

MARKET TRENDS | **SEATTLE**

# RETAIL

**3RD QUARTER**  
**2020**

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

The third quarter is marked by the gradual re-opening of businesses as different areas progress in meeting health standards. Covid-19 is persistent, but Washington has done well relative to the nation as a whole.

**VACANCY**

In the third quarter, the direct vacancy rate increased 24 basis points to 2.93%. King County saw the largest vacancy increase, going from 2.53% in the 2nd quarter to 2.91% in the 3rd quarter, an increase of 38 basis points. Pierce County vacancy increased by 33 basis points. Total available space (total vacant as well as occupied but available) increased 15 basis points from 3.18% to 3.33%. The Covid-19 impact on vacancy will continue to be felt in through the remainder of 2020 and likely well into 2021. 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 3.2% year over year in the third quarter 2020 but that growth is not fully impacted by Covid-19. The Covid-19 impact will increase vacancy and decrease rents. Costar is projecting a 3% to 4% decline by early 2021 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 Covid-19 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 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 the third quarter.

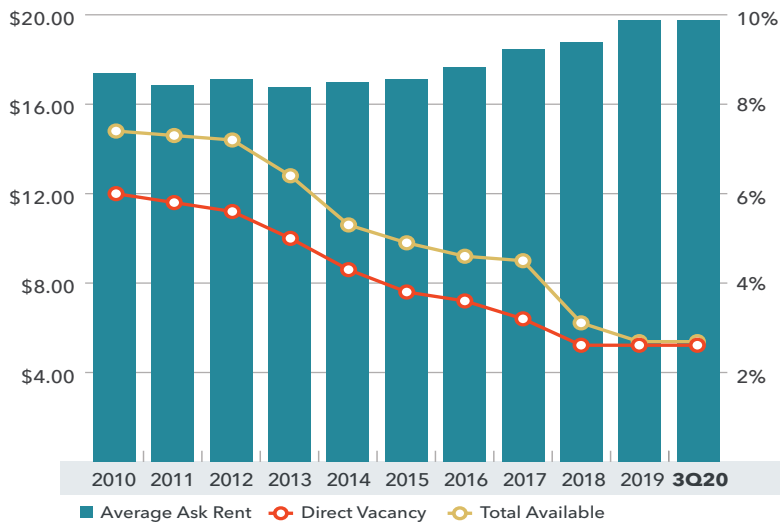
## Market Breakdown

County	Direct Vacancy	Available
King	2.91%	2.94%
Kitsap	3.43%	3.87%
Pierce	2.83%	3.50%
Snohomish	2.77%	2.74%
Thurston	3.27%	3.50%
<b>Total</b>	<b>2.93%</b>	<b>3.33%</b>

**3Q 2020 RETAIL RENTS**

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

## LEASE RATE, VACANCY & AVAILABILITY



## NEW & PROPOSED CONSTRUCTION ACTIVITY

Retail development activity is moderate slowing as developers and tenants gauge the Covid-19 impact. 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.

## MARKET DEMAND/NET ABSORPTION

Net absorption was positive pre covid. As expected, absorption turned negative at over 500,000 s.f. in the 2nd and 3rd quarters, leading the increased vacancy rate. On the positive we expect to see Amazon taking spaces for food stores and larger Amazon Go formats. On the negative, we see continuing closures of full-service restaurants, especially in locations dependent on daytime employment. Apparel retailers, particularly department stores, are struggling.

## 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 have increased for B and C quality centers. The PwC Investor survey shows a year over year increase in cap rates of 75 basis points for malls and 41 basis points for power centers. The average cap rate for strip centers, which includes daily needs anchored centers, is up 7 basis points.

Regional sales activity has slowed in 2020. In the 3rd quarter, there were 29 sales of retail properties of \$2 million or more in the Puget Sound region. 7 of these are covered land plays or redevelopments. Of the 22 remaining, 3 are owner user purchases. We identified 36 retail investor purchases in Washington and Oregon in the 3rd quarter. Cap rates range from 4.50% to 9.16%, but only 2 are above 7.00%. 6 of the 36 sales are multitenant, while 30 are single tenant properties. Most of the single tenant sales had 8 years or more of remaining lease term.

Kidder Mathews is the largest, independent commercial real estate firm on the West Coast, with 900 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

**27M**  
ANNUAL SALES SF

**42M**  
ANNUAL LEASING SF

**450+**  
NO. OF BROKERS

**\$9.6B**  
ANNUAL TRANSACTION VOLUME

## VALUATION ADVISORY

**1,680+**  
APPRAISALS ANNUALLY

**37/23**  
TOTAL NO. APPRAISERS/MAI'S

## PROPERTY MANAGEMENT

**70M+**  
MANAGEMENT PORTFOLIO SF

**\$12B+**  
IN ASSETS UNDER MANAGEMENT

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