MARKET REPORT

Retail

Portland Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

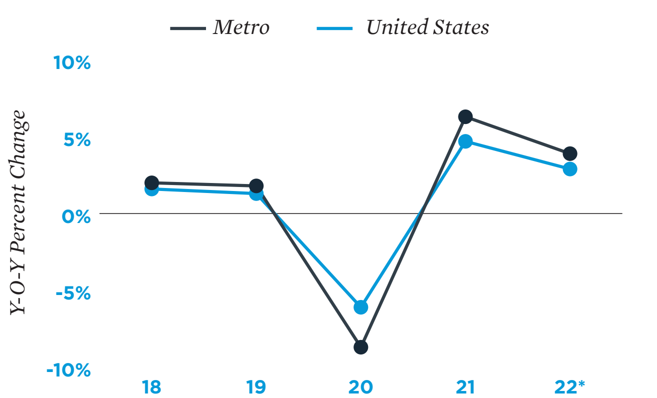
2Q/22

Leasing Surge Helps Retail Sector Cross Inflection Point; Deal Flow Accelerates

Net in-migration stokes space demand. Population growth, driven by pandemic-era in-migration trends, is bolstering the metro's consumer base and retailers have taken notice. Vendors absorbed more space in the first three months of 2022 than the previous three years combined, slicing 40 basis points off vacancy in the first quarter alone. Six of Portland's 12 submarkets registered over 100,000 square feet of net absorption year-over-year through March, with Southwest Portland, Clark County and the I-5 Corridor each recording vacancy declines exceeding 100 basis points. However, more central locales like the CBD and Lloyd District still face challenges, with availability at least 240 basis points above their 2019 rates entering April. Nevertheless, Oregon recently lifted indoor mask mandates in March, which will likely induce more social gatherings and provide an additional boost to retailer demand in the near term.

Moderate pipeline aids vacancy. Retail development has been modest, with less than 500,000 square feet delivering in each of the past five years. Minimal competition from new supply has helped mitigate pressure on fundamentals during the peak pandemic months. Although completions are projected to nearly double this year relative to 2021, inventory will only expand by 0.5 percent. Additionally, nearly 90 percent of space underway was pre-leased entering the second quarter. Expanding retailers will likely turn to existing spaces as a result, allowing metro vacancy to fall within 50 basis points of the pre-pandemic rate this year.

Employment Trends



** Forecast*

Sources: BLS; CoStar Group, Inc.

Retail 2022 Outlook

47,000 JOBS
will be created

EMPLOYMENT:

Employers added more than 10,000 positions in the first quarter and are on pace to increase headcounts by 3.9 percent in 2022. Entering the second quarter, total employment in the retail trade sector was roughly 1,000 jobs below the pre-pandemic level.

500,000 SQ. FT.
will be completed

CONSTRUCTION:

Developers increase retail inventory by less than 1 percent for the eighth consecutive year, as completions reach 500,000 square feet for the first time since 2016. The bulk of near-term deliveries are slated in the Westside and Southwest submarkets.

50 BASIS POINT
decrease in vacancy

VACANCY:

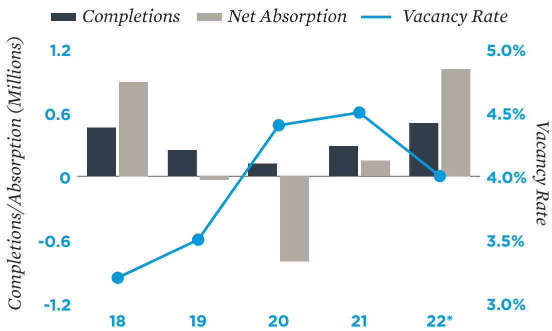
Net absorption is projected to transcend the 1 million-square-foot threshold this year, spurring annual vacancy compression for the first time since 2018. At 4.0 percent, the year-end vacancy rate will be 10 basis points above the five-year trailing average.

3.1% INCREASE
in asking rent

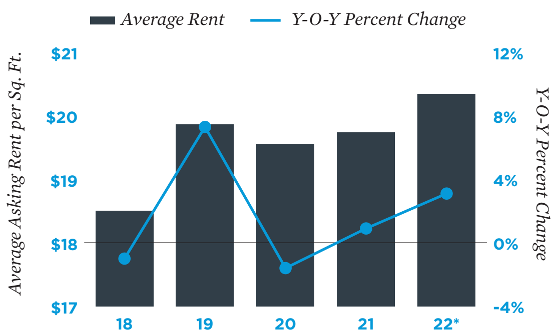
RENT:

Annual rent growth surpasses 1 percent for the first time since the onset of the health crisis, stimulated by a resurgence of leasing activity. The average asking rate will rise to \$20.35 per square foot in 2022, a new record high for Portland.

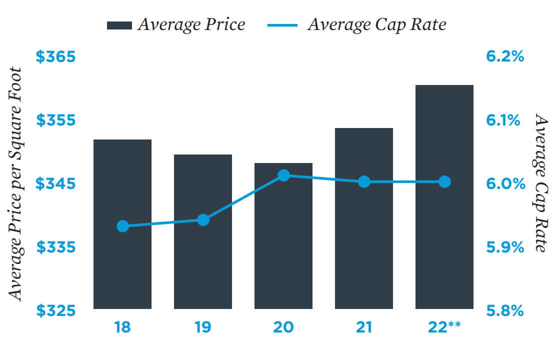
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 1Q*

Sources: CoStar Group, Inc.; Real Capital Analytics

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Price: $250

1Q 2022 - 12-Month Period

CONSTRUCTION

229,000 sq. ft. completed

- Retail inventory increased by 0.2 percent over the past four quarters ending in March, with supply additions surpassing the previous yearlong span by more than 100,000 square feet.
- Deliveries in the Southeast and Northeast submarkets accounted for more than half of all completions during this span.

VACANCY

50 basis point decrease in vacancy Y-O-Y

- Net absorption surpassed 800,000 square feet over the past year, lowering availability to 4.1 percent. Single-tenant vacancy fell 70 basis points during this span, while the multi-tenant rate remained steady.
- Local availability in the CBD and Lloyd District rose by 60 basis points and 180 basis points, respectively, during the same time frame.

RENT

3.1% increase in the average asking rent Y-O-Y

- Bolstered by double-digit rent gains in the I-5 Corridor and the Southwest submarket, the average asking rent in Portland surpassed $20 per square foot for the first time on record in March.
- Single-tenant asking rents rose 6.7 percent to $20.70 per square foot, while the multi-tenant average declined 7.8 percent to $18.55 per square foot.

Investment Highlights

- Transaction velocity rose roughly 90 percent year-over-year through March, relative to the previous 12-month span, driven by a sharp uptick in multi-tenant deals. Lower entry costs and the potential for higher first-year returns, compared to Seattle and major coastal California markets, are drawing out-of-state buyers to the metro. Competition for available listings is heating up as a result, with the average sale price rising 3 percent over the past year to $360 per square foot.
- The metro's two largest submarkets by inventory, Southeast and Northeast, accounted for nearly half of all transactions over the past year ended in March. Well-located, single-tenant net-leased assets were highly sought after by investors looking for less management-intensive options. These buyers often targeted properties occupied by restaurants, auto repair and discount retailer tenants.
- Robust population growth and strong leasing activity in suburban submarkets like Clark County is stimulating sales activity for multi-tenant assets. Neighborhood and community centers here are changing hands most often, with yields that can fall to the low-5 percent range for properties with strong tenant rosters.