

The Eastside Market began the year with stronger leasing activity than we have seen in nearly eight quarters. This will not necessarily mean positive net absorption in the aggregate, but after 2 years of stagnation, it is refreshing to see some signs of life.

Overall activity has picked up markedly when compared to the same quarter last year. The indecision and skittishness that characterized business in 2009 has given way to long term planning and willingness to make commitments on space.

While we are not expecting to see rental rates increase any time soon, as market activity picks up, the best spaces will be leased and the remaining spaces will be less compelling. In recovery phases of past market cycles, leasing concessions such as tenant allowances and free rent have tended to diminish quickly just before rental rates begin rising.

With concession packages at near all time highs right now, this is a great time for companies with definable planning horizons to take advantage of market conditions and lock in on favorable lease economics.

Notable Deals

The two most notable leases this quarter were Intellectual Ventures lease of 158,000 SF at Sunset North IV and T-Mobile's lease of 90,000 SF at Sunset North V. Sunset North had been the largest contiguous space on the market after Expedia vacated 350,000 SF in late 2008. Building III still has 144,000 SF of contiguous space, but that now gives way to Eastpointe Corporate Center's, which at 156,000 SF is the largest contiguous block.

T-Mobile's lease was reportedly a short term lease that will expire in about 18 months when the telecom company's new building at the Newport Corporate Center project will be complete. Interestingly, T-Mobile will be moving out of about 80,000 SF at Newport Tower into Sunset North while it awaits completion of the new building. We have been unable to confirm why the company decided to relocate temporarily to another project.

Intellectual Ventures, the stealth "invention laboratory" that holds patents on many exciting new technologies, will be vacating space at Bellefield Office Park and Lincoln Plaza – both in South Bellevue as it consolidates operations at Sunset North.

The T-Mobile lease will result in neutral net absorption, and the Intellectual Ventures lease will result in positive net absorption of over 90,000 SF.

Tenant's Perspective

- Good time to think about early renewal
- "Blend and extend" deals are back in vogue
- Rental rates should stay low for the next year or two, but concession packages will start to diminish at the highest quality, best located properties as the demand starts to pick up steam
- As always, the market could turn on a dime as soon as Microsoft, AT&T, Symetra or T-Mobile run out of space

Leasing Activity on the Eastside

Now that leasing activity has resumed, there is finally data to help define what a "market" transaction looks like. 2010 promises to be a great year for tenants to make long-term strategic real estate decisions.

Trends & Opportunities

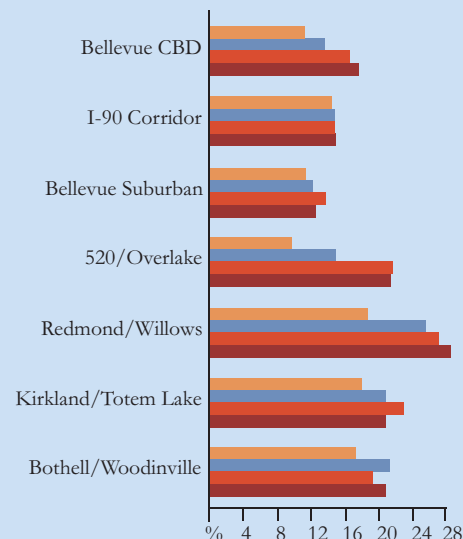
Subleases represent great value, but due diligence is needed to assess risk / reward quotient. Large tenants (which by today's standards mean any tenant over 10,000 SF) will be able to drive great bargains by playing their cards right.

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Eastside Vacancy By Submarket

Legend:
■ Second Quarter 2009
■ Third Quarter 2009
■ Fourth Quarter 2009
■ First Quarter 2010



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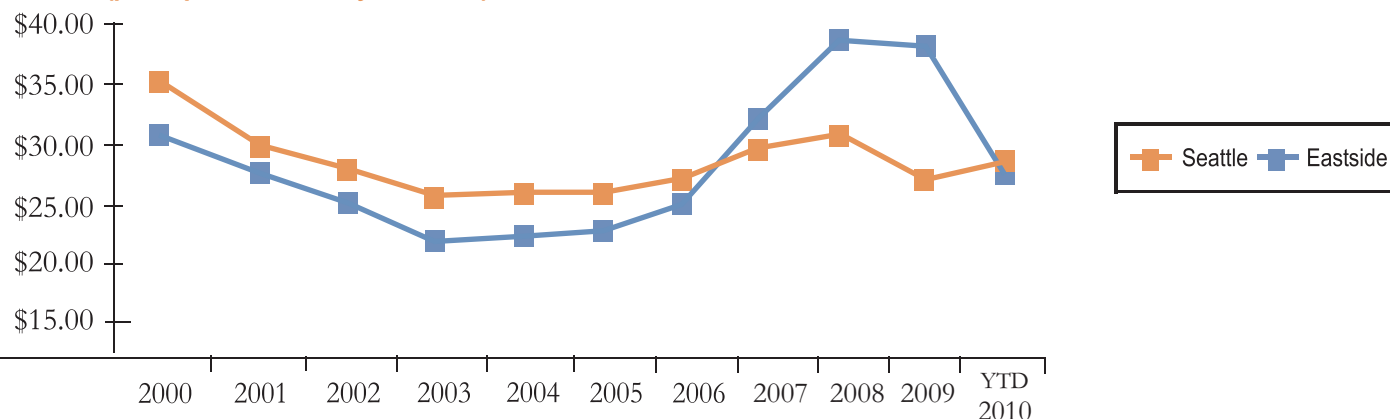
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Market Advantage

Market Trends

- Sublease inventory starting to move
- Tenants are again willing to commit to long term leases, a sign that rental rates may be at bottom
- When adjusted for inflation, the “total package” of rental rates and concessions is now more favorable then it was in the last Market Trough of 2002 - 2004

Rental Rate Trends (per square foot, fully serviced)



- For many buildings, office rental rates have declined to the point where tenants can now feel good about making long-term commitments to space. Tenants are starting to feel like they can get good value for their money if they play their cards right.

Eastside Significant Lease Transactions

First Quarter 2010

Tenant	Size (SF)	Type	Submarket
Intellectual Ventures	158,000	Office	Bellevue
T-Mobile	90,000	Office	Bellevue
MulvannyG2	67,000	Office	Bellevue
Microsoft	63,500	Office	Bellevue
Zetec	63,000	Flex	Snoqualmie
GE Capital	40,000	Office	Bellevue CBD

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