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Eastside industrial users are migrating northward

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The North End industrial, technology and office facility markets have played, and will continue to play, an important role in supporting Puget Sound area business.

These markets are located along the Interstate 405 corridor at the Snohomish County line (Bothell), up the Interstate 5 corridor to Everett/Marysville, and down the I-5 corridor to Northgate.

This geographic area has gained interest of business facility tenants and owners at a rapid pace. The reasons for this accelerating geographic focus are based on the varying needs that commercial real estate customers have within industrial, technology and office space.

North End industrial space users have been very active during the past two years. Although the North End industrial market, at 18.5 million square feet, is half the size of the Eastside industrial market, it has averaged approximately one million square feet of leasing activity per year.

This high level of activity is being driven by two forces: the increase in Boeing production, and the migration north by other industrial space users.

Boeing vendors are in a space race to locate facilities "line side" of the Boeing production campus in South Everett. "Just in time" delivery of main aircraft subassemblies by vendors is the way the game is played today with Boeing. If the delivered item has a problem, a spare replacement subassembly can be delivered in minutes from a vendor's line side facility.

The other driving force is the migration north by industrial space users from Eastside locations like Redmond, Woodinville and Bothell. The Eastside industrial market offers virtually no opportunities for build-to-suit or new construction. Due to evolving building needs, many existing Eastside industrial buildings have become functionally obsolete.

In addition, many Eastside buildings are being adapted for, or replaced by, higher and better uses. The manufacturing work force for Eastside industrial companies has already concentrated in Snohomish County due to the significant differential in

housing costs in comparison to the Eastside -- a 95.6 percent difference in average median home prices currently.

Technology companies began to congregate in Bothell during the mid 1980s. The master planned business parks of that era offered the image and owner/tenant amenities desired by technology company employees. This phenomenon has continued into the present, with Bothell offering a large (5 million square feet) concentration of technology space.

Software, biotech, instrumentation, medical electronics and aerospace companies make up this community. The migration north by tech companies is well under way, with world class users such as Bayer, Comcast and Cypress Semiconductor establishing sizable facilities in Lynnwood.

To date, South Everett technology companies have primarily been aerospace related. However, as Bothell/Lynnwood options fill up, South Everett will be the next location of choice for these companies.

General office space users have moved to North End locations on a select basis. Examples include Boeing vendors with large engineering components, local financial services companies and private universities.

The pattern of "locational" facility decisions is in the process of major changes. The region's two major concentrations of Class A office space users are located within the Seattle and Bellevue central business districts. We are aware of the rapid escalation of office space rents (30 percent to 40 percent during the past year) in central business district locations.

In addition, parking costs have risen to a level of \$200-\$300/month (when available) and our traffic commutes have continued to become more unbearable. A major portion of central business district office workers have established their residences in relatively affordable Snohomish County. Therefore, a major portion of central business district-employed office workers regularly commute from homes in Snohomish County.

In response to these economic and quality-of-life issues that employees are facing, a solution is starting to form. Many executives of current central business district tenants will determine what portion of their operation requires a central business district presence and what portion of the operation can be effectively relocated to less expensive space, located more conveniently near the homes of "back office" employees.

This real estate phenomenon is new to the Puget Sound area but is an absolute way of doing business in cities such as San Francisco, Los Angeles, New York, etc.

The North End office market will become the location of choice for many corporate "back office" operations. Central business district office users paying \$35 to \$45 per square foot a year for space will be able to take advantage of \$25-per-square-foot rents in the North End office market.

This North End market will also offer plenty of free parking and it is located within a short drive from employees' homes. This new split location concept offers millions of dollars in savings during a lease term for significant users of central business district office space. The success of North End commercial real estate offerings is under way.

GARY BULLINGTON is the director of Eastside Industrial Leasing & Sales for Cushman & Wakefield of Washington. He can be reached at 425-201-1213.

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