

FIGURES | PUGET SOUND INDUSTRIAL | Q1 2024

Slowing tenant demand signals rising vacancy

▲ 7.2%

Vacancy Rate

▼ (1.2)M

SF Net Absorption

▼ 1.2M

SF Construction Completed

▼ 7.4M

SF Under Construction

▼ \$1.19

Asking Shell Rent
Sq. Ft./Month, NNN

Note: Arrows indicate change from previous quarter.

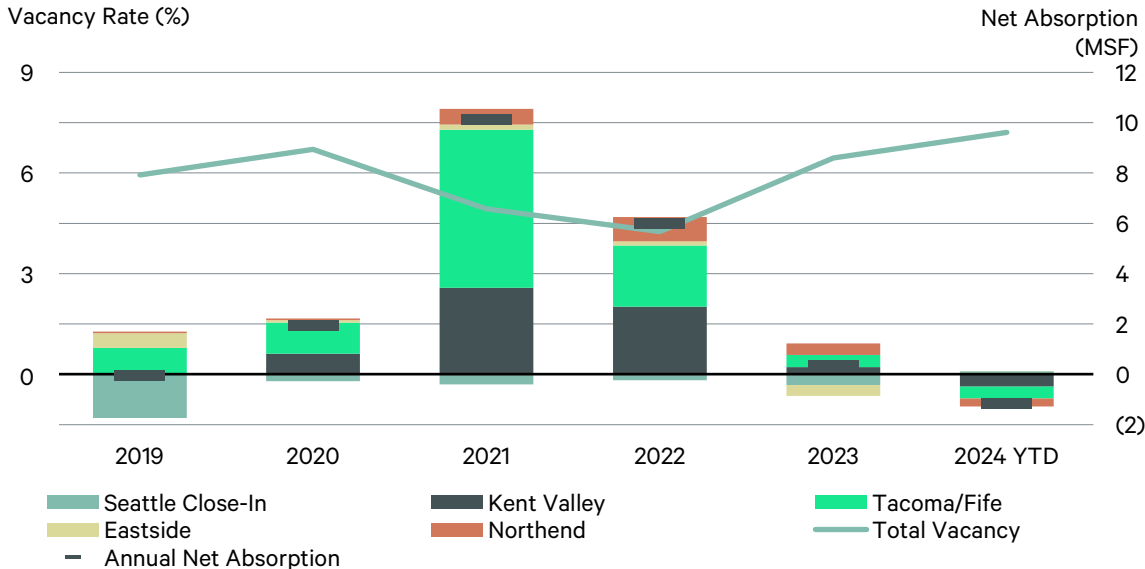
Overview

The Puget Sound Industrial market experienced a pullback this quarter, posting 1,165,494 sq. ft. of negative absorption and no rent growth throughout the region. Several large move-outs, along with diminished leasing volume, kept rental rates at a standstill. Aerospace, wholesalers, and third-party logistics companies (3PLs) continue to be key players in the market.

Six buildings totaling 1,212,682 sq. ft. were delivered this quarter. Looking ahead, construction starts in the Puget Sound Industrial market are likely facing delays due to increasing constraints in the debt markets, as well as concerns about overall demand. Central Puget Sound has 7,372,928 sq. ft. under construction and 29,320,537 sq. ft. proposed. In the South Sound, 188,000 sq. ft. is under construction and 18,692,022 sq. ft. is proposed.

The Northwest Seaport Alliance reports container volume is 0.2% behind last year at just under 438,000 twenty-foot equivalent units (TEUs) by the end of February 2024, compared to 439,000 units year-to-date in 2023.

FIGURE 1: Vacancy vs. Net Absorption



Source: CBRE Research, Q1 2024

Kent Valley

The Kent Valley market experienced a slow quarter, posting 493,462 sq. ft. of negative absorption. Inventory was bolstered by the delivery of 1,023,692 sq. ft. in the Federal Way submarket at Bridge Point Seattle I-5, built by Bridge Industrial. Rental rates remained the same as Q4 2023, holding at \$1.07 per sq. ft. The Kent Valley market, however, reported an 110-basis point (bps) rise in vacancy to 6.2%.

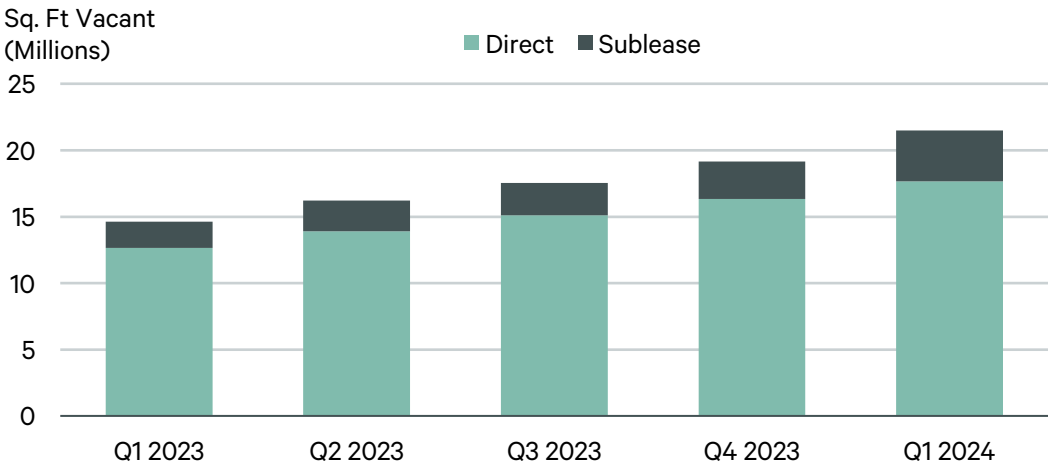
Market activity was unusually low for Q1 2024, with slow leasing momentum, delayed construction starts, and no rent growth, driven by macroeconomic headwinds facing wholesalers and 3PLs. The Kent Valley remains the core industrial market for the region due to its proximity to the city of Seattle, and the Ports of Seattle and Tacoma.

Tacoma/Fife

Tacoma’s industrial market turned negative this quarter, with 464,889 sq. ft. of negative absorption and an 70-bps increase in vacancy from 6.5% to 7.2%. Rental rates dropped \$0.02 to \$0.94 per sq. ft. on a shell, NNN basis. Boeing’s occupancy of 533,393 sq. ft. and 312,225 sq. ft. in two buildings at Frederickson One was offset by move-outs from World Distribution Services leaving 303,866 sq. ft. in the Frederickson submarket, Regal Logistics vacating 225,800 sq. ft. in Fife, and Electrolux moving out of 210,700 sq. ft. in Lakewood.

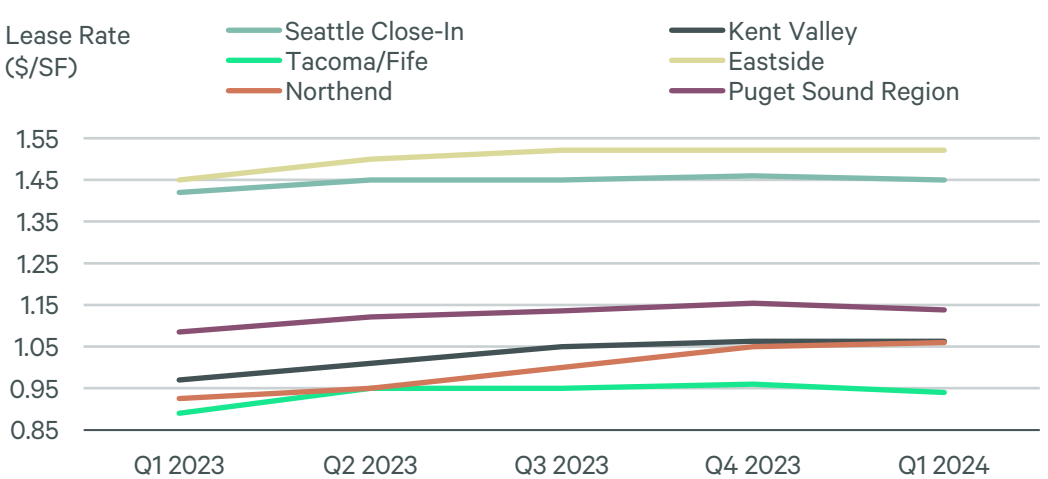
Tacoma’s options for tenants will continue to expand this year. There is currently 5,185,905 sq. ft. under construction and momentum from sublease space is building. Nearly 818,000 sq. ft. of available sublease space was added in the first quarter, now totaling 1.97 million sq. ft., giving tenants favorable market conditions.

FIGURE 2: Vacancy



Source: CBRE Research, Q1 2024

FIGURE 3: Asking Shell Rent, NNN per Month

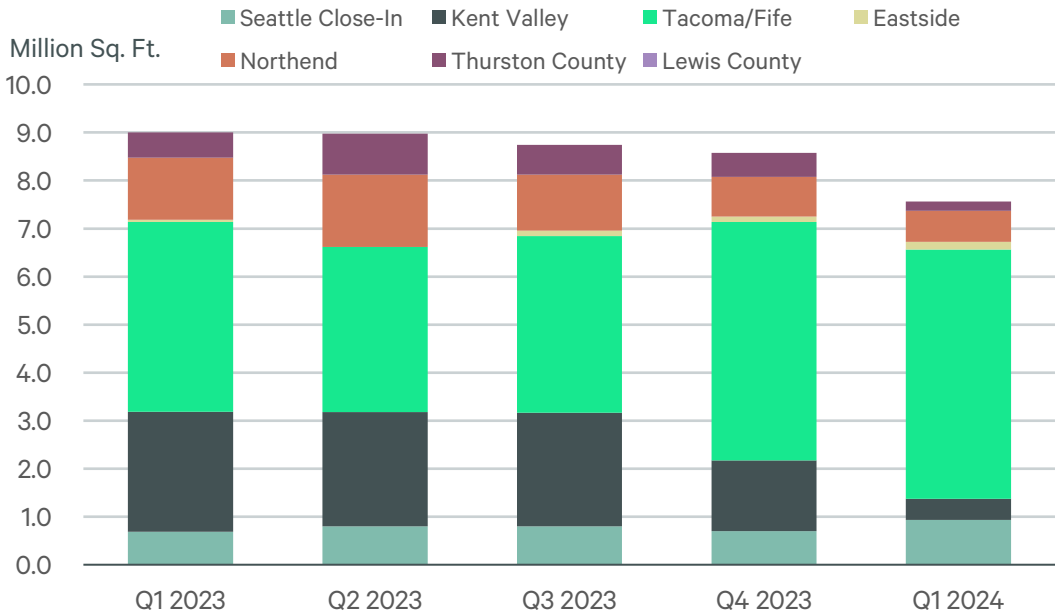


Source: CBRE Research, Q1 2024

Thurston-Lewis Counties

Thurston County saw an increase in activity for the second quarter in a row with 567,770 sq. ft. of positive absorption. Strong leasing activity in the Thurston County industrial market decreased vacancy 150 bps from 5.3% to 3.8%. Activity was led by Safelite, who signed for 110,523 sq. ft. at Lacey Industrial Center. Other notable transactions included Wesco Distribution leasing 93,696 sq. ft. at Lacey Corporate Center, Benjamin Moore leasing 50,000 sq. ft. at Tumwater Corporate Center, and ABC Supply leasing 43,830 sq. ft. at 8551 Commerce Place Dr NE in Lacey.

FIGURE 4: Square Feet Under Construction (5-County Region)



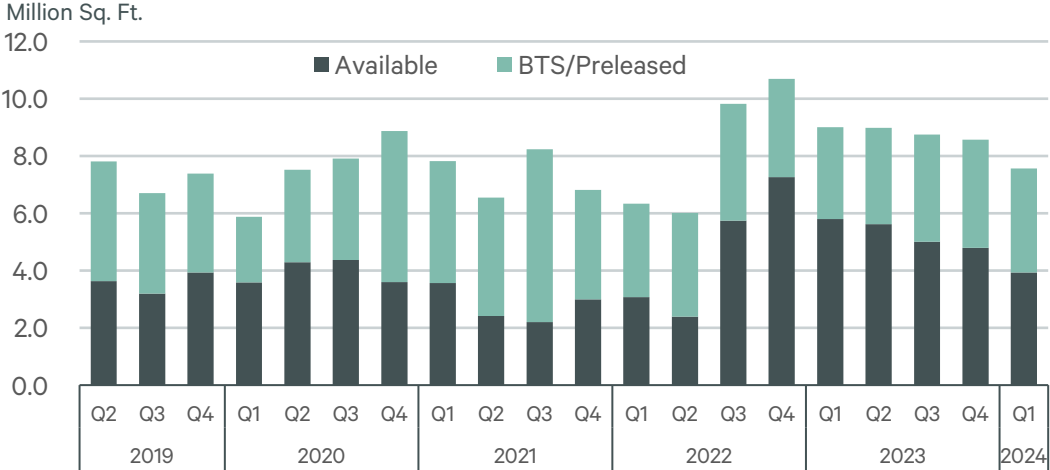
Source: CBRE Research, Q1 2024

FIGURE 5: Key Transactions (5-County Region)

Tenant	Transaction Type	Sq. Ft.	Building	Submarket	Business Sector
Undisclosed	New Lease	307,860	Northpoint Cascade Business Park – Building 3	N Snohomish County	Food & Beverage
Eagle Beverage	New Lease	120,599	Stryker Business Center - Building 1A	Kent	Food & Beverage
Safelite	New Lease	110,523	Lacey Industrial Center	Lacey	Automotive
Wesco Distribution	New Lease	93,696	Lacey Corporate Center – Building D	Lacey	Logistics
Western Glove	New Lease	74,500	Lakewood Industrial Park - Building 27	Lakewood	Wholesaler
AAA Kartak	New Lease	50,748	Former Quantum Windows & Doors	Everett	Building Materials
Benjamin Moore	New Lease	50,000	Tumwater Corporate Center – Building 1	Tumwater	Building Materials
FastSigns	New Lease	46,125	BridgePoint Everett 500 - Building B	Everett	Construction
ABC Supply	New Lease	43,830	8551 Commerce Place	Lacey	Building Materials
ArjoHuntleigh	New Lease	39,509	BridgePoint Everett 500 - Building B	Everett	Manufacturing

Source: CBRE Research, Q1 2024

FIGURE 6: Available or BTS/Preleased in Properties Under Construction (5-County Region)



Source: CBRE Research, Q1 2024

Seattle Close-In

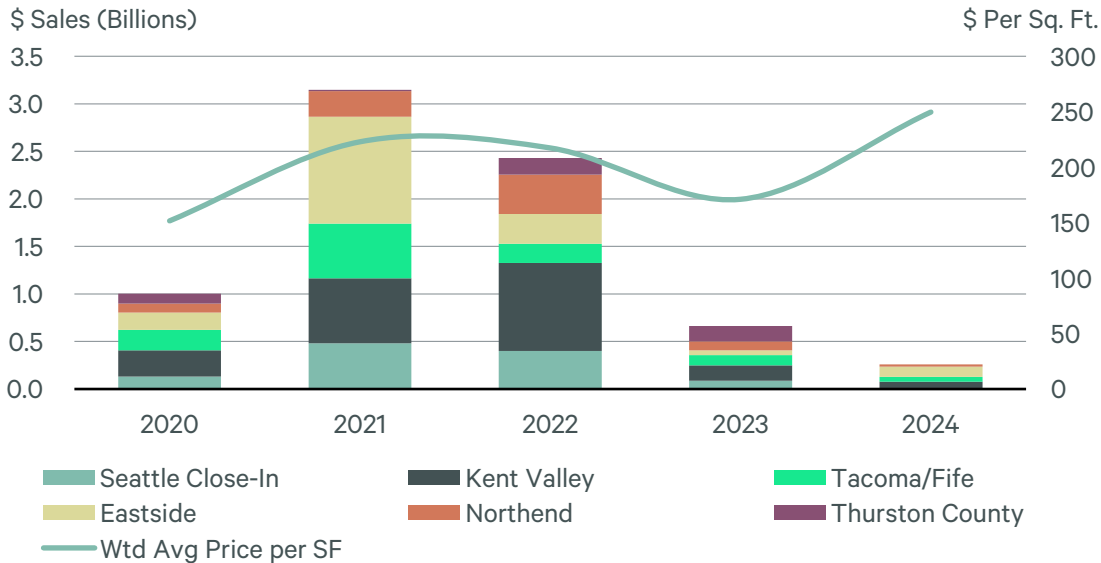
Seattle Close-In finished the quarter with a positive 119,250 sq. ft. of absorption, most of which was due to Boeing’s lease for 414,528 sq. ft. at CenterPoint Seattle on East Marginal Way South taking effect. The other major expansion came from Vertical World, who added 42,336 sq. ft. at Commodore Interbay Industry Center in the North Seattle/Interbay submarket. Move-outs this quarter were led by Architectural Surfaces leaving multiple buildings totaling 130,000 sq. ft. for a new location in Kent. Vacancy in Seattle Close-In dropped 20 bps from 8.2% to 8.0%. The largest new lease was Rainier Metal Works leasing 35,000 sq. ft. at 9322 14th Ave S in Seattle. The Seattle Close-In will get a large boost upon completion of Seattle Metro Logistics, a two-story project totaling 702,429 sq. ft. that is estimated to deliver in summer of 2024.

Eastside

The Eastside industrial market had a balanced quarter with only 456 sq. ft. of negative absorption. Enduro Storage, moved into Building G at The Park at Willow Ridge, while an undisclosed Family Office absorbed Building A, for a total of 62,870 sq. ft. of growth. CIS left 39,737 sq. ft. at Redmond East Business Campus and PWR+ vacated 2,364 sq. ft. at Woodinville Corporate Center which tempered the market. The five-year high in vacancy was 6.5% in Q3 2023, compared to 5.6% today. Although, vacancy is on a downward trend due to conversion of spaces to Life Science or new residential development.

Investment sales of industrial properties on the Eastside has already eclipsed 2023 at \$109 million transacted in Q1, compared to \$51 million for all of last year. Northwest Building LLC paid \$55 million for Park East Building Park; the 5 flex buildings had an average price per sq. ft. of \$341.

FIGURE 7: Sales Volume and Weighted Average Price per Sq. Ft. (5-County Region)



Source: CBRE Research, Q1 2024

Additionally, CapRock Partners paid \$12 million, or \$214 per sq. ft., for The Reserve at Woodinville, a bulk warehouse totaling 159,528 sq. ft.

Northend

Occupancy gains in the Northend dramatically slowed during the first quarter. Many tenants became more cautious about growth, while some repositioned and left the market altogether. Funko vacated 222,500 sq. ft. at Mountain View Business Park II – Building 1 as part of a plan to move all distribution to Arizona, and Eldorado Stone is marketing a full-building sublease of 100,000 sq. ft. at Seaway Business Center - Building E. Other moves were more positive: AAA Kartak absorbed 50,748 sq. ft. at the former Quantum Windows & Doors facility in Everett, and Card Kingdom relocated to 40,236 sq. ft. at Monroe Business Center from the North Seattle/Interbay submarket. The vacancy rate jumped to 12.7% from 10.4% at the end of Q4 due to the net effect of move-outs and the addition of 166,590 sq. ft. of speculative construction at Baker View Logistics Center, a Smartcap development. If slow demand continues, vacancy will rise next quarter as PacTrust’s Marysville Corporate Center will add 267,366 sq. ft. of vacancy in four buildings and Twin Lake Logistics, a project by Vector Development, will add 203,892 sq. ft. of unleased space by April 2024.

FIGURE 8A: Statistics by Submarket

SUBMARKET	Inventory	Total Vacant (SF)	Total Vacancy Rate (%)	Total Availability Rate (%)	Q1 2024 Net Absorption (SF)	Last Four Qtrs Net Absorption (SF)	Under Construction (SF)	Direct Asking Combined Whse & Flex Shell Rent (NNN/SF/Mo)
Downtown/Lake Union	1,812,431	279,740	15.4	12.0	(15,240)	(3,615)	0	
North Seattle/Interbay	6,854,147	830,879	12.1	12.7	(12,101)	(133,810)	0	
East Seattle/Capitol Hill/Rainier Valley	1,922,754	243,128	12.6	11.6	19,430	(20,332)	0	
South/West Seattle	40,494,359	2,714,062	6.7	7.5	127,161	123,036	932,560	
Seattle Close-In	51,083,691	4,067,809	8.0	8.5	119,250	(34,721)	932,560	1.45
SeaTac	6,057,078	286,635	4.7	6.1	(127,905)	(127,796)	315,520	
Tukwila	12,161,553	977,607	8.0	10.0	(23,258)	3,867	0	
Renton	16,164,753	291,200	1.8	1.5	12,832	11,024	0	
Kent	48,878,073	2,738,864	5.6	8.9	(119,711)	162,415	0	
Auburn	27,986,117	1,111,964	4.0	4.6	(206,504)	(88,626)	105,208	
Federal Way	3,099,567	1,618,462	52.2	52.4	(183)	17,494	0	
Sumner	19,386,608	1,310,906	6.8	8.7	(28,733)	(545,764)	25,000	
Kent Valley	133,733,749	8,335,638	6.2	8.1	(493,462)	(567,386)	445,728	1.07
Port of Tacoma	12,544,453	627,211	5.0	8.7	(258,150)	(434,334)	0	
Tacoma West	5,845,188	224,907	3.8	4.8	(76,576)	286,281	11,900	
Fife	13,201,921	803,408	6.1	8.8	(488,461)	(431,423)	251,500	
Puyallup	8,316,378	595,368	7.2	8.5	(36,161)	48,617	436,734	
Frederickson	12,088,375	1,110,789	9.2	9.2	541,752	992,623	4,320,720	
Lakewood	7,196,046	687,041	9.5	11.9	(172,139)	(189,650)	165,051	
DuPont	4,635,287	485,167	10.5	10.5	0	2,340	0	
Gig Harbor	757,586	113,127	14.9	14.9	24,846	55,389	0	
Tacoma/Fife	64,585,234	4,647,018	7.2	9.0	(464,889)	329,843	5,185,905	0.94

Source: CBRE Research, Q1 2024

Investment Sales

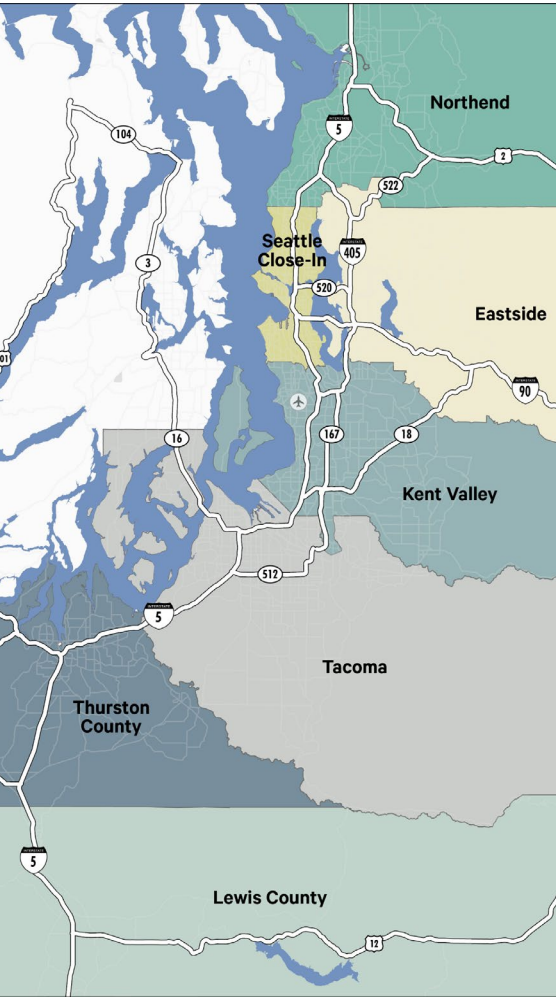
Investment sales saw an increase in activity due to market sentiment that the Fed is not immediately going to raise or lower interest rates. One of the significant sales of the quarter was the Cascade Building, a 184,000 sq. ft. building built in 2019 in Bonney Lake in the Tacoma market. This property was a user sale to Walter E. Nelson Company, a janitorial supplier, that sold for \$223 per sq. ft. Another notable transaction was the sale of the 94,225 sq. ft. Harvest Industrial building in the Kent Valley market, which sold for \$251 per sq. ft. to Cascade Engine Center, another owner-user.

FIGURE 8B: Statistics by Submarket

SUBMARKET	Inventory	Total Vacant (SF)	Total Vacancy Rate (%)	Total Availability Rate (%)	Q1 2024 Net Absorption (SF)	Last Four Qtrs Net Absorption (SF)	Under Construction (SF)	Direct Asking Combined Whse & Flex Shell Rent (NNN/SF/Mo)
Bellevue	2,030,527	77,866	3.8	3.9	919	11,390	0	
I-90 Corridor	2,536,825	278,357	11.0	12.7	(790)	(253,139)	115,575	
Kirkland/Totem Lake	2,318,166	72,247	3.1	1.9	6,296	164,097	0	
Overlake	704,781	186,783	26.5	25.8	5,414	(141,206)	0	
Marymoor	3,484,130	104,377	3.0	7.5	(57,857)	(83,691)	0	
Willows	3,834,195	179,953	4.7	7.0	99,570	83,337	0	
Bothell	3,052,718	275,656	9.0	17.0	(26,754)	55,117	0	
Woodinville/Maltby	6,914,581	221,958	3.2	8.5	(26,342)	(24,811)	45,500	
Eastside	24,875,923	1,397,197	5.6	9.1	456	(188,906)	161,075	1.91
Lynnwood/Edmonds/Mtlk Terrace	2,579,822	78,282	3.0	3.7	4,547	(11,299)	0	
Monroe	2,041,027	144,885	7.1	8.7	71,358	(14,892)	0	
Mukilteo	2,980,771	306,907	10.3	11.2	(47,900)	(61,503)	0	
Everett	10,959,243	1,752,363	16.0	12.8	(416,062)	(203,642)	176,402	
No. Snohomish	5,355,550	754,620	14.1	16.7	61,208	386,245	471,258	
Northend	23,916,413	3,037,057	12.7	12.2	(326,849)	94,909	647,660	1.10
Puget Sound (3-county)	298,195,010	21,484,719	7.2	8.8	(1,165,494)	(366,261)	7,372,928	1.19
Whse/Bus Pk/Manuf	288,776,920	20,341,123	7.0	8.5	(1,202,061)	(154,292)	7,372,928	1.14
Flex	9,418,090	1,143,596	12.1	15.9	36,567	(211,969)	0	2.04
Lacey	12,250,673	266,047	2.2	1.8	194,219	279,373	188,000	
Olympia Core	822,123	0	0.0	0.0	0	0	0	
Tumwater	4,673,438	424,541	9.1	11.3	75,581	110,781	0	
Outlying Thurston	375,220	0	0.0	0.0	297,970	297,970	0	
Thurston County	18,121,454	690,588	3.8	4.2	567,770	688,124	188,000	0.80
Lewis County	5,638,167	10,080	0.2	0.0	(10,080)	(10,080)	0	0.60
Five-County Total	321,954,631	22,185,387	6.9	8.3	(607,804)	311,783	7,560,928	1.16

Source: CBRE Research, Q1 2024

Market Area Overview



Definitions

Net Absorption: The change in occupied square footage from one period to the next, recognized at the move-in date or delivery of new construction, not lease signing date.

Vacancy: Space that is physically vacant, but may be available or newly leased.

Available: Space that is marketed, but may or may not be vacant.

Average Asking Lease Rate: A calculated average that includes full service and triple net + operating expense lease rates, weighted by their corresponding available square footage. Full Service Lease Rate: Rent typically includes real property taxes, building insurance, common area and major maintenance. Net Lease Rate: Rent excludes one or more of the "net" costs (real property taxes, building insurance, and maintenance) typically included in a full service lease rate.

Survey Criteria

Seattle Close-In, Kent Valley, Tacoma/Fife, Thurston County and Lewis County markets include owner occupied and investor-owned industrial buildings over 10,000 sq. ft. The Eastside and Northend markets include investor-owned industrial buildings over 10,000 sq. ft.

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