

MARKETBEAT OFFICE SNAPSHOT

BELLEVUE, WA

A Cushman & Wakefield Alliance Research Publication

Q2 2013



ECONOMIC OVERVIEW

Increased employment drove the U.S. economy forward and resulted in a stronger office market. The current U.S. unemployment rate of 7.6% resulted from an added average of approximately 170,000 jobs per month each month throughout 2013. The job market for the Seattle-Tacoma-

Bellevue Metropolitan Statistical Area (MSA) continued to shine with the dramatic decrease in the unemployment rate by 1.9 percentage points (pps) during 2013 to the current rate of just 5.2%.

In another dramatic shift, the biggest problem in residential real estate seems to be a lack of supply, which helped increase median prices to \$417,500 up over 15.0% from a year ago. King and Snohomish Counties were also able to absorb over 2,000 new apartment units while vacancy rates fell to 4.4% from 4.8% even amid rising rents, according to Apartment Insights.

OFFICE MARKET OVERVIEW

After a three-year period of steadily declining vacancy rates, the overall vacancy rate ticked up by a 0.7 pp on a year-over-year basis. The Northend mainly contributed to higher vacancy rates with negative absorption during Q213 of 128,761 square feet (sf). The majority of this negative absorption was due to space vacated at the Frontier Communications Building, which led to a 6.6-pp increase in the vacancy rate, ending the quarter at 22.3% in the Everett submarket. The Bellevue CBD continued to shine with an overall vacancy rate of just 11.3%, down by 1.6 pps over the prior year.

Leasing activity remained sluggish compared with the same period in 2012 but average asking lease rates held firm. Average lease rates increased by 2.0% across both the Bellevue CBD and Eastside Suburban markets while the Northend Suburban markets', including Lynnwood and Everett, rental rates decreased. These two submarkets also have significantly higher vacancy rates than other submarkets.

Beacon Capital announced its plans to begin construction on Bellevue Center, a 24-story office tower that will be comprised of approximately 524,000 sf and will begin construction during the fall of 2013. The Rockefeller Group and local developer/owner Sterling Realty Organization is continuing with its plan for a 2.4-million-square-foot (msf) mega project on the site that currently houses Barnes & Noble and Mars Hill Church.

Investment activity was helped immensely by the sale of Redmond Town Center, a 582,000-sf, class A office building. Estimates place the sale at around \$185 million. As of Q213, investment activity totaled 815,710 sf, with 95.0% of that total occurring in the second quarter alone.

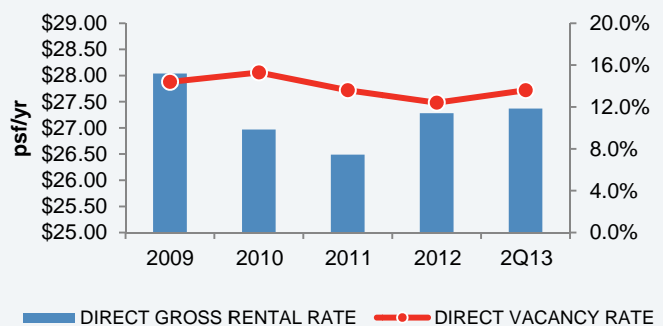
OUTLOOK

Although there was a slight dip in leasing activity and increase to vacancy rates during Q213, this trend is not expected to continue. With regional employment growth expected at a rate of 2.7% through 2013 and 2.4% in 2014, more modest leasing activity is anticipated. Vacancy rates are expected to decrease slightly until additional product is brought to the market. New product will then push lease rates higher. Although interest rates will likely start to increase through the end of 2013 and into 2014, investment activity is expected to remain robust as market fundamentals improve.

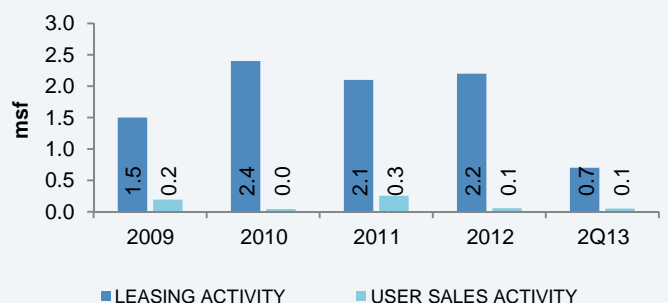
STATS ON THE GO

	Q2 2012	Q2 2013	Y-O-Y CHANGE	12 MONTH FORECAST
Overall Vacancy	13.6%	14.3%	0.7pp	↔
Direct Asking Rents (psf/yr)	\$27.15	\$27.37	2.0%	↗
YTD Leasing Activity (sf)	1,267,040	721,545	-43.1%	↘

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	DIRECT WTD. AVG ALL CLASSES GROSS RENTAL RATE*	DIRECT WTD. AVG. CLASS A GROSS RENTAL RATE*
Bellevue CBD	8,085,369	11.3%	10.0%	209,593	0	0	\$34.78	\$37.45
405 Corridor	2,564,328	20.6%	20.5%	79,720	0	0	\$26.85	\$30.93
520 Corridor	3,161,773	12.2%	12.1%	81,012	0	0	\$25.45	\$28.53
I-90 Corridor	6,570,018	15.3%	14.2%	63,207	0	0	\$29.94	\$32.03
Bel-Red	1,500,992	12.8%	12.2%	69,719	0	19,000	\$23.11	\$28.00
Redmond	1,880,008	10.1%	10.1%	38,928	0	0	\$27.78	\$28.52
Kirkland	2,246,285	8.4%	7.7%	108,280	0	0	\$27.22	\$32.74
Bothell/ Woodinville	1,458,592	12.2%	12.1%	6,490	0	0	\$22.96	\$23.02
Eastside Suburban	19,381,996	13.8%	13.2%	447,356	0	0	\$27.33	\$30.22
Lynnwood	2,234,501	24.8%	23.9%	56,981	0	0	\$21.43	\$24.98
Everett	1,568,246	22.3%	22.3%	7,615	0	0	\$18.92	N/A
Northend Suburban	3,802,747	23.8%	23.3%	64,596	0	0	\$20.43	\$24.98
Suburban Total	25,252,180	13.7%	12.1%	511,952	0	19,000	\$25.56	\$28.88
TOTALS	31,270,112	15.9%	15.2%	721,545	0	19,000	27.37	\$31.72

* RENTAL RATES REFLECT ASKING \$PSF/YEAR

MARKET HIGHLIGHTS

Significant 2013 Lease Transactions	SUBMARKET	TENANT	BUILDING CLASS	SQUARE FEET
One Bellevue Center	Bellevue CBD	eBay	A	36,245
Bellevue Technology Center	Bel-Red	Trane Company	B	32,616
Key Center	Bellevue CBD	Best Buy	A	22,500
Bellevue Place Bank of America	Bellevue CBD	Epic Games	A	11,084
Bellevue Place Bank of America	Bellevue CBD	Booking.com	A	8,255
Significant 2013 Sale Transactions	SUBMARKET	BUYER	PURCHASE PRICE / \$PSF	SQUARE FEET
Redmond Town Center	Redmond	Shorenstein Properties	\$185,000,000 / \$318	582,000
Schnitzer North Creek Campus	Bothell/Woodinville	Rosen Props	\$25,800,000 / \$164	157,000
Schnitzer North Creek Campus	Bothell/Woodinville	Redstone Holdings	\$14,800,000 / \$191	77,595
Applied Precision	I-90 Corridor	Redstone Holding	\$10,200,000 / \$190	53,566
Significant 2013 Construction Completions	SUBMARKET	MAJOR TENANT	COMPLETION DATE	SQUARE FEET
Forum West	Bel-Red		Q2 2013	19,000
Significant Projects Under Construction	SUBMARKET	MAJOR TENANT	COMPLETION DATE	SQUARE FEET

* RENEWAL - NOT INCLUDED IN LEASING ACTIVITY STATISTICS