
RETAIL MARKET ANALYSIS

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While big brand name store closures have been on the rise in the U.S. since January (Ralph Lauren and Uniqlo being the most recent to announce closures), overall shopping center vacancies are down compared to recent quarters. Although national rental rates have increased, the current vacancy rate is at a low 7.6 percent (down from 7.8 percent in the first quarter). Consumer spending was the main cause of this quarters' growth and both investment and inventories fell for the first time since 2011.

Cushman & Wakefield note that while the full effects of Brexit are still unknown, the U.S. economy is one of the strongest in the world and will unlikely be greatly felt by the long-term effects of Brexit. The two main markets Brexit could impact are tourism and luxury retail. With the pound at a 30 year low UK travelers may cancel their U.S. summer travel plans, but the strength of the dollar could encourage more travel and spending from Americans. Retail brands looking to expand to the UK will likely find themselves in a challenging economy that could also negatively impact efforts to expand to the rest of Europe.

A major factor in the national growth last quarter came from the restaurant industry and Portland is no exception. In August of 2016 the Washington Post named Portland the number one "food city" in the U.S. With projects such as the Pine Street Market opening and the anticipated James Beard Public Market coming in 2018 this national ranking is not a surprise. With that said, according to the website, Eater (pdx eater.com), 34 restaurants have closed in Portland just this year.

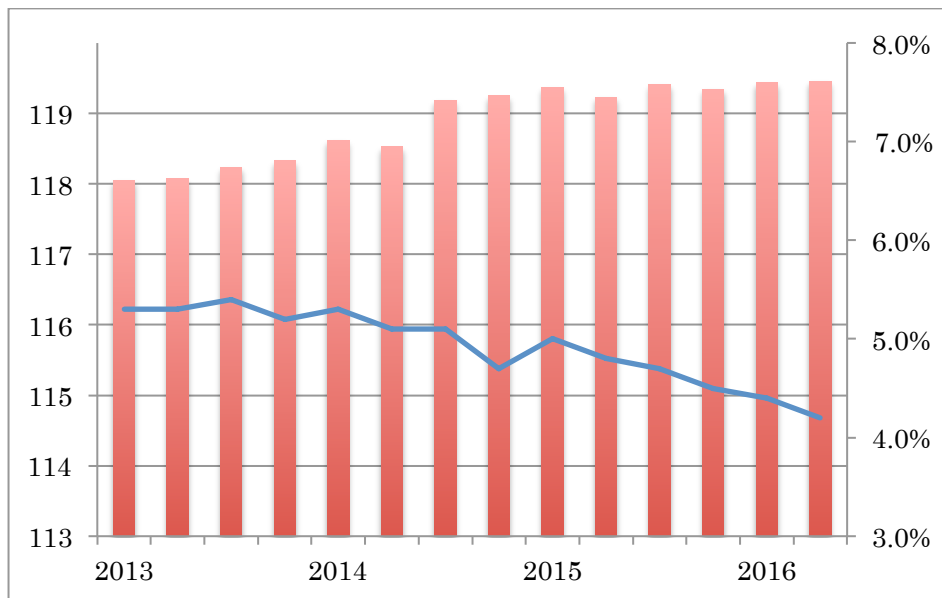
■ **Melissa Beh** is a Master of Real Estate Development candidate and has been awarded the Center for Real Estate Fellowship. Any errors or omissions are the author's responsibility. Any opinions are those of the author solely and do not represent the opinions of any other person or entity.

Part of this is due to the extreme growth Portland is experiencing driving rising retail rent prices.

VACANCY

Costar reported that Portland vacancy rates continued to show a steady decline, an overall market trend seen during the last four quarters, with the direct vacancy rate ending at 4.2 percent for the second quarter. (Compared to 4.3 in the second quarter and the national rate of 7.6 percent.)

Figure 1: Portland Retail Market Net Rentable Area (square feet in millions) and Vacancy (%) by Quarter, 2013-2016



Source: Kidder Mathews and CoStar

Costar data showed an overall vacancy rate of 4.2 percent with all submarkets at the five percent level or below, with the exception of Clark County. The Northwest is notable with the lowest rate of 2.6 percent.

Table 1: Portland Retail Market Vacancy by Submarket, Second Quarter 2016

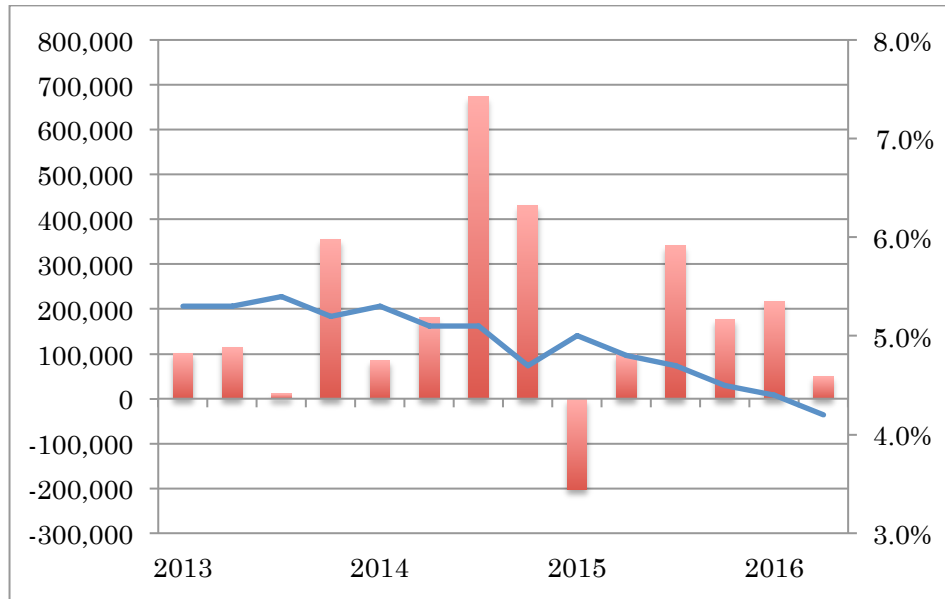
Submarket	Vacancy (%)
CBD	4.0%
Clark County	5.9%
I-5 Corridor	5.0%
Lloyd District	4.9%
Northeast	3.5%
Northwest	2.6%
Southeast	4.0%
Southwest	3.5%
Westside	3.4%
Total	4.2%

Source: CoStar

ABSORPTION AND LEASING

Costar reports a net absorption of 49,616 square feet in the second quarter. This number represents a basically flat net absorption, but specialty centers and malls were some of the most prominent leasers.

Figure 2: Net Absorption Rate (square feet) and Vacancy (%) by Quarter, 2013-2016



Source: Kidders Matthew and CoStar

Table 2: Portland Retail Market Absorption by Submarket, Year-to-date 2016

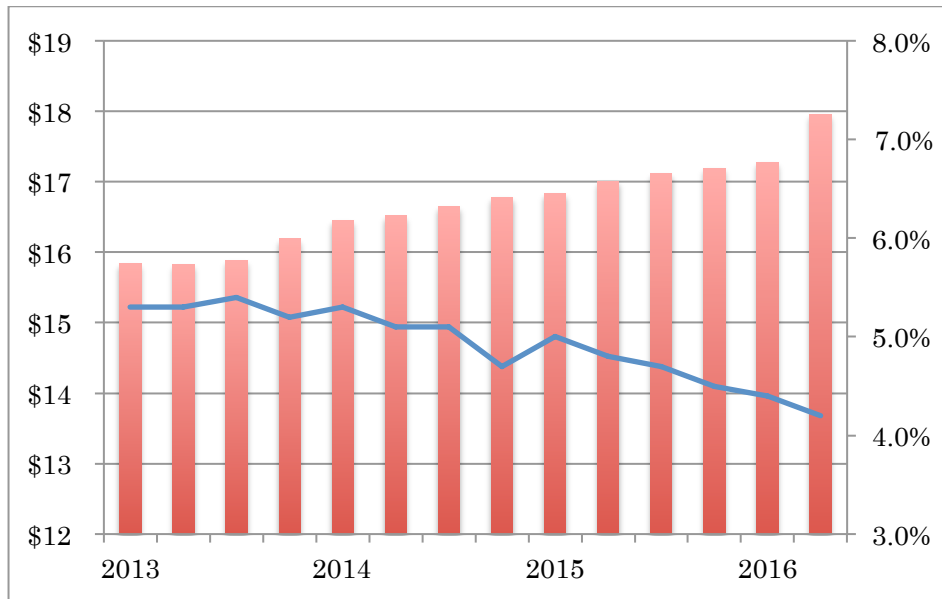
Submarket	YTD Absorption	Absorption as a % of YTD RBA
CBD	15,320	0.08
Clark County	84,474	0.07%
I-5 Corridor	(20,525)	1.1%
Lloyd District	(14,525)	(2.3%)
Northeast	71,966	0.6%
Northwest	17,966	6.7%
Southeast	(26,224)	0.6%
Southwest	16,978	0.5%
Westside	76,367	(0.3%)
Total	221,278	0.7%

Source: CoStar

RENTAL RATES

Costar reports that rents continued to trend up, ending at \$17.96 per square foot NNN per year. This is 2.2 percent increase from the previous quarter.

Figure 3: Portland Retail Market Average Quoted Rates (\$/SF/Yr/NNN) and Vacancy (%) by Quarter, 2013-2016

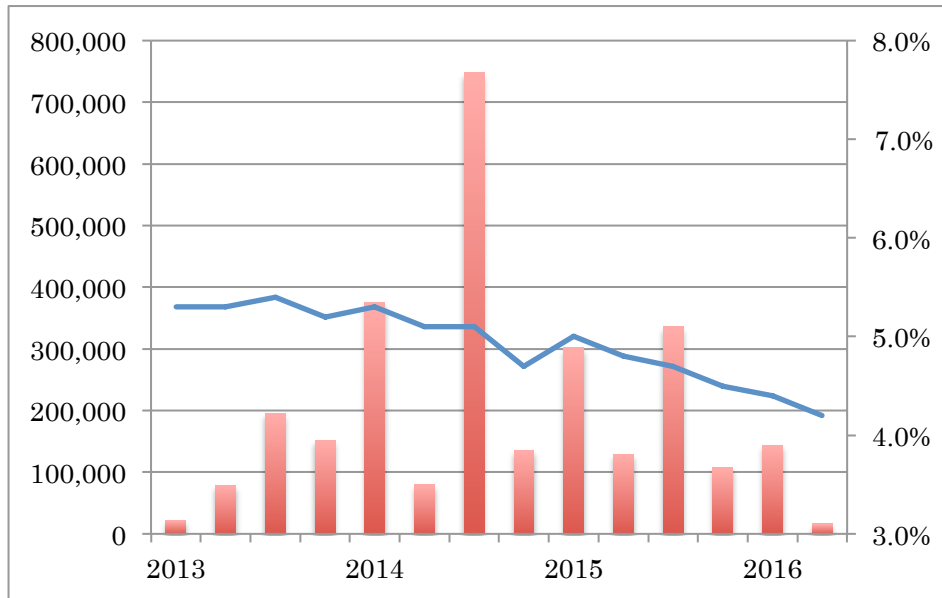


Source: Kidders Matthew and CoStar

DELIVERIES AND CONSTRUCTION

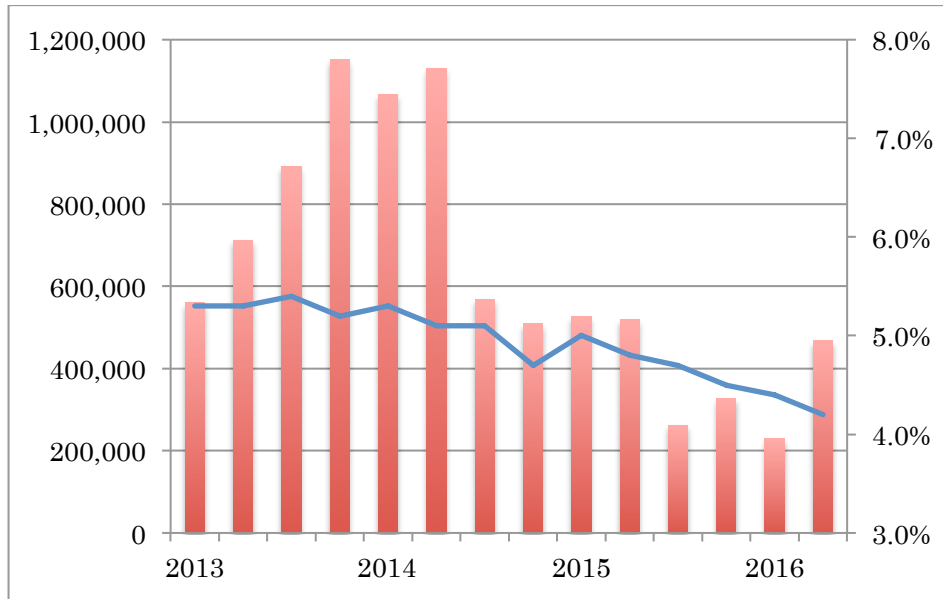
CoStar reported a total of three buildings delivered for a total of 16,163 square feet for the quarter. There are a total of 18 projects under construction, for a total of 467,380 square feet, 87.2 percent of the total square footage is already pre-leased. Some notable projects include Parkway Village at Sherwood – The Old Spaghetti Factory and 1511 NE 92nd Ave.

Figure 4: Portland Retail Market Deliveries (square feet) and Vacancy (%), 2013-2016



Source: Kidder Mathews and CoStar

Figure 5: Portland Retail Market Construction (square feet) and Vacancy (%), 2013-2016



Source: Kidder Mathews and CoStar

SALES**Table 3: Notable Investment Transactions, Second Quarter 2016**

Property	City	Sale Price	Square Feet	Price/SF
Evergreen Marketplace	Washougal	\$43.0	184,612	\$232.92
Andresen Marketplace	Vancouver	\$43.0	184,612	\$232.92

*These two buildings were part of the same sale with a cap rate of 6.70% cap rate.

Source: CoStar