

# INDUSTRIAL

*2024 has started slowly, with rising vacancy and decreasing construction activity across the industrial market.*

Consumer sentiment is somewhat sour and prices at the grocery store are 25% higher than they were in January 2020. Costs throughout the system appear to be driving inflation. Attacks on shipping in the Middle East, avian influenza outbreaks in the US poultry flocks and international grain shipping disruptions from the Russian invasion of Ukraine have all impacted pricing. Inflation had peaked 8.9% (annualized) but now seems stuck around 3.1%. The Puget Sound Region continues to over perform on inflation, with December 2023 at 4.9% but the Puget Sound Economic Forecaster (March 2024) projects inflation to slow to 3.3% this year. The labor participation rate in Washington is 64.8%, 368 basis points over the national figure of 62.5%, bolstering an optimistic regional outlook. Tech firms, including Microsoft and Amazon, have laid off workers with a 5.1% Region wide decrease in the Information sector over the past year. These jobs were offset by a 5.2% increase in manufacturing. In terms of the real estate markets, the office sector remains the weak link with the regional vacancy at 14.8% (direct and sublease) with an additional 2.6% occupied but marketed as available. The Seattle CBD/Lake Union has the greatest vacancy, 19.0% with 23.0% available. The Seattle retail sector is stronger at 4.5% vacant, with the region very strong at 3.2%. For the industrial markets at Q1 2024, absorption was (-2,059,046) SF, offsetting the 2023 absorption of 1.52 million SF Amazon closed or delayed 99 US facilities in 2023, approximately 32.3 million SF and included assigning a lease in Renton and pulling out of a proposed development north of Bothell in Snohomish County.

Below are a few notable points:

- 2.8 million SF of new product was added to the region in Q1 2024 bringing the regional inventory to 378.0 million SF
- Construction activity has continued to decline, from 7.9 million SF under construction in Q4 2023 to 6.6 million SF in 32 projects. 98.6% of the 46.7% preleasing is in the Pierce County submarket, specifically in the multibuilding FRED310 development.
- Sales activity shows 43 properties closed this quarter, \$235.9 million at an average of \$267/SF, with the majority being owner user transactions.

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## Under Construction

702K SF  
SEATTLE CLOSE-IN

674K SF  
SOUTHEND

121K SF  
EASTSIDE

911K SF  
NORTHEND

4.16M SF  
PIERCE COUNTY

28K SF  
THURSTON COUNTY

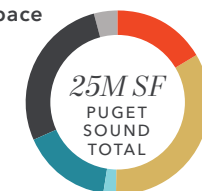
## Submarket Vacant Space

4.2M SF  
SEATTLE CLOSE-IN

8.6M SF  
SOUTHEND

610K SF  
EASTSIDE

4.0M SF  
NORTHEND



7.0M SF  
PIERCE COUNTY

1.0M SF  
THURSTON COUNTY

# 1Q 2024

↓ 8.45M SF  
LEASING ACTIVITY

↓ -2.1M SF  
NET ABSORPTION

↑ 6.8%  
VACANCY RATE

↑ \$1.17  
ASKING RENT (AVG)

↓ 6.6M SF  
UNDER CONSTRUCTION

Year-Over-Year Trend

## Market Highlights

**MARKET INVENTORY**  
increased by 2.78M SF

**SALES VOLUME** increased  
to \$235.9M

**AVERAGE SALE PRICE**  
is \$267/SF

## SEATTLE CLOSE-IN REVIEW

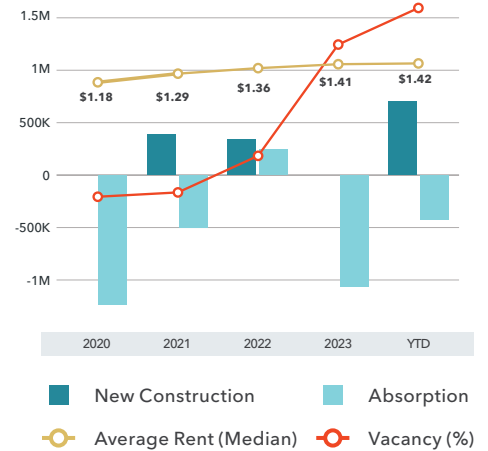
**BROKERS CONTINUE** to report little activity, with vacancy increasing to 8.3%, up 100 basis points (bps) in Q1 2024. Total inventory increased by 703,096 SF and absorption was (-427,960) SF

**SEATTLE METRO LOGISTICS**, Trammel Crow's two-story, 702,429 SF distribution facility on Terminal 106 south of S Spokane St. on East Marginal Way S is anticipated to deliver in Q3 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** was \$21,504,800 on four closed transactions, averaging \$414/SF. Georgetown Brewing purchased the adjacent 24,291 SF building on Denver St. for \$453/SF, a 6.0% cap on actuals with term remaining.

**AVERAGE ASKING RENTAL RATES** on a blended basis (office/warehouse combined) increased slightly, from \$1.41/SF at YE 2023 to \$1.42/SF

**YARD SPACE** remains on the sublease market, but brokers report little interest in yard or buildings. Spaces larger than 20K SF see little activity. The smaller space, 5K SF and below, remain steady and show good occupancy.



## SOUTHEAST REVIEW

**THE SOUTHEAST INVENTORY** grew by 2.95M SF in 2023 and Q1 added another 1.3M SF. Absorption was negative, with (-81,998) SF absorbed. Vacancy has climbed 89 bps to 7.2% from 6.3% at YE 2023. Inventory now totals 120.7M SF.

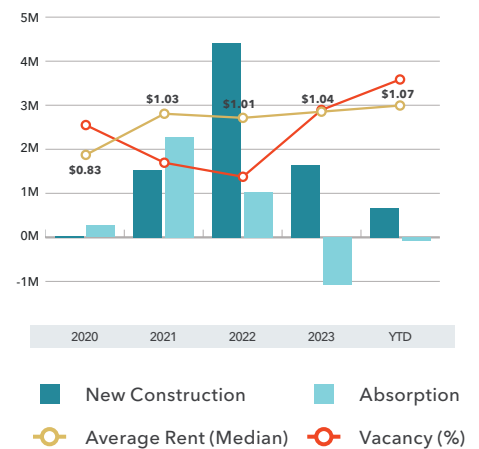
**2.73 MILLION SF** in 54 signed leases are expected to occupy between April 1 and December 31, 2024. There are four projects expected to deliver 674,151 SF over the same time period, with no preleasing.

**THERE WERE NINE TRANSACTIONS** totaling \$74.925M, averaging \$257/SF recorded in Q1. They were predominantly owner user sales.

**AVERAGE BLENDED RENTS** inched up from \$1.04/SF in Q4 to \$1.07/SF in Q1 2024, 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 to \$1.75/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, but with very limited availability of sites, no transactions closed in Q1 2024.



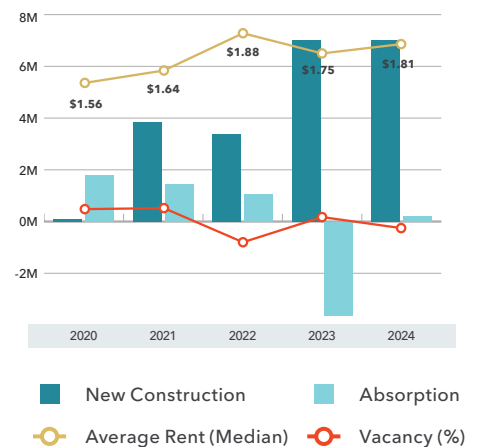
## EASTSIDE REVIEW

**THE EASTSIDE** has again lost industrial product, with the inventory shrinking 45,615 SF to now total 21.72M SF. Occupancy remains strong, with a 2.8% vacancy, the lowest in Puget Sound and no new product delivered.

**TWO BUILDINGS** 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 nine tenants took occupancy in Q1 in 80,392 SF of product. Looking forward over the next nine months, only four leases have been signed totaling 113,745 SF. The submarket is well occupied and influences the ability of tenants to move.

**RENTAL RATES** have softened slightly, from \$1.94/SF in Q2 2023 to \$1.75/SF in Q4 2023 but have started moving upward and are at \$1.81/SF at Q1. 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.



## NORTHEND REVIEW

**THE NORTHEND** added 648,538 SF in Q1 after 2023 adding 8.83M SF. Q1 absorption was negative(-528,456 SF) raising vacancy to 6.2%, a full 125 bps higher than any time in the past 7 years. There are 11 projects under construction that will add 911,372 SF and are currently 4.6% preleased. These are anticipated to deliver by year-end 2024.

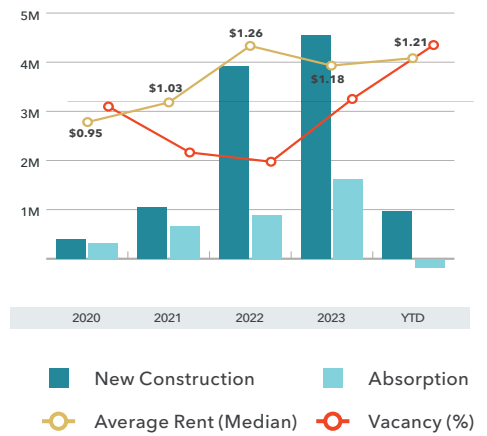
**26 LEASES COMMENCED** in Q1, totaling 389,723 SF with 18 scheduled to commence in the next nine months, totaling 7980,641 SF. Brokers report activity in the 5K to 10K SF spaces but those over 20K SF have few inquiries.

**THE BLENDED RATE** crept up from \$1.18/SF last quarter to \$1.21/SF in Q1, 2.5% increase. Warehouse rates remain stable, ranging \$0.90-

\$1.35/SF/mo. depending on age and location. Office rents are \$1.80-\$2.00/SF for second generation space and \$2.00-\$2.50/SF for first generation.

**FOUR SALES TRANSACTED** in Q1, totaling \$27,137,500 for 135,175 SF of industrial buildings. Average price was \$201/SF. These were predominantly owner-user sales with one investment sale.

**LAND REMAINS** available in Marysville/Arlington but only two land sales transacted, one for a resource pit and the other for a high-visibility site on a commercial corridor. Neither site is an industrial development site. There are 29 proposed projects totaling 5.5M SF.



## PIERCE COUNTY REVIEW

**YEAR-END 2023** vacancy was 6.2% and has climbed to 7.3% at Q1 2024. This is a 180.8% increase over YE 2022 of 2.6%. Absorption was (-1,167,996) SF for Q1 with no new product delivered. The inventory stands at 96.3M SF with 2023 adding just under 2.0M SF.

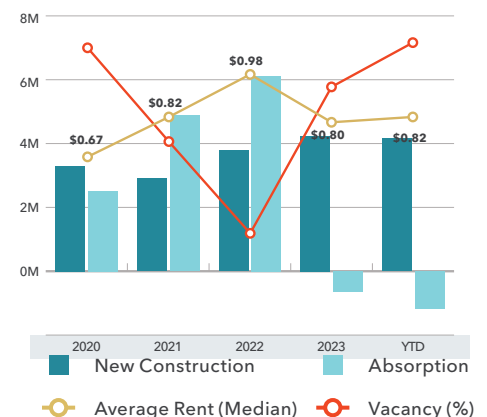
**CONSTRUCTION CONTINUES** with 4.17M SF in 12 buildings currently underway. Of this, 3.04M SF has been preleased, much centered in the FRED 310 project Panattoni is developing on former Boeing ground in Frederickson. 1.73M SF is anticipated to be delivered in Q2 2024, with only 192,163 SF in one building anticipated for a 2025 delivery.

**37 LEASES COMMENCED** totaling 1.06M SF. The next nine months show 24 leases scheduled to commence, totaling 3.9M SF. Given 4.0M SF is scheduled to come during the same time frame, vacancy is not anticipated to decrease.

**NINE SALES CLOSED**, totaling \$63.9M, with average price at \$209/SF. The largest transaction was the Cascade Building in the Fennel Creek Industrial Park in Bonney Lake. This was a \$41M, or \$223/SF and an owner-user transaction.

**SHELL RATES** range \$0.90-\$1.30/SF/mo., NNN, plus add-on office rates of \$1.00-\$1.70/SF/mo. The average blended rate peaked at \$1.03/SF in Q1 2023, dropped to \$0.80/SF, but has recovered to \$0.82/SF in Q1 2024.

**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

**THURSTON COUNTY VACANCY** rose from lowest in the region last quarter (2.0%) to 4.8% in Q1 with an inventory of 22.7M SF. Of this vacancy, 2.0% is from new product that came online this quarter. This submarket added 3.2M SF in 2023 and is now larger than the Eastside submarket. Absorption for Q1 was positive at 125,219 SF.

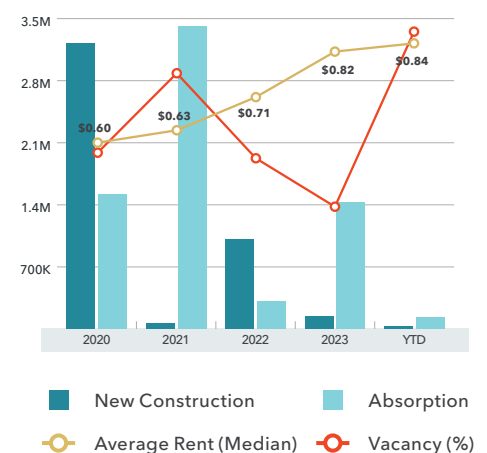
**CONSTRUCTION DRAMATICALLY SLOWED** with 1 project totaling 28,750 SF underway (no preleasing). Proposed projects total 9, with 1 (Parsons South Sound) slated for up to 1,371,040 SF in single or multiple buildings. Tumwater Corporate Park has 4 additional buildings planned (totaling 785,675 SF) and anticipated over the next 2 years; however, rising vacancy may delay construction.

**Q1 LEASING ACTIVITY** totaled 490,605 SF in 7 transactions, with the largest being the 352,142

SF Electrolux lease in Rochester. Three leases are signed to commence in the next 9 months, totaling 207,996 SF.

**AVERAGE BLENDED RENTS** continue to climb, rising 2.4% to \$0.84/SF. Shell rents remain in the range between \$0.45-\$0.65/SF on larger spaces and office add-on rates are moving up into the \$0.95-\$1.35/SF. Smaller spaces generally have a 5% to 10% premium.

**THERE WERE THREE SALE TRANSACTIONS** in Q4, totaling \$12.3M. Corlis Management Group purchased a three-building park from the Port of Olympia for \$152/SF, a 6.5% cap rate on the fully leased project. Land remains available but developers are not out looking at tertiary sites in the current cycle, with the south of Olympia market having little activity.



Washington State employment stands at 3,634,200 (February 2024, preliminary, Employment Security Department, WA), a 1.5% growth year over year. The four-county region contained 2,282,100 (revised January 2024), or 62.8% of the State's total. The preliminary February 2024 shows an increase of 33,400, or 1.5% in jobs. The increases are in Manufacturing (5.2%), Transportation/Warehousing (3.1%), Education and Health Services (4.5%) and Government (3.0%). Losses were centered on Information (-5.1%) and Construction (-3.0%).

The Federal Reserve target rate remains at 5.25% to 5.5% with market participants not anticipating any significant changes in 2024. The ten-year treasury hit a ten year high at 4.88% (10/31/23) but had dipped to 3.8% in

January. On April 1, the rate closed at 4.4%. In terms of lending, Life Companies have reduced spreads slightly, to 135 to 220 basis points over the ten-year treasury. Rates range from 5.78% to 6.63%. CMBS lenders are still looking for 300 to 400 basis points over the ten-year. Banks are lending in the 6.25% to 7.25% range. In this atmosphere, sellers are not anxious to sell into the new capitalization rates required to make transactions feasible. Owner users, however, have lifted activity modestly and taken advantage of less competition from investors. Construction lending is slowing as projects that were underway are completed, new project starts are decreasing.

The Northwest Seaport Alliance reports YTD (through February 2024) container volume as 437,887 TEUs (Twenty Foot Equivalent), a

0.2% decline from the same period in 2023. Terminal 5 renovations, a two phase project begun in 2019, has been completed. The upgrades included enhanced and updated shore power, stormwater systems with hybrid-electric equipment and the addition of Super Post-Panamax cranes with moorage dredged to minus 57' allows the terminal to serve any cargo ship currently operating.

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

**NORTHWEST BUILDING LLC** purchased the 154,761 SF, five building Redmond Park East for \$55 million, or \$355/SF. The seller was a municipal union's retirement union.

**THE TWO BUILDING TAYLOR'S LANDING** sold to a local investor for \$186/SF for the 43,940 SF and 18,000 SF buildings to a tenant in a non-arm's length transaction.

**THE WALTER E. NELSON COMPANY** purchased the Fennel Creek Industrial Park from a local investor for \$41 million, or \$223/SF.

**GEORGETOWN BREWING** added to its growing portfolio with the purchase of the adjacent 5300 Denver St. for \$453/SF, a 6.0% on actuals.

**SEOUL TRADING** purchased the Fennel Creek Industrial Park from a local investor for \$41 million, or \$223/SF.

NOTABLE LEASE TRANSACTIONS

**ELECTROLUX** | Rochester Building, Rochester | 352,142 SF

**US GENERAL SERVICES** | Sumner Distribution Center, Sumner | 441,250 SF

**EAST BAY LOGISTICS** | Valley Distribution Center, Sumner | 228,256 SF

**ZEROAVIA** | Bosa BOMARC Property, Everett | 414,528 SF

**CMI** | Pacific Coast Corporate Park, Fife | 136,026 SF

**CRANE WORLDWIDE LOGISTICS** | Kent East Corporate Park, Bldg. E Kent | 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>\$10B</i> TRANSACTION VOLUME ANNUALLY	<i>31.7M</i> ANNUAL SALES SF	<i>41.4M</i> ANNUAL LEASING SF
ASSET SERVICES	<i>51M SF</i> MANAGEMENT PORTFOLIO SF	<i>750+</i> ASSETS UNDER MANAGEMENT	<i>250+</i> ASSET SERVICES EMPLOYEES
VALUATION ADVISORY	<i>2,600+</i> ASSIGNMENTS ANNUALLY	<i>43</i> TOTAL APPRAISERS	<i>25</i> WITH MAI DESIGNATIONS

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