

MARKETBEAT

OFFICE SNAPSHOT



SEATTLE NON-CBD (SOUTHEND), WA

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Q4 2011



ECONOMIC OVERVIEW

Despite a few speed bumps, 2011 set the pace for what economists forecast to be a steady year of growth in 2012. The region has seen a 1.5% jump in employment year-over-year, and retail sales surpassed pre-recession levels, increasing an estimated 5.4% for the year. Employment in the tech industry reached its pre-recession peak and many companies have announced further growth plans over the next year. Boeing, which added 7,000 jobs to the region this year, now employs more than 75,000 in the Puget Sound with its impact reaching upward of 200,000 jobs. The firm's footprint in the economy was further solidified earlier in the year after winning the fuel tanker contract and more recently when the company signed a multi-year labor contract with the Machinists union, guaranteeing generous annual pay hikes and a commitment to build the new 737 MAX in Renton.

OFFICE MARKET OVERVIEW

The Southend office market struggled to gain traction in 2011. There were a few notable occupancies, including Zulily's move from the CBD into 87,823 square feet (sf) at Cobalt's space in the South Seattle Close-in submarket, and Boeing reoccupying of 92,633 sf at Triton Tower Three in Renton. However, Boeing also gave back 211,000 sf at the SeaTac Office Park early in the year, virtually cancelling out these expansions. The market recorded 20,658 square feet of negative overall absorption, a slight improvement over the 51,429 sf of negative absorption in 2010. Due to a few anomalies in the market, including an inventory adjustment and a large vacancy that Provident Healthcare Partners took off the market, the overall vacancy actually declined slightly over the year from 22.4% in 2010 to 21.1%.

Without any real improvements in demand, rental rates remained deflated during the year, dropping 1.7% over the twelve-month period to \$19.67 per square foot per year (psf/yr) for direct space. Class A space fluctuated a bit over the year with some improvements quarter-over-quarter, but was virtually flat for the year at \$21.82 psf/yr.

Leasing activity improved 50.1% over the year to 622,756 sf, and nearly every submarket had an uptick in activity. With 136 new deals tracked over the year, the number of leases increased 46.2% since 2010, with the average lease size holding steady over the year at 4,579 sf.

Sales activity was on the rise in the Southend, a growing trend among most markets in the region. Over the twelve-month period, five properties traded hands totaling 355,214 sf and \$52.1 million for an average of \$146.81 psf. That compares to just three properties in 2010, totaling 59,980 sf valued at \$6.7 million (\$110.95 psf).

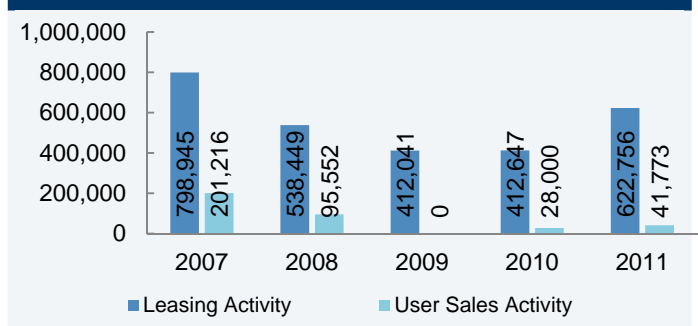
OUTLOOK

Recovery in the Southend office market often lags other markets located closer to the metropolitan core and it will likely take some time before employment gains translate into a general improvement for office demand. This could change with the recent announcements by Boeing. The company is ramping up production of its 737 and 737 MAX airplanes and will increase output in the coming years. In addition to increased employment for machinists, this has the potential of creating new positions for engineers and other office-using staff, not to mention the ripple effect these jobs would have to the local economy.

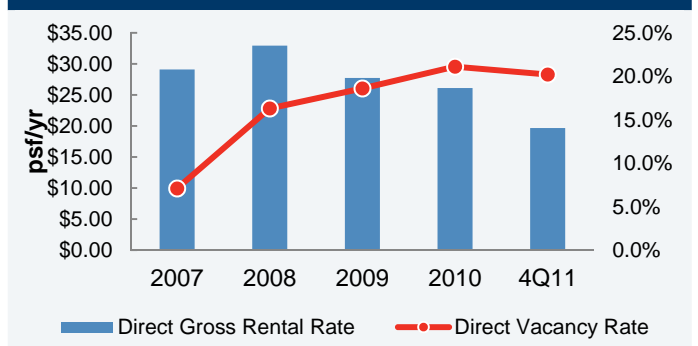
STATS ON THE GO

	4Q10	4Q11	Y-O-Y CHANGE	12 MONTH FORECAST
Overall Vacancy	22.4%	21.1%	-1.3pp	▼
Direct Asking Rents (psf/yr)	\$20.02	\$19.67	-1.7%	◄
YTD Leasing Activity (sf)	412,647	622,756	50.1%	◄

OVERALL OCCUPIER ACTIVITY



DIRECT RENTAL VS. VACANCY RATES



SEATTLE NON-CBD (SOUTHEND), WA

SUBMARKET	INVENTORY	OVERALL VACANCY RATE	DIRECT VACANCY RATE	YTD LEASING ACTIVITY	UNDER CONSTRUCTION	YTD CONSTRUCTION COMPLETIONS	YTD OVERALL NET ABSORPTION	OVERALL WTD. AVG ALL CLASSES GROSS RENTAL RATE*	DIRECT WTD. AVG. CLASS A GROSS RENTAL RATE*
Financial District	20,707,510	17.8%	15.6%	1,413,670	0	0	412,861	\$28.06	\$32.39
Denny Regrade	8,028,582	26.3%	25.0%	1,400,545	0	0	122,156	\$31.52	\$34.44
Pioneer Square/Int'l District	4,183,741	23.8%	22.9%	462,303	0	0	84,047	\$26.74	\$32.30
Lower Queen Anne/Lake Union	8,893,715	15.5%	14.9%	1,011,760	355,000	776,184	457,410	\$26.63	\$31.36
CBD	41,813,548	19.5%	18.0%	4,288,278	355,000	776,184	1,076,474	\$28.64	\$32.96
North Seattle/Northgate	2,511,867	13.7%	12.3%	162,685	0	0	38,684	\$21.70	\$23.64
East Seattle/Capitol Hill	893,029	50.3%	50.3%	213,073	0	0	(210,814)	\$23.35	\$22.99
SEATTLE IN-CITY	3,404,896	23.3%	22.3%	375,758	0	0	(172,130)	\$21.92	\$23.52
South Seattle Close-in	1,225,347	23.0%	23.0%	201,384	311,200	0	30,092	\$20.96	\$22.24
Tukwila	2,324,483	17.8%	16.3%	145,091	0	57,768	114,683	\$18.01	\$20.21
SeaTac	854,965	42.7%	42.0%	50,415	0	0	(184,537)	\$20.63	\$22.83
Renton	3,177,843	11.7%	11.1%	186,429	0	0	65,539	\$20.05	\$21.79
Kent/Auburn	1,412,894	33.0%	31.7%	39,437	0	0	(46,435)	\$19.24	\$21.89
SOUTHEND NON-CBD	8,995,532	21.1%	20.2%	622,756	311,200	57,768	(20,658)	\$19.47	\$21.82
FEDERAL WAY	2,147,459	32.1%	25.4%	177,382	0	0	104,304	\$18.67	\$20.28
TOTALS**	56,361,435	20.5%	18.9%	5,464,174	662,200	833,952	987,990	\$26.01	\$30.50

* RENTAL RATES REFLECT ASKING \$PSF/YEAR

**TOTAL INCLUDES MARKETS NOT REPORTED IN NATIONAL STATISTICS (SEATTLE IN-CITY AND FEDERAL WAY)

MARKET HIGHLIGHTS

SIGNIFICANT 2011 LEASE TRANSACTIONS	SUBMARKET	TENANT/BUYER	PROPERTY TYPE	SQUARE FEET
Triton Tower Three	Renton	The Boeing Company	Class A	92,633
Evergreen Corporate Plaza	Federal Way	MorfoTrak	Class B	46,752
East Campus Corporate Park	Federal Way	Tommy Bahama	Class A	18,483
Triton Tower Three	Renton	Valley Medical Center	Class A	15,591
SIGNIFICANT 2011 SALE TRANSACTIONS	SUBMARKET	BUYER	PURCHASE PRICE	SQUARE FEET
F.A.A. Building	Renton, WA	FP-FAA Seattle LLC	\$35,250,000	199,196
Airport Plaza Building	SeaTac	IBEW 77 International Boulevard LLC	\$4,000,000	31,032
SIGNIFICANT 2011 CONSTRUCTION COMPLETIONS	SUBMARKET	MAJOR TENANT	COMPLETION DATE	SQUARE FEET
Continental Mills Corporate HQ	Tukwila	Continental Mills	2Q11	57,768
SIGNIFICANT PROJECTS UNDER CONSTRUCTION	SUBMARKET	MAJOR TENANT	COMPLETION DATE	SQUARE FEET
Homeplate Center – North	South Seattle Close-in	N/A	1Q12	141,200
Homeplate Center – South	South Seattle Close-in	N/A	2Q13	170,000