SOUTHWEST MARKETS NEWSLETTER

The first six months of the year have continued the downward trend of the past 24. To say markets are "challenging" is an understatement or euphemism for "lousy". The pain is widespread across all disciplines of Portland's commercial real estate. The office product continues to suffer the most pronounced slide. While the absorption of both industrial and office space in Southwest has continued to be negative, the effects are much less acute than those being experienced in Multnomah County. The Industrial areas of the Southwest and Southeast Metropolitan market are holding up reasonably well, and rental rates are not noticeably declining.

The office market, in general, is in decline in all but a few metropolitan areas of the country. Working from home is likely here to stay, unless there is a seismic shift in industry practice. Video conferencing and the recognition that organizations can save on facilities costs by allowing employees to work remotely have led to a decline in office occupancy. Most industry pundits are predicting that, for the foreseeable future, more office space will be "removed" from the market than new space will be built. This is the first time in recorded history that this dynamic has occurred. "Removed" generally means these buildings are being repurposed for multifamily use, either by reconfiguring existing buildings (a difficult process) or by razing the existing structure and rebuilding for residential use.

The next hammer blow for office buildings is the coming effect of Artificial Intelligence (AI). There is an increased recognition that AI will supplant a substantial number of white-collar jobs. The predictions of this effect range from 10% to more than 50% of many types of jobs that currently occupy office space over the coming decade. Even at the lower end of this range, the effect on office space will be grave. In Southwest Portland, this effect remains somewhat muted, as the Class A structures at Kruse Way have benefited from the migration from the city of Portland. As leases expire in the city, firms that can relocate to the suburbs for reasons of safety and savings in operational costs find Kruse Way to be a preferred landing spot.

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For the same two reasons, decision makers have left Multnomah County in droves and moved to the "burbs," often relocating their firms with them. There appears to be a growing disdain in the city's body politic and among its elected leaders for high-income earners and large businesses. This dynamic has caused alarm in the state Capital and has led to internecine warfare between the Multnomah County Commissioners and the Governor.

Make no mistake about it, Multnomah County's decline is a huge drag on the Metro area's economy. For all of my 43 years in the business, Multnomah County has led the way in the region's economic growth, and property values have far exceeded those in the suburbs and Vancouver. Now, Portland and Multnomah County find themselves in the long-predicted "Doom Loop". Demand for space in the city and county has declined, population growth has stagnated or declined, property values have declined, and the resulting loss in revenue constricts basic services, which "loops back" to the loss in demand. Recent sales of office buildings in the central city are emblematic of this condition. Buildings are selling for a fraction of their former value. Most buildings that are sold, sell for a price that equates to the raw land value minus the cost to demolish the structure on it. Never in my career, or any observers memory, have we witnessed a collapse of an investment asset like this. No stock market decline has come close to matching the percentage of value lost, and a concurrent lack of liquidity.

SOUTHWEST INDUSTRIAL MARKET

The first six months of the year brought negative news in the form of layoffs by both Nike and Intel. These two firms have been Washington County's largest employers for the last several decades. Intel has long been the State's largest private employer. As I mentioned in my year-end report, Nike swamped the Hillsboro and Beaverton markets with flex/office space last year. The effects of Intel's recent cutbacks will be felt in the coming months and years. Many companies in the Southwest area are located here due to Intel's fabrication facilities. As I write this, both companies are in the process of absorbing new leadership and have shown some signs of life in their stock prices. If these companies can arrest their declines, it could help immensely in waking up some somnolent portions of the Southwest area that have been hit hardest by the decline of these two companies.

The I-5 Industrial corridor, from Tigard down through Salem, has seen space demand continue to slow, but still has low vacancies, and rents have not declined at a noticeable rate yet. There is a fair amount of new space that will come on the market in 2026, and demand needs to increase to absorb the new supply.

Property values in the I-5 corridor have held up well, and recent sales confirm this trend. There is a historically low amount of Industrial land and buildings for sale, and when industrial products do come on the market, they generally sell at prices reflective of the values of the last 2-3 years.

INDUSTRIAL (5K+ SF)

Submarket	Inventory SF	Under Construction	12 Mo NET Absorption SF	Vacancy Rate
I-5 Corridor	31.1M	900K	350K	5.3%
Sunset Corridor	27.6M	800K	350K	3.34%
217 Corridor	5.4M	0	80K	7.8%

Data sourced from CoStar

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SOUTHWEST OFFICE MARKET

As noted above, Office buildings, as an investment product, are under siege by demographic and sociological/economic changes unlike any I or anyone I know has seen. The suburban southwest markets have not escaped these paradigm shifts, but compared to Multnomah County, have held up much better. Nevertheless, supply still exceeds demand, and tenants and buyers have found the market to their favor.

The suburbs still benefit from a strong labor force, good public safety and schools, much improved transportation corridors, and a more reasonable and balanced body politic. As you can see, vacancies overall remain manageable, and most SW buildings continue to be profitable. One element that is often overlooked in the press regarding office buildings is the cost of operating vacant space. While it varies widely, most office buildings run $10-13 per SF to operate, not including debt service. Recent rent comps for office space are in the high teens to mid-20s on a full-service basis. Thus, if a building is 50% vacant and the rented portion is generating less than the operating costs of the vacant spaces, the building is essentially worthless from an income valuation standpoint. With the overall vacancy percentage much lower than the Portland CBD, the office market in Washington and Clackamas County is not facing an existential threat yet. Still, the headwinds facing the product are formidable, and the new threat of AI has yet to materialize anywhere near its predicted maturity.

OFFICE (10K+ SF)

Submarket	Inventory SF	Under Construction	12 Mo NET Absorption SF	Vacancy Rate
I-5 South	8.9M	0	250K	14.6%
Hwy 217	2.8M	0	51.4K	15.3%
Kruse Way	2.8M	0	55K	26.5%
Sunset Corridor	16.2M	0	43K	7.4%
CBD	29.8M	0	450K	34%

Data sourced from CoStar

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SECOND HALF OF 2025

Looking forward to the second half, there is some reason for optimism in the Industrial markets. The effect of the tariff announcements certainly has contributed to some of the lethargy in the markets. As the hoped-for announcements of agreements increase, the resulting clarity should strengthen confidence. The economy itself is, by all accounts, not in a recession, and the stock market has regained strength since its April plunge.

Additionally, the industrial sector has experienced a prolonged period of stagnation in general. Since mid-2022, this has been the slowest market for demand in industrial space I have seen outside of a recession. In my experience, it is unusual to have such an extended period of slow demand, and if the law of averages has any basis in fact, it should start to improve. Still, there are significant headwinds unique to our State. Intel's layoffs are going to have a chilling effect on the tech sector. Semiconductors are the largest contributor to Oregon's GDP, and with Intel in a downturn, it will present a formidable hurdle to a pickup in the region's economic fortunes.

Featured Listings

27100 SW Parkway Avenue, W3
36,000 SF Flex Space for Lease

4405 Turner Road
197,000 SF for Lease or Sale

21600 SW Oregon Street
8-100,000 SF for Lease

17858 SW Upper Boones Ferry Rd
Freestanding Building for Lease
12,000 SF

Significant Completed Transactions By Stu Peterson

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

Sherwood Industrial Building
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

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