



## **Bellevue Posts Lowest Skyline Vacancy in US For Two Years in a Row**

*Market also records 2<sup>nd</sup> highest year-over-year rental rate growth*

**BELLEVUE, March 17, 2014** - - “Game on” seems to be the sentiment of buyers aggressively seeking office properties across the skyline markets of the United States. From local High Net Worth Investors (HNWIs) to international sovereign wealth funds (SWFs), competition is fierce for those planting their stake in iconic properties towering over American cities. While investment activity has been strong in the Bellevue Skyline since 2005, totaling \$2.9 billion in sales over that time period, there were no Skyline sales in 2013. Instead, investment activity in Bellevue has focused on land and development acquisitions in response to the Bellevue’s low office vacancy rate.

Thanks to intense capital demand, rents among Trophy assets are soaring, even more so than rising leasing demand, according to [JLL’s Spring 2014 U.S. Skyline Review](#). Bellevue’s Skyline market recorded the second highest year-over-year increase in rental rates, at 9.2 percent; the increase in rent is second only to San Francisco.

“The Bellevue Skyline has benefited from the flight-to-quality trend in recent years,” said JJ Shephard, Managing Director at JLL. “Suburban tenants took advantage of lower-than-average rates in the Bellevue CBD during the recession and made the move to Class A, Trophy properties. Recently, technology tenants have continued to flock to the Bellevue Skyline in order to take advantage of the easy access to public transit and rich amenities offered downtown.”

JLL’s proprietary Skyline report identifies and tracks micro-segments of 43 city centers across the nation. The Skyline features Trophy and Class A buildings where tenants and investors alike focus demand for office space in a flight to quality and efficiency. [Check out the themes that shape the U.S. skyline.](#)

Competition for office properties across skyline cities in 2013 propelled vacancy levels to an average 13.4 percent and 170 basis points below the U.S. office sector. Bellevue saw Skyline direct vacancy drop to 3.9 percent, down 180 basis points from last year, and putting Bellevue as the market with the lowest direct vacancy among 43 US Skylines.

“While no Bellevue Skyline buildings traded hands in 2013, rising rental rates have pushed up values,” said Steve Schwartz, Managing Director at JLL. “There is an abundance of capital seeking real estate assets and Bellevue’s very strong market fundamentals will increase investor interest and continue to push cap rates down.”

In spite of tightening market fundamentals, construction remains limited in US Skyline properties. There has not been a building added to the Bellevue Skyline since 2009. While there was no new construction activity in 2013, activity has ramped up significantly with a number of projects in various stages of pre-development and a ground-breaking likely for 2014.

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The constrained development pipeline has led to climbing rents: over the past three years, rates in the skylines increased 17.1 percent compared to the 9.8 percent increase seen by the broader market. Bellevue Skyline asking rents stand at \$41.49 per square foot with year-over-year rent growth of 9.2 percent, ranking Bellevue as the market with the 2<sup>nd</sup> highest rent growth in the US.

“The lack of development is causing a space crunch on each end of the spectrum,” said John Sikaitis, Managing Director of Research at JLL. “Trophy properties are far outperforming the broader market with respect to occupancy levels and rents and a similar tightening exists in value-add properties. This squeeze from both ends is expected to have a significant impact on the properties in the middle as tenants are being priced out of their former go-to options.”

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