

SEATTLE OFFICE MARKET

FIRST QUARTER 2017

Office Net Absorption Essentially Flat to Begin 2017

Seattle/Puget Sound regional office vacancy remains at 11.0% in the first quarter

In the first quarter 2017, the Seattle/Puget Sound office market reported a pause in overall space gains that kept total office vacancy at 11.0%. Widely seen as a quarterly blip, net absorption was slightly negative in the first quarter, but large space gains are expected in 2017 due to record leasing activity reported in the second half of 2016. Led by Amazon, Microsoft, and other fast-growing tech companies looking to expand regionally due to the area's deep pool of talent, the local economy and office market are both forecasted to remain strong this year, despite concerns of overbuilding, which may increase if leasing activity slows.

ECONOMY


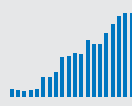

Seattle metro unemployment rate decreases to nine-year low of 3.5%

The seasonally adjusted unemployment rate for Seattle-Tacoma-Bellevue decreased to just 3.5% in February, which is the lowest level reported since 2008 and more than a full point lower than the national unemployment rate of 4.7%. Total February year-over-year nonfarm employment increased by 55,500 (2.9%), and office-using employment increased by 17,400 (3.2%), respectively. Compared to a year ago when nonfarm employment and office-using employment grew year over year at 3.4% and 4.2%, respectively, job growth in the Seattle metro has slowed over the past year.

SUPPLY AND DEVELOPMENT

Nearly 5.9 million square feet of office space now under construction

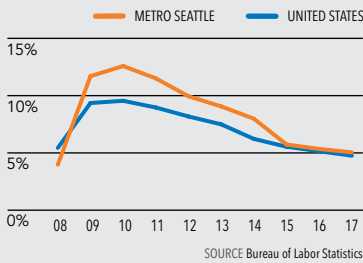
A total of 5,896,602 square feet is currently under construction, which constitutes 5.7% of the existing competitive office base of the region. Of this amount, 35% is currently pre-leased, including Troy Block-North in South Lake Union and Tilt49 in Denny Triangle which are both pre-leased to Amazon, as well as Arbor Blocks in South Lake Union which is pre-leased to Facebook. It should be noted that the current amount of office space under construction is now at a nine-year high with valid concerns about overbuilding becoming a more prevalent issue if more projects are delivered to the market unleased.

TRENDLINES	
5-YEAR TREND	CURRENT QUARTER
VACANCY 	11.0% Vacancy rate remains flat from 4Q 2016
ABSORPTION 	-51,546 SF First negative quarter since 2012
RENTAL RATE 	\$30.60 PSF Rates up 2.0% year over year
UNDER CONSTRUCTION 	5,896,602 SF 35% of office space is pre-leased
CAP RATES 	6.4% Cap rates drop 30 basis points
JOB GROWTH 	55,500 jobs Growth of 2.9% year over year

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UNEMPLOYMENT RATE

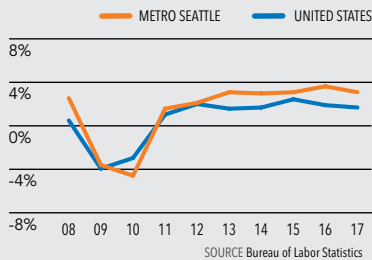


DEMAND

Net absorption turns slightly negative after fourteen consecutive quarters of gains

Demand for office space in the first quarter turned slightly negative (-51,546 square feet) in the first quarter. Led by office space move-outs in Belltown/Denny Regrade and Renton/Tukwila, the overall market reported negative net absorption region-wide for the first time since 2012. Despite net absorption turning negative, local companies remain optimistic about the economy, and this number is considered mostly a quarterly blip with larger move-ins expected through the course of the year.

PAYROLL JOB GROWTH

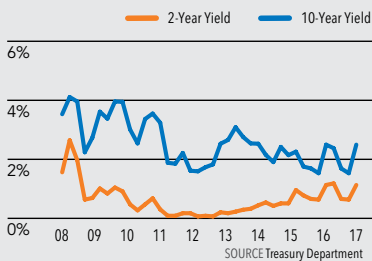


VACANCY

Total vacancy rate remains flat at 11.0% in the first quarter

The total vacancy rate of 11.0% was unchanged from a revised vacancy at year-end 2016 but still the lowest reported in the region since 2008. Downtown Seattle saw vacancy increase slightly to 9.7%, while the Eastside continued to see vacancy levels decrease to 9.4%. Despite sub-10% vacancy reported in the region's largest office market, the large amount of speculative office development currently under construction could lead to an increase in vacancy levels down the road if leasing activity and net absorption slow.

TREASURY RATES



RENTAL RATES

Metro Seattle direct weighted average asking rental rate up to \$30.60 per square foot

The direct weighted average asking rental rate increased to \$30.60 per square foot (up 2.0% year over year). Average Class A rental rates increased to \$39.60 per square foot (up 4.4% year over year); average Class B rental rates increased to \$26.28 per square foot (up 4.8% year over year). As 2017 begins, several office submarkets have reported office rents hitting new historical peaks due to strong occupier demand led by the region's tech sector. As a result, average rental rates are forecasted to continue to increase in 2017, although rental rate growth is expected to slow this year.

Metro Seattle Office Market Indicators

PROPERTY CLASS	INVENTORY	UNDER CONSTRUCTION	Q1 NET ABSORPTION	YTD NET ABSORPTION	DIRECT VACANCY	SUBLEASE SPACE	TOTAL VACANCY	AVERAGE RATE PSF
Class A	50,716,759	5,879,927	31,123	31,123	9.4%	0.7%	10.1%	\$39.60
Class B	53,369,135	16,675	-82,669	-82,669	11.0%	1.0%	12.0%	\$26.28
Metro Total	104,085,894	5,896,602	-51,546	-51,546	10.2%	0.8%	11.0%	\$30.60



INVESTMENT MARKET

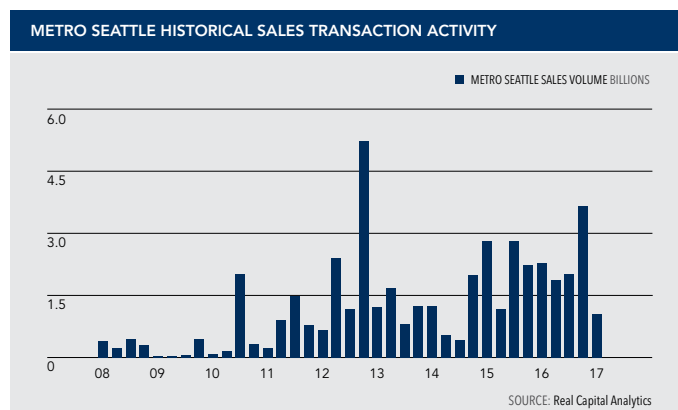
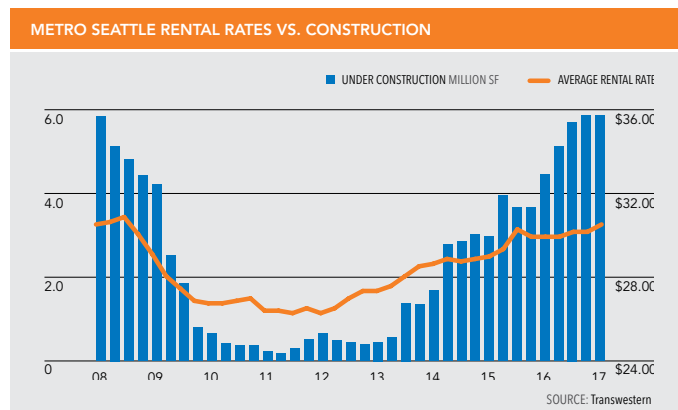
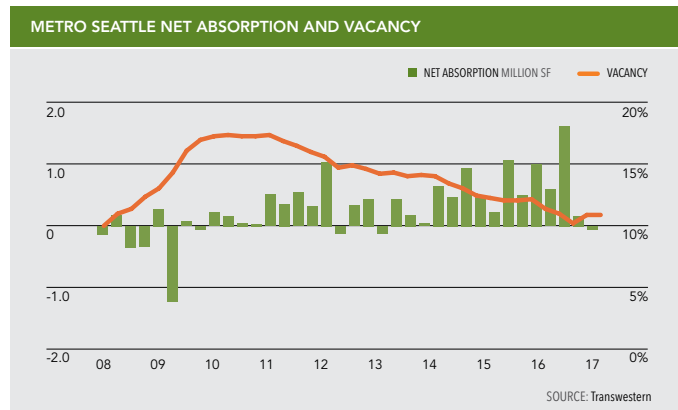
Investment sales market volume down 54% compared to last year

In the first quarter, \$527.8 million worth of office buildings traded in the Seattle metro, down 54% from the \$1.1 billion of office sales volume reported in the first quarter of 2016. Despite the slowdown in volume, the largest office sale of the quarter involved Tristar Capital and RFR Holding acquiring the recently delivered, 100% Amazon-leased Urban Union building at 501 Fairview Ave North in South Lake Union from Schnitzer West for \$268.9 million (\$924 per square foot). While the general sentiment is that rising interest rates will lead to increased cap rates and a cooling in building valuations, Seattle remains a consensus top-5 market for office investment nationally due to its strong regional economy, continued population growth, and enviable business clusters in technology and life sciences.

OUTLOOK

Regional office market still in great shape but spec development continues to rise

The Seattle/Puget Sound office market effectively saw a pause in space gains in the first three months of 2017; however, this quarterly blip underlies the fact that several large tech-related move-ins are expected in the months ahead. While office occupier demand has remained strong, the high amount of speculative office development has raised questions of whether developers have gotten ahead of this demand. With over 3.1 million square feet forecasted to be delivered between now and the end of 2017, of which just over 50% has been pre-leased, it would not be a surprise if vacancy ticks up this year. ■



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Metro Seattle Office Market Indicators

MARKET	INVENTORY	UNDER CONSTRUCTION	Q1 NET ABSORPTION	YTD NET ABSORPTION	DIRECT VACANCY	SUBLEASE SPACE	TOTAL VACANCY	AVERAGE RATE PSF
Downtown Seattle	51,859,055	4,683,770	-90,183	-90,183	8.9%	0.9%	9.7%	\$38.16
Eastside	27,701,610	539,000	183,732	183,732	8.4%	1.0%	9.4%	\$33.72
Northend	8,248,515		-50,639	-50,639	11.8%	0.3%	12.1%	\$24.60
Southend	9,175,765	673,832	-96,979	-96,979	20.1%	1.4%	21.5%	\$22.80
Tacoma	7,100,949		2,523	2,523	11.9%	0.2%	12.1%	\$21.84
SEA Office Market Total	104,085,894	5,896,602	-51,546	-51,546	10.2%	0.8%	11.0%	\$30.60

MAJOR LEASE ACTIVITY

PROPERTY	TENANT	SF	TYPE	MARKET	SUBMARKET
1812 Boren Ave	Amazon	307,296	Class A New Lease	Downtown Seattle	Belltown/Denny Regrade
837 N 34th St	Google	54,774	Class A Sublease	Downtown Seattle	Ballard/U District
705 5th Ave S	Sound Transit Service	49,724	Class A Sublease	Downtown Seattle	Pioneer Square/Waterfront
501 Eastlake Ave E	Capital One	39,489	Class A New Lease	Downtown Seattle	Lake Union

MAJOR SALES ACTIVITY

PROPERTY	PRICE	PRICE PSF	BUYER	MARKET	SUBMARKET
Urban Union (501 N Fairview Ave N)	\$268,940,438	\$924	Tristar Capital & RFR Holding	Downtown Seattle	Lake Union
Willows Commerce Park (4 bldgs)	\$75,245,000	\$176	Kennedy Wilson	Eastside	Redmond
2505 Second (2505 2nd Ave)	\$21,950,000	\$303	PCCP	Downtown Seattle	Belltown/Denny Regrade
Evergreen Office Park (10940 & 11000 NE 33rd Pl)	\$21,450,000	\$242	PCCP	Eastside	520 Corridor

DEVELOPMENT ACTIVITY

PROPERTY	SF	TYPE	DEVELOPER	MARKET	SUBMARKET
Madison Centre (505 Madison St)	764,000	Class A	Schnitzer West	Downtown Seattle	Seattle CBD
2+U (1201 Union Ave)	650,000	Class A	Skanska USA	Downtown Seattle	Seattle CBD
333 Dexter (333 Dexter Ave N)	650,000	Class A	Kilroy Realty Corp.	Downtown Seattle	Lake Union
The Mark (811 5th Ave)	528,000	Class A	Daniels Real Estate & Stockbridge Capital	Downtown Seattle	Seattle CBD

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METHODOLOGY

The information in this report is the result of a compilation of information on office properties located in the Seattle metropolitan area. This report includes single-tenant and multi-tenant office properties 10,000 SF and larger, excluding condo and medical office facilities and those properties owned and occupied by a government agency.



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