

MARKET TRENDS | SEATTLE

RETAIL

2ND QUARTER
2021

▲ ABSORPTION | ◀ VACANCY | ▲ RENTAL RATE | ▶ CONSTRUCTION DELIVERIES

The second quarter saw the full re-opening of business following 15 months of restrictions from the Covid-19 pandemic. Washington State has done well in terms of its population percentage receiving vaccines. As businesses ramp up, there is optimism for a return to strong demand but there are challenges including staffing and supply chain disruptions. Urban core areas daytime employment is still well below pre-pandemic levels because of work from home and employees are slowly returning to offices.

SALES GROWTH

According to the Washington Department of Revenue, taxable retail sales (NAICS 44 & 45) in 2020 were 6.5% over 2019, despite the impact of the pandemic. The five Puget Sound counties saw growth from 0.5% in King County to 16.3% in Thurston County.

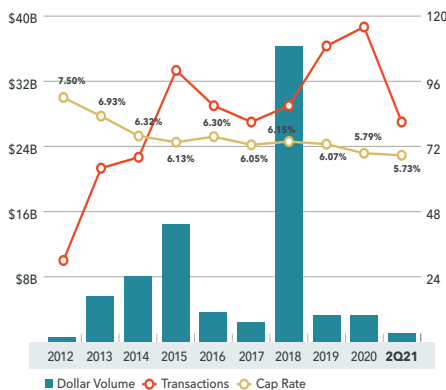
2020 VS 2019

County	Growth (%)
King	0.5%
Kitsap	6.1%
Pierce	9.3%
Snohomish	4.9%
Thurston	16.3%
State	6.5%

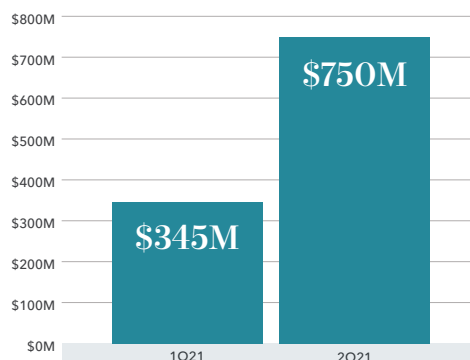
VACANCY

In the second quarter, the direct vacancy rate decreased 11 basis points to 2.96%. King and Thurston County saw vacancy decrease, by 18 and 24 basis points, respectively. Pierce and Snohomish saw County saw mild vacancy increases. Vacancy increased during the pandemic and is now lowering as restrictions end. That said, small tenants were buoyed by government assistance programs like PPP and without these there would have been further increases. As restrictions end, so will assistance and there may be some lag level of business failure.

SALES VOLUME, TRANSACTIONS & CAP RATE



SALES VOLUME



2Q 2021 RETAIL RENTS

SEATTLE CBD	\$40 to \$80/s.f. NNN
SEATTLE MIXED-USE	\$30 to \$50/s.f. NNN
SUBURBAN	\$40 to \$45/s.f. NNN

MARKET RENT TREND

Rent growth was 4.3% year over year in the second quarter 2021, as the impact of the Covid-19 pandemic eases. Costar is projecting growth of 3.3% to 4.0% over the next three quarters before returning to a more steady pace of 2% to 3%.

NEW & PROPOSED CONSTRUCTION ACTIVITY

Retail development activity is moderate slowing as developers and tenants gauge the Covid-19 impact. Forty-one retail properties were completed since the start of 2020, the largest being Wilburton Village in Bellevue, which is anchored by Target and PCC, with a larger clinic for Virginia Mason and Dave & Busters. Kemper has announced a mixed-use expansion of Bellevue Square and Kimco has announced mixed use redevelopment at Factoria Village in Bellevue. The former Sears at Alderwood Mall is being redeveloped with mixed use. Across the street to the north from Alderwood Mall, a new Home Depot will open in the fourth quarter. 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. In Tacoma, build-to-suits are underway for Nordstrom Rack and Floor & Décor.

MARKET DEMAND/NET ABSORPTION

Net absorption was positive pre covid. As expected, absorption turned negative at over 550,000 s.f. in the second and third quarters 2020. 2nd quarter 2021 absorption was positive. The 12-month absorption is slightly negative at 31,000 s.f.. On the positive, Amazon is taking spaces for food stores, opening in Bellevue (Factoria) and pending in Federal Way (The Commons). On the negative, we see continuing closures of full-service restaurants, especially in locations dependent on daytime employment. Theaters are slowly opening and increasing capacity but are also dealing with studios new models of streaming first run films directly.

SEATTLE CBD

Downtown Seattle retail has experienced major challenges during the Pandemic. Retail in the Downtown Core is still dependent on the thousands of office workers who frequent the vertical buildings, and it looks like a fall return to office plans for major employers.

INVESTMENT ACTIVITY

In the second quarter, there were forty-nine sales of retail properties over \$2 million. Six of these are redevelopment sites and six are owner user gas stations. The larger sales include six Fred Meyer stores sold as part of a larger portfolio sale leaseback, Michaels Toyota of Bellevue and Northgate Plaza. The average cap rate was 5.78%, driven by single tenant deals with significant term remaining.

Source: CoStar

2Q 2021 VACANCY: DIRECT VS. TOTAL

County	Direct Vacancy	Available
King	2.77%	3.00%
Kitsap	3.43%	3.70%
Pierce	3.22%	3.60%
Snohomish	2.61%	3.90%
Thurston	2.61%	3.50%
Total	2.86%	3.30%

DATA SOURCE: COSTAR

Kidder Mathews is the largest, independent commercial real estate firm on the West Coast, with 900 real estate professionals and staff in 21 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

23M

ANNUAL SALES \$F

42M

ANNUAL LEASING \$F

460+

NO. OF BROKERS

\$8B

ANNUAL TRANSACTION VOLUME

VALUATION ADVISORY

1,800+

APPRAISALS ANNUALLY

40/19

TOTAL NO. APPRAISERS/MAI'S

ASSET SERVICES

70M

MANAGEMENT PORTFOLIO \$F

\$12B

IN ASSETS UNDER MANAGEMENT

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

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