

COVID-19 likely to stall or reverse rent growth seen over past two years

Seattle was one of the first U.S. cities seriously impacted by the rapidly evolving novel coronavirus pandemic and, at the end of March, Governor Jay Inslee issued stay-at-home orders to help prevent the spread of the virus. Office occupiers swiftly implemented remote-work policies as all non-essential businesses were forced to close. Prior to any COVID-19 related disruption, asking rents in Seattle continued to climb. In the first quarter of 2020, the overall average office rent was \$39.38 per square foot (psf), reflecting increases of 4.7% over the last year and 2.4% over the quarter. Rents ranged from a low of \$25.74 psf in Tacoma, to a high of \$47.48 psf in Downtown Seattle. Class A rents increased by 4.3% year-over-year and 1.5% over the quarter, now standing at \$48.28 psf. This growth is likely to stall or reverse as market uncertainty and a halt in activity will lead to downward repricing.

Availability increases over the quarter, ongoing disruption likely to bring more options to the market

Seattle's overall availability rate ended the quarter at 12.4%, down over the year, but up 60 basis points over the quarter. Similarly, Class A availability rates remained flat year over year but increased by 100 basis points in the first quarter. Central Business District and suburban fundamentals illustrate a striking disparity, with first-quarter availability rates of 10.9% in the Core and 18.2% in the suburbs. As businesses take stock amidst ongoing uncertainty, additional options are likely to return to market which will push availability up higher.

Leasing activity strong in Q1 ahead of shutdown, expect demand to dry out in Q2 2020

Leasing grew to 2.0 million square feet (msf) in Q1 2020. This is up 3.0% versus the previous quarter and 14.2% year over year. Technology sector tenants were particularly active, with a handful of large new leases and renewals seen. The largest leases of the quarter were signed by Microsoft (246,637 sf) at 15550 NE Turing Street in Bellevue/Eastside, Google (136,000 sf) at 503 6th Street S. in Bellevue/Eastside, and ExtraHop (82,000 sf) at 520 Pike Street in the Downtown submarket. Activity will not keep pace going into the second quarter as many tenants in the market now are putting a hold on decisions until there is more economic and office market clarity.

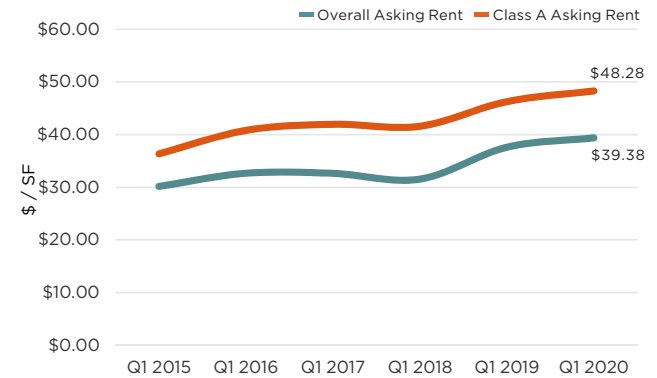
Outlook

- Seattle's Core will notably weaken, and suburban Southend will take much longer than anticipated to absorb excess vacancies given COVID-19 uncertainties
- Over 2.1 msf are currently under construction, accounting for 1.9% of total office inventory in the region
- Seattle area employment was projected to grow by 3.0% per year over the next five years, resulting in an aggregate of 268,000 new jobs through year-end 2024 prior to COVID-19; revised projections, which assume a 20% net decline in U.S. employment in 2020, imply a 23.8% job loss in the region over the same period

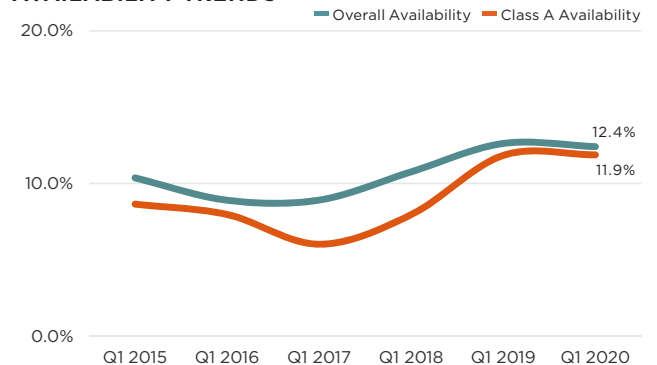
KEY STATISTICS

	Q1 2019	Q1 2020	y-o-y Change
Inventory	112.1 MSF	112.9 MSF	▲
Availability Rate	12.6%	12.4%	▼
Asking Rental Rate	\$37.61	\$39.38	▲
Class A Asking Rental Rate	\$46.27	\$48.28	▲
Quarterly Leasing Activity	1.7 MSF	2.0 MSF	▲

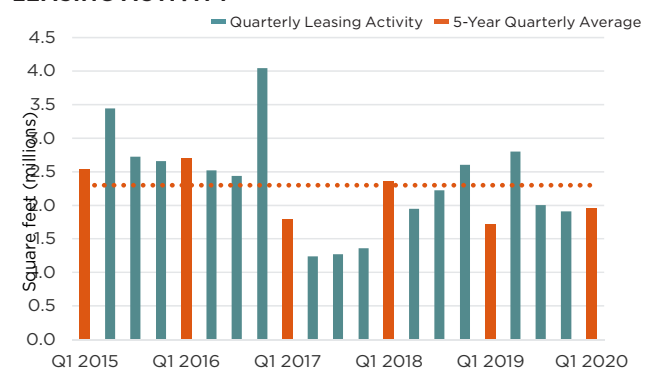
ASKING RENT TRENDS



AVAILABILITY TRENDS



LEASING ACTIVITY



MAJOR TRANSACTIONS

7 of 10

major transactions were new locations

65.9%

of large transactions occurred in the Bellevue/Eastside submarket

71.4%

Technology sector tenants represented 71.4% of major transactions

Tenant	Square feet	Address	Transaction type	Submarket	Industry
Microsoft	246,637	15550 NE Turing Street	New Location	Bellevue/Eastside	Technology
Google	136,000	503 6th Street S	New Location	Bellevue/Eastside	Technology
ExtraHop	82,000	520 Pike Street	Renewal	Downtown	Technology
ProbablyMonsters	76,115	15800 SE Eastgate Way	New Location	Bellevue/Eastside	Technology
GitHub	65,000	10900 NE 4th Street	New Location	Bellevue/Eastside	Technology
BlackRock	64,215	601 Union Street	Renewal	Downtown	Financial Services
RealSelf	49,799	83 S King Street	Renewal	Downtown	Personal Services
GSA	47,522	1301 A Street	New Location	Tacoma	Government
CellNetix Pathology & Laboratories	45,677	12501 E Marginal Way S	New Location	Southend	Healthcare
Volkswagon	34,873	7500 166th Avenue NE	New Location	Bellevue/Eastside	Manufacturing

Source Savills Research

For more information, please contact us:

Savills

1301 2nd Avenue
Suite 1950
Seattle, WA 98101
+1 206 773 2270

Jose Oncina

Senior Managing Director
Co-Branch Manager
joncina@savills.us

Eric Leland

Senior Managing Director
Co-Branch Manager
eleland@savills.us

Eric Blohm

Senior Managing Director
eblohm@savills.us

Christopher Kagi

Associate Director
ckagi@savills.us

Troy Leland

Managing Director
tleland@savills.us

Sarah Dreyer

Vice President
Head of Americas
Research
+1 202 540 5510
sdreyer@savills.us

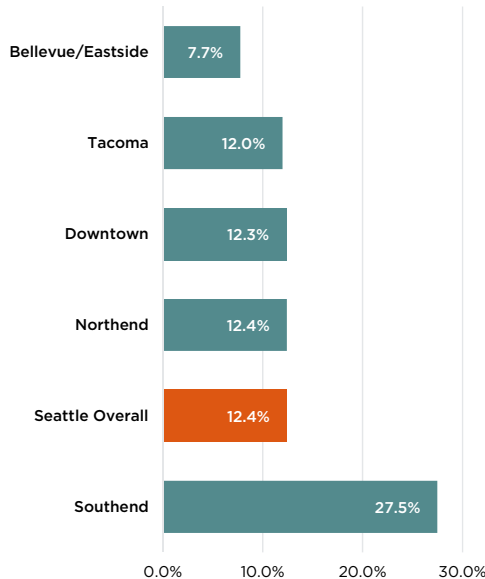
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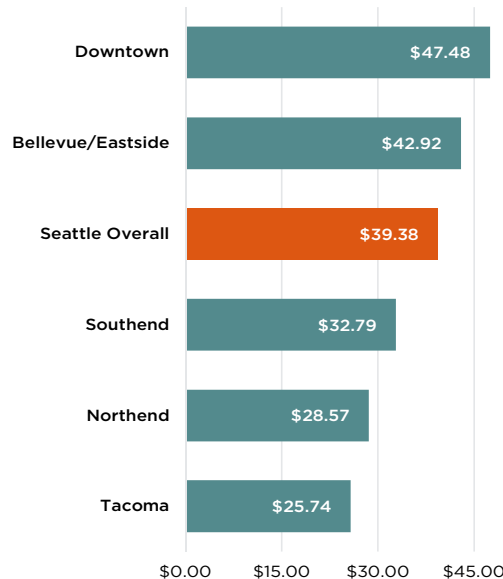
AVAILABILITY RATE COMPARISON

Seattle Submarkets



RENTAL RATE COMPARISON (\$/SF)

Seattle Submarkets



Unless otherwise noted, all rents quoted throughout this report are average asking gross (full service) rents per square foot (psf). Statistics are calculated using both direct and sublease information. Current and historical availability and rent data are subject to change due to changes in inventory.

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