

Seattle Industrial

The Puget Sound region’s industrial market delivered nearly 1.3 million s.f. in the fourth quarter. Several large tenants that had pre-leased space earlier in the year finally occupied these spaces this quarter, boosting the net absorption up to nearly 2.3 million s.f. this quarter. The end result saw the vacancy rate drop from 3.3% to 3.0%. For the year, nearly 6.0 million s.f. was absorbed, keeping pace with deliveries of nearly 6.2 million s.f. in 2017. Currently, 5.4 million s.f. is under construction while another 14.1 million s.f. is in the pipeline. This marks the seventh straight year of positive absorption and growth of the market. Since 2011, the region has averaged nearly 4.6 million s.f. per year in positive absorption compared to 3.1 million s.f. of new construction per year.

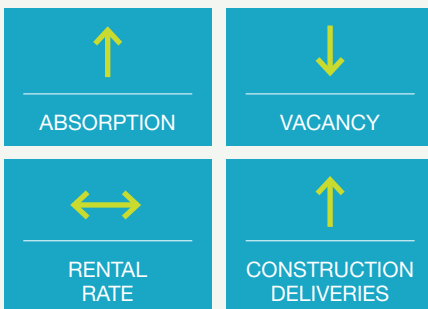
The Puget Sound region’s industrial market vacancy at 3.0% compares favorably to the Nation’s industrial market, at 5.1% as of the 3rd quarter and has consistently achieved lower vacancy rates over the past 10 plus years. The reason is due to our region’s strong employment growth, thanks to Amazon, Microsoft, and other high-tech firms that have helped offset the downsizing that has been occurring at Boeing. Earlier this year there was some “concern” when Amazon announced it would create a second headquarters (HQ2) somewhere in North America. The company did not specifically rule out the Puget Sound, but there is a very specific list of requirements with a primary goal of tapping into a new employee pool in a location amenable to that talent. The reality is that it would be difficult for the region to accommodate a HQ2 level expansion as the infrastructure of the Seattle CBD is already over-capacity and

Bellevue and Redmond just do not have sufficient land for that much office development. On the industrial side, there is sufficient capacity to accommodate additional large fulfillment centers along the I-5 corridor, particularly in Pierce and Thurston Counties. Also, there is no indication that the new HQ2 would lead to a reduced presence in our region, so overall there does not appear to be any concern for the time being.

On the employment side, year over year growth (November 2016 to November 2017) was very strong at 62,400 jobs gained, a 3.0% increase. This is slightly above the projected 2.8% growth expected in 2017 as forecasted by the Center of Economic and Business Research at Western Washington University. Sectors leading the growth include Professional & Business Services (+10,300 jobs), Retail Trade (+8,900 jobs), Construction (+8,300 jobs), Government (+7,000 jobs), and

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Market Forecast Trends



Market Up Close

Positive absorption of 6.0 million s.f. in 2017 is the second highest all time in the region.

Rental rates continue to increase in some markets and holding steady in others.

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

Majority of the projects in the pipeline are in Pierce and Thurston Counties.

Area Review

Seattle CBD / Surrounding Area Review

The Seattle Close-In market vacancy decreased from 1.79% to 1.56%, due to positive net absorption of 128,942 s.f. in the quarter. One project, Prologis Georgetown Crossroads (589,615 s.f.) is under construction with an expected 3rd quarter 2018 delivery. It has been 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 Elysian Brewery selling for \$21.45 million (\$180/s.f.). Encore Elysian LLC was the buyer. Clean Sound (a petroleum tank farm) was purchased by Seaport Midstream Holdings for \$14,976,000. Nelson Trucking site was acquired by Champion Properties for \$12,500,000 (\$32/s.f.-site area).

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, with positive net absorption of 88,683 s.f. for the quarter, pushing the vacancy rate down to 3.22% from 3.64%. The majority of the leases continue to be under 10,000 s.f. due to the higher concentration of flex buildings. There are presently no projects under construction but one or more project in the pipeline that may start in 2018. Despite the increase in vacancies, current average rental rates bumped up to \$1.31/s.f., the highest in the region. There were two notable sales. The first is Lunde Center in Bellevue that sold for \$10,909,252, which was a land play by a senior housing developer. This is a common trend occurring on the Eastside with rising land prices and zoning changes paving the way for higher density projects and reducing the industrial supply. The other sale is the Cascade Engineering building at Redmond East Business Campus, a sale leaseback that sold for \$6.5 million (\$210/s.f.).

The forecast is for NNN warehouse lease rates with high-bay warehouse manufacturing space to range between \$0.70 and \$1.00/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 \$0.95/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 \$220/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.

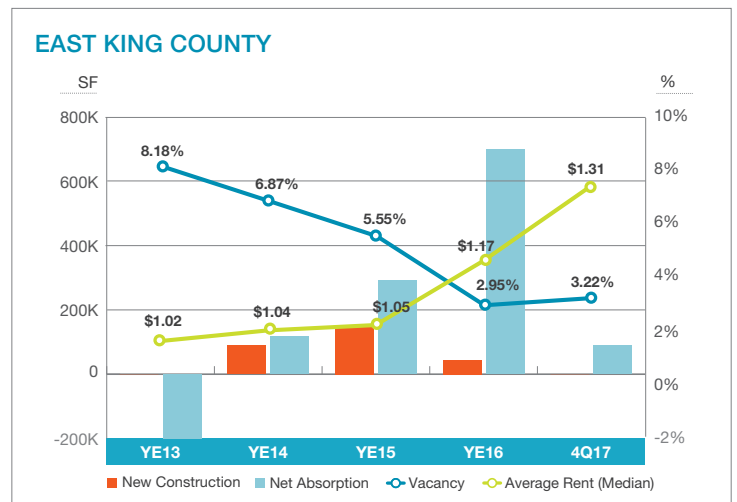
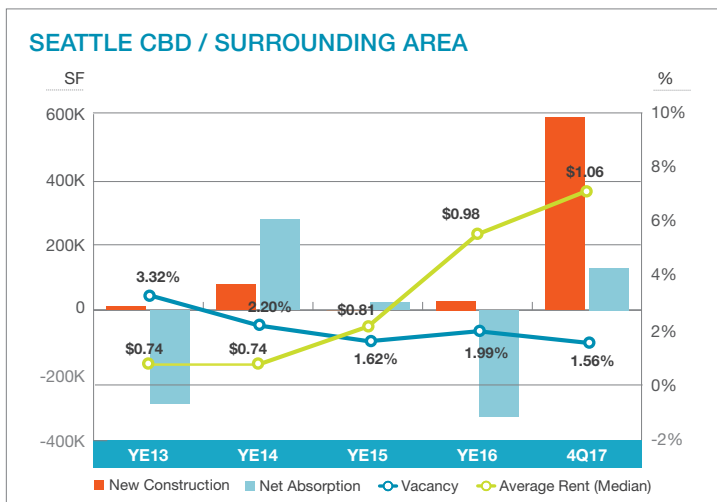
South King County Review

The South King submarket had another busy quarter with 132,683 s.f. of positive absorption. There was one smaller project, West Valley 182 (42,982 s.f.) was delivered this quarter. The vacancy rate inched down from 3.74% to 3.66%. The market is the second most active in terms of new construction, with 1,454,964 s.f. under construction including Seattle Gateway Central (325,290 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 Clarion Partners acquiring Renton Logistics from TIAA for \$67.51 million (\$147/s.f.). EverWest Real Estate Partner acquired West Valley Distribution Center for \$17,520,000 (\$127/s.f.), and Cabot Properties out of Boston purchased Upland Corporate Park West for \$8.2 million (\$128/s.f.).

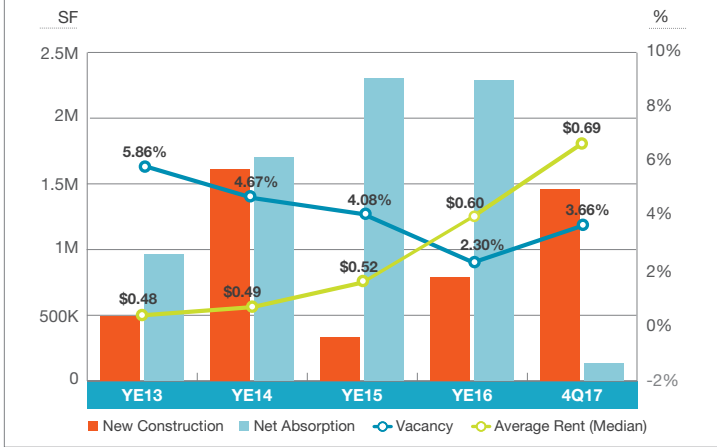
Average asking rents (blended) continue to climb, now at \$0.69/s.f., \$0.01/s.f. higher than last quarter. For smaller spaces (under 10,000 s.f.), shell rates range from \$0.45 to \$0.55/s.f.; \$0.42 to \$0.45 for spaces between 10,000 s.f. and 20,000 s.f.; and \$0.36 to \$0.45 for spaces larger than 20,000 s.f., depending on age and quality. Newer properties are at the upper end of this range. Office add-on rates vary from \$0.75 to \$0.95, 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 also saw positive net absorption of 146,950 s.f. absorbed. With the delivery of four properties (228,750 s.f.), the vacancy rate inched up slightly from 3.81% to 3.95%. One smaller project remains under construction (Leifer Industrial Park-2 at 37,363 s.f.). There were several larger sales. North Creek Parkway Center (six buildings) was acquired by Peregrine Realty Properties for \$36.5 million (\$177/s.f.). Wesmar Building in Woodinville sold for \$13.2 million (\$160/s.f.). The buyer was Northwest Building LLC. Canyon Park Buildings 7 and 8 were purchased for \$9,685,000 (\$140/s.f.) by Carbine Creek Holdings LLC, and the recently completed Reserve at Woodinville, Building B sold for \$6,931,427 (\$162/s.f.) in an off-market deal. Columbia Pacific Advisors was the buyer. Dermody Development purchased 29 acres in Woodinville/Maltby area for \$13,216,483. They are planning to build a



SOUTH KING COUNTY



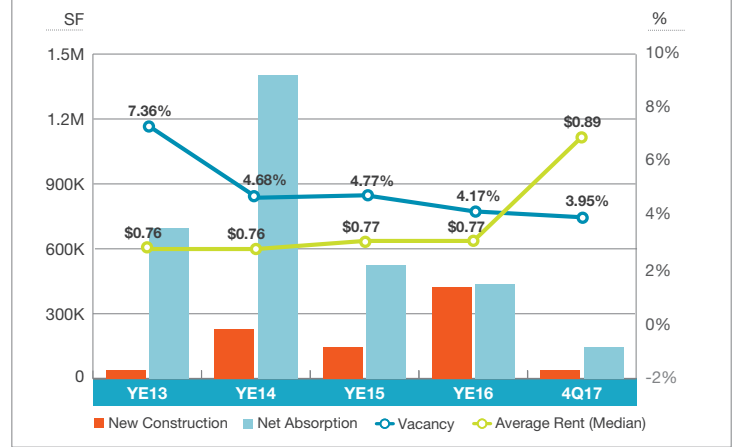
410,000 s.f. development that will be called Dermody 522 Commerce Center. Construction is expected to start in 2018.

Average asking rental rate saw a slight downward adjustment, dropping to \$0.89/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

Not to sound like a broken record, but 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 1,789,202 s.f. of positive net absorption in the quarter and nearly 4.4 million s.f. for the year. Prologis Park Tacoma (two buildings) totaling 993,120 s.f. were completed. With absorption outpacing deliveries, the vacancy rate dropped from 3.46% to 2.35%. There are still 3.3 million s.f. under construction or about 60% of the total for the region. Development hot spots include Sumner, Port of Tacoma/Fife, and DuPont. Overall, there is another 3.8 million s.f. in the pipeline. Significant move-ins this quarter include UPS (770,195 s.f.) at Prologis Park Tacoma-Building B; Pacific Cascade (267,703 s.f.) at North Country Business Park; Electrolux (210,700 s.f.) at LogistiCenter at

SNOHOMISH COUNTY



I-5, Mattress Firm (132,525 s.f.) at the Chinook Building in Sumner; and Lennox Industries (111,783 s.f.) at Enterprise Center Fife. On the sale side, TIAA sold Lakewood Corporate Center for \$23.9 million (\$117/s.f.). TA Realty was the buyer.

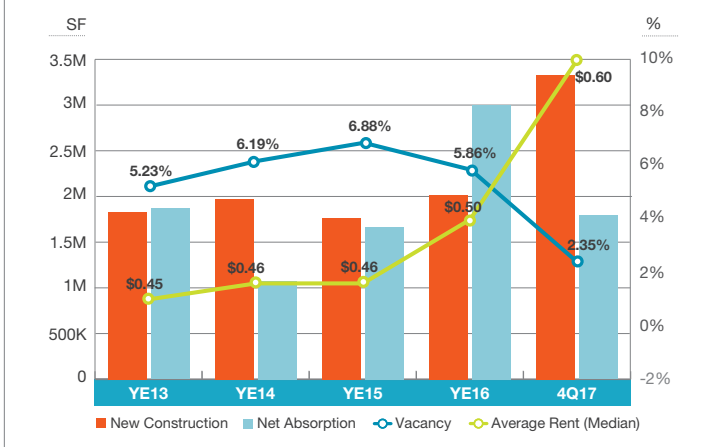
Pierce County's forecast is for shell rates to range between \$0.35 to \$0.55/s.f./month, NNN, plus add-on office rates of \$0.70 to \$0.95/s.f./month. Industrial building sale prices will range from \$50/s.f. for older buildings to \$100 to \$140/s.f. for new or smaller buildings. Land values typically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

Thurston County Review

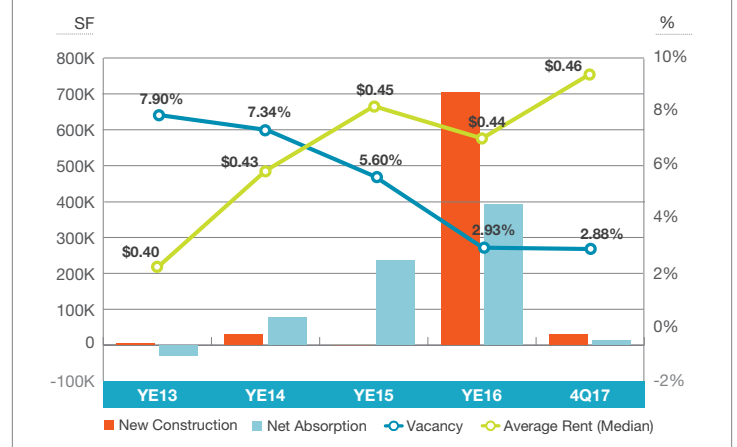
Thurston County saw a modest amount of absorption (12,133 s.f.), while deliveries totaled 25,200 s.f. The vacancy rate rose slightly from 2.78% to 2.88%. Currently, one project, Tumwater Commerce Lot 12 (30,000 s.f.) is under construction, with an expected completion in early 2018. Long term, Thurston County has a substantial amount of land available for development. There is nearly 5.3 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 have fluctuated. As of the end of 2017, they are at \$0.46/s.f., \$0.03/s.f. higher from the past quarter.

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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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
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Information (+6,200 jobs). The sectors that influence the industrial market include Wholesale Trade (+3,400 jobs), and Transportation & Warehousing (+2,700 jobs) which have help offset losses in Manufacturing (-4,800 jobs), primarily due to Boeing job cuts. The expectation is that employment will still be positive in 2018, but at a slower rate of 2.0% and 1.2% in 2019.

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 November increased 2%. Year-to-date import volumes increased 1% to 1,380,445 TEUs (20-foot equivalent units), while exports were up 8% at 1,320,534 TEUs. Year-to-date international volumes are currently trending to be the fourth highest in the Port's history. On other news, log volumes remain positive year to date, up 63%, while other breakbulk cargo volume was up 14%. On the downside, weakening U.S. demand and a shift in manufacturing locations continue to impact auto volumes, down 14%.

Sales activity in 2017 now stands at 221 transactions totaling \$3.63 billion compared to 262 sales and \$12.52 billion in 2016. The most notable sale in the fourth quarter that sold was Renton Logistics (\$67.51 million) by Clarion Partners. Other sales include Lakewood Corporate Park selling for \$23.9 million by TA Realty, Elysian Brewery in Seattle selling for \$21.45 million by Encore Elysian. Finally, Everwest Real Estate Partners acquired West Valley Distribution Center for \$17.52 million. The average cap rate on all sales year-to-date 2017 is 6.19% compared to 6.35% in 2016.

Vacant Space / Vacancy Rate

A total of 1,290,052 s.f. was delivered in the fourth quarter. With positive net absorption of nearly 2.3 million s.f., the region's vacancy decreased by 32 basis points from 3.30% to 2.98%. With several signed leases that have not yet occupied space, there should be some good momentum carrying over into 2018.

New Construction Activity

There are 17 buildings totaling 5.4 million s.f. now under construction. About 8% of this space is pre-leased or owner-user facilities. Pierce County once again is the most active at 3,330,245 s.f. (eight projects), followed by South King with 1,454,964 s.f. (six projects). Seattle Close-in has one project (589,615 s.f.).

Rent Forecast

Rental rates over the past three months have seen a mix of some increases and decreases, depending on the particular market. Overall, for the region, the average asking rental rate has held steady.

Market Demand/Absorption

As noted above, absorption is positive at 2,298,593 s.f. for the fourth quarter and 5,992,989 s.f. for the year.

Pierce County (1,789,202 s.f.) led the way this quarter followed by Snohomish County (146,950 s.f.), South King (132,683 s.f.), and Seattle (128,942 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. A list of notable fourth quarter leases over 200,000 s.f. is included in the Significant Transaction section.

Development News/Significant Transactions

Notable projects under construction include:

- Panattoni's Lakewood Tacoma Gateway (467,526 s.f.)-expected delivery-second quarter 2018
- IPT Tacoma Logistics-Buildings A & B (286,525 s.f. and 837,620 s.f.)-expected delivery second quarter 2018
- DCT Blair Logistics-Buildings A & B (542,750 s.f. and 428,228 s.f.)-expected delivery second quarter (Building A) fourth quarter 2018 (Building B)
- Seattle Gateway Center 1 & 2 (325,290 s.f. & 133,200 s.f.)-expected delivery second quarter 2018
- Prologis Georgetown Crossroads project (589,615 s.f.) is underway, delivery by third quarter 2018
- Des Moines Creek Business Park Phase IV-Buildings A and B (514,121 s.f.)-delivery by second quarter 2018
- 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 first quarter 2018
- The Viking in Pierce County (438,065 s.f.)-delivery expected by second quarter 2018

Notable Sales over \$20 million include:

- Renton Logistics Center sold for \$67,510,000 (\$147/s.f.). Buyer is Clarion Partners and seller is TIAA
- North Creek Parkway Center sold for \$36,500,000 (\$177/s.f.). The buyer is Peregrine Realty Properties and the seller is KBS Realty Advisors
- Lakewood Corporate Park sold for \$23,900,000 million (\$117/s.f.). Buyer is TA Realty and seller is TIAA

Notable leases include:

- UPS (770,195 s.f.) at Prologis Park Tacoma-Building B
- Pacific Cascade (267,703 s.f.) at North Country Business Park-Summer
- Electrolux (210,700 s.f.) at LogistiCenter at I-5

Data Source: CoStar