

FIGURES | PUGET SOUND INDUSTRIAL | Q1 2023

Leasing back on track after economic hesitation

▲ 4.8%

Vacancy Rate

▼ (495.6)K

SF Net Absorption

▲ 1.85M

SF Construction Completed

▼ 9.2M

SF Under Construction

► \$1.14

Asking Lease Rate
Sq. Ft./Month, NNN

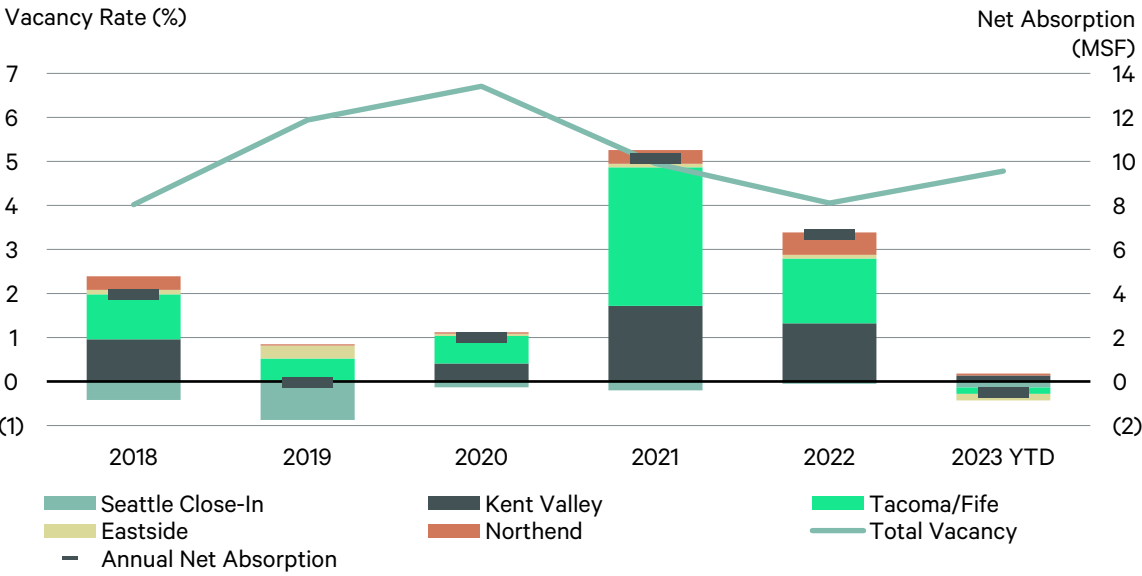
Note: Arrows indicate change from previous quarter.

Overview

The Puget Sound Industrial market plateaued this quarter due to inflation, interest rates, and uncertainty around consumer demand, though vacancy is still below the historic average. Shell rents in the Puget Sound remained flat at \$1.14 per sq. ft. and Olympia was stable at \$0.65 per sq. ft. Although the market has optimism for 2023, Q1 numbers represent a natural pull back based on economic concerns. Major active sectors include Aerospace, 3PLs, and Manufacturing; tenants in these industries accounted for the largest leases. Leasing activity is expected to pick up in Q2 of 2023, with high activity in the Kent Valley and Tacoma markets. Pierce County, and more specifically Frederickson, has become a highlight for the Puget Sound Industrial market.

Meanwhile, development pipeline numbers continued to fluctuate, partly due to development deliveries totaling 1,849,239 sq. ft. in Q1 2023, though both the scarcity and high cost of land continues to push development further south to the Tacoma, Olympia, and Lewis County markets. There is also still a ripple effect from economic turmoil due to the rising cost of materials and labor.

FIGURE 1: Vacancy vs. Net Absorption



Source: CBRE Research, Q1 2023

The Northwest Seaport Alliance reported TEU container volume decreased 23.1% YTD. Soft demand and uncertainty over contract negotiations with the PMA-ILWU have caused full container imports to decline 30 basis points (bps) in Q1 2023, though they remain positive 1.5% YTD. And while shipped automobile volumes are up 48.6% or 46,551 units, domestic container volume is down 3.9% YTD in comparison to 2022. Infrastructure continues to be built in anticipation of market conditions making a recovery; operations for Terminal 5 are expected to start Q1 2024, with an estimated capacity of 1.2 million TEUs.

Kent Valley

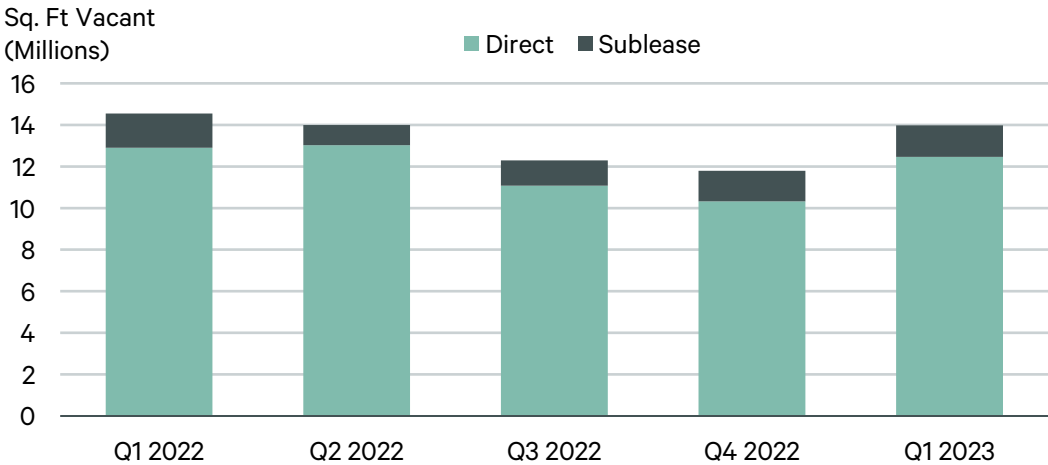
Kent Valley leasing volume slowed following a multi-year streak of high performance. Net absorption was low by historic standards, sitting at 279,717 sq. ft. in Q1 2023. Leasing volume is back on track, after a noticeable slowdown in the fall of 2022. Large leases were prevalent, led by an undisclosed company signing for 390,150 sq. ft. at the Olympic Steamship building in Kent, as well as PODS Enterprises renewing 157,204 sq. ft. in SeaTac. Deliveries and absorption pushed vacancy up 30 bps to 4.1%.

Kent Valley’s continued demand for class A space has kept the development/renovation pipeline churning, with 2,685,065 sq. ft. under construction and 8,933,065 sq. ft. planned. Kent Valley delivered 724,857 sq. ft. in Q1 2023, primarily 565,800 sq. ft. in four buildings at LogistiCenter at Pacific Gateway.

Tacoma/Fife

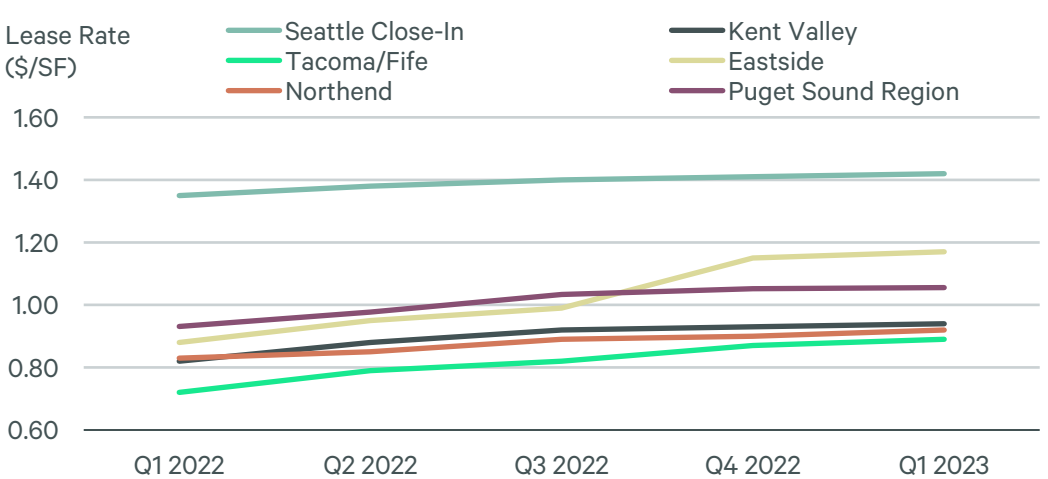
The Tacoma Industrial market had a slow start for Q1 2023—showing negative absorption for the first time since 2015. On a positive note, SANY America leased and absorbed 225,082 sq. ft. in Dupont, GVH Distribution renewed 63,467 sq. ft. in Fife, and Harbor Freight agreed to a lease for a 782,875 sq. ft. build-to-suit at FRED310 Business Park in Frederickson. The negative absorption for the quarter caused the vacancy rate to climb from 2.8% to 4.0%. Shrinking or relocating tenants include Design Imports and Triangle Logistics, both in Puyallup, and Dansons

FIGURE 2: Vacancy



Source: CBRE Research, Q1 2023

FIGURE 3: Asking Lease Rate, NNN per Month



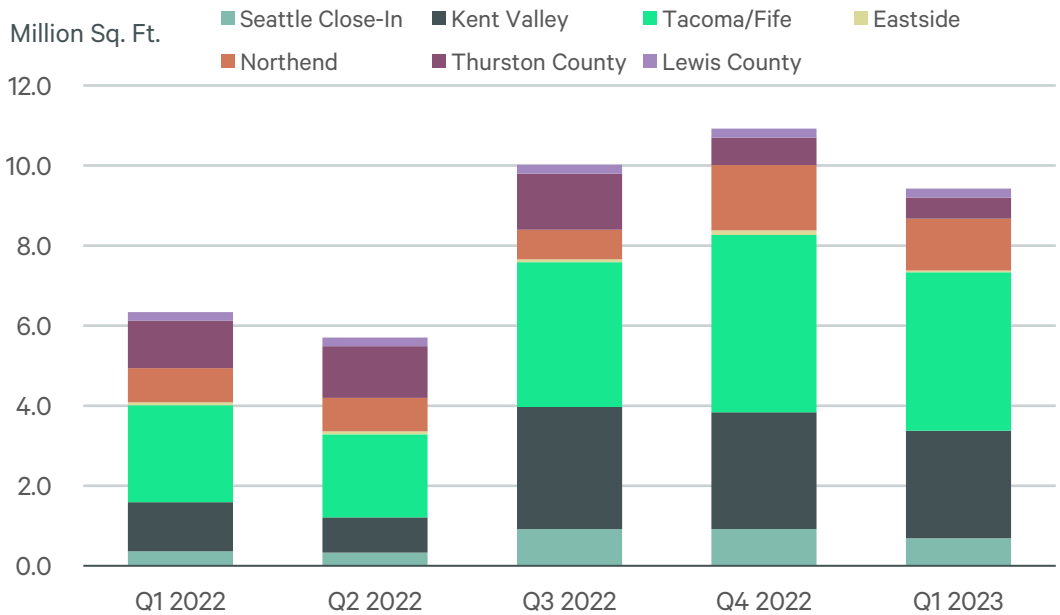
Source: CBRE Research, Q1 2023

Inc. leaving a 136,000 sq. ft. building in Fife. Tacoma’s strong development pipeline delivered 474,575 sq. ft. in Q1, with 4,487,994 sq. ft. under construction, and 15,171,461 sq. ft. planned. Developers remain bullish on the Tacoma Industrial market with an abundance of opportunities available. A small pullback for the market was expected due to uncertainty in the economy and slow demand at the ports, putting the brakes on growth.

Thurston-Lewis Counties

Thurston County saw a slowdown in leasing volume in Q1 2023 in comparison to Q4 2022, with net absorption sitting at 72,896 sq. ft. Thurston County was led by Lacey with 90,051 sq. ft. of net positive absorption, due primarily to the completion of I-5 Design Build’s building on Orion Drive.

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



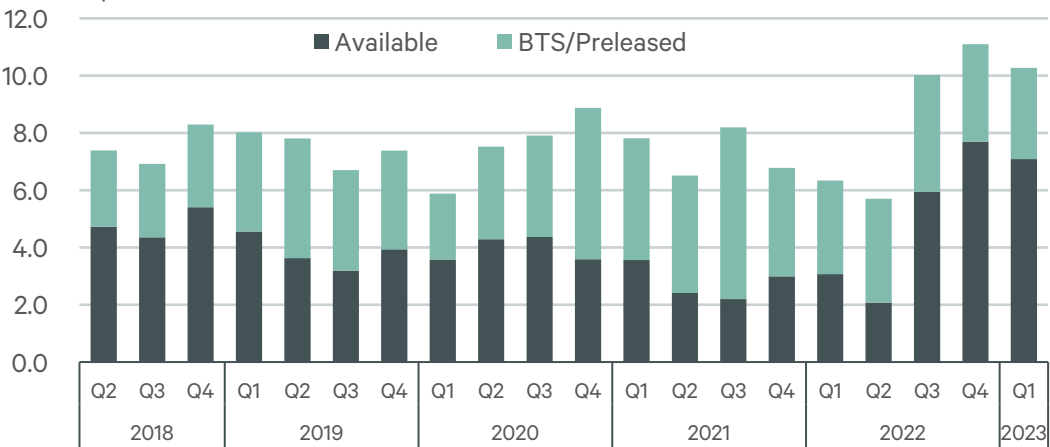
Source: CBRE Research, Q1 2023

FIGURE 5: Key Transactions (5-County Region)

Tenant	Transaction Type	Sq. Ft.	Building	Submarket	Business Sector
Harbor Freight	New Lease	782,875	FRED 310 – Building D	Frederickson	Retailer
SANY America	New Lease	225,082	NW Logistics Center Phase I	DuPont	Wholesaler
No Meat Factory	Purchase	194,176	Twin City Foods, Stanwood	N Snohomish Co.	Food & Beverage
Sound Sleep Products	New Lease	132,872	Former Sealy Mattress Warehouse	Lacey	Home Furnishings
Bogdan Delivery	New Lease	119,011	North 405 - Wesco Building	Renton	Transportation
Quantum Windows & Doors	New Lease	117,060	Gayteway Business Park Bldg. F, Arlington	N Snohomish Co.	Building Materials
Luban Cabinetry	New Lease	113,979	Logisticcenter @ Pacific Gateway Building 1	Kent	Building Materials
Catalyst Workplace Activation	New Lease	98,298	Lift Logistics @ 212th	Kent	Office Furnishings
Moe’s Furniture	New Lease	96,961	Hill Industrial Park 190 – Building D	Kent	Home Furnishings
Vancity Trade	New Lease	64,284	Salmon Creek Corp Park – Building B	Sumner	Paper & Packaging

Source: CBRE Research, Q1 2023

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



Source: CBRE Research, Q1 2023

Comparatively, Tumwater saw negative net absorption of 17,155 sq. ft. Vacancy remains low for Thurston county at 2.9%, as the market waits for 525,345 sq. ft. under construction to deliver. Proposed construction has grown significantly, reaching 8.7 million sq ft. as of Q1 2023. Market economics continue to be robust, as rental rates jumped from \$0.51 to \$0.65 for a total of 27.45% growth year-over-year.

Seattle Close-In

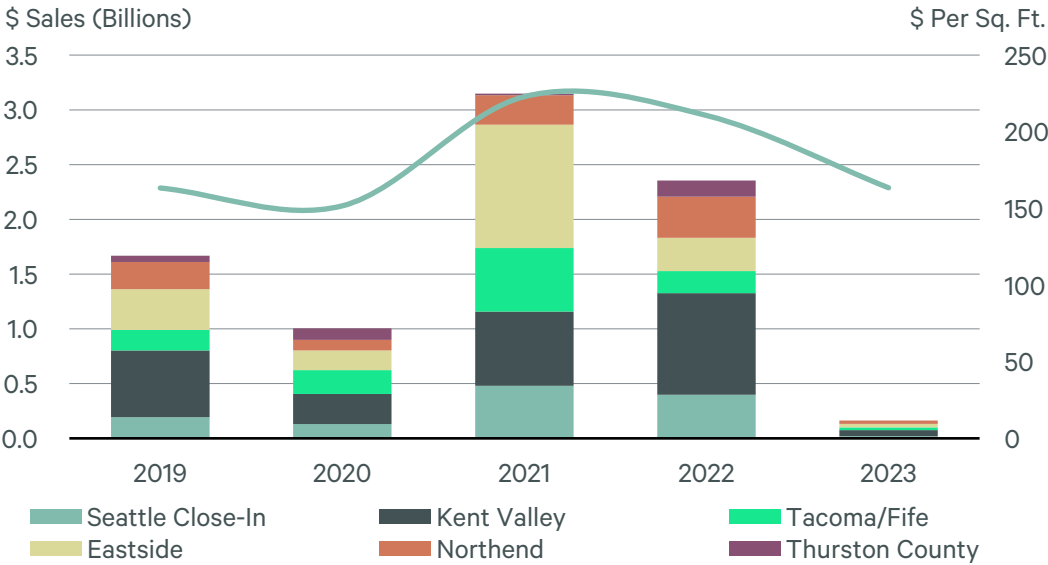
The Seattle Close-In Industrial market continues to have the highest asking rate of all markets, with shell rates at \$1.43 per sq. ft. The Seattle Close-In inventory continues to grow with the completion of two premier multi-story buildings: Track Six SODO Business Park, located at 3847 1st Ave S, and 65Horton, located at 65 S Horton St. There has been no mention of leasing at either of the delivered buildings, although overall, deal activity continued steadily in the South Seattle submarket. SuperGraphics leased 28,116 sq. ft. and will relocate from North Seattle to the SODO neighborhood, and International Paint renewed for 26,694 sq. ft. in South Park. Despite lack of land availability,

Seattle Close-In continues to grow its development pipeline with 692,452 sq. ft. under construction and 1,613,926 sq. ft. planned. Multiple moveouts in Q1 2023 led the vacancy rate to rise to 6.7%.

Eastside

The Eastside experienced movement by both cutting edge aerospace companies and more traditional warehouse users. Zetron downsized and moved to 39,541 sq. ft. in Redmond East, leaving a 50,000 sq. ft. space that was back-filled by Meta at the Park at Willows Ridge, and SpaceX absorbed a build-to-suit building in Redmond Ridge, adding 73,000 sq. ft. to their footprint. Stoneway Electric relocated from the Kirkland submarket to 68,112 sq. ft. in Woodinville, staying close to its customer base. New vacancies, led by Valve vacating 147,849 sq. ft. at Totem Lake Commerce Center, outweighed the move-ins, resulting in negative absorption of 299,049 sq. ft, and vacancy rising to 5.8%, up 140 bps over Q1. Totem Lake Commerce Center will be absorbed by Amazon’s satellite

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



Source: CBRE Research, Q1 2023

division later in 2023, so overall market conditions do not completely favor tenants. Woodinville is the regional center for the wine industry, but lost one of its early tenants, Columbia Winery, who closed their 50,000 sq. ft. manufacturing facility in favor of an Eastern Washington location, according to news sources.

The most recent sale price point is \$355 per square foot, paid by a user for a 18,289 sq. ft. building at 17935 NE 65th St, in the Marymoor submarket of Redmond. The sale price is comparable to the range of \$365 - \$372 per square foot seen during Q4 2022.

Northend

Favorable demographics and modern new buildings have been drawing tenants to the Northend market for several years, but Q1 saw more expansions by tenants already in the area, than new ones. Quantum Windows and Doors leased 117,060 sq. ft. at Gayteway Business Park, a speculative building that broke ground in Q3 2022; and Process Solutions signed a lease for 60,775 sq. ft. at Smartcap Arlington Air. Both are relocating within the market. Vacancy rose 70 bps due to space created by Funko leaving 118,750 sq. ft. at PowerMill Business Center, offset by move-ins by GXO Logistics at Bomarc Business Park in Everett and Gravitics at Smartcap DC North. The first 245,619 sq. ft building at Cascade Business Park, developed by NorthPoint Development, is complete and rumored to be leased by a tenant new to the market. Eleven buildings, totaling 1.3 million sq. ft. are under construction and are 14% (178,771 sq. ft.) preleased to tenants already mentioned. The 2.8 million sq. ft. multi-story building Amazon will own in the North Snohomish County submarket is not included in this total. The e-commerce giant is not expected to vacate other space when the building becomes fully operational this spring.

FIGURE 8A: Statistics by Submarket

SUBMARKET	Inventory	Total Vacant (SF)	Total Vacancy Rate (%)	Total Availability Rate (%)	Q1 2023 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	2,089,048	316,225	15.1	9.5	(3,839)	(56,598)	0	
North Seattle/Interbay	6,902,389	729,931	10.6	9.6	(14,349)	(166,190)	0	
East Seattle/Capitol Hill/Rainier Valley	1,922,754	222,796	11.6	10.5	1,470	61,086	0	
South Seattle/West Seattle	39,859,807	2,127,459	5.3	6.0	(251,144)	(302,791)	692,452	
Seattle Close-in	50,773,998	3,396,411	6.7	6.8	(267,862)	(464,493)	692,452	1.43
SeaTac	6,021,671	125,007	2.1	3.7	(90,097)	(12,529)	0	
Tukwila	12,161,553	972,834	8.0	8.9	25,164	(246,817)	30,000	
Renton	16,194,753	302,224	1.9	2.0	102,465	146,272	0	
Kent	48,172,306	2,238,494	4.6	7.4	459,365	1,165,108	722,567	
Auburn	27,867,218	806,264	2.9	3.2	(80,678)	(5,021)	424,917	
Federal Way	1,593,185	129,574	8.1	8.4	(11,843)	(836)	1,507,581	
Sumner	19,386,608	823,286	4.2	6.4	(124,659)	402,904	0	
Kent Valley	131,397,294	5,397,683	4.1	5.7	279,717	1,449,081	2,685,065	0.96
Port of Tacoma	12,580,815	192,877	1.5	2.7	(75,600)	631,430	0	
Tacoma West	5,580,999	191,323	3.4	2.0	(924)	28,214	405,583	
Fife	13,231,030	371,985	2.8	6.5	(141,632)	(95,480)	27,200	
Puyallup	7,989,140	316,747	4.0	4.2	(275,893)	33,328	274,690	
Frederickson	10,832,325	847,362	7.8	4.6	129,050	905,156	3,236,697	
Lakewood	6,986,236	367,841	5.3	4.4	96,032	592,669	10,400	
DuPont	4,635,287	36,356	0.8	0.8	(5,316)	448,033	0	
Gig Harbor	757,586	155,916	20.6	22.7	(18,400)	67,525	0	
Tacoma/Fife	62,593,418	2,480,407	4.0	4.2	(292,683)	2,610,875	3,954,570	0.89

Source: CBRE Research, Q1 2023

Investment Sales

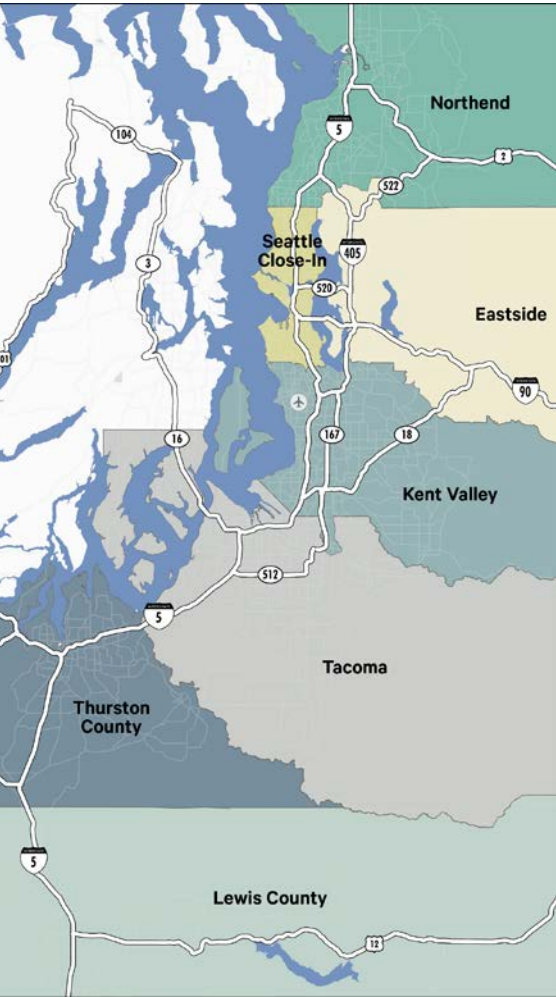
Investment sales activity in the Puget Sound region continued to stall, similar to Q4 2022, due to high interest rates and increasing construction costs. Total sales accumulated to \$159 million, a decrease of \$458.5 million from Q4 2022. Average cap rates in Q4 2022 were 4.7% according to Real Capital Analytics. Given economic constraints, investors have become much more cautious. Key sales include 80th Street Center in Everett, WA, which sold for \$21.1 million or \$322 per sq. ft. The 65,344 sq. ft. warehouse, built in 2017, and has capacity to have an additional 32,000 sq. ft. built out, The buyer was Foremost Fuji Corporation and the seller was MTorres America, Inc., both owner-users. BKM sold the eight-building Federal Way Business Park for \$29.5 million, or \$214 per sq. ft. The other notable sale this quarter was 1709 Airport Way S, a warehouse in Seattle, which closed for \$21 million or \$591.55 per sq. ft. The buyer was Swickard Auto Group and the seller was Lift Partners.

FIGURE 8B: Statistics by Submarket

SUBMARKET	Inventory	Total Vacant (SF)	Total Vacancy Rate (%)	Total Availability Rate (%)	Q1 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	73,364	3.6	5.2	(39,259)	(17,680)	0	
I-90 Corridor	2,589,511	78,772	3.0	13.2	(9,196)	26,255	0	
Kirkland/Totem Lake	2,443,603	348,137	14.2	4.3	(227,113)	(158,467)	0	
Overlake	704,781	45,577	6.5	11.1	(3,583)	(5,615)	0	
Marymoor	3,672,768	20,686	0.6	2.4	108,458	133,326	0	
Willows	3,834,195	263,290	6.9	8.3	(61,592)	(53,456)	0	
Bothell	3,693,624	464,549	12.6	12.7	(38,989)	(66,888)	46,200	
Woodinville/Maltby	6,886,356	197,147	2.9	4.9	(28,538)	(41,030)	0	
Eastside	25,855,365	1,491,522	5.8	7.1	(299,812)	(183,555)	46,200	1.76
Lynnwood/Edmonds/ Mtlk Terrace	2,600,648	55,446	2.1	3.2	(9,702)	(50,150)	0	
Monroe	1,915,956	4,922	0.3	2.4	22,020	47,706	127,000	
Mukilteo	2,922,550	187,183	6.4	7.6	34,915	121,414	58,221	
Everett	10,117,763	658,434	6.5	7.0	(89,848)	51,323	485,683	
No. Snohomish	4,492,792	464,831	10.3	4.4	127,643	597,719	623,516	
Northend	22,049,709	1,370,816	6.2	5.7	85,028	768,012	1,294,420	1.04
Puget Sound (3-county)	292,669,784	14,136,839	4.8	5.7	(495,612)	4,179,920	8,672,707	1.14
Whse/Bus Pk/Manuf	281,924,701	12,835,979	4.6	5.4	(492,470)	4,283,886	8,672,707	1.06
Flex	10,745,083	1,300,860	12.1	13.7	(3,142)	(103,966)	0	1.96
Lacey	12,162,893	457,640	3.8	2.5	90,051	360,170	64,000	
Olympia	822,123	0	0.0	0.0	0	0	0	
Tumwater	4,181,642	43,526	1.0	1.0	(17,155)	1,179,803	461,345	
Outlying Thurston	77,250	0	0.0	0.0	0	0	0	
Thurston County	17,243,908	501,166	2.9	2.0	72,896	1,539,973	525,345	0.65
Lewis County	5,638,167	0	0.0	0.8	0	215,000	224,884	0.45
Five-County Total	315,551,859	14,638,005	4.6	5.4	(422,716)	5,934,893	9,422,936	1.11

Source: CBRE Research, Q1 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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