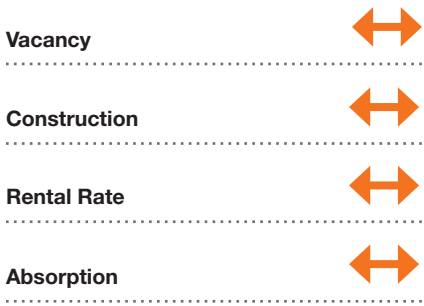


# Seattle Retail

## Market Forecast

Projection



The retail market continues to be 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. Ongoing areas of concern include pressure from e-commerce entities, increasing labor costs, and interest rate increases.

## Vacancy: Direct vs. Total

County	Vacancy	
	Direct	Total
King County	2.80%	3.34%
Kitsap County	6.85%	7.66%
Pierce County	4.48%	6.22%
Snohomish County	4.62%	5.49%
Thurston County	4.23%	5.30%
<b>Total</b>	<b>3.83%</b>	<b>4.73%</b>

## Retail Sales

Retail sales grew 6.2% in 2016, ranging from 4.8% in Snohomish County to 7.6% in Kitsap County. This exceeded the projected growth rate of 4.7%.

## Vacancy

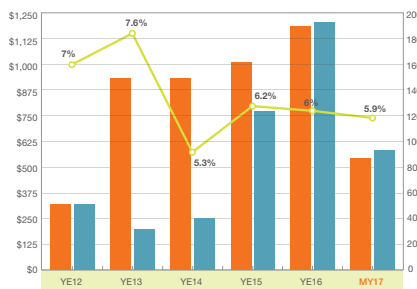
In the 2nd quarter, the direct vacancy rate decreased 11 basis points from 3.94% to 3.83%. Vacancy is down from the peak of 6.30% in the 1st quarter 2011. Total available space decreased slightly from 4.74% to 4.73% and that is down from the peak in the 4th quarter 2010 at 8.00%.

King County is strong. Pierce, Snohomish and Thurston Counties are stabilized, while Kitsap County is the softest market. Vacancy is concentrated in less functional properties, usually vacant anchors. There are 12 properties with 50,000 s.f. or more vacant, down from 17 in the 1st quarter. These represent just 0.6% of the regional inventory but 12.3% of vacancy. Some chronic vacant spaces are redevelopment candidates.

## Rent Forecast

Regionally, asking rents for direct vacancy increased 5.4% 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.

## Puget Sound Retail Market



### CHART LEGEND

■ Dollar Volume ■ Transactions —○— Cap Rate

Source: Costar

## New & Proposed Construction Activity

Retail development activity is moderate. Smaller scale developments are more prevalent whether it is build-to-suits for single tenants or smaller buildings built for two or three expanding tenants. In later 2017, Centercal will deliver portions of Phase I of the Village at Totem Lake in Kirkland, with Whole Foods, Nordstrom Rack, Ross and Trader Joe's as anchors. In Gig Harbor, the Fred Meyer anchored Olympic Towne Center will open in the summer 2017 and OPG and Powell Development are planning the Village at Harbor Hill, to be anchored by a 36,000 s.f. Town & Country Market. In Snoqualmie, a new center anchored by Safeway and Bartell Drugs will open in August 2017. In Bonney Lake, construction is underway on Mountain

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Tacoma  
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San Francisco  
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Silicon Valley  
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Sacramento  
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Inland Empire  
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View Marketplace, anchored by Costco. Mixed-use development is active around the region.

### Market Demand / Net Absorption

Net absorption has been positive for five years straight, with an annual average of 1.49 million s.f. through 2015. 2016 net absorption was 1,413,175 s.f., which includes the impact of the Sports Authority closures with 19 stores in Washington. Fourteen of these stores comprised 578,949 s.f. in the Puget Sound region. The first half 2017 absorption is 911,462 s.f., so it is more than keeping pace with last year.

In 2017, we expect to see closures of Macy's, Sears, and Kmart stores across the region. Several former Kmart stores already comprise a significant share of the regional vacancy. Merlone Geier repositioned the Olympia store and plans to do the same for the Tacoma store on 6th Avenue. Macy's and Sears are anchors at Everett Mall, The Commons at Federal Way, Tacoma Mall, and Alderwood Mall. Macy's and JC Penney are anchors at Capitol Mall and Northgate Mall. Macy's has closed its Everett Mall store. Sears

has closed the Alderwood Mall store and GGP will redevelop this with Dave & Busters and Dick's Sporting Goods.

Two big stories in the 2nd quarter are the termination of the planned merger of Walgreens and Rite Aid, and the announcement of Amazon buying Whole Foods. Walgreens is now buying 2,186 stores, about 60% of Rite Aid's total. This is likely to result in fewer closures in Washington. Amazon's purchase of Whole Foods is seen as an extension of Amazon into multi-channel retailing and a more direct threat to other food store chains.

### Investment Activity

The regional market is targeted by institutional investors for core product because of healthy economic conditions. Federal Reserve policy is impacting cap rates. Cap rates are generally low, but increases have appeared in certain categories, most notably for B and C quality malls that are at risk due to struggling apparel anchors and cotenancy clauses.

### 2nd Quarter 2017 Investment Activity

Property Name	City	Year Built	SF	Date	Sale Price	Cap Rate
Red Lobster	Lynnwood	1990	9,307	17-Jun	\$7,450,000	6.25%
Lake Stevens Station 3	Lake Stevens	2002	17,916	17-Jun	\$6,000,000	6.00%
Big Lots	Issaquah	1997	32,380	17-Jun	\$5,800,000	6.81%
Chipotle / BECU	Burlington	2014	6,500	17-Jun	\$3,690,000	5.56%
Golden Plaza	Federal Way	1977	13,173	17-Jun	\$3,300,000	6.53%
7-Eleven	Tumwater	2000	2,846	17-Jun	\$3,248,713	6.49%
Multicare	Marysville	2017	3,900	17-Jun	\$2,500,000	5.70%
Circle K / Union 76 (GL)	Lacey	1985	2,461	17-Jun	\$1,433,000	5.74%
Highland Hills Safeway Center	Tacoma	1955 / 08	162,231	17-May	\$47,350,000	5.38%
Ivar's Pier 54	Seattle	1900s / 14	66,250	17-May	\$39,500,000	6.34%
CVS	Seattle	2017	15,971	17-May	\$18,135,000	4.86%
Seattle Hill Crossing	Snohomish	2008	25,600	17-May	\$13,500,000	6.27%
Moore Building / QFC	Seattle	1904 / 44	28,685	17-May	\$11,250,000	4.50%
Heritage Plaza	Vancouver	2009	27,572	17-May	\$6,095,000	6.30%
120 Andover E	Tukwila	1963	17,522	17-May	\$3,350,000	4.26%
12th & Main Plaza	Seattle	1991	11,970	17-May	\$3,150,000	4.50%
Pomeroy Condo Unit A	Seattle	2000	5,723	17-May	\$2,860,000	5.15%
Canyon Crossings	Puyallup	2006	14,071	17-May	\$2,850,000	6.25%
Wendy's (GL)	Lake Stevens	2017	3,400	17-May	\$2,200,000	4.55%
McNeil Building	Dupont	2005	7,892	17-May	\$2,000,000	6.55%
Goodwill	Mount Vernon	1987	20,000	17-May	\$1,475,000	9.90%
Athens Plaza	Des Moines	1990	4,770	17-May	\$1,170,000	6.74%
US Bank (GL)	Lakewood	1993	4,363	17-May	\$1,133,000	4.75%
24 Hour Fitness	Tacoma	2003 / 17	44,467	17-Apr	\$13,500,000	6.28%
Orchards Market Center	Vancouver	1994 / 04	45,495	17-Apr	\$8,153,929	6.36%
Federal Way Plaza	Federal Way	1985	23,809	17-Apr	\$4,230,000	6.00%
38th Street Retail	Tacoma	1978 / 97	18,660	17-Apr	\$3,970,000	6.60%
Orchard Court	Port Orchard	2008	11,762	17-Apr	\$3,208,000	6.72%
Starbucks	Spokane	1990 / 17	2,208	17-Apr	\$2,800,000	4.70%
Advance Auto Parts	Auburn	2016	6,889	17-Apr	\$2,683,183	5.15%
Ellensburg Square	Ellensburg	1999	11,691	17-Apr	\$2,560,000	7.75%
Boulevard Plaza	Burlington	2008	6,055	17-Apr	\$1,950,000	6.35%
Dupont Station	Dupont	2005	4,759	17-Apr	\$1,600,000	5.92%
Hillclimb Court Condos	Seattle	1982	2,828	17-Apr	\$1,276,000	4.90%
Sherwin Williams	Tukwila	1986	6,050	17-Apr	\$1,132,000	5.76%