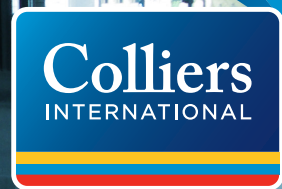


RESEARCH & FORECAST REPORT

PUGET SOUND REGION | Q4 2018 | RETAIL



Though Puget Sound retail market growth slowed in Q4, 2018 remained a strong year overall for the region.

Lack of development continued to compress retail vacancy.

Nationally, retail sales figures saw positive outcomes in October and November, posting 0.8% and 0.2% gains, respectively. However, U.S. retail sales fell 1.2% in the critical month of December — their worst drop since the end of the recession — and sales totals for product categories excluding gasoline and automobiles posted their lowest numbers since Spring 2009. Amazon continued to challenge, with news that the online retailer is looking into opportunities to place new Whole Food Markets into empty Sears locations and open additional Amazon Go stores. Currently, Amazon Go has four locations in Seattle: two in Lake Union and two in the CBD. The changing face of Northgate Mall made headlines in the Puget Sound over the past quarter. The design team of GGLO, KPFF, CallisonRTKL, and Generator Studio received a second round of approval for their redevelopment of parcels at the shopping center. Altogether, this redevelopment will incorporate a 262,000-SF ice center for Seattle’s newly awarded NHL team and over 1.3 million SF of office, retail, and residential space. After JCPenney announced it would close its Northgate location in 2019, Macy’s also confirmed a similar closure for 2020. Simon Property Group’s CEO David Simon has stated that malls can grow and thrive without department stores, so how those large vacancies evolve will be an interesting trend to watch. On the Eastside, the 400,000-SF Village at Totem Lake recently signed 203° Fahrenheit Coffee Co. and Vince’s Nail Spa as tenants in addition to Whole Foods and ULTA Beauty when the retail portion of the development delivers in 2020.

REGIONAL VACANCY

- » The region’s retail vacancy rate dipped 20 basis points to 3.2% in Q4, as nearly 50,000 SF of sublease space was taken off the market in Seattle and Northend submarkets.
- » Year-over-year regional vacancy dropped 30 basis points from Q4 2017.

NET ABSORPTION

- » Seattle’s retail market absorbed almost 1.2 million SF of space regionwide in 2018, with general retail properties (648,723 SF) and shopping centers (923,859 SF) accounting for the most move-ins.
- » Malls saw 369,807 SF of negative absorption in 2018, as department store closures continued to impact the market. Macy’s has announced that it will close its Northgate and Redmond locations over the next few years.

CONSTRUCTION ACTIVITY

- » Construction activity dropped slightly in Q4 following the November delivery of a 133,484-SF shopping center at 16180 NE 80th Street in Redmond.
- » The Village at Totem Lake, which accounts for 35% of all Puget Sound under-construction retail properties, is on track for completion by Q2 2020.

PROPERTY SALES

- » 35 retail properties exchanged hands in Q4 for a total sales volume of \$257.5 million — a 33% drop from last quarter and 27% year over year.
- » The quarter’s largest sales included Clarion Partners’ acquisition of Harbour Pointe Shopping Center in Mukilteo for \$44.3 million (\$400.52/SF) and Panos Properties’ purchase of Ridge Plaza in Snoqualmie for \$21.2 million (\$311.22/SF).

ECONOMIC DRIVERS

MARKET INDICATORS	QoQ	YoY
VACANCY	↓	↓
RENTAL RATES	↔	↑
NET ABSORPTION	↓	↓
CONSTRUCTION	↓	↑
PROPERTY SALES VOLUME	↓	↓
PROPERTY SALE PRICE	↓	↑

RENTAL RATE QUARTERLY COMPARISON (Average NNN Rent per SF)

Market	Year over Year Change		Market	Year over Year Change	
	Q4 2018	% Change		Q4 2018	% Change
Bellevue CBD	\$47.51	1.4%	Ballard/U-District	\$25.30	-23.5%
Seattle CBD	\$35.38	-10.1%	Suburban Bellevue	\$20.19	10.4%
Edmonds/Lynnwood	\$25.57	29.4%	Suburban Tacoma	\$21.00	37.1%

Rental rates are quoted as a weighted average, which can be significantly affected by events in a single submarket or property.



REGIONAL DELIVERIES, LEASE AND SALES TRANSACTIONS, AND CURRENT AVAILABILITIES

NOTABLE Q4 2018 RETAIL DELIVERIES					
Tenant(s)	Property Name	Retail Type	SF	Submarket	
Techs	16180 NE 80th Street	Shopping	133,484	Redmond	
Bedrooms + More	316 NE 45th Street	General	24,800	Ballard/U District	
None	Lantern Landing	General	13,380	Renton/Tukwila	
CVS Pharmacy	9332 Bridgeport Way SW	Specialty	13,188	University Place/Lakewood	

NOTABLE Q4 2018 LEASE SIGNATURES					
Tenant	Property Name	Retail Type	SF	Sign Date	Submarket
Macy's	Parkway Super Center	Mall	48,670	10/10/2018	Renton/Tukwila
LAM's Seafood Market	Parkway Super Center	Specialty	28,136	11/20/2018	Renton/Tukwila
Animal Medical Center of Seattle	17518 15th Avenue NE	Specialty	13,905	11/27/2018	Bothell/Kenmore
Dollar Shop	The Shops at the Bravern	General	10,000	10/1/2018	Bellevue CBD
Ace Hardware	9807 224th Street E	General	10,000	10/26/2018	Spanaway
Dip Experts Inc.	2911 S Tacoma Way	Specialty	7,983	10/23/2018	Tacoma Suburban

NOTABLE Q4 2018 INVESTMENT SALES							
Building Name	Submarket	Retail Type	Retail RBA	Sales Price (\$)	Price/SF	Buyer	Sale Date
Harbour Pointe Shopping Center	S Everett/Harbour Point	Shopping	110,607	\$44,300,000	\$400.52	Clarion Partners	10/5/2018
Ridge Plaza	E King County	Shopping	68,119	\$21,200,000	\$311.22	Panos Properties LLC	11/19/2018
La Plaza Midway Shopping Center	SeaTac/Burien	Shopping	78,853	\$20,550,000	\$260.61	Esther Dorbin; Les Rosen, CV Apartments LLC	11/16/2018
Kiddie Academy	Bellevue CBD	General	33,542	\$19,300,000	\$575.40	Hosmer Holdings	10/5/2018
Safeway	E King County	Shopping	61,364	\$17,900,000	\$291.70	Pleasanton Kent Grocery LLC	12/19/2018

NOTABLE Q4 2018 PROPERTIES FOR SALE						
Property Name	Price	Bldg SF	Price/SF	Cap Rate	Submarket	Retail Type
The Market at Lake Tapps Portfolio	\$27,590,800	78,998	\$349.26	Not disclosed	E Pierce County	Specialty
Pioneer Village	\$21,049,000	66,121	\$318.34	6.5%	E Pierce County	Shopping
Rainier View Marketplace - Building G	\$21,040,000	28,878	\$728.58	6.5%	Spanaway	General
Salish Crossing	\$18,270,000	41,347	\$441.87	6.4%	Edmonds/Lynnwood	Shopping
Wilderness Village	\$16,880,000	12,830	\$1,315.67	Not disclosed	E King County	General

MARKET OVERVIEW

Seattle Submarket	EXISTING PROPERTIES/VACANCY						ABSORPTION/RENTS	
	Stock	Total Inventory (SF)	Direct Vacant (SF)	Sublease Vacant (SF)	Total Vacant (SF)	Vacancy Rate Current Quarter (%)	YTD Absorption (SF)	Quoted NNN Rental Rates
Seattle Retail								
General Retail	2,992	23,724,236	407,848	11,997	419,845	1.8%	37,262	\$27.13
Mall	2	748,967	20,297	0	20,297	2.7%	35	\$32.33
Power Center	1	442,778	25,604	0	25,604	5.8%	(3,827)	\$28.86
Shopping Center	111	3,000,987	109,135	25,238	134,373	4.5%	(33,759)	\$31.29
Specialty Center	1	43,728	0	0	0	0.0%	0	\$0.00
Total	3,107	27,960,696	562,884	37,235	600,119	2.1%	(289)	\$27.65
Eastside Retail								
General Retail	1,166	12,194,824	89,550	12,780	102,330	0.8%	300,878	\$31.88
Mall	5	2,774,378	68,411	0	68,411	2.5%	574	\$31.00
Power Center	4	1,414,032	0	575	575	0.0%	(575)	\$0.00
Shopping Center	222	11,229,909	335,639	45,880	381,519	3.4%	75,182	\$28.63
Specialty Center	1	389,797	0	0	0	0.0%	0	\$0.00
Total	1,398	28,002,940	493,600	59,235	552,835	2.0%	376,059	\$29.99
Northend Retail								
General Retail	2,956	25,041,528	688,172	11,000	699,172	2.8%	37,026	\$18.45
Mall	4	3,654,345	109,545	0	109,545	3.0%	8,381	\$14.94
Power Center	9	3,478,741	14,990	0	14,990	0.4%	27,167	\$28.91
Shopping Center	365	16,151,241	933,146	11,900	945,046	5.9%	288,506	\$19.05
Specialty Center	1	500,754	0	0	0	0.0%	0	\$0.00
Total	3,335	48,826,609	1,745,853	22,900	1,768,753	3.6%	361,080	\$18.88
Pierce County Retail								
General Retail	3,120	20,965,763	336,851	0	336,851	1.6%	236,572	\$18.64
Mall	4	2,502,963	9,099	0	9,099	0.4%	39,924	\$33.60
Power Center	3	1,690,863	100,866	0	100,866	6.0%	5,520	\$24.87
Shopping Center	405	15,859,284	989,409	56,691	1,046,100	6.6%	405,235	\$16.57
Specialty Center	2	300,618	61,601	0	61,601	20.5%	(50,187)	\$13.94
Total	3,534	41,319,491	1,497,826	56,691	1,554,517	3.8%	637,064	\$17.30
South King County Retail								
General Retail	1,730	14,540,644	181,338	4,700	186,038	1.3%	36,985	\$21.08
Mall	4	4,042,997	448,392	0	448,392	11.1%	(418,721)	\$21.63
Power Center	4	1,787,493	49,369	0	49,369	2.8%	12,373	\$27.06
Shopping Center	270	11,336,218	576,483	3,922	580,405	5.1%	188,695	\$19.93
Specialty Center	0	0	0	0	0	0.0%	0	\$0.00
Total	2,008	31,707,352	1,255,582	8,622	1,264,204	4.0%	(180,668)	\$20.64
Seattle Region Retail								
General Retail	11,964	96,466,995	1,703,759	40,477	1,744,236	1.8%	648,723	\$23.26
Mall	19	13,723,650	655,744	0	655,744	4.8%	(369,807)	\$21.89
Power Center	21	8,813,907	190,829	575	191,404	2.2%	40,658	\$21.94
Shopping Center	1,373	57,577,639	2,943,812	143,631	3,087,443	5.4%	923,859	\$23.09
Specialty Center	5	1,234,897	61,601	0	61,601	5.0%	(50,187)	\$4.65
Total	13,382	177,817,088	5,555,745	184,683	5,740,428	3.2%	1,193,246	\$23.72

* Source: CoStar

Colliers tracks retail properties of all sizes in each of the five regional submarkets.

REGIONAL OVERVIEW

REGIONAL SUPPLY

- » Nearly 185,000 SF of new retail properties delivered in Q4 — more than double the previous quarter's total.
- » The largest properties completed in the Puget Sound included the 133,484-SF 16180 NE 80th Street in Redmond and Bedrooms + More, a 24,800-SF general retail property at 316 NE 45th Street in Seattle.

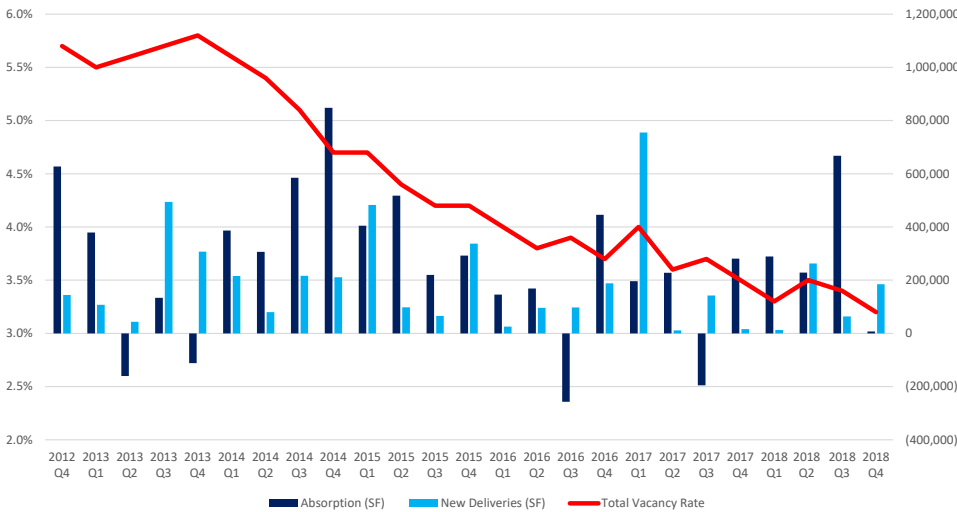
DEMAND

- » The Renton/Tukwila submarket saw the most activity in Q4, due to commitments from Macy's (48,670 SF) and LAM's Seafood Market (28,136 SF) at the Parkway Super Center in Tukwila. The largest transactions completed in 2018 were At Home's 83,000-SF lease at Willows Pond Shopping Center in Puyallup and Floor & Decor's 77,500-SF lease at Everett Mall.

OUTLOOK

- » Puget Sound vacancy levels dropped to 3.2% this quarter from 3.4% at the end of Q3 2018. A lack of new deliveries in 2019 will keep rents elevated and leave limited options for new and existing tenants.
- » More department store closings are likely as the year proceeds. Sears CEO Edward Lampert avoided liquidation and kept about 400 stores in business, but the long-time retailer is still struggling. Macy's Redmond location will be replaced by housing. This alternative use — along with the fitness centers, entertainment venues, religious houses, and others filling vacant retail space — is symbolic of both the evolution of consumer demand and changing retail market.

REGIONAL RETAIL ABSORPTION & VACANCY RATES



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Revenue

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(US\$)



Managing

2B

(square feet)



Established in

69

countries



Lease/sale transactions

68,000



Transaction value

\$116B

(US\$)

All statistics are for 2017, are in U.S. dollars and include affiliates.



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