

# Industrial Market Report

## Q2 2020

# Puget Sound Industrial Market

Seattle's industrial market has been one of the most active in the country, thanks to a bustling economy for the past decade and one of the largest ports on the West Coast. Subsequently, the most active submarkets for development are in proximity to the ports, especially the Port of Tacoma. A slowdown in volume at the ports is concerning though, as the novel coronavirus rocks the global economy.

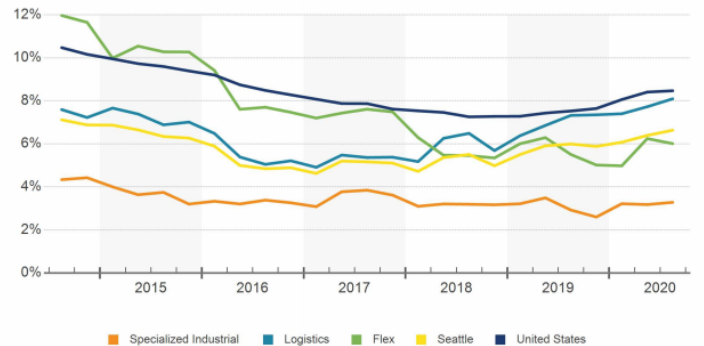
Despite a busy delivery schedule recently and an onslaught of move-outs in recent quarters, vacancies are still lower than the market's historical average. The coronavirus is taking its toll on rent growth, but properties with an e-commerce focus could outperform, especially in the near term. Amazon and other e-commerce companies have been on a leasing tear in the Puget Sound region since the beginning of the year.

Investment activity has been strong over the past several quarters, and much of it can be attributed to large institutional deals and a recently passed graduated real estate excise tax (REET) in 2019. Investors rushed to get deals done before January 2020, when the tax took effect.

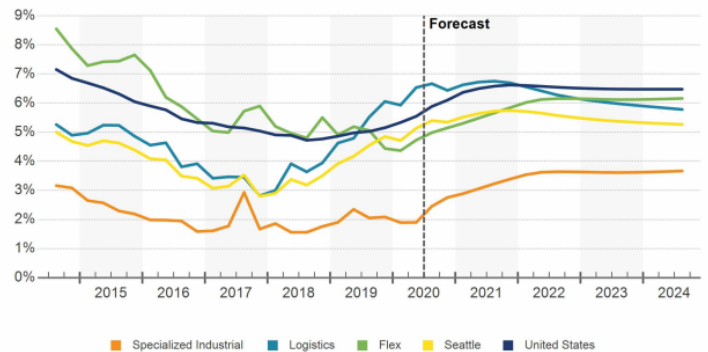
Sales volume in the first half of 2020 received a boost in 20Q1 due to a large national portfolio deal, but trade activity is down overall and a recession caused by the coronavirus and the graduated REET have resulted in lower volume in the first half of 2020. The remaining quarters of the year could result in lower volume and price depreciation. Investors will likely demand higher yields in the face of uncertainty and cap rates would expand as a result.

Source: CoStar Group

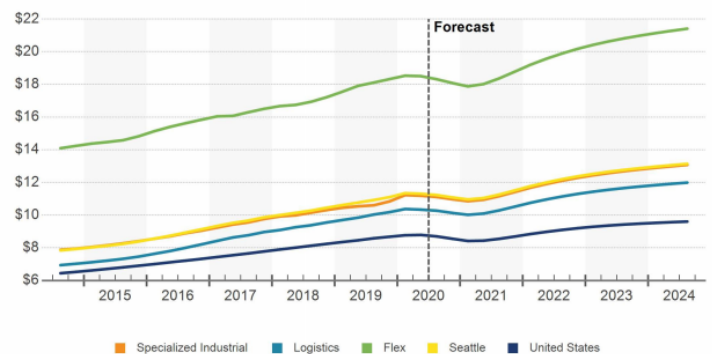
AVAILABILITY RATE



VACANCY RATE



MARKET RENT PER SQUARE FEET



# Industrial Market Statistics

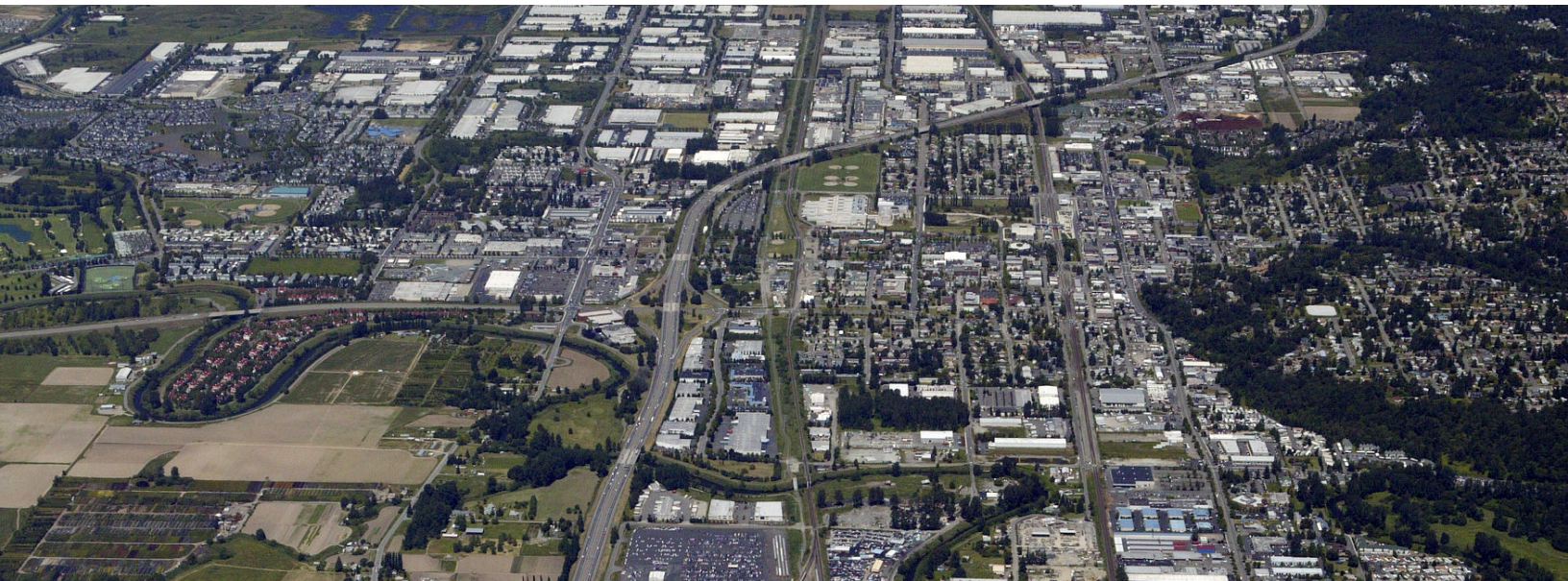
Current Quarter	RBA	Vacancy Rate	Market Rent	Availability Rate	Net Absorption SF	Deliveries SF	Under Construction
Logistics	211,276,002	6.4%	\$10.35	8.1%	262,692	0	3,294,677
Specialized Industrial	87,456,547	1.8%	\$11.22	3.3%	44,937	0	266,892
Flex	30,466,151	5.1%	\$18.48	6.0%	(116,760)	0	0
<b>Market</b>	<b>329,198,700</b>	<b>5.1%</b>	<b>\$11.32</b>	<b>6.6%</b>	<b>190,869</b>	<b>0</b>	<b>3,561,569</b>

Annual Trends	12 Month	Historical Average	Forecast Average	Peak	When	Trough	When
Vacancy Change (YOY)	0.8%	6.1%	5.4%	9.5%	2003 Q2	2.8%	2017 Q4
Net Absorption SF	396,000	2,341,186	1,863,581	8,523,146	2007 Q1	(6,451,127)	2009 Q4
Deliveries SF	2,900,000	3,619,113	3,100,877	7,576,162	2007 Q1	133,370	2012 Q1
Rent Growth	4.9%	3.3%	3.5%	9.0%	2017 Q1	(2.6%)	2002 Q3
Sales Volume	\$2.7 B	\$1.1 B	N/A	\$3.1B	2019 Q3	\$211.8 M	2010 Q2

Strong local consumption and regional trade with Asia have helped keep industrial demand robust for the past decade. Prior to 2019, net absorption had met or exceeded 3 million SF every year since 2014. However, 2019 finished in the red and net absorption in 2020 is on pace to be well below the historical average, with negative net absorption in the first half of the year. An economic downturn in the face of the pandemic, trade tensions with China, and a spec pipeline are all red flags for the Puget Sound region.

An onslaught of logistics move-outs across the metro contributed to an uptick in the vacancy rate in 2019, and a highly speculative pipeline adds supply pressures. Around 85% of the space under construction is still available for lease as of 20Q3, and most of it is logistics space concentrated in South King and Pierce counties. Vacancies in flex and specialized space remain tighter than logistics space, as demand has been high and development has been limited, but this could change as many of these properties are tenanted by small businesses and manufacturing companies.

Development activity has been especially dynamic near the ports. The alliance of the ports of Seattle and Tacoma (collectively called the “Northwest Seaport Alliance”) in 2015 was established in part to fight off fierce competition from Canadian ports. The concept has paid off for the most part, with an overall increase in trade activity at the alliance. However, a recent slowdown in trade activity with China and a downturn caused by the coronavirus will likely result in higher vacancies in new and future properties.





# Andover Top Deals

## Major New Lease Transactions Signed in the Last 12 Months

Tenant	Total SF	Office SF	Building	City	Deal Date
Jazwares, LLC	128,262	4,540	Pacific Logistics South	Pacific	12/01/2019
Filson Company	109,343	15,000	Van Doren's Distribution Center	Kent	07/01/2020
Bob Oates Sewer Rooter	56,167	1,600	Van Doren's Yard	Kent	06/01/2020
Halili & Associates, Inc.	43,800	1,500	Upland Drive Business Park	Tukwila	12/01/2019
Hormann NW Door, LLC	42,072	1,750	SeaPort Logistics Center - Building I	Sumner	04/01/2020
Palmer Johnson	37,859	1,650	Bridgepoint Sumner 60	Sumner	12/15/2019
Tri-West, Ltd.	32,762	3,800	David Properties 228	Kent	06/20/2020
Innovative Solutions	29,731	5,310	Kent Corporate Park 216 - Building B	Kent	05/21/2020
The Truck Depot, LLC	25,000	1,000	Mill Creek Distribution Center	Kent	03/01/2020
DSL NW, Inc.	22,668	4,500	West Park Corporate Campus	Auburn	12/01/2019

## Major New Sale Transactions Signed in the Last 12 Months

Buyer	Seller	SF	Address	City	Price
Elk Canyon, LLC	Jack D. Lowrey	15,454	4146 B PI NW	Auburn	\$2,350,000
CBMK Holdings, LLC	Countercraft, LLC	7,200	1401 R St NW	Auburn	\$1,200,000

# Andover Top Availabilities

Property	Address	City	Total SF	Office SF	Loading	Broker(s)
Algona I Distribution Center	650-654 Milwaukee Ave N	Algona	200,401	22,312	4 GL, 19 DH	Brian Bruininks, CCIM
Connell Building	24602 Pacific Hwy S	Kent	60,140	-	3 GL, 5 DH	Jeff Crane
Van Doren's Landing Flow Building	23500 64 <sup>th</sup> Ave S	Kent	55,850	8,004	3 GL, 16 DH	Brian Bruininks, CCIM Shane Mahvi
Custom Plus Building	49 37 <sup>th</sup> St NW	Auburn	44,295	±6,500	2 GL, 8 DH	Bruce Clarkson
Van Doren's Landing Building B	22404-22416 66 <sup>th</sup> Ave S	Kent	35,940	19,612	1 GL, 10 DH	Brian Bruininks, CCIM Shane Mahvi
Fraser Marine Building	3601 W Marginal Way	Seattle	26,887	-	7 GL, 1 DH	Bruce Clarkson
Port 106	4774 Ohio Ave S	Seattle	26,400	±4,000	Multiple	Bruce Clarkson
Bloch Steel Building	96 S Alaska St	Seattle	20,832	448	1 GL	Bruce Clarkson
M-3 Business Center Building B	1000 Andover Park E	Tukwila	16,000	-	11 GL	George Rockwell, SIOR
Dowell Building	760 N Central Ave	Kent	8,380	-	-	Dave Baumer

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The information contained herein has been obtained from reliable sources, but is not guaranteed. A prospective buyer/tenant should verify each item relating to this property and all information contained herein.



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