

MARKET TRENDS

SEATTLE RETAIL



While 2023 was filled with economic challenges, the retail sector across the U.S. showed resiliency and promise.

While the office market continued to struggle and the industrial and apartment markets both slowed compared to previous years – the retail market remained relatively stable. The Puget Sound region mirrored many retail markets across the county with low vacancy rates and slightly expanding lease rates. However, leasing activity across the region was down 10% compared to last year and down 20% compared to pre-covid and a noticeable performance gap between downtown Seattle and the suburbs persisted, with the former posting a vacancy rate of 12.7% and the latter generally falling between 2.0% and 3.0%.

VACANCY

The retail market remained resilient, posting its 22nd consecutive quarter of vacancy under 3.0%. While the direct vacancy rate remained flat in 4Q 2023 at 2.9%, it inched up slightly compared to last year when the rate was 2.7%. Both King County and Pierce County posted 3.0% vacancy rates

while Snohomish, Kitsap and Thurston Counties ended the year at 2.9%, 2.8% and 2.7%, respectively. While market fundamentals are encouraging, market demand is still subdued across the region with pockets of activity.

MARKET TREND

The average asking lease rate was flat quarter-over-quarter but increased 2.4% year-over-year. Notably, this growth rate is down when comparing it to recent historical trends as retail rent growth averaged 5% per year between 2020 and 2022 and 6% per year between 2015 and 2020. Despite the slowdown in activity, rents are still projected to grow between 3% and 5% over the next few years as the economy and the commercial real estate market begins to recover and consumer confidence begins to strengthen.

DEVELOPMENT ACTIVITY

A handful of retail development delivered in 4Q 2023, totaling 70,750 SF, led by Black Dimond Crossing (42,700 SF) in East King County. Even with the completions, overall development activity expanded during the quarter to more than 440,000 SF of projects under construction, the highest total since 3Q 2022. The largest projects under construction include 130,000 SF at the SW corner of Redmond-Woodinville

continued on page 2

4Q 2023 VACANCY VS. AVAILABILITY

| County | Direct Vacancy | Availability |
|-----------|----------------|--------------|
| King | 3.30% | 3.00% |
| Kitsap | 2.70% | 2.80% |
| Pierce | 2.60% | 3.00% |
| Snohomish | 2.70% | 2.90% |
| Thurston | 2.00% | 2.70% |
| Total | 2.90% | 2.90% |

Rd NE & NE 144th Rd in Redmond scheduled to deliver in 2025, and 65,000 SF at 19001 Cascadia Blvd E in Bonney Lake scheduled for delivery in early 2024.

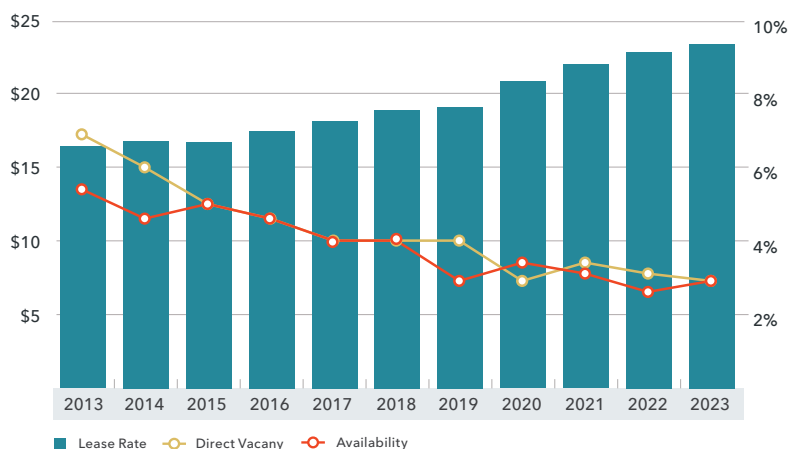
MARKET DEMAND/NET ABSORPTION

After two consecutive quarters of negative net absorption to start the year, the market posted two consecutive quarters of positive net absorption to end the year. While the positive activity was a welcomed sight, the totals were marginally positive at 21,231 SF in Q3 2023 and 19,571 SF in 4Q 2023, ending the year with an annual total of negative 416,833 SF. King County had the highest level of negative activity in 4Q 2023 with negative 30,124 SF, while Pierce County posted the highest level of positive activity during the quarter with 57,170 SF. While market demand in Downtown Seattle continues to lag suburban markets, mirroring trends across the country, overall activity is still expected to moderately increase in 2024.

INVESTMENT ACTIVITY

Investment activity continued to fall in 2023, dropping from a high-water mark in 2021, with 773 transactions totaling \$2.5B for transactions over \$1M. Year-end investment figures for 2023 included 318 transactions totaling \$749M with an average cap rate of 5.8%. This was the lowest annual sale volume total since \$431 in 2013. High interest rates and recessionary indicators will continue to impact leasing and investor demand, making the near term difficult for commercial real estate and the retail market.

LEASE RATE, VACANCY & AVAILABILITY



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 20 offices in Washington, Oregon, California, Nevada, and Arizona. We offer a complete range of brokerage, appraisal, asset services, consulting, project and construction management, and debt equity finance services for all property types.

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

2,800

ASSIGNMENTS
ANNUALLY

42/23

TOTAL NO
APPRAISERS/MAI'S

GARY BARAGONA

Director of Research
415.229.8925 | gary.baragona@kidder.com

MONICA WALLACE

Regional President, Brokerage
Pacific Northwest
206.296.9646 | monica.wallace@kidder.com

