

Seattle Industrial

Market Forecast

	Current / Projection	
Vacancy	3.36%	↓
Construction	3.99M sf	↑
Rental Rate	Varies*	↑
Absorption	1.39M sf	↑

* by submarket

The industrial market ended 2016 with just over 6.8 million s.f. absorbed (including 1.4 million s.f. in the fourth quarter), the most since 2004. With nearly 3.5 million s.f. of deliveries in 2016, the vacancy ended the year at 3.36% compared to 4.62% 12 months ago. Since 2011, the region's industrial market has absorbed about 26 million s.f., an average of 4.3 million s.f. per year. Construction activity remains robust with nearly 4 million s.f. underway with 44% pre-leased. Another 14.3 million s.f. is in the pipeline that may or may not start over the next several years.

Market Highlights

Projects under construction are 44% pre-leased.

Positive absorption of 6.8 million s.f. is the highest in the region since 2004. Vacancy rate at an all-time low.

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

The Northwest Seaport-Alliance reports that 2016 container and cargo volumes are up over 2015 levels. ■

On the transportation side, The Northwest Seaport-Alliance reports that 2016 container volumes have picked up and through November are up 1.65% over 2015. Cargo volumes are also up 5.5% as strong imports and agricultural exports helped offset drops in oil and gas-related activity due to low commodity prices as well as log exports (lower demand in China and increased competition from New Zealand).

Local economists have maintained their projection of a 3.1% increase in job growth for 2016, while they are now forecasting a lower increase of 1.8% in 2017 (down from 2.1%). A closer look shows that manufacturing is expected to lose 5,500 jobs in 2017. However, this will be offset by gains in construction (+4,400 jobs) and transportation (+1,800 jobs). While the Puget Sound region is one of the nation's fastest growing economies (6th in annual job growth rate), there are some potential risks to consider with the pending Trump presidency. For example, Trump wants to restore blue-collar jobs at home by putting tariffs on goods produced in foreign countries by American companies who have moved jobs there. There could be a potential retaliation by restricting purchases on other commodities such as aircraft, software and other products that could end up trading away high-wage jobs for low-wage jobs. For a region that is dependent on international trade and relies on foreign labor to work in high-tech companies, construction, and tourism, this needs to be closely watched over 2017 and beyond.

Sales activity continued to be strong over the past three months. Year-to-date, there have been 257 closed sales totaling \$1.345 billion. The three most significant sales to close in the fourth quarter include Prologis purchase of 62-acre site south of Boeing Field (the former sports arena site) from Sabey Corp for \$136 million or \$141/s.f. on the existing improvements, but is viewed as a potential redevelopment site. Based on the 62 acres, the price paid for the land is about \$50/s.f. The second sale is the \$132.7 million acquisition by Clarion Partners of Green River Corporate Park and South Center South Industrial Park or \$143/s.f. in Kent and Tukwila. The third is the \$68 million sale of Des Moines Creek Business Park Phase I to CAVA Des Moines Industrial LLC (LaSalle Investment

→ Continued, page 4

Area Review

Seattle Close-In Review

The Seattle Close-In market saw an increase in vacancy from 1.44% to 1.95%, primarily due to the vacancy created by K2 Sports moving out of the warehouse at 4201 6th Avenue S. (281,754 s.f.). However, UPS has leased this space and is expected to move in early 2017. There is one project under construction, a 27,700 s.f. project at 3455 Thorndyke Avenue W. Average asking rents jumped to \$1.04/s.f. (blended) from \$0.92/s.f. Notable sales in the quarter include former arena site by Sabey to Prologis for \$136 million (\$50/s.f.-land). Because of the high price of land, any new project that gets 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, ranging from \$0.70 to \$1.60/s.f./month, NNN for medium- and high-grade buildings. 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., and in some cases above \$200/s.f. for smaller properties due to the scarcity of industrial space in this area. Rates for yard space, when available, depending on size and whether it is paved, graveled, and fenced, will vary from \$0.18 to \$0.25/s.f. going south to north.

South King County Review

The South King submarket had the highest in net absorption at 598,404 s.f. for the fourth quarter and the second highest at 2.25 million s.f. for the year. There were no deliveries during the quarter, but two projects, Des Moines Creek Business Park-Phase III (352,800 s.f.) and Bridge Development's refrigerated building (229,083 s.f.) are nearly completed and will be delivered next quarter. With continued strong leasing, the vacancy dropped from 2.92% to 2.38% this quarter. Exotic Metals, a 126,448 s.f. owner-user building is also under construction. A third building, West Valley 182 (42,982 s.f.) is underway and slated to be completed by mid-2017. Notable sales in the quarter include Clarion Partners acquisition of SouthCenter South Industrial Park and Green River Corporate Park from Cornerstone Real Estate Advisors for \$132.7 million or \$143/s.f. as well as LaSalle Investment Management's purchase of Des Moines Creek Business Park Phase I for \$68 million (\$123/s.f.). Springbrook II sold for \$23.2 million (\$125/s.f.). The property was acquired by Stockbridge and Metzler North America was the seller. Finally, there was Blue Origin's acquisition of Kent 212 for \$12,412,288 (98/s.f.).

Average asking rents (blended) continue to climb, now at \$0.60/s.f. compared to \$0.57/s.f. 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 \$100 to \$140/s.f. Land values will range between \$12.00 to \$19.00/s.f. for fully improved sites, with the higher prices further north.

East King County Review

East King County continued to see steady leasing activity with 203,356 s.f. absorbed in the fourth quarter. The vacancy dropped below 3.0% to 2.95%. The majority of the leases are under 10,000 s.f. due to the higher concentration of flex buildings. One notable sale this quarter was the former Safeway Bakery building selling for \$26.5 million (\$75/s.f.-land) by the Bellevue School District. They plan to redevelop with an elementary school. Another building in Redmond Ridge Business Park (44,072 s.f.) is under construction. There was one delivery in the quarter, Redmond Ridge Warehouse (68,000 s.f.). With a tight market, rental rates continue to increase, now at an average asking rent of \$1.17/s.f., the highest in the region.

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.

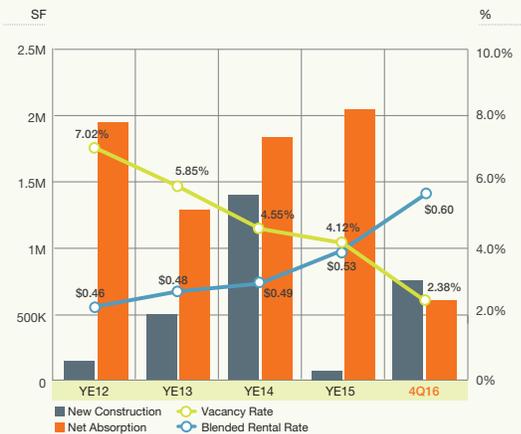
Snohomish County Review

Snohomish County saw continued steady leasing activity with 209,222 s.f. absorbed in the fourth quarter. With no new deliveries, the vacancy rate dropped from 4.31% to 3.90%.

SEATTLE CLOSE-IN



SOUTH KING COUNTY



EAST KING COUNTY



Nearly 675,000 s.f. was absorbed in 2016, which was slightly higher than the 637,000 s.f. absorbed in 2015. The most significant lease in the quarter was United Subcontractors leasing 33,997 s.f. at Woodinville Corporate Center II-Building B. Four projects are under construction, including Underwood Gartland 62, Building 2 (200,000 s.f.), The Reserve at Woodinville-Buildings A and B (199,700 s.f. combined), and Frylands Boulevard Phase VI, Building C in Monroe (24,375 s.f.). Another 1.9 million s.f. is in the pipeline. Three notable sales during the quarter included Parkside Building 1 for \$17,185,254 (\$161/s.f.) by Hill Raum Pietromonaco (HRP). Airport Business Center was purchased by Vaupall Industries Plastic for \$12.55 million (\$85/s.f.) and Canyon Park 5 was acquired by a private investor for \$8.2 million or \$163/s.f.

Snohomish County's average asking rental rate saw a very slight decrease from \$0.76/s.f. to \$0.75/s.f., blended. The forecast over 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; \$115 to \$150/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, particularly up north in Arlington and Marysville.

Pierce County Review

Pierce County continues to lead the way both in leasing and development activity. On the leasing side, the market achieved 3,035,781 s.f. of positive net absorption in 2016, including 533,450 s.f. in the fourth quarter. Three buildings totaling 652,715 s.f. were delivered in the quarter. This resulted in a slight bump in vacancy from 5.66% to 5.77%. Average asking blended rents continue to increase, now at \$0.50/s.f., a \$0.03/s.f. increase over the past quarter. On the development side, eight projects totaling 1,985,358 s.f. are underway. Notable projects include Prologis Park Tacoma Buildings A & B (241,140 s.f. and 770,195 s.f.), North Country Sumner Business Park-Building A (267,703 s.f.), Fife I-Commerce Center (250,490 s.f.), and Logisticenter @ I-5 (210,700 s.f.) in Lakewood. With an ample amount of land still available in Sumner, Port of Tacoma/Fife, and Dupont, there is another 5.3 million s.f. in the pipeline for future development. IPT purchased the former 58-acre sawmill in the Port of Tacoma for \$32,376,147 or nearly \$13/s.f. of land. They are planning to build a 1.1 million s.f. logistic center (in two buildings) with a scheduled delivery in 2018. Several leases above 100,000 s.f. were signed in the fourth quarter but the tenants will not take occupancy until later this year or early 2017.

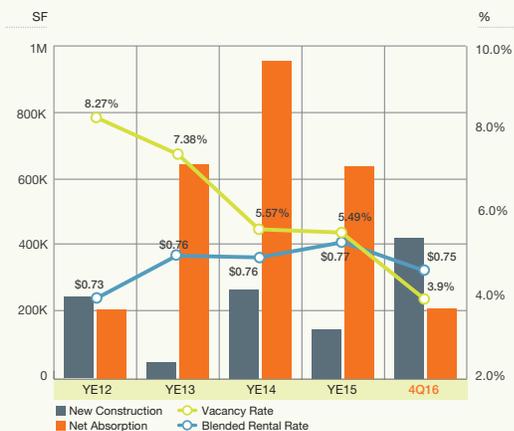
Pierce County's forecast is for shell rates to range between \$0.34 to \$0.50/s.f./month, NNN, plus add-on office rates of \$0.70 to \$0.90/s.f./month. Industrial building sale prices will range from \$50/s.f. for older buildings to \$100 to \$140/s.f. for new or smaller buildings. Land values typically range between \$10/s.f. and \$15/s.f.

Thurston County Review

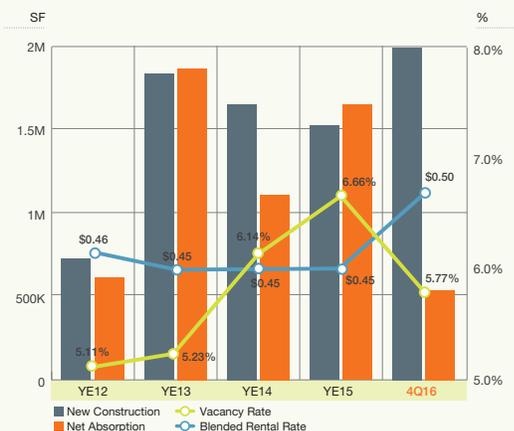
The smallest market in the region has been one of the most active on the development side so far in 2016. Four projects (764,200 s.f.) are under construction. The largest is Medline's 700,000 s.f. distribution center in Lacey, scheduled to be completed in early 2017. Kaufman Brothers have two smaller 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) and should close on this deal in early 2017. The project is slated for a late 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 had positive absorption of nearly 455,000 s.f. in 2016. Current vacancy is at 2.94% compared to 6.19% at the end of 2015.

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

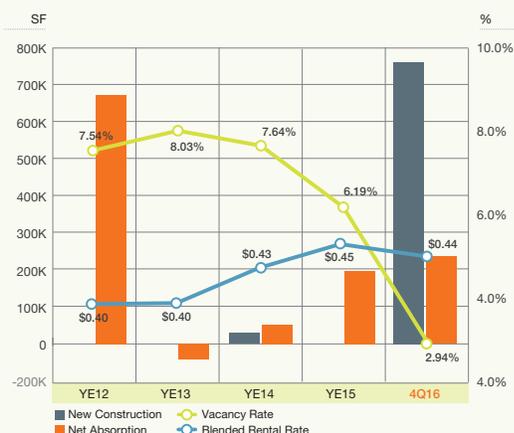
SNOHOMISH COUNTY



PIERCE COUNTY



THURSTON COUNTY



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Management) for \$123/s.f. The average cap rate on all sales in 2016 was 6.49%. A list of notable 4th quarter 2016 sales is included in the significant transaction section.

VACANT SPACE/VACANCY RATE

A total of 795,779 s.f. was delivered in the fourth quarter. With net absorption of nearly 1.4 million s.f. absorbed, the region's vacancy dropped over the past quarter from 3.58% to 3.36%. This marks the ninth 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 in early 2017.

NEW CONSTRUCTION ACTIVITY

There are 22 projects totaling 3,996,718 s.f. now under construction. About 44% of this space is pre-leased or owner-user facilities. Pierce County once again is the most active at 1,985,358 s.f. (eight projects), followed by the smallest market, Thurston County with four projects totaling 764,200 s.f. under construction. The most notable is the 700,000 s.f. Medline Distribution Center. South King (751,313 s.f. in four projects) and Snohomish County (424,075 s.f. in four projects) are the next most active markets. A list of notable projects under construction is included in the Development News section.

RENT FORECAST

Rental rates have been increasing over the past three months in most markets. (See the detailed submarket reviews for specific rates.)

MARKET DEMAND/ABSORPTION

As noted above, absorption is positive at 1,395,441 s.f. for the fourth quarter and just over 6.8 million s.f. for the year. Five of the six submarkets have achieved positive absorption for the year, led by Pierce County (3.0 million s.f.) and South King (2.3 million 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 fourth quarter leases is included in the Significant Transaction section.

DEVELOPMENT NEWS

Notable projects under construction include:

- Prologis Park Tacoma-Buildings A & B (241,140 s.f. and 770,195 s.f.) are expected to be completed by mid-2017
- 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 (503,708 s.f.) is expected to be completed in early 2017
- North Country Sumner Business Park-Building A (267,703 s.f.) is slated for a fourth quarter 2017 delivery
- Benaroya's Fife I-Commerce Center (250,490 s.f.) completion is expected by the 1st quarter of 2017
- LogistiCenter @ I-5 in Lakewood (210,700 s.f.) is expected to be completed in early 2017
- Underwood Gartland 62 in South Everett (200,000 s.f.) is slated to be completed by the first quarter of 2017
- Exotic Metals in Kent (126,448 s.f.), an owner-user facility is expected to be completed in early 2017

SIGNIFICANT TRANSACTIONS

Notable sales over \$10 million include:

- Prologis purchase of the former sports arena site in South Seattle for \$136 million (\$50/s.f.-land) from Sabey Corp
- Clarion Partner's purchase of SouthCenter South Industrial Park and Green River Park in Kent/Tukwila for \$132.7 million (\$143/s.f.) from Cornerstone Real Estate Advisors
- LaSalle Investment Management \$68 million acquisition of Des Moines Creek Business Park-Phase I (\$123/s.f.) from Panattoni
- Stockbridge's acquisition of Springbrook II in Kent (\$32.2 million or \$125/s.f.) from Metzler North America
- Parkside Building 1 sale (\$17,185,254 or \$161/s.f.) to HRP from Embarcadero Capital Partners
- Vaupall Industries Plastic purchase of Airport Business Center for \$12.55 million (\$85/s.f.)
- Blue Origin's acquisition of Kent 212 for \$12,412,288 or \$98/s.f.

Notable leases include:

- FXI (205,250 s.f.) renewal at Buildings 5 & 7-Kingsport Industrial Park, Kent
- Rexam Beverage Can (226,639 s.f.) at 1200 & 1220 2nd Avenue N, Kent
- Regal Logistics (225,972 s.f.) at LogisticsCenter @ 167, Puyallup
- Smart Warehousing (161,521 s.f.) at SeaPort Logistics Center-Building A, Sumner

Source: CoStar