

PUGET SOUND INDUSTRIAL MARKET

MARKET SHOWS RESILIENCE IN SECOND QUARTER

The Puget Sound industrial real estate market continued to excel in the second quarter of 2020, despite the statewide shutdown in response to the pandemic. Puget Sound experienced 1,068,561 square feet of net absorption during the second quarter, pushing the year-to-date total to 1,578,482 square feet. Large leases in Kent Valley and Pierce County helped lower the region's vacancy rate to 4.3%, down 30 basis points on the quarter. Average asking rents increased to \$9.99/SF, up 1.2% for the quarter and up 40.1% over the last five years. Construction activity picked up during the quarter, increasing to 7.9 million square feet, a record for the Puget Sound region. The market is being driven by retailers and distributors seeking to enhance their last-mile and logistics capabilities, with the most active markets being Kent Valley and Pierce County. The country's increased reliance on home delivery bodes well for Amazon, whose presence in the region as a job creator and more directly as a tenant have many experts bullish on industrial real estate in Puget Sound.

KENT VALLEY

Demand for space in the Kent Valley submarket cluster appears stronger than ever. Kent Valley had 420,763 square feet of net absorption during the quarter, led by move-ins from U.N.F.I. at Valley Centre Building 2 in the Federal Way/Auburn submarket for 132,316 square feet; Alaska Airlines at IAC Commerce Center in the SeaTac/Des Moines submarket for 115,273 square feet; and Core & Main at 3002 Lind Avenue in the Tukwila/Renton submarket for 60,255 square feet. The move-ins helped lower the Kent Valley vacancy rate to 5.1%, a drop of 30 basis points during the quarter. Look for more positive absorption moving forward, as there has been a slew of large leases signed in the Kent submarket in 2020. Recently signed deals include: Filson leasing 126,028 square feet at Van Doren's 228th; Lineage Logistics renewing for 179,415 square feet in Building 1 of Springbrook 188 in the Kent submarket; and Amazon leasing 654,533 square feet at Prologis Park Kent 26. Amazon is rumored to have leased more than 1.6 million square feet of industrial space in Puget Sound since the start of the year, more than half of which is in the Kent Valley. Development activity in the Kent Valley increased in the second quarter, with square feet under construction rising to 1.19 million. One project of note that broke ground this quarter was Pacific Gateway in the Kent submarket, which is located on a 43-acre development site that Panattoni purchased last quarter from Boeing for \$60.0 million (\$32/SF usable land). Pacific Gateway will be a six-building, 823,544-square-foot industrial park when completed in 2021.

CURRENT CONDITIONS

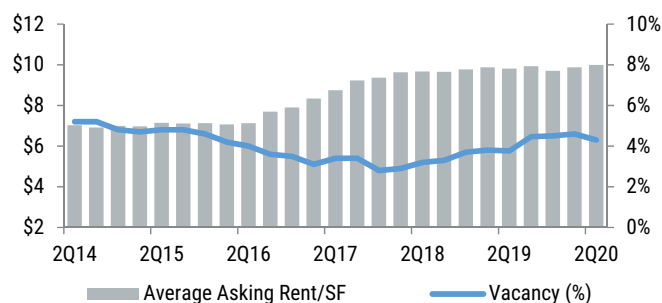
Puget Sound asking rents increased to \$9.99/SF NNN, up 1.2% for the quarter and up 40.1% over the last five years.

Move-ins in the Kent Valley lowered the vacancy rate to 5.1%, a drop of 30 basis points during the quarter.

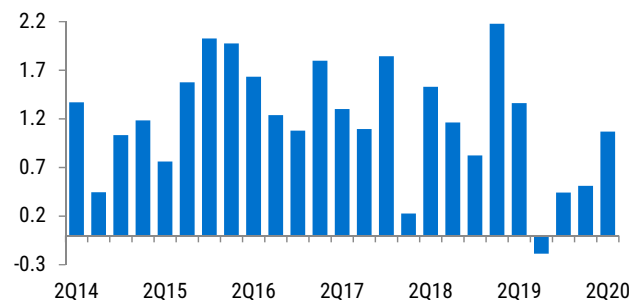
Seattle asking rents reached \$15.14/SF NNN, an increase of 0.5% for the quarter and up 3.6% year over year.

MARKET ANALYSIS

Asking Rent and Vacancy



Net Absorption (SF, Millions)



MARKET SUMMARY

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	297M SF	296M SF	293M SF	↑
Vacancy Rate	4.3%	4.6%	3.8%	↓
Quarterly Net Absorption	1.1M SF	510K SF	1.4M SF	↑
Average Asking Rent	\$9.99	\$9.83	\$9.81	↑
Under Construction	7.9M SF	6.7M SF	3.7M SF	↓
Deliveries	142K SF	1.0M SF	1.9M SF	↑

PIERCE COUNTY

Pierce County has been expanding rapidly as tenants pursue lower rents and newer construction. The vacancy rate dropped to 5.9%, down 40 basis points on the quarter, and there was 356,959 square feet of net absorption. The largest move-ins for the quarter include Mainfreight USA occupying 119,425 square feet in Building A of Prologis Park Tacoma, and Gruma Foods moving into 95,672 square feet in Building B of IAC Port 167 in the Sumner/Puyallup submarket. Construction is at record levels, with 2.5 million square feet currently under construction and 2.7 million square feet delivered over the last four quarters. Rent dropped slightly to \$7.53/SF, down 0.9% on the quarter but up 2.7% year over year.

One of many significant developments currently under construction in Pierce County is Berch Capital Partners' 116,572-square-foot Sumner Ridge Building A, which CTE Warehousing leased in the first quarter. A second-quarter delivery of note was Morgan Stanley Services Group's 64,574-square-foot Bridge Point Sumner 60, where Palmer Johnson Systems leased 31,423 in fourth-quarter 2019. Many of the year's largest leases have been signed in Pierce County, including IKEA taking 478,235 square feet at LPC Frederickson One in the Sumner/Puyallup submarket; Pacific Distribution leasing 370,087 square feet at 3711 142nd Ave in the Sumner/Puyallup submarket; and Infinity Global Distribution leasing 203,505 square feet at 1401 St. Paul Street in the Fife/Tacoma submarket. Amazon is also rumored to be shopping around in Pierce County, with its focus on Panattoni's 628,640-square-foot Dupont Logistics Center, which is currently the largest available space on the market among completed buildings.

SEATTLE

Market conditions did not change much for the Seattle submarkets during the second quarter. The vacancy rate remained at 2.65%,

unchanged from the previous quarter and down 40 basis points year over year. There was 14,593 square feet of net absorption during the quarter, which brought the total net absorption over the last four quarters to 213,770 square feet. Average asking rents reached \$15.14/SF, an increase of 0.5% for the quarter and 3.6% year over year. There were no construction deliveries this quarter and it's been over a year since a new building delivered in Seattle. There are no projects under construction, due in part to soaring real estate prices and space constraints in the city, which have pushed development to the Kent Valley, Pierce County and Thurston County. The dearth of available space and nonexistent development pipeline will continue pushing rents upward, keeping conditions in the Seattle close-in market favorable to landlords.

DEVELOPMENT SITE SALES

Prologis acquired the 43-acre McFarland Cascade development site in the Fife/Tacoma submarket from the McFarland family for \$33.5M or \$19/SF (land). A new development is anticipated on the site, though the property must go through a state-approved environmental remediation program first. Prologis has been active in the region lately, recently completing Georgetown Crossroads in the South Seattle submarket in late 2018 and beginning soon on Emerald Gateway, a 1.25M square foot project proposed in the Renton/Tukwila submarket. Prologis has been the most active investor in the region over the last 24 months, with more than \$740M in acquisitions over 41 transactions.

In April, Bridge Development partners purchased a 16-acre site at the former REI headquarters in Kent. The sale has not been officially recorded but it is rumored to have traded for roughly \$24.0M or \$30/SF. The four-building, 166,641-square-foot office complex currently on the site is expected to be replaced with a two-building industrial park.

SELECT LEASE TRANSACTIONS

Tenant	Building	Submarket	Type	Square Feet
IKEA	LPC Frederickson ONE - Bldg 1	Sumner/Puyallup	Direct Lease	478,235
Pacific Distribution	3711 142nd Ave E	Sumner/Puyallup	Direct Lease	370,087
Infinity Global Distribution LLC	1401 St. Paul Ave	Fife/Tacoma	Direct Lease	203,505
Filson	Van Doren's @ 228th	Kent Valley	Direct Lease	126,028
Confidential Tenant	Total Reclaim	South Seattle	Direct Lease	50,507

SELECT SALES TRANSACTIONS

Building	Submarket	Sale Price	Price/SF	Square Feet
Boeing Land Sale	Kent	\$60,000,000	\$32 (usable land)	1,873,080
1525 East D Street	Fife/Tacoma	\$42,250,000	\$80	527,705
1010 4th Avenue South	South Seattle	\$42,000,000	\$447	93,880
Seattle Curtain Manufacturing Co	South Seattle	\$20,000,000	\$1,000	20,000
All City Fence Co	South Seattle	\$5,611,300	\$380	14,759

SUBMARKET STATISTICS

	Total Inventory (SF)	Under Construction (SF)	Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Average Direct Asking Rent (Price/SF)
Northend	31,767,777	550,059	2.2%	157,510	115,369	\$9.28
Lynnwood/Shoreline	4,074,547	0	0.9%	-13,246	-18,046	\$10.11
Marysville/Everett	27,693,230	550,059	2.4%	170,756	133,415	\$9.26
Eastside	28,796,604	140,000	2.5%	84,236	558,878	\$16.57
Issaquah/North Bend	4,394,628	140,000	1.5%	0	38,106	\$20.12
Redmond/Kirkland/Bellevue	13,144,075	0	1.7%	92	307,549	\$18.79
Woodinville/Bothell	11,257,901	0	3.8%	84,144	213,223	\$15.02
Seattle	46,822,797	0	2.7%	14,593	-184,284	\$15.14
Fremont/Ballard/DT	7,058,690	0	2.0%	-1,000	-30,926	\$15.38
South Seattle	39,764,107	0	2.8%	15,593	-153,358	\$15.11
Kent Valley	106,126,307	1,194,179	5.1%	420,763	705,225	\$9.42
Federal Way/Auburn	26,313,792	206,155	4.3%	203,428	156,378	\$9.15
Kent	48,476,414	823,544	6.6%	96,361	108,204	\$8.78
Seatac/Burien	5,620,943	0	1.9%	115,273	472,543	\$12.39
Tukwila/Renton	25,715,158	164,480	3.7%	5,701	-31,900	\$10.93
Pierce County	71,714,618	2,459,130	5.9%	356,959	338,394	\$7.53
Fife/Tacoma	25,198,961	161,765	5.9%	160,363	341,573	\$7.85
Lakewood/Dupont	12,720,070	960,206	7.5%	106,172	86,726	\$6.58
Sumner/Puyallup	33,795,587	1,337,159	5.4%	90,424	-89,905	\$7.95
Thurston County	11,426,985	3,581,775	3.7%	34,500	44,900	\$6.52
Puget Sound Market	296,655,088	7,925,143	4.3%	1,068,561	1,578,482	\$9.99

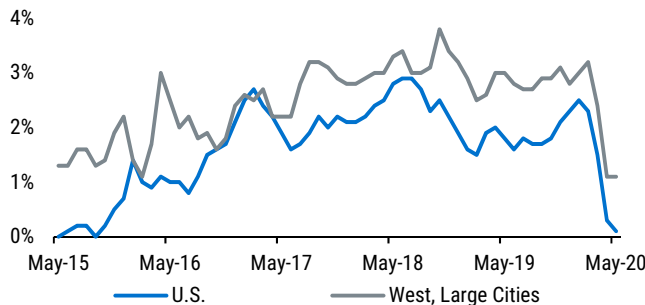
ECONOMIC CONDITIONS

The national economy picked up in June after a disastrous end to the first quarter. The Consumer Confidence Index rose by 14.2% from May to June, and pending home sales jumped by 44.3% between April and May, the largest increase on record. The Dow is down 11.7% for the year but up 39.0% after sinking in late March. The U.S. unemployment rate fell by 140 basis points from April to May, dropping to 13.3%. While there are reasons to be optimistic, Federal Reserve Chairman Jerome Powell recently cautioned that the country is not out of the woods yet. A surge of COVID-19 cases in the South and West have many concerned about the harm a second outbreak could cause to the nascent recovery.

Locally, the Puget Sound region may have weathered the eye of the storm after becoming a COVID-19 epicenter in February. The Seattle metro area added 62,300 employees in May, dropping the unemployment rate to 15.2%, a decrease of 140 basis point for the quarter. Employment was down 11.8% year over year for May, but that number is an improvement over April's 14.1% decline. Only the information sector, which includes technology companies, gained jobs year over year, which is a positive indicator. Puget Sound has the highest percentage of FAANG office square footage of any market (15.2%). Expansion plans for the region's major tech firms remain on track, which bodes well for future employment growth.

CONSUMER PRICE INDEX (CPI)

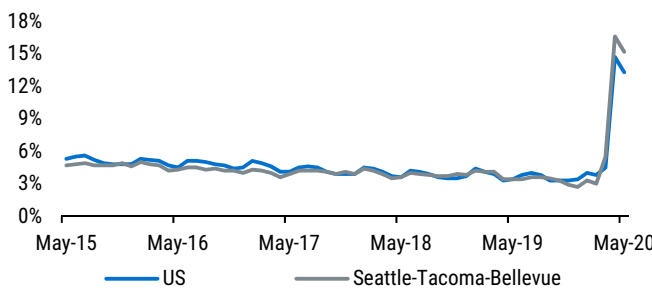
All Items, 12-Month % Change, Not Seasonally Adjusted,



Source: U.S. Bureau of Labor Statistics

UNEMPLOYMENT RATE

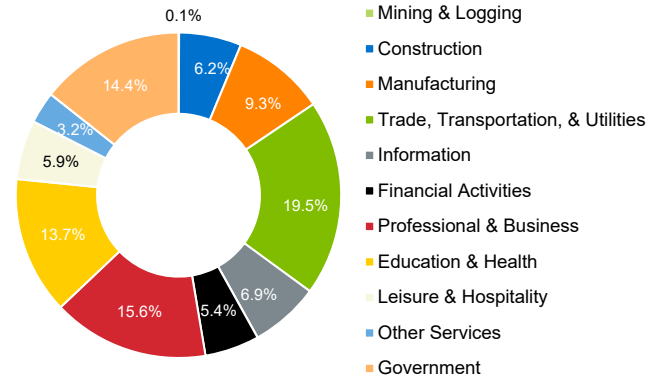
Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

EMPLOYMENT BY INDUSTRY

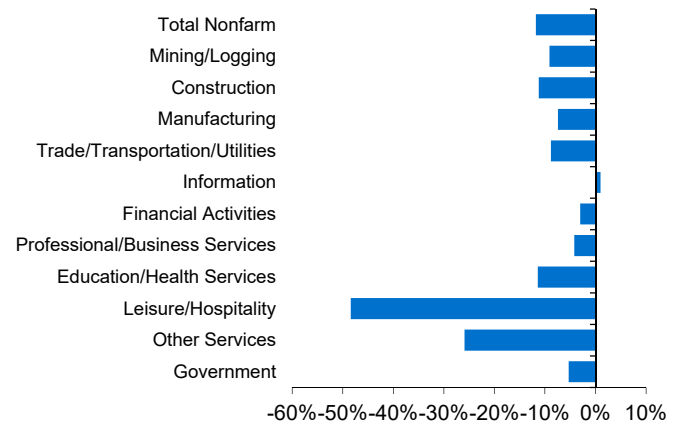
Seattle-Tacoma-Bellevue, May 2020



Source: U.S. Bureau of Labor Statistics

EMPLOYMENT GROWTH BY INDUSTRY

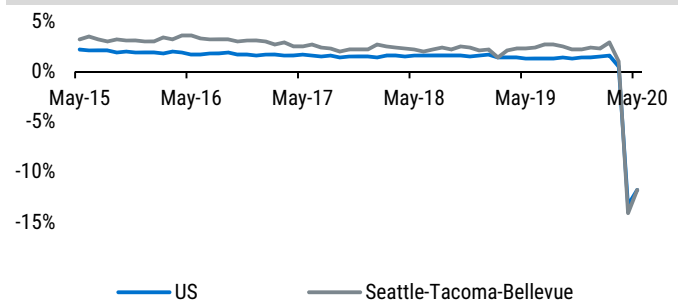
Seattle-Tacoma-Bellevue, 12-Month % Change, Not Seasonally Adjusted, May 2020



Source: U.S. Bureau of Labor Statistics

PAYROLL EMPLOYMENT

Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

NEWMARK KNIGHT FRANK SEATTLE

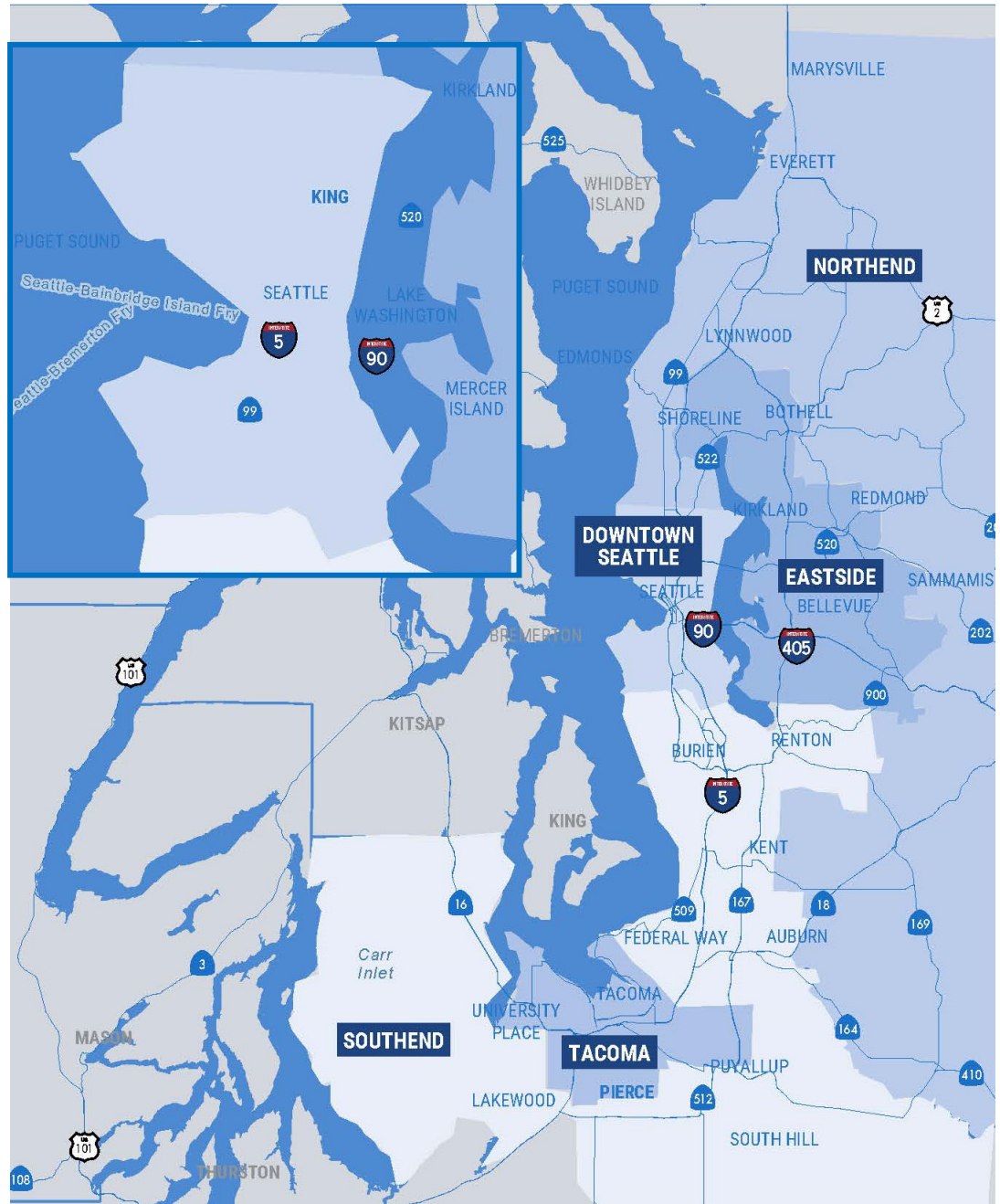
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Sources: The Seattle Times, Costar, The Wall Street Journal, Puget Sound Business Journal, The Registry, and Daily Journal of Commerce.

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