

MARKETBEAT OFFICE SNAPSHOT



SEATTLE (SOUTHEND), WA - SUBURBAN

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

Economic recovery throughout the region continues to sidestep the Southend office market. Vacancy inched upward during the second quarter to 21.1%, from 20.8% three months ago. Nearly every submarket in the Southend recorded negative absorption, which totaled 15,377 square feet (sf) for the quarter and negative 39,304 sf for the year. On the bright side, space contractions were reduced to relatively small tenants and the market has not seen any significant givebacks in more than nine months.

With 86,878 sf of new deals signed during the second quarter, total leasing so far this year of 178,372 is on par with the 174,502 sf during the second half of 2011. The largest deal this quarter was Paychex North America, which leased 19,213 sf at Centerpoint's Cascade West building in Kent, followed by Xerox for 15,908 sf in the Atrium building located in the same business park.

As a result of the relatively stagnant supply of tenant demand, rental rates remained flat for the quarter at \$19.85 per square foot per year (psf/yr) for all classes, though it has inched upward slightly from \$19.67 psf/yr at year-end 2011. This is not likely the cause of optimistic landlords, rather the result of either lower-priced space taken up, and/or higher-priced space being added, swinging the market's average a bit.

Federal Way, which we track separate from the rest of the Southend market, fared slightly better than its northern submarkets. The overall vacancy rate declined from 31.7% in the first quarter to 31.0%, and is 110 bps lower than six months ago. This resulted in 23,896 sf of positive overall absorption so far this year, a significant improvement over the negative 4,505 sf during the second half of last year. The 35,285 sf of leasing during the quarter boosted year-to-date totals to 49,901 sf, on par with the previous six-month cycle.

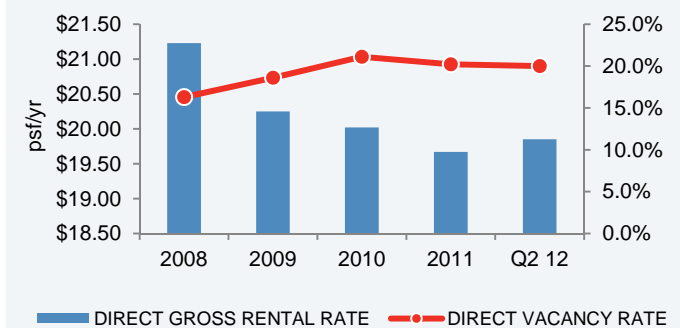
OUTLOOK

Given the current economic outlook, which calls for employment growth of 2.8% through 2012 and 2.3% in 2013, our forecast model takes into account that some amount of this growth should soon begin to impact the Southend. We currently project that vacancy will decline modestly by the end of the year to 20.3%, with a further drop to 18.9% in 2013. This assumes that there are no large vacancies coming to market. Rents will remain flat for the balance of the year, and assuming the market does see a notable uptick in demand, should improve to \$20.16 psf/yr in 2013.

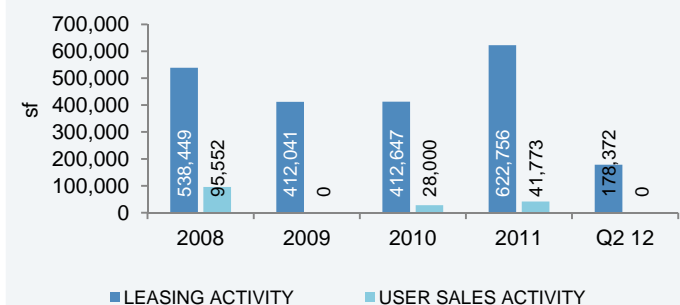
STATS ON THE GO

	Q2 2011	Q2 2012	Y-O-Y CHANGE	12 MONTH FORECAST
Overall Vacancy	23.9%	21.1%	-2.8pp	▼
Direct Asking Rents (psf/yr)	\$19.70	\$19.85	0.8%	◄►
YTD Leasing Activity (sf)	448,254	178,372	-60.2%	◄►

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	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
Centerpoint – Cascade West	Kent	Paychex North America	A	19,213
Centerpoint- Atrium	Kent	Xerox	A	15,908
Southcenter Place	Tukwila	Cobalt Mortgage	A	9,173
Significant Q2 2012 Sale Transactions	SUBMARKET	BUYER	PURCHASE PRICE / \$PSF	SQUARE FEET
I-5 Technology Center	Federal Way	JMA Ventures, LLC	\$17,000,000 / \$166	102,030
State Farm Service Center	Tukwila	Fort Dent Way, LLC	\$3,200,000 / \$144	22,222
3900 East Valley Road	Renton	Pioneer Newspapers, Inc.	\$3,072,500 / \$151	20,346
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
N/A				