

# MARKETBEAT OFFICE SNAPSHOT

## SEATTLE, WA – SUBURBAN (SOUTHEND)

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

The Southend office market is struggling to gain traction, despite a regional economic recovery. At 21.4%, the overall vacancy rate during the third quarter increased 30 bps from 21.1% at mid-year. The Southend has been burdened by a number of large vacancies, including 217,688 square feet (sf) at the SeaTac Office Center, and several spaces in the 30,000-sf to 70,000-sf range in the Kent/Auburn submarket. Filling up these properties has been a challenge, given that the average lease in this market tends to be around 3,500 sf. In fact, a recent survey of heavily multi-tenanted properties where leasing tends to be below 10,000 sf indicates a vacancy rate closer to 14%.

The increasing vacancy is continuing to put downward pressure on the market's overall absorption, which logged negative 21,207 sf during the third quarter, bringing the year-to-date total to negative 60,511 sf. Xerox renewed at their Tukwila location, but in doing so gave back 16,833 sf of unused space. Paychex moved into 19,213 sf of space it leased last quarter at Centerpoint – Cascade West in Kent, but left behind 26,498 sf at The Landmark East in Renton. That space is expected to be backfilled by Tyler Technologies, however, that will not happen until early 2013.

Leasing activity reached 280,482 in the first three quarters of the year, down 49% over the same period of time in 2011. Zulily.com and Boeing leased a collective 170,456 sf early last year to boost the leasing figures. Remove these deals and leasing this year is down just 26.4%.

Without any real improvements in demand, rents have remained flat so far in the year. At \$19.86 per square foot per year (psf/yr), direct average rents for all classes are up only slightly from \$19.85 psf/yr at mid-year, and have improved 1.8% over the twelve month period.

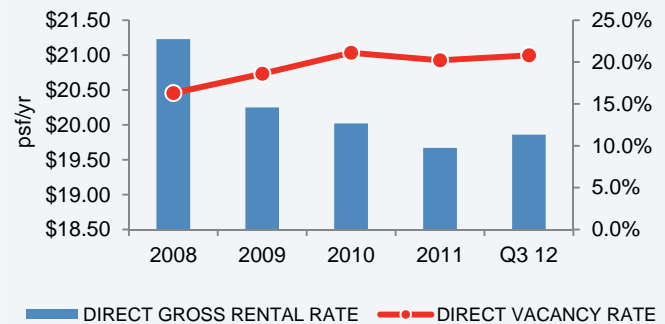
### OUTLOOK

Recovery in the Southend office market often lags other markets located closer to the metropolitan core and it will likely take some time before employment gains translate into a general improvement for office demand. The real burden will be the larger aforementioned vacancies. Without any real prospect for large users in the near term, these spaces will continue to keep the vacancy rate elevated. Any measureable growth in the Southend will come from those tenants under 10,000 sf.

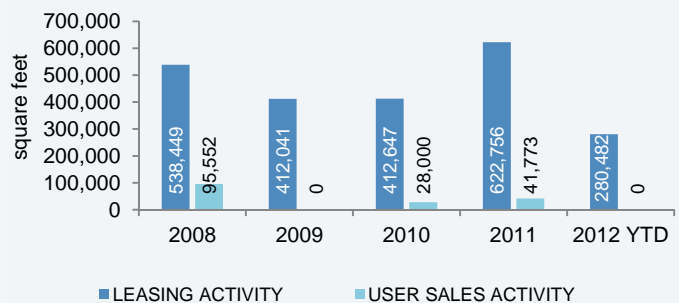
### STATS ON THE GO

	Q3 2011	Q3 2012	Y-O-Y CHANGE	12 MONTH FORECAST
Overall Vacancy	20.8%	20.1%	-0.7pp	◀▶
Direct Asking Rents (psf/yr)	\$19.51	\$19.86	1.8%	◀▶
YTD Leasing Activity (sf)	20.8%	20.1%	-0.7pp	◀▶

### DIRECT RENTAL VS. VACANCY RATES



### OVERALL OCCUPIER ACTIVITY



## SEATTLE, WA – SUBURBAN (SOUTHEND)

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
<b>CBD</b>	<b>42,518,476</b>	<b>16.1%</b>	<b>14.9%</b>	<b>3,321,898</b>	<b>472,900</b>	<b>0</b>	<b>976,168</b>	<b>1,080,494</b>	<b>\$29.43</b>	<b>\$32.93</b>
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
<b>Seattle In-City</b>	<b>4,794,647</b>	<b>17.7%</b>	<b>17.7%</b>	<b>246,505</b>	<b>170,000</b>	<b>141,200</b>	<b>317,992</b>	<b>350,853</b>	<b>\$22.75</b>	<b>\$24.39</b>
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
<b>Southend Suburban</b>	<b>22,936,935</b>	<b>13.9%</b>	<b>13.2%</b>	<b>69,498</b>	<b>19,000</b>	<b>7,607</b>	<b>135,579</b>	<b>194,457</b>	<b>\$25.66</b>	<b>\$28.34</b>
Federal Way	2,147,459	30.6%	23.8%	69,498	0	0	33,571	33,571	\$18.72	\$20.25
<b>TOTALS**</b>	<b>57,157,364</b>	<b>17.5%</b>	<b>16.2%</b>	<b>3,918,383</b>	<b>642,900</b>	<b>141,200</b>	<b>1,229,402</b>	<b>1,404,407</b>	<b>\$26.35</b>	<b>\$30.12</b>

\* 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
The Landmark – East	Renton	Tyler Technologies	A	36,969
Xerox Building*	Tukwila	Xerox Corporation	B	16,833
Ridgewood Center	Federal Way	Farmer's Insurance	B	6,160
Significant Q3 2012 Sale Transactions	SUBMARKET	BUYER	PURCHASE PRICE / \$PSF	SQUARE FEET
Centerpoint – Cascade & Atrium Buildings	Kent	Fountainhead Northwest LLC	\$46,250,000 / \$105	439,711
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
N/A				