

MARKETBEAT INDUSTRIAL SNAPSHOT

BELLEVUE, WA

A Cushman & Wakefield Alliance Research Publication

Q3 2012



ECONOMIC OVERVIEW

Despite national and international economic concerns like a potential breakup of the Eurozone, the slowdown in China and the fiscal cliff, the Puget Sound's economy has been outperforming the nation. Global investments in aircraft, electronics and software, coupled with an expanding housing market is keeping the region shielded from some of the worries impacting the rest of the nation. Seasonally adjusted employment in the Puget Sound expanded by 36,900 in the twelve months ending in August, with the largest gains related to trade & transportation (+7,100), professional & business services such as administrative support, legal and accounting (+7,700), leisure & hospitality (+6,100) and construction (+4,500).

INDUSTRIAL MARKET OVERVIEW

Slow improvements continued over the third quarter for the Eastside, helping to push the vacancy rate down marginally from 13.7% at mid-year to 13.6%. Intel leased and occupied 51,303 square feet (sf) at Westpark in Redmond, and Chinn Construction moved into the 34,900-sf facility it purchased back in March, also in Redmond. The market recorded 117,437 sf of positive overall absorption for the quarter, with nearly every submarket showing small levels of growth.

Despite continued gains in manufacturing, the Northend has not reflected the same level of expansion as in 2011. Consolidations persisted this quarter with the vacancy of 87,550 sf by Zumiez in Everett. The retailer relocated its e-commerce fulfillment operations to Kansas to increase the speed of deliveries for online orders. The market's vacancy increased from 10.5% at mid-year to 10.8%, resulting in 56,507 sf of negative absorption. The only notable expansions came from toy maker Funko, which grew from about 16,000 sf into 61,922 sf at the Lynnwood Industrial Project, and Electroimpact which purchased a vacant 36,294-sf facility adjacent to its headquarters in Mukilteo.

So far in the year, leasing has not held up to the level of activity in 2011. For the Eastside, new deals are down about 41% over the three-quarter period, while the Northend is down 33% when compared to 2011 leasing. That being said, user sales are on the rise thanks to easier lending and the availability of fully vacant properties. Sales in the first three quarters of the year, totaling 879,184 sf for the whole market is up 30% from the 676,628 sf sold over the same period of time in 2011.

Investment activity is also gaining momentum, despite the relatively slow recovery. The 1,085,067 sf that traded hands so far in the year has already surpassed the 922,645 sf that was sold in all of 2011. With the sale price averaging \$135 per square foot (psf), pricing is up 66.7% from an average of \$81 psf in 2011.

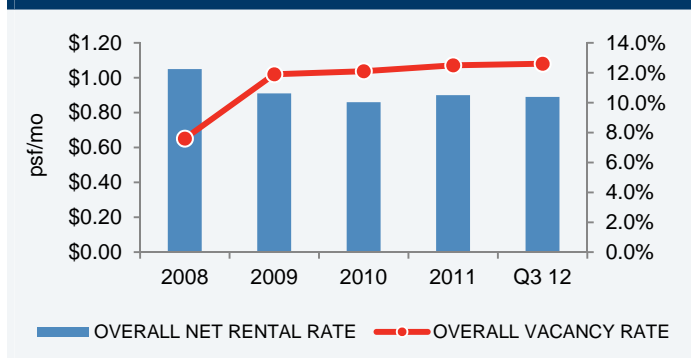
OUTLOOK

If the first three quarters is any indication of what is to come, the Bellevue industrial market should expect a slow recovery as we head into 2013. Leasing could pick up as tenant leases roll, but expansions will be limited. That being said, user sales could continue to gain traction as more and more tenants opt to own rather than lease. Build-to-suit projects have been gaining momentum, but speculative construction will remain on hold until the market can absorb the abundant supply of available space.

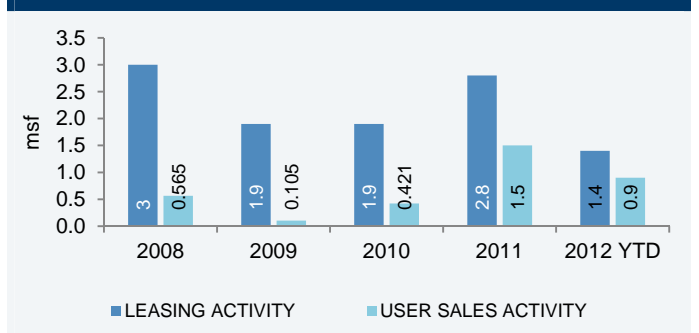
STATS ON THE GO

| | Q3 2011 | Q3 2012 | Y-O-Y CHANGE | 12 MONTH FORECAST |
|------------------------------|-----------|-----------|--------------|-------------------|
| Overall Vacancy | 12.7% | 12.6% | -0.1pp | ↕ |
| Direct Asking Rents (psf/mo) | \$0.88 | \$0.87 | -1.1% | ↕ |
| YTD Leasing Activity (sf) | 2,305,637 | 1,425,268 | -38.2% | ↕ |

OVERALL 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 | 4,808,449 | 9.9% | 49,336 | 39,024 | 0 | 0 | (45,405) | (15,096) | \$1.85 | \$0.43 | \$0.89 | \$1.14 |
| Issaquah/ East I-90 | 3,022,746 | 13.4% | 58,496 | 176,609 | 135,000 | 0 | (25,486) | (34,934) | \$1.20 | \$0.84 | \$1.65 | \$1.12 |
| Redmond (Overlake) | 1,775,869 | 3.9% | 29,946 | 21,320 | 0 | 0 | (5,030) | 9,311 | \$1.50 | \$0.00 | \$0.00 | \$1.50 |
| Redmond (Willows) | 6,248,419 | 16.7% | 319,317 | 165,566 | 0 | 0 | 98,912 | 148,621 | \$1.24 | \$0.77 | \$0.95 | \$1.14 |
| Redmond (East) | 4,199,769 | 9.4% | 93,443 | 0 | 0 | 0 | (3,296) | 1,040 | \$1.37 | \$0.66 | \$1.11 | \$1.07 |
| Kirkland | 2,946,008 | 14.9% | 84,141 | 0 | 0 | 0 | 42,997 | 42,997 | \$1.03 | \$0.72 | \$0.91 | \$0.83 |
| Woodinville/ 522 Corridor | 8,076,291 | 16.5% | 131,465 | 181,170 | 0 | 0 | (249,636) | (242,521) | \$0.64 | \$0.61 | \$0.84 | \$0.65 |
| Bothell | 7,444,471 | 14.5% | 124,286 | 37,978 | 0 | 0 | 91,873 | 58,704 | \$1.25 | \$0.91 | \$1.15 | \$1.22 |
| Eastside Subtotal | 38,522,022 | 13.6% | 890,430 | 621,667 | 135,000 | 0 | (95,071) | (31,878) | \$1.24 | \$0.65 | \$0.96 | \$0.98 |
| Edmonds/ Lynnwood | 2,488,658 | 11.0% | 115,222 | 113,400 | 0 | 0 | 36,768 | 20,768 | \$1.23 | \$0.64 | \$0.65 | \$0.68 |
| Mukilteo | 3,909,511 | 3.7% | 294,656 | 36,294 | 270,500 | 0 | 54,241 | 54,241 | \$1.04 | \$0.54 | \$1.03 | \$0.80 |
| Everett | 10,288,761 | 13.1% | 86,020 | 68,200 | 99,000 | 79,600 | (282,002) | (282,002) | \$0.95 | \$0.82 | \$0.69 | \$0.59 |
| North Snohomish | 3,589,594 | 11.6% | 38,940 | 39,623 | 0 | 0 | (133,499) | (117,499) | \$0.00 | \$0.43 | \$0.00 | \$0.44 |
| Northend Subtotal | 20,276,524 | 10.8% | 534,838 | 257,517 | 369,500 | 79,600 | (324,492) | (324,492) | \$0.98 | \$0.54 | \$0.80 | \$0.59 |
| TOTALS | 58,798,546 | 12.6% | 1,425,268 | 879,184 | 504,500 | 79,600 | (419,563) | (356,370) | \$1.22 | \$0.61 | \$0.93 | \$0.87 |

* RENTAL RATES REFLECT ASKING \$PSF/MONTH

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

MARKET HIGHLIGHTS

| Significant Q3 2012 Lease Transactions | SUBMARKET | TENANT | PROPERTY TYPE | SQUARE FEET |
|--|--------------------|----------------------------|------------------------|----------------------|
| Lynnwood Industrial Project | Edmonds/Lynnwood | Funko | Manufacturing | 61,922 |
| Westpark Building E | Redmond (Willows) | Intel | High Technology | 51,303 |
| Redmond East* | Redmond (East) | Wild Tangent | High Technology | 34,432 |
| Quadrant Parkside | Bothell | Dominion Distribution | High Technology | 27,395 |
| Significant Q3 2012 Sale Transactions | SUBMARKET | BUYER | PURCHASE PRICE / \$PSF | SQUARE FEET |
| Cardinal Corporate Park | Redmond (East) | Redmond Corporate Park LLC | \$48,000,000 / \$111 | 429,922 |
| Philips Oral Healthcare Building | Issaquah/East I-90 | Spacelabs Healthcare, Inc. | \$13,875,000 / \$78 | 176,609 |
| Willows 124A | Redmond (Willows) | Icom America | \$8,450,000 / \$117 | 71,949 |
| Significant Q3 2012 Construction Completions | SUBMARKET | MAJOR TENANT | COMPLETION DATE | BUILDING SQUARE FEET |
| N/A | | | | |
| Significant Projects Under Construction | SUBMARKET | MAJOR TENANT | COMPLETION DATE | BUILDING SQUARE FEET |
| BE Aerospace BTS | Mukilteo | BE Aerospace | Q2 2013 | 240,500 |
| Paine Field Industrial Building | Everett | Majestic Glove | Q4 2012 | 99,000 |
| Electroimpact Building B | Mukilteo | Electroimpact, Inc. | Q4 2012 | 30,000 |

* RENEWAL - NOT INCLUDED IN LEASING ACTIVITY STATISTICS