

MARKET REPORT

Retail
Seattle-Tacoma Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

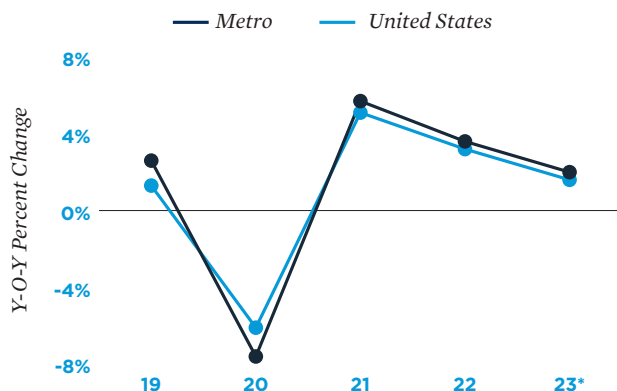
4Q/23

Persistent Lack of Construction Supports Retail Property Performance Through Transitional Period

Submarket trio stands out regionally. In June 2023, the Eastside, Southend and Tacoma had the three lowest vacancy rates among major Pacific Coast submarkets with at least 5 million square feet of stock. Local metrics have minimally adjusted over the last three years, supported by their inventories growing by no more than 1.4 percent in the span. Zoning legislation in Seattle-Tacoma has continued to be highly geared toward the production of housing, limiting supply-side pressures in the retail sector, while expanding the consumer base in most areas. These submarkets collectively hosted the addition of roughly 2,200 rentals in the first half, compared to a negligible amount of new retail supply during the frame. Retailers seeking newer, higher-quality spaces across these locations will likely have to contend for them near-term, with overall completions expected to be at the lowest volume since 2007 this year.

Corporate reshuffling shapes space needs. The Southend had a record 1 million square feet of office space absorbed over the year ended in June, prompting a surge in work-related foot traffic. Many retailers have sought to capitalize on this activity, propelling the submarket to have the highest retail net absorption in the metro over the span. While this dynamic has favored the Southend, it may also aid space demand in the Eastside near-term. Amazon's return-to-work policy should boost local spending, after recently shifting at least 2,000 workers from Downtown Seattle to Bellevue.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Retail 2023 Outlook



**43,000
JOBS**
will be created

EMPLOYMENT:

Primarily driven by hiring in education and health services, job growth of 2.0 percent in 2023 will exceed the long-term average. Office-centric sectors, nevertheless, are expected to lose 3,000 jobs this year.



**140,000
SQ. FT.**
will be completed

CONSTRUCTION:

As of October, only 140,000 square feet was underway across the metro, representing some of the lowest levels of construction since at least 2007. This year, stock will grow by just 0.1 percent, one-fifth of the U.S. average.



**30
BASIS POINT**
increase in vacancy

VACANCY:

Metrowide vacancy bumps up to 3.3 percent this year as a sizable amount of space is relinquished to the market. Recent absorption trends suggest the Southend should experience greater near-term stability in its local rate.

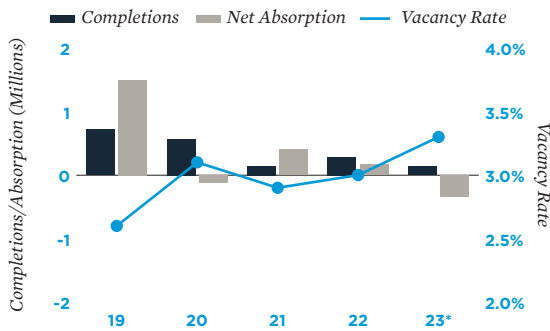


**1.3%
INCREASE**
in asking rent

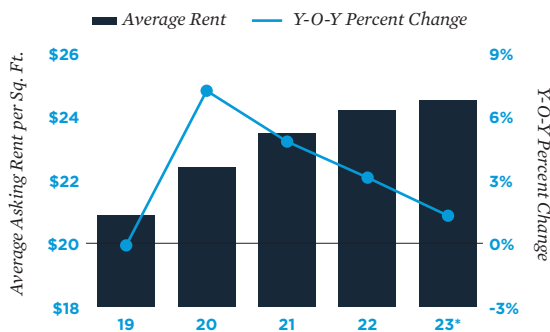
RENT:

The average asking rate closes out 2023 at \$24.50 per square foot. Growth should be noted by both the single- and multi-tenant sectors, as each segment showed positive rent momentum through midyear.

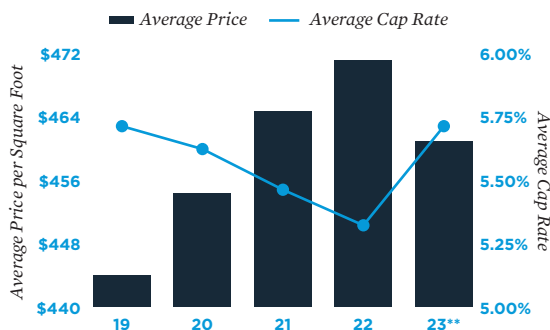
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

IPA Retail

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Price: \$250

2Q 2023 - 12-Month Period



CONSTRUCTION

264,000 sq. ft. completed

- Builders injected 170,000 square feet of new supply into the Northend over the yearlong span ended in June, majorly contributing to the overall marketwide stock expansion of 0.2 percent in the span.
- Downtown Seattle and the Eastside have each received less than 10,000 square feet of new retail additions since 2020.



VACANCY

30 basis point increase in vacancy Y-O-Y

- Every submarket except for the Southend recorded rising vacancy through the year ended in June, bumping the overall metro rate up to 3.3 percent.
- Vacancies in Tacoma and the Southend recently rose from record lows at the start of 2023. The rate in Tacoma lifted 50 basis points in the first half, to 3.2 percent, while Southend's advanced 30 basis points to 2.5 percent.



RENT

0.7% increase in the average asking rent Y-O-Y

- The average asking rate moved up to \$24.29 per square foot, primarily driven by a double-digit percentage gain in Tacoma in the last 12 months.
- Local average asking rents fell year-over-year in the Southend and Northend, but positive net absorption during the span in both submarkets may suggest more newer-built spaces are being removed from vacant stock.

Investment Highlights

- According to preliminary data, suburban Tacoma was the focal point for single-tenant retail trades over the first nine months of 2023. Tacoma's average single-tenant rent growth was the fastest in the market over the year ended in June, at 13.5 percent, which should especially sustain interest among investors targeting vacant assets and those with upcoming lease expirations. Additionally, the recent completion of the Tacoma Link, which will allow residents to commute to and from suburban Pierce County and Downtown Tacoma, should generate greater interest among both retailers and investors seeking to capitalize on higher local foot traffic.
- Triple net investments in 2023 were mostly concentrated in suburban Tacoma and Spanaway. These types of deals have commanded an average price per-square-foot exceeding \$590, well above the metro's single-tenant mean over the year ended in June 2023.
- Roughly half of the deals that were completed for multi-tenant assets in the first nine months took place in South Everett-Harbor Point. The Everett Mall's renovation has been a prime motivation for investors to target nearby retail buildings, as it should help improve foot traffic in the area.