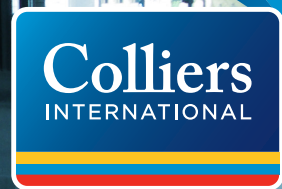


RESEARCH & FORECAST REPORT

PUGET SOUND REGION | MID-YEAR 2017 | RETAIL



REGIONAL SUMMARY

The Seattle/Puget Sound retail market ended the first half of 2017 at 3.9% total vacancy and rents grew 3.2% year-over-year. Vacancy rates are at a 10-year low as reduced levels of new supply combined with robust leasing have helped Seattle retail landlords cash in. With muted retail construction throughout the region, rents will continue to rise for the foreseeable future. Demand remains elevated due to massive amounts of net migration to the region, resulting in accelerating household creation and buoyed even more so by high-paying tech jobs. As more residents pour into the Seattle area for the available jobs, retail trade has surged year-over-year, adding 8,200 employees in the industry in the Seattle-Bellevue-Everett metro from June 2016 to June 2017. Overall, taxable retail sales in Washington State have increased about 25% since 2012 to \$63.2 billion in 2016. E-commerce continues to eat into department store sales as online sales in the state grew by almost 12% in 2016 while in-store sales dropped by half a percent. Retail remains in flux as an industry overall as thousands of stores such as Macy's and J.C. Penney will be closing nationwide over the next couple of years. However, in well-located retail centers where both job growth and population growth are stellar, such as Seattle and Bellevue, retail is doing more than fine. Washington State's Employment Security Department projects retail trade to grow at an average of 2.9% per year from Q2 2016 through Q2 2018 in King County. Due to the current market fundamentals and economic indicators, we will see another strong year in Seattle.

REGIONAL VACANCY

- » The Seattle/Puget Sound region's vacancy rate is at a 10-year low at 3.9%.
- » Year-over-year regional vacancy has dropped 0.2% from Q2 2016.

NET ABSORPTION

- » Seattle's regional retail market absorbed 528,281 SF of space through the first half of 2017.
- » Eastside retail leads the way with 267,486 SF of net absorption through Q1 and Q2 with South King County also experiencing strong tenant activity with 215,722 SF absorbed.

CONSTRUCTION ACTIVITY

- » Pierce County has the bulk of retail under construction at the moment with 145,753 SF of space, 81% of which has already been leased. 71,597 SF is underway in Seattle and 54,445 SF on the Eastside. Over 924,000 SF has been delivered across the Puget Sound region over the last 12 months, far below the historical average as retail developers have pumped the brakes on overbuilding storefronts in many metros nationwide.

SALES ACTIVITY

- » 24 retail projects sold during Q2 pushing sales volume to over \$291 million, more than double the volume of Q1 and only \$7 million less than Q2 2016, according to Real Capital Analytics.
- » The largest sale of the quarter was the Highland Hill Shopping Center in Tacoma, a 162,270 SF Safeway-anchored retail center that Retail Opportunity Investments Corp. purchased for \$47.35 million (\$292/SF).

ECONOMIC DRIVERS

MARKET INDICATORS	QoQ	YoY
VACANCY	↓	↓
RENTAL RATES	↑	↑
NET ABSORPTION	↑	↑
CONSTRUCTION	↓	↓
SALES VOLUME	↑	↓
SALE PRICE	↑	↑

RENTAL RATE QUARTERLY COMPARISON (Average NNN Rent per SF)

Market	Year over Year Change	
	Q2 2017	% Change
Bellevue CBD	\$42.82	3.9%
Seattle CBD	\$39.90	3.6%
I-90 Corridor	\$35.88	3.6%

Market	Year over Year Change	
	Q2 2017	% Change
Capitol Hill/Central District	\$28.96	3.2%
Renton/Tukwila	\$28.39	3.7%
Suburban Tacoma	\$19.14	2.9%



UPDATE—REGIONAL Lease and Sales Transactions

NOTABLE 2017 RETAIL DELIVERIES

Tenant(s)	Property Name	Retail Type	SF	Submarket
IKEA	IKEA Renton	Freestanding	406,000	Renton/Tukwila
Costco	Costco Redmond	Supermarket	225,804	Redmond
HomeGoods, Marshalls, Party City	Covington Crossing	Neighborhood Center	65,833	E King County
Trader Joe's, HomeGoods, REI	Bellevue Central	Freestanding	43,320	Suburban Bellevue

NOTABLE 2017 LEASE SIGNATURES

Tenant	Property Name	Retail Type	SF	Sign Date	Submarket
Dick's Sporting Goods	Parkway Super Center	Power Center	53,545	1/26/2017	Renton/Tukwila
HobbyLobby	Town & Country Square - Bldg. B	Supermarket	42,449	1/25/2017	Coal Creek/Issaquah
PCC Natural Foods	15840 1st Ave S	Neighborhood Center	35,256	3/30/2017	SeaTac/Burien
Sprouts	13208 Bothell Everett Hwy	Neighborhood Center	29,942	4/28/2017	Mill Creek/Woodinville
Discount Direct Furniture	Orillia Station Shopping Center	Neighborhood Center	23,800	5/1/2017	Kent Valley
Planet Fitness	The Market at Lake Tapps	Community Center	22,595	2/1/2017	E Pierce County
Party City	Lakewood Towne Center	Power Center	15,564	2/2/2017	University Place/Lakewood

NOTABLE 2017 INVESTMENT SALE COMPS

Building Name	Submarket	Retail Type	Retail RBA	Sales Price (\$)	Price/SF	Cap Rate	Buyer	Sale Date
Highland Shopping Center	Suburban Tacoma	Community Center	162,270	\$47,350,000	\$291.80	5.38%	Retail Opportunity Investments	5/9/2017
The Commons at Federal Way	Federal Way	Super Regional Mall	612,150	\$46,500,000	\$75.96	10.00%	Merlone Geier Management	3/21/2017
Ivar's Pier 54	Pioneer Sq/Waterfront	Retail/Office	66,250	\$39,500,000	\$596.23	N/A	A.F. Gilmore Co.	5/24/2017
CVS / Uptown 11	Queen Anne/Magnolia	Drugstore/Apartments	15,971	\$18,135,000	\$1,135.50	4.86%	Xiao Investments Company	5/11/2017
Ford Building	Capitol Hill/Central District	Historical/Renovated Retail	15,063	\$14,000,000	\$929.43	4.50%	Keeler Investments Group	4/28/2017
Albertsons/Haggen (Future 24 Hour Fitness)	Suburban Tacoma	Supermarket	44,647	\$13,500,000	\$302.37	N/A	T24, LLC	4/17/2017

NOTABLE PROPERTIES FOR SALE

Price	Bldg SF	Price/SF	Cap Rate	Property Name	Owner	Submarket	Retail Type
\$62,000,000	404,678	\$153.21	4.50%	Toyota and Honda of Seattle	Miller-Nicholson Inc.	S Seattle	Auto Dealership
\$28,500,000	128,991	\$220.95	6.90%	Everett Village	Stockbridge Capital Group	South Everett	Community Center
\$23,989,955	99,932	\$240.06	N/A	Covington Place	WSDOT	E King County	Neighborhood Center
\$21,000,000	79,209	\$265.12	N/A	Former Sound Ford	Ford Motor Company	Renton/Tukwila	Auto Dealership
\$19,444,000	154,716	\$125.68	6.00%	Rainier View Marketplace	Verus Laveen, LLC	Spanaway	Community Center

MARKET OVERVIEW

Seattle Submarkets	EXISTING PROPERTIES/VACANCY						ABSORPTION/RENTS	
	Stock	Total Inventory (SF)	Direct Vacant (SF)	Sublease Vacant (SF)	Total Vacant (SF)	Vacancy Rate Current Quarter (%)	YTD Absorption (SF)	Quoted NNN Rental Rates
Seattle Retail:								
General Retail	2,953	22,603,838	368,216	31,220	399,436	1.8%	-74,287	\$26.94
Mall	2	592,681	22,324	0	22,324	3.8%	7,078	\$39.90
Power Center	1	409,905	20,016	0	20,016	4.9%	-7,734	\$30.72
Shopping Center	114	2,926,273	73,638	0	73,638	2.5%	-5,833	\$25.11
Specialty Center	1	43,728	0	0	0	0.0%	0	N/A
Total	3,125	26,576,425	484,194	31,220	515,414	3.6%	-80,776	\$27.32
Eastside Retail:								
General Retail	1,106	11,499,380	146,988	3,090	150,078	1.3%	282,645	\$25.40
Mall	5	3,443,552	120,812	0	120,812	3.5%	-33,928	\$31.00
Power Center	4	1,547,973	56,297	0	56,297	3.6%	-987	\$18.91
Shopping Center	223	11,490,293	467,045	2,452	469,497	4.1%	19,756	\$28.74
Specialty Center	1	389,797	0	0	0	0.0%	0	N/A
Total	1,736	28,370,995	791,142	5,542	796,684	2.8%	267,486	\$26.69
Northend Retail:								
General Retail	2,820	23,779,341	467,316	11,000	478,316	2.0%	-65,466	\$16.35
Mall	4	3,614,518	19,402	0	19,402	0.5%	458	\$18.41
Power Center	9	3,469,393	46,737	0	46,737	1.3%	-30,846	\$22.26
Shopping Center	364	16,176,431	1,291,195	63,855	1,355,050	8.4%	55,756	\$19.41
Specialty Center	1	400,929	0	0	0	0.0%	0	N/A
Total	3,779	47,440,612	1,824,650	74,855	1,899,505	4.0%	-40,098	\$18.50
Pierce County Retail:								
General Retail	3,074	20,672,237	414,785	0	414,785	2.0%	83,611	\$15.55
Mall	3	2,553,423	8,509	0	8,509	0.3%	3,531	\$29.48
Power Center	3	1,720,635	115,839	0	115,839	6.7%	-15,891	\$24.64
Shopping Center	404	16,217,888	1,191,382	117,283	1,308,665	8.1%	94,696	\$16.41
Specialty Center	2	300,618	11,414	0	11,414	3.8%	0	\$15.97
Total	4,141	41,464,801	1,741,929	117,283	1,859,212	4.5%	165,947	\$16.49
South King County Retail:								
General Retail	1,642	14,146,994	211,153	0	211,153	1.5%	104,511	\$16.00
Mall	4	4,062,387	92,408	0	92,408	2.3%	1,328	\$20.83
Power Center	4	1,919,968	49,244	0	49,244	2.6%	93,232	\$28.43
Shopping Center	268	11,103,519	830,273	0	830,273	7.5%	16,651	\$17.53
Specialty Center	0	0	0	0	0	0.0%	0	N/A
Total	2,304	31,232,868	1,183,078	0	1,183,078	3.8%	215,722	\$17.61
Seattle Retail								
General Retail	11,595	92,701,790	1,608,458	45,310	1,653,768	1.8%	331,014	\$19.75
Mall	18	14,266,561	263,455	0	263,455	1.8%	-21,533	\$28.96
Power Center	21	9,067,874	288,133	0	288,133	3.2%	37,774	\$23.14
Shopping Center	1,373	57,914,404	3,853,533	183,590	4,037,123	7.0%	181,026	\$18.75
Specialty Center	5	1,135,072	11,414	0	11,414	1.0%	0	\$15.97
Total	15,085	175,085,701	6,024,993	228,900	6,253,893	3.6%	528,281	\$19.40

* Source: CoStar

REGIONAL OVERVIEW

REGIONAL SUPPLY

- » Seattle has seen over 1 million SF of new retail space over the last twelve months and about 250,000 SF of new supply will deliver over the final two quarters of 2017.
- » 754,909 SF were completed in the first quarter of 2017, with over half of that attributable to the new IKEA in Renton.

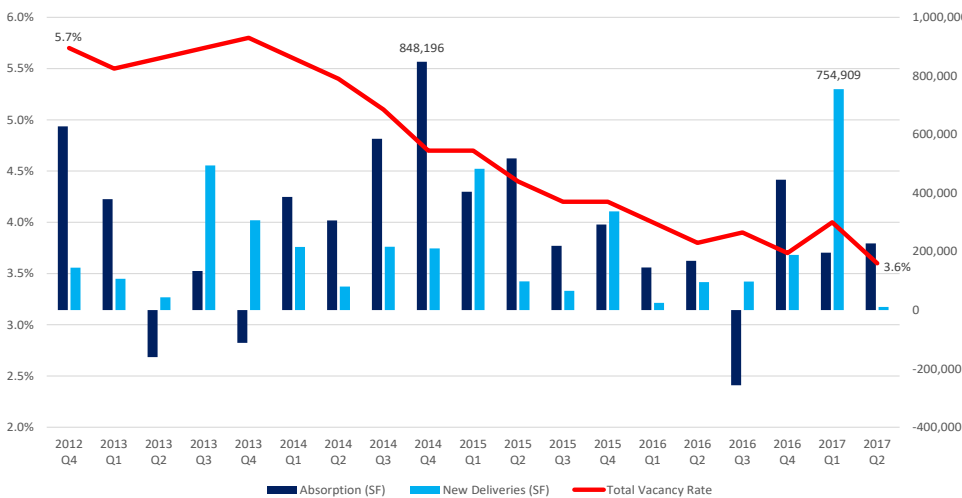
REGIONAL DEMAND

- » Demand from retail tenants remains robust due to above-average population and job growth, especially in the technology and healthcare sectors.
- » Absorption should continue to post sizable numbers through the remainder of 2017 as retail will continue its upward trajectory along with the increased buying power of its population.

REGIONAL OUTLOOK

- » With vacancy rates so low, upward pressure on rental rates will continue as construction levels remain far below the region's historical average.
- » A strong local economy and continued household growth will keep Seattle's retail sales increasing quarter after quarter, assisting the strength of the retail market overall and helping retail landlords make the case for higher rents.

REGIONAL RETAIL ABSORPTION & VACANCY RATES



THE WORLD OF COLLIERS



Comprised of
15,000
professionals



Revenue
\$2.6B
(US\$)



Managing
2B
(square feet)



Established in
68
countries



Lease/sale transactions
72,000



Transaction value
\$105B
(US\$)

All statistics are for 2016, are in U.S. dollars and include affiliates.

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