

# Seattle Industrial

## Market Forecast

	Current / Projection	
Vacancy	3.02%	↓
Construction	3.35M sf	↑
Rental Rate	Varies*	↑
Absorption	2.01M sf	↑

\* by submarket

## Market Highlights

Projects under construction are 46% pre-leased.

Positive absorption of 2.01 million s.f. has pushed the vacancy rate to an already all-time low of 3.02%.

Several notable larger leases signed with targeted move-in dates in the second and third quarters of 2017 should provide a continued boost to the market.

The Northwest Seaport-Alliance reports that year-to-date 2017 container and cargo volumes are up over 2016 levels. ■

The industrial market continued its strong performance starting 2017 with another robust quarter of leasing activity. 2.0 million s.f. was absorbed in the first quarter and with deliveries of nearly 974,000 s.f., brought the vacancy rate down to its lowest point ever in the region at 3.02%. Construction activity remains very active with 3.35 million s.f. underway. Absorption should continue to do well as 46% of these projects are pre-leased. Over the past five years, the region's industrial market has absorbed an average of 4.8 million s.f. per year. Another 15.5 million s.f. is in the pipeline that may or may not start over the next several years.

Employment grew by 3% in both 2015 and 2016. Looking at 2017, nationally, our nation is seeing how Trump's economic policies will play out long-term. So far, one of Trump's main goals is to save American jobs. So far, he has pulled out of the Trans-Pacific Partnership, threatened tariffs on imported goods from Mexico and China, and ordered strong immigration measures designed to curtail hiring foreign workers. Nationally, this has played well in the rust belt states, but locally, it has been met with some resistance. The skilled labor employees from abroad have been an important source of hires for the high-tech sector in our region. Questions remain regarding who will benefit from proposed tax cuts and whether lower taxes will stimulate economic activity. Will federal budget constraints limit what Trump wants to do? Because of a lack of answers to these questions, both U.S. and local economists believe there is little reason to change the U.S. economic and regional outlook. The Puget Sound economy did slow down some in the second half of 2016 and the forecast is for a lower growth of 1.9% in 2017. A closer look shows that manufacturing is expected to lose 7,500 jobs in 2017, which is 2,000 more than projected one quarter ago. This loss is expected to be offset by gains in construction (+2,900 jobs) and transportation (+1,500 jobs). While current demand for leasing is very active at this time, if there is a more significant drop in manufacturing or slower growth in other sectors, we could see a drop in demand.

On the transportation side, The Northwest Seaport-Alliance reports that 2016 container volumes ended the year up 2.44% over 2015. Cargo volumes were also up 11.1% 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). So far through February 2017, the Northwest Seaport Alliance has recorded an 8% year-to-date increase in container cargo. International container volumes in February were up 9.1% despite fewer sailings.

→ Continued, page 4

# Area Review

## Seattle Close-In Review

The Seattle Close-In market saw its vacancy drop from 1.99% to 1.46%, primarily due to the re-leasing of space vacated by K2 Sports of the warehouse at 4201 6th Avenue S. (281,754 s.f.). There was one project completed in the first quarter—a 27,700 s.f. project at 3455 Thorndyke Avenue W. Average asking rents jumped to \$1.00/s.f. (blended) from \$0.98/s.f. with some shell rates spiking up to \$0.90/s.f. Notable sales in the quarter include the 45,320 s.f. 637 S. Lucile Street selling for \$7,750,000 (\$171/s.f.) by Terreno Realty. The Foundry Building at 4130 1st Ave S sold for \$6,671,215 (\$214/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 \$0.90 to \$1.60/s.f./month, NNN for medium- and high-grade buildings. Tenants are frustrated by the lack of product to choose from, a continuing trend. Demand for sale properties continues to remain high with a very limited supply. Better quality buildings will sell between \$180 and \$230/s.f. When available, depending on size and whether paved, graveled, or fenced, yard space rates will vary from \$0.18 to \$0.24/s.f.

## South King County Review

The South King submarket had the second highest net absorption at 405,688 s.f. for the first quarter. With continued active leasing, the vacancy inched down from 2.30% to 2.24% this quarter. There was one delivery in the quarter—Des Moines Creek Business Park-Phase III (352,800 s.f.). Another project is Bridge Development's refrigerated building (229,083 s.f.) that is nearly completed and will be delivered next quarter. Other projects under construction include Exotic Metals, a 126,448 s.f. owner-user building, Des Moines Creek Business Park Phase III, Building 3A (150,103 s.f.), and West Valley 182 (42,982 s.f.). One notable sale that closed in late 2016 was the Gateway Corporate Center a multi-building flex and office development in Tukwila selling for \$78 million or \$210/s.f. So far in 2017, a refrigerated building in Algona (502 Boundary) sold for \$9,009,075 or \$143/s.f. Several notable leases were renewed including FedEx Ground at Emerald Corporate Park Building E (152,155 s.f.), Ply Gem Windows in Park 277, Building B (261,696 s.f.).

Average asking rents (blended) continue to climb, now at \$0.61/s.f., \$0.01/s.f. higher than last quarter. For smaller spaces (under 10,000 s.f.), shell rates range from \$0.45 to \$0.50/s.f.; \$0.42 to \$0.45 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 \$0.65 to \$0.90, depending on age and quality of the build-out. Building sale prices are expected to range from \$100 to \$150/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

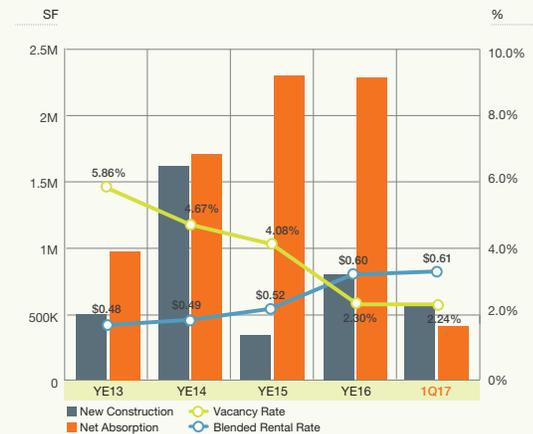
East King County continued to see steady leasing activity despite a lack of available space. Absorption totaled 110,811 s.f. for the quarter and with no deliveries of new product, vacancies dropped from 2.95% to 2.44%. Similar to Seattle Close-in, tenants are scrambling to find space to meet their needs. The majority of the leases continue to be under 10,000 s.f. due to the higher concentration of flex buildings. Two notable sales this quarter include Kennedy-Wilson's acquisition of Willows Commerce Park for \$75.25 million (\$179/s.f.) and the sale of the Coca Cola plant in Bellevue to Swire Coca Cola USA for \$31,435,696 (\$197/s.f.). With a tight market, rental rates continue to be the highest in the region at \$1.15/s.f.

The forecast is for NNN warehouse lease rates with high-bay warehouse manufacturing space to range between \$0.70 and \$0.90/s.f./month, with most in the \$0.75 to \$0.90/s.f. range. In some markets such as Bellevue, the rate is pushing closer to \$0.90/s.f. and above. Office rates are in the \$1.40 to \$1.60/s.f. range. Flex space rents to range between \$1.00 and \$1.40/s.f./month, NNN. Building sale prices are between \$170/s.f. to \$210/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 \$40/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 saw continued steady leasing activity with 296,146 s.f. absorbed in the quarter. Underwood Gartland 62, Building 2 was completed and is over 80% leased. With absorption outpacing deliveries, the vacancy rate dropped from 4.17% to 3.97%. The Marine View Technology Center was acquired by the Tulalip Tribes of Washington for \$19.5 million (\$102/s.f.) and the 217th Place Research Center (biotech) sold for \$18,150,000 or \$268/s.f., acquired by Jump Holdings LLC. On the development side, Panattoni started their Woodinville project, The Reserve at Woodinville (two buildings totaling 199,700 s.f.) in late 2016 with a mid-year 2017 delivery.

Snohomish County's average asking rental rate saw a spike in average asking rent from \$0.77/s.f. to \$0.91/s.f., blended. The forecast over the next six months is for warehouse lease rates to range between \$0.60 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 \$170/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 726,558 s.f. of positive net absorption in the quarter. Two buildings totaling 318,370 s.f. were delivered in the quarter. This resulted in a drop in vacancy from 5.86% to 5.06%. Average asking blended rents continue to increase, now at \$0.51/s.f., a \$0.01/s.f. increase over the past quarter. On the development side, eight projects totaling 1,753,773 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.), and Logistcenter @ 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 6.0 million s.f. in the pipeline for future development. Several leases above 100,000 s.f. (nearly 1.7 million s.f.) were signed in the first quarter but the tenants will not take occupancy until the second and third quarter, providing a continuing boost to this market. Significant move-ins this quarter include Regal Logistics (225,972 s.f.) at LogistiCenter at 167 and Dock High Logistics (90,000 s.f.) at Sumner 167, Building 2.

Pierce County's forecast is for shell rates to range between \$0.35 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 was one of the most active on the development side in 2016 and continues this trend so far in 2017. One project, Lacey Business Park (76,064 s.f.) was delivered. 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 is working through the approval process for a five-building, 1.6 million s.f. warehouse/manufacturing development. Long term, Thurston County has a substantial amount of land available for development. There is over 5.6 million s.f. in the pipeline, second highest of the six submarkets. Several projects in Tumwater 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 about 155,000 s.f. in the quarter. Current vacancy is at 2.24% compared to 2.93% from the prior quarter. On the sales side, The Port of Olympia acquired the Commerce Business Center II, Buildings 1, 2, and 3 for \$6.5 million of \$81/s.f. On the leasing side, Crown Beverage renewed and expanded to 93,592 s.f. in Building E of Meridian Campus Corporate Park.

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 up to 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

Los Angeles  
213.880.5250

Commerce  
323.727.1144

Long Beach  
562.472.0071

Orange County  
949.557.5000

Inland Empire  
909.764.6500

San Diego  
858.509.1200

Carlsbad  
760.430.1000

Reno  
775.301.1300

Phoenix  
602.513.5200

## Contact

**Brian Hatcher**  
Executive VP, Brokerage  
Pacific Northwest  
206.296.9600  
bhatcher@kiddermathews.com

The information in this report was composed by the Kidder Mathews Valuation Advisory Group.

**Randy Gilliam, MAI**  
Valuation Advisory Group  
425.454.7040  
rgilliam@kiddermathews.com

Sales activity in 2016 was up over 2015 results with 267 transactions totaling \$1.473 billion compared to 222 transactions and \$1.260 billion in 2015. BECU acquired Gateway Corporate Center for \$78 million right before the end of 2016 to close out activity in 2016. The first quarter has seen a slower start in sales with 52 transactions totaling \$272.2 million. Two notable sales so far in 2017 are on the Eastside. Kennedy-Wilson acquired Willows Commerce Park for \$75.25 million from Blackstone and Swire Coca Cola USA acquired the Coca Cola plant in Bellevue for \$31,425,696 from BCI Coca Cola Bottling. The average cap rate on all sales in 2016 was 6.46% and 6.95% year-to-date 2017.

## VACANT SPACE/VACANCY RATE

A total of 973,934 s.f. was delivered in the first quarter. With positive net absorption of 2,009 million s.f., the region's vacancy dropped over the past quarter from 3.40% to 3.02%. This marks the tenth straight quarter 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 the second quarter 2017.

## NEW CONSTRUCTION ACTIVITY

There are 21 projects totaling 3,349,660 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 1,753,773 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 (563,540 s.f. in five projects) and Snohomish County (224,075 s.f. in three projects) are the next most active markets.

## 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 2,009,016 s.f. for the first quarter, with all six submarkets achieving positive results. Pierce County (726,558 s.f.) and South King (405,688 s.f.) led the way followed by Seattle Close-in (314,451 s.f.) and Snohomish County (296,146 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:

- 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 nearing completion.
- North Country Sumner Business Park-Building A (267,703 s.f.) is slated for a fourth quarter 2017 delivery.
- The Reserve at Woodinville (199,700 s.f.), Panattoni's new development is underway with an expected delivery by the second quarter 2017.
- LogistiCenter @ I-5 in Lakewood (210,700 s.f.) is expected to be completed in early second quarter 2017.
- Des Moines Creek Business Park, Phase III, Building 3A (150,103 s.f.) is expected to be completed in the second quarter 2017.
- Exotic Metals in Kent (126,448 s.f.), an owner-user facility is expected to be completed next quarter.

## SIGNIFICANT TRANSACTIONS

Notable sales over \$10 million include:

- Gateway Corporate Center sold for \$78 million (\$210/s.f.). The buyer is BECU and the seller RREEF.
- Kennedy-Wilson acquired Willows Commerce Center for \$75.25 million (\$179/s.f.) from Blackstone Group.
- Swire Coca Cola USA acquired the Coca Cola plant in Bellevue for \$31,435,696 (\$197/s.f.) from BLI Coca Cola Bottling.
- Tulalips Tribes of Washington purchased Marine View Technology Center for \$19.5 million (\$102/s.f.) from Pietromonaco Properties.
- Jump Holdings acquired 217th Place Research Center in Bothell for \$18.15 million (\$268/s.f.) from BMR 217th Place.

Notable leases include:

- Ply Gem Windows (261,696 s.f.) renewal at Park 277, Building B, Auburn
- Regal Logistics (225,972 s.f.) at LogisticsCenter @ 167, Puyallup
- FedEx Ground (152,155 s.f.) renewal at Emerald Corporate Park, Building E, Auburn
- Shaw Industries (127,651 s.f.) renewal at Van Doren's Landing, Kent
- Crown Beverage (93,592 s.f.) renewal and expansion at Meridian Campus Corporate Park

Source: CoStar