

MARKET TRENDS | SEATTLE

INDUSTRIAL

2ND QUARTER
2022

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

As the June 2022 issue of The Puget Sound Economic Forecaster says, "Long-Term Complications Short Term Bliss". The Fed is raising interest rates assertively, inflation has reached a 40-year high and the Puget Sound Industrial markets remain strong.

Q2 2022 has seen 2.3 million sq ft absorbed with the regional vacancy at 4.2% plus 8.4 million sq ft under construction. Demand continues across the region but there are reports of soft demand in certain segments. Rental rates are anticipated to continue to increase, but not at the same pace as the past 12 to 18 months has exhibited. Shell rents continue an upward trend, as do office add-on rates but the cost of building out office is not being fully compensated for at the current market rents.

Below are a few notable points:

- 3.35 million sq ft was added to the total supply (net of demolition of older product). The region now totals just under 363 million sq ft.
- 36 projects under construction total nearly 8.4 million sq ft with 45.5% preleased. The Northend has 3.78 million sq ft with Amazon's Project Roxy contributing 2.8 million sq ft and will be delivering in Q3 2022. Pierce County has 11 projects totaling 1.5 million sq ft.
- Positive net absorption of 2.3 million sq ft, led by Pierce County (1.0M sq ft).
- Vacancy rate ticked up from 3.9% to 4.2%.

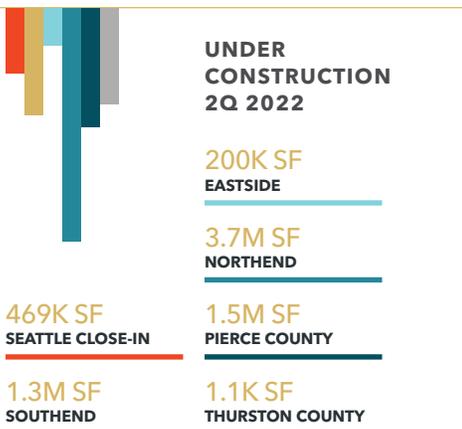
- Average asking rental rate moved up 5.5% to \$0.96/sq ft/month.
- 106 properties closed this quarter, \$440 million at an average of \$232/sq ft, a 43% decrease in sales volume from the previous quarter.

The Federal Reserve voted for a 0.25% increase in March, then followed up with another 0.75% in June. Inflation has peaked at 40-year highs, nationally at 9.1% for June. Employment growth has been good, the four-county region has added 20,800 jobs in the first four months of 2022 (the latest available data), a 0.95% increase. Total regional employment now stands at 2,214,800. Manufacturing has seen some growth, adding 5,400 jobs over the last year, after shedding 1,300 in Q1 2022. The transportation and warehousing segment added 3,400 between April 2021 and April 2022, a 4.5% increase.

The second half of 2022 has potential difficulties to navigate.

- The Puget Sound Economic Forecaster's June 2022 reported employment growth in 2022 at 2.1%, with a reduced projection of 1.3% growth for the remainder of the year. 2023 has been recast to growth of 1.3% with 2024 forecast at 0.5%.

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2Q 2022 MARKET HIGHLIGHTS

- 8.4M SF under construction
- NET ABSORPTION was 2.3M s.f.
- AVG ASKING RENTS increased from \$0.91/s.f./mo to \$0.96/s.f./mo
- VACANCY increased from 3.9% to 4.2%

SEATTLE CLOSE-IN REVIEW

VACANCY has moved up to 4.0% from the previous quarter of 3.4% but absorption was 58,038 sf. Brokers report a moderating of tenants that are looking for new or additional space.

THREE PROJECTS, (469,008 sf) are under construction. Track Six Sodo Business Park (212,576 sf) has topped out and SoDo R+D (130,492 sf) is underway. These are testing the SoDo market for high end space suitable for lab / office uses.

SALE VOLUME was \$171M.

Notable sales include:

FORTRESS INVESTMENT GROUP purchased the former Nelson Trucking Facility (Seattle)

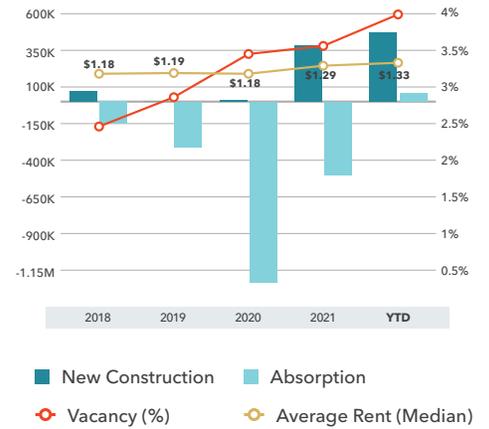
an 8.8-acre site with 33,880 sf of buildings for \$40M, \$104/sf of land.

PROLOGIS purchased 150 S Horton St. from the Washington State Convention and Trade Center for \$9.4M, \$78/sf of land.

AVERAGE ASKING RENTAL RATES on a blended basis (office/warehouse combined) moved up \$0.01/sf to \$1.33/sf.

YARD RATES will vary from \$0.30 to \$0.60/sf, dependent on scale with the smaller yards experiencing some softness and the larger yards requiring asphalt, lighting and fencing to achieve premiums at the upper end.

SEATTLE CBD / SURROUNDING AREA



SOUTHEND REVIEW

VACANCY MOVED to 4.6%, after dipping in Q1 to 4.3%, returning to the 2021 level. 536,252 sf were delivered, 63.3% leased and absorption was 418,378 sf.

OVER 2.65M sf of signed leases with expected occupancy over the next nine months should further reduce vacancy.

1,273,002 SF is currently under construction with 10% preleased. CenterPoint Seattle (414,528 sf) remains under construction, and Duke Realty has a project on 202nd underway that will add 261,364 sf, anticipated Q1 2023.

DALFEN INDUSTRIAL, a newer entry into Puget Sound markets, purchased the Rainier Industries Building in Tukwila as a sale leaseback, with the 135,512 sf building trading at \$257/sf, a 3.25% cap rate.

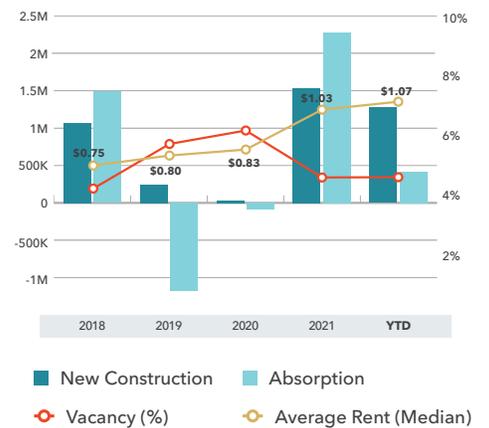
CLARION PARTNERS closed on Lincoln Distribution South, a 48,683 sf vacant building for \$319/sf.

SOFTBANK GROUP CORP. purchased the Totem Industrial Building 1513 (27,454 sf) for \$428/sf.

AVERAGE ASKING RENTS (blended) have moved up 3.8% to \$1.07/sf.

SHELL RATES on new construction are in the upper \$0.90 to \$1.10/sf for new generation, typically 30' to 34' clear heights with office add-on now \$1.35/sf. Office construction costs are in the \$200 to \$225/sf range for first generation buildout.

SOUTHEND COUNTY



EASTSIDE REVIEW

VACANCY remains low through 2022, at 2.85% with positive net absorption of 80,443 sf.

15 LEASES have been signed for occupancy in the next nine months, with nine deals below 4,000 sf, the rest 10,000 to 36,000 sf.

REDMUND RIDGE Business Park Buildings 4 and 5 delivered this quarter, both 100% preleased.

ASKING rental rates are at \$1.72/sf NNN. Warehouse lease rates with high-bay warehouse manufacturing space range between \$0.90 to over \$1.25/sf/mo. Office rates are between \$1.75/sf to \$2.25/sf.

Notable sales include:

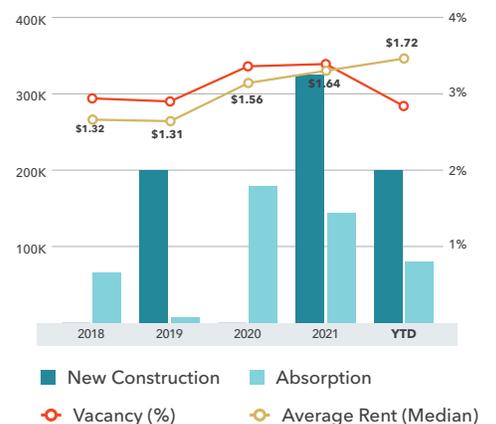
SABEY BELLEVUE PROPERTIES LLC purchased Park Place Auto Salon, a two level, 28,391 sf auto orientated tenanted property for \$528/sf.

WESTLAKE ASSOCIATES purchased Mercer Park, a three-building incubator park of 32,398 sf for \$380/sf, a 3.25% cap.

LIFE PARTNERS purchased the 49,280 sf Bear Creek Distribution Center for \$290/sf.

CA GLOBAL SERVICES purchased 21.5-acres in Covington against SR-18 for \$13/sf.

EASTSIDE COUNTY



NORTHEND REVIEW

VACANCY decreased from the 2020 high of 4.76% to 3.06%, with 903,851 sf of positive absorption.

26 LEASES signed and expected to move in over the next 9 months total 1,213,676 sf.

NINE BUILDINGS (3,772,351 sf) are under construction, with the Amazon Fulfillment Center being (2,800,000 sf).

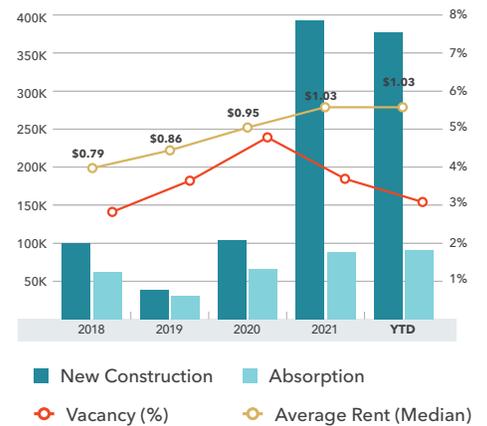
WAREHOUSE lease rates range \$0.65-\$1.00/sf/mo. depending on age and location. Office rents are \$1.40-\$1.60/sf for second generation space and \$2.00-\$2.25/sf for first generation.

NOTABLE SALES IN 2Q: L.S.R. Properties, Inc. purchasing Smokey Point Products

site for \$17.2M, \$254/sf. Oxford Properties Group purchased the Lynnwood Industrial \$180/sf. Nicholson Machine and Technology Company purchased Building B in the Broadway Business Park for \$324/sf. Sale prices are currently at \$263/sf average and 32.84% over the five-year average of \$198/sf. 39 proposed projects projected to add 7,003,029 sf in 23 projects.

LAND REMAINS AVAILABLE in Marysville /Arlington with finished sites trading in the \$15 to \$20/sf range and raw sites, requiring fill, approaching \$3 to \$4/sf with ample supply of industrial-zoned sites.

NORTHEND COUNTY



PIERCE COUNTY REVIEW

VACANCY has remained stable at 4.97% from Q1 of 4.95%. Absorption Q2 was 1,005,237 sf. LPC Frederickson One Building 5 was the largest project completed, adding 862,137 sf and leased to Amazon.

FORTRESS INVESTMENT GROUP purchased the Wattle Co. Building in Sumner, 169,888 sf for \$147/sf.

LEASING ACTIVITY WAS STRONG, with the major leases signed in the region located in the Pierce County market and include: Maersk - Fife Commerce Center, Bldg.B - 255,070 sf. Holman Distribution Center - LPC Frederickson South - 352,930 sf (new construction). LG Electronics & Appliances - Tacoma Supply Chain Center - 266,683 sf (new construction). Amazon - LPC Frederickson, Bldg 5 - 862,167 sf (new construction). Helly

Hansen - SeaPort Logistics Center, Sumner - 277,683 sf (new construction).

LEASES SIGNED but not occupied total 2.3 M sf with occupancy within nine months.

CONSTRUCTION ACTIVITY remains solid with 2.3M sf underway in eight projects.

SHELL RATES range \$0.60-\$0.90/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 & condition of the property.

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

PIERCE COUNTY



THURSTON COUNTY REVIEW

VACANCY remains below the 2021 level of 4.0%, currently at 2.9%, increasing from 1.8% in Q1 due to negative absorption of -140,606 sf. This includes the delivery of Hawks Hub Buildings 1 and 2, totaling 67,476 sf that was 30.3% preleased.

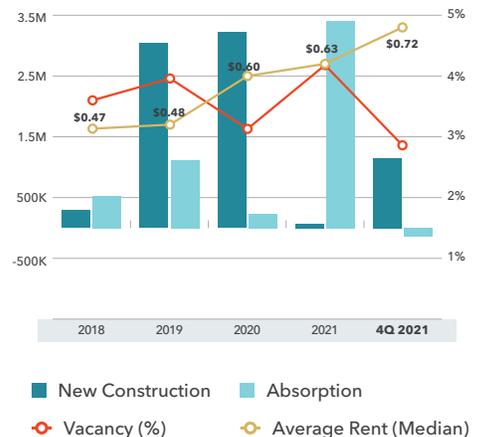
FIVE PROJECTS are under construction, totaling 1,146,151 sq ft with 61.4% preleased. Two buildings in Tumwater Corporate Park will deliver by year end, totaling 399,867 sf but no preleasing has been done.

THE CONSTRUCTION pipeline has 2.1M sf proposed, with Tumwater Corporate Park proposing two buildings over 470,000 sf.

AVERAGE ASKING blended rents moved up \$0.09/sf to \$0.72/sf, over the 2021 level of \$0.63/sf, with \$0.01/sf bump this quarter. Shell rents range between \$0.40-\$0.50/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.

LEASING ACTIVITY was dominated by LBA Realty leasing 93,493 sf in the Lacey Industrial Center.

THURSTON COUNTY



- The Seattle area consumer price index finished 2021 at 7.6%, with the 2022 forecasted to be 5.0%. As of June 2022, the year over year CPI was 10.1%, or 8.8% if fuel and food is excluded.
- 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. YTD for 2022 is 1,497,609 TEUs, a 2.5% decrease from the same period in 2021.
- Leasing continues to be strong with 6.65 million sq ft. leased and scheduled to move in over the next 9 months, with Amazon making up 2.8 million sq ft.

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

- The capital markets are sitting in their hands, waiting to see what the Fed does in the July meeting.
- Market participants all acknowledge that the time of sub-4.0% cap rates is over, but where it shakes out to remains a mystery. We expect transaction numbers to decrease until interest rates stabilize.
- Developers will sideline new land deals until the cost of capital stabilizes and land values reflect the cost of capital.

Notable Sale Transactions

FORTRESS INVESTMENT GROUP purchased the Wattle Co. Building (Sumner), 169,888 sq ft for \$147/sq ft and the former Nelson Trucking Facility (Seattle) an 8.8-acre site with 33,880 sq ft of buildings for \$40 million, \$104/sq ft of land.

WESTLAKE ASSOCIATES purchased Mercer Park, a three-building incubator park of 32,398 sq ft for \$380/sq ft, a 3.25% cap.

DALFEN INDUSTRIAL, a newer entry into Puget Sound markets, purchased the Rainier Industries Building in Tukwila as a sale leaseback, with the 135,512 sq ft building trading at \$257/sq ft, a 3.25% cap rate.

TERRANO REALTY purchased 8660 Willows Rd. NE, a 108,000 sq ft leased building for \$184/sq ft, a 4.3% cap.

CLARION PARTNERS closed on Lincoln Distribution South, a 48,683 sq ft vacant building for \$319/sq ft.

Notable Lease Transactions

MAERSK | Fife Commerce Center, Bldg B - 255,070 SF

HOLMAN DISTRIBUTION CENTER | LPC Frederickson South - 352,930 SF (New Construction)

LG ELECTRONICS & APPLIANCES | Tacoma Supply Chain Center - 266,683 SF (New Construction)

AMAZON | LPC Frederickson, Bldg 5 - 862,167 SF (New Construction)

HELLY HANSEN | SeaPort Logistics Center, Sumner - 273,683 SF (New Construction)

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