

Seattle Industrial

Market Forecast

	Current / Projection	
Vacancy	3.58%	↓
Construction	3.14M sf	↑
Rental Rate	Varies*	↑
Absorption	2.47M sf	↑

* by submarket

Market Highlights

Projects under construction are 46% pre-leased.

After seeing some improvement in container volumes in August (the highest monthly total since August 2012), overall, total volumes are mostly flat for the year.

Boeing's plan to cut up to 8,000 jobs in the commercial airplane division in 2016 will likely lessen demand. 3,500 cuts have been made as of July. Gains in other industrial-related sectors have helped offset these losses.

Several notable larger leases signed with targeted move-in dates later in 2016 and early 2017 should provide a continued boost to the market. ■

The third quarter of 2016 was very robust with nearly 2.5 million s.f. of net absorption compared to 2.9 million s.f. over the first six months. Year-to-date absorption is just under 5.4 million s.f., already above the annual totals for each of the past five years. With only 312,795 s.f. delivered during the quarter, the vacancy rate dropped 68 basis points from 4.26% to 3.58% for the entire region. Construction activity has picked up, with 3.1 million s.f. underway in the region and another 13.8 million s.f. in the pipeline. Looking ahead, net absorption should remain strong with 1.3 million s.f. in signed leases with targeted move-in dates over the next three to six months. Things to watch include the national economy (especially post November election), Amazon.com, and the region's building boom.

Local economists have revised their projection on job growth for the second straight quarter, from 1.8% to 2.4% and now to 3.1% for 2016. A drop is anticipated in 2017 to 2.1%, though that is still up from the 1.5% forecast from the prior quarter. On the national level, job growth in 2016 is forecast at 1.8% with a drop to 1.5% in 2017. The Seattle region has outperformed the nation in new job growth, in large part due to employers like 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 that employment growth will slow down.

We have seen some evidence of job losses this year with Boeing's earlier announcement of potential cuts in Washington of up to 8,000 workers. Through the end of July, 3,500 jobs have been cut. Employment forecasts for 2016 and 2017 project job losses in aerospace of 2,700 and 3,900 jobs, respectively. These anticipated losses are expected to be offset by gains in other key industrial sectors. For example, other manufacturing jobs are expected to gain 2,000 jobs in 2016, but lose 1,300 jobs in 2017. Transportation and public utilities are expected to gain 3,600 jobs in 2016 and 900 in 2017. Construction is expected to remain strong with nearly 7,800 new jobs anticipated in 2016 and another 4,500 in 2017. All of these projections are above prior estimates.

On the transportation side, The Northwest Seaport-Alliance reports that 2016 container volumes marked the highest monthly total for an August since 2012 on the strength of full containerized imports and exports. However, total container volumes are flat, year-to-date through August being down 0.2%. The Alliance indicated that Hanjin Shipping's filing for receivership did not impact the August cargo volumes. The lower volumes are due to a drop in autos, log exports, and breakbulk cargo.

Sales activity continued to be strong over the past three months. Year-to-date, there have been 181 closed sales totaling \$907.6 million. The three most significant sales to occur include WestPark in Redmond (\$128 million); the sale of FedEx Ground's new building in Fife (\$73.2 million), and the

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Area Review

Seattle Close-In Review

After seeing some leakage with negative net absorption in the second quarter, the Seattle Close-In market rebounded with 94,217 s.f. of positive absorption. The market also saw a continuing trend with the removal of some older buildings dropping the overall supply to just under 58.1 million s.f. The end result is the vacancy rate dropped 23 basis points to 1.44%. There are two projects under construction: a 27,700 s.f. project at 3455 Thorndyke Avenue W and a 16,675 s.f. project at 2356 Commodore Way. Average asking rents held steady over the past three months at \$0.93/s.f. (blended). Notable sales in the quarter include Lithia acquiring the land under their dealership on Airport Way for \$8.4 million (\$83/s.f. on the dirt). Chris Hansen acquired another property at 1900 Occidental Avenue for \$32.0 million. Because of the high price of land, any new project that is built will likely be multi-level.

The forecast for the Seattle Close-In market for the next six months is for lease rates to see some increases, leaving prices 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 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 \$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 \$0.18 to \$0.25/s.f. going south to north.

South King County Review

The South King submarket had the second highest net absorption at 596,794 s.f. for the quarter and 1.65 million s.f. for the year. There were no deliveries during the quarter. With continued strong leasing, the vacancy dropped below 3.0% to 2.92%, or 54 basis points from the prior quarter. Since the beginning of the year, the vacancy rate has dropped 120 basis points. There are two projects underway: Phase III of Des Moines Creek Business Park (501,797 s.f.) and Bridge Development's refrigerated building at 1010 S. 146th Street in Burien (229,083 s.f.). Notable sales in the quarter include Deutsche Asset Management's acquisition of SeaKing Industrial Park (\$27.0 million) and East Valley Distribution Center (\$23.0 million) from IAC; Global Logistics selling Tukwila Commerce Center (\$45.2 million, or \$95/s.f.) to BKM Capital Partners; and Hill-Raaum-Pietromonaco selling their Ranch Associates property (\$30 million, or \$107/s.f.) to Puget Sound Energy.

Average asking rents (blended) increased to \$0.56/s.f. compared to \$0.52/s.f. last quarter. 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 \$90 to \$120/s.f. Land values will range between \$10.00 to \$19.00/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 leasing activity of smaller tenants (under 10,000 s.f.). There were two notable leases during the quarter: Valve's lease at Totem Lake Commerce Center (147,040 s.f.) and Oculus leasing 100,417 s.f. in Building A at Willows Commerce Park II. For the quarter, absorption totaled 592,450 s.f. and vacancy dropped to 3.59% from 6.36%. The lower vacancy is not surprising as non-traditional users continue to take industrial space, particularly in Bellevue, effectively reducing total supply and displacing tenants who are scrambling to find other places to lease. Average asking blended rents remain well above \$1.00/s.f., currently at \$1.15/s.f. Sales activity has picked up as well. WestPark in Redmond sold for \$128 million, or \$164/s.f. KBS out of California acquired the asset from Bentall Kennedy. New construction activity has been in the outlying areas, including a 68,000 s.f. warehouse in Redmond Ridge that just broke ground.

The forecast is for NNN warehouse lease rates with high-bay warehouse manufacturing space to range between \$0.65 and \$0.90/s.f./month, with most in the \$0.70 to \$0.85/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. range. Flex space rents range between \$1.00 and \$1.40/s.f./month, NNN. Building sale 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.

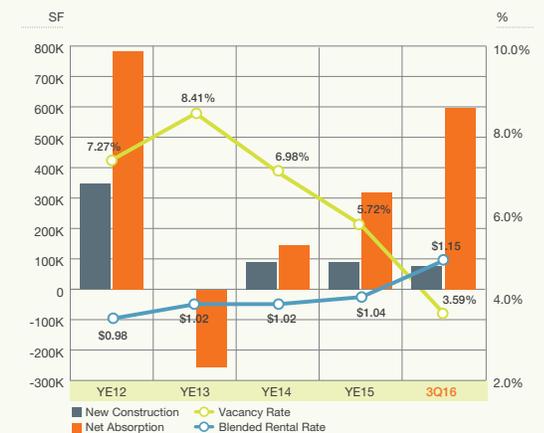
SEATTLE CLOSE-IN



SOUTH KING COUNTY



EAST KING COUNTY



Snohomish County Review

Snohomish County's vacancy inched down from 4.42% to 4.32% with a modest positive net absorption of 54,536 s.f. Year-to-date absorption totals 355,645 s.f. The most significant lease was the renewal of Magna Drive Corp's 25,260 s.f. space at Ridgewood Corporate Park-Building B. There were no deliveries in the quarter, but construction remains active with three projects totaling 303,475 s.f. underway. Two of these are speculative, while the third is a build-to-suit for Triple T up in Marysville. Another 2.0 million s.f. is in the pipeline. Sales volume during the quarter was particularly active for smaller properties with prices ranging between \$1 and \$3 million.

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 led the way in both leasing and development. On the leasing side, the market achieved 1,165,913 s.f. of positive net absorption. With only one delivery (312,795 s.f.), the vacancy dropped from 6.87% to 5.66%. Average asking blended rents inched up \$0.01/s.f. to \$0.47/s.f. On the development side, eight projects totaling 1,158,060 s.f. are underway. Notable projects include the Chinook Building in Sumner (251,437 s.f.), Fife I-Commerce Center (250,490 s.f.), and Logistcenter 167 in Fife (225,972 s.f.). With an ample amount of land still available in Sumner, Port of Tacoma/Fife, and Dupont, there is another 4.3 million s.f. in the pipeline for future development. Notable sales closing during the quarter include LBA Realty's acquisition of the Titan and Apollo Buildings in Sumner from LaSalle Investment Management for \$48,050,000, or \$112/s.f. Bixby Land Company out of California purchased the Steele Building in Sumner from Panattoni for \$24 million, or \$116/s.f. One notable lease over 100,000 s.f. was Mobis Parts (180,718 s.f.) at the Cascade Building in Sumner. Several other leases above 100,000 s.f. were signed but will not take occupancy until later this year or early 2017.

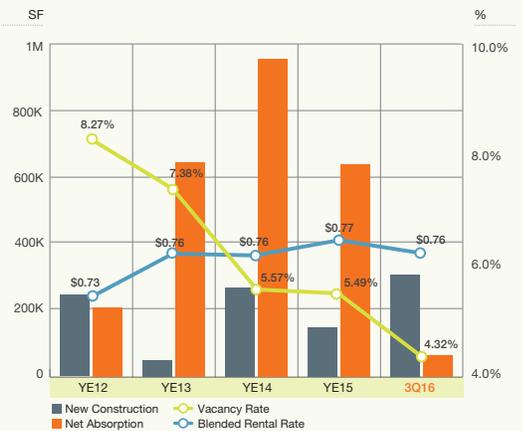
Pierce County's forecast is for shell rates to range between \$0.32 to \$0.45/s.f./month, NNN, plus add-on office rates of \$0.70 to \$0.90/s.f./month. Industrial building sale prices will range from \$45/s.f. for older buildings to \$100 to \$120/s.f. for new or smaller buildings. Land values typically range between \$9/s.f. and \$15/s.f.

Thurston County Review

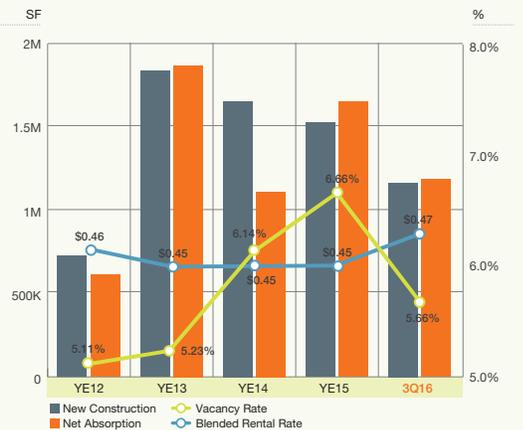
The smallest market in the region has been one of the most active on the development side so far in 2016. Four projects are underway. The largest is Medline's 700,000 s.f. distribution center in Lacey, scheduled to be completed in early 2017. The second largest is Building 3 in the Lacey Business Park (75,064 s.f.). Kaufman Brothers have 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), with the project slated for a 2017 delivery. Up to 1.5 million s.f. can be built, with the largest building at 1.0 million s.f. Long term, Thurston County has a substantial amount of land available for development. There is over 5.6 million s.f. in the pipeline, the highest of the six submarkets. Some projects have been delayed due to environmental issues regarding the Mazama pocket gopher, listed as an endangered species. On the leasing side, the market saw a drop with negative net absorption of -33,536 s.f. for the quarter. However, year-to-date absorption is positive at 218,243 s.f. The current vacancy inched up from 4.05% to 4.34%.

Warehouse rents are ranging between \$0.38 to \$0.40/s.f. on larger spaces with 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 rates 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



Offices

Seattle	206.296.9600
Bellevue	425.454.7040
South Seattle	206.248.7300
Tacoma	253.722.1400
Olympia	360.705.2800
Portland	503.221.9900
San Francisco	415.229.8888
Redwood Shores	650.769.3600
Silicon Valley	408.970.9400
Sacramento	916.970.9700
Roseville	916.751.3600
Orange County	949.557.5000
San Diego	858.509.1200
Carlsbad	760.430.1000
Reno	775.301.1300
Phoenix	602.513.5200

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sale of the Weyerhaeuser campus in Federal Way (\$70.5 million), which included the office, flex, and excess land. The average cap rate on these sales was 6.22%. See a list of notable sales included in the Significant Transactions section.

VACANT SPACE/VACANCY RATE

Only 312,795 s.f. of new product was delivered in the quarter and with net positive absorption at 2.5 million s.f., the region's vacancy declined to 3.58%. This marks the eighth 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 and into early 2017.

NEW CONSTRUCTION ACTIVITY

There are 20 projects totaling 3,139,754 s.f. now under construction. About 46% of this space is pre-leased or owner-user facilities. Pierce County once again is the most active at 1,158,060 s.f. (eight projects), followed by the smallest market, Thurston County with four projects totaling 836,064 s.f. under construction. The most notable is the 700,000 s.f. Medline Distribution Center. South King County (730,780 s.f.) and Snohomish County (303,475 s.f.) are the next most active markets. 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 2,470,374 s.f. for the third quarter and just under 5.4 million s.f. for the year. All six submarkets have achieved positive absorption for the year, led by Pierce County (2,502,200 s.f.) and South King (1,652,609 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 Transactions 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 the end of 2016.
- Chinook Building at DCT White River Corporate Center (251,437 s.f.) is slated for a fourth quarter 2016 delivery.
- Benaroya's Fife I-Commerce Center (250,490 s.f.) broke ground with a projected delivery in 2017.
- Underwood Gartland 62 in South Everett (200,000 s.f.) is underway.

SIGNIFICANT TRANSACTIONS

Notable sales over \$30 million in 2016 include:

- KBS Strategic Opportunity's purchase of WestPark in Redmond for \$128 million (\$164/s.f.) from Bental Kennedy.
- Black Creek Group's purchase of FedEx Ground in Fife for \$73,199,778 (\$234/s.f.) from SunCap Property Group.
- Deutsche Asset Management's \$50.9 million acquisition of SeaKing Industrial Park (\$27.0 million, or \$138/s.f.) and East Valley Distribution Center (\$23.9 million, or \$105/s.f.) from IAC.
- Industrial Realty Group's purchase of Weyerhaeuser's Federal Way Campus for \$70.5 million that included their flex building (R & D) totaling \$47,737,815 (\$103/s.f.).
- BKM Capital Partners' acquisition of Tukwila Commerce Center from Global Logistic Properties for \$45,200,000 (\$95/s.f.).
- LBA Realty's acquisition of the Titan and Apollo Buildings in Sumner for \$48,050,000 (\$112/s.f.) from LaSalle Investment.
- Pine Forest Properties out of Bellevue purchased Westview 522-Buildings A & B from Onward Investors out of Minnesota. Purchase price was \$33.2 million (\$180/s.f.).
- West Valley Business Park and West Valley Commerce Center were acquired by IPT from Prologis. The sale price was \$31.6 million (\$118/s.f.).
- Puget Sound Energy's purchase of Ranch Associates property in Kent for \$30 million (\$107/s.f.) from Hill-Raaum-Pietromonaco.

Notable leases in 2016 include:

- Boeing (326,447 s.f.) renewal at Center 41 @ Harbour Pointe Building 41-01
- Stryder Logistics (249,269 s.f.) at Prologis Park Kent
- Bargreen Ellison (197,530 s.f.) at Fife Commerce Center, Building B
- Mobis Parts (180,718 s.f.) at Cascade Bldg, Sumner
- Expeditors (179,000 s.f.) at Building 2, Sumner 167
- Helly Hansen (171,659 s.f.) at SeaPort Logistics Center, Building A
- Valve (147,040 s.f.) at Totem Lake Commerce Center
- Dometic Corp. (144,162 s.f.) at The Steele Building, Sumner
- Coca Cola renewal (137,520 s.f.) at Renton Logistics Center
- FedEx Smart Post (102,429 s.f.) renewal at Building 1 Mill Creek Distribution Center
- PODS (102,770 s.f.) at Des Moines Creek Business Park, Building 1A
- Oculus (100,417 s.f.) at Willows Commerce Park II, Building A

Source: CoStar