

MARKETBEAT



SEATTLE CBD 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.

At 20.1%, the overall vacancy in Seattle's CBD is down from 21.6% one year ago, but dropped only marginally from 20.2% three months ago. Several large moves occurred this quarter, including Dendreon and Zillow to Russell Investments Center, Isilon Systems to 505 First Avenue South and Amazon.com occupying the first of three phases at 1918 Eighth. These moves represented approximately 292,000 square feet (sf) of expansion space but were largely offset by the Gates Foundation, which is in the process of moving into its new headquarters. King County vacated several floors at Park Place and Zulily relocated to the former Cobalt Building located in the non-CBD market. Overall, the market recorded just 30,142 sf of positive overall absorption for the quarter.

After a brief stall in activity during second quarter, new leases regained traction with just over 1.0 million square feet (msf) logged this quarter. Transactions are up 81% over the previous quarter and are up 21.9% over the first three quarters of last year. Once again, flight-to-quality prevailed with class A space capturing 67.1% of all new deals this quarter. The

largest transaction was Google's 89,433-sf lease at the Park View building in Fremont, backfilling the space Getty Images plans to vacate when it relocates next year into 59,272-sf of space at the Union Station West building in the Pioneer Square/Int'l District.

Capital markets had its strongest quarter since mid-year 2007 with eight recorded transactions totaling \$791.9 million in 2.1 msf. High-end properties with long term leases to strong credit tenants is garnering the highest attention and prices. JP Morgan Chase & Co. acquired 1918 Eighth and 818 Stewart for \$479.4 million. The combined 904,675 sf is nearing 100% occupancy to tenants such as Accenture, RBC Wealth Management, KPMG and Amazon.com.

According to the August edition of Real Capital Analytics' Troubled Assets Radar, the number of distressed properties dropped in the second quarter to their lowest level since the financial crisis began. The region currently has a total of 44 office properties under stress with a total asset value of \$709.3 million, ranking the region 17th among U.S. markets in distress.

Coupled with an active period of investment sales, strong leasing was encouraging for landlords and rents continued to improve during the quarter. Direct weighted rates for all classes increased 2.1% over the quarter to \$28.59 per square foot per year (psf/year) and are up 5.5% over the year. Class A rents were up 3.1% and 5.9%, respectively to \$32.22 psf/year.

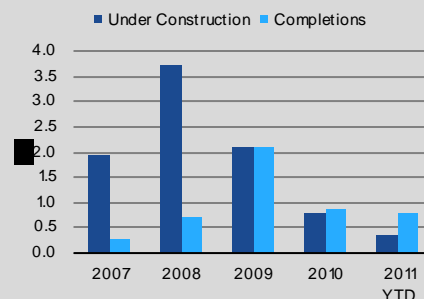
Outlook

Despite a weak decline in vacancy this quarter, strong year-to-date absorption and a relatively solid gain in rents this year make Seattle CBD one of the strongest downtown markets in the country. The *Puget Sound Economic Forecaster* projects the region will add 27,600 jobs by the end of 2011 and another 17,900 jobs in 2012. Vacancy should decline to 19.7% and 17.1% over the same period of time.

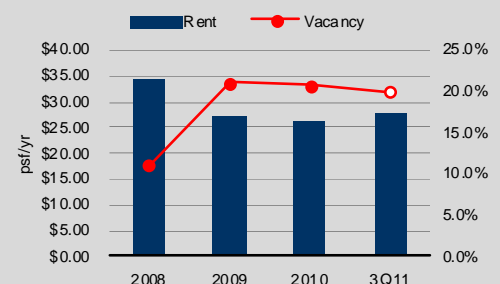
Stats on the Go

	3Q10	3Q11	Y-o-Y Change	12 month Forecast
Overall Vacancy	21.6%	20.1%	-1.5 pp	▼
Direct Asking Rents	\$27.07	\$28.59	5.6%	▲
YTD Leasing Activity (sf)	2.6 msf	3.2 msf	21.9%	◀▶

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	18.2%	16.0%	1,206,932	0	0	344,794	330,641	\$28.25	\$32.39
Denny Regrade	8,099,229	26.3%	25.2%	865,653	0	0	59,251	104,248	\$30.05	\$32.53
Pioneer Square/Int'l District	4,183,741	25.6%	23.9%	327,201	0	0	18,158	6,651	\$26.45	\$32.30
Lower Queen Anne/Lake Union	8,888,955	16.4%	15.6%	753,939	355,000	776,184	432,997	452,056	\$25.66	\$31.18
CBD	41,841,902	20.1%	18.5%	3,153,725	355,000	776,184	855,200	893,596	\$27.99	\$32.22
North Seattle/Northgate	2,511,047	14.0%	12.0%	111,371	0	0	10,591	31,356	\$21.86	\$24.08
East Seattle/Capitol Hill	893,029	50.1%	49.5%	211,846	0	0	(209,160)	(209,160)	\$23.93	\$25.31
Seattle In-City	3,404,076	23.4%	21.8%	323,217	0	0	(198,569)	(177,804)	\$22.08	\$24.19
South Seattle Close-in	1,225,347	23.0%	23.0%	149,092	141,200	0	19,807	29,958	\$21.09	\$22.31
Tukwila	2,324,554	18.9%	17.5%	124,124	0	57,768	92,410	101,068	\$17.94	\$20.48
SeaTac	854,965	43.3%	42.5%	39,535	0	0	(199,885)	(189,336)	\$20.34	\$23.82
Renton	3,170,065	10.9%	10.3%	172,160	0	0	93,039	92,451	\$19.94	\$21.77
Kent/Auburn	1,412,894	30.9%	29.5%	36,637	0	0	(5,439)	(15,754)	\$19.03	\$21.87
Southend NON-CBD	8,987,825	20.8%	20.0%	521,548	141,200	57,768	(68)	18,387	\$19.33	\$21.92
Federal Way	2,160,159	31.1%	21.8%	146,516	0	0	88,098	122,527	\$18.46	\$20.51
SEATTLE TOTAL**	56,393,962	20.9%	19.1%	4,145,006	496,200	833,952	744,661	856,706	\$25.44	\$29.90

* Rental rates reflect asking \$psf/year.

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

Market Highlights

SIGNIFICANT 3Q11 LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	BUILDING CLASS
Park View Building	Lower Queen Anne/Lk Union	Google	89,433	A
190 Queen Anne Avenue North	Lower Queen Anne/Lk Union	Seattle Housing Authority	60,000	B
Union Station West	Pioneer Square/Int'l District	Getty Images	59,272	A
901 Fifth Avenue	Financial District	Milliman	33,964	A

SIGNIFICANT 3Q11 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
1918 Eighth Avenue	Denny Regrade	JP Morgan Chase	669,915	\$350,108,054
505 First Ave S & 83 King St	Pioneer Square/Int'l District	Spear Street Capital	490,643	\$124,825,000
Westlake Center	Financial District	TIAA-CREF	369,996	\$119,400,000
818 Stewart	Denny Regrade	JP Morgan Chase	231,760	\$129,310,690
Seattle Tower	Financial District	Invesco Realty Advisors	174,732	\$30,450,000

SIGNIFICANT 3Q11 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
N/A				

SIGNIFICANT PROJECTS UNDER CONSTRUCTION/RENOVATION

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Amazon.com Headquarters Phase V	Lower Queen Anne/Lk Union	Amazon.com	355,000	4Q13