

INDUSTRIAL

The Puget Sound industrial market remains soft as it absorbs the pandemic-era supply expansion. Vacancy reached 9.7% but appears to be stabilizing, while slower leasing activity continues to favor tenants. Cargo volumes also softened. Despite these conditions, the region's long-term fundamentals remain supported by its diverse economy, transportation infrastructure, population growth, and position as a major Pacific Rim distribution hub.

ECONOMIC OVERVIEW

Puget Sound inflation continues to outpace the national rate. The Seattle-Tacoma-Bellevue Consumer Price Index (CPI) rose 4.4% year-over-year through August, compared with approximately 3.0% nationally. Energy prices rose 15.9%, including a 17.7% increase in gasoline prices, adding to regional operating costs. Inflation is expected to moderate over the next several years, although energy prices remain a source of uncertainty.

MARKET FUNDAMENTALS

Puget Sound industrial inventory totaled 410.9M SF across 10,329 properties, with 39.8M SF marketed across 1,878 spaces. Vacancy increased from 8.7% at year-end 2025 to 9.7% in Q3.

Regional inventory grew 3.2M SF YTD, including 2.8M SF across nine projects delivered in Pierce County. Construction has slowed to 1.36M SF underway and 80.2% of the square footage in the Southend, a shift away from Pierce County, which has only one project larger than 55,000 SF. Preleasing remains limited.

Q3 recorded 86 sales totaling \$824.9M, down from 102 in Q2. YTD sales volume reached \$2.0B, with an average price of \$210.09 PSF and a 5.5% capitalization rate. Investment activity improved modestly, while owner-users remained active.

Washington's labor market remained relatively flat in 2026. As of August, statewide nonfarm employment totaled approximately 3.67 million jobs, up 14,900 jobs, or 0.4% YOY. Unemployment was 4.9%, above the national rate of 4.1%. Hiring has slowed amid higher operating costs, economic uncertainty, and softer demand in portions of the technology sector. Technology remains a key driver of Seattle's economy, accounting for approximately 10% of regional employment and 24% of payroll, supported by Amazon, Microsoft, and the growing artificial intelligence sector.

In September, the Federal Reserve raised its target federal funds rate 25 basis points to 3.75%-4.00%, citing persistent inflation, resilient consumer spending, strong capital investment, and continued economic growth as reasons for the increase. The 10-year U.S. Treasury yield reached approximately 5.20%-5.34% in early October, increasing pressure on borrowing costs and capitalization rates.

continued on page 4

Market Summary

	Under Construction (SF)	Vacant Space (SF)
Seattle Close-In	100,000	5,015,938
Southend	1,093,108	12,508,414
Eastside	0	1,348,811
Northend	85,000	5,428,365
Pierce County	70,288	13,956,812
Thurston County	0	1,028,985
Whatcom/Skagit	14,930	521,584

3Q 2026



Market Highlights

- MARKET INVENTORY ended at 410.9M SF for Q3
- PIERCE COUNTY delivered 2.8M SF YTD
- AVERAGE CAP RATE fell to 5.5% in Q3

SEATTLE CLOSE-IN REVIEW

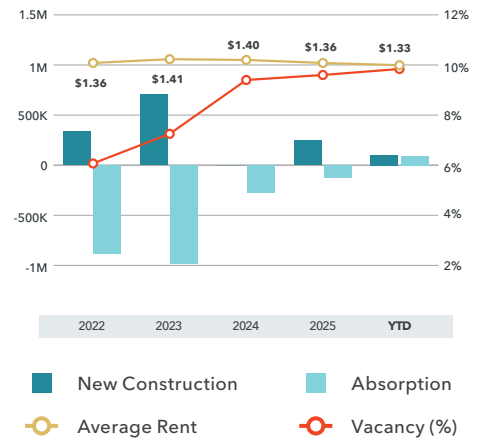
Seattle Close-In vacancy has fluctuated between 9.4% at year-end 2024 and 9.8% in Q3 2026. Spaces under 10,000 SF remain the most active, with 109 spaces between 5,000 and 10,000 SF available for lease. Another 107 spaces are available between 10,000 and 25,000 SF. Inventory remained stable at 51M SF. The largest vacancy remains Seattle Metro Logistics, a 702,429 SF facility on Port of Seattle land. The property has generated interest, but no lease has been signed. Quarterly absorption was negative 79,416 SF.

There are 18 active listings for yard space in Seattle, totaling 71.1 acres, with rates ranging from \$0.40 to \$0.63 PSF. Recent transactions in South Park have been below \$0.30 PSF.

No new construction delivered in Q3. Amtrak's 100,000 SF maintenance facility on S Holden St is expected to complete by year-end. A seven-story, 434,811 SF project is proposed on the west side of Queen Anne near Interbay, but no schedule has been announced.

Q3 sales totaled \$9.65M, with an average building size of 9,183 SF and an average price of \$331 PSF. The sales were predominantly smaller owner-user transactions, although the Shiel family sold Riverside Plaza, a two-level, 19,769 SF building whose main tenant is preparing to vacate in the near term. The average capitalization rate was 6.26%.

Blended office/warehouse asking rates declined from \$1.43 PSF in Q1 2026 to \$1.33 PSF in Q3.



SOUTHEND REVIEW

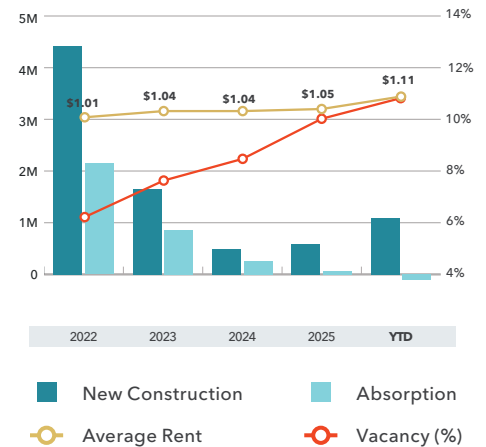
The Southend recorded no Q3 deliveries, with inventory holding at 121.5M SF. Four projects totaling 1.1M SF are under construction. The Port of Seattle's 405,680 SF Des Moines Creek West is expected to deliver by year-end 2026, and Shield AI signed a full-building lease in September, with commencement projected for March 1, 2027. Submarket vacancy reached 10.3%, up from 9.4% at year-end 2025. Q3 absorption was -108,924 SF, following -1,013,097 SF in Q2, for YTD negative absorption of 1.2M SF.

The Southend recorded 78 leases totaling 2.1M SF, including Shield AI's 405,680 SF commitment and a 265,922 SF lease at Prologis Park SeaTac 3. Median lease size was 16,521 SF.

The development pipeline includes nine projects totaling 2.2M SF, with a potential 1.1M SF building at Auburn 18.

Q3 sales totaled \$294.5M across 22 transactions, averaging \$194 PSF. Major deals included LINK Logistics selling portfolios to BKM Capital Partners and Infill Industrial Partners, and La Caisse's Des Moines Logistics Center sale to GID Investment Advisors.

Average blended rents rose 6.1%, from \$1.05 PSF to \$1.11 PSF, reflecting several large, new buildings. However, brokers report that rents remain depressed, with owners prioritizing occupancy over higher face rents. Shell rates range from \$0.80 to \$1.00 PSF and office components from \$1.00 to \$1.35 PSF. Yard supply remains high, with 27 active listings totaling 110 acres and asking rates generally from \$0.35 to \$0.40 PSF, while yards with buildings command a \$0.05 to \$0.10 PSF premium.



EASTSIDE REVIEW

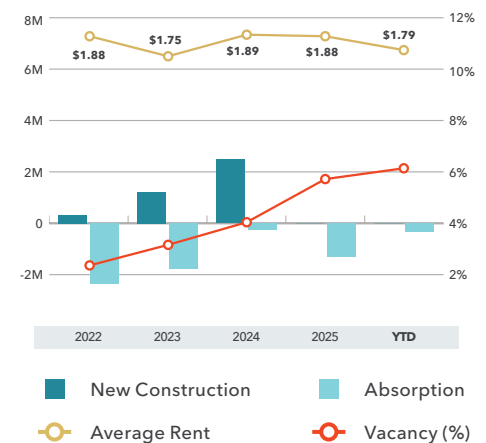
Eastside inventory remains stable at 22M SF. Vacant space totaled 1,348,811 SF, with vacancy declining from 6.3% in Q1 to 6.1% in Q3. Vacancy remained below 4.0% before 2025 and hovered around 3.0% between 2016 and 2023. Absorption was negative 32,665 SF, reflecting continued softness in market activity. Covington 18 (247,409 SF) and Alpentel Logistics in North Bend (115,575 SF) remain vacant, accounting for 363,166 SF of available space.

Thirty leases were signed in Q3, totaling 188,466 SF with a median size of 3,026 SF. The largest lease was 32,412 SF, followed by two at 25,000 SF and one at 15,000 SF.

Overall asking rents declined 4.8% from \$1.88 PSF in Q1 to \$1.79 PSF in Q3.

Warehouse rents averaged approximately \$1.80 PSF in Redmond and Kirkland and \$1.55 to \$1.65 PSF in Woodinville. Office rents ranged from \$2.20 to \$2.50 PSF for second-generation space and new construction, respectively. Annual rent growth slowed to 1.8%, below the 10-year average of 5.1%.

Six sales closed in Q3, totaling \$26.7M and averaging \$393 PSF, with capitalization rates ranging from 3.5% to 6%. The low end has rent upside, and 6% is the return most investors are seeking. No industrial land traded. The ongoing Bel-Red transition to multifamily and mixed-use development limits industrial opportunities, while growth in the local aerospace industry and new companies entering the market support the Eastside's resilience.



NORTHEND REVIEW

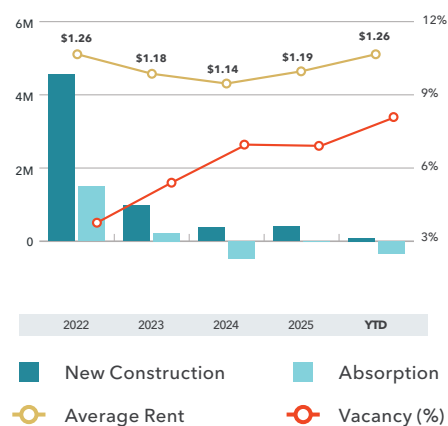
Northend inventory held at 68M SF. Vacancy increased 11.1% to 5.4M SF, 78 basis points above Q2. Absorption was negative 354,072 SF in Q3, for YTD negative absorption of 499,998 SF. One project is under construction: Saia, Inc. is building an owner-occupied 85,000 SF cross-dock facility in Marysville. In Arlington, Rockefeller Group completed a speculative 186,873 SF building as its entry into the Puget Sound market. There has been no preleasing as of this writing. The proposed pipeline includes 22 buildings totaling 5.5M SF, although construction timelines remain uncertain.

Q3 saw 56 lease signings totaling 956,795 SF, with the largest being 257,000 SF at the never-occupied Everett building that Dermody sold to Breakthrough Properties. Tracked as an R&D building, it is a specialized pharmaceutical testing and manufacturing facility.

The Northend accounted for 20.2% of regional lease signings.

The blended rent increased from \$1.18 PSF to \$1.26 PSF in Q3. Warehouse rents range from \$0.90 to \$1.35 PSF per month, while office rents run \$1.80 to \$2.00 PSF per month for second generation space and \$2.00 to \$2.50 PSF per month for first generation space.

There were 19 sale transactions totaling \$122.8M, with an average price of \$301 PSF and an average of 27,987 SF per transaction. The most significant sale was the Breakthrough Properties/Dermody transaction. Dermody spent roughly \$350M and sold for \$78M. Buyers in the Northend were predominantly local, a mix of owner-users and local or regional investors.



PIERCE COUNTY REVIEW

Pierce County remained the most active development submarket, with nine buildings totaling 2.8M SF delivered YTD, including three in Q3 totaling 1.1M SF, bringing inventory to 105.6M SF. Absorption was positive at 850,722 SF. However, the vacancy rate slipped to 13.2%, the highest in Puget Sound. Vacancy has been above 9% for the past five quarters and above 11% for the past four quarters.

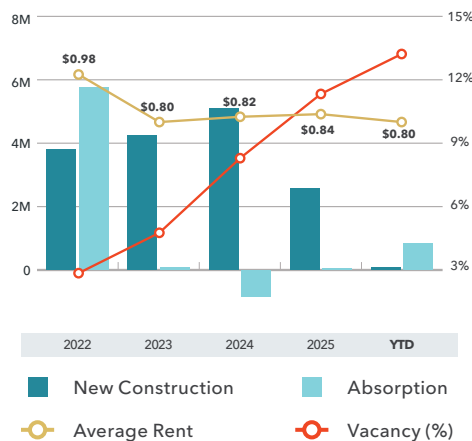
Construction slowed, with Peak 410, a 56,440 SF building in Bonney Lake, underway and anticipated to complete by year-end, with no preleasing. An 8,856 SF building and a 4,992 SF building are both under construction in Tacoma. Twenty proposed projects could add 4.0M SF, dependent on demand and preleasing.

Q3 recorded 45 leases totaling 1.1M SF, up from 309,526 SF in Q2. Average rates softened to \$0.80 PSF, with shell rates of \$0.85 to \$1.25 PSF NNN and office add ons of \$1.00 to \$1.70 PSF.

Leasing timelines have lengthened.

There were 13 sale transactions in Q3, totaling \$314.7M across 1,476,887 SF of buildings on 99.0 acres of land, averaging \$220 PSF. The most significant sales were Panattoni's sale of FRED310 Building E (782,775 SF) to Bridge Logistics Properties for \$223 PSF, Ares Management Corporation's purchase of Tacoma Central Logistics (248,033 SF, \$222 PSF) from Davis Property & Investment, and Kurv Industrial's sale of an owner-user building (205,413 SF, \$165 PSF) to Ashley Furniture Industries.

Pierce County had 26 yards of land listed for lease, with rates ranging of \$0.20 PSF for yards to the low \$0.40s PSF with usable buildings. A 9.1-acre, rough-graded site in Puyallup sold to XTRA Lease LLC for \$25 PSF and is anticipated to be a tractor-trailer storage yard.



THURSTON COUNTY REVIEW

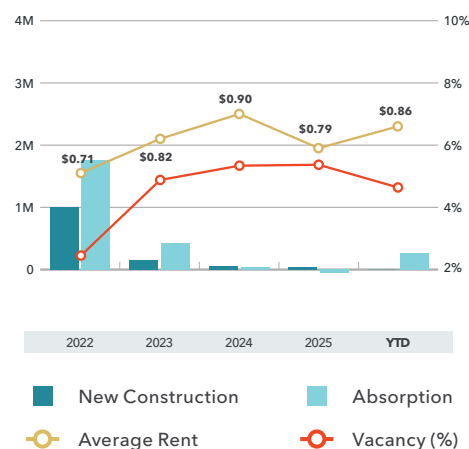
Thurston County inventory held steady at 22.2M SF. Vacancy has slipped from 5.4% at year-end 2025 to 4.6% in Q3, coming off the Q2 peak of 5.8%.

A 36,000 SF building in Tumwater delivered in Q2 2026 and remains unleased. Six proposed projects could add 1.6M SF. Parsons South Sound Logistics, previously tracked at up to 1.37M SF, has been removed from the proposed pipeline.

Q3 leasing activity totaled 35,399 SF across eight leases, down from 66,185 SF in Q2. The median size was 2,692 SF and the largest was 11,100 SF. Absorption was positive 266,889 SF, following two quarters of negative absorption totaling 71,416 SF.

Blended rents rose to \$0.86 PSF, below the high point of \$0.97 PSF in Q1 2025. Annual rent growth has dropped from 8.6% in Q4 2022 to 2.5% in Q3 2026, reflecting broker comments that lease transactions are fewer and more difficult to complete.

Meritage Group purchased the vacant Tumwater Corporate Park Building 2 (199,950 SF, completed in 2023) for \$209 PSF. Overall, there were six sales totaling \$50.0M and 251,154 SF. The average price was \$199 PSF, with an estimated average capitalization rate of 6.93%.



Debt capital remains available despite higher Treasury yields. Life insurance companies generally quote spreads of 120 to 220 basis points over the 10-year Treasury, while banks and credit unions offer financing at approximately 6.5% to 8.5%, with underwriting focused on cash flow, debt service coverage, and sponsor strength.

The Northwest Seaport Alliance cargo volumes remain below trend, with YTD 2026 volumes reported 10.9% below the same period in 2025. Import activity has been affected by shifting trade patterns, tariff-related uncertainty, and changes in shipping routes.

Industrial ownership in the Puget Sound region has shifted toward institutional investment since 2000. Local investors once owned an estimated 75% to 85% of properties, while institutional investors now control approximately 45% to 60% of the market, particularly larger warehouse and distribution facilities. Competition for acquisitions has contributed to lower capitalization rates and higher property values, while institutional ownership has brought greater capital investment and more sophisticated asset management.

SKAGIT / WHATCOM COUNTIES

Skagit and Whatcom counties have 20.7M SF of industrial inventory across 845 buildings, generally consisting of smaller buildings and tenant suites. Vacancy rose from 1.3% in Q1 to 2.5% in Q3. Absorption was -106,106 SF in Q2 and -141,317 SF in Q3. Average asking rent increased to \$0.85 PSF.

Two projects totaling 14,930 SF are under construction: Advance Steel's 7,250 SF building and a 7,680 SF building at 2756 Peace Portal Dr., both anticipated to complete by year-end 2026. The proposed pipeline includes six projects that would add 475,980 SF, including one totaling 300,000 SF, with no timeline established.

There were 14 sale transactions totaling 256,576 SF and \$6.5M, predominantly owner-user transactions, with an average size of 18,327 SF.

LEASE ACTIVITY

While leasing activity remained generally slow, Q3 saw nine leases over 100,000 SF, totaling nearly 2.1M SF. Notable signings included 257,000 SF in Everett (the Breakthrough Properties acquisition), 405,680 SF (Shield AI) at Des Moines Creek Business Park West, owned by the Port of Seattle, 265,922 SF at Prologis Park SeaTac 3, and National Tire Wholesale's 133,417 SF at the LaSalle Investment-owned Seattle Gateway Center 2 in SeaTac. Across the region, 225 leases totaling 4.7M SF were signed, with 45.3% of the square footage in the Southend.

NOTABLE SALE TRANSACTIONS

Infill Industrial Partners purchased three industrial buildings in Renton and Kent (384,875 SF) from LINK Logistics for \$81.4M (\$212 PSF).

GID Investment Advisors purchased the six-building Des Moines Logistics Center (352,484 SF, \$142 PSF), located near Seattle-Tacoma International Airport, from La Caisse.

Breakthrough Properties, LLC purchased a never-occupied building in Everett (built 2022, 257,000 SF) from Dermody for \$304 PSF. The buyer had a tenant lined up and signed a 21-year lease at an undisclosed rate.

LINK Logistics sold a five-building, 413,351 SF portfolio in Renton and Kent to BKM Capital Partners for \$207 PSF. The portfolio was 87% occupied.

Panattoni sold FRED310 Building E (782,775 SF), occupied by Harbor Freight, to Bridge Logistics Properties for \$223 PSF, a 5.35% capitalization rate.

Ashley Furniture Industries, LLC purchased a 205,413 SF Tacoma distribution building from Kurv Industrial (formerly Bridge) for \$165 PSF for owner occupancy.

Davis Property sold Tacoma Central Logistics (248,033 SF) to Ares Management Corporation for \$222 PSF.



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COMMERCIAL
BROKERAGE

\$9B

AVERAGE ANNUAL
TRANSACTION VOLUME

32.4M

ANNUAL
SALES SF

32.5M

ANNUAL
LEASING SF

ASSET
SERVICES

55M+ SF

MANAGEMENT
PORTFOLIO SIZE

800+

ASSETS UNDER
MANAGEMENT

250+

CLIENTS
SERVED

VALUATION
ADVISORY

2,700+

AVERAGE ANNUAL
ASSIGNMENTS

42

TOTAL
APPRAISERS

23

WITH MAI
DESIGNATIONS