

MARKETBEAT



SEATTLE (KENT VALLEY) 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.

The Puget Sound is moving forward in a positive direction, however the national economy is proceeding at an unbalanced pace. The GDP grew at rate of just 1.8% in the first quarter of the year and high oil prices continue to cut into consumer spending habits. This fragile economic recovery, coupled with the earthquake and tsunami in Japan earlier in the year is stalling growth at ports within the region. Container traffic was down 1.0% in May for the port of Tacoma, and down 13.3% in Seattle. That being said, traffic year-to-date remains positive at both ports, up 5.9% in Tacoma and 1.6% in Seattle.

At 9.8%, the overall vacancy rate in the Kent Valley improved from 10.2% in the first quarter, its lowest rate since 2009 when vacancies were on the rise. United Aircraft Services moved into 100,800 square feet (sf) of space that it leased last year at Northwest Corporate Park in Kent. Brown & Haley expanded at the Trans Pacific Industrial Park in Fife/Milton by about 101,825 sf and there were several owner/user sales that took mid-sized blocks of space off the market. In all, the Kent Valley absorbed 402,512 sf of space this quarter, improving the annual total to 958,637 sf. That compares to negative 39,397 sf of overall absorption in the previous six-month period, and negative 1.9 million square feet (msf) during the first half of 2010.

Leasing activity continues to gain momentum and is at its highest level in four years. With 2.3 msf recorded this quarter, new leases nearly doubled the amount of activity in the first quarter. The nearly 3.5 msf leased so far in the year is up 62% from the previous six month period, and 29.1% over the first half of 2010. The largest transaction this quarter was Amazon.com's lease of 492,124 sf in the Summit Building at Sumner Corporate Park, though the average lease size remains relatively small at 26,147 sf.

Just four investment sales occurred this quarter, totaling \$39.5 million in 470,189 sf, a significant drop from the 1.3 msf that was sold during the first quarter. LBA Realty continues to expand its presence in the region's industrial markets by purchasing Building 6 at the Rainier Park of Industry in Sumner. The institutional buyer paid \$22.0 million for the 253,149-sf project that is 30% vacant.

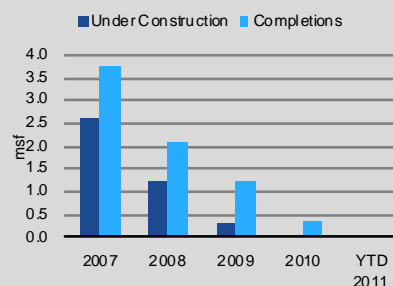
Outlook

Both ports remain vulnerable in the wake of this last recession, and with the national economy still trying to gain solid footing; they will continue to be susceptible to setbacks. Although Kent Valley is directly affected by traffic flows in Tacoma and Seattle, there is a sense of confidence in the market that suggests demand will continue to improve through the balance of the year. A growing number of large leases are shrinking the supply of big box distribution spaces, and should activity in this sector continue to gain momentum the potential for speculative development could once again be on the horizon.

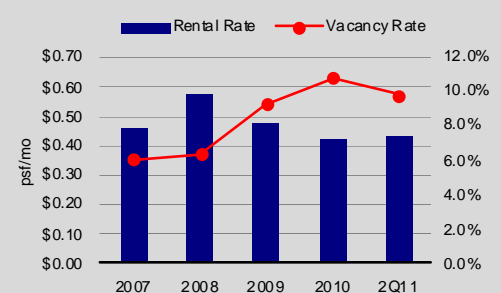
Stats on the Go

	2Q10	2Q11	Y-o-Y Change	12 month Forecast
Overall Vacancy	10.8%	9.8%	-1.0 pp	▼
Direct Asking Rents	\$0.44	\$0.44	0.0%	◄►
YTD Leasing Activity (sf)	2.7 msf	3.4 msf	29.1%	▲

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
SeaTac	3,538,897	8.8%	29,107	0	0	0	29,975	38,517	\$0.00	\$0.00	\$0.79	\$0.64
Tukwila	12,362,016	9.1%	239,827	35,000	0	0	168,722	168,722	\$1.82	\$0.00	\$0.55	\$0.47
Renton	15,537,779	6.8%	99,902	0	0	0	18,848	18,848	\$0.00	\$0.00	\$0.76	\$0.41
Kent	43,375,434	11.3%	1,248,024	114,058	0	0	(286,530)	(2,645)	\$0.20	\$0.52	\$0.65	\$0.37
Auburn	25,940,402	5.6%	359,508	0	0	0	468,296	468,296	\$0.00	\$0.35	\$0.45	\$0.42
S. King County	100,754,528	8.8%	1,976,368	149,058	0	0	399,311	691,738	\$1.77	\$0.40	\$0.63	\$0.40
Sumner	10,907,942	20.8%	953,543	24,000	0	0	119,439	113,322	\$0.00	\$0.38	\$0.51	\$0.35
Puyallup	8,388,422	12.4%	15,624	0	0	0	(15,066)	(15,066)	\$0.00	\$0.38	\$0.85	\$0.36
Fife/Milton	9,736,751	5.9%	535,801	0	0	0	134,393	168,643	\$0.00	\$0.41	\$0.80	\$0.44
N. Pierce County	29,033,115	13.4%	1,504,968	24,000	0	0	238,766	266,899	\$0.00	\$0.39	\$0.67	\$0.37
SEATTLE TOTAL	129,787,643	9.8%	3,481,336	173,058	0	0	638,077	958,637	\$1.77	\$0.40	\$0.64	\$0.39

* Rental rates reflect asking \$psf/year.

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
Sumner Corporate Park	Sumner	Amazon.com	492,124	Warehouse/Distribution
Pacific Coast Corporate Park	Fife/Milton	Puget Sound International	248,350	Warehouse/Distribution
Rainier Park of Industry - Bldg 5	Sumner	Schneider Logistics	179,335	Warehouse/Distribution
NW Corporate Park - Kent	Kent	Holman Distribution	156,000	Warehouse/Distribution
Trans Pacific Industrial Park	Fife/Milton	Brown & Haley	101,825	Warehouse/Distribution
Pacific Gateway - 041 Building	Kent	Columbia Distributors	84,120	Warehouse/Distribution
Valley Centre Corporate Park	Auburn	Loud Technologies	63,000	Warehouse/Distribution

SIGNIFICANT 2Q11 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
Rainier Park of Industry - Bldg 6	Sumner	LBA Realty	253,149	\$22,043,391
United Grocery Warehouse	Kent	Reep-Ind Kent LLC	153,750	\$9,910,000

SIGNIFICANT 2Q11 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
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N/A