

Real Estate Market Review

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. 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

In the 1st quarter, the direct vacancy rate decreased 15 basis points from 3.51% to 3.36%. 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 11 basis points from 4.50% to 4.39% and is down from the peak in the 4th quarter 2010 at 8.00%.

King County is strong. All counties saw a decline in direct vacancy. Pierce, Snohomish and Thurston Counties are stabilized, while Kitsap County is the softest market. Kitsap County vacancy fell below 6.0% for the first time in several years. Properties with 50,000 s.f. or more contiguous vacancy represent 0.5% of total inventory and 14.7% of vacancy.

Rent Forecast

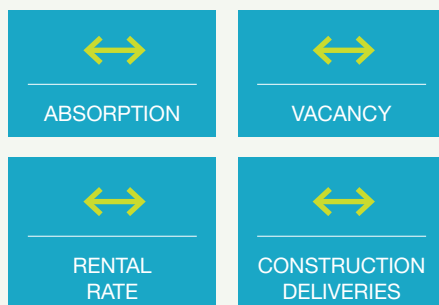
Regionally, asking rents for direct vacancy increased 3.8% year over year. With regional vacancy below 4% and below 3% in the largest market of King County, there is upward pressure on rates except for the lowest

quality segment. Retail rents in the region are: Seattle CBD: \$40 to \$80/s.f. NNN, Seattle mixed-use: \$30 to \$50/s.f. NNN, suburban: \$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. Regency has announced it will develop the second phase of Ballard Blocks, to be anchored by PCC. This will compete with a New Seasons being developed by Centercal nearby. In Bonney Lake, construction is underway on Mountain View Marketplace, anchored by Costco, which will open in the 2nd quarter 2018. Mixed-use development is active around the region, not only in Seattle and Bellevue but in Kirkland, Redmond, Bothell, Issaquah and Tacoma. Kimco has announced phased, mixed-use redevelopment at Factoria Marketplace in Bellevue. KG has announced Bellevue Central on 116th to be anchored by PCC.

Market Forecast Trends



Seattle Retail Sales

Name	Survey	Min	Max
Sale Price Per SF	\$214	\$31	\$3,229
Avg Sale Price	\$5.5M	\$2.0M	\$40M
Cap Rate	5.9%	3.5%	10.0%
Percent Leased	96.6%	0.0%	100%

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Vacancy: Direct vs. Total

County	Vacancy	
	Direct	Total
King County	2.36%	3.39%
Kitsap County	5.87%	6.77%
Pierce County	3.85%	5.37%
Snohomish County	4.52%	5.14%
Thurston County	3.64%	4.46%
Total	3.36%	4.39%

Source: CoStar

Market Demand / Net Absorption

Net absorption has been positive for the last eight years straight, with an annual average of 1.67 million s.f. for the five year period ending 2017. 2017 absorption was 1.25 million s.f, below the five year average. Dave & Busters is new to the region with the first locations in Auburn and Lynnwood. Fitness chains continue to expand with several new locations for Planet Fitness and LA Fitness. Grocery Outlet and PCC continue to expand.

In 2018, we will see closures of Macy's, Sears, Kmart, Toys R Us and Babies R Us stores across the region. Toys R Us is shutting down completely, closing 880 stores including 14 in Washington with about 550,000 s.f.

1st Quarter 2018 Investment Activity

Property	City	Year Built	SF	Date	Sale Price	Cap Rate
Canyon Park Place	Bothell	1990	125,616	Mar-18	\$52,500,000	5.00%
Lakeside at Canyon Park	Bothell	2012	91,048	Mar-18	\$31,900,000	5.22%
Covington Square	Covington	1986	151,563	Mar-18	\$42,300,000	4.90%
Point Fosdick Square	Gig Harbor	2013	183,898	Mar-18	\$66,100,000	5.22%
Safeway	Everett	2002	46,235	Mar-18	\$13,300,000	5.41%
Radford Center	Kent	1963/05	8,781	Mar-18	\$2,850,000	6.59%
Leary Buildings	Seattle	1904/87	10,541	Feb-18	\$7,200,000	4.62%
Stadium Center	Tacoma	1925/16	48,978	Feb-18	\$19,000,000	5.40%
U District Starbucks storefronts	Seattle	1919	6,820	Feb-18	\$3,580,000	3.43%
Dollar Tree / Planet Fitness	Tacoma	1966/17	40,546	Feb-18	\$5,600,000	6.26%
Tumwater Plaza	Tumwater	2003	12,120	Feb-18	\$3,350,000	6.57%
Bender Plaza	Lynden	2000	18,117	Feb-18	\$2,484,000	7.14%
Dutch Village	Lynden	1920	30,000	Feb-18	\$2,575,000	7.21%
Grand Canyon Plaza	Puyallup	2005	8,264	Feb-18	\$2,527,500	N/A
Arby's	Marysville	2017	3,400	Feb-18	\$2,700,000	5.37%
Meridian Place	Kent	1984	24,663	Feb-18	\$4,750,000	7.88%
Meridian Village	Bellingham	1978/06	126,484	Jan-18	\$18,025,000	8.36%
Bucky's/Grinders	Shoreline	1986	7,789	Jan-18	\$1,825,000	6.53%
Safeway	Graham	1984	44,284	Jan-18	\$10,900,000	6.45%

Puget Sound Retail Market

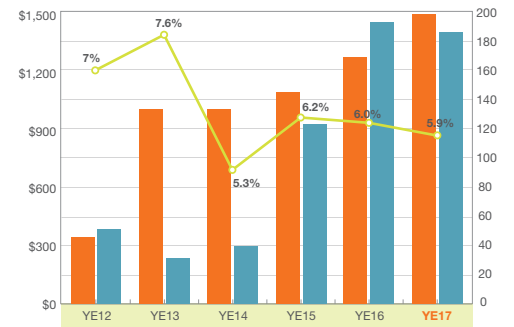


CHART LEGEND

■ Dollar Volume ■ # Transactions — Cap Rate

Source: CoStar

Investment Activity

The regional market is targeted by institutional investors for core product because of healthy economic conditions. 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.

The average cap rate in PwC's 1st quarter investor survey increased 4 b.p. year over year for retail centers, but is down 14 b.p for power centers and 10 b.p for malls.

Source: CoStar