

Real Estate Market Review

Seattle Industrial

The Puget Sound region’s industrial market saw an increased level of activity from the construction and leasing sides. Construction volume increased to 7,004,711 s.f. now under development (38 buildings) compared to 6.1 million s.f. (24 buildings) last quarter. The second quarter also saw delivery of 1.36 million s.f. of new product with the overall market supply standing at nearly 333 million s.f. After a slow first quarter, net absorption totaled nearly 1.2 million s.f. this quarter, keeping close pace with deliveries.

The region’s vacancy rate held steady at 3.3%. During the quarter there were over 1.1 million s.f. of leases signed, but most of these will not be moving into their new spaces until the third or fourth quarters, so we expect the vacancy to continue to approach 3%. With 7.1 million s.f. under construction and another 14.4 million s.f. in the pipeline, the region is poised for additional growth assuming our economy continues to expand. The bulk of these proposed projects are in Pierce, Snohomish, and Thurston Counties. While the consensus is that at some point the market will likely hit some dips, the immediate outlook is still positive.

For starters, port activity is doing well. The Northwest Seaport Alliance reports the May 2018 imports reached their highest level since 2010 at 131,067 TEUs (20-foot equivalent units), an increase of 0.7% over last May. At 114,227 TEUs, export volumes were down 11.2%, but above the five-year average. Breakbulk cargo volume grew 34.8%, year to date, while auto volume continues to be down, currently at 15% year-to-date.

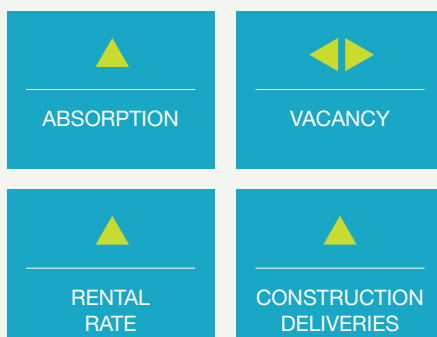
The region’s employment also continues to perform well. Year over year growth (May 2017 to May 2018) grew by 3.0% (nearly 64,000

jobs). The key sectors that have an impact on the industrial market include Construction (+3,900 jobs), Transportation & Warehousing (+600 jobs) and Wholesale Trade (+1,600 jobs). Manufacturing, which has been showing declines in employment, actually was on the positive side at +1,500 jobs over the past 12 months. Looking ahead, The Puget Sound Economic Forecaster’s 2nd quarter 2018 report projects employment growth of 2.4% in 2018 and 1.0% in 2019. The latest growth projections of 2018 is slightly above their prior projected growth of 2.3%, while the 2019 projection is below the prior estimated growth of 1.4%. Wholesale and retail trade is expected to grow by 8,400 jobs followed by Construction at 1,700 jobs and Transportation at 2,200 jobs. Manufacturing is expected to lose another 2,700 jobs, primarily in Aerospace.

Looking at key employers, while Boeing has been trimming jobs, they are planning to boost monthly production of the 737 and 787 jets in 2019 and the 767 in 2020. The biggest backlog on jet orders is the 737 at 4,656 jets. Microsoft is planning to expand their existing campus in Redmond with 18 new buildings over the next five to seven years, remodel several others, and demolish some. The end result is

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Market Forecast Trends



Notable Lease Transactions

SBS Transportation
917 E 11th St, Tacoma
444,428 s.f.

Tiger Logistics
5200 12th St E, Tacoma
160,000 s.f.

Talking Rain
19005 64th Ave S, Kent
95,533 s.f.

Notable Sale Transactions

Redmond East Business Campus
6724 – 6565 185th Ave NE &
18578 – 18640 NE 67th Court, Redmond
291,201 s.f. | \$52.125M or \$179/s.f.

Fife I-5 Commerce Center
2801 78th Ave E, Fife
251,667 s.f. | \$37.5M or \$149/s.f.

Harbour Point Tech Center
6500 Harbour Heights Pky, Mukiteo
328,947 s.f. | \$25M or \$76/s.f.

Area Review

Seattle CBD / Surrounding Area Review

The Seattle Close-In market vacancy rose to 2.1% this quarter. The biggest challenge in this market is for tenants to find space and ultimately many end up looking south for opportunities. Absorption was a negative 322,746 s.f. for the quarter, but the outlook remains positive. Two projects are under construction, including Prologis Georgetown Crossroads (589,615 s.f.) targeted to be completed later this year. West Woodland Business Center (71,460 s.f.) recently broke ground. One notable sale this quarter was Village Investment Partners purchase of the Hathaway Building for \$12,250,000 (\$306/s.f.). Also, Seattle Goodwill Industries purchased the Brick Building for \$5,175,000 (\$187/s.f.).

The forecast for the Seattle Close-In market for the next six months is for lease rates to range from \$1.00 to \$1.80/s.f./month, NNN for medium- and high-grade buildings. Overall, where rents are actually quoted, the average asking rent increased from \$1.06/s.f. to \$1.09/s.f., blended. Demand for sale properties continues to remain high with a very limited supply. Better quality buildings will sell between \$200 and \$300/s.f. When available, depending on size and whether it is paved, graveled, and fenced, yard rates will vary from \$0.22 to \$0.25/s.f. going south to north.

East King County Review

East King County had mix results this quarter. Total supply shrank due to some older buildings removed from the inventory (about 32,000 s.f.) Net absorption was a negative 62,960 s.f. resulting in a slight increase in vacancy from 3.2% to 3.3%. The majority of leases signed are under 10,000 s.f., which is typical for this predominantly flex market. One project in Redmond (7310 185th Ave NE) is underway and totals 65,000 s.f. Delivery is expected before the end of this year. Kennedy-Wilson purchased Redmond East Business Campus, an 8-building office and flex development from The Blackstone Group for \$52.125 million (\$179/s.f.). Compact Information Systems purchased the Nexus Corporate Park in Snoqualmie for \$16 million or \$209/s.f. Nexus Properties, Inc. out of San Diego was the seller.

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 \$1.65/s.f. range. Flex space rents to range between \$1.00 and \$1.40/s.f./month, NNN. Building sale prices are between \$175/s.f. to \$220/s.f. of building area for industrial (owner/users at the high end) and over \$200 to close to \$300/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.

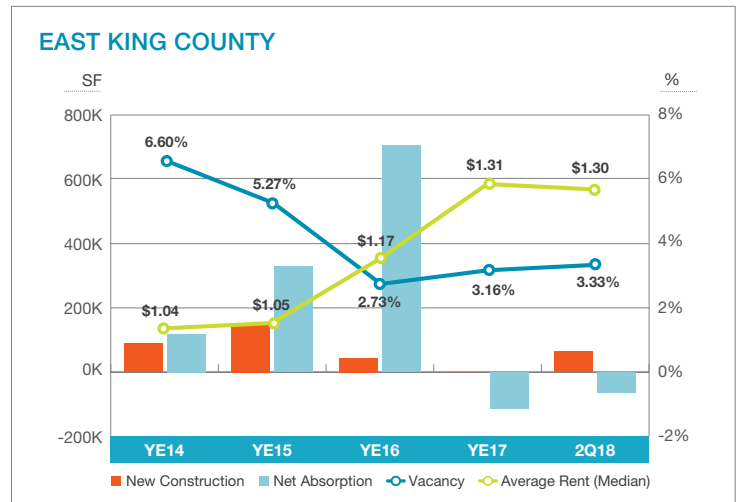
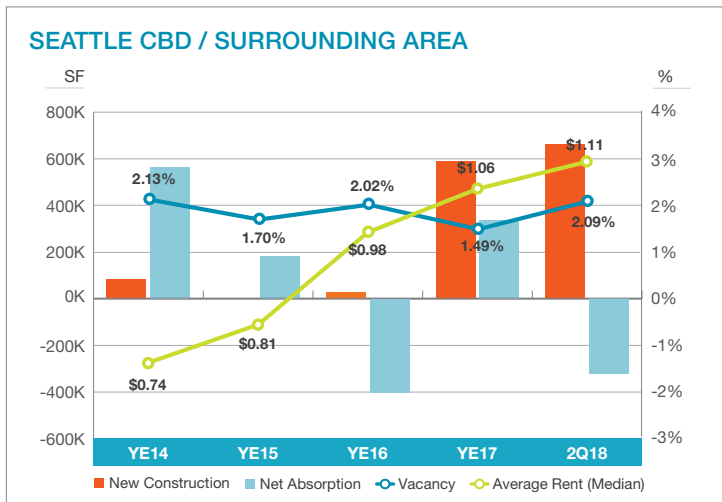
South King County Review

After seeing a slight rise in vacancy last quarter, the South King submarket's vacancy rate dropped back down to 3.7% with positive net absorption of 360,955 s.f. Notable recent leases include Talking Rain (95,533 s.f.) at North Valley 64 and Dealer Tire (84,251 s.f.) at Auburn Distribution Center. Development continues to be active, with Seattle Gateway Center 1 & 2 (458,490 s.f. combined), DCT Hudson Distribution Center (287,832 s.f.), Des Moines Creek Business Park Phase IV, Buildings A & B (514,121 s.f.), North Auburn Logistics (261,553 s.f.), and 234 Distribution Center (125,400 s.f.). All are approaching construction completion and experiencing significant leasing activity. Pacific Logistics North (163,894 s.f.) also just broke ground. There were no deliveries in the quarter, but nearly 1.8 million s.f. are on target to be completed this year. On the sales side, LBA Realty was active with the \$19.5 million purchase of 200 SW 34th Street in Renton (\$133/s.f.) and two smaller buildings at 720-790 Andover Park East (Tukwila) and the Allied Building (Kent) for a combined \$14.5 million or \$141/s.f. We also note that Blackriver Corporate Park sold (\$28.8 million or \$121/s.f.), but that project is comprised primarily of office buildings with a few flex buildings. Laird Norton Properties was the buyer.

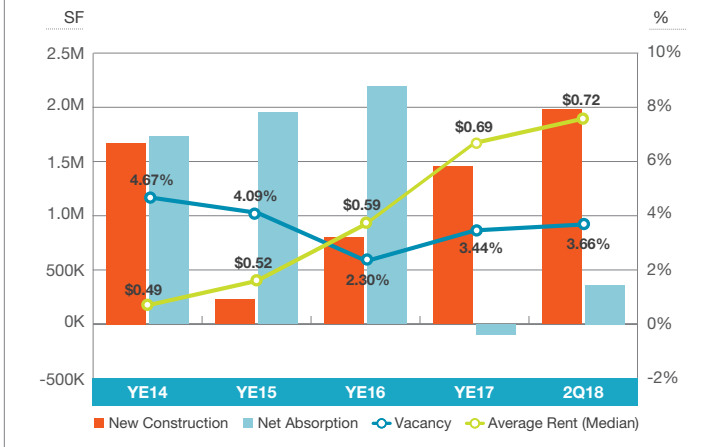
Average asking rents (blended) continue to climb, now at \$0.72/s.f., \$0.02/s.f. higher than last quarter. Shell rates on newly constructed buildings are in the mid \$0.60s/s.f. with office add-on now \$1.00/s.f. Older existing buildings are achieving rents in the lower to mid \$0.60s. Office add-on 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 \$115 to \$170/s.f. Land values will range between \$25 to \$28/s.f. for fully improved sites, with the higher prices further north.

Snohomish County Review

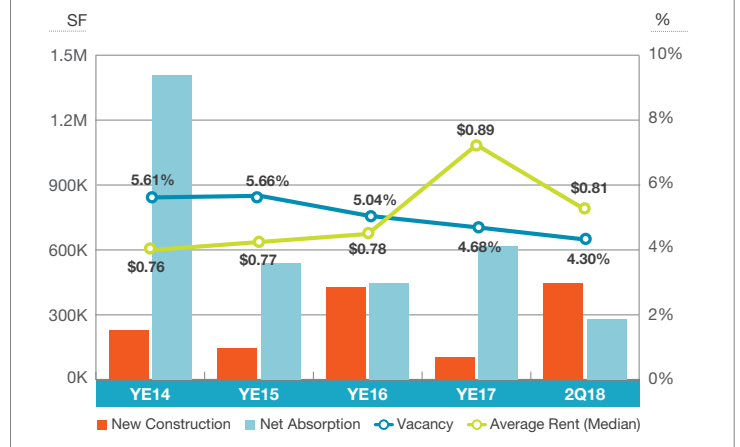
Snohomish County continues to be very active. Seaway West Buildings A & B were delivered this quarter (186,977 s.f.). Net absorption totaled 281,561 s.f., outpacing deliveries. End result is a drop in vacancy to 4.3%. Dermody Development's LogistiCenter @ Woodinville, Buildings A & B (409,500 s.f.) broke ground earlier this year, while Leifer Industrial Park 2 (37,363 s.f.) is nearly done. Also, GS Venture Partners last quarter announced that their Gayteway Business Park, a 54-acre development of the former Northwest Hardwoods and Weyerhaeuser log mill site in Arlington was nearly pad ready for a 300,000 s.f. industrial building and should start construction soon. Up to 1.0 million s.f. is planned. Harbour Point Tech Center in Mukilteo was acquired by a local investment group for \$25 million or \$76/s.f. The Bauman Family Investment acquired two smaller properties in Monroe for \$4.4 million (\$110/s.f.) and \$3,925,000 (\$109/s.f.).



SOUTH KING COUNTY



SNOHOMISH COUNTY



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; \$110 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 \$16/s.f. with an ample supply of industrial-zoned sites, particularly up north in Arlington and Marysville.

Pierce County Review

Pierce County's net absorption for the quarter was nearly 773,000 s.f. However, with nearly 1.2 million s.f. in deliveries, vacancy rose from 2.7% to 3.2%. The County remains very active on the construction front with 11 projects totaling 3,243,593 s.f. or about 46% of the total for the region. Development hot spots include Port of Tacoma/Fife, Puyallup, Lakewood, and DuPont. The largest project completed this quarter was IPT Tacoma Logistics Buildings A & B (1,109,145 s.f.), with SBS Transportation leasing 444,428 s.f. in Building B. Another large tenant moving in this quarter was Tiger Logistics at Building D-Prologis Park Tacoma. Three notable sales this quarter include Fife I-5 Commerce Center for \$37,250,000 (\$149/s.f.) Blackrock is the buyer and The Carlyle Group the seller. Sumner West sold on a sale/leaseback for \$19,750,000 or \$160/s.f. by DCT Industrial Trust. In another sale/leaseback, Jesse Engineering Company sold their building at 1840 Marine View Drive for \$16.7 million (\$27.58/s.f. on the land area) to CenterPoint Properties.

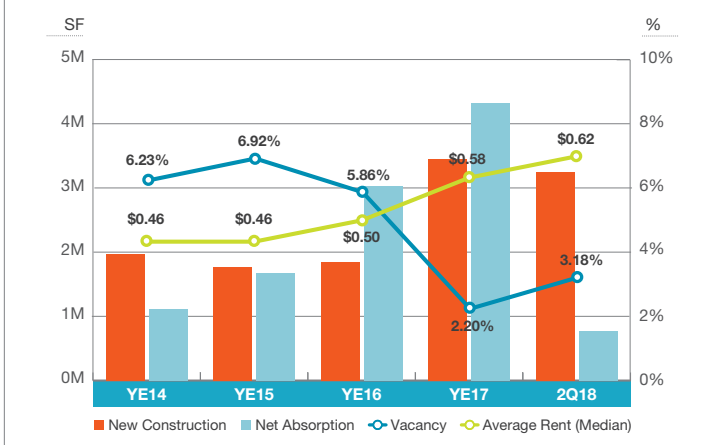
Pierce County's forecast is for shell rates to range between \$0.55 to \$0.62/s.f./month, NNN, plus add-on office rates of \$0.90 to \$1.00/s.f./month. Industrial building sale prices will range from \$80/s.f. for older buildings to \$155 to \$165/s.f. for new or smaller buildings. Land values typically range between \$16/s.f. and \$18/s.f.

Thurston County Review

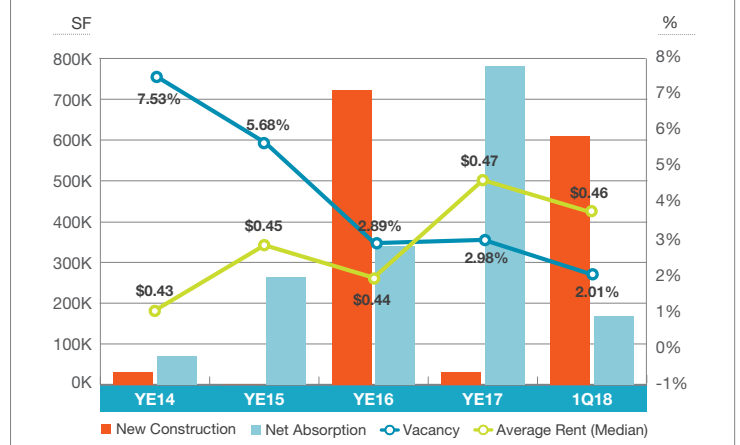
Thurston County saw its vacancy rate drop to 2.0% from 3.3% with 166,979 s.f. in positive net absorption. Construction activity picked up this quarter with two projects at Hawks Prairie III Lots 10 and 19 (226,550 s.f.) and Meridian Campus Corporate Park (9045 Polaris) at 318,028 s.f. Total construction volume stands at 609,828 s.f. With an abundance of land, the County has a substantial amount available for development. Currently, there is about 5.0 million in the pipeline with a potential of about 1.8 million s.f. that could start before the end of 2018. Endangered gopher habitat issues continue to have an impact on development.

Shell 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



potentially adding 8,000 more workers. Amazon continues to hire in Seattle despite the recent drama of the approval, then repeal of the Seattle head tax. Nationally, the trade tariffs by the Trump administration and the potential impacts on our local economy will need to be watched as that is played out over the next several months.

Sales activity through the first half of 2018 was active with 118 transactions totaling \$917.4 million. Cap rates are now in the 4% to 4.5% range. Notable sales over \$20 million that sold this quarter include Redmond East Business Campus (\$52.125 million or \$179/s.f.) to Kennedy-Wilson Properties. Fife I-5 Commerce Center (\$37.5 million or \$149/s.f.) to Black Rock (The Carlyle Group was the seller). Harbour Point Tech Center acquired by MRM Mt. Vernon LLC & GT Mukilteo LLC for \$25 million (\$76/s.f.). The seller was Prescott Realty Group; Sumner West at \$19,750,000 (\$160/s.f.) to DCT Industrial Trust on a sale/leaseback.

Vacant Space / Vacancy Rate

A total of 1,355,847 s.f. was delivered in the 2nd quarter. In addition, some older buildings were removed from the total supply (approximately 67,000 s.f.) With positive net absorption of 1,196,710 s.f., the region's vacancy held steady at 3.3%. There are several leases signed but the tenants have not yet moved in, which should continue to boost the market.

New Construction Activity

There are 38 buildings totaling 7.0 million s.f. now under construction, with about 22% of this space pre-leased or owner-user facilities. Pierce County once again is the most active at 3,243,593 s.f. (15 buildings), followed by South King with 1,978,352 s.f. (12 buildings). Seattle Close-in has two projects (661,075 s.f.) and Snohomish County is also active with 609,828 s.f. (three buildings). A list of notable projects under construction is included in the Development News section.

Rent Forecast

Rental rates over the past three months saw an increase in three of the six markets. Overall, for the region, the average asking rental rates continue to grow on a quarterly basis.

Market Demand/Absorption

As noted above, absorption was positive at 1,196,710 s.f. for the 2nd quarter. Pierce County led the way (772,921 s.f.), followed by South King (360,955 s.f.) and Snohomish County (281,561 s.f.).

Development News

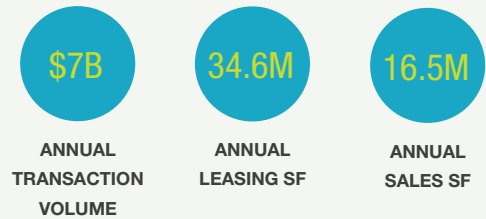
Notable projects under construction include:

- Panattoni's Lakewood Tacoma Gateway (467,526 s.f.) - delivery 3Q18
- IPT Sumner Distribution Center (229,016 s.f.) - delivery 3Q18
- DCT Blair Logistics-Buildings A & B (542,750 s.f. and 428,228 s.f.) - delivery 3Q18 (Building A) 4Q18 (Building B)
- Seattle Gateway Center 1 & 2 (325,290 s.f. & 133,200 s.f.) - delivery 3Q18
- Prologis Georgetown Crossroads project (589,615 s.f.) - delivery 3Q18
- North Auburn Logistics (261,553 s.f.) - delivery 3Q18
- DCT Hudson in Auburn (287,832 s.f.) - delivery 3Q18
- LogstiCenter @ Woodinville-Buildings A & B (275,500 s.f. and 134,000 s.f.) - delivery 4Q18
- Des Moines Creek Business Park Phase IV-Buildings A and B (514,121 s.f.) - delivery 4Q18
- The Viking in Pierce County (438,065 s.f.) - delivery 1Q19
- Gayteway Business Park in Arlington is ready to move forward with 300,000 s.f. A 12-month construction period is projected
- DCT 167 Landing, Buildings A & B (360,955 s.f.) - delivery 1Q19
- Meridian Campus Corporate Park (318,028 s.f.) - delivery 3Q18
- Hawks Prairie III-Lots 10 and 19 (226,550 s.f.) - delivery 1Q19

Data Source: CoStar

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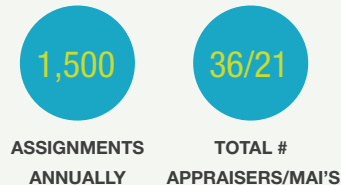
COMMERCIAL BROKERAGE



PROPERTY MANAGEMENT



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