

3Q23

# Seattle Office Market Overview

NEWMARK

# Market Observations



- The unemployment rate decreased over the third quarter of 2023, a continuation from the prior quarter, and having recovered from a small spike in the first quarter of 2023 due to tech layoffs in the region. As of August 2023, the unemployment rate stood at 3.3%, down 40 bps from January 2023 and 50 bps below the national average.
- The education, health and other services sectors led all industries in regional annual job growth, mirroring the national shift in spending from goods in favor of services. Office-occupying or adjacent industries remained relatively stagnant, except for the information sector, which contracted by 6.6% amidst the wave of tech layoffs.
- Office-using employment remains well above pre-pandemic levels. Unemployment peaked during April of 2020 at 16.5%; since then, 72,100 new office-using jobs have been added.



- Transaction activity slowed during the third quarter of 2023, due to ongoing economic uncertainties. Deal volume for the third quarter totaled 1.0 million SF, a mere half of the 16-year quarterly leasing average. Active tenants are primarily interested in smaller footprints, with an average transaction size just under 5,000 SF.
- Amazon renewed their lease of five floors at 1220 Howell Street, totaling 137,632 SF.
- In the largest direct transaction of the quarter, private school Basis Independent Bellevue signed for 144,738 SF at Canyon Park Heights in Bothell.



## Leasing Market Fundamentals

- Overall vacancy increased to 15.4% in the third quarter of 2023, up 130 bps quarter over quarter. The region saw a net negative absorption of 135,780 SF. Though occupancy losses have continued, the negative absorption was offset by the delivery of preleased product.
- Overall asking rates fell to \$44.84/SF during the third quarter of 2023, down 1.8% year-over-year. The trend is expected to continue in the short term as landlords begin to favor lower rents over expensive concessions packages.
- Though new construction has slowed, the development pipeline remains healthy, with 5.7 million SF currently under construction.



## Outlook

- The macroeconomic outlook remains uncertain. Occupiers and investors alike will approach deals with greater caution as a result, which will impact leasing and investment activity.
- Though vacancy is expected to rise in the short term, tenant activity has begun to pick up, signaling the potential for recovery.
- Rent growth, aggressive through all of 2022, has decelerated and will continue to cool over the next year. The availability of cheaper sublease space and limited demand is expected to put downward pressure on asking rates in the coming quarters, and landlords with limited liquidity will begin to trade expensive concessions packages for lower rents.

1. Economy
2. Leasing Market Fundamentals
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# Economy

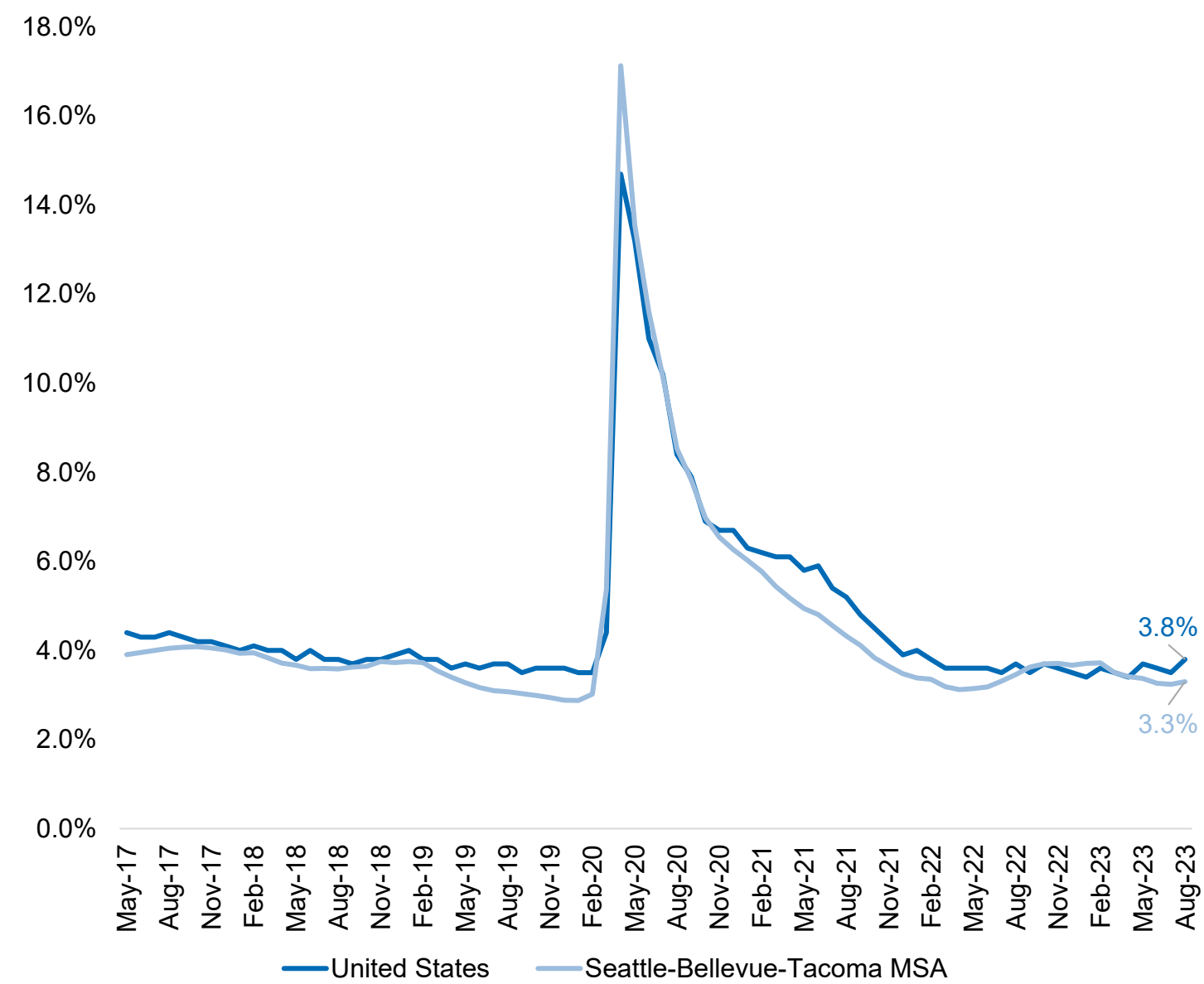




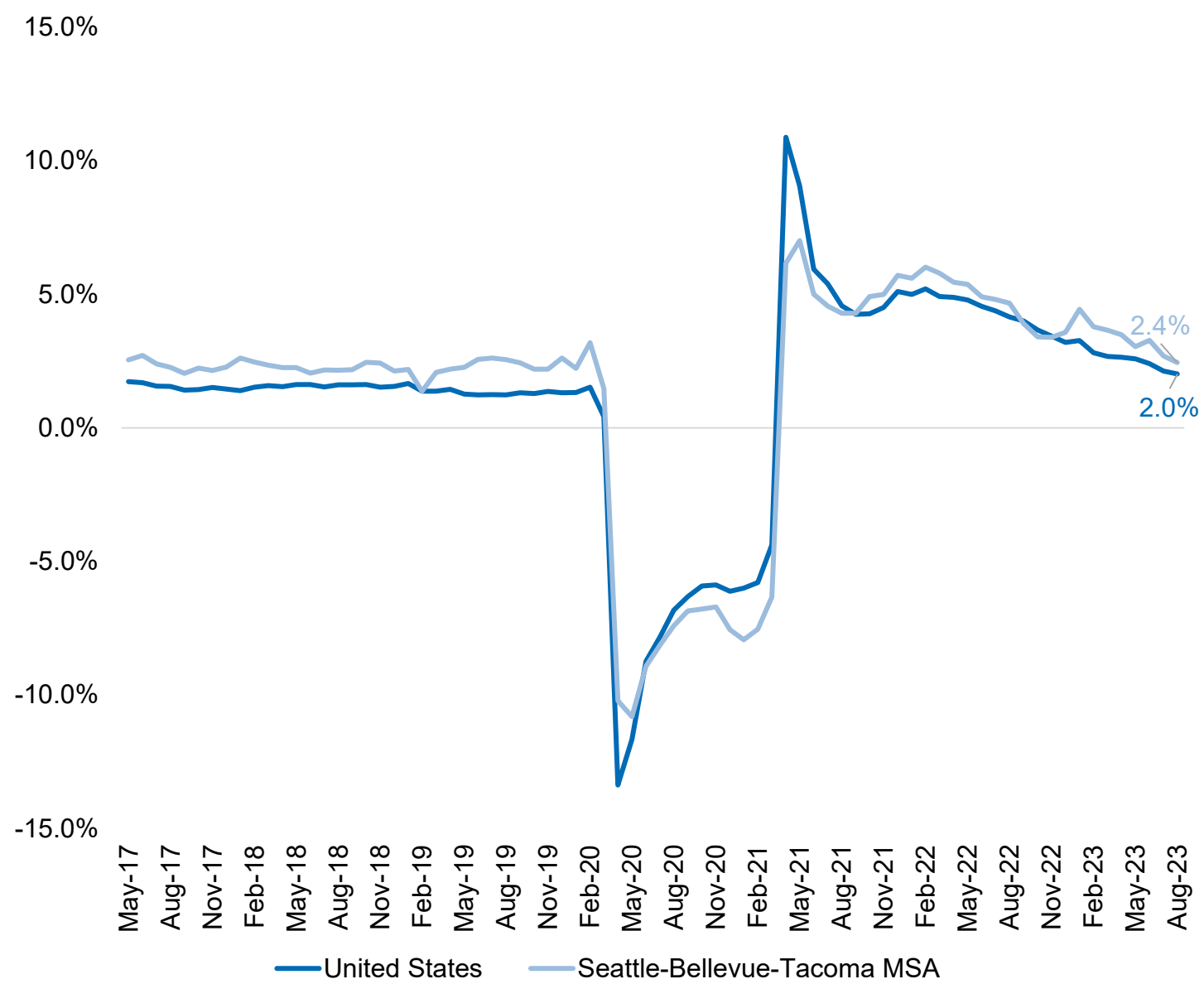
# Regional Employment Improves Following Period of Layoffs

The unemployment rate decreased over the third quarter of 2023, a continuation from the prior quarter, and having recovered from a small spike in the first quarter of 2023 due to tech layoffs in the region. As of August 2023, the unemployment rate stood at 3.3%, down 40 bps from January 2023 and 50 bps below the national average.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change

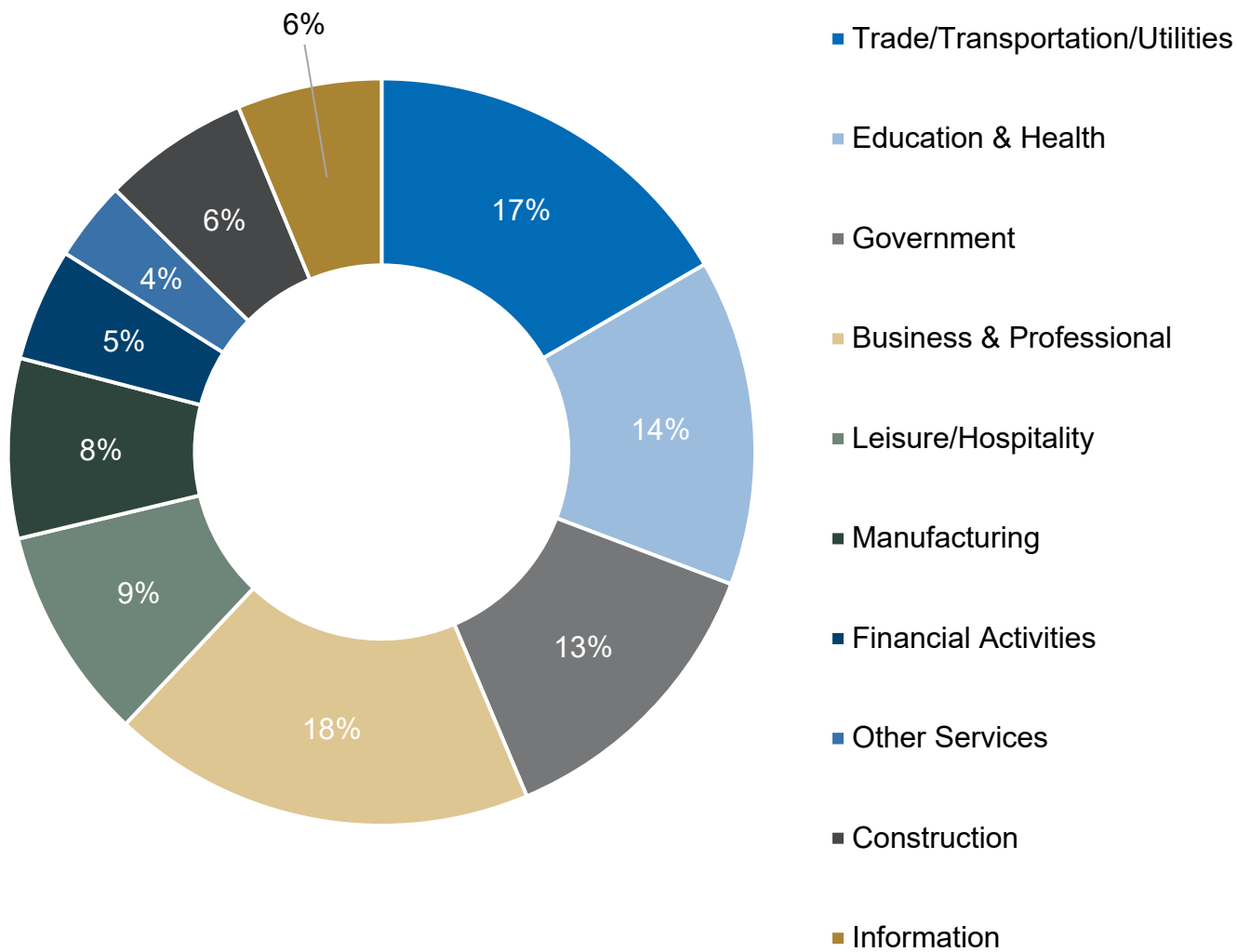


Source: U.S. Bureau of Labor Statistics, Seattle-Bellevue-Tacoma MSA

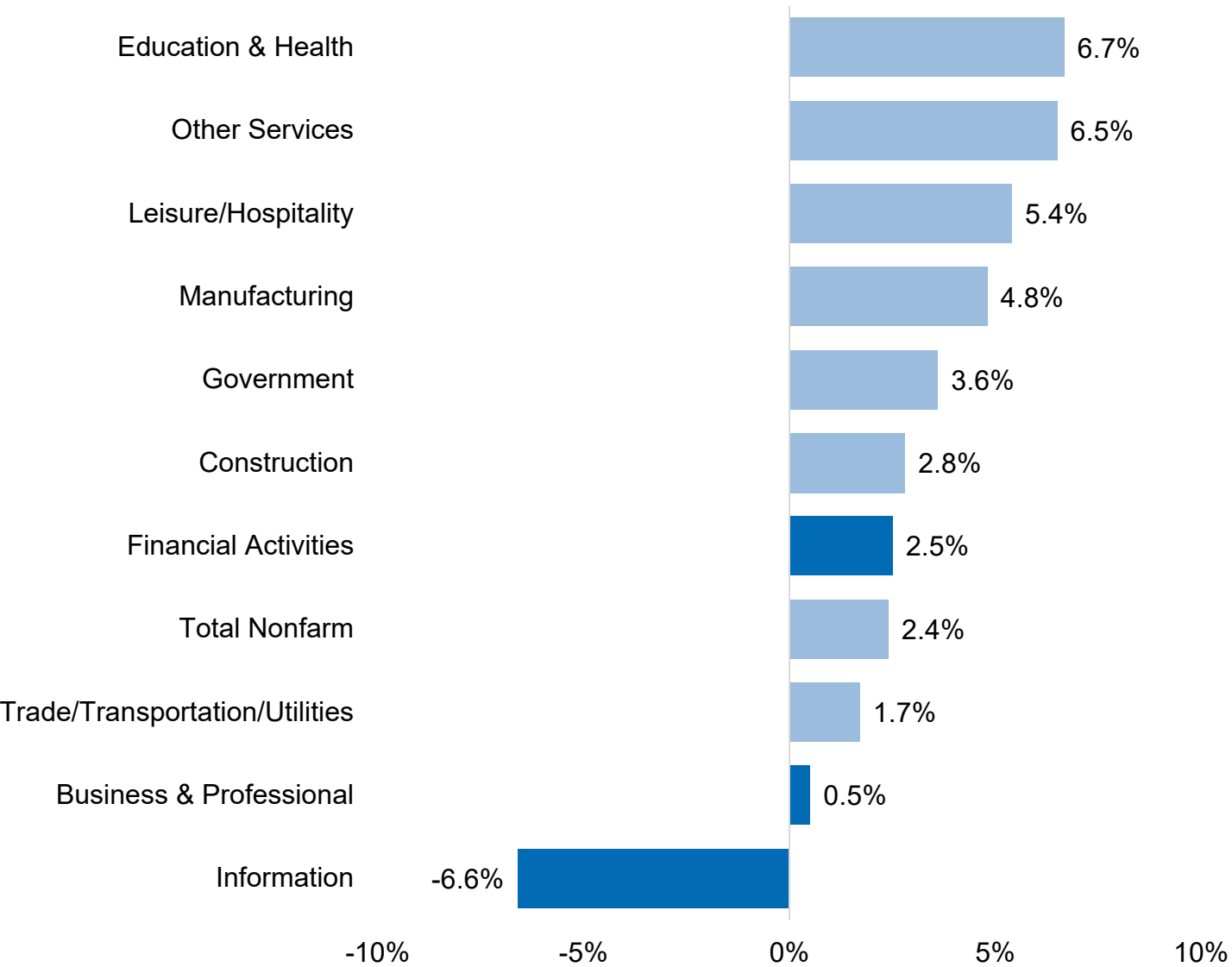
# Job Growth Driven by Services While Office-Occupying Sectors Stagnate

The education, health and other services sectors led all industries in regional annual job growth, mirroring the national shift in spending from goods in favor of services. Office-occupying or adjacent industries remained relatively stagnant, except for the information sector, which contracted by 6.6% amidst the wave of tech layoffs.

Employment by Industry, August 2023



Employment Growth by Industry, 12-Month % Change, August 2023

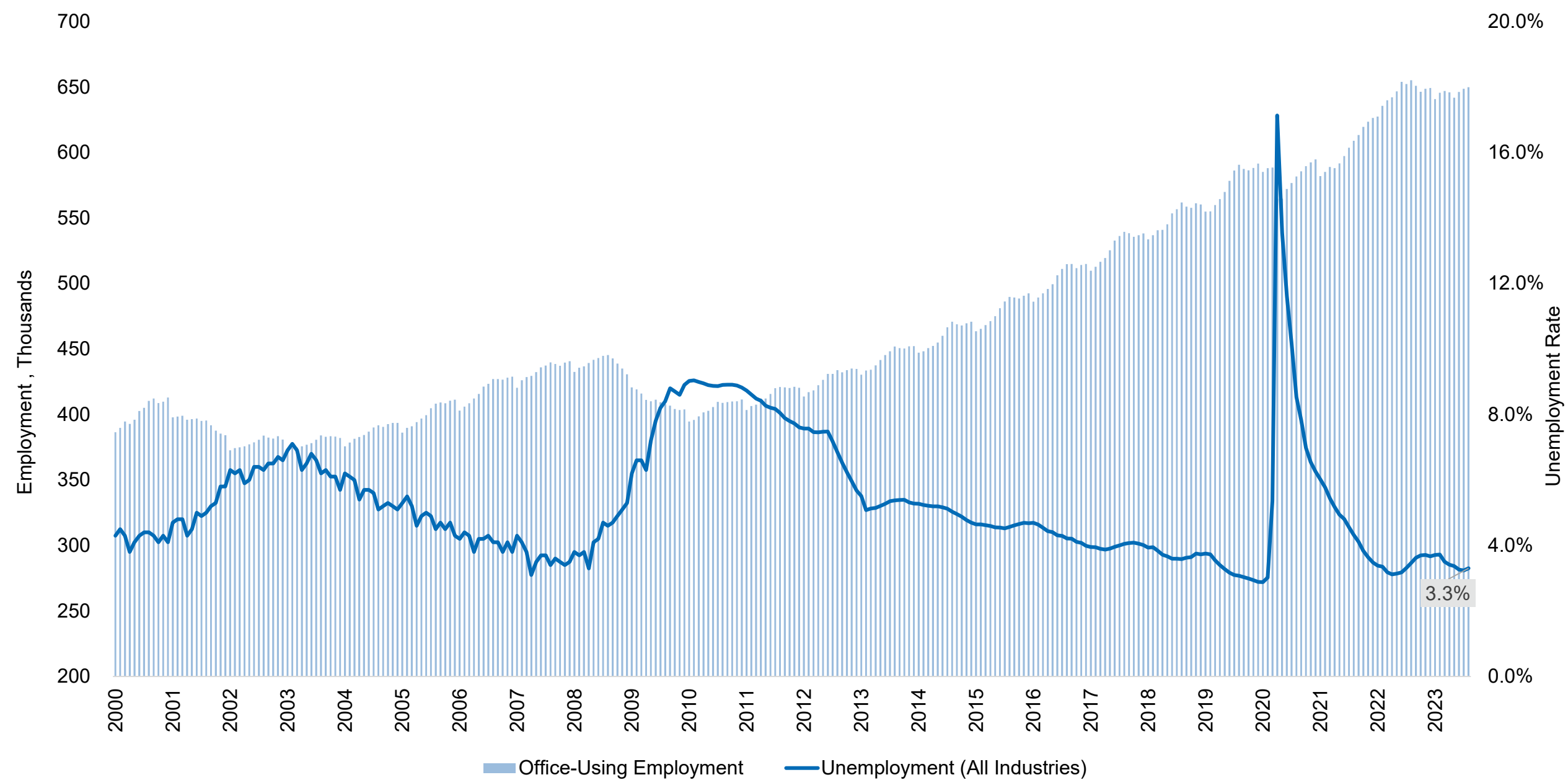


Source: U.S. Bureau of Labor Statistics, Seattle-Bellevue-Tacoma MSA

# Overall Office-Using Employment Has Rebounded

Office-using employment remains well above pre-pandemic levels. Unemployment peaked during April of 2020 at 16.5%; since then, 72,100 new office-using jobs have been added.

Office-Using Employment\* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics Seattle-Bellevue-Tacoma MSA  
\*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.



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# Leasing Market Fundamentals

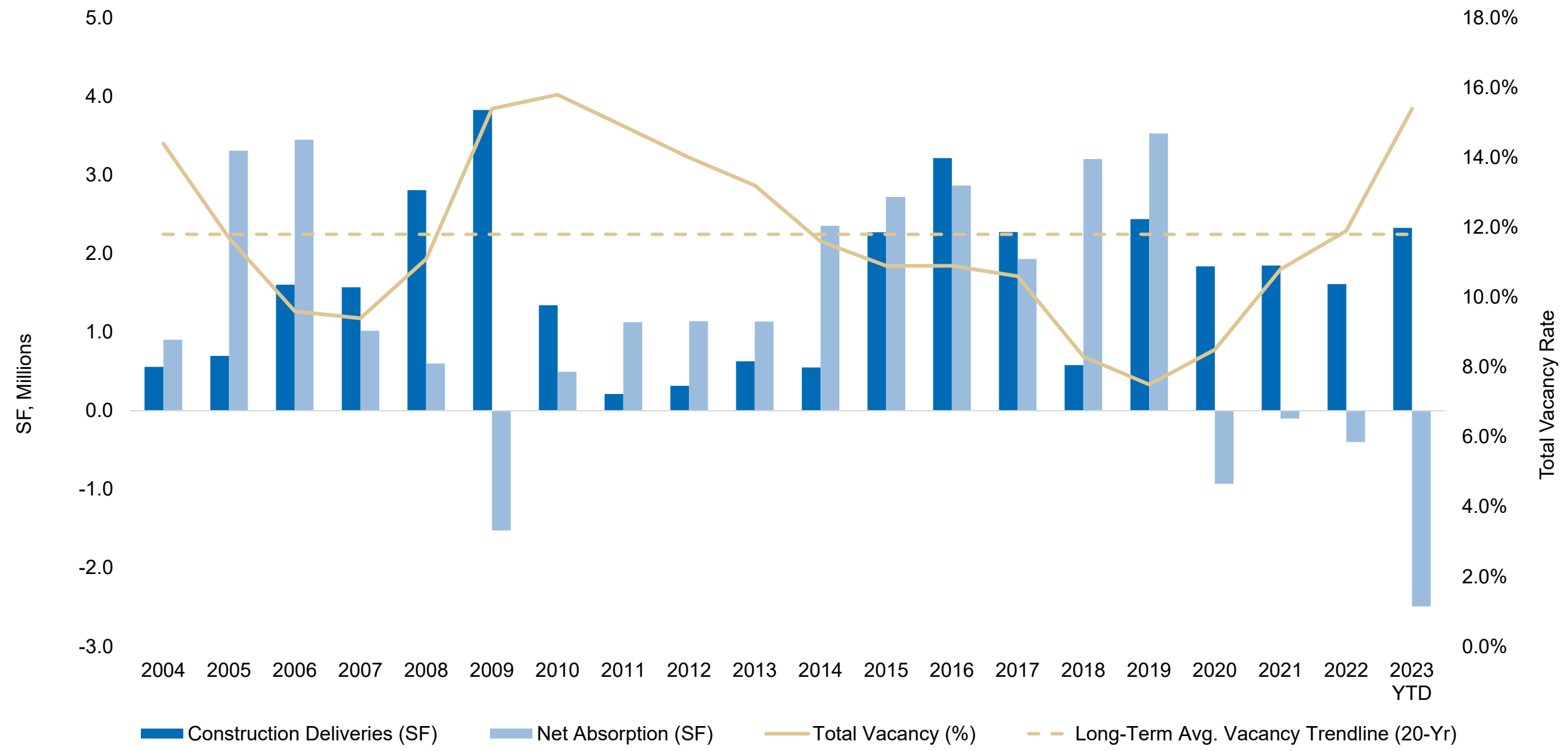




# Vacancy Rates Continue to Climb

Overall vacancy increased to 15.4% in the third quarter of 2023, up 130 bps quarter over quarter. The region saw a net negative absorption of 135,780 SF. Though occupancy losses have continued, the negative absorption was offset by the delivery of preleased product, including the Amazon-occupied 555 Tower in Bellevue, and the fully-leased Eleven50 in Lake Union.

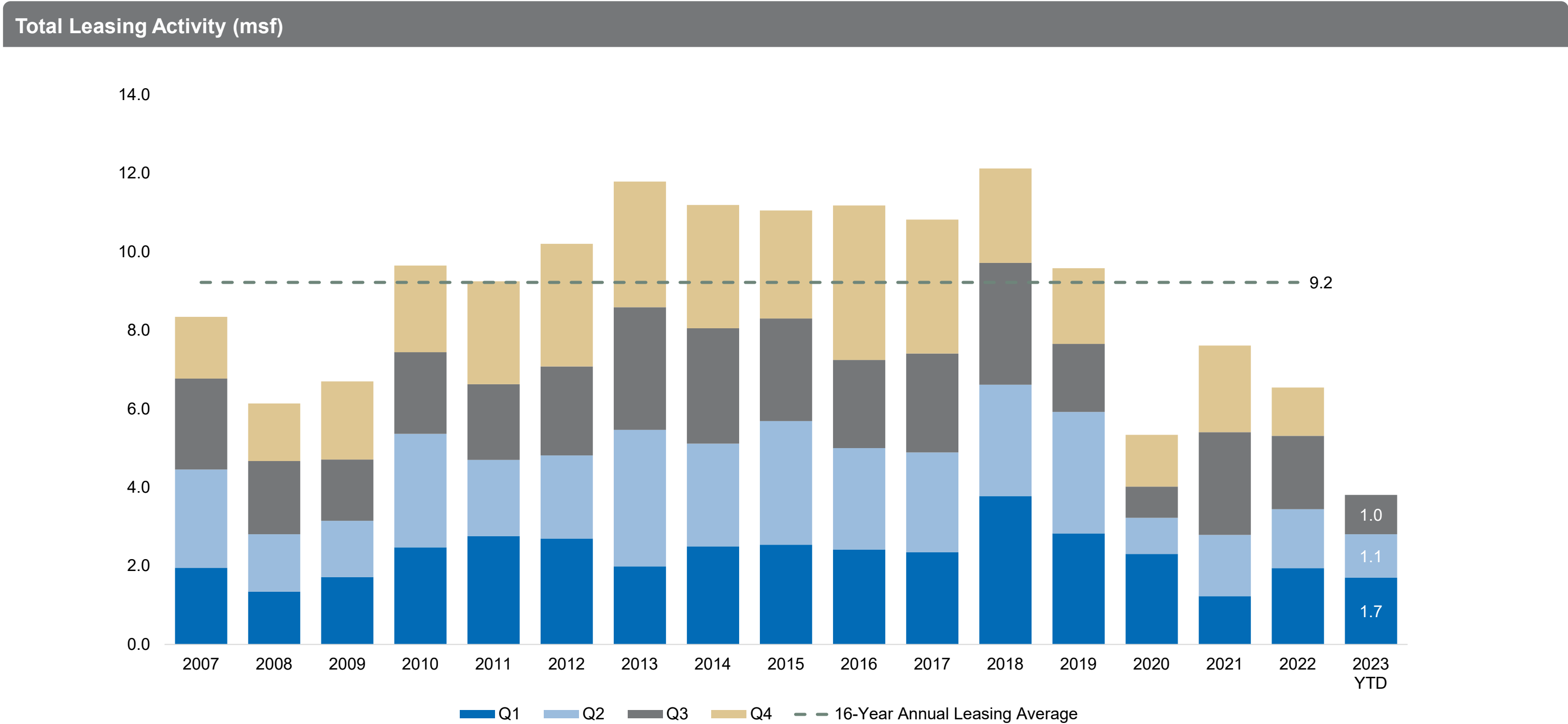
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research

# Leasing Activity Continues to Lag

Transaction activity slowed during the third quarter of 2023, largely due to economic hesitancies. Deal volume for the third quarter totaled 1.0 million SF, a mere half of the 16-year quarterly leasing average.

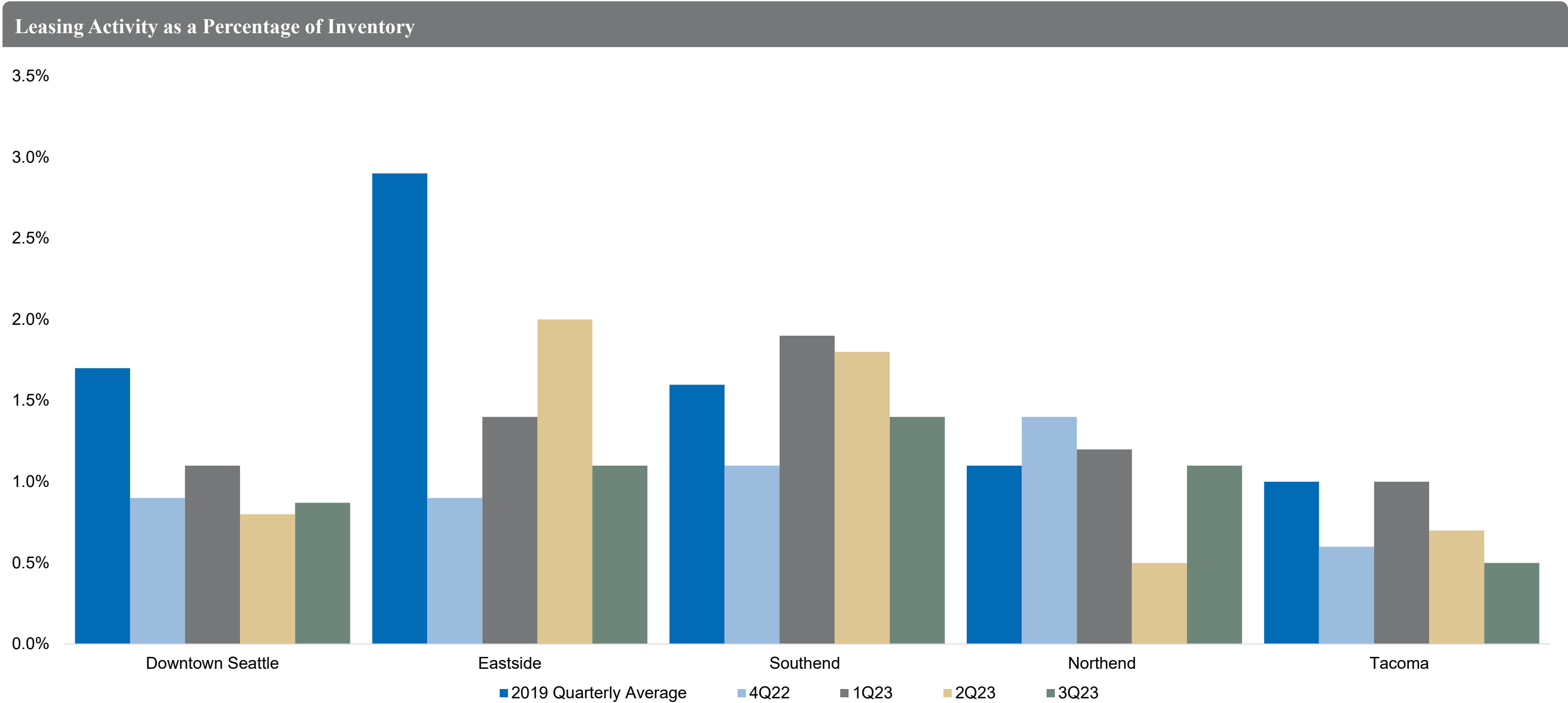


Source: Newmark Research, CoStar



# Leasing Volume Far Below Pre-Pandemic Levels

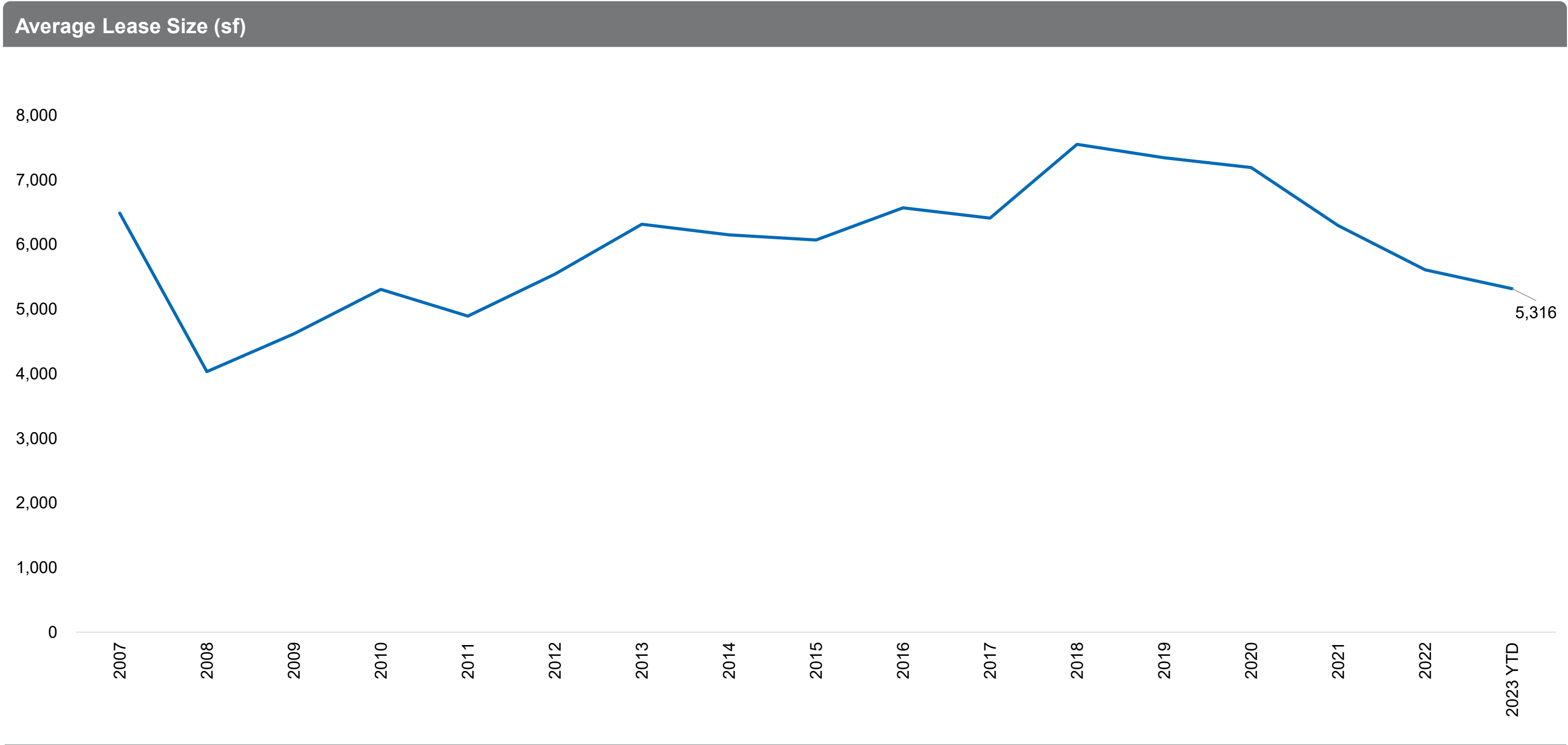
Leasing activity continues to trail behind pre-pandemic averages in nearly all submarkets. The leasing volume in Downtown Seattle and Eastside submarkets remains a fraction of the 2019 quarterly average.



Source: Newmark Research, CoStar

# Average Lease Sizes Are Shrinking

In addition to fewer transactions, the deals that are getting done are for smaller footprints and shorter terms. The average deal size for 2023 year-to-date is 5,316 SF.

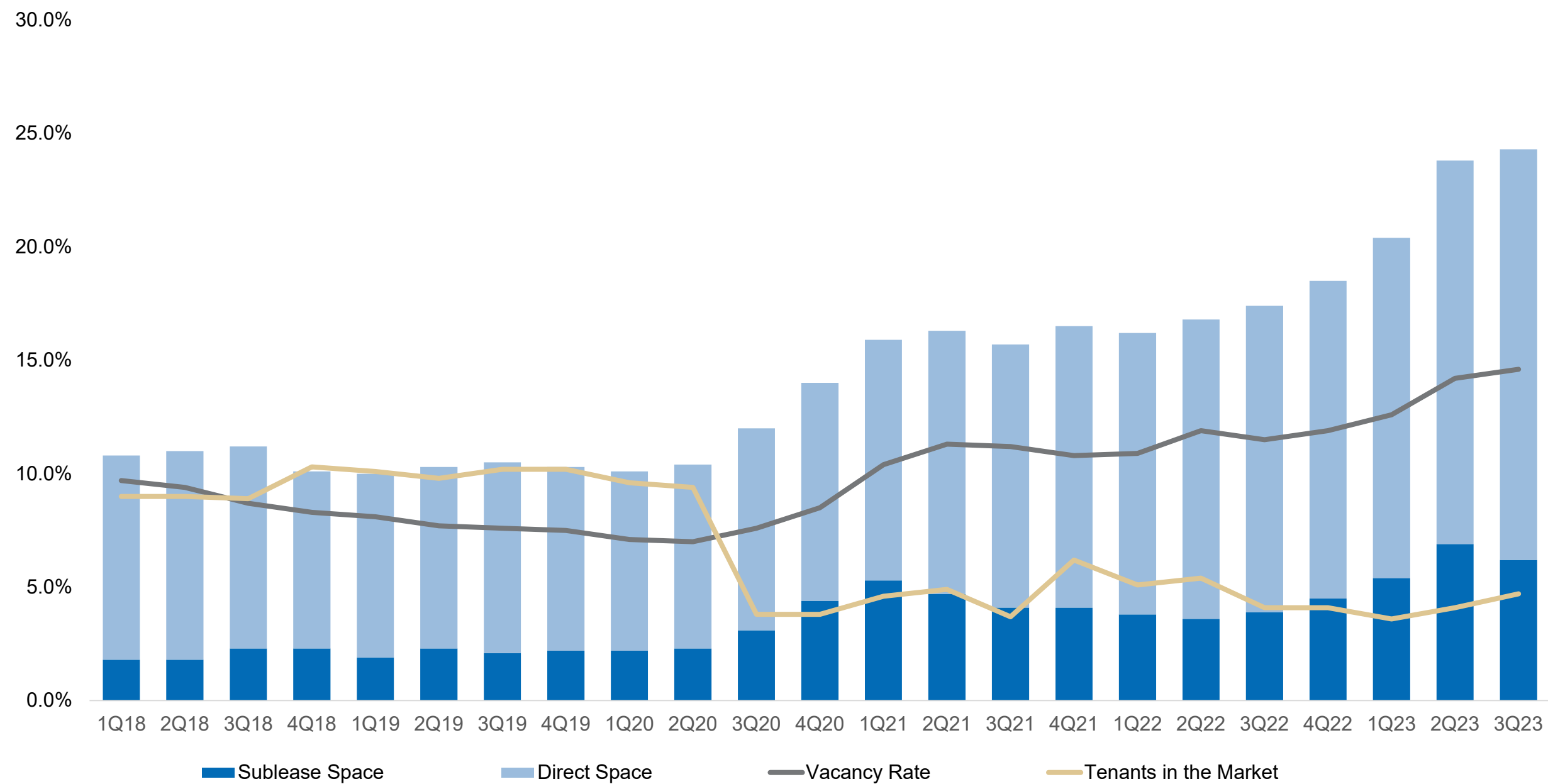




# Tenant Demand Ticks Up Alongside Rise in Sublease Availability

Sublease availability has risen steadily over the past year and now sits at 6.1%. While some sublease space was withdrawn over the quarter, this largely was due to spaces going to direct rather than being leased. Though vacancy is expected to rise in the short term, tenant activity has begun to pick up, signaling the potential for recovery.

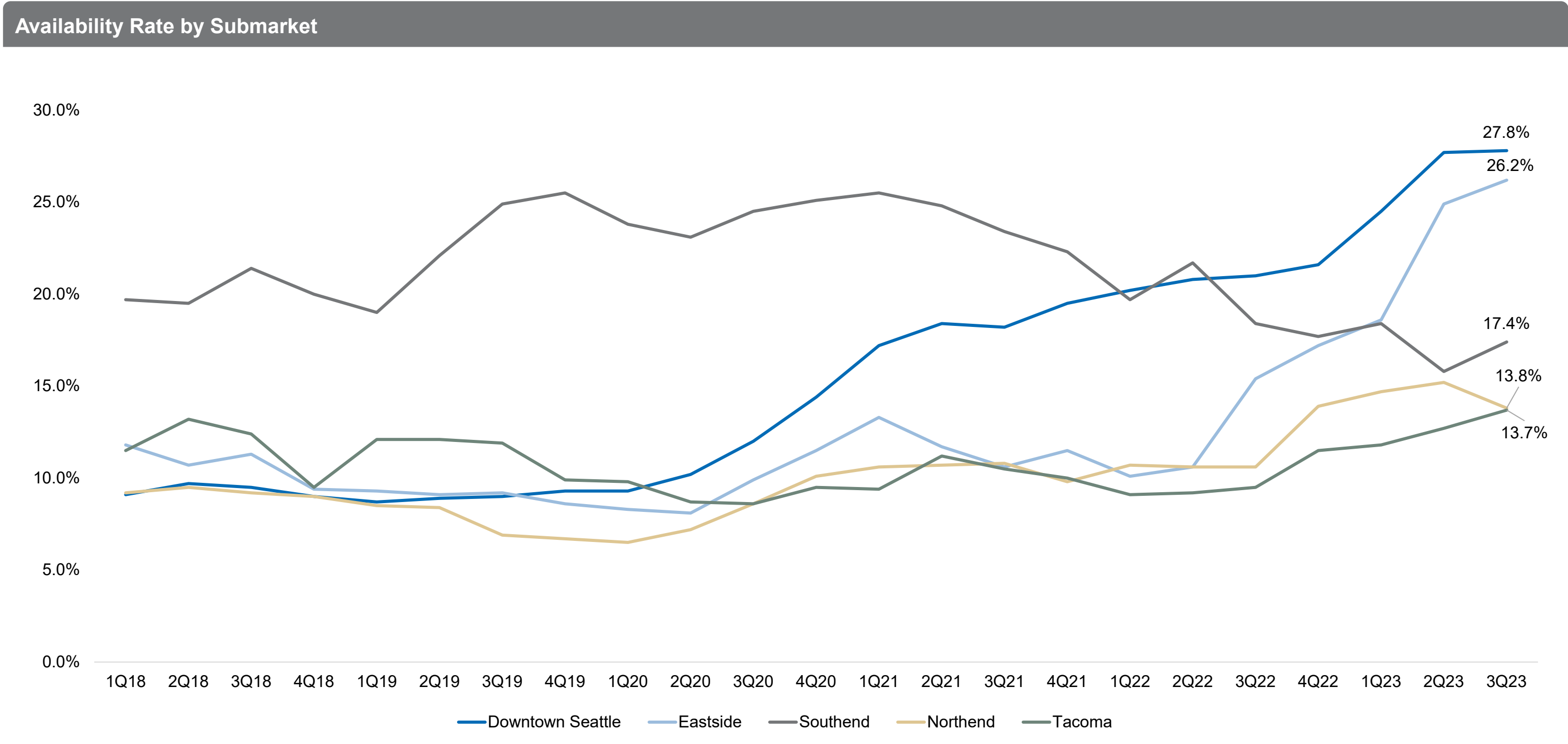
Available Space and Tenant Demand as Percent of Overall Market



Source: Newmark Research

# Eastside and Downtown Seattle Availability on the Rise

Following the addition of sublease space to the market by major tech occupiers, Eastside overall availability has risen dramatically, narrowing the spread between the Eastside and Seattle submarkets. The two markets have availability rates of 26.2% and 27.8%, respectively.



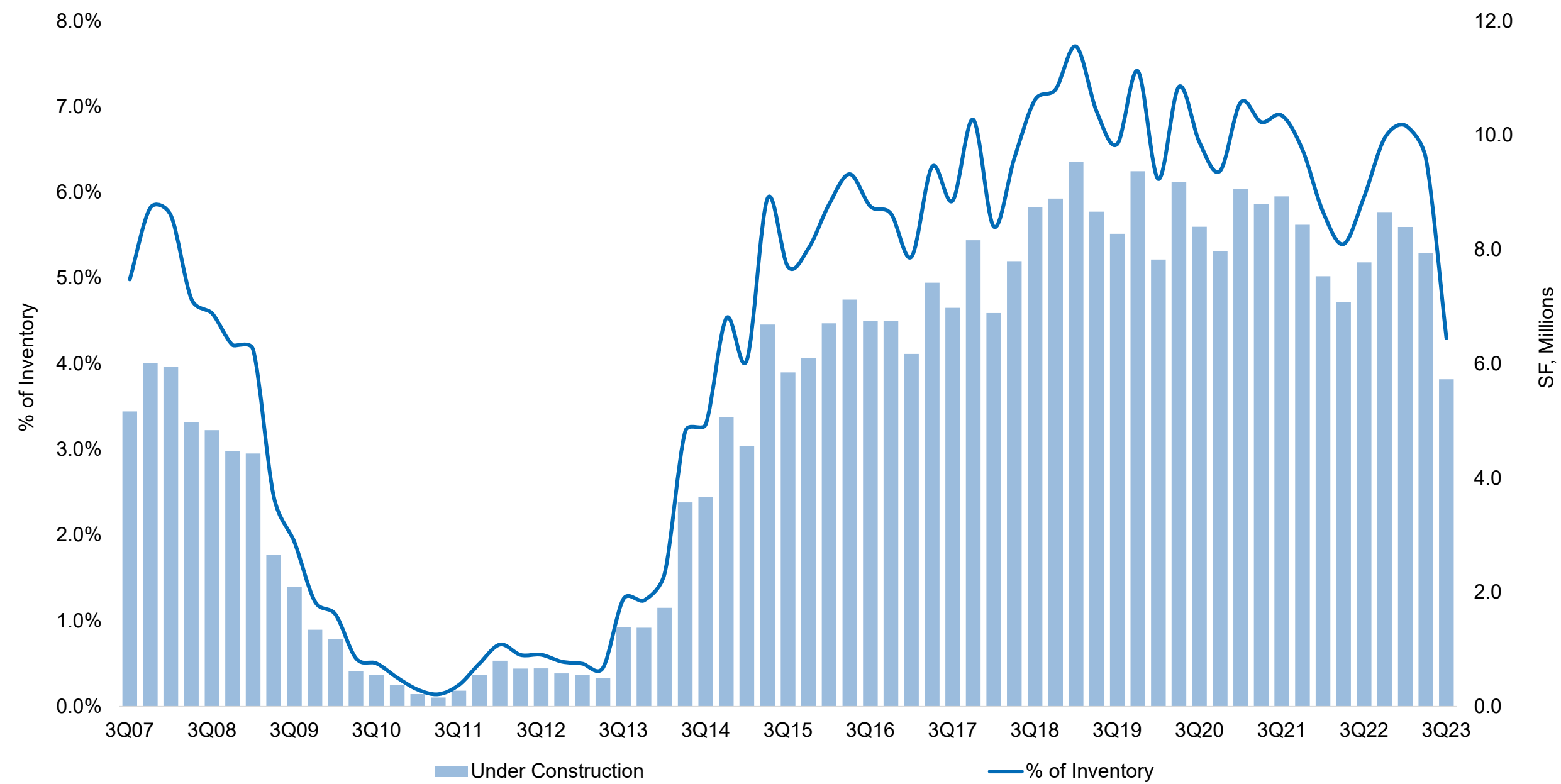
Source: Newmark Research



# Deliveries Continue While New Construction Slows

The third quarter saw some major deliveries, with 1.8M SF in completions. Among them were the pre-leased 555 Tower in Bellevue and Eleven50 in Lake Union. The development pipeline is beginning to shrink as new starts have slowed, but still remains healthy with 5.7M SF underway.

Office Under Construction and % of Inventory

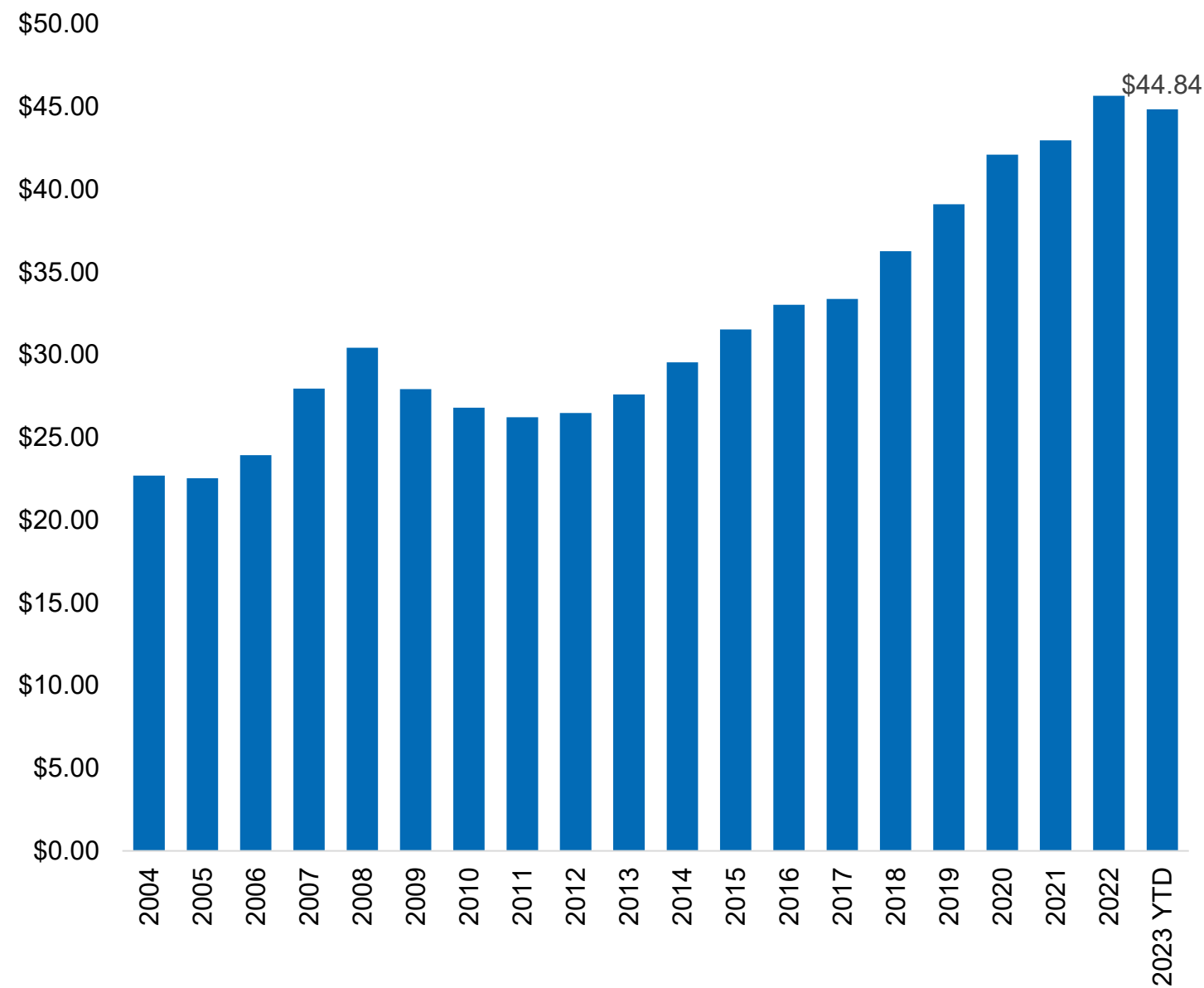


Source: Newmark Research, CoStar

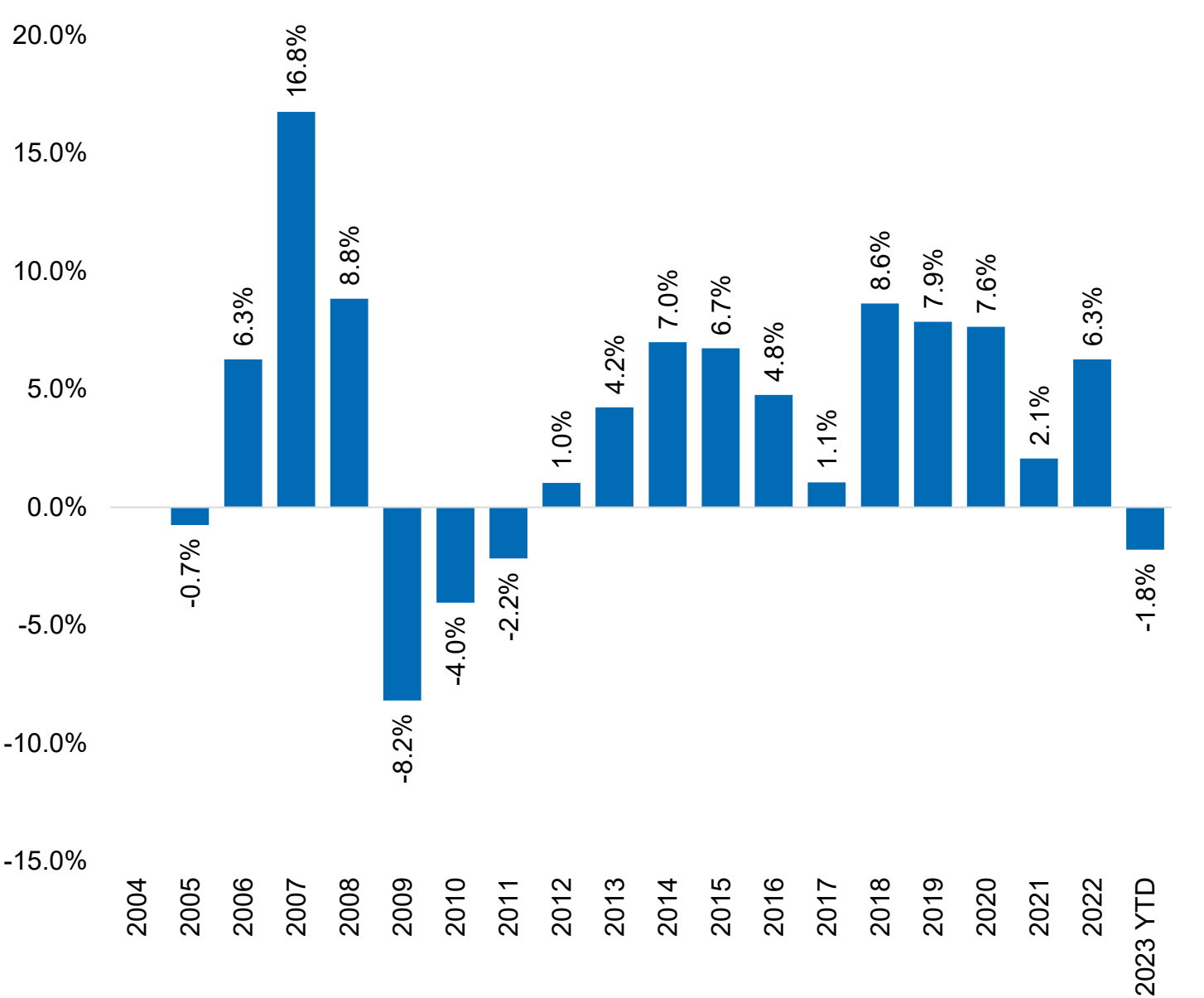
# Rents Decline for Third Consecutive Quarter

Overall asking rates fell to \$44.84/SF during the third quarter of 2023, down 1.8% year-over-year. The trend is expected to continue in the short term as landlords begin to favor lower rents over expensive concessions packages.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate



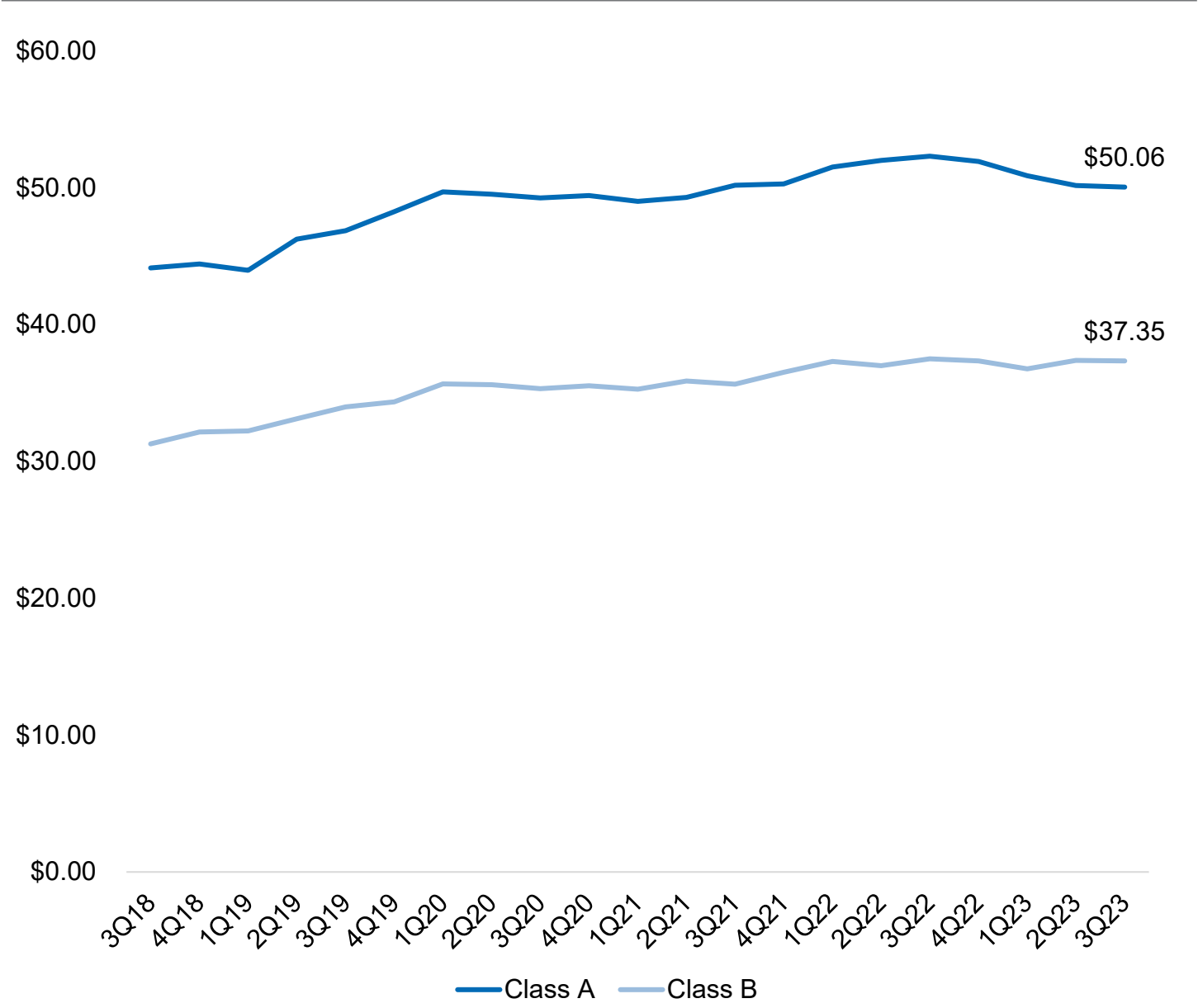
Source: Newmark Research, CoStar



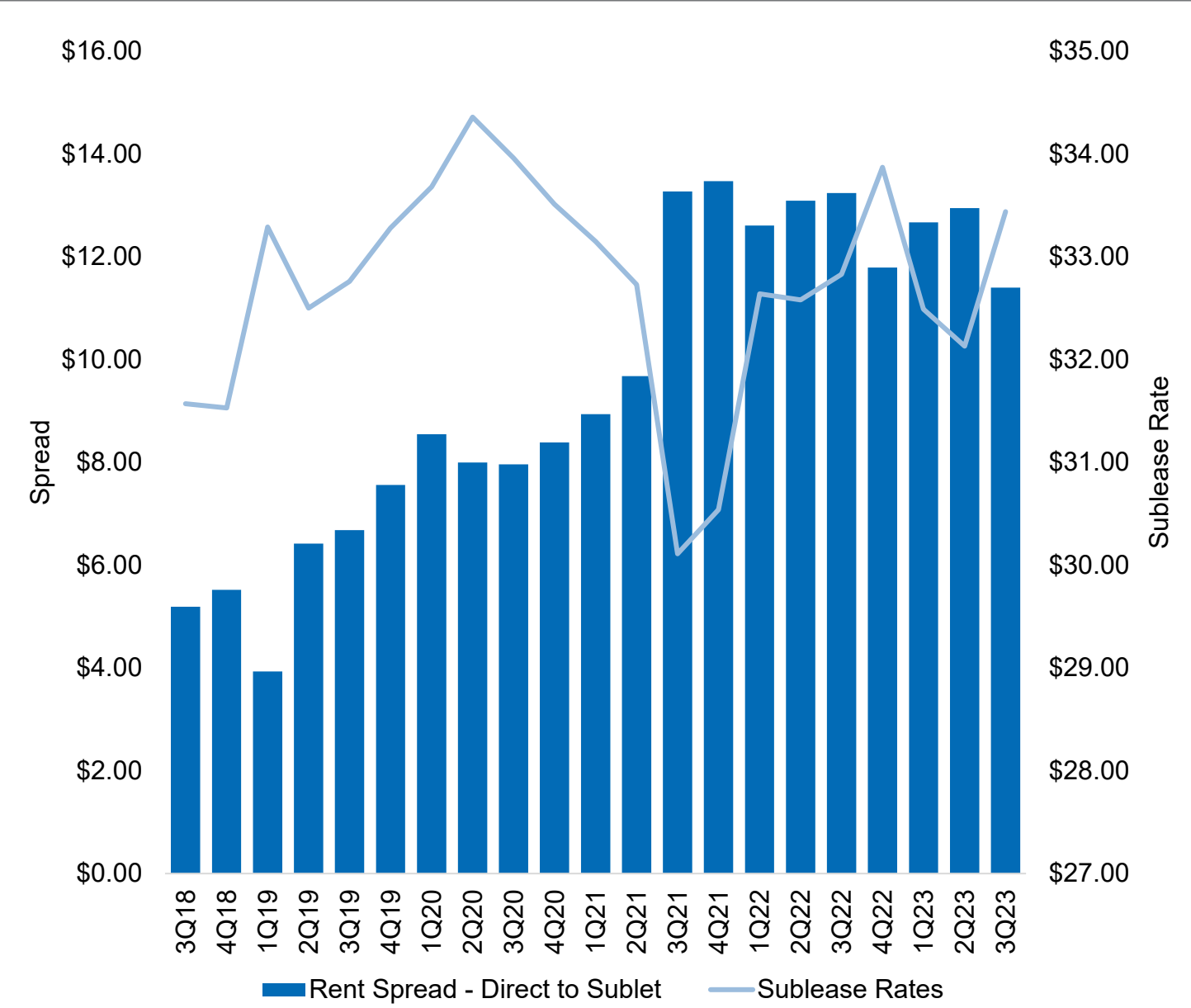
# Class A and Sublease Rates Remain Stable

Class A asking rents cooled slightly but remain relatively stable, supported by a flight to quality by employers seeking to entice workers back to the office. Likewise, despite an influx of available space, demand for sublease space remains strong as much of the new inventory is Class A with flexible terms, aggressive pricing and plug and play layout requiring very little capital expense.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar

# Third Quarter Notable Transactions

In the largest direct transaction of the quarter, private school Basis Independent Bellevue signed for 144,738 SF at Canyon Park Heights in Bothell.

## Notable 3Q23 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Amazon	1220 Howell Street	Seattle CBD	Lease Renewal	184,337
Basis Independent Schools	21540 30 <sup>th</sup> Drive SW	Suburban Bellevue	Direct New	144,738
Regus	2018 156 Avenue Northeast	Suburban Bellevue	Lease Renewal	46,350

Source: Newmark Research



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# Appendix





# Submarket Overview (page 1 of 2)

Submarket Statistics – All Classes							
	Total Inventory (SF)	Under Construction (SF)	Direct Vacancy Rate	Total Vacancy Rate	Qtr Net Absorption (SF)	YTD Absorption (SF)	Total FS Asking Rent (Price/SF)
Ballard/U District	3,248,971	776,125	4.8%	6.3 %	-34,370	-43,248	\$45.80
Belltown/Denny Regrade	5,715,241	107,776	19.3%	20.0 %	-11,116	-103,881	\$42.62
Capitol Hill/Central District	1,736,883	-	3.1%	3.8 %	-1,634	19,651	\$40.64
Lake Union	12,058,761	1,137,398	11.0%	11.2 %	68,316	12,108	\$47.77
Pioneer Square/Waterfront	6,425,876	-	22.0%	23.5 %	-1,156	-112,681	\$42.13
Queen Anne/Magnolia	4,290,470	197,216	20.3%	20.7 %	1,966	59,986	\$37.40
S Seattle	2,820,026	53,000	13.0%	13.0 %	-18,388	-149,994	\$35.36
Seattle CBD	32,075,912	526,000	20.0%	21.8 %	-292,975	-1,299,501	\$48.75
<b>Downtown Seattle Total</b>	<b>68,372,140</b>	<b>2,797,515</b>	<b>17.1%</b>	<b>18.3 %</b>	<b>-289,357</b>	<b>-1,617,560</b>	<b>\$45.73</b>
520/Corridor	3,029,690	-	12.2%	16.1 %	-79,087	-207,383	\$43.03
Bellevue CBD	11,612,171	2,677,300	6.9%	7.2 %	899,486	642,642	\$58.83
Bothell/Kenmore	3,103,641	-	9.6%	9.6 %	-24,231	-28,721	\$44.19
Coal Creek/Issaquah	1,872,415	-	4.2%	4.6 %	-11,134	-10,747	\$39.66
I-90 Corridor	5,623,755	-	23.4%	24.3 %	-878,220	-854,180	\$45.56
Kirkland	2,660,508	57,432	2.9%	7.9 %	-9,268	-113,598	\$46.71
Mercer Island	420,795	-	6.1%	6.9 %	-2,462	-185	\$44.95
Redmond	3,773,443	-	3.0%	15.9 %	35,291	-532,527	\$43.08
Suburban Bellevue	4,814,244	198,000	6.2%	13.3 %	281,578	247,875	\$42.35
Totem Lake	914,118	-	5.4%	5.9 %	-791	64,573	\$37.47
<b>Eastside Totals</b>	<b>37,824,780</b>	<b>2,932,732</b>	<b>9.0%</b>	<b>12.2 %</b>	<b>211,162</b>	<b>-792,251</b>	<b>\$49.78</b>

Source: Newmark Research

# Submarket Overview (page 2 of 2)

Submarket Statistics – All Classes							
	Total Inventory (SF)	Under Construction (SF)	Direct Vacancy Rate	Total Vacancy Rate	Qtr Net Absorption (SF)	YTD Absorption (SF)	Total FS Asking Rent (Price/SF)
Federal Way/Auburn	2,973,580	-	9.3%	9.9 %	20,258	46,914	\$27.23
Kent Valley	1,610,503	-	6.7%	7.1 %	-11,197	-61,883	\$31.22
Renton/Tukwila	5,129,341	-	21.1%	21.2 %	-26,522	6,995	\$41.60
Seatac/Burien	1,182,829	-	8.0%	8.0 %	-2,757	-29,793	\$28.80
Southend Totals	10,896,253	-	14.3%	14.6 %	-20,218	-37,767	\$36.54
Northend	7,778,593	-	9.0%	11.7 %	7,737	-56,611	\$31.32
Tacoma	8,827,226	-	9.7%	10.6 %	-45,104	14,972	\$29.09
Puget Sound Totals	133,698,992	5,730,247	13.7%	15.4 %	-135,780	-2,489,217	\$44.84

Source: Newmark Research

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