

MARKETBEAT OFFICE SNAPSHOT

BELLEVUE, WA

A Cushman & Wakefield Alliance Research Publication

Q4 2012



ECONOMIC OVERVIEW

The Puget Sound was one of the fastest growing regions in the country in 2012, expanding at twice the national rate (2.7% compared to 1.4%). Unemployment fell to 6.9% in November, compared to 7.9% one year ago and the region gained 44,200 jobs over the same period. Housing

starts climbed to a four-year high and the apartment market is booming with 3,472 units completed through September with an additional 14,000 units underway. This is producing steady improvements to construction employment for the first time since its peak in January 2008. Boeing regained the lead against Airbus for aircraft orders and while the tech industry slowed some in 2012, this sector is once again ramping up.

OFFICE MARKET OVERVIEW

Momentum that began in 2011 continued through 2012 for Bellevue's office market. Leasing activity ticked up 4.6% over the year to nearly 2.2 million square feet (msf), and the overall vacancy rate of 13.0% is well on its way towards reaching equilibrium. In fact, Bellevue CBD, with a vacancy rate of 10.8% (compared to 13.8% one year ago) has already garnered the interest from several developers. Projects that were shelved due to the recession are back on the drawing boards and new projects have surfaced. The Rockefeller Group and local developer/owner Sterling Realty Organization recently announced plans for a 2.4-msf mega project on the site that currently houses Barnes & Noble and Mars Hill Church.

Strong leasing activity is producing steady occupancy gains, with nine consecutive quarters of positive overall absorption. By year-end, the market recorded 431,781 square feet (sf) of positive absorption, down a bit from the 886,742 sf that was recorded in 2011. Although the CBD continues to gain tenant interest, the suburban markets experienced some residual contractions caused by the last recession.

Capital markets had its strongest post-recession year on the Eastside, in particular the Bellevue CBD. Several high-rise class A projects traded, including City Center Plaza which sold in October to Commonwealth Partners for \$374.7 million. The seller, Cole Credit Property Trust purchased the 583,179-sf tower in 2010 that is 100% leased to Microsoft for \$310.0 million. For the year, just over \$1.0 billion traded hands on the Eastside, compared to just \$385 million in 2011. The average price paid jumped 11.2%, from \$347 per square foot (psf) to \$386 psf.

At \$34.99 psf/yr, rents in the Bellevue CBD are up 6.7% over the year for all classes, while class A rents jumped 7.6% since 2011 to \$36.28 psf/yr. Despite weaker demand than the CBD, rents in the close-in suburbs increased 9.2% over the year to \$26.95 psf/yr with class A rents ticking up 5.7% to \$29.39 psf/yr.

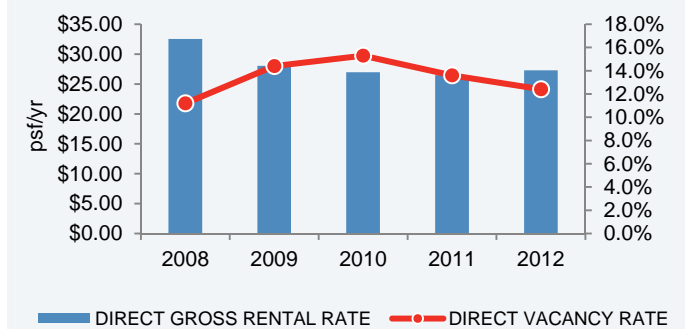
OUTLOOK

Strong leasing activity, stable growth and rent increases all point towards a landlord's market in 2013. Gone are the days of negotiating hefty tenant improvement and moving allowances, free rent and other discounts. This could produce some trepidation among cost conscious tenants that did not take advantage of these concessions during the downturn, and many may simply decide to renew. However, with regional employment that is expected to grow at a rate of 2.7% in 2013 and 2.4% in 2014, tenant expansion will likely carry into 2013. A few large vacancies are expected along the I-90 Corridor over the next six months, but we do not anticipate them to create much of a setback for the long term growth of the market.

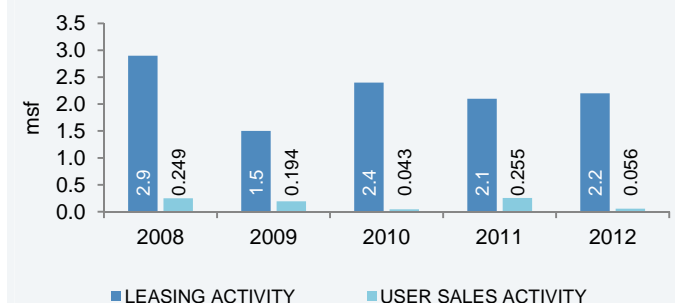
STATS ON THE GO

	Q4 2011	Q4 2012	Y-O-Y CHANGE	12 MONTH FORECAST
Overall Vacancy	14.5%	13.0%	-1.5pp	▼
Direct Asking Rents (psf/yr)	\$26.49	\$27.28	3.0%	▲
YTD Leasing Activity (sf)	2,098,768	2,195,102	4.6%	◄►

DIRECT RENTAL VS. VACANCY RATES



OVERALL OCCUPIER ACTIVITY



BELLEVUE, WA

SUBMARKET	INVENTORY	OVERALL VACANCY RATE	DIRECT VACANCY RATE	YTD LEASING ACTIVITY	UNDER CONSTRUCTION	YTD CONSTRUCTION COMPLETIONS	YTD DIRECT NET ABSORPTION	YTD OVERALL NET ABSORPTION	OVERALL WTD. AVG. ALL CLASSES GROSS RENTAL RATE*	DIRECT WTD. AVG. CLASS A GROSS RENTAL RATE*
Bellevue CBD	8,206,835	10.8%	10.2%	814,453	0	0	258,678	249,458	\$34.05	\$36.28
405 Corridor	2,646,403	16.8%	16.7%	182,475	0	0	(32,223)	(15,643)	\$27.02	\$31.14
520 Corridor	3,215,039	13.1%	12.6%	387,616	0	0	158,030	147,401	\$26.16	\$28.53
I-90 Corridor	6,548,931	11.6%	10.3%	316,946	0	7,607	15,023	6,306	\$29.25	\$30.47
Bel-Red	1,504,545	11.1%	11.1%	53,057	19,000	0	18,784	17,820	\$23.26	\$28.00
Redmond	1,453,172	14.3%	13.5%	43,641	0	0	(30,315)	(42,074)	\$26.82	\$28.52
Kirkland	2,318,538	10.5%	10.0%	154,091	0	0	32,941	106,824	\$26.33	\$32.74
Bothell/ Woodinville	1,518,921	12.1%	12.1%	25,249	0	0	(31,308)	(16,111)	\$22.94	\$23.02
Eastside Suburban	19,205,549	12.6%	12.0%	1,163,075	19,000	7,607	130,932	204,523	\$26.85	\$29.39
Lynnwood	2,318,102	23.5%	22.6%	166,710	0	0	31,050	18,976	\$22.48	\$24.98
Everett	1,631,007	14.0%	14.0%	50,864	0	0	(47,176)	(41,176)	\$18.92	N/A
Northend Suburban	3,949,109	19.6%	19.1%	217,574	0	0	(16,126)	(22,200)	\$21.49	\$24.98
Suburban Total	23,154,658	13.8%	13.2%	1,380,649	19,000	7,607	114,806	182,323	\$25.56	\$28.20
TOTALS	31,361,493	13.0%	12.4%	2,195,102	19,000	7,607	373,484	431,781	\$27.12	\$30.65

* RENTAL RATES REFLECT ASKING \$PSF/YEAR

MARKET HIGHLIGHTS

Significant 2012 Lease Transactions	SUBMARKET	TENANT	BUILDING CLASS	SQUARE FEET
Key Center	Bellevue CBD	Concur Technologies	A	122,755
One Bellevue Center*	Bellevue CBD	Drugstore.com (Renewal/Expansion)	A	72,411
City Center Bellevue	Bellevue CBD	Caradigm	A	68,956
Plaza East	Bellevue CBD	Apptio	A	57,805
Redstone Corporate Center I*	Lynnwood	Pemco Financial Services	A	54,450
One Bellevue Center	Bellevue CBD	eBay	A	53,130
Plaza at Yarrow Bay	520 Corridor	INRIX, Inc. (Renewal/Expansion)	A	52,777
3100 Building	520 Corridor	UW Medicine	B	33,492
Significant 2012 Sale Transactions	SUBMARKET	BUYER	PURCHASE PRICE / \$PSF	SQUARE FEET
City Center Plaza	Bellevue CBD	Commonwealth Partners	\$374,650,000 / \$642	583,179
City Center Bellevue	Bellevue CBD	American Assets Trust	\$228,765,000 / \$461	494,949
Skyline Tower	Bellevue CBD	Kilroy Realty	\$187,000,000 / \$457	408,460
Offices at River Park	Redmond	JMA Ventures	\$38,500,000 / \$360	106,910
Significant 2012 Construction Completions N/A	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET
Significant Projects Under Construction	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET
Forum West	Bel-Red	N/A	Q2 2013	19,000

* RENEWAL - NOT INCLUDED IN LEASING ACTIVITY STATISTICS