

MARKETBEAT

BELLEVUE OFFICE REPORT

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION



3Q10

ECONOMY

The Puget Sound economy is moving in a relatively positive direction but recovery has yet to take shape. Business confidence is easing back into the workplace, employment for the region's core industries of software publishing and aerospace manufacturing are coming off their low points, and the housing market is showing modest improvements. That being said, job creation has been lackluster and the recent drop in unemployment – from 9.3% back in January of this year to 8.4% in August – is having less to do with employment gains and more to do with a shrinking work force.

OVERVIEW

Though corporate give-backs for the most part have subsided, there remains some amount of consolidation on the Eastside. After two quarters of stabilizing occupancy trends, the overall vacancy rate for the Bellevue CBD rose from 15.8% to 16.5% between mid-year and third quarter. Key Bank consolidated, putting 44,617 square feet (sf) back on the market and SinglePoint downsized and relocated from about 15,000 sf at Bellevue Corporate Center to downtown Seattle. In all, the tenant base shrunk by 63,216 sf this quarter, bringing overall absorption in the year to negative 179,762 sf.

The Eastside Suburban market fared slightly better. A cross section of tenants absorbing new space and those that continue to seek efficiency in their space needs produced relatively flat vacancy trends for the quarter. At 17.3%, the overall vacancy increased nominally from 17.2% last quarter, resulting in just 12,747 sf of negative overall absorption.

Leasing activity continues to gain momentum, especially when compared to 2009 levels. The 422,974 sf leased so far this year in the CBD is up 57.7% from the first three quarters of 2009. Leasing for the Eastside Suburban market has increased nearly 60% over the same period of time. Demand continues to be focused around the I-90 Corridor, which is becoming a hub for the wireless and mobile phone sectors. More than 50% of leasing in the suburbs so far in the year has come from this submarket.

The biggest news this quarter was on the investment front. More than \$977 million in sales occurred this quarter, pushing total activity for the year over \$1.0 billion. Not since 2007 has the market, or any other in the region, seen this much activity, particularly in a single quarter. Schnitzer West sold both the 749,694-sf Bravern in downtown Bellevue and 559,110-sf Advanta Office Commons on the I-90 Corridor for \$410 million and \$240 million, respectively. Both properties have long-term leases in place and are fully occupied by Microsoft. Beacon Capital sold City Center Plaza, a 593,179 sf project in the CBD for \$310 million, also occupied by the software giant.

While the average price of \$475.83 per square foot (psf) is a significant gain over the 2007 average for \$320.21 psf, today's high is a reflection of a handful of transactions involving high end properties and long term leases with strong credit tenants. These types of properties continue to garner the highest pricing with investors willing to pay a premium and accept lower returns for long term stability of their investment.

FORECAST

The recent sales activity provided a jump start to what could be a rebound for the investment market. Cash flow is improving and there continues to be significant capital on the sidelines looking to the real estate market to invest. The only setback is the type of product in which investors are interested. Buyers will continue to look favorably towards assets with long-term leases in place by strong credit tenants. By contrast, properties with lease-up risk are much harder to underwrite and will command significantly lower pricing.

BEAT ON THE STREET

"A summer rally on the I-90 Corridor gave hope that the market was beginning to rebound, however, employment gains remain weak and the leasing market overall has been flat. That said, there seems to be optimism that the upcoming elections may bring more certainty to the business climate and increased hiring and need for office space in 2011."


–Thomas P. Bohman, Senior Director


ECONOMIC INDICATORS

National	2009	2010F	2011F
GDP Growth	-2.6%	2.7%	3.1%
CPI Growth	-0.3%	1.6%	1.6%
Regional			
Unemployment	8.6%	8.4%	8.0%
Employment Growth	-4.9%	-1.0%	1.5%

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

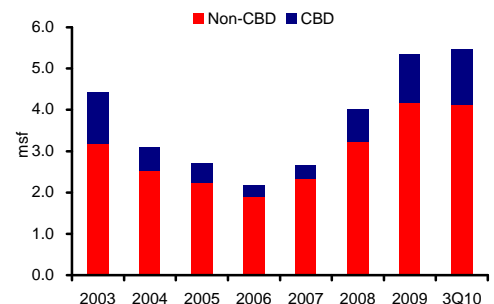
MARKET FORECAST

LEASING ACTIVITY: Though downsizing continues, leasing activity is picking up as companies start to implement long term business plans. 

CONSTRUCTION: Excess vacant inventory will keep construction projects on hold for the next several years. 

EMPLOYMENT: The Economic Forecaster is projecting a gain of 25,800 jobs for the region in 2011. 

OVERALL AVAILABLE SPACE



MARKET/SUBMARKET STATISTICS

MARKET/	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	8,155,905	52	16.5%	14.6%	422,974	0	0	(179,762)	\$32.94
405 Corridor	2,782,540	86	13.8%	12.4%	174,234	0	0	(47,945)	\$27.49
520 Corridor	3,217,304	69	20.0%	17.3%	161,573	0	0	(64,245)	\$30.92
I-90 Corridor	6,443,890	95	15.4%	12.2%	650,793	165,000	0	166,424	\$29.79
Bel-Red	1,419,456	78	15.4%	13.3%	36,355	0	0	(63,288)	\$27.35
Redmond	1,452,676	23	16.1%	15.9%	38,868	0	0	(12,912)	\$28.35
Kirkland	2,366,053	65	22.5%	17.2%	140,069	0	0	62,704	\$30.15
Bothell/Woodinville	1,563,482	32	20.7%	20.3%	93,707	0	0	35,283	\$24.98
Eastside Suburban	19,245,401	448	17.3%	14.7%	1,295,599	165,000	0	76,021	\$29.03
Lynnwood	2,344,694	52	30.7%	28.8%	80,035	0	0	(62,046)	\$25.15
Everett	1,360,930	32	5.2%	5.2%	30,397	0	0	29,657	\$21.75
Northend Suburban	3,705,624	84	21.3%	20.1%	110,432	0	0	(32,389)	\$24.94
Non-CBD Total	22,951,025	532	17.9%	15.6%	1,406,031	165,000	0	43,632	\$27.94
TOTAL	31,106,930	584	17.5%	15.3%	1,829,005	165,000	0	(136,130)	\$29.68

* Rental rates reflect \$psf/year

MARKET HIGHLIGHTS

SIGNIFICANT 3Q10 NEW LEASE TRANSACTIONS				
BUILDING	SUBMARKET	TENANT	SQUARE FEET	BLDG CLASS
Sunset Corporate Campus II	I-90 Corridor	HTC, USA	55,146	A
Sunset Corporate Campus I	I-90 Corridor	eFinancial	31,662	A
Eastpointe Corporate Campus	I-90 Corridor	American Family Insurance	21,739	A
SIGNIFICANT 3Q10 SALE TRANSACTIONS				
BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
The Bravern	Bellevue CBD	Bravern Bellevue LLC	749,694	\$410,000,000
Advanta Office Commons	I-90 Corridor	Advanta Office Holdings, LLC	559,110	\$240,000,000
City Center Plaza	Bellevue CBD	Cole MT Bellevue WA, LLC	583,179	\$310,000,000
SIGNIFICANT 3Q10 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	10/10



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