

Portland Retail

Market Forecast

Trends

| | |
|-----------------------|---|
| Absorption | ↑ |
| Vacancy | ↓ |
| Rental Rates | ↔ |
| Construction Delivery | ↑ |
| Under Construction | ↑ |

Notable Lease Transactions

BFit
400-660 NW Eastman Parkway, Gresham
19,741 s.f. Leased

Starbucks
5810 N Lombard Street, Portland
14,665 s.f. Leased

Sushi Mioga
12043 NW Barnes Road
3,000 s.f. Leased

Notable Sale Transactions

Donahue Schriber
14805 SW Barrows Road, Beaverton
213,809 s.f. Investment Purchase
\$101M or \$472/s.f.

Killian Pacific
930 NW 14th Avenue and 1325 NW
Kearney Street, Portland
47,162 s.f. Investment Purchase
\$19.8M or \$426/s.f.

Cypress Equities
1260 Lloyd Center (Sears), Portland
142,966 s.f. Sale-Leaseback Purchase
\$11.5M or \$103/s.f.

The Portland retail market continues to be one of the strongest in the Pacific Northwest, with its high-quality assets and favorable demographics attracting a wide range of retailers, from single-store startups to local and national chains. Net absorption was positive 146,619 square feet over the past three months, which saw 410,708 square feet of leasing activity and several noteworthy investment sales. Limited availabilities coupled with increasing demand lifted asking rents across the Portland metro area, to an average of \$18.04 marketwide. Single-tenant properties are a particularly coveted asset, changing hands at cap rates below 6.5%, and those with nationally known retailers have recently traded at 5% cap rates, highlighting investor confidence in the Portland retail market.

Vacancy, Availability, and Net Absorption

Net absorption was positive 146,619 square feet this quarter, as vacancies fell to a cycle-low 4.1% and nearly all segments of the inner Portland metro area registered gains in occupied retail space. The Clark County area led the way with 80,687 square feet of positive net absorption, as the indoor trampoline park Sky Zone opened in the 31,831-square-foot former Albertsons grocery store at 5000 East 4th Plain Boulevard in Vancouver. Down south, Whole Foods set up shop at 11 South State Street in Lake Oswego, utilizing the 33,150-square-foot building for its second 365 concept location in the country. That grand opening drove 44,866 square feet of positive net absorption in the I-5 Corridor, its strongest quarter since 2014. Vacancies ranged from 2.6% in the Northwest metro area to 5.5% in Clark County at quarter's end, with the CBD segment at 4.1%. Availabilities dipped to 4.9% marketwide, and the Southwest section saw a 70-basis-point tumble to 4.4%.

Leasing Activity

Leasing activity this quarter totaled 410,708 square feet over 152 transactions, for an average of 2,702 square feet per deal. BFit—a fitness chain that currently has two West

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Area Review

Portland Retail Market Statistics

| Submarket Cluster | Total Inventory | Direct Vacancy Rate | Total Vacancy Rate | Total Availability Rate | Q3 Net Absorption | YTD Net Absorption | Quarterly Leasing Activity | YTD Leasing Activity | Avg Annual Asking Rate |
|---------------------------|--------------------|---------------------|--------------------|-------------------------|-------------------|--------------------|----------------------------|----------------------|------------------------|
| CBD | 4,658,340 | 4.10% | 4.10% | 5.80% | 5,467 | 20,787 | 9,216 | 56,733 | \$19.62 |
| Lloyd District | 5,398,493 | 4.30% | 4.40% | 4.30% | 4,046 | 812 | 17,565 | 47,543 | \$23.27 |
| Northwest | 1,832,674 | 2.60% | 2.60% | 3.10% | (3,194) | 14,326 | 870 | 4,134 | \$24.20 |
| Sunset Corridor/Hillsboro | 9,596,778 | 3.00% | 3.20% | 3.90% | 18,255 | 96,467 | 17,011 | 86,346 | \$18.69 |
| I-5 Corridor | 10,922,803 | 3.00% | 4.60% | 5.70% | 44,866 | 24,341 | 27,243 | 182,851 | \$22.68 |
| Northeast | 20,398,214 | 3.50% | 3.50% | 4.40% | 13,026 | 84,992 | 59,569 | 191,259 | \$17.17 |
| Southeast | 22,653,823 | 3.50% | 3.90% | 4.90% | 12,006 | (14,218) | 89,986 | 354,914 | \$15.95 |
| Southwest | 13,694,334 | 3.30% | 3.70% | 4.40% | (28,540) | (11,462) | 86,982 | 170,923 | \$18.36 |
| Clark County/Vancouver | 18,657,792 | 5.40% | 5.50% | 6.10% | 80,687 | 169,693 | 102,266 | 352,773 | \$17.85 |
| TOTAL | 107,813,251 | 3.80% | 4.10% | 4.90% | 146,619 | 385,738 | 410,708 | 1,447,476 | \$18.04 |
| Malls | 6,564,821 | 4.40% | 4.40% | 3.90% | 15,472 | 64,193 | 12,579 | 41,188 | N/A |
| Power Centers | 7,665,051 | 5.40% | 5.40% | 5.40% | (65,296) | (43,252) | 7,883 | 62,724 | \$19.75 |
| Shopping Centers | 36,341,048 | 6.10% | 6.90% | 7.70% | 147,375 | 161,364 | 247,363 | 758,645 | \$17.91 |
| Specialty | 599,806 | 0.00% | 0.00% | 0.50% | 5,400 | 7,536 | 0 | 9,353 | N/A |
| General Retail | 56,642,525 | 2.02% | 2.15% | 0.21% | 43,668 | 195,897 | 142,883 | 575,566 | \$18.24 |

Coast locations, including one in Keizer—signed on for 19,741 square feet at the Dick’s Sporting Goods-anchored Gresham Town Fair center, where it is expected to open a gym

by the end of the year. Starbucks inked a 10-year pact to operate a standalone location with a drive-thru and outdoor seating at 5810 N Lombard Street in Portland, which is under construction with delivery anticipated in the fourth quarter. Finally, Sushi Mioga, a new made-to-order sushi chain with two existing Portland locations, is expanding in the metro area, with two more stores in the works. One of those, in a 3,000-square-foot space at the Timberland Shopping Center in Portland, is scheduled to open later this year, while the other, at Hazel Dell Marketplace in Vancouver, will await that center’s delivery in mid-2017.

Investment Activity

Vigorous sale activity continued during the third quarter, primarily on the investment front. The 10-building Progress Ridge TownSquare Shopping Center in Beaverton traded from Gramor Development—which spearheaded the project’s construction in 2011—to Donahue Schriber for about \$101 million or \$472 per square foot. Anchored by New Seasons Market and Cinetopia Movie Theater, the center had 98% occupancy at its August sale date. In Portland CBD, Killian Pacific acquired Lovejoy Square North from Metro Holdings North for \$19.75 million or \$426 per square foot, underwritten at a 5.1% cap rate. The largest single-tenant-building sale involved the 111,645-square-foot anchor property at the super-regional Lloyd Center in Portland’s Lloyd District, from its owner/user, Sears, to Cypress Equities for \$11.5 million or \$103 per square foot; Sears will structure a leaseback agreement to retain the space.

New Deliveries & Under Construction

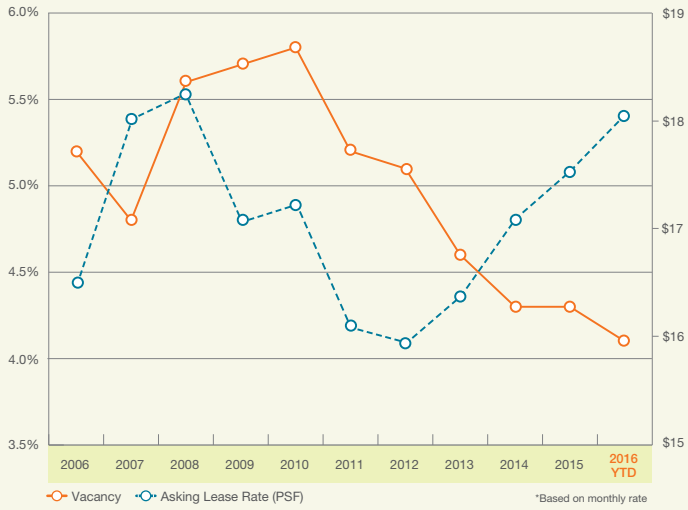
Four retail buildings totaling 30,498 square feet were delivered during the third quarter, including the Mill Creek Town Center in Portland’s Orchards submarket. Tenants at the free-standing community center include MOD and Great Clips, with about half of the 11,758-square-foot facility still available for lease. Another 21 future retail facilities were under construction at quarter’s end. The largest of these is the Happy Valley Crossroads Center in the Clackamas/Milwaukie submarket, anchored by a 144,200-square-foot Fred Meyer store, which will draw from a rapidly growing cluster of medical workers in the area when it is delivered in the fourth quarter. The Cedar Hills Crossing center in North Beaverton, to be anchored by a Sunset Lanes bowling alley, is set for delivery in October of 2017.

Spotlight: Macy’s

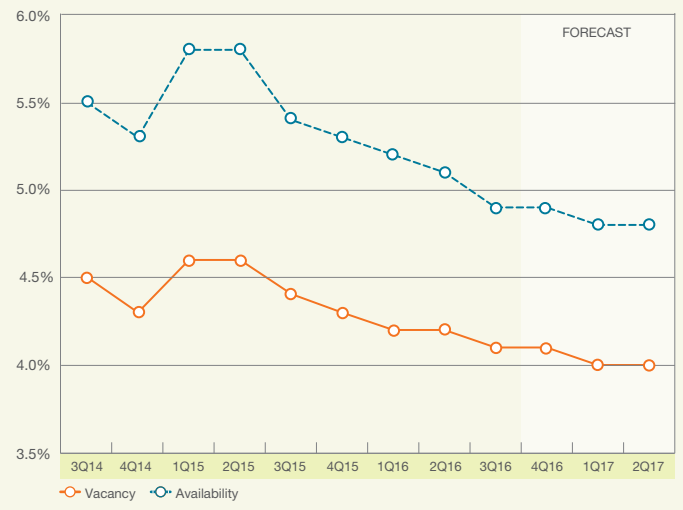
Entering the fourth quarter, all eyes will be on Macy’s, which is closing some 100 stores nationwide as it revamps its retail strategy to focus on its top 150. The Cincinnati-based department-store chain operates four metro Portland locations. Two of these—the anchor properties at Clackamas Town Center and at Washington Square in Tigard—are among its 150 best-producing stores nationwide, and, assuming the company’s plans hold true, those locations should survive this round of cuts. Macy’s was rumored to be exploring sale options with its downtown Portland location in the landmark Meier & Frank Building, which could remain open, be downsized in a leaseback deal, or close entirely depending on the interest it generates in the coming months.

Data Source: CoStar

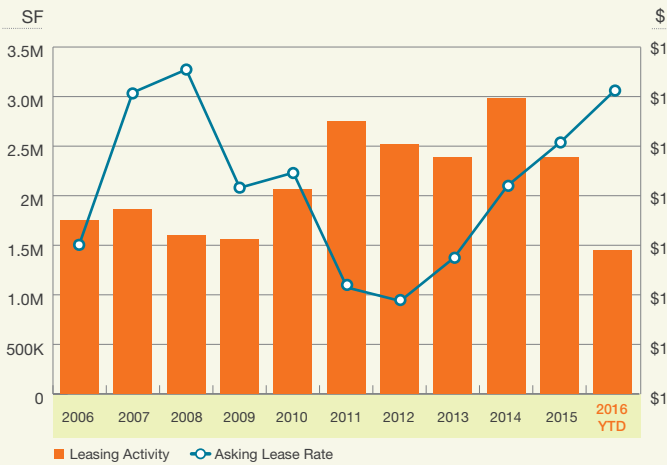
VACANCY VS ASKING LEASE RATE*



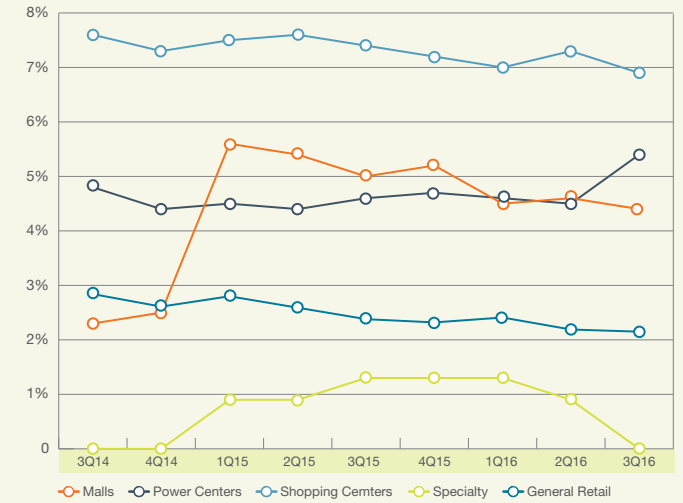
VACANCY VS AVAILABILITY



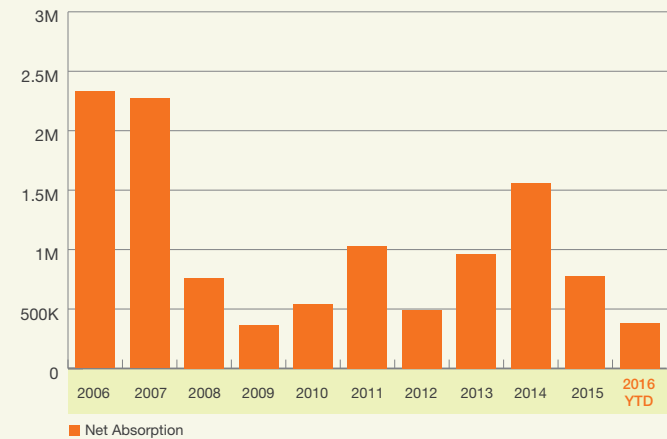
ANNUAL LEASING ACTIVITY & ASKING LEASE RATE



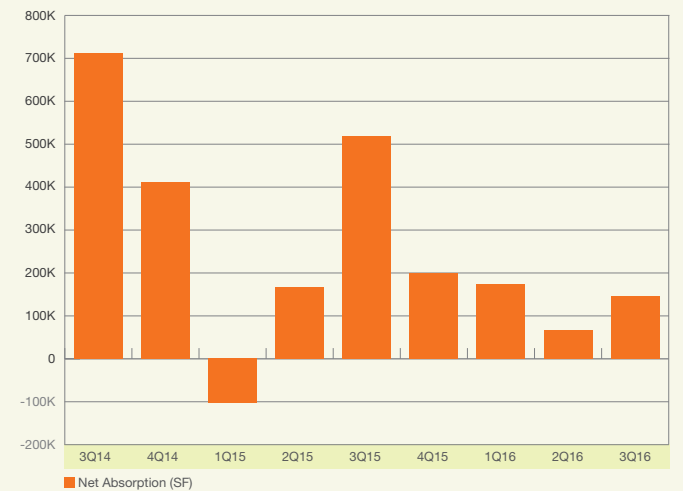
VACANCY BY RETAIL CENTER TYPE



NET ABSORPTION - QUARTERLY



NET ABSORPTION - HISTORICAL



Offices

Seattle
206.296.9600

Bellevue
425.454.7040

South Seattle
206.248.7300

Tacoma
253.722.1400

Olympia
360.705.2800

Portland
503.221.9900

San Francisco
415.229.8888

Redwood Shores
650.769.3600

Silicon Valley
408.970.9400

Sacramento
916.970.9700

Roseville
916.751.3600

Orange County
949.557.5000

San Diego
858.509.1200

Carlsbad
760.430.1000

Reno
775.301.1300

Phoenix
602.513.5200

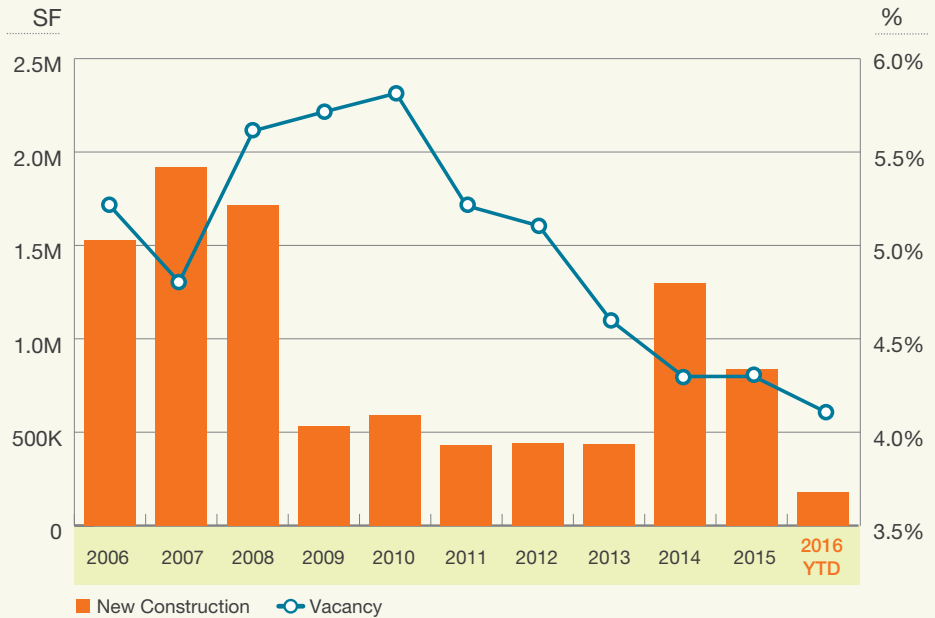
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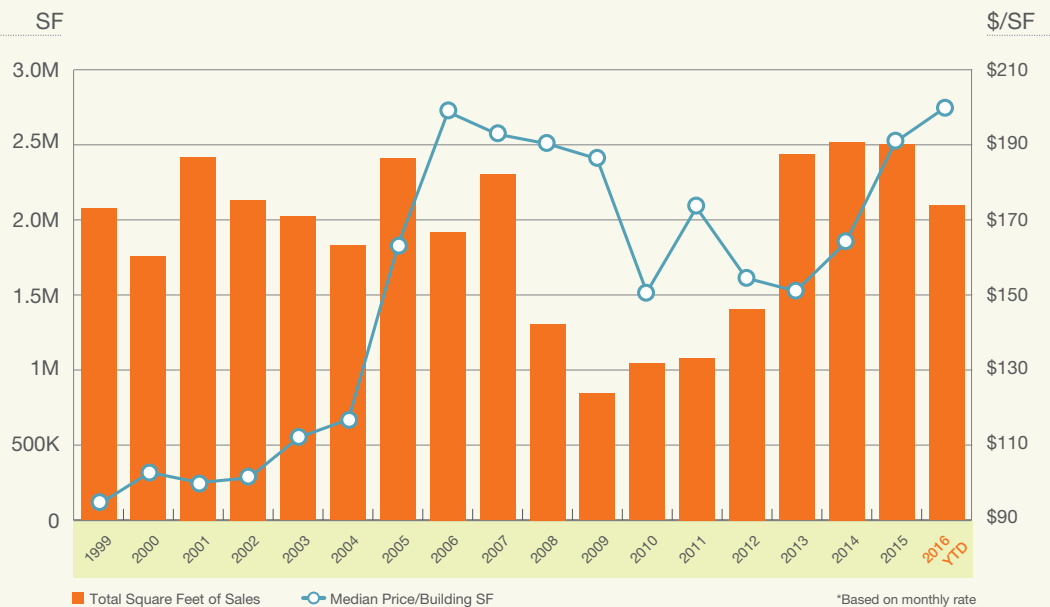
Market Breakdown

| | 3Q 2016 | 2Q 2016 | 3Q 2015 | Annual % Change |
|-------------------|---------|---------|---------|-----------------|
| Vacancy Rate | 4.1% | 4.2% | 4.4% | -6.81% |
| Availability Rate | 4.9% | 5.1% | 5.4% | -9.25% |
| Asking Lease Rate | \$18.04 | \$18.03 | \$17.51 | 2.74% |
| Leased SF | 410,708 | 514,565 | 611,355 | -32.82% |
| Sold SF | 535,238 | 751,021 | 526,928 | 1.58% |
| Net Absorption | 146,619 | 65,612 | 517,702 | N/A |

HISTORICAL NEW CONSTRUCTION & VACANCY RATE



HISTORICAL SALES SF & MEDIAN SALE PRICE



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