

MARKETBEAT OFFICE SNAPSHOT

SEATTLE, WA - CBD

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

Overall vacancy for Seattle's CBD continued to decline through the third quarter of 2012, dropping 80 bps since mid-year to 16.1%, and is down from 20.1% one year ago. Tenant activity continues to be driven by the tech industry, and more specifically Amazon.com. The online retailer moved into 463,389 square feet (sf) of space that it leased last year at 1918 Eighth and West 8th, offsetting a few large vacancies that occurred during the quarter, most notably the 122,705 sf that was vacated by Philips Medical Systems at Fifth & Bell. In all, the CBD logged 301,649 sf of positive overall absorption for the quarter, improving annual absorption to nearly 1.1 million square feet (msf).

Amazon.com's space requirements were thought to have been satisfied for the moment, given the company's plans to build upward of 3.3 msf of new office space in the Denny Regrade. But the online retailer made further headlines this quarter with news that it was leasing all of 202 Westlake, an 117,900-sf office building currently under construction, and Vulcan will build an additional 365,000-sf office building at its campus. It was also recently announced that Amazon.com will purchase its 1.8-msf corporate headquarters in the fourth quarter for a reported \$1.16 billion (about \$644 psf).

Rental rates have seen a steady improvement since tenant demand returned, increasing 4.3% over the year for direct space to \$29.83 per square foot per year (psf/yr). The only submarket where rents did not increase was the Denny Regrade, where available space for higher-priced premium class A properties that were built during the previous development cycle have all but dried up.

Thanks to the above-mentioned leases by Amazon.com, second quarter leasing remained brisk with 1.2 msf of new deals signed, on par with the 1.3 msf signed at mid-year, while year-to-date leasing of 3.3 msf is up 5% over the first three quarters of 2011.

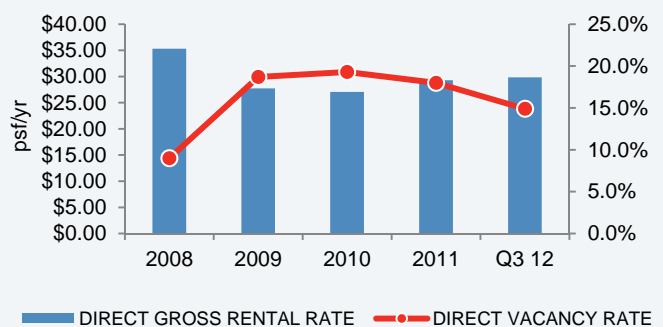
OUTLOOK

While there were very few investment transactions that closed in the third quarter, Seattle remains one of the top tier markets in the country for capital placement and several deals are in the pipeline. The nearly 3.9 msf in investment sales so far in the year is up 5% over activity in all of 2011. The financial sector continues to struggle, with more vacancies expected in the next six-eight months. However, the tech industry should help to minimize the impact. Construction for multi-family properties is at an all-time high, particularly in downtown Seattle, and retail amenities are quickly being introduced to underserved areas. These developments should continue to attract a young, urban-centric and talented labor pool, keeping Seattle a top destination for tech companies.

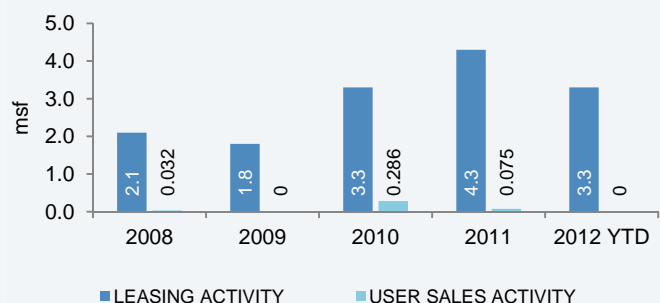
STATS ON THE GO

	Q3 2011	Q3 2012	Y-O-Y CHANGE	12 MONTH FORECAST
Overall Vacancy	20.1%	16.1%	-4.0pp	▼
Direct Asking Rents (psf/yr)	\$28.59	\$29.83	4.3%	▲
YTD Leasing Activity (sf)	3,159,713	3,321,898	5.1%	◀▶

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	21,366,957	16.3%	14.5%	1,600,388	0	0	138,678	198,494	\$30.02	\$33.83
Denny Regrade	8,042,619	17.8%	16.9%	408,215	0	0	592,846	607,233	\$29.25	\$31.46
Pioneer Square/Int'l Dist.	4,241,941	19.7%	19.4%	368,054	0	0	69,201	92,608	\$27.98	\$31.91
Lower Queen Anne/Lake Union	8,866,959	12.3%	11.8%	945,241	472,900	0	175,443	182,159	\$29.67	\$33.95
CBD	42,518,476	16.1%	14.9%	3,321,898	472,900	0	976,168	1,080,494	\$29.43	\$32.93
North Seattle/ Northgate	2,501,519	9.4%	9.4%	145,453	0	0	72,000	104,861	\$23.33	\$24.52
Close-in South Seattle	1,400,362	27.3%	27.3%	85,006	170,000	141,200	28,936	28,936	\$22.42	\$24.58
East Seattle/ Capitol Hill	892,766	26.0%	26.0%	16,046	0	0	217,056	217,056	\$21.62	\$22.63
Seattle In-City	4,794,647	17.7%	17.7%	246,505	170,000	141,200	317,992	350,853	\$22.75	\$24.39
Lynnwood	2,318,102	23.0%	21.9%	112,228	0	0	18,982	31,268	\$22.54	\$24.89
Tukwila	2,244,531	17.8%	17.2%	71,440	0	0	(53,019)	(17,773)	\$18.56	\$19.89
SeaTac	861,514	41.3%	40.6%	11,964	0	0	9,406	9,406	\$20.61	\$23.07
Renton	3,177,843	12.9%	12.6%	119,546	0	0	(36,570)	(36,805)	\$20.69	\$22.15
Kent/Auburn	1,412,894	34.1%	32.9%	77,532	0	0	(18,146)	(15,339)	\$19.53	\$22.10
Southend Suburban	22,936,935	13.9%	13.2%	69,498	19,000	7,607	135,579	194,457	\$25.66	\$28.34
Federal Way	2,147,459	30.6%	23.8%	69,498	0	0	33,571	33,571	\$18.72	\$20.25
TOTALS**	57,157,364	17.5%	16.2%	3,918,383	642,900	141,200	1,229,402	1,404,407	\$26.35	\$30.12

* RENTAL RATES REFLECT ASKING \$PSF/YEAR

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

MARKET HIGHLIGHTS

Significant Q3 2012 Lease Transactions	SUBMARKET	TENANT	BUILDING CLASS	SQUARE FEET
Amazon.com Headquarters Phase VI	Lower QA/Lk Union	Amazon.com	A	365,000
202 Westlake	Lower QA/Lk Union	Amazon.com	A	117,900
705 Union Station	Pioneer Square/Int'l Dist.	Attachmate	A	72,299
215 Columbia	Financial District	SEIU Healthcare 775NW	B	52,217
Significant Q3 2012 Sale Transactions	SUBMARKET	BUYER	PURCHASE PRICE / \$PSF	SQUARE FEET
Watermark Tower	Financial District	Razore Family	\$11,200,000 / \$169	66,356
Fremont West Center	Lower QA/Lk Union	Fremont West Office LLC	\$7,150,000 / \$194	36,839
Significant Q3 2012 Construction Completions	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET
N/A				
Significant Projects Under Construction	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET
Amazon.com Headquarters Phase V	Lower QA/Lk Union	Amazon.com	Q4 2012	355,000
202 Westlake	Lower QA/Lk Union	Amazon.com	Q3 2013	117,900