2019 was another big year in the Industrial Market.

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Like 2018, across the board, Snohomish County to Thurston County, it was a continued year of change, one of challenging traditional thinking:

1) Institutional developers are actively pursuing development sites in the Snohomish County – why, because of the scarcity of developable land in South King and Pierce County:

   Dermody recently closed on the Cadman Property in South Everett, totaling 67 acres for $50 million ($17+ psf) to develop 1.1 million square feet of industrial space. Phase One totals 600K in 2 buildings. Plans are to be under construction in Spring with a delivery date of 4Q2020.

2) Rezoning of the Bel-Red Corridor in Bellevue and the flight of industrial users north to accommodate the mutli-family developments – as an example a 5.5 acre site located 400' from light rail will be coming to market and likely will garner a psf price of $200 psf.
3) Developers committing to multi-story industrial developments for e-commerce in the close in Seattle market like Avenue 5 developing Tract Six – a 215,000 SF 4 story building – under construction this quarter with delivery in 1Q21.

   Land value was $89 psf Rents are projected at Avenue 55 bought the corporation – allowed them to be successful over competitive institutional bidders who offered in the $100+ psf. Avenue 55 buying the business which owned the real estate resulted in Compton Lumber to maximize their return.

   Redco, (a spinoff of one partner from Lyft) is a more risk tolerant investor and is capitalized by Bain purchased 4.56 acres at $110 on Spokane Street. Their plans are to redevelop or the existing functionally obsolete wood frame buildings and do a long-term land lease.

4) Typical Kent Valley industrial users are considering southern locations to satisfy their growth plants including ACE Hardware who has committed to a 550K building in Frederickson and Kimberly Clarke taking 748K at the Cubes in Dupont at the former Intel site adjacent to an Amazon Fulfillment center.

5) Continued speculative industrial development in Thurston County which had historically been a build to suit market (Target, U-line, Home Depot, Trader Joes, Medline, etc.)

   Led by Dermody (Solo Cup), Lacey now is home to Bridge Development developing three buildings totaling 705,590 SF on 42 acres, and a new player out of St. Louis, Missouri – Northpoint Development. Northpoint is under construction a 1.3 million sq.ft. facility for Home Depot and a spec building of 500,000 sq.ft.

6) Significant Institutional investment in Lewis County as evidenced by Exeter Property Group acquiring the Opus Centralia Logistics Center from O'Keefe Development – this was a 1.15 million sq.ft. build to suit for SuperValu purchased for $195 million or $170 psf .

Let's take a deeper dive into each market:

Prior to 2018, the south Snohomish industrial market had typical tenant SF demands under 25,000 SF. Much to the naysayer's surprise, in 2018 Phil Wood with Dermody constructs and preleases two buildings totaling 410,000 SF in two buildings.

As mentioned earlier, Dermody purchased the 67 acre Cadman site in South Everett. Interestingly, Dermody followed the first buyer who had the site under contract, failed to close and opened the door for Dermody.

Previously, Everett was an owner/user driven market and largely aerospace driven. Today, the market is much more diversified, largely a result of industrial users being pushed out of the Ballard markets. The cost of living is less, offers more affordable housing and provides business with access to a large labor pool. The market has also experienced some organic growth.

Institutions are actively pursuing investment alternatives. Combined lower cap rates and scarcity of product in the traditional industrial Kent Valley, Cap rates in Snohomish County have dropped significantly for institutional sales and now are in the low to mid 5 range. Historically, the Everett market had not seen rates lower than a 6 cap.

Vacancy is at 3.5% and the market experienced positive absorption.

The largest lease in the fourth quarter was executed with Amazon at Glacier Park, a Panattoni development.

RREEF purchase of the FedEx building, 210,321 SF in Redmond near the new Costco, at a price of $387.50 psf. In fairness, this site offers a lot of trailer storage, thus low site coverage. Originally constructed in 2013 as a build to suit and then sold promptly for $288 psf.

Owner/user deals are being acquired over $300 psf.

Another interesting purchase was the Bellevue Business Park, acquired for $28 million (4178.00 psf on the land area), and a 4.5 cap rate. The buyer is going to hold for 8 to 10 years before redeveloping, raise rates at lease expirations and grow the revenue stream.

The days of buying investments in the 5% cap range ended six months ago.

Rental rates in the close-in Eastside are $2.00 psf Office and $1.00 psf Warehouse.

Rental rates in the Bel-Red corridor have been at $1.25, growing to $1.50 psf. Again, these industrial users , car repair shops, etc. are being displaced by redeveloping spurred by the zoning change.

Woodinville incubator spaces are seeing lease rates at $2.00 psf office and $1.00 psf warehouse, no free rent and no tenant improvements. Sometimes, carpet and paint if needed.

Vacancy for the total eastside market is 1.5%. There is little land to expand the base.

New development includes PacTrust's two building 125,000 SF at Redmond Ridge.

The close in Seattle market remains in high demand for last-mile, e-commerce users as evidenced by the two leases at the Prologis Georgetown Crossing to Home Depot and Amazon bringing the project to 100% occupancy. The consumer pressure for one-day delivery versus two is real and driving demand.

As a point of interest, Amazon Prime subscription growth from December, 2013 of 12 million subscriptions grew to 105 million subscriptions as of June, 2019.

Also of interest, is only 10.3% of retail is e-commerce. There is a huge runway left for growth which will only result in greater demand in the close-in Seattle market.

Shell Lease rates are $1.10 to $1.25 psf for second and third generation space $1.35 to $1.50 psf for new shell construction.

New developments include the 400,000 SF Centerpoint Seattle development at 8801 East Marginal Way South. Construction is underway and expected completion is 1Q2021.

The Port of Seattle Terminal 106 is currently under contingent contact for development of a new multi-story building 500+ SF.

Other significant projects schedule for redevelopment in 2020 include the Desmione Oxbow property of 45 acres, King County's Harbor Bond property totaling 17 acres and the former Jorgensen Steel site of approximately 24 acres.

Vacancy is just under 5%. Job growth is up. Container traffic is up 2% which could be a result of frontloaded inventory from trade war worries.

Kent Valley remains a strong market which significant interest from users, developer and investors.

Interestingly, Renton, Tukwila, Kent, Auburn, Pacific and the Port of Seattle have formed a coalition, developed a new branding for their cities as "Kent Valley" in an attempt to make it less confusing to Site Selectors and users looking at the market.

What's most interesting to me is that Kent and Auburn are suffering from warehouse and logistic user demand on their roadway infrastructure with now way to pay for it. New development has traffic impact fees, but cities are prohibited from using any of those funds for roadway repairs and maintenance. With the State changes in tax code, the tax revenue is not created at the warehouse, rather the point of sale.

Without tax revenue, the cities are looking for new ways to generate funds. Ideally, they would like to attract manufacturers and retail uses. This is troublesome because the demand for manufacturers is low combined with the high cost to develop smaller buildings is not attractive to developer. Retail is its own issue, doen't know what it wants to be from a brick and morter prospective and hasn't fully grasped the impact of e-commerce. Plus, this is a market of 8 to 5, and the retail shopper/consumer goes home after work.

Auburn decided to downzone the GSA site on 15th and C Street. This is an amazing industrial property, rail served, bordered by Boeing, near the Safeway distribution center, across the street from the BNSF rail yard and down the street from a failing discount mall. Auburn would like to see the property be developed for small, just-in-time manufacturers, multi-family and retail. Good luck, the market is not there, and the property will be at risk for vandalism and a homeless camp. The GSA doesn't care because any funds to acquire the property, if such a developer for those uses existing, would go to the Federal Treasury and the GSA wouldn't see anything. Hence, their lack of interest.

Blackstone is acquiring the Boeing property in Kent purportedly for $32 psf. They were not the high bidder, but they were willing to put up non-refundable and close by the end of the 2019.

Gateway Corporate Center, a four flex-building complex was acquired by Nicola Wealth Management for $40 million ($227 psf).

Black Creek Group purchased Panattoni's North Auburn Logistics, a 265,000 SF project for $49+million dollars ($186 psf).

Shell lease rates range from $.65 to $.72 for large distribution centers and $.75 to $.85 for buildings/spaces less than 50,000 SF.

Significant new leases include

115,273 SF Alaska Airlines at IAC at SeaTac

144,000 SF Crane Worldwide at Building P152 in Kent

137,500 SF Swire (Coca Cola) at Renton Logistics Center

250,000 SF Wilmar at Segale Pacific Gateway

161,573 SF Mercer Distribution at Seattle Gateway

Vacancy at 5.9 percent.

Pierce County

Vacancy decreased in the 4th quarter to 5.7% down from 7.1% due to nearly 1.3 million of net absorption.

The largest lease signed was the Kimberly Clark mentioned before at 747,488 sf at the Cubes in Dupont.

Speculative construction activity remains solid with 2.7 million underway. Largest projects under construction include the Cubes at DuPont 494K, The Viking in Puyallup 438K and Canyon Road Logistis in Frederickson 301K.

Land values are in the $16 to $18 psf range for premium sites.

THURSTON COUNTY

Vacancy increased from 3.5% to 4.0% as deliveries outpaded net absorption.

Four projects are under construction totaling over 3 million square feet including the largest, Hawks Prairie Logistics Industrial Park (1,917,610 SF of which 1.3 is leased to Home Depot), 575,920 at Hawks Prairie road and 510,008 SF at Bridge Point Lacey.

Shell lease rates from $.40 to $.44 on larger buildings and $45 to $.55 for smaller spaces.

Land value range from $5 to $10 psf.

So where's the future, what does 2020 look like:

There continues to be user demand in all market areas.

Construction will remain active.

Positive lease absorption in all markets.

Lease rates will remain strong with slight increases.

Downward pressure on lease concessions.

Investment demand will continue – plenty of money wanting to invest in the Puget Sound Region.

Developers will continue to push the envelope on acceptable land sites for speculative development – north and south.