



Bradley Scott, Inc.
400 Warren Avenue, #450
Bremerton, Washington 98337
(360) 479-6900
(360) 479-5499 (Fax)
bsi@bradleyscottinc.com
www.bradleyscottinc.com

COMMERCIAL MARKET REPORT

Kitsap County

October 2009

Prepared by the Staff at Bradley Scott, Inc.

Like almost every place else in America, the economy has had a negative impact on the Commercial Real Estate market. It is better here than in most areas, in part because of the continued growth of the Navy. The Ship Yard work load continues to be very high. Unfortunately, we have not seen the expected demand for office space from Navy contractors. Another factor that has influenced the office market is a slowdown in growth of the medical sector. Most of the office absorption last year was related to expansion of medical services. Both Harrison Medical Center (HMC) and The Doctors Clinic, the largest medical groups in Kitsap County, were building new buildings and occupying vacant office space. Currently there are no market sectors that appear ready to lead any new office expansion. Although vacancy in office space is higher, 14.72%, than retail space, 11.09%, it is the retail market that has been hardest hit by the recession.

For analysis purposes, Kitsap County is divided into five regions; Bainbridge Island, Poulsbo, Silverdale, Bremerton and Port Orchard. In October 2009 – 516 properties, 262 Office and 254 Retail, were surveyed in these five areas. Similar surveys have been conducted bi-annually, usually April and October, since. The total square footage of office space surveyed in October 2009 was 3,584,246 square feet. This is 152,992 square feet more than was surveyed in October 2008. The total square footage of retail space surveyed in October 2009 was 7,319,942 square feet. This is 21,576 square feet more than was surveyed in October 2008.

The current county wide office vacancy rate is 14.72%. This is an increase of 0.99% above the October 2008 vacancy rate of 13.73% and 2.17% above the October 2007 vacancy rate of 12.55%. County wide office vacancy increased from October 2008 to October 2009 by 56,682 square feet. Office vacancy has increased every year since 2005 when it was 6.91%.

As usual, there were major differences in the office leasing activity in the five regions of the County. Port Orchard is the only area of the County that showed a decrease in office vacancy over the last year. It was a small decrease of 0.23%. Still Port Orchard has the County's 2nd highest office vacancy rate at 15.12%. Over the last 2 years Bainbridge Island and Poulsbo have experienced a decrease in office vacancy. In part, this is the result of the decrease in new building construction. Both areas saw substantial new office product come on line in 2007. Bremerton has the highest office vacancy rate in the County, 16.54% and the greatest increase over the last 2 years, 5.66%, an increase of 52%. This large increase is the result of new construction and the loss of a couple large tenants. The lowest office vacancy rates in the County are Bainbridge Island, 12.91% and Silverdale 13.00%. For comparison the office vacancy rate is Silverdale in October 2005 was 3.91%.

It appears the office market in Kitsap County has or is close to bottoming out. We are beginning to see a small increase in the number of tenants searching for new space. There are almost no new buildings under construction. If the national economy continues to improve, we should see decreases in vacancy in the next few months.

OFFICE SUMMARY (continued)

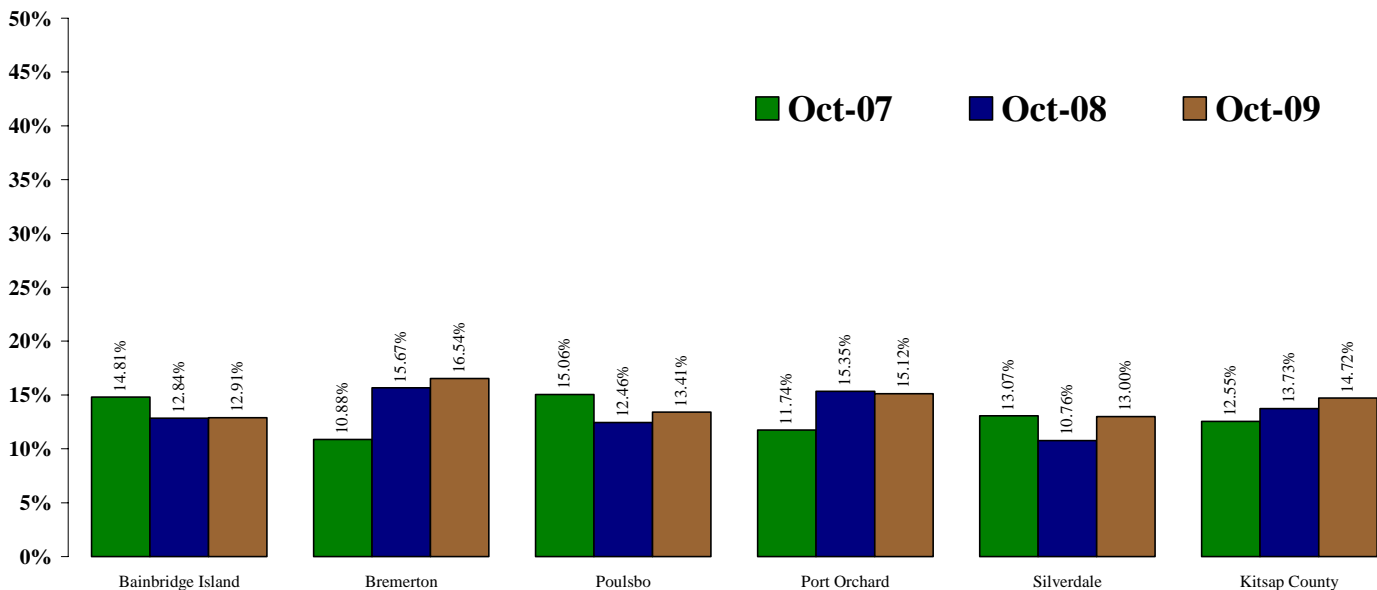
Kitsap County Office Vacancy Survey As of October 2009

Area	Office Space		Percent Vacant
	Surveyed	Vacant	
Bainbridge Island	347,328	44,827	12.91%
Bremerton	1,449,519	239,803	16.54%
Poulsbo	631,919	84,746	13.41%
Port Orchard	385,077	58,213	15.12%
Silverdale	770,403	100,124	13.00%
Kitsap County	3,584,246	527,713	14.72%

* Does not include Bremer Dept. Store. (42,740sf)

Source: Bradley Scott, Inc.

Kitsap County Office Vacancy Rates



RETAIL SUMMARY (continued)

The current county wide retail vacancy rate is 11.09%. This is an increase of 3.34% above the October 2008 vacancy rate of 7.75% and 3.81% above the October 2007 vacancy rate of 7.28%. County wide retail vacancy increased from October 2008 to October 2009 by 246,410 square feet. The current retail vacancy rate of 11.09% is the largest vacancy of any survey we have conducted. The average for the last 7 years is 6.82%. The retail vacancy is currently 63% higher than the 7 year average.

No area of the County shows a decrease in retail vacancy. Bainbridge Island has the lowest retail vacancy at 5.59%. Still this rate is a 36% increase over last year. Bremerton again has the highest retail vacancy of 16.28%. Much of the Bremerton vacancy is large retail stores in East Bremerton and vacant retail in Downtown which resulted from the Tunnel construction. Now that the Tunnel and the adjacent park are open, we hope to see an increase in retail leasing in the Downtown area. The largest percentage increase in retail vacancy over the last year occurred in Port Orchard. The retail vacancy rate increased from 6.69% to 12.00%. This is an increase of 79%. When we look at a 2 year time frame, it is Poulsbo with the greatest increase. The retail vacancy in Poulsbo was only 1.22% in October 2007. It is currently 8.96%. This is an increase of 634%

Like all retailers we are waiting for Christmas. A good Christmas and an improving economy should show up as decreased vacancy in the next report. However, if Christmas does not improve and/or the economy slows down again, we can expect more record breaking retail vacancies in the future.

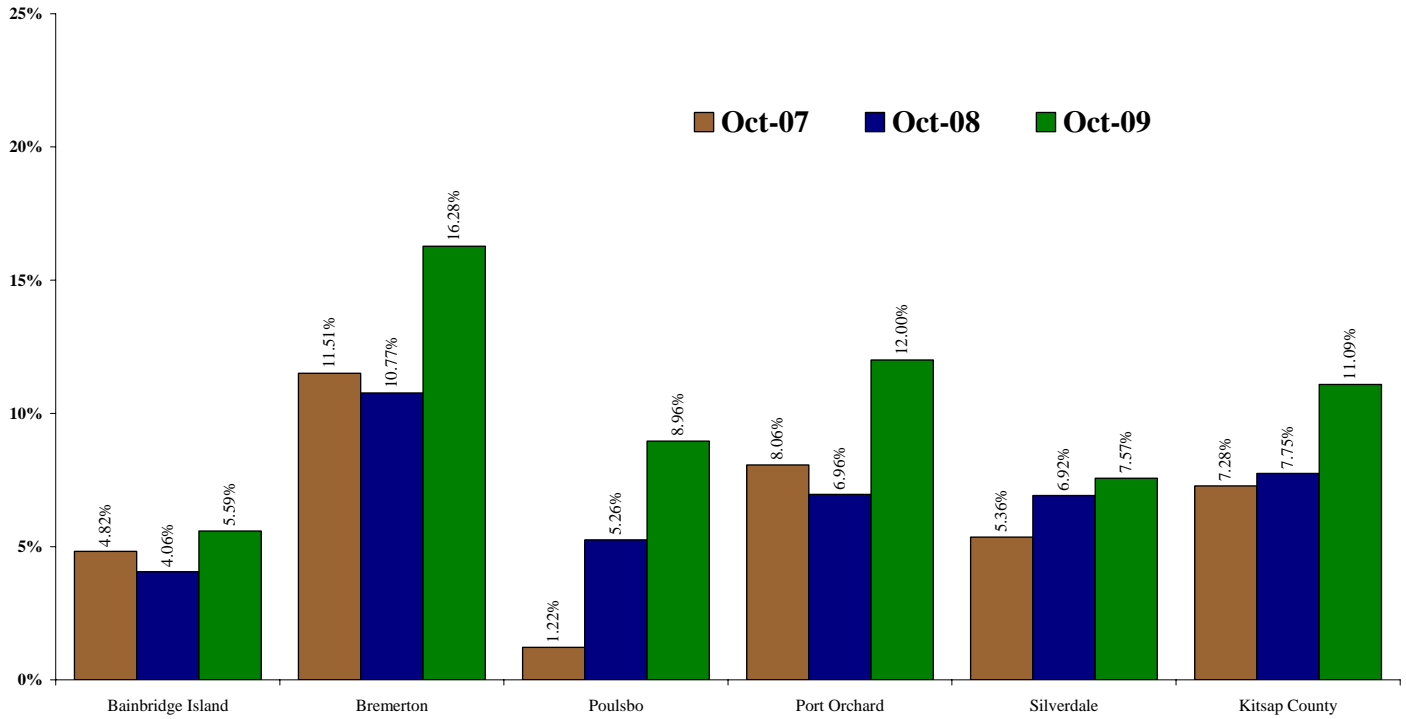
Kitsap County Retail Vacancy Survey As of October 2009

<i>Area</i>	<i>Retail Space</i>		<i>Percent</i>
	<i>Surveyed</i>	<i>Vacant</i>	<i>Vacant</i>
Bainbridge Island	355,103	19,840	5.59%
Bremerton	2,153,460	350,534	16.28%
Poulsbo	783,572	70,209	8.96%
Port Orchard	1,495,515	179,484	12.00%
Silverdale	2,532,292	191,741	7.57%
Kitsap County	7,319,942	811,808	11.09%

Source: Bradley Scott, Inc.

RETAIL SUMMARY (continued)

Kitsap County Retail Vacancy Rates



For questions or comments, please contact

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