4Q23

Puget Sound Industrial Market Overview

NEWMARK

Market Observations

Economy

- The unemployment rate decreased slightly over the fourth quarter. As of November 2023, the unemployment rate stood at 3.7%, on par with 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. While the manufacturing sector saw modest job gains, the construction sector contracted by 2.4% over the 12-month period.
- 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 4.1%.

Leasing Market Fundamentals

- The vacancy rate increased 60 basis points over the third quarter to 5.6%. A total of 1.9 million SF of new product was completed, 80.0% of which delivered vacant.
- The construction pipeline remains robust, with 7.7 million SF underway.
- Industrial average asking rents continue an upward trajectory. In the fourth quarter of 2023, rates reached $13.09/SF, an increase of 7.0% year over year.
- Demand for industrial space increased during the fourth quarter of 2023 following a slow third quarter. Leasing activity totaled 4.0 million SF, just 10.9% below the 5-year quarterly leasing average.

Major Transactions

- Boeing dominated the leasing activity in the fourth quarter, signing for nearly 1.3 million square feet in Spanaway and Seattle. Although the company vacated approximately 700,000 SF of office space on the Eastside, the company's expansion in the Southend industrial market shows a continued commitment to the Puget Sound region.
- Another notable transaction in the Sumner/Puyallup/Frederickson submarket was General Electric signing for 435,791 SF at FRED310 Building D.

Outlook

- An estimated 6.6 million SF is projected to deliver in 2024, making it likely that vacancy will rise in the short-term as deliveries will continue to outpace absorption.
- Sublease availability is expected to rise in the coming year as occupiers put excess and underutilized space up for sublease to control costs.
- Rent growth, aggressive through all of 2022, has decelerated and is expected to cool as availability rises.

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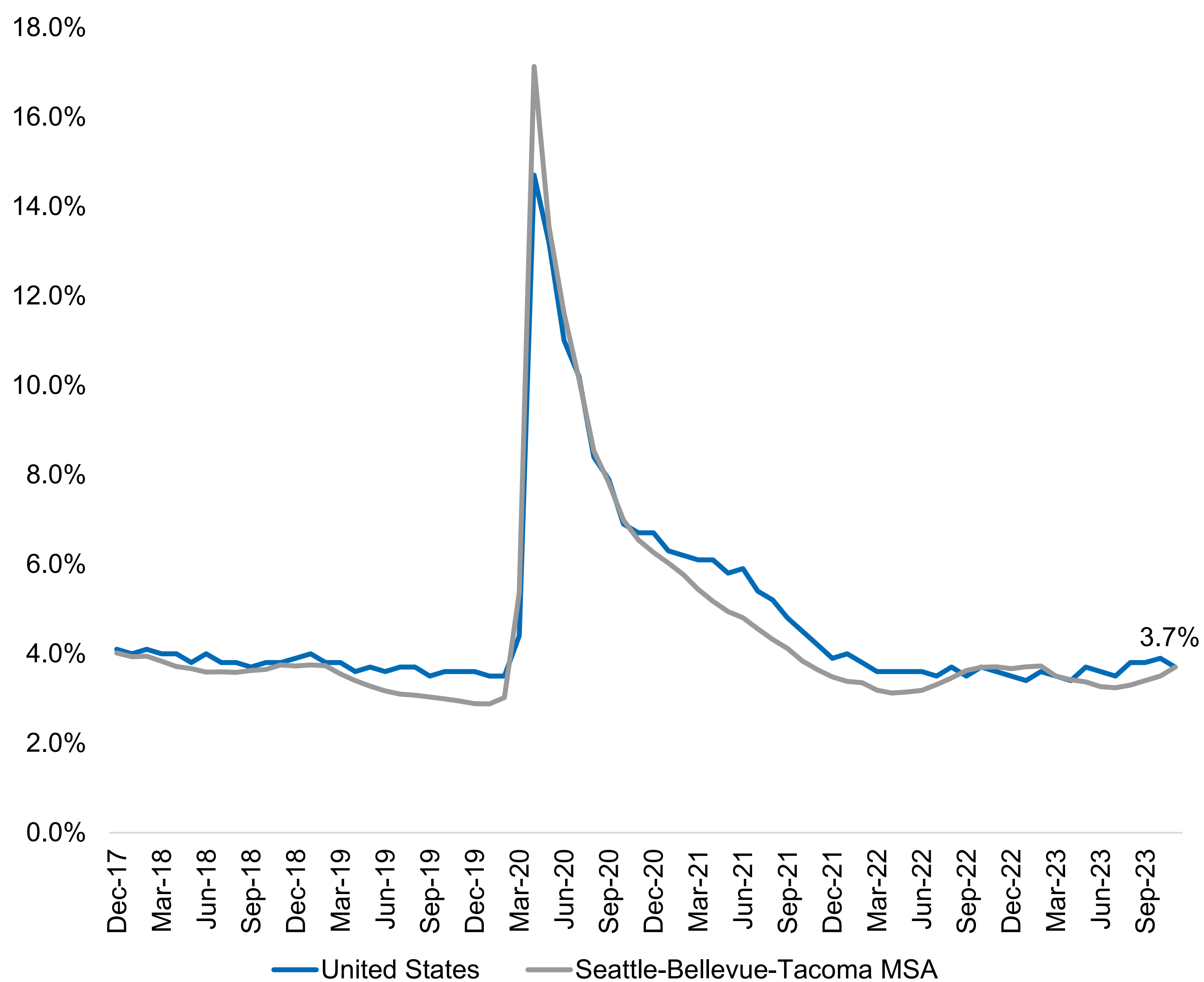
Economy

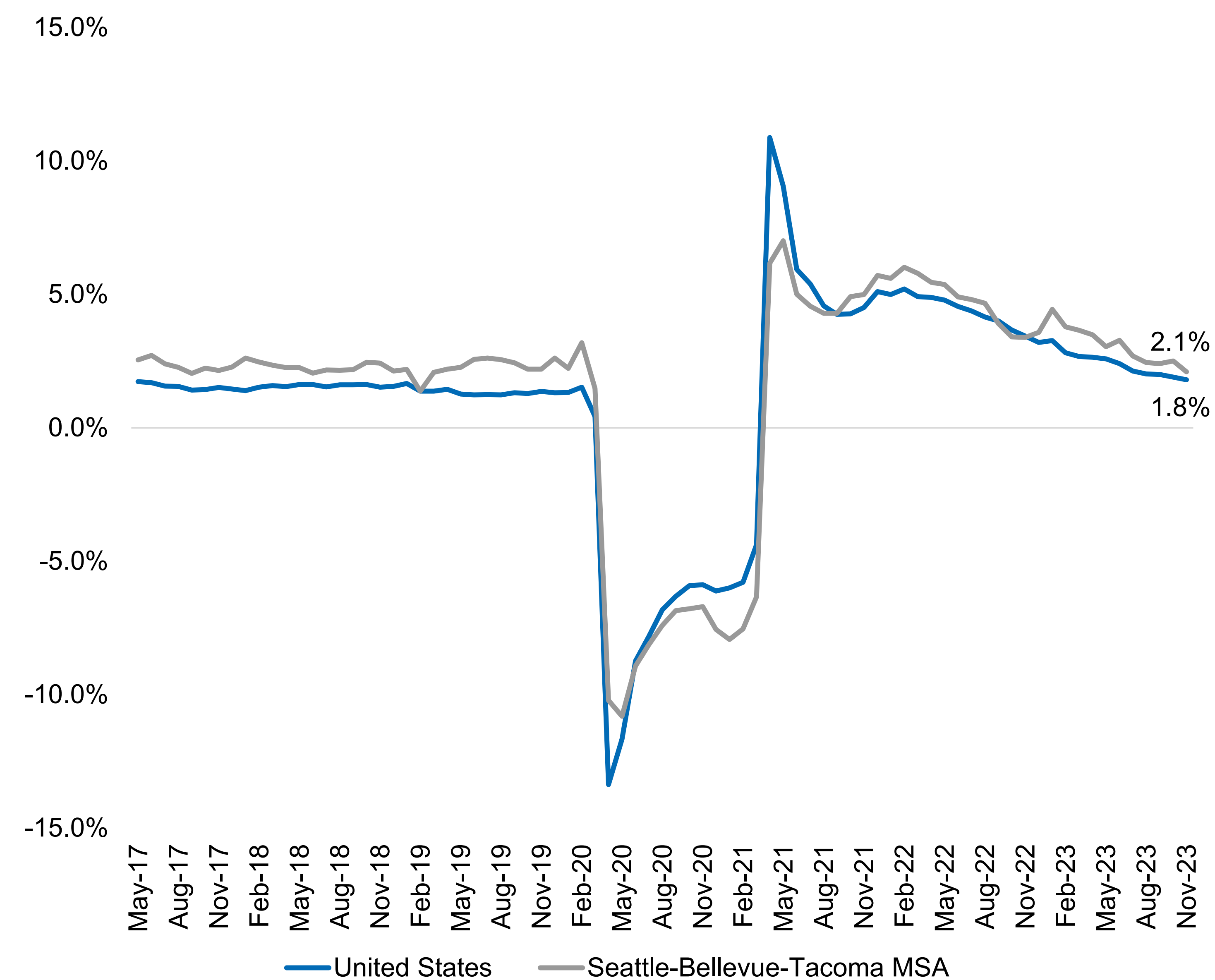
Regional Unemployment Tracks Along National Average

The unemployment rate decreased slightly over the fourth quarter. As of November 2023, the unemployment rate stood at 3.7%, on par with the national average.

Unemployment Rate, Seasonally Adjusted



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

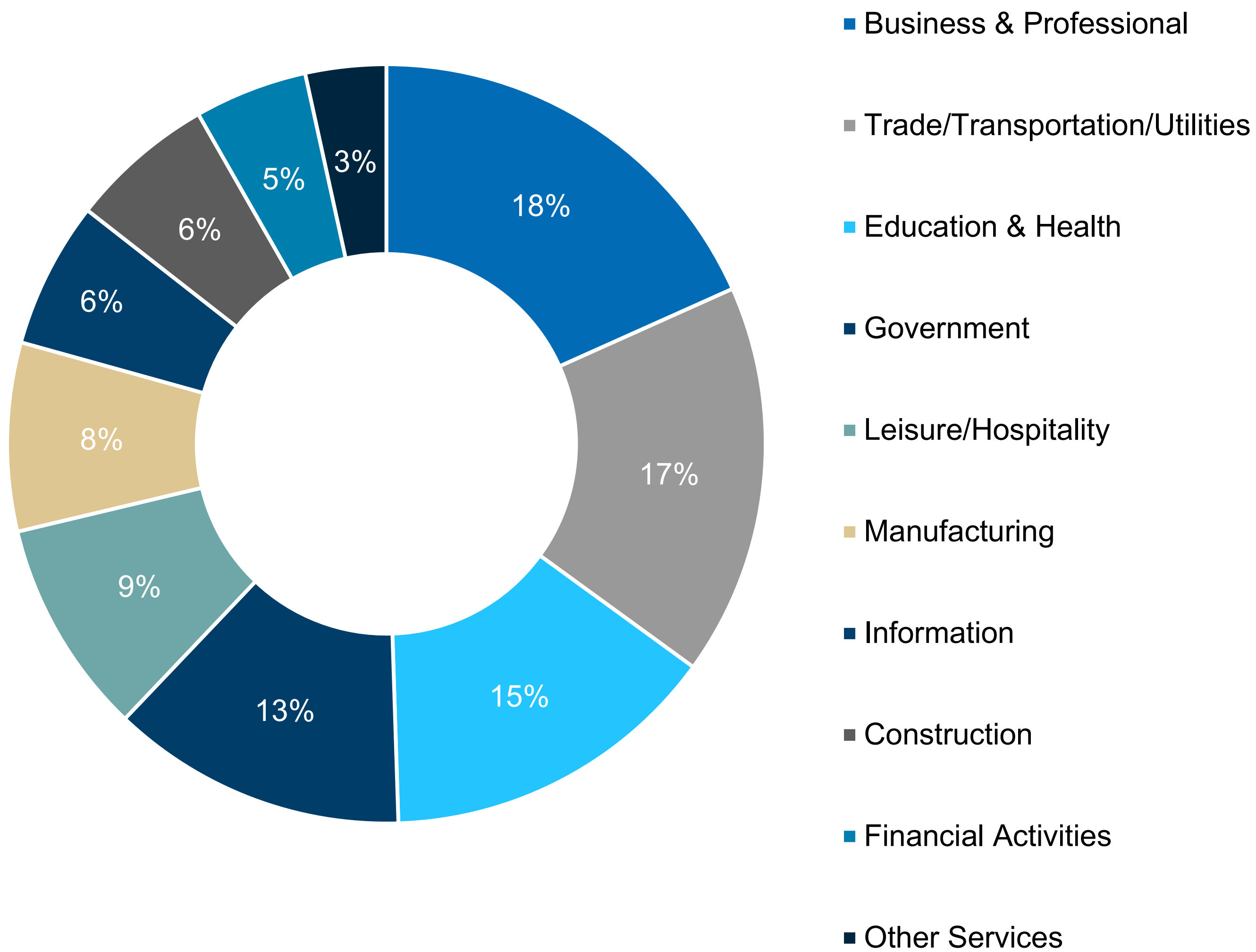


Source: U.S. Bureau of Labor Statistics, Seattle-Bellevue-Tacoma MSA

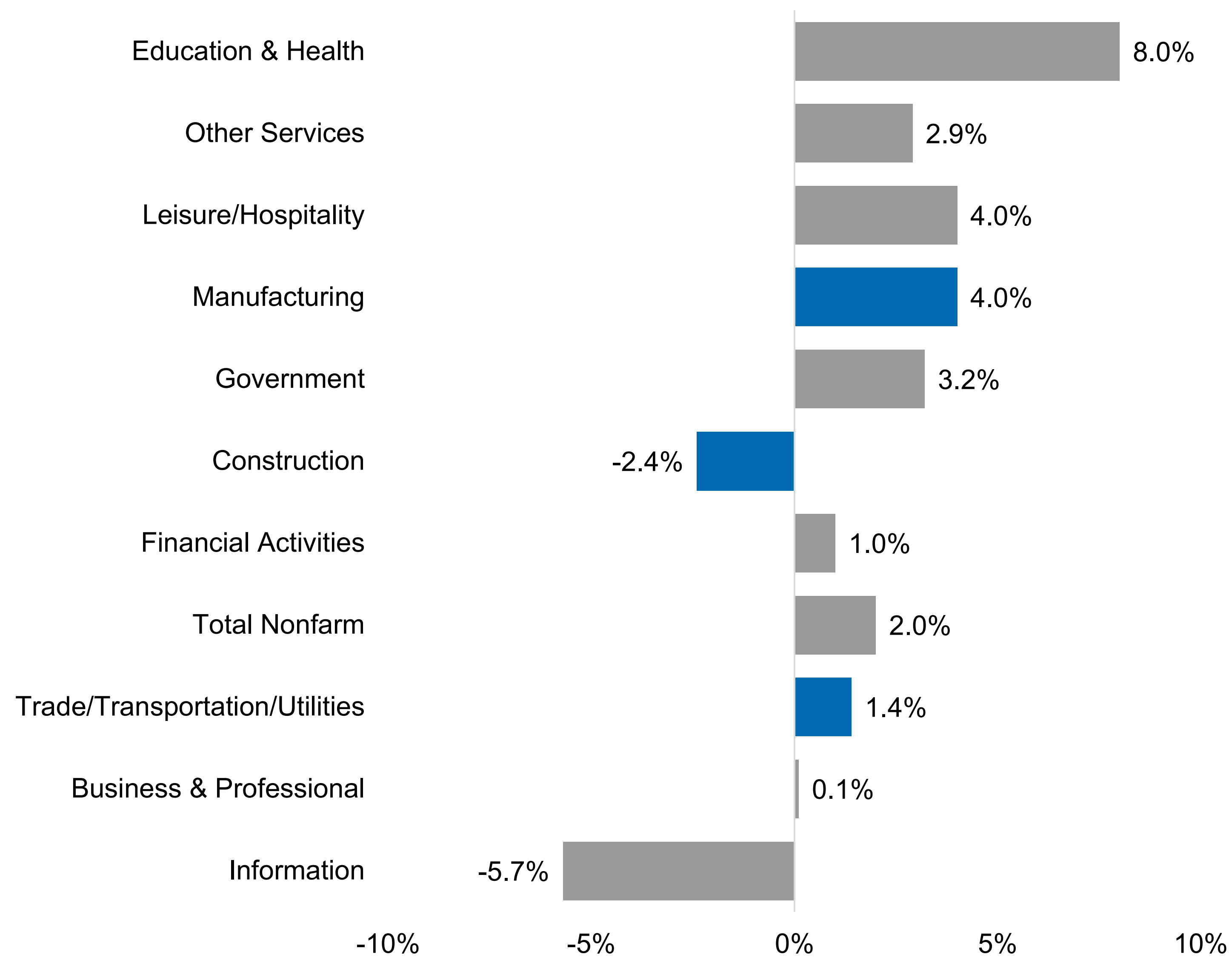
Job Growth Driven By Services

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. While the manufacturing sector saw modest job gains, the construction sector contracted by 2.4% over the 12-month period.

Employment by Industry, November 2023



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

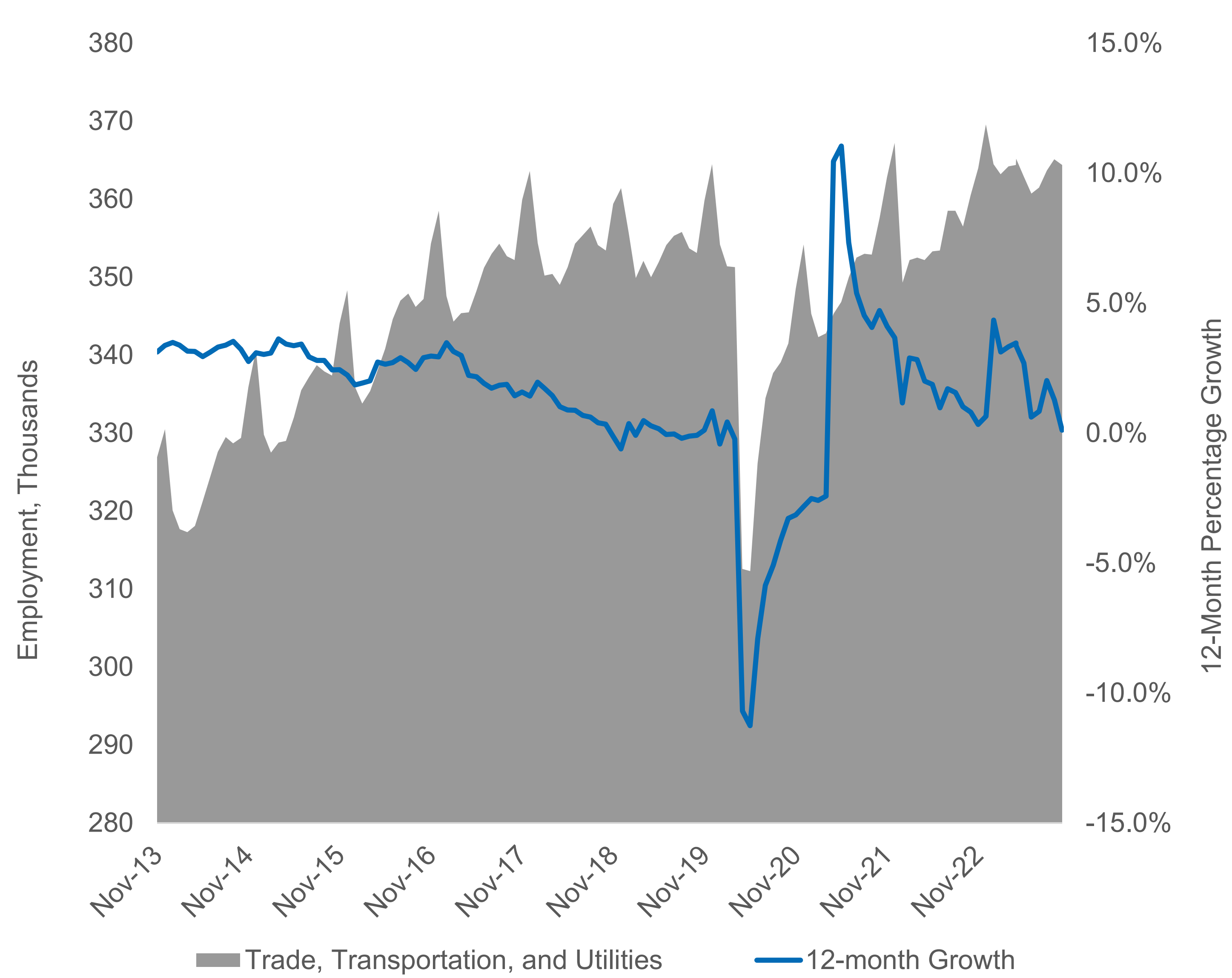


Source: U.S. Bureau of Labor Statistics, Seattle-Bellevue-Tacoma MSA

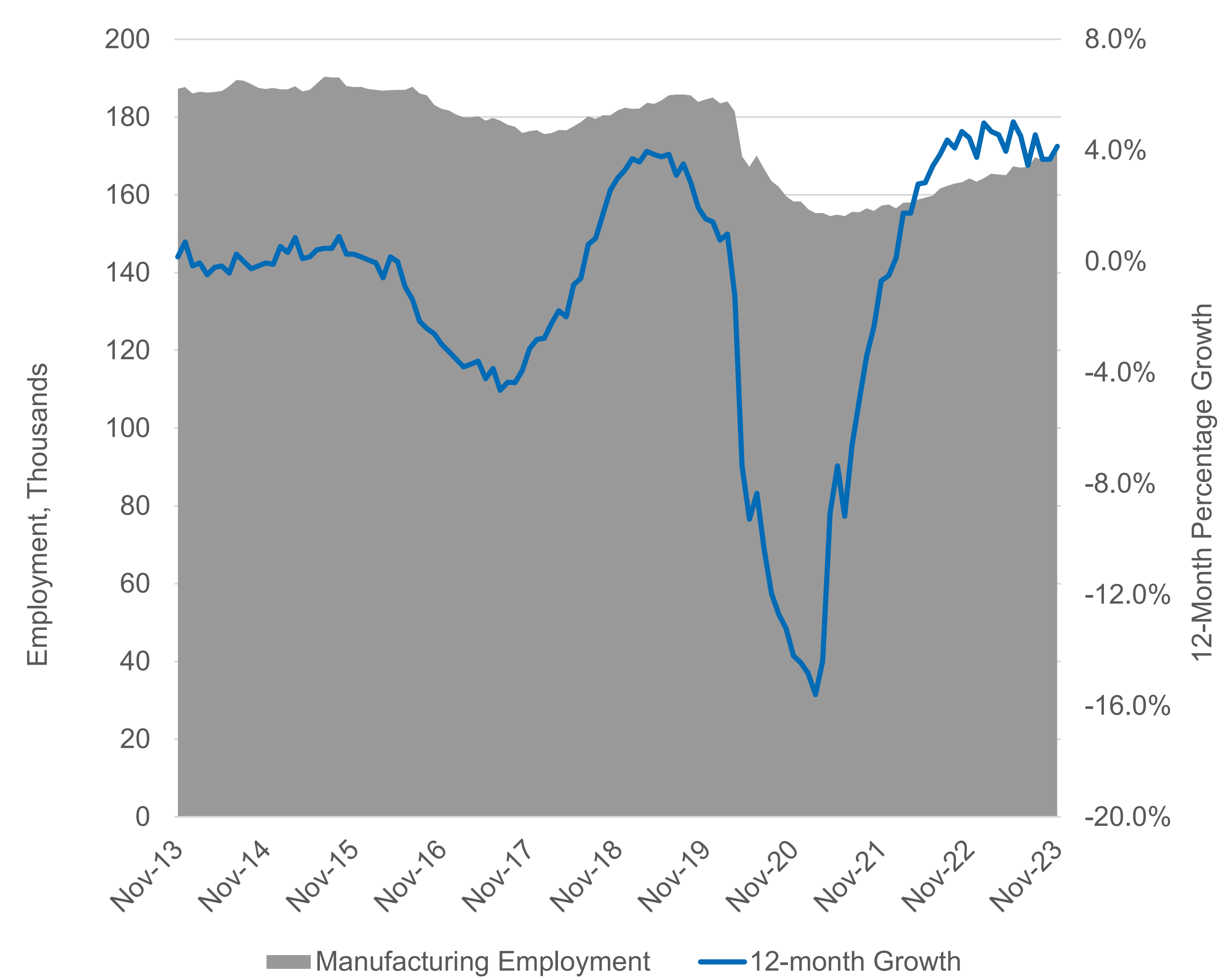
Manufacturing Employment Strong but Not Immune to Softening Conditions

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 4.1%.

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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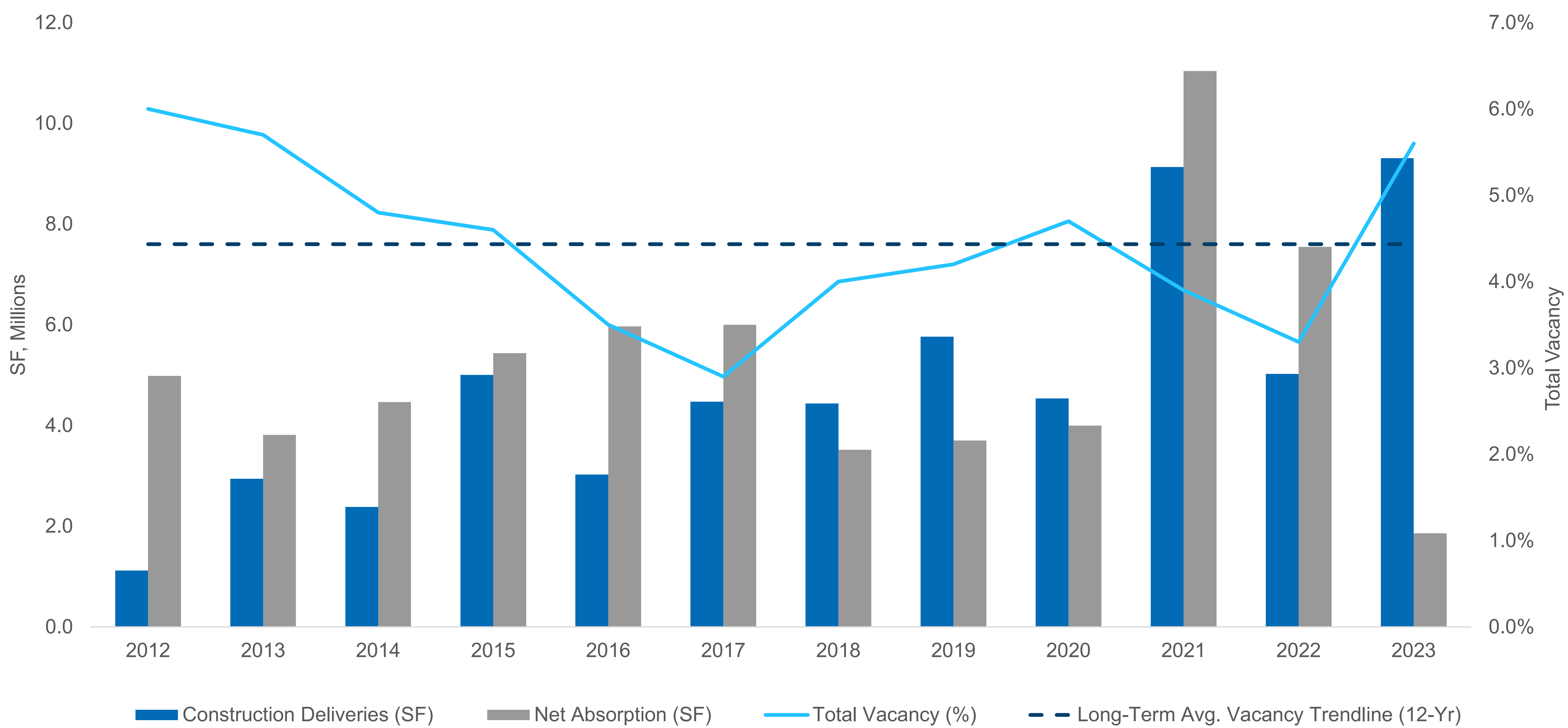
Leasing Market Fundamentals

Construction Deliveries Outpace Net Absorption

The vacancy rate increased 60 basis points over the third quarter to 5.6%. A total of 1.9 million SF of new product was completed, 80.0% of which delivered vacant. Nearly half of this vacant space is expected to be positively absorbed in the first quarter of 2024 as Boeing's leases commence at CenterPoint Seattle and Logisticenter at Pacific Gateway.

Historical Construction Deliveries, Net Absorption, and Vacancy

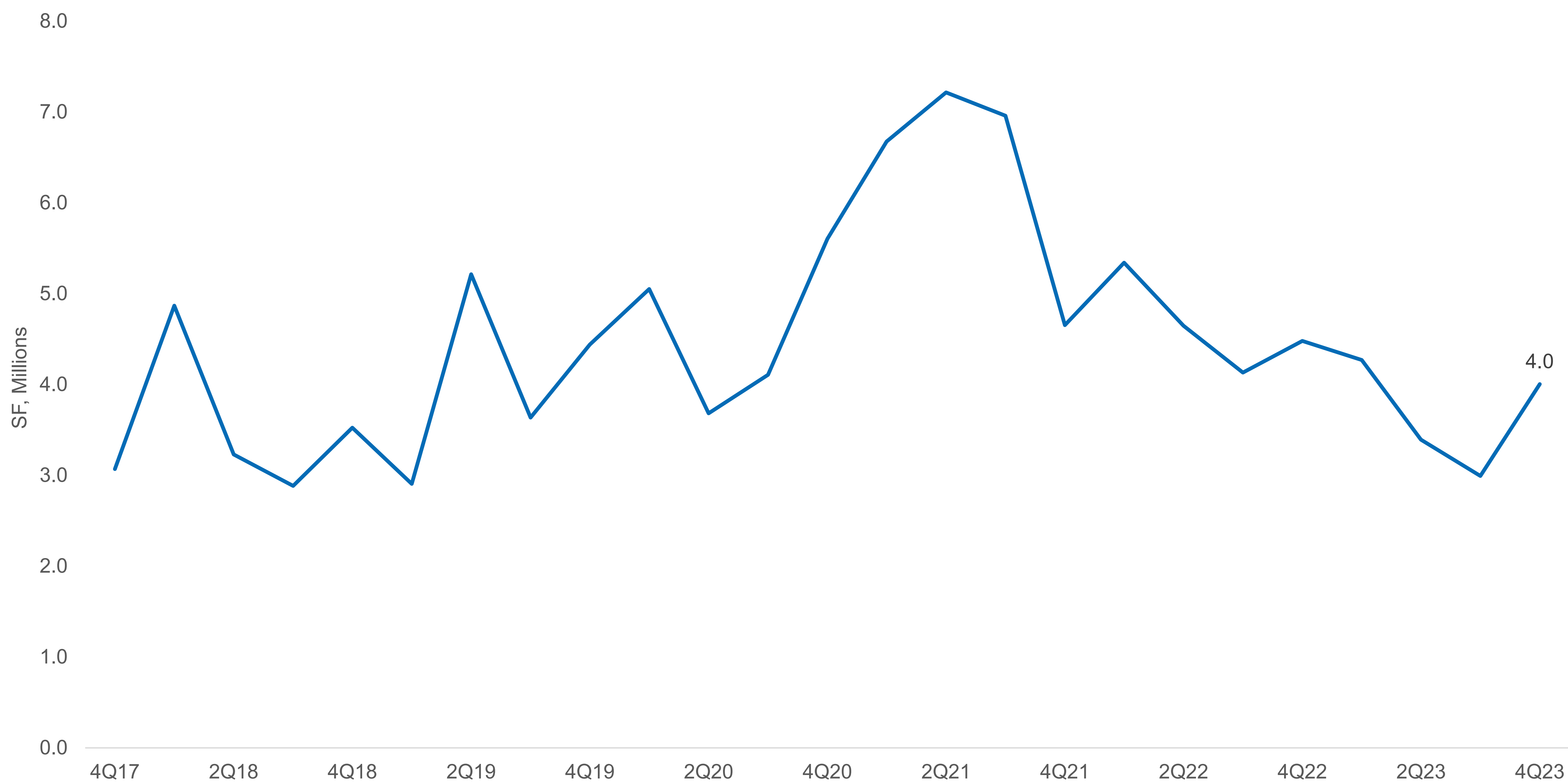


Source: Newmark Research

Industrial Leasing Activity Shows Signs of Stabilization

Demand for industrial space increased during the fourth quarter of 2023 following a slow third quarter. Leasing activity totaled 4.0 million SF, just 10.9% below the 5-year quarterly leasing average.

Total Leasing Activity (SF)

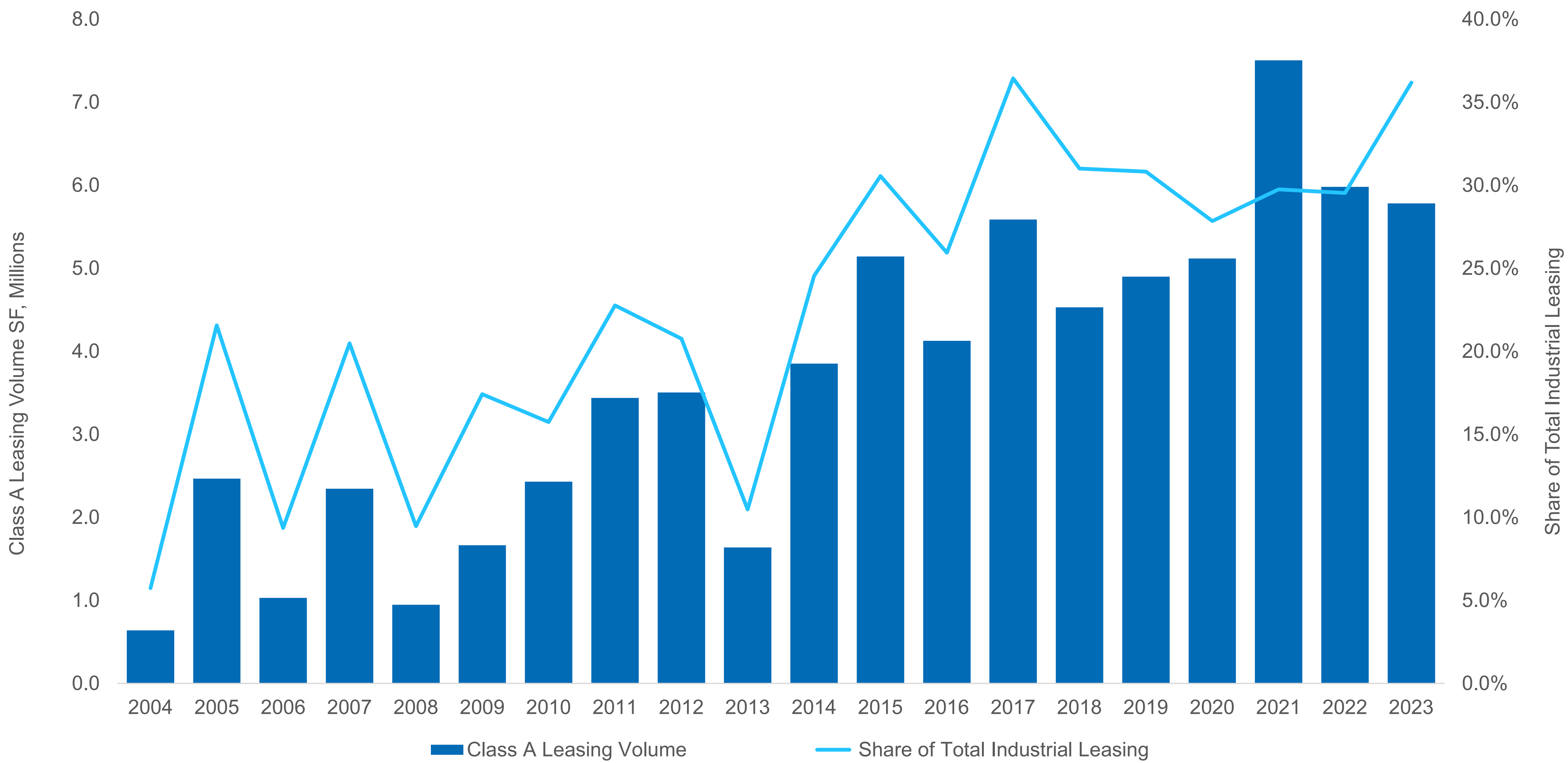


Source: Newmark Research, CoStar

Class A Warehouse Share of Leasing Hits 5-Year High

Class A warehouse leasing represented 36.2% of overall leasing activity, the highest it has been since the 36.4% peak in 2017. Despite a slowdown in overall leasing volume over the past two years, demand for premium product has not waned.

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

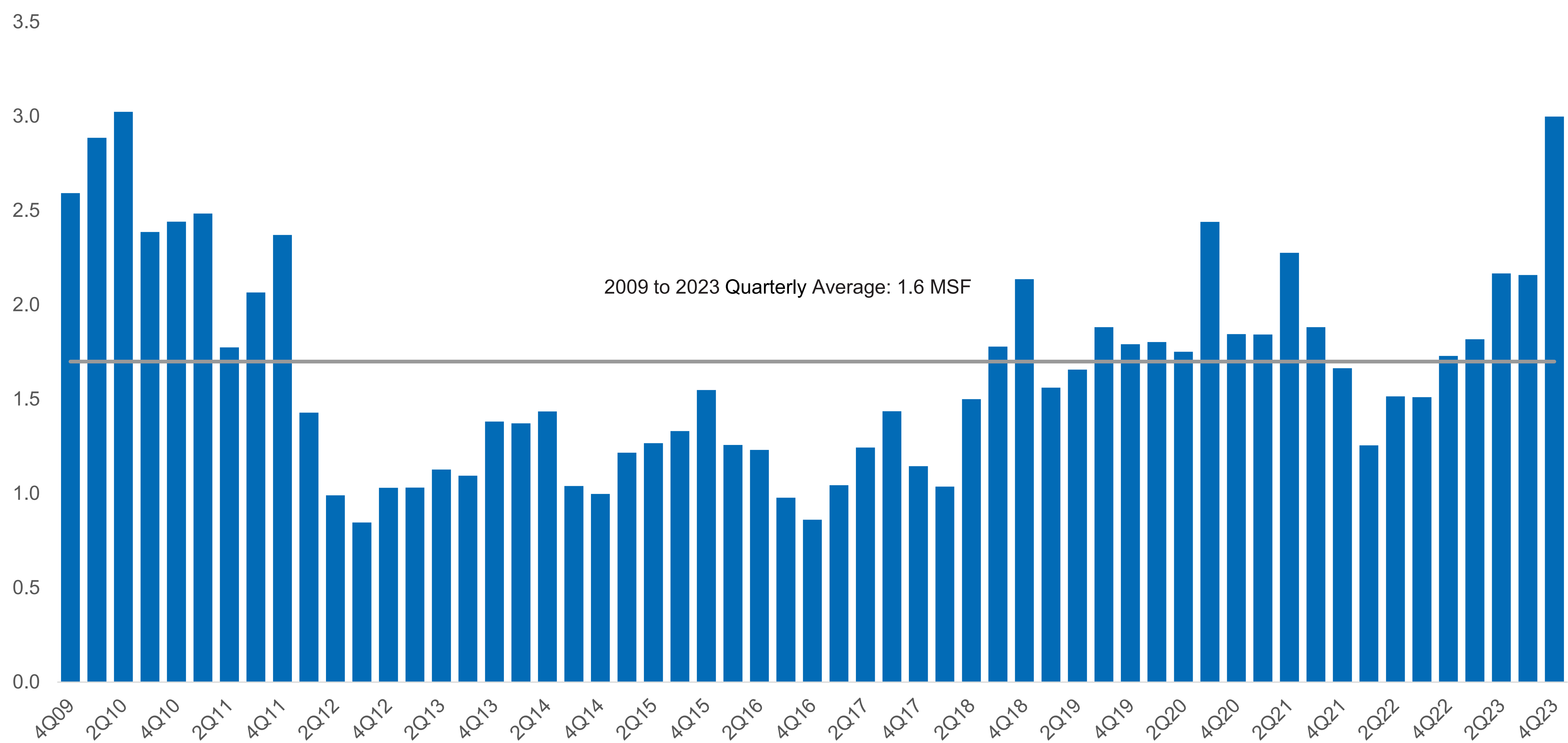


Source: Newmark Research, CoStar

Industrial Sublease Availability Rises Dramatically in Fourth Quarter

At the close of the year, there were 3.0 million SF of sublease space available, the highest volume since the second quarter of 2010. During the peak of the pandemic, disruptions to the supply chain and low available inventory led to many tenants leasing an excess of space. Now, amid an inflationary environment and declining consumer demand, they are putting underutilized space up for sublease to control costs.

Available Industrial Sublease Volume (msf)

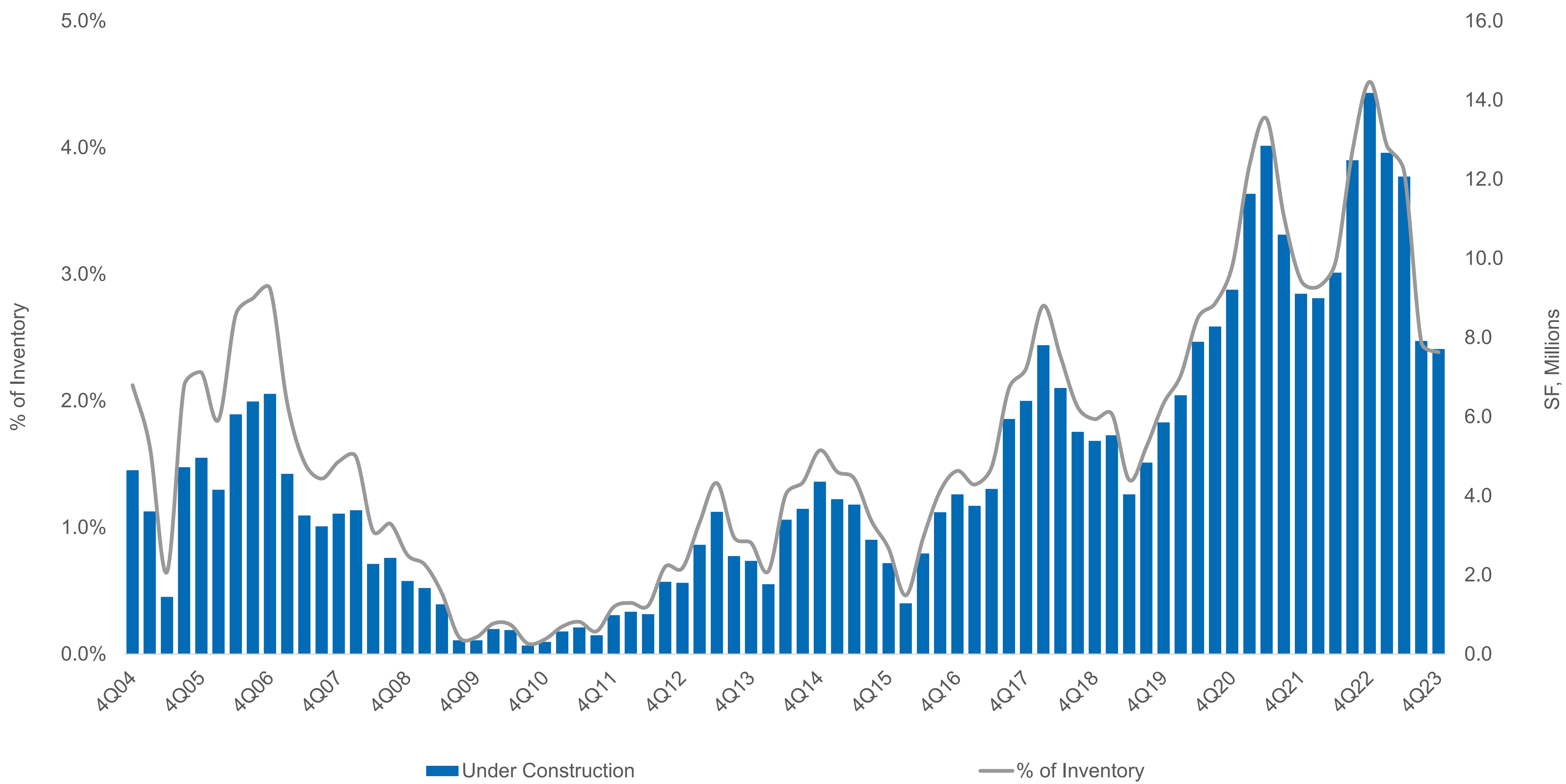


Source: Newmark Research, CoStar

Development Pipeline Remains Healthy

The construction pipeline remains robust, with 7.7 million SF underway. An estimated 6.6 million SF is projected to deliver in 2024, making it likely that vacancy will rise in the short-term as deliveries will continue to outpace absorption. New starts have slowed as developers face financing challenges, and it is anticipated that the construction pipeline will decelerate throughout 2024 as the market recalibrates.

Industrial Under Construction and % of Inventory



Source: Newmark Research, CoStar

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Appendix

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Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Research Reports are available at nmrk.com/insights.

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