

Don't discount thrift retailers in economic downturn

Goodwill, Dollar Tree set ambitious expansion agendas for retail stores
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BY TYLER GRAF

Though the recession has taken its toll on many retailers in Oregon, companies that peddle thrift goods are reporting revenue increases and seeing opportunities for expansion.

Companies such as Dollar Tree, Goodwill and Costco have used the recession as an opportunity to lease new property or construct new buildings.

These companies stand in contrast to **Circuit City** and **Joe's**, both of which went bankrupt this year. So as the recession drags on, and as more retailers close locations, discount retailers plan to profit from the failure.

Nationwide, Dollar Tree plans to open 325 new stores in the coming year, including many in the Northwest. Scott Viehouser, a regional real estate acquisitions manager for the company, said he has been busier than ever, though leasing real estate is now easier because there is less competition.

"In the Northwest, landlords – they aren't desperate – but they are more motivated than ever before," Viehouser said. "Nobody is knocking on their doors except us."

Four years ago, the situation was reversed. Dollar Tree had trouble leasing real estate because there were companies capable of outspending the thrift store.

In Oregon, he said, the urban growth boundary kept rents "artificially high."

Tim Duy, a University of Oregon economics professor, said those high rents were tied more to "runaway real estate prices than the growth boundary."

Dollar Tree plans to take advantage of the weakened market while it can. Viehouser said Dollar Tree will continue aggressively looking for property in Oregon because rental rates continue to drop.

Now, the trouble is finding the right fit. Dollar Tree has very specific space standards, with stores required to occupy between 10,000 and 11,000 square feet.

Viehouser said Dollar Tree is concerned that it could over-expand. The company has wanted to lease more property for years, and it can sign those leases now due to lower rental rates. He said states such as Oregon and Washington are under-retailed.

Dollar Tree usually leases space. Other expanding companies, such as Goodwill, build their own.

Goodwill Industries of the Columbia Willamette chose the recession to build and open its second-largest store in the Portland-metro area. The store, in the Cedar Hills neighborhood of Beaverton, is set to open Tuesday. It will include more than 25,000 square feet of floor space, 15,522 square feet of which will be for retail sales. Salem-based LCG Pence Kelly built the building for \$5 million.

The recession has generated booming business for Goodwill, according to Dale Emanuel, the company's spokeswoman. In the last year, revenue for the regional Goodwill exceeded \$88 million, making it the most profitable Goodwill chapter in the country, she said.

Revenue for Goodwill Industries of the Columbia Willamette has increased by 9 percent compared to the same time last year; donations are also up 8 percent.

"We're definitely expanding, and we're happy to do so," Emanuel said, adding that those numbers are expected to increase in 2009.

With new stores planned, Goodwill is very much the exception, not the rule. It's still rare to see a retailer commit to new construction now, according to Josh Caldwell, business development director for contractor S.D. Deacon.

In 2008, developers delivered approximately 1.1 million square feet of retail space, expanding inventory in the Portland-metro area by 1.3 percent. Year to date, however, only 40,000 square feet have come online, according to first quarter reports compiled by Norris, Beggs & Simpson.

"Very, very few projects are going ground up," Caldwell said.

Most companies, he added, are emphasizing tenant improvements, or bringing their existing space up to sustainable standards. Another exception, though, is Costco, which announced in March that it was seeking to expand into distressed properties in Washington and Oregon.

Richard Galanti, chief financial officer for Costco, said the company, known for its mammoth stores, is looking at two new sites in the Portland area. The company plans to announce the site locations in 2010.

"In the last few months, we've seen an availability of high-end goods that has created excitement," Galanti said.

Likewise, Goodwill has three additional new stores planned for Wilsonville, Washougal, Wash. and Warrenton.

Emanuel attributes the company's expansion to consumers' wanting more value for their dollar.

But the recession won't last forever, Duy said, and once it ends consumers will likely go back to their old spending habits.