

Puget Sound Industrial Market

Industrial Market Growth Continues to Surge in Puget Sound

The Puget Sound industrial market maintained its hot streak during the third quarter of 2021, continuing a record-breaking year. The industrial real estate market was already booming prior to the pandemic, but the resultant disruption of the global supply chain has pushed demand to new heights. Amid supply chain challenges and the explosion of consumer demand for ecommerce, companies have begun to reassess the stability of their inventories, resulting in an increased need for warehouse space and distribution centers. Port markets have especially benefitted from this push to expand industrial footprints, and the Puget Sound market is no exception; the region has seen historically low vacancy rates and rising rents over the past year. In addition to leasing impacts, the shift towards technological solutions to logistics and distribution has resulted in a need for new product capable of supporting advanced technologies.

Average asking rents increased to \$10.62/SF NNN, up 2.2% for the quarter and 5.6% year-over-year. There was 2.8 million square feet of net absorption for the quarter, which brought the total over the last four quarters to 9.6 million square feet. The vacancy rate remained flat, up 10 basis points from the second quarter at 4.3%.

Current Conditions

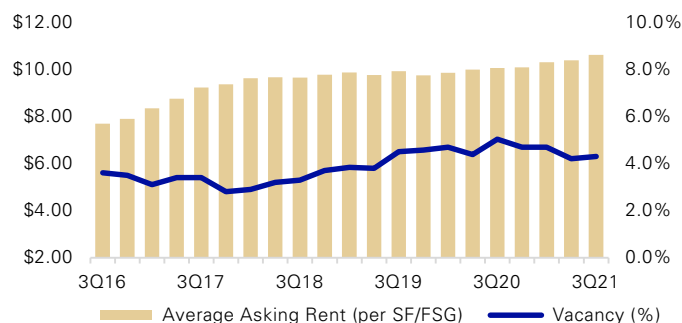
- Average asking rents reached a new record high of \$10.62/SF NNN.
- 11.7 million square feet under construction.
- The Pierce County submarket leads new construction with 5.43 million square feet of development underway.
- In the largest lease transaction of the quarter, Amazon signed for all 862,167 square feet of LPC Frederickson ONE, Building 5, a new development located in Spanaway.

Market Summary

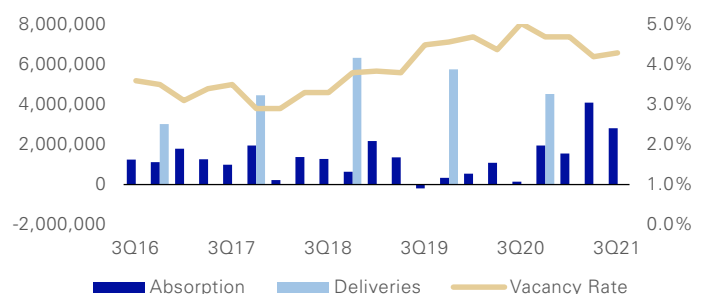
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	307M	304M	298M	↑
Vacancy Rate	4.3%	4.2%	5.0%	→
Quarterly Net Absorption (SF)	2.81M	4.10M	-81,662	→
Average Asking Rent/SF (NNN)	\$10.62	\$10.39	\$10.08	↑
Under Construction (SF)	11.7M	14.6M	9.2M	→

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION v. CONSTRUCTION DELIVERIES & VACANCY RATE (SF)



RESEARCH Q3 2021

Construction in Puget Sound is keeping pace with demand; 11.7 million square feet of new space is under construction. The third quarter saw 2.6 million square feet of new deliveries, bringing the year-to-date total to 7.0 million square feet. The limited availability of land continues to push industrial activity to the Southend and Pierce County, the fastest-growing and highest-performing submarkets in the region.

Southend

The Southend submarket has solidified its reputation as a logistics hub, boasting excellent access to both the I-5 Corridor and SeaTac International Airport. The area currently has 1.7 million square feet under construction, following the delivery of approximately 500,000 square feet in the third quarter. Notable deliveries include the 202,500-square-foot Dermody Oxbow site in Tukwila and the 206,155-square-foot Bridge Point Auburn 200. The Dermody warehouse and distribution center is expected to facilitate 1,100 vehicle trips per day. Nearly 90% of the ongoing construction is occurring in the Kent submarket, including the six-building Pacific Gateway Industrial Park, a campus planned to total 823,606 square feet, including a significant amount of office space. In addition to providing much-needed industrial inventory, the project will impact jobs and workforce development for the

city of Kent and the surrounding region.

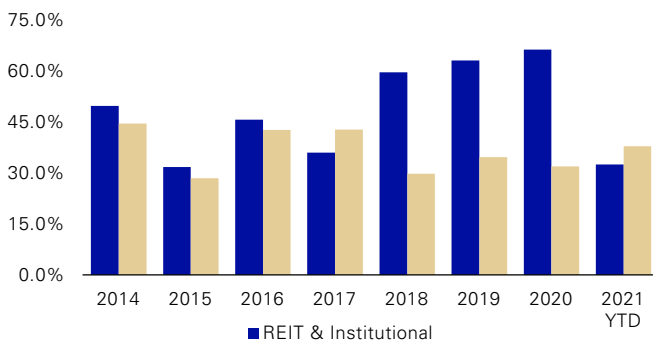
Average asking rents in the Southend submarket were \$9.33/SF NNN for the third quarter, and vacancy dropped to 4.3%, down 30 basis points from the previous quarter. A total of 1.2 million square feet was absorbed, pushing the year-to-date tally in the Southend submarket to 1.5 million square feet of net absorption.

Prices for industrial properties and land have risen to record heights as investors rush to acquire what is left of a dwindling inventory. Pricing for new product has also been influenced by increased construction costs, with commodities like lumber, steel and copper rising sharply over the last year, a trend that is expected to level off as pandemic recovery continues. In the Southend, the largest third-quarter transaction was the sale of the West Valley 29 building by Teutsch Partners to Fortress. Located in Auburn, the 278,350-square-foot building sold for \$67.88 million, or \$244/SF.

Notable lease transactions during the third quarter included the expansion by Anixter into the adjacent space at its existing location in Kent 64. Recently acquired by WESCO, the company will occupy the entirety of the building's 199,896 square feet.

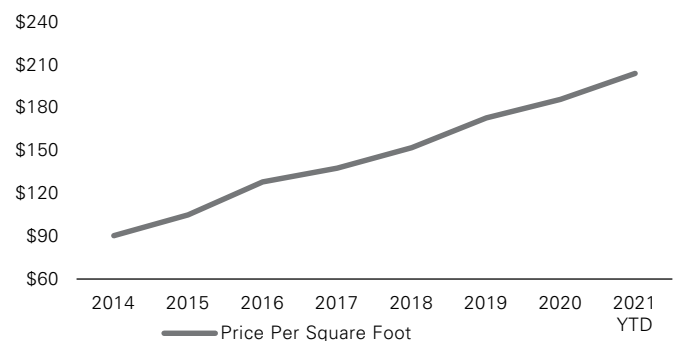
Investment Activity

BUYER COMPOSITION (%)



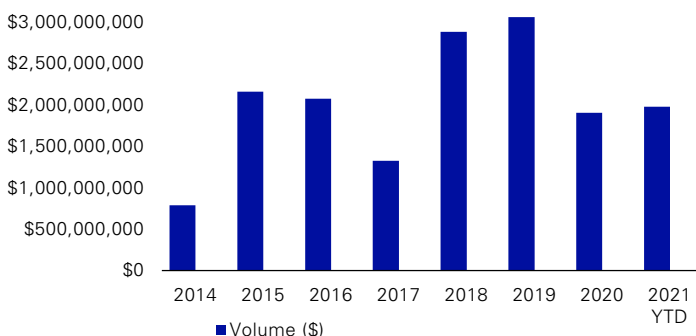
Pricing Analysis

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



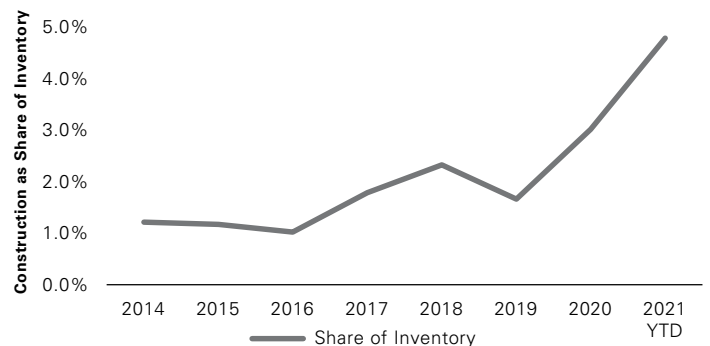
Sales Volume

ANNUAL SALES VOLUME (\$)



Rate of Development

CONSTRUCTION AS % OF BUILDING INVENTORY



Pierce County

Pierce County remains at the forefront of the industrial boom in the Puget Sound region, with 1.4 million square feet of positive net absorption for the quarter, bringing the year-to-date total to 3.2 million square feet. The Sumner/Puyallup cluster, which has been particularly active in recent quarters, accounted for more than half of the absorption in the county. It is also the nucleus of development activity in the area, with 3.3 million square feet of construction underway, over 60.0% of the Pierce County submarket's total of 5.4 million square feet.

Four projects delivered in the Pierce County submarket during the fourth quarter, all located in the Sumner/Puyallup cluster, which raised the inventory by more than 900,000 square feet. Notable deliveries included the completion of two of the buildings at the Big Freddy Logistics development for a combined 570,729 square feet.

Average asking rents in Pierce County increased to \$7.83/SF NNN, a 0.4% increase from the previous quarter. Rents were highest in the Fife/Tacoma cluster, at \$8.19/SF NNN, due to the area's limited but highly coveted inventory. The vacancy rate for all of Pierce County remained flat over the quarter at 5.8%, down 170 basis points year-over-year.

Record high absorption is expected to continue for Pierce County in the near term, as leasing activity shows no signs of slowing. In the region's largest lease transaction of the quarter, Amazon

signed on to occupy all 862,167 square feet in LPC Frederickson ONE, Building 5, a new development located in Spanaway. The ecommerce giant is expected to take occupancy in fourth-quarter 2022 upon the building's completion. LPC Frederickson ONE also was home to one of the quarter's largest move-ins, as IKEA occupied 478,000 square feet in Building 1.

In addition to the massive Amazon lease, the Pierce County submarket saw several signed agreements for footprints near the quarter-million mark. Frederickson gained two new large tenants; Pioneer Technologies signed for 300,942 square feet in Exeter Canyon Road Logistics and ecommerce company Spreetail signed for 281,181 square feet in Frederickson West 281. In Lakewood, UNIS Fulfillment and Transportation will move into 273,816 square feet in the Tacoma Gateway II building. In a similar sized transaction, Helly Hansen signed an agreement for 274,000 square feet in the Seaport Logistic Center in Sumner.

Future Outlook

Puget Sound's industrial market is uniquely poised for continued growth. It is anticipated that 2021 will yield record-high absorption nationwide, and positive trends in the market will persist across a five-year horizon at minimum. Puget Sound is expected to outperform peer markets as the region has an edge on industrial demand given its port access, but its future growth will also be buoyed by explosive population growth and strong regional economics.

Select Sales Transaction

Building	Submarket	Sale Price	Price/SF	Square Feet
Tacoma Supply Chain Center	Sumner/Puyallup	\$114,600,000	\$161	711,247
West Valley 29	Kent	\$67,788,068	\$244	278,350
Everett Commerce Center	Everett	\$60,050,000	\$276	217,700
Seattle Exchange II	Tukwila/Renton	\$46,175,710	\$262	176,564
3303 35th Street South	Tacoma	\$42,750,000	\$103	415,712
9801-9860 Martin Luther King Way S (3 parcels)	South Seattle	\$50,100,000	\$98	305,792

Select Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
Amazon	LPC Frederickson ONE	Sumner/Puyallup	Direct	862,167
Pioneer Technologies	Exeter Canyon Road Logistics	Sumner/Puyallup	Direct	300,942
Spreetail	Frederickson West 281	Sumner/Puyallup	Direct	281,181
Helly Hansen	Seaport Logistic Center	Sumner/Puyallup	Direct	274,000
UNIS	Tacoma Gateway II	Lakewood/Dupont	Direct	273,816
WESCO/Anixter	Kent 64	Kent	Direct / Expansion	199,896

Submarket Statistics

	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Direct Asking Rent (Price/SF)
Northend	32,310,234	3,913,643	3.9%	174,693	174,195	\$10.00
Lynnwood/Shoreline	4,074,547	0	2.3%	27,820	-40,336	\$12.88
Marysville/Everett	28,235,687	3,913,643	4.1%	147,173	214,831	\$9.67
Eastside	28,880,913	124,907	3.3%	32,845	-186,269	\$20.90
Issaquah/North Bend	4,534,628	0	1.5%	37,888	19,376	\$19.80
Redmond/Kirkland/Bellevue	13,071,788	124,907	3.1%	-19,263	-98,374	\$19.49
Woodinville/Bothell	11,274,497	0	4.3%	14,220	-107,271	\$21.83
Seattle	46,733,667	489,607	2.7%	1,862	122,134	\$16.23
Fremont/Ballard/DT	7,060,961	126,000	2.2%	9,728	28,932	\$17.14
South Seattle	39,672,706	363,607	2.7%	-7,866	93,202	\$16.08
Southend	107,198,320	1,727,774	4.3%	1,147,301	1,466,717	\$9.33
Federal Way/Auburn	26,519,947	368,253	3.1%	249,609	614,505	\$9.69
Kent	48,956,867	1,359,521	5.4%	602,028	453,554	\$8.71
Seatac/Burien	5,620,943	0	0.9%	58,620	140,901	\$12.96
Tukwila/Renton	26,100,563	0	4.1%	237,044	257,757	\$10.61
Pierce County	76,552,009	5,431,987	5.8%	1,350,658	3,224,589	\$7.83
Fife/Tacoma	26,003,396	1,235,921	3.2%	367,241	667,818	\$8.19
Lakewood/Dupont	13,897,571	871,363	9.6%	11,996	738,001	\$6.85
Sumner/Puyallup	36,651,042	3,324,703	6.2%	971,421	1,818,770	\$8.09
Thurston County	14,693,472	125,250	4.6%	111,110	2,873,294	\$6.41
Puget Sound Market	306,528,244	11,653,539	4.3%	2,818,769	7,674,960	\$10.62

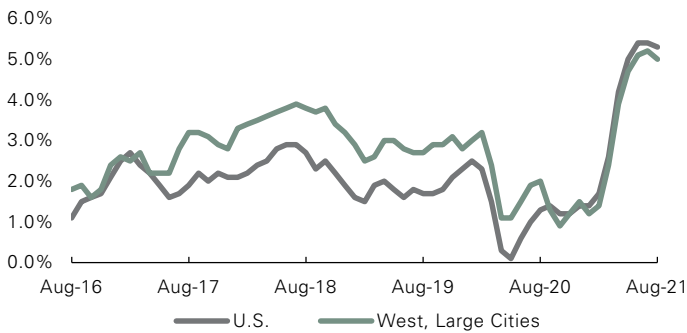
Economic Conditions

The Puget Sound economy continues to regain ground lost during the pandemic, ranking among the top five office markets for overall recovery. The unemployment rate for the Seattle-Bellevue-Tacoma MSA was 5.0% for August, down from a record high of 16.6% in April 2020 when 138,900 jobs were lost in the area. Since then, there have been 289,714 jobs added to the economy. The strong job growth can be expected to continue with all five FAAMG companies actively hiring in the region.

According to census data released in August 2021, Seattle’s population has grown by 21.0% to 737,015 residents, and King County has increased by more than 300,000 residents since 2010. The Puget Sound region is among the fastest growing in the country, and Seattle was one of only 14 cities to add more than 100,000 people over the last decade.

Consumer Price Index (CPI)

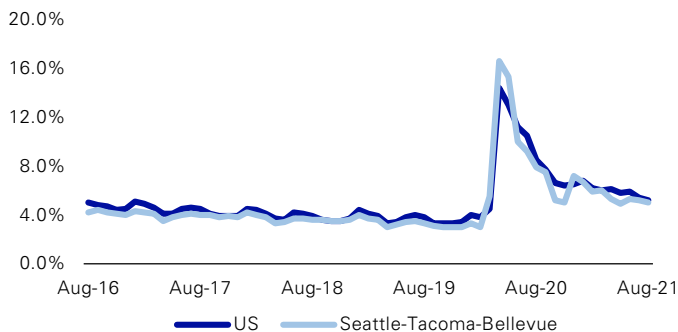
All Items, 12-Month % Change, Not Seasonally Adjusted



*Source: U.S. Bureau of Labor Statistics

Unemployment Rate

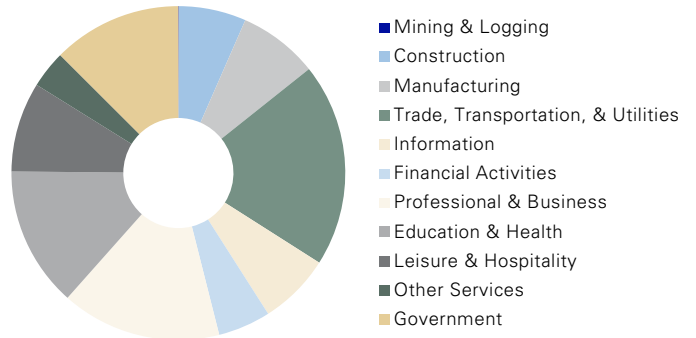
Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

Employment By Industry

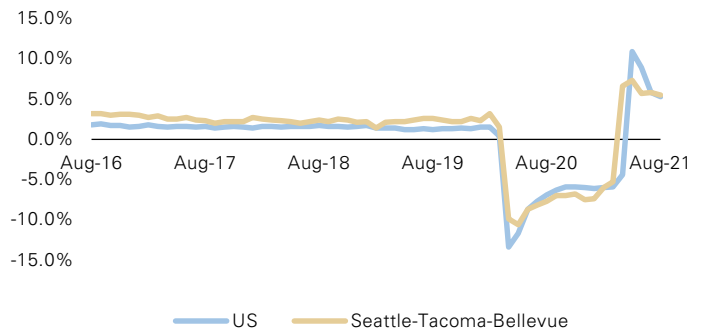
Seattle-Tacoma-Bellevue



Source: U.S. Bureau of Labor Statistics

Payroll Employment

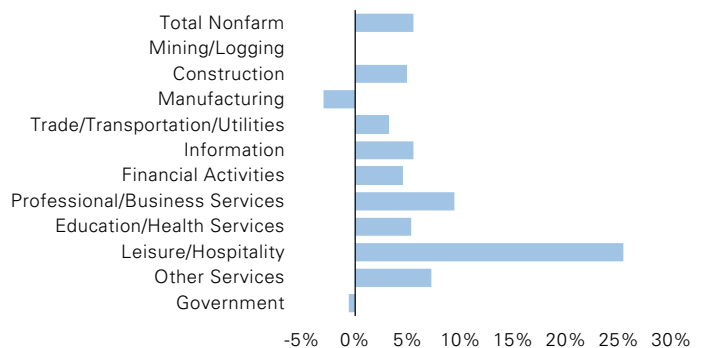
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



*Source: U.S. Bureau of Labor Statistics

Employment Growth by Industry

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



*Source: U.S. Bureau of Labor Statistics

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