

# INVESTMENT FORECAST

OFFICE

Seattle-Tacoma Metro Area

IPA

INSTITUTIONAL  
PROPERTY  
ADVISORS


2020


## Tech Giants Absorbing Large Blocks of Space, Muting Impact of Elevated Construction


**Tight vacancy persists as tech demand remains robust.** Construction remains elevated, surpassing the pace of additions from the previous cyclical peak in 2015 and 2016. Currently, underway stock represents more than 4 percent of existing inventory, which may eventually test structural demand for office space. Near-term pressure is limited as pre-leasing approaches 80 percent and several large leases continue to be signed. Last year, 14 leases were inked for more than 100,000 square feet each, amounting to 2.8 million square feet of space. Apple, Amazon and Facebook are among the prominent firms swallowing large blocks of available space. Microsoft is also expanding its Redmond Campus to make room for an additional 8,000 employees in the next few years. Sufficient demand for Class A space is encouraging some traditional office users into lower-tier properties. As such, scarcity may emerge for Class B/C space in the metro during this economic cycle.


**Investors expanding portfolios in the market.** Institutional capital raised its presence in the market last year, lifting Class A sales velocity by more than 50 percent. Not only did more sales transact, the average size of top-tier properties climbed by approximately 60 percent as institutions and large tech companies banked on the positive long-term prospects in the market. First-year returns for stabilized Class A properties average close to 5 percent. At the other end of the spectrum, private, local buyers elevated sales velocity for Class C assets. Listings near downtown and the Northend generate multiple bids, as investors eye value-add opportunities. Average vacancy for Class C deals was elevated in 2019, a trend that's likely to continue into this year. Buyer interest in mid-tier properties is shifting away from value-add toward more stabilized properties. A lack of assets with a significant vacancy factor and elevated prices in the top-tier are contributing to this evolution in investor interest.


## 2020 Market Forecast

- Employment**  After adding 64,100 jobs during 2019, employers are generating 50,000 new spots this year. Office-using employment grows 3.2 percent, or by 17,500 positions.
 

up 2.3%
- Construction**  Developers expand stock 3.4 percent this year, up from the 2.1 percent growth in 2019 when 3.8 million square feet was constructed in the metro.
 

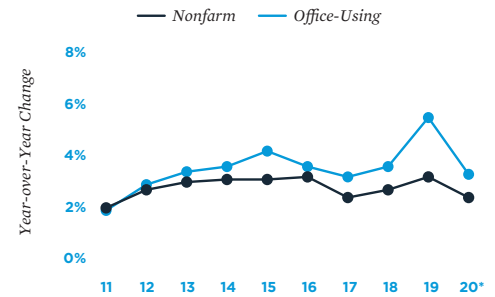
6.4 million sq. ft.
- Vacancy**  Vacancy tightens to 7.7 percent in 2020, near the lowest level of the current cycle. Last year, the rate rose 40 basis points.
 

down 30 bps
- Rent**  The average asking rent soars to \$40.19 per square foot in 2020, building on the 8.4 percent gain in 2019.
 

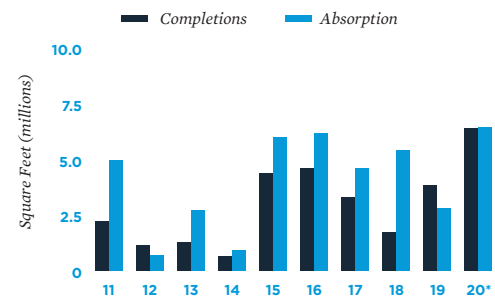
up 6.5%
- Investment**  Investors move down the quality scale in an attempt to find value-add opportunities while stabilized Class A and Class B properties draw out-of-state capital.
 

Investment

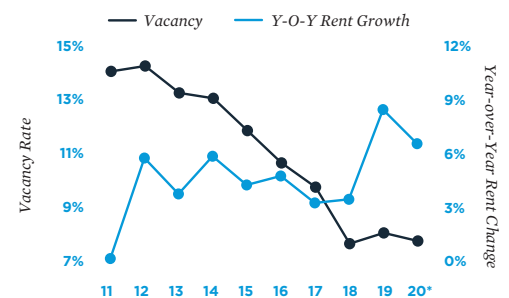
### Employment Trends



### Office Supply and Demand



### Vacancy and Rent Trends



\* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

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Metro-level employment, vacancy and asking rents are year-end figures and are based on the most up-to-date information available as of December 2020. Asking rent is based on the full-service marketed rental rate. 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 office data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guaranty, 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.