

GVA

Seattle Office Market Analysis

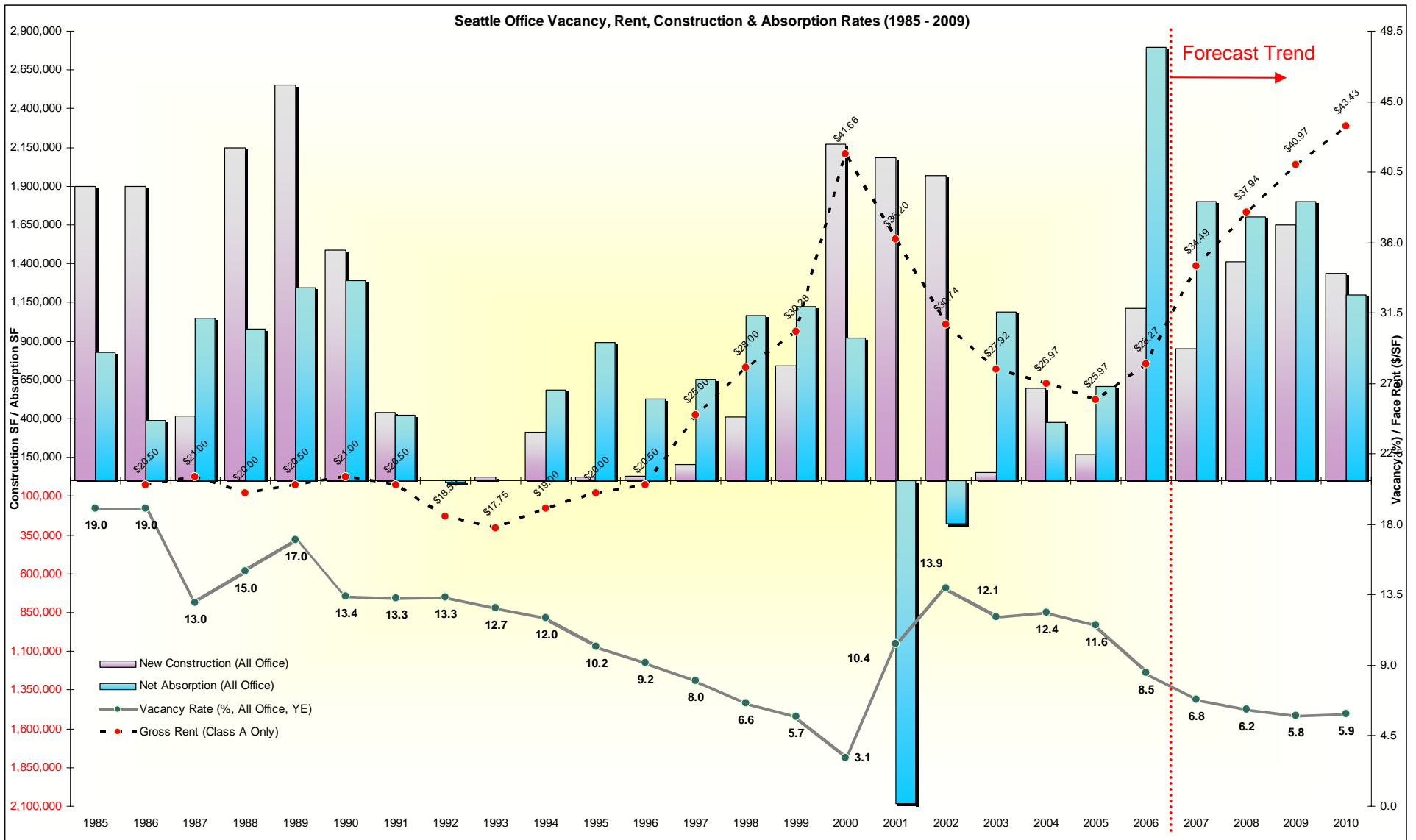
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prepared by

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Office Market Analysis



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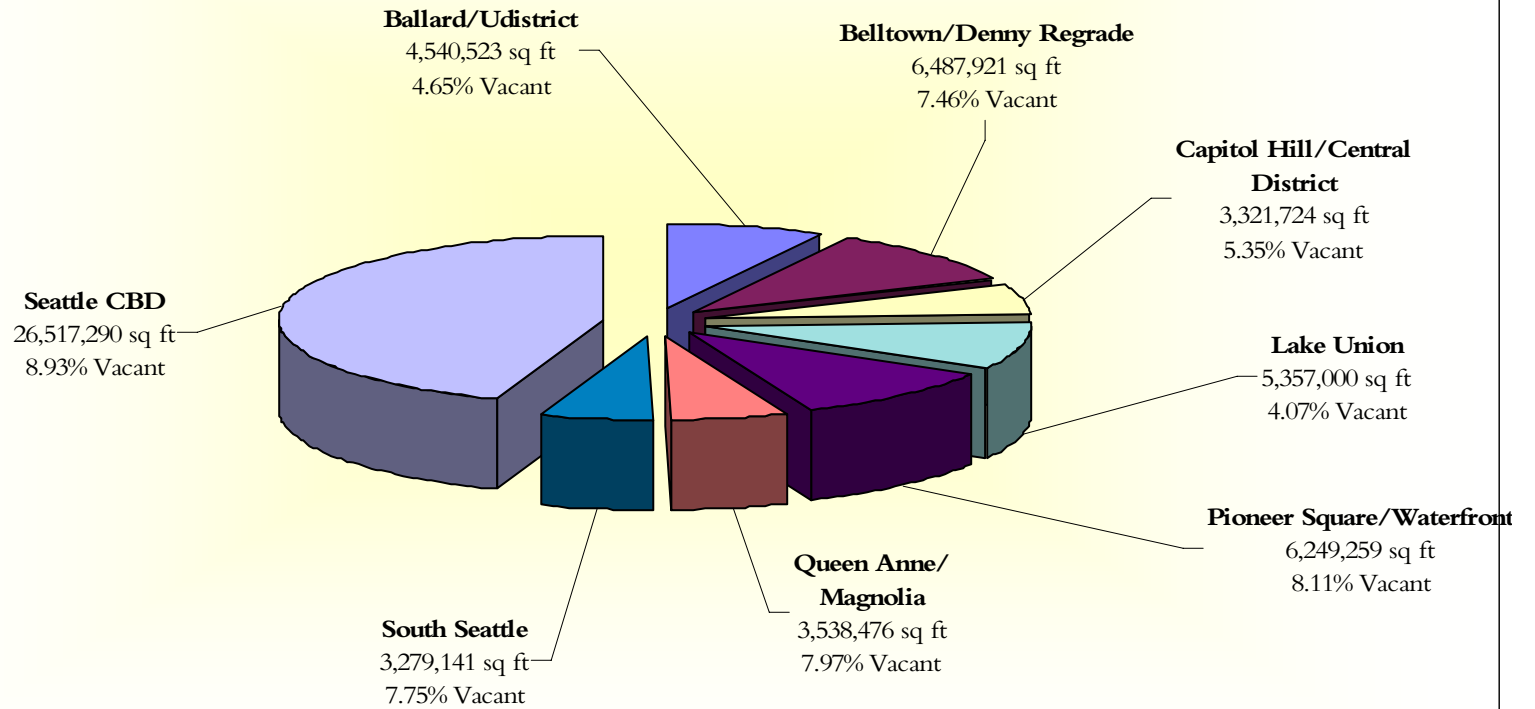
Overview

National trends in the commercial real estate markets are cyclical. As employment growth fluctuates, so does the demand for office space. The markets for office space in Seattle are no different. During each of the last three decades, employment growth has surged, only to be followed by periods of slower growth. In response to the periods of employment growth, developers created new space to meet the demand. In each of the last three decades, the office markets became oversupplied when too much new space was constructed. The result was periods of higher vacancy and an associated decline in rental rates.

The employment surge of the late 1980s, and the resulting new development, created oversupply in the office marketplace that lasted well into the late 1990s. During this period of time, vacancy rates moved from the mid-teens to about 3%, and rental rates for most office space doubled. Developers and lenders responded slowly to the demand for new office space, restrained by the memory of the overbuilding that occurred during the late 1980s. However, the overall strength of the economy and the demand for space by new start-up businesses proved overwhelming. In response to this demand, developers planned almost 10 million sq ft of new office space that could be built over the next several years, with 112 buildings totaling 7.94 million sq ft having actually been built during the first three years of this decade. However, employment contracted by 1.0% in 2001 and 2.6% in 2002, leading to the demise of many start-up companies. This fact, coupled with the high number of projects already under construction, reversed the trend of higher rental rates and falling vacancies. In fact, in 2002, vacancies reached their highest levels in at least 12 years. While employment continued to contract by 0.6% in 2003, the good news is the worst was behind us with employment growing 1.2% in 2004, 2.7% in 2005 and 3.6% in 2006, and projected to grow between 2.5% and 2.8% annually through 2009 according to Dick Conway of *The Puget Sound Economic Forecaster*.

The graph on the facing page shows actual new office building construction, net absorption, vacancy rates and asking rental rates on an annual basis for the period 1985 through 2006 for the Seattle office space market. The graph also shows our forecast for 2007 and beyond. New construction estimates are based on our analysis of the proposed projects and the likelihood that they will be constructed, recognizing that not all of the proposed projects will be built. Absorption is estimated as a

Seattle Office Market as of May 16, 2007*



* Vacancy figures include sublease space
Source: CoStar 5/16/2007

function of employment growth. The relationship between new construction and absorption has been used to estimate future vacancy and projected rental rates are established as a function of the future vacancy trend.

Current Inventory

Our forecast market area includes all eight sub-markets located in “Downtown” Seattle. In addition, we included owner- and government-occupied buildings in the building inventory data. The effect is two-fold. As the Seattle office space market changes, changes occurring in the sub-markets that surround the Central Business District (CBD) have a greater influence on the marketplace – an influence that should not be ignored. Secondly, buildings that are owner- or government-occupied represent office space that is subject to the effects of supply and demand. Just like non-owner occupied buildings, changes in these buildings influence the marketplace. The total market for office space in Seattle consists of about 58.4 million sq ft. The sub-markets are described as Ballard U-District, Belltown/Denny Regrade, Capitol Hill/Central District, Lake Union, Pioneer Square/ Waterfront, Queen Anne/Magnolia, South Seattle, and the CBD. The relative size and vacancy of each sub-market, as of September 27, 2006, is shown on the chart on the facing page and in the table below.

AVAILABILITY AND VACANCY ANALYSIS

Seattle Office Market

May 16, 2007

Submarket	Existing Rentable Bldg Area	Direct SF Vacant	Vacant Rate %	Direct w/ Sublet SF Vacant	Vacant % with Sublet	Total SF Available*	Total Avg Rate	Class A Avg Rate
Ballard/Udistrict	4,540,523	147,398	3.25%	211,251	4.65%	211,251	\$25.86	\$30.37
Belltown/Denny Regrade	6,487,921	453,994	7.00%	484,110	7.46%	484,110	\$27.27	\$28.47
Capitol Hill/Central District	3,321,724	177,813	5.35%	177,813	5.35%	177,813	\$31.69	\$38.79
Lake Union	5,357,000	200,107	3.74%	218,288	4.07%	218,288	\$28.11	\$38.60
Pioneer Square/Waterfront	6,249,259	444,790	7.12%	506,815	8.11%	506,815	\$22.23	\$26.88
Queen Anne/Magnolia	3,538,476	244,064	6.90%	282,130	7.97%	282,130	\$20.69	\$27.44
South Seattle	3,279,141	234,799	7.16%	254,030	7.75%	254,030	\$19.38	NA
Seattle CBD	26,517,290	1,589,420	5.99%	2,368,502	8.93%	2,368,502	\$29.51	\$32.91
Total	59,291,334	3,492,385	5.89%	4,502,939	7.59%	4,502,939	\$27.32	\$32.62

* Total amount of space that is currently being marketed as available for lease. It includes any space that is available, regardless of whether the space is vacant, occupied, available for sublease, or available at a future date.

Total Market:	59,291,334 sq ft
Total Vacant Space (Including Sublease Space):	4,502,939 sq ft
Vacancy – May 16, 2007 (Direct / w/ Sublease):	5.89% / 7.59%

Seattle Proposed Office Buildings

As of May 16, 2007

Project Name	Address	Project Proponent	New SF	% Preleased	SF Available	Scheduled	
						Completion	Building Status
Year 2007							
M Street Medical Building	908 8th Ave.	Eighth & Madison LLC	51,361	24%	39,016	2Q 2007	Completed
Northcut Landing	5001 25th Ave E	PBO Properties	81,960	77%	18,547	2Q 2007	Completed
Goat Hill	5th & Jefferson	King County	300,000	95%	13,800	2Q 2007	Nearly complete
333 Elliott	333 Elliott Ave. W.	Martin Selig Real Estate	137,200	100%	0	4Q 2007	Under Construction
Westlake Terry	320 Westlake	Vulcan / Group Health	279,300	78%	61,530	4Q 2007	Under Construction
SUB TOTAL			849,821	84%	132,893	16% Available	
84% IS UNDER CONSTRUCTION			716,500	89%	75,330	11% Available	
0% IS PERMITTED			0	0%	0	NA	
Year 2008							
Lakeview Building	3301 Fremont Ave. N	Michael Mastro	108,000	100%	0	1Q 2008	Under Construction
Weber + Thompson Bldg	791 Thomas St.	First Western Development	38,188	100%	0	2Q 2008	Under Construction
UW Medicine: Lake Union Phase II	815 Mercer St.	Vulcan	96,000	100%	0	3Q 2008	Under Construction
1100 Eastlake	1100 Eastlake Ave E	The Blume Company	183,574	0%	183,574	3Q 2008	Under Construction
818 Stewart Office Tower	818 Stewart	Schnitzer NW	233,000	2%	229,272	3Q 2008	Under Construction
Fairview Research Center	530 Fairview Ave. N	Tom Erlanson/BioMed Realty Trust	93,000	0%	93,000	3Q 2008	Under Construction
Colman Tower	888 Western	Triad Development	131,832	0%	131,832	3Q 2008	Proposed
Interurban Exchange II	535 Terry Ave	Schnitzer NW/Allen	114,000	0%	114,000	3Q 2008	Const. begins 6/07
Wesley Square	4201 15th Ave NE	The Wesley Foundation	66,564	0%	66,564	3Q 2008	Under Construction
Seventh @ Westlake	2025 7th Ave	Clise Properties	260,000	10%	235,300	4Q 2008	MUP Approved
West 8th	2001 8th Ave	Touchstone Development	483,200	0%	483,200	4Q 2008	MUP Approved
SUB TOTAL			1,807,358	15%	1,536,742	85% Available	
52% IS UNDER CONSTRUCTION			932,326	26%	686,410	74% Available	
41% IS PERMITTED			743,200	3%	718,500	97% Available	
7% PROPOSED			131,832	0%	131,832	100% Available	
Year 2009							
2201 Westlake	2201 9th Ave	Vulcan	302,200	0%	302,200	1Q 2009	Under Construction
Fifth & Yesler Bldg	300 5th Ave	Martin Selig Real Estate	260,000	0%	260,000	1Q 2009	Proposed
505 1st	505 1st Ave S	Starbucks/Martin Smith	204,000	100%	0	1Q 2009	Const. start 5/07
UW Medicine: Lake Union Phase III	800 Republican	Vulcan	284,000	100%	0	1Q 2009	Under Construction
1918 8th	1918 8th Ave.	Schnitzer NW	650,000	0%	650,000	3Q 2009	Const. start 9/07
SUB TOTAL			1,700,200	29%	1,212,200	79% Available	
34% IS UNDER CONSTRUCTION			586,200	48%	302,200	52% Available	
50% IS PERMITTED			854,000	24%	650,000	76% Available	
15% PROPOSED			260,000	0%	260,000	100% Available	
Year 2010 and Beyond							
505 Madison	5th & Madison	Schnitzer NW	750,000	0%	750,000	3Q 2010	Const. start 9/08
Tower at Civic Square	600 3rd Ave.	Triad Development	540,000	0%	540,000	4Q 2010	Const. start Q209
Northlake Tech Center	3301 Densmore Ave N	Touchstone Development	230,000	100%	0	2010	Proposed Build-to-Suit
Gates Foundation Headquarters	5th & Mercer	Gates Foundation	600,000	100%	0	2010	Proposed
1101 Dexter	1101 Dexter Ave. N	Capstone Partners	200,000	0%	200,000	2011	Proposed
Interurban Exchange IV	960 Republican St	Schnitzer NW/Allen	134,000	0%	134,000	2011	Proposed
Interurban Exchange V	960 Republican St	Schnitzer NW/Allen	117,000	0%	117,000	2011	Proposed
Boren & Howell Life Sciences	NWC Boren & Howell	Touchstone Development	220,000	0%	220,000	2011	Proposed
Nimmer Building	1501 2nd Ave.	Richard Nimmer	28,500	0%	28,500	TBD	Proposed
200 Occidental	200 Occidental Ave S	Urban Visions	127,000	0%	127,000	TBD	Proposed
220 Elliot	220 Elliot Ave	Martin Selig Real Estate	71,500	0%	71,500	TBD	Proposed
5001 1st Ave. S	5001 1st Ave. S	Cornerstone Arch Group	60,000	12%	52,920	TBD	Proposed
635 Elliott	635 Elliott Ave. W	Martin Selig Real Estate	330,000	0%	330,000	TBD	Proposed
Stadium West / Stadium West	1st Ave. S / 4th Ave. S	Greg Smith	2,000,000	0%	2,000,000	TBD	Proposed
Metropolitan Tract Redevelopment		Unico Properties	455,000	0%	455,000	TBD	Proposed
Yale Street Building	1250 Yale St	The Blume Company	90,000	0%	90,000	TBD	Proposed
SUB TOTAL			5,953,000	14%	5,115,920	84% Available	
0% IS UNDER CONSTRUCTION			0	NA	0	0	
0% IS PERMITTED			0	NA	0	0	
100% PROPOSED			5,953,000	14%	5,115,920	91% Available	
TOTAL			10,310,379	22%	7,997,755	78% Available	
22% IS UNDER CONSTRUCTION			2,235,026	52%	1,063,940	42% Available	

Data Compiled By: John Andrews, Appraiser
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Source: GVA Kidder Mathews & CoStar

The available space is distributed as follows:

Size (Sq Ft)	Number of Spaces
Over 200,000	0
100,000 to 199,999	3
50,000 to 99,999	6
30,000 to 49,999	10
20,000 to 29,999	24
10,000 to 19,999	76
5,000 to 9,999	142
Less than 5,000	753

Source: CoStar Property 5/07.

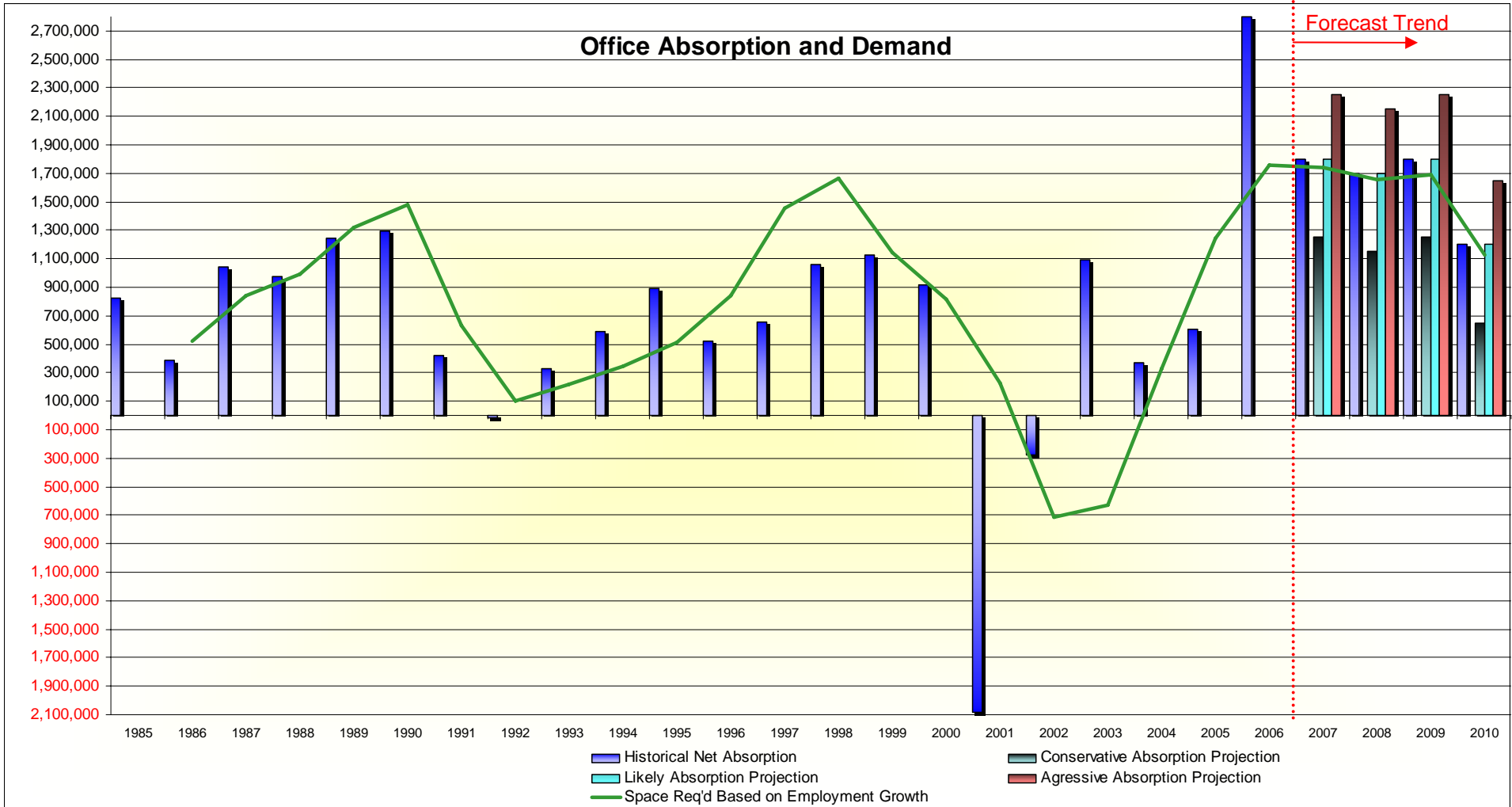
New Construction Forecast

As shown on the facing page, developers are planning to add about 10.3 million sq ft of office space to the existing inventory during the next several years. The table below summarizes the status of the new projects.

New Project Status	2007	2008	2009	2010+
Under Construction/Completed	100%	52%	34%	0%
Master Use Permit Approval	0%	41%	50%	0%
Proposed	0%	7%	15%	100%
New Construction Forecast	100%	100%	100%	100%

It generally takes between 12 and 24 months to complete the construction of an office building. Accordingly, 100% of the space scheduled for completion in 2007 is already under construction. Two of the five buildings are already complete with another expected to be complete before the end of the second quarter.

Eight of the 11 projects scheduled for completion in 2008 are under construction now, representing some 52% of the proposed additions for that year. These include Vulcan's Interurban Exchange II project, which recently began site preparation and will beginning puring the foundation in June, and another Vulcan project – UW Medicine on Mercer St. The first is a speculative project while the latter is a build-to-suit. Adding to the South Lake Union inventory is a build-to-suit for Weber+Thompson at the corner of Terry & Thomas, across the street from Group Health new project to be completed later this year. Also under construction is the long-anticipated Lakeview Building in Fremont. Michael Mastro has subleased the land from Opus and will complete the 108,000-sq ft build-to-suit office by the first quarter of 2008. Clise Properties' 7th @ Westlake project is expected to begin



construction any time, with occupancy in late-2008, and Touchstone's West 8th projects are expected to follow soon after.

Two of the five projects, representing 34% of the space scheduled for completion in 2009, have begun construction. Vulcan's 2201 Westlake project as well as their UW Medicine, Phase III both just began site work. Starbucks is scheduled to begin construction on their 204,000-sq ft expansion of 83 King (505 1st) in May or June.

It is difficult to accurately estimate which of the other buildings will actually be built, and none of the buildings proposed for completion after 2009 have received their Master Use Permit (MUP). Touchstone had just resubmitted an application for their 650,000-sq ft Stewart Place for a larger development. However, Children's Hospital just purchased the site with plans to eventually build 900,000 sq ft of medical research space, but not for another ten years.

Obtaining entitlements to construct a building can be a long process, requiring review by a multitude of government entities and the public. Receiving a MUP, sometimes requiring one to two years, is the most significant step toward obtaining government approval for the construction of a new building. This milestone requires the applicant to have made a substantial investment in both time and money. When a project receives its MUP, it is a good indication that the development could be realized. Another factor that can contribute towards a project's realization is the owner's reputation and experience. Of the four projects proposed for completion in 2009, but not yet under construction, three projects representing 83% of the four projects' space, have received MUPs. The real measure of a project's future is its level of pre-leasing. The 2007 projects were 84% pre-leased. The 2008 projects are just 15% pre-leased, or 26% pre-leased for those that have begun construction. It is expected that additional leasing activity will bring those project to a much higher level of occupancy by the time they reach completion in 2008. With two build-to-suits, 29% of the projects permitted or scheduled for completion in 2009 are pre-leased. The largest speculative project is the 650,000-sq ft Schnitzer office development at the corner of 8th and Stewart. The subterranean parking portion is nearing bottom, and actual building construction is scheduled to begin in September. To date, there has been no formal pre-leasing; however, the developer reports significant serious prospects.

Two of the buildings scheduled for completion in 2007 were, in fact, already completed this year, and it almost certain that the remaining

three projects will also be completed this year. Based on the above data and limited pre-leasing commitments thus far, we are forecasting that 78% of the space will be built in 2008, which represents all of those projects that have already begun construction, plus 65% of those permitted. In 2009, we forecast 74% will be completed, which includes all that have already begun construction, plus the remaining 35% of those permitted and scheduled for completion in 2008, plus 50% of the 2009 projects that already have their MUPs. This suggests that many of these proposed projects won't be built until later or possibly, not at all. This would not be surprising, as an earlier survey, in early-2005 indicated a total of 36 projects in various stages of planning or construction. Many of those projects were shelved and just 16 are currently proposed or under construction for 2008-2009 delivery. Still, another 16 are proposed for delivery after 2009, some of which are project being re-submitted after missing the last development cycle.

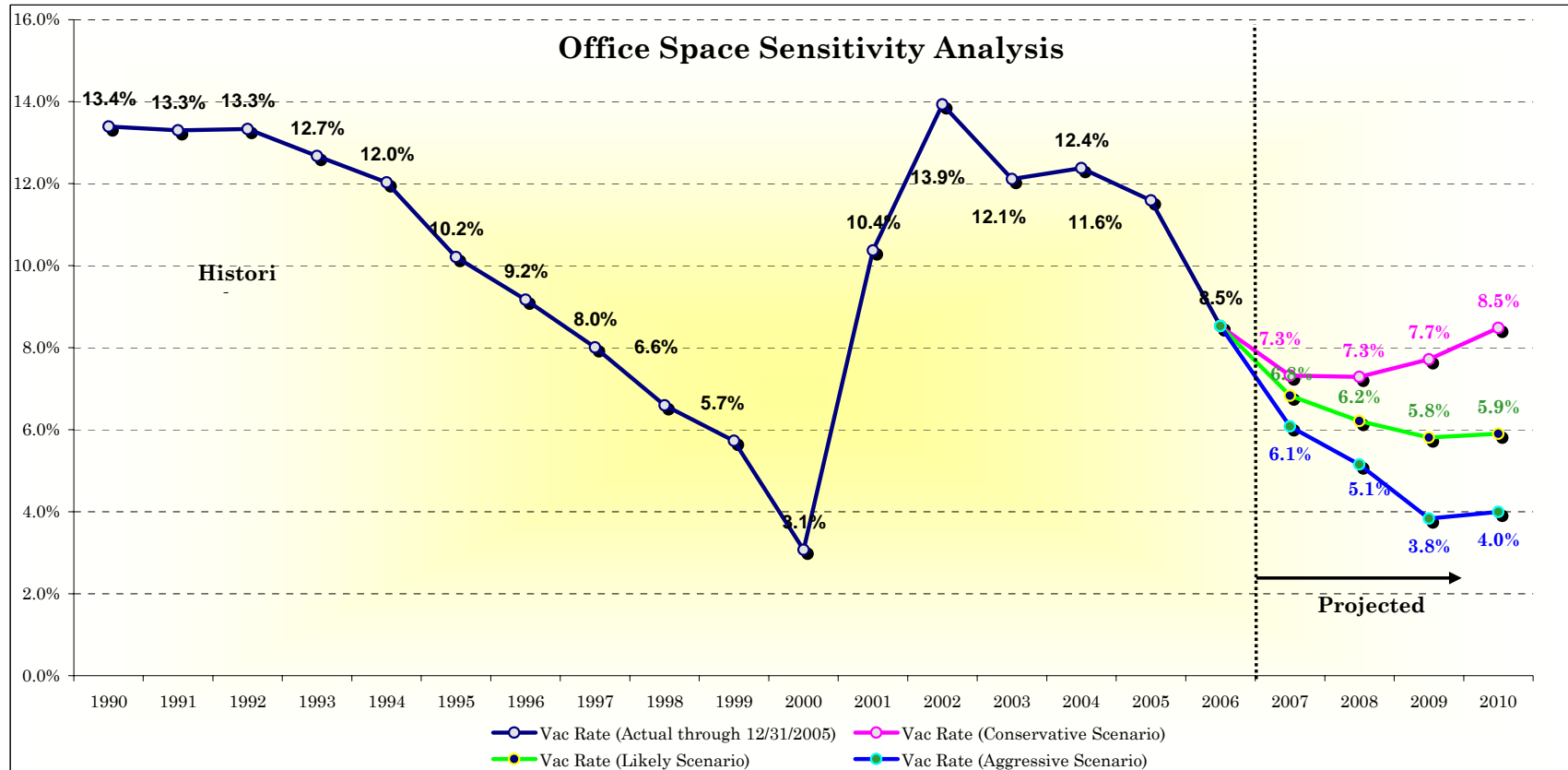
Absorption

Net absorption is the increase or decrease of space occupied by tenants in the market place. This figure is easy to track from one period to the next and can be measured with reasonable accuracy.

Future absorption is more difficult to predict. New product coming on line can be estimated, but the releasing of space vacated by tenants moving into the new buildings complicates the calculation of true net absorption. Tracking individual spaces that will soon be vacated is a speculative and time-consuming task, which seldom, if ever, is undertaken by the industry.

There is a direct correlation between employment growth and demand for new office space. One method for predicting future absorption is to look at employment trends. The State of Washington collects annual employment growth figures by business sector. Puget Sound Economic Forecaster (PSEF) economists utilize this data to make predictions of future growth for the city of Seattle. Seattle City Light also tracks the historic and projected employment growth for Seattle. The employment sub-sectors that, we believe, best reflect the demand for office space over time are: communications, finance, insurance, real estate, business and professional services, other services, state and local government "other", and federal civilian. Our forecast utilizes the PSEF projections and assumes that each new job creates demand for 225 sq ft of office space.

In 1998, absorption was about 1 million sq ft; in 1999 this figure rose to 1.1 million sq ft; in 2000 it was 920,000 sq ft. However, in 2001 net absorption was negative for the first time since 1992, when the market



Construction Assumptions:	Likely	Aggressive	Conservative
1. Percent of proposed projects completed during 2007.	100%	100%	84%
2. Percent of proposed projects completed during 2008.	78%	93%	52%
3. Percent of proposed projects completed during 2009.	74%	80%	45%
4. Percent of proposed projects completed during 2010.	15%	25%	5%

Absorption Assumptions:	Likely	Aggressive	Conservative
1. RSF absorbed during 2007.	1,800,000	2,250,000	1,250,000
2. RSF absorbed during 2008.	1,700,000	2,150,000	1,150,000
3. RSF absorbed during 2009.	1,800,000	2,250,000	1,250,000
4. RSF absorbed during 2010.	1,200,000	1,650,000	650,000

contracted by over 2,000,000 sq ft, reflecting the dramatic slowdown in the economy – initially the result of a pullback in the internet and technology sector, and in the wake of the attacks on the World Trade Center and the Pentagon in September 2001, and the ensuing “War on Terrorism”. 2002 also saw negative net absorption of about 280,000 sq ft; however, 2003 saw a return to positive net absorption of over 1,000,000 sq ft. In 2004, net absorption was 374,000 sq ft. In 2005, net absorption amounted to just over 608,000 sq ft; however, in 2006, net absorption surged to 2,796,737 sq ft. Through mid May, another 606,000 sq ft has been absorbed.

The State of Washington monthly employment data indicated that growth continued at a modest pace through December 2000, but reversed in 2001 to an annual rate of -1.0%, compared with 2.2% in 2000. 2002 saw even greater losses in employment, with an employment growth rate of -2.6% and -0.6% in 2003 before turning around in 2004 with 1.2% employment growth, 2.7% growth in 2005 and 3.6% in 2006. Puget Sound Economic Forecaster estimates continued strong growth of 2.5% in 2007, 2.8% in 2008 and 2.6% in 2009. Accordingly, we predict that a considerable amount of additional space will be absorbed during 2007, though not the same level as seen in 2006. We are projecting that during 2007, 1,800,000 sq ft will be absorbed. In 2008, we estimate 1,700,000 sq ft will be absorbed with 1,800,000 sq ft absorbed in 2009, dropping to 1,200,000 in 2010 when job growth is forecast to moderate. These figures compare with the average absorption of 950,000 sq ft annually from 1996 through 2000 and reflect what we expect to be compensation to the losses in 2001 and 2002 as well as reflecting the projected strength of job growth.

Vacancy

Downtown Seattle’s office vacancy rates are at their lowest level in over five years. The “Office Space Sensitivity Analysis” graph on the facing page illustrates historic vacancy rates for the Seattle office market. During the early 1990s, vacancy rates were driven by the development of about 6,000,000 sq ft of new office space. Vacancy rates during this period of time were about 13%. From 1992 to 1996, virtually no new office buildings were constructed and vacancy rates declined to about 5%. In 1998 and 1999, new construction started to satisfy some of the pent-up demand for office space. By mid-year 2000, vacancy was so small it was difficult to count, less than 2.0% by some measures. At year-end 2000, vacancy was about 3.1%, rising rapidly to 10.4% in 2001 and 13.9% in 2002. The quick change occurred as a result of many new buildings coming on line and start-up companies subleasing unneeded office space. Year-end 2003 saw a drop in vacancy to 12.1%

with an increase in 2004 to 12.4%, falling back to 11.6% at the end of 2005 and 8.5% by year-end 2006. Today vacancy stands at 7.6%.

Sensitivity Analysis

The previous facing chart also presents the effects on future vacancy under three absorption scenarios: conservative, likely and aggressive. The analysis assumes that during 2006, no additional buildings will be completed, and during 2007, 95% of all proposed projects will be completed. In 2008, 45% of the proposed buildings will be completed. The absorption estimates are detailed as follows:

Scenario	2007	2008	2009	2010
Conservative	1,250,000	1,150,000	1,250,000	650,000
Likely	1,800,000	1,700,000	1,800,000	1,200,000
Aggressive	2,250,000	2,150,000	2,250,000	1,650,000

Under the absorption scenarios, overall vacancy by year-end 2007 is expected to be between 6.1% and 7.3%. In 2008, vacancy is expected to decrease some, to between 5.1% and 7.3%, then decreasing again in 2009 to between 3.8% and 7.7% as new inventory is added to the market and employment growth undergoes its forecasted rates. With a forecast drop in employment growth to just 1.0% in 2010, absorption is forecast to fall accordingly, and vacancy will likely rise as developments in the pipeline come to completion.

Rental Rates – All Classes

In Seattle during the decade of the 1990s, office rental rates almost doubled. Rates trended upward for years with significant growth from 1998 into 2000. This trend has since reversed. Until recently, there was a move away from the mid-year 2000 “The Sky is the Limit” approach to pricing, to figures well off earlier highs. Rental rates fell every year between 2000 and the first quarter of 2004, with a combined reduction in the average rate in that quarter 34.4% lower than the year-end 2000 rate of \$35.80/sq ft. Through 2004 and 2005 saw very modest gains in rental rates (0.5% and 0.8%, respectively). 2006 saw the first meaningful increase in rents, rising 5.5% from year-end 2005 to year-end 2006. Approaching mid-2007, rates have already increased nearly 8% in less than six months.

Recently, investors have been modeling their prospective purchases with strong rent spikes in the first two or three years before moderating to more historical norms for the remainder of their analysis period. As shown in the table below, the current average rent for all building classes for the entire market is 10.63% higher than the 2006 average rate, while the CBD rate is 16.74% higher.

Average Direct Asking Rental Rates - All Classes	Avg.		Avg. 2006	Avg. 2005	5/16/07	% Chg. From Low	% Chg.	% Chg.
	Quarterly Low 2006	Quarterly High 2006			Current Avg.		From High	From 2006 Avg.
Ballard/Udistrict	\$21.95	\$25.11	\$22.99	\$22.54	\$25.86	17.81%	2.99%	12.48%
Belltown/Denny Regrade	\$22.57	\$25.10	\$23.88	\$22.83	\$27.27	20.82%	8.65%	14.22%
Capitol Hill/Central District	\$33.01	\$34.32	\$33.76	\$32.71	\$31.69	-4.00%	-7.66%	-6.14%
Lake Union	\$26.84	\$27.82	\$27.30	\$27.48	\$28.11	4.73%	1.04%	2.98%
Pioneer Square/Waterfront	\$19.29	\$21.68	\$20.71	\$19.66	\$22.23	15.24%	2.54%	7.33%
Queen Anne/Magnolia	\$21.15	\$22.18	\$21.76	\$21.32	\$20.69	-2.17%	-6.72%	-4.92%
South Seattle	\$18.45	\$19.12	\$18.74	\$19.67	\$19.38	5.04%	1.36%	3.40%
Seattle CBD	\$23.67	\$26.15	\$25.28	\$24.51	\$29.51	24.67%	12.85%	16.74%
Total	\$23.63	\$25.32	\$24.70	\$24.03	\$27.32	15.62%	7.90%	10.63%

Source: CoStar Properties

**Rental Rates – CBD
Class A**

Seattle CBD rental rates for Class A office space are typically higher than rates for other office classes and for other submarkets. The table to the right shows the actual year-end CBD Class A rental rates and percentage change from 1998 through the middle of May 2007, as well as our forecast growth looking forward. After five consecutive years of falling rates totaling more than 37% from year-end 2000 to year-end 2005, the current average rate is now 16.4% higher than year-end 2006 and 26.7% higher than year-end 2005. Most investors are now forecasting rent spikes in the first several years of their analyses. For example, the recent buyers of a Class A office in the CBD used market rents spikes of 13%, 12.5% and 7.5% in the first three years before lowering expectation to 3% after the third year. It now appears even that may have been too modest.

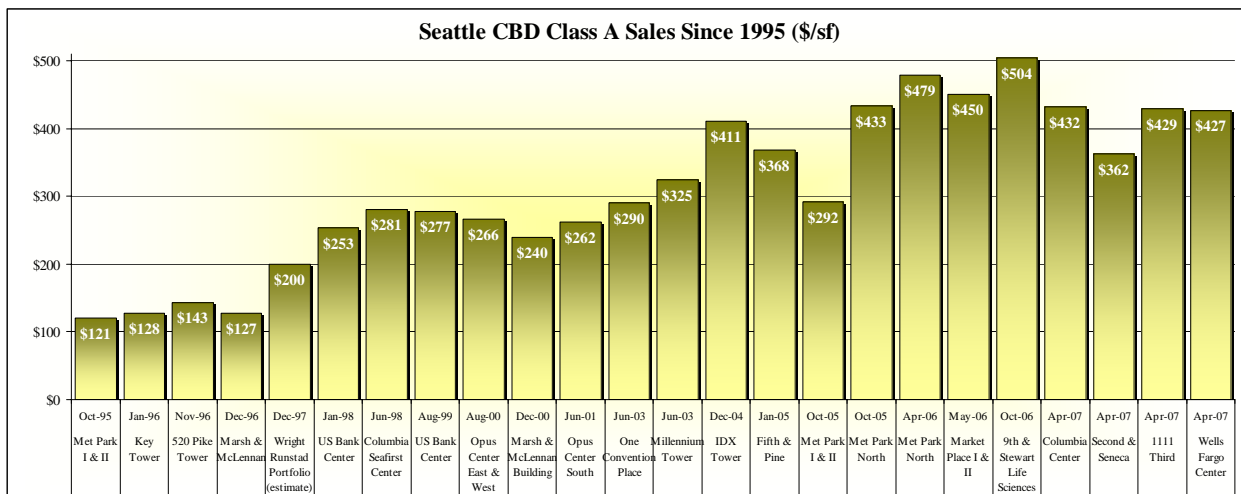
Year-End	CBD Face Rent (Class A Only)		Growth Rate
	Year-End	(Class A Only)	
1998		\$29.00	
1999		\$32.28	11.3%
2000		\$41.66	29.1%
2001		\$36.20	-13.1%
2002		\$30.74	-15.1%
2003		\$27.92	-9.2%
2004		\$26.97	-3.4%
2005		\$25.97	-3.7%
2006		\$28.27	8.9%
5/16/2007		\$32.91	16.4%
2007		\$33.92	20.0%
2008		\$37.32	10.0%
2009		\$40.30	8.0%
2010		\$42.72	6.0%
2011		\$45.28	6.0%

As shown on the previous table, we project CBD class A office rents to end 2007 20% higher than year-end 2006, with an additional 10% increase in 2008. For the years 2009 through 2011, we project rates to increase 8%, 6% and 6%, respectively, before returning to a more typical growth rate of 3% beyond 2011.

Also, please note that these rent and growth rate projections are for all CBD Class A buildings. New product proposed to come on line could well achieve rent and growth rates above those shown here.

**Investment Activity –
Office Buildings**

During 1995 and 1996, a round of office building sales occurred at prices that, as a rule, were 60% of replacement costs. As rental rates began to increase, the nature of building sales changed significantly. The 1998 sale of the Columbia Seafirst Center (now Bank of America Tower) at \$281/sq ft had marked the highest price paid for a major office building located in greater Puget Sound until two sales in June 2003 – Millennium Tower’s office portion sold for \$290/sq ft and One Convention Place at \$324/sq ft. IDX Tower set a new high in downtown Seattle with its sale in December 2004 at over \$400/sq ft, followed in October 2005 by the sale of Met Park North by Benaroya at a price of \$433/sq ft, and then the subsequent re-sale of Met Park North in March 2006 at \$479/sq ft. Before those sales, the most recent sales had been in the \$250 to \$275/sq ft range. It is not surprising that these buildings, with leases booked during late 2000, were able to achieve prices near or above the \$300/sq ft mark. During the last few years, buyers, anticipating the rise in rental rates and upside potential, have been willing to acquire properties at capitalization rates as low as 6%, or even lower. Sales of stabilized properties with long-term leases that are at market carry capitalization rates of 7.0% to 8.0%. A summary of the most recent transactions over 120,000 sq ft is shown below and historical transactions are on the graph below.



Identification	Building Characteristics	Sale Date	Analysis Price	Price/Sq Ft	OAR
Second & Seneca Building 1109 2 nd Ave	Built 1991 29 Stories 635,303 rsq ft	04/07	\$230,000,000	\$362	<4.0%
1111 Third 1111 3 rd Ave	Built 1980 34 Stories 558,822 rsq ft	04/07	\$240,000,000	\$429	<4.0%
Wells Fargo Center 999 3 rd Ave	Built 1983 47 Stories 944,574 rsq ft	04/07	\$402,966,200	\$427	<4.0%
Columbia Center 701 5 th Ave	Built 1985 76 Stories 1,437,614 rsq ft	04/07	\$621,000,000	\$432	<4.0%
9th & Stewart Life Sciences Bldg. 1900 9 th Ave	Built 2004 7 Stories 216,087 rsq ft	04/07	\$108,853,967	\$504	Owner/ user
Market Place I & II 2001-2003 Western Ave.	Built 1981 4/7 Stories 124,303 rsq ft	05/06	\$55,994,400	\$450,470	6.6%
Met Park North 1220 Howell St.	Built 2001 11 Stories 184,691 rsq ft	03/06 10/05	\$88,429,000 \$78,898,612	\$478.79 \$432.61	5.9% 6.5%
Met Park I & II 1701-1730 Minor Ave.	Built 1980/1988 18 & 20 Stories 701,456 rsq ft	10/05	\$182,864,160	\$291.81	<7.5%
IDX Tower 918 3 rd Ave.	Built 2002 39 Stories 845,533 rsq ft	12/04	\$348,057,000	\$411.64	6.8%
One Convention Place 701 Pike St.	Built 2001 23 Stories 308,580 rsq ft	6/03	\$89,474,955	\$289.96	< 9.0%
Millennium Tower 719 2 nd Ave.	Built 2000 20 Stories 199,384 rsq ft	6/03	\$64,750,000	\$324.75	< 10.0%
Opus South 705 5th Ave. S.	Built 2001 11 Stories 253,769 rsq ft	6/01	\$66,301,806	\$261.27	< 8.5%

Source: GVA Kidder Mathews Valuation Group

Summary

For several years, through 2005 office markets, both nationally and locally, had been soft with increases in vacancy and decreasing rental rates. This is a trend that shifted in the Seattle office markets in 2006. During 2000, vacancy was so low that tenants, looking for office space in Seattle, had few, if any,

choices. However, since the end of 1999, 10,000,000 sq ft of new space has been completed and 1,500,000 sq ft of sublease space had been brought to the market. All market participants believe the fallout is complete and anticipate continued improving trends for 2007 and 2008. This is further supported by the fact that over a dozen newly proposed projects have permits applications that were submitted within the last six months. Vacancy has decreased and rental rates have clearly begun to increase again. Recognizing job growth was positive in 2005 and 2006 and increased gains are expected through at least 2009, demand for office space will continue to improve. However, with over 10.3 million sq ft of space proposed by developers, overbuilding always remains a possibility.

So far through 2007, the following office market trends became prevalent and may likely continue throughout the next year:

- Increasing rental rates
- Flat to lower tenant improvement allowances
- Decreased vacancy

The indicators to watch include:

- Net absorption
- New sublease availabilities
- Pre-leasing commitments for new office projects
- Job Growth