

ARTICLE | Adaptive Spaces

Puget Sound Industrial Market

5-YEAR TRENDS IN INDUSTRIAL LEASING

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Puget Sound Market in Context

Taking a five-year view of our regional industrial market helps contextualize 2022's year to date trends and provides a baseline for comparison to other years. While concerns around inflation, higher interest rates and slowed economic activity present significant headwinds for the United States economy, more regionally focused analyses like this one paint a more positive and nuanced picture with respect to industrial leasing activity. We also see variation in average lease duration and market shares over time across our five Puget Sound industrial submarkets. For example, Tacoma's share of total leased square footage of industrial property has grown commensurate with Kent Valley's share decline from 2017 through July of 2022 ("YTD 2022" herein).

Average Puget Sound NNN
Lease Price Q2 2022

\$14.05/SF/YR

Steadily Climbing Rents

From the beginning of 2017 and through July of 2022, pricing for industrial space increased from \$11.78 per square foot per year to \$14.05. This represented a total increase of 19% over the span of five years and seven months. Even during the height of the COVID pandemic in 2020 and 2021, rents continued to climb year-over-year across the Puget Sound region. In fact, the largest year-over-year increase since 2017 occurred in 2020, at 5.3%. Year to date, 2022 has seen an increase of 5.9%.

Total Increase in Average
NNN Rent Since 2017

+19%

Across the five submarkets, significant variation is found with respect to the pricing, size and lease duration found in a "typical deal." Seattle Close-In, Tacoma and Eastside rents have gained the most since the start of 2017, at 36%, 35% and 33%, respectively. Tacoma rents have continued to hover around half of rent rates in Seattle Close-In and the Eastside throughout the period. Meanwhile, Kent Valley rents grew by 21% and Northend rents richened by a mere 4%.

Since the start of 2020, the Seattle Close-In industrial market has seen rents jump 32%, less than one-third of which occurred in 2020. During the same time period, Eastside rents grew 22%, half of which was from 2020 deals. Other submarkets have seen rent growth in the low teens since the start of 2020, with the exception of the Northend– which actually saw rents contract 4%.

Property Sizes and Lease Duration

Regarding the size of a typical industrial property in each of the five submarkets, the averages for each submarket speak volumes. Since January 2017, Tacoma’s industrial leases have averaged almost 65,000 SF, followed by Kent Valley’s average of 43,655 SF and the Northend’s 27,180 SF. Seattle Close-In and the Eastside had leases for 18,215 SF and 14,244 SF on average, respectively. As shown in the table below, YTD 2022 transactions have been smaller in every submarket except Tacoma.

	Average Size 2017	Average Duration ¹ 2017	Average Size YTD 2022	Average Duration ¹ YTD 2022
Eastside	11,555 SF	55 months	10,969 SF	62 months
Kent Valley	44,662 SF	60 months	34,285 SF	61 months
Northend	30,064 SF	58 months	20,188 SF	88 months
Seattle Close-in	14,691 SF	53 months	12,306 SF	89 months
Tacoma	42,704 SF	57 months	89,628 SF	74 months

¹ Does not include sub-lease transactions. Source: CBRE Research.

All submarkets have seen average lease durations grow over this study period, though the extent of those expansions have varied greatly. Kent Valley has essentially stayed flat at around 60 months, while the Eastside ticked up almost 13% to 62 months. Meanwhile, the Northend, Seattle Close-In and Tacoma all decoupled from their pre-pandemic ranges to see marked increases of 52%, 78% and 68%, respectively.

Emergent Tacoma

Looking at each submarket’s share of lease deals since 2017 also reveals an interesting trend in deal share. Tacoma has grown from just 21% of square feet leased in 2017 to 36% YTD 2022. Meanwhile, the once dominant Kent Valley industrial market went from 60% of total leased space in 2017 to 45% YTD 2022. Other submarkets remained within two percentage points of their 2017 deal shares at the end of July 2022. This is particularly interesting in light of the fact that Tacoma’s deal share (in terms of deal counts, rather than SF) actually declined from 16% to 13% during the same period and Kent Valley’s share remained flat at 43%.

Lease Types

As shown in the highlighted columns of data below, the makeup of leased industrial property (total SF) based on transaction type has significantly shifted away from renewals due in large part to the growing prominence of new lease deals since 2017. This is in line with national industrial leasing trends, where around 75% of deals have been new leases in YTD 2022 and in 2021. As rent growth has accelerated, a greater number of industrial tenants have moved further south in search of rent relief and newer facilities where automation and modern warehousing practices can be implemented. Meanwhile, vacated properties have been absorbed by tenants willing to pay higher rents— usually from the third-party logistics and e-commerce sectors.

	New Lease¹	Renewal¹	Expansion¹	Other¹
2017	50.2%	44.4%	3.2%	2.2%
2018	50.6%	33.0%	3.0%	13.4%
2019	57.8%	34.3%	2.1%	5.8%
2020	65.1%	26.6%	1.6%	6.7%
2021	66.4%	23.4%	6.9%	3.3%
YTD 2022	70.6%	23.7%	4.5%	1.2%

¹ Percentage estimates do not include sub-lease transactions. Source: CBRE Research.

More Space Being Leased

Total annual lease volumes averaged around 20 million SF from 2017 through 2020. Notably, 2021 saw a jump of over 27% year-over-year, and deal volume in YTD 2022 is almost on track to match 2021's totals. The Tacoma submarket accounted for 75% of 2021's year-over-year jump in new lease space. Meanwhile, Kent Valley has seen 98% more space newly leased and 62% less space renewed from 2017 through 2021.

	New Lease¹	Renewal¹	Expansion¹	Other¹	Total¹
2017	10,454,811	9,236,530	660,546	467,313	20,819,200
2018	11,135,585	7,258,352	664,055	2,949,055	22,007,047
2019	11,973,089	7,094,603	430,277	1,212,658	20,710,627
2020	13,223,067	5,394,949	326,284	1,374,391	20,318,691
2021	17,179,567	6,046,497	1,788,702	857,869	25,872,635
YTD 2022	9,442,007	3,173,759	596,007	155,372	13,367,145

¹ Square foot estimates do not include sub-lease transactions. Source: CBRE Research.

Map of Puget Sound Industrial Submarkets



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