

# MARKETBEAT

## SEATTLE CBD 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 is 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

After reaching an all-time high of 22.0% at mid-year, the overall vacancy rate in Seattle's CBD declined over two consecutive quarters, ending the year at 20.8%. The recent contraction in office space was largely the outcome of Russell Investments and Nordstrom, which moved into a combined 461,000 square feet (sf) at the Russell Investments Center. Russell Investments left its existing home in Tacoma and Nordstrom consolidated into about 40,000 sf more office space than what it had moved out of. The end result contributed to the 296,998 sf of positive overall absorption for the quarter, boosting the annual figure to 591,401 sf. That compares to more than 2.1 million square feet (msf) of negative absorption by year-end 2009.

With 677,457 sf of new deals recorded for the quarter, total leasing for the year tipped the scales at more than 3.2 msf. That is double the leasing activity in 2009 and is more than 11% more than 2007 activity, when the CBD was still relatively healthy. Class A office space cornered the market, accounting for 73% of all leasing, not a big surprise given the considerable drop in rents that occurred in 2009. By contrast, class A leasing only accounted for about 59% of all new deals in 2007, when rents were at their cyclical high.

Rental rates continued to decline through the year, though not nearly at the same pace as 2009. Direct average rents for all classes dropped 2.4% for the year to \$27.07 per square foot (psf), compared to a year-over-year drop of 21.4% in the previous twelve-month period. Rents were down 0.7% in the second half of 2010, a sign that positive absorption and strong leasing is boosting landlord confidence. The market could begin to see an upswing, albeit modest, heading into 2011. In fact, class A rents rose marginally for the quarter, about 1.6% to \$30.50 psf. Flight to quality will likely continue in 2011, however, tenants should take note that the elevated level of class A leasing, particularly in new construction, will likely reduce the amount of concessions being offered moving forward.

Investment sales, though still anemic, are improving. Seven properties traded hands this year at an average of \$153 psf. That compares to just one property in 2009, the Russell Investments Center, which traded for \$133 psf. Just on the outskirts of the CBD market and not included in these figures is the sale of the 204,668-sf Seventh & Madison, which HAL Real Estate Investments purchased in November for \$30.7 million, or \$150 psf.

### OUTLOOK

Downtown Seattle is gradually beginning to recover from the recession and is in a far more positive situation when compared to 2009. A surprising number of tenants are taking down large blocks of new construction, most recently Ipsilon Systems which will double in size when it moves from 3131 Elliott into 139,070 sf at 505 First Avenue South in 2011. Amazon.com continues to be a driving force for office demand, and is rumored to be in the market for additional space outside its new headquarters. However, smaller tenants continue to shrink and look for efficiencies in real estate commitments, which will take some time to correct. Employment gains will be slow, just 1.2% projected in 2011 and 2.4% in 2012.

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### BEAT ON THE STREET


Despite mixed economic data, the downtown Seattle office market is showing actual signs of stability since real estate fundamentals began to shake up in early 2008. No significant spaces have entered the market in recent quarters, including new construction. Rents are stabilizing and leasing activity is at its strongest in years.


### 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

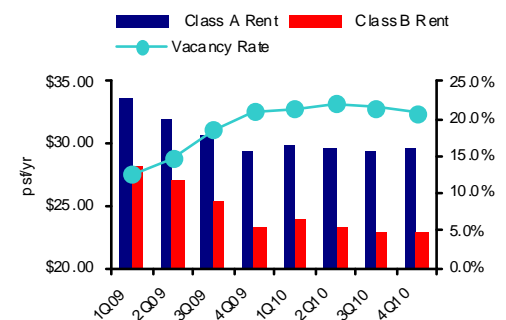
### MARKET FORECAST

**LEASING ACTIVITY:** With tenant demand continuing to improve, leasing activity should remain strong heading into 2011. 

**OVERALL VACANCY:** Improvements in employment should result in continued, albeit modest, declines in vacancy through next year. 

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

### OVERALL RENT VS. VACANCY RATE



### 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*
Financial District	20,573,252	82	19.7%	18.0%	1,704,432	0	0	266,045	\$30.76
Denny Regrade	8,092,296	53	27.4%	25.8%	683,579	0	0	104,616	\$29.25
Pioneer Square/Int'l District	4,135,079	57	26.1%	24.6%	525,503	0	273,812	(247,308)	N/A
Lower Queen Anne/Lake Union	8,043,447	108	14.1%	13.2%	351,847	1,366,319	587,742	468,048	\$31.32
<b>Seattle CBD Total</b>	<b>40,844,074</b>	<b>300</b>	<b>20.8%</b>	<b>19.3%</b>	<b>3,265,361</b>	<b>1,366,319</b>	<b>861,554</b>	<b>591,401</b>	<b>\$30.50</b>
North Seattle/Northgate	2,443,320	64	15.6%	12.8%	138,663	0	0	(35,810)	\$23.61
East Seattle/Capitol Hill	893,029	21	26.7%	26.1%	21,188	0	0	16,670	\$35.21
<b>Seattle In-City Total</b>	<b>3,336,349</b>	<b>85</b>	<b>18.6%</b>	<b>16.3%</b>	<b>159,851</b>	<b>0</b>	<b>0</b>	<b>(19,140)</b>	<b>\$29.45</b>
South Seattle Close-in	1,225,647	14	27.2%	25.0%	33,729	0	162,886	3,741	\$22.65
Tukwila	2,267,462	38	23.2%	21.4%	99,310	0	0	(13,573)	\$21.18
SeaTac	858,791	17	21.9%	20.0%	24,669	0	0	10,807	\$21.81
Renton	3,172,085	43	16.3%	15.6%	195,831	0	0	(47,239)	\$21.35
Kent/Auburn	1,412,894	19	30.9%	30.2%	59,108	0	0	(5,165)	\$21.86
<b>Southend NON-CBD Total</b>	<b>8,936,879</b>	<b>131</b>	<b>22.4%</b>	<b>21.1%</b>	<b>412,647</b>	<b>0</b>	<b>162,886</b>	<b>(51,429)</b>	<b>\$21.86</b>
<b>Federal Way</b>	<b>2,160,159</b>	<b>47</b>	<b>37.3%</b>	<b>25.9%</b>	<b>129,757</b>	<b>0</b>	<b>0</b>	<b>106,273</b>	<b>\$20.88</b>
<b>TOTAL**</b>	<b>55,277,461</b>	<b>563</b>	<b>21.6%</b>	<b>19.7%</b>	<b>3,967,616</b>	<b>1,366,319</b>	<b>1,024,440</b>	<b>627,105</b>	<b>\$27.89</b>

\*Rental rates reflect \$psf/year

\*\*Total includes markets not reported in national statistics (Seattle In-City and Federal Way)

### MARKET HIGHLIGHTS

#### SIGNIFICANT 2010 LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	BLDG CLASS
351, 401 & 501 Elliott Avenue	Lower Queen Anne/Lk Union	F5 Networks (renewal)	299,720	A
Fifth & Yesler	Financial District	GSA	284,481	A
Russell Investments Center	Financial District	Nordstrom	260,000	A
2201 Westlake	Lower Queen Anne/Lk Union	Amazon.com	181,896	A
505 First Avenue South	Pioneer Square/Int'l District	Isilon Systems	139,070	A
Union Station West	Pioneer Square/Int'l District	Cobalt Group, Inc.	104,999	A
West Eighth	Denny Regrade	Casey Family	73,700	A

#### SIGNIFICANT 2010 SALE TRANSACTIONS

BUILDING	SUBMARKET	Buyer	SQUARE FEET	PURCHASE PRICE
Seventh & Madison	East Seattle/Capitol Hill	Seventh & Madison LLC	204,668	\$30,750,000
1100 Eastlake Avenue	Lower Queen Anne/Lk Union	Fred Hutchinson Cancer Research Center	183,574	\$36,000,000
Seattle Tower	Financial District	Seattle Tower Partners, LLC	161,412	\$20,650,000
Lake View at Fremont	Lower Queen Anne/Lk Union	BBK Lake View, LLC	107,815	\$19,450,000
Pike Plaza	Financial District	Target Corporation	103,183	\$15,520,000

#### SIGNIFICANT 2010 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Amazon.com HQ Phase IA & IB	Lower Queen Anne/Lk Union	Amazon.com	429,403	4/10
505 First Avenue South	Pioneer Square/Int'l District	Isilon Systems	273,812	4/10
Amazon.com HQ Phase II	Lower Queen Anne/Lk Union	Amazon.com	158,339	7/10

#### SIGNIFICANT PROJECTS UNDER CONSTRUCTION/RENOVATION

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Gates Foundation	Lower Queen Anne/Lk Union	Gates Foundation	590,135	5/11
Amazon.com HQ - Phase IV	Lower Queen Anne/Lk Union	Amazon.com	539,000	5/11
Amazon.com HQ - Phase III	Lower Queen Anne/Lk Union	Amazon.com	237,184	3/11



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