

MARKETBEAT INDUSTRIAL SNAPSHOT

BELLEVUE, WA

A Cushman & Wakefield Alliance Research Publication

Q4 2012



ECONOMIC OVERVIEW

The Puget Sound was one of the fastest growing regions in the country in 2012, expanding at twice the national rate (2.7% compared to 1.4%). Unemployment fell to 6.9% in November, compared to 7.9% one year ago and the region gained 44,200 jobs over the same period. Housing

starts climbed to a four-year high and the apartment market is booming with 3,472 units completed through September with an additional 14,000 units underway. This is producing steady improvements to construction employment for the first time since its peak in January 2008. Boeing regained the lead against Airbus for aircraft orders and while the tech industry slowed some in 2012, this sector is once again ramping up.

INDUSTRIAL MARKET OVERVIEW

Strong employment gains in the high technology sector over the past two years produced modest levels of growth in 2012, suggesting the Eastside industrial market is on its way towards recovery. After being dealt with a glut of warehouse vacancies in the Woodinville/522 Corridor submarket during the first quarter, 219,140 square feet (sf) of expansion occurred between the second and fourth quarters, helping the market end the year on a positive note with 21,973 sf of overall absorption, which kept the overall vacancy rate flat at 13.5%. The Eastside experienced a large setback during the recession from contracting companies and tenants that took advantage of the market's flight to quality into traditional class A office space. Submarkets with the largest losses over the past several years, including those in Redmond and Kirkland, attracted the greatest amount of demand in 2012. The high technology sector recorded 159,809 sf of positive absorption, its strongest year since 2007.

Two large vacancies by Jansport and Holman Distribution in the second quarter of the year, and very little demand from Boeing or its third party vendors resulted in weaker than expected momentum for the Northend. The overall vacancy rate rose from 10.5% at year-end 2011 to 10.9% in 2012, resulting in 288,357 sf of negative overall absorption.

Leasing activity on the Eastside was down 35.6% in 2012 with 1.2 million square feet (msf) of new deals signed for the entire market; however, user sales were up 120% for the year. Leasing in the Northend was also down, about 19% over the year to 748,230 sf. There was not the flurry of owner/user activity that was posted on the Eastside, largely due to weaker demand for space in general and a lack of product available for purchase.

Capital markets saw another strong year with nearly 1.6 msf trading hands in 2012, flat from 2011 investment sales. Property values have improved, however, up 45% over the year to average \$118 per square foot (psf).

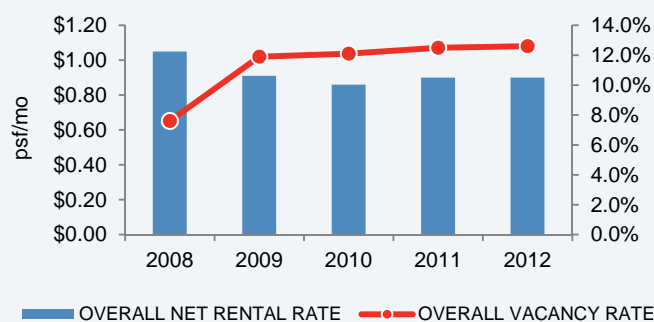
OUTLOOK

Vacancy rates on the Eastside should continue to trend downward into 2013, albeit at moderate levels. Demolition will begin next summer on a portion of the Safeway industrial site where the mixed-use Spring District is planned on Bel-Red Road, creating a few lease and build-to-suit opportunities in the market for displaced tenants. There is no reason to suggest the Northend will be unable to resume a path of expansion in 2013, though the flurry of demand that resulted from the 787 jetliner production will unlikely be matched. With a friendlier lending environment and extremely low interest rates, user sales should continue to gain traction as more and more tenants opt to own rather than lease.

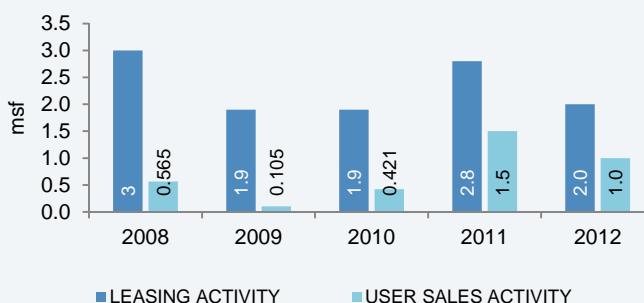
STATS ON THE GO

	Q4 2011	Q4 2012	Y-O-Y CHANGE	12 MONTH FORECAST
Overall Vacancy	12.5%	12.6%	0.1pp	▼
Direct Asking Rents (psf/mo)	\$0.90	\$0.89	-1.1%	◄
YTD Leasing Activity (sf)	2,872,036	2,001,605	-30.3%	◄

OVERALL RENTAL VS. VACANCY RATES



OVERALL OCCUPIER ACTIVITY



BELLEVUE, WA

SUBMARKET	INVENTORY	OVERALL VACANCY RATE	YTD LEASING ACTIVITY	YTD USER SALES ACTIVITY	UNDER CONSTRUCTION	CONSTRUCTION COMPLETIONS	YTD DIRECT NET ABSORPTION	YTD OVERALL NET ABSORPTION	DIRECT WEIGHTED AVERAGE NET RENTAL RATE			
									HT	MF	OS	W/D
Bellevue	4,753,819	10.2%	60,858	39,024	0	0	(44,786)	(22,537)	\$1.85	\$0.43	\$0.89	\$0.91
Issaquah/ East I-90	2,920,140	13.9%	67,358	176,609	135,000	0	(33,303)	(37,951)	\$1.20	\$0.91	\$1.79	\$0.86
Redmond (Overlake)	1,775,869	3.1%	41,918	21,320	0	0	7,734	23,819	\$1.50	\$0.00	\$0.00	\$0.00
Redmond (Willows)	6,248,419	16.3%	415,312	165,566	0	0	113,519	171,200	\$1.29	\$0.79	\$0.96	\$0.82
Redmond (East)	4,199,769	9.0%	98,816	0	0	0	18,858	15,402	\$1.38	\$0.66	\$1.11	\$0.64
Kirkland	2,946,020	14.7%	106,826	0	0	0	42,104	48,198	\$1.02	\$0.72	\$0.91	\$0.50
Woodinville/ 522 Corridor	8,101,048	16.6%	220,551	181,170	0	0	(261,410)	(257,337)	\$0.64	\$0.59	\$0.85	\$0.68
Bothell	7,444,471	14.2%	241,736	37,978	0	0	82,456	81,179	\$1.33	\$0.91	\$1.09	\$1.20
Eastside Subtotal	38,389,555	13.5%	1,253,375	621,667	135,000	0	(74,828)	21,973	\$1.29	\$0.64	\$0.97	\$0.74
Edmonds/ Lynnwood	2,488,658	11.0%	140,921	113,400	0	0	36,564	20,564	\$1.23	\$0.68	\$0.70	\$0.65
Mukilteo	3,909,511	3.8%	332,689	36,294	270,500	0	49,188	49,188	\$1.04	\$0.59	\$1.05	\$0.75
Everett	10,417,726	13.5%	206,097	68,200	0	178,600	(225,566)	(270,193)	\$0.93	\$0.78	\$0.61	\$0.46
North Snohomish	3,589,594	10.8%	68,523	39,623	0	0	(103,916)	(87,916)	\$0.00	\$0.43	\$0.00	\$0.43
Northend Subtotal	20,405,489	10.9%	748,230	257,517	270,500	178,600	(243,730)	(288,357)	\$0.96	\$0.56	\$0.81	\$0.51
TOTALS	58,795,044	12.6%	2,001,605	879,184	405,500	178,600	(318,558)	(266,384)	\$1.26	\$0.61	\$0.94	\$0.62

* RENTAL RATES REFLECT ASKING \$PSF/MONTH

HT= HIGH TECH MF = MANUFACTURING OS = OFFICE SERVICE W/D = WAREHOUSE/DISTRIBUTION

MARKET HIGHLIGHTS

Significant 2012 Lease Transactions	SUBMARKET	TENANT	PROPERTY TYPE	SQUARE FEET
BE Aerospace BTS @ Paine Field	Mukilteo	BE Aerospace	Manufacturing	240,500
Seaway Business Center Building E*	Everett	Eldorado Stone	Warehouse/Distribution	101,559
Lynnwood Industrial Project	Edmonds/Lynnwood	Funko	Manufacturing	61,922
WestPark Building E	Redmond (Willows)	Intel	High Technology	51,303
Significant 2012 Sale Transactions	SUBMARKET	BUYER	PURCHASE PRICE / \$PSF	SQUARE FEET
Cardinal Corporate Park	Redmond (East)	Redmond Corporate Park LLC	\$48,000,000 / \$111	429,922
I-90 Preston Industrial Park	Issaquah/East I-90	Washington Capital Mgmt	\$26,000,000 / \$88	294,793
Philips Oral Healthcare Building	Issaquah/East I-90	Spacelabs Healthcare, Inc.	\$13,875,000 / \$78	176,609
Significant 2012 Construction Completions	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET
Paine Field Industrial Building	Everett	Majestic Glove	Q4 2012	99,000
JERD Industrial Building	Everett	Electric Mirror	Q1 2012	45,500
Significant Projects Under Construction	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET
BE Aerospace BTS	Mukilteo	BE Aerospace	Q2 2013	240,500
Electroimpact Building B	Mukilteo	Electroimpact, Inc.	Q4 2012	30,000

* RENEWAL - NOT INCLUDED IN LEASING ACTIVITY STATISTICS