

# INDUSTRIAL

*2023 was the year for rumors, bordering on anticipation, of a recession that never materialized.*

Two elements contributed to keeping any recession at bay: the decreasing inflation rate and the stable job market. These elements buoyed consumer confidence that kept the economy going. Inflation peaked in at 8.9% (annualized) in June 2022, but now stands at 3.3%, creeping nearing the Fed's target rate of 2.0%. The national unemployment rate is 3.7%, with Washington slightly higher at 4.0%. The labor participation rate in Washington is 64.8%, 368 basis points over the national figure of 62.5%, bolstering an optimistic regional outlook. In terms of the real estate markets, the office sector remains the weak link with the regional vacancy at 13.7% (direct and sublease) with an additional 3.4% occupied but marketed as available. The Seattle CBD/Lake Union has the greatest vacancy, 19.6% with 24.9% available. The Seattle retail sector is stronger at 8.9% vacant, with the region very strong at 3.0%. For the industrial markets at year end 2023, absorption was negative, offsetting the strong Q3 2023 absorption. For Q4, absorption was (-1.07) M SF and 2023 ended the year with a net absorption of 1.52M SF. The Northend had the strongest absorption for the year, at 3.24M SF followed by Thurston County at 1.4M SF. Regional vacancy is 6.0%, an increase of 120 basis points over Q3.

Below are a few notable points:

- 4.3M SF of new product in 23 buildings was added to the region in 2023 bringing the regional inventory to 376.9M SF.
- Construction activity has declined 26.5%, year over year, with 7.9M SF currently under construction in 42 projects. Preleasing stands at 41.9%, led by Pierce County with 67.2% of 4.2M SF under construction preleased.
- Sales activity shows 36 properties closed this quarter, \$133.2M at an average of \$192/SF, with a cap average of 5.11%.

Washington State employment stands at 3,616,100 (October 2023, Revised, Employment Security Department, WA), a 1.6% growth year over year. The four-county region contained 2,278,000 (revised October 2023), or 63% of the State's total. The preliminary November 2023 shows a decrease of 1,300, or 0.1%. The decreases are in Information (-3.9%) and

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## Under Construction

702K SF  
SEATTLE CLOSE-IN

1.6M SF  
SOUTHEND

121K SF  
EASTSIDE

975K SF  
NORTHEND

4.2M SF  
PIERCE COUNTY

145K SF  
THURSTON COUNTY

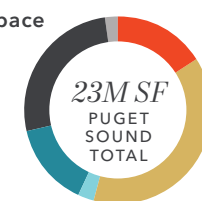
## Submarket Vacant Space

3.6M SF  
SEATTLE CLOSE-IN

8.6M SF  
SOUTHEND

680K SF  
EASTSIDE

3.2M SF  
NORTHEND



6.0M SF  
PIERCE COUNTY

438K SF  
THURSTON COUNTY

# 4Q 2023

↓ 2.4M SF  
LEASING ACTIVITY

↓ -1.1M SF  
NET ABSORPTION

↑ 6.02%  
VACANCY RATE

↓ \$1.16  
ASKING RENT (AVG)

↓ 7.9M SF  
UNDER CONSTRUCTION

Year-Over-Year Trend

## Market Highlights

**MARKET INVENTORY**  
increased by 2.67M SF

**SALES VOLUME** decreased  
to \$133M

**AVERAGE CAP RATES**  
climbs to 5.11%

**AVERAGE SALE PRICE**  
is \$192/sf

## SEATTLE CLOSE-IN REVIEW

**BROKERS REPORT LITTLE ACTIVITY IN Q4**, with vacancy increasing to 7.3%, up 20 basis points from Q3 and 283 basis points over YE 2022. Total inventory decreased by 78,271 SF and absorption was (-214,680) SF for the quarter, with 2023 totaling (-1,058,580 SF).

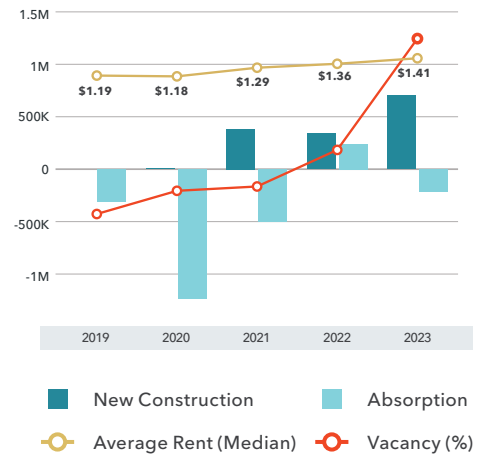
**SEATTLE METRO LOGISTICS**, Trammel Crow's two story, 702,429 SF distribution facility on Terminal 106 south of S Spokane St. on East Marginal Wy. S is anticipated to deliver in Q2 2024. This project will have standard truck courts on two levels, two-way capabilities on the access ramps with market preferred 30' clear height and ESFR sprinklers.

**SALE VOLUME** \$9.88 million in five closed transactions, averaging \$221/SF.

Only one sale exceeded \$3,000,000, 1421 S Dearborn St that traded in an owner user transaction. There are 23 listings for sale, averaging \$300/SF with an average size of 33,241 SF and an average cap rate of 6.0% (leased assets only).

**AVERAGE ASKING RENTAL RATES** on a blended basis (office/warehouse combined) increased slightly, from \$1.38/sq ft to \$1.41/sq ft.

**THERE REMAINS AVAILABLE** yard space on the sublease market. During Covid, yard area was saw strong demand that pushed yard rates to \$0.40 to \$0.65/SF depending on location and condition. Currently, subleases are available at 50% to 75% of the face rate with little activity.



## SOUTHEND REVIEW

**SOUTHEND INVENTORY** grew by 2.95M SF in 2023, with (-1.09)M SF absorbed. Vacancy has climbed 191 basis points, at 7.2% at YE 2023. Inventory now totals 120.8M SF.

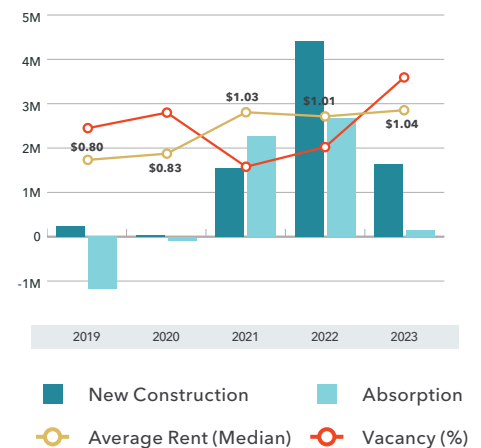
**2.77M SF** in 45 signed leases are expected to occupy over the next nine months that should reduce vacancy but there are four projects expected to deliver 1.44M with no preleasing.

**SEVEN SALE TRANSACTIONS** totaling \$30.0M, averaging \$218/SF were recorded in Q4 2023. with an average 5.64% cap. Hui Intertrading purchased a 27,525 SF manufacturing building in Kent in an owner user transaction for \$7.6M, or \$276/SF. .

**AVERAGE ASKING RENTS** (blended) were \$1.04/SF in Q4, a 2% increase over Q3, exceeding the high of 2021 of \$1.03/SF.

**SHELL RATES** have remained flat with new construction in the upper \$1.25 to \$1.35/SF, typically 30' to 36' clear heights with office add-on now \$1.50/SF. Even older, well-located product with inferior truck courts and clear heights achieve \$1.15/SF on the shell.

**LAND PRICING** has come down from highs in the \$60 to \$70/SF from 2022, with the latest site on 84th Ave. S trading in December for \$37/SF. This site had a general commercial zoning but did allow a modicum of industrial uses.



## EASTSIDE REVIEW

**THE EASTSIDE MARKET** stabilized somewhat, losing only 8,238 SF of product in 2023 in the transitioning Bel-Red corridor. This is with the addition of two buildings totaling 71,211 SF. Vacancy is 3.1%, up 12 basis points in Q4 with (-13,604) SF absorbed.

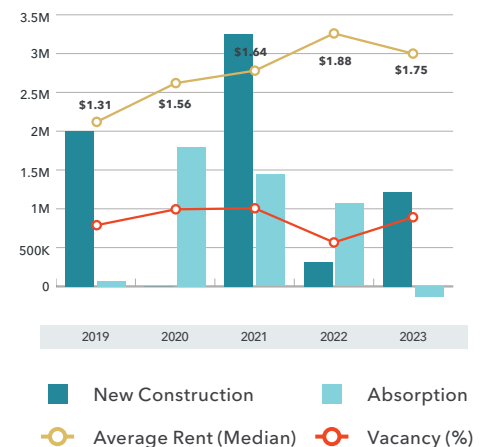
**TWO BLDGS** are under construction. Alpentel Logistics will add 115,575 SF in North Bend in Q2 2024 and Cedar Grove Phase II, Building C will add 6,144 SF in Q2 as well. There is no reported preleasing.

**LEASING ACTIVITY** shows 11 tenants took occupancy in Q4, leasing 59,909 SF. Looking forward over the next nine months, only three leases have been

signed totaling a paltry 3,872 SF. The submarket is well occupied but demand is low. Looking to the following nine months, only two leases have been signed: one for 7,500 SF and the other for 18,680 SF.

**RENTAL RATES** have softened slightly, from \$1.94/SF in Q2 to \$1.75/SF in Q4. Warehouse lease rates with high-bay warehouse manufacturing space range between \$1.25 to \$1.80/SF/Mo. With office rates are between \$1.75/SF to \$2.50/SF.

**EVERGREEN FORD** purchased a 7,500 SF grade served building in Issaquah for \$4,000,000, or \$533/SF. This owner user sale is located two blocks from I-90 for the quasi-retail use.



## NORTHEND REVIEW

**NORTHEND** has added 731,961 SF in Q4 and for the year, 8.83M SF. With the addition, absorption was weak at (-181,795) SF but the 2023 total was 3.24M SF. Vacancy increased from 3.8% in Q3 to 4.9% in Q4. There are ten projects under construction that will add 975,176 SF and are currently 34.6% preleased. Anticipated delivery by the end of Q2 2024.

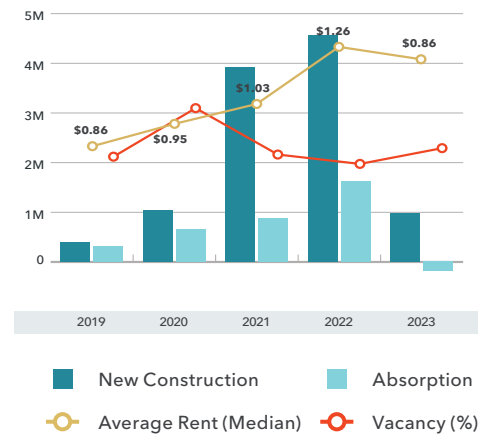
**28 LEASES** commenced in Q4, totaling 171,008 SF. Looking forward, nine leases totaling 195,455 SF are scheduled to commence between January and September 2024. Brokers report activity in the 5,000 to 10,000 SF spaces but those over 20,000 SF have few inquiries.

**THE BLENDED RATE** declined 8.5% from Q1 2023 at \$1.29, to \$1.18/SF. This is 2.5%

below Q2 and Q3 but it brokers report that the decrease has leveled off. This is warehouse rates ranging \$0.90-\$1.35/SF/Mo. depending on age and location. Office rents are \$1.80-\$2.00/SF for 2nd gen. space and \$2.00-\$2.50/SF for 1st gen.

**FOUR SALES** totaling \$8,625,000 with one a redevelopment lay for DR Horton. The balance were owner user transactions of smaller, lower quality properties.

**LAND REMAINS AVAILABLE** in Marysville / Arlington and there 29 proposed projects totaling 4.4M SF. Land prices peaked in the range \$18 to \$30/SF range for finished sites and \$6 to \$15/SF for raw sites but since the cost of capital has increased substantially, there have been no trades to mark any price reduction.



## PIERCE COUNTY REVIEW

**VACANCY CONTINUES** climbing, reaching 6.2% at YE 2023. This is a 140.9% increase over YE 2022 of 2.6%. Absorption was (-801,919) SF for Q4, and (-626,951) for all of 2023. Absorption was positive in Q2 and Q3 2023, 324,467 SF and 419,383 SF respectively. This had offset the negative absorption of Q1 (-568,882) SF. There was 3.44M SF added to the inventory.

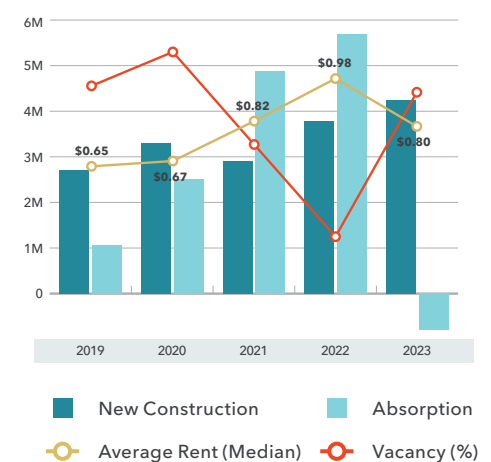
**7 PROJECTS** are under construction, totaling 4.2M SF with 24.9% preleased. Delivery of this product is anticipated by Q2 2024.

**28 LEASES** in Q4, totaling 454,596 SF. In the upcoming nine months, there are 18 leases totaling 2.86M SF. Five of these leases are 300,000 or larger. Tenants include Boeing and General Electric.

**FIVE PIERCE COUNTY SALES**, totaling \$27.3M, with average price at \$128/SF, and cap rates averaging 4.7%. The largest transaction was the JM Eagle purchase of the PW Pipe Building in the Port of Tacoma (owner user) for \$16,000,000, or \$177/SF.

**SHELL RATES** \$0.90-\$1.30/SF/Mo., NNN, plus add-on office rates of \$1.00-\$1.60/SF/Mo. The average blended rate dropped from \$1.03/SF in Q1 to \$0.80/SF in Q4. This level is in the range of the averages in YE 2020 and 2021.

**LAND VALUES** remained suppressed, about 25% to 50% below the highs of two years ago, depending on location and access. Entitled sites are available for \$35/SF with raw sites as low as \$6.00/SF.



## THURSTON COUNTY REVIEW

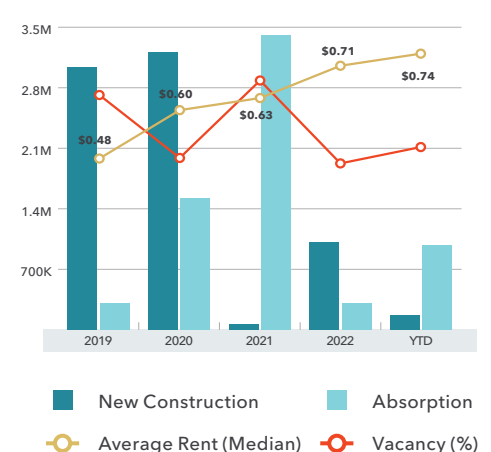
**VACANCY** was is the lowest in the region, at 2.0% with an inventory of 22.M SF. This submarket added 3.19M SF in 2023 and is now larger than the Eastside submarket. Absorption for Q4 was (-12,488) SF but for 2023, totaled 1.42M SF.

**CONSTRUCTION** has slowed with five projects totaling 145,950 SF underway, 63.2% preleased. In Q1 2024, 55,250 SF is anticipated to be delivered and the space is fully leased. The remaining projects are below 30,000 SF with 35,000 SF preleased. The pipeline remains full, with ten proposed projects totaling 3.7M SF and Tumwater Corporate Park proposing two buildings over 470,000 SF.

**4 LEASES**, with one at 12,000 SF with the balance below 4,900 SF and one 4,500 SF lease in Lacey to start in nine months.

**AVERAGE BLENDED RENTS** have increased from \$0.72/SF in Q1 to \$0.82/SF, rising \$0.07/SF in the past quarter. Shell rents range between \$0.45-\$0.65/SF on larger spaces and office add-on rates were \$0.90-\$1.25/SF. Smaller spaces are \$0.50 - \$0.70/SF on the shell with office add on at \$0.95-\$1.25/SF.

**3 SALES**, totaling \$5.7M. The average was \$119/SF for the older, metal framed buildings. Land remains available with raw sites ranging from \$2.40 to \$6.50/SF.



Construction (-2.8%) with gains in Education and Health Services (5.7%), Government (5.5%) and Wholesale Trade (3.7%). Manufacturing added 5,200 positions, a 3.1% boost to total 171,500 with 4,850 positions added in King County and 600 positions (3.6%) in Pierce County. Government grew in each of the counties, 5.9% in King/Snohomish, 5.4% in Pierce and 4.0% in Thurston.

The Federal Reserve target rate is at 5.25% to 5.5%, after the last quarter point raise in July. Another quarter point interest was anticipated in November but this did not occur. The ten-year treasury hit a ten year high at 4.88% (10/31/23) but ended Q4 at 3.88%. In terms of lending, Life Companies are looking at spreads of 150 to 250 basis points over the T-Bill, with all in rates ranging

from 5.49% to 6.49%. CMBS lenders are still looking for 300 to 400 basis points over the ten-year, with all in rates of 6.63% to 7.63%. With the cost of capital remaining elevated, the sales market has slowed considerably. These rates extend to construction lending as well, putting a damper on any project that was wasn't well underway prior to the rise in interest rates. The general market has not yet come to grips with the elevated cost of capital and buyers and sellers remain far apart on pricing. The capital markets are anticipating the Fed to cut rates throughout 2024, which would have a positive impact on lending but would be done only in a weak economy.

The Northwest Seaport Alliance reports YTD (through November 2023) container volume as 2,711,245 TEUs (Twenty Foot Equivalent),

a 14.0% decline from the same period in 2022. The longshoremen union, ILWU, had been working without a contract since July 2022 and instituted work slowdowns and stoppages impacting container traffic in Q1 and Q2 2023. A six-year contract was ratified by the members and announced in August. The agreement will be in force until July 1, 2028, giving the dockworkers a 32% increase in pay plus a \$70 million bonus spread across its 22,000 members. Prior to the new contract, the average union member earned nearly \$195,000 per year plus \$102,000 in benefits (West Coast Dockworkers Ratify a New Contract, Los Angeles Times, September 1, 2023).

NOTABLE SALE TRANSACTIONS

**TERRENO REALTY** purchased a sub-30,000 SF Factoria area warehouse (13045 SE 32nd St., Bellevue) from a local investor for \$417/SF.

**THE ALAMO GROUP, INC.** sold the 27,525 SF building in Kent to Hui Intertrading for \$276/SF, \$7,600,000 as an owner user transaction.

**CAPROCK PARTNERS** purchased the Reserve at Woodinville for \$34.2M from ARES Management in the region's largest transaction. The 159,869 SF traded for \$214/SF with a cap rate near 4.5%.

NOTABLE LEASE TRANSACTIONS

**BOEING** | Frederickson One, Bldg. 7, Frederickson | 312,225 SF

**BOEING** | Frederickson One, Bldg. 4, Frederickson | 533,393 SF

**GENERAL ELECTRIC** | FRED310, Bldg. G, Frederickson | 435,791 SF

**BOEING** | CenterPoint Seattle, Seattle | 414,528 SF

**CMI** | Pacific Coast Corporate Park, Fife | 2402,342 SF

**THYSSEN KRUPP** | Park 277, Bldg. E, Auburn | 322,465 SF



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The information in this report was composed by the Kidder Mathews Research Group.

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COMMERCIAL BROKERAGE	<i>\$12B</i> TRANSACTION VOLUME ANNUALLY	<i>32.1M</i> ANNUAL SALES SF	<i>41.2M</i> ANNUAL LEASING SF
ASSET SERVICES	<i>53M</i> MANAGEMENT PORTFOLIO SF	<i>771+</i> ASSETS UNDER MANAGEMENT	<i>250+</i> ASSET SERVICES EMPLOYEES
VALUATION ADVISORY	<i>2,800+</i> ASSIGNMENTS ANNUALLY	<i>42</i> TOTAL APPRAISERS	<i>23</i> WITH MAI DESIGNATIONS

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