

# SEATTLE OFFICE MARKET

FOURTH QUARTER 2016

## Seattle/Puget Sound office market ends 2016 strong

Office space demand, led by tech, continues to be healthy

2016 finished with strong tenant activity, high construction numbers and increasing average asking rental rates. Office space gains reached levels not seen since before the Great Recession as economic conditions have outpaced most of the nation. With Seattle ranking as one of the top office investment markets in the United States, owners of high-end real estate have been loosening their grip and are selling assets for record prices. It's clear that the Seattle/Puget Sound office market is leading the region and the nation, and heads into 2017 as one of the strongest office markets in the nation.

### ECONOMY

#### Metro year-over-year employment growth outpaces national average

According to the Bureau of Labor Statistics, the seasonally adjusted unemployment rate for the Seattle-Tacoma-Bellevue MSA was 4.3% in November which was slightly lower than the national unemployment rate of 4.6%. Total regional year-over-year nonfarm employment increased by 64,600 (3.4%). Compared to national year-over-year nonfarm employment growth of just 1.5%, the Seattle region has seen employment growth nearly 2.5 times the national average due in part to the region's strong tech and construction sectors. As a result, expect office space demand to remain strong into 2017 as area companies continue to be in expansion mode.

### SUPPLY AND DEVELOPMENT

#### Construction levels remain elevated

With a tight Class A market and strong demand, year-end 2016 new construction totaled 5.2 million SF, 26% of which has been pre-leased. Vulcan broke ground on the two-building, 389,000 SF Arbor Blocks project in South Lake Union, which is now 100% pre-leased to Facebook, while other projects such as 744 N 34th St in Ballard and The North Building at Troy Block in South Lake Union are pre-leased to Tableau and Amazon, respectively. 1.2 million SF of new space was delivered in Q4 2016, bringing 2016 totals to 2 million SF, 60% of which has been pre-leased.

### OFFICE TRENDS

5-YEAR TREND      CURRENT QUARTER

#### VACANCY



**9.9%**

120 basis point year-over-year decrease

#### ABSORPTION



**164,034 SF**

3.7M absorbed in 2016

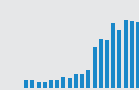
#### RENTAL RATE



**\$29.51 PSF**

Up 1.2% year over year

#### UNDER CONSTRUCTION



**5.2 million SF**

Construction levels remain elevated

#### AVERAGE SALE PRICE



**\$435.05 PSF**

Pricing increases.

#### JOB GROWTH

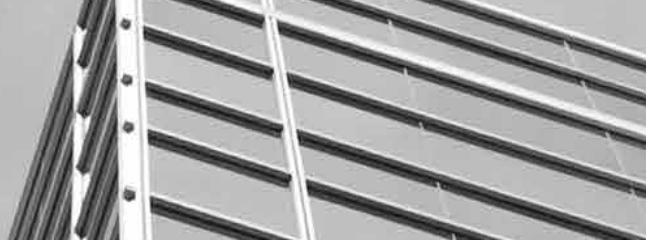


**64,600 jobs**

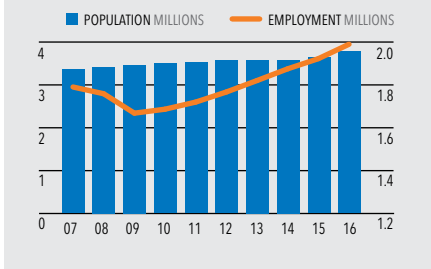
Up 3.4% year over year

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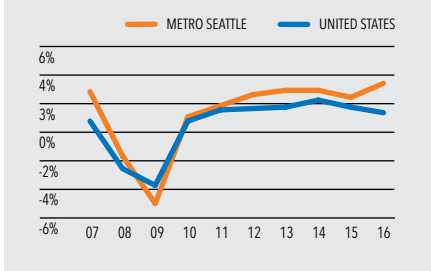
FOURTH QUARTER 2016



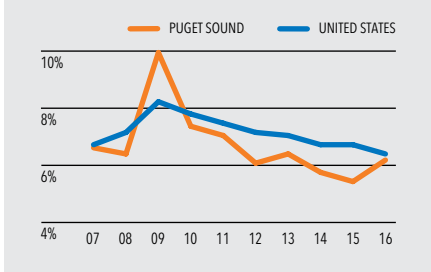
## POPULATION AND UNEMPLOYMENT



## PAYROLL JOB GROWTH



## CAP RATES



## DEMAND

### Highest reported annual net absorption since 2005

In the fourth quarter, tenants absorbed 164,034 SF, which brought 2016 gains to 3.7 million SF, the highest yearly total since 2005. 82% of the yearly activity occurred in the Downtown Seattle market area, aided largely by Amazon, other tech companies, and increasingly, media firms such as HBO expanding their local footprints. High-end, Class A properties continue to see the most activity as businesses occupied 2.9 million SF in 2016, and Class B buildings also posted a healthy positive 587,268 SF of net absorption. Positive gains will continue in 2017 as tech companies like Facebook, Amazon, Big Fish and Pokemon have signed leases for over 1.5 million SF and are due to take occupancy in the upcoming year.

## VACANCY

### Fewer alternatives to expansions and relocations

Vacancy levels ticked up at the close of the year due to future occupancies of recently completed new construction. While vacancy increased 60 basis points to 9.9% in the fourth quarter, vacancy levels have decreased 120 basis points since year-end 2015. Despite the slight increase, levels continue to be near historic lows. Downtown Seattle, the most active market in 2016, saw vacancy fall 220 basis points to end 2016 at just 8.6%, while the Eastside reported a tight vacancy of 9.6%.

## RENTAL RATES

### Lease rates nearing historic highs

Despite flat lease rates in the fourth quarter, year-over-year gains were positive. The overall lease rate ended the year at \$29.51 per SF, full service gross, which was up 1.2% from a year ago. Class A rates dipped slightly in Q4 2016 to \$38.73 per SF, but increased 1.7% in 2016. Class B rents experienced a healthy 5.2% increase in 2016 to \$26.12 per SF, outpacing the pre-recession high of \$25.79 per SF in 2008. The largest gain in value occurred in the Eastside market, where rents increased \$1.31 year over year to \$33.12 per SF.

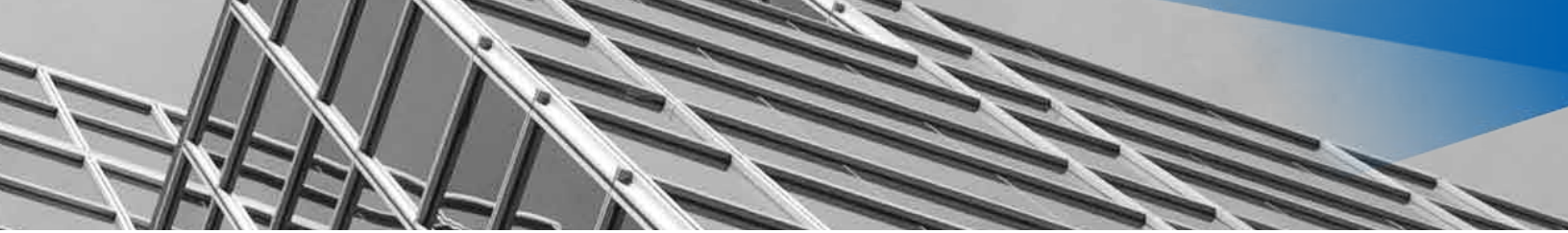
## INVESTMENT MARKET

### Blockbuster office sales transactions dominate the fourth quarter

In the fourth quarter, 12 properties over \$25 million traded hands, totaling over \$1.6 billion and bringing 2016 total sales volume up to \$4.4 billion for buildings over \$25 million (down less than 1% from 2015). The fourth quarter alone saw

## Metro Seattle Office Market Indicators

PROPERTY CLASS	INVENTORY	UNDER CONSTRUCTION	Q4 NET ABSORPTION	YTD NET ABSORPTION	DIRECT VACANCY	SUBLEASE SPACE	TOTAL VACANCY	AVERAGE RATE PSF
Class A	53,870,584	5,837,620	300,391	2,943,919	8.9%	0.5%	9.4%	\$38.73
Class B	59,067,859	52,000	-154,918	587,268	10.6%	0.7%	11.3%	\$26.12
Class C	11,634,498	0	18,561	173,905	4.5%	0.1%	4.6%	\$21.40
<b>Metro Seattle Total</b>	<b>124,572,941</b>	<b>5,889,620</b>	<b>164,034</b>	<b>3,705,092</b>	<b>9.3%</b>	<b>0.6%</b>	<b>9.9%</b>	<b>\$29.51</b>

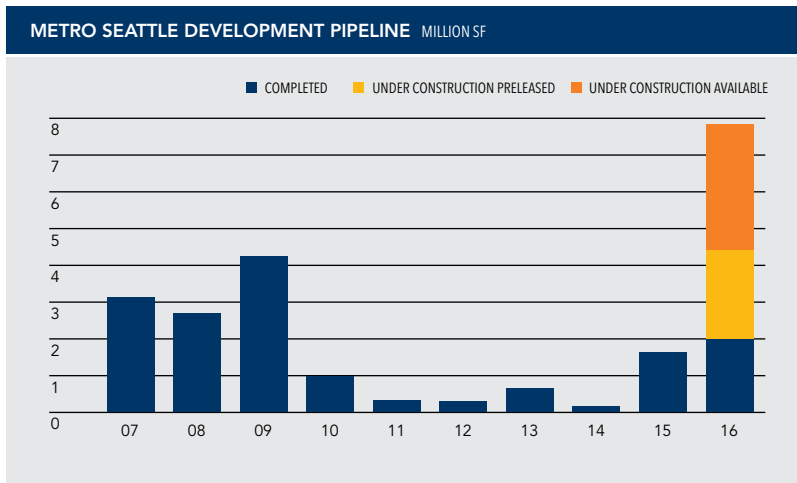
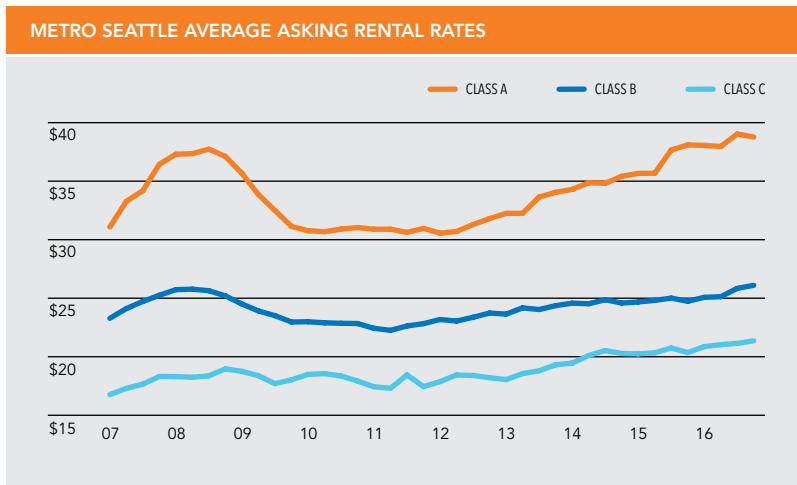
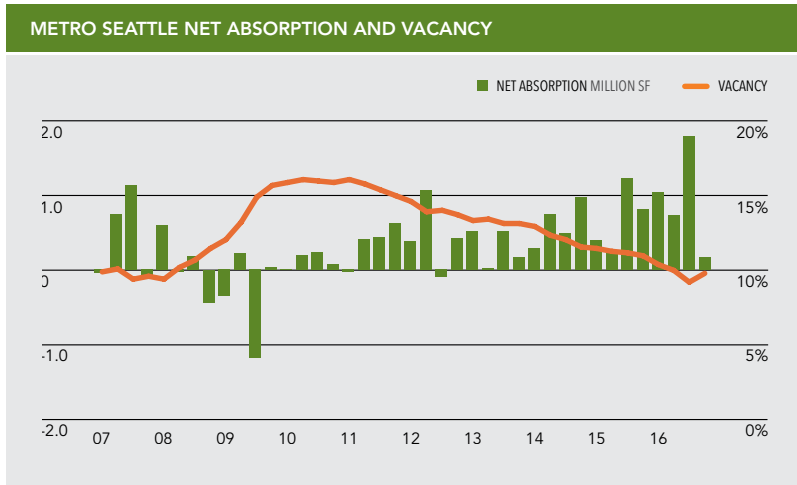


six transactions over \$100 million, showing a continuing global investor appetite for large deals in the red-hot Seattle office market. The largest sale of the quarter involved Hines Global REIT selling Komo Plaza in the Queen Anne/Magnolia submarket for nearly \$276 million (\$937 per square foot) to GI Partners. In addition, the Eastside continued to see strong investor interest as new market entrant Gemini Rosemont acquired One Twelfth @ Twelfth in the Bellevue CBD for \$217 million (\$452 per square foot) from Principal Real Estate. Seattle finished 2016 with the 6th highest office sales volume behind only Manhattan, Los Angeles, Boston, San Francisco, and Silicon Valley despite being only the 15th largest metro in the US. Expect activity and pricing to remain high although cap rate compression might be over due to increased interest rates.

**OUTLOOK**

**Area office market ends 2016 in great shape, but macroeconomic and political concerns remain**

In 2016, the Seattle-Puget Sound office market reported some of the strongest market fundamentals seen nationally. While Amazon has soaked up all the media attention nationally as a driver of office space, especially in South Lake Union, other companies such as Microsoft, Salesforce, Tableau, Valve, and WeWork have expanded regionally to take advantage of the area's talented workforce and less expensive cost of living compared to San Francisco and Silicon Valley. While concerns remain locally over new federal regulations, especially if they involve H1-B visas used by the area's tech sector, as well as rising protectionist sentiment, the region's office market remains firmly in expansion mode. In addition, Seattle has become a primary target from both national and international investors for high-quality and well-located office properties due to its strong underlying drivers and this is expected to continue in 2017. ■



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## Metro Seattle Office Market Indicators

SUBMARKET	INVENTORY	UNDER CONSTRUCTION	Q4 NET ABSORPTION	YTD NET ABSORPTION	DIRECT VACANCY	SUBLEASE SPACE	TOTAL VACANCY	AVERAGE RATE PSF
Ballard/U Dist	3,115,350	123,332	-31,522	41,655	3.0%	0.9%	3.9%	\$28.46
Belltown/Denny Regrade	5,662,995	-	58,275	97,806	4.6%	0.6%	5.2%	\$30.85
Capital Hill/Central Dist	1,425,944	-	-12,184	-15,020	2.7%	0.0%	2.7%	\$31.71
Lake Union	7,827,048	1,970,855	90,617	1,368,224	10.9%	0.2%	11.1%	\$36.49
Pioneer Sq/Waterfront	6,114,870	375,612	-4,171	248,951	3.8%	0.6%	4.4%	\$33.23
Queen Anne/Magnolia	4,502,403	-	159,560	247,271	3.4%	1.0%	4.4%	\$27.71
S Seattle	3,547,729	-	36,455	253,806	14.8%	0.3%	15.1%	\$30.13
Seattle CBD	28,507,471	1,581,296	197,104	793,311	9.5%	0.7%	10.2%	\$40.44
<b>Downtown Seattle Market Total</b>	<b>60,703,810</b>	<b>4,051,095</b>	<b>494,134</b>	<b>3,036,004</b>	<b>8.0%</b>	<b>0.6%</b>	<b>8.6%</b>	<b>\$36.25</b>
520 Corridor	3,451,735	-	15,422	79,285	6.3%	1.8%	8.1%	\$30.70
Bellevue CBD	9,203,914	724,693	63,423	244,588	12.7%	0.3%	13.0%	\$40.30
Coal Creek/Issaquah	1,680,263	-	-7,932	3,098	12.4%	0.5%	12.9%	\$30.50
E King County	652,736	-	-1,569	17,380	1.9%	0.0%	1.9%	\$25.51
I-90 Corridor	4,713,830	-	-49,959	-89,544	9.2%	0.9%	10.1%	\$32.77
Kirkland	2,923,474	440,000	10,693	154,001	6.5%	1.5%	8.0%	\$27.92
Mercer Island	545,913	-	3,170	4,233	7.6%	0.0%	7.6%	\$34.72
Redmond	3,657,857	-	10,558	88,901	4.5%	1.0%	5.5%	\$28.87
Suburban Bellevue	3,944,999	-	52,855	52,196	5.8%	1.5%	7.3%	\$31.58
<b>Eastside Market Total</b>	<b>30,774,721</b>	<b>1,164,693</b>	<b>96,661</b>	<b>554,138</b>	<b>8.7%</b>	<b>0.9%</b>	<b>9.6%</b>	<b>\$33.12</b>
Bothell/Kenmore	3,309,032	-	-54,092	-23,293	15.4%	0.6%	16.0%	\$25.59
Edmonds/Lynnwood	2,517,675	-	32,822	128,168	9.2%	0.0%	9.2%	\$23.23
Everett CBD	1,982,814	-	-10,316	55,844	7.3%	0.0%	7.3%	\$18.78
Mill Creek/Woodinville	475,553	-	36	-1,021	10.5%	0.0%	10.5%	\$22.52
N Snohomish County	336,126	-	-510	20,513	1.9%	0.0%	1.9%	\$16.11
Northgate/N Seattle	1,003,101	-	9,212	22,531	5.6%	0.0%	5.6%	\$25.90
S Everett/Harbor Point	1,235,441	-	1,770	68,302	7.7%	0.0%	7.7%	\$22.17
S Snohomish County	190,985	-	0	1,481	4.0%	0.0%	4.0%	\$20.15
<b>Northend Market Total</b>	<b>11,050,727</b>	<b>-</b>	<b>-21,078</b>	<b>272,525</b>	<b>10.0%</b>	<b>0.2%</b>	<b>10.2%</b>	<b>\$23.88</b>
Federal Way/Auburn	3,489,789	-	-347,067	-274,248	24.5%	0.0%	24.5%	\$21.71
Kent Valley	1,927,385	-	9,212	127,398	9.7%	0.3%	10.0%	\$22.78
Renton/Tukwila	4,834,963	673,832	-85,201	-120,551	11.6%	1.2%	12.8%	\$22.89
Seatac/Burien	1,339,285	-	381	-16,545	22.2%	0.1%	22.3%	\$20.71
<b>Southend Total</b>	<b>11,591,422</b>	<b>673,832</b>	<b>-422,675</b>	<b>-283,946</b>	<b>16.4%</b>	<b>0.6%</b>	<b>17.0%</b>	<b>\$22.25</b>
Dupont	1,097,823	-	0	0	0.0%	0.0%	0.0%	-
E Pierce County	178,254	-	6,150	660	9.0%	0.0%	9.0%	\$21.26
Gig Harbor/W Pierce Co	601,340	-	-412	-8,317	9.4%	0.0%	9.4%	\$24.21
Puyallup	722,407	-	1,147	24,144	28.4%	0.0%	28.4%	\$24.05
Spanaway	284,654	-	2,951	3,122	5.5%	0.0%	5.5%	\$25.82
Tacoma CBD	4,274,540	-	-3,288	43,882	10.6%	0.3%	10.9%	\$20.28
Tacoma Suburban	2,191,627	-	12,217	43,140	8.8%	0.0%	8.8%	\$21.02
Univ Place/Lakewood	1,051,616	-	-1,773	19,740	8.6%	0.0%	8.6%	\$18.61
<b>Tacoma Market Total</b>	<b>10,452,261</b>	<b>-</b>	<b>16,992</b>	<b>126,371</b>	<b>10.0%</b>	<b>0.1%</b>	<b>10.1%</b>	<b>\$21.19</b>
<b>Puget Sound Total</b>	<b>124,572,941</b>	<b>5,889,620</b>	<b>164,034</b>	<b>3,705,092</b>	<b>9.3%</b>	<b>0.6%</b>	<b>9.9%</b>	<b>\$29.51</b>

### CONTACT

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



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