

MARKET REPORT

RETAIL

Seattle-Tacoma Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

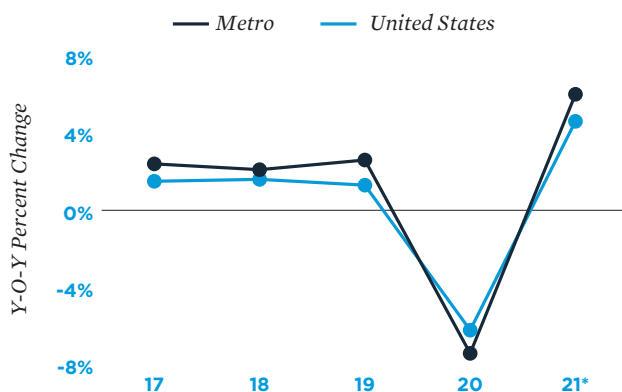
3Q/21

Seattle-Tacoma's Strong Economic Foundation Enhances Retail Outlook Post-Pandemic

Reduced pipeline aids retail performance. The pandemic did little to sway Seattle's retail sector, which benefits from a decade of robust population and income growth. Vacancy was at a 15-year low at the onset of the health crisis and only increased 20 basis points over the past six quarters. Asking rents continued to grow at one of the fastest rates in the country at 6.6 percent annual growth in the second quarter. The past year's rent gain pushed the market's average asking rent up more than 20 percent since the end of 2015, a trend that should be sustained with minimal supply pressure on the horizon. Deliveries in the metro hit an eight-year low over the past four quarters, and only 540,000 square feet of retail space is currently under construction, which will continue to aid availability in the second half. By the end of this year, Seattle's vacancy is expected to be the lowest of any major U.S. market.

Urban core faces potential headwinds. Many large employers like Amazon, Microsoft and Google are allowing office staff to work from home more than 50 percent of the time and will not return to the office completely until well into the second half or early 2022. The reduction in foot traffic could have negative implications for retail fundamentals in the CBD, which observed the largest vacancy increase and smallest rent gain in the metro over the past year. Also, Seattle's eviction moratorium that applies to small businesses is scheduled to expire in September, which could result in higher delinquencies at retail assets in the second half.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Retail 2021 Outlook



**118,000
JOBS**

will be created

EMPLOYMENT:

Total employment in Seattle-Tacoma will increase by 6 percent this year, the fastest pace since 1997. As of August, the unemployment rate was at 4.8 percent, 1,210 basis points below the pandemic high of 16.9 percent.



**360,000
SQ. FT.**

will be completed

CONSTRUCTION:

In 2021, deliveries will fall well short of the metro's trailing-five-year average of 780,000 square feet. New supply will grow the metro's inventory by just 0.2 percent, the region's smallest annual increase over the last 15 years.



**0
BASIS POINT**

change in vacancy

VACANCY:

Minimal supply pressure and rising absorption levels over the second half will allow availability to remain tight. Vacancy will hold at 3.0 percent, only 20 basis points above the metro's pre-recession rate.



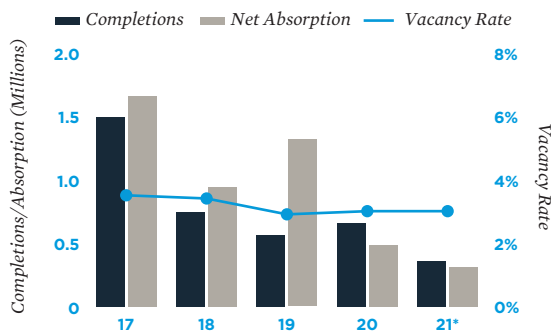
**4.2%
INCREASE**

in asking rent

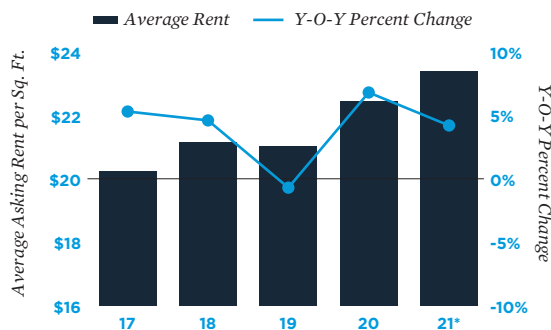
RENT:

Low vacancy along with limited supply additions will contribute to a rise in market rates this year. The average asking rent will increase to \$23.40 per square foot, building off a 6.8 percent gain from the last year.

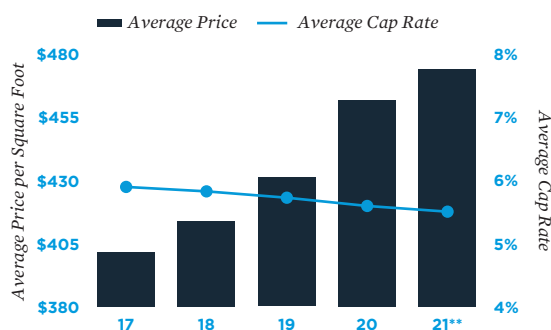
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q

Sources: CoStar Group, Inc., Real Capital Analytics

IPA Retail

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Price: \$250

2Q21 – 12-Month Period



CONSTRUCTION

383,000 square feet completed

- Seattle’s inventory expanded by just 0.3 percent during the 12-month period ending in June. The metro’s new supply was primarily split between the Eastside, Northend and Tacoma submarkets.
- Multi-tenant properties accounted for nearly 90 percent of all new supply delivered over the past year.



VACANCY

20 basis point increase in vacancy Y-O-Y

- Due partly to limited construction activity, vacancy only modestly increased during the pandemic. Availability rose to 3.1 percent, only 30 basis points above the 15-year low.
- Vacancy rates remain exceptionally low across Seattle’s submarkets, ranging between 2.1 percent and 3.6 percent in the second quarter.



RENT

6.6% increase in the average asking rent Y-O-Y

- Tight market conditions allowed for rent growth to exceed the metro’s trailing-five-year average over the past four quarters. The average asking rent rose to \$22.82 per square foot in June.
- The region’s largest rent gains were observed in the Southend submarket, where the average asking rate increased by more than 11 percent.

Investment Highlights

- Over the past 12 months ended in June, deal flow for single-tenant assets declined 25 percent. Fewer listings elevated competition between buyers, which lifted the mean sale price by 4 percent to \$522 per square foot. The average cap rate fell 10 basis points to 5.4 percent.
- Investors targeting single-tenant assets were active in Tacoma, as strong suburban household creation stimulated buyer interest. Entry costs in this submarket were lower than the metro average at \$465 per square foot. Cap rates here typically range from 5 percent to 7 percent.
- The trading of multi-tenant assets over the past four quarters decreased by nearly 40 percent relative to the previous year. Limited inventory on the market slowed transactions; however, pricing advanced by 5 percent to \$393 per square foot. Properties that traded during this time frame had an average first-year return of 5.6 percent.
- The Northend submarket recorded the largest share of multi-tenant deals during the past year. Buyers targeted neighborhood shopping centers anchored by tenants with a strong credit history.