

# 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 Entities and retailers who cannot differentiate themselves from this form of competition are under stress. Labor costs are increasing and labor intensive industries are feeling that impact. Also, interest rate increases are starting to impact cap rates.

## Vacancy: Direct vs. Total

County	Vacancy	
	Direct	Total
King County	2.82%	3.42%
Kitsap County	6.40%	7.52%
Pierce County	4.37%	6.17%
Snohomish County	4.13%	5.26%
Thurston County	4.35%	5.16%
<b>Total</b>	<b>3.71%</b>	<b>4.70%</b>

## 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.

## Vacancy

In the 1st quarter, the direct vacancy rate decreased one basis point from 3.72% to 3.71%. 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 4.94% to 4.70% 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 17 properties with 50,000 s.f. or more vacant, down from 21 such properties in the 4th quarter. These represent just 0.7% of the regional inventory but 16.3% of vacancy. Some chronic vacant spaces are redevelopment candidates.

## 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

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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
- Los Angeles  
213.880.5250
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562.472.0071
- Commerce  
323.727.1144
- 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

**Contact**

**Brian Hatcher**  
Executive VP, Brokerage  
Pacific Northwest  
206.296.9600  
bhatcher@kiddermathews.com

The information in this report was composed by the Kidder Mathews Valuation Advisory Group.

**Andy Robinson, MAI**  
Valuation Advisory Group  
206.296.9600  
andr@kiddermathews.com

Harbor, the Fred Meyer anchored Olympic Towne Center is underway 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 Capitol Hill, PCC in Madison Valley and New Seasons in Ballard. Whole Foods announced it is not going to open its planned store in West Seattle. 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 was 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. Its origins are from the Southeast part of the nation and it is not known how surplus locations will impact Washington.

**Investment Activity**

The regional market is targeted by institutional investors for core product because of healthy economic conditions. Recent Federal Reserve policy has started to impact cap rates. Cap rates are generally low, but increases have appeared in certain categories, most notably for B and C quality malls that are at risk due to struggling apparel anchors and cotenancy clauses.

**1st Quarter 2017 Investment Activity**

Property Name	City	State	Year Built	SF	Date	Sale Price	Cap Rate
Sherwin Williams	Poulsbo	WA	2016	4,000	Mar-17	\$2,290,000	4.87%
Nob Hill Retail	Yakima	WA	1972/77	42,846	Mar-17	\$3,750,000	-
Starbucks shops	Kingston	WA	2016	4,477	Mar-17	\$2,288,000	5.71%
The Commons	Federal Way	WA	1985	618,937	Mar-17	\$45,911,436	6.88%
Walgreens	Burien	WA	1998	13,905	Mar-17	\$5,500,000	6.18%
Auto Zone	Seattle	WA	2016	7,000	Mar-17	\$1,665,518	6.00%
Bartells	Seattle	WA	1980/00	12,480	Mar-17	\$4,100,000	6.60%
Schlotzky's	Kent	WA	2016	3,085	Mar-17	\$2,181,000	5.50%
Midway Lowes Pad	Kent	WA	2007	6,012	Mar-17	\$2,030,000	-
Andresen Square	Vancouver	WA	2016	4,610	Feb-17	\$3,700,000	5.54%
Riddell Square	Bremerton	WA	1975	22,263	Feb-17	\$1,000,000	10.79%
Best Buy	Silverdale	WA	1991	66,775	Feb-17	\$10,500,000	8.38%
Key Bank (GL)	Bainbridge	WA	2015	3,228	Feb-17	\$4,990,000	4.60%
Walgreens	Bainbridge	WA	2015	14,400	Feb-17	\$10,055,537	5.07%
Jiffy Lube & Auto Zone	Lake Stevens	WA	2005	3,884	Feb-17	\$3,000,000	6.70%
Tolt Town Center	Carnation	WA	1985	28,540	Feb-17	\$2,510,000	8.00%
Harbor Village	Friday Harbor	WA	1983	34,389	Feb-17	\$2,250,000	8.18%
O'Reillys	Everett	WA	1964/76	14,976	Feb-17	\$3,250,000	5.50%
Dennys	SeaTac	WA	1975	4,504	Feb-17	\$2,000,000	5.50%
Walgreens	Vancouver	WA	2005	14,820	Feb-17	\$6,400,000	5.39%
Holland Square	Spokane	WA	2004	12,168	Feb-17	\$2,600,000	6.80%
Martinazzi Square	Tualatin	OR	1986	51,060	Feb-17	\$16,300,000	6.97%
Mud Bay	Lacey	WA	1975/05	4,853	Jan-17	\$1,900,000	5.91%
PCC	Edmonds	WA	1981	35,459	Jan-17	\$8,600,000	6.64%
Browns Point Town Center	Tacoma	WA	1984/04	39,111	Jan-17	\$3,800,000	7.17%
Bethel Center	Port Orchard	WA	2005	2,005	Jan-17	\$1,110,000	7.60%
Cooper Point Village	Olympia	WA	2006	26,880	Jan-17	\$10,450,000	6.73%
East Hill Center	Kent	WA	1990	21,998	Jan-17	\$5,150,000	7.00%
Cascade Mall	Burlington	WA	1989	448,861	Jan-17	\$26,684,729	-
Engh Road Strip	Omak	WA	2007	5,700	Jan-17	\$1,650,000	7.62%

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