

Seattle Retail

Market Forecast

	Projection
Vacancy	↓
Construction	↑
Rental Rate	↔
Absorption	↑

The retail market improved in 2012 with positive absorption, some limited new construction, and a very strong investment climate for core assets. There has even been more interest in B and C quality retail investments.

Sales Comparables

Overlake Plaza, Redmond 111,126 s.f. \$18,200,000 (5.41% Cap Rate)
Valley North, Wenatchee 281,429 s.f. \$16,775,000 (8.10% Cap Rate)
Wilderness Village, Maple Valley 45,953 s.f. \$13,000,000 (8.03% Cap Rate)
Center Place (leasehold), Tukwila 44,680 s.f. \$5,096,000 (11.62% Cap Rate)
Scarborough Fair, Yakima 51,000 s.f. \$4,900,000 (8.50% Cap Rate)
Key Bank Strip, Snoqualmie 11,193 s.f. \$3,925,000 (7.70% Cap Rate)
Fred Meyer Retail Strip, Sumner 10,570 s.f. \$3,050,000 (8.07% Cap Rate)
Jack in the Box, Poulsbo 2,416 s.f. \$2,220,000 (6.00% Cap Rate)

Vacant Space/Vacancy Rate

In the fourth quarter 2012, the overall vacancy rate decreased by 24 basis points from 5.60% to 5.36%. Direct vacancy fell 24 basis points. Total available space (total vacant as well as occupied but available) declined from 7.21% in the third quarter to 7.14%.

New Construction Activity

Retail development activity remains low as the market slowly reabsorbs excess vacant space and most retailers are reluctant to pay rents that would make new construction feasible. 500,000 s.f. is currently under construction. New development remains mostly build-to-suit, or owner/user oriented. Notable new developments include:

- Lynnwood Crossroads, Lynnwood – anchored by LA Fitness – 129,903 s.f. - broke ground in Summer 2012.
- Grand Ridge Plaza, Issaquah – anchored by Safeway and Regal Cinemas – 290,000 s.f. new construction in addition to 50,000 s.f. existing - broke ground in June 2012. 90% preleased with negotiations in process for another 5%.
- Point Fosdick, Gig Harbor – anchored by Safeway, Kohl's and Michaels – 187,924 s.f., 87% leased. Safeway opened in December 2011, replacing their older store and making way for additional redevelopment of the older center in 2012.

→ Continued, page 2

Also, mixed-use development in the Seattle and Bellevue urban cores continues to bring new retail space on the ground floors of apartment and office buildings. Much of this is simply complimentary shop space, but in some cases, there are more significant anchor or junior anchor components. A good example of this is a 350 unit apartment project in West Seattle that will include 60,000 s.f. of retail anchored by a 41,000 s.f. Whole Foods store.

Steadfast Development will be adding Burlington Coat Factory to Everett Mall and Kohl's to The Commons at Federal Way in 2013. Macerich is replacing the food court at Cascade Mall in Burlington with TJ Maxx.

Rent Forecast

Asking rents for direct vacancy decreased about 0.9% over the last 12 months, with most of this seen in the first quarter 2012. Rents have been improving for stable trade areas and remain flat for those with higher vacancies. The declining rent statistic is seen more as a reflection of better space being absorbed and inferior space remaining available. Retail rents in the Seattle CBD range between \$30 and \$75/s.f./year, NNN and rents in suburban grocery anchored centers range between \$20 and \$35/s.f./year, NNN, depending on property location and condition.

Investment Activity

The regional market recorded almost \$322 million in retail property sales in 2012, accounting for sales of \$2 million or greater. Larger deals, those over \$5 million, comprised 68% of the total.

In addition to the individual sales shown above, Merlone Geier acquired a portfolio of Haggen and Top Foods grocery stores, together with a few smaller development sites, for \$175 million, the largest sale in the region.

Also, there were some notable sales of high vacancy properties, including the mostly vacant Campus Square in Federal Way (\$77/s.f. building or \$20/s.f. land), Pacific Commons in Spanaway (\$39/s.f. building or \$12/s.f. land), and the former Kmart in Lacey (\$85/s.f. building and \$20/s.f. land).

Market Demand/Net Absorption

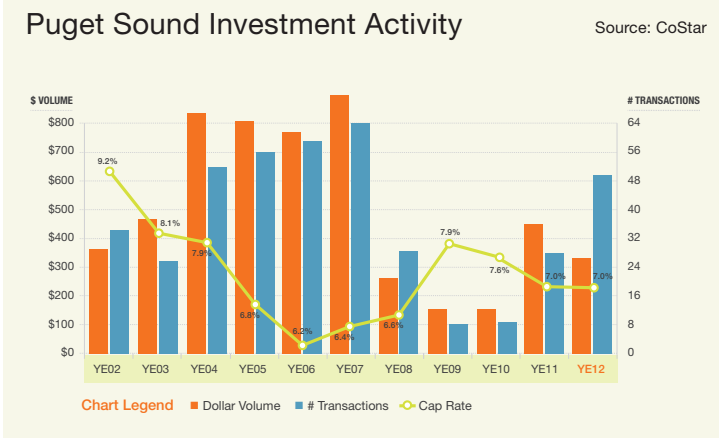
2012 net absorption was over 2,000,000 s.f., 66% above 2011. Leading the way have been value oriented retailers that have prospered in tough economic conditions.

CONTRACTIONS

Albertsons	Best Buy	Top Foods/Haggen
Sears	Office Depot	Lowes
Kmart	Staples	Toys R Us

EXPANSIONS

Walmart	Dick's Sporting Goods	Cinemark
Fred Meyer	Cabela's	Big Lots
Target	Sportsman's Warehouse	Dollar Tree
Costco	Big 5	Bevmo!
Whole Foods	Petco	Total Wine
Safeway	TJ Maxx	REI
Winco	Marshalls	Ace Hardware
Grocery Outlet	Home Goods	Ross
Trader Joe's	Tuesday Morning	Kohl's
LA Fitness	Regal	Walgreens



Contact

Jeffrey S. Lyon, CCIM, SIOR
 Chairman and CEO
 206.296.9600
 jlyon@kiddermathews.com

The information in this report was composed by the Kidder Mathews Valuation Advisory Group.

For more information contact **Andy Robinson, MAI** at 206.296.9600 or andyr@kiddermathews.com

Offices

Seattle 206.296.9600	Tacoma 253.722.1400	San Francisco 415.229.8888
Bellevue 425.454.7040	Olympia 360.705.2800	Redwood Shores 650.769.3600
South Seattle 206.248.7300	Portland 503.221.9900	Silicon Valley 408.970.9400

This information supplied herein is from sources we deem reliable. It is provided without any representation, warranty or guarantee, expressed or implied as to its accuracy. Prospective Buyer or Tenant should conduct an independent investigation and verification of all matters deemed to be material, including, but not limited to, statements of income and expenses. CONSULT YOUR ATTORNEY, ACCOUNTANT, OR OTHER PROFESSIONAL ADVISOR.