



# Puget Sound Office Market

## Office Market Loses Momentum in 4Q22

After a second quarter of economic hesitancy and uncertainty surrounding return-to-work plans, the Puget Sound office market softened in the fourth quarter of 2022. Despite three straight quarters of positive absorption in 2021, the region's office fundamentals were bumpy throughout 2022. Overall, the market had negative 685,252 square feet of absorption for the year, largely due to negative 712,766 square feet of absorption in the fourth quarter of 2022. Overall vacancy edged up to 11.8%, the highest it has been this cycle, with direct vacancy at 10.5% and sublease vacancy at 1.3%. Availability rates also increased this quarter, with 14.0% direct availability and 4.5% sublease availability, from a total of 17.4% availability in the third quarter of 2022. Despite the uptick in available sublease space this quarter, the amount of sublease space available is 14.2% lower than at its peak in the first quarter of 2021.

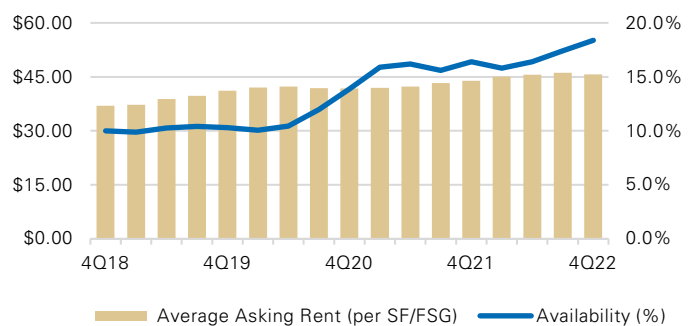
While tenant activity traditionally cools during the fourth quarter, the contrast is more apparent in 2022. Demand challenges are expected to persist in the near term as tenants remain focused on right-sizing exercises rather than growth. There remain 6.1 million square feet of active tenant requirements in the region, with a focus on smaller footprints, flight to quality and flexible terms. Average asking rates dipped slightly over the period to \$45.71/SF. While landlords have generally held firm on face rents, effective rents have begun to favor tenants as concession packages grow.

As of November 2022, office occupancy was 42.0% of pre-pandemic levels in Downtown Seattle, a figure on par with the national average and an improvement from an average of 29.0% in January 2022. Overall, the state of the market is in flux; layoffs are causing more companies to add sublease space to the market, while other companies are becoming more emboldened to enforce in-office requirements. As companies to continue to right-size, leased space should become more densely occupied, even if more vacant space hits the market.

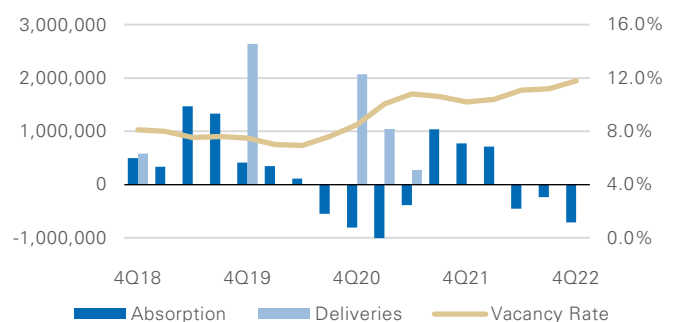
### Market Summary

	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	130.6M	131.0M	130.0M	↑
Vacancy Rate	11.8%	11.2%	10.2%	↑
Quarterly Net Absorption (SF)	-713K	-235K	773K	↑
Average Asking Rent/SF	\$45.71	\$46.14	\$43.95	→
Under Const. (SF)	9.1M	10.1M	9.9M	↓

### Asking Rent and Availability Rate



### Net Absorption v New Construction & Vacancy



**Select Lease Transactions**

Tenant	Submarket	Building	Type	Square Feet
Kimley-Horn	Seattle CBD	1201 Third	Direct	46,466
Ryan, Swanson & Cleveland	Seattle CBD	Rainier Square	Sublease	24,340
P2S Engineering	Seattle CBD	1201 Third	Direct	23,650
Statsig	I-90 Corridor	Crestwood Corporate Plaza	Direct	20,696
Parametrix	Seattle CBD	Millennium Tower	Renewal	16,865
Hollabaugh Bros & Assoc	South Seattle	6915 194 <sup>th</sup> St	Renewal	14,715
Promodev	Totem Lake	Kirkland 405 Corporate Center	Expansion	14,286

**Select Sales Transactions**

Building	Submarket	Sale Price	Price/SF	Square Feet
Belle View Office Park	Suburban Bellevue	\$28,000,000	\$487	57,512
Alderwood Business Campus	Lynnwood	\$26,291,250	\$190	138,030
Southgate Campus/Valley Office Park*	Renton/Tukwila	\$84,000,000	\$176	477,000

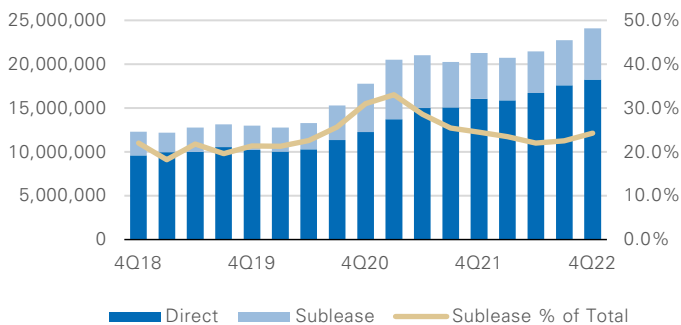
\*Medical Office

**Notable Buildings Under Construction**

Building	Submarket	Development Type	Estimated Delivery	Square Feet
Onni SLU – Towers I & II	Lake Union	Speculative	2024	940,160
The Eight	Bellevue CBD	Speculative	2024	540,000
Washington 1000	Seattle CBD	Speculative	2024	526,000
Four 106	Bellevue CBD	Speculative	2025	480,000

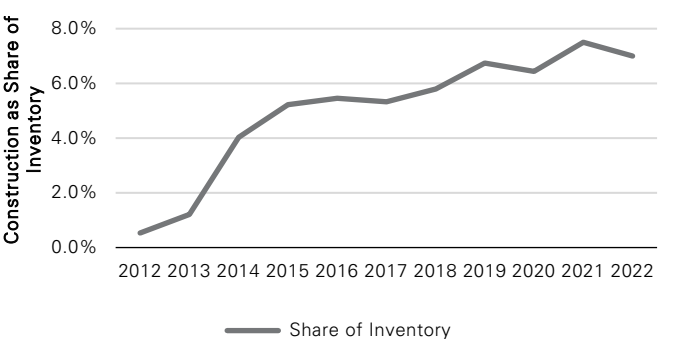
**Availability**

**SUBLEASE v. DIRECT AVAILABILITY (SF)**



**Rate of Development**

**CONSTRUCTION AS % OF BUILDING INVENTORY**



RESEARCH Q4 2022

Submarket Statistics							
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Average Asking Rent (Price/SF)	YOY Asking Rent Change (%)
<b>Downtown Seattle</b>	<b>67,433,389</b>	<b>2,405,044</b>	<b>14.8%</b>	<b>-236,780</b>	<b>-1,370,213</b>	<b>\$47.96</b>	<b>0.2%</b>
Ballard/University District	3,385,589	-	4.8%	-24,480	90,376	\$48.54	6.8%
Belltown/Denny Regrade	5,766,016	30,000	18.1%	-44,616	-100,845	\$45.34	0.2%
Capitol Hill/Central District	1,736,883	-	4.9%	-19,811	-38,629	\$45.82	12.2%
Lake Union	11,097,507	1,515,962	7.4%	-106,275	25,805	\$48.72	-6.0%
Pioneer Square/Waterfront	6,346,688	135,866	18.3%	-59,572	-299,622	\$44.26	1.3%
Queen Anne/Magnolia	4,205,705	197,216	19.9%	146,030	153,754	\$40.30	6.0%
South Seattle	2,820,026	-	7.7%	-8,520	-51,675	\$37.01	2.5%
Seattle CBD	32,074,975	526,000	17.6%	-119,536	-1,149,377	\$50.86	-0.5%
<b>Eastside</b>	<b>35,776,579</b>	<b>6,731,269</b>	<b>6.2%</b>	<b>-325,991</b>	<b>594,347</b>	<b>\$49.65</b>	<b>5.9%</b>
520 Corridor	3,337,528	-	7.9%	-19,365	190,190	\$44.72	6.7%
Bellevue CBD	10,718,299	4,628,000	4.8%	-16,285	636,736	\$61.95	3.9%
Bothell/Kenmore	3,131,244	-	9.7%	-96,616	-112,665	\$45.40	23.7%
Coal Creek/Issaquah	1,872,415	620,000	4.0%	-25,976	-58,491	\$45.37	4.3%
I-90 Corridor	4,916,166	-	10.4%	-55,944	-188,765	\$46.05	6.9%
Kirkland	2,796,508	277,432	3.4%	-27,712	-26,708	\$46.01	2.5%
Mercer Island	420,795	-	6.8%	-848	3,204	\$42.71	2.0%
Redmond	3,512,099	351,000	4.1%	-74,857	-22,443	\$43.54	-0.8%
Suburban Bellevue	4,157,407	854,837	5.5%	-5,896	205,396	\$45.25	10.0%
Totem Lake	914,118	-	5.9%	-2,492	-32,107	\$39.18	2.2%
<b>Southend</b>	<b>10,896,253</b>	<b>-</b>	<b>14.2%</b>	<b>173,968</b>	<b>399,230</b>	<b>\$38.36</b>	<b>10.4%</b>
Federal Way/Auburn	2,973,580	-	11.4%	-12,191	41,324	\$28.32	4.8%
Kent Valley	1,610,503	-	3.2%	30,759	47,612	\$32.93	13.7%
Renton/Tukwila	5,129,341	-	21.4%	122,503	238,665	\$43.91	10.1%
Seatac/Burien	1,182,829	-	5.5%	32,897	71,629	\$28.57	-4.9%
<b>Northend</b>	<b>7,778,593</b>	<b>-</b>	<b>10.9%</b>	<b>-249,121</b>	<b>-224,779</b>	<b>\$32.83</b>	<b>2.8%</b>
<b>Tacoma</b>	<b>8,702,826</b>	<b>-</b>	<b>10.1%</b>	<b>-74,842</b>	<b>-83,837</b>	<b>\$30.54</b>	<b>6.8%</b>
<b>Puget Sound Market</b>	<b>130,587,640</b>	<b>9,136,313</b>	<b>11.8%</b>	<b>-712,766</b>	<b>-685,252</b>	<b>\$45.71</b>	<b>4.0%</b>

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