Kidder Mathews

MARKET TRENDS | SEATTLE

INDUSTRIAL

3RD QUARTER
2020

▲ ABSORPTION | ▲ VACANCY | ▲ RENTAL RATE | ▲ CONSTRUCTION DELIVERIES

Year-over-year change

We are now more than six months into the "new normal" regarding the COVID-19 pandemic. The initial impact was a skyrocketing of unemployment to 16.6% when 318,000 jobs were lost due to the shutdown of "non-essential" businesses. Our region started to see improvement in May when some businesses were able to open.

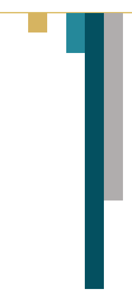
As of the end of August, our region has gained back 176,500 of the jobs lost. Key employment sectors impacting the industrial market include manufacturing, construction, wholesale trade and transportation & warehousing. These sectors lost 81,600 jobs in April. As of August, these sectors combined have gained back 51,300 jobs. Only manufacturing has had additional leakage (3,900 jobs lost), while construction has gained the most at 50,400 jobs.

While still not back up to pre-COVID employment numbers, we are heading in the right direction with unemployment now at 7.9%. The downturn experienced earlier this year could have been much worse had it not been for the stimulus money that helped those out of work as well as businesses that were shut down. Going forward, it makes for a challenge in forecasting what to expect over the next few months. The biggest unknown is when a vaccine might be widely available and used and people will feel comfortable enough to get back to normal routines such as travel, going to events, etc. The Puget Sound Economic Forecaster has revised its employment projections of a 6.1% net loss in 2020 (compared to a 7.2% decline from the last quarter projection). Employment in 2021 is projected to grow by 3.0%, down from the 4.0% projection from last quarter, but this is before the October 1st announcement that Boeing will be shutting down production of the 787 Dreamliner jet in Everett and consolidating production of the aircraft in Charleston South Carolina. Boeing continues to address the effects of Covid-19 on the aviation industry due to the drop in new airplane purchases. Another factor impacting the industrial market is trade. The Northwest Seaport Alliance August report indicates container volume for August 2020 was down 13.8% from August 2019. This is actually an improvement from May, when volumes were down 23.8% from May 2019.

Despite the mixed results on the economic side, the region's industrial market continues to be solid. Construction continues to be very robust with 10.1 million s.f. underway (30% is pre-leased). 2.1 million s.f. was delivered during the quarter. Leasing activity was very active with 1.46 million s.f. absorbed. With deliveries slightly outpacing absorption, the region's vacancy rate did inch up from 5.10% to 5.25%. Sales volume has been steady this year with $423 million sold ($168/s.f.). The average cap rate was 6.02%. For the most part, we are seeing rents increasing in most markets, with asking rents region-wide up $0.02/s.f. over the past quarter.

We believe that vacancies will continue to increase modestly as Port volumes continue to be impacted by disrupted supply chains and the lingering trade dispute with China. The Northend vacancy will likely increase with the mid-2021 shutdown of the 787 Dreamliner production line in Everett. Boeing is still hampered by the 737 Max grounding, but does appear to be getting closer to having this issue resolved, which will be good news for their Renton plant. On the flip side, The Puget Sound Economic Forecaster as noted above, is projecting a 3.0% growth in 2021, but that was before the recent Boeing announcement. Other Items to continue watching include:

continued on page 4



UNDER CONSTRUCTION 3Q 2020

0 SF
EASTSIDE

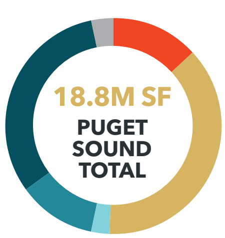
764.4K SF
NORTHEND

0 SF
SEATTLE CLOSE-IN

5.3M SF
PIERCE COUNTY

370.6K SF
SOUTHEND

3.6M SF
THURSTON COUNTY



SUBMARKET VACANT SPACE 3Q 2020

533K SF
EASTSIDE

2.12M SF
NORTHEND

2.40M SF
SEATTLE CLOSE-IN

5.76M SF
PIERCE COUNTY

6.82M SF
SOUTHEND

572K SF
THURSTON COUNTY

3Q 2020 MARKET HIGHLIGHTS

10.1M SF currently under construction (30% pre-leased)

ABSORPTION was 1.46MSF in the third quarter

RENTAL RATES continue to increase in most markets

VACANCY increased slightly to 5.25% in the region

SEATTLE CLOSE-IN REVIEW

VACANCY increased from 3.3% to 4.1% with negative net absorption of -438,751 s.f.

THE BLACKSTONE GROUP acquired Stoneway Carton Building from Charles Marush (43,684 s.f.) for $11,350,000 or $260/s.f.

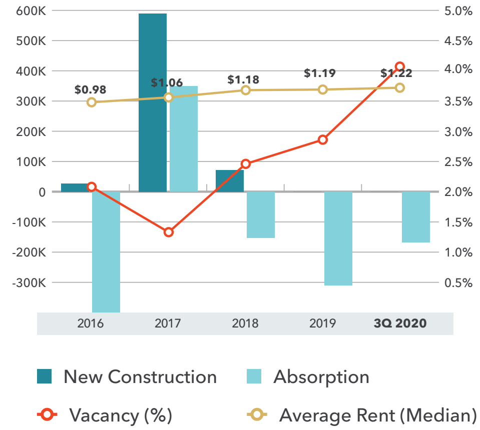
EVERWEST REAL ESTATE INVESTORS, LLC acquired 1414 Director Street from Queen Anne Upholstery (34,604 s.f.) for $7,950,000 or $230/s.f.

AVERAGE ASKING RENTAL RATES on a blended basis (office/warehouse combined) increased by $0.03/s.f. to $1.22/s.f.

LEASE RATES are expected to range from $1.00 to $2.00/s.f./month, NNN for medium- and high-grade buildings in the next six months.

YARD RATES will vary from $0.25 to $0.35/s.f. going south to north depending on size and whether it is paved, graveled, or fenced.

SEATTLE CBD / SURROUNDING AREA



SOUTHEND REVIEW

VACANCY decreased from 6.4% to 6.0% from the prior quarter due to net absorption of 420,956 s.f.

1.14M+ SF of signed leases with expected occupancy over the next nine months should reduce vacancy over the next couple of quarters.

370,635 SF is currently under construction. The largest project is Bridge Point Auburn 200 (206,155 s.f.) slated for 4th quarter delivery.

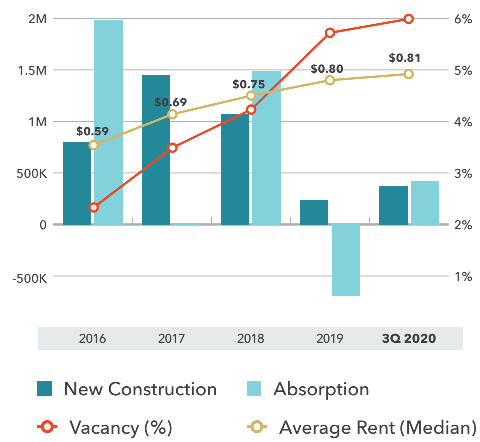
DUKE REALTY CORPORATION purchased West Valley at South 212th (Kent) from LA-Z Boy Furniture Galleries (63,546 s.f.) for $13,485,000 or $212/s.f.

AVERAGE ASKING RENTS (BLENDED) increased $0.02/s.f. to $0.81/s.f. Shell rates on new construction are in the mid $0.60s/s.f. with office add-on now $1.00/s.f.

OLDER EXISTING BUILDINGS are achieving shell rents in the low to mid $0.60s and $0.80 to $1.00/s.f. for office add-on.

SALE PRICES are expected to range from $150 to the low $200/s.f.; land values will range between $25 to $35/s.f. for fully improved sites.

SOUTHEND COUNTY



EASTSIDE REVIEW

VACANCY increased from 1.8% to 2.5% with delivery of 137,500 s.f. of new product, including Redmond Ridge Building 113 (130,000 s.f.) and a modest negative net absorption of -2,593 s.f. Despite COVID-19, this market continues to remain very tight as several tenants unable to find space have relocated to other markets where rents are lower and supply (slightly) more plentiful.

MAJORITY OF LEASES signed are under 10,000 s.f. Leases signed with move-in expected over the next 9 months totals 123,811 s.f.

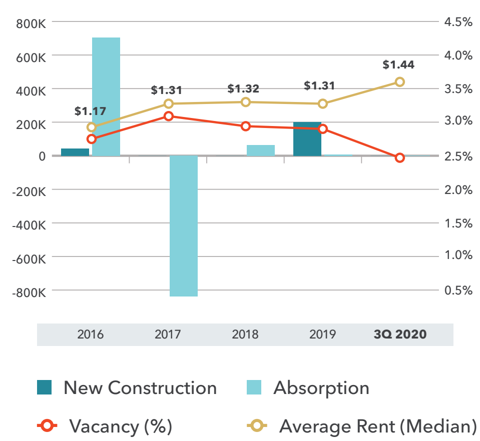
ASKING RENTAL RATES held steady at $1.44/s.f. NNN warehouse lease rates with high-bay warehouse manufacturing space should range between $0.80 to over $1.00/s.f./mo., with most in the $0.90-$1.00/s.f. range. Office rates are between $1.50/s.f. to $2.00/s.f.

SEVERAL INDUSTRIAL/SERVICE BUILDINGS along Bel-Red in Bellevue were acquired by Real Estate Advisory Services for $46.35 million in a redevelopment play (222,542 s.f. or $208/s.f.).

SALE PRICES are between $180-$250/s.f. (owner/users at the high end), and over $300/s.f. for flex properties.

LAND PRICES run from $20-$50/s.f. for a premium site, although there is a limited amount of land ready for development.

EASTSIDE COUNTY



NORTHEND REVIEW

VACANCY increased from 3.1% to 4.0% due to deliveries of 309,612 s.f. and net absorption was a negative -176,990 s.f.

LEASES SIGNED but not yet moved in totals about 694,000 s.f.

LARGEST LEASE TRANSACTIONS include TSI (38,483 s.f.) at Teague Building/ Intracorp at Merrill Creek (Everett) and Neoasis Interiors (32,861 s.f.) at Logistics Center at Woodinville,Bldg A.

EIGHT BUILDINGS (764,366 SF) are under construction including NW Sievers Deucy Road (307,200 s.f.), and Gayteway Business Park, buildings C & D in Arlington (184,825 s.f.).

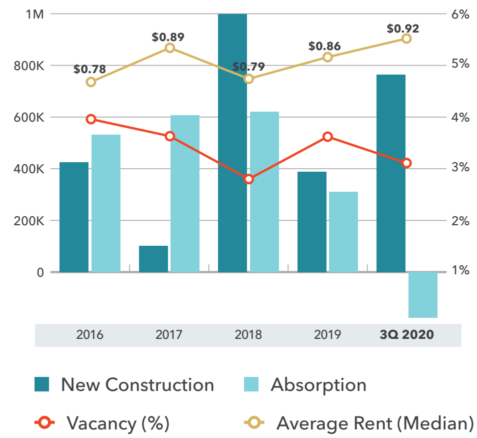
BLENDED RENTS increased $0.04 to $0.92/s.f. Warehouse lease rates should range $0.60-$0.80/s.f./mo., NNN in the closer-in submarkets and lower ($0.50-$0.55/s.f.) in the outlying markets.

OFFICE RENTS are $1.25-$1.50/s.f. for second generation space and $1.35-$1.40/ s.f. for new space.

SALE PRICES should range $150-$225/s.f. for buildings in the 5K to 20K s.f. range; $110-$170/s.f. for buildings in the 20K to 60K s.f. range. Flex space will be higher (between $200-$300/s.f.).

LAND VALUES should range $5-$19/s.f. with ample supply of industrial-zoned sites.

NORTHEND COUNTY



PIERCE COUNTY REVIEW

VACANCY decreased from 6.9% to 6.8% as positive net absorption of 1,591,705 s.f. kept pace with deliveries of 1,671,303 s.f. Largest deliveries were The Cube at DuPont Corporate Center, Building B (494,500 s.f.) and LPC Frederickson One-Building 1 (478,235 s.f.).

LEASES SIGNED but not yet moved in total nearly 1.23M s.f.

CONSTRUCTION ACTIVITY remains solid with 5,332,279 s.f. underway.

LARGEST PROJECTS include Puyallup Nation Logistics Center's at 3105 Frank Albert Road (1,071,287 s.f.) and 4408 78th Avenue (823,060 s.f.), both in Fife, and LPC Frederickson One-Building 2 (512,432 s.f.).

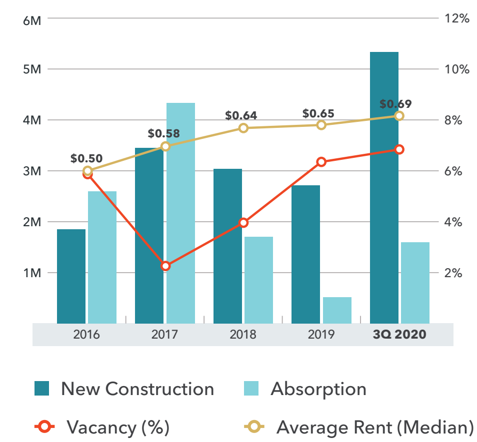
PANATTONI DEVELOPMENT acquired 19.72 acres (Tacoma Gateway II) for $16,750,000 or $19.50/s.f.

BLENDED AVERAGE RENTS decreased $0.01 to $0.68/s.f. Shell rates ranged $0.55-$0.65/s.f./mo., NNN, plus add-on office rates of $0.90-$1.00/s.f./mo.

SALE PRICES will range from $140-$185/ s.f. for new or smaller buildings. Second generation buildings will be lower in the $50-$100/s.f. range.

LAND VALUES typically range between $16-$20/s.f. for premium sites.

PIERCE COUNTY



THURSTON COUNTY REVIEW

VACANCY decreased from 4.3% to 3.8% as net absorption was positive at 68,031 s.f.

277,000 SF in leases signed but not yet moved in.

FIVE PROJECTS are under construction totaling 3,592,523 s.f., the largest include Hawks Prairie Logistics Industrial Park (1,917,610 s.f.), 575,910 s.f. at 7816 Hawks Prairie Road, 575,918 s.f. and 510,008 s.f. at Bridge Point Lacey, Building A.

1.9M SF of proposed projects in the pipeline.

CHALLENGE for some of the developments continues to be the ongoing endangered Mazama Pocket Gopher habitat issue.

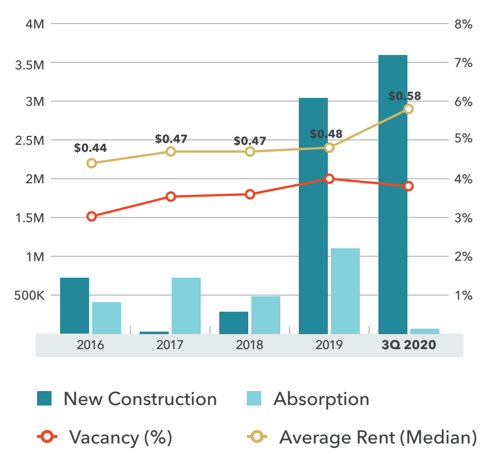
AVERAGE ASKING BLENDED RENTS were up $0.10 to $0.58/s.f. Shell rents range between $0.40-$0.44/s.f. on larger spaces and office add-on rates were $0.80-$1.00/s.f.

SMALLER SPACES are $0.45-$0.55/s.f. on the shell with office add on at $0.90-$1.00/s.f.

BUILDING SALES are expected to range from $80-$150/s.f.

LAND VALUES range between $5.00-$10.00/s.f.

THURSTON COUNTY



- If there is a spike in new COVID-19 cases causing Governor Inslee to require businesses to close again in order to gain control over the situation.
- 1.5 million s.f. in net absorption this quarter. There is nearly 3.6 million s.f. of leases signed and tenants ready to move-in over the next nine months. This will help offset some move-outs as some firms shut their businesses down.
- There still appears to be demand for large logistics users. Amazon continues to be active with nearly 7.0 million s.f. either leased or committed and possibly still looking for additional space.
- There is nearly 10.1 million s.f. of construction activity, with 30% pre-leased. If leasing demand falls off, this will push vacancy rates upward. The other unknown is if any of these projects will be put on hold. So far, none have.

VACANT SPACE/VACANCY RATE

A total of 2,118,415 s.f. was delivered this quarter. Positive absorption was 1,462,358 s.f. With deliveries outpacing absorption, the region's vacancy increased from 5.10% to 5.25%.

NEW CONSTRUCTION ACTIVITY

Construction remains very active with 37 buildings totaling 10,061,393 s.f. underway. Pierce and Thurston Counties continue to be the most active with 5,332,279 s.f. (20 buildings-Pierce) and 3,594,113 s.f. (7 buildings-Thurston), followed by the Northend market (8 buildings totaling 764,366 s.f.).

RENT FORECAST

Region-wide, average asking rents rose in four submarkets, held steady in one, and slightly lower in one. See individual markets for additional detail.

MARKET DEMAND/ABSORPTION

Absorption was positive at 1,462,358 s.f. for the quarter. Three submarkets achieved positive absorption, led by Pierce County (1,591,705 s.f.), Southend (420,956 s.f.), and Thurston County (68,031 s.f.). Seattle Close-in (-438,751 s.f.) and Northend (-176,990 s.f.) had the largest negative net absorption.

Notable Sale Transactions

SYSTIMA TECHNOLOGIES, INC. purchased Harbour Pointe Tech Center in Mukilteo from MRM Mt Vernon LLC/GT Mukilteo
334,090 s.f. | $46.79 million or $140/s.f.

CENTERPOINT PROPERTIES purchased the Iron Mountain Building (Kent) from Iron Mountain, Inc.
240,106 s.f. | $44.52 million or $185/s.f.

EVERWEST REAL ESTATE INVESTORS, LLC acquired Econo Box Building (Renton) from Alliance Packaging, Inc.
164,232 s.f. | $29.50 million or $180/s.f.

CROSBY & CO REAL ESTATE acquired the four building Woodinville West from Woodinville West LLC
172,449 s.f. | $28 million or $162/s.f.

PGIM REAL ESTATE purchased 12 industrial parks in Los Angeles, Chicago, Dallas/Fort Worth, Louisville, and Seattle (Valley Avenue Business Park in Puyallup and IAC Commerce Center in Des Moines).
$700.5 million | 5.35 million s.f., or $131/s.f.

Notable Lease Transactions

IKEA LPC Frederickson One - 478,235 s.f.

PACIFIC DISTRIBUTION Prologis Park Sumner, Building 2 - 370,087 s.f. and Building 5 - 220, 433 s.f.

INFINITY GLOBAL EXPRESS Portside Distribution Center (Tacoma) – 203,505 s.f.

EXPEDITORS Aldarra Corporate Park Phase I, Kent - 170,302 s.f.

SNEIDER RESOURCES Tacoma Logistics Center – 168,184 s.f.

MULTI FAMILY INTERIORS SeaPac Building, Kent – 103,760 s.f.

BRIAN HATCHER
President & COO
206.296.9600
brian.hatcher@kidder.com

The information in this report was composed by the Kidder Mathews Valuation Advisory Group.

RANDY GILLIAM, MAI
425.454.7040
randy.gilliam@kidder.com