
RETAIL MARKET ANALYSIS:

DAVID WEST

RMLS Fellow

Certificate of Real Estate Development Student

Masters of Urban and Regional Planning Candidate

A long list of national indicators gives the battered retail sector some signs of recovery, though any hope is cautioned by a high jobless rate and poor personal income performance. Retail sales outperformed expectations through the holiday season, rising 5.5 percent over the same period in 2009, nearly reaching levels seen prior to the recession.¹ Personal incomes rose nationally during the fourth quarter by 1.03 percent, the greatest rise reported by the Commerce Department since Q1 2008. These numbers capped off a year where the economy grew at a pace of 2.9 percent. While growth remains sluggish, it's a stark contrast to the 2.6 percent GDP decrease in 2009.

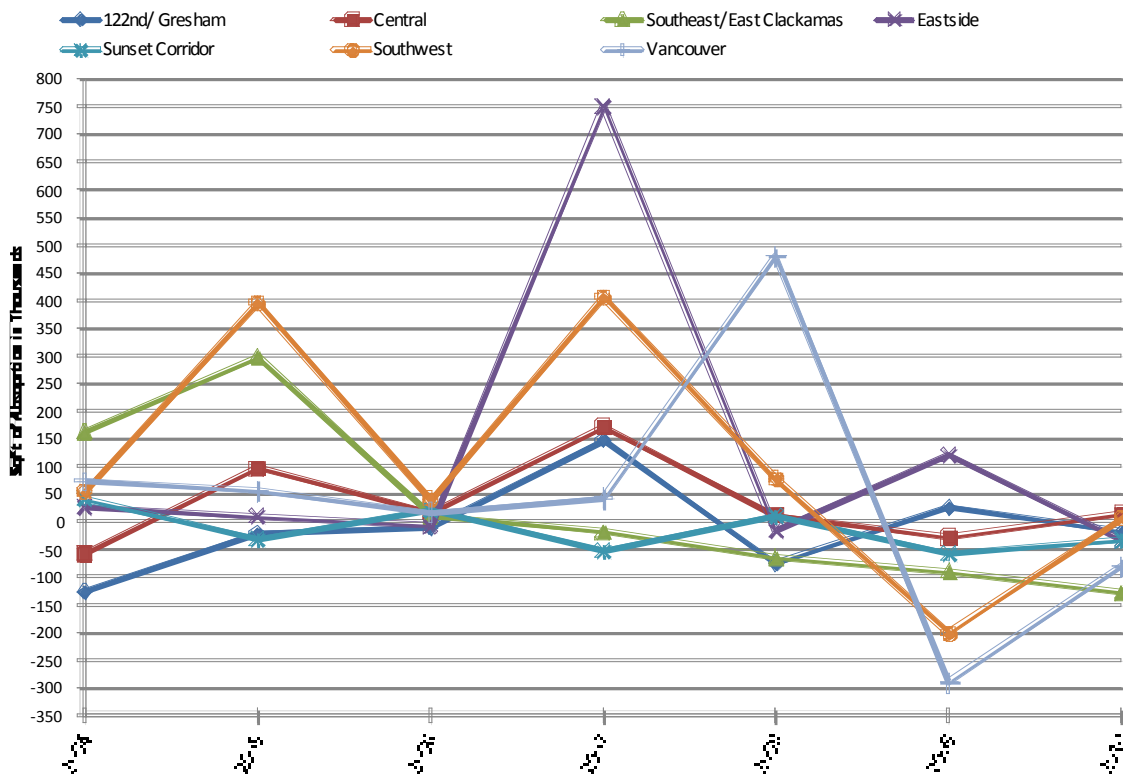
¹ Clifford, Stephanie. "Retail Sales Rebound, Beating Forecast", *The New York Times*, December 27, 2010.

Table 1: Major Retail Lease Transactions, 4th Quarter, 2010

Tenant	Property	SqFt	Submarket
Dick's Sporting Goods	Johnson Creek Shopping Center	48,815	E Clackamas
Ross Dress for Less	Eastport Plaza Shopping Center	20,601	Eastside
Big 5 Sporting Goods	Orchards Market Center	20,450	Vancouver
H&M	Washington Square Mall	19,481	Southwest
Total		109,347	

*Source: NAI Norris Beggs & Simpson Retail Quarterly Reports, Fourth Quarter 2010 & Portland Business Journal

Figure 1: Total Net Absorption by Submarket (SqFt)



Source: NAI-Norris, Beggs & Simpson Quarterly Retail Reports

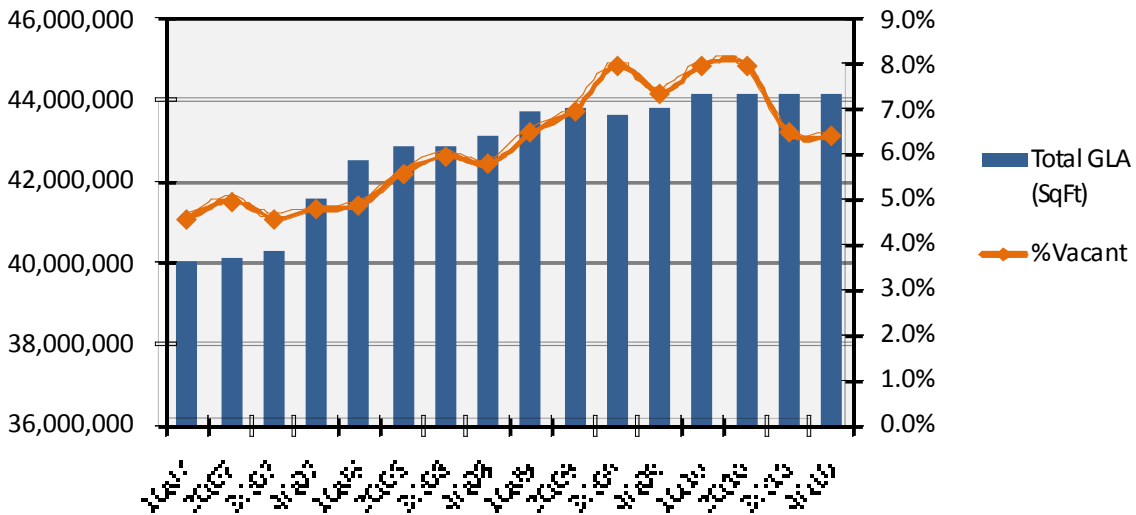
Norris, Beggs and Simpson reports that retail vacancy remained stable in the fourth quarter, dropping 10 basis points from Q3 to 6.4 percent. This is the lowest vacancy since Q1 2009, joined by the first positive absorption estimate since 2009 at 81,081 square feet. The Central City submarket continues to have the highest vacancy rate, but continues a three quarter-long slide, beginning at 11.7 percent in Q1 and falling to 9.1 percent in Q4. The Eastside submarket carries the lowest reported vacancy, down 30 basis points from the third quarter to 4.2 percent.

Kidder Matthews reports that average retail quoted rents for the Portland market currently sit at \$16.93/square foot (triple net), a rate that has been steadily dropping since a peak of \$18.16 in Q4 2008. Kidder Matthews’ forecast suggests that that this rate will stabilize through the coming year based on strong pre-lease levels in new projects and those under construction. While Kidder Matthews expects rents to cease their decline through the coming year, there is no expectation of gains “any time soon”.²

Portland has recently gained national attention for its low cross-market vacancy rate. Portland ranked ninth on Grubb & Ellis’s list of cities for retail investment opportunity, due primarily to its low vacancy rate of 6.1 percent. In a recent article in Oregon Business, David Hill, senior investment specialist at Grubb & Ellis, points to local growth controls for Portland’s relatively strong performance:

“It’s more a reflection about supply than demand. We never got overbuilt ... National retailers who want to get in Portland haven’t been able to. It’s very difficult to find a space in the area to build new retail. You can’t just keep building new buildings...The market here doesn’t move quite as fast.”³

Figure2: Total Gross Leasable Area (GLA) and Vacancy

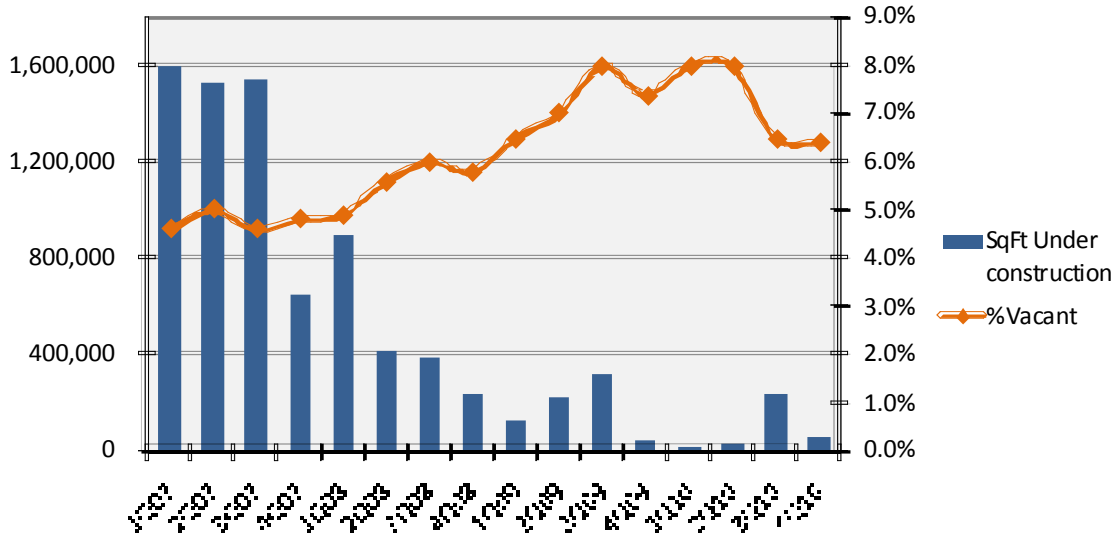


Source: NAI-Norris, Beggs & Simpson Quarterly Retail Reports

² Kidder Matthews “Real Estate Market Review: Portland, Vancouver and Surrounding Areas, Q4 2010

³ Gelber, Max. “Portland rated a top real estate buy”, *Oregon Business*, February 2011.

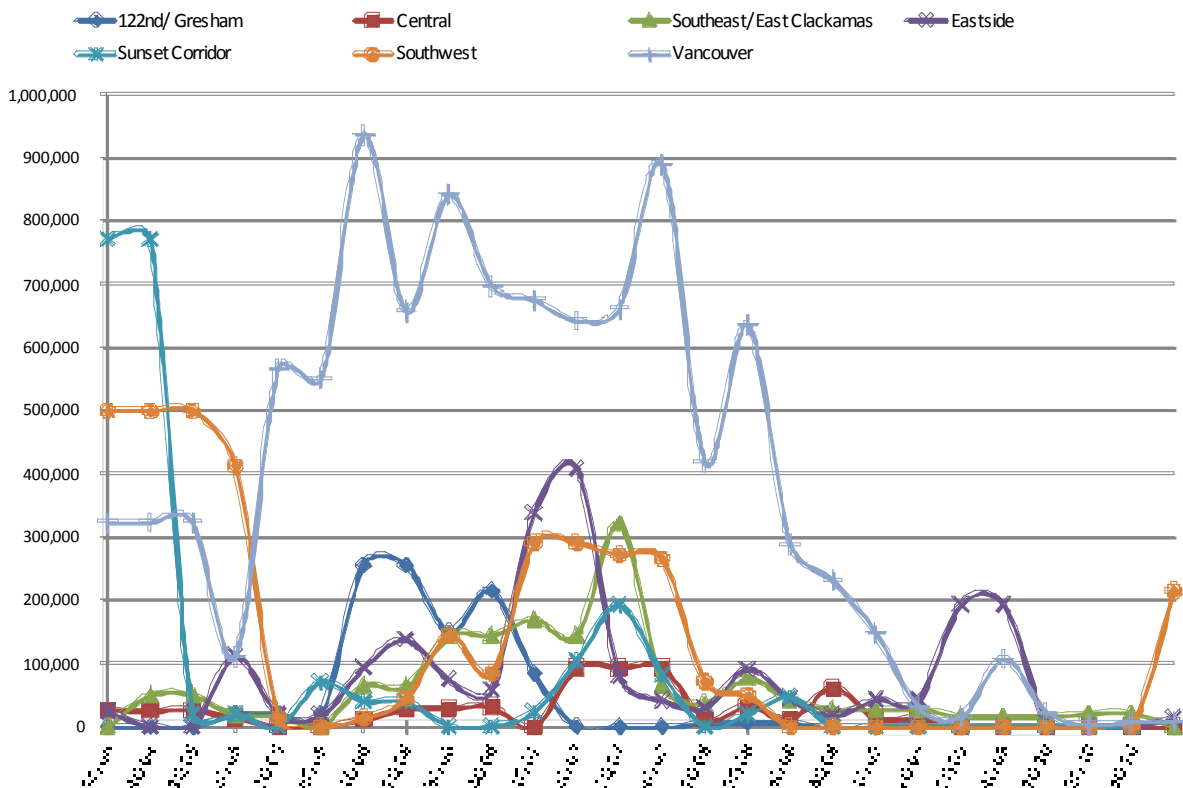
Figure 3: SqFt of Retail Space Under Construction and Vacancy



In mid-November, New York-based H&M opened its first local store at Pioneer Place downtown in a 25,000 square foot, three story space formerly occupied by Saks Fifth Avenue. The opening garnered much local fanfare and opened with a line on the sidewalk estimated at 1,200 people.⁴ H&M has now signed a lease to open in February 2011 in a 19,481 square foot space at Washington Square. H&M plans to open a third Portland location by early summer at Clackamas Town Center.

⁴ Gunderson, Laura. "H&M to open third store at Clackamas Town Center", *The Oregonian*, January 24, 2011.

Figure 4: Total Retail SqFt Under Construction by Submarket

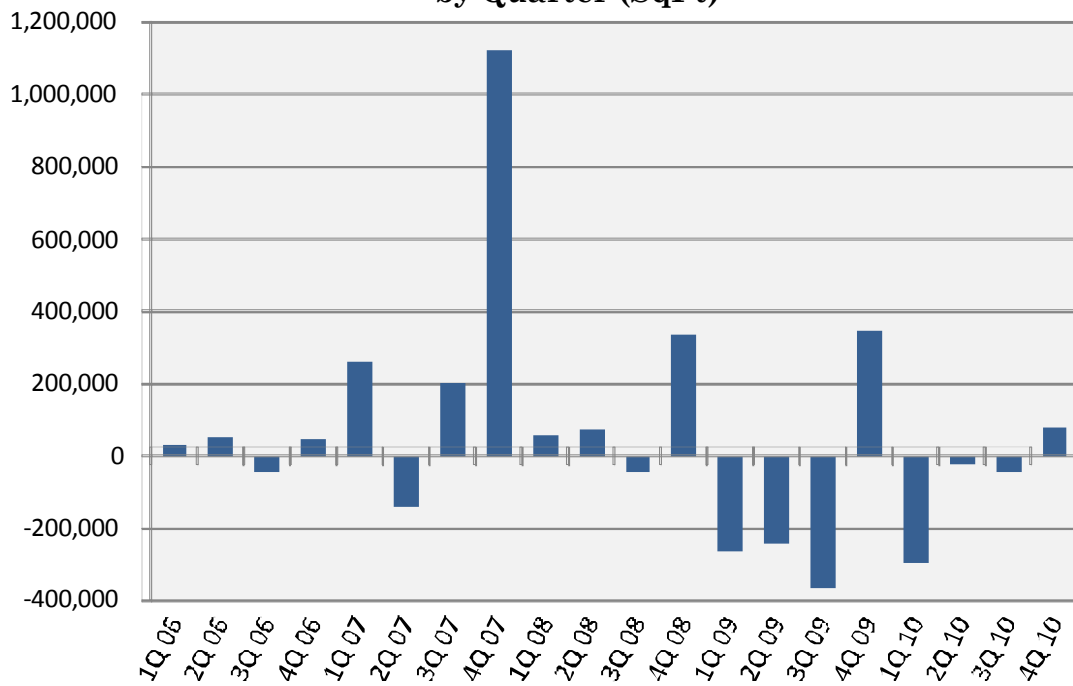


Source: NAI-Norris, Beggs & Simpson Quarterly Retail Reports

While leasing activity in the central city continues to be slow, the Portland Business Alliance reports continued success with their holiday “pop-up shop” program. In an effort to activate vacant but high quality storefronts, PBA arranged for and offered rent-free retail space to upstart craft and design businesses. Intended initially as an experimental “stopgap” program for the holiday season, the initiative saw a great deal of success in 2010, with vendors’ seven-week revenue rising 45 percent over the previous year to \$150,000. Upstart retailers were so successful in their spaces that three of five shops from have signed month-to-month leases in their space as of January 2011 with monthly rent. This program not only provides an excellent incubator service for small creative businesses, but also stimulates activity to adjacent retail businesses and allows owners to improve the marketability to potential long term lessees of otherwise empty downtown storefronts. As Vanessa Sturgeon, president of TMT Development, who recently leased 6,000 square feet in the Fox Tower to upstart fashion design business “Flurry” recently explained to the Daily Journal of Commerce: “When they got the

shop set up I just couldn't believe how amazing it looked, I didn't know if they were up to it, but when I saw the shop complete, it looked like it belonged in that space.”⁵

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



⁵ Bjork, Nick. “Pop-up shop program leads to 3 signed leases”, *Daily Journal of Commerce*, January 11, 2011