

MARKET TRENDS

SEATTLE RETAIL



VACANCY



ABSORPTION



RENTAL
RATES



CONSTRUCTION
DELIVERIES

Year-Over-Year Change

The strength of retail resides in the suburbs as the market continues to be relatively flat and cautiously optimistic.

Economic uncertainty will remain a key market indicator for commercial real estate for the balance of 2023. One positive sign for retail is that consumers are beginning to feel more optimistic about the U.S. economy. The Conference Board published a report in June stating that consumer confidence was at its highest level in nearly 1.5 years. However, fears of a recession still linger, as many consumers remain cautious. Market analysts also forecast at least one more rate hike this year, likely inhibiting widespread spending trends across most retail sectors.

The Seattle retail market started the year slowly, with lower levels of activity in both the first and second quarters of 2023. However, the market remains in a relatively strong position with low vacancy rates, stable asking lease rates and pent-up demand across the region, especially in suburban markets. The retail sector is expected to slowly gain velocity throughout 2023 as the economy strengthens, consumer confidence remains high, and employees continue to come

back to office. Retail activity in urban markets will remain lower than in the suburbs as hybrid and work from home models continue to influence downtown cores.

VACANCY

Despite relatively flat leasing activity across the region averaging 635,000 SF per quarter in 2023 (roughly 10% lower than the recent 5-year average), the Seattle retail market continued its run of very low and very healthy vacancy rates, ending 2Q 2023 at 2.7%. This was the 20th straight quarter with vacancy below 3% and the 36th straight quarter below 5%. Kitsap and King Counties posted the highest vacancy rates at 3.2% and 2.8% while Thurston, Snohomish and Pierce Counties ended the quarter at 1.8%, 2.2% and 2.6%, respectively.

MARKET TREND

While asking lease rates experienced a slight dip during the quarter, dropping -0.5%, the rate was flat year-over-year. However, when comparing the rate to three years ago, rent growth totaled 18%, averaging 6% per year with the bulk of growth occurring in 2020 and 2021. Asking rents are forecasted to grow 3%-5% per year over the next two years.

continued on page 2

2Q 2023 VACANCY VS. AVAILABILITY

County	Direct Vacancy	Availability
King	2.80%	2.90%
Kitsap	3.20%	2.00%
Pierce	2.60%	3.10%
Snohomish	2.20%	2.60%
Thurston	1.80%	2.70%
Total	2.70%	2.80%

DEVELOPMENT ACTIVITY

Development activity remained stable with 622,142 SF under construction, closely mirroring the most recent 5-year average of 615,000 SF. The largest projects under construction include Black Diamond Crossing in East King County (208K SF), Phase II at Everett Shops in Everett (97,000 SF), and a handful of mid-sized and smaller developments. Additionally, 17,567 SF of smaller retail pads were delivered during the quarter.

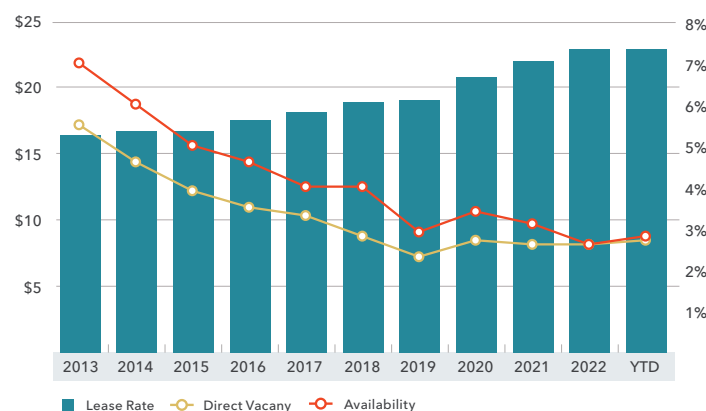
MARKET DEMAND/NET ABSORPTION

After posting two straight quarters of negative net absorption, the year-to-date total was -405,163 SF. However, 2Q 2023 was only the third negative quarter since early 2021. Kitsap County was the only region with positive net absorption for the quarter (+10,263 SF), while both Pierce and King Counties registered the highest levels of negative activity with -92,685 SF and -89,301 SF, respectively. Activity in urban cores continued to lag suburban markets, mirroring trends across the country. Even as economic headwinds persist, the retail market is expected to experience moderate increases in the second half of 2023.

INVESTMENT ACTIVITY

Retail investment activity has been experiencing a deceleration in sales volume over the past few years, dropping from \$2.5 billion in 2021 to \$2 billion in 2022 (for transactions over \$1 million). Currently, the region is on pace to total ±\$900 million, less than half the total of last year. At the end of 2Q 2023, there were 148 transactions totaling \$450 million and an average cap rate of 6.0%, up from mid-5% in 2022. Additionally, pricing averaged \$316/SF during the first half of the year. High interest rates and recessionary indicators will continue to impact leasing and investor demand, making 2023 a challenging year for the commercial real estate industry.

LEASE RATE, VACANCY & AVAILABILITY



Data Source: CoStar

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COMMERCIAL BROKERAGE

32.1M

ANNUAL SALES SF

41.2M

ANNUAL LEASING SF

500+

NO. OF
BROKERS

\$12B

TRANSACTION
VOLUME ANNUALLY

ASSET SERVICES

53M

MANAGEMENT
PORTFOLIO SF

771+

ASSETS UNDER
MANAGEMENT

VALUATION ADVISORY

2,600+

ASSIGNMENTS
ANNUALLY

46/23

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