

# MARKETBEAT



## SEATTLE CBD OFFICE REPORT

2Q11

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION

WWW.CUSHWAKE.COM/KNOWLEDGE

### 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.

The overall perception in Seattle's CBD office market remains positive, though momentum hit a slight speed bump by mid-year. After declining for several quarters, the overall vacancy inched upward over the three month period from 19.8% to 20.2%. Amazon.com moved into 539,000 square feet (sf) in the fourth phase of its new campus in South Lake Union, leaving behind 253,769 sf near the stadiums. Further, the former Immunex Building totaling 96,725 sf has been removed of the extensive lab build-out and is now available in shell condition for office users.

The jump in vacancy has been anticipated for some time, and should not undermine the existing activity in the market. There are several large leases currently in place that have yet to be occupied, most of which represent expansion in some form or another. Remove all of this space and the vacancy would be closer to 16.5%.

New construction was reduced to just the Amazon.com building (the Gates Foundation was also completed but is owner occupied and not counted in our statistics), and despite the increase in vacancy, was a large enough move to provide a boost in positive absorption. The market recorded 331,013 sf of positive overall absorption for the quarter, improving the year-to-date total to 859,183 sf.

This quarter saw a surprisingly low level of leasing, another indication that the market is still vulnerable in the wake of this last recession. Although it was not projected to measure up against the strong leasing during the first quarter, the 550,763 sf of new deals was at its lowest level in more than a year. That being said, the nearly 2.1 million square feet so far this year is up 41.5% from the previous six-month period and is up 16.8% over the first half of 2010.

Rents improved for the first time since the market began to decline in early 2008. At \$27.99 per square foot per month (psf/mo), average asking rates for all classes were up an unexpected 4.1% from last quarter. The Financial District and Denny Regrade were both up 3.3% over the quarter to \$29.17 psf and \$28.25 psf, respectively. The Pioneer Square/Int'l District improved 9.7% to \$26.11 psf. This was largely due to the vacancy by Amazon.com at 705 Fifth Avenue, which also sold this quarter to Principal Financial Group who paid \$38.3 million for the 253,769-sf project. The new landlord is asking well above the average rate for other properties in this submarket. Finally, the Lower Queen Anne/Lake Union submarket improved 4.7% to \$25.80 psf.

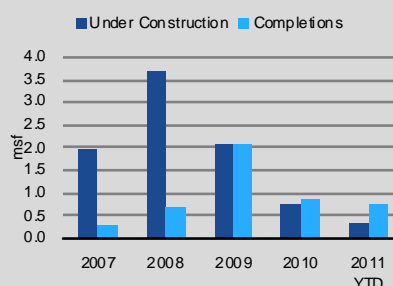
### Outlook

With the economic recovery underway, we can expect that market conditions will continue to improve in downtown Seattle. The Bill & Melinda Gates Foundation's move from several leased buildings in South Lake Union into its new owned-headquarters will be a setback that will likely add more space than what the market is immediately able to absorb. But we should not be dissuaded too much by this. The market is only beginning to turn around, and will likely hit a few snags along the way before reaching full recovery. The region is expected to add as much as 23,000 jobs this year and another 43,100 in 2012, which should accelerate demand for office space.

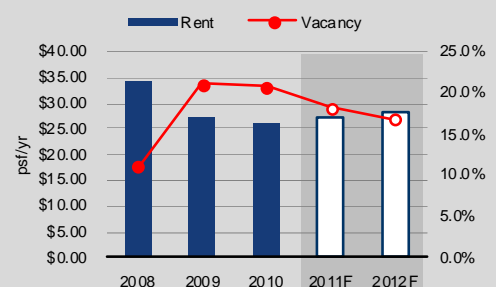
### Stats on the Go

	2Q10	2Q11	Y-o-Y Change	12 month Forecast
Overall Vacancy	22.0%	20.2%	-1.8 pp	▼
Direct Asking Rents	\$27.28	\$27.99	2.6%	▲
YTD Leasing Activity (sf)	1.8 msf	2.1 msf	16.7%	◄►

### 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*
Financial District	20,669,977	19.0%	16.9%	674,992	0	0	171,393	165,999	\$28.23	\$31.94
Denny Regrade	8,090,346	27.0%	26.0%	723,639	0	0	2,948	48,214	\$27.78	\$29.78
Pioneer Square/Int'l District	4,145,041	28.6%	26.8%	231,068	0	0	(92,775)	(107,652)	\$25.63	\$32.73
Lower Queen Anne/Lake Union	8,844,124	12.9%	12.5%	459,766	355,000	776,184	721,768	752,622	\$25.39	\$30.96
<b>CBD</b>	<b>41,749,488</b>	<b>20.2%</b>	<b>18.7%</b>	<b>2,089,465</b>	<b>355,000</b>	<b>776,184</b>	<b>803,334</b>	<b>859,183</b>	<b>\$27.35</b>	<b>\$31.26</b>
North Seattle/Northgate	2,473,599	13.4%	10.6%	72,847	0	0	49,237	49,237	\$21.50	\$23.32
East Seattle/Capitol Hill	893,029	49.5%	48.9%	7,178	0	0	(203,832)	(203,832)	\$23.93	\$25.31
<b>Seattle In-City</b>	<b>3,366,628</b>	<b>23.0%</b>	<b>20.8%</b>	<b>80,025</b>	<b>0</b>	<b>0</b>	<b>(154,595)</b>	<b>(154,595)</b>	<b>\$21.71</b>	<b>\$23.45</b>
South Seattle Close-in	1,225,347	29.7%	27.4%	135,492	141,200	0	(34,292)	(34,292)	\$21.77	\$22.43
Tukwila	2,324,554	21.4%	20.0%	120,086	0	57,768	51,383	60,041	\$18.31	\$21.02
SeaTac	854,965	45.5%	44.8%	20,790	0	0	(219,203)	(208,654)	\$19.97	\$23.82
Renton	3,170,065	14.3%	13.7%	157,377	0	0	(28,765)	(29,353)	\$20.05	\$21.08
Kent/Auburn	1,412,894	31.5%	30.2%	32,505	0	0	(12,461)	(22,776)	\$19.14	\$21.89
<b>Southend NON-CBD</b>	<b>8,987,825</b>	<b>23.9%</b>	<b>22.8%</b>	<b>466,250</b>	<b>141,200</b>	<b>57,768</b>	<b>(243,338)</b>	<b>(235,034)</b>	<b>\$19.62</b>	<b>\$21.74</b>
<b>Federal Way</b>	<b>2,160,159</b>	<b>32.1%</b>	<b>21.5%</b>	<b>98,976</b>	<b>0</b>	<b>0</b>	<b>93,966</b>	<b>100,809</b>	<b>\$18.57</b>	<b>\$20.48</b>
<b>SEATTLE TOTAL</b>	<b>56,264,100</b>	<b>21.4%</b>	<b>19.6%</b>	<b>2,734,716</b>	<b>496,200</b>	<b>833,952</b>	<b>499,367</b>	<b>570,363</b>	<b>\$24.76</b>	<b>\$28.75</b>

\* Rental rates reflect asking \$psf/year.

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

## Market Highlights

### SIGNIFICANT 2Q11 LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	BUILDING CLASS
Russell Investments Center	Financial District	Zillow.com	65,609	A
Fifth & Jackson	Pioneer Square/Int'l District	Summit Law Group*	30,386	A
Casey Family Building	Lower Queen Anne/Lk. Union	A Place for Mom	26,766	B

\* Renewal – not included in leasing activity statistics

### SIGNIFICANT 2Q11 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
Union Station South Building	Pioneer Square/Int'l District	Principal Financial Group, Inc.	253,769	\$38,290,000

### SIGNIFICANT 2Q11 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Amazon.com Headquarters - Phase IV	Lower QA/Lake Union	Amazon.com	539,000	2Q11

### SIGNIFICANT PROJECTS UNDER CONSTRUCTION/RENOVATION

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Amazon.com Headquarters - Phase V	Lower QA/Lake Union	Amazon.com	355,000	4Q13