

MARKETBEAT OFFICE SNAPSHOT

SEATTLE, WA - CBD

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

Seattle's CBD was one of the most active office markets in the country in 2012, largely due to Amazon.com's robust growth. The online retailer moved into 942,763 square feet (sf) of space this year, accounting for 66% of the 1.4 million square feet (msf) of positive overall absorption recorded. This helped to push the overall vacancy rate down to 16.5%, from 19.5% at year-end 2011. Although still relatively high, the vacancy is a substantial improvement from the market's peak of 21.1% just two years ago. Other expanding Seattle-based companies that contributed to positive momentum this year included Globys, Double Down Interactive, Isilon Systems, Nordstrom and F5 Networks.

The 3.9 msf of leasing activity is down about 9.0% from last year, but 2012 was the fourth strongest year on record for new leases, behind 2011 and the 1999-2000 tech boom. Despite strong leasing for newer product, large vacancies in second and third generation spaces caused rental rates to stabilize some over the past twelve month. Asking rents for all classes increased just 0.7% since year-end 2011 to \$29.50 per square foot per year (psf/yr) and class A rents remained stagnant at \$32.70 psf/yr.

Capital markets had a banner year, reaching \$2.4 billion in nearly 6.5 msf of office product in 2012, compared to \$1.2 billion in nearly 3.7 msf in 2011 while the average sale price of \$369 psf for the year was up 13.8% from one year ago. Not only did class A trophy assets garner interest from buyers, but a number of stabilized class B product traded as well. This year set the record for class B investment sales with nearly 1.8 msf in transactions. The biggest news did not come from the investment front, however, but from Amazon.com's much anticipated purchase of its own headquarters from Vulcan Real Estate. The seven-building, 1.8-msf campus located in South Lake Union was purchased late in the year for \$1.1 billion, or an average \$640 psf, making it the single largest office sale in the U.S. for 2012.

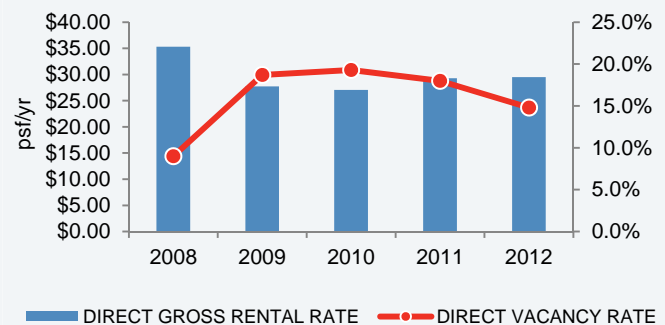
OUTLOOK

Until a number of large spaces in the south part of downtown can be filled, it will be some time before we see another boom in speculative construction. That being said, developers are gearing up on projects around South Lake Union and we could see a few "spec" ground breaks here in the near future. In fact, Capstone recently announced it would dust off plans for the 345,000-sf Dexter Station, which was shelved after the last recession, and break ground in February without a tenant in tow. Amazon.com's expansion will continue into 2013. The company has signed lease commitments on two new construction projects, including Phase VI at its campus which is expected to break ground in early 2013. In addition, the company is in the planning stages to build upward of 3.3 msf on land it purchased from the Clise family in the Denny Regrade.

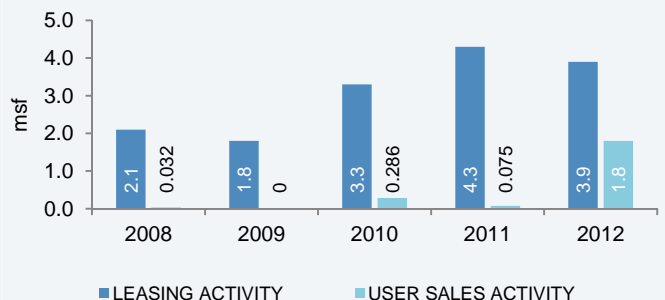
STATS ON THE GO

	Q4 2011	Q4 2012	Y-O-Y CHANGE	12 MONTH FORECAST
Overall Vacancy	19.5%	19.5%	-3.0pp	▼
Direct Asking Rents (psf/yr)	\$29.28	\$29.50	0.7%	▲
YTD Leasing Activity (sf)	4,288,728	3,903,066	-8.8%	◀▶

DIRECT RENTAL VS. VACANCY RATES



OVERALL OCCUPIER ACTIVITY



SEATTLE, WA - CBD

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*
Financial District	21,366,957	17.3%	14.6%	1,878,401	0	0	92,281	782	\$29.99	\$33.73
Denny Regrade	8,113,877	16.7%	15.6%	552,239	0	0	689,819	689,819	\$28.49	\$31.12
Pioneer Square/Int'l Dist.	4,232,433	17.9%	17.6%	465,103	0	0	148,076	169,374	\$27.94	\$32.27
Lower Queen Anne/Lake Union	7,832,867	13.4%	12.9%	1,007,323	117,900	340,563	554,596	567,957	\$29.00	\$32.99
CBD	41,546,134	16.5%	14.8%	3,903,066	117,900	340,563	1,484,757	1,427,932	\$29.12	\$32.70
North Seattle/ Northgate	2,486,429	9.6%	9.3%	145,453	0	0	75,789	100,359	\$23.08	\$24.52
Close-in South Seattle	1,348,662	22.4%	22.4%	85,006	170,000	141,200	109,517	109,517	\$22.48	\$25.04
East Seattle/ Capitol Hill	892,766	26.4%	26.4%	16,046	0	0	213,765	213,765	\$22.80	\$23.96
Seattle In-City	4,727,857	16.4%	16.2%	246,450	170,000	141,200	399,071	423,641	\$22.81	\$24.71
Tukwila	2,244,531	17.3%	16.8%	104,454	0	0	(44,572)	(7,189)	\$18.63	\$20.16
SeaTac	861,514	30.8%	30.1%	108,785	0	0	99,893	99,893	\$20.45	\$22.96
Renton	3,177,843	12.5%	12.2%	160,558	0	0	(23,829)	(24,064)	\$20.73	\$22.27
Kent/Auburn	1,412,894	34.1%	32.9%	82,653	0	0	(17,897)	(15,090)	\$19.51	\$22.07
Southend Suburban	7,696,782	19.9%	19.4%	456,450	0	0	13,595	53,550	\$19.74	\$22.09
Federal Way	2,147,459	30.3%	30.0%	83,138	0	0	(98,532)	40,610	\$18.71	\$19.79
TOTALS**	56,118,232	17.5%	16.1%	4,689,159	287,900	481,763	1,798,891	1,945,733	\$26.11	\$29.50

* RENTAL RATES REFLECT ASKING \$PSF/YEAR

**TOTAL INCLUDES MARKETS NOT REPORTED IN NATIONAL STATISTICS (SEATTLE IN-CITY AND FEDERAL WAY)

MARKET HIGHLIGHTS

Significant 2012 Lease Transactions	SUBMARKET	TENANT	BUILDING CLASS	SQUARE FEET
Amazon.com Headquarters Phase VI	Lower QA/Lk Union	Amazon.com	A	365,000
1600 Seventh Avenue	Financial District	Nordstrom	B	300,000
1600 Seventh Avenue (Sale/Leaseback)	Financial District	CenturyLink	B	260,000
705 Fifth Avenue South	Pioneer Square/Int'l Dist	Attachmate	A	72,299
2323 Elliott Avenue (Sale/Leaseback)	Denny Regrade	Art Institute of Seattle	B	71,258
Significant 2012 Sale Transactions	SUBMARKET	BUYER	PURCHASE PRICE / \$PSF	SQUARE FEET
Amazon.com Headquarters	Lower QA/Lk Union	Amazon.com	\$1,154,269,143 / \$640	1,800,794
1201 Third Avenue	Financial District	MetLife Real Estate Investments	\$548,784,720 / \$461	1,190,000
Russell Investments Center	Financial District	CommonWealth Partners	\$480,000,000 / \$550	872,026
West Eighth	Denny Regrade	AEW Capital Management	\$278,680,000 / \$531	524,798
Significant 2012 Construction Completions	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET
Amazon.com Headquarters Phase V	Lower QA/Lk Union	Amazon.com	Q4 2012	340,563
Significant Projects Under Construction	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET
202 Westlake	Lower QA/Lk Union	Amazon.com	Q3 2013	117,900