

Industrial Highlights

Seattle-Bellevue | Q4 2014



Strong tenant demand and new development during the past year have made 2014 one of the best years for the industrial market in recent memory.

Economy

Driven by the rapidly expanding technology industry, Seattle's economy has hit a new all-time non-farm employment peak and boasts one of the lowest unemployment rates of any major metro area, with the local unemployment rate 110 basis points below the national average. The most recent employment forecast from the Puget Sound Economic Forecaster calls for impressive job growth of 2.6 percent in 2015. Current figures show that unemployment in November 2014 stood at 6.2 percent statewide and 4.7 percent in the Seattle-Bellevue-Everett area. Over the past 12 months, a total of 50,600 jobs have been added in the Seattle area. Of interest to the industrial market has been the strong job growth in both the trade, transportation and utilities sector as well as the construction sector.

Market Conditions

2014 marked the strongest year for the Puget Sound industrial market in recent history. The dominant story throughout the year was "new development," as over two million square feet of new product hit the market and an additional 3.7 million square feet of development is currently under way. Just about all of the new construction was delivered in the Southend markets, which include Seattle, the Kent Valley and Pierce County. The Northend and Eastside markets have seen performance vary widely quarter to quarter, but are generally heading in the right direction with both markets having a vacancy rate below 7 percent and an increasing number of construction projects in the pipeline. Boeing's announcement at the beginning of the year to keep production of the 777X in the region has provided a strong boost for the aerospace industry in and around Everett. This is translating to increased demand and increased rental rates in that submarket.

Overall, tenant demand in the region has been very strong in 2014. Almost 5 million square feet of net positive absorption was posted during the year with a number of large deals still in the pipeline. Market conditions remain landlord favorable in a vast majority of submarkets for serviceable industrial product, with those landlords controlling state-of-the-art-product, firmly in the drivers seat. Concessions have been steadily decreasing with less free rent offered and other concessions also being pulled back.



Arrows represent change from prior quarter

Rental rates have been on the rise during the past year, increasing by about 20 percent since the end of 2013. During the recession, rental rates fell dramatically, as landlords scrambled to attract and retain as many tenants as possible. As the local and national economies began to strengthen and the commercial real estate market in Puget Sound gained momentum, tenant activity began to heat up in 2014. As a result, landlords were able to push rents higher and be more selective in which tenants they wanted to do deals with. Average monthly blended rental rates in the Southend are now hitting \$0.49 per square foot, which is just below the previous market peak of \$0.52 per square foot in Q3 2008, further illustrating market momentum.

Outlook

Tenant activity will remain strong for the foreseeable future, especially in the Southend markets. New supply will begin to match demand towards the end of 2015, at which point rental rates will begin to level off. With 2 million square feet of development delivered in 2014, and a significant amount of new development currently in the pipeline, the market will begin to shift towards balanced conditions between landlords and tenants. Warehouse and Distribution facilities will see the majority of activity in the coming months, as the vast majority of tenants currently in the market are looking for that type of space.

Leasing activity

Seattle

- Direct Connect Group leased 133,532 square feet at 4401 E Marginal Way S in Seattle.
- Food Lifeline signed a lease for 117,305 square feet at 9600 8th Ave S in Seattle.
- RSVP International took 42,302 square feet at 4450 E Marginal Way S in Seattle.

Pierce County

- Composite Solutions started their 104,840 square foot lease at 14810 Puyallup St E in Sumner.
- LJ Smith signed a 51,066 square foot lease at IAC Port 167, Building B.

Northend

- Terry's Machine & Manufacturing Inc. began their 39,675 square foot lease at the Everett Commerce Center, Building I in Everett.
- HDI Landing Gear USA signed a lease for 21,389 square foot at Powder Mill Business Center, Building in Everett.
- Giddens Industries took 48,757 square feet at 2300 Merrill Creek Pky in Everett.

Kent Valley

- Food Lifeline moved into 76,280 square feet at 9600 8th Ave S in Tukwila in addition to their 117,305 square foot lease in Seattle.
- International Auto Logistics moved into 106,427 square feet at 654 Milwaukee Ave N in Algona.
- Composite Solutions started their 104,840 square foot lease at 14810 Puyallup St E in Sumner.
- KW International took 70,985 square feet in Auburn at 4810 D St NW.
- ATC Inc. began their 18,050 square foot lease at Valley Corporate Center.

Tenants in the market

- Office Deport is currently in the market for around 170,000 square feet in the Southend.
- Supervalu has a 150,000 requirement in the Southend.
- Coastal Pacific currently has a 150,000 square foot requirement in the Southend.
- Sherwin Williams is currently looking for up to 150,000 square feet of distribution space in the Northend.
- Wet Noses has a 120,000 square foot manufacturing requirement and is considering both the Eastside and Northend submarket clusters.
- Pacifica Engineering is looking for 100,000 square feet in Everett.

Tenants in the market continued

- ABC Rental/CORT has a 100,000 square foot requirement in the Northend and is focused on Everett.
- Cabella's is looking for 59,000 square feet in Pierce County and is considering Fife.

Sales activity

Eastside

- The Park at Woodinville portfolio, totaling 239,607 square feet, sold in October for \$29,690,000. KBS Realty Advisors purchased the 5 Warehouse properties from Colony Realty Partners for \$123.91 per square foot as an investment.

Kent Valley

- The Kent 167 Distribution Center at 27232 72nd Ave S sold for \$19,300,000 (\$53.44/s.f.) in October. KTR Capital Partners LP purchased the 361,120 square foot building from K&H Sutter Company as an investment.

Seattle

- Two buildings at 8801 E Marginal Way S, totaling 461,980 square feet sold for \$31,900,000 (\$69.05/s.f.). CenterPoint Properties purchased the portfolio from Washington Real Estate Holdings LLC as an investment opportunity in November.

Pierce County

- 2800 Center Drive sold for \$41,000,000 in November. Fortress Investment Group LLC purchased the 3 building, 1,010,000 square feet portfolio from Intel Corporation. The property will be owned and occupied by the new owner. The portfolio consists of 2 Class B Telecom buildings and a 370,000 square foot Manufacturing building. The Manufacturing building was priced at \$28.02 per square foot.

Construction activity

New construction has been most prevalent in the Southend markets of Seattle, the Kent Valley and Pierce County. There have been a number of recent BTS projects, such as a 1.1 million square foot distribution facility for Amazon, but the majority of new development has been speculative. There are currently 3.7 million square feet under construction, with 2.0 million square feet already having been delivered in 2014. Some notable construction projects currently under way include:

- Stryker Business Center, Phase II is an 811,000 square foot distribution facility in Kent, which will be occupied by Amazon upon completion in Q3 2015.
- Port 167, Building A will be a 398,753 square foot facility in Puyallup, which will deliver in Q1 2015.

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