

# 2017

## MARKET UPDATE

---

PRESENTED TO



WASHINGTON  
BANKERS ASSOCIATION

---

PRESENTED BY

**JEFF LYON, CCIM, SIOR**

Kidder Mathews  
Chairman & CEO

---

TUESDAY, DECEMBER 5, 2017



**km** Kidder  
Mathews

# Seattle/Eastside Office Markets

EASTSIDE

SEATTLE

## MARKET HIGHLIGHTS

	SEATTLE	EASTSIDE
Total Market Size	83,051,239 sf	49,504,741 sf
YTD Vacancy Rate	8.0%	5.9%
Net Absorption - SF	1,246,611 sf	1,199,478 sf
Net Absorption - SF/New Job	29.34 sf	28.23 sf
Average Rent Growth	3%-10%	4%-8%
Under Construction	4,791,646 sf	683,000 sf
Sales Volume Over (>\$10M)	\$1,415,050,438	\$891,621,948

## AMAZON

2017 YTD Occupancy	9,580,402 sf
% of Seattle Market	11.87%
2017 YTD Absorption	2,862,389 sf
2017 YTD Seattle Employees	40,000 (est)

## MICROSOFT

YE 2016 Occupancy	14,735,144 sf
% of Eastside Market	30.25%
YE 2016 Puget Sound Employees	45,375



# Greater Seattle Office Sales

## 10-YEAR TOTALS

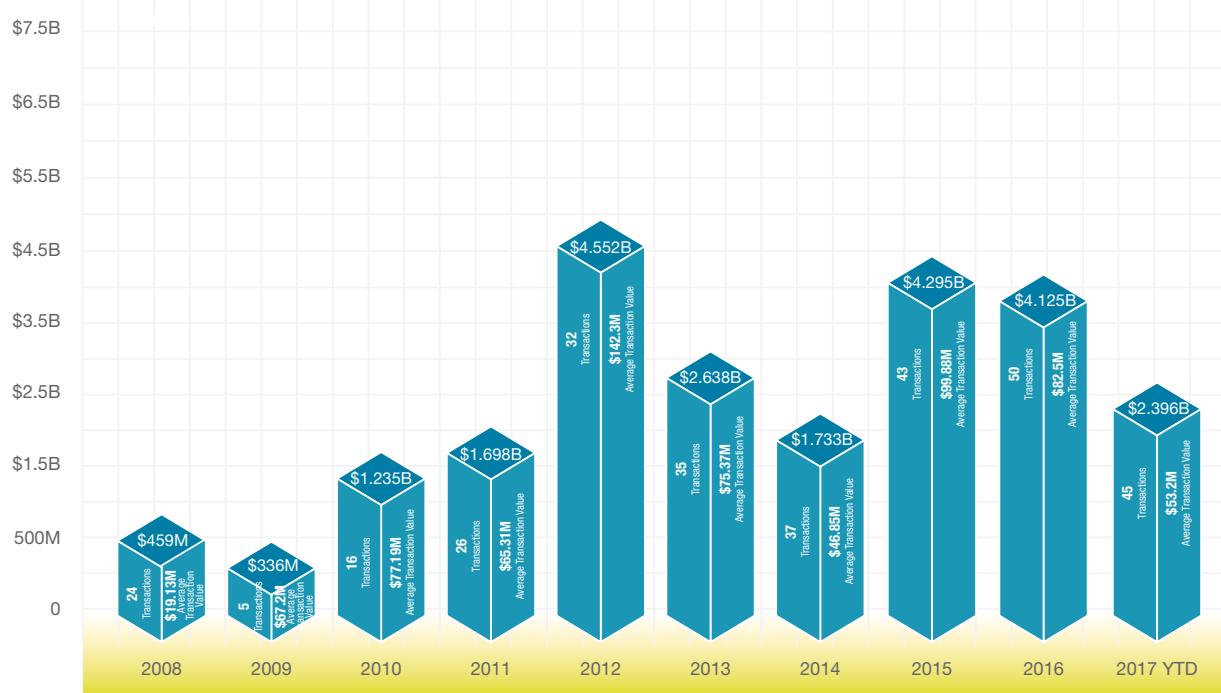
Total Sales Volume **\$23.467B**

Total # Transactions **313**

Average Transaction Value **\$72.89M**

Average / Year **\$2.34B**

## 10-YEAR HISTORICAL YEAR-END OFFICE SALES > \$10M



# Seattle Office Market

## SEATTLE EMPLOYMENT GROWTH - ABSORPTION RELATIONS

YEAR	JOB TOTAL	GROWTH RATE	CHANGE	OFFICE ABSORPTION	SF / NEW JOB
2002	1,231,893	-0.32%	-3,968	225,877	-56.92
2003	1,238,282	0.52%	6,389	1,162,532	181.96
2004	1,262,446	1.95%	24,164	899,635	37.23
2005	1,297,079	2.74%	34,633	4,518,491	130.47
2006	1,348,129	3.94%	51,050	4,822,933	94.47
2007	1,383,691	2.64%	35,562	2,635,328	74.11
2008	1,404,191	1.48%	20,500	1,525,407	74.41
2009	1,370,226	-2.42%	-33,965	-886,630	26.10
2010	1,351,393	-1.37%	-18,833	1,367,595	-72.62
2011	1,368,795	1.29%	17,402	2,781,092	159.81
2012	1,408,598	2.91%	39,803	2,209,526	55.51
2013	1,448,793	2.85%	40,195	1,681,282	41.83
2014	1,482,632	2.34%	33,839	2,920,901	86.32
2015	1,511,698	1.96%	29,066	4,484,672	154.29
2016	1,554,951	2.86%	43,253	4,992,615	115.43
2017 (P)	1,599,528	2.87%	44,577	2,210,835	49.60
2018	1,645,914	2.90%	46,386		
2019	1,693,646	2.90%	47,732		
2019	1,742,762	2.90%	49,116		
2003-2007	Last Recovery	11.74%			
2011-2017	Current Recovery	16.86%			

Employment figures from Seattle MSA (Seattle-Bellevue-Everett)

(P) Projected annual

# SEATTLE SUBMARKET SUMMARY

AVAILABILITY AND VACANCY ANALYSIS - SEATTLE OFFICE MARKET													
Submarket	Existing Buildings	Existing Rentable Building Area	Total SF Vacant (Direct / Sublet)	Vacancy Rate	Total SF Available	Availability Rate %	YTD Net Absorption	Average Asking Rate (FS)	Class A Average Asking Rate (FS)	# Bldgs w/ Contiguous Spaces 50K-100K SF	# Bldgs w/ Contiguous Spaces 100K SF+	Market Driving Job Sectors	Influential Companies
Ballard/U District	100	4,544,506	197,898	4.40%	209,915	4.60%	54,630	\$32.13	\$39.90	0	0	Tech/Maritime	University of Washington
Belltown/Denny Regrade	85	8,564,001	347,161	4.10%	478,210	5.60%	-48,081	\$31.95	\$38.53	0	0	Tech/Services	Gates Foundation
Capitol Hill/Central District	98	5,173,233	105,503	2.20%	109,992	2.10%	-56,787	\$37.69	\$37.83	0	0	Medical	Swedish
Lake Union	130	12,761,998	606,925	4.80%	672,099	5.30%	832,046	\$37.66	\$52.25	1	1	Tech/Life Sc.	Amazon, Google, Facebook
Pioneer Square/Waterfront	95	6,462,654	370,905	5.70%	534,709	8.30%	63,526	\$30.94	\$34.87	0	0	Tech/Services	Weyerhaeuser, Salchuk
Queen Anne/Magnolia	97	5,463,623	161,784	3.00%	814,093	14.90%	101,326	\$29.41	\$47.92	0	3	Tech/Services	Expedia, Big Fish, F5
South Seattle	93	4,184,775	300,392	7.20%	395,695	9.50%	126,663	\$29.36	\$36.35	0	0	Manufacturing	Starbucks
Seattle CBD	125	33,508,250	4,409,101	13.20%	3,885,785	11.60%	379,522	\$41.78	\$44.31	8	4	Financial/Serv	
<b>Total</b>	<b>823</b>	<b>80,663,040</b>	<b>6,508,253</b>	<b>8.10%</b>	<b>7,100,498</b>	<b>8.80%</b>	<b>1,452,845</b>	<b>\$37.93</b>	<b>\$43.92</b>	<b>9</b>	<b>8</b>		

\* All buildings 10K SF+, not including properties under construction. Availability includes any space that is available, regardless of whether space is vacant, available for sublease, or available at a future date.



# Eastside Office Market

## SEATTLE EMPLOYMENT GROWTH - ABSORPTION RELATIONS

YEAR	JOB TOTAL	GROWTH RATE	CHANGE	OFFICE ABSORPTION	SF / NEW JOB
2002	1,231,893	-0.32%	-3,968	584,353	-147.27
2003	1,238,282	0.52%	6,389	203,816	31.90
2004	1,262,446	1.95%	24,164	313,207	12.96
2005	1,297,079	2.74%	34,633	1,181,644	34.12
2006	1,348,129	3.94%	51,050	221,813	4.35
2007	1,383,691	2.64%	35,562	750,712	21.11
2008	1,404,191	1.48%	20,500	463,692	22.62
2009	1,370,226	-2.42%	-33,965	587,439	-17.30
2010	1,351,393	-1.37%	-18,833	149,318	-7.93
2011	1,368,795	1.29%	17,402	796,029	45.74
2012	1,408,598	2.91%	39,803	318,632	8.01
2013	1,448,793	2.85%	40,195	-37,074	-0.92
2014	1,482,632	2.34%	33,839	612,813	18.11
2015	1,511,698	1.96%	29,066	-3,359	-0.12
2016	1,554,951	2.86%	43,253	368,495	8.52
2017 (P)	1,599,528	2.87%	44,577	1,392,531	31.24
2018	1,645,914	2.90%	46,386		
2019	1,693,646	2.90%	47,732		
2019	1,742,762	2.90%	49,116		
2003-2007	Last Recovery	11.74%			
2011-2017	Current Recovery	16.86%			

Employment figures from Seattle MSA (Seattle-Bellevue-Everett)

(P) Projected annual

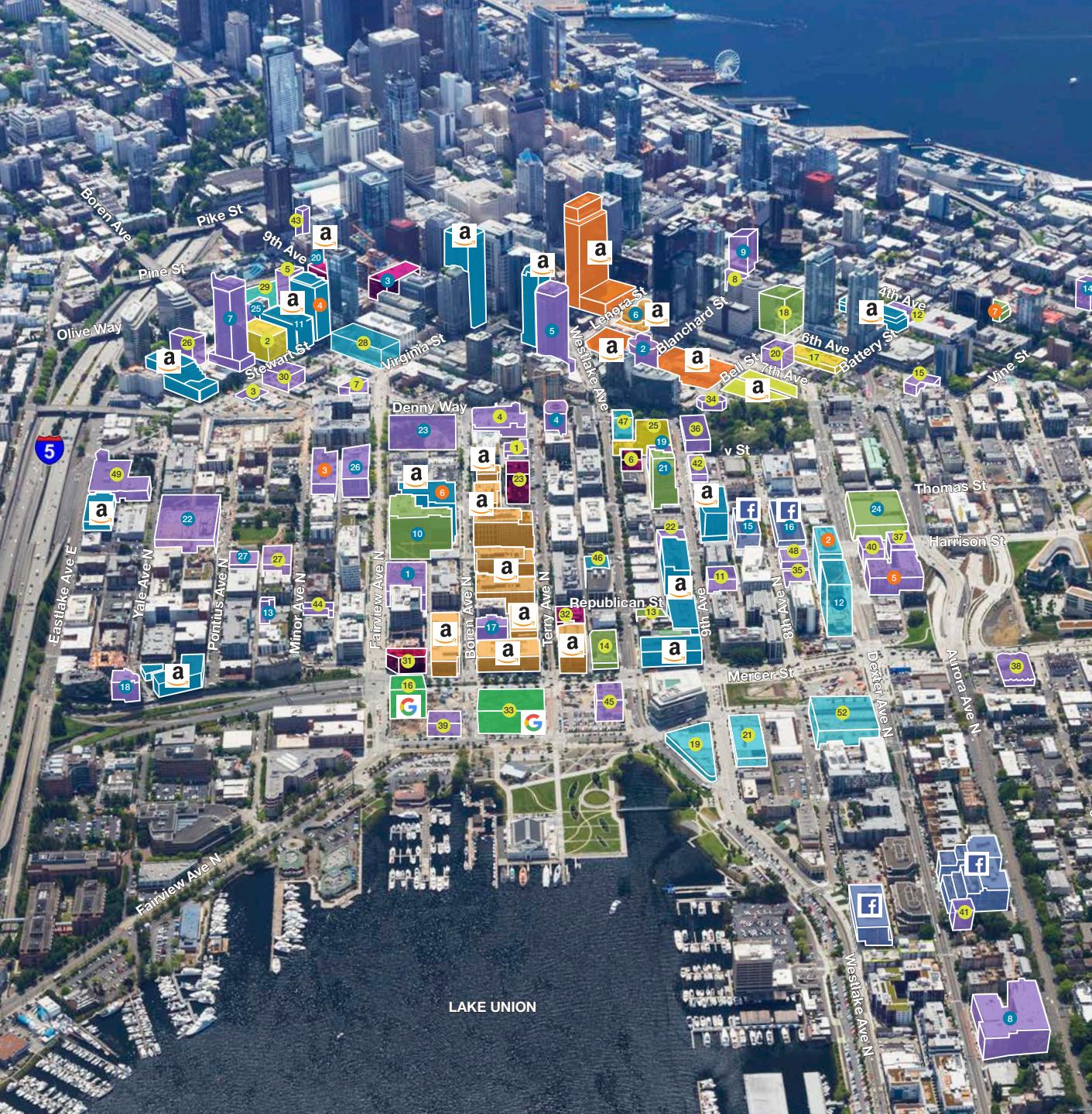
## EASTSIDE SUBMARKET SUMMARY

Overall office vacancy rates decreased over 200 basis points at near historic lows of 5.1%. The strongest submarket for net absorption was the Bellevue CBD. The table below summarizes the status of each Seattle submarket.

AVAILABILITY AND VACANCY ANALYSIS - EASTSIDE OFFICE MARKET												
Submarket	Existing Buildings	Existing Rentable Building Area	Total SF Vacant (Direct)	Vacancy Rate	Total SF Available	Availability Rate %	YTD Net Absorption	Average Asking Rate	Class A Average Asking Rate	Projected Rent Growth 2017	Market Driving Job Sectors	Influential Companies
North Creek/Canyon Park	52	3,779,625	567,659	15.0%	704,910	18.7%	(169,874)	\$17.00/NNN	\$20.00/NNN	0.00%	Telecom/ Life Science	AT&T, Seattle Genetics
Kirkland	55	2,197,623	84,066	3.8%	175,806	8.0%	(10,388)	\$26.00/NNN	\$32.00/NNN	5.00%	Tech/Services	Google, Tableau
Totem Lake	12	525,566	37,090	7.1%	116,629	22.2%	27,188	\$19.50/NNN	\$21.50/NNN	3.00%	Eng./Medical	Evergreen Hospital
Redmond (Excl Microsoft)	73	4,015,330	241,847	6.0%	560,117	13.9%	(25,203)	-	-	-	-	-
Redmond (Incl Microsoft)	99	7,164,819	241,847	3.4%	560,117	7.8%	(25,203)	\$20.00/NNN	\$24.00/NNN	5.00%	Tech/ Services	Microsoft
520 Corridor (Excl Microsoft)	89	3,369,589	153,264	4.5%	353,311	10.5%	47,001	-	-	-	-	-
520 Corridor (Incl Microsoft)	135	9,671,408	153,264	1.6%	353,311	3.7%	47,001	\$24.00/NNN	\$26.00/NNN	5.00%	Tech/Services	Microsoft, Nintendo
Suburban Bellevue	208	5,711,116	310,537	5.4%	532,599	9.3%	12,995	\$23.00/NNN	\$25.00/NNN	5.00%	Services	University of Washington
I-90 Corridor	69	6,029,642	353,881	5.9%	707,548	11.7%	44,226	\$23.00/NNN	\$26.00/NNN	5.00%	Tech/ Telecom	T-Mobile, Boeing
Coal Creek Issaquah	52	2,191,105	297,599	13.6%	320,430	14.6%	(14,185)	\$20.00/NNN	\$25.00/NNN	0.00%	Tech/Services	Costco
E. King County	39	835,916	12,155	1.5%	14,060	1.7%	44,837	\$20.00/NNN	\$24.00/NNN	0.00%	Services	Sanmar
Mercer Island	19	544,754	10,824	2.0%	27,557	5.1%	27,847	\$24.00/NNN	\$26.00/NNN	0.00%	Services	
Bellevue CBD	68	10,605,682	429,799	4.1%	1,028,082	9.7%	1,005,260	\$36.00/NNN	\$44.00/NNN	3.00%	Tech/Services	Microsoft, Expedia
Total (Excl Microsoft)	736	39,805,948	2,498,721	6.3%	4,541,049	11.4%	989,704					
Total (Incl Microsoft)	808	49,257,256	2,498,721	5.1%	4,541,049	9.2%	989,704					

\* All buildings 10K SF+, not including properties under construction. Availability includes any space that is available, regardless of whether space is vacant, available for sublease, or available at a future date.

# SEATTLE DEVELOPMENT PIPELINE



## PROPERTY TYPES

- Office
- Residential
- Mixed-Use
- Biotech/Medical
- Retail
- Hotel
- Convention Center

## AMAZON

- Amazon - Owned
- Amazon - Leased
- Amazon - In-Development
- Amazon - Option to Buy (or right of first offer)

## GOOGLE

- Google

## FACEBOOK

- Facebook

## PROJECT STATUS

- Completed Projects
- Under Construction
- Planned Projects

# BELLEVUE DEVELOPMENT PIPELINE



# Seattle vs. San Francisco vs. Portland

## MARKET COMPARISON

Given the recent migration of many tech related companies to Seattle and Portland from the San Francisco Bay Area, the comparison of the three office markets has never been more relevant. Following are the basic market metrics for all three cities and a representative list of the companies that now have offices in multi-market locations.

## CROSS-MARKET TENANTS



## SEATTLE VS. SAN FRANCISCO VS. PORTLAND OFFICE MARKET COMPARISON

	SEATTLE/ EASTSIDE	SAN FRANCISCO/ SILICON VALLEY	PORTLAND
<b>Market Size</b>	124,855,320 sf	115,210,371 sf	93,490,892 sf
<b>2017 Q3 Vacancy</b>	5.40%	6.70%	7.49%
<b>2017 YTD Net Absorption</b>	4,318,085 sf	-442,925 sf	781,143 sf
<b>2017 August Total Employment</b>	2,004,544	2,468,450	1,274,352
<b>Aug. 2016-2017 Job Growth</b>	56,681	42,474	58,464
<b>Aug. 2017 Unemployment Rate</b>	3.90%	1.70%	4.10%
<b>High Water Mark - Class A</b>	\$60/sf	\$105/sf	\$38/sf
<b>Average Class A Rates</b>	\$42-\$50/sf	\$75-\$85/sf	\$28-\$36/sf
<b>2017 YTD Sale Transactions &gt; \$10M</b>	\$3,949,338,855	\$3,010,753,500	\$751,752,425

SEATTLE      SAN FRANCISCO      PORTLAND



Research & Development Expenditure .....	\$13B
Total Current Assets .....	\$241B

## Employment Information - 9/30/2017

Worldwide.....	125,416
U.S.....	74,191
Puget Sound.....	47,121

## Real Estate Summary - Total Portfolio

Puget Sound Region .....	15 million sf
Other U.S. ....	15 million sf
International.....	18 million sf
<b>TOTAL</b>	<b>48 million sf</b>

## Puget Sound Real Estate

Leased .....	5 million sf
Owned.....	10 million sf
<b>TOTAL</b>	<b>15 million sf</b>

## Eastside Impact on Market Statistics

% of Total Market Incl Leased & Owned .....	30.25%
% of Total Market Leased Space Only .....	9.32%
Market Vacancy Excl all Microsoft Leased Buildings .....	5.78%
Market Vacancy Excl all Microsoft Owned Buildings .....	6.63%
Market Vacancy Excl all Microsoft Leased & Owned Buildings.....	7.51%

## Economic Impacts

- Microsoft has spawned over 250 companies in the Puget Sound Region
- The company has an estimated 3.4 implied employment multiplier, which means it produces over 153K indirect jobs in the region
- Microsoft is estimated to have created over 10K millionaires residing in the Seattle MSA

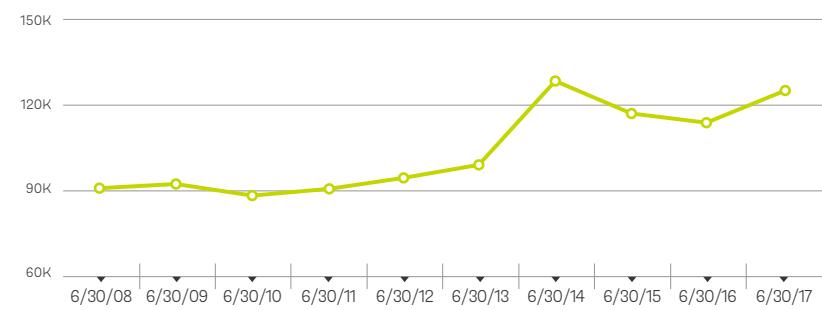
# Microsoft Impact on the Region and the Eastside



### REVENUE AND HEADCOUNT (6/30/17)

Period Ending	Employee Count	Revenue (Billions)	12 Month Growth	Net Income (Billions)	12 Month Growth
6/30/2017	125,416	\$89.95	5.2%	\$21.20	21.9%
6/30/2016	114,074	\$85.32	-8.8%	\$16.79	37.7%
6/30/2015	117,354	\$93.58	7.8%	\$12.19	-44.8%
6/30/2014	128,076	\$86.83	12.3%	\$22.07	-0.2%
6/30/2013	99,139	\$77.31	4.1%	\$22.12	-6.3%
6/30/2012	94,290	\$74.30	6.2%	\$23.60	1.9%
6/30/2011	90,412	\$69.94	11.9%	\$23.15	23.4%
6/30/2010	88,596	\$62.48	6.9%	\$18.76	28.8%
6/30/2009	92,736	\$58.44	-3.3%	\$14.57	-17.6%
6/30/2008	91,259	\$60.42	18.2%	\$17.68	25.7%

### MICROSOFT EMPLOYMENT FIGURES



## MICROSOFT - FOUNDED 1975

Companies directly funded or started from Microsoft related entities or individuals.

### 1975 - 1989

Apex Learning	Asymetrix (Sum Total Systems)	Corbis Helpshare	Vulcan Ventures/Vulcan Capital
---------------	----------------------------------	---------------------	-----------------------------------

### 1990 - 1999

Aditi Technologies	Digital.forest	Microsoft Casual Games	Redmond Technology Partners	TeamOn
Allyis	Directions on Microsoft	Microsoft Game Studios	Sirana Software	Valve Software
Anitian Enterprise	Edifecs	Midstream Technologies	StockCharts.com	Vcustomer
Ascentis Corporation	Expedia	Millisecond Software	Sucker Punch Productions	Vishwak Technologies
Bright Arrow	Kanter Computing	Onyx	Surreal Software	Wild Tangent
Construx Software	Microsoft Alumni Network	Real Networks	Talisma	Zap Spot

### 2000 - 2003

3 Sharp	Group	Edugaming	Phatbits	Solid Documents
Action Engine	Catalytic Software	Ilike	Plexapixel	Spiffcode
Adaquest	Cellartracker.com	Intellectual Ventures	Qualnetics	thePlatform
All Star Directories	Conenza	Lassesen Consulting	Schemelock	UI Evolution
Bubba's Bits	Consera	MAQ Software	SeaDragon	Voicebox Technologies
Bungie Games	Dataweb	Model Minded Software	Shared Media	WebFives/Vizrea
Capital Entertainment	DSIQ	Onetela	Sharedlink	

### 2004 - 2016

110 Consulting	Emptyspaceads.com	Idea Entity	Menuism	Sharplogic Software
Altriva	EyeJot	INRIX	Nervana	Skype
Atigeo	Faves.com	Instacalc	Octoware Technologies	StorSimple
Azaleos Corporation	Fictiv	IT Networks	Ohloh	Strata8 Networks
Bitnik-Picnik.com	Fine Solutions	Jackson Fish Market	Overcast Media	TalentSpring
Blist	Formotus	Jakoba Software	Paperspine	TextPayMe
Blue Vees Software	Fryeball	Jott Networks	Perceptive Pixel	Videosurf
Captive Orbit	Goose Networks	Kineticsware	PhoneFactor	Wishpot
Carbonated Games	Gurugames	Knowledge Mosaic	Pi Corp	Xtreme Consulting
Checkoutmycards.com	Health Unity	Lagotek	Piraeus Data	Yammer
Cozi	Hidden Path Entertainment	Likewise Software	Prodiance	Zumobi
Datacastle	IceBreaker US	MarketingPilot	Sampa	



1975 - 1989



1990 - 1999



1990 - 1999



1990 - 1999



1975 - 1989



1990 - 1999



1975 - 1989



2004 - 2013



Deliveries - 2016.....	748 Planes
Backlog Orders Volume - 2016.....	\$462B
12-Month Change .....	-5.8%

## Employment Information - Q3 2017

Worldwide.....	142,031
Washington State .....	66,242

## Boeing Real Estate Summary (U.S.): Total Real Estate Portfolio by Division - YE 2016

	Owned	Leased	Total
Commercial Planes*	38,108,000 sf	5,042,000 sf	43,150,000 sf
Defense, Space & Security*	28,769,000 sf	7,995,000 sf	36,764,000 sf
Other*	2,082,000 sf	920,000 sf	3,320,000 sf
<b>Total</b>	<b>68,959,000 sf</b>	<b>13,957,000 sf</b>	<b>83,234,000 sf</b>

\*Commercial Planes – Greater Seattle, WA; North Charleston, SC

\*Defense, Space & Security – Los Angeles, CA; Greater Seattle, WA; St. Louis, MO; Philadelphia, PA; San Antonio, TX; Huntsville, AL; Mesa, AZ; Wichita, KS; Houston, TX; Washington, DC

\*Other – Chicago, IL (Corp HQ); Greater Seattle, WA

## Puget Sound Real Estate (Estimated)

LEASED		
Northend .....	800,000 sf	
Seattle/Eastside .....	750,000 sf	
Southend .....	500,000 sf	
	<b>TOTAL</b>	<b>1,550,000 sf</b>

OWNED		
Northend .....	13,400,000 sf	
Seattle/Eastside .....	2,100,000 sf	
Southend .....	7,500,000 sf	
	<b>TOTAL</b>	<b>23,000,000 sf</b>

## Economic Impacts

- Boeing is made up of multiple business units represented in the Puget Sound Region: Boeing Commercial Airplanes (BCA); Boeing Defense, Space & Security (BDS); Engineering, Operations & Technology; Boeing Capital; and Boeing Shared Services Group
- Boeing has an estimated 3.96 implied employment multiplier, meaning it has produced over 285,000 indirect jobs in Washington alone

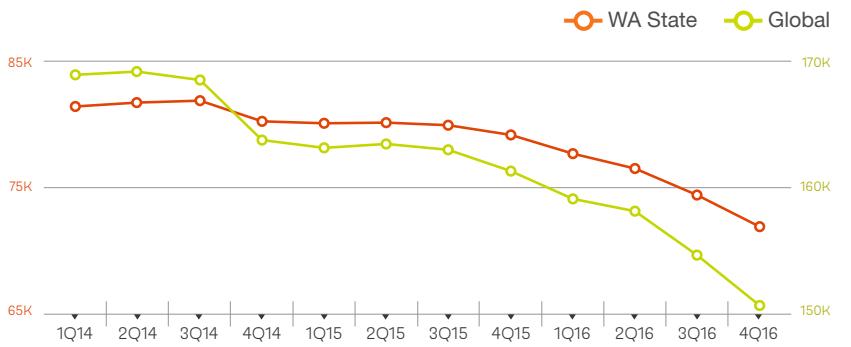
## Boeing Impact on the Region



### REVENUE AND HEADCOUNT (9/31/16)

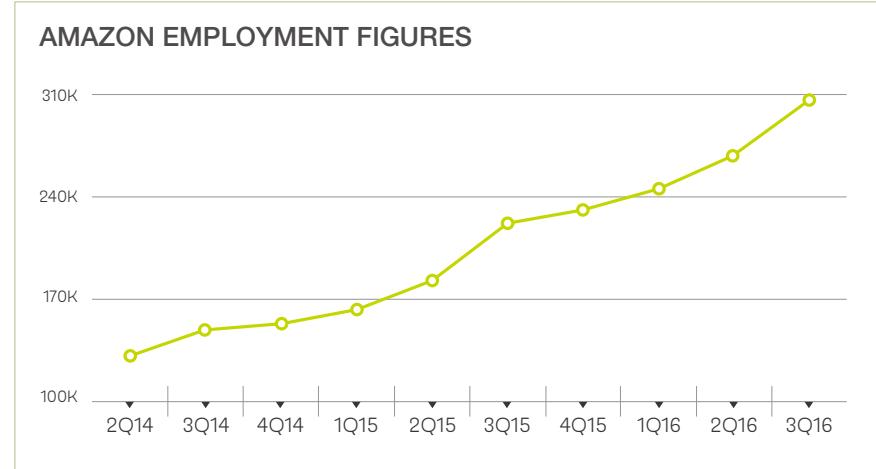
Period Ending	Employee Count (WA)	Revenue (Billions)	12 Month Growth	Net Income (Billions)	12 Month Growth
Q3 2016	74,400	\$23,898	-7.5%	\$2,279	33.7%
Q2 2016	76,551	\$24,755	0.9%	\$(234)	-121.1%
Q1 2016	77,671	\$22,632	2.2%	\$1,694	-20.5%
Q4 2015	79,238	\$23,573	-3.7%	\$1,259	-46.3%
Q3 2015	79,947	\$25,849	10.6%	\$1,704	25.1%
Q2 2015	80,191	\$24,543	11.3%	\$1,110	-32.7%
Q1 2015	80,112	\$22,149	8.2%	\$2,132	123.0%
Q4 2014	80,199	\$24,468	2.9%	\$2,344	90.1%
Q3 2014	81,845	\$23,378	5.6%	\$1,362	17.6%
Q2 2014	81,724	\$22,045	1.1%	\$1,650	51.7%
Q1 2014	81,230	\$20,465	8.3%	\$956	-13.6%

### BOEING EMPLOYMENT FIGURES



# Amazon Impact on the Region

REVENUE AND HEADCOUNT (9/30/16)					
Period Ending	Employee Count	Revenue (Billions)	12 Month Growth	Net Income (Billions)	12 Month Growth
Q3 2016	306,800	\$32,714	29.0%	\$252	219.0%
Q2 2016	268,900	\$30,404	31.1%	\$857	831.5%
Q1 2016	245,200	\$29,128	28.2%	\$513	-1000.0%
Q4 2015	230,800	\$35,747	21.9%	\$482	125.2%
Q3 2015	222,400	\$25,358	23.2%	\$79	118.1%
Q2 2015	183,100	\$23,185	19.9%	\$92	-173.0%
Q1 2015	165,000	\$22,717	15.1%	(\$57)	-152.8%
Q4 2014	154,100	\$29,328	14.6%	\$214	-10.5%
Q3 2014	149,500	\$20,579	20.4%	(\$437)	-965.9%
Q2 2014	132,600	\$19,340	23.2%	(\$126)	-1700.0%



Revenue - Q3 2016 ..... \$32,714B  
 12-Month Change ..... 29.0%

## Employment Information

Worldwide ..... 306,800  
 Puget Sound ..... 35,000 (est.)

## Amazon Real Estate Summary - Total Portfolio

	SF
Owned	4,054,250
Owned - Under Construction	1,100,000
Owned - Proposed	835,000
Leased	5,372,500
Leased - Under Construction	422,000
Leased - Proposed	0
<b>Total</b>	<b>11,783,750 sf</b>
<i>Potential Employee Base (140/SF/Emp)</i>	
	84,170

Total Owned	% of Total	Total Leased	% of Total
5,989,250	50.8%	5,794,500	49.2%

## Economic Impacts

- Since 2008, Amazon has grown from roughly 800K sf to over 9M sf in the Seattle office market
- Employment totals are above 35K
- Since its inception, Amazon has acquired 29 companies, like Zappos.com, and invested in various others

# Kidder Mathews

## Q3 2017 Office Market Review

Vacancies in the Puget Sound region continued to trend downward in the third quarter, falling by 44 basis points to 7.32%. Seattle vacancies were down 26 basis points, to 7.09%. Part of the decline was attributable to the completion of developments that were 96% leased upon delivery, but existing spaces also saw strong leasing activity. Only 30 spaces over 50,000 s.f. are available for lease in the entire Puget Sound region, and only 10 are larger than 100,000 s.f. The largest comprises four floors of the repurposed vintage Macy's department store in Downtown Seattle, where 312,000 s.f. of space is available.

Both vacancy and availability are expected to keep falling, despite ongoing construction that will continue to boost the market's supply. A high volume of tenants in the market portends continued pre-leasing of speculative developments and quick refilling of availabilities in existing buildings.

### MARKET FORECAST TRENDS



Amazon announced their search for a second headquarters (HQ2) that would house 50,000 employees. While the company's specific requirements suggest that Puget Sound is not a likely landing spot, the news was representative of the continued growth of technology companies with a significant presence in the market. Vacancy rates continue to fall across the market, to 7.32% marketwide and 7.09% in Seattle. A vibrant tech sector is driving high levels of new construction, most projects are pre-leased well before delivery. Rent growth in Puget Sound is 3-5% annually, with Class A properties and historic buildings that cater to tech users reporting the largest increases.

### VACANCY

Submarket	Vacancy
Seattle CBD	7.16%
East King County	6.18%
South King County	10.92%
Pierce County	6.86%
Snohomish County	7.78%
<b>Total</b>	<b>7.32%</b>

Source: CoStar Data

## SEATTLE Q3 2017 OFFICE MARKET REVIEW CONTINUED

### Market Demand/Net Absorption

1,526,807sf	664,468sf	800,632sf
OVERALL PUGET SOUND	SEATTLE CBD	EAST KING COUNTY
80,268sf	82,804sf	-101,365sf
SOUTH KING COUNTY	PIERCE COUNTY	SNOHOMISH COUNTY

### Rent Forecast

Most submarkets are experiencing 2-3% rent growth, with the exception of South King County, where rents are essentially unchanged. Regional office rents have risen by 1.8% since the beginning of the year. Pierce County and Snohomish County have seen the largest rental-rate climbs. Tech sector demand continues to put upward pressure on Class A rental rates and on the price tags for more attractive vintage space. The market is forecast to see steady 3-5% annual rent growth in the near term, depending on location and asset class.

### Construction Activity

Approximately 490,000 s.f. of office space was delivered in the third quarter including:

- ▶ **Troy Block North** and **Tilt 49**, Seattle - both leased to Amazon
- ▶ **744 N 34th Street**, Seattle - leased to Tableau
- ▶ **459 Alaska**, Seattle - 57% leased by Saltchuck
- ▶ Amazon's **Centre 425 Tower**, Bellevue

Thirteen buildings totaling 6.92 million s.f. remain under construction in the Seattle market, with 2.7 million s.f. (39%) still available for lease. The 58-story office and apartment component of the Rainier Square redevelopment in Seattle CBD broke ground early in the fourth quarter, with the entire 722,000 s.f. office portion leased to Amazon. Despite the high construction volume, the risk of over-supply is low, because very few of the developments are speculative projects.

### Investment Activity

Office investment was relatively modest this quarter with a total volume of \$533 million. There were only 34 sales overall and only four over \$20 million. The two top sales to the right accounted for almost 60% of the total dollar amount.

There remains more interested buyers than properties for sale in the market, a factor in the well below 5.0% capitalization rates in the top two sales. Suburban properties continue to make up the majority of sales as mid-level buyers are attracted to returns on those properties in the 6% range for seasoned properties. Overall, there is strong investor confidence and interest in the region based on its long-term growth potential and broad-based employment growth.



**NORTHEDGE**  
\$157.85M | Clarion Partners (buyer)



**EXCHANGE BUILDING**  
\$156.5M | Blackstone Group (buyer)

# Kidder Mathews

## Q3 2017 Office Market Review

The Portland office market tightened during the third quarter, as tenants seeking large blocks of space await the delivery of several speculative projects set to come on line next year. Vacancies dropped to a cycle-low 7.4% after 478,730 s.f. of positive net absorption, which pushed the year-to-date gain in occupied office space to 619,168 s.f. Rental rates rose to a market-wide average of \$25.06, fully serviced, with the upper floors of downtown trophies asking in the mid-\$30s or higher. Institutional investors nationwide continue to bet on Portland's premier office assets, and buildings in the sought-after Pearl District are nearing or breaking the market's old price per square foot records.

### Vacancy

Office vacancies in metro Portland fell to 7.4% this quarter, down 40 basis points year over year to a new cycle low. Suburban submarkets were at 6.6% vacancy. All product classes enjoyed absorption gains over the past three months, but Class A properties have fared best over the long run, seeing a 280 basis point drop in vacancy over the past three years. A lag between increasing demand and developers' rush to provide new supply is behind the market's vacancy rate decline. Within the Portland city limits, the Pearl District/Chinatown area is the most rapidly tightening submarket, reporting a 360-point plunge over the past 27 months to around 5%. The trendy neighborhood's creative office offerings make it Portland's most appealing location for growing tech firms.



### VACANCY: DIRECT VS. VACANT

Submarket	Vacancy	
	Direct	Total
Portland CBD	8.8%	9.2%
Clark County	8.6%	8.7%
I-5 Corridor	9.9%	10.3%
Lloyd District	6.1%	6.1%
Northeast	3.0%	3.0%
Northwest	8.7%	8.7%
Southeast	3.3%	3.5%
Southwest	8.2%	8.5%
Westside	4.9%	5.1%
<b>Total</b>	<b>7.1%</b>	<b>7.4%</b>

Source: CoStar Data

# PORLAND Q3 2017 OFFICE MARKET REVIEW CONTINUED

## Rent Forecast

The average asking rent for office space in metro Portland climbed above \$25 per s.f., fully serviced, in the third quarter, a new cycle high. The average is pushed upward by the rates sought by Class A trophy landlords and the developers of buildings under construction, which can reach the mid-\$30s or higher. Based on the current levels of demand for both downtown and suburban office space, these growth rates are forecast to continue in the coming quarters.

### RENTAL RATES

\$25.00/sf	6% annually	4% annually
PORTLAND METRO	PORTLAND METRO RATE GROWTH	SUBURBAN OFFICE RATE GROWTH

## New Construction Activity

Three office buildings totaling 74,815 s.f. were completed in the third quarter, offering nominal supply relief to a tight market. Guerrilla Development's Fair-Haired Dumbbell project at 11 NE MLK Jr. Blvd in the Lloyd District was the largest delivery, adding 46,511 s.f. of inventory. Construction is ongoing on 21 other office projects that will add approximately 3.4 million s.f. of space to the market upon delivery, but the Nike North Expansion in Beaverton accounts for 1.2 million s.f.. Portland's largest future downtown availabilities are in the 177,800 s.f. Broadway Tower and the 202,168 s.f. 9North building, both of which will come on line next year with asking rents between \$31-\$37 NNN. The Field Office complex in Guilds Lake is the largest speculative development project outside of the CBD, with 330,000 s.f. available upon delivery in early 2018.

## Market Demand / Absorption

Third-quarter net absorption was positive 403,610 s.f., bringing the year to date gain to 422,632 s.f.. Downtown Portland enjoyed 72,309 s.f. of positive net absorption, led by Elemental Technologies' 100,106 s.f. occupancy at 1320 SW Broadway. Suburban submarkets saw 403,610 s.f. of positive net absorption. All product classes reported absorption gains over the past three months, paced by Class A properties, which added 251,982 s.f.. Portland CBD has seen 248,602 s.f. of positive net absorption this year, outperforming the previous two calendar years, as demand for office space in the market continues to exceed supply.

## Investment Activity

The price per s.f. record for Portland office real estate was broken in the third quarter in the sale of the new Pearl West office building from BDC Advisors to LaSalle Investment Management. The Chicago-based buyer paid \$87.5 million for the 155,465 s.f. asset, which comes out to \$563/sf. Pearl West is a steel and glass structure built in 2016; it was 89% occupied at sale, and the leading tenant was the tablet-maker Wacom Technology Corporation, which occupies 53,000 s.f. on the top three floors. The Pearl West sale reflects the power of the technology sector to rapidly boost real estate values in neighborhoods with the building stock that creative users seek.

Overall, third-quarter sale activity this quarter totaled 54 transactions and 862,447 s.f. while the average price soared to \$356/s.f.. Metro Portland office sales have amassed more than \$900 million year to date, making 2017 the market's second-most productive year by that measure. The average price per s.f. has climbed to \$317 in transactions completed this year, up from \$243 in 2016. Cap rates on office investments continue to average between 6-6.5%.

# Kidder Mathews

## Q3 2017 Office

### Market Review

#### Vacancy

Spokane's direct office vacancy rate fell to 8.9% in the third quarter, down 70 basis points from the second quarter and 50 basis points year over year. Available space totaled 2.09 million s.f., down from 2.31 million s.f. in the third quarter of 2016.

Spokane CBD, which accounts for nearly 30% of the market's office inventory, reported 9.6% vacancy at the end of the third quarter, up 40 basis points year over year. South Hill was the tightest of the core office submarket clusters, at 4.0% vacancy, followed by SE North Metro, at 5.3%. The Valley cluster, which contains approximately 24% of the office product in the Spokane metro area, reported 12% vacancy, but has tightened rapidly since the fourth quarter of 2016, when it was 15.3% vacant.

#### MARKET FORECAST TRENDS



The Spokane office market has tightened over the past few years as a result of strong absorption gains and limited construction activity. Rental rates continue to trend upward, but at a slower pace than in past quarters. Sale activity is the market's clearest positive indicator, with sales volume poised to set a new cycle high in 2017. Although recent absorption gains are indicative of economic strength, demand for office space in Spokane is constrained by its regional nature, appealing mainly to existing tenants rather than drawing newcomers from other markets.

#### VACANCY

County	Vacancy
NE North Metro	11.0%
NW North Metro	9.2%
Outside Metro North	0.0%
SE North Metro	5.3%
South Hill	4.0%
Spokane CBD	9.6%
SW North Metro	7.8%
Valley	12.0%
West Plains	9.0%

Source: CoStar Data

# SPOKANE Q3 2017 OFFICE MARKET REVIEW CONTINUED

## Rent Forecast

Office rental rates in metro Spokane are up 0.2% year over year, holding steady despite the market's absorption gains and decreasing vacancy, and lagging behind national office rate growth trends. Rates have plateaued in virtually all submarket clusters, averaging \$15.61 fully serviced marketwide. The South Hill submarket has the highest asking rents in metro Spokane, outpacing the market average by 8.5%, at \$16.93.

### RENTAL RATES

\$19.83/sf	\$14.85/sf	\$17.39/sf
CLASS A	CLASS B	CLASS C

## New Construction Activity

No new spaces were completed during the third quarter, and Spokane has only seen 155,000 s.f. of office deliveries since the middle of 2014. Only one office building was under construction during the third quarter, an 11,710 s.f. Class B medical office facility in West Plains, set for delivery in the fourth quarter. The other office deliveries in the past three years were all build-to-suit projects that had minimal impact on vacancy.

## Market Demand / Absorption

Spokane office properties saw 138,982 s.f. of positive net absorption during the third quarter, bringing the year-to-date gain to 216,417 s.f. Absorption activity is primarily driven by the expansion of

existing tenants, with negligible demand generated by inbound firms. Employment growth is concentrated in two major industries—Government, and Education and Health Services—which employ approximately 40% of metro Spokane's labor force.

The largest office tenants in Spokane are Comcast, Key Tronic Corporation, and the Department of Social and Health Services. This quarter's largest lease was signed by Umpqua Bank, a Portland-based financial institution that renewed its 17,538 s.f. in Spokane CBD.

## Investment Activity

Office sales in metro Spokane have reached a cycle high in 2017, totaling \$92.3 million in dollar volume through three quarters, after \$65.2 million of office real estate changed hands in all of 2016. Two healthcare investors, MultiCare Health System as the buyer and Community Health Systems as the seller, accounted for more than half of the year's activity with a \$49 million portfolio sale in June.

The average price per square foot for Spokane office assets sold this year is \$110 while the median is \$111, indicating that most transactions are close to the mean with few notable outliers. Average cap rates have trended downward, from 7.8% in 2016 to 7.2% this year. The decrease in cap rates reflects the relative safety of Spokane office investments, because of rising demand from local tenants and stable supply.

# Kidder Mathews

## Q3 2017 Retail

### Market Review

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. The most the third quarter saw was slight negative 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, increasing labor costs, and interest rate increases.

#### Vacancy

In the 3rd quarter, the direct vacancy rate increased 15 bps from 3.79% to 3.94%. 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 slightly from 4.64% to 4.65% and is down from the peak in the 4th quarter 2010 at 8.00%.

King County is strong. Pierce, Snohomish, and Thurston Counties are stabilized, while Kitsap County is the softest market. Vacancy is concentrated in less functional properties, usually vacant anchors. There are 15 properties with 50,000 s.f. or more vacant, up from 12 such properties in the 2nd quarter. These represent just 0.6% of the regional inventory but 13.3% of vacancy. Many chronic vacant spaces are redevelopment candidates.



#### VACANCY: DIRECT VS. VACANT

County	Vacancy	
	Direct	Total
King County	2.84%	4.02%
Kitsap County	6.28%	7.86%
Pierce County	4.31%	5.82%
Snohomish County	4.46%	5.16%
Thurston County	4.14%	5.16%
<b>Total</b>	<b>3.74%</b>	<b>4.65%</b>

Source: CoStar Data

# SEATTLE Q3 2017 RETAIL MARKET REVIEW CONTINUED

## Rent Forecast

Regionally, asking rents for direct vacancy increased 4.3% year-over-year. With regional vacancy below 4% and below 3% in the largest market of King County, there is upward pressure on rates except for the lowest quality segment.

### NNN RENTAL RATES

\$40-\$80/sf	\$30-\$50/sf	\$20-\$40/sf
SEATTLE CBD	SEATTLE MIXED-USE	SEATTLE SUBURBAN

## 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. Mixed-use development is also active around the region. Activity includes:

- ▶ Phase I of the **Village at Totem Lake, Kirkland** with Whole Foods, Nordstrom Rack, Ross, and Trader Joe's as anchors
- ▶ Fred Meyer-anchored **Olympic Towne Center, Gig Harbor**
- ▶ Costco-anchored **Mountain View Marketplace, Bonney Lake**
- ▶ **Seattle University Village** expansion

## Market Demand/Net Absorption

Net absorption has been positive for five years straight. Year to date 2017 absorption is 808,812 s.f., including negative absorption of 165,313 s.f. in the 3rd quarter.

In 2017, we have seen repositioning and/or closures of Macy's, Sears, and Kmart stores across the region. Several former Kmart stores already comprise a significant share of the regional vacancy.

Walgreens is now buying 2,186 Rite Aid stores, about 60% of Rite Aid's total. This is likely to result in fewer closures in Washington. Amazon's purchase of Whole Foods is an extension of Amazon into multi-channel retailing and a more direct threat to other food store chains.

## Investment Activity

The Federal Reserve policy is impacting lending rates and therefore cap rates. The average ten-year loan is up 50 bps over the last 12 months. 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 co-tenancy clauses.

The average cap rate in PwC's 3rd quarter investor survey has increased 18 bps year-over-year for regional malls. By comparison, the average cap rates for power centers and strip retail are down 5 bps year-over-year.



**COMMONS AT FEDERAL WAY**  
\$46M | Merlone Geier (buyer)



**EVERETT MALL**  
\$36M | Brixton Capital (buyer)

# Kidder Mathews

## Q3 2017 Retail

### Market Review

Brick-and-mortar retail continues to shift rapidly in the Amazon era. While long-standing chains like JC Penney, Radio Shack, and Gymboree are cutting their presence in malls nationwide, boutique gyms, shared food halls, and other new forms of retail are populating city streets. Metro Portland experienced 127,154 s.f. of negative net absorption during the third quarter, as leasing activity slowed during the summer months, lifting vacancies to 4.3%. The market is expected to rebound during the coming holiday season, with consumer confidence reaching a 16-year high during the month of July, suggesting an uptick in retail sales ahead.

Rental rates continue to average around \$19 NNN market-wide, though desirable offerings in Portland CBD and the Lloyd District can exceed \$25 NNN. Investors remain bullish on the long-term performance of Portland's retail assets, trading shopping centers in the area for \$180-200/s.f. and single-tenant buildings with well-known chains at cap rates around 5%.

Retail properties experienced 127,154 s.f. of negative net absorption during the third quarter, though vacancies were unchanged year over year at 4.3%. Most move-outs were the result of long-standing, traditional companies contracting their operations, as they try to adapt to the new retail landscape. Value Village shuttered its 23,474 s.f. store in the Clackamas/Milwaukie submarket, contributing to 52,125 s.f. of negative net absorption in the Southeast area. Gymboree will close two stores in greater Portland, at Clackamas Town Center and at Streets of Tanasbourne, after filing for bankruptcy earlier this year.

#### MARKET FORECAST TRENDS



#### MARKET BREAKDOWN

	Q3 2017	Annual % Change
Vacancy Rate	4.30%	0.00%
Availability Rate	5.10%	0.00%
Asking Lease Rate	\$18.96	5.70%
Leased SF	355,103	-37.00%
Sold SF	1,224,658	15.40%
Net Absorption	-127,154	N/A

Source: CoStar Data

## PORLAND Q3 2017 RETAIL MARKET REVIEW CONTINUED

### LEASING ACTIVITY

101	355,103 sf	\$18.96
TRANSACTIONS	SEATTLE MIXED-USE	AVG RENTAL RATE

The usual summertime slowdown limited leasing activity in metro Portland to 101 transactions totaling 355,103 s.f. In the largest individual deal, the Asian grocer H MART signed a 15-year lease for 21,124 s.f. on the ground floor of the Belmont Dairy Building, at 3301 SE Belmont Street. Scheduled to open in early 2018, the Southeast Portland location will be H MART's fourth Oregon store and will refill the space vacated by Zupan's. Meanwhile, the rapidly growing gym chain Orange Theory Fitness added two future metro Portland spots to its roster, which will bring its total in the area to 11. Orange Theory leased 4,611 s.f. on the ground floor of the newly renovated Leland James Center at 1621 NW 21st Avenue in the Slabtown neighborhood of Portland, and another 2,900 s.f. at 13428 Colton Place in Oregon City. On the restaurant side, the southern soul food eatery Sweet Jam opened its second location at 5237 NE MLK Jr. Blvd in Northeast Portland, as several other local restaurateurs sought expansion opportunities in the city.

### Investment Activity

Retail investment volume, by square footage sold, soared to 1,224,658 s.f. during the third quarter, its highest point since the second quarter of 2013. That surge was driven mainly by the sale of the 732,542 s.f. Jantzen Beach Center, from EDENS, Inc. to New York-based Kimco

Realty Corporation, which owns eight other strip-mall properties in the region. While metro Portland's indoor malls have stumbled amid the nationwide decline in retail, the open-air Jantzen Beach Center was 96% occupied at sale, attaining a 5.4% cap rate on the \$131.75 million (\$180/s.f.) purchase price. The regional mall sits on 67 acres that Kimco noted could one day be converted to office or apartment use. Single-tenant properties with nationally known tenants also remain a hot commodity, highlighted by the sale of the Popeye's restaurant at 5949 NE MLK Jr. Boulevard in Portland for \$2.88 million or \$1,098/s.f., underwritten at a 5% cap rate. Overall, the median sale price this quarter fell to \$180, as larger shopping centers comprised the bulk of the transaction volume, after single-tenant properties dominated activity earlier in the year.

### Construction Activity

Seventeen retail developments totaling 510,469 s.f. were under construction at quarter's end. Activity includes:

- ▶ Building 1 of Phase 1 at **Cedar Hills Crossing II** in Beaverton, where 128,658 s.f. of space is underway, with delivery set for the second quarter of 2018
- ▶ Restoration Hardware is awaiting a fourth-quarter 2017 delivery on its 36,000 s.f. project at **2280 NW Glisan Street in Nob Hill**
- ▶ Natural Grocers store at **5029 NE MLK Jr. Boulevard** is underway and on track for completion in the summer of 2018
- ▶ 24 Hour Fitness gym at **Gladstone Crossing** in the Clackamas/Milwaukie submarket will open by year's end

# Kidder Mathews

## Q3 2017 Retail

### Market Review

Vacancies have risen modestly over the past 12 months in the Spokane retail market, but are well below their cycle peak, because construction has not kept up with absorption gains. Rental rates remain below their pre-recession highs, but have grown steadily over the past year. Investment activity is dormant, and the area's largest retail assets have not generated much interest among institutional investors, tempering transaction volume. The median household income in Spokane is \$49,000, 16% below the national median, and the metro's economic indicators cannot support high-end retail.

#### Vacancy

Retail vacancies in metro Spokane have increased by 60 basis points year over year, to 4.9% in the third quarter of 2017, but are well below the cycle highs recorded in 2012. Approximately 1.71 million s.f. of retail space was available at quarter's end, up from 1.55 million s.f. at the same time in 2016.

The Valley submarket cluster, which is Spokane's largest with more than 12.8 million s.f. of retail inventory, reported 4.0% vacancy at the end of the third quarter, 90 basis points below the market's average. NE North Metro had the most vacant space, at 8.3%, followed by West Plains, at 7.5%. South Hill was the tightest of the large retail submarkets, with 3.6% total vacancy and only 1.7% direct vacancy. Most Spokane submarkets have enjoyed vacancy declines over the past several years, with absorption outpacing new construction.

#### MARKET FORECAST TRENDS



#### VACANCY: DIRECT VS. VACANT

County	Vacancy	
	Direct	Total
NE North Metro	8.30%	8.30%
NW North Metro	3.60%	3.60%
Outside Metro North	7.20%	7.20%
Outside Metro South	2.40%	2.40%
SE North Metro	4.20%	4.30%
South Hill	1.70%	3.60%
Spokane CBD	3.80%	3.80%
SW North Metro	5.30%	5.50%
Valley	4.00%	4.00%
West Plains	7.50%	7.50%
<b>Total</b>	<b>4.70%</b>	<b>4.80%</b>

Source: CoStar Data

## SPOKANE Q3 2017 RETAIL MARKET REVIEW CONTINUED

### Rent Forecast

Metro Spokane's average retail asking rent was about 7% lower than the area's pre-recession peak. Malls in the area remain exceedingly tight, and the few spaces that are available are listed at nearly double the market's overall mean. After growing by an average of 2% annually from 2014-2016, retail rents have inched up by 1.5% over the past 12 months.

### LEASING ACTIVITY

\$12.23/sf	\$24.00/sf	1.5%
AVG NNN RENTAL RATE	AVG MALL RENTAL RATE	RETAIL RENT INCREASE

### Construction Activity

Retail development activity in Spokane is quiet, with no noteworthy deliveries through three quarters of 2017. Approximately 32,000 s.f. of retail space was under construction at the end of the third quarter. The slowdown in development comes on the heels of about 145,000 s.f. of deliveries in 2016, and may signal developers pumping the brakes after discouraging absorption of the speculative projects that have come on line. Developers are now awaiting anchor tenant commitments before beginning construction.

### Market Demand / Net Absorption

Net absorption during the third quarter was positive 69,126 s.f., but the market has seen approximately 184,000 s.f. of negative net

absorption year over year. Those losses were concentrated in the first quarter of 2017, when the grocery store chain Albertsons closed two locations. Overall, metro Spokane has reported retail absorption gains in 16 of the past 19 quarters, adding more than 1 million s.f. of occupied retail space since the beginning of 2012, despite only 328,000 s.f. of new deliveries.

Speculative retail developments built over the past two years have seen mixed results. The Matilda Building, a 57-unit multifamily development with 18,000 s.f. of ground floor retail, has struggled to secure tenants for more than half of that space. On the other hand, Peppertree Plaza, a 15,000 s.f. strip center in Spokane CBD, was fully leased shortly after delivery.



**PEPPERTREE PLAZA**  
Spokane CBD | 15,000 s.f.

### Investment Activity

Retail sales volume in Spokane has fallen dramatically. After cresting at \$133 million in dollar volume in 2015, the market saw \$93.8 million in retail sales last year, and \$37.2 million through three quarters of 2017. Institutional investors' interest is tempered by middling economic conditions that trail the national averages.

The average price per s.f. for Spokane retail investments has jumped from \$123 in 2016 to \$173 this year. Cap rates typically range between 6% and 7%, but also vary widely. Single-tenant buildings with nationally known retailers, such as a NNN-leased Starbucks in Spokane CBD, continue to achieve sub-5% cap rates, while larger shopping centers with significant vacancies can come in above 8%.

# Kidder Mathews

## Q3 2017 Industrial

### Market Review

The region's industrial market continues to be active, although net absorption was lower this quarter compared to the first two quarters. Development activity remains strong with nearly 6.4M s.f. under construction, and another 4.8M s.f. that has been completed through the first nine months. Net absorption in the third quarter was positive at nearly 500K s.f. Vacancy inched up to 3.30% from 3.16%. Absorption is expected to remain positive as nearly 1.7M s.f. of signed leases should take occupancy over the next six months. 13.2M s.f. is in the pipeline.

The Puget Sound economy had slowed down in the second half of 2016 and the forecast was for a lower growth of 1.9% in 2017. However, through August, the year-over-year growth totals 55,100 new jobs, an increase of 2.7%. The sectors that influence the industrial market that have grown include wholesale trade, construction, and transportation & warehousing, which help offset losses in manufacturing. The losses in manufacturing are primarily from the aerospace area as Boeing overall has trimmed 10,600 jobs recently. While a recession is inevitable, indications are that 2017 and 2018 will still be positive.

Sales activity through the first nine months of 2017 has been slower with 154 sales totaling \$657.4 million. This compares to nearly \$1.5 billion (268 transactions) sold in 2016. The average cap rate on all sales year-to-date 2017 is 6.40%.

#### MARKET FORECAST TRENDS



#### VACANCY

Market	Vacancy
Seattle CBD	1.79%
Eastside	3.64%
South King County	3.74%
Snohomish County	3.81%
Pierce County	3.46%
Thurston County	2.78%
<b>Total</b>	<b>3.30%</b>

Source: CoStar Data

# SEATTLE Q3 2017 INDUSTRIAL MARKET REVIEW CONTINUED

## Vacant Space / Vacancy Rate

A total of 1,007,043 s.f. was delivered in the 2nd quarter. With positive net absorption of just under 500,000 s.f., the region's vacancy increased slightly over the past quarter from 3.16% to 3.30%, still well below the 5.0% benchmark. There are several recently signed leases with targeted move-in dates later on in 2017 and early 2018, which will help keep vacancy in check.

## New Construction Activity

24 buildings totaling nearly 6.4 million s.f. are under construction. About 19% of this space is pre-leased or owner-user facilities. Pierce County is the most active at 4,053,559 s.f., followed by South King with 1,490,146 s.f. Seattle close-in has one project (589,615 s.f.).

## Average Asking Rents

\$0.90-\$1.60/sf	\$0.75-\$0.95/sf	\$0.68/sf
SEATTLE CBD	EASTSIDE	S KING COUNTY
\$0.94/sf	\$0.35-\$0.55/sf	\$0.38-\$0.40/sf
SNOHOMISH COUNTY	PIERCE COUNTY	THURSTON COUNTY

## Market Demand / Absorption

Absorption is positive at 498,636 s.f. for the 3rd quarter, with three of the six submarkets achieving positive results. Pierce County and Thurston County led the way and helped offset negative absorption in Seattle, South King, and East King County. Several leases have been signed with the tenants expected to take occupancy over the next six months.

## Development News / Significant Transactions

Notable projects under construction include:

- ▶ **Prologis Park Tacoma** Buildings A & B (241,140 s.f. & 770,195 s.f.) are nearly complete
- ▶ **IPT Tacoma Logistics** Buildings A & B (286,525 s.f. & 837,620 s.f.); expected delivery 2nd quarter 2018
- ▶ **DCT Blair Logistics** Buildings A & B (542,750 s.f. & 428,228 s.f.); expected delivery 2nd quarter (Building A) 4th quarter 2018 (Building B)

Notable sales over \$10 million include:

- ▶ **Bridge Pointe Burien** sold for \$57.5M (\$238/s.f.); buyer is Bentall Kennedy and seller is Bridge Development Partners out of Chicago
- ▶ **Meridian Campus Corporate Park** sold for \$42.1M (\$92/s.f.); buyer is Dermody Properties and the seller is FirstCal Industrial
- ▶ **Market Street Center** sold for \$24.9M (\$374/s.f.); buyer is Kurt O'Brien and seller is Goodman Real Estate

Notable leases include:

- ▶ **Amazon** (401,076 s.f.) at Sumner Corporate Park, Rainier Building
- ▶ **Holman Distribution** (204,000 s.f.) renewal at Northwest Corporate Park, Building C
- ▶ **Alliance Door Products** (118,192 s.f.) at Chinook Building in Sumner

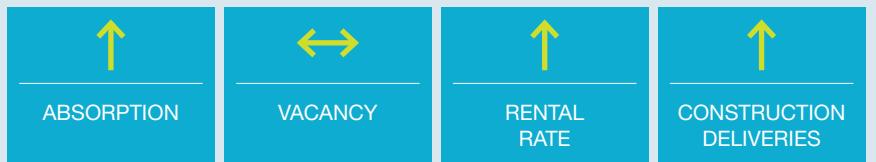
# Kidder Mathews

## Q3 2017 Industrial Market Review

Strong demand continued during the quarter as vacancies remained at or near cycle lows and rental rates rose to new highs. The past three months saw metro Portland's year-to-date absorption increase in occupied industrial space to 2.36M s.f., ahead of the market's 2.07M s.f. of new deliveries in that span. With demand for space still ahead of supply, rental rates ticked up to \$0.63/s.f. on a blended NNN basis. Continued rent growth and low vacancies contributed to robust investment sale activity, as higher-end assets traded for well over \$100/s.f. with cap rates below 5%. More than 3.3M s.f. of industrial space was under construction at the end of the quarter.

Industrial vacancies in metro Portland held at 3.4% this quarter, as construction deliveries began catching up to users' demand for space. Of the market's core industrial areas, Sunset Corridor/Hillsboro was the tightest, at just 1.0% vacancy, while Northeast Portland had the highest share of empty space, at 5.1%. Properties smaller than 200,000 s.f., which represent 76% of the market's inventory, reported a 2.7% vacancy rate for the second consecutive quarter. Large buildings above that size threshold have seen their vacancies fall 160 basis points since the start of 2017, from 5.8% to 4.2%, a three-year low. Southeast Portland, a 30.6 million s.f. submarket cluster, has seen its vacancy rate cut in half, from 3.4% to 1.7%, since the second quarter of 2016. Only 255,120 s.f. of industrial space has been delivered in that area over the past four years.

### MARKET FORECAST TRENDS



### MARKET BREAKDOWN

	Q3 2017	Annual % Change
Vacancy Rate	3.4%	-5.7%
Availability Rate	5.9%	9.8%
Asking Lease Rate	\$0.63	16.7%
Leased SF	2,037,856	-42.0%
Sold SF	1,308,365	45.6%
Net Absorption	827,103	N/A

Source: CoStar Data

## PORLAND Q3 2017 INDUSTRIAL MARKET REVIEW CONTINUED

### Market Demand / Absorption

The Portland market recorded 790,563 s.f. of positive net absorption during the third quarter, bringing the year-to-date gain in occupied industrial space to 2.36 million s.f. I-5 Corridor properties accounted for nearly 47% of the occupancy gains over the past three months. Clark County saw 193,859 s.f. of positive net absorption this quarter. The East Columbia Corridor had the quarter's biggest absorption loss, as RR Donnelley left the Halsey Corporate Center, placing the entire 260,000 s.f. building on the market for sublease.

### Leasing Activity

Ninety-four industrial leases were signed in metro Portland this quarter, with 1,001,837 s.f. coming off the market. These include:

- ▶ ESS Tech, Inc. took 103,805 s.f. in Building B at the **Parkway Woods Business Park in Wilsonville**
- ▶ DHL retained 80,850 s.f. at **15509-15613 NE Airport Way in the East Columbia Corridor**

Marketwide industrial asking rents climbed to \$0.63/s.f. on a blended NNN basis, or approximately \$0.60/s.f. on the shell and \$0.90/s.f. on the office, assuming a 10% office average. Newer Class A industrial product asking rates for spaces under 100,000 s.f. are between \$0.60-\$0.65/s.f. on the shell with \$0.90 office surcharges, while larger spaces over 100,000 s.f. are achieving \$0.52-\$0.56/s.f. shell rents. Rates have increased by approximately 17% year-over-year, and by 10% over the past six months. Class B industrial business park spaces are averaging \$0.52-\$0.55/s.f. shell rates for smaller spaces or superior locations, and \$0.47-0.50/s.f. shell rates for spaces in older buildings or in less desirable areas. The highest rents are being achieved in the Southeast submarkets, as most availabilities there are in newer buildings.

### Investment Activity

1,308,365	\$137M
SF INDUSTRIAL PROPERTIES SOLD	SALE VOLUME
5-6%	\$105
AVERAGE CAP RATES	AVERAGE PRICE PER SF

- ▶ WPT Industrial REIT acquired the **Interstate Crossroads Distribution Center** from Specht Development for \$56M or \$114/s.f., underwritten at a 4.8% cap rate
- ▶ Ivanhoe Cambridge acquired the **Wilsonville Corporate Center** as part of a 157-property national portfolio; \$26.7M was allocated for the three buildings which came out to \$132/s.f.
- ▶ Lithia Motors spent \$11.1M or \$116/s.f. on the **Terminal 1 building at 2400 NW Front Avenue in Guilds Lake** from the City of Portland

# Kidder Mathews

## Q3 2017 Industrial

### Market Review

Industrial and warehouse product in Spokane continues to perform well. The market reported a 2.2% vacancy rate during the quarter, and rental rates have risen in response to strong absorption activity and stable supply. Spokane's logistics facilities are coveted for their multi-modal transportation accessibility. While an increase in federal defense spending could benefit the Spokane industrial market, significant further expansion is unlikely. Industrial sectors have seen virtually no job growth over the past six months.

#### Vacancy

Spokane's industrial market has tightened over the past 36 months, with more than 1M s.f. of positive net absorption far eclipsing the roughly 170,000 s.f. of new construction over that period. Much of that expansion occurred between the fourth quarter of 2015 and the second quarter of 2016; however, the vacancy rate is unchanged year-over-year at 2.2%.

Industrial properties are largely concentrated in the Valley and SE North Metro submarkets, which together account for more than 75% of the market's inventory. Spokane Valley reported a 2.8% vacancy rate in the quarter, while SE North Metro was at 2.3%. Other areas have practically no empty industrial space: The NE North Metro submarket, which holds more than 3.5M s.f., was just 0.2% vacant. All Spokane submarkets were below 3% vacancy at the end of the quarter.



#### VACANCY: DIRECT VS. VACANT

County	Vacancy	
	Direct	Total
NE North Metro	0.20%	0.20%
NW North Metro	0.00%	0.00%
Outside Metro North	0.00%	0.00%
Outside Metro South	2.30%	2.30%
SE North Metro	0.00%	0.00%
South Hill	1.10%	1.10%
Spokane CBD	1.30%	1.30%
SW North Metro	2.60%	2.80%
Valley	1.20%	1.20%
West Plains	2.10%	2.20%
<b>Total</b>	<b>4.70%</b>	<b>4.80%</b>

Source: CoStar Data

# SPOKANE Q3 2017 INDUSTRIAL MARKET REVIEW CONTINUED

## Rent Forecast

The average asking rate for industrial product in metro Spokane was up approximately 8% year-over-year. Rents are trending upward due to lack of availabilities, a product of limited construction deliveries and comparatively strong absorption.

### NNN RENTAL RATES

\$0.52/sf	\$0.45/sf	2 - 4%
AVERAGE INDUSTRIAL SPOKANE METRO	BULK WAREHOUSE 50K+ SF	PROJECTED ANNUAL RENT INCREASE

## Construction Activity

Despite Spokane's low industrial vacancy rate and steady rent growth, development activity in the last four years has been inconsequential. Only 102,000 s.f. of industrial product has been delivered since the beginning of 2016, and only 152,500 s.f. was under construction at the end of the quarter. The ongoing construction projects are at Playfair Commerce Park in SE North Metro, where all but 14,000 s.f. of the space has been preleased.

## Market Demand / Net Absorption

Net absorption for Spokane industrial properties was positive 74,056 s.f., including positive 47,301 s.f. in warehouses. These gains balanced negative absorption during the second half of 2016, leaving the market's volume of occupied industrial space virtually unchanged year-over-year.

Limited availabilities and only modest inbound demand have kept leasing activity below 250,000 s.f. in each of the last 10 quarters. Most of the demand in the market is for smaller and midsize offerings between 5,000 and 20,000 s.f., with Spokane metro averaging only one lease larger than 20,000 s.f. per quarter over the last year. The Valley and SE North Metro submarkets saw the vast majority of the midsize and large transactions.

## LARGEST TENANTS IN NEW SPACES



## Investment Activity

The Spokane industrial market averages approximately 40 transactions per year. Most large sale transactions in Spokane are owner/user sales, and only six of the 37 sales in the year-to-date were classified as investments. The average price per s.f. on sales in the year-to-date is \$57 and the median is \$53. Investment sales are being underwritten at cap rates between 7-8%, down from 8-9% in 2015-2016.

In this year's biggest deal by dollars spent, a sawmill machinery manufacturing plant in the Valley submarket traded for \$44/s.f. to a new owner/user. The largest investment concerned a three-property complex in NE North Metro that was traded among individual investors for \$53/s.f. Spokane industrial properties have not generated much interest from institutional investors or buyers outside the region.

# Kidder Mathews

## Q3 2017 Multifamily Market Review

Regional apartment market vacancy rate is currently 3.9%, well below the 20-year average of 4.9%. Vacancy last peaked at a rate of 7.2% in Fall 2009 as the recession was fully felt. Occupancy increased ever since, with vacancy oscillating from 3.3% to 4.0% over the past four years as consistent demand has nearly matched the significant amounts of new inventory. Rental rates are at historic highs, but the rate of increase has moderated in the close-in markets. Some suburban markets are seeing increased rent growth as they started their recovery later.

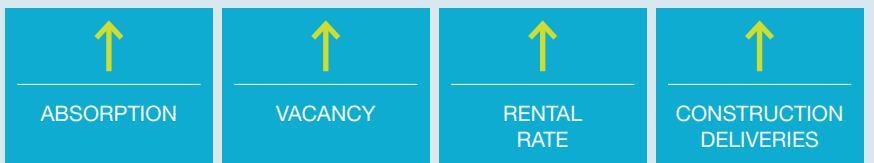
### Vacancy

According to Dupre+Scott, the regional vacancy rate is estimated at 3.9%, up from 3.4% in spring 2017, the first indication of a leveling of the landlord/tenant balance. This rate is a measure of “market” vacancy that excludes projects in lease-up or undergoing significant renovation. Including these units, the “gross” market vacancy is 5.4%.

### Rent Rate Trends

Over the past 12 months the average regional rent increased from \$1,420 to \$1,531 (7.8%). The King-Central sub-region has the highest overall rent in the region, averaging \$1,964/mo, up 6.6% over the past year. The King-Eastside sub-region has the second highest overall rent, averaging \$1,910/mo, up 5.6%. A portion of the increase is attributed to the higher prices of new units delivered over the past three years.

#### MARKET FORECAST TRENDS



### MARKET TRENDS

	Current
Vacancy	3.9%
Est Current Units Under Construction	28,321
Average Rental Rate (All Ages)	\$1,531

Source: Dupre+Scott

# SEATTLE Q3 2017 MULTIFAMILY MARKET REVIEW CONTINUED

## Current Inventory / Supply

Currently there are an estimated 288,528 market rate units in complexes with 20 or more units in the five-county region. King County has the largest share of the inventory at 64.1%.

Projected new construction over the next five years would increase inventory by 26.2%, compared with job growth of 7.5%, it is obvious that vacancy will increase. Partially offsetting new construction is the loss of some apartment units demolished or converted to another use, most often to condominiums for sale. The future loss to demolition or conversion is expected to be limited as most obvious under-utilized properties have already been replaced and construction defect, financing and renters-rights laws make conversion much more difficult (and expensive).

## Projected Future Supply

As apartment construction became feasible, developers looked for sites already entitled with plans that could beat the competition to market. That window has now closed and buyers are willing to entitle their own sites as they look past the peak in 2018-19. Of the 73,149 units planned for delivery over the next five years, 63,762 units (87.2%) are located in King County; 40,837 units (55.8% of the region) are in the Seattle sub-region; defined as the King-Central and King-North markets.

## UNIT DELIVERIES (PROJECTED)

14,145	14,918	19,988	16,462
2017	2018	2019	2020

## Estimate of Future Apartment Demand

The primary demand driver for apartment units is population growth which is mostly supported by employment growth. The apartment/job ratio has gradually declined over the past nine years as fewer households are buying homes, either by choice or due to prices jumping up in close-in neighborhoods and financing being more difficult to obtain with large down payment requirements. The downward trend in homeownership may slow, with acceleration occurring when interest rates increase.

## Investment Activity

Total sales volume for 2017 should land close to the long-term average around \$3B. All investor classes remain interested in the market which has strong fundamentals with broad-based job growth and barriers to entry that limit new construction. Local individuals and partnerships have been very active in the number of sales in secondary and small to mid-sized markets, prompted by attractive lending terms on these types of assets, and improved confidence in and diversification into real estate by investors. The average 2017 year-to-date cap rate has dropped to 4.9%, which is somewhat surprising given gradually slowing rent growth and increasing operating expenses.



**VENN AT MAIN**  
\$176.5M | 350 Units



**HADLEY**  
\$95.8M | 209 Units



**BRIDGES @ 11TH**  
\$64.4M | 184 Units

## PUGET SOUND EMPLOYMENT FIGURES

2.2M  
JOBS FOR YE17

282,400  
OCCUPIED  
UNITS

1/7.8  
UNIT TO JOB  
RATIO

# Kidder Mathews

## Q3 2017 Multifamily

### Market Review

Strong demand for housing in the Portland metro area kept rental rates and sale prices trending upward. Overall vacancies increased 36 bps over the past six months, to 4.37%, but rental rates rose to a marketwide average of \$1.57/s.f. The market's development pipeline reached 30,000 units during the quarter, and 2017 should be a record-setting year in permits issued for apartment construction. Apartment buyers are still facing limited inventory of units for sale, and the average sale price reached \$184,740/unit this quarter. Wage and population growth should preserve tight market conditions and rent growth.

#### Rent Forecast

Rental rates in the Portland metro area continued to rise, reaching an average of \$1.57/s.f., up from \$1.51 in the first quarter of 2017 and \$1.47 at this time one year ago. Downtown and Northwest Portland continued to report the highest rents, with asks of \$2.30 and \$2.09, respectively. Outlying areas offered more affordable apartments, showing average price tags of \$1.21 in Outer Northeast Portland, \$1.27 in Troutdale/Fairview Wood Village/Gresham and West Vancouver, and \$1.28 in East Vancouver. Increases in rental rates remain ahead of wage growth in the Portland market, because employment gains are producing heightened demand for residential units in the metro area.



#### AVERAGE RENTS PER MONTH

Unit Type	Rent
Studio	\$1,127
One Bed / One Bath	\$1,173
Two Bed / One Bath	\$1,150
Two Bed / Two Bath	\$1,409
Two Bed / Two Bath TH	\$1,363
Three Bed / One Bath	\$1,258
Three Bed / Two Bath	\$1,530
<b>Total</b>	<b>\$1,240</b>

Source: CoStar Data

## PORLAND Q3 2017 MULTIFAMILY MARKET REVIEW CONTINUED

### Vacancy

The overall vacancy rate in Portland MSA was up 36 bps from the first quarter. Downtown Portland had the highest vacancy rate reflecting a slowdown in absorption of the Class A apartment product being delivered in the city center. Outer Northeast Portland reported a 3.4% vacancy rate, the lowest in metro Portland, while Beaverton and Oregon City were at 3.6%. The vacancy trend in the coming quarters will depend on the rate of absorption of newly delivered apartments, as robust construction activity will continue to add to the market's supply.

#### VACANCY RATES

4.37%	5.7%
PORLAND MSA OVERALL	DOWNTOWN PORTLAND
3.6%	5.3%
3-BEDROOM UNITS	STUDIOS

### Investment Activity

Apartment sales in metro Portland remain on a downward trajectory due to limited inventory. Cap rates rose to an average of 5.77%, up 31 bps over the past six months but virtually unchanged year over year. Portland multifamily investment transactions amassed approximately \$565 million in dollar volume over the past six months, down from more than \$1 billion in the fourth quarter of 2016. The average price per unit was \$184,740, up from \$150,623 at the same time a year ago.

### Construction Activity

New multifamily construction continues in the Portland market, despite the moderate slowdown in lease-ups of newly delivered units in the Downtown area and the adoption of a new inclusionary zoning (IZ) ordinance. Permits were issued for more than 6,600 units through August 2017, putting the market on pace for nearly 10,000 units for the year, which would represent a new record for metro Portland and a 2,600-unit increase from 2016. While applications have slowed since IZ was put in place, the two-year review process for larger projects already in the pipeline means that apartment construction will continue apace through at least the middle of 2019.

### INCLUSIONARY ZONING LAW

Requires 20% of new 20-plus-unit apartment projects be set aside as affordable

# Kidder Mathews

## Q3 2017 Multifamily Market Review

The metro Spokane apartment market remains strong, despite middling economic conditions. All unit types have seen vacancy rate declines over the past 36 months, as absorption has outpaced new deliveries, and developers have responded, bringing construction activity to a new cycle high in 2017. Spokane's multifamily landlords benefit from the area's academic institutions which enhance residential demand. Rent growth has been steady, but will ultimately be constrained by Spokane's economy, where incomes and unemployment lag behind national averages.

### Vacancy

Spokane reported a 4.4% apartment vacancy rate in the third quarter, down 40 bps year over year and 270 bps from the cycle high 7.1% recorded in the third quarter of 2012. The number of vacant units in the market has held firm between 1,700-1,900 over the last 18 months, despite more than 1,200 newly delivered units. Two-bedroom apartments are the tightest product type, at 4.1% vacancy, while studios are at 5.9%. Spokane Valley, the largest submarket cluster with 30% of the market's apartment stock, was 4.8% vacant at the end of the third quarter. The Downtown Riverside cluster, which includes Gonzaga University and other higher-education institutions, showed 4.1% vacancy.

### MARKET FORECAST TRENDS



### VACANCY & RENTAL RATES

Unit Type	Vacancy	Rent
Studio	5.9%	\$784
One Bedroom	4.4%	\$862
Two Bedroom	4.1%	\$897
Three Bedroom	5.6%	\$1,088
<b>Total</b>	<b>4.4%</b>	<b>\$907</b>

Source: CoStar Data

# SPOKANE Q3 2017 MULTIFAMILY MARKET REVIEW CONTINUED

## Rent Forecast

Rental rates for Spokane metro apartments have increased by approximately 5% year over year, holding firm despite the wave of new construction. Premium apartments and townhomes enjoy a 20% premium over the market's median rent. Job and wage growth has contributed to the feasibility of higher-rent apartments, particularly in North Spokane County. A modest slowdown in rent growth is likely, as more than 1,000 new units come on line. Rates in Spokane metro will ultimately be capped by the region's economic conditions.

## Construction Activity

Apartment construction in Spokane is at its cycle peak. Developers have responded to robust absorption, which trimmed the vacancy rate below 5%, recognizing that demand for apartments in metro Spokane is robust and unlikely to decline in the short or medium term. Phase II of the Bella Tess Apartments is the largest active construction project.

585	1,070	 <b>BELLA TESS APARTMENTS</b> 196 Units Spokane Valley
UNITS DELIVERED IN 2017	UNITS COMPLETED IN NEXT 6 MOS	<b>\$1.30-\$1.40</b> NEW DEVELOPMENT AVERAGE RENTS  <b>\$1.10-\$1.20</b> OLDER UNIT AVERAGE RENTS

## Market Demand / Net Absorption

Year-over-year net absorption in Spokane is 807 units, slightly outpacing new construction. Favorable economic and demographic factors ensure demand for apartments, with more than 35% of households in Spokane choosing to rent.

Demand for studio and 1-bedroom apartments is generated by the area's college student population, making nearby multifamily properties attractive and safe investments. Demand is likely to remain strong.

## Investment Activity

Multifamily sale activity remains above average, and prices in the metro area continue to rise. Metro Spokane is on pace to see more than 1,000 units trade for the fourth consecutive year, after five consecutive years of sub-500 unit sale volume in the wake of the recession.

**\$85,000**

AVERAGE SALE PRICE / UNIT

**6.8%**

AVERAGE CAP RATE

Two large multifamily projects changed hands during the summer of 2017, both in the Spokane Valley submarket, which contains 30% of the metro area's housing stock.



**DIAMONDRock TOWNHOMES**  
\$25.6M | 104 Units



**LINGER LONGER LODGE**  
\$5.8M | 6.6% Cap | 46 Units

# Thank You

A wide-angle aerial photograph of the Seattle skyline at dusk. The city is illuminated, with the Space Needle and various skyscrapers visible. In the foreground, a large body of water meets the city's waterfront. In the background, a range of mountains is visible under a darkening sky.

PRESENTED BY

**JEFF LYON**

Kidder Mathews  
Chairman & CEO  
206.296.9616  
jlyon@kiddermathews.com

**km** Kidder  
Mathews