

MARKETBEAT INDUSTRIAL SNAPSHOT



BELLEVUE, WA

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Q4 2011



ECONOMIC OVERVIEW

Despite a few speed bumps, 2011 set the pace for what economists forecast to be a steady year of growth in 2012. The region saw a 1.5% jump in employment year-over year, and retail sales surpassed pre-recession levels, increasing an

estimated 5.4% for the year. Employment in the tech industry reached its pre-recession peak and many companies have announced further growth plans over the next year. Boeing, which added 7,000 jobs to the region this year, now employs more than 75,000 in the region with its impact reaching upward of 200,000 jobs. The firm's footprint in the economy was further solidified earlier in the year after winning the fuel tanker contract and more recently when the company signed a multi-year labor contract with the Machinists union, guaranteeing generous annual pay hikes and a commitment to build the new 737 MAX in Renton.

INDUSTRIAL MARKET OVERVIEW

The Eastside industrial market struggled to gain traction through much of 2011. Despite employment gains in the manufacturing and high tech industries, demand was largely focused in other areas of the region. The overall vacancy rate increased from 12.9% at the end of 2010 to 13.5% by year-end, resulting in 102,665 square feet (sf) of negative overall absorption. Fourth quarter did show some promise that the market could be bottoming out. The overall vacancy rate actually fell 20 basis points from third quarter with 234,046 sf of positive absorption recorded. Pacific Bioscience Laboratories moved into 78,676 sf in the former Helly Hansen building in Redmond (East) and Seattle Genetics expanded into 81,000 sf in a neighboring property in Bothell. In Woodinville, M9 Defense expanded by 65,000 sf at the former Sunrise Building and Taphandles opened up a 41,800-sf production facility at the Woodview Building.

At 10.5%, the overall vacancy rate in the Northend was unchanged from 2010. The vacancy increased in the first quarter to 11.5% when Boeing gave back 246,000 sf of surplus manufacturing space in Mukilteo, but has been on the decline since. The market logged 8,500 sf of negative overall absorption for the year, but gained 202,857 sf in the second through fourth quarters of the year. One of the largest drivers for demand in 2011 was Aviation Technical Services (ATS), which occupied a total of 131,931 sf in several buildings after giving up its space on Paine Field to Boeing. Improving market conditions has spurred some speculative development; something the Northend has not seen much of since 2007. The 45,500-sf Jerd Industrial Building broke ground earlier in the year, and Underwood Gartland recently paid \$8.5 million for 25.5 acres of land for development at the Rinker site in Seaway.

Leasing activity is returning to pre-recession levels in both markets. Although the Eastside has struggled to expand, tenant movement remained active, most likely to take advantage of the generous lease concessions offered up by landlords. New transactions were up 37.9% for the year to 1.9 million square feet (msf). The Northend improved 79.3% over the year to 924,657 sf.

Investment activity improved during the year, with buyers looking to take advantage of current pricing with an eye towards improved market conditions. On the Eastside, 673,588 sf traded hands in 2011, a 230% increase over 2010. The Northend saw just two investment transactions, but user sales tallied 1.2 msf including Travis Industries' purchase of 773,247 sf at Centre 41 from Boeing.

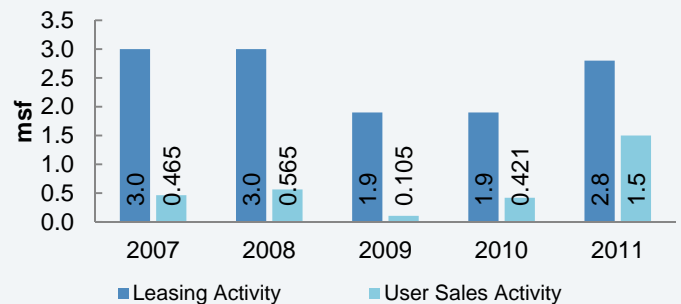
OUTLOOK

Despite a sluggish recovery so far on the Eastside, there are a few signs that the market could be bottoming out. A flurry of activity in the fourth quarter resulted in a slight improvement in real estate fundamentals and there are several deals on the table that could lead to further growth in 2012. The Northend will continue to benefit from gains in manufacturing employment, and Boeing's ongoing commitment to the region.

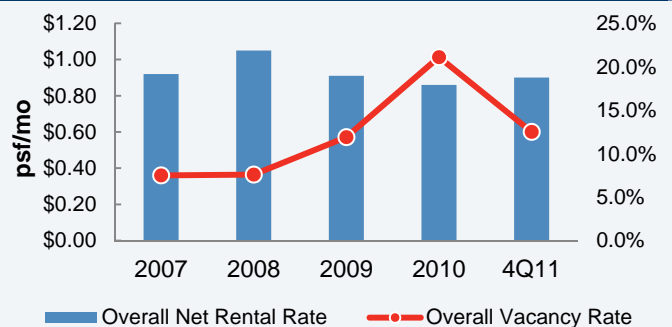
STATS ON THE GO

	4Q10	4Q11	Y-O-Y CHANGE	12 MONTH FORECAST
Overall Vacancy	12.1%	12.5%	0.4pp	▼
Direct Asking Rents (psf/mo)	\$0.86	\$0.90	4.6%	◀▶
YTD Leasing Activity (sf)	1,938,165	2,872,036	48.2%	▲

OVERALL OCCUPIER ACTIVITY



OVERALL RENTAL VS. VACANCY RATES



BELLEVUE, WA

SUBMARKET	INVENTORY	OVERALL VACANCY RATE	YTD LEASING ACTIVITY	YTD USER SALES ACTIVITY	UNDER CONSTRUCTION	YTD CONSTRUCTION COMPLETIONS	YTD OVERALL ABSORPTION	DIRECT WEIGHTED AVERAGE NET RENTAL RATE*			
								HT	MF	OS	W/D
Bellevue	4,882,690	9.5%	179,030	9,440	0	0	(133,448)	\$2.16	\$0.43	\$0.93	\$0.92
Issaquah/East I-90	3,094,609	13.1%	135,289	0	0	0	(89,830)	\$1.24	\$0.71	\$2.06	\$0.00
Redmond (Overlake)	2,199,575	3.6%	38,253	0	0	0	12,710	\$1.67	\$0.00	\$0.99	\$0.00
Redmond (Willows)	6,231,584	19.1%	286,834	91,470	0	0	(146,297)	\$1.26	\$0.61	\$0.92	\$0.80
Redmond (East)	4,179,703	9.5%	212,484	17,464	0	0	206,981	\$1.35	\$0.66	\$0.99	\$0.65
Kirkland	2,928,708	17.1%	138,966	96,345	0	0	(88,877)	\$1.25	\$0.57	\$0.90	\$0.56
Woodinville/522 Corridor	8,044,442	13.5%	541,637	19,916	0	0	139,843	\$0.64	\$0.60	\$0.78	\$0.68
Bothell	7,444,471	15.2%	417,886	95,297	0	0	(3,747)	\$1.28	\$0.91	\$1.02	\$1.15
EASTSIDE SUBTOTAL	39,005,782	13.5%	1,947,379	329,932	0	0	(102,665)	\$1.27	\$0.61	\$0.93	\$0.78
Edmonds/Mntlk Terr/Lynnwood	2,541,342	12.2%	90,371	49,920	0	0	(54,463)	\$1.37	\$0.56	\$0.67	\$0.63
Mukilteo	3,882,991	13.3%	135,585	909,782	0	0	(268,231)	\$1.06	\$0.68	\$1.10	\$0.69
Everett	10,209,161	10.2%	661,721	203,472	75,500	0	347,663	\$1.23	\$0.76	\$0.80	\$0.44
North Snohomish County	3,550,370	6.9%	36,980	52,066	0	0	(33,469)	\$0.00	\$0.45	\$0.00	\$0.47
NORTHEND SUBTOTAL	20,183,864	10.5%	924,657	1,215,240	75,500	0	(8,500)	\$1.18	\$0.62	\$0.88	\$0.49
TOTALS	59,189,646	12.5%	2,872,036	1,545,172	75,500	0	(111,165)	\$1.26	\$0.61	\$0.92	\$0.63

* RENTAL RATES REFLECT ASKING \$PSF/MONTH

HT= HIGH TECH MF = MANUFACTURING OS = OFFICE SERVICE W/D = WAREHOUSE/DISTRIBUTION

MARKET HIGHLIGHTS

SIGNIFICANT 2011 LEASE TRANSACTIONS	SUBMARKET	TENANT/BUYER	PROPERTY TYPE	SQUARE FEET
75 th Street Center	Everett	TECT Aerospace	Warehouse/Distribution	150,154
Siemens Quantum Building	Issaquah/East I-90	Siemens (sale/leaseback)	High Technology	133,960
Harbour Pointe Tech Centre	Mukilteo	The Boeing Company	High Technology	87,687
Mackie Designs Bldg II	Woodinville/522 Corridor	Saltworks	Warehouse/Distribution	81,250
Ridgepoint at Canyon Park	Bothell	Seattle Genetics	Warehouse/Distribution	81,000
SIGNIFICANT 2011 SALE TRANSACTIONS	SUBMARKET	BUYER	PURCHASE PRICE	SQUARE FEET
Centre 41 @ Harbour Pointe	Mukilteo	Travis Industries	\$35,000,280	773,247
Casino Road Corporate Park	Everett	Seattle Goodwill Industries	\$10,900,000	108,172
Opus Seaway Commerce Center	Everett	Rainier Properties, LLC	\$7,900,000	95,297
SIGNIFICANT 2011 CONSTRUCTION COMPLETIONS	SUBMARKET	MAJOR TENANT	COMPLETION DATE	SQUARE FEET
N/A				
SIGNIFICANT PROJECTS UNDER CONSTRUCTION	SUBMARKET	MAJOR TENANT	COMPLETION DATE	SQUARE FEET
Jerd Industrial Building	Everett	N/A	I Q12	45,500
Norpro Expansion	Everett	Norpro	I Q12	30,000