

SEATTLE INDUSTRIAL MARKET

THIRD QUARTER 2016

Puget Sound activity remains strong

New development increases in historically tight market

Tenant activity remains strong, most notably in the Eastside, Southend and Tacoma market areas. Vacancy levels are at or near historic lows, and new space options will need to come from new developments. Construction levels doubled in Q3 2016 as developers are helping to answer for the lack of large blocks of space available for lease. Overall lease rates have regained the value lost during the last recession and should continue to inch upwards as new construction projects will increase asking rates to help offset construction costs.

ECONOMY






Slow, but positive economic growth

Economic conditions in the Puget Sound region remain positive, outpacing national growth. Through three quarters of 2016, jobs have grown by 2.7% compared to the national average of 1.0%. Construction jobs increased by 3,300 in the current quarter, but manufacturing lost 1,300 jobs. Port activity rebounded in the first two months of 2016, but gains have been mixed each subsequent month with totals are down 0.2% from a year ago.

SUPPLY AND DEVELOPMENT

Developers increase construction levels

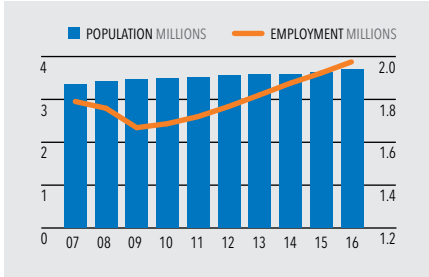
During the current cycle, construction levels topped out in 2015, but have fallen in each subsequent quarter. Developers realized the need for new product and have bumped up levels in the current quarter. 2.86 million SF of industrial product is currently under construction, mainly comprised of warehouse/distribution buildings. Of this total, 76.4% is currently available for lease. Just under 900,000 SF will be completed by year-end 2016, which will help fuel activity to close out the year.

INDUSTRIAL TRENDS	
5-YEAR TREND	CURRENT QUARTER
VACANCY 	3.6% Vacancy falls 50 basis points.
ABSORPTION 	1.5 million SF Strong year-to-date activity
RENTAL RATE 	\$0.66 PSF Rates higher than pre-recession levels
UNDER CONSTRUCTION 	2.9 million SF Construction levels increasing
AVERAGE SALE PRICE 	\$108.68 PSF Pricing falls as activity remains steady
TEU's 	2.3 million Activity down from previous year

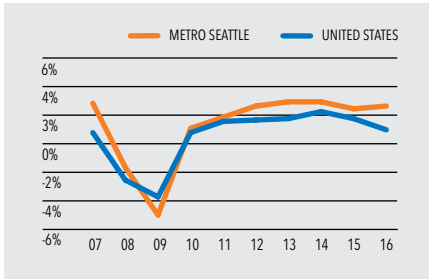
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POPULATION AND UNEMPLOYMENT



PAYROLL JOB GROWTH



DEMAND

Strong gains in the Eastside, Southend and Tacoma Markets

1.47 million SF of vacant space was occupied in Q3 2016, predominately in the Southend (534,030 SF), Tacoma (417,084 SF) and Eastside (401,459 SF) markets. Year to date, tenants have occupied 4.64 million SF, which is the highest three-quarter total since 2007. Several large leases occurred in the current quarter: Northwest Logistics Group occupied 225,000 SF in the Dupont submarket, Value leased 147,040 SF of manufacturing space in the Kirkland submarket, and Oculus moved into 100,417 SF of flex space in the Redmond submarket.

VACANCY

Tight vacancy gets even tighter

Vacancy rates continue to inch down and are at a level not seen since 2000. Only 3.6% of the Puget Sound industrial market remains vacant, a 50-basis-point decrease from the previous quarter. This marks the eighth consecutive quarter vacancy has been below the 5% mark. Vacancy remains tight in all market areas, led by Downtown where only 1.5% of the market is vacant. Tacoma continues to have the most space vacant, at 6.1% in the current quarter.

RENTAL RATES

Largest gains in asking rates since 2007

Lease rates have been fairly steady over the past two years but are now higher than pre-recession levels. The current overall asking lease rate sits at \$0.66 per SF, NNN, which is a \$0.03 per SF increase from the previous quarter, and is up slightly from the last cycle's high of \$0.65 per SF. Gains were seen in four of the five market areas, led by the Southend market where rates increased \$0.05 to \$0.51 per SF. Rents remained unchanged in the Eastside market, ending the quarter at \$1.15 per SF. Overall industrial rates will continue to increase as developers bring new product to the market and available space remains scarce.

Metro Seattle Industrial Market Indicators

PROPERTY CLASS	INVENTORY	UNDER CONSTRUCTION	Q3 NET ABSORPTION	YTD NET ABSORPTION	DIRECT VACANCY	SUBLEASE SPACE	TOTAL VACANCY	AVERAGE RATE PSF
Metro Seattle Total	298,347,819	2,866,081	1,474,492	4,643,153	3.5%	0.1%	3.6%	\$0.66



INVESTMENT MARKET

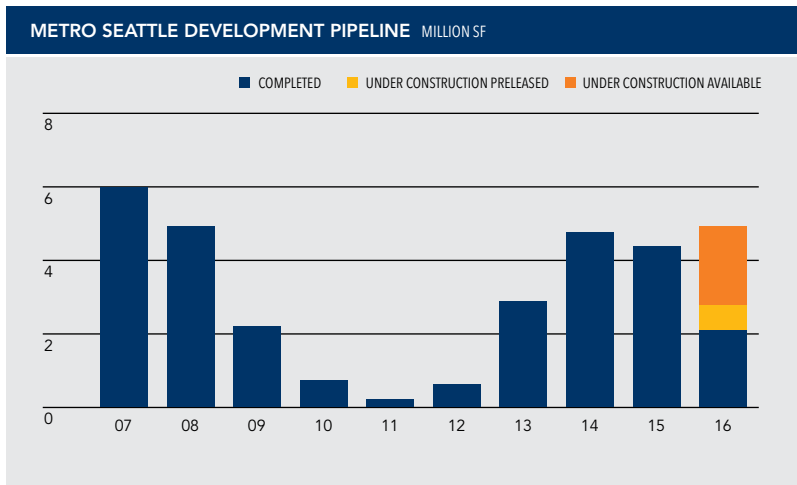
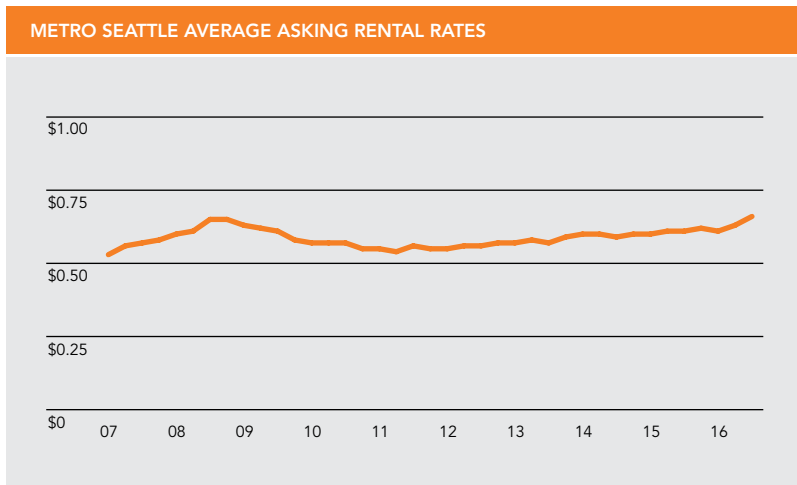
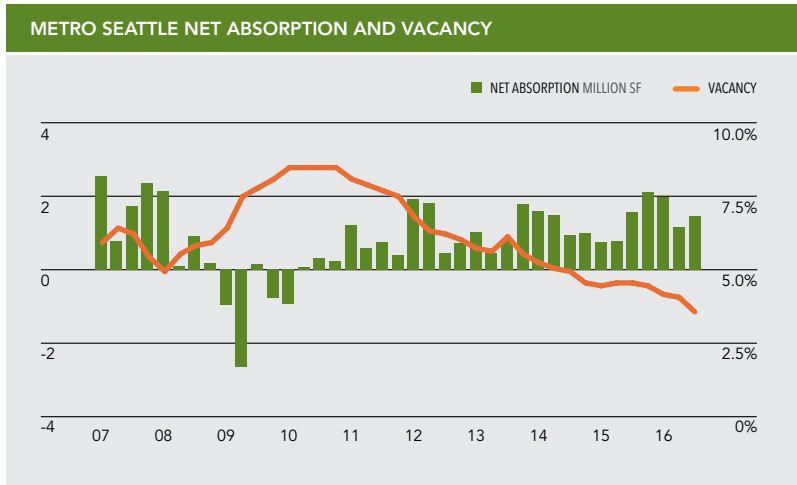
Pricing dips but activity remains strong

Investors and owners remain active, but pricing slipped in Q3 2016. 37 transactions occurred in the current quarter, totaling \$259.1 million for 2.4 million SF of industrial product. Price per SF dipped 20% from the previous quarter to \$108.68, but this marks the seventh consecutive quarter where per SF rates exceeded the \$100 mark. BKM Capital Partners purchased a 27-building industrial portfolio totaling 475,517 SF for \$45.2 million from Global Logistics Properties. The Tukwila Commerce Center portfolio traded at \$95.05 per SF and is 84% occupied at the time of sale. Deutsche Asset Management purchased seven industrial buildings in Washington, which was part of a ten-building portfolio. Deutsche paid roughly \$51 million for the Washington properties, or \$120 per SF.

OUTLOOK

Aerospace expands; Port activity wanes

While economic and business fundamentals remain positive, most of the news in 2016 has come from outside forces. Boeing remains on track to streamline their business model, which means more layoffs in the months to come, but the aerospace giant has continued to gain contracts, most notably getting approval to sell jets to Iran. While licensing is still needed, and with the mounting pressure from Congress to slow progress, the deal worth roughly \$25 billion will certainly help Boeing’s finances. The import and export industry received a shock when Hanjin, the world’s seventh largest shipping firm, filed for bankruptcy, and many retailers are worried for the upcoming holiday season. Some businesses are scrambling, trying to secure deals with other shipping companies or in some cases adding vessels to their own fleet to help offset the shipping squeeze. ■



SEATTLE INDUSTRIAL MARKET

THIRD QUARTER 2016

Metro Seattle Industrial Market Indicators

SUBMARKET	INVENTORY	UNDER CONSTRUCTION	Q3 NET ABSORPTION	YTD NET ABSORPTION	DIRECT VACANCY	SUBLEASE SPACE	TOTAL VACANCY	AVERAGE RATE PSF
Ballard	1,934,708	-	20,538	-5,770	1.1%	0.0%	1.1%	\$1.26
Belltown/DennyRegrade	176,465	-	0	0	3.8%	0.0%	3.8%	-
Capital Hill/Ctrl Dist	711,834	-	0	0	2.6%	0.0%	2.6%	\$1.17
Greenwood/Fremont	844,572	-	18,749	-10,075	1.2%	0.0%	1.2%	\$1.24
Gtown/Duwamish N	13,354,716	-	59,616	-2,987	1.0%	0.3%	1.3%	\$0.76
Gtown/Duwamish S	11,370,253	-	-26,470	-23,278	1.1%	0.0%	1.1%	\$0.87
Lake Union	1,521,076	-	-1,750	3,618	0.5%	0.0%	0.5%	\$2.23
Magnolia	2,174,624	44,375	-21,000	-28,121	1.5%	0.0%	1.5%	\$1.38
Queen Anne	1,978,826	-	5,457	28,223	3.7%	0.0%	3.7%	\$0.84
Rainier/Beacon Hill	2,917,621	-	-30,594	-38,558	3.8%	0.5%	4.3%	\$0.99
SoDo	10,763,215	-	38,240	133,267	1.6%	0.0%	1.6%	\$1.10
U. District/Ravenna	741,757	-	0	0	0.0%	0.0%	0.0%	-
W Seattle	3,875,563	-	52,043	29,380	0.2%	0.0%	0.2%	\$0.62
Waterfront	1,093,040	-	529	799	0.0%	0.0%	0.0%	-
Downtown Ind Market Totals	53,458,270	44,375	115,358	86,498	1.4%	0.1%	1.5%	\$0.97
520 Corridor	1,118,823	-	-1,515	-2,694	1.6%	0.0%	1.6%	\$1.49
Bellevue	2,979,375	-	30,457	32,322	1.4%	0.0%	1.4%	\$1.34
E King County	3,246,421	68,000	42,007	113,750	5.7%	0.0%	5.7%	\$0.90
Kirkland	3,058,839	-	159,774	19,963	4.2%	0.0%	4.2%	\$0.87
Newport/Issaquah	1,719,338	-	355	28,236	0.5%	0.0%	0.5%	\$1.10
Redmond	8,004,060	-	170,381	328,150	4.5%	0.0%	4.5%	\$1.32
Eastside Ind Market Totals	20,126,856	68,000	401,459	519,727	3.7%	0.0%	3.7%	\$1.15
Bothell/Kenmore	5,394,823	-	-12,998	127,344	7.2%	0.0%	7.2%	\$1.54
Edmonds/Lynnwood	2,967,388	-	5,468	22,908	1.5%	0.0%	1.5%	\$0.80
Everett CBD	4,284,879	-	-58,951	12,885	1.5%	0.0%	1.5%	\$0.43
Mill Creek/N Creek	1,726,313	-	11,319	9,277	0.8%	0.0%	0.8%	\$0.95
N Snohomish County	4,931,531	-	-51,681	-70,762	8.2%	2.7%	10.9%	\$0.48
Northgate/N Seattle	1,121,009	-	28,933	-33,167	3.8%	0.0%	3.8%	\$0.78
S Everett/Harbor Point	19,352,828	200,000	-2,438	239,160	2.0%	0.0%	2.0%	\$0.81
S Snohomish County	2,956,515	24,375	12,299	-52,026	10.0%	0.7%	10.7%	\$0.65
Woodinville	6,148,284	199,652	74,610	32,391	4.9%	0.0%	4.9%	\$0.75
Northend Ind Market Totals	48,883,570	424,027	6,561	288,010	4.0%	0.3%	4.3%	\$0.75
Auburn	26,092,705	-	37,310	-43,785	1.5%	0.0%	1.5%	\$0.54
Federal Way	1,437,435	-	-29,571	-34,308	7.6%	0.0%	7.6%	\$0.54
Kent Valley N	29,639,202	42,870	242,021	24,384	3.6%	0.1%	3.7%	\$0.55
Kent Valley S	19,477,046	-	51,602	582,879	1.6%	0.1%	1.7%	\$0.52
Renton	12,480,157	-	120,835	26,441	1.9%	0.0%	1.9%	\$0.60
Seatac/Burien	3,716,035	501,691	7,012	436,049	6.5%	1.1%	7.6%	\$0.57
Tukwila	14,802,768	229,083	104,821	408,113	2.9%	0.0%	2.9%	\$0.73
Vashon/Maury Island	283,106	-	0	0	61.8%	0.0%	61.8%	-
Southeast Ind Market Totals	107,928,454	773,644	534,030	1,399,673	2.7%	0.1%	2.8%	\$0.57
Dupont	2,689,699	-	246,600	248,597	0.7%	0.0%	0.7%	\$0.45
E Pierce County	338,735	-	0	0	5.6%	0.0%	5.6%	\$0.57
E Tacoma	2,686,870	-	1,505	-73,798	6.6%	0.1%	6.7%	\$0.49
Fort Lewis	66,965	-	11,200	0	0.0%	0.0%	0.0%	-
Gig Harbor/W Pierce	422,676	-	6,795	16,986	0.3%	0.0%	0.3%	-
Lakewood	4,511,898	210,700	55,584	360,154	7.7%	0.0%	7.7%	\$0.50
N End Tacoma	1,963,570	-	0	-10,100	1.2%	0.0%	1.2%	\$0.35
Parkland/Spanaway	6,016,023	-	4,000	3,546	3.1%	0.0%	3.1%	\$0.41
Tacoma/Fife	17,551,858	-	86,304	81,825	3.0%	0.0%	3.0%	\$0.52
Puyallup/S Hill	26,008,155	1,345,335	-854	1,696,958	10.2%	0.1%	10.3%	\$0.44
Tacoma CBD	1,148,721	-	14,375	28,466	8.6%	0.0%	8.6%	\$0.45
University Place	4,530,239	-	-8,425	-3,389	2.1%	0.0%	2.1%	\$0.53
Tacoma Ind Market Totals	67,935,409	1,556,035	417,084	2,349,245	6.1%	0.0%	6.1%	\$0.47
Puget Sound Total	298,332,559	2,866,081	1,474,492	4,643,153	3.5%	0.1%	3.6%	\$0.66

CONTACT

Darrell Magnuson
 Research Manager
 206.737.4300
 darrell.magnuson@transwestern.com

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.



10800 NE 8th Street, Suite 150
 Bellevue, Washington 98004

T 206.737.4300 F 206.737.4301
 www.transwestern.com/seattle