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COMMERCIAL MARKET

Retail Market Analysis

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INTRODUCTION

As signs of a stable economy shine on the horizon, the Portland retail market must be prepared for the shift in people, preference, and possibilities that emerge from the pandemic. Oregon's relatively affordable cost of living has attracted an influx of new white-collar residents to its metropolitan area. The shift from place-based to web and e-commerce purchasing during the pandemic may be an indicator of long-term consumer preference shift. These changes invite and challenge us to rethink if, where, and how place-based retail can exist in this new environment.

As Portland's market continues to rebound from pandemic induced lows, local population growth in the fourth quarter of 2021 was more than 250% the national average. This growth can be attributed, in part, to the shift to remote work during the pandemic. According to CoStar, many migrants from more expensive cities have transitioned to Portland. The decision of many employers to adopt telework or hybrid models as an option for its employees is likely to lead to these high-income earners making Portland home.

INCOME

The Portland metro area's median household income is exceeding pre-pandemic levels and demonstrating greater growth than the national median income (see Table 1). According to the Bureau of Labor Statistics, Oregon's unemployment rate has shrunk to one-third the rate at the start of the pandemic, closing the fourth quarter at 4.1%. The dropping rate can be attributed, in part, to a decrease in labor force participation. The 61.9% labor force participation at the end of 2021 was a 1.4% decline from the closing of 2019.

The decrease in unemployment and increase in median household income are promising signs that the greatest economic challenges are behind us. Apart from malls and downtown Portland, all submarkets continue to appear stable and are meeting or exceeding pre-pandemic numbers in terms of market rent per SF, market sale price per square feet, and sales volume.

TABLE 1: Q1 2019 TO Q1 2023 MEDIAN HOUSEHOLD INCOME

Period	Portland	United States
2023 Q1	$91,570	$74,998
2022 Q4	$90,588	$74,292
2022 Q3	$89,322	$73,322
2022 Q2	$87,892	$72,201
2022 Q1	$86,159	$70,941
2021 Q4	$84,135	$69,437
2021 Q3	$82,235	$68,084
2021 Q2	$80,249	$66,648
2021 Q1	$77,989	$64,859
2020 Q4	$77,682	$64,582
2020 Q3	$77,499	$64,623
2020 Q2	$77,704	$64,947
2020 Q1	$78,746	$65,888
2019 Q4	$78,439	$65,712
2019 Q3	$77,882	$64,888
2019 Q2	$77,286	$63,988
2019 Q1	$76,512	$62,967

Source: Kidder Mathews

VACANCY

Locally, vacancy rates remain lower than the national average, but the hit to the Portland retail market was a dizzying blow. Portland average vacancy rates have increased 0.90% since Q4 2019, while the national average has increased 0.11% during that same period (see Table 2). Historically, strip malls have been the lowest performing locations for place-based retail. However, since the start of the pandemic, older malls and "those that lost department-store tenants" have claimed this unfortunate title, according to the Wall Street Journal. Locally, vacancy rates have doubled in commercial business districts, skyrocketing from 2.6% in Q4 2019 to 5.3% in Q4 2021. According to CoStar's forecast, vacancy in the commercial business district will stabilize around 5% well into the future. This perhaps could indicate a shift to the in-consumer preference for suburbia that was exacerbated by the pandemic.

TABLE 2: Q1 2019 TO Q1 2023 VACANCY

Period	Mall	Power Center	Neighborhood Center	Strip Center	General Retail	Other Retail	Portland	U.S.
2023 Q1	7.4%	3.9%	4.9%	5.4%	2.9%	1.9%	3.9%	4.3%
2022 Q4	7.4%	4.0%	4.9%	5.5%	2.8%	1.9%	3.9%	4.3%
2022 Q3	7.5%	4.0%	5.0%	5.5%	2.8%	2.0%	3.9%	4.4%
2022 Q2	7.6%	4.1%	5.1%	5.6%	2.8%	2.1%	4.0%	4.5%
2022 Q1 EST	7.5%	4.2%	5.1%	5.7%	2.8%	2.5%	4.0%	4.6%
2022 Q1 QTD	7.3%	4.2%	5.2%	5.7%	2.9%	3.8%	4.1%	4.6%
2021 Q4	7.4%	4.2%	5.4%	5.4%	2.9%	4.1%	4.1%	4.6%
2021 Q3	7.4%	4.0%	5.6%	5.6%	2.8%	3.1%	4.1%	4.8%
2021 Q2	6.8%	4.4%	6.1%	6.3%	3.0%	3.1%	4.3%	5.1%
2021 Q1	6.1%	4.7%	6.0%	6.0%	2.8%	2.1%	4.2%	5.2%
2020 Q4	5.1%	4.2%	5.9%	5.4%	2.9%	2.1%	4.1%	5.1%
2020 Q3	4.0%	3.9%	5.9%	5.7%	2.6%	2.5%	3.8%	5.0%
2020 Q2	3.0%	2.5%	5.9%	4.9%	2.4%	2.0%	3.6%	4.8%
2020 Q1	2.6%	2.0%	5.6%	4.5%	2.3%	2.1%	3.3%	4.7%
2019 Q4	2.6%	1.9%	5.2%	4.1%	2.3%	1.2%	3.2%	4.5%
2019 Q3	2.9%	2.0%	5.0%	4.7%	2.1%	1.2%	3.1%	4.5%
2019 Q2	2.4%	2.3%	4.8%	4.9%	2.2%	0.3%	3.1%	4.5%
2019 Q1	2.4%	2.4%	4.7%	4.3%	1.9%	0.3%	2.9%	4.5%

Source: Kidder Mathews

DELIVERIES AND CONSTRUCTION

The limited increase of new construction will likely offset some of the impact the pandemic has had on the retail market. According to CoStar, over the last four years less than 500,000 SF of new real estate has been built each year.

E-commerce behemoth Amazon has joined retail giants Nike, Adidas, and Intel in developing a significant real estate footprint across state lines from its home base. In addition to Amazon's $2.8 billion investments across Oregon's office and industrial sectors since 2015, facilities in both Canby and Woodburn have been identified as upcoming sites. Nike continues to host one of the largest campuses in the United States, and Intel is completing its 1.5 million square foot expansion of its previously 2.2 million square foot campus. Currently, there is about 656,000 square feet of construction in process at varying stages.

TABLE 3: TOP 5 UNDER CONSTRUCTION FOR 2021

Property	Submarket	Square Feet	Delivery Date
SW Cedar Hills Blvd.	North Beaverton	140,000	1Q 2023
Happy Valley Crossroads East	Clackamas/Milwaukie	61,998	4Q 2022
11941 N Jantzen Dr	Hayden Island/Swan Island	54,562	2Q 2022
Milltowner I	North Beaverton	50,500	1Q 2022
13645 NW Cornell Rd	North Beaverton	30,000	3Q 2022

Source: Kidder Mathews

SALES AND LEASES

Typically, the multi-family, office, and industrial sectors have drawn greater investment than retail has in Portland. An indication of the retail sales potential is highlighted in CoStar's fourth quarter report, which says, "Trailing year volume is $797 million, versus the historical average of $573 million." Triple net assets selling essential goods, including personal protective equipment, sold for above average sale prices as risk tolerance shrunk among investors. Average sales per square foot increased 13.22% from the fourth quarter of 2020 to the four quarter of 2021, with average pricing around $236 per square foot.

TABLE 4: TOP 5 LEASE TRANSACTIONS FOR 2021

Property	Submarket	SF	Landlord	Tenant
119431 N Jantzen Dr	Hayden Island/Swan Island	54,000	Watmull Proper-ties Corporation	Floor & Décor
10174-10176 SE 82nd Ave	Clackamas/Milwaukie	40,000	82nd & Orchards, LLC	JoAnn Fabrics
2913-3009 NE 72nd Dr	St. Johns/Central Vancouver	30,000	Fourth Plain Port-land Shopping Center	O'Reily Auto Parts
9600 SE 82nd Ave	Clackamas/Milwaukie	29,000	Gryphon Investors	Home Goods
10400 NE Fourth Plain Blvd	Orchards	26,000		Kaspar Sandblast-ing

Source: Kidder Mathews

TABLE 5: TOP SALE TRANSACTIONS FOR 2021

Property	Submarket	SF	Sale Price	Buyer
8840 SW Can-yon Rd	Sylvan/Hillsdale	51,817	$21,000,000	Kuni/Bullock Marital Trust
10174-10176 SE 82nd Ave	Clacka-mas/Milwaukie	74,263	$15,150,000	Westwood De-velopment
9009 SW Hall Blvd	Tigard	50,808	$9,635,000	U.S. Micro PC
5240 SE 82nd Ave	Clacka-mas/Milwaukie	44,000	$9,100,000	William Gan-der
3600 SW Hall Blvd	North Beaverton	24,775	$8,240,000	William Gan-der

Source: Kidder Mathews

Rent growth in Portland has experienced a -0.3% dip year over year, compared to the national market's 3.0% growth during the same period. Local Power Centers command rents of $27.33 per square foot, $3.17 per square foot higher than the national average. The national index for malls at $30.67 per square foot outpaces the local average of $23.17 per square foot, according to CoStar. Despite the waning rent growth, the Portland market experienced a total of 75,265 square feet of net absorption. The third and fourth quarters of 2021 mark the first consecutive quarters to report positive net absorptions since the end of 2018. Malls continue to trail behind with average pricing of $23.17 per square foot.

RETHINKING LLOYD CENTER

To many, Lloyd Center was an economic and cultural hub. It evokes emotional responses in op-ed columns and at dining room tables. Today, it remains a shadow of what it once was, economically and culturally. When Lloyd Center opened its doors in 1960, it was an outdoor mall serving as an alternative to the retail market downtown. Thirty years later, Pioneer Place opened its doors as an indoor mall. In response, Lloyd Center made the executive decision to become enclosed.

Randy Gragg, architectural critic for the Oregonian, vehemently disagreed with the design. In a 1991 article he wrote, "with more development in the area likely, the suburban orientation of Lloyd Center will encourage a sterile, car-choked, suburb-in-a-city, rather than a bustling extension of downtown." He went on to say, "the storefronts and windows facing the streets have been cinder-blocked shut and stuccoed over. All but one street-level pedestrian entrance forces you to troop through a department store."

Tom Kilbane of Urban Renaissance Group (URG), the developer spearheading the revitalization of Lloyd Center, appeared to agree with Gragg's view. Kilbane shared that although the vision for Lloyd Center's future has not been determined, the thought of reopening the street grid (north to south) and increasing street-level pedestrian entrances is appealing to the development firm. URG also believes that the current retail footprint is too vast.

Current NOI at Lloyd Center is negative, with a 50% vacancy rate. Because of this, URG's focus for the next three years will be stabilization. It is not currently recruiting anchor tenants and is unlikely to sign five-year leases. As URG works to develop a 15-year vision of the Lloyd Center, they claim that they are committed to listening to the community. Some combination of residential, retail, event space and office are likely to make up what was once the largest mall in the country.