

MARKETBEAT

OFFICE SNAPSHOT

BELLEVUE, WA

A Cushman & Wakefield Alliance Research Publication

Q3 2012



ECONOMIC OVERVIEW

Despite national and international economic concerns like a potential breakup of the Eurozone, the slowdown in China and the fiscal cliff, the Puget Sound's economy has been outperforming the nation. Global investments in aircraft, electronics and software, coupled with an expanding housing market is keeping the region shielded from some of the worries impacting the rest of the nation. Seasonally adjusted employment in the Puget Sound expanded by 36,900 in the twelve months ending in August, with the largest gains related to trade & transportation (+7,100), professional & business services such as administrative support, legal and accounting (+7,700), leisure & hospitality (+6,100) and construction (+4,500).

OFFICE MARKET OVERVIEW

Fundamentals for Bellevue's office market continued to improve through third quarter, though much of the growth has been focused on Bellevue's CBD. Caradigm moved into the 68,956 square feet (sf) that it leased in the second quarter and Global Scholar doubled in size when it moved into 31,324 sf, both at City Center Bellevue. The overall vacancy in the CBD declined 160 bps over the quarter to 11.3%, and is down from 14.2% one year ago. Overall absorption reached 130,234 sf during the quarter, bringing the year-to-date total to 206,175 sf.

While activity in the CBD remains elevated, positive demand in the suburban market was offset by space givebacks (a sign the market has not yet fully recovered from the recession) or relocations to downtown properties. Vacancy actually increased marginally during the quarter from 13.8% to 13.9% but remains 150 bps lower than one year ago and year-to-date absorption is strong with 194,457 sf recorded.

Investment interest remains solid on the Eastside, particularly for downtown properties. Nearly every class A high-rise has either traded hands in the past 18 months or is under contract. Most recently, Beacon Capital sold City Center Bellevue to American Asset Trust for \$461 per square foot (psf) and Skyline Tower to Kilroy Realty for \$458 psf. So far in the year, \$616 million in office product traded hands on the Eastside, a 60% increase over the \$386 million that traded in all of 2011.

At \$34.21 psf/yr, rents in the CBD are up 2.6% over the quarter and 5.8% from third quarter 2011. As downtown properties continue to trade hands, the increasingly diverse ownership base (much of the CBD has historically been controlled by only two or three landlords) should create a more competitive environment among landlords, and it will be interesting to see how this affects current rent trends. Despite weaker demand, the suburbs are up 1.0% and 3.8% over the same periods of time to end the quarter at \$25.70 psf/yr.

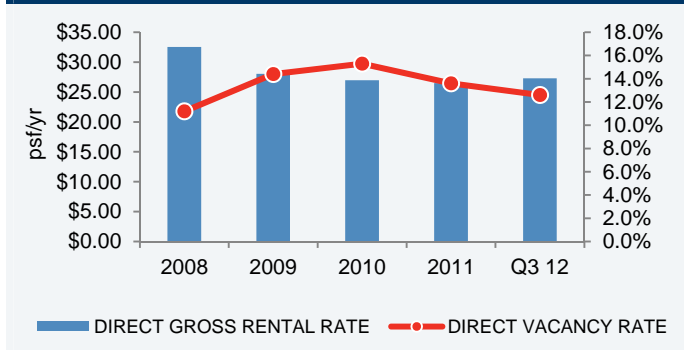
OUTLOOK

The Eastside, which has always relied heavily on the tech industry to drive the real estate market, is experiencing a change in demand trends. Tech companies have traditionally focused on suburban "campus" settings, but demographic shifts in the workforce are changing where employees prefer to live and work. These companies have begun to focus on more urban settings, much like what Amazon.com has done in Seattle. This could push a wave of speculative construction in the CBD as the amount of available space dries up, while causing some demand setbacks in the suburbs. However, as the economy continues to grow, there is no reason to assume this will produce long-term disturbances, and expansion among suburban office users should resume.

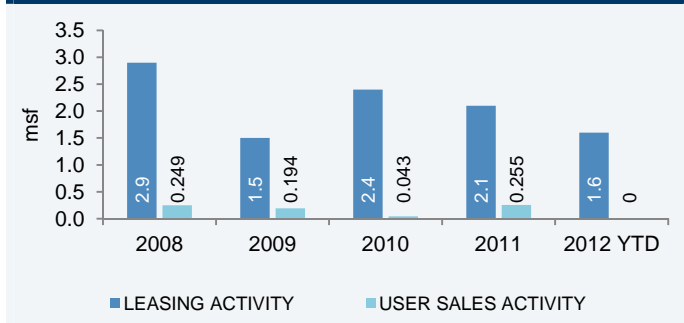
STATS ON THE GO

	Q3 2011	Q3 2012	Y-O-Y CHANGE	12 MONTH FORECAST
Overall Vacancy	15.1%	13.2%	-1.9pp	▼
Direct Asking Rents (psf/yr)	\$26.49	\$27.30	3.0%	▲
YTD Leasing Activity (sf)	1,597,568	1,572,547	-1.7%	◀▶

DIRECT RENTAL VS. VACANCY RATES



OVERALL OCCUPIER ACTIVITY



BELLEVUE, WA

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*
Bellevue CBD	8,206,835	11.3%	10.7%	678,164	0	0	213,787	206,175	\$33.44	\$36.09
405 Corridor	2,694,307	15.6%	15.3%	92,557	0	0	(2,809)	10,849	\$26.91	\$30.69
520 Corridor	3,215,034	14.8%	14.5%	232,362	0	0	96,855	93,104	\$26.30	\$28.73
I-90 Corridor	6,490,509	11.3%	9.9%	214,945	0	7,607	48,806	31,588	\$28.91	\$29.96
Bel-Red	1,524,697	11.6%	11.6%	36,532	19,000	0	8,322	8,322	\$22.87	\$28.00
Redmond	1,453,172	13.8%	13.8%	32,067	0	0	(35,579)	(35,579)	\$28.49	\$30.66
Kirkland	2,336,538	10.7%	9.9%	110,420	0	0	32,533	101,239	\$25.78	\$34.70
Bothell/ Woodinville	1,568,921	12.0%	12.0%	19,744	0	0	(34,612)	(19,415)	\$23.77	\$24.31
Eastside Suburban	19,283,178	12.7%	12.0%	738,627	19,000	7,607	113,516	190,108	\$26.81	\$29.63
Lynnwood	2,318,102	23.0%	21.9%	138,282	0	0	18,982	31,268	\$22.54	\$24.89
Everett	1,335,655	16.1%	15.6%	17,474	0	0	(26,919)	(26,919)	\$19.84	N/A
Northend Suburban	3,653,757	20.5%	19.6%	155,756	0	0	22,063	4,349	\$21.82	\$24.89
Suburban Total	22,936,935	13.9%	13.2%	894,383	19,000	7,607	135,579	194,457	\$25.66	\$28.34
TOTALS	31,143,770	13.2%	12.6%	1,572,547	19,000	7,607	349,366	400,632	\$27.17	\$30.72

* RENTAL RATES REFLECT ASKING \$PSF/YEAR

MARKET HIGHLIGHTS

Significant Q3 2012 Lease Transactions	SUBMARKET	TENANT	BUILDING CLASS	SQUARE FEET
One Bellevue Center*	Bellevue CBD	Drugstore.com (Renewal/Expansion)	A	72,411
Kendall Lake Building	I-90 Corridor	King County	A	21,430
Pacific Plaza	Bellevue CBD	Conover Insurance	A	16,444
Significant Q3 2012 Sale Transactions	SUBMARKET	BUYER	PURCHASE PRICE / \$PSF	SQUARE FEET
City Center Bellevue	Bellevue CBD	American Assets Trust	\$228,765,000 / \$461	494,949
Skyline Tower	Bellevue CBD	Kilroy Realty	\$187,000,000 / \$457	408,460
QBE Corporate Center	Bel-Red	KBS Strategic Opportunity REIT	\$78,700,000 / \$233	337,673
Key Bank Building	Bellevue CBD	Fana Group	\$36,075,000 / \$440	82,000
Significant Q3 2012 Construction Completions	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET
710 Fifth Avenue Building	I-90 Corridor	N/A	Q3 2012	7,607
Significant Projects Under Construction	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET
Forum West	Bel-Red	N/A	Q2 2013	19,000

* RENEWAL - NOT INCLUDED IN LEASING ACTIVITY STATISTICS