

EASTSIDE INDUSTRIAL

Economic Indicators

	Q1 16	Q1 17	12-Month Forecast
Seattle-Tacoma-Bellevue Employment	1,927k	1,984k	▲
Seattle-Tacoma-Bellevue Unemployment	5.3%	4.1%	▼
U.S. Unemployment	4.9%	4.8%	■

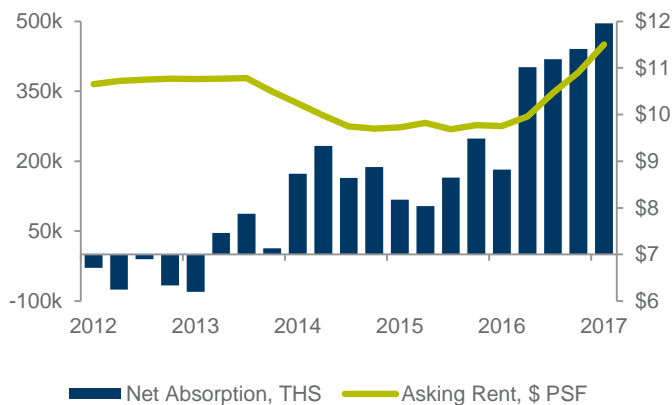
Market Indicators (Overall, All Property Types)

	Q1 16	Q1 17	12-Month Forecast
Vacancy	6.9%	4.3%	▼
YTD Net Absorption (sf)	-318k	100k	▲
Under Construction (sf)	261k	455k	■
Average Asking Rent*	\$9.89	\$12.27	▲

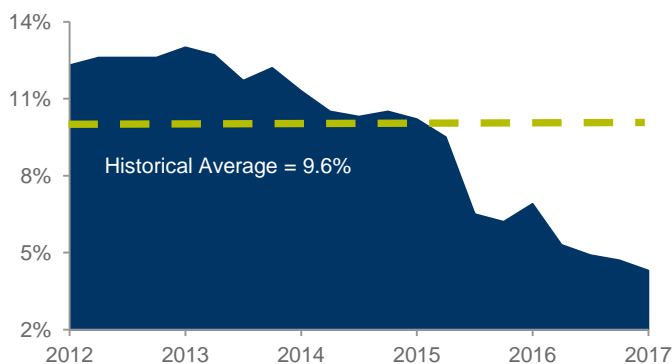
*Rental rates reflect net asking \$psf/year

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

The U.S. economy reported moderate growth in the first quarter of 2017. For the second time in three months (and the third time in a decade), the Federal Reserve raised its target interest rate, up 25 basis points (bps) to a range of 0.75% to 1.00%. The unemployment rate was below 5.0% for the fifth straight quarter.

In the Seattle-Tacoma-Bellevue Metropolitan Statistical Area (MSA), employment rose 3 bps and unemployment fell 120 bps on a year-over-year basis. The 4.1% unemployment rate ranks sixth-lowest in the U.S. among MSAs with a population of at least three million people (as of the 2010 census).

Market Overview

The Eastside submarkets opened the year with an overall vacancy rate decrease to 4.3%, down 260 basis points on a year-over-year basis. The overall average asking rent increased \$2.38 per square foot (PSF) to \$12.27 PSF from first quarter 2016. Overall absorption reported positive at 100,000 square feet (SF). Leasing activity totaled 577,000 SF for first quarter 2017.

Although renewals are not counted towards leasing activity, the most significant transaction was signed by Eldorado Stone Operations. They renewed 102,000 SF at Seaway Business Center – Building E, in the Everett submarket.

The largest industrial investment transaction of the quarter occurred in the Redmond (Willows) submarket. Kennedy-Wilson Properties purchased four-office service/flex buildings at Willows Commerce Park from The Blackstone Group, totaling just over 421,000 SF for \$75 million (\$178 PSF). The property was 97% occupied at time of sale with a reported a cap rate of 8%.

Outlook

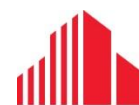
The rezoning of industrial land to the highest and best uses, such as office/multi-family projects, has pinched industrial inventory. Specifically, industrial service companies in the Bellevue submarket along the Bel-Red Corridor are suffering, with no space to expand, pushing them to move to other markets with higher rental rates.

Redevelopment of the Bel-Red Corridor, connecting downtown Bellevue to Redmond, will expand Bellevue’s urban core. A new mixed-use urban neighborhood project is planned on 36 acres of largely industrial property on the old Safeway Distribution Center site. This development is centered on a future light rail station that will connect the Eastside to Seattle by 2023. The Eastside is losing industrial inventory at a time when vacancy is at historic lows.

MARKETBEAT

Puget Sound / Eastside

Industrial Q1 2017



CUSHMAN & WAKEFIELD
Commerce

SUBMARKET	TOTAL BLDGS	INVENTORY (SF)	YTD USER SALES ACTIVITY (SF)	OVERALL VACANCY RATE	YTD OVERALL NET ABSORPTION (SF)	UNDER CNSTR (SF)	OVERALL WEIGHTED AVG. NET RENT (HT)	OVERALL WEIGHTED AVG. NET RENT (MF)	OVERALL WEIGHTED AVG. NET RENT (OS)	OVERALL WEIGHTED AVG. NET RENT (WD)
EASTSIDE SUBURBAN	869	36,595,398	54,817	4.5%	40,846	268,147	\$16.21	\$8.11	\$14.58	\$11.51
Bellevue	116	4,503,562	0	0.6%	2,576	0	\$14.00	\$0.00	\$14.98	\$0.00
Issaquah/East I-90	47	3,247,149	0	1.7%	22,716	0	\$12.16	\$0.00	\$16.77	\$0.00
Redmond (Overlake)	34	1,017,712	0	1.1%	(5,835)	0	\$0.00	\$0.00	\$17.23	\$0.00
Redmond (Willows)	145	5,637,207	0	5.1%	11,609	0	\$15.64	\$0.00	\$12.44	\$12.24
Redmond (East)	102	3,887,019	0	4.0%	(2,150)	44,072	\$15.96	\$16.00	\$21.96	\$8.28
Kirkland	82	2,775,132	0	3.2%	17,307	0	\$13.00	\$0.00	\$14.37	\$9.00
Woodinville/522 Corridor	234	9,415,213	54,817	4.1%	41,737	224,075	\$12.58	\$8.11	\$9.83	\$9.48
Bothell	109	6,112,404	0	10.4%	(47,114)	0	\$17.22	\$0.00	\$16.58	\$16.74
NORTHEND	480	24,661,952	244,158	4.1%	58,666	186,977	\$11.98	\$6.85	\$13.54	\$10.00
Edmonds/Lynnwood	105	3,055,832	0	1.7%	5,732	0	\$0.00	\$0.00	\$0.00	\$11.50
Mukilteo	96	3,971,990	0	4.2%	14,941	0	\$17.16	\$11.67	\$13.96	\$9.08
Everett	192	13,224,358	0	3.8%	13,679	186,977	\$11.27	\$7.66	\$11.46	\$9.97
North Snohomish	87	4,409,772	244,158	6.9%	24,314	0	\$0.00	\$6.08	\$0.00	\$7.77
EASTSIDE/NORTHEND TOTALS	1,349	61,257,350	298,975	4.3%	99,512	455,124	\$15.70	\$7.21	\$14.27	\$10.72

*Rental rates reflect asking \$psf/year

HT = High Tech/Flex MF = Manufacturing OS = Office Service/Flex W/D = Warehouse/Distribution

PROPERTY TYPE	TOTAL BLDGS	INVENTORY (SF)	YTD USER SALES ACTIVITY (SF)	OVERALL VACANCY RATE	YTD OVERALL NET ABSORPTION (SF)	UNDER CNSTR (SF)	OVERALL WEIGHTED AVG. NET RENT Q2-2016	OVERALL WEIGHTED AVG. NET RENT Q3-2016	OVERALL WEIGHTED AVG. NET RENT Q4-2016	OVERALL WEIGHTED AVG. NET RENT Q1-2017
Warehouse/Distribution	498	23,964,711	75,067	3.1%	61,663	455,124	\$9.13	\$9.64	\$10.21	\$10.72
Manufacturing	342	17,962,143	33,600	3.3%	52,982	0	\$6.84	\$6.54	\$7.19	\$7.21
Office Service/Flex	340	9,296,031	0	3.1%	55,854	0	\$13.60	\$14.16	\$13.65	\$14.27
High Tech/Flex	169	10,034,465	190,308	10.3%	(70,987)	0	\$14.11	\$14.44	\$14.62	\$15.70

Key Lease Transactions Q1 2017

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
Seaway Business Center – Building E	101,559	Eldorado Stone Operations, LLC	*Renewal	Everett
Arlington Advanced MF Park - Building 17	44,214	Morel Industries, Inc.	New	North Snohomish
PowderMill Business Center – Building D	40,081	JCB Product Management, Inc.	New	Everett

*Renewal- not included in Leasing Activity Statistics

Key Sales Transactions Q1 2017

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
Willows Commerce Park – 4 Buildings	421,415	The Blackstone Group LP / Kennedy-Wilson Properties, Ltd.	\$75,250,000 / \$179	Redmond (Willows)
Marine View Technology Center – 2 Buildings	190,308	Pietromonaco Properties, LLC / Tulalips Tribes of Washington	\$19,500,000 / \$102	North Snohomish

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