

MARKET TRENDS | SEATTLE INDUSTRIAL

4TH QUARTER
2020

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

Year-over-year change

2020 has been a very challenging year as the COVID-19 pandemic wreaked havoc with the economy, both locally and nationally. Between March and April, unemployment spiked to 16.6% when the region lost 315,000 jobs. Since then, our economy gained back 210,700 jobs by the end of November; with the unemployment rate now at 5.1%. Unemployment will likely increase, as certain businesses had to temporarily close in December with the increasing number of new COVID-19 cases.

On the positive side, there is hope with the availability of vaccines to help get the pandemic under control. Also, President Trump finally signed the new stimulus bill. The Puget Sound Economic Forecaster's December report indicates that while the recovery will continue in 2021, their projected growth in employment has been revised to 1.7%, down from 3.0%, their prior quarterly estimate. The difficulty in projecting growth is trying to anticipate any further hiccups from the pandemic. We are still looking at several months before the majority of the public will be immunized. Growth is expected to be primarily in the service sectors compared to the goods-producing sectors, especially with declines in aerospace employment and Boeing's announcement in October that they are shutting down the 787 Dreamliner production in Everett and shifting production to Charleston, SC. The one bright spot in the aerospace sector is Boeing finally received certification for the 737 Max to fly again and several airlines have ordered planes.

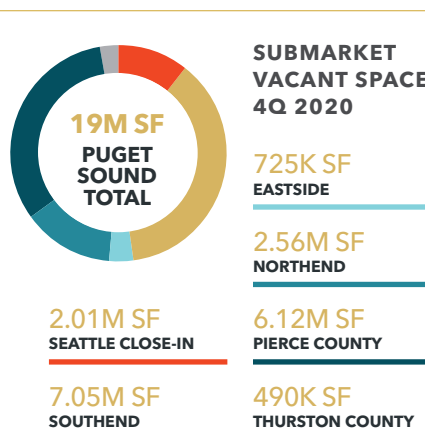
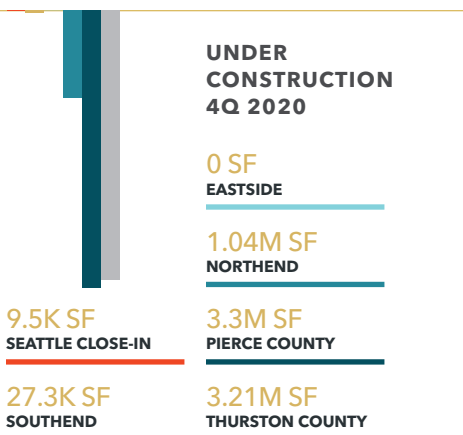
Key employment sectors impacting the industrial market include manufacturing, construction, wholesale trade, transportation, and warehousing. These sectors lost 85,900 jobs in April. As of November, these sectors combined have gained back 58,000 jobs. Only manufacturing has had additional leakage (6,200 jobs lost), while construction has gained

the most at 56,600 jobs. We expect construction to remain strong given the high level of projects under construction throughout the region. Warehousing has also remained strong, and while trade has struggled this year, it is starting to show signs of improvement. The Northwest Seaport Alliance October report indicates that import volumes rebounded in October, jumping 4.7% compared to the same month last year. Shipper demand during the peak season remained very strong and is forecasted to continue at least through the end of the year. Container volume year-to-date is down 15.6%; actually an improvement from May when it was down nearly 24%. Breakbulk cargo volumes are up 9.9%, while auto volumes are down 21.6%.

Despite mixed results on the economic side, the region's industrial market continues to be solid. Construction remains active with 7.6 million s.f. underway (33% is pre-leased). Nearly 3.5 million s.f. was delivered during the quarter. Leasing activity was very active with 2.7 million s.f. absorbed. With deliveries slightly outpacing absorption, the region's vacancy rate did inch up from 5.25% to 5.42%. Sales volume has been steady this year with \$861.9 million sold (\$178/s.f.). Average cap rate was 5.65%. 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 vacancies will continue to increase modestly as port volumes continue to be impacted by disrupted supply chains and the lingering trade dispute with China. Northend vacancy will likely increase when the shutdown of the 787 Dreamliner production line in Everett occurs, but the new

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4Q 2020 MARKET HIGHLIGHTS

7.6M SF currently under construction across 30 projects

NET ABSORPTION was 2.7M s.f.

AVG ASKING RENTS rose in four submarkets, held steady in one, and slightly lowered in one

VACANCY increased slightly from 5.25% to 5.42%

SEATTLE CLOSE-IN REVIEW

VACANCY DECREASED from 4.1% to 3.4% with positive net absorption of 397,074 s.f.

SCANLAN KEMPER BARD COMPANIES acquired Northwestern Industries property from Northwestern Industries: 208,562 s.f. (site) at \$24.0 million or \$78/s.f., a land play.

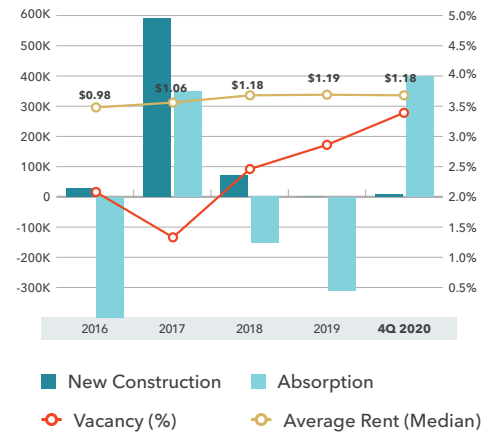
CHARLIES PRODUCE (TENANT) acquired 115 S. Dakota Street from Weinstein Living Trust: 125,926 s.f. at \$17.0 million or \$135/s.f.

AVERAGE ASKING RENTAL RATES on a blended basis (office/warehouse combined) decreased by \$0.03/s.f. to \$1.18/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 INCREASED from 6.0% to 6.2% from the prior quarter as deliveries of 370,635 s.f. outpaced net absorption of 143,096 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.

ONLY 27,280 S.F. is currently under construction.

CENTERPOINT PROPERTIES purchased 1701 Pike St NW (Auburn) from BJRA LLC: 126,000 s.f. at \$18,875,015 or \$150/s.f. They also acquired Pacific Power Products in Kent from MRM Fresno Investments LLC: 50,000 s.f. at \$14,226,015 or \$285/s.f.

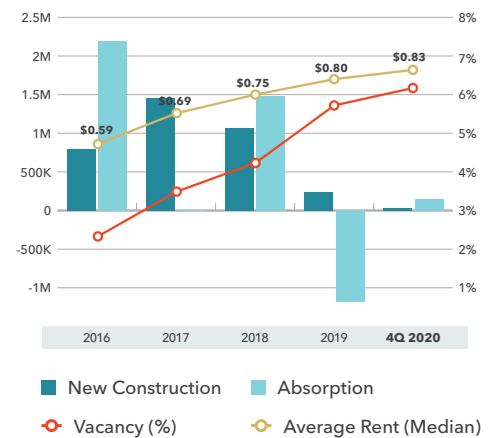
HARSCH INVESTMENT PROPERTIES acquired 30th & B Business Park and Alvis Industrial Park (Auburn) from All New Glass.: 101,000 s.f. at \$14,720,000 or \$146/s.f.

AVERAGE ASKING RENTS (BLENDED) increased \$0.02/s.f. to \$0.83/s.f. Shell rates on new construction are in the mid \$0.60's/s.f. with office add-on now \$1.00/s.f.

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

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

SOUTHEND COUNTY



EASTSIDE REVIEW

VACANCY INCREASED from 2.5% to 3.4% with negative net absorption of -193,365 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 nine months total 132,583 s.f.

ASKING RENTAL RATES increased by \$0.14/s.f. to \$1.56/s.f.. NNN warehouse lease rates with high-bay warehouse manufacturing space should range between \$0.80 to over \$1.15/s.f./mo.,

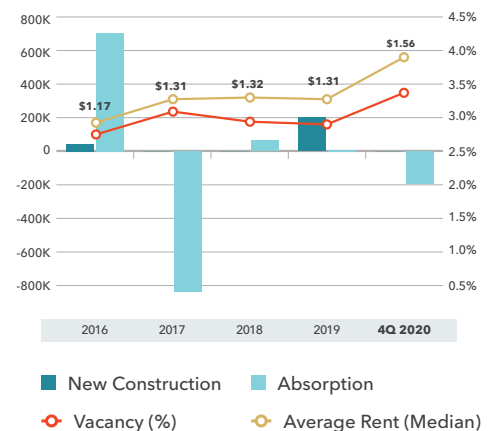
with most in the \$0.90-\$1.00/s.f. range. Office rates are between \$1.50/s.f. to \$2.00/s.f.

TERRENO REALTY CORPORATION purchased I-90 R & D Center (Bellevue) from Richards Road Station LLC: 38,883 s.f. at \$11,736,719 or \$302/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 4.0% to 4.8% due to deliveries of 359,799 s.f. and net absorption was a negative at -78,414 s.f.

LEASES SIGNED but not yet moved in total about 594,000 s.f.

NINE PROJECTS under construction (1,039,550 s.f.) including NW Sievers Deucy Road (307,200 s.f.), Smartcap DC North Buildings A & B (298,170 s.f.) and Gayteway Business Park, Buildings D and G in Arlington (236,000 s.f.).

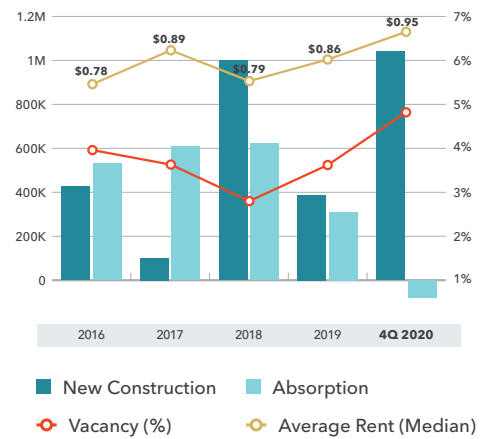
BLENDED RENTS increased \$0.02 to \$0.95/s.f.. Warehouse lease rates should range \$0.65-\$0.80/s.f./mo., NNN in the closer-in submarkets and lower (\$0.50-\$0.55/s.f.) in the outlying markets.

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

KOHLBERG KRAVIS ROBERTS & CO. purchased Glacier Peak in Everett from Panattoni Development: 204,498 s.f. at \$45.2 million or \$221/s.f. Also, Elion Partners acquired Intracorp Seaway II, Building A from SLS Enterprises, Inc.: 112,295 s.f. at \$23.1 million or \$205/s.f.

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.).

NORTHEND COUNTY



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

PIERCE COUNTY REVIEW

VACANCY INCREASED from 6.8% to 7.1% as positive net absorption of 2,356,644 s.f. nearly kept pace with deliveries of 2,750,979 s.f.. Largest deliveries were Big Freddy Logistics (Buildings B, C, & D: 711,247 s.f.), LPC Frederickson One, Building 2 (512,432 s.f.), and The Viking (438,065 s.f.).

NOTABLE LEASES included PCC Logistics at 1525 E D St (322,345 s.f.), Coastal Pacific Food Distribution at Fife Corporate Center, Building 3 (170,812 s.f.), Article at Portside 55, Building C in Tacoma (158,150 s.f.)

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

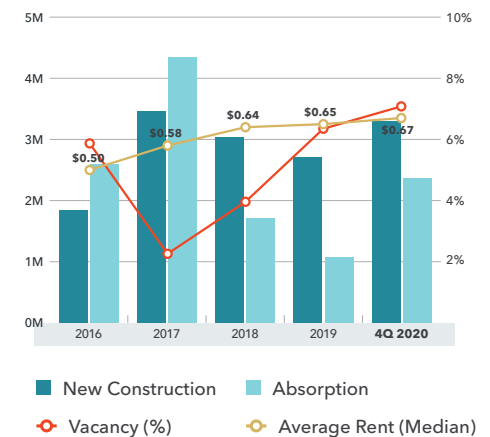
CONSTRUCTION ACTIVITY remains solid with 3,300,084 s.f. underway.

LARGEST PROJECTS include Puyallup Nation Logistics Center at 3105 Frank Albert Rd (1,071,287 s.f.) & 4408 78th Ave (823,060 s.f.), both in Fife.

BLENDED AVERAGE RENTS remain unchanged at \$0.67/s.f. Shell rates ranged between \$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.

PIERCE COUNTY



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

THURSTON COUNTY REVIEW

VACANCY DECREASED from 3.8% to 3.3% as net absorption was positive at 82,416 s.f.. The largest lease signed was Pregis leasing 74,463 s.f. at Hogum Bay Logistics Center, Building 5 in Lacey.

LEASES SIGNED but not yet moved in total about 807,000 s.f.

FIVE PROJECTS are under construction totaling 3,214,533 s.f., the largest include Hawks Prairie Logistics Industrial Park (3 buildings totaling 1,912,666 s.f.), including a 1.28M s.f. distribution center for Home Depot. The other notable project is the 510,040 s.f. at Bridge Point Lacey, Building A.

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

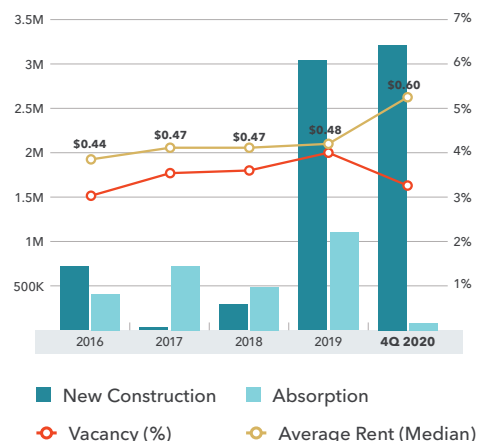
AVERAGE ASKING BLENDED RENTS were up \$0.10 to \$0.58/s.f. Shell rents range between \$0.40-\$0.44/s.f. on larger spaces and office add-on rates were \$0.80-\$1.00/s.f.

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



orders on the 737 Max will be a boost to the Southend. Other Items to continue watching include:

- The continuing effort to flatten the COVID-19 curve of new cases. Some businesses have had to remain closed, but hopefully with availability of vaccines, over the next several months the pandemic will be under control.
- 2.7 million s.f. in net absorption this quarter. There is nearly 4.3 million s.f. of leases signed and tenants ready to move in over the next nine months. This level of pre-leasing has held steady and not been impacted by the pandemic.
- Demand for large logistics users continues. Amazon remains active with nearly 7.0 million s.f. either leased or committed and possibly still looking for additional space.
- There is 7.6 million s.f. of construction activity, with 33% 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 3,481,413 s.f. was delivered this quarter. Positive absorption was 2,708,251 s.f. With deliveries outpacing absorption, the region's vacancy increased from 5.25% to 5.42%.

NEW CONSTRUCTION ACTIVITY

Construction remains very active with 30 projects totaling 7,590,947 s.f. underway. Pierce and Thurston Counties continue to be the most active with 3,300,084 s.f. (11 projects-Pierce), and 3,214,533 s.f. (7 projects-Thurston), followed by the Northend market (9 projects totaling 1,039,550 s.f.).

RENT FORECAST

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

MARKET DEMAND/ABSORPTION

As noted above, absorption was positive at 2,708,251 s.f. for the quarter. Four submarkets achieved positive absorption, led by Pierce County (2,356,644 s.f.), Seattle Close-in (397,874 s.f.), Southend (143,096 s.f.), and Thurston County (82,416 s.f.). Eastside (-193,365 s.f.) and Northend (-78,414 s.f.) were the markets with negative net absorption.

Notable Sale Transactions

ALEXANDRIA REAL ESTATE EQUITIES purchased Monte Villa Farms (Bothell) from Monte Villa Farms, LLC
284,242 s.f. | \$65.0 million or \$229/s.f.

KOHLBERG KRAVIS ROBERTS & CO. purchased Glacier Peak (Everett) from Panattoni Development
204,498 s.f. | \$45.2 million or \$221/s.f.

LBA REALTY acquired Starlite Distribution Center (Lakewood) from AIG Global Asset Management
245,987 s.f. | \$39.5 million or \$161/s.f.

ELION PARTNERS acquired Intracorp Seaway II, Building A (Everett) from SLS Enterprises Inc
112,295 s.f. | \$23.1 million or \$205/s.f.

SEATTLE TIMES sold their North Creek facility (Bothell) to AvalonBay Communities in a redevelopment play
1,032,372 s.f. | \$51.0 million or \$49/s.f.

Notable Lease Transactions

PCC LOGISTICS 1525 E D Street - 322,345 s.f.

COASTAL PACIFIC FOOD DISTRIBUTION Fife Corporate Center, Building 3 - 170,812 s.f.

LINEAGE LOGISTICS Springbrook 188, Building 1, Kent - 179,379 s.f.

ARTICLE Portside 55, Building C - 168,150 s.f.

FILSON Van Doren's at 228th Kent - 126,028 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

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