

# Portland Market Update

(September 22<sup>nd</sup>, 2022)

Prepared for



Prepared by



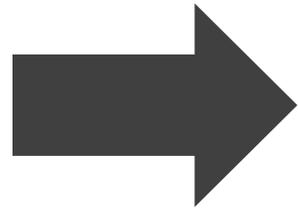
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# Outline



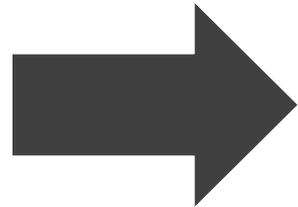
- i. Present Biz Journal Survey of business owners*
  
- ii. Present JLL internal real estate data*
  - i. State of Urban leasing*
  - ii. State of Suburban leasing*
  - iii. State of Industrial leasing*
  
- iii. What are the real-time impacts to business leaders in the respective sectors of urban office, suburban office, and industrial*
  
- iv. Where do we go from here?*

# Research Objectives & Method



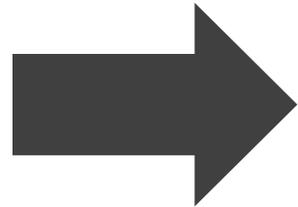
The purpose of this research was two-fold:

1. To understand what challenges are impacting the Portland metro area.
2. To understand how businesses are handling returning to the office and what barriers might be preventing employees from returning.



The survey link was sent in an email from the Publisher to those who opted-in to receive email communications from the Portland Business Journal.

This research was conducted from July 7 – 18, 2022.



A total of 213 respondents participated in the survey.

The current assessment of the business climate in the Portland metro area is overwhelmingly negative. However, nearly three of ten expect it will be better one year from now

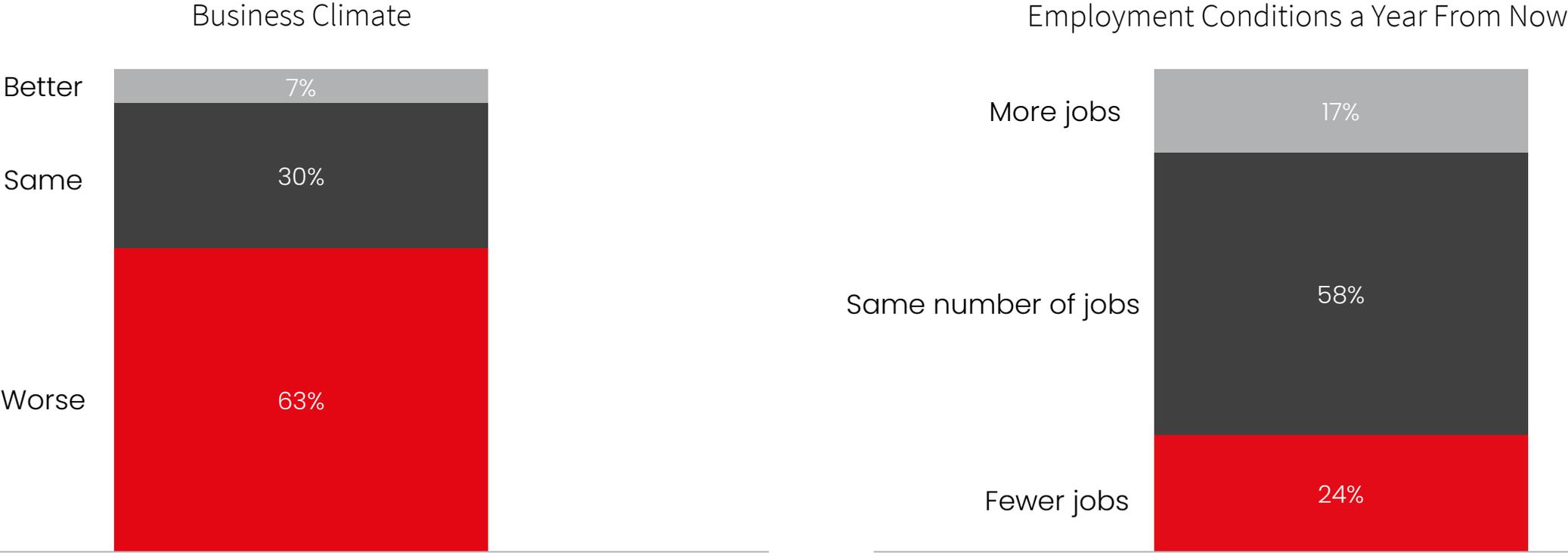
Assessment of Business Climate



*“What is your assessment of the current business climate in the Portland metro area? What do you expect the current business climate in the Portland area to be one year from now?”*

The majority state the local business climate is the same or worse than in other parts of the country. Three-quarters say there will be the same number or more jobs locally a year from now

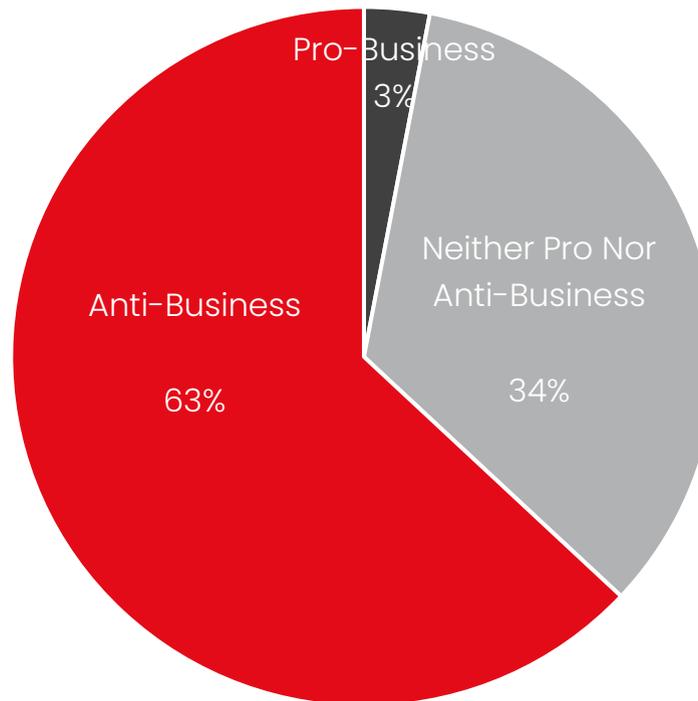
Portland vs. Rest of Country



*"Compared to other parts of the country, what is your assessment of current business climate in the Portland metro area? Compared to other parts of the country, what do you expect employment conditions to be in the Portland metro area one year from now?"*

# Six of ten perceive the current business tax policies within the Portland metro area as being anti-business

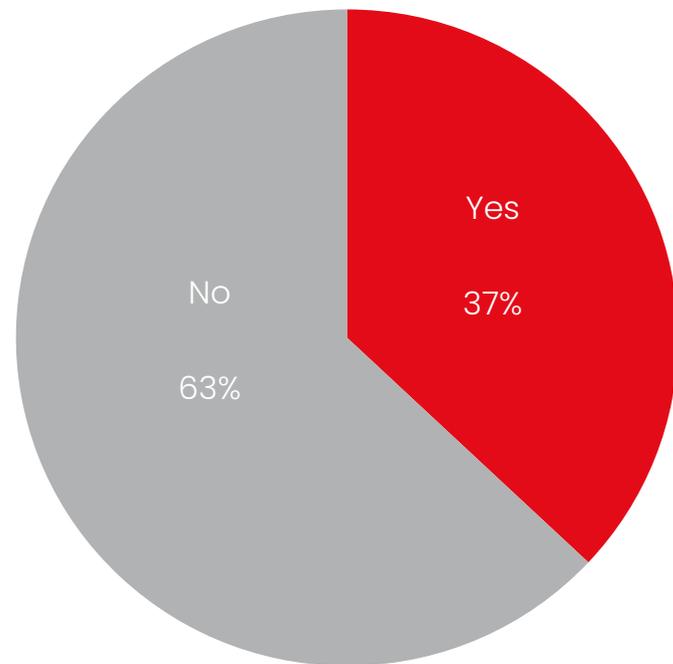
Perception of Business Tax Policies



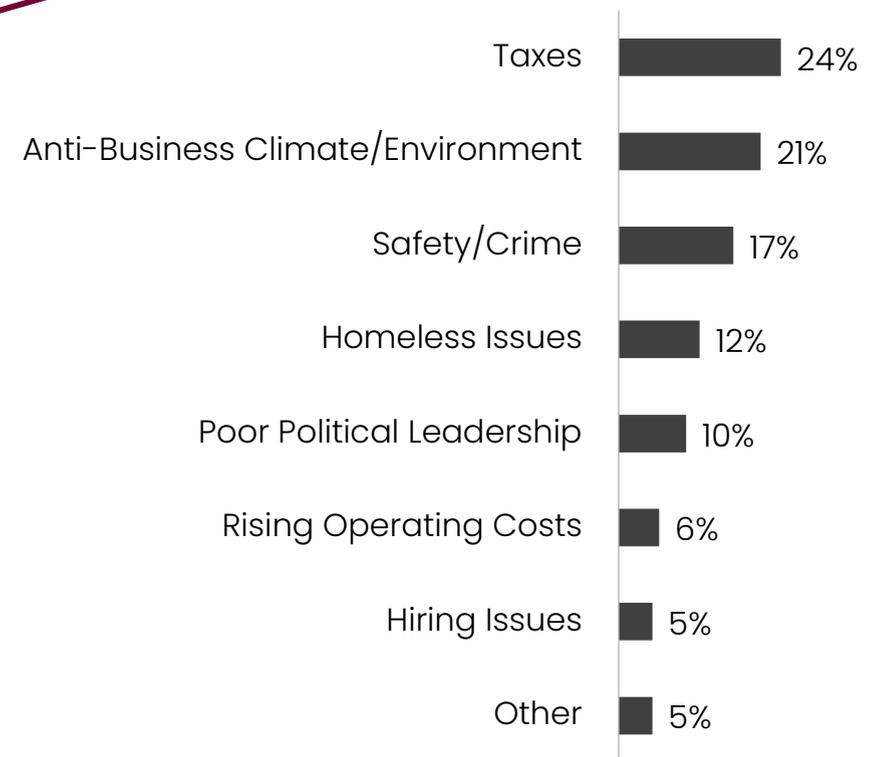
*"What is your perception of current business tax policies in the Portland metro area?"*

# More than 1/3 of executives are considering moving out of Portland due to taxes, the anti-business climate and safety concerns

Considering Move Out Of Portland Metro Region



Reasons For Moving Out Of Portland Area  
(Open-End Responses)



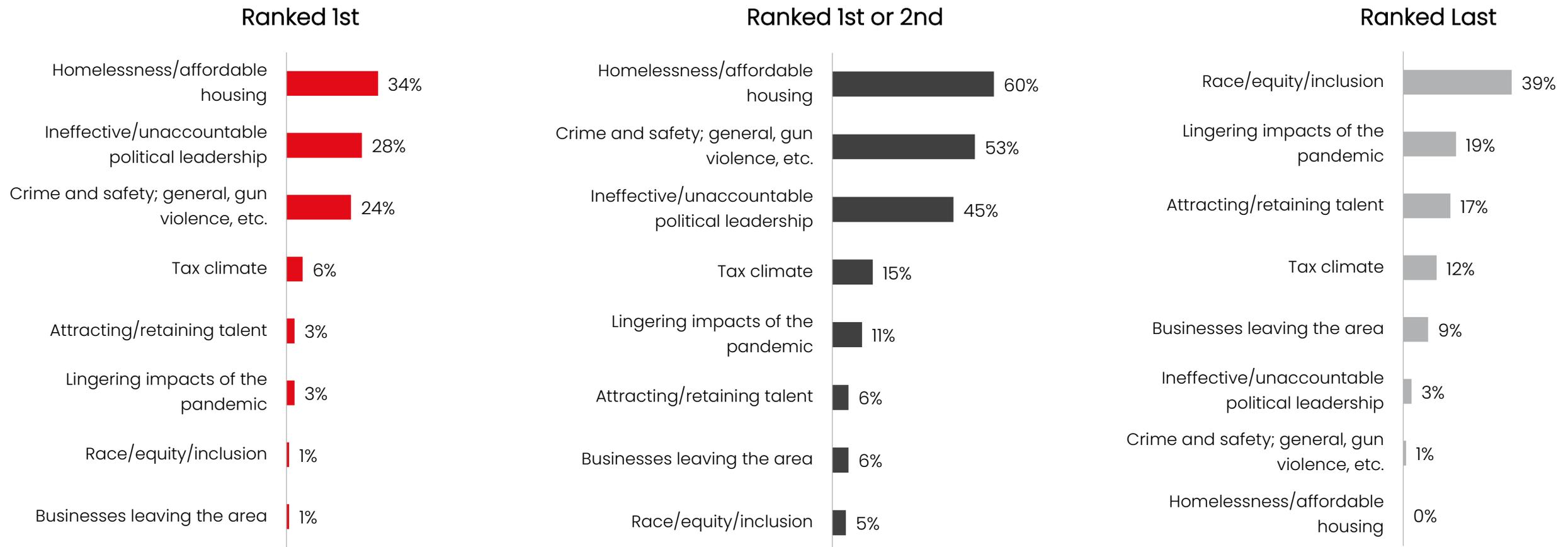
*See Spreadsheet For Complete List of Responses*

(Base=Respondents With Executive Job Titles)

*"Is your business considering moving out of the Portland metro region?"  
"You stated your business is considering moving out of the Portland and/or surrounding areas, why is that?"*

# The top challenges facing Portland are homelessness, political leadership and crime/safety issues

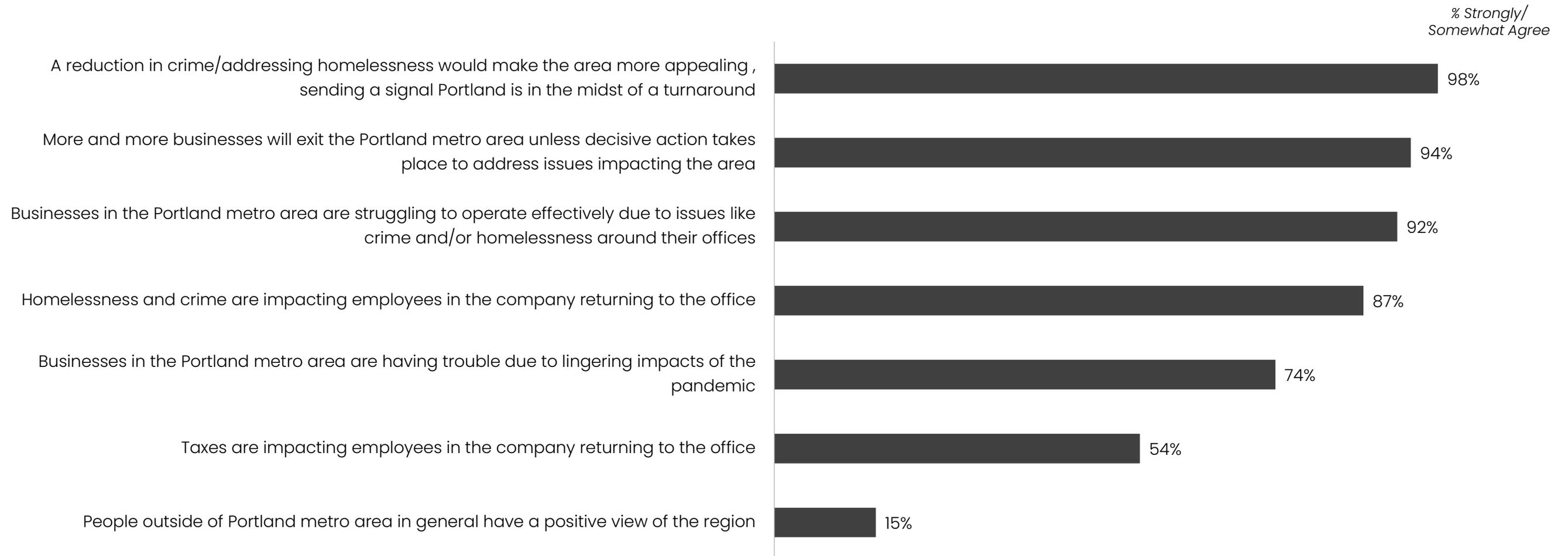
## Challenges Facing Portland Metro Area



*"Listed below are a series of challenges the Portland metro area is currently facing. Please rank these challenges in order with what you believe is the biggest challenge as number 1, the second biggest challenge as #2, etc.."*

# Many feel strongly that reducing crime and addressing the homelessness issue are top priorities, as more and more businesses may leave the area because of the issues

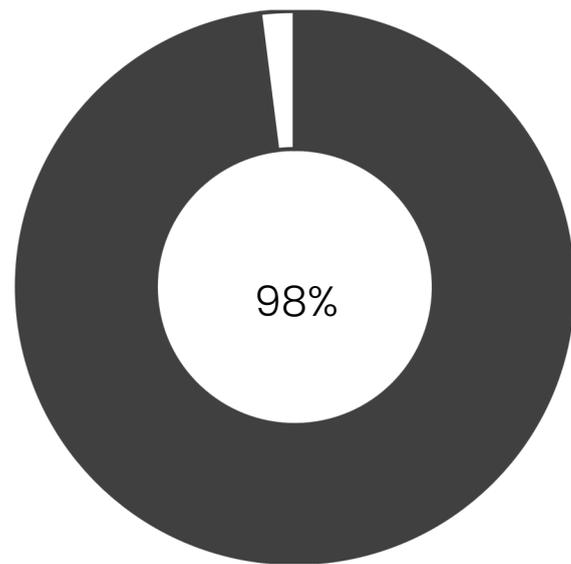
## Statement Agreement



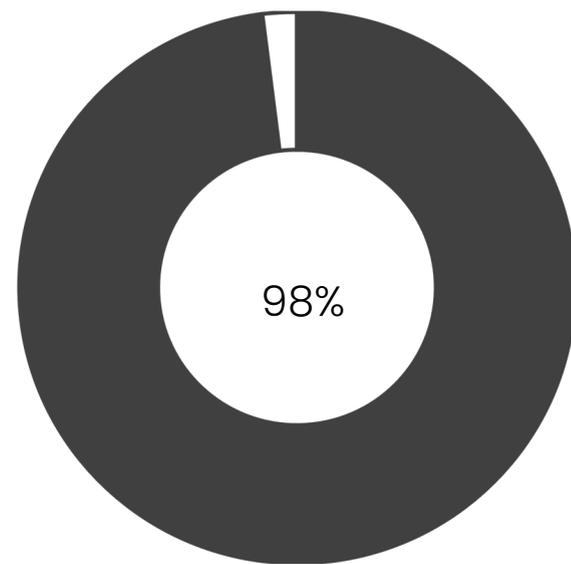
*"Please indicate how much you agree or disagree with the following statements."*

Nearly all believe the city/county government hasn't done enough to address crime and homelessness; only 1/3 believe they have done enough to help businesses recover from the pandemic

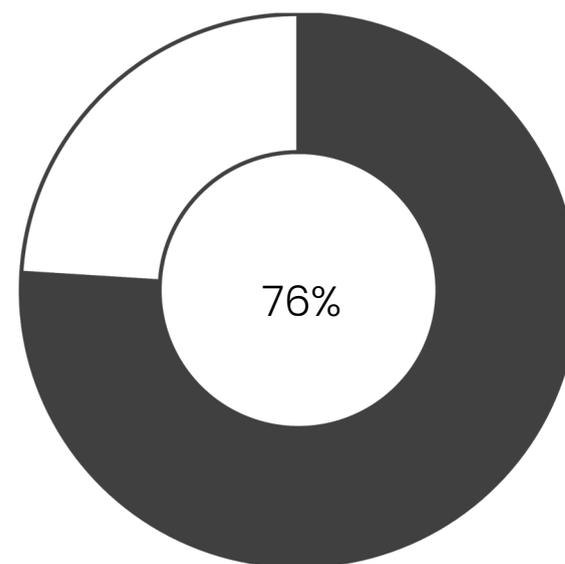
City/County Government Has Not Addressed These Issues



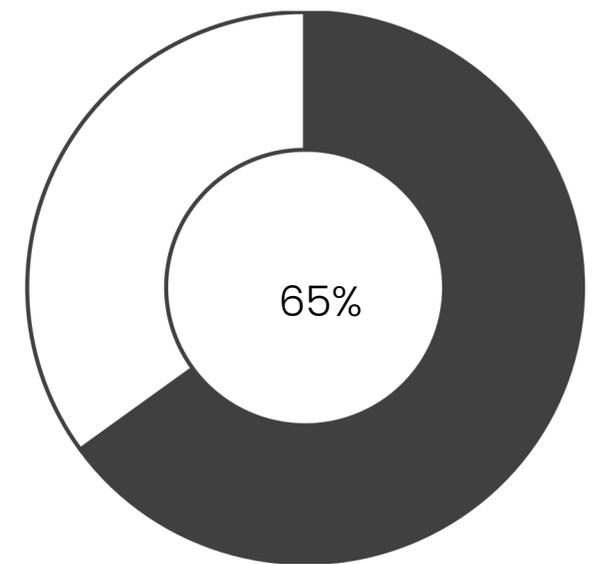
Reducing Crime/Violence And Improve Safety For Individuals And Businesses



Addressing Homelessness And Affordable Housing



Promoting The Area As A Live, Work, Play Destination For Individuals And Businesses



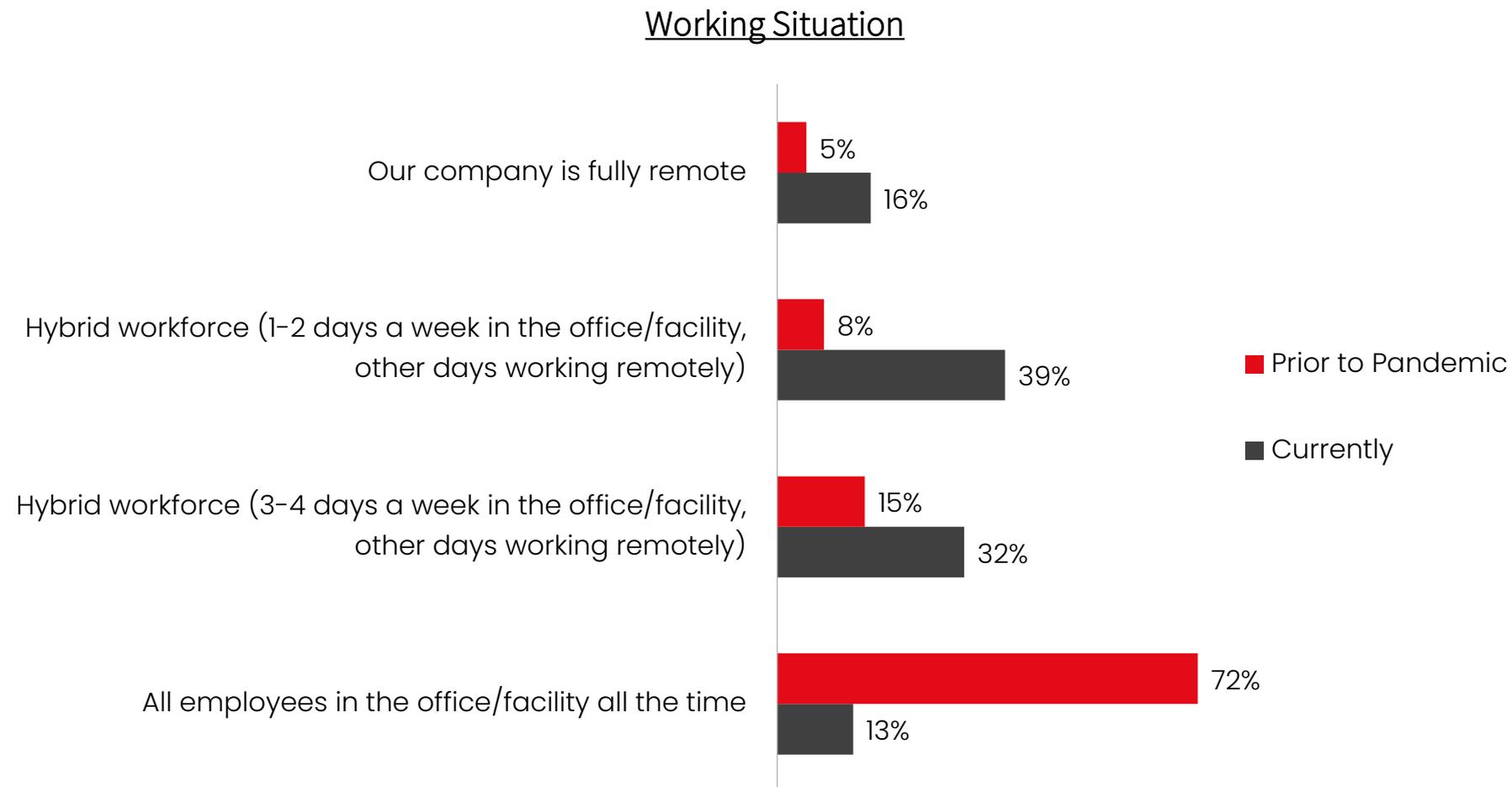
Helping Businesses Recover From The Pandemic

*"Do you believe the city and county government, along with other agencies have done enough to address each of the following in the Portland metro area? "*



# Future Of Remote Work & Return To The Workplace

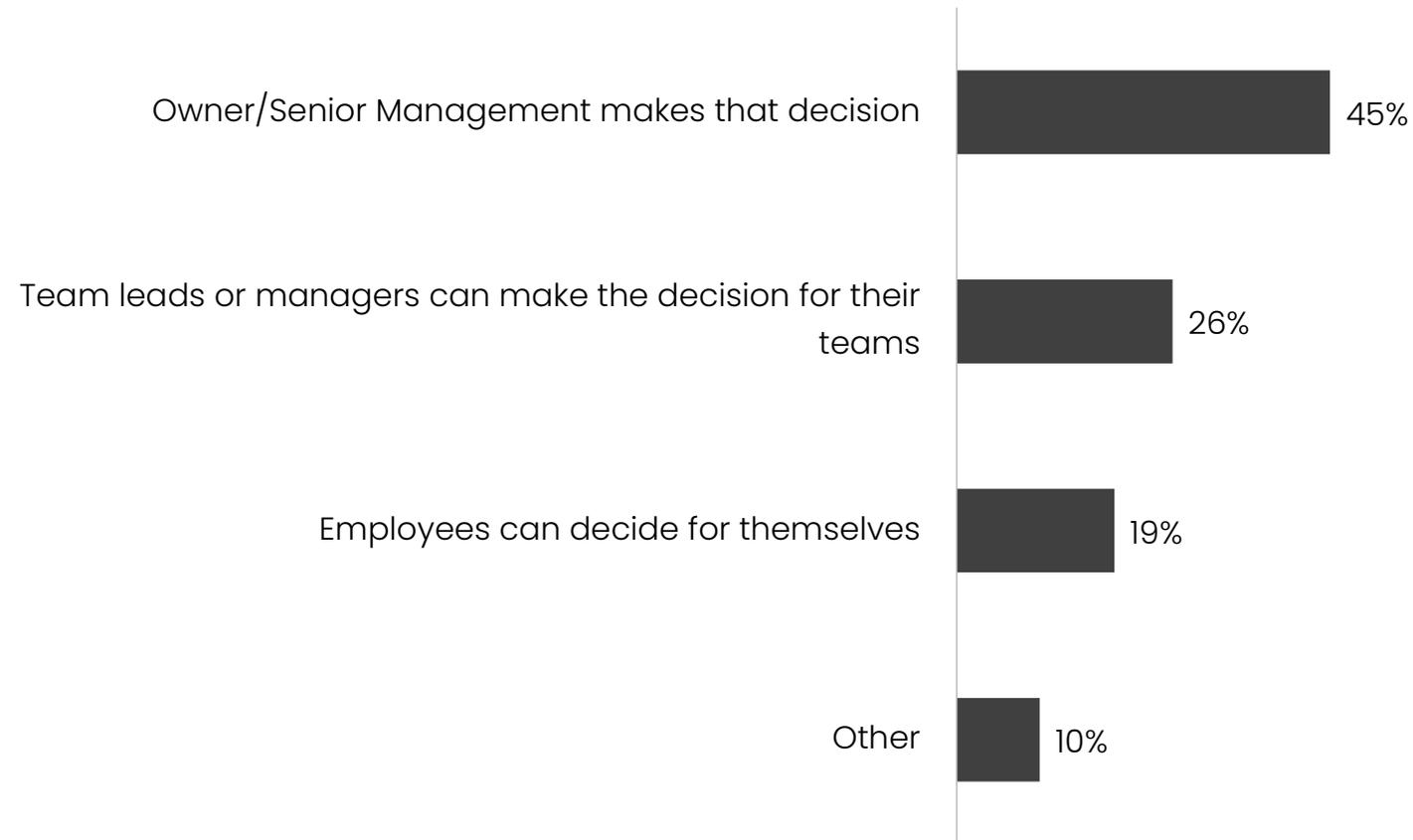
The working situation has changed dramatically with seven of ten now being allowed to work at least some days at home vs. only two of ten prior to the pandemic



*"What was your working situation prior to the pandemic and what is it currently?"*

# Nearly half state owner/senior management set remote work policies, 1/4 state team leaders or managers make the call

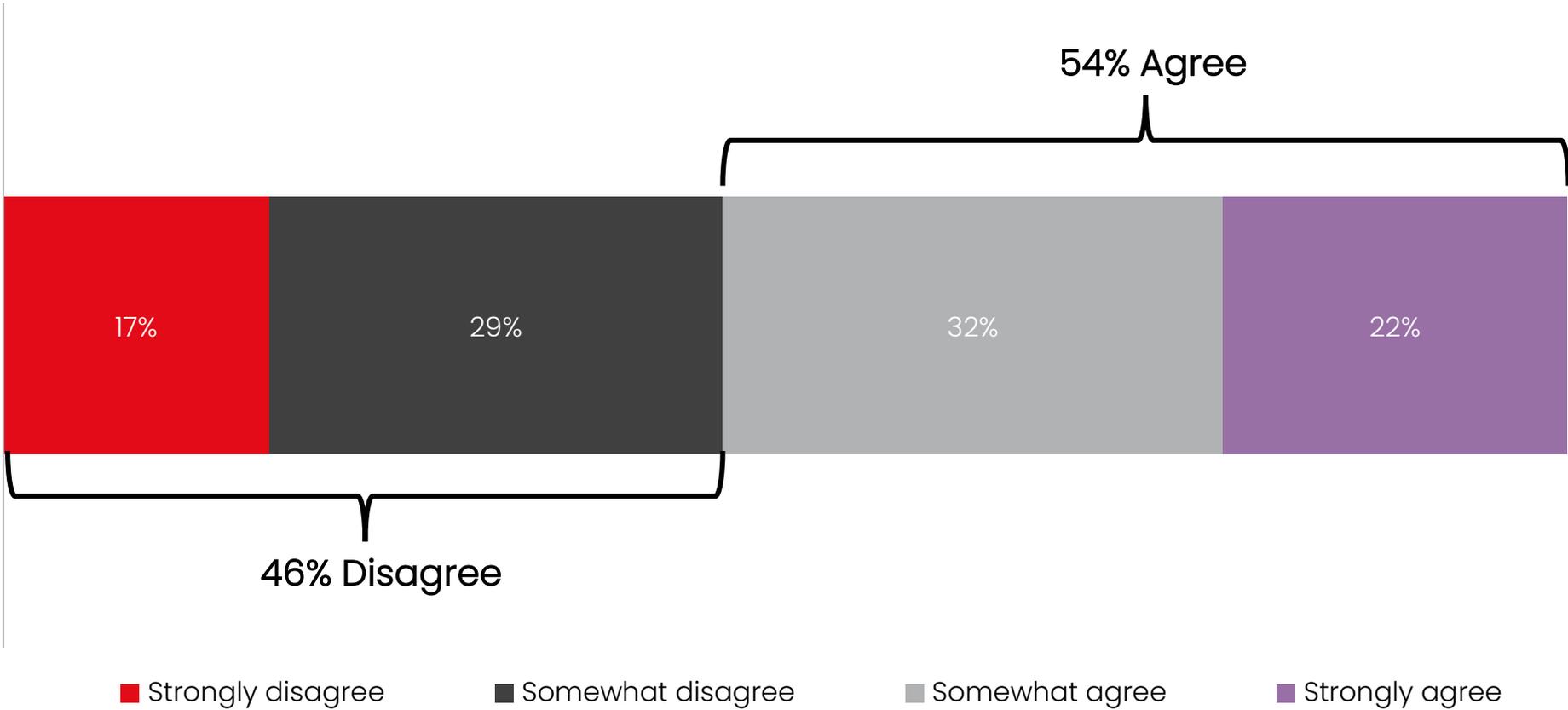
## Decision Maker For Remote Work Environment



*"Who makes the decision about how much time employees need to be in the office/facility and how much time they can work remotely?"*

# Just over half agree fully remote workers are at a disadvantage in a hybrid work environment

Fully Remote Workers Are At A Disadvantage In A Hybrid Work Environment



*"How strongly do you agree with the following statement: "Fully remote workers are at a disadvantage in a hybrid work environment."*

# Remote workers are disadvantaged due to the lack of connection, growth and collaborative opportunities, and the inability to experience company culture

## Reasons Why Remote Workers Are At A Disadvantage

(Open-End Responses)

(Base=Those Who Agree Remote Workers Are At A Disadvantage)

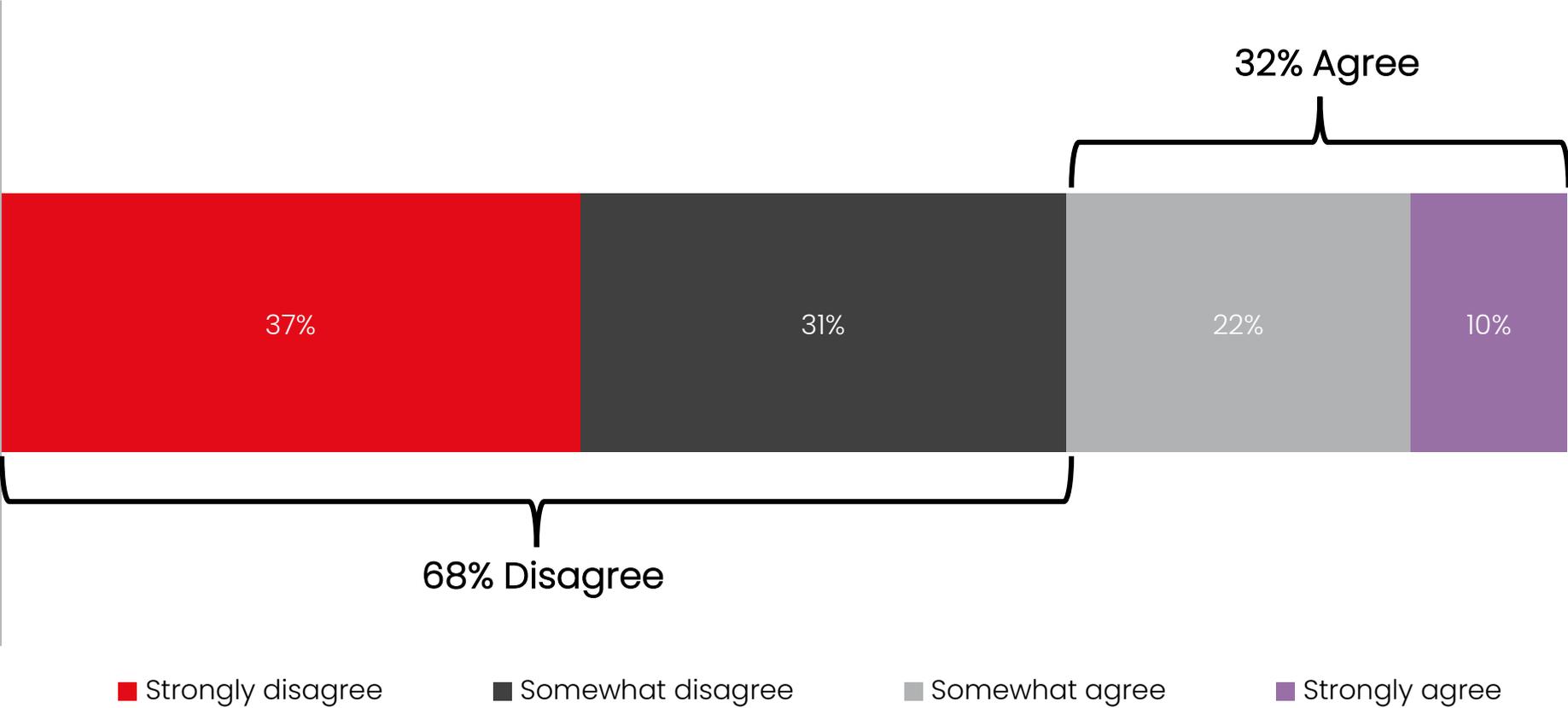


See Spreadsheet For Complete List  
of Responses

*"Why do you believe remote workers are at a disadvantage?"*

# Only 1/3 consider remote workers as connected to the culture, values and strategy of the company as in-office workers

Fully Remote Workers Are As Connected To Aspects Of The Company As In-Office Workers

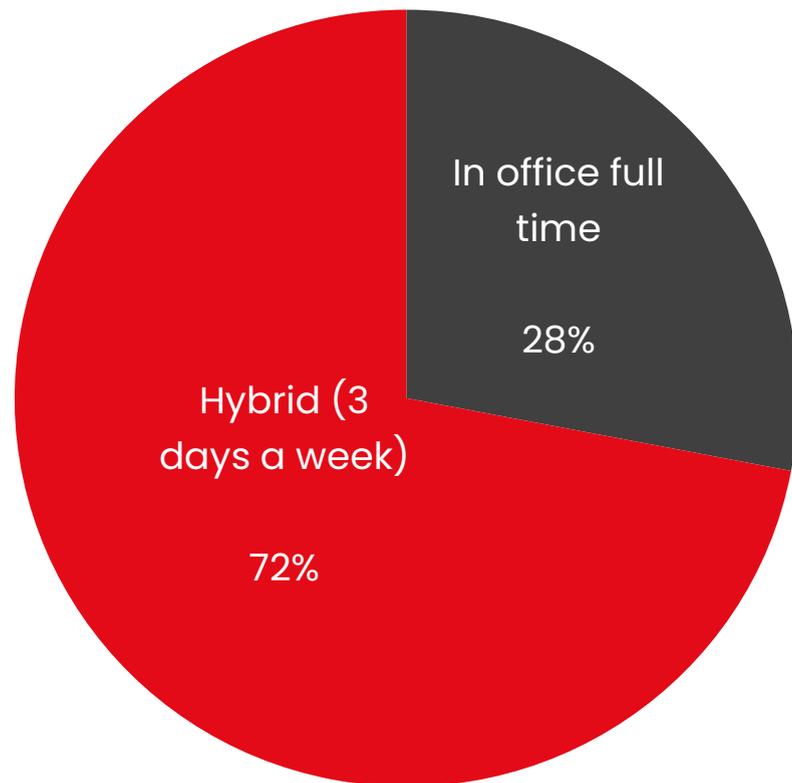


*"Do you think fully remote workers are as connected to the culture, values and strategy of the company as hybrid/in-office workers?"*

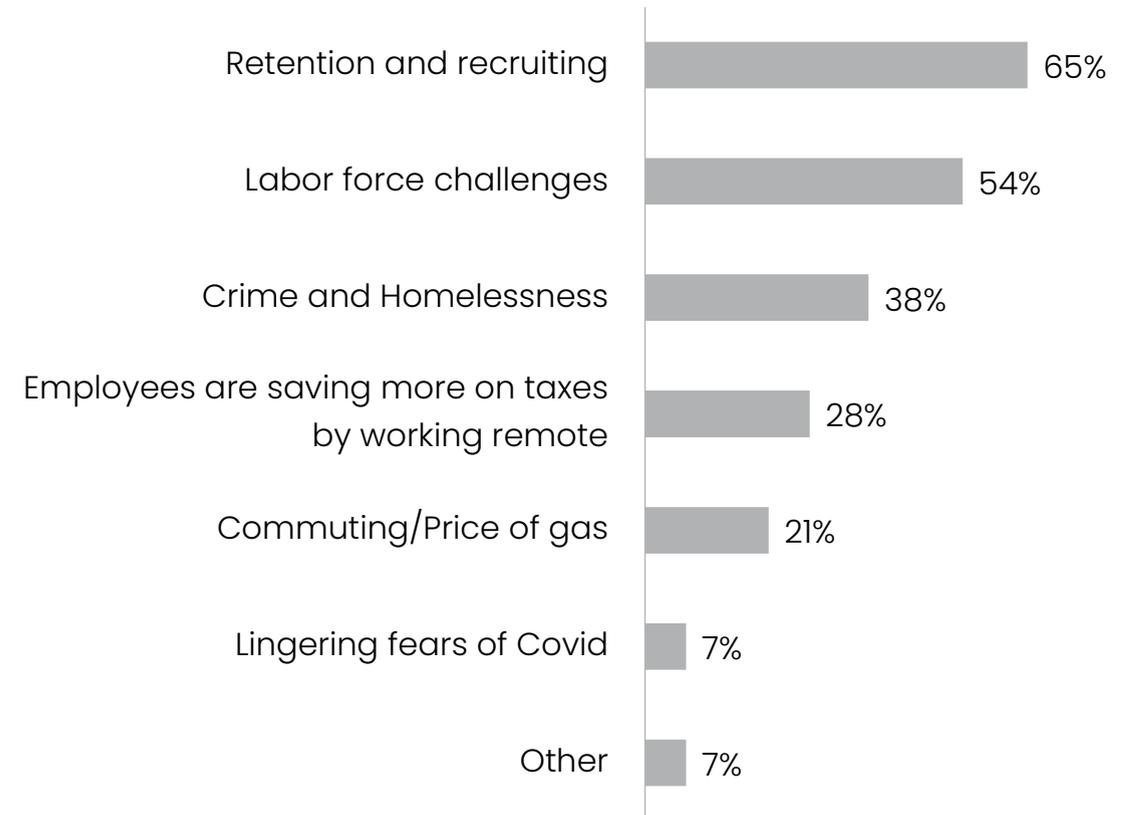
Nearly 3/4 of executives would prefer a hybrid workforce model. Barriers for bringing teams into the office include retention/recruitment and labor force challenges.

(Base=Respondents With Executive Job Titles)

Workplace Preference For Employees



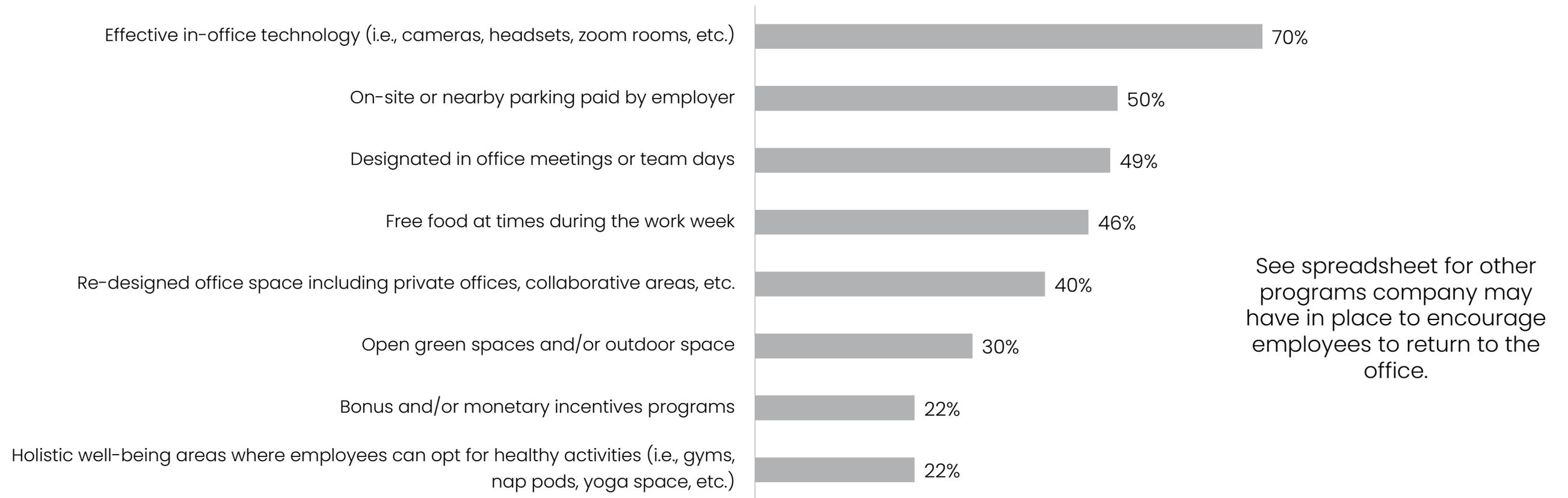
Barriers to Bringing Team In



*"In an ideal world would it be your preference to have employees at your company in office full time, hybrid (3 days a week)?" "What do you feel the barriers are to bring your team in full-time or hybrid (3 days a week)? Please select all that apply."*

In order to get workers back to the office, seven of ten are providing effective in-office technology and half are paying for parking

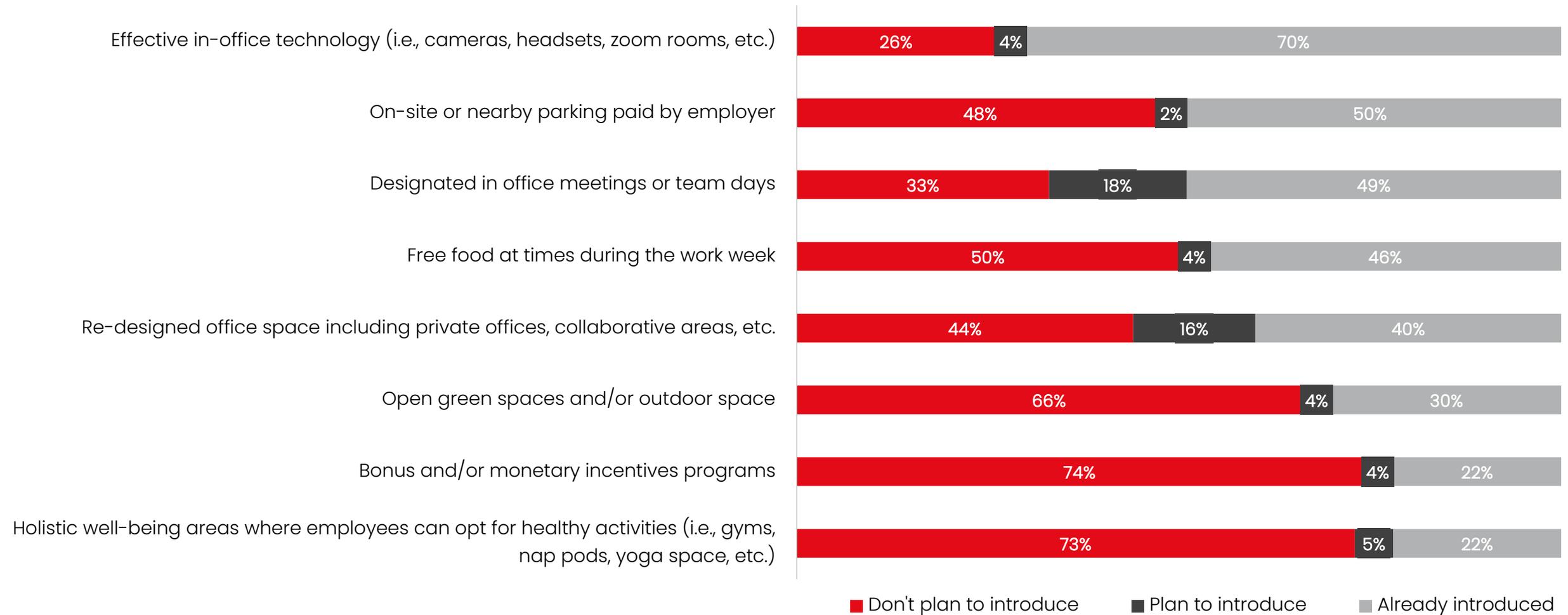
### Office Amenities Already Introduced To Get Workers Back In The Office And For Employee Attraction/Retention



*"Has your organization implemented, or do you plan to introduce any of the following office features or amenities to help get employees back in the office in addition to attracting and retaining talent?"*

# Most have no plans to provide monetary incentives to get workers back to the office or for employee retention

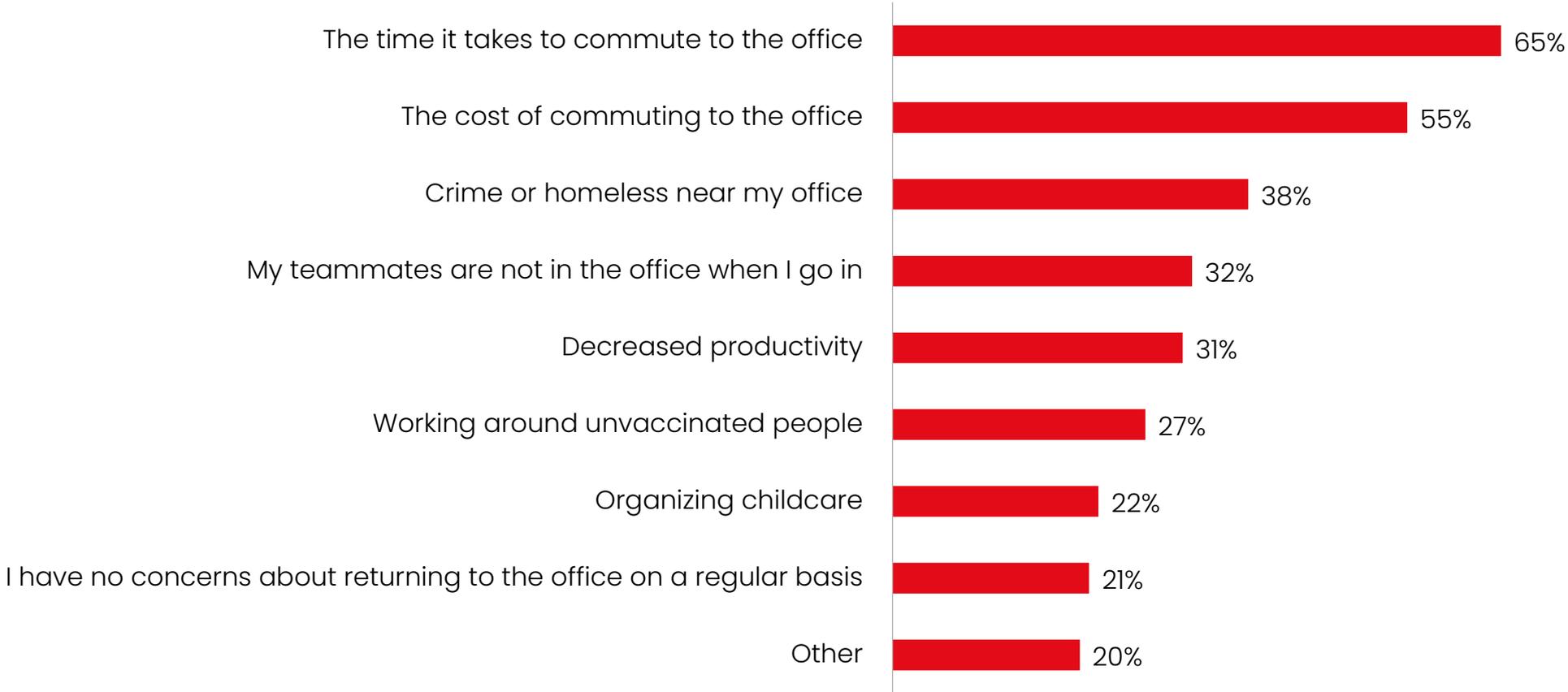
## Office Amenities To Get Workers Back In The Office And For Employee Attraction/Retention



*"Has your organization implemented, or do you plan to introduce any of the following office features or amenities to help get employees back in the office in addition to attracting and retaining talent?"*

The time and cost of commuting are the biggest concerns about returning to the office;  
over 1/3 cite crime or homelessness near the office

### Concerns Towards Regular Basis Returning To The Office



*"Which of the following best describes your concerns about returning to the office on a regular basis? Please select all that apply."*

## Key takeaways

1

Many business leaders are unhappy with the current Portland economic climate. Tax policies are seen as anti-business and the political leadership's inability to address the homelessness and crime issues are challenging the metro region.

2

Businesses have introduced certain office amenities and programs to encourage employees return to the office, yet they face barriers from employees with their concerns around commuting, crime and/or homelessness around their offices.

3

Although most businesses currently have a hybrid model, many executives feel remote workers are at a disadvantage as they aren't connected to the company's culture, values and strategy.

# City of Portland Workplace Survey finds employees would rather find work elsewhere than return to work

## Current state of work

**295** Fully remote employees (8%)

**2,220** Hybrid employees (64%)

**952** On-site employees (28%)

### How important should supporting downtown business be?

Remote Workers	
41.73%	It's <b>not</b> important to them
35.61%	It's a <b>little</b> important to them

On-Site Workers	
18.68%	It's <b>not</b> important to them
24.36%	It's a <b>little</b> important to them

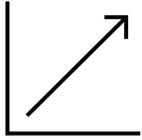
### What is the maximum days per week you would be willing to report to a City facility, before you would consider applying for other jobs due to this requirement?

Remote Workers	
38%	Any on-site work
73%	More than one day per week on-site

Hybrid Workers	
34%	More than one day per week on-site
64%	More than two days per week on-site

City of Portland used a third party to survey their employees. Get the full survey [here](#).

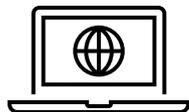
# Urban Core continues to face headwinds



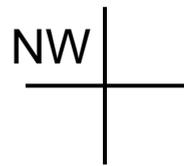
- Subleases have ticked up significantly with over 1.1 million s.f. now available. Since the beginning of the year, 21% of all space added in the Urban Core have been subleases with rents 22% lower than the market average. The majority of these subleases have terms longer than 2 years, so the effect on vacancy is yet to be felt.



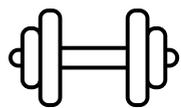
- Year-over-year, vacancy has increased by 2.8% in the Urban Core with the largest loss happening in Class C properties due to the recent flight to quality. Though total vacancy is notably lower than total available space. The current vacancy rate throughout the Urban Core is 22.4% whereas the current availability rate is 26.8%, meaning there are many other spaces on the brink of becoming vacant.



- A noticeable lack of tech leasing has volume down 35% from pre-pandemic levels.



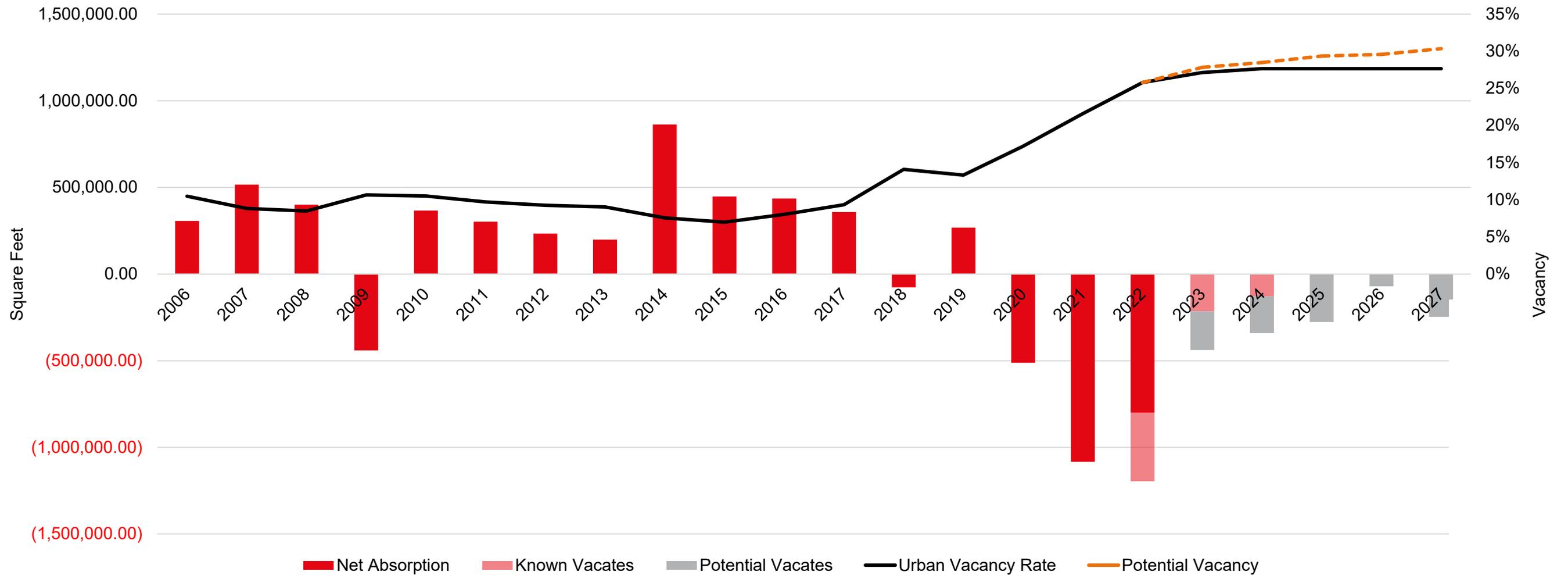
- Since the onset of the pandemic, 26% of all leasing activity has occurred within the Northwest / Pearl District. This area is particularly attractive to tenants due to its proximity yet safety from the CBD.



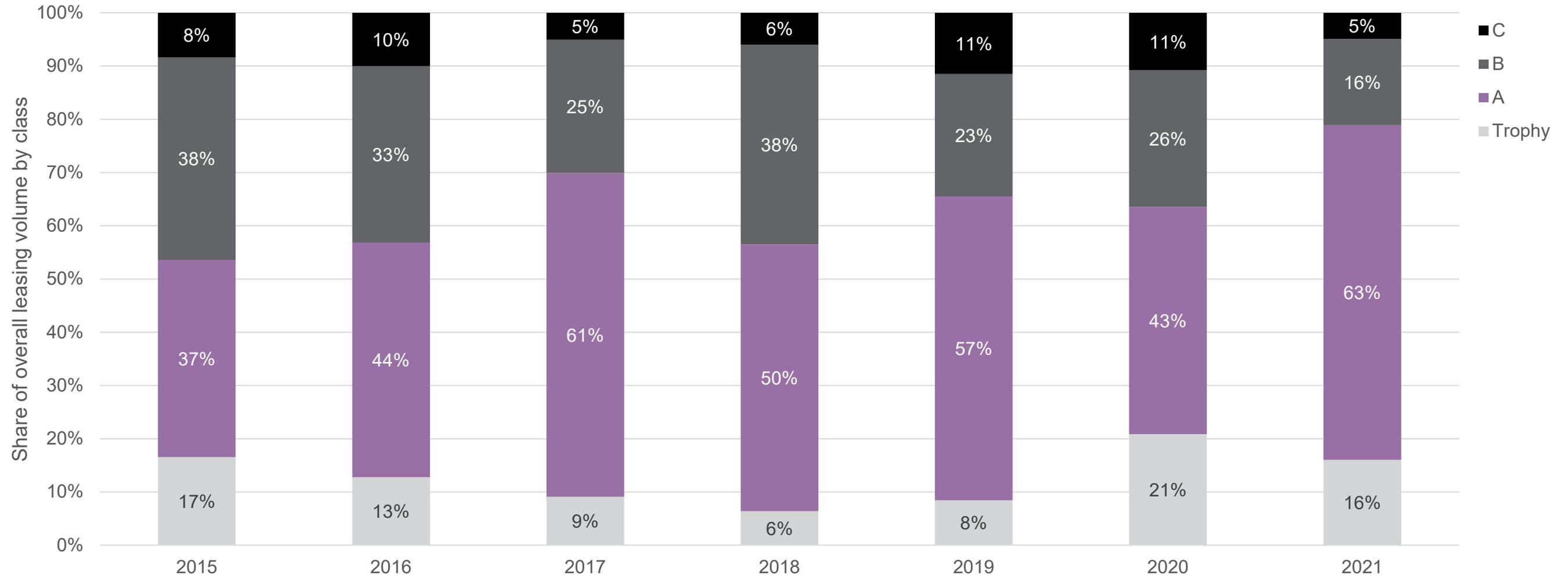
- When compared to 2019, concessions have seen incredible growth throughout the Urban Core for new deals with a 5+ year term. Average tenant improvement allowances have increased by 40.1%, and average free rent per year of term has increased by 120%. Conversely, the westside suburbs have seen a 10.1% decrease in average tenant improvement allowances and no change in average free rent per year of term.

# Urban Core office vacancy is rising on the back of tenant downsizes, relocation to the suburbs and closures

Theoretical Portland Urban Core Absorption & Vacancy Forecast

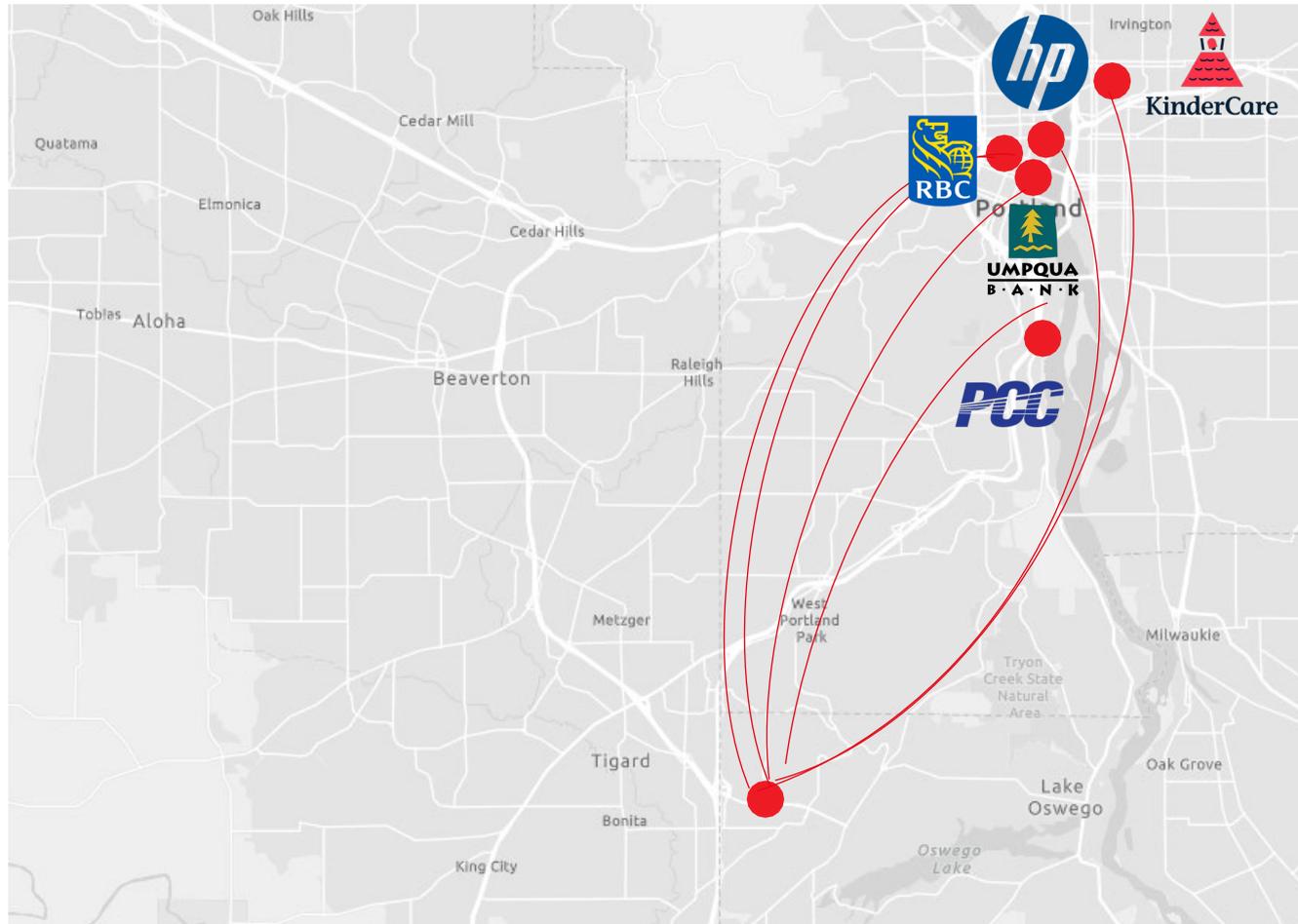


# Urban core flight to quality



**Tenants are increasingly looking to higher quality space in an effort to bring employees back to the office.**

# Tenants leaving the Urban Core for Suburbs

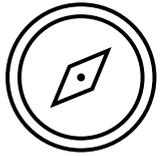


## Major tenant relocations

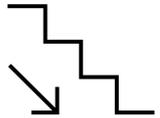
Tenant	New Location	Prior Location
Precision Castparts	Kruse Woods V	PCC Corporate Center
KinderCare Education	Kruse Woods III	Liberty Centre
Umpqua Bank	Kruse Woods V	Fox Tower
Steward Partners	4949 Meadows	Fox Tower
Hewlett Packard	Kruse Woods II	Block 300
Norris, Beggs & Simpson	4949 Meadows	Bank of America Financial Center
RBC Wealth Management	4949 Meadows	Fox Tower
Century West Engineering	Kruse Oaks III	Water Tower
KBF CPAs	Kruse Woods I	US Bancorp Tower & Plaza
Macadam Forbes	Two Centerpointe	Harrison Square
Bank of the West	4949 Meadows	KOIN Tower
Allen Trust Company	5000 Meadows	Bank of America Financial Center
Wells Fargo Advisors	Peterkort Centre II	KOIN Tower
Hyas Group	Peterkort Centre II	Graphic Arts

**There has been +/-180K s.f. of leasing in the suburbs from companies leaving 400K s.f. in the Urban Core  
Trend is slowing, especially with average rents in Kruse Way now eclipsing the CBD and a lack of real quality space**

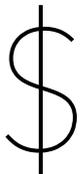
## Westside Suburbs outshine Urban Core



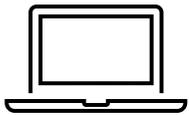
- Despite large planned move outs early in the Covid-19 Pandemic by Nike and Columbia Sportswear, the Westside suburbs have excelled in comparison to the Urban Core. Throughout 2021, 23 companies relocated from the Urban Core to the Westside with the majority of tenants landing in Kruse Way.



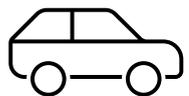
- As a result of the urban to suburban migration, asking rates have been able to climb 10.5% since 2019, whereas asking rates in the Urban Core have fallen 4.7% during the same time frame.



- There were several large portfolio acquisitions throughout 2021 which include the sale of Tanasbourne Commerce Center, Rock Creek Corporate Center, and 5800 & 6000 Meadows. The recent sale activity on the Westside has aided in increasing average asking rates in the submarket cluster.

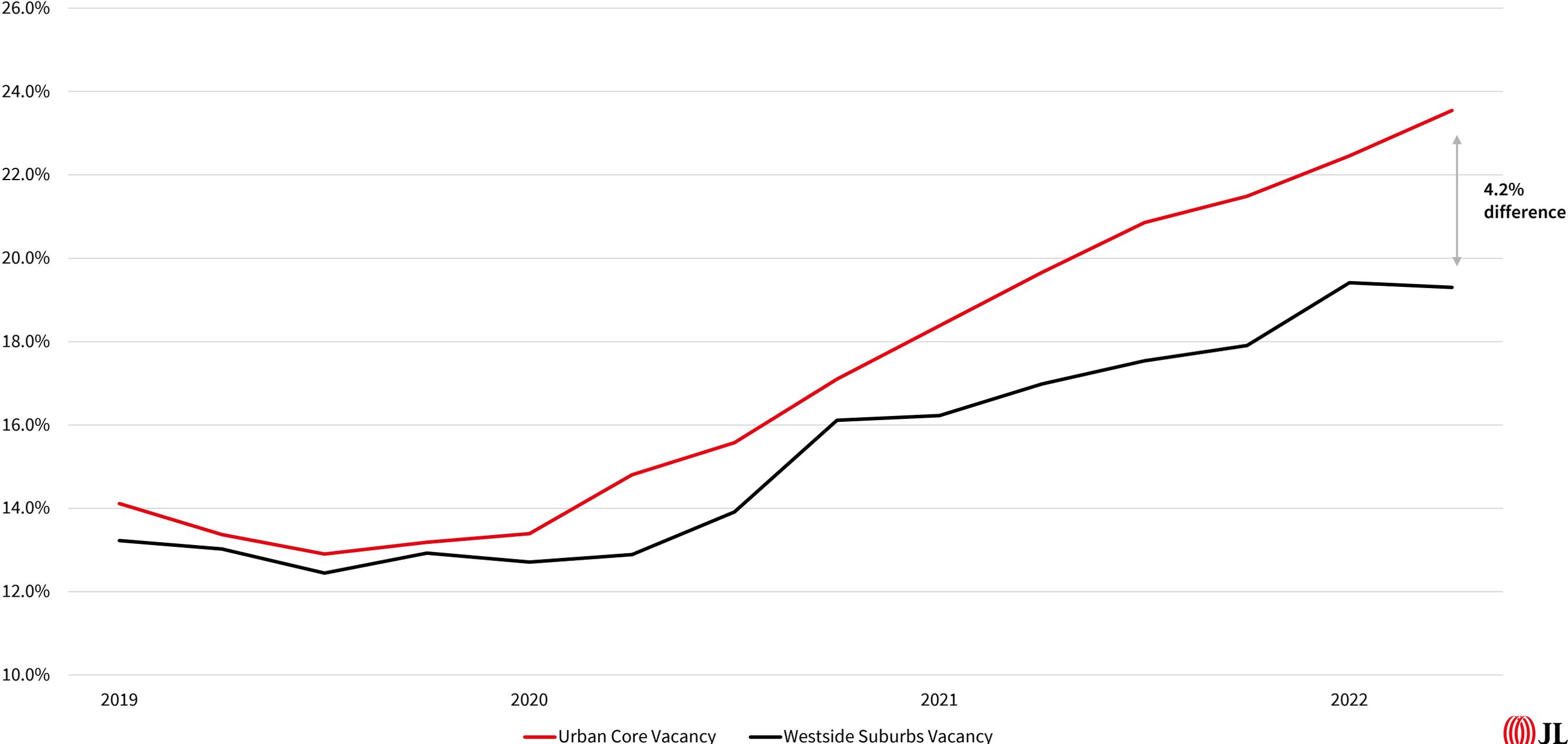


- Software tech leasing has significantly decreased throughout the metro however hardware tech leasing activity remains strong. The prominence can be attributed to Intel as their headquarters are located in Hillsboro.



- Return to office has had slightly more success in the westside as properties are able to offer amenities not seen in the Urban Core, with the most important being ample parking.

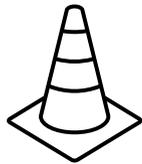
# Urban to Suburban relocations aid in vacancy spread



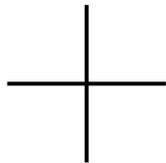
# High demand propels record levels of new development



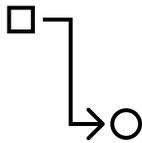
- The Portland Industrial Market has seen significant growth since the pandemic began. The industry responsible for the most recent growth has been Logistics and Distribution as it accounts for almost 30% of all leases signed throughout the metro this year.



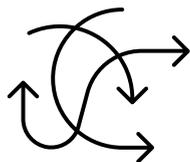
- Spec and BTS development levels have soared in response to recently leasing activity. During the first quarter of 2022, 60% of the 4M s.f. under development was pre-leased.



- Average direct asking rates have increased 10% in comparison to last year. Current asking rates are approaching \$0.80 on the shell as \$1.00 of an office surcharge has become an established deal point, quickly becoming \$1.10.



- Due to the land constraints in Oregon perpetuated by the Urban Growth Boundary, half of the proposed developments are in Clark County, WA as the path of progress stretches North and South along I-5.



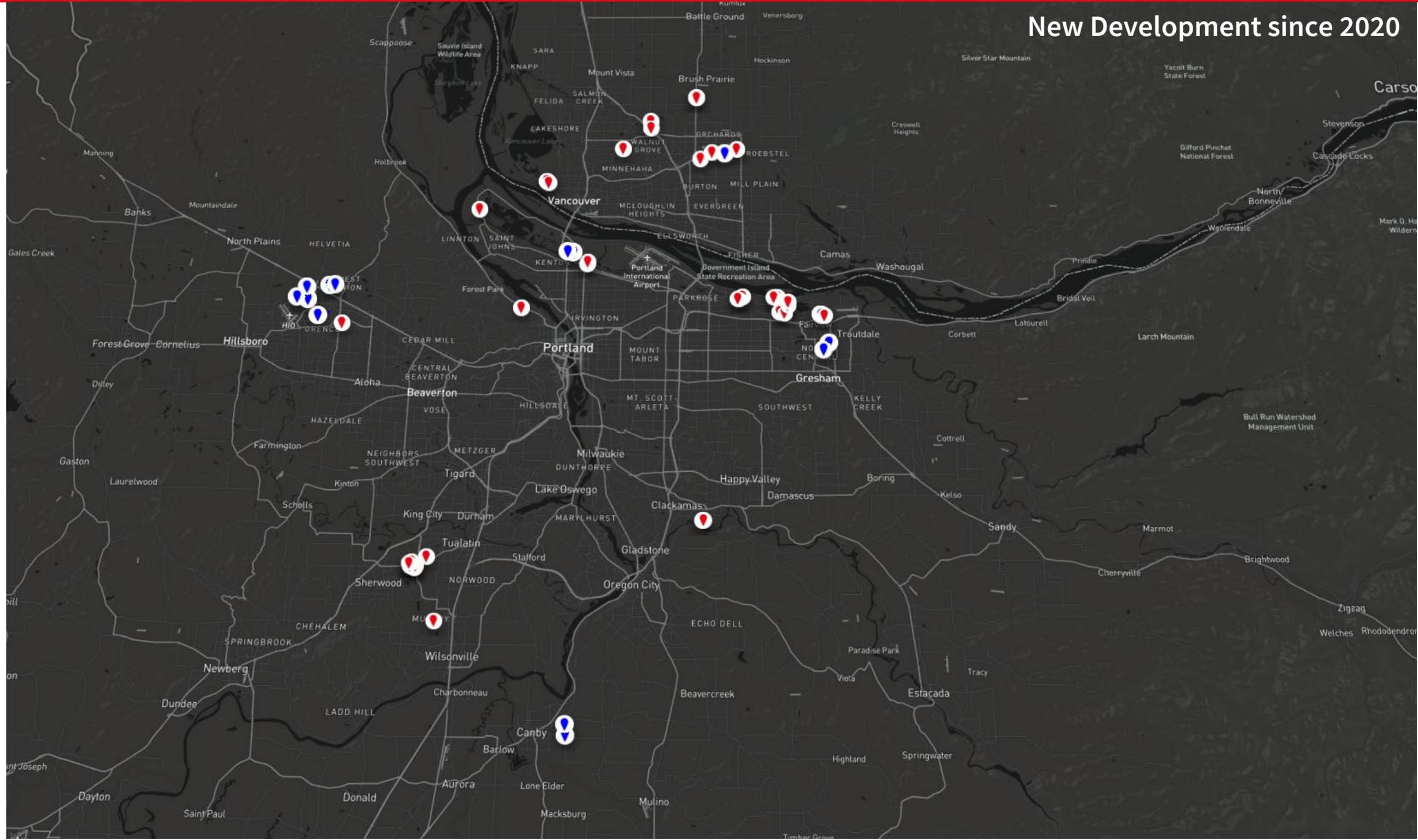
- Overall metrics have begun to slow from the peak seen in 2021 however activity remains strong. Though tenants have become cautious with a heightened level of uncertainty due to volatile economic conditions.

# Land constraints drives development on the fringes

## New Development since 2020

 Build-to-suite Development

 Speculative Development



# Where do we go from here?

## Discuss

- The economic health of the overall metro is inextricably linked with the **brand** and **economic viability** of the city
- The city's commitment to fixing **very real safety, livability** and **tax concerns** (including the city employees working and supporting the economy of the city that they serve) will play a critical part in Portland's potential recovery or continued losses.
- Make your voices as business executives **heard as leaders** throughout the city

## Take Action

- Draft an open letter to the city
- Important local elections to watch for:
  - Governor
  - Multnomah County Chair
  - City Charter
  - City Council

# Thank you

**Eric Turner**  
Principal Broker  
+1 503 546 3670  
eric.turner@am.jll.com

**Cayla Wardenburg**  
Senior Vice President  
+1 503 546 3661  
cayla.wardenburg@am.jll.com

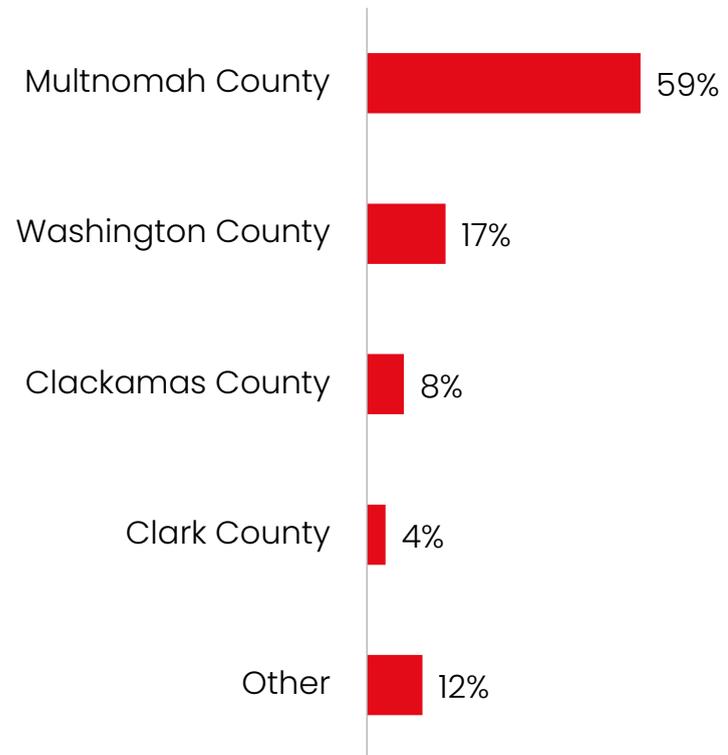
## APPENDIX

### Respondent Profile

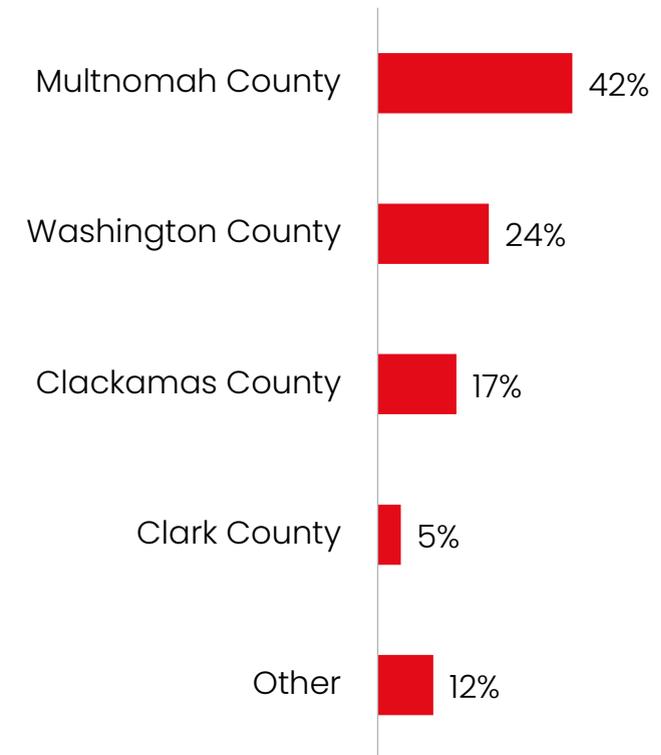
# Office and residential locations

## Location

### Office



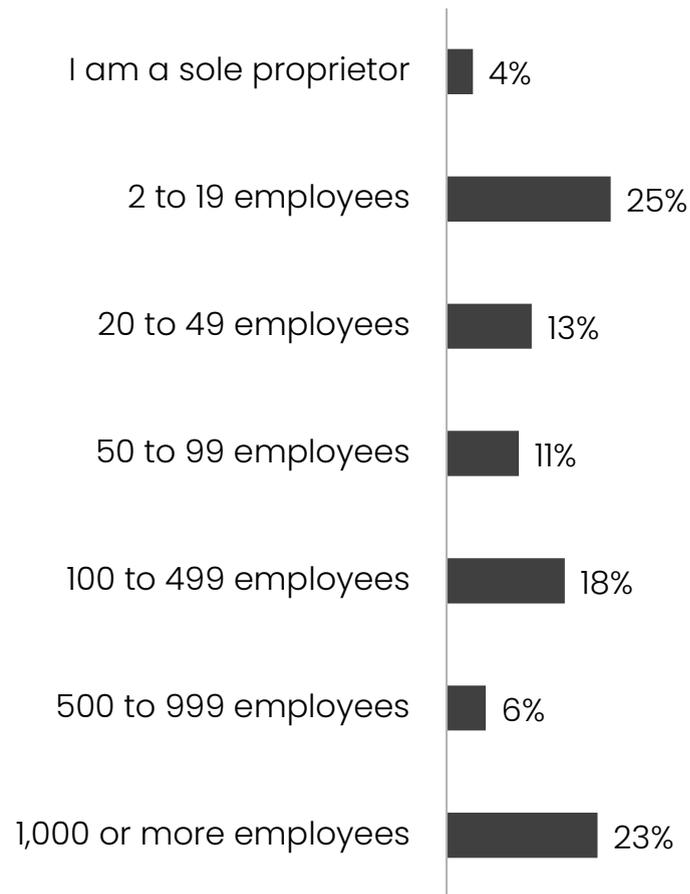
### Residence



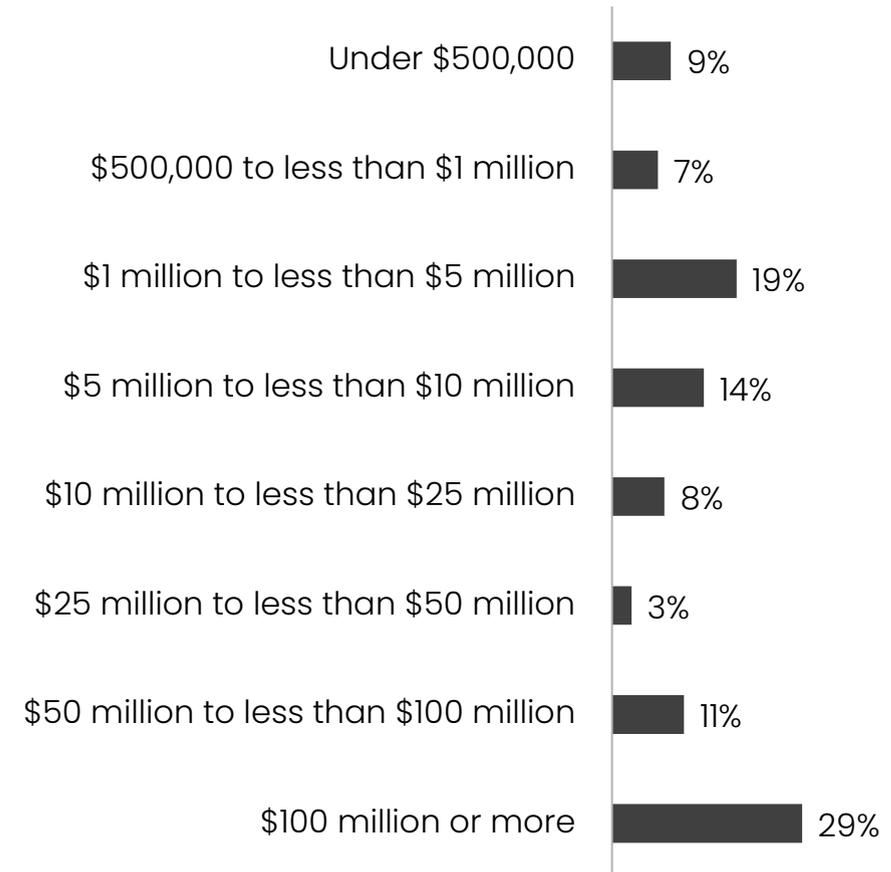
*"In which county is your office located? In which county is your residence located?"*

# Number of employees & company revenue

## Number of Employees

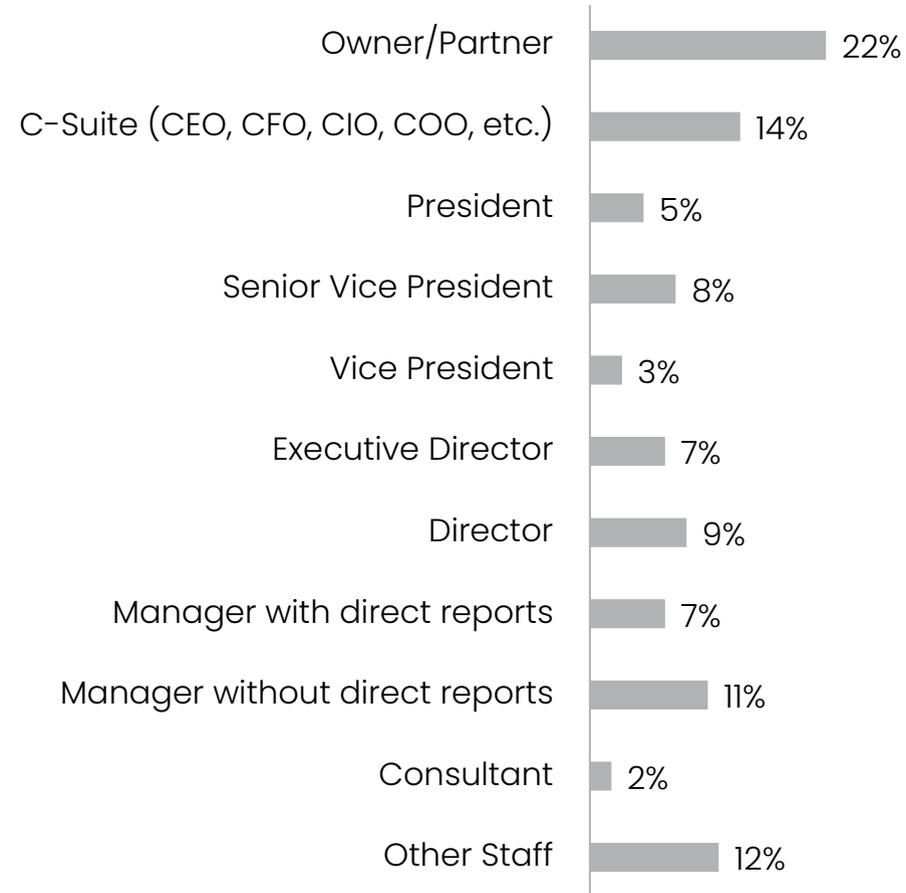


## Company Revenue



*"Including yourself, how many full-time employees does your company have in total?"*  
*"What category best represents the total gross sales or revenue for 2021 for your company?"*

# Job title



*"Which of the following best describes your job title?"*