

MARKETBEAT

OFFICE SNAPSHOT

SEATTLE, WA – SUBURBAN (SOUTHEND)

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. Retail sales grew at an estimated 6.2% for the year, and is forecasted to make a full recovery in the first half of 2013. 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

After several quarters of declining fundamentals, the Southend office market ended the year on a high note. The Veterans Affairs office had an immediate requirement for new space after a study found their existing facility in Auburn was structurally unsound given any inclement weather. The result was a lease for 84,247 square feet (sf) at SeaTac Office Center in space that had been vacated by Boeing in late-2011. This move pushed the vacancy rate down from 21.1% in 2011 to 19.9% by year-end 2012.

After four consecutive quarters of negative overall absorption, the market posted 103,772 sf of positive absorption in the fourth quarter, improving the year-end figure to positive 53,550 sf. A few other moves besides the Veterans Affairs lease during the quarter produced a small amount of expansion, hopefully an indication the market could have potentially bottomed out.

Leasing activity reached 456,450 sf for the year, an 8.3% improvement over 2011. In addition to a few notable deals signed earlier in the year, including Tyler Technologies and Paychex, and more recently by the Veterans Affairs office, Aronson Securities Group leased 23,492 sf this quarter at the Oakesdale Center in Renton. The company will be relocating operations in 2013 from its office on South Lake Union in the Seattle CBD market.

Without any real improvements in demand, rents remained flat in the year, improving just 0.8% to \$19.82 per square foot per year (psf/yr) for all classes. Class A rents have ticked up only slightly more, 1.2% over the year, to \$22.09 psf/yr.

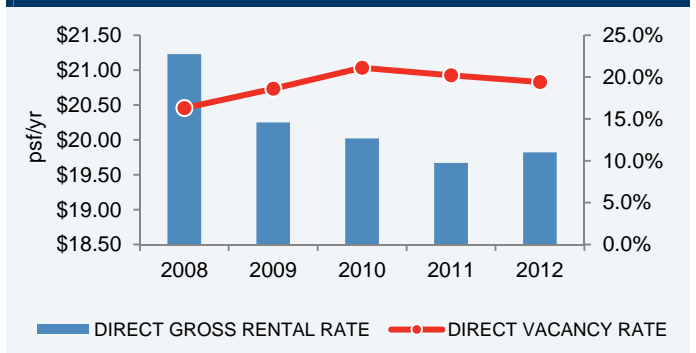
OUTLOOK

Until recently, the Southend was dealing with increasing vacancy, declining rents and stagnant leasing. It will take more than one quarter, and one large lease to turn the market around. Without any significant requirements, we expect that the Southend vacancy will decline only marginally to 19.1% and 18.7% in 2013 and 2014, respectively. There has been growing interest from tenants in recent months for large blocks of affordable space in the Federal Way submarket that can accommodate higher employee density. Though this submarket is not included in the Southend's statistics, any positive momentum here has the potential to create a ripple effect for its northern counterpart.

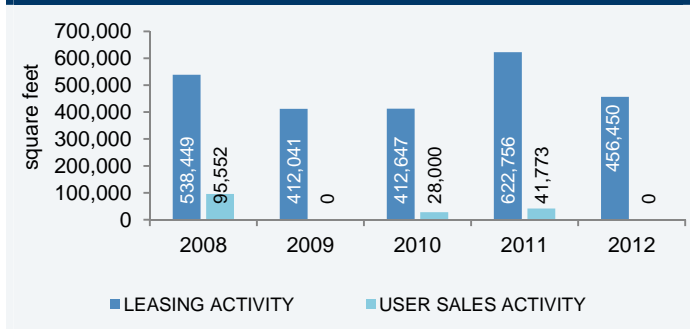
STATS ON THE GO

	Q4 2011	Q4 2012	Y-O-Y CHANGE	12 MONTH FORECAST
Overall Vacancy	21.1%	19.9%	-1.2pp	◀▶
Direct Asking Rents (psf/yr)	\$19.67	\$19.82	0.7%	◀▶
YTD Leasing Activity (sf)	421,372	456,450	8.3%	◀▶

DIRECT RENTAL VS. VACANCY RATES



OVERALL OCCUPIER ACTIVITY



SEATTLE, WA – SUBURBAN (SOUTHEND)

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
SeaTac Office Center	SeaTac	Veterans Affairs	A	84,247
The Landmark – East	Renton	Tyler Technologies	A	36,969
Oakesdale Center	Renton	Aronson Security Group	B	23,492
Centerpoint – Cascade West	Kent	Paychex North America	A	19,213
Xerox Building*	Tukwila	Xerox Corporation	B	16,833
Significant 2012 Sale Transactions	SUBMARKET	BUYER	PURCHASE PRICE / \$PSF	SQUARE FEET
Centerpoint – Cascade & Atrium Buildings	Kent	Fountainhead Northwest LLC	\$46,250,000 / \$105	439,711
I-5 Technology Center	Federal Way	JMA Ventures, LLC	\$17,000,000 / \$166	102,030
Significant 2012 Construction Completions N/A	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET
Significant Projects Under Construction N/A	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET

* RENEWAL - NOT INCLUDED IN LEASING ACTIVITY STATISTICS