

RESEARCH & FORECAST REPORT

PUGET SOUND REGION | Q3 2016 | INDUSTRIAL

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INTERNATIONAL

REGIONAL SUMMARY

The Seattle/Puget Sound industrial market maintains its torrid pace. The regional vacancy rate was pushed down to 2.8% to end Q3 2016, creating a very favorable market for industrial landlords. The low amount of existing available space has helped push rental rates up dramatically. Warehouse rental rates edged up at least 6% year-over-year in each of the five Puget Sound markets. Regional net absorption totaled 975,080 SF for Q3 2016 while year-to-date absorption surpassed 3.2 million SF, already 110% of the absorption at this time last year. With such a tight market, industrial developers are moving forward on speculative projects throughout the region to capitalize on this mismatch between industrial supply and demand. In the Northend, Underwood Gartland's project in South Everett has already landed its first tenant – Columbia Distributing for 145,000 SF, leasing 73% of the project. Down in Kent Valley, the 2nd largest industrial park on the West Coast, Segale Properties is well underway with 371,000 SF on Lot 3 of Pacific Gateway Business Park in Kent. Puyallup-Sumner, the largest submarket in Pierce County, is setting itself apart. With its proximity to the Port of Tacoma and access to major freeways, Puyallup-Sumner totals 34% of all industrial space under construction in the region, over 970,000 SF. Dermody Properties is developing two projects in this emerging area totaling almost 300,000 SF. Looking forward, we expect strong leasing and low vacancy rates to continue as tenants such as FedEx, Amazon, Ekos/BTG, and Boeing have rumored requirements of over 100,000 SF.

REGIONAL VACANCY

- » Seattle/Puget Sound vacancy rate is 2.8%, down 40 basis points from last quarter.
- » Regional year-over-year vacancy fell 90 basis points from 3.7% in Q3 2015.

REGIONAL ABSORPTION

- » Seattle/Puget Sound recorded 975,080 SF of positive net absorption during Q3 2016.
- » Kent Valley and Pierce County combined accounted for 86% of Q3's total net absorption.

REGIONAL CONSTRUCTION ACTIVITY

- » There are 9 projects under construction across the region, totaling 2.85 million SF of desperately needed new supply. 82% of the total SF under construction is in either Pierce County or the Kent Valley.
- » 1.1 million SF is under construction in Pierce County. 54% of the 1.1 million SF under construction in the Kent Valley has been pre-leased.

REGIONAL INVESTMENT SALES ACTIVITY

- » 19 properties traded hands during Q3 totaling \$182.9 million, at an average of \$195/SF, according to Real Capital Analytics.
- » Sales volume is down 62% year-over-year and down 34% quarter-over-quarter. However, this is in line with national capital trends. U.S. industrial deal volume was down 17% year-over-year in August and 31% in July, according to Real Capital Analytics' US Capital Trends report.

ECONOMIC DRIVERS

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

RENTAL RATE QUARTERLY COMPARISON

Market	Shell/Warehouse			Flex		
	Q3 2016 Overall	Q3 2015 Overall	Y-O-Y % Change	Q3 2016 Overall	Q3 2015 Overall	Y-O-Y % Change
Kent Valley (shell rates)	\$0.54	\$0.51	5.9%	\$1.31	\$1.04	26.0%
Pierce County (shell rates)	\$0.52	\$0.47	10.6%	\$1.01	\$1.00	1.0%
Northend (warehouse rates)	\$0.75	\$0.61	23.0%	\$1.35	\$1.28	5.7%
Seattle Close-In (shell rates)	\$0.81	\$0.73	11.0%	\$1.36	\$1.18	15.3%
Eastside (warehouse rates)	\$0.85	\$0.77	10.4%	\$1.44	\$1.26	14.3%

* Rates represent asking rents for available space.



UPDATE—Lease and Investment Transactions

LEASE STARTS—Q3 2016

Tenant	Property Name	Submarket	Size
Mobis Parts	Lakewood Industrial Park	Lakewood	180,718
Western Distribution Services	Springbrook 188 Dist. Center - Bldg. 1	Kent	179,415
Smart Warehousing	SeaPORT Logistics Center - Bldg. A	Puyallup-Sumner	161,521
Expeditors International	Prologis Park Sumner - Bldg. A	Puyallup-Sumner	134,780
Oculus VR / Facebook	Willows Commerce Park - Bldg. A	Redmond	100,417
Mergenthaler Transfer	Sumner North	Puyallup-Sumner	85,876
SpaceX	Redmond Ridge Corporate Center - BP - 116 & 117	E King County	85,625
MiniWarehouses	Riverton Distribution Center - Bldg. B	Tukwila	76,280

NOTABLE SALES—Q3 2016

Building Name	Sale Price	RBA	Price/SF	Submarket	Seller	Buyer	Type	Sale Date
Sea King Industrial Park	\$50,900,000	424,100	\$120.02	Tukwila	International Airport Centers	Deutsche Asset & Wealth Management	Whse/Flex	9/22/2016
Tukwila Commerce Center	\$45,200,000	475,517	\$95.05	Tukwila	Global Logistic Properties	BKM Capital Partners	Flex	8/8/2016
1900-2228 Occidental Ave	\$32,000,000	145,069	\$220.58	SoDo	Occidental, LLC	Valiant Capital Management	Warehouse	9/21/2016
23008 68th Ave S	\$30,000,000	279,750	\$107.24	Kent	Hill-Raaum Pietromonaco	Puget Sound Energy	Whse/Office	8/31/2016
East Valley Distribution Center	\$23,900,000	228,300	\$104.69	Kent	International Airport Centers	Deutsche Asset & Wealth Management	Warehouse	9/22/2016

NOTABLE CONSTRUCTION DELIVERIES—Q3 2016

Property Name	Submarket	Developer	SF	% Leased
FedEx Ground Puyallup	Puyallup-Sumner	SunCap Property Group	312,926	100%
Paccar Distribution Center	Renton	Paccar	160,000	100%

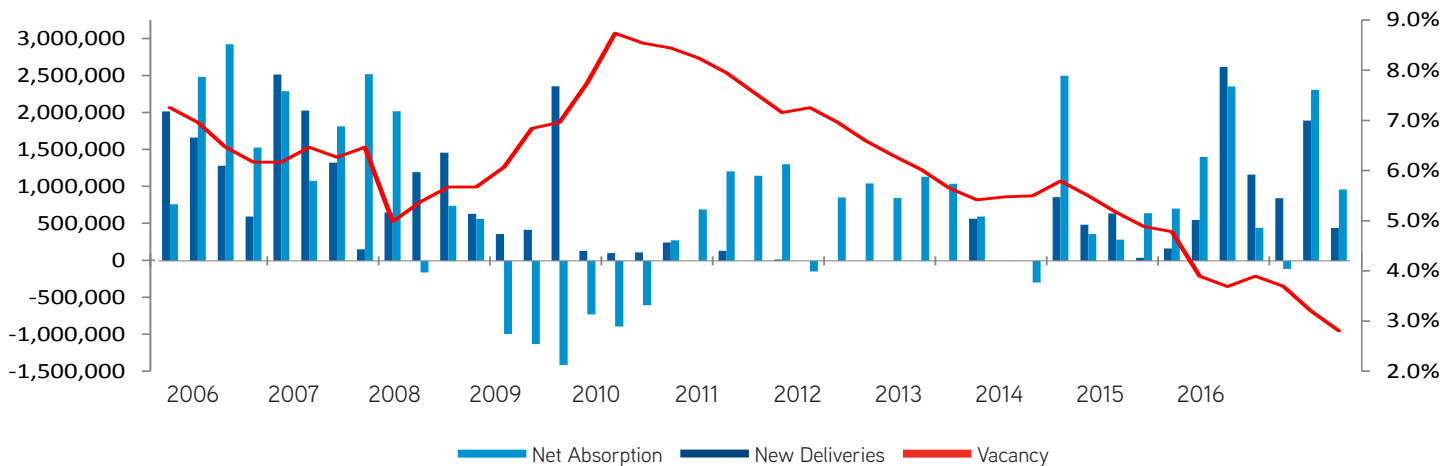
BUILDINGS FOR SALE—Q2 2016

Asking Price	Building SF	Price/SF	Property Name	Submarket	Type
\$80,000,000	421,000	\$190.02	Willows Commerce Park	Redmond	Flex
\$16,300,000	73,919	\$220.51	Michigan NW Corporate Park	E of Duwamish	Flex
\$12,750,000	151,600	\$84.10	Airport Business Center	South Everett	Flex
\$12,967,900	120,900	\$107.26	Sumner West	Puyallup-Sumner	Distribution
\$12,607,700	62,379	\$202.11	Lunde Center	Bellevue	Flex
\$11,325,000	76,900	\$147.27	Orca Bay Seafood Bldg.	Renton	Warehouse
\$11,300,000	101,347	\$111.50	CenterPointe Business Park	Kent	Flex
\$10,808,000	146,750	\$73.65	601 Monster Road Bldg.	Renton	Warehouse
\$10,500,000	67,000	\$156.72	Canyon Park 7 & 8	Bothell-Kenmore	Flex

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	144,598	2,509	147,107	1.3%	20,668	(17,041)
Warehouse	694	24,440,278	353,077	37,840	390,917	1.6%	7,707	(1,660)
Flex	92	5,408,585	36,736	-	36,736	0.7%	8,327	9,080
Total	1,095	41,249,896	534,411	40,349	574,760	1.4%	36,702	(9,621)
EASTSIDE INDUSTRIAL:								
Manufacturing	59	3,178,569	33,112	-	33,112	1.0%	2,229	140,858
Warehouse	214	7,578,350	82,025	-	82,025	1.1%	11,445	83,910
Flex	249	7,802,688	417,024	-	417,024	5.3%	21,030	271,201
Total	522	18,559,607	532,161	-	532,161	2.9%	34,704	495,969
NORTHEND INDUSTRIAL:								
Manufacturing	201	23,338,978	458,244	-	458,244	2.0%	73,997	1,427,193
Warehouse	562	20,004,445	570,260	65,308	635,568	3.2%	56,813	56,850
Flex	181	7,299,769	482,247	73,100	555,347	7.6%	(61,404)	(22,537)
Total	944	50,643,192	1,510,751	138,408	1,649,159	3.3%	69,406	1,461,506
KENT VALLEY INDUSTRIAL:								
Manufacturing	231	25,020,964	265,890	-	265,890	1.1%	(28,220)	(130,745)
Warehouse	1,007	71,410,728	1,608,844	36,984	1,645,828	2.3%	512,042	1,211,996
Flex	123	4,760,518	304,783	7,313	312,096	6.6%	23,590	44,981
Total	1,361	101,192,210	2,179,517	44,297	2,223,814	2.2%	507,412	1,126,232
PIERCE COUNTY INDUSTRIAL:								
Manufacturing	202	9,652,589	426,789	2,118	428,907	4.4%	(37,200)	(194,522)
Warehouse	672	45,390,385	2,054,404	19,550	2,073,954	4.6%	358,456	297,492
Flex	45	1,231,597	38,493	-	38,493	3.1%	5,600	26,237
Total	919	56,274,571	2,519,686	21,668	2,541,354	4.5%	326,856	129,207
SEATTLE REGION INDUSTRIAL:								
Manufacturing	1,002	72,592,133	1,328,633	4,627	1,333,260	1.8%	31,474	1,225,743
Warehouse	3,149	168,824,186	4,668,610	159,682	4,828,292	2.9%	946,463	1,648,588
Flex	690	26,503,157	1,279,283	80,413	1,359,696	5.1%	(2,857)	328,962
MSA Total	4,841	267,919,476	7,276,526	244,722	7,521,248	2.8%	975,080	3,203,293

REGIONAL ABSORPTION & VACANCY RATES



REGIONAL OVERVIEW

SUPPLY

- » With record low vacancy rates and solid rental rate growth, the industrial development pipeline is expanding throughout the Puget Sound. Projects continue to break ground without a tenant signed, showing the real strength of this industrial market.
- » 32 buildings delivered 4 million SF of industrial property to the Puget Sound during 2015. This year will fall short of last year's total, but not by much. Almost 3.7 million SF are due to deliver by the end of 2016.

DEMAND

- » Kent Valley warehouses remain in high demand, recording the second straight quarter of 500,000+ SF net absorption; 54% of total absorption for warehouses this quarter, regionally. 52% of Q3 2016 total net absorption is attributable to Kent Valley submarkets.
- » Northend and Kent Valley submarkets combined make up 81% of total net absorption for 2016. Despite delivering over 701,000 SF of new supply so far this year, Pierce County has totaled over 129,000 SF of net absorption year-to-date and 43% of 2016's new supply has already been occupied.

OUTLOOK

- » With industrial demand not letting up, we expect vacancy rates to remain low for at least the next two quarters before new speculative construction comes online. With a possible slowdown in 2017 combined with an expanding development pipeline, the vacancy rate will spike eventually, but until then, rental rates will likely continue trending upward.

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

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