

# MARKET PERSPECTIVE

Seattle Office Market: Fourth quarter, 2008



Recent office building sales include (clockwise from top left): North Creek Parkway - Bothell (\$41.1 M); Pacific Plaza - Bellevue (\$47 M); 2014 East Madison - Seattle (\$5 M); Park East Building - Tukwila (\$2.7 M)

## OFFICE INVESTMENTS

Office investment activity in 2009 will continue at a much reduced level in comparison to the investment frenzy that occurred during 2006-2007. All cash and low leverage buyers will be king in this market. Most people believe capitalization rates will rise between 150 to 200 basis points on average from their recent low to a more normal 7.0 – 8.0 percent range, depending on the property sector, market, and asset quality.

Downtown urban core 'trophy' properties should see less impact, with cap rates rising only 50 to 75 basis points. Expect valuation of office investments properties to come down and financing to be challenging.

*"Sellers want prices available a year ago, while buyers want prices anticipated a year from now."*

Expect the buyers' expectations in this market to become closer to reality for investment sales to occur.

## SEATTLE AREA OFFICE MARKET

The Seattle office market breezed through 2007 smoothly without suffering much effect from the poorer national economy. Now, in the latter half of 2008, it is feeling the effects of the credit crisis and the poor national economy. Employment growth for the Puget Sound economy is only projected to be 0.6% in 2009, compared to 3% job growth in 2007.

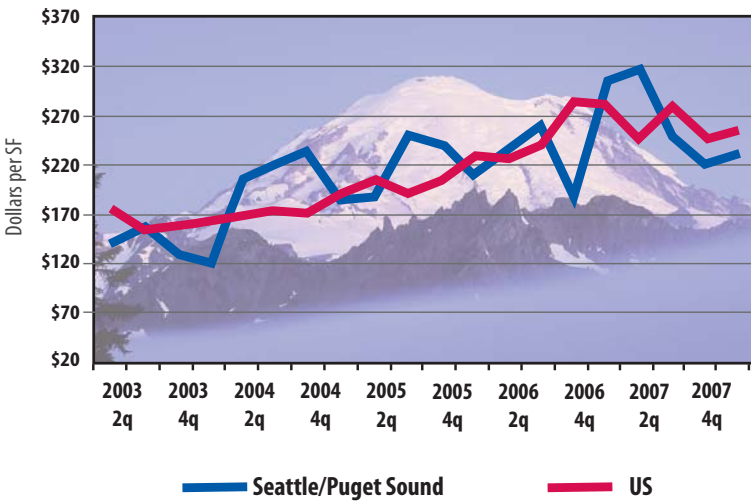
On the bright side, Seattle continues to be the Northwest magnet for 'brain power industries' and it continues to grow into one of America's important gateways and best job incubators! The Seattle marketplace has grown into a diversified group of solid corporations and cutting edge companies. The Puget Sound region is home to the corporate headquarters for Microsoft, Amazon.com, Boeing, Costco, T-Mobile USA, Nordstrom, Starbucks, Alaska Airlines, Expedia, and Zones, Inc.

The Urban Land Institute recently asked 700 real estate professionals to name the best places to invest in commercial real estate in the coming year. *Seattle ranked number one* in the entire United States! Seattle is a "diversified market, has a good base of business and is becoming a 24 hour city," says Stephen Blank,

### OFFICE BUILDING SALES

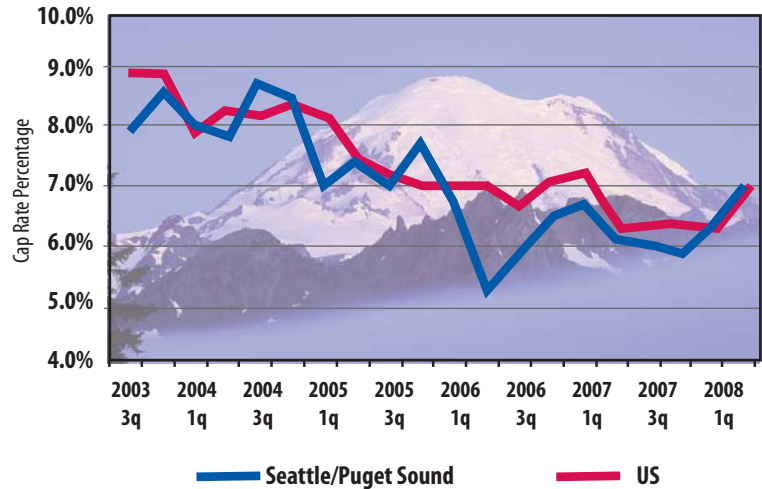
#### U.S. Price/SF Comparison

Based on office building sales of 15,000 SF and larger



#### U.S. Cap Rate Comparison

Based on office building sales of 15,000 SF and larger



### SELECT LEASE TRANSACTIONS

#### MICROSOFT

City Center Plaza – Bellevue CBD  
543,456 sf

#### T-MOBILE

Canyon Pointe, Building A – Bothell/Kenmore  
87,808 sf

#### T-MOBILE

Canyon Pointe, Building B – Bothell/Kenmore  
87,808 sf

#### QPASS, INC.

World Trade Center, East Bldg. – Belltown/Denny Regrade  
63,344 sf

#### CLASSMATES ONLINE, INC.

333 Elliott Building – Queen Anne/Magnolia  
57,331 sf

#### TEAMON SYSTEMS, INC.

Legacy I-90 Corridor Ctr North, Bldg B. – I-90 Corridor  
45,089 sf

#### TMX AEROSPACE

CenterPoint CP, The Atrium – Kent Valley  
31,189 sf

#### TALISMA

Corporate Campus East III – Suburban Bellevue  
25,922 sf

#### THE WALT DISNEY COMPANY

Fourth and Madison – Seattle CBD  
23,741 sf

#### SIEMENS REAL ESTATE GROUP

Plaza North – Bothell/Kenmore  
20,453 sf

#### GENERAL DYNAMICS ORDNANCE & TACTICAL SYSTEMS

Schnitzer North Creek, Building I – Bothell/Kenmore  
20,127 sf

### OFFICE MARKET STATISTICS (in square feet as of September 30, 2008)

	SEATTLE	SOUTHEND	EASTSIDE
<b>Market Size</b>			
3rd qtr 2008	64,064,443	17,164,628	40,993,544
2nd qtr 2008	63,730,055	17,164,628	40,361,253
1st qtr 2008	62,990,128	17,111,838	39,794,244
4th qtr 2007	62,904,321	17,081,456	39,585,444
3rd qtr 2007	62,578,169	17,053,876	39,467,772
<b>Direct Vacant Space</b>			
3rd qtr 2008	4,189,857	2,198,416	2,752,463
2nd qtr 2008	3,869,693	2,167,989	2,347,303
1st qtr 2008	3,965,084	1,987,090	1,726,057
4th qtr 2007	4,048,686	1,968,737	1,815,169
3rd qtr 2007	3,974,053	2,012,553	1,724,588
<b>Direct Vacancy Rate</b>			
3rd qtr 2008	6.5%	12.8%	6.7%
2nd qtr 2008	6.1%	12.6%	5.8%
1st qtr 2008	6.3%	11.6%	4.3%
4th qtr 2007	6.4%	11.5%	4.6%
3rd qtr 2007	6.4%	11.8%	4.4%
<b>Direct and Sublet Vacant Space</b>			
3rd qtr 2008	4,874,388	2,271,996	3,162,038
2nd qtr 2008	4,538,150	2,222,412	2,669,764
1st qtr 2008	4,595,436	2,054,652	1,987,870
4th qtr 2007	4,731,600	2,052,215	2,100,054
3rd qtr 2007	4,771,861	2,078,849	2,076,758
<b>Vacancy Rate with Sublet</b>			
3rd qtr 2008	7.6%	13.2%	7.7%
2nd qtr 2008	7.1%	12.9%	6.6%
1st qtr 2008	7.3%	12.0%	5.0%
4th qtr 2007	7.5%	12.0%	5.3%
3rd qtr 2007	7.6%	12.2%	5.3%
<b>Net Absorption</b>			
3rd qtr 2008	12,736	-30,427	227,131
2nd qtr 2008	835,318	-128,109	-54,237
1st qtr 2008	169,409	12,029	297,912
4th qtr 2007	251,519	71,406	27,091
3rd qtr 2007	160,778	147,358	410,210



## NEW SEAHAWKS FACILITY OPENS IN RENTON

The shores of Lake Washington now serve as a beautiful backdrop for outdoor practice fields where Seahawk fans as well as players can enjoy the late summer splendor of the Northwest. The 200,000 *sf* practice facility was constructed on 19 acres situated between the lake and I-405.

The property the facility is on formerly housed a coal tar refinery and creosote plant which contaminated the land. Purchased by Paul Allen's Vulcan Real Estate in 2000, the property has since been remediated by the new owner working in concert with the City of Renton and the Washington State Department of Ecology.

"Just being able to redevelop this property on the lake is huge for us," said former Renton Mayor Kathy Keolker. "It's a site that has been polluted for a number of years and it's a great opportunity to do some environmental fixing that's needed to be done for a long time."

The Seahawks approached Renton in 2005 with the concept of using the land for a modern team facility and training camp headquarters. According to Alex Pietch, Director of Renton's Economic Development Department, "We opened our arms and said, 'Please come.'"

Second largest in the NFL, the facility was named the Virginia Mason Athletic Center in recognition of the ongoing partnership between the football team and the not-for-profit regional health care system.



## SELECT OFFICE PROPERTY SALES

### Pacific Plaza Bellevue



**Building size:** 137,349 RSF  
**Price:** \$47,000,000  
**Price/SF:** \$342.19  
**Buyer:** Pacific Plaza West, LLC  
**Seller:** Pacific Plaza Building, LLC  
**Year built:** 1986

### Fourth and Pike Seattle



**Building size:** 106,000 RSF  
**Price:** \$25,150,000  
**Price/SF:** \$237.26  
**Buyer:** Ceadaigh IV, LLC  
**Seller:** Fourth and Pike Associates  
**Year built:** 1926

### North Creek Parkway Bothell



**Building size:** 205,707 RSF in six buildings  
**Price:** \$41,114,000  
**Price/SF:** \$199.87  
**Buyer:** KBS North Creek, LLC  
**Seller:** RREEF America REIT II Corp.  
**Year built:** 1987-88

## SELECT AVAILABLE LEASE PROPERTIES - SOUTH END

### Landmark East Renton



**Building size:** 274,000 square feet  
**Available SF:** 4,871 RSF  
**Lease rate:** \$17 RSF/yr NNN

### Auburn Corporate Center II Auburn



**Building size:** 116,000 square feet  
**Available SF:** 32,209 RSF  
**Lease rate:** \$13 RSF/yr NNN

### South Lind Square Renton



**Building size:** 114,000 *sf* in three buildings  
**Available SF:** 23,879 RSF  
**Lease rate:** \$13.50 RSF/yr NNN

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- Market surveys and submarket analysis
- Marketing program and brochure development
- Team project marketing/leasing

2007  
SEATTLE/PUGET SOUND  
**POWER BROKER**  
LEASING TRANSACTIONS

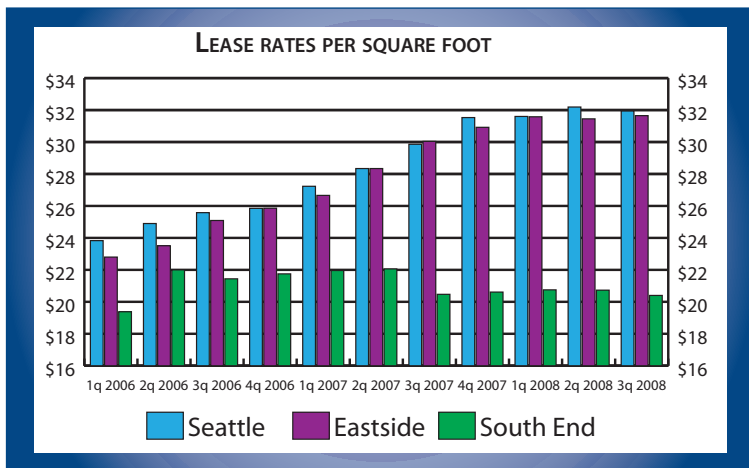
THE ANDOVER COMPANY, INC.

Ranked among Seattle/Puget Sound's  
**Top Brokerage Firms**  
by CoStar Group based on  
2007 leasing transaction volume

**CoSTAR GROUP**  
Real Estate Information

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Real Estate

## Seattle Area Office Market *(continued from page one)*



senior resident fellow of the Urban Land Institute. "It's going to be in good position to come back."

All bona fide tenants will be prized in this marketplace as we move into 2009. Expect vacancies to rise with many more lease concessions becoming available to all tenants. There will be downward pressure on rental rates in 2009.

Sales activity is much lower than the pace that the Seattle marketplace set in the previous years due to the capital markets being frozen. Capitalization rates will rise in 2009 and values will come down toward the buyers' viewpoint. Financing project purchases will be challenging and, in addition, the difficulty in refinancing in this market will force some owners to sell their buildings.

### Seattle CBD

Class A office space in downtown Seattle ranges from \$28/sf to \$38/sf annually on a gross basis. The vacancy rate is currently

only 7.6%. Expect the vacancy rate to rise in 2009 with give back space coming from Chase/Washington Mutual and Safeco/Liberty Mutual. Chase/Washington Mutual occupies 1.6 million square feet in the CBD and will vacate a good portion of this space in 2009.

### Eastside

The vacancy rate of the Eastside office market is currently 7.7%, with the majority of Class A building rental rates ranging from \$30/sf to \$38/sf annually on a gross basis. The increased rental rates in the Bellevue CBD have pushed numerous companies out of the central district to find less expensive office space in the surrounding suburban markets. Major expansions by Microsoft, Expedia, and Google have occurred within the Eastside marketplace.

The Eastside office market is dominated by large, publicly traded companies such as Microsoft, AT&T Mobility, T-Mobile USA, Costco, Google, Expedia, and Puget Sound Energy. These companies are expected to weather the economic downturn better than most. However, all of these companies will be looking to reduce costs in 2009. Quality tenants can expect sublease space to increase, rental rates to reduce, and rental concessions to increase in this market place in 2009.

### South King County

The South King County office market vacancy is 13.2% with Class A rates ranging from \$20/sf to \$25/sf on an annual gross basis. The local Federal Way market, currently 25% vacant, is expected to exceed a 30% vacancy level as the Weyerhaeuser Company recently announced layoffs of 1500 people from its Federal Way headquarters' locations.

Rental rates will be soft in this market during the coming year. Concessions such as rental abatement and turn key improvements will increase in 2009.



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awarded to  
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