

MARKET TRENDS | SEATTLE

OFFICE

4TH QUARTER
2022

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

Quarter-over-quarter change

At year-end 2022, the regional office market posted an increase in vacancy going from 10.43% last quarter to 10.52% currently, an increase of 9 bps.

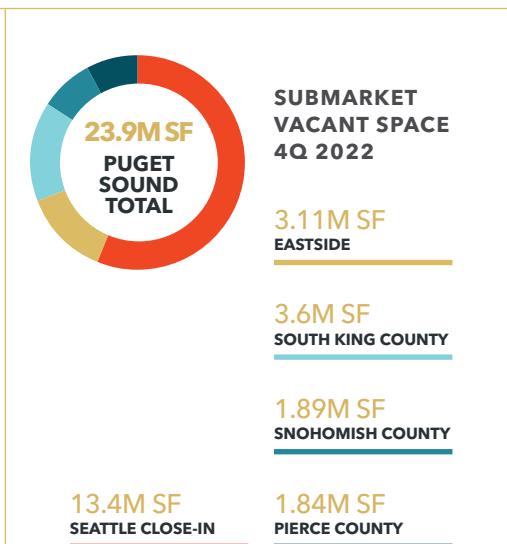
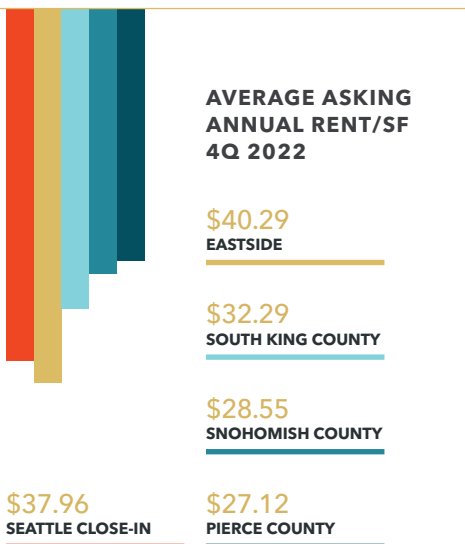
The office market has now seen a rise in vacancy for 10 of the last 12 quarters with a 473 bp upward swing in office vacancy from the 2nd quarter 2019 to the current 4th quarter 2022 vacancy mark. One reason for the surging vacancy is the regional office market continues to post negative net office absorption figures. At year-end 2022, the region experienced negative net absorption of -1.442M+ s.f. which is on the heels of -1.534M+ s.f. in negative net absorption for 2021. The percentage of sublet vacancy also continues to be high at 16%, but is a decline from its peak over a year ago when it topped out at 22%. In the two largest markets, Seattle continues to see vacancy spike with a 20 bp increase in vacancy over the quarter going to 12.99%. The Eastside market continues to post the lowest regional vacancy at 5.56%, although it is up 11 bps from last quarter's mark of 5.45%. Investment sales continued to slow in the 4th quarter and the amount of new regional construction currently totals 23 major office projects, collectively 70% pre-committed.

Despite strong job growth in 2022, the regional economy faces a number of challenges heading into 2023 especially with regional inflation levels being above national averages. The Fed has further raised target rates

by 125 basis points over the 4th quarter pushing them between 4.25% and 4.50% to help tame inflation. At the end of fiscal 2022, per the Puget Sound Economic Forecaster, regional CPI was 8.9% with forecast inflation of 4.9% in 2023, 2.5% in 2024 and 2.0% for 2025. The tech sector (which grew roughly 6.4% in jobs over 2022) has seen recent layoffs, hiring freezes and office closures by some firms leading to a halt in construction for several current construction projects regionally. Total regional employment growth was 5.2% for 2022 per the Economic Forecaster. For 2023 and 2024, job growth is forecast at 0.8% in 2023 and 0.7% in 2024. The region also continues to struggle with staffing shortages heading into 2023.

The regional office market clearly remains unsettled and highly volatile, particularly in Seattle. Looking forward, future office demand remains a big question. Vacancy continues to rise and net absorption has been substantially negative. Early

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4Q 2022 MARKET HIGHLIGHTS

REGIONAL OFFICE VACANCY increased from 10.43% last quarter to 10.52%

NEGATIVE NET OFFICE ABSORPTION for the 4th quarter 2022 is -102.2K+ for the region

9.11M+ SF of new office space under construction among 23 regional projects

70% OF THE OFFICE SPACE under construction is pre-committed

TWO OFFICE SALES above \$20M over the quarter

SEATTLE CLOSE-IN

NINE major speculative office construction projects underway in Seattle containing 1.81M+ s.f. with two projects scheduled for 1st quarter 2023 delivery; minimally pre-committed.

SEATTLE OFFICE VACANCY is currently 12.99%, up 20 bps from last quarter's mark of 12.79% and up 158 bps from 11.41% one year ago.

THE AVAILABILITY RATE increased over the quarter to 18.3% from 17.3% indicating vacancy will likely rise above its current level near-term.

NET OFFICE ABSORPTION over the quarter was negative totaling -145,100 s.f. bringing the YTD 2022 total to -1.50M+ s.f., compared to essentially the same negative net absorption of -1.51M+ s.f. in 2021.

LEASING ACTIVITY was moderate over the quarter with CoStar reporting 96 total deals at a total volume of 609.1K+ s.f. The CBD accounted for about half of the total lease volume with 28 deals totaling 302.6K+ s.f.

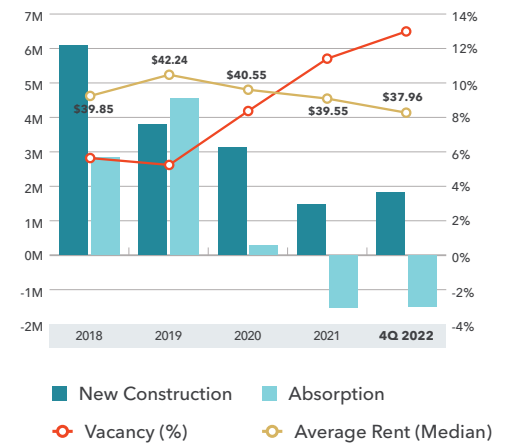
TWO office projects planned for delivery in Q1 2022.

AVERAGE RENT QUOTES in the Seattle CBD decreased to \$43.97/s.f./yr, from \$44.16/s.f./yr last quarter.

SEATTLE CBD VACANCY ended 2022 up from 18.9% last quarter to 19.2% currently. The CBD availability rate also increased from 24.4% last quarter to 26.0% currently.

PERIPHERAL SEATTLE SUBMARKETS exhibited year-end 2022 vacancy rates of 4.7% in Ballard/U District, 7.3% for Lake Union, 6.5% in S Seattle and 5.3%

SEATTLE CBD / SURROUNDING AREA



in N Seattle/Northgate showing mostly downward vacancy trends. Queen Anne/Magnolia remains the high mark at 14.7%.

AVERAGE RENT in Seattle is \$37.96/s.f./yr for year-end 2022, down from \$38.08/s.f./yr last quarter.

EASTSIDE REVIEW

EASTSIDE OFFICE VACANCY is 5.56% currently, up modestly from 5.45% last quarter and down 41 bps from 5.97% a year ago. Eastside office inventory currently stands at 55.9M+ s.f.

THERE ARE 14 MAJOR Eastside office projects under construction (not including the 2.5M+ s.f. Microsoft campus expansion) collectively totaling 7.3M+ s.f.; with 86% pre-commitment.

EASTSIDE AVAILABILITY INCREASED slightly from 11.60% last quarter to 11.70% currently, up sharply from 8.60% a year ago.

NET EASTSIDE OFFICE ABSORPTION over the quarter was negative at -101,551 s.f. bringing year-end 2022 net absorption to negative -87.3K+ s.f., compared to 842K+ s.f. for year-end 2021 and negative absorption of -155K+ s.f. in 2020.

THE CURRENT AMOUNT of available new available Eastside office construction to absorb is 1.054M+ s.f., compared to historic annual absorption of 475K+ s.f. over the last 10 years.

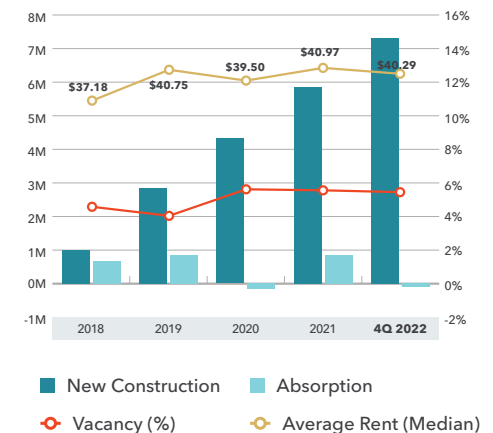
EASTSIDE OFFICE LEASING over the quarter per CoStar reports 83 deals totaling 609.6K+ s.f. in total volume.

BELLEVUE'S CBD office vacancy decreased slightly to 5.8% from 6.0% last quarter. The average CBD rent quote is \$53.25/s.f./yr currently, up 2.1% from \$52.16/s.f./yr last quarter.

FIVE office projects planned for delivery in Q1 2022.

VACANCY RATES in key peripheral Eastside office submarkets remain very low at 2.8% and 5.4%, for Redmond and Kirkland, respectively compared to 1.6% and 5.5% last quarter, respectively.

EAST KING COUNTY



TWO NOTEWORTHY 4Q 2022 office sales on the Eastside include Abossein Building at \$10.3M and Belle View Office Park at \$28M, both in Bellevue.

THE AVERAGE RENT QUOTE for the Eastside is currently \$40.29/s.f./yr, up \$0.80/s.f./yr from \$39.49/s.f./yr last quarter, but down \$0.68/s.f./yr from \$40.97/s.f./yr one year ago.

SOUTH KING COUNTY REVIEW

OFFICE VACANCY in South King County remains the highest in the region at 15.78%, trending downward over the quarter from 17.15% last quarter. It is 191 bps above the vacancy rate of 13.87% from one year ago.

OVER THE 4TH QUARTER, the Southend posted positive net absorption of 311,002 s.f. This brings the YTD 2022 Southend net absorption total to 413.8K+ s.f., highest of all five market areas and above the year-end 2021 total of 84.2K+ s.f.

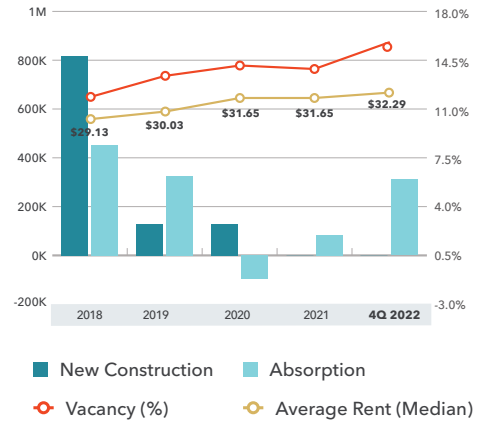
CURRENT SUBMARKET VACANCIES for Federal Way/Auburn and Renton/Tukwila remain high at 13.6% and 23.8%.

A LACKLUSTER 28 office lease transactions reported in the 4th quarter 2022 totaling 96K+ s.f., averaging just under 6,500 s.f. per deal. The average rent quote increased slightly over the quarter to \$32.29/s.f./yr.

ONE significant Southend sale of note over the quarter was the Children's Hospital purchase of multiple office buildings for \$84M in Renton.

WITH 9.1% AVAILABILITY, Southend vacancy is expected to continue declining in early 2023.

SOUTH KING COUNTY



SNOHOMISH COUNTY / NORTHEAST REVIEW

THE NORTHEAST office market has a current office inventory of 23M+ s.f. among 1,709 surveyed office buildings, an average size of 13.5K+ s.f.

NORTHEAST OFFICE VACANCY increased from 7.39% last quarter to 8.22% currently, a change of 83 bps.

59 OFFICE LEASE TRANSACTIONS over the quarter, totaling 148.3K+ s.f., or 2,500 s.f. average size.

THE AVAILABILITY RATE increased from 9.2% last quarter to 9.8% currently at the end of 2022.

AT THE CURRENT AVERAGE RENT quote of \$28.55/s.f./yr, this market is \$11.74/s.f./yr more affordable than the

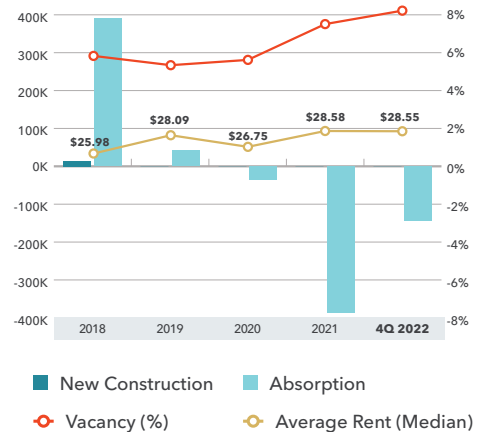
current average Eastside rent quote of \$40.29/s.f./yr.

ONE NOTEWORTHY 4Q 2022 OFFICE; the Everett Mall Office Park purchase for \$14.3M.

BOTHELL/KENMORE submarket vacancy increased over the 4th quarter to 14.2% from 10.9% last quarter. The Everett CBD saw vacancy decline slightly from 7.6% last quarter to 7.0% currently, a downward shift of 60 bps.

THE NORTHEAST office market should see long-term growth considering its appeal to tenants looking for affordability and future light rail connectivity.

SNOHOMISH COUNTY



PIERCE COUNTY REVIEW

OFFICE VACANCY in Pierce County currently stands at 8.48%, up from 8.16% last quarter and the vacancy mark of 8.11% from one year ago.

THE OVERALL Pierce County availability rate decreased at year end from 8.8% last quarter to 10.3% currently.

ABOUT ONE THIRD of the Pierce County office supply is in the Tacoma CBD which has a current year-end 2022 vacancy rate of 9.8%, unchanged from last quarter. The CBD availability rate increased from 10.9% last quarter to 13.9% currently.

NET ABSORPTION for the 4th quarter 2022 was negative at -23.8K+ s.f.,

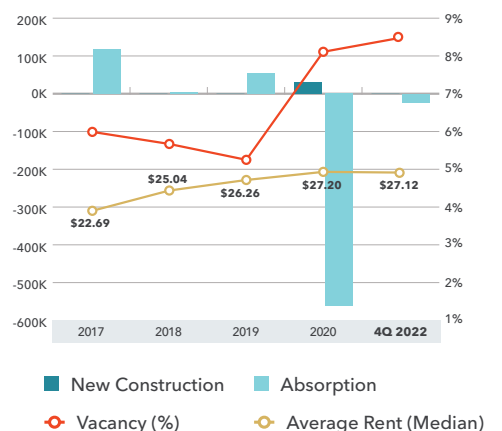
bringing the year-end 2022 net absorption total to 40.5K+ s.f. This compares to year-end 2021 negative net absorption of -561K+ s.f.

LEASING ACTIVITY over the quarter included 35 deals totaling 88.2K+ s.f. in total volume.

THE AVERAGE Pierce County rent quote decreased from \$27.67/s.f./yr in the 3rd quarter to \$27.12/s.f./yr currently.

SUBMARKET VACANCY for Suburban Tacoma remains low at 3.8% compared to 3.2% last quarter while vacancy in Gig Harbor increased at year-end to 6.9%, from 5.7% last quarter.

PIERCE COUNTY



2023 will be telling as to how changing corporate requirements will dictate work from home/in office policies, office layouts and office employee densities. Indices to monitor are vacancy (including percentage sublease vacancy), net office absorption, inflation and pre-commitment levels for new construction (currently at 70% region wide) as well as future lending policy and underwriting changes.

VACANT SPACE/VACANCY RATE

At year-end 2022, the Puget Sound region has a total office supply of 226.8M+ s.f. For the fourth straight quarter, regional office vacancy has increased. At the end of 4Q 2022, the regional vacancy rate stands at 10.52% compared to 10.43% last quarter and 9.60% one year ago. Regional office vacancy hit a low point in the 2nd quarter 2019 at 5.79% and has generally been on the rise since. In the 2nd quarter 2022, regional vacancy exceeded the 10% mark for the first time since the end of 2013 and it has stayed above the line through year-end 2022. Current vacancy is now 473 bps higher than the ten-year low vacancy mark of 5.79% in 2019. Of the current vacant inventory, 16% is from sublease space which is essentially unchanged from last quarter, but below the 18% mark at year-end 2021. All but one of the five regional market areas saw increases in vacancy over the 4th quarter. The Southend, which currently posts the highest regional vacancy at 15.78% was the only market to decrease in vacancy dropping from 17.15% last quarter, a change of 137 bps. Seattle vacancy increased by 20 bps from 12.79% last quarter to 12.99% currently. The Eastside remains the regional low mark in vacancy at 5.56%, posting a slight increase from last quarter's mark of 5.45%. Tacoma vacancy jumped to 8.48% from 8.16% last quarter while Northend vacancy is 8.22%, an increase from 7.39% last quarter. The quarterly spike in regional vacancy over the quarter is the result of continued negative net regional absorption, despite the Southend, posting positive net absorption of 413.8K+ s.f. YTD for 2022. This follows negative regional net absorption of -1.53M+ s.f. in 2021 with

historically high sublet vacancy levels. The regional availability rate ended 2022 at 14.12%, up from 13.83% last quarter and well above the 11.06% mark from two years ago.

NEW CONSTRUCTION ACTIVITY

At year-end 2022, there are 23 major office projects under construction in the region, all in Seattle and the Eastside. During the 4th quarter, there were no notable deliveries, however seven office projects are scheduled to deliver in 1Q 2023. There were three new office construction starts over the quarter including The Chapter at 230K+ s.f. and 35 Stone at 108K+ s.f. in Seattle, both pre-committed. The Eastside commenced Eight 106 in Bellevue at 440K s.f. Of the regional office projects under construction, nine are in Seattle totaling 1.81M+ s.f. (8% pre-committed) and 14 on the Eastside adding 7.3M s.f. (86% pre-committed). The three largest regional projects remain 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.), although Amazon put the brakes on their occupancy/construction plans for a few projects in Bellevue. Microsoft is nearing completion with their 2.5M s.f. campus office expansion (not shown in the regional construction stats). The construction figures also exclude several large life sciences projects that are underway. Other office projects remain planned in both Seattle and the Eastside, but most developers are hesitant to commence speculative projects until it is known how demand will play out. Collectively for the region, of the 23 office projects underway, 70% of the space is pre-committed.

RENT FORECAST

Four of the five market areas saw decreases in average rent quotes over the 4th quarter 2022. The Eastside, which also posts the highest average rent in the region at \$40.29/s.f./yr, saw the average quote increase by \$0.80/s.f./yr from the \$39.49/s.f./yr last quarter. Seattle, Southend, Northend and Tacoma all saw declines in average rent quotes over the quarter. Seattle dropped slightly from \$38.08/s.f./yr last

quarter to \$37.96/s.f./yr currently, a 0.3% decline. The Southend average rent quote went from \$32.80/s.f./yr last quarter to \$32.29/s.f./yr while Tacoma dropped from \$27.67/s.f./yr last quarter to \$27.12/s.f./yr. The Northend decreased to \$28.55/s.f./yr from \$28.82/s.f./yr last quarter, a change of \$0.27/s.f./yr. The rent floor is set by Pierce County at \$27.12/s.f./yr. At year-end 2022, the Bellevue CBD has the highest quoted average rent of any submarket at \$53.25/s.f./yr. Comparatively, the average rent quote for Seattle CBD is \$43.97/s.f./yr. Tacoma CBD is at \$26.14/s.f./yr, less than half the current average Bellevue CBD quote.

INVESTMENT MARKET

Similar to last quarter, regional investment sale activity slowed in the 4th quarter of 2022. Although trophy office assets remain in demand, there is reluctance on the part of sellers with few offerings compared to recent history. Many buyers are also taking a wait and see approach to evaluate the market over the next few quarters. While 2021 saw strong regional office investment sale activity, rising interest rates, changing economic metrics and lingering effects of the 2020 REET increase hampered office sale volumes in the second half of 2022. During the 4th quarter, the region saw only 4 office sales closing above the \$10 million mark. Of these, two were on the Eastside with one each in both the Southend and Northend markets. The Eastside sales were the transfer of the Abossein Building for \$10.3M+ (\$981/s.f.) in December and the sale of Belle View Office Park for \$28M (\$487/s.f.) in October 2022. In the Northend, it was the transfer of Everett Mall Office Park for \$14.3M+ (\$124/s.f.). The largest 4th quarter sale was in the Southend reflecting the purchase of multiple office buildings in Renton by Children's Hospital for \$84M (\$179/s.f.). Although there are few sales to support it, cap rates are pushing upward amidst rising rates. Total office sales volume for the quarter was quite low at \$264M+ (among 85 transactions) compared to \$406M+ last quarter and compared to a collective \$2,976M+ for the first half of 2022.



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