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Brokerage Outlook: Washington

• Kent Valley Industrial

Kent Valley Industrial

Submitted by Dave Baumer, principal with the Seattle office of The Andover Company. Posted 3-24-06.



Baumer

What area is your expertise?

- The Kent Valley industrial market is located just south of the city of Seattle and encompasses the cities of Tukwila, Renton, Kent and Auburn but is generally considered to extend down the "Valley Floor" as far south as Sumner. This market, which now totals more than 110 million square feet, which is the largest concentration of industrial space north of Sacramento, is primarily institutionally owned and managed. Unlike our "close-in" Seattle industrial market immediately south of the city, which initially developed during the 1930s to 1950s, with the construction of individual buildings that were built by and for individual companies, the Kent Valley market is primarily developed as investor-owned, multi-tenant buildings.

What trends do you see presently in industrial development in your area?

- The primary trend in development in the Kent Valley has been to build to the larger user market with a desired minimum product size of 400,000 to 500,000 square feet. Consequently, most of the recent developments have been completed by national fee developers and often with a take-out institutional investor in the wings.

What type of industrial product is doing well in your area?

- Currently, all sizes are leasing well, with lease rates on the rise and sale prices through the roof. Most of the new product is being built for the larger users, as mentioned above, but the greatest appreciation in this market has been on the owner/user front. Freestanding owner/user buildings under 50,000 square feet, whether second-generation or newly constructed, have sold for the highest price per square foot during the last 24 months in the history of this market.

Who are the active industrial developers in your area?

- The most active developers in terms of the square footage added to the market are Panattoni Development Company, Opus Corporation, Washington Capital, Principal Financial Group, RREEF (with Capstone Development) and AMB Corporation.

Please name one or two significant industrial developments in your area. What impact will these projects

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have on the market?

- We (The Andover Company) are the listing agents for a 400,000-square-foot development currently under construction with a planned completion date of August 1 known as Auburn North Distribution Center. We originally brought the land, a 23-acre site located in the heart of the Kent Valley on South 277th Street (see attached) to Panattoni Development Company as a prospective speculative development site. They were uniquely able to solve the myriad of problems associated with this 50-yard line site due to their strong local expertise and resources. They moved quickly toward closing, design and permitting of an institutional-grade, big box industrial building. Now the good part: before Panattoni had actually closed on the land, we had a "pre-lease" out for signature to a Fortune 500 company, Corporate Express, on almost half of the building, which included nearly 20,000 square feet of office space. Simultaneously, this new development was quickly attracting the interest of the larger institutional investors. Before the Corporate Express deal was signed, Panattoni had negotiated with ING Clarion to purchase this building. The Corporate Express lease is now fully executed, and 3 months before we expect the building to be completed, we now have a second lease out for signature to a company that will take the balance of the building: 209,000 square feet.

Where is the majority of development taking place? Why is this area doing well?

- The largest amount of new square footage is being added in the city of Sumner because that is where most of the land opportunities are to be found. However, there are new developments currently under construction in Renton, Kent and Auburn as well. They are all doing well because of our overall economy and the resurgence of the third-party warehouser.

What area do you expect to be the next big industrial development market? Why?

- For the next few years, the development will continue down the southern edge of what is considered the Kent Valley industrial market: Sumner, Puyallup and Fife. After that it becomes very difficult. We have water to the west and mountains to the east, so only the northern and southern corridors are open for development. With the existing traffic configuration and those topographical constraints, I would expect that the new developments will hopscotch over Olympia to points even further south.

Please describe the industrial leasing activity in your area.

- The activity has been strong. The activity has been split between the growth and expansion of our local companies, national companies already located here and new large users coming to this market for the first time.

Please describe the industrial sales activity in your area.

- Industrial sales activity has been surprisingly astounding. On the investment front, we have seen capitalization rates plummet. Both in the under-\$5-million range, where the buyer is typically a local investor/1031 exchange buyer, and all the way up to the typical institution-to-institution, \$10 million-and-up price range, cap rates have been dipping into the sub-6 percent range.

Please give a measure of industrial vacancy rates. Please give a measure of available sublease space.

- SEE ATTACHED ANDOVER COMPANY NEWSLETTER

What impact do current interest rates have on the industrial market? What predictions do you have for interest rates and their effect on the industrial market in 2006?

- Interest rates to date have played a major role in much of the sales activity. As interest rates rise, I think prices will stabilize, but, at least in this market, there will not be much fallout. This market is too institutionally based with a lot of staying power to be affected much by a change in rates. It will dramatically affect some of the area's few remaining local developers and their tolerance to putting up speculative product.

What industries do you expect to expand in 2006 to absorb a great deal of industrial space? What areas will be

affected?

- If the larger amounts of space being added to the market are to be absorbed, the public or third-party warehouseers will be the driving force.

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