SOUTHWEST MARKETS NEWSLETTER

Sherwood Commerce Center Phase II
Listing Agents: Stu Peterson, SIOR & Clayton Madey, SIOR

MIDYEAR 2026

The Southwest Portland metro's commercial real estate markets continued to soften through the first half of 2026, but for the first time in a while, there are real signs of stabilization in isolated submarkets. Office leasing appears to be finding a floor in the suburbs, while industrial absorption remains under pressure, particularly in Tualatin and Wilsonville. Other areas of the I-5 industrial market seem to be finding equilibrium. This edition is meant to explain where things stand at the midyear mark and where I see them heading.

The suburban office markets are showing signs of hitting bottom in terms of leasing activity. Sales of this product type remain scarce, and the overall trend is still slightly downward, but the migration of tenants from the CBD to the suburbs continues to provide support. Kruse Way posted positive absorption through the first half of the year, and the 217 Corridor, another favored destination for tenants fleeing the city, also finished the first half in positive territory.

The CBD tells a different story, barfing up another 351,000 SF of vacancies and continuing its decline. It is not just companies leaving the city that are driving negative absorption; those that stay are substantially reducing their footprints. The labor market remains strong enough that employees can resist the employers demands to return to the office, fighting traffic, and riding mass transit, which many still consider unsafe.

My impression of downtown itself is that it has genuinely improved, at least during daylight hours, with fewer tents, open drug use, and other negative conditions. If that trend holds, there is a real chance conditions begin to turn. A city council that understands how business funds the services it depends on would be the next necessary change to bring the city's core back from where it has landed.

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OFFICE MARKET CONDITIONS

Socioeconomic factors aside, the main reason for Multnomah County's elevated office 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 table below reflects this reality.

OFFICE (10K+ SF)

Submarket	Inventory SF	Under Construction	Vacancy Rate
I-5 South	8.9M	0	15.4 %
Hwy 217	2.8M	0	16.5%
Kruse Way	2.8M	0	16.5%
Sunset Corridor	16.6M	0	29.6 %
CBD	29.8M	0	39.0 %

Data sourced from CoStar

INDUSTRIAL MARKET CONDITIONS

The urban and suburban industrial markets continued to slide in the first half of this year. Tualatin and Wilsonville, in particular, saw alarming rates of decline. Wilsonville is contending with several large employers leaving Oregon and/or shutting down altogether. The Sunset Corridor was the shining star of the SW region, with a stunning 474,000 SF of positive absorption. Given current conditions, that sounds massive, but just three years ago, it was not unusual for SW submarkets to absorb two to three times that amount in more salubrious conditions. Notably, the Sunset Corridor has established new high-water marks for industrial rents and remains the only submarket with significant new construction underway.

Contrast that with the City of Portland's market, which experienced over 800,000 SF of negative absorption in the first quarter of 2026 alone. The slide out of Multnomah County to Washington, Clark, and Clackamas Counties is unmistakable.

INDUSTRIAL (5K+ SF)

Submarket	Inventory SF	Under Construction	Vacancy Rate
I-5 Corridor	31.1M	0	10.1%
Sunset Corridor	28.5M	1.2M	4.7%
217 Corridor	5.3M	12K	8.3%

Data sourced from CoStar

OUTLOOK FOR THE SECOND HALF OF 2026

Generally, activity has begun picking up in the second quarter in the I-5 Corridor. The projects I represent are seeing increasing interest. There seem to be claxons sounding at the state level about the slippage Oregon is experiencing in its economic climate, and this will be a focus in the coming gubernatorial election. I am optimistic that we have hit bottom and hope the rest of the year brings improvement and perhaps stabilization in vacancy and rental declines. Intel has been seeing a drastic improvement in its fortunes, and it remains our region's largest private employer. Likewise, Lam Research continues to expand in Tualatin, a significant development for this part of the metro region.

Portland's national image has taken a beating. Not so long ago, we were the darling of the national media, consistently ranking high among places to live and invest. Homelessness, riots and protests, drug legalization, and the decline of our schools have brought us to the bottom of most lifestyle and family-destination rankings. Institutional real estate investors have shied away not just from the CBD but from Oregon in general. The City of Portland's council has largely shrugged this off and is only now beginning to feel the effects as reserves shrink and service cuts are made. Until their hubris comes to a halt, or the city's electorate votes in people better versed in the civics that encourage prosperity, I do not see Portland recovering.

Longer-term, it should be obvious that if the state is going to regain its footing, there must be meaningful changes that benefit the private sector. Those changes will need to address Oregon's burdensome taxes and overzealous regulatory environment to keep our manufacturing companies here and change the state's image as a place hostile to employers. Our quality of life is unquestionable, but it requires a healthy employment environment, quality education, and affordable, abundant housing to be enjoyed.

Happy midyear, here's hoping the second half brings an encouraging outcome.

FEATURED LISTINGS

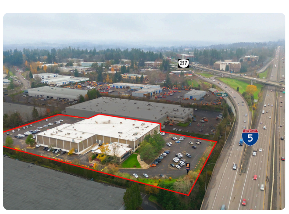
27100 SW Parkway Avenue, W3
36,000 SF flex space for Lease

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



76,000 SF Building
Sold in Tigard, OR

Boones Ferry Industrial Park
Sold to Schnitzer Properties

Woodland Industrial Park
SF Leased: 277,000 SF

Sherwood Commerce Center
SF Leased: 36,000 SF

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