

## MARKET TRENDS

# SEATTLE OFFICE

*The end of the 1st quarter 2024 marks the four-year point since the onset of the pandemic and we continue to see the regional office market struggle.*

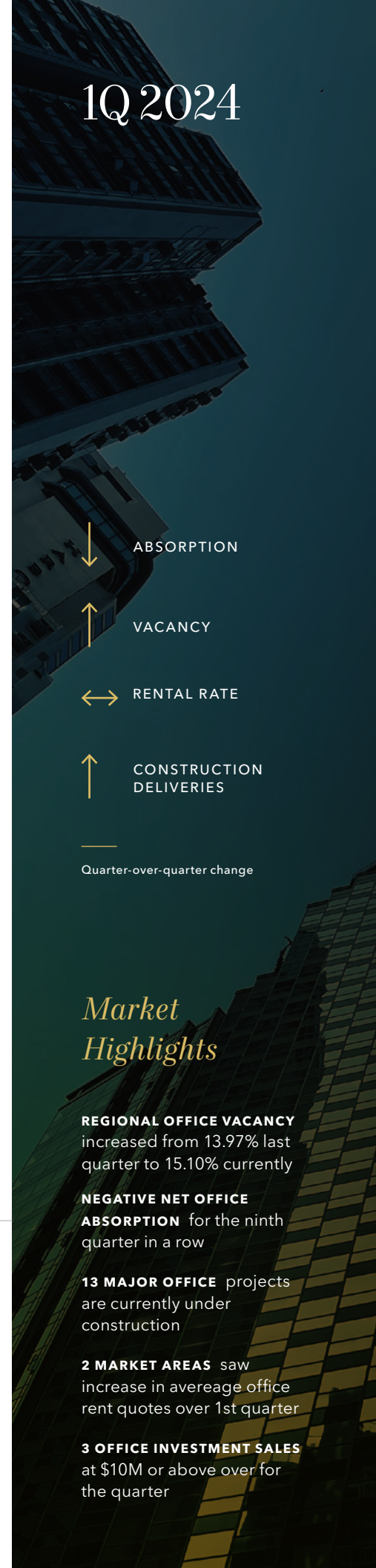
1Q 2024 office data shows another significant quarterly spike in regional vacancy going from 13.97% at year-end 2023 to 15.10% currently, a 113 bp jump. Negative net absorption and lack of demand have caused office vacancy to increase for the ninth quarter in a row. In fact, the regional market has seen vacancy increases in 15 of the last 17 quarters with a collective 931 bp rise in vacancy since the 2nd quarter 2019's low mark of 5.79%. There have also been nine consecutive quarters of negative net office absorption. Over the 1st quarter, the region posted -1.45M+ s.f in negative net absorption following -2.19M+ s.f. in negative net absorption for all of 2023. This on the heels of -1.44M+ s.f. of negative net absorption in 2022 and -1.53M+ s.f. in 2021. Also over the quarter, Seattle continued its trend of skyrocketing vacancy with a 170 bp spike pushing current vacancy to 18.35%. The Eastside also saw vacancy surge going from 12.13% last quarter to 12.96% currently, an 83 bp spike. Investment sales continue to be stagnant. There are 13 major office projects under construction in the region, 50% pre-committed.

Despite a stable regional job market in 2023, the Seattle economy continues to

see high inflation and lackluster job growth projections. Per the Puget Sound Economic Forecaster, regional CPI for 2023 was 5.3% with a moderating inflation forecast of 2.4% for 2024 and 2.2% for 2025. Tech sector growth has slowed considerably resulting in lower regional office demand. Employment growth ended 2023 at 1.6% per the Economic Forecaster which projects negative growth of -0.3% in 2024, increasing to 0.7% for 2025. Staffing shortages also continue to hamper the region.

The regional office market continues to struggle, particularly in the two largest markets of Seattle and now the Eastside which are both experiencing high levels of negative net absorption and surging vacancy. Looking forward, tepid office demand coupled with historically high availability rates and negative net absorption present concern. Office metrics to monitor include work at home/in office employee policies, 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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## Market Highlights

**REGIONAL OFFICE VACANCY** increased from 13.97% last quarter to 15.10% currently

**NEGATIVE NET OFFICE ABSORPTION** for the ninth quarter in a row

**13 MAJOR OFFICE** projects are currently under construction

**2 MARKET AREAS** saw increase in average office rent quotes over 1st quarter

**3 OFFICE INVESTMENT SALES** at \$10M or above over for the quarter

Average Asking Annual Rent/SF 4Q 2023

**\$37.48**  
SEATTLE CLOSE-IN

**\$40.10**  
EASTSIDE

**\$32.02**  
SOUTH KING COUNTY

**\$28.23**  
PIERCE COUNTY

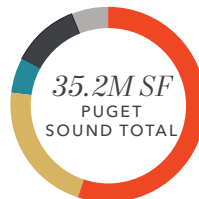
**\$29.26**  
SNOHOMISH COUNTY

Submarket Vacant Space 4Q 2023

**19.4M SF**  
SEATTLE CLOSE-IN

**7.7M SF**  
EASTSIDE

**2.0M SF**  
PIERCE COUNTY



**3.9M SF**  
SOUTH KING COUNTY

**2.1M SF**  
SNOHOMISH COUNTY

## SEATTLE CLOSE-IN

**SEATTLE OFFICE** vacancy continues its steep rise, increasing over the 1st quarter to 18.35%, the high vacancy mark in the region. It is up 170 bps from last quarter's mark of 16.65% and markedly up 409 bps from 14.26% one year ago.

**THE AVAILABILITY** rate also increased to 22.8% from 22.2% last quarter, suggesting that vacancy will likely remain high in Seattle near-term.

**AT THE END** of the 1st quarter 2024, there are 7 major office construction projects underway in Seattle totaling 2.02M+ s.f.; 14% pre-committed.

**NET OFFICE ABSORPTION** over the quarter was negative at -1.02M+ s.f. This compares to -574K+ s.f. last quarter and the year-end 2023 net absorption total of -3.05M+ s.f.. Comparatively, year-end 2022 net absorption totaled -1.50M+ s.f.

**LEASING** activity remained slow over the 1st quarter with CoStar reporting 104 total deals at a volume of 532.1K+ s.f. The CBD accounted for about 42% of the total lease volume with 42 deals comprising 224K+ s.f.

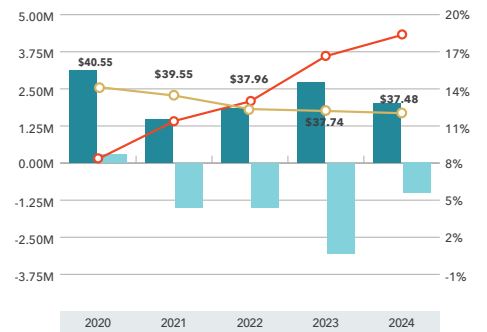
**THERE WERE 2 NOTABLE** 1Q 2024 Seattle office sales including the transfer of 101 Elliott for \$39.5M in March 2024 and 1000 + 1100 Dexter South for \$47.5M in February 2024.

**SEATTLE CBD** office vacancy increased significantly over the quarter to 26.5%, from 23.9% last quarter. The CBD availability rate also increased from 29.3% last quarter to 30.9% currently.

**THE AVERAGE RENT** quote for the Seattle CBD increased slightly to \$43.24/s.f./yr, from \$43.17/s.f./yr last quarter.

**PERIPHERAL SEATTLE** submarkets posted 1st quarter vacancy rates of 7.4% in Ballard/U District, 13.2% for Lake Union, 8.6% in N Seattle/Northgate and 9.8% in S Seattle, showing mixed vacancy trends. Queen Anne/Magnolia sets the Seattle submarket high at 17.1%.

**AVERAGE RENT** across Seattle is currently \$37.48/s.f./yr, down from \$37.74/s.f./yr last quarter.



■ New Construction    ■ Absorption  
 ○ Average Rent (Median)    ○ Vacancy (%)

## EASTSIDE REVIEW

**EASTSIDE OFFICE** inventory currently stands at 60M+ s.f. Eastside office vacancy increased again to 12.96% in the 1st quarter, up 83 bps from 12.13% last quarter and up significantly by 688 bps from 6.08% a year ago.

**5 MAJOR EASTSIDE OFFICE** projects under construction (excluding the 3M s.f. Microsoft campus expansion) collectively totaling 2.68M+ s.f.; 75% is pre-committed.

**TWO SIGNIFICANT** office deliveries during the 1st quarter; the Meta leased Spring District Block 13 project (208K s.f.) developed by Wright Runstad and Google leased Kirkland Urban-South (300K s.f.).

**EASTSIDE AVAILABILITY** decreased again nominally for the second consecutive quarter going from 16.80% last quarter to 16.40% currently, but remains well above the 13.20% mark one year ago.

**NET EASTSIDE** office absorption over the quarter was negative at -260.6K+ s.f. This compares to -253.8K+ s.f. for year-end 2023 and -87.3K+ s.f. for year-end 2022.

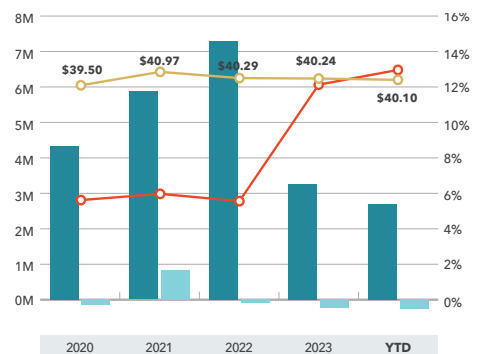
**THE CURRENT AMOUNT** of available new Eastside office construction to absorb is 673.4K+ s.f. which is manageable compared to historic annual net absorption of just less than 500K+ s.f.

**EASTSIDE** leasing activity over the quarter totaled 117 deals containing 1.05M+ s.f. in total volume which was above last quarter's total volume (499.7K+ s.f.) and nearly double the quarterly average in 2023.

**BELLEVUE'S CBD** office vacancy increased to 11.0% from 9.7% last quarter. The average CBD rent quote is \$49.57/s.f./yr, essentially unchanged from \$49.61/s.f./yr last quarter.

**VACANCY RATES** in key peripheral Eastside office submarkets changed over the quarter from 4.1% last quarter in Kirkland to 5.0% currently. In Redmond, vacancy increased nominally from 8.4% last quarter to 8.5% currently.

**THE AVERAGE RENT QUOTE** for the Eastside is currently \$40.10/s.f./yr, down \$0.14/s.f./yr from \$40.24/s.f./yr last quarter and well below the \$41.97/s.f./yr quote one year ago.



■ New Construction    ■ Absorption  
 ○ Average Rent (Median)    ○ Vacancy (%)

## SOUTH KING COUNTY REVIEW

**OFFICE VACANCY** in South King County is no longer the regional high mark as it was for many years. At the end of the 1st quarter 2024, it is 17.06% up from 16.33% last quarter and 128 bps higher than the 15.78% vacancy rate at the end of 2022.

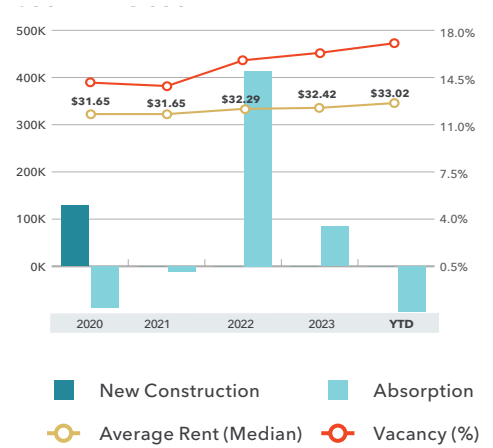
**FOR THE 1ST QUARTER**, Southend net absorption was negative at -88.1K+ s.f. This compares to year-end 2023 net absorption of -11,098 s.f. At year-end 2022, the Southend posted net office absorption of 413.8K+ s.f. (highest in all five market areas for 2022).

**SUBMARKET VACANCIES** in Federal Way/Auburn and Renton/Tukwila remain very high at 15.4% and 23.1%, respectively.

**CONTINUED LACKLUSTER LEASING** over the 1st quarter with 43 office transactions reported over the quarter totaling 116.6K+ s.f., or just over 2,700 s.f. per deal. The average rent quote increased modestly over the quarter from \$32.42/s.f./yr to \$33.02/s.f./yr.

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

**THE AVAILABILITY RATE DECLINED** slightly over the quarter going from 14.0% to 13.7% indicating Southend vacancy may stabilize in early 2024.



## SNOHOMISH COUNTY/NORTHEND REVIEW

**NORTHEND OFFICE VACANCY** increased over the 1st quarter to 9.09% from 8.60% last quarter, a 49 bp jump.

**THE NORTHEND MARKET** has a current office supply of 23.2M+ s.f. among 1,725 surveyed office buildings, an average size of 13.5K s.f.

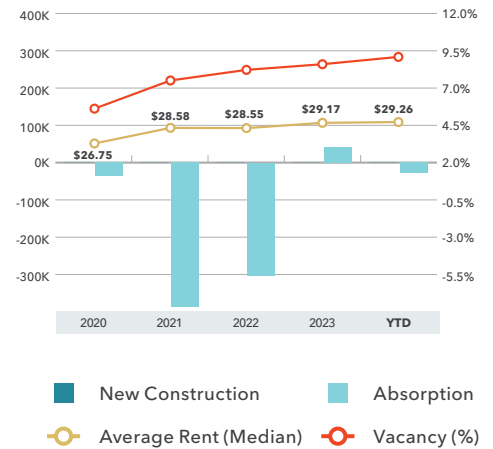
**40 OFFICE LEASE TRANSACTIONS** over the quarter totaling 170K+ s.f., or 4,250 s.f. average deal size.

**NORTHEND OFFICE AVAILABILITY INCREASED** from 9.5% last quarter to 10.0% currently.

**AT THE CURRENT AVERAGE** rent quote of \$29.26/s.f./yr, rent increased from last quarter \$29.17/s.f./yr, but is comparatively \$10.84/sq ft less in annual rent than the average Eastside rent quote (\$40.10/s.f./yr).

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

**BOTHELL/KENMORE SUBMARKET INCREASED** in vacancy over the quarter to 15.3% from 14.5%. Everett CBD saw vacancy go from 7.2% last quarter to 7.0% currently, a decline of 20 bps.



## PIERCE COUNTY REVIEW

**AT THE END OF 1Q 2024**, office vacancy in Pierce County is 9.43%, up from 9.30% last quarter and 84 bps above the 8.59% vacancy mark one year ago.

**NET ABSORPTION FOR TACOMA OFFICE** over the quarter was negative at -58,009 s.f. This compares to -39,200 s.f. last quarter and the year-end 2023 total of -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 1st quarter 2024 vacancy rate of 13.9%, up 70 bps from 13.2% last quarter. CBD availability also increased from 16.2% last quarter to 16.7% currently.

The Pierce County availability rate remained unchanged over the 1st quarter at 10.8%.

**LEASING ACTIVITY** over the quarter included 30 deals totaling 53.6K+ s.f. in total volume.

**SUBMARKET VACANCY** for Suburban Tacoma remains very low at 2.6%, down from 2.9% last quarter. Vacancy in Puyallup is currently at 10.1%, down slightly from 10.4% last quarter.

**THE AVERAGE PIERCE COUNTY** rent quote decreased modestly from \$28.28/s.f./yr last quarter to \$28.23/s.f./yr currently.



## VACANT SPACE/RATE

At the end of 1Q 2024, the Puget Sound region has a total office supply of 233.6M+ s.f. Current regional office vacancy now stands at 15.10% compared to 13.97% last quarter and 11.21% a year ago. Regional office vacancy has not exceeded 15% in recent history. Vacancy hit the recent low mark in the 2nd quarter 2019 at 5.79% and has essentially risen ever since increasing by 931 bps to its current mark. Of the vacant inventory, 16% is from sublease space which is below 20% at mid-year 2023. All five regional market areas saw vacancy increase over the 1st quarter. Seattle vacancy increased significantly from 16.65% to 18.35% currently, a 170 bp jump pushing it to the region's high vacancy mark for a third consecutive quarter. Eastside vacancy also experienced a large rise in vacancy over the quarter going from 12.13% last quarter to 12.96% currently, an 83 bp jump. In addition to significant direct vacancy in the Eastside market, the amount of sublet vacancy has risen to 1.93M+ s.f. Southend vacancy settled the quarter at 17.06%, up from 16.33% last quarter and Tacoma vacancy went from 9.30% last quarter to 9.43% currently. Northend vacancy stands at 9.09% which is the lowest of the major market areas. Rising vacancy has been propelled in no small part by the ongoing negative net regional absorption which totaled -1.45M+ s.f. in 1Q 2024 following year-end 2023 net absorption of -3.32M+ 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 1st quarter at 17.88%, up from 17.67% last quarter and 15.93% one year ago.

## NEW CONSTRUCTION

At the end of 1Q 2024, there are 13 major office projects under construction in the region with all but one in the Seattle and Eastside markets. Over the quarter, there were four notable regional office deliveries. On the Eastside, the Meta leased Spring District Block

13 project in Bellevue delivered 208K s.f. and Kirkland Urban-South (Google) delivered 300K s.f. In Seattle, Northlake Commons delivered 153,726 s.f. and Washington 1000 added 531,166 s.f. to the current Seattle inventory. There were no notable new office construction starts. Of the office projects under construction, 7 are in Seattle totaling 2.02M+ s.f. (14% pre-committed) with an additional 5 projects on the Eastside adding 2.68M+ s.f. (75% pre-committed). The largest regional office project is the Amazon committed Bellevue 600 (999K+ s.f.) tower in Bellevue. Construction figures exclude Microsoft's nearly complete 3.0M s.f. campus office expansion and several large life science projects in Seattle. Although there remain a number of proposed office projects in both Seattle and Bellevue, developers have put the brakes on any new construction indefinitely. Collectively for the region, the 13 office projects under construction total 4.80M+ s.f. and are 50% pre-committed.

## RENT TRENDS

Despite the continued upward push in regional office vacancy, two of the five market areas saw increases in average office rent quotes over the 1st quarter. The Southend average rent quote increased notably from \$32.42/s.f./yr to \$33.02/s.f./yr while Northend rents also increased to \$29.26/s.f./yr currently, from \$29.17/s.f./yr last quarter. The two largest markets, Seattle and the Eastside, both posted declines in average rent quotes. Seattle saw its average rent decrease from \$37.74/s.f./yr last quarter to \$37.48/s.f./yr currently, a 1% drop. The Eastside, which posts the highest average rent quote in the region at \$40.10/s.f./yr, saw rent decline by \$0.14/s.f./yr from \$40.24/s.f./yr last quarter. The Tacoma average rent quote also dropped nominally from \$28.28/s.f./yr last quarter to \$28.23/s.f./yr currently. Bellevue CBD continues to post the highest average regional submarket rent quote at \$49.57/s.f./yr currently compared to \$49.61/s.f./yr last quarter. Comparatively,

the average rent quote for the Seattle CBD is \$43.24/s.f./yr. Tacoma CBD is at \$28.66/s.f./yr, about 58% of the current average Bellevue CBD quote.

## INVESTMENT MARKET

For seven straight quarters now, the regional office investment market has been meager. The 1st quarter 2024 was no exception as the region saw only three significant office investment sales. High interest rates, changing economic indices and lingering effects of the 2020 REET increase all continue to take their toll on the office investment market. There is also a disconnect between buyers and sellers. Investors are searching for bargain pricing, while sellers don't want to sell under current conditions and pricing metrics. One of the significant sales in the 1st quarter was 90 East (Building E) in Issaquah selling to Costco for \$61,826,600 (\$350/s.f.). The other two sales were in Seattle. 101 Elliott sold to Seattle Housing Authority in March 2024 for \$39.5M (\$376/s.f.) and 1000 + 1100 Dexter South sold to Palisade Group for \$47.5M (\$215/s.f.). Cap rates have pushed upward as a result of high interest rates and market uncertainty, but they are difficult to quantify as there is little to no sample size of sales to extract rates. Total office sales volume over the quarter was again very low at \$207.3M+ (among 46 transactions), an average sale price of \$4.5M+. This compares to \$99.2M+ last 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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