

SEATTLE INDUSTRIAL MARKET

SECOND QUARTER 2016

Positive gains slow in Puget Sound industrial market

Outside influences putting a damper on a more robust expansion

Activity remains positive, but the pace of gains has slowed to close out the first half of 2016. Only a handful of tenants occupied large blocks of space, which kept absorption levels positive, but it wasn't enough to maintain the high levels of absorption seen in the three previous quarters as newly completed construction and available space hitting the market helped push vacancy levels up slightly. While underlying fundamentals remain strong, there are certain headwinds that could help mute growth in the coming quarters, such as mixed overseas economies, Britain's exit from the European Union and the recently completed Panama Canal expansion.

ECONOMY



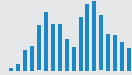


Economy positive but container volume falls

Economic conditions were muted during the first quarter but have picked up once again heading into mid-year 2016. Regional job growth totaled 31,500 jobs in the current quarter, with all employment sectors reporting job growth. Heading into 2016, Northwest Seaport Alliance's container volumes experienced steady increases over the previous two years, but 2016 totals have been slightly depressed. As of May, volumes were lagging 2% year over year. Weakened economic growth coupled with retailers working through excess inventory have contributed to slower activity.

SUPPLY AND DEVELOPMENT

Development decreases in a market that needs space

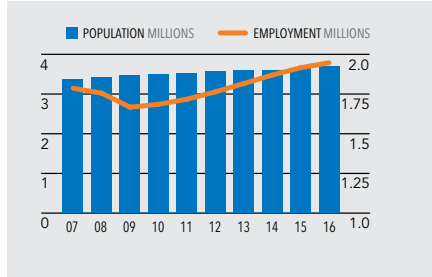
Construction levels peaked at 4.2 million square feet in 2015, in line with normal market conditions, but levels have fallen in each subsequent quarter. Currently, 1.3 million square feet of industrial product is under construction. Levels are spread out between three markets – Downtown, Northend and Tacoma. Of this total, 71.4% is currently available for lease. Six buildings totaling 963,848 square feet completed construction in the second quarter. Of that, the second phase of the IAC Port 167 distribution center reported significant pre-leasing, with Serta Simmons taking 272,834 square feet for a third quarter 2016 occupancy in the second phase of the project.

INDUSTRIAL TRENDS	
5-YEAR TREND	CURRENT QUARTER
VACANCY 	4.4% Vacancy up 10bps from Q1 2016
ABSORPTION 	696,780 SF Demand still strong, but cooling
RENTAL RATE 	\$0.63 PSF Lease rates tick up slightly
UNDER CONSTRUCTION 	1.3 million SF Construction levels remain steady
AVERAGE SALE PRICE 	\$135.75 PSF 5% increase from previous quarter
TEU's 	1.4 million Activity increasing year over year

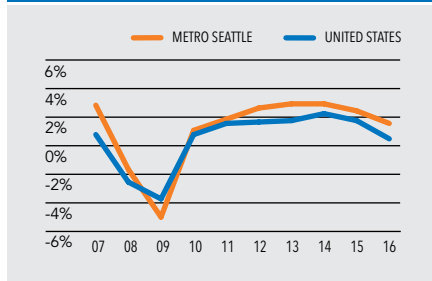
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POPULATION AND UNEMPLOYMENT



PAYROLL JOB GROWTH



DEMAND

Demand slows, but remains positive

Tenants remained active in the second quarter, absorbing 696,780 square feet of vacant space. With very little existing space available, positive absorption levels are facilitated by businesses taking occupancy in newly completed buildings. Ozburn-Hessey Logistics occupied 116,674 square feet at 27232 72nd Ave S located in the Kent Valley South submarket. Two companies took occupancy in the Puyallup/South Hill submarket: Helly Hansen for 172,105 square feet and Dometic Corporation for 144,162 square feet.

VACANCY

Vacancy remains near historic low

While absorption was positive, new building completions increased vacancy slightly from the previous quarter. The current overall vacancy sits at 4.4%, which is down 20 basis points from this time last year. Only one market area experienced noticeable positive movement; Northend saw vacancy decline 130 basis points. Vacancy in the Tacoma market increased 80 basis points to 7.2%. In a market that is at or near historic lows, businesses will depend on new development for their future space needs.

RENTAL RATES

Slight gain in asking lease rates

Overall average asking lease rates increased slightly to \$0.63 per square foot, triple net. Rates have slowly been inching upwards and are \$0.02 below the market high of \$0.65 in 2008. Lease rates throughout the market either remained level or experienced slight increases in the current quarter. The most expensive market continues to be the Eastside market where rents increased slightly to \$1.17 per SF. The cheapest industrial space can be found in the Tacoma market, which reports average rents of \$0.46 per SF.

Metro Seattle Industrial Market Indicators

PROPERTY CLASS	INVENTORY	UNDER CONSTRUCTION	Q2 NET ABSORPTION	YTD NET ABSORPTION	DIRECT VACANCY	SUBLEASE SPACE	TOTAL VACANCY	AVERAGE RATE PSF
Metro Seattle Total	298,762,271	1,332,086	696,780	2,429,653	4.2%	0.2%	4.4%	\$0.63



INVESTMENT MARKET

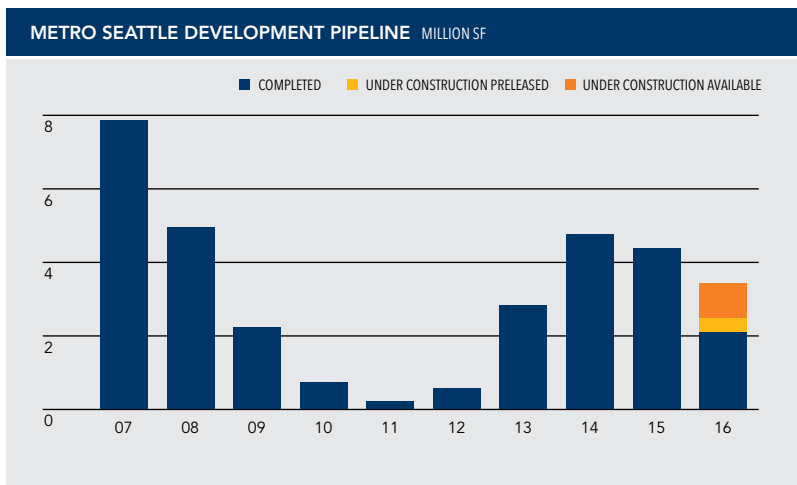
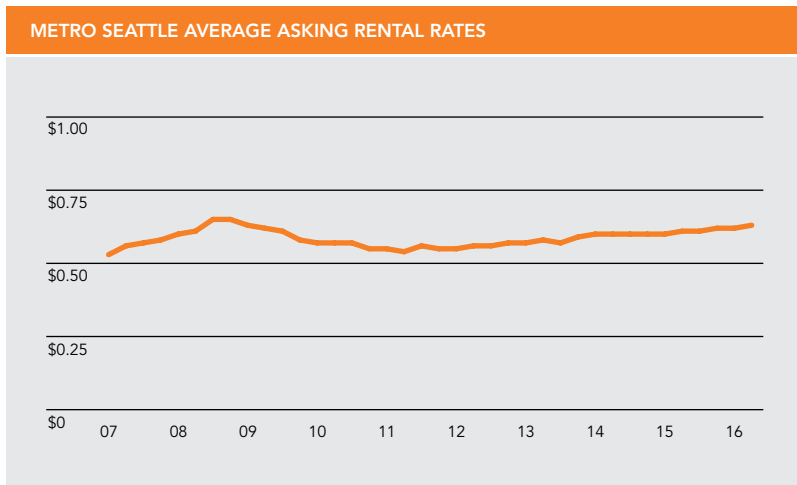
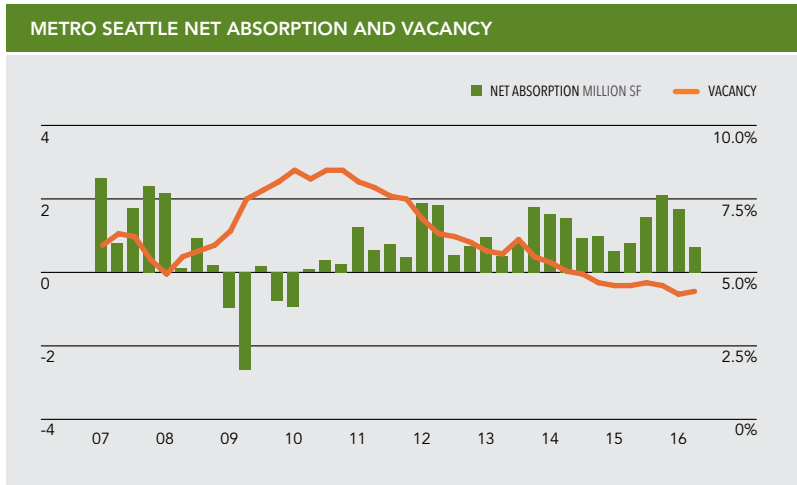
Pricing increases

Investment activity picked up in the second quarter as 43 transactions occurred totaling \$401.1 million, or \$135.75 per square foot. This is the second highest per-square-foot number in the past five years. While year-over-year deal velocity is down, pricing has increased 23% on a per square foot basis. KBS Realty Advisors purchased the 21-building, 778,472-square-foot Westpark Portfolio from Bentall Kennedy for \$117.9 million, or \$158.12 per square foot. The portfolio consisted mainly of industrial and flex product in the Westpark, Redmond Center Court and Pacific Business & Technology Center industrial parks. In another portfolio sale, Wakefield Properties picked up five flex properties in Redmond totaling 126,479 SF for \$20.4 million, or \$161.29 per square foot. The seller, Deutsche Asset Management, purchased the assets in 2002 for \$15.3 million, or \$120.91 per square foot.

OUTLOOK

Developers must deliver more product

Most of the talk to close out the mid-way point of 2016 has been the United Kingdom voting to break ties with the European Union. Britain's exit is likely to take years, so all trade and export agreements will remain in place, and most agree negotiations will result in similar agreements in the future. Uncertainty is never good for business, so it remains to be seen what long-term effect this divorce will have on U.S. exports and imports. For now, it seems as if it's business as usual. Another potential headwind is the recent completion of the widening project at the Panama Canal. The \$5.5 billion expansion makes it more feasible for Asian companies to deliver their cargo to Gulf Coast and East Coast ports, instead of off-loading at Tacoma or Seattle. Unfortunately, the impact of the Panama Canal expansion could be felt well in advance of any potential impact of Britain's exit. ■



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SECOND QUARTER 2016

Metro Seattle Industrial Market Indicators

SUBMARKET	INVENTORY	UNDER CONSTRUCTION	Q2 NET ABSORPTION	YTD NET ABSORPTION	DIRECT VACANCY	SUBLEASE SPACE	TOTAL VACANCY	AVERAGE RATE PSF
Ballard	1,983,348	-	-8,308	-26,308	2.0%	0.1%	2.1%	\$1.35
Belltown/DennyRegrade	176,465	-	-	-	3.8%	0.0%	3.8%	-
Capital Hill/Ctrl Dist	711,834	-	-	-	2.6%	0.0%	2.6%	\$1.17
Greenwood/Fremont	864,228	-	-18,249	-28,824	3.3%	0.0%	3.3%	\$1.24
Gtown/Duwamish N	13,354,493	-	-42,278	-62,603	1.4%	0.4%	1.8%	\$0.77
Gtown/Duwamish S	11,370,253	-	3,192	3,192	0.9%	0.0%	0.9%	\$0.70
Lake Union	1,612,994	-	-1,667	2,648	0.6%	0.0%	0.6%	\$2.26
Magnolia	2,242,338	16,675	-28,500	-34,821	1.8%	0.0%	1.8%	\$1.29
Queen Anne	1,978,826	-	0	22,766	2.5%	0.0%	2.5%	\$0.90
Rainier/Beacon Hill	2,917,621	501,691	4,846	-7,964	2.8%	0.5%	3.3%	\$0.99
SoDo	10,710,254	-	29,756	87,987	2.1%	0.0%	2.1%	\$1.10
U. District/Ravenna	741,757	-	-	-	0.0%	0.0%	0.0%	-
W Seattle	3,875,563	-	2,957	-22,663	0.3%	1.2%	1.5%	\$0.66
Waterfront	1,093,040	-	423	270	0.0%	0.0%	0.0%	\$1.25
Downtown Ind Market Totals	53,633,014	518,366	-57,828	-66,590	1.5%	0.2%	1.7%	\$0.96
520 Corridor	1,090,590	-	3,554	-1,179	1.8%	0.0%	1.8%	\$1.25
Bellevue	3,118,730	-	10,990	1,865	7.9%	0.0%	7.9%	\$1.35
E King County	3,202,021	-	76,428	139,943	7.1%	0.0%	7.1%	\$0.90
Kirkland	3,079,737	-	-139,577	-139,811	8.4%	1.0%	9.4%	\$0.89
Newport/Issaquah	1,719,338	-	0	27,881	0.5%	0.0%	0.5%	\$1.10
Redmond	8,032,974	-	23,291	157,769	6.5%	0.1%	6.6%	\$1.31
Eastside Ind Market Totals	20,243,390	-	-25,314	186,468	6.1%	0.2%	6.3%	\$1.15
Bothell/Kenmore	5,391,348	-	29,186	140,342	7.4%	0.0%	7.4%	\$1.45
Edmonds/Lynnwood	2,965,671	-	21,078	17,440	1.7%	0.0%	1.7%	\$0.77
Everett CBD	4,248,907	-	43,043	67,436	0.1%	0.0%	0.1%	\$0.40
Mill Creek/N Creek	1,726,313	-	12,333	-2,042	1.5%	0.0%	1.5%	\$0.92
N Snohomish County	4,920,598	-	52,415	-19,081	7.1%	2.7%	9.8%	\$0.48
Northgate/N Seattle	1,120,985	-	-42,251	-62,100	6.4%	0.0%	6.4%	\$0.83
S Everett/Harbor Point	19,592,553	386,977	197,695	230,808	2.3%	0.0%	2.3%	\$0.77
S Snohomish County	2,950,033	-	-54,566	-64,325	11.0%	0.2%	11.2%	\$0.62
Woodinville	6,148,284	-	-29,843	-42,219	6.1%	0.0%	6.1%	\$0.75
Northend Ind Market Totals	49,064,692	386,977	229,090	266,259	4.3%	0.3%	4.6%	\$0.74
Auburn	26,064,950	-	-122,728	-81,095	1.8%	0.3%	2.1%	\$0.49
Federal Way	1,461,393	-	-1,517	-4,837	5.5%	0.0%	5.5%	\$0.53
Kent Valley N	29,650,864	-	-308,456	-232,112	4.3%	0.3%	4.6%	\$0.49
Kent Valley S	19,463,496	-	406,462	531,277	1.8%	0.1%	1.9%	\$0.52
Renton	12,727,926	-	-234,220	-253,970	2.7%	0.2%	2.9%	\$0.56
Seatac/Burien	3,716,035	-	360,009	429,037	7.8%	0.0%	7.8%	\$0.52
Tukwila	14,802,768	-	138,295	300,292	3.1%	0.5%	3.6%	\$0.65
Vashon/Maury Island	283,106	-	0	0	61.8%	0.0%	61.8%	-
Southend Ind Market Totals	108,170,538	-	237,845	688,592	3.3%	0.3%	3.6%	\$0.52
Dupont	2,689,699	-	-3,112	1,997	9.9%	0.0%	9.9%	\$0.71
E Pierce County	350,884	-	0	0	5.4%	0.0%	5.4%	\$0.57
E Tacoma	2,686,870	-	-11,635	-75,303	6.6%	0.1%	6.7%	\$0.46
Fort Lewis	66,965	-	-6,720	-11,200	16.7%	0.0%	16.7%	\$0.58
Gig Harbor/W Pierce	422,676	-	5,898	10,191	1.9%	0.0%	1.9%	-
Lakewood	4,511,898	-	31,980	36,270	14.9%	0.0%	14.9%	\$0.46
N End Tacoma	1,963,570	-	-7,300	-10,100	1.2%	0.0%	1.2%	\$0.38
Parkland/Spanaway	6,016,023	-	-454	-454	3.2%	0.0%	3.2%	\$0.41
Tacoma/Fife	17,561,858	-	21,446	-4,479	3.9%	0.0%	3.9%	\$0.51
Puyallup/S Hill	25,681,423	426,743	225,093	1,396,565	10.0%	0.0%	10.0%	\$0.42
Tacoma CBD	1,148,721	-	46,591	14,091	9.8%	0.0%	9.8%	\$0.45
University Place	4,534,790	-	11,200	5,036	1.9%	0.0%	1.9%	\$0.57
Tacoma Ind Market Totals	67,635,377	426,743	312,987	1,362,614	7.2%	0.0%	7.2%	\$0.45
Puget Sound Total	298,747,011	1,332,086	696,780	2,437,343	4.2%	0.2%	4.4%	\$0.63

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METHODOLOGY

The information in this report is the result of a compilation of information on industrial and flex properties located in the Seattle metropolitan area. This report includes single-tenant and multi-tenant industrial and flex properties 10,000 SF and larger.



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