



Puget Sound Office Market

Return To Work Fuels Increased Demand

The Puget Sound office market continued to make positive strides during the second quarter of 2021, with leasing velocity picking up and many large blocks of space coming off the market. Tenant inquiries increased and active space requirements are up by roughly 35% from the low point reached during the pandemic. Average asking rents increased by 0.8% to \$42.29/SF FSG for the quarter, nearly on par with the prior record of \$42.33/SF FSG set in second-quarter 2020. The region experienced -368,028 square feet of negative absorption during the second quarter, much of it from coworking firms, who have given back more than 750,000 square feet of space in the last year. Vacancy in the region increased to 10.8%, up 80 basis points for the quarter and 390 basis points year over year.

Seattle grew faster than any large city in the country last year and significant job growth is projected for the region due to expansion plans from Amazon, Facebook, Google and Microsoft, which have driven up demand among investors. Puget Sound ranks among the top five markets for office and flex property sales volume, with more than \$2.5 billion year to date, and has emerged as one of the leading markets for foreign real estate investment. Development is booming in Puget

Current Conditions

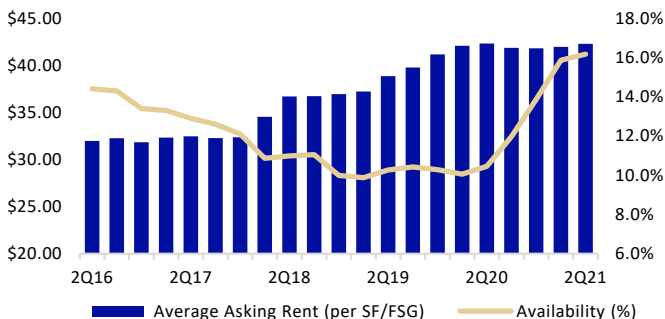
- The Puget Sound ranks second in the country with 9.1 million square feet of office space under construction, trailing only Manhattan.
- Vacancy in Lake Union fell 10 basis points to 2.9% and average asking rents rose to \$47.27/SF FSG, an increase of 4.5% year over year.
- Average asking rents in the Bellevue CBD have increased by 4.7% in the last year to \$58.38/SF FSG.
- Average asking rents in Downtown Seattle rose to \$47.22/SF FSG, up 0.6% for the quarter but down 2.0% year over year.

Market Summary

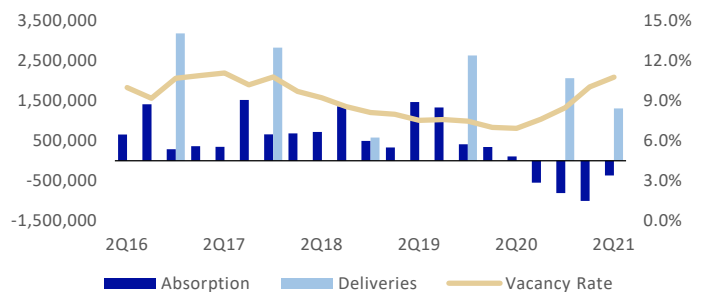
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	129.3M	128.9M	127.1M	↑
Vacancy Rate	10.8%	10.0%	6.9%	↓
Quarterly Net Absorption (SF)	-368,028	-1.0M	109,858	↑
Average Asking Rent/SF (FSG)	\$42.29	\$41.97	\$42.33	↑
Under Construction (SF)	9.1M	9.4M	9.0M	→

Market Analysis

ASKING RENT AND AVAILABILITY RATE



NET ABSORPTION v. CONSTRUCTION DELIVERIES & VACANCY RATE (SF)



RESEARCH Q2 2021

Sound; the market ranks second in the country behind Manhattan, with 9.1 million square feet of office space under construction.

Overall availability increased by 30 basis points to 16.2% during the quarter, but sublease availability dropped by 60 basis points, with many tenants electing to reoccupy space put on the market during the pandemic. Nearly 1.9 million square feet of space has been pulled off the sublease market since the start of 2021, 85% of which has been either leased or reoccupied by the original tenant.

Downtown Seattle

After peaking in the first quarter at 6.6%, sublease availability leveled off at the beginning of the second quarter and began trending downward, declining by 40 basis points to 6.2%. Some of that sublease space was converted to direct availability, which contributed to a 130-basis-point increase in the overall availability rate, which now sits at 18.4%. Notable large blocks of sublease space that have been removed from the market in the Pioneer Square/Waterfront submarket include 70,599 square feet at 111 South Jackson by Galvanize and 30,000 square feet at the Decatur Building by Synapse on floors three and four. Additionally, in the Seattle Central Business District, Qualtrics pulled 54,258 square feet on two floors off the market at 2+U.

Average asking rents in Downtown Seattle rose to \$47.22/SF FSG, up 0.6% for the quarter but down 2.0% year over year. Vacancy reached 11.7% during the quarter, up 110 basis points compared to the first quarter and up 600 basis points year over year. There was -188,341 square feet of net absorption during the quarter, with much of the negative absorption coming from the coworking industry. WeWork vacated four locations during the quarter, which resulted in -255,840 square feet of absorption: 106,342 square feet at 1411 Fourth Avenue in the Seattle CBD; 85,000 square feet at 15th & Market in the Ballard/University District submarket; 32,206 square feet at Roosevelt Commons in the Ballard/University District submarket; and 32,062 square feet at 2401 Elliott in the Belltown/Denny Regrade submarket.

Another coworking provider, Regus, vacated 25,942 square feet at 800 5th Avenue in the Seattle CBD.

Among Downtown Seattle submarkets, Lake Union has been the strongest performer recently. Average asking rents in Lake Union rose to \$47.27/SF FSG, an increase of 4.5% year over year. The tenant at Kilroy Realty's 333 Dexter took occupancy, which accounted for most of the positive absorption in Downtown Seattle during the quarter. The 639,984-square-foot 333 Dexter was leased in 2019 by a Bay Area technology company and delivered in third-quarter 2020. Lake Union has experienced 1.8 million square feet of net absorption over the last two years; in that time, the submarket inventory has increased by 17%. Lake Union will continue to grow due to the 1.7 million square feet of office currently under construction, 26.4% of which is already leased.

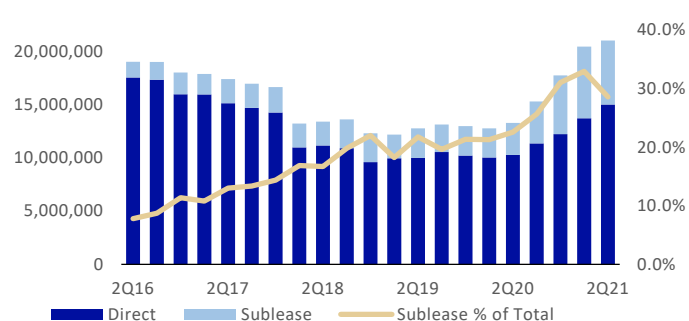
One of the factors driving demand is the lack of availability among life science space in Seattle, which is clustered in the Lake Union submarket. The vacancy rate was 3.6% among life science buildings in Seattle last quarter; asking rents for new lab space can range up to \$75-\$80/SF NNN. Vacancy was even tighter before the 136,217-square-foot Boren Lofts, which is in the northernmost portion of the Seattle CBD, adjacent to the Cascade neighborhood of Lake Union, delivered unleased in the first quarter. Boren Lofts was developed by Trammell Crow, in partnership with Washington Capital Management, which sold the property in the second quarter to Oxford Properties Group for \$119.1 million, or \$874/SF. Boren Lofts was projected to be traditional office space but pivoted during development and sold as a life science conversion. Expect to see more conversion activity in the pipeline moving forward since demand for lab space greatly exceeds the current supply.

Eastside

After shifting slightly in favor of tenants during the pandemic, the Eastside is quickly reverting to a market which heavily favors landlords. At least five large blocks of space were taken down during the quarter,

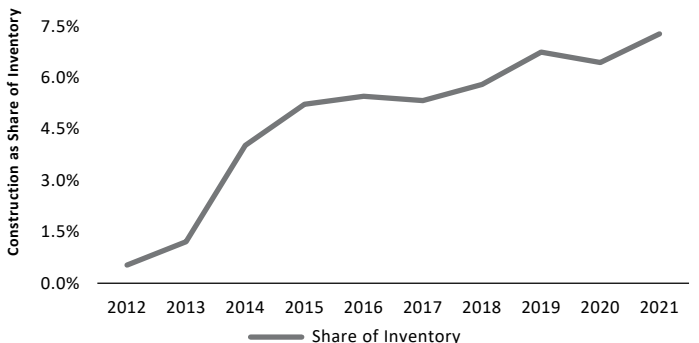
Availability

SUBLEASE v. DIRECT AVAILABILITY (SF)



Rate of Development

CONSTRUCTION AS % OF BUILDING INVENTORY



leaving less than 10 blocks of traditional office space in excess of 50,000 square feet available on the Eastside. Many of the largest deals signed this quarter were subleases. Metropolitan Market took 31,062 square feet at Bellefield Office Park in space previously occupied by K2; Amazon leased 137,104-square-feet at Redmond Town Center in a direct deal with Invesco for space that AT&T put on the sublease market in 2020; HNTB sublet 72,000 square feet on four floors at Symetra Center, and TenCent took 26,167 square feet at 929 Office Tower. There were also large direct deals signed, including Pokémon leasing 65,768 square feet at Lincoln Square.

Buoyed by the expansion of technology giants like Amazon, who plan to add 25,000 jobs in Bellevue, the Eastside has emerged as one of the premier investment markets in the country. That trend solidified in the second quarter as investors intensified competition over a dwindling inventory. One sale of note was the 4.89-acre Belle Vista Place development site in the Bellevue CBD, which Tishman Speyer bought from PMF Investments for \$152.5 million, or \$716/SF (land area). Tishman Speyer has proposed a four-building development called Belle Vista Place, which would add more than 1 million square feet of office to the Bellevue CBD inventory when completed in 2024. PMF Investments previously acquired the site in 2016 for \$42.7 million.

Soaring prices and lack of inventory in the Bellevue CBD, where average asking rents have increased by 4.7% in the last year, have pushed

investment activity toward the suburban Eastside markets. There was more than \$500.0 million in Eastside suburban office and flex property sales during the second quarter. Year-to-date sales volume reached \$1.5 billion, on pace to break the annual record of \$2.6 billion set in 2019. Pricing has increased in response to the surging demand, with the average sale price per square foot for Suburban office and flex sales increasing by roughly 124% over the last five years. One sale that exemplified the market's tremendous growth was the 136,592-square-foot Corporate Campus East in the 520 Corridor submarket, which Lake Washington Partners bought from Kennedy Wilson in June for \$62 million, or \$454/SF. The \$454/SF was one of the highest sale prices per square foot ever recorded in the 520 Corridor submarket.

Another Facebook-leased building in the Suburban Bellevue submarket's Spring District sold in the second quarter. Brookfield Property Partners bought the 198,712-square-foot Block 24 from the partnership of Wright Runstad and Shorenstein Properties for \$200 million, or \$1,010/SF. Block 24, which delivered this quarter, is the second Facebook-leased building Brookfield has acquired in the Spring District in recent months. In October of last year, Brookfield purchased the 343,691-square-foot Spring District Block 16, which Facebook leased in 2019, for \$365 million, or \$1,062/SF. Block 24 went under contract concurrently with Block 16 last year but did not close until second-quarter when construction of the building was completed.

Select Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
Amazon	Redmond Town Center	Redmond	Direct	137,104
HNTB	Symetra Center	Bellevue CBD	Sublease	72,000
Pokémon	Lincoln Square North	Bellevue CBD	Direct	65,768
Zyneworks	Financial Center	Seattle CBD	Direct	57,000
Dell EMC	505 First	Pioneer Square/Waterfront	Renewal	49,392
Met Market	1500 114th Ave SE	Suburban Bellevue	Sublease	31,062

Select Sales Transaction

Building	Submarket	Sale Price	Price/SF	Square Feet
300 Pine	Seattle CBD	\$579,999,958	\$753	770,000
Spring District Block 24	Suburban Bellevue	\$200,000,000	\$1,010	198,712
Canyon Park Business Center	Bothell/Kenmore	\$199,999,175	\$316	632,500
Advanta Edge Campus (building only)	I-90 Corridor	\$169,000,000	\$277	601,081
Belle Vista Development Site	Bellevue CBD	\$152,500,000	\$716 (land)	213,008 (land)
Boren Lofts	Seattle CBD	\$119,100,000	\$874	136,217

Submarket Statistics							
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Direct Asking Rent (Price/SF)	YOY Asking Rent Change (%)
Downtown Seattle	66,920,049	3,081,147	11.7%	-188,341	-1,121,612	\$47.22	-2.0%
Ballard/University District	3,385,589	0	9.9%	-99,514	-60,422	\$43.00	-7.7%
Belltown/Denny Regrade	5,766,016	733,823	17.8%	-82,776	-342,735	\$40.86	-1.3%
Capitol Hill/Central District	1,749,883	0	5.7%	-13,439	-29,243	\$40.47	5.2%
Lake Union	10,763,915	1,662,312	2.9%	477,035	388,737	\$47.27	4.5%
Pioneer Square/Waterfront	6,345,684	0	13.6%	-151,235	-322,103	\$44.59	-2.0%
Queen Anne/Magnolia	4,241,458	49,012	17.5%	-9,264	-53,749	\$38.02	-10.8%
South Seattle	2,820,026	0	6.3%	14,608	3,136	\$38.36	6.2%
Seattle CBD	31,847,478	636,000	13.5%	-323,756	-705,233	\$51.38	-2.2%
Eastside	34,475,664	6,024,081	6.5%	-44,088	-206,199	\$44.99	3.0%
520 Corridor	3,092,528	246,638	7.2%	50,847	42,102	\$42.72	-0.8%
Bellevue CBD	9,646,698	5,022,470	5.6%	-55,143	-142,881	\$58.38	4.7%
Bothell/Kenmore	3,396,906	0	7.9%	-41,568	-22,507	\$36.40	-1.6%
Coal Creek/Issaquah	1,867,877	0	5.4%	-4,087	-2,382	\$43.04	3.2%
I-90 Corridor	4,876,396	0	6.7%	-50,089	-79,930	\$42.51	1.2%
Kirkland	2,411,939	403,973	3.1%	-14,029	-11,078	\$46.07	2.6%
Mercer Island	575,995	0	31.9%	5,959	-6,856	\$42.52	1.3%
Redmond	3,512,099	351,000	5.4%	21,822	9,218	\$42.31	5.7%
Suburban Bellevue	4,157,408	0	7.4%	43,384	6,273	\$41.59	-0.8%
Totem Lake	937,818	0	3.5%	-1,184	1,842	\$36.37	-5.6%
Southend	11,249,842	0	21.4%	-11,324	3,736	\$33.72	-8.5%
Federal Way/Auburn	3,315,577	0	21.7%	-24,742	38,511	\$26.28	-3.3%
Kent Valley	1,610,503	0	7.5%	16776	-10,631	\$29.77	7.6%
Renton/Tukwila	5,129,342	0	27.4%	-2,358	5,089	\$38.98	-10.7%
Seatac/Burien	1,194,420	0	13.4%	-1,000	-29,233	\$29.36	-2.7%
Northend	7,778,593	0	7.0%	-43,225	-13,996	\$31.34	0.0%
Tacoma	8,889,048	0	10.2%	-81,050	-34,887	\$27.62	-1.3%
Puget Sound Market	129,313,196	9,105,228	10.8%	-368,028	-1,372,958	\$42.29	-0.1%

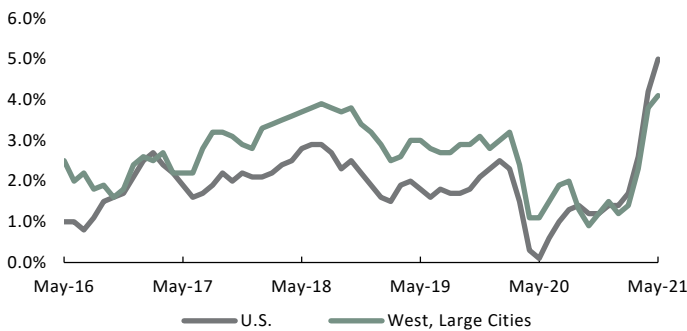
Economic Conditions

The domestic economy continued to recover in the second quarter; as optimism grows, growth forecasts are undergoing upward revisions. As of the June meeting, the FOMC projects that GDP will grow to 7.0% in 2021, an increase from the 6.5% forecasted in March. Labor market conditions steadily improved over the second quarter, with the unemployment rate dropping to 5.8% in May, the lowest it has been since March of 2020.

Locally, the Puget Sound economy continues to hum along and shows no indication of slowing down. The regional unemployment rate dropped to 5.1%, 70 basis points lower than the national rate. Seattle metro area employment improved in most sectors. As of April 2021, the leisure and hospitality sector, which was hit hard by pandemic conditions, led all employment categories with an increase of 29.2% year over year.

Consumer Price Index (CPI)

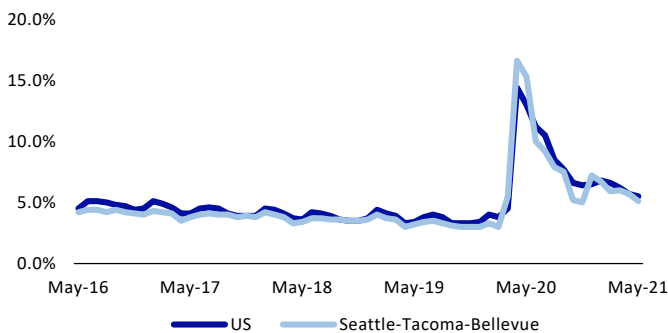
All Items, 12-Month % Change, Not Seasonally Adjusted



*Source: U.S. Bureau of Labor Statistics

Unemployment Rate

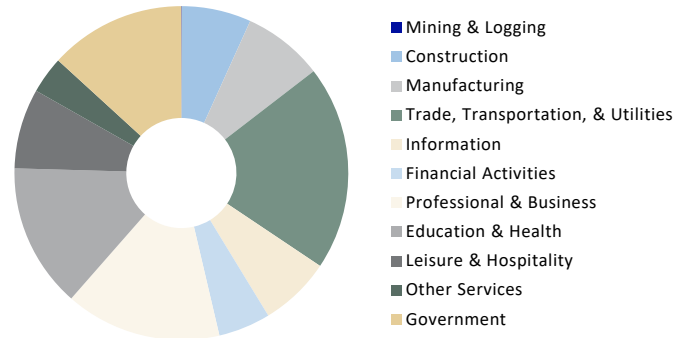
Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

Employment By Industry

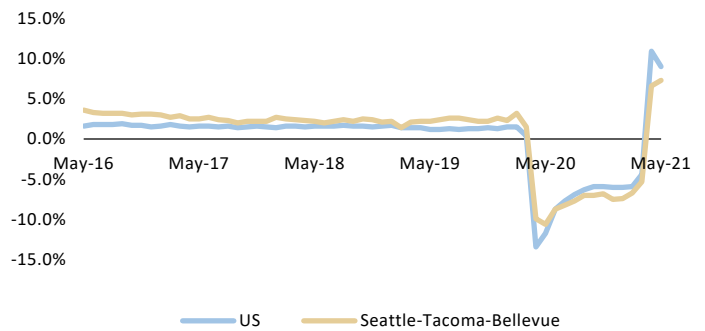
Seattle-Tacoma-Bellevue



Source: U.S. Bureau of Labor Statistics

Payroll Employment

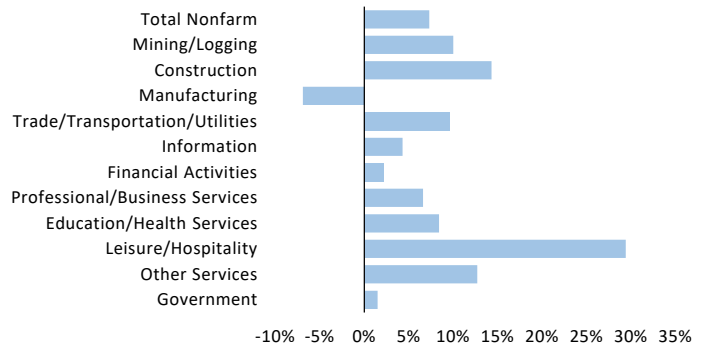
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



*Source: U.S. Bureau of Labor Statistics

Employment Growth by Industry

Seattle-Tacoma-Bellevue, 12-Month % Change, Not Seasonally Adjusted



*Source: U.S. Bureau of Labor Statistics

For more information:

New York Headquarters
125 Park Ave.
New York, NY 10017
t 212-372-2000

Seattle
1420 Fifth Avenue
Suite 2150
Seattle, WA 98101
t 206-388-3000

Bellevue
10900 NE 4th Street
Suite 1430
Bellevue, WA 98004
t 425-362-1400

Southend
18300 Cascade Avenue S
Tukwila, WA 98188
t 206-388-3000

Joseph Morris
Research Analyst
206-453-1812
joseph.morris@nrmk.com

Nora Leahy
Research Analyst
206-962-1812
nora.leahy@nrmk.com

nrmk.com

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