RESEARCH Q2 2022

Puget Sound Office Market

Office Market Recovery Slows During Second Quarter

Following three quarters of steady recovery from the worst of the pandemic, the Puget Sound office market slowed in the second quarter of 2022, hindered by construction delays and economic challenges. Although most large employers announced their return-to-office plans in late 2021, implementing those plans has proven challenging as workers negotiate remote and hybrid work. Due to the tight labor market, many employers are still allowing positions to remain remote or hybrid to help attract new workers and retain existing staff. Despite these challenges, Kastle keycard data shows that national office occupancy hit 44.2% at the end of June, its highest point since the beginning of the pandemic. This number is expected to continue to climb in the coming months. Hybrid work models are certain to remain, but the physical office remains vital to product innovation, speed to market, and employee engagement.

Though removal of space has slowed slightly, sublease availability continues to decrease. Approximately 275,000 square feet of space was absorbed or withdrawn from the market during the second quarter of 2022, and available space has declined by 1.1 million square feet year-over-year. Most of the remaining available space is in Downtown Seattle, which posted a sublease availability rate of 4.4% at the end of the second quarter of 2022.

Current Conditions

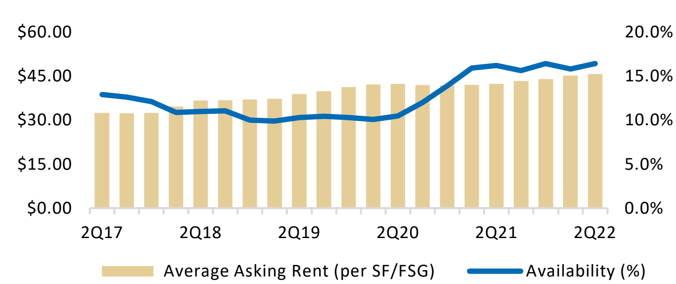
- Overall vacancy in the Puget Sound market was 11.1%, with direct vacancy at 10.3%.
- Sublease availability has decreased by 28.2% since its peak in March of 2021, signaling ongoing recovery from pandemic conditions.
- Dexter Yard delivered in Lake Union for a total of 500,000 square feet; 8.3 million square feet of new product remain underway.
- In the largest sale of the quarter, Madison Centre sold for $730.0 million, or $959/SF.

Market Summary

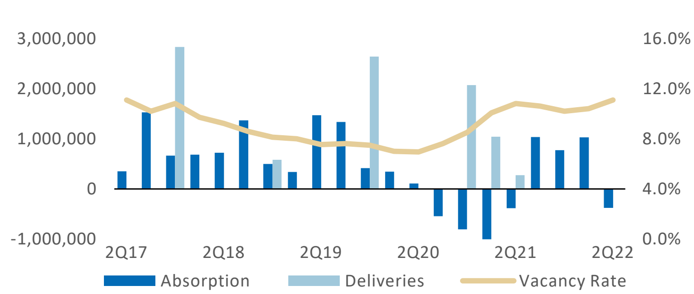
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	131.0M	131.0M	128.5M	↑
Vacancy Rate	11.1%	10.4%	11.0%	↑
Quarterly Net Absorption (SF)	-375K	1.0M	-300K	↓
Average Asking Rent/SF	$45.65	$45.10	$42.46	↑
Under Const. (SF)	8.5M	8.6M	8.9M	↓

Market Analysis

ASKING RENT AND AVAILABILITY RATE



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



NEWMARK

The Puget Sound region experienced negative 375,253 square feet of absorption, bringing the year-to-date total to 534,591 square feet. Average asking rents increased to $45.65/SF FSG, up 1.0% for the quarter and 7.5% year over year. Overall vacancy rose to 11.1%, up 70 basis points for the quarter, with direct vacancy at 10.3%.

Development activity in the Puget Sound region remains high, with 8.5 million square feet of construction underway. Several projects have pushed back delivery dates due to a lack of concrete following a months-long strike of concrete drivers across King County. This in turn has delayed move-ins by tenants who have preleased space and offset the absorption to future quarters. Still, projects that were underway continue to progress, and three new office projects broke ground during the second quarter of 2022, including Four 106 in Bellevue, Kirkland Ascent and 222 Fifth in Lake Union.

Sales volume in the region remains high after a near-historic 2021. Office property sales for the second quarter of 2022 totaled nearly $1.2 billion, bringing the year-to-date total to nearly $3.0 billion.

Eastside

The Eastside submarket held steady over the quarter, reporting relatively neutral absorption at 57,869 square feet. The overall vacancy rate was 4.8%, down 20 basis points for the quarter, and 170 basis points year-over-year. Average asking rents rose to $49.57/SF FSG, up 9.2% year-over-year.

Approximately 470,000 square feet in leases were signed during the quarter, and there remains 3.7 million square feet of active tenant requirements in the submarket. Sublease availability has dropped 27.0% since its pandemic peak in March of 2021, with 1.2 million square feet of inventory remaining.

Significant leases signed during the quarter includes Sana Biotechnology, Inc. committing to 79,565 square feet of space at the Alexandria Center For Advanced Technologies Monte Villa in Bothell. Sana, which focuses on gene repair biotech, went public last year with a $587.5-million initial public offering. Additional leases inked on the Eastside this quarter include Egencia signing for 46,488 square feet in Midstation Bellevue (formerly 110 Atrium) and Nokia renewing 32,173 square feet in One Twelfth @ Twelfth in the Bellevue CBD.

Despite seeing some pushback of delivery dates, construction activity continues to thrive on the Eastside. A total of 6.5 million square feet is underway, a figure that does not include the 2.5-million-square-foot expansion of the Microsoft Redmond Campus. In the Bellevue Central Business District, Dune Real Estate Partners broke ground on Four 106, an office development at the corner of NE Fourth and 106th Ave. NE. The 21-story, 480,000-square-foot project is expected to be completed by the end of 2024.

Downtown Seattle

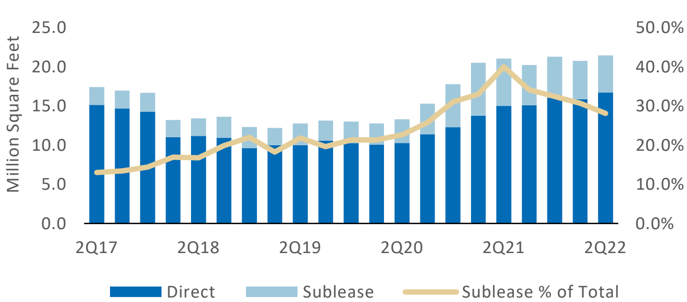
The Downtown Seattle submarket continues to grapple with return-to-office delays and high vacancy rates, most notably in the CBD cluster. During the second quarter of 2022 the submarket saw a total net absorption of negative 599,028 square feet, a large portion of which was due to Nordstrom vacating its offices at 1700 Seventh Avenue. Nordstrom still occupies approximately 700,000 square feet of office space and two store locations in the CBD.

Average asking rents in Downtown Seattle were $48.33/SF FSG, up 2.1% year-over-year. Total vacancy rose to 13.8%, up 150 basis points from the previous quarter.

There are 3.3 million square feet of active tenant requirements in the market, and more than a third of these tenants remain interested in finding space in the CBD despite its challenges. Another positive indicator is the healthy leasing activity in the submarket. Over the second quarter of 2022, nearly 600,000 square feet was signed for in the Downtown Seattle core. Sublease availability declined 40.0% since its pandemic peak in March of 2021, with 2.9 million square feet of inventory remaining.

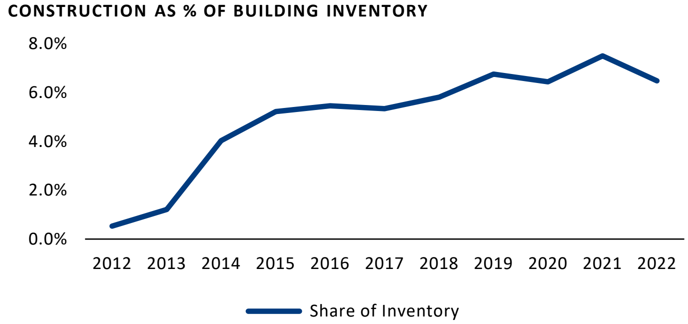
Availability

SUBLEASE v. DIRECT AVAILABILITY (SF)



Rate of Development

CONSTRUCTION AS % OF BUILDING INVENTORY



Downtown Seattle had another impressive quarter of office sales. In the largest multi-tenant office sale in the nation year-to-date, Barings and Schnitzer West sold Madison Centre, a 37-story office tower in the CBD, for $730.0 million, or $959/SF. The buyer was Boston Properties, who entered the Seattle market last year with the acquisition of Safeco Plaza. Madison Centre totals 760,000 square feet, 93.0% of which is leased.

There is 2.0 million square feet of new product under construction in Downtown Seattle, with the Lake Union cluster leading the way in development with 1.1 million square feet. Dexter Yard was the quarter's sole delivery. The development, which offers state-of-the-art biotech lab space as well as traditional office, added 500,000 square feet to the local inventory, more than half of which is pre-leased. In the Queen Anne/Magnolia cluster, ground broke on 222 Fifth, a new 197,000-square-foot life science development. The project, a joint venture between LPC West and Intercontinental Real Estate Corporation, will anchor the South Lake Union Innovation District.

Southend

The Southend submarket fared well during the second quarter of 2022, posting positive absorption for the fourth consecutive quarter. Total net absorption was 147,089 square feet, bringing the year-to-date total to 244,159 square feet. Rents in the submarket have risen 9.9% year-over-year to $37.12/SF FSG due to increased tenant demand in the submarket. Overall vacancy dropped 130 basis points to 18.2% over the quarter, down 310 basis points year-over-year. Recent announcements and move-ins by major employers have piqued tenant interest in the area, and there are nearly 900,000 square feet of active requirements out in the market.

Future Outlook

The Puget Sound office market fared better than many peer metro areas during the pandemic and saw recovery from the worst effects throughout 2021 and into the start of 2022. However, the second quarter of 2022 showed that while local office fundamentals have improved, the pace of recovery has slowed due to economic conditions. The office market remains tenuous in the region and throughout the country as high interest rates, inflation concerns, and a tight labor market weigh on public sentiment.

The next several quarters will play a critical role in the continued recovery of the market, but overall, the long-term outlook for the Puget Sound region is encouraging due to its strong local economy, reputation as a global tech hub, and base of thriving headquartered local companies.

Select Lease Transactions

Tenant	Submarket	Building	Type	Square Feet
Sana Biotechnology	Bothell/Kenmore	3555 Monte Villa Pkwy	Direct	79,565
Egencia	Bellevue CBD	Midstation Bellevue	Direct	46,448
Nokia	Bellevue CBD	One Twelfth @ Twelfth	Renewal	32,173
DoorDash	Seattle CBD	2+U	Sublease	30,386
Tegria	Bellevue CBD	Civica Office Commons	Direct	23,933
Collins Woerman	Seattle CBD	Dexter Horton	Renewal	23,124

Select Sales Transactions

Building	Submarket	Sale Price	Price/SF	Square Feet
Madison Centre	Seattle CBD	$730,000,000	$959	760,971
1101 Westlake	Lake Union	$151,500,000	$986	153,708
Davita Data Center	Federal Way/Auburn	$93,527,390	$585	160,000
Lake Union Building	Lake Union	$71,000,000	$783	90,625

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 (%)
Downtown Seattle	**67,693,879**	**1,964,328**	**13.8 %**	**-599,028**	**-706,123**	**$48.33**	**2.1%**
Ballard/University District	3,385,589	-	4.0 %	37,976	115,308	$48.25	12.2%
Belltown/Denny Regrade	5,766,016	30,000	17.8 %	-1,864	-84,419	$45.31	10.9%
Capitol Hill/Central District	1,736,883	-	3.0 %	-7,907	-5,531	$44.52	9.8%
Lake Union	11,308,573	1,075,246	8.2 %	125,607	127,802	$52.10	10.2%
Pioneer Square/Waterfront	6,345,684	135,866	12.8 %	-23,970	14,406	$44.41	-1.2%
Queen Anne/Magnolia	4,290,470	197,216	23.1%	-76,557	-49,650	$40.15	5.6%
South Seattle	2,820,026	-	10.1 %	-121,145	-120,704	$35.50	-7.5%
Seattle CBD	32,040,638	526,000	16.0 %	-531,168	-703,335	$51.21	-0.4%
Eastside	**35,772,041**	**6,533,269**	**4.8%**	**57,869**	**1,064,312**	**$49.57**	**9.2%**
520 Corridor	3,337,528	-	6.4 %	-32,034	221,844	$43.99	3.0%
Bellevue CBD	10,718,299	4,628,000	4.0 %	50,385	720,907	$61.48	5.3%
Bothell/Kenmore	3,131,244	-	6.4 %	55,273	-9,969	$46.10	26.4%
Coal Creek/Issaquah	1,867,877	620,000	2.2 %	-32,129	-24,065	$45.33	5.3%
I-90 Corridor	4,916,166	-	7.3 %	17,433	-35,617	$46.46	9.4%
Kirkland	2,796,508	277,432	2.8 %	4,970	-9,553	$45.83	-0.5%
Mercer Island	420,795	-	6.5 %	2,083	4,551	$44.11	6.9%
Redmond	3,512,099	351,000	2.3 %	6,333	24,899	$44.78	5.8%
Suburban Bellevue	4,157,407	656,837	5.7 %	7,522	196,266	$45.27	8.8%
Totem Lake	914,118	-	5.1 %	-21,967	-24,951	$38.91	7.0%
Southend	**11,238,250**	**0**	**18.2%**	**147,089**	**244,159**	**$37.12**	**9.9%**
Federal Way/Auburn	3,315,577	-	18.6 %	16,385	100,963	$27.39	4.2%
Kent Valley	1,610,503	-	5.2 %	-14,102	15,847	$30.39	2.1%
Renton/Tukwila	5,129,341	-	23.5 %	143,220	128,224	$44.97	15.4%
Seatac/Burien	1,182,829	-	11.6 %	1,586	-875	$29.61	-0.9%
Northend	**7,778,593**	**-**	**8.0 %**	**28,927**	**563**	**$33.90**	**8.2%**
Tacoma	**8,721,843**	**-**	**9.9 %**	**-10,110**	**-68,320**	**$30.42**	**8.9%**
Puget Sound Market	**131,204,606**	**8,497,597**	11.1%	**-375,253**	**534,591**	**$45.65**	**7.5%**

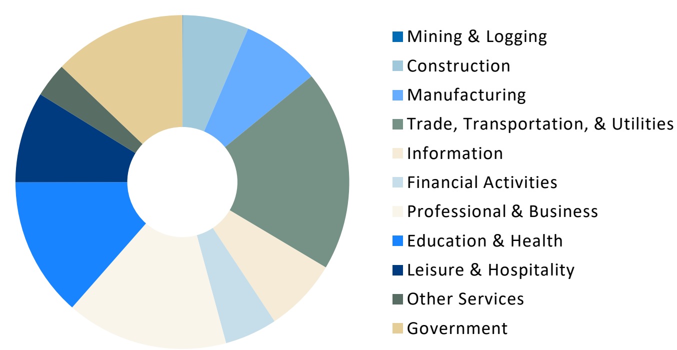
Economic Conditions

The unemployment rate for the Seattle-Bellevue-Tacoma MSA declined to 2.6% in May 2022, down from a record high of 16.6% in April 2020. Employment growth occurred across all sectors, particularly in the leisure and hospitality sector, which grew by 19.8% over a 12-month period. The tech sector continues to boom throughout the Puget Sound region, with tech job postings up 40.0% year-over-year.

Despite concerns over a looming recession, the State of Washington's economy remains healthy. In June 2022, WalletHub ranked Washington as the nation's strongest economy based on economic activity, economic health, and innovation potential. The high performance in these key areas will protect the state and region from a potential economic slowdown. Even in the case of a recession, the market has strong drivers and a robust job market to weather a downturn.

Employment by Industry

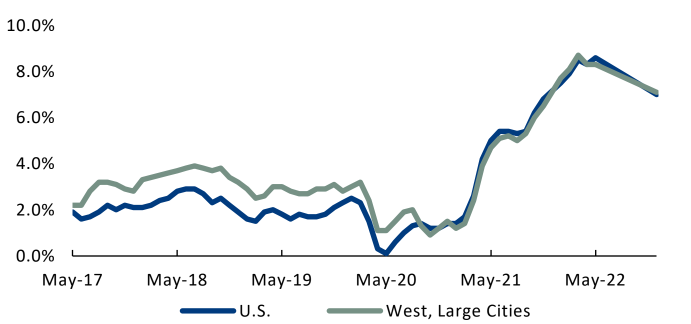
Seattle-Tacoma-Bellevue



*Source: U.S. Bureau of Labor Statistics, May 2022

Consumer Price Index (CPI)

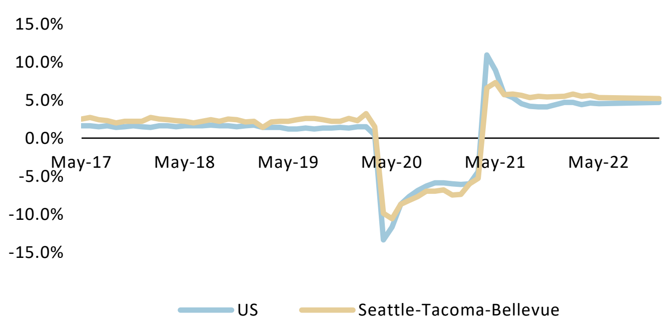
All Items, 12-month % Change, Not Seasonally Adjusted



*Source: U.S. Bureau of Labor Statistics, May 2022

Payroll Employment

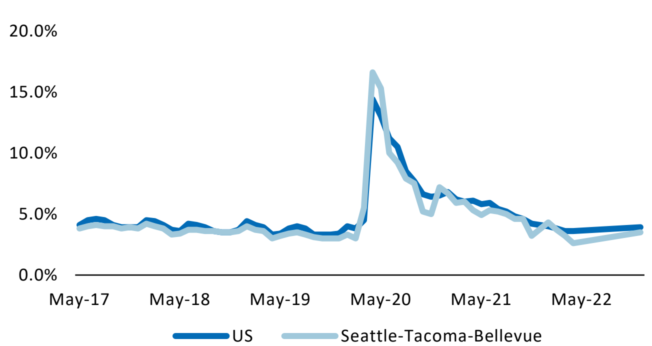
Total Nonfarm, Not Seasonally Adjusted, 12-month % Change



*Source: U.S. Bureau of Labor Statistics, May 2022

Unemployment Rate

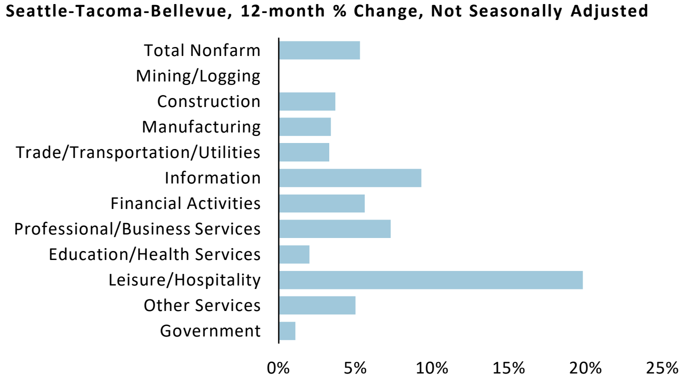
Not Seasonally Adjusted



*Source: U.S. Bureau of Labor Statistics, May 2022

Employment Growth by Industry

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



*Source: U.S. Bureau of Labor Statistics, May 2022

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