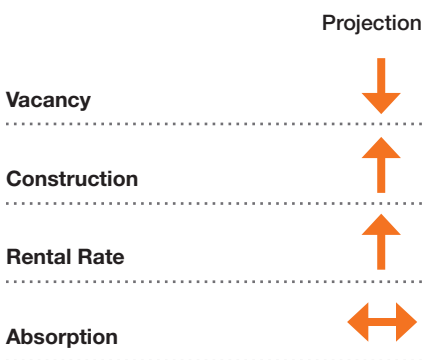


# Seattle Retail

## Market Forecast



The retail market is strong in the core markets of Seattle and the Eastside, where most of the employment growth is occurring. The balance of the market ranges from stable to slightly soft. There is positive absorption, new construction and a strong investment climate for stabilized centers and single tenant net leased properties.

## Vacancy: Direct vs. Total

County	Vacancy	
	Direct	Total
King County	3.00%	4.10%
Kitsap County	6.70%	8.10%
Pierce County	5.90%	7.40%
Snohomish County	4.10%	5.20%
Thurston County	4.90%	6.10%
<b>Total</b>	<b>4.20%</b>	<b>5.30%</b>

## Retail Sales

Retail sales are projected to grow 4.5% in 2016.

## Vacant Space/Vacancy Rate

In the first quarter, the vacancy rate remained steady at 4.20%. It is down from the peak of 6.30% in the first quarter 2011. Total available space (total vacant as well as occupied but available) decreased from 5.50% to 5.30% and that is down from the peak in the fourth quarter 2010 at 8.00%.

King County is strong. Snohomish and Thurston Counties are stabilized, while Pierce and Kitsap counties are the softest markets. Every county saw vacancy rate improvement.

Vacancy is concentrated in less functional properties, usually vacant anchors. There are 34 properties with 40,000 s.f. or more vacant. These represent just 1% of the regional inventory but 20% of vacancy.

## Rent Forecast

Regionally, asking rents for direct vacancy have declined slightly over the last year. This is not a reflection of market softening but instead a reflection of the lower quality and functionality of what space is directly vacant. With regional vacancy below 5% and below 4% in the largest market of King County, the direct vacancy tends to be of the lowest quality. Retail rents in the region are: Seattle CBD range from \$40 to \$80/s.f. NNN, Seattle mixed-use retail rents range from \$30 to \$50/s.f. NNN, and suburban retail rents range from \$20 to \$35/s.f. NNN.

## New & Proposed Construction Activity

Retail development activity is moderate. Centercal has started on redevelopment of Totem Lake Mall in Kirkland, with Whole Foods announced as an anchor. TRF is underway on a 110,000 s.f. center in Sammamish anchored by Metropolitan Market. Principal Real Estate Investors is underway on a new center in Bellevue leased by REI, HomeGoods, and Trader Joe's. Wakefield Development is underway on Covington Crossings, a 75,000 s.f. center anchored by Marshalls, HomeGoods, and Party City. Costco is building a new store at the Bakerview interchange in Bellingham. In suburban markets, we are also seeing a moderate level of strip center and build-to-suit development.

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Mixed-use development is active in Seattle, Bellevue, Kirkland, Redmond, Issaquah, Bothell and Tacoma. Larger projects in Seattle include Whole Foods in West Seattle and Capitol Hill, PCC in Madison Valley and New Seasons in Ballard. Larger projects on the Eastside include the expansion of Lincoln Square in Bellevue and Kirkland Urban. Lincoln Square expansion is well underway and the retail component is 85% leased or under LOI. Talon and Prudential are very close to starting the redevelopment of Parkplace. This will be called Kirkland Urban and include 200,000 s.f. of retail including a 54,000 s.f. QFC, a movie theater and health club. In Tacoma, North American Asset Investment LLC is moving forward with the 710,000 s.f. Tacoma Town Center, which will include 135,000 s.f. of retail in addition to office and apartment components.

## Market Demand/Net Absorption

Net absorption has been good for five years straight, with a total of 7.46 million s.f. absorbed and an annual average of 1.49 million s.f. Net absorption was 1.7 times the level of new construction over the last five years. 2015 net absorption was very strong at 1,966,849 s.f., which is 2.9 times the level of new construction.

The Haggen story came to a conclusion in 2016, and the independent chain is no more. Albertsons was the winning bidder at bankruptcy auction for the stores. Albertsons is rebranding to the original chain, Safeway or Albertsons and keeping several under the Haggen brand.

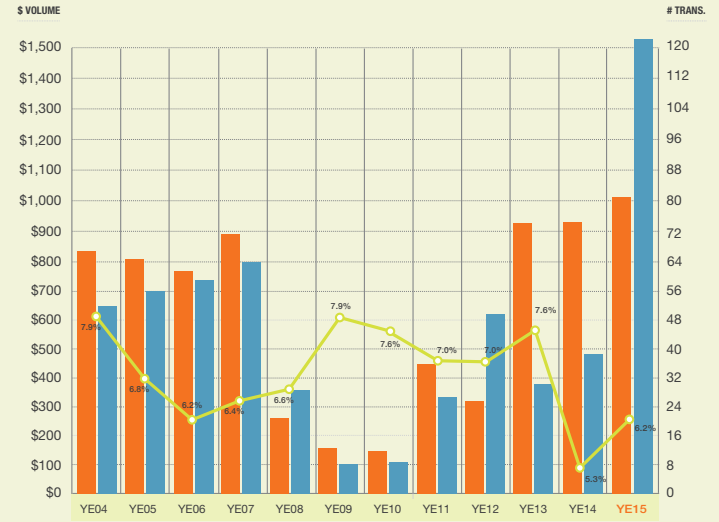
Following the 2015 Holiday season, Macy's announced closures of 40 stores. In the Northwest this included Spokane, WA, Moscow, ID and Coos Bay, OR. Earlier in the year, Macy's announced the downsizing of its Seattle flagship store, selling the upper floors as a commercial condo to be repositioned for office space.

In March Sears announced a new round of national closures including both Sears and Kmart stores.

## Investment Activity

The regional market is targeted by institutional investors for core product because of healthy economic conditions. Several core centers have sold recently, but single tenant net leased assets are a dominant retail investment product for private capital. The current demand is equity driven versus the debt driven demand ten years ago and capital has begun to move into secondary and tertiary markets in search of yield. Recent Federal Reserve policy has had a little or no impact on cap rates so far and rates are expected to remain low. Retail investment demand remains high as capital from multiple sources is still competing for best product.

### Puget Sound Retail Market



## 1st Quarter 2016 Investment Activity

Property Name	City	State	Year Built	Square Feet	Date	Sale Price	Cap Rate
2200 Westlake	Seattle	WA	2006	73,800	16-Feb	\$65,000,000	4.90%
James Center	Tacoma	WA	1995	140,240	16-Jan	\$31,400,000	6.06%
Woodinville Athletic Center	Woodinville	WA	2003	59,850	16-Feb	\$11,970,000	7.65%
White River Junction	Auburn	WA	1993	53,514	16-Jan	\$10,600,000	7.50%
Mor Furniture	Spokane	WA	1927/90	22,550	16-Mar	\$8,400,000	8.04%
Walgreens	Seattle	WA	2007	11,040	16-Mar	\$8,400,000	5.00%
Opportunity Center	Spokane Valley	WA	1968	69,426	16-Mar	\$5,320,000	6.40%
Regal 99 (GL)	Vancouver	WA	1998	40,016	16-Jan	\$5,177,000	7.46%
Murphy's Corner Retail	Mill Creek	WA	1988	11,460	16-Mar	\$4,600,000	6.74%
Walgreens	Everett	WA	2000	13,905	16-Mar	\$4,200,000	7.83%
Shopko	Prosser	WA	2015	25,860	16-Mar	\$4,000,000	7.25%
M Street Plaza	Auburn	WA	1986	7,031	16-Feb	\$3,550,000	7.10%
Key Bank (GL)	Springfield	OR	2014	4,023	16-Jan	\$3,425,000	4.95%
128th Street Strip	Everett	WA	1997	11,855	16-Jan	\$3,085,000	6.55%

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