

# MARKET TRENDS | SEATTLE INDUSTRIAL

1ST QUARTER  
2022

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

The region's industrial market began the year with strong net absorption of just over 4.0 million sf with an additional nearly 9.1 million sf under construction.

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

- 3.01 million sf was added to the total supply (net of demolition of older product). The region now totals just over 360 million sf.
- Projects under construction total nearly 9.1 million sf (54% pre-leased), led by the Northend (3.7 million sf) and Pierce County (2.2 million sf).
- Positive net absorption of 4.0 million sf, led by South King County (2.2 million sf).
- Vacancy rate for the region decreased from 4.3% to 3.9% as absorption outpaced deliveries.
- Average asking rental rate has remained stable, at \$1.05/sf/month.
- 101 properties closed this quarter, \$773 million at an average of \$234/sf. A list of notable sales is below.

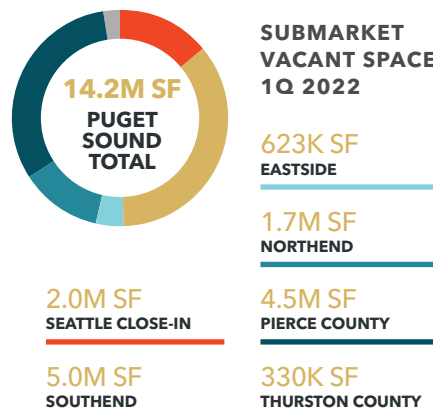
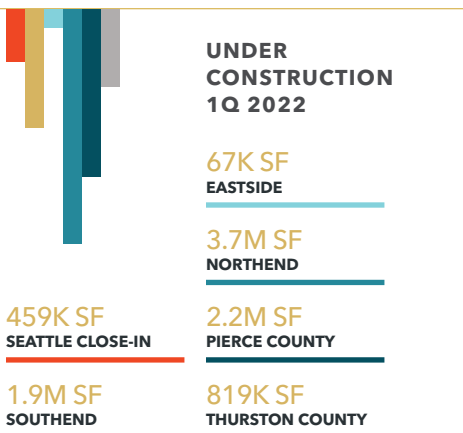
The industrial market continues on an upward trajectory, as on-line shopping drives demand for fulfillment/distribution facilities. Employment growth has been good, the region has added 105,500 jobs, a 5.1% increase between January 2021 and 2022. Total regional employment now stands at 2,162,100, with 73.3% of the 240,600 jobs lost to Covid recovered. Manufacturing has been relatively stable over the past year, with a gain of 200 jobs. The largest gain has been in the transportation and warehousing

segment, with 4,100 jobs added, a 5.0% increase. Wholesale trade has also increased, adding 1,700 jobs. Aerospace manufacturing continues to shed jobs, losing 1,300 over the past 12 months.

Looking ahead at 2022, there is continued optimism.

- The Puget Sound Economic Forecaster's March 2022 reported employment growth in 2021 at 1.7%, almost a full point below the previous forecast of 2.6%. 2022 is anticipated to be higher, forecast at 3.5% but headwinds are noted. It was noted that employment in the construction industry fell by 1,000, an indication of a lack of available workers.
- The Seattle area consumer price index finished 2021 at 7.6%, with the forecast for 2022 at 5.0% before declining to 2.1% in 2023. Several factors contribute to this: rising fuel prices, increased shipping costs, a result of the shipping disruptions during covid, and high cost of construction materials.
- The Northwest Seaport Alliance reported 3,736,206 TEUs for 2021, a 12.5% increase over 2020 and 1.6% below the peak in 2018. January 2022 saw a decrease in volume blamed on dockings that were omitted but February came back at 298,046 TEUs, the highest for the

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## 1Q 2022 MARKET HIGHLIGHTS

**9.1M SF** under construction

**NET ABSORPTION** was 4.0M s.f.

**AVG ASKING RENTS** remained stable at \$1.05/s.f./mo

**VACANCY** decreased from 4.3% to 3.9%

## SEATTLE CLOSE-IN REVIEW

**VACANCY** continued moving down from 4Q 2021 of 3.7% to 1Q 2022 of 3.4%. Absorption was positive at 174,208 sf.

**THREE PROJECTS**, (383,516 sf) are under construction. The largest is Track Six Sodo Business Park (212,576 sf). The building has topped out. SoDo R+D, at 65 S Horton is a 120,000 sf project and underway. These developments are multi-story, flex space testing the SoDo market for high end space suitable for lab/office uses.

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

**OAK STREET REAL ESTATE CAPITAL**, through Project Fleet Owner LLC, purchased the Vigor Industrial Shipyards on Harbor Island for \$180.7 million from Vigor that leased back the property. This is 28-acres with 426,000 sf in multiple buildings.

**CROSBY AND COMPANY REAL ESTATE** purchased 4 S Idaho St. from Innovare Investments for \$16,500,000, \$324/sf for 50,924 sf on 66,211 sf of land. The reported cap rate is 4.50%.

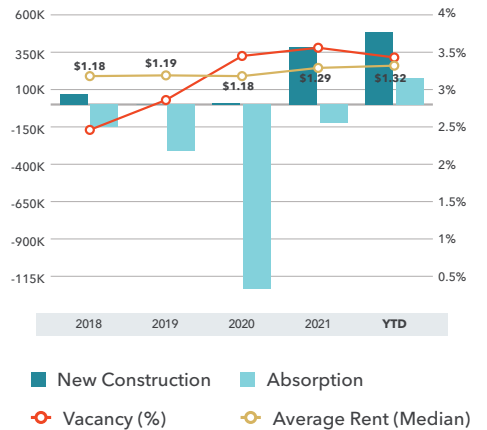
**FORTRESS INVESTMENT GROUP** purchased the MacDonald Meat Co. building at 2709 Airport Wy. S for \$385/sf with the seller/tenant leasing back for one year.

**EVERWEST REAL ESTATE INVESTORS** purchased the LoneStar Building from Trent Avenue Partners for \$15,483,000, or \$269/sf for the fully leased property.

**AVERAGE ASKING RENTAL RATES** on a blended basis (office/warehouse combined) ticked up by \$0.03/sf to \$1.32/sf.

**LEASE RATES** are expected to range from \$1.00 to \$1.75/sf/month, NNN for medium-

### SEATTLE CBD / SURROUNDING AREA



and high-grade buildings in the next six months.

**YARD RATES** will vary from \$0.35 to \$0.60/sf going south to north depending on size and whether it is paved, graveled, and fenced.

## SOUTHEND REVIEW

**VACANCY DECREASED** to 4.3%, down from 4.6% for 2021. 196,953 sf were delivered and absorption was a strong 2.24 million sf.

**OVER** 2.4 million sf of signed leases with expected occupancy over the next nine months should further reduce vacancy.

**1,876,255 SF** is currently under construction with 15% preleased. Notable projects include CenterPoint Seattle (414,528 sq ft) Bridgepoint Kent 300, Building B (258,499 sf), and Covington 18 (254,352 sf).

**NICOLA WEALTH MANAGEMENT** purchased Gateway Buildings 4 and 5, 85,229 sf for \$17,977,290, or \$211/sf from Boeing Employee's Credit Union.

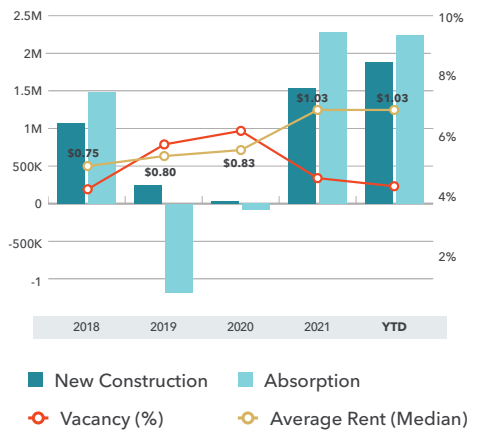
**ROSEN HARBOTTLE** Commercial Real Estate sold Kent Business Campus to local investor Danny Fast for \$169/sf (35,055 sf) with a cap rate of 6.43%.

**AVERAGE ASKING RENTS** (blended) have remained stable at \$1.03/sf.

**SHELL RATES** on new construction are moving into the upper \$0.90 to \$1.00/sf for new generation, typically 30' to 32' clear heights with office add-on now \$1.35/sf. Office construction costs are in the \$175 to \$200/sf range for first generation buildout. Older buildings shell rents are mid \$0.70s to mid \$0.90 sf for office add-on.

**SALE PRICES** range from \$150 to the mid-\$200s/sf with some upper end assets

### SOUTHEND COUNTY



exceeding \$300/sf; land values have been pushed up by lack of inventory, with recent sales negotiated as high as \$70/sf.

## EASTSIDE REVIEW

**VACANCY** 54 basis points, from 3.39% to 2.85% with positive net absorption of 118,310 sf.

**MAJORITY** of leases signed are under 10,000 sf. 14 leases have been signed with occupancy within the next 9 months totaling 106,308 sf.

**REDMUND RIDGE**, Building 5 (67,700 sf) is under construction and is 100% pre-leased.

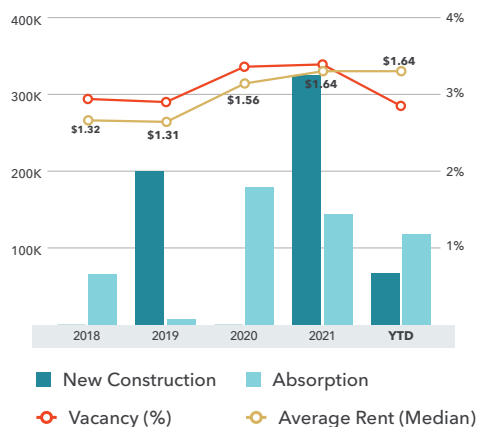
**ASKING** rental rates are at \$1.64/sf NNN. Warehouse lease rates with high-bay warehouse manufacturing space range between \$0.85 to over \$1.15/sf/mo. Office rates are between \$1.50/sf to \$2.10/sf.

**NOTABLE SALES INCLUDE** Elm Tree Funds purchased from Panattoni the Amazon Facility in Maple Valley for \$95,006,029, or \$847/sf. Terreno purchased a four building flex park from a local investment group for \$13,040,000, \$330/sf and a 3.4% cap. Eastside Christian Fellowship purchased Kirkland 405 Corporate Center, Building G for 31,031 sf, for \$12,500,000, or \$403/sf.

**SALE PRICES** are between \$200-\$350/sf (owner/users at the high end), and over \$400/sf for flex properties.

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

### EASTSIDE COUNTY



## NORTHEND REVIEW

**VACANCY** from the 2020 high of 4.76% to 3.19%, with 248,874 sf of positive absorption. SmartCap delivered 136,705 sf and Gayteway Industrial Park added 117,800 sf and fully occupied.

**LEASES** signed and expected to move in over the next 9 months totals 624,806 sf, averaging 15,620 sf.

**EIGHT BUILDINGS** (3,739,624 sq ft) are under construction, dominated by the Amazon Fulfillment Center in Arlington (2,800,000 sq ft).

**WAREHOUSE** lease rates range \$0.60-\$0.85/sf/mo. depending on location. Office rents are \$1.30-\$1.50/sf for second generation space and \$1.65-\$1.75/sf for new space.

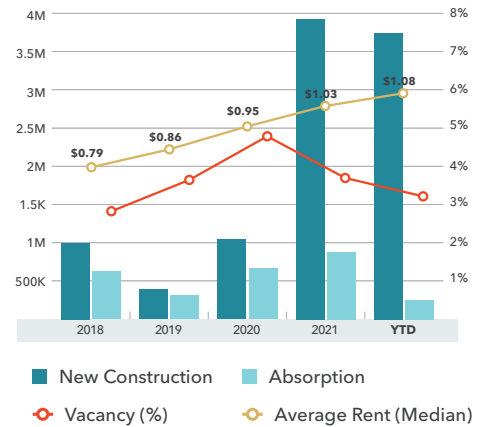
**NOTABLE SALES IN 1Q** include Pine Forest Properties Inc. purchasing the Webb

Industries 106,833 sf for \$136/sf. L.S.R. Properties purchased the 67,742 sf Smokey Point Productions facility for \$17,230,817, \$254/sf. Matthew G. Norton Company purchased the Northshore Building from CLB Investments LLC for \$10,500,000, \$324/sf (32,384 sf), and Realty Associated Funds purchased the Steel Properties Industrial Center (40,115 sf), for \$257/sf with a 4.5% cap rate.

**SALE PRICES** have steadily increased over the past five years, currently at \$249/sf average and 30.4% over the five year average of \$191/sf. Sale volume has been good at \$490 M, 9.8% below the five year average of \$538 M.

**PROPOSED** projects total 4,656,764 sf in 23 projects.

### NORTHEND COUNTY



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

## PIERCE COUNTY REVIEW

**VACANCY** up six basis points to 4.95% with 1Q absorption of 800,964 sf. Lakewood Logistic Center Building V was the largest project completed, adding 148,407 sf of the 204,407 sf added 1Q.

**NOTABLE SALES THIS QUARTER:** IDI Logistics purchased the 199,744 sf Puyallup Logistics Building on E Main St. for \$172/sf. Realty Income Corporation purchased the Builders FirstSource property in Spanaway from Cook Investments. This 11-acre site with 50,540 sf building sold for \$22,000,000, a 4.85% cap.

**NOTABLE LEASES THIS QUARTER:** Floor and Decor - FRED310 - 1,118,480 sf. Samsung - Prologis Blair Distribution -

544,514 sf (Renewal). Temper Sealy - The Cubes, Dupont, - 494,900 sf.

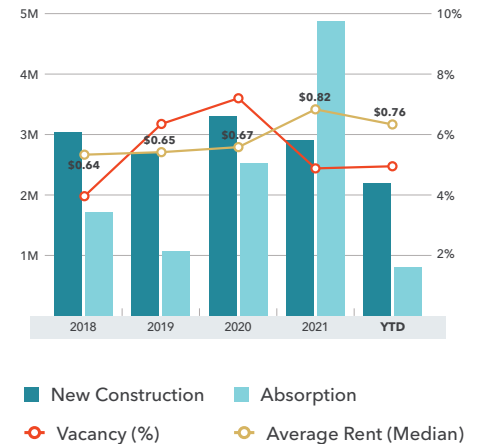
**LEASES SIGNED** signed but not occupied total 3.1 million sf with occupancy within nine months.

**CONSTRUCTION** activity remains solid with 2.2 million sf underway (12 projects), predominantly in Fredrickson.

**SHELL RATES** range \$0.55-\$0.80/sf/mo., NNN, plus add-on office rates of \$0.90-\$1.25/sf/mo.

**SALE PRICES** range from \$150-\$300/sf depending on age and condition of the property.

### PIERCE COUNTY



**LAND VALUES** typically range between \$16-\$35/sf for premium sites.

## THURSTON COUNTY REVIEW

**VACANCY** has dropped from the 2021 level of 4.0% to 1.7%, with 453,175 sf of absorption and an increase in rental rates. No deliveries this quarter but five projects under construction that will add 819,485 sf, with 67,476 sf by Q3 and Tumwater Corporate Park Building 1, adding 199,917 sf by year end.

**THE CONSTRUCTION** pipeline has 2.2 million sf proposed, with Tumwater Corporate Park proposing three buildings over 400,000 sf each.

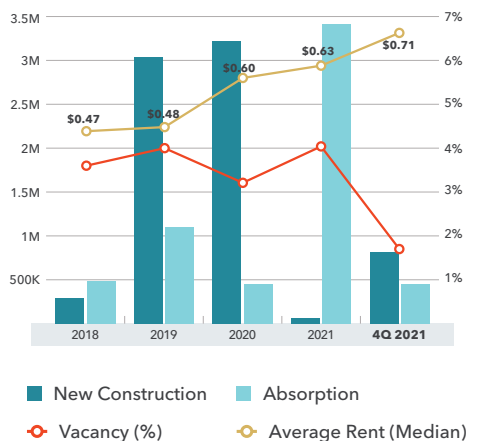
**AVERAGE ASKING** blended rents moved up \$0.08/sf to \$0.71/sf, over the 2021 level of \$0.63/sf. Shell rents range between

\$0.40-\$0.45/sf on larger spaces and office add-on rates were \$0.90-\$1.10/sf. Smaller spaces are \$0.50 - \$0.65/sf on the shell with office add on at \$0.95-\$1.25/sf.

**THE FORTRESS INVESTMENT GROUP**, active throughout the Puget Sound, purchased the two building, Amcor occupied property totaling 350,203 sf for \$45,999,000, or \$131/sf.

**LAND VALUES** range between \$5.00-\$10.00/sf with abundant land available for development (subject to gofers).

### THURSTON COUNTY



month of February. Phase I of the T-5 terminal modernization is complete and the north berth is open. Phase II is underway with completion anticipated mid-year 2023.

- Leasing continues to be strong with 6.4 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. Developers have been mostly

successful increasing rents to offset these higher costs, but shortages continue to exist.

- As of April 4, 73.9% of Washingtonians have been vaccinated for Covid-19. Cases are well below the seven day average peak in January of 6,809, now at 455 cases. The pandemic may be slowing as we move into Spring but unlikely to disappear completely.
- The Federal Reserve raised interest rates 0.25% in March 2022. Bloomberg reports additional increase likely this year.

## Notable Sale Transactions

**VIGOR SHIPYARDS** did a sale leaseback of its Harbor Island Facility for \$180 million for 426,000 sf of building situated on 27.9-acres. The buyer was Oak Street Real Estate Capital.

**THE FORTRESS INVESTMENT GROUP** paid \$33.0 million for the Amcor property in Tumwater. The 249,425 sf building closed at \$132/ sf.

**PANATTONI** sold two assets this quarter, both pre-development forwards. The Puyallup Logistics building (199,744 sf) was sold as a shell to IDI Logistics for \$34.3 million (\$172/sf) that then leased to Red Dot for a ten year term. Panattoni sold the Amazon Distribution facility in Maple Valley at the former JR Hayes pit to Elm Tree Funds for \$95.0 million. The site included 112,138 sf of building on 31.8 acres.

## Notable Lease Transactions

**FLOOR & DECOR** | FRED310 - 1,118,480 SF

**SAMSUNG** | Prologis Blair Distribution - 544,514 SF (Renewal)

**TEMPER SEALY** | The Cubes, Dupont - 494,900 SF

**SEAGEN** | Sievers Duecy Blvd. @ Glenwood Ave., Rd - 307,200 SF

**BIAGI BROTHERS** | Park 277 - 254,932 SF (Renewal)

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