

Puget Sound Industrial Market Overview

Market Observations

Economy

- The unemployment rate in the Seattle-Tacoma-Bellevue MSA increased over the third quarter and currently sits higher than the national average. As of August 2024, the unemployment rate stood at 4.6%.
- Though overall employment grew across most sectors, growth in industrial sectors was marginal. Ongoing labor disruptions, such as the Boeing Machinists Union strike, have contributed to operational slowdowns for key tenants. Additionally, the economic climate has led many companies to delay expansion, further impacting leasing activity.
- Trade, transportation, and utilities companies have responded to the changing economic climate by adjusting their labor needs. Growth in the sector has stagnated, while manufacturing posted a modest 1.5% increase over the past 12 months.

Major Transactions

- Slowing demand throughout the year has resulted in a notable decline in leasing activity. Year-to-date leasing volume reached 8.3 million square feet, marking a 22.5% decrease compared to the same period in 2023.
- The market saw some notable transactions, including Boeing’s lease of 1.0 million square feet at Bridge Point I-5 Milton, which accounted for a significant portion of Class A activity. However, overall demand slowed, signaling continued caution among tenants.

Leasing Market Fundamentals

- In the third quarter of 2024, the Puget Sound industrial market recorded a net absorption of 1.2 million square feet. However, despite this positive absorption, the overall vacancy rate rose to 7.0%, largely due to the delivery of several newly constructed but vacant properties.
- 2.6 million square feet of new industrial space was delivered, with an additional 6.3 million square feet still under construction.
- The average asking rent for the third quarter of 2024 was \$12.82/SF NNN, reflecting a 1.1% decline from the previous quarter.
- Available sublease space reached a record high of nearly 4.8 million square feet, marking a 6.8% increase from the previous quarter.

Outlook

- Leasing demand is expected to remain soft for the remainder of the year due to inflation, high interest rates, and weaker consumer spending.
- Only 35% of the newly delivered product this quarter was preleased, leading to an increase in vacancy as new vacant space entered the market. Construction is expected to remain subdued as the market works to absorb the excess supply.
- After years of rapid growth, rent increases have slowed and will likely continue to cool in the near term.
- High construction loan rates have slowed development, and the current pipeline has contracted significantly since its peak. This reduction in new supply should help the market balance vacancy levels and stabilize rents.

Economy

Leasing Market Fundamentals

Appendix / Tables

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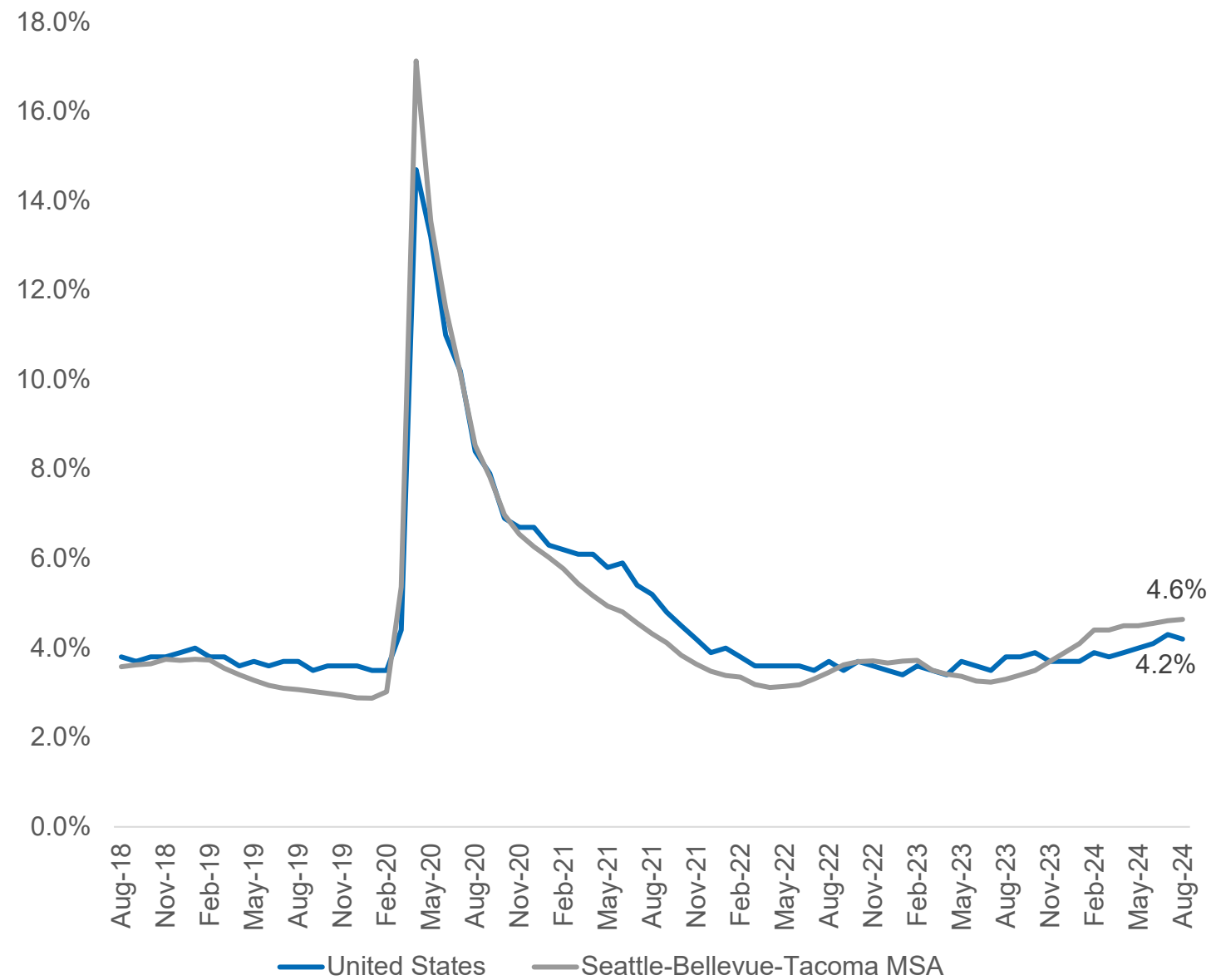
Economy



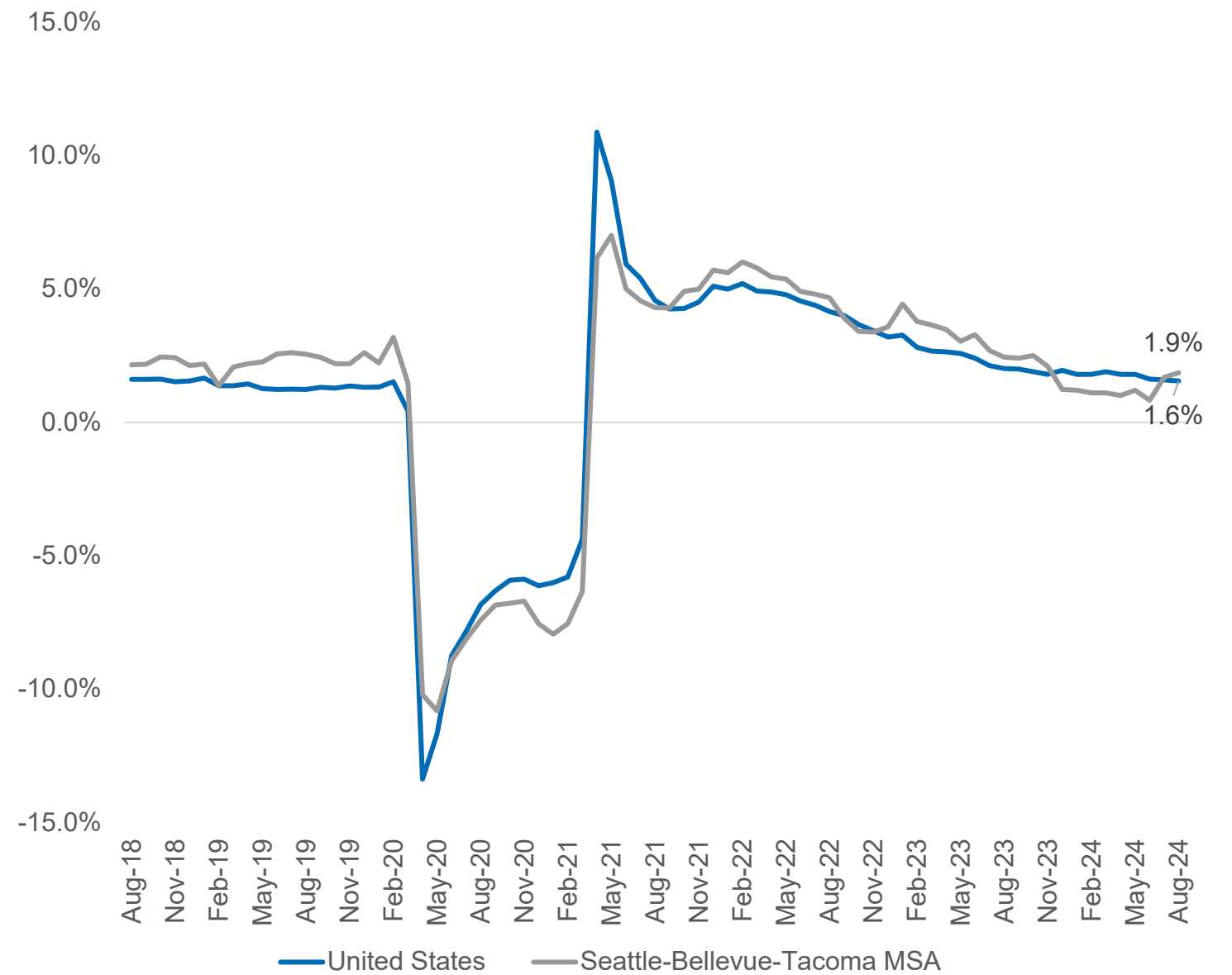
Regional Unemployment Rose in the Third Quarter

The unemployment rate in the Seattle-Tacoma-Bellevue MSA increased over the third quarter and currently sits higher than the national average. As of August 2024, the unemployment rate stood at 4.6%.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change

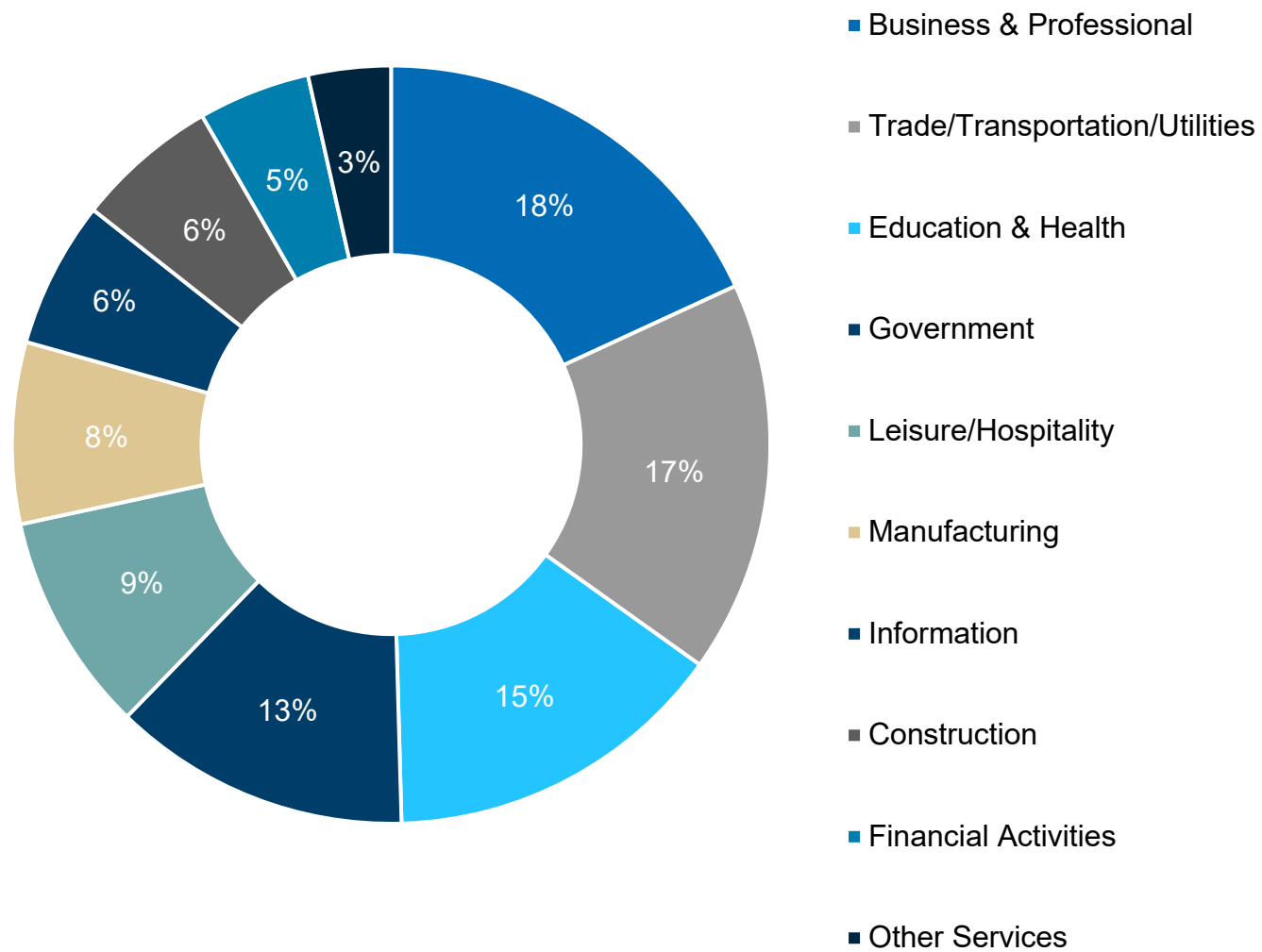


Source: U.S. Bureau of Labor Statistics, Seattle-Bellevue-Tacoma MSA

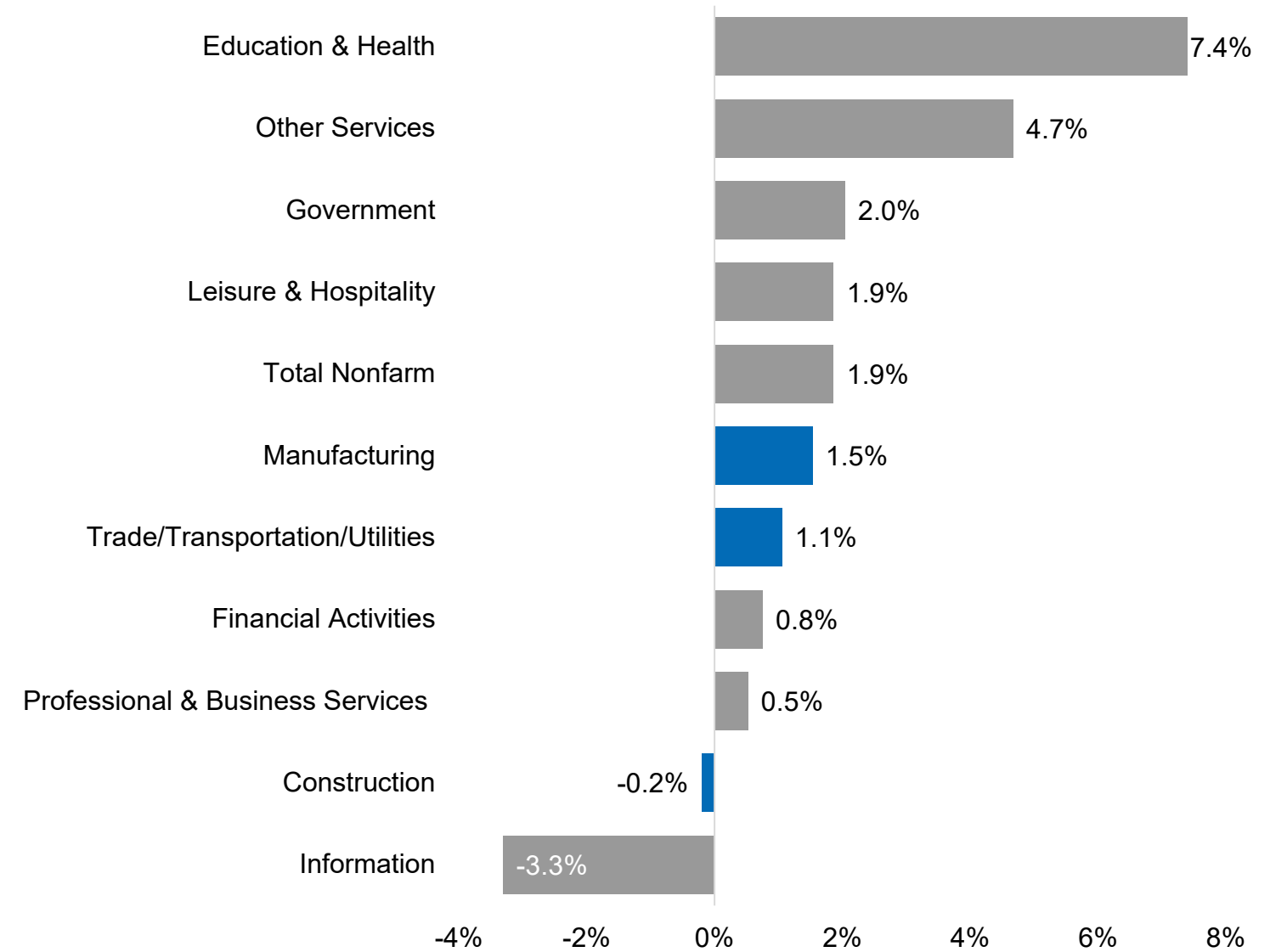
Employment Gains Minimal in Industrial Sectors

While the region experienced employment growth across most sectors, the growth in industrial sectors was marginal. Ongoing labor disruptions, such as the Boeing Machinists Union strike, have contributed to operational slowdowns for key tenants. Additionally, the economic climate has led many companies to delay expansion, further impacting leasing activity.

Employment by Industry, August 2024



Employment Growth by Industry, 12-Month % Change, August 2024

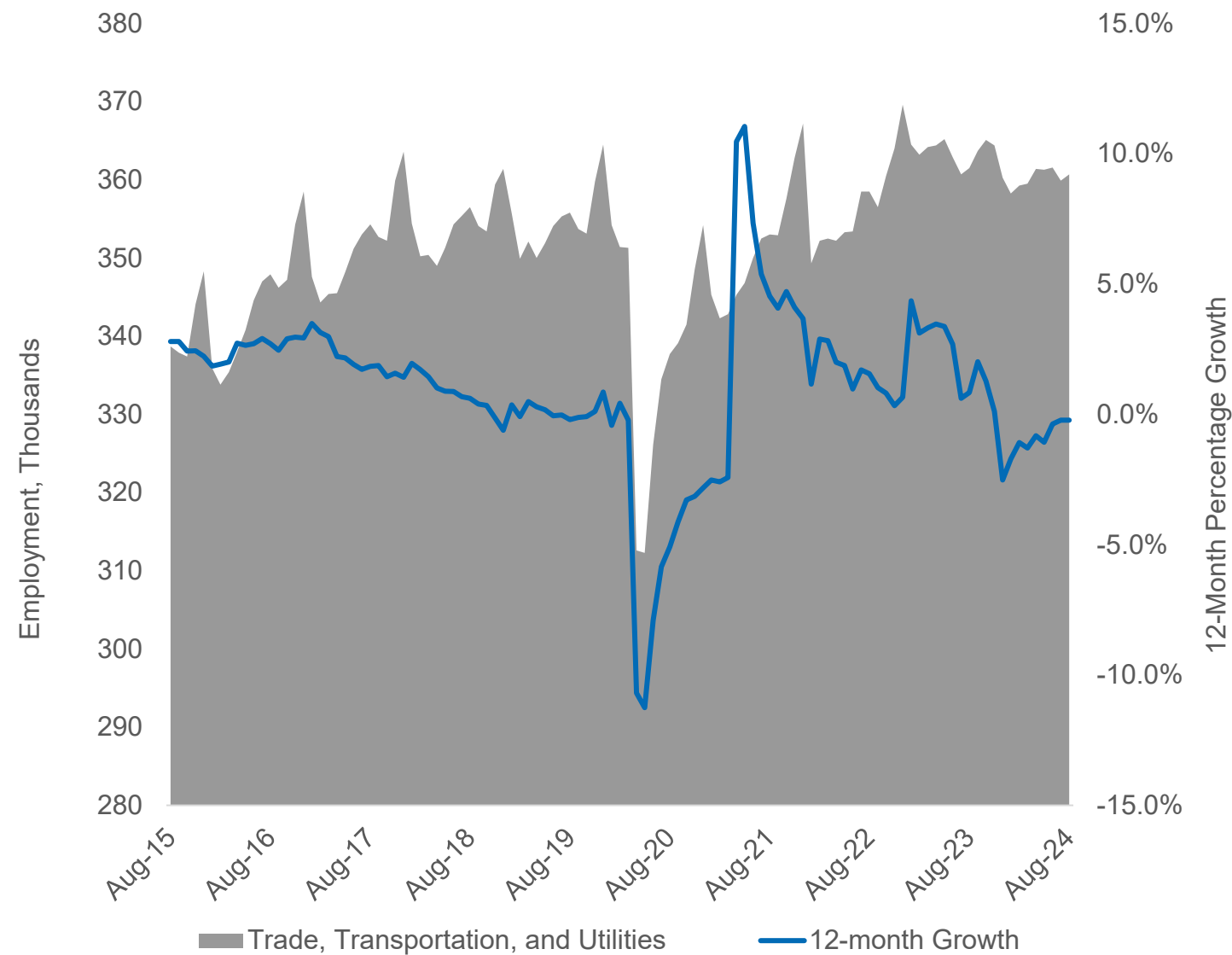


Source: U.S. Bureau of Labor Statistics, Seattle-Bellevue-Tacoma MSA

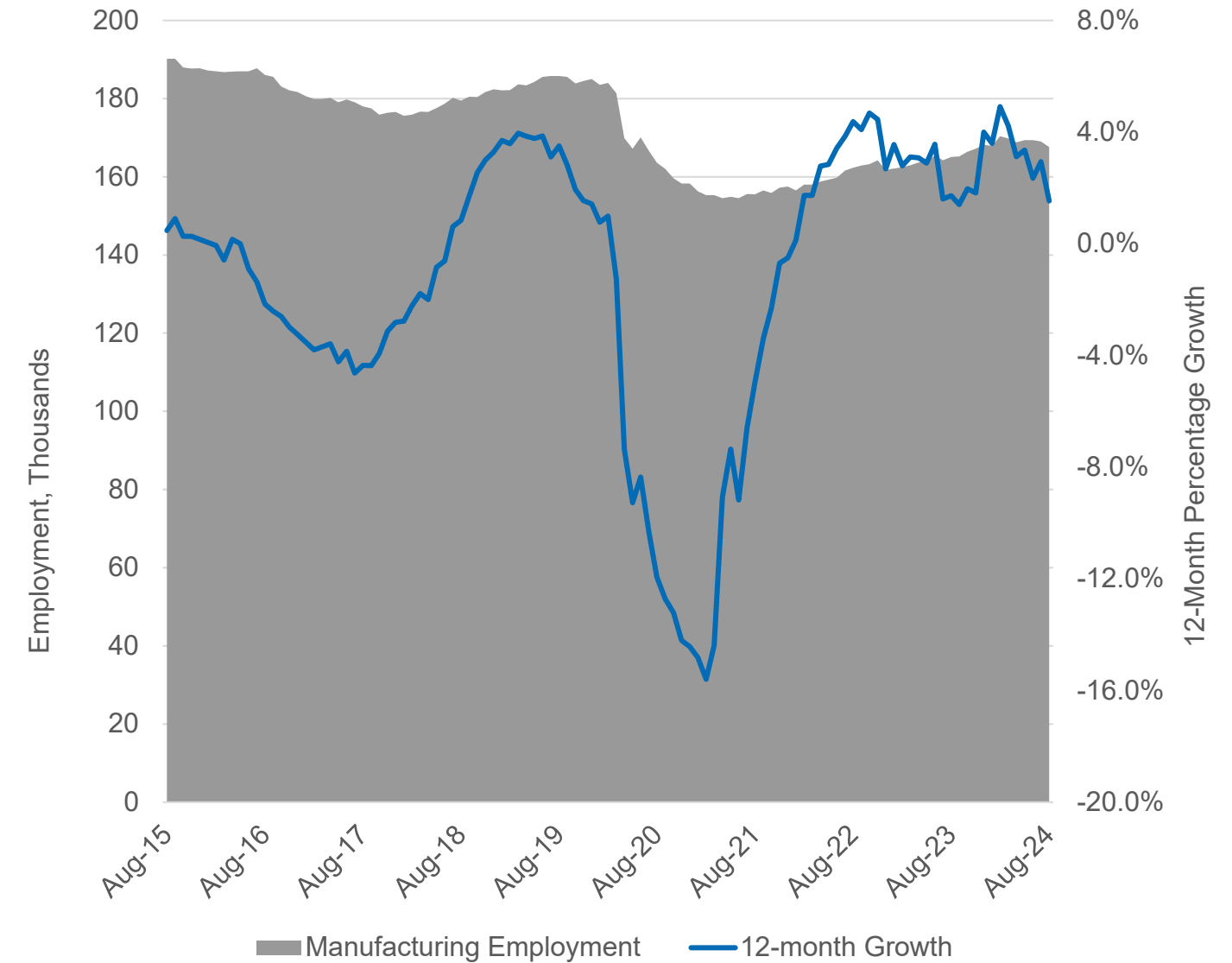
Manufacturing Growth Modest as Labor Needs Shift

Trade, transportation, utilities, and manufacturing firms have responded to the changing economic climate and shifting consumer demand by adjusting their labor needs. Growth in the trade, transportation, and utilities sector has stagnated, while manufacturing posted a modest 1.5% increase over the past 12 months.

Total Employment and 12-Month Growth Rate, Trade/Transportation/Utilities



Total Employment and 12-Month Growth Rate, Manufacturing



Source: U.S. Bureau of Labor Statistics, Seattle-Bellevue-Tacoma MSA

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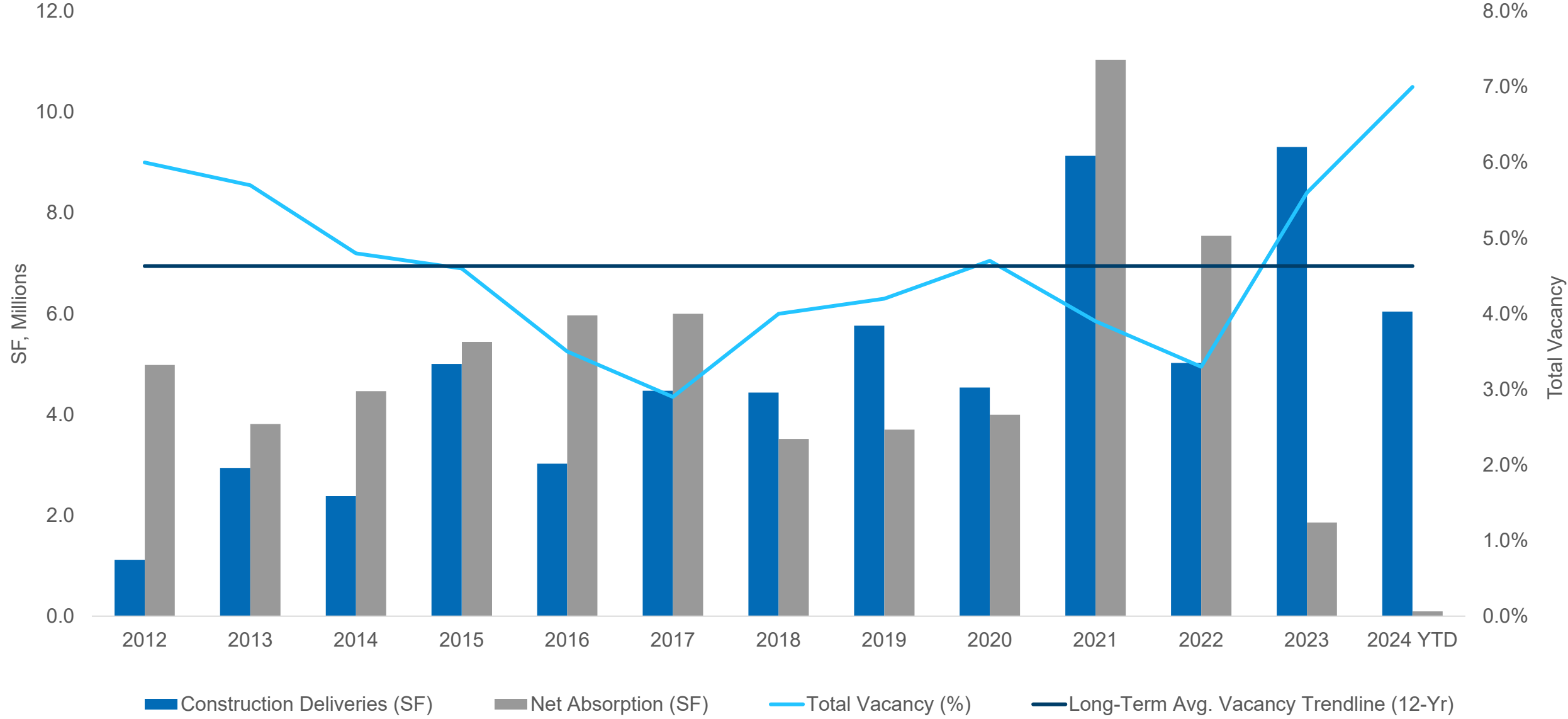
Leasing Market Fundamentals



Vacancy Rose in the Third Quarter Despite Positive Absorption

In the third quarter of 2024, the Puget Sound industrial market recorded a net absorption of 1.2 million square feet, primarily driven by Boeing's occupation of 1,026,959 square feet at the newly completed Bridge Point Milton I-5. However, despite this positive absorption, the overall vacancy rate rose to 7.0%, largely due to the delivery of several newly constructed but vacant properties.

Historical Construction Deliveries, Net Absorption, and Vacancy

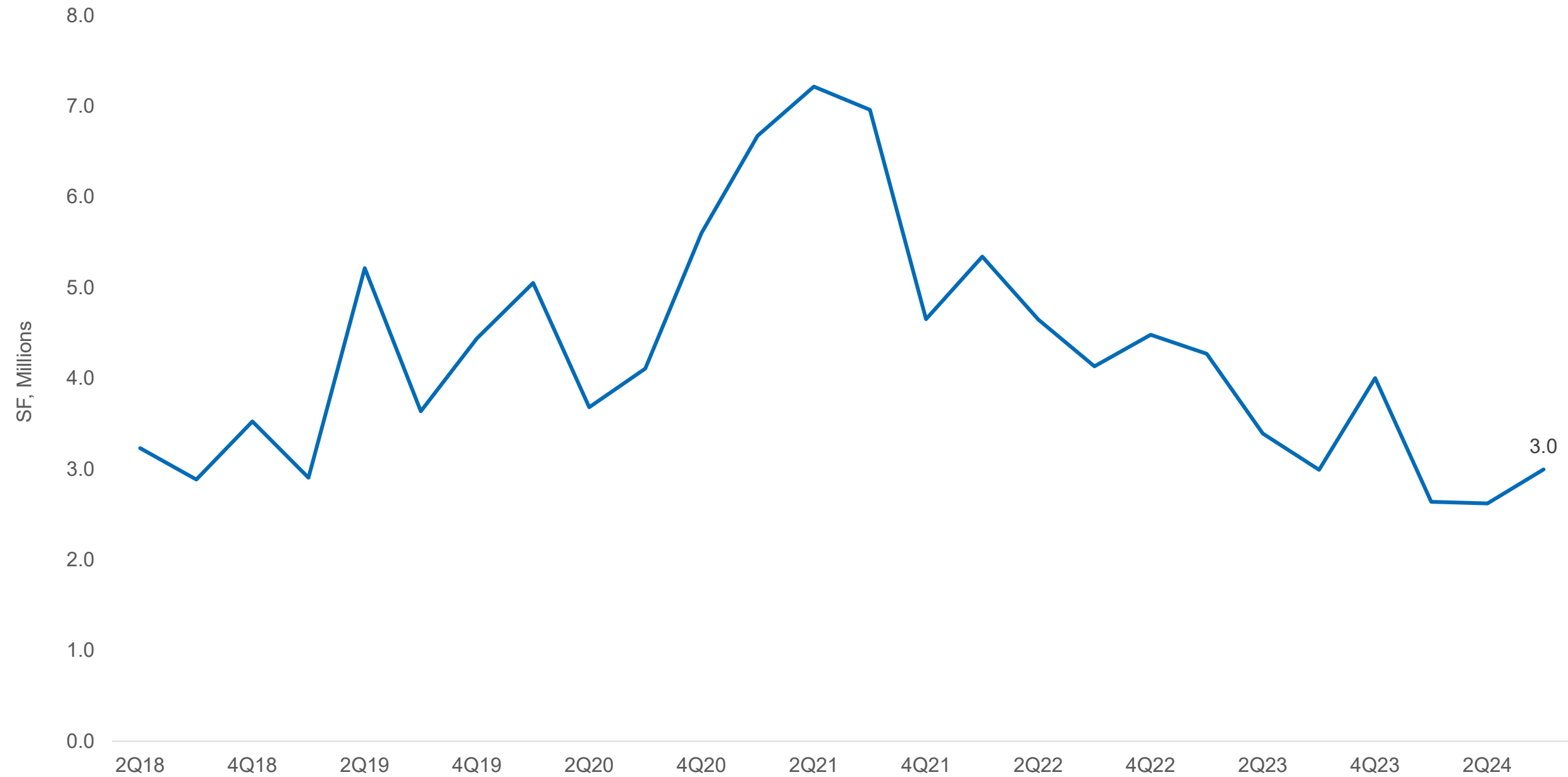


Source: Newmark Research

Leasing Activity Remained Quiet Amid Rebalancing

Slowing demand throughout the year has resulted in a notable decline in leasing activity. Year-to-date leasing volume reached 8.3 million square feet, marking a 22.5% decrease compared to the same period in 2023. Ongoing inflation and slower consumer spending growth have prompted a market adjustment, with the region rebalancing in response.

Total Leasing Activity (SF)

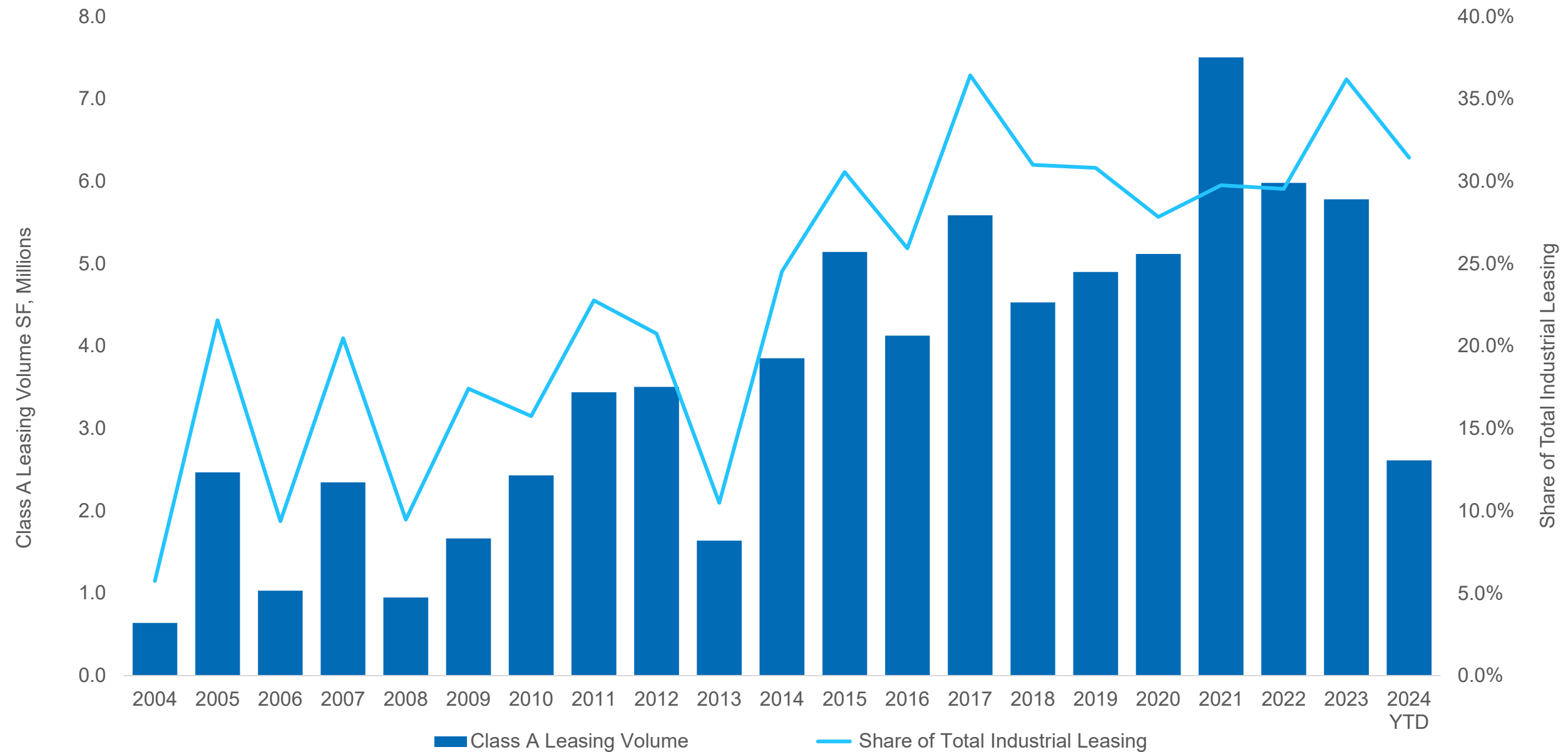


Source: Newmark Research, CoStar

Class A Leasing Boosted by Boeing

Class A leasing activity saw some improvement in the third quarter, primarily driven by Boeing's 1.0 million square foot lease at Bridge Point Milton I-5. Despite this quarterly uptick, Class A warehouse leasing has underperformed year-to-date, lagging behind the historic volumes reached during the pandemic. In the third quarter, Class A leasing represented 31.4% of total leasing activity.

Industrial Class A Leasing Volume and Percentage of Total Industrial Leasing Volume

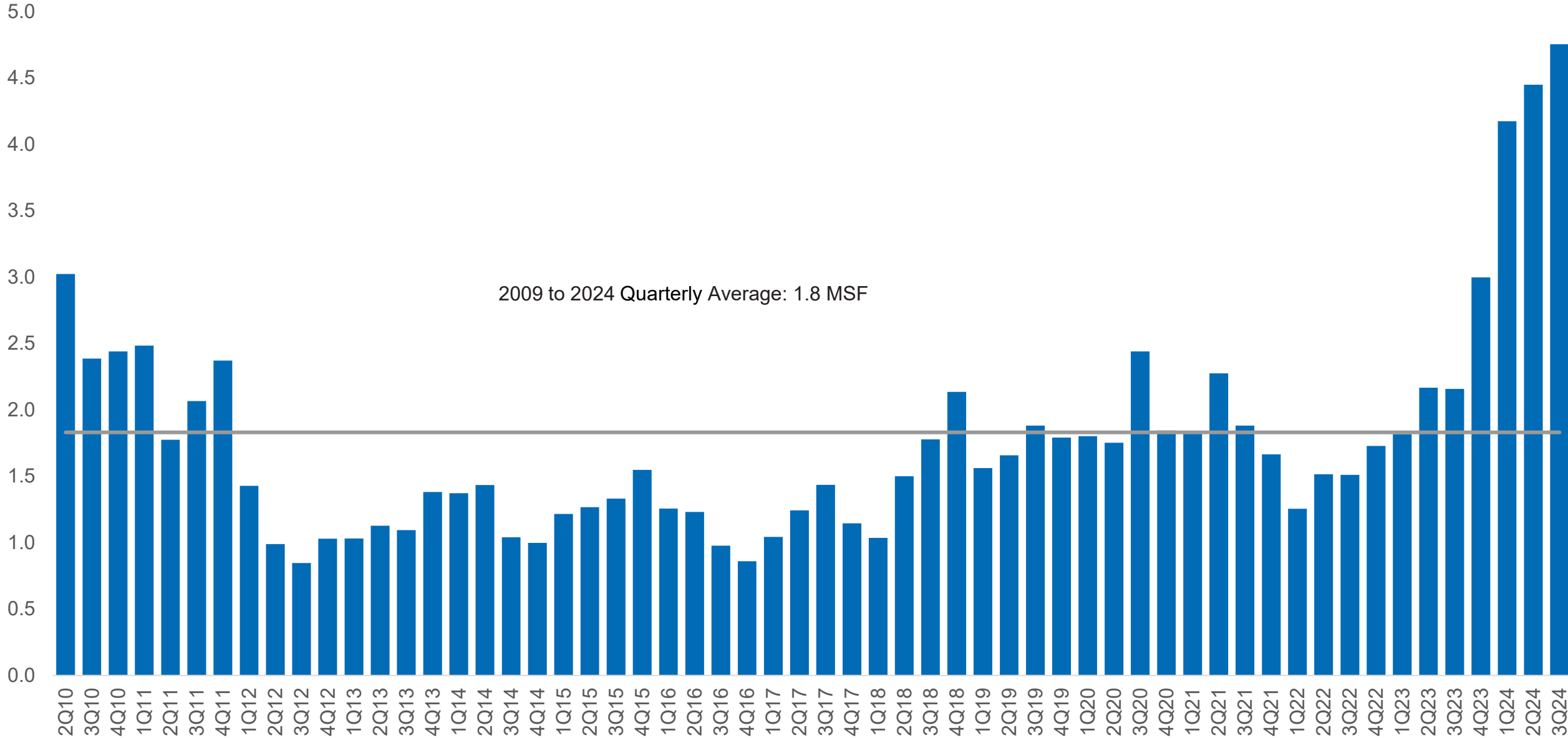


Source: Newmark Research, CoStar

Sublease Space Continued to Climb

Sublease availability continued to rise in the third quarter as tenants faced inflationary pressures and weakening consumer demand, prompting a widespread return of underutilized space. In the third quarter of 2024, available sublease space reached a record high of nearly 4.8 million square feet, marking a 6.8% increase from the previous quarter. Pierce and Thurston counties account for 80% of the market’s sublease vacancy, totaling approximately 2.5 million square feet.

Available Industrial Sublease Volume (msf)

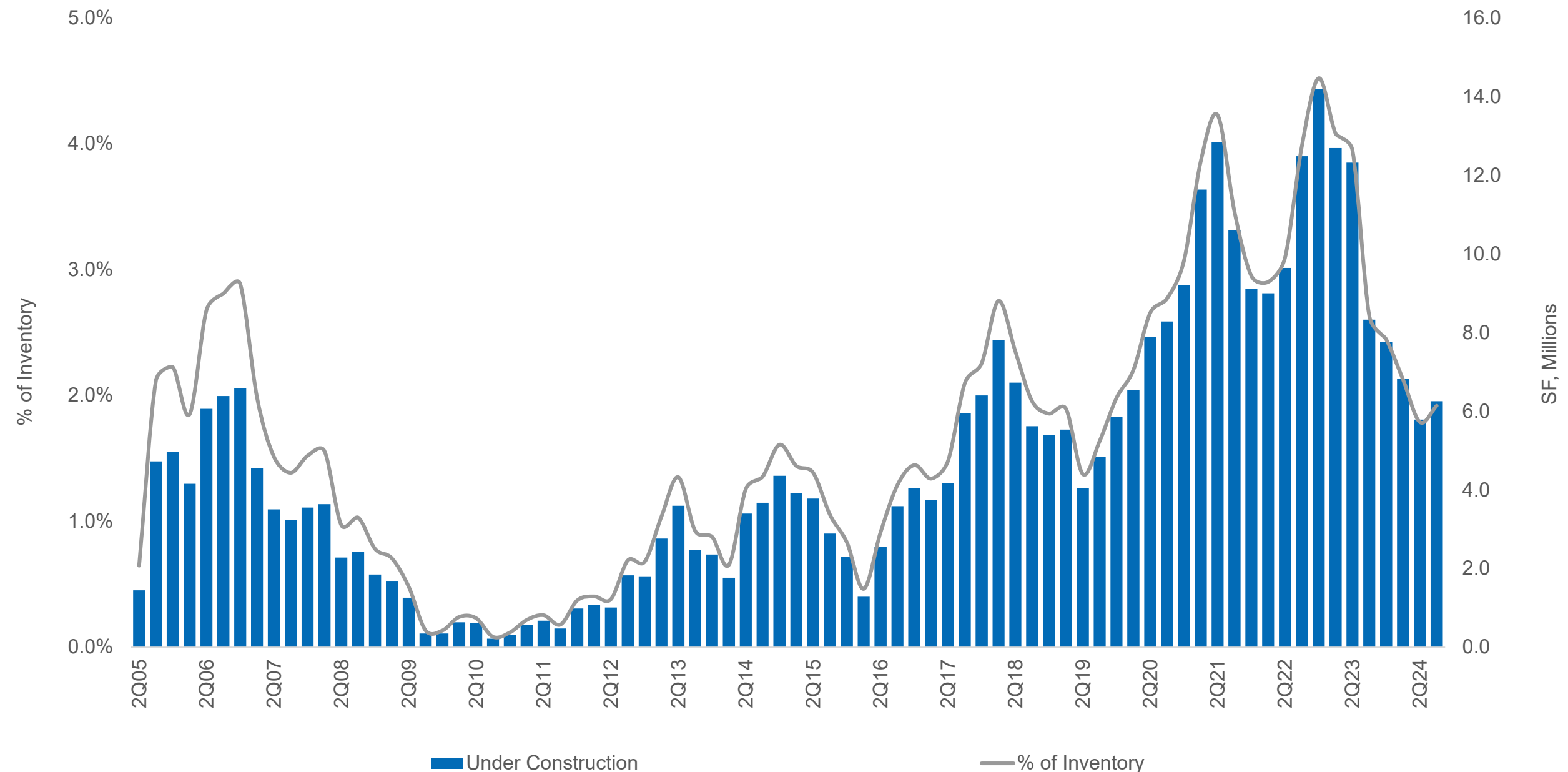


Source: Newmark Research, CoStar

New Supply Contributed to Increase in Vacancy

In the third quarter, 2.6 million square feet of new industrial space was delivered, with an additional 6.3 million square feet still under construction. The development pipeline has declined since peaking in Q4 2022, driven by high construction loan rates, which could stabilize rents in the near term. Only 35% of newly delivered space was pre-leased, raising vacancy as more unleased space entered the market. Construction is expected to remain limited as the market absorbs the current oversupply.

Industrial Under Construction and % of Inventory

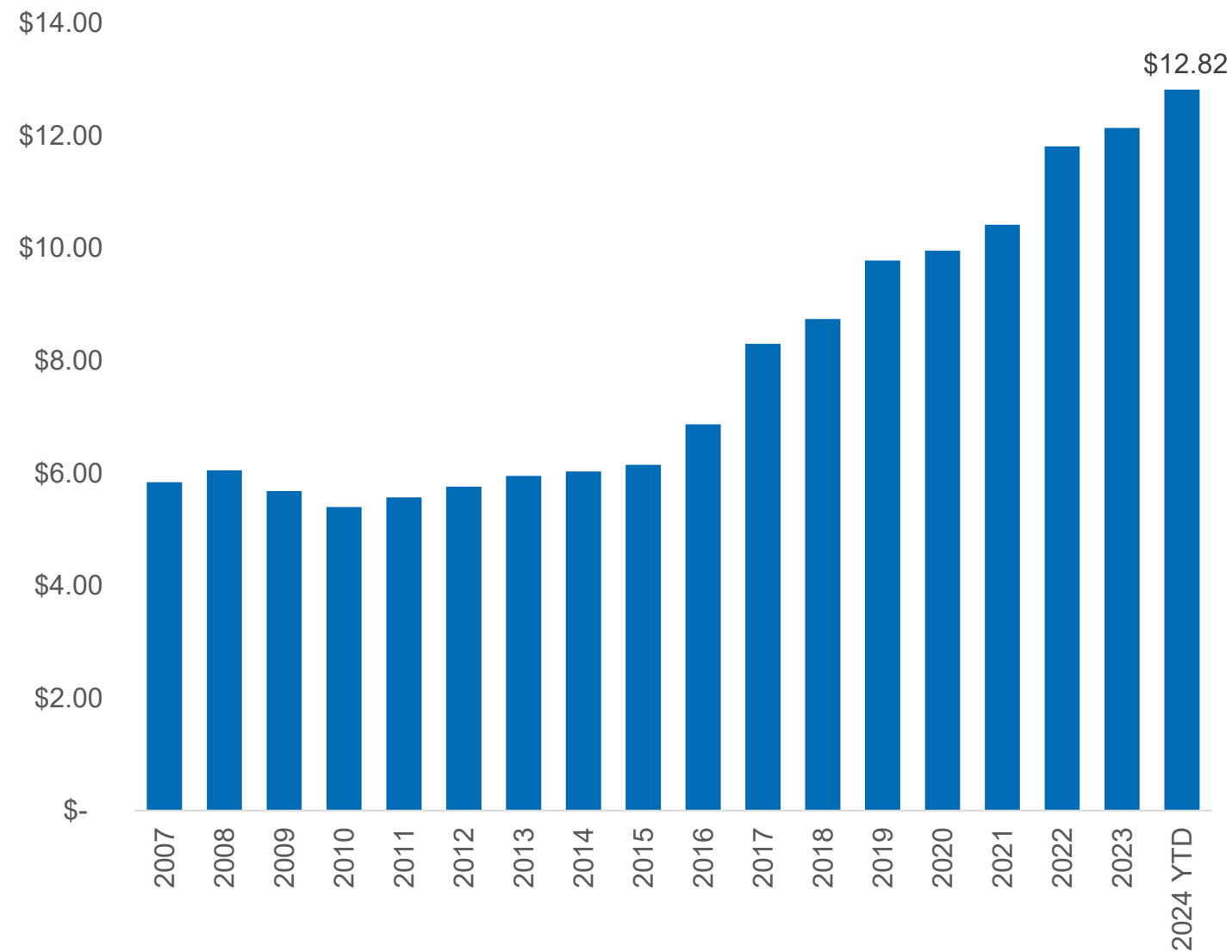


Source: Newmark Research, CoStar

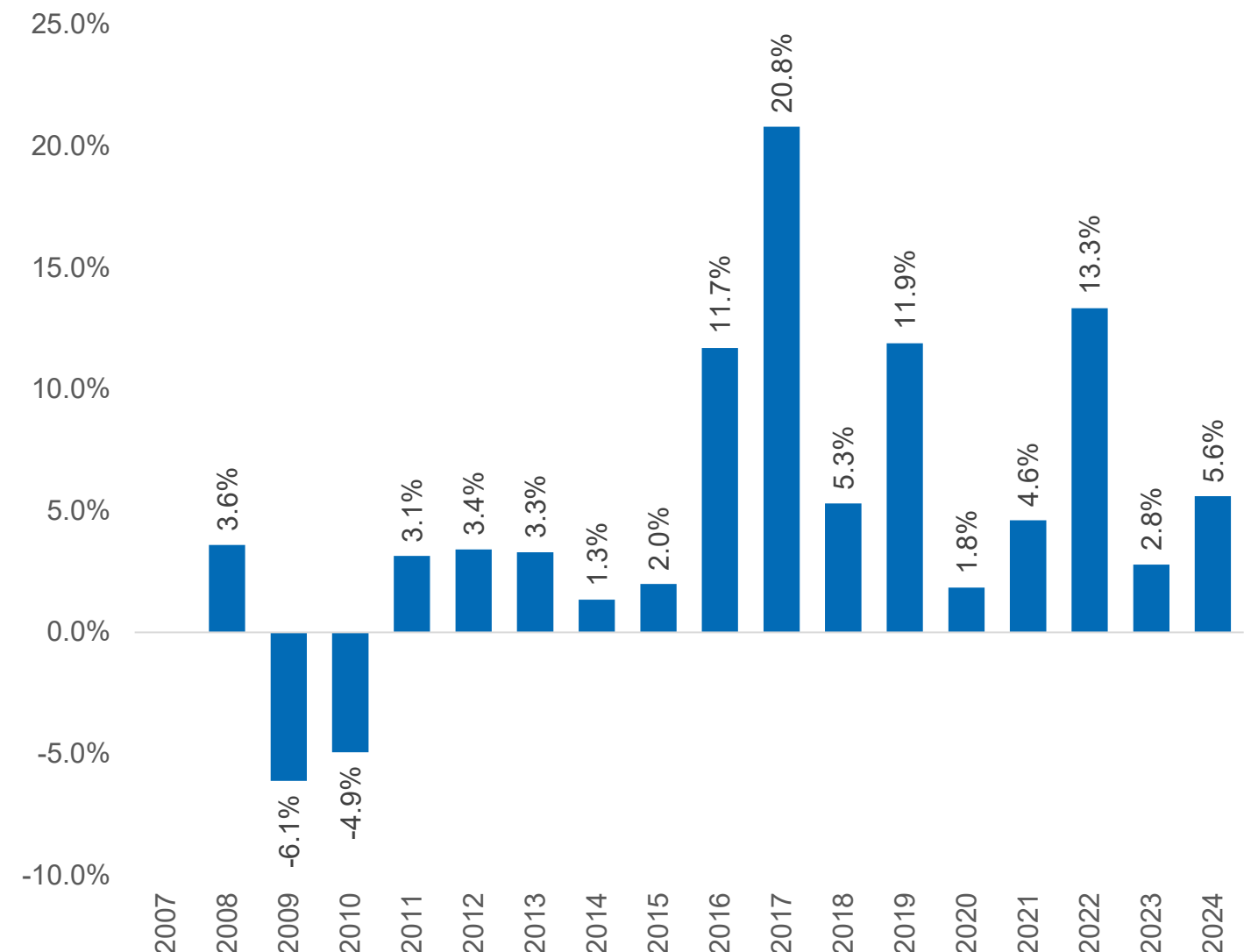
Rental Growth Slowed Across the Region

The average asking rent for the third quarter of 2024 was \$12.82/SF NNN, reflecting a 1.1% decline from the previous quarter. After a decade of rapid rent growth, the pace has now slowed. Rents are expected to cool and stabilize in the coming quarters as leasing activity rebounds. While Class A rents have started to decline in Tukwila, Renton, and Kent, Class A properties in Pierce and Thurston counties continue to command premium rates.

Industrial Average Asking Rent, \$/SF, NNN



Year-over-Year Asking Rent Growth Rate % Change



Source: Newmark Research, CoStar

Third Quarter Notable Transactions

Notable 3Q24 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Boeing	Bridge Point Milton I-5	Federal Way/Auburn	Direct New	1,026,959
IKEA	Frederickson One – Building 1	Sumner/Puyallup/Frederickson	Renewal	478,239
MyDepot, Inc.	Portside Industrial Center – Building A	Fife/Tacoma	Sublease	251,100
Bestone International Logistics	Prologis Park Sumner 17	Sumner/Puyallup/Frederickson	Direct New	89,250

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Appendix/Tables





Please reach out to your
Newmark business contact for this information



Please reach out to your
Newmark business contact for this information

For more information:

Nora Leahy

*Senior Research Analyst
Seattle Research*

nora.leahy@nmrk.com

Seattle

1420 Fifth Avenue
Suite 2600
t 206-388-3000

Bellevue

10900 NE 4th Street
Suite 1430
t 425-362-1400

New York Headquarters

125 Park Ave.
New York, NY 10017
t 212-372-2000

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