

FIGURES | PUGET SOUND INDUSTRIAL | Q2 2023

Slowdown in Leasing Countered by Rising Level of Inquiring Tenants



Note: Arrows indicate change from previous quarter.

Overview

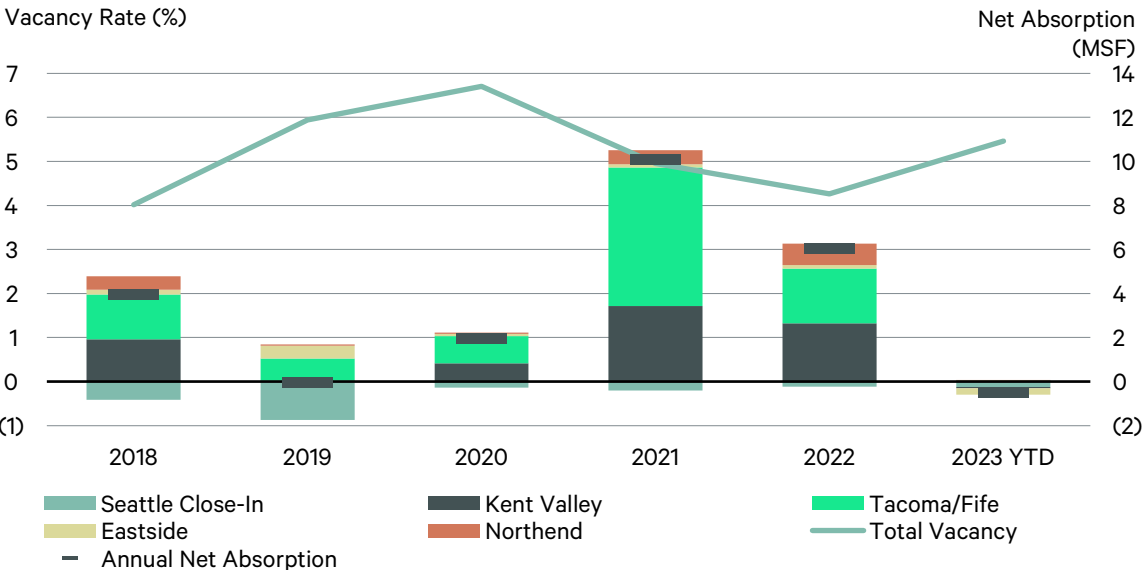
The Puget Sound industrial market saw an overall decrease in leasing activity in Q2 2023. Vacancy and absorption numbers also show a downtrend, though sources report a healthy level of tenants looking for future space. Net absorption was a negative 49,040 sq. ft. this quarter, following negative 495,000 sq. ft. in Q1. Despite a drop in signed leases compared to 2022 and 2021, rental rates showed growth, rising from \$1.14 to \$1.19 NNN, per sq. ft., per month, for the quarter. Key players in the market continue to be distribution, 3PLs, and aerospace.

The development pipeline continues to thrive, creating buoyancy in the Puget Sound industrial market. Ongoing macro-economic turmoil, such as rising interest rates, will continue to delay deliveries and construction starts, even as demand for class A space is evident. Six buildings totaling 1,414,357 sq. ft., were delivered this quarter, while 8,295,499 sq. ft. remain under construction and close to 35 million sq. ft. is planned.

The Northwest Seaport Alliance reports twenty-foot equivalent unit (TEU) container volume for imports has decreased 28.2% YTD, while exports have decreased 24.3% for the same period.



FIGURE 1: Vacancy vs. Net Absorption



Source: CBRE Research, Q2 2023

Terminal 5 improvements continue to progress in order to add more space and jobs at the Port of Seattle. With a modernized Terminal 5, the Alliance is projected to reach 7 million TEUs annually by 2050 and would handle only 5.3 million TEUs without investment.

Kent Valley

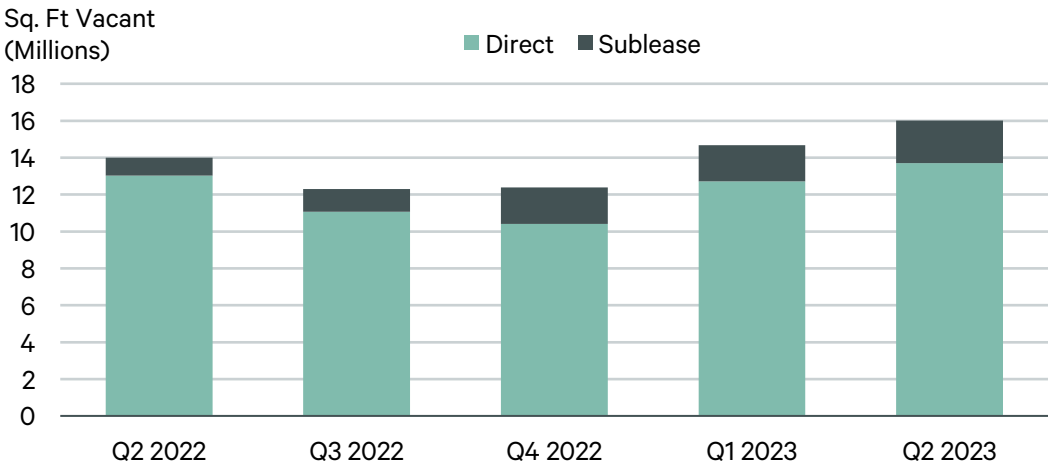
The Kent Valley is the region’s prime market, but relative lack of Class A spaces over 100,000 sq. ft. has pushed users south. Leasing volume increased slightly, despite 386,097 sq. ft. of negative net absorption. The largest move-out this quarter, Holman Distribution, left 350,000 sq. ft. at their long-time home in Kent and moved to a similarly sized facility in Frederickson, located in the Tacoma market. Although there were two slow quarters in Q1 2023 and Q4 2022, vacancy continues to remain well below historic averages at 4.6% currently. The Toysmith Group secured a new location this quarter, signing for 159,055 sq. ft. at Pacific 167 in Auburn, while Allen Distribution leased 293,172 sq. ft. at SeaPort Logistics.

The Kent Valley development pipeline remains robust, with 2,571,061 sq. ft. under construction and 9,315,332 sq. ft. planned for the future. The only delivery this quarter was Prologis Park Kent 50, a speculative 261,364 sq. ft. building. The upcoming delivery of Bridge Development Partners’ 1.0 million sq. ft. speculative development in Milton, which falls in the Federal Way submarket, will add options for tenants wanting to stay in central Puget Sound.

Tacoma/Fife

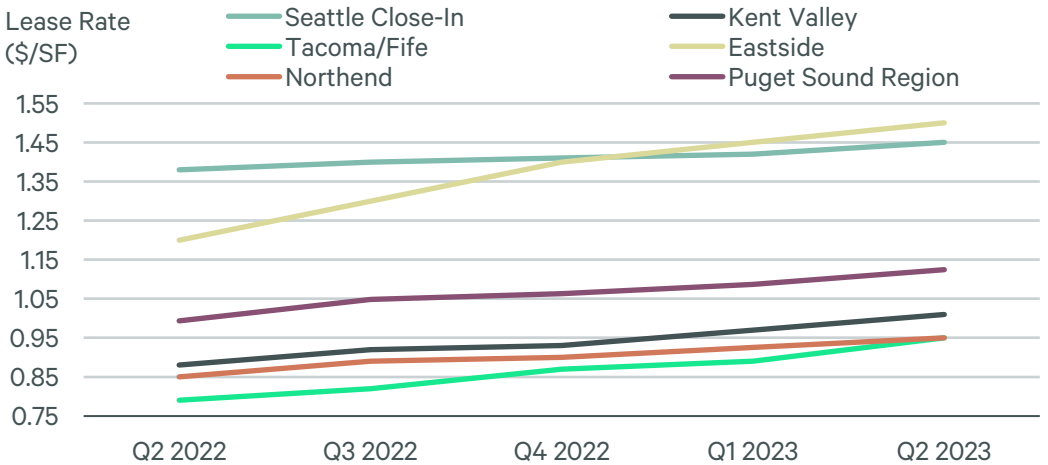
Tacoma’s industrial market had a significant swing in net absorption from a negative 292,683 sq. ft. in Q1 2023 to a positive 333,259 sq. ft. in Q2 2023. Similar to the Kent Valley, rental rates continue to grow, reaching \$0.95 shell, whereas vacancy was neutral, sitting at 4.9%. Leasing was led by Infinity Global who took 248,000 sq. ft. at Tacoma Central Logistics; and Wido Logistics, who leased 144,128 sq. ft. at Fife Commerce Center. Tacoma currently has 3,413,126 sq. ft. under construction and 15,181,661 sq. ft. planned, though there were two deliveries totaling 514,244 sq. ft. in Q2 – the 395,094-sq. ft. Ashley Furniture Expansion, and the 119,150 sq. ft. speculative Bridge Point Tacoma 120. Both were delivered as empty buildings.

FIGURE 2: Vacancy



Source: CBRE Research, Q2 2023

FIGURE 3: Asking Shell Rent, NNN per Month

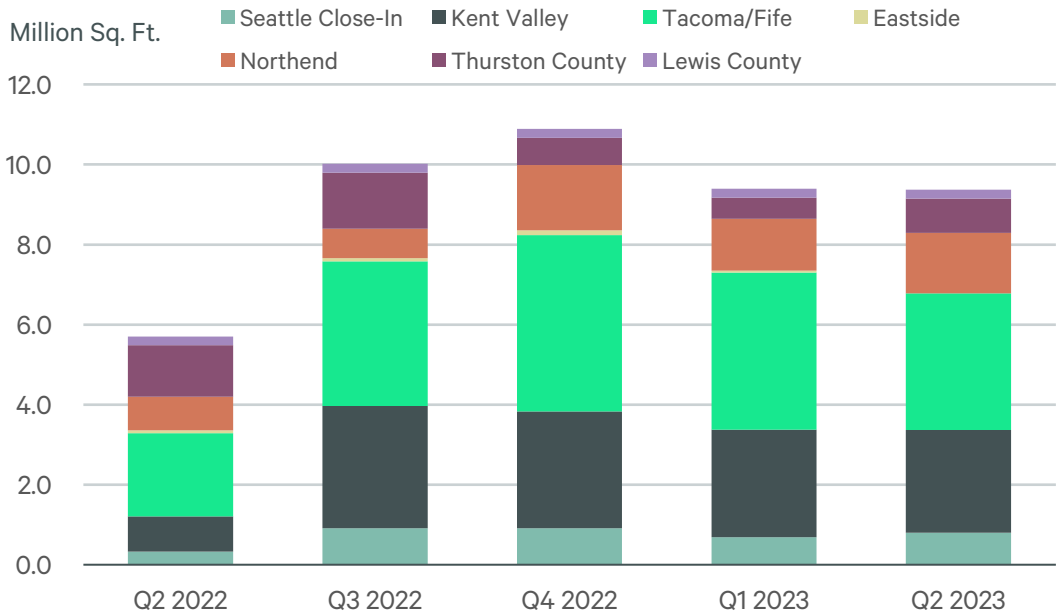


Source: CBRE Research, Q2 2023

Thurston-Lewis Counties

Thurston County remained relatively stable this quarter, with Lacey leading the pack with 131,288 sq. ft. of positive absorption, largely due one event: Sound Sleep starting their 132,872 sq. ft. lease at 2626 Willamette Dr NE. This pushed absorption for the Thurston County submarket to positive 158,188 sq. ft. in Q2. Absorption will likely fall in Tumwater in a future quarter, as Dart Container wishes to sell its Tumwater plant, which will add 105,673 sq. ft. of space. Vacancy and rental rates in Thurston County also remained virtually static quarter over quarter. The development pipeline continues to thrive, with 1,078,013 sq. ft. under construction and 18,439,732 sq. ft. planned in the two counties. Limited space from South Seattle to Tacoma continues to make Thurston and Lewis counties attractive to developers.

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



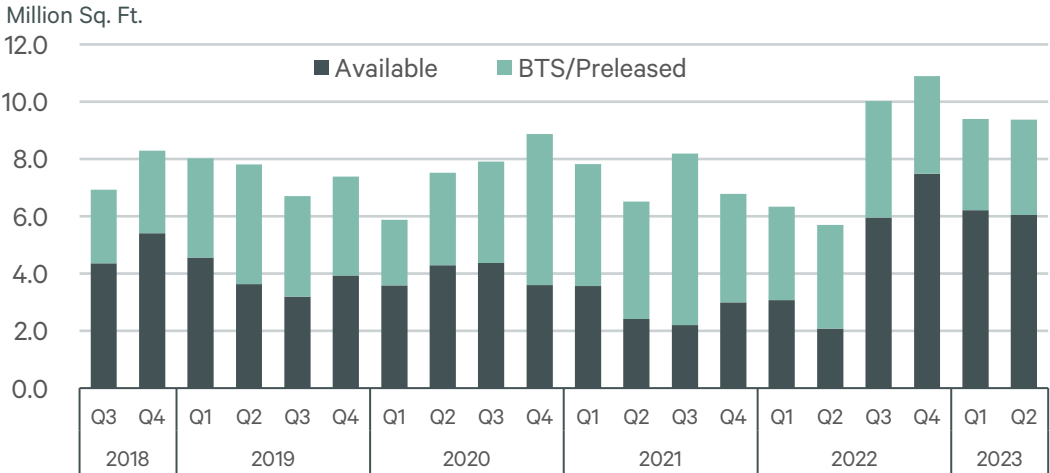
Source: CBRE Research, Q2 2023

FIGURE 5: Key Transactions (5-County Region)

Tenant	Transaction Type	Sq. Ft.	Building	Submarket	Business Sector
Allen Distribution	New Lease	293,172	SeaPORT Logistics Center - Phase II - Building 5	Sumner	Transportation
Infinity Global Express	New Lease	248,033	Tacoma Central Logistics	Tacoma West	Transportation
Toysmith Group	New Lease	159,055	Pacific 167 Logistics	Auburn	Wholesaler
Wido Logistics	New Lease	144,128	Fife Commerce Center - Building A	Fife	Transportation
Stryder Logistics	Expansion	118,479	Prologis Park Kent 35	Kent	Transportation
The Chefs' Warehouse	New Lease	83,528	Springbrook 188 - Cold Storage	Kent	Food & Beverage
Washington Shoe	New Lease	79,300	Renton Park 405 - Builing A	Renton	Wholesaler
Scholastic	New Lease	68,816	Salmon Creek Corporate Park - Building B	Sumner	Wholesaler
KONE Elevator and Escalator Company	New Lease	68,377	PowderMill Business Center - Building B	Everett	Manufacturing
Packaging Exchange	New Lease	66,549	Lakewood Logistics Center V	Lakewood	Packaging
Kyokuyo America Corporation	Purchase	66,230	Former King's Command	Kent	Food & Beverage

Source: CBRE Research, Q2 2023

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



Source: CBRE Research, Q2 2023

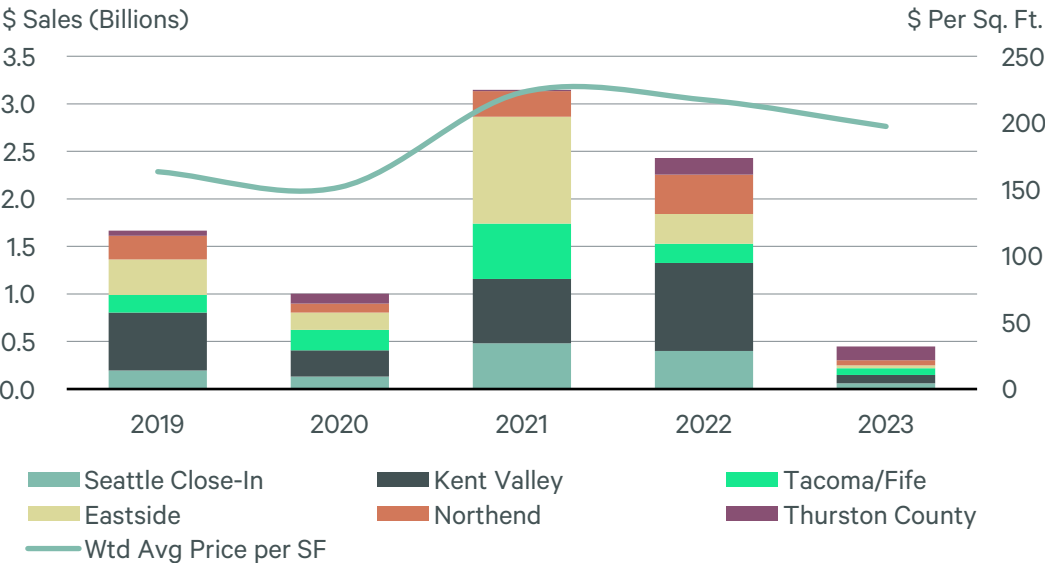
Seattle Close-In

Seattle Close-In had a positive quarter in Q2 with 34,223 sq. ft. of net absorption. Rental rates grew slightly from \$1.43 to \$1.45, though Seattle Close-In continued to see rising vacancy with a hike of 80 basis points over the quarter. Leasing was led by Stone Works, taking 26,500 sq. ft. on the first floor of Track Six, a newly-developed multi-story industrial building. SuperGraphics leased and occupied 28,116 sq. ft. at Lander Station Business Park. Despite rising vacancy, construction continues to move forward in the Seattle Close-In market. Trammell Crow’s 44 S Nevada Street, a 695,000 sq. ft., two-story project on a busy truck corridor broke ground. Two major projects delivered in Q2: CenterPoint Tukwila for 414,528 sq. ft., and Prologis Emerald Gateway, Building 2, for 178,021 sq. ft., 97,791 sq. ft. of it leased to Rivian Automotive. Currently, there is 900,000 sq. ft. of possible developments for the future.

Eastside

The Eastside industrial market saw fairly large moves by two high-tech tenants and smaller shifts by more traditional warehouse users, resulting in 17,028 sq. ft. of net absorption during Q2. Amazon’s Project Kuiper’s absorbed 147,684 sq. ft. in Kirkland, and a Redmond-based software company vacated 124,436 sq. ft. of flex space at Redmond Woods and Redmond East Business Campus, Building 5. Pivotal Commware completed its move to Canyon Park East, Building D, absorbing 43,941 sq. ft. in Bothell, but leaving over 50,000 sq. ft. in Kirkland. The vacant Kirkland space has been purchased by Toll Brothers, a residential developer. Competing residential, medical and office uses have put pressure on Eastside industrial tenants to pay higher rents. Asking rent has been hovering between \$1.50 and \$2.00 per sq. ft., per month for warehouse under 50,000 sq. ft. and \$2.00 to \$2.10 for flex or R&D space.

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



Source: CBRE Research, Q2 2023

Northend

High quality tenants continue to pour into the Northend industrial market. Aerospace companies remained the largest market sector, though more traditional industrial tenants have recently been making inroads. During Q2 2023, KONE Elevator and Insulation Distributors signed leases to move to new locations. Direct vacancy dropped 50 bps to 5.7%, but a 90,000 sq. ft. sublease from a major online retailer pushed total vacancy up 10 bps to 6.4%. The market has had an impressive reputation as a manufacturing center, due to Boeing’s large presence and robust training offered to those wanting to work in the aerospace industry. Tenants in other advanced manufacturing industries, especially the alternative energy sector, are poised for growth locally, encouraged by the quality of employees.

FIGURE 8A: Statistics by Submarket

SUBMARKET	Inventory	Total Vacant (SF)	Total Vacancy Rate (%)	Total Availability Rate (%)	Q2 2023 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	1,839,851	287,009	15.6	8.7	516	(82,856)	0	
North Seattle/Interbay	6,887,009	769,797	11.2	9.1	(39,866)	(208,801)	0	
East Seattle/Capitol Hill/Rainier Valley	1,922,754	222,270	11.6	11.0	526	19,238	0	
South/West Seattle	40,388,300	2,651,570	6.6	7.6	73,047	5,287	801,000	
Seattle Close-in	51,037,914	3,930,646	7.7	7.9	34,223	(267,132)	801,000	1.45
SeaTac	6,021,671	173,339	2.9	4.3	(48,332)	(61,235)	177,360	
Tukwila	12,161,553	986,726	8.1	8.7	(5,252)	(290,699)	0	
Renton	16,194,753	213,321	1.3	2.2	88,903	187,539	0	
Kent	48,487,594	3,239,860	6.7	7.7	(726,583)	(262,065)	461,203	
Auburn	27,754,355	862,444	3.1	3.5	(56,180)	(22,476)	424,917	
Federal Way	1,593,185	131,019	8.2	8.7	(1,445)	10,539	1,507,581	
Sumner	19,386,608	402,350	2.1	5.9	362,792	1,042,622	0	
Kent Valley	131,599,719	6,009,059	4.6	5.8	(386,097)	604,225	2,571,061	1.02
Port of Tacoma	12,580,815	180,877	1.4	5.4	12,000	145,555	0	
Tacoma West	5,580,999	198,983	3.6	2.1	(7,660)	3,425	286,433	
Fife	13,206,832	429,244	3.3	5.8	(57,259)	(117,095)	0	
Puyallup	7,989,140	359,578	4.5	5.6	(42,831)	130,657	274,690	
Frederickson	11,227,419	960,630	8.6	8.6	281,826	563,652	2,841,603	
Lakewood	7,105,386	342,784	4.8	8.3	144,207	711,307	10,400	
DuPont	4,635,287	484,531	10.5	10.5	2,976	39,190	0	
Gig Harbor	757,586	155,916	20.6	16.5	0	87,000	0	
Tacoma/Fife	63,083,464	3,112,543	4.9	6.6	333,259	1,563,691	3,413,126	0.95

Source: CBRE Research, Q2 2023

Investment Sales

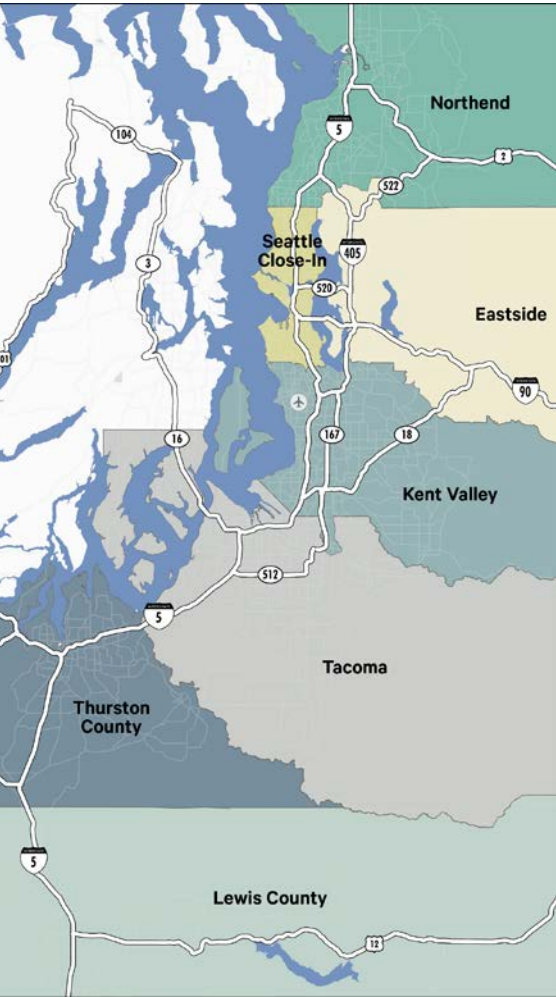
Investment sales activity in the Puget Sound area continued to slow due to ongoing macro-economic concerns and rising interest rates for most of Q2 2023. Total sales accumulated to \$221 million, an increase of \$41.8 million quarter-over-quarter. Average cap rates for the previous four quarters was 5.0%, according to Q2 2023 preliminary data supplied by Real Capital Analytics. Economic turmoil continues to concern investors, who are stagnating until there is more clarity within the capital markets. Key sales completed included Bridge Point Lacey, Buildings A-C, totaling 716,554 sq. ft. in three buildings, sold to Dermody from Morgan Stanley for \$132.1 million, or \$184 per sq. ft. Fife 70 East, a 111,824 sq. ft. warehouse built in 1985, also sold for \$22.8 million at \$204 per sq. ft. The buyer was Invesco and the seller was the Principal Financial Group, an institutional investor. Additionally, America Foods Group sold the former King’s Command Building, a 66,230 sq. ft food processing building located in Kent for \$15 million, or \$226.48 per sq. ft., to a user, Kyokuyo America Corp.

FIGURE 8B: Statistics by Submarket

SUBMARKET	Inventory	Total Vacant (SF)	Total Vacancy Rate (%)	Total Availability Rate (%)	Q2 2023 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	85,209	4.2	4.9	4,047	40,229	0	
I-90 Corridor	2,589,511	71,448	2.8	12.6	7,324	52,063	0	
Kirkland/Totem Lake	2,443,603	209,102	8.6	3.5	139,035	310,410	0	
Overlake	704,781	147,720	21.0	27.3	(102,143)	(195,982)	0	
Marymoor	3,504,130	76,079	2.2	5.3	(55,393)	10,999	0	
Willows	3,834,195	257,485	6.7	8.1	5,805	14,113	0	
Bothell	3,428,110	437,516	12.8	13.8	73,233	122,873	0	
Woodinville/Maltby	6,886,356	252,027	3.7	3.8	(54,880)	(125,289)	0	
Eastside	25,421,213	1,536,586	6.0	7.6	17,028	229,416	0	1.92
Lynnwood/Edmonds/Mtlk Terrace	2,561,952	69,443	2.7	4.2	(13,997)	(90,095)	0	
Monroe	1,915,956	46,026	2.4	4.5	(41,104)	(41,126)	127,000	
Mukilteo	2,922,550	221,093	7.6	7.5	(33,910)	6,773	58,221	
Everett	10,122,663	697,502	6.9	7.1	(39,068)	(137,243)	485,683	
No. Snohomish	4,492,792	384,205	8.6	6.3	80,626	348,446	839,408	
Northend	22,015,913	1,418,269	6.4	6.4	(47,453)	86,755	1,510,312	1.07
Puget Sound (3-county)	293,158,223	16,007,103	5.5	6.6	(49,040)	2,216,955	8,295,499	1.19
Whse/Bus Pk/Manuf	283,170,262	14,648,536	5.2	6.2	42,663	2,384,264	8,295,499	1.12
Flex	9,987,961	1,358,567	13.6	15.5	(91,703)	(167,309)	0	1.98
Lacey	12,162,893	326,352	2.7	2.7	131,288	246,473	87,780	
Olympia	822,123	0	0.0	0.0	0	0	0	
Tumwater	4,208,542	43,526	1.0	3.5	26,900	1,255,334	466,349	
Outlying Thurston	77,250	0	0.0	0.0	0	0	299,000	
Thurston County	17,270,808	369,878	2.1	2.8	158,188	1,501,807	853,129	0.75
Lewis County	5,638,167	0	0.0	0.8	0	215,000	224,884	0.49
Five-County Total	316,067,198	16,376,981	5.2	6.2	109,148	3,933,762	9,373,512	1.16

Source: CBRE Research, Q2 2023

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.

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