

# OFFICE

3RD QUARTER  
2019

▼ ABSORPTION | ▼ VACANCY | ▲ RENTAL RATE | ▼ CONSTRUCTION DELIVERIES

The Puget Sound office market saw continued strong office metrics this quarter with vacancy increasing slightly from last quarter's 10-year low mark of 5.79%, to 5.99% currently. After 4.1M s.f. of net absorption during 2Q 2019, the market absorbed an additional 1.3M+ s.f. over the last quarter bringing the year-to-date net absorption total to a healthy 4.6M s.f. Cranes remain active in both Seattle and Bellevue with developers continuing to position for new construction in both the Seattle and Bellevue CBDs.

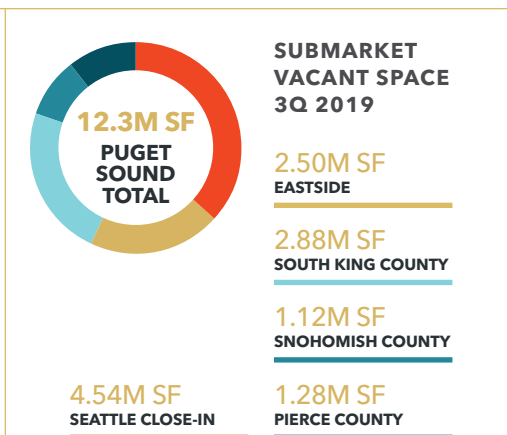
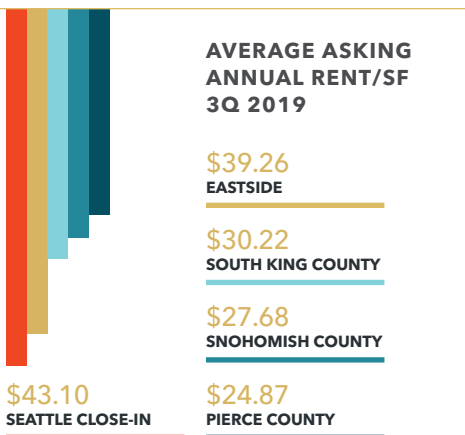
In addition to old and new tech expansion, another reason for the continued growth is regional employment. Year-over-year job growth (Aug 2018 to Aug 2019) indicates employment is up 57K+ jobs compared to 51K+ last quarter. The corresponding annual job growth rates are 2.6% for 3Q 2019 and 2.4% last quarter. While employment growth is expected to moderate, the economy continues to add jobs. As a result, population growth has been steady. According to the Washington State Office of Financial Management, King County alone has added 90 new residents per day since 2010. Over the last five years, it is closer to 115 new residents per day. With job growth expected to continue, albeit at a slower pace and with a tolerable amount of new construction underway (currently at 5.4M s.f., 73% pre-committed), the near-term outlook for the regional office market remains positive. Developers continue to take note and the region is expected to see a new wave of office construction, particularly in the Bellevue CBD.

The Seattle and Bellevue CBDs are seeing rents at low to mid \$40/s.f./yr NNN for new construction. The Eastside continues to draw the attention of Amazon and which now has about 2.7M s.f. of office space procured in

the Bellevue CBD. With Vulcan and other developers positioning in the Bellevue CBD, it will be interesting to see how much office appetite remains for Amazon and other Eastside tenants. Seattle is also poised to see continued new office construction and with Facebook, Apple, and Amazon all adding local jobs, they continue to expand their footprints. With the skilled and experienced local Seattle workforce, growing demographics and a known quality of life factor, there are no immediate concerns of an office market slowdown.

### VACANT SPACE/VACANCY RATE

At the end of 3Q 2019, the region has a total office inventory of 205.6M s.f. Current office vacancy for the region stands at 5.99% with 12.3M s.f. of total vacant space, including sublet vacancy. This is an increase of 20 bps from the 5.79% last quarter and a 70 bp drop from the 6.69% vacancy rate one year ago. Four of the region's five major markets posted positive net absorption for the quarter led by Seattle's continued strong net absorption push at 1.1M+ s.f. The Eastside added 137K+ s.f. in net absorption with



### 3Q 2019 MARKET HIGHLIGHTS

- 5.45M SF** under construction (73% pre-leased)
- 3.39M SF** and 1.93M s.f. under construction in Seattle & Eastside markets; accounting for 98% of new construction in the region
- ABSORPTION** of 1.33M s.f. 3Q 2019 bringing YTD net absorption to 5.46M s.f.
- RENTAL RATES** increased in most markets, especially Seattle & Bellevue CBDs

## SEATTLE CLOSE-IN REVIEW

**10 MAJOR CONSTRUCTION** projects underway totaling just under 3.4M s.f. with about half of these expected to be delivered in the next two quarters; 67% is pre-leased.

**NET ABSORPTION YTD** for Seattle is now up to 4,627,631 s.f. This includes the significant net absorption of 3,244,003 s.f. from last quarter with an additional 1,173,947 s.f. over the past quarter.

**OFFICE VACANCY** currently stands at 5.13%, compared to 4.80% last quarter and 6.12% one year ago.

**AVAILABILITY RATE** has declined to 8.10% from 8.60% last quarter, boding well for the near-term outlook.

**LEASING ACTIVITY** was steady with CoStar reporting 143 total deals at 1M+ s.f. The CBD accounted for about half of the volume at 51 deals totaling 522K+ s.f. Qualtrics leased 275,223 s.f. in the CBD.

**ASKING RATES** in the Seattle CBD increased to \$48.68/s.f./yr, up from \$48.34/s.f./yr last quarter.

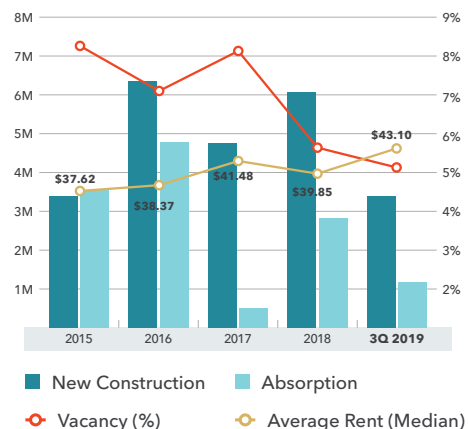
**VACANCY** in the Seattle CBD ended the quarter at 5.7%, down 20 bps from last quarter's 5.9%.

**MOST PERIPHERAL** Seattle submarkets continue to perform well with rates of 4.3% in Ballard/U District, 1.9% for Capital Hill/Central District, and 3.9% in South Seattle. Vacancy in the Queen Anne/Magnolia submarket remains higher at 10.4%.

**62% OF ALL NEW CONSTRUCTION** in the region is in the Seattle market. 333 Dexter is fully pre-leased to Apple (639K+ s.f.). Rainier Square (722K s.f.) is fully-leased to Amazon who has it available for sublease.

**CURRENT CONSTRUCTION** appears manageable considering the Seattle market has historically absorbed about 1.7M s.f. annually.

## SEATTLE CBD / SURROUNDING AREA



**A NUMBER OF PROPOSED** office projects are on the horizon including Urban Visions 1.2M s.f. campus "S" project in SoDo and several Amazon projects.

**LARGEST SALE** this quarter was Vanbarton's purchase of 901 Fifth for \$305M (\$564/s.f.), marking their entrance into the Seattle market.

## EASTSIDE REVIEW

**EASTSIDE OFFICE INVENTORY** stands at 51,153,908 s.f., comprising one fourth of the region's total office supply.

**OFFICE VACANCY** at the end of 3Q 2019 is the lowest of all market areas at 4.89%, although up from 4.58% last quarter.

**AVAILABILITY RATE** also increased to 6.90%, compared to 6.80% last quarter.

**NET ABSORPTION** this quarter was 137K+ s.f. which is somewhat lackluster considering the amount of pre-leased tech buildings under construction.

**LEASING ACTIVITY** was also steady with 125+ deals at 643K+ s.f. in total volume.

**SIGNIFICANT LEASES** include Facebook at 166K+ s.f. and Coinstar at 34K+ s.f.

**BELLEVUE'S CBD** office vacancy increased slightly to 4.4% from 4.2% last quarter with the CBD availability rate also inching up from 5.7% to 5.9%.

**DEVELOPERS CONTINUE** to position themselves for CBD office construction which should be ignited by tech growth.

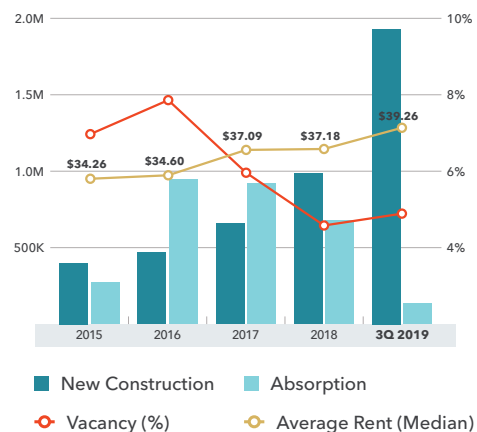
**DELIVERIES** totaled 318K+ s.f., with 6 major Eastside office projects under construction not including expansions at the Microsoft and Costco campuses.

**WRIGHT RUNSTAD'S** Block 16 (338K s.f.) is scheduled for 1Q 2020 delivery and fully-leased to Facebook. REI's HQ office is underway in the Spring district. Summit III office tower is making progress in the CBD with 377K s.f. leased to Amazon. Binary Towers completed demolition and breaks ground soon with 2 office towers (695K+ s.f.) fully pre-leased to Amazon.

**AT LEAST FIVE MORE** office projects have planned 2019 or early 2020 start dates in the Bellevue CBD. Vulcan has 2 Bellevue CBD developments including a 42-story tower with 980K s.f. of office and a 3-tower project with 850K s.f. of office. Both are slated to break ground in 2020.

**VACANCY RATES** in peripheral Eastside submarkets varied at 10.0% and 4.2%, for Kirkland and Redmond respectively.

## EAST KING COUNTY



**NOTEWORTHY SALES** include the sale of Gateway One, Crown Pointe, 15 Lake Bellevue, Corporate Campus East III, and Sunset North Corporate Campus which was the most significant at \$227M (\$489/s.f.).

**AVERAGE RENT** for the Eastside is \$39.26/s.f./yr, up \$0.90/s.f./year from \$38.36/s.f./yr last quarter.

## SOUTH KING COUNTY REVIEW

**NEGATIVE NET ABSORPTION** of -69K+ s.f. at the end of 3Q 2019, following 4 quarters of positive absorption. This is on the heels of 159K+ s.f. in net absorption last quarter and 452K+ s.f. for all of 2018.

**OFFICE VACANCY** remains high at 13.20%, up from 12.78% last quarter and above 11.87% at the end of 2018.

**NO MAJOR DELIVERIES** occurred this quarter.

**ALASKA AIRLINES'** headquarters expansion building was the only significant project under construction in the Southend market with 129K s.f.

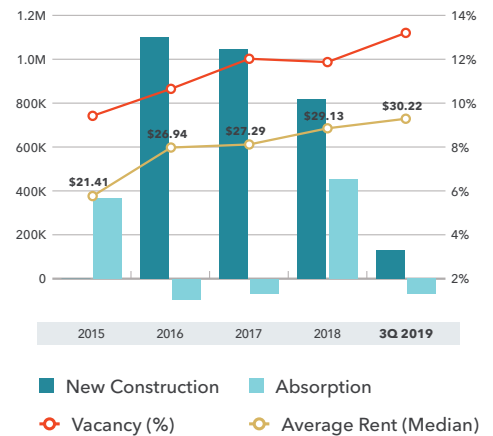
**50 OFFICE LEASE** transactions occurred this quarter, totaling only 157K s.f., or about 3,100 s.f. per average deal.

**SUBMARKET VACANCIES** for Renton/Tukwila and Federal Way/Auburn remain high at 16.2% and 16.0%, respectively.

**CREEKSIDE** in Kent was the only significant Southend office sale this quarter at \$39M.

**HIGH VACANCY** is expected to continue in the South King County market for the remainder of 2019.

### SOUTH KING COUNTY



## SNOHOMISH COUNTY / NORTHEAST REVIEW

**THE NORTHEAST OFFICE** market is third largest in the region behind Seattle and the Eastside, at just under 22.5M s.f.

**VACANCY** continued to drop to 4.99% from 5.15% last quarter, and down 133 bps from a year ago due to strong leasing activity and no new construction.

**AVAILABILITY RATE** also decreased to 6.80% from 7.30% last quarter, foreshadowing a continued decrease in vacancy through the end of 2019.

**BOTHELL/KENMORE** submarket ended the quarter at a vacancy rate of 7.1% compared to 6.3% last quarter.

**EVERETT CBD** reports vacancy of 4.4%, down from 5.3% last quarter.

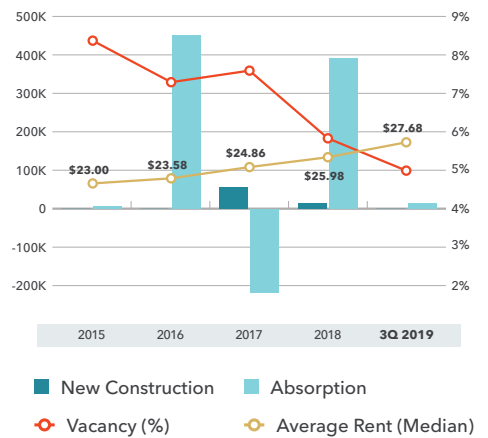
**THE NORTHEAST** submarket continues to attract smaller office tenants looking for housing proximity and affordability.

**WITH AVERAGE RENT** of \$27.68/s.f./yr, it is \$15.42/s.f./yr more affordable than average rent in Seattle and a \$11.58/s.f./yr savings over the Eastside average.

**NO SIGNIFICANT** office sales this quarter.

**STABLE** and well-defined, the Northeast office market should continue to show incremental improvement as small businesses expand.

### SNOHOMISH COUNTY



## PIERCE COUNTY REVIEW

**VACANCY RATE** for Pierce County is 5.94%, this is below last quarter's 6.28% and generally consistent with the 2018 year-end vacancy of 5.99%.

**AVAILABILITY RATE** increased to 6.70%, versus 7.30% last quarter.

**ONE THIRD** of the office supply is in the Tacoma CBD which has a 3Q 2019 vacancy rate of 9.1%. The CBD availability rate dropped from 10.3% last quarter to 9.1% currently, although it is still high compared to 7.3% at the end of 2018.

**LEASING VOLUME** was light at 29 deals averaging approximately 2,700 s.f. in size.

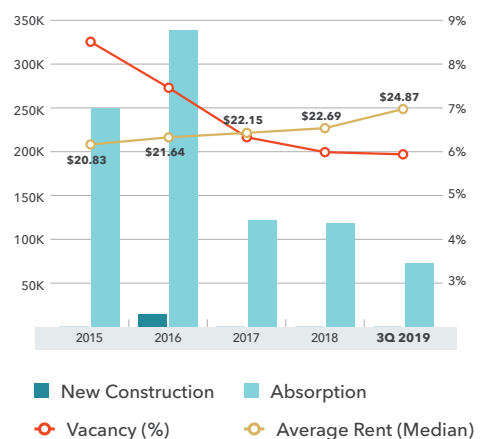
**POSITIVE NET ABSORPTION** of 72K+ s.f., compared to 68K+ s.f. last quarter and -150K+ s.f. in the 1st quarter.

**AVERAGE RENT** increased slightly to \$24.87/s.f./yr from \$24.34/s.f./yr last quarter.

**THE MODEST** downward shift in vacancy and availability this quarter can be attributed to 2 quarters of healthy net absorption and a continued resurgence in the CBD fueled by residential and convention center expansion.

**NO OFFICE** projects under construction.

### PIERCE COUNTY



Pierce County absorbing another 72K+ s.f. Overall, regional absorption this quarter was steady at 1.3M+ s.f. Adding the 4.1M+ s.f. of absorption from last quarter and 209K+ s.f. from the first quarter brings the year-to-date total to an impressive 4.6M s.f. This compares to net absorption for all of 2018 at 4.5M s.f. The regional availability rate, which tracks space being marketed but not necessarily completed or physically vacant, decreased this quarter, ending at 8.25%, compared to 8.54% last quarter and 8.14% at the end of 2018. The lowest vacancy among the major markets was the Eastside at 4.89% followed closely by the Northend at 4.99%, and Seattle at 5.13%.

## NEW CONSTRUCTION ACTIVITY

Sixteen of the 17 major office projects under construction in the region are in the Seattle and Eastside markets. There were three major construction starts this quarter including two new projects on the Eastside (205 Poplar and REI HQ Building II) and one in Seattle (Boren Lofts). Of the office projects underway, 10 are in Seattle and collectively contain 3.38M+ s.f. (67% is pre-leased). There are now six office projects in the Eastside under construction with the furthest along being Spring District Block 16 at 338K s.f., fully leased to Facebook. Summit III is fully pre-leased to Amazon and REI will occupy their HQ development, indicating these four projects are 84% committed. Binary Towers has completed demolition and is next to break ground in Bellevue with 695K s.f. pre-leased to Amazon. There were four office deliveries in the region this quarter totaling 466K+ s.f. There could be as many as six new projects underway in Bellevue over the next 12 months with more proposed for Seattle. Fortunately, of the 17 major office projects under construction, 73% of the space has been pre-committed.

## RENT FORECAST

For the third consecutive quarter, all regional markets posted rental rate increases. The largest increases in average rent were in Snohomish County and on the Eastside at 2.7% and 2.3%, respectively. The highest average rent continues to be in Seattle at \$43.10/s.f./yr followed by the Eastside at \$39.26/s.f./yr. These two markets are more than \$11.00/s.f. on average higher than the next highest market. The Northend and Tacoma post the lowest average rent at \$27.68/s.f./yr and \$24.87/s.f./yr, respectively. A good portion of the rent increases and current high rents in Seattle/Bellevue is for Class A office space under construction or recently built. Pierce County continues to have the most affordable at \$24.87/s.f., which by comparison is \$18.23/s.f./year lower than Seattle, or a 42% differential. Current rent in the Seattle and Bellevue CBD submarkets continue to set the bar with the Bellevue CBD topping the chart at \$49.57/s.f./yr, with 4.4% vacancy. These submarkets continue to outperform the overall market and are expected to see rent increase through the remainder of 2019 and early 2020. Looking further out, with expected slowing economic and employment growth and increased delivery of office space, rent growth will begin to moderate.

## INVESTMENT MARKET

Sales activity was steady this quarter, closing with 106 office transactions for a total investment amount of \$1.16B. The average sale price was \$348/s.f. with an average cap rate of 6.0%. While the Eastside saw the majority of major office sales (5), the most significant transaction occurred in Seattle. 901 Fifth sold for \$305M (\$564/s.f.) to New York based Vanbarton Group, making their debut into the Seattle market. The Medical Dental Building sold for \$113M (\$384/s.f.) at a 5.8% cap. The largest sale on the Eastside was Security Benefit Life Insurance's purchase of Sunset North Corporate Campus for \$227M (\$489/s.f.). It was 99% occupied ATOS. Pine Forest Properties acquired Crown Pointe in Kirkland for \$47.75M (\$364/s.f.), Gateway One sold for \$48.4M (\$439/s.f.), and Corporate Campus East III sold for \$55.25M (\$357/s.f.). In the Southend, Creekside sold for \$39M (\$179/s.f.) at a 5.7% cap. Seattle remains desirable for office investments both nationally and internationally and continues to attract new players.

DATA SOURCE: COSTAR

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## COMMERCIAL BROKERAGE

**20M**  
ANNUAL  
SALES \$F

**40M**  
ANNUAL  
LEASING \$F

**400+**  
NO. OF  
BROKERS

**\$9B**  
ANNUAL TRANSACTION  
VOLUME

## VALUATION ADVISORY

**1,600+**  
APPRAISALS  
ANNUALLY

**36/23**  
TOTAL NO.  
APPRAISERS/MAI'S

## PROPERTY MANAGEMENT

**70M+**  
MANAGEMENT  
PORTFOLIO \$F

**\$9.4B**  
IN ASSETS UNDER  
MANAGEMENT

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