

MARKETBEAT OFFICE SNAPSHOT



SEATTLE, WA - CBD

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

Steady employment gains are boosting office demand in the region, and for Seattle CBD, demand continues to be fueled mainly by Amazon.com. The world's largest online retailer moved into more than 269,436 square feet (sf) at 1918 8th and 1260 Mercer Street during the first quarter of 2012, helping to drive down the overall vacancy rate to 18.1% from 19.5% at year-end 2011. While still relatively high, a bulk of the vacancy is contained in several largely-vacant "commodity" properties. A survey of top tier class A properties shows that vacancy in this sector, where demand has been the strongest, is extremely tight at just 6.4%.

Amazon.com once again made headlines in March when it agreed to purchase three city blocks in the Denny Regrade from longtime landowner Clise Properties. In what will be one of the largest real estate deals on record for downtown Seattle, the company would build upward of 3.0 million square feet to expand its office functions.

Amazon.com's growing impact on the downtown real estate market should not overshadow expansion that is occurring by other local companies. Nordstrom re-occupied 88,020 sf that it vacated last year at Metropolitan Park North and has committed to more than 300,000 sf of new space at 1600 Seventh (formerly Qwest Plaza). Further, Allrecipes.com expanded into an additional 24,000 sf at Fifth & Pike. Overall, the market recorded 404,588 sf of positive absorption for the quarter.

Rents are reflecting the overall improvements in the CBD. At \$33.63 per square foot per year (psf/yr), class A rents ticked up 2% over the quarter and are up 12.1% year-over-year. The same survey of top tier properties shows that rents in this sector are averaging about 23.4% higher than the general class A market at \$41.51 psf/yr.

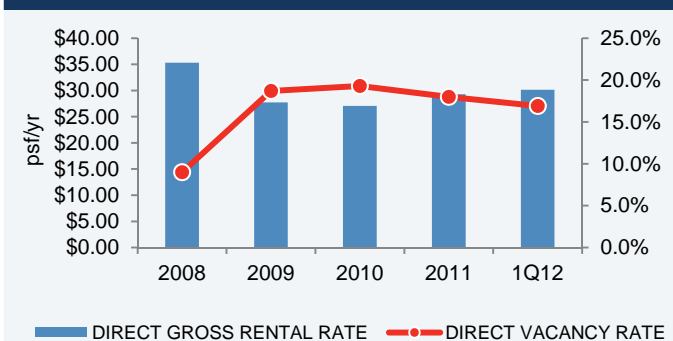
OUTLOOK

While speculative construction is showing signs of life for the first time in several years with the ground breaking of 202 Westlake, a 112,500-sf project being developed by First Western Development near Amazon.com's new campus, no new construction for top tier high-rise properties have been announced. This will keep demand focused on existing product, and vacancy in the CBD should continue to drop over the next 24-month period to around 14.6% and could decline even further should the market improve faster than anticipated. At this point we could begin to see construction starts for high-rise properties in the downtown core.

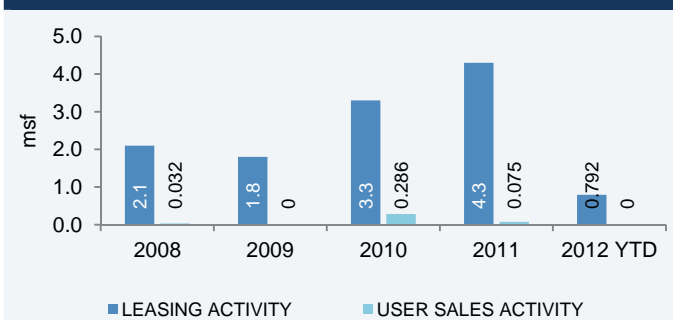
STATS ON THE GO

	1Q11	1Q12	Y-O-Y CHANGE	12 MONTH FORECAST
Overall Vacancy	19.8%	18.1%	-1.7pp	▼
Direct Asking Rents (psf/yr)	\$26.88	\$30.16	12.2%	▲
YTD Leasing Activity (sf)	1,589,516	792,441	50.1%	◀▶

DIRECT RENTAL VS. VACANCY RATES



OVERALL OCCUPIER ACTIVITY



SEATTLE, WA - CBD

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*
Financial District	20,716,740	17.4%	15.7%	331,322	0	0	(55,434)	51,315	\$29.53	\$33.44
Denny Regrade	8,028,582	22.6%	21.6%	192,723	0	0	206,784	229,318	\$32.13	\$35.31
Pioneer Square/Int'l District	4,229,941	23.7%	22.5%	71,231	0	0	5,957	(9,250)	\$26.86	\$32.03
Lower Queen Anne/Lake Union	9,003,127	13.4%	12.8%	197,165	467,500	0	131,030	133,205	\$28.29	\$31.91
CBD	41,978,390	18.1%	16.9%	792,441	467,500	0	288,337	404,588	\$29.63	\$33.63
North Seattle/Northgate	2,501,519	12.6%	11.3%	64,532	0	0	22,650	22,650	\$21.99	\$24.12
Close-in South Seattle	1,225,347	23.8%	23.8%	45,130	311,200	0	(52,488)	(52,448)	\$23.41	\$24.82
East Seattle/Capitol Hill	829,766	49.0%	49.0%	12,195	0	0	12,195	12,195	\$21.17	\$22.49
Seattle In-City	4,619,632	22.6%	21.9%	121,857	311,200	0	(17,603)	(17,603)	\$22.69	\$24.47
Tukwila	2,240,865	16.2%	14.8%	17,143	0	0	2,394	3,736	\$18.18	\$20.19
SeaTac	854,965	42.2%	41.5%	7,216	0	0	3,991	3,991	\$20.70	\$22.85
Renton	3,177,843	11.6%	11.0%	46,785	0	0	3,243	3,243	\$20.23	\$21.93
Kent/Auburn	1,412,894	35.5%	34.8%	20,350	0	0	(43,949)	(34,897)	\$19.81	\$22.15
Southend NON-CBD	7,686,567	20.8%	19.9%	91,494	0	0	(34,321)	(23,927)	\$19.64	\$21.92
Federal Way	2,147,459	31.7%	25.0%	14,616	0	0	8,637	8,637	\$18.76	\$20.29
TOTALS**	56,432,048	19.4%	18.0%	1,020,408	778,700	0	245,050	371,695	\$26.75	\$30.90

* RENTAL RATES REFLECT ASKING \$PSF/YEAR

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

MARKET HIGHLIGHTS

Significant IQ12 Lease Transactions	SUBMARKET	TENANT	BUILDING CLASS	SQUARE FEET
Sixth & Wall	Denny Regrade	City University	B	89,403
3101 Western Avenue	Lower QA/Lk Union	Cell Therapeutics	A	66,045
100 West Harrison Plaza	Lower QA/Lk Union	Publicis Dialog	A	51,000
Significant IQ12 Sale Transactions	SUBMARKET	BUYER	PURCHASE PRICE / \$PSF	SQUARE FEET
Second & Seneca / 1101 Second	Financial District	Rockwood Capital, LLC	\$190,000,000 / \$382 psf	496,234
Smith Tower	Pioneer Square/Int'l Dist.	CPUSI Co-Investment Payment LLC	\$36,795,000 / \$143 psf	256,481
Significant IQ12 Construction Completions	SUBMARKET	MAJOR TENANT	COMPLETION DATE	SQUARE FEET
N/A				
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
202 Westlake	Lower QA/Lk Union	N/A	3Q13	112,500