

FIGURES | PUGET SOUND INDUSTRIAL | Q4 2022

Supply chain easing has not yet impacted real estate

▼ 4.0%

Vacancy Rate

▼ 696K

SF Net Absorption

▲ 757K

SF Construction Completed

▲ 10.1M

SF Under Construction

▲ \$1.15

Asking Lease Rate
Sq. Ft./Month, NNN

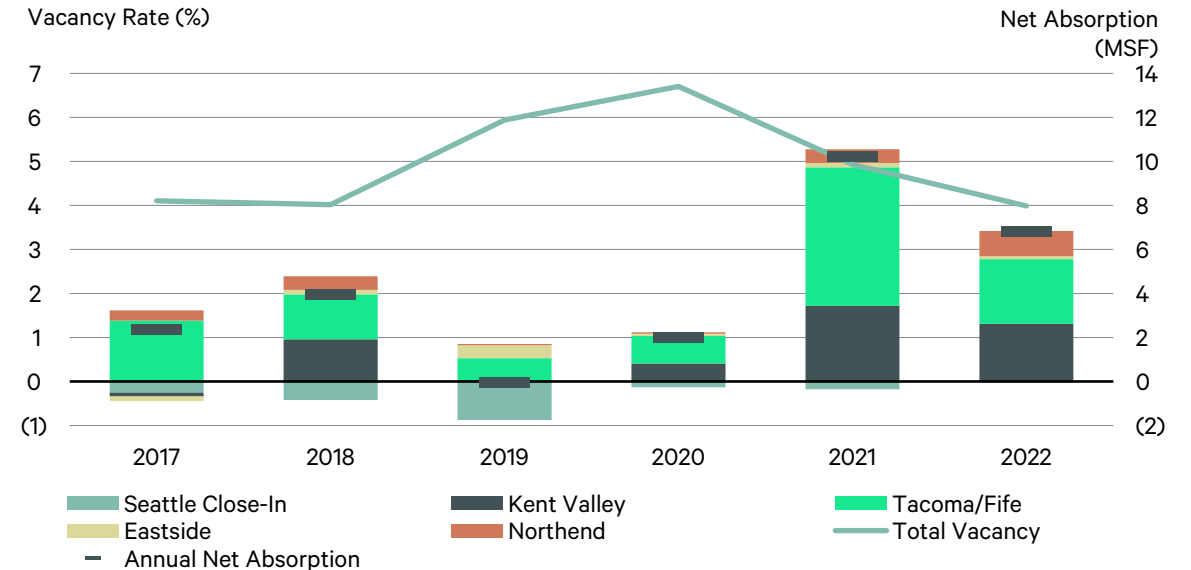
Note: Arrows indicate change from previous quarter.

Overview

The Puget Sound industrial market held steady amid ongoing inflation and concerns about the economy. The outlook for 2023 remains positive – demand for Class A space continues to be robust and asking rates rose. Direct shell rates across the Puget Sound region hit a new high at \$1.15 per sq. ft., triple net. A lack of suitable and affordable space has led to more renewals. This has bolstered leasing volumes and kept vacancy low regionally: 4.0% for the three-county Central Puget Sound region and 3.8% when including Thurston and Lewis Counties. In Q4, the Puget Sound had positive net absorption of 695,625 sq. ft., totaling 6.8 million sq. ft. for 2022.

The development pipeline shows steady growth with consistent demand. Over the Puget Sound, 10 million sq. ft. is under construction and 36 million sq. ft. planned. Developments have progressively moved further north and south due to scarcity of available land around the ports of Tacoma and Seattle. Although there was a total of 5.0 million sq. ft. delivered in 2022, 756,909 sq. ft. of which was delivered in Q4, tenant demand was on par with deliveries, but requirements for space remained at a healthy level.

FIGURE 1: Vacancy vs. Net Absorption



Source: CBRE Research, Q4 2022

Comparing the year-to-date performances for November 2022 and November 2021, the Northwest Seaport Alliance reported TEU container traffic passing through the ports of Tacoma and Seattle was down 9.5% due to an early influx of holiday-related goods that caused weaker imports during the peak season.. Exports may continue to face adversity with ongoing tariffs in key markets, inflation, and low vessel capacity from voided sailings.

Kent Valley

Kent Valley had year-to-date net absorption of 2.6 million sq. ft., including 287,280 sq. ft. of positive absorption in Q4. As of the end of Q4, there was 2.9 million sq. ft. under construction, along with 9.4 million sq. ft. planned; strong figures for a market some might feel is approaching maturity. Sizes of speculative buildings under construction range from 30,000 sq. ft. to 1.0 million sq. ft., offering a full range of opportunities.

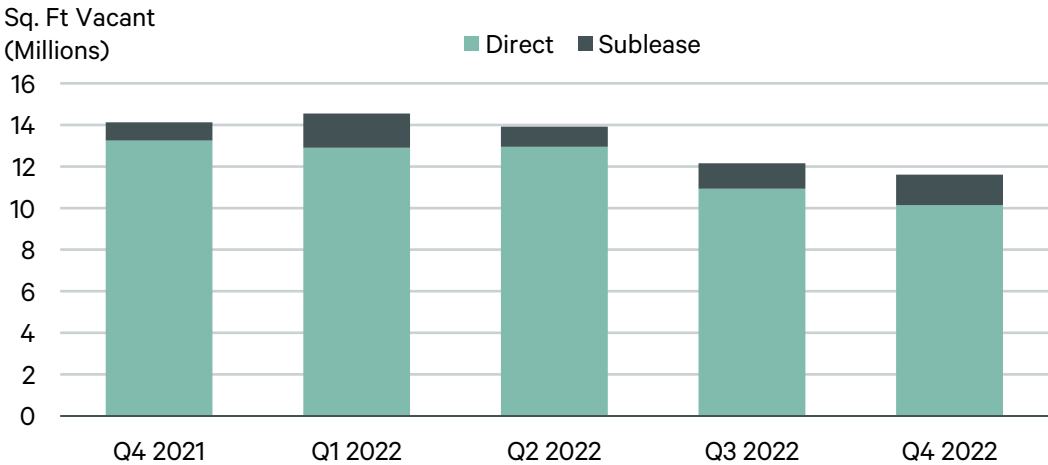
The submarket saw a high volume of leasing activity fueled by renewals and expansions, as most tenants remained confident about their economic prospects. The vacancy rate in the Kent Valley fell to 3.8%, down 40 basis points (bps) from Q3. McKesson Medical-Surgical signed a new lease for 258,499 sq. ft. at Bridge Point Kent 300, making the project 100% leased. Priority Wire & Cable leased 140,400 sq. ft. at Northwest Corporate Park Kent. A corporate tenant signed a new lease for 116,148 sq. ft. at Renton Park 405, Building B, will be an expansion of their footprint. Logisticcenter at Auburn, Building A landed a full-building user with Richelieu America, who is growing into 80,800 sq. ft. from a smaller nearby building.

Direct asking shell rates in Kent Valley were \$0.95 per sq. ft. per month, triple net. This is up 1% over the quarter and 25% over the year.

Tacoma/Fife

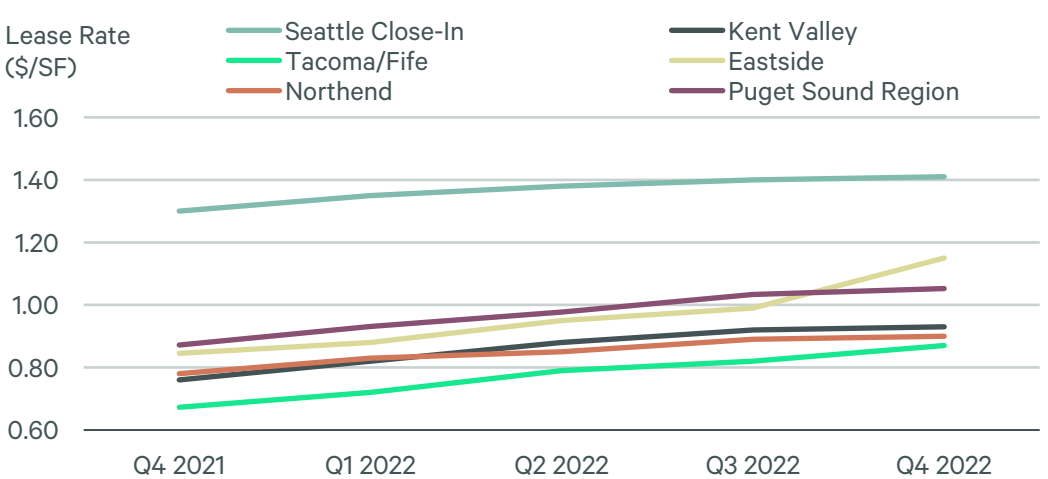
A lack of supply in the Tacoma/Fife industrial market seems to have tilted fundamentals towards landlords. In 2022, the market enjoyed above-average net absorption at 2.9 million sq. ft., 38% higher than the historical 10-year average of 2.1 million sq. ft. per year. Tenants are typically expansions of existing users, such as Shelter Logic, who moved into 141,500 sq. ft. in Puyallup and JB Hunt Transportation, who absorbed 106,765 sq. ft. in the Port of Tacoma.

FIGURE 2: Vacancy



Source: CBRE Research, Q4 2022

FIGURE 3: Asking Lease Rate, NNN per Month



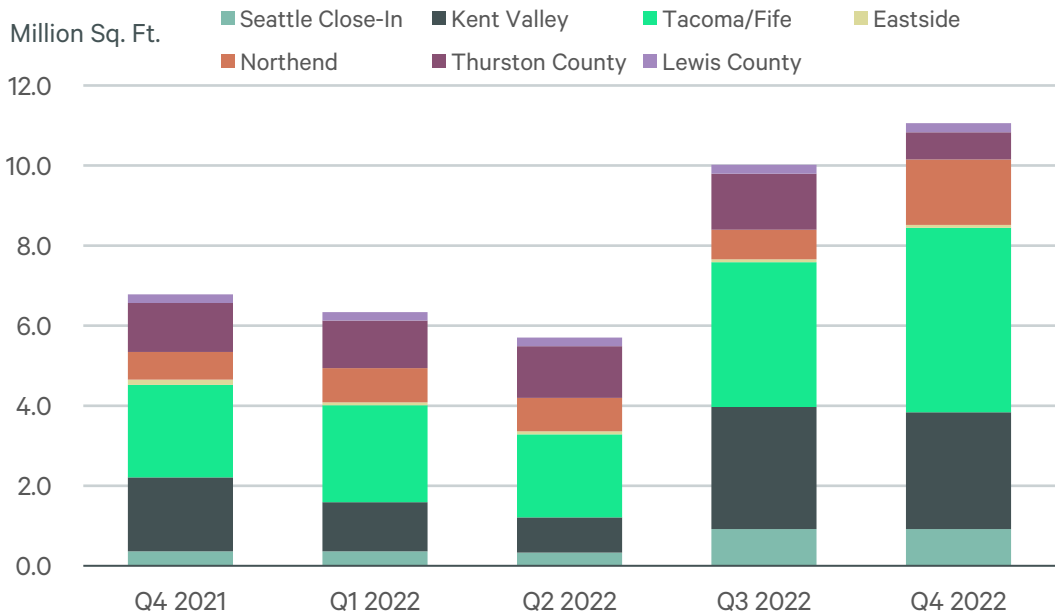
Source: CBRE Research, Q4 2022

Vacancy has fallen to 2.8% — well below the 20-year average of 7.1%. The drop in vacancy is due to limited construction deliveries during 2022, as only 1.8 million sq. ft. was added this year compared to the 10-year historic annual average of 2.2 million sq. ft. Fortunately, the Tacoma market is flush with opportunities to build. National developers such as Panattoni, Bridge Industrial, and Logistics Property Co. are active in the area. Available properties that are under construction range in size from 20,000 to 533,000 sq. ft., which will provide options for a variety of users.

Thurston-Lewis Counties

Costco Logistics’ DDS Distribution Center opened this quarter, adding over a million square feet of absorption. Crow Holdings also started the first two buildings of its Tumwater Corporate Center on a speculative basis; each building will be just under 200,000 sq. ft. These projects have shifted the focus

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



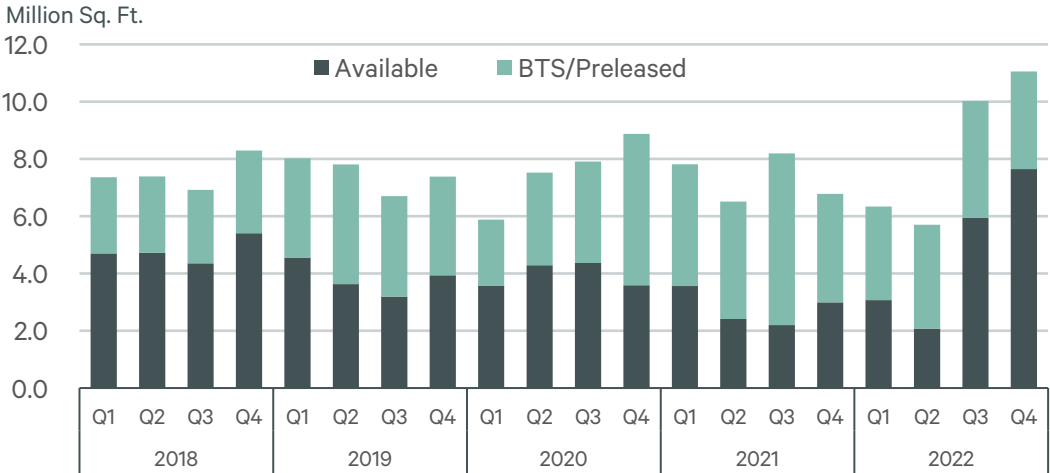
Source: CBRE Research, Q4 2022

FIGURE 5: Key Transactions (5-County Region)

Tenant	Transaction Type	Sq. Ft.	Building	Submarket	Business Sector
Electrolux	New Lease	299,000	Exeter Thurston County Logistics Center, Grand Mound	Thurston County	Manufacturing
McKesson Medical	New Lease	258,459	BridgePoint Kent 300 Bldg, B, Kent	Kent Valley	Wholesale
Amazon - Project Kuiper	New Lease	172,635	Totem Lake Commerce Center, Kirkland	Eastside	Aerospace
Wipro Aerospace	Renewal/Expansion	150,154	Elion 75 th St Center, Everett	Northend	Aerospace
Priority Wire & Cable	New Lease	140,400	NWCP Kent Bldg. J, Kent	Kent Valley	Building Materials
Zap Energy	New Lease	106,858	Opus Seaway Commerce Center, Everett	Northend	Energy
Richelieu America	New Lease	80,800	Logisticcenter @ Auburn - Building A	Kent Valley	Building Materials
Universal Auto Group	New Lease	48,794	Pepsi Distribution Center, Tacoma	Tacoma/Fife	Retailer
Three Sigma Manufacturing	New Lease	46,742	Former Automatic Products Building	Kent Valley	Manufacturing
Pivotal Commware	New Lease	43,941	Canyon Park East, Bothell	Northend	Manufacturing

Source: CBRE Research, Q4 2022

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



Source: CBRE Research, Q4 2022

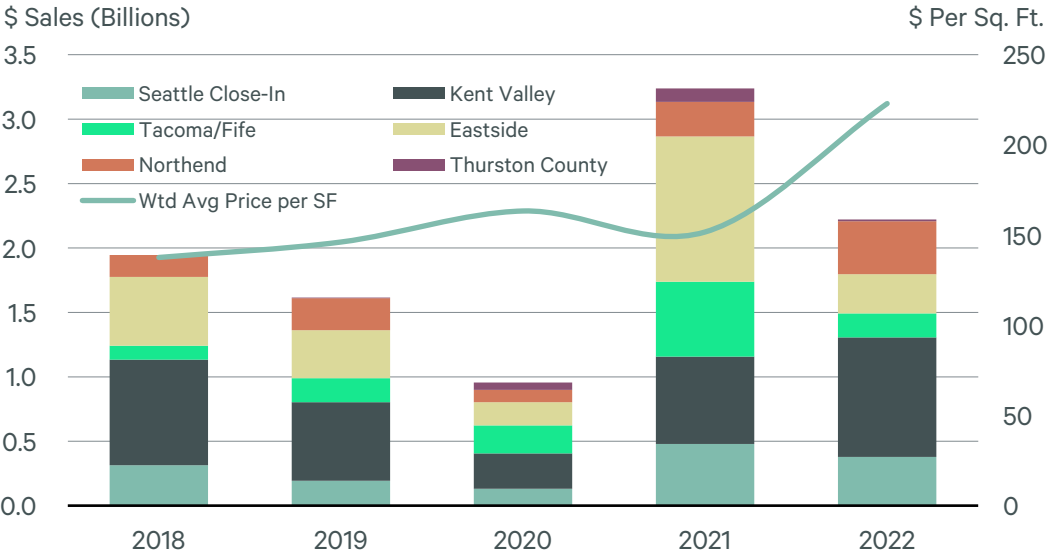
of development in the Thurston County market from Lacey to Tumwater, 14 miles down I-5. Developers are certainly comfortable with the market after building 6.7 million sq. ft. of space there within the last five years, but 80% of the growth occurred in Lacey and only 18% materialized in Tumwater. As more tenants make Tumwater an established address, the 4.8 million sq. ft. of announced developments even further south on I-5 will benefit, as well as the 3.8 million sq. ft. proposed between Lacey and Tumwater.

Users needing at least a million sq. ft. are best served in the Lewis County submarket, south of Thurston County and midway between Portland and Seattle. The submarket has a 0% vacancy rate because past tenants were able to wait for build-to-suit projects. Exeter is pushing forward with its Exeter I-5 Gateway project for anyone needing 200,000 to 1.2 million sq. ft. immediately.

Seattle Close-In

The Seattle Close-In industrial market is having its largest inventory growth in three decades. Four speculative buildings are under construction, totaling 917,255 sq. ft. For single-story projects, Prologis pre-leased 97,791 sq. ft. to Rivian in its 171,924-square-foot Prologis Emerald Gateway, Building 2 during Q2. In addition, 414,528 sq. ft. is under construction from CenterPoint Properties. Multi-story projects with The Ryan Companies and Avenue 55 are nearly complete, sizing 120,029 sq. ft. and 210,774 sq. ft. respectively. However, there has been no pre-leasing announced at either project. Trammell Crow started clearing the site of its proposed Terminal 106 project, where it intends to build a two-story 692,752 sq. ft. building. The average size of existing buildings in the market is just under 40,000 sq. ft., the majority of which are 1950s and 1960s vintage. The new modern space will likely attract high-value manufacturing, research, and distribution uses on a scale not possible in the market previously. South Seattle vacancy steadily fell to 4%, though the North Seattle submarket saw vacancy increase 120 basis points to 10% due to Vaupell vacating nearly 60,000 sq. ft. of manufacturing space.

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



Source: CBRE Research, Q4 2022

Eastside

Eastside rental rates continued to increase as supply remains tight. The market saw 62,046 sq. ft. of net absorption, which lowered the vacancy rate to 4.5%. Leasing highlights of the quarter included Amazon’s satellite production endeavor signing for 172,635 sq. ft. at Totem Lake Commerce Center, an extremely large lease for the market, and Pivotal Commware signing for 43,941 sq. ft. at Canyon Park East - Building D. Currently, the only active development project is a build-to-suit in Snoqualmie Ridge for 73,485 sq. ft. Other developers with sites in Woodinville or the I-90 submarket are waiting patiently on the sidelines. They expect the growing population and strong labor force on the Eastside to spur demand by tech and advanced manufacturing companies.

Northend

The Northend submarket remains a hot commodity for tenants in the aerospace industry. Demand continued to be strong with new deliveries in the pipeline. The Smartcap DC North buildings were delivered, adding 299,900 sq. ft. of inventory to the Northend. Lowe’s and Gravitics are currently occupying a portion of the new project, leaving 184,167 sq. ft. still vacant. Wipro Aerospace renewed and expanded at Elion 75th Street Center and will occupy the entire 150,514 sq. ft. project. Morgan Industrial Inc. signed a new lease for 70,000 sq. ft. of yard space at Russell Road Industrial Park.

The Northend has over 1.6 million sq. ft. under construction and more than 9.0 million sq. ft. in the planning stage. Developers are trying to keep up with demand as more tenants move further north. In Q4, there was 114,671 sq. ft of net absorption. Despite positive net absorption, the total vacancy rate increased to 5.5% from 3.9% last quarter due to a lack of leasing in new deliveries.

FIGURE 8A: Statistics by Submarket

SUBMARKET	Inventory	Total Vacant (SF)	Total Vacancy Rate (%)	Total Availability Rate (%)	Q4 2022 Net Absorption (SF)	Last Four Qtrs Net Absorption (SF)	Under Construction (SF)	Direct Asking Combined Whse & Flex Shell Rent (NNN/SF/Mo)
Downtown/Lk Union	2,252,303	312,386	13.9	10.5	(18,000)	(42,542)	0	
North Seattle/Interbay	6,902,389	669,393	9.7	9.5	(104,556)	(251,726)	0	
East Seattle/Capitol Hill/Rainier Valley	1,922,754	224,266	11.7	10.6	0	30,446	0	
South Seattle/West Seattle	39,529,004	1,473,542	3.7	5.3	119,960	228,207	917,255	
Seattle Close-in	50,606,450	2,679,587	5.3	6.3	(2,596)	(35,615)	917,255	1.42
SeaTac	6,021,671	34,910	0.6	1.4	3,781	39,548	0	
Tukwila	12,161,553	946,398	7.8	8.5	(111,114)	(335,282)	30,000	
Renton	16,194,753	404,689	2.5	3.0	117,704	(131,654)	0	
Kent	47,606,504	2,210,373	4.6	6.4	64,443	1,599,503	1,190,071	
Auburn	27,708,163	566,531	2.0	1.8	78,325	270,962	190,735	
Federal Way	1,593,185	117,731	7.4	8.5	5,013	4,685	1,507,581	
Sumner	19,364,753	698,627	3.6	4.4	129,128	1,173,418	0	
Kent Valley	130,650,582	4,979,259	3.8	4.7	287,280	2,621,180	2,918,387	0.95
Port of Tacoma	12,623,729	117,277	0.9	1.1	106,765	91,091	0	
Tacoma West	6,075,709	190,399	3.1	2.6	21,307	(27,579)	405,583	
Fife	13,231,030	230,353	1.7	3.5	(65,955)	148,220	27,200	
Puyallup	7,585,758	40,854	0.5	2.6	137,971	419,257	433,690	
Frederickson	10,520,100	664,187	6.3	3.0	0	1,280,669	3,568,922	
Lakewood	6,823,986	301,623	4.4	7.9	12,536	489,777	172,650	
DuPont	4,635,287	31,040	0.7	5.5	0	453,349	0	
Gig Harbor	757,586	137,516	18.2	18.2	21,600	85,925	0	
Tacoma/Fife	62,253,185	1,713,249	2.8	3.5	234,224	2,940,709	4,608,045	0.87

Source: CBRE Research, Q4 2022

Investment Sales

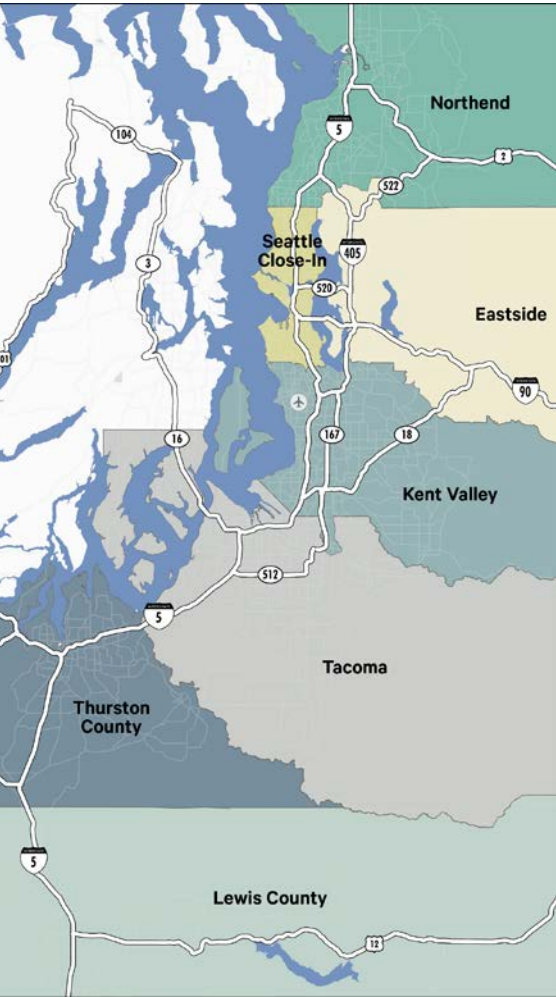
Industrial sales in the Puget Sound region have slowed as interest rates and construction costs have risen. Total sales in Q4 were \$617.5 million – about a \$300 million decrease from the total trades that took place in Q3 2022, according to Real Capital Analytics. Although there was less activity, Puget Sound industrial assets continued to be highly sought out by investors. Average cap rates dropped to 4.7% from 5.0%, while the average sale price rose to \$265 per sq. ft. Key sales included LaSalle Investment Management buying Renton Logistics Center for \$120 million, or \$250 per sq. ft., from Clarion Partners. The Pacific Gateway portfolio, which consisted of six new construction speculative buildings totaling 823,606 sq. ft. sold for \$260 million, or \$316 per sq. ft. Panattoni and Link were the sellers and Property Reserve was the buyer. Prologis finalized their acquisition of Duke Realty from earlier this year, adding 674 buildings to their existing portfolio. Including this deal, Prologis acquisitions over the last year total about \$735 million, taking the crown of the top buyer in the Puget Sound market.

FIGURE 8B: Statistics by Submarket

SUBMARKET	Inventory	Total Vacant (SF)	Total Vacancy Rate (%)	Total Availability Rate (%)	Q4 2022 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	34,105	1.7	3.0	(3,206)	(7,796)	0	
I-90 Corridor	2,589,511	69,576	2.7	11.4	66	55,352	0	
Kirkland/Totem Lake	2,443,603	101,404	4.1	2.2	(6,724)	74,646	0	
Overlake	744,253	43,203	5.8	9.9	(7,513)	(21,377)	0	
Marymoor	3,599,283	55,659	1.5	1.6	81,665	80,324	73,485	
Willows	3,831,488	201,698	5.3	5.1	(5,795)	(12,233)	0	
Bothell	3,693,624	487,904	13.2	13.5	(51,135)	(52,977)	0	
Woodinville/Maltby	6,886,356	168,609	2.4	3.5	54,688	10,245	0	
Eastside	25,818,645	1,162,158	4.5	5.7	62,046	126,184	73,485	1.87
Lynnwood/Edmonds/Mtlk Terrace	2,600,648	45,744	1.8	1.5	(26,610)	(3,601)	0	
Monroe	1,915,956	26,942	1.4	0.7	2,822	50,242	127,000	
Mukilteo	2,922,550	222,098	7.6	7.4	29,885	63,394	58,221	
Everett	9,981,698	432,521	4.3	4.3	(42,630)	392,841	485,683	
No. Snohomish	4,247,173	346,855	8.2	11.6	151,204	646,851	960,431	
Northend	21,668,025	1,074,160	5.0	5.5	114,671	1,149,727	1,631,335	1.03
Puget Sound (3-county)	290,996,887	11,608,413	4.0	4.9	695,625	6,802,185	10,148,507	1.15
Whse/Bus Pk/Manuf	280,254,511	10,303,301	3.7	4.6	716,086	6,847,331	10,148,507	1.05
Flex	10,742,376	1,305,112	12.1	13.4	(20,461)	(45,146)	0	1.96
Lacey	11,846,566	390,035	3.3	3.3	(660)	269,970	221,656	
Olympia	980,794	0	0.0	0.0	0	0	0	
Tumwater	4,178,268	26,371	0.6	0.5	1,158,700	1,178,959	461,345	
Outlying Thurston	77,250	0	0.0	0.0	0	0	0	
Thurston County	17,082,878	416,406	2.4	2.4	1,158,040	1,448,929	683,001	0.65
Lewis County	5,638,167	0	0.0	0.8	0	246,453	224,884	0.45
Five-County Total	313,717,932	12,024,819	3.8	4.7	1,853,665	8,497,567	11,056,392	1.11

Source: CBRE Research, Q4 2022

Market Area Overview



Definitions

Net Absorption: The change in Occupied Sq. Ft. 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.

Contact

		SEATTLE OFFICE	BELLEVUE OFFICE	TACOMA OFFICE
Carolyn Davis	John R. Miller			
Research Manager	Senior Managing Director	1420 5th Ave, Suite 1700	929 108th Ave NE, Suite 700	1201 Pacific Ave, Suite 1502
+1 206 292 6098	+1 206 292 6102	Seattle, WA 98101	Bellevue, WA 98004	Tacoma, WA 98402
Carolyn.Davis@cbre.com	John.Miller@cbre.com	+1 206 292 1600	+1 425 455 8500	+1 253 572 6355