



WINTER 2011

PUGET SOUND

Industrial Market Watch

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U.S. Commercial Property Recovery Spares Economy Another Blow

From Manhattan office towers to apartments in Florida to retail properties in Washington, commercial real estate values are rising, defying predictions of a collapse that would drag the U.S. economy back into recession.

Prices of commercial properties sold by institutional investors surged 19 percent in 2010, the second-biggest gain on record, according to an index developed by the MIT Center for Real Estate. Investments in office properties, the largest part of the market, more than doubled last year to \$41.6 billion.

Near record-low interest rates are luring buyers with the prospect of cheaper financing and higher returns. Lenders are beginning to sell distressed properties and loans as rising earnings give them a cushion to absorb losses. Investors, convinced the worst is over, have pushed prices on commercial mortgage-backed bonds to the highest level in two years.

Commercial real estate transactions are estimated to climb 40 percent to \$135 billion this year. U.S. commercial real estate values, which fell 45 percent from the October 2007 peak to the trough in August 2010, have risen three consecutive months, according to Moody's Investors Service.

Last February, a Congressional watchdog panel said a deteriorating commercial real estate market had the potential to wreck the U.S. economy. The Congressional Oversight Panel of the Troubled Asset Relief Program said in a report that almost half of the \$1.4 trillion in commercial property loans set to be paid off by 2014 were underwater, meaning the borrower owed more than the property was worth.

While late payments on commercial mortgages bundled and sold as bonds increased to 8.79 percent in December from 4.9 percent a year earlier, the pace of growth in delinquencies is slowing, according to Moody's. In 2011, the delinquency rate should climb less than in the past two years.

An expanding economy is helping boost the confidence of real estate investors. U.S. gross domestic product advanced at a 3.2 percent annual rate in the fourth quarter, according to the Commerce Department. The U.S. office-market vacancy rate is expected to fall to 17 percent in 2011 from 17.8 percent in the fourth quarter as employers add jobs and few new buildings are completed.

The upswing is boosting hotel sales, which are

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Select Top Industrial Leases for Deals Signed in 2010

Building	Submarket	SF	Tenant Name
Port Commerce Center Phase I - Bldg. A	Port of Tacoma/Fife Ind	444,400	Pepsico/Quaker Distribution
Auburn Logistics Facility	Auburn Ind	282,393	ULine
Winthrop Building*	Puyallup/S Hill Ind	224,000	Maersk Distribution
Auburn North Distribution Center*	Auburn Ind	209,106	Salmon Terminals
NW Corporate Park Kent - Bldg. C	Kent Valley N Ind	192,000	Holman Distribution Center
Park 277 - Bldg. A*	Auburn Ind	185,132	ThyssenKrupp Materials NA, Inc
American Port Services - Bldg. 5	Puyallup/S Hill Ind	179,339	Performance Team Trucking
HRP 6 - 1302 29th Street NW	Auburn Ind	145,285	The Green Room
Auburn 18 Distribution Center	Auburn Ind	126,036	American Tire Distributors
Segale Business Park - Bldg. 781*	Kent Valley N Ind	103,237	United Stationers Supply Co.
Emerald Corporate Park - Bldg. A*	Auburn Ind	102,360	TMX Aerospace
Kingsport Industrial Park - Bldg. 1	Kent Valley N Ind	100,000	Domtar
NW Corporate Park Kent - Bldg. H	Kent Valley N Ind	100,000	United Aircraft
Van Doren's West - Bldg. C	Kent Valley S Ind	89,900	N/A
Southcenter South - Bldg. 300*	Kent Valley N Ind	81,455	United Stationers Supply Co.
Intergate East - Bldg. 5 - Sabey Data Center	Tukwila Ind	80,281	N/A
Park 277 - Bldg. E*	Auburn Ind	79,296	Exel
20017 72nd Avenue	Kent Valley N Ind	77,480	Ingersoll-Rand

* Renewal

Select Top Sales: October 2009 - December 2010

Cedar River Corp. Park
2200 Lind Avenue S.

Location: Renton

Price: \$26,743,000 (\$186.61/SF)

RBA: 143,307

Date: 12/14/2010

Buyer: Bertch Company

Seller: Tarragon

Valley Freeway CP
20420-20664 84th Street S.

Location: Kent

Price: \$15,500,000 (\$67.74/SF)

RBA: 228,825

Date: 5/17/2010

Buyer: Northwest Building LLC

Seller: A&B Properties, Inc.

Pacific Crest Building
13610 52nd Street E.

Location: Sumner

Price: \$13,250,000 (\$71.93/SF)

RBA: 184,215

Date: 12/1/2010

Buyer: DCT Industrial Trust

Seller: Pacific Crest Industries

Hunter Douglas Building
1905 Raymond Avenue

Location: Renton

Price: \$12,600,000 (\$99.53/SF)

RBA: 126,600

Date: 6/30/2010

Buyer: Industrial Income Trust

Seller: Hunter Douglas Real Property, Inc.

Continued from Page 1

expected to jump as much as 25 percent this year.

Sales of apartment buildings nationwide rose in the fourth quarter as home ownership remained at a 10-year low and demand for rentals pushed lease rates to the highest in four years.

The retail segment of the market is improving, though at a slower rate than offices or apartments. Consumer spending rose more than forecast in December. Deutsche Bank Securities Inc. chief U.S. economist Joseph LaVorgna projected “continued healthy spending in 2011,” citing a “tame” inflation trend.

Banks reduced the amount of soured real estate debt last year primarily through sales of loans, according to Matthew Anderson, managing director at Foresight Analytics, an Oakland, California-based research firm.

As yields on properties throughout the nation tumble, investors are looking to core markets for higher returns. Seattle, the San Francisco Bay area, suburban New York and Washington, and parts of Chicago and Atlanta will be among the next markets that see rising prices.

Article by Bloomberg News

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	
2010 4q	1,879	111,388,293	9,461,644	8.5%	(114,876)	0	0	0	0	\$5.31
2010 3q	1,879	111,388,293	9,346,768	8.4%	64,329	0	0	0	0	\$5.42
2010 2q	1,879	111,388,293	9,411,097	8.4%	(591,520)	0	0	0	0	\$5.61
2010 1q	1,880	111,391,493	8,822,777	7.9%	(499,430)	0	0	0	0	\$5.75
2009 4q	1,880	111,391,493	8,323,347	7.5%	(1,072,618)	1	6,700	0	0	\$5.89
2009 3q	1,879	111,384,793	7,244,029	6.5%	(826,705)	1	29,640	1	6,700	\$6.02
2009 2q	1,878	111,355,153	6,387,684	5.7%	(1,313,398)	1	53,704	2	36,340	\$6.03
2009 1q	1,877	111,301,449	5,020,582	4.5%	(653,543)	1	1,618	1	53,704	\$6.00
2008 4q	1,879	111,354,535	4,420,125	4.0%	(189,818)	0	0	2	55,322	\$6.09
2008 3q	1,879	111,354,535	4,230,307	3.8%	278,670	2	244,800	2	55,322	\$6.01
2008 2q	1,877	111,109,735	4,264,177	3.8%	98,073	1	141,970	2	244,800	\$6.05

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	2,024	54,502,343	3,134,495	3,190,076	5.9%	129,649	27,563	0	\$10.08
Eastside Ind	715	20,835,871	1,878,061	1,955,093	9.4%	(16,795)	0	0	\$11.52
Northend Ind	1,442	53,668,925	4,241,668	4,561,844	8.5%	55,646	0	8,820	\$8.14
Southend Ind	1,879	111,388,293	7,961,217	9,461,644	8.5%	(1,141,497)	0	0	\$5.31
Tacoma Ind	1,757	61,287,089	5,996,869	6,066,193	9.9%	133,946	534,146	137,028	\$5.33
Totals	7,817	301,682,521	23,212,310	25,234,850	8.4%	(839,051)	561,709	145,848	\$6.95

Information provided by CoStar Group

4th Quarter 2010

Select Available Properties

Algona II	O'Donnell Business Park	Chatham Building	455 Building
			
<p>Address: 701-851 Milwaukee Ave. Algona, WA</p> <p>SF: 58,407</p> <p>Loading: 9 DH doors, 1 GL</p> <p>Shell Rate: \$0.31/SF</p> <p>Office Rate: \$0.70/SF</p> <p>Agents: Brian Bruininks, CCIM Jeff Crane</p> <p>Comments: Centrally located at crossroads of Hwy 18/Hwy 167. Fenced/secured yard area. Special lease rate for first year.</p>	<p>Address: S. 212th & W. Valley Hwy. Kent, WA</p> <p>SF: 10,570 to 53,317 SF spaces</p> <p>Loading: DH and GL, 24' CH</p> <p>Rates: \$0.31/\$0.70, NNN</p> <p>Agents: Jeff Crane, Joel Conner Mike Hemphill</p> <p>Comments: Flexible space layouts. Heavy parking can be accommodated. Located in 50-yard line in Kent Valley - easy access to I-5 and Highway 167.</p>	<p>Address: 11621 E Marginal Way S Tukwila, WA</p> <p>SF: 29,500 SF available, multiple divisions from 5,587+ SF</p> <p>Loading: DH and GL, 24' CH</p> <p>Agents: Brian Bruininks, CCIM Shane Crook</p> <p>Comments: Industrial flex, office or data center space. Immediate access to I-5, Hwy 99, and Hwy 599; minutes to I-405. Approx. 5,000 SF of raised computer floor area existing.</p>	<p>Address: 455 Andover Park East Tukwila, WA</p> <p>SF: 83,800 SF, 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: Rail-served. Close-in Tukwila location. Great manufacturing or assembly space.</p>

OUR SERVICES

- Tenant and Buyer Representation
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- 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
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exceeding your expectations.



® For the eighth 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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