

Real Estate Market Review

Seattle Retail

The retail market is extremely challenging, demonstrating survival of the fittest. Developers are challenged by rising construction costs and entitlement difficulty. Owners are challenged by rising interest rates and tenant turnover. Tenants are challenged by Amazon, right sizing stores, increasing occupancy and employee costs. With unemployment at historic lows, retailers are having difficulty finding employees. Customers are challenged for time and disposable income due to high housing costs.

Vacancy

Like many coastal gateways, the Puget Sound region outperforms the national average with lower vacancy and better rent growth. In the 3rd quarter, the direct vacancy rate decreased 14 basis points from 3.49% to 3.35%. 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 16 basis points from 4.59% to 4.43% and remains well below the recession peak in the 4th quarter 2010 at 8.00%.

King and Thurston Counties have direct vacancy under 3.0% and total vacancy under 4.0%. Snohomish and Pierce Counties have direct vacancy just under 4.0% and total vacancy slightly above 5.0%. Kitsap County is the softest market in terms of direct vacancy of 4.3%. Properties with 50,000 s.f. or more contiguous vacancy represent 1.5% of total inventory and 23.7% of vacancy. Most of this segment is less functional.

Rent Forecast

Regionally, asking rents for direct vacancy increased 1.07% 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 is underway on the second phase of Ballard Blocks, to be anchored by PCC. This will compete with a New Seasons developed by Centercal nearby. KG/Principal is underway on Bellevue Central on 116th to be anchored by PCC, Target and Dave & Busters. In Bonney Lake, construction is underway on Mountain View Marketplace, anchored by Costco, which opened in May.

Market Forecast Trends

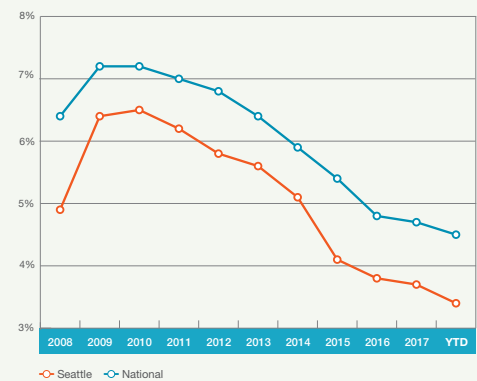


YEAR-TO-YEAR BASIS

Vacancy: Direct vs. Total

County	Direct	Total
King	2.84%	3.85%
Kitsap	4.33%	4.78%
Pierce	3.86%	5.15%
Snohomish	3.94%	5.27%
Thurston	2.96%	3.93%
Total	3.35%	4.43%

Vacancy Trends



Mixed-use development is active around the region, not only in Seattle and Bellevue but in Kirkland, Redmond, Bothell, Issaquah and Tacoma. Merlone Geier announced a mixed use redevelopment of the former Sears at Aurora Square in Shoreline. Merlone Geier also owns the former Sears at The Commons in Federal Way and we expect a similar mixed-use redevelopment there. New development feasibility is challenged by rising construction costs for developers and occupancy costs for tenants. Development costs are high for hard construction costs due to high levels of activity in other sectors like residential, office and industrial. Costs are also high for entitlements, including mitigation fees.

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. Absorption is slowing somewhat with the most recent 12 months at 1.57 million s.f. Dave & Busters is new to the region with the first locations in Auburn, Lynnwood and Bellevue. Fitness chains continue to expand with both large and small formats. PCC continues its expansion with announced stores in mixed use projects in Bellevue, Ballard, Madison Valley, West Seattle and the Seattle CBD. Target will open three smaller format stores in Seattle (2) and Bellevue (1). Sprouts opened its first Washington store in Mill Creek and announced additional stores for north Seattle and Lynnwood. CVS continues to expand, with new stores in Lakewood and Seattle South Lake Union for late 2018 or early 2019. This region has not yet seen any closures of Walgreens or Rite Aid drugstores as a result of that acquisition. The termination of the Albertsons acquisition to acquire the balance of Rite Aid could lead to some closures.

In 2018, we continue to see closures of Macy's, Sears and Kmart. JC Penney has not closed many stores but recently announced closure of its Northgate store. Toys R Us and Babies R Us closed 14 stores in Washington.

Investment Activity

The regional market is targeted by investors for core product because of healthy economic conditions. Demand is strong for daily needs anchored centers and single tenant properties with significant term remaining. For these categories, cap rates remain low. Activity for institutions has been limited in 2018 due to lack of sellers. By number of sales, individual investors and regional partnerships have been the most active buyers. There is low demand for B and C quality properties and cap rates are increasing in this segment.

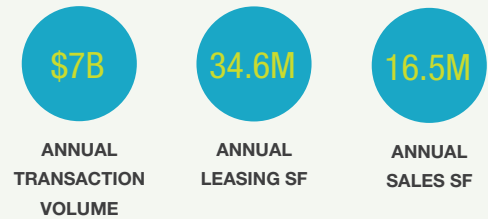
3rd Quarter 2018 Investment Activity

Property	City	Year Built	SF	Date	Sale Price	Cap Rate
Triangle Center	Longview	1961/00	260,627	18-Sep	\$38,000,000	8.40%
McLendons Hardware	Puyallup	2002	86,355	18-Sep	\$11,400,100	6.38%
Safeway	Olympia	2002	58,670	18-Sep	\$10,800,000	5.82%
Smokey Point Shopping Ctr	Arlington	1979	87,101	18-Jul	\$8,650,000	8.46%
Lacey Crossroads, Bldg K	Lacey	2008	28,997	18-Sep	\$7,250,000	7.26%
Safeway	Lacey	2001	42,864	18-Aug	\$7,142,593	5.40%
Value Village	Lynnwood	1992	22,894	18-Aug	\$4,663,000	6.25%
Grocery Outlet Center	Bonney Lake	1955/05	25,952	18-Aug	\$4,510,000	6.50%
Sonic & Starbucks	Kent	2018	2,564	18-Aug	\$4,500,000	5.40%
Louisiana Strip Center	Kennewick	2003	16,240	18-Sep	\$4,398,646	6.56%
Vernon Village - A	Lake Stevens	2018	6,823	18-Aug	\$4,230,000	5.52%
Vernon Village - C	Lake Stevens	2018	6,630	18-Jul	\$3,820,000	5.35%
Advance Auto Parts Center	Tacoma	1985/16	11,788	18-Sep	\$3,700,000	6.10%
Cascade Place	Burlington	2006	17,569	18-Jul	\$3,700,000	6.76%
Johnsborough Station	Tacoma	2004	12,066	18-Jul	\$3,515,000	6.00%
Queensgate Center	Richland	1980s	12,000	18-Sep	\$3,500,000	6.98%
6th & Union	Tacoma	2000	7,970	18-Sep	\$2,945,000	6.29%
Bucky's Center	Federal Way	1987	14,183	18-Aug	\$2,800,000	6.62%
Sonic	Marysville	2018	1,629	18-Aug	\$2,733,000	5.27%
Crossroads at Mill Plain & 64th	Vancouver	2016	6,550	18-Aug	\$2,665,000	6.30%
Firgrove Square	Puyallup	1971	13,600	18-Jul	\$2,590,000	6.00%

Data Source: CoStar

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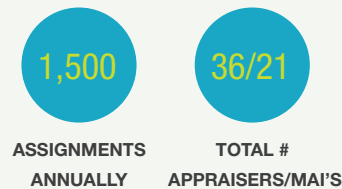
COMMERCIAL BROKERAGE



PROPERTY MANAGEMENT



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