

# Seattle Industrial

## Market Forecast

	Current / Projection	
Vacancy	4.56%	↓
Construction	1.079M sf	↓
Rental Rate	Varies*	↑
Absorption	1.384M sf	↑

\* by submarket

## Notable Sale Transactions

Industrial Realty Group's purchase of Weyerhaeuser's Federal Way Campus for \$70.5 million (\$47,737,815, or \$103/s.f.).

CenterPoint Properties acquisition of Emerald Corporate Park Bldg E from Shelby Company. Sale price was \$21.9 million (\$144/s.f.).

Riverfront Business Park in Woodinville sold for \$15,450,000 (\$93/s.f.). The buyer was Harsch Investment Properties out of Portland.

Kirkland Commerce Center, Buildings A & B sold for \$13,916,000 (\$181/s.f.). The buyer was Par 5 out of Medina and the seller was Expert Drywall.

Scandinavian Design acquired the Dania Building in Tukwila for \$10.0 million (\$100/s.f.). The buyer was the tenant in the building.

Spire General Partner US acquired Georgetown Center from Georgetown Center Investments for \$28.575 million (\$219/s.f.).

Pine Forest Properties out of Bellevue acquired West Willows Technology Center from Highbrook Investment Advisors, LLC for \$28.5 million (\$171/s.f.).

## Notable Lease Transactions

Travis Industries (326,447 s.f.) renewal at Center 41 @ Harbour Pointe Building 41-01

Bargreen Ellison (197,530 s.f.) at Fife Commerce Center, Building B

Expeditors (179,000 s.f.) at Building 2, Sumner 167

PODS (102,770 s.f.) at Des Moines Creek Business Park, Building 1A

The region's industrial market finished 2015 with a positive net absorption of just over 5.0 million s.f., marking the fifth straight year of positive absorption since the end of the recession in 2010. Over this five year period, net absorption totaled nearly 19.2 million s.f., while the region's total supply increased by about 7.6 million s.f. The end result saw vacancy rates drop from 8.65% at the end of 2010 to 4.62% at the end of 2015. So how long will this ride continue? The answer is it will likely continue through most of 2016, but with slower projected employment growth, we could be seeing the start of a cooling off from the pace of the past four years.

Through the first quarter of 2016, net absorption was positive at nearly 1.4 million s.f., as pre-leasing in late 2015 gave a boost in occupancy this quarter when tenants moved into their spaces. New deliveries totaled nearly 1.3 million s.f. in the first three months. With demand slightly outpacing deliveries, the vacancy rate inched down to 4.56% from 4.62% three months ago. Construction activity is down to seven projects totaling nearly 1.1 million s.f. The majority of this construction is in Pierce County and South King County. One year ago, construction activity totaled about 4.0 million s.f. While construction activity has slowed with the recent wave of deliveries, there is still nearly 8.7 million s.f. of product in the pipeline region wide. Pierce County has the most, at 4.6 million s.f., followed by Snohomish County (1.9 million s.f.) and South King (1.3 million s.f.). Of the 8.7 million s.f., nearly 1.2 million is anticipated to break ground in 2016.

Looking beyond pre-leased and future move-ins, the region's employment picture as reported by the Puget Sound Economic Forecaster indicates that there is evidence of "changes in the wind." After a strong recovery where our region was outpacing the nation, the forecast for 2016 is for employment to grow by 1.8%, similar to the national forecast. This compared to the 2.9% growth in 2015 and 2.8% in 2014. While these changes point to lower job growth, the economists believe that there is little reason for alarm. With regional job growth converging with the national growth, the belief is that if the nation avoids a recession over the next few years, (a likely prospect given its slow rate of recovery) so will the region. One thing to watch locally is the building boom, which may have peaked. If signs of overbuilding suddenly

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# Area Review

## Seattle Close-In Review

Leasing activity slowed down for the first three months of 2016, leaving a net positive absorption of 3,948 s.f. The market remains very tight with vacancy at 1.57%, a slight decline from the prior quarter, with an additional 19,000 s.f. removed from the total supply. With the low vacancy, asking rental rates on average were up \$0.04/s.f. during the quarter. One notable sale was Terreno Realty's acquisition of Grainger Industrial Supply for \$6.5 million, or \$186/s.f.

The forecast for the Seattle Close-In market for the next six months is for lease rates to see some increases, ranging from \$0.60 to \$1.50/s.f./month, NNN for medium- and high-grade buildings. South King County, and in particular Kent, has seen their vacancy drop. The supply in Kent, which typically competes with South Seattle, has tightened up - a good sign for Seattle landlords. Tenants are increasingly frustrated by the lack of product to choose from. Demand for sale properties continues to remain high with a very limited supply. Better quality buildings will sell between \$140 and \$190/s.f. due to the scarcity of industrial space in this area. Yard space, when available and depending on size and whether it is paved, graveled, and fenced, rates will vary from \$0.14 to \$0.21/s.f. going south to north.

## South King County Review

Washington State's largest industrial market continues to perform at a steady pace. This submarket had the second highest net absorption at 431,571 s.f. The vacancy rate has dipped below 4.00% to 3.82%, compared to 4.12% three months ago. One project, Building 1B at Des Moines Creek Business Park (109,679 s.f.) was delivered this quarter. Two notable projects are currently under construction. One is Paccar's new distribution facility in Renton (169,147 s.f.) that will be completed next quarter. The other is the 69,698 s.f. West Valley @ 212th project. As noted above, there were three notable sales. Emerald Corporate Park Building E was acquired by Center Point Properties out of Oak Brook, Illinois for \$21.9 million or \$144/s.f. The second sale was Dania acquiring the property they leased in Tukwila for \$10 million, or \$100/s.f. The third sale was Industrial Realty Group acquiring the Weyerhaeuser campus for \$70.5 million including the Corporate HQ (343,535 s.f.), a flex building (461,673 s.f.) and excess land of approximately 165 acres, including wetlands. The portion allocated to the flex building was \$47,737,815, or \$103/s.f. On the leasing side, PODS leased 102,770 s.f. in Building 1A-Des Moines Creek Business Park.

Asking shell rental rates have seen some increases. For smaller spaces (under 10,000 s.f.), shell rates range from \$0.44 to \$0.50/s.f.; \$0.38 to \$0.44 for spaces between 10,000 s.f. and 20,000 s.f.; and \$0.32 to \$0.38 for spaces larger than 20,000 s.f., depending on age and quality. Office add-on rates vary from \$0.60 to \$0.90, depending on age and quality of the build-out. Building sale prices are expected to range from \$70 to \$120/s.f. Land values will range between \$8.00 to \$15.00/s.f. for fully improved sites, with the higher prices further north.

## East King County Review

East King County with its higher concentration of flex space continues to see the majority of the leasing activity of smaller tenants (under 10,000 s.f.). Non-traditional users are still taking industrial space, particularly in Bellevue, effectively reducing total supply. New construction activity has been in the outlying areas. Redmond Ridge CC Business Park, a two-building flex development totaling 86,625 s.f., was completed during the first quarter. There is one small property in Enumclaw (17,000 s.f.) that broke ground. Leasing was steady with the submarket achieving positive net absorption of 154,805 s.f., reducing vacancy from 5.72% to 5.34%. This is the lowest the vacancy has been in the past six years. The largest sale transaction to occur was the Kirkland 118 Commerce Center Buildings A & B selling for \$13,916,000 (\$181/s.f.). It was acquired by a local investor (Par 5) out of Medina.

East King County's asking rental rates, currently averaging \$1.03/s.f. per month, are higher on a blended basis because there is a higher proportion of flex space than in other markets. The forecast is for warehouse lease rates with high-bay warehouse manufacturing space to range between \$0.60 and \$0.70/s.f./month, with most in the \$0.65 to \$0.70/s.f. range, NNN as rents are on the rise. Flex space rents will range

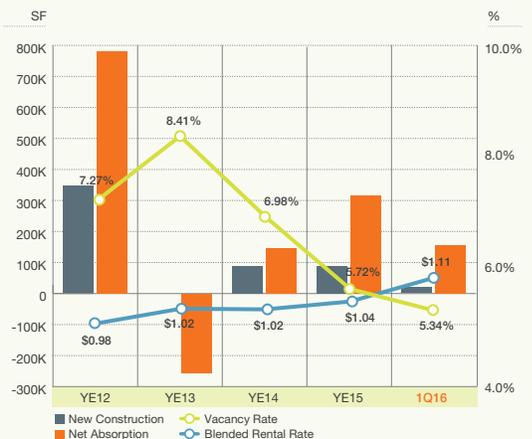
## SEATTLE CLOSE-IN



## SOUTH KING COUNTY



## EAST KING COUNTY



between \$1.00 and \$1.40/s.f./month, NNN. Building sale prices will range from \$100 to \$120/s.f. of building area for industrial and \$150 to \$180/s.f. for flex properties. Land prices will run from \$12 to nearly \$25/s.f. for a premium site, although there is a limited amount of available land ready for development.

### Snohomish County Review

Snohomish County's vacancy moved up from 5.49% to 6.08%. Upon closer look, the leakage occurred in North Snohomish County, Bothell/Kenmore, and Everett CBD where the vacancy rates are the highest, while the submarkets of South Everett/Mukilteo, Lynnwood/Edmonds, and Mill Creek/North Creek remain tight. Overall, Snohomish County's absorption was a negative 170,125 s.f. Panattoni's PowderMill project (Buildings C and D) were completed (144,753 s.f.) and 57.3% leased. One project, the Triple T warehouse up in Marysville (79,100 s.f.) is under construction. One notable sale was the Riverside Business Park in Woodinville selling for \$15,450,000, or \$93/s.f. The buyer was Harsch Investment. On the leasing side, Travis Industries (326,442 s.f.) renewed their lease at Travis Building 41-01 (Center 41 @ Harbour Pointe).

Snohomish County's forecast for the next six months is for warehouse lease rates to range between \$0.50 to \$0.65/s.f./month, NNN in the closer-in submarkets and lower in the outlying markets. Office rents are \$1.20 to \$1.30/s.f. for second generation space and \$1.30 to \$1.35/s.f. for new space. Building sale prices are predicted to range from \$140 to \$160/s.f. for buildings in the 5,000 to 20,000 s.f. and \$115 to \$135/s.f. for buildings in the 20,000 to 60,000 s.f. range. There is a lack of larger buildings offered for sale in the market. Land values should range from \$5 to \$12/s.f. with an ample supply of industrial-zoned sites.

### Pierce County Review

Pierce County is the second largest market in the Puget Sound region at 71.2 million s.f. It has also been the most active on the development side, particularly in Sumner, Fife, Lakewood and Dupont. During the first quarter, six projects totaling 950,667 s.f. were completed. Of these deliveries, nearly 592,000 s.f. is still available for lease. Even with nearly one million s.f. of new supply, net absorption nearly kept pace with deliveries, with 918,139 s.f. absorbed. The vacancy rate saw a slight drop from 6.66% to 6.62% as some smaller, older product was removed from inventory. On the sale front, Principal Financial Group acquired Fife 70 East for \$9.2 million (\$83/s.f.). Three tenants moving into their new spaces this quarter include Bargreen Ellison (197,530 s.f.) at Building B, Fife Commerce Center; Expeditors (179,000 s.f.) at the Titan Building in Sumner; and Curt Manufacturing (66,316 s.f.) at Bldg 2-Sumner 167.

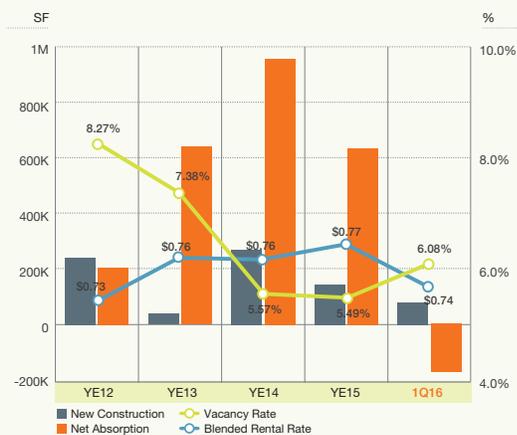
Pierce County's forecast is for shell rates to range between \$0.32 to \$0.45/s.f./month, NNN, plus add-on office rates of \$0.60 to \$0.90/s.f./month. Industrial building sale prices will range from \$40/s.f. for older buildings to \$100/s.f. for new or smaller buildings. Land values typically range between \$6/s.f. and \$12/s.f.

### Thurston County Review

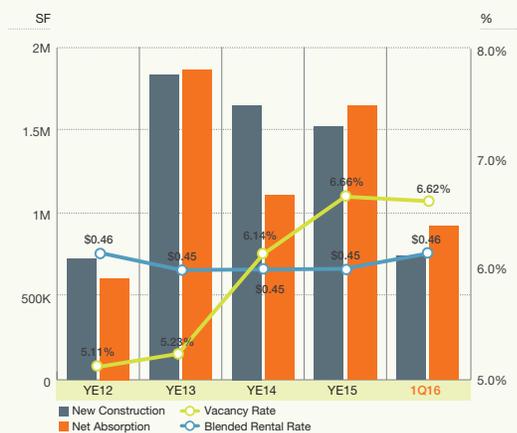
Thurston County's industrial market is off to a good start with 46,009 s.f. of positive absorption and vacancy dipping below 6.0% to 5.8%, the lowest vacancy rate over the past eight years. Leasing activity is steady with mostly smaller tenants very active. Larger spaces are still struggling. While there have been inquiries, nothing has been signed. The first quarter was very quiet with no significant sales.

Warehouse rents are ranging between \$0.30 to \$0.50/s.f. and office add-on rates between \$0.60 to \$0.75/s.f. Some leases to marijuana-related businesses are between \$0.50 to \$0.60/s.f. due to higher risk factors. Building sales are expected to range from \$50 to \$100/s.f. Land values range between \$4.00 to \$7.00/s.f.

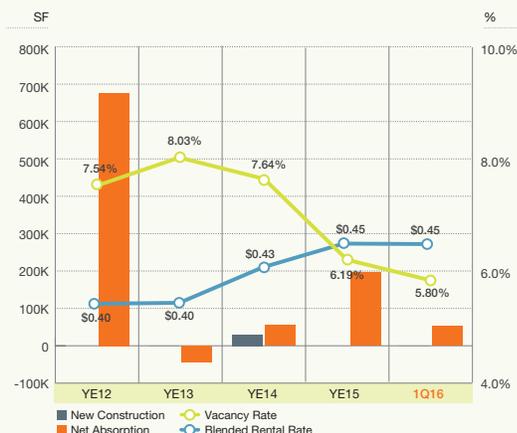
### SNOHOMISH COUNTY



### PIERCE COUNTY



### THURSTON COUNTY



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emerge as the economy loses steam, then a drop in construction may point us in a different direction.

During 2015, 56,600 jobs were added. The growth was primarily in the services sector led by Wholesale and Retail Trade (11,900 jobs), Other Services (11,800 jobs), and Professional and Business Services (10,300 jobs). Other sectors showing good growth included Construction (8,200 jobs) and Government (7,000 jobs). Job growth in 2016 is projected to increase by 35,500 jobs, with the Services sector expected to gain 38,700 jobs that will help offset losses in Goods Producing (3,200 job losses). Of sectors relevant to the industrial market (Trade, Construction, Aerospace, and Manufacturing), only Trade and Transportation are expected to grow (6,800 and 1,300 jobs respectively), while Construction and Manufacturing are expected to shrink by a combined 3,100 jobs. Aerospace is expected to hold steady. While Boeing has been reducing its workforce in the state and moving jobs to non-union states (they now employ fewer than 80,000 workers in Washington state), their new CEO appears to have smoothed things over with the recent negotiations and approval of the latest contract with Boeing's largest union. Over the next several months, it will be interesting to see if Boeing is still committed to Washington state.

Overall, there appears to be continued demand, which should keep absorption positive through 2016, albeit at a lower level.

On the transportation side, the Seaport Alliance of both the Ports of Seattle and Tacoma report that container volumes posted double-digit gains in February. Cargo continued to return to the Puget Sound region with volumes jumping 21% compared to February 2015. The growth was propelled by robust import and export volumes. While shipping volumes are up, air cargo increased a modest 1.7% in 2015 but is down 4.1% through February 2016.

Actual investor sales in 2015 totaled 221 transactions (\$1.615 billion) compared to 232 transactions and \$901.6 million in 2014. The average overall cap rate was 6.63%, compared to 6.97% in 2014. The average price/s.f. was \$123 in 2015 compared to \$91/s.f. in 2014.

Sales activity was noticeably lower in the first quarter of 2016, with 37 sales totaling \$123.5 million. The most significant sale to occur was the sale of the Weyerhaeuser campus in Federal Way for \$70.5 million, which included both the office, flex, and excess land. Other notable sales included Emerald Corporate Park, Building E in Auburn selling for \$21.9 million; Riverfront Business Park in Woodinville (\$15.45 million); Par 5 Park 118 In Kirkland (\$13.916 million); and the Dania Building in Tukwila (\$10.0 million). The overall average cap rate was 5.98%.

## VACANT SPACE/VACANCY RATE

Nearly 1.3 million s.f. of new product was delivered in the quarter with net positive absorption at 1.4 million s.f., and the region's vacancy declined to 4.56%. This compares to the high point of the recession when vacancies were nearly 9.00%. One market, Seattle, continued to see its total supply shrink by nearly 19,000 s.f. as older product was removed from inventory.

## NEW CONSTRUCTION ACTIVITY

With several projects completed in the first quarter, there are seven projects totaling 1,079,596 s.f. still under construction. This does not reflect a slowdown, but more of a breather. 14 projects totaling nearly 1.2 million s.f. are slated to break ground in 2016, with the majority in Pierce County (934,000 s.f.), and Snohomish County (169,000 s.f.). Overall, there is nearly 8.7 million s.f. in the pipeline. A list of notable projects under construction is included in the Development News section.

## RENT FORECAST

Depending on the submarket, rental rates have generally been increasing over the past year, with some adjustment in rents in certain submarkets.. (See the detailed submarket reviews for specific rates.)

## MARKET DEMAND/ABSORPTION

As noted above, absorption is positive at 1,384,347 s.f. Five of the six submarkets had positive absorption, led by Pierce County (918,139 s.f.), South King (431,571 s.f.), and East King (154,805 s.f.). Several leases have been signed with the tenants expected to take occupancy over the next six months, which should provide a continued boost to the market.

## Development News

Notable projects under construction include:

- Paccar (owner/user) distribution center (169,147 s.f.) in Renton is nearing completion.
- International Airport Center's Port 167 (398,753 s.f.) is underway in Puyallup.
- Puyallup West Distribution Center (170,592 s.f.) is slated for an April 2016 delivery.
- Fife Enterprise Center (175,306 s.f.) broke ground with a projected December 2016 delivery.
- DCT just completed their Fife Distribution Center (North and South) projects totaling 392,130 s.f.
- Thayer's build-to-suit for Triple T in Marysville (79,100 s.f.) broke ground in late 2015.

Source: CoStar