

GROWTH IMPACTING COMMERCIAL REAL ESTATE MARKET

Portland's office vacancy rate is below the national average

Portland residents know the city is experiencing a boom in apartment construction. However, that's just the most visible sign of a red hot real estate market that is triggering commercial and residential construction throughout the region.

BY JIM REDDEN

"Everyone wants to move here right now. United Vans Lines says Oregon has been the number one net migration state for the last two years," says Blake Hering Jr., principal and director of Portland production at NAI Norris Beggs & Simpson.

Hering was one of three panelists who talked about commercial real estate trends before the Westside Economic Alliance in Tigard last Wednesday. All three agreed multifamily housing is the hottest property type right now, but they also predicted that a wave of new office, industrial and retail construction is getting underway — in part because real estate prices are higher in other west coast cities.

"Portland has always been a sec-



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Government leasing of office space, an improving economy and a shortage of commercial office space have put Portland's office vacancy rate below the national average.

ondary market on the west coast. But now employers are getting priced out of Seattle and San Francisco and they're looking at coming here," said panelist Jeff Borlaug, managing director of Felton Properties.

"We are in a landlord's market for the first time in a long time. For tenants, you're Dorothy, you're not in Kansas anymore, and landlords own Oz," said the third panelist, Tim Parker, vice president of the Melvin Mark Brokerage Company.

According to the panelists, the real estate crash that triggered the Great Recession had impacts on

more than just the homeowners who were forced into foreclosure. The crash was also hard on the owners of commercial properties — especially the office complexes in the two densest suburban corridors on Kruse Way in Lake Oswego and the Sunset Corridor between Beaverton and Hillsboro. After 2008, vacancy rates soared into the double digits and some of the newest buildings stayed vacant for years.

Now, however, the market has rebounded and practically all of the buildings are full again. That is happening even though downtown

Portland is also attracting new employers, including start up high tech companies moving into some of the older office buildings.

"Nationally, the office vacancy rate is 10.5 percent. In the Portland area, it's 8.3 percent," said Parker.

The same is true for industrial properties in the region, which had a 17 percent vacancy rate five years ago. Today, Parker says there are only a handful of vacant industrial properties available to show industrial clients.

By coincidence, the WEA breakfast meeting took place the day after the Washington County Com-

mission approved a transportation funding plan for high-growth residential area that will help trigger a huge housing boom. It will provide needed infrastructure financing for four areas slated for residential growth: South Hillsboro, South Cooper Mountain in Beaverton, River Terrace in Tigard, and North Bethany/Bonny Slope in unincorporated Washington County. An estimated 18,000 new homes are expected to be built in the areas over the next 20 years.

"The growth is going to occur, and we need to deal with it proactively. As always, our goal with this program is to provide residents with safe, efficient roadways as cost effectively as possible," Washington County Board Chair Andy Duyck said of the road improvements needed for the development to occur.

The plan is a partnership between the county and the cities of Beaverton, Hillsboro and Tigard. It calls for Washington County to seek bonds to finance two-thirds of \$140 million in new roads needed to serve the four areas. The cities will use Transportation Development Taxes and other development-related charges to pay for the other third.

The WEA panelists also say Clackamas County will see a share of the growth. They point to the recently-completed Kruse Village restaurant and retail center as proof. According to Borlaug, the developer, Gramor Development, is already receiving some of the highest rents in region for spaces in the six-building, 62,000 square foot center adjacent to the Kruse Way office buildings. Borlaug also points at the planned redevelopment of the Wizer market store in Lake Oswego as one of the next big projects in the county.

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