
RETAIL MARKET ANALYSIS

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First quarter annualized GDP growth rate fell to 0.5 percent as the US economy slowed—that according to the advance estimate released by the US Department of Commerce. Though subject to revision, the rate falls well below the initial estimate of 1.4 percent. Looking at individual sectors, growth in personal consumption expenditures, residential fixed investment, and state and local government spending pushed the economy forward, but this growth was offset by decreases in nonresidential fixed investment, private inventory investment, exports, and federal government spending. Consumer spending grew at a 0.9 percent rate during the first quarter—a decrease from the 1.5 percent rate of growth during the fourth quarter.

The State of Oregon gained recognition as one of the strongest economies in the nation during 2015, with Bloomberg’s Economic Evaluation of States declaring Oregon as the best-performing economy in the US over the year. JLL reported total 2015 job growth at 3.3 percent for the Portland region—compared to just 1.8 percent for the US as a whole. While the fallout of Intel’s job cuts is still unknown, 2016 looks poised to continue recent trends, with the economy showing strong signs of continued expansion. Oregon’s Office of Economic Analysis (OEA) reported a 4.4 percent seasonally adjusted unemployment rate for the Portland Metro economy in January 2016—a 15-year low and decreasing from 5.7 percent a year ago.

The *City Observatory* recently released its Storefront Index—an attempt to measure urban vitality by reviewing the number and concentration of customer-facing businesses in and around the fifty-one largest CBDs. According to the *City Observatory*, “clusters of these quasi-private spaces, which are usually neighborhood

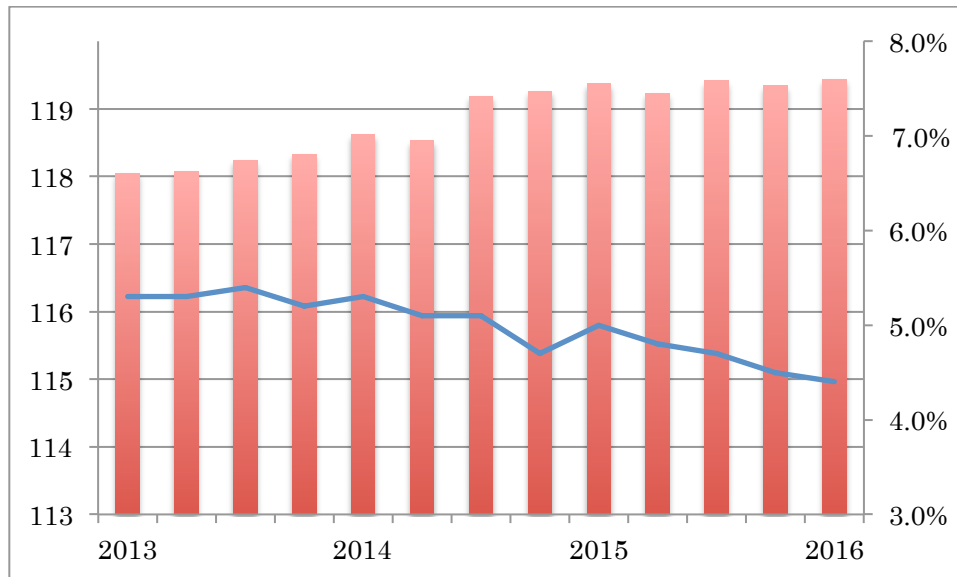
■ **Alec Lawrence** is a Master of Real Estate Development candidate and has been awarded the Center for Real Estate Fellowship. Any errors or omissions are the author’s responsibility. Any opinions are those of the author solely and do not represent the opinions of any other person or entity.

businesses, activate a streetscape, both drawing life from and adding to a steady flow of people outside.” The index ranked the largest CBDs by the number of storefront businesses within a three-mile radius of the center of the CBD. According to the ranking, with 1,686 such storefront businesses, Portland has the tenth most vibrant streetscape in and around its CBD of all US cities. The Seattle area ranked number nine, registering 1,694 storefront businesses—just a slight increase over Portland. For comparison, as of 2015, Portland was the 23 largest metropolitan statistical area (MSA) in the country.

VACANCY

Kidder Mathews reports that vacancy continued a steady but slow decline, with the direct vacancy rate ending at 4.4 percent for the first quarter. Each quarter over the last year has continued to set a record low since the recession. The first quarter rate is 70 basis points below the four-year average quarterly vacancy rate of 5.1 percent.

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



Source: Kidder Mathews

Norris and Stevens data show an overall vacancy rate of 4.6 percent with all submarkets below the five percent level except for Clark County and the Lloyd District.

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

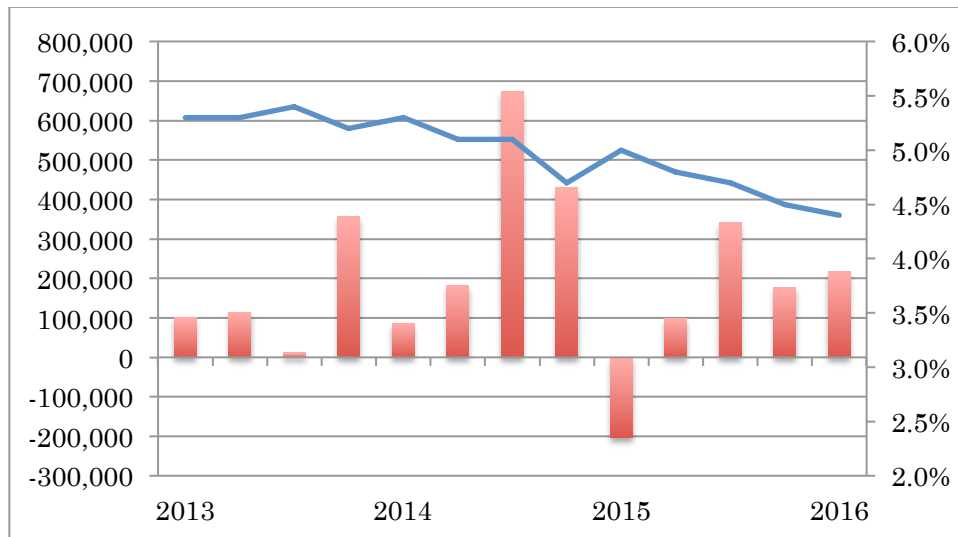
Submarket	Vacancy (%)
CBD	4.3%
Clark County	6.7%
I-5 Corridor	4.0%
Lloyd District	6.1%
Northeast	4.4%
Northwest	3.6%
Southeast	3.9%
Southwest	3.8%
Westside	3.7%
Total	4.6%

Source: Norris & Stevens

ABSORPTION AND LEASING

Kidder Mathews reports a strong net absorption of 216,453 square feet for the quarter, 23 percent higher than the average quarterly net absorption rate over the past four years. Food categories continue to lead the way in retail as consumers continue to seek retail destinations that offer convenience and experiential offerings.

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



Source: Kidder Mathews

Norris and Stevens reported a total of 705,712 square feet of absorption in the Portland metro region during the first quarter. Of note, the Northwest submarket performed strongly, with 122,920 square feet absorbed or 6.7 percent of total RBA, and Clark County saw the greatest number of square feet absorbed with 342,672 square feet.

Table 2: Portland Retail Market Absorption by Submarket, First Quarter 2016

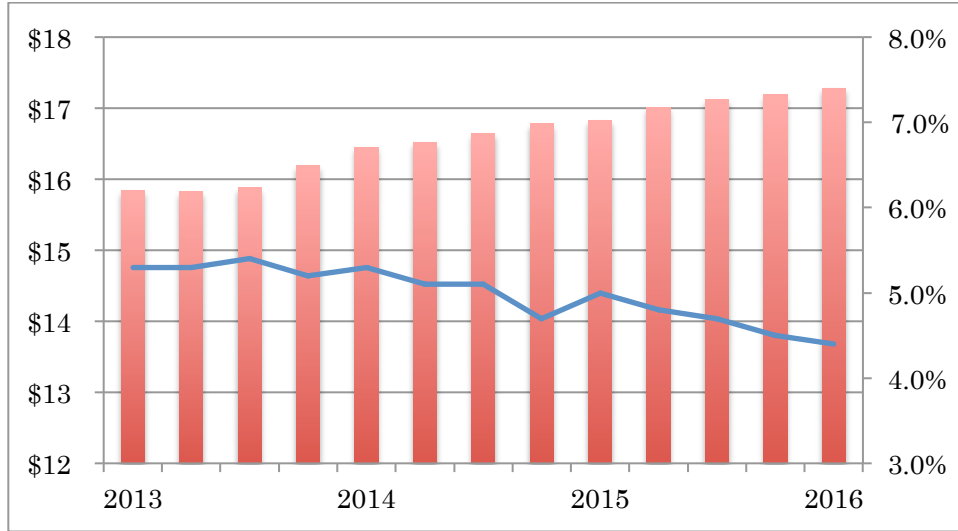
Submarket	Q1 Absorption	Absorption as a % of Total RBA
CBD	(57,365)	(1.2%)
Clark County	342,672	1.9%
I-5 Corridor	121,787	1.1%
Lloyd District	(124,225)	(2.3%)
Northeast	119,777	0.6%
Northwest	122,920	6.7%
Southeast	134,674	0.6%
Southwest	74,252	0.5%
Westside	(28,780)	(0.3%)
Total	705,712	0.7%

Source: Norris & Stevens

RENTAL RATES

Kidder Mathews reports that rents continued an eleven-quarter climb, ending at \$17.28 per square foot NNN per year. This is 5.2 percent over the average quarterly quoted rate over the last four years.

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

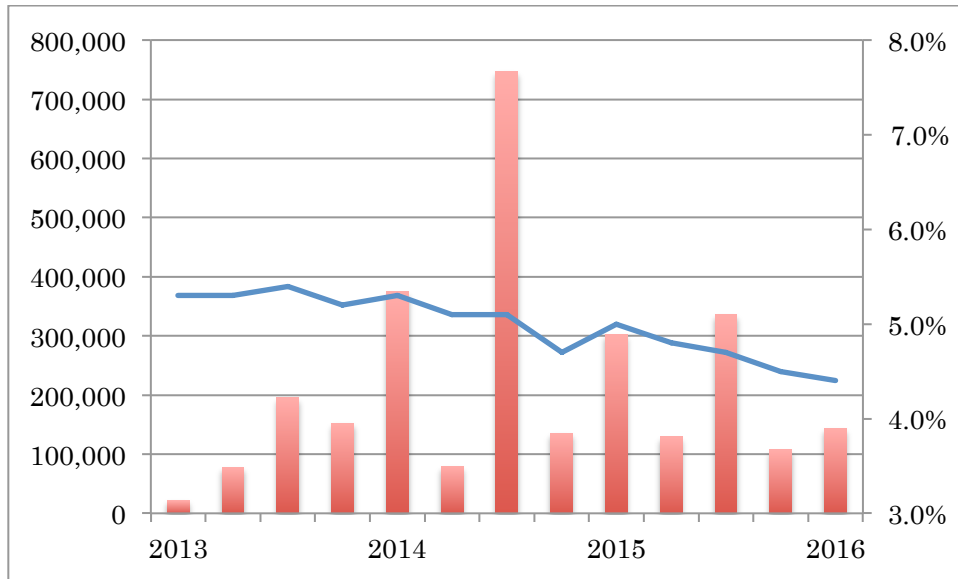


Source: Kidder Mathews

DELIVERIES AND CONSTRUCTION

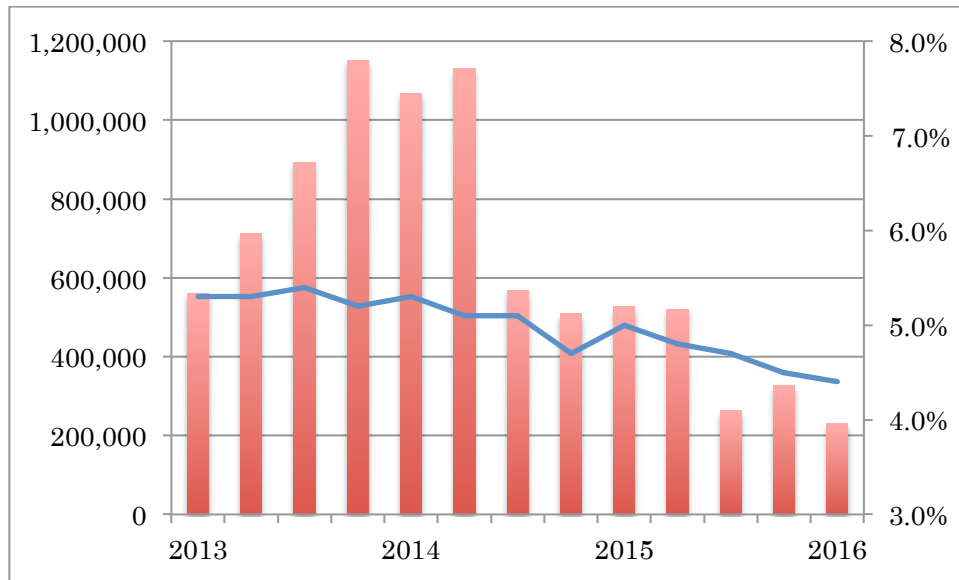
Kidder Mathews reported a total of 12 buildings delivered for a total of 144,100 square feet for the quarter. There are a total of 10 projects under construction, for a total of 230,125 square feet. This is down from 20 projects under construction last quarter. The construction pipeline continues to sit below late 2013 and early 2014 levels that stood at over 1,000,000 square feet.

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



Source: Kidder Mathews

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



Source: Kidder Mathews

SALES

Kidder Mathews reported \$217.23 million in transactions during the first quarter with an average square foot sales price of \$230. This is above the first quarter 2015 average of \$205 but below the fourth quarter 2015 average of \$309. Average cap rates registered at 5.5 percent—a decrease from 6.5 percent during fourth quarter 2015.

Table 3: Notable Investment Transactions, First Quarter 2016

Property	City	Sale Price	Square Feet	Price/SF
Columbia Gorge Premium Outlets	Tualatin	\$28.43	163,815	\$174
New Seasons	Portland	\$10.62	26,500	\$401
Regal Cinema 99	Vancouver	\$5.18	34,964	\$148

Source: Kidder Mathews