4Q 2022

MARKET TRENDS

SEATTLE *RETAIL*

↔	VACANCY	↑	ABSORPTION
↑	RENTAL RATES	↑	CONSTRUCTION DELIVERIES

Year-Over-Year Change

Overall, retail market activity has been gaining velocity with increased leasing, rising rents and low vacancies.

Increased work from home and hybrid work continues to impact urban cores as daytime employment figures remain well below pre-pandemic levels. This trend persists in Downtown Seattle as employees are returning to the office at a very slow and steady pace. In contrast, as more employees work closer to their homes, suburban retail markets have seen a notable uptick in activity and energy.

VACANCY

The direct vacancy remained stable in Q4 2022 at 2.6%, while the overall availability rate declined 10 basis points (bps) during the quarter and 50 bps during the year to end the year at 2.6%. King County experienced a modest vacancy rate increase during the year, largely due to softer market dynamics in urban cores. All other counties posted year-over-year declines in vacancy rates with Thurston and Snohomish Counties having the lowest rates at 1.8% and 2.0%, respectively.

MARKET TREND

Rent growth equaled 2.4% quarter-over-quarter and 5.4% year-over-year. On an annualized basis, average asking rents saw positive rent growth every year for the past six years, averaging 6.4% per year. Most experts forecast continued rent growth in 2023, but at a more tepid pace between 3% and 5%.

DEVELOPMENT ACTIVITY

Retail development declined following the pandemic but remained steady over the past two years, especially with build-to-suit and pad developments. After record completions between 2014-2019, averaging 1.2M SF per year, the annual average for 2021-2022 was only 425,000 SF. In 4Q 2022, deliveries totaled approximately 192,000 SF led by a Costco in Lake Stevens (146K SF). There is another 460,000 SF under construction including Black Diamond Crossing in East King County (208K SF) and a handful of smaller strip centers, freestanding shops, and pad developments. Some lower density retail centers will likely be redeveloped with higher density mixed-use and some ground floor retail.

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MARKET BREAKDOWN

4Q 2022 VACANCY: DIRECT VS. TOTAL

County	Direct Vacancy	Available
King	2.90%	2.70%
Kitsap	3.00%	3.00%
Pierce	2.40%	2.50%
Snohomish	2.00%	2.50%
Thurston	1.80%	2.60%
Total	2.60%	2.60%

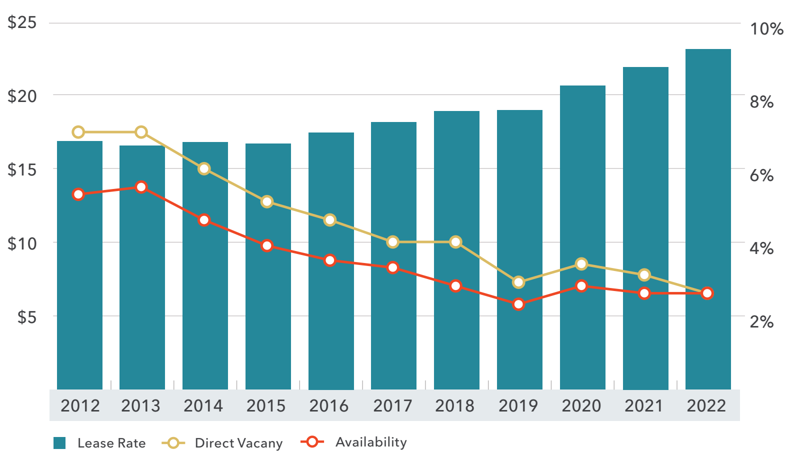
MARKT DEMAND/NET ABSORPTION

Net absorption was positive for the second straight quarter with 268,779 SF, bringing the annual total to just under 450,000 SF. While positive and encouraging, absorption has been a shadow of what it was in prior years – previously averaging 1.0M SF per year over the last five and 1.5M SF per year over the last ten. Leasing is most active in suburban locations, especially for well-located, top-quality centers. There has also been solid activity for big box retail in all markets and for both traditional retailing and special purpose retailing. Second generation restaurant space has seen an uptick in activity, largely due to the high cost of build-out for those spaces. Activity is expected to remain steady in 2023, even with the economic headwinds and various sector challenges.

INVESTMENT ACTIVITY

After a record year in 2021 with nearly 700 transactions over $1 million, equaling nearly $2.5 billion in sales volume, the market took a small step back in 2022 with just under 600 transaction totaling $2.0 billion. The fourth quarter included 116 deals over $1 million, about 20% of the annual total. The average cap rate remained relatively stable at 5.3%, decreasing 20 bps compared to last quarter and declining 50 bps compared to last year. Illustrating the strong demand, average $/SF increased to $418/SF in 2022, up from $389/SF in 2021 and $375/SF in 2020. The market experienced continued interest rate increases in 4Q, impacting both sales volume and cap rate. Owners are hesitant to sell as they maintain their expectations for the value of their assets which were seen before the significant change in interest rates. The increase in rates will force some owners to increase their equity for refinancing to meet the debt service coverage ratios (DSCR) or accept lower asset values when selling.

LEASE RATE, VACANCY & AVAILABILITY



Data Source: CoStar

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COMMERCIAL BROKERAGE

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

ASSET SERVICES

52M MANAGEMENT PORTFOLIO SF	875+ ASSETS UNDER MANAGEMENT

VALUATION ADVISORY

2,600+ ASSIGNMENTS ANNUALLY	48/25 TOTAL NO APPRAISERS/MAI'S

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