MARKET REPORT

Office

Seattle-Tacoma Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

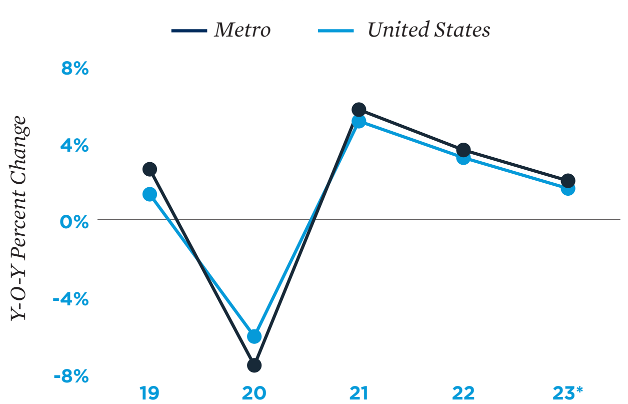
4Q/23

Southend Exhibiting Strength Amid Downsizing Dynamic, Diverging from Market's Overall Volatility

Southend's low rents support space demand. With no deliveries of note since 2021, as well as record net absorption during the last year, vacancy in the Southend fell 600 basis points annually to an all-time low of 11.1 percent in June. Amid widespread cost-cutting policies by tenants, the submarket's comparatively low asking rents have secured heightened leasing activity. This rang especially true for the Class B/C sector, with the submarket's metro-low rates playing a key role in motivating companies to absorb 900,000 square feet of mid- and lower-tier space on net through the year ending in June. Still, space needs were diverse amid some larger companies moving out of the core, and thus also included new leases of older top-tier offices, supporting Class A net absorption at 295,000 square feet in the span.

Tenants return to prime office corridors. As of October, at least nine new leases were in place for firms to move into a total 276,000 square feet of Class A offices in Downtown Seattle. Extending to April 2024, this wave of space demand mostly originates from law firms and other business services, who have secured direct leases for core trophy offices at rents lower than at the onset of the pandemic. The Eastside, meanwhile, has a total 2.5 million square feet of move-ins planned by Meta and Amazon just from this October until the end of 2023. The latter company's recent mandatory return-to-office policy may provide momentum for local space demand, as recovering foot traffic signals other tenants to undertake expansions.

Employment Trends



** Forecast*

Sources: BLS; CoStar Group, Inc.

Office 2023 Outlook

43,000 JOBS
will be created

EMPLOYMENT:

Reflecting layoffs in the tech sector during the first half, the traditionally office-using headcount shrunk 1.4 percent from January to September 2023. Regardless, the total job tally will rise 2.0 percent this year.

4,850,000 SQ. FT.
will be completed

CONSTRUCTION:

Stock growth moves to a three-year high of 2.4 percent, as the Eastside and Downtown Seattle each host the delivery of more than 1 million square feet. Additions are slated to be nominal outside of these submarkets.

320 BASIS POINT
increase in vacancy

VACANCY:

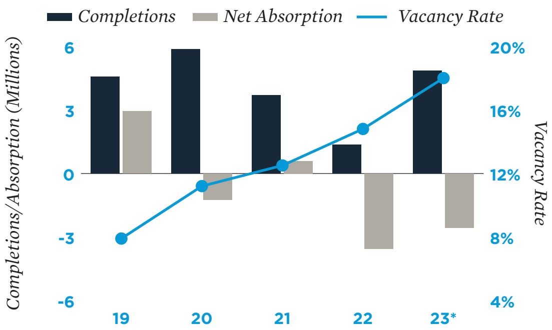
Large delivery slates in the Eastside and Downtown Seattle drive a climb in the marketwide rate to 18.0 percent this year. Even so, Southend, Northend and Tacoma's limited completions may facilitate greater stability here.

0.1% DECREASE
in asking rent

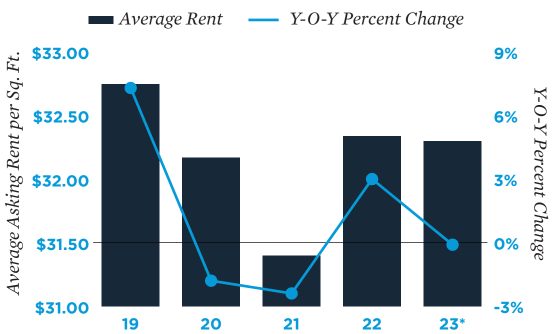
RENT:

Record amounts of vacant stock in the Eastside and Downtown Seattle require some operators to ease asking rates in 2023. As a result, the metro's mean marketed rate dips down to $32.30 per square foot.

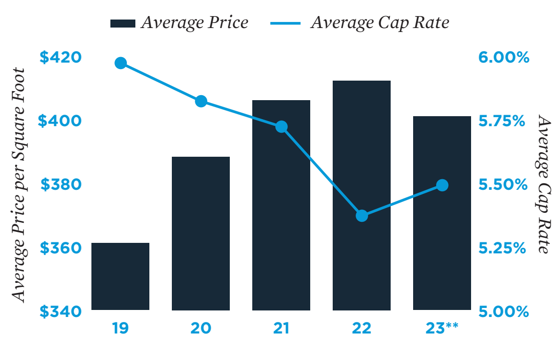
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 2Q*

Sources: CoStar Group, Inc.; Real Capital Analytics

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Price: $250

2Q 2023 - 12-Month Period

CONSTRUCTION

3,153,000 sq. ft. completed

- Deliveries in Downtown Seattle and the Eastside totaled 3 million square feet, driving the market's overall 1.5 percent inventory expansion noted through the year ended in June.
- Supply in the Eastside grew by 4.5 percent, which was the highest gain among U.S. submarkets with more than 40 million square feet of stock.

VACANCY

360 basis point increase in vacancy Y-O-Y

- Local vacancy rates in Downtown Seattle and the Eastside each climbed by more than 400 basis points, lifting the marketwide figure to 17.1 percent.
- Both the Class A and B/C sectors noted all-time high vacancies, at 21.7 and 13.2 percent, respectively. These segments' metrics jumped up by at least 110 basis points during just the first half of 2023.

RENT

2.8% increase in the average asking rent Y-O-Y

- The Northend and Eastside's 5-plus percent rent growth outstripped more static trends in Downtown Seattle and Tacoma. This dynamic helped enable the metro's average asking rate to advance to $32.30 per square foot.
- In June, the average Class A asking rent was 7.4 percent below its year-end 2019 metric, while the Class B/C figure was 5.4 percent higher.

Investment Highlights

- For the second year in a row, the Northend was the focal point for office trades across the metro. The broader tenant trends of reduced space needs and cost-cutting measures are positioned to benefit the submarket's Class B/C leasing activity, generating investor interest. Locally, the average Class B/C asking rate grew by 10 percent in the year ended in June, reflecting local space demand. Listings in the submarket will likely stay on buyers' radars beyond 2023, as the area's rent growth was the fastest among any U.S. submarket with more than 15 million square feet of Class B/C inventory.
- Trading activity has flattened in the Eastside, with many investors taking a wait-and-see approach prior to the delivery of at least 7.5 million square feet over the next two years. However, properties that traded here over the first seven months of 2023 continued to garner premium pricing when compared to the rest of the metro. Specifically, Class B/C assets commanded an average per-square-foot price of approximately $380.
- At an average of $401 over the year ended in June, the metro's per-square-foot entry cost fell 2 percent below the prior 12-month period. This was, however, due to a nominal portion of top-tier assets trading in the span.