

The Puget Sound region remains strong as industrial demand is on the rise and vacancy rates continue to drop. The year came to an end with an action-filled fourth quarter. Direct vacancy in the region fell from 6.24 percent to 5.44 percent with nearly 2 million sq. ft. of space absorbed. The Kent Valley alone posted an astonishing 1,428,786 sq. ft. of absorption during the fourth quarter of 2007. The market continues to attract large distribution users. To meet the growing demand, the region has over 4.7 million sq. ft. currently under construction. Coupled with the Puget Sound job growth rate forecast of 1.9% in 2008 (more than twice the national average of 0.9 percent), the region is expected to thrive in the coming year. Experts expect tenants and development to continue to move south due land constraints close-in and the possibility of higher flood insurance rates.

*With regards to the industrial market specifically, direct vacancy in the region fell from 6.24 percent to 5.44 percent . . .*

The Kent Valley was introduced to revisions for a new flood plain map from the Federal Emergency Management Agency (FEMA). Areas near the Green River; Renton, Kent

and Auburn would be impacted the most. The flood plain could double, currently encompassing around 2,000 properties with \$4 billion in assessed value, to over 4,000 properties topping \$7 billion in assessed value. One possible outcome from the implementation would require new developments to be lifted 4 – 13 ft. above the current elevation to meet the new standards. Along with the Kent Valley, North King County and Skagit County could also face changes due to the new boundaries.

The fourth quarter also saw new zoning in industrial areas in the City of Seattle.

Mayor Nickels proposed, and the city council approved on November 12, 2007, a new policy that would limit office and retail on industrial-zoned lands. The result was to limit office and retail buildings to 10,000 sq. ft. in core industrial neighborhoods and to 25,000 sq. ft. in other industrial areas. The decision was influenced by city government officials to preserve industrial land and higher-wage jobs after recent office and retail users have started to bid up the value of land.

**QUICK STATS**

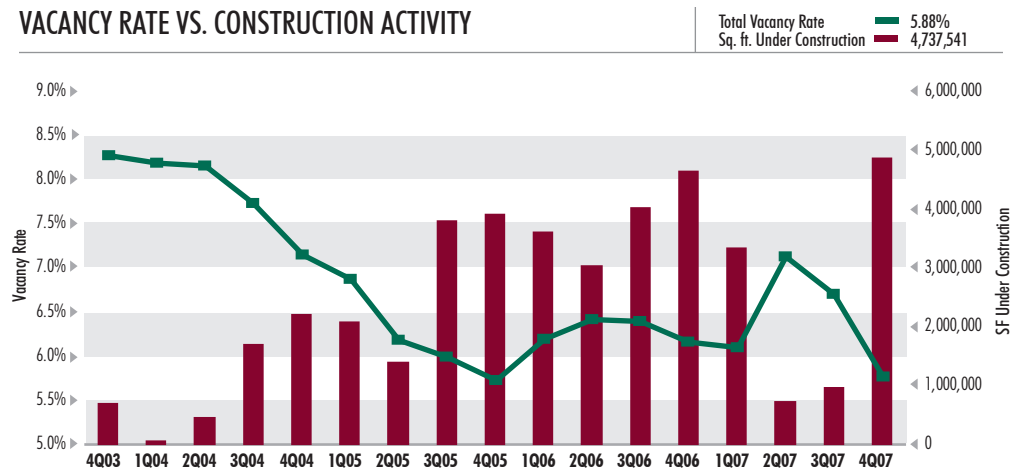
	Current	Yr.	Qtr.
Vacancy	5.88%	↓	↓
Lease Rates	\$0.49	↓	↑
Total Absorption	1.92M	↑	↑
Under Construction	4.7M	↓	↑

The arrows are trend indicators over the specified time period and do not represent a positive or negative value. (e.g., absorption could be negative, but still represent a positive trend over a specified period.)

**HOT TOPICS**

- The Puget Sound industrial market posted a stunning 1,917,913 sq. ft. of absorption during the fourth quarter of 2007.
- For the second consecutive quarter the total vacancy rate dropped, falling below 6 percent to 5.88 percent.
- Tacoma/ Fife reported well over 3 million sq. ft. of construction, providing evidence the market continues to move south.

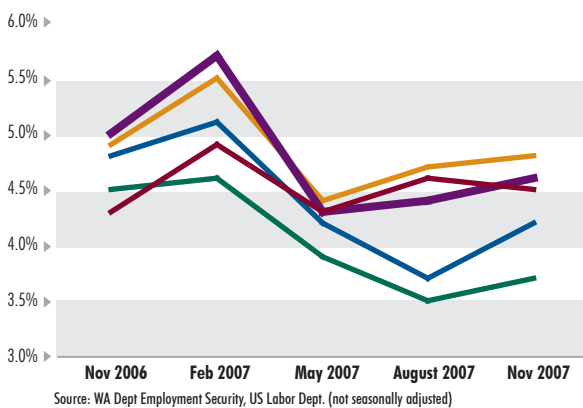
**VACANCY RATE VS. CONSTRUCTION ACTIVITY**



Market	Net Rentable Area	Total Vacant	Total Vacancy Rate	Total Absorption SF	Under Construction SF	Direct Asking Rate (NNN/SF/Mo)
<b>Seattle Close-in</b>	<b>67,208,729</b>	<b>1,456,695</b>	<b>2.17%</b>	<b>26,947</b>	<b>—</b>	<b>\$0.55</b>
Ware/Manuf/Bus Pk	65,815,273	1,454,676	2.21%	—	—	\$0.55
Flex/Tech	1,393,456	2,019	0.14%	—	—	\$0.85
<b>Kent Valley</b>	<b>107,177,710</b>	<b>6,986,894</b>	<b>6.52%</b>	<b>1,428,786</b>	<b>1,326,523</b>	<b>\$0.42</b>
Ware/Manuf/Bus Pk	104,343,433	6,363,785	6.10%	—	—	\$0.36
Flex/Tech	2,834,277	623,109	21.98%	—	—	\$0.96
<b>Tacoma/Fife</b>	<b>23,405,259</b>	<b>1,968,865</b>	<b>8.41%</b>	<b>478,980</b>	<b>3,169,868</b>	<b>\$0.36</b>
Ware/Manuf/Bus Pk	22,694,605	1,968,865	8.68%	—	—	\$0.36
Flex/Tech	710,654	—	N/A	—	—	N/A
<b>Eastside</b>	<b>22,310,765</b>	<b>2,125,087</b>	<b>9.52%</b>	<b>(156,138)</b>	<b>141,150</b>	<b>\$0.79</b>
Ware/Manuf/Bus Pk	16,876,916	1,252,872	7.42%	—	—	\$0.58
Flex/Tech	5,433,849	872,215	16.05%	—	—	\$1.16
<b>Northend</b>	<b>11,435,672</b>	<b>1,074,991</b>	<b>9.40%</b>	<b>139,338</b>	<b>100,000</b>	<b>\$0.62</b>
Ware/Manuf/Bus Pk	10,659,606	994,448	9.33%	—	—	\$0.58
Flex/Tech	776,066	80,543	10.38%	—	—	\$1.05
<b>Market Total</b>	<b>231,538,135</b>	<b>13,612,532</b>	<b>5.88%</b>	<b>1,917,913</b>	<b>4,737,541</b>	<b>\$0.50</b>
<b>Ware/Manuf/Bus Pk</b>	<b>220,389,833</b>	<b>12,034,646</b>	<b>5.46%</b>	<b>—</b>	<b>—</b>	<b>\$0.43</b>
<b>Flex/Tech</b>	<b>11,148,302</b>	<b>1,577,886</b>	<b>14.15%</b>	<b>—</b>	<b>—</b>	<b>\$1.07</b>

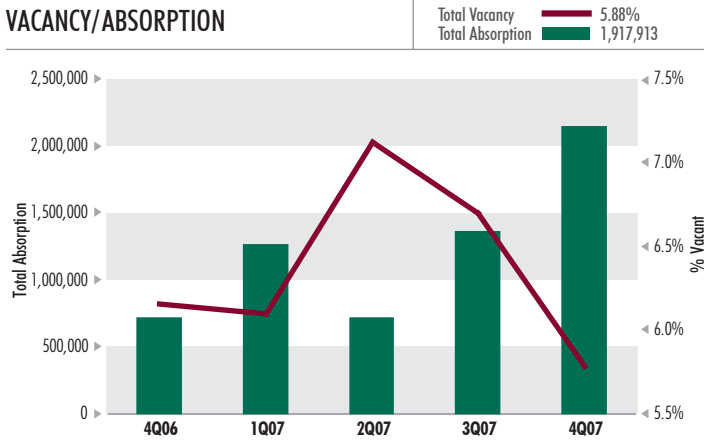
UNEMPLOYMENT RATE

King Co. 3.7% WA State 4.6%  
 Pierce Co. 4.8% US Avg. 4.5%  
 Snohomish Co. 4.2% (Not seasonally adjusted)



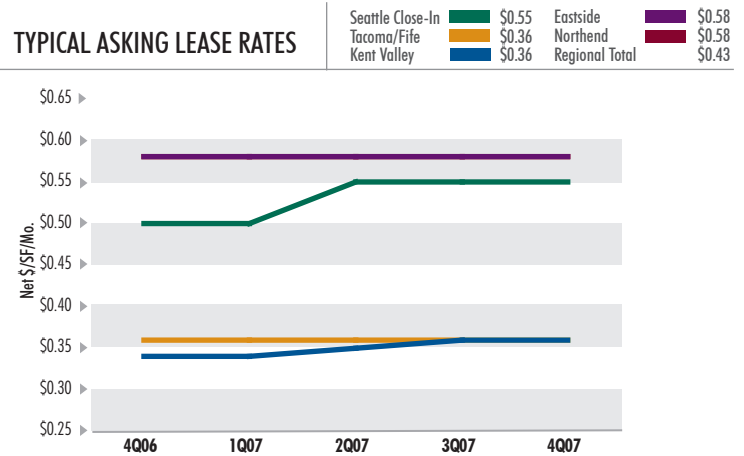
The economic climate in the Puget Sound region is forecast to be bright, though glowing slightly less than 2007. Conway Pedersen Economics forecasts employment growth to reach 1.9 percent over the next 12 months and 1.5 percent in 2009, following two years of job expansion over 3.0 percent each. The Puget Sound region is more in tune with the international economy with exports of Boeing planes and Microsoft software and less susceptible to the ups and downs of the national economy. Since mid-2004, employment in the software publishing and aerospace manufacturing sectors has grown by 24 and 33 percent respectively, adding 28,200 jobs in 3.5 years. While most of the rest of the nation is bracing for a recession, the Puget Sound region is expecting a positive environment.

### VACANCY/ABSORPTION



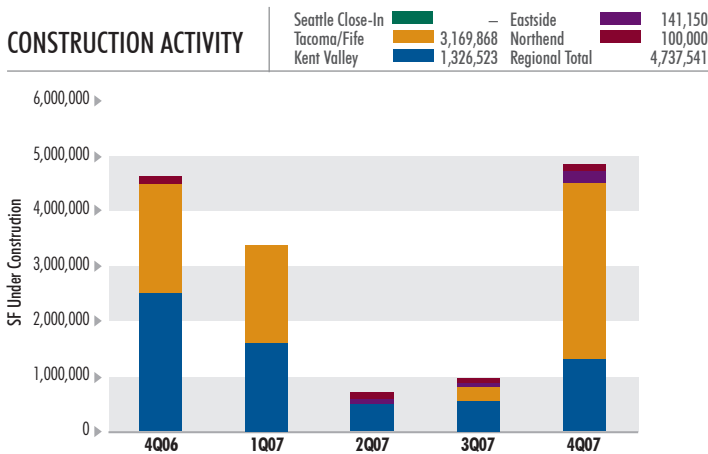
The vacancy rate for the Puget Sound continued its trend downward in the fourth quarter, dipping even farther under the 7 percent mark. Tenants are expanding and rapidly taking up available space, bringing total vacancy down to 5.88 percent. As usual the Kent Valley was major part of the market's movement, absorbing 1.4 million sq. ft. of space, leaving only 6.5 percent of the market still vacant. In the region, an astounding 1.9 million sq. ft. of space was absorbed during the most recent quarter. Several large users are due to move in during the first half of 2008, likely bringing high absorption in the near future. DHL leased nearly 500,000 sq. ft. in AMB Valley Distribution Center and HD Supply will move into 265,000 sq. ft. in Segale's Pacific Gateway Business Park.

### TYPICAL ASKING LEASE RATES



While the market saw strong absorption, asking rates did not necessarily follow suit. The Kent Valley and Tacoma/Fife region stayed relatively similar with blended rates just over \$0.40 per sq. ft. per month (per sq. ft./mo) and \$0.36 per sq. ft./mo respectively. A slight increase in operating costs, rising to around \$.17 per sq. ft./mo will mean increased expenses for tenants. Land values stayed steady around \$10-\$14 per sq. ft. The Eastside/Northend once again came in high with rates easily topping \$1.30 per sq. ft./mo. The Northend and Eastside continue to excel at attracting manufacturing tenants despite lease rates well above markets to the south.

### CONSTRUCTION ACTIVITY



The market currently has over four million sq. ft. of construction underway, with another 14 million-plus planned. The boom in construction is a good indicator that the economy is doing well and developers expect more jobs are on the horizon. The Tacoma/Fife market is where the most activity is seen, accounting for 3.1 million sq. ft. of the current construction. Portside Business Center in Fife and Prologis Park SeaTac are two large parks currently under construction. Recent land sales in DuPont and Frederickson indicate developers' intent to build in those areas, which follows the trend of the market moving southward in search of more land and lower rates.

### MARKET OUTLOOK

The Puget Sound region continues to remain one of the strongest markets in the nation. Job growth in the Puget Sound has more than doubled the national average and is currently at 3.1 percent. While port activity is down slightly over last year, 3.58 million TEUs through the ports of Tacoma and Seattle compared to 3.733 million TEUs at this time in 2006, the falling value of the US dollar has made our exports more competitive, benefiting the entire regional economy.

Developers are taking the strong, though changing, economy in stride. Currently having over 4 million sq. ft. under construction is good evidence of strong anticipated demand. Vacancy in the Kent Valley and Tacoma is expected to continue to fall as the region cannot accommodate growth without reaching out to markets farther up and down the I-5 corridor.

As predicted last quarter, many business are moving farther south and will continue to do so in 2008. The majority of the construction is in the Tacoma/Fife region with more and more tenants looking south—likely halfway to Portland, Oregon.

**PUGET SOUND SUBMARKET MAP**

**MARKET DESCRIPTIONS**

**SEATTLE CLOSE-IN**

Seattle Close-in market consists of 67,208,729 sq. ft. (29%) of the GLA. It comprises all King County submarkets directly west of Lake Washington.

**KENT VALLEY**

The Kent Valley consists of 107,177,710 sq. ft. (46%) of the GLA. It comprises all King County submarkets south of Lake Washington, including the cities of Tukwila, Renton, Kent, Auburn, Sea-Tac, Pacific, Algona, and Sumner.

**TACOMA/FIFE**

Tacoma/Fife consists of 23,405,259 sq. ft. (10%) of the GLA. It comprises Pierce County (excluding Sumner).

**EASTSIDE**

The Eastside consists of 22,310,765 sq. ft. (10%) of the GLA. It comprises all King County markets directly east of Lake Washington, plus that portion of Bothell extending into Snohomish County.

**NORTHEND**

The Northend consists of 11,435,672 sq. ft. (5%) of the GLA. It consists of Snohomish County except that portion of Bothell extending into Snohomish County.



**LOCAL OFFICES**

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**MARKET COVERAGE**

Includes all industrial buildings 10,000 sq. ft. and greater in size.

**NET RENTABLE AREA (NRA)**

The total floor area designed for tenant's occupancy and exclusive use, including any basements, mezzanines, or upper floors, expressed in sq. ft. and measured from the center line of joint partitions and from outside wall faces.

**VACANCY RATE**

Vacant sq. ft., either direct or total (direct and sublease combined) divided by the rentable area.

**ABSORPTION**

The change in occupied sq. ft. from one period to the next. Total absorption counts vacant sublease space as not occupied, direct absorption counts vacant sublease space as occupied.

**DIRECT ASKING LEASE RATE**

The average net asking lease rate for each building multiplied by the amount of direct vacant space, summed for all buildings in a submarket and then divided by the total amount of direct vacant space.

**NET LEASE**

Lease type whereby the Tenant pays an agreed rent plus most, or all, of the operating expenses and taxes for the property, including utilities, insurance and/or maintenance expenses.

**FLEX-TECH**

Industrial buildings that stand three stories or less, offer 25–75 percent office uses, and parking ratios of 2.5:1,000 or greater.

**WARE/MANUF/BUS PK**

Industrial buildings to accommodate warehouse, distribution, manufacturing and industrial tenants with less than 25 percent office buildout.