

OFFICE

2ND QUARTER
2021

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

Year-over-year change

At the end of the first half 2021, the region continues to see more impacts from the pandemic on the office market starting with the spike in vacancy going from 9.02% last quarter to 9.66% currently. Looking further back, the upward run in the regional office vacancy started in the 1st quarter 2020 when the pandemic first hit.

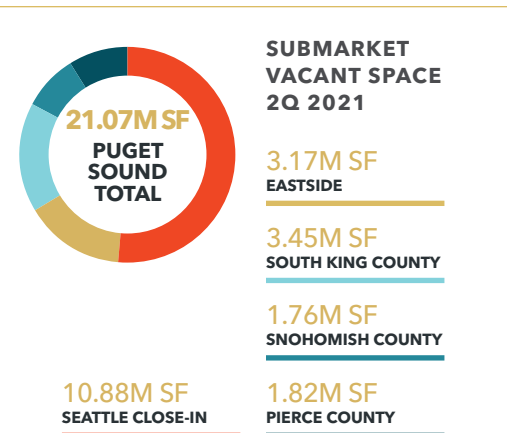
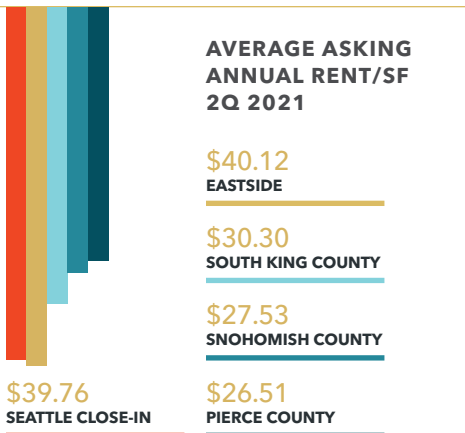
At that time vacancy was 5.95%. Over the next consecutive five quarters the vacancy rate increased 371 bps to its current mark. This trend of rising vacancy is fueled by several factors in particular the increase in sublease vacancy and negative net absorption. The regional office market is experiencing a continued trend of negative absorption with -521K+ s.f. in the 2nd quarter adding to -2.56M+ s.f. in negative absorption from the 1st quarter of 2021. This is on the heels of 2020's lowest annual regional net office absorption total in 10 years, at just 50,900 s.f. Sublet vacancy is also very high at 21% of total vacancy inventory. This compares to 11% at the end of 2019. Investment sales volume also remains low despite the five sales over \$50M in the 2nd quarter. Balancing rising vacancy and sluggish sale volumes is the healthy level of pre-commitment for the 19 major regional office projects under construction at 77%. This is largely due to the continued demand for close-in office space lead by the likes of Amazon along with Microsoft, Google, Facebook and Apple.

While there has been clear improvement in the job market, until we have fully recovered from the pandemic, the regional office market will remain

volatile. Looking forward to the second half of 2021, all eyes will remain on local job growth and the long-term positioning and strategies of companies to either repopulate their offices or continue the Work From Home trend. Economically, since May 2020 when our region bottomed out with employment the region has added 142,700 new jobs (7.2% increase) bringing the total number of regional jobs to 2,119,000 as of May 2021 which still falls about 97,000 jobs below the pre-Covid level. Puget Sound Economic Forecaster's June 2021 report projects employment growth through the end of 2021 at 2.5%, an increase of 80 bps from their prior estimate. They expect 2022 to be higher at 5.8%. These are encouraging signs especially considering the unemployment rate is expected to dip below the 5.0% mark for the second half of 2021.

While the regional office market remains unsettled, the state has begun to re-open from the pandemic and the region is seeing healthy levels of vaccinated residents. We know the impacts of COVID-19 have brought rising vacancy (particularly sublease), negative net office absorption and sluggish sales and lease volumes which

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2Q 2021 MARKET HIGHLIGHTS

- REGIONAL OFFICE VACANCY** increased from 9.02% last quarter to 9.66%
- 7.87M+ SF** of new office space under construction in Seattle and the Eastside
- 77% OF THE OFFICE SPACE** under construction is pre-committed
- NEGATIVE NET OFFICE ABSORPTION** for the 2nd quarter 2021 totaled -521K+ for the region
- CONTINUED SLOW** sales and lease activity

SEATTLE CLOSE-IN REVIEW

7 MAJOR ONGOING OFFICE

CONSTRUCTION projects in Seattle containing just under 2.1M s.f. with three projects expected to be delivered in 2021; 24% pre-committed.

2 MAJOR OFFICE DELIVERIES over the quarter including Rainier Square (722K+ s.f.) and Expedia's HQ buildings (750K s.f.).

NET OFFICE ABSORPTION over the quarter totaled 269,681 s.f. bringing year-to-date absorption for 2021 to -1.23M+ s.f. in Seattle. This compares to net office absorption of 285K s.f. for all of 2020.

OFFICE VACANCY in Seattle currently stands at 10.95%, up 58 bps from last quarter's mark of 10.37% and up 497 bps from 5.98% one year ago.

AVAILABILITY RATE increased slightly over the 2nd quarter to 15.2% from 15.0% last quarter.

LEASING ACTIVITY was very moderate over the quarter with CoStar reporting

138 total deals at 623K+ s.f. The CBD accounted for 47% of the total lease volume with 44 deals totaling 290K+ s.f.

AVERAGE RENT QUOTES in the Seattle CBD decreased to \$44.42/s.f./yr, from \$45.16/s.f./yr last quarter.

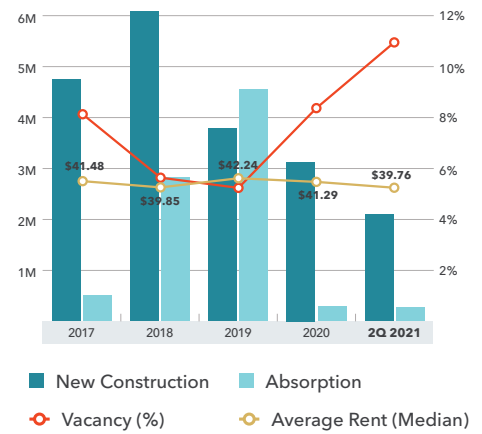
VACANCY in the Seattle CBD ended the year at 14.9%, up from 13.3% last quarter. The CBD availability rate also increased sharply from 18.8% last quarter to 20.2% currently.

PERIPHERAL SEATTLE SUBMARKETS

exhibited 2nd quarter 2021 vacancy rates of 7.8% in Ballard/U District, 4.1% for Lake Union, 5.4% in S Seattle and 5.4% in N Seattle/Northgate. Queen Anne/Magnolia sets the high mark at 16.0%.

THE CURRENT AMOUNT OF AVAILABLE NEW CONSTRUCTION to absorb is 1.58M+ s.f., which is manageable from a historic absorption perspective (2.2M+ s.f. annually-10 yr avg.), but remains a question amidst negative absorption trends.

SEATTLE CBD / SURROUNDING AREA



THREE NOTABLE OFFICE SALES

over the quarter including 300 Pine at \$580M (\$753/s.f.), the vacant Boren Office Lofts at \$119.1M (\$886/s.f.) and 5030 1st Ave S at \$12.3M (\$283/s.f.).

AVERAGE RENT FOR SEATTLE is \$39.76/s.f./yr at mid-year 2021, essentially unchanged from \$39.77/s.f./yr last quarter.

EASTSIDE REVIEW

OFFICE VACANCY at the end of the 2nd quarter is 6.07%, down 47 bps from 6.54% last quarter and up 216 bps from 3.91% a year ago.

AVAILABILITY RATE decreased over the quarter from 8.90% last quarter to 8.1% currently.

OFFICE INVENTORY currently stands at just under 52.1M+ s.f., roughly a quarter of the regional office supply.

NET OFFICE ABSORPTION during the 2nd quarter was negative -91,260 s.f. bringing the year-to-date 2021 total to a negative -770K+ s.f. This compares to the year-end 2020 total negative absorption of -155K+ s.f.

LEASING WAS MODERATE OVER THE 2ND QUARTER. CoStar reported 122 deals totaling 585K s.f. in total volume.

BELLEVUE'S CBD VACANCY decreased to 8.0% at the end of the 2nd quarter, compared to 8.9% last quarter. The average CBD rent quote is \$54.53/s.f./yr currently, down from \$55.03/s.f./yr last quarter.

BELLEVUE CBD AVAILABILITY dropped from 11.3% last quarter to 9.7% currently.

12 MAJOR EASTSIDE OFFICE

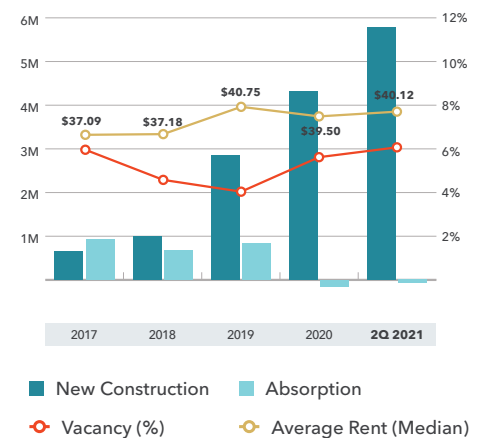
PROJECTS are under construction (not including the Microsoft expansion) which collectively total 5.77M+ s.f.; of which 96% is pre-committed.

AMAZON HAS COMMENCED

CONSTRUCTION on their 43-story Bellevue 600 office tower which will contain just under 1M s.f. of space to be owner-occupied.

VACANCY RATES in key peripheral Eastside submarkets remain low at 4.1% and 4.2%, for Redmond and Kirkland, respectively.

EAST KING COUNTY



NOTEWORTHY 2Q 2021 SALES

include Northrup Office Center (\$22.5M), Marina Park (\$13.1M+), Spring District's Block 24 (\$200M) and GIX (\$85M) and Corporate Campus East at \$62M.

AVERAGE RENT QUOTE for the Eastside is currently \$40.12/s.f./yr, down \$0.99/s.f./yr from \$41.11/s.f./yr last quarter.

SOUTH KING COUNTY REVIEW

OFFICE VACANCY in South King County remains the highest in the region by far at 15.32%, up from 14.90% last quarter and 14.12% at the end of 2020.

THE SOUTHEND POSTS 68K+ S.F. IN POSITIVE NET ABSORPTION over the 2nd quarter 2021. This compares to negative net absorption of -162K+ s.f. in the 1st quarter and negative net absorption of -95K+ s.f. for all of 2020.

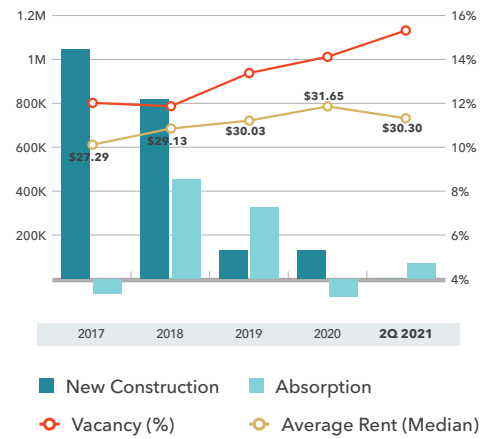
SUBMARKET VACANCIES for Federal Way/Auburn and Renton/Tukwila remain high at 14.7% and 18.8%.

NO MAJOR OFFICE PROJECTS ARE CURRENTLY UNDER CONSTRUCTION with the 1st quarter 2021 delivery of the Alaska Airlines' headquarters expansion at 129K s.f.

44 OFFICE LEASE TRANSACTIONS occurred over the 2nd quarter, totaling 198.5K+ s.f., or just over 4,500 s.f. average per deal. The average rent quote increased over the quarter to \$30.30/s.f./yr.

HIGH VACANCY is expected to remain in the Southend through the end of 2021

SOUTH KING COUNTY



SNOHOMISH COUNTY / NORTHEND REVIEW

The Northend office market is third largest in size for the region with a current office inventory of 22.8M+ s.f.

VACANCY INCREASED sharply in the Northend from 6.05% last quarter to 7.72% currently, a jump of 167 bps.

AVAILABILITY RATE also increased from 8.1% last quarter to 9.0% at the end of the first half of 2021.

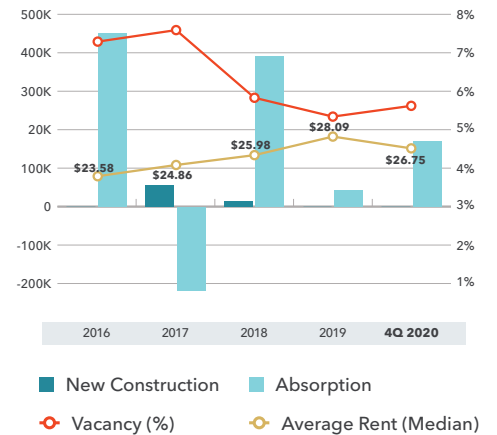
AVERAGE LEASE DEAL size over the 2nd quarter was just over 2,243 s.f. The Northend market appeals to smaller office tenants looking for affordability, housing proximity and future light rail connectivity.

AN AVERAGE CURRENT QUOTE of \$27.53/s.f./yr, this market is \$12.59/s.f./yr more affordable than the current average rent quote in Eastside at \$40.12/s.f./yr.

BOTHELL/KENMORE SUBMARKET VACANCY increased to 12.7% in the 1st quarter, a substantial increase from 7.1% last quarter. The Everett CBD continues to report very tight vacancy of 3.2% currently, down a modicum from 3.3% last quarter.

LONG-TERM GROWTH IS EXPECTED for the Northend office market as businesses get squeezed out of pricier close-in markets

SNOHOMISH COUNTY



PIERCE COUNTY REVIEW

ABOUT ONE THIRD of the Pierce County office supply is in the Tacoma CBD with a current 2nd quarter vacancy rate of 10.6%, up sharply from 7.9% last quarter. The Tacoma CBD availability rate increased to 12.6%, from 11.6% last quarter.

VACANCY in Pierce County is now up to 8.58% after being the low mark for the region last quarter. This compares to office vacancy of 5.94% last quarter and 5.25% at the end of 2020.

AVAILABILITY RATE increased by 180 bps from 8.0% last quarter to 9.8% currently.

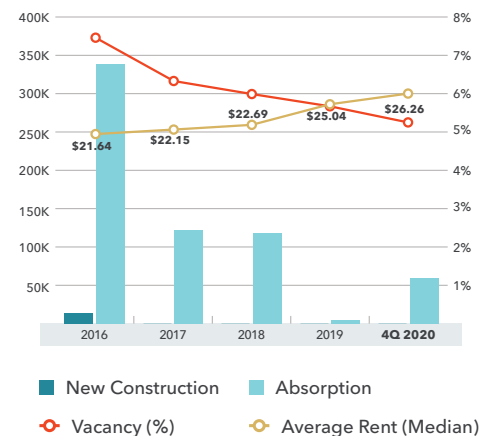
NET ABSORPTION for the quarter was negative at -532K+ s.f. on the heels of the 1st quarter results which were also negative at -108K+ s.f. This compares to lackluster net absorption of 53K+ s.f. for 2020 and 5K+ s.f. in 2019.

LEASING ACTIVITY over the 1st quarter included 43 deals totaling 1.05K+ s.f. in total volume.

SUBMARKET VACANCY for Suburban Tacoma remains low at 5.0% compared to 4.6% last quarter while vacancy in Gig Harbor declined over the 2nd quarter to 5.2% from 5.7% last quarter.

NO MAJOR sales or new construction starts.

PIERCE COUNTY



AVERAGE RENT QUOTE decreased slightly to \$26.51/s.f./yr from \$26.66/s.f./yr last quarter.

are all evident in the current office market data. However, with expected job growth, healthy employment rates and continued tech demand, the fundamentals are encouraging moving into the second half of 2021

VACANT SPACE/VACANCY RATE

At mid-year 2021, the region has a total office inventory of 218M+ s.f. Over the last quarter, regional vacancy has continued its upward trend going from 9.02% last quarter to 9.66% currently, an increase of 64 bps. The current regional office vacancy rate is now 196 bps higher than the 7.70% vacancy rate at year-end 2020 and 379 bps higher than the 5.87% rate at the end of 2019. Of the current vacancy inventory, about 21% is sublease space per CoStar, well above the 11% mark at year-end 2019. Four of the five regional market areas posted increases in vacancy over the 2nd quarter with only the Eastside showing decline going from 6.54% last quarter to 6.07% currently. Seattle's vacancy jumped to 10.95%, an increase of 58 bps over last quarter's vacancy of 10.37% and a 497 bp hike over the 5.98% rate a year ago. The Southend vacancy sets the high mark for the region at 15.32% with Tacoma at 8.58% and the Northend at 7.72%. The rise in vacancy is the result of a continued trend of negative regional net absorption amounting to -3.08M+ s.f. for the first two quarters of 2021 adding to the -1.46M+ from the 4th quarter 2020. It is also due to surging sublet vacancy inventory in Seattle (2.85M+) and the Eastside (767K+) markets per CoStar. Some independent surveys track these sublease estimates as being much higher. The recent negative net absorption compares to positive absorption of 5.76M+ s.f. in 2019 and 4.45M+ s.f. for 2018. Seattle and the Eastside have posted the largest negative net absorption thus far in 2021 at -1.23M+ s.f. and -770K+ s.f., respectively. The regional availability rate ended the quarter at 12.13%, down slightly from 12.19% last quarter and up from 8.96% a year ago.

NEW CONSTRUCTION ACTIVITY

At the end of the 2nd quarter 2021, there are 19 major office projects under construction in the region, all in Seattle and the Eastside. Over the quarter there were two notable deliveries adding 1.47M+ s.f. of new office inventory to the region's supply. These include Rainier Square and the Expedia HQ Buildings. Significant new construction starts over the quarter include Washington 1000 (531K+ s.f.) in Seattle and Amazon's Bellevue 600 (999K+ s.f.) in the Bellevue CBD. Of the regional projects under construction, 7 are in Seattle totaling 2.09M+ s.f. (24% pre-committed) and 12 on the Eastside totaling 5.77M+ s.f. (96% pre-committed). The three largest projects overall are all Amazon towers in Bellevue including Vulcan's 555 Tower (940K s.f.), West Main (1.02M+ s.f.) and Bellevue 600 (999K+ s.f.). 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 77% pre-committed.

RENT FORECAST

Of the five market areas, three saw average rent quote declines over the 2nd quarter with two showing nominal increases. The largest increase was the Northend going from \$26.86/s.f./yr last quarter to \$27.53/s.f./yr currently, a 2.5% bump. Southend rent also increased to \$30.30/s.f./yr, an increase of 1.8% over the previous quarter. The biggest decliner was the Eastside going from \$41.11/s.f./yr last quarter down to \$40.12/s.f./yr currently, a 2.5% drop. Pierce County also saw its average rent quote go down nominally from \$26.66/s.f./yr to \$26.51/s.f./yr while Seattle lost a penny in the average rent quote from the mark last quarter. The Eastside has the highest average rent in the region at \$40.12/s.f./yr, followed closely by Seattle (\$39.76/s.f./yr). The rent floor is set by Pierce County at a

current rent quote of \$26.51/s.f./yr. At mid-year 2021, the Bellevue CBD has the highest quoted average full-service rent of any submarket at \$54.53/s.f./yr. The average rent quote for the Seattle CBD is \$44.42/s.f./yr with the Tacoma CBD at \$26.53/s.f./yr, less than half the Bellevue CBD rate.

INVESTMENT MARKET

Through the first half of 2021 the region has seen a continued trend of lackluster office investment sale activity compared to history. The lasting impact of the 2020 REET increase along with the impact from the pandemic has continued to stymie investment sale volumes with uncertainty remaining among market participants. That said, there has been a steady flow of smaller investment and owner-user office purchases fueled by repositioning among many local businesses. During the 2nd quarter, there were eight sales above the \$10 million mark closing in the region. Examples of the more significant transactions in Bellevue included transfers of the Northup Office Center at \$22.5M (\$535/s.f.), Corporate Campus East at \$62M (\$554/s.f.) and Spring District's Block 24 and GIX Buildings at \$200M (\$1,006/s.f.) and \$85M (\$859/s.f.), respectively. In Seattle, there were two significant sales including the transfer of 300 Pine for \$580M (\$753/s.f.) and sale of the newly completed and vacant Boren Office Lofts at \$119.1M (\$886/s.f.). Reported cap rates remain low. Total office sales volume for the quarter was \$1,269M+ (among 124 transactions) compared to \$464M last quarter and \$2,747.6M in the 4th quarter of 2020.



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BRIAN HATCHER

President & COO

206.296.9600

brian.hatcher@kidder.com

The information in this report was composed by the Kidder Mathews Valuation Advisory Group.

CHRIS BERGER, MAI

425.450.1175

chris.berger@kidder.com

KIDDER.COM

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