

MARKETBEAT OFFICE SNAPSHOT



SEATTLE, WA - CBD

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 with 3,500 positions added.

OFFICE MARKET OVERVIEW

Momentum for office demand in Seattle's CBD continued at a moderate clip over the past six months. The overall vacancy rate declined 260 bps to end second quarter at 16.9%, its lowest level in three years. In addition to Amazon.com and Nordstrom's expansions into a total of 357,456 square feet (sf) in the first quarter, recent activity that helped drop the CBD's vacancy further included Cell Therapeutics, which moved into 66,045 sf at 3101 Western (its space at 501 Elliott was backfilled by F5 Networks) and Facebook moving into 27,435 sf at Metropolitan Park East. In all, the market recorded 347,601 sf of positive overall absorption during the second quarter, improving year-to-date absorption to 778,539 sf.

Leasing activity amounted to just over 2.0 million square feet (msf) during the first half of the year. Though this is a 5.8% drop from leasing over the same period in 2011, there were several noteworthy deals that did not include Amazon.com, which dominated the leasing scene in 2011. CenturyLink leased 280,000 sf at 1600 Seventh Avenue when it sold the property to Clarion Partners. Nordstrom took the balance of the building, about 300,000 sf, for future expansion.

Seattle remains one of the top investment markets in the country, alongside San Francisco, New York and Boston. Post-recession activity had been focused on newer, fully leased class A trophy buildings, however, fundamentals are changing and investor interest is trickling down to older class A and B assets. Nearly 3.0 msf traded in the second quarter for a total of \$1.1 billion, of which just one premium office property exchanged hands. Commonwealth Partners purchased Russell Investment Center, an 872,026-sf, 97% occupied building built in 2006 for \$480 million, or \$550 per square foot (psf). Northwest Mutual Life purchased the property back in 2009 for \$133 psf, shortly after WAMU's bankruptcy and subsequent vacancy of the property.

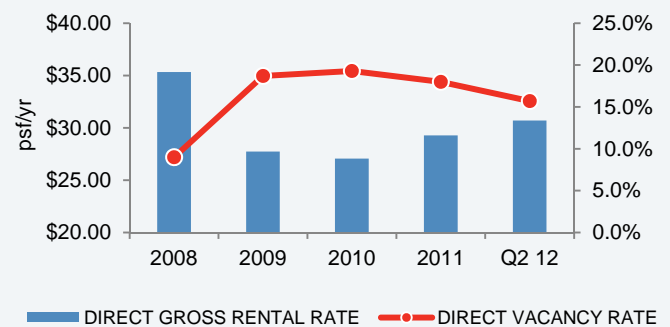
OUTLOOK

Investor interest, coupled with a boom in high-tech employment is driving rents up in nearly every submarket and class. At \$30.70 psf, direct rents for all classes is up 4.8% over the six-month period, with class A assets reaching \$34.02 psf. Developers like Vulcan, Touchstone, and Skanska have been working on permits for office development in the fast-growing South Lake Union. So far just one project is under construction, the 112,500-sf 202 Westlake. However, the dwindling supply of large office blocks (just ten vacancies over 75,000 sf are available) and rising rents could push a new wave of speculative development in the coming quarters.

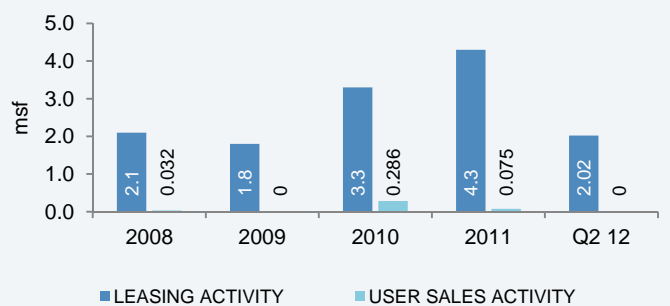
STATS ON THE GO

	Q2 2011	Q2 2012	Y-O-Y CHANGE	12 MONTH FORECAST
Overall Vacancy	20.2%	16.9%	-3.3pp	▼
Direct Asking Rents (psf/yr)	\$27.99	\$30.70	9.7%	▲
YTD Leasing Activity (sf)	2,148,303	2,022,937	-5.8%	◄

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	21,314,740	16.5%	15.0%	1,204,711	0	0	12,627	150,899	\$29.71	\$33.17
Denny Regrade	8,028,582	21.6%	20.8%	260,489	0	0	286,312	321,788	\$32.91	\$36.09
Pioneer Square/Int'l District	4,241,941	21.0%	20.1%	203,646	0	0	40,554	34,935	\$27.91	\$32.36
Lower Queen Anne/Lake Union	8,769,395	11.5%	10.5%	354,091	467,500	0	306,120	270,917	\$28.53	\$32.54
CBD	42,354,658	16.9%	15.7%	2,022,937	467,500	0	645,613	778,539	\$30.20	\$34.02
North Seattle/Northgate	2,501,519	10.6%	9.2%	132,277	0	0	76,165	72,904	\$21.94	\$24.31
Close-in South Seattle	1,366,547	30.2%	30.2%	82,303	170,000	141,200	(1,258)	(1,258)	\$23.51	\$25.13
East Seattle/Capitol Hill	892,766	25.8%	25.8%	14,233	0	0	218,901	218,901	\$21.02	\$22.49
Seattle In-City	4,760,832	19.1%	18.3%	228,813	170,000	141,200	293,808	290,547	\$22.74	\$24.72
Tukwila	2,240,865	16.4%	14.5%	44,845	0	0	7,927	12,581	\$18.01	\$19.94
SeaTac	861,514	42.6%	41.9%	7,909	0	0	(1,865)	(1,865)	\$20.69	\$22.84
Renton	3,177,843	11.7%	11.2%	67,550	0	0	(3,056)	(809)	\$20.34	\$21.80
Kent/Auburn	1,412,894	36.5%	35.2%	58,068	0	0	(49,639)	(49,211)	\$19.72	\$22.15
Southend Suburban	7,693,116	21.1%	20.0%	178,372	0	0	(46,633)	(39,304)	\$19.60	\$21.92
Federal Way	2,147,459	31.0%	24.3%	49,901	0	0	23,896	23,896	\$18.71	\$20.28
TOTALS**	56,956,065	18.2%	16.8%	2,480,023	637,500	141,200	916,684	1,053,678	\$26.97	\$31.15

* RENTAL RATES REFLECT ASKING \$PSF/YEAR

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

MARKET HIGHLIGHTS

Significant Q2 2012 Lease Transactions	SUBMARKET	TENANT	BUILDING CLASS	SQUARE FEET
1600 Seventh Avenue	Financial District	Nordstrom	B	300,000
1600 Seventh Avenue	Financial District	CenturyLink (sale/leaseback)	B	260,000
505 First Avenue South	Pioneer Square/Int'l Dist.	Isilon Systems	A	46,000
Significant Q2 2012 Sale Transactions	SUBMARKET	BUYER	PURCHASE PRICE / \$PSF	SQUARE FEET
Russell Investments Center	Financial District	CommonWealth Partners	\$480,000,000 / \$550	872,026
Metropolitan Park East & West	Denny Regrade	Brookfield Office Properties Inc.	\$209,996,000 / \$300	699,766
1600 Seventh Avenue	Financial District	Clarion Partners	\$137,000,000 / \$257	531,771
Lake Union Center	Lower QA/Lk Union	Kilroy Realty Corporation	\$106,000,000 / \$333	318,111
Lake View at Fremont	Lower QA/Lk Union	Kilroy Realty Corporation	\$39,000,000 / \$361	107,815
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
Amazon.com Headquarters Phase V	Lower QA/Lk Union	Amazon.com	Q4 2013	355,000
202 Westlake	Lower QA/Lk Union	N/A	Q3 2013	112,500