

# SEATTLE INDUSTRIAL MARKET

FOURTH QUARTER 2016

## Industrial market posts its best year since recession

Direct weighted average asking rental rate now at all-time historic high

At year-end 2016, the Seattle/Puget Sound industrial market reported market fundamentals at their healthiest level in nearly a decade. Due to strong regional consumer spending from continued population and employment growth, each above the national average, high industrial occupier demand resulted in the largest amount of industrial space gains since 2007. As a result, industrial vacancy levels have dropped to just 3.4% region-wide, which is closing in on the lowest ever recorded locally. With new supply comprising just a small fraction of the existing industrial base, expect tight market conditions to continue in 2017.

### ECONOMY



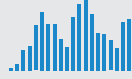

#### Strong regional economy results in increased consumer spending

According to the Bureau of Economic Analysis, US consumer spending was up 4.2% on an annualized basis in November, which is the strongest reported year-over-year growth in consumer spending since before the Great Recession. In terms of domestic manufacturing, the December PMI reading of 54.7 signaled an expansion in the manufacturing sector and continued expectations of economic growth moving forward. Container volumes for The Northwest Seaport Alliance for 2016 were 3.6 million TEUs, which was an increase of 2% over 2015, as well as the highest amount of reported activity since 2007. Overall, the Seattle/Puget Sound regional economy remains one the best performing nationally, and as a result, industrial space continues to be in high demand throughout the region.

### SUPPLY AND DEVELOPMENT

#### Development remains elevated due to record low vacancy

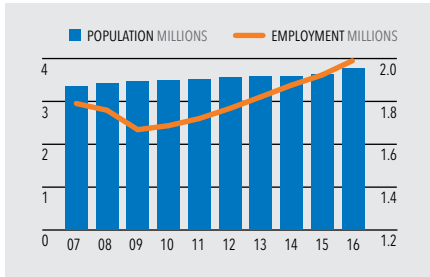
In the fourth quarter, 720,715 square feet of industrial space was delivered to the market. This brought 2016 total deliveries to over 2.8 million square feet (down 36% from 2015). Approximately 3.1 million square feet of industrial space was under construction, of which 25% was pre-leased. Due to the region's large stock of older industrial buildings, occupiers have increasingly looked to newer projects built specifically for modern logistics use in mind. However, due to the scarcity of potential development sites, expect new supply to remain relatively low compared to the existing size of the region's current industrial base.

INDUSTRIAL TRENDS	
5-YEAR TREND	CURRENT QUARTER
<b>VACANCY</b> 	<b>3.4%</b> Vacancy falls 110 basis points in 2016
<b>ABSORPTION</b> 	<b>1.1 million SF</b> 6.3 million SF in 2016
<b>RENTAL RATE</b> 	<b>\$8.28 PSF</b> Historic high in lease rates
<b>UNDER CONSTRUCTION</b> 	<b>3.1 million SF</b> Construction levels increasing
<b>AVERAGE SALE PRICE</b> 	<b>\$138.05 PSF</b> Highest quarterly price since 2015
<b>TEU's</b> 	<b>3.6 million</b> Highest container volume since 2007

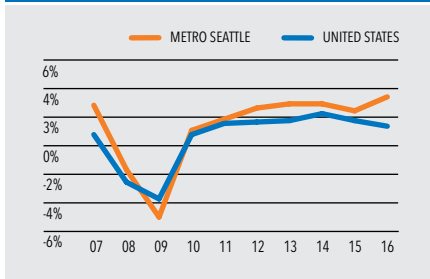
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## POPULATION AND UNEMPLOYMENT



## PAYROLL JOB GROWTH



### DEMAND

#### Highest level of annual industrial net absorption since 2007

Net absorption totaled 1.1 million square feet in the fourth quarter, which brought total 2016 net absorption to 6.3 million square feet (up 21% from 2015). The largest leases of the quarter involved Regal Logistics leasing 225,972 square feet at 7402-7490 26th East in Fife, as well as Rexam leasing 126,639 square feet at 1220 2nd Ave North in Kent. With the Seattle/Puget Sound regional economy booming, third-party logistics firms (3PLs), freight forwarding companies, and regional and national retailers have all been active in seeking out higher-quality industrial space to serve the region’s nearly 4 million people, as well as the consumer needs of the entire Pacific Northwest region.

### VACANCY

#### Industrial vacancy ends 2016 nearing historical low

Due to strong leasing activity and net absorption, vacancy rates ended 2016 near its historic low. The total vacancy rate at year-end decreased 10 basis points over the previous quarter and 110 basis points year-over-year to end at 3.4%. This is just 20 basis points higher than the historical low of just 3.2% region-wide which was last reported in 2000. With demand remaining robust and new supply being only a fraction (just 1.0%) of the region’s existing industrial base, expect vacancy levels to continue to be in the sub-4% range in 2017.

### RENTAL RATES

#### Average asking industrial rental rate now at highest level ever

At-year end, the weighted average asking rental rate increased to \$8.28 per square foot (up 10.1% year-over-year). Since bottoming in 2011 at \$6.48 per square foot, the average industrial rental rate in the Seattle/Puget Sound region has increased by 28% market-wide as occupier demand has roared back due to US consumer spending and the recovery in container volumes at the Ports of Seattle and Tacoma. For 2017, expect rental rate growth to continue as the market remains supply-constrained.

## Metro Seattle Industrial Market Indicators

PROPERTY CLASS	INVENTORY	UNDER CONSTRUCTION	Q4 NET ABSORPTION	YTD NET ABSORPTION	DIRECT VACANCY	SUBLEASE SPACE	TOTAL VACANCY	AVERAGE RATE PSF
Metro Seattle Total	299,231,796	3,052,320	1,086,500	6,299,971	3.3%	1.0%	3.4%	\$8.28



**INVESTMENT MARKET**

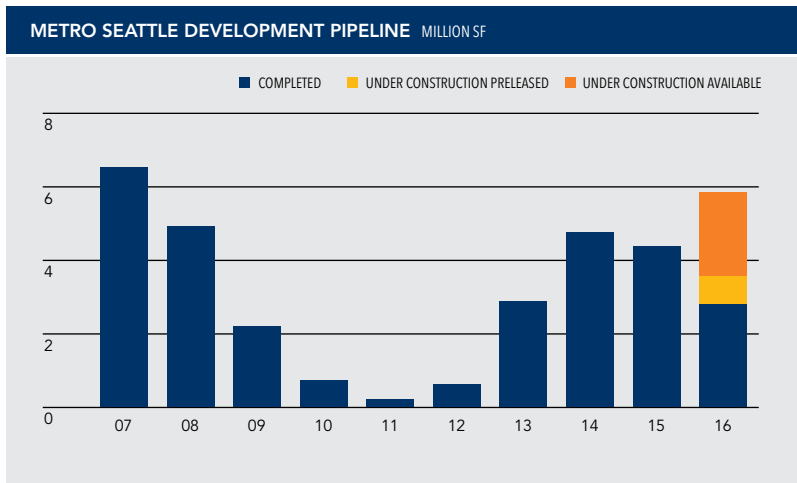
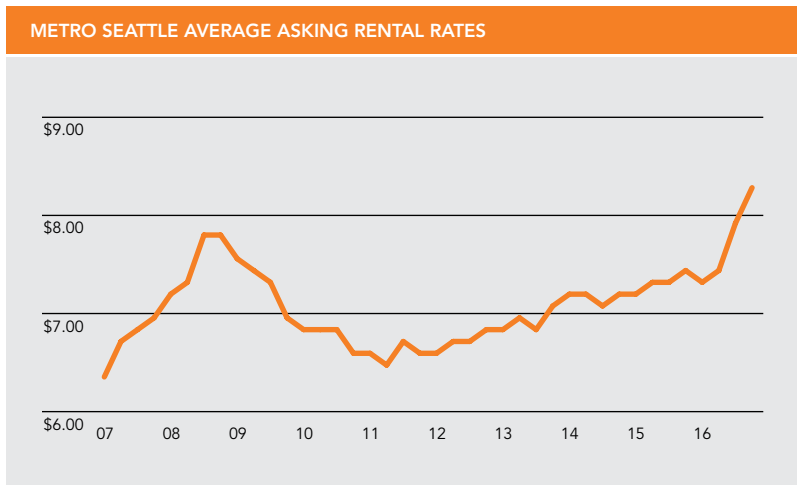
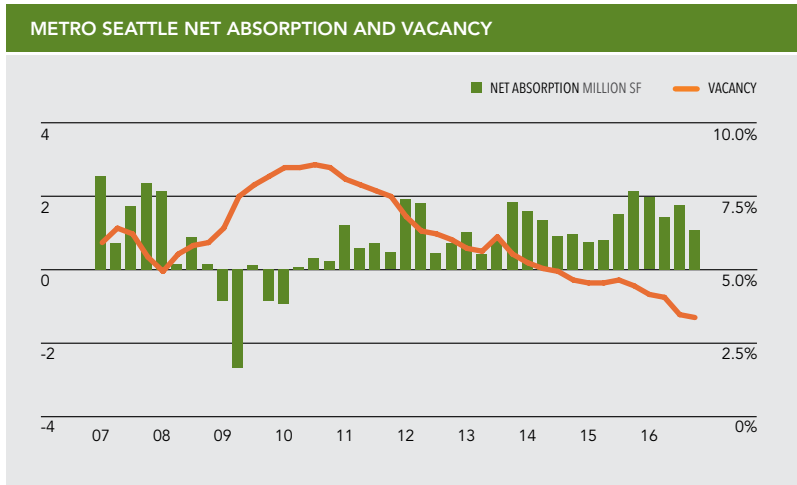
**Elevated industrial sales volume and strong pricing continues at year-end**

In the fourth quarter, five million square feet of industrial space changed hands, totaling \$697 million or \$138 per square foot. This brought total 2016 industrial sales volume to over \$1.5 billion (up 7% from 2015). The largest sale involved Clarion Partners purchasing a two-property, 926,272 square foot portfolio from Barings Real Estate Advisers for \$132.7 million (\$143 per square foot). In addition, Prologis purchased the industrial portion of the Boeing Field Site portfolio from Sabey Corporation for \$123 million (\$138 per square foot). Looking into 2017, expect investors to continue to pursue high-quality, well-located industrial properties, although a cooling in pricing might be expected as interest rates are forecasted to rise.

**OUTLOOK**

**Industrial market ends 2016 in good shape despite rising protectionist sentiment**

Although the underlying market fundamentals in the Seattle/Puget Sound industrial market remain strong, rising protectionist sentiment emanating from the new presidential administration could result in a slowdown of international trade volumes. This would adversely affect the regional economy in general, and the industrial market in particular, due to its reliance on trade volumes with the Pacific Rim. While it is important to watch for radical changes in US international trade policy, in the meantime, market conditions have continued to see strong positive fundamentals with lower vacancy, higher rental rates, higher building valuations, and more development as we move into 2017. ■



# SEATTLE INDUSTRIAL MARKET

FOURTH QUARTER 2016

## Metro Seattle Industrial Market Indicators

SUBMARKET	INVENTORY	UNDER CONSTRUCTION	Q4 NET ABSORPTION	YTD NET ABSORPTION	DIRECT VACANCY	SUBLEASE SPACE	TOTAL VACANCY	AVERAGE RATE PSF
Ballard	1,948,461	-	-33,320	-39,090	2.8%	0.0%	2.8%	\$15.60
Belltown/DennyRegrade	176,465	-	-	-	3.8%	0.0%	3.8%	-
Capital Hill/Ctrl Dist	711,834	-	-4,080	-4,080	3.2%	0.0%	3.2%	\$14.04
Greenwood/Fremont	844,661	-	-9,519	-19,594	2.3%	0.0%	2.3%	\$14.88
Gtown/Duwamish N	13,394,067	-	-245,470	-248,357	3.0%	0.2%	3.2%	\$11.04
Gtown/Duwamish S	11,370,253	-	9,867	-13,411	1.0%	0.0%	1.0%	\$10.44
Lake Union	1,520,076	-	6,270	9,888	0.1%	0.0%	0.1%	\$26.76
Magnolia	2,174,624	27,700	-4,163	-32,284	1.5%	0.2%	1.7%	\$18.36
Queen Anne	2,045,071	-	10,012	38,235	3.1%	0.0%	3.1%	\$10.08
Rainier/Beacon Hill	2,851,610	-	8,077	-30,481	3.6%	0.5%	4.1%	\$11.76
SoDo	10,762,944	-	-41,402	91,865	1.5%	0.4%	1.9%	\$12.36
U. District/Ravenna	741,757	-	-	-	0.0%	0.0%	0.0%	-
W Seattle	3,876,092	-	-	29,380	0.2%	0.0%	0.2%	\$7.80
Waterfront	1,093,040	-	-	799	0.0%	0.0%	0.0%	-
<b>Downtown Ind Market Totals</b>	<b>53,510,955</b>	<b>27,700</b>	<b>-303,728</b>	<b>-217,130</b>	<b>1.9%</b>	<b>0.2%</b>	<b>2.1%</b>	<b>\$12.48</b>
520 Corridor	1,118,823	-	9,032	6,338	0.8%	0.0%	0.8%	\$19.32
Bellevue	3,003,483	-	23,737	56,059	0.3%	0.0%	0.3%	\$17.64
E King County	3,314,421	44,072	87,640	201,390	5.0%	0.0%	5.0%	\$10.92
Kirkland	3,006,193	-	5,505	26,308	3.2%	0.0%	3.2%	\$10.08
Newport/Issaquah	1,719,478	-	2,446	30,682	0.4%	0.0%	0.4%	\$12.96
Redmond	8,004,060	-	51,231	379,381	3.8%	0.0%	3.8%	\$16.08
<b>Eastside Ind Market Totals</b>	<b>20,166,458</b>	<b>44,072</b>	<b>179,591</b>	<b>700,158</b>	<b>3.0%</b>	<b>0.0%</b>	<b>3.0%</b>	<b>\$14.04</b>
Bothell/Kenmore	5,387,561	-	83,900	211,244	5.7%	0.0%	5.7%	\$18.84
Edmonds/Lynnwood	2,967,388	-	-15,457	12,246	1.9%	0.0%	1.9%	\$9.96
Everett CBD	4,284,949	-	9,833	22,718	1.2%	0.0%	1.2%	\$5.04
Mill Creek/N Creek	1,726,313	-	-893	8,384	0.9%	0.0%	0.9%	\$11.52
N Snohomish County	4,936,718	-	3,140	-67,622	8.1%	2.7%	10.8%	\$5.64
Northgate/N Seattle	1,061,009	-	-	-33,167	4.0%	0.0%	4.0%	\$9.48
S Everett/Harbor Point	19,324,102	200,000	-69,544	216,939	2.0%	0.2%	2.2%	\$9.84
S Snohomish County	2,956,515	24,375	38,872	-13,154	9.3%	0.2%	9.5%	\$7.80
Woodinville	6,077,959	199,700	64,159	96,550	3.9%	0.0%	3.9%	\$9.12
<b>Northend Ind Market Totals</b>	<b>48,722,514</b>	<b>424,075</b>	<b>114,010</b>	<b>454,138</b>	<b>3.6%</b>	<b>0.4%</b>	<b>4.0%</b>	<b>\$9.12</b>
Auburn	26,108,783	-	139,131	95,346	1.0%	0.0%	1.0%	\$6.48
Federal Way	1,437,435	-	56,646	22,238	3.7%	0.0%	3.7%	\$9.48
Kent Valley N	29,718,991	42,982	304,316	443,042	2.5%	0.2%	2.7%	\$6.96
Kent Valley S	19,484,850	-	-48,421	534,458	1.9%	0.0%	1.9%	\$6.36
Renton	12,480,157	-	4,519	30,960	1.8%	0.0%	1.8%	\$7.44
Seatac/Burien	3,716,035	352,800	158,768	594,817	2.6%	0.7%	3.3%	\$7.32
Tukwila	14,870,768	229,083	22,501	434,014	3.2%	0.0%	3.2%	\$8.52
Vashon/Maury Island	298,366	-	-	-	61.8%	0.0%	61.8%	-
<b>Southeast Ind Market Totals</b>	<b>108,115,385</b>	<b>624,865</b>	<b>637,460</b>	<b>2,154,875</b>	<b>2.2%</b>	<b>0.1%</b>	<b>2.3%</b>	<b>\$7.20</b>
Dupont	2,689,699	-	9,600	258,197	0.4%	0.0%	0.4%	\$5.40
E Pierce County	338,735	-	19,000	19,000	0.0%	0.0%	0.0%	-
E Tacoma	2,686,870	-	-3,578	-77,376	6.7%	0.1%	6.8%	\$7.92
Fort Lewis	66,965	-	-	-	0.0%	0.0%	0.0%	-
Gig Harbor/W Pierce	422,676	-	1,446	18,432	0.0%	0.0%	0.0%	-
Lakewood	4,507,251	210,700	22,697	382,851	7.2%	0.0%	7.2%	\$6.00
N End Tacoma	1,953,670	-	-11,930	-22,030	1.8%	0.0%	1.8%	\$5.16
Parkland/Spanaway	6,022,995	-	108,721	135,067	0.9%	0.0%	0.9%	\$4.68
Tacoma/Fife	17,550,909	1,011,335	108,385	190,210	2.4%	0.0%	2.4%	\$6.96
Puyallup/S Hill	26,681,036	709,573	190,361	2,261,737	10.3%	0.0%	10.3%	\$5.64
Tacoma CBD	1,275,439	-	32,900	63,666	6.8%	0.0%	6.8%	\$5.28
University Place	4,520,239	-	-18,435	-21,824	2.5%	0.0%	2.5%	\$7.32
<b>Tacoma Ind Market Totals</b>	<b>68,716,484</b>	<b>1,931,608</b>	<b>459,167</b>	<b>3,207,930</b>	<b>5.8%</b>	<b>0.0%</b>	<b>5.8%</b>	<b>\$5.88</b>
<b>Puget Sound Total</b>	<b>299,231,796</b>	<b>3,052,320</b>	<b>1,086,500</b>	<b>6,299,971</b>	<b>3.3%</b>	<b>1.0%</b>	<b>3.4%</b>	<b>\$8.28</b>

### CONTACT

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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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