

# SEATTLE *OFFICE*

*At year-end 2023, the regional office market continues to struggle with negative net absorption, rising vacancy and meager investment activity.*

For the eighth quarter in a row, office vacancy has increased going from 12.98% last quarter to 13.97% currently, a 99 bp surge. The regional market has seen vacancy increases in 14 of the last 16 quarters with a collective 818 bp rise in vacancy since the 2nd quarter 2019's low mark of 5.79%. There has also been eight consecutive quarters of negative net office absorption. Over the 4th quarter, the region posted -703.6K+ s.f. in negative net absorption bringing the year-end 2023 total to -2.192M+ s.f. This follows -1.442M+ s.f. of negative net absorption in 2022 and -1.534M+ s.f. in 2021. While the percentage of sublet vacancy dropped over the quarter to 17%, direct vacancy surged, impacting the two major market areas. Seattle continued its trend of rising vacancy with a 54 bp spike over the quarter bringing vacancy to 16.65%. The Eastside also saw vacancy surge going from 9.54% last quarter to 12.13% currently, a 259 bp spike. Investment sales remain stagnant. New regional construction includes 17 major office projects, 43% pre-committed.

Despite a strong regional job market in 2023, the Seattle economy continues to face high inflation and lackluster job growth

projections. Per the Puget Sound Economic Forecaster, regional CPI for 2022 was 8.9% with forecast inflation of 5.3% for 2023, moderating to 2.5% for 2024. Tech sector growth has slowed considerably resulting in revised construction plans for several regional projects. Employment growth ended 2022 at 4.3% per the Economic Forecaster which projects more moderate growth of 1.4% in 2023, dropping to -0.1% for 2024. Staffing shortages also continue to hamper the region.

The regional office market continues to struggle, particularly in its two largest markets of Seattle and more recently the Eastside which are both experiencing high levels of negative net absorption and surging vacancy rates. Looking forward, tepid office demand coupled with historically high availability rates and negative net absorption present concern. Demand trends will also be impacted by future corporate policy for work at home/in office employee requirements. Other metrics to monitor include direct and sublet vacancy levels, future office layout/density trends, net office absorption, inflation, interest rates, pre-commitment levels for new construction and future lender underwriting policy changes.

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**Average Asking  
Annual Rent/SF  
4Q 2023**

**\$37.74**  
SEATTLE CLOSE-IN

**\$40.24**  
EASTSIDE

**\$32.42**  
SOUTH KING COUNTY

**\$28.28**  
PIERCE COUNTY

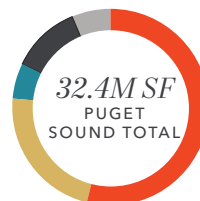
**\$29.17**  
SNOHOMISH COUNTY

**Submarket Vacant  
Space 4Q 2023**

**17.4M SF**  
SEATTLE CLOSE-IN

**7.2M SF**  
EASTSIDE

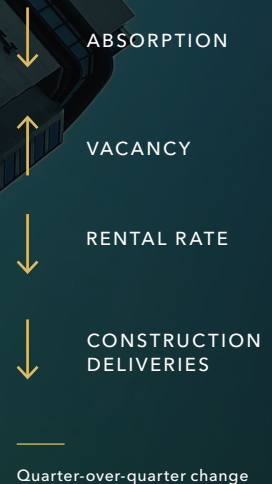
**1.9M SF**  
PIERCE COUNTY



**3.7M SF**  
SOUTH KING COUNTY

**2.0M SF**  
SNOHOMISH COUNTY

# 4Q 2023



## Market Highlights

**REGIONAL OFFICE VACANCY** increased from 12.98% last quarter to 13.97% currently

**NEGATIVE NET OFFICE  
ABSORPTION** for the 4th  
quarter 2023 is -703K+ for  
the region

**6.05M+ S.F.** of new office  
space under construction  
among 17 regional projects

**43% OF THE OFFICE SPACE**  
under construction is  
pre-committed

**1 OFFICE INVESTMENT SALE**  
at \$10M or above over for  
the quarter

## SEATTLE CLOSE-IN

**SEATTLE OFFICE VACANCY** continues to rise rapidly, increasing over the 4th quarter to 16.65%, the high vacancy mark in the region. It is up 54 bps from last quarter's mark of 16.11% and markedly up 366 bps from 12.99% one year ago.

**THE AVAILABILITY RATE** also shot up to 22.2% from 21.9% last quarter suggesting vacancy will likely remain high near-term.

**AT YEAR-END 2023**, there are 9 major office construction projects underway in Seattle totaling 2.71M+ s.f.; 11% pre-committed.

**NET OFFICE ABSORPTION** over the quarter was negative at -574K+ s.f. This compares to -498.7K+ s.f. last quarter and brings the year-end 2023 net absorption total to -3.055M+ s.f., compared to -1.153M+ s.f. for all of 2022.

**LEASING ACTIVITY** remained slow over the 4th quarter with CoStar reporting 123 total deals at a volume of 658.8K+ s.f. The CBD accounted for about 48% of the total lease volume with 43 deals comprising 318K+ s.f.

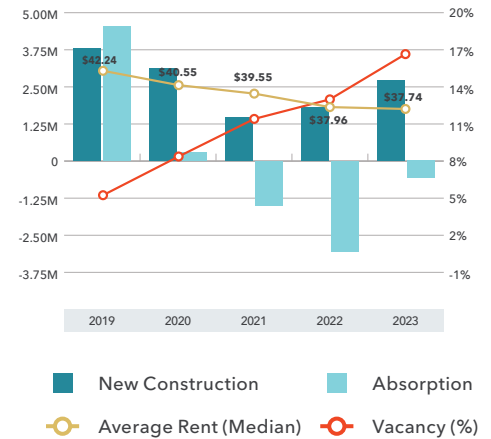
**THERE WERE NO NOTABLE** 4Q 2023 Seattle office investment sales.

**SEATTLE CBD VACANCY** remained unchanged over the quarter at 23.9%. The CBD availability rate decreased from 29.9% last quarter to 29.3% currently.

**AVERAGE RENT QUOTE** for the Seattle CBD decreased to \$43.17/s.f./yr, from \$43.89/s.f./yr last quarter.

**PERIPHERAL SEATTLE SUBMARKETS** posted 4th quarter vacancy rates of 6.6% in Ballard/U District, 11.0% for Lake Union, 6.8% in N Seattle/Northgate and 9.5% in S Seattle, showing mostly rising vacancy trends. Queen Anne/Magnolia sets the Seattle submarket high mark at 16.4%.

**AVERAGE RENT** across Seattle is currently \$37.74/s.f./yr, down from \$38.45/s.f./yr last quarter.



## EASTSIDE REVIEW

**EASTSIDE OFFICE VACANCY** is at 59.7M+ s.f. Eastside office vacancy shot up to 12.13% in the 4th quarter, up 259 bps from 9.54% last quarter and up significantly by 657 bps from 5.56% a year ago.

**SEVEN MAJOR** Eastside office projects under construction (excluding the 3M s.f. Microsoft campus expansion) collectively totaling 3.24M+ s.f.; 68% is pre-committed.

**ONE SIGNIFICANT** office delivery during the 4th quarter; the Facebook leased Spring District Block 6 project (325K s.f.) developed by Wright Runstad.

**EASTSIDE AVAILABILITY** decreased nominally for the first time in 2023 going from 16.90% last quarter to 16.80% currently, but remaining well above the 11.70% mark one year ago.

**NET EASTSIDE OFFICE ABSORPTION** over the quarter was essentially breakeven at 3,943 s.f. This compares to -179.6K+ s.f. last quarter and brings the year-end 2023 net absorption total to 975.6K+ s.f. Year-end 2022 net absorption was negative at -87.3K+ s.f.

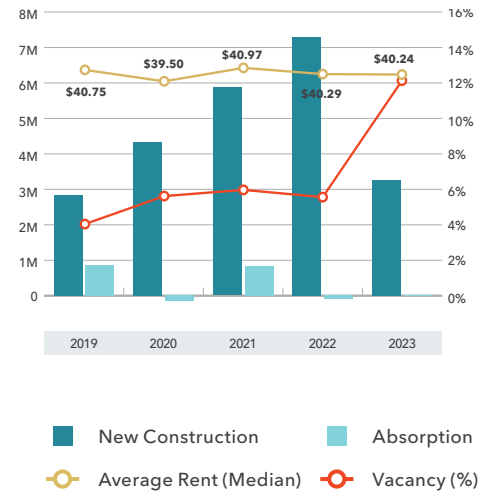
**THE CURRENT AMOUNT** of available new Eastside office construction to absorb is 1.05M+ s.f., compared to historic annual net absorption of just under 500K+ s.f.

**EASTSIDE OFFICE LEASING** over the quarter totaled 85 deals containing 306.3K+ s.f. in total volume which was below last quarter's total volume (415.5K+ s.f.).

**BELLEVUE'S CBD OFFICE VACANCY** increased to 9.7% from 9.5% last quarter. The average CBD rent quote is \$49.61/s.f./yr, down nominally from \$50.68/s.f./yr last quarter.

**VACANCY RATES** in key peripheral Eastside office submarkets changed over the quarter from 6.5% last quarter in Kirkland to 4.1% currently. In Redmond, vacancy remaining unchanged over the quarter at 8.4%.

**THE AVERAGE RENT QUOTE** for the Eastside is currently \$40.24/s.f./yr, down \$0.30/s.f./yr from \$40.54/s.f./yr last quarter and slightly below the \$40.29/s.f./yr quote from one year ago.



## SOUTH KING COUNTY REVIEW

**FOR THE SECOND QUARTER IN A ROW**, office vacancy in South King County no longer sets the regional high mark. As of year-end 2023, it is 16.33% which is up from 15.47% last quarter and 86 bps higher than the 15.78% vacancy rate at 2022 year end.

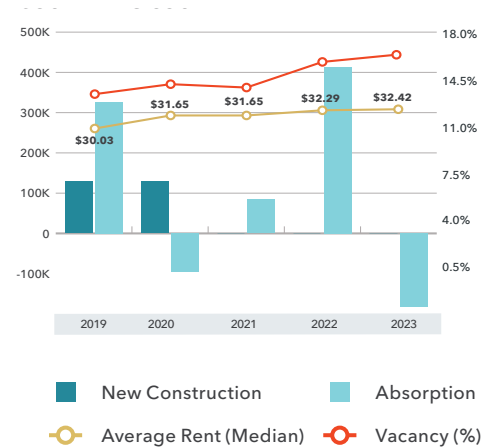
**FOR THE 4TH QUARTER 2023**, Southend net absorption was negative at -183.1K+ s.f. This brings total year-end 2023 net absorption to -11,098 s.f. This compares to 413.8K+ s.f. (highest of all five market areas in 2022) for year-end 2022.

**SUBMARKET VACANCIES** in Federal Way/ Auburn and Renton/Tukwila remain very high at 16.1% and 22.1%.

**LACKLUSTER LEASING** over the 4th quarter with 32 office transactions reported over the quarter totaling 95.8K+ s.f., or just under 3,000 s.f. per deal. The average rent quote decreased modestly over the quarter from \$32.66/s.f./yr to \$32.42/s.f./yr.

**NO SIGNIFICANT OFFICE SALES**, construction starts or deliveries.

**WITH ANOTHER SHARP INCREASE** in availability rate over the quarter going from 12.5% to 14.0%, Southend vacancy is expected to remain high in early 2024.



## SNOHOMISH COUNTY/NORTHEAST REVIEW

**THE NORTHEAST** office market has a current office supply of 23.2M+ s.f. among 1,722 surveyed office buildings, an average size of 13.5K s.f.

**THE NORTHEAST OFFICE VACANCY** decreased modestly over the 4th quarter to 8.60% from 8.65% last quarter, a 5 bp drop.

**43 OFFICE LEASE TRANSACTIONS** over the quarter totaling 142.9K+ s.f., or 3,324 s.f. average deal size.

**NORTHEAST OFFICE AVAILABILITY RATE** decreased from 9.6% last quarter to 9.5% currently.

**AT A CURRENT AVERAGE RENT QUOTE** of \$29.17/s.f./yr, rent increased from last quarter \$29.03/s.f./yr, but is about \$11.21/sq ft less than the current average Eastside rent quote (\$40.24/s.f./yr).

**NO SIGNIFICANT OFFICE SALES**, construction starts or deliveries.

**BOTHELL/KENMORE** submarket increased in vacancy over the quarter to 14.5% from 14.3%. The Everett CBD saw vacancy go from 7.3% last quarter to 7.2% currently.



## PIERCE COUNTY REVIEW

**CURRENT YEAR-END 2023 OFFICE VACANCY** in Pierce County is 9.30%, up from 9.09% last quarter and 82 bps above the 8.48% vacancy mark one year ago.

**NET ABSORPTION** for the 4th quarter 2023 was negative at -39,200 s.f. This compares to 8,858 s.f. last quarter bringing the year-end 2023 total to -43.9K+ s.f. Year-end 2022 net absorption for Pierce County was 40.5K+ s.f.

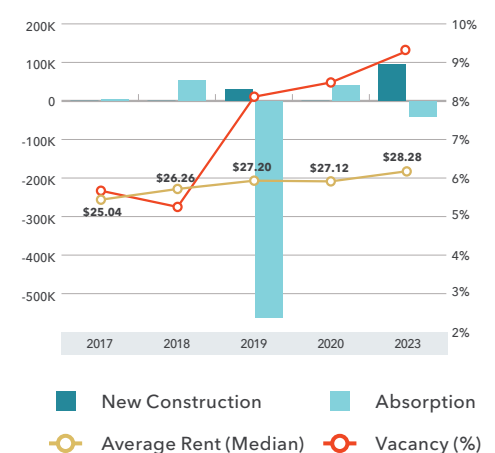
**ONE THIRD** of the Pierce County office supply is in the Tacoma CBD which has a current year-end 2023 vacancy rate of 13.2%, up 50 bps from 12.7% last quarter. CBD availability decreased from 16.4% last quarter to 16.2% currently.

**THE PIERCE COUNTY** availability rate decreased over the 4th quarter to 10.8% from 11.1%.

**LEASING ACTIVITY** over the quarter included 38 deals totaling 114K+ s.f. in total volume.

**SUBMARKET VACANCY** for Suburban Tacoma remains very low at 2.9% unchanged from last quarter, while vacancy also remained unchanged at 7.0%. Vacancy in Puyallup is currently 10.4%.

**THE AVERAGE PIERCE COUNTY** rent quote decreased from \$28.59/s.f./yr last quarter to \$28.28/s.f./yr currently.



## VACANT SPACE/RATE

At the end of 2023, the Puget Sound region has a total office supply of 232.2M+ s.f. Currently, office vacancy for the region stands at 13.97% compared to 12.98% last quarter and 10.52% a year ago. Current vacancy sets the recent high mark. The last time regional office vacancy exceeded 13% was in the 3rd quarter 2010 when vacancy was 13.23%. After regional office vacancy hit the recent low mark in the 2nd quarter 2019 at 5.79%, it has essentially risen ever since increasing 818 bps to the current mark. Of the total vacant inventory, 17% is from sublease space which is below 20% last quarter. Four of the five regional market areas saw vacancy increase over the 4th quarter. The exception is the Northend where vacancy decreased a modicum to 8.60% from 8.65%. Seattle vacancy increased from 16.11% to 16.65% currently, a 54 bp jump pushing it to the region's high vacancy mark for a second consecutive quarter. Eastside vacancy experienced the largest rise over the 4th quarter going from 9.54% last quarter to 12.13% currently, a sizable 259 bp jump. Eastside vacancy propelled by the amount of recent direct vacancy added to the amount of sublet vacancy which stands at 1.86M+ s.f. Southend vacancy settled the quarter at 16.33%, up from 15.47% last quarter and Tacoma vacancy went from 9.09% last quarter to 9.30% currently. Rising vacancy is driven in part by the ongoing negative net regional absorption which totaled -703.6K+ s.f. in 4Q 2023, bringing year-end 2023 net absorption to -2.19M+ s.f. This is on the heels of -1.44M+ s.f. in negative net regional absorption in 2022 and -1.53M+ s.f. in 2021. Amplifying the affect is historically high regional availability which ended the 4th quarter at 17.67%, up from 17.46% last quarter and from 14.12% one year ago.

## NEW CONSTRUCTION

At year-end 2023, there are 17 major office projects under construction in the region with all but one in the Seattle and Eastside

markets. During the 4th quarter, there was one notable regional office delivery. It was the Facebook leased Spring District Block 5 project in Bellevue which delivered 325K s.f. As many as six additional regional office projects are scheduled to deliver in the 1st quarter of 2024 adding about 1.64M+ s.f. of new regional office supply. There were no notable new office construction starts. Of the office projects under construction, 9 are in Seattle totaling 2.71M+ s.f. (11% pre-committed) with an additional 7 projects on the Eastside adding 3.24M+ s.f. (68% pre-committed). The largest regional office project is the Amazon committed Bellevue 600 (999K+ s.f.) tower in Bellevue. Amazon has also put the brakes on a few other projects in Bellevue. Construction figures exclude Microsoft's nearly complete 3.0M s.f. campus office expansion and several large life science projects. Although there remain a number of proposed office projects in both Seattle and the Eastside, developers are reluctant to commence any new speculative projects. Collectively for the region, the 17 office projects under construction total 6.05M+ s.f. and are 43% pre-committed.

## RENT TRENDS

With a continued upward trend in office vacancy, four of the five market areas saw decreases in average office rent quotes over the 4th quarter. The two largest markets, Seattle and the Eastside, both posted declines in average rent quotes. Seattle saw its average rent quote decrease from \$38.45/s.f./yr last quarter to \$37.74/s.f./yr currently, a 2% drop. The Eastside, which posts the highest average rent quote in the region at \$40.24/s.f./yr, saw rent decline by \$0.30/s.f./yr from \$40.54/s.f./yr last quarter. The Southend average rent quote also dropped over the 4th quarter from \$32.66/s.f./yr to \$32.42/s.f./yr currently, while Tacoma rent also declined dropping to \$28.28/s.f./yr currently. Northend rents bucked the trend increasing over the quarter to \$29.17/s.f./yr

from \$29.03/s.f./yr last quarter, a \$0.14/s.f./yr jump. The Bellevue CBD continues to post the highest average submarket rent quote at \$49.61/s.f./yr currently, despite dropping from \$50.68/s.f./yr last quarter. Comparatively, the average rent quote for the Seattle CBD is \$43.17/s.f./yr. Tacoma CBD is at \$28.06/s.f./yr, about 57% of the current average Bellevue CBD quote.

## INVESTMENT MARKET

For six consecutive quarters, the regional office investment market has been meager. Year-end 2023 was no exception as the region saw only one significant office investment sale close above the \$10 million mark in the 4th quarter. High interest rates, changing economic indices and lingering effects of the 2020 REET increase all continue to hamper the office investment market. Investors are searching for bargain pricing, while sellers don't want to sell under current conditions. The one significant 4th quarter sale was First Citizens Bank & Trust's purchase of the 2606 Building in Bellevue. The sale closed in November 2023 for \$18.5M+ (\$558/s.f.). The seller was one the tenants and will leaseback a portion of the building. There were no significant office sales in Seattle. In general, cap rates have pushed upward amidst high interest rates and market uncertainty, but they are difficult to quantify as there is little to no sample size of sales to extract. Total office sales volume over the quarter was again very low at \$99.2M+ (among 47 transactions), an average sale price of \$2.1M+. This compares to \$147.7M+ last quarter; \$92.5M+ in the 2nd quarter and \$128M+ in the 1st quarter 2023. Comparatively, there was a collective \$2,976M+ in office sales volume for the first half of 2022.

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

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