

RESEARCH & FORECAST REPORT

PUGET SOUND REGION | Q1 2018 | INDUSTRIAL

Colliers
INTERNATIONAL

REGIONAL SUMMARY

The Seattle/Puget Sound industrial market stayed strong in the first quarter of 2018. The regional vacancy rate increased to 3.4% as rental rates and construction activity remain elevated. The average regional rental rate for industrial properties rose to \$0.88/month, the highest recorded rate over the past six years. Two projects delivered during the period: CenterPoint 167 in Kent and Prologis Park Tacoma Building D in Tacoma. Overall absorption came out to a positive 318,787 SF, up by more than 960,000 SF quarter over quarter. The largest project currently under construction is the IPT Tacoma Logistics Center, which will add more than 1.1 million SF to the inventory in Q2 of this year. The number of properties sold jumped significantly quarter over quarter, with Frontier Communications Kirkland location at 12055 Slater Ave NE the largest at \$587/SF. Activity from industry players such as Amazon and Walmart continued — and will continue — to impact the market, as both grow their network of distribution centers to better compete. Though the local manufacturing and construction industries continue to decline — each projected to lose over 1,000 workers by Q1 2019 per the Puget Sound Economic Forecaster — the Employment Security Department found that unemployment rates have remained stable since the start of last year. With several construction projects underway or nearing completion and new tenant move-ins looming, the market appears on a positive trajectory.

REGIONAL VACANCY

- » Seattle/Puget Sound vacancy rate rose 20 basis points from last quarter to 3.4%.
- » Regional vacancy increased by 50 basis points from Q1 2017.

REGIONAL ABSORPTION

- » Seattle/Puget Sound recorded 284,322 SF of positive net absorption in Q1, headlined by 318,787 SF in the Pierce County submarket.
- » Warehouse and flex properties recorded nearly 273,000 SF of positive net absorption during Q1, while the manufacturing sector had 11,407 SF of positive net absorption

REGIONAL CONSTRUCTION ACTIVITY

- » 16 industrial projects are under construction across the Seattle/Puget Sound region containing over 6.3 million SF. Only 9% of that has been pre-leased. Pierce County boasts 3.2 million SF of construction or 51% of Puget Sound's industrial development pipeline.
- » 2 buildings totaling 540,606 SF were delivered during Q1 2018. The largest delivery was Prologis Park Tacoma Building D (319,806 SF), followed by Centerpoint 167 (220,800 SF).

REGIONAL INVESTMENT SALES ACTIVITY

- » 41 properties consisting of 1.9 million SF sold during Q1, according to Real Capital Analytics— a 37% increase from Q1 of last year.
- » Industrial properties valued at \$342 million traded hands during Q1, at an average price of \$200/SF, per RCA. This volume represented a 6% increase in price/SF quarter over quarter, and a 29% increase in sales volume.

ECONOMIC DRIVERS

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

RENTAL RATE QUARTERLY COMPARISON

Market	Shell/Warehouse			Flex		
	Q1 2018 Overall	Q1 2017 Overall	Y-O-Y % Change	Q1 2018 Overall	Q1 2017 Overall	Y-O-Y % Change
Kent Valley (shell rates)	\$0.70	\$0.58	20.7%	\$1.14	\$1.15	-0.9%
Pierce County (shell rates)	\$0.61	\$0.52	17.3%	\$1.34	\$1.04	28.8%
Northend (warehouse rates)	\$0.95	\$0.81	17.3%	\$1.38	\$1.55	-11.0%
Seattle Close-In (shell rates)	\$1.06	\$0.91	16.5%	\$1.65	\$1.21	36.4%
Eastside (warehouse rates)	\$1.37	\$0.91	50.5%	\$1.68	\$1.47	14.3%

Colliers adjusted its calculation methodology for vacancy and asking rent between 4Q17 and 1Q18. The vacancy cited for Q4 in this report reflects the new methodology.



* Rates represent asking rents for available space per month.

UPDATE—Lease and Investment Transactions

LEASE STARTS—Q1 2018			
Tenant	Property Name	Submarket	Size
Volvo Aero Services Group *	Kent North Corporate Park	Kent Valley North	238,121
Classic Accessories	Centerpoint 167	Kent Valley South	220,800
Broder Bros. Co. *	500 Milwaukee Ave N	Auburn	160,038
Premier Fixtures, LLC	Everett Technical Park II	S Everett	153,385
Supervalu	Prologis Park Tacoma	Port of Tacoma/Fife	121,905
Stryder Motorfreight USA	Kingsport Industrial Park	Kent Valley North	109,200
Essendant**	Southcenter South Industrial Park - Bldg. 255	Tukwila	103,237
Foundation Building Materials**	Seattle South Business Park	Kent Valley North	75,100
Hydro USA	Boeing Space Center East	Kent Valley North	70,496

* Renewal ** Extension

NOTABLE SALES—Q1 2018								
Building Name	Sale Price	RBA	Price/SF	Submarket	Seller	Buyer	Type	Sale Date
Frontier Communications	\$10,000,000	17,032	\$587.13	Kirkland	Daniel & George McCarthy	Alaska Copper & Brass Co.	Warehouse	3/27/2018
Genzyme Corp	\$45,600,000	87,386	\$521.82	Edmonds/Lynnwood	Sanofi-Aventis	Robert & John Mulroy; Debasish Roychodhury	Mftg.	1/31/2018
Kirkland 405 Corporate Center - Bldg A	\$14,800,000	37,000	\$400.00	Kirkland	Dennis Joyce	KOF Enterprises LLC	Warehouse	3/12/2018
Cummins	\$18,774,500	55,631	\$337.48	Puyallup/Sumner	Panattoni Development	Bixby Land	Warehouse	3/14/2018
14300 Northeast 145th Street	\$10,000,000	41,450	\$241.25	Woodinville	Red Hook Brewery	Yuchasz Family	Flex	1/12/2018
Federal Way Corporate Center	\$11,574,765	73,330	\$157.84	Federal Way	Cabot Properties	Blackstone RE Income Trust	Warehouse	3/12/2018
4786 1st Avenue South	\$34,000,000	235,000	\$144.68	Georgetown/Duwamish	Marx Realty	Terreno Realty Corp	Warehouse	3/6/2018
Immunex	\$21,500,000	149,100	\$144.20	Bothell/Kenmore	Mary A Lehmann	Taylor Development Inc.	Flex	3/9/2018
Olympic Industrial Park (2 Properties)	\$12,950,000	94,739	\$136.69	SeaTac/Burien	Olympic Industrial Park	Stearns Family Living Trust	Warehouse	3/21/2018

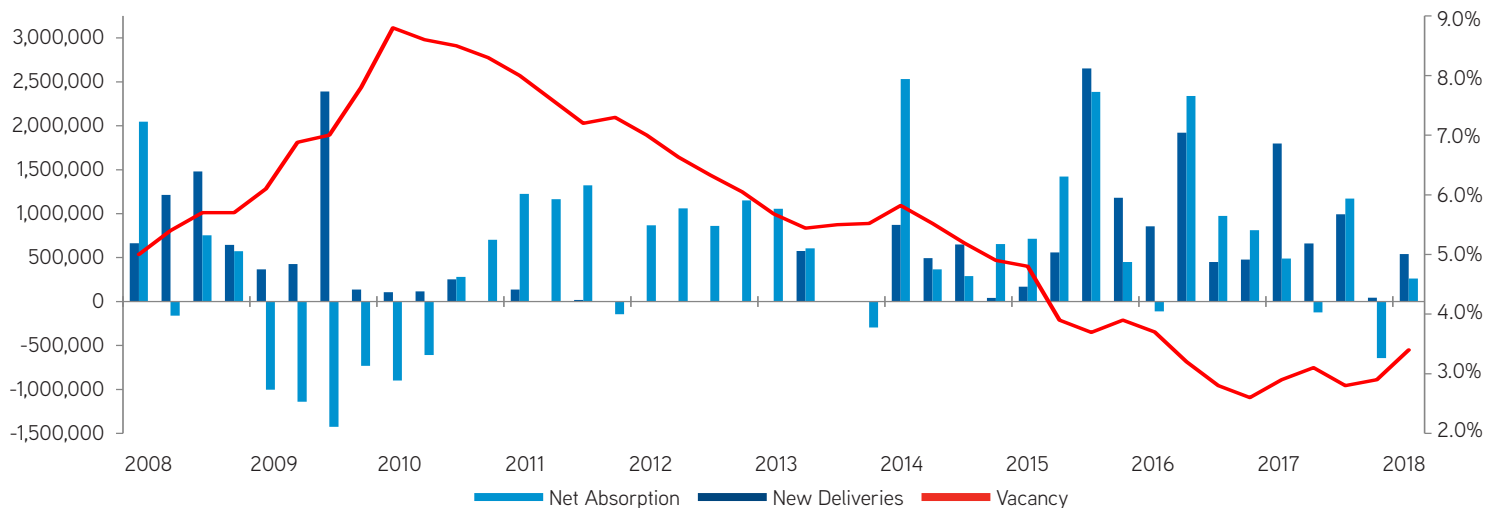
NOTABLE CONSTRUCTION DELIVERIES—Q1 2018				
Property Name	Submarket	Developer	SF	% Leased
Prologis Park Tacoma Bldg D	Port of Tacoma/Fife	Sierra Construction	319,806	50%
Centerpoint 167	Kent Valley S	Centerpoint	220,800	100%

NOTABLE BUILDINGS FOR SALE—Q1 2018					
Asking Price	Building SF	Price/SF	Property Name	Submarket	Building Type
\$8,125,000	52,223	\$155.58	Canteen Vending Facility	South Everett	Manufacturing
\$5,868,000	40,115	\$146.28	Steel Properties Building	South Everett/Harbor Point	Manufacturing
\$12,600,000	94,750	\$132.98	Former Econ Pacific Site	Frederickson	Warehouse
\$7,895,000	61,463	\$128.45	3M Investment Offering	Georgetown/Duwamish	N/A
\$14,084,000	116,712	\$120.67	20815 67th Ave NE	North Snohomish Co	Warehouse
\$7,900,000	97,413	\$81.10	Seattle Snohomish Mill Site	South Snohomish Co	N/A

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	302	11,299,620	108,240	24,346	132,586	1.2%	63,325	63,325
Warehouse	665	23,631,793	543,609	61,880	605,489	2.6%	-129,129	-129,129
Flex	92	5,272,942	86,600	3,357	89,957	1.7%	-21,079	-21,079
Total	1,059	40,204,355	738,449	89,583	828,032	2.1%	-86,883	-86,883
EASTSIDE INDUSTRIAL								
Manufacturing	56	2,848,225	88,834	2,849	91,683	3.2%	-31,439	-31,439
Warehouse	210	7,328,535	120,028	55,360	175,388	2.4%	-31,269	-31,269
Flex	242	7,414,674	337,887	42,183	380,070	5.1%	53,013	53,013
Total	508	17,591,434	546,749	100,392	647,141	3.7%	-9,695	-9,695
NORTHEND INDUSTRIAL								
Manufacturing	199	15,564,627	459,812	122,775	582,587	3.7%	-77,233	-77,233
Warehouse	565	20,266,918	252,376	0	252,376	1.2%	70,124	70,124
Flex	179	7,399,452	472,547	65,052	537,599	7.3%	18,670	18,670
Total	943	43,230,997	1,184,735	187,827	1,372,562	3.2%	11,561	11,561
KENT VALLEY INDUSTRIAL								
Manufacturing	230	24,680,811	319,359	11,699	331,058	1.3%	57,020	57,020
Warehouse	1,009	71,142,362	3,326,046	195,226	3,521,272	4.9%	-155,252	-155,252
Flex	122	4,716,380	295,578	5,000	300,578	6.4%	148,784	148,784
Total	1,361	100,539,553	3,940,983	211,925	4,152,908	4.1%	50,552	50,552
PIERCE COUNTY INDUSTRIAL								
Manufacturing	204	11,200,665	225,699	75,120	300,819	2.7%	-266	-266
Warehouse	690	50,649,670	1,555,144	0	1,555,144	3.1%	308,716	308,716
Flex	42	1,207,442	50,939	6,338	57,277	4.7%	10,337	10,337
Total	936	63,057,757	1,831,782	81,458	1,913,240	3.0%	318,787	318,787
SEATTLE REGION INDUSTRIAL								
Manufacturing	991	65,593,948	1,201,944	236,789	1,438,733	2.2%	11,407	11,407
Warehouse	3,139	173,019,278	5,797,203	312,466	6,109,669	3.5%	63,190	63,190
Flex	677	26,010,890	1,243,551	121,930	1,365,481	5.2%	209,725	209,725
MSA Total	4,807	264,624,116	8,242,698	671,185	8,913,883	3.4%	284,322	284,322

REGIONAL ABSORPTION & VACANCY RATES



REGIONAL OVERVIEW

SUPPLY

- » 540,606 SF delivered during Q1, representing a decrease of 70% from the same period of last year.
- » Going forward, an additional 4.2 million SF is set for delivery in Q2, with the majority in the Pierce County submarket (2,569,736 SF).

DEMAND

- » Demand for industrial space remains strong in the Seattle/Puget Sound market. Tenants completing recent notable transactions include: Classic Accessories (220,800 SF), Premier Fixtures LLC (153,385 SF), and Supervalu (121,905 SF). Pierce County had the largest impact on warehouse absorption in Q1 with 308,716 SF of newly occupied space.
- » Flex properties recorded nearly 210,000 SF positive absorption in Q1, 71% of which occurred in the Kent Valley market.

OUTLOOK

- » With large block leasing and construction activity increasing, vacancy rates should stabilize as 2018 progresses. Several million SF of new space will deliver in upcoming quarters, which should help alleviate some of the pent-up demand from tenants. Rental rates, which went up another 4% in Q1, will continue to rise until more space becomes available.

THE WORLD OF COLLIERS



Comprised of
15,400
professionals



Revenue
\$2.7B
(US\$)



Managing
2B
(square feet)



Established in
69
countries



Lease/sale transactions
68,000



Transaction value
\$116B
(US\$)

All statistics are for 2017, are in U.S. dollars and include affiliates.

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