

MARKET REPORT

Office
Seattle-Tacoma Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

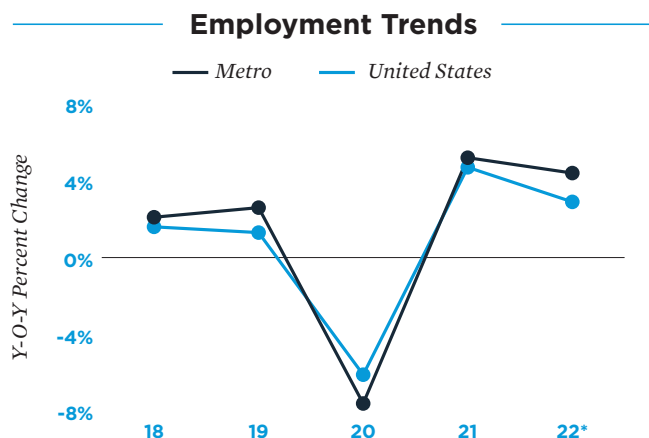
2Q/22

High-Profile Firms Drive Leasing in the Metro; Deal Flow Returns to Pre-Pandemic Levels

Positive net absorption reemerges. Although metrowide vacancy remains above the 2019 level entering the second quarter, recent leasing activity indicates Seattle's office market may be turning the corner. Over the past four quarters ending in March, tenants absorbed nearly 2 million square feet of space, the largest 12-month total since the onset of the health crisis. Office demand is strongest in Eastside neighborhoods, driven by high-profile tech firms like Amazon and Meta taking large blocks of space off the market. Leasing has also ramped up in Downtown Seattle, with local net absorption returning to positive territory and surpassing the 500,000-square-foot threshold in the trailing 12-month period.

Development concentrated in Eastside and Downtown Seattle.

Even though deliveries are projected to taper from last year, there is over 10 million square feet underway in the Puget Sound with finalization dates extending into 2024. This volume makes Seattle one of the most active office construction markets in the nation. As of May, roughly 80 percent of this space was pre-leased, with built-to-suit projects on the metro's Eastside accounting for the majority of developments underway. Microsoft's Redmond Campus modernization project is currently the largest property in the pipeline, scheduled to deliver 2.5 million square feet in 2023. Development activity is also strong in Downtown Seattle, supported by speculative life science and technology-oriented buildings in Lake Union.



* Forecast

Sources: BLS; CoStar Group, Inc.

Office 2022 Outlook



**90,000
JOBS**
will be created

EMPLOYMENT:

Firms in Seattle have added over 36,000 new positions this year through April, putting the market on pace to increase total employment by 4.4 percent. Roughly 30,000 positions in traditional office-using sectors will be created in 2022.



**2,975,000
SQ. FT.**
will be completed

CONSTRUCTION:

Construction retreats relative to last year's pace, with developers increasing the metro's office inventory by 1.5 percent. The largest project slated for completion this year is West Main, delivering 1.5 million square feet in Downtown Bellevue.



**30
BASIS POINT**
increase in vacancy

VACANCY:

A robust development pipeline continues to place upward pressure on availability in Seattle, spurring the fourth consecutive year of rising vacancy. At 13.1 percent, the rate still remains 280 basis points below the national average.

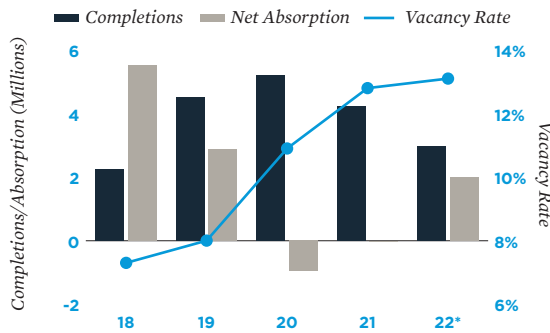


**2.5%
INCREASE**
in asking rent

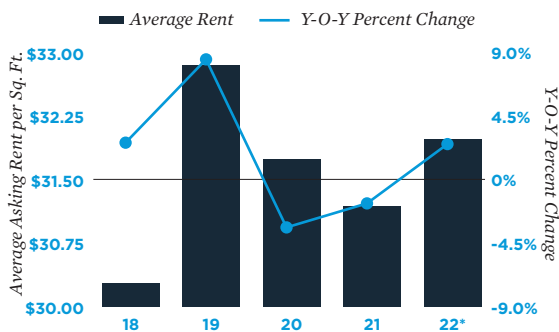
RENT:

The average asking rent in the Puget Sound increases on an annual basis for the first time since 2019, rising to \$31.98 per square foot. Nonetheless, the mean remains roughly 4 percent below the previous high achieved prior to the health crisis.

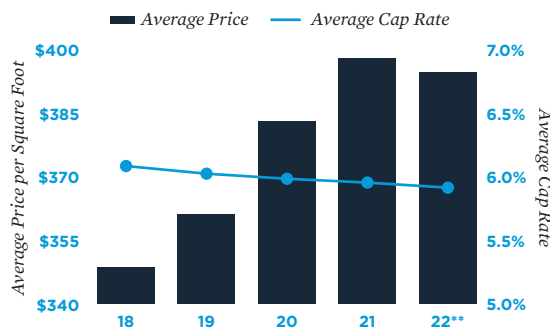
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 1Q

Sources: CoStar Group, Inc.; Real Capital Analytics

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Price: \$250

1Q 2022 - 12-Month Period



CONSTRUCTION

3,533,000 sq. ft. completed

- Over the past 12 months ending in March, supply additions were largely concentrated in Eastside neighborhoods. Overall, inventory grew by 1.8 percent metrowide.
- Dexter Yard North Building was the largest project completed during this span, delivering 332,000 square feet in Lake Union.



VACANCY

50 basis point increase in vacancy Y-O-Y

- Despite positive net absorption over the past four quarters, availability still rose to 13.1 percent, the highest vacancy rate in Seattle since 2013.
- Vacancy in the Eastside held in the single digits throughout the health crisis, buoyed by strong space demand from the area's tech firms.



RENT

0.5% increase in the average asking rent Y-O-Y

- Year-over-year asking rent growth was positive for the first time since the third quarter of 2020, with the average marketed rate reaching \$31.72 per square foot in March.
- Rent gains were most pronounced in Tacoma, with the average asking rate here increasing nearly 10 percent in the past year to \$23.48 per square foot.

Investment Highlights

- Seattle has solidified itself as one of the most active office investment markets in the nation, as buyers target well-positioned tech assets. Transaction velocity returned to pre-pandemic levels over the past year ending in March, increasing nearly 60 percent relative to the previous 12-month span. The average sale price rose to \$395 per square foot, while the mean cap rate fell below 6 percent for the first time on record.
- Home to a sub-10 percent vacancy rate and much of the metro's tech firms, the Eastside has been the most liquid office market as of late. Entry costs here often rise above \$500 per square foot, with cap rates that can fall to the low-3 percent range. Older Class B properties comprising less than 50,000 square feet have been changing hands most often.
- Buyers targeting trophy assets are most active in Downtown Seattle. The average sale price here for Class A offices is around \$900 per square foot, with first-year returns that range from 4 percent to 5 percent.
- Yield-driven investors are finding opportunities in the metro's Northend, Southend and Tacoma submarkets. Pricing below \$300 per square foot here is common, with yields that average in the mid-6 percent span.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. 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. Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics