

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 2nd quarter, the direct vacancy rate increased 7 basis points (bps) from 3.42% to 3.49%. 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 30 bps from 4.46% to 4.76% but remains well below the recession peak in the 4th quarter 2010 at 8.00%.

Rent Forecast

Regionally, asking rents for direct vacancy increased 1.1% year over year. There is some 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; and 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 opened in May. 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, Target, and Dave & Busters.

→ Continued, page 2

Market Forecast Trends

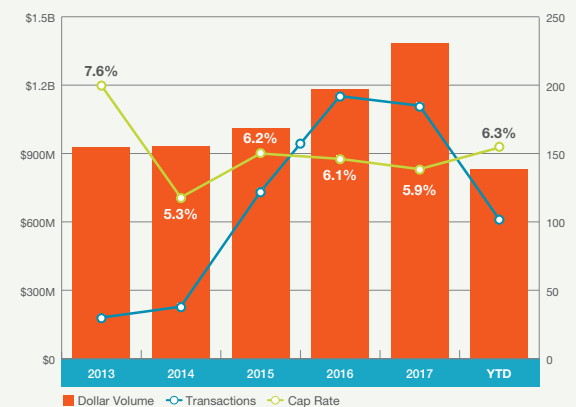


YEAR-TO-YEAR BASIS

Vacancy: Direct vs. Total

| County | Direct | Total |
|--------------|--------------|--------------|
| King | 2.78% | 4.22% |
| Kitsap | 5.21% | 5.72% |
| Pierce | 3.83% | 5.32% |
| Snohomish | 4.56% | 5.49% |
| Thurston | 3.18% | 4.17% |
| Total | 3.49% | 4.76% |

Volume, Transactions & Cap Rate



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. Target has announced three smaller format stores in Seattle (2) and Bellevue (1). Sprouts will open its first Washington store in August and plans are in the works for additional stores. For this region, we have not seen any closures of Walgreens or Rite Aid drugstores as a result of that acquisition and Albertsons acquired the balance of Rite Aid in 2018.

In 2018, we continue to see closures of Macy's, Sears, and Kmart. Toys R Us and Babies R Us closed 14 stores in Washington.

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.

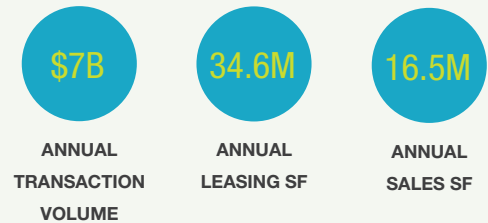
2nd Quarter 2018 Investment Activity

| Property | City | Year Built | SF | Date | Sale Price | Cap Rate |
|---------------------------|------------------|------------|---------|--------|--------------|----------|
| Fisher Studio Condos | Seattle | 1913 | 7,640 | Jun-18 | \$2,850,000 | 6.38% |
| Frontier Square | Maple Valley | 1968 | 6,400 | Jun-18 | \$1,310,000 | 8.64% |
| Safeway | Monroe | 1986 | 56,446 | Jun-18 | \$13,100,000 | 5.52% |
| Popeyes | Marysville | 2018 | 2,695 | Jun-18 | \$2,975,000 | 5.04% |
| Popeyes | Everett | 2018 | 3,286 | Jun-18 | \$3,000,000 | 5.00% |
| Woodinville Towne Center | Woodinville | 1987 | 119,710 | Jun-18 | \$37,770,000 | 5.25% |
| Furniture & Book store | Snohomish | 1947/12 | 25,412 | Jun-18 | \$2,700,000 | 6.40% |
| Silverdale Plaza | Silverdale | 1985 | 67,287 | Jun-18 | \$12,150,000 | 9.04% |
| Popeyes | Seattle | 2017 | 2,750 | Jun-18 | \$3,187,000 | 4.80% |
| Jiffy Lube | Monroe | 2005 | 4,156 | Jun-18 | \$2,050,000 | 7.27% |
| Ballard Fedex/Shops | Seattle | 1954 | 9,370 | Jun-18 | \$8,300,000 | 3.45% |
| 205 Commerce Center | Vancouver | 1982 | 37,164 | Jun-18 | \$13,300,000 | 6.31% |
| Hmart Plaza | Lynnwood | 1985 | 43,830 | Jun-18 | \$12,500,000 | 6.57% |
| Manito SC | Spokane | 1969/91 | 126,862 | May-18 | \$17,300,000 | 7.11% |
| Petco | Bellingham | 2003 | 12,096 | May-18 | \$4,033,000 | 6.80% |
| Safeway (GL) | Seattle | 1993 | 45,522 | May-18 | \$3,000,000 | 4.53% |
| Taco Time | Spokane | 2016 | 2,392 | May-18 | \$1,120,000 | 6.00% |
| Office Max | Kirkland | 1996 | 23,534 | May-18 | \$8,000,000 | 4.38% |
| Dollar Tree | Seattle | 1959 | 14,320 | May-18 | \$2,200,000 | 5.30% |
| Pacific Avenue Center | Tacoma | 2002 | 11,420 | May-18 | \$2,600,000 | 6.73% |
| Jiffy Lube & B of A | Kenmore | 1979 | 7,938 | May-18 | \$5,500,000 | 5.02% |
| 196th Street Strip | Lynnwood | 1978 | 24,317 | May-18 | \$5,100,000 | 4.71% |
| Planet Fitness / Goodwill | Spokane | 1980 | 44,358 | May-18 | \$5,900,000 | 7.18% |
| Jack in the Box | Lakewood | 2017 | 2,516 | May-18 | \$2,400,000 | 5.00% |
| Avalon Meydenbauer | Bellevue | 2007 | 19,438 | May-18 | \$16,600,000 | 5.88% |
| 76th Center | Lynnwood | 1969 | 6,720 | Apr-18 | \$1,490,000 | 5.80% |
| Georgios Fitness | Spokane Valley | 1982 | 11,640 | Apr-18 | \$1,360,000 | 6.79% |
| UP Crossings | University Place | 1988/06 | 20,797 | Apr-18 | \$5,200,000 | 6.15% |
| Lenton Plaza | Monroe | 1997 | 8,000 | Apr-18 | \$1,407,500 | 7.16% |
| Safeway | Poulsbo | 2014 | 62,854 | Apr-18 | \$18,856,200 | 5.00% |
| Safeway | Port Angeles | 1996 | 55,634 | Apr-18 | \$14,732,143 | 6.72% |
| Redondo Plaza | Federal Way | 1989 | 7,750 | Apr-18 | \$1,985,000 | 6.10% |
| Safeway | Kelso | 1990 | 65,403 | Apr-18 | \$13,080,000 | 5.25% |
| Burger King | Snohomish | 1996/17 | 3,450 | Apr-18 | \$1,650,000 | 5.96% |
| Lowes | Mount Vernon | 1993 | 137,472 | Apr-18 | \$16,991,443 | 5.75% |

Data Source: CoStar

Kidder Mathews is the largest, independent commercial real estate firm on the West Coast, with more than 700 real estate professionals and staff in 21 offices in Washington, Oregon, California, Nevada, and Arizona. We offer a complete range of brokerage, appraisal, property management, consulting, project and construction management, and debt equity finance services for all property types.

COMMERCIAL BROKERAGE

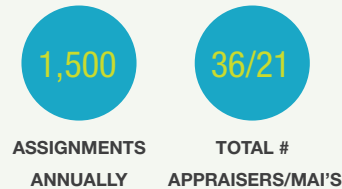


PROPERTY MANAGEMENT



MANAGEMENT PORTFOLIO

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