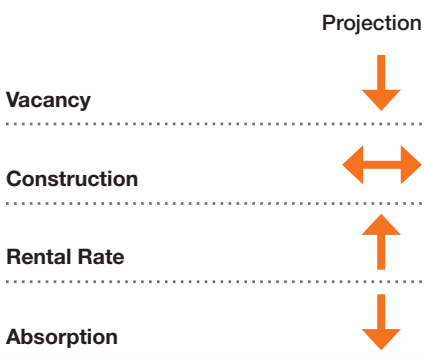


# Seattle Retail

## Market Forecast



The retail market is 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.

## Vacancy: Direct vs. Vacant

County	Direct Vacant	Total Vacant
KING COUNTY	3.75%	4.99%
KITSAP COUNTY	6.97%	7.73%
PIERCE COUNTY	6.61%	8.02%
SNOHOMISH COUNTY	5.40%	6.30%
THURSTON COUNTY	6.11%	7.04%
TOTAL	4.99%	6.16%

## Retail Sales

Full year sales for 2014 are not yet available from the State of Washington. Through the third quarter 2014, taxable sales growth was 6.7% over 2013. Traditional retail (NAICS 44-45) accounts for 44% of the total taxable sales in the region, from a low of 38% in King County to between 50% and 54% for the other four counties. The lower share in King County is a function of the high volume of construction activity.

## Vacant Space/Vacancy Rate

In the first quarter 2015, the vacancy rate declined by ten basis points from 5.2% to 5.1%. This is down from the peak of 6.7% in the fourth quarter 2010. Total available space (total vacant as well as occupied but available) decreased from 6.50% to 6.16% and that is down from the peak in the fourth quarter 2010 of 8.18%.

King and Snohomish Counties are stabilized, while Pierce and Kitsap are the softest markets. Every county saw vacancy rate improvement, except for Pierce where vacancy rates increased very slightly.

## Rent Forecast

Regionally, asking rents for direct vacancy have increased 1.5% over the last year. Coupled with some declines in concessions, effective rents have increased more. Rents have increased more significantly for strong trade areas and remain flat for those with higher vacancies. Retail rents in the Seattle CBD range between \$40 and \$75/s.f./year, NNN, and rents in suburban grocery anchored centers range between \$20 and \$35/s.f./year, NNN, depending on property location and condition.

## New & Proposed Construction Activity

Retail development activity is moderate. The Lincoln Square expansion includes a three level retail podium of 172,000 s.f. SEB and Verus are completing the first phases of the Village at Chambers Bay anchored by Whole Foods, which opens in May 2015. Point Ruston is a larger mixed-use development with a 120,000 s.f. retail component. A Century theater and some

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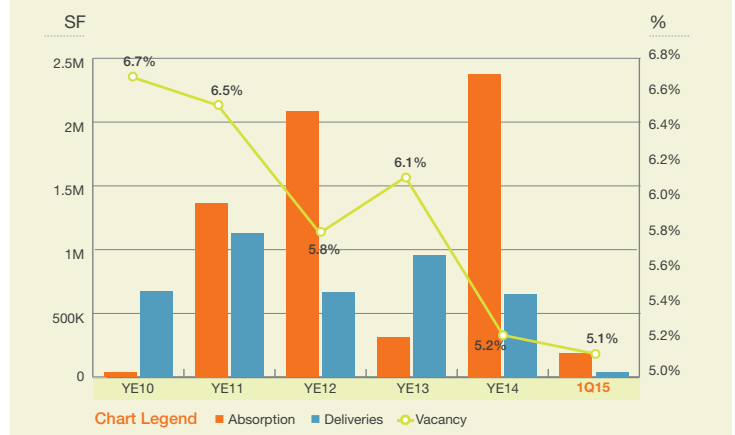
restaurants are under construction for late 2015 delivery. Centercal is underway on Silverdale Trails, a 212,000 s.f. center anchored by a food store and junior anchors. Shells will be turned over to tenants in July 2015 for Fall 2015 store openings. Centercal is under contract to acquire Totem Lake Mall and this represents a major new development. Lennar and Weingarten are underway on the Whittaker in West Seattle. This mixed-use project has 389 apartments over 70,000 s.f. of retail that is anchored by a 41,000 s.f. Whole Foods. A number of other projects are getting ready to break ground. In Seattle, Columbia Pacific Advisors is planning a 16 story apartment tower with 288 units and a two level, 40,000 s.f. Whole Foods. Other significant projects include a premium outlet mall in Lacey (Wig Properties/Craig Realty), a 110,000 s.f. food store anchored center in Sammamish (TRF) and a 363,000 s.f. center that will include a 162,000 s.f. Costco in Bellingham (PMF Investments).

## Market Demand/Net Absorption

2014 net absorption was very strong at 2,193,000 s.f., much higher than the 313,000 s.f. of 2013. First quarter 2015 absorption was 189,000 s.f., about half the level absorbed in the first quarter 2014. Slower absorption is a by-product of the quality of vacant space. Growing retailers simply do not want less functional space. A clear illustration of high demand for good space is at Bellevue Square, where Kemper Development was fully committed for tenants replacing JC Penney before its closure.

The Albertsons merger with Safeway has been completed and as part of this transaction 146 food stores are being sold to Haggen. In Washington, 26 stores with almost 1.3 million s.f. will be converted. Most of these will become Haggen stores but a few will become Country Markets. This does not represent any net absorption as these are all currently operating. However, it will broaden the pool of potential food store anchors.

## Puget Sound Retail Market



## Investment Activity

The regional market is targeted by institutional investors for core product because of healthy economic conditions. Several core centers have sold recently, but single tenant net leased assets are a dominant retail investment product for private capital. The current demand is equity driven versus the debt driven demand ten years ago and capital has begun to move into secondary and tertiary markets in search of yield. With cheap debt available for the foreseeable future, cap rates are expected to remain low. Retail investment demand remains high as capital from multiple sources is still competing for best product. Trade buyers have also driven demand, which has led to further compression in cap rates.

Source: CoStar

## 1st Quarter 2015 Investment Activity

Property Name	City	Year Built	Size (SF)	Date	Sale Price	Cap Rate
Point Fosdick Square	Gig Harbor	2011	183,898	15-Jan	\$59,057,036	6.04%
Lakeland Town Center	Auburn	2002/05	123,152	15-Mar	\$51,200,000	5.40%
Lakeside at Canyon Park	Bothell	2011	90,899	15-Jan	\$35,551,556	5.02%
Lynnwood Square	Lynnwood	1969/89	148,772	15-Feb	\$23,000,000	7.50%
6th Ave Plaza	Tacoma	1986	139,107	15-Jan	\$17,200,000	7.25%
Walgreens	Tacoma	2011	14,330	15-Feb	\$10,052,000	5.53%
CVS	Burien	2015	16,882	15-Feb	\$7,824,600	5.25%
Rite Aid	Granite Falls	2008	18,036	15-Jan	\$7,222,500	6.41%
Goodwill	Silverdale	1993	61,315	15-Mar	\$6,700,000	6.65%
Marshalls	Lakewood	1989	44,028	15-Jan	\$5,750,000	7.63%
Hilltop Center	Woodinville	2008	14,914	15-Mar	\$4,600,000	6.71%
Michaels	Bellingham	2004	23,687	15-Mar	\$4,050,100	6.35%
Stadium Center	Everett	2004	6,440	15-Jan	\$3,000,000	6.14%

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