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## RETAIL MARKET ANALYSIS

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A. SYNKAI HARRISON

Portland State University

The US economy got off to a very sluggish start in 2015 as gross domestic product grew only by 0.2 percent compared to 2.2 percent in the first quarter of 2014. This is largely due to decreased exports because of a strong dollar and a harsh winter that put a damper on consumer spending and a lack of investment from energy companies as oil prices continued to decline. According to Market Watch, experts expect a repeat of 2014, where first quarter growth was lackluster as GDP declined 2.1 percent but gained ground in the spring and summer with 4.6 percent and 5 percent growth.

Oregon's seasonally adjusted unemployment rate dropped to 5.4 percent in March from 5.8 percent February and 6.3 percent in January. The unemployment rate for the Portland metro area came in lower at 5.2 percent in March. Nationally, Personal Consumption Expenditures, a primary measure of inflation, rose by .2 percent in March and when excluding food and energy, the rate only rose by .1 percent. Since June 2014 gas prices have declined 39.5 percent, couple that with low inflation and robust gains in employment, Portland area retailers could likely to see strong consumption growth in the coming months.

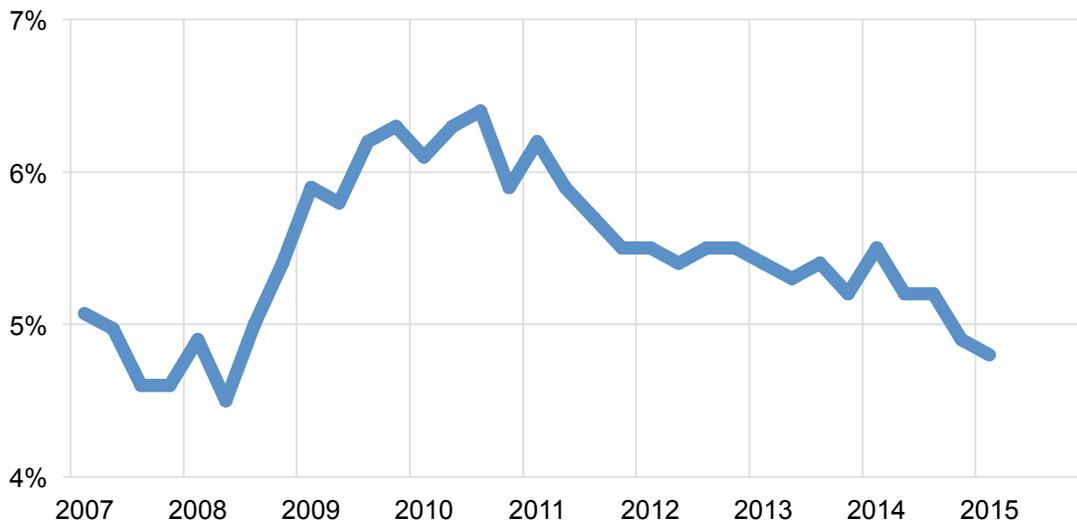
■ **A. Synkai Harrison** is a Master of Real Estate Development candidate and has been awarded the Center for Real Estate Fellowship. Any errors or omissions are the author's responsibility. Any opinions are those of the author solely and do not represent the opinions of any other person or entity.

## VACANCY

Portland’s overall retail vacancy rate decreased by one-tenth of one percent during the first quarter of 2015 according to Kidder Mathews. The quarter ended at 4.8 percent compared to 4.9 percent at the end of the fourth quarter of 2014. The overall vacancy rate for general retail was 3 percent for a total of 1,608,169 square feet out of over 54 million in total inventory according to CoStar. Power centers performed well coming in with a vacancy rate of 4.3 percent followed by the mall market at 4.4 percent. According to Kidder Mathews, the retail market in Portland is experiencing its lowest vacancy rate since the fourth quarter of 2007.

The retail submarkets with the lowest vacancy rates were NE Close In at 1.8 percent, Airport Way with 1.8 percent and Tualatin at 1.9 percent. A few of the areas with the highest vacancy rates were St. Johns/Central Vancouver at 8.6 percent, CBD/West Vancouver at 8.2 percent and Orchards at 9.0 percent all according to CoStar.

**Figure 1: Portland Retail Market Overall Vacancy Rate, 2007–2015**



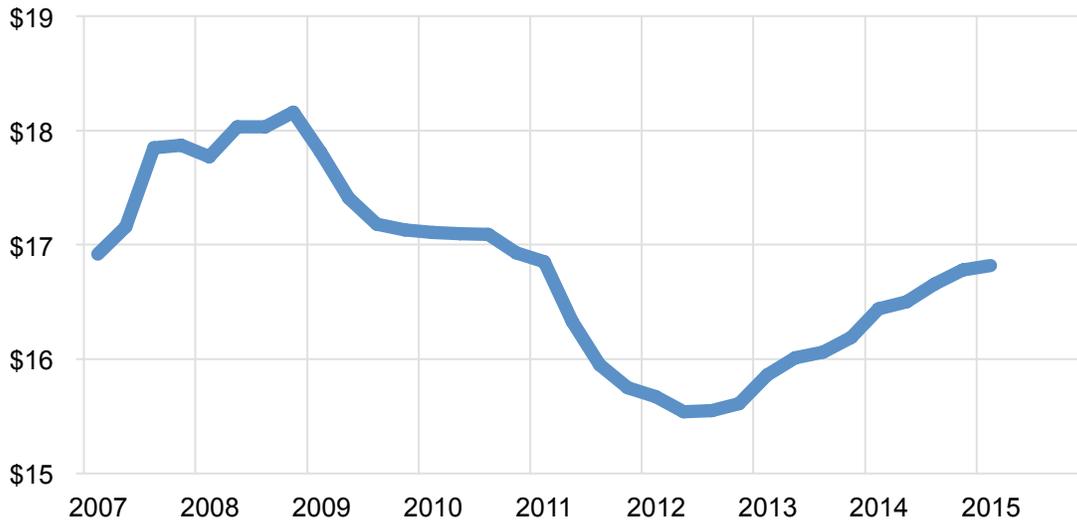
Source: Kidder Mathews

## RENTAL RATES

At the end of the first quarter of 2015, overall asking rental rate for the retail sector was \$16.82 per square foot per year up from \$16.78 per square foot the previous quarter. The current asking rental rate is a 6.25 percent increase over the first quarter of 2014, which ended with an average asking rate per square foot of \$16.44 according to Kidder Mathews.

Power Centers ended the first quarter of this year with the highest overall asking rental rate of \$20.03 per square foot per year, followed by the mall market with \$19.36 per square foot per year and the shopping center market with \$17.37 per square foot per year.

**Figure 2: Portland Retail Market Average Quoted Rates, 2007–2015**



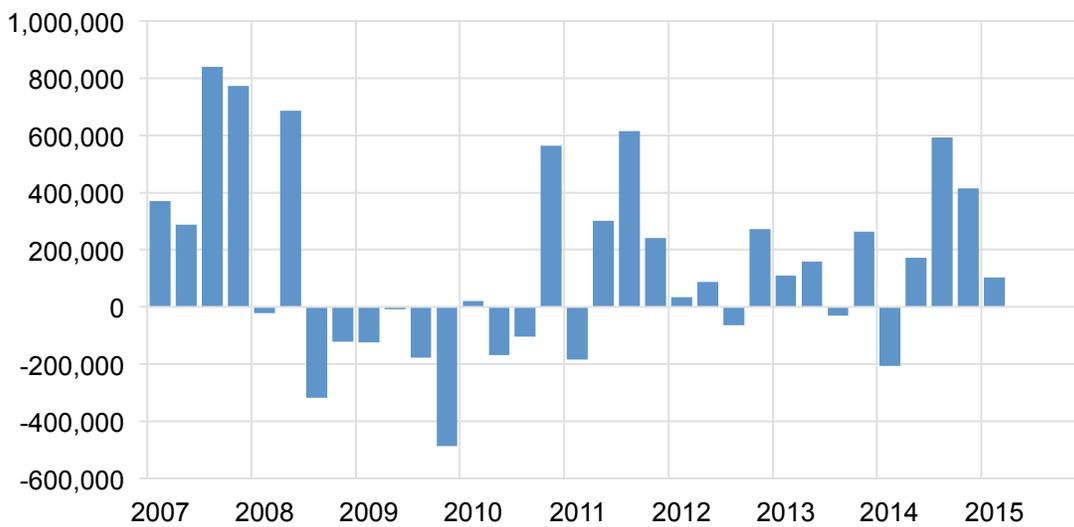
Source: Kidder Mathews

## ABSORPTION AND LEASING

Kidder Mathews is reported 104,082 square feet of net positive absorption at the end of the first quarter of 2015 compared to 415,278 square feet net positive absorption at the end of the fourth quarter of 2014. Despite this decrease, the market is performing better than the first quarter of 2014, which experienced 205,455 of negative absorption.

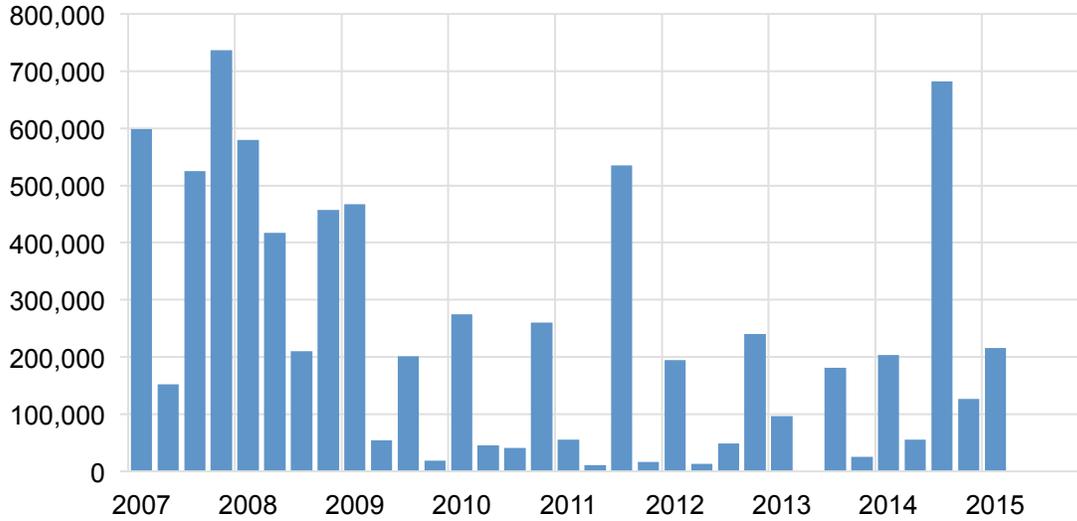
According to CoStar, shopping centers experienced the greatest amount of net absorption with 134,922 square feet followed by power centers with over 48,470 square feet. Malls saw over 1000 square feet of negative absorption at the end of the first quarter of this year. The Portland Central Business District experienced the largest amount of net negative absorption at 44,681 square feet. The Camas/Washougal submarket saw the greatest amount of net positive absorption at 44,597 square feet.

**Figure 3: Portland Retail Market Net Absorption, Square Feet, 2007–2015**



Source: Kidder Mathews

**Figure 4: Portland Retail Market Deliveries, Net Rentable Building Area, Square Feet, 2007–2015**



Source: Kidder Mathews

**Table 1: 2015 Q1 Notable Retail Lease Transactions**

<b>Building</b>	<b>Tenant</b>	<b>Submarket</b>	<b>Sq. Ft</b>
Village Square	Victory Outreach Church	Mall 205	23,500
8124 SW Barbur Blvd	Natural Grocers	Capital Hwy	15,400
Bakery Block	Z Haus Brewery	Clackamas	10,750
Anderson Plaza	The River Church	Camas/Washaugal	10,746

Source: CoStar

**Table 2: 2015 Q1 Notable Investment Transactions**

<b>Property</b>	<b>City</b>	<b>Sq. Ft</b>	<b>Sale Price</b>
Starbucks & Pacific Dental	Vancouver	5,000	\$2,620,000
Mattress Discounters & Zoom Care	Vancouver	6,500	\$2,400,000
915 NW 21 <sup>st</sup> Ave	Portland	4,731	\$2,100,000

## **DELIVERIES AND CONSTRUCTION**

At the end of the first quarter of 2015, nine buildings were delivered for a total of 122,734 square feet according to CoStar. At the end of the fourth quarter of 2014, seven buildings were delivered totaling 126,825 square feet. During the first quarter 2014, fourteen buildings were delivered for a total 221,859 square feet.

Power Centers saw 42,000 gross leasable area delivered followed by general retail which saw 30,279 square feet delivered. The Fred Meyer at 2011 W Burnside Street delivered its 38,455 square foot addition during the first quarter of this year as well as a 42,000 square foot LA Fitness which is 100 percent occupied. ■