

The Seattle Market

Throughout 2009, Downtown Seattle's overall vacancy rate (including direct and sublease space) continued to rise; ending at approximately 19.97%, close to the 20% many were predicting by year's end. The rising vacancy rate was due primarily to the soft economic conditions on a local, national and global basis, as well as a large number of new buildings delivered to the market, including 1.3 million SF of new space delivered in Fourth Quarter 2009. The majority of this new space had little to no pre-leasing, resulting in large blocks of vacant space.

Seattle Recently Completed Projects

Building	Submarket	Developer	Building Size (SF)	Percent Leased through Q4 '09
Fifth & Yesler	Pioneer Square	Martin Selig	275,000	5% Leased
1918 Eighth Avenue	Denny Regrade	Schnitzer West	665,000	11% Leased
500 Yale	S Lake Union	Weiss Jenkins	72,746	0% Leased
635 Elliott	Waterfront	Martin Selig	330,858	0% Leased

This influx of new, vacant space combined with the additional vacancy created by downsizing tenants has resulted in declining rental rates and an increase in landlord concessions. However, the majority of construction projects scheduled to complete in the next year are fully leased, with the following buildings scheduled to come on line:

Seattle Projects Under Construction

Building	Submarket	Developer	Completion Date	Building Size (SF)	Leasing Activity
505 First Avenue South	Pioneer Square	Starbucks	Q1 2010	288,000	Proposals Only
So. Lake Union Phase 1a	S Lake Union	Schnitzer West/Vulcan	Q2 2010	315,514	100% Leased
So. Lake Union Phase 1b	S Lake Union	Schnitzer West/Vulcan	Q2 2010	113,889	100% Leased
So. Lake Union Phase II	S Lake Union	Vulcan	Q3 2010	158,206	100% Leased
Gates Foundation Building	Lower Queen Anne	Sellen Construction	Q4 2010	590,135	100% Leased
So. Lake Union Phase III	S Lake Union	Vulcan	Q1 2011	237,278	100% Leased
So. Lake Union Phase IV	S Lake Union	Vulcan	Q1 2011	541,506	100% Leased
So. Lake Union Phase V	S Lake Union	Vulcan	Q2 2012	326,051	100% Leased
			Total	2,570,579	

Fourth Quarter 2009 did see a few significant lease transactions – Free & Clear, Inc. renewed their lease for 41,000 sf in the Wells Fargo Center, and Cutter & Buck renewed their 44,000 sf space in the Fremont Lake Union Center. Oles Morrison also renewed their lease for 22,000 sf in One Convention Place, and King County signed for 44,000 sf at Park Place. First Quarter 2010 is expected to see even more activity which is an encouraging sign from an overall economic standpoint but will not result in a significant change in the market.

Thanks to the slowdown in new supply coming to the market, along with the positive outlook regarding national economic recovery in 2010, vacancy rates are expected to plateau in the coming year at approximately 21% and consequently rents are expected to stay relatively flat for at least the first half of 2010. The market should continue to favor tenants throughout the year, with Landlords struggling to fill vacant buildings.

The Seattle commercial real estate market is reaching the apex of its downturn. Tenants should take advantage in the upcoming year while rental rates are likely at a low point and vacancy is likely at its highest. However, an eye should be kept on the commercial market and the state of its loans – according to a recently issued report from the Congressional Oversight Panel, about \$1.4 trillion in commercial real estate loans will require new financing, with almost half being “underwater”. Overall, look to the market continuing to favor the Tenant, while rental rates and vacancy should reach their valleys and plateaus respectively. ■

Leasing Activity In Seattle

During the Fourth of 2009, the vacancy rate increased, leaving the Fourth Quarter overall vacancy rate (including both direct and sublease space) at 19.97%. The direct vacancy rate increased from 14.69% in Third Quarter 2009 to 17.85% in Fourth Quarter 2009.

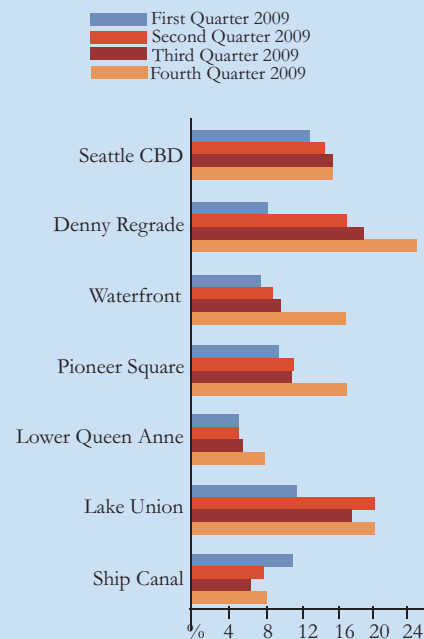
Trends & Opportunities

Slowing economic growth and increases in vacancy rates, coupled with new buildings soon to come available on the market, may lead to further decreases in rental rates as such space becomes available.

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Seattle Direct Vacancy By Submarket



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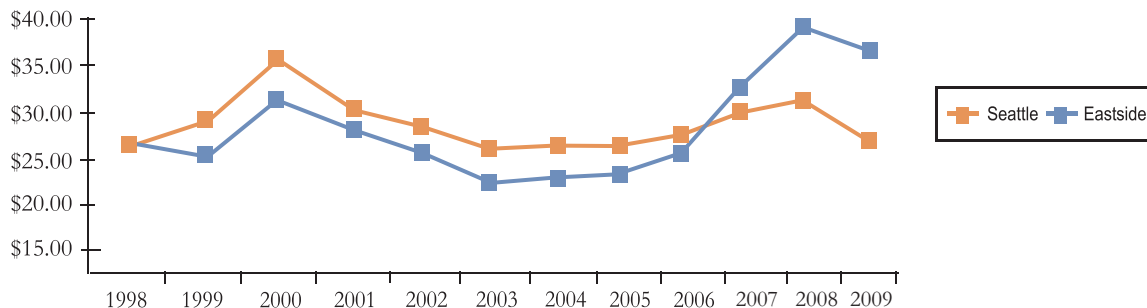
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Market Advantage

■ -Due to the global recession currently underway, many expansion plans have slowed and commercial building sales have fallen dramatically. This, as well as increased supply, has led to a continued trend of Seattle's CBD rental rates decreasing during Fourth Quarter 2009.

Rental Rate Trends
(per square foot, fully serviced)



■ -A few significant leases executed during Fourth Quarter 2009 include Free & Clear, Inc. at Wells Fargo Center, and Oles Morrison at One Convention Place.

Major Seattle Lease Transactions Fourth Quarter 2009

Tenant	Project	Size (SF)	Submarket
PopCap Games	Fourth & Battery	51,000	Denny Regrade
Cutter & Buck	Fremont Lake Union Center	44,000	Canal
King County	Park Place	44,000	CBD
Free & Clear, Inc.	Wells Fargo Center	41,000	CBD
Oles Morrison	One Convention Place	22,000	CBD
Freestone Capital	1918 Eighth	17,770	Denny Regrade
Hagens Berman	1918 Eighth	20,705	Denny Regrade
RBC Dain	1918 Eighth	35,000	Denny Regrade
Federal GSA	Fifth & Yesler	13,000	Pioneer Square

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