Draft

Northgate Transit Center Office Market Report

King County

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Prepared for

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Nature of the Assignment

The information supplied herein is from sources we deem reliable. It is provided without any representation, warranty or guarantee, expressed or implied as to its accuracy. Prospective Owner, Buyer or Tenant should conduct an independent investigation and verification of all matters deemed to be material, including, but not limited to, statements of value, income, and expenses. CONSULT YOUR ATTORNEY, ACCOUNTANT, OR OTHER PROFESSIONAL ADVISOR

Executive Summary

OFFICE MARKET

Seattle Market

Rental Rates ↔

Vacancy ↔

Absorption ↑

Under Construction ↓

Vacancy in the 75 million square foot Seattle Office Space Market currently stands at 13.2%, up from a 2007 low of 7.5%. Vacancy in buildings constructed since 2000 is 19%.

Asking rental rates are higher in Seattle than elsewhere in the region, currently averaging $26.85 per square foot, full service. Asking rates have declined steadily since 2007 when they reached a high of $32.83 per square foot.

Annual net absorption, which represents the change in occupied office space from one year to the next, has averaged 691,769 square feet per since 2000. Net absorption peaked at approximately 2.8 million square feet in 2008 then fell precipitously over the next three years, dipping to negative 1.1 million square feet in 2009. In 2010, net absorption totaled 1.65 million square feet. As of May 2011, year-to-date net absorption is 1.3 million square feet. Much of this recent absorption is the result of Amazon and the Gates Foundation occupying new space.

Since 2000, the annual delivery of new buildings to the market ranged from a low of 225,000 square feet in 2003, to a high of 3 million square feet in 2009. Since the beginning of 2011 there has been 1.65 million square feet, in 6 new buildings delivered to the market

The amount of office space under construction on an annual basis since 2000 has ranged from its current low of 473,282 square feet, to high of 4.7 million square feet in 2008.

In Seattle there are 17 proposed office buildings, totaling 2.1 million square feet. A forecast of demand for office space suggests that if 75% of the proposed buildings are brought online during the years leading up to 2015, the market will remain slightly over supplied. Under this scenario, demand for additional buildings will not exist until after 2015.

Primary Market Area

The primary market area (PMA) is the Northgate submarket including that area between Lake Washington and Puget Sound, between 85^{th} and 145^{th} Streets. There are 178 office buildings containing approximately 2.4 million square feet of space in the market. It is one of the smallest submarkets in the region in terms of both the amount of office space and geographic area.

Vacancy in the PMA has historically been low Today it stands at 8.4% or 203,848 square feet. The average quoted rental rate in the PMA is $21.32 per square foot, per year, full service. This figure is down close to 23% from a ten year peak of $27.51, registered in fourth quarter 2008.

The annual delivery of new buildings since 2000 has ranged from a low of no deliveries during 2007, 2009, and 2010, to a high of 75,360 square feet in 2006.

The average annual net absorption since 2000 has been 6,757 square feet. As of May 2011, net absorption for the year totaled 40,219 square feet, putting it on track to meet the ten year high of 81,943 square feet recorded in 2006.

The demand forecast for the PMA indicates that, based on historical data and projected employment growth, there is demand for 79,000 square feet of space during the forecast time horizon extending to 2015. It is important to note that the demand for office space in the PMA has historically been shallow even when vacancy is at its lowest. Rental rates have never broken the $30 per square foot barrier, suggesting that new office space is out of reach for majority of the existing office users. The success of new development in the market will hinge on rental rates that support new construction, an event that is not likely to occur until sometime after 2015.

The subject is well suited for office development, given its proximity to services, freeway access, and to the Central Business District. It is possible that the location would be attractive to a large office space user; however, the possibility that such a user will materialize is low. Regardless, incorporating a small amount of office space into a larger mixed use project is a real opportunity.

MEDICAL OFFICE

In the PMA there is a little less than one million square feet of medical office space, clustered around the Northwest Hospital. The market is healthy, with vacancy equal to 6.5%, and vacancy below 2% in buildings built since 1990. Historically, 3,285 square feet of new medical office space has been developed each year over the past 10 years.

The subject location is at a competitive disadvantage in the local medical office market. As a first choice, tenants and users seek space located close to the Northwest Hospital Campus and as a result, new medical office buildings built or renovated since 2000 have been located west of I-5.

There are a number of medical office buildings in the immediate area; however the majority of the buildings are older and cater to tenants who are not likely to pay a significant premium for new space. There are exceptions to this trend, however, as evidenced by the UW Physicians 20,500 square foot lease in the Thornton Place project, which is located adjacent to the subject. There is also a lack of land located off of the Northwest Hospital campus that is available for development.

The demand for medial office space in the Northgate market is modest. The subject location has a number of strengths; however, it is a tertiary location for medical office space. The implications for development of the subject include:

a) In the near term, plan to capture only a modest amount of space, perhaps in the 10,000 to 20,000 square foot range.

b) Ground floor spaces required by the zoning code represent a natural location for medical office space.

c) In the long-term, leave options open to accommodate medical office space in the event demand increases.

BIOTECH

The Seattle biotechnology market is relatively small, but healthy as evidenced by sub 3% vacancy rate. Biotech/lab space users like to be located near other biotech/lab space firms. The majority of the areas biotech/lab space users are located within proximity of the University of Washington and around Lake Union. The subject is some distance from the existing biotechnology/lab space market and would not naturally be considered attractive to biotech tenants and users.

Purpose of the Assignment

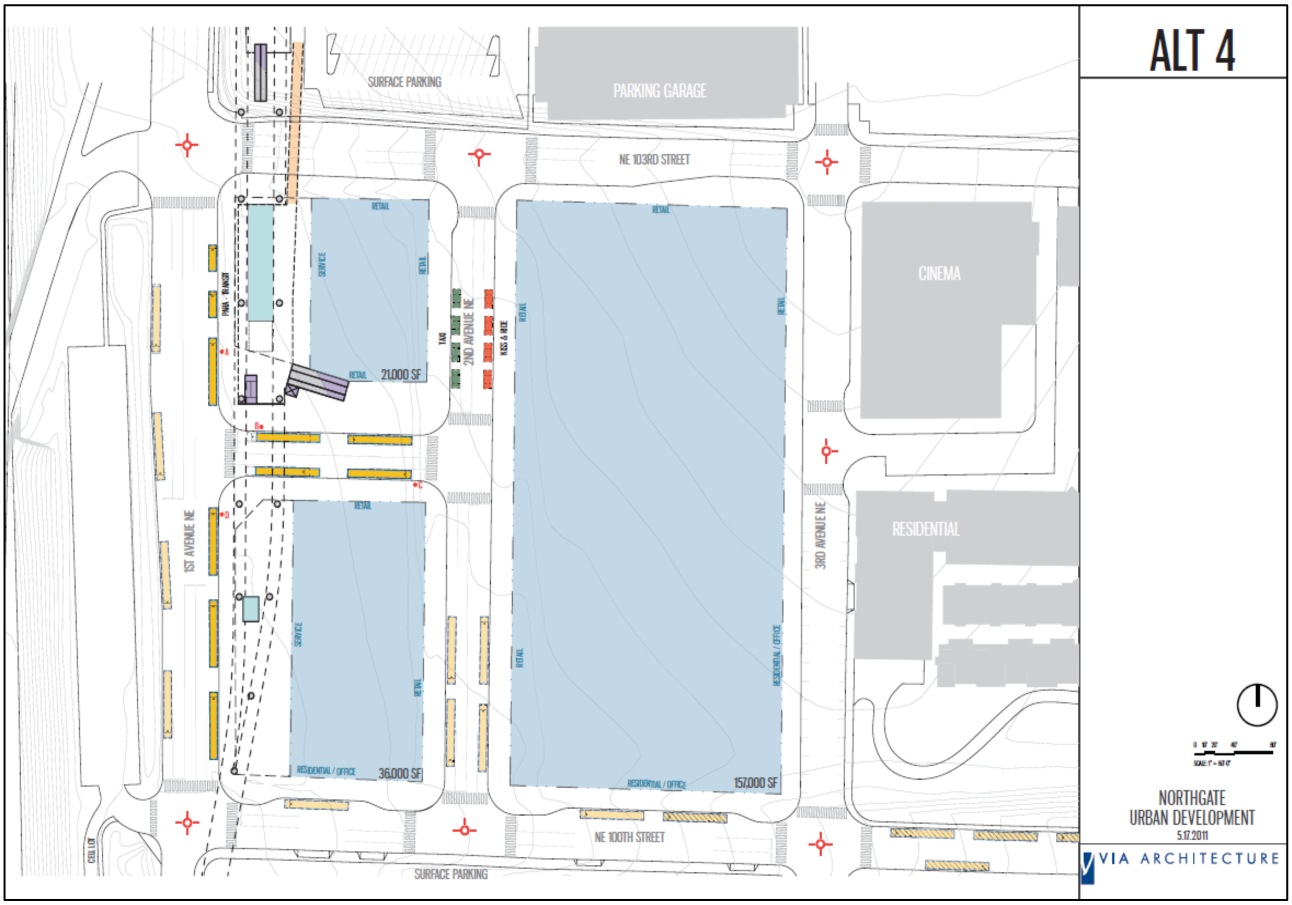
The purpose of the assignment is to assess the supply and demand for office, medical office, and biotechnology/lab space at King County's Northgate Transit Center property.

The Northgate Transit Center property is currently the home of one of the region's busiest transit centers. Exhibit P1 shows the current land uses; a bus served transit center and supportive park and ride parking.

Exhibit P2 shows a conceptual reconfiguration of the Northgate Transit Center property. The plan includes the future light rail station along the western property boundary, a redeveloped transit center, and three parcels available for transit oriented development. The western transit oriented development parcels measure 36,000 and 21,000 square feet for the southwest parcel and northwest parcel respectively. The eastern parcel measures 157,000 square feet.

Exhibit P1 – Northgate Transit Center, Current Conditions

Exhibit P2 – Northgate Transit Center Redevelopment Concept Plan



Office Market Overview

OFFICE SPACE DEFINED

The primary intended use of an office building is to house employees of companies that produce a product or service primarily for support services such as administration, accounting, marketing, information processing and dissemination, consulting, human resources management, financial and insurance services, educational and medical services, and other professional services. Office buildings are characterized by work efficient floor plans, work areas, comfortable heating and cooling, cabling for phones and computers, and other conveniences that allow people conduct business. The interior finish and the structural design of the building support the activities of the employees. Office buildings are typically configured for high density use, with a ratio of people to square footage in the 150 to 300 or more range and less than 25% of the demised floor space allocated to industrial or retail use. Some physical characteristics of a building may assist in classifying the property as “office” if the property’s use is not apparent.

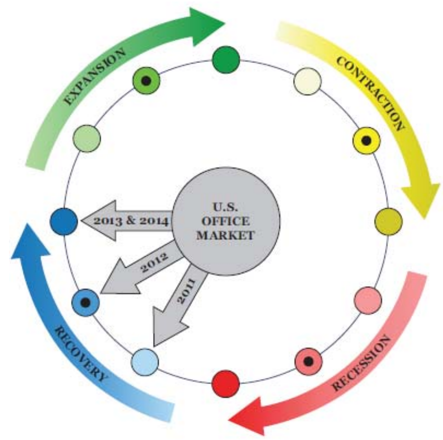
OFFICE MARKET CYCLES

The demand for real estate is cyclical in nature. Real estate cycles represent a pattern of prices over a fairly long period of time, ranging from 2 or 3 years to over 20 years. Cycles account for interim price movements of real estate properties, however, real estate cycles are not exact cycles because they are neither periodic nor resemble each other in an exact manner. Each cycle differs from previous cycles in terms of its causes, length, depth, and effect on different property types and regions. Real estate cycles behave differently from other market cycles, such as the stock or commodities markets. Real estate markets are imperfect, less liquid, and slower to respond to economic changes.

The typical market cycle can be described in four phases; recession, recovery, expansion, and oversupply. The recession phase is marked by increasing vacancy and the completion of new projects. During the recovery phase vacancy begins to decline and new construction is nonexistent or limited. In the expansion phase vacancy continues to decline, rental rates begin to increase and the construction of new projects begins. In the oversupply, phase new projects are completed and vacancy begins to increase.

Price Waterhouse Coopers is forecasting the national office market to shift from a recessionary phase to a recovery phase in 2011, and remain in a recovery phase through 2014. Exhibit O1 graphically depicts national office market cycle.

Exhibit O1 – Office Market Cycle



CURRENT MARKET CONDITIONS

The U.S. office sector continues to battle weak tenant demand due to lackluster job growth and hesitation among many businesses to commit to additional space. Fortunately, new supply has been kept to a minimum allowing a growing number of individual office markets to report marginal improvement in overall vacancy. It is anticipated that the majority of nation’s office inventory will be in recovery by year-end 2011.

Market Trends

Rental Rates ↔

Vacancy ↔

Absorption ↑

Under Construction ↓

The 7.5 billion square foot U.S. Office market ended the first quarter 2011 with a vacancy rate of 12.6%. The vacancy rate was unchanged over the previous quarter, with net absorption totaling positive 8,766,761 square feet in the first quarter. Vacant sublease space decreased in the quarter, ending the quarter at 58,195,528 square feet. Rental rates ended the first quarter at $21.48, a decrease over the previous quarter. A total of 200 buildings delivered to the market in the quarter totaling 9,727,781 square feet, with 44,943,229 square feet still under construction at the end of the quarter.

National CBD Office Market

According to Costar.com the overall vacancy rate in U.S.'s central business districts at the end of the first quarter 2011 increased slightly to 11.6%, from the previous quarter where it stood at 11.4%. Vacancy has held about even during the last year, ranging from 11.4% to 11.7%.

National Suburban Office Market

The vacancy rate in the suburban markets decreased to 12.9% in the first quarter 2011. The vacancy rate was 13.0% at the end of the fourth quarter 2010, 13.1% at the end of the third quarter 2010, and 13.1% at the end of the second quarter 2010.

Investment Activity

Real Estate Research Corporation's first quarter 2011 institutional investment survey respondents offered mostly pessimistic views on the investment potential of the office sector due to lack of demand and declining rents, particularly for the suburban office sector. However, a few respondents noted that the suburban office sector has been overlooked, and since values have not recovered, the lease-up risk is more comfortable.

On a national basis, cap rates for both CBD and suburban office space have improved significantly in the last year. The average cap rate reported by PWC in their quarterly survey is 7.42% for the first quarter 2011; this is a decrease of 11 points since last quarter and 93 basis points from first quarter 2010. The average cap rate for suburban office space is 8.04%, a decrease of 13 basis points from last quarter, and a decrease of 90 basis points from first quarter 2011.

Regional Overview

Market Trends

Rental Rates ↔

Vacancy ↔

Absorption ↑

Under Construction ↓

In the greater Puget Sound area there is 174 million square feet of office space contained in 7,038 buildings. As of first quarter 2011, approximately 13% of the space is vacant, consistent with national averages. The average asking rental rate equals $25.29 per square foot, full service, for all buildings.

The consensus is that rental rates have reached the bottom across the market. Improvement will be slower in the older buildings as vacancy has grown with back-fill space created by the moves to new buildings. Employment growth remains highly stratified with a select few companies; Amazon.com, Dendreon, Isilon and recently Microsoft, showing good strength while traditional businesses continue to be hesitant to add jobs or space. Without additional breadth of job created demand, there will be little pressure on rental rates across the rest of the market. In general, rental rates remain 10% to 15% off of the peak of the market.

Net absorption in the region during the first quarter of 2011 was positive 522,652 square feet, showing a continuation of the improving performance in the last two quarters of 2010.

Seattle Office Market

Market Trends

Rental Rates ↔

Vacancy ↔

Absorption ↑

Under Construction ↓

INVENTORY

The Seattle office market consists of 75.3 million square feet, in 1,906 buildings. This represents approximately 43% of the office inventory in the region. Since 2000 17 million square feet, or 1.5 million square feet per year, have been added to the office inventory; representing 22% of the total office inventory in Seattle. Approximately 45% of this space was constructed prior to 1980; another 23% was built between 1980 and 1999. Surprisingly, since 2009 Seattle's inventory has grown by 5.2 million square feet. Much of this space however, was built for a few large users including Amazon and the Gates Foundation, which are both consolidating operations in newly built office campuses.

VACANCY

The average vacancy rate across all classes of office buildings in Seattle is similar to the region as a whole, measuring 13.2%, up from a low of 7.5% in 2007. At 19%, vacancy in buildings built since 2000 is significantly higher than the overall office vacancy. This is due to the large number of buildings that were started during the height of the market and came on line during the recession.

RENTAL RATES

Asking rental rates are higher in Seattle than elsewhere in the region, currently averaging $26.85 per square foot, full service. Asking rates have declined steadily since 2007 when they reach a high of $32.83 per square foot. Asking rates for buildings constructed during the last since 2000 have an average asking rate of $30.60 per square foot, full service. The consensus is that rental rates have bottomed out in almost all submarkets and a gradual increase is expected in most sub markets.

ABSORPTION

Annual net absorption, which represents the change in occupied office space from one year to the next, has averaged 691,769 square feet per since 2000. Net absorption peaked at approximately 2.8 million square feet in 2008 then fell precipitously over the next three years dipping to negative 1.1 million square feet in 2009. As of May 2011, year-to-date net absorption stands at 1.3 million square feet. In 2010, net absorption totaled 1.65 million square feet. Much of this recent absorption is the result of Amazon and the Gates foundation taking occupancy of their new campuses.

OFFICE SPACE BY BUILDING CLASS

Office inventory is typically broken into three classes; Class A space, which are the extremely desirable investment grade properties; Class B space, which lack prestige but are generally in good to average condition; and Class C space which are generally no-frills, older buildings that offer basic space.

The images in Exhibit O2 illustrate the general nature of the building classifications.

Exhibit O2 – Building by Class

Exhibit O4 – Largest Lease Signings (2011)

Building	Submarket	Size/SF	Qtr	Tenant Name
Russell Investments Center	Seattle CBD	179,656	1st	Dendreon Corporation
Russell Investments Center	Seattle CBD	65,609	1st	Zillow
Gates Foundation	Lake Union	40,000	1st	Puget Sound Blood Cente
Merrill Place Pioneer	Pioneer Sq	29,311	1st	Blue Nile,Inc.
Stadium Innovation Center	S Seattle	24,259	1st	N/A
U.S. Bank Centre	Seattle CBD	22,146	1st	E.K.Riley Investments,LLC
Metropolitan Park West	Seattle CBD	20,004	1st	N/A
Lakeview at Fremont	Ballard/U Dist	18,554	1st	Ubermind
1633 Westlake Building	Lake Union	20,000	2nd	Mercent Corp

Class A Office Space

There are approximately 32.6 million square feet of Class A office inventory in the Seattle, of which 19.0%, or almost 6.2 million square feet is vacant. Although vacancy is down 2.8% from its 2008 peak of 20.5%, it is 5.6% higher than the ten year average.

Class A asking rental rates have remained relatively flat since fourth quarter 2009, and are currently average $31.26, down by approximately 20% from a third quarter 2008 peak of $37.39 per square foot.

The Class A office market is market saw some major activity in the two quarters of 2011. The Seattle CBD alone saw approximately a million square feet of new leases signed. It is worth noting that most of the high profile Class A leasing activity has been narrowly focused on the new Class A buildings at the expense of earlier generations of Class A space.

Class B Office Space

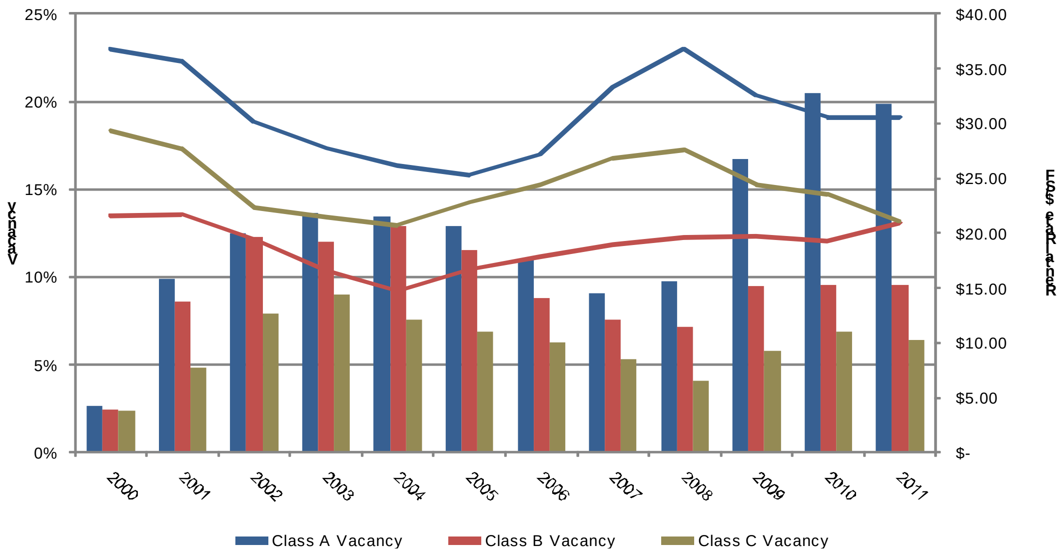
There is approximately 31.9 million square feet Class B office inventory in the Seattle, of which 9.6% or 3.1 million square feet is vacant. Class B vacancy has remained relatively flat over the last six quarters. Average rental rates for Class C office space is currently $22.79 per square foot, full service. At the end of first quarter 2008, Class B rental rates peaked at $28.15 per square foot, almost 24% higher than current asking rates.

Class C Office Space

There is 10.8 million square feet Class C office inventory in the Seattle, of which only 6.0% or 649,000 square feet is vacant. Class C vacancy has is down 1.3%, since first quarter 2010. Average asking rental rates for Class C office space is currently $18.47 per square foot, full service; representing a three year low.

Exhibit O3 illustrates the rental rate and vacancy rate trends, by class, over the last ten years.

Exhibit O3 – Rental Rate by Vacancy and Class



LARGEST LEASE SIGNINGS

As of second quarter 2011, significant lease transactions include a 179,656 square foot lease Dendreon located at the Russell Investments Center; a 65,609 square foot lease by Zillow at the Russell Investments Center; and Puget Sound Blood Center's 40,000 square foot lease in the Gates Foundation Building.

Exhibit O4 lists the largest lease signings in Seattle as of second quarter 2011.

DELIVERIES

Since the beginning of 2011 there have been six buildings totaling approximately 1.65 million square feet of office space delivered in Seattle. Since 2000, annual deliveries ranged from a low of 225,000 square feet in 2003, to a high of 3 million square feet in 2009.

The most notable deliveries in 2011 to date were the Amazon Campus buildings III North, IIII South, and IV, which combined total 846,208 square feet, currently 95% leased; and the Gates Foundation Building A and Building B, which combined total 900,000 square feet; currently 100% leased.

UNDER CONSTRUCTION

There are currently only two office buildings totaling 473,282 square feet under construction in the Seattle Market.

The amount of office space under construction on an annual basis since 2000 has ranged from its current low of 473,282, to high of 4.4 million square feet in 2008.

The most notable projects currently under construction are the Amazon Campus Building V, which totals 332,082 square feet which is approximately 99% pre-leased to Amazon; and the 141,200 square foot Home Plate Center North building which has no preleasing.

PROPOSED PROJECTS

According to Costar there are 17 office buildings totaling approximately 2.1 million square feet of space proposed in the Seattle market. A review of the proposed projects concludes that only 438,460 of the total 2.1 million square feet of proposed office projects have an estimated date of completion on or before 2015.

SALES ACTIVITY

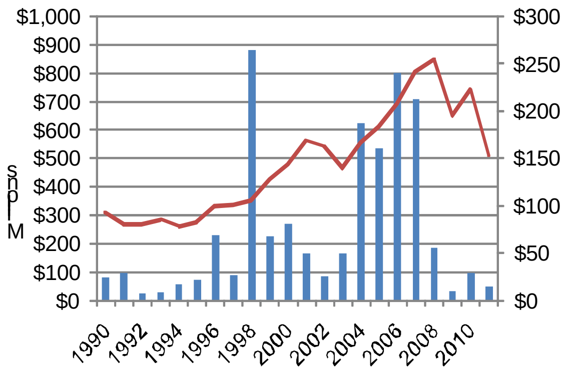
Since 1990 Costar has tracked 995 office building sales in the City of Seattle, representing $5.5 billion dollars in sales volume. Over the last decade the median price of the sales ranged from its low of $140 per square foot in 2003, to a high of $254 in 2008.

The first quarter saw a modest level of office investment, focused on smaller owner/user sales or redevelopment plays taking advantage of rock bottom pricing for challenging properties. Lenders are also are beginning to take back more properties and are in better position to be aggressive in getting them off of their books.

Included in first quarter sales are the Denny Way Building, sold by the Seattle Times for $36,000,000 and now undergoing a major renovation; and 705 Union Station which was sold to Principle Financial Group for $38,290,000. In addition, office building sales are pending with asking prices over $10 million.

Exhibit O5 shows the sales dollar volume by year since 1990 in the Seattle Office Market, as well as the median sales price per square foot.

Exhibit O5 – Dollar Volume and Median Sales Price



EMPLOYMENT FORECAST

To understand the dynamics of the City of Seattle Market, it is instructive to forecast future market conditions. Demand for office space is driven primary by employment. The Puget Sound Regional Council (PSRC) forecasts that employment will grow by approximately 6.3% cumulatively between December 31, 2010, and December 31, 2015.

According to and employment estimate by CCIM.com, as of December 31, 2010 there were a total of 420,630 employees in Seattle. Based on the forecasted PSRC growth rate, it is projected that the number of employees in Seattle will grow by a total of 26,366 or 5,273 per year though 2015; for a total of 446,996 employees at the end of 2015.

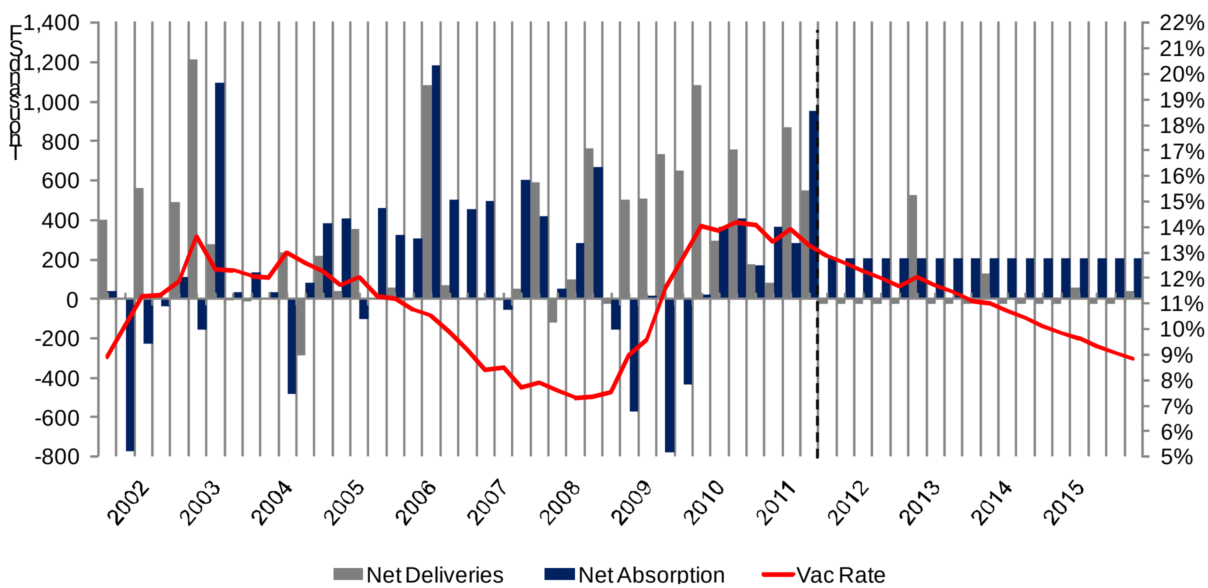
OFFICE SPACE FORECAST

Exhibit O6 shows the amount of new space delivered each quarter to the market since third quarter 2001 in grey. The blue bars represent the amount of space absorbed by the market each year. The trend line, in orange, displays the historical and projected market vacancy.

The forecast relies on the following assumptions:

1. 100% of projects currently under construction will come on-line on or before 2015.
2. 75% of the proposed projects with an estimated date of completion on or before 2015 are expected to come on-line.
3. The number of demolitions and conversions to uses is based on ten year historic averages.
4. The amount of office space per employee is held at 154 square feet though 2015. Office space per employee was calculated by dividing the amount of occupied office space as estimated by Costar.com, into the total number of employees as estimated by CCIM.com.
5. The number of employees increases at a constant 5,273 employees per year through 2015.

Exhibit O6 – Seattle Office Forecast



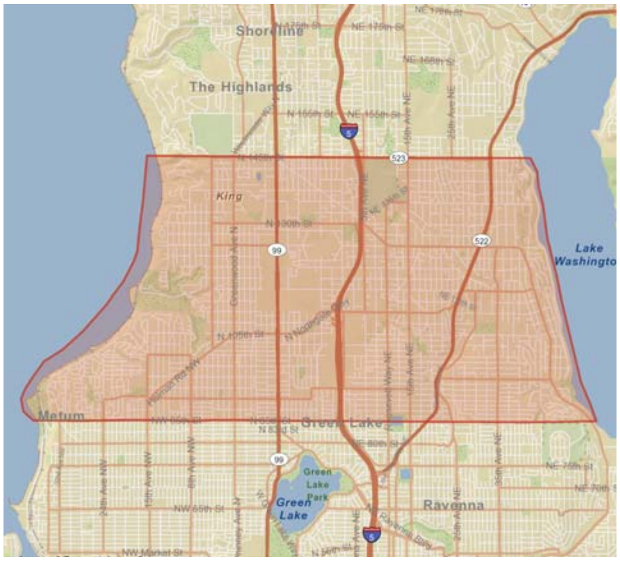
Based on the assumptions outlined above, the forecast suggests there is demand for approximately 3.67 million square feet of space through the end of 2015 in Seattle. Approximately 78% or 2.86 million square feet of the demand will be met by existing vacancy. Approximately 22% or 802,000 square feet of demand will be met by new buildings that are currently under construction or proposed. Under this scenario, vacancy will drop from 13.2% to 8.7% by the end of 2015.

The forecast is suggesting that if the projected number of new projects is brought online, the market will remain slightly over supplied through 2015. The analysis indicates that no new speculative office building projects will be needed.

Primary Market Area

The primary market area (PMA) is the Northgate submarket defined of those buildings located between Lake Washington and Puget Sound, between 85th and 145th Streets. This is one of the smallest submarkets in the region in terms of both the amount of office space and geographic area. Exhibit O7 shows the location of the PMA.

Exhibit O7 – Primary Market Area



INVENTORY

There are 178 office buildings containing approximately 2.4 million square feet of space in the Primary Market Area (PMA). The inventory represents approximately 3% of Seattle's total office inventory.

Since 2000, only 14 office buildings have been built in the PMA, representing about 300,000 square feet of space; equal to 12% of the total office space in the PMA. To add perspective, 22% of the total office inventory in Seattle was built since 2000. The data suggests that the Northgate office market did not see as much development during the last market expansion.

Of the total office inventory in the PMA, approximately 9% is Class A space; approximately 60% is Class B space; and approximately 31% is Class C space.

VACANCY

Vacancy in the PMA has historically been low. Today it stands at 8.4% or 203,848 square feet. To provide perspective, vacancy in the Seattle office market is currently 13.2%. In the PMA vacancy in Class A space is 4.0%, in Class B space it's 11.1%, and in Class C space its 4.5%.

RENTAL RATES

According to CoStar, the average quoted rental rate in the PMA is $21.32 per square foot, per year, full service. This figure is down close to 23% from a ten year peak of $27.51, registered in fourth quarter 2008. Asking rental rates in the 14 buildings built since 2000 average $23.88, per square foot, full service.

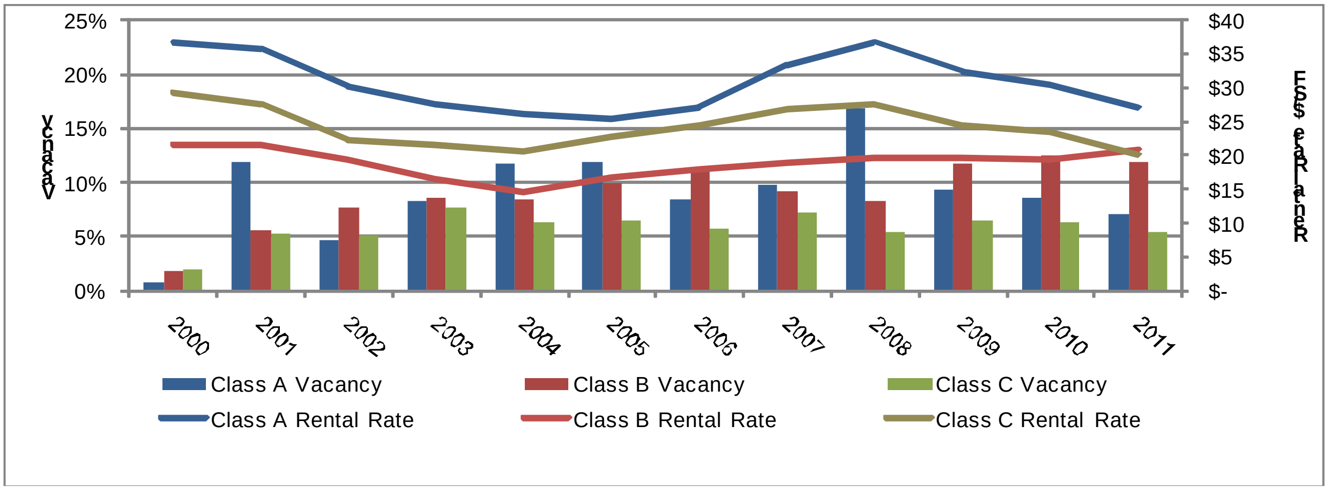
Asking rates for Class A space is currently $23.54 per square foot, per year; with Class B space $22.49; and Class C space $16.66 per square foot, per year, full service.

ABSORPTION

As of May 2011, net absorption for the year totaled 40,219 square feet, putting it on track to meet the ten year high of 81,943 square feet recorded in 2006. The average annual net absorption since 2000 has been 6,757 square feet.

Exhibit O8 shows office vacancy and rental rate trends since 2000

Exhibit O8 – Office Vacancy and Rental Rates



LARGEST LEASE SIGNINGS

Some of the largest lease transactions to occur since the beginning of 2011 include a 20,500 square foot lease by the UW Physicians in the Thorton Place Project; a 9,180 square foot lease expansion by Within Reach in Northgate Executive Building B; a 7,462 square foot renewal to Western National in the Delta Building; and a 6,728 square foot renewal by the Lutheran Community Services in the Northgate Executive Center Building

DELIVERIES AND CONSTRUCTION

Since the beginning of 2011 no new office buildings have been delivered in the PMA. There are also no office buildings currently under construction in the PMA. Annual deliveries since 2000 have ranged from a low of no deliveries during 2007, 2009, and 2010, to a high of 75,360 square feet in 2006.

The amount of office space under construction on an annual basis, since 2000, has ranged from none during 2009 and 2010, to high of 417,480 square feet in 2005.

PROPOSED PROJECTS

According to Costar.com there are no known office projects proposed in the PMA.

SALES ACTIVITY

Since 1990, Costar has tracked 115 office building sales in the PMA. The annual median price of the sales ranged from a low of $68 per square foot in 1995 to a high of $250 in 2009.

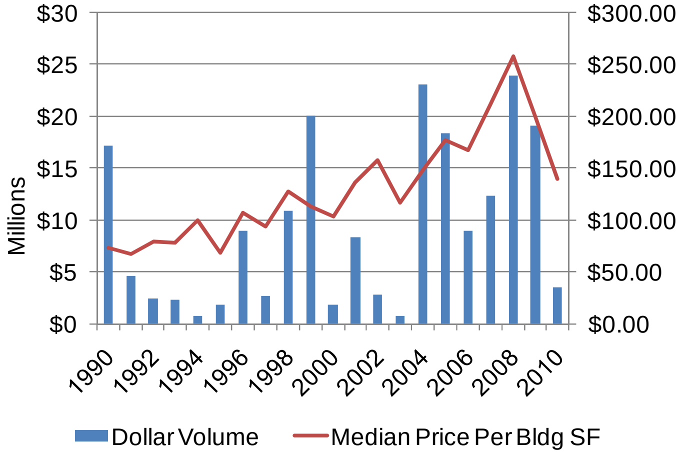
During the first half of 2011, no office building sales have been reported. In 2010 there were three sales ranging between $875,000 and $1,700,000.

Exhibit O-9 shows the sales dollar volume by year since 1990 in the PMA, as well as the median sales price per square foot. The median price data suggests that existing buildings can be purchased at less than replacement cost.

EMPLOYMENT FORECAST

Similar to the Seattle office market, demand for office space in the PMA is driven primary by employment.

Exhibit O9 – Median Sales Price per Square Foot



The Puget Sound Regional Council (PSRC) forecasts that employment will grow by approximately 7.4% cumulatively between December 31st 2010 and December 31st 2015. The geographic boundaries of the PSRC forecast area and the CCIM.com employment estimate area vary slightly in size and configurations; however, they are similar enough to derive relevant ratios.

According to CCIM.com's employment estimate, as of December 31, 2010, there were a total of 28,664 employees in the PMA. Based on the forecasted PSRC growth rate, it is projected that the number of employees in the PMA will grow by 2,126 or 425 per year; for a total of 30,790 employees at the end of 2015.

OFFICE SPACE FORECAST

Exhibit O10 shows the amount of new space delivered each quarter to the market since third quarter 2001 in grey. The blue bars represent the amount of space absorbed by the market each year. The trend line, in orange, displays the historical and projected market vacancy.

The forecast relies on the following assumptions:

1. The amount of space delivered to the PMA, estimated to be 32,667 square feet annually, is based on the average number of historic deliveries since 2000.
2. The number of demolitions and conversions to uses is based on historic averages since 2000.
3. The amount of office space per employee is held at 77 square feet though 2015. Office space per employee was calculated by dividing the amount of occupied office space as estimated by Costar.com into the total number of employees as estimated by CCIM.com.
4. The total number of employees increases at a constant 425 employees annually through 2015.

Based on the assumptions outlined above, the forecast suggests there is demand for 147,000 square feet of space through the end of 2015 in the PMA. Approximately 46% or 68,500 square feet of the demand will be met by existing vacancy. Approximately 54% or 79,000 square feet of demand will be met by new buildings. No new projects are currently under construction or planned. Under this scenario, vacancy will drop from 8.4% to 5.5% by the end of 2015. The analysis indicates that, based on historical data, there is demand for 79,000 square feet of space as we approach 2015.

The PMA represents a small area, and a few projects can shift market dynamics significantly. It is important to pay close attention to pipeline projects, and consider each project's affect on the market. By way of example, one large (100,000 square foot) office project added to the forecasted supply would increase the forecasted vacancy rate to 8.9% at the end of 2015.

LOCATION ANALYSIS

A location can be evaluated to determine its strengths and weaknesses in the market place. A number of factors are influential including proximity of housing, access to major arterials, site access, physical barriers, proximity of complimentary retail uses, and public transportation.

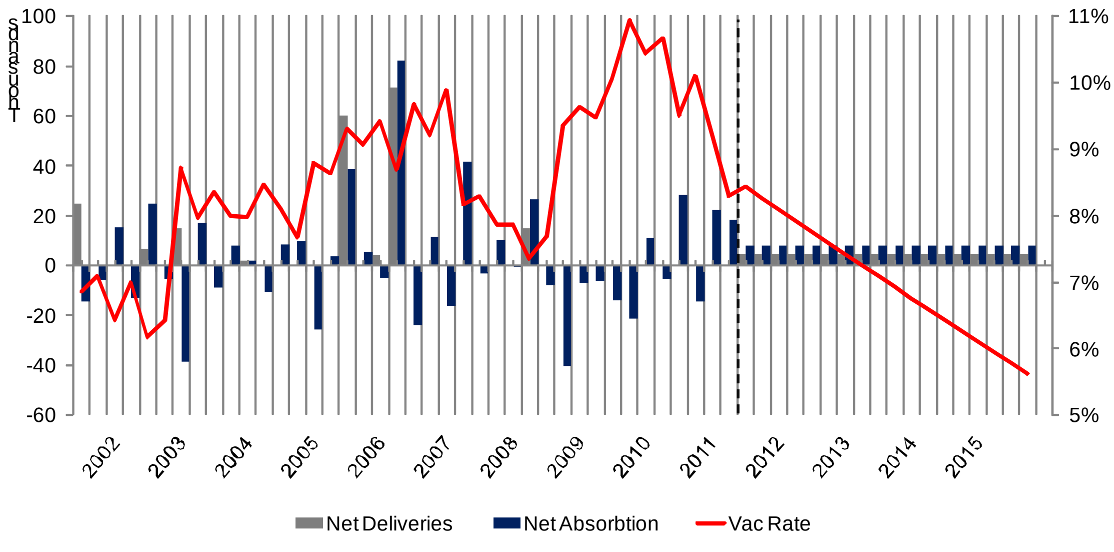
Proximity of Housing

The subject is well located in relation to employee housing. The neighborhoods surrounding the subject offer a range of both for sale and for rent housing options. The location is also reasonable well located with respect to executive housing, given its proximity to a number of prominent neighborhoods and waterfront properties, such as those in Laurel Hurst, Windermere, View Ridge, Capitol Hill, and North Beach.

Access to Major Arterials

The subject has excellent access to Interstate 5. Access to SR 99 is somewhat circuitous, and suffers the same constraints as other east-west arterials in the City of Seattle.

Exhibit O10 –PMA Office Forecast



Site Access

The site is well served by surface streets and signaled intersections that surround the site. However, the volume of traffic, in part, stemming from shoppers entering and exiting I-5 to access the Northgate Mall is a weakness to the site.

Physical Barriers

Access to the subject is influenced by physical barriers. East/west travel across Interstate 5 is facilitated by over/under passes at Northgate Way and North 92nd Street, however, the freeway does create a barrier that diminishes access. A similar barrier exists along State Route 99 to the west of the subject. Steep slopes, underdeveloped street improvements, and Thornton Creek restrict east/west travel to the east of the subject.

Proximity of Complimentary Uses

The site is well served by complimentary retailers located in the Northgate Mall and Thornton Place. This is seen as a positive by firms who like to have access to retail offerings and is considered important in attracting employees.

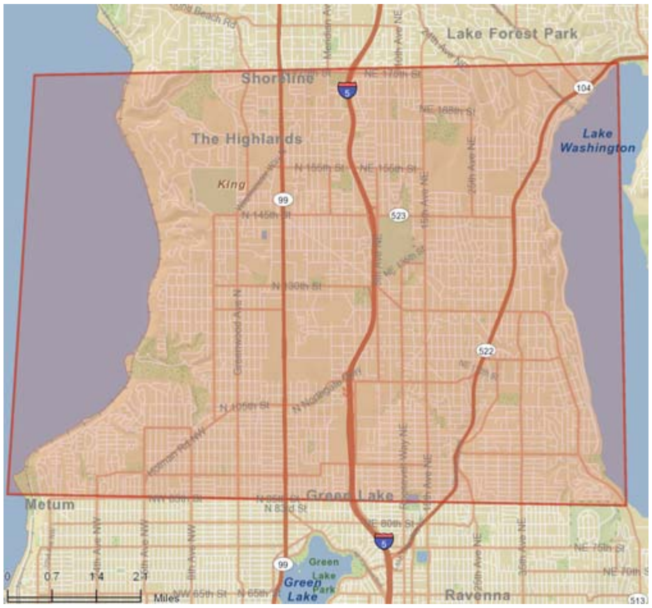
Public Transportation

The subject is currently one of the busiest transit hubs in the region. When light rail service is available in toward the end of the decade, the location will become even more important as a regional transportation center.

Medical Office Space

The subject's PMA is a custom polygon that includes an area that is bordered to the East by Puget Sound, to the North by NE 175 St, to the west by Lake Washington, and to the South by N 85 St. Exhibit O 11 highlights the PMA in highlighted in grey.

Exhibit O11 – Primary Market Area



OVERVIEW

Medical Office buildings are typically defined as facilities used to provide diagnosis and treatment for medical, dental, or psychiatric outpatient care and do not typically include hospitals.

The local medical office market is driven by the Northwest Hospital, which recently merged with the Swedish Medical Center. In 2010 the hospital joined the UW Medicine Health System. This affiliation allows the hospital to offer a wider range of services.

In March, Seattle Cancer Care Alliance broke ground on a new proton therapy center on the Northwest Hospital campus. This 60,000 square foot project will be one of only nine in the nation, and is slated to open in 2013.

INVENTORY

According to Costar.com there are 52 medical office buildings totaling 913,887 square feet of space in the PMA. The majority of this inventory consists of older Class B and C spaces in buildings less than 20,000 square feet in size.

Seven medical office buildings have been constructed since 1990, and three have been built or renovated since 2000. The three buildings include the the 71,400 square foot Meridian Center, the 60,000 square foot McMurray Building, and the Meridian North building which was built in 1981 but went through a major renovation in 2008. It should be noted that the Meridian North building is not a true medical office building, as over 50% of the space is currently occupied by non medical related businesses.

PROPOSED AND UNDER CONSTRUCTION

There is a 100,834 square foot proposed Class A medical office building located on at 2137 North Northgate Way. According to the listing agent this project is currently under contract to a buyer who does not intend to develop it as medical office space.

There are currently no medical office projects under construction within the PMA.

VACANCY

Vacancy is currently 6.7%, and has remained below 7% since 2000 with one exception, when vacancy jumped to 12% for 24 months between mid 2005 and mid 2007. Vacancy in the seven buildings built since 1990 is currently 2%.

MARKET TENANT PROFILE

Throughout the region, smaller medical practices are feeling pressure from larger regional providers who are expanding into local markets. For small practices, the increased competition is squeezing profits and increasing the focus expense containment.

Most medical office space is tenant improvement and equipment intensive, making the relocation of medical practices an expensive proposition. Because the cost to move is steep and occupancy costs go straight to the bottom line, it is common to see medical users occupying older buildings for long periods of time.

There is a segment of the market that can afford to occupy space in new buildings. This segment consists primarily of physicians, surgeons, and dentists.

While the number of medical space users operating in the primary market area is not known, a survey of the two medical office buildings located close to the Northwest Hospital, constructed since 2000, provide an indication of the types of tenants that are occupying new buildings in the PMA. The buildings contain a total of 21 tenants representing the following tenant mix; approximately 30% of the tenants were dentists, 30% were physicians, 10% were surgeons, and the remaining 30% were other medical related businesses.

LARGEST LEASE SIGNINGS

Some of the largest year-to-date medical office leases include the UW Physicians 20,500 square foot lease at the Thorton Place project, located adjacent to the subject; a 4,594 square foot lease in the Lake city Professional Building; and a 4,230 square foot lease to the Seattle Male Clinic in the Northgate Meridian Building.

RENTAL RATES

The average asking rental rate for medical office space is $22.21 per square foot, per year, full service. Asking rental rates in buildings built since 1990 average $27.61 per square foot, full service.

Exhibit O12 shows a sample of actual lease that have been executed in the PMA over the last year.

LOCATION ANALYSIS

Northwest Hospital is at the center of the Northgate medial office market. The closer a medical office building is to the hospital, the better the location. On-campus is the best location, west of I-5 is the next best and locations on the east side of I-5 are tertiary location for medical office space.

There is enough room for the additional medical office development on the hospital campus; however, there is a lack of large appropriately zoned parcels off-campus within close proximity of the hospital. This suggests that short of the hospital deciding to build additional space within the campus, that new office development may be forced further from the hospital.

Market participants point to the fact that all three medical office projects built or renovated since 2000 were located on the west side of the highway within half a mile from the hospital, suggesting that locations on the west side of I-5 are preferred.

In subject location is at a competitive disadvantage in the medical office marketplace, however, it is within the Northgate medical office cluster, is accessible to a large employment base, is within close to employee housing, offers good public transportation options, and offers good freeway access. The location will work for some medical office space users.

CONCLUSION

The PMA, which consists of a little less than one million square feet of medical office space, is clustered around the Northwest Hospital. A 60,000 square foot proton facility currently being constructed by the Seattle Cancer Care Alliance on the hospital campus will further establish the hospital as the nucleus of the market.

The PMA is healthy, with medical office vacancy of 6.5%, and vacancy below 2% in buildings built since 1990. Historically, 3,285 square feet of new medical office space has been developed each year over the past 10 years.

New medical office buildings built or renovated since 2000 have been located west of I-5, and house tenants willing to pay high enough rents to support new construction. The subject location is at a competitive disadvantage in the local medical office marketplace, given tenants and users attraction to locations close to Northwest Hospital Campus.

There are a number of medical office buildings in the immediate area; however, the majority of the buildings are older and cater to tenants who are not likely to pay a significant premium for new space. There are exceptions to this trend, however, as evidenced by the UW physicians 20,500 square foot lease in the Thornton Place project, which is located adjacent to the subject. There is also a lack of land located off of the Northwest Hospital campus that is available for development.

In summary, the demand for medial office space in the Northgate market is modest. The subject location has a number of strengths; however, it is a tertiary location for medical office space. The implications for development of the subject include:

a) in the near term, plan to capture only a modest amount of space, perhaps in the 10,000 to 20,000 square foot range

b) ground floor spaces required by the zoning code represent a natural location for medical office space,

c) in the long-term leave options open to accommodate medical office space in the event demand increases.

Exhibit O12 – Rent Comparisons

Medical Office Lease Compariaons

Building Name/ Address	Bldg. Class	Deal Complete	Tenant	Year Built	Square Feet	Year One Rate	Escalation	Term Mo.	TIs
Lake City Proffesional Bldg. 2611 NE 125th St	B	Q1 2011	Robert Canter MD	1935/1986	2,305	$24.00/FS	CPI	59	$20
McMurray Medical Office 1536 115th St	B	Q4 2010	Northwest Neurology	2005	3,828	$24.50/NNN	$.50/yr	85	$80
		Q3 2010	Dr. Jessie Kim*	2005	921	$22.50/NNN	3%/yr	60	
		Q3 2010	Deninno Johnson*	2005	1,204	$22.50/NNN	3%/yr	36	
Northway Square East 2150 N107th	B	Q3 2010	Transplant&Nephrology*	1974	1,443	$20.00/FS	$.75/yr	36	NA

Life Sciences Market

A Biotech/Lab Space building is built-out for extensive laboratory use. Such space may have, but is not limited to, extensive steel frame with concrete floors to handle additional floor loading, extremely high floor separations allowing extensive mechanical equipment "runs" above the suspended ceiling and below the floor structure above, high speed data access, heavy duty HVAC, higher roof loading capacity to support heavy air handling equipment, and enhanced environmental control technology. This space may also be designated a "clean room" for handling materials with high tolerances and contamination requirements.

MARKET OVERVIEW

Although smaller than other leading biotechnology cluster cities, the Seattle metro area remains a fast growing and vibrant cluster known for its research and entrepreneurial spirit. The market is anchored by the University of Washington (UW) and the Fred Hutchinson Cancer Research Center (FHCRC) both of which are major recipients of National Institutes of Health (NIH) research funding. The NIH is the major federal government source of medical research funding in the U.S. According to the Washington Biotechnology and Biomedical Association, more than one-third of the biotechnology and medical device firms in the state are founded on technologies developed at these institutions. The area has an abundance of startup and early stage firms but is somewhat lacking in larger, established firms.

INVENTORY

The total inventory of lab and medical technology space in the region is about 5.8 million square feet. Inventory has increase by about 1.8 million square feet since 2005. Since 1990 when total inventory in the region was estimated to be approximately 2.1 million square feet, the amount of space has more than doubled.

The majority of lab and medical technology space in the region is located in Seattle. Of the total 5.8 million square feet of regional inventory, 4.8 million is located in Seattle. The remaining 1 million square feet is mostly located on the Eastside, concentrated in Bothell.

NEW CONSTRUCTION, PROPOSED AND UNDER CONSTRUCTION

There are several life science developers including Alexandria Real Estate Equities, Touchstone, BioMed Realty Trust, Martin Selig Real Estate and others who have shell properties that can be renovated into lab space or who have sites designed to accommodate lab and medical technology development. Many of these projects are already entitled with Seattle's Department of Planning and Development and can be brought to market in 12 months (entitled, shell ready and renovation properties) to 24 months.

As highlighted below, Alexandria Real Estate Equities and Biomed Realty Trust have recently completed and/or have permitted new Biotech projects in Seattle.

• Alexandria Real Estate Equities' 115,000 sq ft 199 Blaine St. Development was delivered in January of 2010.

• Alexandria's five-story, 110,000 sq ft 1165 Eastlake addition/renovation project is currently in permitting process.

• Biomed Realty Trust's six story 93,000 sq ft Fairview Research Center was recently completed. They have also acquired adjacent land and will increase the size the project by up 100,000 sq ft in a second phase as dictated by demand.

VACANCY AND ABSORPTION

The vacancy rate for lab and medical technology space in Seattle is estimated to be below 3%. There are several medium-to-large size transactions currently in the works that will effectively eliminate any existing second generation space in Seattle. By comparison, vacancy in the Eastside market is currently pushing 40%.

LARGEST LEASE SIGNINGS

Gilead moved into its new home at Alexandria's 199 Blaine building, Dendreon inked a deal for 180,000 sf of office space in the Russell Building and lab space in the Earl Davies Building, Acucela leased administrative space in Russell Investments Center, and Seattle Children's Hospital leased office space in Touchstone's West Eight building.

RENTAL RATES

Asking rental rates for second generation Class A lab and medical technology space are currently between \$30.00 and \$40.00, per rentable square foot, per year, triple net. When available, first generation space in Seattle will run between \$50.00 and \$60.00 per rentable square foot, per year, triple net. Concessions offered by landlords, (e.g., abated base rent, rent phase-ins, pocket space, tenant improvement allowances, etc.) may lower the "effective" rate paid over the term from the \$50.00 to \$60.00 "face rate" contained in the lease.

FORECAST

The Puget Sound life sciences industry has reached a "critical mass" and should experience strong growth even if punctuated by the occasional downturn that reflects the risky nature of the business and the overall economic conditions of the current (ending) recession. The sheer number of firms in the region has achieved a level that establishes Seattle as one of the major life science research markets in the nation. A number of companies are maturing with at least one product that has demonstrated significant effectiveness in Phase II or Phase III trials. Also, it has prominent research institutions and an entrepreneurial culture that has led to the creation and development of successful firms including Immunex (acquired by Amgen), one of the most successful early biotechnology firms. Finally, the high-quality of life helps recruit and retain scientists and employees. The Seattle biotechnology market will continue to thrive in the long run. The demand for biotechnology laboratory and office space will continue to grow in the local real estate market, even if it's relatively small compared with other real estate categories.

LOCATION ANALYSIS

Biotech/lab space users like to be located near other biotech/lab space firms and the University of Washington. Existing biotechnology firms are generally located near the University of Washington and around Lake Union. The subject is some distance from the existing biotechnology/lab space market and would not naturally be considered as a place to locate new space.

CONCLUSION

The Seattle biotechnology market is relatively small, but healthy as evidenced by sub 3% vacancy rate. Biotech/lab space users like to be located near other biotech/lab space firms. The majority of the areas biotech/lab space users are located within proximity of the University of Washington and around Lake Union. The subject is some distance from the existing biotechnology/lab space market and would not naturally be considered as a place to locate new space.

Market Participants

Using the research data as a foundation, office specialists were engaged to identify opportunities in the marketplace. Input from the following individuals helped to formulate the study findings:

Ken Hirata, Kidder Mathews – Office Brokerage and Tenant Representation.

Todd Batison, Kidder Mathews, Medical Office Brokerage and Tenant Representation.

Larry Blackett - Office Brokerage and Tenant Representation.

Bill Neil, Life Sciences Broker and tenant representation.

Jim Lovstad – Property Management and Owner Representation

In addition, real estate representatives from the following entities were contacted to obtain current market data: CBRE, Colliers, and Kidder Mathews Valuation Advisory Services.