

Seattle/Puget Sound

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Seattle begins new year with strong leasing activity as companies start to implement return-to-office plans

The Puget Sound region notched 1.6 million square feet (msf) of leasing volume to start the year, a 25.0% increase in activity compared to Q1 2021. The number of leases in the Seattle Central Business District (CBD) submarket increased from Q4, but leasing volume decreased by nearly half. This reinforces a regional trend of smaller tenants signing a greater number of leases in a recovering market. The number of leases signed in the Bellevue CBD was near last quarter's total, but leasing volume nearly doubled. Symetra signed the largest lease of the quarter totaling 120,000 square feet (sf) in the Bellevue CBD submarket. The University of Washington signed a new location in the Southend submarket, leasing 119,499 sf at 1601 Lind Avenue SW. Technology firms once again accounted for many leases in the region.

Bellevue CBD rent increases lead to overall spike in the Puget Sound; development pipeline remains active keeping availability flat

Overall Class A asking rents increased by 8.3% in Q1, the largest quarterly increase over the last four years. Class A asking rents in the Bellevue CBD rose by 1.9 % from a year ago, showcasing signs of recovery at the top-end of the market. Class A availability in the Bellevue CBD also fell by 490 bps to 8.4% following the addition of several fully-leased new developments to inventory. Class A average rents in the Seattle CBD were in line with the regional trend, increasing by 2.9% to \$51.50 per square foot (psf), approaching rates in the Bellevue CBD. Availability in the Seattle CBD rose slightly by 130 basis points (bps) and currently sits at 21.0%. Following the availability of several premium spaces, Class A asking rents in the Lake Union submarket rose to \$51.59 psf.

Technology companies continue to buoy capital markets, attracting new investors to the region

Sales activity remains strong in the region as asset location emerges as a key demand driver in addition to occupancy. The Bel-Spring office building sold for \$45.5 million in Q1, \$14 million more than its previous transaction in 2019. This appreciation occurred despite the property only being 69.0% leased at the time of sale. The property resides in Bellevue's Spring District neighborhood, a transit-oriented development becoming the hot spot on the Eastside. Deka Immobilien made its first investment in the Seattle region by purchasing Lakefront Blocks 25 & 31 in the Lake Union submarket for \$227.3 million, a whopping \$1,271.7 psf. Both properties are fully-occupied by Google who pre-leased the property from Vulcan Development back in 2016.

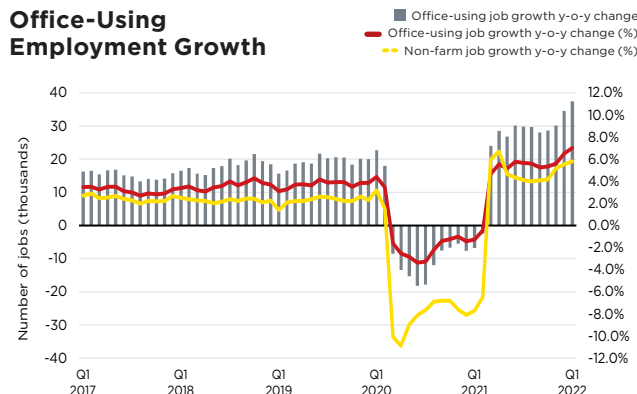
Outlook

- Mortenson's construction cost index rose by 37 points last quarter, eclipsing the previous largest increase of 10 points in 2018; this increase equates to a 4.3% spike in Seattle construction costs. Tenant improvement allowances are expected to be further inflated as a result
- Sublease space is expected to continue coming off the market due to a combination of deals being signed and tenants reclaiming their needed spaces
- As local mandates are rolled back amid decreasing infections, office occupiers are proceeding into 2022 with cautious optimism that the pandemic is finally over

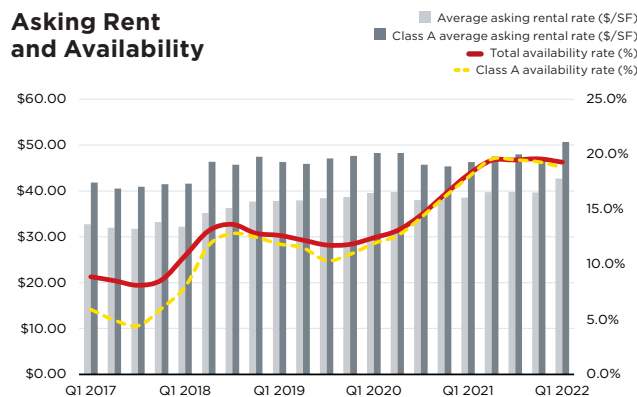
Key Statistics

	Q1 2021	Q1 2022	Y-o-Y Change
Inventory	114.4 MSF	119.9 MSF	▲
Availability Rate	18.1%	19.3%	▲
Asking Rental Rate	\$38.56	\$42.68	▲
Class A Asking Rental Rate	\$46.31	\$50.67	▲
Quarterly Leasing Activity	1.4 MSF	1.6 MSF	▲
Available Sublease Space	6.6 MSF	5.3 MSF	▼

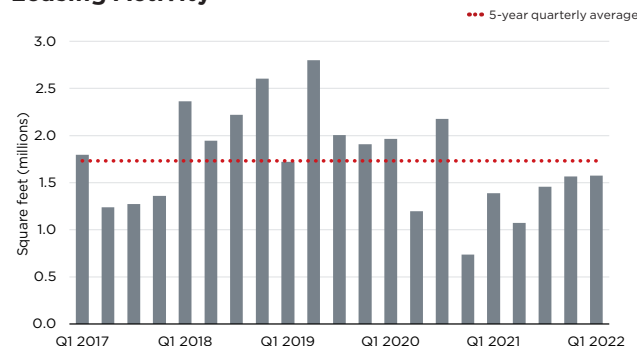
Office-Using Employment Growth



Asking Rent and Availability



Leasing Activity



By the Numbers

4.4%

Seattle unemployment rate
(as of Feb. 2022)

+6.4%

Office-using employment growth
year-over-year (as of Feb. 2022)

8.3 msf

Office space currently
under construction

Top Transactions

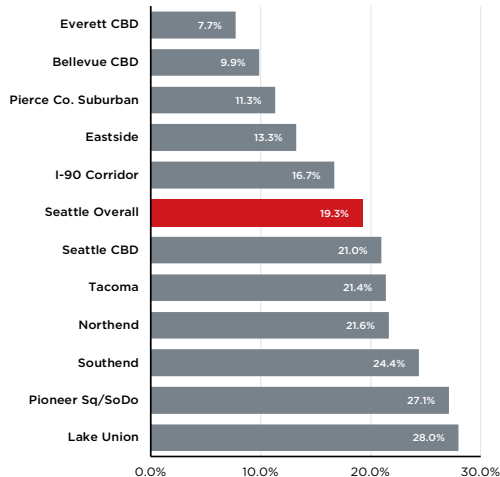
Tenant	Square Feet	Address	Transaction Type	Submarket	Industry
Symetra	120,000	777 108th Avenue NE	Renewal	Bellevue CBD	Financial Services
University of Washington	119,499	1601 Lind Avenue SW	New Location	Southend	Education
Amazon	95,556	635 Elliott Avenue W	Renewal	Lake Union	Technology
Amazon	83,029	6464 185th Avenue NE	New Location	Eastside	Technology
UW Medicine Dept. of Laboratory Medicine and Pathology	77,947	1601 Lind Avenue SW	New Location	Southend	Healthcare
Probably Monsters	57,911	3150 139th Avenue SE	New Location	I-90 Corridor	Technology
HNTB	55,500	777 108th Avenue NE	New Location	Bellevue CBD	Professional Services
Pokemon	53,109	700 Bellevue Way NE	New Location	Bellevue CBD	Technology
Roche Pharma	39,291	645 Elliott Avenue W	New Location	Lake Union	Pharmaceuticals
Truveta	35,273	1745 114th Avenue SE	New Location	Eastside	Technology

*Sublease

Source: Savills Research

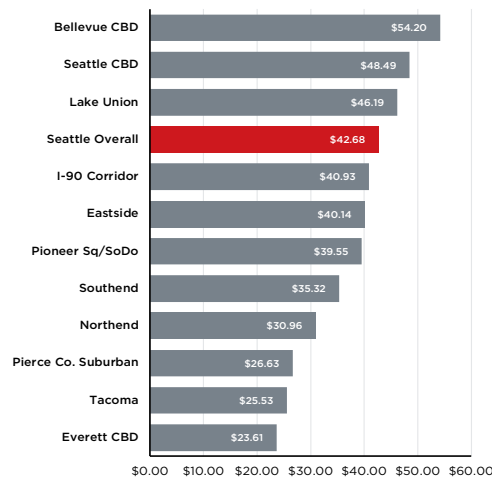
Availability Rate Comparison (%)

Seattle Submarkets



Rental Rate Comparison (\$/SF)

Seattle Submarkets

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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.

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