

MARKETBEAT



SEATTLE (KENT VALLEY) 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).

Weak consumer spending in the first half of the year and the tsunami and earthquake in Japan continue to slow container traffic at the region's ports. Tacoma was down 2.6% year-over-year in August, with year-to-date growth slowing to just 1.9%. Seattle was down 14.6% in August with year-to-date traffic flows declining 5.3%. That being said, growth in export sales has boosted outbound container traffic at both ports. Full outbound containers in Tacoma have increased 15.1% for the year, while Seattle jumped 11.4%.

The Kent Valley industrial market continued to boast modest improvements through third quarter. Large warehouse users helped drive the overall vacancy rate down for the entire market from 9.8% last quarter to 9.3%. At 8.6%, the overall vacancy rate in South King County declined from 8.8% last quarter. Much of the momentum came from the Auburn submarket. Loud Technologies moved from Woodinville and into 63,000 sf at Valley Centre Corporate Park, International Paper move into 84,176 sf in the CSK Building, and AIM Aerospace occupied 51,176 sf at the Brandrud Furniture Building, all of which helped to boost year-to-date absorption in South King County to 919,403 sf.

North Pierce County saw its second straight quarter of positive

momentum. The overall vacancy rate here declined from 13.4% in the second quarter to 11.7%. The two largest occupancies included Amazon.com's move into 492,124 sf at Sumner Corporate Park and Meadowbrook Meats' move into 95,812 sf at Rainier Park of Industry. In all, North Pierce County recorded 406,050 sf of positive overall absorption for the quarter and 672,949 sf so far in the year. The only real setback in the market was MegaBrand's consolidation in Fife, leaving a 402,375-sf vacancy at the Pacific Coast Corporate Park. Puget Sound International leased up 248,350 sf of this space in the second quarter, but will not take occupancy until later in the year.

Industrial leasing activity continued to gain traction. The 1.3 million square feet (msf) this quarter improved year-to-date leases to 4.9 msf, a 16.5% gain over the first three quarters of 2010. Larger leases greater than 50,000 sf improved over the year by 25% with 30 deals tracked so far in 2011. Both user and investment sales took a back seat during the quarter. The only significant transaction was Odom Corporation's purchase of the 349,894-sf Puyallup Distribution Center for \$58.02 per square foot.

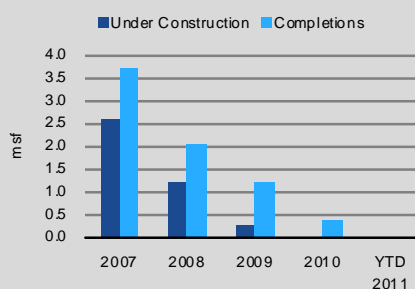
Outlook

The U.S. economy was subjected to several shocks earlier in the year that stalled economic growth: bad winter weather, high oil prices and deep cuts in defense spending. The GDP grew by just 0.4% in the first quarter and 1.0% by mid-year. The *Puget Sound Economic Forecaster* estimates that GDP will expand at about a 2.2% rate in the third quarter and 2.5% rate in the fourth quarter, which should continue to strengthen warehouse demand in the Kent Valley industrial market. With no new speculative construction to raise vacancy levels, absorption rates should continue to gain momentum.

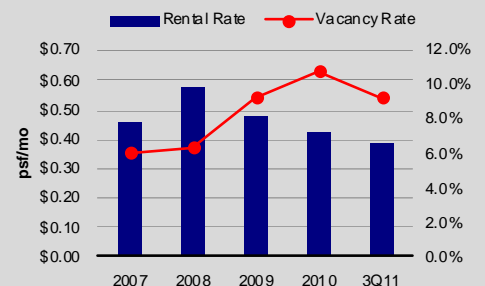
Stats on the Go

	3Q10	3Q11	Y-o-Y Change	12 month Forecast
Overall Vacancy	10.9%	9.3%	-1.6 pp	▼
Direct Asking Rents (psf/month)	\$0.43	\$0.44	2.3%	◀▶
YTD Leasing Activity (sf)	4.9 msf	4.2 msf	16.5%	▲

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	8.2%	73,215	0	0	0	47,539	56,081	\$0.00	\$0.00	\$0.79	\$0.61
Tukwila	12,348,313	10.1%	249,907	35,000	0	0	(26,607)	21,449	\$1.86	\$0.00	\$0.56	\$0.49
Renton	15,537,779	6.7%	140,870	0	0	0	(401,251)	21,470	\$0.00	\$0.00	\$0.76	\$0.40
Kent	43,386,048	11.5%	1,717,685	114,058	0	0	(338,263)	(14,992)	\$0.20	\$0.52	\$0.65	\$0.38
Auburn	25,943,598	4.2%	784,978	0	0	0	751,219	835,395	\$0.00	\$0.30	\$0.45	\$0.43
S. King County	100,754,635	8.6%	2,966,655	149,058	0	0	32,637	919,403	\$1.78	\$0.39	\$0.63	\$0.40
Sumner	10,907,942	14.3%	1,206,578	24,000	0	0	825,575	797,893	\$0.00	\$0.38	\$0.51	\$0.35
Puyallup	8,388,422	11.2%	84,299	349,894	0	0	37,199	37,199	\$0.00	\$0.42	\$0.85	\$0.36
Fife/Milton	9,736,226	9.3%	627,200	66,000	0	0	(196,393)	(162,143)	\$0.00	\$0.38	\$0.77	\$0.44
N. Pierce County	29,032,590	11.7%	1,918,077	439,894	0	0	666,381	672,949	\$0.00	\$0.40	\$0.66	\$0.38
SEATTLE TOTAL	129,787,225	9.3%	4,884,732	588,952	0	0	699,018	1,592,352	\$1.78	\$0.39	\$0.64	\$0.40

* Rental rates reflect asking Spf/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
Sumner Corporate Park	Sumner	Prime Source	168,435	Warehouse/Distribution
500 Milwaukee Building	Auburn	Broder Bros/Alpha Shirt Co.*	160,300	Warehouse/Distribution
former Schuck's Distribution Building	Auburn	Hollingsworth Logistics Group	156,000	Warehouse/Distribution
Van Doren's North	Kent	Oberto Sausage Co (Renewal/Expansion)	96,540	Warehouse/Distribution
CSK Auto Building	Auburn	International Paper	84,176	Warehouse/Distribution
Kingsport Industrial Park	Kent	Express Messenger	70,200	Warehouse/Distribution

* Renewal – not included in leasing activity statistics

SIGNIFICANT 3Q11 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
Puyallup Distribution Center	Puyallup	Washington Property Partners	349,894	\$20,300,000
Yellow Freight Building	Tukwila	KTR Capital Partners	84,056	\$15,725,000
Southcenter South (Thompson Tile Bldg)	Tukwila	Thomkat Investments, LLC	67,822	\$4,240,000

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