MARKET REPORT

INDUSTRIAL

Seattle-Tacoma Metro Area

IPA | INSTITUTIONAL PROPERTY ADVISORS

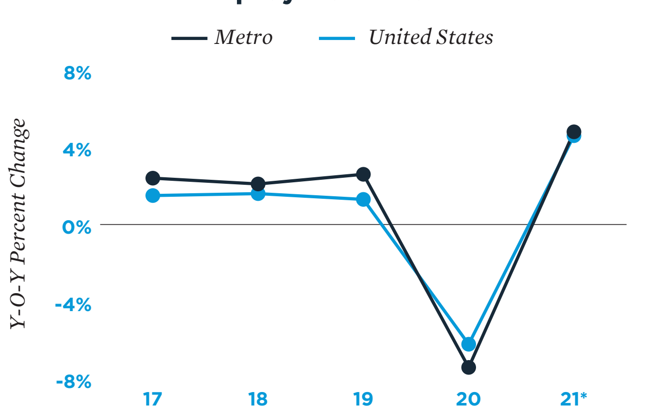
2Q/21

Metro Positioned for Moderate Shift in Vacancy; New Tax Bolsters Leasing Outside City of Seattle

Industrial users expand local capabilities. Relatively isolated, Seattle represents a regional distribution hub for the Pacific Northwest and states east of Washington, making it an essential market for many online retailers and logistics firms. The rise in e-commerce usage during the health crisis has motivated many of these companies to bolster their existing footprints, growth that supported the absorption of 2.5 million square feet over the past year ended in March. With container and air freight volumes elevated at the metro's seaports and international airport during the early months of 2021, positive momentum is expected to continue in the near term. Steady demand for space will position the market's vacancy rate to remain on par with the national average, providing operators the impetus to push asking rents.

Tariff impacts corporate growth. Responding to a widening budget deficit that stemmed from the loss of tax revenue during the pandemic, Seattle passed the JumpStart tax last summer. Slated to begin collecting money in 2022, the measure implements a levy on businesses with at least $7 million in annual payroll expenses, charging them 0.7 percent to 2.4 percent based on the amount they pay city-based employees. The tax is motivating some large firms to expand or relocate operations outside Seattle. Industrial leasing activity is beginning to reflect this as Tacoma and Southend led the metro in absorption over the past year, driven by a collection of 100,000-square-foot-plus executions.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Industrial 2021 Outlook

94,000 JOBS
will be created

EMPLOYMENT:

The recovery of 60 percent of the jobs lost last year will lead to a 4.8 percent rate of employment growth in 2021 with over 36,000 roles created during the first quarter. Seattle entered April with a 5.5 percent unemployment rate, 50 basis points below the U.S. average.

3,600,000 SQ. FT.
will be completed

CONSTRUCTION:

Development activity will slow by 700,000 square feet when compared with the prior five-year average. Pierce County will welcome the bulk of anticipated deliveries. Roughly 70 percent of space slated for 2021 completion was available as of June.

20 BASIS POINT
increase in vacancy

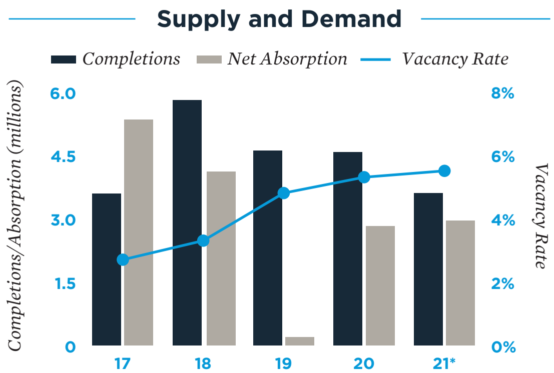
VACANCY:

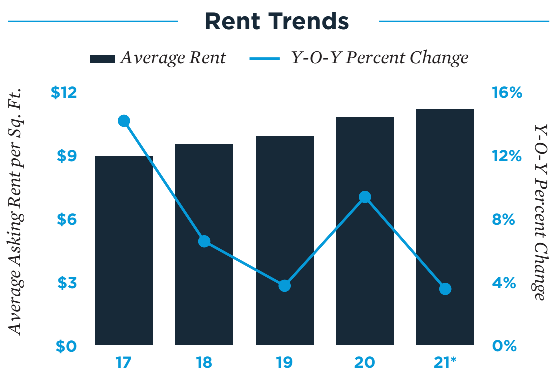
Nearly 3 million square feet will be absorbed in 2021 yet vacancy will rise for a fourth consecutive year, albeit at a slower pace than the 50-basis-point increase noted in 2020. At 5.5 percent, the metro's year-end availability will represent the highest mark since 2012.

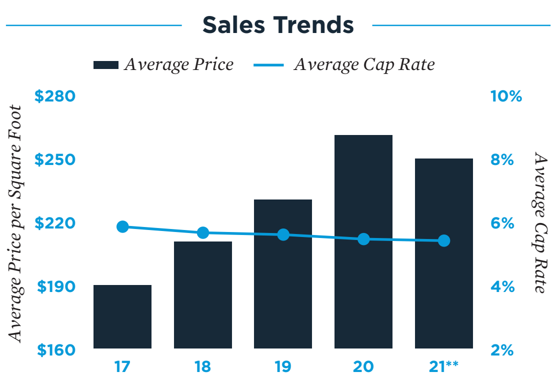
3.5% INCREASE
in asking rent

RENT:

Supply additions and a rate of absorption similar to 2020 will allow operators to raise the average marketed rent to $11.15 per square foot. The increase registered in 2021 will trail the 9.3 percent spike notched last year.







** Forecast ** Through 1Q*

Sources: CoStar Group, Inc., Real Capital Analytics

1Q21 — 12-Month Period

CONSTRUCTION

4,007,000 square feet completed

- Supply additions for the 12-month period ended in March expanded the metro's inventory by 1.4 percent, a decline from the 5.5 million square feet finalized during the prior yearlong span.
- Another 3.8 million square feet is underway with delivery dates extending into 2022. The average project comprises 190,000 square feet.

VACANCY

50 basis point increase in vacancy Y-O-Y

- Positive absorption was recorded in three of the last four quarters, still new supply outpaced demand over the past year, pushing vacancy up to 5.3 percent. During the prior 12 months availability rose 90 basis points.
- The metro's largest submarket by inventory, Southend, recorded a reduction of 80 basis points that dropped vacancy to 5.1 percent.

RENT

6.4% increase in the average asking rent Y-O-Y

- Positive absorption and a steady stream of project deliveries elevated the average asking rent to $10.71 per square foot.
- Nearly all submarkets registered rent gains over the past year. Northend noted a double-digit spike, the largest increase among locales with inventories exceeding 40 million square feet.

Investment Highlights

- Investor activity surged from October 2020 through March 2021 with the period ranking as the strongest six-month stretch for transactions since early 2007. Despite the span of robust deal flow, sales velocity over the trailing 12 months ended in the first quarter was down 2 percent as property trading was muted during the early months of the pandemic.
- The slight decline in year-over-year sales activity coincided with a 5 percent bump in pricing that elevated the metro's average to $250 per square foot. The mean cap rate dipped 10 basis points during the same period and has remained in the mid-5 to high-5 percent range since 2017.
- Buyers have remained active in the metro's major submarkets since the onset of the pandemic, acquiring warehouses near major transportation routes. At the low end, these properties have provided investors with returns in the 4 percent band. Those targeting older assets at below average price points have focused on Tacoma, Northend and Southend.
- Trades within the city of Seattle have been concentrated in Downtown, which is home to the metro's lowest vacancy rate. Here, Class C warehouses frequently change hands for more than $250 per square foot.

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