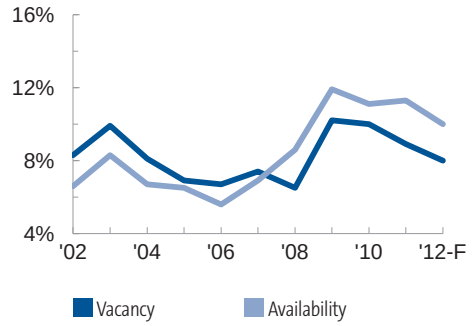
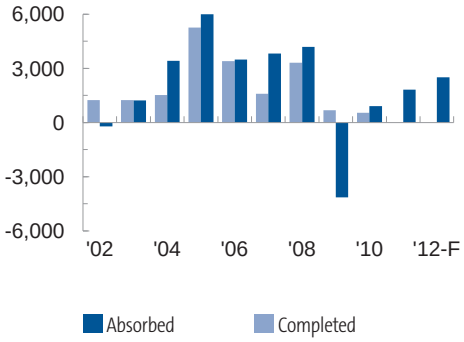
Industrial Trends Report – Fourth Quarter 2011
Seattle, WA

GRUBB & ELLIS
From Insight to Results

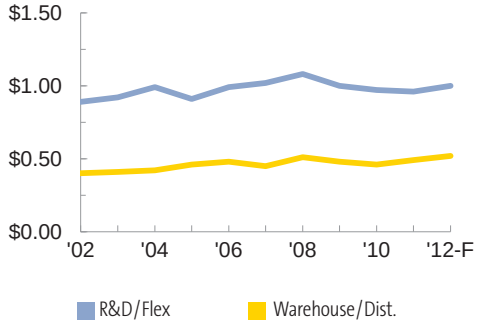
Vacancy & Availability Rates



Completions vs. Absorption
(in Thousands of SF)



Asking Rental Rates
($/SF/Mo. Full Service)



Improving, from the Top-Down

The greater Seattle area's economy slid into recession just as its financial sector was struck by the collapse of Washington Mutual more than three years ago. Fortunately, the local economy was on solid-footing in the preceding period; the recession's effects on employment were comparatively restrained, with the omission of 2009. Subsequent to the recession, recent times have seen indications that economic conditions throughout the Puget Sound region are mending. Through November 2011, U.S. Bureau of Labor Statistics (BLS) data shows that professional and business services grew by 15,500 jobs (7.7 percent annually). Equally noteworthy has been the resumption of employment gains within manufacturing, including aerospace. Broadly speaking, as goes the Boeing Company, so goes the Seattle metro economy. With 75,000 employees, it is the region's leading private employer. Fortunately, it provided some much needed and welcomed news when, in December, Boeing and the machinists union agreed to a labor contract that would ensure the latest version of its most popular jet would be built locally. Overall, November data for local manufacturing recorded a 10,800-job gain (up 7.1 percent) from the level recorded 12 months prior.

In December, Grubb and Ellis conducted a study that measured labor market recovery rates for metropolitan areas with populations of one million or more. The aim was to capture, both nationally and regionally, the percentage of jobs within each market that was lost to the recession and then subsequently recovered through November 2011. Seattle's result was encouraging: at 44 percent its recovery rate trailed only two other pacific region metros and bested the national figure (28 percent) by a considerable margin. The latest available measure shows the Seattle-Bellevue-Everett metropolitan division's unemployment rate at 8.2 percent, down 90 basis points for the year, and 40 basis points below the national figure.

(CONTINUED ON PAGE 2)

KEY TRANSACTIONS FOR 2011

Amazon.com	Brooks Sports	RREEF America LLC	Morgan Stanley & Co
leased 492,124 SF at 1800 140th Ave E, Sumner, WA from Washington Capital Management	leased 427,253 SF at 2701 142nd Avenue E, Sumner, WA from *LIT Industrial LP	purchased 20112-20120 72nd Ave S, Kent, WA from James Campbell Company for $63 Million	purchased 1201 C St NW, Auburn, WA from INVESCO for $43 Million

** Transaction Represented by Grubb & Ellis*

Grubb & Ellis Seattle
1400 Union Street, Suite 1400, Seattle, WA 98101
www.grubb-ellis.com

Prepared by:
Thomas Jaroszewski *Research Manager*
206.388.3025 • thomas.jaroszewski@grubb-ellis.com

©2012 Grubb & Ellis Company

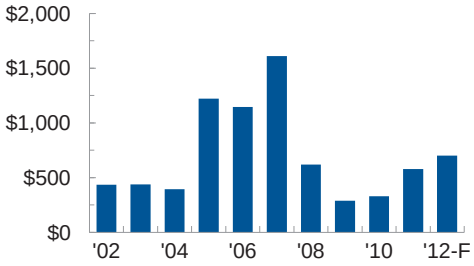
GRUBB & ELLIS
From Insight to Results

INDUSTRIAL MARKET REVIEW AND FORECAST

	2010	2011	2012 Forecast
Vacancy Rate	10.0%	8.9%	8.0%
R&D/Flex Rental Rate[1]	$0.97	$0.96	$1.00
Warehouse/Dist. Rental Rate[1]	$0.46	$0.49	$0.52
Net Absorption	910,952	1,815,692	2,500,000
Space Completed	-	-	-

1. Asking rate per square foot per year triple net

Industrial Property Sales Volume
(in Millions)



Source: Real Capital Analytics, Grubb & Ellis

(CONTINUED FROM PAGE 1)

Twelve months ago, Grubb and Ellis Seattle noted in its forecast that 2011 would bring increased occupancy levels, shrinking space options for larger users, a more favorable leasing environment, asking rents that would plateau and then rise and improved absorption data. A year removed, the regional industrial market has, in fact, moved slowly forward—parallel to the overall economy.

2011 REVIEW

Now that 2011 has passed, what is the state of today's industrial market? Briefly, an examination of year-over-year statistics, accompanied by the common consensus of local industrial professionals suggests that ours remains one of the nation's best real estate markets. Moreover, participants in this year's "Emerging Trends in Real Estate" forecast report awarded Seattle the top "buy" rating in the entire nation for industrial/distribution investment. Vacancies ended the year down 110 basis points from 2010. Job growth that was not exceptionally robust kept the decline moderate, but this downward trajectory should continue in the quarters ahead. One of the headline stories this year was the performance of big-box users. Thanks to a number of "mega-deals," warehouses in the 250,000 square foot and greater range have seen vacancy rates slashed. With deep cash reserves, companies like Brooks Sports have sought to expand their market presence, particularly for newer, state of the art facilities. Consequentially, rents have been driven upward, and the emergence of speculative development talk has firmly taken root within the market—the driver behind a sharp rebound for land sales.

While users with sizable requirements drove large lease transactions during 2011, there was another side to the Puget Sound industrial market story last year. The mid-size deal lagged, and small leases often signed by start-up companies suffered. The mid-size market had not recovered by year's end as many regional and local companies still grappled with the effects of a weakened economy. Perhaps performance at the region's ports has

(CONTINUED ON PAGE 3)

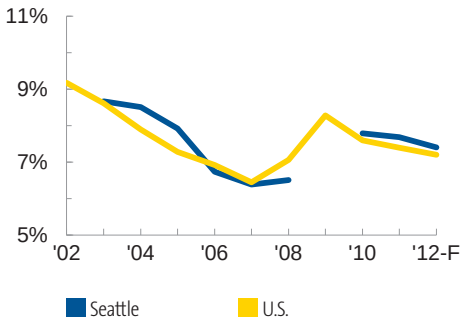
©2012 Grubb & Ellis Company

(CONTINUED FROM PAGE 2)

kept the industrial market from a more widespread and equally enjoyed recovery to date. With its role as an underpinning for the industrial market, cargo handling in the Pacific Northwest region had a down year. The most recent available data shows container volume at the Port of Seattle down 5.5 percent for the year and a 3.2 percent gain for the (smaller) Port of Tacoma. This has not helped erase the glut of smaller spaces still available. And while some tenants may take advantage by dispersing operations, others that need or prefer contiguous spaces in modern facilities have found that the pool of choices has rapidly evaporated.

The aggressive investment activity found at 2011's beginning quieted slightly during its closing months—more attributable to a lack of inventory than fading institutional demand. Institutional-grade industrial property remains a hot buy thanks to the region's demographics and geographic growth constraints, as well as the recent land grab, vacancy rate slump and absence of large, existing industrial product.

Average Industrial Capitalization Rates



Source: Real Capital Analytics, Grubb & Ellis

2012 FORECAST

Heading into a new year, the Puget Sound's industrial market is besting other sectors and showing signs of stabilization led by a vacancy rate that has fallen into a more comfortable single-digit territory. It is expected to trend downward again in 2012. Better news still: short-term forecasts call for an overall increase in manufacturing/distribution workers. The market recovery is expected to continue with the "big-box boom" potentially leading to improved confidence for smaller end-users that, in turn, will encourage them to act.

Though the construction pipeline contains several projects in the "proposed phase," any actual new construction remains essentially absent. At present, rental rates remain too low and lending for speculative building is practically unattainable. However, the aforementioned mega-deals have narrowed the collection of available large warehouses, and those that do remain are largely considered nonfunctional. One result to keep in mind is the increased speed in which speculative development may resurface.

Real estate professionals expect that larger transactions will do well in 2012, but the mid-size leases may lag if capital cannot reach smaller companies and start-ups. On the investment front, the once-stalled user sale segment is set for a better year ahead with progress into 2013 due to a relatively strong Federal Reserve, long-term interest rates that remain low and the purchasing conviction shown by institutions. New tenants will enter the market while existing tenants will expand, creating more positive absorption, declining vacancy, speculative big-box development and increased rents. With the stop and start nature of national employment growth, Grubb and Ellis does not believe the Seattle market will roar back in the immediate future. Still, market fundamentals have rebounded and are pointed in the right direction; steady, albeit slow, progress marks the year ahead.

©2012 Grubb & Ellis Company

Industrial Trends Report—Fourth Quarter 2011
Seattle, WA

GRUBB & ELLIS
From Insight to Results

By Submarket	Total SF	Vacant SF	Vacant %	Available %	NET ABSORPTION Current	NET ABSORPTION Year To Date	Under Construction SF	ASKING RENT WH/Dist	ASKING RENT R&D/Flex
Auburn	22,391,699	1,085,189	4.8%	8.7%	(180,914)	314,410	-	$0.48	$1.14
Bellevue Close-In	3,622,222	70,844	2.0%	5.1%	67,097	103,965	-	$0.90	$0.85
Bothell/Canyon Park	3,791,466	485,406	12.8%	12.6%	7,069	65,197	-	$0.90	$1.34
Downtown Redmond	8,299,582	754,102	9.1%	10.1%	(88,180)	31,115	-	$0.82	$0.98
I-90 Corridor	2,145,515	196,287	9.1%	27.7%	(14,540)	(22,207)	-	$0.78	$1.27
Kent	37,282,407	4,347,485	11.7%	16.7%	454	355,455	-	$0.43	$0.64
Kirkland	1,959,765	337,159	17.2%	18.5%	7,000	23,281	-	$0.66	$1.02
Pierce County	23,095,512	2,359,996	10.2%	17.8%	487,746	520,583	137,284	$0.50	$0.94
Renton	15,029,517	1,102,487	7.3%	10.4%	(315,102)	(239,123)	-	$0.43	$0.60
Snohomish County	18,874,764	1,456,657	7.7%	9.1%	(209,611)	19,252	-	$0.60	$1.00
Tacoma	11,210,557	966,822	8.6%	11.0%	142,732	723,844	-	$0.35	$1.14
Tukwila	11,155,855	823,663	7.4%	8.4%	(64,582)	(48,705)	-	$0.63	$0.89
Woodinville	4,468,746	477,527	10.7%	14.7%	(150,817)	(31,375)	-	$0.78	$0.98
Totals	**163,327,607**	**14,463,624**	**8.9%**	**12.8%**	**(311,648)**	**1,815,692**	**137,284**	**$0.49**	**$0.96**

By Property Type								ASKING RENT
R&D/Flex	18,477,016	2,710,280	14.7%	19.0%	(6,352)	3,659	-	$0.96
Warehouse/Distribution	144,850,591	11,753,344	8.1%	12.0%	(305,296)	1,812,033	137,284	$0.49
Totals	**163,327,607**	**14,463,624**	**8.9%**	**12.8%**	**(311,648)**	**1,815,692**	**137,284**	**$0.57**

INDUSTRIAL TERMS AND DEFINITIONS

Total SF: Industrial inventory includes all multi-tenant, single tenant and owner occupied buildings at least 10,000 square feet.

Industrial Buildings Classifications: Industrial buildings are categorized as warehouse/distribution, general industrial, R&D/flex and incubator based on their physical characteristics including percent office build-out, clear height, typical bay depth, typical suite size, type of loading and typical uses.

Vacancy and Availability: The vacancy rate is the amount of physically vacant space divided by the inventory and includes direct and sublease vacant. The availability rate is the amount of space available for lease divided by the inventory.

Net Absorption: The net change in physically occupied space over a period of time.

Asking Rent: The dollar amount asked by landlords for available space expressed in dollars per square foot per year in most parts of the country, and dollars per square foot per month in areas of California and selected other markets. Industrial rents are expressed as triple net where all costs including, but not limited to, real estate taxes, insurance and common area maintenance are borne by the tenant on a pro rata basis. The asking rent for each building in the market is weighed by the amount of available space in the building.

** Grubb & Ellis statistics are audited annually and may result in revisions to previously reported quarterly and final year-end figures.*

Reproduction in whole or part is permitted only with the written consent of Grubb & Ellis Company. Some of the data in this report has been gathered from third party sources and has not been independently verified by Grubb & Ellis. Grubb & Ellis makes no warranties or representations as to the completeness or accuracy thereof.

©2012 Grubb & Ellis Company