

Real Estate Market Review

Seattle Industrial

After the starting the year slowly, the Puget Sound region’s industrial market has returned to a strong performance over the last two quarters. Nearly 2.0 million s.f. was absorbed in the third quarter, bringing the year to date absorption to 2.7 million s.f. Despite strong leasing activity, nearly 2.7 million s.f. of new product was delivered in the quarter resulting in a slight upward bump in the vacancy rate to 3.5% compared to 3.3% from the prior quarter. Regardless, a 3.5% vacancy indicates a very tight market region wide.

Construction volume declined to 5.3 million s.f. (30 projects) from 7.0 million s.f. Fifteen percent of the speculative construction is pre-leased. During the quarter there were over 1.3 million s.f. of leases signed, but most of these will not be moving into their new spaces until the next several months, so vacancy is expected to continue to hold in the 3% to 4% range. Another 15.1 million s.f. is in the pipeline, with the bulk in Pierce, Snohomish, and Thurston Counties. Given the availability of land to develop in these counties, additional growth is likely assuming our economy continues to expand.

While at some point there will be a correction, the region’s employment continues to remain bright. Year-over-year growth (July 2017 to July 2018) grew by 3% (just over 64,000 jobs). The key sectors that have an impact on the industrial market include construction (+3,900 jobs), transportation & warehousing (+5,400 jobs), and wholesale trade (+3,000 jobs). Manufacturing, which has been showing declines in employment, actually was on the positive side at +2,900 jobs over the past 12 months. The Puget Sound Economic Forecaster’s 3rd quarter

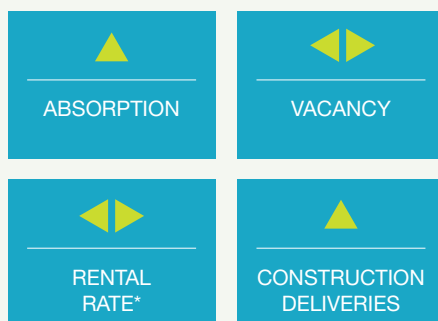
2018 report has revised its job growth forecast from the prior quarter from 2.4% to 2.5% in 2018, while the 2019 growth is lower at 1.2% versus 1.4%. They expect construction jobs to be lower with a drop in permits, with additional drops in manufacturing (-1,600 jobs primarily from aerospace). Transportation and utilities are expected to remain flat, while the trade sector is expected to gain about 3,300 jobs.

Port activity in both Tacoma and Seattle saw container volumes in August drop 6.9% for a total of 314,321 TEUs. This was due to weather conditions in Asia causing delays. Year-to-date volumes are down 1.7%. Breakbulk cargo volume grew 27.2%, year to date, while auto volume continues to be down, currently at 10% year-to-date. Volumes are expected to be better in September. The NWSA also reported that four super post-Panamax cranes at Husky Terminal in their South Harbor went into service allowing bigger ships to berth without stow restrictions.

Looking at key employers, while Boeing has been trimming jobs, they are planning to boost monthly production of the 737 and 787 jets in

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Market Forecast Trends



YEAR-TO-YEAR BASIS | *VARIES BY SUBMARKET

Notable Lease Transactions

GTL Logistics
Cascade Building, Sumner Corporate Park
105,559 s.f.

Outdoor Research
Des Moines Creek Business Park
Phase IV, Building B
105,285 s.f.

XPO
Prologis Park Sumner, Building 7
96,000 s.f.

Notable Sale Transactions

South Seattle Industrial Portfolio
Buyer is Centerpoint Properties Trust Inc.
Seller is Russak Companies
\$73M or \$213/s.f.

Pepsi Bottling Facility in Seattle
Buyer is Prologis; Seller is Pepsi Co., Inc.
\$65M or \$314/s.f.

Sears Warehouse in Kent
Buyer is Centerpoint Properties Trust Inc.
Seller is Sears Holding Corp.
\$49M or \$166/s.f.

Area Review

Seattle CBD / Surrounding Area Review

The Seattle close-in market vacancy dropped slightly from 2.1% to 2.0% with a modest amount of net absorption (20,094 s.f.) in the quarter. With a continued tight market, tenants are still challenged in finding spaces to lease, and ultimately look elsewhere for opportunities. While the majority of the leases were for smaller spaces, the market saw several sales this quarter, including two large transactions. The first is Centerpoint Properties acquiring three industrial buildings along 1st Avenue S for \$73 million (\$213/s.f.), and the second is Prologis' purchase of the Pepsi Bottling facility in the Rainier Valley for \$65 million or \$314 s.f. In Ballard, Talon Private Capital purchased the four-acre Marine Terminal property for \$18,615,000 or \$319/s.f. Lincoln Property Company purchased the South Seattle Business Park Building A for \$17.5 million (\$170/s.f.). Merlino Foods sold an existing 3.2-acre parcel improved with older industrial buildings to Mount Baker Housing Association, who will redevelop the property into an affordable apartment housing project. They paid \$19,869,650 for the site.

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 \$0.25 to \$0.30/s.f. going south to north.

East King County Review

East King County saw an increase in supply with the delivery of two buildings totaling 77,627 s.f. Leasing activity was decent with the majority of leases below 10,000 s.f. in this predominantly flex market. Net absorption totaled nearly 85,000 s.f. for the quarter with the vacancy rate declining slightly from 3.3% to 3.2%. Presently, there are no new projects under construction. As noted above, KBS transferred the Westpark Business Park into a related fund for \$169.4 million.

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 are forecast 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.

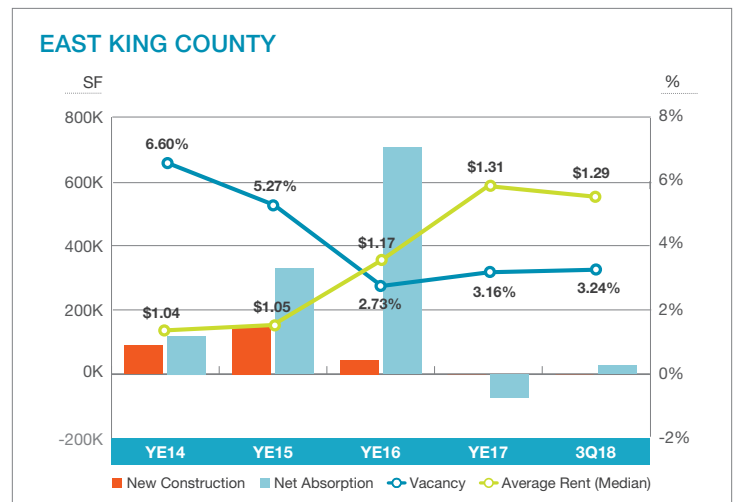
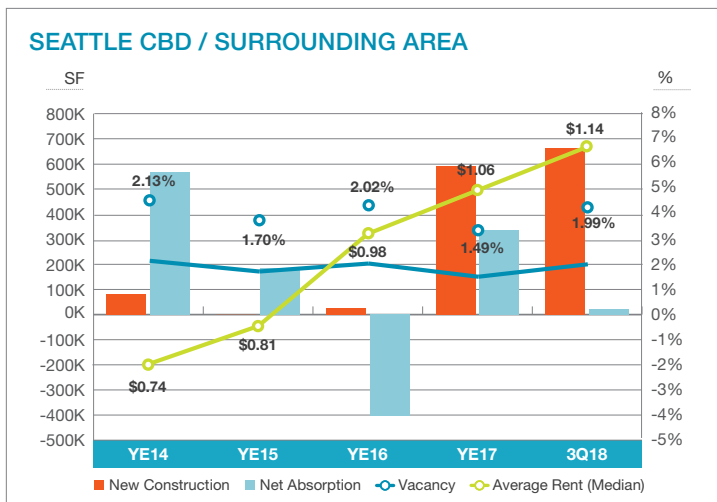
South King County Review

The region's largest submarket had the highest net absorption at 892,755 s.f. this quarter. However, the vacancy rate inched up from 3.7% to 3.8% as over 1.1 million s.f. of new product was delivered. Construction remains active with over 1.2 million s.f. still underway (7 projects). The largest tenant moving in this quarter was Outdoor Research (105,258 s.f.) at Des Moines Creek Business Park Phase IV Building B. There were other large leases signed this quarter with occupancy slated to occur next quarter. These will provide a continued boost and push the vacancy rate down. Not only was the market active on the leasing side, but sales as well. In addition to purchasing the South Seattle portfolio noted above, Centerpoint Properties also purchased the Sears Warehouse in Kent for \$49 million (\$166/s.f.) in a sales/leaseback. EverWest Real Estate acquired three industrial buildings in Auburn from William Gates for \$30.5 million (\$176/s.f.). Finally, LBA Realty purchased the former Brady Hardwoods Building in Renton for \$11.3 million (\$138/s.f.).

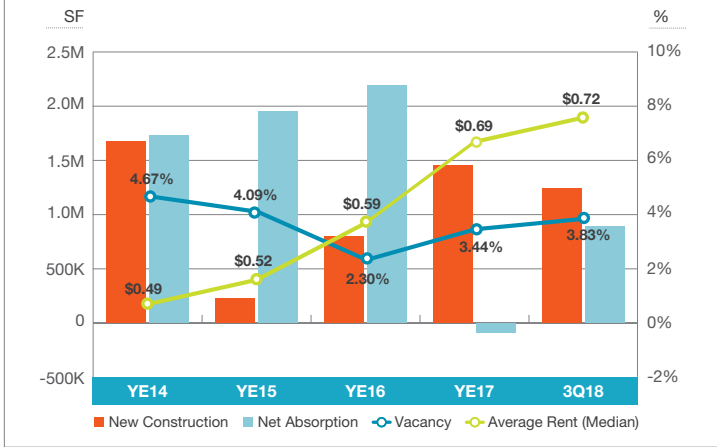
Average asking rents (blended) held at \$0.72/s.f., but individual rates on newer product continue to increase. Shell rates on newly constructed buildings are in the mid \$0.60s/s.f. with office add-on now \$1.00/s.f. Older existing buildings are achieving rents in the lower to mid \$0.60s. Office add-on 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 \$180/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

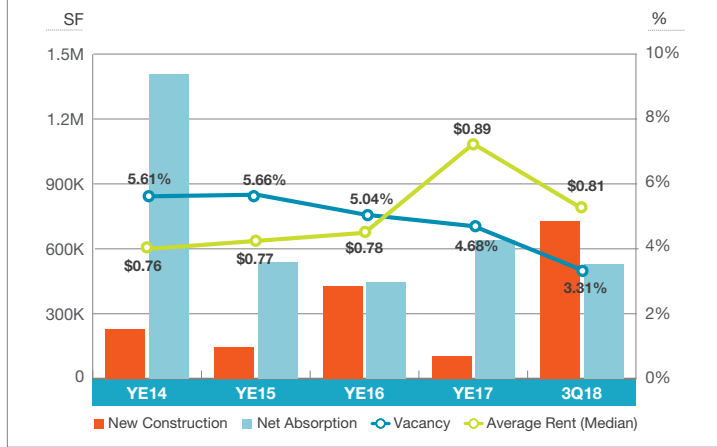
Snohomish County continues to do well this year. Net absorption in the 3rd quarter totaled nearly 530,000 s.f., and with only 19,000 s.f. of new product added, this submarket saw the biggest drop in vacancy from 4.3% to 3.3%. It is very active on the development side with 726,748 s.f. under construction (7 projects), the majority in the Maltby area. Up north in Arlington, the developers of the Gayteway Business Park are continuing with site work and with 300,000 s.f. to be starting later this year or in early 2019. Including the Gayteway project, nearly



SOUTH KING COUNTY



SNOHOMISH COUNTY



2.7 million s.f. is in the pipeline. Sunrise Identity in Woodinville sold for \$10,625,000 (\$142/s.f.). The buyer was Redapt Systems & Peripherals.

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 482,000 s.f. However, with nearly 1.1 million s.f. in deliveries, vacancy rose from 3.2% to 3.9%. The County remains very active on the construction front with 12 projects totaling 2,403,773 s.f. or about 46% of the total for the region. Development hot spots include Port of Tacoma/Fife, Puyallup, Lakewood, and DuPont. The two largest projects completed this quarter were DCT Blair Logistics-Building B (428,228 s.f.) and Lakewood Tacoma Gateway (467,526 s.f.). Tenants moving in this quarter include GTE Logistics (101,559 s.f.) in the Cascade Building-Summer Corporate Park; XPO (96,000 s.f.) at Prologis Park Summer; Stryder Logistics (88,170 s.f.) at Simpson Landing; and Amazon (82,960 s.f.) in the Adams Building-Summer Corporate Park.

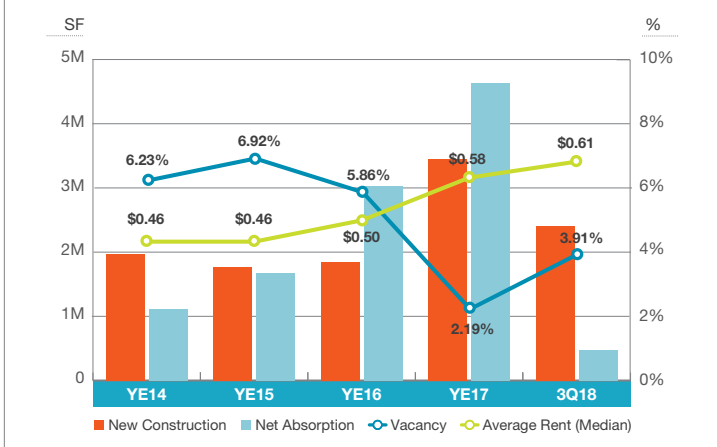
Pierce County's forecast is for shell rates to range between \$0.55 to \$0.62/s.f./month, NNN, plus add-on office rates of \$0.90 to \$1.00/s.f./month. Industrial building sale prices will range from \$80/s.f. for older buildings to \$155 to \$165/s.f. for new or smaller buildings. Land values typically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

Thurston County Review

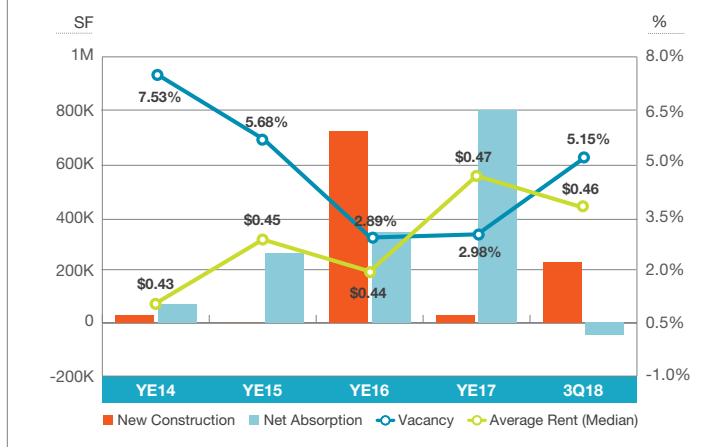
Thurston County saw its vacancy rate jump from 2.0% to 5.2% with total deliveries of 383,278 s.f. and negative net absorption of 45,576 s.f. this quarter. Upon closer look, this is mostly a timing issue as the largest project delivered, Meridian Campus Corporate Park (9045 Polaris Lane) at 318,028 s.f. has most of the building leased to an unnamed tenant who will be moving in the first quarter of 2019, which will bring the vacancy rate back down. Total construction volume stands at 226,550 s.f. (two projects). With an abundance of land, the County has a substantial amount available for development. Currently, there is about 5.0 million s.f. of proposed product 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



2019 and the 767 in 2020. They have been rehiring some prior retired workers to help get over the hump on production. The biggest backlog on jet orders is the 737 at 4,667 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 potentially adding 8,000 more workers. Amazon employment has leveled off. Nationally, the continuing saga of the trade tariffs by the Trump administration and the potential impacts on the local economy will need to be watched as that is played out over the next several months.

Sales activity picked up significantly in September. The largest was a transfer of Westpark Business Park between two related funds managed by KBS Realty Advisors for \$169.4 million. Notable sales included Centerpoint Properties Trust purchasing three industrial buildings at 5900-5990 1st Avenue S for \$73 million (\$213/s.f.) from the Russak Companies. They also purchased the Sears Warehouse in Kent for \$49 million (\$166/s.f.). Prologis acquired the Pepsi Bottling facility in South Seattle for \$65 million (\$314/s.f.). EverWest Real Estate Investors paid \$30.5 million (176/s.f.) for three industrial buildings in Auburn from William Gates. Year-to-date, nearly \$1.3 billion has sold with an average cap rate of 5.81%. Cap rates on high-profile product have been lower in the 4% to 4.5% range. On the national scene, Prologis acquired DCT Industrial Trust for \$8.5 billion including 461 properties (over 78 million s.f.) across the U.S. and included at least 10 properties in the region.

Vacant Space / Vacancy Rate

A total of 2,685,300 s.f. was delivered in the 3rd quarter. With positive net absorption of 1,973,284 s.f., the region's vacancy inched up to 3.5%. 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 30 buildings totaling 5.3 million s.f. now under construction, with about 15% of this space pre-leased or owner-user facilities. Pierce County once again is the most active at 2,403,773 s.f. (12 buildings), followed by South King with 1,240,449 s.f. (7 buildings). Snohomish County is next with 726,748 s.f. (7 buildings), and Seattle close-in has two projects (661,075 s.f.).

Rent Forecast

Region wide, average asking rents are more or less holding steady with continued increases in most submarkets.

Market Demand / Absorption

Absorption was positive at 1,973,284 s.f. for the 3rd quarter. South King County was the leader at 892,755 s.f., followed by Snohomish County (529,272 s.f.) and Pierce County (481,567 s.f.).

Development News

Notable projects under construction include:

- IPT Sumner Distribution Center
229,016 s.f. - expected delivery 4Q18
- Pacific Logistics North & South
292,156 s.f. - expected delivery 1Q19
- DCT Blair Logistics - Building A
542,750 s.f. - expected delivery 4Q18
Building B - 428,228 s.f. - delivered 3Q18
- Prologis Georgetown Crossroads
589,615 s.f. - expected delivery by 4Q18
- Des Moines Creek Business Park
Phase IV - Buildings A & B
514,121 s.f. - expected delivery by 4Q18
- LogstiCenter @ Woodinville
Building A - 275,500 s.f.; Building B -
134,000 s.f. - expected delivery 4Q18
- DCT Hudson in Auburn
287,832 s.f. - expected delivery by 4Q18
- The Viking in Pierce County
438,065 s.f. - delivery expected by 1Q19
- Gayteway Business Park in Arlington is
ready to move forward with 300,000 s.f. A
12-month construction period is projected
- Prologis Park Sumner Buildings A & B
360,955 s.f. - expected delivery by 1Q19
- Hawks Prairie III - Lots 10 & 19
226,550 s.f. - expected delivery by 1Q19
- Fennell Creek Industrial Park
257,000 s.f. - expected delivery by 4Q18

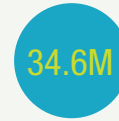
Data Source: CoStar

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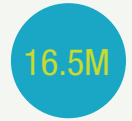
COMMERCIAL BROKERAGE



ANNUAL
TRANSACTION
VOLUME



ANNUAL
LEASING SF



ANNUAL
SALES SF

PROPERTY MANAGEMENT

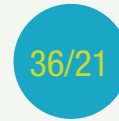


MANAGEMENT
PORTFOLIO

VALUATION ADVISORY



ASSIGNMENTS
ANNUALLY



TOTAL #
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