

Real Estate Market Review

Seattle Industrial

The Puget Sound region industrial market continues to be active, although net absorption was lower this quarter compared to the first two quarters. Development activity continues to be very robust with nearly 6.4 million s.f. under construction, and another 4.8 million s.f. that has been completed through the first nine months. Net absorption in the third quarter was positive at nearly 500,000 s.f. (nearly 3.7 million s.f. cumulative year-to-date), buoyed by both Pierce and Thurston Counties which helped offset negative net absorption in Seattle, South King, and East King County markets. With deliveries slightly outpacing absorption, the vacancy inched up to 3.30% from 3.16%. We would expect absorption to remain positive as there are nearly 1.7 million s.f. of signed leases expecting to take occupancy over the next six months. Another 13.2 million s.f. is in the pipeline that may or may not start over the next several years.

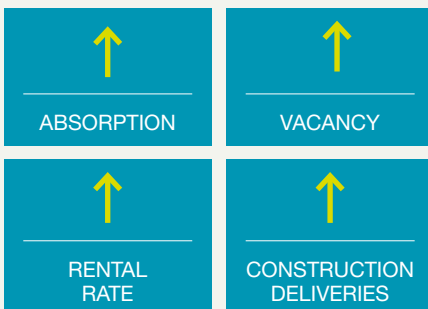
The Puget Sound economy had slowed down some in the second half of 2016 and the forecast was for a lower growth of 1.9% in 2017. However, through August, the year-over-year growth totals 55,100 new jobs, an increase of 2.7%. Sectors leading the growth include Government (+12,700 jobs), Retail Trade (+8,300 jobs), Professional & Business Services (+7,100 jobs), and Information (+6,300 jobs). The sectors that influence the industrial market that have grown include Wholesale Trade (+2,100 jobs), Construction (+6,800 jobs) and Transportation & Warehousing (+900 jobs) which have help offset losses in Manufacturing (-4,700 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 total year-to-date container volumes through August increased 5% while total monthly volumes for the gateway improved 6% over August 2016. Year-to-date full import volumes are up 5%, while full exports are down 1%. On other news, consistent demand from China continues to boost log volumes (up 101%), while breakbulk cargo volume is down 3% due to

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Market Forecast Trends



Market Up Close

Projects under construction are 19% pre-leased.

Positive absorption of 3.7 million s.f. through the 3rd quarter 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.

Area Review

Seattle CBD / Surrounding Area Review

The Seattle Close-In market vacancy increased from 1.55% to 1.79%, due to negative net absorption of -140,019 s.f. in the quarter. Even with the slight increase, vacancy still remains extremely tight and rental rates jumped to \$1.17/s.f. from \$1.14/s.f. (blended). While availability of space has increased, it is still a difficult challenge for prospective tenants to find space and some have had to look elsewhere outside of this submarket. Some shell rates are now at \$0.90/s.f. and above. Notable sales in the quarter include the Market Street Center in Ballard selling for \$24.9 million (\$374/s.f.), by Goodman Real Estate.

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. As noted above, 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 \$250/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.

Eastside Review

East King County continued to see steady leasing activity despite a lack of available space, but did see vacancy rate increase to 3.64% from 3.00% due to negative net absorption of -137,222 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 are having 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. Despite the increase in vacancies, rental rates held steady at \$1.24/s.f., the highest in the region.

The forecast is for NNN warehouse lease rates with high-bay warehouse manufacturing space to range between \$0.70 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.

South King County Review

The South King submarket had 757,258 s.f. in deliveries in the quarter, including Exotic Metals (126,448 s.f.) and Pacific Gateway Business

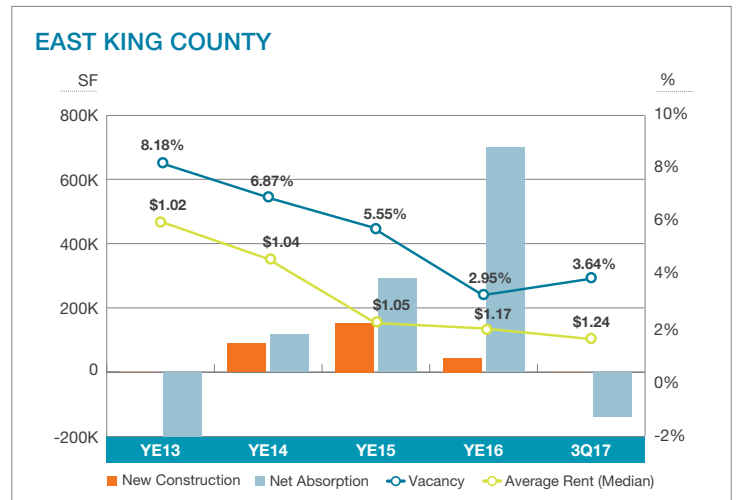
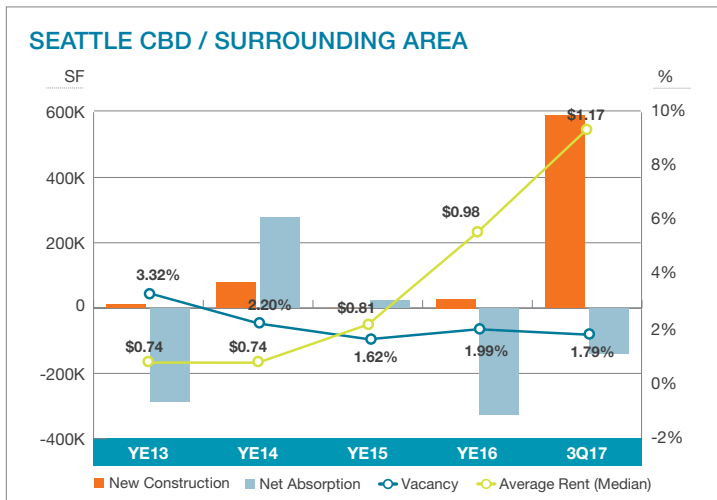
Park (389,670 s.f.). However, the submarket experienced negative net absorption of -310,643 s.f. in the 3rd quarter, which pushed the vacancy rate up to 3.74% from 2.81%. There are some signed leases that have not yet taken occupancy, which should help reduce vacancy. The market is the second most active in terms of new construction, with 1,490,146 s.f. under construction including Seattle Gateway Central (325,190 s.f.), Des Moines Creek Business Park Phase IV, Buildings A and B (514,121 s.f.), North Auburn Logistics (261,553 s.f.), and CenterPoint Kent (220,800 s.f.). Sales activity included Bentall Kennedy acquiring Bridge Pointe Burien for \$57.5 million (\$238/s.f.), Ivanhoe Cambridge out of Canada purchasing Earlington Business Park (\$15.19 million or \$131/s.f.) and Kent 19 (\$10.1 million or \$101/s.f.), and Hill Investment Co. acquiring Van Doren's 228 in Kent for \$12.5 million (\$155/s.f.). Notable leases include the renewal of Holman Distribution in Building C at Northwest Corporate Park (204,000 s.f.).

Average asking rents (blended) continue to climb, now at \$0.68/s.f., \$0.03/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 \$110 to \$160/s.f. Land values will range between \$14.00 to \$19.00/s.f. for fully improved sites, with the higher prices further north.

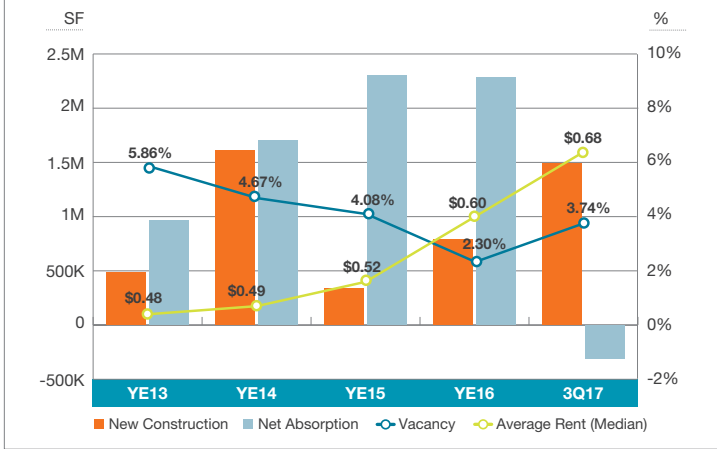
Snohomish County Review

Snohomish County saw net absorption pick up with nearly 100,000 s.f. absorbed. With no deliveries, the vacancy dropped slightly from 4.00% to 3.81%. Projects under construction include Panattoni's The Reserve at Woodinville (two buildings totaling 199,700 s.f.), and two smaller properties in Everett and Mukilteo. One notable sales includes Monte Villa Research Center selling for \$17.8 million (\$345/s.f.) Seattle Genetics was the buyer.

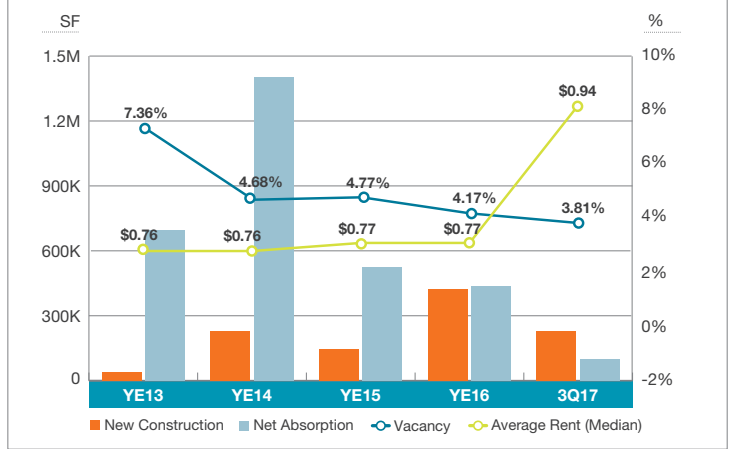
Similar to the other submarkets, Snohomish County's average asking rental rate saw asking rental rates increase slightly from \$0.93/s.f. to \$0.94/s.f. The forecast over the next six months is for warehouse lease rates to range between \$0.60 to \$0.70/s.f./month, NNN in the closer-in submarkets and 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.). Land values should range from \$5 to \$12/s.f.



SOUTH KING COUNTY



SNOHOMISH COUNTY



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 absorption and development and with an abundance of available land, this trend is likely to continue. On the leasing side, the market achieved 802,533 s.f. of positive net absorption in the quarter and nearly 2.6 million s.f. through the first nine months of the year. Three buildings totaling 232,910 s.f. were completed in the quarter, including Puyallup Distribution Center (123,500 s.f.). Absorption outpaced deliveries, with a drop in vacancy rate 4.25% to 3.46%. Average asking blended rents continue to increase, now at \$0.58/s.f., a \$0.03/s.f. increase over the past quarter. On the development side, 10 buildings totaling 4,053,559 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. These are nearing completion. 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, 770,645 million s.f. is pre-leased. Development hot spots include Sumner, Port of Tacoma/Fife, and DuPont. Overall, there is another 4.0 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 reportedly Industrial Redevelopment LLC. Significant move-ins this quarter include Amazon (401,076 s.f.) at Rainier Building-Sumner Corporate Park, and Alliance Door Products (118,912 s.f.) in the Chinook Building, also in Sumner. UPS will be moving into the Prologis Park Tacoma Building B (770,194 s.f.) soon.

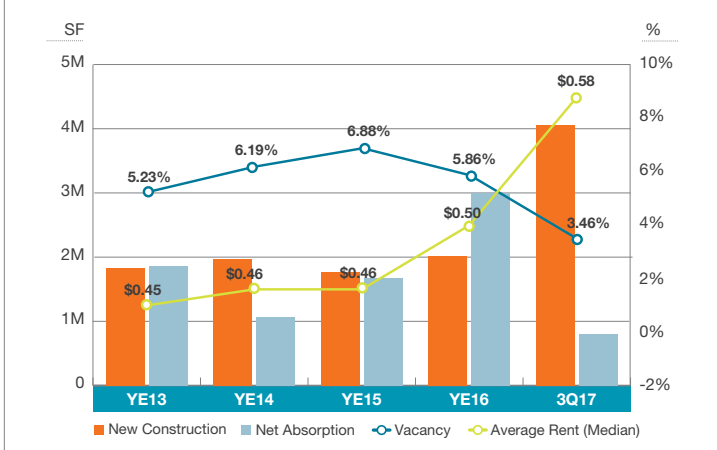
Pierce County's forecast is for shell rates to range between \$0.35 to \$0.55/s.f./month, NNN, plus add-on office rates of \$0.70 to \$0.95/s.f./month. Industrial building sale prices will range from \$50/s.f. for older buildings to \$100 to \$140/s.f. for new or smaller buildings. Land values typically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

Thurston County Review

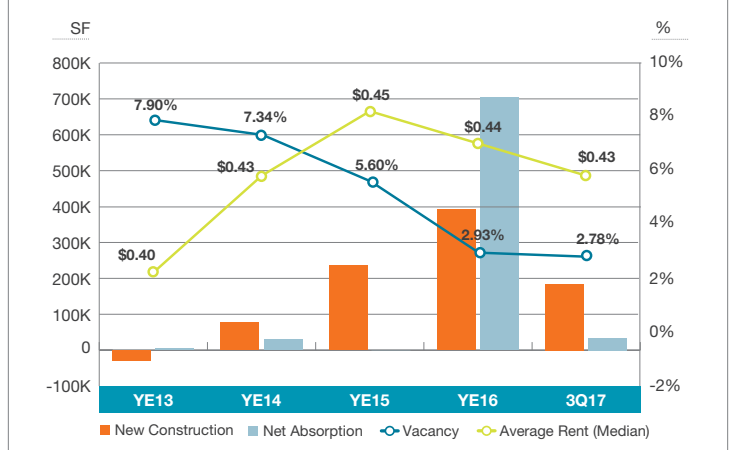
The smallest market in the region continues to be very active. Meridian Campus Corporate Park sold to Dermody Properties for \$42.1 million (\$92/s.f.). The sale included surplus land for future developments of an additional 400,000 s.f. Absorption was positive for the quarter (184,763 s.f.). With absorption outpacing deliveries, the vacancy rate dropped 132 basis points to 2.78% from 4.1%. Two smaller projects (34,200 s.f.) are under construction with deliveries expected later this year. Several projects are in the pipeline. Long term, Thurston County has a substantial amount of land available for development. There is nearly 4.9 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. Average asking rents are down \$0.03/s.f. over the past quarter to \$0.43/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 and over \$8.00/s.f.

PIERCE COUNTY



THURSTON COUNTY REVIEW



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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
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Orange County	949.557.5000
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soft market conditions. Autos, at 96,962 units, year to date are down 19% reflecting weakening U.S. demand and shifting manufacturing locations.

Sales activity through the first nine months of 2017 has been slower with 154 sales totaling \$657.4 million. This compares to nearly \$1.5 billion (268 transactions) sold in 2016. Notable sales in the 3rd quarter include Bridge Pointe Burien (cold storage) selling for \$57.5 million by Bentall Kennedy; Meridian Campus Corporate Park selling for \$42.1 million by Dermody Properties; Market Street Center in Ballard (\$24.9 million by Kurt O'Brien); Monte Villa Research Center (\$17.8 million by Seattle Genetics); Hill Investment Co acquisition of Van Doren's 228 for \$12.5 million; and Ivanhoe Cambridge acquisition of Earlington Business Park (\$15.19 million) and Kent 19 (\$10.1 million). The average cap rate on all sales year-to-date 2017 is 6.40%.

Vacant Space / Vacancy Rate

A total of 1,007,043 s.f. was delivered in the 2nd quarter. With positive net absorption of just under 500,000 s.f., the region's vacancy increased slightly over the past quarter from 3.16% to 3.30%, 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 and early 2018, which will help keep vacancy in check.

New Construction Activity

There are 24 buildings totaling nearly 6.4 million s.f. now under construction. About 19% of this space is pre-leased or owner-user facilities. Pierce County once again is the most active at 4,053,559 s.f. (10 projects), followed by South King with 1,490,146 s.f. (seven projects). Seattle Close-in has one project (589,615 s.f.). A list of notable projects under construction is included in the Development News/Significant Transactions section.

Rent Forecast

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

Market Demand/Absorption

As noted above, absorption is positive at 498,636 s.f. for the 3rd quarter, with three of the six submarkets achieving positive results. Pierce County (802,553 s.f.) and Thurston County (184,763 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. A list of notable 3rd quarter leases is included in the Significant Transaction section.

Development News/Significant Transactions

Notable projects under construction include:

- Prologis Park Tacoma-Buildings A & B (241,140 s.f. and 770,195 s.f.) are nearly complete.
- IPT Tacoma Logistics-Buildings A & B (286,525 s.f. and 837,620 s.f.)-expected delivery 2nd quarter 2018.
- DCT Blair Logistics-Buildings A & B (542,750 s.f. and 428,228 s.f.)-expected delivery 2nd quarter (Building A) 4th quarter 2018 (Building B)
- The Reserve at Woodinville (199,700 s.f.), Panattoni's new development is underway with an expected delivery before the end of 2017.
- Prologis Georgetown Crossroads project (589,615 s.f.) is underway, delivery by 3rd quarter 2018.
- Des Moines Creek Business Park Phase IV-Buildings A and B (514,121 s.f.)-delivery by 2nd quarter 2018.
- North Auburn Logistics (261,553 s.f.) is targeted for an early 2018 delivery.

Notable Sales over \$10 million include:

- Bridge Pointe Burien sold for \$57,500,000 (\$238/s.f.). Buyer is Bentall Kennedy and seller is Bridge Development Partners out of Chicago.
- Meridian Campus Corporate Park sold for \$42,100,000 (\$92/s.f.). The buyer is Dermody Properties and the seller is FirstCal Industrial.
- Market Street Center sold for \$24,900,000 million (\$374/s.f.). Buyer is Kurt O'Brien and seller is Goodman Real Estate.
- Monte Villa Research Center sold for \$17.8 million (\$345/s.f.). Seattle Genetics was the buyer. Seller was BioMed Realty Trust, Inc.
- Earlington Business Park in Renton sold for \$15.19 million (\$131/s.f.). Buyer was Ivanhoe Cambridge and seller was IC Industrial Management, LLC.

Notable leases include:

- Amazon (401,076 s.f.) at Rainier Building-Sumner Corporate Park
- Holman Distribution (204,000 s.f.) renewal at Northwest Corporate Park, Building C
- Alliance Door Products (118,192 s.f.) at Chinook Building-Sumner
- TransTrade (96,040 s.f.) at Fife Corporate Center, Building B

Data Source: CoStar