



# Puget Sound Office Market

## Leasing Activity Bounces Back to Pre-Pandemic Levels

The Puget Sound office market regained solid footing in the third quarter of 2021, recovering to pre-pandemic levels despite ongoing fears about the Delta variant. Increased leasing activity and declining sublease availability resulted in positive net absorption of over 1.0 million square feet, a level not seen since third-quarter 2019. The rising demand for office space is fueled by the end of remote work and the addition of new jobs. Property owners have shown increasing flexibility in leasing terms, including increased tenant allowances, to retain and entice tenants back to the office without devaluing their buildings by lowering rents. Employers are following suit by offering employees a variety of perks to resume in-person work. These benefits, coupled with the added peace of mind provided by company-mandated vaccinations, have resulted in an uptick in tenant demand.

The flurry of leasing activity is expected to surge through the fourth quarter as the first of the year approaches, a date marking the end of remote work for some of the region's largest employers. In the first nine months of 2021, active tenant requirements have increased significantly, resulting in a rebound of tour volume to near pre-pandemic levels. FAAMG companies continue plans to expand in the market, with Facebook and Amazon's requirements expected to exceed 1.0 million square feet over the next few years. Longer-term proposals have increased following a wave of short-term renewals during COVID-19 as tenants look to take advantage of the improving market, and several proposals for top tier subleases are expected to close by year end.

### Current Conditions

- The Puget Sound ranks second in the country with 9.8 million square feet of office space under construction, trailing only Manhattan.
- Several notable transactions occurred during the third quarter, with sales volume exceeding \$2.2 billion year-to-date.
- Tenant demand increased by approximately 75% from its low point in November 2020.
- Convoy signed a sublease for 123,000 SF across three floors at Russell Investments Center in downtown Seattle.

### Market Summary

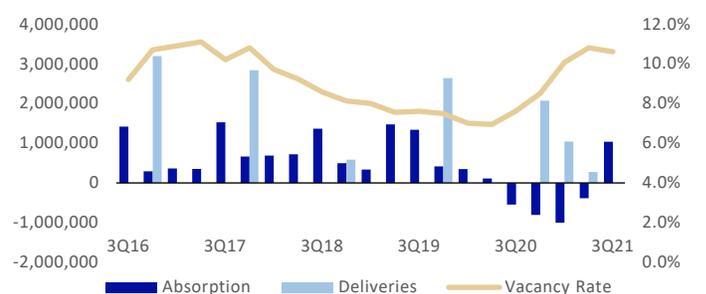
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	129.0M	129.0M	128.0M	↑
Vacancy Rate	10.6%	10.8%	7.6%	→
Quarterly Net Absorption (SF)	1.0M	-368,028	-95,797	↑
Average Asking Rent/SF (FSG)	\$43.31	\$42.29	\$41.86	↑
Under Construction (SF)	9.8M	9.1M	7.7M	→

### Market Analysis

#### ASKING RENT AND AVAILABILITY RATE



#### NET ABSORPTION v. CONSTRUCTION DELIVERIES & VACANCY RATE (SF)



**RESEARCH Q3 2021**

Average asking rents increased to \$43.31/SF FSG, up 2.4% for the quarter and 3.4% year over year. Vacancy in the region stayed flat, due in part to the delivery of 336,078 square feet of new construction, decreasing by 20 basis points for the quarter to 10.6%, and 140 basis points year over year. Development continues to boom in Puget Sound with 9.8 million square feet of office space under construction, maintaining the region’s rank of second in the country, behind only Manhattan. The outlook for future development is bright, with nearly 2.0 million square feet of announced or planned space poised to backfill the pipeline, an indication of investors’ continued confidence in the economics of the region.

Availability rates have begun to decline from the second-quarter peak, down 60 basis points at 15.6%. A major driver of this downward trend is the removal of large blocks of sublease space, a decrease of nearly 1.0 million square feet over the quarter. The absorption of sublease space is expected to continue in the short term as large blocks of sublet space are reoccupied, to one degree or another, by employees returning to the office.

**Eastside**

Market activity on the Eastside soared, signaling recovery from the pandemic at an impressive pace, protected from the worst of the downturn by the presence of technology giants and competition over a dwindling inventory, despite the continued addition of new space. The overall vacancy rate for the Eastside dropped to 5.6% in the third quarter, down 230 basis points from the previous quarter. Average asking rents rose to \$46.12/SF FSG, up 2.5% over the quarter, influenced by the removal of available Class B space from the market. Overall, availability rates have declined, dropping 110 basis points over the quarter to 10.4%.

The Eastside had a strong quarter in both sales and leasing, with notable transactions in the Bellevue CBD, Suburban Bellevue and Kirkland submarkets. In the Bellevue CBD, Amazon has occupied the newly constructed Summit III tower, leasing 377,000 square feet in the largest move-in of the quarter.

Suburban Bellevue also benefitted from massive tech expansion, as Facebook absorbed more space in the sprawling Spring District

development, occupying 338,000 square feet across 11 stories in Block 16. In Kirkland, all 52,870 square feet of the newly constructed 5501 Lakeview has been signed for by a confidential tenant to occupy in early 2022.

During the first half of the year, Puget Sound was the third most active sales market in the country, with sales volume rising 373%. Near the end of the third quarter, Unico Properties purchased the 110 Atrium building in Downtown Bellevue for \$143.2 million, roughly \$618/SF. The deal is illustrative of Bellevue’s red-hot office market; companies have flocked to the area, driven by the promise of increased connectivity of light-rail expansion and the overall activation of the Eastside by Amazon. Buyers like Unico are increasingly willing to pay a premium for well-located assets surrounded by tenant amenities, a trend that has resulted in a gain to sellers. In Suburban Bellevue, the Lincoln Plaza office park sold to a subsidiary of Rockwood Capital for \$83.5 million, or \$519/SF. The 9-acre campus houses three two-story buildings, with a combined square footage of 147,384 square feet. The price point is high given the age of the property, and signals optimism about the long-term value of the land and location, which will soon benefit from light rail service and up-zoning of the Lincoln Plaza sector, an area the city is calling the Southwest Bellevue Subarea. In another notable office park sale, brokered by Newmark, American Assets Trust purchased the Corporate Campus East III for \$83.9 million, or \$522/SF. The campus is comprised of four buildings on 12 acres, for a combined 160,508 square feet.

In efforts to keep up with the high demand, construction is underway on 7.3 million square feet of new office space, and another 327,000 square feet of projects have been announced. During the second quarter, Skanska broke ground on The Eight, the developer’s sixth project in the Puget Sound region and second in Bellevue. Located at Northeast 8th Street and 108th Avenue NE, the building will total 540,000 square feet and is expected to cost \$476.0 million. Construction is also underway on the Costco Campus Expansion in Issaquah, which includes the construction of 620,000 square feet of Class A office space and parking garage.

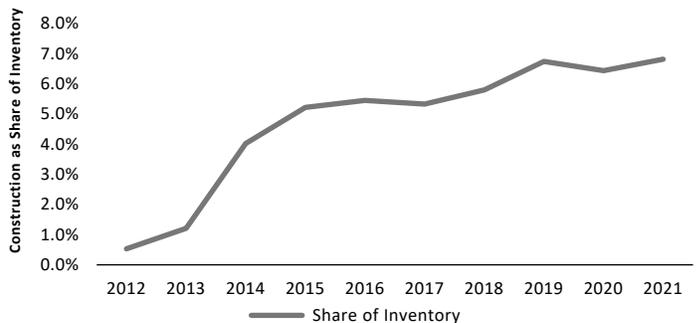
**Availability**

**SUBLEASE v. DIRECT AVAILABILITY (SF)**



**Rate of Development**

**CONSTRUCTION AS % OF BUILDING INVENTORY**



## Downtown Seattle

Downtown Seattle has also shown signs of recovery over the third quarter. Vacancy rates stayed flat, up 10 basis points from the previous quarter at 11.9%, largely due to the delivery of the Cascadian, a 211,066-square-foot building in Lake Union recently converted from office to life science space. Rents are rising, with average asking rates hitting \$47.84/SF FSG, a 1.3% increase quarter-over-quarter, and a 1.6% increase year-over-year. There was 209,014 square feet of positive absorption in Downtown Seattle in the third quarter, and the Lake Union Submarket was responsible for roughly 41% of it due to the move-in of Adaptive BioTech into 100,000 square feet at 1165 Eastlake. Availability rates have begun to decline, down 40 basis points to 18.1%, due in part to the removal of 600,000 square feet of sublease space during the third quarter. Positive leasing trends are expected to continue, with active tenant requirements reaching 3.8 million square feet at quarter's end.

A flurry of recent sales activity in the Downtown area proved that the city center has maintained its appeal among prospective buyers, despite high demand for Eastside product. Several notable transactions occurred during the third quarter, with sales volume exceeding \$2.2 billion year-to-date. In the largest sale of the quarter, Kilroy Realty of Los Angeles paid \$490 million for the West 8th Building in the Denny Triangle, approximately \$909/SF. The 539,000-square-foot building is 100% leased, with Amazon as its anchor tenant. In July, Boston Properties announced its plan to acquire the nearly 800,000-square-foot Safeco Plaza for a purchase price of \$465 million, or \$625/SF. Safeco Plaza, located in the Seattle CBD, is 90.0% leased with an average tenant tenure of 17 years. Another major deal closed in the third quarter was the sale of the Home

Plate Center to Jamestown. The Atlanta-based company paid \$251.3 million for the two-building, 341,951-square-foot complex, approximately \$735/SF.

## South Lake Union

The overall Puget Sound region has become a hub for life science and biotech in recent years, a sector that helped buoy the market during the pandemic due to the infeasibility of remote work. The area is a natural fit for life science ventures as it boasts highly regarded research institutions, access to capital and the unique confluence of the global health and technology sectors. Amidst growing demand, South Lake Union has emerged as the hottest submarket in Downtown Seattle for both traditional office and life science tenants.

South Lake Union currently has 1.3 million square feet of new office and lab product under construction, which is expected to be absorbed quickly as the area continues to gain popularity among biotech tenants. One of the major developments underway is Dexter Yard, a new 500,000-square-foot building slated to open in the fourth quarter. Developed by BioMed Realty, the project will provide office space, as well as 150,000 square feet of highly coveted, state-of-the-art lab space. Alexandria Real Estate has pre-development work underway on two major projects in Lake Union, including a 260,000-square-foot project at 1150 Eastlake and a 217,000-square foot development at 701 Dexter Ave N. Additionally, Alexandria sold a 70% interest in its 400 Dexter building for \$254.8 million, or \$1,255/SF. The sale was the second highest price paid per square foot for a life science property in Seattle.

### Select Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
Convoy	Russell Investments Center	Seattle CBD	Sublease	123,000
Confidential Tenant	5501 Lakeview	Kirkland	Direct	52,870
TikTok, Inc. / ByteDance	Key Center	Bellevue CBD	Sublease	43,000
Tencent Holdings Ltd.	One Twelfth @ Twelfth	Bellevue CBD	Sublease	43,509
American Seafoods Group	Market Place Tower	Belltown/Denny Regrade	Direct	34,000

### Select Sales Transaction

Building	Submarket	Sale Price	Price/SF	Square Feet
West 8th	Seattle CBD	\$490,000,000	\$909	539,000
Safeco Plaza	Seattle CBD	\$465,000,000	\$586	793,679
400 Dexter	Lake Union	\$254,800,000 / 70%	\$1,255	290,111
Home Plate Center	South Seattle	\$251,175,000	\$763	329,075
110 Atrium Place	Bellevue CBD	\$143,200,000	\$639	224,000
Lincoln Plaza	Suburban Bellevue	\$84,100,000	\$571	150,000
Corporate Campus East III	520/Corridor	\$83,850,000	\$522	160,508

Submarket Statistics							
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Direct Asking Rent (Price/SF)	YOY Asking Rent Change (%)
<b>Downtown Seattle</b>	<b>67,118,635</b>	<b>2,531,950</b>	<b>11.9%</b>	<b>209,014</b>	<b>-912,598</b>	<b>\$47.84</b>	<b>1.6%</b>
Ballard/University District	3,385,589	0	10.0%	-4,468	-64,890	\$44.10	-1.3%
Belltown/Denny Regrade	5,766,016	733,823	16.9%	47,774	-294,961	\$45.94	14.4%
Capitol Hill/Central District	1,736,883	0	3.3%	31,126	1,883	\$40.83	1.8%
Lake Union	10,808,573	1,272,127	5.0%	86,598	475,335	\$51.71	15.3%
Pioneer Square/Waterfront	6,270,440	0	12.9%	-21,319	-343,422	\$44.23	3.1%
Queen Anne/Magnolia	4,290,470	0	17.2%	6,715	-47,034	\$37.24	-1.9%
South Seattle	2,820,026	0	6.1%	5,364	8,500	\$37.74	8.9%
Seattle CBD	32,040,638	526,000	13.7%	57,224	-648,009	\$51.32	-0.2%
<b>Eastside</b>	<b>34,946,032</b>	<b>7,282,148</b>	<b>5.6%</b>	<b>872,734</b>	<b>328,535</b>	<b>\$46.12</b>	<b>6.2%</b>
520 Corridor	3,092,528	246,638	6.7%	14,772	56,874	\$41.86	-0.4%
Bellevue CBD	10,023,698	4,899,000	6.0%	318,655	175,774	\$59.18	5.8%
Bothell/Kenmore	3,396,906	0	8.3%	-15,038	-37,545	\$36.14	-2.6%
Coal Creek/Issaquah	1,867,877	620,000	1.2%	77,520	75,138	\$44.69	10.2%
I-90 Corridor	4,876,396	0	6.8%	-7,749	-87,679	\$42.88	3.0%
Kirkland	2,660,508	353,473	3.2%	39,621	28,543	\$46.39	13.0%
Mercer Island	420,795	155,200	6.2%	2,756	-4,100	\$40.63	-3.3%
Redmond	3,512,099	351,000	3.1%	80,898	90,116	\$43.69	3.6%
Suburban Bellevue	4,157,407	656,837	6.7%	353,301	21,574	\$41.96	1.4%
Totem Lake	937,818	0	2.7%	7,998	9,840	\$35.56	-8.4%
<b>Southend</b>	<b>11,238,250</b>	<b>0</b>	<b>21.1%</b>	<b>23,979</b>	<b>29,621</b>	<b>\$34.57</b>	<b>-4.7%</b>
Federal Way/Auburn	3,315,577	0	20.5%	38,934	77,445	\$27.53	5.0%
Kent Valley	1,610,503	0	7.3%	4,577	-6,054	\$29.00	0.4%
Renton/Tukwila	5,129,341	0	27.9%	-23,635	-18,546	\$39.78	-8.3%
Seatac/Burien	1,182,829	0	12.4%	4,103	-23,224	\$29.89	-1.0%
<b>Northend</b>	<b>7,778,593</b>	<b>0</b>	<b>7.6%</b>	<b>-48,006</b>	<b>-62,002</b>	<b>\$32.28</b>	<b>3.4%</b>
<b>Tacoma</b>	<b>8,789,984</b>	<b>0</b>	<b>9.7%</b>	<b>-21,709</b>	<b>-56,596</b>	<b>\$28.62</b>	<b>1.2%</b>
<b>Puget Sound Market</b>	<b>129,871,494</b>	<b>9,814,098</b>	<b>10.6%</b>	<b>1,036,012</b>	<b>-673,040</b>	<b>\$43.31</b>	<b>3.5%</b>

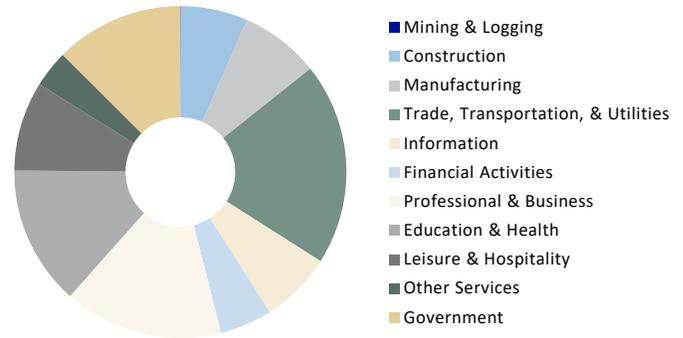
### Economic Conditions

The Puget Sound economy continues to regain ground lost during the pandemic, ranking among the top five office markets for overall recovery. The unemployment rate for the Seattle-Bellevue-Tacoma MSA was 5.0% for August, down from a record high of 16.6% in April 2020 when 138,900 jobs were lost in the area. Since then, there have been 289,714 jobs added to the economy. The strong job growth can be expected to continue with all five FAAMG companies actively hiring in the region.

According to census data released in August 2021, Seattle’s population has grown by 21.0% to 737,015 residents, and King County has increased by more than 300,000 residents since 2010. The Puget Sound region is among the fastest growing in the country, and Seattle was one of only 14 cities to add more than 100,000 people over the last decade.

### Employment By Industry

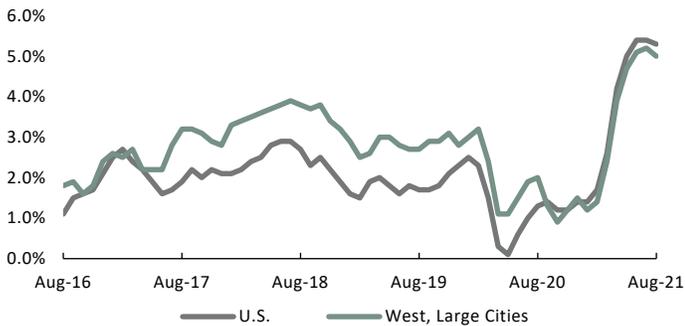
Seattle-Tacoma-Bellevue



Source: U.S. Bureau of Labor Statistics

### Consumer Price Index (CPI)

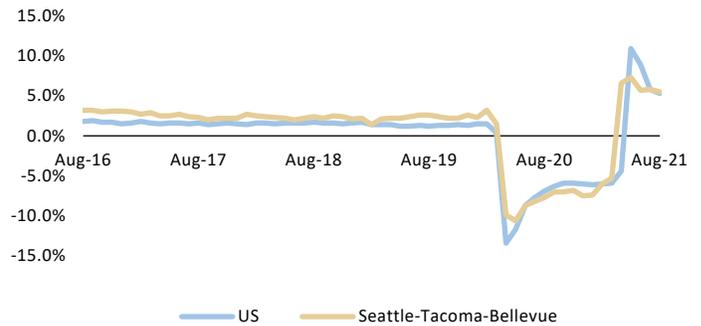
All Items, 12-Month % Change, Not Seasonally Adjusted



\*Source: U.S. Bureau of Labor Statistics

### Payroll Employment

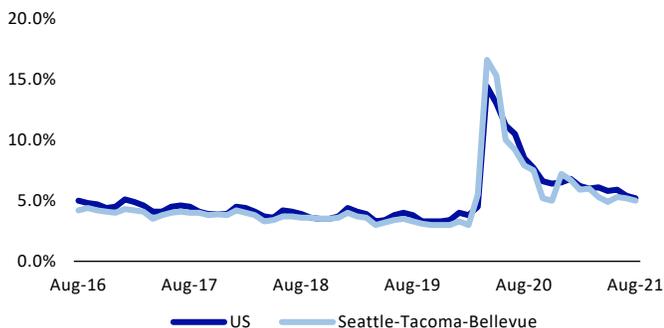
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



\*Source: U.S. Bureau of Labor Statistics

### Unemployment Rate

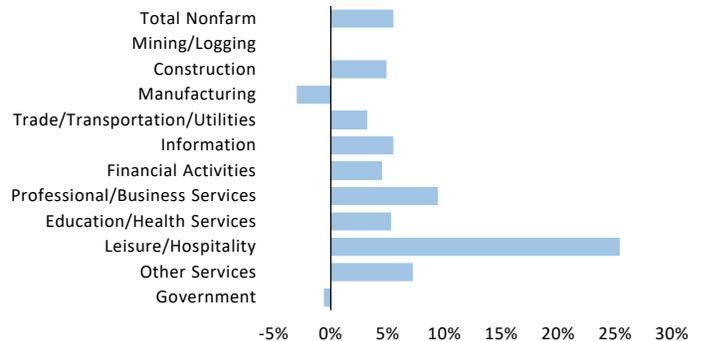
Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

### Employment Growth by Industry

Seattle-Tacoma-Bellevue, 12-Month % Change, Not Seasonally Adjusted



\*Source: U.S. Bureau of Labor Statistics

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