

Portland Retail

Market Forecast

Trends

Absorption



Vacancy



Rental Rates



Under Construction



Notable Lease Transactions

99 Ranch Market
8155 SW Hall Blvd, Beaverton
36,960 s.f. Subleased

BFit
14800 SE Sunnyside Rd, Happy Valley
21,600 s.f. Subleased

Pendleton Woolen Mills
760 SW 9th Ave, Portland
3,000 s.f. Leased

Notable Sale Transactions

CH Retail/Acquisitions LLC
Martinazzi Square, Tualatin
51,060 s.f. Investment Purchase
Purchased for \$16.3M or \$319/s.f.

HMP Inc.
1829-1835 NE 33rd Ave, Portland
24,804 s.f. Investment Purchase
Purchased for \$8.2M or \$332/s.f.

Triad Investment, LLC
6105 NE 114th Ave, Vancouver
14,820 s.f.
Purchased for \$6.4M or \$432/s.f.

The Portland retail market held its own during the first quarter of 2017, with 8,030 square feet of positive net absorption keeping the vacancy rate at 4%. Retail assets across the market continue to attract interest from local and national investors, and single-tenant properties with well-known tenants earned outlays in excess of \$400/sf this quarter while trading at cap rates below 6%. When Albertsons store closures created large vacancies, they were quickly subleased to new tenants, highlighting the robust demand for space in the Portland metro area. Rental rates continued to trend upward into the new year, to an average of \$18.55 marketwide. CBD rental rates averaged \$24.86 NNN, but high-end spaces in trophy properties were asking in the \$40s. The Portland market is adapting well to the changing face of street retail, with shared food halls and specialty shops replacing traditional brick-and-mortar stores to limit vacancies in retail corridors and shopping centers across the region.

Vacancy, Availability, and Net Absorption

Occupied retail space across the Portland metro area was virtually unchanged during the first quarter, which saw 8,030 square feet of positive net absorption. Sunset Corridor/Hillsboro gained 34,966 square feet over the first three months of 2017 and the Southeast area was close behind with 33,613 square feet, as 24-Hour Fitness opened a 38,000 square foot gym at 465 W Arlington Street in Gladstone. Downtown Portland played host to a growing national trend of food halls with multiple gourmet kiosks and shared dining space, as Rogue Development opened the Portland Food Hall in the landmark Michael G. Building at 827 SW 2nd Avenue. Developer Andres Ochoa, who bought the building in the summer of 2015, secured commitments from several locally based restaurateurs in late 2016, with plans to expand both the lineup and the food hall's operating hours later this year.

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Area Review

Portland Retail Market Statistics

Submarket Cluster	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	Total Availability Rate	Q1 Net Absorption	YTD Net Absorption	Quarterly Leasing Activity	YTD Leasing Activity	Avg Annual Asking Rate
CBD	4,490,754	4.30%	4.30%	8.00%	(14,256)	(14,256)	23,431	23,431	\$24.86
Lloyd District	5,587,174	4.00%	4.00%	5.20%	15,125	15,125	12,463	12,463	\$21.50
Northwest	1,661,539	3.20%	3.20%	3.40%	3,615	3,615	0	0	\$23.00
Sunset Corridor/Hillsboro	9,647,808	2.80%	3.00%	3.60%	34,966	34,966	31,039	31,039	\$18.95
I-5 Corridor	11,004,562	4.50%	6.00%	6.60%	(27,939)	(27,939)	62,907	62,907	\$21.82
Northeast	20,430,246	3.20%	3.20%	4.00%	14,559	14,559	81,529	81,529	\$18.34
Southeast	22,962,125	3.20%	3.60%	4.90%	33,613	33,613	100,850	100,850	\$17.14
Southwest	13,641,011	3.60%	4.00%	4.90%	(32,013)	(32,013)	48,277	48,277	\$19.18
Clark County/Vancouver	18,835,173	4.90%	4.90%	5.40%	(13,140)	(13,140)	95,051	95,051	\$18.35
TOTAL	108,260,392	3.70%	4.00%	5.00%	8,030	8,030	462,047	462,047	\$18.55
Malls	6,694,417	3.30%	3.30%	3.60%	(2,053)	(2,053)	4,582	4,582	N/A
Power Centers	7,645,066	4.20%	4.20%	4.40%	(5,747)	(5,747)	4,200	4,200	\$21.92
Shopping Centers	36,641,039	6.30%	6.90%	8.00%	(25,343)	(25,343)	255,185	255,185	\$18.68
Specialty	511,806	0.00%	0.00%	0.00%	0	0	0	0	N/A
General Retail	56,768,064	2.12%	2.29%	0.13%	41,173	41,173	198,080	198,080	\$18.24

Leasing Activity

Leasing activity during the first quarter came to 462,047 square feet over 183 transactions. A pair of large subleases at former Albertsons supermarket locations accounted for the two largest deals of the past three months. In the first, the Asian foods store 99 Ranch Market signed on to take over 36,960 square feet at 8155 SW Hall Blvd in Beaverton. In the other, BFit, a fitness chain, took 21,600 square feet at 14800 SE Sunnyside Road in Happy Valley. The most noteworthy Downtown Portland lease came at the new Park Avenue West tower, where the iconic Portland firm Pendleton Woolen Mills grabbed about 3,000 square feet in the southeast corner of the building's ground floor. On the restaurant front, the Russian eatery Kachka firmed up plans to open a second Southeast Portland location by taking 2,980 square feet at 975 SE 11th Avenue, a multifamily development delivered in March.

Investment Activity

Seventy-five Portland-area retail assets changed hands during the first quarter, amounting to \$51.2 million in dollar volume for 369,658 square feet. The average price per square foot soared from \$189 in the second half of 2016 to \$232, primarily because of a shift in the type of retail product changing hands. While trading activity in the previous two quarters was dominated by institutional investors acquiring large shopping centers, this period saw more single-tenant assets sold. In northeast Portland, HMP Inc. obtained the 24,804 square foot QFC Foods property at 1829-1835 NE 33rd Ave from M.H. Sherman Company for \$8.24 million

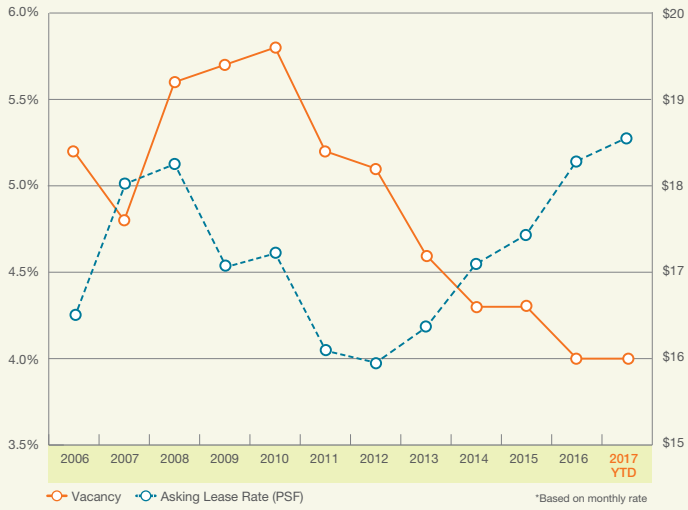
or \$332/sf, underwritten at a 5.95% cap rate. Meanwhile, in the Orchards submarket of Vancouver, Triad Investment LLC bought the 14,820 square foot Walgreens drug store at 6105 NE 114th Ave from Langer Orchards LLC for \$6.4 million or \$432/sf, a price tag that reflects the desirability of single-tenant retail properties with nationally recognized tenants. In the quarter's largest shopping-center transaction, Martinazzi Square at 19221-19299 SW Martinazzi Avenue in Tualatin went from Red Dog Investments LLC to CH Retail/Acquisitions LLC for \$16.3 million or \$319/sf in an all-cash deal made at a 7% cap rate.

New Deliveries & Under Construction

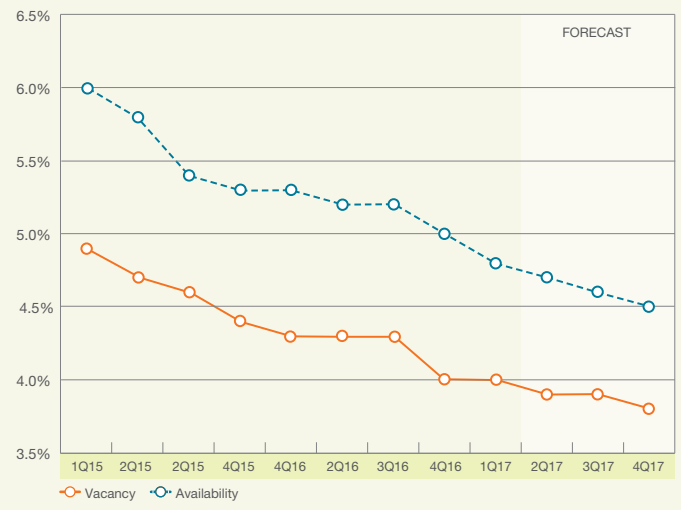
Retail-space deliveries during the first quarter totaled 78,453 square feet across eight buildings. Nearly half of that new space was located at 16255 SE McLoughlin Blvd in Milwaukie, a 33,440 square foot building that now houses a Goodwill Superstore. Twenty-two other projects with a retail component were under construction at quarter's end and will add 381,111 square feet to the Portland market upon delivery. The largest of these was the mixed-use Building 1 of Phase 1 of the Cedar Hills Crossing II development in Beaverton, which includes 67,766 square feet of retail and 60,886 square feet of office space. Building D of the Hazel Dell Marketplace in Vancouver is set for a second-quarter delivery. Approximately 20,600 square feet of that future 36,000 square foot community center has been preleased to Marshalls.

Data Source: CoStar

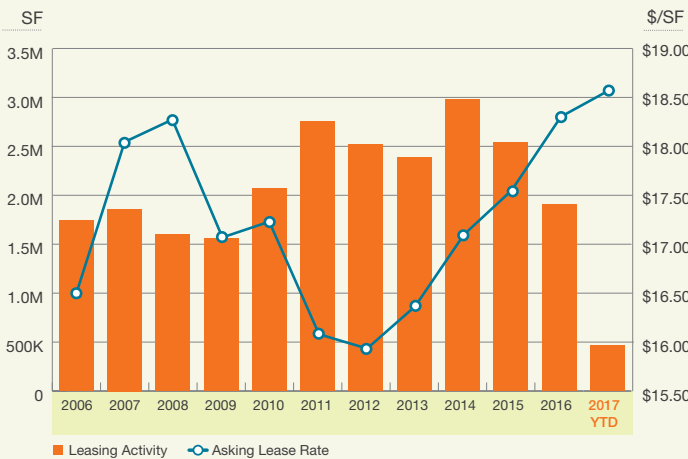
VACANCY VS ASKING LEASE RATE*



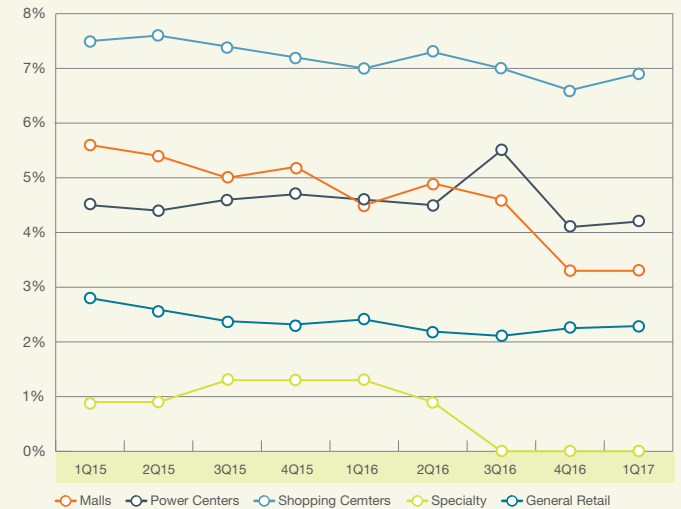
VACANCY VS AVAILABILITY



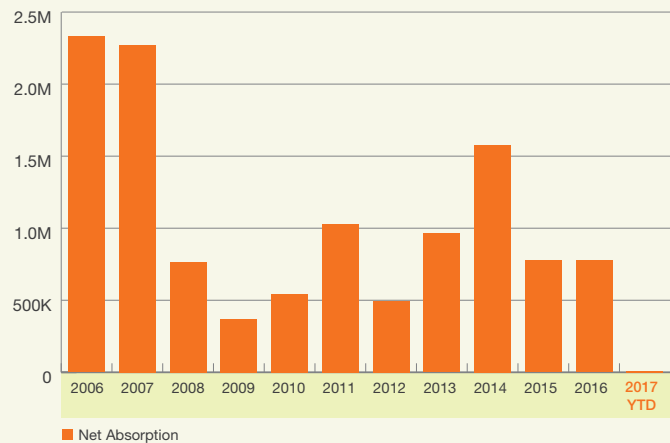
ANNUAL LEASING ACTIVITY & ASKING LEASE RATE



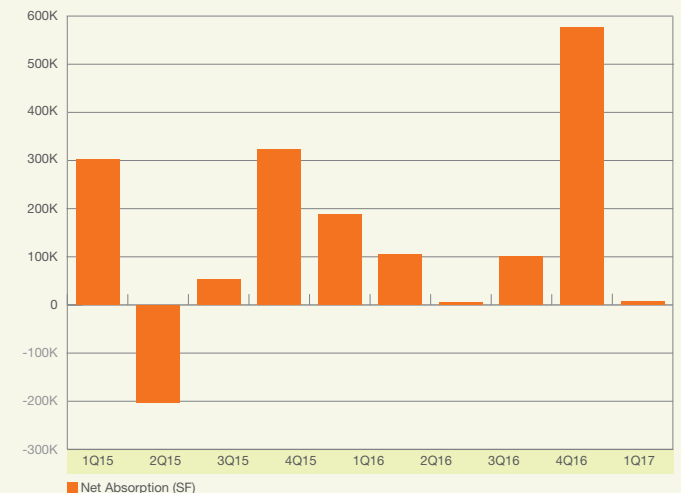
VACANCY BY RETAIL CENTER TYPE



NET ABSORPTION - HISTORICAL



NET ABSORPTION - QUARTERLY



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
916.970.9700

Roseville
916.751.3600

Los Angeles
213.880.5250

Long Beach
562.472.0071

Commerce
323.727.1144

Orange County
949.557.5000

Inland Empire
909.764.6500

San Diego
858.509.1200

Carlsbad
760.430.1000

Reno
775.301.1300

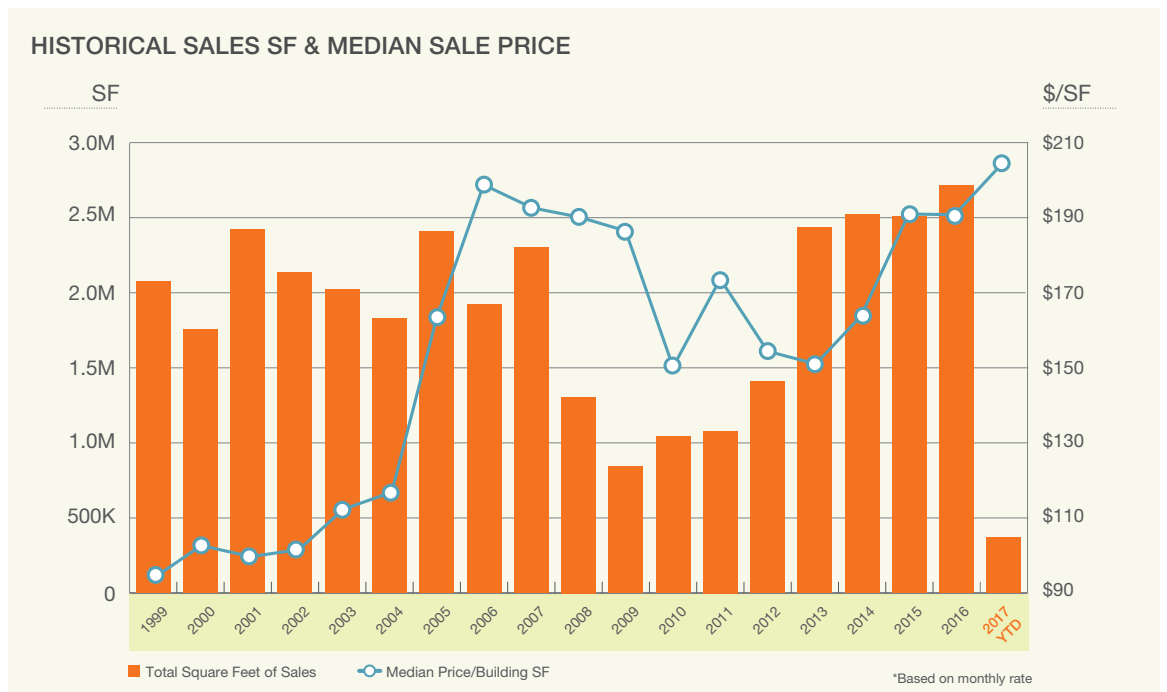
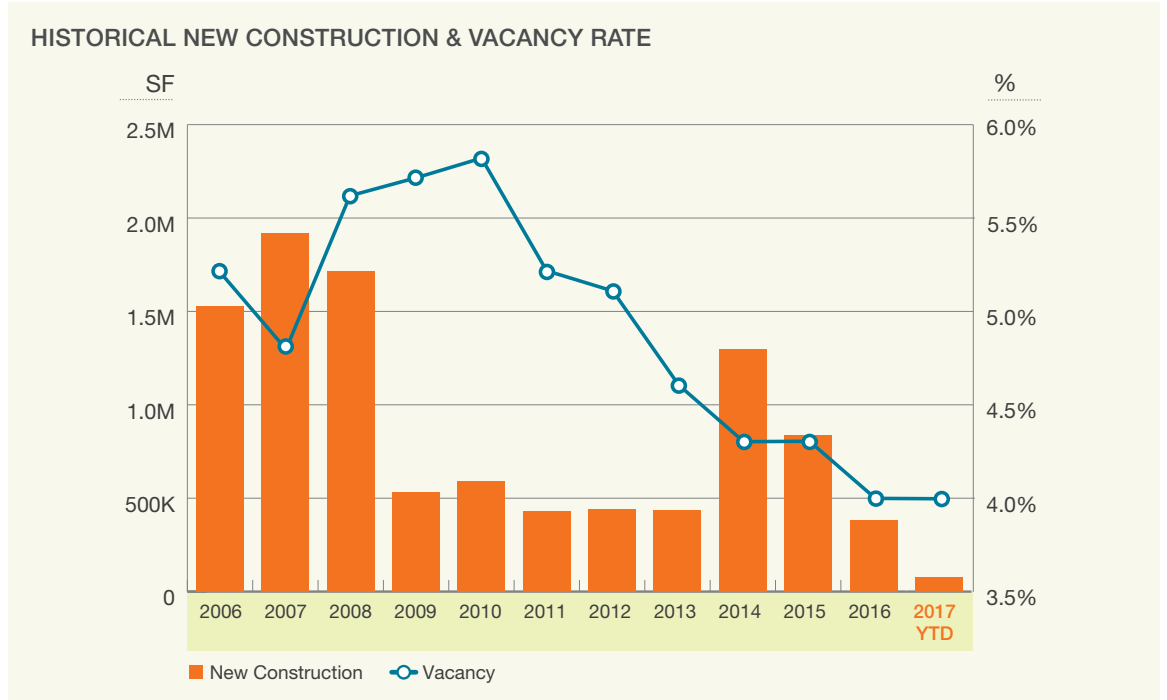
Phoenix
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Market Breakdown

	1Q17	4Q16	1Q16	Annual % Change
Vacancy Rate	4.0%	4.0%	4.3%	-6.9%
Availability Rate	5.0%	4.9%	5.3%	-5.7%
Asking Lease Rate	\$18.55	\$18.28	\$17.51	5.9%
Leased SF	462,047	583,018	667,935	-30.8%
Sold SF	369,658	689,661	777,444	-52.5%
Net Absorption	8,030	575,404	105,256	N/A



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