

# MARKETBEAT

## BELLEVUE INDUSTRIAL REPORT

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION



3Q10

### ECONOMY

The Puget Sound economy is moving in a relatively positive direction but recovery has yet to take shape. Business confidence is easing back into the workplace, employment for the region's core industries of software publishing and aerospace manufacturing are coming off their low points, and the housing market is showing modest improvements. That being said, job creation has been lackluster and the recent drop in unemployment – from 9.3% back in January of this year to 8.4% in August – is having less to do with employment gains and more to do with a shrinking work force.

### OVERVIEW

Market fundamentals improved during the third quarter for both the Eastside and Northend industrial markets. The 167,059 square feet (sf) of positive overall absorption on the Eastside marked the highest level of absorption since third quarter 2008. The Redmond (Willows) submarket reported 186,558 sf for the quarter. BE Meyers purchased and occupied the 135,538-sf Redmond West on Willows, and DigiPen moved into 108,000 sf that it leased earlier this year at Willows Commerce Park.

The Northend had 75,590 sf of positive absorption for the quarter, with 216,361 sf absorbed in the Mukilteo submarket. Boeing renewed and expanded at the Harbour Pointe Tech Center and the company took back space at the Centre 41 project. Two tenants had emptied the 326,447-sf building over the past two quarters and Boeing has decided to take the vacancies off the market for its own use or by third party vendors. The positive gains in Mukilteo were offset somewhat by the Everett submarket, which recorded 138,301 sf of negative overall absorption. Intemec gave back 113,000 sf of space at its 237,446-sf facility.

Leasing activity on the Eastside is down slightly over the quarter with 268,311 sf but the 1.1 msf year-to-date has eclipsed activity during the same period last year. The Northend fared better, up more than three times for the quarter with 309,960 sf leased. The 474,695 sf of leasing year-to-date is up 53% over the same three quarters in 2009. Improved leasing is largely bolstered by companies finally moving forward with long-term business plans and landlords willingness to secure new and renewing tenants.

The recent improvements in tenant activity are tempered somewhat by vacancy rates that remain relatively high. The boost in absorption shaved the overall vacancy rate on the Eastside by 60 basis points over the quarter to 12.8% and the Northend dropped from 11.2% to 10.9%. It would still take about 2.2 million square feet (msf) of absorption to return the Eastside to a 7.0% equilibrium, and the Northend nearly 1.0 msf. Fortunately, the Eastside and Northend have a history of posting high absorption figures during market upturns and with no new construction in the pipeline, the markets could rebound in the next few years.

### FORECAST

One quarter of positive activity is not enough to determine if the Eastside and Northend are in recovery yet. But with employment in aerospace manufacturing and software publishing bottoming out, it does not appear that these markets will take another measurable hit. The global economic recovery will help drive local demand, considering the global ties related to the aircraft industry and high-tech concentration.

### BEAT ON THE STREET


Stabilizing conditions in the office market is helping to keep industrial market fundamentals on the Eastside from further deterioration. The Northend had a recent uptick thanks to Boeing, its largest tenant. Third party vendors are still waiting in the wings, but expect to see activity from them in 2011.


### ECONOMIC INDICATORS


National	2009	2010F	2011F
GDP Growth	-2.6%	2.7%	3.1%
CPI Growth	-0.3%	1.6%	1.6%
Regional			
Unemployment	8.6%	8.4%	8.0%
Employment Growth	-4.9%	-1.0%	1.5%

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

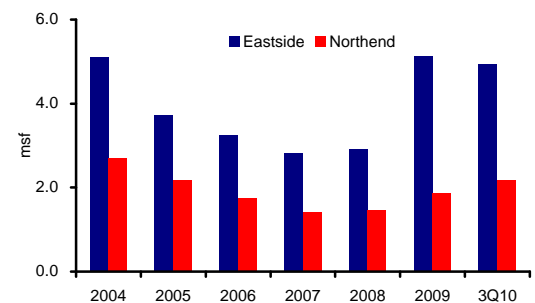
### MARKET FORECAST

**LEASING ACTIVITY** continues to gain momentum and will likely surpass the 1.9 msf that was leased in 2009. 

**OVERALL ABSORPTION** will continue to improve in the coming quarters but should remain below historical levels until the economy is in full recovery. 

**VACANCY:** Could trend upward by the end of the year, but significant contractions in the market are unlikely. 

### OVERALL AVAILABLE SPACE



### MARKET/SUBMARKET STATISTICS

MARKET/SUBMARKET	INVENTORY	OVERALL VACANCY RATE	YTD LEASING ACTIVITY	YTD USER SALES	UNDER CONSTRUCTION	YTD CONSTRUCTION COMPLETIONS	YTD OVERALL ABSORPTION	DIRECT WEIGHTED AVERAGE NET RENTAL RATE*			
								HT	MF	OS	W/D
Bellevue	4,707,564	5.9%	153,111	0	0	0	961	\$1.00	\$0.65	\$0.98	\$1.06
Issaquah/East I-90	3,075,872	4.2%	30,730	0	0	0	(15,540)	\$1.50	\$0.69	\$0.00	\$1.32
Redmond (Overlake)	2,192,778	4.0%	36,873	0	0	0	(15,173)	\$1.67	\$0.00	\$0.00	\$0.00
Redmond (Willows)	6,230,629	17.7%	295,228	167,028	0	0	109,077	\$1.30	\$0.69	\$1.05	\$0.79
Redmond (East)	4,179,703	13.1%	70,396	45,083	0	0	42,174	\$1.24	\$0.89	\$1.15	\$0.57
Kirkland	2,894,201	15.8%	97,828	0	0	0	76,030	\$1.25	\$0.59	\$0.96	\$0.73
Woodinville/522 Corridor	7,955,394	15.0%	260,797	77,088	0	0	(96,936)	\$0.73	\$0.65	\$0.65	\$0.65
Bothell	7,441,170	15.4%	148,783	0	0	0	66,861	\$1.25	\$0.78	\$1.10	\$1.12
<b>Eastside</b>	<b>38,677,311</b>	<b>12.8%</b>	<b>1,093,746</b>	<b>289,199</b>	<b>0</b>	<b>0</b>	<b>167,454</b>	<b>\$1.25</b>	<b>\$0.68</b>	<b>\$0.97</b>	<b>\$0.80</b>
Edmonds/Lynnwood	2,577,687	9.6%	58,904	55,000	0	0	(63,184)	\$1.50	\$0.53	\$0.63	\$0.65
Mukilteo	3,890,078	8.5%	203,580	0	0	0	(147,133)	\$0.67	\$0.78	\$1.11	\$0.61
Everett	10,076,787	14.0%	180,561	21,342	0	0	(99,081)	\$0.93	\$0.75	\$1.01	\$0.49
North Snohomish	3,460,755	5.3%	31,650	0	0	0	(20,554)	\$0.00	\$0.48	\$0.00	\$0.61
<b>Northend</b>	<b>20,005,307</b>	<b>10.9%</b>	<b>474,695</b>	<b>76,342</b>	<b>0</b>	<b>0</b>	<b>(329,952)</b>	<b>\$0.79</b>	<b>\$0.65</b>	<b>\$0.96</b>	<b>\$0.52</b>
<b>TOTAL</b>	<b>58,682,618</b>	<b>12.1%</b>	<b>1,568,441</b>	<b>365,541</b>	<b>0</b>	<b>0</b>	<b>(162,498)</b>	<b>\$1.21</b>	<b>\$0.67</b>	<b>\$0.97</b>	<b>\$0.65</b>

\*Rental rates reflect \$psf/month

HT = High Tech MF = Manufacturing OS = Office Service W/D = Warehouse/Distribution

### MARKET HIGHLIGHTS

#### SIGNIFICANT 3Q10 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	PROPERTY TYPE
Center 41 @ Harbour Pointe	Mukilteo	Kinkisharyo International	80,000	Manufacturing
Merrill Creek Center	Everett	Water Technics	37,310	Warehouse/Distribution
Monroe Corporate Park	Woodinville/522 Corridor	ImageMill	35,323	Warehouse/Distribution

#### SIGNIFICANT 3Q10 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
Redmond West on Willows - I	Redmond (Willows)	Green Star Properties, LLC	135,538	\$15,700,000
Sound View Center at Seaway	Everett	Sound View Center LLC	53,508	\$7,300,000
Kirkland 405 Corporate Center Bldgs K & V	Kirkland	H-P Properties /Kirkland LLC	39,590	\$5,320,000

#### SIGNIFICANT 3Q10 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
N/A				

#### SIGNIFICANT PROJECTS UNDER CONSTRUCTION

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
N/A				



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\*The Market terms and definitions in this report are based on NAIOP standards.

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