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South Sound's industrial outlook is good, but apartments not so much

By NAT LEVY
Journal Staff Reporter

Seattle and Tacoma tell a tale of two cities, at least in their apartment markets.

While projects are popping up at a rapid pace in Seattle, that hasn't been so in Tacoma, says Larry Corkins, a multifamily expert with Marcus & Millichap, who spoke yesterday at a NAIOP meeting in Tacoma.

The vacancy rate in Seattle hovers around 3 percent, but it's nearly double that in Tacoma. Rents rose nearly 6 percent in Seattle last year, they are only up 2 percent in Tacoma, he said.

"The Seattle and Tacoma central business districts are only about 35 miles away but from a multi-family perspective, they couldn't be more different," Corkins said at NAIOP's South Sound Real Estate Forecast.

According to his research, in 2011 in Tacoma there was only one sale of an apartment complex with more than 150 units and only six sold in 2012. Equity Residential was responsible for four of those sales when it decided to shed properties in the Tacoma market, he said.

Why the disparity between the two cities? Job growth.

Corkins said most new jobs in this region have been in King and Snohomish counties.

Economist Dr. Lynn Michaelis, the president of Strategic Economic Analysis, was the featured speaker. He said King County's unemployment rate returned to near pre-recession levels in early 2011, while Pierce's rate kept sliding.

But there are signs of a turnaround in Tacoma. Corkins said there are at least nine new apartment projects with more than 1,400 units in the Tacoma area, and the Port of Tacoma is growing. There's plenty of Class A office space available downtown.

One South Sound market is hot: industrial. Jeff Davis of Davis Property & Investments, a Kent-based developer and asset manager, said between Pierce County, the Kent Valley and Thurston County, there are more than 37 million square feet of industrial projects planned. About 4.8 million square feet of space is under construction, and only 53 percent of it is preleased. These projects are being done by a handful of developers and financed by institutional money, Davis said.

Brett Hartzell of CBRE said institutional investors, such as pension funds, are eager to get into the Seattle market. They see it as a top five market, and they have been willing to invest in smaller properties valued below what they would typically spend, he said.

Seattle's recovery has outpaced much of the country, Michaelis said. He said nationwide the next few years will see tepid growth and low inflation, with housing slowly recovering.

He said the slow housing recovery nationwide shows just how bad the economic downturn was. He said construction of new homes during the depths dipped to levels not seen since 1946.

"This is a depression. This is not a recession when you look at this fall off in housing," he said. "And it has been a painfully slow recovery."

Michaelis said locally things are already looking up, and in the next few years the national outlook will improve. He predicted by the end of the year, unemployment will decrease to 7.7 percent nationally, and 6.5 percent by the end of 2014.