

# MARKET TRENDS | SEATTLE

# INDUSTRIAL

4TH QUARTER  
2021

▲ **ABSORPTION** | ▼ **VACANCY** | ▲ **RENTAL RATE** | ▲ **CONSTRUCTION DELIVERIES**  
Year-over-year change

The region's industrial market ended the year with record high net absorption of just over 13 million SF, 4.1 million SF occurring in the 4th quarter. The previous high was 6.8 million SF in 2006. Construction remains very active.

Here are the numbers for the region for the past three months.

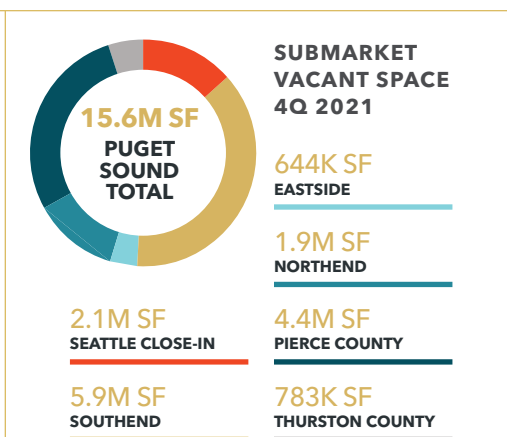
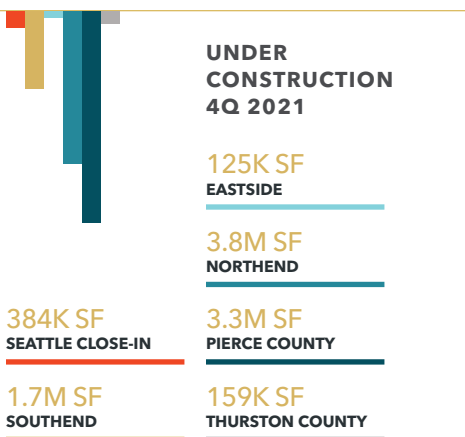
- 3.15 million SF was added to the total supply (net of demolition of older product). The region now totals just over 358 million SF.
- Projects under construction total nearly 9.5 million SF (62% is pre-leased), led by the Northend (3.8 million SF) and Pierce County (3.3 million SF).
- Positive net absorption of 4.1 million SF, led by Pierce County (3.0 million SF).
- Vacancy rate for the region decreased from 4.7% to 4.4% as absorption outpaced deliveries.
- Average asking rental rate increased \$0.09/SF/month to \$1.05/SF/month.
- Sales volume set a record this year with \$1.8 billion sold, eclipsing the previous record of \$1.2 billion in 2019. A list of notable sales is below.
- One large redevelopment play this quarter is Alexandria's \$77.5 million purchase of the 12th Place Business Park (5.2 acres) in Bellevue, located blocks from Spring District. This is the life science firm's first investment in Bellevue.

The growth in the industrial market continues from strong on-line shopping which has resulted in a higher demand for fulfillment/distribution facilities. Employment growth has been good. Over the past 12 months (November 2020 to November 2021), the region has added 90,800 jobs, a 4.3% increase. Total regional employment now stands at 2,180,000. While still not at pre-Covid levels, the region has recovered 204,300 of the 240,600 jobs lost. The employment sectors impacting the industrial market include manufacturing, construction, wholesale trade and transportation & warehousing. Over the past year, each of these sectors have shown gains with Construction (+3,000 jobs) leading the way, followed closely by Transportation & Warehousing (+2,800 jobs). Manufacturing saw a gain of 1,000 jobs overall, despite the loss of 2,400 jobs in aerospace.

Looking ahead at 2022, there is continued optimism.

- The Puget Sound Economic Forecaster's December 2021 report forecast employment growth in 2021 at 2.6%, unchanged from their prior estimate. They also expect 2022 to be much higher at 5.7%. Sectors with the expected growth include manufacturing, wholesale/retail trade, and professional/business services as well as other services.

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**4Q 2021 MARKET HIGHLIGHTS**

- 9.5M SF under construction
- NET ABSORPTION was 4.1M s.f.
- AVG ASKING RENTS rate increased \$0.09/s.f./mo to \$1.05/s.f./mo
- VACANCY decreased from 4.7% to 4.4%

## SEATTLE CLOSE-IN REVIEW

**VACANCY SLIPPED DOWN** from 3.7% to 3.6% with negative net absorption and a 191,839 SF reduction in the inventory.

**THREE PROJECTS**, (383,516 SF) are under construction. The largest is Track Six Sodo Business Park (212,576 SF).

**SALE VOLUME** was \$148 million. Notable sales include:

**BAIN CAPITAL** purchased the North Coast Electric Building from Peter Lemman, the previous president of the company - 82,213 SF | \$32,000,000 or \$376/SF.

**PIP PORTLAND ST LLC** acquired The Gear Works Building (500 S Portland St.) from the

Ramberg brothers / Gear Works Seattle Inc. - 73,011 SF | \$10,500,000 or \$144/SF.

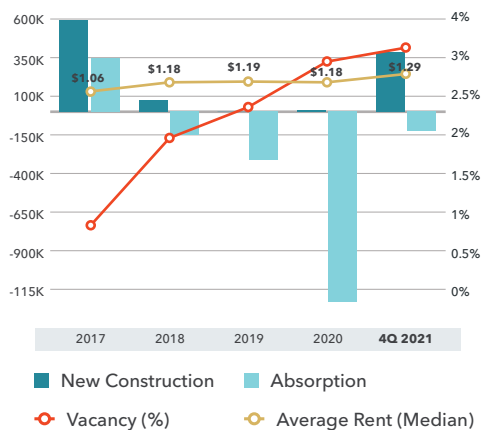
**PROLOGIS** purchased the recently constructed Nissan Dealership (3400 Airport Wy. S) from Nissan North America - 24,929 SF | \$18,425,000 or \$739/SF.

**AVERAGE ASKING RENTAL RATES** on a blended basis (office/warehouse combined) ticked up by \$0.01/SF to \$1.29/SF.

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

**YARD RATES** will vary from \$0.30 to \$0.55/SF going south to north depending on size and whether it is paved, graveled, and fenced.

## SEATTLE CBD / SURROUNDING AREA



## SOUTHEND REVIEW

**VACANCY INCREASED** 22 basis points to 5.05% from the prior quarter due to deliveries of 592,938 SF outpacing the positive net absorption of 503,015 SF.

**OVER** 2.0 million SF of signed leases with expected occupancy over the next nine months should further reduce vacancy.

**1,734,797 SF** is currently under construction. Notable projects include CenterPoint Seattle (414,528 SF) Bridgepoint Kent 300, Building B (258,499 SF), and Prologis West Valley (200,393 SF).

**DERMODY PROPERTIES** acquired Olympic Steamship Building in Kent (446,850 SF) from Olympic Steamship Building for \$61,450,780 (\$138/SF).

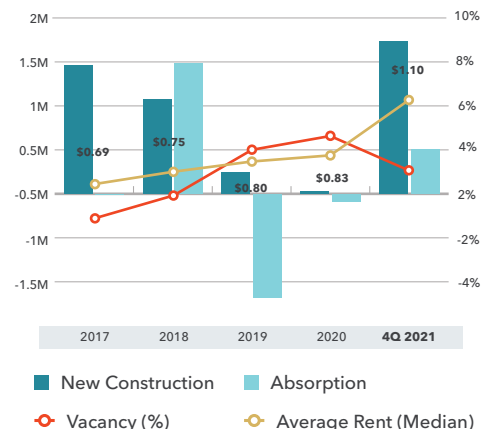
**AVERAGE ASKING RENTS** (blended) climbed 12.2% to \$1.10/SF.

**SHELL RATES** on new construction are moving into the \$0.70s/SF for new generation, typically 30' clear heights with office add-on now \$1.25/SF.

**OLDER** existing buildings are achieving shell rents in the low to mid \$0.60s and \$0.90 to \$1.10/SF for office add-on, often depending on tenant improvement allowance for the office.

**SALE PRICES** are expected to range from \$150 to the mid-\$200s/SF; land values have been pushed up by lack of inventory, with recent sales negotiated as high as \$70/SF.

## SOUTHEND COUNTY



## EASTSIDE REVIEW

**VACANCY** decreased 8 basis points, from 3.02% to 2.94% with positive net absorption of 266,201 SF with Panattoni delivering a 113,000 SF building leased to Amazon in Maple Valley.

**MAJORITY** of leases signed are under 10,000 SF. Leases signed with move-in expected over the next 9 months totals 113,691 SF.

**ONE PROJECT** project is under construction - Redmond Ridge, Buildings 4 & 5 (124,907 SF). It is 100% pre-leased.

**ASKING** rental rates moved up \$0.12/SF to \$1.64/SF NNN. Warehouse lease rates with high-bay warehouse manufacturing space should range between \$0.85 to over \$1.15/

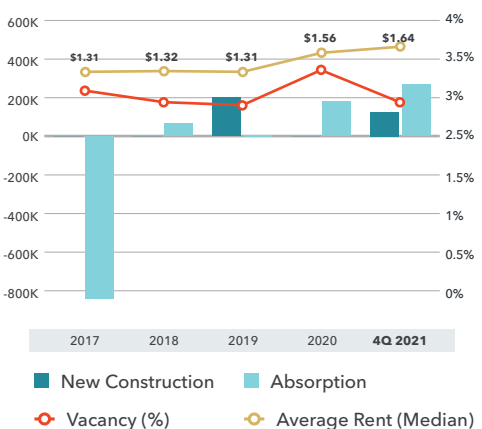
SF/mo., with most in the \$0.95-\$1.15/SF range. Office rates are between \$1.50/SF to \$2.10/SF.

**NOTABLE SALES INCLUDE** Compact Information Systems acquired Oak Ridge Business Park from Puget Sound Envelop Company for \$14,200,000 (\$339/SF). Marymoor Business Campus sold to Main Street Property Group LLC for \$14,250,000 (\$445/SF). Ron Danz purchased the Redmond Driver's Club building from Doug Perry of Shotgun Creek Investments for \$20,500,000 (\$424/SF).

**SALE PRICES** are between \$180-\$250/SF (owner/users are between \$200-\$250/SF (owner/users at the high end), and over \$400/SF for flex properties.

**LAND PRICES** run from \$20-\$50/SF for a

## EASTSIDE COUNTY



premium site, although there is a limited amount of land ready for development.

## NORTHEND REVIEW

**VACANCY** decreased for the second quarter, moving from 4.04% to 3.62% with from 5.0% to 4.0% due to positive net absorption (499,447 SF) with two building delivered totaling 136,200 SF.

**LEASES** signed and expected to move in over the next 9 months totals about 300,399 SF.

**NINE** buildings (3,840,542 SF) are under construction including the Amazon Fulfillment Center in Arlington (2,660,000 SF), Smartcap DC North Buildings A & B (299,900 SF), Cascade Business Park, Building 1 (245,619 SF) and Baywood Park (234,175 SF).

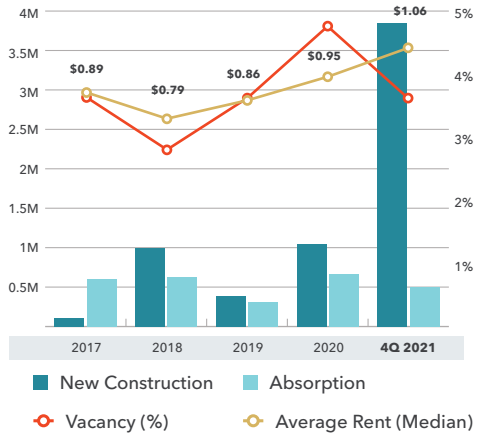
**BLENDED RENTS** increased \$0.05 to \$1.06/SF. Warehouse lease rates range \$0.70-\$0.85/SF/mo., NNN in the closer-in submar-

kets and lower (\$0.60-\$0.70/SF) in the outlying markets. Office rents are \$1.30-\$1.50/SF for second generation space and \$1.65-\$1.75/SF for new space.

**NOTABLE SALES THIS QUARTER** Terreno Realty Corporation's purchase of Intracorp Business Center Mackie Designs II building from the Nelson Family Trust for \$23,600,000 (\$281/SF).

**SALE PRICES** have steadily increased over the past five years, currently at \$234/SF average and 27.2% over the five year average of \$184/SF. As the Terreno acquisition demonstrates, a quality asset exceeds the averages significantly. Land-to-building ratios also influence building sale price per SF, with more land pushing building pricing higher.

## NORTHEND COUNTY



**LAND VALUES** should range \$8-\$19/SF with ample supply of industrial-zoned sites.

## PIERCE COUNTY REVIEW

**VACANCY** by 142 basis points from 6.3% to 4.8% as net absorption of 3,054,727 SF outpaced deliveries of 823,060 SF. Largest delivery was the Puyallup Nation Logistic Center with 823,060 SF and leased to Amazon.

**NOTABLE SALES THIS QUARTER:** Clarion Partners purchased The Viking, a 438,065 SF distribution building with a GSA backed, ten-year lease from Washington Capital Management for \$105 million (\$240/SF). Panattoni sold Tacoma Gateway II Building A to Realterm USA Inc. for \$87 million (\$318/SF). Boeing sold its Frederickson site of 310 acres to Panattoni that said the project, known as Fred310, could support up to 4 million SF. Price was \$15/SF.

**NOTABLE LEASES THIS QUARTER:** Amazon - Puyallup Nation Logistics Cen-

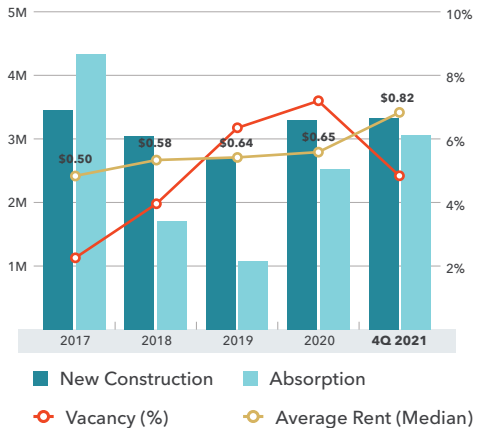
ter - 823,060 SF. Pioneer Technologies-Canyon Road Logistics - 300,942 SF. Curt Manufacturing - Portside Industrial Center, Building A, - 251,100 SF.

**LEASES SIGNED** activity remains solid with 4.1 million SF underway (15 projects).

**LARGEST** projects include LPC Frederickson ONE Building 5 (862,167 SF), Puyallup Nation Logistics Center (823,060 SF) in Fife, 8th Street E, Building 3 (500,000 SF) in Sumner, and Lakewood Logistics Center, Building A (470,587 SF).

**BLENDED** average rents increased \$0.02/SF to \$0.73/SF. Shell rates ranged \$0.55-\$0.80/SF/mo., NNN, plus add-on office rates of \$0.90-\$1.00/SF/mo.

## PIERCE COUNTY



**SALE PRICES** will range from \$140-\$185/SF for new or smaller buildings.

**LAND VALUES** typically range between \$16-\$20/SF for premium sites.

## THURSTON COUNTY REVIEW

**VACANCY** increased from 3.1% to 4.1% with negative net absorption of (77,009 SF) and 141,884 SF delivered in Lacey Logistics Building A with 45,684 SF leased.

**CONSTRUCTION ACTIVITY** continues to decrease, now at 67,476 SF. Hawks Hub Building 1 is 50,600 SF and Building 2 is 16,876 SF. Nearly 1.5 million SF is in the pipeline.

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

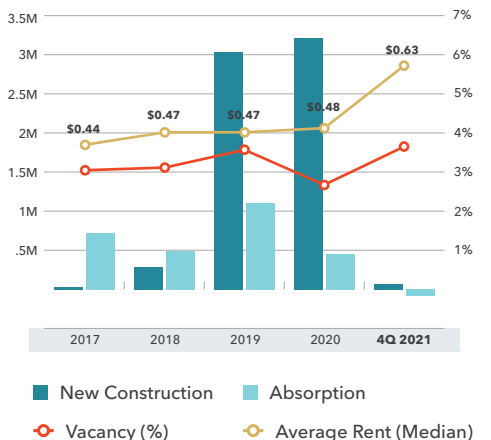
**AVERAGE ASKING** blended rents bumped up to \$0.63/SF, from \$0.62/SF in Q3 but not yet at the Q2 spiked at \$0.70/SF, a result of the new construction that was undergoing

leasing. Shell rents range between \$0.40-\$0.45/SF on larger spaces and office add-on rates were \$0.80-\$1.00/SF. Smaller spaces are \$0.45-\$0.55/SF on the shell with office add on at \$0.90-\$1.00/SF.

**BUILDING** sales are expected to range from \$80-\$150/SF.

**LAND VALUES** range between \$5.00-\$10.00/SF with abundant land available for development.

## THURSTON COUNTY



- The Northwest Seaport Alliance reports that Seattle and Tacoma volumes in November, were up 7.8% compared to November 2020. Full imports increased by 7.5%, while full exports decreased 18.4%. Phase one of the two-phase modernization project at Terminal 5 in the Seattle Harbor is slated to open in January 2022. When complete, the 18.5-acre terminal with on dock rail will handle the largest vessels in the transpacific trade.
- Leasing continues to be strong with 7.6 million SF. leased and scheduled to move in over the next 9 months.

There are some concerns that we continue to monitor. These include:

- Construction costs have skyrocketed with significant increases in lead times and developers have been mostly successful increasing rents to offset these higher costs, but shortages continue to exist.
- More businesses have opened to greater capacity but we are seeing a rise in positive cases of the Omicron and Delta variants of COVID-19. Masking up has been a requirement for indoor activities.

## Notable Sale Transactions

**CLARION PARTNERS** acquired The Viking in Puyallup (438,065 SF) from Washington Capital Management for \$105 million (\$240/SF).

**REALTERM US, INC** purchased Tacoma Gateway II, Building A (273,816 SF) from Panattoni for \$87 million (\$318/SF).

**DERMODY PROPERTIES** acquired Olympic Steamship Building in Kent (446,850 SF) from Olympic Steamship Building for \$61,450,780 (\$138/SF).

**BAIN CAPITAL LP** purchased North Coast Electric in Seattle (85,213 SF) from Peter Lemman for \$32 million (\$376/SF).

## Notable Lease Transactions

**AMAZON** | Puyallup Nation Logistics Center - 823,060 SF

**PIONEER TECHNOLOGIES** | Canyon Road Logistics - 300,942 SF

**CURT MANUFACTURING** | Portside Industrial Center, Building A - 251,100 SF

**STRYDER MOTORFREIGHT USA, INC** | Kent 35 - 245,213 SF (renewal)

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