

MARKETBEAT INDUSTRIAL SNAPSHOT



BELLEVUE, WA

A Cushman & Wakefield Alliance Research Publication

Q2 2012



ECONOMIC OVERVIEW

The Puget Sound economy continued to gain steam through the first half of 2012. According to Washington State's Employment Security Department, the unemployment rate declined 150 basis points (bps) in the twelve months ending in May, its lowest level since January 2009. The region created 41,500 jobs over the same period of time. Leading the gains were jobs in manufacturing, which added 10,200 employees (7,400 included aerospace manufacturing) and professional and business services with 10,600 new hires. This was followed by trade, transportation and utilities (9,700), administrative and support services (5,300), construction (3,900) and leisure hospitality (3,500).

INDUSTRIAL MARKET OVERVIEW

After several quarters of rising vacancy and negative absorption, the Eastside industrial market finally regained positive momentum during the second quarter, albeit marginally. The overall vacancy rate declined from 13.9% in the first quarter to 13.7%, resulting in 43,203 square feet (sf) of positive overall absorption. The largest space to be absorbed was in the Issaquah/East I-90 Corridor submarket where SanMar took back about 50,000 sf of call-center space at its distribution center in Preston. Cepheid also expanded into 39,600 sf at Canyon Park Business Center in Bothell. The one submarket that continued to be burdened by ongoing contractions was Woodinville/522 Corridor, which recorded 76,365 sf of negative overall absorption, mainly from tenants in the 10,000-sf range.

The Northend has historically outpaced the Eastside in recent years when it comes to tenant demand, thanks largely to Boeing and its numerous third party vendors. This quarter experienced a setback however, with two large vacancies entering the market. Jansport vacated its Everett facility, leaving behind 220,000 sf. Holman Distribution, a 3PL for Kimberly Clark, vacated 145,000 sf at the Arlington Industrial Complex after the paper products company shut down its mill in Everett at the end of March. The overall vacancy rate jumped from 9.1% in the first quarter to 10.5%, causing 299,652 sf of negative overall absorption.

Leasing activity on the Eastside failed to gain traction, recording just 238,048 sf for the quarter, its weakest level of leasing in more than two years. The 551,783 sf leased so far in the year is what the market typically should average in a single quarter. The Northend fared better, thanks to the leasing of 240,500 sf by BE Aerospace for a new facility closer to Boeing that will be delivered around May of next year. In all, the market recorded 347,723 sf of leasing this quarter, improving the year-to-date total to 425,619 sf.

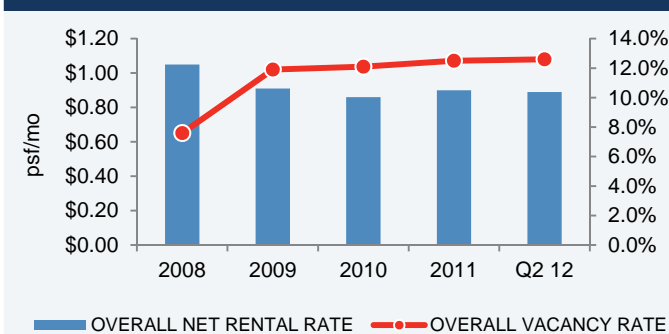
OUTLOOK

Strong employment projections, especially in critical industries to the Eastside and Northend like technology and manufacturing should boost industrial demand in the next 6-18 months. Momentum in the Northend was temporarily derailed, but should resume a path of expansion. To further solidify the market's strength in manufacturing, Italian aerospace firm Umbrac Cuscinetti will double its presence in the market with the purchase of the 68,200-sf Majestic Glove Building in Everett. The company will take occupancy upon the industrial clothing maker's relocation to a new facility nearby. While there is nothing to suggest any significant setbacks for either market, the upcoming national election could be a wild card as larger capital projects tend to get shelved during this time.

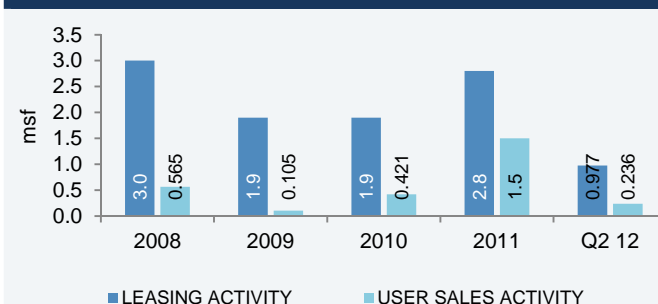
STATS ON THE GO

	Q2 2011	Q2 2012	Y-0-Y CHANGE	12 MONTH FORECAST
Overall Vacancy	12.3%	12.6%	0.3pp	▼
Direct Asking Rents (psf/mo)	\$0.87	\$0.88	1.1%	◀▶
YTD Leasing Activity (sf)	1,535,842	977,402	-36.4%	▲

DIRECT RENTAL VS. VACANCY RATES



OVERALL OCCUPIER ACTIVITY



BELLEVUE, WA

SUBMARKET	INVENTORY	OVERALL VACANCY RATE	YTD LEASING ACTIVITY	YTD USER SALES ACTIVITY	UNDER CONSTRUCTION	CONSTRUCTION COMPLETIONS	YTD DIRECT NET ABSORPTION	YTD OVERALL NET ABSORPTION	DIRECT WEIGHTED AVERAGE NET RENTAL RATE*			
									HT	MF	OS	W/D
Bellevue	4,882,714	10.0%	36,967	0	0	0	(57,774)	(27,465)	\$1.85	\$0.43	\$0.89	\$0.89
Issaquah/East I-90	3,094,609	12.7%	37,742	0	135,000	0	(1,493)	(1,493)	\$1.24	\$0.92	\$1.93	\$0.92
Redmond (Overlake)	2,199,575	3.5%	19,604	21,320	0	0	(7,998)	1,970	\$1.50	\$0.00	\$0.00	\$0.00
Redmond (Willows)	6,248,419	18.4%	169,482	34,900	0	0	(14,402)	44,335	\$1.28	\$0.68	\$0.94	\$0.82
Redmond (East)	4,178,147	8.5%	61,228	0	0	0	25,680	38,484	\$1.38	\$0.66	\$0.95	\$0.64
Kirkland	2,946,008	15.9%	59,322	0	0	0	12,439	12,439	\$1.03	\$0.72	\$0.90	\$0.58
Woodinville/522 Corridor	8,076,291	16.6%	92,815	15,370	0	0	(256,798)	(249,683)	\$0.64	\$0.60	\$0.83	\$0.65
Bothell	7,444,471	14.4%	74,623	37,978	0	0	65,178	60,356	\$1.27	\$0.91	\$1.03	\$1.13
Eastside Subtotal	39,070,234	13.7%	275,966	109,568	135,000	0	(235,168)	(121,057)	\$1.26	\$0.64	\$0.83	\$0.73
Edmonds/Mntlk Terr/Lynnwood	2,561,921	13.5%	39,622	18,400	0	0	(34,914)	(34,914)	\$1.23	\$0.55	\$0.65	\$0.64
Mukilteo	3,909,511	4.0%	267,726	0	240,500	0	39,979	39,979	\$1.19	\$0.69	\$1.06	\$0.70
Everett	10,288,761	12.1%	79,331	68,200	99,000	79,600	(173,551)	(173,551)	\$1.15	\$0.82	\$0.78	\$0.45
North Snohomish	3,589,594	11.1%	38,940	39,623	0	0	(115,499)	(99,499)	\$0.00	\$0.43	\$0.00	\$0.45
Northend Subtotal	20,349,787	10.5%	425,619	126,223	339,500	79,600	(283,985)	(267,985)	\$1.17	\$0.56	\$0.83	\$0.49
TOTALS	59,420,021	12.6%	977,402	235,791	474,500	79,600	(519,153)	(389,042)	\$1.26	\$0.61	\$0.92	\$0.61

* RENTAL RATES REFLECT ASKING \$PSF/MONTH

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

MARKET HIGHLIGHTS

Significant Q2 2012 Lease Transactions	SUBMARKET	TENANT	PROPERTY TYPE	SQUARE FEET
BE Aerospace BTS	Mukilteo	BE Aerospace	Manufacturing	240,500
Seaway Business Center*	Everett	Eldorado Stone	Warehouse/Distribution	101,559
Zetron Building	Redmond (Willows)	WDS Global	High Technology	28,199
Significant Q2 2012 Sale Transactions	SUBMARKET	BUYER	PURCHASE PRICE / \$PSF	SQUARE FEET
Kirkland Way Building	Kirkland	Northwest Storage Properties	\$7,325,000 / \$89	82,000
Majestic Glove Building	Everett	Umbra Cuscinetti, Inc.	\$5,400,000 / \$79	68,200
Willows 124 Building B	Redmond (Willows)	Nabtesco Aerospace, Inc.	\$7,320,000 / \$124	58,717
Significant Q2 2012 Construction Completions	SUBMARKET	MAJOR TENANT	COMPLETION DATE	SQUARE FEET
N/A				
Significant Projects Under Construction	SUBMARKET	MAJOR TENANT	COMPLETION DATE	SQUARE FEET
BE Aerospace BTS	Mukilteo	BE Aerospace	Q2 2013	240,500
Paine Field Industrial Building	Everett	Majestic Glove	Q3 2012	99,000

* RENEWAL - NOT INCLUDED IN LEASING ACTIVITY STATISTICS