INVESTMENT FORECAST

Office

Seattle-Tacoma

IPA INSTITUTIONAL PROPERTY ADVISORS

2022

Emerald City's Keystone Employers Take Active Role in Leasing and Acquisition of Office Properties

Divergence between core and suburbs more pronounced in the metro. While many of the markets across the nation are experiencing a variance in tenant demand among CBDs and outlying areas, additional factors specific to the metro are amplifying these trends. A payroll tax aimed at large corporations within the city of Seattle, for instance, raises the cost of doing business. This is giving pause to some midsize companies considering footprints in the CBD, where more than half of the vacant space in the market is located. Larger tech firms, however, continue to consider core areas. Apple, Google and Facebook all have large, long-term commitments, including Apple's local headquarters in South Lake Union. Entering 2022, the vacancy gap between core and suburban locations is nearly double the national average, suggesting a longer road to recovery for urban office properties. Beyond downtown, Bellevue is the most popular area for office firms, accounting for the three largest leases signed last year; Amazon and Facebook collectively added more than 1.1 million square feet in the Eastside city in 2021.

Buyers unfazed by investment headwinds. The office market remains attractive to both local and out-of-state investors due to the presence of some of the world's largest companies and the ancillary jobs they create. Despite the real estate excise tax, transaction velocity increased significantly last year as inexpensive capital helped buyers pay prices that overcame any hesitancy to divestment by owners. In 2021, the number of deals executed over $20 million more than doubled. Large investors are expected to remain active, though elevated valuations could serve as a hurdle if discounting occurs in core locations in other markets along the West Coast. Private buyers and syndicates are engaged in suburbs, where taxes are lower and demand is more sturdy. Overall, the average cap rate entering 2022 was in the high-5 percent area, the lowest level in more than two decades.

2022 Market Forecast

Employment
up 4.4%

Payrolls will grow by 92,000 spots this year. Office-using jobs represent nearly 20 percent of additions.

Construction
3,500,000 sq. ft.

The pace of construction retreats modestly as inventory expands 1.7 percent. Pre-leasing remains strong at over 80 percent of underway stock.

Vacancy
up 20 bps

Vacancy ticks up to 12.9 percent this year following a much larger 180-basis-point rise last year. Prior to the health crisis, the rate was 8.0 percent.

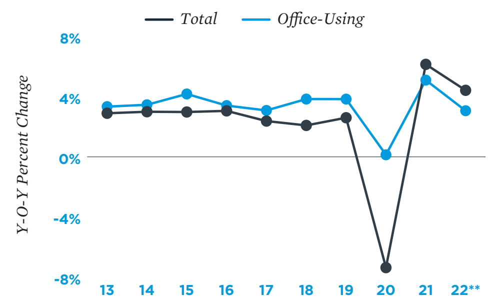
Rent
up 1.9%

Marketed rent reverses course in 2022 for the first time in three years. At year-end, the average asking rent will reach $31.44 per square foot, erasing last year's 1.5 percent decline.

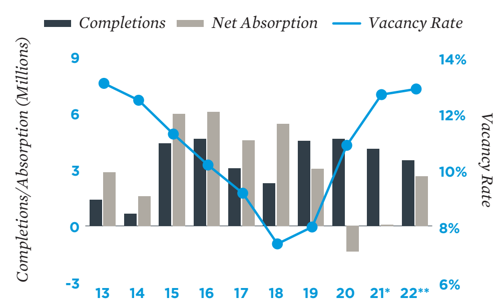
Investment

Medical office buildings are attractive, though owners are often hesitant to list, particularly near hospital campuses. The average cap rate for the asset class is in the mid-5 percent range.

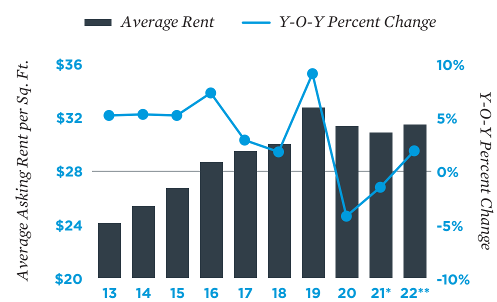
Employment Trends



Supply and Demand



Rent Trends



** Estimate; ** Forecast*
Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of December 2021. Effective rent is equal to asking rent less concessions. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at $1,000,000 and greater unless otherwise noted. Forecasts for employment and apartment data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.