



**SPRING 2012**

# PUGET SOUND

## Industrial Market Watch

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## Study: Costs Linked to Proposed Lease Accounting Changes Could Harm CRE Values

Real estate businesses and property values could be adversely affected by the new accounting standards—and the cost of complying with them—according to a report backed by a coalition of real estate and business groups.

As international rule makers prepare to release another draft of proposed accounting changes that would require companies to capitalize real estate and equipment leases, a report warns that current proposals would impose huge costs on businesses, costs that could potentially offset at least 190,000 jobs, slowing U.S. economic growth and damaging the recovery of the commercial property sector.

Under a best case scenario in the report issued by Chang & Adams Consulting, the current proposal could increase liabilities for U.S. public companies by \$1.5 trillion, with more than \$1.1 trillion of that due to balance sheet recognition of real estate operating leases and the remainder coming from leases liabilities of equipment and other leases.

The accounting changes would result in higher spending and increased cost of capital for companies to comply with the new standards. Using an input-output economic analysis based on estimates using regional economic multipliers, the study reported the increased cost of compliance would result in the offsetting loss of 190,000

U.S. jobs in a best-case scenario and in the worst case, 3.3 million jobs. The study also reported the cost of compliance could lower U.S. GDP by \$27.5 billion a year. The study was commissioned by the U.S. Chamber of Commerce, Real Estate Roundtable, NAIOP, Commercial Real Estate Development Association, NAIOP Inland Empire Chapter, NAIOP Southern California Chapter, the National Association of Realtors and the Building Owners and Managers Association (BOMA) International.

Under the best case, public companies would face \$10.2 billion in added annual costs from higher interest on borrowing. In the worst case, companies would reduce debt by nearly \$174 billion annually, and lessors would lose \$14.8 billion in the value of their commercial property.

The report comes as the International Accounting Standards Board (IASB) and the U.S.-based Financial Accounting Standards Board (FASB) are preparing a new exposure draft on the proposed changes, to be released during the second quarter.

The FASB and IASB decided in July to issue a new exposure draft on the proposed new standard, first released in August 2010, in response to the heavy volume of complaints from business

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## Recent Select Top Industrial Leases

Building	Submarket	SF	Tenant Name
Summit Building	Puyallup/S Hill Ind	492,124	Amazon.com
Sumner Central	Puyallup/S Hill Ind	427,253	Brooks Sports
Pacific Coast Corporate Park - Phase II	Puyallup/S Hill Ind	248,530	Puget Sound International Inc.
NW Corporate Park Kent - Bldg. G	Kent Valley N Ind	240,000	Kent Warehouse & Labeling
Olympic Steamship Bldg.	Kent Valley N Ind	183,600	N/A
Pacific Gateway Business Park - Bldg. 041*	Kent Valley N Ind	169,323	Ozburn-Hessey Logistics LLC
Snoqualmie Bldg.	Puyallup/S Hill Ind	168,435	PrimeSource
2402 R Street NW	Auburn Ind	162,000	Hollingsworth Logistics
NW Corporate Park Kent - Bldg. C	Kent Valley N Ind	156,000	Holman Distribution Center
Port Commerce Center Phase I - Bldg. 4	Auburn Ind	154,000	Milgard
Flow International Building*	Kent Valley N Ind	146,239	Flow International
901 Alexander Avenue	Port of Tacoma/Fife Ind	142,500	PCC Logistics
Valley Centre Corp. Park - Bldg. 4	Auburn Ind	139,008	Mitco Ltd.
Carbon Building*	Puyallup/S Hill Ind	138,386	Cooper Tire & Rubber Company
Kent West Corporate Park*	Kent Valley N Ind	110,110	Graebel
Van Doren's West - Bldg. C*	Kent Valley S Ind	102,400	United States Postal Service
Rainier Park of Industry - Bldg. 7	Puyallup/S Hill Ind	95,812	Meadowbrook Meat Co.
Northwest Distribution Center	Kent Valley N Ind	93,641	N/A

\* Renewal

## Select Top Sales: 2010-2011

## Auburn Logistics Center

Location: Auburn  
 Price: \$43,000,000 (\$48.52)  
 RBA: 886,165  
 Date: 3/14/2011  
 Buyer: Morgan Stanley & Co. LLC  
 Seller: INVESCO

## Valley Avenue Business Park

Location: Puyallup  
 Price: 41,550,000 (\$93.73)  
 RBA: 443,298  
 Date: 11/10/2011  
 Buyer: International Airport Centers, Inc.  
 Seller: Schnitzer West LLC

## Renton Logistics Center

Location: Renton  
 Price: \$30,250,000 (\$62.87)  
 RBA: 481,134  
 Date: 12/9/2010  
 Buyer: TIAA-CREF  
 Seller: AFL-CIO Bldg. Investment Trust

## 2200-2210 Lind Avenue SW

Location: Renton  
 Price: \$26,743,000  
 RBA: 143,307  
 Date: 12/14/2010  
 Buyer: Bertch Company  
 Seller: Tarragon

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groups.

The rule makers tentatively signaled at their meetings last October that they would exclude lessors and owners of investment properties from the proposed rules. However, CRE and business groups are concerned about the capitalizations of lessee lease arrangements as “right of use” assets on the balance sheet with a corresponding liability, and the increased complexity of measuring lessee lease expense for financial reporting.

While the goal of the changes is to improve financial reporting, the proposed “one-size-fits-all approach would have a considerable negative impact on the business operations of the majority of firms that faithfully represent their finances,” according to the study.

While published comments to date have focused primarily on the accounting and administrative burdens that would result from the proposed standard, requiring lessees to recognize hundreds of billions of dollars in new liabilities would also alter the manner in which publicly traded companies manage their operations and finances.

—Randyl Drummer, CoStar Group, 2/22/2012

## Total Southend Industrial Market Statistics by Year

Period	Existing Inventory		Vacancy		Net Absorption	Delivered Inventory		UC Inventory		Quoted Rates
	# Bldgs	Total RBA	Vacant SF	Vacancy %		# Bldgs	Total RBA	# Bldgs	Total RBA	
2011 4q	8,032	304,687,734	23,149,226	7.6%	(210,302)	1	45,500	2	125,035	\$6.94
2011 3q	8,031	304,642,234	22,893,424	7.5%	763,135	1	18,040	2	75,500	\$7.05
2011 2q	8,030	304,624,194	23,638,519	7.8%	435,087	0	0	2	63,540	\$6.89
2011 1q	8,033	304,755,984	24,205,396	7.9%	1,164,164	5	137,028	1	18,040	\$6.87
2010 4q	8,028	304,618,956	25,232,532	8.3%	(79,370)	1	1,920	6	155,068	\$6.84
2010 3q	8,027	304,617,036	25,151,224	8.3%	209,016	4	405,540	7	156,988	\$6.92
2010 2q	8,024	304,574,674	25,317,896	8.3%	(82,881)	2	65,200	10	544,488	\$6.99
2010 1q	8,023	304,512,674	25,172,015	8.3%	(917,380)	3	113,989	11	607,768	\$7.09
2009	8,021	304,648,685	24,391,646	8.0%	(4,898,044)	37	2,160,130	12	386,217	\$7.26
2008	7,999	302,878,311	17,723,228	5.9%	3,648,624	77	5,653,347	30	1,997,974	\$7.70
2007	7,948	297,821,217	16,314,758	5.5%	7,187,038	90	6,511,506	62	5,045,472	\$7.37

## Total Industrial Market Statistics by Submarket

Market	Existing Inventory		Vacancy			YTD Net Absorption	YTD Deliveries	Under Const SF	Avg. Quoted Rates
	# Bldgs	Total RBA	Direct SF	Total SF	Vac %				
Downtown Ind	2,051	54,351,912	2,772,132	2,821,222	5.2%	262,994	0	0	\$9.85
Eastside Ind	717	20,530,594	2,026,873	2,162,554	10.5%	(195,885)	0	0	\$11.40
Northend Ind	1,529	55,840,836	3,846,244	4,031,407	7.2%	498,854	63,540	125,035	\$8.37
Southend Ind	1,912	111,672,644	9,094,799	9,526,487	8.5%	(57,297)	0	0	\$5.81
Tacoma Ind	1,823	62,291,748	4,465,918	4,607,556	7.4%	1,643,418	137,028	0	\$5.17
<b>Totals</b>	<b>8,032</b>	<b>304,687,734</b>	<b>22,205,966</b>	<b>23,149,226</b>	<b>7.6%</b>	<b>2,152,084</b>	<b>200,568</b>	<b>125,035</b>	<b>\$6.94</b>

Information provided by CoStar Group

Year End 2011

## Select Available Properties

Creekside Distribution Center	455 Building	DEXUS Kent West Corp. Park	South Park Building
			
<p>Address: 18805 80th Place S. Kent, WA</p> <p>SF: 135,300</p> <p>Loading: 23 DH doors, 4 GL</p> <p>Shell Rate: \$0.38/SF</p> <p>Office Rate: \$0.75/SF</p> <p>Agents: Dave Baumer Brian Bruininks, CCIM</p> <p>Comments: <i>Sublease in great north Kent location. Available now - longer term available. Possibly divisible. Heavy 3 phase power.</i></p>	<p>Address: 455 Andover Park East Tukwila, WA</p> <p>SF: 83,800, office BTS</p> <p>Loading: 6 DH, 1 GL, 2 RR; 24' CH</p> <p>Blended Rate: \$0.38/SF</p> <p>Agents: Dave Baumer Mike Hemphill</p> <p>Comments: <i>Rail-served. Close-in Tukwila location. Great manufacturing or assembly space.</i></p>	<p>Address: 21804 64th Avenue S. Kent, WA</p> <p>SF: 57,990 with 4,206 SF office</p> <p>Loading: 28 DH, 1 GL, 24' CH</p> <p>Agents: Brian Bruininks, CCIM Sean Durkin</p> <p>Comments: <i>Highly functional distribution space. Great access, parking, function and dock door count. Typical column spacing: 24' x 55 1.2'. Approx. 120' depth provides for high dock count.</i></p>	<p>Address: 9411 8th Avenue S. Seattle, WA</p> <p>SF: 42,720 with 5,200 SF office</p> <p>Loading: GL and DH loading</p> <p>Sale Price: \$4,200,000.00</p> <p>Agents: Dave Baumer Bruce Clarkson</p> <p>Comments: <i>Excellent access to Port of Seattle and major freeways. Excellent truck maneuvering. New TPO roof in 2008. No B&amp;O tax. Also for lease: rate negotiable.</i></p>

# OUR SERVICES

- Tenant and Buyer Representation
- Industrial Leasing and Sales
- Site Selection and Acquisition
- Build-To-Suit Analysis
- Consulting and Research
- Design & Construction Coordination
- Market Surveys and Submarket Analysis
- Marketing Program & Brochure Development
- Landlord and Seller Representation
- Office Leasing and Sales
- Retail Leasing and Sales
- Investment Sales
- Team Project Marketing and Leasing
- Land Sales and Acquisitions
- Asset Management / Property Management

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There are no branch offices at CORFAC. Our alliance of more than 2,500 commercial real estate professionals includes the top performing firms in major markets worldwide. Each firm is lead by principals with proven business credentials and an in-depth understanding of their marketplace. This is the caliber of professional you'll encounter at CORFAC. No weak links in the chain, just highly qualified, highly motivated people with one goal:

**exceeding your expectations.**



® For the 10th year in a row, The Andover Company has been recognized by the CoStar Group as a corporate real estate powerhouse in the Puget Sound area. This distinction is a testament to our knowledge of the market and dedication to our clients.

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