Kidder Mathews

YE 2021

WEST COAST YEAR IN REVIEW & LOOK AHEAD

RETAIL

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DEMAND FUELS EXPANSION IN BRICK & MORTAR RETAIL RECOVERY

While the pandemic took a heavy toll on physical retail stores in 2020, the pandemic's many aftereffects on customers propelled a substantial recovery of those physical stores last year. As the vaccines became widely distributed and business operations began normalizing, people looked to resume everything they missed in 2020: restaurants, movie theaters, sporting events, and shopping in person.

Retail real estate had been in transition for several years before the pandemic. The shift to e-commerce, driven by the changing shopper preferences of millennials and Gen Z'ers, severely undercut demand for traditional brick-and-mortar retail locations. Between 2010 and 2019, e-commerce penetration grew 150%, to 15.8% of the total retail sales. 2020's pandemic national lockdown order accelerated that trend, increasing e-commerce penetration by nearly 25%, to 19.6%. Retail real estate operators have been deploying sophisticated websites and digital interfaces to incorporate online options for their retailers and shoppers. The hope was to blend the brick-and-mortar and online retail experience, maintaining connectivity with onsite and off-premises consumers to provide viable alternative e-commerce options.

Boosted by trillions of stimulus dollars, American consumers pushed retail sales to record levels on both a nominal and real basis. [1] According to the U.S. Census Bureau, retail sales through November 2021 topped $4 trillion. [2] Nationally, retail sales during the 2021 Christmas season rose 8.5% over 2020's holiday season, the strongest holiday sales in the last 17 years. [3] And the good news for brick-and-mortar retail is that in-store sales surged 8.1% and the embattled department store sector enjoyed a 21.2% increase over 2020 holiday shopping. [4] CoStar reports that retail leasing activity returned to pre-pandemic levels in 2Q2021 and has kept pace since then to achieve its best full year of leasing activity since 2017. [5]

With retail sales rebounding, operators saw vacancy drop 50 basis points to 4.6% allowing them to raise average asking rents 3.1% to $22.58/SF.

[1] CoStar

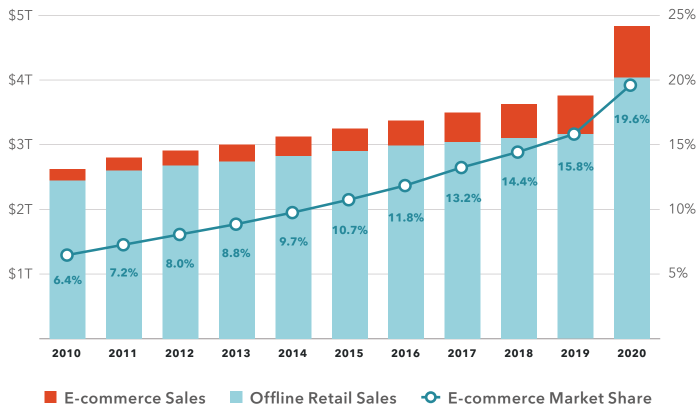
[2] Excluding motor vehicles and parts

[3] Mastercard Spending Pulse study, 12/27/2021

[4] Id.

[5] CoStar

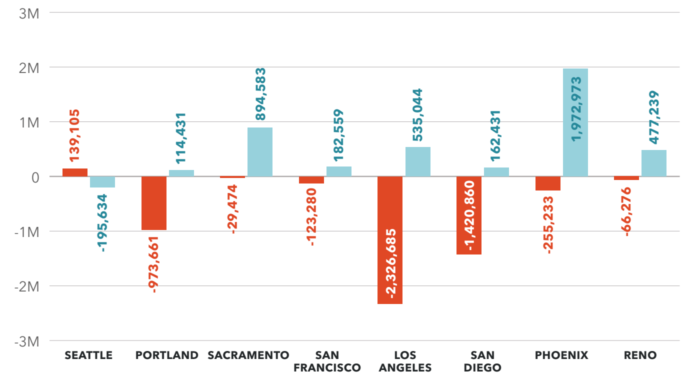
U.S. E-COMMERCE GROWTH



$792B
2020 E-COMMERCE SALES

$4.04T
2020 OFFLINE RETAIL SALES

RETAIL SF ABSORPTION



-5,056,364
2020 TOTAL

4,143,626
2021 TOTAL

Traditionally, the West Coast retail market has been one of the strongest in the country. [6] Favorable demographics, strong income growth and solid household formation all support positive long-term growth of retail on the West Coast. But like the national retail market, the West Coast retail market has been facing the same competitive challenges from e-commerce. The convenience and speed of e-commerce severely reduced foot traffic and demand for traditional physical retail stores. The near total retail shutdown ordered to mitigate the spread of the coronavirus in 2020 drove many small and large retail businesses to close. At the same time, unprecedented social unrest and crime, and pervasive homelessness over the past two years intensified the stress on 5 of the 8 West Coast central business districts and downtown retail markets named below.[7] As a result, the 8 markets covered in this report experienced over 5 million SF of negative net absorption in 2020.

On the strength of shoppers returning to the brick-and-mortar stores last year, the West Coast markets are recovering. Leasing activity returned to pre-pandemic levels in 2Q2021 and by the end of 2021 over 4 million SF were absorbed, although approximately half of that was in Phoenix. Average vacancy dropped 20 basis points across all 8 markets to end 2021 at 4.9%. The increased demand for retail space supported a 4.4% increase in the median rent for the 8 markets to $22.88/SF. And as fundamentals improved, investors took notice, increasing sales volume 43.5% over 2020 to $12.9 billion.

Retail vacancy dropped to **4.9%** by the end of 2021 across 8 West Coast Markets

[6] The markets covered in this report are Los Angeles, Phoenix, Portland, Reno, San Diego, San Francisco, Seattle, & Sacramento.

[7] Seattle, Portland, San Francisco, Los Angeles, & San Diego.

OUTLOOK

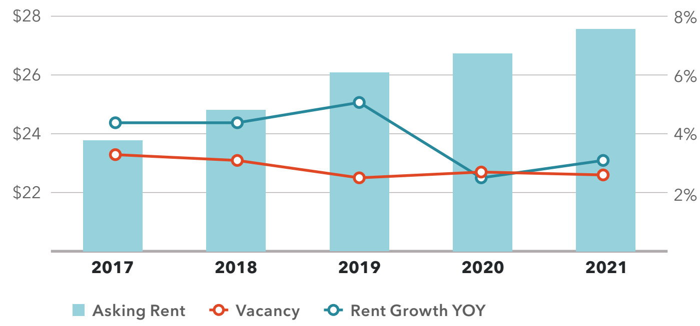
After surviving the extreme challenges of 2020, the retail real estate sector showed great flexibility and resilience moving into 2021. Despite new COVID variants, labor shortages, supply chain shortages and inflation, the retail sector set a new record for total retail sales in 2021. Fundamentals improved so much last year that the year ended with over 76 million SF of positive net absorption, the most since 2018. Moving forward, we expect to see a continuation of the growth in retail sales and leasing as retailers continue to adapt and innovate ways to meet the needs and expectations of shoppers for the complete "destination" experience.

SEATTLE

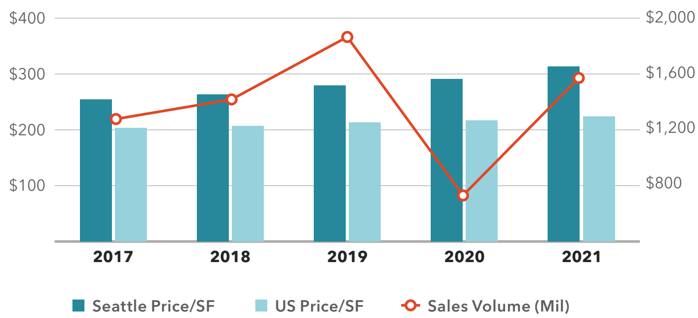
Seattle's retail market remained mostly stable during the pandemic last year, although many small businesses were forced to close their doors. Vacancy increased a modest 20 bps to 2.71%, while rent growth fell 260 bps to 2.5%. Absorption decreased nearly 1 million square feet from 1,075,644 in 2019 to just 139,105 in 2020, while market rent actually increased 2.5% to $26.73/SF. The market made a tepid comeback in 2021 with vacancy dropping only 0.04%. Rent growth increased 3.16% to $27.57/SF. Demand continues to fall, now into negative territory, as net absorption hit negative 195,634 square feet, a drop of over 300,000 square feet from last year.

Retail sales volume in the Seattle metro area more than doubled in 2021 after a sluggish start earlier in the year. Through the end of the year, sales volume reached $1.7 billion, a 117% increase over the total 2020 sales volume, and more in line with 2017 and 2018 sales. Despite the substantial decrease in sales volume from 2019 ($1.9 billion) to 2020 ($727.8 million), the 2020 per square foot sales price increased 4.3% to $291/SF. Last year, per square foot pricing increased 7.6% to $313, well above pre-pandemic pricing. The average market cap rate came in at 5.9%, 20 bps below the 3-year average of 6.1%.

VACANCY, RENT GROWTH & EFFECTIVE RENT



SALES VOLUME & PRICE/SF

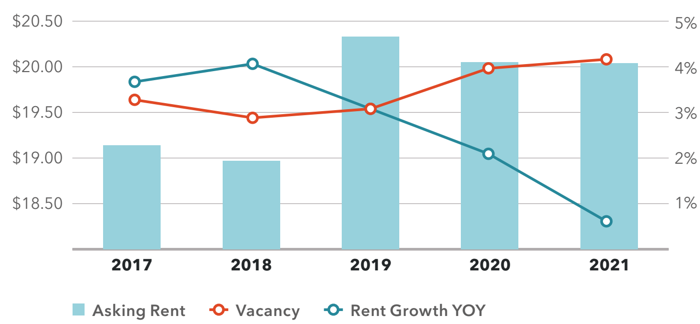


PORTLAND

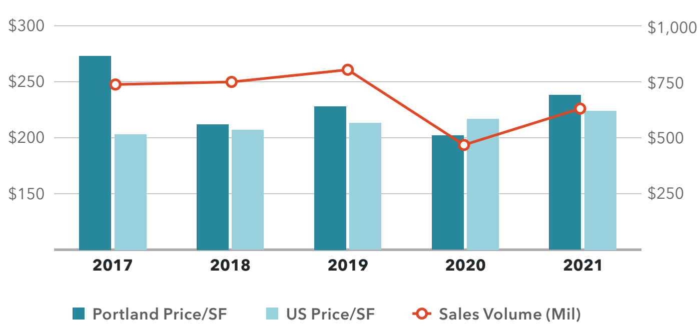
Portland's retail market is in the initial stages of recovery from the pandemic and the state's extended intermittent lockdowns, masking, and social distancing mandates. In 2020, Portland suffered record-high job losses in the leisure and hospitality sectors, shutting down many retailers, restaurants, and hotels. The turbulent summer of protests in Portland further stressed the retail market. These factors created negative net absorption of over 900,000 SF. Vacancy increased 90 bps to 4% and average market rent declined approximately 2% to $20.05/SF. The retail market began regrouping in the second half of last year as the workforce and in-person shopping began returning. Despite these positive signs, vacancy increased 20 bps to 4.2% and rent growth remained flat at $20.04/SF.

Leading into the pandemic, sales volume exceeded $700 million annually between 2015 and 2019. In 2020, financial uncertainty and social unrest slowed sales activity in Portland, ending the year with only $470 million in sales volume, a 42% decrease. Sales volume accelerated in Q2 and Q3 of 2021 as greater normalcy returned to the market. The accelerated sales activity helped push sales volume up 35% to $635.5 million and the average market cap rate down 50 bps to 6.2%. The average market price rose 18% this year to $$238/SF.

VACANCY, RENT GROWTH & EFFECTIVE RENT



SALES VOLUME & PRICE/SF

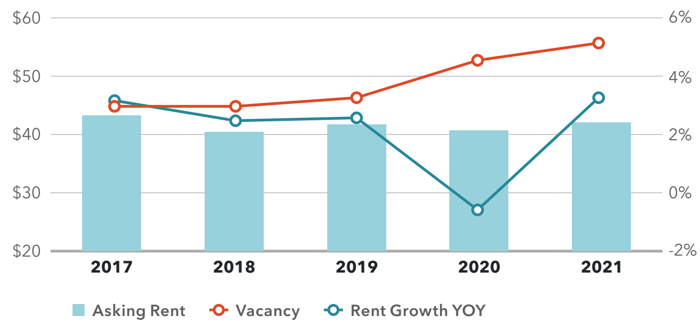


SAN FRANCISCO

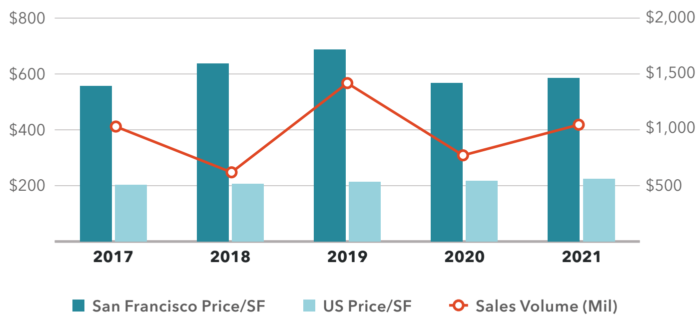
San Francisco was subject to some of the strictest pandemic restrictions in the country until California fully opened on June 15th. Coupled with those restrictions, social unrest, crime, homelessness, and overwhelming job losses drove retailers out of business. According to a Yelp! report published in September 2020, San Francisco had over 2,900 businesses permanently close between March and September, third in the nation. Vacancy grew to 4.6%, the highest in 10 years, while rent growth dropped to $40.71/SF. Net absorption also ended the year in negative territory, registering -630,050 SF. Since reopening only 6 months ago, San Francisco's retail market is still reeling. Vacancy has increased 60 basis points to 5.2%, while market rent has increased 3.3% to $42.05/SF.

2020's weak market fundamentals gave buyers and lenders pause. Sales volume slowed nearly 50% from 2019's pace and pricing dropped over $100/SF, falling below $600 for the first time since 2017. Since reopening, only tepid improvement in the market has occurred, as serious societal issues amplify the underlying market challenges. Positive asking rent growth helped push sale pricing up to $586/SF, still below pre-pandemic pricing. Sales volume grew 27% over 2020's $774 million to $1.1 billion as the cap rate increased 40 bps to 4.8%.

VACANCY, RENT GROWTH & EFFECTIVE RENT



SALES VOLUME & PRICE/SF

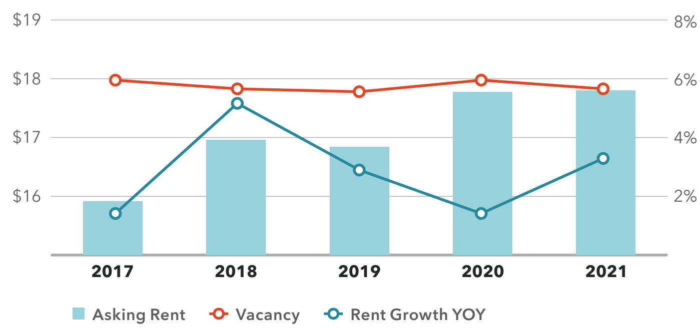


SACRAMENTO

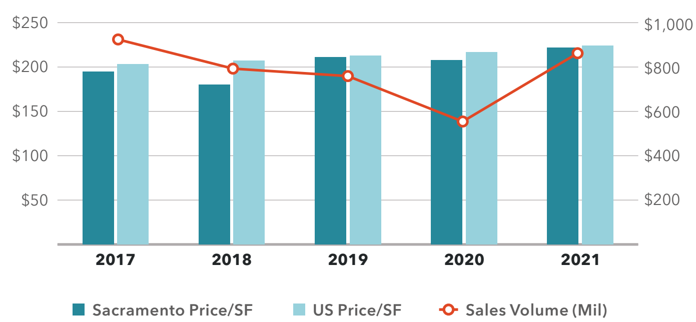
Sacramento's retail market was able to maintain a semblance of stability in 2020 as in-migration from the Bay Area brought highly-skilled, well-educated, and well-paid people to the metro looking for a low-cost alternative. This influx of new residents helped sustain Sacramento's retail market fundamentals at the expense of the East Bay and San Francisco. Vacancy stayed within historical norms, while rents actually increased 5.5% to $17.77/SF. Last year, vacancy dropped 30 bps to 5.7%, while the market absorbed 779,000 SF. Rents increased slightly to $17.80/SF.

The positive fundamentals of Sacramento's retail market compared to the tepid fundamentals in the rest of the region have drawn investors to Sacramento, driving sales volume up 58% over 2020 to $869 million on 423 trades. Pricing increased last year to $222/SF. This transaction activity has compressed the market cap rate in Sacramento to 5.9%, well below the three-year average of 6.3%.

VACANCY, RENT GROWTH & EFFECTIVE RENT



SALES VOLUME & PRICE/SF

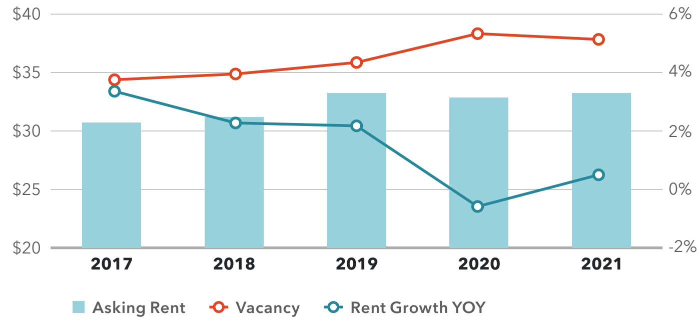


LOS ANGELES

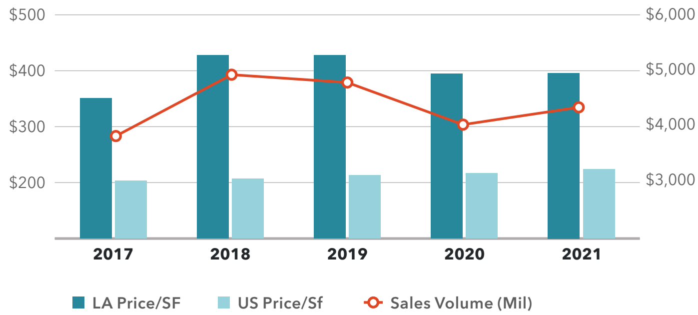
The pandemic last year amplified some of the struggles the L.A. retail market has been experiencing for several years. Continuing the negative net absorption trend seen in 2018 and 2019, L.A. had over 1.7 million SF in negative net absorption in 2020, nearly 50% more than the 1.2 million SF of negative absorption seen in 2019. Occupancy cratered in the second quarter of 2020, with vacancy increasing 70 bps to 5.1%. Rent growth dropped into negative territory, ending 2020 at -0.6%. Under some of the most stringent COVID restrictions in the country, the retail sector is still struggling to find its footing. Like San Francisco, crime and homelessness also impede L.A.'s recovery. Vacancy has only improved 20 bps to 5.2% and market rent has only increased 0.61% to $33.96/SF.

Retail property sales volume was down 15.8% in 2020 from 2019, but was still over $4 billion. Demonstrating the draw of the market for investors, volume has returned to historical norms over the past 12 months in over 1,600 transactions, hitting $4.7 billion. Per-square-foot pricing dropped 7.7% in 2020 to $395/SF, and that pricing has remained relatively steady to the current price of $396/SF. The market cap rate increased 10 bps to 5.4% from a year ago.

VACANCY, RENT GROWTH & EFFECTIVE RENT



SALES VOLUME & PRICE/SF

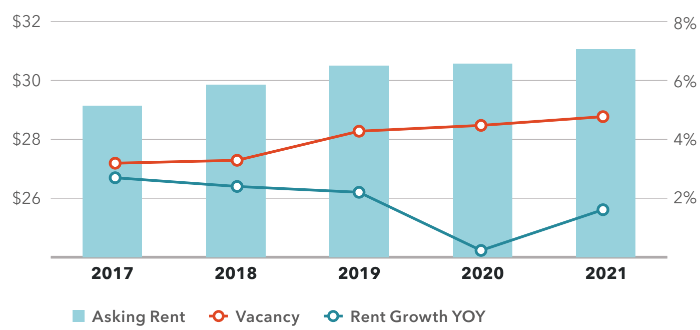


SAN DIEGO

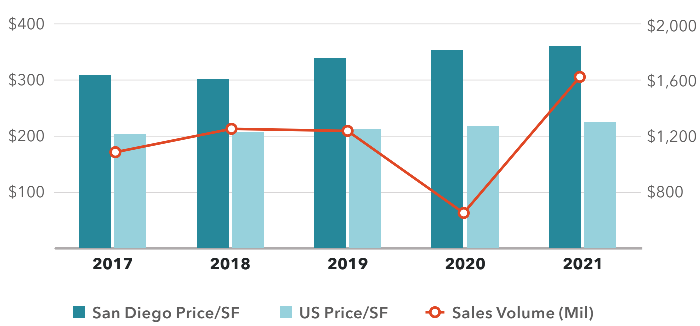
Like all the coastal metros, San Diego retail suffered significant disruption from the pandemic and the severe mitigation strategies employed in California. Department store closures and bankruptcies and local small business failures drove net absorption into negative territory by over 1.1 million SF. Vacancy rose 100 bps to 4.5% and market rent rose 0.2% to $30.57/SF. In 2021, the market showed some improvement, but now retailers are struggling to find workers to bring operations back to full capacity. As a result, vacancy increased 30 bps to 4.8%, while market rent grew 1.6% to $31.06/SF.

Despite the challenges facing retailers in San Diego, investors are returning to the metro, drawn by the more favorable cap rates and square foot prices than can be found further up the coast. Sales volume increased 152% over 2020, up from $648.3 million to over $1.6 billion in 546 transactions. Per-square-foot pricing increased 2.9% to $360/SF. Despite the high number of transactions, the market cap rate in San Diego remained stable at 5.4%.

VACANCY, RENT GROWTH & EFFECTIVE RENT



SALES VOLUME & PRICE/SF

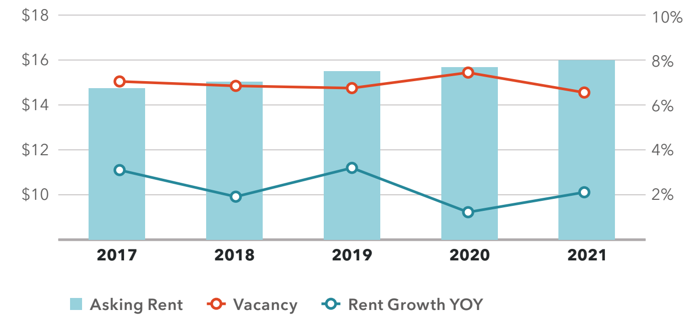


PHOENIX

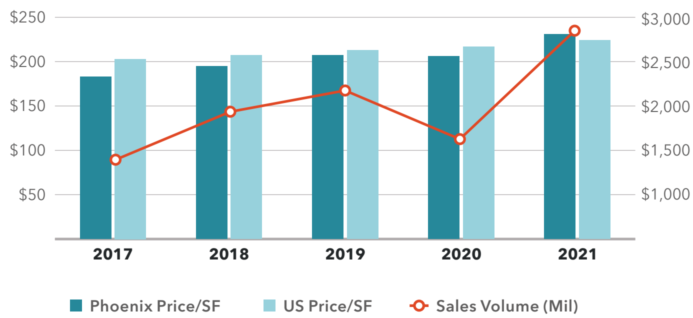
In the three years prior to the pandemic, the Phoenix retail market performance was among the best in the country, with nearly 8 million SF of positive net absorption, declining vacancy rates, and positive rent growth. But the pandemic's business lockdown in 2020 caused retail vacancy to jump 70 bps to 7.5%, and absorption dropped into negative territory for the first time in over 10 years, losing 82,897 SF. Despite the sudden reversal of the market, average rental rates grew 1.2% to $15.68/SF. The termination of COVID restrictions early in 2021 accelerated the economy, and nation-leading population growth, household formation, strong employment growth, and a low cost of living is driving retail demand. Nearly 2 million SF was absorbed last year, the most since 2018. Vacancy contracted 90 bps to 6.6%, while rents increased 2.1% to $16.00/SF.

Phoenix was an investor-favorite prior to the pandemic, as the strong fundamentals outlined above and cap rates higher than west coast markets made the metro one of the top growth markets in the nation. The pandemic caused investors to pause, muting sales activity in the first half of 2020, but sales volume rebounded in the second half of the year and throughout 2021. By the end of the year, sales volume hit $3.1 billion, the most recorded in more than 10 years, and the sales pricing jumped 12% to $231/SF. As a result, cap rates have steadily compressed to 6.0%, still an attractive rate for investors.

VACANCY, RENT GROWTH & EFFECTIVE RENT



SALES VOLUME & PRICE/SF

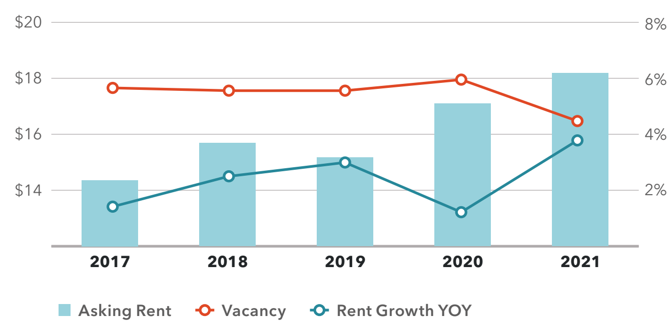


RENO

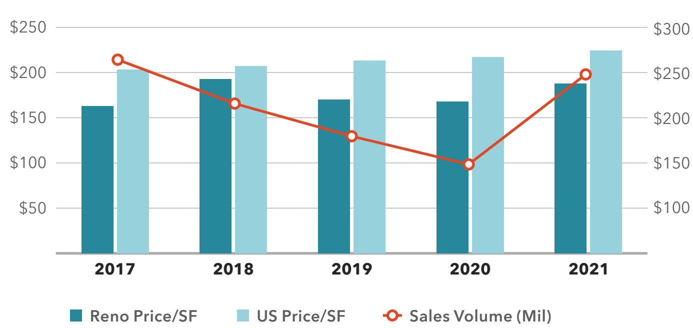
Reno's retail market withstood the pandemic and resulting recession better than most western markets, as robust population growth fueled sufficient demand to allow retailers to weather the storm. During the height of the pandemic, retail vacancy increased 40 bps to 6.0%, while the average market rent per square foot grew 1.2% to $17.10/SF. Last year, leasing accelerated while vacancy dropped 150 bps to 4.5%, and net absorption moved back into positive territory. Rent growth remained strong, at 3.8%, leading to a market rent increase to $18.18/SF.

In 2020, retail sales volume in Reno fell 17.5% from 2019 to $148.7 million, as the pandemic halted demand. Pricing was minimally affected, receding 1.1% to $168/SF. The availability of vaccines last year and relaxation of COVID restrictions brought investors back to the market. Deal flow and volume increased dramatically, driving pricing up. Deal flow has expanded by 26.7% to 133 transactions, pushing sales volume up 75.3% to $259.5 million, the highest since 2017. Pricing increased by 11.9% to $188/SF, and the market cap rate came in at 5.9%.

VACANCY, RENT GROWTH & EFFECTIVE RENT



SALES VOLUME & PRICE/SF



Kidder Mathews is the largest, independent commercial real estate firm on the West Coast, with 900 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	**$10.7B** TRANSACTION VOLUME (ANNUAL)	**49.7M** SALES SF (ANNUAL)	**43.7M** LEASING SF (ANNUAL)
Asset Services	**64M+** MANAGEMENT PORTFOLIO SF	**$11B+** IN ASSETS UNDER MANAGEMENT	**850+** ASSETS UNDER MANAGEMENT
Valuation Advisory	**2,600+** ASSIGNMENTS ANNUALLY	**51/24** TOTAL NO. APPRAISERS/MAI'S	

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