
RETAIL MARKET ANALYSIS:

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The Portland retail real estate market was relatively quiet in the first quarter. With the metropolitan unemployment rate down to 9.6 percent and retail sales up for 10 consecutive months according to Census Bureau, there are some encouraging notes, but none seem strong or stable enough to entice investors back to the market. Several important cautionary notes exist. Following a 3.1 percent growth rate in the fourth quarter of 2010, US GDP grew only 1.8 percent in the first quarter of 2011 according to the Commerce Department.¹ Inflation concerns are growing in a climate where commodity prices appear on a steady upward march with the price of oil threatening to derail the country's cautious recovery.

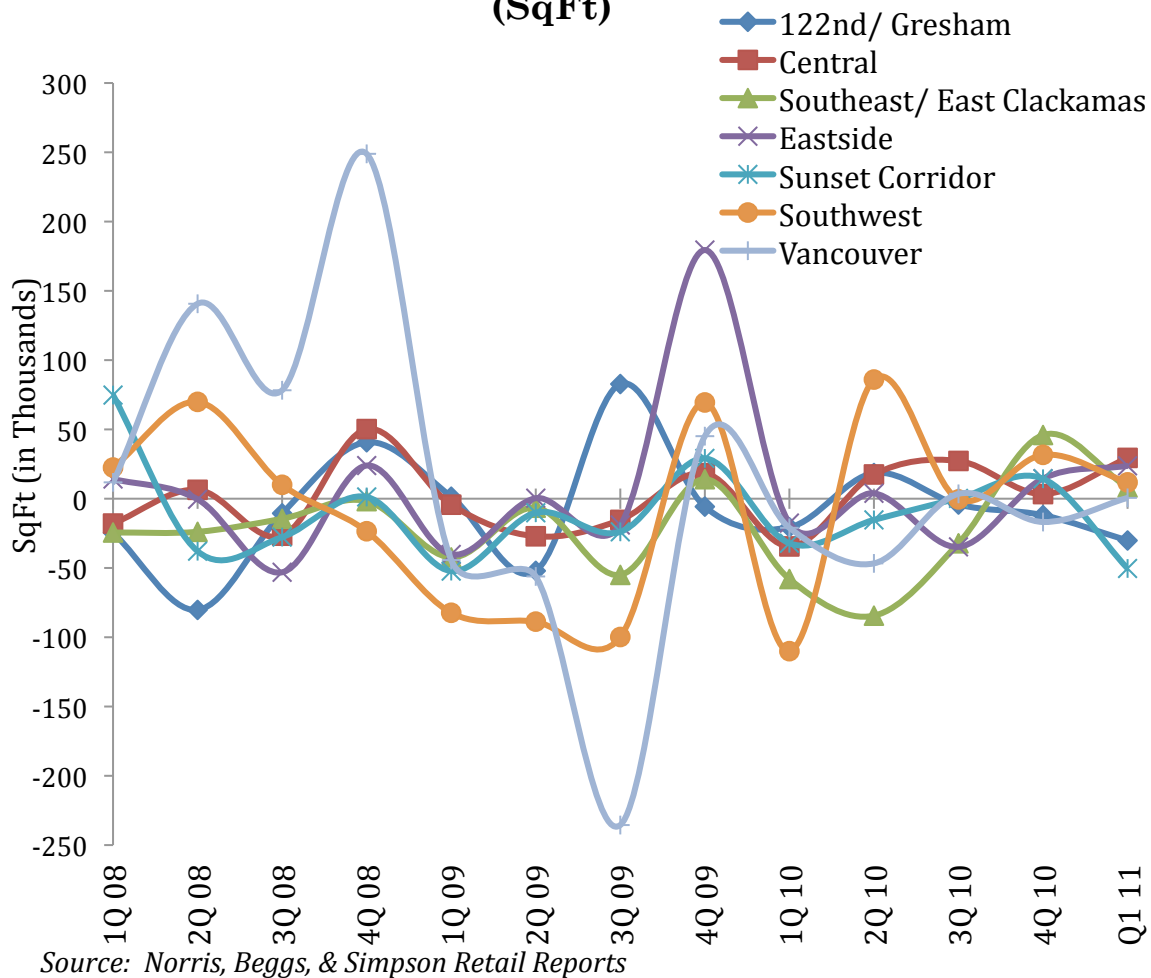
Table 1: Major Retail Lease Transactions, 1st Quarter, 2011

Tenant	Property	SqFt	Submarket
Albertina Kerr Centers	Cascade Station	19,480	E Portland
Odd Ball Shoe Company	1805 NW Thurman St	11,140	Portland City
Partners in Careers	Minnehaha Center	11,000	Vancouver

Source: Portland Business Journal, and Q1 2011 Reports from Norris Beggs Simpson

¹ Schaefer, Steve. "U.S. Economy Slows As Consumer Spending Decelerates", *Forbes*, April 28, 2011.

Figure 1: Total Net Absorption by Submarket (SqFt)



Kidder Matthews references six consecutive months of Case Shiller housing price decline and a large inventory remaining on the market as another drain on consumer confidence. Finally, while the unemployment rate is improving, dismal measures of underemployment and labor force participation leave a substantial portion of working people with little disposable income, particularly as the rise in the cost of goods outpaces personal income.

Norris, Beggs and Simpson reports that retail vacancy remained stable in the fourth quarter, dropping to 6.4 percent. This is the lowest vacancy seen since the first quarter of 2009, following a year of slow and incremental improvements in vacancy largely explained by a lack of new product in the market. Norris, Beggs, and Simpson report only 67,286 square feet under construction in the first quarter, a slight uptick from previous quarters, but at only 0.1 percent of total metropolitan inventory, supply is growing very slowly. Total absorption was reported at negative

6,946 square feet. Central City vacancy improved 130 basis points to 7.8 percent, while Eastside improved 60 basis points to 3.6 percent, the tightest of all submarkets reported by Norris, Bess, and Simpson.

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

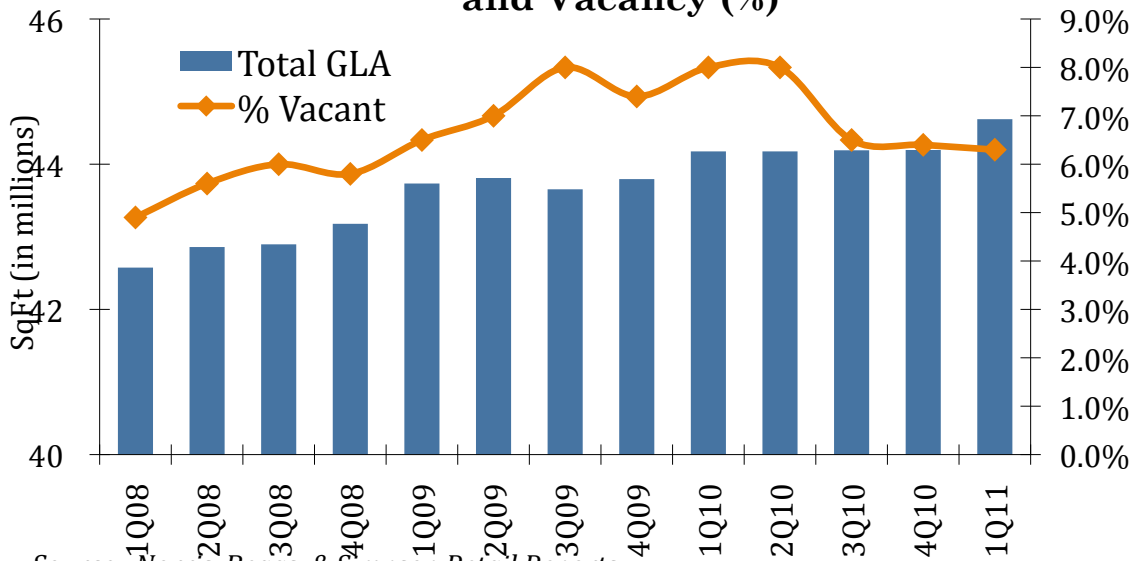
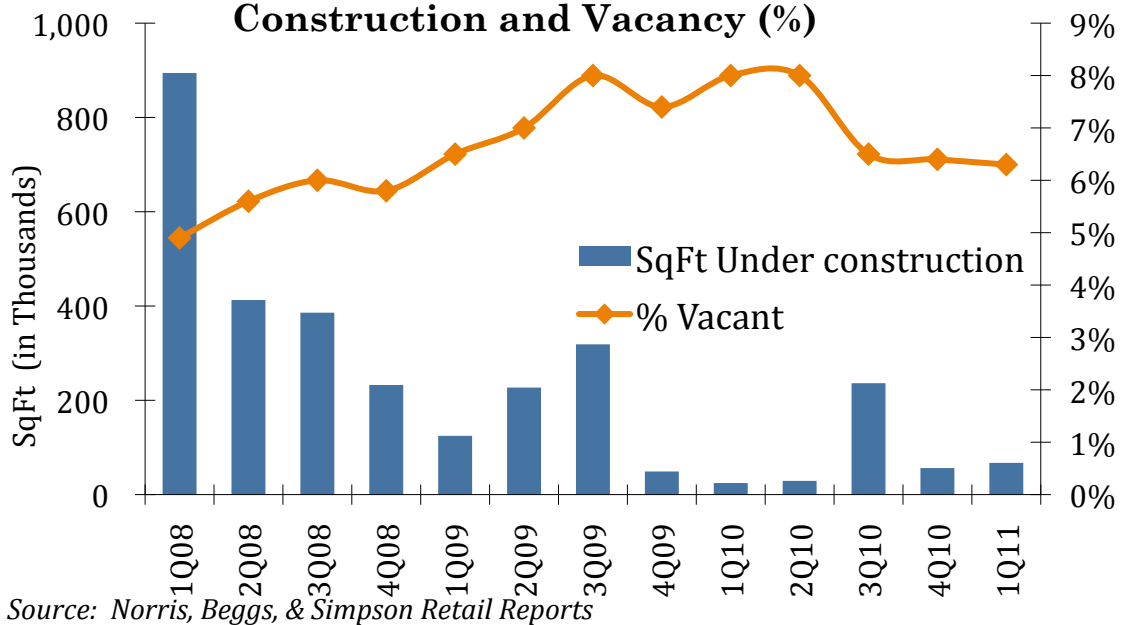
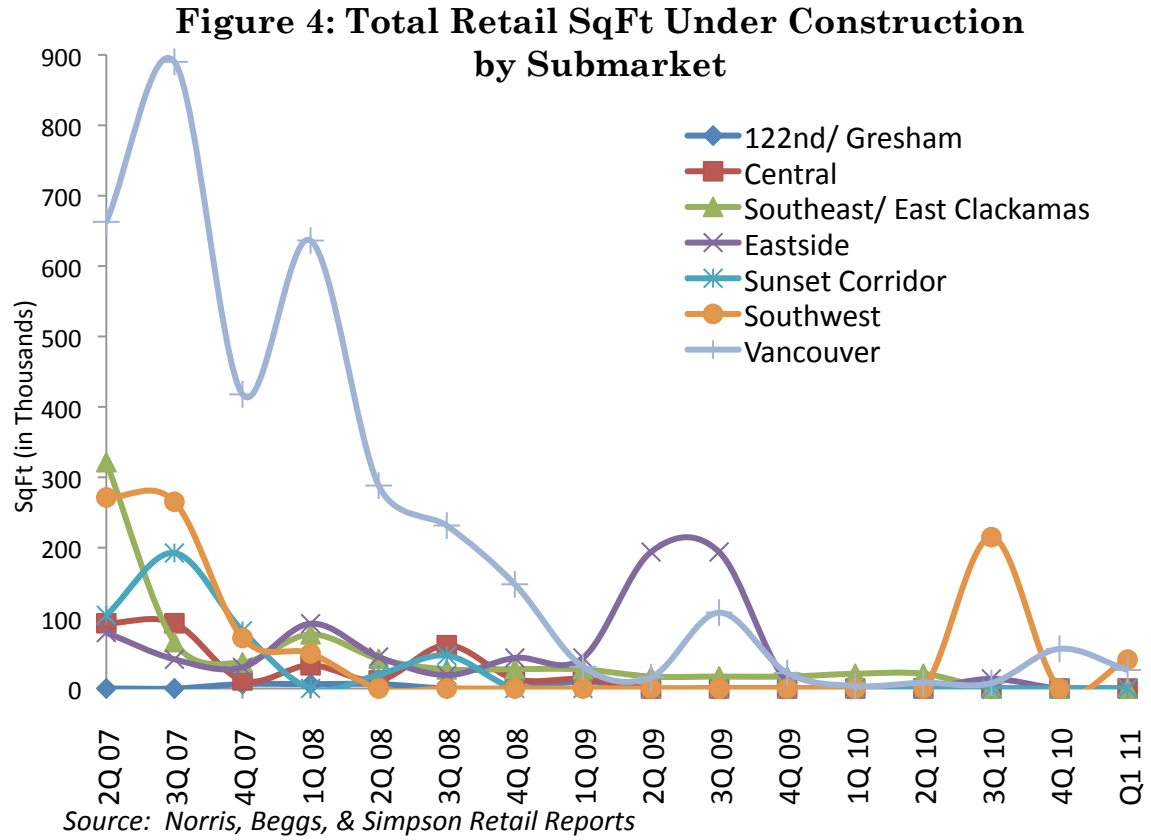


Figure 3: SqFt of Retail Space Under Construction and Vacancy (%)



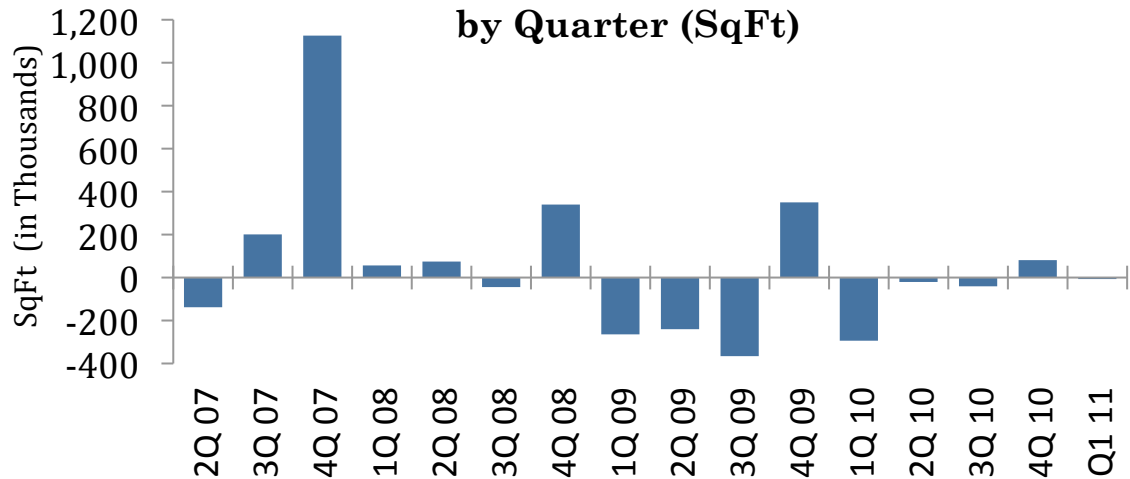


Vancouver carries the highest vacancy rate at 8.2 percent, with flat absorption. Sunset Corridor saw an abrupt rise in vacancy from the fourth quarter to 6.3 percent. Kidder Matthews reports that average retail quoted rents for the Portland market currently jumping \$.08 to \$17.01/square foot (triple net), representing the first increase in rates seen since a peak of \$18.16 in Q4 2008. Vacancy is also reported as up 30 basis points to 6.2 percent following negative absorption of 411,573. Kidder Matthews numbers show two buildings delivered to market at 124,00 square feet of rentable building area total with 352,425 square feet under construction.

Walmart is reportedly considering major investments in the metropolitan area, with as many as 17 new stores being proposed over the next five years.² The stores being discussed include some supercenter-style box developments, but most are targeted to take advantage of local and national grocery store development incentive programs focused on areas that are under-served in terms of fresh food options. Most of the proposed stores are far smaller than a typical Walmart at between 40,000 and 50,000 square feet, with a higher percentage of inventory devoted to food products.

² Gunderson, Laura. "Wal-Mart study considers 17 more stores in Portland area", *Oregonian*, May 3, 2011.

Figure 5: Total Retail Net Absorption by Quarter (SqFt)



Source: Norris, Beggs, & Simpson Retail Reports

Along these lines, some existing Walmart stores are looking to expand, as well, including the Walmart in Lents, which will expand its 134,000 square foot store by 21,500 square feet including a full remodel and addition of a full service grocery store.³ Other expansions proposed by Walmart include a new 80,000 square foot location at Delta Park East in North Portland, a 43,000 square foot store at 17275 NW Cornell Rd in Beaverton, and stores in Newport, Cottage Grove and Dallas. Target Stores has also announced plans to expand grocery options in existing stores in Tigard, Tanasbourne, Hillsboro, Southeast Portland and Happy Valley stores. Such expansions in grocery may have the effect of reducing market share for local chains with smaller distribution who cannot compete with Walmart and Target on price point, such as Fred Meyer, Safeway, Alberston's, New Seasons, and newcomers like Grocery Outlet.

Despite some industry projections that Portland has more grocery stores than the market can handle, attracting full-service providers to neighborhoods considered "food deserts" has recently become a prominent goal of local planning efforts. This commitment was underlined with PDC's recent RFI for the "Recruitment of Grocery Store Development in Underserved Neighborhoods," intended to ease development and operation costs on developers willing to build in designated areas. Walmart has applied for this program, but many prominent local brands have not, including Fred Meyer, Safeway and Albertson's citing the lack of viability for such stores, even with government subsidies. As Bob Lamb, of Lamb Stores, is quoted in the Oregonian, "Some of us would like to bring water to those 'food deserts,' but in some cases, there's a reason there's no water there."⁴ It is unclear how Walmart's neighborhood

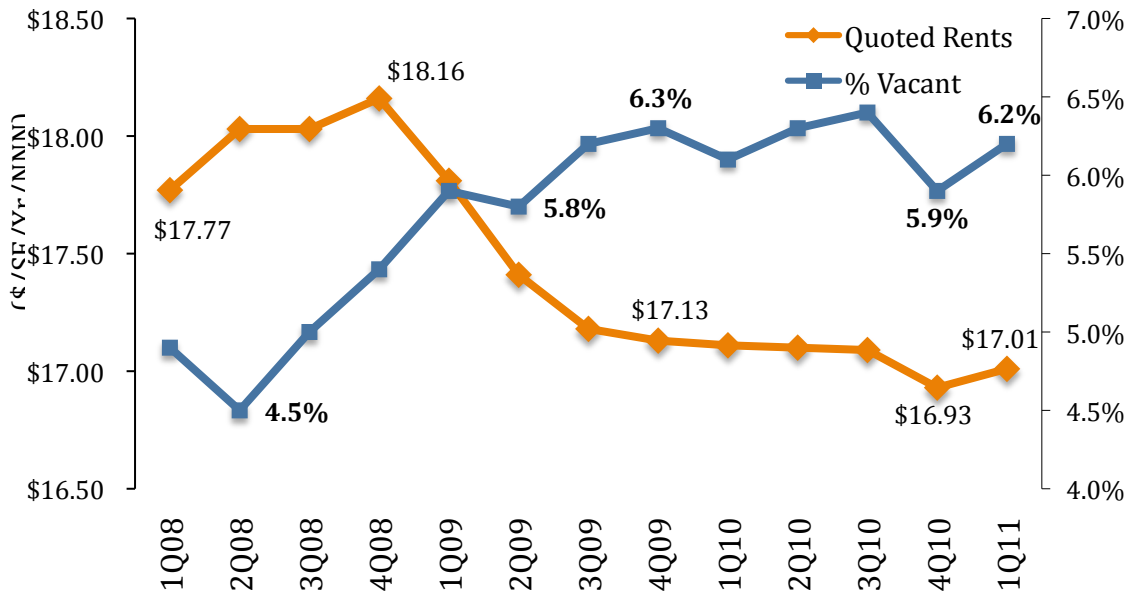
³ Bjork, Nick. "Walmart in Lents neighborhood to expand", *Daily Journal of Commerce*, April 27, 2011.

⁴ Gunderson, Laura. "Walmart and Target load up on groceries in Portland area", *The Oregonian*, May 7, 2011.

store efforts will be viewed by citizens and local government, but with lower costs than comparable stores, Walmart may be one of only a few viable options in otherwise risky markets.

Apart from grocery expansions, Target is reportedly proceeding with plans to take over an 85,563 square foot space at the Galleria in downtown Portland for a small-format, urban store in line with their recent models.⁵ Typical Target stores average approximately 126,000 square feet, with some Super Targets exceeding 160,000 square feet. Contingent on historic design reviews and permitting, the store would look to begin build out by the third quarter of 2011.

Figure 6: Quoted Rents and Retail Vacancy (%)



Source: Kidder Matthews Q1 2011 Retail Report

⁵ Bjork, Nick. "Target gets serious about downtown Galleria space", *Daily Journal of Commerce*, April 27, 2011.