

Office Snapshot Q1 2016

Seattle CBD



SEATTLE CBD OFFICE

Economic Indicators

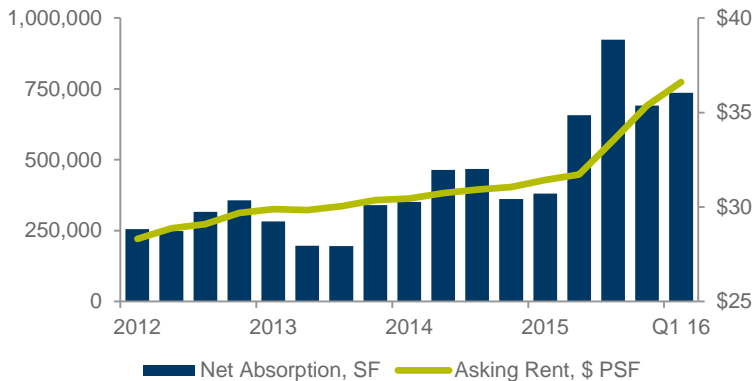
	Q1 15	Q1 16	12-Month Forecast
Seattle-Bellevue-Tacoma Employment	1,872k	1,920k	▲
Seattle-Bellevue-Tacoma Unemployment	4.7%	4.8%	■
U.S. Unemployment	5.6%	4.9%	▼

Market Indicators (Overall, All Classes)

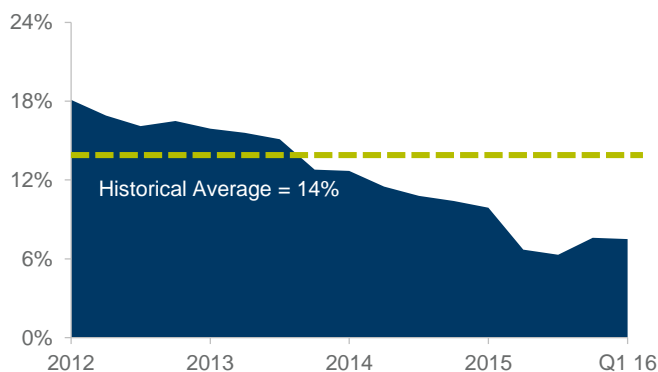
	Q1 15	Q1 16	12-Month Forecast
Overall Vacancy	9.9%	7.5%	■
Net Absorption (sf)	222k	403k	▲
Under Construction (sf)	6.3M	5.5M	▲
Overall Average Asking Rent	\$32.24	\$37.19	▲

Net Absorption/Asking Rent

4Q TRAILING AVERAGE



Overall Vacancy



Economy

Economic growth remained modest across most of the U.S. as job growth continued. Despite strong job growth, wages and inflation remained flat to moderate. With the expansion of jobs across the country, the overall unemployment rate dropped to just 4.9%.

The Seattle-Tacoma-Bellevue unemployment rates ticked upward for the fourth consecutive quarter to 4.8%. Although the unemployment rate has increased, so has the labor participation rate, indicating that more people have inserted themselves back into the workforce. To put this change into perspective, although the unemployment rate rose from 3.9% in April 2015 to 4.8% in the most recent reading, the number of employed persons has declined by only 21,771.

Market Overview

The Seattle CBD office market kicked off 2016 with an overall vacancy rate decrease of 2.4 percentage points (pps) to 7.5% and an asking rate increase of 15.4% to \$37.19 per square foot (psf) on a year-over-year basis.

The CBD reported 601,369 square feet (sf) of leasing activity during the first quarter, a 12% increase from a year ago. Amazon signed the largest lease transaction of the quarter of 285,000 square feet (sf) at Urban Union in the Lower Queen Anne/Lake Union submarket. The 12-story, 291,000-sf office building will deliver during the second quarter.

In the CBD's most significant sale of the quarter, AEW Capital Management sold the West 8th Tower in the Denny Regrade submarket to Deutsche Asset & Wealth Management. The 516,985-sf Class A building sold for \$370 million (\$716 psf) and was approximately 98% leased at the time of sale.

Outlook

Asking rental rates and overall vacancy in the CBD were stable on a quarter-over-quarter basis, though rates should trend upward considering that large blocks of space are leasing up quickly and often. Two major projects due to break ground in South Lake Union (SLU) within the next two years are Amazon's 1.1-million-square-foot (msf) tower and Google's 607,000-sf, four-building expansion project (Google plans to vacate its Fremont location once the project is complete). Expedia, in the meantime, leased 38,052 sf in SLU ahead of its 2019 occupation of the former Amgen Helix campus on Elliott Bay. Of the 4.5 msf currently under construction in the CBD, over half (2.4 msf) is available for prelease.

MARKETBEAT

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Seattle CBD


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Commerce

SUBMARKET	TOTAL BLDGS	INVENTORY	SUBLET VACANT	DIRECT VACANT	OVERALL VACANCY RATE	CURRENT OVERALL NET ABSORPTION	YTD OVERALL NET ABSORPTION	UNDER CNSTR	AVERAGE ASKING RENT (ALL CLASSES)*	AVERAGE ASKING RENT (CLASS A)*
Financial District	91	23,360,606	323,554	1,680,121	8.6%	303,029	303,029	1,986,587	\$40.23	\$44.55
Denny Regrade	54	8,637,232	63,203	483,373	6.3%	195,294	195,294	0	\$36.48	\$40.21
Pioneer Square/Intl District	58	4,044,486	54,785	111,437	4.1%	(65,057)	(65,057)	556,612	\$29.97	\$32.47
Lower Queen Anne/Lake Union	113	10,464,703	91,769	659,028	7.2%	(30,443)	(30,443)	1,995,850	\$31.19	\$32.94
CBD TOTAL	316	46,507,027	533,311	2,933,959	7.5%	402,823	402,823	4,539,049	\$37.19	\$40.97
North Seattle/Northgate	50	2,265,486	18,293	81,198	3.6%	71,366	71,366	76,561	\$26.94	\$26.64
Close-In South Seattle	25	2,252,467	51,437	450,000	20.0%	132,644	132,644	0	\$32.47	\$40.72
East Seattle/Capitol Hill	18	923,219	0	17,866	1.9%	(11,968)	(11,968)	0	\$25.33	\$31.14
SEATTLE IN-CITY TOTAL	93	5,441,172	69,730	549,064	10.1%	192,042	192,042	76,561	\$31.38	\$37.15
Tukwila	43	1,986,679	15,710	220,921	11.1%	22,657	22,657	0	\$22.44	\$26.44
SeaTac	14	867,608	0	284,418	32.8%	22,102	22,102	0	\$19.58	\$20.01
Renton	54	2,432,973	46,957	228,690	9.4%	(20,437)	(20,437)	728,769	\$22.70	\$27.03
Kent/Auburn	32	1,561,434	32,652	306,369	19.6%	12,630	12,630	0	\$22.67	\$24.81
SOUTHEND TOTAL	143	6,848,694	95,319	1,040,398	15.2%	36,952	36,952	728,769	\$21.86	\$23.10
FEDERAL WAY	47	1,991,528	75,600	492,331	24.7%	(20,056)	(20,056)	0	\$22.16	\$23.06
SEATTLE SUBURBAN TOTAL	283	14,281,394	240,649	2,081,793	16.3%	208,938	209,938	805,330	\$24.47	\$26.30
SEATTLE TOTAL	599	60,788,421	773,960	5,015,752	9.5%	611,761	611,761	5,344,379	\$32.08	\$36.13

*Rental rates reflect gross asking \$psf/year

Key Lease Transactions Q1 2016

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
Urban Union	285,000	Amazon	New Lease	Lower QA/Lk Union
450 Alaskan Way	91,357	Saltchuk	New Lease	Pioneer Square/Intl District
505 First	46,138	Qualtrics	New Lease	Pioneer Square/Intl District
Century Square	41,447	Qumulo	New Lease	Financial District

Key Sales Transactions Q1 2016

PROPERTY	SF	SELLER/BUYER	PRICE/\$PSF	SUBMARKET
West 8 th Tower	516,985	AEW Capital Mgmt / Deutsche Asset & Wealth Mgmt	\$370,000,000 / \$716	Denny Regrade
Alley 24 – East Block	215,402	Vulcan, Inc. / MetLife, Inc.	\$129,400,000 / \$601	Lower QA/Lk Union
101 Elliott Bldg	101,738	Steelwave, Inc. / Credit Suisse AG	\$40,400,000 / \$397	Lower QA/Lk Union

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