

# Properties 'really starting to feel the pinch'

Rents fell in 43 percent of buildings of all types in the fourth quarter nationally, but the Puget Sound region fared worse, with rents declining in 48 percent of buildings, according to Reis, a real estate research firm.

Reis said in the first three quarters of 2008 rents fell in 25 percent of buildings nationally, and in 17 percent in this region.



**Real Estate Buzz**  
By Lynn Porter

Rents here declined in 45 percent of apartment buildings in the fourth quarter, 52 percent of office buildings, and 47 percent of retail buildings, Reis reports. Nationally they were down in 47 percent of apartment buildings, 39 percent of office buildings and 45 percent of retail properties.

The acceleration in the fourth quarter reflects increasing trouble in the credit markets and the overall economy, said **Kyle O. McLaughlin**, a Reis financial analyst.

"People are really starting to feel the pinch as this thing unfolds here," he said.

Reis expects default rates on commercial mortgage-backed securities loans to "worsen considerably" over the next two years, with the rates hitting 5 percent to 6 percent this year — more than triple the national rate of 1.14 percent at the end of 2008.

CMBS loans for office properties will have the highest default rates, at 8.8 percent, followed by retail loans at 5.4 percent, Reis said.

"A building is worth whatever the market says it's worth and that's very contingent on what it can make in income," said McLaughlin. Lower rents mean lower building values, so some building owners needing to refinance may not get enough to cover outstanding debt payments, he said. "And rents are likely to continue to fall."

## Orange toaster anyone?

Overbuilding and a drop in consumer spending have left the owners of some mega distribution centers in Pierce County — primarily in Sumner, Fife and the Port of Tacoma area — with significant vacancies, said **Matt Wood**, a senior vice president with GVA Kidder Mathews.



**Wood**

The firm's research shows that nearly 3.4 million square feet of industrial space, mostly in super-large distribution centers, was added last year. This includes a 750,000-square-foot Ikea center, which is occupied, and the 598,400-square-foot Port Commerce Center Phase 1 distribution center developed by Northwest Building, which is vacant, Wood said.

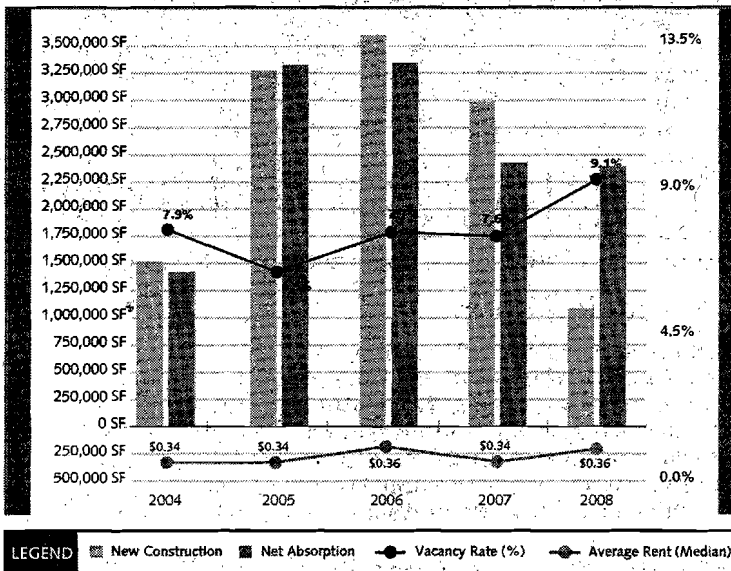
The Pierce County market has the highest industrial vacancy in the Puget Sound region, at 9.15 percent, GVA said.

Concessions, including lower rent and larger tenant improvement allowances, are being offered, Wood said. "We built too much on a speculative basis believing there was this pent-up demand and demand fell off before they could get them filled."

Or as **Rob Aigner** with Harsch Investment Properties said, "I don't know anybody today who would be looking for a brand new orange toaster whereas three years ago they would be flying off the shelves."

Aigner, a senior vice president, regional manager with Harsh,

## PIERCE COUNTY STATISTICS



Courtesy GVA Kidder Mathews

which has a portfolio of primarily small, multi-tenant industrial buildings, said the development spigot is not turned off as easily as consumer demand so some large distribution centers continued to be built as demand fell.

"We had a bit of a disconnect happen," he said.

In Pierce County, the first wave of new space in 2005 and 2006 leased up, but 2007 was slow, Wood said. This year, "there's virtually nothing under construction."

Developers built on spec as consumers spent freely, people migrated to the region and imports rose, with companies such as Regal Distribution, a toy distributor, and Target taking space, Wood said.

"It was the retail sector for the most part driving the big box," he said. "As consumer spending has gone away, the demand for these has gone away."



**Aigner**

## Kemper wants a helistop

Kemper Development is asking the city of Bellevue for permission to operate a helicopter landing pad on the roof of the 19-story Bellevue Place Bank of America building at 800 Bellevue Way N.E.

A meeting will be held Feb. 18 at 6 p.m. at City Hall on the request to operate the "helistop."

The development firm has said there would be a maximum of 40 takeoffs and landings per month. The hours of operation would be 8 a.m. to 7 p.m. seven days a week, said **Liz Stead**,



**Freeman**

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The UW is also limiting the amount of space Sound Transit can occupy on campus. The limit will be 2 acres at times, 4 acres at other times, and 6 acres at other times.

"It was agreed that way because that was the absolute minimum we needed to build this thing," said U-Link project manager John Harrison.

Sound Transit also must meet a firm deadline for finishing the job, as well as deadlines for each phase of construction. "From the day they mobilize for the main part of the construction effort, to the day they leave can't (be) more than 2,008 days," Chapman said.

That works out to 5.5 years. In that space of time, Sound Transit has to dig a hole 800 feet long, 80 feet wide and 105 feet deep in Husky Stadium's south parking lot. Then it has to drop parts of a 400-ton tunnel boring machine into the hole so the machine can be assembled underground, all 300 feet of it. The machine will proceed south under the Montlake cut to Capitol Hill, carving a train tunnel as it goes.

About a month or so after the first tunneling machine launches, the second one will be dropped into the ground to carve a second tunnel.

Then the station must be built, along with a curved 500-foot-long pedestrian bridge across Montlake Boulevard.

## UW Hefty fines

The 2,008-day clock starts ticking early next January.

It is a very demanding timetable, Harrison acknowledged. "They're holding us to a very tight schedule with a minimum footprint on their property and we've agreed to deal with that."

Sound Transit has also agreed to pay hefty damages if it does not meet its construction deadlines, a liability it will pass on to its contractors.

"We've built that into the contract so they know what they're getting into from the start," said agency spokesperson Bruce

Gray.

For example, it will cost Sound Transit's contractor \$20,000 per day if the tunneling under campus north of the UW station lasts longer than 304 days.

Sound Transit will also have to pay damages of up to \$100,000 per day if it exceeds agreed-upon levels of train-induced vibrations and/or electromagnetic fields that could affect the UW's sensitive research labs.

"Interference from the power supply generates an electromagnetic field that can interfere with sensitive electron microscopes in buildings very close to the track," said Sound Transit program manager Tracy Reed.

The agency plans to counteract these electromagnetic fields by modifying the circuits that supply power to the trains, Reed said. Vibrations will be absorbed by special metal clips that hold the rail to the ties. And Sound Transit will add resilient track supports at the track switches and crossings to absorb the impact of wheels rolling across the joints, Reed said.

So far, Sound Transit is predicting negligible effects from vibrations or EMFs, Chapman said.

"We're not anticipating any disruption," he said.

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## Buzz

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urban design planning manager with the city's planning department.

Kemper Development has told the city the flights would be for private corporate purposes, and the flight path would be over local freeways and Northeast Eighth Street, Stead said.

The development firm, which is headed by Kemper Freeman Jr., has developed a number of large properties in Bellevue, including Bellevue Square and Lincoln Square.

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## BUSINESS BRIEFS

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create jobs more quickly.

Nickels also said the city could help developers by extending time on building permits and limiting environmental studies.

### Bids for parkway come in \$2M under

SAMMAMISH — The City of Sammamish figured it would cost about \$8 million to make safety improvements to a half-mile section of East Lake Sammamish Parkway, but the project bids came in substantially lower.

One bid was \$5.7 million; the other bid was \$6.1 million.

This project will reconfigure the Inglewood Hill Road intersection, add bike lanes, build a sidewalk and storm-water facilities.

The city is reviewing the bids and plans to award the contract soon.

### E-cycling is off to strong start in NW

PORTLAND (AP) — Oregon and Washington have collected almost 5 million pounds of electronic waste since their free recycling programs went into effect in January.

The free recycling applies to TVs, monitors and computers, both desktops and laptops.

Oregon reported about 1.5 million pounds collected in January, ahead of the 12.2 million pounds projected for the year. Washington said residents brought in slightly less than 3.3 million pounds, establishing a pace that would far exceed the state's projection of 25 million pounds for 2009.

Officials, however, expect the pace to taper off a bit. People appeared to stockpile a large amount of electronics while waiting for the program to start Jan. 1.

### Cantwell to lead