

Seattle Industrial

Market Forecast

	Current / Projection	
Vacancy	4.26%	↓
Construction	2.535M sf	↑
Rental Rate	Varies*	↑
Absorption	1.525M sf	↑

* by submarket

Market Highlights

Projects under construction are 44% pre-leased.

After seeing some improvement in container volumes, the Alliance at the Ports of Seattle and Tacoma saw a drop in May.

Boeing's planning to cut up to 8,000 jobs in the commercial airplane division in 2016 will likely lessen demand. That said, several notable larger leases signed with targeted move-in dates later in 2016 should help offset these losses. ■

Through the first six months of 2016, leasing continues to be very strong with net absorption totaling just over 2.9 million s.f.; 1.5 million s.f. of that in the second quarter. Delivery of new product in the quarter was about 960,000 s.f. With absorption outpacing deliveries, the vacancy rate dropped from 4.56% to 4.26% over the past three months. Construction activity has picked up, not only in the usual spots (Pierce and South King County), but also in Thurston County. Total construction is just over 2.5 million s.f., with another 13 million s.f. in the pipeline. As a forecast for the future of this thriving market, we see continued strong leasing activity at least through the end of 2016, with a likely slowdown in 2017. Things to watch include the national economy, Amazon.com, the region's building boom, and any fallout from the Brexit.

Local economist have revised their projection on job growth from 1.8% to 2.4% for 2016, dropping to 1.5% in 2017. Over the past six months, the economists have flipped flopped over where our local economy is heading. On the national level, there are signs that a recession may be a possibility over the next two years. Regionally, we have outperformed the nation because of new job growth, particularly at Amazon.com. The nation's economic growth has also been stymied by restrictive federal fiscal policies. Looking ahead, the consensus is that our region is not headed for a recession, but employment growth will slow down.

We have seen some evidence of job losses this year with Boeing's announcement of potential cuts in Washington of up to 8,000 workers. In fact, employment forecasts for 2016 and 2017 project job losses in aerospace of 2,800 and 2,700 jobs respectively. Other manufacturing jobs are expected to lose 1,300 jobs in 2016 and another 2,000 in 2017. Transportation and public utilities are expected to gain 2,200 jobs in 2016, which would offset losses in the manufacturing sector. Construction is expected to remain robust with nearly 4,000 new jobs expected in 2016 and another 2,300 in 2017.

On the transportation side, The Northwest Seaport-Alliance reports that 2016 container volumes began to normalize in May following last year's unusual trade patterns during contract negotiations. Total container volumes for the month of May fell 7%, but year-to-date volumes are down only 2%. Air cargo is also down 4.8% through May. The lower volumes appear to be due to increased competition from other ports.

Sales activity picked up in the second quarter. Year-to-date, there have been 115 closed sales

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Area Review

Seattle Close-In Review

Leasing activity through the first six months saw some leakage with negative net absorption of -52,066 s.f., but vacancies remain very tight at 1.67%. There is one project under construction; a 16,675 s.f. project at 2356 Commodore Way. Despite the slight bump in vacancy, rental rates are on the rise. Average asking rents are up to over \$0.93/s.f. (blended). A notable sale that closed in the second quarter was the Owl Transfer Building at \$10.6 million, or \$145/s.f. The buyer is a local investor out of Bellevue. The seller was American Life. In the pipeline is a potential project at the corner of 8th Avenue S and S. Holgate Street. If built, this would be a multi-story 196,500 s.f. warehouse, manufacturing and R & D facility by Prologis. Whether this project gets built, the trend for any future development will be multi-levels due to the higher cost of land.

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. The supply in South King County, and in particular in Kent, has seen a vacancy drop. The supply in Kent, which typically competes with South Seattle, has tightened up, a good sign for Seattle landlords. Demand for sale properties continues to remain high with a very limited supply. Better quality buildings will sell between \$150 and \$200/s.f. due to the scarcity of industrial space in this area. Yard spaces, when available, 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

South King County, the state's largest industrial market, continues to perform at a steady pace. This submarket had the second highest net absorption at 624,244 s.f. for the quarter and has just under 1.1 million s.f. for the year. With deliveries of 238,845 s.f., which includes Paccar's new distribution facility in Renton, the vacancy rate dropped to 3.46% from 3.82%. Only one project, Phase III of Des Moines Creek Business Park is underway. Notable sales so far this year include the largest in the region; 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 price allocated to the flex portion was \$47,737,815, or \$103/s.f. In addition, there was the sale of West Valley Business Park and West Valley Commerce Center (\$31.6 million, or \$118/s.f.). The buyer was IPT out of Denver and Prologis the seller. Emerald Corporate Park Building E was acquired by CenterPoint Properties out of Oak Brook, Illinois for \$21.9 million, or \$144/s.f.

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.; \$0.42 to \$0.44 for spaces between 10,000 s.f. and 20,000 s.f.; and \$0.32 to \$0.44 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 \$80 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

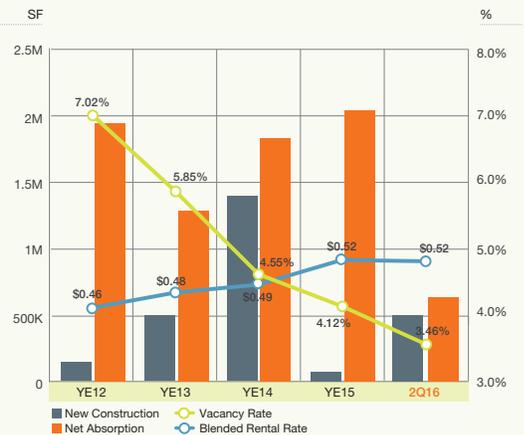
East King County continues to see the majority of leasing activity of smaller tenants (under 10,000 s.f.). Non-traditional users are still taking industrial space, particularly in Bellevue, effectively reducing total supply. New construction activity has been in the outlying areas. Redmond Ridge CC Business Park, a two-building flex development totaling 86,625 s.f. was completed during the first quarter. There is no product under construction, so availabilities are expected to get even tighter. Current vacancy did increase this quarter with the delivery of the two new Redmond Ridge projects. During the quarter, there were two notable sales. Totem Lake Commerce Center sold for \$28,011,769 (\$163/s.f.). The seller was Benaroya and the buyer Northwest Building Corporation. The other notable sale was Kirkland Business Center selling for \$11,150,000 (\$102/s.f.) in an off-market deal. The buyer was MRM KBC LLC out of Kirkland.

East King County's asking rental rates are higher on a blended basis because there is a higher proportion of flex space than in other markets and is currently averaging \$1.16/s.f. per month. The forecast is for NNN warehouse lease rates with high-bay warehouse manufacturing space to range between \$0.65 and \$0.80/s.f./month, with most in the \$0.70 to \$0.80/s.f. range. In some markets such as Bellevue, the rate is pushing closer to \$0.90/s.f. Office rates are in the \$1.40 to \$1.60/s.f., NNN range as rents are on the rise. Flex space rents range between \$1.00 and \$1.40/s.f./month, NNN. Building sale

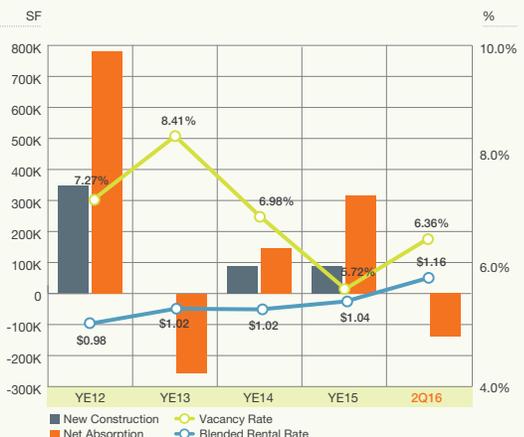
SEATTLE CLOSE-IN



SOUTH KING COUNTY



EAST KING COUNTY



prices are between \$160/s.f. to \$200/s.f. of building area for industrial (owner/users at the high end) and over \$200/s.f. for flex properties. Land prices will run from \$12 to nearly \$35/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 down from 6.08% to 4.42% with positive net absorption of 471,234 s.f., which offset the negative net absorption incurred in the first quarter. The most significant lease was the renewal of Boeing's 326,442 s.f. at Travis Building 41-01 (Center 41 @ Harbour Pointe). There were no deliveries in the quarter, but construction remains active with four projects totaling 465,634 s.f. underway. Three are speculative, while the fourth is a build-to-suit for Triple T in Marysville. Two notable sales this year include the Riverside Business Park in Woodinville selling for \$15,450,000, or \$93/s.f., and Pine Forest Properties (local investor) acquiring Buildings A and B at Westview 522 for \$32.2 million, or \$175/s.f.

Snohomish County's forecast for the next six months is for warehouse lease rates to range between \$0.55 to \$0.70/s.f./month, NNN in the closer-in submarkets and lower in the outlying markets. Office rents are \$1.25 to \$1.35/s.f. for second generation space and \$1.35 to \$1.40/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. range 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 71.9 million s.f. It has also been the most active on the development side, particularly in Sumner, Fife, Lakewood and Dupont. While taking a seat behind Thurston County this quarter, there are still five projects under construction totaling 716,190 s.f. at the midpoint of 2016. During the second quarter, three projects totaling 636,605 s.f. were completed, bringing total deliveries for the year to nearly 1.6 million s.f. Of these deliveries, nearly 60% of the space is still available. Even with 1.6 million s.f. of new supply, net absorption nearly kept pace with deliveries, seeing 1,336,287 s.f. absorbed. The vacancy rate has seen a slight increase from 6.66% to 6.87% over the past six months. On the sales front, Principal Financial Group acquired Fife 70 East for \$9.2 million (\$83/s.f.). Leases over 100,000 s.f. include Bargreen Ellison (197,530 s.f.) at Building B, Fife Commerce Center; Expeditors (179,000 s.f.) at the Titan Building in Sumner; Helly Hansen (172,105 s.f.) at SeaPort Logistics Center, Building A; and Dometic Corp (133,162 s.f.) in the Steel Building in Sumner.

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 \$0.70 to \$0.90/s.f./month. Industrial building sale prices will range from \$45/s.f. for older buildings to \$100/s.f. for new or smaller buildings. Land values typically range between \$7/s.f. and \$12/s.f.

Thurston County Review

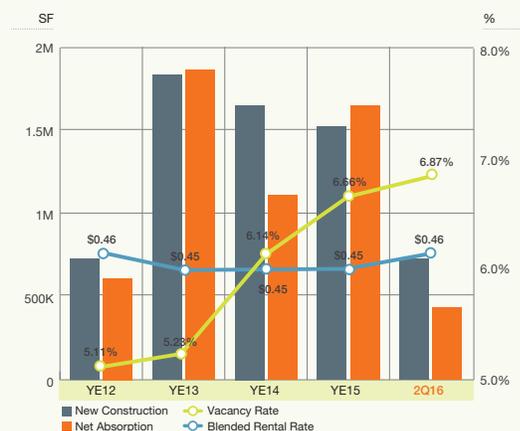
The smallest market in the region has been one of most active in 2016. At the end of the second quarter, the vacancy rate dropped from 5.80% to 4.05% as net absorption totaled 205,770 s.f. for the quarter. The largest lease was Simpson Door which is occupying 75,000 s.f. at Deschutes Industrial Park. Four construction projects are underway. The largest is Medline's 700,000 s.f. distribution center in Lacey, scheduled to be completed in early 2017. The second largest is Building 3 in the Lacey Business Park (75,064 s.f.). Kaufman Brothers has two smaller projects (30,000 s.f. each) underway as well. Several projects are in the pipeline. IDS has 97 acres under contract (Hogum Bay Logistics Center). Up to 1.5 million s.f. can be built, with the largest building at 1.0 million s.f. The project is slated for a 2017 delivery. Some projects have been delayed due to environmental issues regarding the Mazama pocket gopher, listed as an endangered species.

Warehouse rents are ranging between \$0.38 to \$0.40/s.f. on larger spaces and office add-on rates between \$0.75 to \$0.90/s.f. Smaller spaces are \$0.55/s.f. on the shell with office add-on at \$0.85 to \$0.90/s.f. Building sales are expected to range from \$50 to \$100/s.f. Land values range between \$4.00 to \$7.00/s.f., with some smaller lots being offered at over \$8.00/s.f.

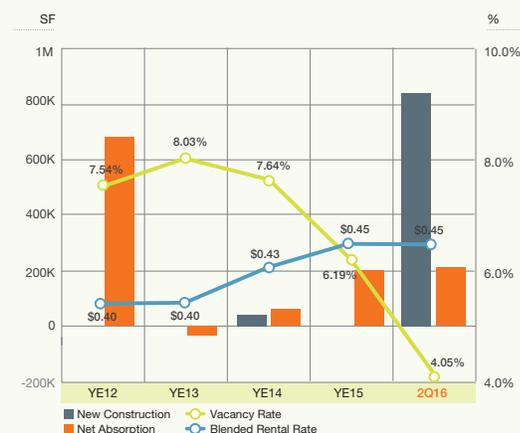
SNOHOMISH COUNTY



PIERCE COUNTY



THURSTON COUNTY



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Redwood Shores	650.769.3600
Silicon Valley	408.970.9400
Sacramento	916.751.3600
San Diego	858.509.1200
Orange County	949.557.5000
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totaling \$620.4 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 over \$20 million include Westview 522 in Woodinville (\$32.2 million), West Valley Business Park and West Valley Commerce Center (\$31.6 million), Totem Lake Commerce Center in Kirkland (\$28,011,769), and Emerald Corporate Park, Building E in Auburn (\$21.9 million). The overall average cap rate was 5.90%.

VACANT SPACE/VACANCY RATE

Nearly one million s.f. of new product was delivered in the quarter and with net positive absorption at 1.5 million s.f., the region's vacancy declined to 4.26%. This marks the seventh straight quarter that the vacancy rate has remained below 5.0%. This trend should continue as there are several recently signed leases with targeted move-in dates later this year.

NEW CONSTRUCTION ACTIVITY

There are 15 projects totaling 2,535,260 s.f. now under construction. The previous quarter had only seven projects, but that slowdown was just a breather. About 44% of this space is pre-leased or owner-user facilities. Surprisingly, the smallest market, Thurston County, is leading the way with four projects totaling 836,064 s.f. under construction. The most notable is the 700,000 s.f. Medline Distribution Center. Pierce County, which has been the market leader, is a close second with 716,190 s.f. with Snohomish County coming in third at four projects totaling 465,634 s.f. A list of notable projects under construction is included in the Development News section.

RENT FORECAST

Depending on the submarket, particularly in the closer-in markets, rental rates have been increasing over the past six months or so. Other markets have seen rents hold steady. (See the detailed submarket reviews for specific rates.)

MARKET DEMAND/ABSORPTION

As noted above, absorption is positive at 1,525,335 s.f. for the second quarter and just over 2.9 million s.f. for the year. Five of the six submarkets have achieved positive absorption for the year, led by Pierce County (1,336,287 s.f.), South King (1,055,815 s.f.), and Snohomish County at a distant third place (301,109 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. A list of notable leases is included in the Significant Transaction section.

DEVELOPMENT NEWS

Notable projects under construction include:

- Medline (owner/user) distribution center (700,000

s.f.) in Lacey broke ground in the second quarter 2016. Targeted completion date is early 2017.

- Phase III of Des Moines Creek Business Park (501,697 s.f.) is expected to be completed by end of 2016.
- Chinook Building at DCT White River Corporate Center (251,437 s.f.) is slated for a fourth quarter 2016 delivery.
- Fife Enterprise Center (175,306 s.f.) broke ground with a projected December 2016 delivery.
- Underwood Gartland 62 in South Everett (200,000 s.f.) is underway.

SIGNIFICANT TRANSACTIONS

Notable sales over \$20 million through the second quarter include:

- Industrial Realty Group's purchase of Weyerhaeuser's Federal Way Campus for \$70.5 million that included their flex building (R & D) for \$47.7 million, or \$103/s.f.
- Pine Forest Properties out of Bellevue purchased Westview 522-Buildings A & B from Onward Investors out of Minnesota. Purchase price was \$32.2 million, or \$175/s.f.
- West Valley Business Park and West Valley Commerce Center was acquired by IPT from Prologis. The sale price was \$31.6 million, or \$118/s.f.
- Northwest Building Corporation acquired Totem Lake Commerce Center for \$28 million (\$163/s.f.) from Benaroya.
- CenterPoint Properties acquisition of Building E-Emerald Corporate Park from Shelby Company. Sale price was \$21.9 million (\$144/s.f.).

Notable leases through the second quarter include:

- Boeing (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
- Helly Hansen (172,105 s.f.) at SeaPort Logistics Center, Building A
- Dometic Corp. (144,162 s.f.) at The Steele Building, Sumner
- Coca Cola renewal (137,520 s.f.) at Renton Logistics Center
- Stryder Logistics (115,000 s.f.) at Prologis Park, Kent
- FedEx Smart Post (102,429 s.f.) renewal at Building 1 Mill Creek Distribution Center

Source: CoStar