

MARKETBEAT



BELLEVUE OFFICE REPORT

3Q11

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Overview

Economic activity in the Seattle MSA continued to accelerate during the third quarter 2011. Preliminary unemployment dropped to 8.3% in August, down from 8.8% one year ago. Seattle added 31,300 jobs in the twelve months ending in August, with more sectors than not adding headcount. Largest gains came from aerospace manufacturing (+7,100), retail trade (+6,000), education & health (+5,600) and tech-related sectors like software publishers (+2,200) and computer systems design (+3,700). The few sectors that continue to post declining rates include the local, state and federal governments (-3,300) and financial activities (-1,300).

A job vacancy survey published this spring by the Washington State Employment Security Department found that region-wide vacancies increased to 32,926 positions, a 62.2% jump from spring 2010. Nearly 14% was the result of newly created positions, a good indication that companies are expanding and not simply re-filling existing slots.

The Eastside office market continued a slow but steady improvement over the third quarter. The overall vacancy in the CBD declined one full percentage point over the three-month period to 14.2% and is down from 16.5% one year ago. Expedia expanded into 54,494 square feet (sf) at Skyline Tower. Coca Cola moved into 20,777 sf at One Twelfth @ Twelfth, while 5th Cell moved from the 405 Corridor and expanded into 30,898 sf, also at One Twelfth @ Twelfth. Downtown Bellevue reported 78,435 sf of positive overall absorption for the quarter, a significant improvement when compared to the 170,320 sf of negative absorption during the same period in 2010.

A boost in user demand this quarter drove the overall vacancy rate down in the Suburban markets (including the Northend) from 16.0% at mid-year to 15.4%. SanMar, an apparel printing company, purchased the 157,546-sf Eastpointe Corporate Center on the I-90 Corridor, which was 80% vacant at the time of sale. Kiewit Construction moved into 25,257 sf at Corporate Campus East after being awarded the pontoon construction

project for the 520 bridge expansion. UI Evolution and Allied Trade Group both expanded by a collective 31,763 sf at the Kirkland 405 Corporate Center. In all, the suburbs reported 171,533 sf of positive absorption for the quarter, boosting year-to-date absorption to 536,717 sf.

Leasing activity remains healthy though decelerated slightly in the third quarter. New transactions are down 36.6% this quarter in the CBD but the 440,272 sf so far in the year is on par with the 475,589 sf leased in 2010. Meanwhile, the suburban markets are up 4.7% over the quarter with 351,418 sf leased, but are down 22.2% year-over-year. Small and mid-sized leases made up a bulk of activity, with the third quarter deals averaging 4,475 sf in the CBD, and 3,585 sf in the suburbs.

At \$32.33 per square foot per year (psf/year), direct weighted average rents in the CBD are up 1.0% over the quarter. While the suburban market as a whole remained virtually flat in the third quarter at \$24.79 psf, rents continued to appreciate for those submarkets that have seen healthy demand in recent quarters. The 520 and I-90 Corridors, Bel-Red and Bothell submarkets have all seen consistent improvements since the start of the year.

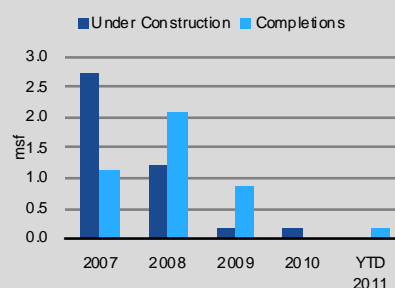
Outlook

With persistent employment gains in the tech sector boosting office demand, the Eastside should see further improvements well into 2012. Vacancy in the CBD should drop to around 13.9% by fourth quarter and 10.9% by year-end 2012, with the suburbs reaching 14.9% and 13.2%, respectively. The impending merger between T-Mobile and AT&T remains the wild card. The two companies occupy approximately 2.6 million square feet on the Eastside, and job consolidation through layoffs and attrition are likely, though AT&T assures these will be limited. At this time, our projections do not take into account any possible vacancies that open up as a result of the merger.

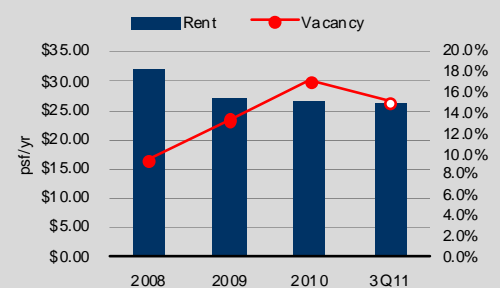
Stats on the Go

	3Q10	3Q11	Y-o-Y Change	12 month Forecast
Overall Vacancy	17.5%	15.1%	-2.4 pp	▼
Direct Asking Rents	\$27.21	\$26.49	-2.6%	▲
YTD Leasing Activity (sf)	1.9 msf	1.6 msf	-15.73%	▲

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	8,195,277	14.2%	13.6%	440,272	0	0	52,761	165,753	\$31.78	\$33.39
405 Corridor	2,704,051	17.6%	16.1%	186,083	0	0	(71,133)	(73,777)	\$24.44	\$28.51
520 Corridor	3,214,530	18.8%	17.5%	195,492	0	0	23,421	20,614	\$24.17	\$28.76
I-90 Corridor	6,402,847	10.9%	10.8%	209,068	0	165,320	292,690	378,538	\$27.90	\$28.70
Bel-Red	1,419,865	13.4%	13.4%	80,978	0	0	(5,835)	9,292	\$19.92	N/A
Redmond	1,425,089	15.5%	15.5%	35,060	0	0	242	2,917	\$26.70	\$31.00
Kirkland	2,335,842	12.9%	11.9%	187,559	0	0	111,920	228,120	\$26.43	\$32.39
Bothell/Woodinville	1,563,482	13.0%	12.0%	80,317	0	0	51,171	37,974	\$24.26	\$24.80
Eastside NON-CBD	19,065,706	14.1%	13.4%	974,557	0	165,320	402,476	603,678	\$25.48	\$28.91
Lynnwood	2,339,892	26.4%	26.0%	154,345	0	0	25,010	47,273	\$22.33	\$25.04
Everett	1,335,655	14.7%	14.3%	9,863	0	0	(109,234)	(114,234)	\$20.33	N/A
Northend NON-CBD	3,675,547	22.1%	21.8%	164,208	0	0	(84,224)	(66,961)	\$22.01	\$25.04
NON-CBD	22,741,253	15.4%	14.8%	1,138,765	0	165,320	318,252	536,717	\$24.68	\$27.56
BELLEVUE TO TAL	30,936,530	15.1%	14.5%	1,579,037	0	165,320	371,013	702,470	\$26.30	\$29.91

* Rental rates reflect asking \$psf/year.

Market Highlights

SIGNIFICANT 3Q11 LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	BUILDING CLASS
Brookside Office Park	405 Corridor	Savers, Inc.*	27,191	B
Opportunity Building	Redmond	eBay	25,728	B
Corporate Campus East III	520 Corridor	Kiewit Construction	25,257	B

* Renewal – not included in leasing activity statistics

SIGNIFICANT 3Q11 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
Eastpointe Corporate Center	I-90 Corridor	The Lake Washington Land Company, LLC	157,546	\$32,000,000
Kirkland 405 A-1 & A-2	Kirkland	AEW Capital Management	128,069	\$24,250,000

SIGNIFICANT 3Q11 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
N/A				

N/A

SIGNIFICANT PROJECTS UNDER CONSTRUCTION/RENOVATION

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
N/A				

N/A