
RETAIL MARKET ANALYSIS

A. SYNKAI HARRISON

Portland State University

The US Bureau of Labor Statistics reports that the national unemployment rate declined to 5.6 percent in December, adding 252,000 jobs nationally. Portland's unemployment rate has continued to decline to 6.2 percent in November of 2014, below the most recent statewide rate of 7 percent. Consumer confidence has begun to rebound as oil and gas prices declined steadily which led to an increase in retail sales during the holidays.

Typically there is a six month lag between a decrease in energy prices and an increase in retail sales. Since the decline in energy prices, particularly oil, began during the latter part of 2014, the US economy should begin to experience an increase in retail sales during mid-2015. According to Colliers International, US GDP growth in 2015 is predicted to be its highest in ten years. Portland is well positioned to take advantage of this growth as the city is reported to be one of the country's fastest growing major metro regions.

VACANCY

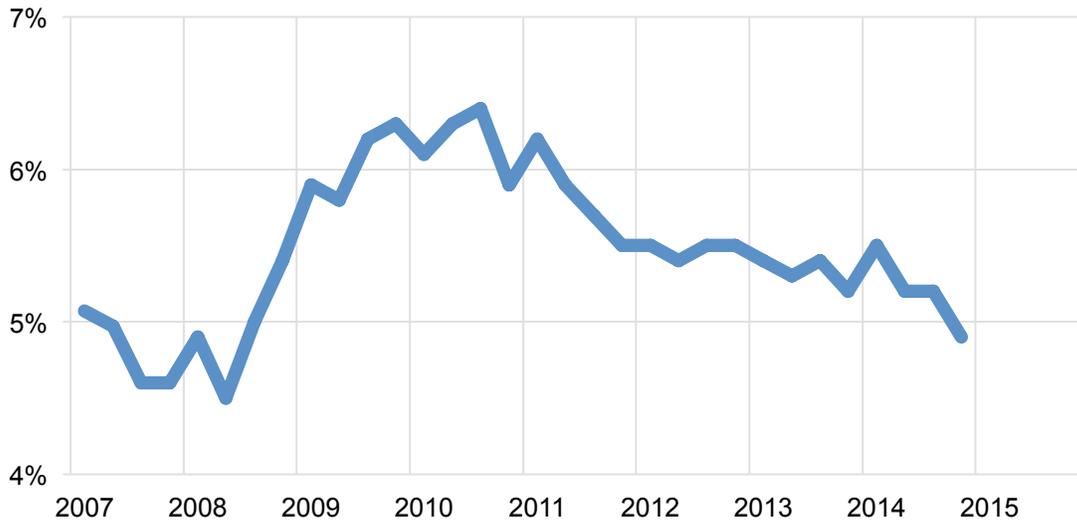
According to Kidder Mathews Portland's retail market ended the fourth quarter of 2014 with an average vacancy rate of 4.9 percent down from 5.2 percent at the end of the third quarter. The rate for the retail market has remained unchanged since the fourth quarter of last year in spite that the fourth quarter saw the lowest vacancy rate since the third quarter of 2008, according to Kidder Mathews. CoStar is

■ **A. Synkai Harrison** 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.

reporting an average vacancy rate of 4.8 percent for the fourth quarter down slightly from the previous two quarters which ended with a 5 percent vacancy rate at the end of the second quarter and a 5.2 percent vacancy rate at the end of the first quarter of this year. Norris Beggs and Simpson reported one of the highest average vacancy rates for the end of the fourth quarter 2014 at 6.06 percent.

Kidder Mathews reports, Convenience Centers, which include shopping centers up to 30,000 square feet, experienced a vacancy rate of 11 percent. Neighborhood Centers, properties anchored by a supermarket and ranging from 30,000 to 100,000 square feet, reported a vacancy rate of 7.4 percent. Community centers, properties between 100,000 and 300,000 square feet reported the lowest vacancy rate according to Kidder Mathews, 3.4 percent. Regional and Super-Regional centers reported a “sub-4 percent vacancy”.

Figure 1: Portland Retail Market Vacancy Rate, 2007–2014



Source: Kidder Mathews

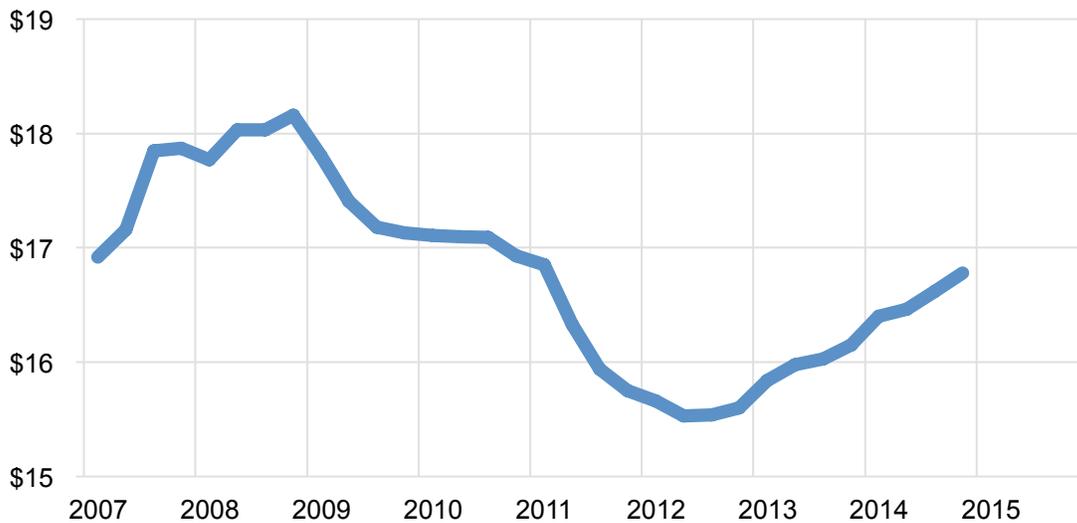
RENTAL RATES

According to Colliers International, the average rental rate for the Portland retail market was \$16.85 per square foot. Rates have continued rise for five consecutive quarters. At the end of the third quarter, the average rental rate was \$16.72 per square foot, at the end of the second quarter the average rental rate was \$16.51 per square foot and the first quarter ended with \$16.49 per square foot. Colliers reported that the submarket area with the highest average rental rate was the Lake Oswego/West Linn/Kruse Way market. This area reported an average rental rate of \$25.74 per square foot. The Portland CBD came in second, according to Colliers, ending the fourth quarter with an average rental rate of \$22.10 per square foot.

For retail sub property types, Colliers International reports that at the end of the fourth quarter of 2014 the average rental rate for malls was \$19.36 per square foot, for Shopping Centers the average rental rate was \$17.33 per square foot, Power Centers the average rate was \$19.68 per square foot and General Retail at \$15.57 per square foot.

Kidder Mathwes reports that “Neighborhood Centers”—properties ranging between 30,000 and 100,000 square feet—had an average asking rental rate of \$15.39 per square foot.

Figure 2: Portland Retail Market Average Quoted Rates, 2007–2014

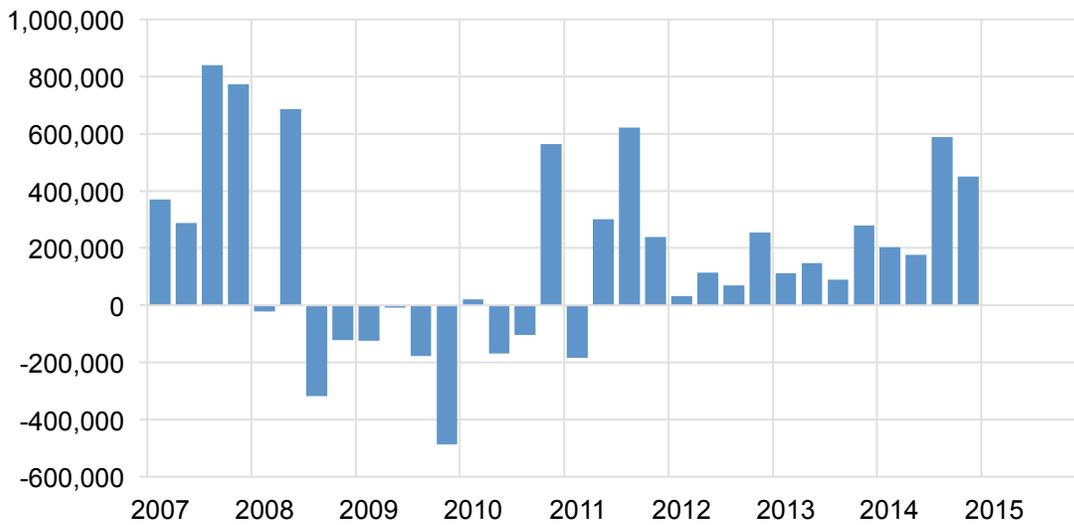


Source: Kidder Mathews

ABSORPTION AND LEASING

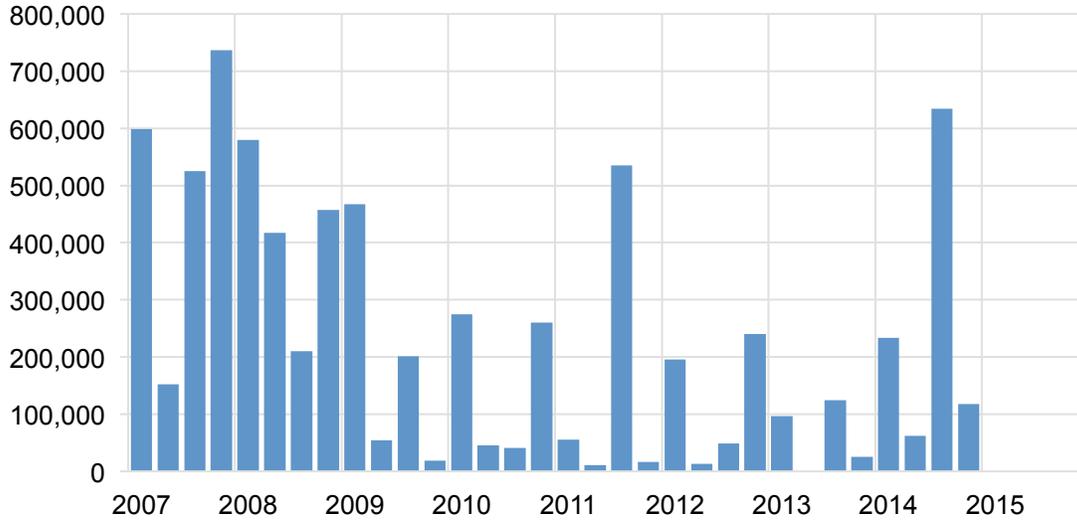
Kidder Mathews is reported 450,836 square feet net positive absorption for the overall retail market at the end of the fourth quarter compared to the third quarter with 589,374 square feet of positive absorption. CoStar reported 316,938 square feet of positive absorption compared to the third quarter which saw 557,910 square feet of positive absorption. The market experienced 378,948 square feet of positive absorption during the fourth quarter according to Colliers International.

Figure 3: Portland Retail Market Net Absorption, Square Feet, 2007–2014



Source: Kidder Mathews

Figure 4: Portland Retail Market Deliveries, Net Rentable Building Area, Square Feet, 2007–2014



Source: Kidder Mathews

Table 1: Notable Retail Lease Transactions

Tenant	Address	Market	Size
Wilco Farms	1900 NE 162 nd Ave	Camas/Washougal	40,354
Craft Warehouse	Cedar Hills Crossing	N. Beaverton	19,524
Ace Hardware	Sunnyside Village	Clack/Milwaukie	12,000
Speed’s Auto Service	120 SE Clay St	SE Close-in	11,880
Mattress World	2919-25 NW Division	Gresham	10,000
The Rosewood Init.	Village Square	Mall 205	7,150
Heart Montessori	West Linn Retail Ctr	LO/West Linn	7,098

Source: Colliers International

Table 2: Notable Retail Sales Transactions

Building	City	Price	Price/SF
Wilsonville Town Ctr	Wilsonville	\$35,600,000	\$212
Sunnyside 205	Portland	\$17,525,000	\$327
Baker Street Square	McMinnville	\$17,200,000	\$368
Oregon City Point	Oregon City	\$12,350,000	\$348
Hillsboro Town Ctr	Hillsboro	\$10,000,000	\$92
Former Target	Portland	\$6,000,000	\$51

Source: Kidder Mathews

DELIVERIES AND CONSTRUCTION

Three buildings totaling 82,820 square feet of retail space were delivered during the fourth quarter of 2014 according to CoStar. 265,931 square feet was still under construction at the end of the quarter. Norris Beggs and Simpson reported 257,399 square feet under construction in the Portland metro market at the end of the fourth quarter of 2014. According to Colliers International, 296,262 square feet of retail space was still under construction at the end of the fourth quarter. Kidder Mathews reports that there are currently nineteen projects under construction for a total of 258,807 square feet. A total of forty three projects were delivered during 2014, whereas only twenty two projects were delivered in 2013 according to Kidder Mathews.

CoStar reported that there were 57 retail sales transactions in the first nine months of 2014 totaling \$401,612,199. This is compared to the same time period in 2013 where only 41 transactions took place for a total of \$503,766,688. Prices per square foot averaged \$140.11 in 2014 compared to \$165.05 per square foot in 2013. Kidder Mathews also reported that there were \$678 million in retail transactions for the year with average price per square foot of \$160. This amounts to a 10 percent increase in total sales volume from 2013 to 2014.