

MARKETBEAT

SEATTLE NON-CBD (SOUTHEND) 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

Real estate fundamentals continued to stabilize over the quarter for the Southend office market. The overall vacancy rate increased just 20 basis points to 22.7% across all classes, with the class A vacancy rising just 30 basis points to 20.4%. Though marginally, three of the five submarkets saw their vacancy improve during the quarter including South Seattle Close-in, SeaTac and Renton, the Southend's largest submarket.

The contracting tenant base continued to produce negative overall absorption, though at a much slower pace than 2009. The 23,226 square feet (sf) of negative overall absorption drove down year-to-date levels to negative 81,812 sf, but still achieved a 63.3% improvement over the first three quarters of last year.

Despite a lack of expansion in the market, tenant demand is improving as companies are moving forward with long-term business plans. The 101,333 sf of leasing this quarter is up 15% from mid-year, and the 316,593 sf year-to-date has surpassed volumes over the same period of time in 2009.

Direct asking rental rates for all classes declined less than 1% during the quarter to \$20.14 per square foot (psf) and are down 2.4% from one year ago. Class A rents were virtually flat for the quarter at \$21.91 psf but are down 2.2% from \$22.40 psf over the year.

The one submarket that tends to get overlooked in these reports, largely because of its distant proximity in relation to the Southend's core real estate base, is Federal Way. With very little tenant demand and large consolidations from companies like Weyerhaeuser, vacancy rates here have remained elevated since 2007. But some recent activity has helped to draw attention to this submarket. The Federal Way school district purchased and occupied a 69,528-sf fully vacant property and Kiewit Construction moved from Renton into 28,990 sf that it had leased last quarter at Cedar Park at West Campus. The overall vacancy for all classes, though still the highest in the region, declined from 43% to 38.1% over the quarter. The 92,965 sf of leasing in the first three quarters is up 21.8% over the year. Year-to-date absorption is positive 89,669 sf, the fourth healthiest level of absorption in the region behind two submarkets in downtown Seattle and the I-90 Corridor.

FORECAST

Although real estate fundamentals appear to be stabilizing, so far they have yet to bottom out. Occupancy rates and rental rates will continue to soften, albeit marginally, until employers in the Southend begins hiring additional workers.

BEAT ON THE STREET


Federal Way is expected to get another boost in activity in the coming quarters as several tenants are vying for some of the most inexpensive space in the region. This elevated level of activity, however, will unlikely be sustained for the long term. Tenants for the most part will be driven to the core Southend market once employment begins to improve.


ECONOMIC INDICATORS


	2009	2010F	2011F
National			
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

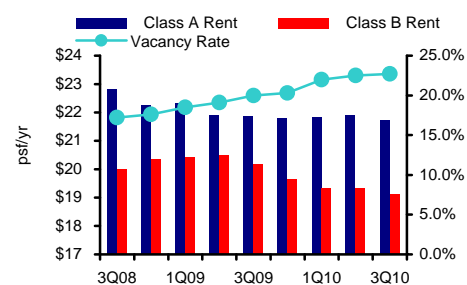
MARKET FORECAST

LEASING ACTIVITY: If deal velocity continues during the fourth quarter, the market will very likely surpass 2009 volumes. 

VACANCY: Even if demand picks up and employers begin to hire faster than projected, the 211,000 sf that Boeing is moving out of in the first quarter of next year at the SeaTac Office Center will keep the Southend's vacancy elevated. 

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
Seattle CBD Total	40,959,271	302	21.6%	19.3%	2,527,718	1,366,319	861,554	251,050	\$30.43
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
Seattle In-City Total	3,487,458	88	17.3%	15.1%	128,748	0	0	(1,690)	\$31.39
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
Southend Non-CBD Total	8,945,122	132	22.7%	21.4%	316,593	0	162,866	(81,812)	\$21.91
Federal Way	2,160,159	47	38.1%	26.5%	92,965	0	0	89,669	\$20.85
TOTAL**	55,552,010	569	22.2%	19.6%	3,066,024	1,366,319	1,024,420	257,217	\$27.98

* 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
Southcenter Corporate Square	Tukwila	SEIU	11,100	B
The Creeksides at Centerpoint	Kent/Auburn	Door to Door Storage	10,464	A
Time Square	Renton	Parsons Engineering	6,112	A

SIGNIFICANT 3Q10 SALE TRANSACTIONS

BUILDING	SUBMARKET	Buyer	SQUARE FEET	PURCHASE PRICE
N/A				

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
N/A				



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Cushman & Wakefield | Commerce Real Estate Solutions
1420 Fifth Avenue, Suite 2900
Seattle, WA 98101
(206) 682-0666

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