
1Q24

Seattle Office Market Overview



NEWMARK

Market Observations

Economy

- The unemployment rate increased over the first quarter and currently sits higher than the national average. As of February 2024, the unemployment rate stood at 4.4%.
- Office-occupying or adjacent industries have contracted over the past 12 months, most notably the information sector, which saw a decrease of 5.6% in employment over the period.
- Office-using employment declined slightly at the start of the year but remains well above pre-pandemic levels. Unemployment rose 50 bps over the quarter and as of February 2024 sat at 4.4%. Despite this increase, unemployment remains well below the April 2020 peak of 17.1%.

Major Transactions

- Leasing activity in the first quarter was robust, particularly in the Bellevue CBD, which saw several sizable new deals. Despite some downsizing, tenants are showing a continued commitment to the Puget Sound market by renewing in place or relocating within the region.
- Notable Eastside deals include Pokémon preleasing 369,800 SF at The Eight and TikTok leasing 132,621 SF at Lincoln Square North. In Downtown Seattle, CENTRL Office took three floors in the Kelly-Springfield building for 53,365 SF and the health non-profit PATH signed for 50,937 SF in the former Tableau space in Fremont.

Leasing Market Fundamentals

- Overall vacancy rose by 170 bps to 19.0% in the first quarter of 2024, and the region saw a net negative absorption of 940,286 SF.
- The first quarter of 2024 saw an uptick in leasing activity. Leasing volume totaled 2.0 million SF, an increase of 23.9% over the quarter and 16.9% year over year. More than half of the total volume occurred on the Eastside, which saw healthy demand amongst tech companies.
- Though activity continues to lag in the Seattle CBD, the Eastside and Northend both saw a spike in leasing activity. Eastside leasing activity totaled 2.9% of inventory, just 10 basis points lower than the pre-pandemic quarterly average, while activity on the Northend totaled 1.5% of inventory, just 20 basis points lower than the pre-pandemic quarterly average.

Outlook

- Though demand remains lower than the historical average, the first quarter saw an increase in tenant demand. Despite rising vacancy and availability, leasing activity and touring are gaining momentum.
- Continued flight to quality ensures that Class A asking rates will continue to hold steady. Demand for sublease space remains strong as much of the new inventory is high-quality product with flexible terms and aggressive pricing.
- Although average rates have steadily declined over the year, rates are expected to stabilize in coming quarters as the market recalibrates. This will vary on submarket, size range, and asset type bases.

1. Economy
2. Leasing Market Fundamentals
3. Appendix / Tables

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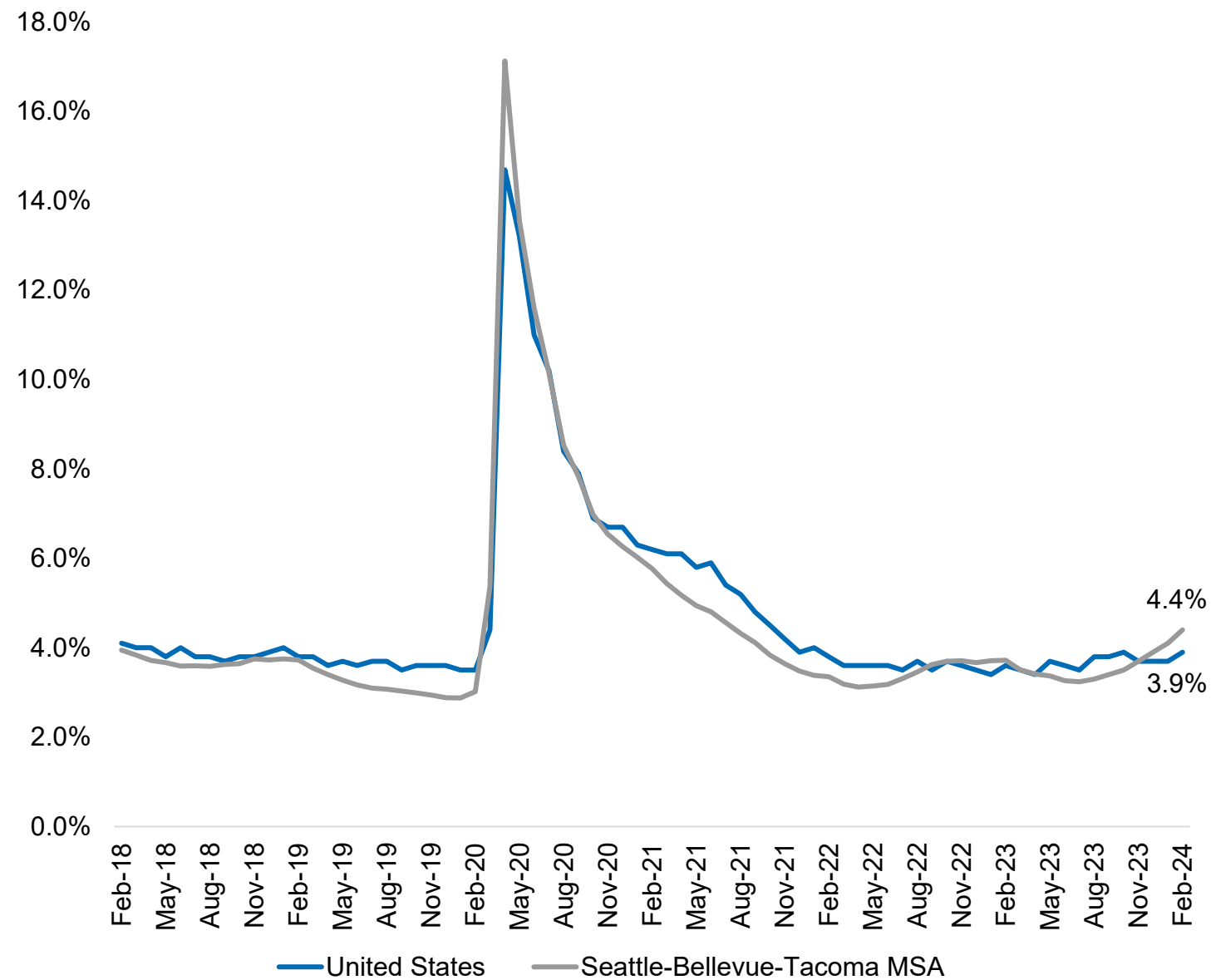
Economy



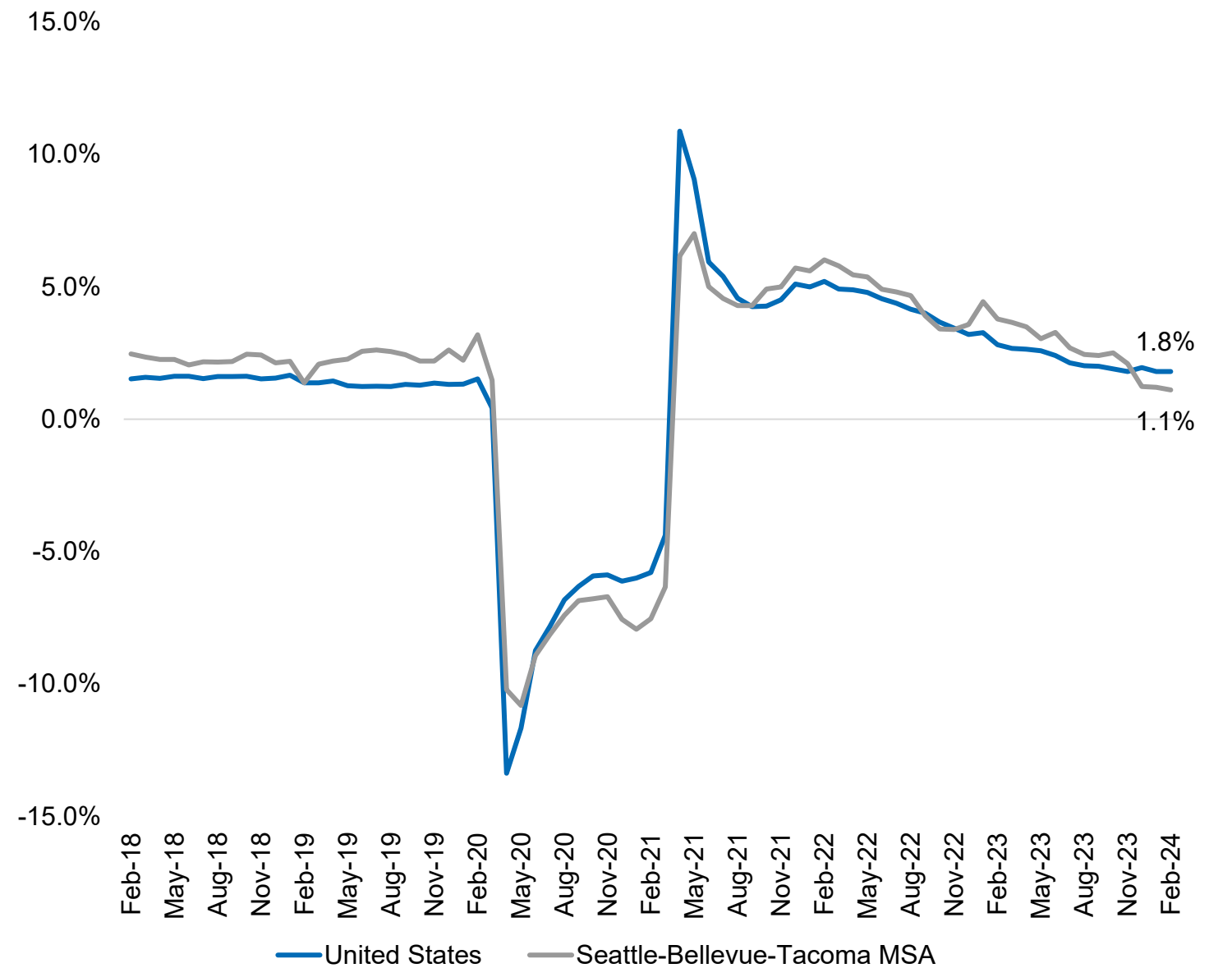
Regional Unemployment Surpasses National Average

The unemployment rate increased over the first quarter and currently sits higher than the national average. As of February 2024, the unemployment rate stood at 4.4%.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change

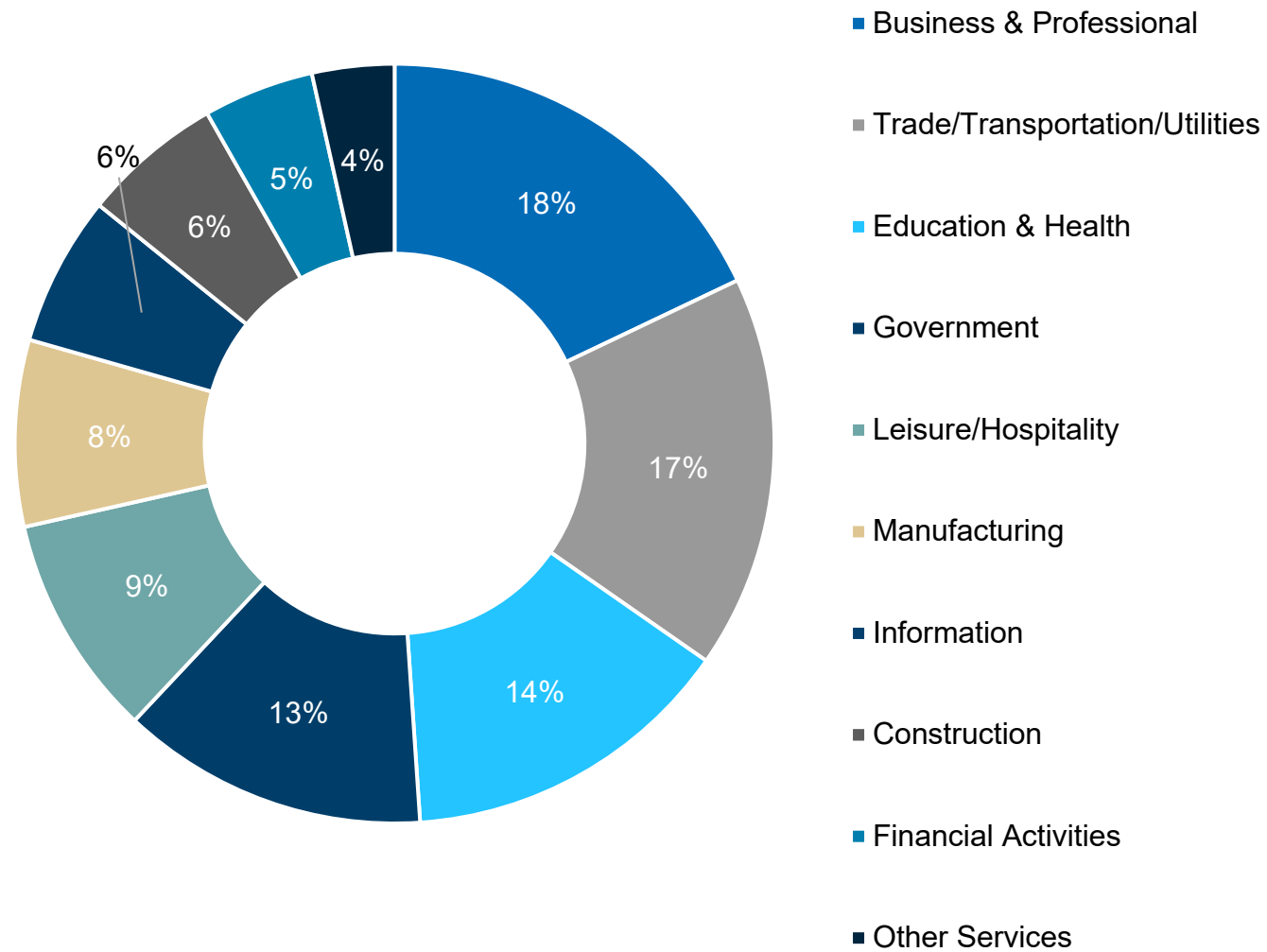


Source: U.S. Bureau of Labor Statistics, Seattle-Bellevue-Tacoma MSA

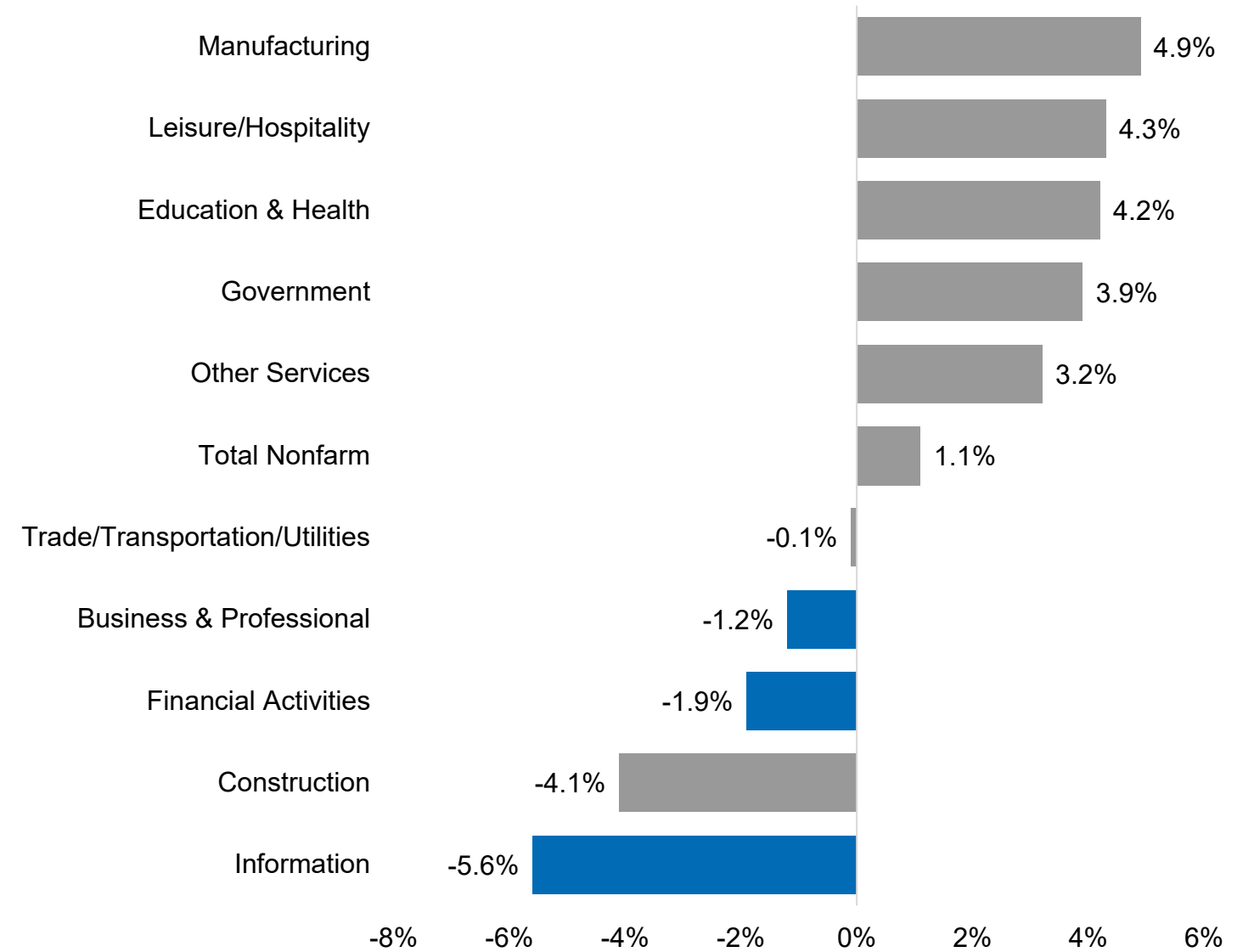
Office Occupying Employment Sectors Contract

Office-occupying or adjacent industries have contracted over the past 12 months, most notably the information sector, which saw a decrease of 5.6% in employment over the period.

Employment by Industry, February 2024



Employment Growth by Industry, 12-Month % Change, February 2024

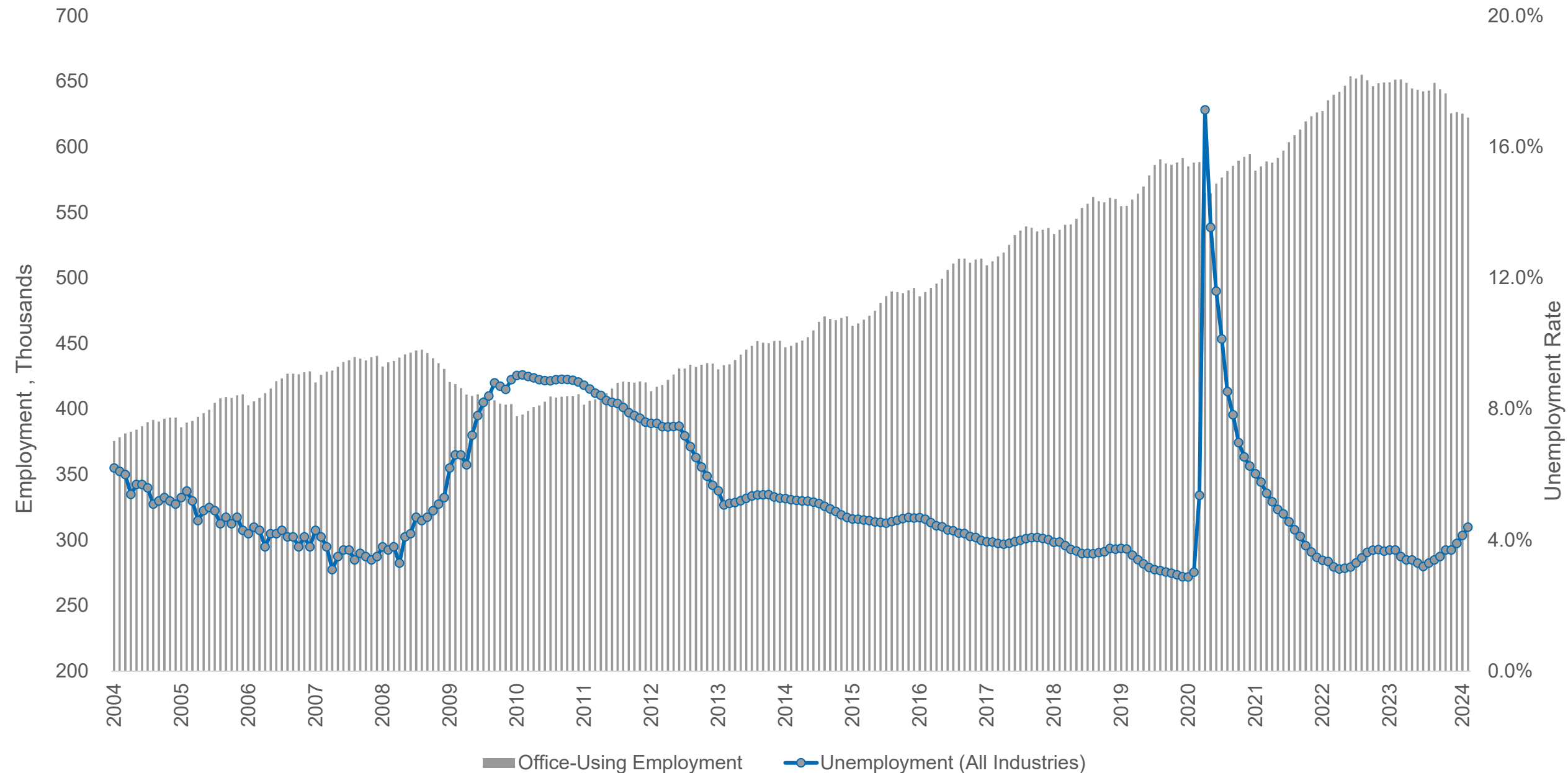


Source: U.S. Bureau of Labor Statistics, Seattle-Bellevue-Tacoma MSA

Overall Office-Using Employment Declines Slightly

Office-using employment declined slightly at the start of the year but remains well above pre-pandemic levels. Unemployment rose 50 bps over the quarter and as of February 2024 sat at 4.4%. Despite this increase, unemployment remains well below the April 2020 peak of 17.1%.

Office-Using Employment* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics Seattle-Bellevue-Tacoma MSA

*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

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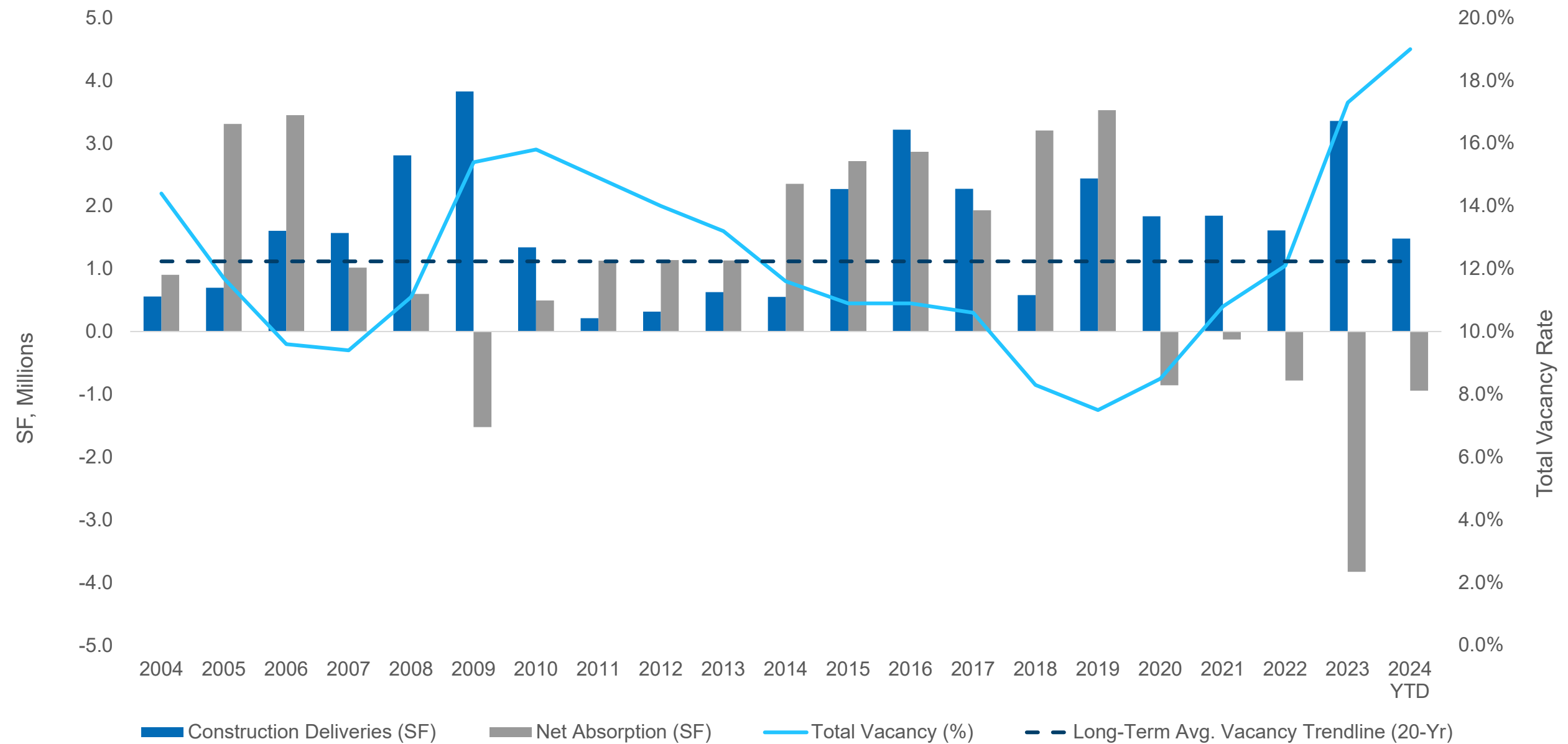
Leasing Market Fundamentals



Rightsizing Efforts Continue Throughout the Region

Overall vacancy rose by 170 bps to 19.0% in the first quarter of 2024, and the region saw a net negative absorption of 940,286 SF. Downsizing by tech has slowed as major occupiers have begun to stabilize their footprints. However, move-outs continued over the quarter, with Salesforce vacating approximately 205,000 SF at NorthEdge in Lake Union. The Eastside market fundamentals trended positively; Artise and Spring District Block 13 delivered for a combined 798,000 SF, and were positively absorbed by Amazon and Meta, respectively.

Historical Construction Deliveries, Net Absorption, and Vacancy

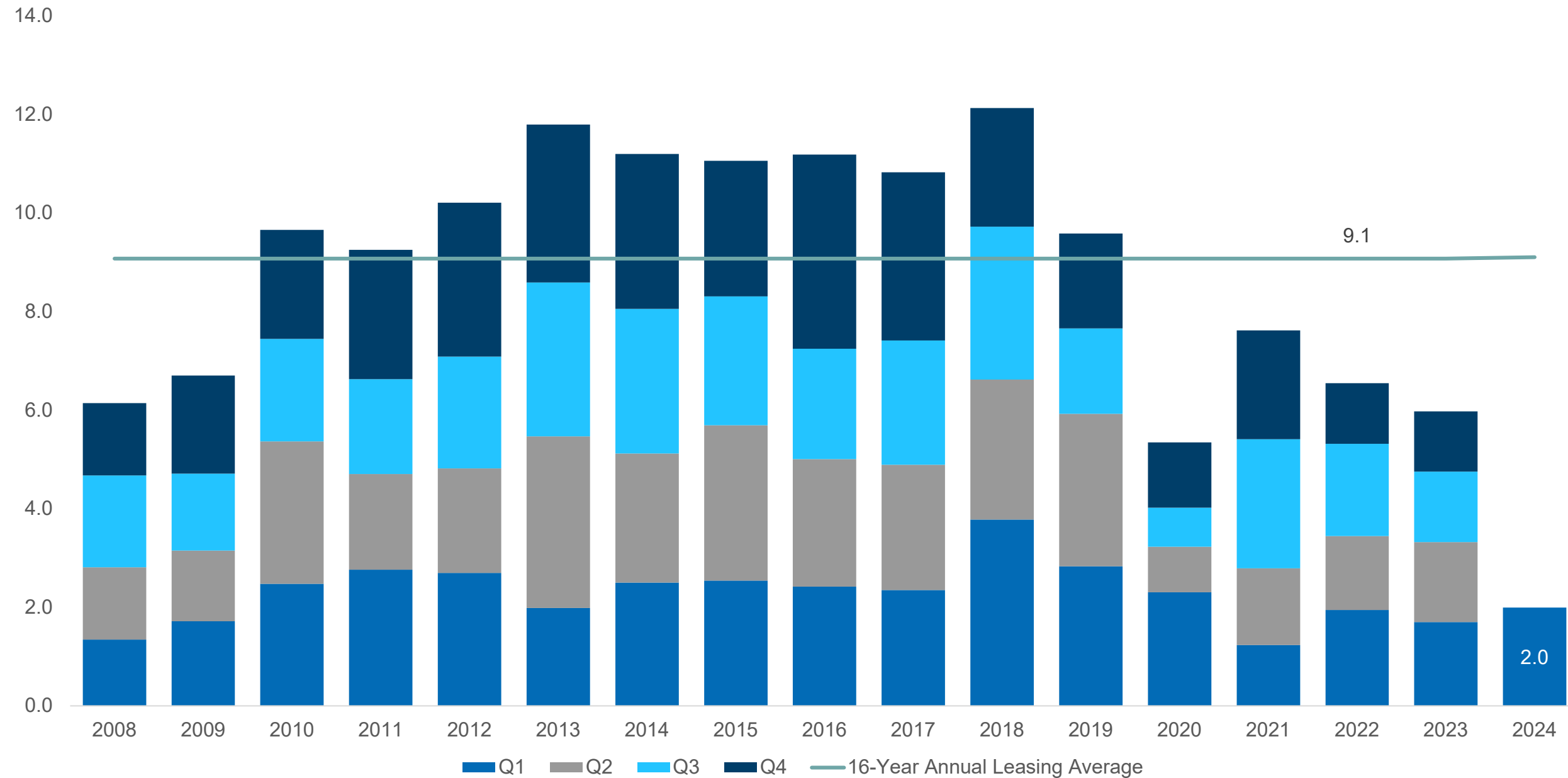


Source: Newmark Research

Leasing Activity Improves

The first quarter of 2024 saw an uptick in leasing activity. Leasing volume totaled 2.0 million SF, an increase of 23.9% over the quarter and 16.9% year over year. More than half of the total volume occurred on the Eastside, which saw healthy demand amongst tech companies. Notable deals include Pokémon preleasing 369,800 SF at The Eight and TikTok leasing 132,621 SF at Lincoln Square North.

Total Leasing Activity (msf)



Source: Newmark Research, CoStar

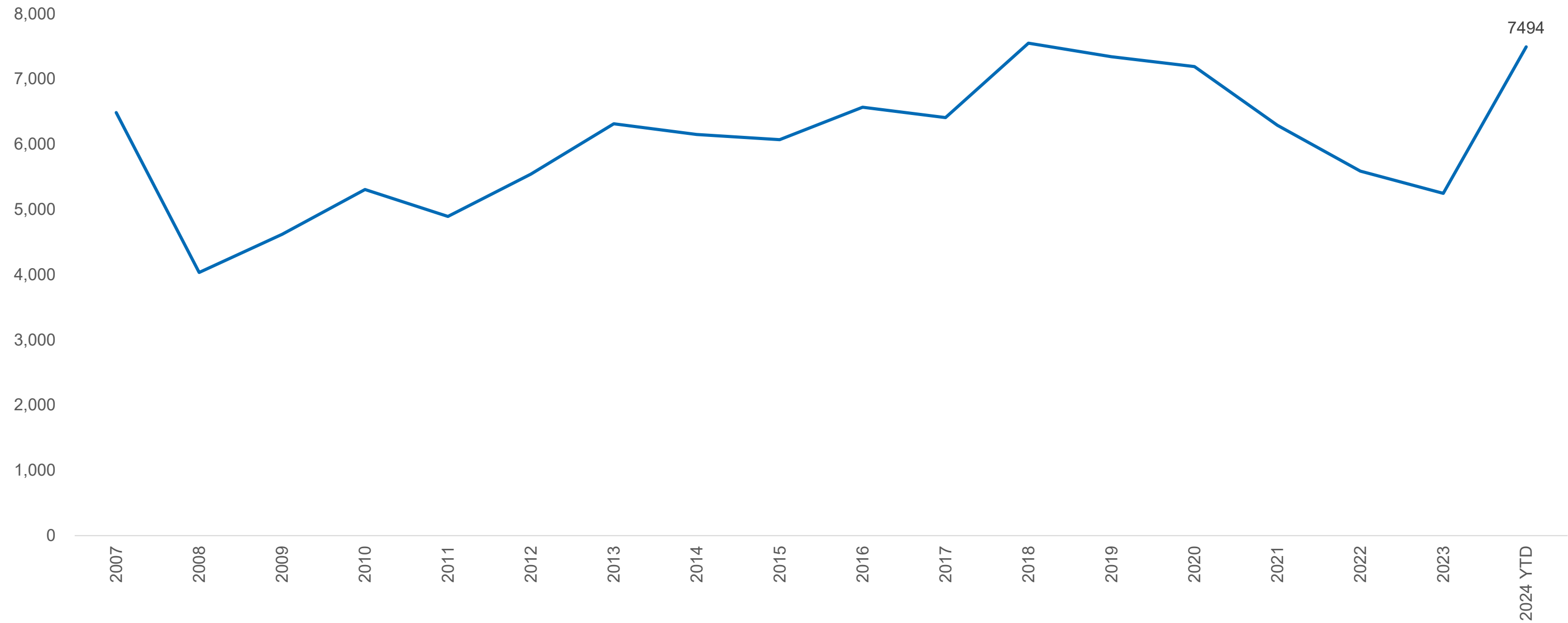


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Average Lease Size on the Rise

Due to several sizable deals during the first quarter of 2024, the average lease size grew to 7,494 SF, the largest quarterly average since the fourth quarter of 2021.

Average Lease Size (sf)

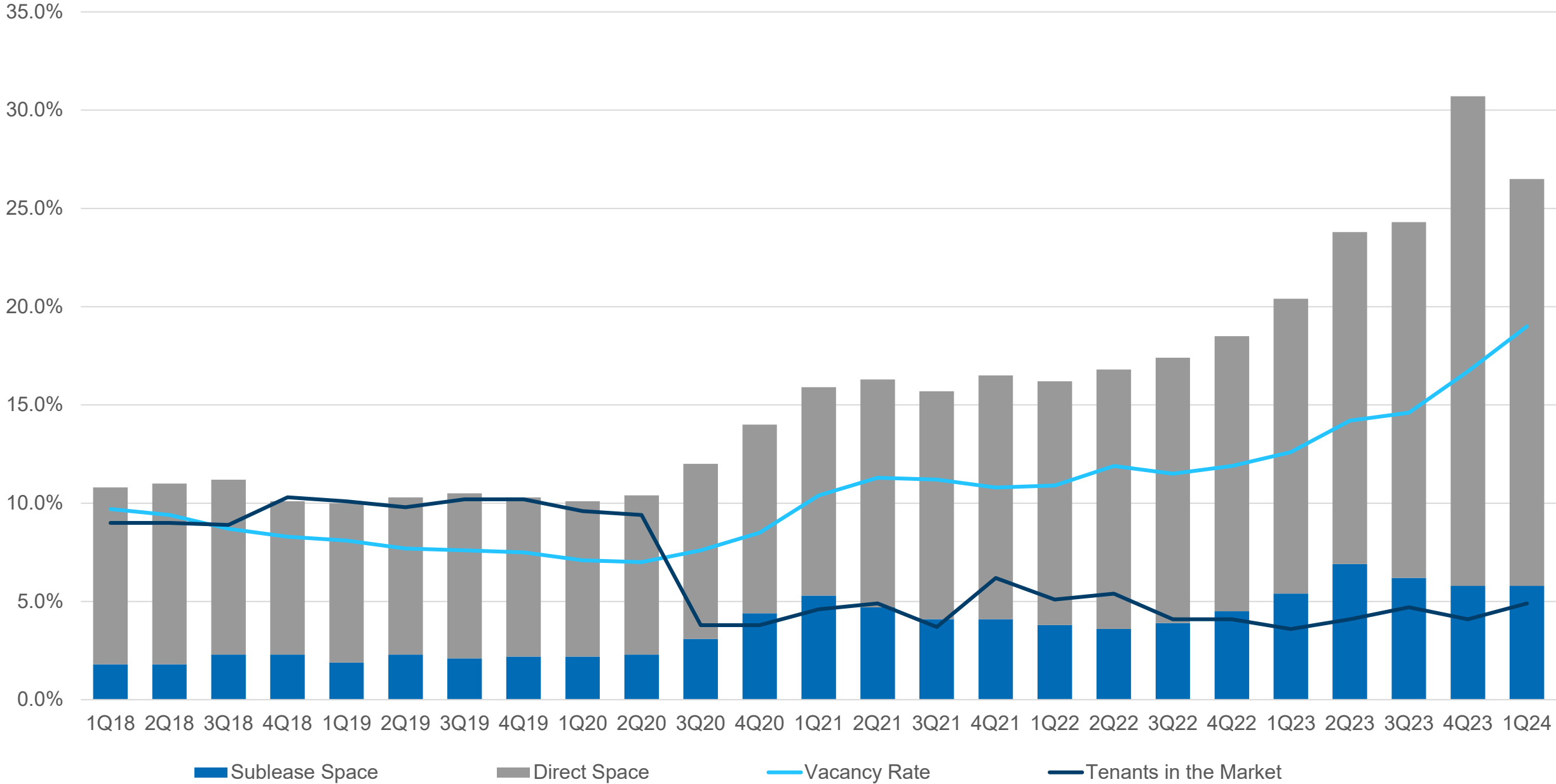


Source: Newmark Research, CoStar

Tenant Demand Ticks Up in First Quarter

Though demand remains lower than the historical average, the first quarter saw an increase in tenant demand. Despite rising vacancy and availability, leasing activity and touring are gaining momentum. There are currently 147 active tenant requirements totaling 5.4 million SF for the region, with 49 requirements for 25,000 SF or greater.

Available Space and Tenant Demand as Percent of Overall Market



Source: Newmark Research

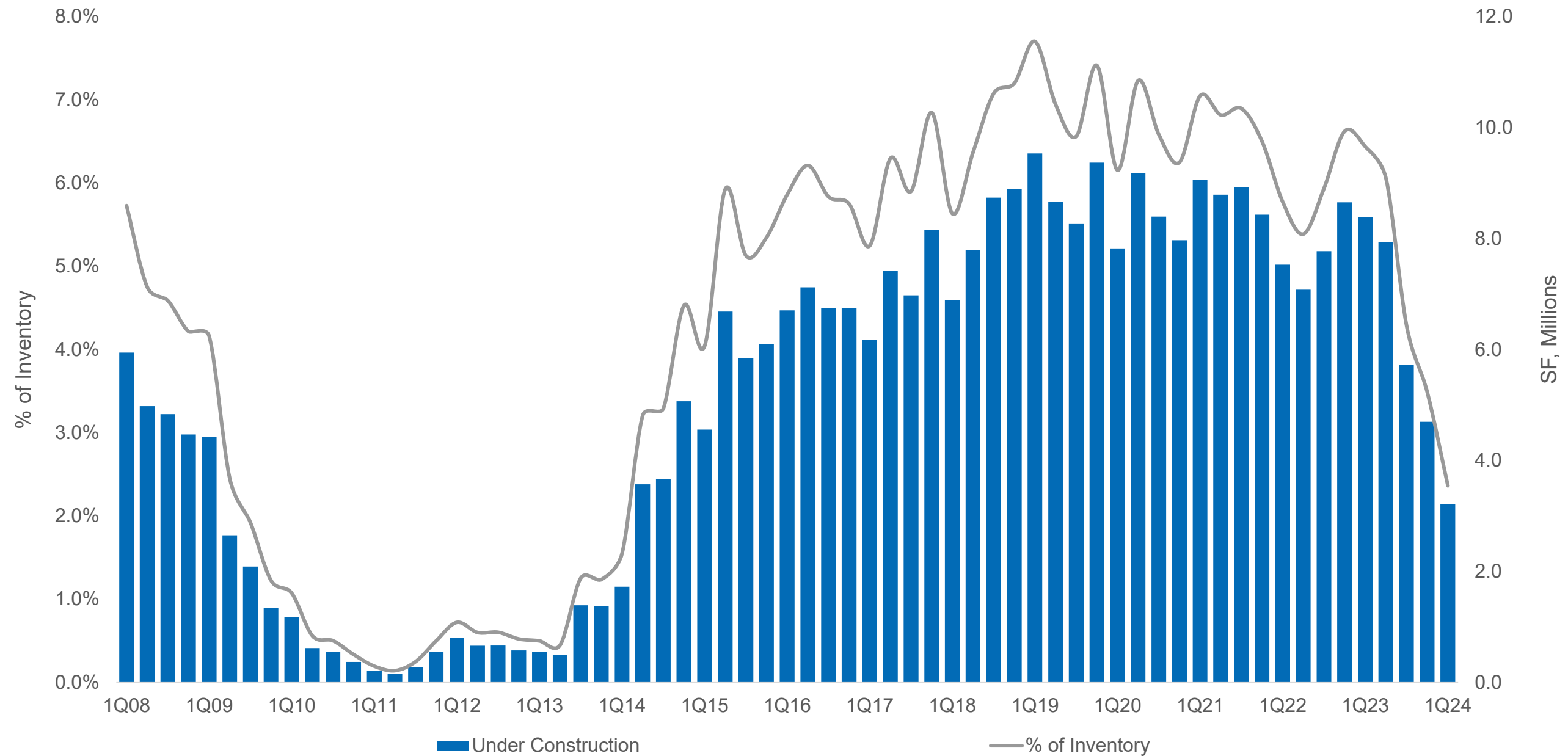


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Development Activity Continues to Cool

The first quarter of 2024 saw four new notable deliveries totaling 1.5 million SF. In Downtown Seattle, Washington 1000 and Northlake Commons were completed. On the Eastside, Amazon's Artise delivered alongside Spring District Block 13. Construction starts have slowed to a standstill, as economic conditions remain tenuous for new development.

Office Under Construction and % of Inventory

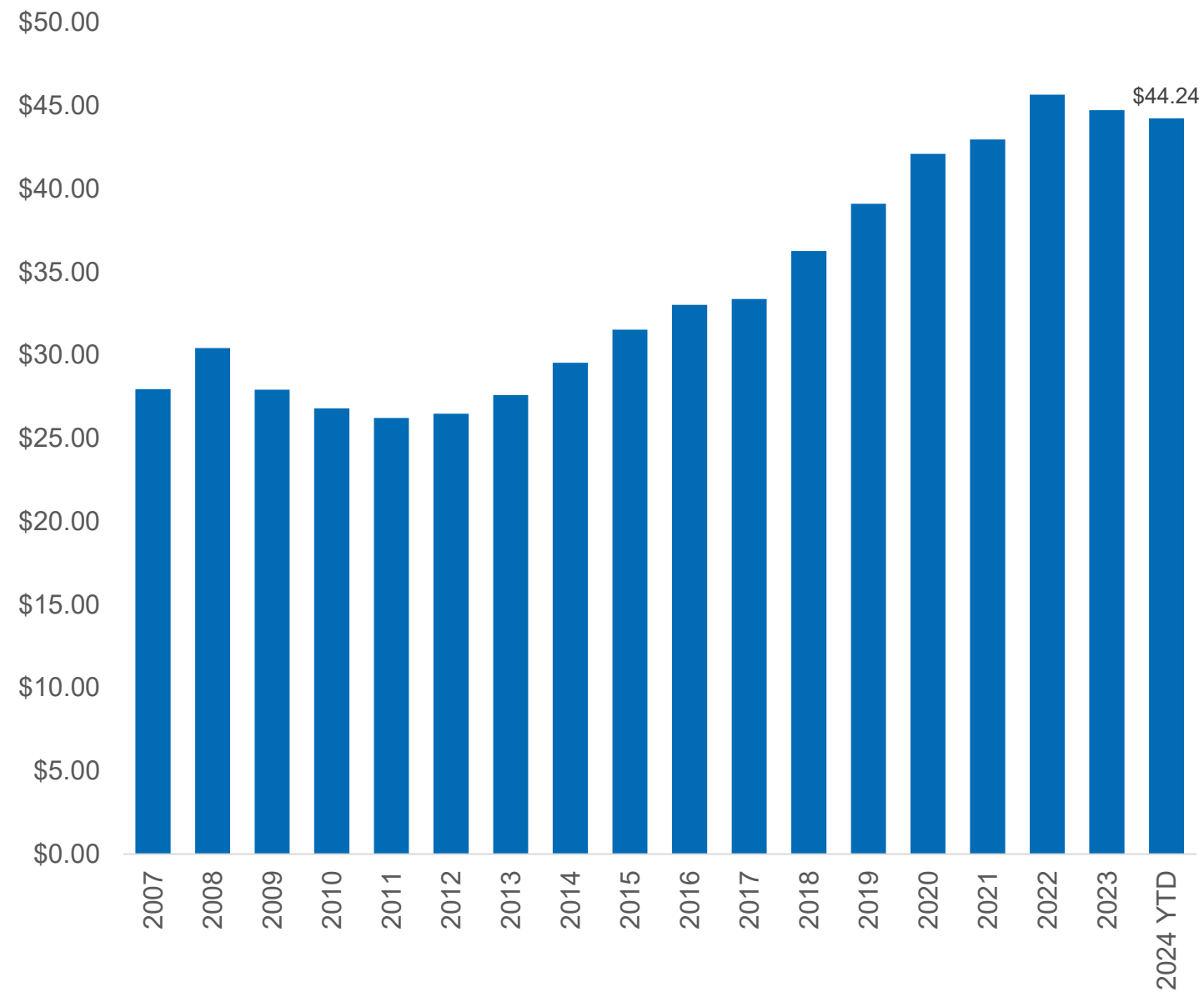


Source: Newmark Research, CoStar

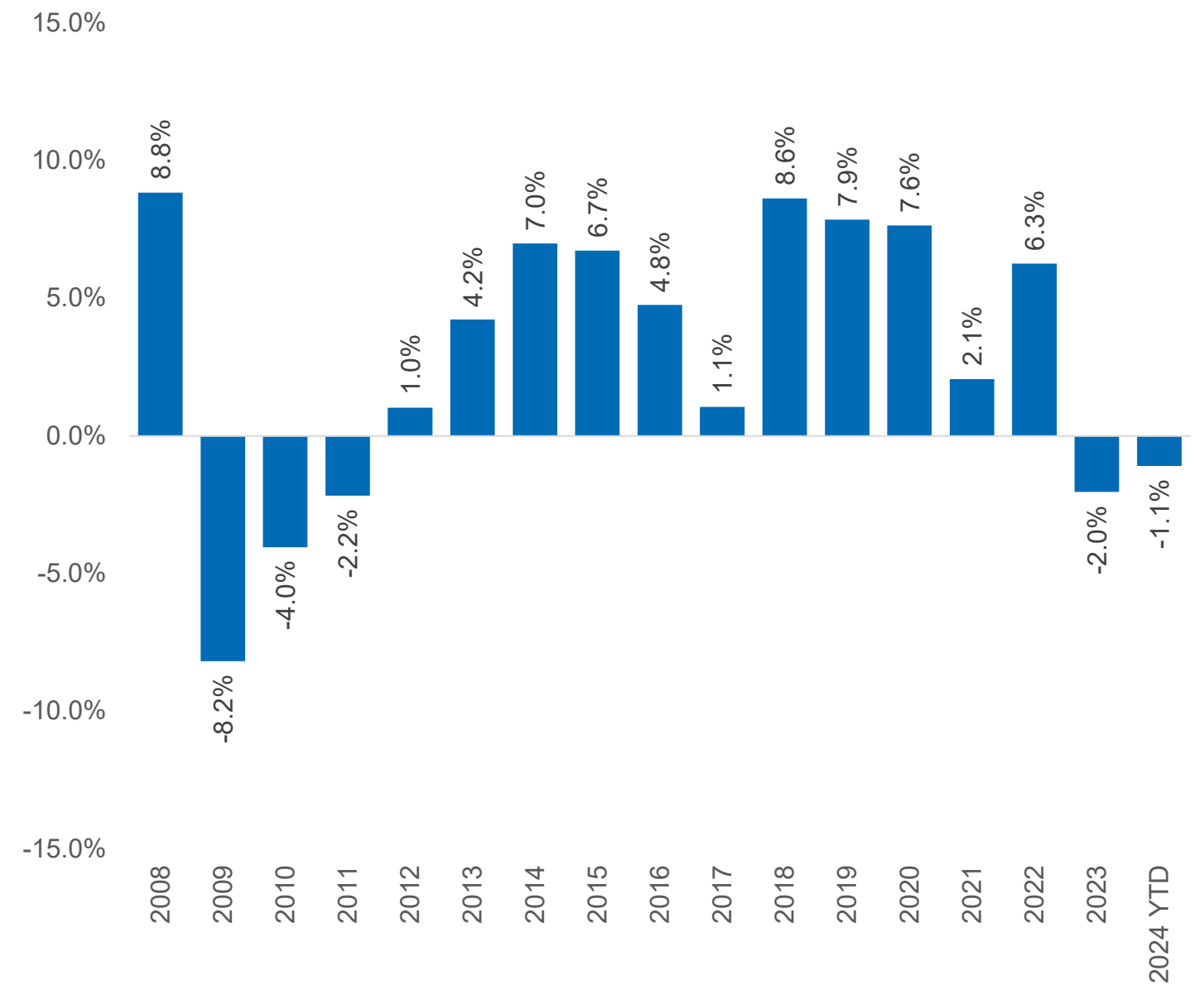
Average Asking Rents Trend Downward

Overall asking rates fell for the sixth consecutive quarter. Average asking rents were \$44.24/SF during the first quarter of 2024, down -1.1% year-over-year.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate

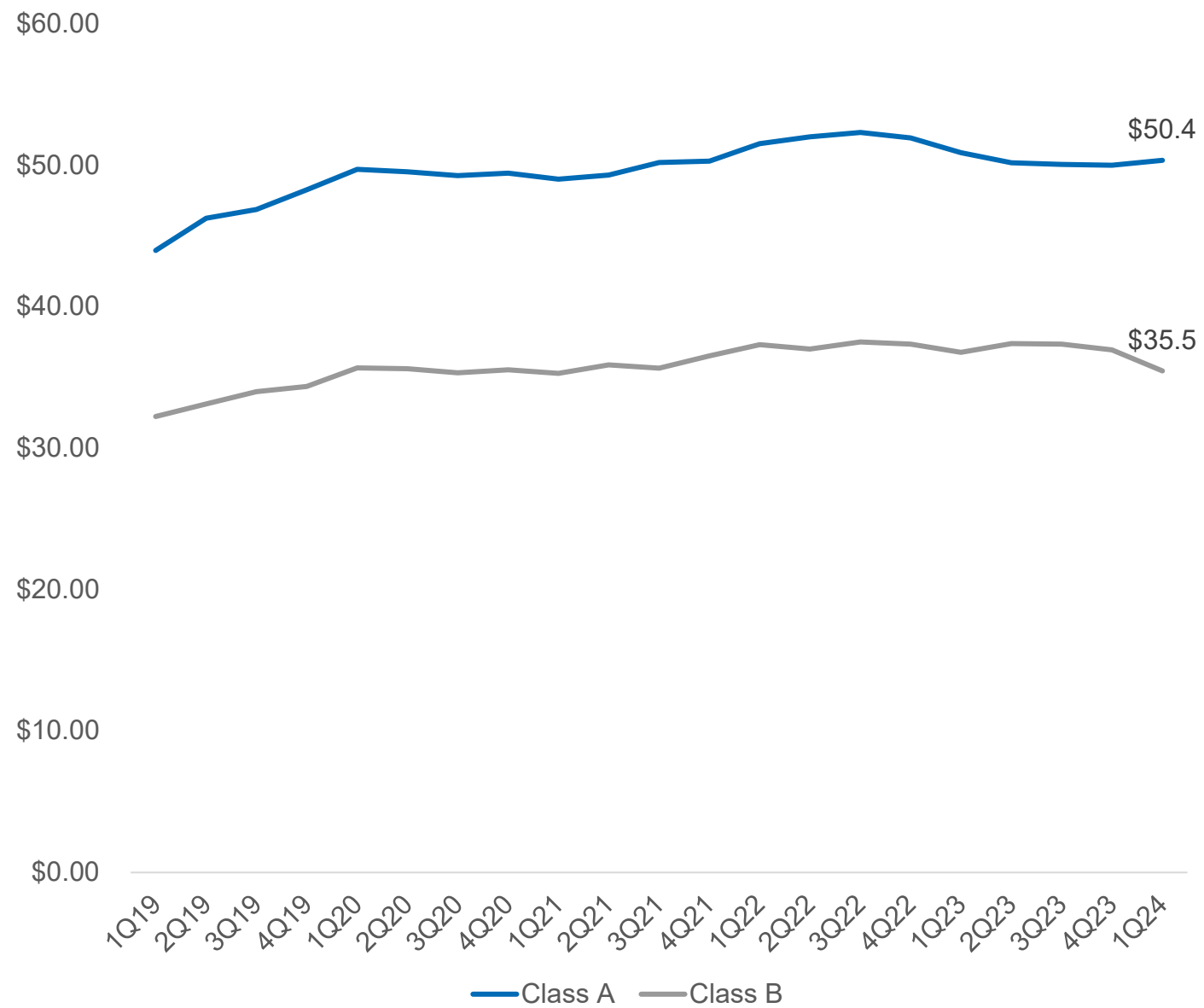


Source: Newmark Research, CoStar

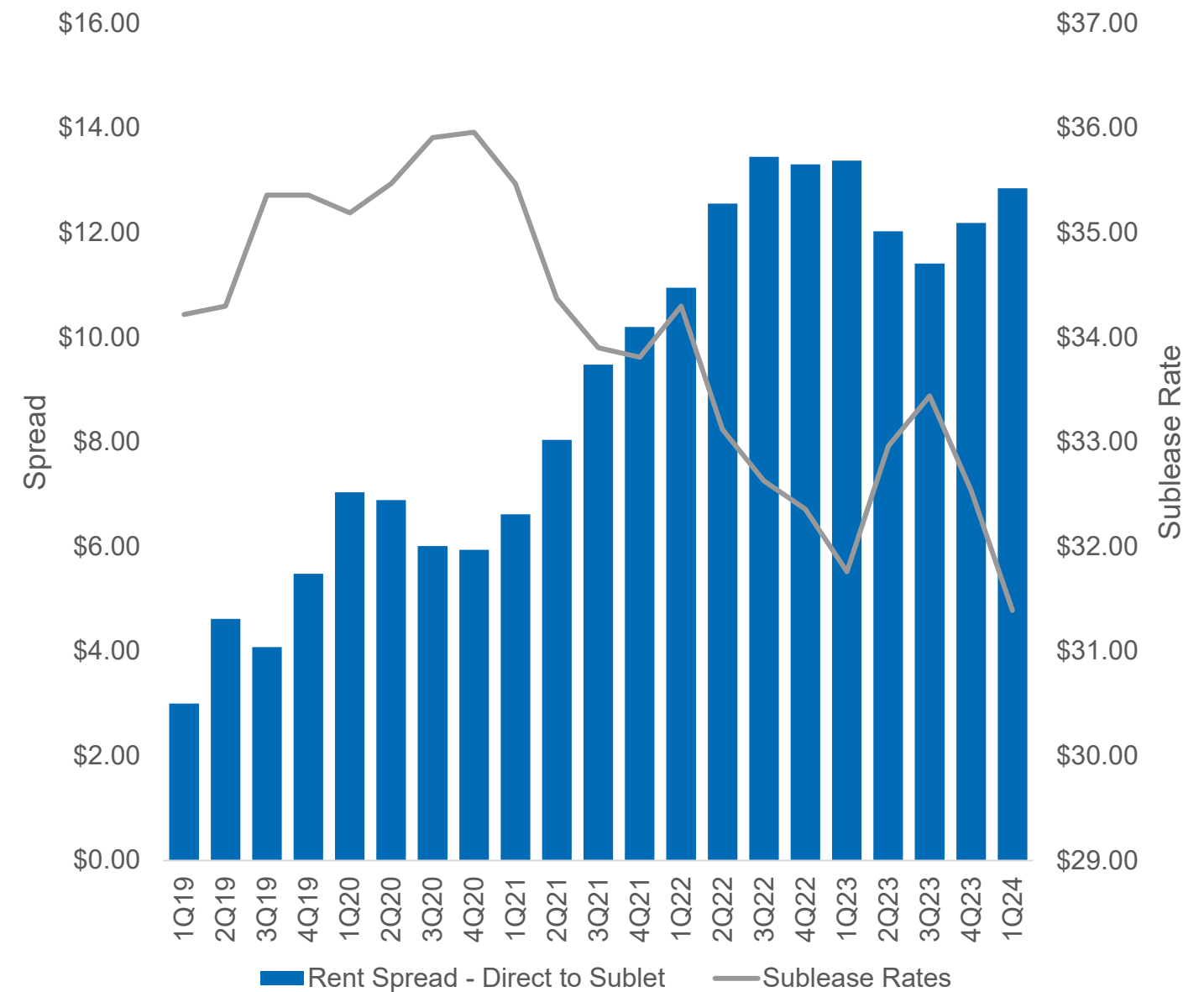
Spread Between Class A and Class B Rent Widens

Despite the overall decline in asking rates, average rents for Class A product recovered slightly to \$50.36/SF FSG, up 0.7% quarter over quarter. The widening gap between Class A and B rates is largely due to the influx of available premium product into the market by Microsoft and other major tech occupiers vacating space.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar

First Quarter Notable Transactions

Leasing activity in the first quarter was robust, particularly in the Bellevue CBD, which saw several sizable new deals. Despite some downsizing, tenants are showing a continued commitment to the Puget Sound market by renewing in place or relocating within the region.

Notable 1Q24 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Pokemon	The Eight	Bellevue CBD	Direct Lease	369,800
<i>Pokémon has preleased nearly three-fourths of the offices at Skanska's The Eight. The 25-story tower is under construction, with anticipated delivery in the fourth quarter of 2024.</i>				
ByteDance	Lincoln Square North Tower	Bellevue CBD	Direct Lease	132,621
<i>TikTok's parent company ByteDance is expanding its footprint in the Puget Sound region, leasing six floors at Lincoln Square North formerly occupied by Microsoft.</i>				
Elevate Outdoor Collective	Commons 90 – Building III	I-90 Corridor	Direct Lease	70,123
<i>Sports brand Elevate Outdoor Collective is establishing a new Eastside location, leasing the entirety of Building III at Commons 90.</i>				
CENTRL Office	Kelly-Springfield Building	Capitol Hill/Central District	Direct Lease	53,365
<i>Coworking company CENTRL Office will occupy three floors in the Kelly-Springfield building.</i>				
PATH	West Dock Building	Ballard/U-District	Direct Lease	50,937
<i>Healthcare non-profit PATH will establish a new HQ in the former Tableau space in Fremont.</i>				
UiPath	Lincoln Square North Tower	Bellevue CBD	Direct Lease	44,735
<i>New York-based software company UiPath has leased two floor in Lincoln Square North, formerly occupied by Microsoft.</i>				

Source: Newmark Research

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Appendix





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