
RETAIL MARKET ANALYSIS

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After an improved 3.9 percent annualized GDP growth rate for the second quarter, growth in the US economy slowed to a 1.5 percent annualized growth rate during the third quarter—that according to the advance estimate released by the US Department of Commerce. While this marks a marked slowdown from the second quarter, the rate is just below the market estimate of 1.6 percent and the Department of Commerce credits the decrease to an inventory glut forcing production to slow rather than to worsening market fundamentals. Fourth quarter estimates are optimistic, with economists calling for a pick up in GDP growth.

Consumer spending grew at a 3.2 percent rate during the third quarter—a decrease from the 3.6 percent rate of growth during the second quarter. However, the growth rate in disposable income actually increased during the third quarter to 4.8 percent from 3.4 percent during the second quarter.

The Portland metro economy continues to perform strongly, with 3.2 percent job growth over the last 12 months spread over a diverse group of industries. The State of Oregon’s Office of Economic Analysis (OEA) has even increased its winter estimates from original projections. Despite a small uptick in unemployment from 5.4 percent in June to 5.7 percent in July due to an influx of “people entering the labor market or who are leaving their jobs voluntarily,” unemployment closely trailed the national rate of 5.3 percent in July and sits well below the 7.0 percent rate in July 2014.

The Integra Realty Resources (IRR) highlights several trends in Portland’s retail market. According to IRR, the Portland retail market is buoyed by the barriers to

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entry imposed by Oregon's system of urban growth boundaries and by Portland's increasing urban housing density. IRR sees strong retail growth in central Portland, particularly from ground-floor retail in urban, mixed-use, multitenant buildings and grocery anchors looking to locate or expand in inner Portland. In contrast, IRR sees a slight decrease in demand for suburban grocery-anchored centers.

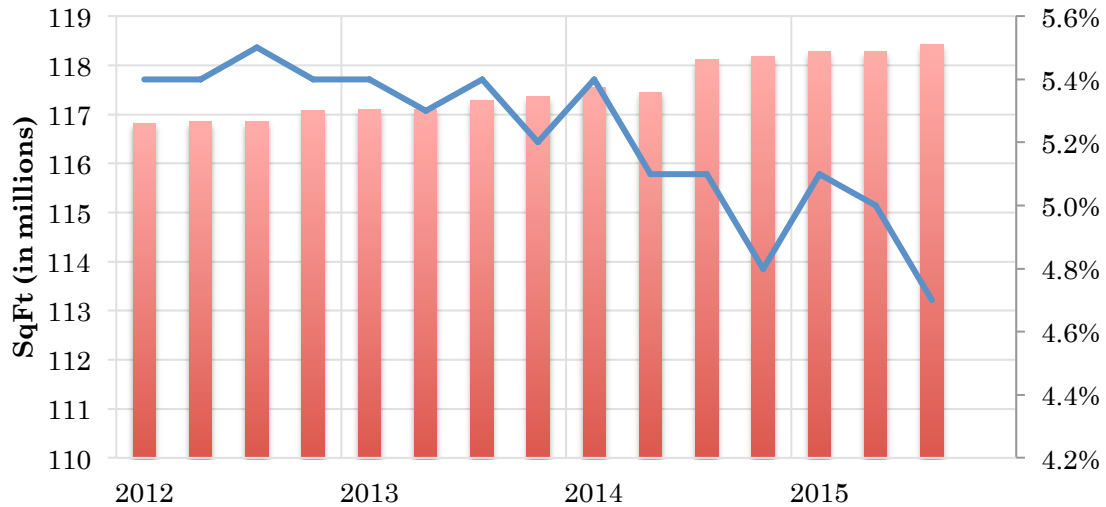
As of October 1, 2015, Portland's growing bevy of marijuana dispensaries opened their doors to recreational sales. According to an extrapolation based upon limited sales numbers collected by the Oregon Retail Cannabis Association, Oregon dispensaries brought in \$11 million during the first week of recreational sales alone. If true, this number could indicate much stronger sales than anticipated, leading to higher tax revenues and potentially greater interest in additional marijuana tenanted real estate.

Portland's retail market is also likely be impacted by Haggen's Chapter 11 bankruptcy filing. The filing follows Haggen's botched purchase of 146 stores that Albertsons and Safeway were ordered to sell in exchange for federal approval of their merger. NAI Norris, Beggs, & Simpson reports that Haggen will close 12 of its Oregon stores, including those in Ashland, Baker City, Beaverton, Milwaukie, Sherwood, Springfield, and Tigard.

VACANCY

Kidder Mathews reports that vacancy continued a steady but slow decline, with the direct vacancy rate ending at 4.7 percent for the third quarter. This marks the lowest retail vacancy rate on record since at least 2008 as compared to Kidder Mathews' annualized historic vacancy rates. The spread between the vacancy rate and availability rate was unchanged from the second quarter, holding steady at 1.1 percent over the direct vacancy rate, ending at 5.8 percent in the third quarter. NAI Norris, Beggs & Simpson reported a total availability rate of 6.1 percent.

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



Source: Kidder Mathews

NAI, Norris, Beggs, & Simpson, reported the weakest total vacancy rates in the 122nd/Gresham and Vancouver submarkets, at 9.9 percent and 8.3 percent respectively, and the strongest performance in the Southwest and Eastside submarkets, at 3.8 percent and 4.4 percent respectively—trends unchanged from the previous quarter.

Table 1: Vacancy Ranked by Submarket, Third Quarter 2015

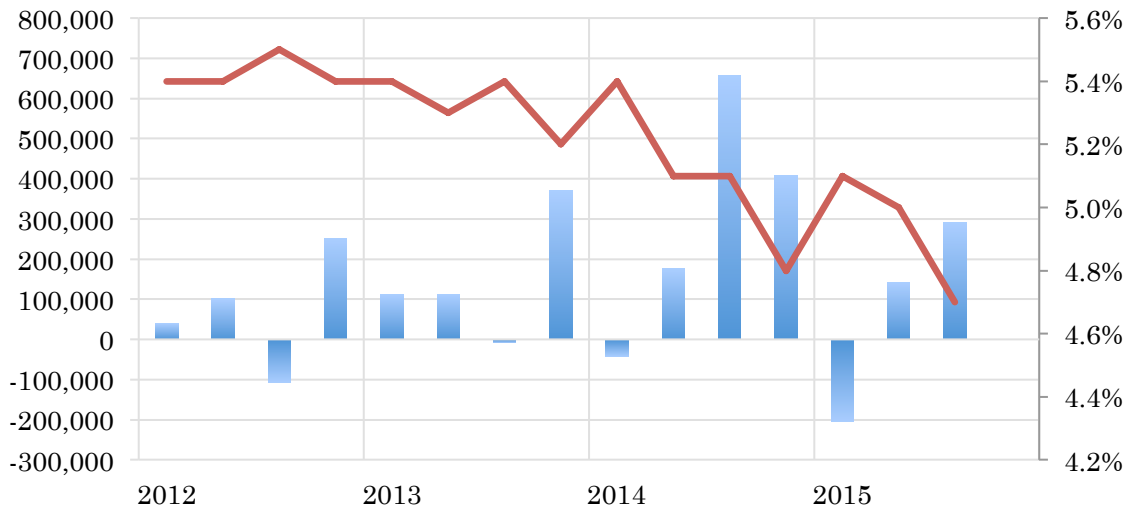
Submarket	Vacancy
Southwest	3.8 percent
Eastside	4.4 percent
Sunset Corridor	5.1 percent
Central City	5.7 percent
Southeast/East Clackamas	5.7 percent
Total	6.1 percent
Vancouver	8.3 percent
122nd/Gresham	9.9 percent

Source: NAI Norris, Beggs & Simpson

ABSORPTION AND LEASING

Kidder Mathews reports a strong net absorption of 290,109 square feet for the quarter, 43 percent higher than the average quarterly net absorption rate over the past three years. NAI Norris, Beggs & Simpson reported net absorption of 170,836 square feet for the quarter.

Figure 2: Net Absorption Rate (square feet) and Vacancy (percent), 2012-2015



Source: Kidder Mathews

Safeway recently closed two Portland Metro stores: its Wilkes East store in Gresham and its Oak Grove store in Milwaukie. Shleifer Furniture also announced it would close after 80 years with an announced conversion of the SE Grand Avenue building to a hotel by Beam Development. Green Zebra moved forward with two new stores, a 4,200-square-foot location at SW Broadway and Mill Street in an agreement with PSU as well as an 8,023-square-foot location at the Hassalo on Eighth development. Whole Foods will open its 365 by Whole Foods concept in Lake Oswego—one of just five locations to be announced so far. The format targets value and quality conscious customers in a smaller format and will feature its 365 Everyday Value brand. Analysts are interpreting the concept as a move to target Millennials.

Table 2: Net Absorption Ranked by Submarket, Third Quarter 2015

Submarket	Absorption
Total	170,836
Vancouver	152,674
Southwest	30,529
Southeast/East	
Clackamas	19,334
Eastside	32
Central City	(432)
122nd/Gresham	(1,847)
Sunset Corridor	(29,454)

Source: NAI Norris, Beggs & Simpson

Table 3: Notable Retail Lease Transactions, Third Quarter 2015

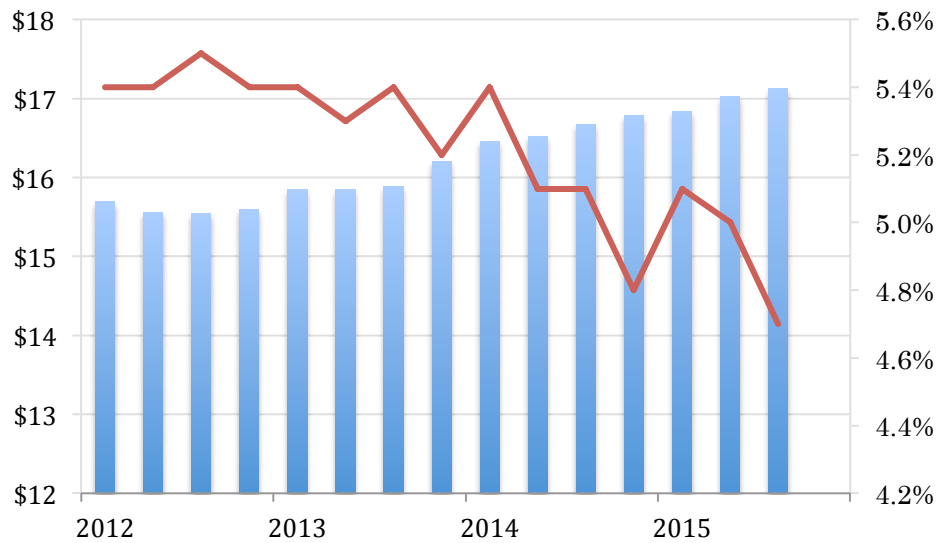
Building	Tenant	Submarket	Sq. Ft
Tigard Triangle Center	Party Fair	Southwest	9,509
Hassalo on Eighth	Green Zebra Grocery	Eastside	8,203
Barrows Crossing	Dogstar	Southwest	5,540

Source: NAI Norris, Beggs & Simpson

RENTAL RATES

Kidder Mathews reports that rents continued a nine-quarter climb, ending at \$17.12 per square foot NNN per year. This marks a 2.7 percent year-to-year increase. Norris & Stevens reported average quoted rents at \$17.41 per square foot per year, a 2.87 percent year-to-year increase according to its data.

Figure 3: Portland Retail Market Average Quoted Rates (\$/SF/Yr/NNN) and Vacancy (percent), 2012-2015



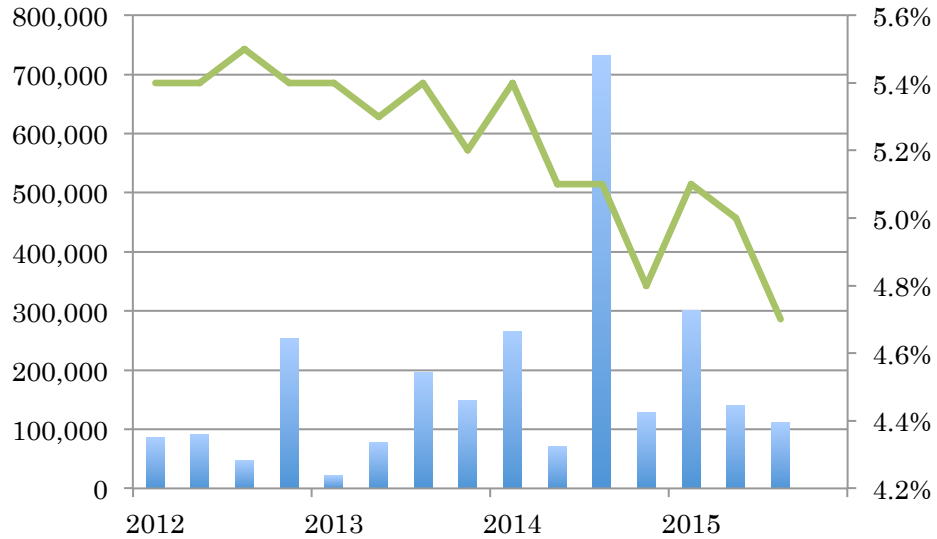
Source: Kidder Mathews

DELIVERIES AND CONSTRUCTION

Kidder Mathews reported a total of 15 buildings and 111,001 square feet delivered for the quarter, NAI, Norris, Beggs, & Simpson reported three buildings completed and 168,250 square feet, and Norris & Stevens reported 14 buildings and 100,717 square feet.

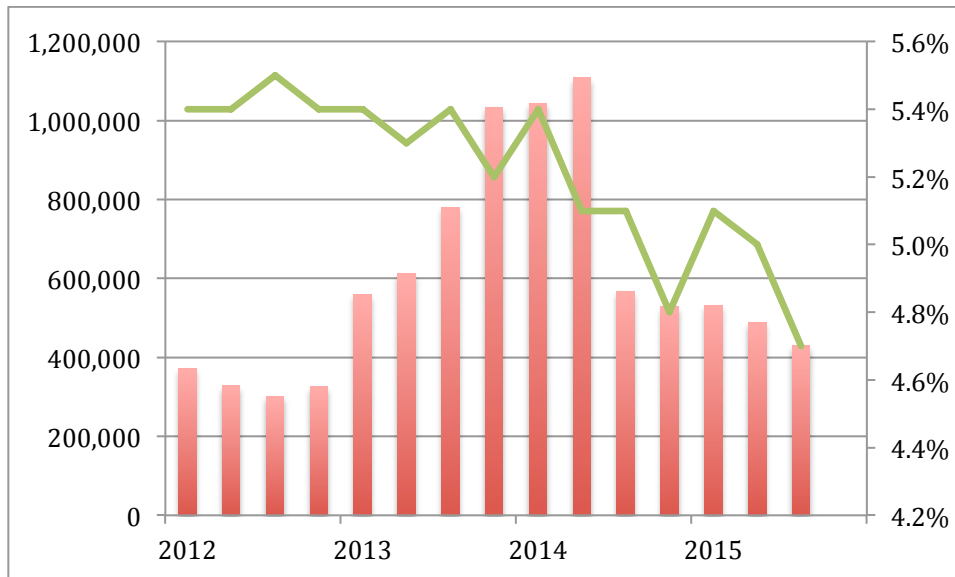
Kidder Mathews reports a total of 20 projects under construction, for a total of 430,918 square feet. This is down from 488,227 square feet last quarter. The construction pipeline continues to sit below late 2013 and early 2014 levels that stood at over 1,000,000 square feet. NAI Norris, Beggs & Simpson reports a total of 45,267 square feet under construction and Norris & Stevens reports a total of 146,445 square feet.

Figure 4: Portland Retail Market Deliveries (square feet) and Vacancy (percent), 2012-2015



Source: Kidder Mathews

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



Source: Kidder Mathews

SALES

Kidder Mathews reported \$202.47 million in transactions during the third quarter, an increase from the 2014 quarterly average of \$169.1 million and reports expectations of growth in total 2015 transactions over 2014. Marcus & Millichap reports capitalization rates of five percent for drug stores in the CBD with a 25 basis point increase for surrounding areas, a high-six to low-seven percent rate for strip centers increasing for surrounding areas, and fast-food restaurants as low as 4 percent.

Table 4: Notable Investment Transactions, Third Quarter 2015

Property	City	Sale Price	Square Feet	Price/SF
Tigard Promenade & Sunnyside	Portland	\$38.5 M	117,695	\$327
Dealership Portfolio	Portland	\$32.25 M	116,681	\$276
Trails End Marketplace	Oregon City	\$20 M	105,191	\$190
Winco Foods	Portland	\$15 M	105,000	\$143
Mt. Baker Building	Portland	\$3.55 M	NA	NA
419 E Burnside St.	Portland	\$2.795 M	NA	NA

Source: Kidder Mathews and NAI Norris, Beggs & Simpson