

# Market Review

## Provided By



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The South King County Industrial Market Review is provided by Doug Klein of Kidder Mathews. Kidder Mathews is the largest full service commercial real estate company in the Puget Sound. We provide the most extensive coverage in the Kent Valley and Pierce County Industrial Markets with over 32 industrial specialists. Doug Klein has over 30 years of experience dedicated to the Kent Valley and Pierce County Industrial Markets, and has completed well over \$1 billion in transactions totaling over 40 million sq ft. Doug lists over 4.5 million square feet of industrial space on an on-going basis.

## Seattle Close-In Review

The Seattle Close-In market is generally defined as the area from SoDo (just south of downtown Seattle), south to the intersection of I-5 and SR-599, which is about 1.5 miles north of I-405. It totals 58,187,748 sq ft of industrial space. The market consists of predominantly older and often functionally obsolete facilities, many of World War II era construction. Increasingly, the market is shifting towards a make-up of institutional ownership, but is still largely owned by owner/user, private and governmental entities.

During the 1st quarter 2019, the close-in market increased its vacancy level to 3.3% from 2.64% at the end of 2018, as a result of -327,465 sq ft of negative absorption during the 1st quarter. This increase in vacancy is almost entirely attributable to the completion of the 589,000 SF Georgetown Crossing. The historical low vacancy for the close-in market was achieved at the end of 2017 at 1.47% vacant. The previous peak market was mid-2008 reaching a low of 3.11% vacancy.

Prologis began construction on Georgetown Crossings in April 2017, which is the first multi-story development of its kind in this market. The project is now complete and is 589,615 sq ft on three stories. HD Supply leased 97,000 SF on the first floor. The balance is still available. Quoted rates are \$1.35 PSF, NNN/month for floors 1-2 and up to \$2.00 for the top floor. Ave 55 is promoting the latest multi-floor project in Seattle called Track Six SoDo Business Park which will be a 212,516 SF project on four floors. Clear heights will be 14'-16' and 24' all spaces will be fully temperature controlled with HVAC. Multi-story developments are a top consideration for future Close-In developments.

Owner/user sales in the close-in market continue to rise dramatically in price and asking prices now regularly exceed \$220 per sq ft, although quality and location impact the price considerably. Investors continue to purchase close-in buildings as well but velocity has slowed due to lack of availabilities and high prices. A new record price of \$263 per sq ft was set in June 2018 for the sale of the 15,960 sq ft dock-served Ambiente Tile Building to a user. A new sale listing, Branom Investments, just hit the market at 11,364 SF with an asking price of \$334.40 PSF. It will be interesting to see if that price will be obtained. No user sales transacted in the first quarter 2019. Lease rates typically exceed \$1.10 PSF, NNN for most spaces and deals have slowed somewhat as a result. Some tenants are looking south to save money. We expect rates to hold steady in the close-in market for the next 12 months.

### South King County Review

South King County consists of 112,876,294 sq ft of industrial space and is Washington State's largest concentration of industrial space. It registered 1,112,823 sq ft of negative absorption in the 1st quarter of 2019. The vacancy rate increased to 5.35% at the end of the 1st quarter compared to 4.24% at the end of 2018 as a result. Vacancy is well above the record low of 2.24% at the end of the 1st quarter 2017, and now is higher than the previous historical low of 4.12% in 2008. The negative absorption can be explained by the delivery of new product to the market and a slight slow down in leasing activity. The historical trend is showing vacancy increasing slowly since 2016.

Market activity continues to be moderately strong on all dock served spaces during the 1st quarter. Most sectors of the market are extremely tight; especially dock served spaces from 5,000 - 20,000 sq ft. Since 2013, rates for 5,000 sq ft dock-served space have increased 70% (\$0.44 PSF shell to \$0.75 PSF shell). However, the sector of spaces between 30,000 SF and 60,000 on the market for lease has over 25 alternatives causing many of these spaces to sit on the market for over 6 months.

In South King County there are 20 existing and under construction spaces between 100,000 and 375,000 sq ft on the market for lease. This is a significant increase from only 14 from Q3 2018. New construction is almost entirely suited for tenants over 50,000 sq ft. This constrains the market for smaller spaces. This trend will continue forward.

There are only 15 user type buildings over 10,000 sq ft available for sale in South King County, including South Seattle. This is a significant decrease from Q3 2018 when there were 21. Prices vary widely given the construction type and availability of yard area. South Seattle buildings demand a higher price per square

foot than more southerly locations, averaging \$199 per sq ft, which is up from \$155 in March 2016, but buildings vary widely in terms of quality and yard and dock door availability. The most highest (to date) PSF close-in user sale was 5979 4th Ave S for \$248.38 PSF.

Modern South King County owner/user buildings average \$177.00 per sq ft asking. There are only 3 user buildings with dock doors on the market now; one of which is just starting construction. They Hy Security Building in Kent at 27,815 SF sold for \$169.42 PSF. Developers in South King County are quoting \$200 PSF for warm shell for new construction dock served space between 50,000-80,000 sq ft.

### Sales Comparables

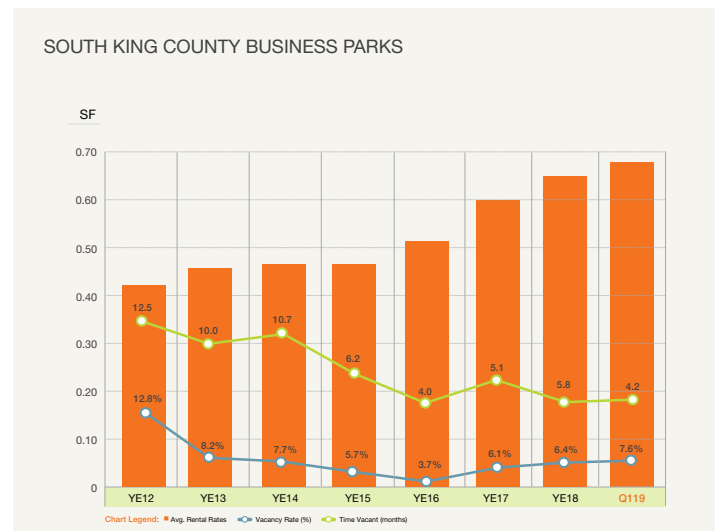
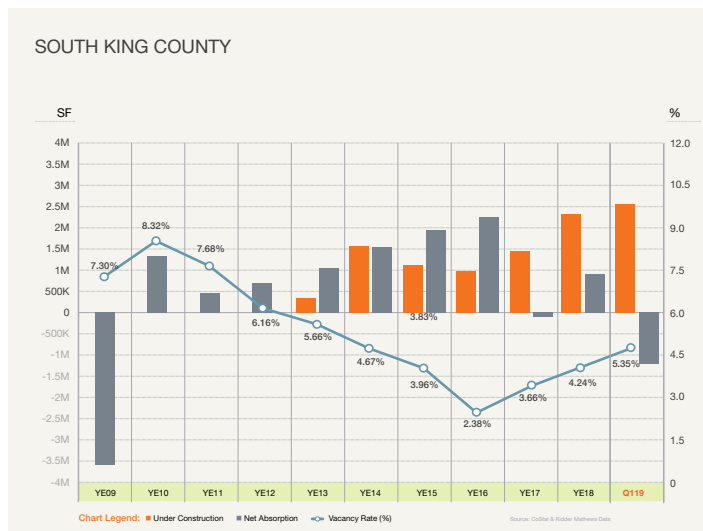
Please click here for a list of user/sales transactions.

[↓ User Sales Comparables](#)

### Business Parks - South King County

We track 447 business park buildings totalling 41,600,000 sq ft in South King County. The chart below shows the results since year end 2012.

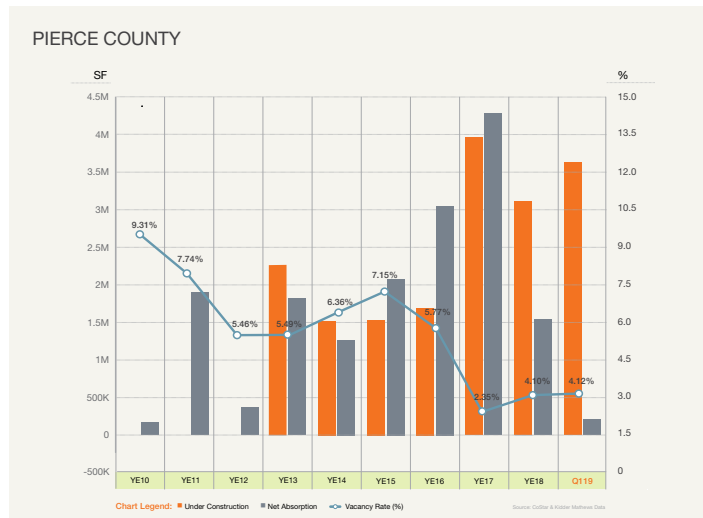
Average vacancy for business parks is 7.6% at the end of the 1st quarter 2019. This is a rise from 6.4% at the end of 2018 and a rise from 7.0% at the end of Q1 2018. Average blended rates are up to \$0.68 per sq ft, NNN, which is a 28% increase since the end of 2016. The Average Time Vacant has dropped significantly from 10.7 months vacant per space in 2014 to only 4.2 months vacant at the end of 1st quarter 2019, which is a new record low.



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### Pierce County Review

The Pierce County market totals 79,023,963 sq ft. Supply increased only 217,000 so far this year: 3,114,730 SF during 2018; 1,983,000 sq ft during 2017 and 2,556,081 sq ft during all of 2016. The 1st quarter resulted in 185,877 sq ft of absorption for the quarter as a result of new leasing in recently completed projects. Current vacancy is up to 4.12% compared to 2.2% at the end of 2017 and 4.10% at the end of 2018. Pierce County is the center of the new construction push with 1,539,000 sq ft currently under construction. Mostly, all of the new development is designed for tenants larger than 75,000 sq ft. Developers are signing numerous larger leases and many deals over 100,000 sq ft have been completed in the last four quarters. The vacancy rate fluctuates considerably as larger tenant leases commence and new developments complete construction. Although 4.12% is almost the lowest historical vacancy for this market, vacancy will likely rise in late 2018 and spring of 2019 due to new deliveries of spec construction.



### Rates And Concessions

Rental rates are rising quickly and fewer concessions are being offered. Strong credit tenants are no longer able to negotiate a month of free rent per year of lease term. Zero months of free rent on a new 36 month term is typical. However, many landlords demand a 5-year lease. One to two months of free base rent on a 61 – 62 month term is typical for new deals and less for renewals. However, credit strength, tenant improvement and scarcity of that particular product weigh on the free rent outcome.

Office add-on rates are finally making a push upward. In the past, \$0.85 PSF was the typical add-on rate for second generation office area. Now, \$0.90 PSF is being charged on about 40% of all such

offerings. Given the high cost of both construction and remodeling office area, we expect \$0.90-0.95 to be more the rule than the exception by mid 2019. Rates for new office area recently at \$1.00 PSF add-on are now pushing \$1.10 PSF/month.

In South King County and Pierce County asking rates continue to rise and quality spaces are typically able to secure rents at the asking rate. Rates for close-in Seattle however are stable having risen over 50% in the last 48 months. Annual base rental increases of 3% are the standard now. We have not seen much push beyond 3% just yet (only 2 incubator landlords are pushing 4-5% on renewals). Asking rates for new construction and newer generation spaces over 100,000 sq ft are moving upward still due to lack of supply as well as new product built on expensive land, an expensive construction costs, demand higher rents. By comparison of completed lease comparables, rates have increased 39% in the last 24 months for dock-served spaces in the 5,000 to 50,000 sq ft range and 33% for spaces 50,000 to 100,000 sq ft.

### SOUTH KING COUNTY ASKING LEASE RATES (DIRECT DEALS)

SQ FT	SHELL RATES	OFFICE ADD-ON	TREND
5,000 - 10,000	\$0.70 - \$0.80	\$0.85 - \$0.95	↑
10,000 - 20,000	\$0.70 - \$0.75	\$0.85 - \$0.95 - \$1.00*	↑
20,000 - 50,000	\$0.60 - \$0.65	\$0.90 - \$0.95 - \$1.10*	↔
50,000 - 100,000	\$0.56 - \$0.66	\$0.90 - \$0.95 - \$1.10*	↔
100,000+	\$0.60 - \$0.80	\$0.90 - \$0.95 - \$1.10*	↑

\* \$0.85 - \$0.95 per sq ft is for existing office, \$1.00-\$1.10 per sq ft is for new or built-to-suit office.

### Development News

Under construction as of April 1, 2019 in South King County and North Pier County are the following projects:

PROJECT	SIZE	STATUS
1 The Viking	438,065 SF	Under Construction
2 DCT Monster Road	161,320 SF	Under Construction
3 Portside 55 C	220,360 SF	Under Construction
4 Pacific Logistics North	163,894 SF	Under Construction
5 Glacier Building	66,751 SF	Under Construction
6 Ivy Building	42,913 SF	Under Construction
7 IAC Commerce Center	457,211 SF	Under Construction
8 Pacific Logistics South	128,262 SF	Under Construction
9 Prologis Park Sumner	203,168 SF	Under Construction
10 Prologis Park Sumner	97,787 SF	Under Construction
11 234 DC II	125,400 SF	Under Construction
12 Kent 192 DC	219,910 SF	Under Construction
13 Bridge Point Kent 100	97,522	Starts May 2019
14 Tacoma I-5	77,432 SF	Starts May 2019
15 Seaport Logistics	144,000	Starts May 2019

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# South Puget Sound Industrial

## Doug Klein Market Review



Developers are very busy in the Puget Sound market right now. Multiple projects were completed with 1,395,719 sq ft wrapping up construction in the last two quarters of 2018 in the combined South King County and Pierce County markets.

As of April 28, 2018, 2,522,000 sq ft is currently under construction in both Pierce and South King County. Pierce County has 1,539,000 sq ft under construction. South King County makes up 983,000 sq ft of the total. This is a decrease of about half from the previous year at the same time for both Pierce and South King County. Most projects will be completed by late 2019. There are numerous planned projects for Pierce County that have not yet commenced construction. The decrease in new construction is entirely related to the lack of available land and the high price of land when it is available for sale or lease.

### END OF YEAR INDUSTRIAL VACANCY BY CITY

CITY	INVENTORY SQ FT	4TH QTR 2018 VACANCY	1ST QTR 2019 VACANCY
Tukwila	11,256,492	2.9%	3.0%
Renton	12,214,696	5.3%	4.1%
Kent	46,652,771	2.6%	5.8%
SeaTac	3,455,889	1.4%	3.0%
Auburn	24,216,325	2.3%	3.5%
Algona	2,182,431	0.0%	0.0%
Sumner	15,970,093	2.8%	5.2%
Puyallup	9,292,972	0.3%	1.5%
Fife	12,208,068	2.8%	2.0%

### Significant Transactions

#### Notable Sales that Closed in the 1st Quarter

- Medline Building at 228,256 SF sold to Duke Realty a leased investment for \$158.16 PSF a 4.6% cap.
- Vectra Fitness at 97,548 SF sold to LBA Realty as an investment, but sold vacant at \$130.19 PSF.
- St. Perine property at 36,150 SF sold to Lift Partners as an investment, but only 30% occupied at \$190.87 PSF.
- Hy Security Building at 27,815 SF sold to Checker Properties as a user building for \$169.92 PSF.

Call or email me for Lease Comparables.

### Investment Sales

There were only 4 investment sales in the 1st quarter due to lack of availability. Cap rates have stabilized at low 5.0% to low 4.0% cap rate levels for institutional grade, core properties. However, core asset with below market rates will dip below 4%. Other “non-core” investments may trade in the 5.5% - 7.0% cap range, depending on many factors. Many properties are trading off-market since buyers are extremely aggressive and have a seemingly endless supply of capital. Although interest rates rose in 2017 and 2018, we anticipate low cap rates to continue and stabilize at these low rates for at least the next 12 months. There is very little product currently on the market.

### Investment Sale Comparables

Please click here for a list of Investment Sale Comparables.

[Industrial Investment Sale Comparables](#)

### Forecast

The South King County market is showing some weakness in terms of vacancy which has risen from a low of 2.24% in early 2017 to 5.35% now. There is a small glut of space in the 30,000-60,000 SF range where we expect rates to remain stable and possibly lower for older generation (non-ESFR sprinklered) space. The balance of the market and in particular small dock spaces and new construction will still see some rate increases over the next 12-18 months. Few quality user buildings are on the market and sale prices for these user buildings are moving upwards rapidly. If you can find any raw land, the market continues to be bullish for any land parcels from developers. Land prices for industrial Kent Valley properties exceed \$28-\$32 PSF. We continue to forecast increasing rents over the next 12-18 months for small dock served spaces and larger new construction space, but we anticipate medium sized spaces from 30,000-70,000 to remain stable. Close-in Seattle rates will remain stable in the \$1.10-\$1.20 PSF, blended NNN range.

Pierce County has added and continues to add new product at a somewhat slower rate. New development opportunities will add significantly more inventory in late 2019 and Spring of 2020. We anticipate vacancy rates to increase temporarily in 2019 while new inventory adds to the market.

Investor activity remains strong with many buyers chasing limited institutional product. Cap rates are expected to remain strong in the low 4% range to under 5.0% for quality, core product. Higher cap rates of 5.25-6.75% will apply to non-core, industrial product.

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