

MARKETBEAT



SEATTLE NON-CBD (SOUTHEND) 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 government (-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 Southend office market improved slightly in the third quarter 2011. Two of the market's largest vacancies were filled, dropping the overall vacancy rate from 23.9% in the second quarter to 20.8%. Boeing re-occupied 92,633 square feet (sf) of space it vacated between second quarter 2010 and first quarter 2011 at Triton Tower Three in Renton. Zulily, Inc. nearly tripled in size by moving out of its Pioneer Square location in the CBD and back-filling the 87,823 sf that was vacated earlier this year by the Cobalt Group in the South Seattle Close-in submarket.

Overall, the market absorbed 223,906 sf of office space, its strongest three-month gains since first quarter 2005. Although the above mentioned tenants accounted for a bulk of this absorption, every submarket showed some amount of growth this quarter. In Tukwila, Madrona Foods expanded in its current location at Riverpoint Corporate Center, adding about 10,000 sf of office space.

Leasing activity stalled somewhat during the quarter with 73,294 sf leased. Although it was not anticipated to measure up to the 309,364 sf of leasing at mid-year (when Boeing and Zulily leased a collective 180,456 sf), new transactions were at their lowest level since first quarter 2009. Still, the 521,548 sf so far this year is up 64.5% over the first three quarters of 2010.

At \$19.51 per square foot per year (psf/year), direct asking rental rates continued to decline, falling 1% from the \$19.70 psf/year at mid-year and 3.1% from the \$20.14 psf/year one year ago. Discounts are largely coming from the class B and C sectors, where landlords continue to lose tenants to the competitively-priced class A sector. Rents for class A space actually improved over the quarter from \$21.74 psf/year to \$21.92 psf/year, its first increase since mid-2008.

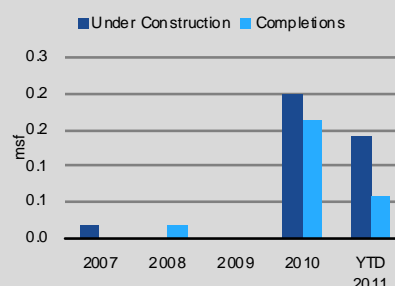
Outlook

Despite the recent drop in vacancy, it will be some time before trends will indicate the market is in recovery. There are still quite a few large blocks of space available (greater than 20,000 sf) that contribute to the high vacancy, and very little demand to occupy them. Taking out the recent Boeing and Zulily deals, the market is currently averaging just 3,252 sf per lease. Employment has been gaining momentum in the region, but much of this is centered in other parts of the region. Barring any additional setbacks, we anticipate the overall vacancy will continue to show modest improvements, declining to 20.0% by the end of the year, and 19.1% by the end of 2012. Our projections call for an additional 1.0% to 2.0% drop in rents by year's end, before stabilizing in 2012.

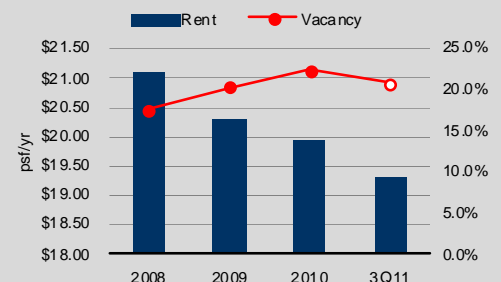
Stats on the Go

	3Q10	3Q11	Y-o-Y Change	12 month Forecast
Overall Vacancy	22.7%	20.8%	-1.9 pp	▼
Direct Asking Rents	\$20.14	\$19.51	-3.1%	◀▶
YTD Leasing Activity (sf)	316,593	521,548	64.5%	◀▶

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
I-5 Technology Center	Federal Way	Tommy Bahama (Call Center)	18,483	A
Auburn Corporate Center II	Auburn	N/A	6,581	B

SIGNIFICANT 3Q11 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
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N/A

SIGNIFICANT 3Q11 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
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N/A

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