

Industrial Market Report

2023 Q3

Puget Sound Office Market

Summary

The Seattle/Puget Sound industrial market has cooled heavily over the last 12 months. With large construction projects being completed and a small demand for tenants to fill them, it has created negative absorption and has led to the underperformance of the Puget Sound market compared to national benchmarks. The vacancy rate is currently sitting at a 10-year high of 6.0% compared to 4.1% just a year ago.

Leasing is still the driving force for the current market. Despite negative absorption, leasing volume has remained similar between Q3 2023 and Q2 2023. Most of the large leases are getting done in the South Puget Sound areas, such as Harbor Freight Tools securing a 780,000 SF facility in Frederickson. Overall, leasing continues to be down from where it was just a year ago. Landlords are focusing more on retaining their tenants rather than pushing the rental rates severely like seen in previous years. This can provide more negotiating leverage for tenants looking to relocate or renew their leases.

The market for sales has proven to be a tricky one. Sales volume for 2023 has been down more than 70% compared to 2022. There is a large discrepancy between sellers' expectations and buyer power. Sellers are still fixated on property valuations from 12 months ago, but buyers are struggling with the new world of 7% interest rates rather than 3.5%. Buying power has been reduced significantly, especially in the investment sector. Instead of cap rates trading around 4.5%, they are now being seen towards the 6%-7% marks.

Many sales only pencil out if it's an owner-user purchase. Companies looking to invest cash in a long-term home for their company currently have the upper hand. They aren't in such a competitive environment as they were a year ago when having to compete with institutional money.

AVAILABILITY	QUARTER 3 - 2023		12 MONTHS AGO	
	MARKET	NATIONAL INDEX	MARKET	NATIONAL INDEX
Market Rent/SF	\$1.24 ↑	\$0.98 ↑	\$1.10	\$0.90
Vacancy Rate	6.0% ↑	5.3% ↑	4.1%	4.0%
Month on Market	5.8 ↓	5.7 ↓	5.7	5.6

INVENTORY	MARKET		NATIONAL INDEX	
	MARKET	NATIONAL INDEX	MARKET	NATIONAL INDEX
Inventory SF	353 M ↑	18.6 B ↑	344 M	18 B

SALES	MARKET		NATIONAL INDEX	
	MARKET	NATIONAL INDEX	MARKET	NATIONAL INDEX
Market Sale Price/SF	\$248 ↑	\$153 ↑	\$245	\$155

Industrial Market Statistics

Current Quarter	RBA	Vacancy Rate	Market Rent/SF	Availability Rate
Logistics	237,468,778 ↑	6.8% ↑	\$1.15/SF ↑	10.3% ↑
Specialized Industrial	85,880,375 ↑	3.3% ↓	\$1.21/SF ↑	4.4% ↑
Flex	29,489,313 ↑	7.4% ↑	\$2.00/SF ↑	9.7% ↑
Market	352,838,466 ↑	6.0% ↑	\$1.24/SF ↑	8.8% ↑

Office Market Report

2023 Q3

Puget Sound Office Market

Summary

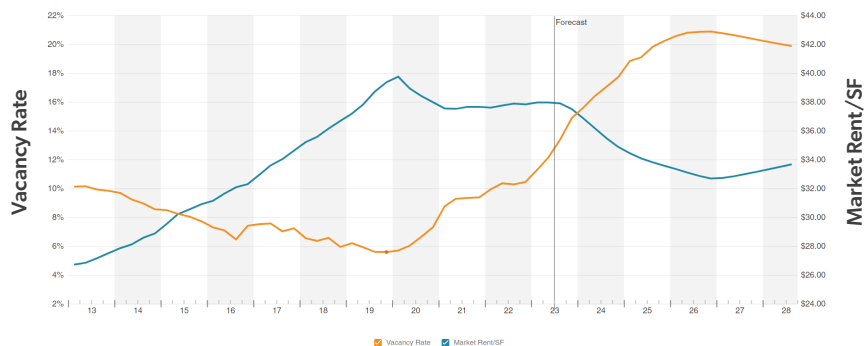
The Seattle Metro office market vacancy continues to climb. The vacancy rate currently sits at 13.3% but will continue to increase throughout the foreseeable future. The availability rate is a better indicator of market strength because it includes sublease space that is being marketed. A lot of tenants are currently in long-term leases that are trying to shed space and downsize. Once those leases come to term, the vacancy rate will take a large hit. There is currently 42.5M SF of space being marketed, drastically up from around 17M SF in 2020.

Companies continue to lay off employees, leading to more space reductions throughout the market. T-Mobile announced it will be laying off 5,000 employees in the third quarter and that they will be vacating around 330,000 SF at their headquarters building.

There is still a push for getting employees back into the office and there has been slow and steady progress. Office foot traffic is currently around 56% of pre-pandemic levels and unsurprisingly Seattle's average lease size was around 45% of what it was before the pandemic.

Office sales have taken the largest hit for pricing and volume. Sales are at a near standstill and most lenders are not lending on office product at all. Some examples show lenders taking buildings back because the owners are defaulting on loans, as seen with the Renton project Southport.

	QUARTER 3 - 2023		12 MONTHS AGO	
AVAILABILITY	MARKET	NATIONAL INDEX	MARKET	NATIONAL INDEX
Market Rent/SF	\$37.80 ↑	\$35.17 ↑	\$38.64	\$35.14
Vacancy Rate	13.3% ↑	13.4% ↑	10.6%	12.5%
Month on Market	12.6 ↑	13.4	11.7	14.0
INVENTORY	MARKET	NATIONAL INDEX	MARKET	NATIONAL INDEX
Inventory SF	231 M ↑	8.4 B	227 M	8.3 B
SALES	MARKET	NATIONAL INDEX	MARKET	NATIONAL INDEX
Market Sale Price/SF	\$435 ↓	\$292 ↓	\$516	\$339



Office Market Statistics

Current Quarter	RBA	Vacancy Rate	Market Rent/SF	Availability Rate
4 & 5 Star	100,822,059 ↑	16.6% ↑	\$43.53/SF ↓	23.7% ↑
3 Star	80,147,532 ↑	13.5% ↑	\$34.60/SF ↓	16.0% ↑
1 & 2 Star	49,717,532 ↑	6.4% ↑	\$30.08/SF ↓	7.6% ↑
Market	230,687,123 ↑	13.3% ↑	\$37.80/SF ↓	17.60% ↑

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