Retail Market Analysis

Kyle Smith, Regional Multiple List Service [RMLS] Fellow & Certificate of Real Estate Development Graduate Student

Retail vacancy increased by 60 basis points to 8.0 percent during the first quarter, with negative absorption of 293,920 square feet according to the Norris, Beggs & Simpson retail report.\(^1\) Central City had the largest vacancy increase, climbing 150 basis points to 11.7 percent, the highest vacancy rate in any submarket.

Every submarket experienced negative net absorption

A majority interest in Lloyd Center was sold when owner Glimcher Realty Trust of Columbus, Ohio launched a joint venture with the Blackstone Group, a large private equity company headquartered in New York City. Under the deal which closed at the end of March, Blackstone acquired a 60% stake in Lloyd Center and another mall in Tampa, FL while Glimcher will maintain a 40% stake and will continue management and leasing responsibilities for both shopping centers. Glimcher reports that the value for the combined transaction is about $320 million, which includes $215 million in loans that are currently in place on the properties. The joint venture formation generated about $60 million in net proceeds for Glimcher which it used to reduce its outstanding borrowing. Although it hasn’t been confirmed, The Wall Street Journal reported that Blackstone paid $39 million in cash and assumed $75 million in debt for the Lloyd Center. The WestShore Plaza mall in Tampa reportedly sold for $27 million in cash and $54 million in assumed debt for Blackstone’s

\(^1\) “Retail Report” Norris, Beggs & Simpson, First Quarter, 2010
interest in the property. This represents an estimated cap rate of 9.5% for the two properties. Lloyd Center is one of Glimcher’s seven best malls and they classify its performance as market dominant. CoStar reports that Glimcher acquired the 1.42 million square foot Lloyd Center from SI-Lloyd Associates for $167 million, when it was 85% occupied and tenant sales were about $325 per square foot. At the end of 2008, Glimcher reported 94.7% occupancy at Lloyd Center and $379 per square foot in tenant sales. Glimcher recently reported a loss of $7.3 million on revenue of $228.5 million but says it has addressed all of its 2009 mortgage debt maturity issues.

![Total Gross Leasable Area (GLA) and Vacancy](image)

Source: Norris, Beggs & Simpson Retail Report - First Quarter 2010

**Vacancy rates bounce back up to third quarter 2009 level**

**Pending Debt Maturity Refinancing Issues**

There are numerous commercial real estate companies that either have or will have debt maturity refinance issues in the very near future. The Portland Business Journal reports that there is an estimated $1.8 billion in commercial mortgages that will expire during the next two years in Portland. That figure covers all income-producing properties and could substantially alter the whole commercial real estate market if even a fraction of the properties sell because of an inability to refinance the old debt. Lenders and property owners are feeling the effects of the credit market and rising delinquency rates. This is particularly true of local banks and small commercial borrowers who depend on banks for loans on smaller projects with shorter maturity times. Bank of America filed court documents for a Gresham

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1 \“Slow sales slam office market\” Portland Business Journal, October 30, 2009
shopping complex on Fairview Drive that defaulted on a $6.8 million loan in July. Capital Pacific Bank declared Portland’s Greek Cusina building in default of a $1.4 million debt and sued to have a receiver assume management of the building. One result has been sizeable increases in the volume of loans placed in non-accruing status. Non-accrual means that the loan is not performing, interest is overdue, and the full collection of the principal is uncertain. Umpqua Bank, West Coast Bank and Capital Pacific Bank have all reported spikes with Umpqua’s being the largest at 146% annual increase bringing it to $35.7 million.

Banks and small companies aren’t the only ones struggling. Deutsche Bank released an analysis of the Commercial Mortgage Backed Securities market that shows its continued weakness. They looked at more than 54,000 loans worth roughly $600 billion and showed that there will be a significant number of maturity and term defaults during the coming years. This is attributed to depressed property values nationwide as well as decreased cash flows.3

Construction and deliveries to the market continued to be slow during the first quarter with only 24,499 square feet currently under construction in the metropolitan area. The almost 100 basis point decline in vacancy and the large drop off in construction during the fourth quarter of 2009 was driven by the 140,000 SF Cascade Station Target which opened in October. The Target super center was the only new delivery to the metro area during the fourth quarter. There was one building delivered during the first quarter and it accounts for all 93,000 square feet of delivered inventory.

Source: Norris, Beggs & Simpson Retail Report - First Quarter 2010

Construction at a historic low

3 “Quarterly Market Update” Melvin Mark Brokerage Company, November 20, 2009
Southeast and Vancouver submarkets are the only sites with current construction

Property owners and prospective tenants are responding to the softened retail market in several ways, one of which is through short leases and allowing temporary pop-up stores. A pop-up store is occupied by a retailer that opens up a traditional storefront for a limited time, then shuts down after a few weeks or months. Property owners are becoming increasingly open to short term leases as a way to generate revenue and bring foot traffic into otherwise vacant space. The Oregonian reported one such internet retailer that opened up a physical location in the Pearl District.4 Solestruck is an internet-based shoe retailer that stores its inventory in a Wilsonville warehouse. For the holiday season they chose to sign a three month lease and take their market presence beyond the internet, hoping to draw future traffic to their website. The pop-up store was successful and the company decided to make it permanent. They had a re-grand opening in March and are operating out of the same retail location on 11th Avenue.

There are several retailers planning future expansions into the metro area, and some that will be closing their doors. Walmart is looking to build a store at Hayden Meadows and there is a working plan to bring an H&M clothing store to Pioneer Place during 2010. The Puma and Adidas stores have closed, and the nearby Eddie Bauer store in the Pearl has also closed its doors.

4 “Temporary Stores Popping up amid tough retail leasing Market” The Oregonian, November 4, 2009
Three apparel retailers close their doors in the Pearl District

Saks Fifth Avenue has announced that they will be closing its downtown Portland stores by midsummer. According to the Oregonian, Saks was scheduled to close the 23,000 square foot men’s store on April 25, 2010 while the 60,000 square foot main store will close its doors on August 1, 2010. Saks Inc. may not be leaving the Portland area entirely though. Saks has been negotiating a lease with Bridgeport Village to secure space for Off Fifth, which is the company’s store that sells private-label, clearance and closeout items. Saks spokeswoman Julia Bentley said, “It wasn’t a great fit with Portland even before the economy.” Ms. Bentley added that the store wasn’t meeting the company’s profitability standards and that the store’s lease expired this year. If it opens, Off Fifth will locate in the space vacated by a grocery store at Bridgeport Village.

The Oregonian reported that the Swedish retail chain H&M was interested in the space Saks men’s store currently occupies and were close to signing a lease. This report has not been confirmed by H&M, Mayor Sam Adams or the PDC. Mayor Adams did release this statement though, “I’m not allowed to talk yet about potential replacements. We expect to announce within the coming weeks and months new retail offerings at Pioneer Place that we are confident will excite Portlanders.”

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5 “Saks closing downtown Portland store, may open Saks Off Fifth at Bridgeport Village”, The Oregonian, March 23, 2010
6 “H&M setting up shop in Portland by 2010”, The Oregonian, December 19, 2009