

As COVID-19 disruption continues in Seattle, leasing activity drops to a five-year low

Leasing dropped to a five-year low, with just 1.2 million square feet (msf) in the second quarter of 2020. This is down 39.1% versus the previous quarter and 57.2% year over year. Second quarter leasing activity was significantly (46.4%) below the five-year average of 2.2 msf per quarter. Quarterly leasing previously peaked at 4.1 msf in the fourth quarter of 2016 and has bottomed at the current level. WeWork is looking to terminate some of their leases across the country and Seattle based The Riveter closed its coworking operations in June. State of coworking isn't looking on bright side leaving management teams to rethink office footprint. The largest leases of the quarter were signed by Amazon at 7400 166th Avenue NE (111,368 square feet (sf)) in Bellevue, Board of Regents, University of Washington (56,677 sf) at 1001 4th Avenue in Downtown, and Nvidia (47,158 sf) at 11611 Willows Road NE in Bellevue. Market conditions will continue to soften in 2020 due to the repercussions from the COVID-19 shutdown.

Overall and Central Business District (CBD) availability rates increased for two consecutive quarters

Seattle's overall availability rate of 13.1% in Q2 2020 reflects an annual increase of 90 basis points (bps) and an increase of 70 bps over the quarter. Similarly, Class A availability rates increased 110 bps year over year and increased by 70 bps in the second quarter. CBD and suburban fundamentals illustrate a striking disparity, with second-quarter availability rates of 11.8% in the CBD and 17.8% in the suburbs. However, CBD availabilities rose over the quarter by 1.7%, while suburban availabilities declined by 2.1%. Submarket availability rates ranged from 7.3% in Bellevue/Eastside and 10.4% in Tacoma, to a high of 27.6% in Southend.

Still, asking rents continue to rise with many owners taking a "wait and see" approach

In the second quarter of 2020, the overall average office rent was \$39.73 per square foot (psf), reflecting increases of 5.4% over the last year and 0.8% over the quarter. Rents ranged from a low of \$25.33 psf in Tacoma, to a high of \$47.24 psf in Downtown Seattle. Class A rents increased by 5.3% year-over-year but were flat over the quarter, now standing at \$48.29 psf. Over the trailing four quarters through the second quarter of 2020, CBD rents increased by 3.7% to \$45.76 psf, while suburban rents increased 5.2% to \$31.26 psf. With ongoing uncertainty, landlords have been hesitant to significantly lower asking rates, however tenants should expect more favorable and flexible terms as the market continues to soften.

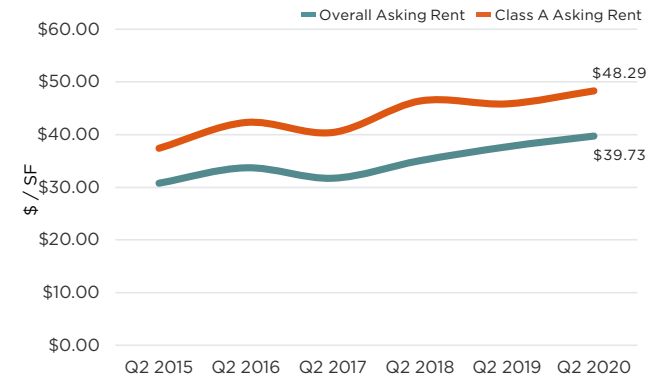
Outlook

- As with other markets, the pandemic has reversed a fundamentally strong office market in Seattle
- Over 2.1 msf are currently under construction, accounting for 1.9% of total office inventory in the market
- Prior to COVID-19, Seattle 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
- Revised projections, which assume a 20% net decline in U.S. employment in 2020, however Amazon, Microsoft and Costco headquartered in Seattle are experiencing revenue growth to offset some of Boeing, Alaska Air and Expedia layoffs

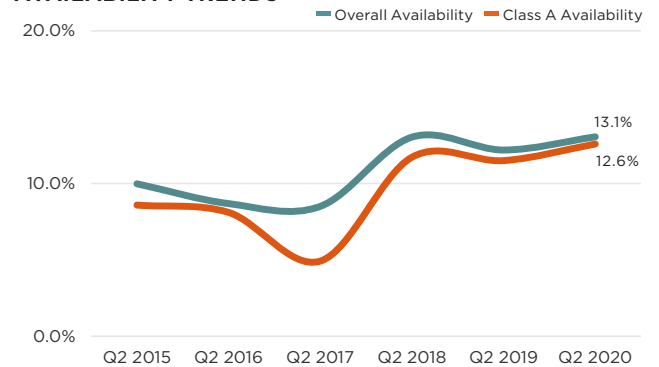
KEY STATISTICS

	Q2 2019	Q2 2020	y-o-y Change
Inventory	112.1 MSF	112.9 MSF	▲
Availability Rate	12.2%	13.1%	▲
Asking Rental Rate	\$37.70	\$39.73	▲
Class A Asking Rental Rate	\$45.84	\$48.29	▲
Quarterly Leasing Activity	2.8 MSF	1.2 MSF	▼

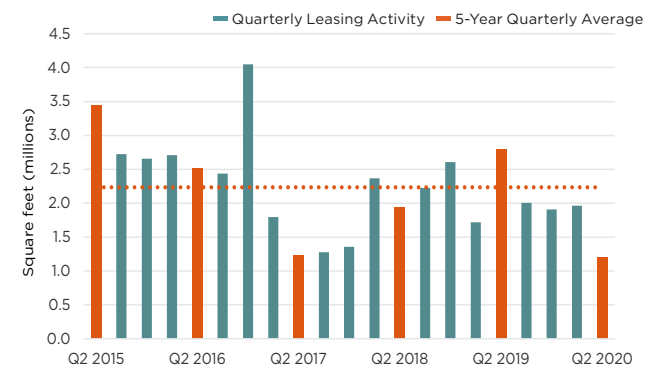
ASKING RENT TRENDS



AVAILABILITY TRENDS



LEASING ACTIVITY



MAJOR TRANSACTIONS

8 of 10

major transactions were new locations

65.2%

of large transactions occurred in the Bellevue/Eastside submarket

69.9%

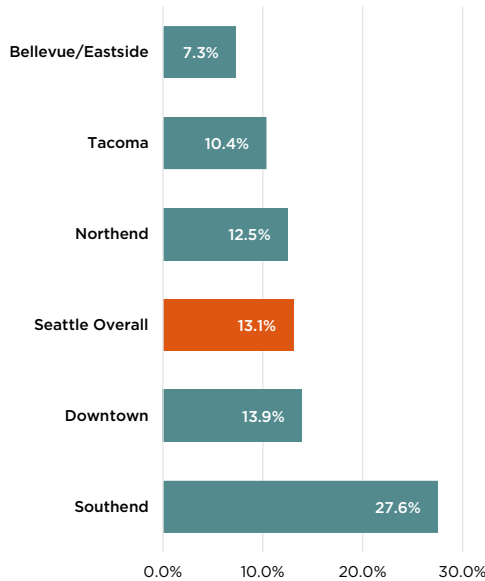
Technology sector tenants represented 38.3% of major transactions

Tenant	Square feet	Address	Transaction type	Submarket	Industry
Amazon	111,368	7400 166th Avenue NE	New Location	Bellevue/Eastside	Technology
Board of Regents, University of Washington	56,677	1001 4th Avenue	New Location	Downtown	Education
WB Games	50,265	12131 113th Avenue NE	Expansion	Bellevue/Eastside	Technology
Nvidia	47,158	11611 Willows Road NE	New Location	Bellevue/Eastside	Technology
Department of Corrections	40,790	1550 4th Avenue S	Renewal	Downtown	Government
WSP USA, Inc.	34,807	33301 9th Avenue S	New Location	Southend	Professional Services
Infosys Technologies	28,704	14475 NE 24th Street	New Location	Bellevue/Eastside	Technology
DreamBox Learning	27,773	777 108th Avenue NE	New Location	Bellevue/Eastside	Technology
Crystal Dynamics	21,524	11900 NE 1st Street	New Location	Bellevue/Eastside	Technology
Hiya	21,000	110 Union Street	New Location	Downtown	Technology

Source Savills Research

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.

The information in this report is obtained from sources deemed reliable, but no representation is made as to the accuracy thereof. Unless otherwise noted, source for data is Savills research.

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