

MARKET TRENDS

SEATTLE RETAIL



Year-Over-Year Change

The 3rd quarter saw continued improvement for the retail sector with improved vacancy. There are headwinds in the form of inflation, high interest rates and recession.

Urban core area daytime employment is still well below pre-pandemic levels because of work from home and employees are slowly returning to offices. Ground level retail in the Seattle CBD is restrained by lower daytime employment and safety concerns. In the suburban areas, it is a different story, much more optimistic with low vacancy and strong tenant demand.

VACANCY

In the 3rd quarter, the direct vacancy rate increased 9 basis points to 2.69% and total available space increased 2 basis points. Pierce and Snohomish counties saw vacancy decline 20 to 25 basis points, but all other counties saw vacancy increase.

MARKET TREND

Rent growth was 1.9% year over year in the 3rd quarter 2022, down from 2.6% in Q2 and the 3.4% in Q1. Costar is projecting a little better rent growth of 2.1% in Q4 2022 and 2.3% to 2.9% in 2023.

NEW & PROPOSED CONSTRUCTION ACTIVITY

Retail development activity is measured and mostly on a build-to-suit basis with multiple new units for chains like 7-11, Starbucks, Popeye’s, Chick Fil A, Chipotle, Habit Burger, Valvoline, and Gravity Coffee. Costco is under construction in Lake Stevens. Kohl’s will open a smaller format store at Tacoma Mall in Q4. Some lower density retail centers will be redeveloped with higher density mixed-use, which will include some ground floor retail. Examples of this are Merlone Geier’s projects in Shoreline, Lynnwood and Redmond and Molbak’s in Woodinville.

MARKT DEMAND/NET ABSORPTIOON

3rd quarter absorption was mildly positive at 114,045 s.f. The total absorption for the last four quarters is 425,646 s.f., which is below the five-year average of 1,111,195 s.f. Suburban leasing is the strongest, especially for the best quality centers and trade areas. There is significant demand

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MARKET BREAKDOWN

3Q 2022 VACANCY: DIRECT VS. TOTAL

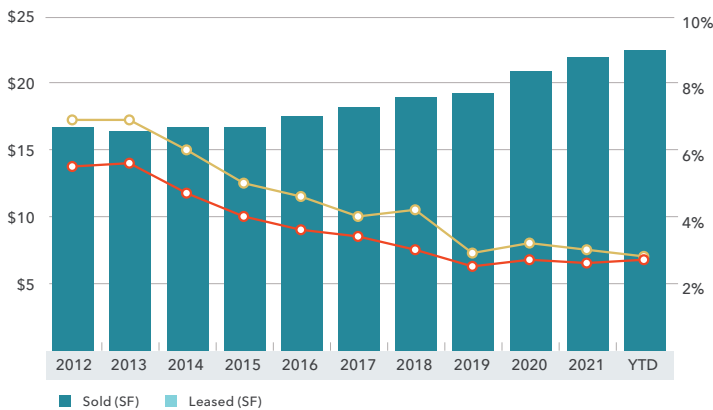
County	Direct Vacancy	Available
King	2.83%	2.75%
Kitsap	2.97%	3.30%
Pierce	2.65%	2.77%
Snohomish	2.42%	2.70%
Thurston	2.24%	2.61%
Total	2.69%	2.77%

for big box space in all markets for both traditional retailing as well as special purpose retailing. There is strong demand for second generation restaurant space, due in large part to the high cost of infrastructure and buildout. Winco opened at Kitsap Mall in August. At Home is leasing a portion of the former Sears store at Everett Mall. A long time vacant former Top Foods in Kent is to be repositioned for three tenants, including a smaller food store. Met Market leased a former Value Village in Seattle. H Mart purchased the former Big Lots in Issaquah. The proposed acquisition of Albertsons by Kroger will result in duplicate store closures in the Pacific Northwest, where these two chains are primary competitors. A disposition of a larger number of stores will probably be required for the sale to get regulatory approval.

INVESTMENT ACTIVITY

In the 3rd quarter there were 90 sales of retail properties over \$1 million. This is down from 113 sales in the 2nd quarter. There was a total of \$545 million in volume and an average cap rate of 5.45%. 11 of the sales are covered land plays, 7 are gas stations or auto service, 4 are car or RV dealerships, and 13 are owner user deals. Of the balance of 21 sales, 7 are anchored centers and 14 are not anchored. Larger investment sales in the 3rd quarter are Town & Country in Issaquah, Lake Forest Park Town Center, Thomas Lake Center, Aurora Square and Ballinger Village. ROIC and Merlone Geier traded Aurora Square for Thomas Lake and Ballinger. Q3 saw continued interest rate increases, and this is impacting sales volume and cap rate. The level of impact varies from property to property, but brokers are looking at 100 basis points as a starting point and going up or down depending on the specific asset. The outlook for the 4th quarter is reduced sales volume. Buyers will remain patient, accumulate dry powder and be ready for opportunities as the market experiences this new price discovery. Sellers will not be inclined to sell for less than what they think asset values were prior to the interest rate increases, so they will not be inclined to sell.

LEASE RATE, VACANCY & AVAILABILITY



Data Source: CoStar

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COMMERCIAL BROKERAGE

49.7M	43.7M
ANNUAL SALES SF	ANNUAL LEASING SF
470+	\$10.9B
NO. OF BROKERS	TRANSACTION VOLUME ANNUALLY

ASSET SERVICES

52M	875+
MANAGEMENT PORTFOLIO SF	ASSETS UNDER MANAGEMENT

VALUATION ADVISORY

2,600+	47/24
ASSIGNMENTS ANNUALLY	TOTAL NO APPRAISERS/MAI'S

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