

MARKETBEAT

SEATTLE NON-CBD (SOUTHEND) 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

Fourth quarter brought about some optimism that perhaps the Southend has finally bottomed out. At 22.4%, the overall vacancy rate increased from 20.3% at year-end 2009, but dropped 30 basis points over the quarter, the first decline since mid-year 2008. The largest decrease in vacancy was in the Tukwila submarket, which fell from 24.3% in the third quarter to 23.2% at year-end. When factoring in Federal Way, the vacancy improved over the quarter from 25.7% in the third quarter to 25.3% at year-end.

The slight drop in vacancy resulted in 30,383 square feet (sf) of positive overall absorption, improving year-to-date absorption to negative 51,429 sf. This compares to 242,282 sf of negative absorption at year-end 2009, a 78% improvement. Including Federal Way, the market ended the year with 54,844 sf of positive absorption, thanks to a large user sale that occurred in Federal Way earlier in the year.

Besides very little space being added to the market, notable transactions that impacted absorption this quarter included Hunter Douglas' move out of an industrial building and into almost 12,000 sf at Riverpoint Corporate Center and Academy Schools' move into 11,105 sf of space at the Interurban Office Building, both in Tukwila.

The 412,647 sf of leasing that was recorded for the year was on par with 412,041 sf that was leased in 2009. Recent deals included Rockwell Collins' lease of 18,273 sf at East Campus Corporate Park in Federal Way and Northwest Kidney Centers' 21,663-sf lease at the Oakesdale Center in Renton. Both leases should represent growth in the market when the tenants take occupancy in 2011. Rockwell Collins is moving out of a flex property in Kent and Northwest Kidney Centers' lease will be about twice the size of its current facility in Renton.

At \$20.02 per square foot (psf), direct asking rental rates moved very little over the year, just 1.1%, compared to a 4.6% drop in the previous twelve-month period. Class A declined slightly more, about 1.6% over the year to \$21.86 psf. Despite the relatively modest drop in rents, landlords continue to offer large concession packages to strong-credit tenants willing to sign long-term leases.

OUTLOOK

Vacancy rates are expected to rise again in 2011 in the wake of Boeing's planned move out of 211,000 sf at the SeaTac Office Center. This will put additional pressure on landlords to compete for tenants in the market, though it will likely be in the form of additional concessions and not from any significant reduction in asking rents. On the other hand, this would be the market's largest vacancy, notwithstanding Weyerhaeuser's empty buildings in Federal Way which is generally considered too far south. This may open up opportunities for any firms considering relocation. The Southend has always been considered a bargain market and despite falling rates recently in the surrounding markets, class A rents here undercut downtown Seattle by almost \$9.00 psf.

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BEAT ON THE STREET


In addition to Boeing's move out of SeaTac Office Center, the market will also have to deal with the blow of Cobalt's relocation from 71,000 sf in South Seattle into 105,000 sf in the CBD's Pioneer Square/International District neighborhood. These two vacancies will add another three percentage points to the Southend's overall vacancy.


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

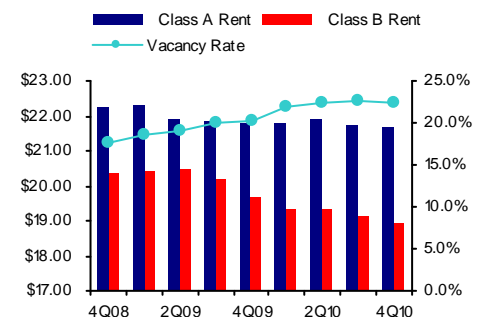
MARKET FORECAST

LEASING ACTIVITY: The improving overall economy and competitive rental rates should naturally render improved leasing activity. 

OVERALL ABSORPTION: Unless a large tenant relocates into Boeing's vacating space, overall absorption will likely remain in negative territory in 2011. 

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 RENTAL VS. VACANCY RATES



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 Ergrade	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
Seattle CBD Total	40,844,074	300	20.8%	19.3%	3,265,361	1,366,319	861,554	591,401	\$30.50
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
Seattle In-City Total	3,336,349	85	18.6%	16.3%	159,851	0	0	(19,140)	\$29.45
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
Southend NON-CBD Total	8,936,879	131	22.4%	21.1%	412,647	0	162,886	(51,429)	\$21.86
Federal Way	2,160,159	47	37.3%	25.9%	129,757	0	0	106,273	\$20.88
TOTAL**	55,277,461	563	21.6%	19.7%	3,967,616	1,366,319	1,024,440	627,105	\$27.89

*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
Time Square	Renton	Integra Telecom Holdings, Inc.	45,956	A
Washington Technical Center	Renton	Meteor Communications	30,000	B
Cedar Park at West Campus	Federal Way	Kiewit Construction	28,990	A
Oakesdale Center - Building A	Renton	Northwest Kidney Centers	21,663	A
East Campus Corporate Park Bldg 1B	Federal Way	Rockwell Collins	18,273	A
SIGNIFICANT 2010 SALE TRANSACTIONS				
BUILDING	SUBMARKET	Buyer	SQUARE FEET	PURCHASE PRICE
East Campus Corporate Park Bldg 1B	Federal Way	23125 North LLC	99,690	\$8,200,000
Northwest Corporate Center	Federal Way	Federal Way School District No. 210	69,528	\$8,919,825
SIGNIFICANT 2010 CONSTRUCTION COMPLETIONS				
BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Stadium Innovation Center	South Seattle Close-in	N/A	162,866	3/10
SIGNIFICANT PROJECTS UNDER CONSTRUCTION/RENOVATION				
BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
N/A				



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