
2Q23

Seattle Office Market Overview



NEWMARK

Market Observations

Economy

- The unemployment rate decreased over the second quarter of 2023, recovering from a small spike in the first quarter of 2023 due to tech layoffs in the region. As of April 2023, the unemployment rate stood at 3.0%, down 90 bps from January 2023 and 40 bps below the national average.
- The education, health and leisure/hospitality 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 4.8% 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, 77,700 new office-using jobs have been added.

Major Transactions

- Transaction activity slowed during the second quarter of 2023, largely due to economic hesitations. Deal volume for the second quarter totaled 1.1 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 of 4,115 SF.
- Insight Global is moving from a 20,000-SF location in Bellevue Place to the 2323 Elliott building in Seattle, which totals 75,000 SF. The company will maintain an existing 7,000-SF satellite office in Bellevue.
- Flexport, Inc. is expanding in Bellevue and taking over three floors (55,585 SF) in the Skyline Tower previously occupied by Amazon.

Leasing Market Fundamentals

- Absorption in the first quarter of 2023 totaled a net negative 1.5 million SF. Much of the new vacancy can be attributed to large blocks of sublease space added to the market by major tech occupiers.
- Overall vacancy increased to 14.1% in the second quarter of 2023, up 150 bps quarter over quarter, with direct vacancy at 12.4%.
- Overall asking rates declined during the quarter to \$45.08/SF, a 0.2% decrease from the first quarter of 2023.
- The development pipeline remains robust, with 8.4 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.
- Tech occupiers have begun to offer large blocks of sublease space, bringing the sublease availability rate to 6.8%. 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 throughout the 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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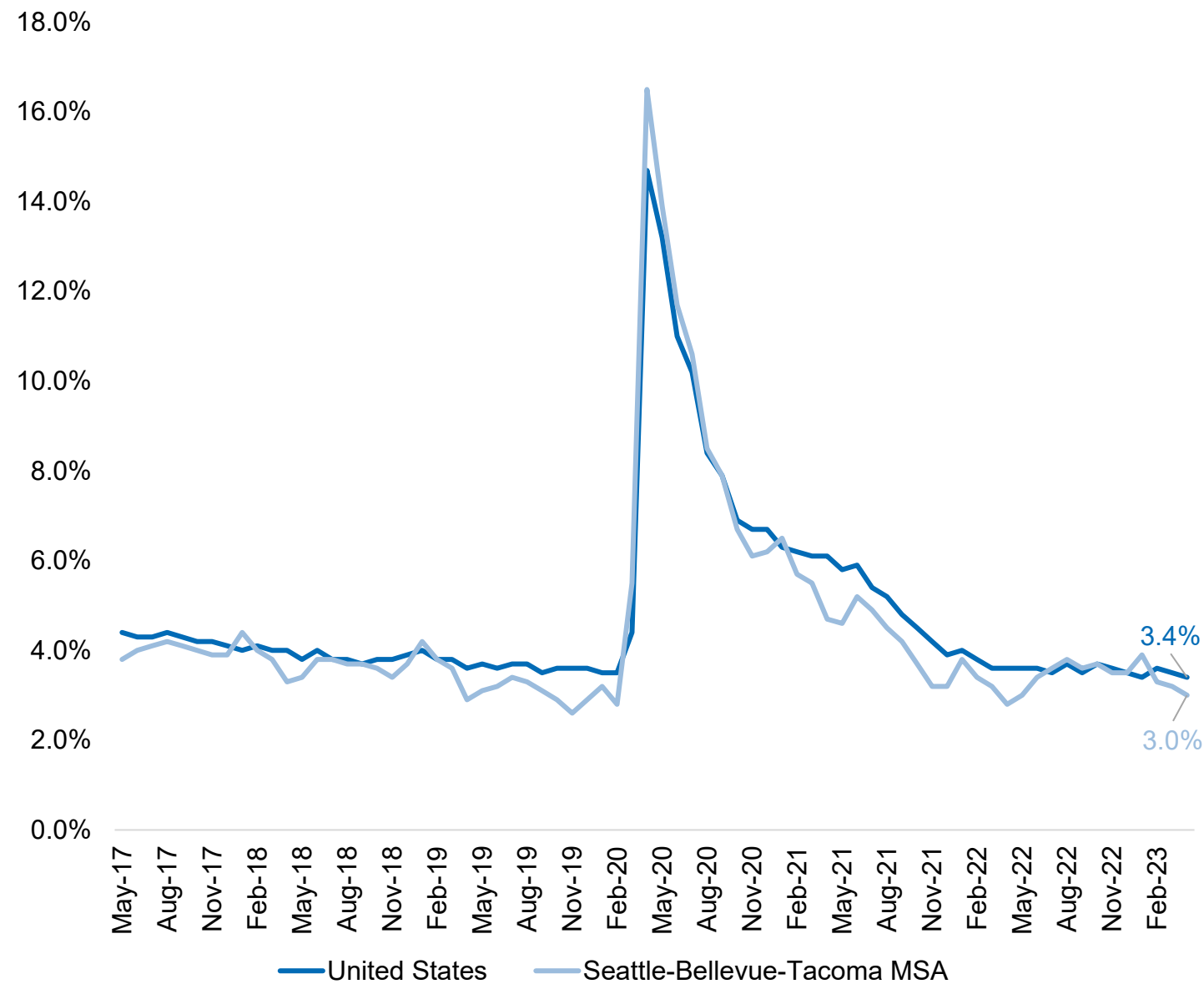
Economy



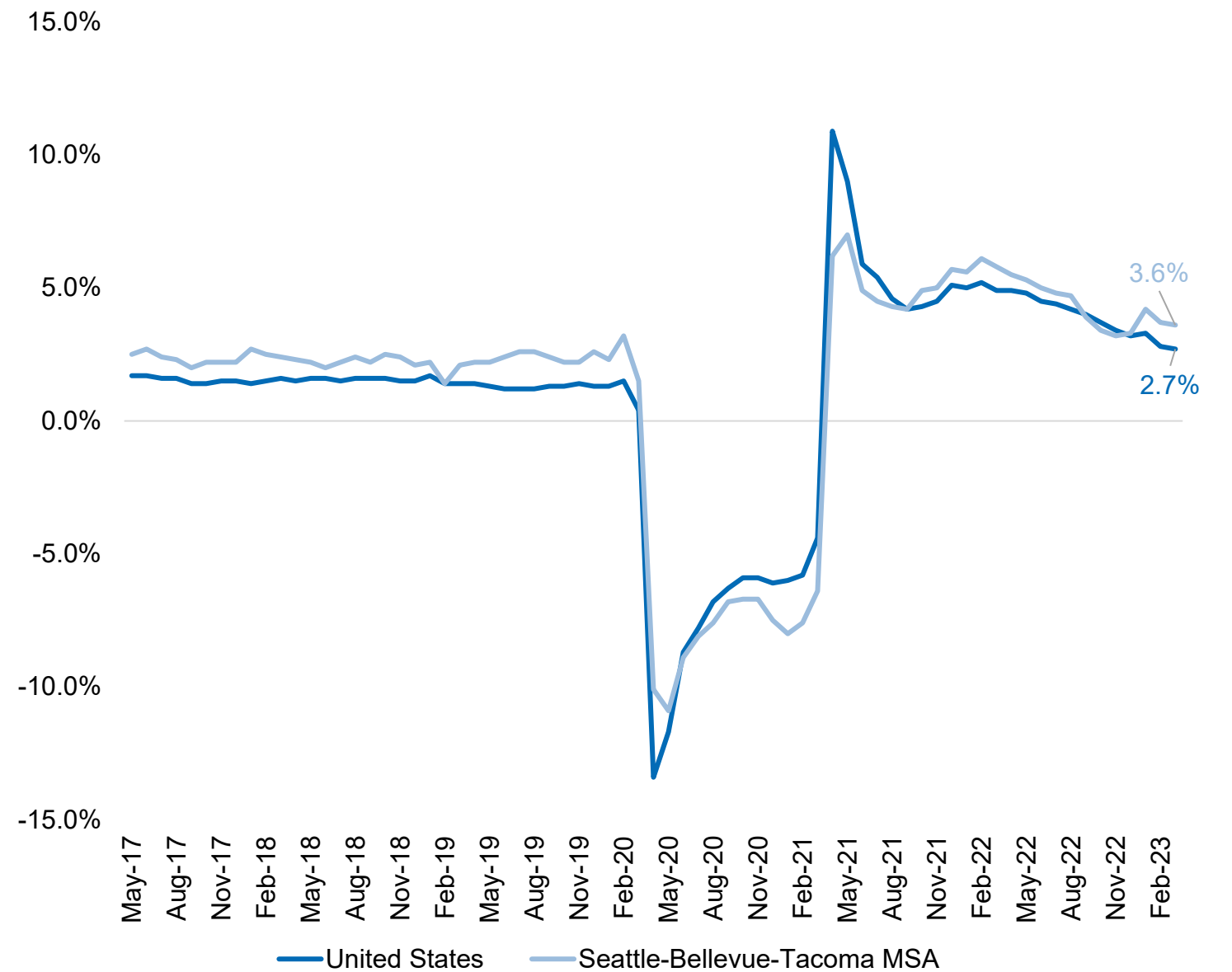
Regional Employment Improves Following Period of Layoffs

The unemployment rate decreased over the second quarter of 2023, recovering from a small spike in the first quarter of 2023 due to tech layoffs in the region. As of April 2023, the unemployment rate stood at 3.0%, down 90 bps from January 2023 and 40 bps below the national average.

Unemployment Rate, Seasonally Adjusted



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

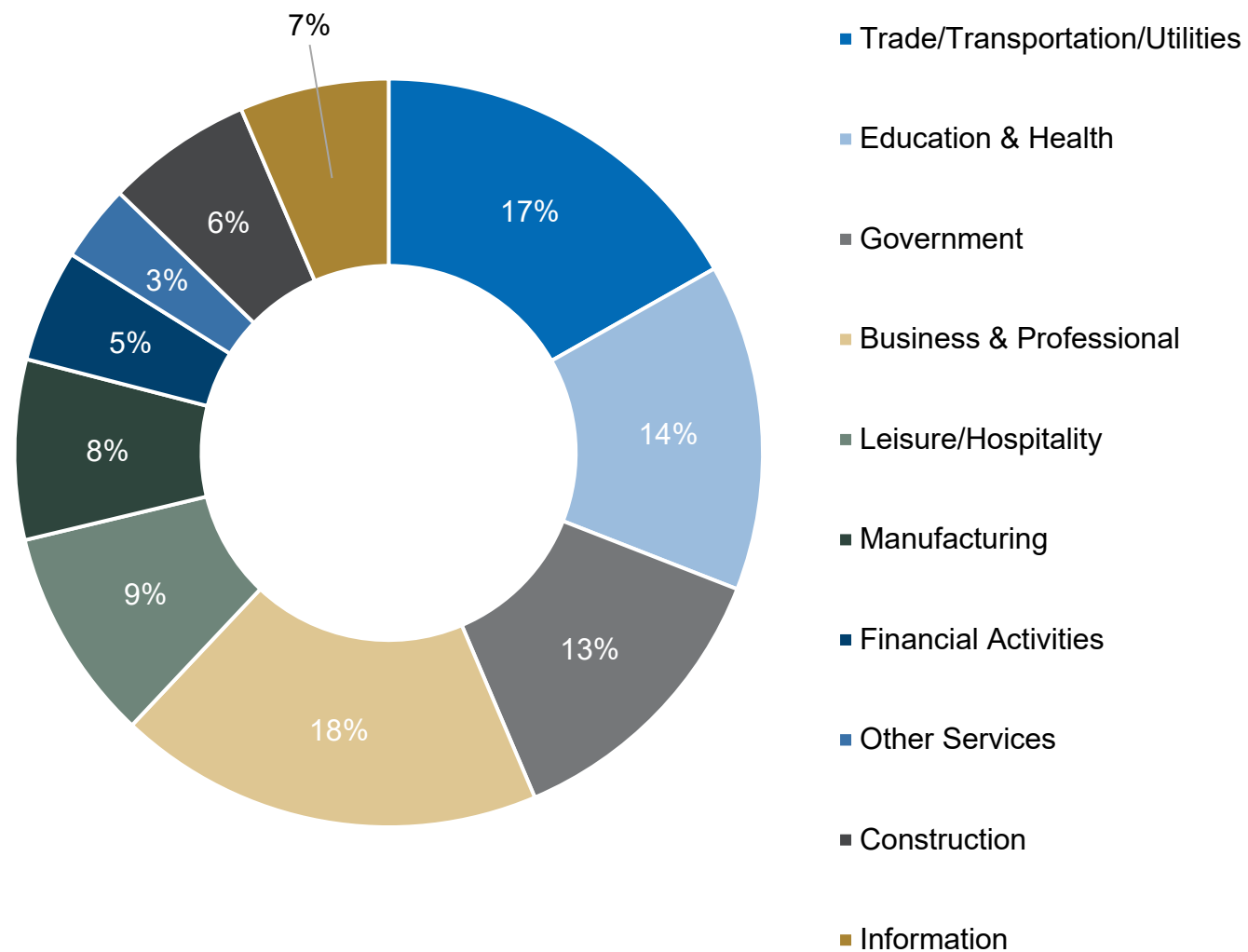


Source: U.S. Bureau of Labor Statistics, Seattle-Bellevue-Tacoma MSA

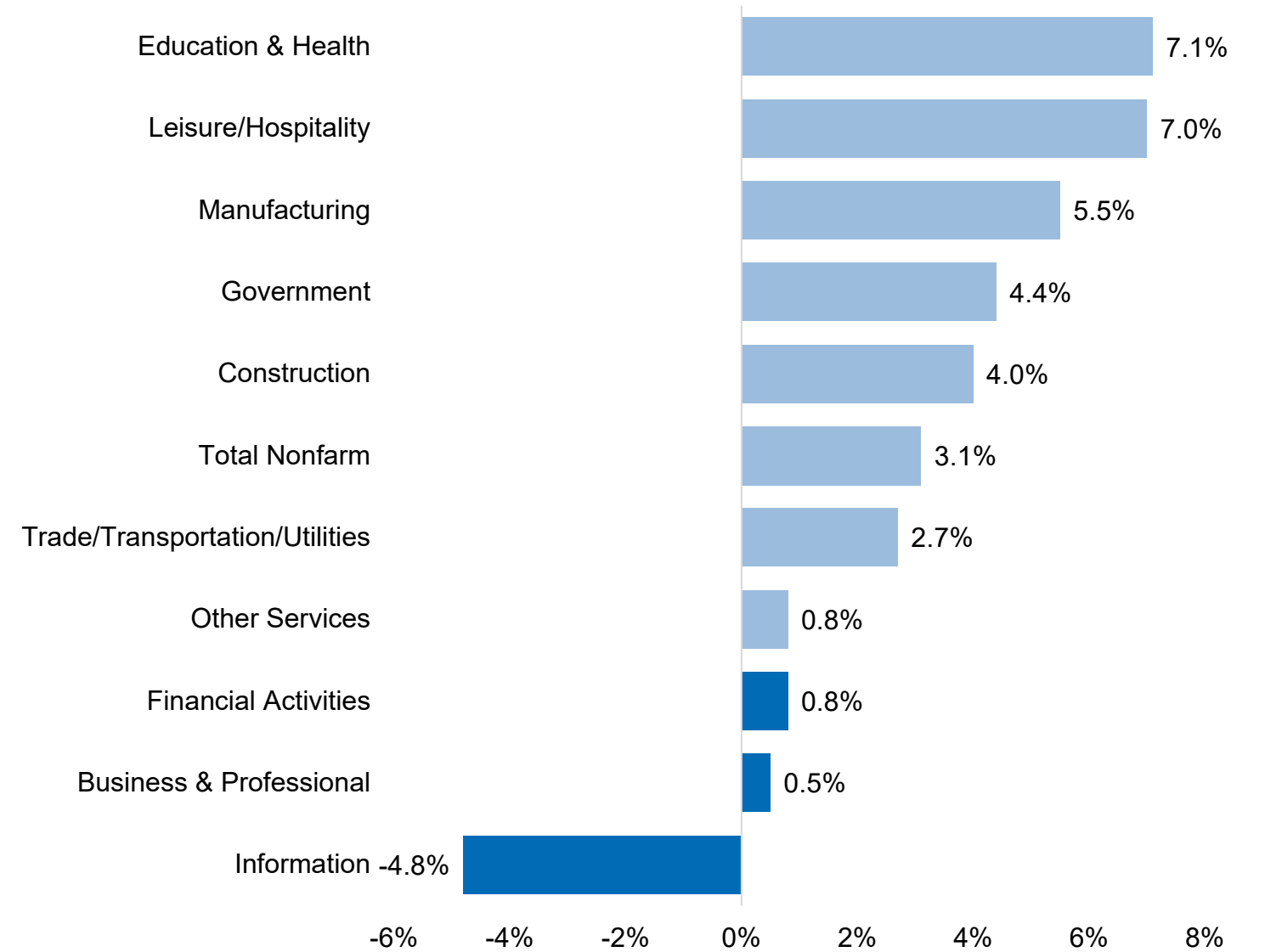
Job Growth Driven by Services While Office-Occupying Sectors Stagnate

The education, health and leisure/hospitality 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 4.8% amidst the wave of tech layoffs.

Employment by Industry, May 2023



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

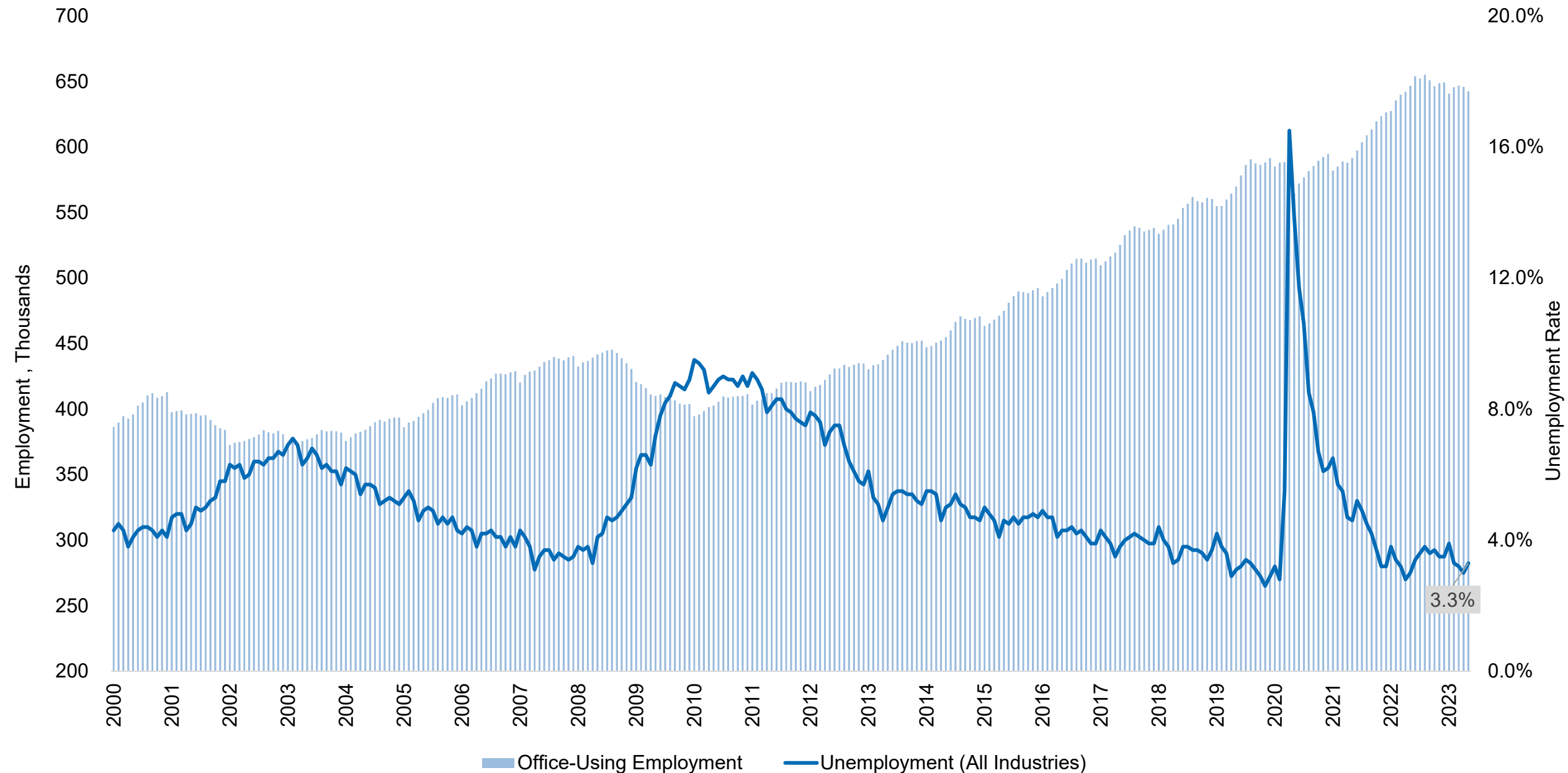


Source: U.S. Bureau of Labor Statistics, Seattle-Bellevue-Tacoma MSA

Overall Office-Using Employment Has Rebounded

Due to a contraction of the information sector, office-using employment declined slightly over the second quarter of 2023; however, despite this small dip, office-using employment remains well above pre-pandemic levels. Unemployment peaked during April of 2020 at 16.5%; since then, 77,700 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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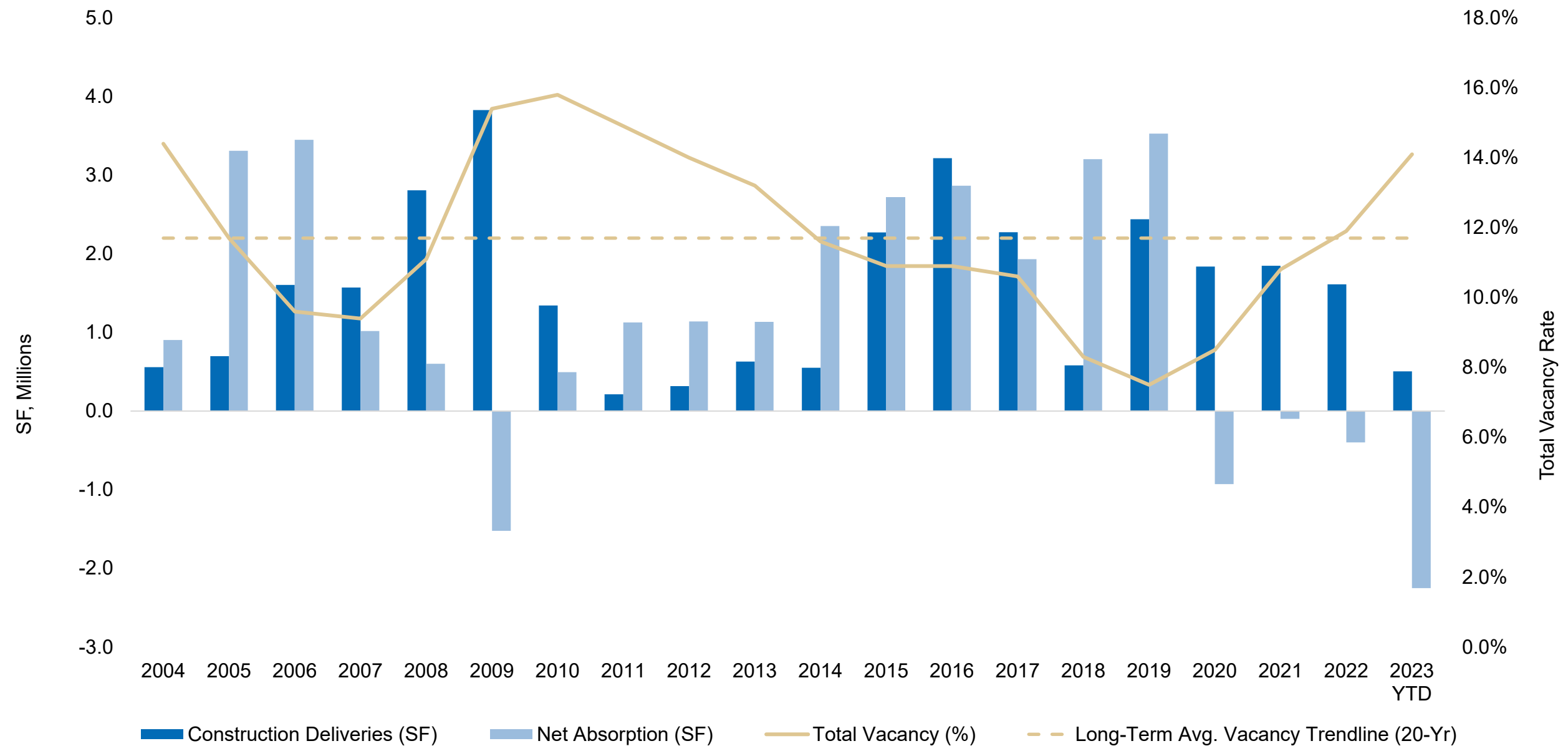
Leasing Market Fundamentals



Vacancy Rates Continue to Climb

Overall vacancy increased to 14.1% in the second quarter of 2023, up 150 bps quarter over quarter, with direct vacancy at 12.4%. The region saw a net negative absorption of 1.47 million SF. Much of the new vacancy can be attributed to large blocks of sublease space added to the market by Microsoft, which has vacated several leased spaces in anticipation of its campus expansion and modernization. Other large tech employers have followed suit, and vacancy is expected to rise in the short term as rightsizing exercises continue.

Historical Construction Deliveries, Net Absorption, and Vacancy

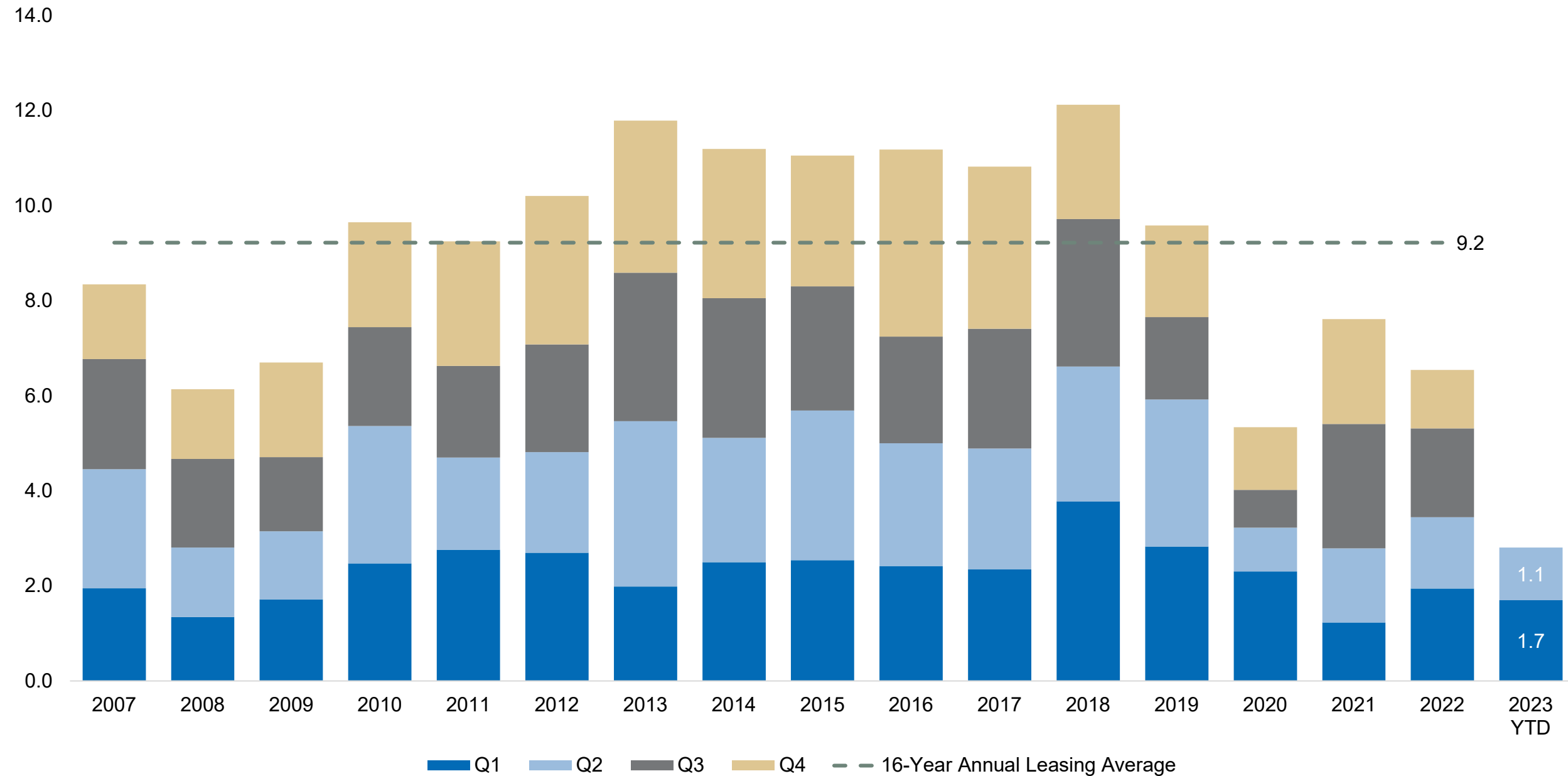


Source: Newmark Research

Leasing Activity Lags Amid Economic Uncertainty

Transaction activity slowed during the second quarter of 2023, largely due to economic hesitations. Deal volume for the second quarter totaled 1.1 million SF, a mere half of the 16-year quarterly leasing average.

Total Leasing Activity (msf)

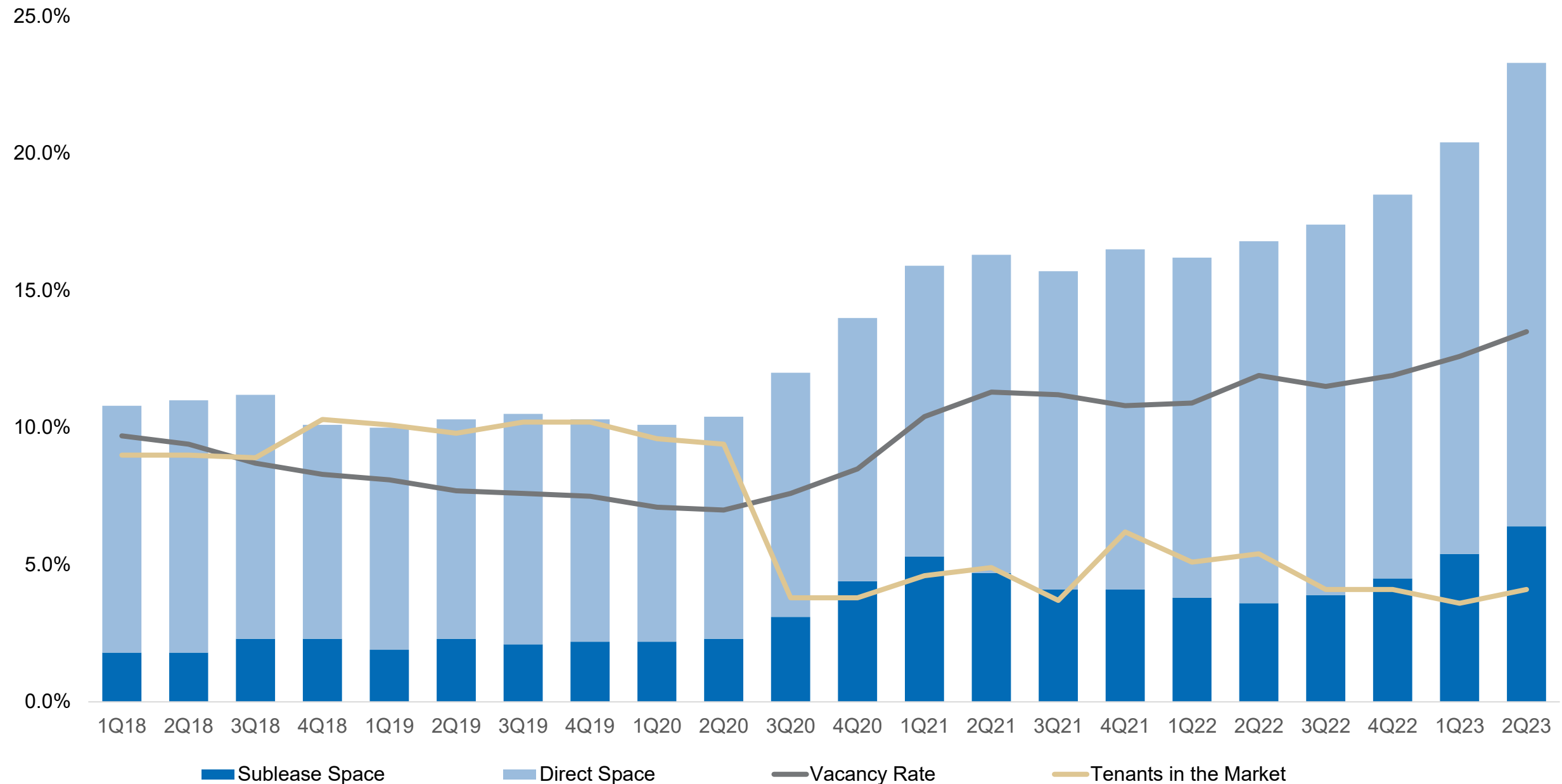


Source: Newmark Research, CoStar

Tenant Demand Increases Alongside Rise in Sublease Availability

Tech occupiers in the region have begun to offer large blocks of sublease space, bringing the sublease availability rate to 6.8%. Though vacancy is expected to rise in the short term, tenant activity has begun to pick up, signaling the potential for recovery. Tenant requirements rose by nearly 700,000 SF, a 14.0% increase over the quarter. There are currently a total of 137 tenants currently in the market, with 5.4 million SF of requirements.

Available Space and Tenant Demand as Percent of Overall Market

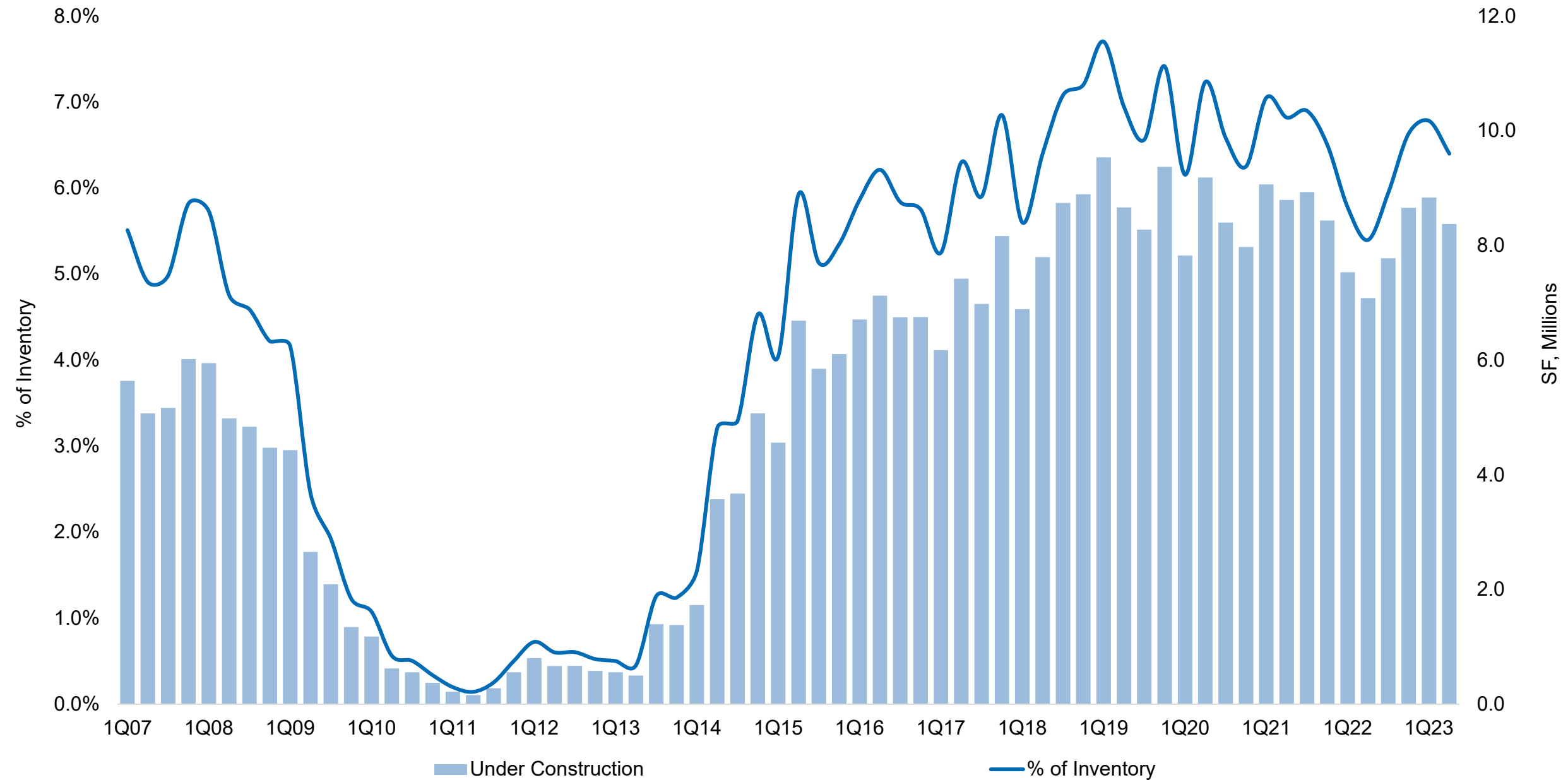


Source: Newmark Research

Development Activity Continues

The development pipeline remains robust, with 8.4 million SF currently under construction. Two projects delivered during the second quarter of 2023: Spring District Block 6 in the Suburban Bellevue submarket (325,000 SF), and The Jack (143,584 SF) in Pioneer Square. Block 6, which had been preleased by Meta in 2019, has been put back on the sublease market as part of the company's downsizing efforts.

Office Under Construction and % of Inventory

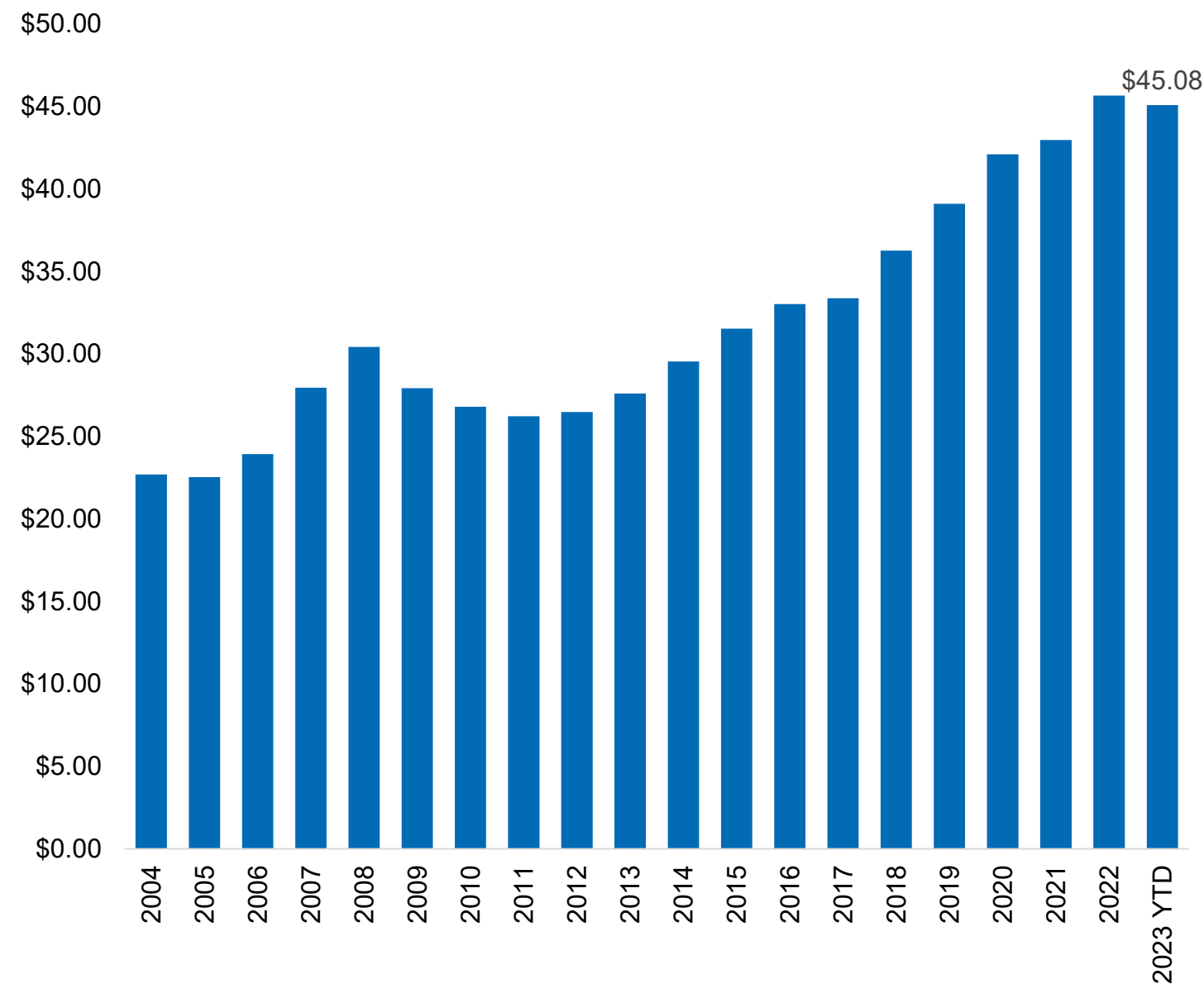


Source: Newmark Research, CoStar

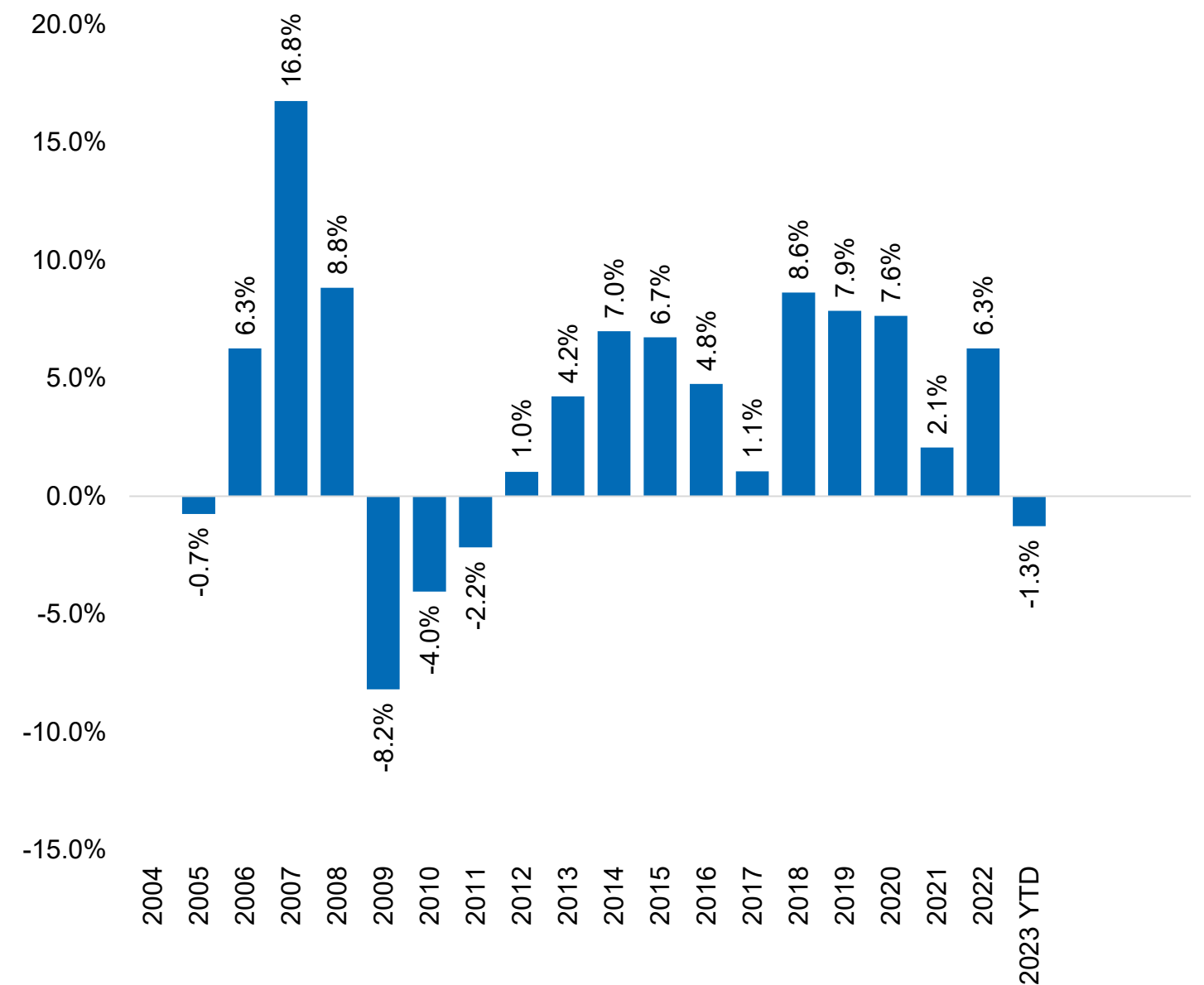
Rents Decline for the Second Consecutive Quarter

Overall asking rates declined during the quarter to \$45.08/SF, a 0.2% decrease from the first quarter of 2023. The availability of cheaper sublease space and limited demand is expected to put downward pressure on asking rates in the coming quarters, and it is expected that landlords with limited liquidity will begin to trade expensive concessions packages for lower rents.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate

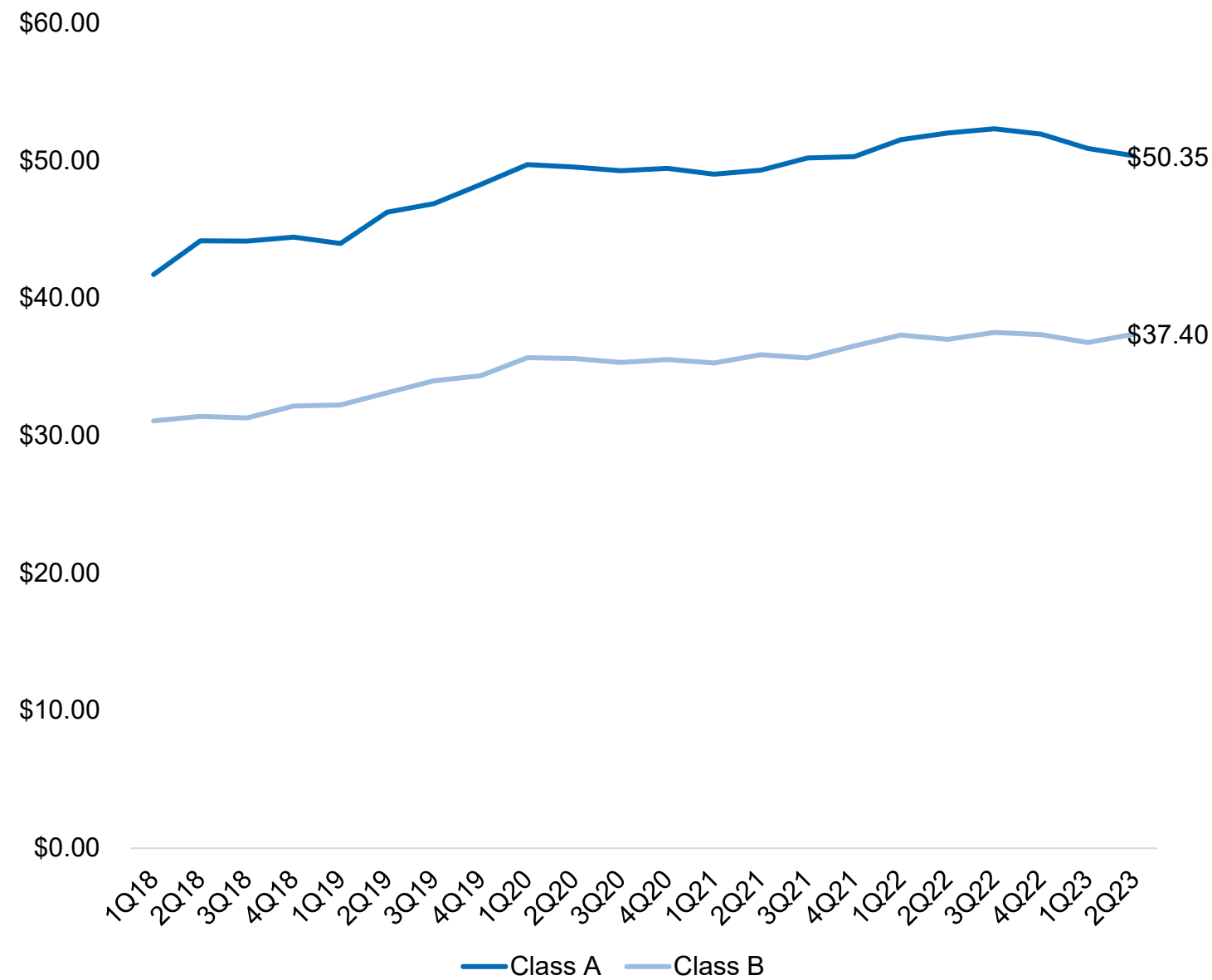


Source: Newmark Research, CoStar

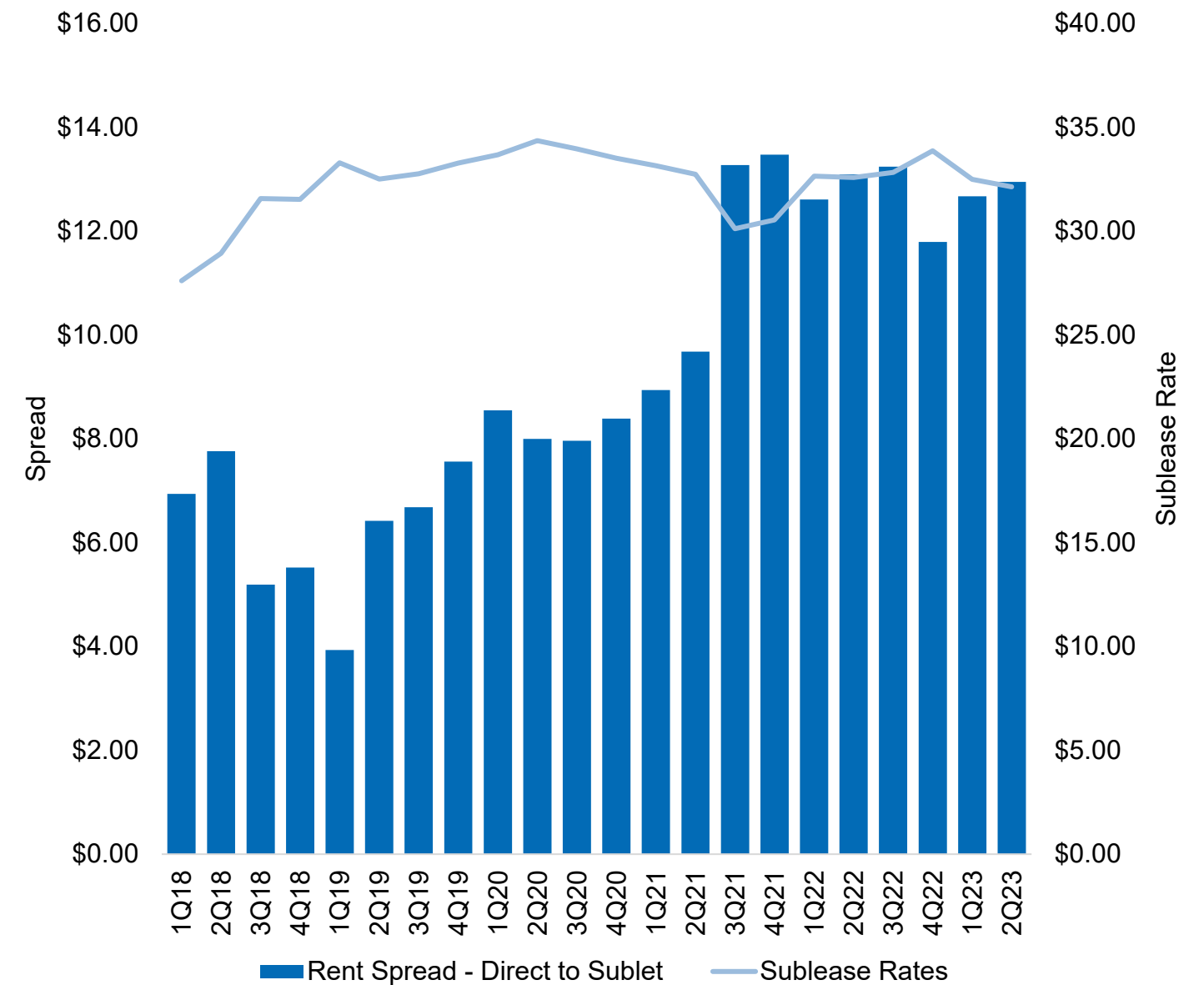
Class A+ and Sublease Rates Remain Stable

Class A+ asking rents have held steady throughout the pandemic, 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

Leasing Activity Slows

Leasing activity over the quarter was sluggish, and active tenants remain unwilling to commit to longer term leases or take large blocks of space. Most deals completed in the second quarter of 2023 had shorter terms and smaller footprints, with an average transaction size of 4,115 SF.

Notable 2Q23 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Insight Global	2323 Elliott Avenue	Belltown / Denny Regrade	Direct Lease	75,000
<i>Insight Global is moving to Seattle from a 20,000-sf location in Bellevue Place but will maintain an existing 7,000-sf satellite office in Bellevue.</i>				
Flexport, Inc.	10900 NE 4 th Street	Bellevue CBD	Sublease	55,585
<i>Flexport is expanding in Bellevue and taking over three floors in the Skyline Tower previously occupied by Amazon.</i>				
Moderna	1099 Stewart Street	Seattle CBD	Sublease	54,336
Lyft, Inc.	83 S King Street	Pioneer Square / Waterfront	Lease Renewal	24,612
Helsell Fetterman	800 5 th Avenue	Seattle CBD	Direct Lease	21,824

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