

MARKETBEAT OFFICE SNAPSHOT



SEATTLE (SOUTHEND), WA - SUBURBAN

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

Improving economic conditions have yet to reach the Southend office market, which is still burdened with tenant downsizing and an overall lack of demand for office space. Most notable this quarter, Xerox and SAIC gave up a total of 68,000 square feet (sf) at Centerpoint - Cascade East and Cascade West in the first quarter. Modest activity in other submarkets help to offset these vacancies, but the Southend still logged 23,927 sf of negative overall absorption.

Despite negative absorption, the overall vacancy rate actually declined from 21.1% at year-end 2011 to 20.8% in the first quarter. This was the result of a revision to the boundaries of the Southend office market between year-end and the start of the first quarter. Due to its relative distance from the rest of the Southend and its closer proximity to downtown Seattle, the South Seattle Close-in submarket was moved to Seattle's "In City" market which includes other close-in areas like Northgate and Capitol Hill (see stat table on page 2). This change reduced the Southend's total inventory from almost 9.0 million square feet (msf) to 7.7 msf, and removed more than 280,000 sf of available space from its vacancy.

Average asking rents might be showing signs of bottoming out. At \$19.82 per square foot per year (psf/yr), direct rents for all classes ticked up marginally from \$19.67 psf/yr at year-end 2011. Class A rents saw a similar change, up from \$21.82 psf/yr at year-end to \$21.92 psf/yr. It is too early to tell if rents have in fact flattened out, considering that shifts in rent trends generally lag other real estate indicators by six to nine months and we have yet to see an upswing in tenant demand. However, it is worth noting that every submarket did experience a slight improvement over the quarter.

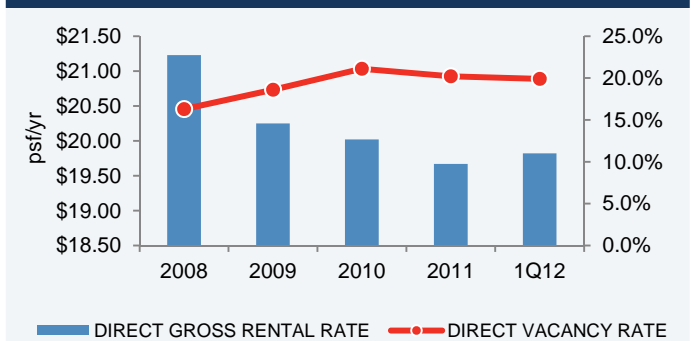
OUTLOOK

Several economic indicators, including housing affordability, strong population growth and regional employment growth suggest that the Southend office market is poised for a modest acceleration in demand over the next 12-24 months. We anticipate the market's vacancy could drop to 20% by year end, and another percentage point to 19% by the end of 2013. Boeing is always a wild card in the Southend, and with the company ramping up production of its new 737 MAX in Renton, the potential for new office-using workers like engineers and administrative staff could result in greater demand than anticipated, should an office requirement materialize.

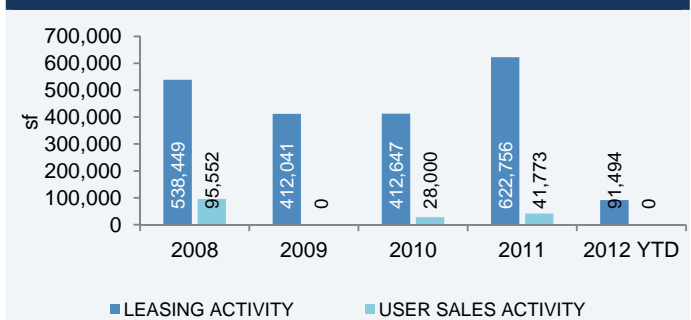
STATS ON THE GO

	1Q11	1Q12	Y-O-Y CHANGE	12 MONTH FORECAST
Overall Vacancy	24.5%	20.8%	-3.7pp	▼
Direct Asking Rents (psf/yr)	\$19.76	\$19.82	0.3%	◀▶
YTD Leasing Activity (sf)	138,890	91,494	-34.1%	◀▶

DIRECT RENTAL VS. VACANCY RATES



OVERALL OCCUPIER ACTIVITY



SEATTLE (SOUTHEND), WA - SUBURBAN

SUBMARKET	INVENTORY	OVERALL VACANCY RATE	DIRECT VACANCY RATE	YTD LEASING ACTIVITY	UNDER CONSTRUCTION	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
SeaTac Office Center	SeaTac	Airline Pilots Association	A	7,216
Powell Building*	Renton	Axia Financial/Tila Mortgage	B	6,928
South 405 Place	Renton	Phillips & Webster	A	4,514
Significant IQ12 Sale Transactions	SUBMARKET	BUYER	PURCHASE PRICE / \$PSF	SQUARE FEET
N/A				
Significant IQ12 Construction Completions	SUBMARKET	MAJOR TENANT	COMPLETION DATE	SQUARE FEET
N/A				
Significant Projects Under Construction	SUBMARKET	MAJOR TENANT	COMPLETION DATE	SQUARE FEET
N/A				

* RENEWAL - NOT INCLUDED IN LEASING ACTIVITY STATISTICS