

INVESTMENT FORECAST

Industrial
Seattle-Tacoma

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

2022

Industrial Demand Bolstered by Rising Imports and Supply Chain Crunch at Ports

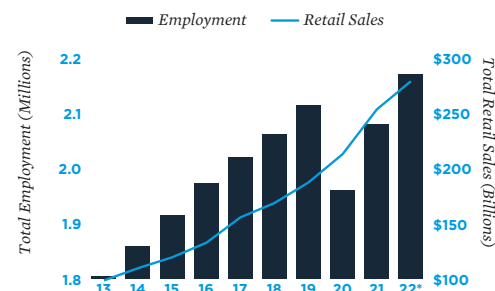
Substantial shipping activity and e-commerce create opportunities. As the headquarters for multiple prominent technology firms, Seattle-Tacoma's economy has recovered steadily since 2020, contributing to a rising median household income and a 4.3 percent increase in employment last year. These factors are improving consumer demand, which has outpaced production capacity that was limited by shutdowns and a raw materials shortage. The resulting bottlenecks at ports caused a rush for industrial space, generating a need for additional nearby warehouses to store both imports and retailers enlarging safety stocks. This situation has created opportunities for developers and bolstered the metro's construction pipeline. One such project, a 2.8 million-square-foot Amazon fulfillment center in Arlington, is scheduled for completion in 2022. The facility and a collection of other projects will translate to an elevated year for deliveries. Still, net absorption will surpass openings, pushing asking rents to a record high.

Metro's position as regional distribution hub draws investors. In a market that routinely observes large quantities of trading activity, last year saw an approximately 40 percent increase in sales over the trailing four-year average. This robust demand is fueling higher prices. Since 2016, the metro's average price point has risen by 60 percent to nearly \$280 per square foot, a figure more than \$100 above the national average. Additionally the average cap rate for the metro entered the year in the low-5 percent zone, with above-average returns most frequent for smaller, suburban warehouses fit for last-mile operations. The suburban submarket of Tukwila accounted for the highest number of transactions outside of Seattle, most of which involved older flex distribution space.

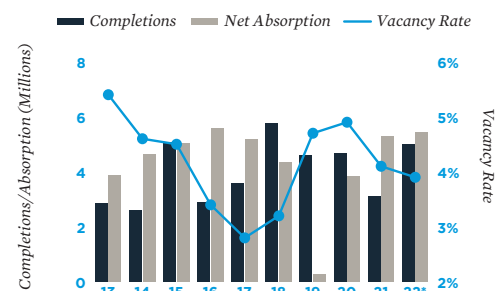
2022 Market Forecast

- Employment** ↗
 up 4.3% The metro's total job count will surpass pre-pandemic numbers, as 90,000 new positions are added.
- Construction** ↗
 5 million sq. ft. Inventory will expand by 1.7 percent as annual construction reaches its highest total since 2018. This year, Pierce County will see the greatest amount of completions.
- Vacancy** ↘
 down 20 bps After an 80-basis-point drop last year, vacancy continues to tighten as the absorption of approximately 5.4 million square feet pushes the rate down to 3.9 percent in 2022.
- Rent** ↗
 up 7.5% Asking rents will continue to rise this year, albeit not at the same sharp pace as the last two years. Nevertheless, the metro's mean marketed rate will reach \$12.85 per square foot.
- Investment** ○
The wave of completions recorded over the last half decade in the Southend submarket has thoroughly been absorbed, lowering local vacancy below 5 percent. This recent performance may prompt more investors to explore the area in 2022.

Economic Trends



Supply and Demand



Rent Trends



* Estimate; ** Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

Al Pontius

Senior Vice President
Director IPA Industrial
Tel: (415) 963-3000 | apontius@ipausa.com

Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of February 2022. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Forecasts for employment and retail data are made during the first quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.