

# Seattle Retail

## Market Forecast

|              | Projection |
|--------------|------------|
| Vacancy      | ↓          |
| Construction | ↔          |
| Rental Rate  | ↑          |
| Absorption   | ↔          |

The retail market is strong in the core markets of Seattle and the Eastside, where most of the employment growth is occurring. The balance of the market ranges from stable to slightly soft. There is positive absorption, new construction and a strong investment climate for stabilized centers and single tenant net leased properties. That said, there are several areas of concern. Pressure continues to grow from e-commerce and retailers that cannot differentiate themselves from this form of competition are under stress. Labor costs are increasing and labor intensive industries are feeling that impact.

## Vacancy: Direct vs. Total

| County           | Vacancy      |              |
|------------------|--------------|--------------|
|                  | Direct       | Total        |
| King County      | 2.72%        | 3.73%        |
| Kitsap County    | 6.49%        | 7.84%        |
| Pierce County    | 4.44%        | 6.09%        |
| Snohomish County | 4.21%        | 5.42%        |
| Thurston County  | 4.15%        | 5.41%        |
| <b>Total</b>     | <b>3.68%</b> | <b>4.90%</b> |

Restaurateurs are finding the cost of doing business particularly in Seattle prohibitive. These costs include labor, taxes, permitting and construction costs. The labor is both expensive and limited. The \$15 minimum wage has increased the cost of labor and raised the minimum wage of unskilled labor at many Seattle restaurants to \$17-\$18/hr. Many restaurants can't find enough labor to staff their stores and turnover is high because workers are in high demand. Adding rising rents, taxes, increased construction costs and added competition from hundreds of new restaurants results in limited profits. Many of the restaurateurs are looking at deals outside of Seattle. We are already starting to see restaurants close or pivot their concept to survive. Large restaurants continue to struggle. The move is towards smaller fast casual and QSRs. Also, interest rate increases are starting to impact cap rates.

## Retail Sales

Retail sales grew 6.2% in 2015, ranging from 5.1% in Snohomish County to 8.7% in Kitsap County. Sales are projected to grow 4.7% in 2016 but final numbers will not be released until sometime in 2017.

## Vacant Space/Vacancy Rate

In the 4th quarter, the vacancy rate decreased 19 basis points from 3.87% to 3.68%. Vacancy is down from the peak of 6.30% in the 1st quarter 2011. Total available space (total vacant as well as occupied but available) decreased from 5.05% to 4.90% and that is down from the peak in the 4th quarter 2010 at 8.00%.

King County is strong. Pierce, Snohomish and Thurston Counties are stabilized, while Kitsap County is the softest market. Vacancy is concentrated in less functional properties, usually vacant anchors. There are 21 properties with 50,000 s.f. or more vacant, down from 26 such properties in the 3rd quarter. These represent just 1.3% of the regional inventory but 21.6% of vacancy. Some chronic vacant spaces are redevelopment candidates.

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### Offices

|                |              |
|----------------|--------------|
| Seattle        | 206.296.9600 |
| Bellevue       | 425.454.7040 |
| South Seattle  | 206.248.7300 |
| Tacoma         | 253.722.1400 |
| Olympia        | 360.705.2800 |
| Portland       | 503.221.9900 |
| San Francisco  | 415.229.8888 |
| Redwood Shores | 650.769.3600 |
| Silicon Valley | 408.970.9400 |
| Sacramento     | 916.970.9700 |
| Roseville      | 916.751.3600 |
| Orange County  | 949.557.5000 |
| Inland Empire  | 909.764.6500 |
| San Diego      | 858.509.1200 |
| Carlsbad       | 760.430.1000 |
| Reno           | 775.301.1300 |
| Phoenix        | 602.513.5200 |

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### Rent Forecast

Regionally, asking rents for direct vacancy increased 5.4% year over year. With regional vacancy below 4% and below 3% in the largest market of King County, there is upward pressure on rates except for the lowest quality segment. Retail rents in the region are: Seattle CBD range from \$40 to \$80/s.f. NNN, Seattle mixed-use retail rents range from \$30 to \$50/s.f. NNN, and suburban retail rents range from \$20 to \$35/s.f. NNN.

### New & Proposed Construction Activity

Retail development activity is moderate. Centercal has started on redevelopment of Totem Lake Mall in Kirkland, with Whole Foods, Nordstrom Rack, Ross and Trader Joe's as anchors. In Gig Harbor, Olympic Towne Center is underway, anchored by Fred Meyer and OPG and Powell Development are planning the Village at Harbor Hill, to be anchored by Town & Country Market. In Snoqualmie, a new center to be anchored by Safeway and Bartell is under construction. Covington Crossings is nearing completion, anchored by HomeGoods, Marshalls and Party City. In Lacey, Wig Properties has submitted plans for a 320,000 sq ft center on 28 acres of the 250 acre Lacey Gateway Property. The site plan indicates a 123,000 sq ft anchor. In suburban markets, we are also seeing a moderate level of build-to-suit development.

Mixed-use development is active in Seattle, Bellevue, Kirkland, Redmond, Issaquah, Bothell and Tacoma. Larger projects in Seattle include Whole Foods in West Seattle and Capitol Hill, PCC in Madison Valley and New Seasons in Ballard. Larger projects on the Eastside include the expansion of Lincoln Square in Bellevue and Kirkland Urban.

### Market Demand/Net Absorption

Net absorption has been positive for five years straight, with an annual average of 1.49 million s.f.

through 2015. 2016 net absorption is 1,413,175 s.f., which includes the impact of the Sports Authority closures with 19 stores in Washington. 14 of these stores containing 578,949 s.f. are in the Puget Sound region.

In 2017, we expect to see closures of Macy's, Sears and Kmart stores across the region. Several former Kmart stores already comprise a significant share of the regional vacancy. Merlone Geier repositioned the Olympia store and plans to do the same for the Tacoma store on 6th Avenue. Macy's and Sears are anchors at Everett Mall, The Commons at Federal Way, Tacoma Mall and Alderwood Mall. Sears is an anchor at Capitol Mall and Macy's is an anchor at Northgate Mall. Macy's has announced it is closing the Everett Mall store and Sears has announced it is closing the Alderwood Mall store.

Another impact to be seen in the next year or so is the merger of Walgreens and Rite Aid. Fred's is to take 865 of these stores. Fred's has 650 stores and 304 of these include pharmacies. It is oriented to the Southeast part of the nation and it is not known how surplus locations will result in Washington.

### Investment Activity

The regional market is targeted by institutional investors for core product because of healthy economic conditions. There were 223 sales of retail properties over \$2 million in 2016. A number of these in the Bellevue, Redmond and Seattle CBDs are operating retail properties but are near term redevelopment sites. Recent Federal Reserve policy has started to impact cap rates. Although cap rates are low, increases have appeared in certain categories.



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