

MARKETBEAT INDUSTRIAL SNAPSHOT

BELLEVUE, WA

A Cushman & Wakefield Alliance Research Publication

Q3 2013



ECONOMIC OVERVIEW

Even with second quarter GDP raised to 2.5% from the previous estimate of 1.7%, the second part of 2013 is expected to come in below earlier estimates and economists surveyed by the Federal Reserve Bank of Philadelphia decreased their forecasted rate of 2.0% for the year to 1.5%. U.S. unemployment continued to fall to the current rate of 7.3%, but concerns abound as many of these jobs are lower paying and there is still a large number of people working part-time that would prefer full-time employment.

Despite these concerns with the overall U.S. economy, the Seattle-Tacoma-Bellevue Metropolitan Statistical Area continued to outperform the nation as unemployment dropped 1.6 percentage points (pps) on a year-over-year basis to 5.8%. This decrease in the unemployment rate was the result of year-over-year job growth of 2.6%; the largest percentage increases occurred in Construction; Trade, Transportation and Utilities; and Leisure and Hospitality. The ISM Manufacturing Index, has been above 50 for 9 of the last 12 months. Scores above 50 are associated with an expanding manufacturing sector and healthy GDP growth overall.

INDUSTRIAL MARKET OVERVIEW

The Eastside/Northend markets continued improving as overall vacancy rates ticked down by 0.9 pp on a year-over-year basis. Additionally, year-over-year direct asking rental rates increased by 2.3%, marking the first increase in lease rates since Q2 12. The Northend remained somewhat flat, registering only a 0.2-pp decrease in vacancy rates; Boeing is not expanding as expected given the increased demand for new airplanes. The Eastside, however, demonstrated greater capacity to absorb space with 219,370 sf year to date resulting in a 1.6-pp decrease on a year-over-year basis. Leasing activity continues to rebound registering a 14.2% increase compared to the same period in 2012.

Although there have been some concerns with sequestration and its impact on Boeing, a recent report by UBS Research indicated that military procurement for Boeing will decline by only 1.0% per year. This rate is much better than for other military contractors such as Lockheed Martin.

Port activity was mixed for the Puget Sound area; this indicator has a significant impact for the overall market. As of the end of August, total port activity for the Port of Seattle decreased by 19.1% on a year-to-date comparison while the Port of Tacoma increased 19.3% over the same period.

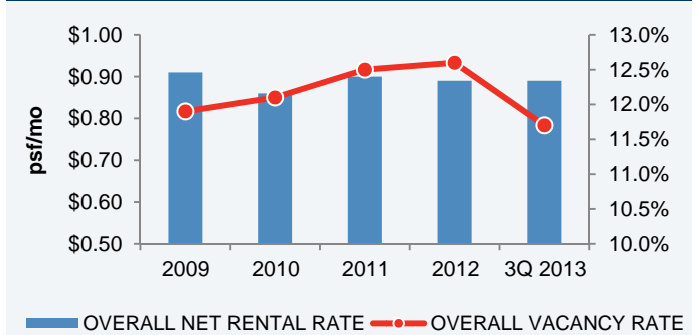
OUTLOOK

With no new construction currently underway, positive absorption through the end of the year will push vacancy rates down. The *Puget Sound Economic Forecaster* projects the GDP will grow at a rate of 2.0% in 2013 and 2.8% in 2014, which should boost demand at the Ports of Seattle and Tacoma. Some slowing may be expected for investment and user-sale activity as interest rates begin to tick upward.

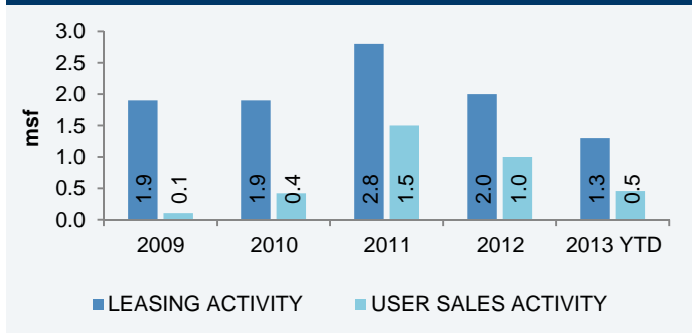
STATS ON THE GO

	Q3 2012	Q3 2013	Y-O-Y CHANGE	12 MONTH FORECAST
Overall Vacancy	12.6%	11.7%	-0.9pp	▼
Direct Asking Rents (psf/mo)	\$0.87	\$0.89	2.3%	◄►
YTD Leasing Activity (sf)	1,425,268	1,628,515	14.3%	▲

OVERALL RENTAL VS. VACANCY RATES



OVERALL OCCUPIER ACTIVITY



SUBMARKET	INVENTORY	OVERALL VACANCY RATE	YTD LEASING ACTIVITY	YTD USER SALES ACTIVITY	UNDER CONSTRUCTION	YTD CONSTRUCTION COMPLETIONS	YTD OVERALL NET ABSORPTION				DIRECT WEIGHTED AVERAGE NET RENTAL RATE	
							HT	MF	OS	W/D		
Bellevue	4,244,573	11.0%	63,412	0	0	0	3,220	\$1.66	\$0.49	\$0.90	\$0.92	
Issaquah/ East I-90	3,098,869	5.7%	82,128	0	0	135,000	37,604	\$1.71	\$0.74	\$1.60	\$0.75	
Redmond (Overlake)	1,369,048	6.6%	48,385	0	0	0	(34,852)	\$1.50	\$0.65	\$1.43	NA	
Redmond (Willows)	6,288,466	15.8%	168,878	49,765	0	0	44,050	\$1.06	\$0.70	\$0.73	\$0.65	
Redmond (East)	3,696,986	12.1%	122,272	25,120	0	0	(80,840)	\$1.26	NA	\$1.22	\$0.52	
Kirkland	2,974,956	14.3%	112,636	22,050	0	0	10,058	\$0.97	\$0.54	\$0.98	\$0.63	
Woodinville/ 522 Corridor	8,398,749	11.4%	316,588	20,440	0	0	194,740	\$0.62	\$0.57	\$0.56	\$0.56	
Bothell	7,444,345	12.8%	516,875	149,505	0	0	45,390	\$1.19	N/A	\$0.86	\$0.87	
Eastside Subtotal	37,515,992	12.0%	1,431,174	266,880	0	135,000	219,370	\$1.18	\$0.58	\$0.81	\$0.69	
Edmonds/ Lynnwood	2,564,753	10.3%	49,758	17,889	0	0	27,074	\$1.19	\$0.70	\$0.61	\$0.59	
Mukilteo	4,187,792	4.7%	22,323	0	0	270,500	(10,865)	\$1.04	\$0.45	\$0.64	\$0.71	
Everett	10,367,449	12.7%	107,260	25,457	0	0	81,843	\$0.56	\$0.81	\$0.71	\$0.48	
North Snohomish	3,307,220	14.3%	18,000	0	0	0	(86,840)	NA	\$0.45	NA	\$0.51	
Northend Subtotal	20,427,214	11.0%	197,341	43,346	0	270,500	11,212	\$0.62	\$0.56	\$0.64	\$0.51	
TOTALS	57,943,206	11.7%	1,628,515	310,226	0	405,500	230,582	\$1.25	\$0.57	\$0.94	\$0.62	

MARKET HIGHLIGHTS

Significant Q3 2013 Lease Transactions	SUBMARKET	TENANT	PROPERTY TYPE	SQUARE FEET
Highlands Corporate Center	Bothell	Sonosite	High Tech	57,830
Schnitzer North Creek Bldg C	Bothell	Undisclosed	High Tech	19,941
Scnnitzer North Creek Bldg Q	Bothell	Kindering & Pediatric Assoc.	High Tech	18,929
Significant Q3 2013 Sale Transactions	SUBMARKET	BUYER	PURCHASE PRICE / \$PSF	SQUARE FEET
Siemens Quantum Building	Issaquah/East I-90	Raleigh Enterprises	\$22,300,000 / \$136	133,960
Aero Industrial Center	Woodinville/522 Corridor	20 Corners, LLC	\$6,200,000 / \$136	45,500
Waste Management	Kirkland	OB Kirkland Properties	\$4,100,000 / \$87	47,239
17770 NE 178 th Place	Redmond	Royal Hospital Washington	\$4,000,000 / \$138	28,914
Significant 2013 Construction Completions	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET
BE Aerospace BTS	Mukilteo	BE Aerospace	Q2 2013	240,500
Motion Water Sports @ Snoqualmie Ridge	Issaquah/East I-90	Motion Water Sports	Q1 2013	135,000
Significant Projects Under Construction	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET
N/A				

* RENEWAL - NOT INCLUDED IN LEASING ACTIVITY STATISTICS