

MARKET TRENDS | SEATTLE

# OFFICE

4TH QUARTER  
2021

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

Year-over-year change

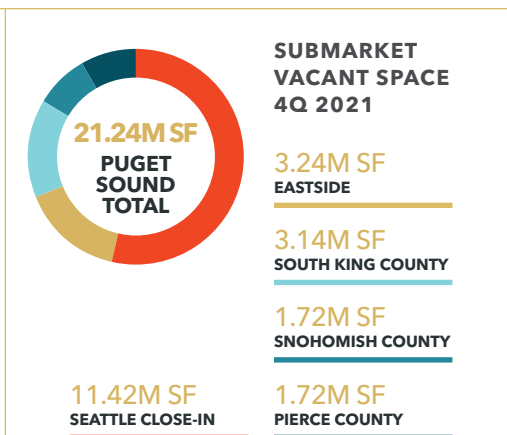
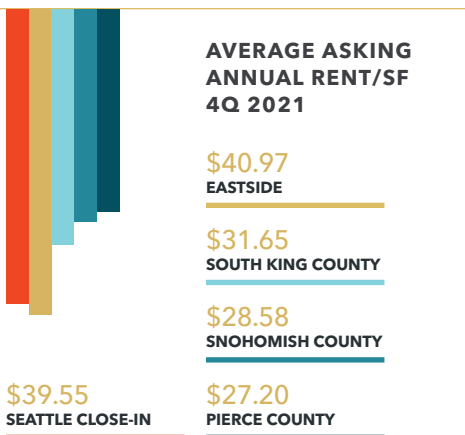
Over the 4th quarter 2021, the regional office market saw continued relief from the trend of rising vacancy and negative absorption since the onset of the pandemic. Regional office vacancy is currently 9.60%, down slightly from 9.61% last quarter and 9.66% at mid-year. While regional vacancy has inched down, the largest office market (Seattle) experienced a 14 bp increase in vacancy going from 11.27% last quarter, to 11.41% currently.

Conversely, the second largest market (Eastside) continues to post the lowest regional vacancy at 5.97%. Overall, the stabilizing to modestly decreasing vacancy over the past two quarters is welcome, as the previous six quarters had seen a 371 bp increase in vacancy, fueled by a rapid increase in sublease vacancy inventory and significant negative net absorption in the region. While the region posted negative net absorption of -3.08M+ s.f. during the first two quarters of 2021, we saw positive net absorption of 668K+ s.f. during the 3rd quarter and 883K+ s.f. in the 4th quarter. Sublet vacancy remains high at 18% of total vacancy inventory, but has dropped from 21% at mid-year 2021. Investment sales volume also strengthened in the second half of 2021 and there is an active owner-user market segment. The amount of new construction totals 16 major regional office projects, which are collectively 80% pre-committed. This is due to continued demand for close-in office space from the likes of Amazon, Google, Facebook and Microsoft.

While there has been improvement in the job market, until we have fully moved on from the pandemic, the regional office market will remain volatile. Looking forward to 2022, all eyes will be on local job growth and companies long-term employee positioning trends to repopulate offices, work from home or adopt a hybrid model. As for jobs, the region added 90,800 jobs, or a 4.3% increase over the past 12 months (November 2020 to November 2021). Total regional employment now stands at 2,180,000. While still not at pre-Covid levels, the region has recovered 204,300 of the 240,600 lost jobs. Puget Sound Economic Forecaster's December 2021 report forecasts total employment growth for 2021 at 2.6% and projects job growth in 2022 to be much higher at 5.7%

While the regional office market remains unsettled particularly in Seattle, and the state and counties continue masking requirements due to a resurgence of Covid 19 cases caused by the Omicron and Delta variants, the regional office market will continue to fluctuate. While the initial impacts of the pandemic sparked rising

continued on page 4



**4Q 2021 MARKET HIGHLIGHTS**

**REGIONAL OFFICE VACANCY** is currently 9.60%, down slightly from 9.61% last quarter and 9.66% at mid-year

**NET OFFICE ABSORPTION** over the quarter totaled 883,297 s.f.

**16 NEW OFFICE PROJECTS** under construction in the region

**80% OF THE OFFICE SPACE** under construction is pre-committed

## SEATTLE CLOSE-IN

**5 MAJOR OFFICE** construction projects in Seattle containing just under 1.5M s.f. with one project expected to be delivered in the 1st quarter 2022; 36% pre-committed.

**NO MAJOR OFFICE** deliveries during the 4th quarter; 7 deliveries for all of 2021 totaling 2.36M+ s.f.

**SEATTLE OFFICE VACANCY** is currently 11.41%, up 14 bps from last quarter's mark of 11.27% and up 304 bps from 8.37% one year ago.

**THE AVAILABILITY RATE** increased slightly over the 4th quarter to 15.2% from 15.0%.

**NET OFFICE ABSORPTION** over the quarter was negative, totaling -129,996 s.f., bringing negative year-to-date absorption for 2021 to -1.51M+ s.f. in Seattle. This compares to positive net office absorption of 285K s.f. for all of 2020.

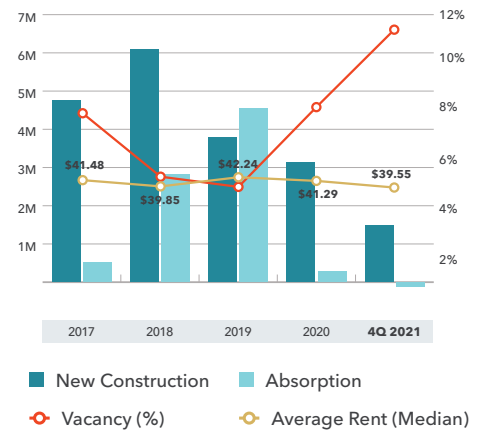
**LEASING ACTIVITY** was moderate over the quarter, with CoStar reporting 122 total deals at a total volume of 857K+ s.f. The CBD accounted for 46% of the total lease volume with 39 deals totaling 395K+ s.f.

**AVERAGE RENT QUOTES** in the Seattle CBD decreased slightly to \$44.94/s.f./yr, from \$45.17/s.f./yr last quarter.

**VACANCY** in the Seattle CBD ended the year at 15.5%, up from 15.0% last quarter. CBD availability decreased from 19.4% last quarter to 20.6% currently.

**PERIPHERAL SEATTLE SUBMARKETS** exhibited year-end 2021 vacancy rates of 6.9% in Ballard/U District, 3.2% for Lake Union, 5.3% in S Seattle and 5.1% in N Seattle/Northgate. Queen Anne/Magnolia sets the high mark at 17.6%.

## SEATTLE CBD / SURROUNDING AREA



**5 NOTABLE OFFICE SALES** over the quarter with the four largest including Cascadian at \$164.5M, NorthEdge at \$220M, Norton Building at \$147.2M+ and Fifth & Bell at \$118.7M+.

**AVERAGE RENT** for Seattle is \$39.55/s.f./yr at year-end 2021, down from \$40.00/s.f./yr last quarter.

## EASTSIDE REVIEW

**EASTSIDE OFFICE VACANCY** is 5.97% currently, essentially unchanged from 5.96% last quarter and up 35 bps from 5.62% a year ago. Eastside office inventory currently stands at 54.3M+ s.f.

**THE EASTSIDE AVAILABILITY RATE** increased over the quarter from 8.50% last quarter to 8.60% currently.

**NET EASTSIDE OFFICE ABSORPTION** during the 4th quarter was 800,614 s.f., topping the region. This brings Eastside net office absorption for 2021 to 842K+ s.f., compared to negative absorption of -155K+ s.f. in 2020.

**THERE ARE CURRENTLY** 10 major Eastside office projects under construction (excluding the approx 2.5M+ s.f. Microsoft expansion) collectively totaling 5.86M+ s.f.; of which 91% is pre-committed.

**THE CURRENT AMOUNT** of available new office construction to absorb is 527K+ s.f., which is manageable from a historic absorption perspective (541K+ s.f. annually-10 yr avg.).

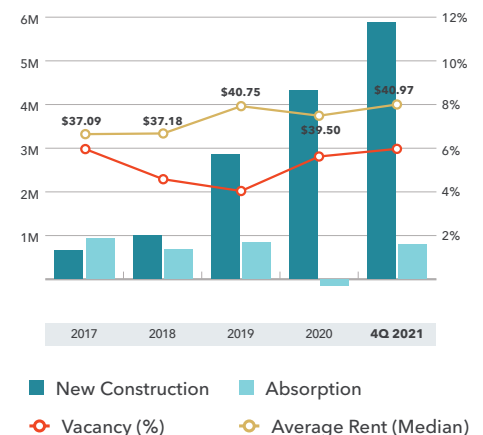
**STEADY EASTSIDE OFFICE LEASING** over the 4th quarter with CoStar reporting 113 deals totaling 800.1K+ s.f. in total volume.

**BELLEVUE'S CBD** office vacancy decreased to 6.9% from 7.3% last quarter. The average CBD rent quote is \$55.68/s.f./yr currently, essentially unchanged from \$55.66/s.f./yr last quarter.

**IN ADDITION TO** the projects underway, there were 3 office deliveries totaling 909.5K+ s.f. and one new construction start totaling 300K s.f. in Kirkland.

**VACANCY RATES** in key peripheral Eastside office submarkets remain very low at 2.9% and 4.5%, for Redmond and Kirkland, respectively.

## EAST KING COUNTY



**NOTEWORTHY 4Q 2021** sales include Riot Games (\$114.0M+), BioControl Systems (\$15.4M+), Bellevue Terrace (\$29.3M+) and Twilight Center (\$18.8M).

**THE AVERAGE RENT QUOTE** for the Eastside is currently \$40.97/s.f./yr, up \$0.27/s.f./yr from \$40.70/s.f./yr last quarter.

## SOUTH KING COUNTY REVIEW

**OFFICE VACANCY** in South King County remains highest in the region at 13.87%, down from 14.39% last quarter and 14.12% one year ago at the end of 2020.

**THE SOUTHEND** had 197.5K+ s.f. in positive net absorption during the 4th quarter 2021. This brings the year-end 2021 Southend absorption total to 84.2K+ s.f., compared to negative -95K+ s.f. for all of 2020.

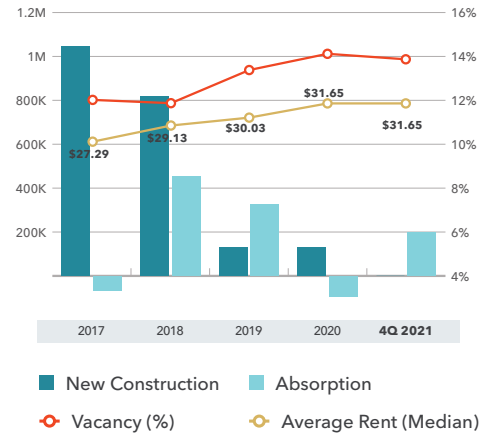
**CURRENT SUBMARKET VACANCIES** for Federal Way/Auburn and Renton/Tukwila remain high at 14.0% and 18.0%.

**ASIDE FROM** a municipal project in Federal Way, there are no major office projects currently under construction.

**54 OFFICE LEASE** transactions reported in the 4th quarter, totaling 150K+ s.f., or just under 2,800 s.f. average per deal. The average rent quote increased modestly over the quarter to \$31.65/s.f./yr.

**WITH 13.2% AVAILABILITY**, Southend vacancy is expected to remain high through the first half of 2022.

## SOUTH KING COUNTY



## SNOHOMISH COUNTY / NORTHEAST REVIEW

**THE NORTHEAST** office market has a current office inventory of 22.8M+ s.f. among 1,679 surveyed buildings, or an average size of 13.6K+ s.f.

**NORTHEAST OFFICE VACANCY** increased slightly from 7.41% last quarter to 7.51% currently, a change of 10 bps.

**THE AVAILABILITY RATE** decreased from 9.1% last quarter to 8.8% currently at year-end 2021.

**46 OFFICE LEASE** transactions over the 4th quarter, totaling 116.6K+ s.f., or just over 2,500 s.f. average size.

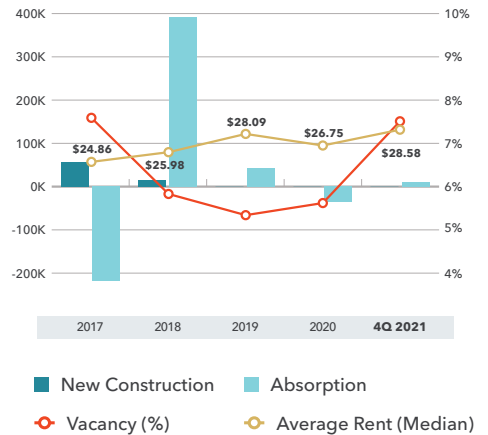
**AT AN AVERAGE** current quote of \$28.58/s.f./yr, this market is \$10.97/s.f./yr

more affordable than the current average rent quote in Seattle at \$39.55/s.f./yr.

**BOTHELL/KENMORE** submarket vacancy increased to 13.5% in the 4th quarter, a substantial increase from 7.1% at the start of the year. The Everett CBD continues to report very tight vacancy of 4.1% currently, up slightly from 3.8% last quarter.

**THE NORTHEAST OFFICE MARKET** should see long-term growth as businesses get squeezed out of pricier close-in markets and consider its appeal to local office tenants looking for affordability, housing proximity and future light rail connectivity.

## SNOHOMISH COUNTY



## PIERCE COUNTY REVIEW

**OFFICE VACANCY** in Pierce County is currently at 8.11%, down slightly from 8.17% last quarter. This compares to office vacancy of 5.94% in the 1st quarter 2021 and 5.25% at the end of 2020.

**ABOUT ONE THIRD** of the Pierce County office supply is in the Tacoma CBD which has a current 4th quarter vacancy rate of 11.9%, up from 10.8% last quarter. The CBD availability rate also increased slightly to 13.6%, from 13.4% last quarter.

**THE OVERALL** Pierce County availability rate decreased a modicum over the 4th quarter from 9.7% to 9.6% currently.

**NET ABSORPTION** for the quarter was positive at 4K+ s.f., which brings the

year-end 2021 net absorption to -561K+ s.f. which is on the heels of lackluster net absorption of 53K+ s.f. for all of 2020.

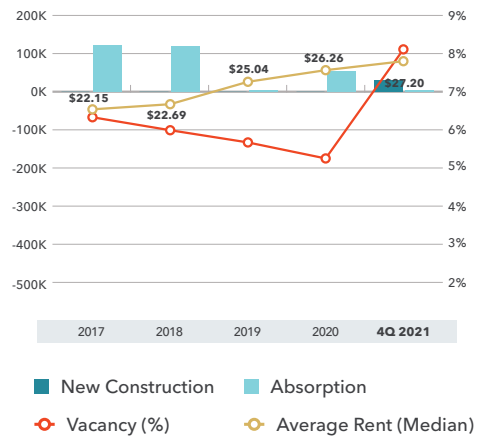
**LEASING ACTIVITY** over the 4th quarter included 25 deals, totaling 53K+ s.f. in total volume.

**SUBMARKET VACANCY** for Suburban Tacoma is low at 2.8%, compared to 3.2% last quarter, while office vacancy in Gig Harbor declined over the 4th quarter to 4.5% from 4.9% last quarter.

**THE AVERAGE** Pierce County rent quote increased at year-end 2021 to \$27.20/s.f./yr from \$26.93/s.f./yr last quarter.

**NO MAJOR OFFICE SALES** and one new construction start in Gig Harbor for 29K+ s.f.

## PIERCE COUNTY



vacancy (particularly sublease) and large amounts of negative net office absorption, vacancy has stabilized and we have seen two quarters of positive net absorption. New construction is 80% pre-committed and sales have been steady through year-end 2021. With expected healthy job growth in 2022 and steady tech demand, recent office metrics look encouraging.

### VACANT SPACE/VACANCY RATE

At year-end 2021, regional office inventory totals 221.1M+ s.f. Office vacancy remained essentially unchanged over the quarter, after seeing a modest decline in the 3rd quarter which reversed the upward vacancy trend from the six quarters prior. Current regional vacancy is 9.60%, down 1 bp from 9.61% last quarter. Despite modest improvement over the last two quarters, vacancy remains 190 bps higher than the 7.70% vacancy rate at year-end 2020 and 373 bps above the 5.87% rate at the end of 2019. Of the current vacancy inventory, 18% is from sublease space, well above the 11% mark at year-end 2019, but below 21% from two quarters ago. Three of the five regional market areas saw increases in vacancy over the 4th quarter, with only the Southend and Tacoma markets posting decreases. Seattle vacancy increased modestly from 11.27% last quarter to 11.41% currently. Eastside vacancy increased slightly from 5.96% last quarter to 5.97% currently, setting the regional low mark. The high vacancy is in the Southend at 13.87%. Tacoma vacancy is 8.11% and Northend vacancy is 7.51%. The slight drop in regional vacancy over the quarter is the result of positive net regional absorption in the 4th quarter (883.2K+ s.f.) on the heels of 668.3K+ s.f. last quarter, following -3.08M+ s.f. in negative net absorption the first two quarters of 2021. Regional net absorption for all of 2021 is negative at -1.53M+ s.f. with continued high historical sublet vacancies in Seattle (2.42M+) and the Eastside (724K+). Some independent surveys are tracking sublet inventories at higher levels. Seattle posted the largest year-end negative net absorption in 2021 at -1.51M+ s.f. in contrast to positive net absorption of 842K+ s.f. on

the Eastside. The regional availability rate ended the quarter at 12.18%, down from 12.27% last quarter and well above 11.06% a year ago.

### NEW CONSTRUCTION ACTIVITY

At year-end 2021, there are 16 major office projects under construction in the region, most in Seattle and the Eastside. There were three notable Eastside office deliveries in the 4th quarter, adding 909.5K+ s.f. of new office inventory to the region's supply. The largest delivery was the Amazon leased 1001 Office Towers in the Bellevue CBD at 714K s.f. Other smaller Eastside deliveries included Mercer Park and 16225 NE 87th St. Significant new construction starts over the quarter included 701 Dexter in Seattle (226K+ s.f.) and Google's Kirkland Urban South project (300K s.f.) in Kirkland. Of the regional office projects under construction, 5 are in Seattle totaling 1.47M+ s.f. (36% pre-committed) and 10 are on the Eastside totaling 5.86M+ s.f. (91% pre-committed). There is a small spec office project also underway in Gig Harbor. The three largest regional projects are all Amazon committed towers in Bellevue, including Vulcan's 555 Tower (940K s.f.), West Main (1.02M+ s.f.) and Bellevue 600 (999K+ s.f.). It is also noted that Microsoft is underway with their 2.5M s.f. campus expansion, which is not shown in the regional construction stats. Other proposed office projects are planned in both the Eastside and Seattle, but it remains to be seen which will push ahead in 2022. Fortunately for the region, the 16 projects underway are collectively 80% pre-committed.

### RENT FORECAST

Four of the five market areas saw modest increases in average rent quotes over the 4th quarter. Seattle was the only market that posted a decline in average rent quote going from \$40.00/s.f./yr last quarter to \$39.55/s.f./yr currently, a 1.1% decrease. The Eastside, which has the highest average rent in the region at \$40.97/s.f./yr, saw its average increase from \$40.70/s.f./yr last

quarter, a 0.7% bump. The Northend rent quote increased from \$27.82/s.f./yr last quarter to \$28.58/s.f./yr currently, while the Southend improved from \$30.48/s.f./yr last quarter to \$31.65/s.f./yr currently. Pierce County saw its average rent quote go up nominally from \$26.93/s.f./yr to \$27.20/s.f./yr, a jump of 1.0%. Rent quotes are reported on a gross basis. The rent floor is set by Pierce County at its current rent quote of \$27.20/s.f./yr. At year-end 2021, the Bellevue CBD has the highest quoted average rent of any submarket at \$55.68/s.f./yr. The average rent quote for the Seattle CBD is \$44.94/s.f./yr with the Tacoma CBD at \$27.22/s.f./yr, less than half the Bellevue CBD rate.

### INVESTMENT MARKET

The first three quarters of 2021 saw improving regional office investment sale activity. Activity remained steady in the 4th quarter, despite the lasting impacts of the 2020 REET increase and some remaining uncertainties among some market participants. There has also been a steady flow of smaller investments and owner-user office purchases fueled by the repositioning among many local businesses. During the 4th quarter, ten office sales closed above the \$15 million mark in the region. Most of the significant transactions occurred in Seattle. These include the transfer of Fifth & Bell at \$118.7M+ (\$589/s.f.), Norton Building at \$147.2M+ (\$597/s.f.), NorthEdge at \$220M (\$1,043/s.f.), Cascadian at \$164.5M (\$779/s.f.) and Northgate Executive Center at \$72.3M (\$360/s.f.). For the Eastside, the most significant sale was the tenant purchase of Riot Games on Mercer Island for \$114M+ (\$733/s.f.). Smaller Eastside sales included the transfers of BioControl Systems, Bellevue Terrace and Twilight Center. North Creek Place in Bothell also sold for \$27.3M (\$290/s.f.). Reported cap rates remain low. Total office sales volume for the quarter was \$1,443M+ (among 128 transactions) compared to \$2,598M+ last quarter and \$2,747.6M in the 4th quarter of 2020.



Kidder Mathews is the largest independent commercial real estate firm on the West Coast, with 900 real estate professionals and staff in 21 offices in Washington, Oregon, California, Nevada, and Arizona. Kidder Mathews offers a complete range of brokerage, appraisal, property management, consulting, project and construction management, and debt & equity finance services for all property types. The firm performs \$8B in transactions, manages over 64M square feet of space, and conducts over 1,800+ appraisals annually.

**BRIAN HATCHER**  
President & COO  
206.296.9600  
[brian.hatcher@kidder.com](mailto: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](mailto:chris.berger@kidder.com)

[KIDDER.COM](http://KIDDER.COM)

This information supplied herein is from sources we deem reliable. It is provided without any representation, warranty or guarantee, expressed or implied as to its accuracy. Prospective Buyer or Tenant should conduct an independent investigation and verification of all matters deemed to be material, including, but not limited to, statements of income and expenses. CONSULT YOUR ATTORNEY, ACCOUNTANT, OR OTHER PROFESSIONAL ADVISOR.