

Portland Retail

Market Forecast

Trends

Absorption



Vacancy



Rental Rates



Under Construction



Notable 2016 Lease Transactions

Sunset Lanes

Cedar Hills Blvd, Beaverton
44,446 s.f. Leased

24-Hour Fitness

465 W. Arlington Street, Gladstone
38,000 s.f. Leased

Sky Zone Vancouver

5000 E Fourth Plain Blvd, Vancouver
31,831 s.f. Leased

Notable 2016 Sale Transactions

Donahue Schriber

Progress Ridge TownSquare, Beaverton
213,849 s.f. Investment Purchase
\$95.197M or \$445/s.f.

DDR Corp.

Gresham Station Shopping Center, Gresham
341,186 s.f. Investment Purchase
\$86.3M or \$253/s.f.

Sterling Bay Companies

Meier & Frank Building, Portland
208,520 s.f. Redevelopment Purchase
\$54.15M or \$260/s.f.

JLL Income Property Trust

Timberland Shopping Center, Portland
91,660 s.f. Investment Purchase
\$42.6M or \$465/s.f.

Portland's coveted assets and favorable demographics made it one of the most robust retail markets in the Pacific Northwest during the fourth quarter of 2016, attracting a variety of retailers, from single-store startups to notable chains. Net absorption was positive 423,083 square feet in the final three months of the year, the market's best since the third quarter of 2015. Those move-ins were accompanied by 339,090 square feet worth of leasing transactions and vigorous investment activity that saw two of the metro area's shopping centers change hands. The combination of limited availabilities and unyielding demand pushed asking rents upward across the metro area, to an average of \$18.16 marketwide. Single-tenant properties are a particularly treasured asset, trading at cap rates below 6.5%, and those with nationally known retailers have changed hands at 5% cap rates in recent months, as investors express confidence in the sustained strength of Portland's retail market.

Vacancy, Availability, and Net Absorption

This quarter's 423,083 square feet of positive net absorption represented nearly 55% of the year's 774,572-square-foot gain in occupied retail space. Vacancies tumbled to a cycle-low 3.9%, ranging from 3.1% in Sunset Corridor/Hillsboro to 5.3% in the I-5 Corridor, as virtually all corners of the Portland metro area saw absorption gains this quarter. Shopping Centers were the best-performing retail type, accounting for 292,656 square feet of the positive net absorption, as Fred Meyer opened a 91,976-square-foot store at 16000 SE Sunnyside Road in Happy Valley. In Vancouver, Parkrose Hardware moved into a freestanding 35,000 square-foot building at 8002 NE 6th Avenue, previously home to Sports Authority. The newly delivered 4540 NE Cornell Road in Hillsboro debuted with two restaurant chains, Chipotle and MOD Pizza. Finally, in Portland CBD, Water Avenue Coffee Company opened its second location in the lobby of the Sixth at Yamhill Building.

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Area Review

Portland Retail Market Statistics

Submarket Cluster	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	Total Availability Rate	Q4 Net Absorption	YTD Net Absorption	Quarterly Leasing Activity	YTD Leasing Activity	Avg Annual Asking Rate
CBD	4,856,517	3.80%	3.80%	5.00%	3,482	21,144	44,513	112,671	\$19.10
Lloyd District	5,529,944	3.90%	3.90%	4.70%	37,347	39,231	7,442	54,985	\$21.25
Northwest	1,661,363	3.40%	3.40%	3.50%	(11,538)	5,052	0	4,134	\$22.87
Sunset Corridor/Hillsboro	9,605,957	2.90%	3.10%	3.90%	9,939	102,048	5,128	102,739	\$18.45
I-5 Corridor	10,926,199	3.40%	5.30%	6.30%	(81,243)	(54,474)	56,844	241,820	\$23.20
Northeast	20,388,722	3.30%	3.30%	4.30%	38,363	123,774	94,952	296,168	\$17.06
Southeast	22,808,704	3.00%	3.40%	4.80%	288,686	254,512	47,930	466,020	\$16.14
Southwest	13,704,319	3.50%	3.90%	4.50%	5,889	(31,096)	19,391	188,695	\$18.46
Clark County/Vancouver	18,764,100	4.80%	4.80%	5.20%	132,158	316,145	62,890	441,501	\$18.31
TOTAL	108,245,825	3.60%	3.90%	4.80%	423,083	774,572	339,090	1,908,733	\$18.16
Malls	6,694,417	3.30%	3.30%	3.70%	88,915	153,108	3,062	44,250	N/A
Power Centers	7,645,066	4.10%	4.10%	4.30%	109,572	53,720	0	63,309	\$21.93
Shopping Centers	36,618,537	5.90%	6.60%	7.80%	292,656	415,597	158,645	1,014,288	\$18.13
Specialty	511,806	0.00%	0.00%	0.00%	0	0	0	0	N/A
General Retail	56,775,999	2.07%	2.25%	0.23%	(68,060)	152,147	177,383	786,886	\$18.24

Leasing Activity

Leasing activity this quarter was 339,090 square feet as rental rates climbed to an average of \$18.16 per square foot, NNN. The Jantzen Beach SuperCenter in Portland played host to the two largest parts, as Sierra Trading Post took 24,609 square feet and Staples signed on for a 13,405-square-foot store. Black Bear Diner has a new restaurant on the way at 30175 SW Parkway Avenue in Wilsonville, where it will take over a former Denny's location. The regional chain Jimmy Mac's Roadhouse Grill, which has three restaurants in Washington, is coming south to Portland CBD, bringing some Texas flavor to a 5,400-square-foot spot at 901 NW Davis Street. Lastly, two new gyms are on the way in metro Portland, with EForce Performance taking 8,400 square feet at 5803 SW Beaverton-Hillsdale Highway in Portland and Anytime Fitness grabbing 6,297 square feet at 1700 Main Street in Washougal.

Investment Activity

Several investment sales made headlines during the fourth quarter. Ohio-based DDR Corp. acquired the 16-property Gresham Station Shopping Center (and a nearby, 45,000-square-foot LA Fitness facility) from Westlake Realty Group for \$86.3 million (\$253/sf). In Beaverton, the fully leased Timberland Town Center went from Gramor, a local developer, to JLL Property Trust, out of Chicago, for \$42.6 million (\$465/sf). Another Windy City investor, Sterling Bay Companies, entered Portland with a redevelopment play, acquiring Macy's landmark property in the Meier & Frank Building for \$54.15 million (\$260/sf), with plans to reshape the five-floor space for creative office use. Overall, there were 76 retail sales in the quarter

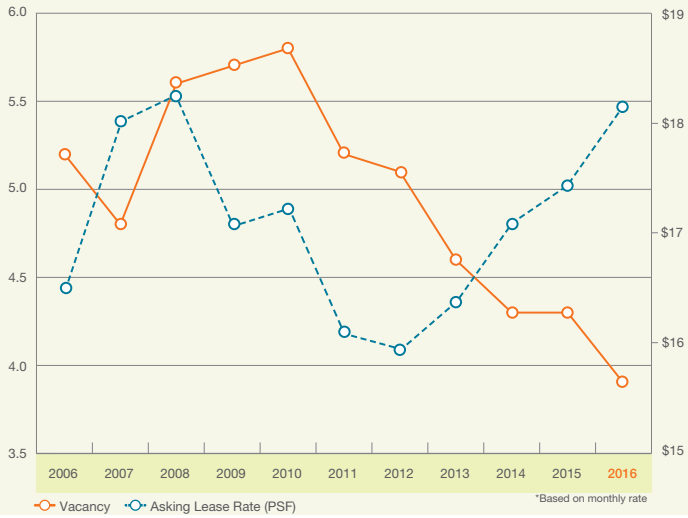
totaling 514,112 square feet and \$60.6 million in dollar volume. The average price per square foot was \$196.33, and the average cap rate was 7.1%.

New Deliveries & Under Construction

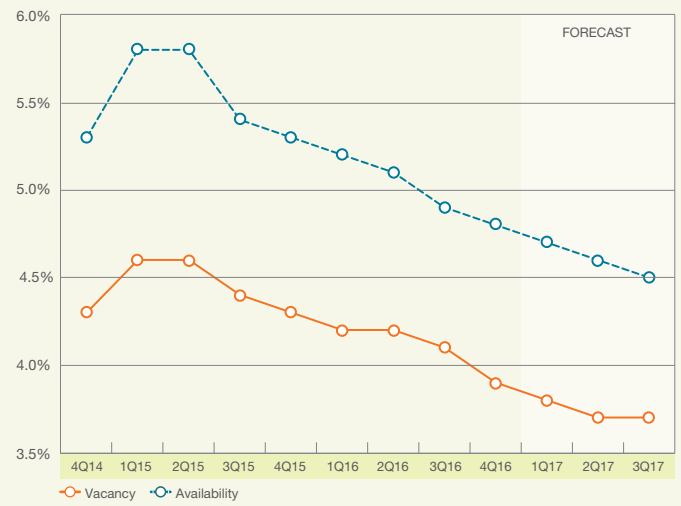
Nine buildings whose retail components totaled 195,385 square feet were delivered during the third quarter. Approximately 143,000 square feet of that was in the Happy Valley Crossroads center, which opened in November and is anchored by the new Fred Meyer store. A three-tenant, 10,295-square-foot property at 345 NW Burnside Road in Gresham also opened its doors this quarter, some six months after it was preleased to MOD Pizza, Killer Burger, and Mattress Firm. Eighteen other future retail properties were under construction at year's end, led by the Cedar Hills Crossing Center in North Beaverton, a 128,652-square-foot development that will be anchored by a Sunset Lanes bowling alley when it opens in October of 2017. Building D of the Hazel Dell Marketplace in Vancouver will add 36,000 square feet of inventory upon delivery in February, with 20,600 square feet preleased to Marshalls. Finally, two large single-tenant properties, an 86,600-square-foot Subaru dealership at 9200 SW Bailey Street in Wilsonville and a 38,000-square-foot gym at 465 W Arlington Street in Gladstone, should be delivered in the first quarter of 2017.

Data Source: CoStar

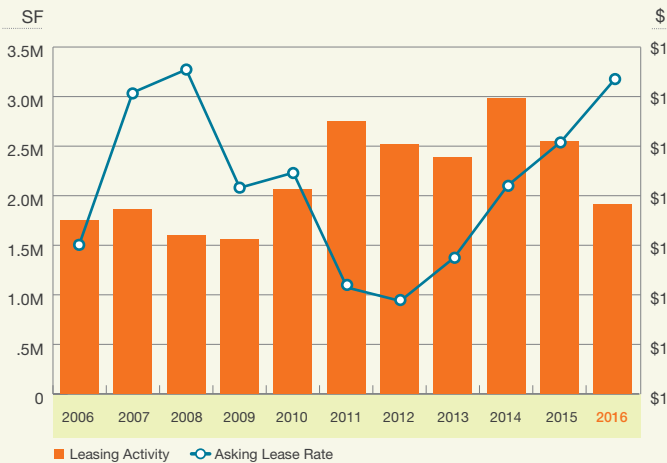
VACANCY VS ASKING LEASE RATE*



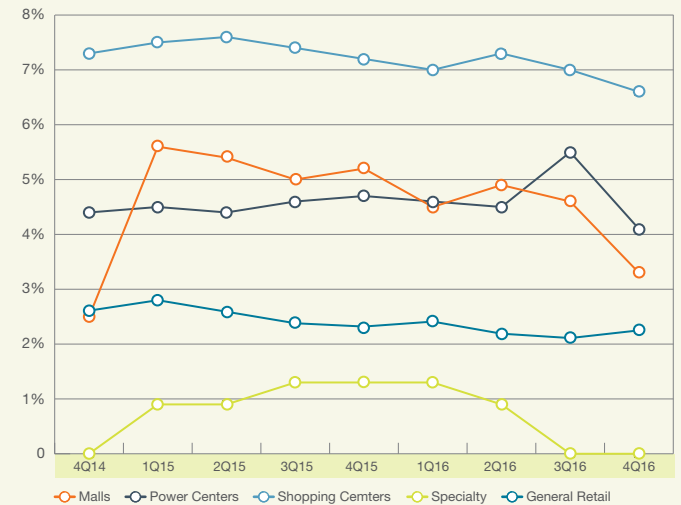
VACANCY VS AVAILABILITY



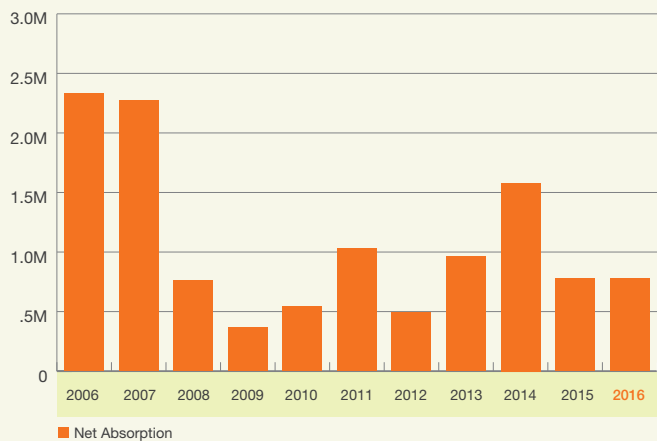
ANNUAL LEASING ACTIVITY & ASKING LEASE RATE



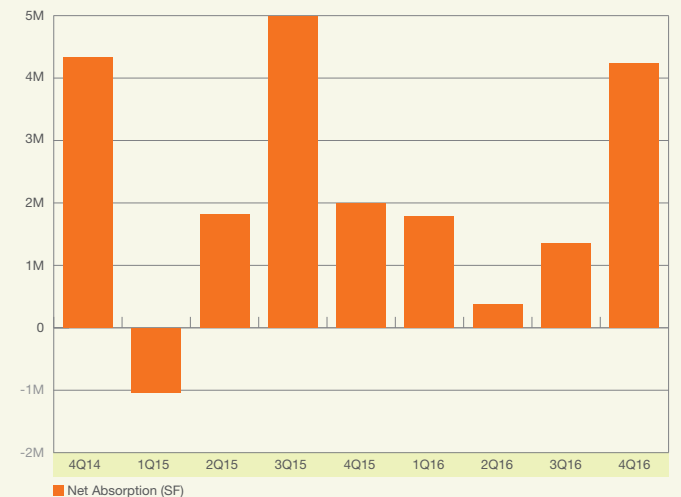
VACANCY BY RETAIL CENTER TYPE



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

Inland Empire
909.764.6500

San Diego
858.509.1200

Carlsbad
760.430.1000

Reno
775.301.1300

Phoenix
602.513.5200

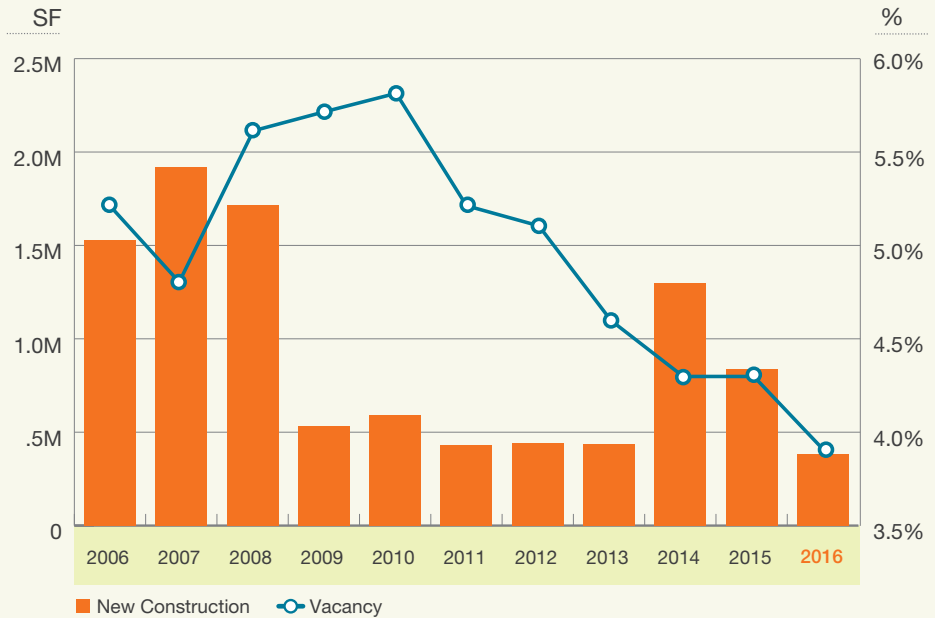
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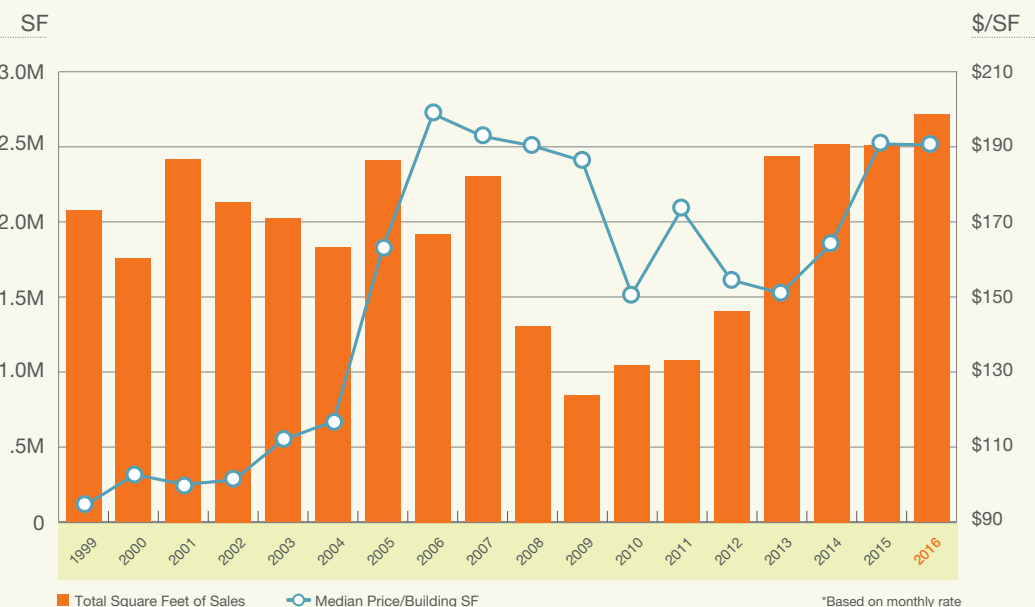
Market Breakdown

	2016	2015	2014	Annual % Change
Vacancy Rate	3.9%	4.3%	4.3%	-9.3%
Availability Rate	4.8%	5.3%	5.2%	-9.4%
Asking Lease Rate	\$18.16	\$17.43	\$17.07	4.1%
Leased SF	1,908,733	2,543,103	2,982,056	-24.9%
Sold SF	2,715,193	2,508,866	2,513,983	8.2%
Net Absorption	774,572	775,721	1,578,509	N/A

HISTORICAL NEW CONSTRUCTION & VACANCY RATE



HISTORICAL SALES SF & MEDIAN SALE PRICE



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