

# MARKET REPORT

Retail  
Seattle-Tacoma Metro Area

IPA  
INSTITUTIONAL  
PROPERTY  
ADVISORS

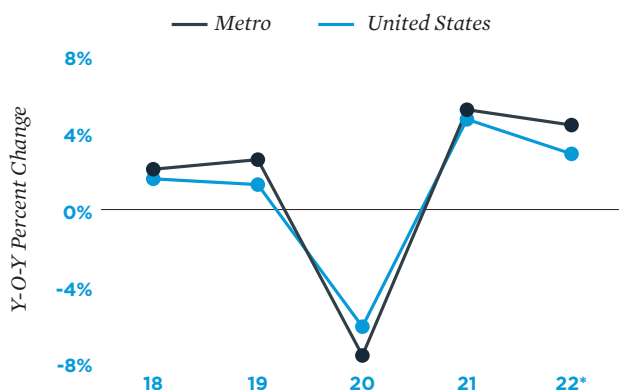
2Q/22

## Seattle Vacancy Tightest in Nation; Transaction Velocity Rises to Record High

**Eastside locales stand out.** Entering April, availability in the Puget Sound was lower than all other major U.S. markets, sitting at 2.8 percent. The rate has remained relatively steady since 2019, with retail demand underpinned by strong population growth and one of the nation's highest median household incomes. Leasing activity is widespread, with four of the metro's five submarkets recording over 150,000 square feet of net absorption during the past year ending in March. Space demand is strongest on the Eastside, where local vacancy was 1.7 percent as of March, pushing asking rents up to \$30.97 per square foot, 30 percent above the market average. Major expansions in the area by notable employers like Amazon, Microsoft, Google, Apple and Facebook have retailers eager to expand in this submarket, and demand here will likely be sustained long term.

**Downtown faces persistent hurdles.** Many tech companies are still operating remotely or allowing for hybrid work schedules, significantly reducing midweek foot traffic in the CBD, which, in turn, is providing many challenges for downtown retailers. Entering April, local availability was 160 basis points above the pre-pandemic rate, with Downtown Seattle the only submarket not to record vacancy compression over the past year. Moving forward, the urban core may face additional headwinds, as unfavorable tax rates for large corporations are causing many firms to expand outside of downtown. This movement has the potential to further heighten vendor demand for available space in other neighborhoods throughout the metro.

### Employment Trends



\* Forecast

Sources: BLS; CoStar Group, Inc.

## Retail 2022 Outlook



**90,000  
JOBS**  
*will be created*

### EMPLOYMENT:

Firms are on pace to grow the employment base by 4.4 percent this year, with the addition of 23,100 positions through the first quarter. Entering April, the job count in the retail trade sector was roughly 10,000 jobs above the pre-pandemic level.



**570,000  
SQ. FT.**  
*will be completed*

### CONSTRUCTION:

Supply additions increase on an annual basis; however, completions remain well below levels recorded prior to 2010. The bulk of near-term deliveries are slated for Pierce County, highlighted by a 165,000-square-foot project in Spanaway.



**10  
BASIS POINT**  
*decrease in vacancy*

### VACANCY:

Limited speculative development and sustained retail demand allow vacancy to contract on an annual basis for the second straight year. The rate will fall to 2.8 percent, the lowest of any major market in the U.S.

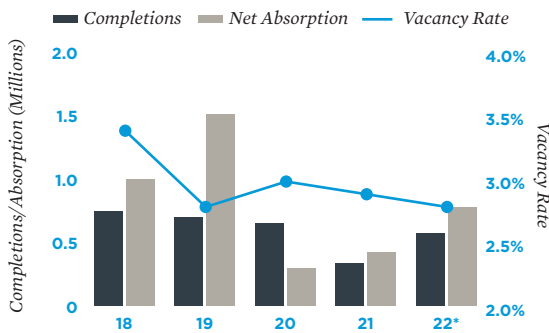


**5.0%  
INCREASE**  
*in asking rent*

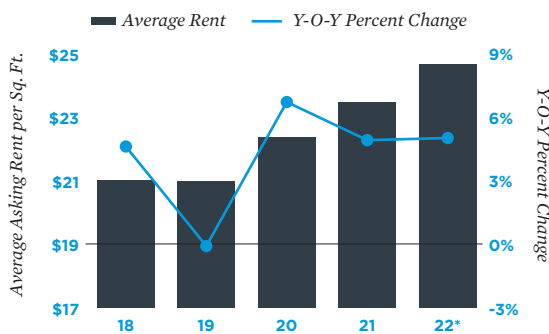
### RENT:

The pace of rent gains nearly mirrors last year's increase of 4.9 percent, as the average asking rate reaches a record high of \$24.65 per square foot. This marks the fifth time in six years that annual rent growth surpasses the 4 percent threshold.

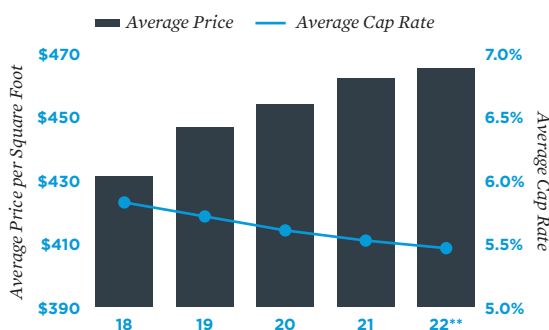
### Supply and Demand



### Rent Trends



### Sales Trends



\* Forecast \*\* Through 1Q

Sources: CoStar Group, Inc.; Real Capital Analytics

#### IPA Retail

##### Daniel Taub

Senior Vice President, Director

Tel: (212) 430-5100 | dtaub@ipausa.com

For information on national retail trends, contact:

##### John Chang

Senior Vice President, Director | Research & Advisory Services

Tel: (602) 707-9700 | jchang@ipausa.com

Price: \$250

## 1Q 2022 - 12-Month Period



### CONSTRUCTION

**255,000 sq. ft. completed**

- Developers expanded retail inventory by just 0.2 percent over the past four quarters ending in March, a slowdown in development activity relative to the 424,000 square feet that delivered during the previous yearlong span.
- Completions were heavily concentrated on the Eastside, accounting for roughly three-fourths of all supply additions.



### VACANCY

**40 basis point decrease in vacancy Y-O-Y**

- Vendors absorbed over 875,000 square feet over the past year, lowering vacancy to 2.8 percent. The Southend submarket recorded the largest compression during this span, with availability falling 90 basis points.
- The single-tenant rate declined by 50 basis points to 2.5 percent, while the multi-tenant rate contracted 20 basis points to 3.5 percent.



### RENT

**5.3% increase in the average asking rent Y-O-Y**

- Stimulated by the 6.3 percent increase in multi-tenant rents, the average asking rate rose year-over-year to \$23.82 per square foot in March, while the single-tenant rate rose 4.9 percent to \$23.58 per square foot.
- The Northend submarket registered the largest rent gain during this time frame, increasing 10.9 percent to \$22.77 per square foot.

## Investment Highlights

- Seattle's resiliency throughout the pandemic has investors bullish on the metro's retail sector. Deal flow for both single- and multi-tenant properties rose by at least 50 percent year-over-year through March, relative to activity during the previous 12-month span. Competition is heating up for available listings, stimulating an increase in the average sale price across both retail segments. The mean entry cost for single-tenant assets was \$556 per square foot, while the average sale price for multi-tenant properties was \$386 per square foot during the past year. First-year returns for both asset types average in the mid-5 percent range and are only separated by 10 basis points.
- Buyer demand is robust in Pierce County, home to substantial increases to median household incomes over the past decade. Here, cap rates for both asset types average in the low-6 percent span. Investors searching for upside potential can also find value in the Northend and Southend, where entry costs often fall below the metro average of \$465 per square foot.
- Competition is fierce for listings in Eastside neighborhoods. Entry costs for net-leased properties with credit-worthy tenants often rise above \$850 per square foot, with yields averaging in the low-4 percent span.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice. Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics

© Marcus & Millichap 2022 | www.ipausa.com