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### Seattle still ranks high for commercial real-estate investment

Urban Land Institute and the accounting firm PricewaterhouseCoopers based rankings on interviews and surveys of more than 950 national real-estate leaders.

By Eric Pryne

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"Wealth islands."

That's the term a prominent national real-estate forecast has coined for cities like Seattle that it anticipates will fare relatively well in 2012, while most markets continue to struggle.

The annual "Emerging Trends in Real Estate" report, released late Tuesday, ranks the Seattle metro area sixth among the nation's top 51 markets for commercial and multifamily investment next year.

Seattle also ranked sixth in last year's forecast. But on a scale of 1 (abysmal) to 9 (excellent), its overall score rose this year, from 6.09 to 6.60.

The forecast was prepared by the Urban Land Institute, a growth think tank, and the accounting firm PricewaterhouseCoopers. Rankings were based on interviews and surveys of more than 950 national real-estate leaders.

So what are "wealth islands?" They're 24-hour cities, the report says, "global gateways" with diversified economies where real-estate values "tend to appreciate more in up markets and rebound more quickly after downturns."

They attract businesses, talent and wealthier residents. They also tend to be more walkable: "Increasingly, convenience counts as more people shy away from car-dependent places."

Besides Seattle, the "wealth islands" include top-ranked Washington, D.C., San Francisco, New York and Boston. But even those cities will continue to suffer the drag of high unemployment, the forecast says, and growth could be sporadic.

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It attributes much of Seattle's relative strength to "its diversified new-age corporate base, including Amazon, Microsoft and Google, as well as other formidable employers like Boeing, Costco and Nordstrom."

Seattle "definitely benefits from the strength of the high-tech sector," said Greg Johnson, president of Seattle developer Wright Runstad, who was among those interviewed for the report.

"We've got some job generators in this region, and the correlation between jobs and all real-estate sectors is pretty high."

Survey respondents gave Seattle the top "buy" rating in the country for industrial and retail real-estate investment. The area ranked second for office investment and third for apartment investment.

Seattle also was one of just eight cities rated as "generally good" for new commercial and multifamily development.

Johnson said conditions have improved so much that his firm could start building its ambitious, 36-acre office/retail/residential Spring District project in Bellevue sometime next year.

Here, as elsewhere in the country, apartments are the hottest play, the forecast says, as vacancies drop, rents rise and young adults look for center-city digs.

"Torrid demand should absorb any new supply over the next two to three years," it predicts.

That sentiment also surfaced at an industry forum in Seattle last week.

John Parker, recently retired president of real-estate advisory firm Bentall Kennedy, said he regrets not starting construction a year ago on a two-tower, 24-story complex at Sixth Avenue and Lenora Street. The project, in which Bentall Kennedy clients are investors, broke ground in May.

Tom Parsons of Holland Partner Group, a big regional apartment developer, said a parade of lenders had come through his office earlier this year — wanting only to invest in Los Angeles, Washington, D.C., and Seattle.

The apartment boom isn't a bubble, he said, but a product of powerful demographic and economic forces.

The Emerging Trends report also says:

- Seattle's downtown office-vacancy rate, which once topped 20 percent by some measures, should drop into the low teens in 2012, and rents probably will rise.
- Institutional investors may start financing new office construction again soon.
- Suburbs, especially more distant ones, will lag behind Seattle.

Portland ranks 18th in the 2012 forecast, down from 16th a year ago. Vancouver, B.C., is the No. 2 Canadian market, behind Toronto.

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