

## **Columbian Economic Market Forecast 2007**

### **November 26, 2007**

The credit crunch from the subprime residential lending markets has not had much of an impact on the commercial real estate markets in Clark County. Short term construction financing rates have increased slightly due to the subprime and tightening underwriting restrictions, however, the long-term financing for quality commercial real estate is at very attractive pricing, with terms and conditions acceptable for permanent financing. Commercial lenders did not reduce their underwriting standards over the last few years, therefore, new commercial construction was based upon market demands for same and not speculation or cheap debt.

#### **OFFICE MARKET:**

The Vancouver Central Business District will end the year at a slightly higher vacancy rate than the previous year. The Columbian building located at the corner of 6<sup>th</sup> and Esther Streets is the new home of The Columbian Newspaper and will have approximately 42,000 square feet available to lease with 50% occupied by year end. 2008 will be another busy year downtown with the start of construction of the Riverwest project developed by Killian Pacific, which will include the new public library and underground parking for 900 vehicles, and 100,000 square feet of office space. Killian Pacific also plans starting construction on the Frontier Building, which will be a mixed-use building at 6<sup>th</sup> and Main Streets consisting of 25,000 square feet of commercial office space with ground floor retail. Prestige Development has broken ground on The Luxe Building located at 13<sup>th</sup> and "E" Streets, which will include over 56,000 square feet of office and residential condominium units. The Luxe building is the first and only Class "A" office building offering single-floor ownership to users in a downtown Class "A" office building. The Angelo Company has plans to start construction on their five-story, 62,000 square foot building planned at Mill Plain and "D" Street. The downtown Class "A" office market will again become very competitive with the new construction and preleasing for occupancy in 2009 from the new proposed developments. Downtown Class "A" office rental rates will trend upwards based upon the cost of new construction between \$28.50 and \$32.50, full service, per square foot. The Vancouver Mall area continues to be plagued by the highest vacancy rates in the County at over 20% compared to Clark County's average of 17%. In east Vancouver, Columbia Tech Center is rumored to have leased their new two-story, 52,000 square foot building to a single user that will take occupancy during the first quarter of 2008. Landlords will be challenged to attract tenants on a preleasing basis to the proposed new buildings under construction in 2008, however at the same time, landlords will be asking higher market rents to cover the cost of new construction. Clark County's vacancy rates will continue to increase over the next several years as new construction is absorbed into the market place.

#### **INDUSTRIAL MARKET:**

The multi-tenant industrial market will end the year under 7% vacant. The Portland Metropolitan multi-tenant industrial market will end the year at approximately 9% vacant. This is Clark County's fifth year of falling vacancy rates. At this point the Clark County market is now nestled into what we call the "sweet spot" of the real estate cycle, in other words, the point where market conditions are snug with supply and demand growing in sync with market pressures driving rents higher. Asking rents for new multi-tenant industrial buildings are now

justifying the construction of new business parks. After several years of virtually zero new construction in Clark County we expect 2008 will have several announcements of new multi-tenant industrial parks being permitted for construction.

#### RETAIL MARKET:

Once again, the retail market in Clark County continues to thrive due to employment and population growth in addition to the convenience of shopping at home. Many Clark County consumers are shopping closer to home and thereby reducing the sales tax leakage to the State of Oregon. Clark County vacancy rates will end at less than 5% for anchored shopping centers, which mirrors the Portland Metropolitan area vacancies as well. With the ground opening of Kohl's second store in Hazel Dell in Clark County, major retailers are viewing Clark County as a premium market to enter and/or expand the number of stores serving the growing population. 2008 will again experience a significant increase in new retail, including Grand Central at SR-14 and Grand Blvd. anchored by Fred Meyer and developed by Killian Pacific. The overall development will have 196,000 square feet. In addition, WinCo will be relocating their Vancouver Plaza store to NE 18<sup>th</sup> Street and Andresen with 90,000 square feet. The balance of the center will have approximately 145,000 square feet. Columbia Tech Center has again announced Lowe's hardware store will be joining their development and, rumored to be, JC Penney will locate to Mill Plain and SE 192<sup>nd</sup> Avenue. Rental rates for small shop tenants in all new centers jumped to \$30.00 to \$40.00 per square foot on a triple net basis.

#### INVESTMENT SALES:

Investment sales in Clark County were active, including over \$147 million worth of sales in 2008. The most significant sale was Hazel Dell Towne Center, which closed in April 2007 for over \$59 million. Retail developments were again by far the largest category of investment sales in 2007. Investors from both the local market and the national market are continuing to express interest in purchasing commercial real estate in Clark County. 2008 will most likely be another year of \$140 million plus of investment property sales.