MARKET REPORT

Industrial

Seattle-Tacoma Metro Area

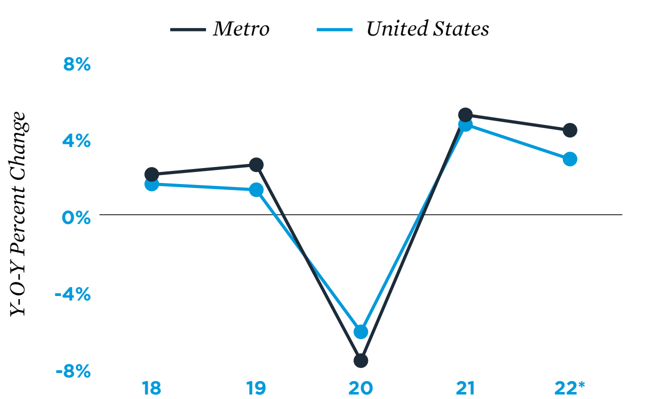
IPA INSTITUTIONAL PROPERTY ADVISORS

Household Growth, New Tax Policy Motivate Firms to Ramp Up Operations in Suburbs

Logistics-related expansions steer development. Spanning the past two years ending in March 2022, Seattle recorded a 3.7 percent rate of household formation, an increase nearly five times the national pace. Accelerated household growth has catalyzed demand for essential goods, giving rise to a historical high in distribution-related construction across suburban locales. In the first quarter of this year, the metro added 700,000 square feet of distribution space, with 4.5 million more square feet slated for delivery during the rest of 2022. In contrast, warehouse development is fairly minimal throughout the metro. This has the potential to heighten demand for this space as smaller firms capitalize on providing logistical support to expanding e-commerce firms.

Tax policy heightens demand outside Seattle proper. Suburban locales across the metro are benefiting from the implementation of Seattle's JumpStart tax last year. Over the past 12 months, the Tacoma and Northend submarkets each registered near-record net absorption figures, while Downtown recorded the most space relinquished since 2016. The policy, which taxes Seattle-located companies based on salaries paid to their top earners, prompted omni-channel retailers, such as Nordstrom, to set up a distribution center in Tacoma. In spite of tightening conditions and high levels of construction in both Tacoma and Northend, rent growth there has been low relative to other locales, further increasing their attractiveness for industrial tenants.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Industrial 2022 Outlook

90,000 JOBS
will be created

EMPLOYMENT:

Seattle's workforce grows by 4.4 percent in 2022, facilitated by surging demand for labor within its hospitality and construction sectors. Hiring early in the year pulled unemployment down to 3.1 percent in May, its lowest figure since February 2020.

6,000,000 SQ. FT.
will be completed

CONSTRUCTION:

Development hits the 6 million-square-foot mark for the first time since 2007, as builders satiate pent-up demand for top-tier industrial space. The bulk of deliveries are in Northend, where local inventory will grow by 8 percent.

20 BASIS POINT
decrease in vacancy

VACANCY:

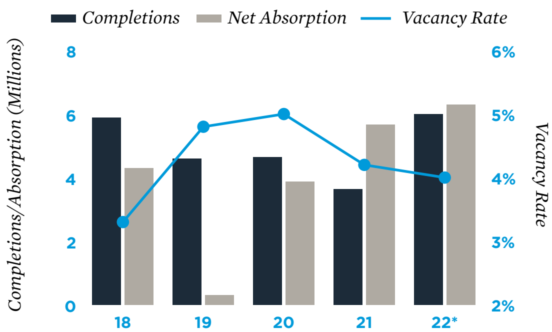
Availability compresses to 4.0 percent, aided by an 85 percent pre-leasing rate among new builds as of June. Overall, net absorption is anticipated to exceed deliveries by at least 300,000 square feet in 2022, lowering vacancy for a second straight year.

8.4% INCREASE
in asking rent

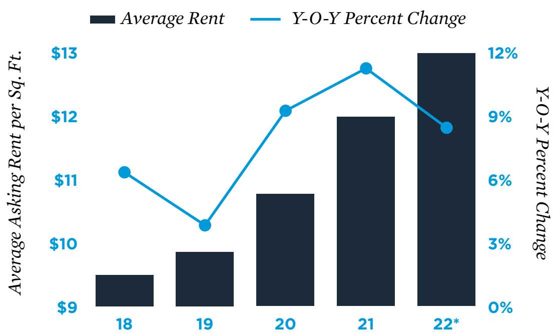
RENT:

Amid elevated construction and tightening conditions, the metro's average asking rent escalates to $12.97 per square foot, its highest figure to date.

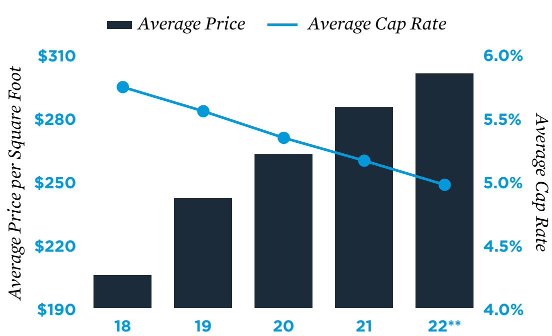
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 1Q*

Sources: CoStar Group, Inc.; Real Capital Analytics

IPA Industrial

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Price: $250

1Q 2022 - 12-Month Period

CONSTRUCTION

3,376,000 sq. ft. completed

- Aided by 1.3 million square feet of deliveries for e-commerce firms, inventory grew by 1.2 percent through the past 12 months ending in March.
- The Tacoma submarket received nearly two-thirds of the past year's industrial supply additions. An additional 1.7 million square feet was underway in the locale as of mid-June, sustaining high levels of development there.

VACANCY

110 basis point decrease in vacancy Y-O-Y

- Entering April, vacancy sat at 3.8 percent, the tightest rate since December 2018. Slowed completions and strong tenant demand caused availability to decrease by 40 basis points during just the first three months of this year.
- Although Tacoma received the majority of the past year's industrial completions, local vacancy dropped 210 basis points to 4.7 percent in March.

RENT

11.7% increase in the average asking rent Y-O-Y

- Net absorption outpaced deliveries by nearly 3 million square feet over the past 12 months, accelerating the pace of rent growth. At the onset of the second quarter, the metro's average asking rent was $11.94 per square foot.
- Southend recorded the most rapid rent growth during the past year, as the local average asking rate swelled by 21.5 percent to $11.42 per square foot.

Investment Highlights

- The metro recorded a 30 percent improvement in transactions through the 12 months ending in March, with Washington-based trades increasing 30 percent during that period. Intensified competition, spurred by a deepened buyer pool, lifted the sector's average price per square foot by 12 percent and reduced the mean cap rate to 5.0 percent.
- Activity has surged in the $1 million to $10 million tranche, with buyers preferring smaller warehouses in Southend. Home to the highest rent growth in Seattle and average pricing that is nearly $40 per square foot lower than the metrowide mean, the submarket has drawn value-add focused investors seeking opportunities to re-tenant assets with expiring leases at higher rates. As a result, trades in Southend more than doubled, amounting to nearly 40 percent of transactions over the past year.
- Price gains were the sharpest in Eastside, with the submarket registering a significant jump in average pricing to $415 per square foot. The locale is home to the metro's lowest vacancy and its highest average rent, bolstering the area's near-term outlook. Pricing pressure has caused average yields for investors here to hover in the low- to mid-3 percent range, however, the submarket's limited development pipeline is fueling strong buyer demand.