

# Portland Retail

## Market Forecast

	Current / Projection	
Vacancy Rate	4.4%	↓
Construction	230,125 sf	↓
Rental Rate	\$17.28/sf	↑
Net Absorption	216,453 sf	↑

## Market Highlights

The most popular retail category continues to be food, with mid-sized formats (1,500-2,500 s.f.) dominating. Smaller format fitness (<3,000 s.f.) is also expanding.

Grocery store expansion continues, with multiple stores opening new locations and new grocers looking to enter, or return to, the Portland market.

Activity for mixed-use urban development is strong. ■

Portland retail market characteristics remain strong with decreasing vacancy, gently rising average asking rental rates, and healthy net absorption. We continue to see an active market with plenty of buyers, many of which are involved in 1031 exchanges. With the cost of debt still very low, it makes sense for many investors to move now. There seems to be a flood of buyers from outside of the state, primarily California, seeking to enter the Portland market by acquiring grocery-anchored centers as well as value-add centers. We expect cap rates to remain compressed throughout the year and likely into 2017, depending on a variety of factors.

The most popular retail category continues to be food. Killer Burger will soon open a new location at the Streets of Tanasbourne in Hillsboro. Frack Burger recently announced plans for a new location within the Lloyd Center Mall. Little Big Burger will be opening at Progress Ridge Town Square, marking their first suburban location. The company also plans to expand to Seattle with a ten-location contract. Laughing Planet is adding three new restaurants, including two in Portland. The new Portland locations will be in the Hollywood District and in Cedar Mill, both of which are scheduled to open between April and May. Chick-Fil-A has opened their first Portland store at 185th and Highway 26th, to much acclaim, and the Clackamas Promenade store will soon follow. Corner Bakery also opened a location at the Streets of Tanasbourne, and Wich Wich opened their first location at the Walmart Center in the Tigard Triangle.

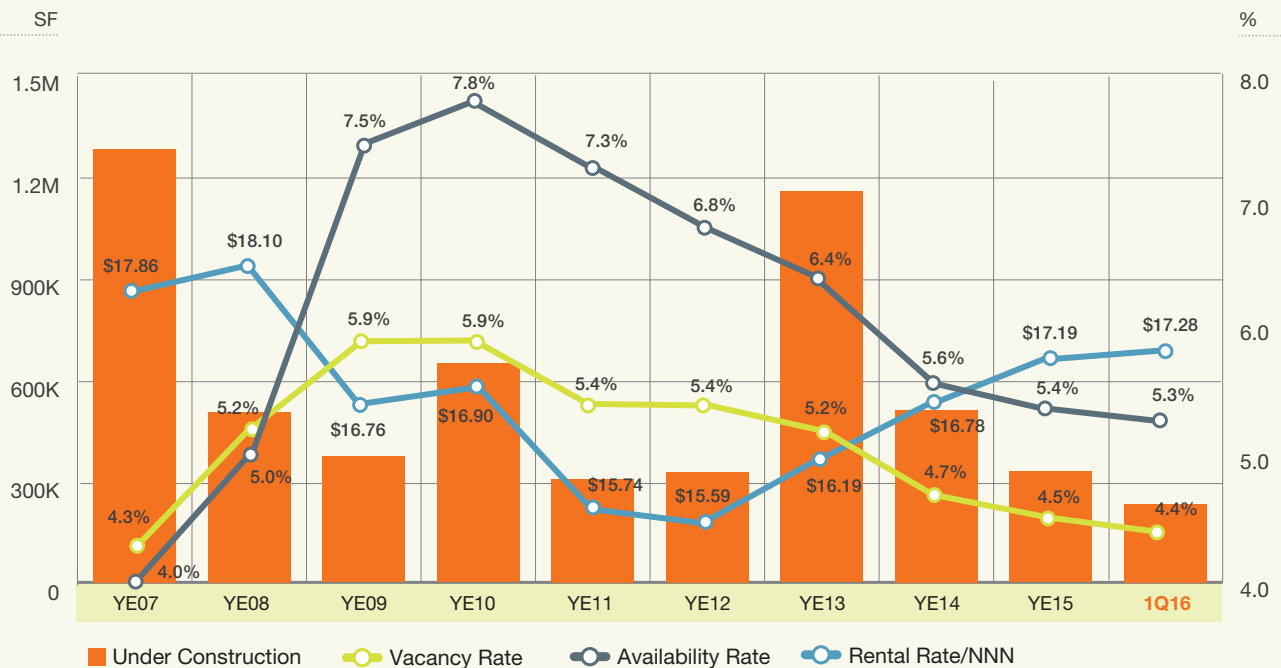
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# Area Review

## Portland Retail Market Statistics

Period	Inventory		Vacancy Rate	Availability Rate	Net Absorption	# Delivered	NRA Delivered	# Under Construction	NRA Under Construction	Avg Asking Rate/nnn
	Buildings	NRA								
2016 Q1	11,179	119,437,301	4.40%	5.30%	216,453	12	144,100	10	230,125	\$17.28
2015 Q4	11,177	119,343,473	4.50%	5.40%	176,291	12	107,776	20	326,625	\$17.19
2015 Q3	11,182	119,412,983	4.70%	5.60%	341,300	22	336,161	27	262,504	\$17.12
2015 Q2	11,176	119,233,762	4.80%	5.90%	98,126	18	129,274	39	519,897	\$17.01
2015 Q1	11,178	119,367,974	5.00%	6.10%	-201,821	20	301,662	43	526,257	\$16.83
2014 Q4	11,165	119,255,831	4.70%	5.60%	430,535	10	135,695	40	508,494	\$16.78
2014 Q3	11,164	119,189,343	5.10%	5.90%	673,960	24	747,722	38	569,001	\$16.65
2014 Q2	11,143	118,528,242	5.10%	6.00%	181,710	10	79,960	45	1,131,236	\$16.52
2014 Q1	11,155	118,615,169	5.30%	6.30%	85,441	21	375,077	42	1,067,735	\$16.45
2013 Q4	11,145	118,329,349	5.20%	6.40%	356,055	11	152,095	41	1,151,464	\$16.19
2013 Q3	11,144	118,240,691	5.40%	6.60%	11,330	9	195,213	38	892,668	\$15.88
2013 Q2	11,144	118,071,800	5.30%	6.70%	113,362	6	78,205	32	712,478	\$15.83
2013 Q1	11,152	118,050,794	5.30%	6.80%	101,383	3	22,260	23	559,828	\$15.84
2012 Q4	11,152	118,037,484	5.40%	6.80%	237,151	7	253,362	16	325,735	\$15.59
2012 Q3	11,147	117,817,841	5.40%	7.00%	-107,349	6	47,899	13	300,767	\$15.54
2012 Q2	11,145	117,809,757	5.30%	7.00%	109,068	6	91,610	16	328,156	\$15.54

### Construction, Vacancy, Availability & Rental Rates



Grocery store expansion continues. In March, Whole Foods announced a rough opening date for its affordable outlet store, the 365 concept, in Lake Oswego. The store is scheduled to open in July. Green Zebra's second store, in the Hassalo on Eighth in the Lloyd District, recently opened, and a third store, on PSU's campus, will open later this spring. The fourth location, on SE Division and 50th, which was originally planned as a stand-alone store, will now anchor a larger, 126-unit, mixed-use residential development, and is slated to be delivered fall 2017. An unnamed organic grocer, not currently in the Portland market, is scouting Portland sites.

### Vacancy, Availability and Net Absorption

Vacancy during the first quarter decreased slightly to 4.4% from 4.5% the previous quarter. This is 60 basis points lower than the first quarter of 2015 when the rate was 5.0%. Total net absorption was positive at 216,453 s.f. Despite over a dozen local high-profile restaurant closures in late 2015, nearly all potential vacancies have been back-filled or reformatted for Spring/Summer openings. Over 17 restaurants/bars opened in Portland in March alone.

It is possible that some larger-format retail spaces may soon be on the market as multiple retailers announced significant planned store closures. Sports Authority filed for Chapter 11 and will shut 140 stores, including two in Oregon. The Men's Warehouse parent company will close up to 250 stores, and Staples plans to close 50 stores amidst continued negotiations to acquire Office Depot. A list of planned store closures has yet to be released for either company. Kohl's will close 18 stores

this spring, and Macy's also announced closures of 40 stores, including one in North Bend and one in Roseburg.

### Rental Rates

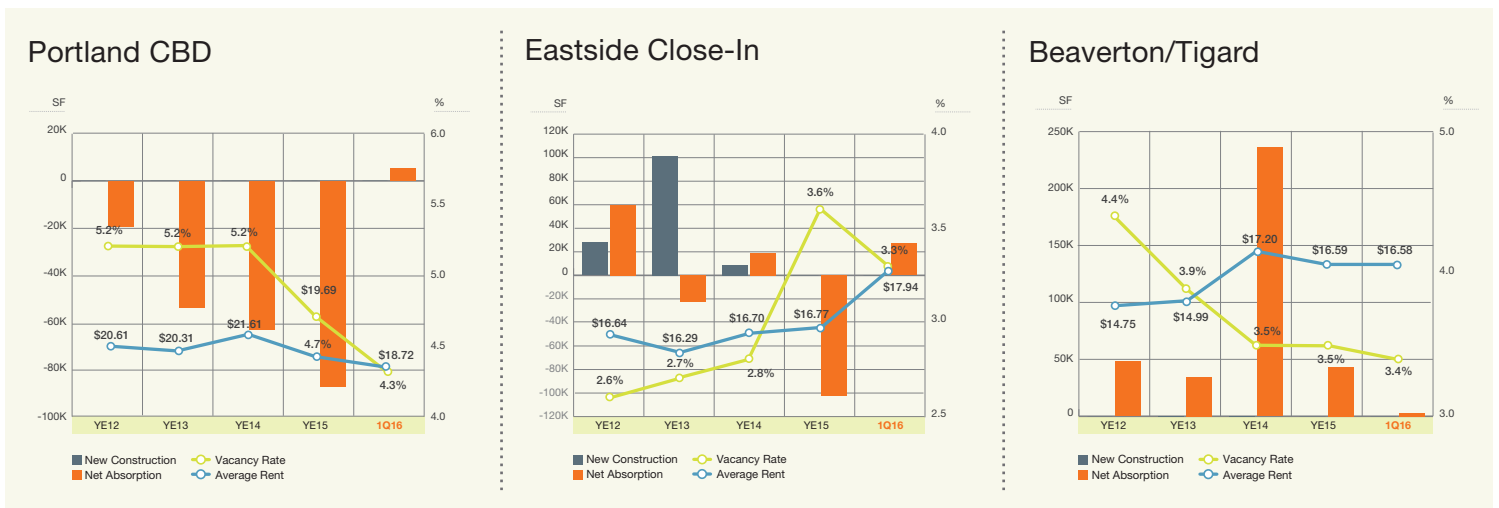
Asking rent in the Portland market continued its steady uptick during the first quarter. The average asking rental rate was \$17.28/s.f., NNN, up from \$17.19/s.f. at the end of last year, and reflected the highest average asking rental rate since the first quarter 2009 when the rate was \$17.57/s.f. The Burnside Bridgehead project, YARD, got its first restaurant tenant during the first quarter when Tilt signed a lease for 4,000 s.f. New high profile developments, such as Happy Valley Crossing and Cedar Hills II, are achieving premium rates in the mid to high \$30s, NNN. Triple net charges range, on average, from \$5-\$6/s.f., while peaking between \$8-\$9/s.f. on higher profile projects.

### Investment Activity

Columbia Gorge Premium Outlets sold at the beginning of the year for \$28.43 million, or \$174/s.f. Time Equities acquired the 163,815 s.f. outlet mall from Simon Property Group. The project is TEI's first U.S. outlet center and the firm's first commercial retail site in Oregon. The property was 90% leased at the time of sale.

New Seasons new N Lombard store sold at the end of the quarter for \$10.62 million, or \$401/s.f. The property is fully leased to New Seasons on a new 25-year NNN lease. The property was purchased by RAM Property Development at a reported capitalization rate of 5.0%.

## Historical Portland Retail Submarkets



## 1Q 2016 Retail Sales of Note

Property	City	Size (SF)	Yr Built	Date	Sale Price	Price/SF	Cap Rate*
Columbia Gorge Premium Outlets	Tualatin	163,815	1991	Jan-16	\$28,425,000	\$174	10.80%
New Seasons	Portland	26,500	2016	Mar-16	\$10,620,000	\$401	5.00%
Regal Cinema 99	Vancouver	34,964	1998	Jan-16	\$5,177,000	\$148	4.46%

\* When available, pro-forma capitalization rates are shown.

### Offices

Seattle  
206.296.9600

Bellevue  
425.454.7040

South Seattle  
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Tacoma  
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Olympia  
360.705.2800

Portland  
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San Francisco  
415.229.8888

Redwood Shores  
650.769.3600

Silicon Valley  
408.970.9400

Sacramento  
916.751.3600

San Diego  
858.509.1200

Orange County  
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Transaction volume was \$217.23 million in the first quarter, compared to \$290.80 million at the end of 2015. The average per square foot sale price was \$230 compared to \$309 at the end of 2015. The average was \$205/s.f. in first quarter 2015. The average market capitalization rate decreased 100 basis points to 5.5% from 6.50% the previous quarter.

### Development News

Activity for urban development mixed-use sites continues to be strong in the Pearl District. Mill Creek recently purchased 15,000 s.f. on the corner of NW 10th and Davis for the development of Modera Davis, a 12-story mixed-use project with 150 residential units and 4,000 s.f. of retail on the first floor. The site currently houses (through 2016) Pearl Gallery & Framing, Kush Carpets, Aztec Signs and Jimmy Maks, which sold its 5,000 s.f. building (5,001 s.f. site) for \$3 million, or \$600/s.f. Jimmy Maks will be moving to an adaptive reuse project across the street. Pearl Framing and Aztec will relocate out of the Pearl, while Kush is searching for a new location within the Pearl.

Gramor has announced that the Crestview Crossing shopping center in Newberg will break ground in early 2017. The 150,000 s.f., grocery-anchored project has been on hold for several years, but brokers for the project are now actively leasing space. The site currently houses (through 2016) Pearl Gallery & Framing, Kush Carpets, Aztec Signs and Jimmy Maks. Jimmy Makarounis, the owner of Jimmy Maks, sold his 5,000 s.f. building (5,000 s.f. site) for \$3 million, or \$600/s.f. Construction for Happy Valley Crossroads commenced in late 2015. The 198,000 s.f. center will be anchored by

Fred Meyer and include eight retail buildings as well as a Fred Meyer fuel center.

Renovation of PSU's Karl Miller Center (School of Business Administration) is underway for Fall 2017 delivery. The \$60 million LEED Platinum renovation will include approximately 5,000 s.f. of retail.

At the beginning of the year, the Goodman family announced a vision for 11 of their 30 developable properties. The project, called the Ankeny Blocks, could bring four million new s.f. and more than \$1.5 billion in new development to inner downtown over the next several years.

There are at least 20 hotels in the Portland market that are either proposed, going through Design Advice/Design Review, being reviewed for building permits, or currently under construction. Combined, these represent more than 3,000 new rooms, a significant increase for a metro area that had only 25,924 rooms as of 2014.

### Summary

The Portland retail market started the year where it left off in 2015, with decreasing vacancy, solid net absorption, and steadily increasing average asking rental rates. Smaller format retail shops continue to expand, while several larger format retailers have announced planned store closures. Urban development continues to take off with several projects underway or scheduled to break ground in the near future. Sales volume remains healthy, and the average market capitalization rate continues to decrease. The outlook for the Portland retail market is for continued improvement.

\*Source: CoStar Data