

MARKETBEAT

BELLEVUE INDUSTRIAL REPORT

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION



4Q10

ECONOMY

The Puget Sound region is taking time getting on its feet. Economic recovery is mired by high unemployment (9.1% in November), declining home sales (-2.2% for the year ending in December) and slower than expected growth in personal income (+1.9%). However, signs that the region is on the verge of a turnaround are in sight. Just 2,600 jobs were lost in the twelve months ending in November, compared to 45,750 lost in the previous year. Retail sales were up 3.1% in 2010, compared to a drop of 4.5% in 2009, and the Puget Sound Index of Leading Economic Indicators rose 0.9% in the third quarter, the fifth consecutive quarterly increase.

OVERVIEW

After two quarters of declining vacancy and positive absorption, the Eastside industrial market took a slight detour in the fourth quarter. The overall vacancy edged up from 12.8% in the third quarter to 12.9%, but remains below the 13.2% vacancy at year-end 2009. The largest vacancies were added in the high technology sector, including the 58,376 square feet (sf) that Vertafore moved out of in Building N at Schnitzer North Creek in Bothell. The tenant moved into the last phase of its 105,277-sf lease in Building A, a newly constructed office building located within the same business park. The result was 101,235 sf of negative overall absorption for the market, dropping year-end absorption to positive 53,101 sf. That compares to 1.6 million square feet (msf) of negative absorption in 2009.

Vacancy in the Northend continued to contract over the quarter, from 10.9% to 10.5%, but remains above the 9.3% vacancy at year-end 2009. Very little space came on the market this quarter, which was further supported by Kinkisharyo International's move into 80,000 sf at Boeing's Centre 41@ Harbour Pointe in Mukilteo. The market logged 74,300 sf of positive absorption this quarter, but it was not enough to offset negative absorption that occurred earlier in the year and by year-end, the Northend reported 254,725 sf of negative absorption.

Leasing activity for the year totaled 1.4 msf on the Eastside, on virtually unchanged from last year. With 515,778 sf of new deals this year, leasing on the Northend was up about 7.9% over 2009 figures, though fourth quarter was the slowest period for leasing during the year. The largest deals this quarter included AT&T's takedown of 43,950 sf at Canyon Park Commons, and the U.S. Government's lease of 30,470 sf at Canyon Park East, both in Bothell.

Sales activity outperformed 2009 figures, indicating that lower prices and attractive financing is once again attracting buyers. User sales were up 234% in 2010 with 421,851 sf sold. However, the average sale price of \$93 per square foot (psf) is down 33% from an average of \$139 psf last year. Investment sales were up a similar 200% over the year with 365,768 sf recorded, with the average sale price down 9.4% from \$127 psf in 2009 to \$115 psf.

At \$0.57 per square foot per month (psf/mo) on the Eastside, rents for shell warehouse space (excluding office build-out) were unchanged from third quarter, but down 6.6% for the year. Northend shell rents were stabilized through much of the year, declining 4.1% since year-end 2009 to \$0.46 psf/mo.

OUTLOOK

While the regional economy works its way into recovery, the Eastside/Northend industrial markets will continue to do the same. Both markets appear to have bottomed out, though pockets of weakness remain and we could likely see some tenant contractions continue in 2011. With employment expected to improve next year, up an estimated 1.2%, the market could begin to see real growth towards the end of next year.

BEAT ON THE STREET


The Eastside and Northend industrial markets have been showing modest signs of life, which is helping to keep vacancy rates relatively steady in recent quarters. Investment sales, though still anemic, are on the rebound and continue to be a bright spot in the market.


ECONOMIC INDICATORS


National	2009	2010	2011F
GDP Growth	-2.6%	2.8%	2.8%
CPI Growth	-0.3%	1.6%	1.5%
Regional			
Unemployment	8.6%	8.8%	8.7%
Employment Growth	-4.9%	-1.9%	1.2%

Source: Moody's | Economy.com & Puget Sound Economic Forecaster

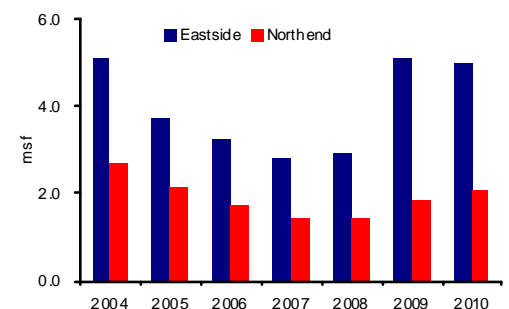
MARKET FORECAST

LEASING ACTIVITY: The improving overall economy and competitive rental rates should improve leasing activity. 

CONSTRUCTION will be on hold next year, with the exception of potential build-to-suit projects. 

EMPLOYMENT: The Economic Forecaster is projecting a gain of 20,200 jobs for the region and 12,600 jobs in King County for 2011. 

OVERALL AVAILABLE SPACE



MARKET/SUBMARKET STATISTICS

MARKET/SUBMARKET	INVENTORY	OVERALL	YTD	YTD	UNDER	YTD	YTD	DIRECT WEIGHTED AVERAGE			
		VACANCY	LEASING	USER		CONST.	OVERALL	NET RENTAL RATE*			
		RATE	ACTIVITY	SALES	CONST.	COMPLETIONS	ABSORPTION	HT	MF	OS	WD
Bellevue	4,881,724	6.4%	164,751	0	0	0	(30,495)	\$0.97	\$0.65	\$0.98	\$0.95
Issaquah/East I-90	3,075,805	3.9%	38,353	0	0	0	(7,917)	\$1.49	\$0.69	\$0.00	\$1.32
Redmond (Overlake)	2,192,338	4.5%	47,327	0	0	0	37,268	\$1.67	\$0.00	\$1.07	\$0.00
Redmond (Willows)	6,230,629	17.2%	343,685	167,028	0	0	60,693	\$1.31	\$0.74	\$0.95	\$0.80
Redmond (East)	4,179,703	14.5%	112,146	45,083	0	0	(18,229)	\$1.22	\$0.89	\$1.18	\$0.57
Kirkland	2,894,201	14.2%	128,892	31,310	0	0	122,396	\$1.25	\$0.58	\$0.97	\$0.73
Woodinville/522 Corridor	7,958,354	15.7%	286,406	102,088	0	0	(147,676)	\$0.73	\$0.66	\$0.64	\$0.65
Bothell	7,441,170	15.5%	290,827	0	0	0	37,061	\$1.24	\$0.82	\$1.06	\$1.31
Eastside	38,853,924	12.9%	1,412,387	345,509	0	0	53,101	\$1.24	\$0.69	\$0.93	\$0.80
Edmonds/Mntk Terrace/Lynnwood	2,577,687	9.9%	65,241	55,000	0	0	(72,140)	\$1.50	\$0.53	\$0.64	\$0.57
Mukilteo	3,890,078	6.4%	212,617	0	0	0	(62,827)	\$0.67	\$0.77	\$1.11	\$0.59
Everett	10,091,402	14.0%	206,270	21,342	0	0	(96,598)	\$0.90	\$0.74	\$0.75	\$0.49
North Snohomish	3,460,755	5.4%	31,650	0	0	0	(23,160)	\$0.00	\$0.48	\$0.00	\$0.63
Northend	20,019,922	10.5%	515,778	76,342	0	0	(254,725)	\$0.78	\$0.64	\$0.80	\$0.51
TOTAL	58,873,846	12.1%	1,928,165	421,851	0	0	(201,624)	\$1.20	\$0.67	\$0.91	\$0.65

*Rental rates reflect \$psf/month

MARKET HIGHLIGHTS

SIGNIFICANT 2010 LEASE TRANSACTIONS				
BUILDING	SUB MARKET	TENANT	SQUARE FEET	BLDG TYPE
Willows Commerce Park	Redmond (Willows)	DigiPen	108,000	High Technology
Centre 41 @ Harbour Pointe	Mukilteo	Kinkisharyo International	80,000	Manufacturing
Nexus Bldg @ Snoqualmie Ridge	Issaquah/East I-90	Zetec, Inc (renewal)	63,276	High Technology
Cascade View Building	Issaquah/East I-90	T-Mobile (renewal/expansion)	57,300	High Technology
Redmond East #13	Redmond (East)	Spiration (renewal)	42,442	High Technology
SIGNIFICANT 2010 SALE TRANSACTIONS				
BUILDING	SUB MARKET	Buyer	SQUARE FEET	PURCHASE PRICE
Redmond West on Willows	Redmond (Willows)	Green Star Properties LLC	135,538	\$15,700,000
Casino Road Corporate Park	Everett	Hilde Heller Trust	108,172	\$8,500,000
Cascade Business Park	Issaquah/East I-90	Sterling Realty Organization	95,933	\$15,600,000
H.O. Sports Bldg @ Marymoor	Redmond (East)	The Realty Associates Fund VIII	68,565	\$5,225,000
SIGNIFICANT 2010 CONSTRUCTION COMPLETIONS				
BUILDING	SUB MARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
N/A				
SIGNIFICANT PROJECTS UNDER CONSTRUCTION/RENOVATION				
BUILDING	SUB MARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
N/A				



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