

MARKET REPORT

Retail
Seattle-Tacoma Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

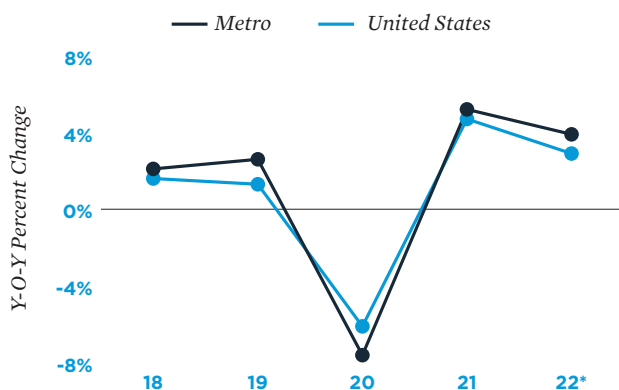
3Q/22

Robust Economy Fosters Tight Retail Landscape; Eastside's Vacancy Lowest in the Nation

Standout vacancy persists. Seattle's retail sector has proved to be fairly resilient through the passing of the health crisis, with consumer spending bolstered by a high median income and strong household formation. Availability in Seattle rose no more than 60 basis points through the worst of the pandemic, topping out at 3.2 percent in March 2021, the lowest rate among major markets at the time. As health concerns subsided, Seattle prevailed as the tightest market in the nation, entering the second half of 2022 with a vacancy rate of 2.9 percent. This standing should be sustained through 2023, with the 27,000 households projected to be added during the year propping up consumer demand and stimulating additional commitments from retailers. Vacancy may dip further into record-low territory in the near term, as the metro's active pipeline totaled a mere 123,000 square feet in September.

Retailers flourish in Bellevue. Eastside is home to the lowest vacancy in the nation among submarkets with more than 20 million square feet of inventory. The locale's 1.8 percent vacancy rate in June indicates retailers highly covet an Eastside presence, intrigued by economic expansion in areas like East Bellevue and Mercer Island. Robust demand, which improved by more than 90,000 square feet over the prior yearlong period, helped facilitate these standout conditions, even amid heightened development. Incomes in Bellevue, which exceed the metro's mean by nearly \$20,000, should sustain consumer spending, preserving limited vacancy.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Retail 2022 Outlook



**80,000
JOBS**

will be created

EMPLOYMENT:

Seattle's job tally will expand by 3.9 percent during 2022, leading the metro to surpass its pre-pandemic headcount by 10,600 positions at year-end. Aside from 2021, this period's total jobs added will mark the metro's largest in 25 years.



**170,000
SQ. FT.**

will be completed

CONSTRUCTION:

Builders pull back on construction, translating to the lowest annual delivery volume on record. A metrowide emphasis on housing development will keep the year-over-year rate of inventory expansion at 0.1 percent in Seattle.



**10
BASIS POINT**

decrease in vacancy

VACANCY:

Net absorption surpassed completions in all but one of the trailing six years, fostering tight conditions that have held vacancy under 4 percent through the span. By the end of the year, the vacancy rate will fall to 2.8 percent.



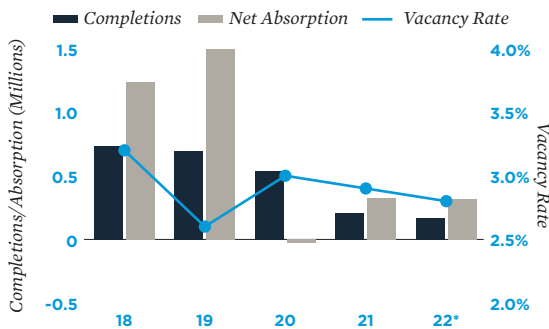
**6.0%
INCREASE**

in asking rent

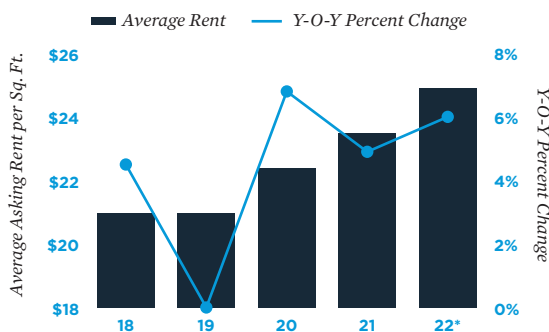
RENT:

Metrowide rent growth accelerates, nearing the 6.8 percent growth observed through 2020. Limited deliveries, observed over recent periods, will intensify demand for existing space — placing the average asking rate at \$24.90 per square foot.

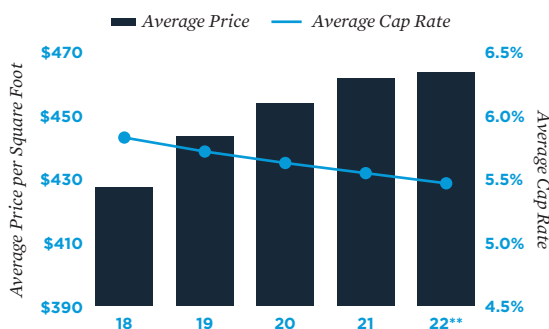
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

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Price: \$250

2Q 2022 - 12-Month Period



CONSTRUCTION

212,000 sq. ft. completed

- Northend and Eastside received the most supply through the 12 months ending in June, at 100,000 and 64,000 square feet, respectively.
- At 123,000 square feet, Seattle's active pipeline as of September was smaller than any annual completion total on record. The Northend and Eastside submarkets will account for nearly all of these deliveries.



VACANCY

20 basis point decrease in vacancy Y-O-Y

- Net absorption outpaced completions twofold during the yearlong span ending in June, lowering the vacancy rate 20 basis points to 2.9 percent.
- Despite receiving the most deliveries in the metro, vacancy in the Northend held steady at 3.4 percent in June. Similarly, vacancy in the Eastside declined by 70 basis points, in spite of supply additions, to 1.8 percent.



RENT

5.2% increase in the average asking rent Y-O-Y

- The single-tenant average asking rent improved by 7.9 percent through the 12 months, while the multi-tenant rate declined by 1.5 percent in the same frame, placing the overall asking rate at \$24.18 per square foot in June.
- A number of higher-quality additions in Northend helped lift the local average asking rate by 8.6 percent to \$23.65 per square foot.

Investment Highlights

- Despite historically-outperforming fundamentals, improving consumer spending and constrained supply growth during recent periods, retail assets in Seattle transacted at an average of \$460 per square foot during the yearlong span ending in June, just a 1 percent increase from the previous 12-month span. Meanwhile, the overall average cap rate contracted 10 basis points to 5.5 percent.
- The Tacoma submarket accounted for over one-third of single-tenant trading during the past 12 months. Local buyers are acquiring restaurants across suburban Pierce County at roughly \$800 per square foot, with average first-year returns hovering around the low-4 percent band. Investors willing to pay a premium for single-tenant properties pursued convenience stores in southern Tacoma, where assets fetched prices more than three times the metro average in Spanaway.
- Assets that service multiple tenants are being targeted frequently in Northend, with buyers accepting yields in the low-6 percent range. Investors pursuant of lower entry costs are purchasing community centers in Marysville at an average of \$150 per square foot. Those willing to pay a premium for assets are active in Bothell, where mean pricing is \$590 per square foot.

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

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