

PUGET SOUND OFFICE MARKET

MARKET ACTIVITY PICKING UP

Propelled by large deals from Amazon and Facebook, the Puget Sound region ranked among the strongest-performing markets in the United States during the third quarter of 2020. While some deals remain stalled due to concerns surrounding the pandemic, investment activity picked up significantly during the quarter and expansion plans for the region's largest tech companies remained on track. Absorption was negative 537,949 square feet for the quarter, which brought the year to date absorption total to negative 39,772 square feet. Average asking rents dropped to \$41.86/SF FSG, down 1.1% during the quarter but up 5.3% year over year. The overall vacancy rate increased by 60 basis points to 7.6%, which is exactly where it was at this time last year. The difference this year is that subleases account for roughly twice as much vacant space as they did in third-quarter 2019. The Puget Sound is one of the most active markets for development in the country, with 51 cranes operating between Seattle and Bellevue and 8.3 million square feet of office construction currently underway, of which 66% has been leased. The Puget Sound's level of office construction ranks second among all markets in the country, trailing only Manhattan.

Average asking rents in Downtown Seattle dropped to \$47.06/SF FSG, down 2.3% during the quarter but up 2.7% compared with third-quarter 2019. Absorption was negative 264,892 square feet for the quarter, which brought the year to date absorption total to negative 203,358 square feet. Among the hardest-hit submarkets in terms of absorption were Belltown/Denny Regrade, where Cisco vacated 50,436 square feet at Third & Broad, and the Pioneer Square/Waterfront submarket, where the Westland Building shed tenants in anticipation of a potential hotel renovation. The overall vacancy rate in Downtown Seattle rose to 6.6%, an increase of 90 basis points during the third quarter. Direct vacancy rose by 50 basis points to 5.1%, and sublet vacancy rose by 40 basis points to 1.6%. Perhaps more telling is the availability rate, which rose to 11.8%, an increase of 170 basis points for the quarter and up 330 basis points from a recent low of 8.5% in first-quarter 2019. Notable subleases which have hit the market since April include: 60,306 square feet at Alley 24 in the Lake Union submarket (WPP & LivePerson); 48,502 square feet at the Palmer Court Building in the Pioneer Square/Waterfront submarket (PayScale); and 42,282 square feet at US Bank Centre in the Seattle Central Business District (Lane Powell). Additional sublet space is expected to become available during the fourth quarter as tenants continue to assess future space requirements.

Average asking rents in the Seattle CBD submarket decreased to \$51.41/SF FSG, down 2.2% during the third quarter but up 3.8% year over year. The Seattle CBD experienced negative 85,610 square feet of net absorption during the third quarter, which brought the year to date total to 28,505 square feet. The largest moveouts occurred at the Financial Center, where Merrill Lynch vacated 61,235 square feet and

CURRENT CONDITIONS

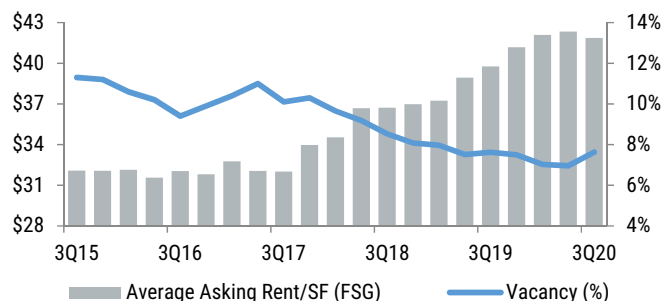
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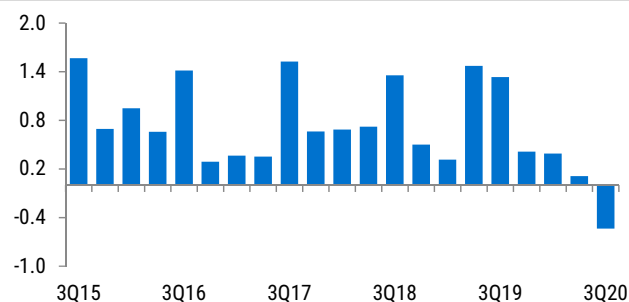
Puget Sound availability rate rose by 130 bp to 11.7% during the third quarter.

MARKET ANALYSIS

Asking Rent and Vacancy



Net Absorption (SF, Millions)



MARKET SUMMARY

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	128M SF	127M SF	126M SF	↑
Vacancy Rate	7.6%	7.0%	7.6%	↑
Quarterly Net Absorption	-538K SF	110K SF	1.3M SF	↑
Average Asking Rent	\$41.86	\$42.34	\$39.76	↓
Under Construction	8.3M SF	9.0M SF	7.8M SF	↓
Deliveries	636K SF	66,400 SF	1.48M SF	↓

the Washington Federal Building, where owner-occupier Washington Federal Bank vacated 36,960 square feet. Overall vacancy in the Seattle CBD increased by 90 basis points during the quarter to 7.2%, which was still down considerably from third-quarter 2018 when vacancy sat at 9.2%.

News on the Eastside was once again dominated by Amazon, which continued its expansion in a major way during the third quarter, officially announcing leases totaling nearly 2 million square feet in two buildings in the Bellevue CBD submarket. Amazon leased the 970,000-square-foot 555 108th and the 1.03-million-square-foot Bellevue Plaza Site developments; both broke ground in 2020 and are being developed by Vulcan. The leases bring Amazon's office footprint in the region to nearly 19.5 million square feet, including future space, with roughly 5.5 million square feet of that on the Eastside. Eastside asking rents dropped slightly to \$43.43/SF FSG, a decrease of 0.60% for the quarter but up 2.3% year over year. Net absorption was negative 70,135 square feet for the quarter, which lowered the Eastside's total for the year to 91,605 square feet. The overall vacancy rate ticked up just 20 basis points to 5.1% but, like Downtown Seattle, the availability rate jumped more significantly, up 80 basis points to 8.8%. Subleases accounted for a large portion of the newly available space, most notably: 137,104-square-feet at Redmond Town Center (AT&T); 104,482-square-feet at Key Center in the Bellevue CBD (Concur); and 55,500-square-feet at Skyline Tower in the Bellevue CBD (Eagleview Technologies).

Another FAAMG company expanding on the Eastside is Facebook, who recently purchased what was to be the REI headquarters in the Spring District, located in the Suburban Bellevue submarket. Facebook paid

REI \$378.9 million, or \$947/SF, for the 400,000-square-foot building, which is under construction and expected to deliver next quarter. REI previously purchased the development site from Wright-Runstad in October of 2017 for \$49.3 million, before Facebook had any presence in the Spring District. Since then, Facebook has leased 873,000 square feet in three Spring District buildings (Blocks 6, 16 and 24). The purchase of the former REI Headquarters pushed Facebook's office footprint in the region to 3.8 million square feet, including Oculus and future space. Its huge presence in the Suburban Bellevue submarket is particularly remarkable considering Facebook occupied less than 200,000 square feet at the end of 2015, all of which was in Seattle.

NOTABLE TRANSACTIONS AND DEVELOPMENT

Defense contractor Systima Technologies executed two notable transactions in the third quarter, first selling Kirkland 405 to Alco Investment Company for \$28.5 million, or \$255/SF, and then buying Harbour Pointe Tech Center in Mukilteo from Razore Enterprises for \$46.8 million, or \$147/SF. In other capital markets news, 801 Third, a development site that will be the future home of The Net, sold for \$127.7 million. The site, located in the Seattle CBD, was purchased by Mitsui Fudosan, who acquired partial ownership in the property as part of a joint venture with local owner/developer Urban Visions. The Net, proposed to deliver in 2024, will add roughly 800,000 square feet of new office space. Urban Visions has been one of the most active developers in Seattle of late. Its recent developments include: the 340-unit West Edge apartments, which delivered in 2018 in the Seattle CBD; the 203-unit Koda Condominiums in the Pioneer Square/Waterfront submarket, which is anticipated to deliver in 2021; plus more than 2.0 million square feet of proposed office space between The Net and S Phases I and II.

SELECT LEASE TRANSACTIONS

Tenant	Building	Submarket	Type	Square Feet
Amazon	555 108th	Bellevue CBD	Direct	970,000
Amazon	Bellevue Plaza	Bellevue CBD	Direct	881,070
Amazon	Redmond Town Center	Redmond	Direct	111,368
RBC Wealth Management	1918 8th Bldg	Seattle CBD	Renewal	35,424
Willis Towers Watson	One Union	Seattle CBD	Renewal	30,000

SELECT SALES TRANSACTIONS

Building	Submarket	Sale Price	Price/SF	Square Feet
REI Headquarters	Suburban Bellevue	\$378,912,500	\$947	400,000
The Net (Development Site)	Seattle CBD	\$127,721,839	N/A	28,571 (land)
Columbia West	Bellevue CBD	\$72,000,000	\$484	149,882
3005 1st Ave (First & Eagle)	Belltown/Denny Regrade	\$50,775,000	\$487	104,200
Kirkland 405 Portfolio	Kirkland	\$28,500,000	\$255	111,793

SUBMARKET STATISTICS

	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Net Absorption (SF)	YTD Net Absorption (SF)	Average Direct Asking Rent (Price/SF, FSG)
Downtown Seattle	65,638,241	4,219,581	6.6%	-264,892	-203,358	\$47.06
Ballard/University District	3,342,239	43,350	6.3%	-18,801	44,607	\$44.67
Belltown/Denny Regrade	5,638,292	892,008	8.8%	-179,969	-227,547	\$40.18
Capitol Hill/Central District	1,749,883	0	3.2%	-21,458	59,031	\$40.09
Lake Union	10,755,800	1,355,094	1.6%	155,421	178,375	\$44.76
Pioneer Square/Waterfront	6,270,440	135,866	5.7%	-50,316	-103,603	\$42.90
Queen Anne/Magnolia	4,241,458	49,012	16.0%	-83,040	-209,198	\$37.98
South Seattle	2,799,238	0	6.2%	18,881	26,472	\$34.67
Seattle CBD	30,840,891	1,744,251	7.2%	-85,610	28,505	\$51.41
Eastside	34,146,051	3,958,778	5.1%	-70,135	91,605	\$43.43
520 Corridor	3,107,442	246,638	6.6%	36,076	88,072	\$42.33
Bellevue CBD	9,646,698	2,943,070	3.2%	-50,838	-73,335	\$55.96
Bothell/Kenmore	3,375,909	0	9.0%	-12,344	4,570	\$37.11
Coal Creek/Issaquah	1,799,307	68,570	1.4%	-5,840	-8,365	\$40.57
I-90 Corridor	4,876,396	0	3.5%	-13,163	6,180	\$41.62
Kirkland	2,411,939	50,500	2.9%	-10,957	95,503	\$41.05
Mercer Island	575,995	0	30.1%	-13871	-11781	\$42.00
Redmond	3,512,099	0	5.8%	41,903	59,141	\$42.17
Suburban Bellevue	3,902,448	650,000	6.7%	-38,091	-77,871	\$41.05
Totem Lake	937,818	0	3.3%	-3,010	9,491	\$38.83
Southend	11,249,842	0	20.8%	-117,666	78,791	\$36.24
Federal Way/Auburn	3,315,577	0	2.1%	-5,293	-3,181	\$26.22
Kent Valley	1,610,503	0	6.9%	-46,767	-22,917	\$28.89
Renton/Tukwila	5,129,342	0	26.7%	-52,366	106,760	\$43.39
Seatac/Burien	1,194,420	0	7.8%	-13,240	-1,871	\$30.33
Northend	7,766,194	0	5.6%	-61,766	-39,963	\$31.22
Tacoma	8,933,307	75,000	9.6%	-23,490	33,153	\$28.27
Puget Sound Market	127,733,635	8,253,359	7.6%	-537,949	-39,772	\$41.86

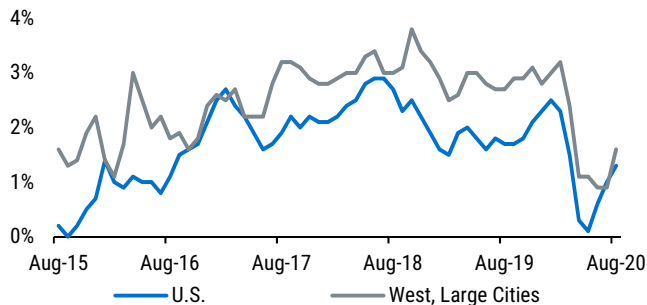
ECONOMIC CONDITIONS

The U.S. economy took solid steps forward in the third quarter after the Coronavirus pandemic shut down large portions of the country during the first half of the year. The unemployment rate dropped to 8.5% in August, down from 14.4% in April, which marked the highest rate of unemployment since the Great Depression. The consumer price index increased by 1.3% year over year in August after slowing to an annual growth rate of 0.10% in May. The U.S. GDP shrank by an annualized rate of 31.4% in the second quarter, but a poll of economists conducted by MarketWatch projected third-quarter GDP would expand at a record-setting annualized rate of 25%. With infection rates dropping across the country and many states easing COVID-19 restrictions, it is not unreasonable to think that the worst has passed and a steady recovery lies ahead.

The Puget Sound region came into 2020 as one of the hottest markets in the country but was largely shut down during the first half of the year as a result of the Coronavirus. The shutdown caused the unemployment rate to spike to 16.6% in April. The unemployment rate dropped to 7.9% in August as more than 100,000 jobs have been added to the economy since the end of May. The job growth can be expected to continue with tech giants like Amazon, Microsoft and Facebook expanding in the region and projected to add more than 40,000 jobs to the local economy in coming years.

CONSUMER PRICE INDEX (CPI)

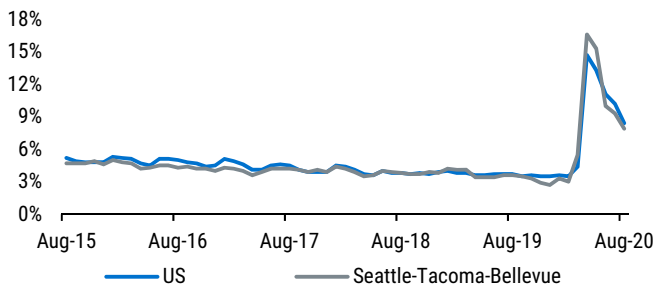
All Items, 12-Month % Change, Not Seasonally Adjusted,



Source: U.S. Bureau of Labor Statistics

UNEMPLOYMENT RATE

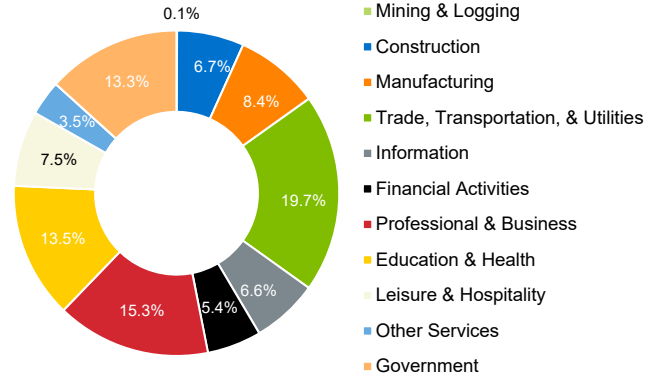
Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

EMPLOYMENT BY INDUSTRY

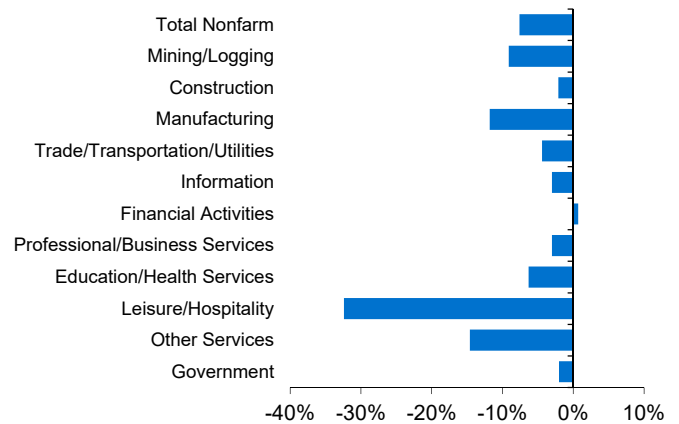
Seattle-Tacoma-Bellevue, Aug 2020



Source: U.S. Bureau of Labor Statistics

EMPLOYMENT GROWTH BY INDUSTRY

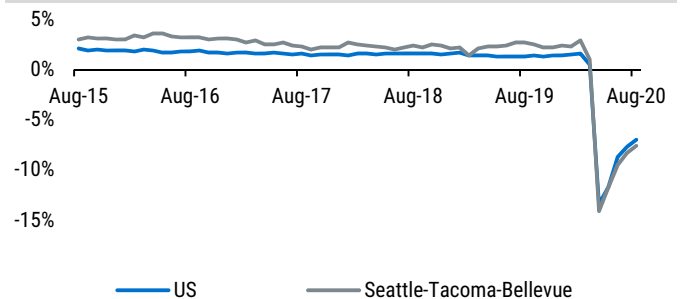
Seattle-Tacoma-Bellevue, 12-Month % Change, Not Seasonally Adjusted, Aug 2020



Source: U.S. Bureau of Labor Statistics

PAYROLL EMPLOYMENT

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



Source: U.S. Bureau of Labor Statistics

**NEWMARK KNIGHT FRANK
SEATTLE**

1420 Fifth Avenue
Suite 2150
Seattle, WA 98101
206.388.3000

BELLEVUE

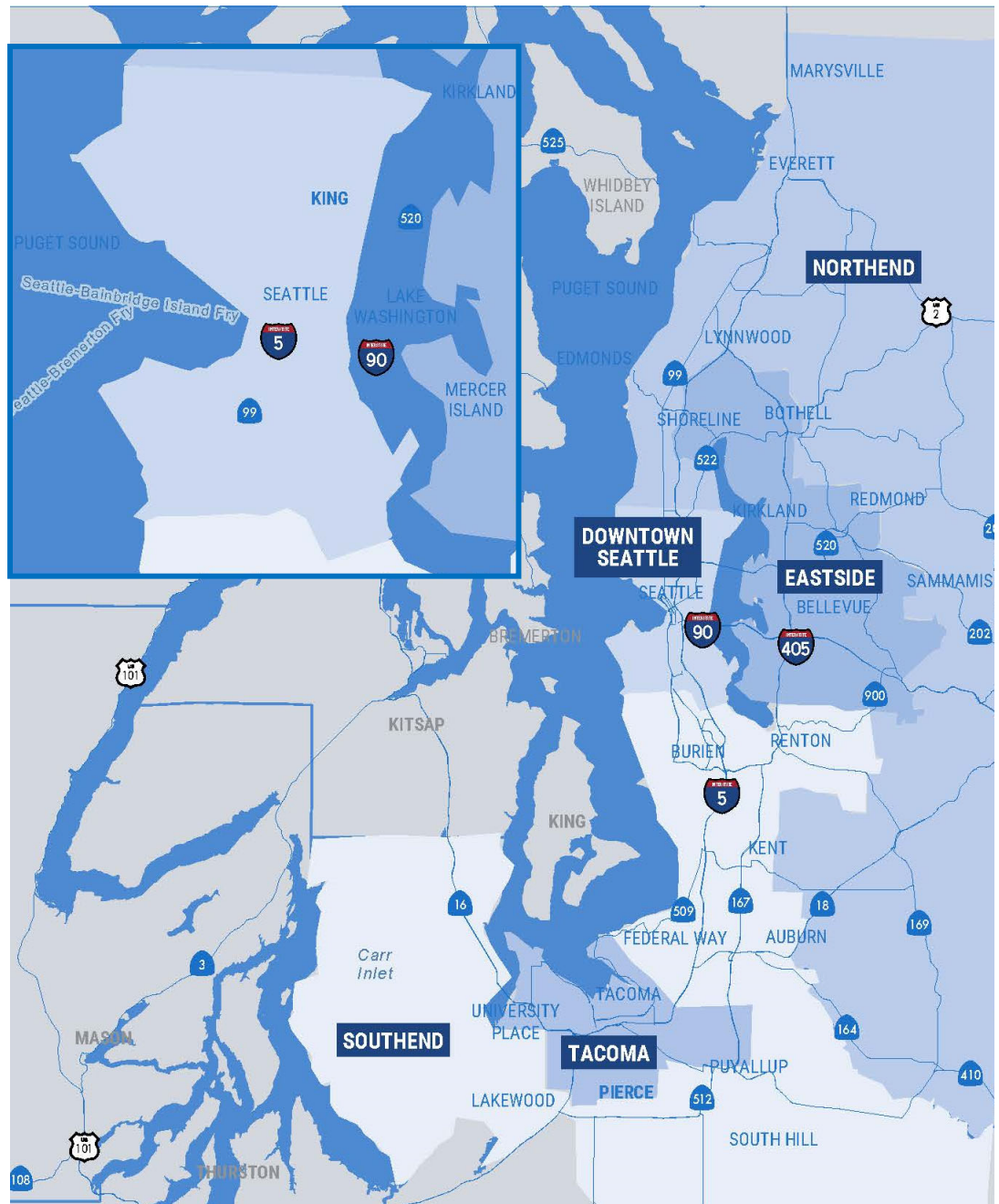
10900 NE 4th Street
Suite 1430
Bellevue, WA 98004
425.362.1400

SOUTHEND

18300 Cascade Ave S
Suite 151
Tukwila, WA 98188
206.388.3000

JOSEPH MORRIS

Research Analyst
206.453.1812
joseph.morris@ngkf.com



Sources: The Seattle Times, Costar, The Wall Street Journal, Puget Sound Business Journal, The Registry, and Daily Journal of Commerce.

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