

RETAIL MARKET ANALYSIS

MELISSA MEAGHER
Portland State University

Approaching the final quarter of 2018, Portland's retail market remains strong. Rental rates continue to increase while vacancy rates have decreased slightly. Net absorption is positive 266,930 square feet with six buildings of retail space delivered and 862,344 square feet under construction at the end of the third quarter. Low unemployment combined with steady, but slowing, population growth as well as several projects under construction have kept the retail market healthy and steady.

In terms of the national retail market, research from Frost and Sullivan in a recent Bloomberg article predicts that retail stores are far from dying. The report states, "First, people tend to be more trusting of physical merchants, relative to e-commerce sites. Second, the ability to 'handle' and 'evaluate' a product with immediacy often 'trumps' a lower price." Because of this, national reports point toward a continued presence of opportunity in physical stores.

Lou Elliott, Principal of NAI Elliott, also summarizes the state of retail at the end of the third quarter:

"As the string of debt-caused large name retail bankruptcies continues unabated—Sears, PetSmart—and Amazon looks at ever more areas to expand its reach, many retailers are still fragile. But,

innovation in all retail sectors, including grocery, is reshaping and revitalizing the brick and mortar retail landscape. Commercial retail estate owners are adapting, as well, and the much touted "retail apocalypse" seems to be disappearing in the rear-view mirror for many landlords and tenants."

In Portland, the Oregon's September Economic Revenue and Forecast also confirmed, "The [Oregon] economy follows the U.S. Business cycle overall, albeit with more volatility. The good news is job gains are enough to match population growth and absorb the workers coming back into the labor market. Wages are rising faster than in the typical state, as are household incomes."

Mark McMullen and Joshua Lehner, economists for the Oregon Office of Economic Analysis, verified in their report: "The regional economy continues to transition down to more sustainable rates [and] ongoing improvements in these deeper measures of economic well-being are also expected to continue."

With evidence of regional expansion, employment growth, and strong wage gains the Portland retail market has the opportunity to leverage its real estate to its best use with signs pointing to opportunity in the last quarter of 2018.

Melissa Meagher is a Masters of Real Estate Development candidate through a joint program of Portland State University's School of Business Administration and School of Urban Studies and Planning. While completing her graduate degree Melissa is a part-time strategy analyst for Leland Consulting Group as well as an asset manager for CEG Multifamily, specializing in innovative mixed-use projects, city branding, and market analytics. She is the 2018 Society of Industrial and Office Realtors Fellowship recipient and scholar. Any opinions expressed are those of the author solely and do not represent the opinions of any other person or entity.

VACANCY

At the end of the third quarter, Portland’s vacancy rate lowered slightly to 3.0 percent. The largest change in vacancy rate involved the Lloyd District submarket, seeing a drop from 3.5 percent to 2.9 percent in the third quarter.

General retail properties’ vacancy rates rose while malls, power centers, and shopping centers vacancy rates declined. Vacant sublease space, which continues to see a decreasing trend, totaled 193,938 square feet.

Table 1: Portland Retail Vacancies by Submarket, Third Quarter 2018

Submarket	Q3 2018 Vacancy Rate	Q2 2018 Vacancy Rate	Change from Previous Quarter
CBD	6.10%	5.80%	0.30%
Clark County/ Vancouver	4.00%	4.40%	-0.40%
I-5 Corridor	3.80%	3.90%	-0.10%
Lloyd District	0.029	0.035	-0.006
Northeast	0.024	0.024	No change
Northwest	0.021	0.022	-0.001
Southeast	0.029	0.03	-0.001
Southwest	0.029	0.031	-0.002
Sunset Corridor	0.024	0.025	-0.001
Portland Total	0.03	0.034	-0.004

Source: Kidder Mathews

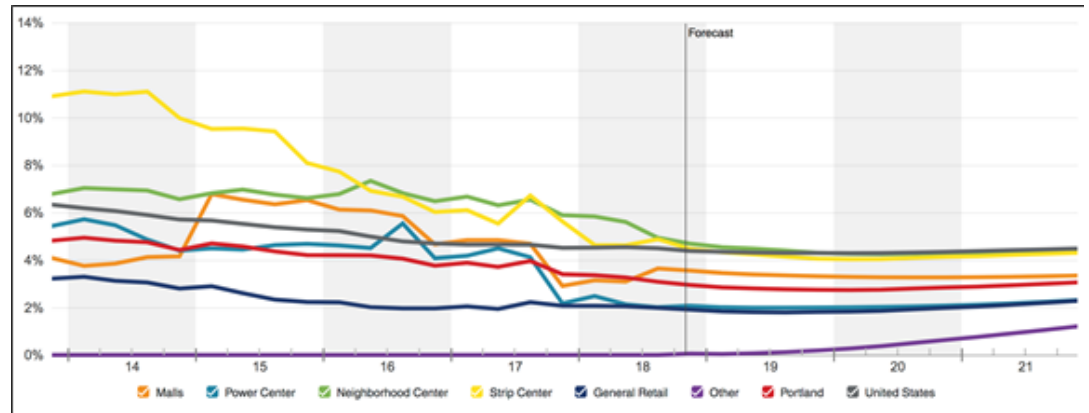
Table 2: Portland Retail Vacancies by Product Type; Third Quarter 2018

Property Type	Q3 Vacancy Rate	Q2 Vacancy Rate	Change from Previous Quarter
Malls	2.20%	2.50%	-0.30%
Power Centers	1.90%	2.00%	-0.10%
Shopping Centers	5.30%	5.90%	-0.60%
Specialty	0.00%	0.00%	0.00%
General Retail	2.60%	2.20%	0.40%

Source: Kidder Mathews

VACANCY

Figure 1: Knight Cancer Institute Research Building Delivered, Third Quarter 2018



Source: SRG Partnership

ABSORPTION

Ending last quarter with a positive 266,930 square feet of absorption, the market is seeing a net absorption positive of 620,534 square feet year to date. The shopping center, power center, and mall sectors all reported positive absorption with 258,128 square feet, 9,326 square feet, and 28,134 square feet, respectively. Specialty centers had zero direct net absorption in third quarter.

Table 3: Portland Retail Absorption, Third Quarter 2018 and YTD

Submarket	Q3 2018 Net Absorption	YTD Net Absorption
CBD	-6,703	7,957
Clark County/ Vancouver	52,468	221,586
I-5 Corridor	104,153	125,533
Lloyd District	34,387	5,773
Northeast	-4,659	135,582
Northwest	2,253	-9,919
Southeast	19,585	17,415
Southwest	57,816	132,850
Sunset Corridor	7,630	-16,243
Total	266,930	620,534

Source: Kidder Mathews

RENTAL RATES

Average rental rates raised from second quarter to third quarter. NAI Elliott reports average asking rates of \$21.53 per square foot. In contrast, Kidder Mathews reports the average asking lease rate was \$19.27 per square foot. This is a slight jump from second quarter's \$18.96 per square foot, which was a 1.28 percent increase from the end of the second

RENTAL RATES

Table 4: Portland Retail Asking Rents by Submarkets, Third Quarter 2018 v. Second Quarter 2018

Submarket	Q3 Avg Rental Rate	Change from Previous Quarter	Q2 Avg Rental Rate
CBD	\$23.95	\$1.51	\$22.44
Lloyd District	\$20.66	\$0.14	\$20.52
I-5 Corridor	\$19.67	\$1.31	\$18.36
Clark County	\$18.15	\$0.03	\$18.12
Northwest	\$24.73	\$0.73	\$24.00
Northeast	\$19.27	\$0.91	\$18.36
Southeast	\$17.16	\$0.12	\$17.28
Southwest	\$21.11	\$0.13	\$21.24
Sunset Corridor/Hillsboro	\$19.46	\$0.46	\$19.92

Source: Kidder Mathews

quarter in 2017. All submarkets with the exception of Northeast, Southeast, and the Sunset Corridor/Hillsboro, increased from the last quarter. Most notably, the average rental rate in the CBD submarket increased from \$22.44 in second quarter to \$23.95 in third quarter. According to an analysis of third quarter’s rates, NAI Elliot’s Marketing Director recognized, “The retail market is gaining strength in Portland’s suburban submarkets. Minimal vacancies and construction are causing rental rates to rise in shopping centers and the current market heavily favors landlords.”

Table 5: Select Top Retail Leases (Based on Leased SF for Deals Signed in Third Quarter 2018.)

Building	Submarket	SF	Tenant Name
5253 SE 82nd Avenue	Clackamas/Milwaukie	99,663	Undisclosed
10329-10355 SW Cascade Boulevard	217 Corridor/Beaverton	24,482	Ashley Furniture Home Store
3800 River Road N	Marion County	18,532	Undisclosed
Troutdale Market Center	NE Outlying	11,690	Undisclosed
Hillsboro West Shopping Center	Sunset Corridor/Hillsboro	9,872	Community Action
10030 SW Beaverton Hillsdale Hwy	217 Corridor/Beaverton	9,800	Undisclosed

Source: CoStar

DELIVERIES AND CONSTRUCTION

A total of six retail projects were delivered this quarter, which added 70,233 square feet to the market. This adds to the 462,616 square feet of retail space constructed in the last four quarters, according to CoStar. In looking at the breakdown of project size delivery there were 26 buildings under 50,000 square feet delivered this year with 163,295 square

Table 6: Project Size Delivery Analysis, Year to Date Development 2018

Building Size	# Bldgs	GLA	SF Leased	Single-Tenant	Multi-Tenant
< 50,000 SF	26	216,138	163,295	9,489	206,649
50,000 – 99,999 SF	--	--	--	--	--
100,000 – 249,999 SF	1	128,652	126,079	--	128,652
250,000 – 499,999 SF	--	--	--	--	--
>= 500,000 SF	--	--	--	--	--

Source: CoStar

feet leased mostly to multi-tenant leases. At the end of third quarter retail inventory in the Portland market area totaled 189,396,976 square feet in 18,346 buildings and 1,169 centers. Currently, there is an additional 862,244 square feet of retail under construction across the market.

Table 7: Notable Development Under Construction, Third Quarter 2018

Building	Submarket	SF	Start Date	Delivery Date
Cedar Creek Plaza	I-5 Corridor	70,000	Q3 2017	Q3 2018
1818 SW 4th Avenue	CBD	41,000	Q3 2017	Q1 2019
Restoration Hardware	Northwest	36,000	Q2 2017	Q4 2018
701 Columbia Street	Clark County	26,000	Q3 2017	Q1 2019
1969 Willamette Falls Drive	West Linn	25,010	Q3 2018	Q2 2019
Goodwill	Clark County	25,000	Q2 2018	Q4 2018
Sideyard	Lloyd District	20,000	Q1 2018	Q1 2019
17550 Provost Street	Lake Oswego	17,673	Q3 2018	Q2 2019
17510 Provost Street	Lake Oswego	15,581	Q3 2018	Q3 2019
Discovery Block	Northeast	13,000	Q1 2018	Q1 2019
Ridgefield Pioneer Village	South	11,649	Q2 2018	Q2 2019
11360 SW Canyon Road	Southwest	11,304	Q2 2018	Q1 2019

Source: CoStar and NAI Elliot

**SALES
TRANSACTIONS**

The sales volume at the end of the third quarter was lower than past quarters; however, with an average cap rate of 6.6 percent in the Portland market, investors remain confident. The largest sale price of third quarter was the O’Brien Autogroup’s purchase of 107 SE Grand Avenue for \$26 million. The property is 36,000 square feet and located in the Lloyd District submarket. Inland Real Estate Group of Companies sold its 76,843 square foot property at 18656-18645 NW Tanasbourne Drive to Agree Realty Corporation. Retail Opportunity Investments also acquired King City Plaza, the 62,676 square foot property located at 15705-15785 SW 116th Avenue, from Tobias Investment Co. The 8,480 square foot site at 20665 SW Blanton also closed, bringing a new opportunity for Washington County who purchased the property for \$8.6 million. Although sales volumes have declined

Table 8: Notable Sales Transaction, Third Quarter 2018

Building / Address	Buyer	Seller	Submarket	SF	Price	Price/SF
107 SE Grand Avenue	O’Brien Autogroup	Bob Wentworth	Lloyd	36,000	\$26.06M	\$723.75
18565-18645 NW Tanasbourne Drive	Agree Realty Corporation	Inland Real Estate Group of Companies	Hillsboro	76,843	\$19.86M	\$258.64
King City Plaza	Retail Opportunity Investments	Tobias Investment Co.	Portland	62,676	\$15.89M	\$250.27
205 Commerce Center	Giustina Resources	Kensington Investment Group	Vancouver	36,394	\$13.3M	\$359.81
20665 SW Blanton Street	Washington County	Tualitin Valley Fire & Rescue	Aloha	8,480	\$8.55M	\$1,008.25

Source: CoStar

Table 9: Portland, OR Retail vs. National Index Sales, Third Quarter 2018

Sales	Portland, OR	National Index
12 Month Properties Sold	648	47,666
Market Sale Price/SF	\$252	\$231
Average Market Sale Price	\$2.7 M	\$2.6 M
12 Month Sales Volume	\$616 M	\$57.3 B
Market Cap Rate	6.60%	7.00%

Source: CoStar

in the past couple of years, Anderer confirms that “over the cycle, reported cap rates have gradually declined from just below 8% in 2010 to now about 6.5%.” Demand for retail space remains strong. ■