



**Seattle Central Business District
Office Report 2007**

Prepared for:

Downtown Seattle Association

Author:

Anthony Gibbons, MAI, CRE

Researchers:

**Julie Riely
Barbara Chrisman**

RE♦SOLVE

GIBBONS & RIELY PLLC

*Real Estate Appraisal & Counseling and Mediation
261 Madison Avenue South, Suite 102
Bainbridge Island, Washington 98110-2579*

SEATTLE OFFICE MARKET ANALYSIS

Introduction

Our Seattle CBD Office Market Analysis is based on an annual survey of major office buildings (50,000sf or greater) in the Central Business District. The study reports on rental rates and occupancy trends for all buildings, and further divides the inventory into five subgroups:

Seattle CBD Building Subgroups

1. Post 1980 Class-A Office Buildings
 2. Pre 1980 Class-A Office Buildings
 3. Fringe Class-A Office Buildings
 4. Class-B Office Buildings
 5. Renovated Office Buildings
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The study area generally extends from Elliott Bay on the west to the Interstate 5 freeway on the east, with the southerly boundary being the Pioneer Square Historic District and the northerly boundary, with minor exceptions, at Denny Way. There are some concentrations of office buildings in Lower Queen Anne, Lake Union and Eastlake that are not included in this survey even though these surrounding areas are effectively an extension of the CBD. The survey has been conducted in the same format since January 1986, and relies upon individual paper and telephone survey responses. For a few buildings where no response has been obtained, third-party information has been used, including broker contacts, newspaper articles, CoStar and OfficeSpace.com.

The study is organized into four sections. The first section provides an historical perspective and places the current real estate market in the context of the real estate cycle. The second section analyzes occupancy trends. Rental rates are discussed in the third section. Finally, the fourth section presents an overview of supply and demand variables and concludes with predictions of where the market is headed in the year 2007 and beyond.

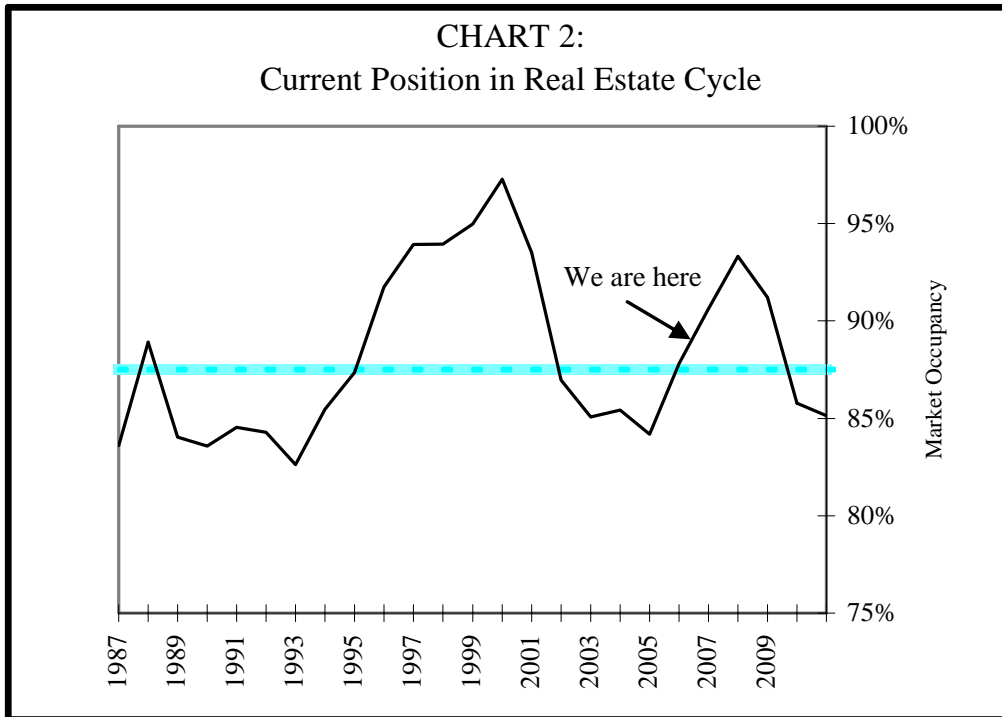
Seattle CBD Office Report Highlights

- In 2006 overall market vacancy fell to 9.3%, the lowest in six years, and the first time since the year 2000 that vacancy has been under 10%.
- Net absorption in 2006 was 1,980,000sf, this representing much stronger performance than we forecast last year (630,000sf). All building classes saw gains, but the bulk of the absorption was in the high-rise core.
- The average rental rate increased 11.7% last year and now lies at \$28.15/sf. Increases were experienced across all building classes. The Class A average rate for the post-1980 CBD core now lies at \$30.80/sf, a 12% increase over last year, and the best performance in five years.
- The post-1980 Class-A market segment, which represents the largest proportion of high-rise space, saw a decline in vacancy rate of 9.5% to 6.9%. This is the lowest posted vacancy rate in this building class since the Year 2000, when vacancy was 6.3%.

**CHART 1: Historical Supply & Demand
All Downtown Office Buildings**

Year End	No. of Buildings	Total Office SF	SF Occupied	Percent Vacant	Net Absorption	New Product
1986	96	18,370,194	15,361,785	16.4%		
1987	98	18,925,021	16,826,595	11.1%	1,464,810	554,827
1988	100	20,321,451	17,078,555	16.0%	251,960	1,396,430
1989	104	22,692,152	18,965,839	16.4%	1,887,284	2,370,701
1990	107	23,983,451	20,274,506	15.5%	1,308,667	1,291,299
1991	107	24,221,486	20,417,040	15.7%	142,534	238,035
1992	107	24,221,986	20,013,509	17.4%	-403,531	500
1993	106	24,161,486	20,649,632	14.5%	636,123	-60,500
1994	106	24,176,688	21,119,613	12.6%	469,981	15,202
1995	106	23,967,888	21,992,920	8.2%	873,307	-208,800
1996	105	24,029,670	22,570,737	6.1%	577,817	61,782
1997	105	23,747,374	22,309,550	6.1%	-261,187	-282,296
1998	107	24,236,649	23,018,444	5.0%	708,894	489,275
1999	106	24,910,922	24,233,779	2.7%	1,215,335	674,273
2000	104	24,855,808	23,245,092	6.5%	-988,687	-55,114
2001	110	26,217,823	22,799,404	13.0%	-445,688	1,362,015
2002	112	27,055,043	23,019,140	14.9%	219,736	837,220
2003	111	27,257,030	23,285,836	14.6%	266,696	201,987
2004	111	27,150,813	22,858,751	15.8%	-427,085	-106,217
2005	111	27,163,598	23,855,040	12.2%	996,289	12,785
2006	112	28,483,150	25,835,098	9.3%	1,980,058	1,319,552

**CHART 2:
Current Position in Real Estate Cycle**



With continued strong employment growth projected for this year, continued occupancy gains can be anticipated for 2007, and the market is expected to become somewhat overheated towards the end of the year. The appearance of new supply entering the market in force in 2008 should help alleviate this condition.

- The market is has fully recovered from the mid-part of the decade, and above inflationary increases in rental rates are expected for the next 12 to 24-months.
- No major deliveries are anticipated to occur in 2007, and the stage is set for a tightening rental market, and significant gains in rental rates this coming year.
- Our baseline forecast projects market rent spikes for the next two to three years, with average market vacancy below 10% through 2009.
- We anticipate some 1,400,000sf of new construction will be added by the end of 2008, and potentially over 2,000,000sf by year-end 2009.
- Projections of softening employment growth in the latter half of the decade, and into 2011 and 2012 set the stage for a slowdown in absorption and increase in vacancy rates by early to mid 2010, suggesting the growth cycle will be complete by the start of the next decade.

Real Estate Cycle Overview

The timing and strength of every market cycle is unique, but the general course of events is fairly predictable. Simply speaking, a shortage of space drives rental rates up providing the entrepreneurial incentive for developers to add new product to the market (new construction, renovation or conversion). A race to capitalize on economic opportunity leads to parallel development efforts that continue until oversupply is apparent. Rental rates are cut as landlords seek the new market equilibrium point that brings new users into the market (or at least into their building) and/or incites existing tenants to expand. Occupancy rates improve as space is filled at the new lower rates; and finally, when a shortage of space becomes apparent, rates rise again to provide the stimulus for new additions to the market.

Historical Perspective

The successful economic development of a CBD office high-rise is notoriously difficult, largely due to the complexity of accurately timing a development. A new high-rise office tower development typically has to await the appropriate gelling of capital, expertise and demand to result in a serious proposal. Due to the inevitability of real estate cycles, the time required to plan, undertake and lease a high-rise development, and the fact that delivery of a new development has its own impact on the market, it is axiomatic that the economic circumstances that encouraged the proposal will be different than those in place at the time of product delivery. And ironically, as favorable economic conditions were in place to generate the original proposal, product delivery often occurs during a down-cycle. To make matters worse, the accompanying real estate bust that often follows a boom period is exacerbated by parallel development deliveries.

A review of the Seattle office market illustrates this complexity most aptly. The relative position (both historical and projected) of the downtown office market within the context of the market cycle is mapped out in [Chart 2: Current Position in Real Estate Cycle](#). The chart reveals two cycles in the Downtown Seattle office market, the first dating back to the late 1980s when modern speculative office development

took hold and culminated in 1988 with the addition of five new Class-A buildings between 1988 and 1991 totaling 4,247,000sf. This changed a moderately oversupplied market into a seriously oversupplied market, and resulted in a precipitous drop in rental rates. Overlaying this supply issue, demand evaporated, with economic conditions reducing employment growth, and creating space redundancies, many of these resulting from bank mergers and corporate "rightsizing." This negative trend culminated in 1992 with negative absorption of over 400,000sf.

The market began its return in 1993 with positive absorption of 640,000sf, this continuing into 1994 with an additional 470,000sf, and nearly doubling in 1995 to 875,000sf. Software, telecommunications, and other high-tech firms, filling in for traditional downtown office users such as banks and law firms, drove this expansion. In 1995 there was also some opportunism at work, particularly among certain larger tenants. Existing and prospective tenants in the downtown area became aware of possible sharp rental increases caused by actual space shortages, and consequently they began making commitments to ensure their space needs were met at the most reasonable rents possible. Competitive lease packages offered to tenants by landlords also had the effect of drawing and retaining certain business types that might not otherwise have chosen to be downtown.

With the economy continuing to tighten, occupancies and rents continued to climb in the latter-half of the 1990s. Class-A rents saw increases of over 20% in 1997 and 1998, with rates reaching economic levels by the latter year, this firmly putting a number of proposed projects in full swing by the end of the decade. The market peak was reached in 1999, with vacancy at an unprecedented low of 2.7%, and the inertia of this continued to allow market rent increases into 2000, even though some softening in conditions was being experienced towards the end of that year.

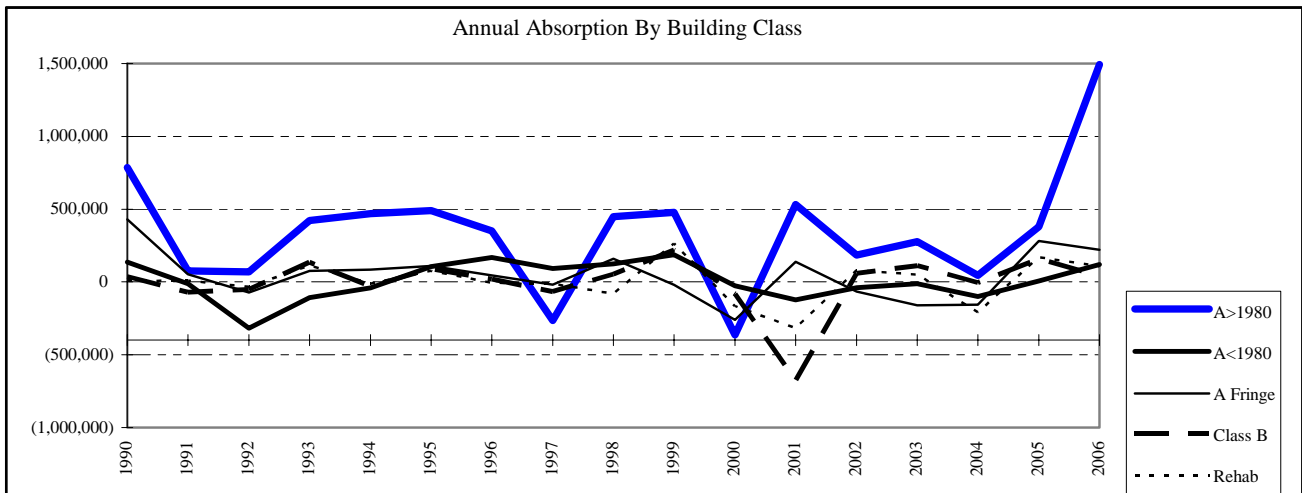
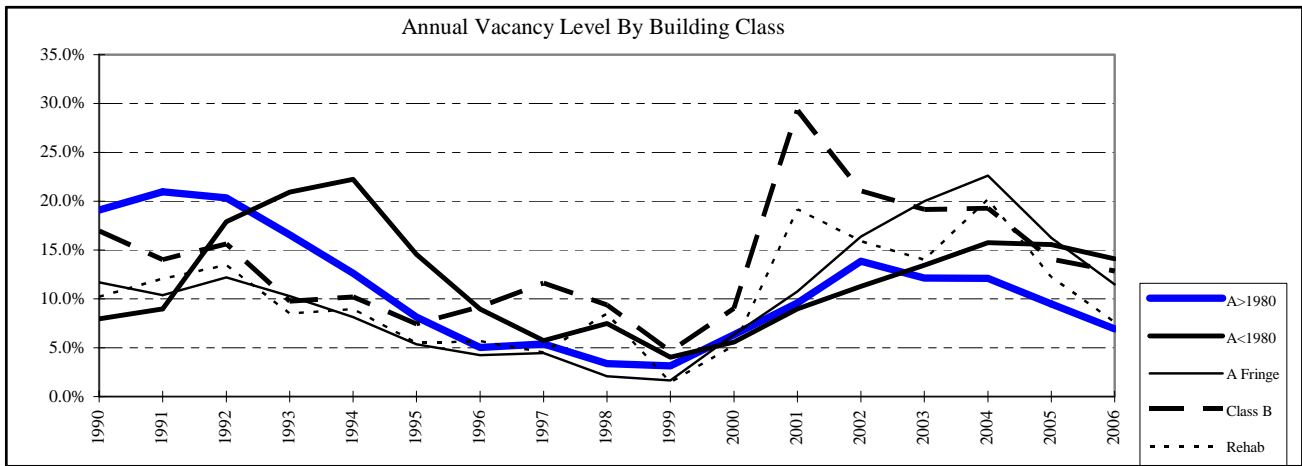
The onset of the down cycle was spectacular, essentially commencing with the implosion of the "tech-bubble" in early 2001. Although outside the Seattle CBD, the swiftness of the onset of the cycle was no better illustrated than by the abandonment of two partially completed high-rise office developments in the Bellevue CBD. These developments hit a wall in early 2001, with the technology sector in a full-fledged recession, this ultimately culminating in the March 2001 onset of the national and regional economic recession.

The rental decline in 2001, 2002 and 2003 was almost as precipitous as the rental rate increase had been prior to 2000. Most building classes saw double-digit rental declines in at least one of these three years. By December 2003, the Class-A>'80 rental market was as much as 39% below its peak in 2000, with the Class-A<'80 (-36%), Class-A-F (-25%), Class-B (-35%) and Class R (-31%) showing slightly lower losses. The observed compression in rental rates between classes was also in play during the last cycle, as landlords in the city's high-rises have responded most aggressively to the downturn.

Since 2005 the market has been on the road to recovery, with conditions last year being one of a general balance between supply and demand. During 2006 the market tightened considerably, and the forecast for 2007 is for more of the same. Rental spikes are very likely in 2007, and will come on the heels of an 11.7% increase in 2006. With new product deliveries in 2008, the market tightening is expected to endure into that year, with conditions not likely to ease until 2009 and 2010. Vacancy rates are expected to be back up to the 10% range, or beyond, by 2010-2011, calling for an end to the current growth cycle.

CHART 3: Historical Seattle CBD Vacancy & Absorption By Building Class

Year	Class A>1980		Class A<1980		Class A Fringe		Class B		Rehab		All Buildings	
	Vacancy	Absorb	Vacancy	Absorb	Vacancy	Absorb	Vacancy	Absorb	Vacancy	Absorb	Vacancy	Absorb
1990	19.1%	786,111	8.0%	136,589	11.7%	429,218	16.9%	35,981	10.2%	7,520	15.5%	1,308,667
1991	20.9%	76,065	9.0%	(12,341)	10.4%	52,427	14.0%	(69,439)	12.1%	9,070	15.7%	142,534
1992	20.3%	68,987	17.9%	(316,391)	12.2%	(71,714)	15.6%	(52,249)	13.5%	(32,164)	17.4%	(403,531)
1993	16.6%	421,070	20.9%	(107,506)	10.3%	75,198	9.8%	134,222	8.5%	113,139	14.5%	636,123
1994	12.6%	470,277	22.2%	(42,050)	8.1%	83,737	10.2%	(29,577)	8.9%	(12,406)	12.6%	469,981
1995	8.2%	490,949	14.6%	104,642	5.4%	110,557	7.4%	90,536	5.5%	76,623	8.2%	873,307
1996	5.0%	349,764	9.0%	168,529	4.3%	44,487	9.2%	19,670	5.7%	(4,633)	6.1%	577,817
1997	5.4%	(264,298)	5.7%	93,446	4.5%	(17,017)	11.6%	(65,771)	4.5%	(12,180)	6.1%	(261,187)
1998	3.4%	449,878	7.5%	124,295	2.1%	160,987	9.3%	53,848	8.5%	(80,114)	5.0%	708,894
1999	3.1%	477,917	4.0%	187,675	1.6%	(19,877)	4.6%	219,545	1.5%	263,896	2.7%	1,215,335
2000	6.3%	(363,928)	5.6%	(26,724)	6.4%	(261,736)	9.0%	(82,780)	5.2%	(167,341)	6.5%	(988,687)
2001	9.6%	532,051	9.0%	(122,307)	10.8%	139,702	29.3%	(677,959)	19.2%	(317,174)	13.0%	(445,688)
2002	13.8%	184,951	11.3%	(39,628)	16.4%	(66,471)	21.0%	60,183	15.9%	80,701	14.9%	219,736
2003	12.1%	276,604	13.5%	(12,694)	20.0%	(160,471)	19.1%	112,064	14.0%	51,193	14.6%	266,696
2004	12.1%	43,778	15.8%	(99,769)	22.6%	(156,512)	19.3%	(6,300)	20.2%	(208,282)	15.8%	(427,085)
2005	9.5%	379,821	15.6%	6,376	16.3%	280,871	14.1%	158,776	12.2%	170,445	12.2%	996,289
2006	6.9%	1,492,853	14.1%	119,233	11.5%	220,221	12.9%	40,796	7.6%	106,955	9.3%	1,980,058



Vacancy & Absorption

On Chart 3: Historical Seattle CBD Vacancy & Absorption by Building Class, the details of year-end vacancy rates and absorption for each of the five office subgroups, and the CBD as a whole, are presented in both tabular and graphic form. In 2006 the overall market vacancy rate dropped significantly, to 9.3% from the 12.2% level of 2005. Leasing activity was strong in 2006, creating a net absorption of 1,980,000sf. Today, the current 9.3% vacancy rate is below the “frictional vacancy rate” for the CBD, which is the first time this has been achieved since the 1995-2000 period.

Frictional vacancy is vacancy not related to disequilibrium in supply and demand, but rather is due to normal tenant relocations as leases roll over and expire. Obviously a healthy market is one in which there is enough, but only just enough, space for tenants to have some choices, and to accommodate normal expansion, contraction and relocations.

Experience tells us that the frictional vacancy rate probably lies around 10%. Despite the oft used “5% vacancy factor”, in market terms a 5 or 6% physical vacancy represents a market with some supply space constraints. Moreover since it is the vacancy rate of the post-1980 class which determines the competitive rental rate structure with which a new tower needs to compete, and in an improving market the occupancy in this class is usually 1 or 3 points above the mean (it is presently 2.5% above the market average), the average market vacancy can probably stand to be a little above 10%. In the narrative that follows, 10 to 12.5% overall is considered to represent the arrival of a market that is more or less in equilibrium. 2005 represented the first time this decade that this condition has, more or less, been achieved; and 2006, that it has been exceeded.

Pre 1980 Class-A

The Pre 1980 Class-A subgroup, which stalled in occupancy gains in 2005, and therefore saw little year-to-year increase in rental rates between 2004 and 2005, is now experiencing markedly better conditions, with a 12.1% increase in rental rates. The biggest news for this Class was the taking down of 284,000sf in 1001 Fourth Avenue Plaza by Safeco in their move from the University District into downtown. Vacancy remains above average, though, at 14.1%, with little overall net absorption experienced last year.

Post 1980 Class-A

Post 1980 Class-A office space is downtown Seattle’s most significant office subgroup. It is comprised of about 14.9-million square feet or 50% of the total competitive inventory. This class saw the largest increase in new product, with the 1,128,000 delivery of WAMU Center/SAM project, which was totally precommitted. Vacancy within this class presently stands at 6.9%, which is the lowest of all the various sub-classes and a good drop over last year’s 9.5% vacancy rate. Average rental rates saw significant gains, at 12.1% overall. The average rental rate for this class now stands at \$30.80/sf.

Class-A Fringe

The Class-A Fringe subgroup includes the newer predominately mid-rise office buildings found outside of the core downtown area in the Denny Regrade, the Cascade Neighborhood and along the Central Waterfront. The division line is not easily drawn, and for instance separates the two new World Trade Center Projects, East (Class-A) and North (Class-A-F). The subgroup merges seamlessly with the close-in Queen Anne and Lake Union neighborhoods, and is thus profoundly influenced by activity in these areas. The vacancy rate in this group has fallen steadily year over year, from 22.6% in 2004, 16.3% in 2005 to 11.5% in 2006. This class is the most vulnerable to the addition of new product of all the various subclasses, owing to the size of the market area and significant number of development sites available. With vacancy at about equilibrium for the first time in several years, rental rates increased dramatically last year (11.2%).

Class-B

The Class B market has also continued to improve, with vacancy dropping from 19.3% in 2004, to 14.1% in 2005, to 12.9% in 2006. Buildings in this class can suffer from some chronic vacancy, as needed retrofit investment is tough to economically justify in a soft market. With vacancy still quite high in this subclass, overall rental rate gains were modest (5.5%) this year – but still above inflation.

History tells us that the Class-B market tends to accrue significant vacancy in down markets largely on account of the observed compression in rental rates between classes. While in good times we would expect to see an \$11-12 difference or so between Class-A and Class-B rates, this has been compressed into a \$5-7 difference over the 2003 to 2005 period. 2006 saw some widening in this margin (to over \$7/sf) as Class A rates jumped up, and the stage is set for significant Class B occupancy gains and rental rate increases.

Class R

Rehabilitated buildings behave similarly to the Class-B market, in this case typically not being able to achieve any higher than 65%-70% of the Class-A market rental. The Rehab market tends to have market appeal to certain tenancy groups that do not typically consider Class-A space as an alternative (boutique design, architectural, and advertising firms for example).

In 2005 this sub-market revealed the most significant gain in overall occupancy, with a reduction in the vacancy rate from 20% in 2004 to 12% in 2005. This trend continued into 2006, with vacancy dropping further to 7.6%. Rental rates gains were also an impressive 11.0% overall, with the average rent now at \$20.76/sf, and above \$20/sf for the first time since the early part of this decade.

Summary

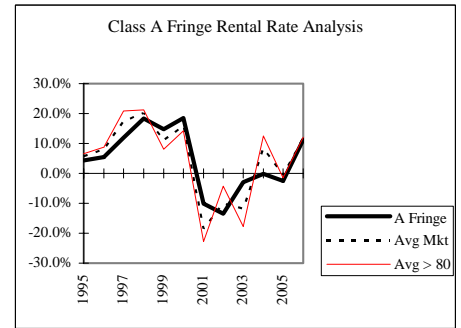
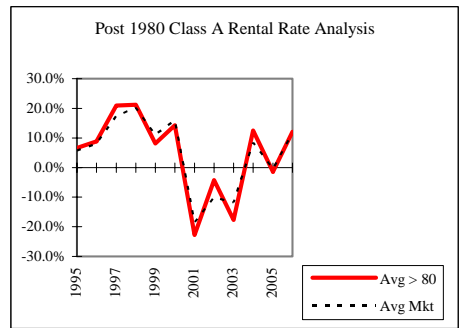
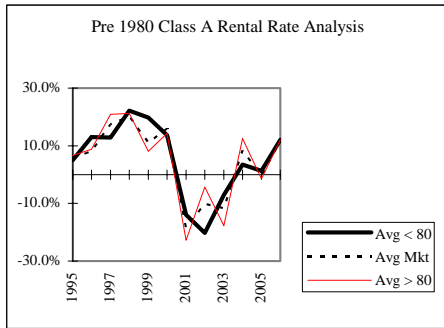
The market has seen across the board occupancy increases, with 1,980,000sf of space absorbed last year. This is the highest recorded total for the CBD in over 15-years. Overall market occupancy is now at a level (9.3%) that exceeds the baseline frictional vacancy rate for the market.

CHART 4: Summary of Seattle Central Business District Office Face Rental Rate Trends By Building Class

Class A Pre-1980 Bldgs.						
Year	Low	%+/-	High	%+/-	Average	%+/-
1995	\$15.66	7.4%	\$19.43	3.2%	\$17.54	5.0%
1996	\$17.54	12.0%	\$22.10	13.7%	\$19.82	13.0%
1997	\$19.86	13.2%	\$24.87	12.5%	\$22.36	12.8%
1998	\$24.89	25.4%	\$29.73	19.6%	\$27.31	22.1%
1999	\$30.71	23.4%	\$34.73	16.8%	\$32.72	19.8%
2000	\$35.66	16.1%	\$38.75	11.6%	\$37.20	13.7%
2001	\$31.36	-12.0%	\$32.70	-15.6%	\$32.03	-13.9%
2002	\$24.43	-22.1%	\$26.64	-18.5%	\$25.54	-20.3%
2003	\$22.64	-7.3%	\$24.81	-6.9%	\$23.73	-7.1%
2004	\$23.16	2.3%	\$25.93	4.5%	\$24.54	3.4%
2005	\$23.18	0.1%	\$26.56	2.4%	\$24.87	1.3%
2006	\$26.49	14.3%	\$31.16	17.3%	\$27.87	12.1%

Class A Post-1980 Bldgs.						
Year	Low	%+/-	High	%+/-	Average	%+/-
1995	\$17.62	9.2%	\$23.78	4.8%	\$20.70	6.6%
1996	\$19.67	11.6%	\$25.37	6.7%	\$22.52	8.8%
1997	\$23.27	18.3%	\$31.19	22.9%	\$27.23	20.9%
1998	\$28.26	21.4%	\$37.75	21.0%	\$33.00	21.2%
1999	\$31.77	12.4%	\$39.58	4.8%	\$35.67	8.1%
2000	\$39.47	24.2%	\$42.18	6.6%	\$40.77	14.3%
2001	\$29.58	-25.1%	\$33.36	-20.9%	\$31.47	-22.8%
2002	\$29.14	-1.5%	\$31.12	-6.7%	\$30.13	-4.3%
2003	\$22.79	-21.8%	\$26.80	-13.9%	\$24.79	-17.7%
2004	\$25.81	13.3%	\$29.98	11.9%	\$27.90	12.5%
2005	\$24.62	-4.6%	\$30.35	1.2%	\$27.49	-1.5%
2006	\$27.46	11.5%	\$34.14	12.5%	\$30.80	12.1%

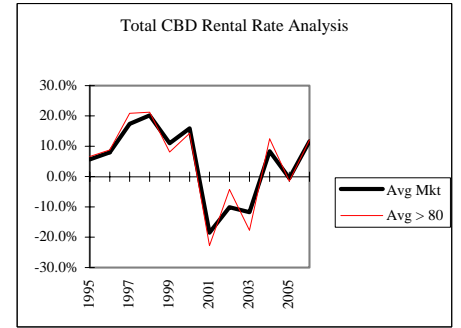
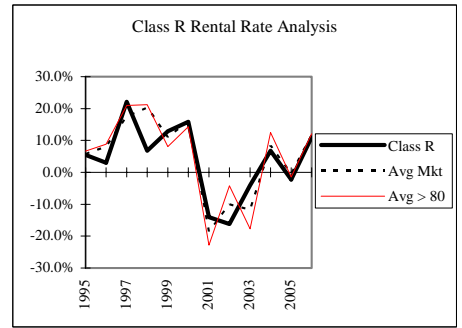
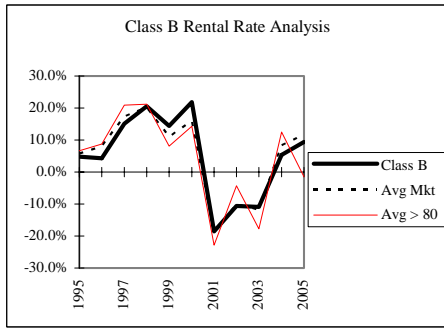
Class A Fringe Bldgs.						
Year	Low	%+/-	High	%+/-	Average	%+/-
1995	\$16.16	5.6%	\$18.11	3.2%	\$17.14	4.3%
1996	\$16.95	4.9%	\$19.15	5.7%	\$18.08	5.5%
1997	\$18.47	9.0%	\$22.01	14.9%	\$20.24	11.9%
1998	\$22.82	23.5%	\$25.10	14.0%	\$23.96	18.4%
1999	\$25.75	12.8%	\$29.24	16.5%	\$27.50	14.8%
2000	\$31.76	23.3%	\$33.42	14.3%	\$32.59	18.5%
2001	\$28.43	-10.5%	\$30.15	-9.8%	\$29.29	-10.1%
2002	\$25.14	-11.6%	\$25.66	-14.9%	\$25.33	-13.5%
2003	\$24.24	-3.6%	\$24.95	-2.8%	\$24.59	-2.9%
2004	\$24.05	-0.8%	\$25.03	0.3%	\$24.54	-0.2%
2005	\$23.13	-3.8%	\$24.73	-1.2%	\$23.93	-2.5%
2006	\$24.71	6.9%	\$28.49	15.2%	\$26.60	11.2%



Class B Bldgs.						
Year	Low	%+/-	High	%+/-	Average	%+/-
1995	\$13.46	5.8%	\$15.79	3.9%	\$14.62	4.8%
1996	\$13.96	3.7%	\$16.54	4.7%	\$15.25	4.3%
1997	\$15.99	14.6%	\$19.11	15.6%	\$17.55	15.1%
1998	\$19.26	20.4%	\$23.06	20.7%	\$21.16	20.6%
1999	\$22.17	15.1%	\$26.25	13.8%	\$24.21	14.4%
2000	\$28.03	26.4%	\$30.99	18.1%	\$29.51	21.9%
2001	\$23.56	-15.9%	\$24.52	-20.9%	\$24.04	-18.5%
2002	\$20.67	-12.3%	\$22.32	-9.0%	\$21.50	-10.6%
2003	\$18.26	-11.7%	\$20.05	-10.2%	\$19.15	-10.9%
2004	\$18.94	3.8%	\$21.41	6.8%	\$20.18	5.4%
2005	\$20.51	8.3%	\$23.66	10.5%	\$22.08	9.4%
2006	\$21.80	6.3%	\$26.02	10.0%	\$23.30	5.5%

Class R (Renovated) Bldgs.						
Year	Low	%+/-	High	%+/-	Average	%+/-
1995	\$13.36	5.4%	\$16.17	5.5%	\$14.77	5.5%
1996	\$13.50	1.0%	\$16.94	4.8%	\$15.22	3.0%
1997	\$16.51	22.3%	\$20.65	21.9%	\$18.58	22.1%
1998	\$17.84	8.0%	\$21.85	5.8%	\$19.84	6.8%
1999	\$20.98	17.6%	\$23.83	9.1%	\$22.40	12.9%
2000	\$25.17	20.0%	\$27.04	13.5%	\$25.94	15.8%
2001	\$21.70	-13.8%	\$22.92	-15.3%	\$22.31	-14.0%
2002	\$17.80	-18.0%	\$19.57	-14.6%	\$18.68	-16.3%
2003	\$16.49	-7.4%	\$19.36	-1.1%	\$17.92	-4.1%
2004	\$17.94	8.8%	\$20.34	5.1%	\$19.14	6.8%
2005	\$17.45	-2.7%	\$19.95	-1.9%	\$18.70	-2.3%
2006	\$19.18	9.9%	\$22.33	11.9%	\$20.76	11.0%

Total CBD 1995-2005						
Year	Low	%+/-	High	%+/-	Average	%+/-
1995	\$16.22	7.7%	\$20.60	4.3%	\$18.41	5.7%
1996	\$17.69	9.1%	\$22.08	7.2%	\$19.89	8.0%
1997	\$20.44	15.5%	\$26.27	19.0%	\$23.35	17.4%
1998	\$24.86	21.6%	\$31.28	19.1%	\$28.07	20.2%
1999	\$28.37	14.1%	\$33.97	8.6%	\$31.17	11.0%
2000	\$34.90	23.0%	\$37.46	10.3%	\$36.14	16.0%
2001	\$28.18	-19.2%	\$30.71	-18.0%	\$29.45	-18.5%
2002	\$25.65	-9.0%	\$27.35	-11.0%	\$26.49	-10.0%
2003	\$21.95	-14.4%	\$24.82	-9.3%	\$23.38	-11.7%
2004	\$23.78	8.3%	\$26.90	8.4%	\$25.34	8.4%
2005	\$23.12	-2.7%	\$27.30	1.5%	\$25.21	-0.5%
2006	\$25.63	10.9%	\$31.05	13.8%	\$28.15	11.7%



Rental Rate Trends

Whereas the occupancy levels that are reported to us in each annual survey are considered quite accurate, the rental levels are not statistically pure. The methodology used in the survey is to use the same general descriptive language each year with survey respondents. Specifically, “If you had office space available at year end, what would the rent range be from lowest to highest in the building?” However, it is clear from interviews with the respondents, as well as our review of actual building rental schedules, that true effective rental rates, after taking into consideration all major concessions (free rent and tenant improvement packages), are below the levels that are summarized herein. Although our survey attempts to track free rent and tenant improvements, respondents often do not supply the data because of the variety of factors that make it into more of a case-by-case determination – hence the survey does not present effective rents in the tracking of overall rental changes.

The partial response to this line of enquiry tells us that the tracking of effective as opposed to face rental rates tends to smooth out the true peaks and valleys in rental rate change, as rising face rates come with the simultaneous reduction or elimination of concessions, while the reverse is true in a softening market.

Historical Perspective

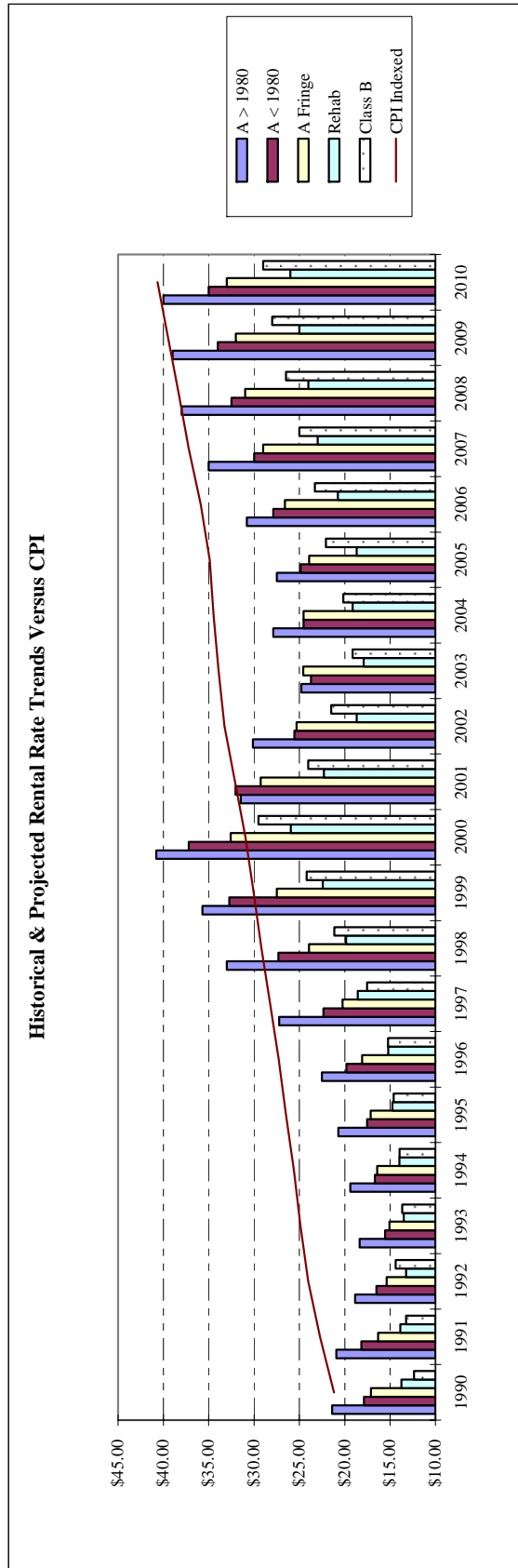
Chart 4: Summary of Seattle CBD Office Face Rental Rate Trends by Building Class, summarizes rental rate trends observed over the last twelve surveys by building class. For comparative purposes, the graphs of individual building classes are also compared to the performance of Post 1980 Class-A product and the market as a whole. It is noted that the stated average rental rates found in this report are based on a weighted average calculation to account for differences in building size. Larger buildings carry greater weight in the rental rate averages.

The last twenty years can roughly be broken into three time periods: oversupply and decline (1987 to 1993): recovery and boom (1994 to 2000), another cycle of decline and high vacancy (2001-2003), followed by the current recovery (2004-). The most recent bust cycle experienced an overall decline in rental rates, which well exceeded the approximate 7.8% decline experienced between 1987-1993. In part this was related to the spectacular ratchet-up in rates experienced in the boom period lying in between these two down-cycles. Between 1997 and 2000, Class-A>80 rates went from \$31.19/ to \$42.18/sf, reflecting an overall increase of approximately 35% in a three-year period. Between 2001 and 2003, a 36% and overall \$15.38 decline in rentals hit the same class. On the rebound since 2004, rental rates now lie 24% above the trough of the market in 2003.

As noted above, the peaks and troughs of this market are actually higher and lower than indicated as concession packages obviously come into play in tough times, and are stripped away in a strong market. Our research into effective rates suggest as much as a 10% downward adjustment to face rents in soft times is probably appropriate, if one considers average rent negotiated over the term of the lease. Concession packages do tend to be front-end loaded, though, facilitating the movement up to higher rents during better times.

CHART 5: Historical & Projected Rental Rate Trends Seattle CBD Office Market

Category	1990 - 2005 Historical Face Rate Trend by Building Class																			2007 - 2010 Projected Face Rent				
	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010			
Class A >1980	\$21.41	\$20.95	\$18.85	\$18.38	\$19.41	\$20.70	\$22.52	\$27.23	\$33.00	\$35.67	\$40.77	\$31.47	\$30.13	\$24.79	\$27.90	\$27.49	\$30.80	\$35.00	\$38.00	\$39.00	\$40.00			
% Change	2.3%	-2.1%	-10.0%	-2.5%	5.6%	6.6%	8.8%	20.9%	21.2%	8.1%	14.3%	-22.8%	-4.3%	-17.7%	12.5%	-1%	12%	14%	9%	3%	3%			
% of A Post 1980	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%			
Class A <1980	\$17.88	\$18.16	\$16.53	\$15.56	\$16.70	\$17.54	\$19.82	\$22.36	\$27.31	\$32.72	\$37.20	\$32.03	\$25.54	\$23.73	\$24.54	\$24.87	\$27.87	\$30.00	\$32.50	\$34.00	\$35.00			
% Change	-1.8%	1.6%	-9.0%	-5.9%	7.3%	5.0%	13.0%	12.8%	22.2%	19.8%	13.7%	-13.9%	-20.3%	-7.1%	3.4%	1%	12%	8%	8%	5%	3%			
% of A Post 1980	84%	87%	88%	85%	86%	85%	88%	82%	83%	92%	91%	102%	85%	96%	88%	90%	90%	86%	86%	87%	88%			
Class A Fringe	\$17.13	\$16.33	\$15.37	\$15.06	\$16.43	\$17.14	\$18.08	\$20.24	\$23.96	\$27.50	\$32.59	\$29.29	\$25.33	\$24.59	\$24.54	\$23.93	\$26.60	\$29.00	\$31.00	\$32.00	\$33.00			
% Change	6.5%	-4.7%	-5.9%	-2.0%	9.1%	4.3%	5.5%	11.9%	18.4%	14.8%	18.5%	-10.1%	-13.5%	-2.9%	-0.2%	-2%	11%	9%	7%	3%	3%			
% of A Post 1980	80%	78%	82%	82%	85%	83%	74%	74%	73%	77%	80%	93%	84%	99%	88%	87%	86%	83%	82%	82%	83%			
Class B	\$12.35	\$13.24	\$14.38	\$13.68	\$13.95	\$14.62	\$15.25	\$17.55	\$21.16	\$24.21	\$29.51	\$24.04	\$21.50	\$19.15	\$20.18	\$22.08	\$23.30	\$25.00	\$26.50	\$28.00	\$29.00			
% Change	-8.2%	7.2%	8.6%	-4.9%	2.0%	4.8%	4.3%	15.1%	20.6%	14.4%	21.9%	-18.5%	-10.6%	-10.9%	5.4%	9%	5%	7%	6%	6%	4%			
% of A Post 1980	58%	63%	76%	74%	72%	71%	68%	64%	64%	68%	72%	76%	71%	77%	72%	80%	76%	71%	70%	72%	73%			
Rehab	\$13.77	\$13.88	\$13.26	\$13.50	\$14.00	\$14.77	\$15.22	\$18.58	\$19.84	\$22.40	\$25.94	\$22.31	\$18.68	\$17.92	\$19.14	\$18.70	\$20.76	\$23.00	\$24.00	\$25.00	\$26.00			
% Change	-9.1%	0.8%	-4.5%	1.8%	3.7%	5.5%	3.0%	22.1%	6.8%	12.9%	15.8%	-14.0%	-16.3%	-4.1%	6.8%	-2%	11%	11%	4%	4%	4%			
% of A Post 1980	64%	66%	70%	73%	72%	71%	68%	68%	60%	63%	64%	71%	62%	72%	69%	68%	67%	66%	63%	63%	64%			
CPI Indexed	\$21.18	\$22.72	\$24.03	\$24.91	\$25.61	\$26.48	\$27.29	\$28.22	\$29.21	\$30.05	\$30.96	\$32.11	\$33.28	\$33.92	\$34.46	\$34.89	\$35.87	\$37.20	\$38.32	\$39.46	\$40.65			
% Change	7.3%	5.8%	3.7%	2.8%	3.4%	3.0%	3.4%	3.5%	2.9%	3.0%	3.7%	3.6%	1.9%	1.6%	1.2%	2.8%	3.7%	3%	3%	3%	3%			
% of A Post 1980	99%	108%	127%	136%	132%	128%	121%	104%	88%	84%	76%	102%	110%	137%	124%	127%	116%	106%	101%	101%	102%			



Projected Rental Rates

On the heels of a relatively stable period in rental rates, the market is now on a significant upward swing. This was foreseen last year, although our forecast of a 9% increase in Class A rents to \$30/sf actually turned out to be a little conservative. The market increased 12.1% to \$30.80/sf. More modest rental gains were projected for the other building classes (4 to 5% projections), and gains in these submarkets also exceeded our expectations (5 to 12% actual increases).

The momentum is likely to continue into 2007, and assuming projections of job growth and resulting net absorption prove out, we are (once again) forecasting above inflationary increases this year in face rental rates. In fact current indications point towards a potentially overheated market in 2007 and the first part of 2008, as new product will not be available for occupancy until 2008.

Current indications suggest we may see as much as 1,600,000sf of new construction by the end of 2008, and this will go a significant way towards letting steam out of, what could by then be, a market with significant pricing pressure.

Historical rental rate trends and projections are outlined in Chart 5: Historical & Projected Rental Rate Trends Seattle CBD Office Market. Average face rents by Class-A buildings are reported together with the percent change from year to year, as well as the percentage relationship to Post 1980 Class-A product. A CPI indexed 1990 average Post 1980 Class-A rent of \$21.18/sf has been added as an additional row in the table and shows up as a trend line in the graph at the bottom of the page. A 1990 \$21.41/sf average rent (this is the Class A figure) roughly reflects the rents necessary to justify new construction at that time. By inflating this rate through the historical reporting period and into the projection period, it provides a point of reference for judging the ability of the market to support new construction. As will be noted, the 1998 to 2000 boom period pushed rates well above this line, which would seem consistent with what we now can call an exaggerated rental market that was only supported by sub-5% occupancy rates.

Obviously any projection involves significant speculation, and more-so when looking to 2010 and beyond. The most reasonable scenario calls for a continuation of the strong market, with average rental rate increases reaching economic levels in 2008, and potentially continuing at this level through the end of the decade. At some point we can anticipate being re-visited with a downcycle. If all proposed projects get built, that will happen for sure in 2010 or 2011. That much parallel development is unlikely, and a more politic forecast would be for a return to market equilibrium - and stabilization of rental rates - by the end of the decade. History tells us of course that a downcycle is an inevitable event – it is the timing that remains highly speculative.

For 2007, then, rental gains are expected to continue in all classes. In Chart 5, the course mapped out for the future calls for the attainment of a \$40 rental average in the Class-A>80 market by 2010. Assuming inflation at 3% per year between now and then, we can report that this figure matches the CPI-indexed 1990 Class-A rate. Based on the observed range in rates in the Post-80 Class-A market, a category average of \$40/sf will likely support at least an additional \$2/sf premium (i.e. \$42/sf) for new construction.

Rental rates for product in other categories are expected to generally follow the projected increase in Class-A>80 rates, although Class A<80, Class-B and Class-A-F rates are expected to lag a little, as these markets still have a fair amount of vacant space to burn-off.

Projected Supply & Demand

Chart 7: Projected Occupancy Status and Absorption for the Seattle CBD Office Market, provides a baseline forecast for how the Downtown Seattle supply and demand of office space will play out over the next six years, and is presented in the following pages. The projection methods used are discussed below. As with any long-range forecast, the general trends depicted are more important than the specifics of individual projects and events. Issues affecting supply and demand are discussed in turn below. The projections incorporate assumptions regarding regional economic conditions on the demand side, and what is known with regard to current and projected new product availability on the supply side.

Demand

The office market is fundamentally linked to the economy at large through job growth. Projected job growth can be translated into demand for office space based on typical building space use characteristics. This multi-step process is outlined below and begins with an analysis of historical downtown employment and office occupancy for 1980, 1990 and 2000. Long range projections are then made for 2010 and 2020. This information is summarized on Chart 6: Seattle CBD Office Space Demand Analysis, which follows. The ten year “background” projections are then incorporated into a near and mid-term competitive supply and demand schedule for the period 2007 to 2011.

Historical Baseline

The key variables in office market demand analyses are total employment, total office employment, square feet of occupied office space and square feet of occupied office space per employee. These variables are discussed in turn below. Historical downtown employment figures come from “Population and Employment Forecasts for the Central Puget Sound Region,” published by the Puget Sound Regional Council (PSRC). The PSRC tracks population and employment trends for the Puget Sound by Forecast Area Zone (FAZ). The Seattle CBD is comprised of two FAZ zones and for 1980, 1990 & 2000 total downtown employment is indicated at 113,707, 163,938 and 185,616 respectively.

The next step in an office space demand analysis is to segment office-related employment from total employment. To accomplish this, typical office use ratios are applied to the different types of employment (e.g. resources, manufacturing, retail, and services). The ratios used here are partially based on a study of the Seattle Market area completed by Economic & Planning Systems Inc out of Berkeley, California in 1994. The ratios are calibrated to reflect the fact that while a majority of professional and clerical workers in service and financial industries use office space (typically 67%), managers in the wholesale industry are more likely to conduct activities in warehouse space.

CHART 6: Seattle CBD Office Space Demand Analysis

Category	Historical Data				Gibbons & Riely
	Total 1980	Total 1990	Total 2000	Total 2006	Projection 2010
Total Employment Seattle CBD/Denny Regrade					
Resources & Construction (01-17)	1,459	2,104	2,382		
Manufacturing (19-39)	5,553	4,792	3,767		
Whol/Tran/Comm/Util (40-42, 44-51)	14,562	20,535	18,316		
Retail Trade (52-59)	16,606	19,868	21,257		
Services (7, 60-67, approx. 70-90)	49,447	86,658	110,015		
Government/Education (43,82,92-97)	<u>26,080</u>	<u>29,981</u>	<u>29,879</u>		
Total Employment	113,707	163,938	185,616	187,041	202,195
Total 10yr Increase	11,845	50,231	21,678	73,334	16,579
Average annual % growth	1.1%	3.7%	1.2%	0.1%	0.9%
Percentage in Purpose Built Office Space (2)					
Resources & Construction (01-17)	36%	36%	36%		
Manufacturing (19-39)	23%	23%	23%		
Whol/Tran/Comm/Util (40-42, 44-51)	37%	37%	37%		
Retail Trade (52-59)	14%	14%	14%		
Services (7, 60-67, approx. 70-90)	67%	67%	67%		
Government/Education (43,82,92-97)	<u>70%</u>	<u>70%</u>	<u>70%</u>		
Percent of Total	54%	56%	57%	65%	65%
Number of Employees in Offices Space					
Resources & Construction (01-17)	525	757	858		
Manufacturing (19-39)	1,277	1,102	866		
Whol/Tran/Comm/Util (40-42, 44-51)	5,359	7,557	6,740		
Retail Trade (52-59)	2,325	2,782	2,976		
Services (7, 60-67, approx. 70-90)	33,228	58,234	73,930	Interim	
Government/Education (43,82,92-97)	<u>18,256</u>	<u>20,987</u>	<u>20,915</u>	Estimate	
Total Number of Office Employees	60,971	91,419	106,286	121,577	131,427
Average annual % growth	1.1%	4.1%	1.5%	2.3%	2.0%
over past.....	10 yrs	10 yrs	10 yrs	6 yrs	4 yrs
Multiplied By Average Employee per SF	226sf	260sf	250sf	250sf	250sf
Total Occupied CBD Office Inventory	13,780,492sf	23,779,061sf	26,571,398sf	30,394,233sf	32,856,688sf
% Total in 50,000sf + Competitive Inventory	75.0%	85.3%	87.5%	85.0%	85.0%
Total Occupied 50,000sf + Competitive Market	10,335,369sf	20,274,506sf	23,245,092sf	25,835,098sf	27,928,185sf
Total Indicated Net Absorption	NA	9,939,137sf	2,970,586sf	2,590,007sf	2,093,087sf
Total Indicated Annual Net Absorption	NA	993,914sf	297,059sf	431,668sf	523,272sf
over what period		10 yrs	10 yrs	6 yrs	4 yrs
				Absorption for decade	4,683,093sf
				Avg annual for decade	468,309sf

The blended percentage of office-related employment for the Seattle CBD is 54% in 1980, 56% in 1990 and 57% in 2000. The resulting total office-related employment estimates are 60,971, 91,419 and 106,286 respectively. Based on observed trends in CBD occupancy and employment, we have adjusted these percentages to allow for an increasing level of office-related employment as a percentage of total employment figures.

A critical step in the demand analysis is linking actual employment to a physical measure of office space. This is accomplished through an average employee density factor, which is simply total occupied office space divided by total office employees. Total occupied office space is retrospectively estimated for both 1980 through 2000. 1980 & 1990 figures are based on historical survey work conducted by Wronsky Gibbons & Riely and public records, while 2000 figures assume similar occupancy density.

The total CBD office inventory is measured at 13,780,000sf in 1980 and 23,780,000sf in 1990. The average square foot of building space per employee is calculated at 226sf in 1980 and 260sf in 1990. 250sf per employee is assumed for 2000, putting the total office CBD inventory in that year at approximately 26,570,000sf. Historically our survey, which is limited to what we regard as competitive buildings 50,000sf and larger, has encompassed approximately 85% of this total supply in recent years.

These historical relationships between jobs, office space and survey inventory are key in making the future demand projections discussed below. Important variables include our assumption of 250sf of office space per employee, and our assumption that the competitive inventory of 50,000sf buildings will continue to represent about 85% of the total office inventory.

Job Growth Projections

We have projected a CBD employment total of 202,000 by 2010, which corresponds to the PSRC 2010 projection of 202,021. If achieved, the 2000 to 2010 decade will provide an average annual employment growth of 0.9% per year, which compares to the 1990 to 2000 decade of 1.2% compounded growth, and the Conway-Pedersen history/projection for King County of 0.8%/year. Consistent with prior years, this growth is expected to be concentrated in industries which have typically yielded the most office demand, and our modifications to the Economic & Planning Systems ratios call for 65% of this total to go into office space.

Application of the above, suggests office employment will reach 131,333 persons by year-end 2010, this an effective annual increase over the decade of 2.1%, which compares to 1.4% for 1990-2000, and 2.3% for 2000-2006. The total four-year projection for new downtown CBD office jobs is then 9,843, allowing the current estimated job level of 121,490 to grow to around 131,000 by 2010 (see Chart 6). Year-by-year job growth estimates for the period January 1, 2007 through the end of 2010 appear in Chart 7: Projected Occupancy Status and Absorption for the Seattle CBD Office Market.

CHART 7: Projected Occupancy Status and Absorption For The Seattle CBD Office Market

	2007	2008	2009	2010	2011	2012	YE 2012
Projected Demand For Downtown Competitive Office Space							
Total CBD Office Employment	121,577	125,144	128,382	130,402	131,427	132,496	133,884
% measured	85%	85%	85%	85%	85%	85%	85%
Jan 1 workers in measured inventory	103,340	106,372	109,125	110,842	111,713	112,622	113,801
Projected Job Growth %	2.93%	2.59%	1.57%	0.79%	0.81%	1.05%	
Projected New Workers Added (@ Year End)	3,032	2,753	1,717	871	909	1,180	
Required Office Space 250sf/Employee	760,000	690,000	430,000	220,000	230,000	295,000	

	2007	2008	2009	2010	2011	2012	YE 2012
Historical & Projected Occupancy Status, New Construction and Absorption							
Total Inventory (as of Jan 1)	28,480,000	28,480,000	29,900,200	32,295,200	32,795,200	33,295,200	33,795,200
Occupied SF	25,840,000	26,600,000	27,290,000	27,720,000	27,940,000	28,170,000	28,465,000
Vacant SF	2,640,000	1,880,000	2,610,200	4,575,200	4,855,200	5,125,200	5,330,200
Occupancy % as of January 1	90.7%	93.4%	91.3%	85.8%	85.2%	84.6%	84.2%
Vacancy % as of January 1	9.3%	6.6%	8.7%	14.2%	14.8%	15.4%	15.8%
Existing Space Absorbed by year end	760,000	690,000	430,000	220,000	230,000	295,000	
Cumulative Office Space Absorbed	760,000	1,450,000	1,880,000	2,100,000	2,330,000	2,625,000	
Running Average Office Space Absorbed	760,000	725,000	626,667	525,000	466,000	437,500	
New Space Added (by Year End)	0	1,420,200	2,395,000	500,000	500,000	500,000	
Cumulative Office Space Added	0	1,420,200	3,815,200	4,315,200	4,815,200	5,315,200	
Running Average Office Space Added	0	710,100	1,271,733	1,078,800	963,040	885,867	

The employment growth statistics are based on the King County forecast from Conway-Pedersen, and range from 2.93% for 2006 dropping to around 0.79% by decade end. The average forecast is about 2.0% per year. Since our survey and analysis covers just the competitive inventory of 50,000sf buildings and above, assumed to be 85% or thereabouts of the total office inventory, the employment levels require adjustment by this figure. This is as noted in Chart 7, which reveals a January 1, 2007 employment figure of 103,267 (85% of 121,490) rising to 111,633 (85% of approximately 131,333) by the end of 2010, for a gain of 9,275 jobs in competitive, Gibbons & Riely surveyed, CBD space.

Forecast Period Office Space Demand & Absorption

Chart 6 reveals how the 2010 employment forecast works into a forecast of office demand, in total, for the decade, while Chart 7 provides a year-by-year analysis. Should the employment forecast for the CBD materialize, jobs within the CBD will generate demand for approximately 2,330,000sf of space between now and the end of 2010. This would then suggest the CBD will need, on average, 525,000sf for the years 2007 through year-end 2010.

Averaging in the lack of demand over the first half of the decade, the projection then calls for an average annual demand of 467,000sf per year for 2000 to 2010. This compares to the 1990-2000 performance of 300,000sf/year, and the 1980-1990 performance of 995,000sf per year.

The projections for absorption over the same four-year period are tied directly to the expected increase in office employment growth. In reality the relationship is more complex, of course, as companies will make leasing decisions that may lag or anticipate an expected increase in hiring. This suggests that there is some inherent flexibility in the 250sf assumption for every office employee, with some tightening of this figure expected during periods of limited office supply, while a softer market may result in companies holding less intensely occupied office space in anticipation of future growth – or simply because current lease contracts do not allow for an immediate space contraction.

As with all forecasts of this nature, it is almost impossible to predict the future course of events with any real degree of accuracy – and certainly not on an incremental time basis. We can merely make reasonable projections of what might be expected to occur, assuming the economy behaves as presently predicted. In Chart 7, then, the employment growth projection is translated into direct office absorption. Assuming the economy delivers 3,029 downtown CBD jobs in 2007 into our surveyed competitive inventory, we should see absorption of 760,000sf by year-end.

Projected absorption for years 2008-2010 follows a similar pattern, with the highest levels of absorption anticipated in 2007 and 2008 at 760,000sf and 690,000sf respectively. For the 2009 to the 2010 period, the rate of new job growth is expected to stabilize, and absorption for these years has been projected at around 250,000 to 400,000sf per year. Again for later years, these projections are simply made at what is expected or forecast to be close to an annual average projection.

CHART 8: Potential Sources of New Supply Seattle CBD Office Greater Than 50,000sf: New Construction & Renovation

Project	Type	Source	2007	2008	2009	TBD	Total	Committed	Available	Notes
2201 Westlake	A Fringe	Vulcan	320,000	320,000			320,000	0	320,000	Under construction - South Lake Union - pure spec
7th & Westlake	A Fringe	Clise		250,000	250,000		250,000	0	250,000	Delivery expected first quarter of 2008
1918 Eighth Avenue	A Fringe	Schnitzer Northwest		650,000	650,000		650,000	0	650,000	Project size increase from 24 to 36 stories
West 8th	Class A	Touchstone		490,000	490,000		490,000	0	490,000	100% spec
333 Elliott Ave. W	A Fringe	Martin Selig RE	137,200	137,200			137,200	0	137,200	100% preleased to F5 Networks
Colman Tower	Class A	Triad	173,000	173,000			173,000	0	173,000	In design
635 Elliott Ave W	A Fringe	Martin Selig RE		330,000	330,000		330,000	0	330,000	Plans to break ground Spring of 2007
Stadium Place	Class A	Urban Visions		1,200,000	1,200,000		1,200,000	0	1,200,000	No firm time-table
Fifth & Yesler	Class A	Martin Selig RE		275,000	275,000		275,000	0	275,000	No precommitments
Center of Pioneer Sq	A Fringe	Urban Visions		190,000	190,000		190,000	0	190,000	Trolley facility connection; may have some mixed use
220 Elliott Ave W	A Fringe	Martin Selig RE	70,000	70,000			70,000	0	70,000	100% spec
Stewart Place	A Fringe	Touchstone		700,000	700,000		700,000	0	700,000	Maybe Biotech; details confidential
818 Stewart St	A Fringe	CBRE	230,000	230,000			230,000	0	230,000	Prospective mid 2008 delivery
Fifth & James	Class A	King County		1,100,000	1,100,000		1,100,000	0	1,100,000	County Admin site - county would take 200,000sf
Denny Way Plaza	A Fringe			115,000	115,000		115,000	0	115,000	No quoted timetable
Fifth & Columbia	Class A	Seneca Real Estate		535,000	535,000		535,000	0	535,000	Former First Methodist Church; MUP only
2121 Sixth Ave.	A Fringe	CBRE		200,000	200,000		200,000	0	200,000	No commitments or ground-breaking plans yet; partially Bio-Tech?
505 First Avenue S	Class A			204,000	204,000		204,000	0	204,000	
83 Kiing Street Exp	Class A			127,500	127,500		127,500	0	127,500	Starbucks ownership - MUP
Subtotal New Construction		New Additions	0	1,420,200	2,395,000	3,481,500	7,296,700	0	7,296,700	
		Cumulative Additions	0	1,420,200	3,815,200	7,296,700				

Supply

Presented on the previous page is a summary of potential sources of Seattle CBD office supply for the period 2007 to 2010 and beyond. This is not likely to be a complete list – and by the same token some of these projects may not be built over this time period. Development proposals tend to run the gamut of speculative to definite, varying from conceptual fancies, to projects with permits and pre-leasing commitments in hand. Despite the surety of the latter, even the most definite of proposals can get waylaid by poor market conditions or higher than expected construction costs.

2201 Westlake has broken ground and is expected to be the first delivery in 2008. 7th and Westlake, 1918 Eighth, West 8th and 333 Elliot are also regarded as firm projects, with deliveries in 2008 and 2009. All told we have projected as much as 1,400,000sf that could be delivered into the CBD market by the end of 2008, with over 2,000,000 potentially coming on line in 2009, assuming office market conditions continue to strengthen through 2007.

Development activity outside the boundaries of this survey will of course also impact the Central Business District, and a significant amount of new construction is on-going and planned for the South Lake Union market. In addition the fortunes of north-end, south-end and east-side markets will all have various ripple effects on the CBD.

The fact that numerous developers are contemplating speculative development is testimony to the imminent arrival of an economic market that can support new construction. New construction does not have to wait for a return to economic conditions, but instead serious interest from a credit-worthy tenancy at a rental rate that justifies the return requirements of equity investors, and the underwriting requirements of the lender. These conditions typically arise in anticipation of a return to a stabilized market, however. Given current investor requirements and (rising) construction costs, economic rent today is in the \$40/sf range, this allowing for some vacancy, parking income and just shy of a \$10/sf expense burden. This figure also corresponds quite closely to the CPI indexed rental figure shown on Chart 5 for 2005.

Presently the high-side average of the Post-80 Class-A rental rate lies at \$34/sf. We can assume some premium for new construction (perhaps 10%), and given that and the expected increase in rents in 2007 (by 14%), economic conditions are expected to be in place in 2008, suggesting that the near-term current proposals are well-timed.

Our market forecast allows for approximately 1,400,000sf of new construction in 2008, and 2,400,000 in 2009. Thereafter we have assumed annual delivery of 500,000sf, which if such occurs may marginally oversupply the market by 2011 or 2012.

Future Occupancy & Rental Rate Trends

At the projected demand and supply levels, the CBD occupancy rate is expected to jump significantly up next year to an uncomfortably (for tenants) tight market of 93.7% occupancy. With the delivery of new product in 2008, this will adjust to 8.8% by the end of that year, and the vacancy may exceed 10% as we enter 2010. The frictional vacancy rate is expected to be reached that year, and with declining

employment growth, it is possible we will see vacancy rates above 12% in 2011 and 2012. All of this depends on the number of “late” arrivals of new office product.

These projections factor into the forecast of rental performance shown in Chart 5. Improving occupancy levels are expected to allow for real growth in rental rates from this point forward, with the increases expected to stabilize in the 2009 to 2010 timeframe. Projected CBD occupancy rates in 2007 may briefly allow for a return of the spectacular rental performance we saw in the past boom cycle. That forecast is not made here; however in years past our projections of rental rate growth in good times have been a little on the conservative side, and that tendency may also exist in the current projection.

Conclusion

The CBD office market strengthened considerably in 2006. With absorption at 1,980,000sf, vacancy fell to 9.3%, this the best market occupancy performance recorded for the past six years. Face rental rate growth was well above inflation, particularly so for the Class A inventory, with posted average gains of 12.1%.

The outlook for the next few years is very positive. 2007 will see another year of tighter occupancy, and a fresh round of rental rate increases. The pending new supply of 1,400,000sf of new product in 2008 is expected to help alleviate what by late 2007 will be an overly tight market with vacancy in the 6% range. All of this new construction is expected to be absorbed in 2008 and 2009. New construction through 2009 and into 2010, coupled with current projections of moderating employment growth, suggest the occupancy level will ease in late 2009 and 2010. Our forecast for market occupancy is for it to drop to under 90% by the end of the decade, when the frictional vacancy level of around 12.5% or so will likely be reached.

These conditions are expected to allow for greater than inflationary increases in rental rates over the next few years, particularly through the coming year and into 2008.

EXHIBIT 9: Seattle Central Business District Office Building Occupancy and Rental Survey as of December 31, 2006

Building Description			Occupancy Statistics								Office - Face Rents \$/s/yr		
Name of Building	Vintage	Stories	Office Rentable	Office Leased	Office Occupied	Office Unoccupied Leased	Office Unoccupied Unleased	Office % Occupied	Office % Leased	Low	High	Average	
Pre-1980 Class A Office Buildings													
1015 3rd Ave Bldg-City Light (Ren 1998)*	1954	13	218,000										
Norton Building (Ren. 1983)	1959	17	247,161										
Puget Sound Plaza	1960	21	260,923										
IBM Building	1964	20	214,620										
1001 Fourth Avenue Plaza	1969	50	710,000										
Plaza 600 Building	1969	20	209,256										
Pacific Building	1970	23	120,381										
Park Place Building	1971	21	310,633										
Abraham Lincoln Building	1972	14	132,007										
Financial Center	1973	27	325,719										
901 Fifth Avenue Building	1973	42	515,830										
Rainier Tower	1977	40	538,529										
2006 Totals/Averages Pre-1980 Class A Buildings			3,803,059	3,266,459	3,266,459	0	536,600	85.9%	85.9%	\$26.49	\$31.16	\$27.87	
2005 Totals/Averages			<u>3,728,094</u>	<u>3,164,295</u>	<u>3,147,226</u>	<u>17,069</u>	<u>563,799</u>	<u>84.4%</u>	<u>84.9%</u>	<u>\$23.18</u>	<u>\$26.56</u>	<u>\$24.87</u>	
Yearly Differential:			74,965	102,164	119,233	(17,069)	(27,199)	1.5%	1.0%	\$3.31	\$4.61	\$3.00	
Post-1980 Class A Office Buildings													
Eleven-Eleven Third Avenue	1980	34	557,891										
720 Olive Way (Marsh & McLennan)	1981	19	278,213										
Bank of America Fifth Avenue Plaza	1981	42	887,431										
One Union Square	1981	36	657,531										
Westin Building	1981	34	396,000										
520 Pike Tower	1983	29	362,696										
Wells Fargo Center	1983	48	898,122										
Waterfront Place	1983	13	162,422										
Watermark Tower	1983	22	57,400										
Columbia Center (formerly Bank of Am. Tower)	1985	76	1,470,698										
Washington Federal Building	1984	6	72,423										
Century Square	1986	30	559,039										
1000 2nd Avenue Building	1987	43	423,599										
First & Stewart Building	1987	12	89,000										
Westlake Center	1988	18	355,107										
Washington Mutual Tower	1988	55	1,078,422										
Two Union Square	1989	56	1,126,428										
US Bank Centre	1989	44	863,767										
Seattle Municipal Tower	1990	62	1,048,836										
2nd & Seneca Building	1991	22	397,423										
1700 7th Avenue	2001	24	486,753										
IDX Tower	2002	40	846,588										
Millennium Tower	2001	20	199,076										
One Convention Place	2000	22	309,400										
World Trade Center East Building	1999	6	184,247										
WaMu Center & SAM	2006	42	1,128,000										
2006 Totals/Averages Post 1980 Class A Buildings			14,896,512	14,154,719	13,867,029	287,690	741,793	93.1%	95.0%	\$27.46	\$34.14	\$30.80	
2005 Totals/Averages			<u>13,672,875</u>	<u>12,828,172</u>	<u>12,374,176</u>	<u>453,996</u>	<u>844,703</u>	<u>90.5%</u>	<u>93.8%</u>	<u>\$24.62</u>	<u>\$30.35</u>	<u>\$27.49</u>	
Yearly Differential:			1,223,637	1,326,547	1,492,853	(166,306)	(102,910)	2.6%	1.2%	\$2.84	\$3.79	\$3.32	
Class A Fringe Buildings (AF)													
Sixth & Lenora Building	1963	11	150,214										
Denny Building	1968	12	161,231										
Fourth & Vine Building	1975	8	123,445										
Fourth & Battery Building	1978	12	198,314										
Fourth & Blanchard	1979	25	405,960										
Elliott Bay Office Park	1980	5	225,616										
Metropolitan Park West (I) Tower	1980	18	336,041										
Queen Anne Square	1980	4	96,185										
Market Place One & Two	1981	7	108,530										
Bay Vista Building	1981	5	98,914										
Third & Broad Building	1982	6	275,745										
Blanchard Plaza	1982	15	224,938										
3101 Western Bldg	1984	8	187,075										
3131 Elliott Avenue Building	1986	11	189,843										
101 Elliott Building (formerly PI Bldg)	1986	5	100,500										
Olympic Block	1986	6	69,283										
Market Place Tower	1988	12	189,202										
Metropolitan Park East (II) Tower	1988	20	360,460										
2505 2nd Ave Bldg (Arbor Place)	1989	7	61,212										
1800 Ninth Avenue Building	1990	16	305,575										
Metropolitan Park North (III) Tower	2001	11	157,000										
5th & Bell Building	2002	0	203,000										
World Trade Center North Building	2000	5	133,177										
World Trade Center West	1998	4	66,034										
2006 Totals/Averages Class A Fringe Buildings			4,427,494	4,079,021	3,918,774	160,247	348,473	88.5%	92.1%	\$24.71	\$28.49	\$26.60	
2005 Totals/Averages			<u>4,416,382</u>	<u>3,900,466</u>	<u>3,698,553</u>	<u>201,913</u>	<u>515,916</u>	<u>83.7%</u>	<u>88.3%</u>	<u>\$23.13</u>	<u>\$24.73</u>	<u>\$23.93</u>	
Yearly Differential:			11,112	178,555	220,221	(41,666)	(167,443)	4.8%	3.8%	\$1.59	\$3.76	\$2.68	

Building Description			Occupancy Statistics							Office - Face Rents \$/s/f/yr		
Name of Building	Vintage	Stories	Office Rentable	Office Leased	Office Occupied	Office Unoccupied Leased	Office Unoccupied Unleased	Office % Occupied	Office % Leased	Low	High	Average
Class B Office Buildings												
Colman Building (Ren. 1982)	1904	6	100,235									
Harold Poll Building	1906	6	47,503									
Central Building	1908	8	140,237									
Joshua Green Building	1910	10	62,513									
Maritime Building	1910	5	150,000									
Broadacres Building (Ren. 1986)	1914	10	78,000									
Smith Tower (Ren. 1986)	1914	42	248,482									
Times Square Building (Ren. 1982)	1916	6	49,541									
Securities Building	1918	10	125,000									
Second & Spring Building	1921	5	123,648									
Dexter Horton Building	1923	14	313,380									
Terminal Sales Building	1925	11	99,206									
Skinner Building	1926	8	124,642									
Fourth & Pike Building	1927	10	72,491									
Exchange Building	1928	22	283,844									
Joseph Vance Building	1929	14	102,956									
Fourteen-Eleven Fourth Avenue Building	1929	15	105,945									
Seattle Tower	1929	27	151,412									
Olympic Tower (Ren. 1981)	1930	13	75,800									
Tower Building (Ren. 1963)	1930	17	142,041									
205 Columbia Building*	1921	4	51,338									
Medical-Dental Building (Ren. 1981)	1951	19	309,000									
Logan Building	1959	10	102,138									
1st Cedar Building	1975	5	44,709									
Seaboard Building	1910	10	45,120									
2006 Totals/Averages Class B Buildings			3,149,181	2,751,750	2,744,106	7,644	397,431	87.1%	87.4%	\$21.80	\$26.02	\$23.30
2005 Totals/Averages			<u>3,145,678</u>	<u>2,735,005</u>	<u>2,703,310</u>	<u>31,695</u>	<u>410,673</u>	<u>85.9%</u>	<u>86.9%</u>	<u>\$18.00</u>	<u>\$25.00</u>	<u>\$21.50</u>
Yearly Differential:			3,503	16,745	40,796	(24,051)	(13,242)	1.2%	0.4%	\$3.80	\$1.02	\$1.80
Renovated Office Buildings												
Broderick Building (Ren. 1986)	1889	6	71,954									
Grand Central on the Park (Ren. 1972)	1890	4	55,881									
Globe Building (Ren. 1979)	1890	4	36,486									
Mutual Life Building (Ren. 1983)	1890	6	46,000									
Heritage Building (Ren. 1982)	1901	5	62,000									
Westland Building (Ren. 1979)	1901	6	60,000									
Occidental Mall (Ren. 1986)	1901	5	91,308									
FX McRory's	1902	6	79,539									
Union Trust/Annex (Ren. 1985)	1902	6	27,160									
Merrill Place (Ren. 1984)	1904	7	148,660									
National Building (Ren. 1982)	1904	6	109,664									
1201 Western Building (Ren. 1986)	1910	7	89,553									
Hoge Building	1911	17	90,000									
51 University Street*	1920	6	84,920									
Kress Building (Ren. 1982)	1925	3	64,433									
Melbourne Tower (Ren. 1984)	1927	10	89,936									
Gibraltar Tower (formerly Century) (Ren. 1980)	1927	8	30,609									
MiKen Building (Ren. 1982)	1929	8	48,000									
Seattle Trade & Technology Center (1998)	1977	5	335,149									
Eighty-Three King Street	1984	8	200,363									
Elliott Park**	1984	5	134,989									
Court in the Square-Goldsmith	1984	7	114,579									
Trianon Building	1985	3	49,982									
Galland & Seneca Building (Ren. 1985)	1985	6	85,739									
2006 Totals/Averages Renovated Buildings			2,206,904	2,056,405	2,038,730	5,183	162,991	92.4%	93.2%	\$19.18	\$22.33	\$20.76
2005 Totals/Averages			<u>2,200,569</u>	<u>2,015,813</u>	<u>1,931,775</u>	<u>84,038</u>	<u>184,756</u>	<u>87.8%</u>	<u>91.6%</u>	<u>\$17.45</u>	<u>\$19.95</u>	<u>\$18.70</u>
Yearly Differential:			6,335	40,592	106,955	(78,855)	(21,765)	4.6%	1.6%	\$1.73	\$2.38	\$2.06
2006 Totals/Averages CBD Buildings												
			28,483,150	26,308,354	25,835,098	460,764	2,187,288	90.7%	92.4%	\$25.63	\$31.05	\$28.15
2005 Totals/Averages			<u>27,163,598</u>	<u>24,643,751</u>	<u>23,855,040</u>	<u>788,711</u>	<u>2,519,847</u>	<u>87.8%</u>	<u>90.7%</u>	<u>\$23.12</u>	<u>\$27.30</u>	<u>\$25.21</u>
Yearly Differential:			1,319,552	1,664,603	1,980,058	(327,947)	(332,559)	2.9%	1.6%	\$2.51	\$3.75	\$2.94