

# MARKETBEAT

## SEATTLE (KENT VALLEY) 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 is 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

Activity at the ports rebounded in the last quarter of 2010 and for the first time since 2006, consistent quarterly gains in container traffic were reported. Year-to-date container volumes at Seattle's port increased 37.3% in November to nearly 2.0 million TEU's (twenty foot equivalent units) and have far exceeded the 1.5 million TEU's in all of 2009. Year-to-date volumes at Tacoma were down 5.9% but positive growth was reported in three of the last four months of the year, including December which improved 11.8% over December 2009 volumes.

Improving port activity was ample enough reason for market fundamentals to stabilize in the fourth quarter. Although South King County's overall vacancy rate of 9.7% is up from the 8.1% vacancy at year-end 2009, it declined slightly from 9.9% at third quarter. North Pierce County's vacancy edged up marginally from 14.4% at third quarter to 14.8%, and remains higher than the 13.5% vacancy at year-end 2009. The increase came mainly from the completion of Fife Portal Industrial Park, a 142,740-square foot (sf) speculative development.

The drop in vacancy gave the South King County market 221,104 sf of positive overall absorption this quarter. Boosting absorption figures included Lumber Products' renewal and expansion by 36,000 sf at the Hill-Raum Industrial Park in Kent, and Mailhandler's relocation/expansion from Seattle into 55,344 sf at the former Kaye Smith Building in Renton. Year-to-date, the market had 1.5 million square feet (msf) of negative absorption, a considerable improvement over the 3.4 msf of negative absorption in 2009. With a modest amount of space entering the market and virtually no expansion, the North Pierce County market reported 29,240 sf of negative absorption in the quarter. Two large vacancies earlier in the year culminated into a total of 405,829 sf of negative absorption for 2010, compared to 671,393 sf of positive absorption in 2009.

Leasing activity improved over the year, up about 14.8% from 2009 to 5.1 msf. Leases were relatively small in the fourth quarter, but a few notable transactions included American Tire Distributors, which leased 137,607 sf at Auburn 18. Pacific Bioscience Laboratories leased 89,900 sf at Van Doren's West and Helly Hansen leased 74,156 sf at Emerald Corporate Park.

Investment sales outpaced 2009 figures by about 14.6% with nearly 3.1 msf trading hands. The largest deal brokered was the Estate of James Campbell portfolio, which included a total of 924,873 sf between Southcenter South in Tukwila and Green River Corporate Park in Kent. RREEF purchased both business parks for \$63 million, or about \$68 per square foot. Improving demand for quality investment properties also increased sale prices. The average price for industrial product in the Kent Valley was \$71 psf in 2010, compared to \$69 psf in 2009.

### OUTLOOK

Port activity could slow down now that the holiday season is over, but the improving economy, higher than expected retail sales, and strong foreign exports of regional goods should keep traffic moving in a positive direction. Provided the recent performance at both Seattle and Tacoma carry through into 2011, the Kent Valley industrial market should benefit with an increase in leasing and absorption.

### BEAT ON THE STREET


We are looking forward to 2011 with renewed optimism. A consistent increase in tenant activity is finally impacting real estate fundamentals in a positive direction and the investment market has also been gaining momentum, more here than in other parts of the region.


### 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

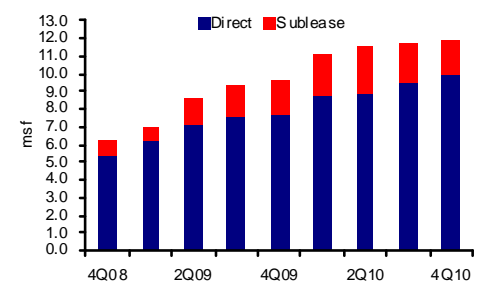
### MARKET FORECAST

**LEASING ACTIVITY:** The improving overall economy and competition among landlords should improve leasing activity in 2011. 

**OVERALL ABSORPTION** should pick up in 2011 as growing international trade drives up the demand for distribution centers around the ports. 

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

### AVAILABLE SPACE WAREHOUSE/DISTRIBUTION



### MARKET/SUBMARKET STATISTICS

MARKET/SUBMARKET	INVENTORY	OVERALL	YTD	YTD	YTD	YTD	DIRECT WEIGHTED AVERAGE				
		VACANCY RATE	LEASING ACTIVITY	USER SALES	UNDER CONST.	CONST. COMPLETIONS	OVERALL ABSORPTION	HT	MF	OS	WD
SeaTac	3,538,897	10.2%	221,354	0	0	0	59,049	\$0.00	\$0.00	\$0.50	\$0.57
Tukwila	12,362,016	10.7%	591,118	19,793	0	0	(166,956)	\$1.82	\$0.57	\$0.54	\$0.42
Renton	15,534,637	7.4%	414,312	18,321	0	0	(149,272)	\$0.00	\$0.60	\$0.78	\$0.44
Kent	43,378,089	11.5%	1,953,587	200,715	0	0	(724,875)	\$0.20	\$0.68	\$0.67	\$0.38
Auburn	25,939,670	7.5%	1,093,053	220,816	0	21,113	(594,657)	\$0.00	\$0.35	\$0.56	\$0.38
<i>South King County</i>	<i>100,753,309</i>	<i>9.7%</i>	<i>4,273,424</i>	<i>459,645</i>	<i>0</i>	<i>21,113</i>	<i>(1,576,711)</i>	<i>\$1.77</i>	<i>\$0.50</i>	<i>\$0.61</i>	<i>\$0.39</i>
Sumner	10,906,050	22.3%	525,024	34,435	0	0	(310,667)	\$0.00	\$0.39	\$0.42	\$0.35
Puyallup	8,388,422	13.3%	39,895	0	0	0	(362,658)	\$0.00	\$0.38	\$0.85	\$0.37
Fife/Milton	9,736,751	7.7%	271,589	80,068	0	364,366	267,496	\$0.00	\$0.45	\$0.80	\$0.43
<i>North Pierce County</i>	<i>29,031,223</i>	<i>14.8%</i>	<i>836,508</i>	<i>114,503</i>	<i>0</i>	<i>364,366</i>	<i>(405,829)</i>	<i>\$0.00</i>	<i>\$0.40</i>	<i>\$0.64</i>	<i>\$0.37</i>
<b>TOTAL</b>	<b>129,784,532</b>	<b>10.8%</b>	<b>5,109,932</b>	<b>574,148</b>	<b>0</b>	<b>385,479</b>	<b>(1,982,540)</b>	<b>\$1.77</b>	<b>\$0.47</b>	<b>\$0.61</b>	<b>\$0.39</b>

\*Rental rates reflect \$psf/month

### MARKET HIGHLIGHTS

SIGNIFICANT 2010 LEASE TRANSACTIONS				
BUILDING	SUB MARKET	TENANT	SQUARE FEET	BLDG TYPE
Auburn Logistics Center	Auburn	U-Line	268,506	Warehouse
Hill-Raam Industrial Park 187-E	Kent	Lumber Products (renewal/expansion)	194,000	Warehouse
Rainier Park of Industry - Bldg 5	Sumner	Performance Team Trucking	179,339	Warehouse
Valley Centre Corporate Park	Auburn	Alan Ritchey, Inc.	154,000	Warehouse
Auburn 18 Distribution Center	Auburn	American Tire Distributors	137,607	Warehouse
NW Corporate Park - Kent	Kent	United Aircraft Services	100,800	Warehouse

SIGNIFICANT 2010 SALE TRANSACTIONS				
BUILDING	SUB MARKET	Buyer	SQUARE FEET	PURCHASE PRICE
Southcenter South	Tukwila	BVK Kent Valley Industrial LLC	686,417	\$46,820,000
Valley Distribution Center	Renton	TIAA-CREF	479,100	\$30,250,000
Puyallup Distribution Center	Puyallup	I&G Puyallup LLC	349,894	\$14,975,000
Green River Corporate Park	Kent	BVK Kent Valley Industrial LLC	238,456	\$16,180,000
Pacific Crest Industries	Sumner	DCT Sumner LLC	184,215	\$13,250,000

SIGNIFICANT 2010 CONSTRUCTION COMPLETIONS				
BUILDING	SUB MARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Fife Portal Industrial Park	Fife/Milton	N/A	142,740	11/10
American Fast Freight	Fife/Milton	American Fast Freight	90,626	1/10
Restaurant Depot	Fife/Milton	Restaurant Depot	60,000	4/10
Star Ice & Fuel	Fife/Milton	Star Ice & Fuel	55,000	6/10

SIGNIFICANT PROJECTS UNDER CONSTRUCTION/RENOVATION				
BUILDING	SUB MARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
N/A				



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