
RETAIL MARKET ANALYSIS

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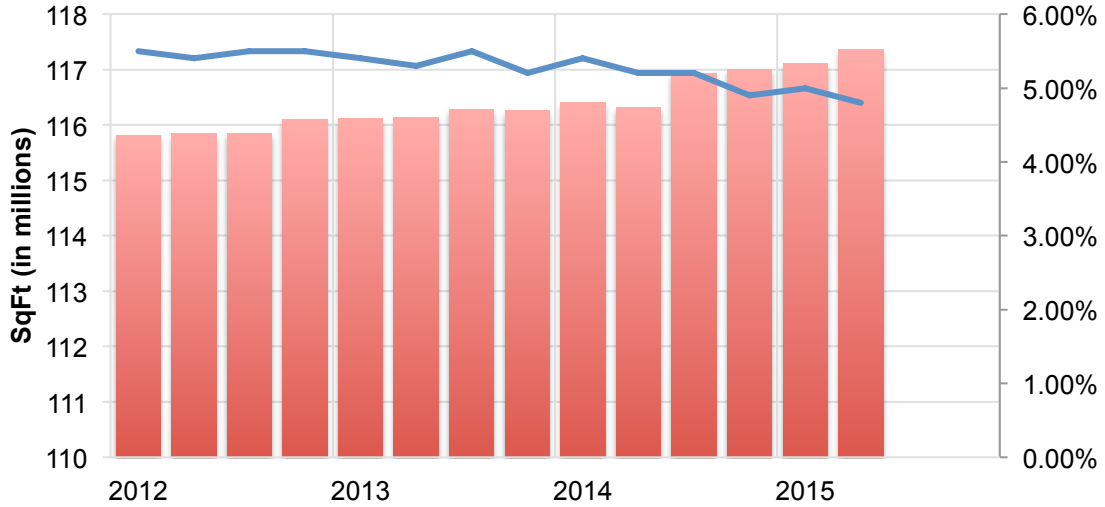
Recent trends in retail leasing across the country look to continue, with JLL projecting continued strong performance in the restaurants and food specialty, health/fitness/nutrition, and variety retail (i.e., discounters) categories through 2015. These trends reflect shifting preferences towards experiential consumption, health-oriented consumers, and the persistently stagnant incomes for lower-income earners. JLL predicts these trends will favor lifestyle centers, grocery-anchored and neighborhood strip centers, and outlet malls.

VACANCY

Kidder Mathews reports that vacancy decreased 20 basis points from the first quarter to 4.8 percent. Rates have continued a slow but steady decrease, down 60 basis points since the second quarter of 2012. This decrease has held despite a growing number of deliveries in recent quarters. While still low, the spread between the availability rate and the vacancy rate has continued a yearlong increase, ending the second quarter at 1.3 percent above the overall vacancy rate from a low of 0.8 percent in third quarter 2014.

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Figure 1: Portland Retail Market Net Rentable Area (NRA) and Vacancy (%), 2012-2015



Source: Kidder Mathews

CoStar reported a 2.7 percent vacancy rate for General Retail, 7.2 percent for Malls, 4.1 percent for Power Centers, 7.7 percent for Shopping Centers, and 0.9 percent for Specialty Centers. Kidder Mathews reports convenience centers at 12.6 percent, neighborhood centers at 6.5 percent, community centers at 4.5 percent, and regional and super-regional centers at 5.1 percent.

NAI, Norris, Beggs, & Simpson, reported the weakest vacancy rates in the 122nd/Gresham and Vancouver submarkets, at 9.87 percent and 8.41 percent respectively, and the strongest performance in the Southwest and Eastside submarkets, at 3.72 percent and 4.38 percent respectively.

Table 1: Q2 2015 Vacancy and Absorption by Submarket

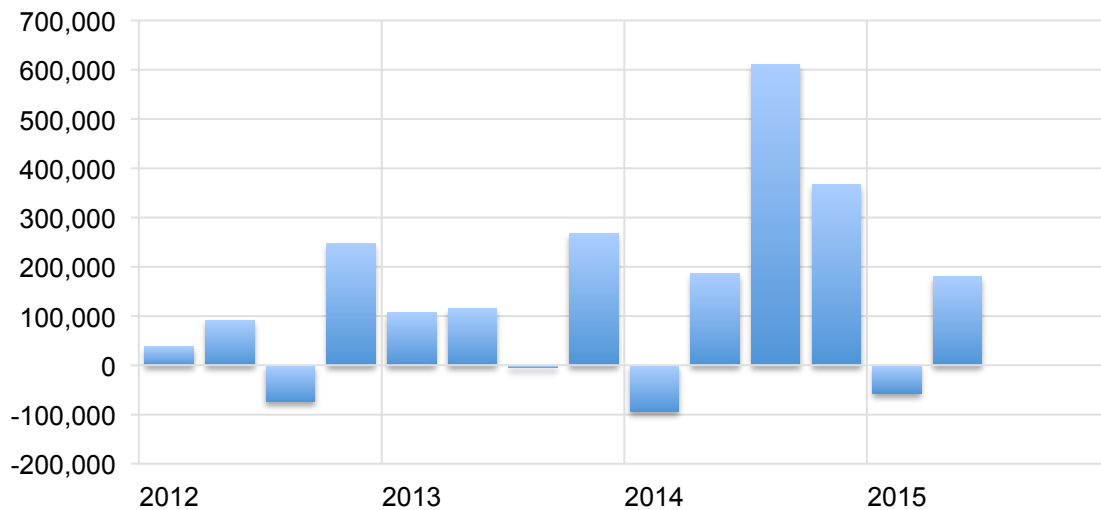
Submarket	Vacancy	Absorption
122nd/Gresham	9.87%	-517
Central City	6.41%	-18,991
Eastside	4.38%	21,296
Southeast/East Clackamas	6.07%	-82,407
Southwest	3.72%	62,298
Sunset Corridor	4.55%	8,797
Vancouver	8.41%	-68,117
TOTAL	6.08%	-77,641

Source: NAI, Norris, Beggs, & Simpson

ABSORPTION AND LEASING

Kidder Mathews reports net absorption of 180,541 square feet for the quarter, a rebound from first quarter 2015, but down from highs reached during third and fourth quarter 2014. Still absorption was strong enough to keep vacancy levels down despite recent deliveries.

Figure 2: Net Absorption Rate (square feet)



Source: Kidder Mathews

NAI, Norris, Beggs & Simpson reports Hank’s Thriftway will shutter its 22,000 square foot store in the Sunset Corridor after 80 years in Washington County. The Peterkort Town Center Albertsons closed its doors, vacating its 50,000 square foot store. Safeway is following suit with an announcement that it will close two of its stores in August—its Wilkes East store in Gresham and the Oak Grove store in Milwaukie.

Table 2: 2015 Q2 Notable Retail Lease Transactions

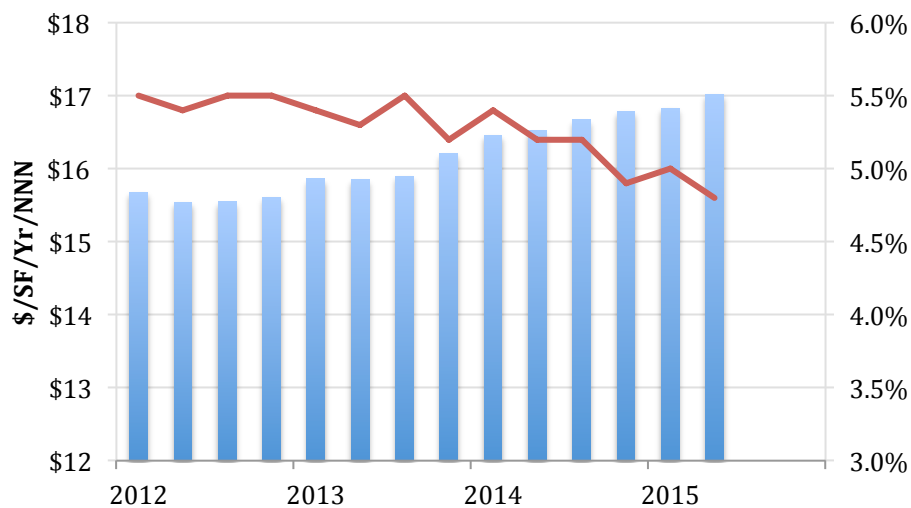
Building	Tenant	Submarket	Sq. Ft
Cascade Marketplace	OfficeMax	Cascade Park	23,000
Sandy1600	Automotive Electric Distributors	Lloyd District	14,881
Industrial Home Building	evo	Lloyd District	11,000
The Morrison	Dollar Tree	Goose Hollow MF	10,360

Source: CoStar

RENTAL RATES

Kidder Mathews reports that rents continued an eight-quarter climb, ending at \$17.02. This marks a 1.1 percent quarter-to-quarter increase, the quickest rate of increase since first quarter 2014, and a turnaround from a three quarter decrease in rate increases.

Figure 3: Portland Retail Market Average Quoted Rates and Vacancy, 2012-2015



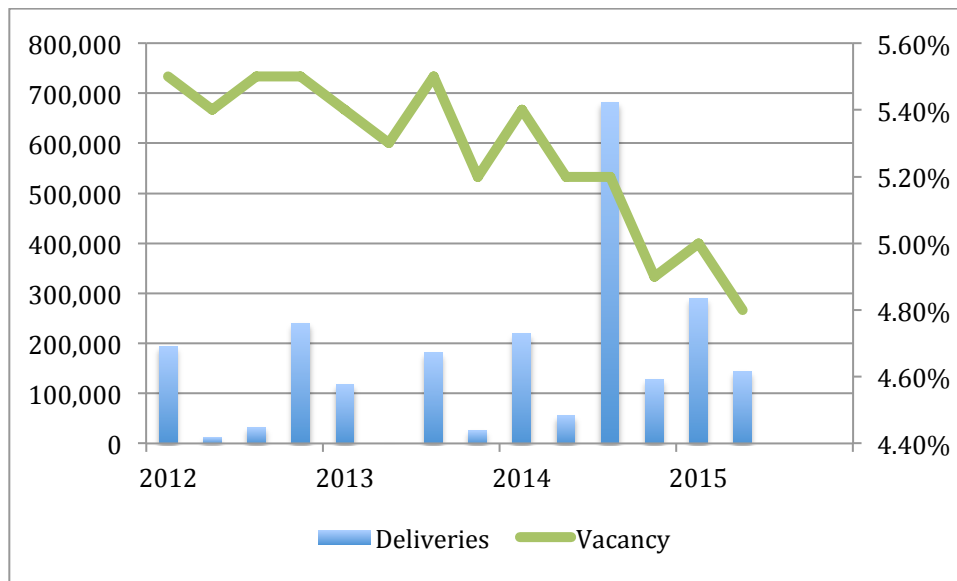
Source: Kidder Mathews

DELIVERIES AND CONSTRUCTION

Kidder Mathews reported a total of 13 buildings and 216,016 square feet delivered for the quarter while NAI, Norris, Beggs, & Simpson reported 12 buildings completed and 314,293 square feet. NAI, Norris, Beggs & Simpson reports Kruse Village delivered 56,184 square feet during the quarter—completing all six buildings of the 62,000 square foot development. Leasing continues on the development with most signed tenants in the restaurants and food services and health and beauty categories. NAI, Norris, Beggs & Simpson attributed recent deliveries to the large number of mixed-use multifamily developments completed in Portland in recent quarters.

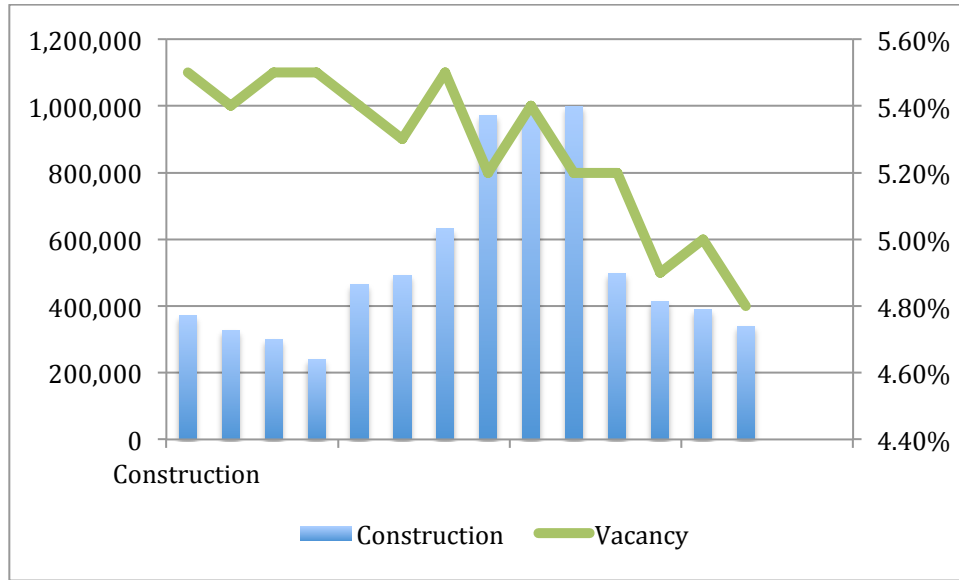
Kidder Mathews reports a total of 15 projects under construction for a total of 340,043 square feet. This is down from 390,761 square feet last quarter and far below the 999,576 under construction during second quarter 2014. Gramor reports it will begin construction on a new, mixed-use development anchored by a 145,000-square-foot Fred Meyer in Happy Valley at the corner of 172nd Avenue and Sunnyside Road. Included in the project will be eight retail buildings, a Fred Meyer fuel center, and a 168-unit apartment complex. Construction is set to begin in late 2015 and end in Fall 2016. Kidder Mathews reports the construction value at \$80 million.

Figure 4: Portland Retail Market Deliveries and Construction (square foot) and Vacancy (%), 2012-2015



Source: Kidder Mathews

Figure 5: Portland Retail Market Construction (square feet) and Vacancy (%), 2012-2015



Source: Kidder Mathews

SALES

Kidder Mathews reported \$117.07 million in transactions during the second quarter, a decrease from the 2014 quarterly average of \$167.81 million. Capitalization rates increased from 6.07 percent during last quarter to 6.62 percent this quarter. CoStar reported higher second quarter transactions with the \$150 million sale of a nine-property portfolio to The Macerich Company.

Table 3: 2015 Q2 Notable Investment Transactions

Property	Buyer	Submarket	Sale Price
11250 183 rd St. (9 properties)	The Macerich Company	Sunset Corridor	\$150 M
322 NW 14 th Ave	HP Investors	Central City	\$12.9 M
2815-2831 SW Barbur Blvd	Interurban Development	Central City	\$10 M

Source: CoStar