

Industrial Q3 2022

YoY Chg 12-Mo. Forecast

3.7%
Vacancy Rate

-353K
Net Absorption, SF

\$0.95
Asking Rent, PSF

Overall, Monthly Net Asking Rent

ECONOMIC INDICATORS
Q3 2022

YoY Chg 12-Mo. Forecast

2.1M
Seattle
Employment

3.0%
Seattle
Unemployment Rate

3.5%
U.S.
Unemployment Rate

Source: BLS

ECONOMY: Industrial Sector At Full Recovery

The industrial sector has been largely unaffected by the pandemic and the recent economic turmoil. Employment in the greater Seattle area reached 2.1 million jobs in the third quarter, up 89,500 jobs year-over-year (YOY). The unemployment rate dropped 150 basis points (bps) YOY to 3.0%, just below the US unemployment rate of 3.5%. The labor market appears to have returned to pre-pandemic levels.

SUPPLY AND DEMAND: Vacancy Stable, Absorption Down

The Seattle industrial market reported a vacancy rate of 3.7% in the third quarter of 2022, down 210 bps YOY. Vacancy remained stable between quarters. Vacancy was highest in the South Sound at 6.8% (down 890 bps YOY) and lowest in North Pierce County at 2.2% (down 310 bps YOY). The market appears to be at a crossroads: steady demand for premium space is indicating a continued decline in vacancy; however, uncertainty in the market, coupled with nearly 1.3 million square feet (msf) of space due to deliver vacant by the end of the year, may lead to vacancy heading in the opposite direction.

Overall absorption for the quarter was reported at -353,000 square feet (sf), a substantial decrease from the 3.1 msf reported a year ago. Despite this, YTD absorption was 4.1 msf, so absorption should actually end the year in the black.

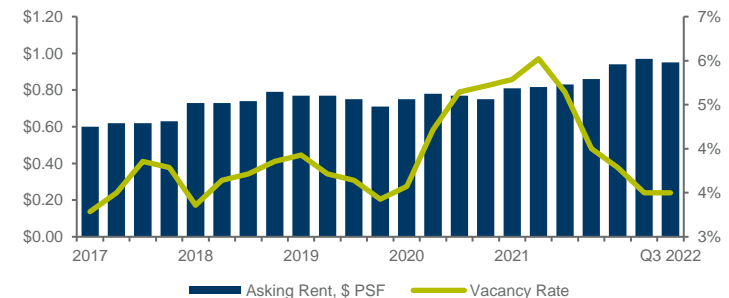
PRICING: Average Rents Close To \$1.00 Mark

The Seattle industrial market asking rents increased to an average of \$0.95 per square foot (psf) on a monthly triple-net (NNN) basis, a YOY increase of 14.4% (+\$0.12). The rents were highest in the Seattle In-City market (\$1.27 psf) and the submarkets of University Place (\$2.12 psf), Puyallup (\$1.37 psf), and Parkland/Spanaway (\$1.18 psf). The market has seen strong rent growth throughout the year, though prices are expected to even out heading into the final quarter, due to stabilizing vacancy rates, large projects delivering vacant, and a slowdown in leasing activity. Rent is likely to rise again in 2023 as occupiers scoop up more space in the South Sound.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



CONSTRUCTION: 2.6 MSF Delivered YTD

The Seattle industrial market inventory welcomed 2.6 msf of new space through the first three quarters of 2022, with First Steele in the Lakewood submarket the lone Q3 delivery. Over 630,000 sf of new space is available for lease. Approximately 10.3 msf was under construction at the end of the quarter, including FRED310 (3.5 msf) in the Frederickson submarket and Bridge Point Seattle I-5 (1.5 msf) in the Fife/Milton submarket. Approximately 7.7 msf of the space under construction is available for prelease. Nearly 2.6 msf of the space under construction is due to deliver by the end of the year. Another 16.1 msf of proposed space is in the pipeline.

The South Sound market features 4.5 msf of space under construction and 4.8 msf of proposed space. The market has proven to be popular with developers and occupiers alike due to developable land there being less expensive, rental rates being lower than the Seattle and Kent Valley markets, and its proximity to the labor market.

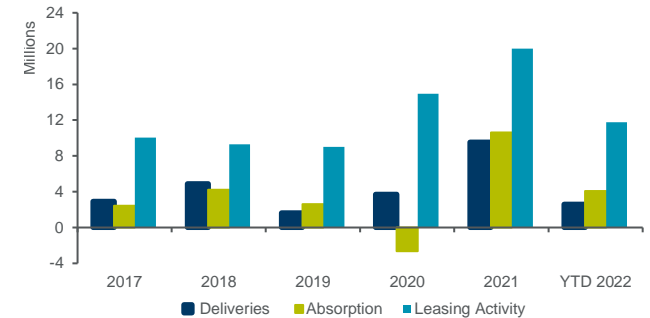
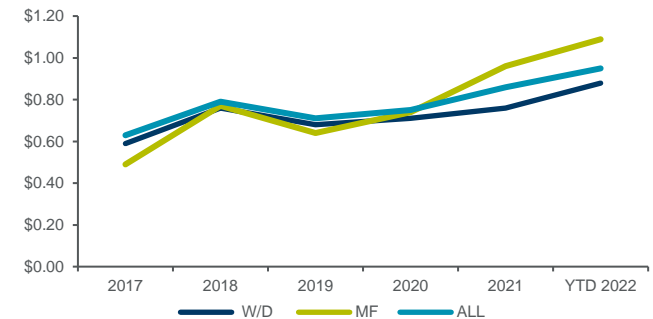
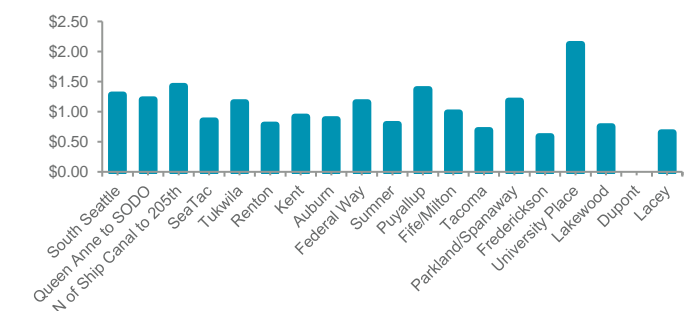
LEASING ACTIVITY: 11.8 MSF Leased YTD

Leasing activity in the Seattle market reached 11.8 msf at the end of the third quarter. Notable Q3 deals included NFI taking 258,000 sf at Rainier Park of Industry – Bldg 7 in the Sumner submarket, Maersk leasing 246,000 sf at Starlite Distribution Center in the Lakewood submarket, Stokes Industries preleasing 157,000 sf at Pacific Gateway Business Park – P-201 in the Kent submarket, and Northwest Premier Delivery subleasing just over 95,000 sf at North Valley 64, also in the Kent submarket.

Leasing has slowed through the year, with activity dropping each quarter (5.6 msf in Q1, 3.4 msf in Q2, and 2.1 msf in Q3); the YTD figure is below the 15.0 msf reached at this point in 2021. The year-end (YE) figure is unlikely to match 2021's YE total of 19.1 msf; while there is solid demand for space under 200,000 sf, demand has softened on larger blocks of space.

OUTLOOK

- The Puget Sound industrial market is nearly fully recovered from the pandemic, as rents and vacancy have reached pre-pandemic levels. The region will ride this momentum throughout 2022 and beyond.
- 3PL & e-commerce occupiers have been instrumental in driving the rise in leasing activity and will continue to do so. Many logistics firms have focused on renewals.
- Absorption will end the year in the positive due to occupiers signing deals for large blocks of space.
- Rents are forecasted to stabilize for Q4 but rise in the long term due to the market's traditionally low vacancy, new construction coming online, and increasing tenant demand.

NEW SUPPLY, ABSORPTION, & LEASING ACTIVITY**AVERAGE ASKING RENT (\$PSF NNN MONTHLY)****RENT BY SUBMARKET (\$PSF NNN MONTHLY)**

MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	OVERALL VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	UNDER CONSTRUCTION (SF)	OVERALL WEIGHTED AVG NET RENT (HT)	OVERALL WEIGHTED AVG NET RENT (OS)	OVERALL WEIGHTED AVG NET RENT (MF)	OVERALL WEIGHTED AVG NET RENT (W/D)	OVERALL WEIGHTED AVG NET RENT
South Seattle	36,425,221	1,191,597	3.3%	-186,707	-177,591	343,008	\$2.04	\$1.57	\$1.26	\$1.21	\$1.28
Queen Anne to SODO	5,278,477	397,643	7.5%	48,603	17,177	0	\$0.00	\$1.28	\$1.32	\$1.08	\$1.20
N of Ship Canal to 205 th	2,874,725	115,976	4.0%	2,766	99,135	0	\$0.00	\$1.98	\$1.15	\$1.39	\$1.42
SEATTLE IN-CITY	44,578,423	1,705,216	3.8%	-135,338	-61,279	343,008	\$2.04	\$1.62	\$1.28	\$1.20	\$1.27
SeaTac	6,613,001	27,472	0.4%	-8,555	73,325	0	\$0.00	\$0.00	\$0.00	\$0.85	\$0.85
Tukwila	13,224,038	708,512	5.4%	-25,590	-163,128	414,528	\$1.25	\$1.21	\$0.00	\$1.13	\$1.15
Renton	15,344,002	409,612	2.7%	67	-178,607	0	\$0.00	\$1.08	\$0.00	\$0.91	\$0.78
Kent	47,975,291	2,339,898	4.9%	-70,911	954,221	1,190,071	\$1.09	\$1.20	\$1.18	\$0.88	\$0.91
Auburn	29,701,921	571,364	1.9%	23,382	195,013	440,248	\$0.00	\$0.99	\$0.90	\$0.87	\$0.87
Federal Way	1,325,657	6,763	0.5%	3,820	-3,887	440,490	\$0.00	\$0.00	\$0.00	\$1.15	\$1.15
SO. KING COUNTY	114,183,910	4,063,621	3.6%	-77,787	876,937	2,485,337	\$1.19	\$1.20	\$1.02	\$0.94	\$0.94
Sumner	17,681,269	498,835	2.8%	-170,235	658,829	1,228,555	\$0.00	\$0.00	\$0.00	\$0.78	\$0.79
Puyallup	7,315,522	219,254	3.0%	129,147	480,879	0	\$1.54	\$0.00	\$0.00	\$0.89	\$1.37
Fife/Milton	13,578,899	130,244	1.0%	53,829	89,183	1,496,215	\$0.00	\$0.00	\$0.00	\$0.98	\$0.98
Tacoma	23,241,994	504,574	2.2%	-117,897	-3,499	248,033	\$0.00	\$0.00	\$0.68	\$0.71	\$0.69
NO. PIERCE COUNTY	61,817,684	1,352,907	2.2%	-105,156	1,225,392	2,972,803	\$1.54	\$0.00	\$0.68	\$0.80	\$0.92
Parkland/Spanaway	986,478	8,089	0.8%	-1,824	-1,015	0	\$0.00	\$0.00	\$0.00	\$1.18	\$1.18
Frederickson	9,750,986	549,099	5.6%	0	1,128,850	4,317,298	\$0.00	\$0.00	\$0.00	\$0.59	\$0.59
University Place	220,477	4,930	2.2%	0	-3,346	0	\$0.00	\$0.00	\$0.00	\$2.12	\$2.12
Lakewood	6,723,734	682,106	10.1%	6,245	535,324	50,218	\$0.00	\$0.00	\$0.00	\$0.89	\$0.75
Dupont	4,663,054	525,940	11.3%	0	-31,040	0	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Lacey	9,109,895	356,243	3.9%	-39,065	401,928	87,060	\$0.00	\$0.00	\$0.00	\$0.64	\$0.65
SOUTH SOUND	31,454,624	2,126,407	6.8%	-34,644	2,030,701	4,454,576	\$0.00	\$0.00	\$0.00	\$0.71	\$0.69
SEATTLE TOTALS	252,034,641	9,248,151	3.7%	-352,925	4,071,751	10,255,724	\$1.54	\$1.31	\$1.09	\$0.92	\$0.95

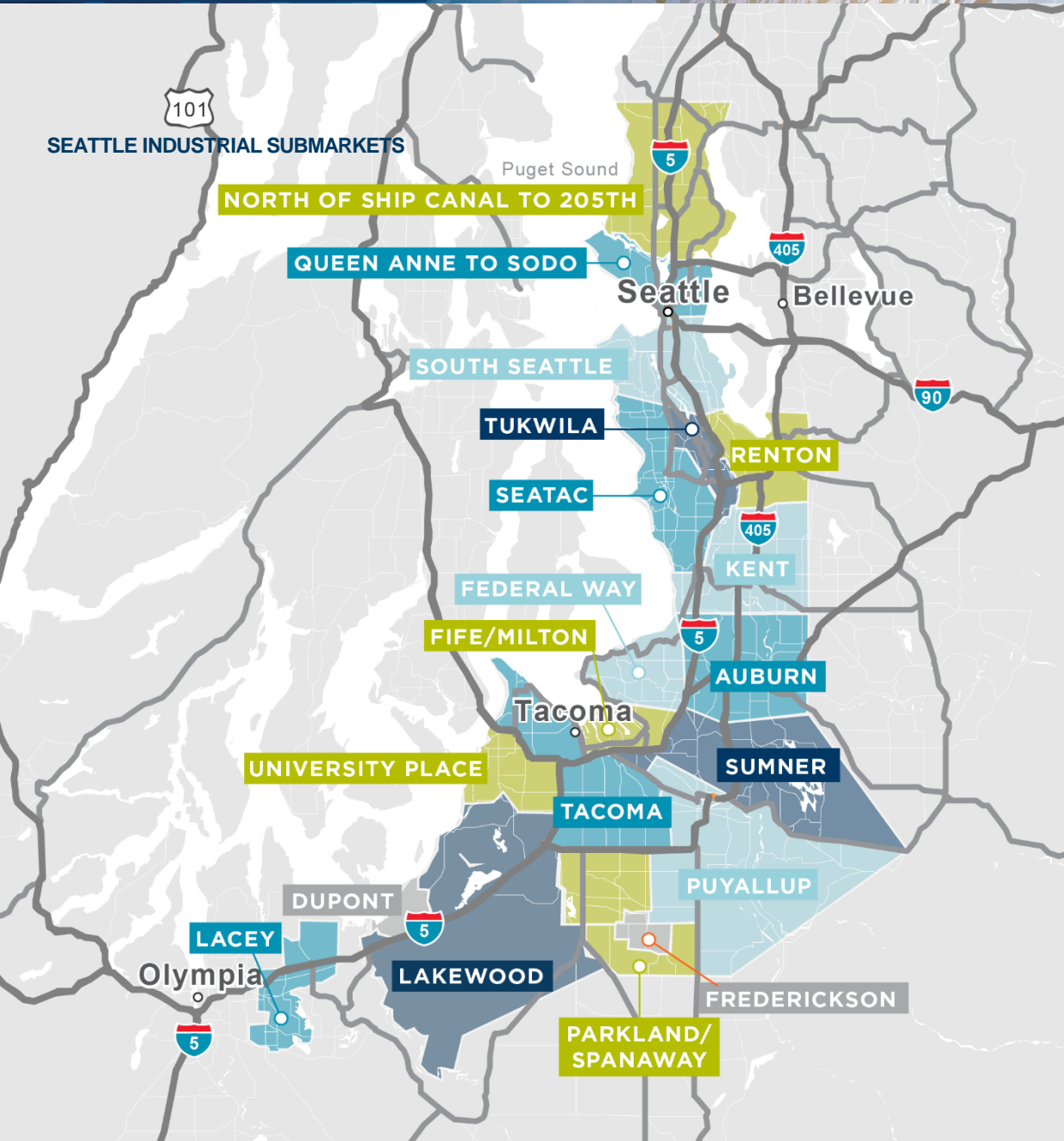
KEY LEASE TRANSACTIONS Q3 2022

*Rental rates reflect weighted net asking \$psf/month HT = High-Tech OS = Office Service/Flex MF = Manufacturing W/D = Warehouse/Distribution

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
Rainier Park of Industry - Bldg 7	Sumner	NFI	257,775	New
Starlite Distribution Center	Lakewood	Maersk	245,987	New
Pacific Gateway Business Park – P-201	Kent	Stokes Industries	156,825	New

KEY SALES TRANSACTIONS Q3 2022

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
22408-22434 76 th Ave S (Fmr Holman DC)	Kent	Holman Logistics / Lift Partners	385,808	\$106.1M/\$275
Nalley Valley Industrial – Bldgs C & D	Tacoma	Fortress Investment Group / Dig Down Media	60,000	\$11.5M/\$192

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