

# Industrial Highlights

Seattle-Bellevue | Q1 2015



*New development was the main story in 2014 and the same will be true for 2015. Over 2 million square feet were delivered last year and over 3 million square feet is currently under construction.*

## Economy

Driven by the rapidly expanding technology, trade transportation/utilities and construction industries, 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 80 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 February 2015 stood at 6.2 percent statewide and 4.7 percent in the Seattle-Bellevue-Everett area. Over the past 12 months, a total of 60,860 jobs have been added in the Seattle area.

## Market Conditions

The Seattle-Bellevue industrial market started 2015 with significant net absorption, totaling over 664,000 square feet. Mostly centered in the Southend, leasing activity remained relatively high. Tenant demand from mid- to large-sized users remains steady and continues to drive new development projects. New product is being absorbed about as fast as it's being built and the 3.7 million square feet currently in the pipeline will likely continue that trend.

Overall market-wide vacancy decreased to 4.1 percent, down from 4.4 percent at the end of 2014. The Southend market has the lowest vacancy rates in the region. The Seattle market cluster has seen vacancy drop to an astounding 2.2 percent. This is due to high tenant demand and a lack of space to build new product. Vacancy in the Kent Valley dropped to 3.3 percent, but has over 1.4 million square feet of new product currently in the pipeline. Pierce County, which has over 1.9 million square feet of new development on the way, has seen vacancy drop to 5.3 percent in the first quarter of 2015. The Eastside and Northend markets still have the highest vacancy rates in the region, 6.7 and 5.4 percent respectively, but are trending in the right direction.

Rental rates have been increasing for some time, up by 9.8 percent year-over-year, and are likely to begin leveling off in the next 12 months.



Arrows represent change from prior quarter

With few current options for large users, many tenants of significant size are looking to new development, in order to meet their space needs. It is likely that a number of new projects will break ground this year, adding to the influx of new product. It will take some time for development to catch up to current demands, so the possibility of over development remains low for at least the next twelve months.

## Outlook

Overall tenant will remain strong for the next 12 to 18 months, especially in the Southend. New supply will begin to match demand towards the end of 2015, which will begin the shift towards more balanced market 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. Most of the absorption over the past two years has been from warehouse/distribution users. Rental rates will begin to level off at the end of the year and that trend will continue into 2016.

The Eastside and Northend markets have made strides in recent quarters and are starting to see increasing rental rates as well. Boeing has always been a strong market driver in the region and will continue to be so, moving forward.

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## Leasing activity

### Pierce County

- SuperValu began its lease of 153,790 square feet at Fife Commerce Center, Building A.
- American Hotel Register signed a 107,790-square-foot lease at the Titan Building in Sumner.
- Composite Solutions leased 104,850 square feet at the DCT Sumner South Distribution Building in Sumner.
- Cabela's signed a 59,824 square foot lease at IAC 167 in Puyallup.
- GKN Aerospace signed a 56,860-square-foot lease at the DCT Pacific Coast Metals Building in Sumner.

### Eastside

- Privateer Press signed a blend & extend lease for 40,389 square feet at the MGI Building in Bellevue and will begin its occupancy in Q3.

### Northend

- The Boeing Company began its 312,000-square-foot lease at the old Intermec Building in Everett.
- NIC Global began its 105,000-square-foot renewal at the Woodinville Business Center.

### Kent Valley

- Kimberly Clark renewed a lease for 516,748 square feet at 22001 84<sup>th</sup> Ave S, Kent.
- Brighton Best leased 120,599 square feet at Stryker Business Center, Building 1A in Kent.
- WESCO began its lease of 120,000 square feet at the North 405 Building in Renton.
- Hexacomb Corporation signed a 60,812-square-foot lease at the Valley Centre Corporate Park in Auburn.
- Scholastic Book Fairs renewed its lease for 44,712 square feet at the Ketcham Auburn Building.
- Pitney Bowes Presort Services began its lease renewal at 8030 S 216<sup>th</sup> St, Kent for 44,760 square feet.

## Tenants in the market

- Coastal Pacifico currently has a 150,000-square-foot requirement in the Southend.
- Domtar is looking for up to 125,000 square feet either in the Kent Valley or Pierce County markets.
- 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.

## Sales activity

### Kent Valley

- West Valley Corporate Park at 6520 S 190<sup>th</sup> St in Kent, totaling 214,974 square feet, sold for \$18.5 million (\$86 per square foot). Gramercy Property Trust purchased the portfolio from LBA Realty in March.
- The Algona II Distribution Center in the Auburn submarket sold for \$28.3 million (\$107 per square foot) in January. Precision CastParts Corp. purchased the 263,291-square-foot building from Clarion Partners and plans on occupying roughly 55 percent of the property.
- The Olympic Industrial Park, at 19111 Des Moines Memorial Drive, Des Moines, totaling 94,000 square feet, sold for \$6.4 million (\$68 per square foot) in January. Columbia Pacific Management purchased the property from an individual by the name of Gary Graber in a 1031 exchange. The property was 87 percent leased at the time of sale.

### Pierce County

- Lakewood Business Park at 10025-10111 S Tacoma Way in Tacoma sold in January for \$9.9 million (\$75 per square foot). WLA Investments, Inc. was the buyer and Public Storage, Inc. was the seller. The six-building park, totaling 132,496 square feet, was 83 percent leased at the time of sale.

## 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 is currently 3.7 million square feet under construction, with 2.0 million square feet 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 the third quarter and bring the company's tenancy in the park to 1.1 million square feet.
- Port 167, Building A will be a 398,753-square-foot facility in Puyallup, which will deliver in the second quarter.

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