

STATE OF DOWNTOWN

2010

Downtown Office Report





**Seattle Central Business District
&
South Lake Union**

Office Market Reports 2010

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SEATTLE OFFICE MARKET ANALYSIS

Introduction

Our Seattle CBD Office Market Analysis is based on an annual survey of major office buildings (50,000sf or greater) in the Central Business District. The study reports on rental rates and occupancy trends for all buildings, and further divides the inventory into five subgroups:

Seattle CBD Building Subgroups

1. Post 1980 Class-A Office Buildings
 2. Pre 1980 Class-A Office Buildings
 3. Fringe Class-A Office Buildings
 4. Class-B Office Buildings
 5. Renovated Office Buildings
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The study area generally extends from Elliott Bay on the west to the Interstate 5 freeway on the east, with the southerly boundary being the Pioneer Square Historic District and the northerly boundary, with minor exceptions, at Denny Way. There are some concentrations of office buildings in Lower Queen Anne, Lake Union, SODO and Eastlake that are not included in this survey even though these surrounding areas are effectively an extension of the CBD. The survey has been conducted in the same format since January 1986, and relies upon individual paper and telephone survey responses. For a few buildings where no response has been obtained, third-party information has been used, including broker contacts, newspaper articles, CoStar and OfficeSpace.com.

The study is organized into four sections. The first section provides an historical perspective and places the current real estate market in the context of the real estate cycle. The second section analyzes occupancy trends. Rental rates are discussed in the third section. Finally, the fourth section presents an overview of supply and demand variables and concludes with predictions of where the market is headed in the year 2010 and beyond.

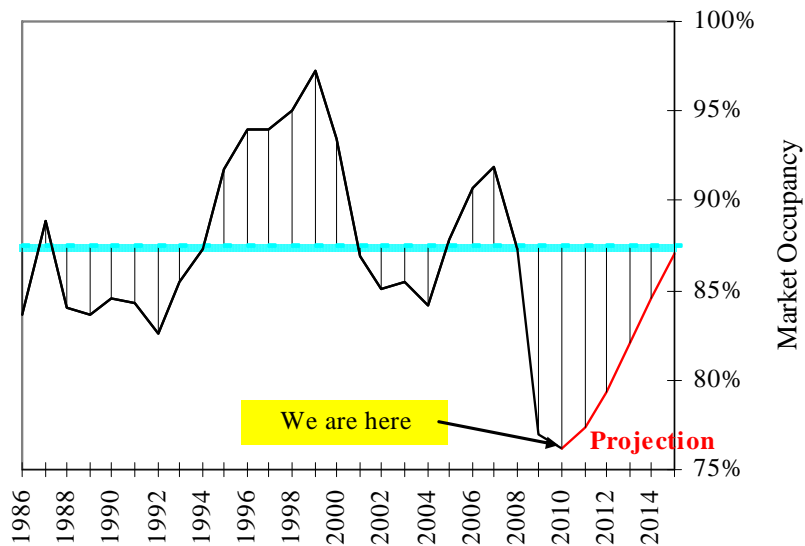
Seattle CBD Office Report Highlights

- In 2009 overall market vacancy increased to **23%**, as Seattle experienced the full impact of the recession. This is the highest vacancy rate the CBD has experienced in over 20-years.
- Net absorption in 2009 was **negative 1,270,000sf**, this including both unleased space, as well as leased, but unoccupied, space. The bulk of the loss was in the high-rise core, Post 1980-product.
- New deliveries added **2,250,000sf**. The vast majority of this space was delivered vacant.
- Average face rental rates **decreased 13%** last year, with losses across the board. Effective rents are down much further, as free rent has appeared, and TI expenditures are up.
- The post-1980 Class-A market segment, which represents the largest proportion of high-rise space, saw an increase in vacancy from 10% to **25%**. This is the highest posted vacancy rate in this building class over the past 20-years, even exceeding the post-CAP initiative building expansion fall-out in 1991, when vacancy in the class hit **21%**.

**CHART 1: Historical Supply & Demand
All Downtown Office Buildings**

Year End	No. of Buildings	Total Office SF	SF Occupied	Percent Vacant	Net Absorption	New Product
1986	96	18,370,194	15,361,785	16.4%		
1987	98	18,925,021	16,826,595	11.1%	1,464,810	554,827
1988	100	20,321,451	17,078,555	16.0%	251,960	1,396,430
1989	104	22,692,152	18,965,839	16.4%	1,887,284	2,370,701
1990	107	23,983,451	20,274,506	15.5%	1,308,667	1,291,299
1991	107	24,221,486	20,417,040	15.7%	142,534	238,035
1992	107	24,221,986	20,013,509	17.4%	-403,531	500
1993	106	24,161,486	20,649,632	14.5%	636,123	-60,500
1994	106	24,176,688	21,119,613	12.6%	469,981	15,202
1995	106	23,967,888	21,992,920	8.2%	873,307	-208,800
1996	105	24,029,670	22,570,737	6.1%	577,817	61,782
1997	105	23,747,374	22,309,550	6.1%	-261,187	-282,296
1998	107	24,236,649	23,018,444	5.0%	708,894	489,275
1999	106	24,910,922	24,233,779	2.7%	1,215,335	674,273
2000	104	24,855,808	23,245,092	6.5%	-988,687	-55,114
2001	110	26,217,823	22,799,404	13.0%	-445,688	1,362,015
2002	112	27,055,043	23,019,140	14.9%	219,736	837,220
2003	111	27,257,030	23,285,836	14.6%	266,696	201,987
2004	111	27,150,813	22,858,751	15.8%	-427,085	-106,217
2005	111	27,163,598	23,855,040	12.2%	996,289	12,785
2006	112	28,483,150	25,835,098	9.3%	1,980,058	1,319,552
2007	112	28,556,007	26,224,211	8.2%	389,113	72,857
2008	114	29,016,312	25,349,180	12.6%	-875,031	460,305
2009	120	31,267,433	24,075,385	23.0%	-1,273,795	2,251,121

**CHART 2:
Current Position in Real Estate Cycle**



On the heels of a strong market in 2007, the CBD market experienced a rapid reversal in the second half of 2008, this accelerating in 2009 as the full impact of the national recession made itself felt in Seattle. Employment declines have resulted in occupancy losses of over 2,000,000sf over the past two years, and coupled with the delivery of new product of 2,300,000sf, the CBD market is experiencing one of the highest vacancy rates ever, with over 7,000,000sf vacant out of an inventory of 31,000,000sf. Overall, the present CBD condition is close to that forecast in 2009, although generally things were a little worse than expected:

- The economy fared worst than anticipated: our 2010 20% vacancy forecast was off by about 3 percentage points. The current vacancy rate stands at approximately **23%**.
- Our forecast of a 12% rent decline in the post-1980 Class A inventory was close; rates actually declined by **-13%**.
- Rental losses experienced across other office classes (Pre-1980 A, A-Fringe, B and Renovated) were all somewhat higher than was forecast in 2009.

Our projections indicate that:

- Rental rate declines are not over, but are expected to stabilize in 2011. We are forecasting a further **decline of 12%** in rents in the Post-1980 Class A in 2010. Other classes of office are expected to **decline 10 to 19%** in 2010.
- Vacancy rates of **around 20%** will persist through 2012.
- Employment growth is expected to be negative this year and very modestly positive next year, but past experience tells us that downtown employment losses in the CBD will be mitigated by opportunistic relocations and expansions, as firms take advantage of lower rental rates and generous concession packages.
- The CBD office market will take **4-years to fully recover, with stabilized occupancy (and economic rental rate recovery) forecast by the end of 2015.**

Real Estate Cycle Overview

The timing and strength of every market cycle is unique, but the general course of events is fairly predictable. Simply speaking, a shortage of space drives rental rates up providing the entrepreneurial incentive for developers to add new product to the market (new construction, renovation or conversion). A race to capitalize on economic opportunity leads to parallel development efforts that continue until oversupply is apparent, or a new business cycle is upon us leading to employment declines. Rental rates are cut as landlords seek the new market equilibrium point that brings new users into the market (or at least into their building) and/or incentivizes existing tenants to expand. Occupancy rates improve as space is filled at the new lower rates; and finally, when a shortage of space becomes apparent, rates rise again to provide the stimulus for new additions to the market.

Historical Perspective

The successful economic development of a CBD office high-rise is notoriously difficult, largely due to the complexity of accurately timing a development. A new high-rise office tower development typically has to await the appropriate gelling of capital, expertise and demand to result in a serious proposal. Due to the inevitability of real estate cycles, the time required to plan, undertake and lease a high-rise

development, and the fact that delivery of a new development has its own impact on the market, it is axiomatic that the economic circumstances that encouraged the proposal will be different than those in place at the time of product delivery. And ironically, as favorable economic conditions were in place to generate the original proposal, product delivery often occurs during a down-cycle. To make matters worse, the accompanying real estate bust that often follows a boom period is exacerbated by parallel development deliveries.

A review of the Seattle office market illustrates this complexity most aptly. The relative position (both historical and projected) of the downtown office market within the context of the market cycle is mapped out in Chart 2: Current Position in Real Estate Cycle. The chart reveals two historical cycles, and the current one now underway, the first dating back to the late 1980s. A close examination of these cycles provides perhaps a road map for charting the course of the current cycle, which now appears to be bottoming out.

1987-1990 growth; 1991-1993 decline; 1994-1995 recovery

Modern speculative office development took hold and culminated in 1988 with the addition of five new Class-A buildings between 1988 and 1991 totaling 4,247,000sf. This changed a moderately oversupplied market into a seriously oversupplied market, and resulted in a precipitous drop in rental rates. Overlaying this supply issue, demand evaporated, with economic conditions reducing employment growth, and creating space redundancies, many of these resulting from bank mergers and corporate "rightsizing." This negative trend culminated in 1992 with negative absorption of over 400,000sf.

The market began its return in 1993 with positive absorption of 640,000sf, this continuing into 1994 with an additional 470,000sf, and nearly doubling in 1995 to 875,000sf. Software, telecommunications, and other high-tech firms, filling in for traditional downtown office users such as banks and law firms, drove this expansion. In 1995 there was also some opportunism at work, particularly among certain larger tenants. Existing and prospective tenants in the downtown area became aware of possible sharp rental increases caused by actual space shortages, and consequently they began making commitments to ensure their space needs were met at the most reasonable rents possible. Competitive lease packages offered to tenants by landlords also had the effect of drawing and retaining certain business types that might not otherwise have chosen to be downtown.

1997-2000 growth; 2001-2003 decline; 2004-2005 recovery

With the economy continuing to tighten, occupancies and rents continued to climb in the latter-half of the 1990s. Class-A rents saw increases of over 20% in 1997 and 1998, with rates reaching economic levels by the latter year, this firmly putting a number of proposed projects in full swing by the end of the decade. The market peak was reached in 1999, with vacancy at an unprecedented low of 2.7%, and the inertia of this continued to allow market rent increases into 2000, even though some softening in conditions was being experienced towards the end of that year.

The onset of the 2001 down cycle was spectacular, essentially commencing with the implosion of the "tech-bubble" in early 2001. Although outside the Seattle CBD, the swiftness of the onset of the cycle

was no better illustrated than by the abandonment of two partially completed high-rise office developments in the Bellevue CBD. These developments hit a wall in early 2001, with the technology sector in a full-fledged recession, this ultimately culminating in the March 2001 onset of the recession.

The rental decline in 2001, 2002 and 2003 was almost as precipitous as the rental rate increase had been prior to 2000. Most building classes saw double-digit rental declines in at least one of these three years. By December 2003, the Class-A>'80 rental market was as much as 39% below its peak in 2000, with the Class-A<'80 (-36%), Class-A-F (-25%), Class-B (-35%) and Class R (-31%) showing slightly lower losses. The observed compression in rental rates between classes was also in play during the last cycle, as landlords in the city's high-rises responded aggressively to the downturn.

2006-2008 growth; 2009-2011 decline; 2012-2015 (?) recovery

Beginning in 2005, the market began another recovery phase. 2006 was a year that can be described as being in equilibrium, and substantial new product deliveries were commenced in this year, in the anticipation of continued market tightening towards the end of the decade. With projects planned, but not yet delivered, 2007 tightened to the point of being classified as a landlord's market. This proved out with 2007 rents increasing by 21.2%, this coming on the heels of an 11.7% increase in 2006. 2008 saw rents stabilize, with a 1.6% drop, as new product came on the market and the local economy began to finally show signs of the broader national downturn.

The swiftness of the current downturn caught most market analysts by surprise; this is more often, than not, the case. As noted above, while the cycle is, itself, predictable, the timing is not; and with the current decline, the surprise has come from the rapidity of the national economic meltdown, as opposed to any locally driven events. For Seattle the full impact of the national recession came somewhat late, and as a consequence the market decline in 2009 was precipitous.

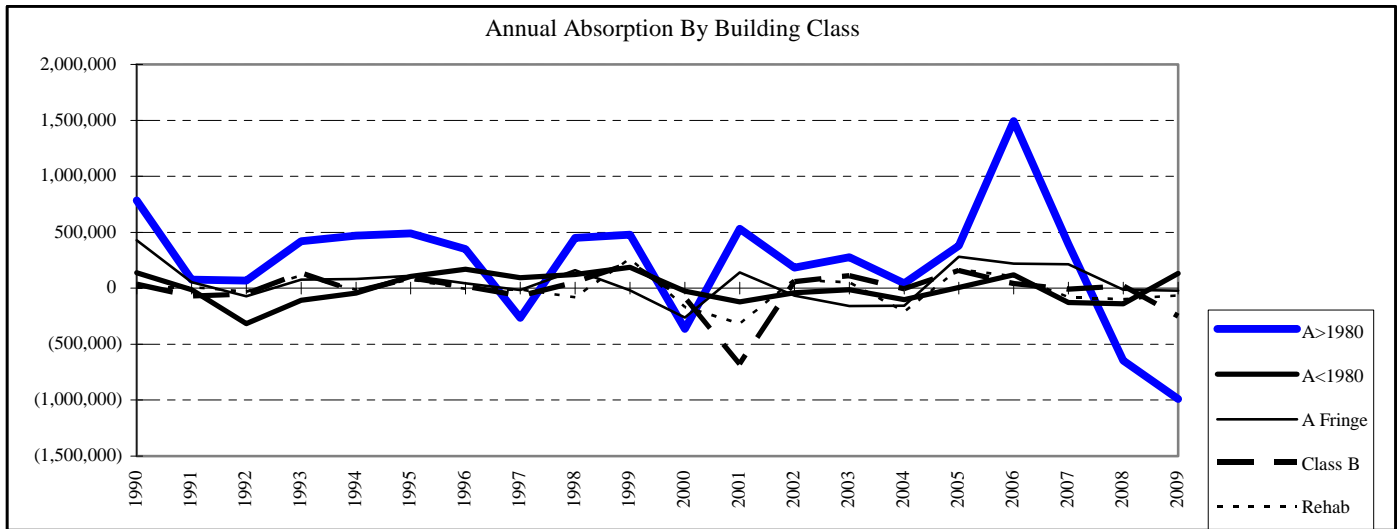
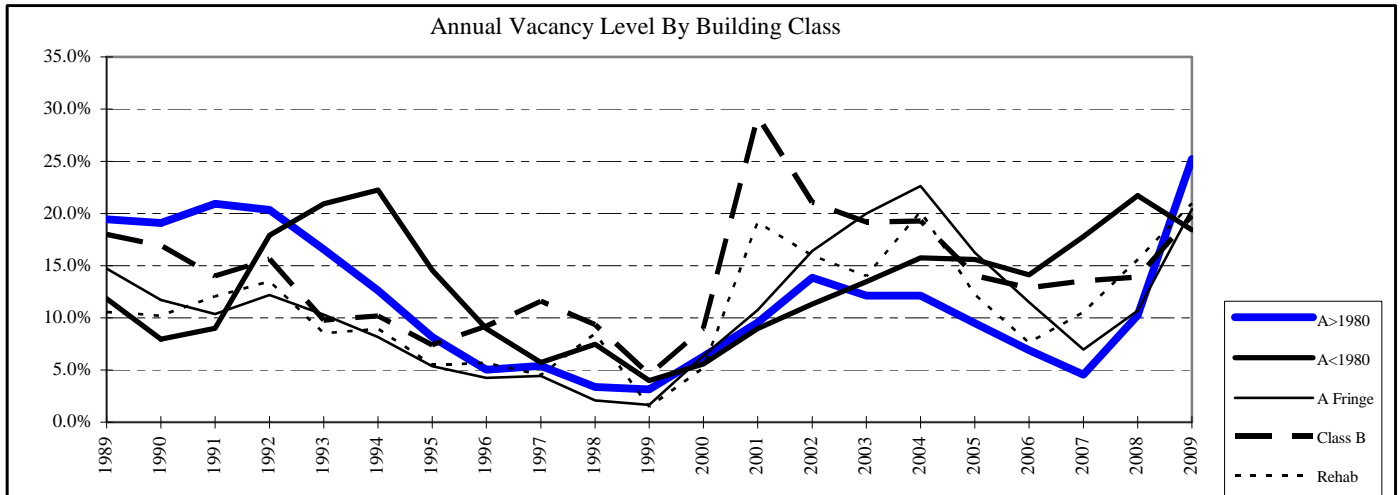
The current downcycle includes several components. The generally predictable employment declines that accompany a recessionary period, have been quite severe, ironically in part due to the fact that the Seattle area managed to stave-off recessionary impacts longer than other parts of the country. Recessionary conditions came to a fore in 2009, with the vacancy of over 1,200,000sf. A significant portion of this came from the collapse of WAMU and subsequent acquisition by Chase Bank (although this brought about the one bright spot of the year: the purchase and partial occupancy of WAMU Center (now Russell Investments Center) by Russell). Finally, new deliveries added 2,300,000sf to the market, most of this unoccupied.

Face rental rates took a short time to react, and dropped about 13% in 2009. As is typical of any cycle, effective rents have declined much further, as concessions and generous TI packages have come into play. A review of past cycles suggests rental rates will fall further this year, before stabilizing in 2011.

This report focuses on that and other predictions, with the experience of past cycles providing the basis for these baseline forecasts. As with past cycles, the expectation is that this decline, even though severe, will ultimately mirror those of the past, and so too will the eventual, and inevitable, recovery.

CHART 3: Historical Seattle CBD Vacancy & Absorption By Building Class

Year	Class A<1980		Class A>1980		Class A Fringe		Class B		Rehab		All Buildings	
	Vacancy	Absorb	Vacancy	Absorb	Vacancy	Absorb	Vacancy	Absorb	Vacancy	Absorb	Vacancy	Absorb
1989	11.8%	40,801	19.4%	1,271,723	14.7%	505,443	18.0%	(138,904)	10.6%	(19,044)	16.4%	1,887,284
1990	8.0%	136,589	19.1%	786,111	11.7%	429,218	16.9%	35,981	10.2%	7,520	15.5%	1,308,667
1991	9.0%	(12,341)	20.9%	76,065	10.4%	52,427	14.0%	(69,439)	12.1%	9,070	15.7%	142,534
1992	17.9%	(316,391)	20.3%	68,987	12.2%	(71,714)	15.6%	(52,249)	13.5%	(32,164)	17.4%	(403,531)
1993	20.9%	(107,506)	16.6%	421,070	10.3%	75,198	9.8%	134,222	8.5%	113,139	14.5%	636,123
1994	22.2%	(42,050)	12.6%	470,277	8.1%	83,737	10.2%	(29,577)	8.9%	(12,406)	12.6%	469,981
1995	14.6%	104,642	8.2%	490,949	5.4%	110,557	7.4%	90,536	5.5%	76,623	8.2%	873,307
1996	9.0%	168,529	5.0%	349,764	4.3%	44,487	9.2%	19,670	5.7%	(4,633)	6.1%	577,817
1997	5.7%	93,446	5.4%	(264,298)	4.5%	(17,017)	11.6%	(65,771)	4.5%	(12,180)	6.1%	(261,187)
1998	7.5%	124,295	3.4%	449,878	2.1%	160,987	9.3%	53,848	8.5%	(80,114)	5.0%	708,894
1999	4.0%	187,675	3.1%	477,917	1.6%	(19,877)	4.6%	219,545	1.5%	263,896	2.7%	1,215,335
2000	5.6%	(26,724)	6.3%	(363,928)	6.4%	(261,736)	9.0%	(82,780)	5.2%	(167,341)	6.5%	(988,687)
2001	9.0%	(122,307)	9.6%	532,051	10.8%	139,702	29.3%	(677,959)	19.2%	(317,174)	13.0%	(445,688)
2002	11.3%	(39,628)	13.8%	184,951	16.4%	(66,471)	21.0%	60,183	15.9%	80,701	14.9%	219,736
2003	13.5%	(12,694)	12.1%	276,604	20.0%	(160,471)	19.1%	112,064	14.0%	51,193	14.6%	266,696
2004	15.8%	(99,769)	12.1%	43,778	22.6%	(156,512)	19.3%	(6,300)	20.2%	(208,282)	15.8%	(427,085)
2005	15.6%	6,376	9.5%	379,821	16.3%	280,871	14.1%	158,776	12.2%	170,445	12.2%	996,289
2006	14.1%	119,233	6.9%	1,492,853	11.5%	220,221	12.9%	40,796	7.6%	106,955	9.3%	1,980,058
2007	17.8%	(126,987)	4.6%	394,401	7.0%	212,647	13.6%	(8,964)	10.5%	(81,984)	8.2%	389,113
2008	21.7%	(137,652)	10.2%	(644,890)	10.7%	(14,727)	13.9%	19,971	15.6%	(97,733)	12.6%	(875,031)
2009	18.4%	132,240	25.2%	(989,130)	20.4%	(21,663)	19.8%	(249,324)	21.0%	(61,836)	23.0%	(1,273,795)



Vacancy & Absorption

On Chart 3: Historical Seattle CBD Vacancy & Absorption by Building Class, the details of year-end vacancy rates and absorption for each of the five office subgroups, and the CBD as a whole, are presented in both tabular and graphic form. In 2009 the overall market vacancy rate climbed to 23% up from the 12.6% level of 2008. WAMU's collapse contributed to over 75% of this increase in vacancy. The current vacancy rate is at an all-time high for the CBD, based on a review of past surveys, indicating that the current down-cycle is the worst the CBD market has experienced in over two decades.

The current vacancy rate is about double the "frictional" rate for the CBD. Frictional vacancy is vacancy not related to disequilibrium in supply and demand, but rather is due to normal tenant relocations as leases roll over and expire. Obviously a healthy market is one in which there is enough, but only just enough, space for tenants to have some choices, and to accommodate normal expansion, contraction and relocations.

Experience tells us that the frictional vacancy rate probably lies around 10%. Despite the oft used "5% vacancy factor", in market terms a 5 or 6% physical vacancy represents a market with supply space constraints. Moreover since it is the vacancy rate of the post-1980 class which determines the competitive rental rate structure with which a new tower needs to compete, and in an improving market the occupancy in this class is usually 1 or 3 points above the mean (in an improving market), the average market vacancy can probably stand to be a little above 10%. In the narrative that follows, 10 to 12.5% overall is considered to represent the arrival of a market that is more or less in equilibrium. 2005 represented the first time this decade that this condition has, more or less, been achieved; and in 2006 and 2007, that it was exceeded. In 2008 the market reversed itself, and this condition will likely persist through to the middle of the current decade.

Pre 1980 Class-A

The Pre 1980 Class-A subgroup stalled in occupancy gains in 2005 (overall about 85% occupied), and therefore saw little year-to-year increase in rental rates between 2004 and 2005. Occupancy improved in 2006, and rental increases followed the market with about a 12% increase. 2007 market statistics saw an increase in vacancy to 18%, this largely due to the renovation of 901 5th Avenue Building (old Bank of Cal). Overall year-end 2008 and 2009 losses were fairly moderate on top of this already high vacancy, and presently vacancy stands at **18%**. This below average vacancy was achieved with the largest rental declines of all office classes, exceeding **-21%** in 2009.

Post 1980 Class-A

The Post 1980 Class-A office space is downtown Seattle's most significant office subgroup. It is comprised of about 17-million square feet or more than 50% of the total competitive inventory. It was within this class that virtually all of last year's negative absorption took place, this impact exacerbated by the additional of 1.7-million square feet of new product to this subgroup. Vacancy within this class jumped from 10.2% to **25.2%** in a single year. That is the most extreme change we have ever measured,

and came on the heels of just a 4.6% vacancy at the outset of 2008. While building owners within this class managed to hold onto historically high rental rates in 2008 in a market in which there was little or no leasing, that illusion began to collapse in 2009 with a **-13%** reduction in rental rates. More is on the way based on past cycles, and the 2008-era rent levels still being quoted for many buildings.

Class-A Fringe

The Class-A Fringe subgroup includes the newer predominately low and mid-rise office buildings found outside of the core downtown area in the Denny Regrade, the Cascade Neighborhood and along the Central Waterfront. (The division line is not easily drawn, and for instance separates the two new World Trade Center Projects, East (Class-A) and North (Class-A-F). In addition new construction of clearly downtown as opposed to suburban product along 7th, 8th and 9th Avenues has encouraged us to put that product within the CBD core group as opposed to classifying it as fringe). The subgroup merges seamlessly with the close-in Queen Anne and Lake Union neighborhoods, and is thus profoundly influenced by activity in these areas. The vacancy rate in this group fell steadily year over year during the past recovery, from 22.6% in 2004, 16.3% in 2005, 11.5% in 2006, and finally to 7.0% in 2007. 2008 saw a reversal, with vacancy climbing to 10.7%, and doubling to **20%** in 2009, this showing the influence of new additions of over 500,000sf. Rental rates dropped **-8%** in 2009.

Class-B

The Class B market never reached the occupancy highs of other classes over the 2007 and 2008 period, and thus vacancy in this class increased the most modestly of all classes, although presently lying at nearly **20%**. Rents in this class tend to maintain a fairly consistent ratio as compared to the Class A market (around 70 to 75% of Class A rents), and they declined **-12%** in 2009. History tells us that the Class-B market can accrue significant vacancy in down markets, and usually takes a little longer to recover; over the past 20 years or so, vacancy has averaged 14% for example, which compares to the Post-80 Class A market of 11%. Buildings in this class can suffer from some chronic vacancy, because needed retrofit investment can be tough to economically justify in a soft market.

Class R

Rehabilitated buildings tend to have a better long-term occupancy performance than Class B, even though the current vacancy in this class presently stands at **21%**. The Rehab market tends to have market appeal to certain tenancy groups that do not typically consider Class-A space as an alternative (boutique design, architectural, and advertising firms for example). Occupancy in this class has averaged 11% over the past 20-years. The current vacancy is a slight aberration with the inclusion of the 100% vacant Elliott Park, and the addition of the Joshua Green Building (formally Class B). Rental rates last year were down a modest **-9%**.

Summary

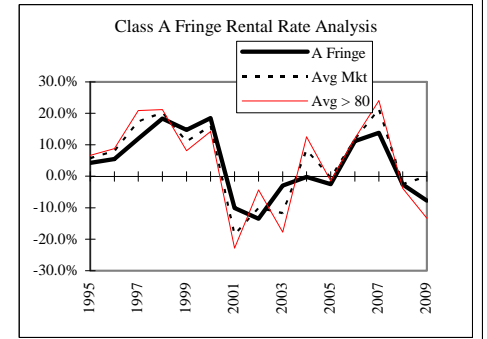
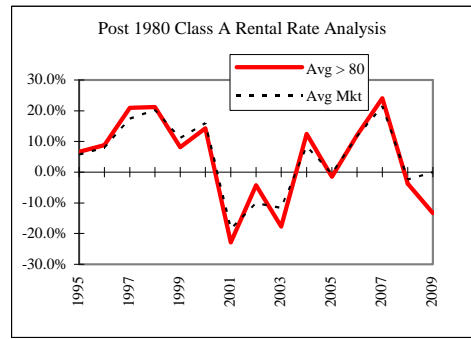
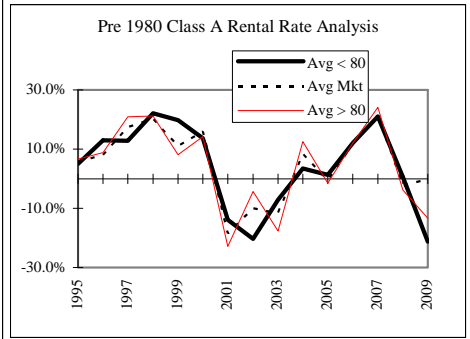
The market softened significantly in 2009, with an increase in vacancy to **23%**, and face rate rental declines of **-13%**.

CHART 4: Summary of Seattle Central Business District Office Face Rental Rate Trends By Building Class

Class A Pre-1980 Bldgs.						
Year	Low	%+/-	High	%+/-	Average	%+/-
1995	\$15.66	7.4%	\$19.43	3.2%	\$17.54	5.0%
1996	\$17.54	12.0%	\$22.10	13.7%	\$19.82	13.0%
1997	\$19.86	13.2%	\$24.87	12.5%	\$22.36	12.8%
1998	\$24.89	25.4%	\$29.73	19.6%	\$27.31	22.1%
1999	\$30.71	23.4%	\$34.73	16.8%	\$32.72	19.8%
2000	\$35.66	16.1%	\$38.75	11.6%	\$37.20	13.7%
2001	\$31.36	-12.0%	\$32.70	-15.6%	\$32.03	-13.9%
2002	\$24.43	-22.1%	\$26.64	-18.5%	\$25.54	-20.3%
2003	\$22.64	-7.3%	\$24.81	-6.9%	\$23.73	-7.1%
2004	\$23.16	2.3%	\$25.93	4.5%	\$24.54	3.4%
2005	\$23.18	0.1%	\$26.56	2.4%	\$24.87	1.3%
2006	\$26.49	14.3%	\$31.16	17.3%	\$27.87	12.1%
2007	\$31.15	17.6%	\$37.96	21.8%	\$33.73	21.0%
2008	\$31.06	-0.3%	\$36.78	-3.1%	\$33.92	0.6%
2009	\$24.49	-21.2%	\$28.93	-21.3%	\$26.71	-21.3%

Class A Post-1980 Bldgs.						
Year	Low	%+/-	High	%+/-	Average	%+/-
1995	\$17.62	9.2%	\$23.78	4.8%	\$20.70	6.6%
1996	\$19.67	11.6%	\$25.37	6.7%	\$22.52	8.8%
1997	\$23.27	18.3%	\$31.19	22.9%	\$27.23	20.9%
1998	\$28.26	21.4%	\$37.75	21.0%	\$33.00	21.2%
1999	\$31.77	12.4%	\$39.58	4.8%	\$35.67	8.1%
2000	\$39.47	24.2%	\$42.18	6.6%	\$40.77	14.3%
2001	\$29.58	-25.1%	\$33.36	-20.9%	\$31.47	-22.8%
2002	\$29.14	-1.5%	\$31.12	-6.7%	\$30.13	-4.3%
2003	\$22.79	-21.8%	\$26.80	-13.9%	\$24.79	-17.7%
2004	\$25.81	13.3%	\$29.98	11.9%	\$27.90	12.5%
2005	\$24.62	-4.6%	\$30.35	1.2%	\$27.49	-1.5%
2006	\$27.46	11.5%	\$34.14	12.5%	\$30.80	12.1%
2007	\$33.09	20.5%	\$41.87	22.6%	\$38.22	24.1%
2008	\$33.29	0.6%	\$40.27	-3.8%	\$36.78	-3.8%
2009	\$28.03	-15.8%	\$35.70	-11.4%	\$31.86	-13.4%

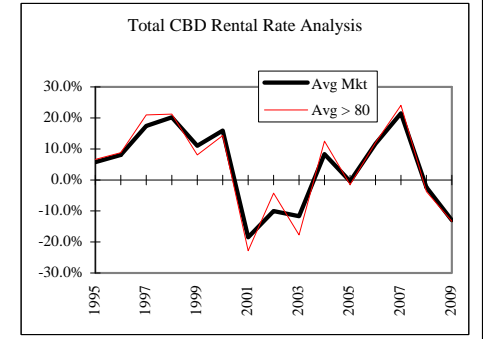
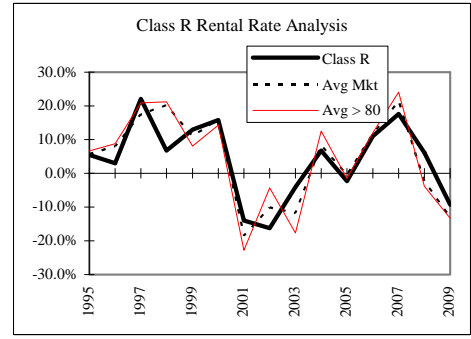
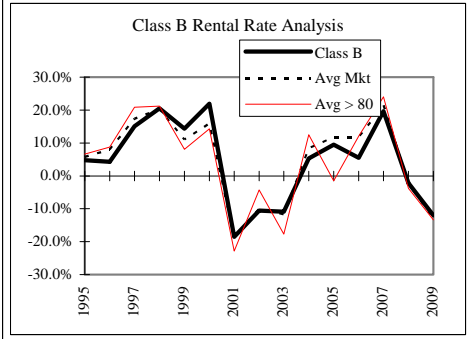
Class A Fringe Bldgs.						
Year	Low	%+/-	High	%+/-	Average	%+/-
1995	\$16.16	5.6%	\$18.11	3.2%	\$17.14	4.3%
1996	\$16.95	4.9%	\$19.15	5.7%	\$18.08	5.5%
1997	\$18.47	9.0%	\$22.01	14.9%	\$20.24	11.9%
1998	\$22.82	23.5%	\$25.10	14.0%	\$23.96	18.4%
1999	\$25.75	12.8%	\$29.24	16.5%	\$27.50	14.8%
2000	\$31.76	23.3%	\$33.42	14.3%	\$32.59	18.5%
2001	\$28.43	-10.5%	\$30.15	-9.8%	\$29.29	-10.1%
2002	\$25.14	-11.6%	\$25.66	-14.9%	\$25.33	-13.5%
2003	\$24.24	-3.6%	\$24.95	-2.8%	\$24.59	-2.9%
2004	\$24.05	-0.8%	\$25.03	0.3%	\$24.54	-0.2%
2005	\$23.13	-3.8%	\$24.73	-1.2%	\$23.93	-2.5%
2006	\$24.71	6.9%	\$28.49	15.2%	\$26.60	11.2%
2007	\$27.05	9.5%	\$33.51	17.6%	\$30.28	13.8%
2008	\$27.98	3.4%	\$31.03	-7.4%	\$29.51	-2.6%
2009	\$25.63	-8.4%	\$28.85	-7.0%	\$27.24	-7.7%



Class B Bldgs.						
Year	Low	%+/-	High	%+/-	Average	%+/-
1995	\$13.46	5.8%	\$15.79	3.9%	\$14.62	4.8%
1996	\$13.96	3.7%	\$16.54	4.7%	\$15.25	4.3%
1997	\$15.99	14.6%	\$19.11	15.6%	\$17.55	15.1%
1998	\$19.26	20.4%	\$23.06	20.7%	\$21.16	20.6%
1999	\$22.17	15.1%	\$26.25	13.8%	\$24.21	14.4%
2000	\$28.03	26.4%	\$30.99	18.1%	\$29.51	21.9%
2001	\$23.56	-15.9%	\$24.52	-20.9%	\$24.04	-18.5%
2002	\$20.67	-12.3%	\$22.32	-9.0%	\$21.50	-10.6%
2003	\$18.26	-11.7%	\$20.05	-10.2%	\$19.15	-10.9%
2004	\$18.94	3.8%	\$21.41	6.8%	\$20.18	5.4%
2005	\$20.51	8.3%	\$23.66	10.5%	\$22.08	9.4%
2006	\$21.80	6.3%	\$26.02	10.0%	\$23.30	5.5%
2007	\$24.70	13.3%	\$31.05	19.3%	\$27.88	19.7%
2008	\$24.78	0.3%	\$29.77	-4.1%	\$27.28	-2.1%
2009	\$22.13	-10.7%	\$25.89	-13.0%	\$24.01	-12.0%

Class R (Renovated) Bldgs.						
Year	Low	%+/-	High	%+/-	Average	%+/-
1995	\$13.36	5.4%	\$16.17	5.5%	\$14.77	5.5%
1996	\$13.50	1.0%	\$16.94	4.8%	\$15.22	3.0%
1997	\$16.51	22.3%	\$20.65	21.9%	\$18.58	22.1%
1998	\$17.84	8.0%	\$21.85	5.8%	\$19.84	6.8%
1999	\$20.98	17.6%	\$23.83	9.1%	\$22.40	12.9%
2000	\$25.17	20.0%	\$27.04	13.5%	\$25.94	15.8%
2001	\$21.70	-13.8%	\$22.92	-15.3%	\$22.31	-14.0%
2002	\$17.80	-18.0%	\$19.57	-14.6%	\$18.68	-16.3%
2003	\$16.49	-7.4%	\$19.36	-1.1%	\$17.92	-4.1%
2004	\$17.94	8.8%	\$20.34	5.1%	\$19.14	6.8%
2005	\$17.45	-2.7%	\$19.95	-1.9%	\$18.70	-2.3%
2006	\$19.18	9.9%	\$22.33	11.9%	\$20.76	11.0%
2007	\$22.19	15.6%	\$26.65	19.3%	\$24.42	17.6%
2008	\$23.89	7.7%	\$27.50	3.2%	\$25.90	6.1%
2009	\$21.36	-10.6%	\$24.99	-9.1%	\$23.49	-9.3%

Total CBD 1995-2005						
Year	Low	%+/-	High	%+/-	Average	%+/-
1995	\$16.22	7.7%	\$20.60	4.3%	\$18.41	5.7%
1996	\$17.69	9.1%	\$22.08	7.2%	\$19.89	8.0%
1997	\$20.44	15.5%	\$26.27	19.0%	\$23.35	17.4%
1998	\$24.86	21.6%	\$31.28	19.1%	\$28.07	20.2%
1999	\$28.37	14.1%	\$33.97	8.6%	\$31.17	11.0%
2000	\$34.90	23.0%	\$37.46	10.3%	\$36.14	16.0%
2001	\$28.18	-19.2%	\$30.71	-18.0%	\$29.45	-18.5%
2002	\$25.65	-9.0%	\$27.35	-11.0%	\$26.49	-10.0%
2003	\$21.95	-14.4%	\$24.82	-9.3%	\$23.38	-11.7%
2004	\$23.78	8.3%	\$26.90	8.4%	\$25.34	8.4%
2005	\$23.12	-2.7%	\$27.30	1.5%	\$25.21	-0.5%



Rental Rate Trends

Whereas the occupancy levels that are reported to us in each annual survey are considered quite accurate, the rental levels are not statistically pure. The methodology used in the survey is to use the same general descriptive language each year with survey respondents. Specifically, “*If you had office space available at year end, what would the rent range be from lowest to highest in the building?*” However, it is clear from interviews with the respondents, as well as our review of actual building rental schedules, that true effective rental rates, after taking into consideration all major concessions (free rent and tenant improvement packages), are below the levels that are summarized herein. Although our survey attempts to track free-rent and tenant improvements, respondents often do not supply the data because of the variety of factors that make it into more of a case-by-case determination – hence the survey does not present effective rents in the tracking of overall rental changes.

The partial response to this line of enquiry tells us that the tracking of face as opposed to effective rental rates tends to smooth out the true peaks and valleys in rental rate change, as rising face rates come with the simultaneous reduction or elimination of concessions, while the reverse is true in a softening market. We see this situation in the CBD today, with this year’s survey revealing a continuation of free rent from last year (although it came late in the year), and an increase in TI allowances.

Historical Perspective

Chart 4: Summary of Seattle CBD Office Face Rental Rate Trends by Building Class, summarizes rental rate trends observed over the last 14 surveys by building class. For comparative purposes, the graphs of individual building classes are also compared to the performance of Post 1980 Class-A product and the market as a whole. Average rental rates found in this report are based on a weighted average calculation to account for differences in building size - larger buildings carry greater weight.

The last twenty years can roughly be broken down into three cycles:

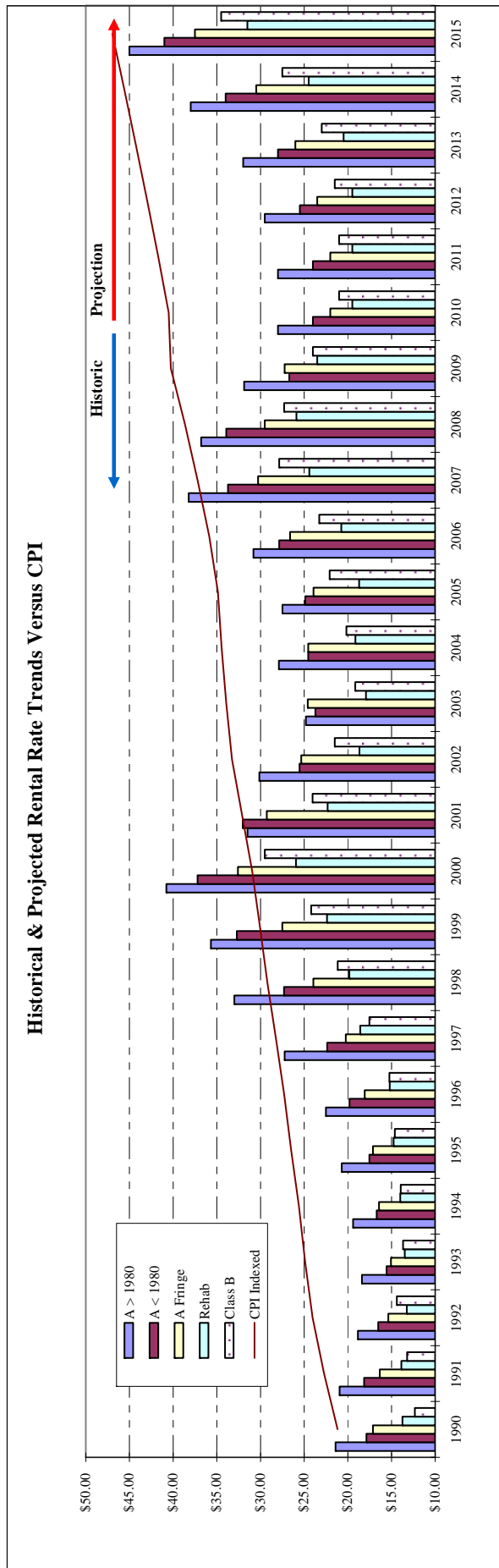
- 1987-1990 growth; 1991-1993 decline; 1994-1995 recovery
- 1997-2000 growth; 2001-2003 decline; 2004-2005 recovery
- 2006-2008 growth; 2009-2011 decline; 2012-2015 (?) recovery

The 2001 bust resulted in a decline in rental rates that well exceeded the approximate 13% decline in the Post 1980 Class between 1990 and 1993. In part this was related to the spectacular ratchet-up in rates experienced in the boom period lying in between these two down-cycles. Between 1997 and 2000, Class-A>80 rates increased 35% in a three-year period; and between 2001 and 2003, a 36% rate decline hit the same class. In 2007, the recovery was also spectacular, with rates 42% above the trough of the market in 2003. And in this cycle the 2009-2011 decline is expected to represent about a 25% to 30% decline.

As noted above, the peaks and troughs of this market are actually higher and lower than indicated as concession packages obviously come into play in tough times, and are stripped away in a strong market. Our research into effective rates suggest as much as a 10% downward adjustment to face rents in soft times is probably appropriate. Concession packages do tend to be front-end loaded, though, facilitating the movement up to higher rents during better times.

CHART 5: Historical & Projected Rental Rate Trends Seattle CBD Office Market

Category	1990 - 2009 Historical Face Rate Trend by Building Class										2010 - 2015 Projection															
	Declining Market					Rising Market					Declining Market		Rising Market													
	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Class A >1980	\$21.41	\$20.95	\$18.85	\$18.38	\$19.41	\$20.70	\$22.52	\$27.23	\$33.00	\$35.67	\$40.77	\$31.47	\$30.13	\$24.79	\$27.90	\$27.49	\$30.80	\$38.22	\$36.78	\$31.86	\$28.00	\$28.00	\$29.50	\$32.00	\$38.00	\$45.00
% Change	2.3%	-2.1%	-10.0%	-2.5%	5.6%	6.6%	8.8%	20.9%	21.2%	8.1%	14.3%	-22.8%	-4.3%	-17.7%	12.5%	-1%	12%	24%	-4%	-13%	-10%	0%	5%	8%	19%	18%
% of A Post 1980	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Class A <1980	\$17.88	\$18.16	\$16.53	\$15.56	\$16.70	\$17.54	\$19.82	\$22.36	\$27.31	\$32.72	\$37.20	\$32.03	\$25.54	\$23.73	\$24.54	\$24.87	\$27.87	\$33.73	\$33.92	\$26.71	\$24.00	\$24.00	\$25.50	\$28.00	\$34.00	\$41.00
% Change	-1.8%	1.6%	-9.0%	-5.9%	7.3%	5.0%	13.0%	12.8%	22.2%	19.8%	13.7%	-13.9%	-20.3%	-7.1%	3.4%	1%	12%	21%	1%	-21%	-10%	0%	6%	10%	21%	21%
% of A Post 1980	84%	87%	88%	85%	86%	85%	88%	82%	83%	92%	91%	102%	85%	96%	88%	90%	90%	88%	92%	84%	86%	86%	86%	88%	88%	91%
Class A Fringe	\$17.13	\$16.33	\$15.37	\$15.06	\$16.43	\$17.14	\$18.08	\$20.24	\$23.96	\$27.50	\$32.59	\$29.29	\$25.33	\$24.59	\$24.54	\$23.93	\$26.60	\$30.28	\$29.51	\$27.24	\$22.00	\$22.00	\$23.50	\$26.00	\$30.50	\$37.50
% Change	6.5%	-4.7%	-5.9%	-2.0%	9.1%	4.3%	5.5%	11.9%	18.4%	14.8%	18.5%	-10.1%	-13.5%	-2.9%	-0.2%	-2%	11%	14%	-3%	-8%	-19%	0%	7%	11%	17%	23%
% of A Post 1980	80%	78%	82%	82%	85%	83%	80%	74%	73%	77%	80%	93%	84%	99%	88%	87%	86%	79%	80%	85%	79%	79%	80%	81%	80%	83%
Class B	\$12.35	\$13.24	\$14.38	\$13.68	\$13.95	\$14.62	\$15.25	\$17.55	\$21.16	\$24.21	\$29.51	\$24.04	\$21.50	\$19.15	\$20.18	\$22.08	\$23.30	\$27.88	\$27.28	\$24.01	\$21.00	\$21.00	\$21.50	\$23.00	\$27.50	\$34.50
% Change	-8.2%	7.2%	8.6%	-4.9%	2.0%	4.8%	4.3%	15.1%	20.6%	14.4%	21.9%	-18.5%	-10.6%	-10.9%	5.4%	9%	5%	20%	-2%	-12%	-13%	0%	2%	7%	20%	25%
% of A Post 1980	58%	63%	76%	74%	72%	71%	68%	64%	64%	68%	72%	76%	71%	77%	72%	80%	76%	73%	74%	75%	75%	75%	73%	72%	72%	77%
Rehab	\$13.77	\$13.88	\$13.26	\$13.50	\$14.00	\$14.77	\$15.22	\$18.58	\$19.84	\$22.40	\$25.94	\$22.31	\$18.68	\$17.92	\$19.14	\$18.70	\$20.76	\$24.42	\$25.90	\$23.49	\$19.50	\$19.50	\$19.50	\$20.50	\$24.50	\$31.50
% Change	-9.1%	0.8%	-4.5%	1.8%	3.7%	5.5%	3.0%	22.1%	6.8%	12.9%	15.8%	-14.0%	-16.3%	-4.1%	6.8%	-2%	11%	18%	6%	-9%	-17%	0%	0%	5%	20%	29%
% of A Post 1980	64%	66%	70%	73%	72%	71%	68%	60%	60%	65%	64%	71%	62%	72%	69%	68%	67%	64%	70%	74%	70%	70%	66%	64%	64%	70%
CPI Indexed	\$21.18	\$22.72	\$24.03	\$24.91	\$25.61	\$26.48	\$27.29	\$28.22	\$29.21	\$30.05	\$30.96	\$32.11	\$33.28	\$33.92	\$34.46	\$34.89	\$35.87	\$37.20	\$38.64	\$40.27	\$40.50	\$41.72	\$42.97	\$44.26	\$45.58	\$46.95
% Change	7.3%	5.8%	3.7%	2.8%	3.0%	3.4%	3.5%	2.9%	3.0%	3.0%	3.0%	3.6%	1.6%	1.6%	1.2%	2.8%	3.7%	3.9%	4.2%	0.6%	3%	3%	3%	3%	3%	3%
% of A Post 1980	99%	108%	127%	136%	132%	128%	121%	104%	88%	84%	76%	102%	110%	137%	124%	127%	116%	97%	105%	126%	145%	149%	146%	138%	120%	104%



Projected Rental Rates

Rental rates will obviously decline this coming year, with the only debate being the magnitude of the decrease. The current question is whether history will repeat itself: Will this market decline be similar to that of the 2001 to 2003 period? If that were to prove to be the case, we would be looking at a total 3-year long cumulative decline of around 35 to 40% in rents, and a reduction in the Class A rate to around \$25/sf (it presently stands at \$32 in the post-1980 class). Based on the extraordinary vacancy losses sustained in 2009, this would seem to be a reasonable projection, although our present forecast allows for some inflation (and new product influence) in the bottom-of-cycle rate, with a **decline forecast to \$28/sf** in the premier Class A market. It is clear that the occupancy losses experienced in the 2001-2003 period will likely be exceeded in this down-cycle, and we therefore anticipate a 4-year declining to flat market (2009-2012), given the continued depressing business climate for employment growth.

With greater occupancy losses, a case can be made for more severe rental declines than in the 2001 to 2003 period. However we are anticipating some maintenance of the historical spread between economic and actual rents. If the lowest rents in an economic cycle are judged by their relative position to economic rents (this indicated by the application of a CPI index to 1990 rents), Class A rates would not be expected to fall below \$30/sf. However they are presently at \$32, and with a 25% vacancy in this Class, a further rental drop of just \$2/sf would likely prove to be optimistic of a forecast.

A four year period of rental declines (or lack of material improvement in rents) would be similar to the early 90's, when the market experienced about 4-years of vacancy in the 15 to 20% range (and a little above). It is a little hard to find a silver lining in this cloud, but experience tells us that lower rents will encourage proactive tenants to lock in expansion space prior to the inevitable return of a growth cycle. And for businesses, 2010 will most likely prove to be one of the best tenant-leasing markets in 20-years.

Historical rental rate trends and projections are outlined in Chart 5: Historical & Projected Rental Rate Trends Seattle CBD Office Market. Average face rents by Class-A buildings are reported together with the percent change from year to year, as well as the percentage relationship to Post 1980 Class-A product. A CPI indexed 1990 average Post 1980 Class-A rent of \$21.18/sf has been added as an additional row in the table and shows up as a trend line in the graph at the bottom of the page. A 1990 \$21.41/sf average rent (this is the Class A figure) roughly reflects the rents necessary to justify new construction at that time. By inflating this rate through the historical reporting period and into the projection period, it provides a point of reference for judging the ability of the market to support new construction. As will be noted, the 1998 to 2000 boom period pushed rates well above this line, which would seem consistent with what we now can call an exaggerated rental market that was only supported by sub-5% occupancy rates.

Obviously any projection involves significant speculation, and more-so when looking to 2011 and beyond. Market cycles can also be self-correcting, inasmuch as significant rental rate declines will in turn increase market occupancy, which will allow for faster market recovery. The interplay of variables creates for a complex picture and difficult forecast.

In conclusion, our projection for next year calls for further declines in rental rates of 10 to 19%, with a 12% loss applicable in the Post 1980 Class A product. A flat rent is forecast for 2011 as the down-cycle stabilizes. The start of market recovery is anticipated in 2012 with fairly mild rental increases forecast for that year, as a growing economy takes hold. This will require strong employment growth in the CBD market. Chart 5 maps out the recovery through 2015, assuming the cycle follows the pattern of previous markets, and the economy starts creating new office employment in 2012.

Projected Supply & Demand

Chart 7: Projected Occupancy Status and Absorption for the Seattle CBD Office Market, provides a baseline forecast for how the Downtown Seattle supply and demand of office space may play out over the next six years, and is presented in the following pages. The projection methods used are discussed below. As with any long-range forecast, the general trends depicted are more important than the specifics of individual projects and events. Issues affecting supply and demand are discussed in turn below. The projections incorporate assumptions regarding regional economic conditions on the demand side, and what is known with regard to current and projected new product availability on the supply side.

Demand

The office market is fundamentally linked to the economy at large through job growth. Projected job growth can be translated into demand for office space based on typical building space use characteristics. This multi-step process is outlined below and begins with an analysis of historical downtown employment and office occupancy for 1980, 1990 and 2000. Decade-end projections are then made for 2010. This information is summarized on Chart 6: Seattle CBD Office Space Demand Analysis, which follows. The ten year “background” projections are then incorporated into a near and mid-term competitive supply and demand schedule for the period 2010 to 2015.

Historical Baseline

The key variables in office market demand analyses are total employment, total office employment, square feet of occupied office space and square feet of occupied office space per employee. These variables are discussed in turn below.

Historical downtown employment figures come from “Population and Employment Forecasts for the Central Puget Sound Region,” published by the Puget Sound Regional Council (PSRC). The PSRC tracks population and employment trends for the Puget Sound by Forecast Area Zone (FAZ). The Seattle CBD is comprised of two FAZ zones and for 1980, 1990 & 2000 total downtown employment is indicated at 113,707, 163,938 and 185,616 respectively.

CHART 6: Seattle CBD Office Space Demand Analysis

Category	Historical Data				Gibbons & Riely
	Total 1980	Total 1990	Total 2000	Total 2009	Projection 2010
Total Employment Seattle CBD/Denny Regrade					
Resources & Construction (01-17)	1,459	2,104	2,382		
Manufacturing (19-39)	5,553	4,792	3,767		
Whol/Tran/Comm/Util (40-42, 44-51)	14,562	20,535	18,316		
Retail Trade (52-59)	16,606	19,868	21,257		
Services (7, 60-67, approx. 70-90)	49,447	86,658	110,015		
Government/Education (43,82,92-97)	<u>26,080</u>	<u>29,981</u>	<u>29,879</u>		
Total Employment	113,707	163,938	185,616	198,765	198,765
Total 10yr Increase	11,845	50,231	21,678	13,149	13,149
Average annual % growth	1.1%	3.7%	1.2%	0.8%	0.7%
Percentage in Purpose Built Office Space (2)					
Resources & Construction (01-17)	36%	36%	36%		
Manufacturing (19-39)	23%	23%	23%		
Whol/Tran/Comm/Util (40-42, 44-51)	37%	37%	37%		
Retail Trade (52-59)	14%	14%	14%		
Services (7, 60-67, approx. 70-90)	67%	67%	67%		
Government/Education (43,82,92-97)	<u>70%</u>	<u>70%</u>	<u>70%</u>		
Percent of Total	54%	56%	57%	57%	57%
Number of Employees in Offices Space					
Resources & Construction (01-17)	525	757	858		
Manufacturing (19-39)	1,277	1,102	866		
Whol/Tran/Comm/Util (40-42, 44-51)	5,359	7,557	6,740		
Retail Trade (52-59)	2,325	2,782	2,976		
Services (7, 60-67, approx. 70-90)	33,228	58,234	73,930	Interim	
Government/Education (43,82,92-97)	<u>18,256</u>	<u>20,987</u>	<u>20,915</u>	Estimate	
Total Number of Office Employees	60,971	91,419	106,286	113,296	113,296
Average annual % growth over past.....	1.1%	4.1%	1.5%	0.7%	0.0%
	10 yrs	10 yrs	10 yrs	9 yrs	1 yrs
Multiplied By Average Employee per SF	226sf	260sf	250sf	250sf	250sf
Total Occupied CBD Office Inventory	13,780,492sf	23,779,061sf	26,571,398sf	28,323,983sf	28,323,983sf
% Total in 50,000sf + Competitive Inventory	75.0%	85.3%	87.5%	85.0%	85.0%
Total Occupied 50,000sf + Competitive Market	10,335,369sf	20,274,506sf	23,245,092sf	24,075,385sf	24,075,385sf
Total Indicated Net Absorption	NA	9,939,137sf	2,970,586sf	830,294sf	0sf
Total Indicated Annual Net Absorption over what period	NA	993,914sf	297,059sf	92,255sf	0sf
		10 yrs	10 yrs	9 yrs	1 yrs
				Absorption for decade	830,294sf
				Avg annual for decade	83,029sf

The next step in an office space demand analysis is to segment office-related employment from total employment. To accomplish this, typical office use ratios are applied to the different types of employment (e.g. resources, manufacturing, retail, and services). The ratios used here are partially based on a study of the Seattle Market area completed by Economic & Planning Systems Inc out of Berkeley, California in 1994. The ratios are calibrated to reflect the fact that while a majority of professional and clerical workers in service and financial industries use office space (typically 67%), managers in the wholesale industry are more likely to conduct activities in warehouse space.

The blended percentage of office-related employment for the Seattle CBD is 54% in 1980, 56% in 1990 and 57% in 2000. The resulting total office-related employment estimates are 60,971, 91,419 and 106,286 respectively. Based on observed trends in CBD occupancy and employment, we have adjusted these percentages to allow for an increasing level of office-related employment as a percentage of total employment figures. A critical step in the demand analysis is linking actual employment to a physical measure of office space. This is accomplished through an average employee density factor, which is simply total occupied office space divided by total office employees. Total occupied office space is retrospectively estimated for both 1980 through 2000. 1980 & 1990 figures are based on historical survey work conducted by Keith Riely and public records, while 2000 figures assume similar occupancy density.

The total CBD office inventory is measured at 13,780,000sf in 1980 and 23,780,000sf in 1990. The average square foot of building space per employee is calculated at 226sf in 1980 and 260sf in 1990. 250sf per employee is assumed for 2000, putting the total office CBD inventory in that year at approximately 26,570,000sf. Historically our survey, which is limited to what we regard as competitive buildings 50,000sf and larger, has encompassed approximately 85% of this total supply in recent years.

These historical relationships between jobs, office space and survey inventory are key in making the future demand projections discussed below. Important variables include our assumption of 250sf of office space per employee, and our assumption that the competitive inventory of 50,000sf buildings will continue to represent about 85% of the total office inventory.

Job Growth Projections

Most historical employment forecasts are now out of date. Given where we are today, the 2000 to 2010 decade will provide an average annual CBD employment growth of just 0.7% per year, which compares to the 1990 to 2000 decade of 1.2%. Employment growth finishing out this decade has been negative of course, canceling a significant amount of the decade's early gains; next year the expectation and hope is that it will be no worse than zero. This calls for a more optimistic forecast than Conway-Pederson's baseline projection of negative 0.8% in 2010, this based on our rationale that the soft CBD market will encourage some relocations to the CBD, increasing the latter's market share of Puget Sound employment.

Assuming office employment then remains flat through year-end 2010, there will be little or no positive or negative absorption next year (see Chart 6). Year-by-year job growth estimates for the period January 1, 2010 through the end of 2015 appear in Chart 7: Projected Occupancy Status and Absorption for the Seattle CBD Office Market.

CHART 7: Projected Occupancy Status and Absorption For The Seattle CBD Office Market

Projected Demand For Downtown Competitive Office Space								
	2009 actual	2010	2011	2012	2013	2014	2015	YE 2015
Total CBD Office Employment	119,290	113,296	113,296	114,995	117,870	121,996	125,656	129,425
% measured	85%	85%	85%	85%	85%	85%	85%	85%
Jan 1 workers in measured inventory	101,397	96,302	96,302	97,746	100,190	103,696	106,807	110,011
Projected Job Growth %	-5.02%	0.00%	1.50%	2.50%	3.50%	3.00%	3.00%	
Projected New Workers Added (@ Year End)	-5,095	0	1,445	2,444	3,507	3,111	3,204	
Required Office Space 250sf/Employee	-1,274,000	0	361,000	611,000	877,000	778,000	801,000	

Historical & Projected Occupancy Status, New Construction and Absorption								
	2009 actual	2010	2011	2012	2013	2014	2015	YE 2015
Total Inventory (as of Jan 1)	29,016,000	31,267,000	31,553,146	31,553,146	31,553,146	31,553,146	31,553,146	31,553,146
Occupied SF	25,349,000	24,075,000	24,075,000	24,436,000	25,047,000	25,924,000	26,702,000	27,503,000
Vacant SF	3,667,000	7,192,000	7,478,146	7,117,146	6,506,146	5,629,146	4,851,146	4,050,146
Occupancy % as of January 1	87.4%	77.0%	76.3%	77.4%	79.4%	82.2%	84.6%	87.2%
Vacancy % as of January 1	12.6%	23.0%	23.7%	22.6%	20.6%	17.8%	15.4%	12.8%
Vacancy % as of December 31	23.0%	23.7%	22.6%	20.6%	17.8%	15.4%	12.8%	
Total Space Absorbed by year end	-1,273,795	0	361,000	611,000	877,000	778,000	801,000	
Cumulative Office Space Absorbed	-1,273,795	0	361,000	972,000	1,849,000	2,627,000	3,428,000	
Running Average Office Space Absorbed		0	180,500	324,000	462,250	525,400	571,333	
New Space Added (by Year End)	2,251,121	286,146	0	0	0	0	0	
Cumulative Office Space Added	2,251,121	286,146	286,146	286,146	286,146	286,146	286,146	
Running Average Office Space Added		286,146	143,073	95,382	71,537	57,229	47,691	

The employment growth forecast is one of the most significant variables. Conway-Pedersen has made the following projections:

	<u>2010</u>	<u>2011</u>	<u>Probability</u>
• Baseline	-0.8%	+1.8%	55%
• Turnaround	+0.3%	+2.3%	25%
• Double-dip Recession	-1.6%	+0.8%	20%

Source: Conway-Pedersen, 12/09

Our forecast charts a course that falls between the baseline and turnaround forecasts (and closer to the former), with zero employment growth in 2010 and 1.5% positive growth in 2010. Thereafter we have allowed for 2.5% in 2012 CBD employment growth, rising to 3.5% in 2013, and then dropping back down to 3% in 2014 and 2015. The latter levels appear optimistic for region-wide employment growth, but the projection here is for downtown, and history tells us that business expansions and relocations to the CBD are responsive to occupancy cost. Perhaps the more sobering thought is that this level of employment growth will be needed to allow the market to stabilize by year-end 2015.

The projections thus assume no growth next year, and then a gain of 1,445 employees in 2011. With the growth forecasts of subsequent years at 2.5 to 3.5%, it will be mid-2013 before total employment matches that in place in January of 2009. Since our survey and analysis covers just the competitive inventory of 50,000sf buildings and above, assumed to be 85% or thereabouts of the total office inventory, the employment levels require adjustment by this figure. This is as noted in Chart 7, which reveals a measured January 1, 2009 employment figure of 101,397 (85% of 119,290), decreasing to this year's actual of 96,302, before rising to a forecast of 110,011 by the end of 2015.

Based on just one remaining building delivery next year, and no new product over the next few years, the overall forecasted gain of CBD employment of about 13,500 will then come close to stabilizing the market in late 2015. If these employment projections prove to be either optimistic or pessimistic, the result will be greater and lesser levels of CBD vacancy.

Forecast Period Office Space Demand & Absorption

Chart 7 reveals how the employment forecast works into a forecast of office demand on a year-by-year analysis. Should the employment forecast for the CBD prove accurate, jobs within the CBD will generate demand for approximately 3,200,000sf of space between 2011 and 2015. This would then suggest the CBD will absorb, on average, 530,000sf for the years 2010 through year-end 2015. This compares to the 1990-2000 performance of 300,000sf/year, and the 1980-1990 performance of 995,000sf per year. Looking at the 2000 to 2010 decade, the overall level of absorption has been very disappointing at about 100,000sf per year, this of course including recent losses of over 1,000,000sf. Up through 2007, the annual average had been 500,000sf per year.

The projections for absorption over the same five-year period are tied directly to the expected increase in office employment growth. In reality the relationship is more complex, of course, as companies will make leasing decisions that may anticipate an expected increase in hiring. This suggests that there is

some inherent flexibility in the 250sf assumption for every office employee, with some tightening of this figure expected during periods of limited office supply, while a softer market may result in companies holding less intensely occupied office space in anticipation of future growth – or simply because current lease contracts do not allow for an immediate space contraction.

As with all forecasts of this nature, it is almost impossible to predict the future course of events with any real degree of accuracy – and certainly not on an incremental time basis. We can merely make reasonable projections of what might be expected to occur.

Supply

Presented on the following page is a summary of potential sources of Seattle CBD office supply for the period 2010 and beyond. This is not likely to be a complete list – and by the same token some of these projects may not be built over this time period. Development proposals tend to run the gamut of speculative to definite, varying from conceptual fancies, to projects with permits and pre-leasing commitments in hand. Despite the surety of the latter, even the most definite of proposals can get waylaid by poor market conditions or higher than expected construction costs. Certainly this has proven to be the case with a number of planned projects that looked to be very certain in late 2007.

The good news is that we have seen the worst of the new deliveries, and their arrival, which coincided with significant employment losses, is measured in the current vacancy statistics. There will be only one new delivery in the CBD proper in 2010, that of 505 First (Starbucks), which will be delivered early in the year. Additional proposals that have not yet broken ground total over 3,000,000sf, but these are now placed in a “to-be-decided” category given the market downtown. The only reasonable circumstance under which any of these projects would move forward is with a build-to-suit proposal. Given where rental rates are today, that is extremely unlikely.

Development activity outside the boundaries of this survey will of course also impact the Central Business District, and a significant amount of new construction is on-going and planned for the South Lake Union market, including some 1,600,000sf in a new Amazon campus (see our South Lake Union Survey). While much of that space may be theoretically pre-committed, Amazon will be vacating space within the core (180,000sf) and on the fringe of the core (690,000sf) as they take occupancy in their new headquarters. This vacancy will essentially also become additional new supply that the CBD & fringe market will need to absorb. In addition the fortunes of north-end, south-end and east-side markets will all have various ripple effects on the CBD; and the reverse is also true.

Future Occupancy & Rental Rate Trends

At the projected demand and supply levels, the CBD vacancy rate is expected to climb to about 24% by the end of 2010, reflecting a flat employment picture and one new office addition. It will remain above 20% through 2012. However a stabilizing and improving economy in 2012-2014 should allow us to re-achieve market equilibrium by the end of 2015. The four-year projected period of decline and stabilization followed by a four-year recovery follows a similar course of events mapped out in the two previous down-markets.

These projections factor into the forecast of rental performance shown in Chart 5. High vacancy in 2010 will cause rental rates to decline this year, and the overall forecast for the Class A market is for an overall peak (2007) to trough (2011) decline of 27%, with a slow recovery expected in 2012 followed by double-digit recovery as we approach the middle of the decade. From peak to trough, the decline forecast made here compares to Seattle's history as follows:

Post 1980 Class A: Peak to Trough Losses, past down-cycles, and current forecast

- **1991-1993 decline:** \$21.41/sf¹ to \$18.38/sf = **Negative 14%** to 74% of economic rent
- **2001-2003 decline:** \$40.77/sf² to \$24.79/sf = **Negative 39%** to 73% of economic rent
- **2008-2011 decline:** \$38.22/sf³ to \$28.00/sf = **Negative 27%** to 68% of economic rent

Summary & Conclusion

A deepening recession and the delivery of new product have created a 20-year high vacancy in the CBD at 23%. With very little remaining supply under construction and some signs the worst of the recession is over, the vacancy level is not expected to get much worse. The vacancy losses have come swiftly though, and the hangover will cause rental rates to continue to decline this year, with the forecast being for an additional 12% decline in the Post-1980 Class A product rentals in 2010, before bottoming out in 2011. Our forecast indicates CBD vacancy will remain above 20% going into 2012, and will thereafter follow a path of recovery through to the end of 2015.

The course of events that will play out in the 2011 to 2015 time period will depend on a multitude of factors, with employment growth (and therefore regional and national economic conditions) being the key to market recovery. Our mid-course scenario suggests a 4-year downturn (2008-2011), with a 4-year recovery (2012-2015), which calls for a similar cycle duration and similar peak-to-trough losses and trough-to-peak gains as were experienced during the past two cycles.

¹ 1990 Peak

² 2000 Peak

³ 2007 Peak

EXHIBIT 9: Seattle Central Business District Office Building Occupancy and Rental Survey as of December 31, 2009

Building Description			Occupancy Statistics						Rental Rates			
Name of Building	Vintage	Stories	Office Rentable	Office Leased	Office Occupied	Office Unoccupied Leased	Office Unoccupied Unleased	Office % Occupied	Office % Leased	Office - Face Rents \$/sf/yr		
										Low	High	Average
Pre-1980 Class A Office Buildings												
1015 3rd Ave Bldg-Expeditors (Ren 1998)*	1954	13	202,630									
Norton Building (Ren. 1983)	1959	17	247,161									
Puget Sound Plaza	1960	21	260,923									
IBM Building	1964	20	214,620									
1001 Fourth Avenue Plaza	1969	50	731,510									
Plaza 600 Building	1969	20	209,256									
Pacific Building	1970	23	125,708									
Park Place Building	1971	21	314,591									
Abraham Lincoln Building	1972	14	131,557									
Financial Center	1973	27	325,719									
901 Fifth Avenue Building	1973	42	540,006									
Rainier Tower	1977	40	538,529									
2009 Totals/Averages Pre-1980 Class A Buildings			3,842,210	3,134,060	3,134,060	0	708,150	81.6%	81.6%	\$24.49	\$28.93	\$26.71
2008 Totals/Averages			<u>3,834,120</u>	<u>3,102,096</u>	<u>3,001,820</u>	<u>100,276</u>	<u>732,024</u>	<u>78.3%</u>	<u>80.9%</u>	<u>\$31.06</u>	<u>\$36.78</u>	<u>\$33.92</u>
Yearly Differential:			8,090	31,964	132,240	(100,276)	(23,874)	3.3%	0.7%	(\$6.57)	(\$7.85)	(\$7.21)
Post-1980 Class A Office Buildings												
Eleven-Eleven Third Avenue	1980	34	554,915									
720 Olive Way (Marsh & McLennan)	1981	19	291,939									
Bank of America Fifth Avenue Plaza	1981	42	887,431									
One Union Square	1981	36	657,531									
Westin Building	1981	34	383,351									
520 Pike Tower	1983	29	362,696									
Wells Fargo Center	1983	48	945,766									
Waterfront Place	1983	13	162,422									
Watermark Tower	1983	22	59,936									
Columbia Center (formerly Bank of Am. Tower)	1985	76	1,468,584									
Washington Federal Building	1984	6	77,423									
Century Square	1986	30	676,294									
1000 2nd Avenue Building	1987	43	433,706									
First & Stewart Building	1987	12	87,614									
Westlake Center	1988	18	259,060									
1201 Third	1988	55	1,078,422									
Two Union Square	1989	56	1,126,428									
US Bank Centre	1989	44	833,251									
Seattle Municipal Tower	1990	62	1,023,725									
2nd & Seneca Building	1991	22	422,420									
1700 7th Avenue	2001	24	491,142									
Fourth & Madison (IDX)	2002	40	845,533									
Millennium Tower	2001	20	199,076									
One Convention Place	2000	22	309,400									
World Trade Center East Building	1999	6	186,117									
Russell Investments Center	2006	42	890,000									
SAM Office Condominium	2006	12	238,000									
818 Stewart Street	2008	14	234,619									
2201 Westlake	2009	12	293,229									
Fifth & Yesler	2009	17	263,716									
West 8th	2009	28	474,000									
1918 8th Street	2009	36	665,000									
2009 Totals/Averages Post 1980 Class A Buildings			16,882,746	12,681,757	12,627,410	54,347	4,285,071	74.8%	75.1%	\$28.03	\$35.70	\$31.86
2008 Totals/Averages			<u>15,169,377</u>	<u>13,849,538</u>	<u>13,616,540</u>	<u>232,998</u>	<u>1,319,839</u>	<u>89.8%</u>	<u>91.3%</u>	<u>\$33.29</u>	<u>\$40.27</u>	<u>\$36.78</u>
Yearly Differential:	0		1,713,369	(1,167,781)	(989,130)	(178,651)	2,965,232	-15.0%	-16.2%	(\$5.26)	(\$4.57)	(\$4.91)
2009 Totals/Averages Class A Buildings			20,724,956	15,731,735	15,677,388	54,347	4,993,221	75.6%	75.9%	\$27.36	\$34.41	\$30.89
2008 Totals/Averages			<u>19,003,497</u>	<u>16,951,634</u>	<u>16,618,360</u>	<u>333,274</u>	<u>2,051,863</u>	<u>87.4%</u>	<u>89.2%</u>	<u>\$32.85</u>	<u>\$39.58</u>	<u>\$36.22</u>
Yearly Differential:	0		1,721,459	(1,219,899)	(940,972)	(278,927)	2,941,358	-11.8%	-13.3%	(\$5.49)	(\$5.17)	(\$5.33)
Class A Fringe Buildings (AF)		0										
Sixth & Lenora Building	1963	11	141,132									
Denny Building	1968	12	163,656									
Fourth & Vine Building	1975	8	123,445									
Fourth & Battery Building	1978	12	198,314									
Fourth & Blanchard	1979	25	405,960									
Elliott Bay Office Park	1980	5	225,616									
Metropolitan Park West (I) Tower	1980	18	336,041									
Queen Anne Square	1980	4	151,185									
Market Place One & Two	1981	7	109,941									
Bay Vista Building	1981	5	101,615									
Third & Broad Building	1982	6	275,745									
Blanchard Plaza	1982	15	243,206									
3101 Western Bldg	1984	8	187,075									
3131 Elliott Avenue Building	1986	11	189,843									
101 Elliott Building (formerly PI Bldg)	1986	5	101,738									
Olympic Block	1986	6	61,713									
Market Place Tower	1988	12	189,202									
Metropolitan Park East (II) Tower	1988	20	360,460									
2505 2nd Ave Bldg (Legacy Center)	1989	7	65,309									
1800 Ninth Avenue Building	1990	16	305,575									
333 Elliott Avenue	2008	5	137,201									
635-645 Elliott Ave W	2009	4	330,858									
7th & Madison	2009	9	204,668									
Metropolitan Park North (III) Tower	2001	11	136,573									
5th & Bell Building	2002	0	197,135									
World Trade Center North Building	2000	5	133,177									
World Trade Center East	1998	4	67,907									
2009 Totals/Averages Class A Fringe Buildings			5,144,290	4,124,661	4,095,031	29,630	1,019,629	79.6%	80.2%	\$25.63	\$28.85	\$27.24
2008 Totals/Averages			<u>4,610,032</u>	<u>4,161,947</u>	<u>4,116,694</u>	<u>45,253</u>	<u>448,085</u>	<u>89.3%</u>	<u>90.3%</u>	<u>\$27.98</u>	<u>\$31.03</u>	<u>\$29.51</u>
Yearly Differential:			534,258	(37,286)	(21,663)	(15,623)	571,544	-9.7%	-10.1%	(\$2.35)	(\$2.18)	(\$2.27)

Class B Office Buildings															
Colman Building (Ren. 1982)	1904	6	100,235												
Harold Poll Building	1906	6	47,503												
Central Building (deleted building)	1908	8	150,327												
(Joshua Green moved to Renovated)															
Maritime Building	1910	5	145,000												
Broadacres Building (Ren. 1986)	1914	10	78,000												
Smith Tower (Ren. 1986)	1914	42	254,886												
Times Square Building (Ren. 1982)	1916	6	49,541												
Securities Building	1918	10	175,678												
Second & Spring Building	1921	5	130,421												
Dexter Horton Building	1923	14	312,334												
Terminal Sales Building	1925	11	75,732												
Skinner Building	1926	8	124,642												
Fourth & Pike Building (Ren 2009)	1927	10	99,941												
Exchange Building (deleted building)	1928	22	288,522												
Joseph Vance Building	1929	14	102,956												
Fourteen-Eleven Fourth Avenue Building	1929	15	108,582												
Seattle Tower	1929	27	151,412												
Olympic Tower (Ren. 1981)	1930	13	75,800												
Tower Building (Ren. 1963)	1930	17	142,041												
205 Columbia Building*	1921	4	51,338												
Medical-Dental Building (Ren. 1981)	1951	19	272,059												
Logan Building	1959	10	98,460												
1st Cedar Building	1975	5	43,387												
Seaboard Building	1,910	10	45,120												
2009 Totals/Averages Class B Buildings			3,123,917	2,514,302	2,505,789	8,513	609,615	80.2%	80.5%	\$22.13	\$25.89	\$24.01			
2008 Totals/Averages			<u>3,200,369</u>	<u>2,763,014</u>	<u>2,755,113</u>	<u>7,901</u>	<u>437,355</u>	<u>86.1%</u>	<u>86.3%</u>	<u>\$24.78</u>	<u>\$29.77</u>	<u>\$27.28</u>			
Yearly Differential:			(76,452)	(248,712)	(249,324)	612	172,260	-5.9%	-5.8%	(\$2.65)	(\$3.88)	(\$3.27)			
Renovated Office Buildings															
Broderick Building (Ren. 1986)	1889	6	71,954												
Grand Central on the Park (Ren. 1972)	1890	4	53,646												
Globe Building (Ren. 1979)	1890	4	40,000												
Mutual Life Building (Ren. 1983)	1890	6	46,000												
Heritage Building (Ren. 1982)	1901	5	65,090												
Westland Building (Ren. 1979)	1901	6	60,000												
Occidental Mall (Ren. 1986)	1901	5	91,308												
FX McRory's	1902	6	74,946												
Joshua Green Building (Ren 2009)	1910	10	88,709												
Union Trust/Annex (Ren. 1985)	1902	6	21,933												
Merrill Place (Ren. 1984)	1904	7	148,660												
National Building (Ren. 1982)	1904	6	111,579												
1201 Western Building (Ren. 1986)	1910	7	89,553												
Hoge Building	1911	17	85,257												
51 University Street*	1920	6	74,320												
Kress Building (Ren. 1982)	1925	3	45,197												
Melbourne Tower (Ren. 1984)	1927	10	89,936												
Gibraltar Tower (formerly Century) (Ren. 1980)	1927	8	36,837												
MiKen Building (Ren. 1982)	1929	8	48,000												
Seattle Trade & Technology Center (1998)	1977	5	331,896												
Eighty-Three King Street	1984	8	200,363												
Elliott Park**	1984	5	154,341												
Court in the Square-Goldsmith (deleted building)	1984	7	114,579												
0	0	0	0												
Trianon Building	1985	3	49,982												
Galland & Seneca Building (Ren. 1985)	1985	6	80,184												
2009 Totals/Averages Renovated Buildings			2,274,270	1,823,894	1,797,177	26,717	450,376	79.0%	80.2%	\$21.36	\$24.99	\$23.49			
2008 Totals/Averages			<u>2,202,414</u>	<u>1,874,576</u>	<u>1,859,013</u>	<u>17,063</u>	<u>326,338</u>	<u>84.4%</u>	<u>85.1%</u>	<u>\$23.89</u>	<u>\$27.50</u>	<u>\$25.90</u>			
Yearly Differential:			71,856	(50,682)	(61,836)	9,654	124,038	-5.4%	-4.9%	(\$2.53)	(\$2.52)	(\$2.41)			
2009 Totals/Averages CBD Buildings															
2008 Totals/Averages			<u>31,267,433</u>	<u>24,194,592</u>	<u>24,075,385</u>	<u>119,207</u>	<u>7,072,841</u>	<u>77.0%</u>	<u>77.4%</u>	<u>\$26.10</u>	<u>\$31.92</u>	<u>\$29.03</u>			
Yearly Differential:			2,251,121	(1,556,579)	(1,273,795)	(284,284)	3,809,200	-10.4%	-11.4%	(\$4.40)	(\$4.29)	(\$4.33)			