

Seattle Retail

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. The most the third quarter saw was slight negative 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, increasing labor costs, and interest rate increases.

Vacancy

In the 3rd quarter, the direct vacancy rate increased 15 bps from 3.79% to 3.94%. 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) increased slightly from 4.64% to 4.65% and 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 15 properties with 50,000 s.f. or more vacant, up from 12 such properties in the 2nd quarter. These represent just 0.6% of the regional inventory but 13.3% of vacancy. Many chronic vacant spaces are redevelopment candidates.

Rent Forecast

Regionally, asking rents for direct vacancy increased 4.3% 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 range from \$30 to \$50/s.f. NNN, and suburban range \$20 to \$40/s.f. NNN

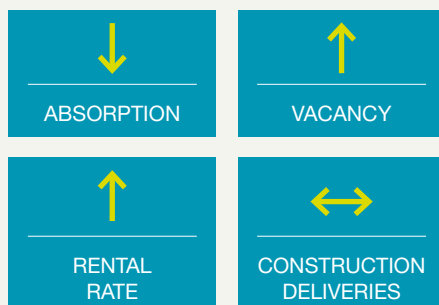
New & Proposed Construction Activity

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 fall 2017. In Bonney Lake, construction is underway on Mountain View Marketplace, anchored by Costco. Seattle's University Village continues to add density, with a two-story building of about 11,600 s.f. under construction and a proposal to add almost 100,000 s.f. of retail by adding a 742 stall parking garage that adds a net of almost 400 new stalls. 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. Net absorption in 2016 was

Market Forecast Trends



Vacancy: Direct vs. Total

County	Direct	Total
King County	2.84%	4.02%
Kitsap County	6.28%	7.86%
Pierce County	4.31%	5.82%
Snohomish County	4.46%	5.16%
Thurston County	4.14%	5.16%
Total	3.74%	4.65%

kiddermathews.com

Offices

Seattle
206.296.9600

Bellevue
425.454.7040

South Seattle
206.248.7300

Tacoma
253.722.1400

Olympia
360.705.2800

Portland
503.221.9900

San Francisco
415.229.8888

Redwood Shores
650.769.3600

Silicon Valley
408.970.9400

Sacramento
916.970.9700

Roseville
916.751.3600

Los Angeles
213.880.5250

Commerce
323.727.1144

Long Beach
562.472.0071

Orange County
949.557.5000

Inland Empire
909.764.6500

San Diego
858.509.1200

Carlsbad
760.430.1000

Reno
775.301.1300

Phoenix
602.513.5200

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

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

Andy Robinson, MAI
andy@kiddermathews.com

Ian Curry, MAI
icurry@kiddermathews.com

1,413,175 s.f., despite 19 Sports Authority closures. Year to date 2017 absorption is 808,812 s.f., including negative absorption of 165,313 s.f. in the 3rd quarter.

In 2017, we have seen 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. Sears sold its Federal Way and Shoreline stores to Merlone Geier. Sears is an anchor at Capitol Mall and Macy's is an anchor at Northgate Mall. Macy's closed its Everett Mall store. Sears closed the Alderwood Mall store and GGP will redevelop this with Dave & Busters and Dicks Sporting Goods. Dave & Busters is also opening at The Outlet Collection in Auburn, replacing Sports Authority.

Big stories this quarter are the resurrection of the merger of Walgreens and Rite Aid and 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 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 lending rates and therefore cap rates. The average ten-year loan is up 50 bps over the last 12 months. 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. In Federal Way, Merlone Geier purchased The Commons at Federal Way in March 2017 for \$46 million and more recently in July 2017 the Sears anchor for \$11 million at the center. In October, Brixton Capital purchased Everett Mall for \$36 million. These are 9% to 10% cap rates and \$21 to \$22/s.f. of land.

The average cap rate in PwC's 3rd quarter investor survey has increased 18 bps year-over-year for regional malls. By comparison, the average cap rates for power centers and strip retail are down 5 bps year-over-year.

3rd Quarter 2017 Investment Activity

Property	City	Year Built	SF	Date	Sale Price	Cap Rate
Rudy's - Fremont	Seattle	1920/95	2,180	17-Sep	\$1,300,000	4.57%
Sonic	Tacoma	2017	1,682	17-Sep	\$2,263,000	5.70%
Amazon	Seattle	2002	38,384	17-Sep	\$7,230,000	5.37%
W Valley @ 212th	Kent	2007	17,840	17-Sep	\$7,600,000	6.00%
Tremont Place + pad	Port Orchard	2005	19,906	17-Sep	\$2,755,000	7.40%
Broadway Retail	Seattle	1987	13,556	17-Sep	\$6,350,000	1.00%
Advance Auto Parts	Federal Way	2017	6,912	17-Sep	\$3,065,000	5.25%
Starbucks	Everett	1984/16	2,050	17-Sep	\$3,000,000	4.56%
Kohl's (GL)	Lynnwood	2006	97,959	17-Sep	\$15,200,000	5.23%
Austin Bell Condos	Seattle	1908	5,200	17-Aug	\$2,400,000	6.92%
Starbucks	Pullman	2017	1,920	17-Aug	\$2,084,000	4.75%
Burger King	Washougal	1999	2,188	17-Aug	\$1,700,000	7.00%
Mill Plain Auto Center	Vancouver	2003	10,976	17-Aug	\$1,550,000	7.00%
Golden Plaza	Federal Way	1977	13,173	17-Aug	\$3,300,000	6.53%
Iron Horse Casino	Auburn	1973/99	12,278	17-Aug	\$4,100,000	7.35%
Triangle Landing	Longview	2005	8,484	17-Jul	\$1,912,000	7.30%
Bigfoot Center	Kent	2004	5,870	17-Jul	\$2,100,000	6.25%
Bank of America	Monroe	1994	4,468	17-Jul	\$3,125,000	5.97%
Alpine Square	Vancouver	1987	9,400	17-Jul	\$1,967,000	7.00%
192nd Station - Building E	Camas	2012	10,310	17-Jul	\$4,963,933	5.95%
Starbucks	Renton	1982	2,796	17-Jul	\$1,500,000	4.25%
Allen Creek Crossings	Marysville	2007	8,257	17-Jul	\$4,000,000	5.74%
Pinehurst Retail	Seattle	1950	4,356	17-Jul	\$1,612,500	5.80%
Fred Meyer Shops	Sumner	2004	6,111	17-Jul	\$2,400,000	6.25%
O'Reillys	Seattle	1986	11,880	17-Jul	\$3,134,000	6.25%
Riverview Plaza	Duvall	2002	39,000	17-Jul	\$6,865,731	7.00%
O'Reillys	Seattle	1985	12,012	17-Jul	\$3,100,000	6.32%