
RETAIL MARKET ANALYSIS

GEORGE S. McCLEARY

Owner, MRE Properties

RMLS Fellow, Master of Real Estate Development Candidate

The retail market remained mostly flat in the third quarter with some negative indicators coupled with positive signs for future growth. NAI Norris, Beggs & Simpson reports a slight decrease in vacancy to 6.82 percent citywide and 38,117 square feet of positive absorption, while CBRE reported an increase in vacancy from 7.2 percent to 7.8 percent, and negative net absorption of 168,711. Cushman & Wakefield and Kidder Mathews also reported negative absorption of 210,859 square feet and 340,308 square feet, respectively. By most measures, the retail market appears to have emerged from the worst periods of the recession while still leaving much room for improvement.

Oregon's economy remains in a state of slow recovery, with activity expected to pick up in 2013. As job growth continues on an upward trend, the retail sector should see increased demand as consumers return to the market. Consumers are spending cautiously on news of moderate job creation and a slow turn-around in the housing market. Consumer confidence is expected to rise alongside news of job creation and a residential housing market turnaround. Retailers hope this will spur leasing activity and raise retail occupancy during the fourth quarter, leading to more robust demand in 2013.

■ George S. McCleary is the owner of MRE properties specializing in commercial real estate investment and development of urban infill properties. He is enrolled in the Master of Real Estate Development program at Portland State University and is an RMLS Fellow in the program. Any errors or omissions are the author's responsibility. Any opinions expressed are those of the author solely and do not represent the opinions of any other person or entity.

Should the positive economic news continue, Cushman & Wakefield predict that rental rates should rise by early 2013.

Construction activity continues to remain very low, with vacancy rates discouraging speculative building. As occupancy rates stabilize, construction is expected to rise in 2013.

Major Lease Transactions

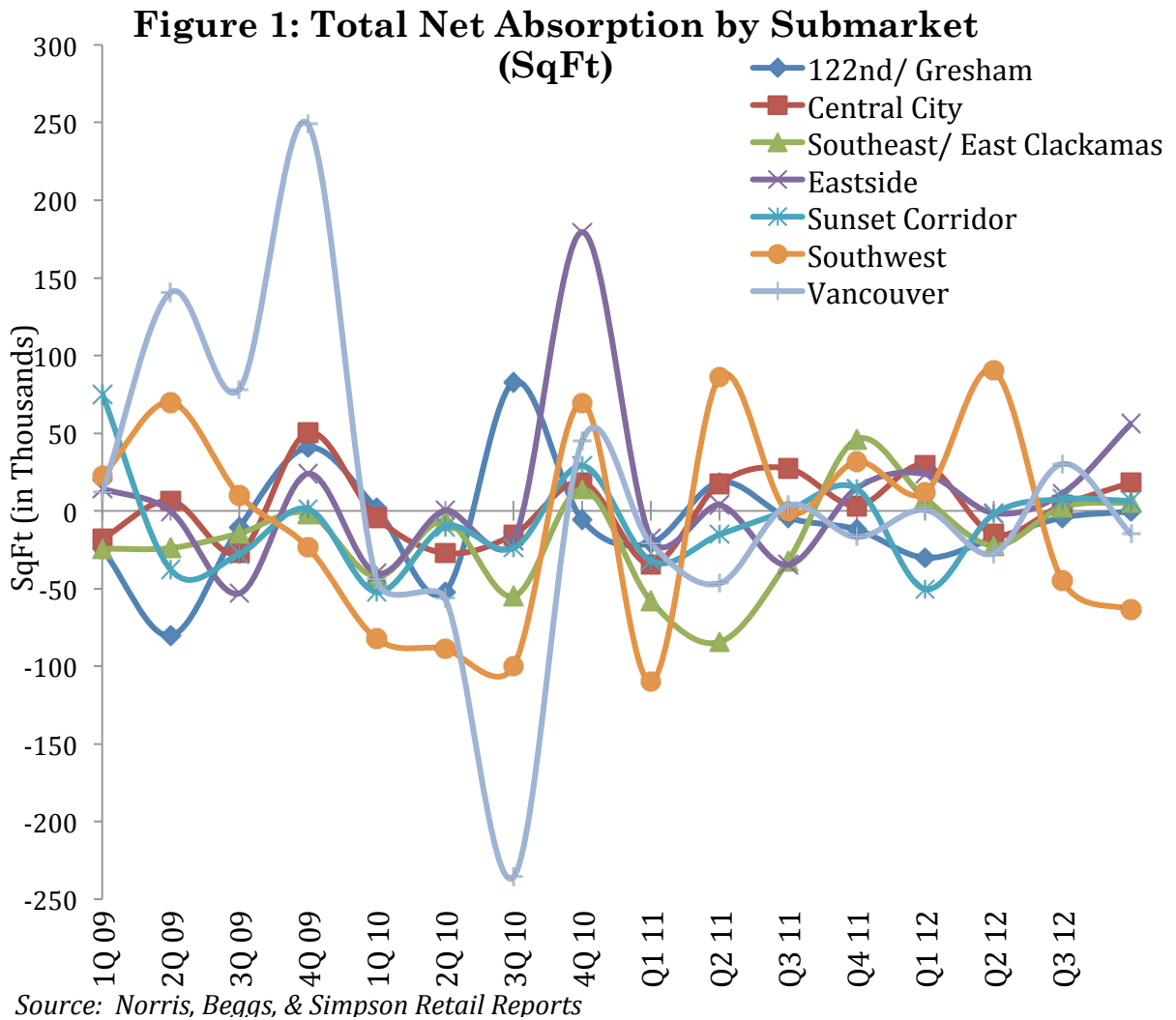
Tenant:	Building:	Size (SF):	Submarket:
ReStore	Plaza 205	21,175	122nd/Gresham
Craft Warehouse	Gresham Station - Building E	25,095	122nd/Gresham
Pacific Lifestyle Furniture	16305 NW Cornell Road	18,000	Sunset Corridor

Source: CoStar, Oregonian, Portland Business Journal, Daily Journal of Commerce

Major Sale Transactions

Buyer:	Building:	Price:	Submarket:
R I Salmon Creek LLC	Salmon Creek Square	\$8,000,000	Vancouver
New Fishers Mercantile LLC	16209 SE McGillivray Boulevard	\$4,000,000	Vancouver
Retail Opportunity Investments Corp.	30060 SW Boones Ferry Road (6 properties)	\$2,265,000	Southwest

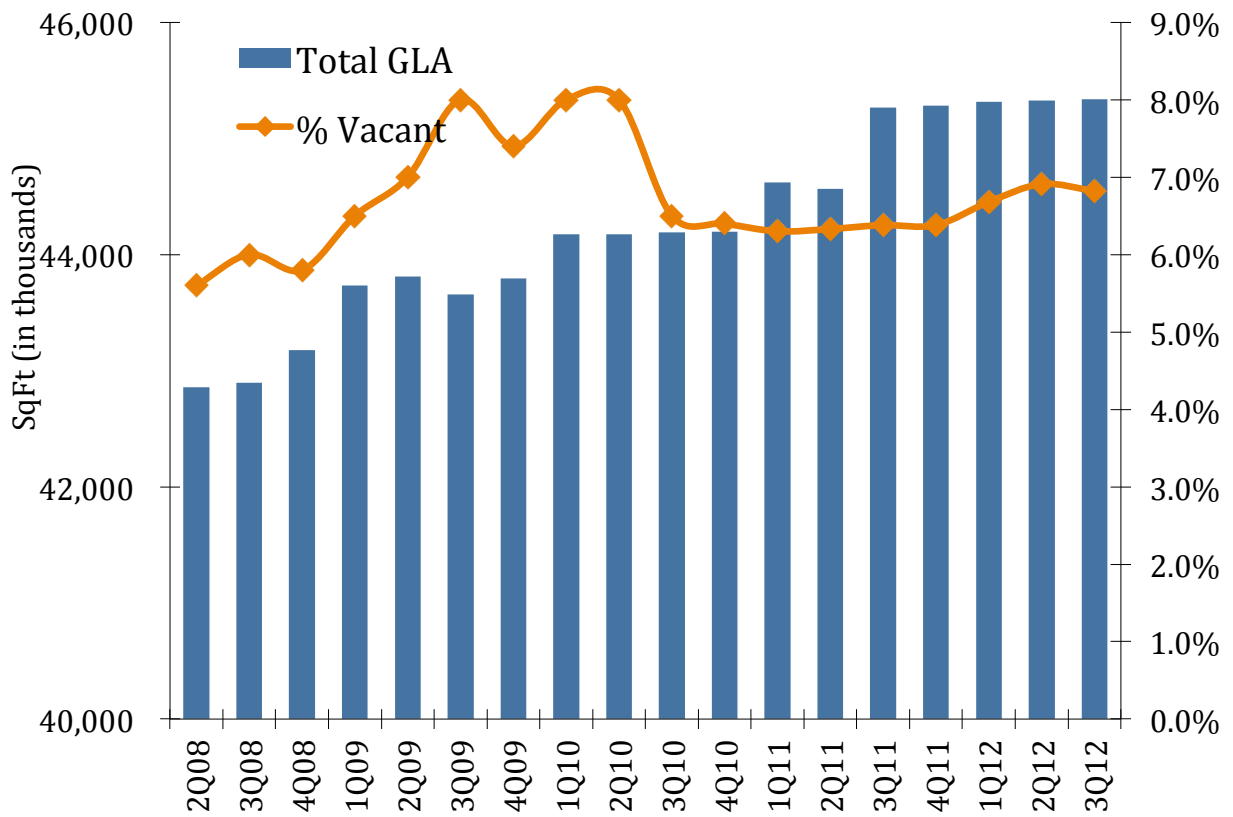
Source: CoStar



Norris, Beggs & Simpson report negative net absorption in five of the seven major submarkets. The central city lost the most, reporting a negative 21,060 square feet. 122nd/Gresham led all submarkets with a gain of 53,419 square feet of positive net absorption. The Sunset Corridor was not far behind, with 43,209 square feet of positive net absorption. The Eastside, Clackamas, Southwest and Vancouver all experienced losses of 6,086, 2,411, 17,456 and 11,498 square feet, respectively. The primary contributor to the negative net absorption in the third quarter was Target vacating 117,500 square feet at Glisan Street Station. However, this will be offset somewhat when Target moves into its new space in the Galleria in the CBD.

Kidder Mathews reports a lower vacancy rate of 5.8 percent, with a quarterly net absorption of negative 340,308. This is the lowest of the vacancy rates reported by the major brokerage houses, and well below the national average of 9 percent. The negative absorption reported from the second and third quarters in 2012 has reportedly erased the gains from the previous four quarters.

Figure 2: Total Gross Leasable Area (GLA) and Vacancy (%)



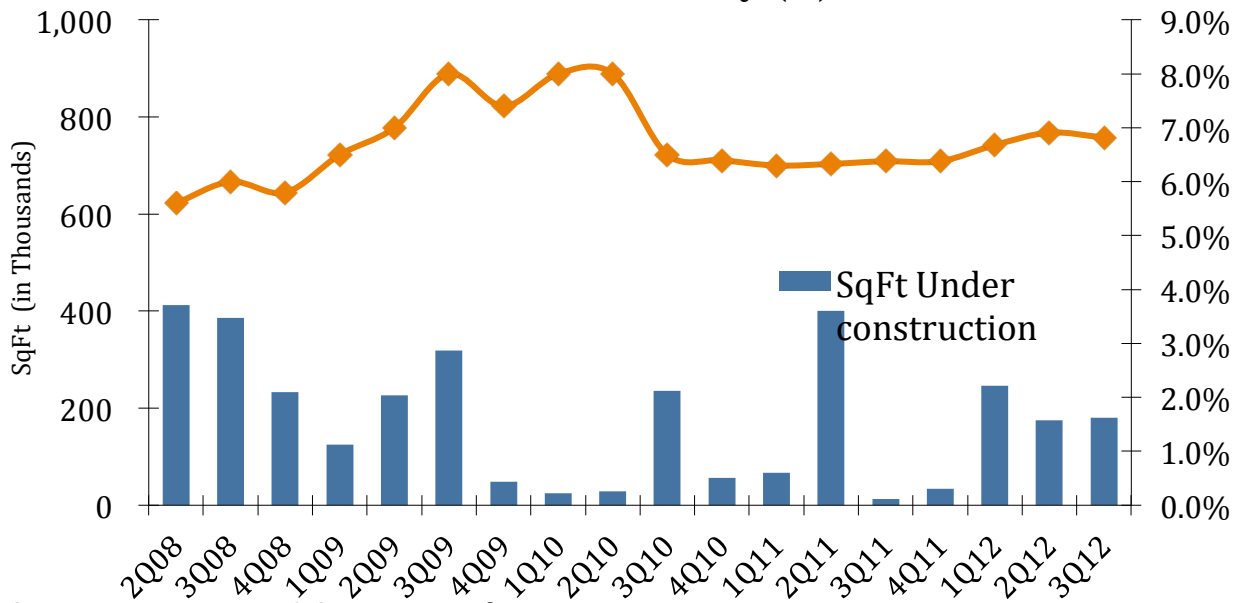
Source: Norris, Beggs, & Simpson Retail Reports

The total amount of gross leasable area (GLA) has remained relatively flat over the past four quarters, with little square footage delivered to the market. This past quarter saw a mere 7,690 square feet delivered to the market, according to Norris, Beggs & Simpson’s report. Vacancy rates have remained relatively flat for nearly two straight years, but have had a slight uptick in

the past three quarters. Negative absorption, Internet sales and weak market fundamentals have inhibited recovery.

Grocery chains continue to expand in the metro area, with New Seasons' announcement that it will occupy 34,500 square feet at Grant Park Village, a new multifamily development planned for NE Broadway and 32nd. WalMart has continued expansion of its neighborhood grocery product, with a 43,000 square feet grocery planned at Vancouver Plaza. Plans for additional locations at Fourth Plain and Grand, North Portland and Gresham are all in the works. Grocery Outlet is moving into the space formerly occupied by Albertson's at the Northgate Village Shopping Center on Hazel Dell and NE 99th. On October 10, 2012, Jantzen Beach saw the opening of a new Target store, complete with grocery section.

Figure 3: SqFt of Retail Space Under Construction and Vacancy (%)



Source: Norris, Beggs, & Simpson Retail Reports

While there was very little new construction delivered during Q3, there has been a slight increase in the amount of construction in the pipeline. The second half of 2011 had almost no new construction planned, with developers sidelined by a soft market. This year has carried numbers that would not qualify as a resurgence in the market, but nonetheless represent movement in the right direction. Historically, the numbers being delivered to the

market have been very low for some time, leading experts to predict a contraction in vacancy rates in years to come. The destruction of existing buildings will also contribute to this eventual rebound in the market.



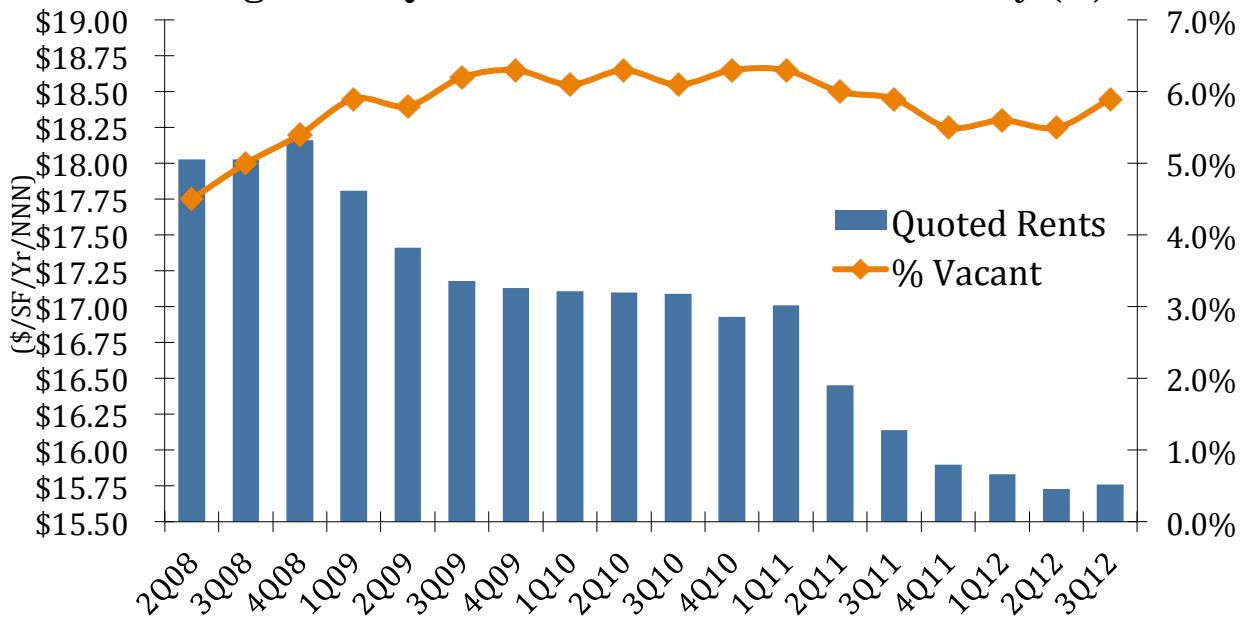
Source: Kidder Mathews Retail Reports

SIGNIFICANT LEASE TRANSACTIONS

Size (SF)	Tenant	Address	City
40,085	Orchard Supply Hardware	9770 SW Scholls Ferry	Tigard, OR
25,500	TJ Maxx	Jantzen Beach	Portland, OR
25,095	Craft Warehouse	Gresham Station	Gresham, OR
21,175	ReStore	Plaza 205	Portland, OR
19,758	Undisclosed	18625 SE McLoughlin	Milwaukie, OR

Source: CBRE Retail Reports

Figure 4: Quoted Rents and Retail Vacancy (%)



Source: Kidder Mathews Quarterly Reports

Kidder Mathews reports a small uptick in vacancy in the third quarter, coupled with a slight increase in rents.

According to the U.S. Department of Commerce, retail sales jumped 1.1 percent in September, which has been taken as a sign of increased consumer confidence. Low inflation and rising job numbers have contributed to a consumer confidence that has reached a five year high. It is predicted by the National Retail Federation that holiday retail sales will increase 4.1 percent nationally year over year. Retailers are expected to hire 585,000 to 625,000 seasonal workers, which is comparable to last year. Larger retailers such as Kohl’s, Toys “R” Us, The Gap, Home Depot, Sears and Target are all participating in local job fairs and are expected to hire nationwide.

Oregon’s retail market has demonstrated resilience during tough economic times, but has not rebounded with the same vigor as other types of real estate. With little construction, improving market fundamentals and increased consumer confidence, it is likely that 2013 will be a better year for retailers. A continued turnaround in the housing market, steady job creation and an easing of worries over Europe and the “fiscal cliff” could spur

increased confidence in landlords and retailers alike. Larger retailers are expanding, and landlords are renovating existing spaces rather than constructing new ones. When rents reach the levels of previous years, it is expected that renewed investment will return to retail properties. ■