

MARKETBEAT

BELLEVUE OFFICE REPORT

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION



4Q10

ECONOMY

The Puget Sound region is taking time getting on its feet. Economic recovery is mired by high unemployment (9.1% in November), declining home sales (-2.2% for the year ending in December) and slower than expected growth in personal income (+1.9%). That being said, signs that the region is on the verge of a turnaround are in sight. Just 2,600 jobs were lost in the twelve-month period ending in November, compared to 45,750 lost in the previous year. Retail sales were up 3.1% in 2010, compared to a declining rate of 4.5% in 2009 and the Puget Sound Index of Leading Economic Indicators rose 0.9% in the third quarter, the fifth consecutive quarterly increase.

OVERVIEW

Though tenants in Bellevue's office market continued to shed space in 2010, the level of decline subsided substantially when compared to 2009 and by fourth quarter, it appeared as though the market had bottomed with some pockets of growth reported. The overall vacancy rate for the CBD increased 210 basis points over the year to 16.5%, compared to the 360-basis point jump over the previous twelve-month period. The greater suburban market (including Northend) improved over the quarter, from 17.9% to 17.1%, and was 110 points lower than year-end 2009.

With no large spaces coming onto the market in the fourth quarter, the CBD recorded just 12,831 square feet (sf) of negative overall absorption, bringing the total for the year to negative 183,151 sf. The suburbs had a strong quarter, with 191,168 sf of positive absorption for a total of 242,616 sf for the year, compared to negative 809,815 sf in 2009. Notable expansions and/or relocations that contributed to positive absorption this quarter included Vertafore's move into the balance of their new space, 52,419 sf, at Schnitzer North Creek Building A in Bothell. Intellectual Ventures also moved into the last phase of space it leased at Sunset North on the I-90 Corridor - about 63,000 sf, and Phoenix University moved into 18,000 sf at Northview Corporate Center in Lynnwood.

With nearly 2.4 million square feet (msf) of new deals in 2010, leasing was up 56% from 2009. Downtown Bellevue leasing improved 45% over the year while the suburban market saw a 60% jump in new activity. Not surprisingly, flight to quality was prevalent given the large drop in rents in 2009. Class A properties accounted for 73% of all new leases this year, compared to a healthy market when this sector generally accounts for about 60%.

Asking rents have stabilized over the past several quarters with direct average rates in the CBD dropping just 0.8% over the quarter to \$31.55 per square foot (psf). Over the year, the CBD declined 3.3%, compared to a 15.9% drop in 2009. The suburban market was down a similar 0.9% over the quarter to \$25.46 psf for direct space, and 5.0% over the year.

In addition to the properties that Schnitzer West sold during the third quarter in the CBD and the I-90 Corridor, recent transactions included the Proctor International Building along the 520 Corridor which sold to Kilroy Realty Corporation for \$46 million (\$376 psf). Additionally, Waterfront Place in Kirkland sold to Talon Properties for \$21.5 million (\$404.38 psf). In total, eleven investment properties totaling 2.4 msf traded hands this year for an average of \$453 psf, compared to six properties in 2009 totaling 726,497 sf for an average of \$292 psf.

OUTLOOK

It is safe to say that the Eastside office market has bottomed out. Whether 2011 is a time of recovery or somewhere in between is uncertain at this point. Employers have been running lean these past two to three years, and any business growth could result in new hires. However, the regional employment forecast calls for growth of just 1.2% in 2011 and 2.4% in 2012. If that is the case, then moderate expansion will occur, most likely in the close-in Bellevue submarkets, but a market-wide recovery will still take some amount of time. Fortunately, we are no longer expecting massive office space contractions or relocations outside the market from large Eastside companies.

BEAT ON THE STREET


The large drop in rents in 2009 contributed to a significant boost in leasing this past year. Though many companies are simply taking advantage of the current supply-side economics by moving from one location to another, the fact that they were moving at all was a welcoming trend. The improving economy should result in real expansion for some of those relocations going forward.


ECONOMIC INDICATORS


National	2009	2010	2011F
GDP Growth	-2.6%	2.8%	2.8%
CPI Growth	-0.3%	1.6%	1.5%
Regional			
Unemployment	8.6%	8.8%	8.7%
Employment Growth	-4.9%	-1.9%	1.2%

Source: Moody's | Economy.com & Puget Sound Economic Forecaster

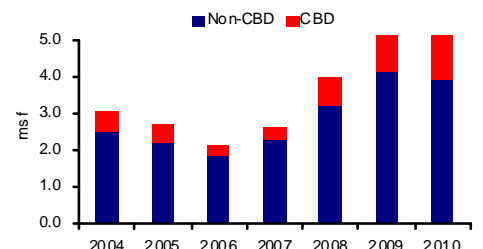
MARKET FORECAST

OVERALL ABSORPTION: Without any large vacancies projected in the CBD, absorption should turn positive sometime during the first half of 2011. The suburban market will likely see stable to improving absorption. 

RENTAL RATES will stabilize in 2011 resulting in fewer concessions like free rent and large TI packages that landlords are currently offering. 

EMPLOYMENT: The Economic Forecaster is projecting a gain of 20,200 jobs for the region and 12,600 jobs in King County for 2011. 

OVERALL AVAILABLE SPACE



MARKET/SUBMARKET STATISTICS

Market/Submarket	Inventory	No. of Bldgs.	Overall Vacancy Rate	Direct Vacancy Rate	YTD Leasing Activity	Under Construction	YTD Construction Completions	YTD Overall Absorption	Direct Wtd. Avg. Class A Gross Rental Rate*
Bellevue CBD	8,159,725	52	16.5%	14.5%	565,893	0	0	(183,151)	\$32.66
405 Corridor	2,802,905	85	14.6%	13.2%	242,440	0	0	(71,851)	\$27.41
520 Corridor	3,214,530	68	19.8%	18.5%	267,944	0	0	(59,899)	\$27.85
I-90 Corridor	6,421,433	93	14.1%	12.6%	724,260	165,000	0	249,617	\$29.34
Bel-Red	1,419,456	78	14.5%	13.4%	39,631	0	0	(50,113)	\$25.55
Redmond	1,425,089	22	15.6%	15.4%	63,268	0	0	(8,748)	\$28.36
Kirkland	2,336,740	63	22.4%	17.0%	181,077	0	0	71,475	\$30.32
Bothell/Woodinville	1,563,482	32	15.9%	15.5%	145,998	0	0	110,356	\$25.16
Eastside Suburban	19,183,635	441	16.4%	14.7%	1,664,618	165,000	0	240,837	\$28.65
Lynnwood	2,344,694	52	28.8%	27.5%	123,421	0	0	(16,611)	\$25.14
Everett	1,303,554	29	6.3%	6.3%	32,807	0	0	18,390	\$21.75
Northend Suburban	3,648,248	81	20.7%	19.9%	156,228	0	0	1,779	\$24.94
NON-CBD Total	22,831,883	522	17.1%	15.5%	1,820,846	165,000	0	242,616	\$27.67
TOTAL	30,991,608	574	17.0%	15.3%	2,386,739	165,000	0	59,465	\$29.41

*Rental rates reflect \$psf/year

MARKET HIGHLIGHTS

SIGNIFICANT 2010 LEASE TRANSACTIONS				
BUILDING	SUBMARKET	TENANT	SQUARE FEET	BLDG CLASS
Sunset North Corporate Campus Bldg IV	I-90 Corridor	Intellectual Ventures	158,875	A
Sunset North Corporate Campus Bldg V	I-90 Corridor	T-Mobile	98,846	A
Lincoln Square	Bellevue CBD	Microsoft Corporation	63,526	A
Canyon Park Commons - Bldg 3	Bothell/Woodinville	AT&T	63,526	B
Sunset Corporate Campus Bldg II	I-90 Corridor	HTC, USA	55,146	A
One Bellevue Center	Bellevue CBD	ChemPoint (renewal)	49,500	A
Sterling Plaza II	I-90 Corridor	Clearwire	40,793	A
Maple Street Office Building	I-90 Corridor	North American Energy	35,770	A
Lake Washington Office Park	Kirkland	Demand Media	34,146	B
Laguna South	520 Corridor	HCL	32,680	A
SIGNIFICANT 2010 SALE TRANSACTIONS				
BUILDING	SUBMARKET	Buyer	SQUARE FEET	PURCHASE PRICE
The Bravem	Bellevue CBD	Bellevue Bravem, LLC	749,694	\$410,000,000
City Center Plaza	Bellevue CBD	Cole MT Bellevue WA LLC	583,179	\$310,000,000
Advanta Office Commons	I-90 Corridor	Advanta Office Holdings LLC	559,110	\$240,000,000
Kirkland 405 Bldgs A1 & A2	Kirkland	CRP-3 Kirkland LLC	129,585	\$17,590,000
Proctor International Building	520 Corridor	Kilroy Realty, LP	122,100	\$46,000,000
SIGNIFICANT 2010 CONSTRUCTION COMPLETIONS				
BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
N/A				
SIGNIFICANT PROJECTS UNDER CONSTRUCTION/RENOVATION				
BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
T-Mobile Expansion	I-90 Corridor	T-Mobile	165,000	2/11



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