

CALENDAR

▶ **2014 FEBRUARY
DEVELOPING LEADERS SKI DAY**
Friday, Feb 7, 2014
7:00 AM – 7:00 PM
Crystal Mountain



▶ **2014 FEBRUARY
BREAKFAST MEETING**
Wednesday, Feb 26, 2014
7:00 AM – 9:00 AM
Grand Hyatt, Seattle



NAIOP

COMMERCIAL REAL ESTATE
DEVELOPMENT ASSOCIATION
WASHINGTON STATE CHAPTER

The Deal

MONTHLY
NEWSLETTER



SOUTH SOUND

ECONOMIC FORECAST

By Brendan Mason

The 10th annual South Sound Economic Forecast lunch took place this year at the Tacoma Convention Center on January 23. As the marquee event for the South Sound Committee, it has grown every year and 2014 was no different. You know you have a winner on your hands when there is a group of 15 attendees on the wait list hoping to get seats to what was already a sold out event. Fortunately, with the help of NAIOP's very own Jillanne Arthur and Michelle Mills, everyone was able to get a great seat to what was a very positive and optimistic program.

NAIOP of Washington's new President A-P Hurd of Touchstone Corporation acted as the master of ceremonies and kicked things off by saying a few words before introducing Patrick Gemma for his forecast of the industrial market.

Mr. Gemma is the Regional Vice President for DCT Industrial, a national REIT and developer with a growing presence in the South Sound market with a current local portfolio of 1.6 million sf and an additional 900,000 sf under construction. He cited that in 2013, the industrial market from Kent to Tacoma saw vacancy levels decline from 6.83% to 6.19%. Rent growth was up 5.41% as blended rents rose from \$0.37 in 2012 to \$0.39 sf in 2013. Of particular interest are the 2014 speculative construction deliveries, which will bring as much as 2.4 million sf to the market before the years end.

Mr. Gemma believes that in 2014 vacancy will see a slight decrease and absorption will increase as the economy continues to improve. Rental rates will also see an increase due to construction levels staying below average, although construction itself will increase with planned speculation building double that of 2013.

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NAIOP PROFILE

As told to Dail Bodziony, Columbia Bank

Name: Scott Mathews, Vulcan Real Estate

Title & Company: Sr. Director
Acquisitions and Residential
Development

Brief description, size and scope of Company: Vulcan Real Estate directs all real estate investment activities for Vulcan Inc., a Paul G. Allen company, overseeing a \$1 billion diversified portfolio of high performing quality assets including office, biotech, residential and mixed-use projects.

How long have you been with your Company? My Vulcan career began in 2002 with a brief “detour” in 2006, returning in 2008, so around 10 years now.

Previous companies and/or previous career fields: Trammell Crow Residential, JPI, Marcus & Millichap, Delco Development, Thompson McKinnon Securities, Fidelity Investments.

How did you get into your field? Living in the Dallas area in the early eighties, I was working as a securities broker. Many of my college friends were having a lot of fun in the real estate business. It was the go-go days before the bust in 1986. Ultimately I too got the real estate fever, and joined a local broker / investor who represented a Seattle based development company active in the region. Shortly after the 1986 oil boom and savings and loan busts, I moved to join the same group in Seattle. That was October of 1986.

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PRESIDENT'S MESSAGE

WELCOME TO ANOTHER YEAR OF NAIOP

By A-P Hurd, Touchstone



It's only January, but already our committees are hard at work and we're looking forward to the year ahead. We already have some excellent breakfast programs planned, some exciting changes to the Real Estate Challenge and a couple of great emcees signed up for Night of the Stars.

We also have a new five-year strategic plan, which we completed in the 2013 calendar year, and which we are now implementing. This will be a helpful tool for us to have more continuity among our volunteer leadership, as well as keeping us focused on delivering an excellent experience for our members.

There are some aspects of the strategic plan that I am personally passionate about advancing this year.

First, I have seen NAIOP evolve a great deal over the past five to seven years into a more diverse, vibrant and welcoming organization. This is reflective of increasing diversity in our region and in our industry. It's important to me that everyone who wants to engage professionally with this organization feel welcome at our programs and on our committees. This isn't about checking a box. Real estate is fundamentally a creative enterprise, and success in each generation comes from imagination, storytelling, and innovation. We can only be successful storytellers and innovators if we understand and celebrate the diversity of thoughts and approaches in the community we serve, and in our own professional community.

On a related note, I have grown so much professionally from the volunteering I have done within this organization. Another important goal for me is that all of our volunteers should have an exceptional experience that allows them to learn, network and grow professionally. As important as it is to have high quality, well-run events, it's equally important that the volunteers who make this organization sing feel enriched by their experience.

I look forward to serving as Chapter President, and welcome all feedback with an open door. We can only evolve and improve if we hear from you about what can make us better.

Happy New Year,
A-P

PLACE CAPITAL: A LIVE DOCUMENTARY FILM ABOUT CITIES

By Ed Scherer, Avidex Industries, LLC

The morning of January 15th, NAIOP Breakfast goers were treated to a very unique program. A film was presented. Its focus was on four cities that are redefining our traditional views of the Urban Environment.

The genesis of the film project came from the simple question – “What makes good places”? The film team concentrated on four cities:

- **Detroit**
- **Berlin**
- **Krakow, Poland**
- **Fukushima, Japan**

The issues in Detroit are well known – a manufacturing base that has dispersed to other locations leaving the building infrastructure of Detroit abandoned. The film described the seeds of rebirth that is a testament to the human spirit. Shared values, living and working contribute to the overall value increasing the capital of place.

Innovation (how to re-use old tires) and urban farming were pointed out as examples of how Detroit will come back. There is a long way to go but the film captured the dedication of the people committed to bringing Detroit back to an exciting and vibrant place. The deterioration was gradual, so will be the rebirth. The theme from Detroit: “Diversity = Resilience”

Berlin is one of the most interesting cities in the world. In the last 70 years it has gone through wartime destruction, division with the Wall and three bankruptcies. Through it all, Berlin has continued to



lead and innovate. Aspects that were highlighted in the film were that artists and creative thinkers are leading the recovery of Berlin. The answer from Berlin about what makes good places is that open spaces foster community which fosters open communication. The rise of Co-working, urban gardening and shared housing were pointed out as drivers for Berlin. Ideas are the new currency and the reliance on Digital communication has brought about the need for more human interaction. That human interaction is asserted to bring about the growth of place value. The Berlin theme – “Spaces of possibility, spaces to pause and share ideas”.

As Fukushima struggles to overcome the three headed monster of earthquake, tsunami, and nuclear contamination, this community illustrates another theme of the film – “Community grows organically from the bottom up, not from the top down”.

Krakow, Poland boasts one of the oldest City Squares in the world, almost 800 years old. Marketplaces were shown as an essential bridge to community marrying food and people.

The next generations of City dwellers will have tremendous impact on place capital. It will be an exciting evolution and as NAIOP and community members, we have the opportunity to influence how our places retain and grow value. The film presentation caused a number of NAIOP participants to look at things from a different viewpoint and we thank the presenters for their unique insights.

NEW MEMBERS

Abood Alamoudi	University of Washington
Osamu Arakawa	University of Washington
Beau August	Metzler North America
Dan Case	Peterson Sullivan LLP
Mark Conway	Lydig Construction
Sarah Cox	Ashbaugh Beal
Casey Curran	PSI Inc.
Grant Degginger	Lane Powell PC
Brenda Divers	Turnkey Cleaning Company LLC
Amy Donovan	SKB Companies
Troy Johnson	Adolfson & Peterson Construction

Dennis Markham	Unispace Seattle LLC
Ryan O'Rourke	PSF Mechanical Inc.
Richard Peterson	NAI Puget Sound Properties
Lezlie Plastino	Schnitzer West LLC
John Platon	Adolfson & Peterson Construction
Benjamin Reinhardsen	PCL Construction Services Inc.
Ella Sandquist	The Riley Group Inc.
Dave Stolecki	Prime Electric Inc
Marc Strelski	Walsh Construction Co/WA
Wendy White	Chicago Title Co.
Kyle Willett	Gibraltar Construction
Grace Wong	Wiss Janney Elstner Associates Inc.

Chapter Members in the News

Ben Petter Joins Board of Directors at Construction for Change



Ben Petter of Gibraltar Construction and a NAIOP member has joined the Board of Directors at Construction for Change, which is a Seattle-based not for profit organization seeking to empower developing communities by establishing facilities that promote access to education, healthcare, and economic opportunity.

CfC was founded a few years ago by three young men who had recently graduated from the UW's Construction Management program. They had been inspired by time spent abroad in developing communities, and wanted to use their construction backgrounds to bring opportunity to developing communities around the world.

Construction for Change builds opportunity. Working alongside local leaders in developing communities, CfC constructs schools, hospitals, community centers, and other fundamental structures that foster growth. But CfC doesn't just build opportunity—they sustain it. Core to the mission is training and employing local workers, as well as using native materials, ensuring that every project supports the regional economy. CfC's network of expert volunteers and Change Fellows provides pro bono design and comprehensive project management strategies. The end result is high-quality, environmentally sound facilities that help break the cycle of poverty.

Please feel free to learn more about Construction for Change at www.constructionforchange.org.

Western Office Interiors is the exclusive dealer for DIRTT Environmental Solutions in the Puget Sound Region

Western Office Interiors Seattle is pleased to announce that it has reached an agreement to become the exclusive dealer for DIRTT Environmental Solutions in the Puget Sound Region. In addition to bringing on DIRTT and key personnel, Western Office Interiors will relocate its staff to the former Bang Office Interiors space at 2125 Western Avenue in Seattle. This new facility will showcase the effective integration of Knoll's significant array of high-design products with the myriad wall solutions provided by DIRTT.

The alignment of Knoll and DIRTT, two of the industry's premier manufacturers, will provide the Seattle marketplace with cost effective, design oriented solutions for a wide range of client needs.

"This change is very exciting as we will now be the exclusive Seattle dealer of Dirtt Walls" says NAIOP member and Business Developer Merissa Benitez. "Our showroom is both moving and growing to twice our current size. Truly a win-win opportunity for Dirtt and Knoll locally. Hope you will join us for a drink in our new space late in March."

When you next see --- or create --- news, please let us know. Send us your news releases and article links, or just drop us a line when you want us to know about chapter newsmakers, at pr@naiopwa.org.

NAIOP PROFILE - CONTINUED FROM PAGE 2

What would you be doing if you weren't at Vulcan? I hope to remain active in the real estate development and investment business for some time but in the future I look forward to a bit more recreational time, some travel and wish to join efforts to address shelter and housing affordability issues.

What do you like best about your industry?

I have never had a boring day at work in my life. The process of divining the future and the past to predict how to create value tomorrow is very challenging and rewarding. Along the way, we get to work with an industry full of very talented, high-integrity professionals.

What do you do for relaxation/recreation (e.g., hobbies, sports, exercise, travel, etc....)? I really enjoy golf. I only wish I could play more often.

What is the number one item on your bucket list? I don't have an official bucket list but do I want to see Africa with my family.

What book did you read most recently (that you want to admit to)? Recently I read Killing Lincoln and re-read The Age of Deleveraging (Shilling). I just started Jony Ive, The Genius Behind Apple's Greatest Products.

What advice would you give to someone just starting out in our industry? Stay curious. Gain broad training and experience across all the disciplines (property and asset management, finance, construction, development). And remember, it's a marathon not a sprint.

SOUTH SOUND ECONOMIC FORECAST - CONTINUED FROM PAGE 1

Justin Holmes, retail broker at First Western Properties, gave the overview for the retail market in the South Sound. The busiest group in 2014 was the discount retailers like Big Lots and Dollar Tree, while large national tenants Kohl's, Dick's Sporting Goods, and BevMo! are penetrating the South Sound market. Fast casual dining and medical were both on the rise. Mr. Holmes noted that retailers have been adjusting to the affects of e-commerce by shrinking the size of new stores. Retailers who would have taken 30,000 sf in the past are now taking 20,000 sf and those who would have taken 20,000 sf are opening stores in the 15,000 sf range. Tacoma retailers are starting to see the positive effects of the addition of State Farm, growth at the University of Washington Tacoma, and the Lemay Museum. For the reasons stated, Mr. Holmes predicted high absorption, less vacancy, and higher rents.

The day's keynote speaker was none other than Dr. Lynn Michaelis, President of Strategic Economic Analysis, LLC., who has shared his economic outlook and good humor at the event since its inception. Much like the presenters before him, Dr. Michaelis was able to share an overall positive outlook for the year ahead, a significant improvement over presentations from recent memory. Key indicators from 2013 were an expected rise of the gross domestic product by 2% and the S&P saw gains of 32%. Energy production within the United States was at unprecedented levels, which lowered prices across the board and helped the country's net trade position. The consumer's balance sheet and confidence are both improving.

Not to say that there are not still concerns. Although the country added 2.2 million new jobs last year, that is a relatively stagnant rate of growth. For those aged between 24-35, unemployment rates still remain disproportionately high at 7.4%, compared to the nation's average of 6.7%. This in turn has led to a negative rate of those aged between 24-29 forming households as many move home to live with their parents, further stifling the need for housing starts. Dr. Michaelis described the housing market as reaching the 2nd out of 6 gears in 2013.

For his 2014 forecast, Dr. Michaelis was quite optimistic. The Puget Sound region is benefitting from hiring and growth at it's largest employers: Amazon, Microsoft, Costco, and Boeing. He expects that housing starts will move into 3rd and maybe even 4th gear by the end of the year. As housing continues to gain momentum, the demand for forest products will sky rocket and Dr. Michaelis recommended investing in that sector. The GDP is expected to see additional growth of 2% in 2014 and 3% in 2015. As for the local economy, he sees no end in sight for growth.