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## RETAIL MARKET ANALYSIS:

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The recovery continues to be slow and halting for the Portland retail market. Employment growth is stagnating and worsened by languishing housing prices, poor income growth, and sluggish growth in GDP. These factors have combined to slow progress in consumer confidence and retail sales, and have led many to worry about the imminence of a national double-dip recession. Locally, however, signs are more positive, with an unemployment rate dropping to 8.8 percent in June, falling below both national and state numbers. State projections have Portland's economy continuing to grow at over 2.5 percent for both 2011 and 2012.

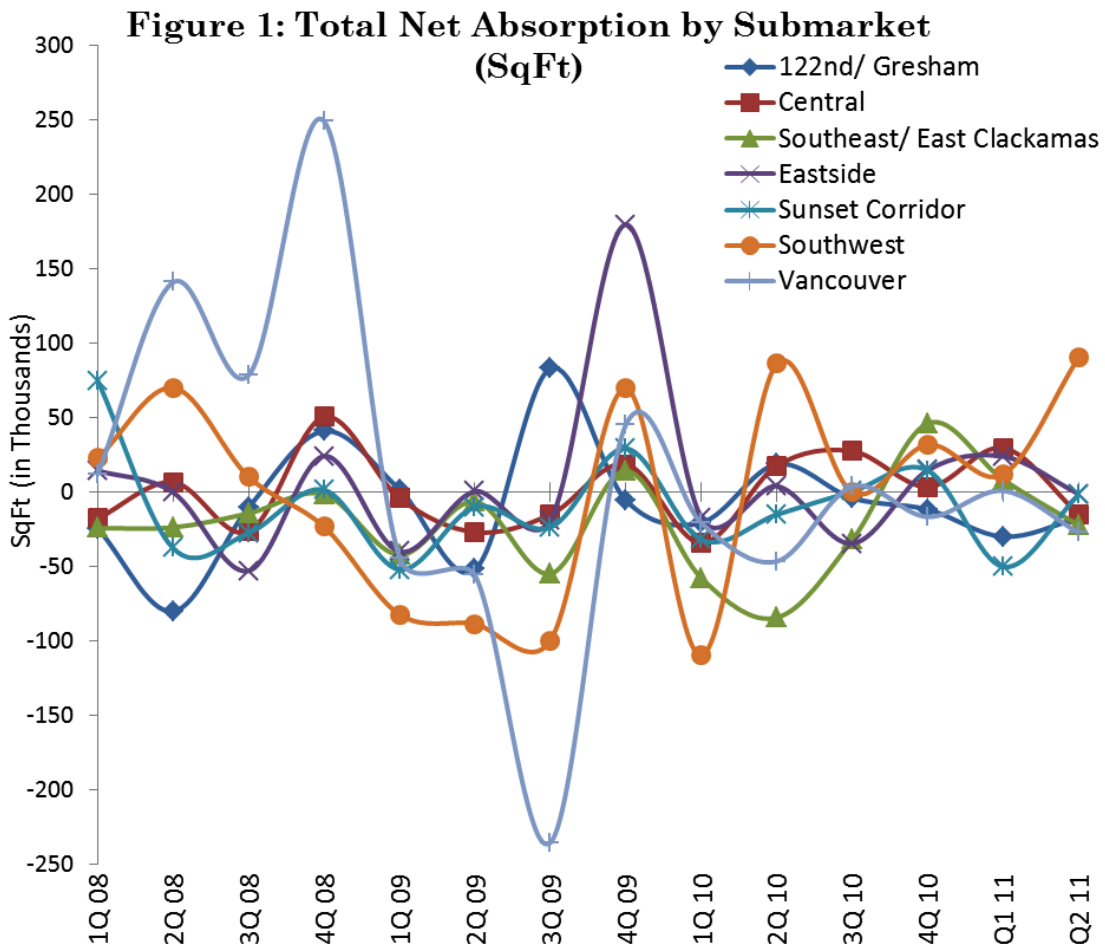
**Table 1: Major Retail Lease Transactions, 2nd Quarter, 2011**

Tenant	Property	SqFt	Submarket
Sports Authority	Cedar Hills Crossing	55,557	Southwest
Fisherman's Marine	Cascade Boulevard Center	25,646	Southwest
DSW	1981 NW 185th Ave	20,000	Sunset Corr.

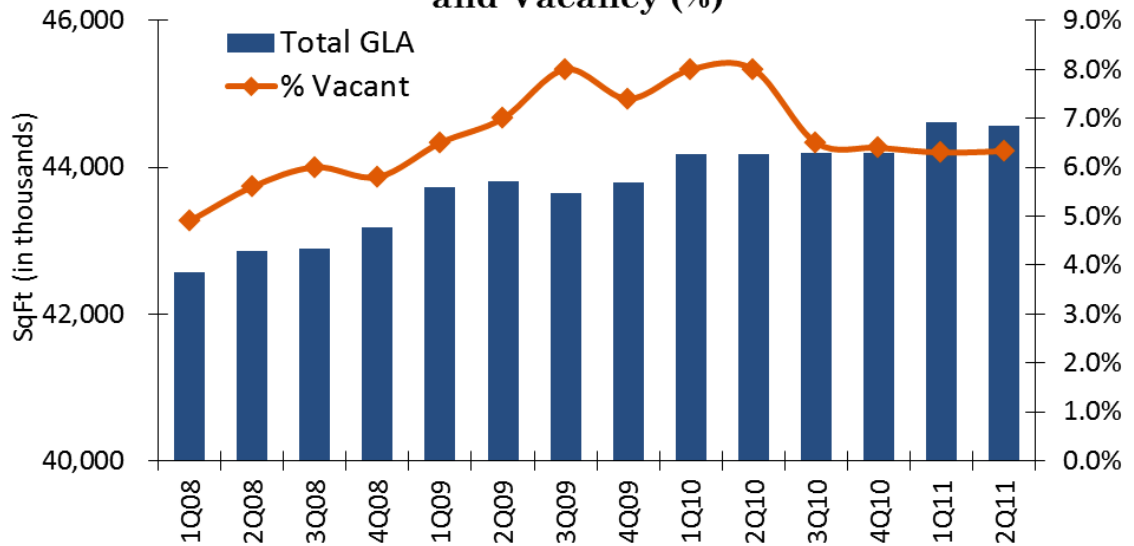
\*Source: Oregonian, Portland Business Journal, and Q2 2011 Reports from Norris Beggs Simpson and Kidder Matthews

Norris, Beggs and Simpson report that retail vacancy remained stable in the second quarter, holding at 6.3 percent alongside a positive but negligible net

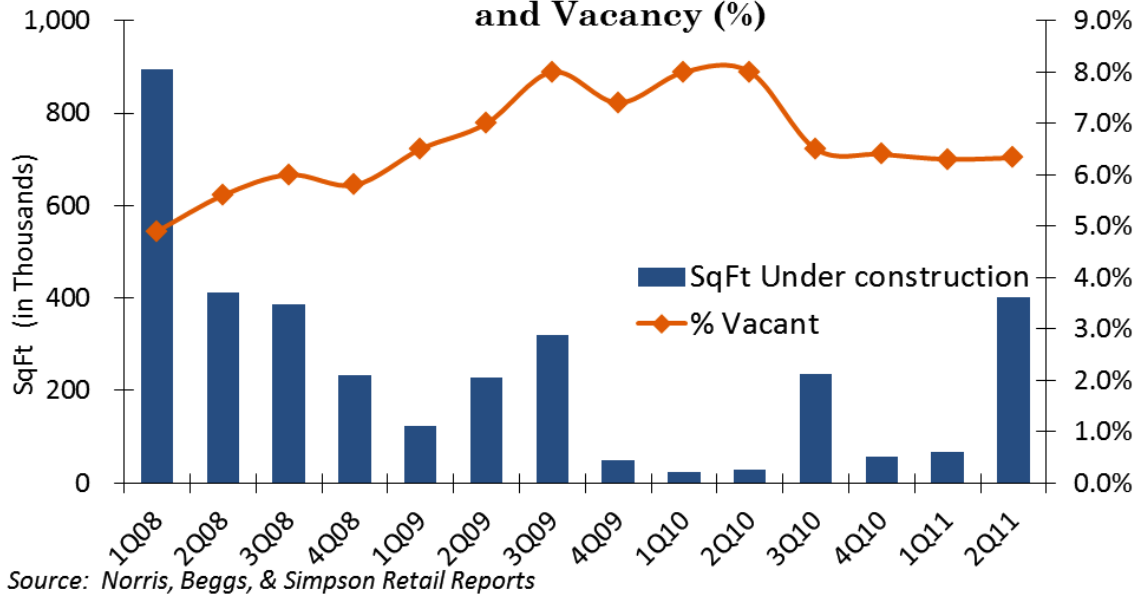
absorption of 4,000 square feet. This coincides with Kidder Matthews reports of steady 5.9 percent vacancy in the metro area, though Kidder Matthews reports a more robust absorption of 436,000 square feet following a net loss of 302,000 square feet in the first quarter. Cushman & Wakefield report a decline in vacancy from 6.2 percent in the first quarter to 5.8 percent in the second, with net absorption similar to Kidder Matthews at 395,000. The Gresham submarket carries the highest vacancy rate, according to Norris, Begg & Simpson, at 8.9 percent, and the Eastside carries the lowest at 3.6 percent. Southwest has seen the highest levels of activity in the past two quarters, with 90,000 square feet of absorption and 375,000 square feet under construction in the second quarter. Vacancy in Southwest dropped 80 basis points in the second quarter to 4.4 percent



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

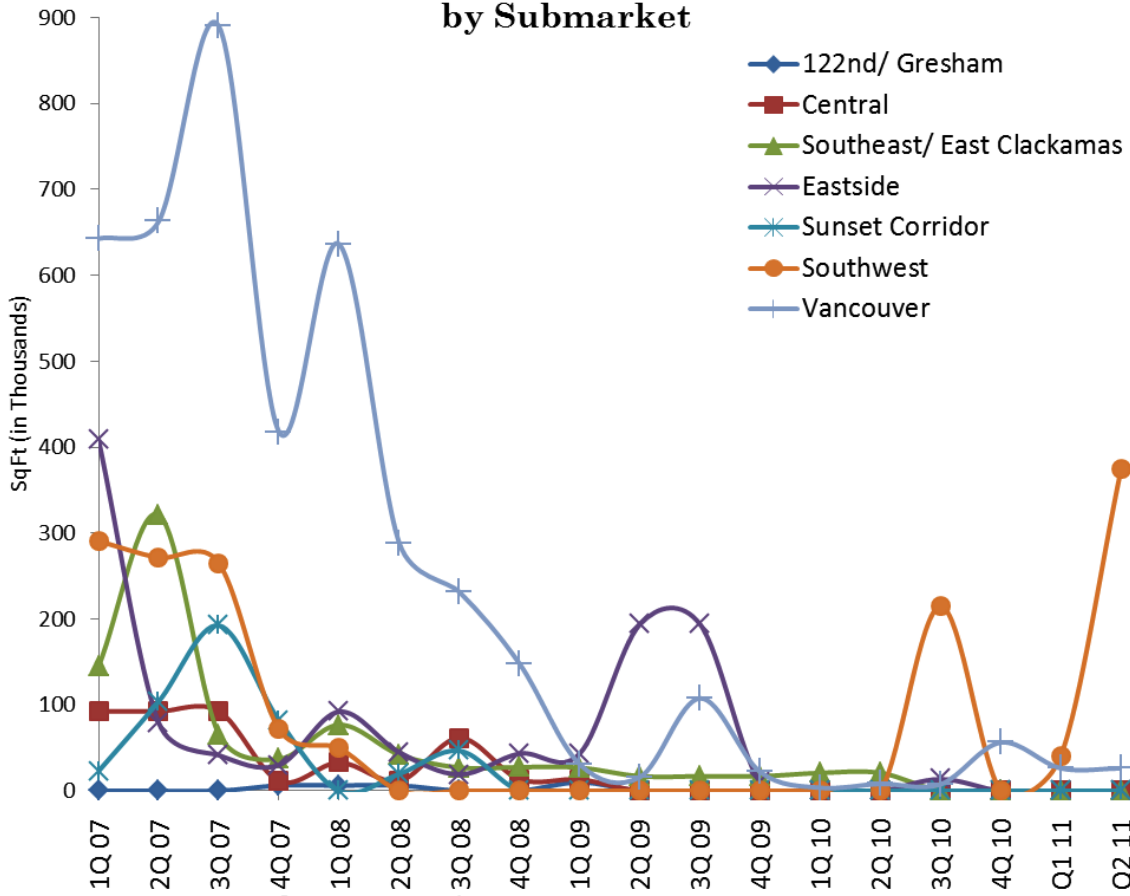


**Figure 3: SqFt of Retail Space Under Construction and Vacancy (%)**



Kidder Matthews reports that average retail quoted rents for the Portland market currently sit at \$16.45/square foot (triple net), a rate that has been steadily dropping since a peak of \$18.14 in Q4 2008, and is down nearly \$0.50 from the first quarter. 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”.<sup>1</sup>

**Figure 4: Total Retail SqFt Under Construction by Submarket**



Source: Norris, Beggs, & Simpson Retail Reports

<sup>1</sup> Kidder Matthews “Real Estate Market Review: Portland, Vancouver and Surrounding Areas, Q2 2010

Despite extremely low levels of retail construction nationally in 2011, two major grocery store-anchored strip malls are set to open in the Portland metro region this year. First, Wilsonville Old Town Square, opened in July, surrounds a new Fred Meyer store and includes a McMenemy's restaurant and a range of other eateries and attractions. Also, Progress Ridge in Beaverton, which will be anchored by New Seasons and include a luxury theater (Cinetopia), high end bowling alley (Big Al's) and a set of bars, restaurants and service businesses is set to open within the year. These ambitious projects, both developed by Tualatin's Gramor Development are in striking contrast to national retail building trends. Taken together, the two Portland strip mall developments constitute 460,000 square feet of new retail. According to numbers compiled by Reis and reported by the Oregonian, only 721,000 square feet of "new community shopping centers and strip malls" were developed in the first half of 2011 in the US as a whole.<sup>2</sup> Gramor has carefully positioned these strip malls as mixed-use attractions, with incorporated eateries, entertainment businesses, themed construction (Wilsonville Old town Square was built with a pioneer theme), and housing in the hopes of following a new model to retail success in an otherwise difficult market. Gramor is also involved in development efforts for the Boise-Cascade site along the Vancouver waterfront.<sup>3</sup> The 35 acre site has been proposed for a ten year development effort that would include over 1 million square feet of commercial space. While work has begun on basic road improvements, the many developers involved have expressed some hesitancy over a "billion dollar" multi-use project in such a volatile and uncertain market. Little progress on the site is expected in the near future.

A string of box store development sites are also being considered locally, as Walmart continues its planning of 17 new Portland stores and Target eyes both space in Jantzen Beach as well as space in the downtown Galleria. Many of the Walmart and Target stores reportedly being considered are significantly smaller than their traditional format, as they adopt an urban approach to retailing. The Daily Journal of Commerce reports that the Galleria location for Target is expected to use approximately 60,000 square feet, as compared with Target's more typical 125,000 square foot store.<sup>4</sup>

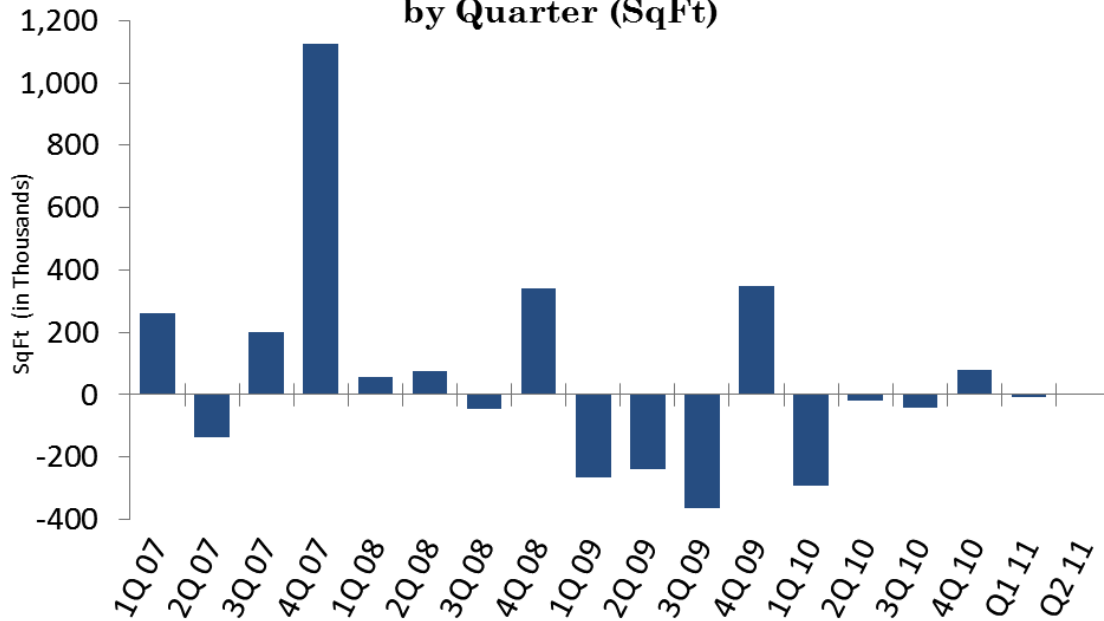
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<sup>2</sup> Gunderson, Laura. "Two new Portland area shopping centers may provide glimpse into the future", *The Oregonian*, July 23, 2011.

<sup>3</sup> Bjork, Nick. "Undefined Vancouver waterfront has some developers timid", *Oregon Daily Journal of Commerce*, April 26, 2011.

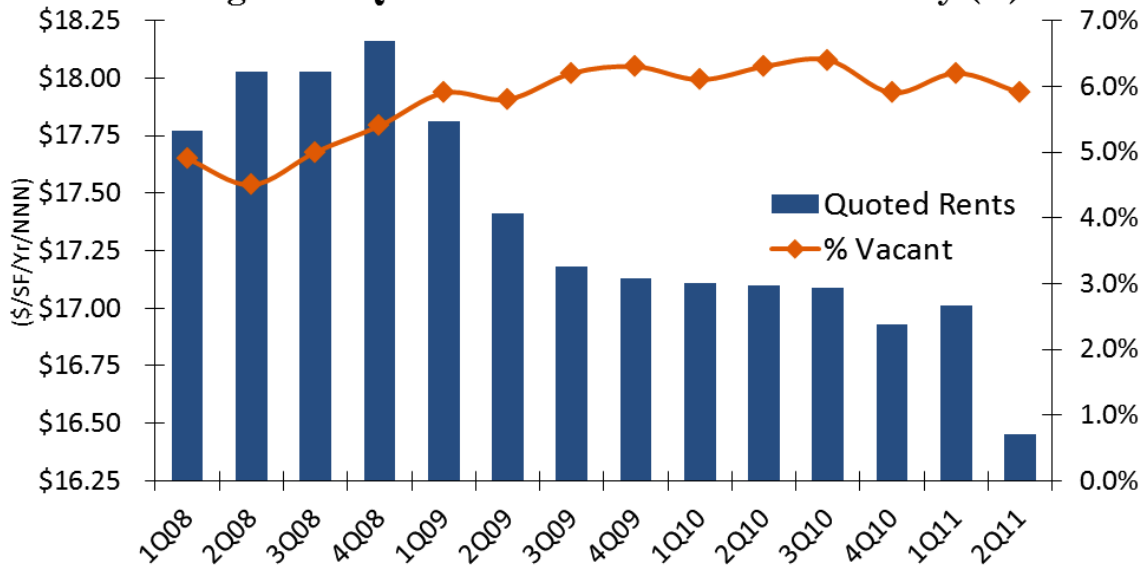
<sup>4</sup> Bjork, Nick. "Target gets serious about downtown Galleria space", *Oregon Daily Journal of Commerce*, April 27, 2011.

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



Source: Norris, Beggs, & Simpson Retail Reports

**Figure 6: Quoted Rents and Retail Vacancy (%)**



Source: Kidder Matthews Quarterly Reports