

RESEARCH & FORECAST REPORT

PUGET SOUND REGION | Q4 2016 | INDUSTRIAL

Colliers
INTERNATIONAL

REGIONAL SUMMARY

The Seattle/Puget Sound industrial market is poised to maintain its sizzling streak into 2017. Regional vacancy continued its decline to 2.6% by the end of 2016 as positive net absorption topped 4 million SF for the second consecutive year. Leasing activity in the Kent Valley was again the key contributor to the vacancy drop, recording 619,902 SF of net absorption in Q4, over 76% of the region's total. Warehouse rents are increasing significantly throughout the Puget Sound as the construction pipeline expands to keep up with incessant demand. There is 4.7 million SF under construction, despite the delivery of 8.1 million SF over the last two years. Boeing already shed 8% of its U.S. workforce in 2016 with approximately 4,000 laid off in the Seattle area. In Washington, the manufacturing industry lost 6,300 jobs during 2016. Still, the newly-elected Trump administration has promised to increase infrastructure spending, deregulate the energy sector, and encourage domestic manufacturing – all of which would greatly assist the continued growth of industrial markets nationwide. Amazon announced it is hiring 100,000 more full-time U.S. workers by mid-2018 with at least 60% of that going to its expanding fulfillment center network. U.S. construction spending hit a 10-year high in November while Washington added 12,800 construction jobs over the course of 2016. As Seattle is a still-growing major metropolitan area with a tight industrial market, land restraints for future development, and access to major ports and airports – the industrial outlook for 2017 remains bright for landlords and developers as the options for tenants remain few and far between for now.

REGIONAL VACANCY

- » Seattle/Puget Sound vacancy rate is 2.6%, down 20 basis points from last quarter.
- » Regional year-over-year vacancy fell 1.0% from 3.6% at the end of 2015.

REGIONAL ABSORPTION

- » Seattle/Puget Sound recorded 812,135 SF of net absorption during Q4 and 4,015,428 SF throughout all of 2016, less than 2015's post-recession record of almost 5 million SF.
- » Kent Valley submarkets accounted for over 76% of the region's Q4 absorption and 43% of 2016's year-to-date absorption.

REGIONAL CONSTRUCTION ACTIVITY

- » 19 projects are under construction across the region, totaling almost 4.7 million SF. Only 18% of this incoming inventory is pre-leased. 4.2 million SF is under construction in the Kent Valley or Pierce County; 90% of the Puget Sound development pipeline.
- » 20 buildings were delivered during 2016, totaling 4.1 million SF. Roughly half of 2016's deliveries, over 2 million SF, were in the Puyallup-Sumner submarket in Pierce County.

REGIONAL INVESTMENT SALES ACTIVITY

- » 45 properties consisting of 5.9 million SF sold during Q4, totaling over \$874 million in sales volume at an average price of \$184.29/SF, a 378% jump in volume from Q3.
- » 145 properties traded hands during all of 2016, totaling almost 13.9 million SF of industrial inventory and \$1.9 billion in sales volume at an average of \$198.86/SF, per RCA. 2016's sales volume was 19% less than 2015's \$2.4 billion.

ECONOMIC DRIVERS

MARKET INDICATORS	QoQ	YoY
VACANCY	↓	↓
RENTAL RATES	↑	↑
NET ABSORPTION	↓	↓
CONSTRUCTION	↑	↑
SALES VOLUME	↑	↓
SALE PRICE	↑	↑

RENTAL RATE QUARTERLY COMPARISON

Market	Shell/Warehouse			Flex		
	Q4 2016 Overall	Q4 2015 Overall	Y-O-Y % Change	Q4 2016 Overall	Q4 2015 Overall	Y-O-Y % Change
Kent Valley (shell rates)	\$0.55	\$0.48	14.6%	\$1.10	\$1.01	8.7%
Pierce County (shell rates)	\$0.52	\$0.45	15.6%	\$0.80	\$0.92	-13.0%
Northend (warehouse rates)	\$0.79	\$0.77	2.6%	\$1.41	\$1.23	14.8%
Seattle Close-In (shell rates)	\$0.77	\$0.63	22.2%	\$1.21	\$1.26	-3.7%
Eastside (warehouse rates)	\$0.86	\$0.66	30.3%	\$1.45	\$1.14	26.8%

* Rates represent asking rents for available space.



UPDATE—Lease and Investment Transactions

LEASE STARTS—Q4 2016

Tenant	Property Name	Submarket	Size
Regal Logistics	LogistiCenter at 167	Puyallup / Sumner	225,972
Amazon	Cascade Corporate Center	Kent	158,168
Zones, Inc.	Northwest Corporate Park - Bldg. F	Kent	72,000
Airefco, Inc.	Prologis Park Trans-Pacific - Bldg. 10	Port of Tacoma / Fife	63,158
Redapt	Woodinville Corporate Center IV	Woodinville	51,876
E Roko Distributors	Valley Freeway Corporate Park	Kent	36,844
Professional Plastics	Seattle South Business Park	Tukwila	28,769

NOTABLE SALES—Q4 2016

Building Name	Sale Price	RBA	Price/SF	Submarket	Seller	Buyer	Type	Sale Date
Boeing Field Campus (8 bldgs)	\$136,000,000	963,000	\$141.23	East Hill	Sabey Corporation	Prologis	Warehouse & Office	11/23/2016
Greenriver CP & SouthCenter South	\$132,699,999	926,272	\$143.26	Kent	Barings Real Estate Advisers	Clarion Partners	Warehouse	12/21/2016
Des Moines Creek BP - Phase I	\$46,500,000	714,076	\$65.12	Seatac-Burien	Panattoni & MetLife	LaSalle Investment Management	Warehouse	12/15/2016
Former Safeway Bakery	\$26,500,000	102,714	N/A	Bellevue	Safeway	Bellevue School District	Warehouse & Land	11/15/2016
Springbrook II Business Park	\$23,200,000	185,092	\$125.34	Kent	Metzler Real Estate	LA Co. Employees Retirement Assoc.	Warehouse	12/16/2016
Springbrook 188 Distribution Center	\$22,620,870	280,336	\$80.69	Kent	LBA Realty	Blackstone	Warehouse	11/18/2016
Everett Commerce Center - Bldg. B	\$17,980,607	217,700	\$82.59	South Everett	LBA Realty	Blackstone	Warehouse	11/18/2016
Airport Business Center	\$12,550,000	150,046	\$83.64	South Everett	Tyler Abbott	Vaupell Industrial Plastics	Flex	10/7/2016

NOTABLE CONSTRUCTION DELIVERIES—Q4 2016

Property Name	Submarket	Developer	SF	% Leased
Chinook Building at DCT White River CP	Puyallup / Sumner	DCT Industrial	251,437	0%
LogistiCenter at 167	Puyallup / Sumner	Dermody Properties	225,972	100%

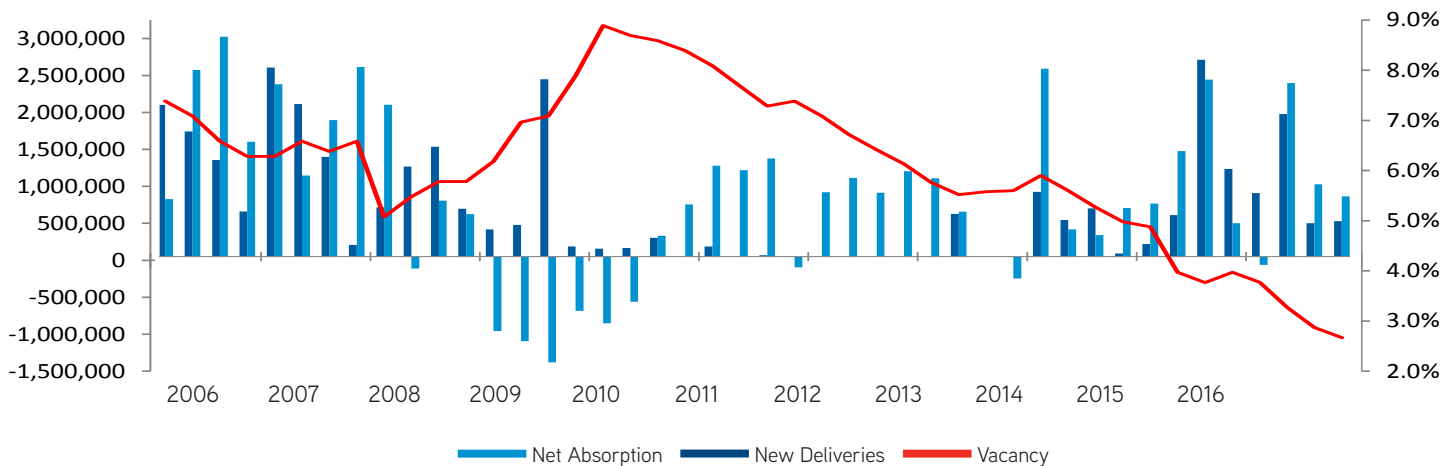
BUILDINGS FOR SALE—Q4 2016

Asking Price	Building SF	Price/SF	Property Name	Submarket	Type
\$15,850,000	73,919	\$214.42	Michigan NW Corporate Park	E of Duwamish	Flex
\$14,084,000	116,712	\$120.67	ProBuild DC Center	N Snohomish County	Warehouse
\$12,967,900	120,900	\$107.26	Sumner West	Puyallup / Sumner	Warehouse
\$11,600,000	35,394	\$327.74	1520-1544 NW Ballard Way	North Seattle	Warehouse & Mfg.
\$11,325,000	76,900	\$147.27	Orca Bay Seafood Bldg.	Renton	Warehouse
\$10,996,792	100,888	\$109.00	Frederickson Distribution Center	Parkland / Spanaway	Warehouse
\$10,808,000	146,750	\$73.65	601 Monster Road Bldg.	Renton	Warehouse
\$10,750,000	72,838	\$147.59	Fife Square	Port of Tacoma / Fife	Warehouse & Retail

MARKET OVERVIEW

	EXISTING PROPERTIES					ABSORPTION		
	Stock	Total Inventory (SF)	Direct Vacant (SF)	Sublease Vacant (SF)	Total Vacant (SF)	Vacancy Rate Current Period (%)	Absorption Current Quarter (SF)	Absorption YTD (SF)
SEATTLE CLOSE-IN:								
Manufacturing	309	11,401,033	128,849	0	128,849	1.1%	14,672	-2,369
Warehouse	694	24,506,466	620,399	24,115	644,514	2.6%	-253,597	-255,257
Flex	92	5,408,585	43,546	4,000	47,546	0.9%	-7,224	1,856
Total	1,095	41,316,084	792,794	28,115	820,909	2.0%	-246,149	-255,770
EASTSIDE INDUSTRIAL:								
Manufacturing	59	3,178,569	2,055	0	2,055	0.1%	31,057	171,915
Warehouse	217	7,738,975	84,334	0	84,334	1.1%	-2,309	81,601
Flex	249	7,802,688	379,410	0	379,410	4.9%	37,614	308,815
Total	525	18,720,232	465,799	0	465,799	2.5%	66,362	562,331
NORTHEND INDUSTRIAL:								
Manufacturing	202	23,387,563	382,942	0	382,942	1.6%	173,824	1,601,017
Warehouse	562	20,004,445	572,183	101,225	673,408	3.4%	-29,845	27,005
Flex	182	7,366,010	434,855	73,100	507,955	6.9%	63,813	41,276
Total	946	50,758,018	1,389,980	174,325	1,564,305	3.1%	207,792	1,669,298
KENT VALLEY INDUSTRIAL:								
Manufacturing	231	25,020,964	300,156	0	300,156	1.2%	92,967	-37,778
Warehouse	1,007	70,216,001	1,219,916	26,484	1,246,400	1.8%	583,069	1,795,065
Flex	123	4,760,518	362,801	5,429	368,230	7.7%	-56,134	-11,153
Total	1,361	99,997,483	1,882,873	31,913	1,914,786	1.9%	619,902	1,746,134
PIERCE COUNTY INDUSTRIAL:								
Manufacturing	203	9,763,801	292,341	2,078	294,419	3.0%	98,488	-96,034
Warehouse	672	45,293,863	1,912,758	0	1,912,758	4.2%	64,628	362,120
Flex	45	1,231,597	37,381	0	37,381	3.0%	1,112	27,349
Total	920	56,289,261	2,242,480	2,078	2,244,558	4.0%	164,228	293,435
SEATTLE REGION INDUSTRIAL:								
Manufacturing	1,004	72,751,930	1,106,343	2,078	1,108,421	1.5%	411,008	1,636,751
Warehouse	3,152	167,759,750	4,409,590	151,824	4,561,414	2.7%	361,946	2,010,534
Flex	691	26,569,398	1,257,993	82,529	1,340,522	5.0%	39,181	368,143
MSA Total	4,847	267,081,078	6,773,926	236,431	7,010,357	2.6%	812,135	4,015,428

REGIONAL ABSORPTION & VACANCY RATES



REGIONAL OVERVIEW

SUPPLY

- » 2.3 million SF delivered in Pierce County during 2016, accounting for over 57% of all new supply for the year.
- » Boeing's 1.3 million SF 777X Wing Plant in South Everett that delivered in May accounted for 31% of the 4.1 million SF of deliveries in 2016.

DEMAND

- » Manufacturing properties recorded over 411,000 SF of net absorption during Q4, 42% of which occurred in the Northend.
- » Kent Valley warehouses remain in high demand as 583,069 SF of net absorption recorded during Q4, bringing the 70 million SF market to an astonishing 1.8% vacancy by the end of 2016.

OUTLOOK

- » With demand spilling over into 2017 and large block leasing at new construction continuing, we expect vacancy rates to remain low until September, though will likely edge back up toward end of the year as more speculative supply becomes available. Rental rates should continue to rise until more space delivers and Seattle/Puget Sound industrial investments will remain a top item on the wish lists for institutional capital.

502 offices in
67 countries on
6 continents

United States: **140**
Canada: **31**
Latin America: **24**
Asia Pacific: **199**
EMEA: **108**

\$2.3

billion in
annual revenue

1.7

billion square feet
under management

16,300

professionals
and staff

ABOUT COLLIERS INTERNATIONAL

Colliers International Group Inc. (NASDAQ: CIG; TSX: CIG) is a global leader in commercial real estate services with more than 16,300 professionals operating from 502 offices in 67 countries. With an enterprising culture and significant insider ownership, Colliers professionals provide a full range of services to real estate occupiers, owners and investors worldwide. Services include brokerage, global corporate solutions, investment sales and capital markets, project management and workplace solutions, property and asset management, consulting, valuation and appraisal services, and customized research and thought leadership. Colliers International has been ranked among the top 100 outsourcing firms by the International Association of Outsourcing Professionals' Global Outsourcing for 10 consecutive years, more than any other real estate services firm.

SEATTLE:

Bill Condon
Managing Director
206 624 7400
bill.condon@colliers.com

BELLEVUE:

Bret Jordan
Managing Director
425 453 3131
bret.jordan@colliers.com

RESEARCH:

Bobby Shanahan
Senior Research Associate—Bellevue
425 453 3144
bobby.shanahan@colliers.com

Tess Cory
Research Associate—Seattle
206 223 1440
tess.cory@colliers.com



This document/email has been prepared by Colliers International for advertising and general information only. Colliers International makes no guarantees, representations or warranties of any kind, expressed or implied, regarding the information including, but not limited to, warranties of content, accuracy and reliability. Any interested party should undertake their own inquiries as to the accuracy of the information. Colliers International excludes unequivocally all inferred or implied terms, conditions and warranties arising out of this document and excludes all liability for loss and damages arising there from.

Accelerating success.

