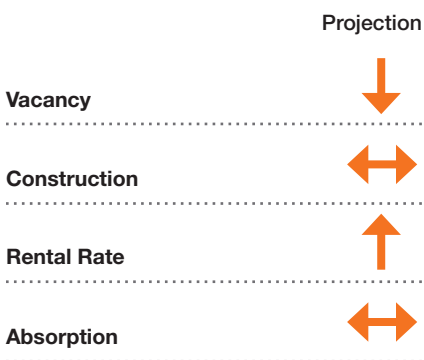


Seattle Retail

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	2.9%	3.8%
Kitsap County	6.2%	7.6%
Pierce County	4.7%	6.7%
Snohomish County	3.8%	4.9%
Thurston County	4.7%	6.2%
Total	3.7%	5.0%

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 3rd quarter, the vacancy rate increased 10 basis points from 3.70% to 3.80%. This is the first quarterly increase in over two years and is a function of the Sports Authority bankruptcy. Vacancy is down from the peak of 6.30% in the 1st quarter 2011. Total available space (total vacant as well as occupied but available) decreased from 5.10% to 5.00% and that is down from the peak in the 4th quarter 2010 at 8.00%.

King County is strong. Pierce, Snohomish and Thurston Counties are stabilized, while Kitsap is the softest market. Vacancy is concentrated in less functional properties, usually vacant anchors. There are 26 properties with 50,000 s.f. or more vacant. These represent just 1.4% of the regional inventory but 20% of vacancy. Some chronic vacant spaces are redevelopment candidates.

Rent Forecast

Regionally, asking rents for direct vacancy increased 3.9% year over year. With regional vacancy below 4% and below 3% in the largest market of King County, there is upward pressure on rates except for the lowest quality segment. 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 and Nordstrom Rack announced as anchors. Olympic Towne 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. Covington Crossings is nearing completion, anchored by HomeGoods, Marshalls and Party City. In suburban markets, we are also seeing a moderate level of 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.

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 1,016,615 s.f. through the 3rd quarter, which is trending toward an annual level of 1.36 million s.f. This includes the impact of the Sports Authority closures with 19 stores in Washington. 14 of these stores containing 578,949 s.f. are in the Puget Sound region.

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.

Source: Costar

3rd Quarter 2016 Investment Activity

Property Name	City	State	Year Built	Square Feet	Date	Sale Price	Cap Rate
Meridian Plaza	Puyallup	WA	1982/11	10,825	Sep-16	\$4,900,000	6.48%
Progress Ridge	Beaverton	OR	2011/12	213,849	Sep-16	\$101,000,000	5.30%
Plateau Professional Center	Sammamish	WA	2003	26,815	Sep-16	\$14,000,000	5.31%
Chipotle / Mod Pizza	Yakima	WA	2015	4,736	Sep-16	\$2,800,000	5.67%
Sonic	Poulsbo	WA	2015	2,308	Sep-16	\$2,550,000	5.70%
Kindercare	Bonney Lake	WA	1991	6,032	Sep-16	\$2,120,000	N/A
Marketplace at Lynden	Lynden	WA	2002	70,442	Aug-16	\$19,250,000	5.98%
Kirkland Court	Kirkland	WA	1985	14,131	Aug-16	\$6,400,000	5.76%
U Village Strip - 45th	Seattle	WA	1983	5,000	Aug-16	\$4,380,000	N/a
Tractor Supply	Lynden	WA	2016	47,870	Aug-16	\$4,057,000	6.00%
Walmart Shops	Puyallup	WA	2007	6,060	Aug-16	\$2,250,000	6.72%
Church's Chicken	Lacey	WA	2016	2,320	Aug-16	\$2,182,000	5.50%
Sonic	Lacey	WA	2016	1,608	Aug-16	\$2,105,000	5.70%
Fremont Storefront	Seattle	WA	1927	4,800	Aug-16	\$1,500,000	4.73%
Graham Town Center	Graham	WA	1989	27,869	Jul-16	\$6,175,000	6.10%
Klahanie Center	Issaquah	WA	1998	66,895	Jul-16	\$35,988,000	5.18%
Albertsons	Milton	WA	1989	38,880	Jul-16	\$8,800,000	5.00%
Safeway	Burien	WA	1994	48,528	Jul-16	\$8,778,100	4.50%
835 Northgate	Seattle	WA	1955/77	16,450	Jul-16	\$7,850,000	4.11%
Albertsons	Renton	WA	1988	43,130	Jul-16	\$7,479,000	4.90%
Harbor Town Center	Oak Harbor	WA	1988	62,196	Jul-16	\$6,920,000	7.36%
Thurston Way Retail	Vancouver	WA	2016	10,076	Jul-16	\$6,000,000	6.00%
Petco	Lake Stevens	WA	2015	11,500	Jul-16	\$4,745,000	5.97%
McDonalds (GL)	Seattle	WA	1979	8,480	Jul-16	\$4,005,000	1.41%
Harbor Town Center	Oak Harbor	WA	1988	86,277	Jul-16	\$4,000,100	5.90%
Albertsons	Bremerton	WA	2002	50,980	Jul-16	\$3,500,000	User
Road 68 Strip	Pasco	WA	2006	12,015	Jul-16	\$3,472,000	7.58%
Albertsons	Federal Way	WA	2002	57,000	Jul-16	\$3,465,000	N/A
Auto Zone	Spokane	WA	2007	6,529	Jul-16	\$2,450,000	N/A
Magnano View Wedgewood	Seattle	WA	1947	5,798	Jul-16	\$2,400,000	5.00%
Plaza 135	Puyallup	WA	1985	13,743	Jul-16	\$2,191,300	8.00%
1600 E College	Mount Vernon	WA	1996	9,400	Jul-16	\$1,435,000	6.95%
Arby's	Kennewick	WA	1978	2,615	Jul-16	\$1,300,000	5.78%
Starbucks	Spokane Valley	WA	2015	880	Jul-16	\$1,204,840	6.25%
Pizza Hut Strip	Zillah	WA	2008	3,040	Jul-16	\$770,100	6.96%
Garcia's Restaurant	Auburn	WA	1975	3,952	Jul-16	\$705,000	6.78%

Contact

Brian Hatcher
Executive VP, Brokerage
Pacific Northwest
206.296.9600
bhatcher@kiddermathews.com

Offices

Seattle 206.296.9600	South Seattle 206.248.7300	Olympia 360.705.2800	San Francisco 415.229.8888	Silicon Valley 408.970.9400	San Diego 858.509.1200	Phoenix 602.513.5200
Bellevue 425.454.7040	Tacoma 253.722.1400	Portland 503.221.9900	Redwood Shores 650.769.3600	Sacramento 916.751.3600	Orange County 949.557.5000	Reno 775.301.1300

The information in this report was composed by the Kidder Mathews Valuation Advisory Group. Contact **Andy Robinson, MAI** or **Ian Curry, MAI** at 206.296.9600.

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