

2Q23

Puget Sound Industrial Market Overview



NEWMARK

Market Observations

Economy

- As of April 2023, the unemployment rate stood at 3.0%, down 90 bps from January 2023 and 40 bps below the national average.
- The education, health and leisure/hospitality sectors led all industries in regional annual job growth, mirroring the national shift in spending from goods in favor of services. Industrial-occupying or adjacent industries all saw annual job gains but at a decelerating pace from 2022.
- Trade/transportation/utilities and manufacturing firms are reacting to the economic climate and a shift in consumer demand by adjusting labor needs. The trade/transportation/utilities sector is right-sizing; manufacturing job growth remains strong at 4.8%.

Major Transactions

- In the largest transaction of the quarter, Allen Distribution signed a 293,172-SF lease at the SeaPORT Logistics Center in Sumner.
- In another notable transaction in the second quarter of 2023, Infinity Global Logistics signed for 248,033 SF at Tacoma Central Logistics.
- Toysmith leased the 159,055-SF Pacific 167 Logistics building in Pacific, which delivered during the second quarter of 2023.
- In Lacey, the 717,482-SF Bridge Point Lacey industrial complex sold to Dermody Properties for \$132.1 million, or \$184/SF.

Leasing Market Fundamentals

- Absorption in the second quarter of 2023 totaled negative 80,134 SF, bringing the annual net absorption to negative 742,833 SF.
- The construction pipeline trended downward slightly for the second consecutive quarter but remains robust, with 12.1 million SF underway.
- Vacancy and rents both increased year over year. Vacancy grew to 4.3% as deliveries modestly outpaced absorption. Higher-priced space delivered to the market and still-robust demand drove strong yet decelerating 12-month rent growth of 4.8%.
- Demand for industrial space slowed during the second quarter of 2023 and leasing activity totaled 3.2 million SF, the lowest quarterly volume since the first quarter of 2019 and a 39.5% decrease year over year.

Outlook

- Uncertainty reigns in the macroeconomic outlook. Occupiers and investors alike will approach deals with greater caution as a result, which will impact leasing and investment activity.
- Elevated demand during the pandemic led to a flurry of development activity. As demand has begun to cool, construction deliveries have far outpaced net absorption. Vacancy is expected to continue to rise over the next few quarters as the delivery of vacant product continues and demand recalibrates.
- Rent growth, aggressive through all of 2022, has decelerated and will continue to cool throughout the year. This will vary on submarket, size range, and asset type bases.

1. Economy
2. Leasing Market Fundamentals

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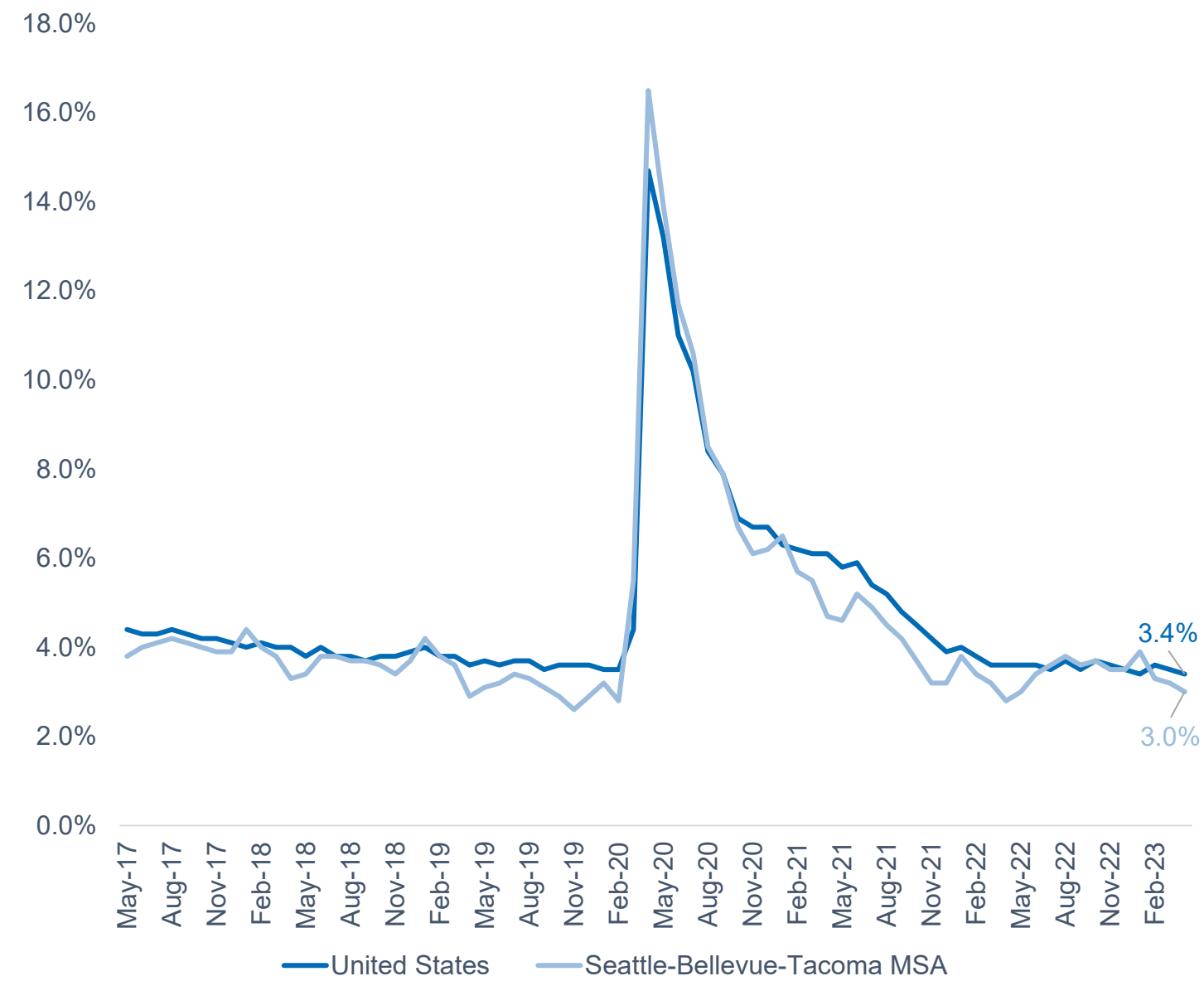
Economy



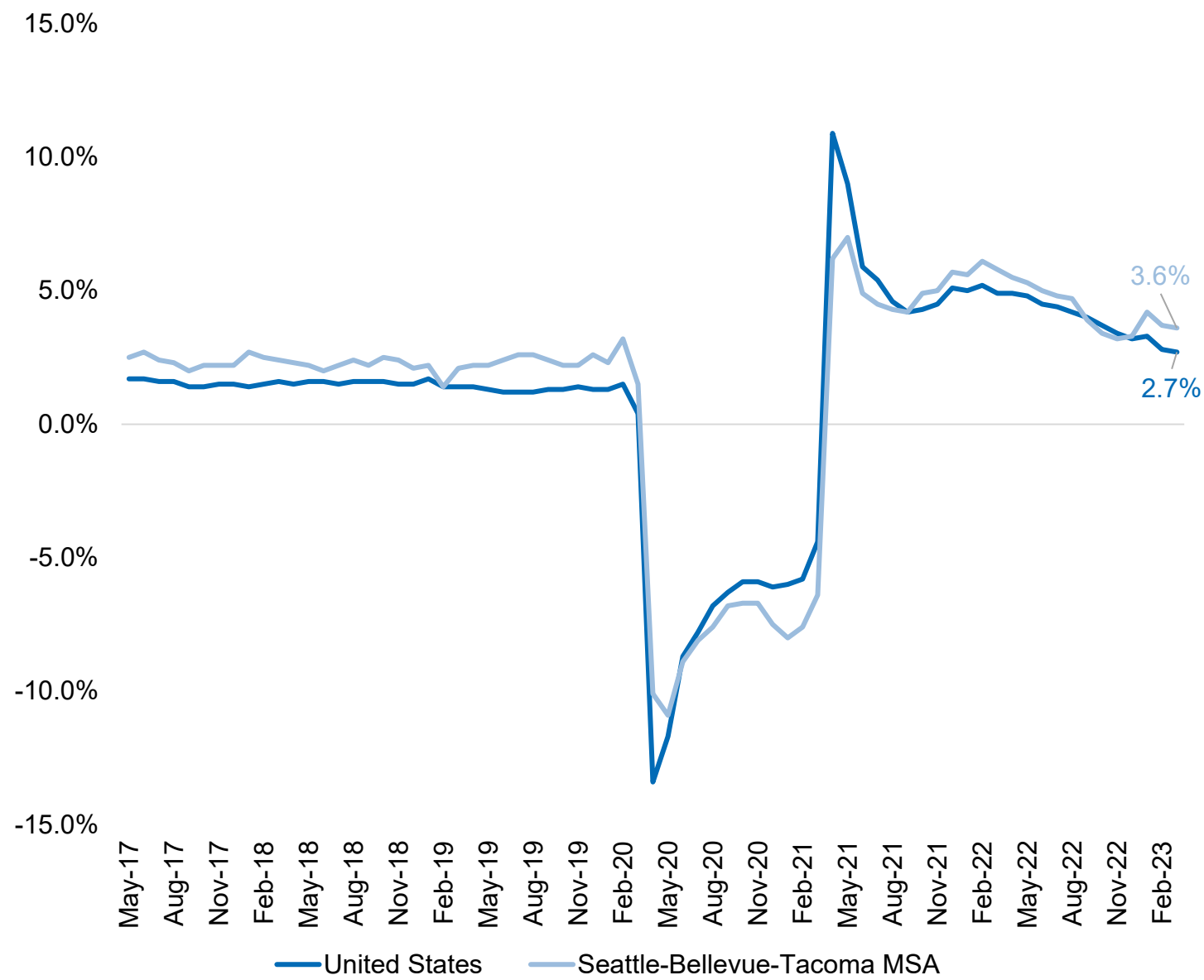
Regional Employment Improves Following Period of Layoffs

The unemployment rate decreased over the second quarter of 2023, recovering from a small spike in the first quarter of 2023 due to tech layoffs in the region. As of April 2023, the unemployment rate stood at 3.0%, down 90 bps from January 2023 and 40 bps below the national average.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change

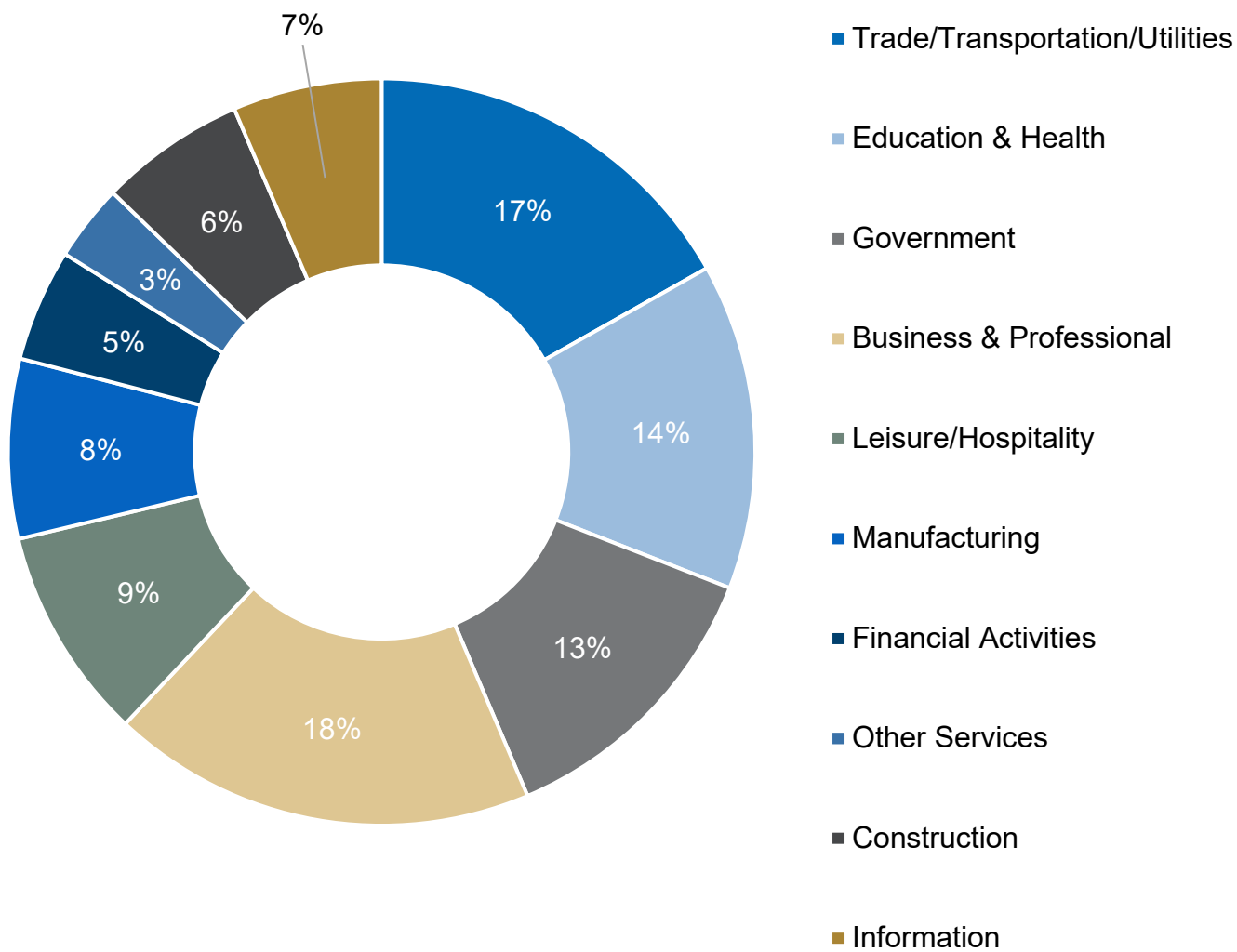


Source: U.S. Bureau of Labor Statistics, Seattle-Bellevue-Tacoma MSA

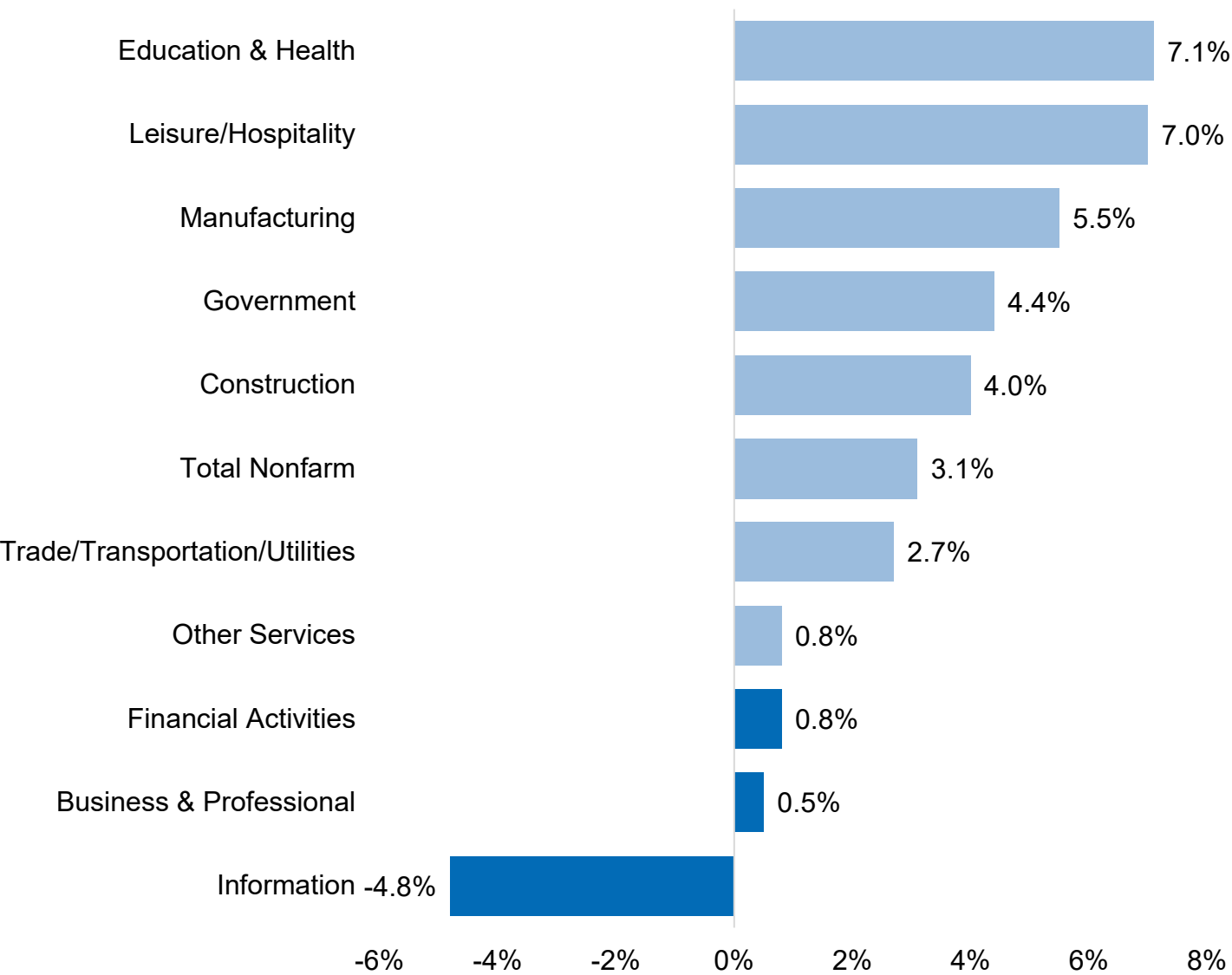
Job Growth Driven by Services

The education, health and leisure/hospitality sectors led all industries in regional annual job growth, mirroring the national shift in spending from goods in favor of services. Industrial-occupying or adjacent industries all saw annual job gains but at a decelerating pace from 2022.

Employment by Industry, May 2023



Employment Growth by Industry, 12-Month % Change, May 2023

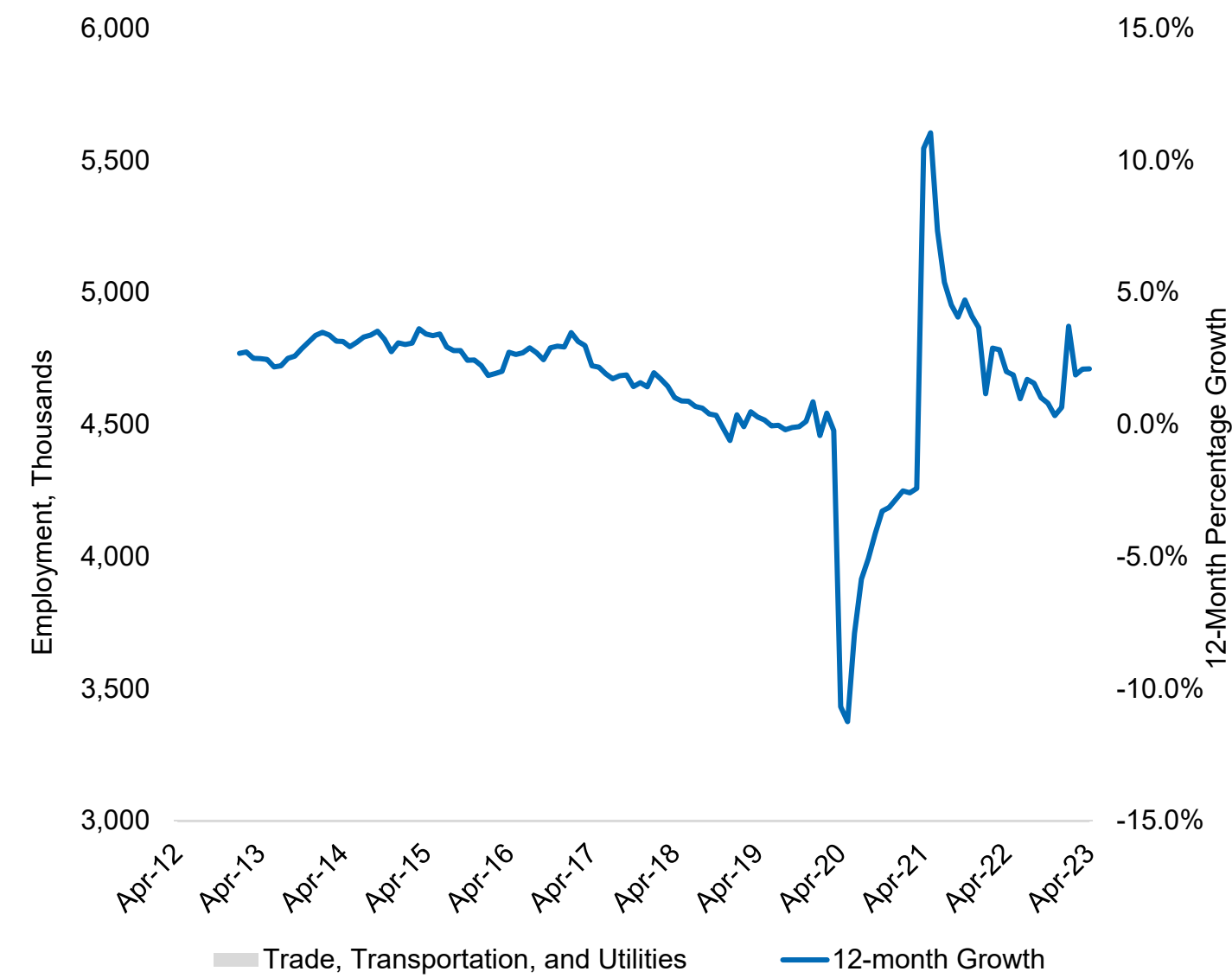


Source: U.S. Bureau of Labor Statistics, Seattle-Bellevue-Tacoma MSA

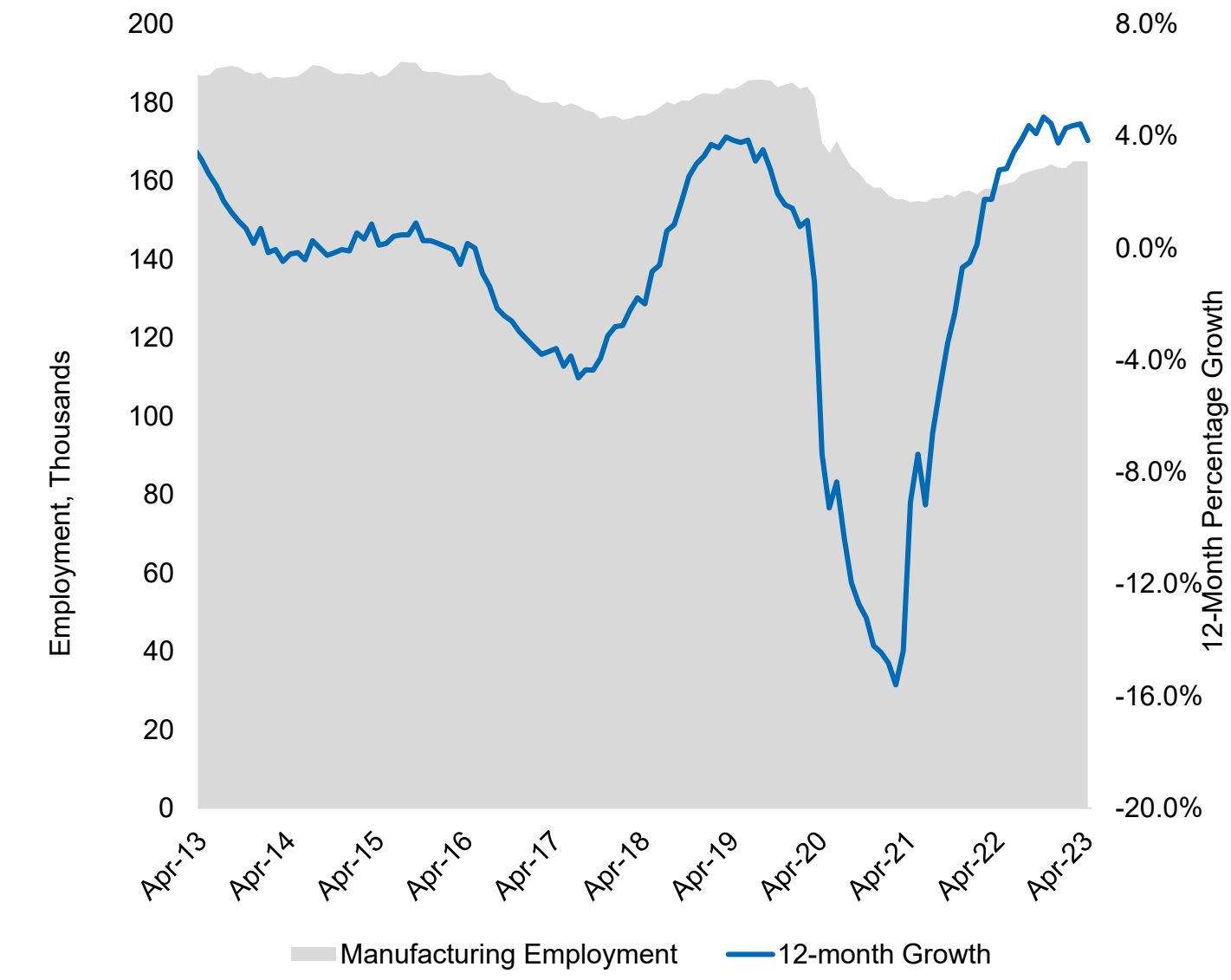
Manufacturing Employment Strong but Not Immune to Softening Conditions

Trade/transportation/utilities and manufacturing firms are reacting to the economic climate and a shift in consumer demand by adjusting labor needs. The trade/transportation/utilities sector is right-sizing in response to a consumer shift in favor of services over goods; however, manufacturing job growth remains strong at 4.8%.

Total Employment and 12-Month Growth Rate, Trade/Transportation/Utilities



Total Employment and 12-Month Growth Rate, Manufacturing



Source: U.S. Bureau of Labor Statistics, Seattle-Bellevue-Tacoma MSA

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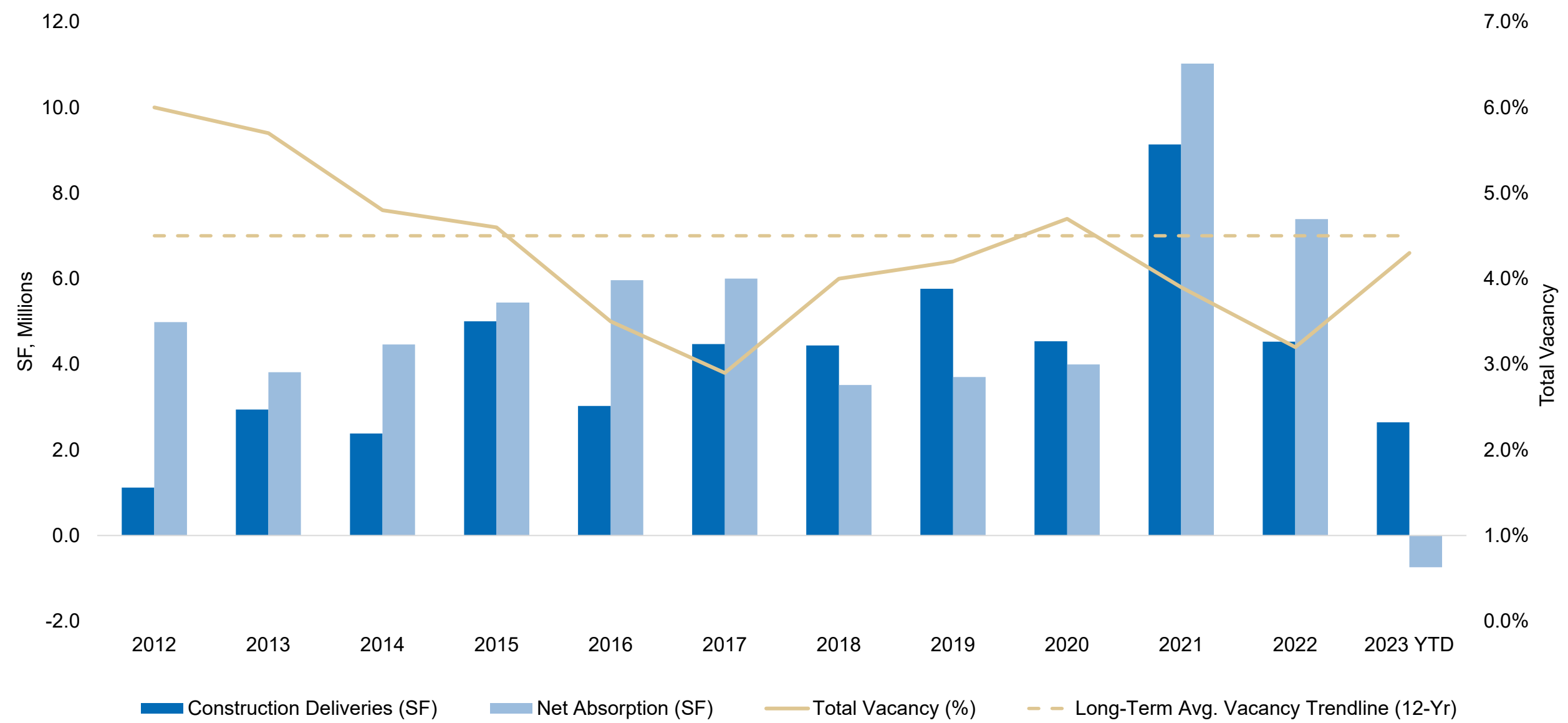
Leasing Market Fundamentals



Vacancy Rises as Construction Deliveries Outpace Net Absorption

The vacancy rate increased to 4.3% in the second quarter of 2023 from 3.9% in the first quarter of 2023. A total of six buildings delivered during the second quarter of 2023, totaling 1.0 million square feet. Elevated demand during the pandemic led to a flurry of development activity. As demand has begun to cool, construction deliveries have far outpaced net absorption. Vacancy is expected to continue to rise over the next few quarters as the delivery of vacant product continues and demand recalibrates.

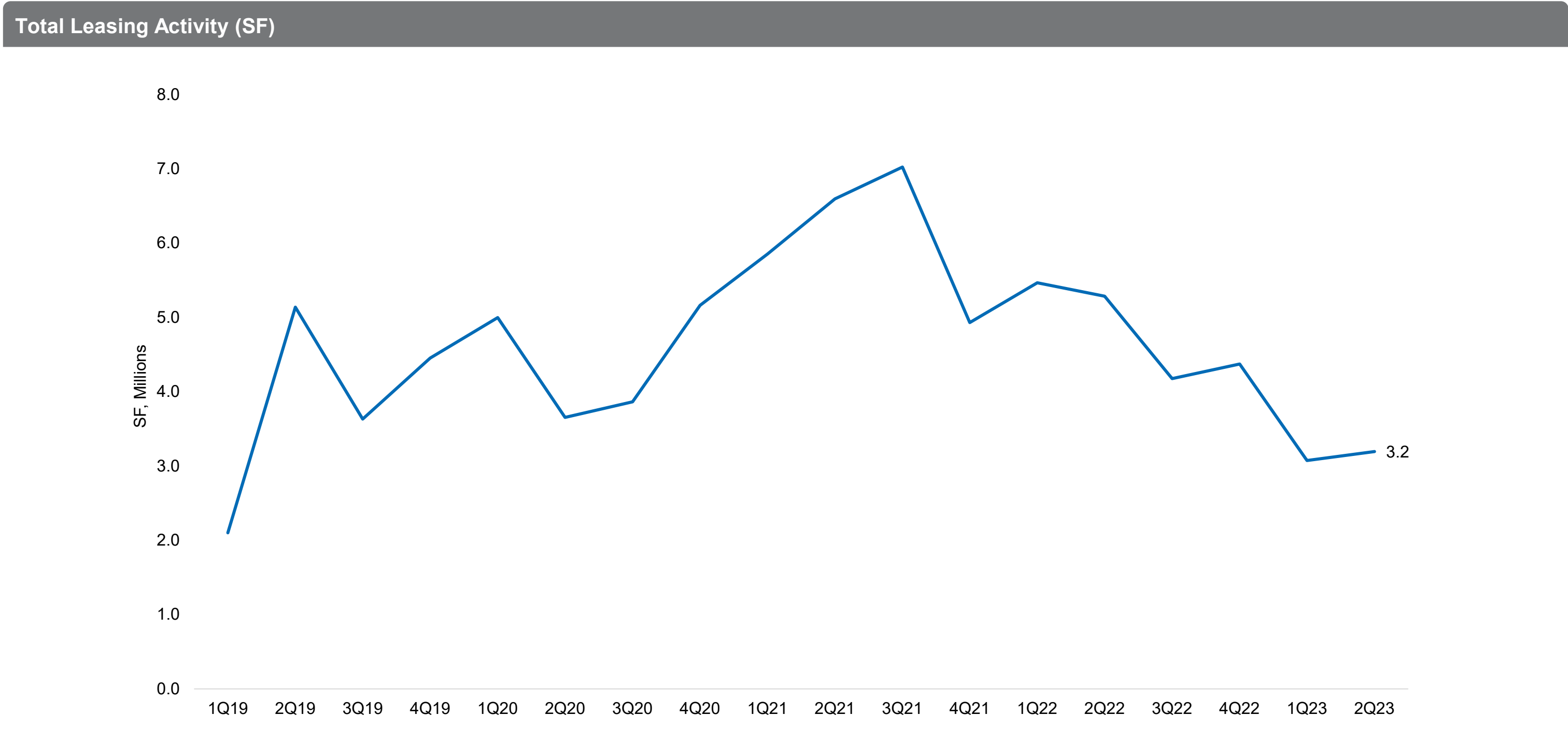
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research

Industrial Leasing Activity Decelerates to Pre-Pandemic Levels

Demand for industrial space slowed during the second quarter of 2023 and leasing activity totaled 3.2 million SF, the lowest quarterly volume since the first quarter of 2019 and a 39.5% decrease year over year.

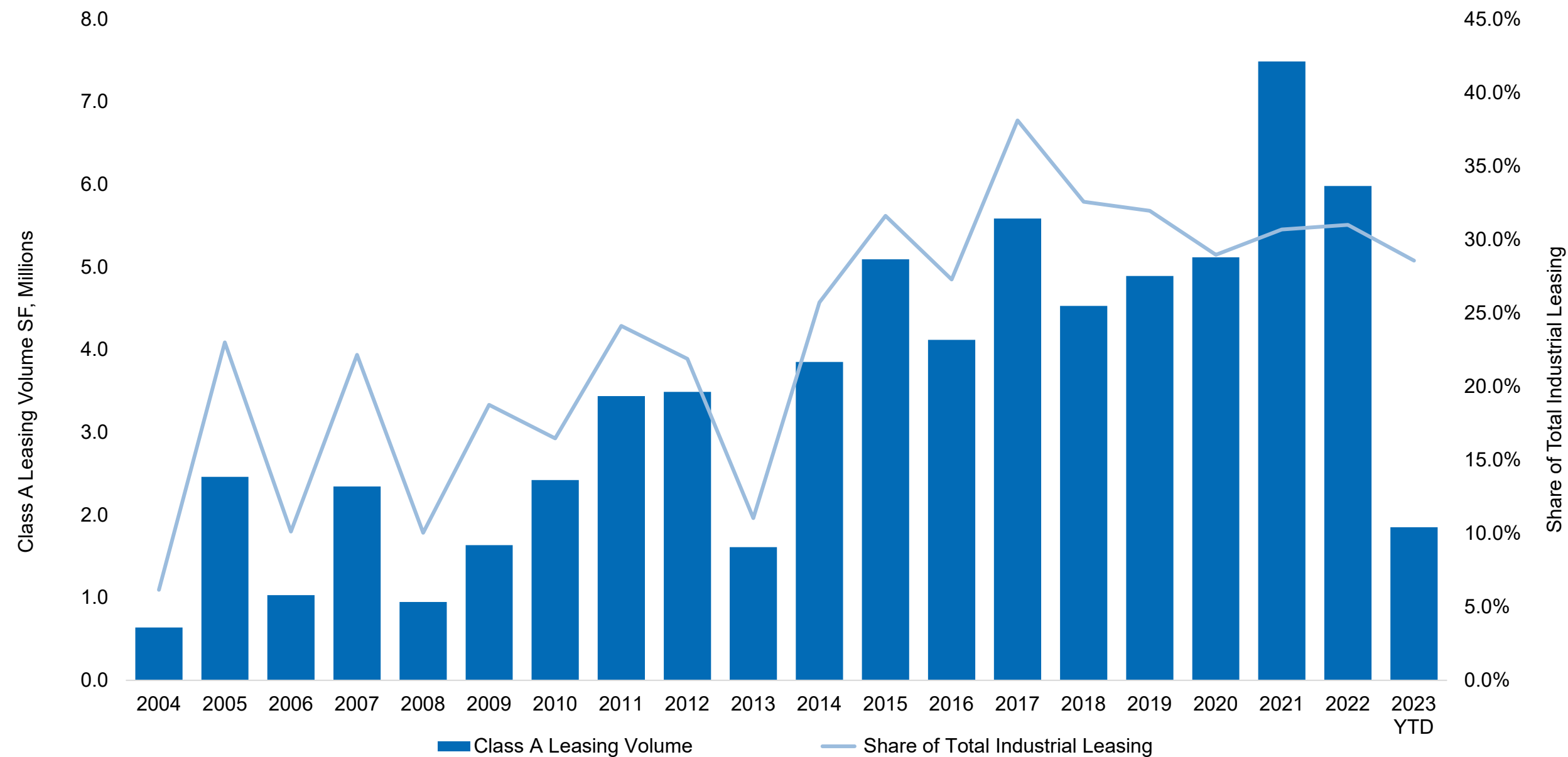


Source: Newmark Research, CoStar

Class A Warehouse Leasing Remains Above Long-Term Average

Class A warehouse leasing represented 28.5% of overall activity in the second quarter of 2023, still above the 20-year average of 23.5%, despite some cooling over the past two quarters. While demand remains high for modern space, tenants have grown more cautious amidst economic headwinds, with many waiting for elevated rents to cool before committing to space.

Industrial Class A Leasing Volume and Percentage of Total Industrial Leasing Volume

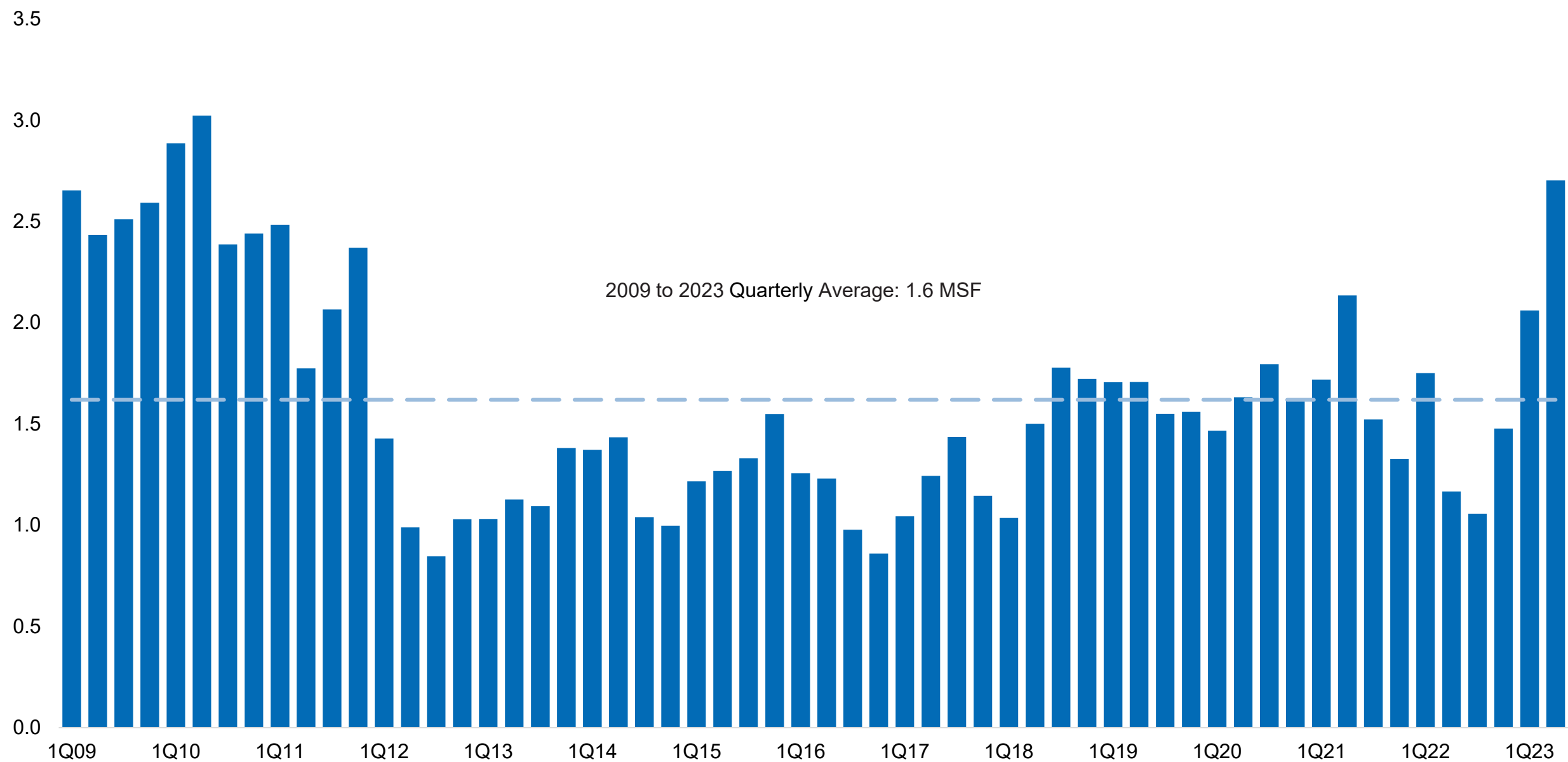


Source: Newmark Research, CoStar

Industrial Sublease Availability Continues to Rise

Sublease availability in the second quarter of 2023 rose to 2.7 million SF, the highest volume since the second quarter of 2010. Rising interest rates, an inflationary environment and declining consumer demand are driving some firms to control costs via supply chain optimization and consolidation, which includes putting excess or underutilized space up for sublease.

Available Industrial Sublease Volume (msf)

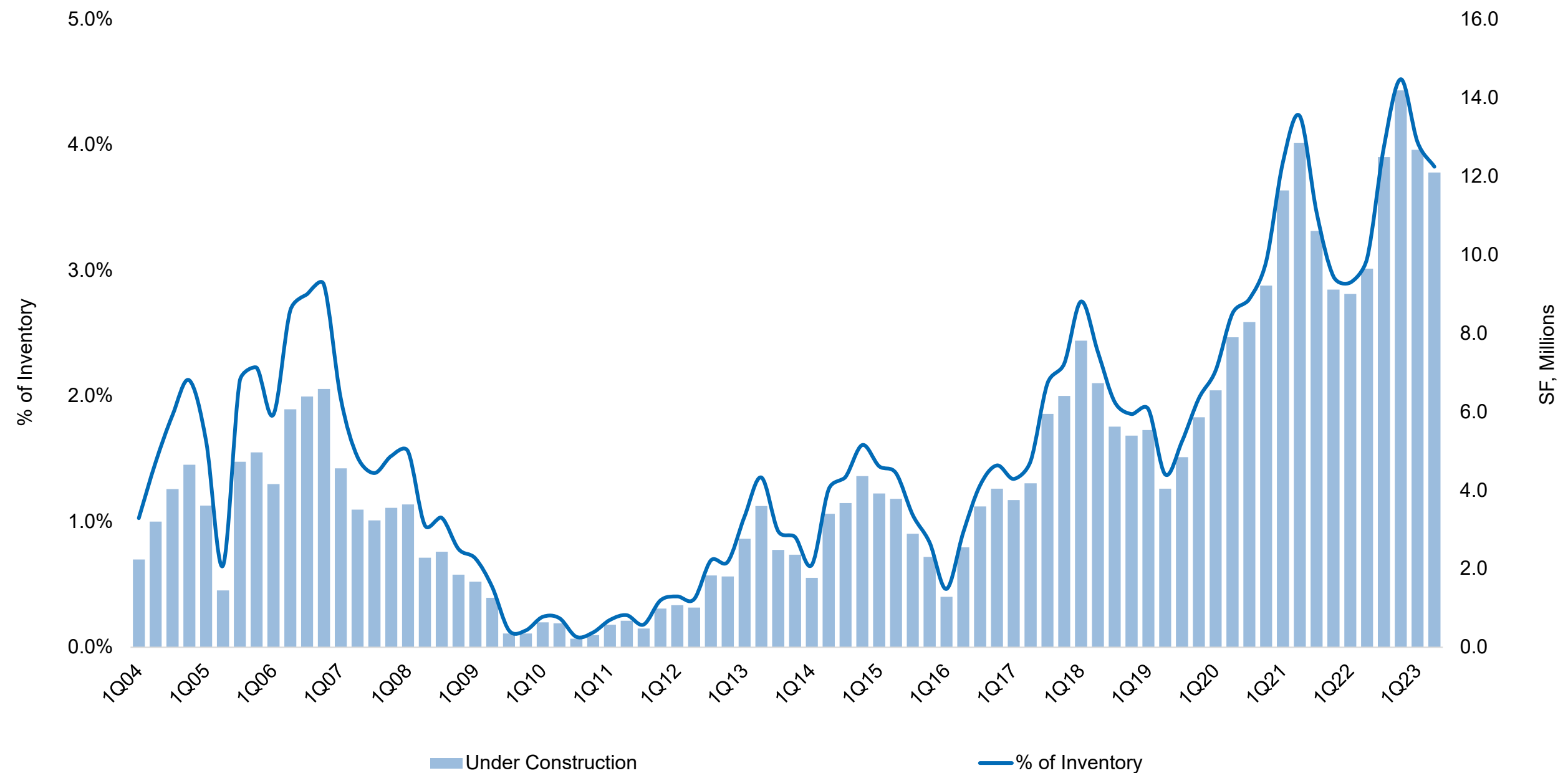


Source: Newmark Research, CoStar

Industrial Supply Pipeline Trending Downward but Remains Robust

The construction pipeline trended downward slightly for the second consecutive quarter but remains robust, with 12.1 million SF underway. Developers in the region are facing a challenging financing environment for new construction, and project starts and deliveries have been delayed as a result. It is anticipated that the construction pipeline will continue to decelerate throughout 2023.

Industrial Under Construction and % of Inventory

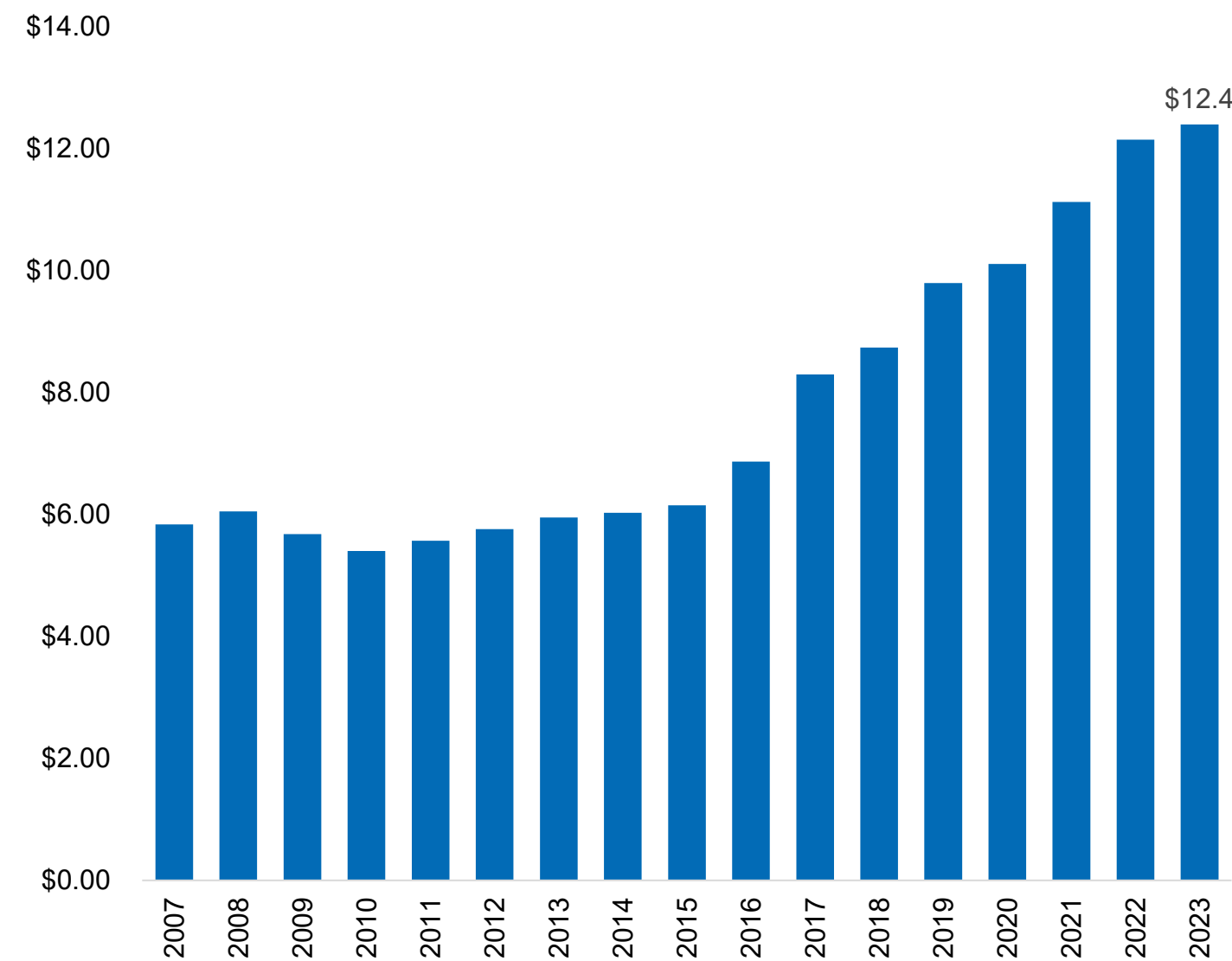


Source: Newmark Research, CoStar

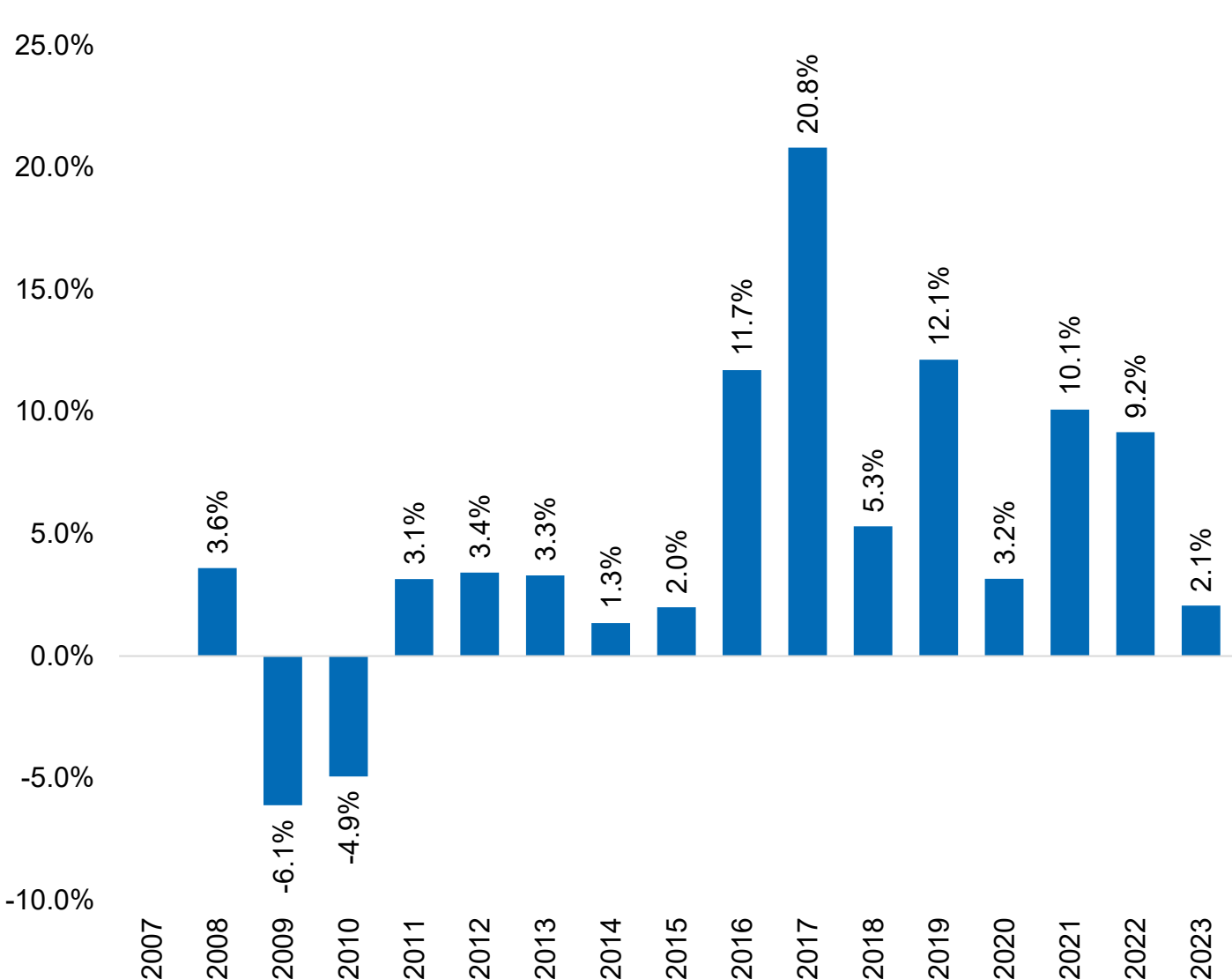
Industrial Asking Rent Growth Continues into 2Q23

Industrial average asking rents continue to trend upward. In the second quarter of 2023, rates reached \$12.40/SF, an increase of 4.8% year over year. Rent growth is expected to stabilize and decline slightly over the year as demand recalibrates.

Industrial Average Asking Rent, \$/SF, NNN



Year-over-Year Asking Rent Growth Rate % Change



Source: Newmark Research, CoStar

Notable 2Q23 Lease Transactions

Of the 3.2 million SF leased, five transactions exceeded 100,000 SF.

Select Lease Transactions				
Tenant	Building	Submarket	Type	Square Feet
Allen Distribution	SeaPORT Logistics Building 5	Sumner/Puyallup/Frederickson	Direct New	293,172
Infinity Global Logistics	Tacoma Central Logistics	Fife/Tacoma	Direct New	248,033
Toysmith	Pacific 167 Logistics	Federal Way/Auburn/Algona/Pacific	Direct New	159,055
Wido Logistics	Fife Commerce Center Building A	Fife/Tacoma	Sublease	144,128
Stryder Logistics	Prologis Park Kent 35	Kent	Renewal/Expansion	110,000

Source: Newmark Research

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