

Life Sciences Outlook

Seattle | 2013-2014



Mid-tier biotech and specialty pharmaceuticals drive demand

- Across North America, activity and demand within the life sciences industry seems to have shifted from one driven by Big Pharma companies, to one where mid-tier companies and specialty players are experiencing overnight growth and highly variable needs in response to promising products and treatments.
- While the larger life sciences players might not be enjoying that same type of growth, the need for strategic portfolio planning is at an all-time high. While markets with traditional headquarter campuses are experiencing an uptick in vacant space as large companies consolidate operations, opportunity exists in retrofitting and parcelling large campuses to meet the growing needs of the mid-tier and specialty pharma companies.

Seattle Metro Area



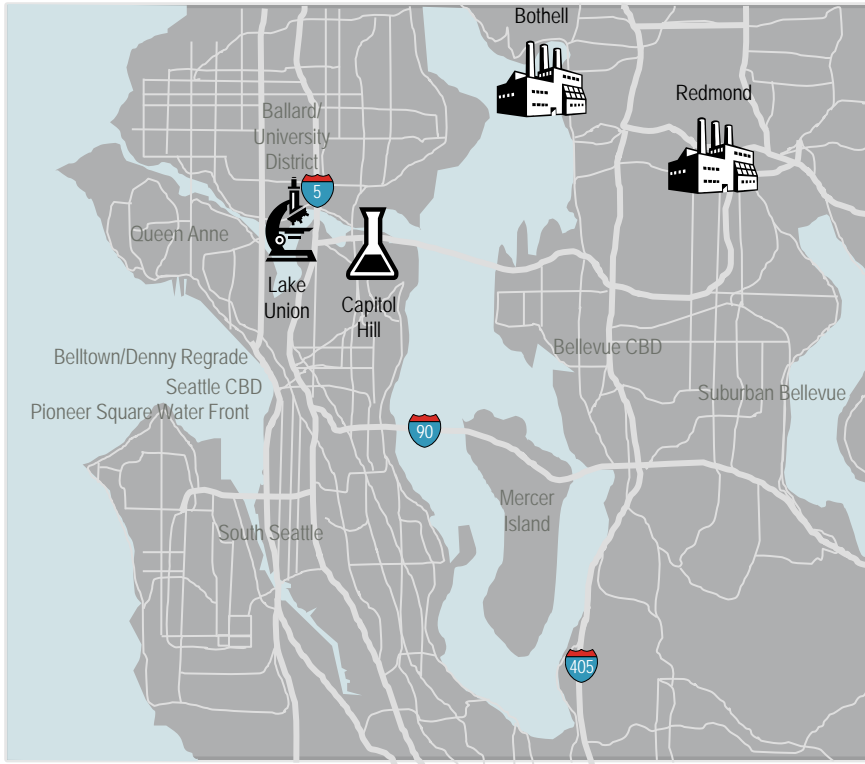
Major lab supply:
Clusters of established lab stock with long-time industry presence



Emerging lab supply:
Areas with limited lab stock today that are poised for growth



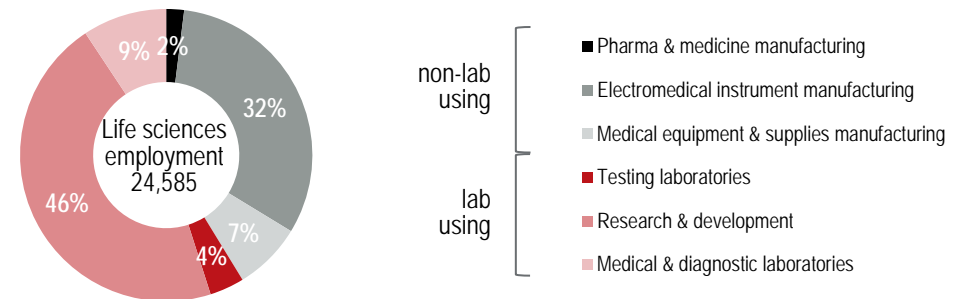
Life Sciences manufacturing supply:
Clusters of manufacturing space devoted to pharmaceutical, biological or medical device & instrument manufacturing



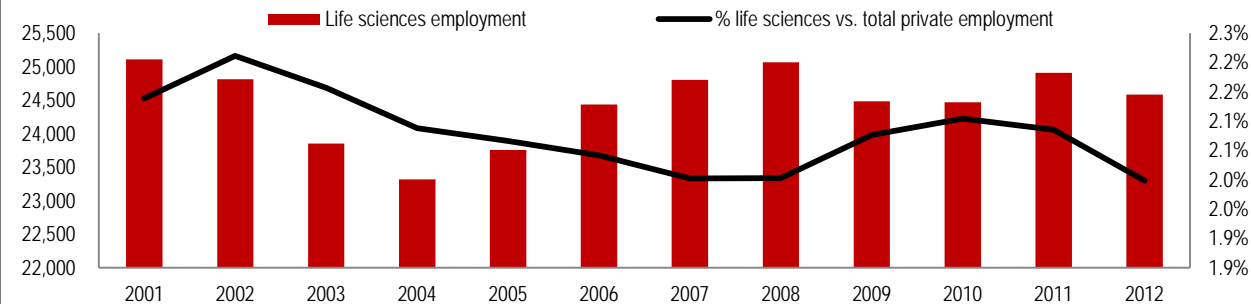
Economic scorecard

Workforce	Total life sciences	% life sciences to private employment	Year-over-year growth
Employment	24,585	2.0%	-1.3%
Establishments	875	0.9%	1.9%
Funding	Total life sciences	% to total U.S.	
VC funding	\$275.7 M	3.2%	
NIH funding	\$773.8 M	3.5%	
Innovation	Total life sciences	% to all patent classes	
Patents	411	11.4%	

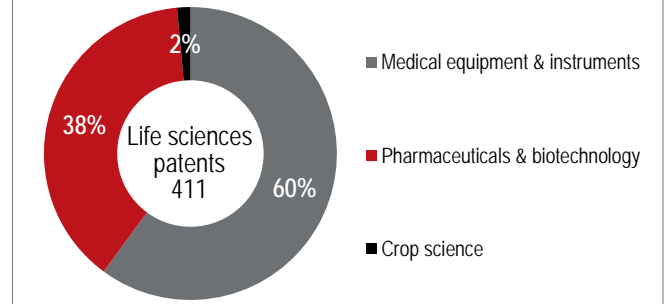
Life sciences employment composition



Historical life sciences employment



Life sciences patents by classification



Seattle

Seattle overview

Seattle is one of the nation's premier life sciences markets, due primarily to its strength in research and development. In fact, nearly half of all life sciences jobs in the area are based in research and development. This can be strongly attributed to the presence and generous funding of some of the world's largest philanthropic organizations, such as the Bill & Melinda Gates Foundation, which has funded several major grants to Seattle-based research institutes. Additionally, the University of Washington consistently ranks in the top five of institutions receiving NIH funding. Seattle's major research institutes include the Allen Brain Institute, Benaroya Research Institute, Seattle Biomedical Research Institute, the Infectious Disease Research Institute and the Institute for Systems Biology which focuses on global health and third world infectious diseases.

Lake Union

The Lake Union area is Seattle's life sciences epicenter—with nearly 3.2 million square feet of life sciences space, it makes up a significant portion of Seattle's overall life sciences market. Lake Union is situated just north of Seattle's CBD and offers a more urban campus feel to its buildings than its traditional CBD brethren to the South. This market is dominated by life sciences and tech companies who thrive on an amenity-rich environment to maintain and increase employment retention and company growth. Washington State's national acclaim as a hub for biotechnology research can be traced directly to Lake Union, as the aforementioned Allen Brain Institute, Seattle Biomedical Research Institute, the Infectious Disease Research Institute and the Institute for Systems Biology all have headquarters in the submarket. Additionally, the Fred Hutchinson Cancer Research Center, which employs more than 2,700 people and occupies more than 1.4 million square feet in Lake Union, has been funding new biotech companies. Juno Therapeutics, a biotech start-up focused on cancer immunotherapy, recently expanded its Series A venture financing to \$145.0 million. The company, already one of the richest biotech startups in history, has the potential to grow into one of Lake Union's major industry players.

South Lake Union is a robust and stable market, which has seen a continual downward trend in vacancy over the last two years and currently is nearing 2.0 percent. There are several proposed life sciences buildings in various stages of development; however, the only project currently under construction is Vulcan's build-to-suit for the Allen Brain Institute. With limited supply to satisfy the demand, tenants may look to traditional office space for life sciences conversion. The downward pressure on vacancy has escalated lab rents, with some spaces achieving as high as \$55.00 per square foot NNN. Rental rates should continue to rise as space demand remains constrained.

Capitol Hill

Capitol Hill is a densely populated residential neighborhood situated just east of the Seattle CBD. The area features a thriving retail and restaurant scene which caters to its eclectic mix of residents, but is perhaps best known for housing several major health care facilities: Harborview Medical Center, Swedish Medical Center and Virginia Mason Medical Center. While its life sciences inventory is just a fraction of the size of Lake Union, Capitol Hill is worth mentioning as it is home to the Benaroya Research Institute, Theraclone Sciences, CellNetix Pathology & Laboratories, and PharmalN, among others.

Facilities scorecard

Supply	Lake Union Major lab	Capitol Hill Emerging lab
Rentable lab stock (% of total stock)	1.8 M s.f. 55.7%	0.8 M s.f. 62.5%
Direct vacancy (Change year-over-year)	2.6% 2.2 ppts	33.0% 0 ppts
# of large blocks over 100,000 s.f.	0	0
Under construction (s.f.)	0	0
Pricing		
Average asking rent (FS) (Change year-over-year)	\$32.87 p.s.f. 3.3%	\$41.38 p.s.f. 12.2%

SEATTLE REPRODUCTIVE MEDICINE

1505 Westlake Avenue N
Lake Union
26,660 s.f.
Term: 10 years

SEATTLE LIFE SCIENCE CENTER

1100-1124 Columbia Street
Capitol Hill
164,345 s.f.
Class B
\$42.6M/\$259 p.s.f.

FAIRVIEW RESEARCH CENTER II

500 Fairview Avenue N
Lake Union
140,000 s.f.
BioMed Realty Trust
Expected delivery: TBD

INSTITUTE FOR SYSTEMS BIOLOGY

401 Terry Avenue N
Lake Union
140,605 s.f.
Class A
\$106.1M/\$755 p.s.f.

Activity key:

Leasing

Sales

Under construction

Large blocks of space

Suburbs

Suburbs overview

The suburban market to the northeast of downtown Seattle offers quality low cost alternatives to the more expensive Lake Union and Capitol Hill submarkets. This area is unique in that while it is extremely close to the Bellevue CBD, its buildings, tenants and overall feel are quite different. Its office parks and low rise office buildings are embedded amongst evergreen trees, wetlands and parks which make this submarket feel like a detachment from the bustling metropolitan lifestyle just minutes away in the CBD. This allows companies to attract talent with access to nearby amenities, at a significantly discounted cost of living. Major firms such as Seattle Genetics, Amgen, HaloSource, SonoSite and Alder Biopharmaceuticals occupy this market which has become a viable second option for Seattle-area life science users.

Bothell

While the Bothell submarket is geographically located in the Northend, its close proximity to Redmond and high-tech/biomedical tenancy makes Bothell direct competition to the Eastside's suburban submarkets. Bothell is one of the most diverse and fastest growing submarkets in the I-405 corridor area. Bothell's market consists of nearly 6.3 million square feet of office and flex product, much of which has a significant amount of lab/wet lab space. Bothell is the second largest life sciences market in Puget Sound at 1.9 million square feet spread between its two core areas of Canyon Park and North Creek. With a suburban campus feel, higher parking ratios and larger floor plates, it offers life science tenants the ability to maximize efficiency by not splitting up researchers onto multiple floors and also taking advantage of significantly discounted rental rates as compared to Lake Union.

Bothell's multitude of life sciences companies offer a cohesive symbiotic tenancy amongst life sciences users who all benefit from more economic rents, state-of-the-art product, efficient floor plates and well designed infrastructure. With a lack of premier space in Capitol Hill and limited availability in the Lake Union area—currently no blocks of space available larger than 50,000 square feet—Bothell should see significant spillover demand in the coming quarters as expansion space is readily available. Vacancy has been trending down in Bothell and currently stands at 17.3 percent; however, there is a sizable amount of sublease space available.

Redmond

Redmond tends to share life sciences tenant demand with Bothell, and as such has experienced elevated vacancy for the last three years. However, the submarket performed well in 2013, as direct vacancy dropped 220 basis points, and Bio-Rad, one of the major users, renewed its lease of 54,952 square feet.

Redmond is a strong and vibrant market that boasts excellent infrastructure, amenities as well as a highly educated in-place workforce. As the home to Microsoft, Nintendo, and other blue chip companies, Redmond will continue to attract top talent to the area. While the inventory of leased life sciences space in Redmond is small, just 500,000 square feet, companies seeking a suburban atmosphere and substantially discounted cost of business will increasingly consider Redmond.

Facilities scorecard

Supply	Bothell Manufacturing	Redmond Manufacturing
Rentable lab stock (% of total stock)	1.5 M s.f. 79.2%	0.5 M s.f. 100%
Direct vacancy (Change year-over-year)	17.3% 1.8 ppts	18.1% 2.2 ppts
# of large blocks over 100,000 s.f.	1	0
Under construction (s.f.)	0	0
Pricing		
Average asking rent (NNN) (Change year-over-year)	\$18.16 p.s.f. (2.1)%	\$14.26 p.s.f. 0.2%

ALDER BIOPHARMACEUTICALS

11804 North Creek Parkway S
Bothell
36,654 s.f.
Term: 37 months

SEATTLE GENETICS CAMPUS

21717 & 21823 30th Drive SE
Bothell
144,900 s.f.
Class A
\$38.0M/\$262 p.s.f.

BIO-RAD

6565 185th Avenue NE
Redmond
54,952 s.f.
Term: 67 months

HIGHLANDS CORPORATE CENTER

22011 30th Drive SE
Bothell
173,254 s.f.
Class A
\$38.8M/\$224 p.s.f.

Activity key:

Leasing

Sales

Under construction

Large blocks of space



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