

# MARKETBEAT

## SEATTLE CBD 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

Seattle's Central Business District (CBD) had some improvements in real estate fundamentals over the third quarter. Available office space contracted for the first time since the beginning of 2008, with the overall vacancy declining from 22.0% at mid-year to 21.6%. Two large vacancies were taken off the market - the 103,183-square foot (sf) Pike Plaza on Second Avenue that is being converted to a Target store, and the 93,660-sf property at 1800 Terry Avenue, which is being converted to public storage.

Deal flow has been gaining momentum all year and third quarter continued to see a steady stream of tenants renewing or taking down new space. The 764,794 sf of new leases this quarter brings year-to-date activity to 2.5 million square feet and nearly doubles the amount of leasing in all of 2009. The most notable lease this quarter was Cobalt Group for 104,999-sf at the Union Station West building. The company will be consolidating its employees in South Seattle and north in Lynnwood early next year.

New leases are picking up, but without a boost in employment gains, expansion has been relatively minor. Overall absorption was positive this quarter with 115,811 sf logged, which was largely the result of Amazon.com. The company continues to move into more space that it is vacating, including the 181,896 sf of space it leased earlier in the year at 2201 Westlake as well as the second phase of its new headquarters.

Average asking rents continue to stabilize across the market, dropping 0.7 percentage points over the quarter to \$27.07 per square foot (psf). Free rent and concessions continue to be pervasive, however, and the gap between what landlords are asking and the effective rent that tenants are paying when factoring in these concessions is wider than ever. For example, typical tenant improvement allowances for new construction is upward of \$100.00 psf with any unused portions applied towards rent.

### FORECAST

Two consecutive quarters of positive absorption is good news for the overall market, but expansion is coming from one primary tenant – Amazon.com. Take this tenant out of the equation and the picture would be markedly different. Expansion can not be sustained until employers increase payrolls and so far, total employment in the region has grown by just 3,150 in the first eight months of the year, according to Washington Employment Security Department. The fact that tenants are actually moving, if only for better lease economics, is a good jump start for stabilizing trends in the future, but watchers can expect relatively flat real estate fundamentals until job growth improves.

### BEAT ON THE STREET


The overall perception in the market, as well as trends in recent statistics, indicate that rents and vacancies have finally bottomed out. The amount of available space, however, far outnumbers the level of demand in the market for large blocks of space and even small expansion requirements. Expect favorable supply-side economics to continue through the balance of the year and into 2011.


### 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

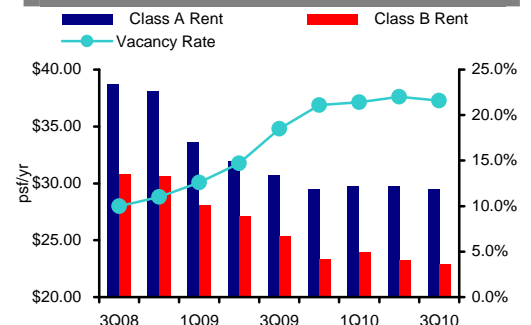
### MARKET FORECAST

**LEASING ACTIVITY:** If deal velocity continues during the fourth quarter, the market will very likely surpass the 2.9 msf that was leased in 2007. 

**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 and 15,900 jobs for 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	20,669,977	83	22.0%	18.7%	1,323,105	0	0	(201,958)	\$30.89
Denny Regrade	8,092,296	53	26.2%	24.5%	585,007	0	0	206,213	\$27.19
Pioneer Square/Int'l Dist.	4,135,079	57	26.0%	24.3%	342,445	0	273,812	(243,698)	N/A
Lower QA/Lk. Union	8,061,919	109	13.8%	12.9%	277,161	1,366,319	587,742	490,493	\$31.87
<b>Seattle CBD Total</b>	<b>40,959,271</b>	<b>302</b>	<b>21.6%</b>	<b>19.3%</b>	<b>2,527,718</b>	<b>1,366,319</b>	<b>861,554</b>	<b>251,050</b>	<b>\$30.43</b>
North Seattle/Northgate	2,460,965	65	14.8%	12.0%	107,560	0	0	(18,360)	\$27.18
East Seattle/Capitol Hill	1,026,493	23	23.2%	22.7%	21,188	0	0	16,670	\$35.21
<b>Seattle In-City Total</b>	<b>3,487,458</b>	<b>88</b>	<b>17.3%</b>	<b>15.1%</b>	<b>128,748</b>	<b>0</b>	<b>0</b>	<b>(1,690)</b>	<b>\$31.39</b>
South Seattle Close-in	1,225,647	14	27.2%	25.0%	33,729	0	162,866	3,741	\$22.65
Tukwila	2,267,462	38	24.3%	22.5%	65,051	0	0	(39,483)	\$21.29
SeaTac	858,791	17	22.0%	20.0%	24,669	0	0	10,646	\$22.38
Renton	3,180,328	44	16.3%	15.6%	158,441	0	0	(48,503)	\$21.38
Kent/Auburn	1,412,894	19	31.1%	30.4%	34,703	0	0	(8,213)	\$21.77
<b>Southend Non-CBD Total</b>	<b>8,945,122</b>	<b>132</b>	<b>22.7%</b>	<b>21.4%</b>	<b>316,593</b>	<b>0</b>	<b>162,866</b>	<b>(81,812)</b>	<b>\$21.91</b>
Federal Way	2,160,159	47	38.1%	26.5%	92,965	0	0	89,669	\$20.85
<b>TOTAL**</b>	<b>55,552,010</b>	<b>569</b>	<b>22.2%</b>	<b>19.6%</b>	<b>3,066,024</b>	<b>1,366,319</b>	<b>1,024,420</b>	<b>257,217</b>	<b>\$27.98</b>

\* Rental rates reflect \$psf/year

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

### MARKET HIGHLIGHTS

#### SIGNIFICANT 3Q10 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	BLDG CLASS
Union Station West	Pioneer Square/Int'l District	Cobalt Group, Inc.	104,999	A
Fifth & Yesler	Financial District	GSA	103,187	A
Russell Investments Center	Financial District	Acucela	21,649	A

#### SIGNIFICANT 3Q10 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
Pike Plaza	Financial District	Target Corporation	103,183	\$15,520,000
Immunex Building	Financial District	GRE Western and University, LLC	96,725	\$6,850,000

#### SIGNIFICANT 3Q10 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Amazon.com HQ - Phase II	Lower QA/Lake Union	Amazon.com	158,339	7/10

#### SIGNIFICANT PROJECTS UNDER CONSTRUCTION/RENOVATION

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Gates Foundation	Lower QA/Lake Union	Gates Foundation	900,000	12/10
Amazon.com HQ - Phase IV	Lower QA/Lake Union	Amazon.com	539,000	1/11
Amazon.com HQ - Phase III	Lower QA/Lake Union	Amazon.com	237,184	11/10



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