

MARKETBEAT



BELLEVUE OFFICE REPORT

2Q11

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Overview

The regional economy continues to improve at a steady clip, with preliminary unemployment dropping to 8.2% in May, down from 8.4% in April and 8.9% in May 2010. Seattle's CPI was up 2.1% in April from one year ago, and the region added an estimated 21,800 jobs between first quarter 2010 and first quarter 2011. Key industries driving growth include Manufacturing (+3,900), Retail Trade (+5,600), Professional & Business Services (+13,300) and Education/Health (+7,300). Construction (-5,200), State & Local Government (-3,200), and Financial Activities (-300) were a few sectors that continued to post declining job rates.

With the economy gradually advancing in the right direction, the Bellevue office market is seeing some notable signs of recovery as well. At 15.2%, the overall vacancy rate in the CBD dropped 30 basis points over the quarter, and is down from 16.5% at year-end. Xenon Arc, a start-up tech firm, moved into 10,448 square feet (sf) at Key Center and Guidant Financial Group moved from the 520 Corridor and into 13,141 sf at One Twelfth @ Twelfth. The market recorded 22,234 sf of positive overall absorption, improving total overall absorption for the year to 82,736 sf.

Improvements in the Eastside suburban markets (excluding Northend) were also evident, with the overall vacancy rate dropping nearly a full percentage point over the quarter from 16.1% to 15.2%. The suburbs recorded 166,786 sf of positive overall absorption in the three-month period, bring year-to-date absorption to 373,028 sf. Electronic game developer ArenaNet relocated and expanded from the 405 Corridor into 64,407 sf on the I-90 Corridor. Google finally moved into 62,967 sf in Building B at its Kirkland campus. The company leased 194,825 sf back in 2007 and has been gradually expanding into the campus over the past four years.

With 334,437 sf leased so far this year in the CBD, new deals are up 58% from leasing six months ago. The Eastside suburban market is

down 9.7% over the same period of time, but remains strong with 622,940 sf leased in the first half of the year. Flight-to-quality continues to chip away at the amount of available class A office space, which accounted for 60% of total leasing this year.

With vacancy levels trending downward, landlords are beginning to boost up rental rates. Average asking rents for all classes improved for the second consecutive quarter in the CBD, up 0.8% to \$32.01 per square foot per year (psf/year). The Eastside suburban market is down about 0.6% to \$25.72 psf/year for the quarter, but several close-in submarkets are beginning to see improvements. The 405 Corridor is up 1.6% to \$25.12 psf/year and the 520 Corridor increased 1.0% to \$24.14 psf/year.

After starting the year off with lackluster results, sales activity picked up in the second quarter. A total of 871,160 sf of investment sales totaling \$332.7 million occurred in the second quarter. Institutional investors continue to focus on stable assets with good-credit tenants, but are increasingly targeting value-add assets like Legacy Corporate Center. After being foreclosed on last year, the 100,886-sf vacant property that was developed by Legacy Partners was sold to W3 Partners out of San Francisco for \$14.1 million (\$139.76 psf).

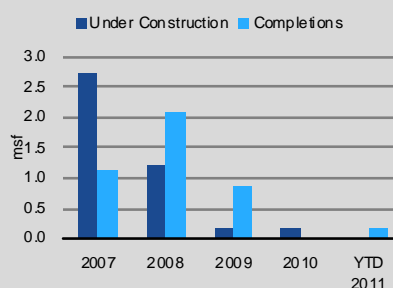
Outlook

Expect vacancy in the CBD to drop significantly over the next few quarters. Expedia just leased three full floors at Skyline Tower, and the Yahoo! sublease at One Twelfth @ Twelfth is finally seeing some activity. This will leave only a few full-floor options in the downtown core. Vacancy in the suburban markets is also expected to improve, albeit slower than the CBD. There still remains a measurable amount of space available, though ongoing flight-to-quality will cause class A product to dwindle at a quicker pace.

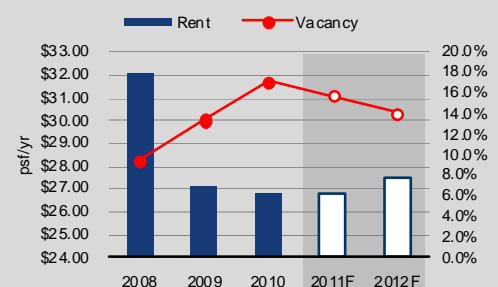
Stats on the Go

	2Q10	2Q11	Y-o-Y Change	12 month Forecast
Overall Vacancy	17.3%	15.8%	-1.5 pp	▼
Direct Asking Rents	\$27.25	\$26.71	-2.0%	▲
YTD Leasing Activity (sf)	1.4 msf	1.1 msf	-24.1%	◄►

Under Construction vs. Completions



Overall Rental vs. Vacancy Rates



Market/Submarket Statistics

Market / Submarket	Inventory	Overall Vacancy Rate	Direct Vacancy Rate	YTD Leasing Activity	Under Construction	YTD Construction Completions	YTD Direct Absorption	YTD Overall Absorption	Overall Wtd. Avg. All Classes Gross Rental Rate*	Direct Wtd. Avg. Class A Gross Rental Rate*
Bellevue CBD	8,178,551	15.2%	13.8%	334,437	0	0	32,322	82,736	\$31.69	\$32.92
405 Corridor	2,802,905	17.7%	16.2%	107,878	0	0	(85,898)	(88,671)	\$24.91	\$28.24
520 Corridor	3,214,530	19.6%	18.2%	112,256	0	0	(1,072)	(6,177)	\$23.82	\$28.20
I-90 Corridor	6,565,684	13.0%	12.7%	144,727	0	165,320	145,885	226,365	\$27.71	\$28.39
Bel-Red	1,419,865	11.9%	10.9%	61,632	0	0	29,616	29,616	\$19.86	N/A
Redmond	1,425,089	15.6%	15.2%	6,657	0	0	442	319	\$26.85	\$31.00
Kirkland	2,336,740	15.9%	14.8%	129,110	0	0	63,258	156,840	\$26.70	\$30.98
Bothell/Woodinville	1,563,482	12.1%	12.1%	60,680	0	0	52,736	54,736	\$23.88	\$23.36
Eastside NON-CBD	19,328,295	15.2%	14.4%	622,940	0	165,320	204,967	373,028	\$25.57	\$28.43
Lynnwood	2,339,892	26.5%	26.1%	110,739	0	0	22,407	43,200	\$22.42	\$25.00
Everett	1,335,655	10.4%	10.0%	2,358	0	0	(51,775)	(56,775)	\$20.53	N/A
Northend NON-CBD	3,675,547	20.7%	20.3%	113,097	0	0	(29,368)	(13,575)	\$22.13	\$25.00
NON-CBD	23,003,842	16.0%	15.3%	736,037	0	165,320	175,599	359,453	\$24.85	\$27.42
BELLEVUE TO TAL	31,182,393	15.8%	14.9%	1,070,474	0	165,320	207,921	442,189	\$26.61	\$29.68

* Rental rates reflect asking \$psf/year.

Market Highlights

SIGNIFICANT 2Q11 LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	BUILDING CLASS
Skyline Tower	Bellevue CBD	Expedia, Inc.	54,494	A
North Creek Place	Bothell/Woodinville	HUB International NW	42,856	A
One Twelfth @ Twelfth	Bellevue CBD	5th Cell	30,898	A
One Twelfth @ Twelfth	Bellevue CBD	Coca Cola	23,874	A

SIGNIFICANT 2Q11 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
Key Center	Bellevue CBD	Kilroy Realty	472,929	\$217,227,320
Plaza at Yarrow Bay	520 Corridor	Kilroy Realty	291,922	\$100,217,187
Eastpointe Corporate Center	I-90 Corridor	The Lake Washington Land Company, LLC	157,546	\$32,000,000
Legacy Corporate Center	Redmond	W3 18300 Redmond Way LLC	100,886	\$14,179,900

SIGNIFICANT 2Q11 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
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N/A