

In a down economy, tenants have edge in retail market

Vacant spaces abound these days, and retailers looking to make a move have several factors to weigh

Location, location, location. It's a saying many retailers take to heart. From restaurants to boutiques to grocery stores, a prime location is a priority; however, Class A space in popular shopping centers can be costly.

This recession has been tough on retailers, but there is some good news. Increased vacancy in the retail market translates to lower rental rates, so companies can move to a better location for less than they would in better economic times.

Retail vacancy in the Portland-metro area rose to 8 percent in the third quarter, according to NAI Norris, Beggs & Simpson's quarterly report. For comparison, vacancy in the third quarter of 2007 was just 4.6 percent.

Vacancy in Portland's central city district has risen to 9.8 percent, and vacancy in the southwest district is up to 8.4 percent.

So, retail tenants looking to relocate have a wealth of choices in several submarkets. Retailers have many factors to consider when looking at new locations, such as traffic counts at the center, area demographics, potential co-tenants and daytime population of the area.

Overall, rental rates are down. Many landlords today are willing to make compromises, so there are deals to be had – even for high-quality space in great locations. Landlords are still seeking a good tenant mix and are concerned about tenants' financial health, so there may be opportunities for retailers to negotiate better terms or some concessions, such as free rent or tenant improvements.

Rent is an important factor for retailers to consider when looking at potential locations. A jeweler, for instance, will pay higher rent than a mid-priced clothing



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store, which draws less revenue. Landlords must be aware of a tenant's ability to pay rent and focus on a positive tenant mix for the health of a center.

Retailers of all types have been affected by the recession, but local and chain restaurants in the metro area have been hit particularly hard; recent closures include three Restaurants Unlimited restaurants and one downtown McCormick & Schmick's restaurant. New operators and existing owners alike are looking to expand their market share and lower their start-up costs by taking over these locations. By leasing turnkey restaurant space that includes a built-out kitchen with equipment in place, a restaurateur also minimizes exposure to additional development charges.

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in order to take advantage of lower rates available in today's market. The tenants may also get lease modifications or concessions by securing their leases well before they expire. This can be a plus for both parties – tenants get to lock in good rates for years to come, and landlords ensure that the space is occupied.

A lot of recent attention has focused on national tenants – from Rite Aid to Blockbuster to Pier 1 Imports – attempting to negotiate lower rental rates. Some retail tenants have successfully negotiated rents, but landlords generally require tenants to provide evidence of financial need, such as significant drops in year-over-year sales.

Some landlords are willing to provide concessions because they would rather lower rates and retain a good tenant than spend time and money marketing a vacant space in a tough market. But not all landlords can do that because they must abide by rules established by their lenders; oth-

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ers simply can't survive when receiving less rent. We frequently hear about the challenges tenants are facing, but landlords also are struggling.

Tenants with less than a year left on their leases should definitely be preparing now to renew or relocate. The opportunities in today's market won't necessarily be available for much longer, and it can take time to find the right space and get a lease signed.

Retail is a tough business, and retailers starting new ventures face many challenges, including developing a strong business plan, settling on a concept that draws customers and meets the right price point, and of course, securing a good location. Unfortunately, in

today's economic environment, even some retailers with great concepts will not survive.

But with increased vacancy and more high-quality space available, retailers who are persistent, possess a good business model and have a willingness to spend time and energy evaluating the market can find the ideal space. These retailers can secure their market share and be in an advantageous position when the economy turns around.

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