

MARKET REPORT

INDUSTRIAL

Seattle-Tacoma Metro Area

IPA
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2H/19

More Tenants Seeking Lower Costs Outside of Core; New Inventory Draws Institutional Buyers

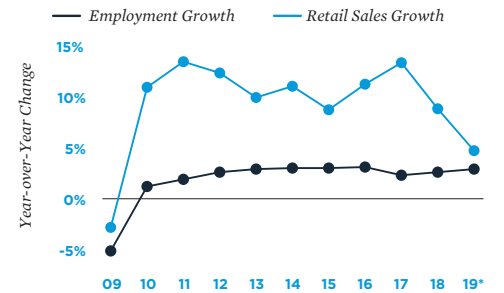
Rising rents in core have some tenants seeking more affordable space. The average asking rent resting above \$13.88 per square foot in the Eastside and city of Seattle has some firms that are not tech or e-commerce related moving farther from the metro core for lower rates. South King County and Pierce County may be beneficiaries of these relocations in the year ahead as new inventory has increased the amount of available space in these submarkets. In addition, these areas post the lowest average rent in the metro and benefit from access to the airport and ports in both Seattle and Tacoma. In recent years, construction has been concentrated in these two submarkets, a trend that will hold in 2019, although the deliveries in the Northend submarket will increase substantially to roughly 1 million square feet. The city of Woodinville will receive over half of this space. In downtown Seattle, the nation's first multi-level warehouse was completed at the end of 2018. The 590,000-square-foot three-level building will soon be fully occupied as Amazon recently inked a lease for 500,000 square feet. Home Depot is the facility's other occupant. Looking ahead, an increase in speculative development will nudge vacancy up and temper rent gains in 2019.

Wide range of buyers active throughout the metro. Transaction velocity escalated 7 percent year over year in June, while the average price jumped 12 percent to \$224 per square foot. During the same period, the average cap rate dipped 10 basis points into the mid-5 percent range; however, first-year returns for well-located assets in the city of Seattle or South King County will start in the 4 percent range. Institutional investors are prevalent with sales above \$20 million more than doubling since June of 2018. Some of these buyers are targeting new large warehouse and distribution that are needed for the growth in e-commerce in Snohomish or Pierce counties. Other investors are focusing on assets in the city of Seattle and South King County. Small, older warehouses near downtown Seattle will trade above \$300 per square foot and some of these assets are used for last-mile consumer deliveries.

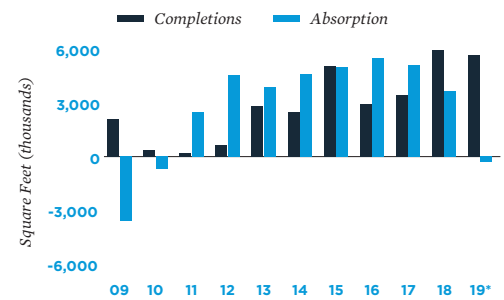
2019 Market Forecast

- Employment** up 2.9%
The metro remains among the top job producers in the nation during 2019 as 60,000 jobs are created. This follows a 2.6 percent jump last year.
- Construction** 5.7 million sq. ft.
Following an 11-year high during 2018 when 5.9 million square feet was completed, deliveries slow slightly in 2019.
- Vacancy** up 200 bps
An increase in speculative construction will keep net absorption below completions, raising the vacancy rate to 5.6 percent at year end. The rate is up 280 basis points from 2017's cyclical low.
- Rent** up 3.5%
The average asking rent ends 2019 at \$9.97 per square foot, building on a 7.2 percent vault last year. Rent has soared 47 percent since the beginning of 2015 and is roughly 35 percent above the national rate.
- Investment**
The robust growth of a tech-savvy population will keep demand elevated for last-mile delivery space. Buildings in the city of Seattle that can accommodate e-commerce users will be in demand by investors.

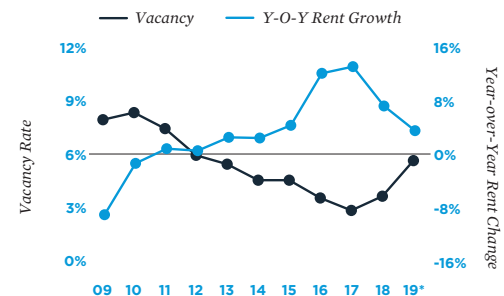
Employment vs. Retail Sales Trends



Industrial Completions



Asking Rent and Vacancy Trends



* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics; Moody's Analytics

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Metro-level employment, vacancy and asking rents are year-end figures and are based on the most up-to-date information available as of September 2019. 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 industrial data are made during the third 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.