SOUTHWEST MARKETS NEWSLETTER


4405 Turner Road SE, Salem, OR | For Sale or Lease

JANUARY 2026

The Portland and Southwest Portland commercial real estate markets closed 2025 with continued softening across major sectors. Office headlines again dominated the news, highlighted by the sale of the U.S. Bancorp Tower (“Big Pink”) at approximately $45 per square foot. This transaction reset expectations for values across the region and prompted a broad reassessment of the downtown office market among lenders, owners, and investors.

The industrial market also experienced a slowdown during 2025, though the decline has been far less precipitous than in the office sector. Vacancies have inched higher, and absorption has been slightly negative, but rents have generally held steady. Southwest and Southeast industrial submarkets remain comparatively resilient, while Multnomah County continues to see higher vacancies and a noticeable decline in industrial rents-and, more dramatically, in office rents.

OFFICE MARKET CONDITIONS

The Portland office market continues to face meaningful structural change. Remote and hybrid work patterns are now firmly established, and there has been little evidence of a large-scale shift back to pre-pandemic occupancy behavior.

For the first time in my career, more office product is being removed from the market through conversion or demolition than is being delivered. Conversions to residential or alternative uses remain a primary strategy for obsolete buildings, although they are complex and costly undertakings. In some cases, values have declined to the point where this unsavory course of action becomes the most viable option.

Artificial Intelligence is also emerging as a long-term factor, with expectations that it will alter portions of white-collar employment over time. Even conservative projections suggest this will place additional downward pressure on office demand over the coming decade.

Stu Peterson, SIOR
Broker, Partner
503.972.7288
stu@macadamforbes.com
Bio

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Socioeconomic factors aside, the main reason for Multnomah County's increase in vacancy is widely attributed to poor governance. Coupling high taxes with high crime, homelessness, and a perceived hostility toward employers has produced predictable results. A steady decline in population-particularly among high-income earners-only exacerbates the situation. Suburban Class A properties-particularly along Kruse Way-continue to outperform the CBD. Tenants prioritizing safety, ease of access, and operating efficiencies have contributed to stronger suburban fundamentals relative to the downtown core. The tables below reflect this reality.

OFFICE (10K+ SF)

Submarket	Inventory SF	Under Construction	12 Mo NET Absorption SF	Vacancy Rate
I-5 South	8.9M	0	73K	16%
Hwy 217	2.8M	0	25K	16.6%
Kruse Way	2.8M	0	81K	21%
Sunset Corridor	16.6M	0	10K	8.2%
CBD	29.8M	0	1.1M	38%

Data sourced from CoStar

INDUSTRIAL MARKET CONDITIONS

The I-5 Industrial Corridor from Tigard to Salem remains one of the region's steadier industrial areas. Although demand has moderated, vacancy rates remain manageable, and rental rates have been comparatively stable. A new wave of construction, expected to deliver in 2026 and 2027, will require improved demand to maintain current vacancy levels.

Industrial values across Oregon have held up far better than office assets, supported by a limited supply of developable land and continued investor interest in well-located properties. Washington and Clackamas Counties, in particular, have demonstrated relatively durable pricing.

While the tables below reflect a lackluster year, the damage is not out of hand, and a pickup in the overall economy should help right the ship in 2026.

INDUSTRIAL (5K+ SF)

Submarket	Inventory SF	Under Construction	12 Mo NET Absorption SF	Vacancy Rate
I-5 Corridor	31.1M	450K	806K	7.8%
Sunset Corridor	27.7M	719K	800K	4.10%
217 Corridor	5.4M	0	24K	8%

Data sourced from CoStar

2026 Outlook

Layoffs and restructuring among major regional employers, including semiconductor and apparel firms, continue to influence the westside economy and will likely be felt into 2026. At the same time, the broader U.S. economy has shown resilience, offering cautious optimism for eventual stabilization in the industrial sector.
Uncertainty surrounding tariffs and trade policy weighed on decision-making throughout 2025. Recent signs of stabilization could help unlock deferred activity, potentially supporting improved leasing and purchasing decisions later in the year.

The office market, however, remains under pressure overall. Elevated vacancies, declining values, and reduced demand continue to challenge assets in this class—especially in Multnomah County. By contrast, the Southwest suburban markets remain relatively well-positioned, supported by labor access, transportation corridors, and a balanced operating environment. While 2026 will present continued headwinds, these markets are expected to weather the conditions better than the urban core.

As always, a new year brings optimism. I believe the South Metro area will improve slowly through 2026. There has been a significant migration of talent to this area-both people and businesses-seeking relief from higher taxes, declining services, and public safety concerns in Portland and Multnomah County. A pickup in the fortunes of Intel and Nike would certainly help. The national economy should continue to improve as businesses adjust to the tariffs and tax changes implemented in 2025. Growth in the overall national economy will have a positive effect on Southwest Portland.

The Oregon legislative session in January will be critical. Voter concerns need to be addressed by lawmakers, not through costly referendums. There is a growing sense of dissatisfaction with the status quo and an increased awareness that Oregonians pay high taxes and, in return, receive substandard services, struggling schools, declining infrastructure, unaffordable housing, and a political environment more focused on ideology than on improving the quality of life for all residents. For example, the Governor's transportation bill has been soundly rejected and would almost certainly be repealed by referendum next fall if the Legislature does not address it. Several other grassroots murmurs regarding ballot measures are likely to emerge and could be dealt with through effective lawmaking.

Happy New Year, let's hope it's a good one.

Featured Listings

27100 SW Parkway Avenue, W3
36,000 SF flex space for Lease

Cobalt Industrial Park
154,127 SF for Lease or Sale

21600 SW Oregon Street
8-200,000 SF for Lease

Hedges Creek Industrial Park
442,000 SF for lease
in three buildings

Significant Completed Transactions By Stu Peterson

9800-9900 SW Tigard St
Tigard Industrial Park
SF Leased: 70,000 SF

Sherwood Commerce Center
SF Leased: 36,000 SF

Boones Ferry Industrial Park
Sold to Schnitzer Properties

18280 SW 108th Avenue
Sold to Lam Research
SF Sold: 40,000 SF

Macadam Forbes, 2 Centerpointe Drive, Suite 500, Lake Oswego, OR 97035 | 503.227.2500 | www.macadamforbes.com