



Eastside Office Market Overview

Year End 2011

Eastside Office Market Reports and Statistics Enclosed



COMMERCIAL REAL ESTATE SERVICES

EASTSIDE MARKET OVERVIEW

Year End 2011

The Eastside office market is still very much recovering, and is still considered a “Tenant’s” market. While it may be hard to believe, the time is now to initiate new construction on the Eastside.

The overall vacancy rate at the close of 2011 was 14.8% and conservative projections have the Eastside vacancy rate at 8.4% by year end 2015 (see related data and graphs). However, within this vacancy, there are only three (3) options that can accommodate a 100,000 RSF tenant on the Eastside, and none that can accommodate a 150,000 RSF requirement. As tech tenants again start to expand on the Eastside, the larger blocks of space (2 contiguous floors or more) will be gone, setting into motion rental rate spikes for Class A quality contiguous space.

In past years suburban office building construction with surface parking could be brought to market quickly (18 to 24 months) to meet office demand. Today, with few quality suburban construction sites available and expensive land prices that require subterranean parking, the bulk of future development will occur in downtown Bellevue where there is plenty of underutilized land waiting to be developed. Additionally, the typical Eastside office tenant has matured and places a higher value on quality construction, proximity to mass transit, and immediate access to retail and restaurants for employees. Based on a three (3) year average construction time to permit, excavate a multi-level subterranean

garage, and then go up 30 stories, now is the time to initiate new construction on two to three high-rises for downtown Bellevue to meet future tenant demand.

In the interim, Summitt III (Bentall) in downtown Bellevue sits in the catbird seat as the only quality office project that can deliver any significant space (320,000 RSF) in the next two to three years.

Historically the Eastside market has trailed the greater San Francisco market by one to two years. If this remains true, the Eastside can expect sharp rental rate increases and competition for the best spaces in 2013-2015. Competition will be heightened by Bay Area tenants looking to relocate to the greater Seattle market for office space that offers a new hiring pool of educated employees and less expensive space (examples Facebook, Ebay, VMware, ServiceNow).

Expect a steady recovery in the Eastside Office Market in 2012, and coupled with a constrained supply, expect rental rates spiking in 2013-2016 until enough new construction is delivered to meet demand.



EASTSIDE MARKET OVERVIEW

YEAR END 2011

Eastside Office Market Overview

Historical Summary 2000 - 2011

Forecast 2012 - 2016

Year	Avg. Gross Rental Rate	Year-End Inventory	New Construction	Vacant Square Feet	Net Absorption	Vacancy Rate	Annual Growth
2001	\$27.01	27,316,144	1,713,863	4,374,464	(1,358,810)	16.0%	-5.0%
2002	\$22.57	28,301,665	985,521	5,265,871	94,114	18.6%	0.3%
2003	\$22.84	28,409,442	107,777	4,940,482	433,166	17.4%	1.5%
2004	\$23.06	28,441,793	32,351	4,511,863	460,970	15.9%	1.6%
2005	\$23.48	28,441,793	0	2,921,344	1,590,519	10.3%	5.6%
2006	\$28.08	28,490,591	48,798	2,521,824	448,318	8.9%	1.6%
2007	\$32.17	29,458,777	968,186	2,770,949	719,061	9.4%	2.4%
2008	\$32.48	31,201,831	1,743,054	4,160,280	353,723	13.3%	1.1%
2009	\$28.20	32,800,571	1,598,740	5,448,117	310,903	16.6%	0.9%
2010	\$27.98	33,141,936	341,365	5,585,008	204,474	16.9%	0.6%
2011	\$27.82	33,374,176	232,240	4,926,852	896,156	14.8%	2.7%
Projected - End of Year							
2012	\$28.93	33,430,176	56,000	4,282,852	700,000	12.8%	2.1%
2013	\$30.38	33,430,176	0	3,632,852	650,000	10.9%	1.9%
2014	\$32.51	33,876,976	446,800	3,229,652	850,000	9.5%	2.5%
2015	\$34.46	34,115,757	238,781	2,868,433	600,000	8.4%	1.8%
2016	\$35.83	34,900,757	785,000	2,803,433	850,000	8.0%	2.4%
Summary 2012-2016			Total	Average	Total	Average	Average
			1,526,581	3,363,444	3,650,000	9.9%	2.1%

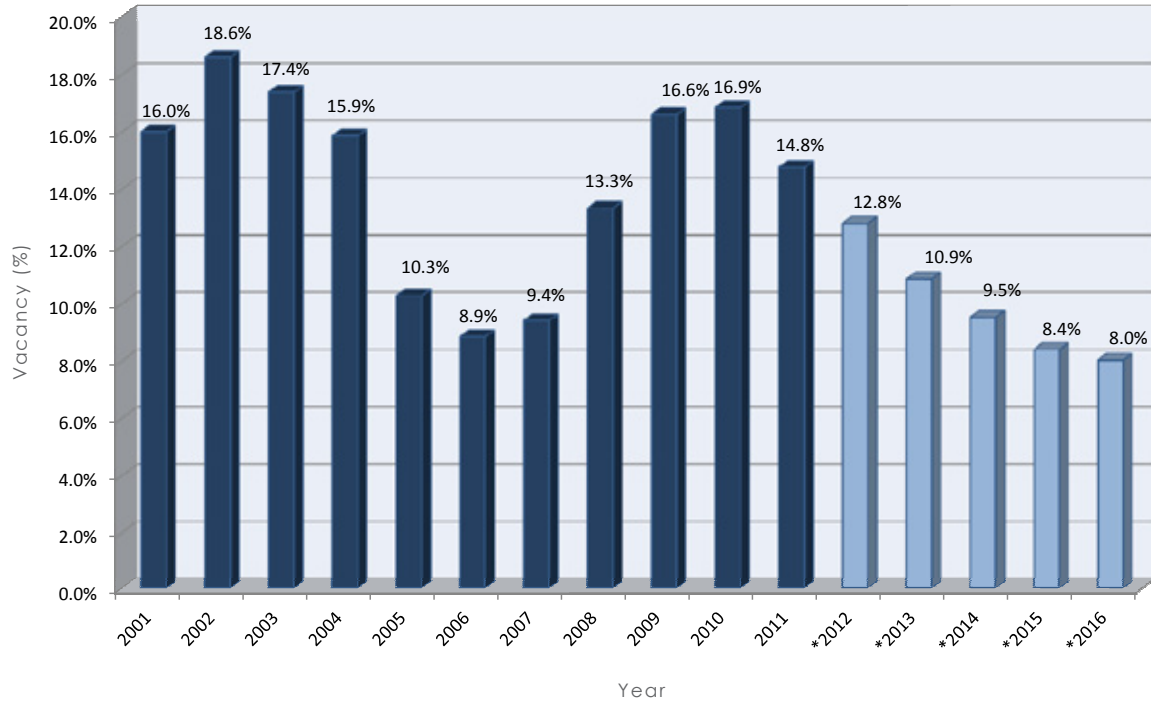
Notes:

- 1 Year end inventory, Eastside (including Issaquah/E King County), Class A&B office, 10,000 SF and greater buildings (CoStar). Excludes owner/user buildings
- 2 Vacant square feet and total absorption statistics provided by CoStar. Includes direct and sublease space.
- 3 New supply 2012-2016 is product of known projects and estimated probability of completion/financing based on average vacancy of 2 years (BGI)
- 4 All data are from end of the year specified.
- 5 Annual growth is net absorption divided by inventory.
- 6 Data from January 10, 2012 (Year End Report).

Eastside Office Market

Vacancy Percentage, 2001 - 2016

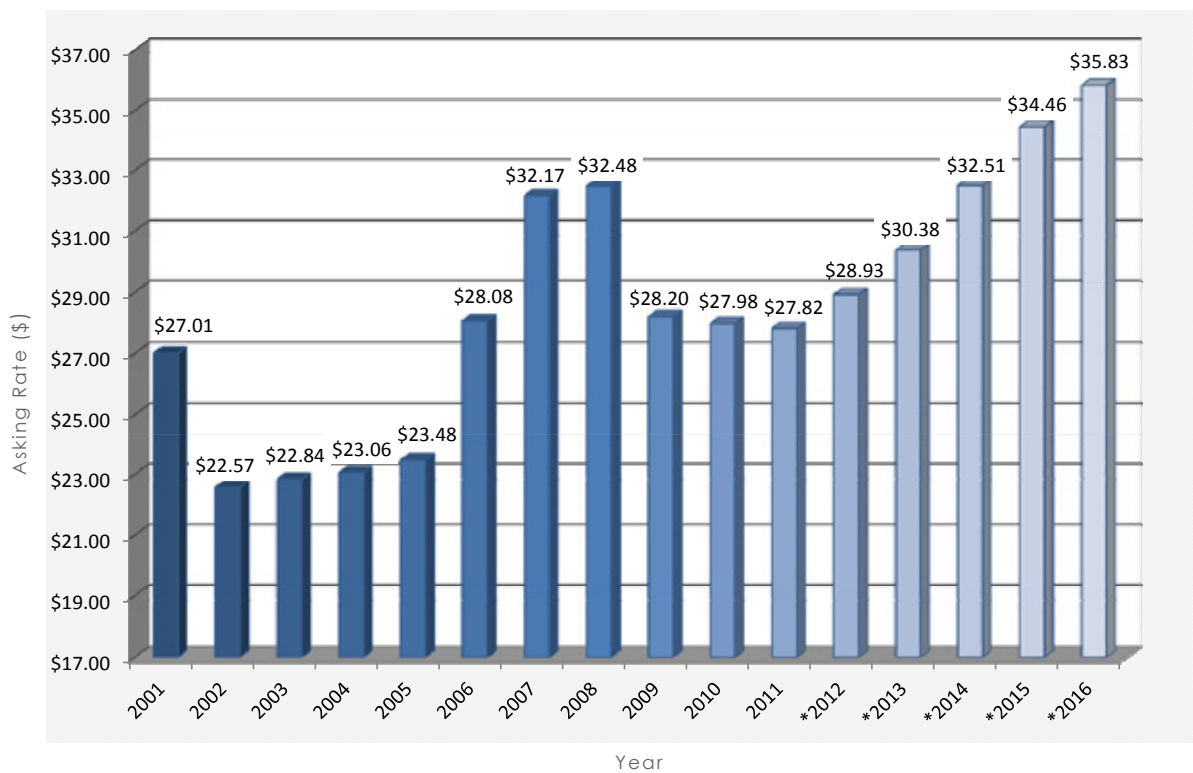
(* Projected)



Eastside Office Market

Average Gross Rental Rates, 2001 - 2016

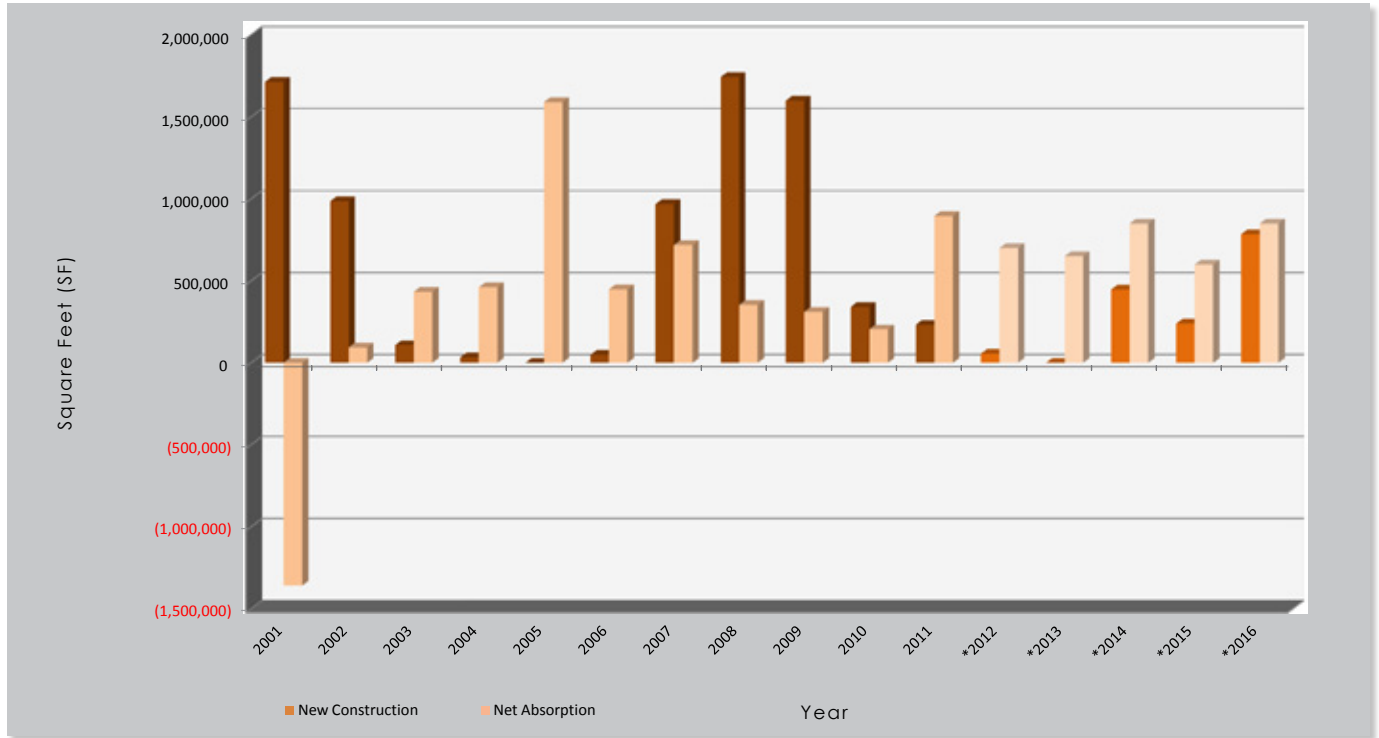
(* Projected)



Eastside Office Market

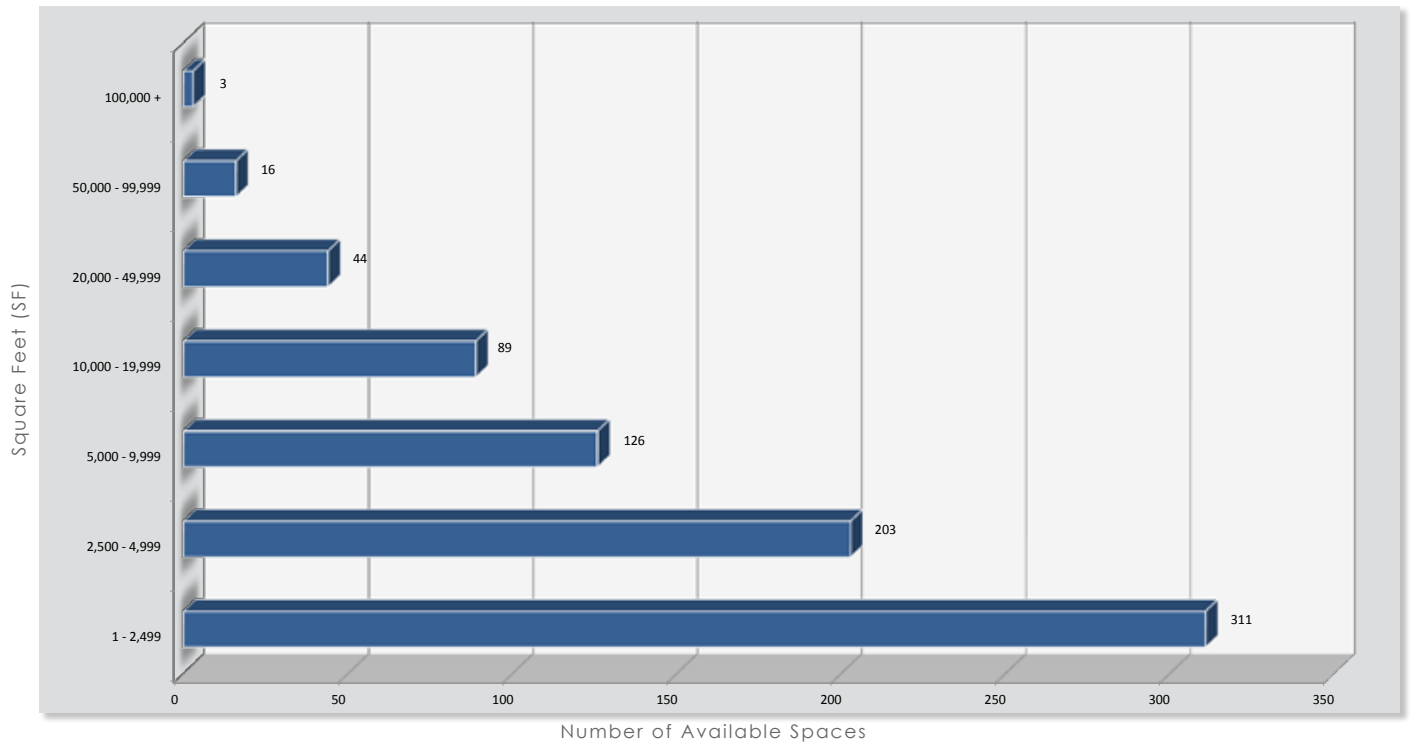
New Construction vs. Net Absorption, 2001 - 2016

(* Projected)



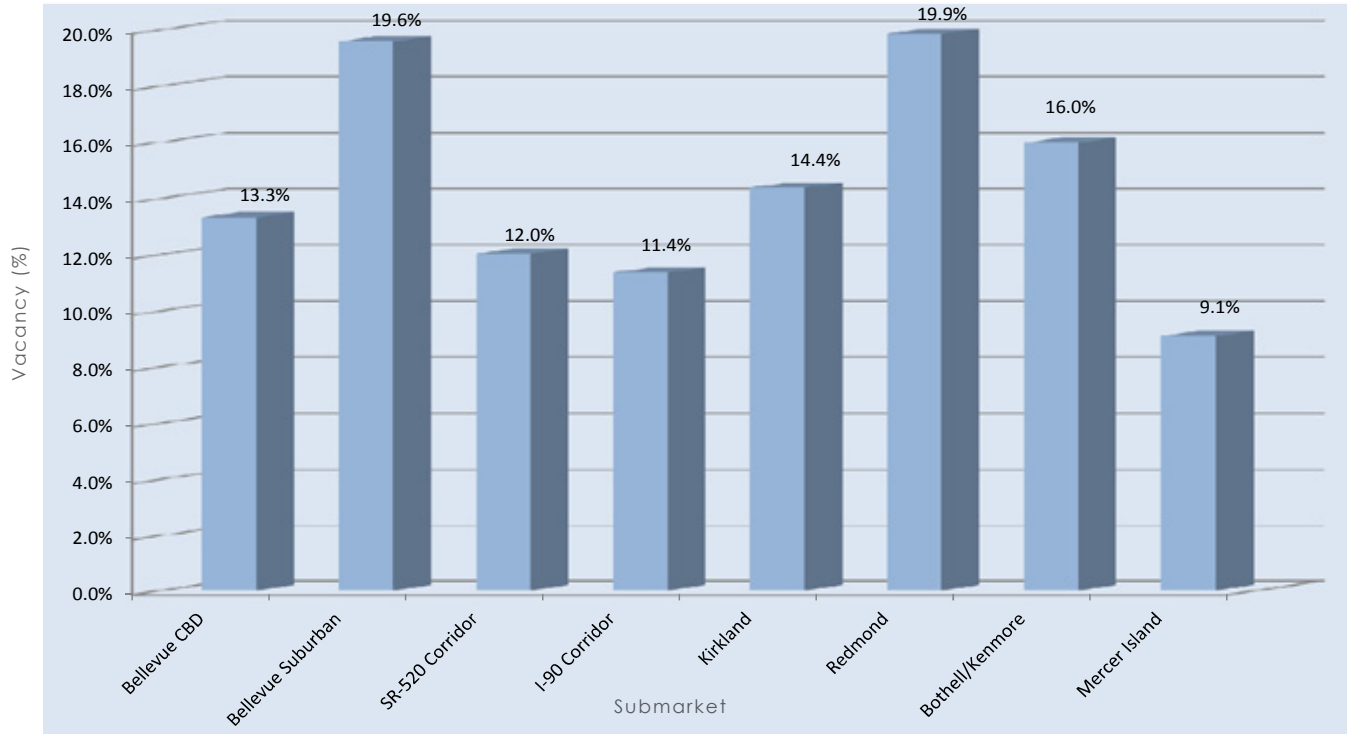
Eastside Office Market

Contiguous Blocks of Space



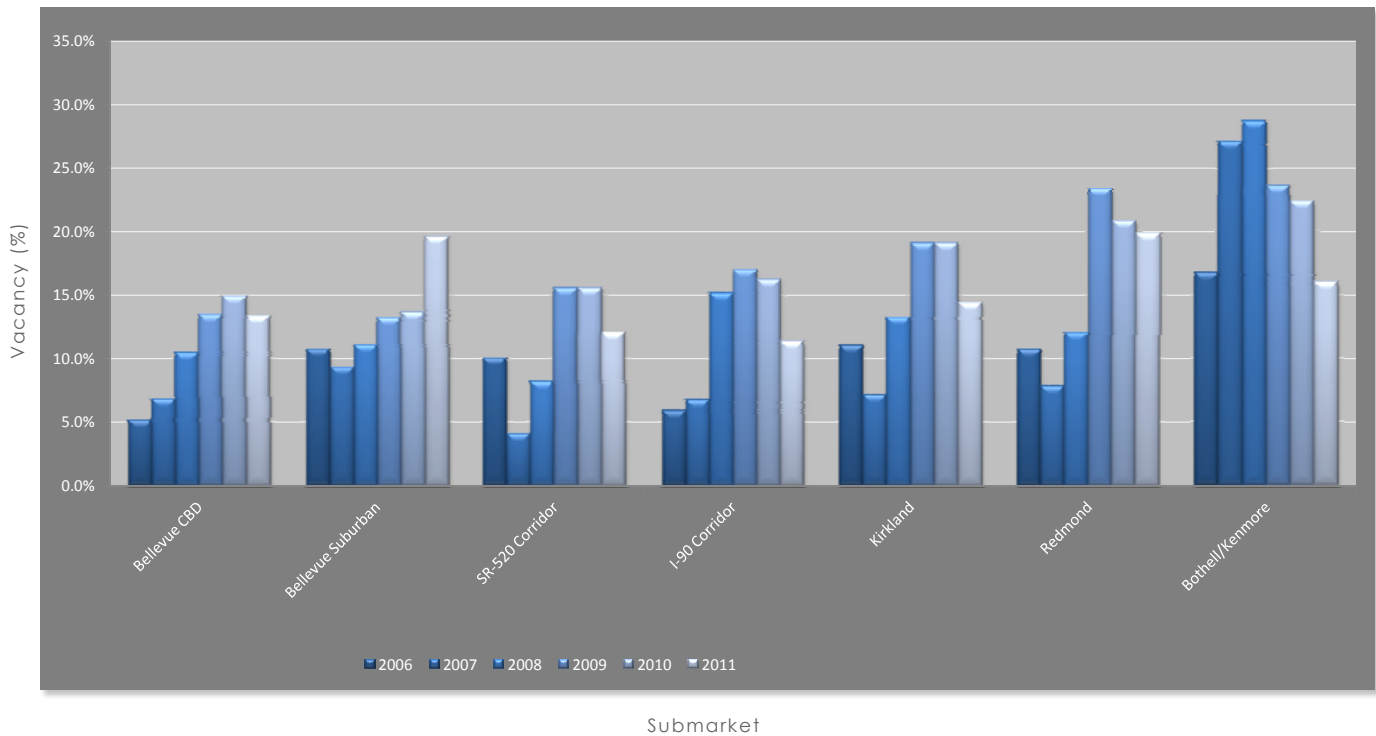
Eastside Office Market (Current)

Vacancy by Submarket



Eastside Office Market (Historical)

Vacancy Percentage by Submarket, 2006 - 2011



Eastside Submarket Historical Overview -- 2000 - Present

BELLEVUE CBD

Year	Avg. Gross Rental Rate	Year-End Inventory	New Construction	Vacant Square Feet	Net Absorption (Year End)	Vacancy Rate	Annual Growth
2000	\$36.69	4,678,319	477,899	315,398	352,457	6.7%	7.5%
2001	\$29.33	5,467,246	788,927	1,285,192	(180,867)	23.5%	-3.3%
2002	\$23.07	6,000,878	533,632	1,346,350	472,474	22.4%	7.9%
2003	\$26.88	6,000,878	0	1,244,015	102,335	20.7%	1.7%
2004	\$28.49	6,000,878	0	977,203	266,812	16.3%	4.4%
2005	\$28.35	6,000,878	0	570,599	406,604	9.5%	6.8%
2006	\$32.54	6,000,878	0	308,124	262,475	5.1%	4.4%
2007	\$38.12	6,540,878	540,000	443,867	404,257	6.8%	6.2%
2008	\$39.33	6,955,842	414,964	726,094	132,737	10.4%	1.9%
2009	\$35.32	8,287,021	1,331,179	1,111,276	945,997	13.4%	11.4%
2010	\$32.86	8,287,021	0	1,230,055	(118,779)	14.8%	-1.4%
2011	\$32.15	8,287,021	0	1,104,278	125,777	13.3%	1.5%



BELLEVUE SUBURBAN

Year	Avg. Gross Rental Rate	Year-End Inventory	New Construction	Vacant Square Feet	Net Absorption (Year End)	Vacancy Rate	Annual Growth
2000	\$31.09	3,369,871	419,409	221,812	47,090	6.6%	1.4%
2001	\$24.74	3,438,290	68,419	519,987	(229,756)	15.1%	-6.7%
2002	\$21.30	3,438,290	0	591,672	(71,685)	17.2%	-2.1%
2003	\$20.50	3,438,290	0	471,770	119,902	13.7%	3.5%
2004	\$19.82	3,438,290	0	389,170	85,600	11.3%	2.5%
2005	\$21.58	3,438,290	0	253,921	132,249	7.4%	3.8%
2006	\$25.44	3,472,088	33,798	373,446	(85,727)	10.8%	-2.5%
2007	\$30.30	3,472,088	0	323,037	50,409	9.3%	1.5%
2008	\$30.77	3,515,422	43,334	389,017	(22,646)	11.1%	-0.6%
2009	\$26.91	3,533,164	17,742	466,367	(59,608)	13.2%	-1.7%
2010	\$29.64	3,577,164	44,000	488,545	21,822	13.7%	0.6%
2011	\$29.52	3,767,164	190,000	737,908	(59,365)	19.6%	-1.6%



SR-520 CORRIDOR

Year	Avg. Gross Rental Rate	Year-End Inventory	New Construction	Vacant Square Feet	Net Absorption (Year End)	Vacancy Rate	Annual Growth
2000	\$32.02	2,008,138	87,353	81,015	32,046	4.0%	1.6%
2001	\$24.73	2,043,050	34,912	281,976	(166,049)	13.8%	-8.1%
2002	\$20.58	2,254,781	211,731	329,738	163,969	14.6%	7.3%
2003	\$19.40	2,254,781	0	319,700	10,038	14.2%	0.4%
2004	\$19.56	2,254,781	0	336,775	(17,075)	14.9%	-0.8%
2005	\$20.23	2,254,781	0	326,337	10,438	14.5%	0.5%
2006	\$23.37	2,254,781	0	227,087	99,250	10.1%	4.4%
2007	\$28.93	2,254,781	0	91,371	135,716	4.1%	6.0%
2008	\$28.97	2,254,781	0	184,124	(92,753)	8.2%	-4.1%
2009	\$26.87	2,254,781	0	350,069	(165,945)	15.5%	-7.4%
2010	\$25.17	2,254,781	0	350,198	(129)	15.5%	0.0%
2011	\$23.67	2,254,781	0	271,149	79,049	12.0%	3.5%



I-90 CORRIDOR

Year	Avg. Gross Rental Rate	Year-End Inventory	New Construction	Vacant Square Feet	Net Absorption (Year End)	Vacancy Rate	Annual Growth
2000	\$33.65	3,707,976	424,983	99,564	205,171	2.7%	5.5%
2001	\$25.74	3,879,034	171,058	687,288	(416,666)	17.7%	-10.7%
2002	\$20.79	3,879,034	0	583,297	103,991	15.0%	2.7%
2003	\$21.60	3,879,034	0	668,844	(85,544)	17.2%	-2.2%
2004	\$21.82	3,879,034	0	552,322	116,522	14.2%	3.0%
2005	\$23.22	3,879,034	0	354,484	197,838	9.1%	5.1%
2006	\$30.01	3,879,034	0	228,291	126,193	5.9%	3.3%
2007	\$34.61	3,928,990	49,956	265,017	13,230	6.7%	0.3%
2008	\$35.50	4,591,451	662,461	696,702	230,776	15.2%	5.0%
2009	\$31.04	4,591,451	0	781,824	(85,122)	17.0%	-1.9%
2010	\$30.37	4,756,771	165,320	771,320	175,824	16.2%	3.7%
2011	\$29.78	4,756,771	0	539,945	231,375	11.4%	4.9%



Eastside Submarket Historical Overview -- 2000 - Present (continued)

KIRKLAND							
Year	Avg. Gross Rental Rate	Year-End Inventory	New Construction	Vacant Square Feet	Net Absorption (Year End)	Vacancy Rate	Annual Growth
2000	\$34.64	3,267,752	242,506	42,366	69,978	1.3%	2.1%
2001	\$27.47	3,329,203	61,451	425,041	(321,524)	12.8%	-9.7%
2002	\$23.84	3,441,114	111,911	654,130	(117,178)	19.0%	-3.4%
2003	\$21.36	3,498,459	57,345	646,525	64,950	18.5%	1.9%
2004	\$22.40	3,498,459	0	502,401	144,124	14.4%	4.1%
2005	\$24.37	3,498,459	0	263,889	238,512	7.5%	6.8%
2006	\$28.66	3,498,459	0	385,174	(121,285)	11.0%	-3.5%
2007	\$31.28	3,498,459	0	249,081	136,093	7.1%	3.9%
2008	\$33.03	3,767,159	268,700	499,202	18,579	13.3%	0.5%
2009	\$27.63	3,830,125	62,966	729,663	(167,495)	19.1%	-4.4%
2010	\$27.43	3,830,125	0	730,819	(1,156)	19.1%	0.0%
2011	\$27.51	3,830,125	0	550,609	180,210	14.4%	4.7%

REDMOND							
Year	Avg. Gross Rental Rate	Year-End Inventory	New Construction	Vacant Square Feet	Net Absorption (Year End)	Vacancy Rate	Annual Growth
2000	\$22.66	3,318,976	827,611	85,727	876,515	2.6%	26.4%
2001	\$26.67	3,342,976	24,000	242,834	(133,107)	7.3%	-4.0%
2002	\$22.05	3,393,352	50,376	472,788	(179,578)	13.9%	-5.3%
2003	\$19.72	3,393,352	0	548,546	(75,758)	16.2%	-2.2%
2004	\$18.48	3,393,352	0	823,843	(275,297)	24.3%	-8.1%
2005	\$19.12	3,393,352	0	516,276	307,567	15.2%	9.1%
2006	\$21.50	3,393,352	0	362,987	153,289	10.7%	4.5%
2007	\$28.81	3,393,352	0	264,879	98,108	7.8%	2.9%
2008	\$28.71	3,600,611	207,259	432,876	39,262	12.0%	1.1%
2009	\$24.91	3,670,035	69,424	858,148	(355,870)	23.4%	-9.7%
2010	\$23.71	3,756,035	86,000	781,562	162,586	20.8%	4.3%
2011	\$24.42	3,798,275	42,240	754,093	75,469	19.9%	2.0%

BOTHELL / KENMORE							
Year	Avg. Gross Rental Rate	Year-End Inventory	New Construction	Vacant Square Feet	Net Absorption (Year End)	Vacancy Rate	Annual Growth
2000	\$23.85	3,029,153	386,709	212,154	335,124	7.0%	11.1%
2001	\$22.31	3,247,016	217,863	519,997	(89,980)	16.0%	-2.8%
2002	\$22.93	3,269,369	22,353	637,706	(95,356)	19.5%	-2.9%
2003	\$20.30	3,269,369	0	761,483	(123,777)	23.3%	-3.8%
2004	\$21.78	3,269,369	0	677,193	84,250	20.7%	2.6%
2005	\$21.21	3,269,369	0	512,477	164,716	15.7%	5.0%
2006	\$24.74	3,269,369	0	546,406	(33,929)	16.7%	-1.0%
2007	\$25.81	3,578,199	308,830	969,232	(113,996)	27.1%	-3.2%
2008	\$26.17	3,627,608	49,409	1,040,027	(21,386)	28.7%	-0.6%
2009	\$23.57	3,732,885	105,277	881,626	263,760	23.6%	7.1%
2010	\$23.64	3,732,885	0	835,016	46,610	22.4%	1.2%
2011	\$22.94	3,732,885	0	596,596	238,420	16.0%	6.4%

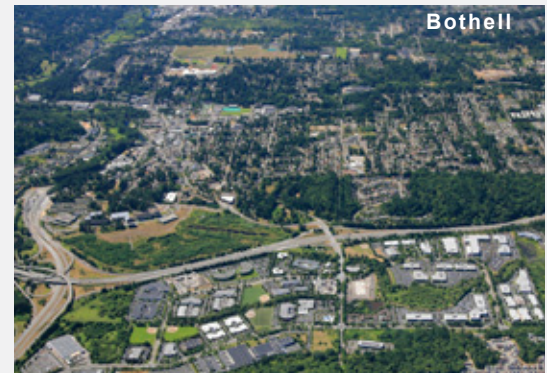
MERCER ISLAND							
Year	Avg. Gross Rental Rate	Year-End Inventory	New Construction	Vacant Square Feet	Net Absorption (Year End)	Vacancy Rate	Annual Growth
2000	\$27.00	487,991	0	6,156	(1,134)	1.3%	-0.2%
2001	\$27.98	487,991	0	9,248	(3,092)	1.9%	-0.6%
2002	\$30.02	504,203	16,212	30,329	(4,869)	6.0%	-1.0%
2003	\$23.25	504,203	0	32,281	(1,952)	6.4%	-0.4%
2004	\$25.89	504,203	0	15,098	17,183	3.0%	3.4%
2005	\$26.31	504,203	0	5,018	10,080	1.0%	2.0%
2006	\$26.44	519,203	15,000	3,241	16,777	0.6%	3.2%
2007	\$31.53	519,203	0	21,465	(18,224)	4.1%	-3.5%
2008	\$34.20	519,203	0	28,377	(6,912)	5.5%	-1.3%
2009	\$28.29	519,203	0	49,020	(20,643)	9.4%	-4.0%
2010	\$27.57	519,203	0	55,718	(6,698)	10.7%	-1.3%
2011	\$29.46	519,203	0	47,210	8,508	9.1%	1.6%



Kirkland



Redmond



Bothell



Mercer Island

Notes:

- 1 Year end inventory Class A&B office, 10,000 SF and greater buildings.
- 2 Excludes Owner/User buildings.

3 All data are from end of the year specified.

- 4 Annual growth is net absorption divided by inventory.
- 5 Data current as of end of 4th Qtr - January 10, 2012

