

MARKET TRENDS | SEATTLE

INDUSTRIAL

4TH QUARTER
2022

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

Year-over-year change

The Puget Sound economy continues to face headwinds as we end 2022. Inflation in the Region has outpaced the National figures in the CPI, core prices (excluding food and energy) and shelter.

The Federal Reserve has raised the target rates by 125 basis points over Q4 2022, with target rates now at 4.25% to 4.50%, in an effort to tame inflation. At the fiscal yearend (October), Seattle CPI was 8.9% according to The Puget Sound Economic Forecaster. Looking forward, PSEF projects inflation for the Seattle-Tacoma-Bellevue area at 4.9% in 2023, dropping to the target 2.0% level by 2025. Q4 2022 has seen 2.97 million sf absorbed with the regional vacancy at 3.85% plus 10.7 million sf under construction. Brokers across the region report that transaction velocity has slowed, but demand remains for modern product that is well-located. Rental rates have not seen rollback, continuing an upward trend, albeit at a slower pace. Shell rents continue an upward trend, partially due to rising construction costs and the higher clear heights and larger yard areas of the new construction. Office add-on rates also continue rising.

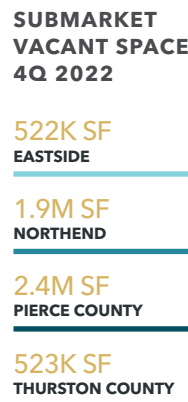
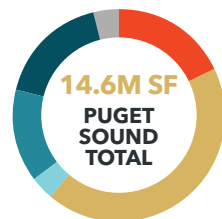
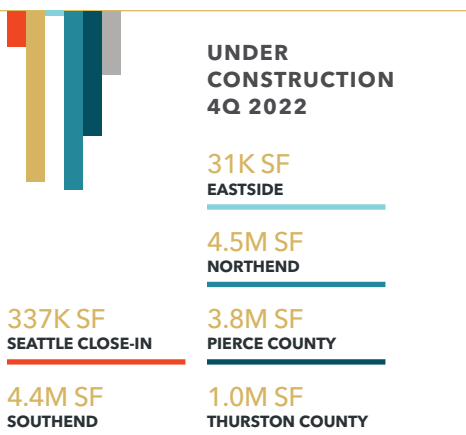
Below are a few notable points:

- 1.81 million sf was added to the regional supply in Q4 2022, with the total for 2022 being 5.74 million sf. The region now totals 364.1 million sf.
- 53 projects under construction total 10.7 million sf with 36.4% preleased. The Northend has 11 projects with 1.52 million sf (45% preleased) and Pierce County has 13 projects, 3.88 million sf and 50% preleased.

- Positive net absorption of 2.97 million sf, led by Pierce County (2.09 million sf) followed by the Northend at 0.49 million sf and then the Southend with 0.25 million sf.
- Regional vacancy dipped slightly to 3.9%.
- Average asking rental rate moved up 2.5% to \$1.11/sf/mo.
- 47 properties closed this quarter, \$23.7 million at an average of \$258/sf, with a cap average of 5.44%.

Employment in the four county region has continued to grow, adding 88,900 jobs in the past year (November 2021 revised to November 2022 preliminary numbers). King and Snohomish Counties saw the most growth, adding 77,800 jobs while Pierce and Thurston added 11,100 jobs. Notably, the percent change in King and Snohomish Counties was 4.5% while Pierce added 2.7% and Thurston added 2.0%. The labor force participation rate has not reached the pre-pandemic levels of 65% plus, currently estimated at 64.5%. Total regional employment now stands at 2,265,300, a 4.1% growth over the preceding year. Manufacturing added 10,100 jobs over the last year and construction 11,000, with these two categories making up 23.7% of the job growth

continued on page 4



4Q 2022 MARKET HIGHLIGHTS

14.7M SF under construction

NET ABSORPTION was 2.97M s.f.

AVG ASKING RENTS increased from \$1.08/s.f./mo to \$111/s.f./mo

VACANCY stayed steady at 3.9%

SEATTLE CLOSE-IN REVIEW

VACANCY has remained stable at 4.5%, up 106 basis points from 2021. Absorption for the quarter was 175,644 sf, with 2022 seeing positive absorption of 240,582 sf. The consensus among brokers is a modest slowing in tenants looking for space, with bursts of activity periodically.

TWO PROJECTS, (337,681 sf) are under construction. Track Six Sodo Business Park (212,576 sf) is nearing completion, but little leasing has been reported. SoDo R+D (130,492 sf) has topped out and the envelop is nearly complete. No leasing has been reported. Track Six is confident there will be leases signed in Q1 2023. These are testing the SoDo market for high end space suitable for lab / office uses.

SALE VOLUME \$24.4M in 5 closed transactions, averaging \$348/sf.

RAYMOND KLEIN sold the 3rd and Horton Building (41,790 sf) to a local investment group for \$300/sf. This building was 54% occupied and included yard space.

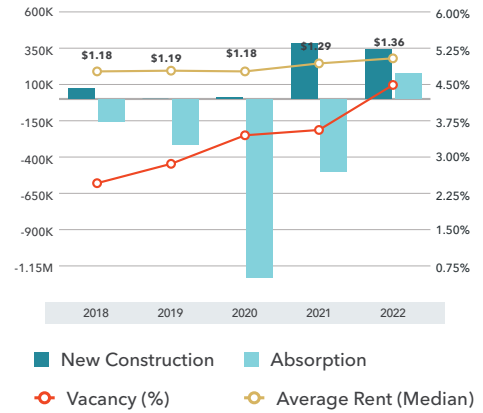
LISA COMBS sold the Duke's Truck Repair facility (9,910 sf) to Swickard Auto Group for \$404/sf.

INTERNATIONAL TRUCK LEASING sold its facility on 7th Ave. S to TEC Equipment, Inc., for \$468/sf. This 9,052 sf building is situated on a 30,720 sf site.

AVERAGE blended rates (office/warehouse combined) moved up \$0.01/sf to \$1.36/sf, continuing a six-year trend of escalation.

YARD RATES have stabilized over the previous three quarters, vary from \$0.40 to \$0.65/sf, with the yards on the west side of the Duwamish Waterway at the lower end,

SEATTLE CBD / SURROUNDING AREA



along with functionally challenged sites in SoDo/Georgetown submarkets. The upper end is for paved, lit and secure sites of scale in SoDo and the Georgetown submarkets. There are yards with asking rates up to \$0.75/sf, but no transactions have been done at that level.

SOUTHEND REVIEW

VACANCY inched up to 5.2%, from Q3 of 5.0%. Absorption was 252,441 sf for Q4, with 2022 totaling 2.68M sf, with 84% in Q1. One 83,152 sf building was delivered with no pre-leasing.

OVER 1.36M sf of signed leases with expected occupancy over the next nine months should reduce vacancy but there are 13 projects expected to deliver 3.39M sf in the same nine-month timeframe. Preleasing is at 14.0% for this pending product.

3.97M SF is under construction with 18.6% preleased.

LASALLE INVESTMENT MANAGEMENT purchased the 459,349 sf Renton Logistics Center from Clarion for \$261/sf, a 4.0%

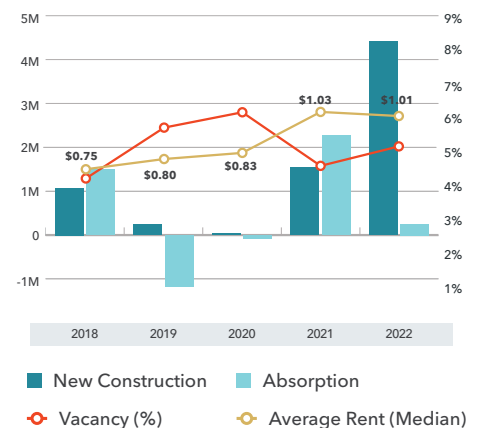
cap on current rents but with escalations in Year 1, the cap moves to 4.4%.

PANATTONI DEVELOPMENT COMPANY, INC. sold the six building, Pacific Gateway Buildings 1 through 6 to The Church of Latter Day Saints. The 823,606 sf traded for \$316/sf and 4.22% cap for the fully occupied project.

AVERAGE ASKING RENTS (blended) were \$1.07/sf in Q2 but have stabilized at \$1.01/sf in Q3 and Q4.

SHELL RATES on new construction are in the upper \$0.95 to \$1.10/sf for new generation, typically 30' to 36' clear heights with office add-on now \$1.35/sf. Office construction costs are maintaining in the \$200 to \$225/sf range for first generation buildout

SOUTHEND COUNTY



17 BUILDINGS under construction, 3.97M sf with six anticipated to deliver 973,175 sf in Q1 2023. These are 33.9% preleased.

EASTSIDE REVIEW

VACANCY increased 22 basis points to 2.4% in Q4. Absorption was negative for the quarter, at -48,362 sf but 2022 ended positive at 106,828 sf absorbed on the year.

ONE 31,211 SF BUILDING is under construction, with anticipated to completion in Q1 2024. This is an auto dealership building and is a build-to-suit.

LEASING ACTIVITY has stalled with one 29,085 sf tenant to occupy in the next nine months. This is due to the lack of new construction and the lowest submarket vacancy in the region.

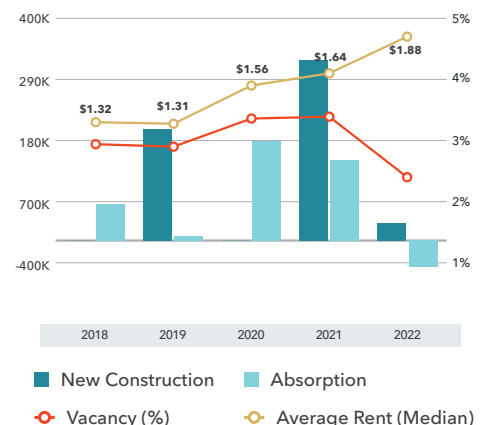
ASKING RENTAL RATES continue to rise,

up from \$1.81/sf in Q3 to \$1.88/sf, NNN. Warehouse lease rates with high-bay warehouse manufacturing space range between \$1.15 to \$1.60/sf/mo, anticipated to continue increasing through 2023. Office rates are between \$1.75/sf to \$2.25/sf.

AS A PART of a 671 property portfolio sale, PS Business Parks sold the Overlake Business Center to Blackstone, Inc.

SCOTT NICHOLSON SOLD Quadrant Center Building D to Par 5 Investments as the final building to the four building Willow Ridge Tech Center. The fully occupied 31,765 sf building traded at a 3.8% cap rate. The site has been rezoned multi-family so redevelopment in the ten to 20 year time frame is possible.

EASTSIDE COUNTY



NORTHEND REVIEW

VACANCY increased the past two quarters, moving up 26 basis points in Q4 to 3.45%. Absorption for Q4 was 490,398 sf and the 2022 finishing with 1.61M sf absorbed.

11 LEASES signed and expected to move in over the next 9 months total 1,068,499 sf, with two leases over 300,000 sf. The median is 33,546 sf.

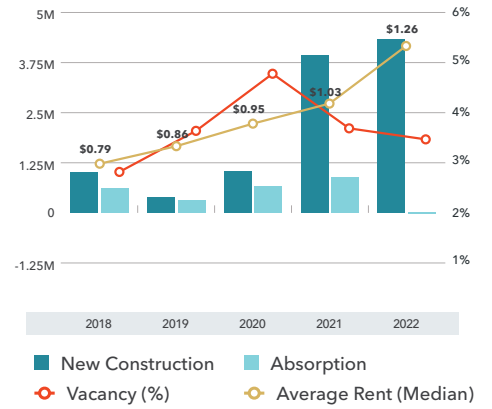
12 BUILDINGS (1.52M sf) are under construction, the largest in the Seaway area at 307,200 sf and five more buildings over 115,000 sf. Preleasing is at 45.1%.

WAREHOUSE LEASE RATES range \$0.80-\$1.20/sf/mo. depending on age and location. Office rents are \$1.80-\$2.00/sf for second generation space and \$2.00-\$2.25/sf for first generation.

NOTABLE SALES IN 4Q: Pacific Constructors International, Inc. selling the four building Pacific Industrial Park in Marysville, 124,810 sq ft, to BKM Capital Partners for \$163/sf, a 5.49% cap. Murphy Auction purchased the 23,700 sf building on 5.5-acres in Marysville from the Estate of Larry Wallace Peterson for \$253/sf as an owner occupant. Possession Way Associates sold the 36,085 sf building in Mukilteo to Enca Properties LLC for \$230/sf, that is an owner user from Woddinville. Raytheon sold the vacant Collins Aerospace Building to Bosa Properties, Inc. as a value-add investment for \$96/sf. Scott Nicholson purchased the Redapt Systems and Peripherals, Inc. building (66,972 sf) as a sale lease-back for \$366/sf, a 5.1% cap on the new, five year lease.

34 PROPOSED PROJECTS projected to add 6,570,510 sf.

NORTHEND COUNTY



LAND REMAINS available in Marysville / Arlington with finished sites trading in the \$18 to \$25/sf range and raw sites, requiring fill, approaching \$3 to \$5/sf with ample supply of industrial-zoned sites.

PIERCE COUNTY REVIEW

Q4 VACANCY has dropped to 2.57%, from 4.33% as of Q3. Absorption in Q4 has been strong at 1,657,961 sf. Absorption for 2022 totals 5.68M sf.

CONSTRUCTION ACTIVITY remains robust, with 13 projects underway totaling 3.9M sf, with 49.6% preleased. Two projects with 560,033 sf are anticipated to be completed in Q1 2023, but no preleasing has been reported.

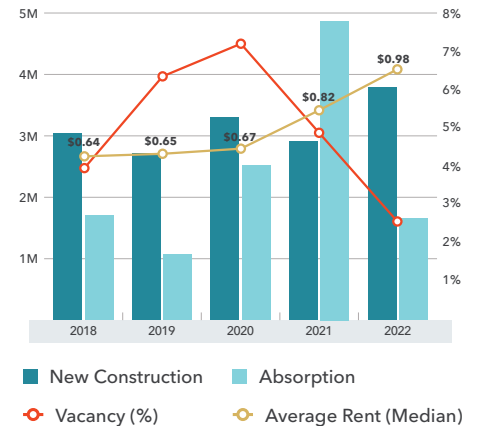
LEASING ACTIVITY has slowed for the tenants anticipated to occupy in the next nine months with one lease by NFI Industries of 257,775 sf in Rainier Park of Industry - Building 7. The remaining ten leases are under 65,000 sf.

MCA REALTY sold the six building, 136,350 sf Lakewood Business Park to Edward Urlik for \$241/sf, a 5.3% cap on existing income.

PROLOGIS ACQUIRED the assets of Duke Realty in a 673 property transaction, that included the Amazon Distribution Center (1,016,109 sf), The Cubes @ DuPont Corporate Center Building A (747,488 sf) and Building B (494,900 sf), DP1 (337,500 sf), all in DuPont and the Duke Sumner Logistics (190,042 sf), Valley Distribution Center (228,256 sf), and Rainier Park of Industry (120,000 sf) in Sumner.

SHELL RATES range \$0.70-\$1.00/sf/mo., NNN, plus add-on office rates of \$1.00-\$1.45/sf/mo. The average blended rate is \$0.98/sf, a 10.1% increase over Q3.

PIERCE COUNTY



LAND VALUES have been climbing but appear to have peaked at a 20% discount from the peak pricing.

THURSTON COUNTY REVIEW

VACANCY REMAINS below the 2021 level of 4.2%, currently at 2.8%, essentially unchanged over the past three quarters. Absorption was low but positive, at 12,862 sf for the quarter with 2022 totaling 364,662 sf. There are six projects under construction that are anticipated to be completed in Q1 2023, totaling 606,177 sf with 19.7% preleased.

2 LEASES commenced in Q4, one at 5,138 sf and the other at 18,000 sf. Seven leases will commence in the next nine months. These total 66,548 sf with a median of 6,520 sf. The largest lease is 27,941 sf in the Meridian Campus Business Park in Lacey

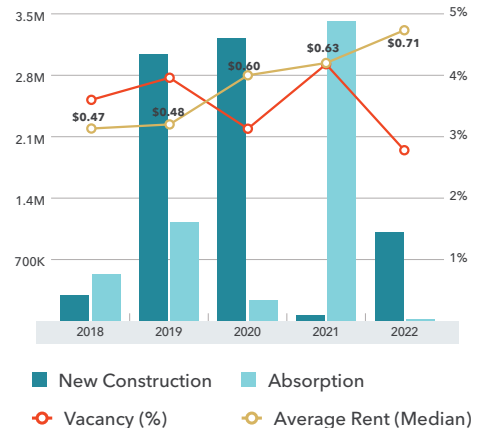
TWO ADDITIONAL PROJECTS are under

construction that will add 402,142 sf, but these are preleased. The largest is a fully leased EQT Exeter project in Rochester totaling 352,142 sf.

THE CONSTRUCTION PIPELINE has 3.8M sf proposed, with Tumwater Corporate Park proposing two buildings over 470,000 sf with completion anticipated in 2024. Also proposed is Parsons South Sound Logistics, an up to two building park up to 1.37M sf.

AVERAGE have remained stable from Q3 at \$0.71/sf, but 12.7% over the 2021 level of \$0.63/sf. Shell rents range between \$0.45-\$0.60/sf on larger spaces and office add-on rates were \$0.90-\$1.20/sf. Smaller spaces are \$0.50 - \$0.70/sf on the shell with office

THURSTON COUNTY



add on at \$0.95-\$1.25/sf. office add on at \$0.95-\$1.25/sf.

in the past year. Information jobs increased by 6.4% over the past year but recently there have been hiring freezes, layoffs and office closures from companies like Amazon, Google and Twitter.

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

- Inflation continues to be at the forefront, with fuel costs particularly high.
- Potential layoffs in the tech sector and Boeing engineers.

- Construction costs continue to rise, leading to higher shell rents. Office buildout is not being fully reimbursed through office rents.
- Developers have pulled back from tertiary markets, and many planned projects are available as entitled (to varying degrees) sites.
- Cost of capital is well above levels of 18 to 24 months ago, resetting the feasibility analysis on many projects.

Notable Sale Transactions

PANATTONI DEVELOPMENT AND LINK LOGISTICS REAL ESTATE sold Pacific Gateway Buildings 1 through 6 to the Church of the Latter Day Saints. The 823,606 sf portfolio closed for \$316/sf. This sale closed in December at a 4.22% cap rate.

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Notable Lease Transactions

UNDISCLOSED | Bridge Point Kent 300 | 258,499 SF

GRAYBAR | Renton Logistics Center | 165,755 SF

ID LOGISTICS | SeaPORT Logistics Center Bldg. 6
168,083 SF

STOKE SPACE TECHNOLOGIES | Pacific Gateway Bldg. 201
156,825 SF

PRIORITY WIRE AND CABLE | NW Corporate Park Bldg. 10
140,400 SF

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