Nationally, we have been in a recession for at least 19 months. While most experts expect that the national economy will bottom out by the end of 2009, Oregon usually lags other parts of the nation in entering and exiting recessionary periods. The retail sector is also victim to this trend, as most industry analysts forecast another one to two years before a full recovery of the retail sector.

Consumers are spending their incomes on essential goods and services while increasing their savings rates, but industry observers contend that they will spend money on discretionary items if they perceive value. Therefore, discount retailers and drugstore chain sales are faring well in this economy up 4.1 percent and 1.3 percent respectively year over year from July 2008-July 2009, while luxury apparel sales are down 12.5 percent for the same period, according to Peter Sharpe, president of commercial developer Cadillac-Fairview Corporation and chair of the International Council of Shopping Centers [ICSC].

Lower food prices are exacerbating the lack of sales growth. Nationally, 2,800 chain stores have closed during the first six months of 2009, compared to 3,200 during the first six months of 2008 according to ICSC research. ICSC experts predict an overall sales growth rate in retail of 0.3% during 2009, and a 3.5% growth in 2010.

Locally, retailers are feeling the pinch of less consumer spending. Reports of sales declines by local retail and restaurant owners in the Salem/Keizer market are fairly standard. Expansion has come to a halt as most retail owners’ focus has turned to sustaining current operations and analyzing efficiency to ensure they can ride out this recession. This lack of consumer spending, and inward focus of owners has negatively affected local retail vacancy rates.
Overall, the Salem/Keizer retail vacancy rate was 15.07 percent at the end of 2008, based on a survey size of almost 4,000,000 square feet, not including regional malls Salem Center and Lancaster Mall, each containing approximately 650,000 square feet. The Salem vacancy rate was far above a healthy industry rate of 8-10 percent. At the end of the second quarter, 2009, that rate had risen to 18.27 percent. This represents a negative absorption of over 120,000 square feet. The closures of Circuit City (30,763 square feet) and local furniture retailer Home and Dining Collections (30,000 square feet) caused most of this decline.

There are ten mid- and large-box retail spaces (over 20,000 square feet) available in the Salem/Keizer area. Reports by Donahue Schriber, owners of Keizer Station, indicate that the releasing of the former Wickes and Party Depot spaces is likely to occur in the near term. Additionally, Dick’s Sporting Goods is going to backfill the Joe’s [formerly G.I. Joe’s] location on Lancaster Drive. Unfortunately, there are few retailers in the marketplace who have the size requirements to fill many of the 20-40,000 square foot vacancies.

On a sector-by-sector basis, no one in the local marketplace is immune from decreased spending by consumers and lack of expansion by retailers. The CBD has a current vacancy rate of almost 20 percent, led largely by the lack of absorption of the recently remodeled former Anderson’s Sporting Goods and the Metropolitan Building. Ongoing vacancy at Liberty Plaza also negatively affects the vacancy rate.
In South Salem, the vacancy rate is up about 1.5 percent from year-end to a current level of 15.8 percent. The closing of a stationery store and the addition of a new retail/office mixed-use project called Candalaria Crossing, which has only reached approximately 30 percent occupancy are the main causes of the increase. The addition of the recently relocated St. Vincent dePaul Thrift Store from South Salem to Lancaster Drive further hampers occupancies and increases vacancies in the South Salem area.

In West Salem, the retail service area is relatively small so the large vacancy at Oak Hills (Safeway) on Edgewater is the main reason for the above-market vacancy of 17 percent. Owners are currently remodeling and analyzing several tenants interested in some or all of the vacant space.

In the East Salem retail area, the vacancy is up to 19.4 percent from year-end’s 17 percent. The continuing vacancy of five large retail spaces is the reason the vacancy is so high.

In the North Salem/Keizer sector, the vacancy rate of almost 19 percent can almost solely be attributed to the vacancies at Keizer Station. There are numerous smaller vacancies along River Road, most of which have been available for more than a year.

Over the past six months, very few retail lease deals have been consummated as compared to the leasing velocity of the marketplace during 2006 and 2007. There are a number of start-up types of businesses or first-time retail business owners analyzing the marketplace. Healthy retailers looking to out-position their struggling competition are also prevalent in the marketplace.

However, deals are taking much longer to complete due to a variety of reasons. First, tenants who rely heavily on national news reports believe they can obtain lease rates and terms that would put most landlords out of business. Tenants fail to understand the relationship between what they can (or will) pay and a landlord’s access to capital. Conversely, landlords in some cases are failing to realize that qualified tenants are difficult to find in this economy and that it may be a smart decision to leave a few dollars on the table to ensure a stabilized future income stream.

Unfortunately, lack of capital reserves, and/or lack of access to capital by both landlords and tenants, is also affecting deal volume. Start-up capital for inventory and working capital is not plentiful, and landlords do not typically have reserves for tenant improvements because they came to rely on financing for those costs during the time when lenders were happily providing funds for those uses.

The Salem/Keizer market is not unique in its struggle to right the retail ship. In order to do so, a number of market perceptions need to be corrected. First, landlord and tenant expectations need to come in line with a new normal commercial real estate market condition. Comparing the quality of space and the lease rates of 18-36 months ago to justify today’s asking rates will only delay recovery. Furthermore, tenants need to realize that landlords need to make a profit, albeit smaller than the profit realized just a short time ago. The capital markets also need to improve so that both qualified landlords and tenants can access needed capital for successful ventures.