

## Real Estate Market Review

# Seattle Retail

The retail market continues to be 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. Ongoing areas of concern include pressure from e-commerce entities, increasing labor costs and interest rate increases.

## Vacancy

In the fourth quarter, the direct vacancy rate increased 16 basis points from 3.70% to 3.54%. Vacancy is down from the peak of 6.30% in the first quarter of 2011. Total available space (total vacant as well as occupied but available) decreased 28 basis points from 4.86% to 4.58% and is down from the peak in the fourth quarter 2010 at 8.00%.

King County is strong. Pierce, Snohomish, and Thurston Counties are stabilized, while Kitsap County is the softest market. Pierce and Thurston County vacancy fell below 4.0% for the first time in several years. Snohomish County was the only area to see an increase in vacancy, going from 4.45% to 4.49%. Properties with 50,000 s.f. or more contiguous vacancy represent 0.6% of total inventory and 14.7% of vacancy.

## Rent Forecast

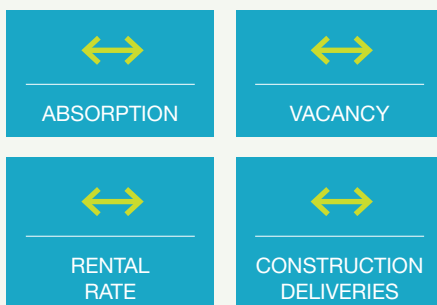
Regionally, asking rents for direct vacancy increased 4.3% year-over-year. With regional vacancy below 4% and below 3% in the largest market

of King County, there is upward pressure on rates except for the lowest quality segment. Retail rents in the region are: Seattle CBD: \$40 to \$80/s.f. NNN, Seattle mixed-use: \$30 to \$50/s.f. NNN, suburban: \$20 to \$40/s.f. NNN.

## New & Proposed Construction Activity

Retail development activity is moderate. Smaller scale developments are more prevalent whether it is build-to-suits for single tenants or smaller buildings built for two or three expanding tenants. Regency has announced it will develop the second phase of Ballard Blocks, to be anchored by PCC. This will compete with a New Seasons being developed by Centercal nearby. In Bonney Lake, construction is underway on Mountain View Marketplace, anchored by Costco, which will open in the first quarter of 2018. Mixed-use development is active around the region. One important market trend to watch is rapidly increasing construction costs, which will impinge on the feasibility of many new developments.

### Market Forecast Trends



### 2017 Seattle Retail Sales

Name	Survey	Min	Max
Sale Price Per SF	\$214	\$31	\$3,229
Avg Sale Price	\$5.5M	\$2.0M	\$40M
Cap Rate	5.9%	3.5%	10.0%
Percent Leased	96.6%	0.0%	100%

**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
- Commerce**  
323.727.1144
- Long Beach**  
562.472.0071
- 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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**Vacancy: Direct vs. Total**

County	Vacancy	
	Direct	Total
King County	2.58%	3.60%
Kitsap County	6.62%	8.09%
Pierce County	3.95%	5.31%
Snohomish County	4.49%	5.31%
Thurston County	3.84%	4.59%
<b>Total</b>	<b>3.54%</b>	<b>4.58%</b>

Source: CoStar

**Market Demand / Net Absorption**

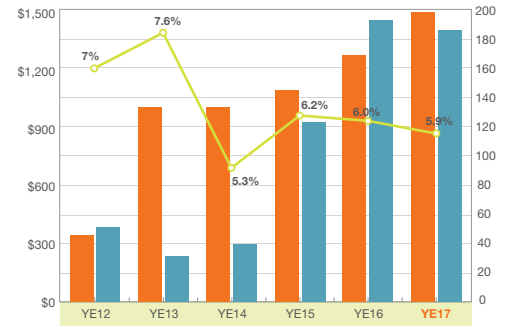
Net absorption has been positive for the last eight years straight, with an annual average of 1.67 million s.f. for the five year period ending 2017. Absorption in 2017 was 1.25 million s.f, below the five year average.

In 2017, we saw closures of Macy’s, Sears, and Kmart stores across the region and this will continue into 2018 with announced closures in Shoreline, Federal Way, Chehalis and Coeur d’Alene. Merlone Geier repositioned the Olympia store and Tacoma stores. Merlone Geier also bought Sears stores at The Commons at Federal Way and Aurora Square and although specific plans have not been announced, these are certainly redevelopment candidates. Dave & Busters is new to the region with the first locations in Auburn and Lynnwood.

**4th Quarter 2017 Investment Activity**

Property	City	Year Built	SF	Date	Sale Price	Cap Rate
Roosevelt Square	Seattle	1999	138,784	Dec-17	\$68,035,708	3.96%
Safeway	Renton	1996	60,473	Dec-17	\$28,688,693	6.16%
Everett Village	Everett	2006	120,859	Dec-17	\$24,850,000	7.91%
Fred Meyer Pad	Burien	1995	14,015	Nov-17	\$3,775,000	7.04%
Auto Zone	Lakewood	2017	12,155	Dec-17	\$3,700,000	5.44%
MAJ Place	Vancouver	2015	4,800	Dec-17	\$2,750,857	5.25%
Albertsons	Everett	2007	61,877	Nov-17	\$16,525,139	5.62%
Safeway	Kent	2002	61,364	Nov-17	\$15,100,000	6.73%
Safeway	Duvall	2000	44,816	Nov-17	\$10,800,000	4.98%
Safeway	Monroe	1985/07	56,446	Nov-17	\$10,755,988	6.72%
Hobby Lobby / Harbor Freight	Puyallup	1993	76,112	Nov-17	\$5,600,000	14.27%
Walgreens	Lynnwood	2001	15,120	Nov-17	\$4,900,000	6.86%
Everett Mall	Everett		473,984	Oct-17	\$36,350,000	10.50%
North Lynnwood	Lynnwood	1963	63,646	Oct-17	\$13,250,000	6.30%
Gardner Center	Battle Ground	2005	42,450	Oct-17	\$11,300,000	7.73%
Totem Retail	Kirkland	2017	7,600	Oct-17	\$9,050,000	5.41%
Murdock Plaza Regal Center	Vancouver	1998	48,978	Oct-17	\$8,685,011	9.51%
New Seasons	Mercer Island	1977/16	37,146	Oct-17	\$8,625,000	1.90%

**Puget Sound Retail Market**



**CHART LEGEND**

■ Dollar Volume ■ # Transactions — Cap Rate

Source: CoStar

**Investment Activity**

The regional market is targeted by institutional investors for core product because of healthy economic conditions. Federal Reserve policy is impacting lending rates and therefore cap rates. The average ten year loan is up 50 b.p. over the last 12 months. 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.

The average cap rate in PwC’s fourth quarter investor survey has increased 20 b.p. year-over-year for retail centers, 36 b.p for power centers and 15 b.p for malls.