

DATE: April 25, 2022
TO: William Ellis, City of Kent
FROM: Tyler Bump and Justin Sherrill, ECONorthwest
SUBJECT: Kent Industrial Valley Employment and Market Trends Update

Introduction

Located in the southeast area of the Puget Sound region, the Kent Industrial Valley has become increasingly attractive for many industrial uses due to its flat terrain, availability of transportation connections, and the proximity to Seattle, Tacoma, and SeaTac Airport. Within the Kent Industrial Valley is Kent's Manufacturing/Industrial Center (MIC), one of nine Manufacturing/Industrial Centers in the Puget Sound region with strategic goals for more intensive industrial activity. These regional centers are identified for strategic growth, economic development and infrastructure investments to improve mobility of people and goods.

The City of Kent contracted with ECONorthwest to update employment, commercial real estate, and worker commute data conducted in November 2019 for the Kent Industrial Lands Market Analysis and Industrial Site Design Analysis. ECONorthwest completed this update of market and employment trends to help the City of Kent and regional partners understand how the key sectors of employment in the area have changed in the Kent Industrial Valley since the previous report was published. The data in this memo represents the most recent and accurate available and primarily relies on summarized covered employment estimates provided by Puget Sound Regional Council, proprietary commercial real estate data from CoStar, and Longitudinal Employer-Household Dynamics data from the US Census Bureau.

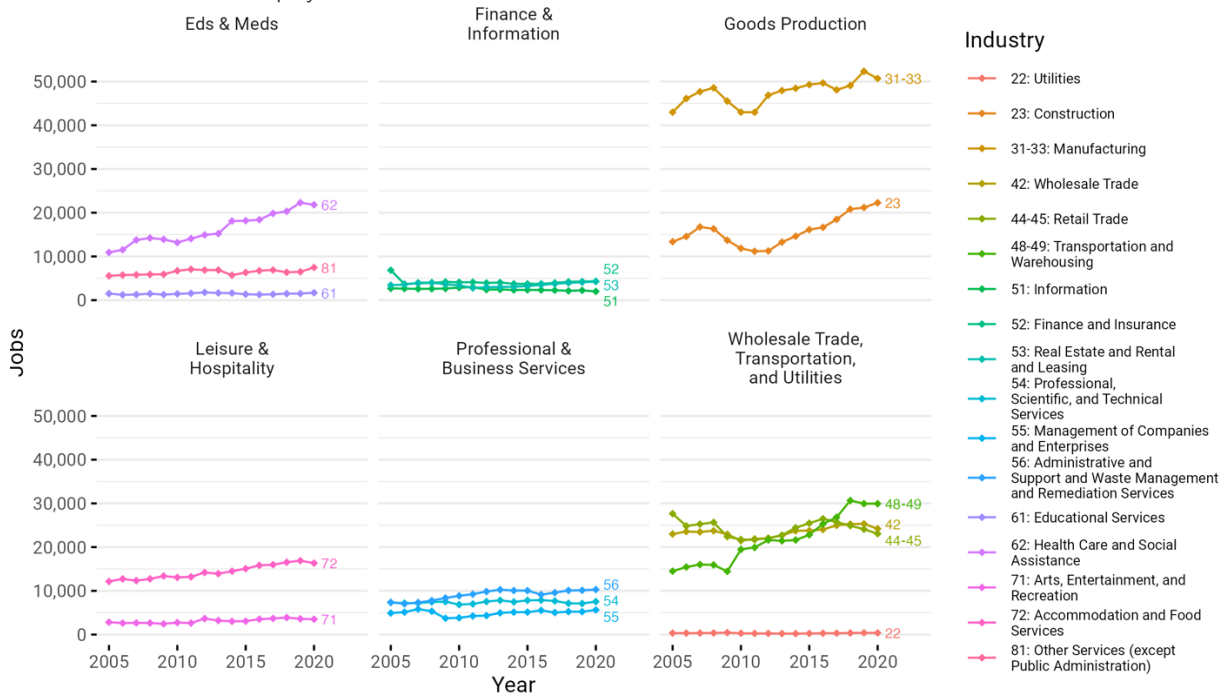
Summary of Findings

Employment Changes by Industry

In 2020, the Kent Industrial Valley was home to nearly 256,000 jobs. Total employment in the Kent Industrial Valley has increased by nearly 25 percent for a total of 52,000 more jobs in the area since 2005. Employment increases in the Kent Industrial Valley have largely come from growth in the manufacturing, construction, transportation & warehousing, and health care and social assistance. The two largest sectors within the Valley, manufacturing (NAICS 31-33) and transportation & warehousing (NAICS 48-49) have seen significant growth since 2005, with transportation & warehousing doubling in size by employment to just over 29,900 jobs. Manufacturing, the Valley's largest industry, has grown by 18 percent and added about 7,700 jobs since 2005, now resting at around 50,700 jobs within the Valley. Transportation and warehousing employment has more than doubled since 2005 by adding about 15,400 new jobs for a 2020 total of nearly 30,000 jobs.

Figure 1. Kent Industrial Valley Annual Employment by Industry, 2005-2020

Source: PSRC Covered Employment Estimates



Changes in Total Firms by Industry

As of 2021, there were 12,172 business located in the Kent Industrial Valley.¹

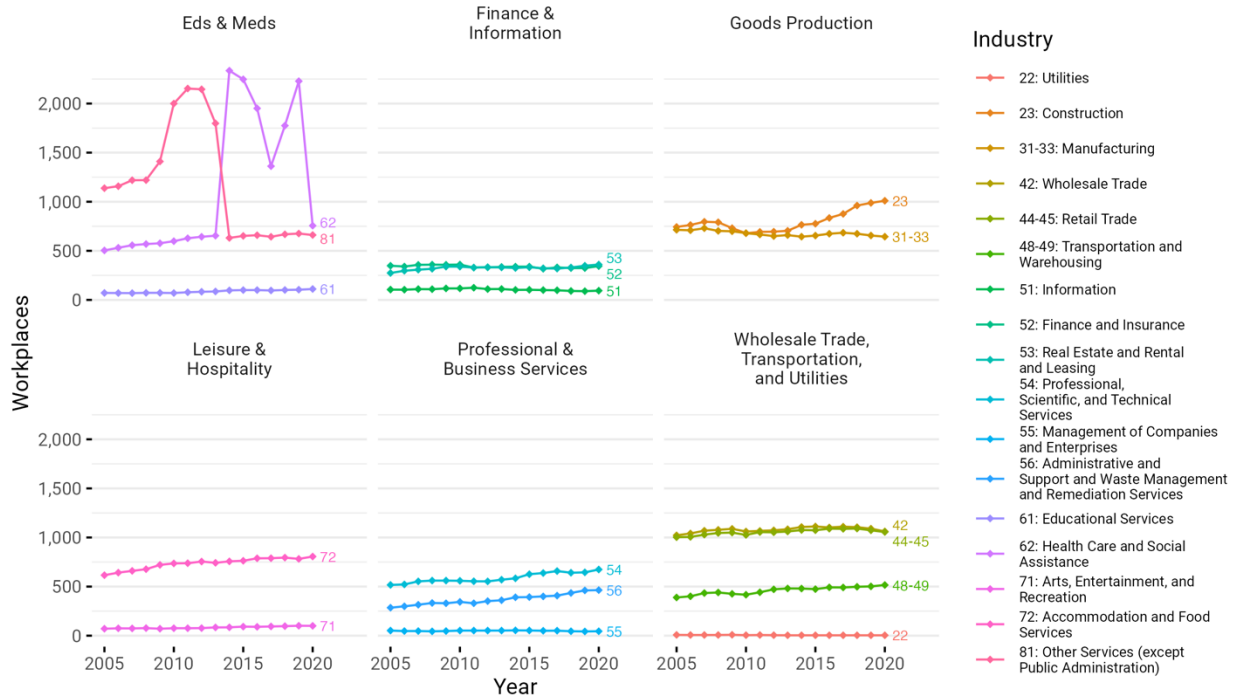
While employment within manufacturing may have increased within the Valley since 2005, it was consolidated within a smaller number of establishments – the number of manufacturing workplaces in the Valley has decreased slightly since 2005 from 714 firms to 644 firms as of 2020. The number of construction firms has increased, to about 1,010 from 743– the increase likely driven by the Seattle region’s post-Recession construction boom.

Professional and business services and wholesale trade, transportation, and warehousing industry categories saw increases in the total amount of firms in the Kent Industrial Valley between 2005 and 2020. There were 1,578 wholesale trade, transportation, and warehousing firms in 2020 compared to 1,411 in 2005. There were 1,183 professional and business services firms in 2020 up from 854 in 2005.

¹ This total business summary uses ESRI Business Analyst data to get the most reliable information on the number of businesses across the Kent Industrial Valley. The COVID-19 pandemic has impacted small business’s ability to report taxable sales to the Washington Department of Revenue (this statistic also helps officials keep track of total operating businesses in an area) limiting the utilization of this data source for this analysis. Firm level estimates from data available through PSRC are also currently being updated at this time.

Figure 2. Kent Industrial Valley Annual Total Establishments by Industry, 2005-2020²

Source: PSRC Covered Employment Estimates



Trends in the Aerospace Industry

Since 2005, the aerospace subsector (defined as the combination of NAICS 332 and 336 industries) has made up the majority of the Valley’s manufacturing employment, holding steady at 62% of all Valley manufacturing employment. As of 2020, the subsector employed about 31,200 workers in the Valley, concentrated in 235 firms. Since 2005, employment in the aerospace industry in the Kent Industrial Valley has increased by 18 percent, or by nearly 4,700 jobs in this period of time. While there has been increasing job growth over the 2005 to 2020 time period, aerospace employment has increased at relatively stable rates in the Valley compared to aerospace employment trends at the state level which have fluctuated much more over this time period.

The Valley’s manufacturing sector has seen a decrease in the number of workplaces between 2005 and 2020, with the aerospace subsector decreasing at a faster rate than other subsectors, from 295 down to 235 workplaces. This indicates that employment growth is increasingly being concentrated in a smaller number of high growth businesses in the Valley.

² The irregular trends observed in NAICS 62 & 81 could be related to the BLS-mandated reclassification of private households from NAICS 81 to NAICS 62, which has created difficulty in maintaining data consistency over time within non-standard geographies like the Kent Industrial Valley. As of Q1 2022, PSRC is revising its covered employment data, and future data releases could resolve this issue.

Figure 3. Kent Industrial Valley Annual Aerospace & Manufacturing Sector Employment, 2005-2020

Source: PSRC Covered Employment Estimates

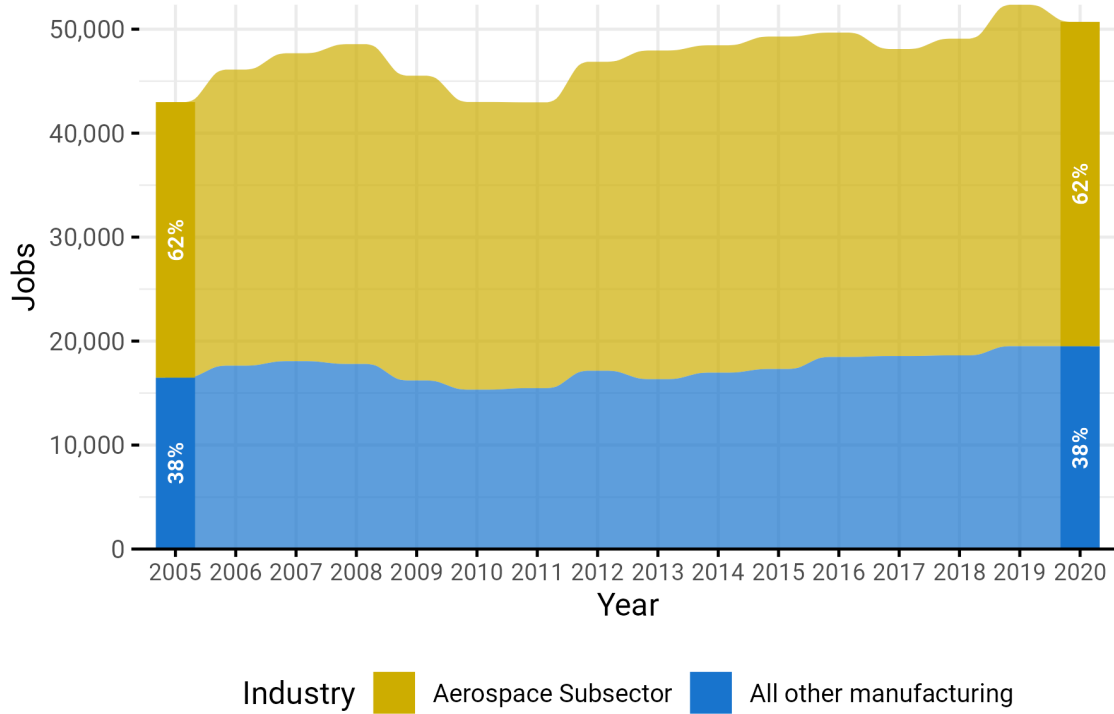


Figure 4. Kent Industrial Valley Annual Aerospace & Manufacturing Sector Establishments

Source: PSRC Covered Employment Estimates

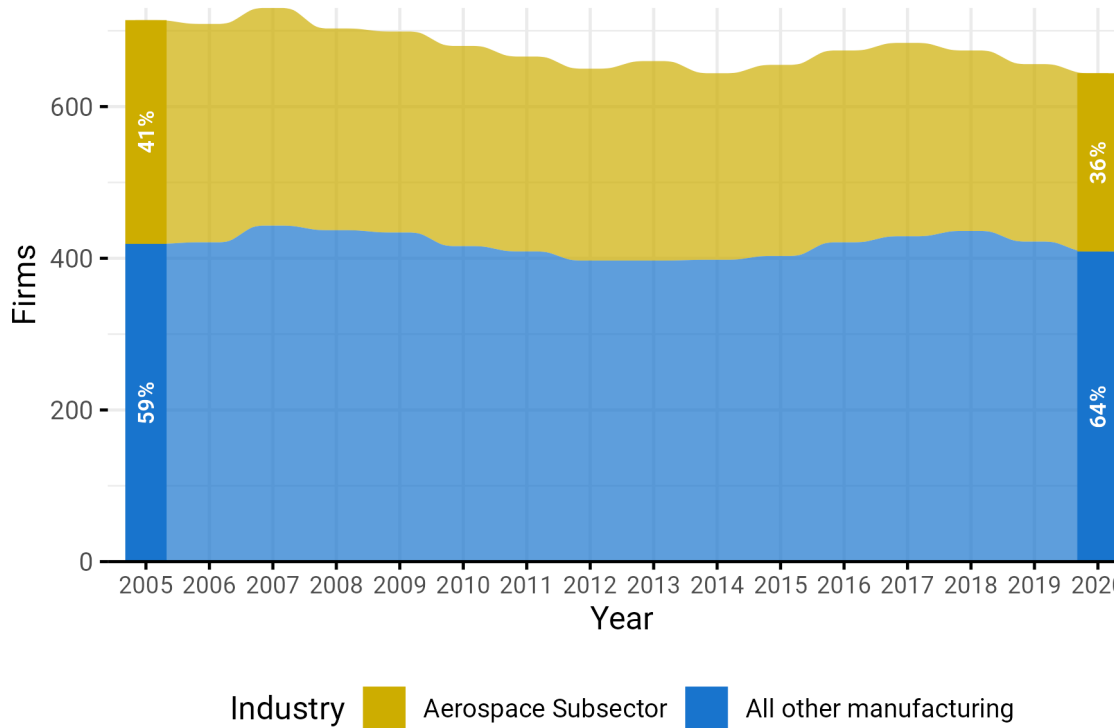
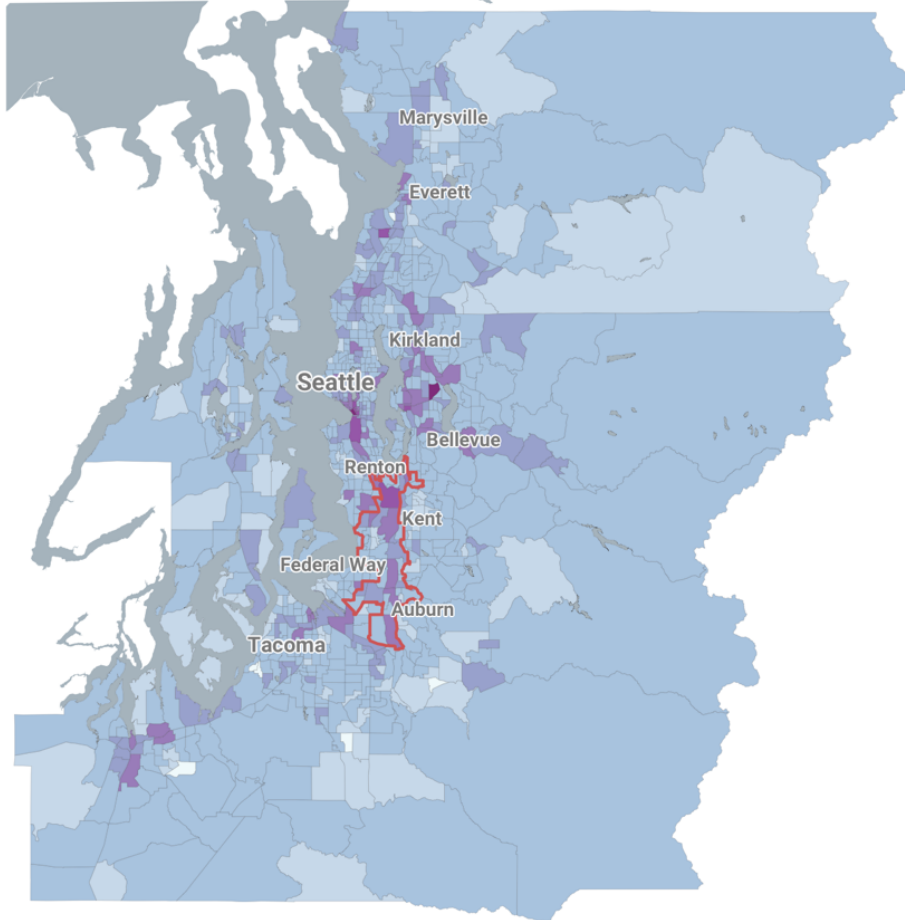
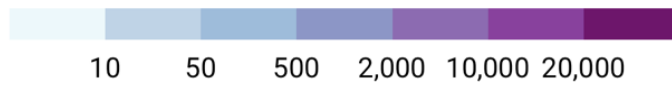



Figure 5. Kent Industrial Valley Jobs Requiring a Bachelor's Degree or Higher, 2019

Source: PSRC Covered Employment Estimates



Number of jobs requiring Bachelor's degree

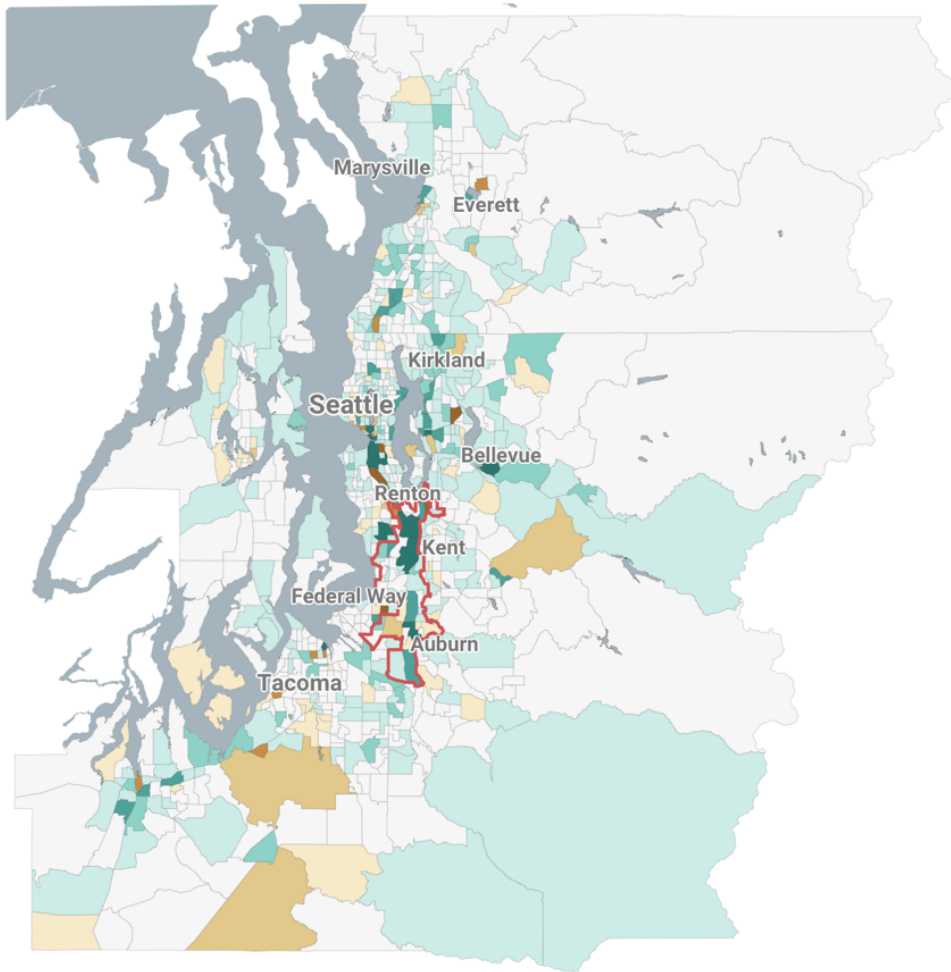


 Kent Industrial Valley

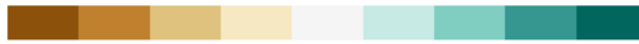
As of 2019, about 56,870 jobs in the valley require a bachelor's degree or higher. This number represents about 24% of all jobs in the Valley. In comparison, about 29% of all jobs outside the Valley require a bachelor's degree, with the highest concentrations in the Bel-Red and central Seattle areas.

Figure 6. Change in Jobs Requiring a Bachelor's Degree, 2009-2019


Source: LEHD/LODES



Change in jobs requiring
Bachelor's degree, 2009-2019



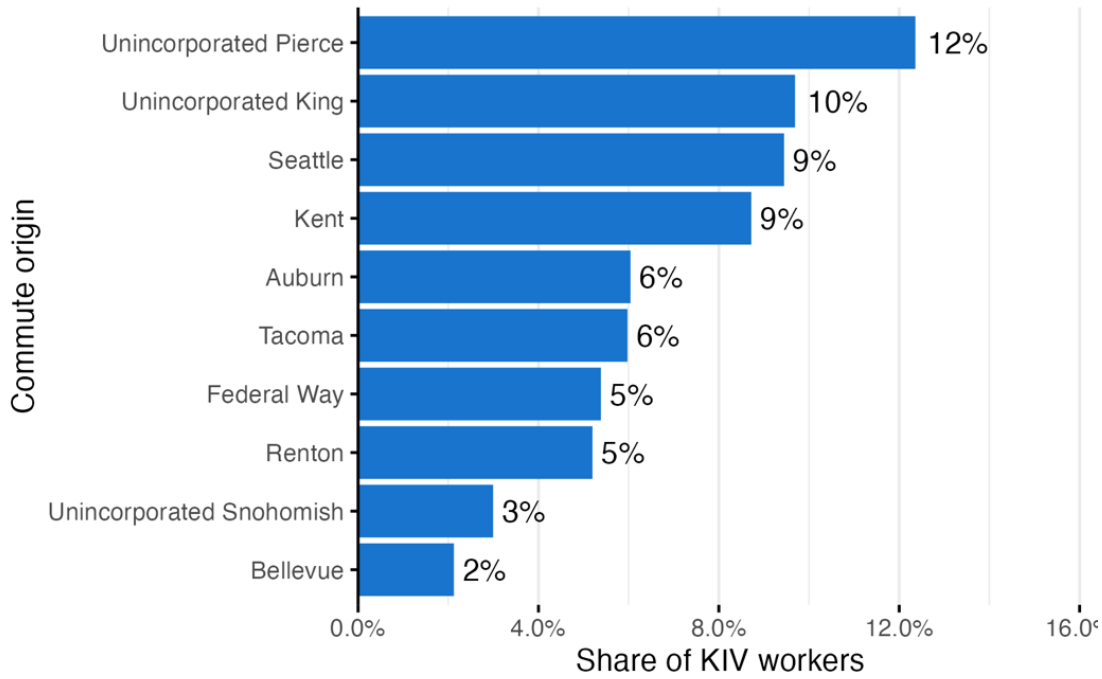
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 Kent Industrial Valley

Since 2005, about 8,850 jobs requiring a bachelor's degree have been added to the valley, though some areas within the valley have seen localized decreases in such jobs. The census tracts between Kent, Tukwila and Renton have seen the highest increases in high-education jobs – as high as 2,400 jobs added – while some census tracts just east of Federal Way have seen decreases of up to 1,600 jobs since 2005.

Figure 7. Top 10 Origins of Commutes to Kent Industrial Valley Workers, 2019

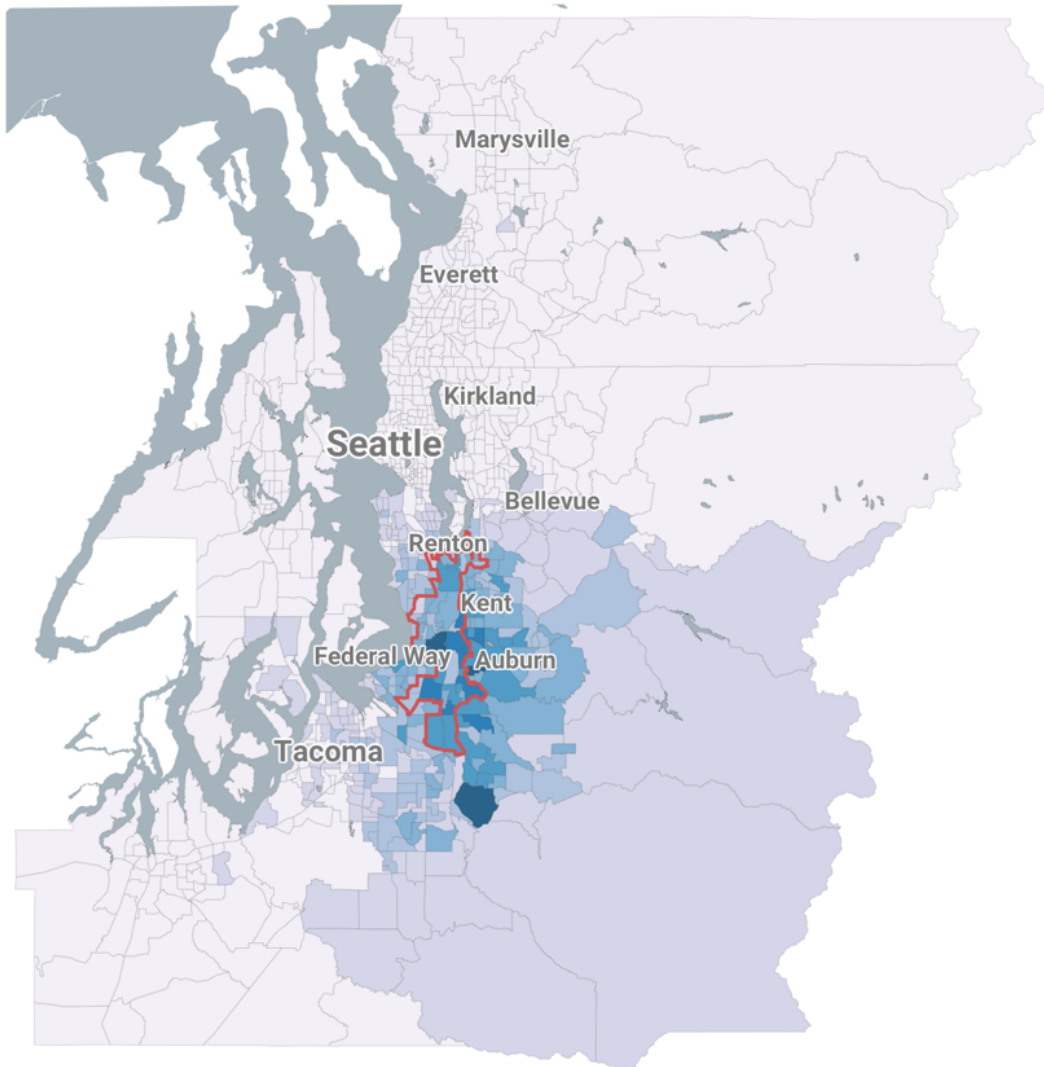
Source: LEHD/LODES



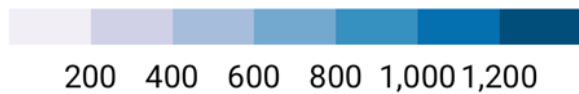
Typically, Kent Industrial Valley workers are commuting from the southeastern portion of our study region (King, Pierce, Snohomish, Thurston, and Kitsap Counties). About 1 in 4 commutes originates from somewhere in unincorporated King, Pierce, or Snohomish Counties, where housing prices may be more attainable in a region with rapidly growing housing market.


Figure 8. Origin of Job Commutes to Kent Industrial Valley, 2019

Source: LEHD/LODES



Commutes to Kent Industrial Valley

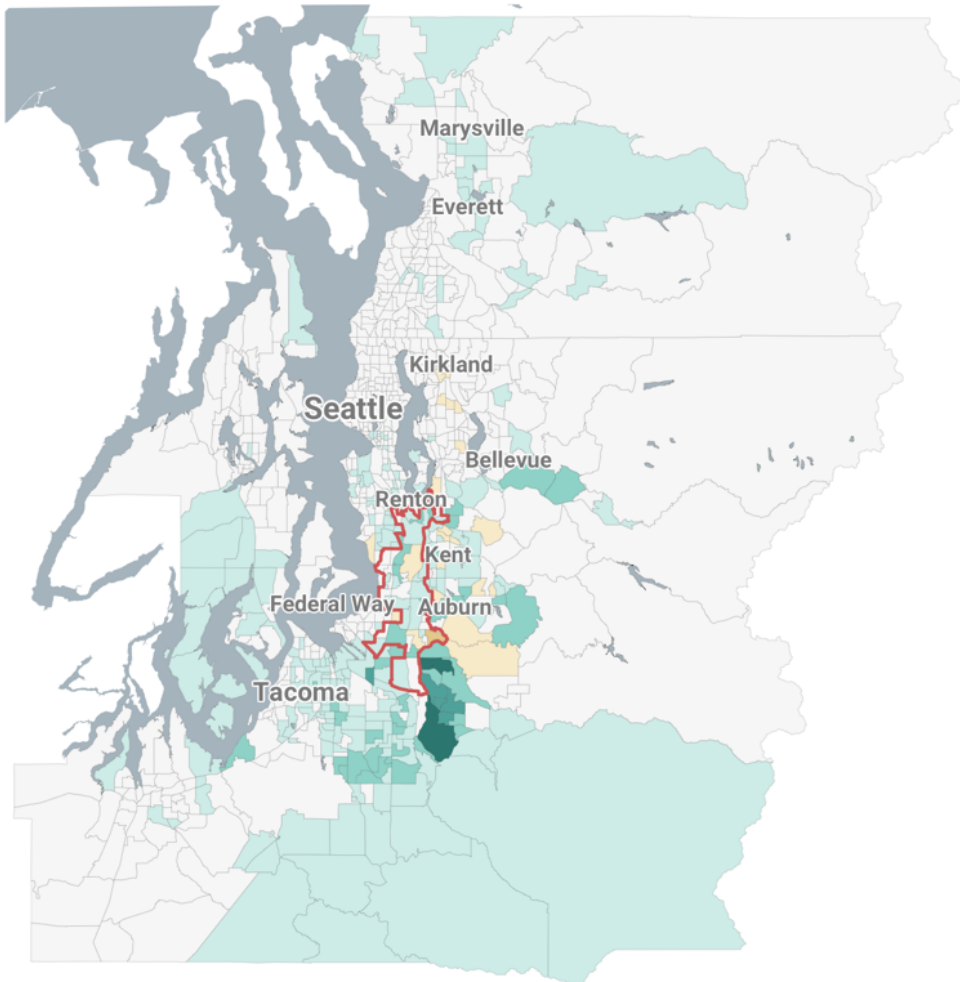


 Kent Industrial Valley

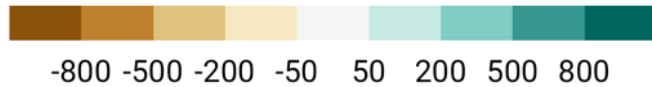
Commutes into the Kent Industrial Valley tend to originate from the southeastern portion of our study region (King, Snohomish, Pierce, Thurston, and Kitsap Counties). Some census tracts, especially around rapidly growing Bonnie Lake and Sumner, contain around 1,300 Valley workers each.


Figure 9. Change in Commutes to Kent Industrial Valley, 2005-2019

Source: LEHD/LODES



**Change in commutes to
Kent Industrial Valley, 2005-2019**

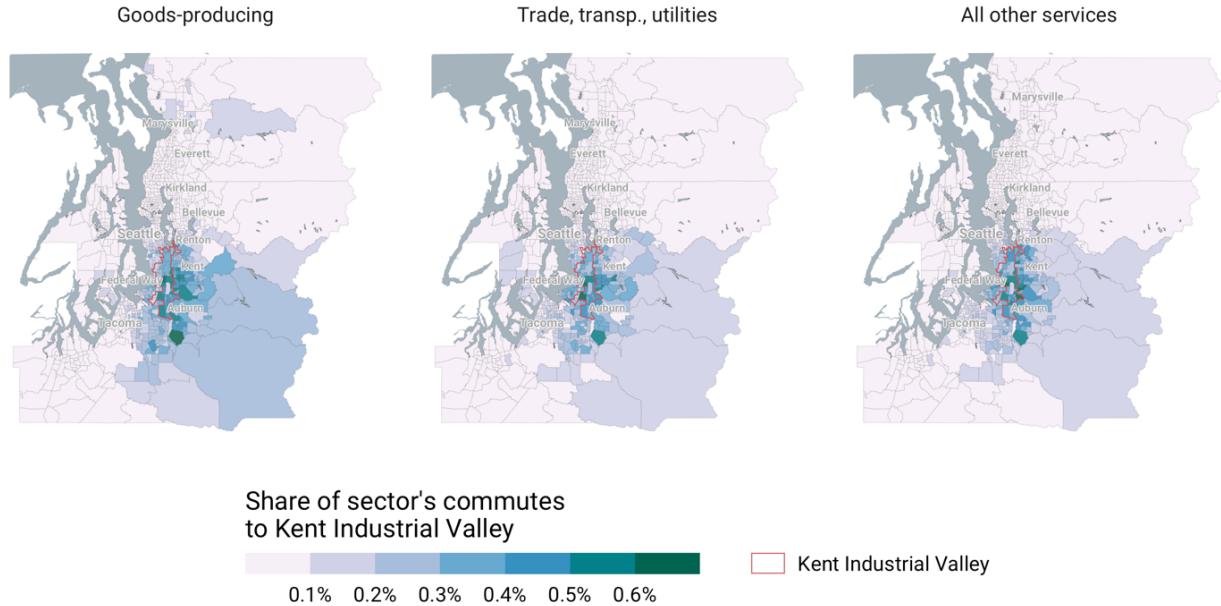


 Kent Industrial Valley

Since 2005, commuting patterns to the Valley have shifted somewhat. Census tracts around Bonnie Lake and Sumner have added between 800 and 1,300 new Valley-bound commuters. Relatively affordable new housing developments in these areas of the region could account for this shift, as workers seek to balance their commuting and housing costs as cities like Seattle, Bellevue, and even Tacoma become increasingly unaffordable to potential homebuyers.

Figure 10. Commutes to Kent Industrial Valley by Sector, 2019

Source: LEHD/LODES



When commutes are broken out by major industrial sector, we can see that a sizeable portion of workers in the Valley’s “Goods-producing” supersector – where pay is likely higher than in other service-related sectors – are commuting from as far as Marysville and Everett. Lower-paid workers tend to have shorter commutes, as can be seen by the fact that “All other services” workers commuting to the Valley are largely clustered inside or very close to its borders. “Trade, transportation & utilities” sector workers are somewhere between the two, with some commutes originating from as far away as west Kitsap County.

Figure 11. Kent Industrial Valley Access to Jobs by Commute Duration, 2019

Source: LEHD/LODES, OpenStreetMap

In a 45-minute commute, Kent Industrial Valley workers can reach...

Within King, Pierce, Snohomish, Kitsap, and Thurston counties...

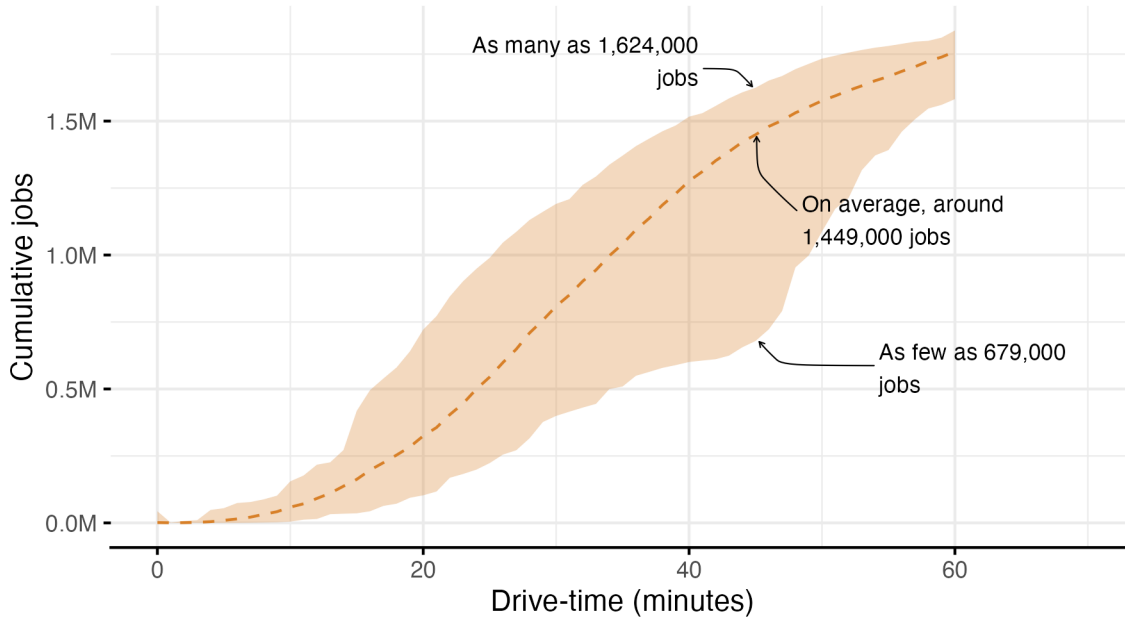


Figure 11 shows the results of modelling the potential number of jobs reachable from every neighborhood (census block group) within the Kent Industrial Valley. Given the significant industrial growth and investment in the area over time, today’s households residing inside the Kent Industrial Valley have high access to job opportunities, though some areas within the Valley – those closer to major transportation nodes with a mix of commercial and residential land uses – will be able to reach more jobs more quickly than others. It takes the typical Valley resident about 35 minutes (by car, without congestion modelled) to reach about 1 million potential jobs somewhere in our five-county study region. The sagging “hump” in the above graphic around the 45-minute mark indicates residential areas in the Valley that are remote and likely located in a sparse street network far away from arterials and highways.

Figure 12. Kent Industrial Valley Access to Workers by Commute Duration, 2019

Source: LEHD/LODES, OpenStreetMap

In a 45-minute commute, Kent Industrial Valley jobs can reach...

Within King, Pierce, Snohomish, Kitsap, and Thurston counties...

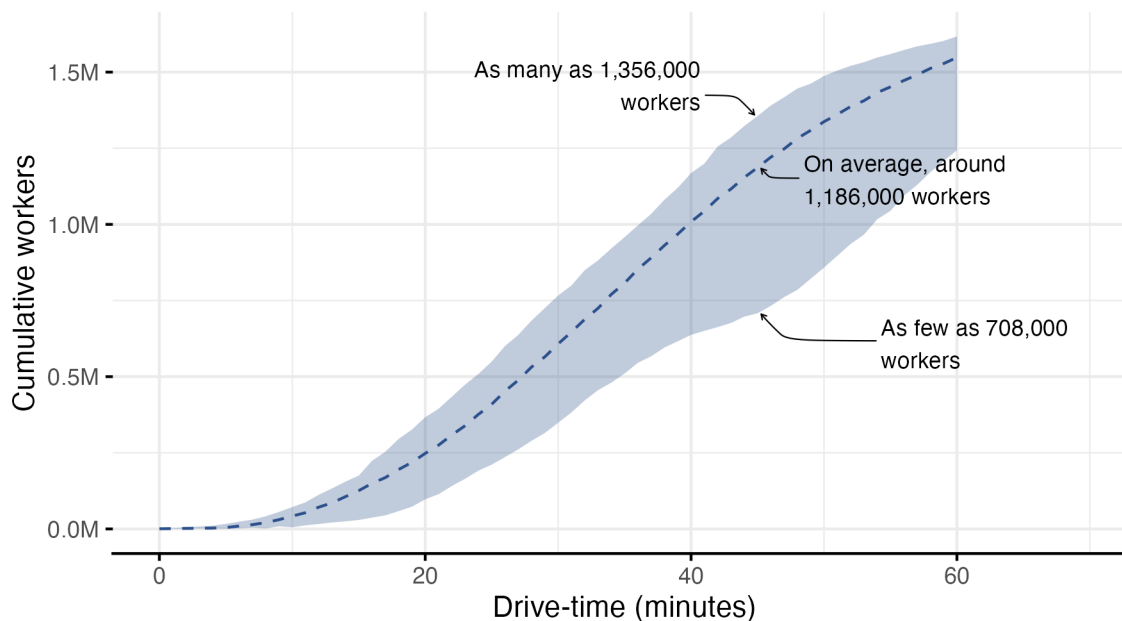


Figure 12 shows workplaces' access to potential workers by commute duration. The typical Kent Industrial Valley job can access around 1 million potential workers within 40 minutes' drive-time (again, not accounting for congestion), though some employment areas of the Valley are better positioned within the transportation network than others.

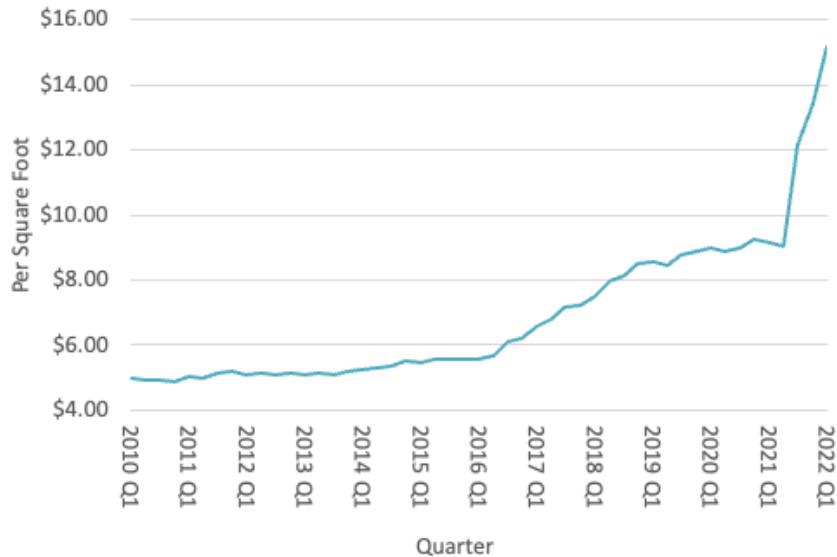
Commercial Real Estate Trends

Industrial, flex, and office commercial product types all continue to perform exceptionally well in the Kent Industrial Valley since the previous report was published. All product types have seen increasing rents and decreasing vacancy rates while industrial real estate has seen an overall increase in the amount of leasable space available. While there have been some large users in the district who have closed down their facilities and/or campuses over the last few years, those vacant properties have seen investment, renovations, and redevelopment occurring for new tenants in the Valley.

Notably, industrial real estate has performed exceptionally well across all metrics evaluated in this market update. Since the last market report was published using second quarter data from 2018, industrial rents have increased more than 90 percent through the first quarter of 2022. Industrial rents are currently \$15.18 per square foot, up \$7.22 per square foot from around \$8.00 per square foot in 2018.

Figure 13. Kent Industrial Valley Industrial Rent Trends

Source: CoStar Group, ECONorthwest



While industrial rents have seen dramatic increases over the last two years, industrial vacancy rates have remained relatively stable. Current industrial vacancy rates are around 4.3%, a small increase up from 3% in 2018. However, these vacancy rates remained stable during a period when an additional 6 million square feet of industrial space was added to the leasable industrial space inventory in this same period of time. Also, vacancy rates have remained stable at industry low levels even while rapid rent escalations have occurred and the Valley has seen a large increase in leasable industrial inventory.

Figure 14. Kent Industrial Valley Industrial Vacancy Rate Trends

Source: CoStar Group, ECONorthwest



Flex real estate has also performed well across all metrics evaluated in this market update. Since the last market report was published using second quarter data from 2018, flex rents have increased more than 20 percent through the first quarter of 2022. Flex rents are currently \$15.49 per square foot, up \$2.40 per square foot from around \$13.00 per square foot in 2018. Current flex vacancy rates are around 6.6%, a small increase up from 6.1% in 2018.

Figure 15. Kent Industrial Valley Flex Rent Trends

Source: CoStar Group, ECONorthwest

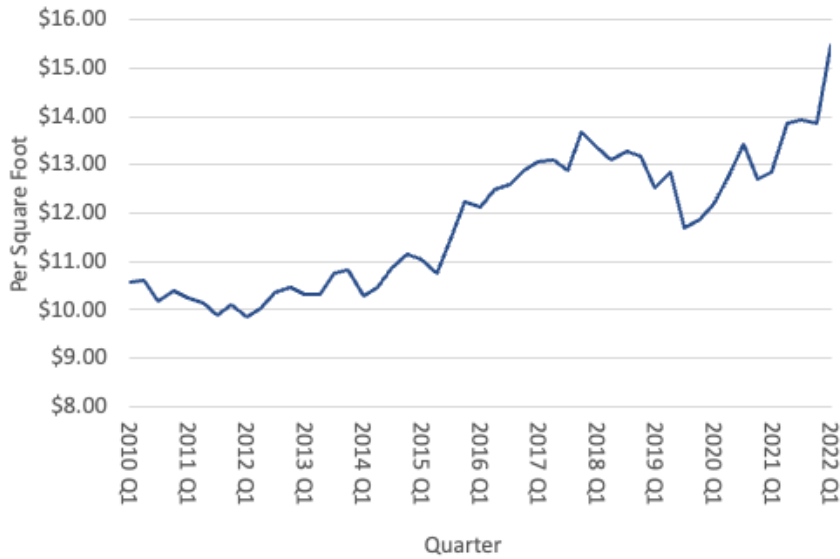
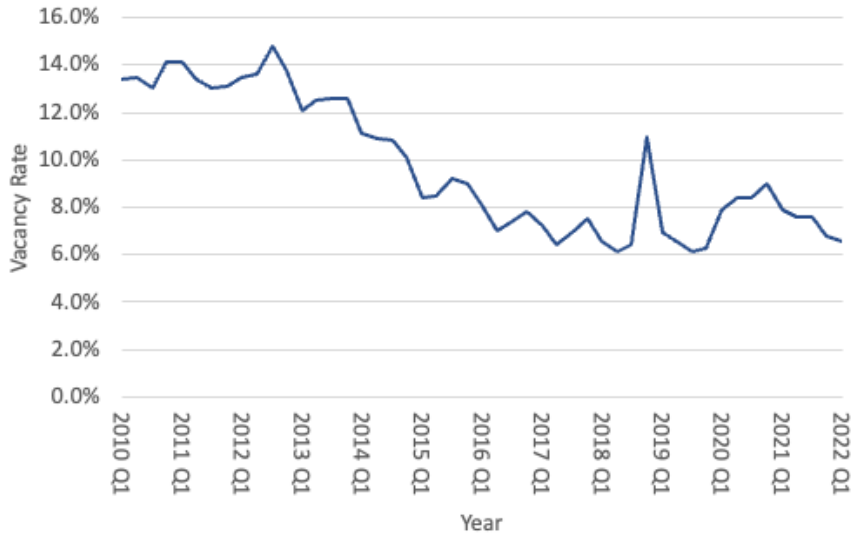


Figure 16. Kent Industrial Valley Flex Vacancy Rate Trends

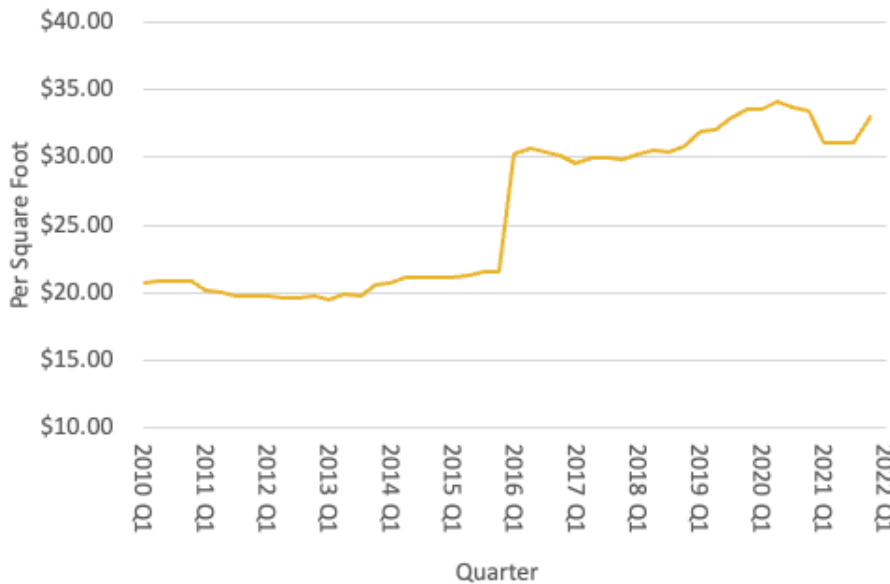
Source: CoStar Group, ECONorthwest



Office real estate has also performed well across all metrics evaluated in this market update. Since the last market report was published using second quarter data from 2018, flex rents have increased more than 8 percent through the first quarter of 2022. Flex rents are currently \$33.05 per square foot, up \$2.55 per square foot from \$30.50 per square foot in 2018.

Figure 17. Kent Industrial Valley Office Rent Trends

Source: CoStar Group, ECONorthwest



Office vacancy rates have declined dramatically from a near cycle high in 2018. Current office vacancy rates are around 2.5%, a dramatic improvement from near 15% vacancy rates in 2018. This shift in office vacancy rates reflects several larger office buildings or corporate campuses that were vacant at the time of the previous study but were quickly acquired, renovated, redeveloped, and leased up. The current extremely low office vacancy rates indicates strong demand for office space in the Kent Industrial Valley that will likely result in continued investment in and repositioning of class B/C office space throughout the valley and likely an increased in redevelopment and intensification to add additional office supply to the Valley.

Figure 18. Kent Industrial Valley Office Vacancy Rate Trends

