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Retail market softens but still outpaces the nation

New centers cause a modest spike in Q2 vacancy rates

Portland Business Journal - by [Sean Meyers](#) Contributing writer

Portland's retail market continues to outpace the national average, although increasing vacancy rates and concerns about the economy are prompting some landlords to sweeten contracts in an effort to attract and keep tenants.

The abrupt departure of Levitz, Wickes Furniture and other housing-market dependent retailers has left gaping holes in some shopping malls and retail centers, but the prevailing mood of the industry is one of cautious optimism.

"I think retail in Portland is about as strong as it's ever been. When streets like Division, in Southeast Portland, have no vacancies, that says something about the market," said Craig Sweitzer of Urban Works Real Estate brokerage in Portland.

About 35 retailers will close 6,500 locations nationwide this year, more than double the average of recent years, but that can be written off in large part to an overdue market correction, Sweitzer said. Many of the stores were home video and other outdated industries, and Portland depends less on national retailers than other western cities.

Spurred into action by Bridgeport Village and other recent competitors, regional malls **Washington Square and Clackamas Town Center** shrewdly put recent profits into major renovations that acknowledge that consumers are changing the way they shop retail, said Sweitzer.

They will be well positioned for another year of uncertainty, as national retailers wait for results of the presidential election and developments in the war in Iraq.

What concerns Sweitzer is "a disturbing lack of financing, especially for restaurants. Even good ones are having access to funds cut off. Some banks are saying that they're doing absolutely no hospitality loans at all."

Lisa Fisher, a director of retail services at **Cushman & Wakefield of Oregon Inc.**, also sees



Dean Wier of Norris & Stevens says spaces vacated by furniture stores will be filled within 18 months.

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strength in the region's major malls and shopping districts.

"There are still retailers out there who haven't landed in Portland yet, but are looking to do so," she said.

A second-quarter retail market report by **Norris Beggs & Simpson** puts the Portland-Vancouver retail vacancy rate at 5.6 percent, a .7-percentage-point increase from the previous quarter. The vacancy increase was driven by new retail centers coming online in Gresham and Vancouver, said J.J. Unger, NBS retail specialist. Anything in the 5 percent to 6 percent range is good, he adds.

Key factors in Portland's relative retail success are land use policies that keep commercial development in check, a stronger housing market than many cities, and a perception by national chains that the Northwest is a good place to establish roots.

"There's a general sense that the demand for space is drying up on the tenant side, but that pretty much matches up with an overall lack of space in the market," said Lou Elliott, president of **Elliott Associates Inc.** in Portland and a founder of **Commercial Realty Advisors.**

The firms manage 5,000,000 square feet of retail space in the region. Vacancies are "single digits across the board, but are increasing," said Elliott.

Local retailers are inactive, regional retailers are "dead in the water" and national retailers, with several notable exceptions, are waiting, he said.

"Large discounters such as **Jo-Ann Fabrics** and **Wal-Mart** are very active and looking for retail space," Elliott said.

Since most large retailers plan about 18 months ahead, the true effect of the national economic downturn won't be known locally for another six to 12 months as more leases roll over, he said.

Tenants are beginning to turn the screws, requesting and sometimes receiving concessions such as extended initial free-rent periods, reduced rental rates and higher build-out allowances.

"They know that it's a tenant's market and not a landlord's market. If landlords don't begin to be a bit more flexible in their terms, in 18 months to two years vacancies could edge up to double digits and hold there," said Elliott.

This holiday season will be critical in setting the tone for 2009 and 2010, he added.

Most retail leases in the Portland market contain options to renew at a specified rate increase per square foot.

"The tenant is in the position of having that right, but they are certainly under no obligation to renew," said Elliott.

At the same time, there's a construction slowdown and the realization that Portland is running out of retail space.

“So there’s a little bit of parity there between landlords and tenants, which is good,” said Elliott.

“Clearly, the market and economy is in decline, and we’re not seeing indicators that we’re at the bottom of the decline,” says Tony Cassie, regional manager of **Marcus & Millichap** in Portland.

The loss of **Sharper Image** dealt a blow to Pioneer Place, but its effort to attract higher-income shoppers is succeeding. National retailers now realize that Portland — like Las Vegas, Los Angeles and San Francisco — can sustain upscale outlets, which often perform better in a bad economy.

“We’re finally getting to the point where they’re recognizing our demographic,” said Anne Hecht, who, like Fisher, is a director of retail services for Cushman & Wakefield.

Bridgeport Village remains very popular with tenants, but its leasing department isn’t taking customers for granted, with Thursday night wine tastings and other promotions to lure shoppers, said Hecht.

Many large retailers were bullish at the **International Council of Shopping Centers** convention in May, but not for 2009.

“What we were hearing from a lot of retailers is ‘2010, 2010,’” said Fisher.

Who’s going to fill the large footprint left by fleeing furniture retailers?

Hecht is seeing activity by family-themed entertainment companies such as Lucky Strike Lanes, which offers what the **Los Angeles Times** calls a “fabulously hip” twist on the bowling experience. They require a lot of space and would be a great replacement for furniture stores, she said.

Hecht also expects some popular national footwear and apparel brands, such as Crocs, to expand by opening company stores, with Portland being an especially attractive market.

Among major malls, Washington Square reports vacancy rates at near zero and **Lloyd Center** is actually gaining a little bit of ground.

“As of June of this year we are 93 percent occupied, and by the end of the year we will be approximately 94 percent occupied,” said Greg Cuda, regional leasing manager for owner **Glimcher Realty Trust**.

Portland’s green economy continues to flourish, with businesses ranging from bamboo flooring to home cleaning services opening retail outlets, Wier added.

National retailers recognize that Portland retail space is still affordable and can generate excellent profits per square foot.

“I think that in the next 18 months all of the mid-box spaces that were vacated by the furniture stores will be backfilled with tenants, some of whom are new to the market,” Wier said.

Sweitzer noted that The Rivers at Oregon City project is struggling.

“It’s bad timing, and I don’t think the location was optimal,” he said.

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