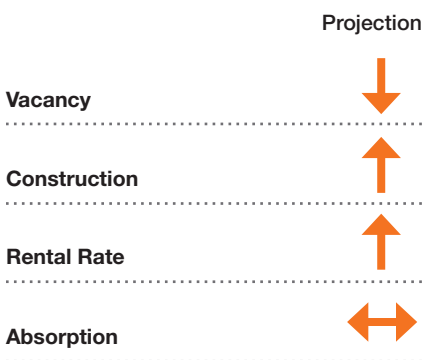


Seattle Retail

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, moderate 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	2.9%	4.0%
Kitsap County	6.8%	7.8%
Pierce County	5.5%	7.0%
Snohomish County	3.7%	4.9%
Thurston County	4.7%	6.2%
Total	4.0%	5.2%

Retail Sales

Retail sales grew 6.2% in 2015, ranging from 5.1% in Snohomish County to 8.7% in Kitsap County. Sales are projected to grow 4.7% in 2016.

Vacant Space/Vacancy Rate

In the second quarter, the vacancy rate declined from 20 basis points from 4.20% to 4.00%. 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 5.30% to 5.20% 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 are the softest markets. Every county saw vacancy rate improvement.

Vacancy is concentrated in less functional properties, usually vacant anchors. There are 42 properties with 40,000 s.f. or more vacant. These represent just 2% of the regional inventory but 24% 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 3% 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. Olympic Towne

→ Continued, page 2

Center in Gig Harbor is underway, anchored by Fred Meyer. In Snoqualmie, a new center to be anchored by Safeway and Bartell is under construction. In suburban markets, we are also seeing a small level of strip center development.

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.

Market Demand/Net Absorption

Net absorption has been good for five years straight, with an annual average of 1.49 million s.f. through 2015. 2016 net absorption is very strong at 1,066,495 s.f. through the second quarter.

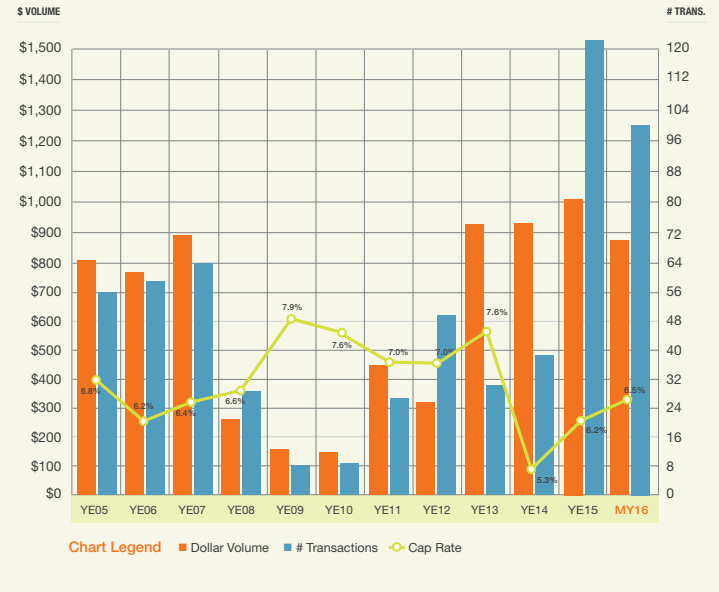
The largest closure of 2016 is Sports Authority, with 19 stores in Washington. 14 of these stores are in the Puget Sound region and these contain 578,949 s.f. An auction for the leases occurred at the end of June 2016, but the results have not been announced.

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



Source: Costar

2nd Quarter 2016 Investment Activity

Property Name	City	State	Year Built	Square Feet	Date	Sale Price	Cap Rate
Alderwood Plaza	Lynnwood	WA	1980/03	178,577	16-May	\$40,493,922	5.95%
Tacoma South	Tacoma	WA	1984/15	230,657	16-May	\$39,400,000	6.76%
Lincoln Plaza	Tacoma	WA	1988	80,891	16-Apr	\$26,700,000	6.68%
Evergreen Marketplace	Washougal	WA	2000	109,275	16-Apr	\$25,000,000	6.28%
Hard Rock Café	Seattle	WA	1924/09	13,500	16-May	\$20,750,000	4.04%
La Plaza Midway	Kent	WA	1993	75,830	16-May	\$19,200,000	6.94%
Andresen Marketplace	Vancouver	WA	1998	75,335	16-Apr	\$18,000,000	5.60%
Meeker Square	Kent	WA	1966/07	137,138	16-Jun	\$17,000,000	10.08%
Highlands Safeway Plaza	Renton	WA	1985/96	54,264	16-Apr	\$16,900,000	6.30%
Golds Gym	Richland	WA	2012	56,700	16-May	\$10,250,000	7.50%
Walgreens	Bellingham	WA	2015	14,490	16-May	\$8,195,000	5.43%
Clearview Plaza	Snohomish	WA	1995/97	28,480	16-May	\$6,511,486	7.12%
Stallion Hill Center	Woodinville	WA	2001	35,992	16-Apr	\$6,300,000	6.37%
Freestone Plaza	Kent	WA	2007	10,139	16-Jun	\$6,000,000	5.50%
Thornbury Crossings	Lacey	WA	1998	6,623	16-May	\$5,850,000	6.90%

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