Kidder Mathews

MARKET TRENDS | **WEST COAST**

RETAIL

YEAR END

2019

The West Coast is moving gradually on new construction and deliveries with an expected shift from a year back. The development pipeline is overwhelming, loaded with ventures and hopeful investors, with 8 million s.f. under development, and vacancies remain in a mid to high 4% territory.

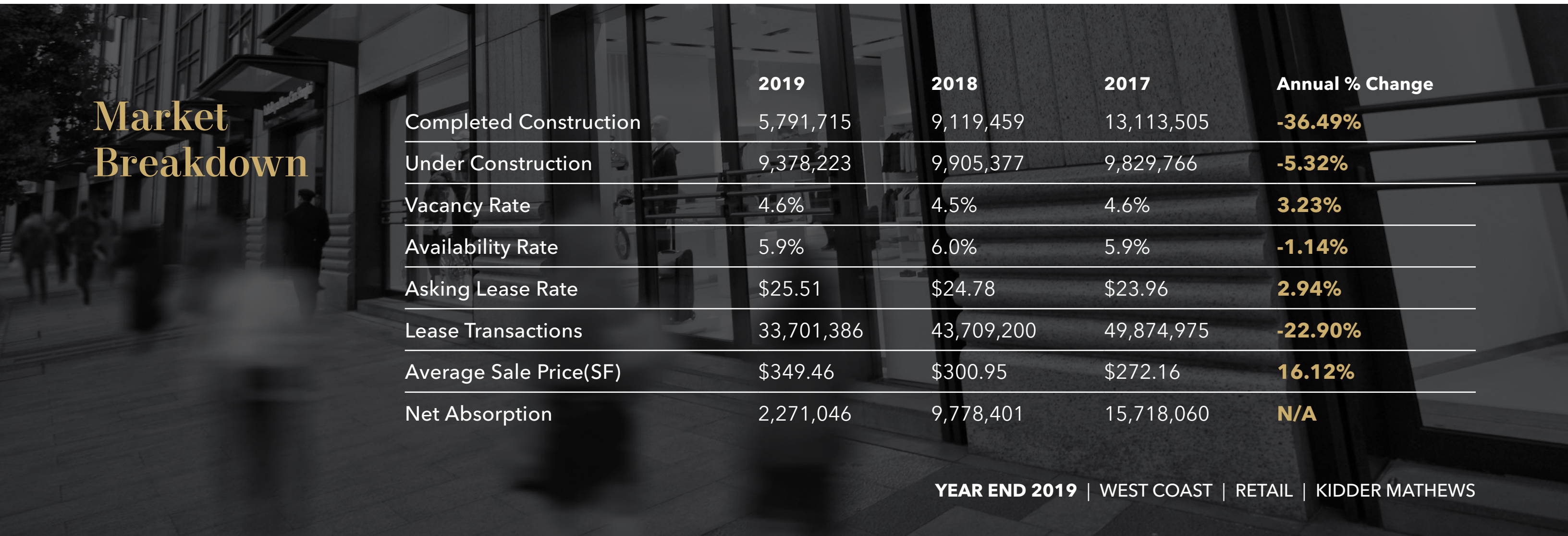
Average price per square foot has swelled to never observed highs and occupancy misfortunes have not disrupted cash flow. In addition, experiential business models move into focus. These stores found homes in more shopping and neighborhood centers hoping to build pedestrian activity and get consumers spending more time at the mall. As indicated by the IHRSA (International Health, Racquet and Sportsclub Association), gym individuals went to their health centers in excess of six billion times from a year ago. Retail centers are growing with health focused tenants. The increased demand from gym members is expected to increase and therefore the addition of this tenant base as retail occupiers.

The expansion of the live-work-play way of life is among the main principles reclassifying the bearing of retail space. Numerous health tenants need immediate access, quickly leasing up space – regularly big lumps of it in strip malls and shopping centers across the nation satisfy the need. Ethnic specialty food merchants are developing their footprints across the country, advancing greatly past the fundamental mom-and-pop stores that initially served smaller communities.

A considerable lot of these stores, the main part of them offering healthy nourishments, are pulling in consumers well past their target demographics. Within these retail centers, several business sectors are making them social centers with bistros, food halls, and mini shopping centers loaded up with nonfood retailers and service providers like nail salons and other offerings to their inventory.

This was the first time in ten years where year over year change in volume posted negatively. This isn't a sign of any conditioning, as the most recent decade performed reliably well. Indeed, even so volume was very solid, simply lower than 2018 where volume took off 133% in year over year change. Costs are up and cap rates are steady

Source: CoStar, Harvard Joint Center for Housing Studies as reported by Urban Land Institute



Market Breakdown

	2019	2018	2017	Annual % Change
Completed Construction	5,791,715	9,119,459	13,113,505	**-36.49%**
Under Construction	9,378,223	9,905,377	9,829,766	**-5.32%**
Vacancy Rate	4.6%	4.5%	4.6%	**3.23%**
Availability Rate	5.9%	6.0%	5.9%	**-1.14%**
Asking Lease Rate	$25.51	$24.78	$23.96	**2.94%**
Lease Transactions	33,701,386	43,709,200	49,874,975	**-22.90%**
Average Sale Price(SF)	$349.46	$300.95	$272.16	**16.12%**
Net Absorption	2,271,046	9,778,401	15,718,060	**N/A**

Seattle

▲ 1.14M SF UNDER CONSTRUCTION	▼ 2.6% VACANCY
▲ 1.54M SF NET ABSORPTION	▲ $20.28 ASKING LEASE RATE

Food merchants, eateries, and markdown retailers represent a huge segment of movement in the course of recent years. While the metro is performing admirably, there are few concerns. Store closures did little to disturb physical brick and mortar shops. Numerous shopping centers are re-positioning to make an "experiential" domain. To explain, storekeepers need to draw in more customers by making immersive experiences. Play areas, live shows, DIY exercises (do-it-yourself) are aspects of an experiential model. Moving along, asking rents in Seattle are among the most noteworthy on the West Coast. New development is at last reappearing yet won't come anyplace close to historical levels.

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Portland

▲ 434,094 SF UNDER CONSTRUCTION	◀▶ 3.3% VACANCY
▼ -155,181 SF NET ABSORPTION	▲ $20.37 ASKING LEASE RATE

Portland's retail industry is moored by its solid income products and services, fiery employment gains, and the healthy income growth across families. Sales tax is obsolete in Oregon. In turn, consumers reap many savings which permit additional spending on retail products, accordingly, giving the economy a lift. Retail tenant retention in the suburbia keeps growing. Retail sales and profits are secure, however online deals could debilitate interest for brick and mortar, particularly in a metro that is extending its tech footprints. Portland's ongoing and under-development retail space is mostly standalone properties, added space to existing properties and unique new strip malls.

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Oakland/East Bay

▼ 41,713 SF UNDER CONSTRUCTION	▼ 3.1% VACANCY
▼ -299,109 SF NET ABSORPTION	▲ $30.60 ASKING LEASE RATE

East Bay is home to one of the more beneficial retail markets in the nation. Vacancies stay tight, matching those in coastal and seaside markets like San Francisco and Boston, and moderately restricted new development turns away worry about a significant vacancy expansion happening at any point soon. While rents were particularly delayed in recoup from the downturn, gains have been solid in the course of the most recent couple of years. Regardless of rent growth starting to slow in 2016, East Bay in 2017 and 2018 has seen rent growth continues to outpace neighboring San Francisco. Institutional investors remain enthusiastic for this metro, and sales volume this cycle has far outperformed that of the past cycle.

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San Francisco/Peninsula

▼ 166,255 SF UNDER CONSTRUCTION	▲ 4.7% SF VACANCY
▲ 95,769 SF NET ABSORPTION	▲ $43.08 SF ASKING LEASE RATE

San Francisco has held tighter retail vacancy rates than most other premier, supply limited markets such as Boston and New York. It is a perpetually under provided retail market. Major box retailers have shed huge squares of space and shut stores because of low volume revenue. Although rents are incredibly high, rental growth has eased back somewhat. Furthermore, development came in at a lower volume than expected by year's end. Perhaps interest had been filled by test retail ideas in wellness and health boutiques, and development of snap to-blocks retailers (e-commerce). Upscale bistros and electronically empowered new diners took their shots at achievement in the nation's densest city for restaurants. Now, San Francisco is positioned as the second most costly market in the nation, following Honolulu.

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Silicon Valley

▼ 203,405 SF UNDER CONSTRUCTION	▼ 3.3% VACANCY
▼ -35,849 SF NET ABSORPTION	▲ $33.84 ASKING LEASE RATE

New buildings and historically small vacancy rates have sustained the San Jose retail market, while many other retail markets struggled in recent years. Construction holds steady despite tight fundamentals. Even with vacancy in the mid-single digits, supply underway represents less than 2% of the existing inventory base, with 203,405 SF currently under construction. Lucrative, stable tech companies are the lifeline. Rising start-ups have abundant cash and require large spaces and unique renovations. Education and health services, as well as leisure and hospitality, have been among the strongest growth sectors this cycle. But professional and business services are the largest contributors to job growth since the bottom of the downturn and continues to rank among the metro's best-performing nodes.

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Sacramento

▼ 406,272 SF UNDER CONSTRUCTION	▼ 6.0% VACANCY
▲ 545,881 SF NET ABSORPTION	▲ $16.44 ASKING LEASE RATE

As vacancy hit a new record low in 2019, absorption shows major strength and is expected to improve positively into the first half of 2020. Vacancy in Sacramento is higher than national standards and a moderate development pipeline will begin to fill a portion of the conflicting supply holes experienced in the past several years. It is normal that shopping centers will keep encountering a few obstacles in occupancy gaps. Non-touristy metros will start to focus on the move in experiential changes with malls. Moreover, retail rents are not expected to rise significantly, however, inventive retail should see a 5% bounce in rent growth in 2020, and malls will command higher rents than Power and Neighborhood centers.

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Reno

▲ 79,621 SF UNDER CONSTRUCTION	◀▶ 6.2% VACANCY
▼ 30,475 SF NET ABSORPTION	▲ $14.52 ASKING LEASE RATE

Reno is unique when observing the quaint retail presence in the city. Rents are moderate, vacancy expanded a bit and hardly any retail projects have conveyed this cycle. At the end of the year, the existing inventory count has climbed since 1Q19. In addition, record acquisitions and sales took place throughout 2019 and the sales volume outperformed every year in the past decade. As deal prices and rental rates reach all-time highs, investors may monitor demand for signs of softening since rent growth declined by 1.27% year over year. Reno is new business-accommodating and close to Silicon Valley. The minimal effort of living in the metro draws in numerous new organizations, partnerships and apparently, more tech organizations as Tesla gears progress on its Gigafactory.

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Los Angeles

▼ 2.97M SF UNDER CONSTRUCTION	▲ 4.6% VACANCY
▼ -1.21M SF NET ABSORPTION	▲ $33.72 ASKING LEASE RATE

Even with smaller retail space than most major metros, investors still flock to the metro. Conveying new deliveries is troublesome regardless of whether the land is accessible. This constraint is oddly appealing to some investors. Then again, some investors find revenue gains at shopping center stores that are down since pedestrian activity decreased. Shopping centers focus on stunts to retain consumers, incorporating kid themes and pop up spaces. This helps drive more individuals into store territories with exercises and experiences other than shopping, which is key, when compared to online shopping where customers can shop on the web and not leave their homes, as indicated by specialists at ICSC. Also, year-to-date net absorption is negative and the vacancy rate has floated upward since late 2017.

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Orange County

▼ 167,168 SF UNDER CONSTRUCTION	▲ 3.8% VACANCY
▼ -180,796 SF NET ABSORPTION	▲ $28.56 ASKING LEASE RATE

Orange County is a prime tourist destination with Disneyland as its central attraction. Tourists pour billions of dollars into the local economy, helping fuel job growth, development, and tax revenue. The employment profile in the metro is diverse, and incomes continue to grow above the rate of inflation, as high-paying job sectors help buoy a local demographic that brings home a median household income near $80,000. Moreover, Orange County is home to several world-class malls, from South Coast Plaza to Fashion Island, where vacancy and rental rates will always be favorable to the landlords. With increased spending power among residents and the market's international reputation as a tourist destination, we can expect further growth for the Orange County retail market moving forward.

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Inland Empire

▼ 1.20M SF UNDER CONSTRUCTION	▼ 6.9% VACANCY
▲ 712,893 SF NET ABSORPTION	▲ $19.44 ASKING LEASE RATE

The Inland Empire lacks the tourist appeal of neighboring Los Angeles, Orange County, and San Diego, and the employment profile here favors trade and warehouse jobs, which can limit income growth. Retail stores in the metro are especially dependent on local consumers as the Inland Empire attracts only a modest number of leisure travelers. Yet fundamentals have continued to strengthen in recent years and vacancies are at the lowest it has been since the recession, concluding at 6.9% for the year. Both leasing and transaction volumes have been robust, and rents are expanding at their highest rate in over 9 years. New supply is starting to take shape, with over 1 million square feet delivered in 2019 and nearly 1.2 million square feet currently under construction.

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San Diego

▼ 339,773 SF UNDER CONSTRUCTION	▼ 3.8% VACANCY
▲ 75,071 SF NET ABSORPTION	▲ $24.24 ASKING LEASE RATE

San Diego is a worldwide tourist destination with tourists pouring billions of dollars into the local economy. Overall, retail sales have proven to be healthy over the past few years. Vacancies decreased by 10 basis points to complete the year at 3.8%. As vacancies remain at record low levels, rental rates and sale prices have pushed past record-highs. Currently, assets are trading at $347.23/s.f. with cap rates at 5.9%. In 2019, San Diego reported one of the largest suburban retail sales in recent years with the $150 million deal for Clairemont Town Square. As local and institutional investors look to capitalize on their investments, rental rates have continued its upward trend, concluding the year at $24.24/s.f. We anticipate the San Diego retail sector will continue to grow in 2020.

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Phoenix

▲ 1.10M SF UNDER CONSTRUCTION	▲ 6.9% VACANCY
▲ 983,124 SF NET ABSORPTION	▲ $16.08 ASKING LEASE RATE

The Phoenix retail market decreased in new construction in 2019, making it a second straight year with under 1 million square feet entering the market. Although deliveries declined in recent years, over 1.1 million square feet remains under construction with delivery dates through 2021. We can expect upward pressures on vacancies moving forward as new developments approach completion. Overall, steady population growth has provided the Phoenix retail market with healthy demand fundamentals. Moreover, many companies continue to set up roots market-wide due to the healthier economic opportunities in place. Steady demand has pushed rental rates past post-recession highs concluding at $16.08/s.f. for 2019. In addition, assets are currently trading at $230.49/s.f. with cap rates settling at 6.7%.

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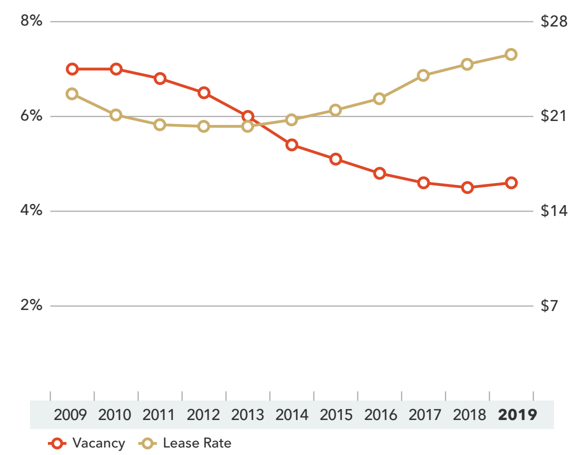
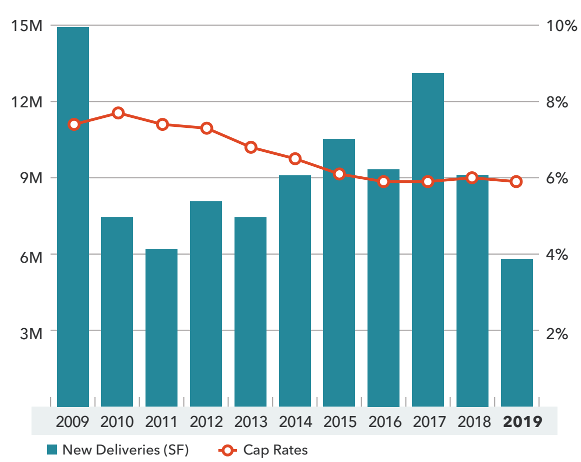
YEAR END 2019 WEST COAST RETAIL STATISTICS

Submarket	Total Inventory	Under Construction	2019 Completed Construction	Total Vacancy Rate	Total Available Rate	2019 Net Absorption	2019 Total Leasing Activity	Avg Cap Rate	Avg. Sales Price per SF	Avg Direct Rental Rate (NNN)
Seattle	192,309,033	1,142,380	599,119	2.6%	3.1%	1,544,415	2,520,590	6.3%	$297.55	$20.28
Portland	112,783,072	434,094	204,212	3.3%	4.5%	(155,181)	1,464,066	6.4%	$236.97	$20.37
Pacific North West	**305,092,105**	**1,576,474**	**803,331**	**2.9%**	**3.6%**	**1,389,234**	**3,984,656**	**6.3%**	**$275.16**	**$20.31**
Oakland/East Bay	57,140,443	41,713	41,789	3.1%	4.0%	(299,109)	621,249	5.6%	$244.97	$30.60
Peninsula/San Mateo	23,033,206	0	96,333	2.5%	4.0%	41,665	264,092	4.7%	$458.77	$42.12
San Francisco	50,497,946	490,844	101,619	3.0%	3.6%	(35,849)	733,501	4.7%	$751.49	$43.08
Silicon Valley	85,994,399	1,086,984	203,405	3.3%	4.8%	280,301	1,669,426	5.0%	$575.83	$33.84
Sacramento	101,303,312	322,090	406,272	6.0%	7.6%	545,881	2,260,062	6.7%	$193.31	$16.44
Reno	25,221,420	79,621	1,200	6.2%	8.1%	(30,475)	545,792	6.7%	$170.25	$14.52
Northern California	**343,190,726**	**2,021,252**	**850,618**	**4.2%**	**5.5%**	**502,414**	**6,094,122**	**5.7%**	**$396.01**	**$28.66**
Los Angeles	441,276,251	2,972,499	1,202,709	4.6%	6.1%	(1,210,894)	9,037,385	5.3%	$457.85	$33.72
Orange County	143,184,232	167,168	233,969	3.8%	4.9%	(180,796)	3,011,231	5.2%	$416.88	$28.56
Inland Empire	195,785,789	1,197,442	1,085,079	6.9%	8.5%	712,893	3,777,645	6.5%	$232.93	$19.44
San Diego	141,069,876	339,773	411,487	3.8%	4.7%	75,071	3,295,231	5.9%	$347.23	$24.24
Phoenix	232,451,991	1,103,615	1,204,522	6.9%	8.5%	983,124	4,501,116	6.7%	$230.49	$16.08
South West	**1,153,768,139**	**5,780,497**	**4,137,766**	**5.3%**	**6.7%**	**379,398**	**23,622,608**	**5.8%**	**$355.27**	**$25.94**
West Coast Total	**1,802,050,970**	**9,378,223**	**5,791,715**	**4.6%**	**5.9%**	**2,271,046**	**33,701,386**	**5.9%**	**$349.46**	**$25.51**

VACANCY VS. AVG ASKING RENT



ANNUAL NEW CONSTRUCTION & CAP RATES



Kidder Mathews is the largest, independent commercial real estate firm on the West Coast, with 800 real estate professionals and staff in 22 offices in Washington, Oregon, California, Nevada, and Arizona. We offer a complete range of brokerage, appraisal, property management, consulting, project and construction management, and debt equity finance services for all property types.

COMMERCIAL BROKERAGE

400+ NO. OF BROKERS

$9B ANNUAL TRANSACTION VOLUME

20M ANNUAL SALES SF

40M ANNUAL LEASING SF

VALUATION ADVISORY

1,600+ APPRAISALS ANNUALLY

36/24 TOTAL NO. APPRAISERS/MAI'S

PROPERTY MANAGEMENT

60M+ MANAGEMENT PORTFOLIO SF

The information in this report was composed by the Kidder Mathews Research Group.

JERRY HOLDNER
Director of Research
949.557.5050
jerry.holdner@kidder.com
LIC Nº 01145748

KIDDER.COM