



Puget Sound Industrial Market

Market Activity Slows Amid Economic Uncertainty

The Puget Sound industrial market cooled slightly over the second quarter of 2022 as inflation rose and fears over the potential for recession grew. The Fed has taken unprecedented measures to increase interest rates to combat inflation, which is currently being reported at 8.6%. The impact on the market was swift, causing some turbulence in the investment market due to the uncertainty of debt costs. Despite a slowdown in sales activity, the leasing market has remained strong.

Logistics and warehouse product in the Puget Sound region remain in high demand and subleasing activity is virtually non-existent, a critical indicator of the market's health. Development activity continues to surge with 10.5 million square feet under construction, though the entitlement and construction process for new industrial projects has lengthened – in total by around 25% on average since 2019. Delays have been caused by two years of challenges that are unlikely to subside during the remainder of 2022, including supply chain and sourcing pains, labor constraints, high interest rates, and a local concrete strike. These factors impact both developers, who are now working in an inflationary-cost environment, and tenants who have quick occupancy requirements amid Seattle's record-low industrial vacancy.

Current Conditions

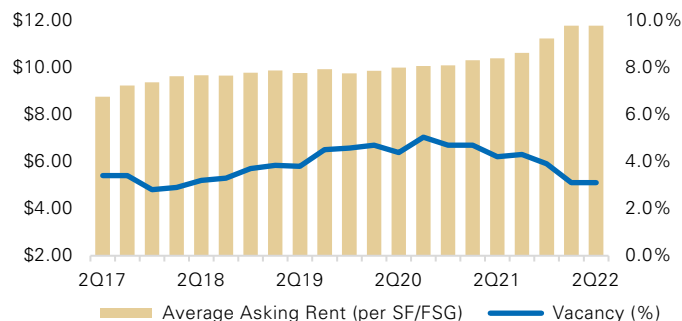
- Average asking rents remained flat at \$11.77/SF NNN, an all-time high for the second quarter in a row.
- 2.5 million square feet of new product delivered; 10.5 million square feet remain under construction.
- The Northend submarket leads new construction with 4.5 million square feet of development underway.
- Total net absorption for the second quarter was 2.2 million square feet.

Market Summary

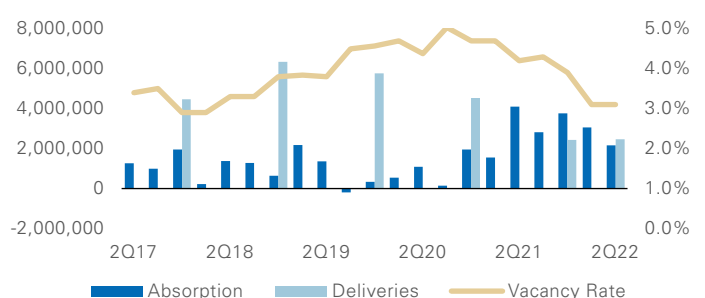
	Current Quarter	Prior Quarter	Year Ago	12-Month Forecast
Total Inventory (SF)	312M	309M	304M	↑
Vacancy Rate	3.1%	3.1%	4.5%	↓
Quarterly Net Absorption (SF)	2.2M	3.4M	3.3M	↓
Average Asking Rent/SF	\$11.77	\$11.77	\$10.44	↑
Under Construction (SF)	10.5M	10.1M	14.0M	↓

Market Analysis

Asking Rent and Vacancy Rate



Net Absorption v. Construction Deliveries & Vacancy Rate (SF)



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Seattle has one of the highest preleasing rates in the country (over 60%), and tenants with near-term requirements will continue to face competition for limited supply, especially in desirable submarkets with low volumes of spec construction where demand is well-outpacing supply additions, such as in the Southend submarket. Despite the likelihood of historically-high tenant demand for industrial space decelerating in the mid-term, some expected developer pullback in the next six to twelve months may precipitate even tighter supply conditions further down the road for Puget Sound.

The regional vacancy rate is historically low at 3.1%, remaining flat from the previous quarter. Average asking rents also remained unchanged at \$11.77/SF NNN. Total net absorption for the second quarter of 2022 was 2.2 million square feet, bringing the year-to-date total to 5.5 million square feet.

Pierce County

Pierce County posted positive fundamentals for the second quarter of 2022. The submarket saw robust leasing activity and high tenant demand and low vacancy supported an average asking rent of \$8.38/SF NNN. Overall vacancy dropped to 3.6%, down 30 basis points for the quarter and 420 basis points from its

peak in the third quarter of 2020. The submarket saw 1.7 million square feet of net absorption this quarter, approximately 80.0% of the Puget Sound total net absorption.

Several notable deals were inked during the second quarter of 2022, including Vector and Carlyle leasing their American Lake Logistics 155,000-square-foot, newly-constructed building in Lakewood to Schylling. In the largest lease transaction of the quarter, UNIS leased 416,492 square feet at DCT Blair Distribution Center in Tacoma.

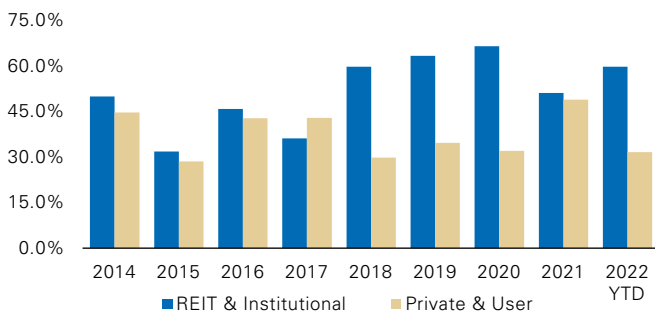
Southend

The Southend submarket remained resilient throughout the second quarter of 2022, with average asking rents rising to \$10.11/SF NNN, up 3.8% from the previous quarter.

While there is strong tenant demand for well-located distribution buildings of over 100,000 square feet, inventory is tight, especially in the sought-after Kent Valley cluster. Regional companies are more frequently interested in spaces of 20,000 to 30,000 square feet, another tough requirement to fill. As a result, landlords throughout the Southend submarket are pushing rates for these smaller spaces that serve local businesses.

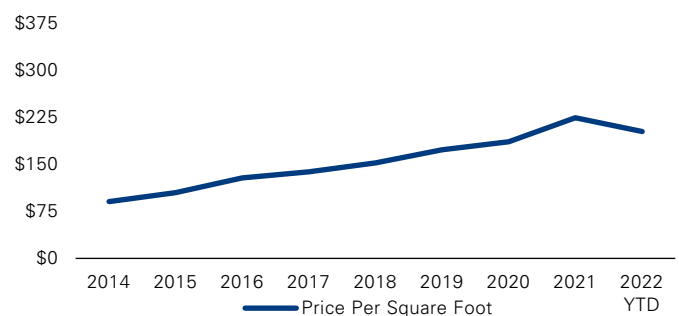
Investment Activity

Buyer Composition (%)



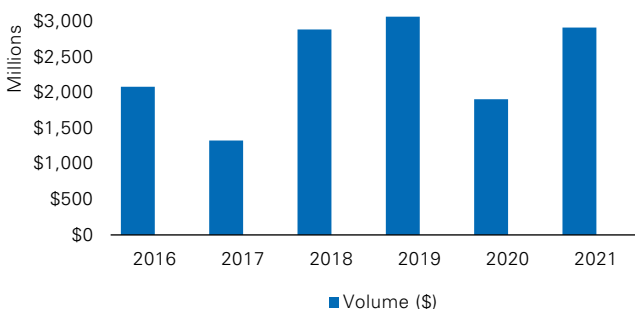
Pricing Analysis

Average Sale Price Per Square Foot (\$/SF)



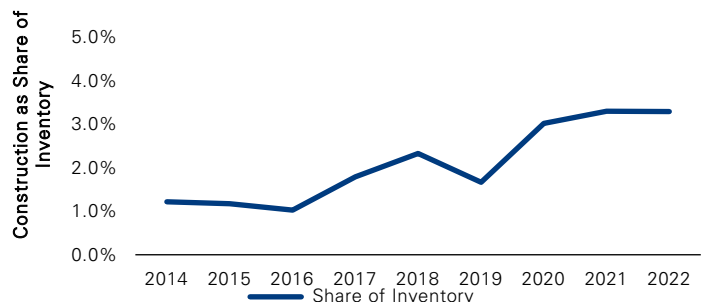
Sales Volume

Annual Sales Volume (\$)



Rate of Development

Construction as % of Building Inventory



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Quarterly net absorption remained relatively neutral over the second quarter of 2022, and vacancy sits at 3.6%, down 160 basis points from its peak in the fourth quarter of 2020. Lease rates on the Southend are expected to continue to climb in the short-term, as the vacancy rate is still historically very low in the Kent Valley and its surrounding clusters. Tenant demand is also expected to continue as companies largely remain unphased by inflation fears. As prices rise, costs are passed onto customers. The development pipeline remains full, with 2.3 million square feet of new product underway.

Notable transactions in the second quarter of 2022 include the signing of a 221,200-square-foot lease in Van Doren's West Building by Talking Rain and the leasing of 300,000 square feet of space at Northwest Corporate Park by Cube Work.

Northend

The Northend continues to lead development in the region, with a staggering 4.5 million square feet under construction. Asking rents averaged \$10.57/SF NNN, up 3.9% year-over-year. Quarterly net absorption was a modest 304,170 square feet, mainly due to a lag in delivery of preleased space. Vacancy remained flat at 2.0%, down 180 basis points from its peak during the second quarter of 2021.

In the Everett cluster, On Track Logistics signed a lease for 234,175 square feet at Baywood Park. The development is still

under construction, though it is expected to be move-in ready before the end of the year.

Thurston County

The conditions in Thurston County and along the I-5 Corridor remain positive. The historically budget-friendly market has seen nearly all its new inventory absorbed, with vacancy at just 2.6%. The lack of inventory combined with tenant demand has led to continued interest in land sites, and Exeter recently announced plans for a 357,000-square-foot development in Grand Mound. The I-5 Logistics Hub, as it will be named, adds to the developer's growing portfolio along the I-5 Corridor.

Future Outlook

The second quarter of 2022 showed that while local industrial fundamentals have remained steady, the pace of growth has slowed due to economic conditions. Market conditions, in particular capital markets, have become tenuous in the region and throughout the country as high interest rates, inflation concerns, and a tight labor market weigh on public sentiment.

The next several quarters are critical, but the long-term outlook for the Puget Sound region is encouraging. Until there is a perceptible change in the American consumer's outlook, the market should remain healthy and steady and the land-constraint dynamic in the region will continue to insulate it against broader risks.

Select Sales Transactions

Building	Submarket	Sale Price	Price/SF	Square Feet
Rockwell Collins	Marysville/Everett	\$58,700,000	\$244	240,500
3900 South Norfolk Street	South Seattle	\$40,015,000	\$1,181	33,880
Totem Valley Business Park	Redmond/Kirkland/Bellevue	\$40,000,000	\$381	105,115
Rainier Industries	Renton/Tukwila	\$34,800,000	\$266	130,640
1901 Fryar Avenue	Sumner/Puyallup	\$25,000,015	\$147	169,888

Select Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
UNIS	DCT Blair Distribution Center	Fife/Tacoma	Direct/New	416,492
Holman Distribution Center	4663 196 th St E	Fife/Tacoma	Direct/New	352,801
Cube Work	Northwest Corporate Park	Kent	Direct/New	300,000
On Track Logistics	Baywood Park	Marysville/Everett	Direct/New	234,175
Talking Rain	Van Doren's West	Kent	Direct/New	221,200
Schylling	American Lake Logistics	Lakewood/Dupont	Direct/New	158,579

Submarket Statistics						
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Quarter Absorption (SF)	YTD Absorption (SF)	Direct Asking Rent (Price/SF)
Northend	32,891,853	4,535,656	2.0%	304,170	555,353	\$10.57
Lynnwood/Shoreline	4,074,547	-	1.6 %	-9,000	16,218	\$15.00
Marysville/Everett	28,817,306	4,535,656	2.1 %	313,170	539,135	\$10.52
Eastside	29,097,706	127,000	2.3%	193,377	197,323	\$22.56
Issaquah/North Bend	4,534,628	-	0.5 %	-	55,566	\$18.03
Redmond/Kirkland/Bellevue	13,196,695	-	2.1 %	125,931	84,086	\$22.48
Woodinville/Bothell	11,366,383	127,000	3.3 %	67,446	57,671	\$22.73
Seattle	46,735,714	469,008	2.5%	-167,086	189,329	\$15.21
Fremont/Ballard/DT	6,905,198	126,000	1.9 %	-42,372	-13,603	\$15.48
South Seattle	39,830,516	343,008	2.7 %	-124,714	202,932	\$15.13
Southend	108,198,667	2,270,090	3.6%	7,357	742,953	\$10.11
Federal Way/Auburn	26,600,747	605,462	2.1 %	-38,949	59,967	\$10.63
Kent	49,876,414	1,250,100	4.8 %	147,713	612,757	\$9.15
Seatac/Burien	5,620,943	-	1.9 %	-8,750	-48,075	\$14.28
Tukwila/Renton	26,100,563	414,528	3.2 %	-92,657	118,304	\$12.56
Pierce County	80,327,969	2,957,512	3.6%	1,725,665	3,655,861	\$8.38
Fife/Tacoma	25,824,392	1,652,639	4.3 %	-414,119	-49,289	\$9.80
Lakewood/Dupont	14,788,934	128,682	5.7 %	-24,526	1,186,302	\$7.52
Sumner/Puyallup	39,714,643	1,176,191	2.4 %	2,164,310	2,518,848	\$8.35
Thurston County	14,693,472	125,250	2.6 %	93,493	204,164	\$6.80
Puget Sound Market	311,945,381	10,484,516	3.1 %	2,156,976	5,544,983	\$11.77

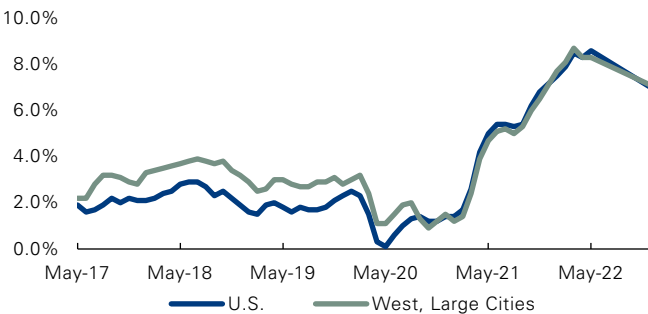
Economic Conditions

The unemployment rate for the Seattle-Bellevue-Tacoma MSA declined to 2.6% in May 2022, down from a record high of 16.6% in April 2020. Employment growth occurred across all sectors, particularly in the leisure and hospitality sector, which grew by 19.8% over a 12-month period. The tech sector continues to boom throughout the Puget Sound region, with tech job postings up 40.0% year-over-year.

Despite concerns over a looming recession, the State of Washington’s economy remains healthy. In June 2022, WalletHub ranked Washington as the nation’s strongest economy based on economic activity, economic health, and innovation potential. The high performance in these key areas will protect the state and region from a potential economic slowdown. Even in the case of a recession, the market has strong drivers and a robust job market to weather a downturn.

Consumer Price Index (CPI)

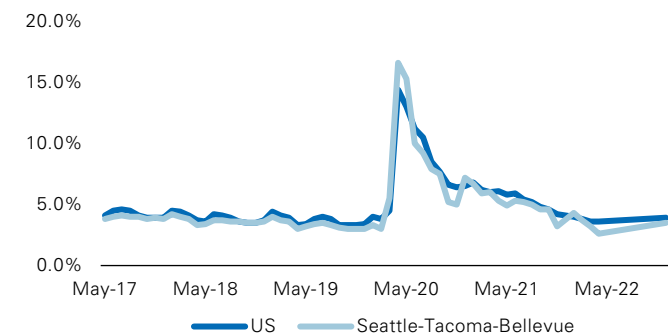
All Items, 12-month % Change, Not Seasonally Adjusted



*Source: U.S. Bureau of Labor Statistics, May 2022

Unemployment Rate

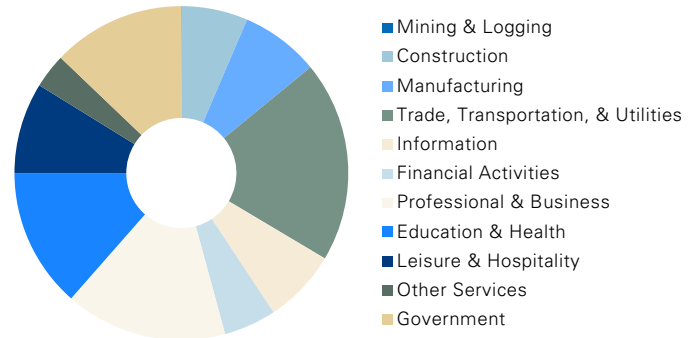
Not Seasonally Adjusted



*Source: U.S. Bureau of Labor Statistics, May 2022

Employment by Industry

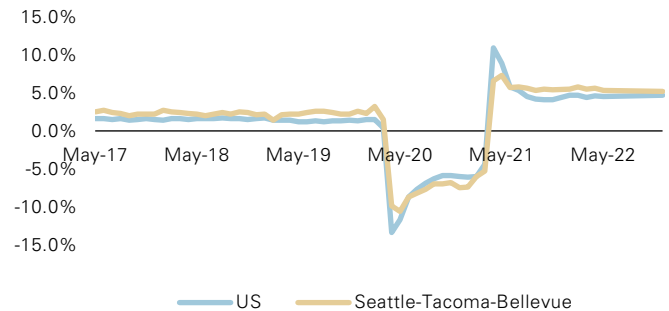
Seattle-Tacoma-Bellevue



*Source: U.S. Bureau of Labor Statistics, May 2022

Payroll Employment

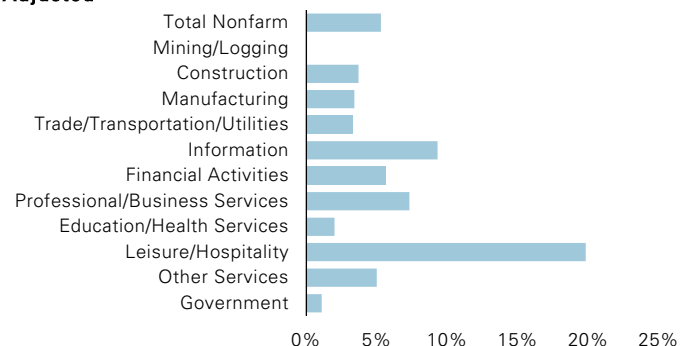
Total Nonfarm, Not Seasonally Adjusted, 12-month % Change



*Source: U.S. Bureau of Labor Statistics, May 2022

Employment Growth by Industry

Seattle-Tacoma-Bellevue, 12-month % Change, Not Seasonally Adjusted



*Source: U.S. Bureau of Labor Statistics, May 2022

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