MARKET REPORT

OFFICE

Seattle-Tacoma Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

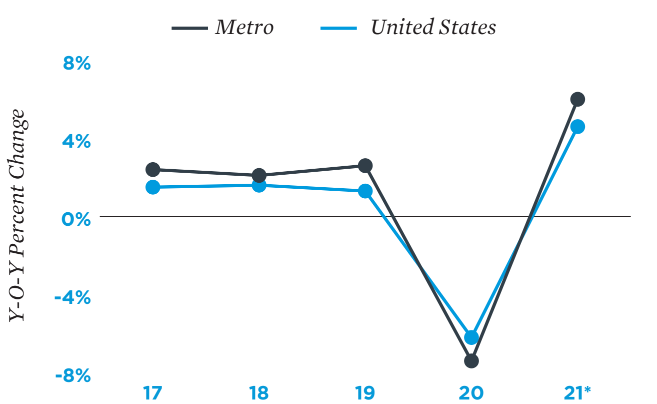
4Q/21

Seattle's Office Outlook Remains Bright as Major Tech Employers Pave the Way to Recovery

Remote work hindered leasing. The metro's well-established tech and professional services sectors translated to a large portion of the employment base able to work remotely during the health crisis. Uncertainty regarding return-to-office timelines affected leasing decisions and space needs, which led to a significant decline in absorption and a large influx of sublet space. As a result, over 5.4 million square feet was returned to the market over the past five quarters, elevating metrowide vacancy to 12.7 percent in June. Downtown Seattle had the largest rise in availability during that span, but headwinds are subsiding. Nearly 800,000 square feet of net absorption here from April through June compressed local vacancy for the first time since the onset of the health crisis.

Recovery on the horizon. Prior to the pandemic, metrowide vacancy was among the lowest in the nation and served as a buffer during the disruption. Positive net absorption returned to the market during the second quarter as the state reopened its economy, and leasing momentum is expected to carry into the second half. Major employers like Amazon and Facebook recently expanded their office footprints and gave more concrete timelines on return to office plans. Additionally, the metro faces minimal supply pressure in the near-term as roughly 75 percent of the space scheduled to finalize by the end of next year has a pre-lease commitment in place.

Employment Trends



** Forecast*

Sources: BLS; CoStar Group, Inc.

Office 2021 Outlook

118,000 JOBS
will be created

EMPLOYMENT:

Seattle will recover 75 percent of the 155,800 jobs lost in 2020, resulting in 6 percent annual growth this year. Employment in traditional office-using sectors will exceed the metro's pre-pandemic level, with the addition of 16,000 positions in 2021.

2,600,000 SQ. FT.
will be completed

CONSTRUCTION:

Construction activity remains robust this year, though deliveries will fall short of the trailing-five-year average of 3.8 million square feet. Developers will expand the metro's office inventory by 1.3 percent in 2021.

160 BASIS POINT
increase in vacancy

VACANCY:

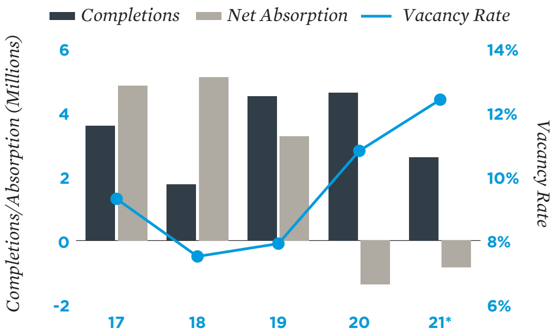
Negative net absorption for the second straight year will place upward pressure on office availability. Even though the metro's vacancy rate will rise to 12.4 percent this year, it will rank among the lowest in the nation.

0.7% INCREASE
in asking rent

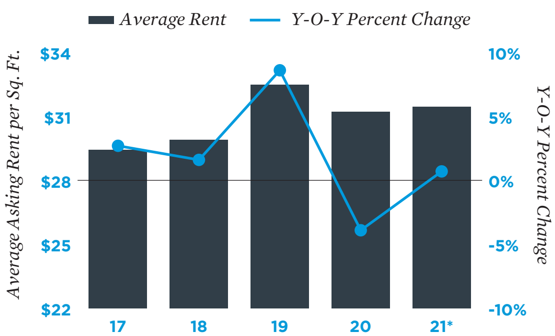
RENT:

Newly built properties at the higher end of the price spectrum contribute to moderate growth in the average asking rent this year. The rate will tick up to $31.44 per square foot in 2021, 4.7 percent less than the prior peak reached in the first quarter of 2020.

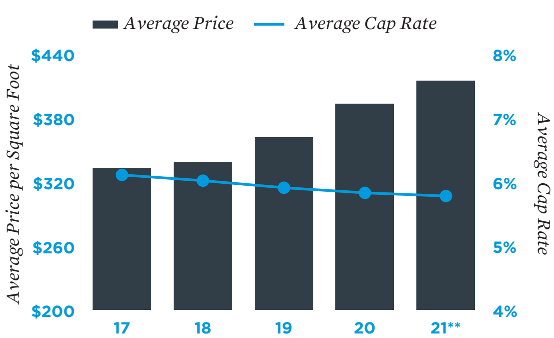
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 2Q*

Sources: CoStar Group, Inc.; Real Capital Analytics

IPA Office

Alan L. Pontius

Senior Vice President, National Director

Tel: (415) 963-3000 | apontius@ipausa.com

For information on national office trends, contact:

John Chang

Senior Vice President, National Director | Research Services

Tel: (602) 707-9700 | jchang@ipausa.com

2Q21 — 12-Month Period

CONSTRUCTION

3,478,000 sq. ft. completed

- Developers expanded Seattle's inventory by 1.8 percent over the past four quarters, following a 2.6 percent jump recorded the previous year.
- Another 12 million square feet of office space is underway, with completions extending into 2025. Development is heavily concentrated in the Downtown Seattle and Eastside submarkets.

VACANCY

410 basis point increase in vacancy Y-O-Y

- Vacant stock in Seattle grew by 8.2 million square feet over the last 12 months, elevating office availability to 12.7 percent. Downtown Seattle and Tacoma observed the largest increases during that span.
- Class A vacancy jumped 500 basis points to 14.3 percent, while availability in Class B/C assets rose 330 basis points to 11.4 percent.

RENT

3.9% decrease in the average asking rent Y-O-Y

- Rising availability over the past year lowered the metro's average asking rent to $31.33 per square foot.
- Asking rents were most affected in the CBD, where the average rate fell 6.3 percent to $35.24 per square foot. The suburban rate decreased 1.2 percent to $27.68 per square foot.

Investment Highlights

- Transaction velocity declined 13 percent over the past year ending in June compared with the previous 12-month span. However, the number of trades accelerated during the first half of 2021, with quarterly transactions nearing pre-pandemic levels. Buyers were most active in the Eastside, due to lower vacancy and higher asking rents relative to other submarkets in the metro.
- Despite a reduction in deal flow, overall dollar volume increased 24 percent over the past four quarters. Office-assets with lease commitments from notable tech companies have been attracting multiple offers, which contributed to a 10 percent jump in the metro's average sale price to $415 per square foot. The mean cap rate retreated 10 basis points to 5.8 percent.
- Medical office assets traded less frequently during the past year, with investors targeting assets in the Tacoma submarket. Properties here changed hands at an average sale price of $294 per square foot, with cap rates ranging from 5 percent to 7 percent.