

# Industrial Market Report

## 2023 Q2

## Puget Sound Industrial Market

### Summary

The Seattle/Puget Sound industrial market is cooling entering the third quarter. The demand for logistics space remains a popular commodity, but threats of labor strikes and economic uncertainty are causing tenants to be hesitant on new commitments. Thankfully for logistics users and the west coast ports, a tentative agreement was recently reached towards the end of Q2 which averted a labor strike that could have had a major impact on all logistics operations around the Seattle/Puget Sound area.

Some large distribution companies have been putting spaces back on the market, such as Amazon's 92,000 SF Everett operation or Costco's 450,000 SF Dupont facility. Tenant demand is cooling from the record setting numbers set during the pandemic, as seen by a 30% decrease in the number of lease signings throughout the first half of 2023. The market is slowly switching on landlords, as tenants have more and more leverage while negotiating leases. New construction projects might see further headwinds as more buildings are completing construction without signed tenants.

AVAILABILITY	MARKET	NATIONAL INDEX
Market Rent/SF	\$1.19 ↑	\$0.97 ↑
Vacancy Rate	5.5% ↑	4.8% ↑
Month on Market	4.9 ↓	5.4 ↓

INVENTORY	MARKET	NATIONAL INDEX
Inventory SF	350 M ↑	18.4 B ↑

SALES	MARKET	NATIONAL INDEX
Market Sale Price/SF	\$240 ↓	\$150 ↓

## Industrial Market Statistics

Current Quarter	RBA	Vacancy Rate	Market Rent	Availability Rate
Logistics	234,765,598 ↑	6.0% ↑	\$1.11 ↑	9.6% ↑
Specialized Industrial	85,627,869 ↓	3.4% ↑	\$1.17 ↑	4.6% ↑
Flex	29,346,738 ↑	7.3% ↓	\$1.98 ↑	9.0% ↑
<b>Market</b>	<b>349,740,205 ↑</b>	<b>5.5% ↑</b>	<b>\$1.19 ↑</b>	<b>8.3% ↑</b>

At the end of 2022, annual rent growth in the area had slowed to 7.5% from a recent watermark of 10.8%. Aside from a slowdown in rental growth, annual rent increases continue to creep upward, as the average now sits at 3.6% rather than the historical average of 3% that was seen before 2020.

Investment activity has slowed in the Seattle area as buyers have been grappling with financing problems. Fewer sales are happening and those that are transacting have been much smaller than the big box purchases over the last 3 years. There has also been a strong push for food-processing facility purchases over the last 6 months.



# Puget Sound Office Market

## Summary

The Seattle Metro office market yields a lower vacancy rate than the national average but varies significantly within its own submarkets. The 4 & 5 star buildings that you see downtown are experiencing vacancies of around 16%, while 1 & 2 star buildings outside the city core only have around 6.4% vacancy. Asking rents are well below 2019 averages and are quickly trending downward. Tenants have all the power in the current office market, as we're seeing concessions and shorter term leases being negotiated more frequently.

Demand remains tepid as large companies continue to rethink their space needs due to economic uncertainty. Amazon, Microsoft, Meta, Google and Salesforce Subsidiary Tableau have all been giving up large amounts of space.

While major employers have reopened offices, the need for office space is being reevaluated due to the hybrid work model. Rather than having several office spaces around the area, companies are beginning to occupy buildings as single tenants or owner users.

A lack of parking in the downtown core and large monthly/daily expense for the employees or employers that do come back to the office has always been a limiting factor, not to mention traffic metrics that rank some of the worst in the country.

AVAILABILITY	MARKET	NATIONAL INDEX
Market Rent/SF	\$38.03 ↓	\$35.15 ↓
Vacancy Rate	12.7% ↑	13.2% ↑
Month on Market	12.0 ↑	13.4 ↓

INVENTORY	MARKET	NATIONAL INDEX
Inventory SF	230 M ↑	8.4 B ↑

SALES	MARKET	NATIONAL INDEX
Market Sale Price/SF	\$455 ↓	\$301 ↓

Lots of focus has been targeted at the Seattle Eastside Submarket. Areas like Bellevue and Redmond are experiencing tech companies signing large leases and creeping away from downtown locations.

In capital markets, office assets are in the tank with investors and banks. Sales prices and building valuations have plummeted and some banks are refusing to loan on this sector. There could be a crisis with office loan defaults within the upcoming quarters as the issue will most likely continue.

## Market Rent & Vacancy

