

The Swain Group

Urban Industrial & Flex Market Report

North King & South Snohomish Counties - May 2018

The Swain Group is an investment sales and leasing team that specializes in advising owners and users of industrial and flex properties in Western Washington, with a primary focus in the City of Seattle, the Eastside, and other urban areas of North King and South Snohomish Counties.



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Urban Industrial & Flex

Leasing Vacancy/Absorption

The overall Puget Sound area industrial market vacancy rate bumped up slightly from 3% to 3.1% (industrial & flex combined), and with it, a negative absorption rate – a first in quite a few quarters. Although the negative absorption square footage was only 126,188 region wide, the amount of vacant sublease space was up 697,236 sf. The negative absorption number seems insignificant, but when compared to the Q4 2017 positive absorption of 1,879,088, it causes one to pause, and for good reason.

Vacancy rates remain very low across all industrial and flex submarkets, ranging between 0.7% to 4.66% (see following pages for details). However, tenant activity has slowed a bit over the last 12 months, which is reflected in the overall negative net lease absorption in the region. There has been one exception to this trend – the Northend market.

The Northend has had six consecutive quarters of positive net absorption totaling 862,162 sf. It is also the only market where average asking lease rates have gradually become less expensive over that same general time period. The average asking rate peaked at \$11.23 per square foot/per year in Q2 2017 and has come down each consecutive quarter ending at \$10.17 per square foot/per year at the end of Q1 2018. This tells us that Northend landlords have been reacting to an overpriced market and are meeting market demand successfully.

Sales

Q1 2018 sale volume of industrial property was up nearly \$100 million in the urban markets of North King and Snohomish counties over Q4 2017 volume, with a total of \$144 million in closed transactions. This included 21 individual sales ranging from 2,620 sf to 233,218 sf, with an average per square foot sale price of \$237, and an average cap rate of 5.1% for the few leased properties in this group.

For flex properties, Q1 2018 sale volume was just 3 properties totaling \$13 million. The average price per square foot was \$209, and the one property that was an investment sold at a 6% cap rate in South Seattle.

A **Flex property** can be described as an building with the majority of the square footage being used for office space, retail/wholesale sales, or other uses, with the remainder of the square footage being used for warehousing, manufacturing, R&D, assembly, or storage.

Regional Comparisons

Flex Market Statistics

Puget Sound Industrial Market | Source: Costar

Market	Existing Inventory		Vacancy			YTD Net Absorption	YTD Deliveries	Under Construction SF	Quoted Rates
	# Bldgs	Total RBA	Direct SF	Total SF	Vacancy %				
Downtown Ind	165	7,295,975	114,273	114,273	1.6%	16,525	0	0	\$17.94
Eastside Ind	310	8,169,076	392,001	443,741	5.4%	(10,194)	0	0	\$18.85
Northend Ind	241	7,973,877	461,094	526,146	6.6%	226,226	0	0	\$15.82
Southend Ind	215	6,164,507	451,488	456,488	7.4%	23,311	0	0	\$14.65
Tacoma Ind	108	1,653,485	60,041	66,379	4.0%	17,391	0	0	\$13.62
Totals	1,039	31,256,920	1,478,897	1,607,027	5.1%	273,259	0	0	\$16.66

Warehouse / Manufacturing Market Statistics

Puget Sound Industrial Market | Source: Costar

Market	Existing Inventory		Vacancy			YTD Net Absorption	YTD Deliveries	Under Construction SF	Quoted Rates
	# Bldgs	Total RBA	Direct SF	Total SF	Vacancy %				
Downtown Ind	1,835	50,949,326	761,277	847,503	1.7%	(109,119)	0	589,615	\$12.24
Eastside Ind	464	13,566,881	444,378	454,411	3.3%	(198,729)	0	0	\$11.79
Northend Ind	1,451	43,420,606	1,585,531	1,634,318	3.8%	20,581	0	511,644	\$9.12
Southend Ind	1,756	105,202,020	3,545,613	3,839,510	3.6%	(139,263)	220,800	1,647,396	\$7.90
Tacoma Ind	1,848	73,356,037	1,389,981	1,520,144	2.1%	27,083	0	3,670,825	\$7.20
Totals	7,354	286,494,870	7,726,780	8,295,886	2.9%	(399,447)	220,800	6,419,480	\$8.94

Total Industrial Market Statistics

Puget Sound Industrial Market | Source: Costar

Market	Existing Inventory		Vacancy			YTD Net Absorption	YTD Deliveries	Under Construction SF	Quoted Rates
	# Bldgs	Total RBA	Direct SF	Total SF	Vacancy %				
Downtown Ind	2,000	58,245,301	875,550	961,776	1.7%	(92,594)	0	589,615	\$12.73
Eastside Ind	774	21,735,957	836,379	898,152	4.1%	(208,923)	0	0	\$16.00
Northend Ind	1,692	51,394,483	2,046,625	2,160,464	4.2%	246,807	0	511,644	\$10.17
Southend Ind	1,971	111,366,527	3,997,101	4,295,998	3.9%	(115,952)	220,800	1,647,396	\$8.74
Tacoma Ind	1,956	75,009,522	1,450,022	1,586,523	2.1%	44,474	0	3,670,825	\$7.46
Totals	8,393	317,751,790	9,205,677	9,902,913	3.1%	(126,188)	220,800	6,419,480	\$10.18

Urban Markets

Market Trends Industrial Leasing

Warehouse / Manufacturing only

	Submarket	Existing Bldgs	Total Inventory SF	Direct Vacant SF	Vacancy Rate Q2018 Total	2018 YTD Absorption	Avg. Quoted Rates/Yr
Seattle	Northgate/North Seattle	124	1,352,225	22,411	1.7%	(6,975)	\$10.72
	Ballard Ind	220	2,478,394	28,983	1.2%	(5,082)	\$13.46
	Magnolia Ind	144	2,413,879	24,500	1.0%	(701)	\$13.01
	Queen Anne Ind	86	1,387,576	15,916	1.1%	8,966	\$13.08
	Lake Union Ind	89	1,328,637	25,027	1.9%	5,323	\$27.08
	Capitol Hill/Ctrl Di.	31	530,825	1,080	0.2%	0	\$0.00
	U. District/Ravenna	32	663,748	1,645	0.2%	(1,645)	\$0.00
	Rainier/Beacon Hill	129	3,146,901	42,348	1.3%	(8,199)	\$12.83
	SoDo Ind	261	7,986,370	195,652	2.6%	24,300	\$11.21
	Gtown/Duwamish N Ind	359	13,385,607	262,990	2.0%	(61,337)	\$12.31
	Gtown/Duwamish S Ind	237	11,346,169	52,352	0.7%	(15,960)	\$13.65
	W Seattle Ind	104	3,988,704	43,022	2.3%	(20,617)	\$8.65
Grand Total		1,816	50,009,035	715,926	1.35%	(81,927)	\$11.33

	Submarket	Existing Bldgs	Total Inventory SF	Direct Vacant SF	Vacancy Rate Q2018 Total	2018 YTD Absorption	Avg. Quoted Rates/Yr
Eastside	Kirkland Ind	75	1,837,844	30,382	1.7%	1,907	\$7.28
	Redmond Ind	143	4,258,395	258,070	6.3%	(216,953)	\$14.09
	520 Corridor Ind	16	286,401	36,881	12.9%	0	\$0.00
	Bellevue Ind	75	2,736,964	17,789	0.6%	(16,189)	\$16.56
	Newport/Issaquah Ind	56	1,261,046	23,163	1.8%	0	\$12.91
Grand Total		365	10,380,650	366,285	4.66%	-231,235	\$10.17

	Submarket	Existing Bldgs	Total Inventory SF	Direct Vacant SF	Vacancy Rate Q2018 Total	2018 YTD Absorption	Avg. Quoted Rates/Yr
Northend	Everett CBD Ind	149	2,929,585	388,609	13.3%	14,143	\$7.77
	S Everett/Harbor Pt	303	17,870,487	299,383	1.8%	36,898	\$10.30
	Mill Creek/N Creek I.	67	1,851,641	48,772	2.6%	(37,187)	\$9.90
	Edmonds/Lynnwood Ind	139	2,665,582	8,979	0.3%	(8,979)	\$9.85
	Bothell/Kenmore Ind	74	1,935,208	29,510	1.5%	9,324	\$12.96
	Woodinville Ind	193	6,136,800	275,797	4.5%	31,429	\$9.19
Grand Total		925	33,389,303	1,051,050	4.00%	45,628	\$10.00

*Source: CoStar

Market Trends Flex Leasing

Submarket Flex only

	Submarket	Existing Bldgs	Total Inventory SF	Direct Vacant SF	Vacancy Rate Q2018 Total	2018 YTD Absorption	Avg. Quoted Rates/Yr
Seattle	Northgate/North Seattle	16	162,079	4,512	2.8%	476	\$18.45
	Ballard Ind	13	178,712	1,000	0.6%	250	\$21.62
	Magnolia Ind	12	216,538	4,166	1.9%	4,351	\$17.99
	Queen Anne Ind	8	759,705	10,955	1.4%	(842)	\$11.84
	Lake Union Ind	11	453,992	0	0%	0	\$0.00
	Capitol Hill/Ctrl Di.	3	231,982	0	0%	0	\$14.00
	U. District/Ravenna	7	517,925	0	0%	0	\$0.00
	Rainier/Beacon Hill	11	94,136	0	0%	0	\$0.00
	SoDo Ind	33	3,231,995	52,120	1.6%	(1,937)	\$17.63
	Gtown/Duwamish N Ind	24	686,517	20,017	2.9%	18,567	\$20.57
	Gtown/Duwamish S Ind	22	597,379	17,760	3.0%	(5,491)	\$22.00
	W Seattle Ind	7	82,766	1,573	1.9%	(1,573)	\$0.00
Grand Total		167	7,213,726	112,103	1.34%	13,801	\$12.01

	Submarket	Existing Bldgs	Total Inventory SF	Direct Vacant SF	Vacancy Rate Q2018 Total	2018 YTD Absorption	Avg. Quoted Rates/Yr
Eastside	Kirkland Ind	56	1,347,319	43,077	3.7%	(991)	\$17.59
	Redmond Ind	125	4,004,260	281,570	7.9%	(4,293)	\$19.83
	520 Corridor Ind	43	880,886	18,256	2.3%	8,845	\$17.00
	Bellevue Ind	46	912,119	42,536	4.7%	(14,255)	\$15.76
	Newport/Issaquah Ind	27	633,720	6,562	2.1%	500	\$18.69
Grand Total		297	7,778,304	392,001	4.14%	-10,194	\$17.77

	Submarket	Existing Bldgs	Total Inventory SF	Direct Vacant SF	Vacancy Rate Q2018 Total	2018 YTD Absorption	Avg. Quoted Rates/Yr
Northend	Everett CBD Ind	16	295,788	1,200	0.4%	8,936	\$12.63
	S Everett/Harbor Pt	41	2,091,917	99,440	4.8%	9,390	\$13.00
	Mill Creek/N Creek I.	6	96,76	0	0%	0	\$0.00
	Edmonds/Lynnwood Ind	43	612,037	0	0%	15,597	\$11.31
	Bothell/Kenmore Ind	78	3,692,928	308,296	10.1%	222,820	\$17.27
	Woodinville Ind	16	485,064	47,646	9.8%	(35,893)	\$17.80
Grand Total		200	7,177,734	456,582	4.18%	220,850	\$12.00

*Source: CoStar

Industrial Sales - N King/S Snohomish 12 mo. view

Sales Volume	Survey	Min	Max
Transactions	92	-	-
Sold SF	1,944,169	806	233,218
Sales Volume (Mil.)	\$391	\$0.2	\$46
Avg SF	21,602	806	233,218

Sales	Survey	Min	Max
Sale Price Per SF	\$201	\$53	\$1,314
Avg Sale Price (Mil.)	\$4.6	\$0.2	\$46
Cap Rate	5.8%	2.8%	7.3%
Percent Leased	92.5%	0.0%	100%

For Sale	Survey	Min	Max
Listings	36	-	-
For Sale SF	790,829	1,568	97,413
For Sale Volume (Mil.)	\$98	\$0.4	\$8.1
Asking Price Per SF	\$150	\$42	\$912
Avg Asking Price (Mil.)	\$2.7	\$0.4	\$8.1

Properties	Survey	Min	Max
Existing SF	2,744,642	982	233,218
Vacancy Rate	17.3%	0.0%	100%
Rent Per SF	\$10.97	\$4.80	\$20.76
12 Mo. Absorption	-139,872	-166,056	42,700
12 Mo. Leasing SF	340,241	0	166,056

Sales Volume



Average Sale Price Per SF



Cap Rate



Sale to Asking Price Differential



Flex Sales - N King/S Snohomish 12 mo view

Sales Volume	Survey	Min	Max
Transactions	19	-	-
Sold SF	666,093	3,140	330,000
Sales Volume (Mil.)	\$97	\$0.8	\$25
Avg SF	35,058	3,140	330,000

Sales	Survey	Min	Max
Sale Price Per SF	\$147	\$76	\$478
Avg Sale Price (Mil.)	\$5.4	\$0.8	\$25
Cap Rate	6.5%	6.0%	7.5%
Percent Leased	90.4%	23.1%	100%

For Sale	Survey	Min	Max
Listings	10	-	-
For Sale SF	191,054	3,300	40,029
For Sale Volume (Mil.)	\$45	\$1.3	\$12
Asking Price Per SF	\$235	\$134	\$492
Avg Asking Price (Mil.)	\$4.5	\$1.3	\$12

Properties	Survey	Min	Max
Existing SF	850,747	3,140	330,000
Vacancy Rate	15.6%	0.0%	100%
Rent Per SF	\$18.64	\$10.50	\$27.97
12 Mo. Absorption	-77,597	-30,902	7,878
12 Mo. Leasing SF	25,553	0	7,756

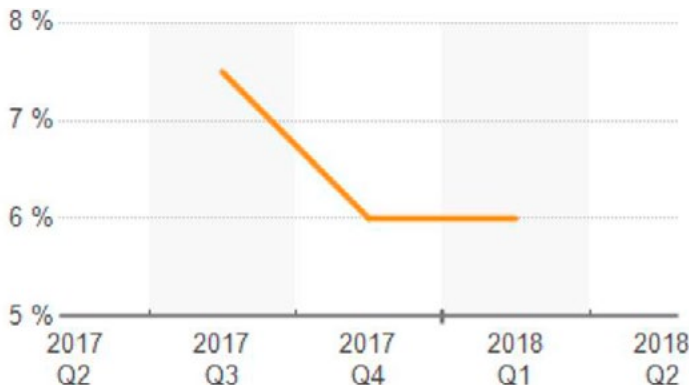
Sales Volume



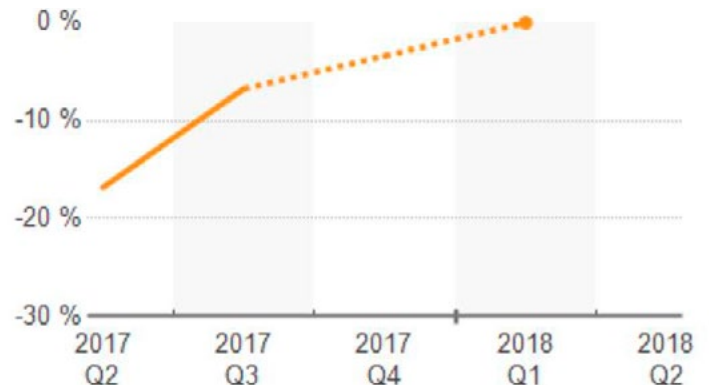
Average Sale Price Per SF



Cap Rate



Sale to Asking Price Differential



*Source: CoStar

Recent Sales North King/South Snohomish Counties

Property Name	Address	City	Type
Lunde Center	2120 116th Ave NE (3 Properties)	Bellevue	Flex
North Creek Center	20001 North Creek Pky	Bothell	Industrial
North Creek Parkway Center	18912 North Creek Pky (6 Properties)	Bothell	Mixed
Seattle Genetics	3450 Monte Villa Pky	Bothell	Flex
Allied Material Buildings	19720 Bothell-Everett Hwy (3 Properties)	Bothell	Industrial
Pacific Ridge	2407 Gibson Rd	Everett	Flex
Auto-Chlor	2310 112th St SW	Everett	Industrial
ONAMAC Bldg G	11504 Airport Rd	Everett	Industrial
Seahurst Electric	2915 Chestnut St	Everett	Industrial
Praxair	1111 Hewitt Ave	Everett	Flex
Formerly: Verizon Store	12055 Slater Ave NE	Kirkland	Industrial
Parmac	11795 NE 116th St	Kirkland	Industrial
Totem Place	13209 NE 126th Pl (4 Properties)	Kirkland	Flex
Partner Therapeutics	2625 162nd St SW	Lynnwood	Industrial
Northwest Business Park	3223 164th St SW (3 Properties)	Lynnwood	Flex
RS Manufacturing	5728 204th St SW	Lynnwood	Industrial
Atlas Holdings	19330 21st Ave W	Lynnwood	Industrial
Economy Fence	11709 Cyrus Way	Mukilteo	Flex
NuMotion	6404 216th St SW	Mountlake Terrace	Industrial
West Willows Technology Center	8801-8809 148th Ave NE (5 Properties)	Redmond	Flex
Interpoint Corporation	10301 Willows Rd NE (2 Properties)	Redmond	Flex
The Button Place	17595 NE 70th St	Redmond	Industrial
Former Sears Distribution	4786-4790 1st Ave S	Seattle	Industrial
Elysian Brewery/Airport Way S	5410 Airport Way S (2 Properties)	SeaQtte	Industrial
Seattle Boulderling Project	900 Poplar Pl S	Seattle	Industrial
227 & 235 9th Ave N	235 9th Ave N (2 Properties)	Seattle	Industrial
Lam Building	1239 S King St	Seattle	Industrial
NW Corporate Park Seattle	637 S Lucile St	Seattle	Industrial
Corona Decor Co.	6133 6th Ave S	Seattle	Industrial
Hanford Bldg	25-29 S Hanford St	Seattle	Industrial
Former Biodiesel	4034 W Marginal Way SW	Seattle	Industrial
Schubert Bldg	8305 7th Ave S	Seattle	Industrial
The Rat's Nest	19022 Aurora Ave N	Shoreline	Industrial
Red Hook Brewery	14066 NE 145th St (2 Properties)	Woodinville	Flex
Wesmar Building	14120 NE 200th St	Woodinville	Industrial
Building B-Self Storage	15902 Woodinville-Redmond Rd	Woodinville	Industrial
Former Cuizina Building	18565 142nd Ave NE	Woodinville	Industrial
Underwood Gartland 216 Bldg B	8329 216th St SE	Woodinville	Industrial
OSW Equipment & Repair	8502 Maltby Rd	Woodinville	Industrial
Mold-Rite Inc	21220 87th Ave SE	Woodinville	Industrial

Sale Price	Bldg SF	Land Area SF	\$/SF Bldg	\$/SF Land	Comments
\$12,500,000	62,379	125,888	\$200.39	\$99.00	Developer
\$26,750,000	97,216	245,796	\$275.16	\$108.83	Investor 6.1% Cap
\$36,500,000	205,707	589,802	\$177.44	\$61.97	Investor 7.2%
\$17,800,000	51,561	211,265	\$345.22	\$84.25	Owner/User
\$13,000,000	146,196	793,663	\$88.92		Developer
\$5,325,000	16,285	93,218	\$326.99	\$57.12	Investor 7.5%
\$3,425,000	25,130	64,033	\$136.29	\$53.49	Owner/User
\$2,800,000	25,200	52,707	\$111.11	\$53.12	Investor
\$1,485,000	9,479	12,196	\$156.66	\$121.75	Investor
\$775,000	7,645	21,780	\$101.37	\$35.58	Investor
\$10,000,000	16,761	226,102	\$596.62	\$44.23	Developer
\$9,300,000	62,936	181,653	\$147.77	\$51.20	Developer
\$7,500,000	30,432	30,432	\$246.45	\$83.30	Investor 5% Cap
\$45,600,000	95,000	707,850	\$480.00	\$64.42	Owner/User
\$5,135,000	37,281	473,061	\$137.74	\$10.85	Investor
\$4,010,000	27,487	67,518	\$145.89	\$59.39	Investor
\$3,200,000	11,578	41,382	\$276.39	\$77.33	Owner/User
\$1,820,000	7,660	59,677	\$237.60	\$30.50	Owner/User
\$4,525,000	32,942	100,187	\$137.36	\$45.17	Investor 6.25% Cap
\$32,985,551	160,437	405,979	\$205.60	\$81.23	Investor 6.2%
\$20,000,000	72,287	683,456	\$276.67	\$29.27	Investor
\$1,900,000	6,200	10,315	\$306.45	\$184.20	Owner/User
\$42,000,000	233,218	367,027	\$180.09	\$114.43	Investor
\$21,450,000	77,269	120,661	\$277.60	\$177.76	Investor 4.57% Cap
\$10,300,000	68,874	65,775	\$149.55	\$156.59	Investor 5.39% Cap
\$9,075,000	16,980	14,810	\$534.45	\$630.17	Investor
\$8,000,000	25,840	21,157	\$309.60	\$378.12	Owner/User
\$7,750,000	45,320	63,000	\$171.01	\$123.01	Investor 6% Cap
\$5,950,000	21,332	74,052	\$278.92	\$80.35	Investor
\$5,940,000	35,400	46,173	\$167.80	\$128.64	Investor 3.6%
\$4,075,000	30,030	68,951	\$135.70	\$59.10	Owner/User
\$1,850,000	7,000	30,491	\$264.29	\$60.67	Owner/User
\$5,450,000	24,288	71,891	\$224.39	\$75.81	Developer
\$24,500,000	129,203	984,891	\$189.62	\$24.88	Investor
\$13,200,000	82,300	207,345	\$160.39	\$63.66	Investor 6.25% Cap
\$6,931,427	42,700	104,544	\$162.33	\$66.30	Owner/User
\$5,700,000	31,537	73,180	\$180.74	\$77.89	Owner/User
\$4,750,000	38,910	114,127	\$122.08	\$41.62	Investor
\$3,709,000	26,950	112,820	\$137.63	\$32.88	Owner/User
\$2,600,000	19,469	53,578	\$133.55	\$48.53	Investor 7% Cap



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