

# SEATTLE OFFICE MARKET

SECOND QUARTER 2016

## Slowdown in Puget Sound office market

Overall fundamentals remain positive

Office growth in the Puget Sound market was somewhat curtailed in the second quarter of 2016, but fundamentals remain positive with activity expected to pick up in the second half of the year. Tech companies continue to drive positive gains as Facebook's occupancy in Lake Union helped keep absorption numbers positive. Asking lease rates experienced a decline with large blocks of high-end space becoming scarcer. Construction levels remain high, and the trend will continue with Urban Vision's announcement of the seven-building, 1.2 million-square-foot mixed-use S Campus, which could bring upwards of 5,000 new jobs to the region.

### ECONOMY

#### Job growth continues while unemployment remains steady

Job growth in the Puget Sound region was flat at the beginning of 2016, but has once again picked up steam in the second quarter. The region added 31,500 new jobs in the current quarter. All employment sectors experienced growth, led by Leisure and Hospitality (7,800), Trade, Transportation, and Utilities (5,100) and Professional and Business Services (5,000). The unemployment rate declined 20 basis points to 4.8% from the first quarter, but is up 20 basis points from this time last year.

### SUPPLY AND DEVELOPMENT

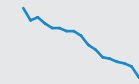
#### Construction levels remain elevated

With 6.4 million square feet of new product currently under development in the Puget Sound region, construction levels remain elevated. Although low at 32%, pre-leasing levels are increasing throughout the market. Avalara recently committed to leasing 76,284 square feet in the under-construction Hawk Tower located in the Pioneer Square/Waterfront submarket. Two buildings, NorthEdge and Urban Union, totaling 501,000 square feet and delivered in the second quarter, had only 2% available space remaining upon completion. Tableau Software will occupy 207,791 square feet during third quarter 2016 in NorthEdge and Amazon will occupy 285,000 square feet in Urban Union in first quarter 2017.

### OFFICE TRENDS

5-YEAR TREND      CURRENT QUARTER

#### VACANCY



**10.5%**

No change from previous quarter

#### ABSORPTION



**392,701 SF**

Strong activity tempers

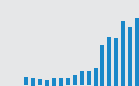
#### RENTAL RATE



**\$28.51 PSF**

Slight decline in overall rates

#### UNDER CONSTRUCTION



**6.4 million SF**

Levels remain elevated

#### AVERAGE SALE PRICE



**\$319.55 PSF**

High-end activity wanes

#### JOB GROWTH

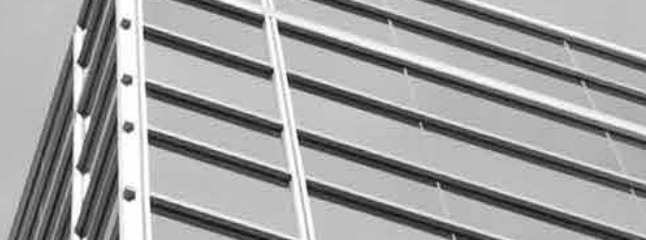


**31,500 jobs**

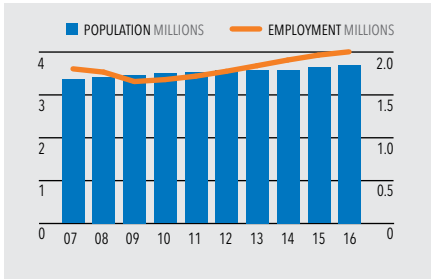
Gained in second quarter 2016

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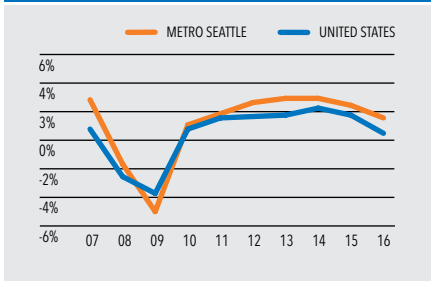
SECOND QUARTER 2016



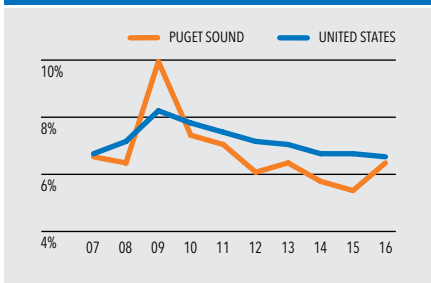
## POPULATION AND UNEMPLOYMENT



## PAYROLL JOB GROWTH



## CAP RATES



## DEMAND

### Most tenant activity occurring in Downtown Seattle market

Nearly all tenant activity in the second quarter occurred in the Downtown Seattle market area, most notably in the Lake Union submarket. Facebook occupied 295,684 square feet in the Class A Dexter Station office building, a deal that was signed in the first quarter of 2015. Overall, tenants occupied 392,701 square feet in the current quarter, bringing first half 2016 totals to 1.3 million square feet. Class A properties saw 901,484 square feet of positive absorption in the first two quarters, and Class B product experienced 317,014 square feet in the same period. All five market areas have realized positive gains thus far in 2016. Absorption levels will increase heading into the second half of 2016 as Redfin signed for 112,990 square feet at 1099 Stewart St and Providence Health and Services leased 80,248 square feet at 1730 Minor Ave.

## VACANCY

### Vacancy levels remain unchanged

There was no change in vacancy from the previous quarter, which currently sits at 10.5%, but is down a full percentage point from this time last year. While there was positive absorption in the current quarter, building completions with very little pre-leasing offset any gains. Class A vacancy increased 60 basis points to 10.8%, again due to newly completed projects, while Class B vacancy dipped slightly to 11.3%.

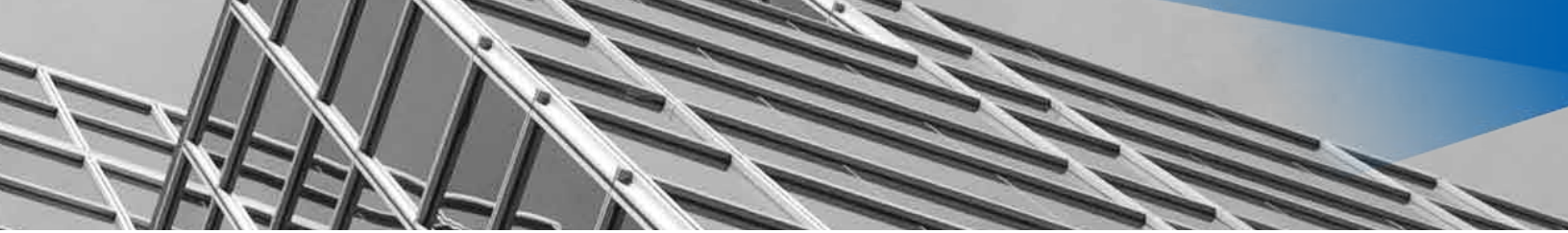
## RENTAL RATES

### Lease rates dip slightly

Overall lease rates have seen fluctuations over the previous four quarters, largely occurring in outlying submarkets. Average asking lease rates decreased slightly to \$28.51 per square foot, full service gross. Rates fell in both Class A buildings, down \$0.29 to \$37.17 per square foot, and Class B product, down \$0.20 to \$24.96 per square foot. The Eastside market accounted for all of the current quarter decrease as rates declined \$0.32 to \$31.87 per square foot.

## Metro Seattle Office Market Indicators

PROPERTY CLASS	INVENTORY	UNDER CONSTRUCTION	Q2 NET ABSORPTION	YTD NET ABSORPTION	DIRECT VACANCY	SUBLEASE SPACE	TOTAL VACANCY	AVERAGE RATE PSF
Class A	51,399,276	6,026,843	179,645	901,484	10.4%	0.4%	10.8%	\$37.17
Class B	59,122,258	380,712	134,576	317,014	10.7%	0.6%	11.3%	\$24.96
Class C	11,731,886	-	78,480	60,948	5.9%	0.0%	5.9%	\$20.92
<b>Metro Seattle Total</b>	<b>122,253,420</b>	<b>6,407,555</b>	<b>392,701</b>	<b>1,279,446</b>	<b>10.0%</b>	<b>0.5%</b>	<b>10.5%</b>	<b>\$28.51</b>



**INVESTMENT MARKET**

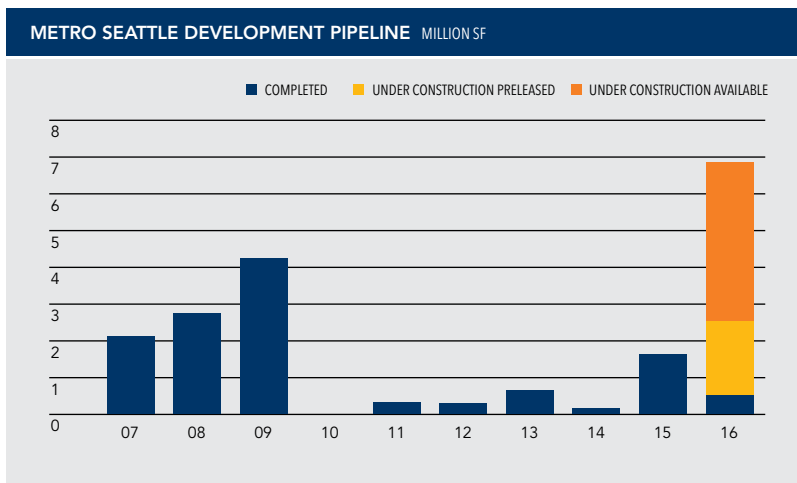
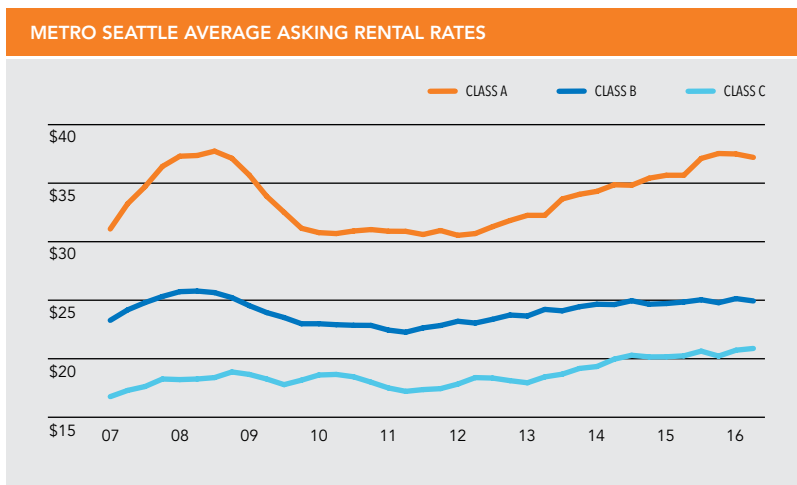
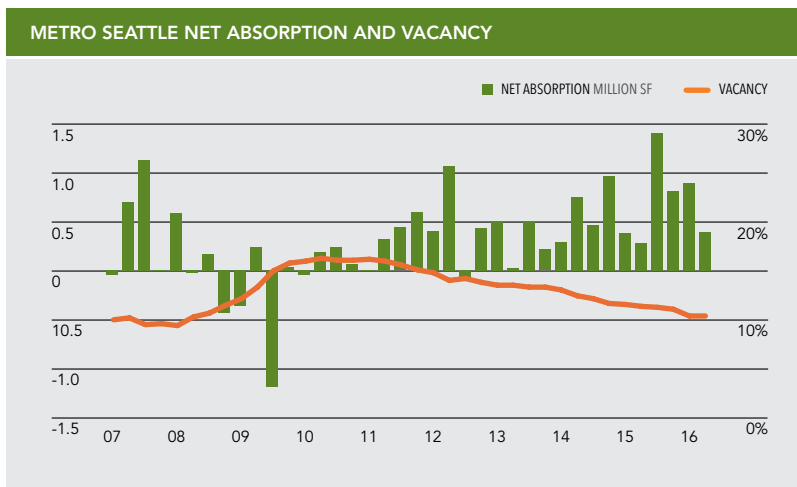
**Sale of high-end assets down**

The office investment market remained tepid in the second quarter, as very little institutional quality assets changed hands. Seventeen transactions occurred in the current quarter totaling \$424 million for 1.49 million square feet of product, or \$285.72 per square foot. Three notable Class A transactions occurred: Sterling Realty's purchase of the 445,089-square-foot Symetra Center from Walton Street Capital for 185 million, or \$415.65 per square foot. Schnitzer West purchased the 542,192-square-foot 901 5th Ave building from Deutsche Asset Management for \$223.5 million, or \$412.22 per square foot. Diversified International Partners' purchase of the 101,855-square-foot Redmond Technology Center from Menlo Equities for \$30.25 million, or \$296.99 per square foot.

**OUTLOOK**

**External markets impacting Puget Sound**

At mid-year 2016, all focus has shifted to the United Kingdom's pullout from the European Union. The initial shock of the referendum was seen in the stock market as well as uncertainty in trade agreements going forward. As initial reactions begin to wear off, it's unclear what this move will mean in the long term. The only certainty going forward is the uncertainty amongst experts. In the near term, this unpredictability could benefit commercial real estate as investors remove investments in stock and many will look to safe and secure investments such as real estate. Another potential positive is this could potentially remove any thoughts, in the near term, of increasing interest rates. The next few years will certainly be interesting, and even more so if other countries in the EU decide they are better off making their own exit as well. ■



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SECOND QUARTER 2016

## Metro Seattle Office Market Indicators

SUBMARKET	INVENTORY	UNDER CONSTRUCTION	Q2 NET ABSORPTION	YTD NET ABSORPTION	DIRECT VACANCY	SUBLEASE SPACE	TOTAL VACANCY	AVERAGE RATE PSF
Ballard/U Dist	2,889,522	199,893	5,677	-1,628	1.5%	0.0%	1.5%	\$28.28
Belltown/Denny Regrade	5,557,225	75,120	16,697	14,350	5.2%	0.3%	5.5%	\$29.69
Capital Hill/Central Dist	1,432,890	-	20,392	-4,699	2.0%	0.0%	2.0%	\$32.40
Lake Union	9,444,431	1,507,619	379,522	347,194	16.3%	0.0%	16.3%	\$35.40
Pioneer Sq/Waterfront	5,935,148	556,612	14,792	28,533	4.8%	0.6%	5.3%	\$28.39
Queen Anne/Magnolia	4,325,922	-	95,404	51,381	4.9%	0.1%	5.0%	\$26.74
South Seattle	3,547,647	14,220	-49,083	141,525	16.4%	1.4%	17.8%	\$29.11
Seattle CBD	25,729,282	1,968,587	-81,028	368,236	10.5%	0.6%	11.1%	\$39.12
<b>Downtown Seattle Market Total</b>	<b>58,862,067</b>	<b>4,322,051</b>	<b>402,373</b>	<b>944,892</b>	<b>9.6%</b>	<b>0.4%</b>	<b>10.0%</b>	<b>\$34.77</b>
520 Corridor	3,499,177	-	-29,675	19,390	8.9%	0.8%	9.7%	\$30.26
Bellevue CBD	8,858,201	1,078,693	-50,552	72,579	11.3%	0.1%	11.4%	\$37.81
Coal Creek/Issaquah	1,678,971	-	587	-7,733	13.2%	0.4%	13.6%	\$30.65
East King County	652,728	97,574	11,761	10,387	3.1%	0.0%	3.1%	\$24.91
I-90 Corridor	4,713,339	-	-23,382	-139,066	9.3%	1.8%	11.1%	\$31.83
Kirkland	2,870,828	-	11,166	1,055	5.7%	0.5%	6.2%	\$30.38
Mercer Island	545,913	-	75	3,128	8.5%	0.5%	9.0%	\$33.81
Redmond	3,650,468	-	13,623	100,114	4.8%	0.4%	5.2%	\$26.72
Suburban Bellevue	3,980,052	69,237	-19,801	-24,111	9.0%	0.4%	9.4%	\$30.25
<b>Eastside Market Total</b>	<b>30,449,677</b>	<b>1,245,504</b>	<b>-86,198</b>	<b>35,743</b>	<b>9.0%</b>	<b>0.6%</b>	<b>9.6%</b>	<b>\$31.87</b>
Bothell/Kenmore	3,313,881	-	-31,952	-25,527	15.7%	0.3%	16.0%	\$25.71
Edmonds/Lynnwood	2,558,419	-	13,266	39,808	13.2%	0.5%	13.7%	\$22.98
Everett CBD	1,997,609	-	2,049	46,707	7.7%	0.0%	7.7%	\$18.87
Mill Creek/Woodinville	475,553	-	-2,269	6,062	9.0%	0.0%	9.0%	\$23.04
North Snohomish County	351,626	-	4,070	6,361	7.4%	0.0%	7.4%	\$17.96
Northgate/N Seattle	1,011,054	-	-6,917	10,162	6.1%	6.0%	6.7%	\$24.45
South Everett/Harbor Point	1,249,699	-	27,890	52,074	9.0%	0.0%	9.0%	\$21.81
South Snohomish County	190,985	-	0	1,481	4.0%	0.0%	4.0%	\$20.15
<b>Northend Market Total</b>	<b>11,148,826</b>	<b>-</b>	<b>6,137</b>	<b>137,128</b>	<b>11.3%</b>	<b>0.3%</b>	<b>11.6%</b>	<b>\$23.44</b>
Federal Way/Auburn	3,463,678	-	21,698	8,329	15.4%	1.5%	16.9%	\$19.94
Kent Valley	1,980,889	-	33,526	83,550	14.4%	0.0%	14.4%	\$22.76
Renton/Tukwila	4,813,720	840,000	20,011	29,250	9.2%	0.3%	9.5%	\$21.76
Seatac/Burien	1,305,921	-	-9,195	-30,173	24.0%	0.0%	24.0%	\$20.63
<b>Southend Market Total</b>	<b>11,564,208</b>	<b>840,000</b>	<b>66,040</b>	<b>90,956</b>	<b>13.6%</b>	<b>0.6%</b>	<b>14.2%</b>	<b>\$21.15</b>
Dupont	1,097,823	-	0	0	0.0%	0.0%	0.0%	-
East Pierce County	178,254	-	-6,040	-6,040	11.9%	0.9%	12.8%	\$22.77
Gig Harbor/W Pierce Co	576,807	-	3,627	-177	8.4%	0.0%	8.4%	\$22.23
Puyallup	772,407	-	0	7,466	30.6%	0.0%	30.6%	\$23.62
Spanaway	284,654	-	-52	-52	6.6%	0.0%	6.6%	\$24.59
Tacoma CBD	4,106,970	-	16,599	49,128	10.6%	0.5%	11.1%	\$20.01
Tacoma Suburban	2,160,111	-	-8,425	6,077	10.9%	0.0%	10.9%	\$20.58
Univ Place/Lakewood	1,051,616	-	-1,360	14,325	9.1%	0.0%	9.1%	\$18.69
<b>Tacoma Market Total</b>	<b>10,228,642</b>	<b>-</b>	<b>4,349</b>	<b>70,727</b>	<b>10.7%</b>	<b>0.2%</b>	<b>10.9%</b>	<b>\$20.93</b>
<b>Puget Sound Total</b>	<b>122,253,420</b>	<b>6,407,555</b>	<b>392,701</b>	<b>1,279,446</b>	<b>10.0%</b>	<b>0.5%</b>	<b>10.5%</b>	<b>\$28.51</b>

### CONTACT

Darrell Magnuson  
 Research Manager  
 206.737.4300  
 darrell.magnuson@transwestern.com

### 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, medical office facilities, and those properties owned and occupied by a government agency.



10800 NE 8th Street, Ste. 150  
 Bellevue, Washington 98004

T 206.737.4300 F 206.737.4301  
 www.transwestern.com/seattle