

Seattle Industrial

Market Forecast

	Current / Projection	
Vacancy	3.16%	↑
Construction	5.8M sf	↑
Rental Rate	Varies*	↑
Absorption	1.2M sf	↑

* by submarket

Market Highlights

Projects under construction are 28% pre-leased.

Positive absorption of 3.2 million s.f. through the first half of 2017.

Rental rates continue to increase with vacancies well below the 5% benchmark.

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

At the midway point of 2017, the region's industrial market saw mostly positive results. Net absorption in the second quarter was positive at 1,186,744 s.f. (nearly 3.2 million s.f. cumulative for the first six months), buoyed by both Pierce and Thurston Counties which helped offset negative net absorption in Seattle, South King, and East King County markets. Vacancy inched up to 3.16% from 3.02%. Construction activity remains strong with nearly 1.7 million s.f. in deliveries for the quarter and nearly 5.8 million s.f. under construction. We would expect absorption to remain positive as there are nearly 2.0 million s.f. of signed leases expecting to take occupancy over the next six months. Another 13.3 million s.f. is in the pipeline that may or may not start over the next several years.

The Puget Sound economy had slowed down some in the second half of 2016 and the forecast was for a lower growth of 1.9% in 2017. However, over the past few months, local economists have increased their projection of growth in 2017 of just over 51,000 jobs (2.5%) led by the service sector (29,000 new jobs expected). The sectors that influence the industrial market and are expected to grow include wholesale/retail trade (+11,700 jobs), construction (+4,500 jobs) and transportation (+1,700 jobs) which will help offset losses in manufacturing (-7,300 jobs). The losses in manufacturing are primarily from the aerospace area (5,100 jobs) as Boeing overall has trimmed 10,600 jobs over the past couple of years. While a recession is inevitable, indications are that 2017 and 2018 will still be positive.

On the transportation side, The Northwest Seaport-Alliance (a partnership between the ports of Seattle and Tacoma) reports that 2017 container volumes year-over-year are up 8.4% through May, while cargo volumes are up 5.6% over the same time frame. This was their strongest May on record for total international container volume. Log volumes were up 94% driven by continued steady demand from China. Autos were down 20% year-to-date reflecting weakening U.S. demand and shifting manufacturing locations.

Sales activity through the first six months of 2017 has been slower with 89 sales totaling \$351.9 million. This compares to nearly \$1.5 billion (269 transactions) sold in 2016. Notable sales in the second quarter include Tukwila Commerce Park acquisition by RREEF for \$29,767,867 from LA County Employers Retirement Association. This was part of a larger \$111.775 million nationwide portfolio acquisition. Bentall Kennedy has reached an agreement with Panattoni to acquire their position in the ground lease on two lots (Des Moines Creek Business Park Phase III) owned by the Port of Seattle for \$43,583,452 (\$42/s.f. of developable

→ Continued, page 4

Area Review

Seattle Close-In Review

The Seattle Close-In market vacancy increased slightly from 1.46% to 1.55%, due to negative net absorption of -46,668 s.f. in the quarter. Even with the slight increase, vacancy still remains extremely tight and rental rates jumped to \$1.14/s.f. from \$1.00/s.f. (blended). Some shell rates are now at \$0.90/s.f. Notable sales in the quarter include the Seattle Boulderling Project selling for \$10.3 million (\$150/s.f.), by Madisonian Manager. This is potentially a longer term redevelopment play. Tereno Realty Corp purchased the Hanford building for \$5,940,000 (\$168/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 a 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 it is paved, graveled, and fenced, yard rates will vary from \$0.18 to \$0.25/s.f. going south to north.

South King County Review

The South King submarket had 406,167 s.f. in deliveries in the quarter, including Bridge Pointe Burien (241,140 s.f.) and Des Moines Creek Business Park Phase III, Building 3A (150,103 s.f.). However, the submarket experience negative net absorption of -229,275 s.f. in the second quarter, which pushed the vacancy rate up to 2.81% from 2.24%. While experiencing negative net absorption in the quarter, there are a couple of pending leases that should help boost leasing later this year. The market is the second most active in terms of new construction, with 651,783 s.f. under construction including North Auburn Logistics (261,553 s.f.), CenterPoint Kent (220,800 s.f.) Exotic Metals, a 126,448 s.f. owner-user building, and West Valley 182 (42,982 s.f.). Sales activity included RREEF acquiring Tukwila Commerce Park for \$29,767,867 (\$182/s.f.) from LA County Employers Retirement Association; Food Lifeline purchasing Riverton Distribution Center, Buildings A & B for \$25,640,000 (\$132/s.f.); and Bentall Kennedy acquiring Panattoni's position in the ground lease under Des Moines Creek Business Park, Phase III for \$43,583,452 (\$42/s.f. of developable land).

Average asking rents (blended) continue to climb, now at \$0.65/s.f., \$0.04/s.f. higher than last quarter. For smaller spaces (under 10,000 s.f.), shell rates range from \$0.45 to \$0.55/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

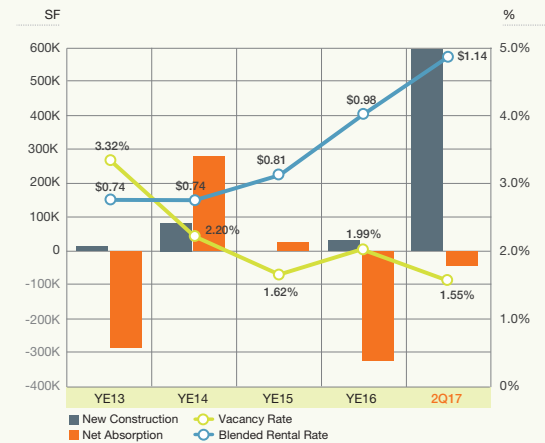
East King County continued to see steady leasing activity despite a lack of available space, but did see vacancy rate increase to 3.00% from 2.44% due to new deliveries of 44,072 s.f. (Redmond Ridge Business Park, Building 108) and a negative net absorption of -77,250 s.f. in the quarter. Despite the upward tick in vacancy, tenants are still scrambling to find space to meet their needs and in some cases have to look outside this submarket. The majority of the leases continue to be under 10,000 s.f. due to the higher concentration of flex buildings. One notable sale this quarter was Quadrant Corp's purchase of an industrial building in Kirkland's Parmac area for \$9.3 million (\$148/s.f.). With a tight market, rental rates continue to be the highest in the region at \$1.24/s.f.

The forecast is for NNN warehouse lease rates with high-bay warehouse manufacturing space to range between \$0.70 and \$0.95/s.f./month, with most in the \$0.75 to \$0.95/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 \$15 to nearly \$40/s.f. for a premium site, although there is a limited amount of available land ready for development.

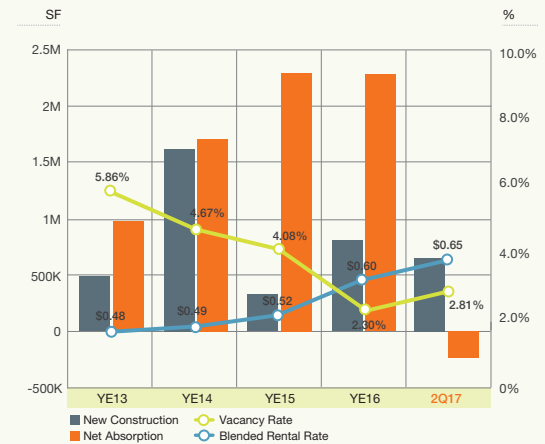
Snohomish County Review

Snohomish County held steady in the quarter with supply increasing by 24,375 s.f. with the delivery of Fryelands Phase VI, Building C in Monroe. Net absorption was modest at 10,713 s.f. With deliveries marginally outpacing absorption, the vacancy rate increased from

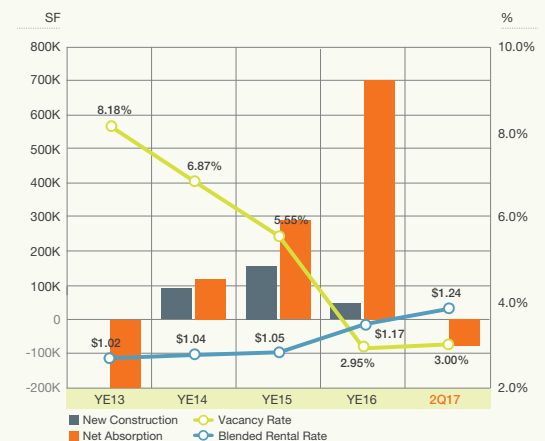
SEATTLE CLOSE-IN



SOUTH KING COUNTY



EAST KING COUNTY



3.97% to 4.00%. Currently, the only project under construction is Panattoni's The Reserve at Woodinville (two buildings totaling 199,700 s.f.). One notable sale was North Creek Center selling for \$26,750,000 (\$275/s.f.). Compact Information Systems was the buyer.

Similar to the other submarkets, Snohomish County's average asking rental rate saw asking rental rates increase from \$0.91/s.f. to \$0.93/s.f. 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 (\$0.50 to \$0.55/s.f.) 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. Flex space will be higher (over \$200/s.f.). 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

With an abundance of developable land, Pierce County continues to lead the way both in leasing and development activity. On the leasing side, the market achieved 1,053,174 s.f. of positive net absorption in the quarter and nearly 1.8 million s.f. through the first half of the year. Two buildings, North Country Sumner Business Park, Building A (267,703 s.f.) and LogistiCenter @ I-5 (210,700 s.f.) were completed. With absorption outpacing deliveries, the vacancy rate dropped from 5.06% to 4.25%. Average asking blended rents continue to increase, now at \$0.55/s.f., a \$0.04/s.f. increase over the past quarter. On the development side, 13 buildings totaling 4,286,469 s.f. are underway. Notable projects include Prologis Park Tacoma Buildings A & B (222,925 s.f. and 770,195 s.f.). Building B is pre-leased to UPS. Other projects include IPT Tacoma Logistics, Buildings A & B (837,620 s.f. and 286,525 s.f.), DCT Blair Logistics, Buildings A & B (542,750 s.f. and 428,228 s.f.), Panattoni's Lakewood Tacoma Gateway (467,526 s.f.) and The Viking (438,065 s.f.). Of the projects underway, 1.4 million s.f. is pre-leased. Development hot spots include Sumner, Port of Tacoma/Fife, and Dupont. Overall, there is another 3.5 million s.f. in the pipeline. Of these, Dupont Corporate Center (the former Intel development) is under contract for intended demolition of some of the existing buildings and redevelop with industrial. The buyer is rumored to be one of the active developers in the region. Significant move-ins this quarter include Furniture Factory Direct (111,147 s.f.) at Fife 70 East, and UPS (125,919 s.f.) in Building A at IAC Port 167. On the sales side, Lakewood 512 sold for \$12,949,900 (\$96 /s.f.). Berkeley Partners out of San Francisco was the buyer. Centerpoint acquired the Goodwill property at 3120 S. Pine Street for \$11.0 million (\$56/s.f.).

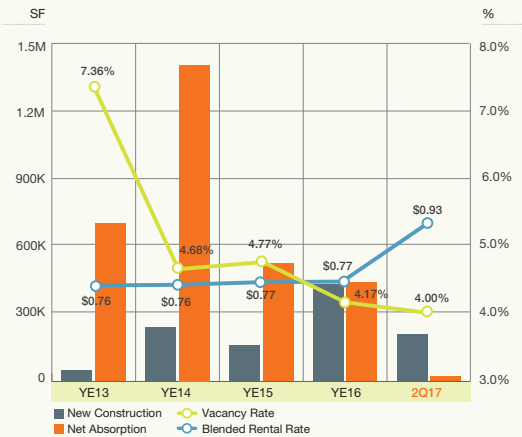
Pierce County's forecast is for shell rates to range between \$0.35 to \$0.55/s.f./month, NNN, plus add-on office rates of \$0.70 to \$0.95/s.f./month. Industrial building sale prices will range from \$50/s.f. for older buildings to \$100 to \$140/s.f. for new or smaller buildings. Land values typically range between \$10/s.f. and \$16/s.f.

Thurston County Review

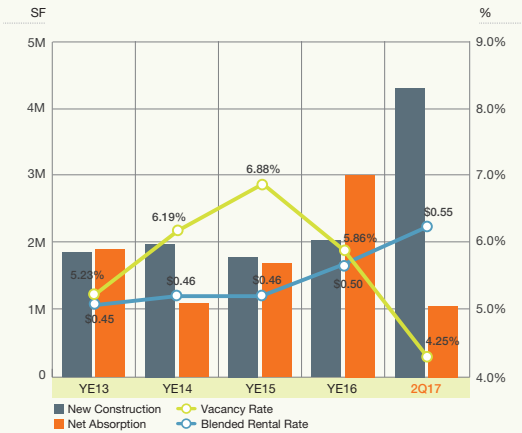
The smallest market in the region was one of the most active on the development side in 2016 and continues this trend so far in 2017. One project, Medline's distribution center in Lacey (700,000 s.f.), was delivered in the quarter. With absorption of 476,050 s.f. in the quarter, the vacancy rate now stands at 4.10%, compared to 2.24% from the prior quarter, but this is temporary as 200,000 s.f. of Medline's building is leased to two tenants but will not take occupancy until the next quarter. Three smaller projects (64,200 s.f.) are under construction with deliveries expected later this year. Several projects are in the pipeline. IDS has just closed on 97 acres at about \$3.00/s.f. (Hogum Bay Logistics Center) with plans for a five-building, 1.6 million s.f. warehouse and manufacturing development. Long term, Thurston County has a substantial amount of land available for development. There is over 4.6 million s.f. in the pipeline, the 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. All Ready Moving acquired Building 2 in the Mottman Business Park for \$2,649,694 (\$70/s.f.). Average asking rents are up \$0.02/s.f. over the past quarter to \$0.46/s.f.

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 \$0.45 up to \$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.

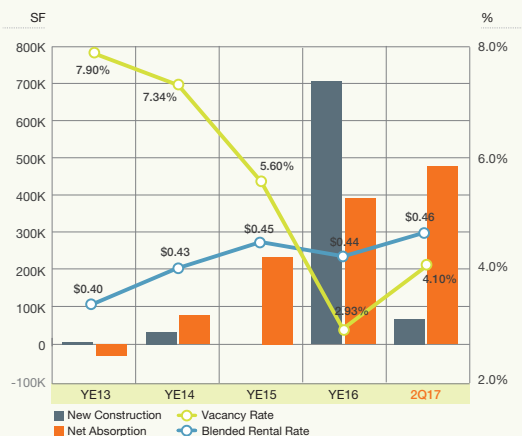
SNOHOMISH COUNTY



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

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land). Food Lifeline purchased Riverton Distribution Center, Buildings A and B for \$25,640,000 from Panattoni; and Compact Information Systems purchase of North Creek Center for \$26,750,000 from Gerlicher Company. The average cap rate on all sales year-to-date 2017 is 6.67%.

VACANT SPACE/VACANCY RATE

A total of 1,653,017 s.f. was delivered in the second quarter. With positive net absorption of just under 1.2 million s.f., the region's vacancy increased slightly over the past quarter from 3.02% to 3.16%, still well below the 5.0% benchmark. As noted above, there are several recently signed leases with targeted move-in dates later on in 2017, which will help keep vacancy in check.

NEW CONSTRUCTION ACTIVITY

There are 23 buildings totaling nearly 5.8 million s.f. now under construction. About 28% of this space is pre-leased or owner-user facilities. Pierce County once again is the most active at 4,286,469 s.f. (13 projects), followed by South King with 651,783 s.f. (four projects). Seattle Close-in has one project (589,615 s.f.). 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 all of the markets. (See the detailed submarket reviews for specific rates.)

MARKET DEMAND/ABSORPTION

As noted above, absorption is positive at 1,186,744 s.f. for the second quarter, with three of the six submarkets achieving positive results. Pierce County (1,053,174 s.f.) and Thurston County (476,050 s.f.) led the way and helped offset negative absorption in Seattle, South King, and East King County. 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 second 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.
- IPT Tacoma Logistics-Buildings A & B (286,525 s.f. and 837,620 s.f.) broke ground with delivery expected in 2018.
- DCT Blair Logistics-Buildings A & B (542,750 s.f. and 428,228 s.f.) broke ground with delivery expected in 2018.

- The Reserve at Woodinville (199,700 s.f.), Panattoni's new development is underway with an expected delivery by the early third quarter 2017.
- Prologis Georgetown Crossroads project (589,615 s.f.) is underway.
- North Auburn Logistics (261,553 s.f.) is targeted for an early 2018 delivery.
- CenterPoint Kent (220,800 s.f.) is expected to be delivered in the fourth quarter 2017.
- Panattoni's Lakewood Tacoma Gateway (467,526 s.f.) is targeted to be completed by the end of 2017.

SIGNIFICANT TRANSACTIONS

Notable sales over \$10 million include:

- Tukwila Commerce Park sold for \$29,767,867 (\$182/s.f.). Buyer is RREEF and seller is LA County Employers Retirement Association.
- North Creek Center sold for \$26,750,000 million (\$275/s.f.). The buyer is Compact Information Systems and the seller is Gerlicher Company.
- Food Lifeline acquired Riverton Distribution Center Buildings A & B for \$25,640,000 million (\$132/s.f.) from Panattoni.
- Lakewood 512 sold for \$12,949,900 (\$96/s.f.). Berkeley Partners out of San Francisco was the buyer. Seller was WLA Investments, Inc.
- Goodwill (3120 S. Pine St, Tacoma) sold for \$11.0 million (\$56/s.f.). Buyer was Centerpoint and seller was William B. Swensen & Associates.
- Seattle Boulderling Project sold for \$10.3 million (\$150/s.f.). Madisonian Manager was the buyer and Pietromonaco Properties was the seller.

Notable leases include:

- Medline (500,000 s.f.) took occupancy in their build-to-suit in Lacey
- 3PL Cold Storage (241,140 s.f.) at Bridge Pointe Burien
- LSI (170,592 s.f.) at Puyallup West Distribution Center, Puyallup
- UPS (125,919 s.f.) at IAC Port 167-Building A, Puyallup
- Furniture Factory Direct (111,147 s.f.) at Fife 70 East, Fife

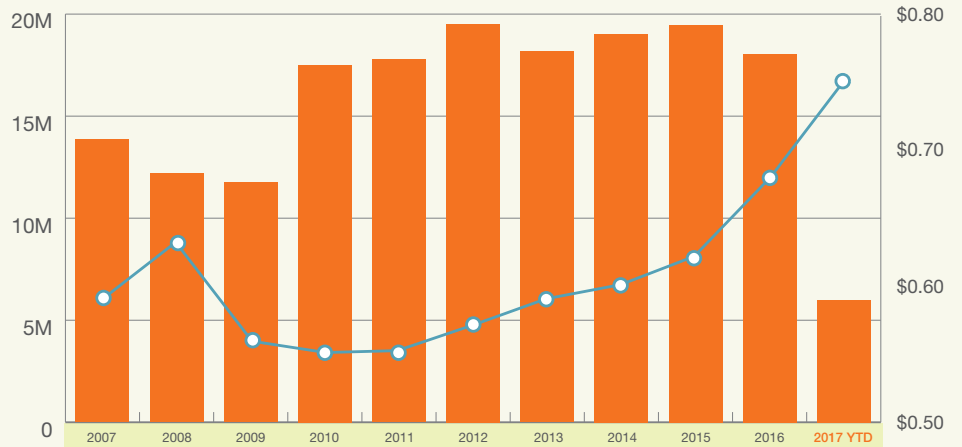
Source: CoStar

2nd Quarter 2017 Seattle Industrial Market Statistics

MARKET BREAKDOWN	2Q17	1Q17	2Q16	Annual % Change
Vacancy Rate	3.30%	3.20%	4.00%	-17.50%
Availability Rate	4.80%	4.70%	4.90%	-2.04%
Asking Lease Rate	\$0.75	\$0.71	\$0.62	20.97%
Leased SF	2,694,772	3,296,435	5,968,257	-54.85%
Sold SF	659,851	978,230	1,735,241	-61.97%
Net Absorption	1,132,018	1,583,400	1,874,067	N/A

HISTORICAL LEASING ACTIVITY & ASKING RATE*

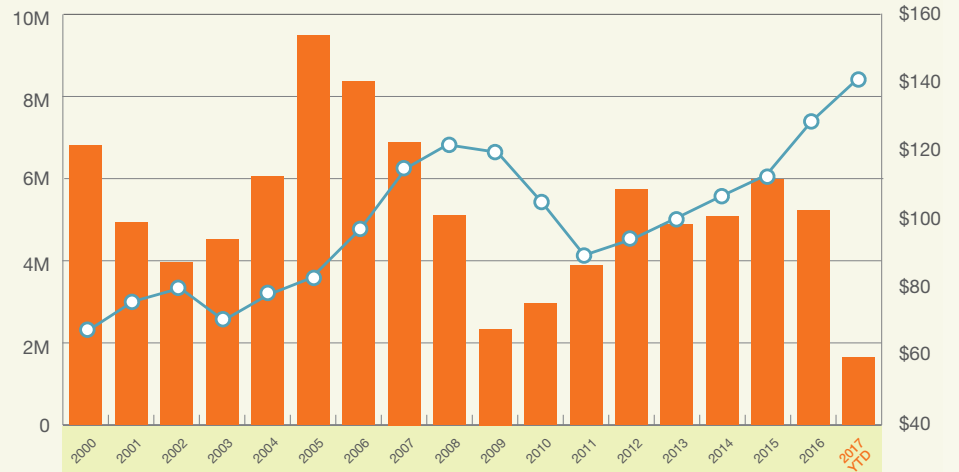
■ Leasing Activity
○ Asking Lease Rate



*Based on monthly rate

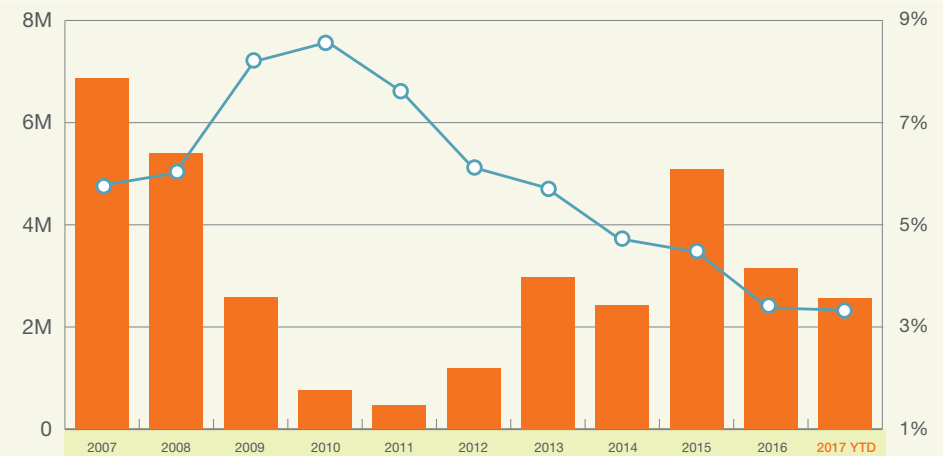
HISTORICAL SALES ACTIVITY & MEDIAN SALES PRICE

■ Building SF
○ Median Price/SF



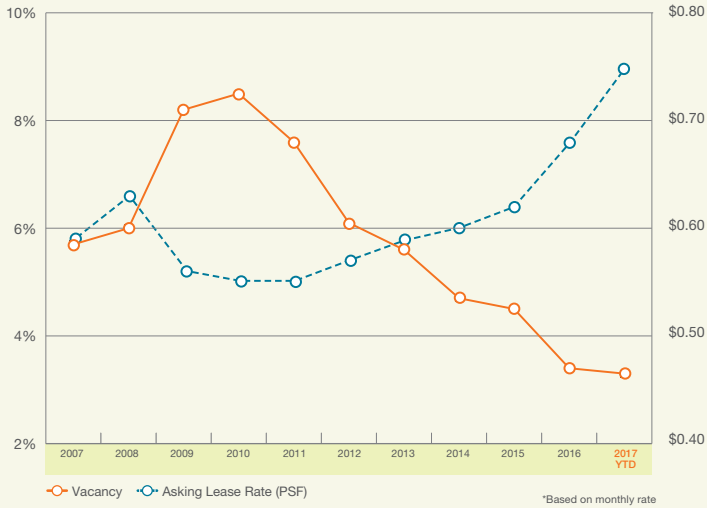
HISTORICAL NEW CONSTRUCTION & VACANCY RATE

■ New Construction
○ Vacancy Rate

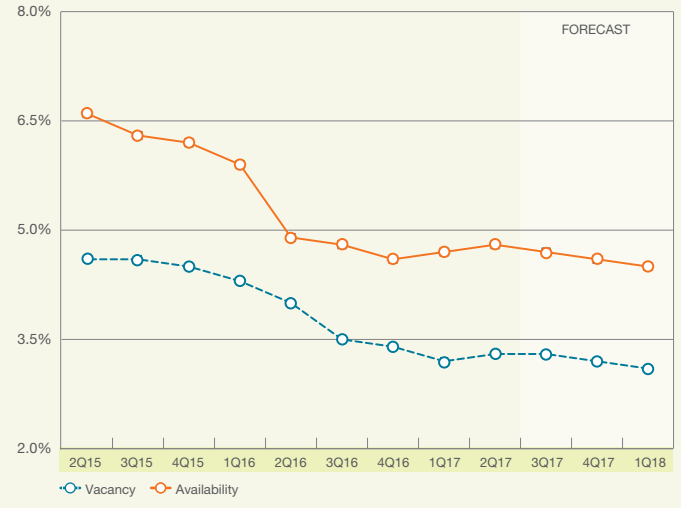


2ND QUARTER 2017 SEATTLE INDUSTRIAL MARKET STATISTICS CONTINUED

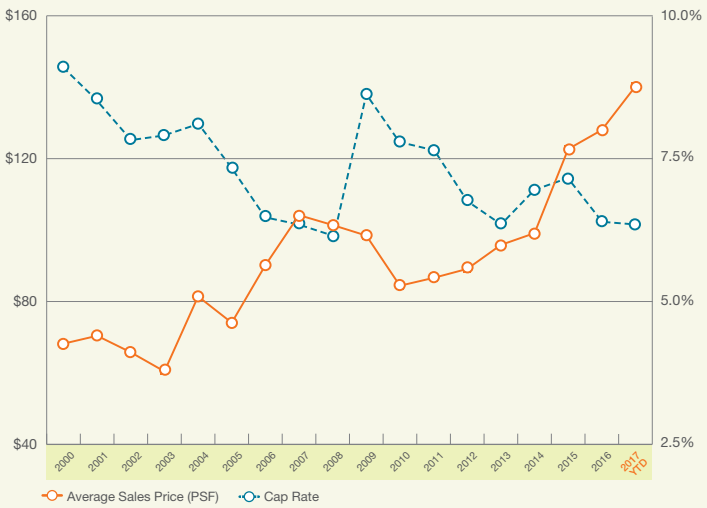
VACANCY VS ASKING LEASE RATE*



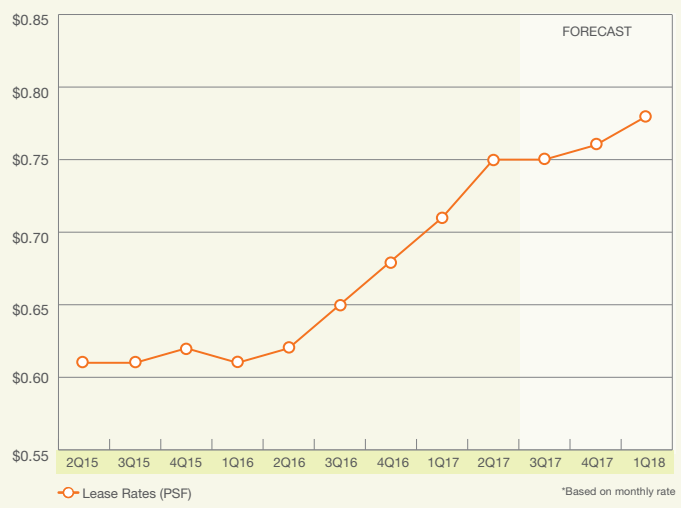
VACANCY VS AVAILABILITY



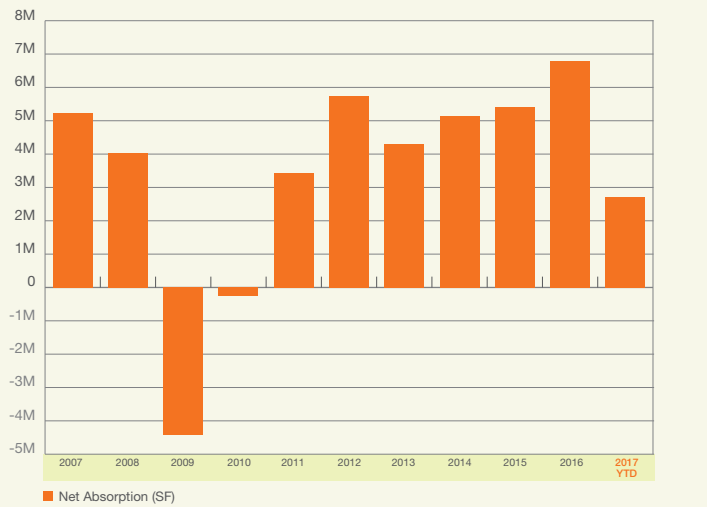
AVERAGE SALES PRICE & CAPITALIZATION RATES



ASKING LEASE RATE*



NET ABSORPTION - HISTORICAL



NET ABSORPTION - QUARTERLY

