

MARKETBEAT

SEATTLE (KENT VALLEY) 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

A culmination of a recovering global economy, improving retail sales, and the upcoming holiday season is driving growth at the ports of Seattle and Tacoma. Year-to-date container volumes at Seattle's port have increased 46.5% to 1.4 million TEU's (twenty foot equivalent units). The Port of Tacoma is down 9.7% year-to-date, but when compared to August figures of 2009 traffic has increased 1.9%, the first positive gain in 25 months. For the region as a whole, port activity has increased 17.5% over the year when combining traffic volumes at both ports.

Progress in port activity is slowing the rate that occupancy in the Kent Valley industrial market is contracting. The 241,607 square feet (sf) of negative overall absorption this quarter is an improvement over the 1.9 million square feet (msf) of negative absorption in the first two quarters of the year. The North Pierce County market bore the brunt of givebacks with 195,539 sf of negative absorption recorded for the quarter. LOI Distribution vacated 349,894 sf feet at the Puyallup Distribution Center. The impact of this vacancy, however, was offset somewhat by the occupancy of Performance Team Trucking into 179,339 sf at the Rainier Park of Industry in Sumner.

The relatively small amount of give-backs this quarter resulted in nominal shifts in the market's vacancy. At 9.9%, the South King County market edged up just 10 basis points (bps) from last quarter, and North Pierce County also increased 10 bps for the quarter to 14.4%. Overall, the market's vacancy reached 10.9%, compared to 10.8% at mid-year.

Another strong quarter of leasing brought year-to-date activity for new deals up to 4.1 msf, 34.6% higher than the same period last year. In addition to Performance Team Trucking, other notable leases included U-Line for 268,506 sf at the Auburn Logistics Center and United Aircraft Services for 100,800 sf at Northwest Corporate Park in Kent. User sales have not made a substantial impact on the market so far this year. Just 312,784 sf has sold year-to-date, compared to 1.5 msf over the same period in 2009. Likewise, investor sales so far in the year has slowed, with 813,315 sf sold compared to 1.7 msf last year. There is, however, a general increase in interest IN the market, particularly for assets with long term leases in place by strong credit tenants. Several investment sales are currently pending, which should boost activity by year-end.

FORECAST

Look for leasing activity to remain stable through the balance of the year. Companies that are moving forward with long-term business plans will continue to take advantage of the general lease concessions currently being offered by landlords. Further, activity at the ports is gaining momentum, which will lead to further demand and potential expansion from distribution and 3PL firms.

BEAT ON THE STREET


The Kent Valley is still contracting, however, the rate of downsizing has subsided considerably. As real estate fundamentals continue to stabilize and tenants move forward with leasing commitments, the market will regain footing.


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

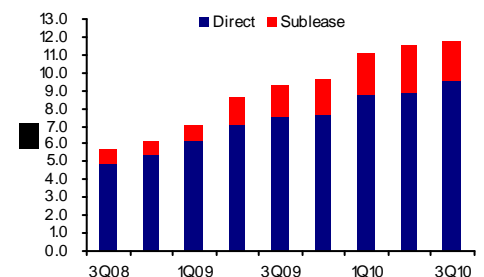
MARKET FORECAST

LEASING ACTIVITY: If the first three quarters is any indication of activity over the next three months, the market will surpass the 4.5 msf that was leased in all of 2009. 

OVERALL ABSORPTION: Barring any further setbacks at the ports, the market will begin to see positive absorption in 2011. 

CONSTRUCTION: The only project in the pipeline is Fife Portal Industrial Park for 142,740 sf. No other projects are expected to break ground in the near term. 

AVAILABLE SPACE WAREHOUSE/DISTRIBUTION



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
SeaTac	3,538,897	10.5%	147,909	0	0	0	48,469	\$0.00	\$0.00	\$0.50	\$0.57
Tukwila	12,362,016	10.5%	471,822	19,793	0	0	(146,644)	\$1.82	\$0.57	\$0.54	\$0.42
Renton	15,534,637	7.7%	299,094	18,321	0	0	(200,066)	\$0.00	\$0.48	\$0.78	\$0.45
Kent	43,368,450	10.7%	1,468,498	101,451	0	0	(851,383)	\$0.20	\$0.57	\$0.66	\$0.38
Auburn	25,918,557	7.7%	908,017	58,716	0	0	(679,650)	\$0.00	\$0.36	\$0.56	\$0.38
S. King County	100,722,557	9.9%	3,295,340	198,281	0	0	(1,829,274)	\$1.77	\$0.47	\$0.60	\$0.39
Sumner	10,909,835	21.9%	525,024	34,435	0	0	(264,203)	\$0.00	\$0.68	\$0.40	\$0.36
Puyallup	8,348,637	13.6%	39,895	0	0	0	(350,473)	\$0.00	\$0.38	\$0.85	\$0.36
Fife/Milton	9,594,011	6.6%	267,589	80,098	142,740	221,626	238,087	\$0.00	\$0.40	\$0.80	\$0.41
N. Pierce County	28,852,483	14.4%	832,508	114,533	142,740	221,626	(376,589)	\$0.00	\$0.40	\$0.59	\$0.37
TOTAL	129,575,040	10.9%	4,127,848	312,814	142,740	221,626	(2,205,863)	\$1.77	\$0.46	\$0.60	\$0.39

*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
Auburn Logistics Center	Auburn	U-Line	268,506	Warehouse/Distribution
Rainier Park of Industry - Bldg 5	Sumner	Performance Team Trucking	179,339	Warehouse/Distribution
NW Corporate Park Kent	Kent	United Aircraft Services	100,800	Warehouse/Distribution
SIGNIFICANT 3Q10 SALE TRANSACTIONS				
BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
Mikron Building	Kent	H-P Properties/Mikron LLC	177,471	\$8,850,000
H & H Distribution	Kent	Cirrus Northwest, LLC	41,200	\$2,700,000
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
Fife Portal Industrial Park	Fife/Milton	N/A	142,740	11/10



For industry-leading intelligence to support your real estate and business decisions, go to Cushman & Wakefield's Knowledge Center at www.cushmanwakefield.com/knowledge

Cushman & Wakefield | Commerce Real Estate Solutions
1420 Fifth Avenue, Suite 2900
Seattle, WA 98101
(206) 682-0666

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

This report contains information available to the public and has been relied upon by Cushman & Wakefield on the basis that it is accurate and complete. Cushman & Wakefield accepts no responsibility if this should prove not to be the case. No warranty or representation, express or implied, is made to the accuracy or completeness of the information contained herein, and same is submitted subject to errors, omissions, change of price, rental or other conditions, withdrawal without notice, and to any special listing conditions imposed by our principals.

©2010 Cushman & Wakefield, Inc. All rights reserved.

Please consider your environmental responsibility before printing this report.