MARKET IN MINUTES
Savills Research

Q4 2022 - Office

Seattle/Puget Sound

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Seattle/Puget Sound office market concludes 2022 with a sudden and significant decline in leasing activity

Much like the national environment, the Seattle/Puget Sound economy and workforce has grappled recently with unresolved back-to-office policies and layoffs in the technology sector. In the wake of this, leasing activity totaled 1.0 million square feet (msf) in the fourth quarter. This tally marked a 47.4% decline from last quarter (1.9 msf), and a 37.5% drop-off from Q4 2021 (1.6 msf). While full year 2022 leasing (5.5 msf) was down just 2.1% from 2021 (5.5 msf), transaction levels remained 36.3% below 2019 (8.4 msf), prior to the start of the pandemic. Despite a recent decline in office-using employment growth, the region's unemployment rate has remained low at 2.9% (as of November 2022), outperforming the 3.7% national rate. Among the largest deals completed this quarter were Brooks Sports, which leased 112,675 square feet (sf) at 3435 Stone Way North in Lake Union, while Kimley-Horn leased 46,466 sf at 1201 3rd Avenue in Seattle's Central Business District (CBD).

Availability rate swells while sublease options continue to abound

The Seattle/Puget Sound office availability rate steeply increased this period to 22.3%, jumping 270 basis points (bps) year over year. Available sublease space played a significant role, growing by 1.3 msf over the course of 2022 to end the year at 6.8 msf. The recent softening of the market has been relatively sudden as landlords and sublessors struggled to attract and retain occupiers in an environment of weakened demand. Among the largest sublease availability coming to market in the fourth quarter, Zillow Group looked to unload more than 111,000 sf at Russell Investments Center in the CBD, while Shape Therapeutics sought to sublease 85,000 sf at 700 Dexter Avenue North in Lake Union.

Asking rents on the rise, but landlord concessions offset increases

Despite a clear decline in demand across the market, asking rental rates have paradoxically been on the rise as most landlords are more apt to increase concessions than to lower rents when demand decreases. The overall rate increased 11.7% to $44.36 per square foot (psf) over the past year. Class A asking rates rose more moderately, by 7.9% to $50.45 psf. High-priced new development has had a major impact in the overall rise in asking rates. Bellevue CBD observed the highest average asking rate of $54.62 psf, along with a comparatively low availability rate (11.2%) indicating tighter local market conditions there. However, landlord concessions, including rent abatement and tenant improvement allowances, have been observed at above average levels as landlords are forced to more aggressively compete for occupancy amid declining demand. These generous concessions have had the impacting of lowering average effective rents.

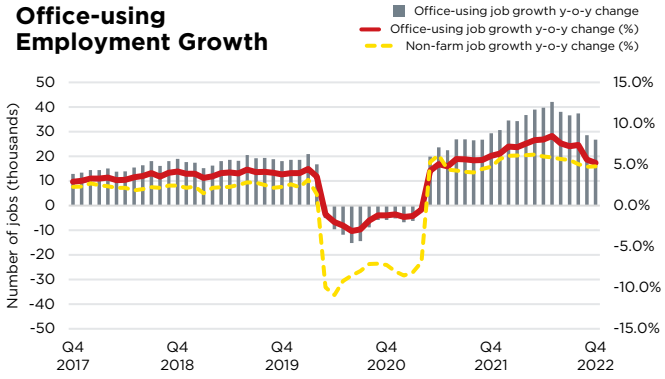
Outlook

- As companies continue to reevaluate their office requirements and increasingly opt for hybrid and remote work policies, the near-term outlook for the Seattle/Puget Sound office market remains uncertain
- Expect continued high availability into 2023 and beyond as technology sector layoffs mount and office demand remains low
- With some tenants withdrawing from the market and interest rates continuing to rise, Seattle may begin to witness an influx of distressed office properties

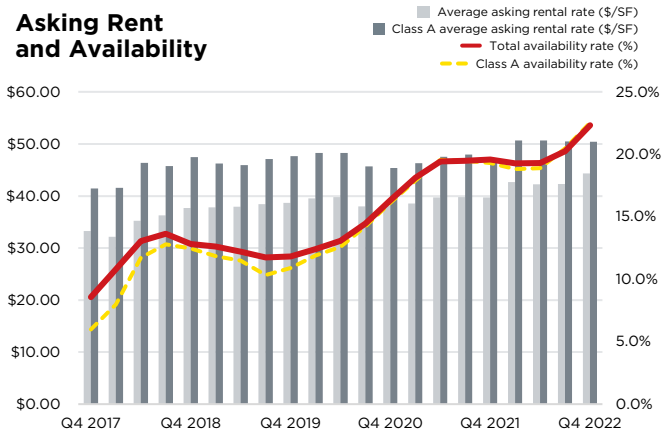
Key Statistics

	Q4 2021	Q4 2022	y-o-y Change
Inventory	114.9 MSF	119.7 MSF	▲
Availability Rate	19.6%	22.3%	▲
Asking Rental Rate	$39.70	$44.36	▲
Class A Asking Rental Rate	$46.77	$50.45	▲
Quarterly Leasing Activity	1.6 MSF	1.0 MSF	▼
Available Sublease Space	5.5 MSF	6.8 MSF	▲

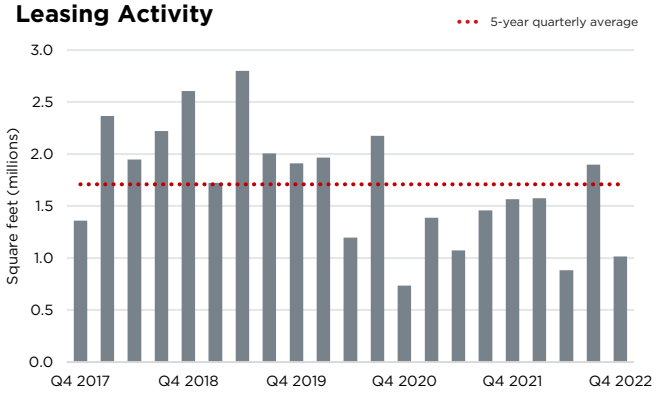
Office-using Employment Growth



Asking Rent and Availability



Leasing Activity



By the Numbers

2.9%
Seattle-Bellevue-Everett, WA unemployment rate (as of Nov 2022)

5.2%
Office-using employment growth year over year (as of November 2022)

1.9 msf
Office space currently under construction

Top Transactions

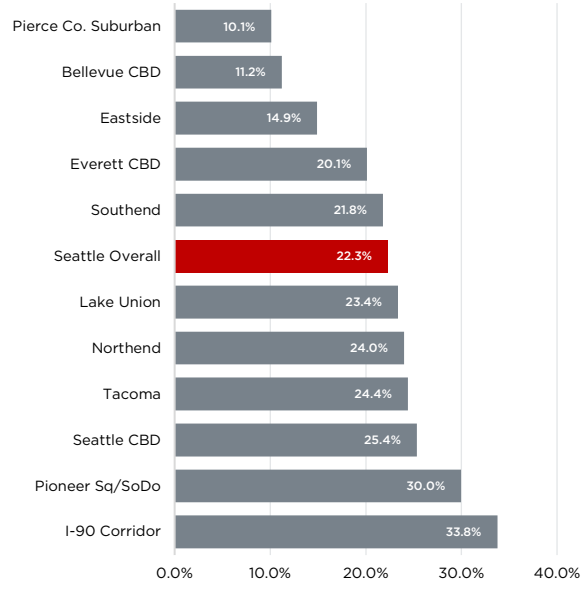
Tenant	Square Feet	Address	Transaction Type	Submarket	Industry
Brooks Sports	112,675	3534 Stone Way North	New Location	Lake Union	Manufacturing
Kimley-Horn	46,466	1201 3rd Avenue	Relocation	Seattle CBD	Engineering
SpaceLight	42,805	3131 Elliot Avenue	Relocation	Lake Union	TAMI
Knotel	37,381	1015 2nd Avenue	New Location	Seattle CBD	Coworking
BTTN	36,900	400 2nd Avenue West	New Location	Queen Anne/Magnolia	Retail
Providence Home Services King County	24,583	2811 S 102nd Street	Renewal	Renton/Tukwila	Healthcare
Ryan, Swanson & Cleveland*	24,340	401 Union Street	Relocation	Seattle CBD	Legal Services
Notkin Engineers	23,650	1201 3rd Avenue	Relocation	Seattle CBD	Engineering
Statsig	20,696	14725 SE 36th Street	Renewal	I-90 Corridor	TAMI
Walmart	19,871	10500 NE 8th Street	Renewal	Bellevue CBD	Retail

*Sublease

Source: Savills Research

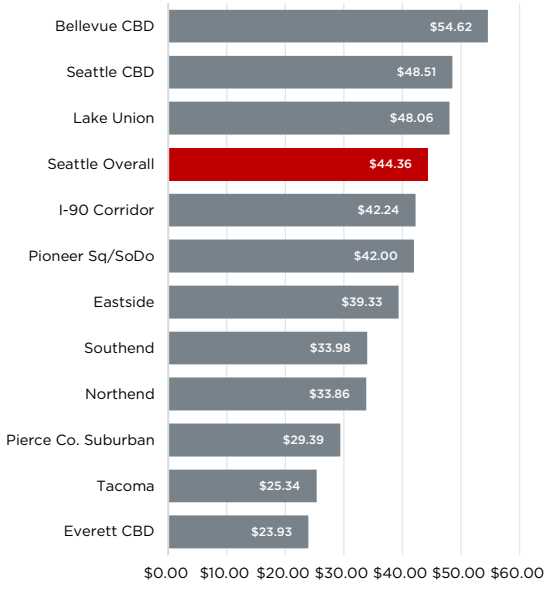
Availability Rate Comparison (%)

Seattle/Puget Sound Submarkets



Rental Rate Comparison ($/SF)

Seattle/Puget Sound Submarkets



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