

COMMERCIAL REAL ESTATE

Information provided by
 Tim Arnold, President
 Gary Gartin and Marion Brouillard
 Bradley Scott, Inc. Commercial Real Estate
 (360) 479-6900/ fax (360) 479-5499

Office, Retail and Industrial Vacancy Rates Decreased:

The Bradley Scott, Inc. "Office, Retail and Industrial Vacancy Survey" shows a county-wide decrease in office and industrial vacancies over the past year. Office vacancies decreased by 10.78%. Retail vacancies decreased by 24.42%. Industrial vacancies decreased by 40.18%. These decreases were not spread equally across Kitsap County. And, clear patterns are difficult to identify.

As we have experienced in the past, one large building can dramatically change an area's vacancy rate. For example, the retail vacancy rate in Poulsbo increased by 340% because of the closing of the 30,000 square foot Poulsbo Market in March 2004. Conversely, due to the leasing of the 103,000 square foot former Home Base, the retail vacancy rate in Silverdale decreased by 63%. Sometimes statistical data can be misleading. Downtown Bremerton is showing a 130% increase in retail vacancy, yet it is an improving retail market. The majority of the change came from new product and reclassifying recently vacated office space to retail. This is a positive indicator of the change taking place in Downtown Bremerton. Previously, the only demand for older storefront retail was to convert it to office space.

None of the over 200,000 square feet of new and proposed Downtown office and retail construction is included in this survey. Bradley Scott continues to increase the amount of commercial space surveyed. This survey covers 10,196,911 square feet of office, retail and warehouse space, an increase of 317,836 square feet over last year. Some of this is new construction, but the majority reflects our continuing effort to include all of the major commercial buildings in Kitsap County.

Office Vacancy Rate Decreased Slightly:

The Bradley Scott, Inc. survey of over 2.5 million square feet of office space indicates vacancies decreased from a 8.95% vacancy rate to a 7.83% vacancy rate (see TABLE #1). This represents absorption of over 24,000 square feet or approximately 11% of the county's available office space.

TABLE 1

| KITSAP COUNTY OFFICE VACANCY SURVEY (AS OF MARCH 2004) | | | | |
|--|------------------------|----------------|--------------|--------------|
| Area | Office Space (sq. ft.) | | Percent | Percent |
| | Surveyed | Vacant | Vacant '03 | Vacant '04 |
| Bainbridge Island | 237,310 | 27,068 | 12.42% | 11.41% |
| Downtown Bremerton* | 452,589 | 51,622 | 12.95% | 11.41% |
| East Bremerton | 369,698 | 47,374 | 12.61% | 12.81% |
| West Bremerton | 244,732 | 5,136 | 2.58% | 2.10% |
| Poulsbo | 528,556 | 22,631 | 8.49% | 4.28% |
| Port Orchard | 188,237 | 17,013 | 8.29% | 9.04% |
| Silverdale | 574,524 | 32,449 | 5.37% | 5.65% |
| Total | 2,595,646 | 203,293 | 8.95% | 7.83% |
| *Does not include Bremer Dept. Store (42,740 sq. ft.) Source: Bradley Scott, Inc. | | | | |

As can be seen in TABLE #2, Bainbridge Island, Downtown Bremerton, West Bremerton and Poulsbo experienced a decrease in office vacancy. East Bremerton, Port Orchard and Silverdale had increases in their office vacancy rate. The biggest change was in Poulsbo where the amount of vacant office space decreased by almost 50%. Another surprise is Silverdale, where the vacant space increased by almost 10%, yet there is no quality office space over 3,000 square feet available. The largest concentration of office vacancy is in East Bremerton, where there is 47,374 square feet available. Much of that is in one building, which recently lost two major government tenants.

The biggest changes are taking place in Downtown Bremerton. The 100,000 square foot Government Center is nearing completion and the 30,000 square foot office at Harborside is scheduled for completion this summer. Only 15,000 square feet of this space is still available for lease. The space available is on the top floor and has commanding water and mountain views. It is expected all of the space will be leased by the completion of construction. Another 40,000 plus square foot building is scheduled to start later this summer.

TABLE 2

| KITSAP COUNTY OFFICE VACANCY RATES (AS OF MARCH 2004) | | | |
|--|--------------|--------------|--------------|
| Office Space Location | Apr 2003 | Nov 2003 | Mar 2004 |
| Bainbridge Island | 12.42% | 8.89% | 11.41% |
| Downtown Bremerton | 12.95% | 10.47% | 11.41% |
| East Bremerton | 12.61% | 14.54% | 12.81% |
| West Bremerton | 2.58% | 1.63% | 2.10% |
| Poulsbo | 8.49% | 6.20% | 4.28% |
| Port Orchard | 8.29% | 6.87% | 9.04% |
| Silverdale | 5.37% | 5.48% | 5.65% |
| Kitsap County | 8.95% | 7.85% | 7.83% |

Retail Vacancy Space Decreased by 141,994 Sq. Ft.:

The Bradley Scott, Inc. survey of over 6.2-million square feet of retail space indicates the amount of vacant space decreased by 141,994 square feet. East Bremerton has 44% of the county’s vacant retail space. The vast majority, 82%, of East Bremerton’s vacancy is in three large buildings. Excluding these large buildings reduces the East Bremerton vacancy to 2.72%. Poulsbo is even more dramatic. Excluding the Poulsbo Market closure reduces the Poulsbo retail vacancy to 1.7%. These four buildings represent 43% of the County’s total retail vacancy. Excluding these four buildings would reduce the County’s retail vacancy to 4.16%. Since most users do not need 30,000 plus square feet, the 4.16% vacancy more accurately reflects the market. After removing the big buildings, only Downtown Bremerton had an increase in retail vacancy. As discussed previously, much of that is related to reclassifying store front office space to retail. We did this because of the overall change taking place in Downtown. The Downtown retail demand is picking up as new office space comes on line and new residential construction begins, resulting in the need for additional retail. When we look behind the numbers, it appears retail leasing is relatively strong throughout the County. TABLE #3 shows the retail space available by area within Kitsap County. TABLE #4 shows the retail “vacancy rates” by area.

TABLE 3

| KITSAP COUNTY RETAIL VACANCY SURVEY (AS OF MARCH 2004) | | | | |
|--|------------------------|----------------|--------------------|--------------------|
| Area | Office Space (sq. ft.) | | Percent Vacant '03 | Percent Vacant '04 |
| | Surveyed | Vacant | | |
| Bainbridge Island | 174,125 | 500 | 0.90% | 0.29% |
| Downtown Bremerton* | 197,665 | 44,084 | 11.11% | 22.30% |
| East Bremerton | 1,434,634 | 193,768 | 14.04% | 13.51% |
| West Bremerton | 387,190 | 4,300 | 5.39% | 1.11% |
| Poulsbo | 310,263 | 34,765 | 2.54% | 11.21% |
| Port Orchard | 1,254,036 | 74,274 | 7.92% | 5.92% |
| Silverdale | 2,455,032 | 87,761 | 9.76% | 3.57% |
| Total | 6,212,945 | 439,452 | 9.54% | 7.07% |

**Does not include Penneys, Payless & Sears Buildings (55,055 sf)
Source: Bradley Scott, Inc.*

TABLE 4

| KITSAP COUNTY RETAIL VACANCY RATES (AS OF MARCH 2004) | | | |
|--|--------------|--------------|--------------|
| Office Space Location | Apr 2003 | Nov 2003 | March 2004 |
| Bainbridge Island | 0.90% | 2.97% | 0.29% |
| Downtown Bremerton | 11.11% | 11.92% | 22.30% |
| East Bremerton | 14.04% | 14.59% | 13.51% |
| West Bremerton | 5.39% | 1.60% | 1.11% |
| Poulsbo | 2.54% | 1.54% | 11.21% |
| Port Orchard | 7.92% | 6.95% | 5.92% |
| Silverdale | 9.76% | 3.87% | 3.57% |
| Kitsap County | 9.54% | 6.91% | 7.07% |

Industrial/ Warehouse Vacancy Rates Decreased:

The Bradley Scott, Inc. survey of almost 1.4 million square feet of industrial space indicates the vacancy rate has decreased 40.18% or 42,000+ square feet. Vacancies decreased in all of the industrial areas, except the Bremerton Auto Center and the increase there was very minor (see TABLEs #5). Almost 95% of the Auto Center vacancy is in one 30,375-square-foot warehouse. County wide, that same building represents almost 50% of the available industrial space

TABLE 5

| KITSAP COUNTY INDUSTRIAL VACANCY SURVEY (As of MARCH 2004) | | | | | |
|--|--------------|----------------------------|---------------|--------------------|--------------------|
| | | Industrial Space (Sq. ft.) | | Percent Vacant '03 | Percent Vacant '04 |
| Industrial Park | Area | Surveyed | Vacant | | |
| Day Road | Bainbridge | 231,520 | 13,100 | 16.72% | 5.66% |
| North Kitsap | Poulsbo | 393,670 | 5,200 | 4.96% | 1.32% |
| Olympic View | Port Orchard | 377,480 | 12,400 | 9.46% | 3.28% |
| Auto Center Area | Bremerton | 385,650 | 32,075 | 8.29% | 8.32% |
| Total | | 1,388,320 | 62,775 | 8.60% | 4.52% |

Source: Bradley Scott, Inc.

Overall, the availability of industrial space in Kitsap County is very low right now (see TABLE #6). Most new users have to find someone to develop a build-to-suit to meet their needs. We are in somewhat of a “Catch 22”. Limited demand, especially large users, and substantial development costs create resistance to developing a major industrial project. Yet, the lack of industrial space, that is available in a timely manner, is limiting our ability to attract new industrial users. The private sector and governmental agencies are working to find a solution to this dilemma.

TABLE 6

