

MARKETBEAT INDUSTRIAL SNAPSHOT

BELLEVUE, WA

A Cushman & Wakefield Alliance Research Publication

Q1 2015



ECONOMIC OVERVIEW

The U.S. economy continued to add jobs at a high rate as job growth expanded by 2.4% over the last year, pushing the unemployment rate to just 5.5%. Even with stronger employment numbers, wage pressure remained moderate, mainly occurring in specialized jobs.

The Seattle-Tacoma-Bellevue Metropolitan Statistical Area continued to expand at a pace above the overall U.S., adding jobs at a rate of 3.1%, with employment gains occurring in every category. The unemployment rate remained in line with the U.S. rate at 5.5%. Construction led all job sectors with 12.6% growth followed by Professional and Business Services at 4.2%.

Nationally, the ISM MFG Index, a survey based on the general direction of production, new orders, employment, supplier deliveries and inventories fell to 51.5. A score in excess of 50 indicates growth in the manufacturing sector. Although this is the lowest score since May of 2013, the primary cause of a decline is a strong U.S. dollar which caused exports from the U.S. to be more expensive to other countries.

INDUSTRIAL MARKET OVERVIEW

The Eastside industrial market started the year with positive, if mild, improvements, with a combined 487,121 square feet (sf) of leasing activity. Across all submarkets, the overall vacancy rate declined by 1.1 percentage point (pp) on a year-over-year basis. The Woodinville/522 Corridor and Bothell submarkets led the way with year-to-date leasing activity of 169,224 sf and 89,388 sf, respectively.

One of the largest leases of the quarter was Walters & Wolf's 50,000-sf lease in Bellevue at the Bellevue Distribution Center. The manufacturing company moved into Building 2 of the complex earlier this year. Kirkland and Woodinville also reported positive absorption this quarter, primarily due to tenants moving into large warehouse spaces in the area.

Redmond stood out by having the largest sale in Q1, as West Willows Technology Center sold for \$28.5M at the end of March. The five building flex complex is home to tenants such as Playnetwork Inc. and Oculus VR. The Lunde Center is another Eastside flex complex that exchanged hands during the quarter. Located in Bellevue, the Lunde Center consists of 62,379 sf of medical and retail space, and was purchased by Ostrom Management for \$9.9M.

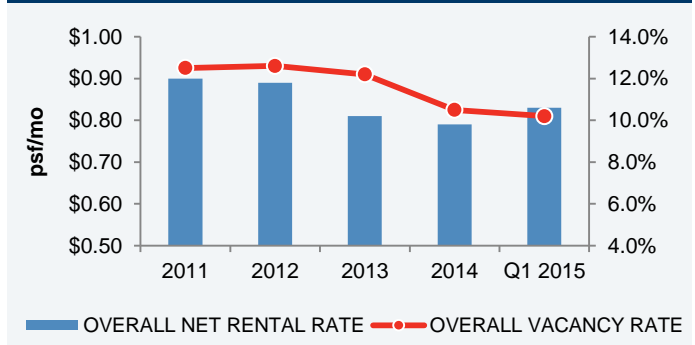
OUTLOOK

Although vacancy rates have been trending downward, they still remain notably higher than the vacancy rates in Kent Valley. The Eastside does not have the demand for newly constructed industrial space that the Southend is seeing. However, there is potential that the Eastside, which is generally bustling with commercial real estate activity and a stable inventory, will experience upward pressure on rents as vacancy continues to slide downwards.

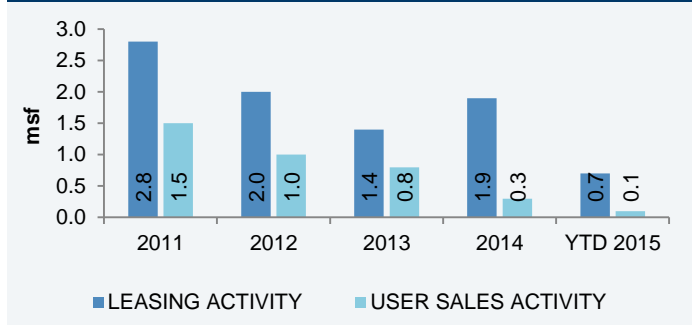
STATS ON THE GO

	Q1 2014	Q1 2015	Y-O-Y CHANGE	12 MONTH FORECAST
Overall Vacancy	11.3%	10.2%	-1.1pps	▼
Direct Asking Rents (psf/mo)	\$0.81	\$0.80	-1.2%	▲
YTD Leasing Activity (sf)	446,595	715,915	60.3%	▲

OVERALL RENTAL VS. VACANCY RATES



OVERALL OCCUPIER ACTIVITY



**BELLEVUE,
WA**

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	9.8%	78,269	0	0	0	0	\$1.84	\$0.80	\$1.09	\$0.94
Issaquah/ East I-90	3,098,869	8.4%	26,052	0	0	0	22,721	\$1.42	\$0.67	\$1.62	\$0.80
Redmond (Overlake)	1,369,048	7.1%	2,540	0	0	0	(20,458)	\$1.50	\$0.65	\$1.18	\$0.00
Redmond (Willows)	6,500,466	14.5%	36,656	31,765	0	0	(20,964)	\$1.09	\$0.72	\$0.78	\$0.65
Redmond (East)	3,696,986	14.7%	40,632	0	0	0	10,352	\$1.26	\$0.00	\$1.37	\$0.52
Kirkland	2,914,964	9.3%	44,360	0	0	0	43,864	\$0.65	\$0.60	\$0.85	\$0.61
Woodinville/ 522 Corridor	8,398,749	8.8%	169,224	0	0	0	30,037	\$0.87	\$0.55	\$0.60	\$0.60
Bothell	7,462,741	8.4%	89,388	10,300	0	0	(5,647)	\$1.17	\$1.13	\$0.86	\$1.04
Eastside Subtotal	37,686,396	10.4%	487,121	42,065	0	0	59,905	\$1.17	\$0.63	\$0.89	\$0.73
Edmonds/ Lynnwood	2,595,789	9.9%	48,393	0	0	0	(2,028)	\$1.13	\$0.61	\$0.65	\$0.70
Mukilteo	4,187,792	4.7%	3,000	0	0	0	(2,490)	\$1.04	\$0.56	\$0.67	\$0.79
Everett	10,366,176	11.9%	166,601	0	227,700	0	104,709	\$0.87	\$0.80	\$0.73	\$0.43
North Snohomish	3,307,220	10.8%	10,800	11,475	0	0	(11,930)	\$0.00	\$0.41	\$0.00	\$0.40
Northend Subtotal	20,456,977	10.0%	228,794	11,475	227,700	0	88,261	\$0.90	\$0.57	\$0.68	\$0.48
TOTALS	58,143,373	10.2%	715,915	53,540	227,700	0	148,166	\$1.14	\$0.60	\$0.85	\$0.59

*Rents are per square foot per month

MARKET HIGHLIGHTS

Significant Q1 2015 Lease Transactions	SUBMARKET	TENANT	PROPERTY TYPE	SQUARE FEET
6525 240 th St SE	Woodinville/522 Corridor	Undisclosed	Warehouse/Distribution	86,095
1227 124 th Ave NE	Bellevue	Walters & Wolf	Manufacturing	50,000
1102 Shuksan Way	Everett	Boeing	Manufacturing	39,675
Significant Q1 2015 Sale Transactions	SUBMARKET	BUYER	PURCHASE PRICE / \$PSF	SQUARE FEET
West Willows Technology Center	Redmond (Willows)	West Willows Tech Ctr, LLC	\$28,500,000 / \$171	166,833
Lunde Center	Bellevue	Ostrom Management	\$9,900,000 / \$159	62,379
Significant Q1 2015 Construction Completions	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET (% LEASED)
N/A				
Significant Projects Under Construction	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET (% LEASED)
Powdermill Business Center – Bldg B	Everett	Speculative	Q2 2015	119,100 (0%)
Powdermill Business Center – Bldg A	Everett	Speculative	Q2 2015	108,600 (0%)