

INVESTMENT FORECAST

Industrial
Seattle-Tacoma Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

2024

Last Year's Pressures Abate, but Reset Lingers amid Some Pockets of New Supply Pressure

Multiple factors interrupt strong streak of improving tenant demand. After nearly 19 million square feet of industrial space was absorbed on net from 2020 to 2022, roughly 2 million square feet was relinquished last year. While several of the elements behind 2023's correction — including lower container traffic at local ports and elevated local inflation — will improve this year, ongoing speculative arrivals will keep vacancy elevated in 2024. Development is concentrated in the North-end and Tacoma. The former area was the sole submarket to post positive net absorption last year, suggesting the four unclaimed distribution facilities underway in Maryville Corporate Center are warranted long term. Tacoma, meanwhile, continues to boast the market's lowest average asking rent, a potential boon for tenants amid elevated operating costs. Construction here is defined by four buildings underway in the FRED310 complex in Puyallup. The former tenant at that facility, Boeing, is also committed to moving into more than 1 million square feet across the market later this year, helping lift overall net absorption back into positive territory for 2024.

Warehouses south of Seattle proper continue to hold investor attention. As Seattle-Tacoma's largest submarket by inventory, the Southend routinely draws the largest share of trades. This trend held true last year and into the early part of 2024, with warehouses under 50,000 square feet frequently changing hands in the cities of Kent and Auburn off Highway 167. These corridors, as well as areas near Seattle-Tacoma International Airport, such as Tukwila, are likely to hold investors' attention going forward. Manufacturing assets of comparable size, meanwhile, have tended to trade in Tacoma and near Downtown Seattle, while listings for distribution facilities remain scarce.

2024 MARKET FORECAST

+1.6%



EMPLOYMENT: Overall hiring takes a 20 percent step back year-over-year as 34,000 jobs are created in 2024. An above-market pace of employment growth is anticipated in the manufacturing sector.

4.2 million

sq. ft.



CONSTRUCTION: Deliveries are set to fall to the lowest level since 2017, with few openings across the Southend and Eastside. Overall supply growth will hit 1.4 percent this year.

+120 bps



VACANCY: While more industrial space will be leased than relinquished this year, new supply will keep ahead of demand again in 2024. The market's vacancy rate will rise to 7.4 percent as a result.

+2.4%

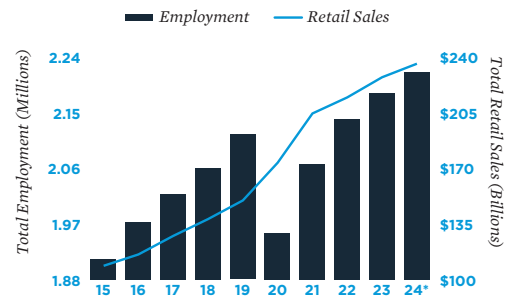


RENT: Improved leasing will correlate with renewed rent growth this year, after a 7.4 percent correction in 2023. At a mean of \$12.82 per square foot, the average asking rate is up 31 percent from 2019.

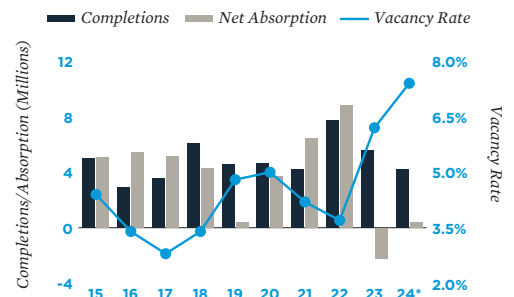
INVESTMENT:

California holds as the second-most common origin for investors here. Compared to the major markets in the state, only Sacramento boasted a mean cap rate above Seattle's 5.7 percent average in 2023.

Economic Trends



Supply and Demand



Rent Trends



* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

Al Pontius

Senior Vice President

Director IPA Office

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 December 2023. Effective rent is equal to asking rent less concessions. 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. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. Forecasts for employment and apartment data are made during the fourth 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.