THE LINNEMAN LETTER
Volume 25, Issue 2 Summer 2025

## Industrial Market Close-up: Seattle MSA

***Overview and Economy.*** With an inventory of 366 million square feet in 50 submarkets, the Seattle metro area industrial market had a vacancy rate of 7.6% in the first quarter of 2025. This compares to the average U.S. industrial vacancy rate of 7.1% in the same period. Real asking rents decreased by 1.1% year-over-year in the MSA, to $14.20 per square foot in the first quarter of 2025, according to CoStar (adjusted for inflation by Linneman Associates). The comparable U.S. real net industrial rents averaged $12 per square foot in the first quarter of 2025.

With a population of approximately 4 million, the MSA's largest employment sectors are professional and business services (20.3%); trade, transportation, and utilities (17.7%); education and health services (17.6%); and government (12.4%). Payroll employment in the MSA previously peaked in February 2020 at 2.1 million jobs but declined sharply, to 1.9 million due to the shutdown. By April 2025, the MSA had regained 292,000 jobs (15.7% from the bottom). Through April 2025, MSA payroll employment stood at 2.2 million jobs, with eight of the ten major sectors experiencing year-over-year increases. Education and health services (4.8%); manufacturing (2.7%); and professional and business services (0.6%) saw the largest year-over-year growth, while mining, logging, and construction (-2.4%) and the important information sector (-1.9%) saw the largest year-over-year decreases. Fortune 500 companies headquartered in the Seattle MSA include Amazon, Costco, Microsoft, and Starbucks.

In previous issues, we have discussed a covariance analysis that was first published in the *Wharton Real Estate Review* (spring 2007) and regularly updated in this publication. The analysis examines how various economic indicators behave in individual metropolitan areas based on national economic changes. For each MSA, we estimated an equation, which summarizes how a 100-basis point (bp) change in the national variable affects the local indicator. The equation consists of a constant ("alpha") for each market and a "beta," which is a multiplier applied to the national percent change in employment. The alpha indicates MSA growth that is independent of national growth. If there is no national job growth, then the alpha is the expected annual percentage change in MSA employment. The beta for the U.S. is defined as 1.0. An MSA with a beta of 1.0 registers (on average) an increase of 100 bps in employment growth (plus its alpha) when national employment rises by 100 bps. A beta that is less than 1.0 indicates that the MSA does not boom (or bust) around its trend to as great an extent as the national economy, while a beta of greater than 1.0 indicates that such an MSA experiences swings of greater magnitude (compared to its trend) than the percentage changes at the national level.

With an employment beta of 1.05, the MSA's job market reacts to a 5% greater degree than movements in national employment. The MSA has an alpha of 0.33, indicating that the MSA is expected to experience an annual employment increase of 0.33% when U.S. job growth is zero. The interaction between the alpha and beta results in a breakeven point of -0.31, which indicates that the MSA is expected to experience positive job growth as long as U.S. job growth is -0.31% per year or greater. The MSA's R-squared statistic of 0.80 indicates that the forecasting model for Seattle explains future job growth with a strong 80% "fit."

During the Financial Crisis recovery, U.S. employment grew by 17.4% from the bottom through February 2020, while MSA employment increased by 28.2% over the same period, modestly surpassing our predicted 22.4% job growth. Between the April 2020 shutdown low and May 2025, national employment grew by 22.3%, while Seattle's job base grew by 15.7% through April 2025 (latest available), below our prediction of 25.5%.

The MSA unemployment rate stood at 2.7% in February 2020, 80 bps below the comparable national unemployment rate of 3.5%. Due to the shutdown, the official MSA unemployment rate spiked to 17.5% in April 2020, while the corresponding national rate (which understated reality) peaked at 14.8%. With the subsequent reopening and rebuilding of the economy,

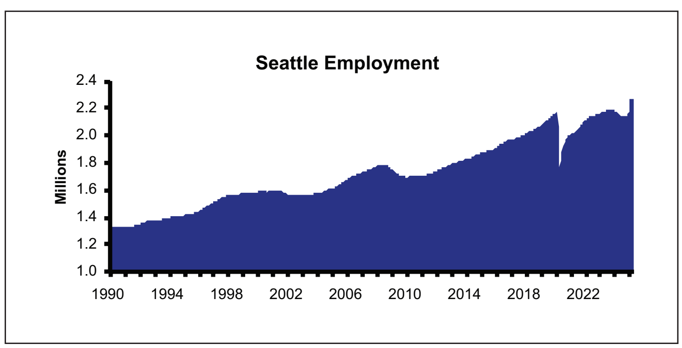


*figure 1*

the MSA unemployment rate stood at 4.2% in April 2025 (latest available, not seasonally adjusted), on par with the U.S. unemployment rate of 4.2% in May.

***Absorption and Vacancy.*** Industrial net absorption in the first quarter of 2025 was -447,000 square feet. The Parkland/Spanaway and Auburn submarkets performed best, with 1.1 million and 771,000 square feet absorbed over the last year through the first quarter of 2025, respectively, while the Puyallup/S Hill submarket saw the greatest negative net absorption of 802,000 square feet.

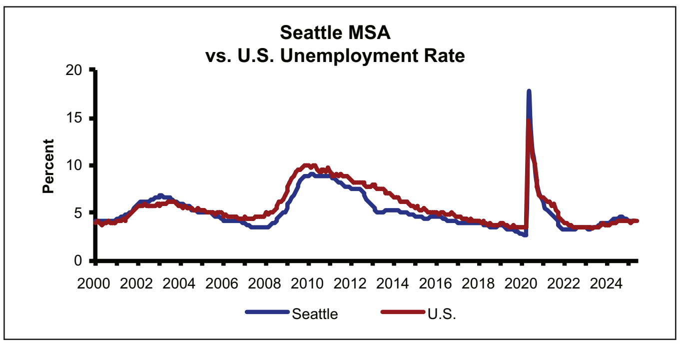


*figure 2*

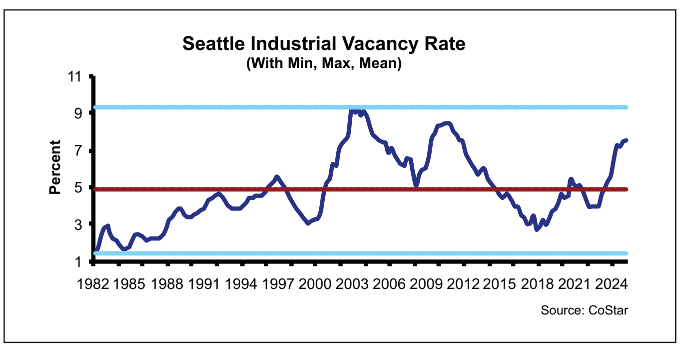


*figure 3*

The metro area industrial vacancy rate fell from 4.6% pre-pandemic, to 3.9% in 2022, but rose to 7.6% in the first quarter of 2025 as supply surged. The MSA's long-term average (1982-present) industrial vacancy rate is 4.9%, with the forty-year high (9.3%) occurring in the first quarter of 2003.

***Rental Rates and Leasing.*** The volume of new leases has been on a downward trend since 2021. The region's 12-month trailing new lease volume is down close to half off its peak level. This slowdown is a normalization of sorts as it brings the area back in line with leasing volumes typically seen in the years before the pandemic. Speculative construction and two years of negative absorption due to space givebacks have pushed availability to record levels.

Real industrial base rents in the MSA stood at $14.20 per square foot in the first quarter of 2025, 1.4% below last quarter's all-time high and down 1.1% from $14.35 one year earlier. The latest rental rate remains 37% above the long-term average and 65.6% above the all-time low.

***Development/Construction Pipeline.*** In the first quarter of 2025, there were 5.3 million square feet of industrial space (1.4% of inventory) under construction in the MSA, versus 1.5% of stock under construction nationally. The Seattle County East submarket saw the largest pipeline as of the fourth quarter, with 2.5 million square feet under construction.

***Investment and Sales.*** The Seattle MSA real rolling four-quarter industrial sales volume through the first quarter of 2025 was $1.6 billion. This is on par with the long-term average annual total sales volume but was 56.3% below the historical high seen in 2021. The latest level is up 130.8% year-over-year.

The MSA four-quarter rolling average sale price per

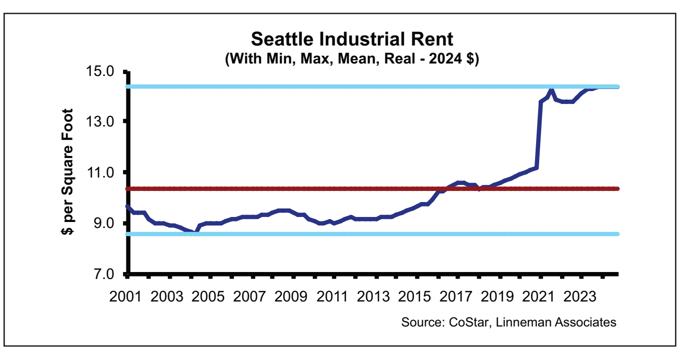


*figure 4*

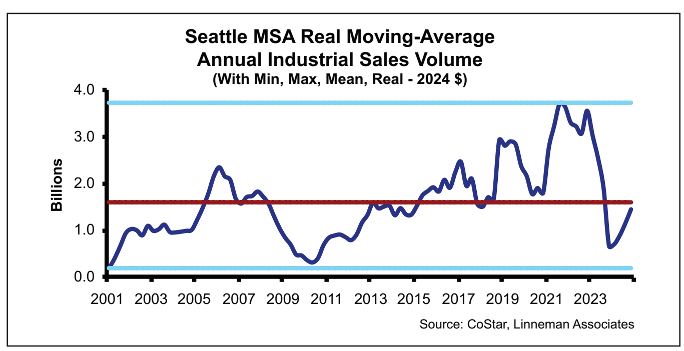


*figure 6*

**Seattle MSA Industrial Submarket Summary 1Q25**

| Submarket | Inventory (MSF) | Vacancy (%) | Real Rent ($) | Square Feet Under Construction | 12-Month Net Square Feet Absorption |
|---|---|---|---|---|---|
| 520 Corridor | 1.0 | 5.8 | 23.61 | 0 | 6,030 |
| Auburn | 32.3 | 7.3 | 12.39 | 816,540 | 758,832 |
| Ballard | 2.7 | 5.6 | 20.94 | 0 | 698 |
| Bellevue | 2.5 | 2.0 | 22.30 | 0 | 18,285 |
| Belltwn/Denny Regrade | 0.1 | 11.0 | 23.66 | 0 | |
| Bothell/Kenmore | 5.4 | 8.9 | 23.26 | 0 | -163,925 |
| Capitol Hill/Ctrl Dist In | 0.8 | 0.0 | 37.56 | 0 | |
| Dupont | 4.6 | 11.1 | 10.61 | 0 | -24,045 |
| E King County | 4.7 | 3.7 | 18.96 | 247,409 | 43,265 |
| E Pierce County | 1.2 | 13.8 | 11.29 | 130,151 | 3,240 |
| E Tacoma | 3.8 | 0.2 | 11.98 | 0 | 82,978 |
| Edmonds/Lynnwood | 3.2 | 3.8 | 17.71 | 0 | -42,080 |
| Everett CBD | 4.1 | 3.1 | 14.07 | 0 | 45,948 |
| Federal Way | 2.1 | 21.3 | 15.91 | 73,000 | 151,595 |
| Fort Lewis | 1.8 | 7.8 | 12.25 | 0 | 51,406 |
| Georgetown/Duwamish N | 15.0 | 15.1 | 17.57 | 0 | -81,428 |
| Georgetown/Duwamish S | 7.2 | 4.9 | 17.29 | 0 | 29,953 |
| Gig Harbor/W Pierce | 1.2 | 9 | 16.32 | 0 | 38,858 |
| Greenwood/Fremont | 1.1 | 11.2 | 20.48 | 0 | -13,173 |
| Kent Valley N | 32.1 | 8.9 | 11.92 | 0 | -865,577 |
| Kent Valley S | 21.2 | 6.9 | 12.48 | 30,375 | 137,216 |
| Kirkland | 3.3 | 2.8 | 20.13 | 0 | -8,240 |
| Lake Union | 1.0 | 4.6 | 26.03 | 0 | -1,969 |
| Lakewood | 5.4 | 10.4 | 12.16 | 0 | -151,383 |
| Magnolia | 2.7 | 8.3 | 19.59 | 0 | 18,974 |
| Mill Creek/N Creek | 2.2 | 1.9 | 18.21 | 242,981 | -11,158 |
| N Snohomish County | 13.0 | 11.2 | 13.65 | 85,000 | -129,341 |
| Newport/Issaquah | 2.0 | 4.3 | 24.00 | 0 | -19,621 |
| North End Tacoma | 2.5 | 1.9 | 12.07 | 0 | -54,705 |
| Northgate/N Seattle | 1.6 | 1.4 | 19.65 | 0 | -12,947 |
| Parkland/Spanaway | 17.8 | 12.0 | 11.03 | 262,794 | 2,094,843 |
| Port of Tacoma/Fife | 22.2 | 8.0 | 11.52 | 0 | -296,207 |
| Puyallup/S Hill | 34.1 | 6.8 | 11.56 | 1,393,195 | -30,283 |
| Queen Anne | 1.5 | 23.4 | 21.53 | 0 | -71,327 |
| Rainier/Beacon Hill | 3.2 | 11.4 | 17.14 | 0 | 151,949 |
| Redmond | 8.2 | 5.5 | 20.36 | 0 | -161,387 |
| Renton | 11.5 | 5.1 | 15.18 | 0 | -380,276 |
| S Everett/Harbor Pt | 26.8 | 5.7 | 15.22 | 9,013 | 564,040 |
| S Snohomish County | 3.8 | 7.3 | 14.49 | 0 | 7,932 |
| Seatac/Burien | 6.3 | 10.1 | 16.62 | 2,550 | -72,445 |
| Seattle CBD | 0.0 | 21.1 | 21.56 | 0 | -7,000 |
| SoDo | 9.7 | 8.5 | 18.30 | 0 | 116,199 |
| Tacoma CBD | 1.2 | 4.5 | 11.24 | 0 | 43,520 |
| Tukwila | 16.7 | 5.6 | 15.99 | 0 | 503,005 |
| U. District/Ravenna | 1.3 | 0.2 | 22.18 | 0 | -2,762 |
| University Place | 5.8 | 3.1 | 11.85 | 2,475,970 | 20,208 |
| Vashon/Maury Isl | 0.3 | 0.0 | 12.65 | 0 | 161,561 |
| W Seattle | 4.3 | 4.1 | 16.91 | 0 | 101,787 |
| Waterfront | 0.9 | 3.1 | 19.02 | 0 | 13,295 |
| Woodinville | 6.9 | 4.7 | 17.02 | 0 | -170,368 |

*Source: CoStar, Linneman Associates*

*figure 5*

square foot stood at $235 in the first quarter of 2025. This is down 1.3% year-over-year but is 48% and 137% above the long-term average and low, respectively. The average U.S. sale price stood at $151 per square foot in the first quarter of 2025.

The Seattle MSA saw an average cap rate of 5.9% in the first quarter of 2025, flat over the year and quarter. The current rate is 130 bps below the historical average of 7.1% and 280 bps below the historical high of 8.6%.

***Opportunities and Challenges.*** The ports of Seattle and Tacoma are both dealing with the uncertainty of the Trump administration's tariff policies. The two ports are collectively the sixth largest port in the U.S., with most of their cargo coming from East Asia. Cargo volumes were up 18.4% year-over-year in March as importers rushed to get orders filled before the tariff deadline, but by late April the ports experienced a sharp 40% drop off. Although the threatened 145% tariff on goods from China did not go into effect, the ports continued to see a reduction in traffic throughout May as uncertainty prevented importers from returning to the normal level of orders.

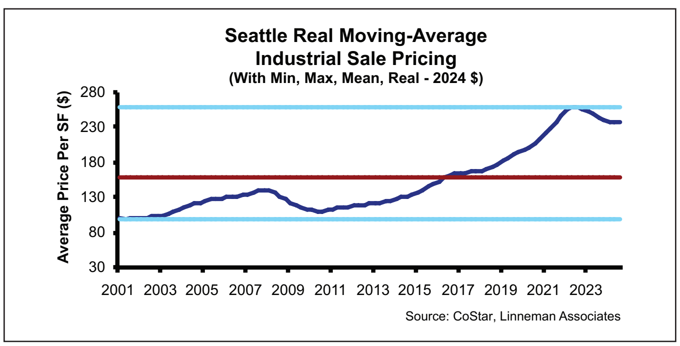


*figure 7*

The Seattle-Tacoma International Airport is seeking approval for a substantial list of expansion and renovation projects. Near-term goals are centered around increasing airport capacity for passengers and cargo while reducing delays and congestion, with a targeted completion date of 2032. These near-term projects include airfield improvements, new roadways and infrastructure, and a new terminal. This proposal follows years of annual passenger growth, with 2024 seeing a record 52.6 million passengers. Airport officials expect passenger growth to continue at a rate of 1.7% a year, meaning that the already congested facilities will be unable to accommodate new passengers without significant expansion.

The Seattle Department of Transportation announced a property tax increase of $1.4 billion for infrastructure improvements. The improvements will include $423 million for improving and repaving streets, $218 million for bridge maintenance and repairs, $109 million for building and repairing sidewalks, $100 million for new traffic lights, and $94 million for expanding Seattle's bike lane network. Bridge maintenance was raised as a particular concern for SDOT, citing the Francis Scott Key Bridge collapse as an example of the importance of structural maintenance.

In January 2025, Amazon employees returned to the office for the first full week of in-person work since 2020. With 50,000 employees at its Seattle headquarters, this had major positive impact on downtown businesses that were struggling since the pandemic. In February, Downtown Seattle Association reported an average of 94,000 daily office workers, nearly 80% of February 2020 numbers. DSA expects these numbers to continue to rise, hopefully surpassing 2020 numbers by the end of the summer.

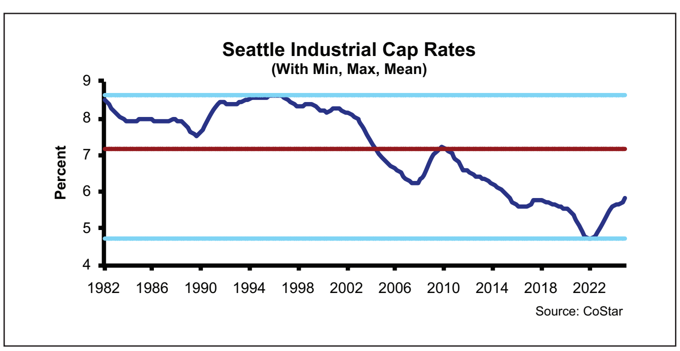


*figure 8*

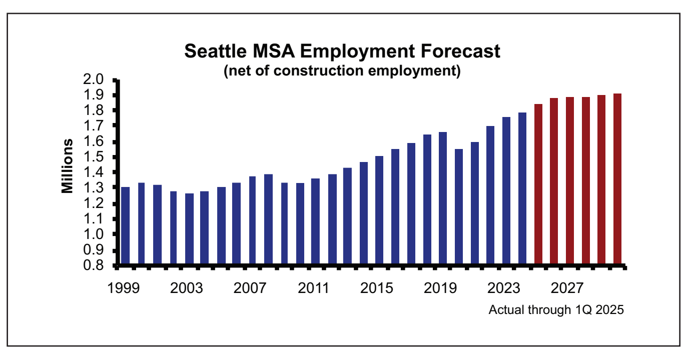


*figure 9*

***Outlook.*** Our statistical employment forecasts are net of construction jobs due to the volatility and short-term nature of that sector. We forecast that the Seattle MSA will add about 55,000 non-construction jobs per year in 2025-2030, or 274,000 jobs in aggregate. We expect that the current vacancy rate of 7.6% will fall to 5.2% by the end of 2030 (given the known pipeline).

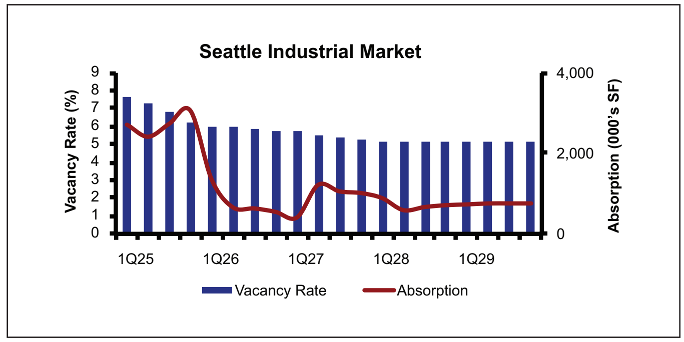


*figure 10*