

MARKETBEAT OFFICE SNAPSHOT



BELLEVUE, WA

A Cushman & Wakefield Alliance Research Publication

Q1 2012



ECONOMIC OVERVIEW

The Puget Sound region continues its path toward economic recovery, largely in the form of job creation. According to Washington State Employment Security Department, 46,300 jobs were created in the Seattle MSA in the twelve months ending in February. At 7.4%, the unemployment rate was at its lowest level since January 2009, and sits well below the national average of 8.3%. Some of the strongest growing industries over the past twelve months included manufacturing (+12,000), professional & business services (+8,800), leisure & hospitality (+8,800) and health services (+7,000). Even construction is showing modest gains, adding 2,700 jobs over the year.

OFFICE MARKET OVERVIEW

Though leasing activity remained brisk during the first three months of the year (the 554,630 square feet (sf) of new deals is up 10% from fourth quarter), the flurry of expansions in 2011 slowed a bit for the Eastside office market. At 13.4%, the overall vacancy rate for Bellevue CBD declined marginally from 13.8% at year-end, and is down 15.5% year-over-year. For the suburbs, including the Northend, the overall vacancy rate also fell slightly over the quarter from 14.8% to 14.6%, and sits 150 basis points below the 16.1% vacancy one year ago.

The dip in vacancy produced a marginal level of positive absorption. Bellevue CBD logged 22,843 sf for the quarter, on par with the 28,176 sf in the fourth quarter of 2011. The suburban market had just 31,044 sf of positive absorption, which largely came from the sale of the 32,239-sf Beresford Building in Lynwood. The vacant property was purchased by the State of Washington for Edmonds Community College. Otherwise, weak demand and vacancies offset any expansion that occurred in the close-in submarkets.

At \$25.21 per square foot per year (psf/yr), direct asking rents for all classes continued to improve, increasing 2.0% during the quarter for the suburban markets. Bellevue CBD ticked up to \$32.83 psf/yr, compared to \$32.78 psf/yr during the same period. How rents will play out in the coming quarters will be closely watched. Archon/Whitehall Real Estate Funds is expected to default on 11 properties it owns in the region in April, including nine on the Eastside. The purchase of those properties back in 2007 catapulted record-breaking rent hikes for Bellevue submarkets. Should a new owner adjust rents in those properties to stabilize occupancy rates, it could once again impact the course of current trends.

OUTLOOK

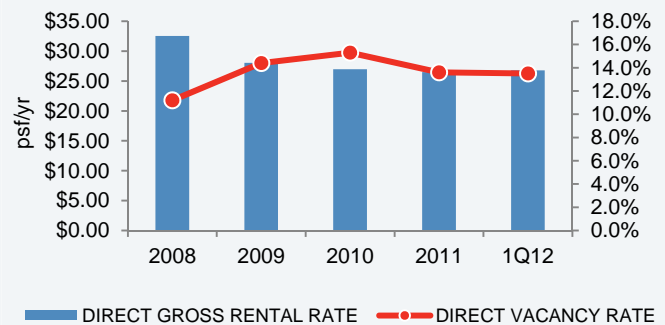
There are several tenants currently in the market for large blocks of space that should help kick start momentum for the year. Caradigm, a

joint venture between Microsoft and GE, is reportedly in the market for 65,000 sf. Concur Technologies is in the market for upward of 150,000 sf and Apptio is looking to double its 30,000-sf footprint in downtown Bellevue. Should these leases materialize, vacancies could drop well below 10% over the next 12-18 months in both the CBD and suburbs. However, a few wild cards worth noting could derail this momentum. Research In Motion put 45,000 sf up for sublease last year and could return another 45,000 sf should sales of the Blackberry continue to underperform, while the 141,000 sf that Verizon Wireless occupies is being marketed for a first quarter 2013 vacancy. The merger between T-Mobile and AT&T is dead, but the company's ongoing struggles could result in significant givebacks down the road.

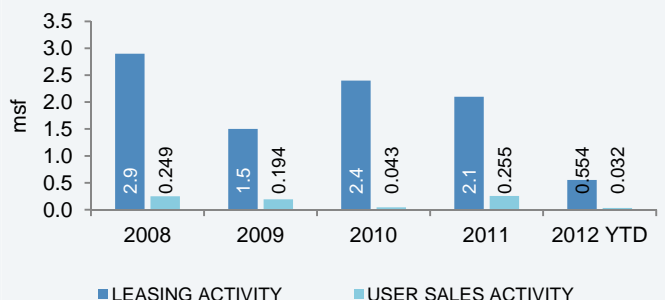
STATS ON THE GO

	1Q11	1Q12	Y-O-Y CHANGE	12 MONTH FORECAST
Overall Vacancy	16.3%	14.2%	-2.1pp	▼
Direct Asking Rents (psf/yr)	\$26.77	\$26.78	0.03%	▲
YTD Leasing Activity (sf)	592,147	554,630	-6.3%	◀▶

DIRECT RENTAL VS. VACANCY RATES



OVERALL OCCUPIER ACTIVITY



BELLEVUE, WA

SUBMARKET	INVENTORY	OVERALL VACANCY RATE	DIRECT VACANCY RATE	YTD LEASING ACTIVITY	UNDER CONSTRUCTION	YTD CONSTRUCTION COMPLETIONS	YTD DIRECT NET ABSORPTION	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	13.4%	12.6%	144,450	0	0	50,893	22,843	\$32.26	\$33.60
405 Corridor	2,694,307	15.6%	14.9%	28,987	0	0	7,128	9,622	\$25.30	\$29.79
520 Corridor	3,214,530	16.6%	16.5%	139,046	0	0	33,780	33,780	\$25.20	\$28.65
I-90 Corridor	6,412,923	12.1%	10.9%	78,146	7,607	0	(37,676)	(39,407)	\$28.63	\$29.81
Bel-Red	1,533,495	12.1%	12.1%	8,784	0	0	(181)	(181)	\$21.65	N/A
Redmond	1,412,528	12.0%	12.0%	14,036	0	0	(1,149)	(1,149)	\$28.70	\$31.14
Kirkland	2,332,642	14.4%	11.7%	79,127	0	0	(14,596)	9,878	\$24.36	\$33.43
Bothell/Woodinville	1,568,921	12.3%	12.2%	5,655	0	0	(38,949)	(25,387)	\$23.64	\$24.17
Eastside Non-CBD	19,169,346	13.6%	12.8%	353,781	7,607	0	(51,643)	(12,844)	\$25.91	\$29.49
Lynnwood	2,307,653	22.6%	22.2%	50,825			40,714	40,714	\$22.59	\$25.18
Everett	1,335,655	13.8%	13.4%	5,574			3,174	3,174	\$19.34	N/A
Northend Non-CBD	3,643,308	19.4%	19.0%	56,399	0	0	43,888	43,888	\$21.83	\$25.18
Non-CBD Total	22,812,654	14.6%	13.8%	410,180	7,607	0	(7,755)	31,044	\$25.04	\$28.23
TOTALS	31,007,931	14.2%	13.5%	554,630	7,607	0	43,138	53,887	\$26.60	\$30.28

* RENTAL RATES REFLECT ASKING \$PSF/YEAR

MARKET HIGHLIGHTS

Significant IQ12 Lease Transactions	SUBMARKET	TENANT	BUILDING CLASS	SQUARE FEET
Sterling Plaza II	I-90 Corridor	Coinstar	A	37,932
Puget Sound Energy Building	Bellevue CBD	New York Life	A	29,936
Carillon Point	Kirkland	Southern Wine & Spirits	A	21,356
Significant IQ12 Sale Transactions	SUBMARKET	BUYER	PURCHASE PRICE / \$PSF	SQUARE FEET
Beresford Building	Lynnwood	State of Washington	\$3,100,000 / \$96 psf	32,239
Capstone Office Building	I-90 Corridor	Mv Med, LLC	\$3,900,000 / \$155 psf	25,025
Significant IQ12 Construction Completions	SUBMARKET	MAJOR TENANT	COMPLETION DATE	SQUARE FEET
N/A				
Significant Projects Under Construction	SUBMARKET	MAJOR TENANT	COMPLETION DATE	SQUARE FEET
710 Fifth Avenue	I-90 Corridor	N/A	2Q12	7,607