

MARKETBEAT OFFICE SNAPSHOT



SEATTLE CBD, WA

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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

Momentum that began in late-2010 for Seattle's CBD continued at a moderate clip over the past twelve months, with the market clearly on a path to recovery. The overall vacancy rate declined 130 basis points to end the year at 19.5% and positive overall absorption reached nearly 1.1 million square feet (msf). This largely came from 776,184 square feet (sf) of new construction that Amazon.com occupied earlier in the year, but other notable expansions included Dendreon, Isilon Systems, Nordstrom and Cobalt.

The buzz around the city for much of the year was focused on Amazon.com's hiring spree, which fueled a significant amount of demand in the CBD. In addition to the new 1.7-msf campus, the world's largest online retailer committed to another 901,442 sf in 2011, including 106,200 sf at the Mercer-Yale Building and 320,709 sf at West Eighth in the fourth quarter. Leasing activity reached 4.3 msf for the year, a 31% boost over 2010 leasing.

Spurred by the elevated level of leasing in recent quarters, landlords have not only begun to offer fewer lease concessions, but have taken steps to improve asking rents. Direct weighted average rates for all classes increased 8.2% over the year to \$29.28 per square foot per year (psf/yr), while class A rents are up a similar 8.1% to \$32.96 psf/yr. Even class B product, which has been hit with the recent trend in flight-to-quality have ticked up 3.4% to \$24.21 psf/yr.

Capital markets had its strongest year since 2007 with 15 recorded transactions totaling \$1.2 billion in nearly 3.7 msf. Whether or not this level of trading can be sustained remains questionable. Investors are looking for high-end stable assets with strong credit tenants - a limited sector in the downtown core. On the other hand, a growing number of buyers are targeting value-add opportunities and there remain quite a few office properties in some form of distress. While these will garner much lower price points, they could keep ownership circulating.

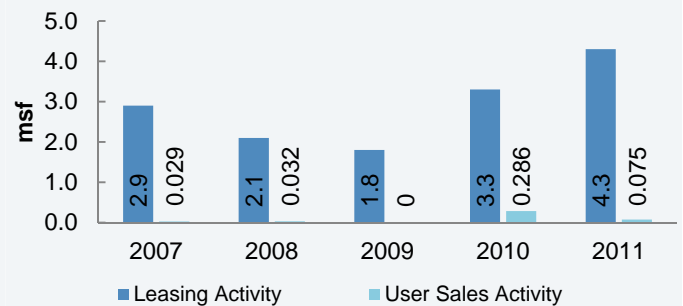
OUTLOOK

Despite maintaining a relatively high vacancy rate, the amount of quality office space is on the decline. There are several large leases that have yet to be occupied, including more than 1.1 msf by Amazon.com. In addition to an employment growth rate of 1.6% projected in 2012 and 2013, this backlog of leased space will help to drop the CBD's year-end vacancy to around 16.0% in 2012 and 14.3% in 2013. Rents should continue to rise with the declining vacancy, between 5% and 8% over the same period of time. There are just two existing projects that can support a 200,000-sf user and just eight options for a 100,000-sf user, none of which include high-end class A office space. This has once again prompted some scuttlebutt about speculative construction, though no ground breaks have been announced.

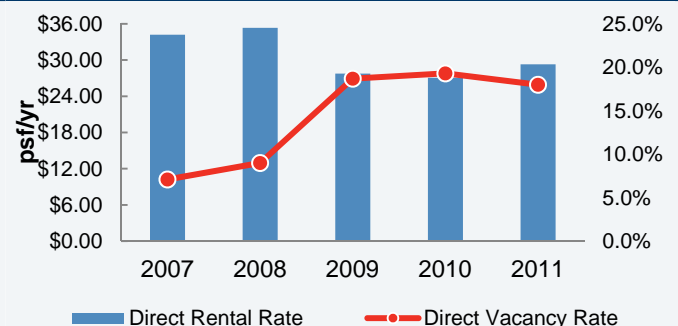
STATS ON THE GO

	4Q10	4Q11	Y-O-Y CHANGE	12 MONTH FORECAST
Overall Vacancy	20.8%	19.5%	-1.3pp	▼
Direct Asking Rents (psf/yr)	\$29.28	\$27.07	-8.2%	▲
YTD Leasing Activity (sf)	3,265,361	4,288,278	31.3%	▲

OVERALL OCCUPIER ACTIVITY



DIRECT RENTAL VS. VACANCY RATES



SEATTLE CBD, 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*
Financial District	20,707,510	17.8%	15.6%	1,413,670	0	0	412,861	\$28.06	\$32.39
Denny Regrade	8,028,582	26.3%	25.0%	1,400,545	0	0	122,156	\$31.52	\$34.44
Pioneer Square/Int'l District	4,183,741	23.8%	22.9%	462,303	0	0	84,047	\$26.74	\$32.30
Lower Queen Anne/Lake Union	8,893,715	15.5%	14.9%	1,011,760	355,000	776,184	457,410	\$26.63	\$31.36
CBD	41,813,548	19.5%	18.0%	4,288,278	355,000	776,184	1,076,474	\$28.64	\$32.96
North Seattle/Northgate	2,511,867	13.7%	12.3%	162,685	0	0	38,684	\$21.70	\$23.64
East Seattle/Capitol Hill	893,029	50.3%	50.3%	213,073	0	0	(210,814)	\$23.35	\$22.99
SEATTLE IN-CITY	3,404,896	23.3%	22.3%	375,758	0	0	(172,130)	\$21.92	\$23.52
South Seattle Close-in	1,225,347	23.0%	23.0%	201,384	311,200	0	30,092	\$20.96	\$22.24
Tukwila	2,324,483	17.8%	16.3%	145,091	0	57,768	114,683	\$18.01	\$20.21
SeaTac	854,965	42.7%	42.0%	50,415	0	0	(184,537)	\$20.63	\$22.83
Renton	3,177,843	11.7%	11.1%	186,429	0	0	65,539	\$20.05	\$21.79
Kent/Auburn	1,412,894	33.0%	31.7%	39,437	0	0	(46,435)	\$19.24	\$21.89
SOUTHEND NON-CBD	8,995,532	21.1%	20.2%	622,756	311,200	57,768	(20,658)	\$19.47	\$21.82
FEDERAL WAY	2,147,459	32.1%	25.4%	177,382	0	0	104,304	\$18.67	\$20.28
TOTALS**	56,361,435	20.5%	18.9%	5,464,174	662,200	833,952	987,990	\$26.01	\$30.50

* RENTAL RATES REFLECT ASKING \$PSF/YEAR

**TOTAL INCLUDES MARKETS NOT REPORTED IN NATIONAL STATISTICS (SEATTLE IN-CITY AND FEDERAL WAY)

MARKET HIGHLIGHTS

SIGNIFICANT 2011 LEASE TRANSACTIONS	SUBMARKET	TENANT/BUYER	PROPERTY TYPE	SQUARE FEET
1918 Eighth Avenue	Denny Regrade	Amazon.com	Class A	460,254
West Eighth	Denny Regrade	Amazon.com	Class A	320,709
Russell Investments Center	Financial District	Dendreon	Class A	179,656
SIGNIFICANT 2011 SALE TRANSACTIONS	SUBMARKET	BUYER	PURCHASE PRICE	SQUARE FEET
1918 Eight Avenue	Denny Regrade	JP Morgan Chase	\$350,108,054	669,915
505 First Ave S & 83 King St	Pioneer Square/Int'l Dist.	Spear Street Capital	\$124,825,000	490,643
818 Stewart	Denny Regrade	JP Morgan Chase	\$129,310,690	231,760
SIGNIFICANT 2011 CONSTRUCTION COMPLETIONS	SUBMARKET	MAJOR TENANT	COMPLETION DATE	SQUARE FEET
Amazon.com Headquarters Phase IV	Lower QA/Lk. Union	Amazon.com	2Q11	539,000
Amazon.com Headquarters Phase III	Lower QA/Lk. Union	Amazon.com	1Q11	237,184
SIGNIFICANT PROJECTS UNDER CONSTRUCTION	SUBMARKET	MAJOR TENANT	COMPLETION DATE	SQUARE FEET
Amazon.com Headquarters Phase V	Lower QA/Lk. Union	Amazon.com	4Q13	355,000