

Real Estate Market Review

Portland Retail

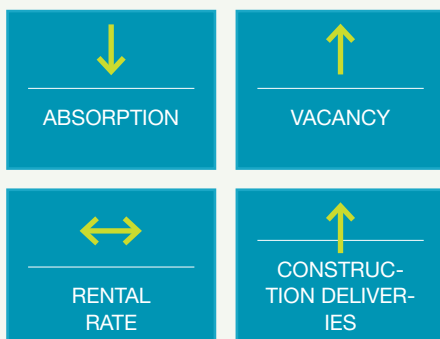
The nature of brick-and-mortar retail continues to shift rapidly in the Amazon era, and the Portland market is bearing witness to both the positive or negative effects of the change. While long-standing chains like JC Penney, Radio Shack, and Gymboree are cutting their presence in malls nationwide, boutique gyms, shared food halls, and other new forms of retail are populating city streets. Metro Portland experienced 127,154 square feet of negative net absorption during the third quarter, as leasing activity slowed during the summer months, lifting vacancies to 4.3%. The market is expected to rebound during the coming holiday season, with consumer confidence reaching a 16-year high during the month of July, suggesting an uptick in retail sales ahead.

Rental rates continue to average around \$19 NNN marketwide, though desirable offerings in Portland CBD and the Lloyd District can exceed \$25 NNN. Investors remain bullish on the long-term performance of Portland's retail assets, trading shopping centers in the area for \$180-200/sf and single-tenant buildings with well-known chains at cap rates around 5%.

Marketwide, retail properties experienced 127,154 square feet of negative net absorption during the third quarter, though vacancies were unchanged year over year at 4.3%. Most of the move-outs were the result of long-standing traditional

companies contracting their operations, as they scramble to adapt to the new retail landscape. Among the closures this quarter, Value Village shuttered its 23,474 square foot store at 5050 SE 82nd Avenue in the Clackamas/Milwaukie submarket, contributing to 52,125 square feet of negative net absorption in the Southeast area. The national children's clothing retailer Gymboree will soon close two stores in greater Portland, at Clackamas Town Center in Happy Valley and at Streets of Tanasbourne in Hillsboro, after filing for bankruptcy earlier this year.

Market Forecast Trends



Notable Lease Transactions

H Mart
3301 SE Belmont St, Portland
21,124 s.f.

Orange Theory Fitness
1621 NW 21st Ave, Portland | 4,611 s.f.
13428 Colton Pl, Oregon City | 2,900 s.f.

Sweet Jam
5233 NE M.L. King Blvd, Portland
2,600 s.f.

Notable Sale Transactions

Kimco Realty Corporation
Jantzen Beach Center (12 properties), Portland
732,542 s.f.
\$131.75M or \$180/s.f. (5.4% cap rate)

Steven Usdan
Fourth Plain Center (5 properties), Vancouver
117,143 s.f. | \$21.5M or \$184/s.f.

James Baggenstos, Popeyes
5949 NE MLK Jr. Blvd, Portland
2,623 s.f. | \$2.88M or \$1,098/s.f. (5% cap rate)

Area Review

Submarket Statistics

Submarket	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	Total Available Rate	Q3 Net Absorption	YTD Net Absorption	Quarterly Leasing Activity	YTD Leasing Activity	Rental Rate
CBD	4,394,843	9.30%	9.40%	9.20%	(16,193)	(198,974)	20,716	44,331	\$21.52
Lloyd District	5,594,856	4.30%	4.30%	7.60%	(8,602)	(625)	1,610	13,702	\$23.89
Northwest	1,665,085	3.20%	3.20%	3.10%	(1,086)	(5,493)	0	14,543	\$23.35
Sunset Corridor/Hillsboro	9,707,957	3.00%	3.00%	3.10%	(46,486)	17,259	6,832	111,967	\$20.45
I-5 Corridor	11,435,167	4.40%	5.20%	6.00%	(801)	42,662	38,141	104,743	\$19.80
Northeast	20,545,867	3.30%	3.30%	4.70%	38,125	97,226	30,254	169,568	\$18.59
Southeast	23,024,114	3.80%	3.90%	3.80%	(52,125)	78,031	152,766	490,338	\$17.24
Southwest	13,706,885	3.60%	3.70%	5.00%	12,898	29,213	62,692	166,460	\$20.24
Clark County/Vancouver	18,945,299	5.80%	5.80%	6.30%	(52,884)	(109,836)	42,092	200,487	\$18.34
TOTAL	109,020,073	4.20%	4.30%	5.10%	(127,154)	(48,773)	355,103	1,324,403	\$18.96
Malls	6,700,329	3.80%	3.80%	6.00%	(34,439)	(35,362)	0	9,179	N/A
Power Centers	7,702,844	4.00%	4.00%	3.70%	38,634	12,610	5,484	109,464	\$20.14
Shopping Centers	37,103,344	7.00%	7.20%	7.60%	(126,512)	11,611	208,317	694,229	\$18.69
Specialty	511,806	0.00%	0.00%	0.00%	0	0	0	0	N/A
General Retail	57,001,750	2.59%	2.73%	0.17%	(4,837)	(37,632)	141,302	511,531	\$18.31

The usual summertime slowdown limited leasing activity in metro Portland to 101 transactions totaling 355,103 square feet. In the largest individual deal, the Asian grocer H MART signed a 15-year lease for 21,124 square feet on the ground floor of the Belmont Dairy Building, at 3301 SE Belmont Street. Scheduled to open in early 2018, the Southeast Portland location will be H MART's fourth Oregon store and will refill the space vacated by Zupan's. Meanwhile, the rapidly growing gym chain Orange Theory Fitness added two future metro Portland spots to its roster, which will bring its total in the area to 11. Orange Theory leased 4,611 square feet on the ground floor of the newly renovated Leland James Center at 1621 NW 21st Avenue in the Slabtown neighborhood of Portland, and another 2,900 square feet at 13428 Colton Place in Oregon City. On the restaurant side, the southern soul food eatery Sweet Jam opened its second location at 5237 NE MLK Jr. Blvd in Northeast Portland, as several other local restaurateurs sought expansion opportunities in the city.

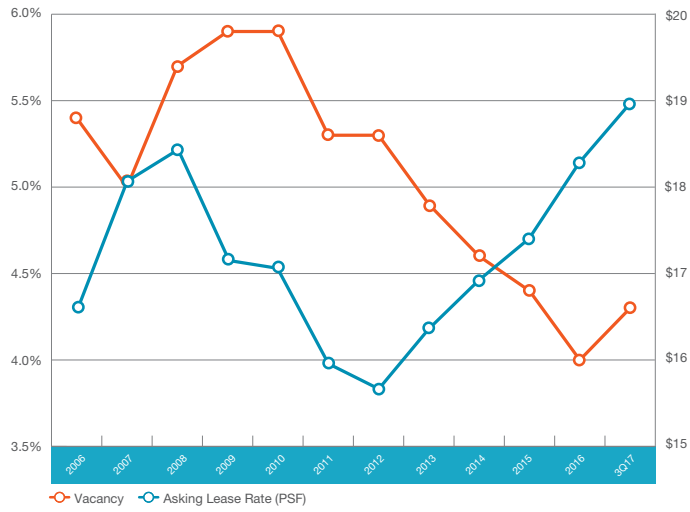
Retail investment volume, by square footage sold, soared to 1,224,658 square feet during the third quarter, its highest point since the second quarter of 2013. That surge was driven mainly by the sale of the 732,542 square foot Jantzen Beach Center, from EDENS, Inc. to New York-based Kimco Realty Corporation, which owns eight other strip-mall properties in the region. While metro Portland's indoor malls have stumbled amid the nationwide decline in retail, the open-air Jantzen Beach Center was 96% occupied at sale, attaining a 5.4% cap rate on the

\$131.75 million (\$180/sf) purchase price. The regional mall sits on 67 acres that Kimco noted could one day be converted to office or apartment use. Single-tenant properties with nationally known tenants also remain a hot commodity, highlighted by the sale of the Popeyes restaurant at 5949 NE MLK Jr. Blvd in Portland for \$2.88 million or \$1,098/sf, underwritten at a 5% cap rate. Overall, the median sale price this quarter fell to \$180, as larger shopping centers comprised the bulk of the transaction volume, after single-tenant properties dominated activity earlier in the year.

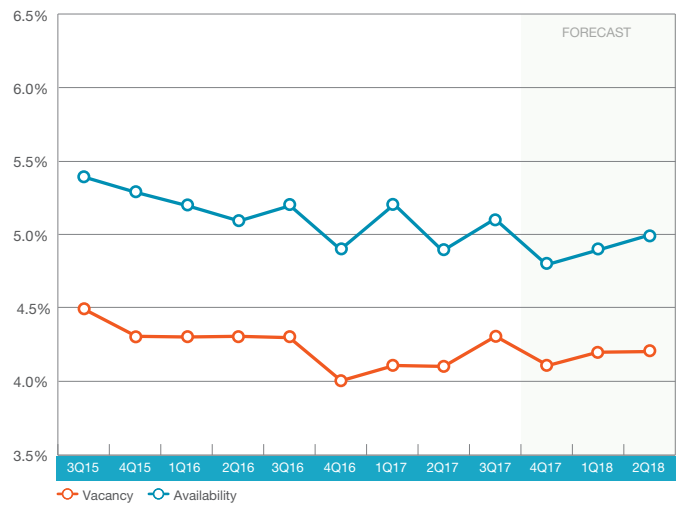
Seventeen retail developments totaling 510,469 square feet were under construction at quarter's end. The largest of these was Building 1 of Phase 1 at Cedar Hills Crossing II in Beaverton, where 128,658 square feet of space is underway, with delivery set for the second quarter of 2018. Restoration Hardware is awaiting a fourth-quarter 2017 delivery on its 36,000 square foot project at 2280 NW Glisan Street in Nob Hill, where the home-goods retailer will expand on its "gallery" concept, organizing the store like a home with furnished and decorated rooms. Another single-tenant project long in the making, the Natural Grocers store at 5029 NE MLK Jr. Blvd is underway and on track for completion in the summer of 2018. Finally, the 24 Hour Fitness gym at Gladstone Crossing in the Clackamas/Milwaukie submarket will open by year's end.

Data Source: CoStar

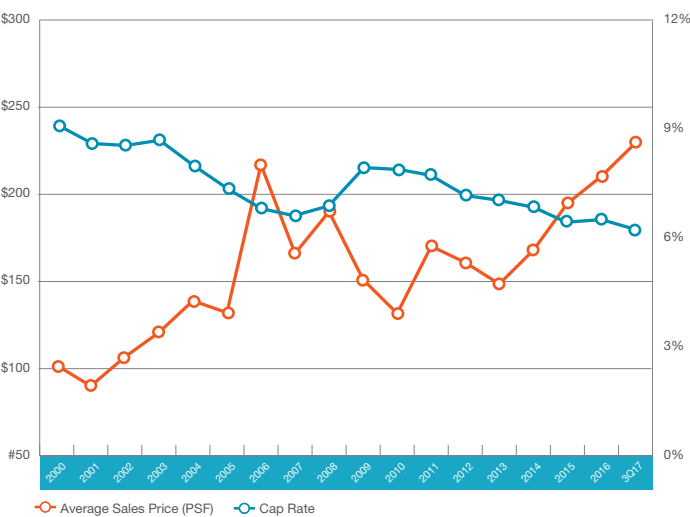
VACANCY VS ASKING LEASE RATE



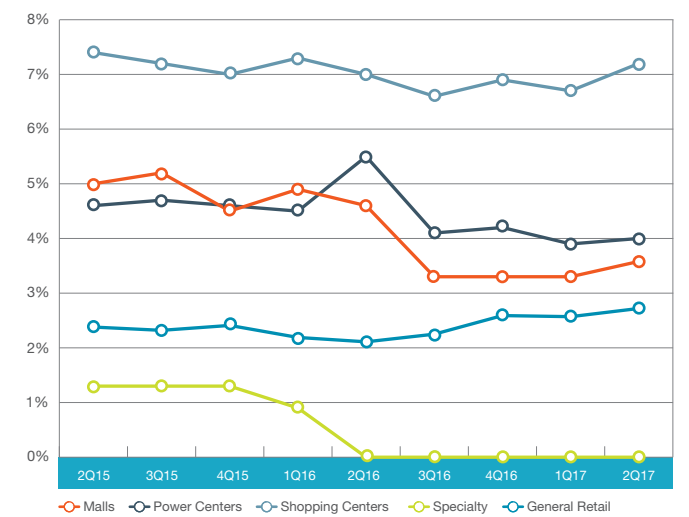
VACANCY VS AVAILABILITY



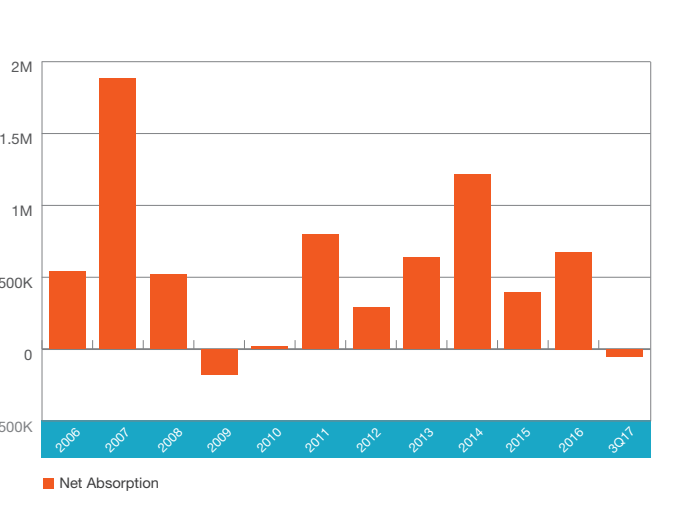
AVERAGE SALES PRICE & CAPITALIZATION RATES



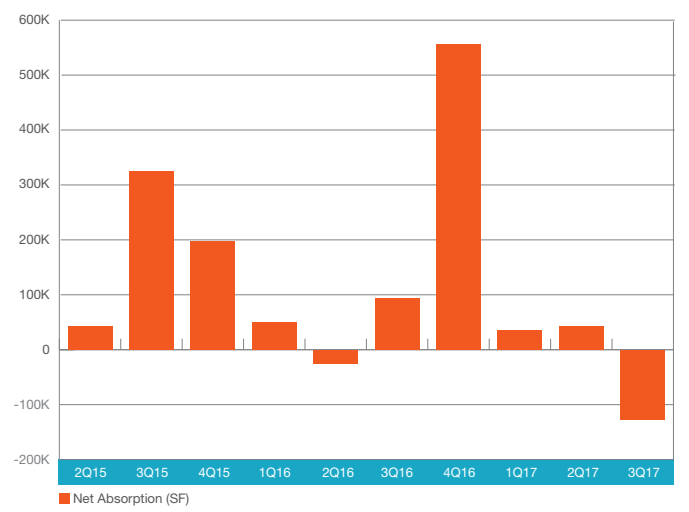
ASKING LEASE RATE



NET ABSORPTION - HISTORICAL



NET ABSORPTION - QUARTERLY



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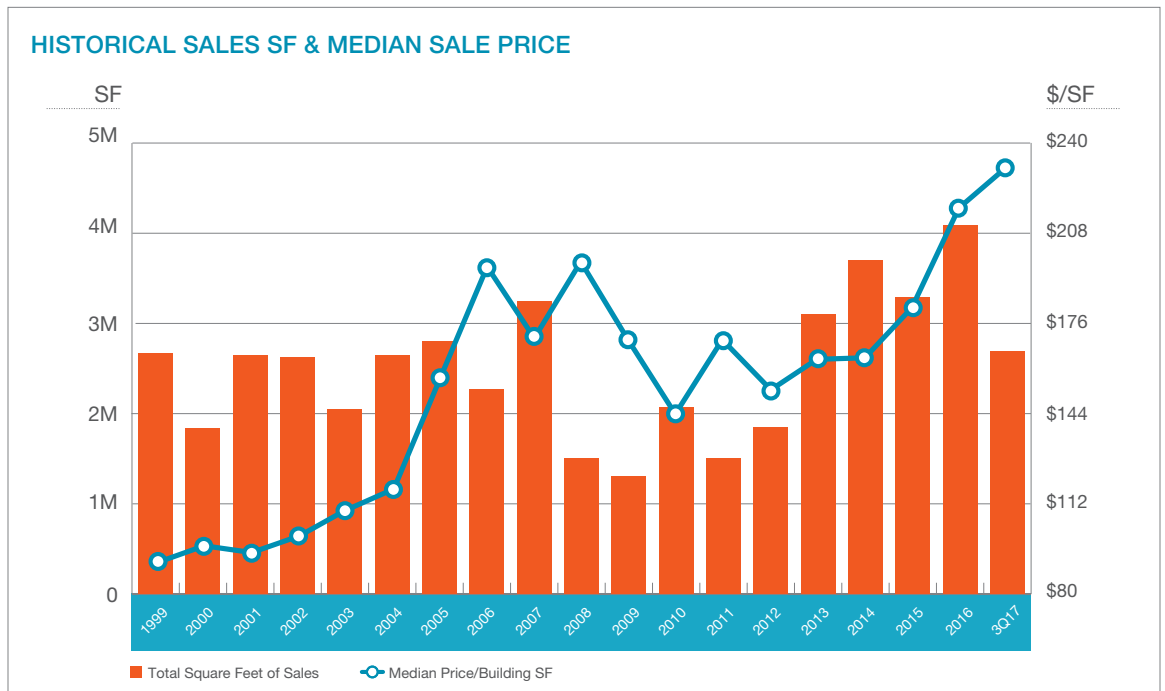
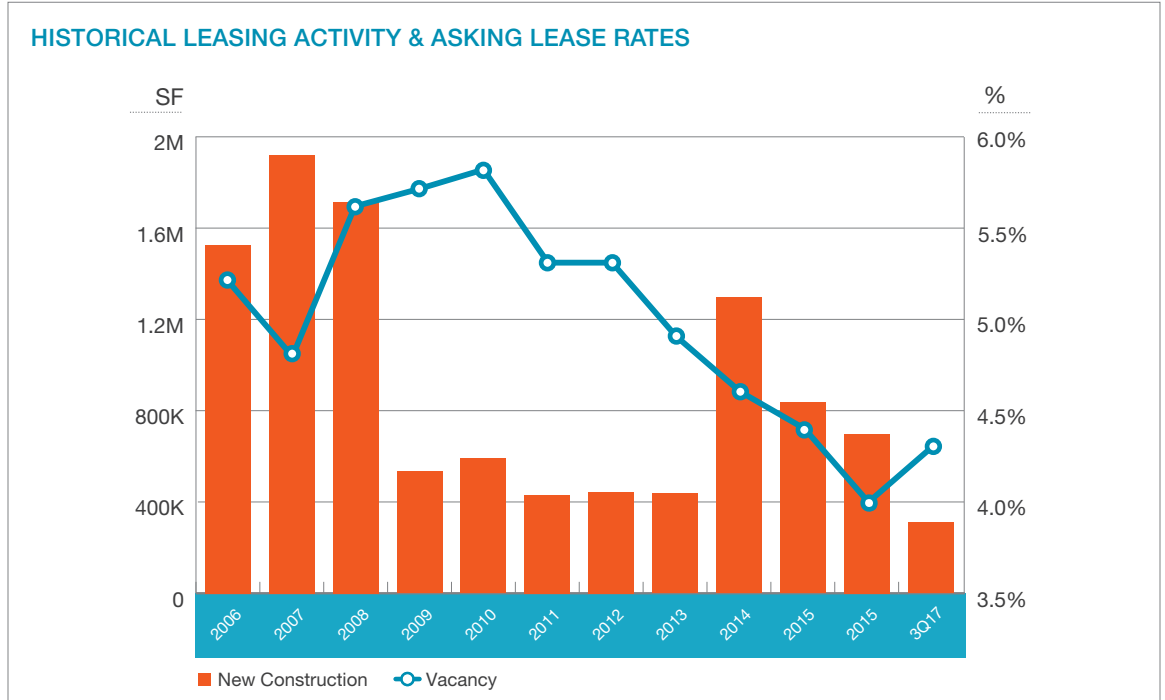
Phoenix
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Market Breakdown

	Q3 2017	Q2 2017	Q3 2016	Annual % Change
Vacancy Rate	4.30%	4.10%	4.30%	0.00%
Availability Rate	5.10%	4.90%	5.10%	0.00%
Asking Lease Rate	\$18.96	\$18.97	\$17.93	5.70%
Leased SF	355,103	460,866	564,591	-37.00%
Sold SF	1,224,658	839,864	1,061,597	15.40%
Net Absorption	-127,154	136,137	-33,299	N/A



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