

MARKET TRENDS | SEATTLE

OFFICE

4TH QUARTER
2020

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

Year-over-year change

With the onset of COVID-19, 2020 was a difficult year as the pandemic took its toll on the economy, both locally and nationally, and raised widespread uncertainty in the Puget Sound office market. While there has been gradual improvement in the job market since May and many businesses have re-opened at limited capacity, until we have an immunized critical mass, the regional office market will continue to be volatile.

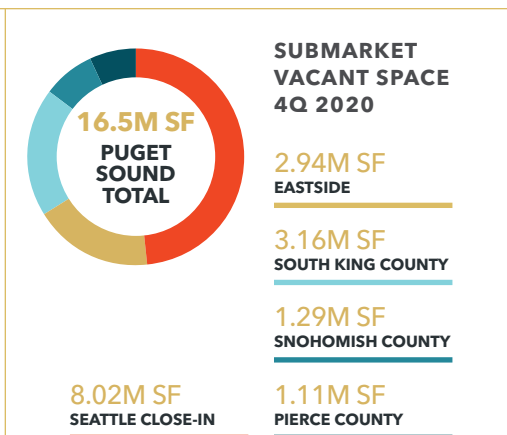
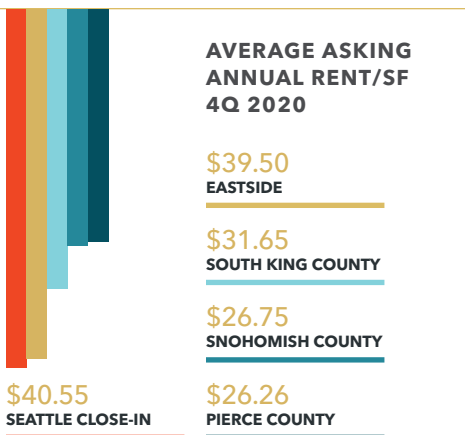
The 4Q 2020 data shows a spike in regional office vacancy from 6.84% last quarter to 7.70% currently. At year-end 2020, we have also seen the lowest annual regional net office absorption in 10 years at just 50,900 s.f.. Sublet vacancy has also jumped to 26% of the total vacancy supply compared to 18% last quarter. On the bright side, investment sales finally picked up over the 4th quarter and top assets continue to achieve historically high sale prices. Furthermore, all major regional office construction projects are moving forward, with 72% of that space pre-committed. This is, in no small part, due to continued activity among the tech giants, with Amazon leading the charge. At present, Amazon has committed to 3.06M s.f. of space in new office projects in Bellevue alone. Microsoft, Google, Facebook and Apple have also been active throughout the pandemic.

Heading into 2021, the important factors to consider for the regional office market are the economic implications related to the local job market and the long-term positioning of companies to embrace the Work From Home

trend, which has been forced into action and proven effective for certain business models. On the job front, the regional unemployment rate stood at 5.4% in March, then nearly tripled to 16.1% in April amidst the shutdown. Since then our economy gained back 210,700 jobs by the end of November and unemployment has declined to 5.1%. The Puget Sound Economic Forecaster's most recent employment projection for 2020 was a year-end net job loss of -5.7%, followed by expected positive job growth of 1.7% in 2021. The economic metrics suggest that the employment picture will continue to be slow at the start of 2021, with improvement in the second half of the year. As the public begins to become immunized and the economy carries some momentum, we can better measure how the Puget Sound office market rebounds from the pandemic.

So far, the data shows the economic impact of COVID-19 remains negative; however the impact felt by the regional office market has been relatively mild thus far, despite rising vacancy, nominal net absorption, and sluggish sales volumes. While we are clearly in a time of uncertainty with many unanswered questions remaining, the blow to the Seattle office market has been mitigated in part

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4Q 2020 MARKET HIGHLIGHTS

- REGIONAL OFFICE VACANCY** increased from 6.84% last quarter to 7.70%
- 7.6M SF** of new office under construction, primarily in Seattle and the Eastside
- 72% OF OFFICE SPACE** currently under construction is pre-committed
- AVG RENT QUOTES** in four of the five market areas decreased over the quarter
- CONTINUED TRICKLE** of sales activity

SEATTLE CLOSE-IN REVIEW

10 MAJOR CONSTRUCTION PROJECTS are ongoing that collectively total 3.1M+ s.f. with four projects expected to be delivered in the 1st quarter 2021; 38% pre-committed.

FOLLOWING STRONG NET

ABSORPTION of 1.6M+ s.f. and 338K+ s.f. in the 1Q and 2Q, Seattle experienced negative net absorption of -687K+ s.f. and -972K+ in 3Q and 4Q. Year-end net absorption totaled 284K+ s.f.

OFFICE VACANCY currently stands at 8.37%; up 135 bps from last quarter's mark of 7.02% and up 313 bps from the 5.24% vacancy rate one year ago.

AVAILABILITY RATE increased over 4Q to 13.5% from 12.2% last quarter.

LEASING ACTIVITY over the quarter was light, with CoStar reporting 78 total deals at 324K+ s.f.. The CBD accounted for 44% of the total lease volume with 24 deals totaling 143K+ s.f..

ASKING RATES in the Seattle CBD decreased to \$44.67/s.f./yr, from \$45.96/s.f./yr last quarter.

VACANCY in the Seattle CBD ended the year at 10.4%, up from 8.9% last quarter. The CBD availability rate also increased markedly from 14.9% last quarter to 16.3% currently.

PERIPHERAL SEATTLE SUBMARKETS

exhibited 4th Quarter vacancy rates of 6.1% in Ballard/U-District, 3.9% for Lake Union, 6.7% in S Seattle, and 5.4% in N Seattle/Northgate. Queen Anne/Magnolia continued to set the high mark at 12.7%.

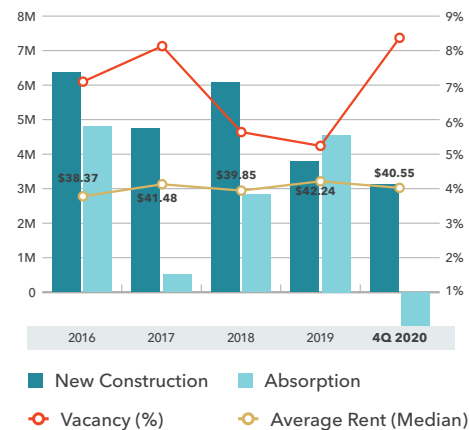
38% OF NEW CONSTRUCTION

(3.1M+ s.f.) in Seattle is pre-leased, with lease negotiations stalled on many projects.

CURRENT AVAILABLE NEW

CONSTRUCTION at 1.2M+ s.f., still appears manageable given the Seattle market has absorbed about 2.2M s.f. annually over the last 10 years.

SEATTLE CBD / SURROUNDING AREA



AFTER THREE CONSECUTIVE

QUARTERS with minimal significant office investment sales in Seattle, there were four investment sales above \$30M including Terry Thomas (\$52.1M), 2+U (\$668.8M), 1918 Eighth (\$625M) and Harold Poll at \$33.4M+.

AVERAGE RENT FOR SEATTLE is \$40.55/s.f./yr at year-end, down \$0.73/s.f./yr from \$41.28/s.f./yr last quarter.

EASTSIDE REVIEW

EASTSIDE OFFICE INVENTORY currently stands at 52.3M+ s.f., comprising 24% of the regional office supply.

OFFICE VACANCY at year-end 2020 is at 5.62%; up 135 bps from 4.27% last quarter and up 158 bps from 4.04% a year ago.

AVAILABILITY RATE has spiked to 7.80% from 6.40% last quarter.

NET ABSORPTION was negative at -638,365 s.f., bringing the year-end 2020 total for the Eastside to -155K+ s.f.

LEASING WAS SLOW over the 4th quarter. CoStar reported 71 deals totaling 234K+ s.f. in total volume.

BELLEVUE CBD OFFICE VACANCY increased to 7.9% at the end of the 4th quarter, compared to 4.6% last quarter. The average CBD rent quote is \$52.95/s.f./yr currently; up slightly from \$52.23/s.f./yr last quarter.

BELLEVUE CBD AVAILABILITY shot up from 7.7% last quarter to 8.9% currently.

9 MAJOR EASTSIDE OFFICE PROJECTS

are under construction (not including the Microsoft expansion), which collectively total 4.31M+ s.f.; 95% is pre-committed.

VULCAN is underway on two major Amazon pre-leased projects including 555 Tower (940K s.f.) and West Main (1.03M+ s.f.). Trammel Crow's 1001 Office Towers (714K s.f.) is also well into construction and fully leased to Amazon.

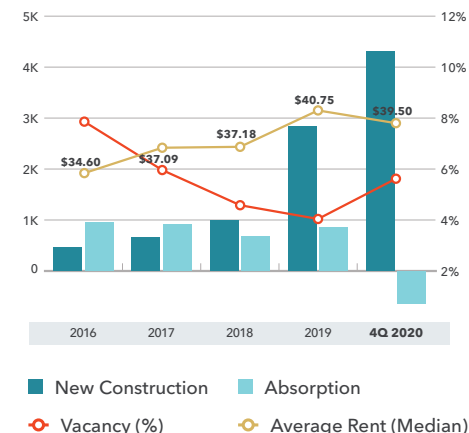
VACANCY RATES in peripheral Eastside submarkets remain low at 4.3% and 3.6% for Redmond and Kirkland, respectively.

NOTEWORTHY SALES OVER \$10M

include 620 Kirkland Way (\$11.1M+), Waterfront Place (\$44.9M+), Millennium Corp Park (\$217M), Studio 7500 (\$32.5M+), Overlake 520 (\$63M), and Spring District-Block 16 at \$365M.

AVERAGE RENT QUOTE for the Eastside is currently \$39.50/s.f./yr; up \$1.05/s.f./yr from \$38.45/s.f./yr last quarter.

EAST KING COUNTY



SOUTH KING COUNTY REVIEW

NEGATIVE NET ABSORPTION of -81K+ s.f. for 4Q brought the year-end 2020 net absorption to negative at -95K+ s.f., compared to 325K+ s.f. in 2019.

OFFICE VACANCY in South King County remains the highest in the region by far at 14.12%; up slightly from 13.76% last quarter and 13.38% at the end of 2019.

54 OFFICE LEASE TRANSACTIONS occurred over the 4th quarter, totaling 150K+ s.f., or just less than 3K s.f. per average deal. The average rent quote is \$31.65/s.f./yr.

NO MAJOR DELIVERIES or construction starts occurred this past quarter.

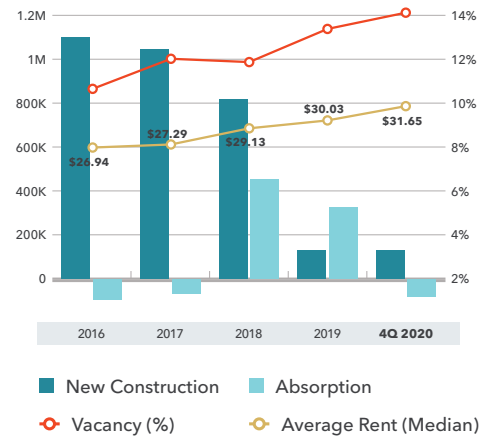
ALASKA AIRLINES' HEADQUARTERS EXPANSION BUILDING remains the only notable office project under construction at 129K s.f., to be delivered next quarter.

SUBMARKET VACANCIES for Federal Way/Auburn and Renton/Tukwila remain high at 14.5% and 18.1%, respectively.

NO SIGNIFICANT sale transactions.

HIGH VACANCY is expected to continue in the Southend heading into 2021.

SOUTH KING COUNTY



SNOHOMISH COUNTY / NORTHEAST REVIEW

THE NORTHEAST OFFICE MARKET is third largest in the region, with a current office inventory of just over 22.9M+ s.f..

VACANCY DECREASED over the 4th quarter from 6.37% last quarter to 5.62% currently; a drop of 75 bps.

AVAILABILITY RATE also decreased to 7.5% for 4Q 2020; down from 7.9% last quarter.

BOTHELL/KENMORE SUBMARKET VACANCY decreased sharply to 6.3% in 4Q; down 400 bps from 10.3% last quarter. The Everett CBD reports very tight vacancy of 3.5% currently; down from 4.0% last quarter.

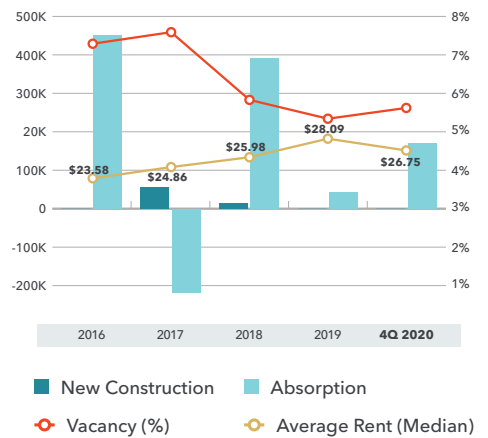
THE NORTHEAST MARKET continues to attract smaller office tenants looking for affordable housing proximity with future light rail connectivity. The average deal size for 4Q was just over 2,500 s.f..

AT AN AVERAGE RENT QUOTE of \$26.75/s.f./yr, this market is \$13.80/s.f./yr more affordable than the current average rent quote in Seattle at \$40.55/s.f./yr.

ALEXANDRIA acquired Monte Villa Farms and Monte Villa Center in Bothell for \$65M and \$56.9M in December 2020.

THE NORTHEAST OFFICE MARKET should see long-term growth as businesses get squeezed out of pricier close-in markets.

SNOHOMISH COUNTY



PIERCE COUNTY REVIEW

OFFICE VACANCY in Pierce County is 5.25%; currently the lowest in the region and a decline from 5.67% one year ago.

AVAILABILITY RATE increased by 30 bps from 7.2% last quarter to 7.5% currently.

ONE THIRD OF THE PIERCE COUNTY OFFICE SUPPLY is in the Tacoma CBD, which has a current 4th quarter vacancy rate of 7.6%; up from 7.1% last quarter. The CBD availability rate increased sharply to 11.2%; up from 9.3% in 3Q.

LEASING ACTIVITY remains sluggish at 38 deals, averaging ± 1,900 s.f. in size.

WITH NET ABSORPTION OF

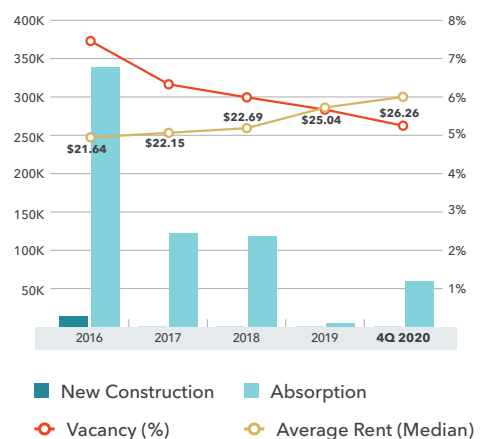
59K+ S.F. in 4Q, the year-end net absorption for Tacoma is 53K+ s.f. despite negative absorption on -71K+ in 2Q. This compares to net absorption of 5K+ s.f. for all of 2019.

SUBMARKET VACANCY for Suburban Tacoma remains low at 4.2%, while the Gig Harbor submarket currently has 7.5% office vacancy.

AVERAGE RENT decreased modestly to \$26.26/s.f./yr from \$26.52/s.f./yr last quarter.

LAKWOOD TOWN CENTER sold for \$11.3M+ (\$284/s.f.) with a reported 6.7% cap rate.

PIERCE COUNTY



from tech-titan activity, reasonable amounts of new office construction with strong levels of pre-leasing, and the rebound in local unemployment. While sales activity will continue to recover slowly, the increase in volume over the 4th quarter is a welcome sign and while economic fundamentals remain volatile, the region appears to be riding out the storm better than many other parts of the country thus far.

VACANT SPACE/VACANCY RATE

At year-end 2020, the region has a total office inventory of 214.5M+ s.f.. The 4Q 2020 vacancy rate is 7.70%, with 16.5M+ s.f. of vacant space, including sublease space. The current regional vacancy rate increased 86 bps over the 6.84% vacancy rate from last quarter and is 183 bps higher than the 5.87% rate at the end of 2019. Of the current vacant space inventory, about 26% is from sublease space, up sharply from 18% last quarter. Three of the five regional market areas posted increases in vacancy over the 4th quarter, with Tacoma and the Northend showing nominal decreases. Southend vacancy remains the highest in the region at 14.12%, with Tacoma overtaking the Eastside for the low mark at 5.25%. The spike in regional vacancy is due in part to negative regional net absorption of -1.46M+ over the 4th quarter. It is also due to increased levels of sublet vacancy inventory in the Seattle (2.3M+) and Eastside (1.4M+) markets, pushing their percentage of respective sublet vacancies to 29% and 32%. The negative net absorption over the 4th quarter brings the year-end 2020 net absorption total to 50,900 s.f., or nearly break-even for the year. This compares to net absorption of 5.76M+ s.f. in 2019 and 4.45M+ s.f. for 2018. Both the Northend and Tacoma markets posted nominal positive net absorption in the 4th quarter. Seattle and the Eastside posted the largest negative net absorption levels of -972K+ s.f. and -638K+ s.f., respectively. The regional availability rate ended the quarter at 11.06%, up from 10.12% last quarter and 8.26% from a year ago.

NEW CONSTRUCTION ACTIVITY

At year-end 2020, there were 20 major office projects under construction in the region, 19 of which are in the Seattle and Eastside markets. There were three major deliveries over the quarter, adding 409K+ s.f. of new office inventory-notable deliveries of Rowley's 2005 Poplar in Issaquah and Third & Lenora in Seattle. Significant new construction starts include Vulcan's Amazon-leased West Main (1.02M+ s.f.) project in Bellevue and the Google-leased 520 Westlake (347K+ s.f.) in Seattle. Of the close-in office projects currently under construction, 10 are in Seattle, totaling 3.12M+ s.f. (38% pre-leased). As many as four of these projects are expected to deliver in 1Q 2021. The Eastside currently has nine major office projects totaling 4.31M+ s.f. underway. The two largest are Vulcan's 555 Tower project at 940k and West Main at 1.02M+ s.f., both fully leased to Amazon. Overall, Eastside projects are a healthy 95% pre-committed. Amazon has two other leased projects in Bellevue that will deliver in 2021, including Summit III (377K s.f.) and 1001 Office Towers (714K s.f.). Other proposed office projects loom in both the Eastside and Seattle, but it remains to be seen which will push through. Fortunately for the region, the 20 projects under construction are collectively 72% pre-committed.

RENT FORECAST

Of the five market areas in the region, only the Eastside market posted a rental rate increase over the 4th quarter, jumping from \$38.45/s.f./yr last quarter to \$39.50/s.f./yr currently; a \$1.05/s.f./yr bump. The most notable rent decrease was in Seattle going from \$41.28/s.f./yr last quarter down to \$40.55/s.f./yr currently; a drop of 1.8%. Despite the decline over the quarter, the Seattle market has the highest average rent in the region. Seattle is followed closely by the Eastside with an average rent quote

of \$39.50/s.f./yr, then the Southend at \$31.65/s.f./yr. Snohomish County and Pierce County posted the lowest rent marks at \$26.75/s.f./yr and \$26.26/s.f./yr, respectively. At year-end 2020, Bellevue CBD had the highest quoted average full-service rent of any regional submarket at \$52.95/s.f./yr, due to demand and short supply. The average rent quote for the Seattle CBD is at \$44.67/s.f./yr, with the Tacoma CBD at \$26.82/s.f./yr; about half the Bellevue CBD rate.

INVESTMENT MARKET

While 2020 continues to see nominal office investment sale activity compared to historical regional volumes, there was an uptick in activity over the 4th quarter. The impacts from both the pandemic and 2020 REET increase continue to instill uncertainty with buyers, sellers and lenders; many of which remain on the sidelines to see how market conditions play out. Over the 4th quarter, there were 14 sales above \$10 million that closed, topping eight such sales last quarter. Examples of significant transactions over the quarter included Terry Thomas at \$52.1M+ (\$1,173/s.f.), 2+U at \$668.8M (\$951/s.f.), 1918 Eighth at \$625M (\$934/s.f.) and Harold Poll for \$50.7M (\$555/s.f.) in Seattle. Significant Eastside transactions included Millennium Corporate Park at \$217M+ (\$403/s.f.), Studio 7500 at \$32.5M+ (\$933/s.f.), Overlake 520 at \$63M (\$432/s.f.) and Spring District-Block 16 for \$365M (\$1,063/s.f.). Alexandria was also involved in several sizable life sciences transactions over the quarter. Total office sales volume for the quarter was \$2.75B (among 111 transactions) compared to \$801.5M last quarter and \$4.68B in 4Q 2019.



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