

Industrial Market Report

Q3 2020

Puget Sound Industrial Market

Summary

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 and financial woes at Boeing are 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 2020 is on pace to be a fraction of last year's. Investment in the first half of 2020 received a boost in 20Q1 due to a large national portfolio deal, but trade activity since then is down due to uncertainty over the coronavirus. Pricing has flattened, but prices could fall in the face of a protracted downturn.

AVAILABILITY	MARKET	NATIONAL INDEX
Market Rent/SF	\$11.08 ↓	\$8.86 ↓
Vacancy Rate	5.7% ↓	5.7% ↓
Vacant SF	18.9 M ↓	973 M ↓
Availability Rate	8.3% ↓	8.5% ↓
Available SF	28.1 M ↓	1.5 B ↓
Sublet SF	2.1 M ↓	105 M ↓
Months on Market	6.3	8.1

DEMAND	MARKET	NATIONAL INDEX
12 Mo Net Absorption SF	396 K	164 M
6 Mo Leasing Probability	40.6%	42.3%

INVENTORY	MARKET	NATIONAL INDEX
Existing Buildings	8,596 ↓	458,707 ↓
Inventory SF	333 M ↓	17 B ↓
Average Building SF	38.7 K ↓	37.2 K ↓
Under Construction SF	6.6 M ↓	335 M ↓
12 Mo Delivered SF	5 M ↓	324 M ↓

SALES	MARKET	NATIONAL INDEX
12 Mo Transactions	316 ↓	19,899 ↓
Market Sale Price/SF	\$181 ↓	\$112 ↓
Average Market Sale Price	\$7.1 M ↓	\$4.3 M ↓
12 Mo Sales Volume	\$2.4 B ↓	\$65.3 B ↓
Market Cap Rate	5.1% ↓	6.6% ↓

Industrial Market Statistics

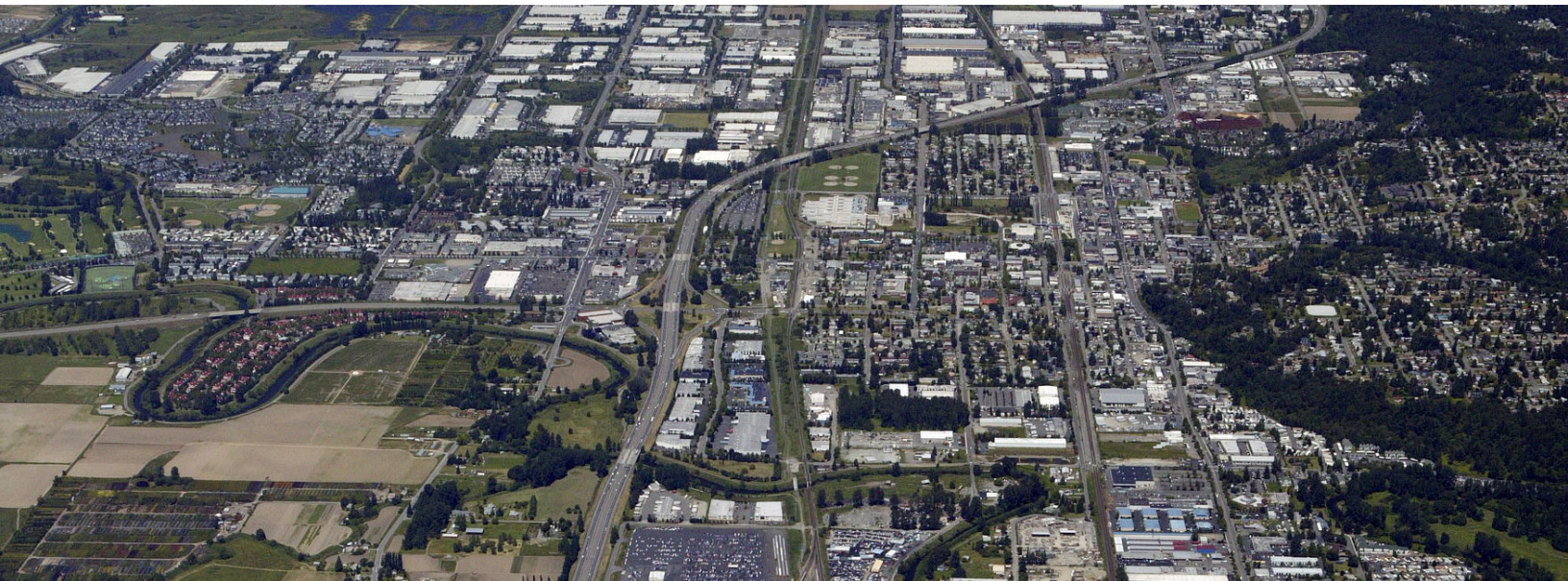
Current Quarter	RBA	Vacancy Rate	Market Rent	Availability Rate	Net Absorption SF	Deliveries SF	Under Construction
Logistics	214,112,164	6.8%	\$10.35	10.3%	(653,779)	106,833	5,966,076
Specialized Industrial	87,717,060	2.9%	\$10.22	3.5%	(240,547)	0	630,632
Flex	30,845,888	5.9%	\$18.74	7.5%	(149,689)	0	0
Market	329,198,700	5.7%	\$11.08	8.3%	(1,044,015)	106,833	6,596,708

Annual Trends	12 Month	Historical Average	Forecast Average	Peak	When	Trough	When
Vacancy Change (YOY)	1.2%	6.1%	6.6%	9.5%	2003 Q2	2.8%	2017 Q4
Net Absorption SF	396,000	2,396,889	2,177,563	8,487,628	2007 Q1	(6,450,209)	2009 Q4
Deliveries SF	5,000,000	3,676,499	4,649,600	7,589,144	2007 Q1	137,296	2012 Q1
Rent Growth	2.7%	3.1%	3.9%	8.8%	2017 Q1	(2.5%)	2002 Q3
Sales Volume	\$2.4 B	\$1.2 B	N/A	\$3.3 B	2019 Q2	\$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 essentially flat and net absorption in 2020 is on pace to be well below the historical average, with negative net absorption in 20Q3. 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 pipeline with a high availability rate adds supply pressures. Around 80% of the space under construction is still available for lease as of 20Q4, 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 and leasing 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 add a layer of risk in new and future properties. Additionally, Boeing's financial woes and decision to consolidate 787 production in South Carolina will have an adverse impact on exports and certain segments of the industrial market, especially in and around Everett.



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
CED	48,981	5,886	Prologis Park 37	Kent	02/01/2020
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, Bldg 1	Sumner	12/15/2019
Palmer Johnson	37,589	1,650	Bridgepoint Sumner 60	Sumner	12/15/2019
American Gypsum	35,700	-	Silver Bay Logging	Seattle	03/01/2020
Tri-West, Ltd	32,762	3,800	Davis Properties 228	Kent	06/20/2020
TricorBraun	31,365	2,329	Kent 228	Kent	07/01/2020

Major New Sale Transactions Signed in the Last 12 Months

Buyer	Seller	SF	Address	City	Price
Brock Monroe Irrevocable Trust	Richard Inhofer	29,000	960 Industrial Way	Longview	\$2,850,000
760 Central, LLC	Steve & Jeaninne Dowell	8,380	760 Central Ave N	Kent	\$1,700,000
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 th Ave S	Kent	55,850	8,004	3 GL, 16 DH	Brian Bruininks, CCIM Shane Mahvi
South Lind Square Building C	4150-4170 Lind Ave S	Renton	36,182	-	Multiple	Mike Hemphill Jim Bisset
Park 222 - Building B	8429 S 222 nd St	Kent	36,965	2,300	1 GL, 18 DH	Dave Dunn, CCIM
Van Doren's Landing Building B	22404-22416 66 th 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
Bloch Steel Building	96 S Alaska St	Seattle	20,832	448	1 GL	Bruce Clarkson
Riverbend Industrial Center Building A	19241 62 nd Ave S	Kent	20,082	8,564	1 GL, 3 DH	Mike Hemphill Shane Crook
NorPlex North	111 3 rd St NW	Auburn	19,280	1,980	3 DH	Bruce Clarkson

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