

MARKET TRENDS | **SEATTLE**

RETAIL

2ND QUARTER
2020

▼ **ABSORPTION** | ▲ **VACANCY** | ▼ **RENTAL RATE** | ▼ **CONSTRUCTION DELIVERIES**

The 2nd quarter was one of the more remarkable periods for the region with the dual impact of Covid-19 and the Black Lives Matter protests. By the end of the quarter, King, Kitsap, Pierce and Snohomish Counties are in Phase 2 re-openings. Thurston County is in Phase 3. Kitsap County had applied for Phase 3 but this is on hold. Businesses that were classified as non-essential and therefore closed in Phase 1 are starting to open.

With re-opening, businesses must plan for social distancing and a face covering order is in place. These measures limit sales potential in many cases. With re-opening, Covid case counts are increasing. For the retail market, it is critical that progress be made. Many businesses could only make it through one closure period and are likely to fail if a second closure period occurs.

VACANCY

In the 2nd quarter, the direct vacancy rate increased nine basis points to 2.61%. 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 21 basis points from 2.97% to 3.18% and remains well below the recession peak in the 4th quarter 2010 at 8.00%. Properties with 50,000 s.f. or more contiguous vacancy represent 0.9% of total inventory and 14.4% of vacancy. Most of this segment is less functional. The Covid-19 impact on vacancy

will continue to be felt in through the remainder of 2020. Vacancy is expected to rise significantly. In the last recession, vacancy increased from 3.8% to 5.9%. The most significant pullback so far is 24 Hour Fitness, which closed seven stores in the region.

MARKET RENT TREND

Rent growth was 2.6% year over year in the 2nd quarter 2020 but that growth is pre Covid-19. The Covid-19 impact will increase vacancy and decrease rents. Costar is projecting rent decline of 6% to 12% for the next four quarters before starting to recover. In the last recession, average asking rents decreased from 25%. In addition, concessions (free rent and TIs) increased. Lessors are working with tenants through the stay at home order phase and for the balance of 2020 in some combination of rent relief, rent deferral and lease restructuring. Owners are seeing 40% to 60% of tenants seeking rent relief. Negotiating these amendments is a case by case basis but by the end of the 2nd quarter a trend

Market Breakdown

County	Direct Vacancy	Available
King	2.53%	2.87%
Kitsap	2.49%	3.07%
Pierce	2.67%	3.69%
Snohomish	3.75%	3.18%
Thurston	3.43%	3.63%
Total	2.69%	3.18%

2Q 2020 RETAIL RENTS

SEATTLE CBD	\$40 to \$80/s.f. NNN
SEATTLE MIXED-USE	\$30 to \$50/s.f. NNN
SUBURBAN	\$20 to \$40/s.f. NNN

had developed for typical rent deferral being 2 to 4 months of base rent to be paid back in 6 to 12 months starting in 2021. Tenants are typically required to keep paying NNN recoveries. For some tenants that owners want to keep but who are struggling (e.g. fitness) lessors are providing abatement instead of deferral. We have seen cases where term was added or where tenants exercised options to extend in exchange for relief. Rent collections were 50% to 60% of contract in April but improved in May and June.

NEW & PROPOSED CONSTRUCTION ACTIVITY

Retail development activity is moderate with new development at 0.40% of supply. 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. New development will decline as developers and tenants gauge the Covid-19 impact.

MARKET DEMAND/NET ABSORPTION

Net absorption has been positive, with an annual average of 1.71 million s.f. for the five-year period ending in the 2nd quarter 2020. Absorption for the last four quarters was below average at 1.44 million s.f. Absorption will slow for the balance of 2020 with negative absorption projected for the balance of 2020. On the positive we expect to see Amazon taking spaces for food stores and larger Amazon Go formats.

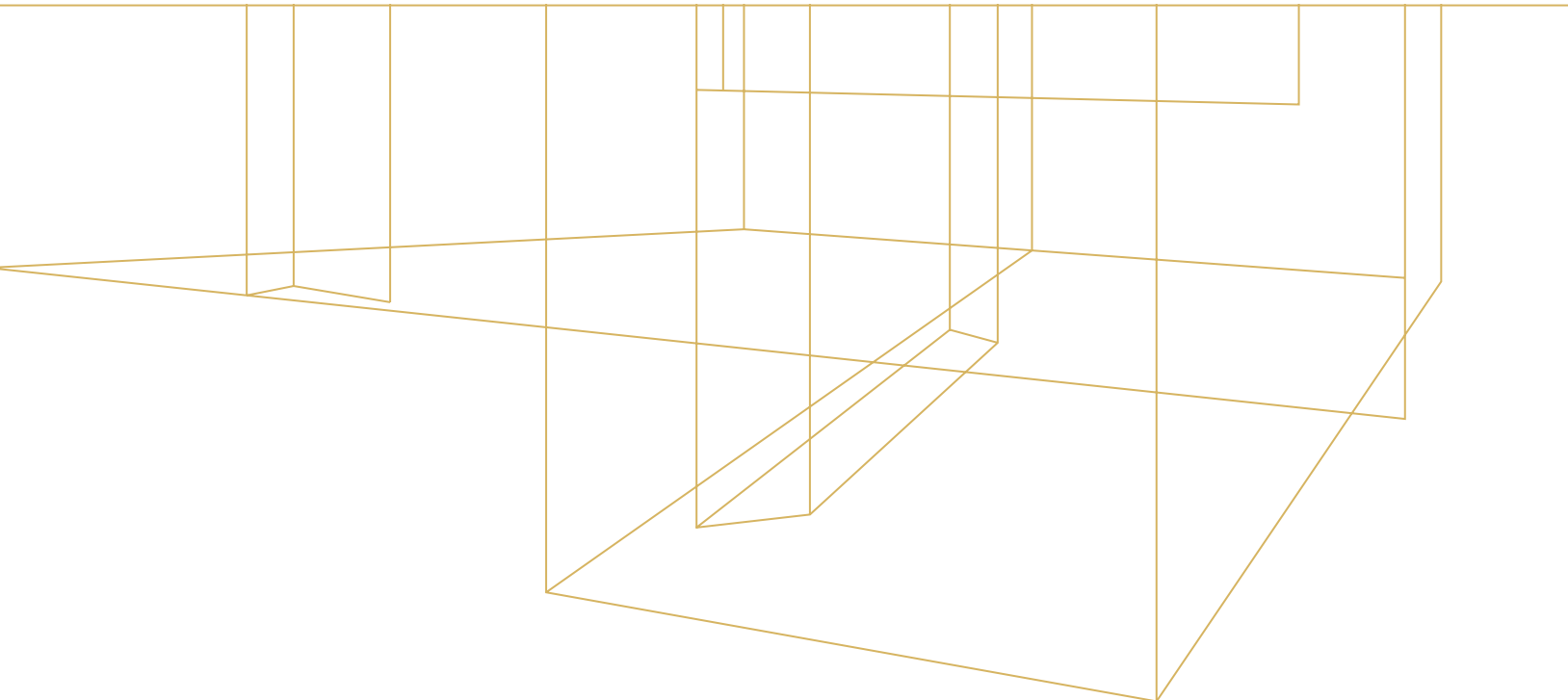
INVESTMENT ACTIVITY

Cap rates for single tenant properties for businesses not impacted by Covid (e.g. fast food, drugstores, food stores) remain low due to strong investor demand. Cap rates will increase for B and C quality centers but to what level

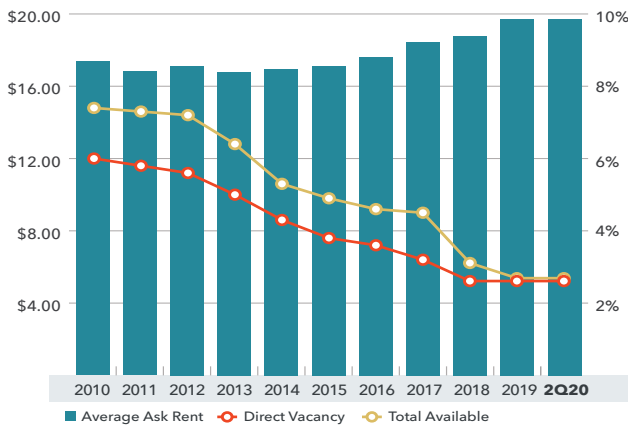
all depends on the Covid-19 impact on employment, personal income and shopping habits post Covid-19. The PwC Investor survey shows a year over year increase in cap rates of 87 basis points for malls and 35 basis points for power centers. The average cap rate for strip centers, which includes daily needs anchored centers, is unchanged.

Regional sales activity has slowed in 2020. In the 2nd quarter, there were 31 sales of retail properties of \$2 million or more in the Puget Sound region. 15 of these are covered land plays or redevelopments. Of the 16 remaining, 5 are owner user purchases. The following table shows the trends for sales volume and cap rates for properties \$5 million or greater for the last ten years. The average cap rate has declined in 2020, but it is a limited sample YTD.

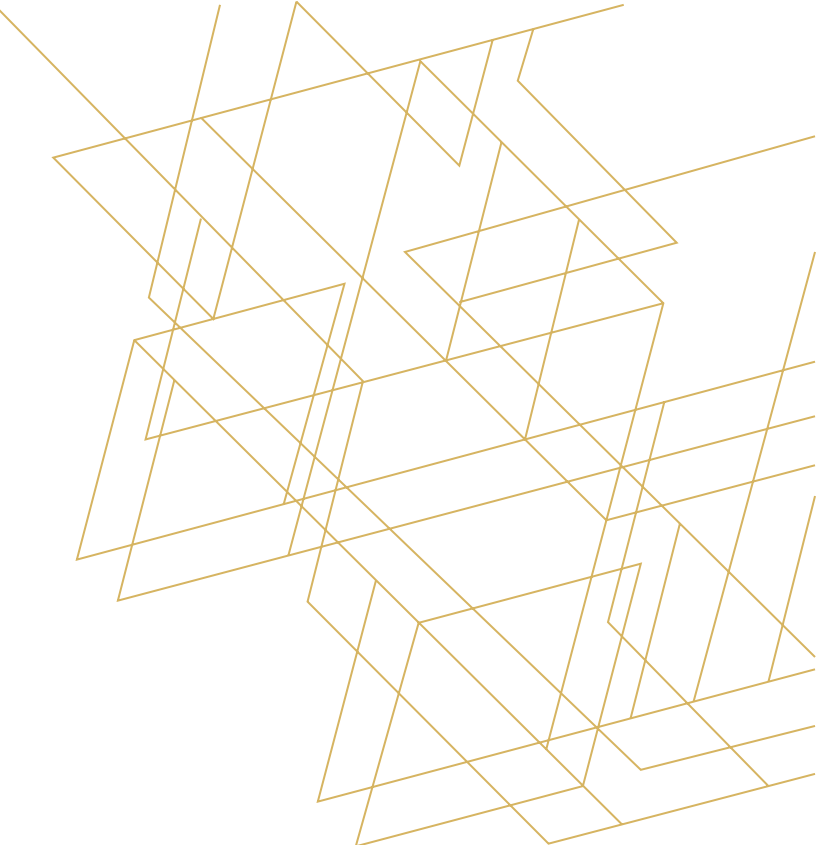
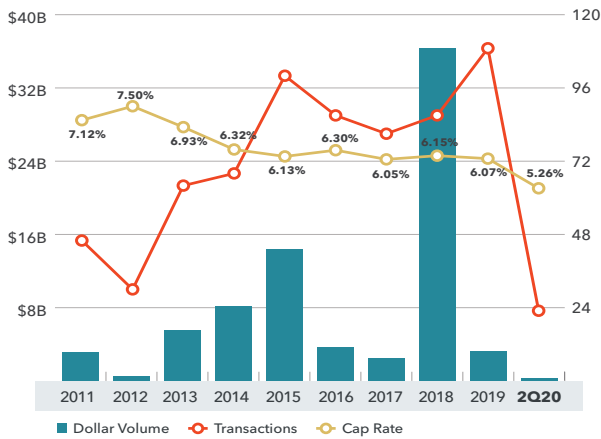
Source: CoStar & PwC



LEASE RATE, VACANCY & AVAILABILITY



SALES VOLUME, TRANSACTIONS & CAP RATE



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COMMERCIAL BROKERAGE

27M	ANNUAL SALES SF	440+	NO. OF BROKERS
\$9.6B	ANNUAL TRANSACTION VOLUME	42M	ANNUAL LEASING SF

VALUATION ADVISORY

1,680+	APPRAISALS ANNUALLY	38/24	TOTAL NO. APPRAISERS/MAI'S
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PROPERTY MANAGEMENT

70M+	MANAGEMENT PORTFOLIO SF	\$12B+	IN ASSETS UNDER MANAGEMENT
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