

MARKET TRENDS | **SEATTLE**

RETAIL

4TH QUARTER
2020

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

The fourth quarter saw the positive of multiple Covid-19 vaccines be approved, but this was offset by a huge spike in infections and the slow roll-out of vaccinations to people. Covid-19 accelerated market share capture from e-commerce. In the second quarter 2020, E-commerce sales increased 44% while total retail sales declined 3%. With some re-openings and pent up demand, total retail sales increased 7% in the third quarter 2020 but e-commerce still increased 37%. For the full year ending in the fourth quarter 2020, e-commerce averaged 12% of all retail sales.

MARKET RENT TREND

Rent growth was 1.6% year over year in the fourth quarter 2020, impacted by Covid-19. The Covid-19 impact will increase vacancy and decrease rents. Costar is projecting a 0.6% to 0.8% decline in the first half of 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 typical rent deferral was 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

VACANCY

In the fourth quarter, the direct vacancy rate decreased 13 basis points to 2.80%. Thurston County was the only area to see vacancy increase, by 21 basis points. Snohomish County saw vacancy decline by 40 basis points and King County saw a 13-basis point decline. Total available space (total vacant as well as occupied but available) was unchanged at 3.18%. The decline in vacancy is somewhat of a surprise and is likely due in large part to rent relief from lessors. Without concessions, tenant failures would be much higher and vacancy would increase. Covid-19 impact on vacancy will continue to be felt well into 2021. Vacancy is expected to rise. In the last recession, vacancy increased from 3.8% to 5.9%.

Market Breakdown

County	Direct Vacancy	Available
King	2.80%	2.87%
Kitsap	3.40%	3.63%
Pierce	2.79%	3.18%
Snohomish	2.37%	3.41%
Thurston	3.48%	3.63%
Total	2.80%	3.18%

4Q 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

deferral. In some cases, term is added or tenants exercised options to extend in exchange for relief. Rent collections were 50% to 60% of contract in April but improved in the second half of 2020.

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 second and third quarters. Surprisingly, there was mild positive absorption in the fourth quarter, leading to the decreased vacancy rate. The 12-month absorption is negative 180,000 s.f., which compares to a five-year average of 1.34 million s.f. On the positive, Amazon is taking spaces for its Fresh and Go formats. On the negative, we

see continuing closures of full-service restaurants, especially in locations dependent on daytime employment. Apparel retailers are struggling, particularly department stores. Macy's has announced three more store closures in Washington and Oregon. JC Penney was saved from bankruptcy by its mall owner buyers but will likely continue to downsize. Nordstrom has been severely challenged but appears to be a survivor at this point.

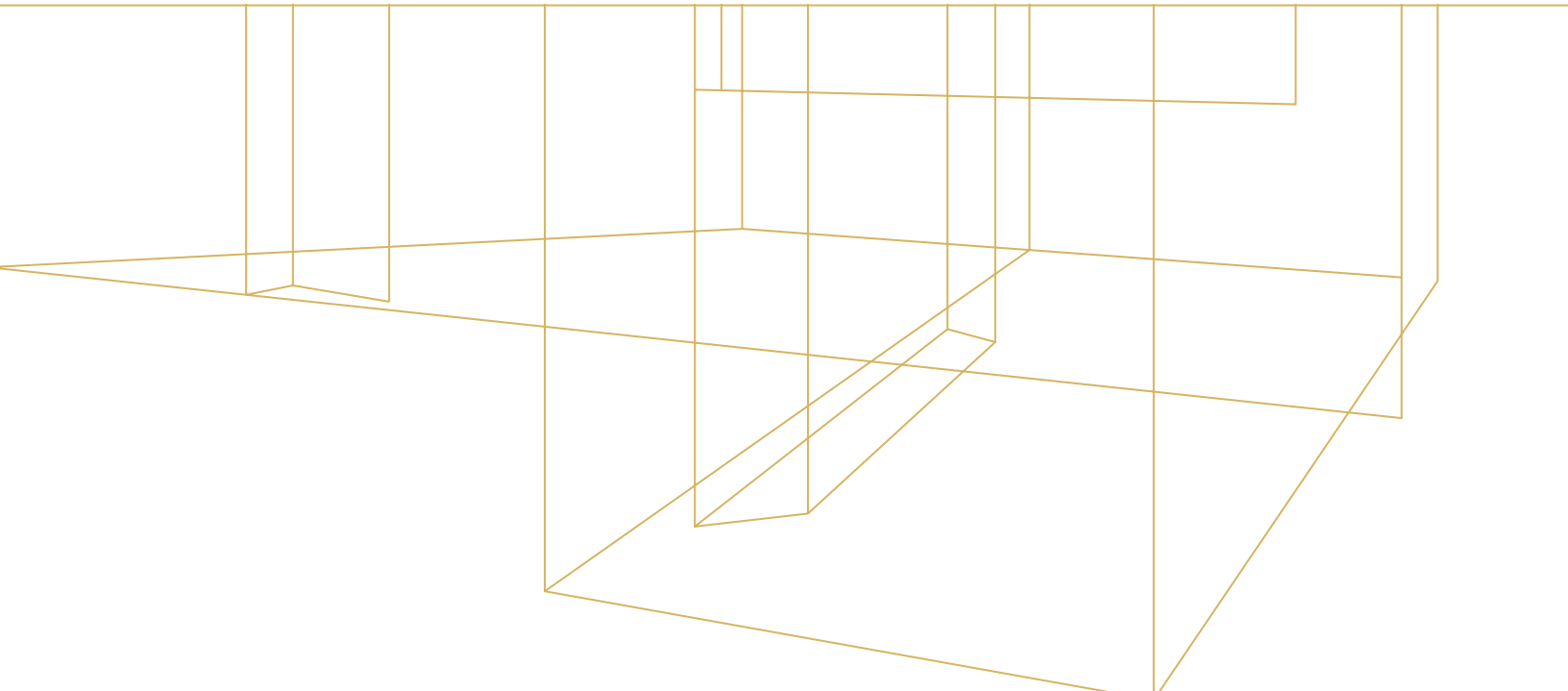
SEATTLE CBD

Downtown Seattle retail has experienced major challenges during the Pandemic. In addition to Covid-19, the protests caused vandalism and looting resulting in costly boarding up businesses and deterring shoppers from visiting downtown. Significant permanent store closures occurred (The Gap, Banana Republic, Brooks Brothers, American Eagle, Bartell, Columbia Sportswear, Gene Juarez, TJ Maxx). Seattle has seen over 140 permanent retail closures. Despite these challenges, the Seattle CBD is beginning to show signs of life. Amazon has leased spaces for its Go concept. Boards are starting to come down and Nordstrom seems poised to

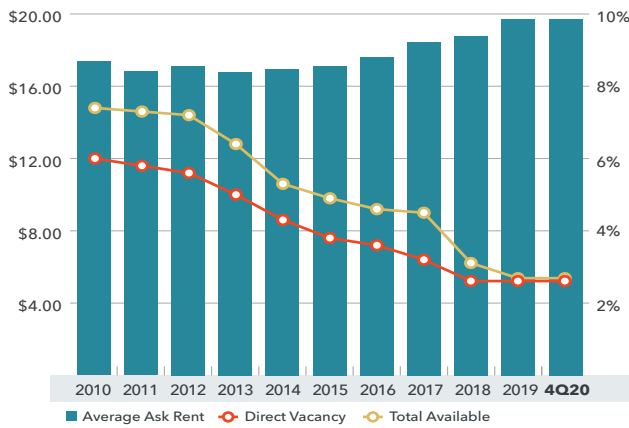
survive the pandemic. As most other department stores close doors and face bankruptcy, Seattle-based Nordstrom has been improving its infrastructure with curb-side pick-up and virtual showings of apparel for customers and is predicted to survive this pandemic. Some smaller restaurants that have been good for to-go and take-away items have actually expanded, though most are closed and face another few months of uncertainty. Retail in the downtown core is still dependent on the thousands of office workers who frequent the vertical buildings, and it looks like late spring or summer of 2021 to open up to a greater capacity than 25%.

INVESTMENT ACTIVITY

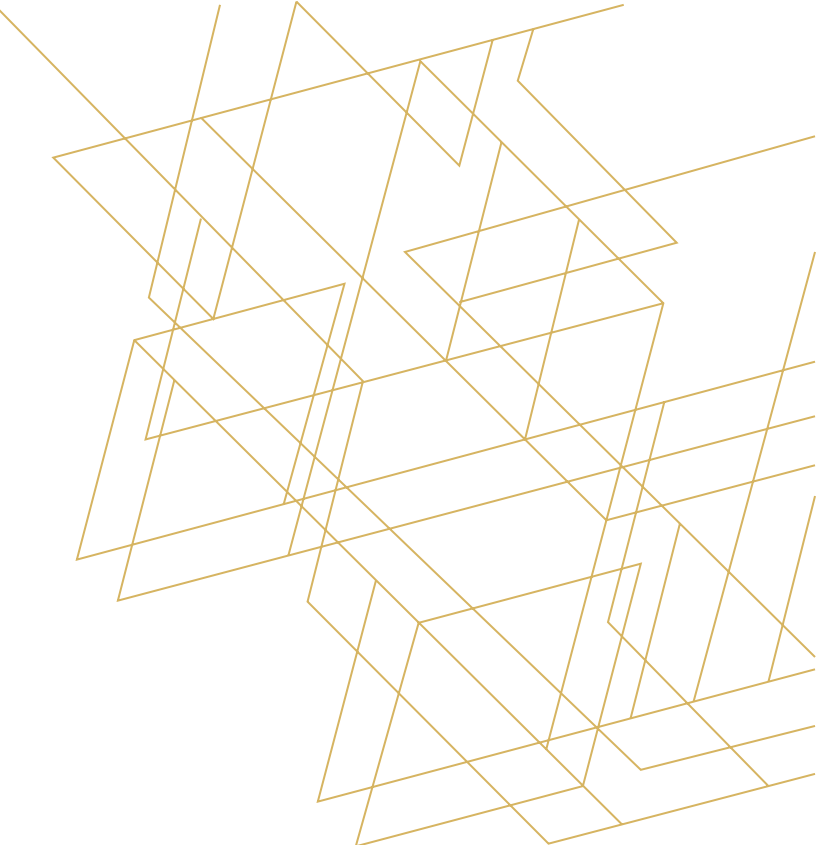
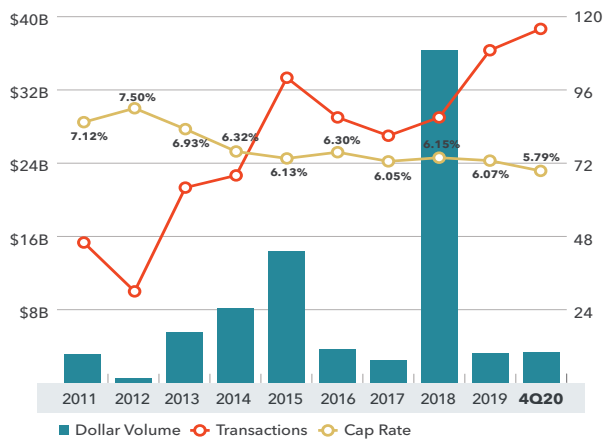
Regional sales activity in 2020 was a fraction of prior years, both by the number of transactions and by dollar volume. Most activity is single tenant or land redevelopment. For properties of \$5 million or more, there were only 21 transactions, excluding land plays. With the influence of the single tenant sector, the average cap rate for the region was close to 6.0%.



LEASE RATE, VACANCY & AVAILABILITY



SALES VOLUME, TRANSACTIONS & CAP RATE



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

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COMMERCIAL BROKERAGE

23M	ANNUAL SALES SF	470+	NO. OF BROKERS
\$8B	ANNUAL TRANSACTION VOLUME	42M	ANNUAL LEASING SF

VALUATION ADVISORY

1,800+	APPRAISALS ANNUALLY	39/20	TOTAL NO. APPRAISERS/MAI'S
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PROPERTY MANAGEMENT

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