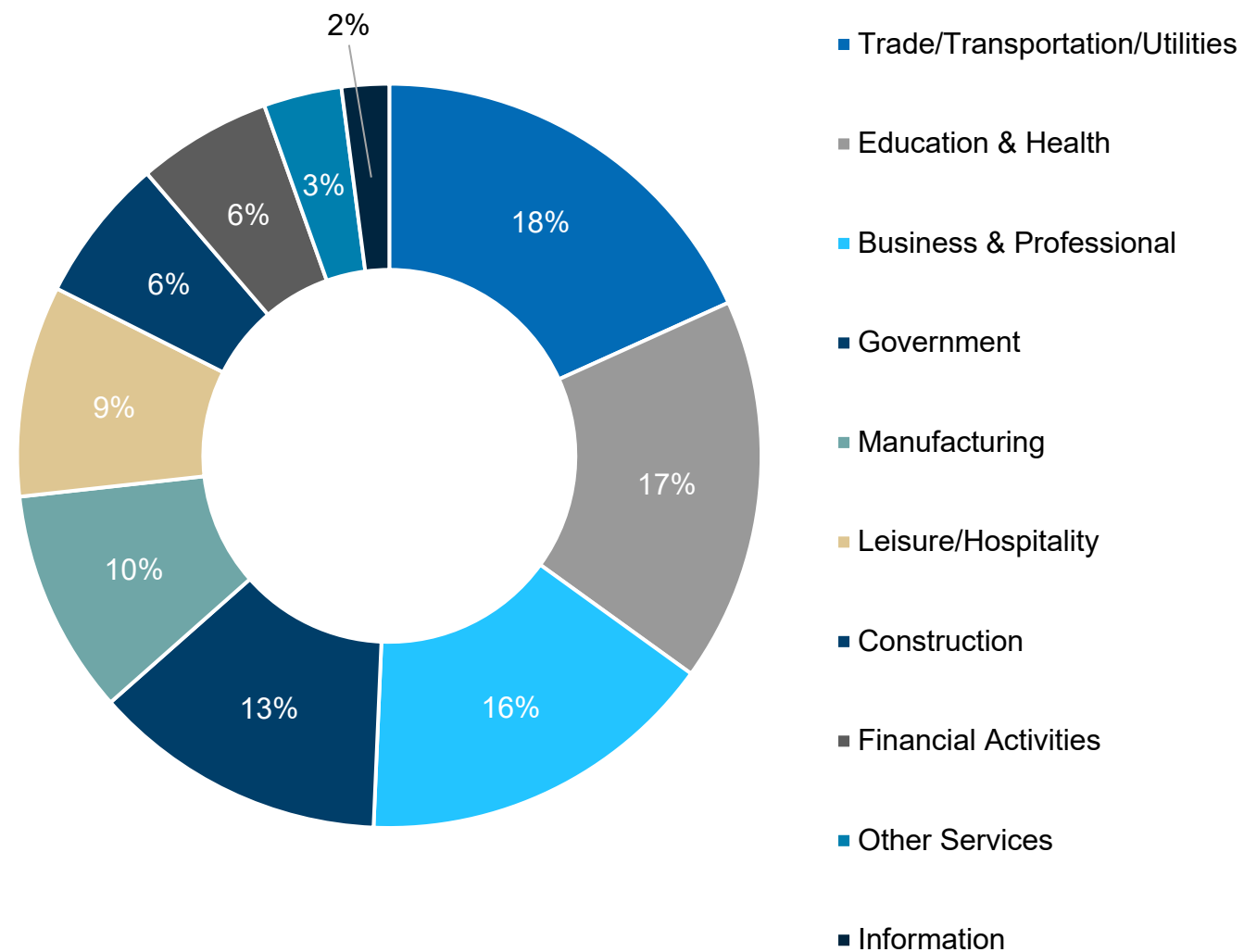


Source: U.S. Bureau of Labor Statistics, Portland-Vancouver-Hillsboro, OR-WA MSA

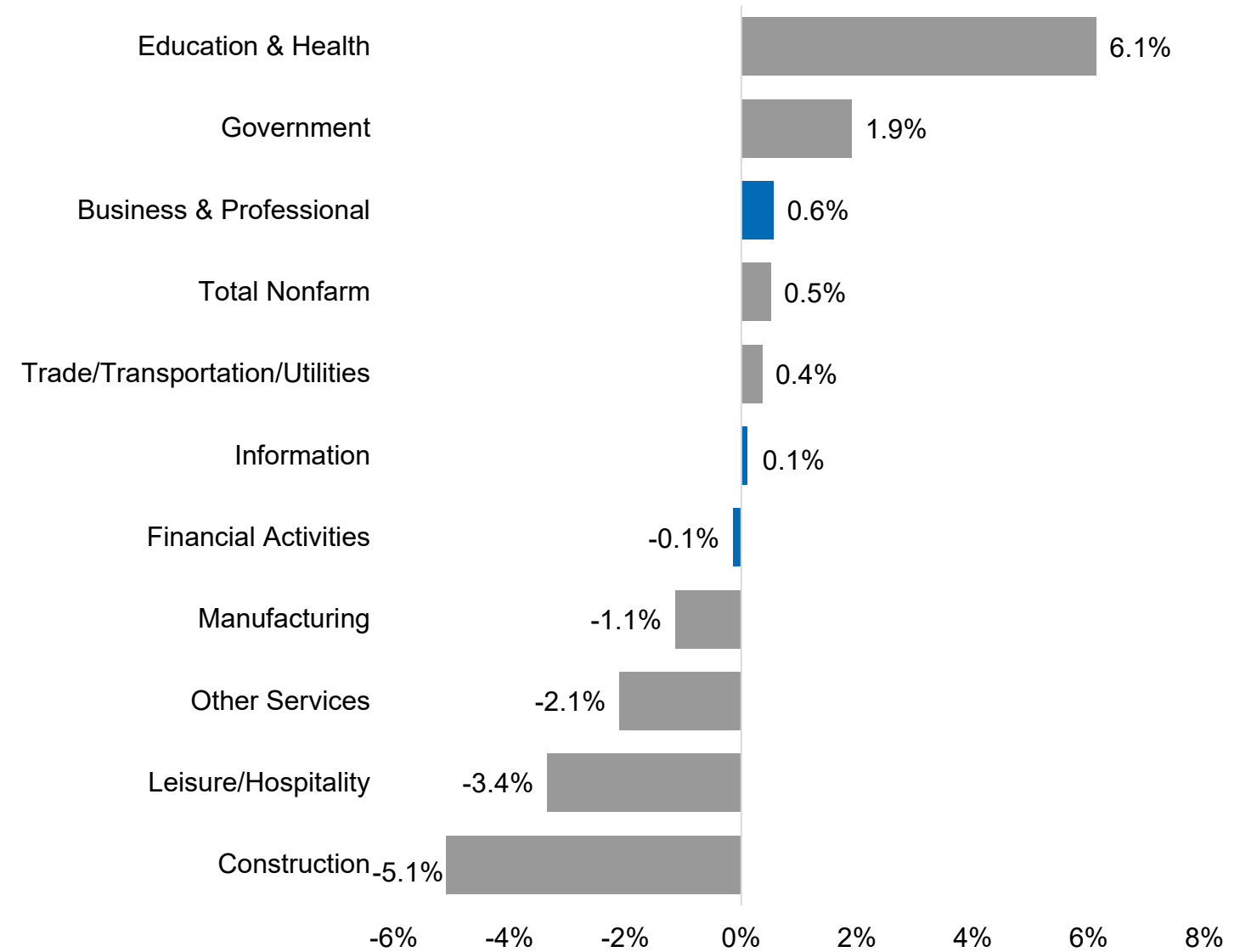
# Public Sector Employment Gains Bolstered Area Job Growth

The Education & Health and Government sectors ended the year as the strongest labor sectors in the Portland Metropolitan area. Business & Professional Services recorded positive job growth in the fourth quarter of 2024, following two consecutive quarters of negative growth.

Employment by Industry, 2024



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

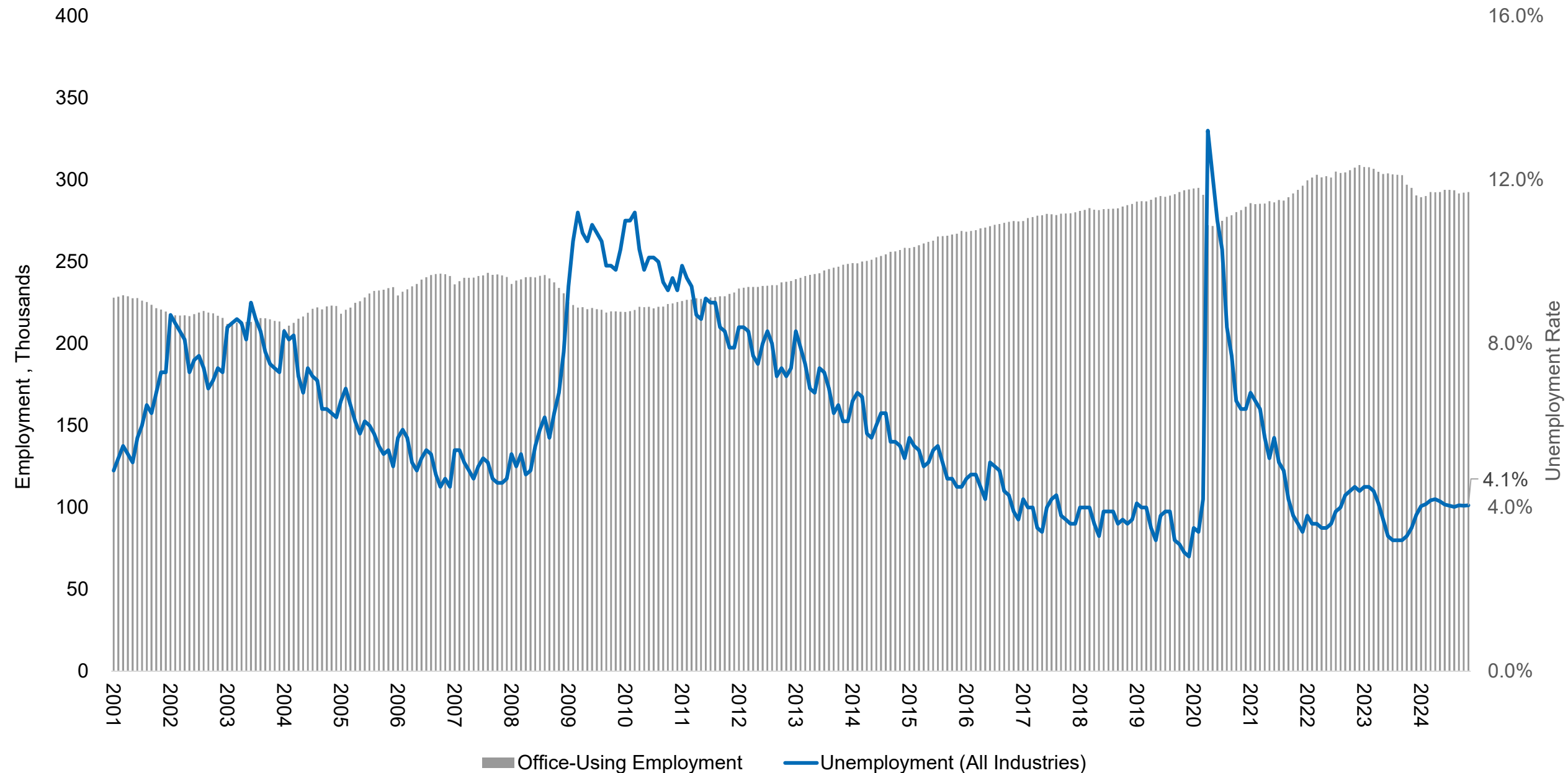


Source: U.S. Bureau of Labor Statistics, Portland-Vancouver-Hillsboro, OR-WA MSA

# Employment Remained Steady Amongst Office Occupiers

Office-using employment experienced a subdued performance in 2024 as overall employment numbers fluctuated across industries. Business and Professional Services, Portland's largest office-using sector, stood out as a bright spot in the fourth quarter. Employment gains in this sector closed the year 60 basis points higher than 2023 levels, offering a positive note in an otherwise mixed year.

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.



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# Leasing Market Fundamentals

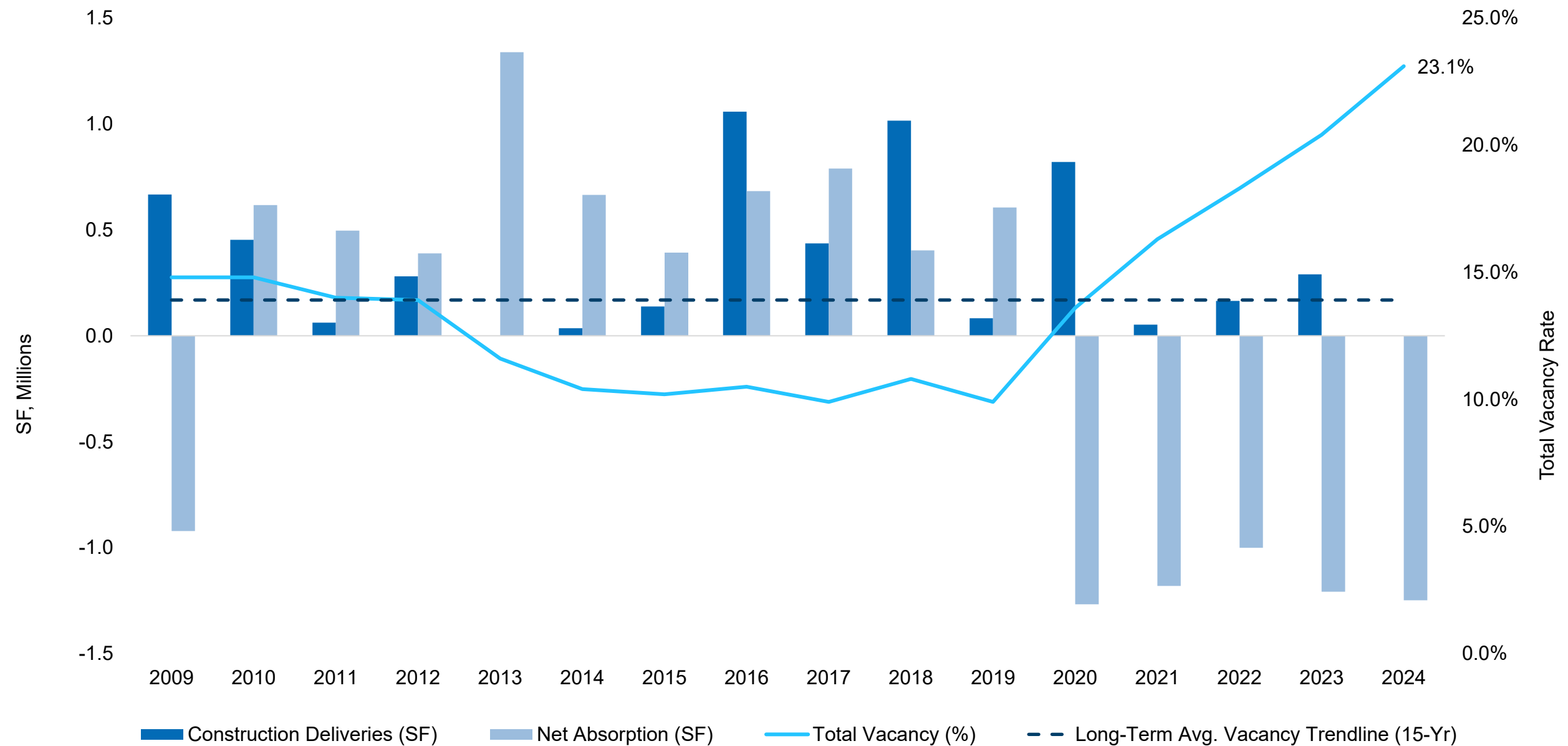




# Office Vacancy Crossed 23% Market-Wide

Vacancy recorded an increase of 60 basis points in the fourth quarter of 2024, reaching 23.1% market-wide as the Central Business District (CBD) experienced another quarter of leasing regression. Total net absorption for the quarter was negative 289,662 SF, bringing the 2024 total to negative 1,247,799 SF.

## Historical Construction Deliveries, Net Absorption, and Vacancy

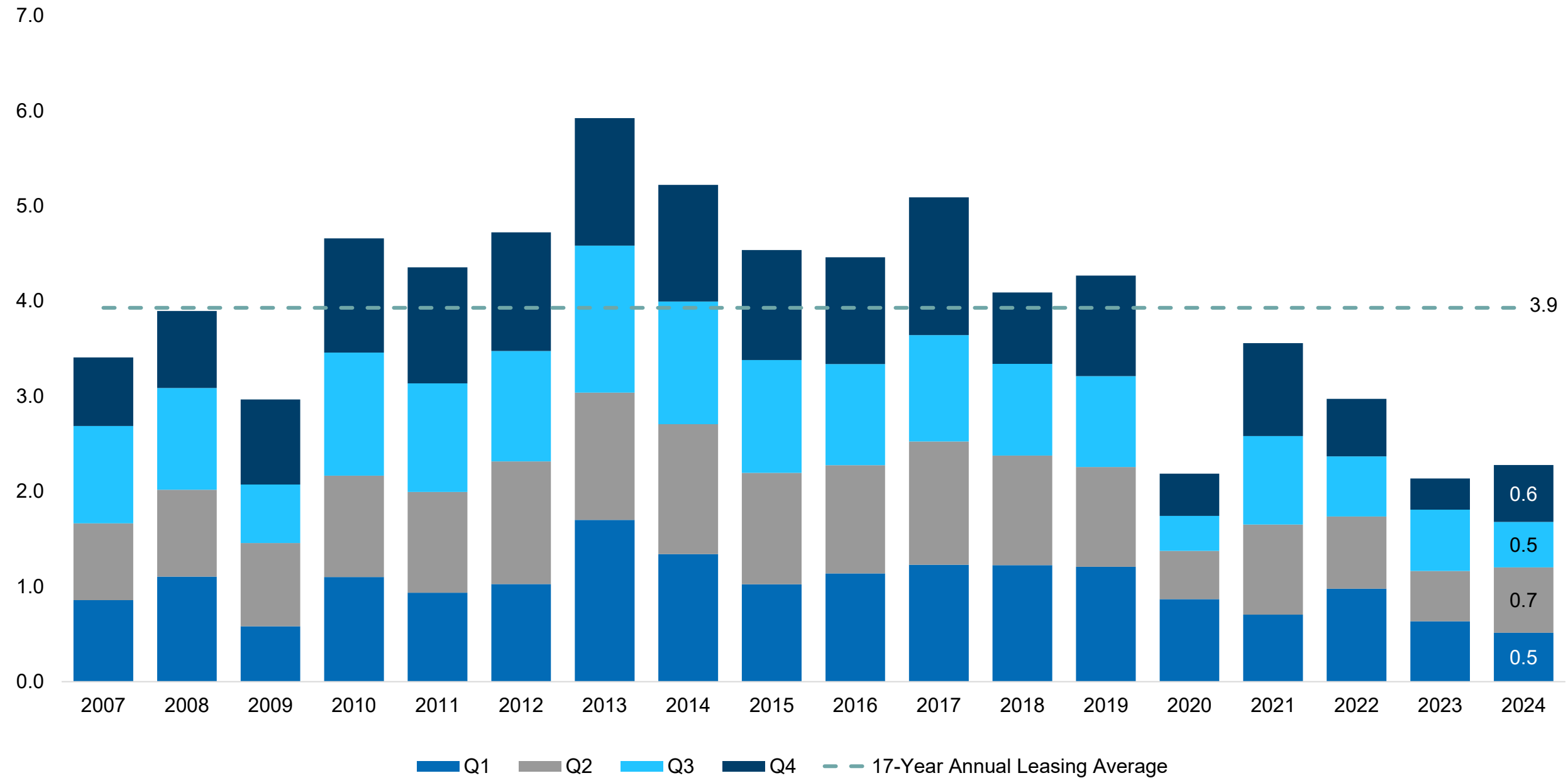


Source: Newmark Research, CoStar

# Activity Exceeds 2023 Numbers, Remained Well Below 2019 Levels

The office market closed the year marginally ahead of the activity that was recorded in 2023, mainly due to an uptick in deals surrounding Portland's Central Business District and nearby urban core. Despite an increase in leasing activity, net absorption remained firmly negative for the quarter and the year overall.

Total Leasing Activity (msf)



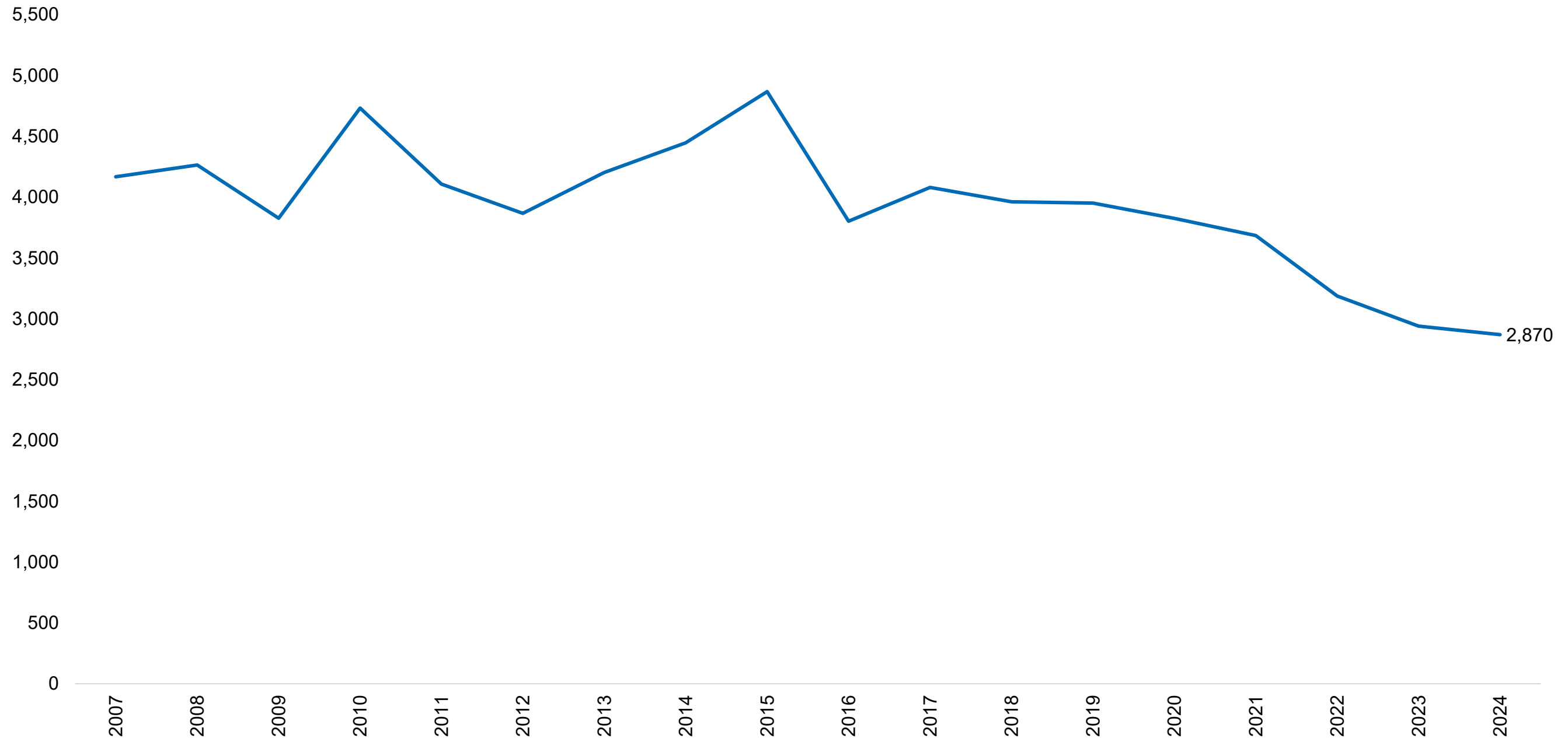
Source: Newmark Research, CoStar



# Average Deal Size Down to Close the Year

The average deal signed in the fourth quarter of 2024 dropped slightly to 2,870 SF. This drop represented a 240-basis-point decline as compared to the same period in 2023. Continued regression in average lease size coupled with less overall deals on the market were major contributing factors to the large negative net absorption that the market experienced in 2024.

Average Lease Size (sf)



Source: Newmark Research, CoStar





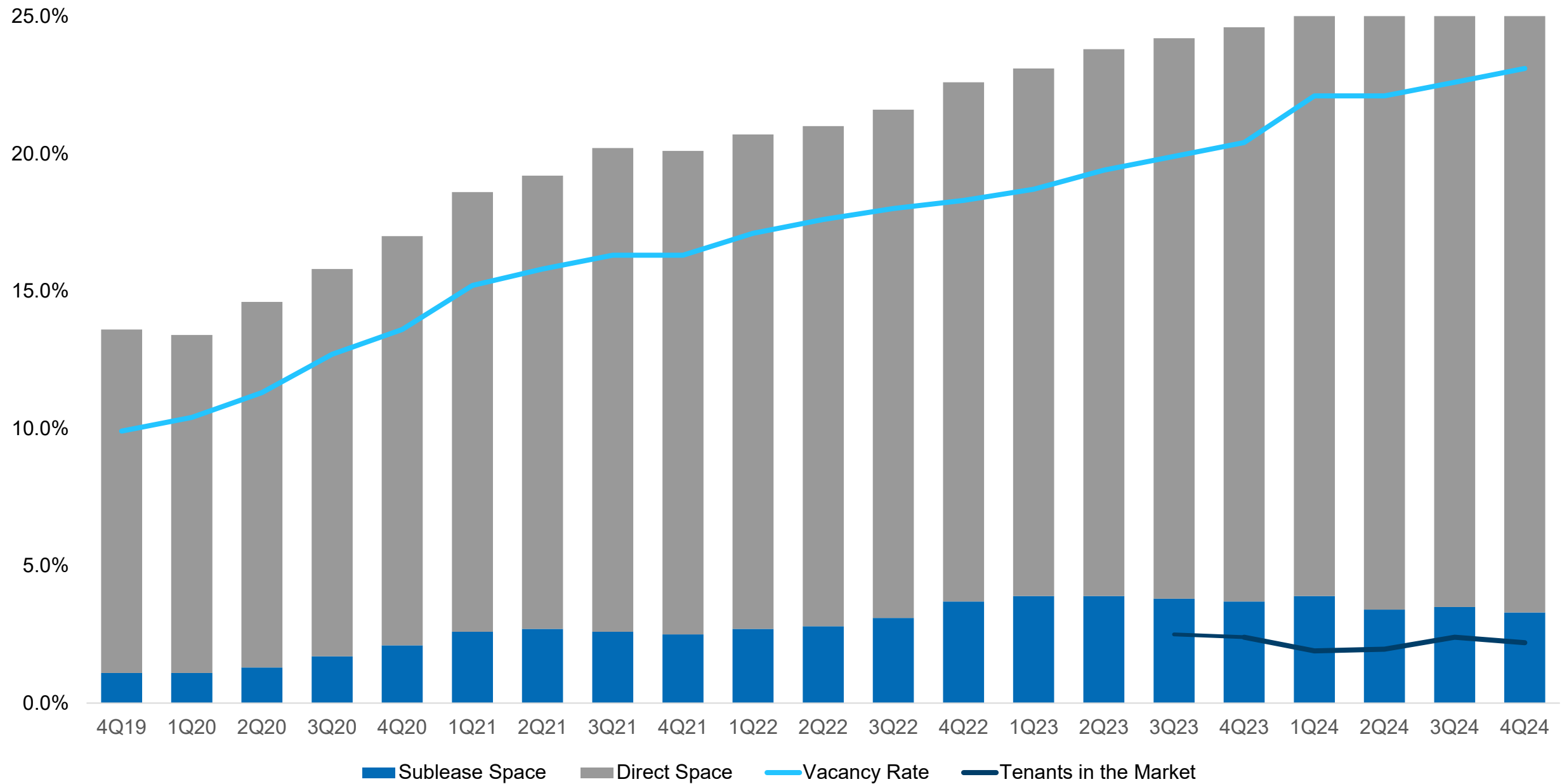
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# Direct Availability Records Gains as Subleases Expire

Tracked tenant demand declined slightly in the final quarter of 2024, with the current demand footprint accounting for 2.2% of the total market size. Meanwhile, overall sublease space on the market decreased by 50 basis points compared to the same period in 2023.

Available Space and Tenant Demand as Percent of Overall Market



Source: Newmark Research, CoStar





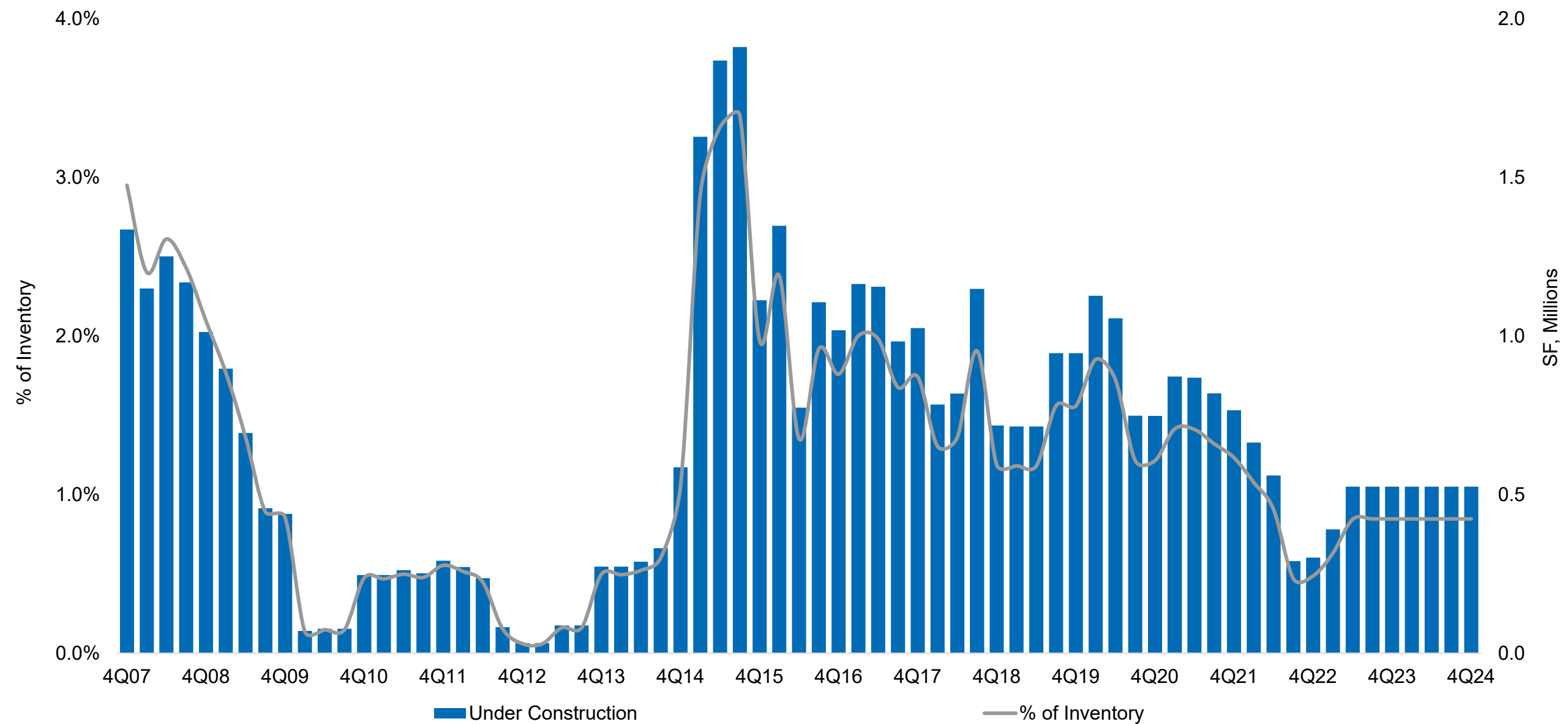
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# Office Construction Remained Dormant in 2024

The Portland office market recorded no change in office construction projects over the past twelve months. The leasing market remains oversaturated across all asset classes, with vacancy rates continuing to rise throughout 2024.

## Office Under Construction and % of Inventory



Source: Newmark Research, CoStar





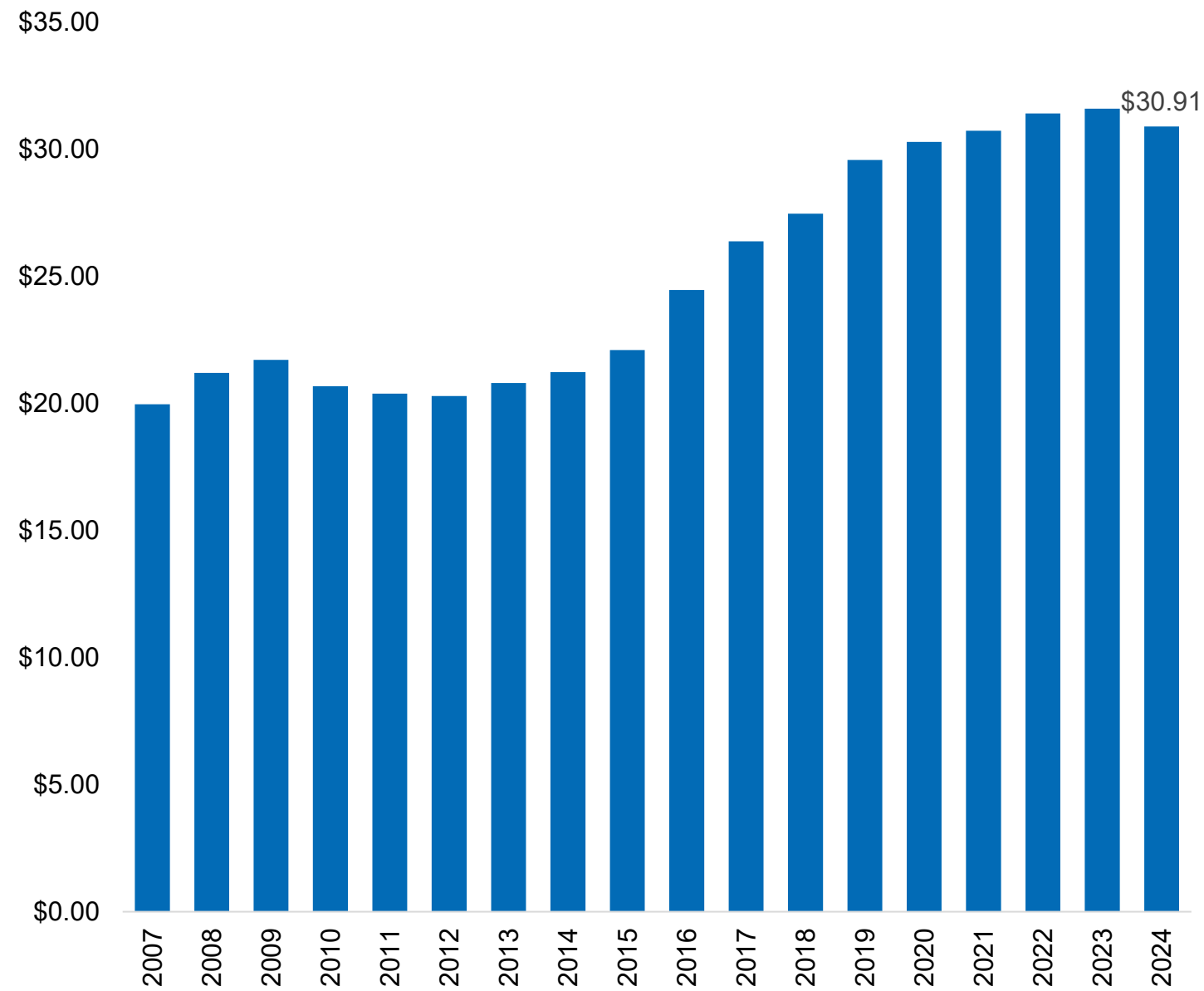
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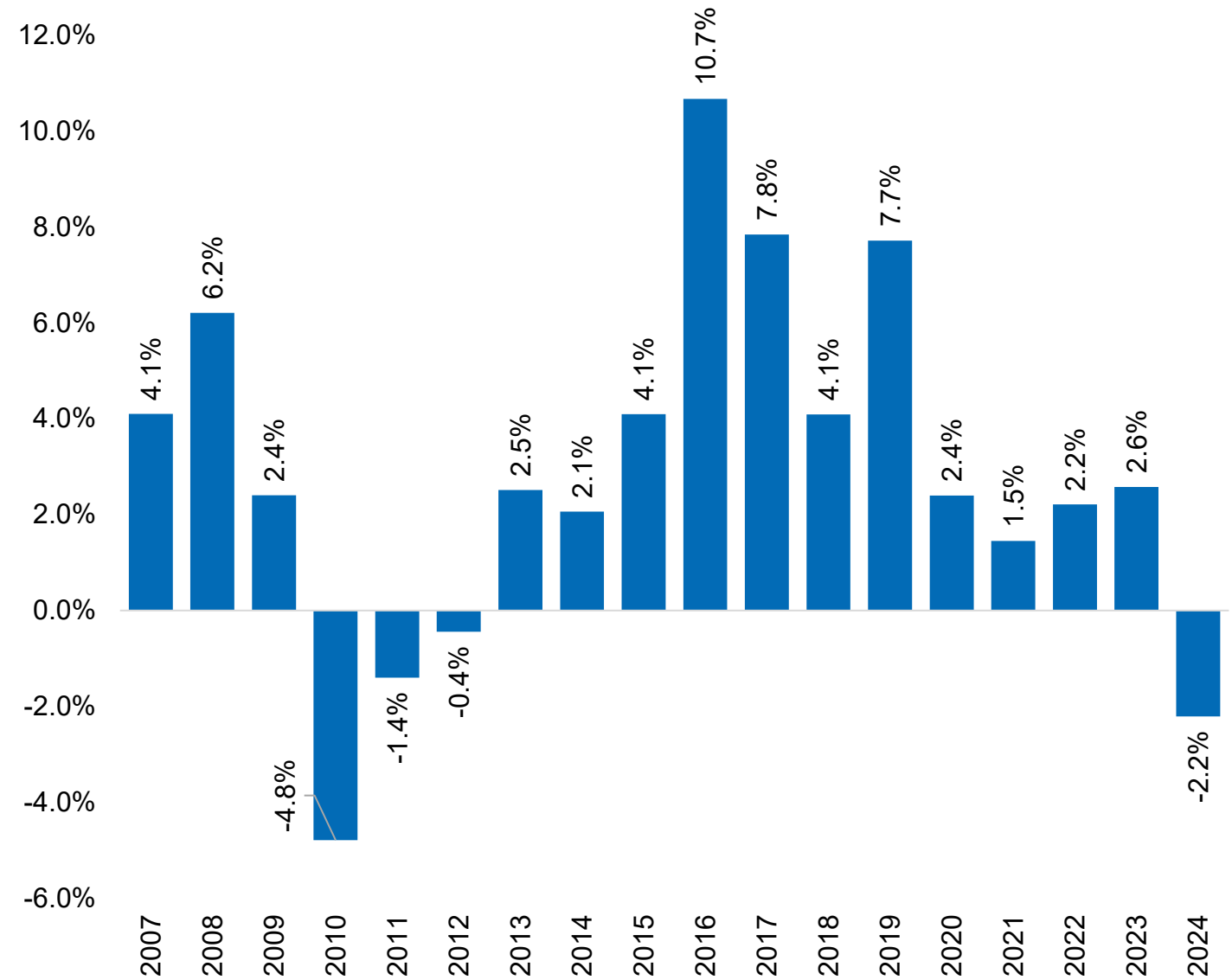
# Office Rates Face Downward Pressure

The average office asking rent in the Portland market reached \$30.91/SF in the fourth quarter of 2024. Rates are down 2.2% year-over-year as the market has appeared to begin adjusting to rising vacancy and overall available space.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate



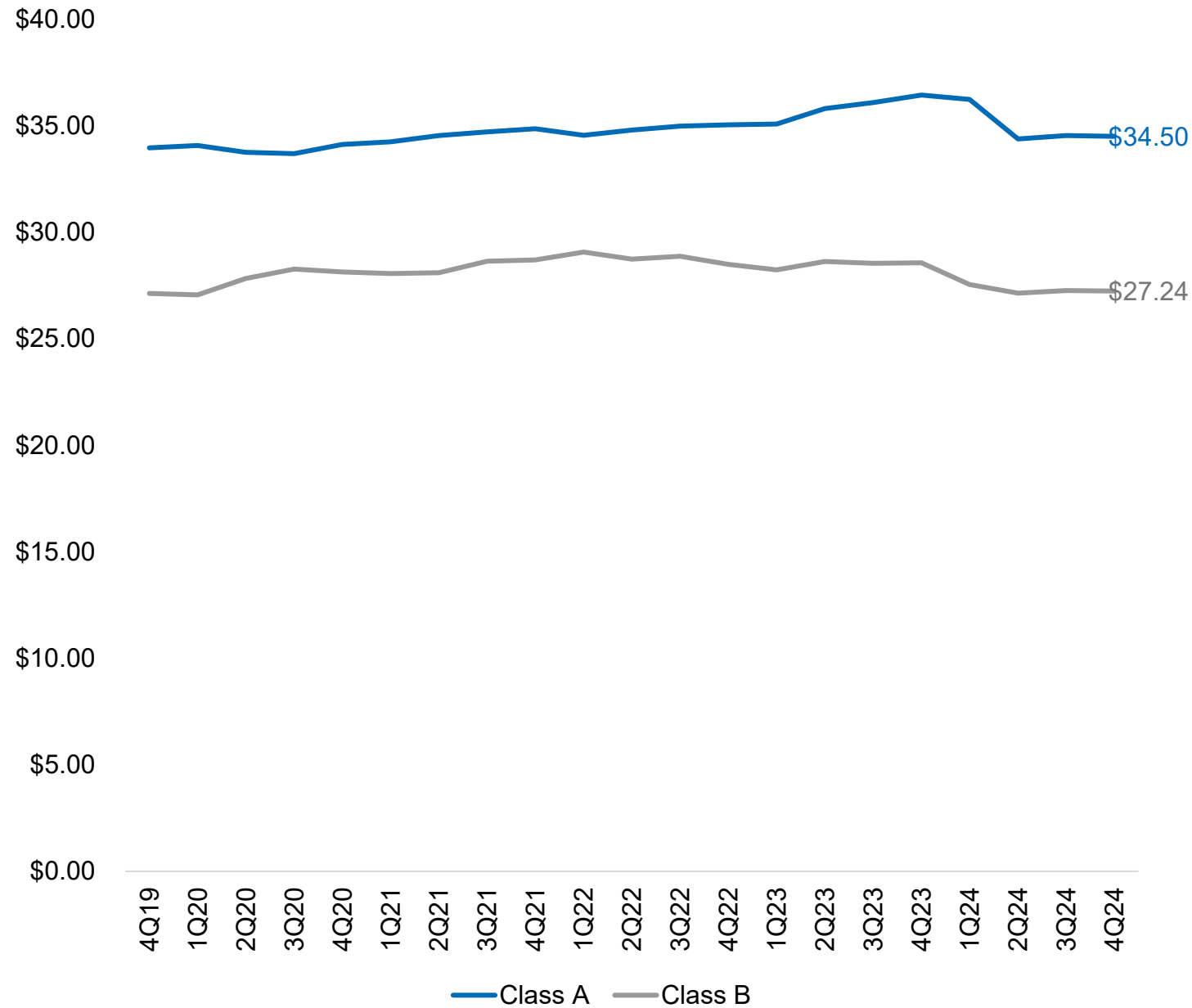
Source: Newmark Research, CoStar



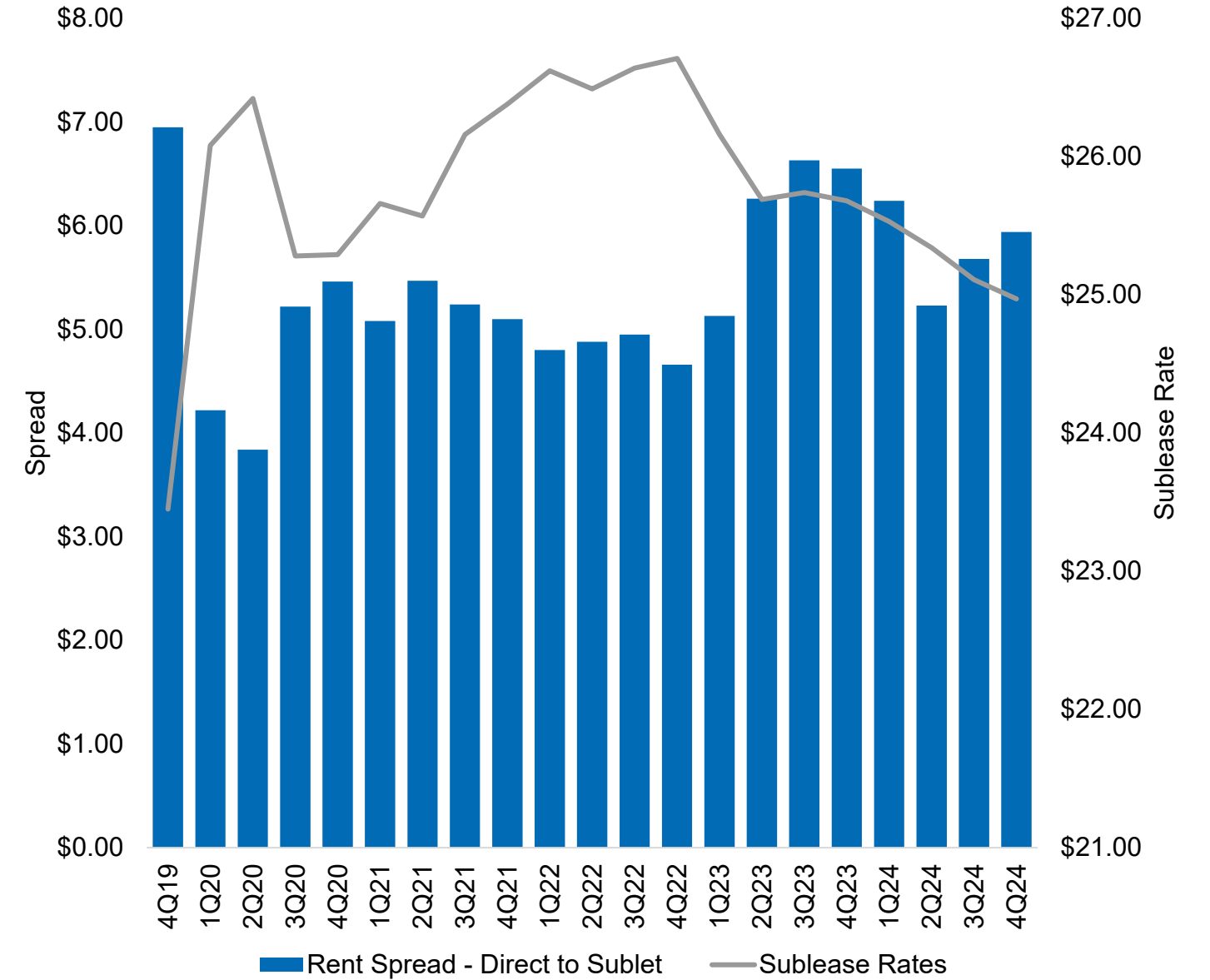
# Rates Down Overall Across Asset Classes

Class A and Class B assets both registered slight declines in the fourth quarter of 2024. Class A rates remain well below 2023 numbers as struggling submarkets such as the Close-In Northwest have discounted rates to increase leasing activity. Sublease rates closed the year down as inventory continued to outpace the demand for second-hand space.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar

# Urban Core Sees Majority of Notable Leases in 4Q24

The fourth quarter of 2024 saw fewer notable large-block transactions. Leasing activity remained concentrated in the Central Business District and nearby submarkets, as tenants continued to prioritize highly amenitized buildings with favorable leasing terms.

## Notable 4Q24 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
KPMG	1300 SW 5 <sup>th</sup> Ave	CBD	Renewal	29,239
<i>KPMG renewed in its long-time location within Wells Fargo Center.</i>				
Ubiquity	400 SW 6 <sup>th</sup> Ave	CBD	Direct	18,967
<i>The New York based tech firm leased a full floor at Aspect on Sixth.</i>				
PSMFC	6720 SW MacAdam Ave	Johns Landing	Direct	14,710
<i>The Pacific States Marine Fisheries Commission relocated their offices from the Close-In SE.</i>				
Smith Optics	123 NE 3 <sup>rd</sup> Ave	Lloyd District	Direct	14,192
<i>Smith Optics relocated their North American HQ to the Eastside Exchange Building.</i>				
Sentry Insurance	Lincoln Center	217 Corridor/Beaverton	Direct	11,494
<i>Sentry Insurance inked a long-term lease at Lincoln Center.</i>				



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