

Industrial Market Report

Q4 2020

Puget Sound Industrial Market

Summary

Seattle's industrial market has been one of the most active in the country over the past several years, thanks to a bustling economy and its position as 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 cargo volume at the ports and financial woes at Boeing are concerning though, as the novel coronavirus continues to rock the global economy.

Despite a busy delivery schedule recently and an onslaught of move-outs in recent quarters, vacancies are still around the market's historical average thanks to high demand for logistics space. The coronavirus is taking its toll on rent growth, but logistics properties with an e-commerce focus have outperformed. Amazon and other e-commerce companies have been on a leasing tear in the Puget Sound region since the beginning of 2020 and this momentum should continue in the near term.

Investment activity continues to be strong in the Seattle area, as buyers have long-term confidence in the industrial market. Several deals in the first part of 2021 involved well-known institutional investors targeting well-capitalized assets in last-mile locations.

Sales volume in 2020 was a fraction of the year prior, but still finished well above the historical average. Sales volume surpassed the historical average in the beginning of the fourth quarter, as institutional investors targeted mostly logistics assets. Average pricing has gone up slightly over the past year, but market cap rates remain steady.

AVAILABILITY	MARKET	NATIONAL INDEX
Market Rent/SF	\$0.94 ↑	\$0.75 ↑
Vacancy Rate	5.5% ↑	5.5% ↑
Vacant SG	18.4M ↑	949 M ↑
Availability Rate	7.8% ↑	8.0% ↑
Available SF	26.6 M ↑	1.4 B ↑
Sublet SF	2.1 M ↑	92.2 M ↓
Months on Market	6.4	8.2

DEMAND	MARKET	NATIONAL INDEX
12 Mo Net Absorption SF	878 K ↓	223 M ↑
6 Mo Leasing Probability	40.9%	42.6%

INVENTORY	MARKET	NATIONAL INDEX
Existing Buildings	8,632 ↑	460,920 ↑
Inventory SF	334 M ↑	17.2 B ↑
Average Building SF	38.7 K ↑	37.3 K ↑
Under Construction SF	7.1 M ↑	365 M ↑
12 Mo Delivered SF	4.6 M ↓	301 M ↑

SALES	MARKET	NATIONAL INDEX
12 Mo Transactions	346 ↓	18,785 ↓
Market Sale Price/SF	\$185 ↑	\$113 ↑
Average Market Sale Price	\$7.3 M ↑	\$4.3 M ↑
12 Mo Sales Volume	\$2.3 B ↓	63.6 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	216,024,827	6.6%	\$10.41	9.8%	(422,384)	868,886	6,021,918
Specialized Industrial	87,149,723	3.0%	\$10.68	3.5%	(66,597)	0	1,087,837
Flex	30,938,080	6.1%	\$19.02	8.2%	(71,934)	0	0
Market	329,198,700	5.6%	\$11.26	8.0%	(560,915)	868,886	7,109,755

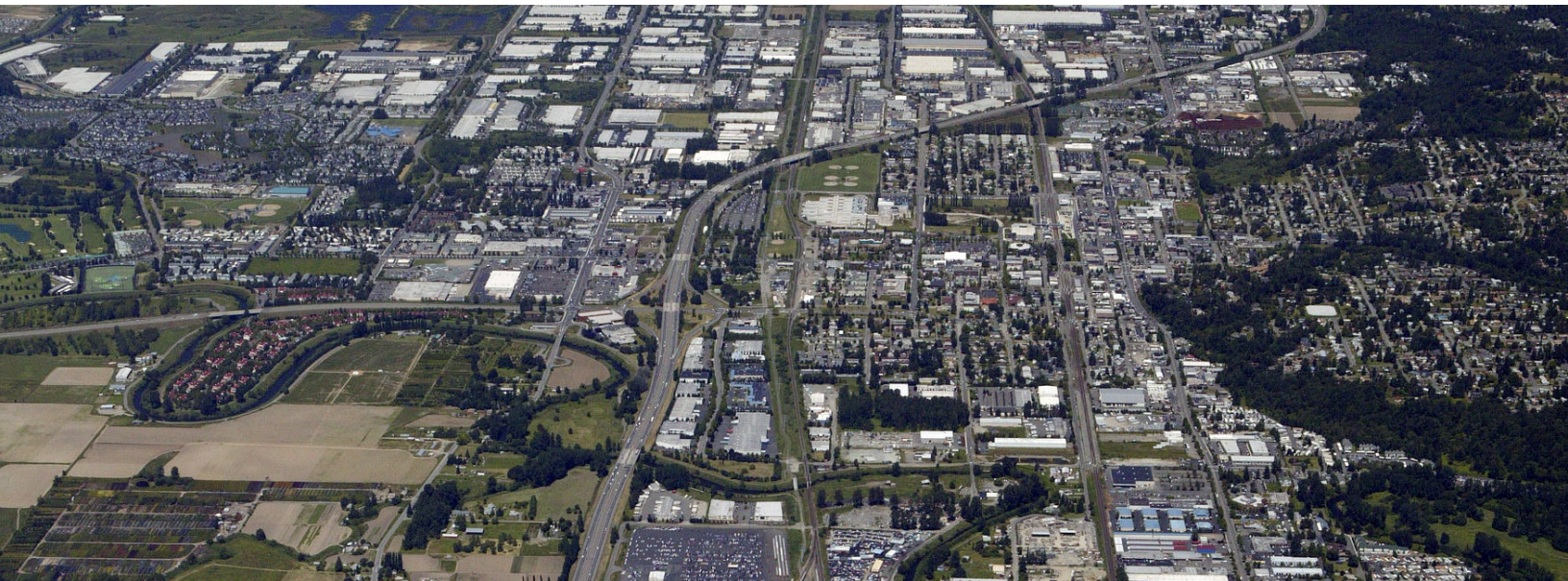
Annual Trends	12 Month	Historical Average	Forecast Average	Peak	When	Trough	When
Vacancy Change (YOY)	1.1%	6.1%	5.9%	9.5%	2003 Q2	2.8%	2017 Q4
Net Absorption SF	858,000	2,385,391	3,921,657	8,503,310	2007 Q1	(6,472,674)	2009 Q4
Deliveries SF	5,000,000	3,687,648	5,849,828	7,609,189	2007 Q1	137,296	2012 Q1
Rent Growth	2.0%	3.2%	3.3%	8.8%	2017 Q1	(2.6%)	2002 Q3
Sales Volume	\$2.3 B	\$1.2 B	N/A	\$3.3 B	2020 Q1	\$211.8 M	2010 Q2

Strong local consumption and regional trade with Asia have helped keep industrial demand strong for the past decade. Average annual net absorption over the past ten years is 3.3 million SF, but momentum has shifted overall due to the pandemic, with 860,000 SF of net absorption over the past year, tied to negative net absorption in non-logistics properties. Flex properties had net absorption of -540,000 SF over the past year, while specialized properties had net absorption of -690,000 SF.

A slowdown in trade activity and a downturn caused by the coronavirus will add a layer of risk in non-logistics assets in the near term. Additionally, Boeing's financial woes and decision to consolidate 787 production in South Carolina will have an adverse impact on exports, and thus specialized and flex assets in and around Everett. The aerospace giant has stated it will be fully relocated to South Carolina by the end of 2022.

Net absorption in logistics properties was 2.1 million SF over the past year, thanks to e-commerce and logistics players taking large blocks of space. The logistics vacancy rate stands at 6.6%, but much of it is supply-driven as an onslaught of new properties has been added over the past two years.

A swollen pipeline of logistics properties will add supply pressure in the near term too. Over 60% of the space under construction is still available for lease as of 21Q1, and most of it is logistics space concentrated in last-mile distribution hubs throughout Snohomish, South King and Pierce counties.



Andover Top Deals

Major New Lease Transactions Signed in the Last 12 Months

Tenant	Total SF	Office SF	Building	City	Deal Date
Salmon Terminals, Inc.	268,844	4,000	Auburn North Distribution Center	Auburn	02/01/2021
Staples Contract & Commercial, LLC	128,050	15,000	Auburn North Distribution Center	Auburn	12/01/2020
Filson Company	109,343	15,000	Van Doren's Distribution Center	Kent	07/01/2020
Check Out My, LLC	93,974	10,501	Algona I Distribution Center	Algona	01/01/2021
Globetrotter Properties, LLC	71,089	3,488	300 Meridian Building	Milton	02/01/2021
Inside Source Washington	57,600	2,108	Northwest Corporate Park Kent	Kent	06/01/2020
Bob Oates Sewer Rooter	56,167	1,600	Van Doren's Yard	Kent	06/01/2020
Stoneway Electric Supply	53,480	-	Park 234, Building C	Kent	07/01/2020
Salon Services & Supply	44,295	9,500	Custom Plus Building	Auburn	02/01/2021
Hormann NW Door, LLC	42,072	1,750	SeaPort Logistics Center, Bldg 1	Sumner	04/01/2020

Major New Sale Transactions Signed in the Last 12 Months

Buyer	Seller	SF	Address	City	Price
United Rentals Realty, LLC	TUK Properties, LLC	36,420	17700 W Valley Hwy	Tukwila	\$11,250,000
Brock Monroe Irrevocable Trust	Richard Inhofer	29,000	960 Industrial Way	Longview	\$2,850,000
L.A.R.K., LLC.	Welle, Inc. Gisselle Welle	17,673	3727 112 th St SW	Lakewood	\$2,600,000

Andover Top Availabilities

Property	Address	City	Total SF	Office SF	Loading	Broker(s)
Algona I Distribution Center	650-654 Milwaukee Ave N	Algona	106,427	4,709	3 GL, 10 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
North Valley Business Park	17616 W Valley Hwy	Tukwila	28,700	3,500	3 GL, 6 DH	George Rockwell, SIOR
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
Bloch Steel Building	96 S Alaska St	Seattle	20,832	448	1 GL	Bruce Clarkson
NorPlex North	111 3 rd St NW	Auburn	19,280	1,980	3 DH	Bruce Clarkson
Dead Storage Space	21415 87 th Ave SE	Woodinville	17,064	-	1 GL, 2 DH	Brian Bruininks, CCIM Shane Mahvi

Our Team

BROKERS

DAVE BAUMER

Principal
(206) 948-8779
dbaumer@andoverco.com

BRUCE CLARKSON

Principal
(206) 336-5332
bclarkson@andoverco.com

DAVE DUNN, CCIM

Vice President
(206) 336-5326
dduun@andoverco.com

JAKE MONROE

Senior Associate
(206) 357-5482
jmonroe@andoverco.com

ARNE SVENDSEN

Vice President
(206) 947-2885
asvensen@andoverco.com

JIM BISSET

Principal
(206) 336-5334
jbisset@andoverco.com

JEFF CRANE

Principal
(206) 336-5336
jcrane@andoverco.com

MIKE HEMPHILL

Principal
(206) 550-4176
mhemphill@andoverco.com

RICHARD RAIFORD

Senior Associate
(206) 357-5486
rraiford@andoverco.com

BRIAN BRUININKS, CCIM

Principal
(206) 336-5324
bbruininks@andoverco.com

SHANE CROOK

Vice President
(206) 336-5330
scrook@andoverco.com

SHANE MAHVI

Senior Associate
(206) 336-5338
smahvi@andoverco.com

GEORGE ROCKWELL, SIOR

Principal
(206) 679-7625
grockwell@andoverco.com

SUPPORT

LESLIE HARPER

Office Manager/
Receptionist
(206) 244-0770
lharper@andoverco.com

LISA WHITING

Accountant
(206) 244-0770
lwhiting@andoverco.com

VERONIKA ZWICKE

Marketing & Communications
Manager
(206) 336-5335
vzwicke@andoverco.com

ASSET MANAGEMENT

COREY BARR

Director of Asset
Services
(206) 244-4200
cbarr@andoverco.com

CHRISTINE SHADDY

Property Assistant
(206) 244-4200
cshaddy@andoverco.com

900 SW 16th St, Ste 100 | Renton, WA 98057 | (206) 244-0770
www.andoverco.com

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