

Savills Studley Report Seattle office sector

Q1 2018



SUMMARY

Market Highlights

LEASING HOLDS STEADY

Tenants have leased 6.9 million square feet (msf) in the four most recent quarters, on par with the region's long-term average.

AVAILABILITY RATES DROP

Seattle's overall availability rate fell by 70 basis points to 11.2%. The Class A availability rate decreased by 60 basis points to 8.7%. Compared to a year ago, the Class A rate has fallen by 260 basis points.

ASKING RENT JUMPS

Overall regional asking rent was flat, inching down from \$31.42 to \$31.41 in the first quarter. The Class A rent rose by 2.3% to \$41.56, though, and has spiked by 8.0% year-on-year.

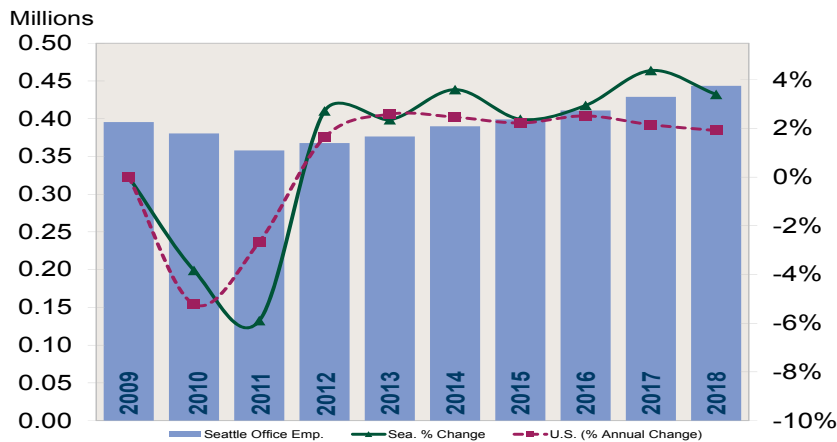
SALES ACTIVITY INCREASES

Office property sales during the last six months (through February 2018) totaled \$2.0 billion, a 5% increase compared to the previous six-month total of \$1.9 billion.

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"There was no relief in the challenging conditions that larger tenants continue to face in Downtown Seattle and Bellevue. The supply shortage is not as acute in suburban Seattle. Additionally, smaller tenants still have more options to consider even in prime CBD properties. Meanwhile, potential passage of an employee head tax could create more impetus for tenants, including Amazon, to consider leasing in Bellevue or Tacoma."

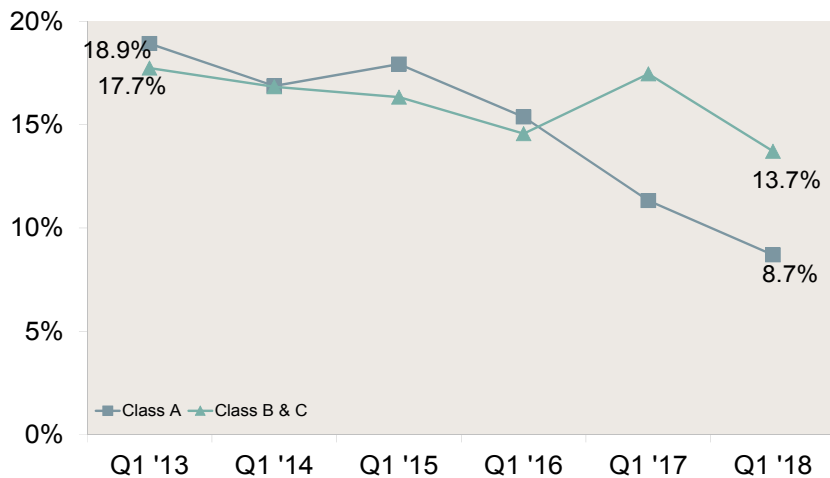
José Oncina, Senior Managing Director

Office-Using Employment Trends

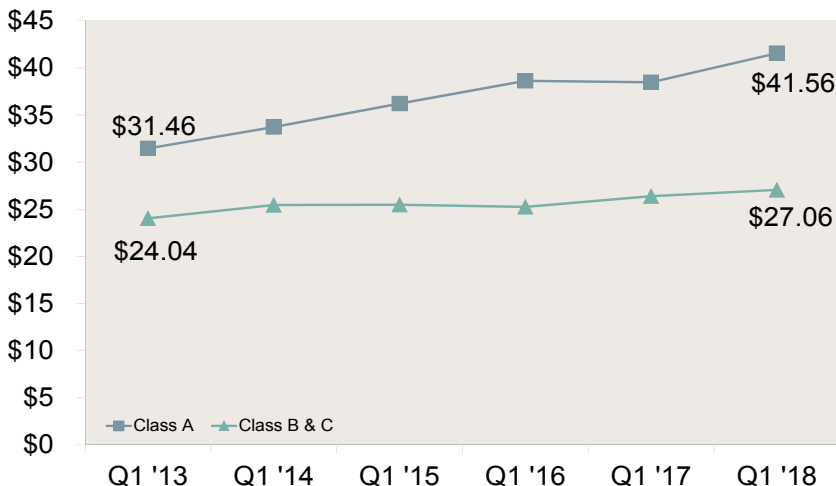


Source: Bureau of Labor Statistics^

Availability Rate Trends



Asking Rent Trends (\$/sf)



Leasing Pauses

Leasing took a break in the first quarter, pausing after several quarters of frenetic demand and takedowns of big blocks of space. Larger tenants did not have many options to consider – particularly in Downtown Seattle and Bellevue. Both submarkets have negligible quality big blocks remaining. Within the Seattle CBD, for example, only 11 buildings (existing or under construction) have a block of space over 50,000 sf. In Bellevue, the tally is merely two such options.

The Class A availability rate in Downtown Seattle fell by 30 basis points to 7.6% in the first quarter, and plummeted by 200 basis points from a year ago. Similarly, Eastside's availability rate fell to 9.6%, a 300 basis point decline from the first quarter of 2017.

Space options in newly constructed buildings were leased at an alarming pace during the second half of 2017. As companies pursue talent and space, taking massive blocks of space, it creates a sense of urgency among other companies still conducting their searches. Over the course of a few months, Amazon, F5 Networks and others raided the remaining stock of new product. Rapid expansion by startups added to demand. In the scramble for space, cost was secondary to the goal of securing new hires. Tenants were willing to pay top dollar for prime space located in the heart of the most sought-after areas.

Tech firms have the funds to act aggressively, although venture capital investment in Northwest region was a bit subdued during the first quarter. According to PwC's MoneyTree Report, 40 deals totaling \$329 million were completed in the first quarter. Of note, as strong as Seattle's largest tech firms are, the market still captures only a very small fraction of venture capital investment – during 2017, for example Seattle companies raised \$1.7 billion. The region ranked seventh nationally, but captured only 2.3% of the U.S. total.

Suburban Opportunities

Conditions are very different in suburban Seattle. Availability rates are much higher, and some additional big blocks are coming onto the market. Consolidation by Boeing in suburban Bellevue opened up a big block of space totaling 190,000 sf at Sunset Corporate Campus North V. Boeing plans to vacate another 138,000 sf at a property in Renton.

Similarly, Tacoma, which ended the first quarter with an availability rate of nearly 15%, is likely to see an increase in availability. State Farm recently announced that it will close both of its Tacoma offices in late 2018. As many as 800 people could lose their jobs. Some employees may relocate to the office in Dupont and vacate space at the Frank Russell Building and Columbia Bank Center.

Full-floor Options

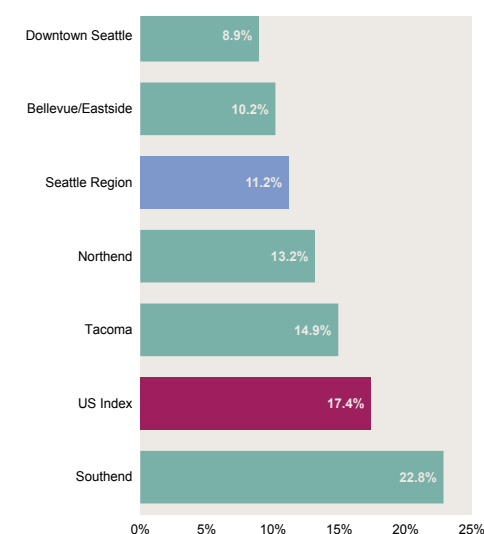
Although most tech firms continue to expand at a rapid clip, many professional/business services and law firms are still operating more cautiously. Fortunately, smaller and mid-sized firms have a deeper pool of space to select from, particularly in Seattle's CBD and suburban Seattle. In contrast to their larger counterparts, smaller and mid-sized tenants do not have such a acute sense of urgency. They can find more options than their larger counterparts, even in many prime CBD buildings. As of late March there were 117 full floors of Class A space for lease in Downtown Seattle and another 18 in Bellevue. 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.

Limited New Construction

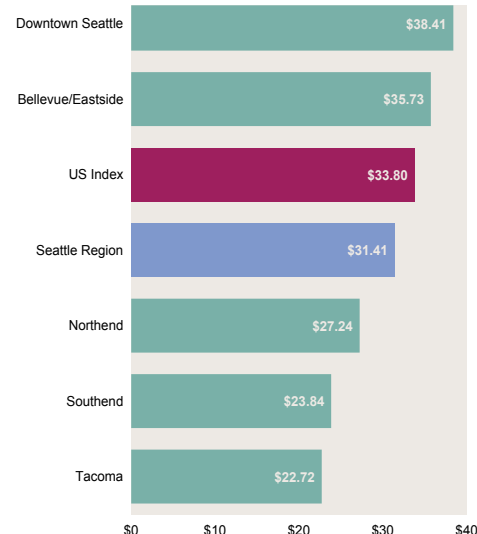
It will take quite some time for the next round of proposed developments to impact the market and offer some relief. Many properties still have to clear the approval process. In the meantime, the region has just over 6.8 msf currently under way, but 4.0 msf is pre-leased. Much of the remaining space is in Skanska's 2&U (683,030 sf) and 333 Dexter (650,000 sf). Neither building has signed any leases yet. In the Eastside, Urban North (located at Kirkland Urban) is the only building with a big block (108,000 sf) remaining for lease. Tableau Software and Wave have signed leases at the property.

Although leasing cooled a bit during the first three months of the year, the region's labor market remained steady. During the last 12 months, Seattle has added more than 16,000 office-using jobs, a 3.6% increase, eclipsing the anemic 0.7% increase at the national level. Since it hit a low point in February of 2010, office-using employment has jumped by just over 100,000 – a 28.0% increase. Silicon Valley, San Francisco and Austin have posted slightly higher percentage increases. The tech sector

Vacancy Rate Comparison



Rental Rate Comparison (\$/sf)



Major Transactions

Tenant	Sq Feet	Address	Market Area
Amazon	157,301	234 9th Ave N	Downtown
WeWork	100,145	1600 7th Ave	Downtown
Puget Sound Energy	96,350	Parklands North Creek - Building O	Northend
Microsoft Corporation	82,677	16221 NE 72nd Way	Bellevue/Eastside
Accenture	63,978	1191 2nd Ave	Downtown
SmartSheets	53,972	500 108th Ave NE	Bellevue/Eastside
Industrious	37,166	500 108th Ave NE	Bellevue/Eastside
Hagens Berman Sobal Shapiro LLP	31,081	1301 2nd Ave	Downtown
Extra Hop Network, Inc.	18,028	520 Pike St	Downtown
State of Washington	17,141	981 Powell Ave SW	Southend
Sum of Top 10 Leases	657,839		

still provides the primary boost for regional economic growth — supporting hiring in services, construction and retail.

Meanwhile, co-working space providers are also eating into the market's supply. Several major fractional office space providers started to ramp up operations in 2017, and they intensified their efforts in early 2018. WeWork added 250,000 sf in Downtown Seattle and hopes to have the new facilities operational by this fall.

Investors Paying Top Dollar

Sales activity also hit a bit of a lull. There were two significant sales – Shidler Group paid \$224.8 million (just under \$315/sf) for Advanta Commons in Bellevue. Microsoft occupies the entire 600,000 sf campus and renewed its lease last year. Surprisingly, the price fell short by nearly \$40 million of what the seller paid in 2010. In the CBD, the biggest sale was Brickman Real Estate's

\$43.3 million purchase of the Joseph Vance Building and Sterling Buildings (\$331.08/sf). Sales fell short of activity in prior quarters, but with several prominent buildings on the market, they are expected to bounce back in the coming quarters.

Looking Forward

The Trump Administration's shifting international trade policies and more restrictive immigration looms over the region as a potential impediment to sustained growth. According to data from the Port of Seattle, more than 50% of containers flowing out of Puget Sound area headed to China. Escalating trade conflicts could spell trouble for export industries such as aerospace. It could also inhibit the logistics and distribution sector. On a similar note, significant rollback in immigration could stem the growth and hiring plans of some local companies.

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	3,149	627	4,972	-2.4%	6,175	8.9%	-0.2%	11.1%	\$38.41	3.2%	\$37.53
	Downtown Seattle - Class A	34,887	2,067	717	2,640	-3.6%	3,363	7.6%	-0.3%	9.6%	\$44.55	2.2%	\$41.97
2	Bellevue/Eastside	27,657	2,578	535	2,817	-20.1%	3,863	10.2%	-2.6%	14.0%	\$35.73	-1.2%	\$34.03
	Bellevue/Eastside - Class A	16,132	1,383	366	1,547	-20.8%	2,029	9.6%	-2.5%	12.6%	\$40.50	-1.0%	\$38.46
3	Northend	8,697	642	166	1,145	-12.9%	1,534	13.2%	-1.9%	17.6%	\$27.24	1.6%	\$24.92
	Northend - Class A	1,275	293	136	86	-56.8%	268	6.7%	-8.8%	21.1%	\$30.57	5.3%	\$27.64
4	Southend	9,370	356	-176	2,141	-0.5%	2,372	22.8%	-0.1%	25.3%	\$23.84	1.5%	\$23.00
	Southend - Class A	967	47	26	106	3.7%	375	11.0%	0.4%	38.8%	\$28.03	-0.4%	\$27.22
5	Tacoma	7,368	178	113	1,099	33.8%	1,235	14.9%	3.8%	16.8%	\$22.72	-0.9%	\$23.08
	Tacoma - Class A	1,109	33	3	348	429.6%	117	31.4%	25.5%	10.6%	\$27.97	-1.1%	\$29.73
1-5	SEATTLE REGION TOTAL	108,657	6,908	1,265	12,174	-5.7%	15,634	11.2%	-0.7%	14.4%	\$31.41	0.0%	\$30.79
	SEATTLE REGION TOTAL - Class A	54,369	3,823	1,249	4,728	-6.5%	6,156	8.7%	-0.6%	11.3%	\$41.56	2.3%	\$38.48

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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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