

Real Estate Market Review

Portland Retail

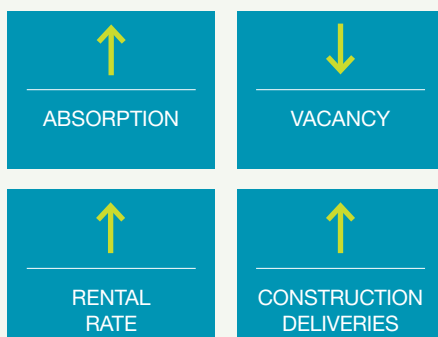
The Portland market continues to adapt to changes in the nature of retail in the Amazon era. National storylines this quarter included Albertsons acquisition of Rite Aid and the closure of more than 100 Sears stores, both of which will affect metro Portland in the coming quarters. Nevertheless, the primary indicators of market strength were promising in the early months of 2018. Marketwide, vacancies held below 4% while rental rates climbed to an average of \$19.37 NNN, a 3.7% hike year-over-year. Investors continued to trade Portland-area retail assets at sub-7% cap rates and price tags well over \$200/s.f. On the tenant side, several local chains firmed up expansion plans by signing leases this quarter, and restaurant chains based elsewhere put Portland on their list of targets for nationwide growth.

Portland retail properties sustained most of their annual holiday-season occupancy gains, with 53,938 s.f. of positive net absorption in the past three months. Clark County/Vancouver picked up 107,892 s.f. of occupied retail space, with Northeast Portland close behind, at positive 90,695 s.f. On the flipside, Southwest Portland withstood the biggest loss, ceding 62,929 s.f. in the first quarter. Marketwide vacancies are down 30 basis points year over year, from 4.0% to 3.7%, while availabilities have fallen from 5.0% to 4.4%. Malls in metro Portland remain exceptionally tight, at

2.2% vacancy. Conversely, community, neighborhood, and strip shopping centers have more readily available space, with a 6.1% vacancy rate, down from 6.9% a year ago.

Approximately 322,437 s.f. of retail space came off the market in leases signed during the first quarter. Clark County/Vancouver and Southeast Portland were the busiest areas in the first three months of 2018, as each saw more than 80,000 s.f. of leasing activity. The Los Angeles-based Mexican restaurant chain Pink Taco signed a 7,941 s.f. deal

Market Forecast Trends



Notable Lease Transactions

Pink Taco
1203-1211 NW Glisan, Portland
7,941 s.f. leased

Tea Bar
750 SW 9th Avenue, Portland
1,500 s.f. leased

Coco Donuts
1481 NE Alberta Street, Portland
902 s.f. leased

Notable Sale Transactions

Commercial Investment Real Estate
Wood Village Town Center (22557 NE Park Ln)
Wood Village
143,334 s.f. sold for \$26.55M or \$182/s.f.

Debra Bowen
Nyberg Retail Center (6700-7066 SW Nyberg Rd)
Tualatin
30,778 s.f. sold for \$7.89M or \$256/s.f.

Area Review

Submarket Statistics

| Submarket | Total Inventory | Direct Vacancy Rate | Total Vacancy Rate | Total Available Rate | Q1 Net Absorption | YTD Net Absorption | Quarterly Leasing Activity | YTD Leasing Activity | Rental Rate |
|---------------------------|--------------------|---------------------|--------------------|----------------------|-------------------|--------------------|----------------------------|----------------------|----------------|
| CBD | 4,446,336 | 10.30% | 10.50% | 10.50% | (42,657) | (42,657) | 37,433 | 37,433 | \$21.02 |
| Lloyd District | 7,042,039 | 2.90% | 3.00% | 5.30% | (34,223) | (34,223) | 2,350 | 2,350 | \$24.44 |
| Northwest | 1,646,872 | 2.30% | 2.30% | 3.30% | 3,130 | 3,130 | 10,000 | 10,000 | \$24.23 |
| Sunset Corridor/Hillsboro | 9,750,270 | 2.00% | 2.20% | 2.70% | (5,306) | (5,306) | 11,852 | 11,852 | \$20.18 |
| I-5 Corridor | 11,447,776 | 3.90% | 4.60% | 5.40% | 14,353 | 14,353 | 27,731 | 27,731 | \$19.66 |
| Northeast | 20,597,159 | 3.00% | 3.10% | 3.40% | 90,695 | 90,695 | 46,214 | 46,214 | \$19.02 |
| Southeast | 23,162,676 | 3.00% | 3.10% | 3.70% | (19,459) | (19,459) | 82,372 | 82,372 | \$17.35 |
| Southwest | 14,606,267 | 3.20% | 3.40% | 4.30% | (62,929) | (62,929) | 24,332 | 24,332 | \$21.52 |
| Clark County/Vancouver | 16,707,700 | 4.70% | 4.80% | 5.60% | 107,892 | 107,892 | 80,153 | 80,153 | \$18.29 |
| TOTAL | 111,877,345 | 3.50% | 3.70% | 4.40% | 53,938 | 53,938 | 322,437 | 322,437 | \$19.37 |
| Malls | 8,179,904 | 2.20% | 2.20% | 4.00% | (24,197) | (24,197) | 837 | 837 | - |
| Power Centers | 7,658,398 | 2.40% | 2.40% | 3.10% | (24,636) | (24,636) | 4,491 | 4,491 | \$24.94 |
| Shopping Centers | 37,248,906 | 5.80% | 6.10% | 6.70% | 59,056 | 59,056 | 158,255 | 158,255 | \$18.68 |
| Specialty | 511,806 | 0.00% | 0.00% | 0.00% | 0 | 0 | 0 | 0 | - |
| General Retail | 58,278,331 | 2.40% | 2.56% | 0.15% | 43,715 | 43,715 | 158,854 | 158,854 | \$18.31 |

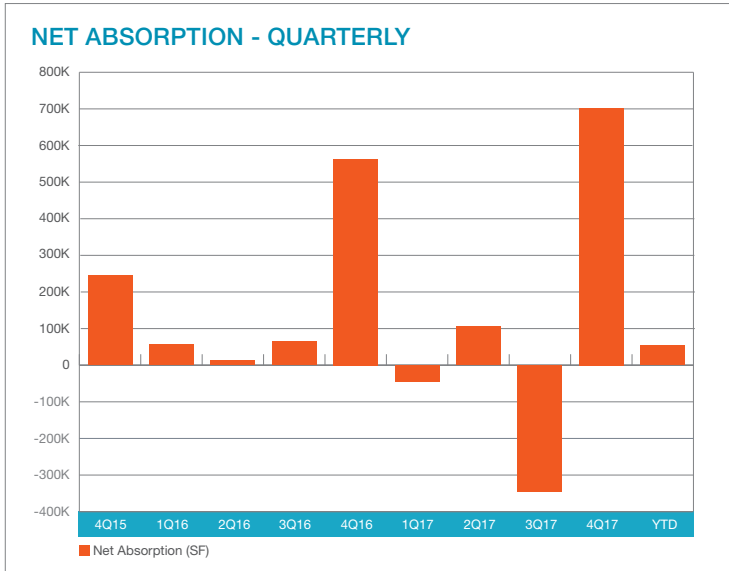
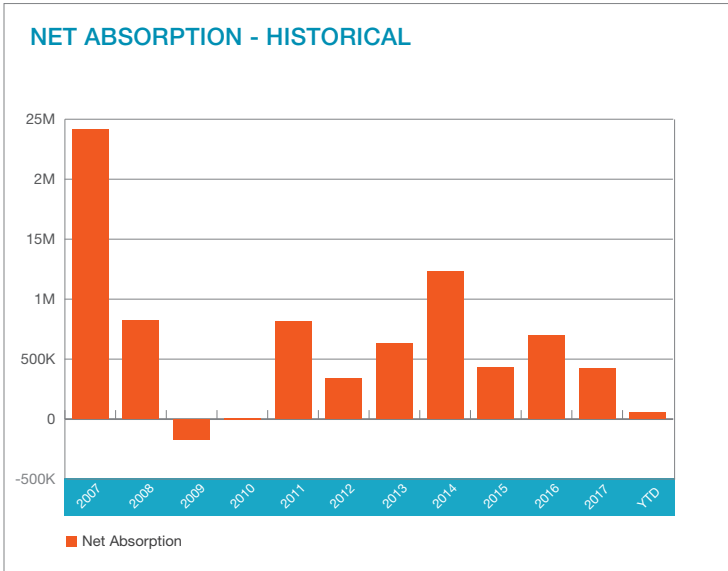
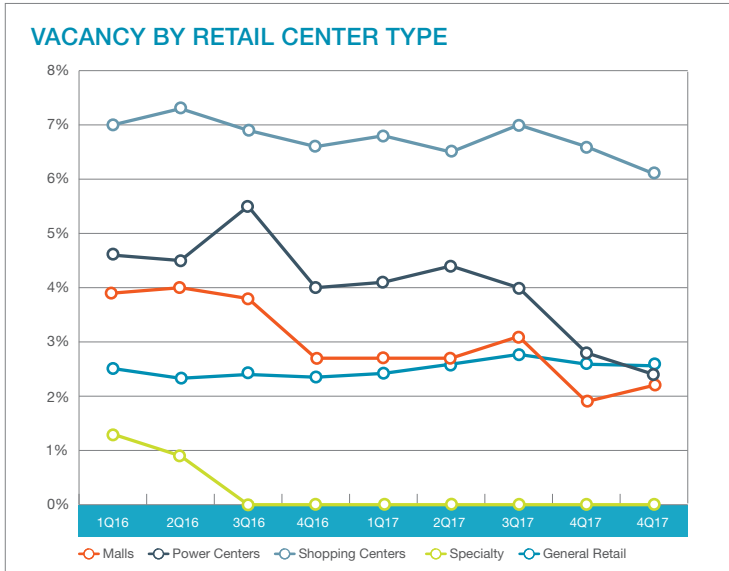
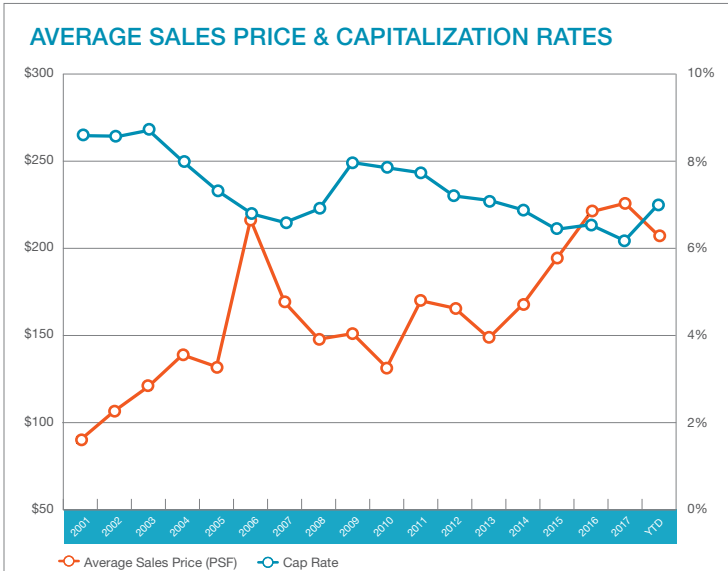
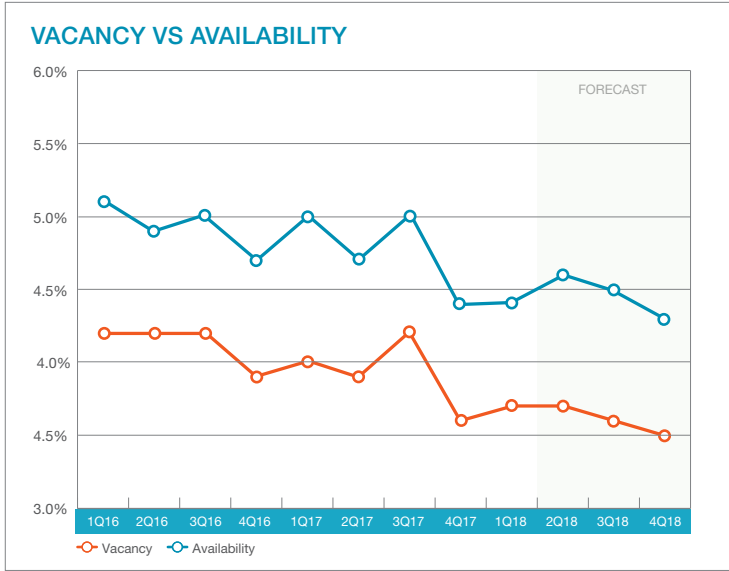
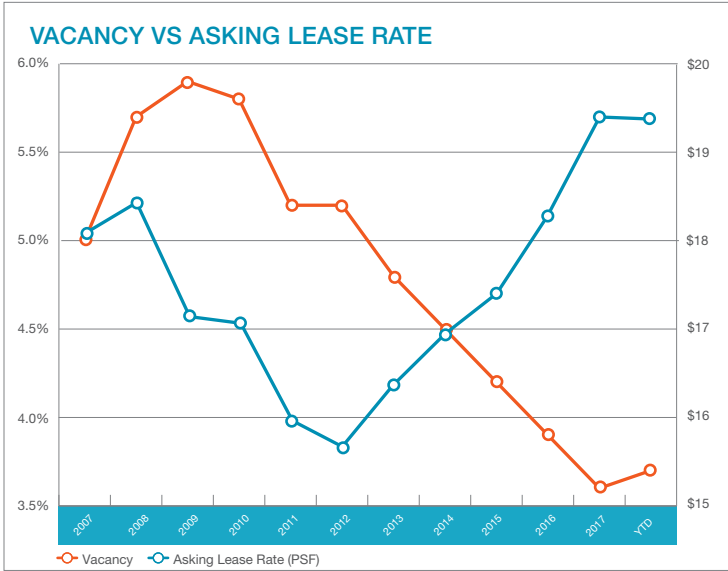
at the Porter Glisan Building in Portland CBD, as part of a nationwide expansion that also features planned openings in Boston, Chicago, and Miami. Two local chains also saw growth opportunities in the first quarter. Tea Bar, a specialty tea shop founded in Portland three years ago, will set up its fourth location on the ground floor of Park Avenue West, where it leased about 1,500 s.f. Meanwhile, the handcrafted donuts and coffee store Coco Donuts is coming to the ground floor of the Alberta Apartments building, taking 902 s.f. for its sixth shop in Portland.

Retail investment sale volume has dipped below 1 million s.f. in each of the past two quarters, but the average price per s.f. of \$207 and the average cap rate of 6.4% continue to reflect investor confidence in the Portland market. Smaller, single-tenant properties with nationally recognizable tenants continue to attract interest at sub-6% cap rates. This quarter's largest sale involved the Wood Village Town Center, a 143,334 s.f. property that traded for \$26.55 million or \$182/s.f. In the Hazel Dell/Salmon Creek submarket of Vancouver, the 12,379 s.f. community center at 7720 NE Highway 99 sold for \$5.95 million or \$481/s.f.

The high per-foot price tag reflects the strength of the property's tenants, which include Starbucks, Sprint, and Great Clips. Lastly, the multi-building Nyberg Retail Center in Tualatin went to an individual investor for \$7.89 million or \$256/s.f., underwritten at a 6.7% cap rate.

Retail deliveries in the year to date totaled just over 20,000 s.f., the majority of which is on the ground floor of The Union at St. John's, a 100-unit apartment project in the Rivergate submarket of Portland. The Union features 20,000 s.f. of ground-floor retail and restaurant space, which was available for lease in smaller blocks of 600-4,200 s.f. Twenty projects with at least a partial retail component were under construction at quarter's end. The largest development underway is Phase 1 of the Cedar Hills Crossing II project, where 128,652 s.f. will be delivered in the second quarter. Sunset Lanes has pre-leased 44,446 s.f. of the 67,766 s.f. retail component of that project. Finally, Restoration Hardware is awaiting a new 36,000 s.f. building at 2280 NW Glisan Street in Northwest Portland, where it will open a gallery concept store toward the end of the year.

Data Source: CoStar



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

El Segundo
310.807.0880

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

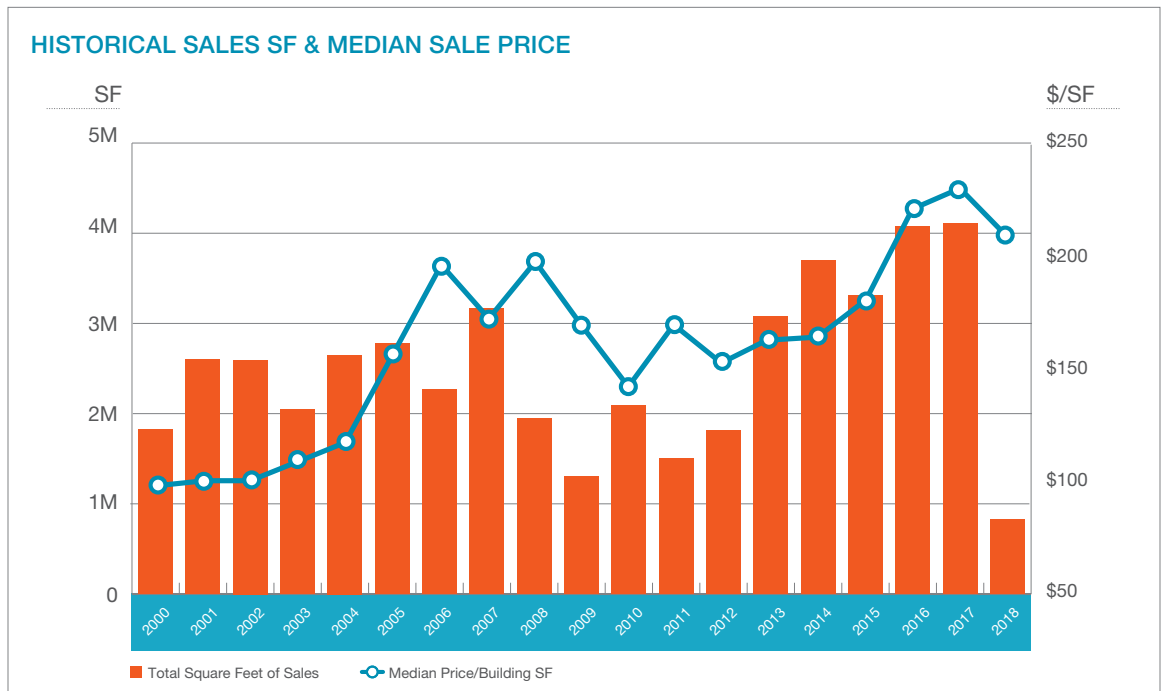
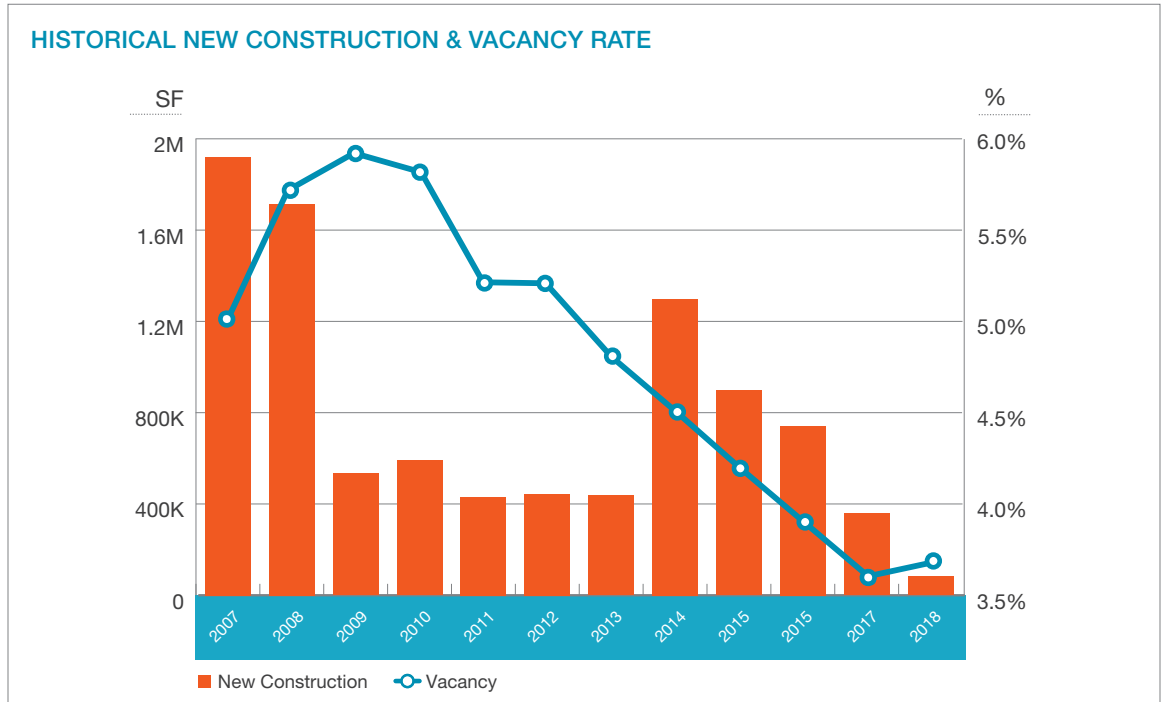
Phoenix
602.513.5200

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Market Breakdown

| | 2018 Q1 | 2017 Q4 | 2017 Q1 | Annual % Change |
|-------------------|-----------|-----------|---------|-----------------|
| Vacancy Rate | 3.7% | 3.6% | 3.9% | -5.1% |
| Availability Rate | 4.4% | 4.4% | 5.0% | -12.0% |
| Asking Lease Rate | \$19.37 | \$19.40 | \$18.67 | 3.7% |
| Leased SF | 322,437 | 468,634 | 561,670 | -42.6% |
| Sold SF | 1,147,940 | 2,340,217 | 948,141 | 21.1% |
| Net Absorption | 53,938 | 702,924 | -44,663 | N/A |



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