

MARKETBEAT



SEATTLE NON-CBD 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.

Recovery has been slow for the Southend office market. Small pockets of improvements have been largely offset by much larger vacancies like Boeing and Cobalt in the first quarter of 2011. This quarter has shown some signs that the market could be bottoming out. Depreciating rental rates are at a virtual halt. Some tenants are expanding, albeit marginally, and with the exception of one speculative development slated for delivery in 2012, there are no impending vacancies that are expected in the foreseeable future that could significantly counterbalance potential market growth.

At 23.9%, the overall vacancy rate increased from 23.9% at mid-year 2010, but dropped 60 basis points over the quarter, its largest decrease since mid-year 2007. The largest drop in vacancy was in South Seattle Close-in, which fell from 32.7% in the first quarter to 29.7%. A user took down 24,259 square feet (sf) that will house data center space at the Stadium Innovations Center.

The decline in vacancy resulted in 65,386 sf of positive overall absorption, its highest level since the third quarter of 2007, and a large improvement over the 300,420 sf of negative overall absorption that was reported in the first quarter of this year.

Tukwila had the strongest absorption this quarter with 46,566 sf. Segale

finished construction on the 57,768-sf build-to-suit for Continental Mills' corporate headquarters. The company moved out of a space about half the size in a nearby property.

With 329,807 sf of new deals signed this quarter, leasing activity more than doubled activity in the first quarter. The 466,250 sf of leasing so far in the year has already surpassed leasing in all of 2010 by about 13%. Boeing took 92,633 sf at Triton Tower Three in Renton and Zulily, Inc. leased 87,823 sf at the former Cobalt building in South Seattle Close-in. Both tenants will begin moving into their new spaces in the third quarter and will represent significant expansion in the Southend market.

At \$19.70 per square foot per year (psf/year), direct asking rental rates moved very little from the \$19.76 psf/year in the first quarter, while class A space was virtually unchanged at \$21.74 psf/year.

Federal Way had a positive boost in activity this quarter. MorphoTrak relocated from downtown Tacoma into 46,752 sf at the Evergreen Corporate Center, and Rockwell Collins vacated a flex property and moved into 18,273 sf at East Campus Corporate Park. The overall vacancy rate in this submarket declined from 36.6% in the first quarter to 32.1%, resulting in 93,675 sf of positive overall absorption.

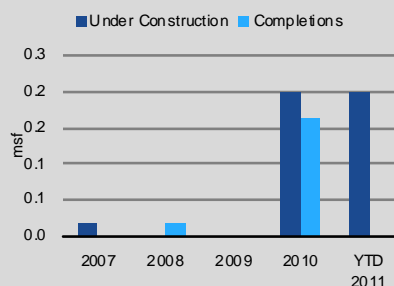
Outlook

Until the market shows further signs of traction, we are keeping with our original forecast of a 26.5% vacancy by year-end. However, should demand gain steam and real estate fundamentals firm up, it will be unlikely that the market will actually reach this rate. In fact, with the Boeing and Zulily leases, the market can anticipate a relatively strong level of absorption in the coming months. Rents will remain at or near bottom-out prices until enough leasing activity can boost confidence in the Southend's landlords.

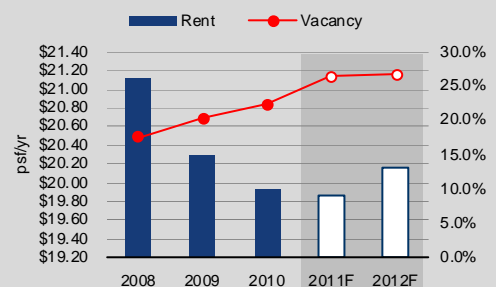
Stats on the Go

	2Q10	2Q11	Y-o-Y Change	12 month Forecast
Overall Vacancy	22.5%	23.9%	1.4 pp	◀▶
Direct Asking Rents	\$20.30	\$19.70	-3.0%	◀▶
YTD Leasing Activity (sf)	215,260	466,250	116.6%	▲

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
CBD	41,749,488	20.2%	18.7%	2,089,465	355,000	776,184	803,334	859,183	\$27.35	\$31.26
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
Seattle In-City	3,366,628	23.0%	20.8%	80,025	0	0	(154,595)	(154,595)	\$21.71	\$23.45
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
Southend NON-CBD	8,987,825	23.9%	22.8%	466,250	141,200	57,768	(243,338)	(235,034)	\$19.62	\$21.74
Federal Way	2,160,159	32.1%	21.5%	98,976	0	0	93,966	100,809	\$18.57	\$20.48
SEATTLE TOTAL	56,264,100	21.4%	19.6%	2,734,716	496,200	833,952	499,367	570,363	\$24.76	\$28.75

* Rental rates reflect asking Spsf/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
Triton Tower Three	Renton	Boeing	92,633	A
2200 First Avenue South	South Seattle Close-in	Zulily, Inc.	87,823	B
Triton Tower Three	Renton	Valley Medical Center	15,591	A

SIGNIFICANT 2Q11 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
Airport Plaza Building	SeaTac	SeaTac Real Estate Holdings, LL	31,032	\$3,400,000

SIGNIFICANT 2Q11 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Continental Mills Corporate HQ	Tukwila	Continental Mills	57,768	2Q11

SIGNIFICANT PROJECTS UNDER CONSTRUCTION/RENOVATION

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Homeplate Center - North	South Seattle Close-in	N/A	141,200	1Q12