



Puget Sound Office Market

Office Market Activity Slows amid Economic Concerns

Current Market Conditions

The Puget Sound office market saw worsening conditions over the first quarter of 2023, following a bumpy 2022. Large layoffs in the tech sector has led to right-sizing exercises by major tenants and, consequently, a spike in sublease availability. At the same time, the layoffs and resultant shift in the power dynamics between employers and employees have emboldened some companies to tighten in-office requirements. Market activity has slowed as major employers remain focused on right-sizing exercises for both staff and office footprints, and future demand remains unknown.

The region experienced negative 772,742 square feet of absorption; the vacancy rate rose to 12.5%, up 70 basis points for the quarter, with direct vacancy at 11.6%. Availability in the region stands at 20.4%, up 190 basis points over the quarter and 430 basis points year over year.

Leasing Activity

A total of 1.3 million square feet of space was leased during the first quarter of 2023, an improvement from the 1.0 million leased the quarter prior, but still a 36.7% decrease year over year. There remain 3.8 million square feet of active tenant requirements in the region, a 52.5% decrease from the same period last year. The active tenants are focused on smaller footprints and flexible terms, with many opting for sublease space.

Average asking rents for available space decreased 1.0% over the quarter, to \$45.22/SF. Effective rents have begun to favor tenants as concession packages increase, a trend that is expected to continue as more available space is added to the market.

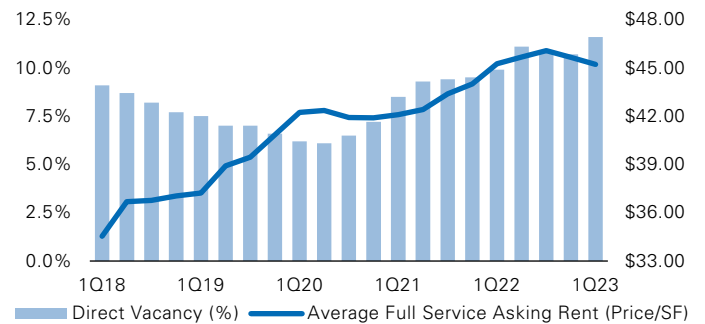
Sublease Availability

Sublease availability, which had nearly recovered to pre-pandemic levels by April of 2022, has steadily risen again over the last 12

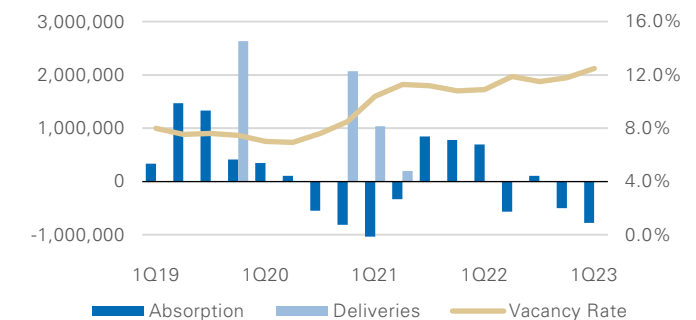
Market Summary

| | Current Quarter | Prior Quarter | Year Ago Period | 12-Month Forecast |
|-------------------------------|-----------------|---------------|-----------------|-------------------|
| Total Inventory (SF) | 130.4M | 130.6M | 130.4M | ↑ |
| Vacancy Rate | 12.5% | 11.8% | 10.9% | ↑ |
| Quarterly Net Absorption (SF) | -773K | -501K | 699K | ↓ |
| Average Asking Rent/SF | \$45.22 | \$45.66 | \$45.25 | → |
| Under Const. (SF) | 8.8M | 8.6M | 7.5M | ↓ |

Asking Rent and Direct Vacancy Rate



Net Absorption v New Construction & Overall Vacancy



RESEARCH Q1 2023

months. The availability rate currently stands at 4.6%, the highest it has been since the first quarter of 2021, and is expected to increase over the coming quarter as more companies have already announced plans to give up space. High concentrations of sublease space are common during economic downturns; monitoring this metric in the short term will provide insight into the direction of the market.

Capital Markets

Slowing leasing fundamentals paired with higher borrowing costs due to the current interest rate environment continues to put downward pressure on office values. There continues to be limited liquidity for office in the financing markets and few buyers and sellers willing or able to bridge the bid-ask gap to complete sales. This is exemplified by the recent low trade volumes - sales volume for the first quarter of 2023 totaled just \$102.7 million, a fraction of the \$1.8 billion in sales seen in the first quarter of 2022. In the most notable sale of the quarter, Gateway One in Bellevue, a stabilized suburban office asset, traded for \$34.5 million, or about \$300/SF.

Downtown Seattle Overview

The Downtown Seattle submarket was hit the hardest during the pandemic and continues to struggle with high vacancy rates. During the first quarter of 2023, the submarket saw a total net absorption of negative 519,872 square feet. Average asking rents in Downtown Seattle were \$47.28/SF, down 1.7% year-over-year. Total vacancy increased to 15.8%, up 100 basis points from the previous quarter.

While low office occupancy has heavily impacted the Central Business District, the life science sector has buoyed other surrounding clusters, most notably South Lake Union. In the largest lease transaction of the quarter, Bristol Myers Squibb signed a renewal at 400 Dexter totaling 267,350 square feet. The Ballard/University District cluster also saw leasing activity during the quarter. Brooks Sports pre-leased the under-construction 35

Stone. The 112,700-square-foot building will expand the footprint of its headquarters, as the company will continue to occupy its existing space at 3400 Stone Way N.

Eastside Overview

The Eastside submarket, though more resilient than Seattle in recent cycles, has not been immune to the effects of tech layoffs and hiring freezes. The submarket saw a total net absorption of negative 159,669 square feet. The overall vacancy rate was 6.5% for the first quarter of 2023, up 50 basis points from the previous quarter and 130 basis points year-over-year. Average asking rents for available space decreased to \$49.09/SF, down 1.4% over the quarter, but still up 0.3% year over year.

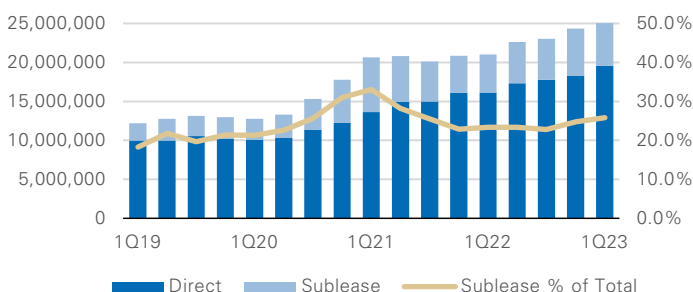
Like Seattle, the cluster most impacted by major employers downsizing has been the Bellevue CBD, while other surrounding clusters remain more stable. Like Lake Union, the Bothell/Kenmore cluster benefits from a growing biotech presence, and the vacancy rate in the area is expected to decline in the coming quarters as leases for Sana Biotechnology and IonQ commence. In the largest lease transaction of the quarter, Connections WA signed for 66,483 square feet in the Kirkland 405 Corporate Center in Totem Lake.

Future Outlook

In the short term, more spaces could be coming to market as a result of tenants downsizing, though leased space should become more densely occupied as companies gain leverage over employees for return-to-office mandates. Asking rents may continue to soften slightly with the influx of available space and easing inflation. Despite rising vacancy, the current rate remains far below the historical peaks of 16.6% seen following the Global Financial Crisis, and 15.1% following the dot-com bubble and 9/11. Though economic conditions in 2023 are expected to remain volatile, the Puget Sound market has historically fared better than most office markets during times of economic downturn.

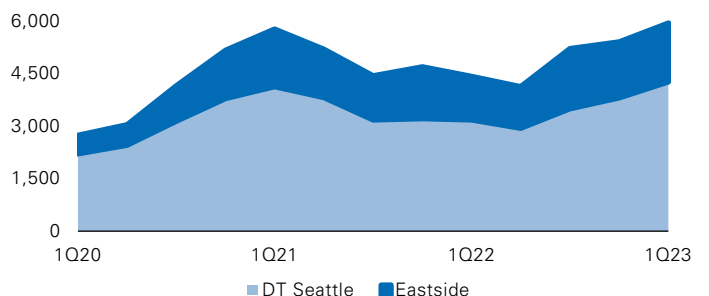
Availability

SUBLEASE v. DIRECT AVAILABILITY (SF)



Sublease Availability by Market

SQUARE FEET, THOUSANDS



Select Lease Transactions

| Tenant | Submarket | Building | Type | Square Feet |
|--------------------------------|--------------------|-------------------------------|-----------|-------------|
| Bristol Myers Squibb | Lake Union | 400 Dexter | Renewal | 267,350 |
| University of Washington | Ballard/U-District | U-District Station Building | Direct | 133,002 |
| Brooks Sports | Ballard/U-District | 35 Stone | Direct | 112,700 |
| Connections WA | Totem Lake | Kirkland 405 Corporate Center | Direct | 66,483 |
| Karr Tuttle | Seattle CBD | Columbia Center | Expansion | 40,437 |
| Radiant Logistics | Renton/Tukwila | Triton Towers Two | Expansion | 27,797 |
| Seattle's Union Gospel Mission | Renton/Tukwila | Triton Towers Two | Direct | 19,242 |

Select Sales Transactions

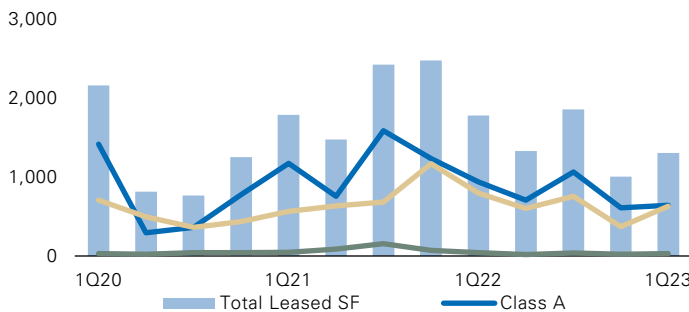
| Building | Submarket | Sale Price | Price/SF | Square Feet |
|--------------------------|-------------------|--------------|----------|-------------|
| Gateway One | Suburban Bellevue | \$34,500,000 | \$300 | 115,661 |
| Parkside Office Building | Renton/Tukwila | \$11,110,000 | \$225 | 49,300 |
| Park East | Renton/Tukwila | \$8,600,000 | \$214 | 40,126 |

Notable Buildings Under Construction

| Building | Submarket | Development Type | Estimated Delivery | Square Feet |
|--------------------------|--------------|------------------|--------------------|-------------|
| Onni SLU – Towers I & II | Lake Union | Speculative | 2024 | 940,160 |
| The Eight | Bellevue CBD | Speculative | 2024 | 540,000 |
| Washington 1000 | Seattle CBD | Speculative | 2024 | 526,000 |
| Four 106 | Bellevue CBD | Speculative | 2025 | 480,000 |

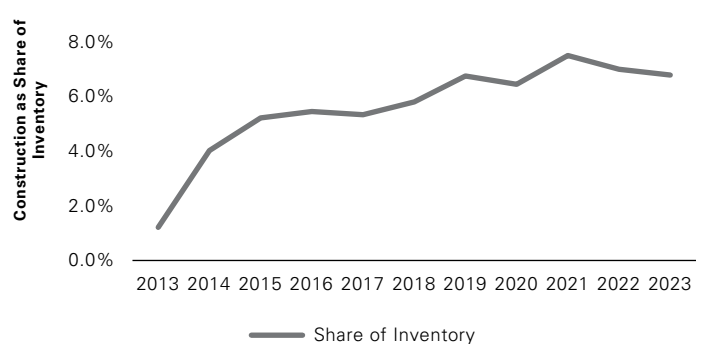
Leasing Activity

SQUARE FEET, THOUSANDS



Rate of Development

CONSTRUCTION AS % OF BUILDING INVENTORY



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| Submarket Statistics | | | | | | | |
|-------------------------------|----------------------|-------------------------|--------------------|---------------------|---------------------|--------------------------------|----------------------------|
| | Total Inventory (SF) | Under Construction (SF) | Total Vacancy Rate | Qtr Absorption (SF) | YTD Absorption (SF) | Average Asking Rent (Price/SF) | YOY Asking Rent Change (%) |
| Downtown Seattle | 67,625,284 | 3,895,773 | 15.8 % | -519,872 | -519,872 | \$47.28 | -1.7% |
| Ballard/University District | 3,248,971 | 776,125 | 5.0 % | -2,315 | -2,315 | \$45.89 | -1.3% |
| Belltown/Denny Regrade | 5,715,241 | 107,776 | 19.6 % | -80,636 | -80,636 | \$45.20 | -0.2% |
| Capitol Hill/Central District | 1,736,883 | - | 3.4 % | 26,722 | 26,722 | \$44.98 | 3.7% |
| Lake Union | 11,539,008 | 2,099,790 | 7.2 % | 14,608 | 14,608 | \$47.57 | -8.4% |
| Pioneer Square/Waterfront | 6,284,475 | 135,866 | 20.8 % | -48,290 | -48,290 | \$43.14 | -4.8% |
| Queen Anne/Magnolia | 4,205,705 | 197,216 | 18.1 % | 73,968 | 73,968 | \$40.79 | 1.3% |
| South Seattle | 2,820,026 | 53,000 | 11.4 % | -106,084 | -106,084 | \$36.58 | 1.2% |
| Seattle CBD | 32,074,975 | 526,000 | 19.0 % | -397,845 | -397,845 | \$49.84 | -2.5% |
| Eastside | 35,390,409 | 4,939,569 | 6.5% | -159,669 | -159,669 | \$49.09 | 0.3% |
| 520 Corridor | 3,191,089 | - | 8.6 % | 6,582 | 6,582 | \$43.07 | -2.1% |
| Bellevue CBD | 10,642,171 | 4,027,300 | 6.4 % | -168,274 | -168,274 | \$60.54 | 1.6% |
| Bothell/Kenmore | 3,103,641 | - | 8.5 % | 4,920 | 4,920 | \$44.22 | -3.8% |
| Coal Creek/Issaquah | 1,872,415 | - | 3.9 % | 3,417 | 3,417 | \$40.72 | -6.5% |
| I-90 Corridor | 4,916,166 | - | 10.6 % | -8,580 | -8,580 | \$45.94 | 0.7% |
| Kirkland | 2,660,508 | 57,432 | 3.7 % | -3,453 | -3,453 | \$45.71 | -1.3% |
| Mercer Island | 420,795 | - | 7.1 % | -1,136 | -1,136 | \$42.66 | -1.2% |
| Redmond | 3,512,099 | - | 1.5 % | 16,904 | 16,904 | \$43.16 | 0.8% |
| Suburban Bellevue | 4,157,407 | 854,837 | 5.8 % | -12,371 | -12,371 | \$44.41 | -1.1% |
| Totem Lake | 914,118 | - | 5.7 % | 2,322 | 2,322 | \$37.48 | -4.4% |
| Southend | 10,896,253 | - | 14.8% | -58,486 | -58,486 | \$37.05 | 0.1% |
| Federal Way/Auburn | 2,973,580 | - | 11.8 % | -10,699 | -10,699 | \$27.18 | 0.0% |
| Kent Valley | 1,610,503 | - | 6.8 % | -57,314 | -57,314 | \$30.51 | 1.2% |
| Renton/Tukwila | 5,129,341 | - | 21.1 % | 11,373 | 11,373 | \$43.56 | -2.8% |
| Seatac/Burien | 1,182,829 | - | 5.6 % | -1,846 | -1,846 | \$28.38 | -4.8% |
| Northend | 7,778,593 | - | 12.0 % | -80,316 | -80,316 | \$31.88 | -0.2% |
| Tacoma | 8,702,826 | - | 9.6 % | 45,601 | 45,601 | \$29.47 | 1.0% |
| Puget Sound Market | 130,393,365 | 8,835,342 | 12.5 % | -772,742 | -772,742 | \$45.22 | -0.1% |

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