



2014 ends with strong leasing and sales activity

Technology juggernauts continue flocking to the market

Bloomberg recently named Washington the “most innovative state in the nation,” based on its large technology workforce, high productivity rates and vast array of public technology companies. Seattle’s talented workforce, collaborative startup environment and quality real estate has made the city one of the most desired locations in the country for high-tech companies of all sizes. Six of the ten largest office tenants in the metro area are in the high-tech industry. Several major tech tenants have recently entered the market, including Alibaba, Apple, Galvanize, Oracle, HP and Dropbox. Additionally, companies such as Tableau and Zillow which already have a local presence, have been expanding their footprints.

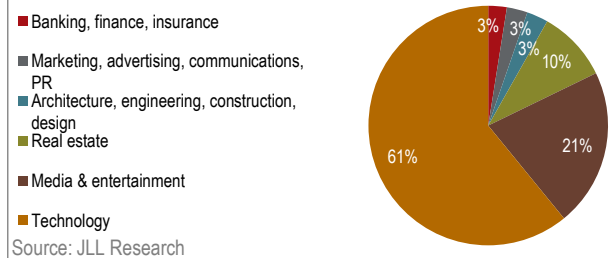
Net absorption far surpasses 10-year average as construction ramps up

Strong leasing activity in the fourth quarter led to positive net absorption of 672,228 square feet. The Seattle market finished 2014 with 2.1 million square feet of space taken down, which is 42.0 percent higher than the 10-year average. This robust demand, driven primarily by the rapidly expanding technology industry, pushed vacancy below 11 percent, a level not seen in Seattle since 2008. With market fundamentals as strong as they have been in years - vacancy dropping, rents escalating and demand far exceeding annual averages - development activity is ramping up with 5.1 msf currently under construction. Much of the development underway is speculative, another indication of an expanding real estate market.

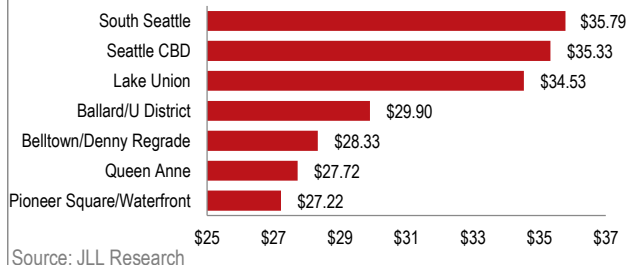
Investment sales activity finishes the year strong

Following two fairly slow quarters for sales activity, more than \$562 million of institutional transactions occurred in the fourth quarter. This pushed the total sales volume for office assets in 2014 to approximately \$1.5 billion. The fourth quarter was highlighted by the sale of 1111 Third and Second & Spring. Ivanhoe Cambridge and Callahan Capital Properties acquired the aforementioned Seattle CBD buildings from Walton Street Capital for \$280 million, or approximately \$396 per square foot. Investors have been hungry for both Class A core assets as well as Class B and value-add assets that can be re-positioned to capture a rising market.

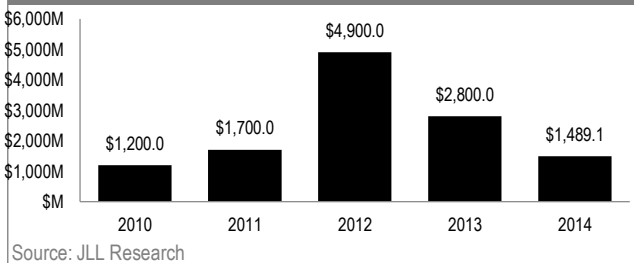
Technology tenants dominated fourth quarter leasing activity



Average asking rents across Downtown Seattle



Historical sales volume (\$10M+)



10.7%
Total vacancy

2,094,120
YTD net absorption (s.f.)
672,228
Q4 2014 net absorption (s.f.)

3.9%
12-month rent growth

5,144,406
Total under construction (s.f.)
26.2%
Total preleased

Market Overview

Economy

Driven by the rapidly expanding technology industry, Seattle's economy has hit a new all-time non-farm employment peak and boasts one of the lowest unemployment rates of any major metro area, with the local unemployment rate 110 basis points below the national average. The most recent employment forecast from the Puget Sound Economic Forecaster calls for impressive job growth of 2.6 percent in 2015. Current figures show that unemployment in November 2014 stood at 6.2 percent statewide and 4.7 percent in the Seattle-Bellevue-Everett area. Over the past 12 months, a total of 82,700 jobs have been added in Washington, mostly in the professional and business services (this sector includes many jobs related to high-tech) industries, construction, retail trade, government, and education and health services.

Market Conditions

The fourth quarter was the strongest of the year in terms of net absorption, as robust leasing activity led to 672,228 square feet of space being taken down. The Seattle market finished 2014 with 2.1 million square feet of net absorption, which is 42.0 percent higher than the 10-year average. Additionally, vacancy in the Seattle metro area has dropped to 10.7 percent, which is 490 basis points below the national average and places Seattle in the position of having the 5th lowest vacancy rate in the country; behind New York, Portland, San Francisco and Salt Lake City.

Seattle CBD Class A rents currently stand at \$36.70 per square foot, up 6.0 percent year-over-year. Average Class A asking rents in the Bellevue CBD stand at \$38.96 per square foot, which represents an increase of 4.3 percent from last year. Seattle and Bellevue have significant pent up demand and rent levels have reached the point where new construction makes sense. As such, much of the 5.1 million square feet of development currently under construction is speculative.

Outlook

Vacancy is trending toward 10.0 percent in 2015, the tipping point where the market has historically experienced substantial rent growth. Major technology tenants will continue migrating to the market, and construction projects will continue to be kicked off.

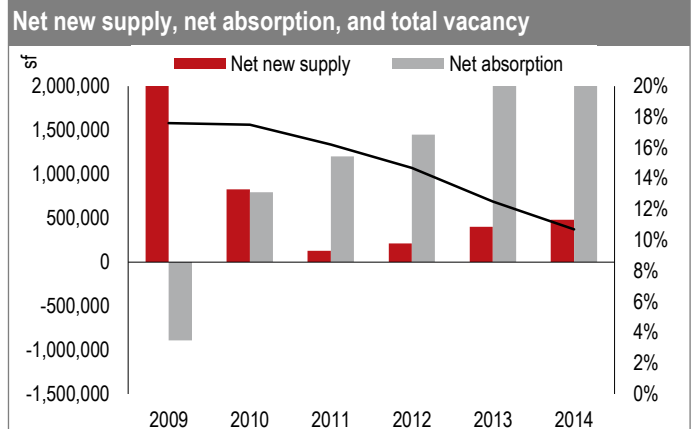
Submarket leverage					
Submarket	2014	2015	2016	2017	2018
Seattle CBD	Landlord-favorable	Landlord-favorable	Landlord-favorable	Tenant-favorable	Tenant-favorable
Bellevue CBD	Landlord-favorable	Landlord-favorable	Landlord-favorable	Tenant-favorable	Tenant-favorable
Suburban	Tenant-favorable	Balanced	Balanced	Landlord-favorable	Landlord-favorable

■ Landlord-favorable conditions
 ■ Balanced conditions
 ■ Tenant-favorable conditions

Source: JLL Research

Statistics – current market conditions		
Supply	Supply	88,445,215 sf
	Total vacancy rate	10.7%
	Under construction (% preleased)	5,144,406 sf (26.2%)
Demand	YTD net absorption	2,094,120 sf
Pricing	12-month overall rent % change	3.9%
	Class A overall asking rent	\$35.24 sf

Source: JLL Research



Source: JLL Research

Leverage Perspectives

Tenant Perspective

Strong demand continues to be driven by the high-tech industry, which accounted for approximately 45.0 percent of all Puget Sound office leasing activity in 2014. There are currently more than 180 companies in the market representing as much as 7.3 million square feet of potential activity. A talented workforce and quality real estate will sustain this demand. Tech users flocking to the core have led to a rapid increase in speculative construction; more than 5.1 million square feet of office space is currently under construction, with just 26.2 percent preleased. This means growing opportunities for tenants.

Landlord Perspective

Competition for tenants looking to migrate to the market, or maneuver within it, is intense and the demand for creative space is intensifying. As market fundamentals continue to strengthen, landlords will need to position their buildings with amenities and features that tenants desire. Tenants need a rich amenity set, including an updated lobby, athletic facility, conference center, bike storage, deck or other outdoor spaces, and diverse retail mix. Owners increasingly want to make sure that their retail offerings appeal to millennials.

Source: JLL Research

Transactions & Development Activity

Completed lease transactions – Q4 2014

Tenant	Building/Address	Submarket	SF	Type
Undisclosed	Fourth & Madison	Seattle CBD	169,649	Renewal & Expansion
Zillow	Russell Investments Center	Seattle CBD	155,044	Extension
Zillow	Russell Investments Center	Seattle CBD	113,470	Expansion
Galvanize	111 South Jackson	Pioneer Square/Waterfront	70,599	New
Impinj	400 Fairview	Lake Union	51,744	New
Concur Technologies	Key Center	Bellevue CBD	47,864	Expansion
WeWork	Holyoke Building	Seattle CBD	31,000	New
Avalara	Second & Spring	Seattle CBD	24,428	New
CollinsWoerman	Dexter Horton Building	Seattle CBD	23,077	Renewal
CW Title	Gateway 112	Suburban Bellevue	22,921	New
Climate Corporation	Dexter Horton Building	Seattle CBD	22,825	New
Regus	Plaza 600	Lake Union	22,700	New
Hornall Anderson	Dexter Horton Building	Seattle CBD	22,102	Renewal & Reduction
Banner Bank	Parklands North Creek – Building D	Bothell/Kenmore	20,202	Renewal

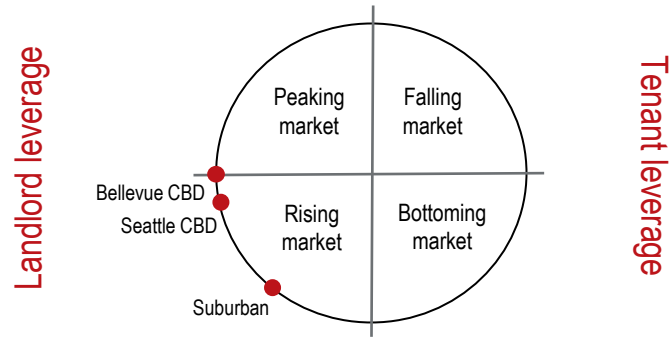
Completed sale transactions (top 5) – Q4 2014

Building/Address	Submarket	Buyer / Seller	SF	Price	\$ psf
1111 Third	Seattle CBD	Ivanhoe Cambridge & Callahan Capital Properties / Walton Street Capital	572,500	\$254,122,290	\$444
Bellefield Office Park	Suburban Bellevue	Lionstone Group & Talon Private Capital / Walton Street Capital	507,000	\$120,300,000	\$237
Sunset Corporate Campus	I-90 Corridor	New York Life / Prudential	307,176	\$90,690,576	\$295
Stone 34	Ballard/U District	Unico & Laird Norton Company / Skanska	120,777	\$70,077,827	\$580
PEMCO Building	Lake Union	Unico / PEMCO Insurance	186,260	\$51,750,000	\$278

Construction pipeline

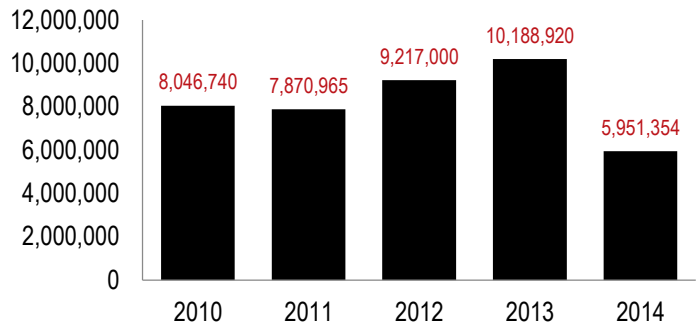
Building/Address	Submarket	Status	Delivery	SF	Major Tenant
Fifth & Columbia Tower	Seattle CBD	Under Construction	Q4 2016	766,779	SLS Hotel
400 Lincoln Square	Bellevue CBD	Under Construction	Q4 2016	724,693	
929 Office Tower	Bellevue CBD	Under Construction	Q4 2015	462,000	
400 Fairview	Lake Union	Under Construction	Q3 2015	367,898	Tommy Bahama, Impinj
Troy Block – South Tower	Lake Union	Under Construction	Q2 2016	362,108	
Centre 425	Bellevue CBD	Under Construction	Q3 2016	354,000	
Dexter Station	Lake Union	Under Construction	Q1 2015	345,992	
Amazon Phase VII	Lake Union	Under Construction	Q3 2015	317,000	Amazon
Amazon Phase VIII	Lake Union	Under Construction	Q3 2015	317,000	Amazon
Hill7	Seattle CBD	Under Construction	Q2 2015	295,936	
Urban Union	Lake Union	Under Construction	Q2 2016	291,000	
NorthEdge	Lake Union	Under Construction	Q3 2016	210,000	
Google Campus – Phase II	Kirkland	Under Construction	Q2 2015	180,000	Google
1101 Westlake	Lake Union	Under Construction	Q4 2015	150,000	

Current conditions – market and submarket



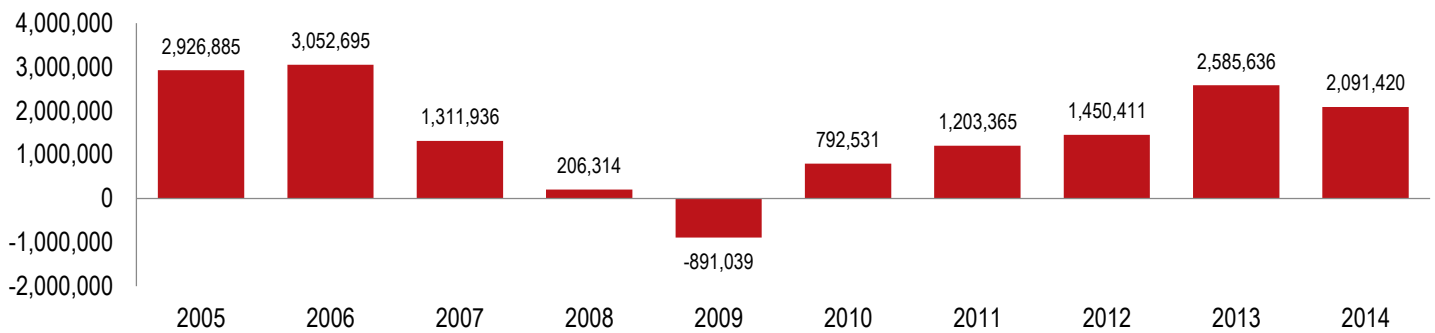
Source: JLL Research

Historical leasing activity



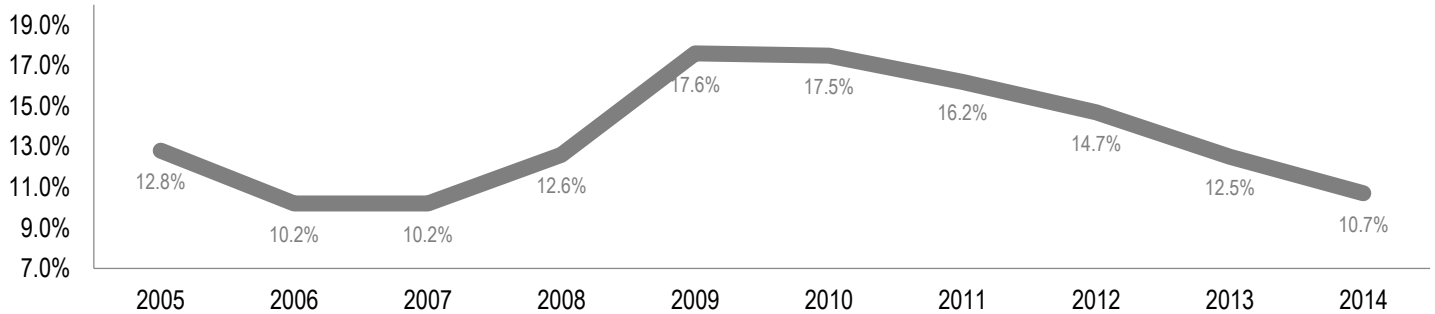
Source: JLL Research

Total net absorption (s.f.)



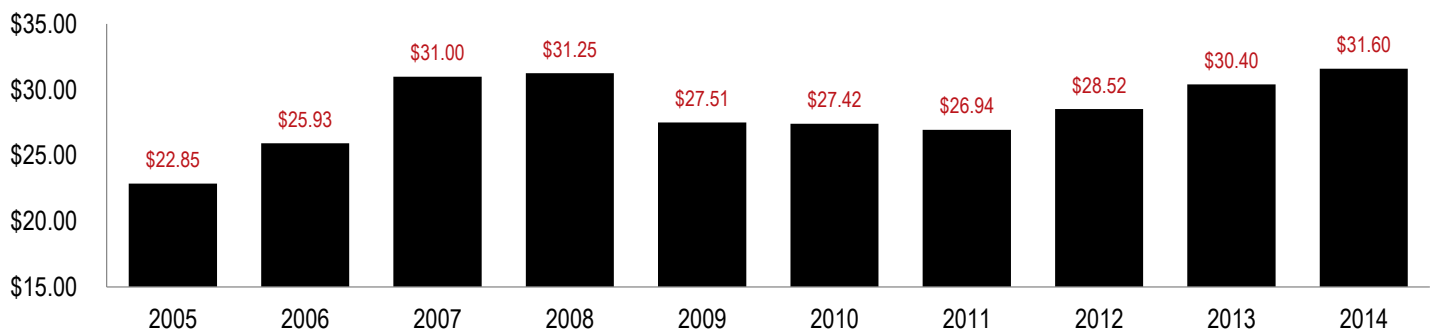
Source: JLL Research

Total vacancy rate



Source: JLL Research

Direct average asking rent (\$ p.s.f.)



Source: JLL Research