

Puget Sound Office Market

Optimism Remains High Despite Increased Availability

The Puget Sound office market began coming back to life in the first quarter of 2021, giving hope that the worst of the downturn may be over. Average asking rents increased slightly to \$41.97/SF FSG, up 0.4% for the quarter but down by -0.3% year over year. The region experienced -1.0 million square feet of negative absorption during the first quarter, which was largely the result of slow deal flow over the prior three quarters, along with pandemic-related occupancy restrictions. Vacancy in the region increased to 10.1%, up 160 basis points for the quarter and 310 basis points year over year. Development is booming in Puget Sound; the market ranks second in the country, with 9.4 million square feet of office space under construction, trailing only Manhattan. There was 1.0 million square feet of new office construction delivered during the first quarter and another 2.3 million square feet which broke ground. There has been 6.1 million square feet added to the construction inventory since the start of 2020, which speaks to the firm belief investors have in the long-term prospects of the region.

Market activity picked up during the first quarter, with tenant demand increasing by roughly 30% from its low point in November 2020.

Current Conditions

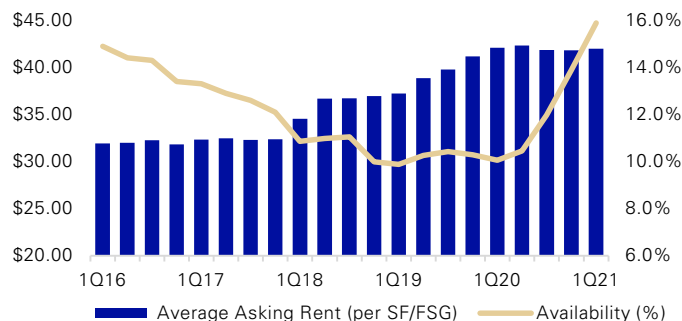
- The Puget Sound ranks second in the country with 9.4 million square feet of office space under construction, trailing only Manhattan.
- REI leased all of Rowley Properties' 68,765-square-foot 2005 Poplar building in Issaquah, which delivered last quarter.
- Amazon leased Schnitzer West's Artise, a 600,000-square-foot development in the Bellevue CBD, which is close to breaking ground.
- Tenant demand increased by approximately 30% from its low point in November 2020.

Market Summary

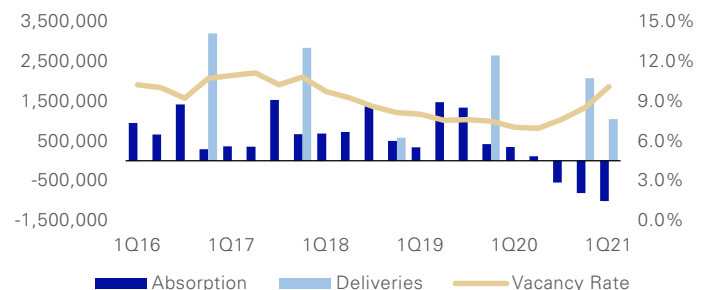
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	129.0M	128.0M	127.0M	↑
Vacancy Rate	10.1%	8.5%	7.0%	→
Quarterly Net Absorption (SF)	-1.0M	-808,833	346,300	↑
Average Asking Rent/SF (FSG)	\$41.97	\$41.82	\$42.08	↑
Under Construction (SF)	9.4M	8.2M	7.8M	→

Market Analysis

ASKING RENT AND AVAILABILITY RATE



NET ABSORPTION V. CONSTRUCTION DELIVERIES & VACANCY RATE (SF)



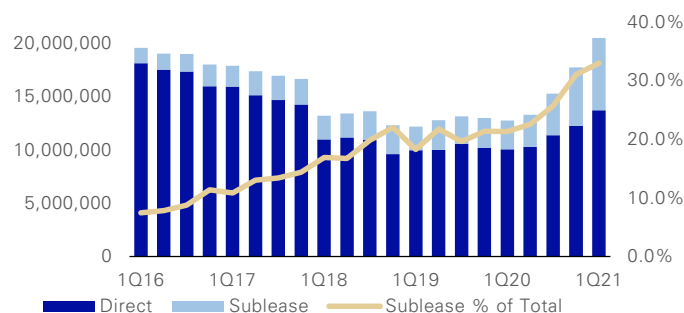
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Despite the uptick in leasing velocity, the sublease availability rate continued to rise, hitting 5.2%, up 90 basis points for the quarter. This is due in part to the fact that a disproportionate number of recent leases have been short-term renewal and downsize deals. The Seattle and Bellevue Central Business District submarkets have been among the hardest-hit by move-outs and increased availability, following a pattern seen in many of the country's largest cities. It is possible that peak availability has been reached, with many companies making plans to return to offices gradually over the next two quarters. As that happens, expect availability to level off and eventually decrease, as large blocks of sublet space are reoccupied, to one degree or another, by employees returning to the office after working from home for the last year.

While it is difficult to quantify public sentiment on the issue, momentum seems to have shifted recently in the direction of the back-to-office crowd. Facebook, Amazon, Microsoft and Google have all committed to existing expansion plans and reaffirmed belief in the importance of office-based employment to collaboration and company culture. Microsoft announced it would be opening its campus on March 29th, and the extensive redevelopment of its Redmond campus continued throughout the pandemic. In a March interview with Bisnow, Amazon VP of Global Real Estate and Facilities John Schoettler stated that Amazon plans to occupy all future space to which it has committed, which includes more than 5 million square feet in the Bellevue CBD submarket. Facebook, which has nearly 1.3 million square feet of offices planned or built in Suburban Bellevue's Spring District, announced it will be reopening its headquarters in Menlo Park, California in a limited capacity beginning in May. In March, Google declared it would be investing more than \$7 billion in new offices and data centers across the country in 2021. Google has nearly 2.5 million square feet of office space either existing or under construction in Puget Sound, plus proposed sites which have the potential to push footprints in the region to over 3.5 million square feet.

Availability

SUBLEASE v. DIRECT AVAILABILITY (SF)



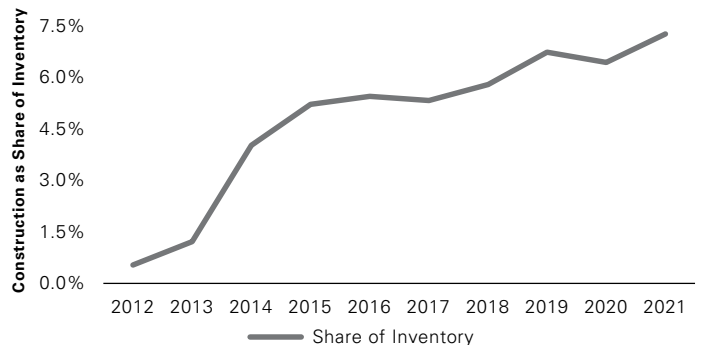
Eastside

The Eastside had a strong quarter in both sales and leasing, with notable transactions in the Bellevue CBD, Bothell/Kenmore and Coal Creek/Issaquah submarkets. REI signed the second-largest lease in the region when it took all of Rowley Properties' 68,765-square-foot 2005 Poplar building in Issaquah, which delivered last year. In third-quarter 2020 REI sold its recently completed, 400,000-square-foot headquarters in Suburban Bellevue's Spring District to Facebook for \$378.9 million, or \$947/SF. The sale resulted in a large profit for REI, which purchased the 8-acre site on which the property was built for roughly \$50 million in 2017. That sale left REI without a base of operations temporarily since its previous headquarters, located at 6750 S 228th Street in Kent, was also sold last quarter. Bridge Development Partners purchased the 15.85-acre site for \$24.6 million, or \$148/SF. Bridge has demolished the old offices, which will be replaced by a two-building industrial development totaling 309,028 square feet. The region's largest lease was signed by Amazon, which will be occupying all the office space in Schnitzer West's 600,000-square-foot Artise in the Bellevue CBD, which is close to breaking ground.

Bothell has seen a surge of activity in the last two quarters as it continues to grow into its role as the region's second life science hub. Overall office vacancy has fallen dramatically in the submarket since 2018, when it averaged more than 15.0%. Vacancy now sits at 6.6%, down 60 basis points for the quarter and 230 basis points since first-quarter 2019. Alexandria Real Estate Equities has been particularly active, having made transactions in Bothell over the last two quarters totaling more than 1.2 million square feet and \$366 million. Average asking rents in the Bothell/Kenmore submarket increased by 2.3% during the quarter to \$36.16/SF FSG, and are significantly cheaper than rents in the Lake Union submarket, which averaged \$45.21/SF FSG in the first quarter.

Rate of Development

CONSTRUCTION AS % OF BUILDING INVENTORY



Downtown Seattle

Vacancy in Downtown Seattle increased sharply in the first quarter to 10.7%, up 510 basis points from a near record low of 5.6% in first-quarter 2020. There was -933,271 square feet of absorption in Downtown Seattle in the first quarter, and the Belltown/Denny Submarket was responsible for roughly 28% of it. The most significant moveout involved Amazon, which vacated 184,000 square feet at 2201 Westlake Avenue. Other notable moveouts include Regus/Spaces, which vacated 27,000 square feet at 95 S Jackson in the Pioneer Square/Waterfront submarket, and Zillow, which vacated 41,861 square feet at Russell Investments Center in the Seattle CBD submarket.

A handful of significant projects delivered recently in Downtown Seattle, the largest of which was Wright Runstad's Rainier Square in the Seattle CBD submarket. Amazon pre-leased the 722,417-square-foot office portion of the project in 2017 but elected to sublet the property in 2019 after clashing with the Seattle City Council. Those confrontations came to a head around the same time that New York City rebuffed Amazon's HQ2 overtures, after which Amazon shifted its focal point of local expansion from Seattle to Bellevue. There is more than 500,000 square feet of available sublease space remaining at Rainier Square after Bank of America, Goldman Sachs, Schroeter Goldmark Bender and RBC sublet a total of approximately 155,000 square feet from Amazon. Also delivering this quarter

was Trammell Crow's 136,315-square-foot Boren Office Lofts, which is located in the northernmost portion of the Seattle CBD, across the street from the Cascade neighborhood of Lake Union. Boren Lofts was not projected to be a lab building initially but is being marketed as such. Interest has been strong due to the lack of availability among life science space in Seattle, which is clustered in the Lake Union submarket. The vacancy rate was less than 2.0% among life science buildings in Seattle last quarter, and asking rents for new lab space can reach \$75/SF NNN.

Coworking

The coworking industry began exhibiting more noticeable signs of distress in the first quarter. There has been roughly 500,000 square feet of coworking space turned back over landlords since May of 2020, much of it in the last two quarters. That number could potentially double in the next few quarters as the coworking industry continues to deal with pandemic-related disruption. WeWork has pulled out of a few notable locations, including this quarter when it vacated 71,000 square feet at 110 Atrium in the Bellevue CBD submarket. WeWork lost momentum following its failed IPO in the summer of 2019 but appears to have found a lifeline after completing a SPAC merger with BowX Acquisition Corp. in March, which valued the company at \$9.0 billion.

Select Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
Amazon	Artise	Bellevue CBD	Direct	509,400
REI	2005 Poplar	Coal Creek/Issaquah	Direct	68,765
Dell EMC	505 First	Pioneer Square/Waterfront	Direct	49,392
Twitter	Century Square	Seattle CBD	Direct	38,549
King County	Second & Seneca	Seattle CBD	Sublease	26,030
Nutanix	8th & Olive	Seattle CBD	Sublease	15,631

Select Sales Transaction

Building	Submarket	Sale Price	Price/SF	Square Feet
1918 8th Avenue	Seattle CBD	\$625,000,000	\$936	668,000
1201/1208 Eastlake & 199 E Blaine	Lake Union	\$449,237,143	\$1,391	322,858
Canyon Park Business Center	Bothell/Kenmore	\$199,999,175	\$313	637,346
Advanta Edge Campus	I-90 Corridor	\$169,000,000	\$281	601,081
3555 & 3755 Monte Villa Pkwy	Bothell/Kenmore	\$56,900,000	\$316	180,246
Canyon Park Heights	Bothell/Kenmore	\$45,000,000	\$312	144,399

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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 (%)
Downtown Seattle	66,863,309	3,077,048	10.7%	-933,271	-933,271	\$46.95	-3.1%
Ballard/University District	3,385,589	0	7.0%	39,092	39,092	\$43.45	-1.6%
Belltown/Denny Regrade	5,766,016	733,823	16.3%	-259,959	-259,959	\$39.48	-5.2%
Capitol Hill/Central District	1,749,883	0	5.0%	-15,804	-15,804	\$41.64	9.7%
Lake Union	10,763,915	1,658,213	3.0%	-88,298	-88,298	\$45.21	-1.1%
Pioneer Square/Waterfront	6,270,440	0	10.2%	-170,868	-170,868	\$41.24	-9.4%
Queen Anne/Magnolia	4,241,458	49,012	17.3%	-44,485	-44,485	\$37.52	-8.8%
South Seattle	2,820,026	0	6.9%	-11,472	-11,472	\$38.14	3.9%
Seattle CBD	31,865,982	636,000	12.5%	-381,477	-381,477	\$51.66	-1.8%
Eastside	34,277,705	6,234,081	6.4%	-162,111	-162,111	\$45.48	3.4%
520 Corridor	3,092,528	246,638	8.9%	-8,745	-8,745	\$42.22	-3.0%
Bellevue CBD	9,646,698	5,022,470	5.1%	-87,738	-87,738	\$58.41	4.8%
Bothell/Kenmore	3,396,906	0	6.6%	19,061	19,061	\$36.16	-2.2%
Coal Creek/Issaquah	1,867,877	0	5.2%	1,705	1,705	\$41.97	-0.6%
I-90 Corridor	4,876,396	0	5.7%	-29,841	-29,841	\$41.85	0.2%
Kirkland	2,411,939	403,973	2.5%	2,951	2,951	\$49.43	0.5%
Mercer Island	575,995	0	33.0%	-12,815	-12,815	\$41.94	0.0%
Redmond	3,512,099	351,000	6.0%	-12,604	-12,604	\$42.16	5.5%
Suburban Bellevue	3,959,449	210,000	8.5%	-37,111	-37,111	\$41.06	-2.5%
Totem Lake	937,818	0	3.4%	3,026	3,026	\$36.33	-5.7%
Southend	11,249,842	0	21.3%	15,060	15,060	\$33.70	-8.4%
Federal Way/Auburn	3,315,577	0	20.9%	63,253	63,253	\$26.21	-3.3%
Kent Valley	1,610,503	0	8.6%	-27,407	-27,407	\$29.65	6.8%
Renton/Tukwila	5,129,342	0	27.4%	7,447	7,447	\$38.79	-9.7%
Seatac/Burien	1,194,420	0	13.3%	-28,233	-28,233	\$29.44	-2.6%
Northend	7,766,194	0	6.5%	29,229	29,229	\$31.07	-0.8%
Tacoma	8,814,048	75,000	8.5%	46,163	46,163	\$28.03	-1.2%
Puget Sound Market	128,971,098	9,386,129	10.1%	-1,004,930	-1,004,930	\$41.97	-0.3%

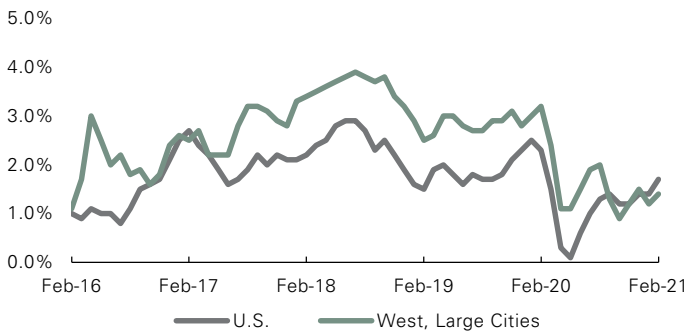
Economic Conditions

The Puget Sound economy has steadily regained ground lost during the pandemic. The unemployment rate was 6.7% for January, 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 98,200 jobs added to the economy. The strong job growth can be expected to continue with all five FAAMG companies actively hiring in the region.

The national economy was spurred onward by stimulus checks and encouraging vaccination news. Unemployment fell to 6.2% in February, the lowest it has been in a year. Inflation concerns are rising but positive growth indicators abound, as the S&P 500 increased by 7.4% during the first quarter and GDP grew by an annualized rate of 4.1% during the fourth quarter.

Consumer Price Index (CPI)

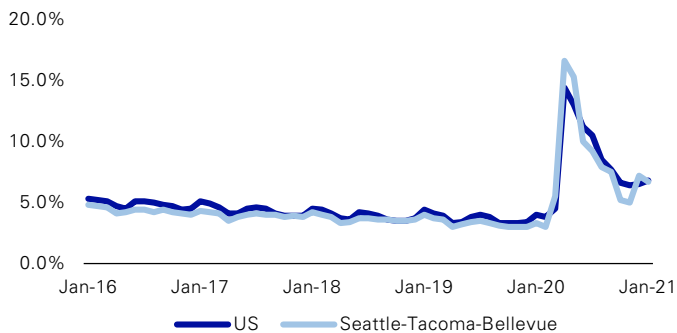
All Items, 12-Month % Change, Not Seasonally Adjusted



*Source: U.S. Bureau of Labor Statistics

Unemployment Rate

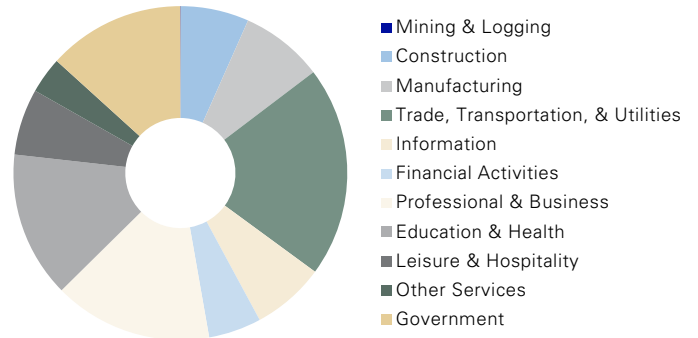
Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

Employment By Industry

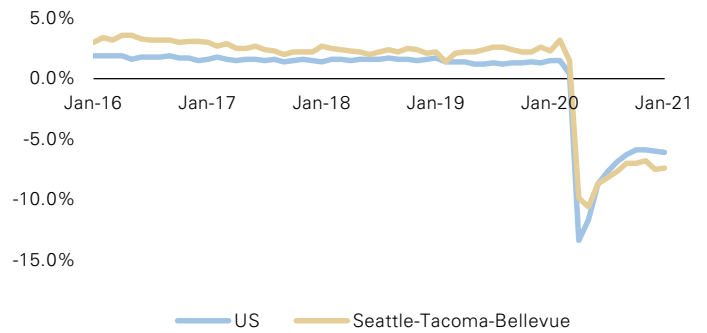
Seattle-Tacoma-Bellevue



Source: U.S. Bureau of Labor Statistics

Payroll Employment

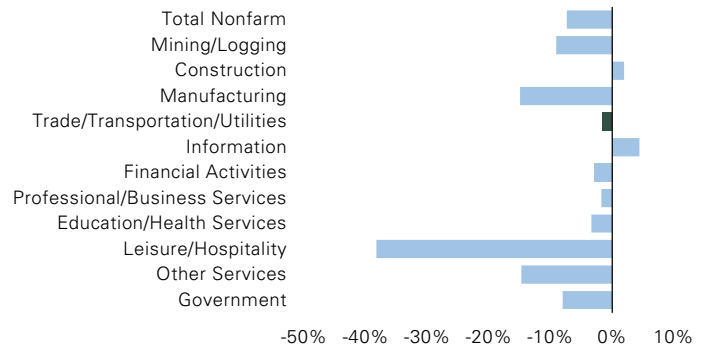
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



*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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VIRGINIA

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