

Seattle Industrial

Market Forecast

| | Current / Projection | |
|--------------|----------------------|---|
| Vacancy | 5.70% | ↓ |
| Construction | 2.8M sf | ↑ |
| Rental Rate | Varies* | ↔ |
| Absorption | 1.546M sf | ↑ |

* by submarket

The fourth quarter saw delivery of new projects totaling 1.3 million s.f., bringing the region's total supply to 308.3 million s.f. The largest of these deliveries was Amazon.com's Dupont distribution center (980,000 s.f.). This helped boost absorption to 1.546 million s.f. for the quarter. For the year, 3.1 million s.f. was absorbed, compared to 5.4 million s.f. in 2012. While off the 2012 pace, the absorption was more in line with 2011 results and was the third highest over the past six years.

Market Up Close

Leasing activity picked up in the fourth quarter with the delivery of several build-to-suits. Some markets are reporting an uptick in prospective tenants looking to lease space. If leasing activity does pick up, it will bode well for the speculative projects that have just been completed or will be delivered over the next 12 months. ■

Vacancies inched down to 5.70% compared to 5.96% from a year ago. Construction volumes are still active, particularly in Pierce and South King Counties, where over 2.5 million s.f. is underway with 2.8 million s.f. for the region overall. There are two recent leases where the tenants will not take occupancy until early 2014. These are Funko, LLC in south Everett (202,500 s.f.) and GSA in Sumner (381,800 s.f.). These will provide a good jump start to the 2014 absorption.

As we end 2013, the Puget Sound region will see employment growth near 2.9%. Projections for 2014 are slightly lower at 2.8%, but up from the prior estimate of 2.2%. The 2015 growth estimate is unchanged at 2.2%. The region is expected to outperform the nation over the next few years. The growth is expected in the service sector, particularly professional and business services (projected increase of 12,200 jobs in 2014). Transportation and public utilities, a good indicator for the industrial sector, is looking at a gain of only 1,300 jobs in 2014, while construction is also expected to show gains (+5,900 jobs) that will offset some losses anticipated in the aerospace sector (-1,800 jobs). With the recent new labor contract approved in a close vote by Boeing machinists, manufacturing, and more specifically the aerospace sector, are looking better as the 777X will be built in this region. Population growth is projected at 1.6%, which will boost housing permits, anticipated to increase by 13.6%.

There are ongoing concerns about Boeing's continuing expansion in South Carolina where the cost of labor is less than in Washington State. Locally, port business continues to be mixed. The Port of Tacoma container traffic is up 19% through November, while the Port of Seattle is down 16%, although this is a slight improvement from three months ago when it was down 19%.

Investor activity through the latter part of December totaled 153 sales (\$565.4 million) compared to 163 transactions for \$535.4 million in 2012. Cap rates have fluctuated up and down in 2013, averaging 6.96% compared to 6.68% in 2012.

→ Continued, page 4

Area Review

Seattle Close-In

The Seattle Close-In market lost ground in the fourth quarter, but continues to have the lowest vacancy rate at 3.63%. Fourth quarter absorption was -59,971 s.f. but year end absorption ended at a positive 55,191 s.f. This market continues to see some manufacturing tenants move to the suburbs as land prices continue to escalate, but it still has a very high appeal to smaller users who have a need to be close to the Port of Seattle and I-5. Presently, there are no projects under construction and only one proposed development, a planned addition to the Skyline Distribution Center along East Marginal Way South (78,250 s.f.). Sales activity includes Metzler North America (\$123/s.f.) to an affiliate of Jones Lang LaSalle Income Property Trust and the former Seattle Packaging property at 3701 South Norfolk selling for \$13 million (\$104/s.f.).

The forecast for the Seattle Close-In market for the next six months is for lease rates to range from \$0.40 to \$1.00/s.f./month, NNN for medium- and high-grade buildings. Average asking rents in this market have started to increase slightly since the end of 2012. Better quality buildings will sell between \$80 and \$125/s.f. due to the scarcity of industrial space in this area. This market, particularly with the presence of the Port of Seattle in the SODO district, has a large amount of yard area available for lease. Depending on size of the yard and whether it is paved, graveled; and fenced, rates will vary from \$0.13 to \$0.21/s.f.

South King County

Washington State's largest industrial market was active in leasing, sales, and construction this quarter. Absorption totaled 438,364 s.f. for the quarter, and 840,856 s.f. for the year. Vacancy dropped to 5.51%, its lowest level since 2008. The first new project in five years, the first phase of Stryker Business Center (two buildings containing 318,195 s.f. and 120,599 s.f.), is well underway with anticipated delivery in early 2014. Two notable sales that closed during the last quarter include Auburn 18 Distribution Center (\$24.75 million or \$87/s.f.) and the recently completed HCSA Laundry Facility build-to-suit (\$25,565,665 or \$175/s.f.).

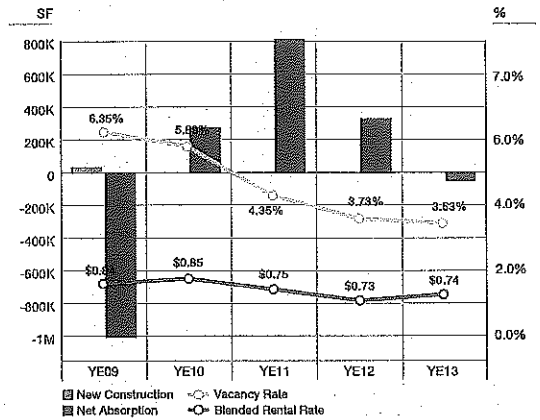
Asking rental rates have increased slightly since the start of 2013, but when concessions are factored in, they have remained level and are holding steady. For smaller spaces (under 10,000 s.f.), rates range from \$0.40 to \$0.50/s.f.; \$0.36 to \$0.42 for spaces between 10,000 s.f. and 20,000 s.f.; and \$0.28 to \$0.35 for spaces larger than 20,000 s.f. Office add-on rates vary from \$0.60 to \$0.85, depending on age and quality of the build-out. Building sale prices are expected to range from \$45 to \$90/s.f. Land values will range between \$6 and \$10/s.f. for fully improved sites.

East King County

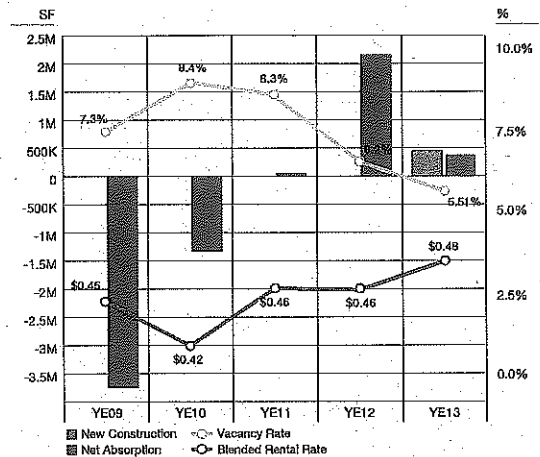
East King County, the second smallest of the six submarkets (20.6 million s.f.), had a reduction in overall size due to the recent demolition of a portion of the Bellevue Distribution Center as Wright Runstad and Shorestein have started the first phase of redeveloping this property with a higher-end mixed-use project. This was offset by the completion of the 212,000 s.f. FedEx Distribution Center in Redmond, which also sold for \$60.625 million or \$286/s.f. Absorption for the quarter, helped by the FedEx deal in Redmond, was a positive 283,328 s.f., which helped offset the negative absorption of the prior quarter and pushed the East King County market up into the positive territory for the year at nearly 223,000 s.f. The vacancy rate has decreased to 5.65%, the lowest it has been over the last six years.

Asking rental rates, due to the high amount of flex space, are the highest blended rate in the region, currently hovering between \$0.99 and \$1.00/s.f. per month. East King County's forecast is for warehouse lease rates with high-bay warehouse manufacturing space to range between \$0.40 and \$0.65/s.f./month, with most in

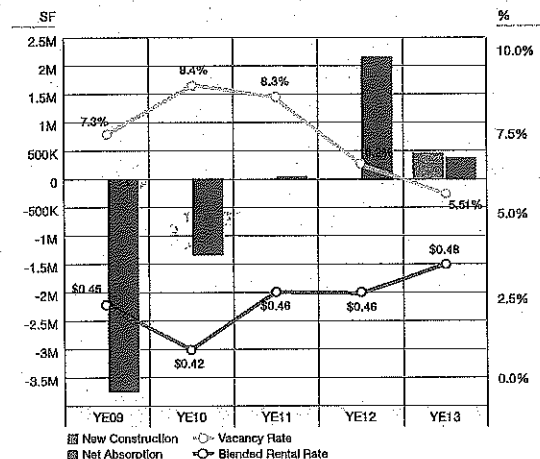
SEATTLE CLOSE-IN



SOUTH KING COUNTY



EAST KING COUNTY



the \$0.55 to \$0.60/s.f., NNN range, and flex space rents to range between \$0.80 and \$1.15/s.f./month, NNN. Building sale prices will range from \$70 to \$100/s.f. of building area for industrial and \$90 to \$150/s.f. for flex properties. Land prices will run from \$10 to nearly \$20/s.f. for a premium site.

Snohomish County

After three straight quarters of positive absorption, Snohomish County has incurred a modest negative net absorption of -833 s.f., with vacancy remaining at 7.59%. For the year, absorption totaled nearly 374,000 s.f. There are two projects under construction. In Woodinville, Bensussen Deutsch & Associates commenced construction of a 200,000 s.f. owner-user facility at the old Woodinville Lumber site, while a smaller 40,000 s.f. project is underway in Arlington at 6010 199th Street NE. During the fourth quarter, Clise Properties acquired Highland Corporate Center for \$38.8 million (\$224/s.f.) from Bental Kennedy. Other notable sales during the year include the BF Goodrich Aerospace building at Paine Field for \$48,735,280 (\$78/s.f.), North Creek Business Center for \$25.8 million (\$110/s.f.), and Canyon Highland Park & Ridgepoint at Canyon Park for \$38 million (\$262/s.f.).

Snohomish County's forecast for the next six months is for warehouse lease rates to range between \$0.40 and \$0.60/s.f./month, NNN. Effective rents are expected to be lower due to concessions. Building sale prices are predicted to range from \$80 to \$110/s.f. of building area for buildings under 20,000 s.f. and between \$50 and \$100/s.f. for buildings over 20,000 s.f. Land values should range from \$5 to \$12/s.f. with an ample supply of zoned sites.

Pierce County

Pierce County continues to be the market with the most activity in leasing and construction. Six projects, totaling 2,040,717 s.f., are currently under construction. This is on the heels of the delivery of four projects, including Amazon.com's distribution center in Dupont, boosting total supply to 62.5 million s.f. Net absorption did not keep up with the deliveries as there was only 840,412 s.f. absorbed, causing a slight bump in vacancy from 5.56% to 5.71%. There is no cause for concern as the Port of Tacoma's activity is up over 19% and expectations are that the vacant space will be absorbed. For the year, nearly 1.7 million s.f. was absorbed. The largest sale to close in 2013 was the Whirlpool Distribution Center at \$74,313,952 (\$83/s.f.). During the fourth quarter, Building 3 at Rainier Park of Industry was acquired by American Realty Advisors out of Glendale, California for \$21.7 million (\$92/s.f.).

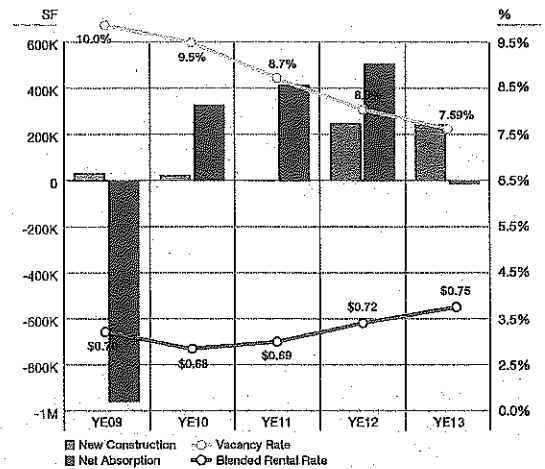
Pierce County's forecast is for shell rates to range between \$0.28 to \$0.45/s.f./month, NNN. Industrial building sale prices will range from \$40/s.f. for older buildings to \$100/s.f. for new or smaller buildings. Land values typically range between \$6/s.f. and \$12/s.f.

Thurston County

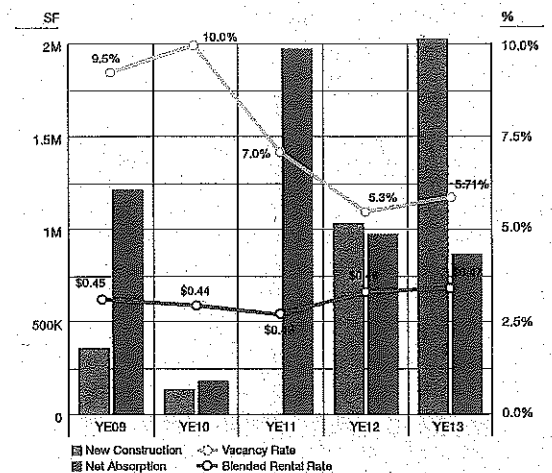
After delivering the Trader Joe's 500,000 s.f. distribution facility in Lacey in 2012, the market has struggled, but did see positive activity in the fourth quarter. On the strength of one lease of 40,000 s.f., net absorption totaled 45,250 s.f., and vacancy dropped to 9.02%. For 2013, absorption was still negative at -124,879 s.f. There are likely more leases to come in the 50,000 s.f. range, that if signed, could continue to give this market a boost. Given the close proximity to I-5 and several prime sites for development, this market has seen several large distribution facilities constructed over the past few years.

Warehouse rents are ranging between \$0.30 and \$0.45/s.f. and office add-on rates between \$0.60 and \$0.75/s.f. Building sales are expected to range from \$50 to \$100/s.f. Land values range between \$4.00 and \$7.00/s.f.

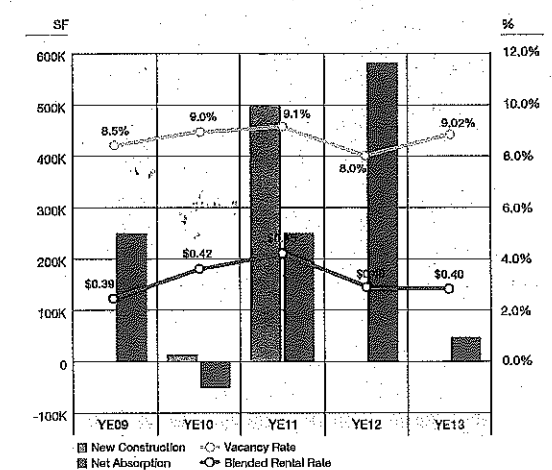
SNOHOMISH COUNTY



PIERCE COUNTY



THURSTON COUNTY



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Vacant Space/Vacancy Rate

Three projects, totaling 1,338,000 s.f., were delivered in the fourth quarter. They included Amazon.com's new distribution facility in Dupont (980,000 s.f.), the FedEx facility in Redmond (212,000 s.f.) and the HCSA Laundry Facility in Auburn (146,000 s.f.). Fourth quarter absorption exceeded the deliveries at 1,546,551 s.f. With a drop in available space for lease, the vacancy rate decreased to 5.70% from 5.79% (restated from the prior quarter).

New Construction Activity

Construction is still active with 11 projects under construction. Six are located in Pierce County and include Niagra Bottling's 311,000 s.f. facility in Fredrickson and LaSalle Investment/Panattoni's joint venture of two projects in Sumner, the Titan (306,457 s.f.) and Apollo (121,652 s.f.) buildings, expected to be delivered by first quarter 2014. Also in Sumner, DCT Industrial Trust is developing the Coho Building in the White River Corporate Center (648,679 s.f.) while Building A and B (398,753 s.f. and 254,176 s.f.) in International Airport Center (IAC Port 167 development) move forward in Puyallup. In South King County, Phase 1 of Stryker Business Center (joint venture between IDS Real Estate and Clarion Partners) is well underway. Phase 1 includes two buildings, 120,599 s.f. and 318,195 s.f. Finally, up north in Woodinville, is Bensussen Deutsch & Associates' new 200,000 s.f. project and a smaller 40,000 s.f. building in Arlington by Scott Galvanizing. In total, there is 2,768,511 s.f. under construction.

Rent Forecast

Depending on the submarket, rental rates continue to remain flat or show only modest increases as some markets have tightened up. (See the detailed submarket reviews for specific rates.)

Market Demand/Absorption

As noted above, absorption in 2013 is a positive 3,051,800 s.f. With the exception of Thurston County, all of the markets have achieved positive net absorption. Pierce County (1,684,082 s.f.), South King County (840,856 s.f.), and Snohomish County (373,853 s.f.) were the most active. While Thurston County has struggled, it achieved some positive absorption in the fourth quarter with a 40,000 s.f. lease to Brian Kim in Tumwater. East King County had a strong fourth quarter as well with the delivery of the FedEx Distribution Center in Redmond.

Development News

Development activity started picking up in 2012. Eight projects have been delivered in 2013 with

another 11 under construction and several planned projects in the pipeline.

Significant Transactions

Notable sales in 2013 include:

- California State Teachers' Retirement System selling Northwest Corporate Park in Kent for \$170 million (\$61/s.f.) to KTR Capital Partners.
- Dexu Property Group selling the majority of their U.S. Industrial portfolio for \$561 million. This included the sale of the Whirlpool Distribution Center in Frederickson for \$74,313,952 (\$83/s.f.) and Kent West Corporate Park, Building D for \$22,536,116 (\$90/s.f.). The buyer was Heitman LLC out of Chicago.
- FedEx Distribution Center in Redmond for \$60,625,000 (\$286/s.f.) by SunCap Seattle LLC to Franklin-Redmond LLC.
- Boeing selling the BF Goodrich Aerospace building in Paine Field to Taurus Aerospace Group for \$48,735,280 (\$78/s.f.).
- Highland Corporate Center (3 flex building) in Bothell for \$38.8 million (\$224/s.f.) by Bentall Kennedy US LP to Clise Properties, Inc.
- Spokane Distribution Center (3 Properties) in Seattle for \$38.7 million (\$123/s.f.) by Musref Spokane Street LP (Metzler) to LIPT Spokane Street LLC (affiliate of Jones Lang LaSalle).
- Canyon Highland Park & Ridgepoint at Canyon Park for \$38 million (\$262/s.f.) by Washington Capital Management & Barnes and Nelson Union Partners to Senior Housing Properties Trust out of Massachusetts.

Notable leases in 2013:

- U.S. Navy (166,822 s.f.) at Prologis Fife Distribution Center.
- Farwest Sports (153,000 s.f. renewal) at Prologis Park Trans Pacific.
- Coca Cola (137,520 s.f. renewal) at Renton Logistics.
- Coast Aluminum & Architectural (135,300 s.f.) at Creekside Distribution Center-Kent.
- Progressive International Corp (130,650 s.f.) at Valley So. Corporate Park-Emmons Bldg.
- Evolucion Innovations (123,257 s.f.) at 2601 West Valley Hwy North.
- Saddle Creek Logistics (117,561 s.f.) at Bidg C-Oakesdale Business Campus.

*Source: CoStar Data