

Savills Studley Report Seattle office sector

Q3 2018



SUMMARY

Market Highlights

TENANTS REMAIN ACTIVE

Tenants have leased 8.0 million square feet (msf) in the four most recent quarters, on par with the region's long-term average.

AVAILABILITY RATES INCH HIGHER

Seattle's overall availability rate inched up by 10 basis points to 13.8%. The Class A availability rate rose by 30 basis points to 12.2%, due primarily to a spike in the Southend's availability rate.

SPIKE IN ASKING RENT

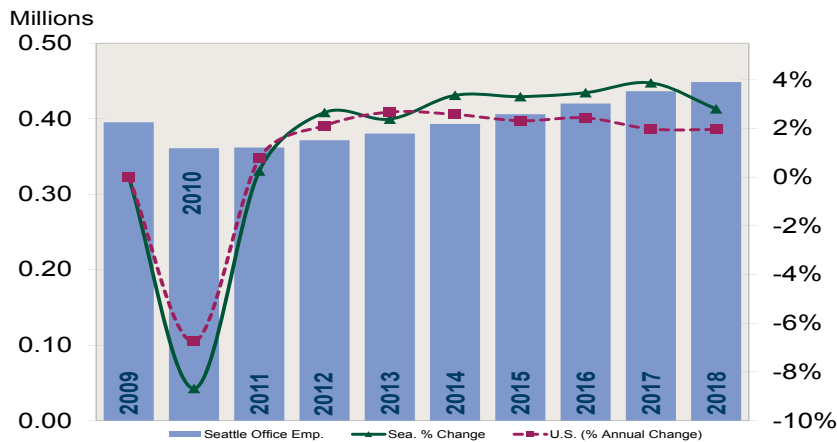
The overall asking rent rose by 2.7% to \$36.40. The Class A average rent fell slightly, dipping by 1.4% to \$46.29 as new product continued to lease up. Asking rent for some space in the newest properties is pushing into the mid-\$50/sf range.

SALES SPIKE

Office property sales during the first seven months of the year totaled \$3.4 billion, a 67% increase compared to the first seven months of 2017.

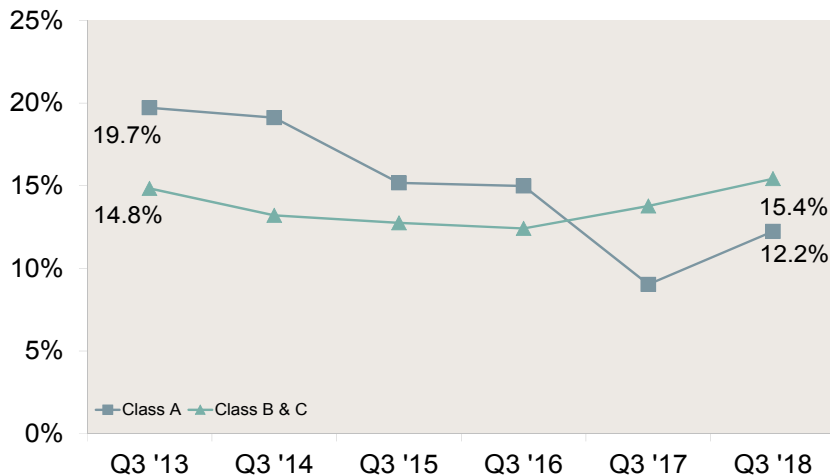
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"Amazon, Google, Facebook and WeWork were all active in Seattle's office market in recent months. As these companies absorb entire buildings at a time, the sense of urgency among larger tenants to secure big blocks of space intensifies. Competition for the largest Class A space is brisk, but smaller and mid-sized tenants have more options across most of the market."
Eric Leland, Senior Managing Director

Office-Using Employment Trends

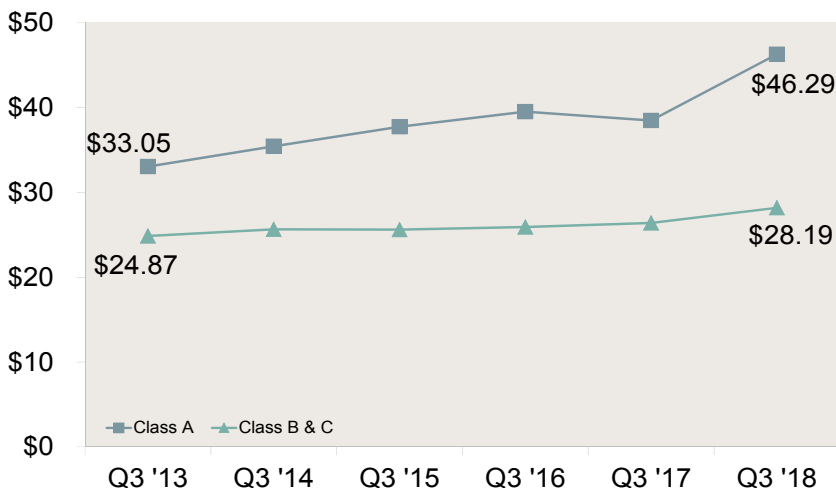


Source: Bureau of Labor Statistics^

Availability Rate Trends



Asking Rent Trends (\$/sf)



G,W,A,F Binge Continues

Google, WeWork, Amazon and Facebook continue to devour Seattle's choicest office spaces. In prior cycles, a market would have felt fortunate to capture demand from just one or two of these firms. In the last several years, this group has traveled as a pack, grabbing talent and entire buildings at a time in top and secondary tech cities around the U.S. For the time being, there seems to be little to deter these top tech firms, and others, from securing more space to accommodate their rapid expansion. Cost is a secondary concern. Property owners throughout Seattle continue to increase asking rent, and tech firms continue to pay them. Demand is seemingly inelastic.

Rent at the very top of the market, in properties constructed in the past few years such as NorthEdge, Madison Centre and Troy Block is still rising, and has pushed above \$50/sf, with double-digit increases from a year ago. In Lake Union, for example, 1818 Fairview Avenue is listing space with rent in the mid-\$50/sf NNN range. A lack of full floors and big blocks of premium space in Lake Union and Pioneer Square has also boosted demand for older Class A and Class B properties as well as converted warehouses.

Seattle, perhaps even more so than Silicon Valley and San Francisco, is a very top-heavy market. Amazon has become the tenant of first resort for new developers in prime locations and those with quality blocks of space. In September, Amazon announced that it will take the entire Expedia HQ tower in Bellevue. The 16-year, 413,100-sf lease will start after Expedia relocates to its new headquarters on the Seattle waterfront. The location will accommodate Amazon's plans to hire another 2,500 employees by 2020.

Google and WeWork Scramble for Space

Google signed an 80,000-sf lease at One Twelfth @ Twelfth in Bellevue and reportedly will take another 30,000 sf at the building. The lease comes as the company said it plans to build a third 322,000-sf tower at its South Lake Union campus, pushing the size of the complex to well over 900,000 sf. Google is also rumored to be considering a purchase of the three-building, 660,000-sf block at Kirkland Urban. Wave Broadband and Tableau have already leased space at the project slated to deliver later this year.

WeWork and other coworking providers are

driving additional competition for space. WeWork is setting up centers in some of Puget Sound's newest and highest-priced buildings. It signed a 118,556-sf lease at The Summit II in Bellevue, for its second Bellevue location. In Downtown Seattle WeWork leased 91,096 sf at Madison Centre (505 Madison Street). The Seattle office market now has more than 2.0 msf of coworking space as well as the first WeLive community on the West Coast. The "community-based apartments" will be located in Martin Selig's Belltown building on Third and Lenora Streets, expected to be completed in 2020.

Relocations Supplement Activity

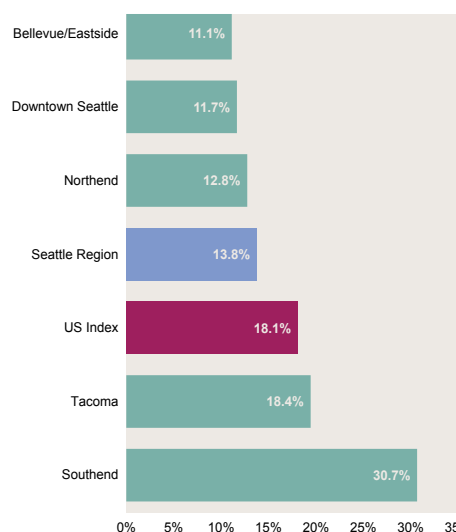
In addition to demand from tech and coworking firms, the sustained movement of corporate headquarters into Puget Sound is also boosting demand for quality space. As law firms, banks and general professional/business services firms compete for talent and space, it is imperative that they remain efficient in their office layout. Many are still densifying; however, over the last two years, more companies have been willing to spend to secure talent and to design a comfortable, engaging and convenient workplace. During the third quarter, for example, Outreach leased 84,074 sf at 333 Elliott Avenue West in Downtown's Queen Anne/Magnolia neighborhood. In other leases, Rover completed a 40,833-sf lease at 720 Olive Way in Downtown Seattle.

The combined impact of all of this leasing is continued tightening, particularly when it comes to big blocks of premium space. There are more than 20 buildings offering a block of 50,000 sf or more in Downtown Seattle and Bellevue/Eastside, but new construction is much more depleted. Across the entire region, Seattle has just over 1.0 msf of new speculative office product underway. Facebook is also reportedly in the market for space in several existing Bellevue properties as well as within the Spring District. The impact on leasing of Microsoft's expansion at its Redmond campus, may not be as apparent but it is drawing more demand to this area – particularly as companies anticipate the future infrastructure improvements including the addition of a light rail station.

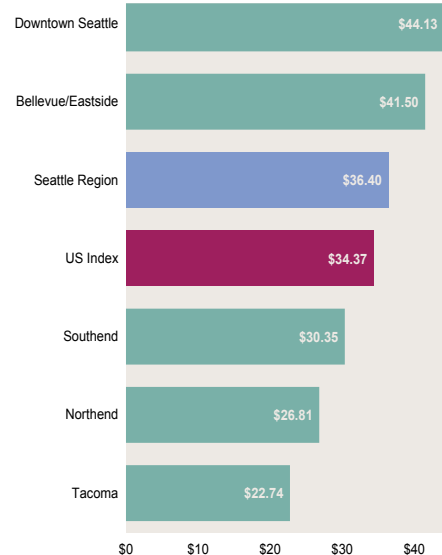
Conversions & Tear-Downs on the Rise

Tech and creative sector tenants still display a strong preference for adaptive reuse buildings. The dearth of blocks of space in South Lake Union and Pioneer Square is

Vacancy Rate Comparison



Rental Rate Comparison (\$/sf)



Major Transactions

Tenant	Sq Feet	Address	Market Area
Amazon.com, Inc.	413,100	333 108th Ave NE	Bellevue/Eastside
WeWork	118,556	10885 NE 4th St	Bellevue/Eastside
Outreach	84,074	333 Elliott Ave W	Downtown
Google	80,000	1120 112th Ave NE	Bellevue/Eastside
Rover	40,833	720 Olive Way	Downtown
Green Point Tech	36,604	11724 NE 195th St	Northend
Jacobs	31,023	1100 112th Ave NE	Bellevue/Eastside
Booking.com	22,191	505 Madison St	Downtown
Japanese Consulate	13,375	701 Pike St	Downtown
Commerce Technologies	7,138	2003 Western Ave	Downtown
Sum of Top 10 Leases	846,894		

justifying the demolition and conversion of older properties. Alexandria Equities, for example, recently paid \$33 million for 701 Dexter in South Lake Union. The REIT plans to demolish the structure and construct a 10-story lab and office building. In September, Martin Selig picked up three parcels on the waterfront in Downtown, including the 24,000-sf Commuter Building. Plans for the three parcels call for 300,000 sf of office space, 25,000 sf of retail and 150 residences.

Space Pockets

Smaller and mid-sized firms have a deeper pool of space to choose from. Tenants looking for 25,000 sf or more have more than 100 different buildings to consider. State Farm's move of some jobs to DuPont has opened up blocks at the Frank Russell Building and Columbia Bank Center. Some suburban location have a few more options. A flurry of relocations and space consolidations have increased the number

of options in Renton. Space vacated by Boeing is still unfilled. Additionally, Weyerhaeuser and FAA have moved to other properties. Finally, the Southport office campus, scheduled to deliver in 2019, still has just under 690,000 sf with no pre-leasing so far.

Looking Forward

The Puget Sound Forecaster projects that local employment growth will total 2.5% in 2018, but then slow to 1.4% in 2019. The likes of Amazon and Google seem to have a momentum of their own. Conditions in the broader economy may be about as good as they are going to get, though. The positive impact of tax reform is expected to slow. Concerns about growing costs and interest rates are also rising. Finally, the potential regulation of tech companies by legislators in the nation's capital is an x-factor for any tech center such as Seattle. Google and Facebook have already faced regulation in the EU and China.

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	59,223	3,481	627	6,915	0.1%	6,735	11.7%	-0.8%	12.3%	\$44.13	0.1%	\$34.39
	Downtown Seattle - Class A	38,035	2,294	717	4,141	2.3%	3,535	10.9%	-0.7%	10.3%	\$50.22	-0.1%	\$39.66
2	Bellevue/Eastside	27,976	3,132	535	3,114	-2.4%	3,294	11.1%	-0.4%	11.9%	\$41.50	2.1%	\$28.60
	Bellevue/Eastside - Class A	16,572	1,945	366	1,676	-5.6%	1,647	10.1%	-0.9%	10.2%	\$45.60	1.2%	\$33.36
3	Northend	8,424	813	166	1,075	-5.0%	1,320	12.8%	-0.3%	15.2%	\$26.81	0.1%	\$19.03
	Northend - Class A	1,230	266	136	93	21.1%	203	7.6%	1.5%	15.9%	\$30.67	0.3%	\$20.83
4	Southend	9,694	357	-176	2,974	30.5%	2,220	30.7%	6.9%	23.7%	\$30.35	16.4%	\$17.28
	Southend - Class A	1,687	64	26	961	225.5%	122	56.9%	31.7%	12.6%	\$41.52	-6.2%	\$26.74
5	Tacoma	7,455	165	113	1,450	7.2%	1,164	19.4%	1.1%	15.8%	\$22.74	-3.6%	\$19.55
	Tacoma - Class A	1,067	37	3	299	-12.2%	82	28.0%	-2.7%	7.4%	\$29.65	3.0%	\$27.42
1-5	SEATTLE REGION TOTAL	112,772	7,948	1,265	15,527	4.5%	14,732	13.8%	0.1%	13.6%	\$36.40	2.7%	\$25.50
	SEATTLE REGION TOTAL - Class A	58,591	4,606	1,249	7,170	9.7%	5,589	12.2%	0.3%	10.4%	\$46.29	-1.4%	\$34.51

Please contact us for further information

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(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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