

INDUSTRIAL

Seattle Real Estate Market Review

King, Snohomish and Pierce Counties

Year-End 2006

Seattle's overall three-county industrial market continues to post impressive market statistics. In 2006, construction of new industrial and distribution facilities experienced its highest level of activity in the past five years adding about 7.5 million s.f. of new space, an increase of nearly 3% to the overall supply. Fueled by our strong local economy (3.5% increase in employment compared to 1.4% for the U.S.), leasing activity was very robust, outpacing the rate of new construction with 10.2 million s.f. of net absorption for the year (an all-time record). This follows on the 6.2 million s.f. that was absorbed in 2005.

Going forward, many economists believe the national economy will slow down with concerns over the housing slump. However, locally, the Puget Sound region is projected to continue to grow with 2.9% job growth. This is due in part to Boeing's surge in sales of jetliners and ramping up of production; Microsoft's continuing strategy of diversifying its product line with billions to spend on research and development; strong in-migration (people moving into the area); and continued expansion and growth at the Ports of Seattle and Tacoma.

VACANT SPACE/VACANCY RATE

Not surprisingly, with net positive absorption outpacing new supply, the amount of vacant space decreased by 2,746,244 s.f. during 2006, resulting in a vacancy rate drop from 7.39% at year-end 2005 to 6.15% at year-end 2006.

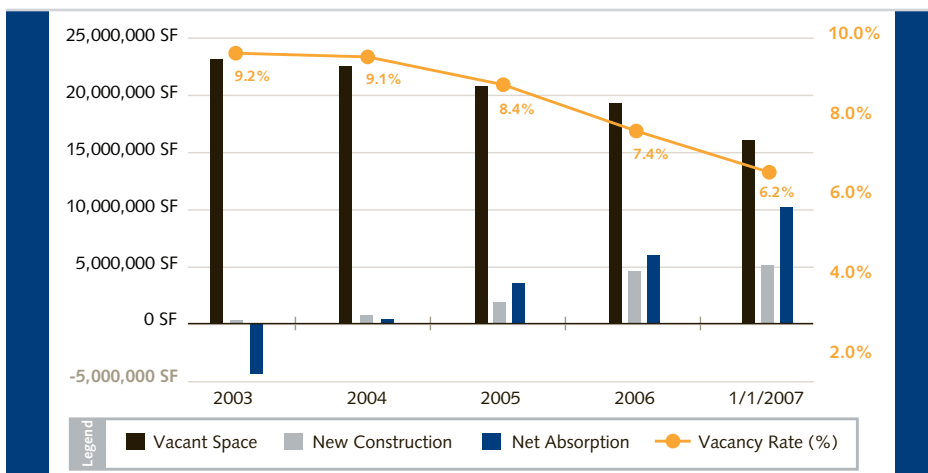
NEW CONSTRUCTION ACTIVITY

The region continues to experience significant construction activity. During 2006, 7,452,073 s.f. of industrial space was completed and 5,170,822 s.f. is currently underway. Most of the construction activity has been located in Pierce County, particularly in Sumner and the Port of Tacoma, as well as South King County. With more available land for development, both South King County and Pierce County will continue to see the bulk of new development years.

RENT FORECAST

Lease rates continue to firm up, and lease concessions, such as free rent, have been reduced as vacancy rates continue to decline. This trend is expected to continue over the next six months in most industrial submarkets.

3-COUNTY OVERALL STATISTICS



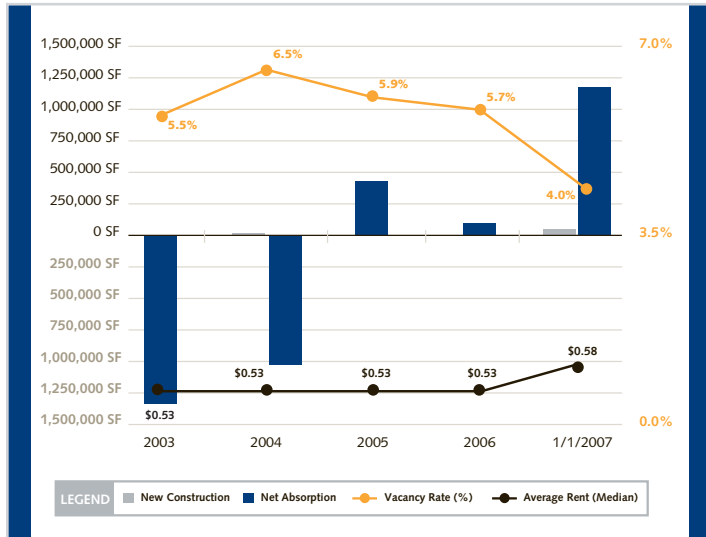
Market Forecast

OVERALL MARKET	CURRENT	PROJECTION
Vacancy	6.2%	↓
Construction	5.17 m s.f.	↑
Rental Rate	Varies by Submarket	↑
Absorption	10.19 m s.f.	↑

Market Close

- The Seattle region industrial market is booming with record high net absorption during 2006 (10.2 million s.f.) and continued strong construction activity. Regional economic health and increased shipping activity through the Ports of Tacoma and Seattle have created heavy demand for industrial and distribution space.
- The availability of zoned land for industrial development has become a growing concern though out the Seattle region. As a result, development and leasing activity continues to grow south of Seattle and north of Portland along the Interstate 5 Corridor.
- Investment demand for industrial properties remains robust as lower vacancy rates continue to put upward pressure on the lease rates.

SEATTLE CLOSE-IN STATISTICS



MARKET DEMAND/ABSORPTION

During 2006, 7,452,073 s.f. of new industrial space was completed and vacant space decreased by 2,746,244 s.f. resulting in a record net absorption of 10,198,317 s.f. With a projected 2.9% growth in employment in 2007, Boeing's surge in production, and good port activity, the strong demand for industrial space should continue in 2007, albeit not at the record level achieved in 2006, but still very good.

Seattle Close-In Review

The Seattle Close-In market is the oldest and most established submarket in the three-county area. Many of the buildings are between 50 and 100 years old and feature diverse designs, often with low ceiling clearance and limited truck loading capability. The buildings located close to the Seattle CBD, the Port of Seattle, and the crossroads of Interstates 5 and 90, have continued to draw demand from user companies despite any building deficiencies due to age and obsolescence.

Over the years, it has traditionally been a stable market with the lowest vacancies in the area. 2006 was no exception. As of year-end 2006, the vacancy rate was 3.97% compared to 5.74% one year ago. This is a result of very little land left to develop and virtually no new construction. Currently, there is only 38,965 s.f. underway. Net absorption was a positive 1,170,537 s.f. for the year, the highest level in several years. Another factor that keeps the available space rather tight is the conversion of industrial facilities to other uses (e.g. stadiums, ports, and government facilities).

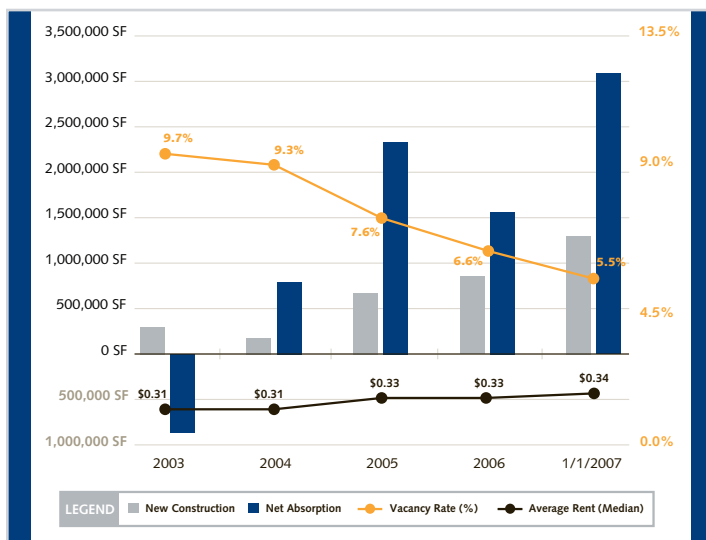
The forecast for the Seattle Close-In market for the next six months is for land values to range from \$15/s.f. in South Park, up to \$50/s.f. closer in, and with lease rates ranging from \$0.45 to \$0.70/s.f./month, NNN for medium-and high-grade buildings. Better quality buildings will sell between \$100 and \$125/s.f. due to the scarcity of industrial space in this area.

South King County Review

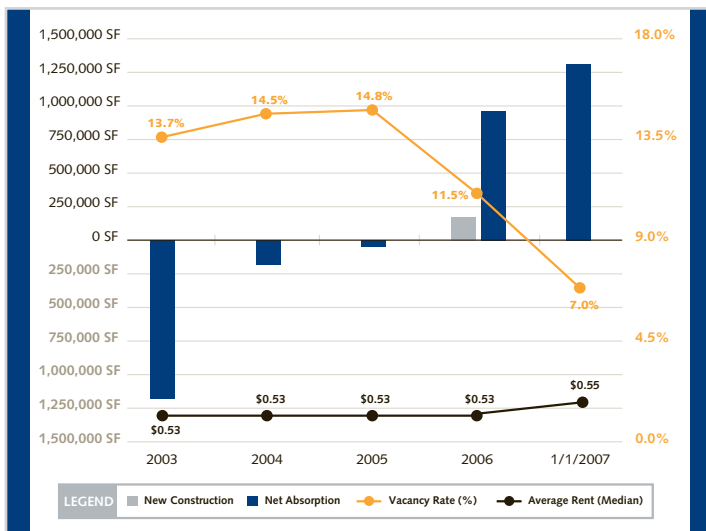
South King County, also known as the Kent Valley, is the largest submarket in the region. A significant portion of the industrial properties are devoted to distribution use, which is expected due to the Valley's level topography, very good freeway and rail access, as well as proximity to the Ports of Seattle, Tacoma and Sea-Tac International Airport.

In 2006, 2,156,662 s.f. of new space was completed. Leasing activity was very good with a positive net absorption of 3,096,512 s.f., the highest amount in the past five years. With demand outpacing supply, the vacancy rate in South King County was lower at 5.50% compared to 6.58% one year ago. Currently there are eight projects under construction, totaling 1,319,444 s.f. The majority of these are in Auburn and Algona as developable industrial-zoned land in Kent is becoming increasingly scarce. What this means is that after years of relatively little change in rents, South King County is seeing some increases. Rental rates for smaller spaces (under 20,000 s.f.) will

SOUTH KING COUNTY STATISTICS



EAST KING COUNTY STATISTICS



SALES COMPARABLES

		City	Sale Price	SF	Price PSF	Cap Rate
Oakesdale Commerce Center	700 SW 34th St	Renton	\$36,400,000	309,180	\$117.73	N/A
Seattle Logistics Center	4101 6th Ave S	Seattle	\$33,450,000	387,618	\$102.00	N/A
Pier 1 Imports	4175 Pioneer Ave	Dupont	\$28,100,000	451,151	\$62.29	N/A
Sumner Central	2501 142nd Ave E	Sumner	\$22,317,500	426,410	\$52.34	N/A
500 Milwaukee Warehouse	500 Milwaukee Ave	Auburn	\$19,100,000	278,038	\$68.70	N/A
Georgetown Center	5959 Corson Ave	Seattle	\$18,800,000	130,151	\$144.45	N/A
Lakewood Storage Depot	2602 S 80th St	Tacoma	\$17,776,094	287,681	\$61.79	N/A

range from \$0.32 to \$0.38/s.f., with newer buildings achieving rents at the upper end of this range. Flex space rent is typically higher, ranging from \$0.40 to \$0.45/s.f. Larger spaces will be lower, ranging from \$0.30 to \$0.35/s.f. Building sale prices are expected to range from \$65 to \$120/s.f. Land values will range between \$8.00 to \$15.00/s.f for fully improved sites.

East King County Review

East King County is the smallest of the five submarkets (25.9 million s.f., or 9.8% of the region total). This market consists primarily of King County east of Lake Washington. There is a mixture of uses, but more recent development has tended toward office/warehouse (small bays and grade-level doors) and assembly and high-tech space (the most of any submarket) with 20% to 60%.

The Eastside industrial market had a very active year in 2006 with positive net absorption of 1,312,693 s.f. With only 171,000 s.f. of new supply added during the year, the overall vacancy rate declined significantly from 11.51% (year-end 2005) to 7.03% at the end of 2006. The current vacancy rate is over half of what it was two years ago (14.84%). The main reason for its high vacancy rate in recent years has been the sluggish demand for high-tech space, which fortunately has now stabilized.

East King County's forecast is for warehouse lease rates with high-bay warehouse manufacturing space to range between \$0.45 and \$0.65/s.f./month, NNN, and flex space rents to range between \$0.95 and \$1.25/s.f./month, NNN. Building sale prices will range from \$100 to \$140/s.f. of building area and land prices will run from \$9 to \$15/s.f.

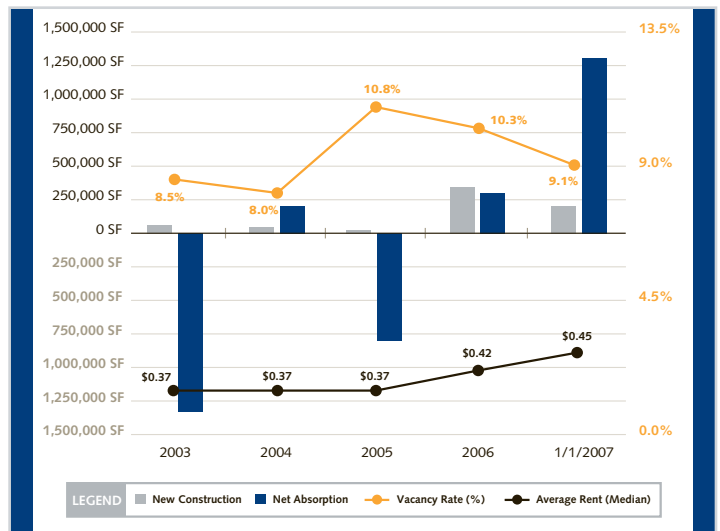
Snohomish County Review

For years, the Snohomish County market has been heavily influenced by Boeing, particularly in the South Everett and Mukilteo areas. This continues today, but other Snohomish County locations, particularly in Monroe and Smokey Point (Marysville and Arlington), have been developing their own niche with a mix of light manufacturing, storage, and warehousing.

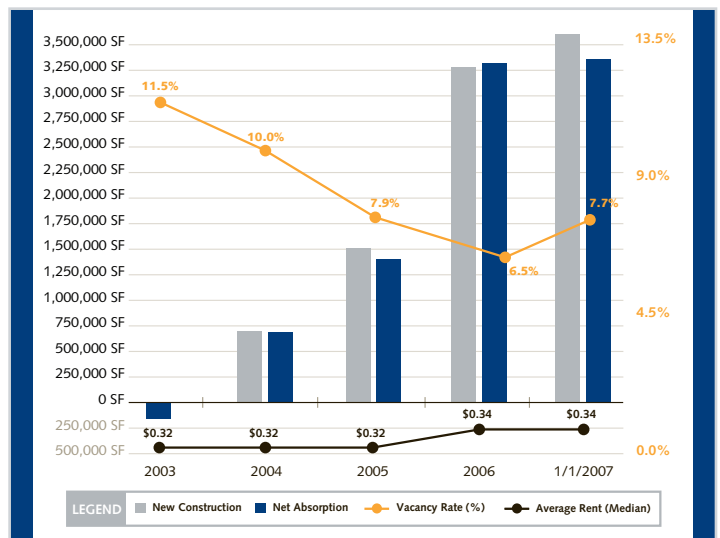
At the close of 2006, Snohomish County had the highest vacancy of the five submarkets at 9.07%. However, it is lower compared to a year ago when it was 10.34%. Net absorption in 2006 was 1,277,525 s.f., nearly one million s.f. more than in 2005.

Production activity for Boeing is expected to be increasing in 2007, which bodes well for supplier demand near their Everett plant. Snohomish County's forecast for the next six months is for warehouse lease rates to range between \$0.40 to \$0.50/s.f./month, NNN range. Building sale prices are predicted to range from \$105 to \$115/s.f. of building area for buildings under 20,000 s.f. For buildings over 30,000 s.f. sale prices range

SNOHOMISH COUNTY STATISTICS



PIERCE COUNTY STATISTICS



between \$80 to \$100/s.f. of building area. Land values should range from \$6 to \$9/s.f. with an ample supply of zoned sites.

Pierce County Review

For years, the two prominent areas of industrial development in Pierce County was in the Port of Tacoma/Fife and Lakewood areas. More recently, that focus has shifted and now includes Sumner, Fife, and the Port of Tacoma. By far the most active of the five submarkets with 4,120,438 s.f. of new space completed in 2006, Pierce County has added about 8.1 million s.f. since 2003. Currently 3,573,228 s.f. is under construction (70% of the region's total). While absorption was very good at 3,341,050 s.f., the overall vacancy rate increased to 7.73% compared to 6.49% of a year ago as supply outpaced demand. Sumner led the way with over two million s.f. delivered in 2006 and 1.6 million s.f. now under construction. Fife and the Port of Tacoma also have significant construction activity (1.2 million s.f.).

Pierce County's forecast is for shell rates to range between \$0.32 to \$0.35/s.f./month, NNN. Industrial building sale prices will range from \$50/s.f. for older buildings to \$75/s.f. for new buildings. Land values have increased in the latter part of 2006 and range from \$6.00 to \$9.50/s.f.

Development News

- Panattoni Development is very active having completed construction on the first phase of the Lakewood Corporate Center (205,000 s.f.), the 397,156 s.f. Auburn North Distribution Center (ING is the owner), Seaway Business Center, Building E (98,811 s.f.), Monroe Gateway (113,500 s.f.), and Stock Pot Foods in Everett (299,700 s.f.). Projects under construction include Buildings 6 and 7 (250,100 s.f. and 506,000 s.f.) in the Rainier Park of Industry in Sumner, Portside Industrial Park in Tacoma (413,803 s.f.), Creekside at 188th in Kent (135,550 s.f.), and Auburn Park 44 (196,930 s.f.).
- AMB (with Benaroya Company as the developer) started construction on the 766,400 s.f. AMB Valley Distribution Center in Auburn.

- Opus Northwest completed its 171,000 s.f. I-90 Corporate Park in Preston as well as 224,920 s.f. Phase I of the Pacific Coast Corporate Park in Fife. Phase II of Pacific Coast Corporate Park (501,250 s.f.) is now underway.
- Knapp Development started construction on the Snoqualmie Building (503,534 s.f.) in the Sumner Corporate Park.

Significant Transactions

- Salmon Terminals leased 209,106 s.f. and Corporate Express leased 193,000 s.f. from ING in the Auburn North Distribution Center.
- Regal Northwest leased 224,920 s.f. in Building B-Pacific Coast Corporate Park in Fife.
- Bartell Drugs leased 160,000 s.f. in AMB's Portside Distribution Center in Seattle.
- ADCO Properties leased 281,754 s.f. to K2 Sports in Seattle Logistics Center for their new global corporate headquarters and research and development center.
- Ikea Furniture has announced plans to build a 1.5 million s.f. distribution center on a 65-acre site in Fredrickson.
- Propet USA leased 162,100 s.f. from Hill-Raum Investment in Auburn.
- DHL Express subleased 172,875 s.f. from Circuit City in Chehalis.
- IDX has leased 328,000 s.f. from AMB in Puyallup.
- Solo Cup has leased the 401,200 s.f. Rainier Building in Sumner Corporate Park.
- Capstone Partners sold Oakesdale Commerce Center in Renton for \$36,400,000 (\$117.73/s.f.) to an investment group out of Dallas, TX.
- RREEF acquired Gateway North Industrial Park in Tukwila from AMB for \$33,825,000 (\$126.93/s.f.).
- First Industrial sold the Pier 1 Imports facility in Dupont (451,151 s.f.) for \$28,100,000 (\$62.29/s.f.) to Pierce County Investors LLC out of Hartford, CT.

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