

# MARKET TRENDS | SEATTLE

# OFFICE

1ST QUARTER  
2022

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

Quarter-over-quarter change

The end of the 1st quarter 2022 is the two-year point since the onset of the pandemic and we are seeing some lingering impacts on the regional office market. The 1Q 2022 office data shows a quarterly spike in regional vacancy going from 9.60% at year-end 2021 to 9.94% currently. This comes after two consecutive quarters of vacancy decline.

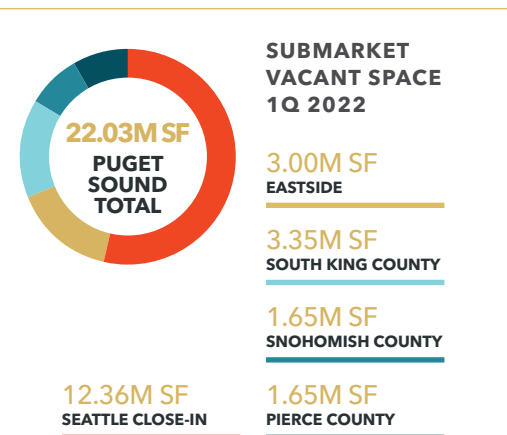
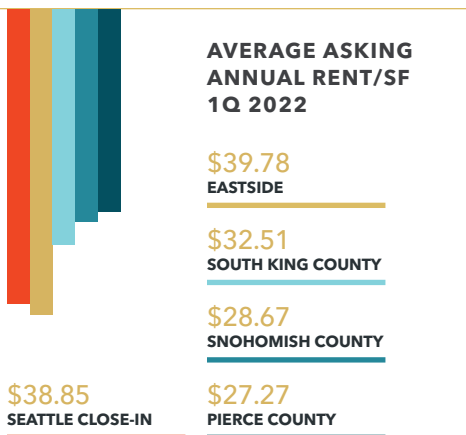
Looking further back, the change in vacancy over the past two years when Covid 19 first hit indicates a 399 bp increase over the 1st quarter 2020 vacancy mark when it was 5.95%. The regional office market also continues the ongoing trend of negative net office absorption after posting -891.7K+ s.f. in negative net absorption for the 1st quarter 2022 on the heels of -1.534.7M+ s.f. of negative net absorption for 2021. The percentage of sublet vacancy continues to be high compared to historical levels at 16% currently, but has declined from the peak one year ago when it topped out at 22%. The largest office market (Seattle) in the region continues to see rising vacancy levels with a 92 bp increase over the quarter bringing the vacancy rate to 12.33% currently. Conversely, the second largest market (Eastside) continues to post the lowest regional vacancy at a healthy mark of 5.50%. Investment sale volumes remained steady over the 1st quarter 2022 carrying forward a trend of strengthened sales activity in the second half of 2021. The amount of new construction totals 19 major regional office projects which are collectively 76% pre-committed.

While there has been improvement in the regional job market, the office market remains volatile. Looking further ahead into 2022, eyes will continue to be on local job growth and the long-term positioning trends of companies

as they begin to repopulate offices, work from home or adopt hybrid models. Inflation also remains a concern with the December 2021 seasonally adjusted annual Seattle CPI increasing by 7.6%, compared to 7.1% for the national average index. The region has also now recovered many of the lost jobs from Covid, but staffing shortages present the biggest current challenge in the region. Puget Sound Economic Forecaster's March 2022 report forecasts total employment growth for 2022 at 3.5% with the projected CPI increase at 5.2%.

While the regional office market remains unsettled particularly in Seattle, masking requirements have largely been lifted and Covid 19 cases have dropped rather significantly as regional office market trends continue to fluctuate. Looking forward, 2022 will be telling as to how the regional office market transitions out of the pandemic. Indices to monitor will include vacancy levels (including percentage sublease vacancy), net office absorption, inflation and pre-commitment levels of new construction (currently at 76% regionwide).

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**1Q 2022 MARKET HIGHLIGHTS**

**REGIONAL OFFICE VACANCY** increased from 9.60% last quarter to 9.94%

**NEGATIVE NET OFFICE ABSORPTION** for the 1st quarter 2022 at -891.7K+ for the region

**±7.53M SF** of new office space under construction among 19 regional projects

**76% OF THE OFFICE SPACE** under construction is pre-committed

## SEATTLE CLOSE-IN

**7 MAJOR OFFICE** construction projects in Seattle containing 1.58M+ s.f. with two projects scheduled for delivery in the 2nd quarter 2022; 23% pre-committed.

**ONE MAJOR OFFICE** delivery over the quarter was the 528K+ s.f. Dexter Yard project.

**SEATTLE OFFICE VACANCY** is currently 12.33%, up 92 bps from last quarter's mark of 11.41% and up 196 bps from 10.37% one year ago.

**THE AVAILABILITY RATE** increased sharply over the quarter to 16.8% from 15.2% indicating vacancy will likely remain high near-term.

**NET OFFICE ABSORPTION** over the quarter was negative totaling -726,405 s.f. compared to negative net absorption of -1.51M+ s.f. in Seattle for all of 2021.

**LEASING ACTIVITY** was steady over the quarter with CoStar reporting 151 total

deals at a total volume of 768K+ s.f. The CBD accounted for 36% of the total lease volume with 59 deals totaling 277K+ s.f.

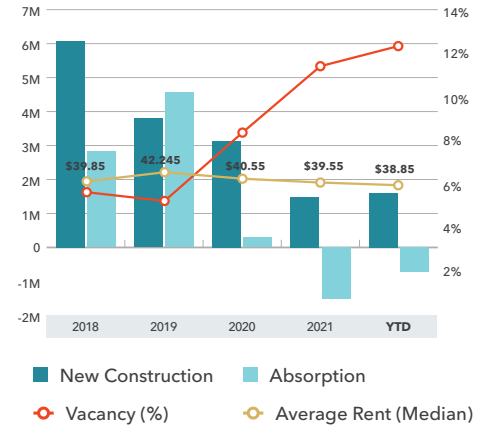
**AVERAGE RENT QUOTES** in the Seattle CBD decreased to \$44.52/s.f./yr, from \$44.94/s.f./yr last quarter.

**SEATTLE CBD VACANCY** ended the 1st quarter 2022 at 16.1%, up from 15.2% at the end of 2021. CBD availability also increased from 20.6% at the end of 2021 to 22.7% currently.

**PERIPHERAL SEATTLE SUBMARKETS** exhibited 1st quarter vacancy rates of 5.7% in Ballard/U District, 7.4% for Lake Union, 6.3% in S Seattle and 4.7% in N Seattle/Northgate. Queen Anne/Magnolia sets the high mark at 18.0%.

**4 NOTABLE OFFICE SALES** over the quarter including 425 Pontius at \$39.5M,

## SEATTLE CBD / SURROUNDING AREA



Lakefront Blocks at \$802M, Second & Seneca at \$320.2M and 1101 2nd Ave at \$61.8M.

**AVERAGE RENT** for Seattle is \$38.85/s.f./yr at the 1st quarter 2022, down from \$39.55/s.f./yr last quarter.

## EASTSIDE REVIEW

**EASTSIDE OFFICE VACANCY** is 5.50% currently, down 47 bps from 5.97% last quarter and down 104 bps from 6.54% a year ago. Eastside office inventory currently stands at 54.6M+ s.f.

**THE EASTSIDE AVAILABILITY RATE** has remained unchanged from 8.60% last quarter.

**NET EASTSIDE OFFICE ABSORPTION** during the quarter was a lackluster 22,204 s.f., although second highest in the region behind Tacoma. Total net office absorption for all of 2021 to 842K+ s.f., compared to negative absorption of -155K+ s.f. in 2020.

**THERE ARE CURRENTLY** 11 major Eastside office projects under construction (excluding the approx 2.5M+ s.f. Microsoft expansion) collectively totaling 5.92M+ s.f.; of which 90% is pre-committed.

**THE CURRENT AMOUNT** of available new office construction to absorb is 586K+ s.f., which is manageable from a historic absorption perspective (541K+ s.f. annually-10 yr avg.).

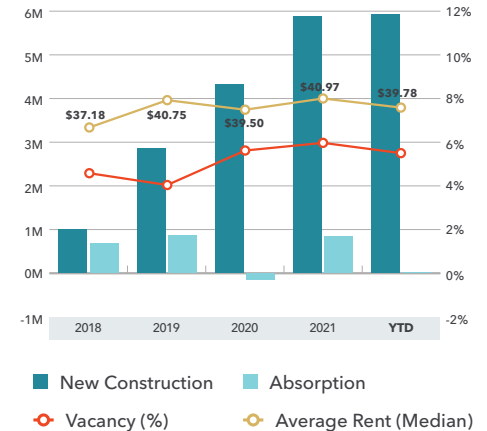
**MODERATE EASTSIDE OFFICE LEASING** over the quarter with CoStar reporting 116 deals totaling 567K+ s.f. in total volume.

**BELLEVUE'S CBD** office vacancy decreased to 5.7% from 6.9% last quarter. The average CBD rent quote is \$55.15/s.f./yr currently, down 1% from \$55.68/s.f./yr last quarter.

**IN ADDITION TO** the projects underway including one new start, there were no notable office deliveries over the quarter.

**VACANCY RATES** in key peripheral Eastside office submarkets remain very low at 1.8% and 6.4%, for Redmond and Kirkland, respectively compared to 2.9% and 4.5% last quarter, respectively.

## EAST KING COUNTY



**NOTEWORTHY 1Q 2022** include Bel-Spring 500 (\$45.5M+) and Kirkland Systema (\$40M).

**THE AVERAGE RENT QUOTE** for the Eastside is currently \$39.78/s.f./yr, down \$1.19/s.f./yr from \$40.97/s.f./yr last quarter.

## SOUTH KING COUNTY REVIEW

**OFFICE VACANCY** in South King County remains highest in the region at 14.78%, up from 13.87% last quarter, but below the mark of 14.90% one year ago at the start of 2021.

**THE SOUTHEND** posted negative net absorption of -224.3K+ s.f. during the 1st quarter 2021. This compares to year-end 2021 net absorption of 84.2K+ s.f. and negative -95K+ s.f. for all of 2020.

**CURRENT SUBMARKET VACANCIES** for Federal Way/Auburn and Renton/Tukwila remain high at 14.0% and 21.2%.

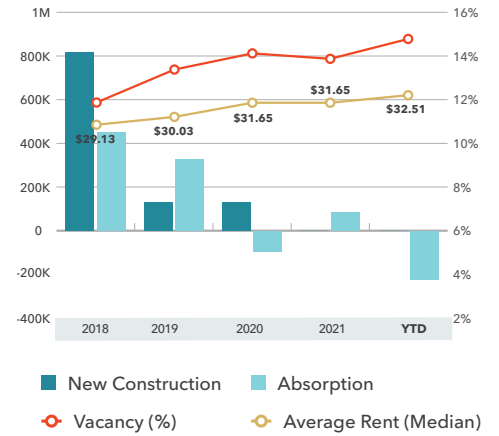
**NO MAJOR** office projects currently under construction.

**65 OFFICE LEASE** transactions reported in the 1st quarter 2022 totaling 352.9K+ s.f., or just over 5,400 s.f. average per deal. The average rent quote increased modestly over the quarter to \$32.51/s.f./yr.

**KENT BUSINESS CAMPUS** sold for \$21.2+M (\$196/s.f.) at a reported cap rate of 6.4%.

**WITH 15.3% AVAILABILITY**, vacancy is expected to remain high through the first half of 2022.

## SOUTH KING COUNTY



## SNOHOMISH COUNTY / NORTHEND REVIEW

**THE NORTHEND** office market has a current office inventory of 22.8M+ s.f. among 1,698 surveyed buildings, or an average size of 13.5K+ s.f.

**NORTHEND OFFICE VACANCY** decreased from 7.51% last quarter to 7.23% currently, a change of 28 bps.

**THE AVAILABILITY RATE** decreased from 8.8% last quarter to 8.5% currently at the 1st quarter 2022.

**49 OFFICE LEASE** transactions over the quarter, totaling 110.1K- s.f., or just over 2,200 s.f. average size.

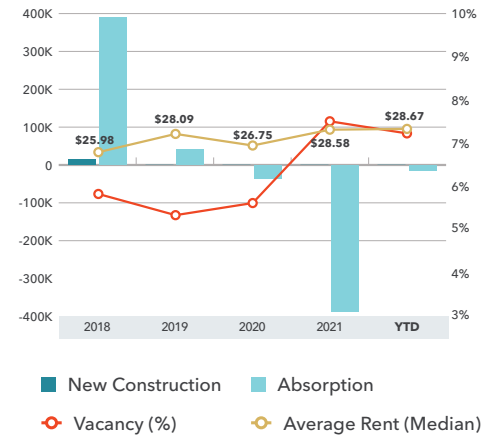
**AT AN AVERAGE** current rent quote of \$28.67/s.f./yr, this market is \$11.11/s.f./yr

more affordable than the current average Eastside rent quote of \$39.78/s.f./yr.

**BOTHELL/KENMORE** submarket vacancy increased to 13.8% in the 1st quarter, a substantial increase from 7.1% on year ago. The Everett CBD continues to report tight vacancy of 4.0% currently, down slightly from 4.1% last quarter.

**THE NORTHEND 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 currently stands at 7.82%, down from 8.11% last quarter, but well above the vacancy mark of 5.94% one year ago.

**ABOUT ONE THIRD** of the Pierce County office supply is in the Tacoma CBD which has a current 1st quarter 2022 vacancy rate of 10.3%, down from 11.9% last quarter. The CBD availability rate decreased to 11.8%, from 13.6% last quarter.

**THE OVERALL** Pierce County availability rate decreased over the 1st quarter from 9.6% to 8.7% currently.

**NET ABSORPTION** for the 1st quarter 2022 was positive at 51.3K+ s.f. This

compares to year-end 2021 negative net absorption of -561K+ s.f. and lackluster net absorption of 53K+ s.f. in 2020.

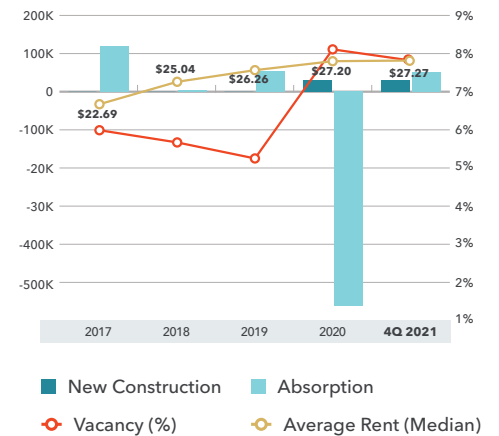
**LEASING ACTIVITY** over the 1st quarter 2022 included 43 deals totaling 80.8K+ s.f. in total volume.

**SUBMARKET VACANCY** for Suburban Tacoma is low at 2.9% compared to 2.8% last quarter while office vacancy in Gig Harbor increased over the quarter to 5.6% from 4.5% last quarter

**THE AVERAGE** Pierce County rent quote increased to \$27.27/s.f./yr in the 1st quarter from \$27.20/s.f./yr last quarter.

**COLUMBIA BANK CENTER** sold for \$58.3M (\$340/s.f.) and 6.3% cap rate in January 2022. One office project under construction in Gig Harbor at 29K+ s.f.

## PIERCE COUNTY



## VACANT SPACE/VACANCY RATE

At the end of the 1st quarter 2022, regional office inventory totals 221.6M+ s.f. Office vacancy increased over the quarter to 9.94% currently from 9.60% at year-end 2021, and 9.02% one year ago. The current uptick in vacancy erases two straight quarters of declining vacancy after an upward vacancy trend during the six quarters prior. Furthermore, current vacancy is 415 bps higher than the ten-year low vacancy mark of 5.79% set nearly three years ago in the 2nd quarter 2019. Of the current vacancy inventory, 16% is from sublease space which is a reduction from 18% last quarter, but well above the 11% mark at year-end 2019. Three of the five regional market areas saw decreases in vacancy over the 1st quarter with both Seattle and the Southend markets posting increases. Seattle vacancy increased sharply by 92 bps from 11.41% last quarter to 12.33% currently. The Southend continues to post the highest vacancy in the region at 14.78%, an increase of 91 bps from 13.87% last quarter. Conversely, Eastside vacancy decreased from 5.97% last quarter to 5.50% currently, setting the regional low mark. Tacoma vacancy is 7.82% and Northend vacancy is 7.23%, both declining over the quarter. The slight increase in regional vacancy over the quarter is on the heels of negative regional net absorption during the 1st quarter at -891.7K+ s.f. following negative regional net absorption of -1.53M+ s.f. for 2021 and continued high historical sublet vacancy (3.42M+ s.f.) bolstered by Seattle, the Eastside and Tacoma. Some independent surveys are tracking sublet inventories at higher levels. Over the quarter, Seattle posted the largest negative net absorption of -726K+ s.f. with the Southend at -224K+ s.f. The regional availability rate ended the quarter at 13.00%, up from 12.18% last quarter and well above 8.21% from two years ago.

## NEW CONSTRUCTION ACTIVITY

At the end of the 1st quarter 2022, there are 19 major office projects under construction in the region, mostly in Seattle and the

Eastside. There was one notable Seattle office delivery (Dexter Yard) over the quarter adding 528K+ s.f. of new office inventory to the region. Significant new construction starts over the quarter included two smaller projects in Seattle and two larger projects, Washington 1000 (531K+ s.f.) and 570 Mercer-Bldg 2 (224K s.f.). There was one new construction start on the Eastside (Kirkland Ascent) at 57K s.f. Of the regional office projects under construction, 7 are in Seattle totaling 1.58M+ s.f. (23% pre-committed) and 11 are on the Eastside totaling 5.92M+ s.f. (90% pre-committed). There is also a small spec office project underway in Gig Harbor. The three largest regional projects are 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 also under construction with a 2.5M s.f. campus office expansion which is not shown in the regional construction stats. Other proposed office projects are planned for both the Eastside and Seattle with some expected to push forward in 2022. Fortunately for the region, of the 19 projects underway, 76% of the space is pre-committed.

## RENT FORECAST

Three of the five market areas saw modest increases in average rent quotes over the 1st quarter 2022. Seattle and the Eastside both posted declines in average rent quotes. The Seattle quote dropped from \$39.55/s.f./yr last quarter to \$38.85/s.f./yr currently, a 1.8% decline. The Eastside, which has the highest average rent in the region at \$39.78/s.f./yr, saw the average quote decrease from \$40.97/s.f./yr last quarter, a 2.9% drop. The largest increase was in the Southend where the rent quote increased from \$31.65/s.f./yr last quarter to \$32.51/s.f./yr currently, a 2.7% jump. Increases in the other two markets were nominal with the Northend improving from \$28.58/s.f./yr last quarter to \$28.67/s.f./yr currently while Pierce County saw the average rent quote increase a modicum to \$27.27/s.f./yr from \$27.20/s.f./yr. Rent quotes are reported on a gross basis. The

rent floor is set by Pierce County. At the end of the 1st quarter 2022, the Bellevue CBD had the highest quoted average rent of any submarket at \$55.15/s.f./yr. The average rent quote for Seattle CBD is \$44.52/s.f./yr with Tacoma CBD at \$27.70/s.f./yr, about half the Bellevue CBD rate.

## INVESTMENT MARKET

2021 saw improving regional office investment sale activity. Activity remained steady in the 1st quarter 2022 despite the lasting impacts of the 2020 REET increase and lingering pandemic uncertainties among certain market participants. Although trophy assets remain in high demand, there has been a steady flow of smaller investment and owner-user office transactions fueled by the repositioning among many local businesses. During the 1st quarter, 9 office sales closed above the \$20 million mark in the region. Four of these significant transactions occurred in Seattle and two in the Eastside. Seattle sales included the transfer of 425 Pontius at \$39.5M+ (\$525/s.f.), Lakefront Blocks at \$802M+ (\$1,263/s.f.), Second & Seneca at \$320.2M (\$729/s.f.) and 1101 2nd Avenue Building at \$61.8M (\$729/s.f.). For the Eastside, the significant sales included Bel-Spring 500 in Bellevue for \$45.5M+ (\$495/s.f.) and Kirkland Systema at \$40M+ (\$356/s.f.). Other notable regional sales included the transfers of Canyon Pointe in Bothell to Alexandria for \$72.5M (\$415/s.f.), the sale of Columbia Bank Center in Tacoma for \$58.3M (\$340/s.f.) and the transfer of Kent Business Campus at \$21.2M+ (\$196/s.f.). Reported cap rates remain low. Total office sales volume for the quarter was \$1,667M+ (among 115 transactions) compared to \$1,443M+ last quarter and \$2,598M+ the quarter prior.



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