

MARKETBEAT OFFICE SNAPSHOT

BELLEVUE, WA

A Cushman & Wakefield Research Publication

Q1 2015



ECONOMIC OVERVIEW

The U.S. economy continued to add jobs at a high rate as job growth expanded by 2.4% over the last year, pushing the unemployment rate to just 5.5%. Even with stronger employment numbers, wage pressure remained moderate, mainly occurring in specialized jobs.

The Seattle-Tacoma-Bellevue Metropolitan Statistical Area continued to expand at a pace above the overall U.S., adding jobs at a rate of 3.1%, with employment gains occurring in every category. The unemployment rate remained in line with the U.S. rate at 5.5%. Construction led all job sectors with 12.6% growth followed by Professional and Business Services at 4.2%.

OFFICE MARKET OVERVIEW

The Eastside started the year off relatively quietly, with 111,073 square feet (sf) of overall absorption at the end of the first quarter. Despite this slowdown, the overall vacancy rate continued to decline, dropping by 2.6 percentage points (pps) on a year-over-year basis while rents increased by 1.0%.

There were a couple of major office sales in the first quarter of 2015. The \$205-million sale of Civica Office Commons kicked off the year, with Hines REIT purchasing the two building, 323,562-sf complex. Hines was also the buyer in the largest Eastside sale transaction of the year with their \$319-million acquisition of The Summit. The company purchased both of the existing buildings (totalling 524,130 sf), as well as the land for a proposed third building that will be 330,787 sf. Puget Sound Energy is the campus's primary tenant.

The largest lease transaction of the quarter was Southern Wine & Spirits 29,661-sf lease in One Bellevue Center. The beverage distribution company will move into their space at the beginning of the second quarter. Overall, the Eastside reported 571,598 sf of leasing activity in the first quarter, which is down from 904,754 sf in the beginning of 2014.

Despite the perception that Bellevue CBD activity is beginning to cool off, there is still nearly 1.2 million sf of speculative space under construction. Kemper Development recently broke ground on the office portion of their Lincoln Square expansion, which is expected to be completed at the end of 2016. Trammell Crow is building the 929 Office Tower, which is anticipated to be finished by end of 2015. Finally, Schnitzer West has begun preparing their site for the 16-story Centre 425.

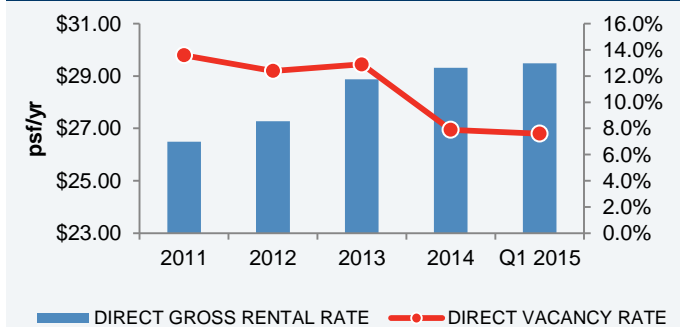
OUTLOOK

Despite some setbacks, including Expedia's announcement of their plans to leave Bellevue in 2016, many people remain confident of the Eastside market. Strong absorption and low vacancy over the past several years have shown many companies desire to be in an Eastside location, particularly in the Bellevue CBD. Boeing made a large commitment to the area just last quarter, and direct vacancy among all submarkets remains at just 7.6%. As construction on several projects move forward on the Eastside, vacancy will tick upward, but absorption is expected to keep vacancy rates at healthy levels.

STATS ON THE GO

	Q1 2014	Q1 2015	Y-O-Y CHANGE	12 MONTH FORECAST
Overall Vacancy	12.6%	10.0%	-2.6 pp	▼
Direct Asking Rents (psf/yr)	\$29.98	\$29.49	1.6%	▲
YTD Leasing Activity (sf)	904,754	571,598	-36.8%	▲

DIRECT RENTAL VS. VACANCY RATES



OVERALL LEASING ACTIVITY



BELLEVUE, WASHINGTON

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	8,075,904	8.3%	5.3%	99,030	1,172,000	0	-7,655	7,320	\$37.87	\$39.80
405 Corridor	2,544,073	11.7%	10.6%	71,021	0	0	13,707	13,707	\$27.98	\$33.54
520 Corridor	3,134,430	10.1%	7.3%	59,251	0	0	-30,563	-43,913	\$28.56	\$28.94
I-90 Corridor	6,481,708	10.7%	7.3%	104,638	0	0	10,433	48,167	\$30.27	\$30.87
Bel-Red	1,481,992	15.1%	13.2%	20,867	0	0	-23,337	-6,771	\$26.18	\$32.25
Redmond	1,880,008	7.2%	5.7%	57,535	0	0	49,625	43,943	\$29.07	\$29.95
Kirkland	2,251,454	4.5%	3.5%	49,035	180,000	0	25,216	26,764	\$28.47	\$39.59
Bothell/ Woodinville	1,458,312	6.2%	5.8%	21,856	0	0	16,549	21,856	\$27.59	\$29.10
EASTSIDE SUBURBAN	19,231,977	9.7%	7.5%	384,203	180,000	0	61,630	103,753	\$28.81	\$30.65
Lynnwood	2,234,501	15.6%	14.9%	53,155	0	0	28,654	43,693	\$23.06	\$26.70
Everett	1,568,246	14.2%	10.3%	35,210	0	0	31,450	31,450	\$20.18	\$35.00
NORTHEND SUBURBAN	3,802,747	15.0%	13.0%	88,365	0	0	60,104	75,143	\$21.94	\$26.95
SUBURBAN TOTAL	23,034,724	10.5%	8.4%	472,568	180,000	0	121,734	178,896	\$27.90	\$29.39
TOTALS	31,110,628	10.0%	7.6%	571,598	1,352,000	0	114,079	186,216	\$30.06	\$32.72

* RENTAL RATES REFLECT ASKING \$PSF/YEAR

MARKET HIGHLIGHTS

SIGNIFICANT Q1 2015 LEASE TRANSACTIONS	SUBMARKET	TENANT	BUILDING CLASS	SQUARE FEET
Sammamish Park Place	I-90 Corridor	Costco	A	176,656
Sunset North Bldg V	I-90 Corridor	Boeing	A	144,073
Canyon Park Commons 2	Bothell	Boeing	B	66,000
Monte Villa Pkwy Bldg	Bothell	Boeing	B	65,586
SIGNIFICANT Q1 2015 SALE TRANSACTIONS	SUBMARKET	BUYER	PURCHASE PRICE / \$PSF	SQUARE FEET
Sammamish Park Place Buildings C-E	I-90 Corridor	Talon Private Capital	\$128,250,167 / \$219	586,823
The Summit	Bellevue CBD	Hines	\$318,671,040 / \$608	524,130
Civica Office Commons	Bellevue CBD	Hines	\$205,099,481 / \$634	323,562
SIGNIFICANT Q1 2015 CONSTRUCTION COMPLETIONS	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET (% LEASED)
N/A				
SIGNIFICANT PROJECTS UNDER CONSTRUCTION	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET (% LEASED)
Lincoln Square II	Bellevue CBD	Speculative	Q4 2016	710,000 (2.8%)
929 Office Tower	Bellevue CBD	Speculative	Q4 2015	462,000 (0.0%)
Google Campus – Phase II	Kirkland	Google	Q2 2015	180,000 (100.0%)