

# Vancouver Office & Industrial Update

Presented by Kristin  
Hammond & Stuart Skaug of  
CBRE

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# Agenda

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Presenting:

Kristin Hammond  
CBRE Office



Presenting:

Stuart Skaug  
CBRE Industrial



# 1

Kristin  
Hammond

Office Discussion



# Marketview

Vancouver  
Overall Office  
vacancy rate is  
**10.4%** compared  
to Downtown  
Portland at  
**26.8%**

## Office Inventory & Rates

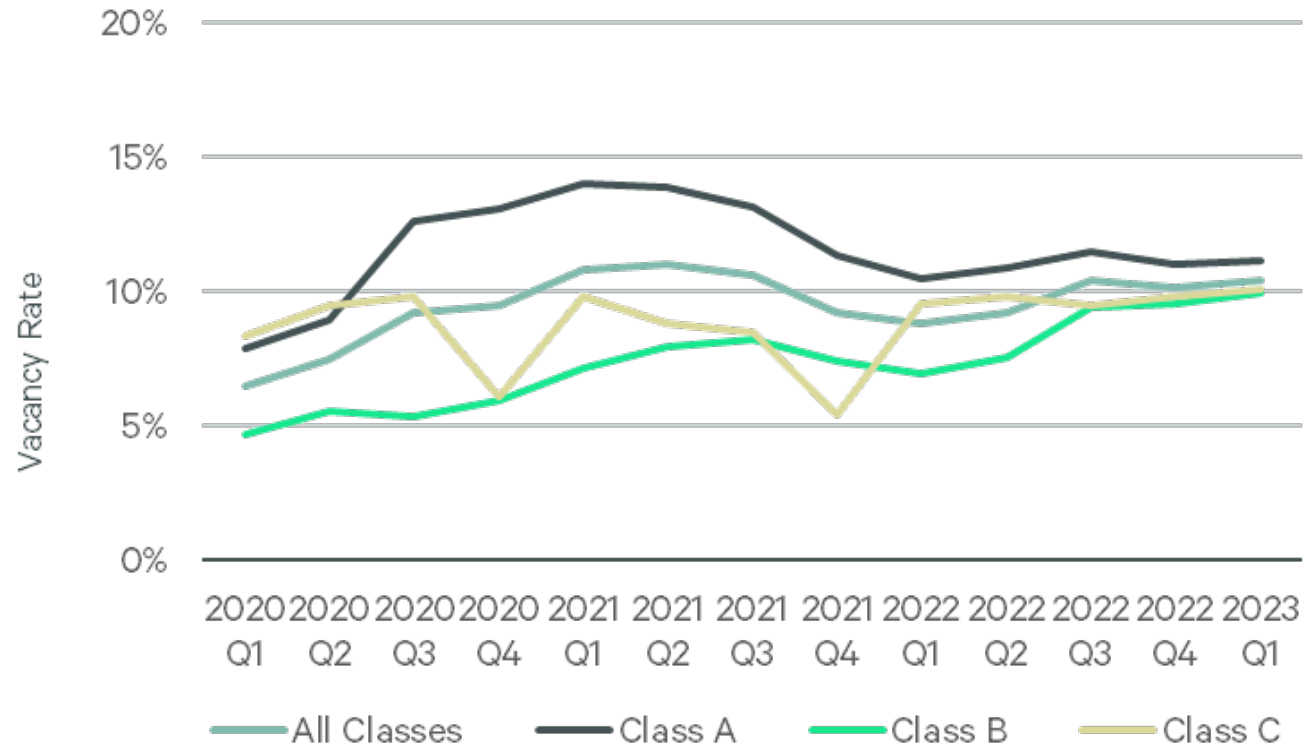
- Portland CBD
  - Total Inventory – 29.8M SF
  - Direct Available – 6,476,981 SF
- Vancouver CBD
  - Total Inventory – 3.4M SF
  - Direct Available – 194,160 SF
- Vancouver Suburban Overall Rates
  - \$23.00 - \$25.00
  - Class A Rates - \$26.00 - \$30.00
- Vancouver CBD
  - Overall Rates - \$26.00-\$27.00
  - Class A Rates - \$38.00-\$48.00

## The Vancouver Tenant Profile in 2023

- Overall tenant footprint has decreased with the average tenant looking for 1,500 SF to 3,000 SF, handful of 10,000 – 20,000 SF requirements
- Vancouver continues to be the recipient of the Hub and Spoke model of office pushing out of Portland Metro
- Downtown Vancouver new construction is 100% leased with vacancy hovering around 5.5% - very tight
- New housing projects contemplated for the downtown should add to the livability factor and pull in new restaurant/retail opportunities

OFFICE

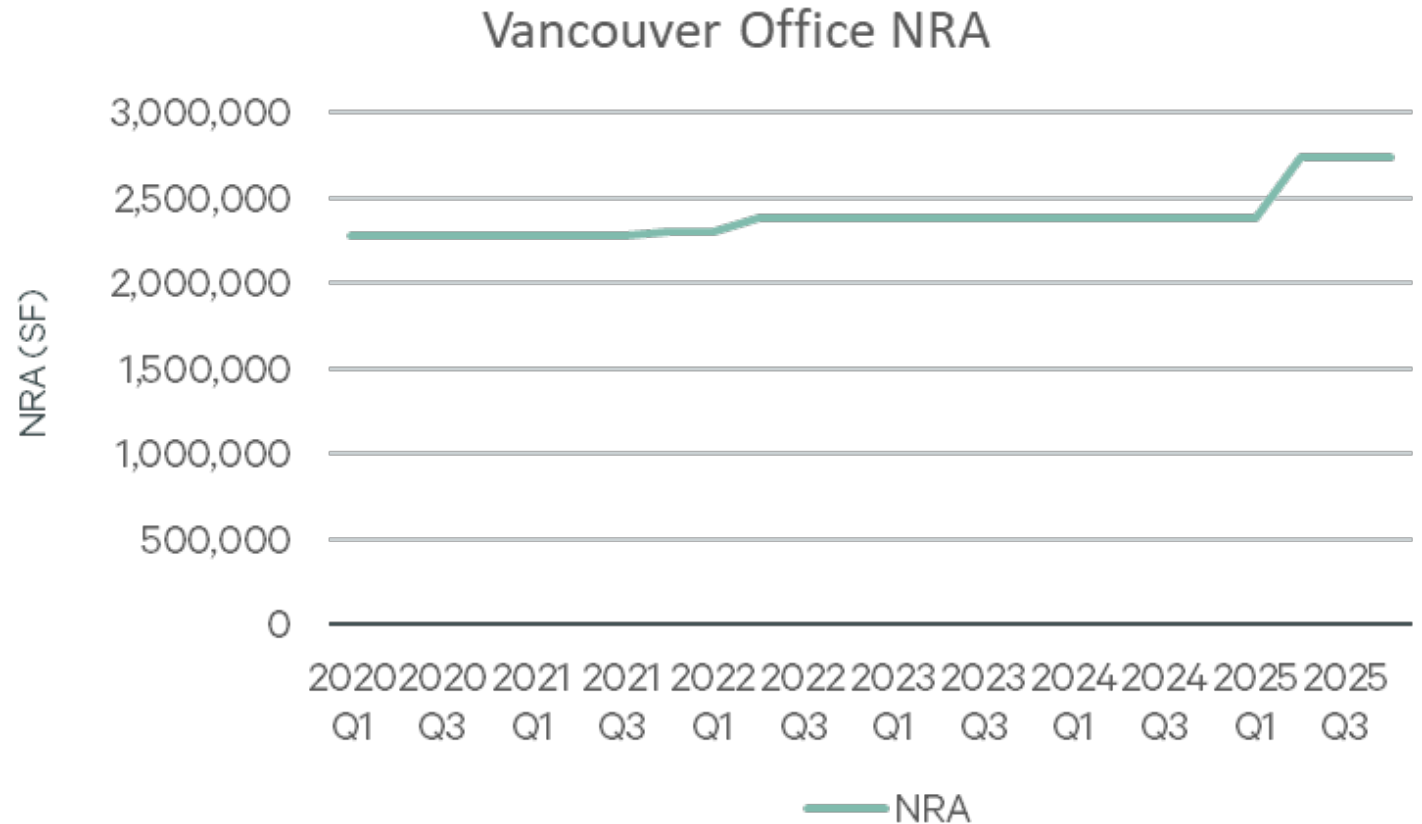
# Vacancy Rate Historical View



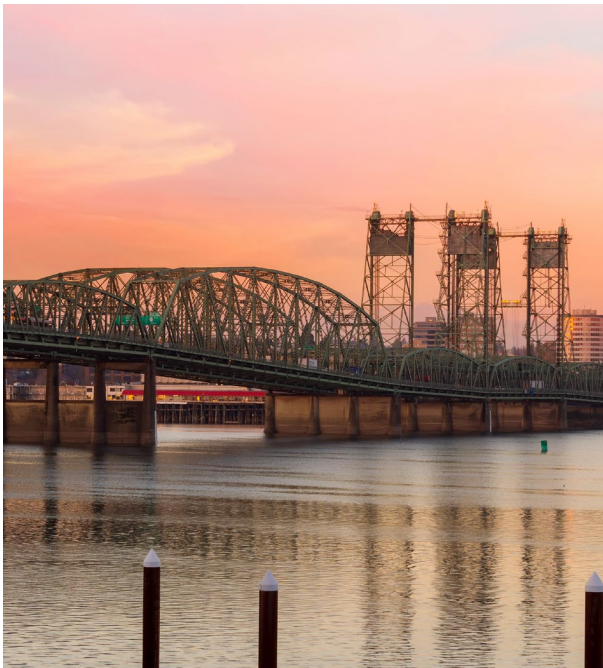
	2020 Q1	2020 Q2	2020 Q3	2020 Q4	2021 Q1	2021 Q2	2021 Q3	2021 Q4	2022 Q1	2022 Q2	2022 Q3	2022 Q4	2023 Q1	Amount Changed
<b>All Classes</b>	6.5%	7.5%	9.2%	9.5%	10.8%	11.0%	10.6%	9.2%	8.8%	9.2%	10.4%	10.2%	10.4%	3.94%
Class A	7.9%	9.0%	12.7%	13.1%	14.0%	13.9%	13.2%	11.4%	10.5%	10.9%	11.5%	11.0%	11.1%	3.23%
Class B	4.7%	5.5%	5.3%	6.0%	7.2%	8.0%	8.2%	7.4%	7.0%	7.6%	9.4%	9.5%	9.9%	5.26%
Class C	8.4%	9.5%	9.8%	6.1%	9.8%	8.8%	8.5%	5.5%	9.5%	9.8%	9.5%	9.9%	10.1%	1.75%

# Large New Projects

- New Construction is light, while developers try to strike a balance between costs and demand.
- Terminal 1 is the only new office construction currently underway. It is fully leased to ZoomInfo and delivers in Q2 2025.
- ZoomInfo will vacate roughly half that amount (120k SF) when they move into the new building in 2025, opening up some older generation space in the CBD.



# Cost Uncertainties



## ESSB 5096

- ESSB 5096 - 7% tax on the sale or exchange of long-term capital assets
- The new tax applies to: residents and non-residents present in the state 183 days during a calendar year. (The 183-day test includes any day where part of the day was spent within Washington.)
- Potential impacts by demographics:
  - 65+ - retirees - cash conservation
  - 25 – 45 – remote employee base relocate to lower tax basis state

## The Bridge to Everywhere

I-5 bridge replacement remains a critical component to commerce and growth.

- What is the cost?
  - Tolls/tax
- What is the timeline?
  - When would it start and how long to complete?
- What is the impact?
  - Right of way, relocating roads, etc.
  - Increased capacity to ease congestion
  - No bridge lift, no time delay
  - Increased employment as part of the project (design/engineer/construction)

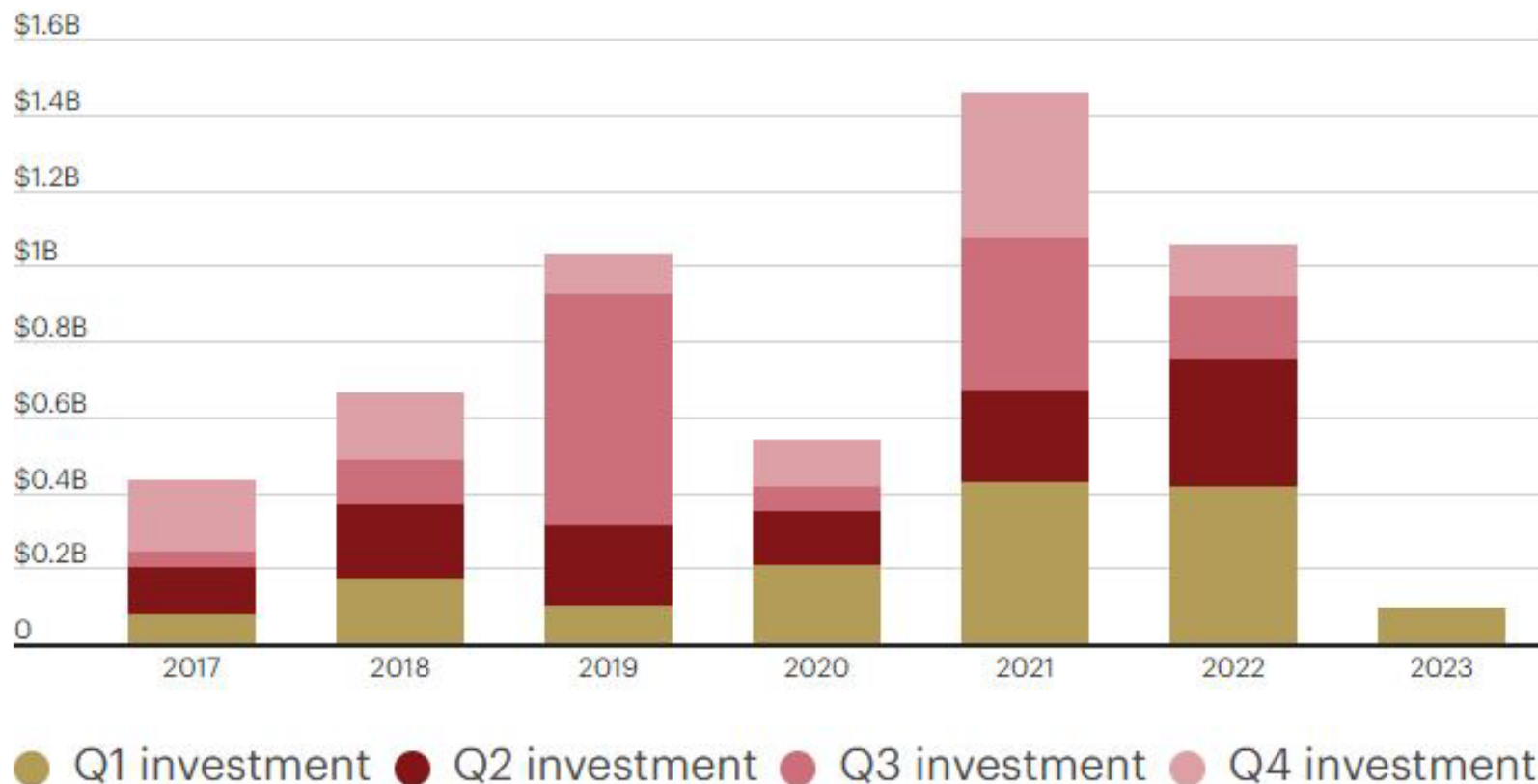
# Funding = Growth

## Venture Capital/PE

How is the startup ecosystem going to grow into a larger employment base?

Incentives and business community support needed.

## VENTURE CAPITAL INVESTMENT IN PORTLAND & S.W. WASHINGTON METRO AREA



Source: Venture Monitor, PitchBook, and the National Venture Capital Association.



# Moving Forward

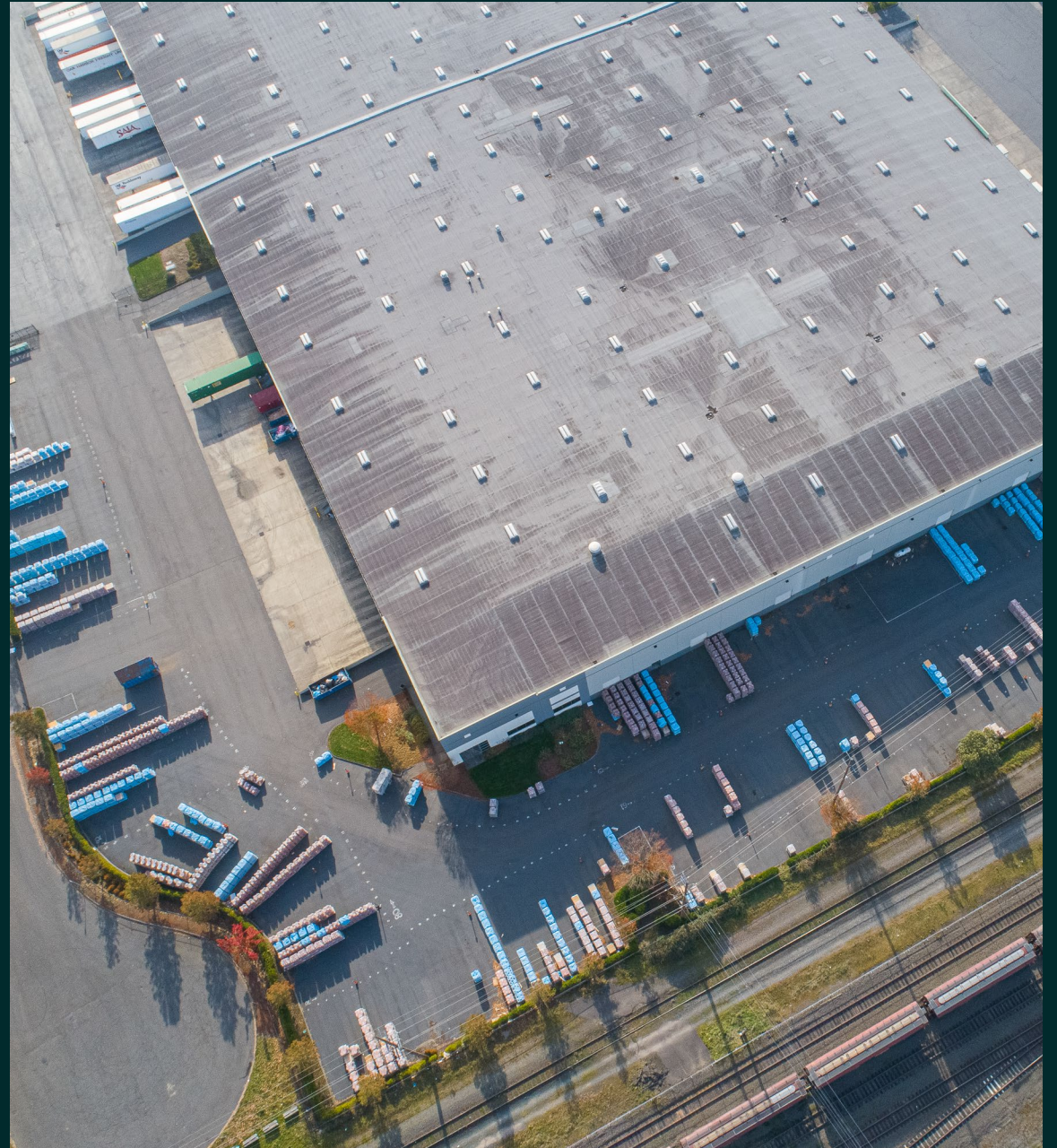
Clark County is well positioned to continue to benefit from in-migration of residents and businesses from larger cities but the path is not without challenges.

- Affordable Housing - slow to increase delivery due to raising interest rates
  - City/County/State incentives to help facilitate – permitting, land agreements, etc.
- Healthcare access - Healthcare is struggling with debt and labor shortage
  - Work to attract nursing programs, hospital staffing groups
- Technology will continue to change the way we work (remote, talent, recruitment)
  - Adjust development plans for new office construction to address smaller footprint or flexible demising
- Legislative moves – Navigating delivery of services will become more complex as tax revenues drop and population needs increase
  - As the assessed value drops on certain commercial real estate, prepare for that shortfall in municipal budgets

# 2

Stuart  
Skaug

Industrial Discussion



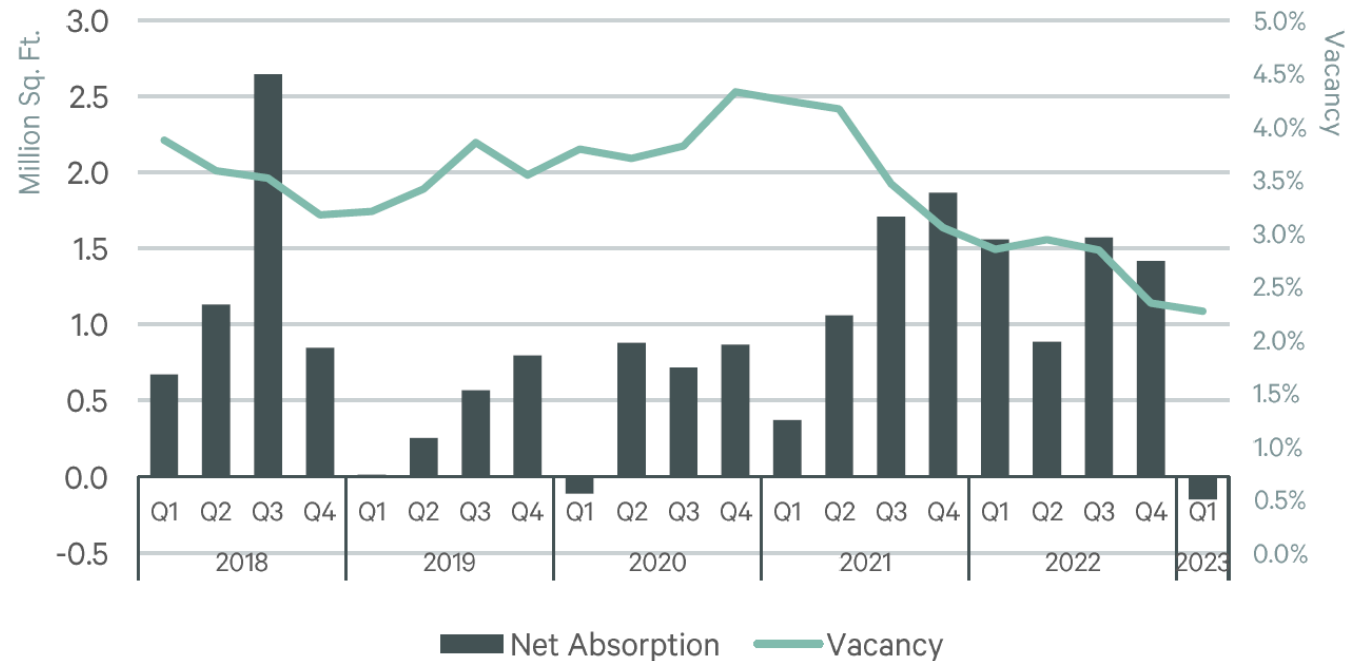
# Industrial Real Estate Market Summary



- Still hot, but not blistering, and starting to cool
  - Last year: 2022 was second highest all-time absorption for our market
  - Now: Q1 2023 was -9% of Q122 (-150k vs +1.6MM)
  - Most active industries include: food/beverage, 3PLs, consumer products, general retail, automotive, building materials, manufacturing. E-commerce only accounting for only 4% of industrial requirements over 100k SF.
- All time low vacancy rates (lowest is in the largest building sizes)
  - 2.6% in Clark County
- Major turbulence in the capital markets, uncertainty
  - Fed funds rate/increasing interest expense
  - Investors very skittish
  - Most developers are looking to de-risk right now
  - Industrial property values believed to be starting to decline, but limited trades are demonstrating this
- Subleases starting to pick up significantly
  - 23 new subleases in our market since January

# Industrial Real Estate Market Summary

FIGURE 1: Historical Supply &amp; Demand Dynamics



- Portland's industrial market posted negative 149,176 SF of net absorption in Q1 2023, a significantly slower start than the ~1.6 million SF posted in Q1 2022, and the first negative quarter since Q1 2020. Industry professionals note isolated moveouts that cast doubt on negative absorption becoming a trend, but there is a sense of a market-wide slowdown.
- Five leases over 100,000 SF were signed in Q1 2023, including two renewals and three new leases. Significant new deals include SureWerx's 154,648 SF lease at Prologis PDX 19, and Modomi Modular Housing's 120,000 SF lease at the Port or Portland's Terminal 2.

Source: CBRE Research Q1 2023

# Trends to Watch

- Consumer spending and jobs
- Signs of over-supply
- Construction start delays
- NIMBY
- Labor supply
- Import volume and location
- Sublease space
- Nearshoring and regionalization
- ESG affects on building design
- Automation and AI



# National Industrial Market – 2023 Crystal Ball Predictions

## End of Q1 Adjustments

### Year-End 2022 Predictions

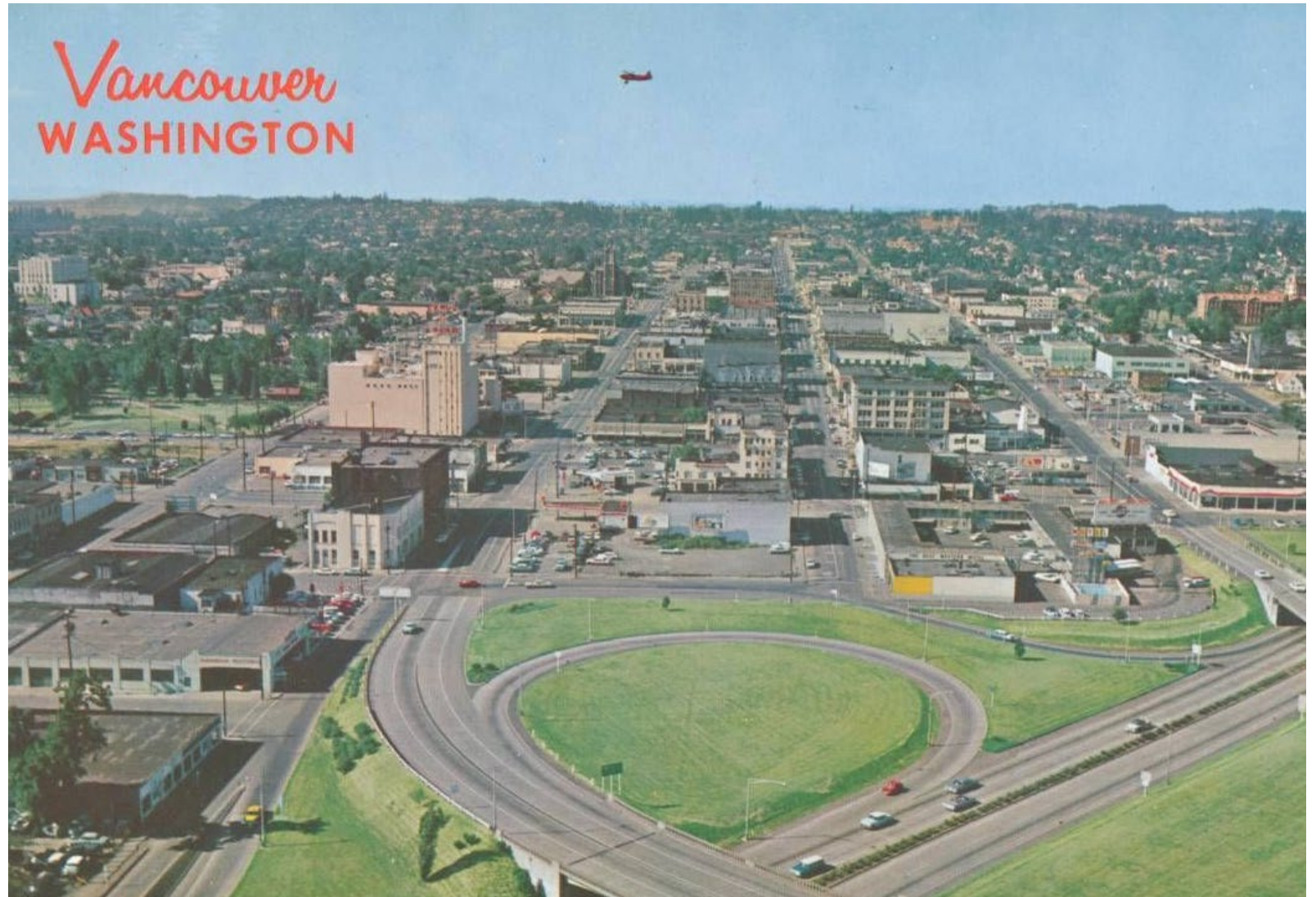
- Leasing Activity: Down 15% Compared with 2022. 3<sup>rd</sup> Best Year on Record.
- Record Breaking Year for Completions: 500-550 MSF
- Net Absorption Positive for 13<sup>th</sup> Consecutive Year: 400-450 MSF
- Ground Breakings Reduce Significantly. Under Construction finishes 2023 at half the rate of year-end 2022. Significant under supply of first-generation space possible in 2<sup>nd</sup> half of 2024
- Vacancy Rates Rise 30 to 60 bps. Increased vacancy absorbed in 2024.
- Rents Up 12-15%. Emerging Population and logistic hub markets escalate while core coastal market growth declines.

### Q1 2023 Adjustments

- Leasing Activity: **NO CHANGE**. 2<sup>nd</sup> and 3<sup>rd</sup> quarter tends to be better performing. Market remains on pace for 725 MSF, but activity will be driven by under 300K SF transactions.
- Record Breaking Year for Completions: **NO CHANGE**. Market remains on pace for record breaking completions.
- Net Absorption Positive for 13<sup>th</sup> Consecutive Year: **CHANGE**. Preleasing of newly constructed product down from 75% to 40%. Adjusted net absorption prediction: Positive 300-350 MSF.
- Ground Breakings Reduce Significantly. **NO CHANGE**. Ground breakings down 50% from 6 months ago and will continue to decline.
- Vacancy Rates Rise 30 to 60 bps. **CHANGE**. Reduced leasing in over 300K SF buildings will lead to a 60-100 bp vacancy rate increase in 2023.
- Rents Up 12-15%. **NO CHANGE**. Market is still on pace for double digit rent growth in 2023 driven by emerging markets and product under 100K SF.

# In the past: Why Southwest Washington?

- Clark county has ridden the wave of having more land and a better tax environment
- Low cost of land
- Good transportation infrastructure
- Low cost of living, high quality of life
- Competitive wage rates



# In the future: Why Southwest Washington?



## Upsides

- Create a predictable policy environment
- Permitting process
  - Streamline inter-bureau functions, look for ways to create consistency and clarity
  - Reduce timelines for permitting review and decisions
- Address the labor challenge
  - In 2022, approximately 38% of Clark/Cowlitz industrial leases above 25,000 SF were to manufacturing related companies
  - Labor continues to be a large challenge for all industrial companies. Work with secondary educational campuses to highlight growing opportunities in industrial employment

## Downsides

- Increase taxation
  - Gross margins tax has proven to have a chilling effect on business, and can actually increase costs to consumers
- Make development harder via the Warehouse Moratorium
  - Community benefits
  - Financial benefits
  - Environmental benefits



# Thank you

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Bedankt    Grazi    पॆॆनॆवस    Merci    תודה    شكریه    Teşekkürler    Danke    ありがとう    Dziękuję    Terima Kasih    شكرا

## FOR MORE INFORMATION

**Kristin Hammond**

Senior Vice President

CBRE Portland

Kristin.Hammond@cbre.com

**Stuart Skaug, SIOR**

Executive Vice President

CBRE Portland

Stuart.Skaug@cbre.com

CBRE Group, Inc

1300 SW Fifth Avenue, Suite 3500 | Portland, OR 97201

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