

Lents Town Center Mixed-Use Market Study Office Market Analysis Lents, Oregon



Portland Development Commission

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This office analysis is part of a multifaceted market opportunity analysis for Lents Town Center with the purpose to:

- Create an accurate and *realistic* picture of the potential for office uses within the Lents Town Center marketplace; and
- Provide user-friendly data for promoting office business opportunities to existing and prospective business and developer prospects.

Office space potential for the Lents Town Center is analyzed in the context of the greater Portland office market, the anticipated mixed-use development in the Town Center and other commercial corridors in the Lents Urban Renewal Area (URA). Large office users typically seek business environments with excellent accessibility and abundant amenities and services nearby to accommodate their needs and those of their workforce and/or clients. Close proximity to top quality housing is often a key location factor for business owners/executives. Small office users are especially convenience and price-driven and may have less ability to negotiate long-term leases.

The Lents/Foster Road area is not known as a major employment center, with only 1,164 estimated employers and 14,465 estimated employees within the 97266 zip code in 2005 according to the Oregon Employment Department. More than half of the employment is retail and restaurant based. Overall, the market in the Lents vicinity for speculative office space (I.E., built without a leasing precommitment) is very limited. Nonetheless, the Town Center and the Foster Road Corridor enjoy easy access to Interstate 205 and relatively close proximity to Portland International Airport, a major generator of economic activity within the Portland metro area as a whole. With the coming of the light rail Green Line in 2009, the location of Assurety NW, a prestigious office tenant in a quality new building, and numerous planned high-density mixed-use developments, the Lents Town Center will likely become increasingly attractive for office users.

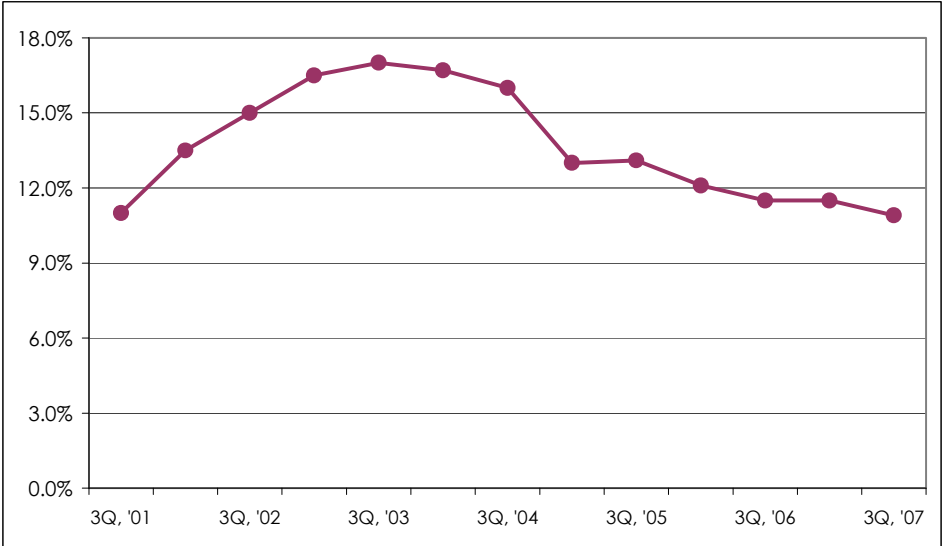
This office market assessment highlights the characteristics of the overall Portland market and estimates potential demand for new, additional office within the Lents Town Center area.

METROPOLITAN PORTLAND OVERVIEW

As of the third quarter of 2007, metropolitan Portland contained just over 40 million square feet of rentable office space, with about 20 million square feet downtown and 21 million in suburban areas. According to CB Richard Ellis' third quarter 2007 market report, the metro Portland office market has shown improvement over the third quarter of 2006, with higher lease rates, absorption and construction activity and a lower vacancy rate.

The vacancy rate in 3Q 2007 was 10.9%, showing a steady decline since peaking in the third quarter of 2003 (Exhibit 1). In downtown Portland, the vacancy rate stood at 8.2% for 3Q 2007; suburban office space had a higher vacancy rate of 13.4%.

EXHIBIT 1
Office Vacancy Rate
Metropolitan Portland
2001 to 2007

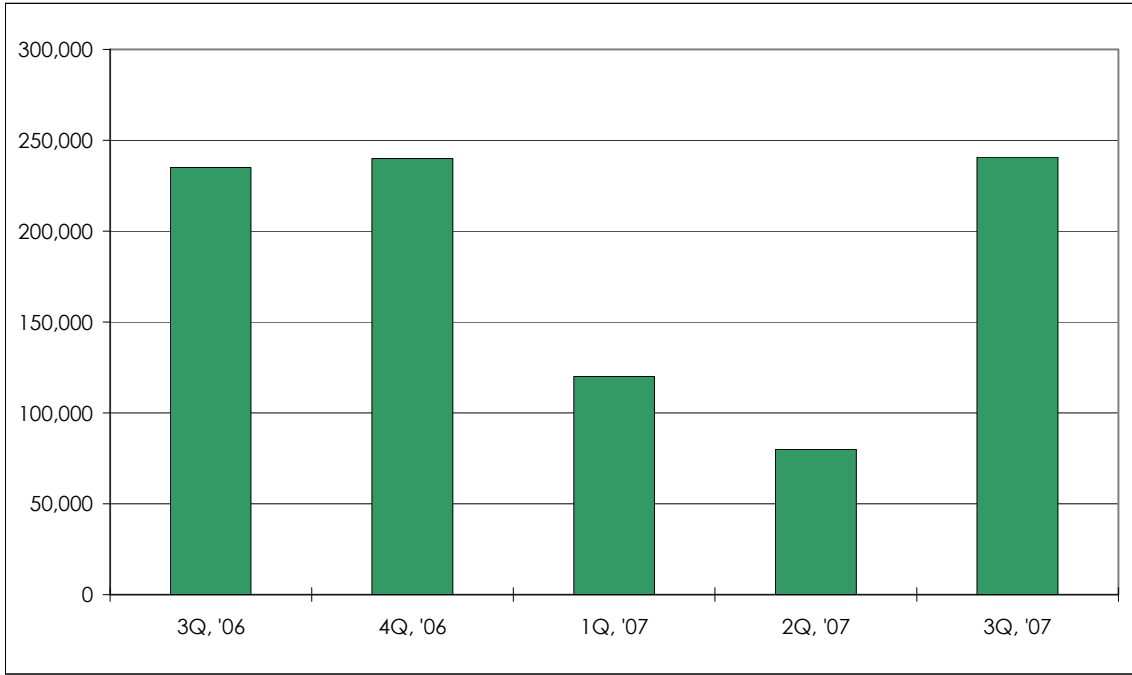


Source: CB Richard Ellis

Office space absorption was up in third quarter 2007, with nearly 241,000 square feet absorbed market-wide (Exhibit 2). Downtown Portland saw a net absorption of 58,000 square feet, while the suburban office market saw a net absorption of almost 183,000 square feet.

Average asking lease rates have risen steadily over the past year, going from \$19.50 in third quarter 2006 to \$20.14 in the same quarter 2007. For Class A properties, downtown asking rents average \$24.17 and suburban asking rents average \$23.20.

EXHIBIT 2
Absorption for Office Space
Metropolitan Portland
Third Quarter 2006 to Third Quarter 2007



Source: CB Richard Ellis

As of Q3 2007, Portland State University's (PSU) Real Estate Center reports 407,000 square feet of office space under construction in downtown Portland, primarily in mixed-use buildings. However, PSU's 3Q 2007 Office Market Report notes that speculative office construction has stalled downtown as developers are unable to meet pre-leasing requirements.

PORTLAND'S OFFICE SUBMARKETS

Exhibit 3 on the following page provides market statistics by submarket for office space in metropolitan Portland (see the map below for submarket boundaries). The Central Business District (CBD) represents the largest submarket with 35% of total office space in metro Portland and experienced negative absorption in the third quarter of 2007 (-7,900 square feet). The Tigard submarket experienced the highest third quarter 2007 absorption, where 60,892 square feet were absorbed; Beaverton followed with 52,741 square feet absorbed.

The Eastside submarket, where the Lents Town Center is located, has 2,210,390 square feet of office space and makes up 5.4% of the metro market. Net absorption in the third quarter of 2007 was 10,276 square feet. The vacancy rate in the Eastside submarket was among the highest in the Portland metro at 23.2%; average rent was the lowest throughout the metro area at \$16/SF.

Metro Portland Office Submarkets



EXHIBIT 3					
Office Market Statistics					
Metropolitan Portland Submarkets					
3Q 2007					
Submarket	Rentable Area (SF)	Avg Asking Lease Rate (\$/SF)	Vacancy Rate (%)	Net Absorption (SF)	Under Construction (SF)
CBD	14,455,884	\$22	8.9%	(7,900)	0
Lloyd Center	1,602,547	\$23	6.1%	43,381	0
Northwest	3,704,380	\$20	9.2%	22,347	82,843
Johns Landing	1,033,226	\$20	9.5%	9,875	0
Barbur Blvd	482,447	\$17	16.3%	2,402	0
Kruse Way	2,106,364	\$29	12.9%	12,504	0
Lake Oswego	561,981	\$25	16.1%	8,759	11,377
Tigard	1,629,406	\$23	9.9%	60,892	119,907
Washington Sq	1,123,686	\$23	16.5%	(27,421)	0
Beaverton	3,303,175	\$20	26.1%	52,741	158,400
West Hills	703,955	\$17	13.5%	3,393	16,000
Airport Way	364,830	\$16	11.1%	399	0
Eastside	2,210,390	\$16	23.2%	10,276	0
Clackamas	1,211,387	\$22	12.2%	10,887	0
Vancouver	4,283,111	\$20	15.1%	26,328	118,000
Tualatin	773,985	\$21	23.7%	3,589	0
Wilsonville	1,111,568	\$21	18.2%	0	0
Hillsboro	1,058,243	\$18	23.1%	0	0
Total	41,050,555	\$20	14.0%	240,608	506,527



LENTS OFFICE MARKET

Until the recent location of Assurety Northwest (NW), a 50-employee insurance and financial service company, only two other office establishments were located in the immediate Lents Town Center—a graphics design firm and a construction company office. Phase One of Assurety NW's office development on Foster Road between Southeast 88th and 91st Avenues opened in December 2007 and contains 22,000 square feet of commercial space including the headquarters of Assurety NW, with ground floor office and/or retail space (9,000 SF) for lease. A Phase Two mixed-use building is scheduled to begin in 2009 and will total 12,000 to 14,000 square feet of commercial space.

The Foster Road corridor within the Lents URA is home to approximately 40 office tenants from insurance brokers and realtors to chiropractors and Junior Achievement. Exhibit 4 provides a summary of selected office properties with space for lease in or near the Lents neighborhood. As shown, rents range from \$10.58/SF to \$25.50/SF with a median of \$14 - \$15/SF.

In considering future office development in east Portland, the Central Gateway Redevelopment Plan prepared by Ferrarini & Associates analyzed site suitability for office space in several metro areas. When compared to Sunnyside, Airport Way, Gateway and Gresham, the Lents area was ranked the same as Gateway and Gresham, but below Sunnyside and Airport Way. Strengths for Lents included its regional accessibility and parking availability, while quality of the environment was a weak area.

EXHIBIT 4 Summary of Selected Office Market Properties Lents Market Area 2007			
Center /Address	Year Built	Vacant Space (SF)	Lease Rate (\$/SF)
18081 SE Division Street	1997	10,850	\$12.00
4620 - 4628 SE 67th Avenue	NA	2,950	\$10.58
Aspen Summit Plaza 7724 SE Aspen Summit Drive	2001	5,445	\$18.50 - \$20.50
Columbia East 10011 SE Division Street	1979	964	\$14.50 - \$15.50
Columbia Medical Plaza 5847 NE 122nd Avenue	1997	3,030	\$25.50
Division Plaza 2410 SE 121st Avenue	1979	1,285	\$12.00 - \$13.00
Evergreen Place 4521 SE 122nd Avenue	NA	1,027	\$14.00
Mt. Scott Center 9201 SE 91st Avenue	2003	1,442	\$25.00

NA = Not Available.

Source: Marketek, Inc.

POTENTIAL DEMAND FOR OFFICE SPACE

Using the estimates of projected employment growth in the Lents area (Zip Codes 97266, 97236 and 97206), potential annual demand for office through 2017 is provided in Exhibit 5. Because employment fluctuates in response to changing economic conditions over time, estimates of potential demand for office space are general indicators of future demand rather than precise projections.

To calculate office demand, average annual change in employment for each employment category is multiplied first by the proportion of employees in each category that are normally expected to utilize office space. The resulting figure (office space users per specific category) is then multiplied by the average square footage of office space utilized per employee, 245 square feet, to yield the potential annual square footage of office demand for that employment category. Potential annual demand for office space in the Lents area is estimated at 30,135 square feet through 2017. If the Town Center captured 25% of that (or approximately 7,500 square feet) per year, office and office employment would become a significant contributor to the vitality of the area.

EXHIBIT 5 Potential Annual Demand for Office Space Lents Area 2007-2017							
Employment Category	2005 Employment in Lents Area (1)	Projected Employment in 2017 (2)	Average Annual Employ Change	Office Space User Ratio (3)	Office Space Users	Sq. Ft. per Employee (3)	Average Annual Demand (Sq. Ft.)
Construction	1,740	2,071	28	10%	3	245	735
Manufacturing	391	399	1	10%	0	245	0
TCU	390	457	6	20%	1	245	245
Wholesale Trade	649	738	7	10%	1	245	245
Retail Trade	8,030	9,369	112	5%	6	245	1,470
FIRE	1,618	1,840	19	90%	17	245	4,165
Services	11,010	13,859	237	40%	95	245	23,275
TOTAL	23,828	28,733	409	-----	123	245	30,135

(1) Lents area includes Zip Codes 97266, 97236 and 97206.

(2) Based on projected employment growth rates in the Multnomah & Washington County Region from the Oregon Employment Department.

(3) Based on standards developed by the Urban Land Institute.

Sources: Marketek, Inc.; Oregon Employment Department; Urban Land Institute

As the Gateway analysis and the office market indicators for Portland's Eastside submarket suggest, the Lents area lacks strong demand for large amounts of private office space. That is, without enticement and aggressive marketing, these users are unlikely to seek out a Lents location. Realtors from Norris, Beggs & Simpson report that many companies in east Portland and the I-205 corridor are looking for small spaces of

2,000 to 3,000 square feet and that the Lents area would support infill office space of this size. Likely users would include nonprofit organizations and business professional users such as accountants, attorneys, insurance, real estate and medical professionals. Larger users such as a health care clinic and adult learning or higher education center are also promising candidates. The New Copper Penny redevelopment is planning for a health care anchor.

During discussions with real estate brokers regarding Lents' market opportunities, office uses generally did not rank high. However, many leading commercial real estate professionals remain unaware of Assurety NW's recent location and also of other significant redevelopment projects underway. Changing perceptions about the Lents business district will be very important in promoting office use to realtors and others who can help encourage office as a viable use there.

Assurety NW representatives and their realtor, Ted Gilbert are big boosters for office development in the Lents Town Center. Assurety NW has attracted mid-size office prospects for their ground floor space and a variety of smaller office users as well. The occupied property is one of the best selling tools for the future vision of the Town Center. Assurety NW provides other potential office users with the confidence to investigate Lents. However, Gilbert is quick to point out that the project was more than two years in the making and would not have happened without the generous incentive package negotiated with PDC. A best case scenario for Lents would be to recruit other owner-occupied office users like Assurety NW who will serve as stable employers for the Town Center and bring employees and potentially clients who will be key contributors to retail, service and food sales. Smaller office users and support services will follow with as they see quality establishments locating there.