

MARKETBEAT

OFFICE SNAPSHOT



BELLEVUE, WA

A Cushman & Wakefield Alliance Research Publication

Q2 2012



ECONOMIC OVERVIEW

The Puget Sound economy continued to gain steam through the first half of 2012. According to Washington State's Employment Security Department, the unemployment rate declined 150 basis points (bps) in the twelve months ending in May, its lowest level since January 2009. The

region created 41,500 jobs over the same period of time. Leading the gains were jobs in manufacturing, which added 10,200 employees (7,400 included aerospace manufacturing) and professional and business services with 10,600 new hires. This was followed by trade, transportation and utilities (9,700), administrative and support services (5,300), construction (3,900) and leisure hospitality (3,500).

OFFICE MARKET OVERVIEW

Activity on the Eastside has been gaining significant traction in recent quarters and by mid-year the market was well on its way towards equilibrium. Speculation of large leases in Bellevue CBD materialized during the quarter, eliminating virtually all large blocks of available office space. Concur Technologies, Apptio and Caradigm leased a total of 249,516 square feet (sf) in the CBD, accounting for 36.5% of the 681,929 sf of total Eastside leasing in the second quarter.

The overall vacancy in the CBD dropped 50 bps since first quarter to 12.9%, and is down nearly a full percentage point from year-end 2011. Expedia expanded into 29,813 sf of space at Skyline Tower and Overlake Hospital moved into 30,898 sf at One Twelfth @ Twelfth. The submarket logged 37,840 sf of positive overall absorption for the quarter, boosting year-to-date absorption to 75,941 sf.

Overall vacancy in the suburbs (including the Northend) dropped 80 bps over the quarter to 13.8% and is down a full percentage point from year-end. Coinstar expanded into 37,932 sf at Sterling Plaza II, Talyst relocated from the I-90 Corridor into 23,992 sf at Kirkland 405 Business Center (their outgoing space was backfilled by building owner Routh Crabtree) and Clearwire re-occupied 21,039 sf of space it put up for sublease at Carillon Point. With the exception of Lynnwood and Everett, every suburban submarket recorded positive absorption this quarter, totaling 206,895 sf year-to-date.

Rental rates continued to improve, with direct asking rents for the CBD increasing 1.7% since year-end 2011 to \$33.34 per square foot per year (psf/yr). The suburbs were up 3.1% in the first six months to \$25.45 psf/yr. Although demand has been largely focused on class A assets, class B and C product has seen a good amount of activity and rents have improved over the six-month period for nearly every submarket in these classes. Given the current market dynamic, which is increasingly favoring landlords, flight-to-quality is no longer driving leasing decisions.

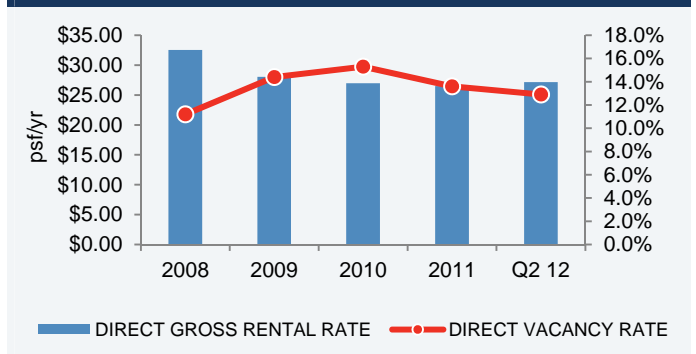
OUTLOOK

The three aforementioned leases in the CBD should push the vacancy rate down to around 9.8% by the time the last tenant takes occupancy in the first quarter 2013, and possibly further should smaller spaces continue to be absorbed. It will be no surprise if we begin to see new development kick off in the next several quarters. The suburbs should also see continued improvements through the balance of the year and into 2013. There are several tenants in the market vying for 25,000-sf to 50,000-sf blocks of space, a number of which are looking to expand. Employment projections of 2.8% in 2012 and 2.3% in 2013 should further solidify the need for expansion space.

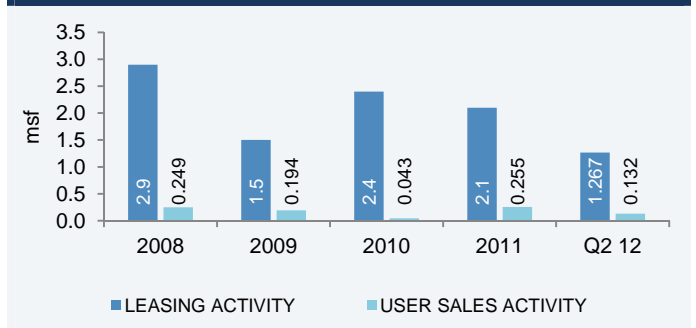
STATS ON THE GO

	Q2 2011	Q2 2012	Y-0-Y CHANGE	12 MONTH FORECAST
Overall Vacancy	15.8%	13.6%	-2.2pp	▼
Direct Asking Rents (psf/yr)	\$26.71	\$27.15	1.6%	▲
YTD Leasing Activity (sf)	1,124,781	1,267,040	12.6%	◄►

DIRECT RENTAL VS. VACANCY RATES



OVERALL OCCUPIER ACTIVITY



BELLEVUE, WA

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*
Bellevue CBD	8,207,077	12.9%	12.7%	583,918	0	0	48,650	75,941	\$33.14	\$34.29
405 Corridor	2,694,307	14.9%	14.3%	74,077	0	0	23,893	29,387	\$25.43	\$29.76
520 Corridor	3,215,034	15.0%	14.8%	207,325	0	0	89,094	85,935	\$25.67	\$28.50
I-90 Corridor	6,412,923	11.4%	9.9%	126,278	7,607	0	25,535	2,447	\$28.83	\$30.07
Bel-Red	1,533,495	11.8%	11.8%	24,223	0	0	4,168	4,168	\$22.43	\$28.00
Redmond	1,412,528	11.9%	11.9%	32,811	0	0	465	465	\$28.90	\$31.14
Kirkland	2,331,889	11.2%	9.8%	86,002	0	0	35,763	88,290	\$25.54	\$34.74
Bothell/Woodinville	1,568,921	12.2%	12.2%	12,554	0	0	(38,728)	(23,531)	\$23.78	\$24.37
Eastside Suburban	19,169,097	12.6%	11.8%	563,270	7,607	0	140,190	187,161	\$26.33	\$29.65
Lynnwood	2,307,653	22.6%	21.5%	112,228	0	0	59,240	41,653	\$22.83	\$25.15
Everett	1,335,655	15.7%	15.2%	7,624	0	0	(21,919)	(21,919)	\$19.94	N/A
Northend Suburban	3,643,308	20.1%	19.2%	119,852	0	0	37,321	19,734	\$22.06	\$25.15
Non-CBD Total	22,812,405	13.8%	13.0%	393,122	7,607	0	177,511	206,895	\$25.34	\$28.28
TOTALS	31,019,482	13.6%	12.9%	1,267,040	7,607	0	226,161	282,836	\$27.02	\$30.57

* RENTAL RATES REFLECT ASKING \$PSF/YEAR

MARKET HIGHLIGHTS

Significant Q2 2012 Lease Transactions	SUBMARKET	TENANT	BUILDING CLASS	SQUARE FEET
Key Center	Bellevue CBD	Concur Technologies	A	122,755
City Center Bellevue	Bellevue CBD	Caradigm	A	68,956
Plaza East	Bellevue CBD	Apptio	A	57,805
One Twelfth @ Twelfth	Bellevue CBD	CH2M Hill	A	52,932
The Inca Building*	Bellevue CBD	Tetra Tech	B	32,663
Lynnwood Corporate Center	Lynnwood	Charter College	B	19,636
Significant Q2 2012 Sale Transactions	SUBMARKET	BUYER	PURCHASE PRICE / \$PSF	SQUARE FEET
Offices at River Park	Redmond	JMA Ventures	\$38,500,000 / \$360	106,910
Significant Q2 2012 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	Q3 2012	7,607

* RENEWAL - NOT INCLUDED IN LEASING ACTIVITY STATISTICS