

Portland Retail

Market Forecast

	Current / Projection	
Vacancy Rate	3.9%	↓
Construction	467,380 sf	↑
Rental Rate	\$17.58/sf	↑
Net Absorption	92,711 sf	↑

Market Highlights

Slight decrease in vacancy rates is mirrored by gradual increases in average rental rates.

The Vancouver Waterfront project announced its second major restaurant tenant, WildFin American Grill.

Amazon chooses Washington Square for its third bookstore.

Activity remains strong for mixed-use urban infill. Several new mid-size apartment projects with ground floor retail have announced formal plans to breaking ground in the third quarter. This is reflected in a 19% increase in construction square feet from first quarter. ■

Portland retail remains highly competitive, particularly in the 1,500 – 3,000 square foot range. A significant portion of the leasing volume this quarter involved the pre-leasing of spaces that are currently under construction with deliveries planned for 2017. Despite prominent restaurant closures, second generation food equipped space is a coveted asset and typically sees multiple replacement tenants with solid credit. The scene remains challenging for local start-ups who are showing increased interest in the developing Vancouver submarkets. Expanding regional concepts remain coveted uses as landlords increasingly leverage their ability to selectively curate the tenant mix.

Owner/user properties, when these rare gems become available, continue to sell at a similar pace and fashion to residential relatives, with multiple competing offers and sales prices exceeding list prices by 5-10%.

The most popular retail category continues to be food and beverage. Hopworks Urban Brewery announced their third location in Portland's Mill Plain area. Wayfinder Beer, a collaboration between three prominent food & beverage masters is busy renovating 8,900 square feet in the Central Eastside on Water Ave. The much anticipated, and delayed, Century Bar opened at 9th & Sandy.

MOD Pizza leased no less than five locations, with the majority in the Vancouver area. On the other side of fast casual pizza's rapid expansion, the first and only Blaze Pizza, located on Cedar Hills Boulevard, quietly closed and is seeking to sublease. Midici

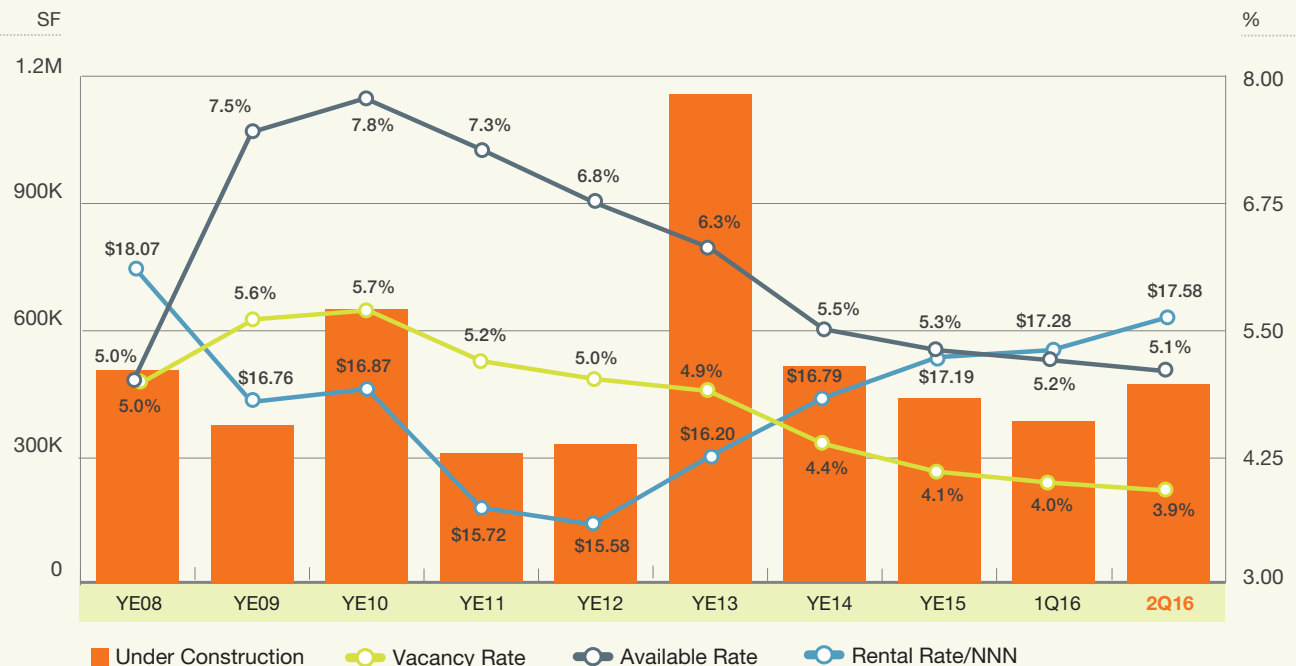
→ Continued, page 3

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 Q2	11,199	119,727,450	3.9%	5.1%	92,711	5	51,783	18	467,380	\$17.58
2016 Q1	11,197	119,693,773	4.0%	5.2%	199,136	12	140,763	21	380,411	\$17.28
2015 Q4	11,196	119,613,842	4.1%	5.3%	195,770	12	123,735	29	434,416	\$17.19
2015 Q3	11,201	119,667,393	4.2%	5.4%	338,000	22	336,161	30	450,581	\$17.13
2015 Q2	11,196	119,495,562	4.4%	5.8%	74,444	18	129,574	40	561,969	\$17.02
2015 Q1	11,198	119,629,474	4.7%	5.9%	-171,061	20	301,662	43	542,516	\$16.84
2014 Q4	11,186	119,522,331	4.4%	5.5%	426,035	10	135,695	40	508,794	\$16.79
2014 Q3	11,184	119,439,843	4.8%	5.8%	721,629	25	755,722	38	569,001	\$16.66
2014 Q2	11,162	118,770,742	4.9%	5.9%	181,810	10	79,960	46	1,139,236	\$16.53
2014 Q1	11,174	118,857,669	5.0%	6.2%	87,141	21	375,077	43	1,075,735	\$16.46
2013 Q4	11,164	118,571,849	4.9%	6.3%	382,286	11	152,095	41	1,151,464	\$16.20
2013 Q3	11,163	118,483,191	5.1%	6.6%	19,421	9	195,213	38	892,668	\$15.87
2013 Q2	11,163	118,314,300	5.0%	6.6%	147,532	6	78,205	32	712,478	\$15.82
2013 Q1	11,171	118,293,294	5.1%	6.8%	118,446	3	22,260	23	559,828	\$15.82
2012 Q4	11,171	118,279,984	5.0%	6.8%	244,451	7	253,362	16	325,735	\$15.58
2012 Q3	11,166	118,060,341	5.2%	7.0%	-104,289	6	47,899	13	300,767	\$15.52

Construction, Vacancy, Availability & Rental Rates



Pizza, a new to market fast, casual pizza concept, is aggressively seeking new-to-market 2,500-4,500 square foot spaces.

Orange Theory Fitness continues to lead the fitness expansion with locations in the South Waterfront, central Beaverton, Orenco Station and more. 9Round Kickboxing and I Love Kickboxing also have active franchisees in the Metro market.

365 by Whole Foods opened in Lake Oswego, the second store opening nationally of this model. This concept has been touted as an alternative to Trader Joe's and price studies by local business journals show consistency in the claim.

Vacancy, Availability, and Net Absorption

Vacancy during the first quarter decreased slightly to 4.0% from 3.9% the previous quarter. The continued incremental decreases in vacancy are typically felt more strongly than the minor 10 or 20 basis point adjustment might normally suggest. Total net absorption was positive at 92,711 square feet, but represents less than 50% of the first quarter absorption. Lower-than-average net absorption was also recorded during the second quarter of 2015.

Macy's has officially announced their intention to sell their five-story downtown Portland location. It is unclear whether the struggling department store will structure a lease-back, downsize or leave the market. Market predictions gravitate towards seeing the space converted to creative office and smaller formal ground floor retail. DD's Discounts, located adjacent to the downtown Macy's, also shuttered. Several LOI's are being reviewed for smaller format users.

Sports Authority continues to struggle through Chapter 11 while debtors push regulators to force the retailer into Chapter 7. Walgreens expects to shutter 500 stores upon its successful acquisition of Rite Aid.

Rental Rates

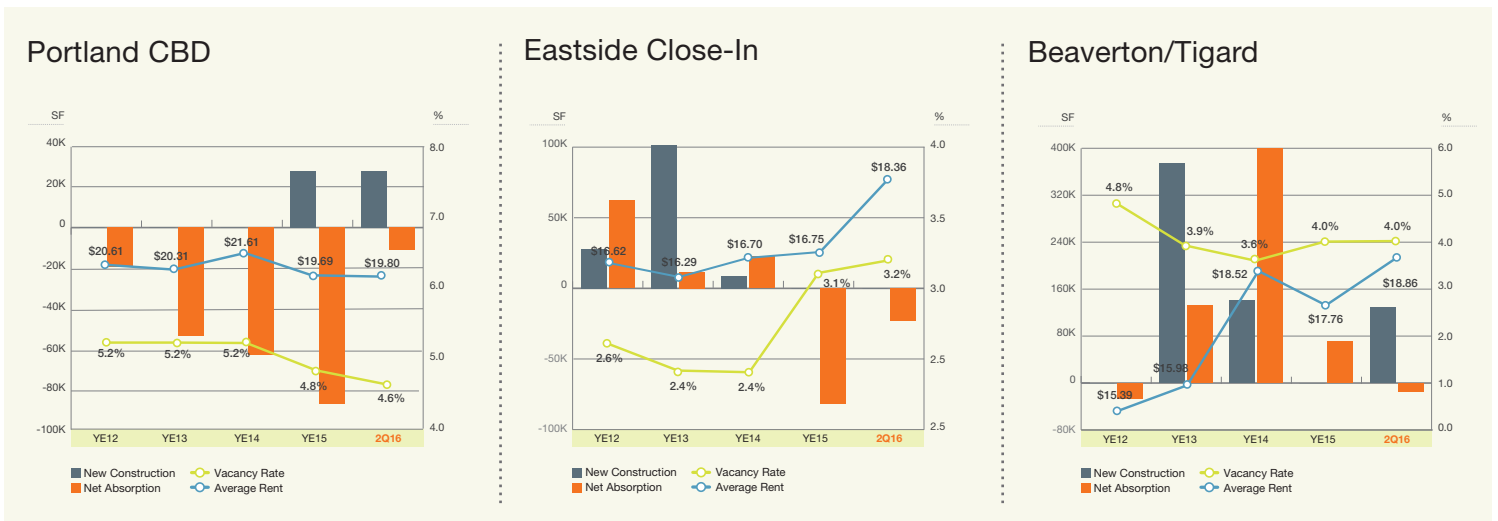
Asking rents in the Portland market continued to rise steadily during the second quarter. The average asking rental rate is \$17.58 per square foot, NNN, up from \$17.28 per square foot over the first quarter, and reflecting the highest average asking rental rate during the fourth quarter of 2008 when the rate was \$18.07 per square foot.

High profile developments, such as the George Besaw building on NW 23rd and Cedar Hills II, are seeking premium rates in the high \$30's and low \$40's NNN. Triple net charges range, on average, from \$5-\$6 per square foot, while peaking between \$8-\$9 per square foot on higher profile projects.

Investment Activity

Total sales volume was just over \$186 million during the second quarter, down from \$217 million in the first quarter of 2016 and \$290.80 million at the end of 2015. The average per square foot sale price also decreased to \$135 compared to \$230 the previous quarter and \$309 at the end of 2015. The average market capitalization rate increased 110 basis points to 6.6% from 5.5% during the first quarter; however, the current average cap rate reflects only a 10 basis point increase from the end of 2015 when the rate was 6.5%.

Historical Portland Retail Submarkets



Offices

- Seattle
206.296.9600
- Bellevue
425.454.7040
- South Seattle
206.248.7300
- Tacoma
253.722.1400
- Olympia
360.705.2800
- Portland
503.221.9900
- 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
949.557.5000
- Phoenix
602.513.5200
- Reno
775.301.1300

Contact

Jeffrey S. Lyon, CCIM, SIOR
 Chairman and CEO
 206.296.9600
 jlyon@kiddermathews.com

The information in this report was composed by the Kidder Mathews Valuation Advisory Group.

Ariel Gallagher
 503.721.2718
 arielg@kiddermathews.com

Retail Sales of Note

Notable Retail Sales	City	Size (SF)	Date	Sale Price	Price/SF	Cap Rate*
Evergreen & Andresen Marketplace Portfolio	Vancouver	184,610	Apr-16	\$43,000,000	\$233	6.70%
Chrysler-Mitsubishi Dealership	Milwaukie	38,089	Apr-16	\$12,650,000	\$332	–
Tigard Towne Square	Tigard	182,000	Apr-16	\$5,775,000	\$32	–
Bi-Mart Pharmacy	Scappoose	31,120	Jun-16	\$4,317,000	\$139	6.25%

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

Development News

Several urban infill projects will soon break ground. The Lennox Addition, at 52nd and Holgate, will feature 64 apartments and 3,500 square feet of ground-floor retail space, to be developed by Rainer Pacific. This is a typical mixed-use project in the market with retail space being fully leased by occupancy.

Happy Valley Crossroads, a 198,000 square foot, Fred Meyer anchored center on SE 172nd and Sunnyside, progresses as planned with over 90% of shop space leased a year out from delivery.

WildFin American Grill recently signed a 5,000+ square foot lease at Waterfront Vancouver.

Plans have been released for 689 apartments and 39,000 square feet of retail for the Lloyd District at 1400 NE Multnomah, scheduled to break ground in 2017. This follows the successful completion of Hassalo on Eighth which added 657 apartments earlier this year.

Top Golf is scheduled to open on time in August in Hillsboro. The 60,000 square foot entertainment center adjoins the 1,000,000 square foot Majestic Business Park currently under construction.

The City of Hillsboro and Newland Development continue to move forward on a massive 1,400 acre master plan for south Hillsboro which would provide 8,000 homes. The development entrance would center at Cornelius Pass Road & Tualatin Valley Highway. Mature completion is not expected until 2035 but would include several town centers, 300 acres of parks, and 15 miles of multi-use trails.

Summary

The Portland retail market remains strong 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 infill 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 promising for the second half of the year.

Source: CoStar Data