

MARKET TRENDS | SEATTLE

OFFICE

1ST QUARTER
2021

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

Year-over-year change

The end of the 1st quarter 2021 marks the one-year point since the onset of COVID-19, and we are beginning to see the impact on the regional office market, with the pandemic taking its toll on the economy, both locally and nationally.

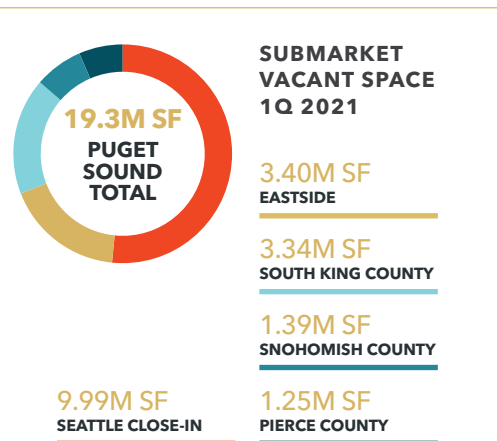
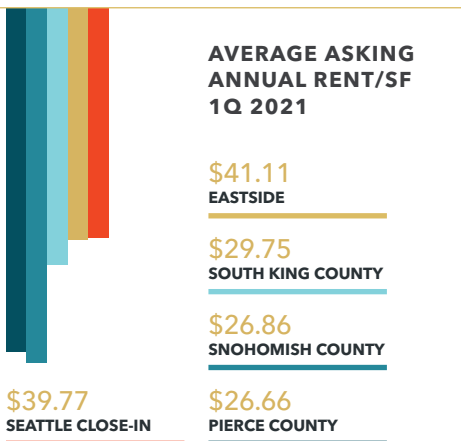
The 1Q 2021 office data shows a sharp quarterly spike in regional vacancy, going from 7.70% last quarter to 9.02% currently. Looking further back, the change in vacancy over the past year from when the pandemic first hit indicates a 307 bp increase in vacancy from the 1st quarter 2020 mark, when it was 5.95%. The regional office market is also experiencing a continued trend of negative absorption, after posting -2.56M+ s.f. in negative absorption for the 1st quarter 2021 – on the heels of last year’s lowest annual regional net office absorption in 10 years, at just 50,900 s.f. Sublet vacancy jumped up to 22% of total vacant inventory, compared to 12% one year ago. Investment sale activity continues to be sluggish, with only three sales over \$50M during the quarter. On the bright side, the 19 major regional office construction projects are all pushing forward, with 76% of that space pre-committed. This is thanks, in no small part, to the ongoing appetite for close-in office space by the tech titans, with Amazon leading the charge along with Microsoft, Google, Facebook and Apple.

While there has been gradual improvement in the job market, until we have fully immunized the critical mass, the regional office market will remain volatile. Looking further ahead in 2021, important factors to consider will be local job growth and the long-term positioning of companies to continue or ease the Work From Home trend in the future. Economically, the region saw an initial loss in jobs of nearly 241,000 between March and

April 2020. Between then and January 2021, the region gained back nearly 83,000 jobs. The unemployment rate at the end of February stands at 5.9%, well below the peak mark of 16.6% in April 2020. These are encouraging signs. The Puget Sound Economic Forecaster’s most recent employment projection for 2021 is positive employment growth of 1.7% in 2021, increasing to 5.4% in 2022.

While we remain in a time of uncertainty, some of the impacts of COVID-19 on the regional office market are beginning to surface, despite having been relatively mild thus far. These office market impacts include rising vacancy, negative net office absorption and sluggish sales and lease volumes in most market areas. While it remains to be seen how 2021 will play out, the blow to the Seattle office market has been mitigated from tech sector activity, along with a reasonable amount of new office construction, strong pre-commitments and a rebound in local jobs.

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1Q 2021 MARKET HIGHLIGHTS

REGIONAL OFFICE VACANCY increased from 7.70% last quarter to 9.02%

8.07M+ SF of new office space under construction in Seattle and the Eastside

76% of office space currently under construction is pre-committed

NEGATIVE NET office absorption for Q1 2021 totaled -\$2.56M+ for the region

CONTINUED slow sales & leasing activity

SEATTLE CLOSE-IN REVIEW

8 MAJOR ongoing construction projects in Seattle containing just under 3.3M s.f. with five projects expected to be delivered in 2021; 47% pre-committed.

3 MAJOR office deliveries over the quarter including Boren Lofts (134K+ s.f.), Amazon Block 18 (397K s.f.) and Fremont Crossing I (50K+ s.f.).

CONTINUED TREND of negative net absorption from 2020, with the Seattle market experiencing negative net office absorption of -1.05M+ s.f. in the 1st quarter of 2021.

OFFICE VACANCY in Seattle currently stands at 10.37%, up 200 bps from last quarter's mark of 8.37% and up 464 bps from the 5.73% vacancy rate one year ago.

AVAILABILITY RATE increased over the 1st quarter to 15.0% from 13.5% last quarter.

LEASING ACTIVITY was again very light over the quarter, with CoStar reporting 85 total deals at 311K+ s.f. The CBD accounted for 64% of the total lease volume, with 34 deals totaling 200K+ s.f.

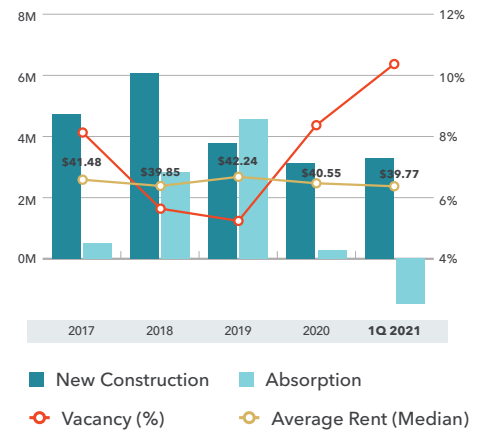
ASKING RATES in the Seattle CBD decreased to \$44.67/s.f./yr, from \$45.16/s.f./yr last quarter.

VACANCY in the Seattle CBD ended the year at 13.3%, up from 10.4% last quarter. The CBD availability rate also increased from 16.3% last quarter to 18.8% currently.

SEATTLE SUBMARKETS exhibited 1st quarter 2021 vacancy rates of 7.1% in Ballard/U District, 4.7% for Lake Union, 4.9% in S Seattle and 4.5% in N Seattle/Northgate. Queen Anne/Magnolia continued to set the high mark at 17.0%.

CURRENT AVAILABLE new construction to absorb (1.5M+ s.f.) appears manageable from a historic absorption perspective (2.2M+ s.f. annually-10 yr

SEATTLE CBD / SURROUNDING AREA



avg.), but remains in question with recent negative absorption trends.

NOTABLE office sales this quarter include the Star Building (Filson) at \$21M, or \$392/s.f., which closed in January 2021.

AVERAGE RENT for Seattle is \$39.77/s.f./yr at year-end, down \$0.78/s.f./year from \$40.55/s.f./yr last quarter.

EASTSIDE REVIEW

EASTSIDE office vacancy at the end of the 1st quarter is 6.54%, up 91 bps from 5.63% last quarter and up 180 bps from 3.83% a year ago.

AVAILABILITY RATE has spiked to 8.9% from 7.8% last quarter.

OFFICE INVENTORY currently stands at just under 52.0M s.f., or about one quarter of the region's office inventory.

NET ABSORPTION of Eastside office over the quarter was negative -679,430 s.f., compared to year-end 2020 total negative absorption of -155K+ s.f.

LEASING over the 1st quarter was steady. CoStar reported 86 deals totaling 1.07M+ s.f. in total volume.

BELLEVUE CBD office vacancy increased to 8.9% at the end of the 1st quarter,

compared to 7.9% last quarter. The average CBD rent quote is \$55.03/s.f./yr currently, up from \$52.95/s.f./yr last quarter.

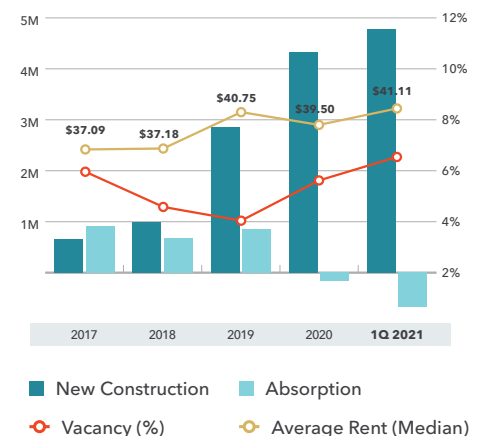
AVAILABILITY for Bellevue CBD office space spiked up from 8.9% last quarter to 11.3% currently.

11 MAJOR current Eastside office projects under construction (not including the Microsoft expansion) collectively total 4.77M+ s.f.; 96% is pre-committed.

NOTABLE CONSTRUCTION projects include Vulcan's start of Amazon pre-leased 555 Tower (940k s.f.), Amazon-leased West Main (1.03M+ s.f.) and Google-leased Spring District - Block 6 (325K s.f.).

VACANCY RATES in peripheral Eastside submarkets remain low at 4.6% and 3.7%, for Redmond and Kirkland respectively.

EAST KING COUNTY



NOTEWORTHY 1Q 2021 sales include Redmond East (\$80.0M), Ednetics (\$11.2M) and Advanta at \$169M.

AVERAGE RENT for the Eastside is currently \$41.11/s.f./yr, up \$1.61/s.f./yr from \$39.50/s.f./yr last quarter.

SOUTH KING COUNTY REVIEW

SOUTHEND starts 2021 with negative net absorption of -162K+ s.f. for the 1st quarter after finishing 2020 with negative net absorption of -95K+ s.f.

OFFICE VACANCY in South King County remains the highest in the region at 14.90%, up from 14.12% last quarter and 13.38% at the end of 2019.

SUBMARKET VACANCIES for Federal Way/Auburn and Renton/Tukwila remain high, increasing from 14.5% to 14.7% and 18.1% to 19.4% over the quarter, respectively.

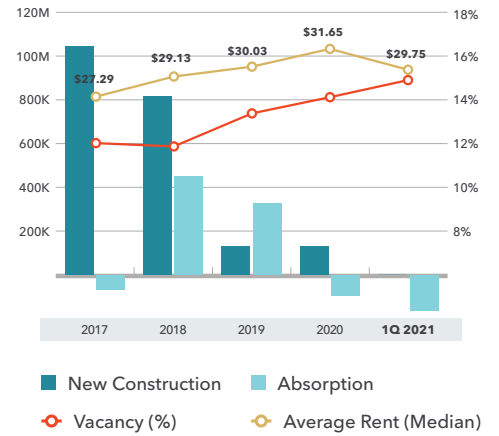
ALASKA AIRLINES' headquarters expansion building delivered over the 1st quarter 2021 at 129K.

NO MAJOR sales or construction starts occurred this past quarter.

60 OFFICE lease transactions occurred over the 1st quarter, totaling 122K+ s.f., or just over 2K s.f. average per deal. The average rent quote declined over the quarter \$29.75/s.f./yr.

SOUTHEND VACANCY is expected to remain high in 2021.

SOUTH KING COUNTY



SNOHOMISH COUNTY / NORTHEAST REVIEW

NORTHEAST REMAINS third largest in size for the region, with current office inventory of just over 23.0M+ s.f.

VACANCY INCREASED in the Northeast from 5.62% last quarter to 6.05% at the end of the 1st quarter, a jump of 43 bps.

AVAILABILITY RATE increased to 8.1% for the 1st quarter 2021, from 7.5% last quarter.

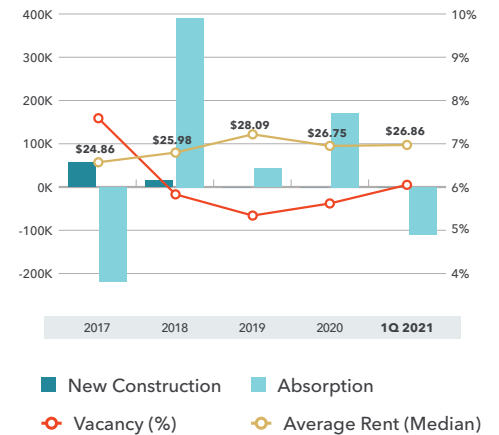
CONTINUES TO ATTRACT smaller tenants looking for affordable housing with future light rail connectivity. Average lease deal size over the 1st quarter was just over 3,339 s.f.

AVERAGE CURRENT is \$26.86/s.f./yr, making the Northeast \$14.25/s.f./yr more affordable than the current average rents on the Eastside at \$41.11/s.f./yr.

BOTHELL / KENMORE submarket vacancy increased to 7.1% in the 1st quarter, up from 6.3% last quarter. The Everett CBD continues to report very tight vacancy of 3.3% currently, down from 3.5% last quarter.

ALEXANDRIA purchased Canyon Park Heights in Bothell for \$45M in March 2021. Canyon Park East also sold for \$75M, along with the Creekside Building (\$11.7M+), all in Bothell.

SNOHOMISH COUNTY



LONG-TERM GROWTH expected as businesses get squeezed out of pricier close-in markets.

PIERCE COUNTY REVIEW

OFFICE VACANCY in Pierce County is 5.94%, currently the lowest in the region, but also a sharp increase from 5.25% at the end of 2020.

TACOMA CBD, which contains approximately 33% of the Pierce County office supply, has a current first quarter vacancy rate of 7.9%, up from 7.6% last quarter. The Tacoma CBD availability rate increased to 11.6% from 11.2% last quarter.

OVERALL AVAILABILITY RATE increased by 50 bps from 8.0% last quarter to 7.5% currently.

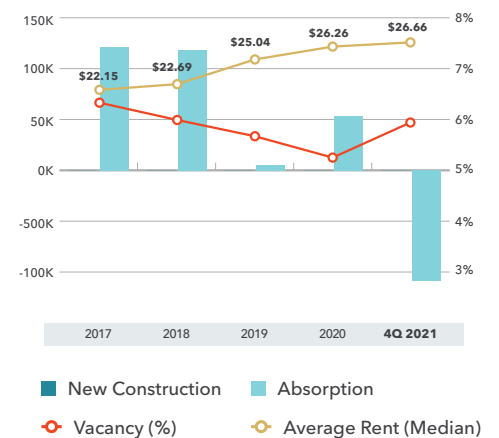
NET ABSORPTION was negative at -108K+ s.f., compared to year-end 2020 net absorption for Tacoma (53K+ s.f.). This further compares to lackluster net absorption of 5K+ s.f. in all of 2019.

LEASING ACTIVITY over the 1st quarter included 41 deals totaling 104K+ s.f. in total volume.

SUBMARKET VACANCY for Suburban Tacoma remains low at 4.6% compared to 4.2% last quarter, while vacancy in Gig Harbor declined over the 1st quarter to 5.7% from 7.5% last quarter.

AVERAGE RENT increased slightly to \$26.66/s.f./yr from \$26.26/s.f./yr last quarter.

PIERCE COUNTY



NO MAJOR office sales to report over the quarter or new construction starts.

VACANT SPACE / VACANCY RATE

At the end Q1 2021, the region has a total office inventory of 215M+ s.f. The current regional vacancy rate shot up to 9.02% with 19.3M+ s.f. of total vacant space, including a surging inventory of sublease space. The current regional office vacancy rate increased 132 bps over the 7.70% vacancy rate from last quarter, and is 315 bps higher than the 5.87% rate at the end of 2019. Of the current regional vacant space inventory, about 22% is sublease space, up sharply from 12% a year ago. All five regional market areas posted increases in vacancy over the 1st quarter, with Seattle and the Eastside posting the most substantial increases. Seattle's vacancy jumped to 10.37%, an increase of 200 bps over last quarter's vacancy of 8.37%. The Eastside saw an increase of 92 bps, going from 5.62% last quarter to 6.54% currently. The Southend, Northend and Tacoma markets experienced nominal vacancy increases over the quarter. Southend vacancy remains the highest in the region at 14.90%, with Tacoma again setting the low mark at 5.94%. The spike in regional vacancy is due in part to a continued trend of negative regional net absorption over the quarter; at -2.55M+ s.f. for the 1st quarter, adding to the -1.46M+ from the 4th quarter 2020. It is also due to the surging levels of sublet vacancy inventory in Seattle (2.67M+) and the Eastside (1.06M+) markets pushing their percentage of respective sublet vacancy percentages to 27% and 31%. The recent negative net absorption at the end of 2020, and thus far into 2021, adds to lackluster net absorption of essentially breakeven in 2020. This compares to positive absorption totals of 5.76M+ s.f. in 2019 and 4.45M+ s.f. for 2018. Seattle and the Eastside posted the largest negative net absorption thus far in 2021, at -1.50M+ s.f. and -679K+ s.f. respectively. The regional availability rate ended the quarter at 12.19%, up from 11.06% last quarter and 8.26% from a year ago.

NEW CONSTRUCTION ACTIVITY

At the end of the Q1 2021, there are 19 major office projects under construction in the region, all in Seattle and the Eastside. Over the quarter there were four major deliveries, adding a combined 710K+ s.f. of new office inventory to the region's supply. These include the Alaska Air HQ, Boren Blocks, Amazon Block 18 and Fremont Crossing. Significant new construction starts included 503 6th Street (136K s.f.) and Spring District-Block 6 (Facebook) at 326K s.f. on the Eastside, and 1280 16th Ave W (Expedia) in Seattle at 750K s.f. Of the close-in office projects, 8 are in Seattle, totaling 3.29M+ s.f. (47% pre-committed), with 11 projects underway on the Eastside, totaling 4.77M+ s.f. (96% pre-committed). The two largest projects overall are in Bellevue, Vulcan's 555 Tower project at 940K and West Main at 1.02M+ s.f., both fully leased to Amazon. Other proposed office projects loom in both the Eastside and Seattle, but it remains to be seen what will push through. Fortunately for the region, the 19 projects underway are 76% pre-committed.

RENT FORECAST

Of the five market areas, three posted average rent quote increases over the 1st quarter while the other two show declines. The largest increase was the Eastside jumping from \$39.50/s.f./yr last quarter to \$41.11/s.f./yr currently, a 4.1% increase. The Northend and Tacoma also had more moderate rent increases in the 1st quarter. The biggest decliner was the

Southend going from \$31.65/s.f./yr last quarter down to \$29.75/s.f./yr currently, a 6.0% slide. Seattle also dropped its average rent quote from \$40.55/s.f./yr last quarter to \$39.77/s.f./yr currently, a decrease of 1.9%. The Eastside has the highest average rent in the region, followed closely by Seattle. The floor is set by Tacoma with an average rent quote of \$26.66/s.f./yr., then the Northend at \$26.86/s.f./yr. At the end of the 1st quarter, the Bellevue CBD has the highest quoted average full-service rent of any submarket at \$55.03/s.f./yr, due to continued demand and short supply. The average rent quote for the Seattle CBD is \$44.67/s.f./yr, with the Tacoma CBD at \$27.07/s.f./yr, about half the Bellevue CBD rate.

INVESTMENT MARKET

The Q1 2021 continued the trend of nominal office investment sales activity compared to historical regional volumes. The impact from both the pandemic and 2020 REET increases continue to impact investment sales, with uncertainty remaining in the eyes of buyers, sellers and lenders. There is a steadier pipeline of smaller investment and owner-user office sales fueled by the repositioning of many local businesses. During the 1st quarter, there were seven sales above \$10 million that closed. Examples of significant transactions over the quarter include: the Star Building at \$21M (\$392/s.f.) in Seattle and three Bothell sales, Creekside Bldg (\$11.7M+), Canyon Park East (\$75M) and Canyon Park Heights (\$45M). Significant Eastside transactions include Talon's acquisition of Advanta Office Commons at \$169M+ (\$281/s.f.), Ednetics at \$11.2M+ (\$526/s.f.) and Redmond East for \$80M (\$276/s.f.). Total office sales volume for the quarter was \$464M (among 76 transactions) compared to last quarter at \$2,747.6M and \$801.5M in the 3rd quarter of 2020.



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