
3Q24

Portland Office Market Overview



NEWMARK

Market Observations

Economy

- Portland's labor market reached an unemployment rate of 4.0%, a 20-basis-point decrease from Q2 2024, positioning it just below the national average.
- Year-over-year, total nonfarm growth in the Portland area remained negative in Q3 2024, with office-occupying industries showing minimal employment changes.
- For the second consecutive quarter, positive job growth was confined to the education and health sectors (4.6%) and the government sector (1.9%).
- The lack of substantial shifts in office-based employment has led to limited demand from tenants in the market.

Major Transactions

- Menashe Properties acquired Montgomery Park, a 768,443-SF office tower and the third-largest office building in Portland, for \$33 million, or approximately \$42 per SF. Newmark represented the seller in the transaction.
- Menlo Equities purchased Block 1 of the Brewery Blocks, a 137,097-SF Class A office asset located at 1207-1235 W Burnside in the CBD, for \$21 million, or approximately \$156.60 per SF. Newmark also represented the seller in this transaction.
- Additionally, Menashe Properties acquired the J.K. Gill Building, a 98,975-SF historic office building in downtown Portland, for \$3.25 million, or approximately \$32.84 per SF.

Leasing Market Fundamentals

- In the third quarter of 2024, net absorption totaled negative 282,340 SF, with the majority of vacant space coming from Class B and Class C assets concentrated in the urban core.
- Vacancy rates rose by 50 basis points during Q3, reaching 22.6% market-wide.
- The Close-In Northwest submarket continued to be the most impacted in Portland, posting another quarter of negative absorption and hitting a vacancy rate of 36.2% across all asset classes.

Outlook

- Portland is expected to face continued challenges in its office market over the coming months, as occupiers downsize and reposition in response to soft market conditions.
- Rental rates are likely to fluctuate, especially as distressed assets undergo ownership changes and leasing strategies shift. As the market tightens, the rental rate gap between high-quality assets and older, historic properties may widen.
- Office sale activity is projected to increase in the coming quarters, driven by a reduction in the cost of capital following recent moves by the U.S. Federal Reserve. Many Portland assets are also being brought to market at notably reduced valuations.

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1. Economy
 2. Leasing Market Fundamentals

3Q24

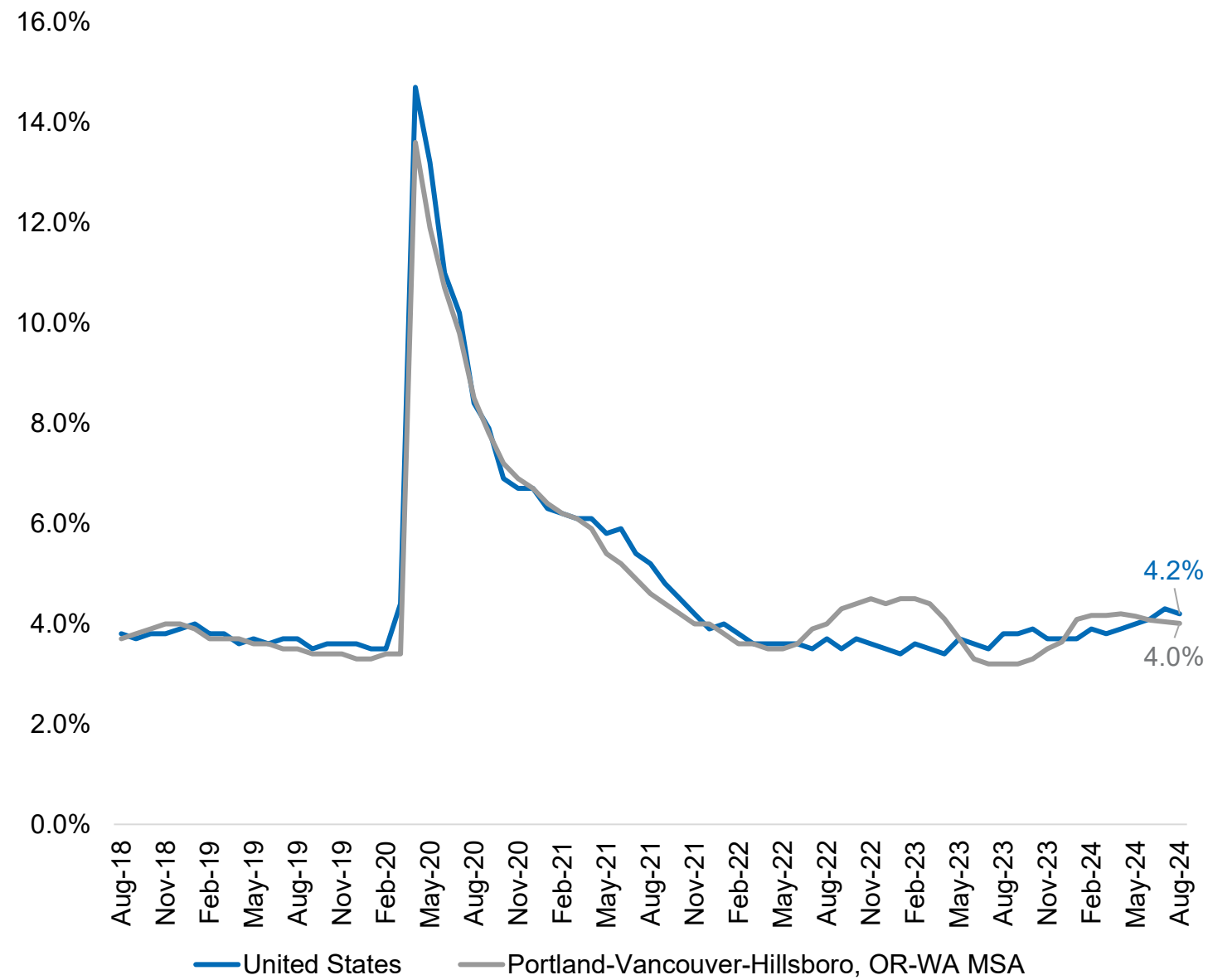
Economy



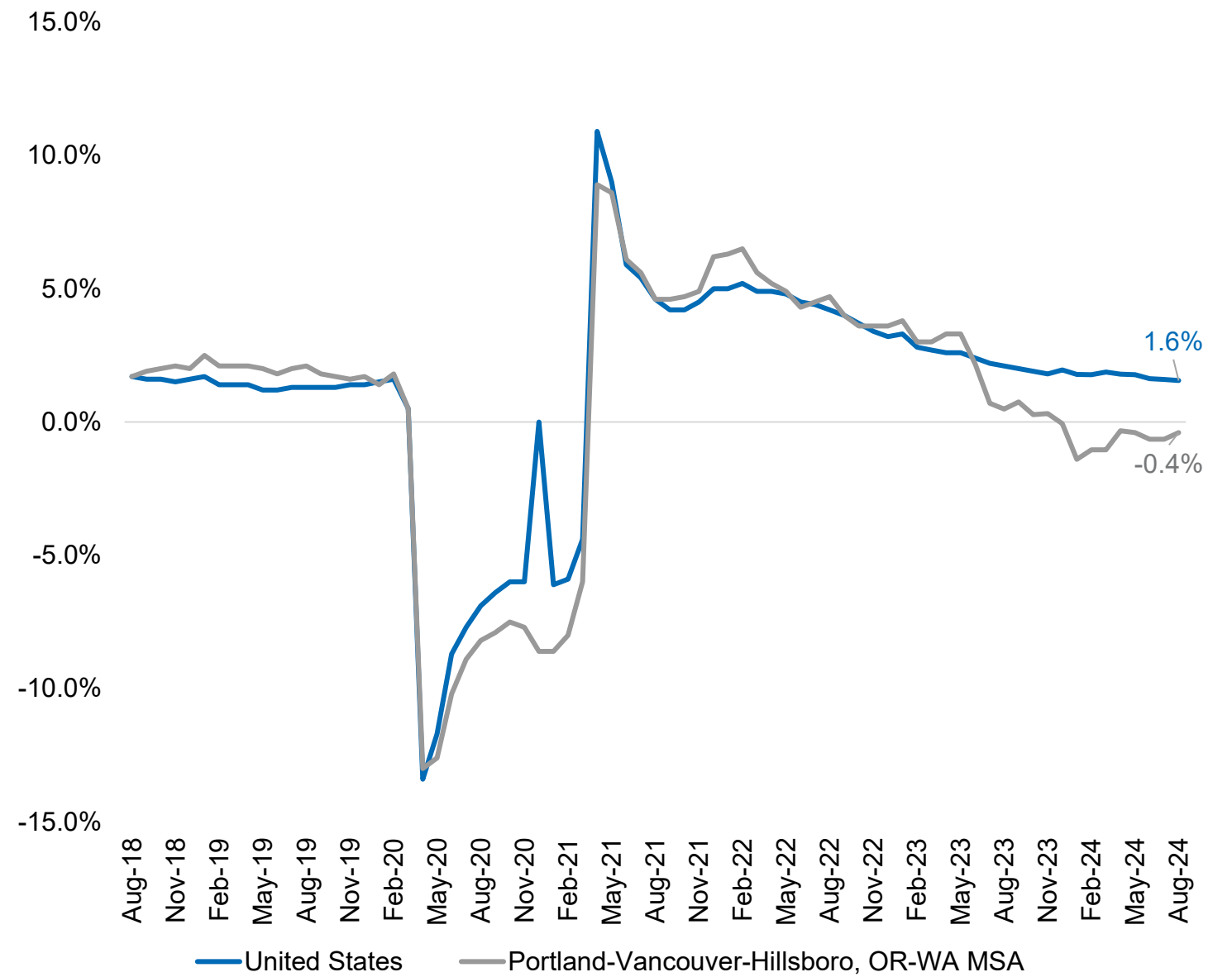
Portland Sees Employment Growth In 3Q24

After a slow economic start to the year, Portland's unemployment rate fell by 20 basis points in the third quarter to 4.0%, slightly below the national average. While year-over-year employment growth remained negative, it edged closer to neutral in Q3 2024.

Unemployment Rate, Seasonally Adjusted



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

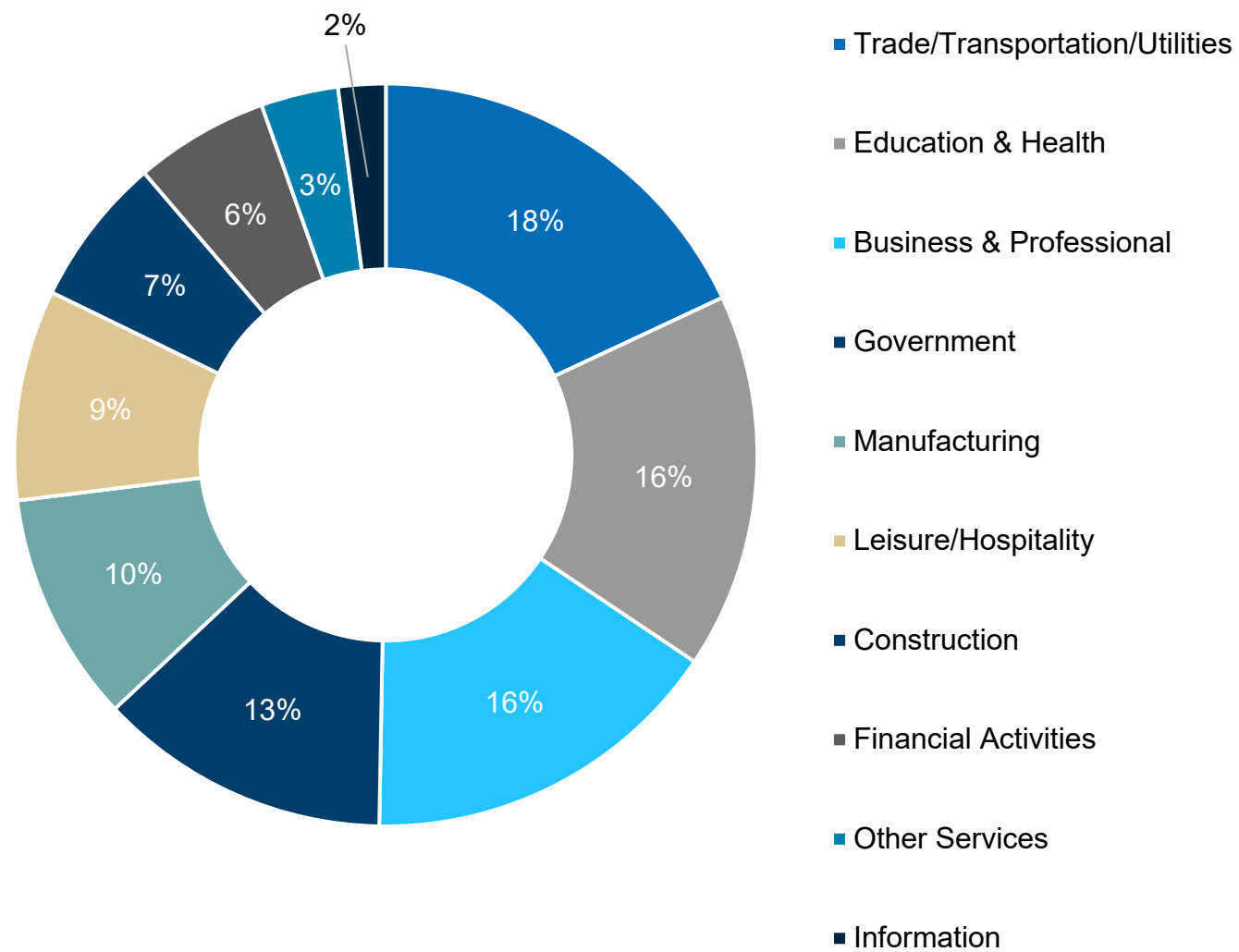


Source: U.S. Bureau of Labor Statistics, Portland-Vancouver-Hillsboro, OR-WA MSA

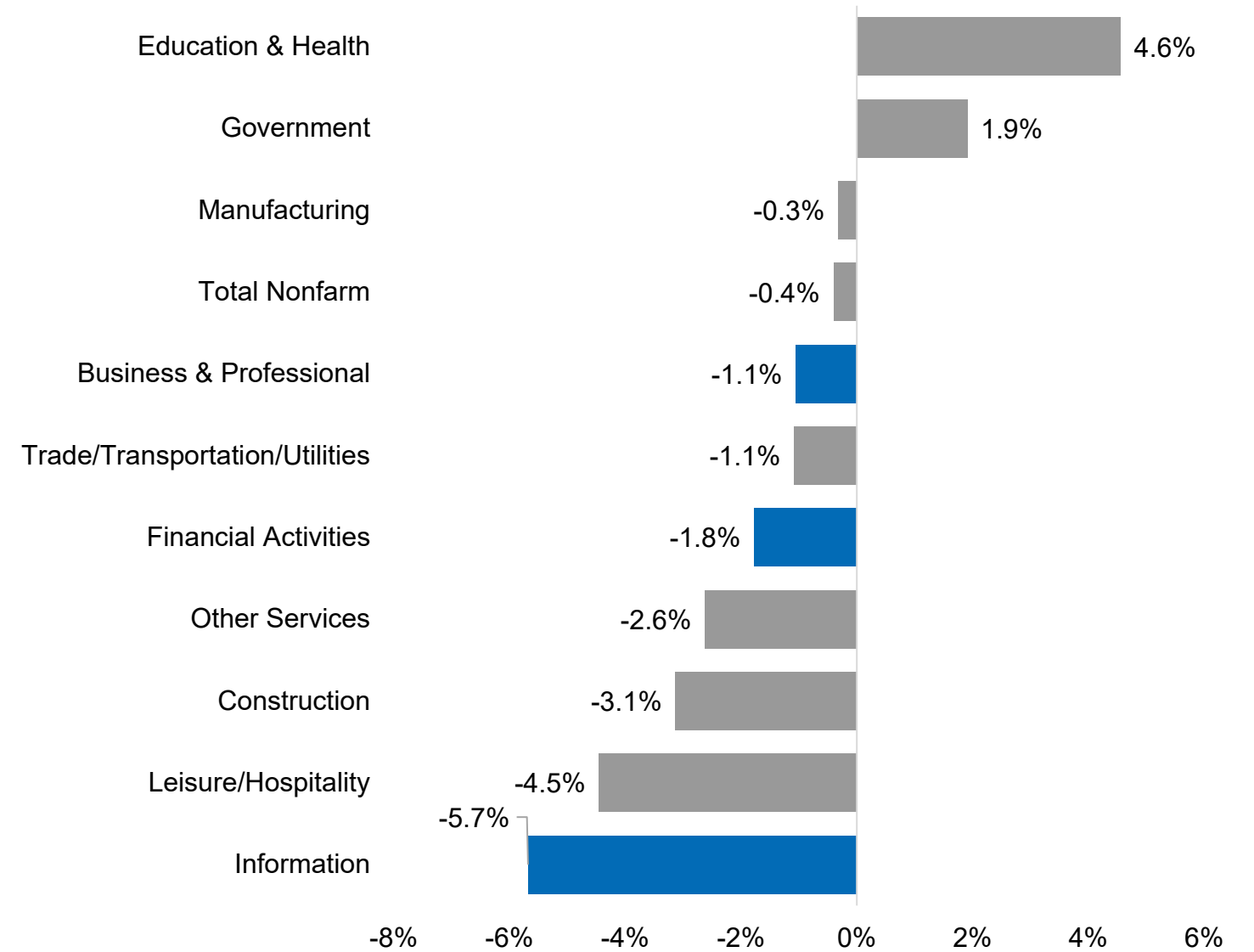
Total Employment Remained Below 2023 Levels

For the second consecutive quarter, only two major sectors—Education & Health and Government—posted positive year-over-year job growth. In contrast, the Information sector continued to struggle, recording the highest job losses among all employment sectors.

Employment by Industry, 2024



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

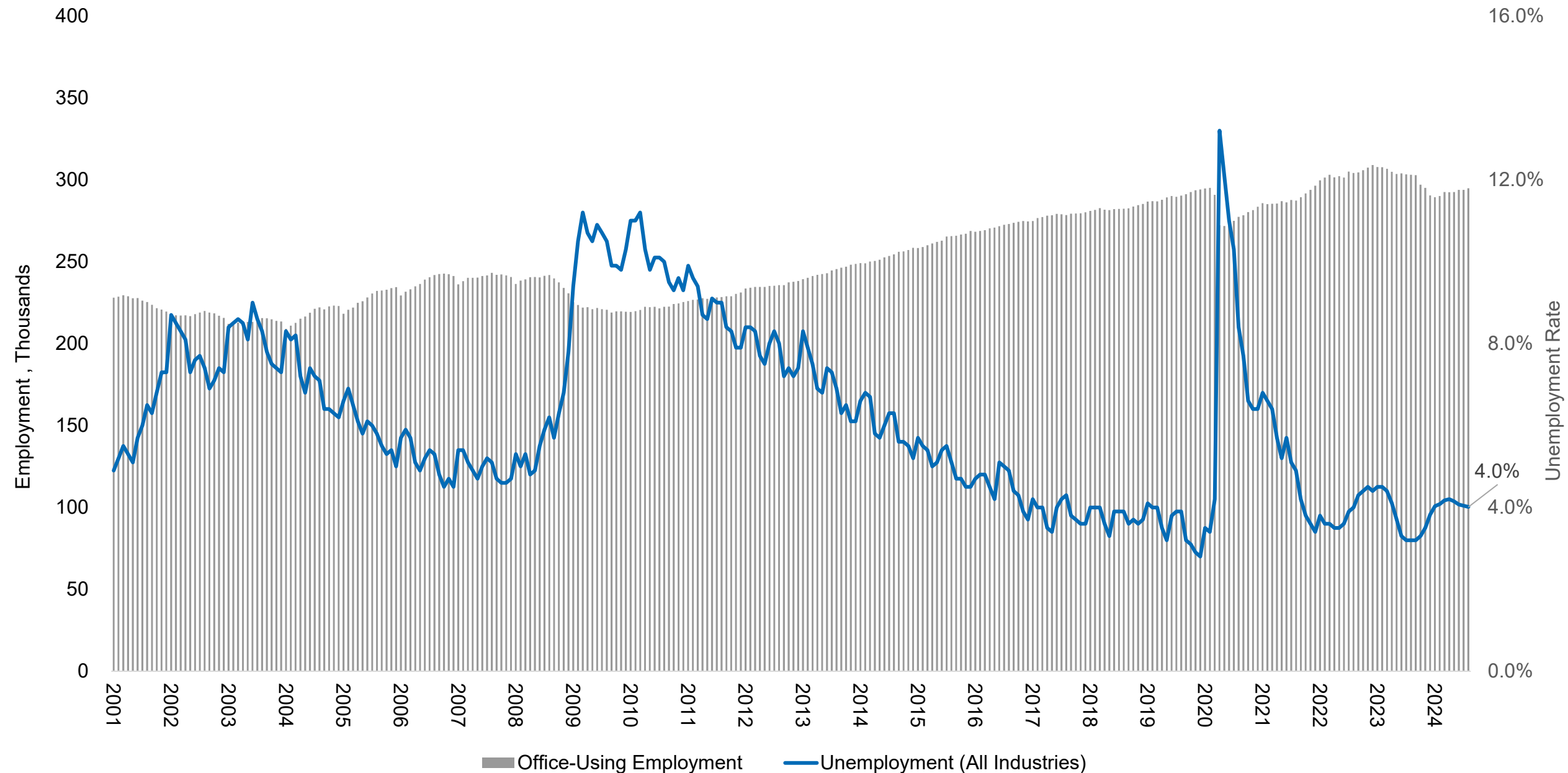


Source: U.S. Bureau of Labor Statistics, Portland-Vancouver-Hillsboro, OR-WA MSA

Office-Using Employment Sees Minimal Change

Office-using employment remained relatively stable in the third quarter of 2024, despite negative job growth across all three major office-occupying sectors compared to 2023 figures.

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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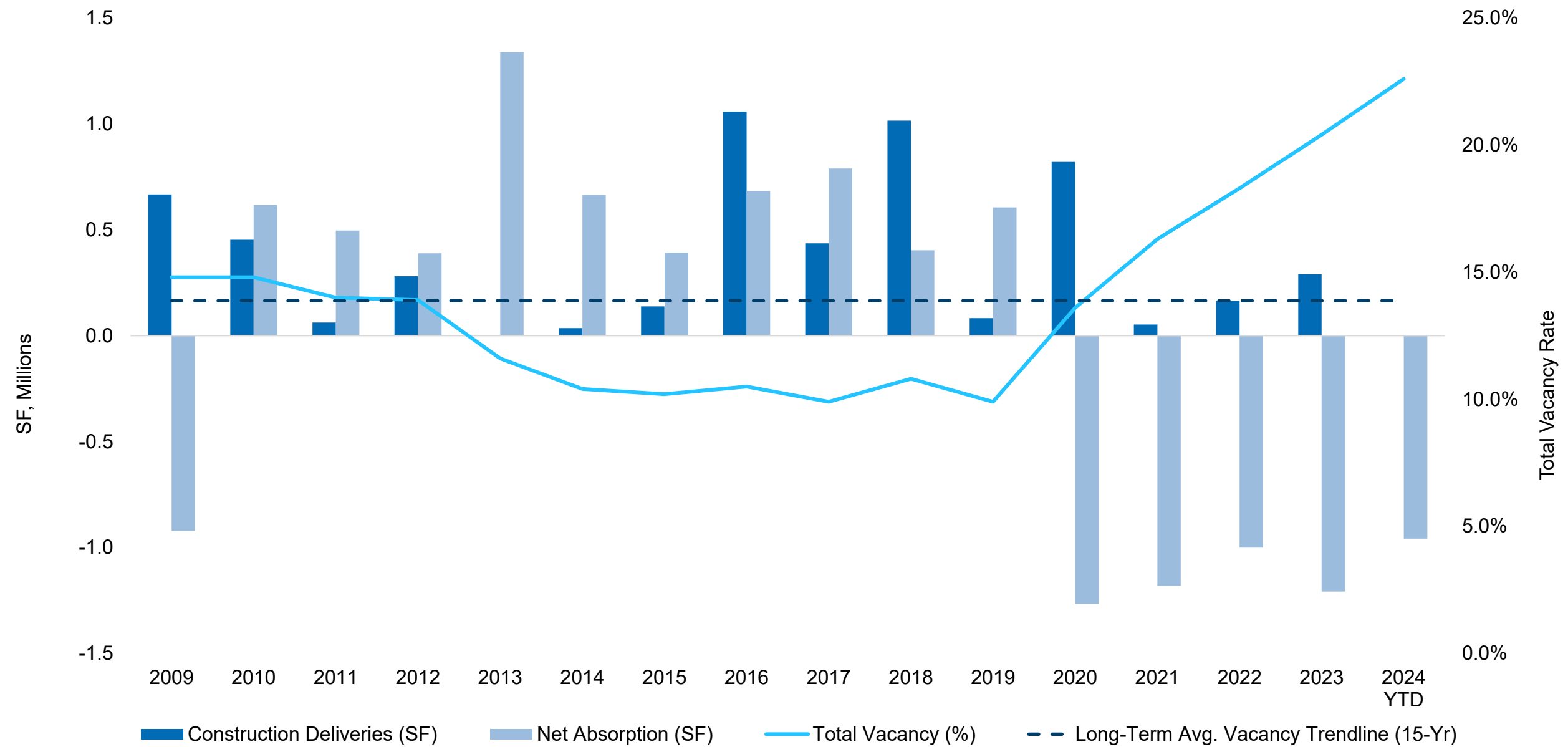
Leasing Market Fundamentals



Absorption Negative as Vacancies Rise

Vacancy rates rose by 50 basis points in the third quarter of 2024, reaching 22.6% market-wide as leasing activity slowed after a strong second quarter. Portland's net absorption for the quarter totaled negative 282,340 SF, bringing the year-to-date total to negative 958,137 SF. Class B assets accounted for negative 227,571 SF of absorption, with historic assets, primarily located near the Central Business District (CBD), continuing to be the worst-performing asset class in 2024.

Historical Construction Deliveries, Net Absorption, and Vacancy

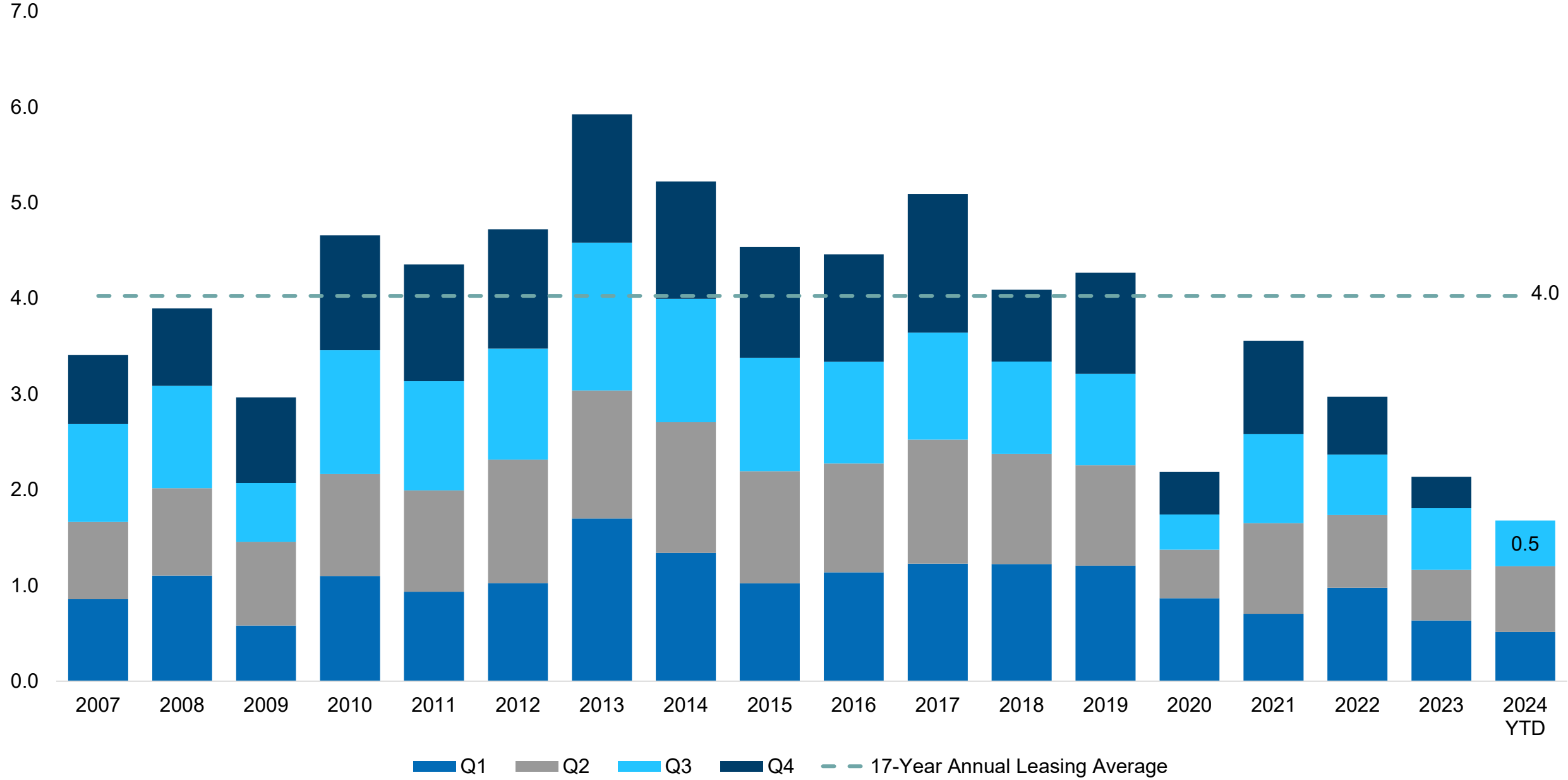


Source: Newmark Research

Total Activity Down Quarter-Over-Quarter

The office market experienced a decline in total leasing activity in the third quarter of 2024. Leasing volume remained significantly below the 17-year annual average, with year-to-date figures reaching just 46.9% of the total volume recorded during the first three quarters of 2019.

Total Leasing Activity (msf)

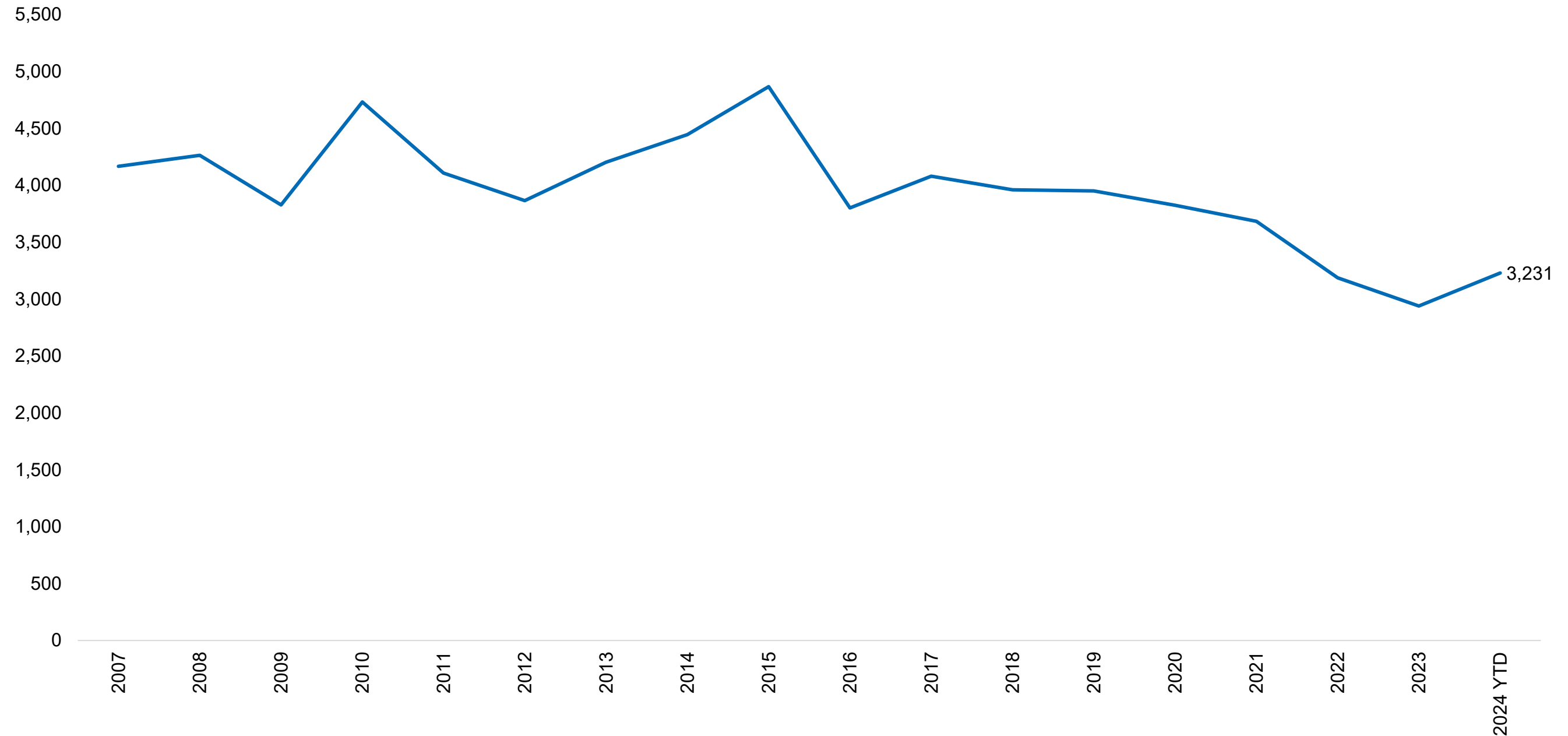


Source: Newmark Research, CoStar

Average Deal Size Above 2023 Averages

The average deal size signed increased by 2.5% from the previous quarter, reaching 3,231 SF. Average office lease sizes have continued to rebound significantly from 2023 levels, showing a 9.8% increase since the fourth quarter of 2023.

Average Lease Size (sf)



Source: Newmark Research, CoStar

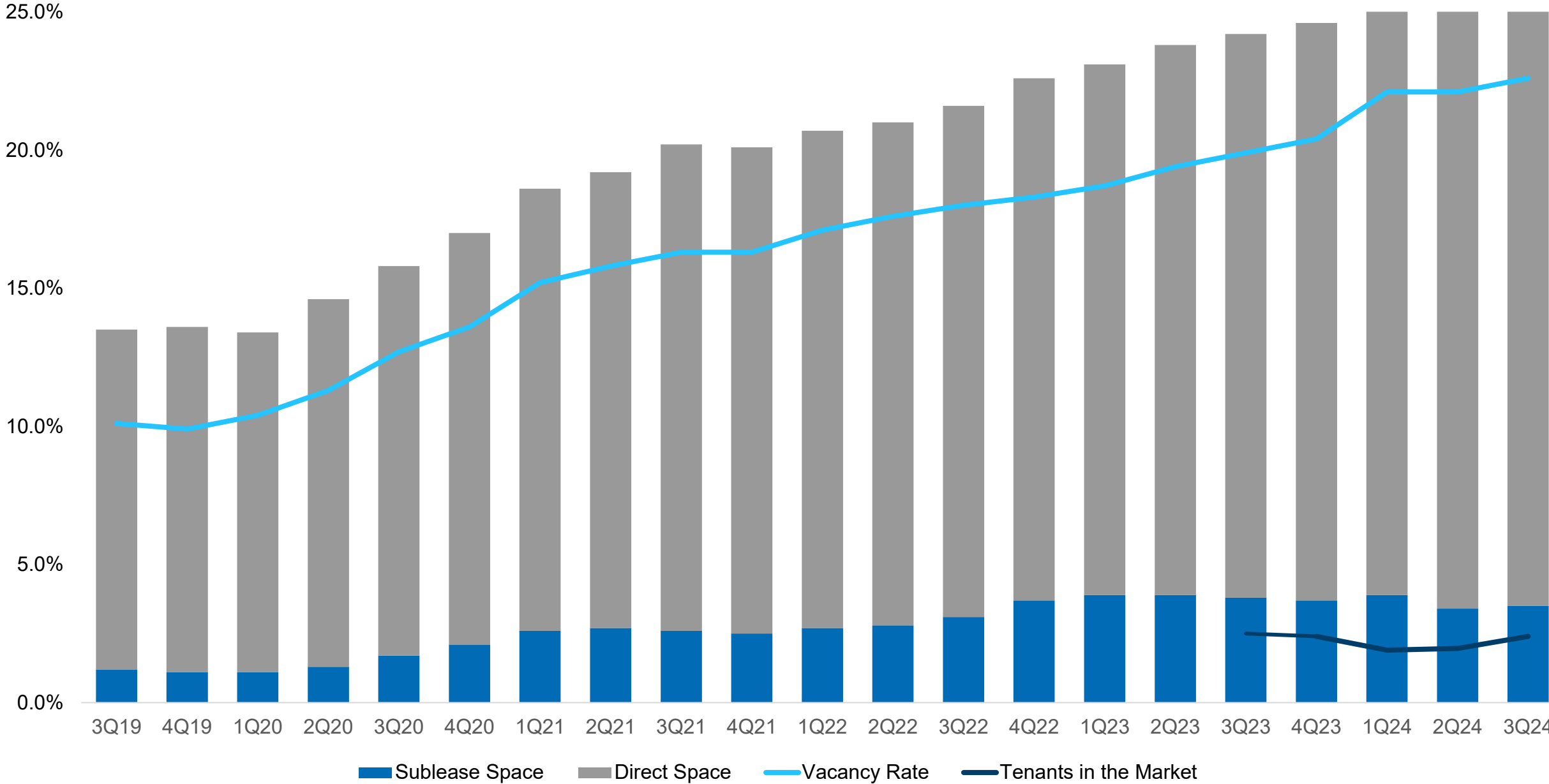


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Tenant Demand Increased Slightly

The current tracked office requirements for tenants in the market rose slightly in the third quarter of 2024, following a downward trend in the first half of the year. The overall split between direct and sublease available space remained unchanged, with the most notable change being an influx of vacant properties across the market.

Available Space and Tenant Demand as Percent of Overall Market



Source: Newmark Research

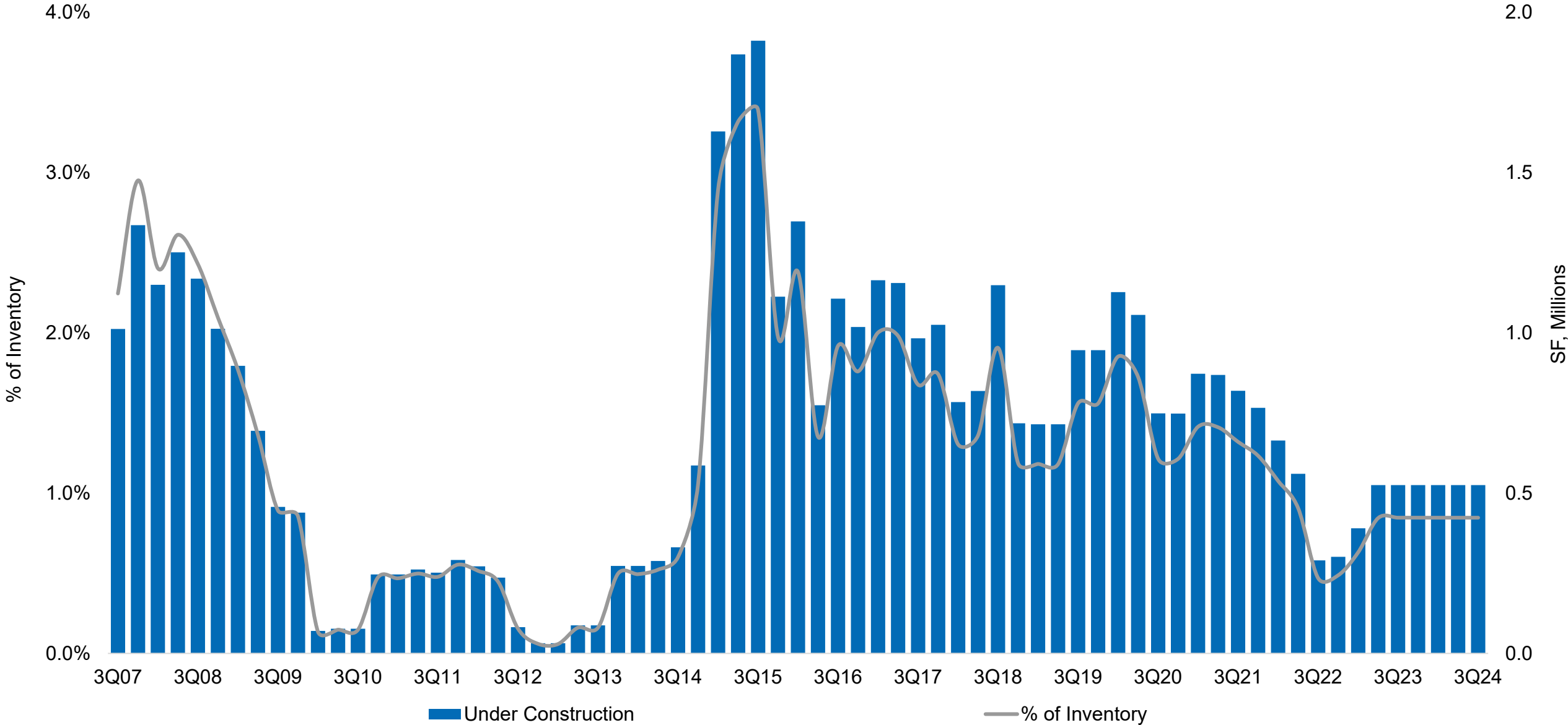


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Construction Inactive for Office Projects

Portland has reported no change in office construction projects over the past twelve months. With current conditions for new construction still challenging and demand at historic lows, this trend is expected to persist in the coming months.

Office Under Construction and % of Inventory



Source: Newmark Research, CoStar

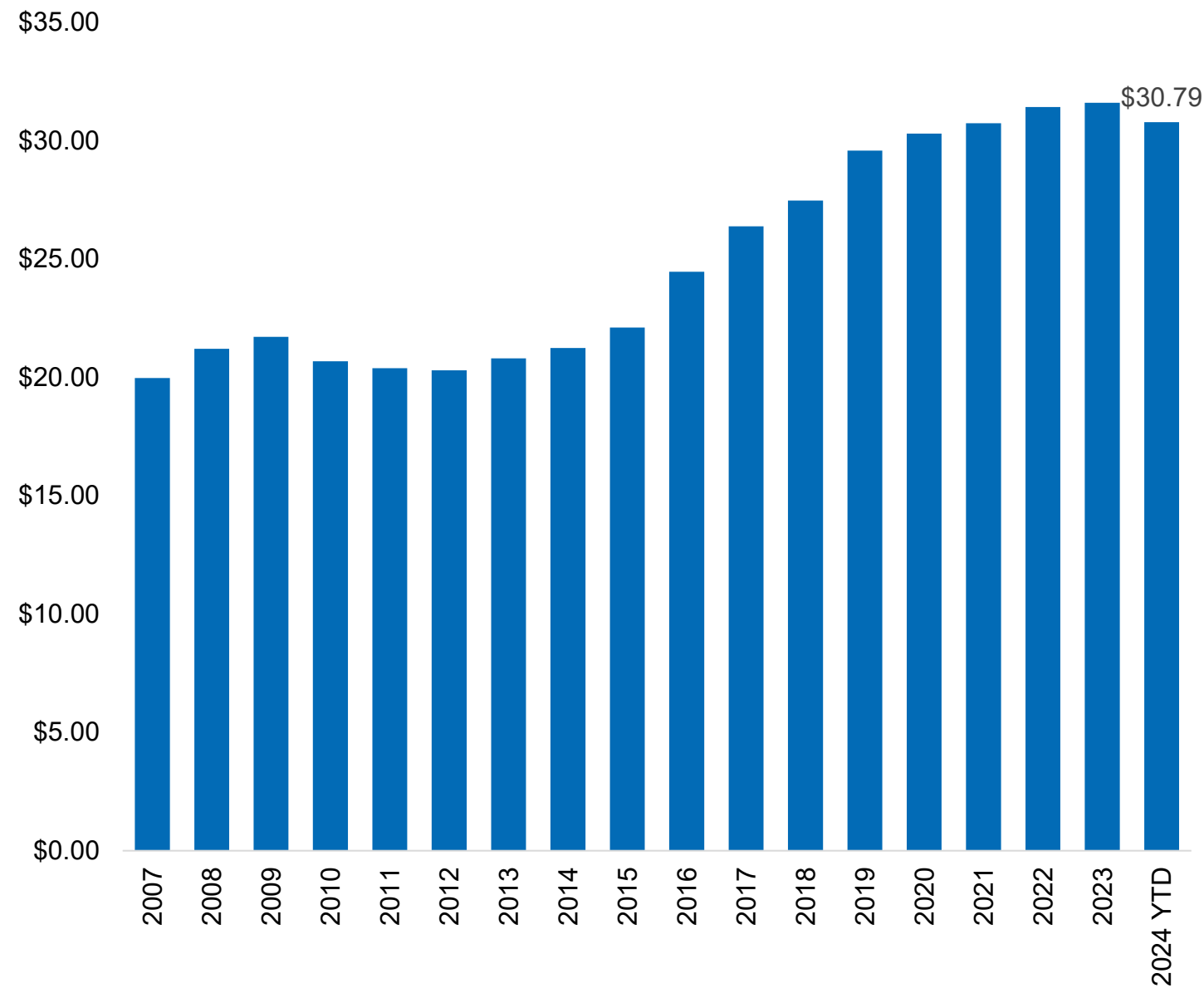


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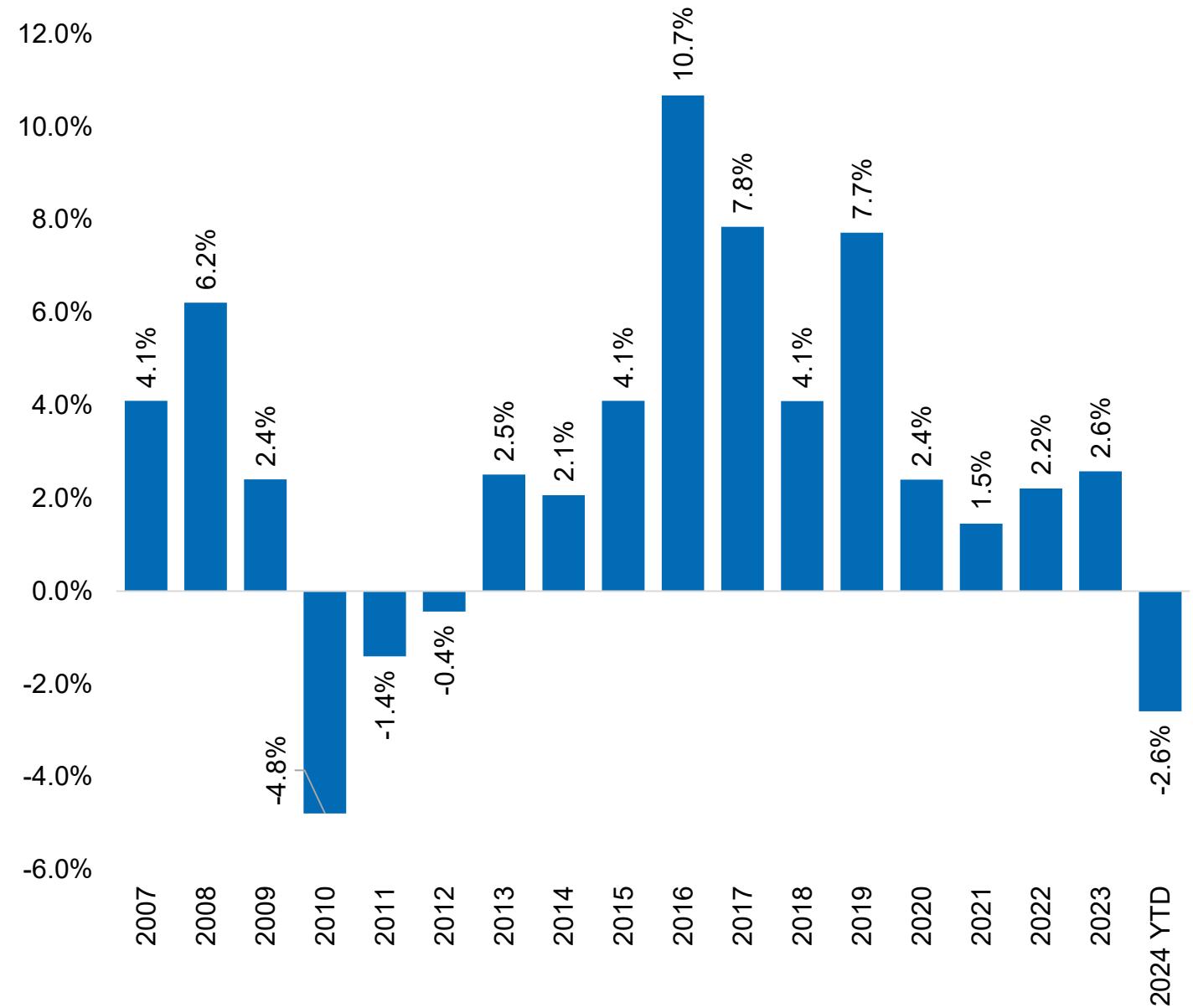
Market Wide Rates Below 2023 Levels

Average asking rates for office spaces across all classes edged up to \$30.79/SF. However, rates still reflect a 2.6% year-over-year decrease across the market, a trend likely to continue as market conditions apply downward pressure on rates for assets outside of Class A trophy properties.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate

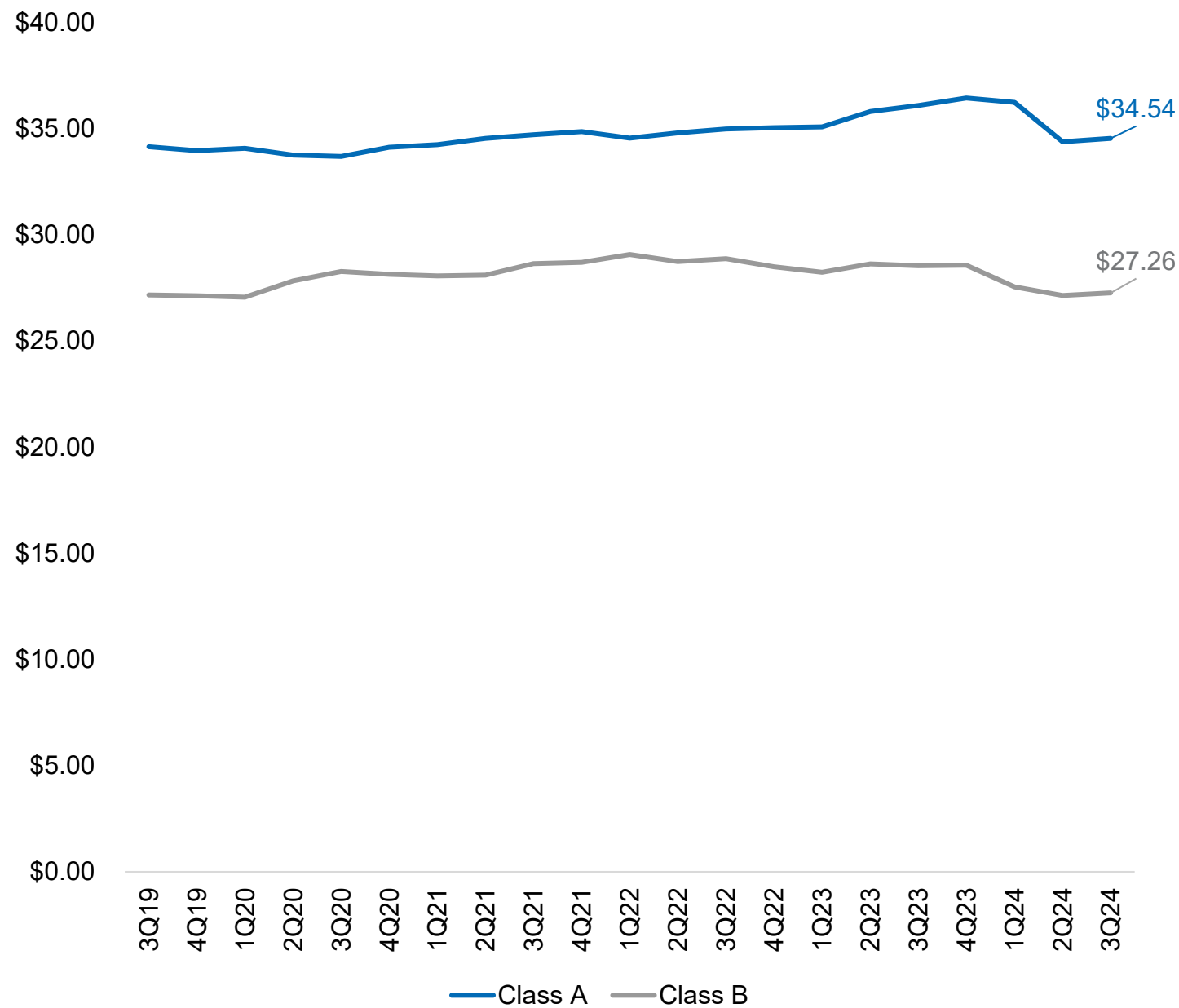


Source: Newmark Research, CoStar

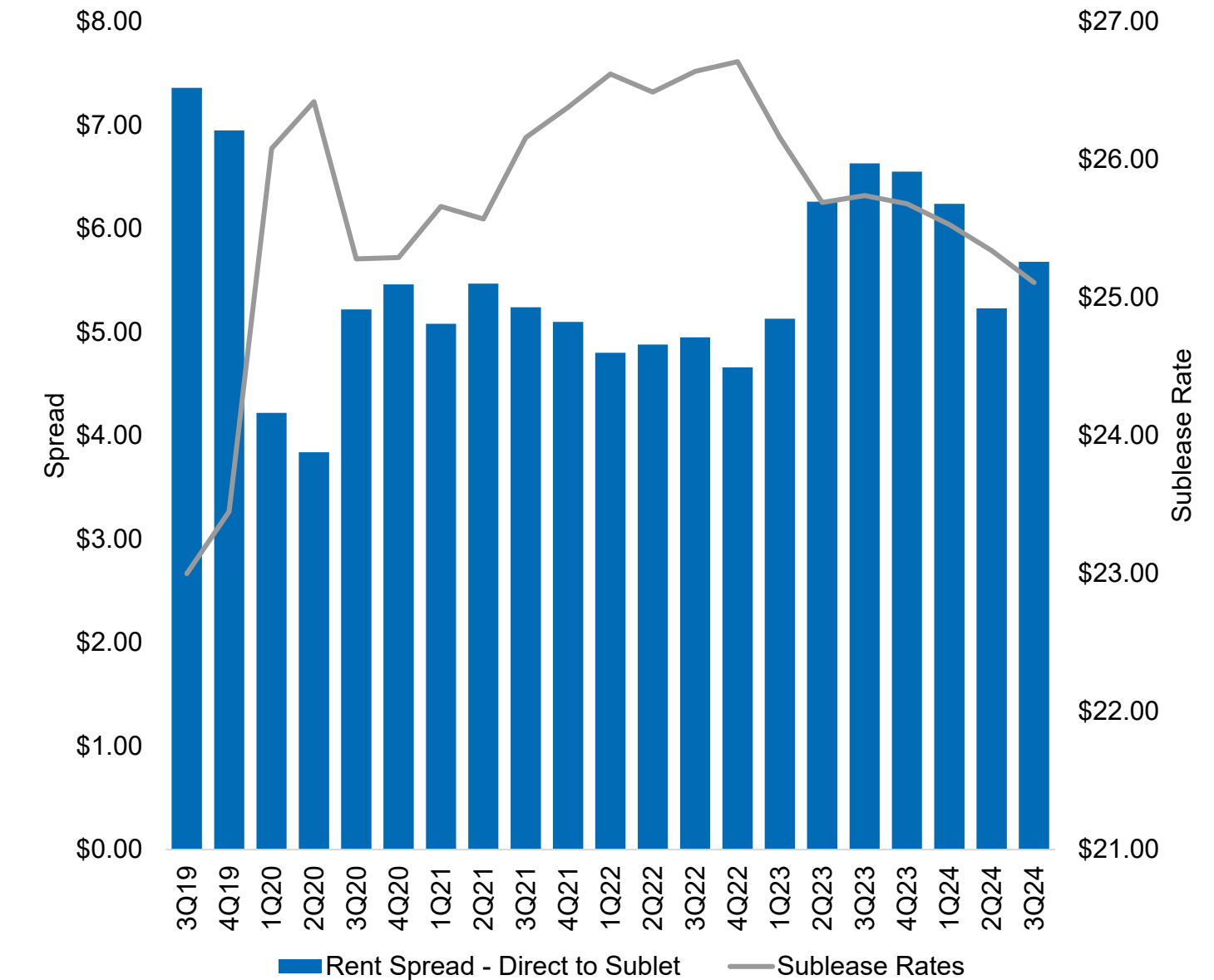
Asking Rates Stable Across Asset Classes

Both Class A and Class B assets saw minimal movement in the third quarter of 2024, with asking rates at \$34.54/SF and \$27.26/SF, respectively. Sublease rates declined for the fourth consecutive quarter, as demand continued to fall well below current inventory levels.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar

Downtown Renewals Paced 3Q24 Market Activity

A highlight of the Portland office market in the third quarter was the agreement of several long-term tenants to lease renewals in the Central Business District (CBD). Activity was concentrated in Class A assets, as tenants continued to favor well-amenitized, well-located buildings.

Notable 3Q24 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
eBay	1400 SW 5 th Ave	CBD	Extension	56,645
<i>eBay agreed to terms on a lease extension in their current space within the Fifth Avenue Building.</i>				
Schwabe	1211 SW 5 th Ave	CBD	Renewal	52,200
<i>Schwabe recommitted to downtown Portland by signing a lease renewal at PacWest Center.</i>				
KeyBank	1211 SW 5 th Ave	CBD	Renewal	29,255
<i>The Ohio based company renewed in their long-time location within PacWest Center.</i>				
Perkins Coie LLP	1120 NW Couch St	CBD	Renewal	29,239
<i>Perkins Coie renewed in their current footprint within the Brewery Blocks.</i>				
Dext Capital	5500 Meadows Rd	Kruse Way	Sublease	22,647
<i>Dext Capital took 2nd generation space in Kruse Oaks III.</i>				

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