

MARKETBEAT



BELLEVUE INDUSTRIAL REPORT

2Q11

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Overview

The regional economy continues to improve at a steady clip, with preliminary unemployment dropping to 8.2% in May, down from 8.4% in April and 8.9% in May 2010. Seattle's CPI was up 2.1% in April from one year ago, and the region added an estimated 21,800 jobs between first quarter 2010 and first quarter 2011. Key industries driving growth include Manufacturing (+3,900), Retail Trade (+5,600), Professional & Business Services (+13,300) and Education/Health (+7,300). Construction (-5,200), State & Local Government (-3,200), and Financial Activities (-300) were a few sectors that continued to post declining job rates.

After appearing as though the market bottomed out at the end of 2010, the overall vacancy rate for the Eastside industrial market inched upward for the second consecutive quarter to 13.0%, up from 12.7% three months ago. The Eastside is in the early stages of recovery and is currently susceptible to inconsistent shifts in real estate trends. The drop in vacancy resulted in 144,591 square feet (sf) of negative overall absorption. Tenants consolidating or leaving the market included TECT Aerospace, which relocated to Everett from the Woodinville/522 Corridor. ADP vacated about 70,696 sf in Bothell when it moved to Lynnwood, and Wireless Data Solutions consolidated by about 43,000 sf when it relocated in Kirkland.

Despite the ongoing climb in vacancy, leasing activity is at its strongest in more than two years. The 592,981 sf of new deals is up 44% from first quarter, and the 1.0 million square feet so far in the year is up 71% from the previous six-month period and 22% over the first half of 2010. While many are simply moving from one space to another, pockets of growth are starting to play into total activity. Google's rapid expansion resulted in a 58,376-sf lease at Schnitzer North Creek Tech Center, and Seattle Genetics will be expanding into an additional 81,000 sf adjacent to its existing facility in Bothell. These leases will bode well for the market when they take occupancy later in the year.

The overall vacancy in the Northend dropped from 11.5% in the first quarter to 11.1%. The market, though vulnerable to expansions and contractions by Boeing, continues to benefit from tenants relocating to be closer to the aerospace giant. TECT Aerospace took 150,154 sf at the 75th Street Center late in the quarter, which was about 50% vacant at the time of the lease. The tenant will move into the balance of the building when existing tenants move out. The market absorbed 87,388 sf this quarter, a considerable improvement over the 211,357 sf of negative overall absorption in the first quarter.

Like the Eastside, leasing is gaining considerable steam with 326,576 sf of new deals this quarter, compared to 191,853 sf in the first quarter. The 518,429 sf of leasing so far this year has already surpassed total leasing in all of 2010 (515,778 sf). ATS has been an active user in the market, taking down 64,182 sf in two separate projects this quarter.

Industrial sales activity remains a bright spot in both markets. The Eastside logged a total of 386,305 sf in both investment and user sales so far this year while the Northend has reported 623,361 sf in total sales. Owner/user acquisitions are gaining traction with businesses opting to own rather than lease during a time when pricing favors the buyer and interest rates are at an all-time low. Investor demand is strong, particularly for quality assets, but many property owners are likely holding off until the market improves.

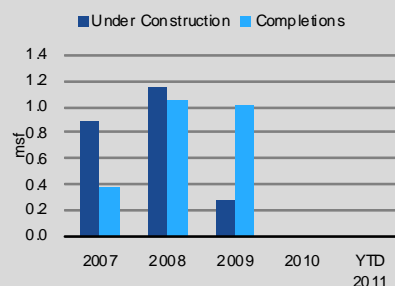
Outlook

The improving local economy will continue to boost activity for Bellevue's industrial market. We are already seeing company expansions, though many will not be reflected in our statistics until occupancy occurs. Both markets should see vacancy levels come down in the coming quarters, with leasing activity continuing to gain momentum.

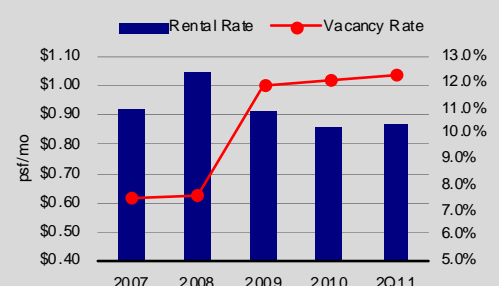
Stats on the Go

	2Q10	2Q11	Y-o-Y Change	12 month Forecast
Overall Vacancy	12.6%	12.3%	-0.3 pp	▼
Direct Asking Rents	\$0.87	\$0.87	0.0%	◄►
YTD Leasing Activity (sf)	990,170	1.5 msf	53.7%	▲

Under Construction vs. Completions



Overall Rental vs. Vacancy Rates



Market/Submarket Statistics

Submarket	Inventory	Overall Vacancy Rate	YTD Leasing Activity	YTD User Sales Activity	Under Construction	YTD Construction Completions	YTD Direct Net Absorption	YTD Overall Net Absorption	Direct Weighted Average Net Rental Rate*			
									HT	MF	OS	W/D
Bellevue	4,882,690	5.8%	101,187	0	0	0	59,617	47,666	\$2.21	\$0.43	\$0.92	\$1.01
Issaquah/East I-90	3,127,937	4.1%	1,329	0	0	0	(9,656)	(9,656)	\$1.49	\$0.60	\$2.06	\$0.00
Redmond (Overlake)	2,199,575	3.1%	8,836	0	0	0	23,642	23,642	\$1.67	\$0.00	\$0.99	\$0.00
Redmond (Willows)	6,230,784	18.8%	127,015	91,470	0	0	(196,911)	(124,033)	\$1.24	\$0.65	\$0.89	\$0.86
Redmond (East)	4,179,703	11.7%	114,949	17,464	0	0	63,422	114,741	\$1.37	\$0.89	\$1.10	\$0.65
Kirkland	2,910,788	16.1%	52,307	10,385	0	0	(53,337)	(56,079)	\$1.25	\$0.53	\$0.91	\$0.63
Woodinville/522 Corridor	8,031,688	15.3%	331,911	19,916	0	0	6,247	(868)	\$0.64	\$0.64	\$0.63	\$0.63
Bothell	7,438,958	16.5%	266,768	0	0	0	(81,244)	(86,946)	\$1.27	\$0.91	\$0.97	\$1.07
Eastside	39,002,123	13.0%	1,004,302	139,235	0	0	(188,220)	(91,533)	\$1.26	\$0.66	\$0.91	\$0.75
Edmonds/Lntlk Terr/Lynnwood	2,527,767	11.2%	25,554	49,920	0	0	(28,142)	(28,142)	\$1.38	\$0.57	\$0.69	\$0.63
Mukilteo	3,907,305	12.1%	40,363	100,203	0	0	(225,481)	(225,481)	\$0.71	\$0.78	\$1.08	\$0.68
Everett	10,165,404	11.9%	452,512	203,472	0	0	66,447	181,823	\$1.16	\$0.68	\$0.81	\$0.46
North Snohomish	3,550,370	7.5%	0	52,066	0	0	(36,169)	(52,169)	\$0.00	\$0.45	\$0.00	\$0.46
Northend	20,150,846	11.1%	518,429	405,661	0	0	(223,345)	(123,969)	\$0.94	\$0.62	\$0.88	\$0.49
BELLEVUE TO TAL	59,152,969	12.3%	1,522,731	544,896	0	0	(411,565)	(215,502)	\$1.24	\$0.64	\$0.90	\$0.61

* Rental rates reflect asking \$/ps/month

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

Market Highlights

SIGNIFICANT 2Q11 LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	PROPERTY TYPE
75th Street Center	Everett	TECT Aerospace	150,154	Warehouse/Distribution
Mackie Designs II	Woodinville/522 Corridor	Saltworks	81,250	Warehouse/Distribution
Ridgepoint at Canyon Park	Bothell	Seattle Genetics	81,000	High Technology
Schnitzer North Creek Tech Center	Bothell	Google	58,376	High Technology

SIGNIFICANT 2Q11 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
Columbia Pacific Building	Everett	LBA Realty	217,700	\$18,956,608
Opus Seaway Commerce Center	Everett	Rainier Properties, LLC	95,300	\$7,900,000
Sammamish Ridge Tech Center	Redmond (Willows)	Astronics Advanced Electronic	91,470	\$5,188,000

SIGNIFICANT 2Q11 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
N/A				

SIGNIFICANT PROJECTS UNDER CONSTRUCTION/RENOVATION

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
N/A				