

MARKET REPORT

Office
Seattle-Tacoma Metro Area

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PROPERTY
ADVISORS

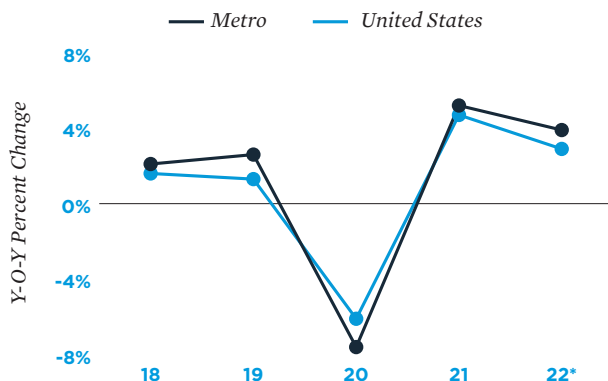
4Q/22

Tech-Based Tenant Roster Developing on the Eastside as Job Gains Catalyze Class A Demand

Campus expansions lay framework for additional demand. Areas east of Lake Washington are attracting unprecedented levels of development. As of October, ongoing construction on the Eastside totaled more than 9.4 million square feet. Fortunately, roughly 90 percent of this space is accounted for, as modern, built-to-suit projects for tech giants — such as Microsoft, Meta and Alphabet — account for most of this volume. These large-scale projects are positioned to drive additional demand for local office space, as firms attempt to tap into the area's world-class labor pool. Snapchat and Egencia, for example, committed to 123,000 square feet of offices in Bellevue earlier this year. The overall influx of tech firms to the area may also improve the slack demand observed in the local Class B/C segment over the past two years, with firms that support the operations of these campus-style expansions leasing lower-cost space nearby.

Recruitment efforts kickstart high-tier leasing. Seattle's traditional office-using sectors added 40,800 jobs during the past year ending in June, marking the metro's highest 12-month addition total to date. This hiring corresponded with employers seeking high-quality floorplans to attract job seekers and retain existing staff. These efforts supported net absorption of 1.7 million square feet of Class A office space through the frame. While the local labor market remains tight, with a record-low 2.9 percent unemployment in August, firms are likely to maintain a preference for amenity-rich, modern space to facilitate workforce development.

Employment Trends




* Forecast
Sources: BLS; CoStar Group, Inc.

Office 2022 Outlook


80,000
JOBS
will be created


EMPLOYMENT:

Seattle employers added over 53,000 positions through the first eight months of 2022, putting the metro in position to expand its job count by 3.9 percent by year's end. Roughly 35 percent of this growth will stem from traditionally office-using hiring.


2,642,000
SQ. FT.
will be completed

CONSTRUCTION:

Development slows, as builders complete less than 4 million square feet for the first time since 2018. Still, this year's construction volume falls closely in-line with historical norms, not far off the pre-2019 yearly average of 3 million square feet.


100
BASIS POINT
increase in vacancy

VACANCY:

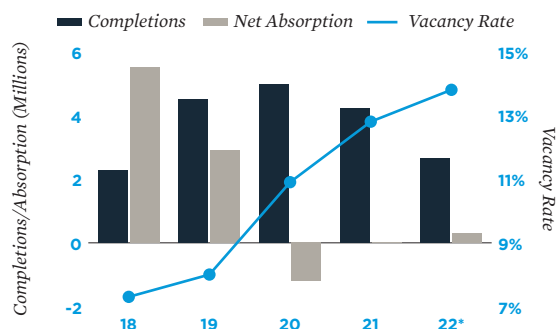
Availability jumps up, as vacant stock swells by more than 2.3 million square feet. Nevertheless, at 13.8 percent, the metro's rate remains at least 60 basis points lower than Portland or major Northern California markets.


2.6%
INCREASE
in asking rent

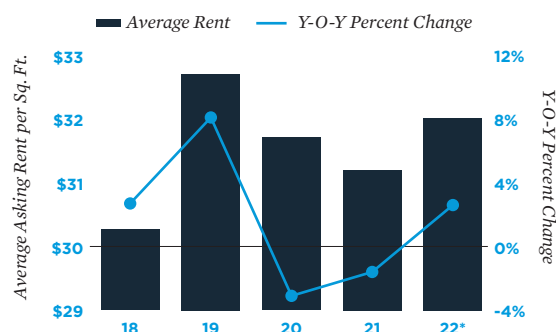
RENT:

Asking rent growth returns to the metro, advancing the average rate to \$32.02 per square foot. Metro gains during 2022 will be led by the Class B/C segment, which registered a near-1 percent rent increase through the first six months of the year.

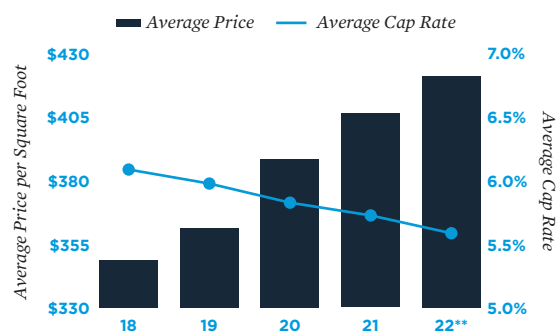
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

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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: IPA Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics

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2Q 2022 - 12-Month Period



CONSTRUCTION

2,975,000 sq. ft. completed

- Builders completed nearly 1.7 million square feet on the Eastside during the 12-month span ending in June. These supply additions expanded local inventory by 3.3 percent, the largest stock growth in nearly 13 years.
- Construction remains concentrated on the Eastside, with more than 2 million square feet underway in both the Bellevue CBD and Redmond.



VACANCY

100 basis point increase in vacancy Y-O-Y

- Supply additions outpaced net absorption by nearly 2.3 million square feet through the yearlong frame ending in June. This placed substantial upward pressure on vacancy, bringing the metrowide rate to 13.6 percent.
- Class A vacancy rose 80 basis points to 15.3 percent. Exhibiting similar momentum, the Class B/C rate lifted 90 basis points to 12.1 percent.



RENT

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

- The average asking rent improved 2 percent to \$31.69 per square foot during the first half of 2022, nearly negating last year's retreat.
- Asking rents in the Class A segment receded 1.1 percent over the past year to an average of \$37.15 per square foot. Meanwhile, the mean marketed rate for Class B/C office space rose 1.8 percent to \$27.18 per square foot.

Investment Highlights

- Trading velocity during the yearlong span ending in June nearly matched activity recorded during 2019. The metro's growing roster of Fortune 500 firms is sustaining investors' confidence in future demand prospects. This is aiding property valuations, reflective in the metro's average sales price rising 5.9 percent over the past year to \$421 per square foot.
- Trades involving trophy assets in Downtown Seattle are rising in number, an indication investors expect demand for higher-tier floorplans to return. This trend appears to be in motion, as firms absorbed a net of 269,000 square feet of Class A space during the first half of 2022. Competition for listings here is pushing buyers to accept first-year yields in the low- to mid-4 percent range, with pricing above \$700 per square foot being common for these assets. Still, some buyers are finding lower entry costs for older-built Class A offices between University Street and Pioneer Square.
- Mid-tier assets are trading most frequently on the Eastside, as investors anticipate trickle-down demand for smaller office space, the result of numerous campus-style expansions in the area. Here, entry costs for Class B assets generally range between \$480 and \$510 per square foot; however, buildings along Route 520 in Bellevue are selling at slightly higher pricing.