

Real Estate Market Review

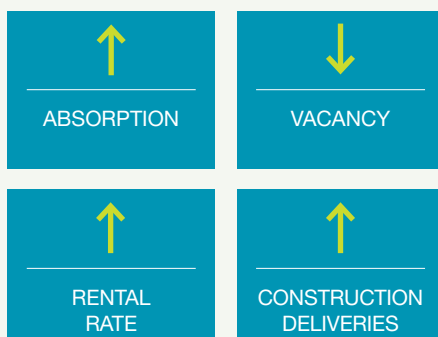
Portland Retail

The holiday season brought retail market cheer to metro Portland, which recovered most of its losses from the first three quarters of 2017. This period's 486,047 square feet of positive net absorption brought the year-to-date total to positive 214,242 square feet, and vacancies were virtually unchanged over the past 12 months, at 3.9%. Leasing activity remained in the range of 400,000-500,000 square feet, consistent with the past five quarters. Non-traditional retail users, such as fitness centers and bowling alleys, continued to reflect the changing nature of on-street retail in Portland, keeping demand steady even as brick-and-mortar stores struggle to compete with Amazon. Rental rates were up 6.3% year over year, to a marketwide average of \$19.43 NNN, though spaces along coveted corridors in Portland CBD and the Lloyd District can exceed \$30 NNN. Although shopping-center sale activity was down in the fourth quarter, investors continued to show confidence in the market, trading single-tenant properties with nationally known retailers at cap rates around 5%.

Net absorption this quarter was positive 486,047 square feet, the market's strongest gain since the fourth quarter of 2016, following the nationwide trend of retail expansion ahead of the holiday season. Vacancies have returned to 3.9% after rising to 4.3% during the summer. The quarter's largest occupancy occurred at Cedar Hills Crossing in Beaverton, where the Sunset Lanes bowling alley opened in November. In Hillsboro, Marshalls and Sierra Trading Post both set up shop at 18000 NW Evergreen Parkway, for a total of 43,214 square feet of newly occupied retail space. Finally, the Asian grocery chain H Mart opened a 21,124 square foot location in the Belmont Dairy

building in Southeast Portland, taking over the space vacated by Zupan's in January.

Leasing activity this quarter totaled 160 transactions for 455,517 square feet, in line with the past few periods. In Lake Oswego, PHK Development has secured five tenants for the ground-floor spaces at The Windward, a 200-unit apartment building set for delivery in early 2018, including local chains Salt & Straw and Bamboo Sushi. Another local chain, Nossa Familia Coffee, converted its pop-up store at Southeast Third and Clay Streets in Portland into a café this quarter and will add a new location

Market Forecast Trends

Notable Lease Transactions

Coastal Farm & Ranch
1900-1926 SE McLoughlin Blvd
Oregon City | 45,121 s.f.

Hobby Lobby
8612-8974 SE Sunnyside Road
Clackamas | 45,121 s.f.

Target
53031 SE Powell Blvd, Portland
30,000 s.f.

Notable Sale Transactions

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

Retail Opportunity Investments Corp.
Division Center, Portland
122,000 s.f. | \$33M or \$270/s.f.

CH Retail Fund I
Martinazzi Square, Tualatin
51,060 s.f. | \$16.3M or \$319/s.f.

Area Review

Submarket Statistics

Submarket	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	Total Available Rate	Q4 Net Absorption	YTD Net Absorption	Quarterly Leasing Activity	YTD Leasing Activity	Rental Rate
CBD	4,373,906	9.00%	9.30%	9.70%	11,805	(186,649)	43,425	87,756	\$22.69
Lloyd District	7,063,202	2.50%	2.50%	5.50%	75,363	79,329	12,561	29,647	\$19.86
Northwest	1,628,360	2.90%	2.90%	2.80%	(2,321)	(6,460)	4,053	19,860	\$22.61
Sunset Corridor/Hillsboro	9,776,263	3.30%	3.40%	3.80%	(33,771)	(27,814)	50,737	165,754	\$20.17
I-5 Corridor	11,445,586	4.10%	4.80%	6.10%	46,103	90,104	36,901	151,676	\$19.32
Northeast	20,749,983	3.10%	3.10%	3.90%	60,279	53,326	86,274	283,728	\$18.82
Southeast	23,142,677	3.20%	3.30%	3.40%	151,685	175,296	76,673	586,380	\$18.36
Southwest	14,485,634	2.90%	3.00%	3.90%	39,096	57,095	57,140	230,946	\$21.22
Clark County/Vancouver	18,994,101	5.10%	5.10%	5.50%	137,808	(21,749)	87,753	332,290	\$18.73
TOTAL	111,659,712	3.70%	3.90%	4.60%	486,047	214,242	455,517	1,896,301	\$19.43
Malls	8,179,901	1.90%	1.90%	4.40%	100,006	64,644	15,562	24,741	N/A
Power Centers	7,658,398	2.80%	2.80%	2.70%	95,270	107,880	10,064	119,528	\$24.56
Shopping Centers	37,150,720	6.40%	6.60%	7.00%	143,039	82,303	182,316	926,309	\$19.23
Specialty	511,806	0.00%	0.00%	0.00%	0	0	0	0	N/A
General Retail	58,158,887	2.45%	2.59%	0.16%	147,732	(40,585)	247,575	825,723	\$18.31

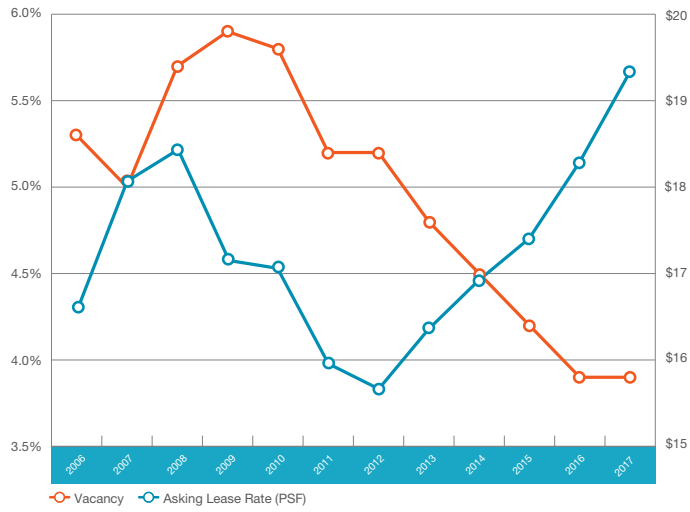
at 1949 SE Division Street early next year. All told, Northeast Portland led all submarket clusters with 83,418 square feet of leases signed in the fourth quarter, followed by Southeast Portland at 75,165 square feet.

After peaking at nearly 1.5 million square feet sold in the third quarter, retail investment sales fell to 906,744 square feet in the fourth quarter. More than 110 metro Portland retail assets changed hands over the past three months at an average price of \$254 per square foot, up from \$191 per square foot in the third quarter, largely because smaller buildings and single-tenant properties accounted for a bigger square of the transactions. At the Jantzen Beach Super Center in Northeast Portland, New York-based Kimco Realty Corporation acquired the 24,747 square foot freestanding Ashley Furniture store for \$6.2 million or \$251 per square foot, underwritten at a 6.5% cap rate. Smaller single-tenant properties with nationally known retailers continue to trade at sub-6% cap rates. For example, an individual investor bought the Walgreens drug store at 8141 E Burnside Street in Northeast Portland for \$4.4 million or \$316 per square foot, a cap rate of 5.51%. Similarly, Winters Investment LP acquired the 7-Eleven convenience store at 3200 E Fourth Plain Blvd in Vancouver at a 5.58% cap rate, paying \$1.615 million or \$673 per square foot.

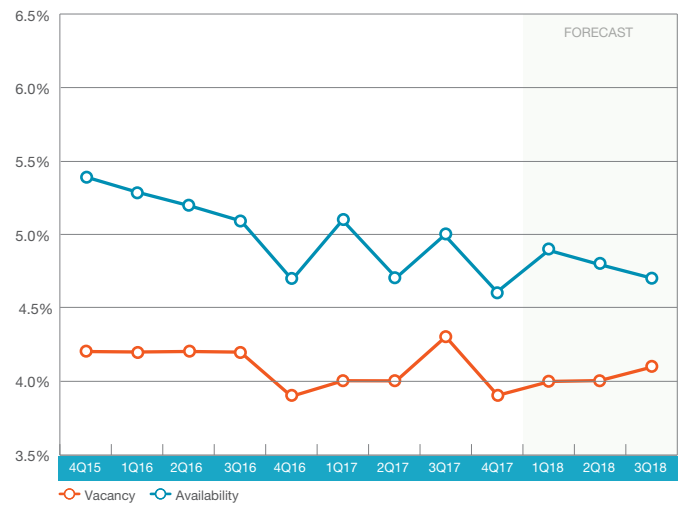
Following five retail deliveries totaling 42,763 square feet in the fourth quarter, there were 16 projects with a retail component over 10,000 square feet under construction to end the year. The largest development underway was Building 1 of Phase 1 of the mixed-use Cedar Hills Crossing II community center, which includes 67,766 square feet of retail space, about 44,000 square feet of which has been pre-leased to Sunset Lanes. In Sherwood, the Cedar Creek Plaza project, which features 70,000 square feet of retail space alongside senior housing, is set for delivery next July. Finally, the 38,000 square foot 24-Hour Fitness facility at Gladstone Crossing will open shortly after the New Year.

Data Source: CoStar

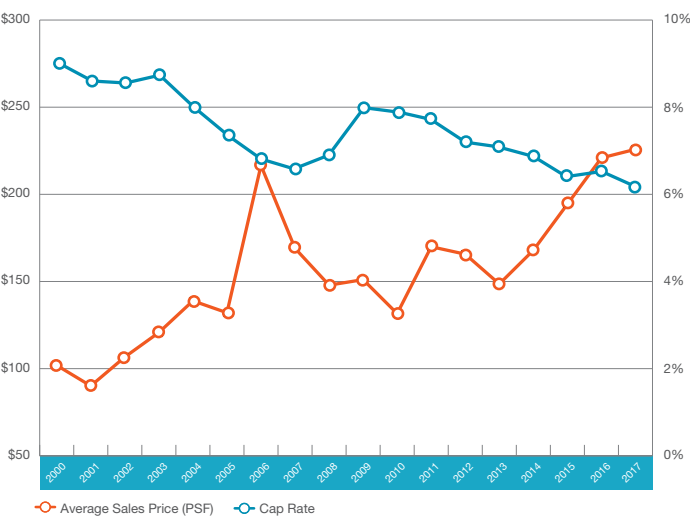
VACANCY VS ASKING LEASE RATE



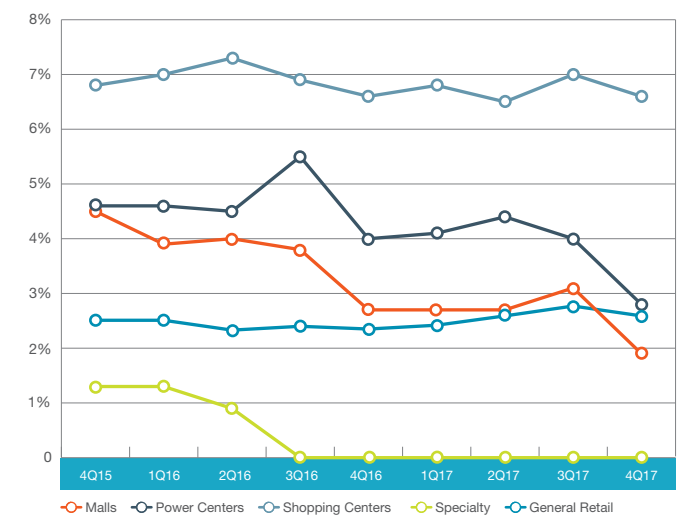
VACANCY VS AVAILABILITY



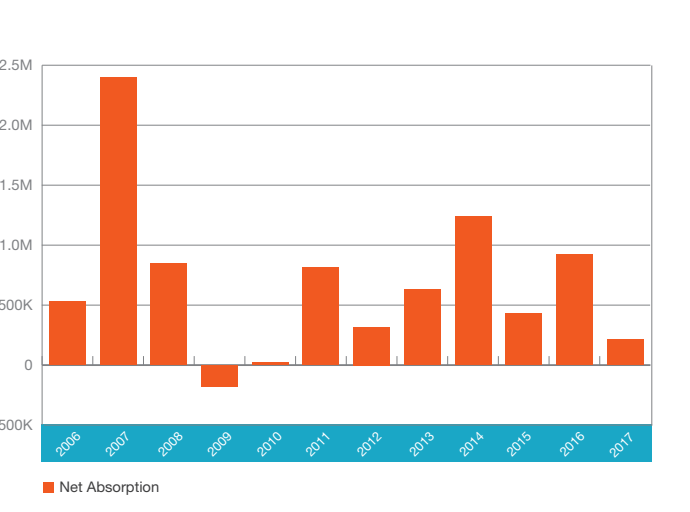
AVERAGE SALES PRICE & CAPITALIZATION RATES



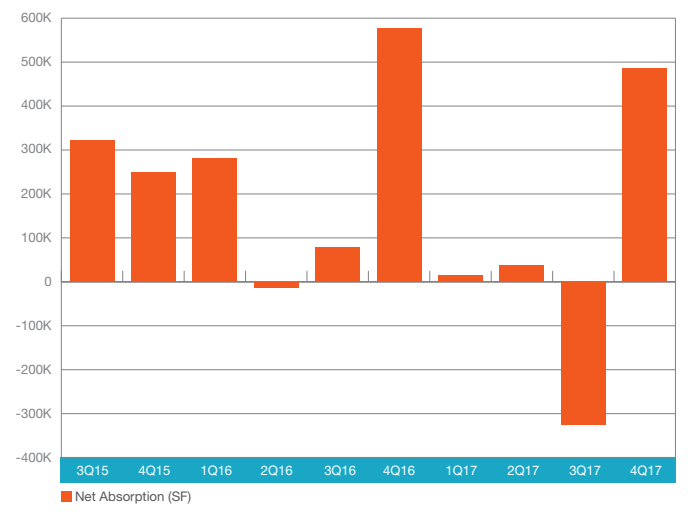
VACANCY BY RETAIL CENTER TYPE



NET ABSORPTION - HISTORICAL



NET ABSORPTION - QUARTERLY



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

Los Angeles
213.880.5250

Commerce
323.727.1144

Long Beach
562.472.0071

Orange County
949.557.5000

Inland Empire
909.764.6500

San Diego
858.509.1200

Carlsbad
760.430.1000

Reno
775.301.1300

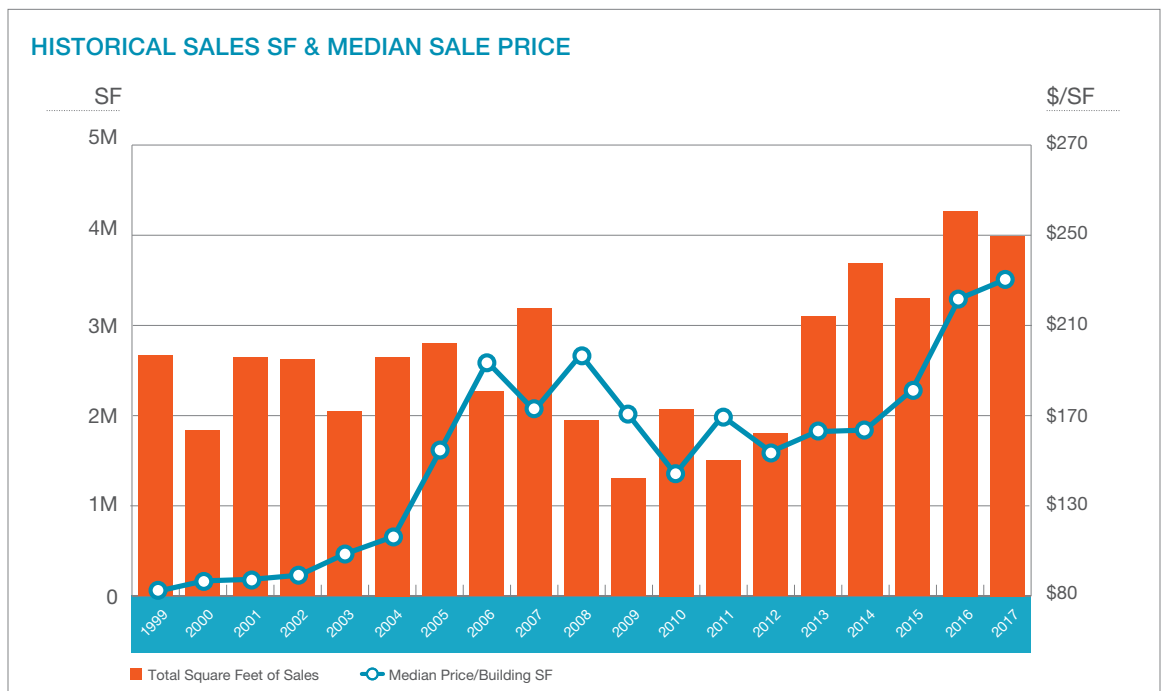
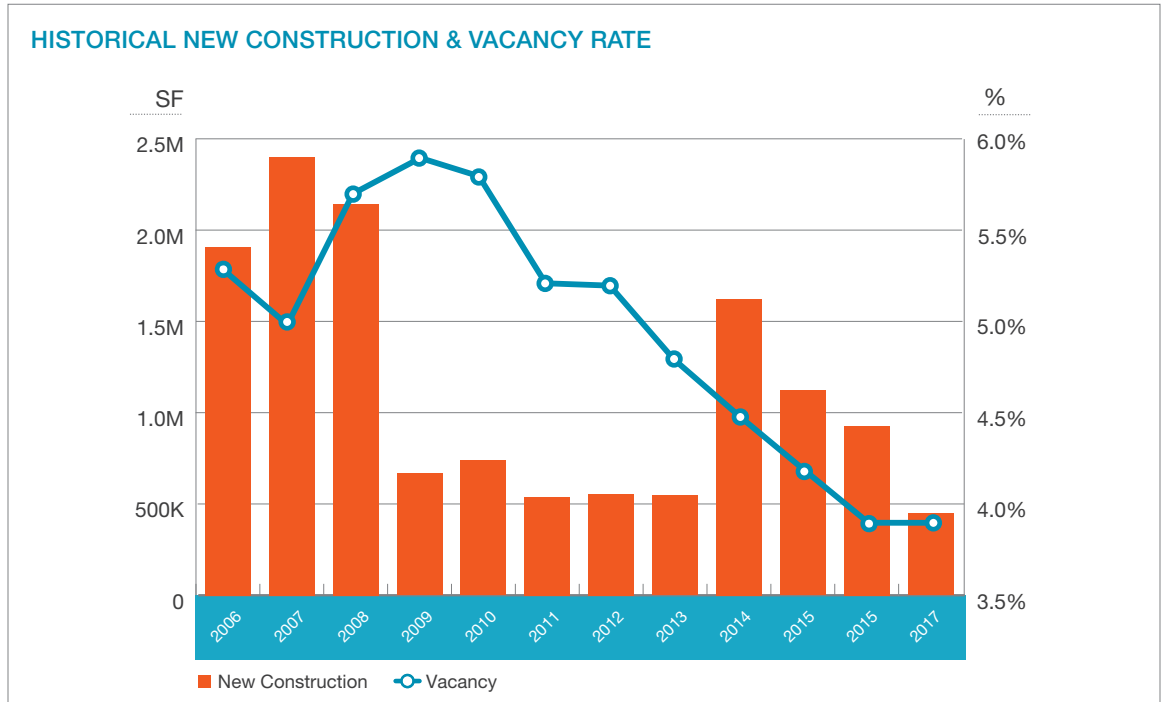
Phoenix
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Market Breakdown

	2017	2016	2015	Annual % Change
Vacancy Rate	3.90%	3.90%	4.20%	0.00%
Availability Rate	4.60%	4.70%	5.10%	2.10%
Asking Lease Rate	\$19.43	\$18.28	\$17.40	6.30%
Leased SF	1,896,301	2,392,286	2,532,220	-20.70%
Sold SF	3,991,326	4,268,695	3,297,588	-6.50%
Net Absorption	214,242	923,255	428,817	N/A



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