

Savills Studley Report Seattle office sector

Q2 2018



SUMMARY

Market Highlights

TENANTS REMAIN ACTIVE

Tenants have leased 7.3 million square feet (msf) in the four most recent quarters, on par with the region's long-term average.

AVAILABILITY RATES UP SLIGHTLY

Seattle's overall availability rate rose to 13.7% as new construction boosted space options. Downtown Seattle's Class A availability rate jumped by 80 basis points to 12.0%.

SPIKE IN ASKING RENT

Overall and Class A asking rent both spiked significantly, rising to \$35.44 and \$46.96, respectively. The addition of new buildings such as 2&U, coupled with rent hikes in several buildings, boosted face rents. Asking rent for some space in the newest properties is pushing into the mid-\$50/sf-range.

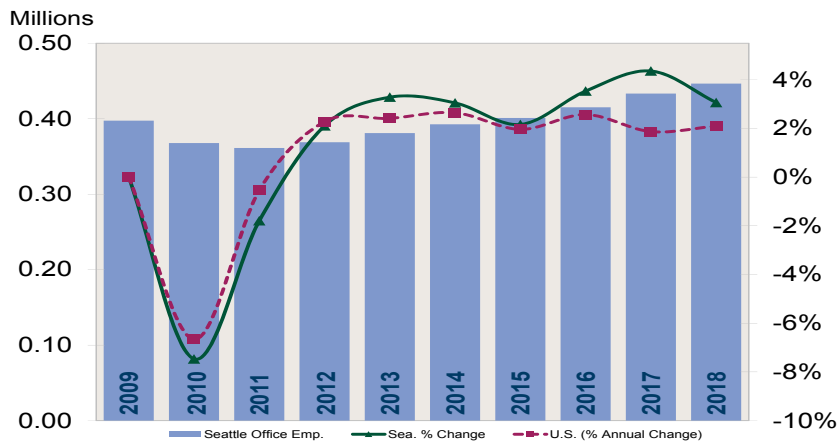
SALES SPIKE

Office property sales in the last six months through May 2018 totaled \$1.1 billion, rising by 42% compared to the \$756 million sold during the previous six months.

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"Tenants and investors continue to pay record rent and prices for best-in-class space and assets. The gap in pricing for the most sought-after massive complexes and smaller and mid-sized space continues to widen."

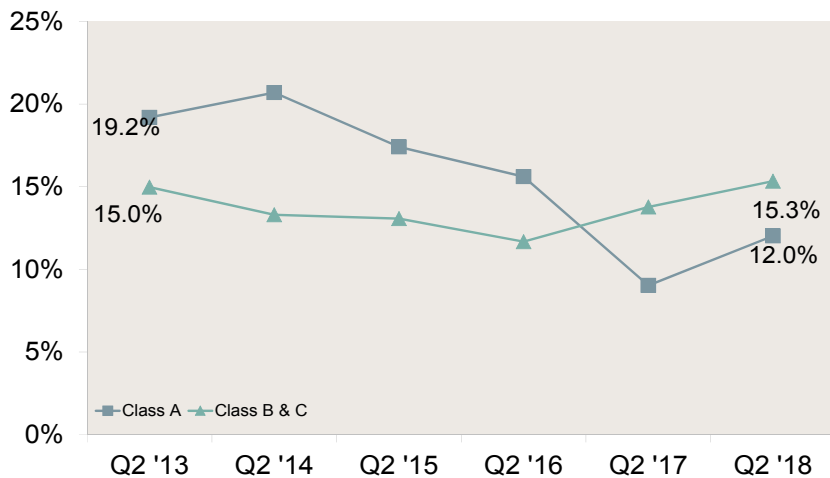
Eric Leland, Senior Managing Director

Office-Using Employment Trends

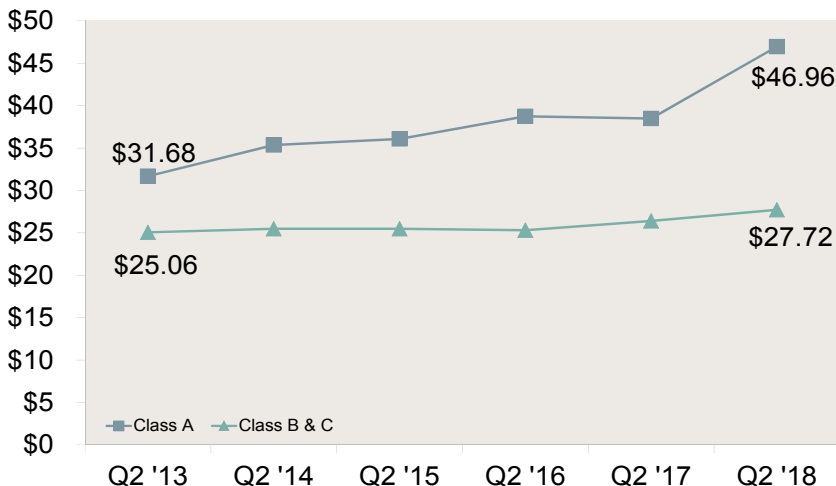


Source: Bureau of Labor Statistics^

Availability Rate Trends



Asking Rent Trends (\$/sf)



Taxing Growth

When growth becomes something to be contained or taxed it may be a sign of cycle that has shifted from a typical expansion to one that is hypertrophied. Seattle seems to have reached this point. Many of the top tech towns in the Bay Area of California – Menlo Park, Palo Alto, Redwood City and San Francisco – constantly struggle to balance the benefits and costs associated with growth. Some have imposed caps or moratoriums on development. Requirements that developers include public space or affordable units are the norm for major projects in Manhattan, Boston and Chicago.

In the case of Seattle's recent flirtation with a payroll tax, the goal was to fund housing and health services for the homeless. A \$500 tax per employee that was to be levied on any for-profit companies grossing at least \$20 million annually was cut in half to \$275 per person, and then ultimately withdrawn. Local officials may have sensed that even as Amazon pursues a second headquarters there was no sense in giving them an added push. Amazon had threatened to back away from construction of the 17-story, 405,000-sf Block 18, but has decided to move forward. However, Amazon may still sublet its 722,000-sf space at Rainier Square which is slated to deliver in 2020.

Expansion Carries On

The regional economy continues to surge forward, despite this local standoff and the potential for trade conflicts emanating from the nation's capital. Office-using employment increased by 4.4% in the last 12 months, exceeding the 1.9% growth rate nationally. In addition to frenetic expansion in its tech industries, Seattle is enjoying growth in other sectors. The Gates Foundation is planning to add a third building at its headquarters next to the Seattle Center. The world's largest charitable organization announced plans to start work on the "boomerang building."

Barring a dramatic shock to the economy, Seattle's office market appears to be poised for at least several more quarters with strong demand and challenging conditions for larger tenants in particular. In turn, developers are scrambling to build new product. The Amazon Block 18 development in Seattle commenced in May. Skanska's new 2+U development of 683,000 SF within 38 stories will be ready for occupancy in 2019. On the Eastside, the 316,000-sf, 11-story office building in Wright Runstads Spring District will feature

13,000 sf of retail space. Upon full build-out the project will have 5.3 msf of office, residential and retail space. A new light rail station, scheduled to be finished in 2023, will connect the development to Seattle, downtown Bellevue, and the Microsoft Campus.

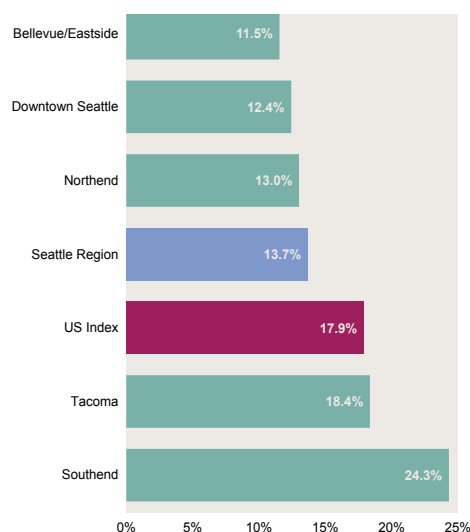
These transit-oriented developments promise to expand the space options for tenants preferring live/work/play settings. The tax could have set up cost arbitrage advantages for surrounding metros such as Bellevue and Tacoma. Leasing activity at some suburban properties that lack access to mass transit has been slower. In Renton, for example, the first two towers at Southport Office Campus will be completed by the end of 2018. A third tower, totaling nearly 200,000 sf is slated to be finished in 2019. The building enjoys some unique features – besides its lakefront location the two buildings will have rooftop and fourth-floor decks that give employees view of Lake Washington and 9-foot operable windows that allow employees to let fresh air into their space. Even with these unique features, there have been no announcements of any preleasing activity at the 600,000-sf complex. The lack of mass transit is likely a big factor, particularly given its location off a notoriously congested I-405.

Demand has been stronger in the heart of the Seattle CBD. Developers are repurposing unused facilities. Vancouver-based Onni Group is proposing two buildings on the site of the former Seattle Times headquarters. The developer had originally planned two residential towers but decided to switch to office, with 940,160 sf of office and more than 50,000 sf of retail.

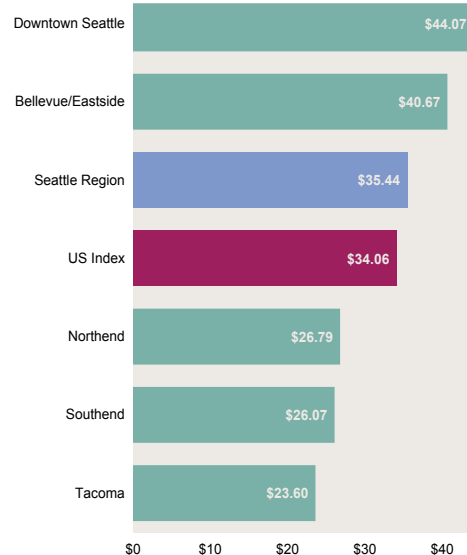
Full-Floor Options

Conditions are still challenging for all large tenants requiring space in core locations such as Downtown Seattle and Bellevue. Although most tech firms continue to expand at a rapid clip, many professional/business services and law firms are still operating more cautiously. Fortunately, smaller and mid-sized firms have a deeper pool of space to select from, particularly in Seattle's CBD and suburban Seattle. In contrast to their larger counterparts, smaller and mid-sized tenants do not have such a acute sense of urgency. Downtown Seattle continues to offer the deepest pool of space options - with 502 spaces between 1 and 5,000 sf, including 163 of those in Class A buildings. Tenants looking for 5,000 to 10,000 sf in a Class A building have 75 options Downtown and another

Vacancy Rate Comparison



Rental Rate Comparison (\$/sf)



Major Transactions

Tenant	Sq Feet	Address	Market Area
WeWork	119,954	1730 Minor Ave	Downtown
Premiera Blue Cross	65,586	3855 Monte Villa Pky	Northend
Dassult Systemes	18,534	10900 NE 4th St	Bellevue/Eastside
Omni Group	16,166	1411 4th Ave	Downtown
Polsinelli	10,920	1000 2nd Ave	Downtown
Weber Marketing	8,536	1200 6th Ave	Downtown
Massmutual Life Insurance	6,701	600 108th Ave NE	Bellevue/Eastside
AmWINS Group, Inc.	5,677	600 University St	Downtown
RLI Insurance	4,983	19020 33rd Ave W	Northend
Newmark Knight Frank	4,788	10900 NE 4th St	Bellevue/Eastside
Sum of Top 10 Leases	261,845		

38 in Bellevue/Eastside. This cohort of tenants may have a few more options, but this does not mean they will enjoy lower rent. In general, though, any tenant looking for space in Downtown Seattle or Bellevue faces bullish landlords and elevated rent.

As tight as the traditional occupier market is, the life sciences sector is even more challenging. Biopharm and life science companies are growing, as are local hospitals and research institutions. Fred Hutchinson Cancer Research Group, advised by Savills Studley, signed a 10-year, 106,000 sf lease for office and lab space at the former Seattle City Light Steam Plant at 1201 Eastlake Avenue E overlooking Lake Union. The research center has 13 buildings totaling 1.5 msf nearby and land to develop another 1.0 msf. Employees have access to some very distinctive features - those who own a kayak can commute via the lake lake. Owner Alexandria Real Estate Equities bought the property from ZymoGenetics in

2002 and is constructing a new speculative building at 188 Fairview Avenue with 205,000 sf of office and lab space. It recently added the 5th & Bell building at 2301 Fifth Avenue to its holdings- paying \$95 million for the property which is 50% leased to Amazon.

Amazon leased buildings continue to break pricing records. Westlake 202, located within Amazon's South Lake Union campus sold in May for \$129.5 million (\$996/sf) breaking the prior record (\$749/sf) set five years earlier for the same building. LaSalle Investment Management bought the building from GLL Real Estate Partners GmbH. Finally, in June, Invesco paid nearly \$270 million (\$453/sf) for the office component of Redmond Town Center, a big jump from the \$185 million that the seller paid in 2013. That same day, Microsoft acquired the Daytona Laguna campus in Redmond, paying \$250 million (\$345/sf).

Map	SUBMARKET	TOTAL	LEASING ACTIVITY		AVAILABLE SF			AVAILABILITY RATE			ASKING RENTS PSF		
		SF (1000's)	Last 12 Mos	Net Absorp Last 12 Mos	This Qtr	% Change from Last Qtr	Yr Ago	This Qtr	pp Change from Last Qtr (1)	Yr Ago	This Qtr	% Change from Last Qtr	Yr Ago
1	Downtown Seattle	55,564	3,437	627	6,907	5.4%	6,880	12.4%	0.5%	12.5%	\$44.07	14.7%	\$37.44
	Downtown Seattle - Class A	34,887	2,308	717	4,049	15.1%	3,722	11.6%	1.3%	10.9%	\$50.25	12.8%	\$43.02
2	Bellevue/Eastside	27,657	2,581	535	3,192	-0.9%	3,380	11.5%	-0.1%	12.2%	\$40.67	13.8%	\$34.08
	Bellevue/Eastside - Class A	16,132	1,427	366	1,776	0.7%	1,759	11.0%	0.1%	10.9%	\$45.05	11.2%	\$38.86
3	Northend	8,697	794	166	1,132	-6.7%	1,361	13.0%	-0.9%	15.6%	\$26.79	-1.7%	\$25.37
	Northend - Class A	1,275	294	136	77	-10.1%	212	6.0%	-0.7%	16.6%	\$30.59	0.1%	\$28.78
4	Southend	9,570	309	-176	2,278	-2.0%	2,235	23.8%	-0.5%	23.8%	\$26.07	9.4%	\$23.00
	Southend - Class A	1,167	47	26	295	-1.8%	124	25.3%	-0.5%	12.8%	\$44.25	0.9%	\$27.22
5	Tacoma	7,368	161	113	1,353	-2.9%	1,188	18.4%	-0.5%	16.1%	\$23.60	2.2%	\$23.26
	Tacoma - Class A	1,109	28	3	341	-2.2%	76	30.7%	-0.7%	6.9%	\$28.79	2.9%	\$28.94
1-5	SEATTLE REGION TOTAL	108,857	7,282	1,265	14,862	1.1%	15,044	13.7%	0.1%	13.9%	\$35.44	12.6%	\$30.88
	SEATTLE REGION TOTAL - Class A	54,569	4,104	1,249	6,538	8.7%	5,893	12.0%	0.8%	11.0%	\$46.96	11.9%	\$39.23

Please contact us for further information

Savills Studley

1301 2nd Avenue, Suite 1950
Seattle, WA 98101
(206)-773-2270

Contacts

Jose Oncina - Senior Managing Director
Joncina@savills-studley.com

Eric Leland - Senior Managing Director
eleland@savills-studley.com

(1) Percentage point change for availability rates.

Unless otherwise noted, all rents quoted throughout this report are average asking gross (full service) rents psf.

Statistics are calculated using both direct and sublease information.

Short-term sublet spaces (terms under two years) were excluded.

^Unless otherwise noted, source for data is Savills Studley.

The information in this report is obtained from sources deemed reliable, but no representation is made as to the accuracy thereof. Statistics compiled with the support of The CoStar Group.

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