

MARKET TRENDS | SEATTLE

OFFICE

4TH QUARTER
2019

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

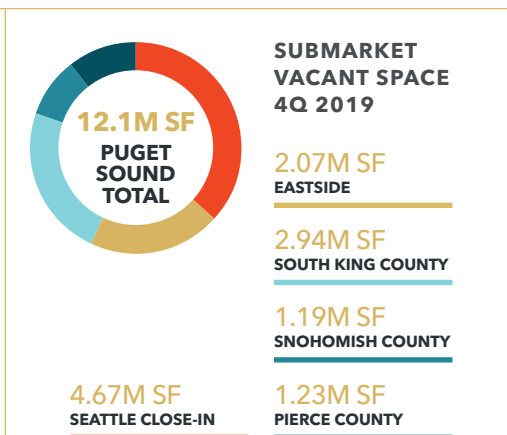
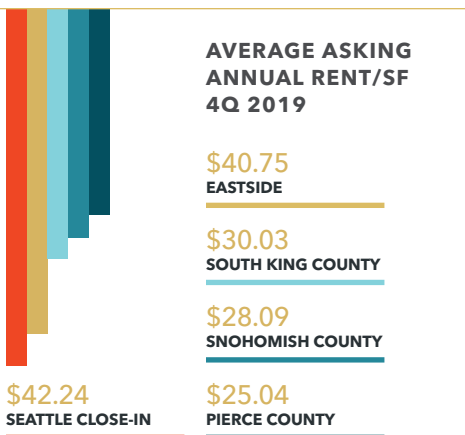
The Puget Sound regional year-end office market results showed continued strengthening over the final quarter with vacancy dipping from 5.99% last quarter to 5.87% currently. With year-end net absorption of nearly 5.8M s.f., the tech titans again continued their appetite for close-in office space heading into the new year. Cranes remain active in both Seattle and Bellevue with developers positioning for new construction in both the Seattle and Bellevue CBDs, as downtown Class A space becomes increasingly scarce.

(currently at 6.7M+ s.f., 81% pre-committed), the near-term outlook for the regional office market remains cautiously optimistic. Developers continue to take note and surge ahead with new office construction, which thus far has seen healthy levels of pre-leasing thanks largely to tech giant pre-commitments.

2019 will be remembered in no small part for the five tech titans expanding their footprints throughout the region. While some of the newer tech companies have also made a splash in 2019, it has been Amazon, Google, Facebook, Microsoft and Apple that continue to be the driving force behind the regional office surge. The creation of new local jobs by these tech companies has kept regional job growth at healthy levels in the Puget Sound region. Year-over-year job growth (October 2018 to October 2019) indicates employment is up by 57.6K jobs (2.6%) compared to 57.2K (2.6%) last quarter. The 2.6% year-over-year job growth is slightly above the Puget Sound Economic Forecaster's projection of 2.5% for 2019. While employment growth is expected to moderate substantially in 2020, it remains to be seen at what level the economy will continue to add jobs.

The squeeze on Class A office space in the CBD's, particularly in Bellevue CBD of late has seen rents pushed into the low \$50/s.f./yr NNN range. The Bellevue CBD continues to draw the attention of Amazon which has firm commitments for about 3.5M s.f. and eyes on several more projects. Facebook also pre-leased a third building (325K s.f.) in the Spring District. Seattle is poised for continued office construction with Apple, Google and Amazon all adding new jobs. With a highly skilled and experienced Seattle workforce, growing demographics and highly coveted quality of life, no immediate sign of a near-term office market meltdown are foreseeable heading into 2020, aside from moderation.

The new jobs have not only created demand in the office sector, but also increased demand for close-in housing. According to the Washington State Office of Financial Management, Seattle alone has added nearly 50 new residents per day since 2015. With job growth expected to continue, albeit at a slower pace and with a tolerable amount of new construction underway



4Q 2019 MARKET HIGHLIGHTS

6.76M SF under construction (81% pre-leased)

VACANCY stands at 5.87% with 12.1M s.f. of total vacant space, including sublet vacancy

ABSORPTION of 305K s.f. 4Q 2019 bringing YTD net absorption to 5.8M s.f.

RENTAL RATES increased in most markets, especially East King, Snohomish, and Pierce Counties

SEATTLE CLOSE-IN REVIEW

11 MAJOR CONSTRUCTION projects underway totaling just under 3.8M s.f. with about half of these expected to be delivered in the next two quarters; 75% of the space is pre-committed.

NEGATIVE NET ABSORPTION of -78,617 s.f. for 4Q 2019 in Seattle market. Despite the negative absorption, the 2019 year-end net office absorption for Seattle finished at 4,549,014 s.f. This included the significant 2nd quarter absorption of 3.2M+ s.f.

OFFICE VACANCY for Seattle currently stands at 5.24%, compared to 5.13% last quarter and 5.64% one year ago.

AVAILABILITY RATE has also increased from 8.10% last quarter to 8.70% currently.

LEASING ACTIVITY was fairly lackluster with CoStar reporting 114 total deals at 641K+ s.f. The CBD accounted for just over half of the volume with 39 deals totaling 354K+ s.f.

ASKING RATES in the Seattle CBD increased to \$49.25/s.f./yr, up from \$48.68/s.f./yr last quarter.

VACANCY in the Seattle CBD ended the quarter at 6.7%, up 100 bps from last quarter's 5.7%.

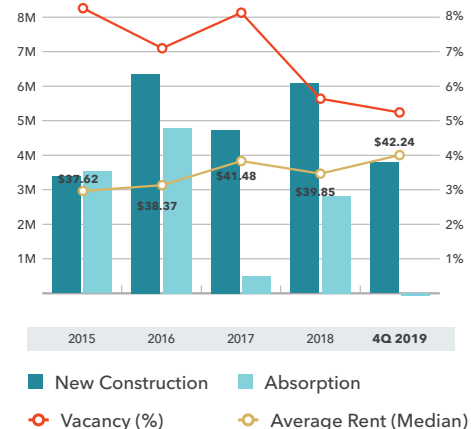
PERIPHERAL SEATTLE SUBMARKETS continue to perform generally well with vacancy rates of 4.5% in Ballard/U District, 3.5% for Capital Hill/Central District and 5.3% in South Seattle. Vacancy in Queen Anne/Magnolia is higher at 9.3%.

75% OF NEW CONSTRUCTION (3.8M s.f.) in the Seattle market is pre-leased including 333 Dexter to Apple (639K+ s.f.).

CURRENT AVAILABLE NEW CONSTRUCTION appears manageable at 953K+ s.f. considering the Seattle market has historically absorbed about 2.3M s.f. annually.

NOTEWORTHY SALES include the transfers of Westlake Tower, 101 Stewart,

SEATTLE CBD / SURROUNDING AREA



Park Place, Arbor Blocks East & West, Roosevelt Commons, Fourth & Pike, f5 Tower and Amazon at Apollo which collectively totaled \$2.0B+ in combined sales volume.

AVERAGE RENT for Seattle is \$42.24/s.f./yr, down \$0.86/s.f./year from \$43.10/s.f./yr.

EASTSIDE REVIEW

EASTSIDE OFFICE INVENTORY is 51,203,454 s.f., comprising one fourth of the regional office supply.

OFFICE VACANCY at the end of 4Q 2019 is the lowest of all market areas at 4.04%, down from 4.89% last quarter.

THE AVAILABILITY RATE also dropped over the quarter to 6.20%, compared to 6.90% last quarter.

NET ABSORPTION for the quarter was 366K+ s.f. bringing the year-end 2019 net absorption for the Eastside to 847K+ s.f., compared to 676K+ s.f. for all of 2018.

LEASING ACTIVITY was steady over the 4th quarter with CoStar reporting 88 deals at 754K+ s.f. in total volume.

BELLEVUE CBD OFFICE VACANCY decreased from 4.4% last quarter to 3.8% currently which pushed up the average CBD rent quote from \$49.57/s.f./yr last quarter to \$53.11/s.f./yr currently.

BELLEVUE CBD AVAILABILITY RATE inched upward from 5.9% to 6.1%

as developers continue to position themselves for new CBD office construction.

FACEBOOK announced it will lease a third building in the Spring District (Block 6) at 325,000 s.f.

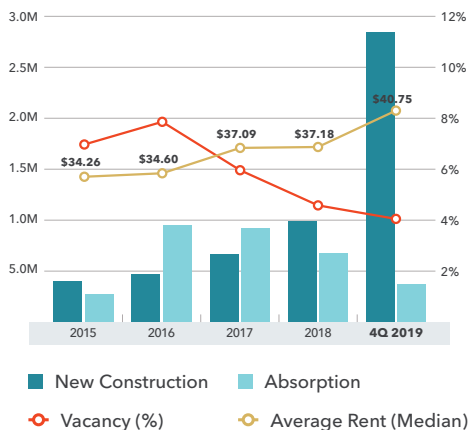
DEVELOPERS continue to position themselves for CBD office construction which has been ignited by tech growth.

8 MAJOR EASTSIDE office projects are under construction (excluding Microsoft and Costco campuses) totaling 2.8M+ s.f., of which 89% is pre-committed. A half dozen more office projects are planned for early 2020 construction starts in the Bellevue CBD.

WRIGHT RUNSTAD'S BLOCK 16 (338K s.f.) and Block 24 (200K s.f.) are fully pre-leased to Facebook and along with proposed Block 6 (325K s.f.) in the Spring District. Summit III office tower has 377K s.f. leased to Amazon. Binary Towers also broke ground in the 4th quarter for 2 office towers (715K s.f.) leased to Amazon.

VACANCY RATES in peripheral Eastside submarkets varied at 4.0% and 3.4%, for

EAST KING COUNTY



Kirkland and Redmond respectively.

NOTEWORTHY SALES include the transfers of Cascade Yard, 90 North, The Summit Buildings, One Twelfth @ Twelfth and Bravern Office Commons which collectively totaled \$1.7B+ in combined sales volume.

AVERAGE RENT for the Eastside is \$40.75/s.f./yr, up \$1.49/s.f./year from \$39.26/s.f./yr last quarter.

SOUTH KING COUNTY REVIEW

POSITIVE NET ABSORPTION of 97K+ s.f. at the end of 4Q 2019, bringing the year-end net absorption to 325K+ s.f. for all of 2019. This compares to 452K+ s.f. of net absorption for year-end 2018.

OFFICE VACANCY remains high at 13.38%, up slightly from 13.20% last quarter and well above 11.87% at the end of 2018.

NO MAJOR DELIVERIES occurred this past quarter.

ALASKA AIRLINES' headquarters expansion building remains the only significant office project under

construction in the Southend market at 129K s.f.

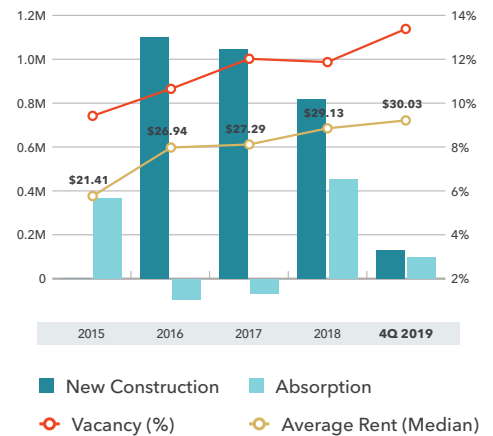
49 OFFICE LEASE TRANSACTIONS occurred this quarter, totaling 172K s.f., or about 3,500 s.f. per average deal.

SUBMARKET VACANCIES for Renton/Tukwila and Federal Way/Auburn remain high at 16.9% and 15.5%, respectively.

TRITON TOWERS sold for \$62.9M+ in December 2019, or \$155/s.f.

HIGH VACANCY is expected to continue in the South King County market into 2020.

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 22.4M s.f.

VACANCY increased over the 4th quarter from 4.99% last quarter to 5.34% currently, a 35 bps upward swing. Vacancy still remains below the year-end 2018 mark of 5.83% with no office projects under construction.

AVAILABILITY RATE decreased to 6.30% from 6.80% last quarter, foreshadowing a decrease in vacancy into early 2020.

BOTHELL/KENMORE SUBMARKET VACANCY spiked to 10.0% in the 4th

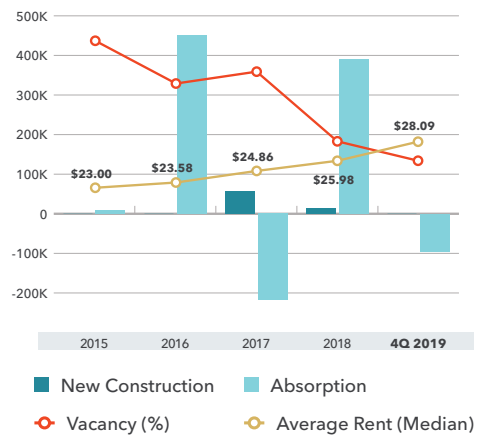
quarter compared to 7.1% last quarter. Everett CBD reports a current vacancy of 3.9%, down from 4.4% last quarter continuing its resurgence.

THE NORTHEAST SUBMARKET will continue to attract office tenants looking for housing stock proximity and affordability.

AT AN AVERAGE RENT quote of \$28.09/s.f./yr, it is \$14.15/s.f./yr more affordable than the current average rent in Seattle and \$12.66/s.f./yr more favorable than the Eastside average quote.

NO SIGNIFICANT OFFICE sales this quarter.

SNOHOMISH COUNTY



PIERCE COUNTY REVIEW

VACANCY RATE for Pierce County is 5.67%, below last quarter's 5.94%.

AVAILABILITY RATE increased to 6.40%, versus 6.70% last quarter.

ONE THIRD of the office supply is in the Tacoma CBD which has a current 4Q 2019 vacancy rate of 8.4%. The CBD availability rate dropped from 9.1% last quarter to 8.2% currently, although it remains above 7.3% at the end of 2018.

LEASING VOLUME was light at 33 deals averaging approximately 2,600 s.f. in size.

POSITIVE NET ABSORPTION of 15K+

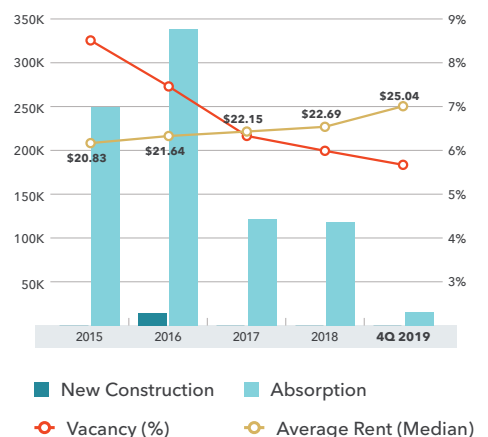
s.f., compared to 72K+ s.f. last quarter and 6K s.f. for year-end 2019.

AVERAGE RENT increased slightly to \$25.04/s.f./yr from \$24.87/s.f./yr last quarter.

THE DOWNWARD SHIFT in vacancy over the 4th quarter can be attributed to positive net absorption over the last three quarters with no new construction and continued resurgence in the CBD.

NO OFFICE PROJECTS currently under construction.

PIERCE COUNTY



VACANT SPACE/VACANCY RATE

At year-end 2019, the region has a total office inventory of 206.5M s.f. Current office vacancy as of the 4th quarter stands at 5.87% with 12.1M s.f. of total vacant space, including sublet vacancy. This is a decrease of 12 bps from the 5.99% vacancy last quarter and a 23 bp drop from the 6.10% vacancy rate at year end 2018. Three of the region's five major markets posted positive net absorption for the quarter led by the Eastside at 367K+ s.f. Overall, regional net absorption for the quarter was moderate at 305K s.f., but year-to-date total for 2019 is an impressive 5.8M s.f. This compares to net absorption for all of 2018 at 4.5M s.f. The regional availability rate remained essentially unchanged for the quarter ending at 8.26%. The lowest vacancy among the major markets was the Eastside at 4.04%. The high vacancy mark is posted by the Southend at 13.38%.

NEW CONSTRUCTION ACTIVITY

Nineteen of the 20 major office projects under construction in the region are in the Seattle and Eastside markets. There were three major construction starts over the quarter including two new projects on the Eastside (Binary Towners and Spring District Block 24) and one in Seattle (Amazon Block 18). Of the close-in office projects underway, 11 are in Seattle and collectively contain 3.78M+ s.f. (75% is pre-leased). There are now 8 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 and Binary Towers in the Bellevue CBD are fully pre-leased to Amazon. There could be as many as six new projects underway in Bellevue soon with more in Seattle. Fortunately, of the 20 major regional office projects under construction (6.75M+ s.f.), 81% has been pre-committed.

RENT FORECAST

Three of the five regional markets posted rental rate increases in the 4th quarter. The most notable increase in average rent was the Eastside which went from \$39.26/s.f./yr last quarter to \$40.75/s.f./yr currently. Other modest increases were seen in the Northend and Tacoma markets. The highest average rent is Seattle at \$42.24/s.f./yr followed closely by the Eastside at \$40.75/s.f./yr. The Northend and Tacoma post the lowest average rent at \$28.09/s.f./yr and \$25.04/s.f./yr, respectively. Much of the Eastside rent increase is caused by dwindling supply of Class A office space in the Bellevue CBD where rents increased from \$49.57/s.f./yr last quarter to \$53.11/s.f./yr currently, an increase of 7.1%. The Seattle and Bellevue CBD submarkets continue to outperform the overall market and are expected to see rent increases through early 2020. Looking further out, with expected slowing employment growth and increased office deliveries, rent growth will eventually moderate.

INVESTMENT MARKET

Sales activity spiked in the 4th quarter in anticipation of the increase in excise tax rate. There were nine significant office transactions of over \$50 million in December alone. Kohlberg Kravis Roberts purchased f5 Tower in Seattle for \$458M (\$888/s.f.) and Summit Buildings in Bellevue for \$742M (\$810/s.f.). The Eastside saw four other major office transactions including 90 North for \$117M (\$461/s.f.), One Twelfth @ Twelfth (partial interest) for \$230.4M (\$480/s.f.), Bravern for \$585M+ (\$782/s.f.) and Cascade Yard for \$114.5M (\$401/s.f.). Significant Seattle sales included Westlake Tower for \$236M (\$645/s.f.), Park Place for \$177M (\$559/s.f.), Facebook leased Arbor Blocks East & West for \$415M (\$1,067/s.f.), Roosevelt Commons for \$157M (\$703/s.f.), 1800 Ninth for \$206.2M+ (\$653/s.f.) and Amazon at Apollo for \$270.1M (\$850/s.f.). In the Southend, Triton Towners sold for \$62.9M+ (\$155/s.f.). Seattle remains highly desirable for office investments both nationally and internationally.

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COMMERCIAL BROKERAGE

20M
ANNUAL
SALES SF

40M
ANNUAL
LEASING SF

420+
NO. OF
BROKERS

\$9B
ANNUAL TRANSACTION
VOLUME

VALUATION ADVISORY

1,600+
APPRAISALS
ANNUALLY

39/24
TOTAL NO.
APPRAISERS/MAI'S

PROPERTY MANAGEMENT

70M+
MANAGEMENT
PORTFOLIO SF

\$9.4B
IN ASSETS UNDER
MANAGEMENT

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