

MARKETBEAT

OFFICE SNAPSHOT



BELLEVUE, WA

A Cushman & Wakefield Alliance Research Publication

Q4 2011



ECONOMIC OVERVIEW

Despite a few speed bumps, 2011 set the pace for what economists forecast to be a steady year of growth in 2012. The region has seen a 1.5% jump in employment year-over-year, and retail sales surpassed pre-recession levels, increasing an estimated 5.4% for the year. Employment in the

tech industry reached its pre-recession peak and many companies have announced further growth plans over the next year. Boeing, which added 7,000 jobs to the region this year, now employs more than 75,000 in the Puget Sound with its impact reaching upward of 200,000 jobs. The firm's footprint in the economy was further solidified earlier in the year after winning the fuel tanker contract and more recently when the company signed a multi-year labor contract with the Machinists union, guaranteeing generous annual pay hikes and a commitment to build the new 737 MAX in Renton.

OFFICE MARKET OVERVIEW

Hiring in the tech sector was the primary driver for growth on the Eastside. The market saw sizeable expansions throughout the year from tenants like Expedia, eBay, Tableau Software, and several gaming companies including ArenaNet, 5thCell and Playdom/Disney. Overall, the CBD's vacancy rate declined 270 basis points year-over-year to 13.8%, while the suburban markets (including the Northend) dropped 230 basis points to 14.8%.

New leases totaling 2.1 million square feet (msf) for the Eastside were down about 12% for the year when compared to 2.4 msf in 2010. For those tenants in the position to move, plunging rental rates created a flurry of leasing in 2010. But many deals were simply flight-to-quality and often resulted in downsizing. This year signified a turn in the market and while leasing was down, there was a considerable level of expansion. Bellevue CBD recorded 193,929 square feet (sf) of positive overall absorption, a substantial improvement to the negative 183,151 sf in 2010. Suburban markets logged 692,813 sf of positive overall absorption for the year, compared to 242,616 sf one year ago. Typical in the early stages of recovery, this growth has not come without its setbacks. Research In Motion (RIM) recently put 45,636 sf of its space on the I-90 Corridor on the market for sublease, while Clearwire put 102,000 sf of space from several submarkets up for sublease.

Asking rents have begun to edge up, however, the market has not corrected itself enough and many landlords, particularly in class B and C product remain cautious. Direct asking rents for class A properties in the CBD improved 3.2% over the year to \$33.71 per square foot per year (psf/year), and the suburbs inched up just 0.5% for the year to \$27.81 psf. Meanwhile, class B and C asking rents declined in nearly every submarket over the twelve-month period.

With fewer high-end properties trading hands this year, investor sales activity could not reach 2010 levels. Eight investment properties totaling

1.1 msf traded hands this year for \$385 million (\$347 psf). That compares to 3.7 msf for a total of \$1.7 billion in sales for an average price of \$466 psf in 2010.

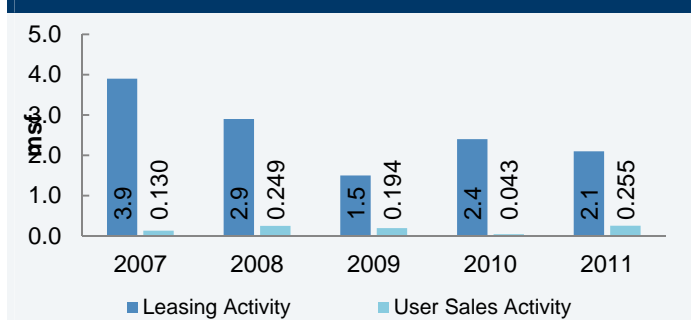
OUTLOOK

The Bellevue office market showed quantifiable signs that recovery has taken hold and based on the employment outlook, which calls for annual job growth of 1.6% in both 2012 and 2013, the Eastside should continue to expand over the next two years. With vacancy in the CBD nearing equilibrium, rents on the rise, and a general lack of full floor availabilities, speculative development might not be too far in the horizon. Summit III, with its parking structure already in place, would be the obvious pick to be first out of the gate; though no solid commitments have been announced from developers.

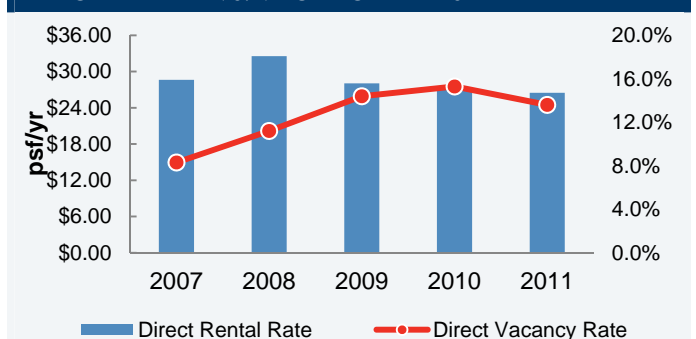
STATS ON THE GO

	4Q10	4Q11	Y-O-Y CHANGE	12 MONTH FORECAST
Overall Vacancy	16.5%	13.8%	-2.7pp	▼
Direct Asking Rents (psf/yr)	\$26.97	\$26.49	-1.8%	▲
YTD Leasing Activity (sf)	2,386,739	,098,768	-12.1%	▲

OVERALL OCCUPIER ACTIVITY



DIRECT RENTAL VS. VACANCY RATES



BELLEVUE, WA

SUBMARKET	INVENTORY	OVERALL VACANCY RATE	DIRECT VACANCY RATE	YTD LEASING ACTIVITY	UNDER CONSTRUCTION	YTD CONSTRUCTION COMPLETIONS	YTD OVERALL NET ABSORPTION	OVERALL WTD. AVG ALL CLASSES GROSS RENTAL RATE*	DIRECT WTD. AVG. CLASS A GROSS RENTAL RATE*
BELLEVUE CBD	8,195,277	13.8%	13.2%	562,713	0	0	193,929	\$32.22	\$33.71
405 Corridor	2,694,307	16.0%	15.2%	231,388	0	0	(26,654)	\$25.02	\$29.24
520 Corridor	3,214,530	18.0%	17.8%	250,388	0	0	45,803	\$24.50	\$28.54
I-90 Corridor	6,402,847	11.3%	10.1%	296,963	7,607	165,320	356,039	\$27.37	\$28.58
Bel-Red	1,428,265	13.1%	13.1%	91,786	0	0	15,780	\$19.83	N/A
Redmond	1,412,528	11.9%	11.9%	74,727	0	0	54,911	\$28.71	\$31.00
Kirkland	2,332,642	14.8%	11.1%	262,456	0	0	185,170	\$24.34	\$32.52
Bothell/Woodinville	1,568,921	10.7%	9.8%	118,337	0	0	72,334	\$24.04	\$25.24
EASTSIDE NON-CBD	19,054,040	13.6%	12.6%	1,325,495	7,607	165,320	703,383	\$25.41	\$29.07
Lynnwood	2,339,892	24.1%	23.8%	193,907	0	0	100,346	\$22.02	\$25.14
Everett	1,335,655	14.4%	13.6%	16,203	0	0	(110,916)	\$19.23	N/A
NORTHEND NON-CBD	3,675,547	20.6%	20.1%	210,110	0	0	(10,570)	\$21.38	\$25.14
NON-CBD TOTAL	22,729,587	14.8%	13.8%	1,536,055	7,607	165,320	692,813	\$24.47	\$27.81
BELLEVUE TOTAL	30,924,864	14.5%	13.6%	2,098,768	7,607	165,320	886,742	\$26.20	\$30.20

* RENTAL RATES REFLECT ASKING \$PSF/YEAR

MARKET HIGHLIGHTS

SIGNIFICANT 2011 LEASE TRANSACTIONS	SUBMARKET	TENANT/BUYER	PROPERTY TYPE	SQUARE FEET
Sammamish Park Place*	I-90 Corridor	Microsoft Corporation	Class A	176,677
Sunset North Corporate Campus*	I-90 Corridor	T-Mobile	Class A	78,070
One Twelfth @ Twelfth*	Bellevue CBD	MulvannyG2 Architects	Class A	67,387
Sunset North Corporate Campus	I-90 Corridor	ArenaNet, Inc.	Class A	64,407
Skyline Tower	Bellevue CBD	Expedia, Inc.	Class A	54,494
Crestwood Corporate Plaza*	I-90 Corridor	Quadrant Corporation	Class A	51,852
Northview Corporate Center	Lynnwood	ADP	Class A	44,908
SIGNIFICANT 2011 SALE TRANSACTIONS	SUBMARKET	BUYER	PURCHASE PRICE	SQUARE FEET
Key Center	Bellevue CBD	Kilroy Realty	\$217,227,320	472,929
Plaza at Yarrow Bay	520 Corridor	Kilroy Realty	\$100,217,187	291,922
Eastpointe Corporate Campus	I-90 Corridor	The Lake Washington Land Company, LLC	\$24,250,000	128,069
SIGNIFICANT 2011 CONSTRUCTION COMPLETIONS	SUBMARKET	MAJOR TENANT	COMPLETION DATE	SQUARE FEET
T-Mobile BTS @ Two Newport	I-90 Corridor	T-Mobile	1Q11	165,320
SIGNIFICANT PROJECTS UNDER CONSTRUCTION	SUBMARKET	MAJOR TENANT	COMPLETION DATE	SQUARE FEET
710 Fifth Avenue Building	I-90 Corridor	N/A	2Q12	7,607

* RENEWAL - NOT INCLUDED IN LEASING ACTIVITY STATISTICS