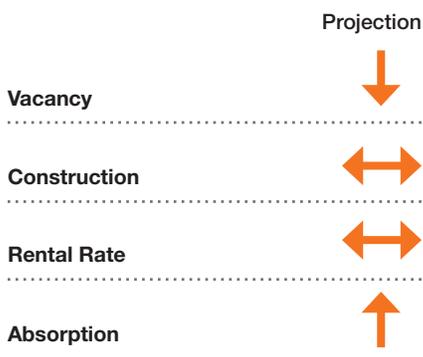


Seattle Retail

Market Forecast

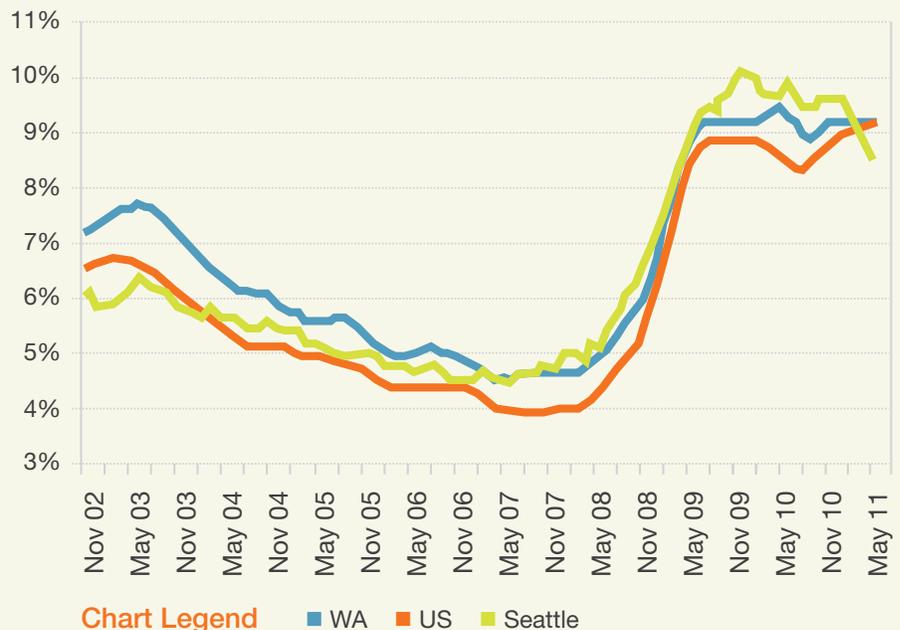


Highlights

The retail market continues to show gentle improvement. There is ongoing retrenchment as expanding chains pick up the best locations left behind by failed chains. The Borders liquidation will extend this process. With mild employment and retail sales growth, the tide has turned and there is positive absorption. With investors sitting on the sideline from 2008 through the first half of 2010, significant investment capital is now being deployed, with strong competition for well anchored, core assets. ■

The Seattle retail market is improving, with a rise in sales activity and positive absorption for the first time in the last three years. Overall employment growth has been positive, but it is only been keeping pace with the natural growth of the work force, resulting in a static unemployment rate. The local employment condition, however, is better than the nation as a whole. At the midpoint of 2011, the retail market continues to show slow but steady signs of improvement. Institutional investors are actively seeking anchored centers, and there is a huge appetite for grocery store-anchored neighborhood centers, where they store has shown strong sales performance.

Washington, U.S. & Seattle Unemployment Rates



Area Review

Retail Sales

2010 sales information released by the State Department of Revenue in the second quarter 2011 was positive; simply moving from decline to growth is improvement. The state saw retail sales growth of 3.52% over 2009, while the Puget Sound region was a little stronger with 3.68% growth. On a per capita basis, these were growth rates of 2.52% and 2.76%, respectively. Although general economic news is mixed, it is expected that 2011 will see growth equal to or slightly higher than 2010.

Vacant Space/Vacancy Rate

In the first half of 2011, the overall vacancy rate has declined 22 basis points from 6.51% to 6.29%. The vacancy rate fell in Seattle from 3.7% to 3.3%. The Eastside from 7.1% to 6.5%. The Northend from 6.9% to 6.6%, and in Pierce County from 7% to 6.7%, while it increased slightly in the Southend. Vacancy was unchanged in Kitsap and Thurston Counties. Overall vacancy is driven by anchor spaces, and a slow

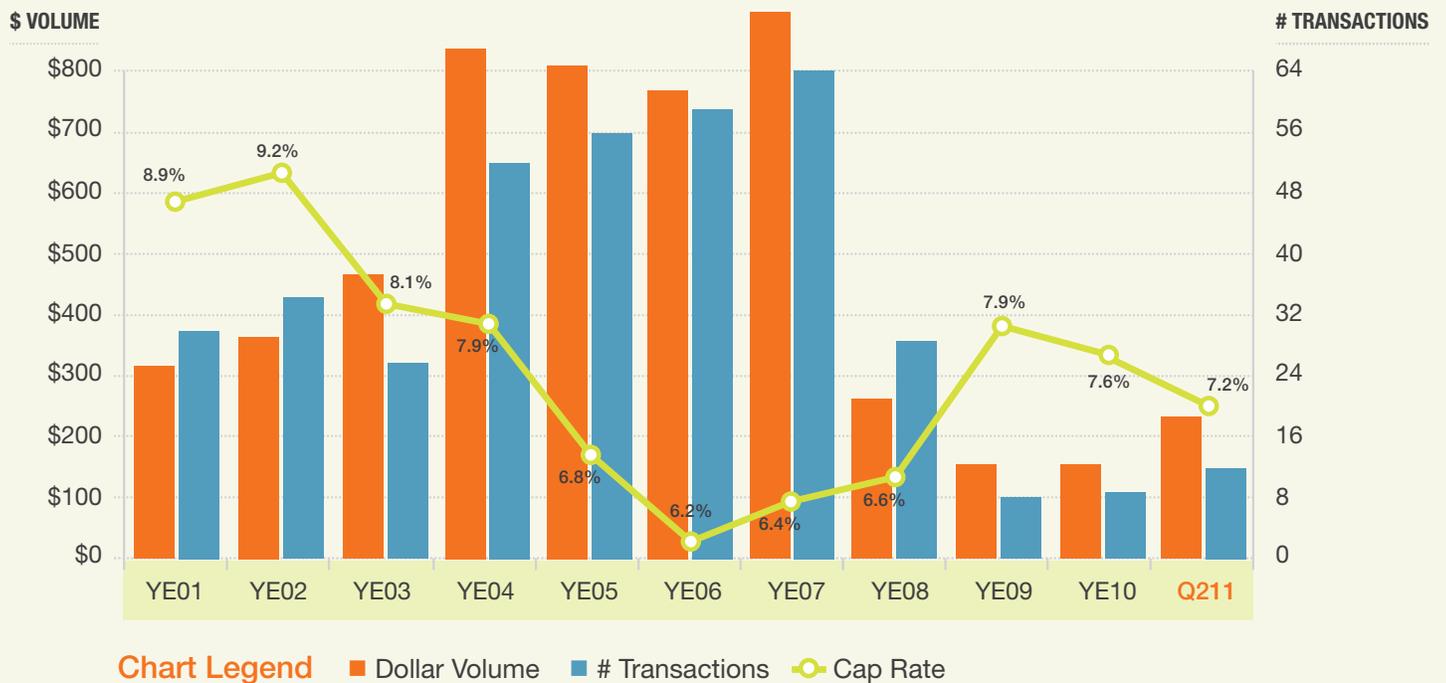
absorption of existing anchor vacancies has been seen as stronger tenants expand their market penetration. Examples include Ross, Big Lots, Sports Authority, Walmart, Whole Foods and Winco.

At the start of the year, it was forecast that absorption for 2011 was expected to be between 500,000 and 1,000,000 s.f. At mid-year, it was at about 500,000 s.f. It is now projected that full-year absorption will be closer to the high end of the range. If this is achieved, the vacancy rate would decline to 6% by year-end.

New Construction Activity

Retail development activity is naturally low this time of year, as the market awaits demand to re-absorb excess vacant space and most retailers are reluctant to pay rents that would make new construction feasible. About 200,000 s.f. is under construction as of mid-year 2011, with 150,000 s.f. delivered in the first six months. New development remains mostly build-to-suit or owner-user oriented.

Investment Activity



Rent Forecast

Outside of a few core trade areas with atypically strong fundamentals, 2010 saw reduced face rents and significantly higher concessions in the form of free rent and tenant improvement allowances. In some cases, these concessions were extraordinary, in order to secure, what could be, the only available tenant. With mild economic improvement and increased retail sales, rents are expected to improve in 2011, with the first order of business being reduced concessions. This will vary widely by location, with stronger trade areas likely to maintain existing rent levels and weaker areas seeing a broader level of discounts. Retail rents

in the Seattle CBD range between \$30 and \$65/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.

Market Demand/Net Absorption

The region's net absorption of retail space for the 2010 was negative, at -255,919 s.f. However, there are a number of anchor deals in the pipeline and more leasing activity in general, which is expected to result in positive absorption for 2011, perhaps on the order of 500,000 to 1,000,000 s.f.

Sales Comparables

Property	Year	SF	Date	Price	Cap Rate
Lakeland Town Center, Auburn, WA	2002/05	123,152	Jun-11	\$39,400,000	6.25%
Galleria, Bellevue, WA	1999	190,000	Apr-11	\$87,500,000	7.22%
Costco, Tukwila, WA	1970	222,968	Apr-11	\$19,042,103	6.88%
Burien Town Plaza, Burien, WA	1965/07	134,121	Mar-11	\$14,400,000	7.00%
Promenade 23, Seattle, WA	1980/97	97,017	Mar-11	\$18,400,000	7.71%
Westwood Village, Seattle, WA	1975/04	305,119	Mar-11	\$78,100,000	6.20%
Marysville TC, Marysville, WA	1987	226,176	Mar-11	\$19,150,000	6.78%
Clock Tower at Mill Creek, WA	2000s	18,778	May-11	\$5,800,000	7.75%
Eastway Center, Renton, WA	1990	29,232	May-11	\$6,050,000	9.03%
Coburg Station, Eugene, OR	2008	29,800	Feb-11	\$9,750,000	6.74%
Walgreens, Millwood, WA	2009	13,650	Jan-11	\$6,200,000	6.94%
Walgreens, Tukwila, WA	2009	9,975	Jan-11	\$5,671,000	6.50%
Bartell Drugs, Des Moines, WA	1980s	24,020	Jun-11	\$4,695,000	7.73%
Fred Meyer Pad, Covington, WA	2008	7,060	May-11	\$3,300,000	6.42%
Jack in the Box (GL), DuPont, WA	2006	5,314	Mar-11	\$1,545,000	6.90%
Greenlake Retail Condos, Seattle, WA	2003	9,819	Mar-11	\$2,675,000	8.21%
Alfy's Pizza, Lynnwood, WA	1978	7,718	Mar-11	\$1,320,000	7.00%
Burger King, Tacoma, WA	2002	3,723	Feb-11	\$1,865,000	7.45%
Key Bank (condo), Auburn, WA	2010		Jan-11	\$2,650,000	5.93%
7-11, Vancouver, WA	2010	3,100	Sep-10	\$1,056,296	6.75%

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Investment Activity

On a national basis, cap rates for shopping centers have improved significantly in the last year. The average cap rate reported by PricewaterhouseCoopers in their quarterly survey is 7.33% for the second quarter 2011. This is down 30 basis points from the fourth quarter 2010, and 130 basis recent high point of 8.63% in the fourth quarter 2009. It is just 13 points above the low point at the peak of the market in the third quarter 2007. The current rate is below the five and ten year averages of 7.67% and 8.25%, respectively.

As expected, investment activity increased in the first half of the year. The volume of properties brought to market continues to increase. On a regional basis, most of the closed sale activity was in two primary segments, anchored centers and single tenant properties. In each case, there is a fairly deep pool of buyers and financing is more

readily available. On the larger scale, institutional investors pursued anchored properties, with particular interest in Class "A", core assets. Westwood Village was acquired by a pension advisor and Lakeland Town Center by a west coast based investor. National passive investors were the key buyers of single tenant properties, especially those under \$5 million. The following are first half 2011 investment sales.

There are numerous transactions in the pipeline and a continued deal flow in the second half of the year is expected. Based on these deals, neighborhood centers with strong food store anchors are anticipated to push below 6% cap rates. As shown by the sales of unanchored strips in Renton and Mill Creek, cap rates for this product type are expected to be in the 7% to 8% range, dependent on rollover risk and the position of contract rent to market rent.

National Cap Rate Trends

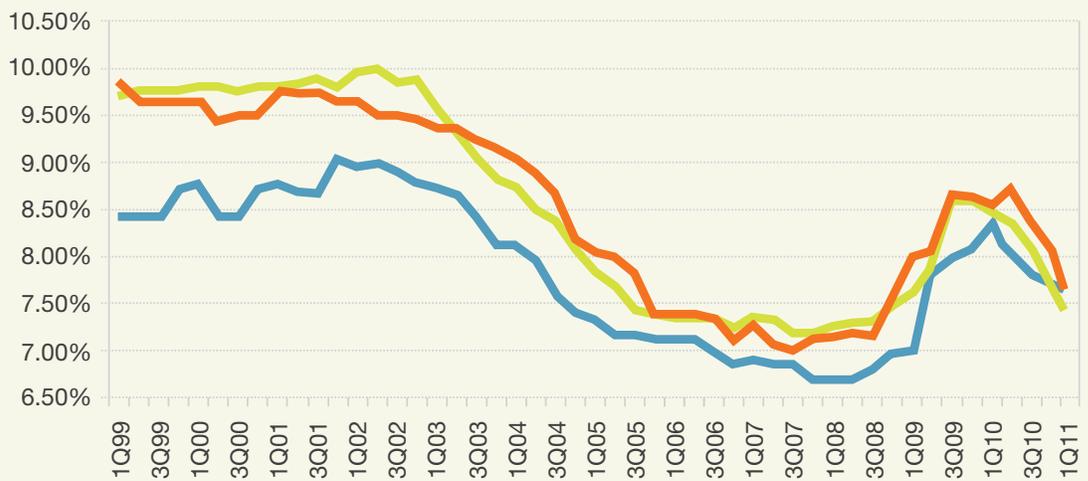


Chart Legend: ■ Regional Mall ■ Power Center ■ Strip Shopping Center

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