

MARKETBEAT



BELLEVUE INDUSTRIAL REPORT

3Q11

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Overview

Economic activity in the Seattle MSA continued to accelerate during the third quarter 2011. Preliminary unemployment dropped to 8.3% in August, down from 8.8% one year ago. Seattle added 31,300 jobs in the twelve months ending in August, with more sectors than not adding headcount. Largest gains came from aerospace manufacturing (+7,100), retail trade (+6,000), education & health (+5,600) and tech-related sectors like software publishers (+2,200) and computer systems design (+3,700). The few sectors that continue to post declining rates include the local, state and federal governments (-3,300) and financial activities (-1,300).

A job vacancy survey published this spring by the Washington State Employment Security Department found that region-wide vacancies increased to 32,926 positions, a 62.2% jump from spring 2010. Nearly 14% was the result of newly created positions, a good indication that companies are expanding and not simply re-filling existing slots.

Positive employment gains in manufacturing and high tech sectors have done little at this point to swing real estate trends in a positive direction for the Eastside. At 13.7%, the overall industrial vacancy rate continued to climb during third quarter, up from 13.0% at mid-year and 12.8% one year ago. A few expansions were noted, including Google's move into 58,373 square feet (sf) at Schnitzer North Creek Building N, however they were not enough to outpace contractions in the market. Emulex vacated 42,780 sf at the Creekside Building in Bothell and International Paper moved out of 174,160 sf at its warehouse in Bellevue. In all, the Eastside reported 290,448 sf of negative overall absorption for the quarter, dropping year-to-date absorption to negative 390,022 sf.

Despite the relative lack of expansions in the market, tenant movement remains active. With nearly 1.5 million square feet (msf) in leasing so far in the year, new deals are up 22% over the same period last year and has surpassed the 1.4 msf leased in all of 2010. The largest transaction this

quarter was Siemens' 133,960-sf leaseback upon the sale of its Issaquah facility to A & B Properties for \$19.9 million (\$148.90 per square foot).

At 10.8%, the overall vacancy rate in the Northend has declined for the second consecutive quarter, down from 11.1% at mid-year and 11.5% in the first quarter. LCL Beauty expanded by 24,200 sf in its current facility at the Everett Commerce Center and an undisclosed tenant took the 30,000-sf space vacant at the Cascade Coffee building. Boeing leased and moved into 87,687 sf at the Harbour Pointe Tech Center, but was largely offset by the 80,007 sf that Kinkisharyo vacated at Boeing's Centre 41 @ Harbour Pointe project in Mukilteo. The market recorded 37,706 sf of positive overall absorption for the quarter, improving the year-to-date total to negative 86,263 sf. Despite remaining negative, it is a far improvement from the negative 329,025 sf over the same period in 2010. Leasing activity remained strong in the quarter, largely thanks to Boeing's lease at the Harbour Pointe Tech Center. The market logged 276,789 sf of new deals in the quarter, bringing the year-to-date total 795,218 sf, a 65.2% improvement over the year.

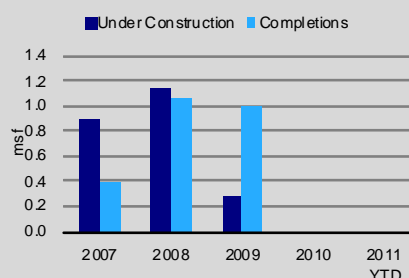
Outlook

Although employment gains in key Eastside industries have yet to translate into tangible growth for the real estate market, there is currently a flurry of activity pointing to a rosier outlook. Tennis Outreach Programs leased 58,675 sf in the Hillcrest Building in Kirkland, with plans to occupy sometime in the first quarter 2012. Cepheid renewed their 15,896-sf lease at the Canyon Park Business Center and will expand by 23,704 sf when its new lease commences in the second quarter next year. HaloSource, the outgoing tenant currently in the space that Cepheid plans to expand into, will take occupancy in 28,532 sf later in the year within the same park. The Northend should continue to benefit from the boost in manufacturing employment and increased production that Boeing has committed to in the region.

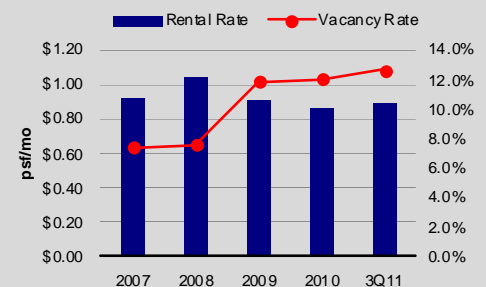
Stats on the Go

	3Q10	3Q11	Y-o-Y Change	12 month Forecast
Overall Vacancy	12.1%	12.7%	0.6 pp	◀▶
Direct Asking Rents (psf/month)	\$0.87	\$0.88	1.1%	◀▶
YTD Leasing Activity (sf)	1.7 msf	2.3 msf	34.6%	▲

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	9.1%	148,279	0	0	0	(102,864)	(114,815)	\$2.16	\$0.43	\$0.98	\$0.89
Issaquah/East I-90	3,083,409	4.4%	135,289	0	0	0	(34,217)	(34,217)	\$1.48	\$0.61	\$2.06	\$0.00
Redmond (Overlake)	2,199,575	2.9%	25,328	0	0	0	29,197	29,197	\$1.67	\$0.00	\$0.99	\$0.00
Redmond (Willows)	6,231,584	19.1%	204,834	91,470	0	0	(203,053)	(145,134)	\$1.26	\$0.65	\$0.89	\$0.92
Redmond (East)	4,179,703	12.0%	130,211	17,464	0	0	48,964	100,283	\$1.37	\$0.87	\$0.97	\$0.65
Kirkland	2,928,708	16.8%	115,225	96,345	0	0	(74,752)	(80,537)	\$1.25	\$0.56	\$0.90	\$0.56
Woodinville/522 Corridor	8,034,642	15.8%	384,178	19,916	0	0	(48,695)	(44,121)	\$0.64	\$0.62	\$0.62	\$0.63
Bothell	7,441,985	16.7%	314,839	0	0	0	(82,725)	(100,678)	\$1.28	\$0.91	\$1.04	\$1.10
Eastside	38,982,296	13.7%	1,458,183	225,195	0	0	(468,145)	(390,022)	\$1.28	\$0.65	\$0.90	\$0.73
Edmonds/Lntlk Terr/Lynnwood	2,527,767	11.5%	54,520	49,920	0	0	(35,625)	(35,625)	\$1.38	\$0.57	\$0.73	\$0.65
Mukilteo	3,908,897	13.1%	129,050	114,535	0	0	(278,580)	(262,580)	\$1.19	\$0.68	\$1.08	\$0.69
Everett	10,209,161	11.1%	597,508	203,472	0	0	137,590	249,971	\$1.20	\$0.74	\$0.81	\$0.45
North Snohomish	3,550,370	7.1%	14,140	52,066	0	0	(22,029)	(38,029)	\$0.00	\$0.46	\$0.00	\$0.46
Northend	20,196,195	10.8%	795,218	419,993	0	0	(198,644)	(86,263)	\$1.21	\$0.62	\$0.89	\$0.49
BELLEVUE TOTAL	59,178,491	12.7%	2,253,401	645,188	0	0	(666,789)	(476,285)	\$1.27	\$0.64	\$0.90	\$0.61

* Rental rates reflect asking \$psf/month.

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

Market Highlights

SIGNIFICANT 3Q11 LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	PROPERTY TYPE
Siemens Building	Issaquah/East I-90	Siemens (Sale/Leaseback)	133,960	High Technology
Harbour Pointe Tech Center	Mukilteo	The Boeing Company	87,687	High Technology
Everett Airport Center	Everett	Aviation Technical Services	64,749	Office/Service Center
Hillcrest Building	Kirkland	Tennis Outreach Programs (TOPs)	58,675	Manufacturing
West Willows Technology Center	Redmond (Willows)	Sensitech*	49,008	High Technology

* Renewal – not included in leasing activity statistics

SIGNIFICANT 3Q11 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
West Willows Technology Center	Redmond (Willows)	ScanlanKemperBard Companies	151,758	\$17,400,000
Siemens Building	Issaquah/East I-90	A & B Properties, Inc.	133,960	\$19,947,000
Kirkland 405 Corporate Center - Bldg F	Kirkland	Hill-Raum-Pietromonaco	33,592	\$4,000,000

SIGNIFICANT 3Q11 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
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N/A

SIGNIFICANT PROJECTS UNDER CONSTRUCTION/RENOVATION

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
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N/A