

MARKET REPORT

Retail
Portland Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

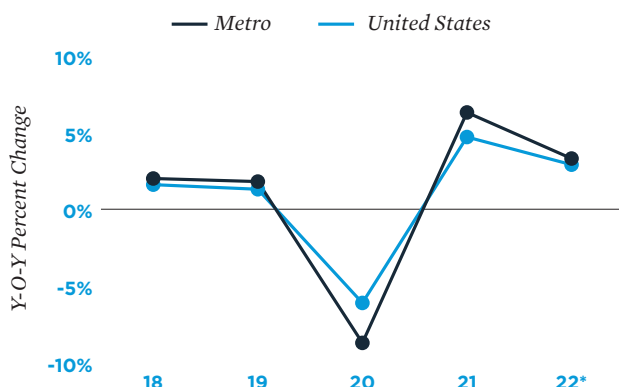
3Q/22

Portland's Multi-Sector Resurgence Galvanizing Retailer Commitments in Trio of Submarkets

Household formation prompts retailer expansions. Portland's retail sector is strongly rebounding, buoyed by record-level household creation. The metro's relative affordability — with the lowest average multifamily rent among major West Coast markets — has helped stimulate the formation of 20,000 new households during the past year ending in June, the metro's largest 12-month addition on record. In turn, retail leasing activity has notably improved, with vendors absorbing a net of 940,000 square feet over the past year, the highest four-quarter volume since the yearlong span ending in September 2018. The Southeast submarket and Clark County have accounted for a significant share of these commitments, as retailers anticipate increases in local midweek foot traffic, after both areas recently posted 150-plus-basis-point declines in office vacancy.

Tourism improvement brightens CBD retail outlook. Downtown Portland's hospitality sector has been making strides as of late, and retailers are taking notice. Though hotel demand still trails 2019 levels, overnight stays in the CBD during the first half exceeded the equivalent frame in 2021 by almost 75 percent. The rise in visitations corresponded to vendors absorbing 43,000 square feet of retail space during the span, a stark contrast to the negative recording over the same period in 2021. Improved local retail leasing helped facilitate a 100-basis-point decline in vacancy through just the first half; moreover, a negligible active pipeline here suggests that local conditions are likely to compress even further in the near term.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Retail 2022 Outlook



**40,000
JOBS**
will be created

EMPLOYMENT:

Portland's headcount expands by 3.3 percent in 2022, led by fervent hiring in the education and health services sector. The industry has already added 10,500 jobs over the first seven months of the year, accounting for 30 percent of newly-filled positions.



**140,000
SQ. FT.**
will be completed

CONSTRUCTION:

Builders complete less than 200,000 square feet for only the second time in 15 years, fostering the lowest year-end rate of inventory expansion on record. A trio of projects, totaling roughly 28,000 square feet, are slated for second half delivery.



**70
BASIS POINT**
decrease in vacancy

VACANCY:

Standout demand during the first half pushed vacancy down to 4.0 percent. Minimal deliveries during the final six months will heighten demand for available existing stock, facilitating additional compression to 3.8 percent.

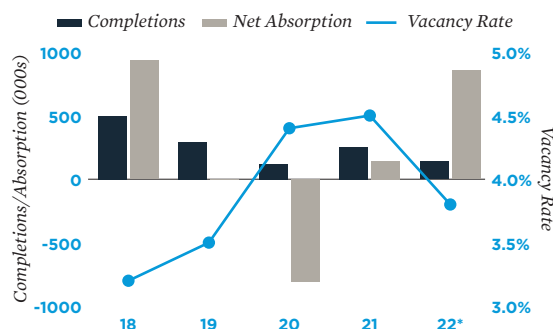


**4.2%
INCREASE**
in asking rent

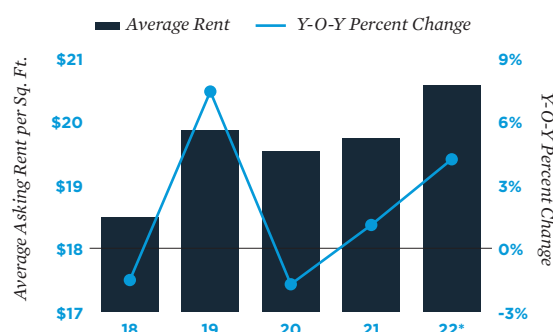
RENT:

Entering 2022, the average asking rate had receded 0.6 percent since 2019, before robust demand enabled a 4.0 percent gain during the first half. This momentum continues, lifting the mean marketed rate to \$20.56 per square foot by the end of this year.

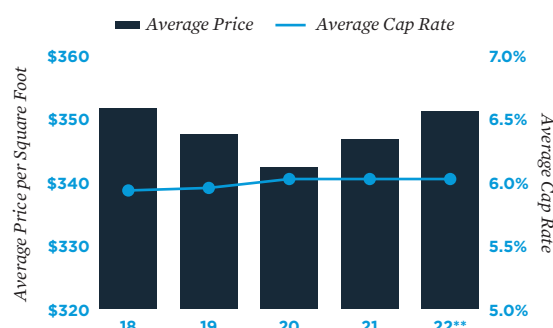
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

IPA Retail

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Price: \$250

2Q 2022 - 12-Month Period



CONSTRUCTION

228,000 sq. ft. completed

- Builders completed nearly 143,000 square feet in the Northeast submarket over the yearlong span ending in June, providing a substantial boost to local inventory, following an 18-month span of scant supply additions here.
- Clark County had the largest active pipeline as of September at 146,000 square feet, followed by the Northeast submarket at 88,000 square feet.



VACANCY

70 basis point decrease in vacancy Y-O-Y

- Eight of the 12 metro submarkets recorded vacancy declines of at least 60 basis points through the yearlong span ending in June, bringing metrowide availability down to 4.0 percent.
- Single-tenant vacancy fell 90 basis points to 3.8 percent in the recent span, while multi-tenant availability dropped 20 basis points to 4.6 percent.



RENT

3.5% increase in the average asking rent Y-O-Y

- Portland's average asking rate climbed to \$20.46 per square foot, as half of the metro's 12 submarkets noted rent growth in excess of 5.0 percent.
- The single-tenant mean marketed rent improved by 5.4 percent over the past year, rising to \$20.81 per square foot in June. In contrast, the average multi-tenant rate receded 2.5 percent, lowering to \$19.35 per square foot.

Investment Highlights

- The average cost for single-tenant assets lifted to \$408 per square foot in June, increasing 4 percent since the 2020 pricing trough. Gains can largely be attributed to both a higher number of post-2010-built assets trading and intensified bidding, the latter spurred by a deeper out-of-state buyer pool. Nonetheless, the single-tenant average cap rate rose 10 basis points to 6.0 percent over the past year, growing alongside rising interest rates and inflation-encumbered operating costs.
- Restaurants accounted for a significant chunk of overall deal flow over the past year, with neighborhoods southeast of Downtown representing the most active areas for these trades. Entry costs for southeastern dining assets ranged from \$198 to \$465 per square foot, with pricing largely dependent on proximity to major thoroughfares and residential clusters. Yields often fell in the high-5 percent band, in line with the metro average.
- Multi-tenant average pricing improved by 1 percent over the past year, rising to \$304 per square foot in June, while the mean cap rate held at 6.1 percent. The Southeast and Clark County accounted for the bulk of these trades, with investors attracted by each area's recent population growth.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice. Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics

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