

# MARKET REPORT

OFFICE

Seattle-Tacoma Metro Area

IPA  
INSTITUTIONAL  
PROPERTY  
ADVISORS

2Q/21

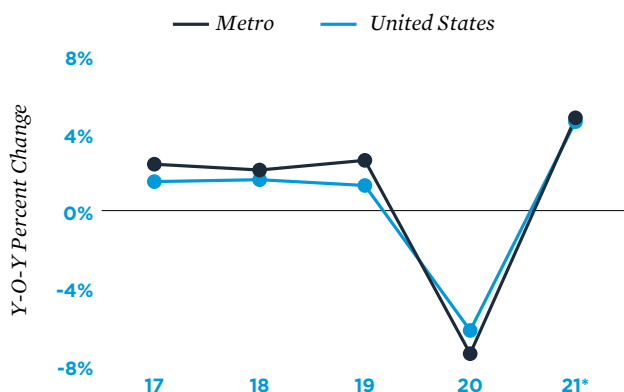
## Differing Approaches to Office Space Manifesting in Emerald City as Existing Campuses Expand

**Seattle-area office users are adapting to change.** The health crisis has prompted companies to re-evaluate their space needs, fostering different strategies in managing their footprints. Outdoor-equipment retailer REI relinquished its new Bellevue headquarters last year in favor of establishing several satellite offices. The firm will soon occupy a recently completed 69,000-square-foot building next to Lake Sammamish State Park as part of this plan. At the same time, other companies are continuing to seek centrally located towers. REI's vacated headquarters was acquired by Facebook, and Amazon is slated to grow its own Bellevue campus by over 2.6 million square feet within the next three years. Demand from these and other technology companies will help bolster the market during this period of disruption.

### Companies continue to move into new and existing spaces.

Although inventory is anticipated to expand by over 2 percent this year, the majority of space has commitments already in place, including campus expansions for Expedia and Costco. Prevalent pre-leasing will partially mitigate new supply's impact on fundamentals, supporting positive absorption in 2021. Through the first four months of the year, 27 tenants have already moved into floor plans of 10,000 square feet or more, comparable to the same span in 2019. Beyond Amazon and Facebook, large floor plates were occupied by the University of Washington in downtown Seattle, Nvidia in Redmond and XPO Logistics in Renton.

### Employment Trends



\* Forecast

Sources: BLS; CoStar Group, Inc.

## Office 2021 Outlook



**94,000  
JOBS**

*will be created*

### EMPLOYMENT:

The recovery of 60 percent of the jobs lost in 2020 will lead to a 4.8 percent rate of employment growth this year, with over 36,000 roles created as of the first quarter. About 9,000 of this year's hires will be employed by industries that traditionally use offices.



**4,450,000  
SQ. FT.**

*will be completed*

### CONSTRUCTION:

Development activity will slow from the 5.4 million square feet completed in 2020. Expansions to existing corporate campuses lead the delivery pipeline for 2021. Downtown Seattle and the Eastside will welcome the bulk of anticipated deliveries.



**180  
BASIS POINT**

*increase in vacancy*

### VACANCY:

An improving health situation will help more firms solidify space expectations, slowing the rate at which space is returned to the market. Vacancy will climb to 13 percent, below the 16 percent high recorded in 2010 following the global financial crisis.



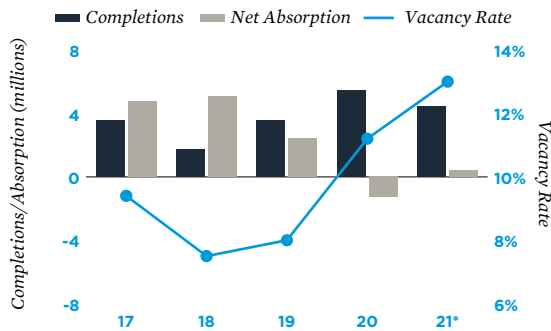
**1.4%  
DECREASE**

*in asking rent*

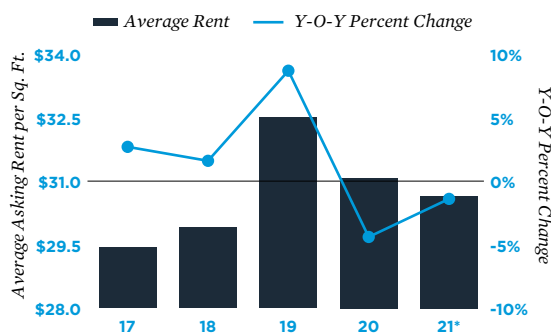
### RENT:

Elevated competition for tenants will continue to apply pressure to asking rates this year, pushing the metrowide average down to \$30.65 per square foot. The rate of decline is nevertheless slowing compared with the 4.4 percent drop recorded in 2020.

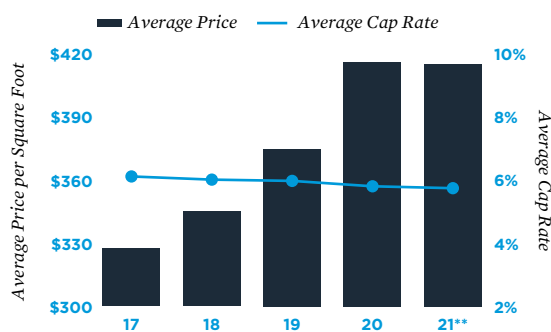
### Supply and Demand



### Rent Trends



### Sales Trends



\* Forecast \*\* Through 1Q

Sources: CoStar Group, Inc., Real Capital Analytics

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## 1Q21 – 12-Month Period



### CONSTRUCTION

**3,552,000 square feet completed**

- The delivery pipeline for the 12-month period ended in March was about 30 percent below the arrival total from the previous yearlong period. Over 2.6 million square feet was completed in Downtown Seattle.
- Another 7.5 million square feet is underway, concentrated heavily on the Eastside, with completion dates extending into 2023.



### VACANCY

**460 basis point increase in vacancy Y-O-Y**

- A 9.3 million-square-foot increase in the amount of vacant space over the past four quarters hiked the metro's vacancy up to 12.5 percent.
- Since March 2020, the rate has risen nearly twice as fast in the urban core as in the suburbs, up 610 basis points to 14.3 percent. The suburban rate of 10.9 percent is up 320 basis points year over year.



### RENT

**5.6% decrease in the average asking rent Y-O-Y**

- Four consecutive quarters of negative net absorption have pushed the metro's average asking rent down to \$31.06 per square foot.
- Downward pressure was strongest among Class A space, where the average fell 8.4 percent year over year in March to \$36.97 per square foot. The Class B/C mean fell 2.9 percent to \$26.34 per square foot.

## Investment Highlights

- Roughly half as many office properties changed hands in 2020 compared with 2019. Buyer activity surged in the opening three months of this year, however, bringing the trailing-12-month total to within 25 percent of the previous yearlong period's volume.
- The pandemic did not dispel annual price growth, which has exceeded 5 percent since 2018. Assets transacted at a mean sale price of \$415 per square foot over the past four quarters, up 8 percent year over year. The average cap rate compressed 20 basis points to 5.7 percent in that span.
- Investor activity dropped off the most in Downtown Seattle and on the Eastside, dipping only slightly in Tacoma and on the Northend. Buyers targeting low entry costs found options in Tacoma's CBD, where early-20th-century assets traded for prices under \$100 per square foot.
- The trading of medical offices remains subdued compared with 2019, with investors focused on assets in suburban Tacoma and in University Place. The average sale price was around \$380 per square foot.