
RETAIL MARKET ANALYSIS

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Looking at a 12-month forecast all signs point towards a growing economy; the national GDP, consumer spending, and retail sales have been on the rise during 2016 and Q3 was no exception. GDP growth is up by 0.4%, from 2.0% in Q2 to 2.4% in Q3. Retail sales growth grew from 2.0% in Q2 to 2.9% and even though consumer spending slightly decreased from 3.1% in Q2 to 2.8% in Q3, overall annual consumer growth is up.

The retail market has been undergoing some major changes in recent years “the likes of which we have not seen since the beginning of the rise of the suburbs starting in the late 1950s” according to Cushman & Wakefield. eCommerce has been a significant, if not the most significant, force in the changing of tides that is currently taking place in the retail marketplace. Amazon in particular has been one of the biggest game changers across the board and is now forecasted to become the largest retailer of apparel goods in the United States in 2017. Despite this, as well as an increase in retail closures, overall shopping center vacancy has consistently been trending down and was 7.4% nationally at the end of the third quarter.

One of the strongest retail markets in the U.S. is the restaurant industry. Cushman & Wakefield note that “roughly half of all the retail unit growth [...] in the post-recession era (since 2010) has come from restaurants.” This is a staggering growth rate considering restaurants made up about one-third of the total annual retail unit growth before 2010. But with restaurant closures trending up it is estimated that this portion of the market could see some problems in 2017. Grocery

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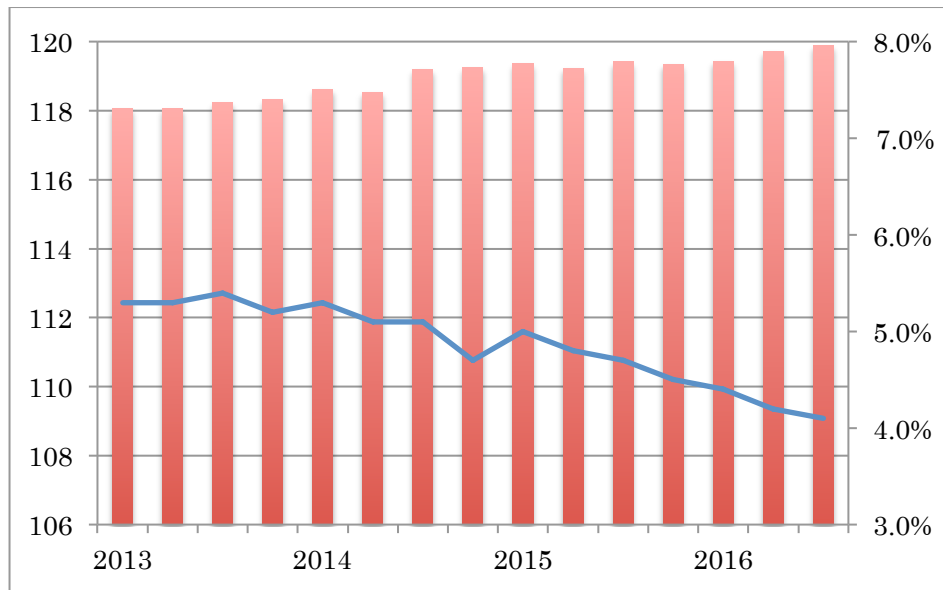
stores are also being forced to reinvent themselves and many are reverting to early 20th century type models – smaller niche concepts with reduced footprints.

Third quarter numbers are expected to bleed into the fourth quarter, which is anticipated to have positive occupancy growth. The holiday shopping season is projected to be stronger than in 2015, and vacancy rates are predicted to remain flat, but the outcome of the US presidential election could rock the markets.

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 4.1 percent in the third quarter. (Compared to 4.2 in the second quarter and the national rate of 7.4 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 4.1 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, a rate that has persisted for the last two quarters.

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

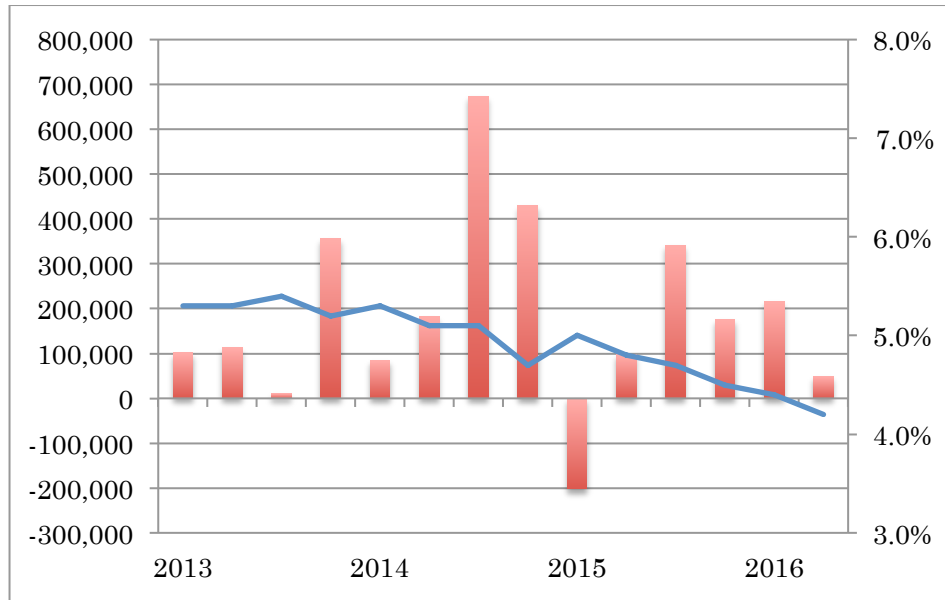
Submarket	Vacancy (%)
CBD	4.1%
Clark County	5.5%
I-5 Corridor	4.6%
Lloyd District	4.4%
Northeast	3.5%
Northwest	2.6%
Southeast	3.9%
Southwest	3.7%
Westside	3.2%
Total	4.1%

Source: Kidder Mathews

ABSORPTION AND LEASING

Costar reports a positive net absorption of 159,025 square feet in the third quarter. Tenants who moved out of large building spaces include Macy’s Furniture Gallery, Sports Authority, and Haggen Food and Pharmacy. Tenants who moved into large building spaces include Winco, Albertsons, and Edge Family Fitness.

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, Third Quarter 2016

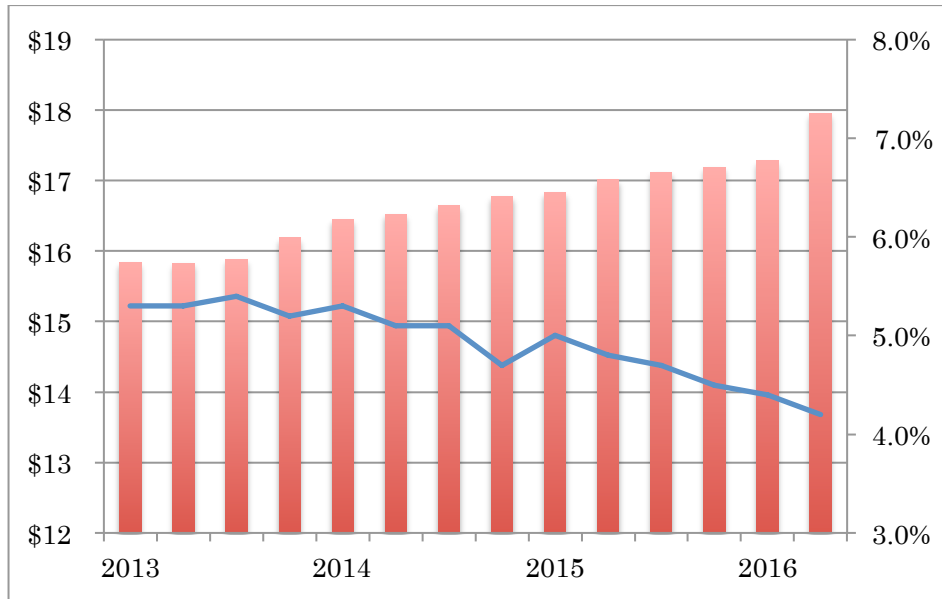
Submarket	Q3 Absorption	Absorption as a % of Total RBA
CBD	5,467	3.0%
Clark County	80,687	55%
I-5 Corridor	44,866	30%
Lloyd District	4,046	2.7
Northeast	13,026	8.8%
Northwest	(3,194)	(2.1%)
Southeast	12,006	8.1%
Southwest	(28,540)	(1.9%)
Westside	18,255	12.4%
Total	146,619	

Source: CoStar

RENTAL RATES

Costar reports that rents continued to trend up, ending at \$18.05 per square foot NNN per year. This is 0.5 percent increase from the previous quarter and a 4.43 percent increase from the fourth quarter of 2015.

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

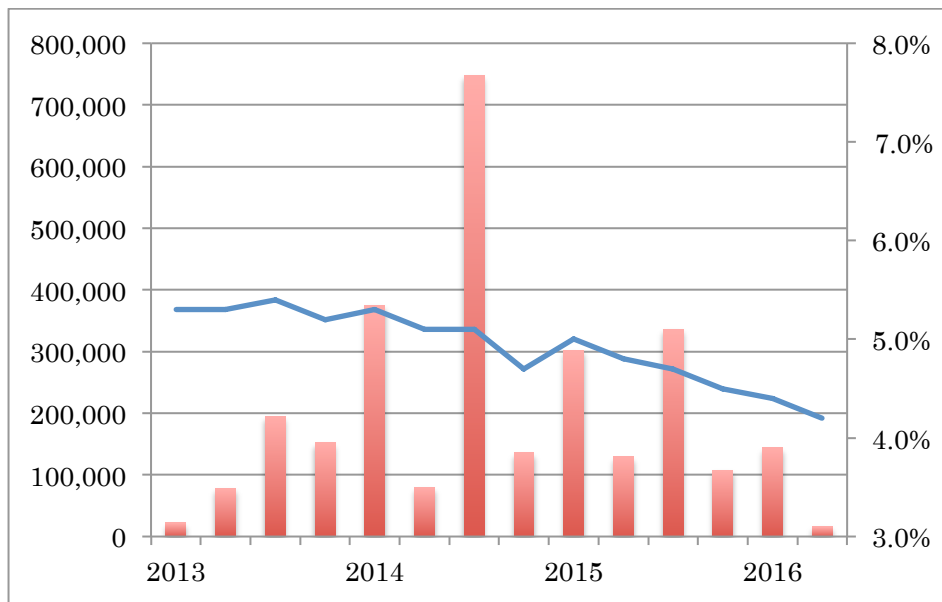


Source: Kidders Matthew and CoStar

DELIVERIES AND CONSTRUCTION

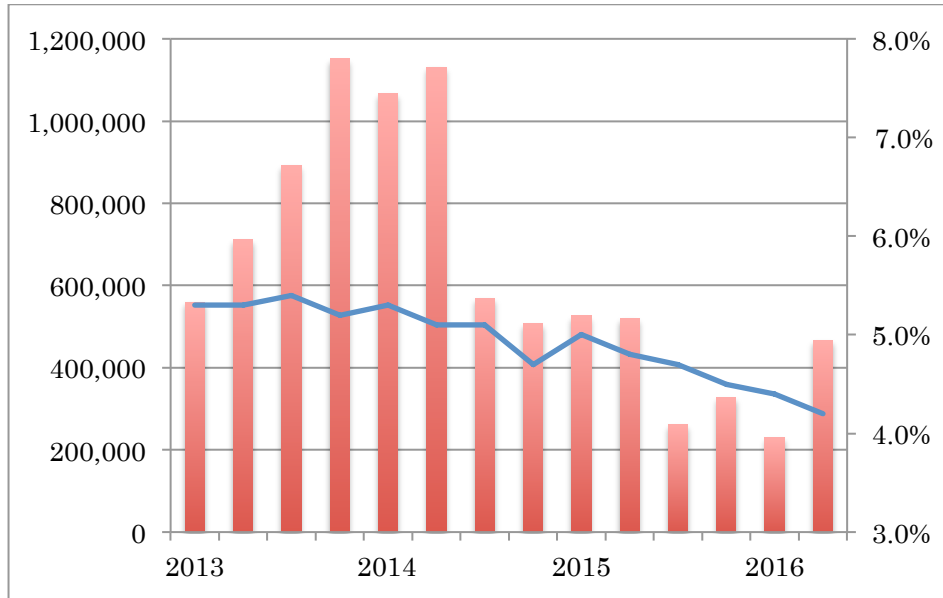
CoStar reported a total of four buildings delivered for a total of 30,498 square feet for the quarter. There are a total of 21 projects under construction, for a total of 588,301 square feet. Some notable deliveries include Sequoia Village – Walmart (100% occupied) and New Season Market (100% occupied).

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, Third Quarter 2016**

Property	City	Sale Price	Square Feet	Price/SF
Donahue Schriber	Beaverton	\$101M	213,809	\$472
Killian Pacific	Portland	\$19.8M	47,162	\$426
Cypress Equities	Portland	\$11.5M	142,966	\$103

Source: Kidder Mathews