4Q23

Seattle Office Market Overview

Market Observations

Economy

- The unemployment rate decreased slightly over the fourth quarter. As of November 2023, the unemployment rate stood at 3.7%, on par with 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 5.7% over the past 12 months.
- Office-using employment remains well above pre-pandemic levels. Unemployment has recovered to 3.7% following April 2020 peak of 17.1%.

Major Transactions

- Leasing activity in the fourth quarter was indicative of the ongoing rightsizing efforts by major occupiers. There were several renewals in the region, and many of the direct leases signed represented contractions of previous footprints. Despite some downsizing, tenants are showing a continued commitment to the Puget Sound market by renewing in place or relocating within the region.
- The largest transaction of the fourth quarter was Perkins Coie signing for 151,784 SF at Russell Investments Center. This new lease is part of an overall downsizing of their footprint.

Leasing Market Fundamentals

- Overall vacancy increased to 16.7% in the fourth quarter of 2023, up 130 bps quarter over quarter. The region saw a net negative absorption of 929,111 SF.
- The construction pipeline trended downward slightly for the fourth consecutive quarter but remains robust, with 4.7 million SF underway.
- Overall asking rates fell to $44.73/SF during the fourth quarter of 2023, down 2.0% year-over-year.
- Leasing volume for 2023 totaled 6.0 million SF, 35.5% below the 16-year average. The total number of transactions for 2023 amounted to 74.5% of the 16-year average, which is indicative of a shift in tenant preferences toward smaller footprints.

Outlook

- Though demand remains lower than the historical average, tenant activity has been steady throughout 2023 and shows the potential for recovery ahead.
- Continued flight to quality ensures that Class A asking rates will continue to hold steady. Demand for sublease space remains strong as much of the new inventory is high-quality product with flexible terms and aggressive pricing.
- Although average rates have steadily declined over the year, rates are expected to stabilize in coming quarters as the market recalibrates. This will vary on submarket, size range, and asset type bases.

TABLE OF CONTENTS

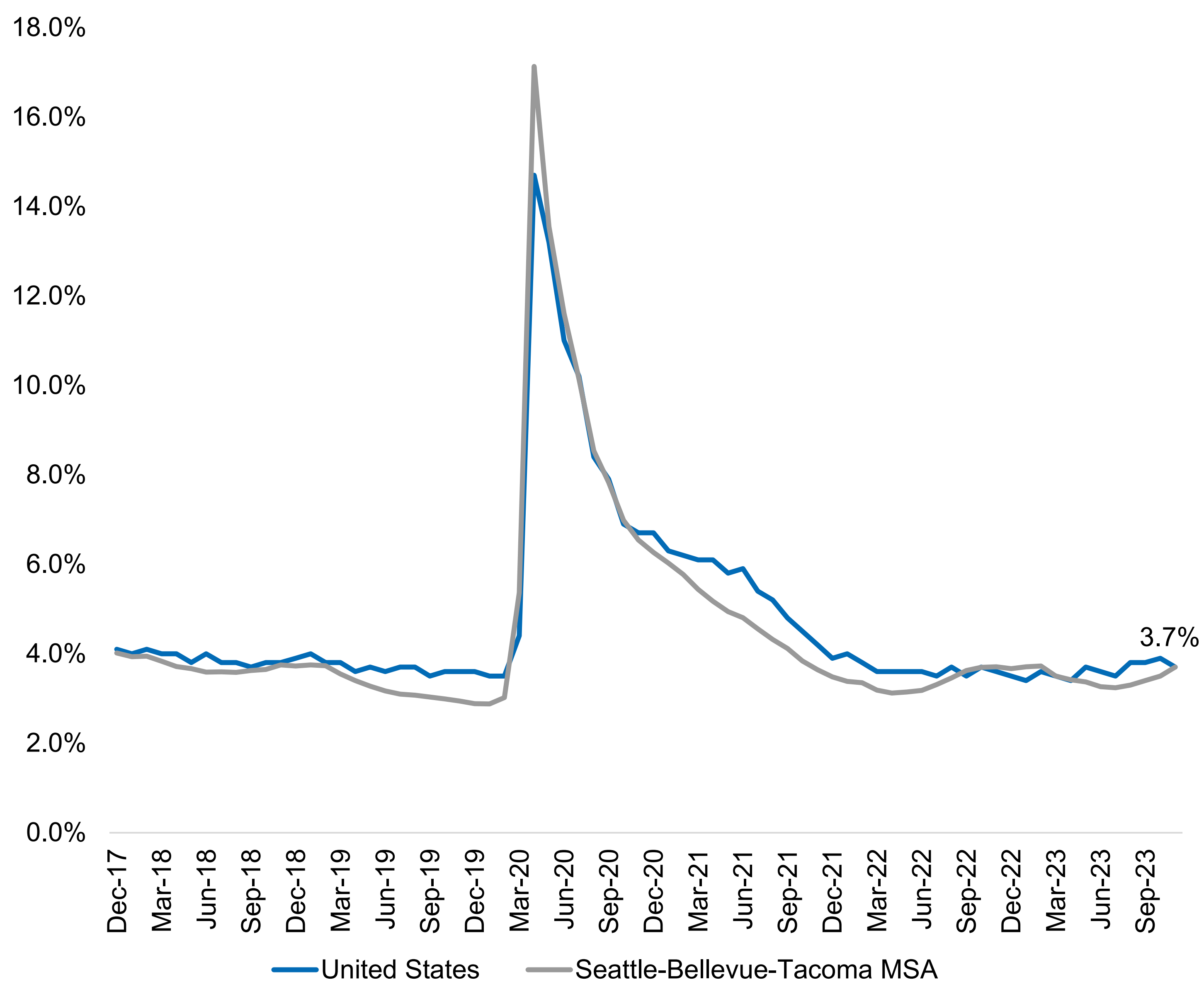
4Q23

Economy

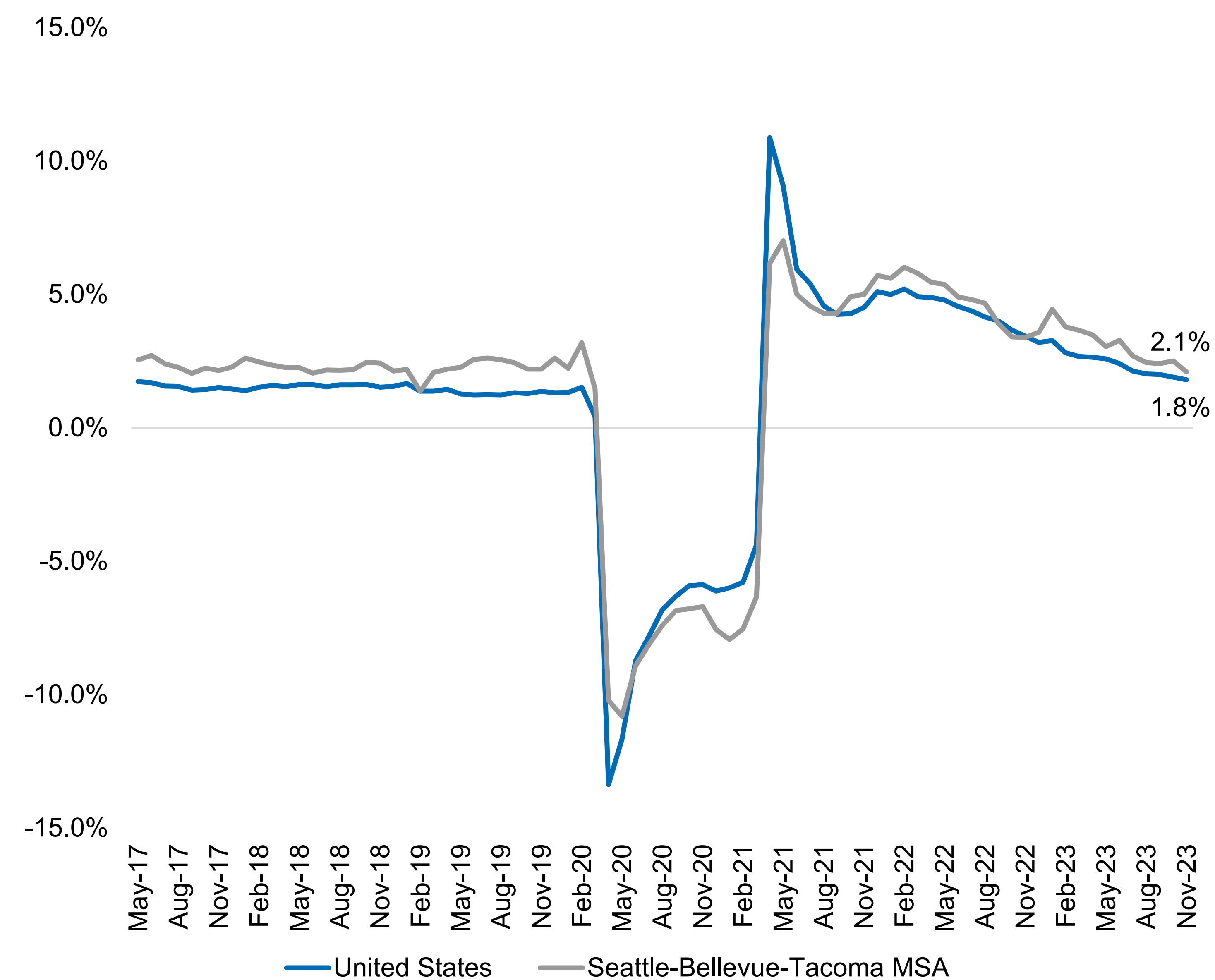
Regional Unemployment Tracks Along National Average

The unemployment rate decreased slightly over the fourth quarter. As of November 2023, the unemployment rate stood at 3.7%, on par with the national average.

Unemployment Rate, Seasonally Adjusted



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

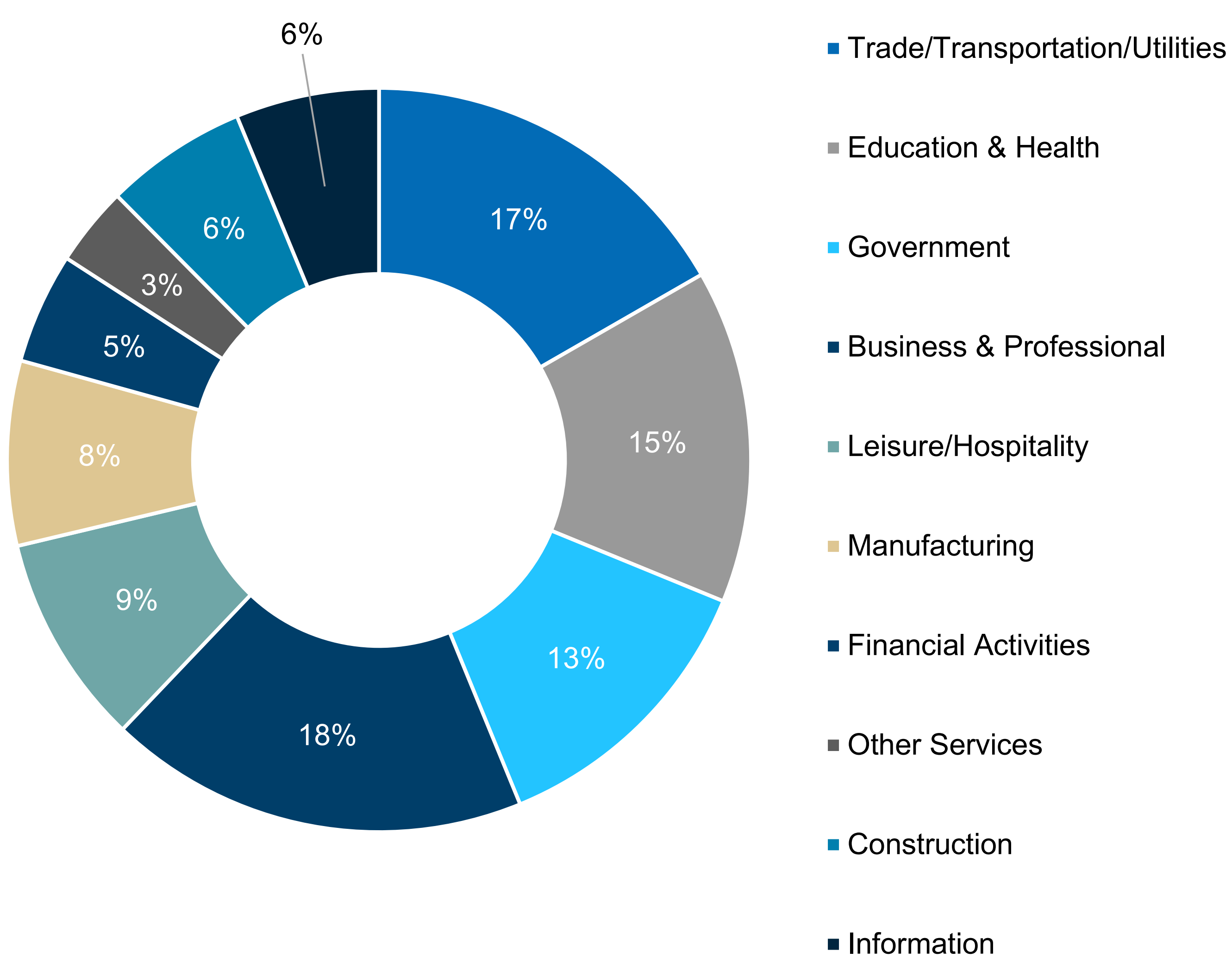


Source: U.S. Bureau of Labor Statistics, Seattle-Bellevue-Tacoma MSA

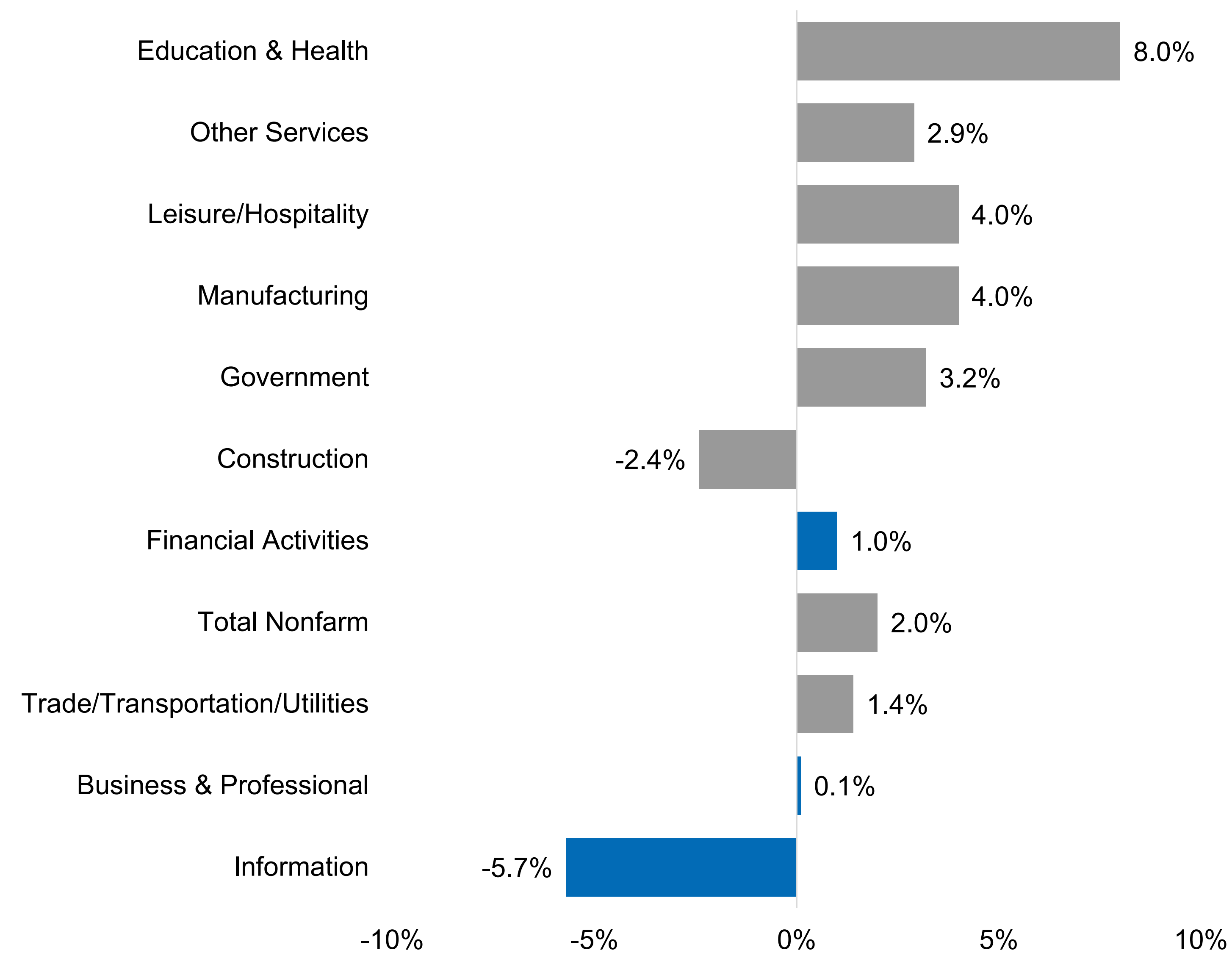
Service Sectors Continue to Lead Job Growth

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 5.7% over the past 12 months.

Employment by Industry, November 2023



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

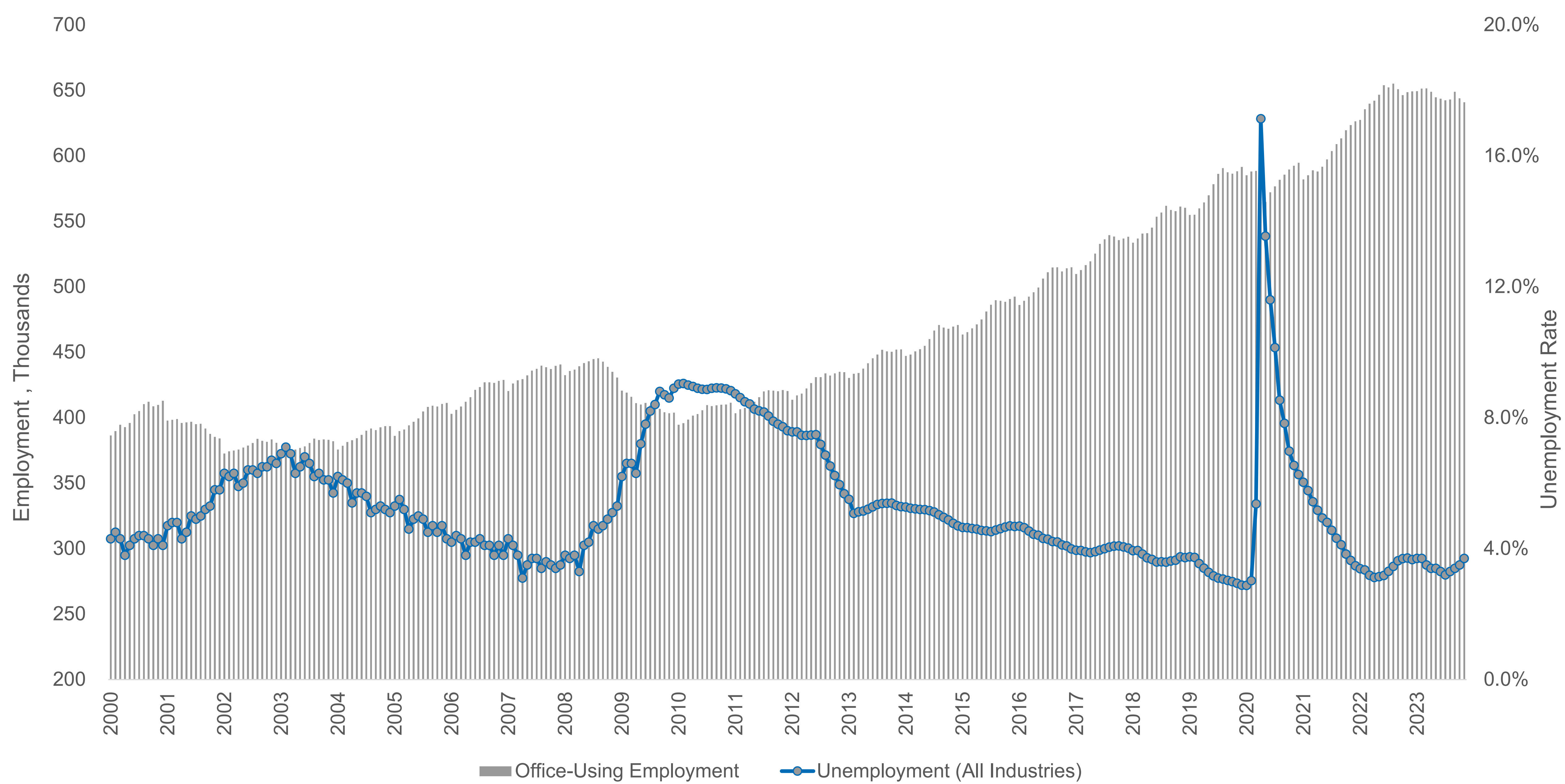


Source: U.S. Bureau of Labor Statistics, Seattle-Bellevue-Tacoma MSA

Overall Office-Using Employment Has Rebounded

Office-using employment remains well above pre-pandemic levels. Unemployment has recovered to 3.7% following April 2020 peak of 17.1%.

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.

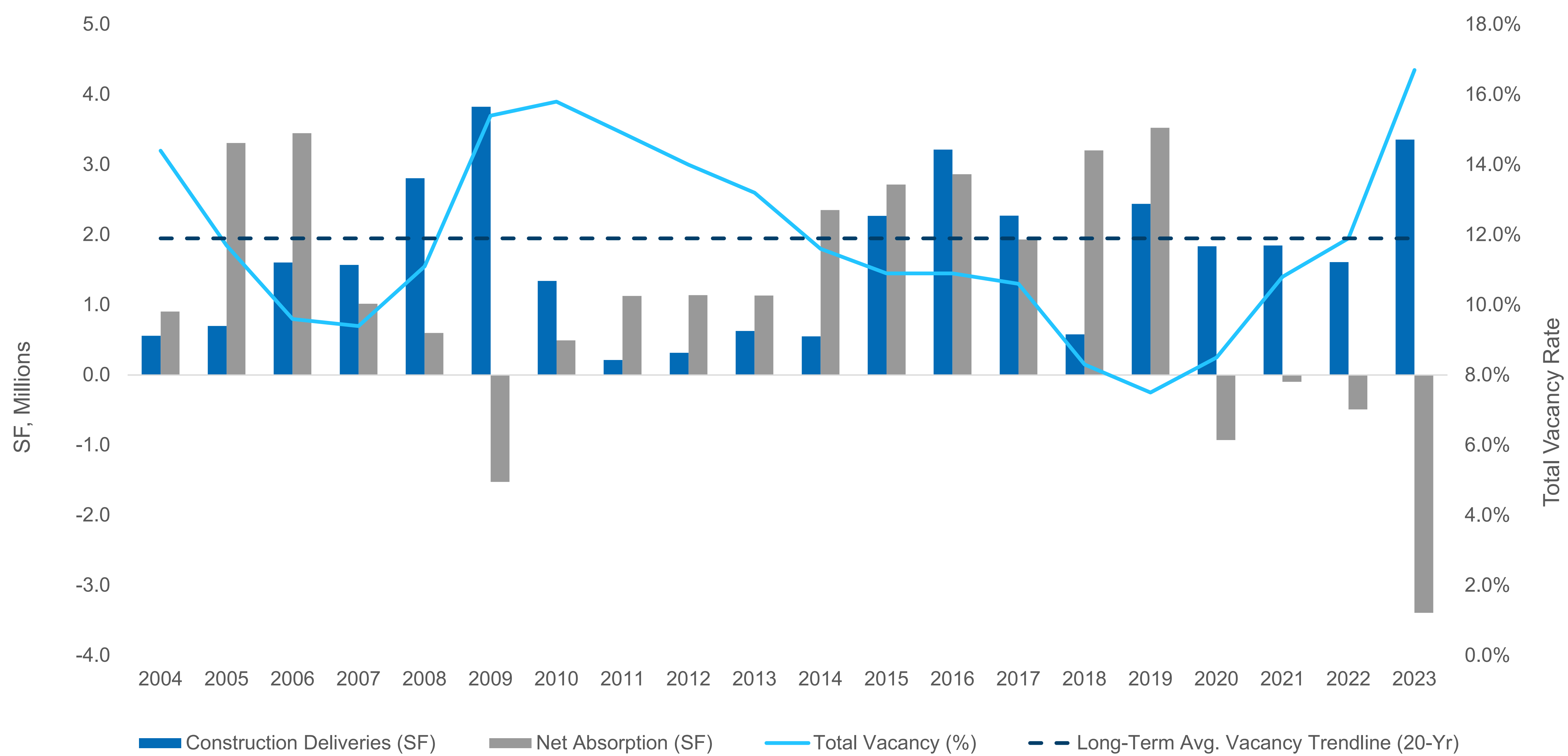
4Q23

Leasing Market Fundamentals

Vacancy Rates Rise Amid Downsizing Efforts

Overall vacancy increased to 16.7% in the fourth quarter of 2023, up 130 bps quarter over quarter. The region saw a net negative absorption of 929,111 SF. Major occupiers in the region continue to downsize their footprints, most notably Microsoft in the I-90 Corridor and Bellevue CBD. The occupancy losses from Microsoft vacating space on the Eastside were mitigated by the delivery and subsequent occupation of West Main by Amazon.

Historical Construction Deliveries, Net Absorption, and Vacancy

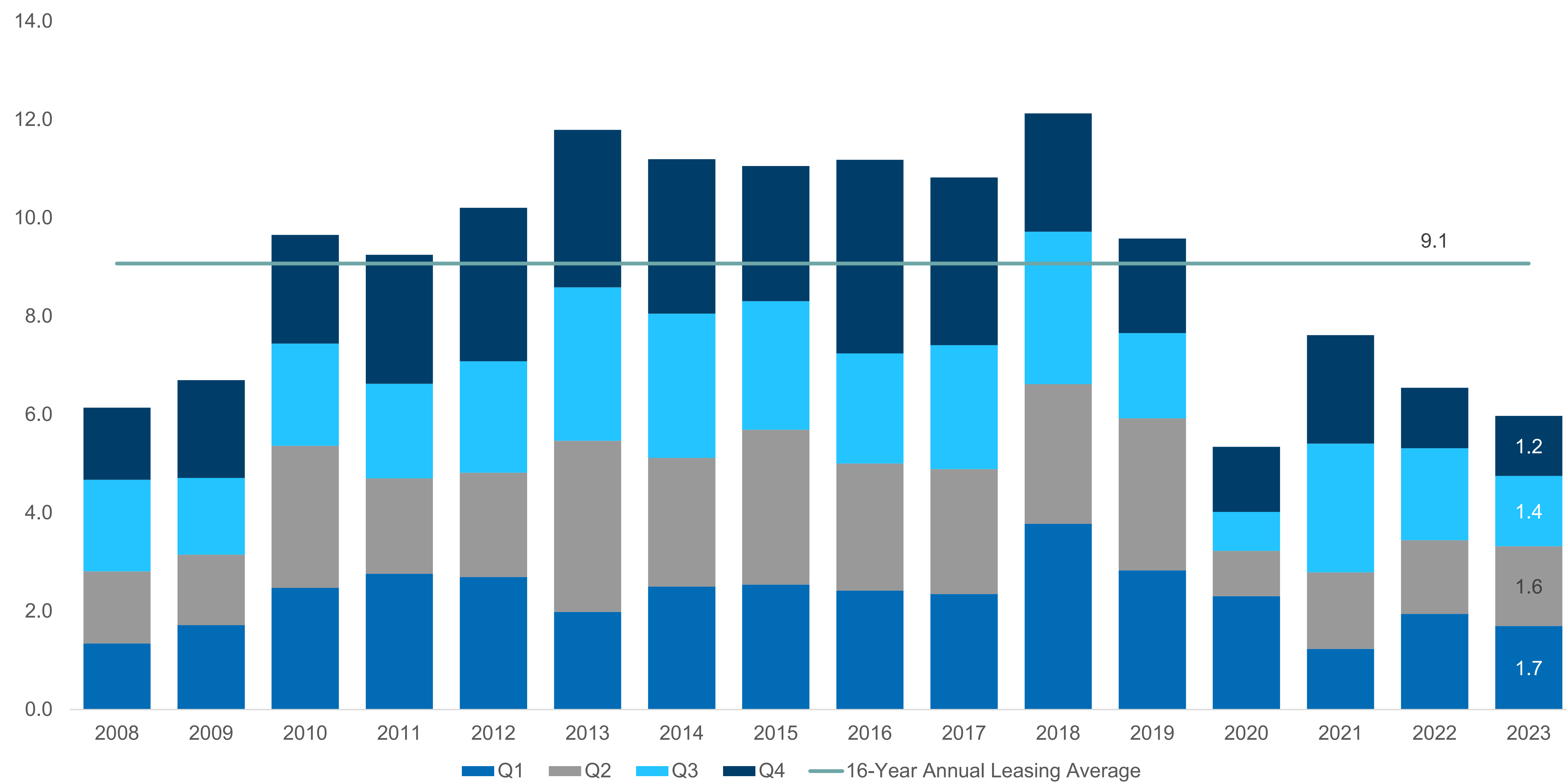


Source: Newmark Research

Leasing Activity Remains Muted

Leasing volume for 2023 totaled 6.0 million SF, 35.5% below the 16-year average. The total number of transactions for 2023 amounted to 74.5% of the 16-year average, which is indicative of a shift in tenant preferences toward smaller footprints. Average direct lease size declined for the fifth year in a row and averaged 5,000 SF during 2023, down 33.6% from a peak of 7,500 SF in 2018.

Total Leasing Activity (msf)



Source: Newmark Research, CoStar

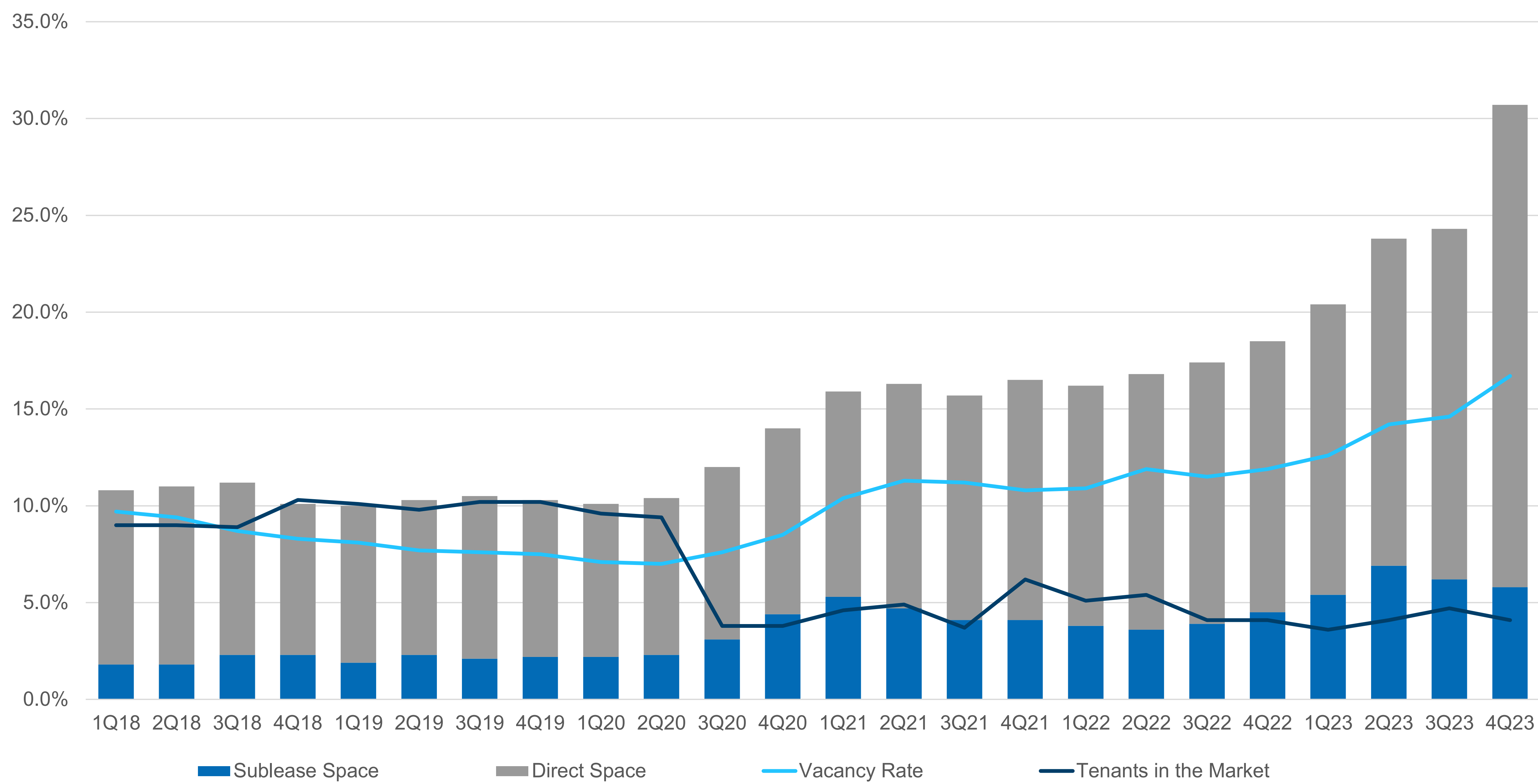
Please reach out to your
Newmark business contact for this information

Please reach out to your
Newmark business contact for this information

Tenant Activity Shows Potential for Recovery

Sublease availability for Puget Sound overall ended the year at 5.8%. Though demand remains lower than the historical average, tenant activity has been steady throughout 2023. There are currently 144 active tenant requirements totaling 5.6 million SF for the region, with 31 requirements for 50,000 SF or more.

Available Space and Tenant Demand as Percent of Overall Market



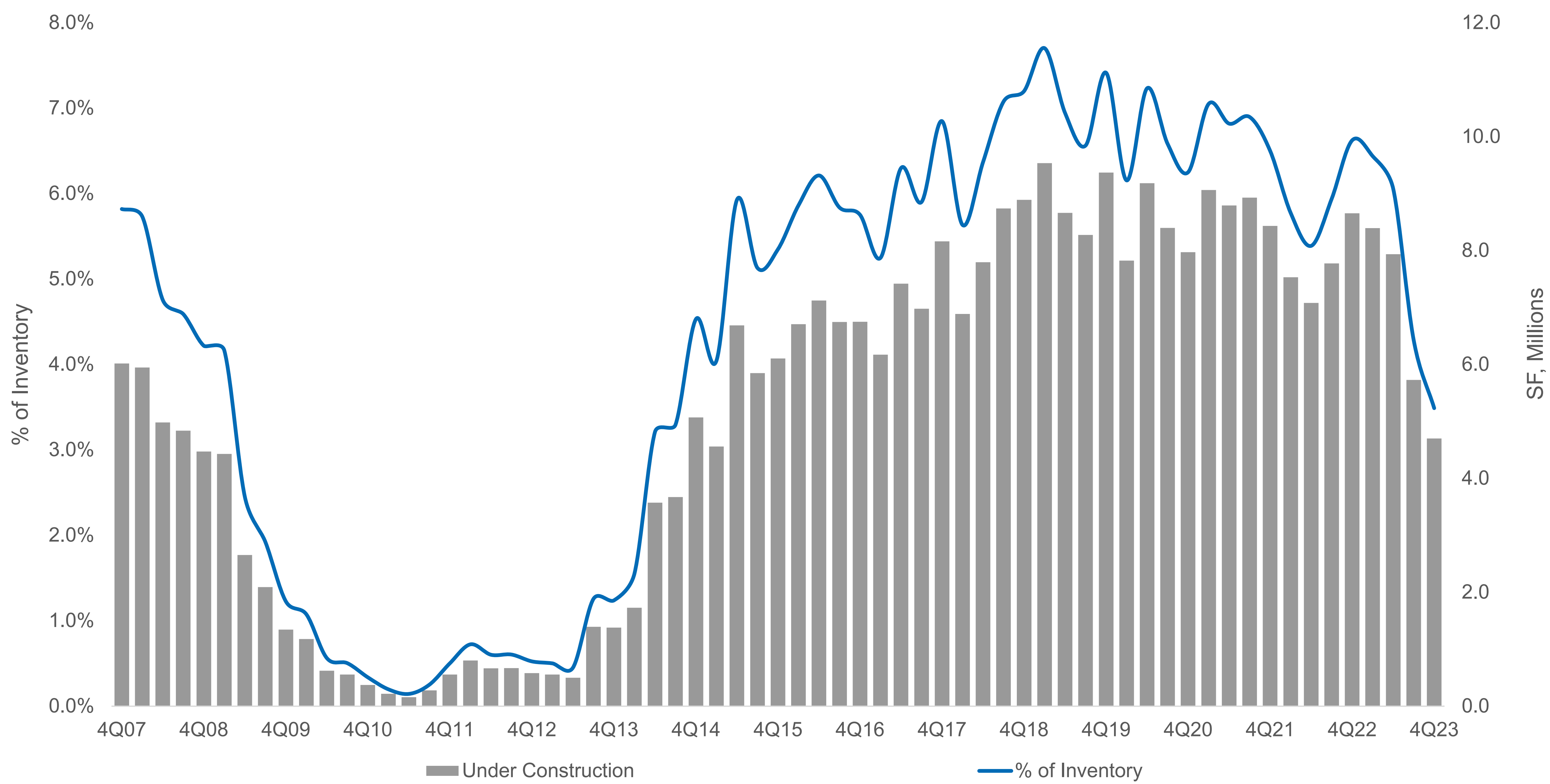
Source: Newmark Research

Please reach out to your
Newmark business contact for this information

Development Activity Cooled in 2023

Vulcan's West Main development delivered during the fourth quarter, totaling 1.0 million SF across three office towers. Amazon has moved 1,000 employees from Seattle to the new Bellevue location and has pledged to create new jobs on the Eastside as their other development projects progress. Regionally, more than 4.7 million SF of new product remains in the pipeline, though new starts have slowed considerably.

Office Under Construction and % of Inventory

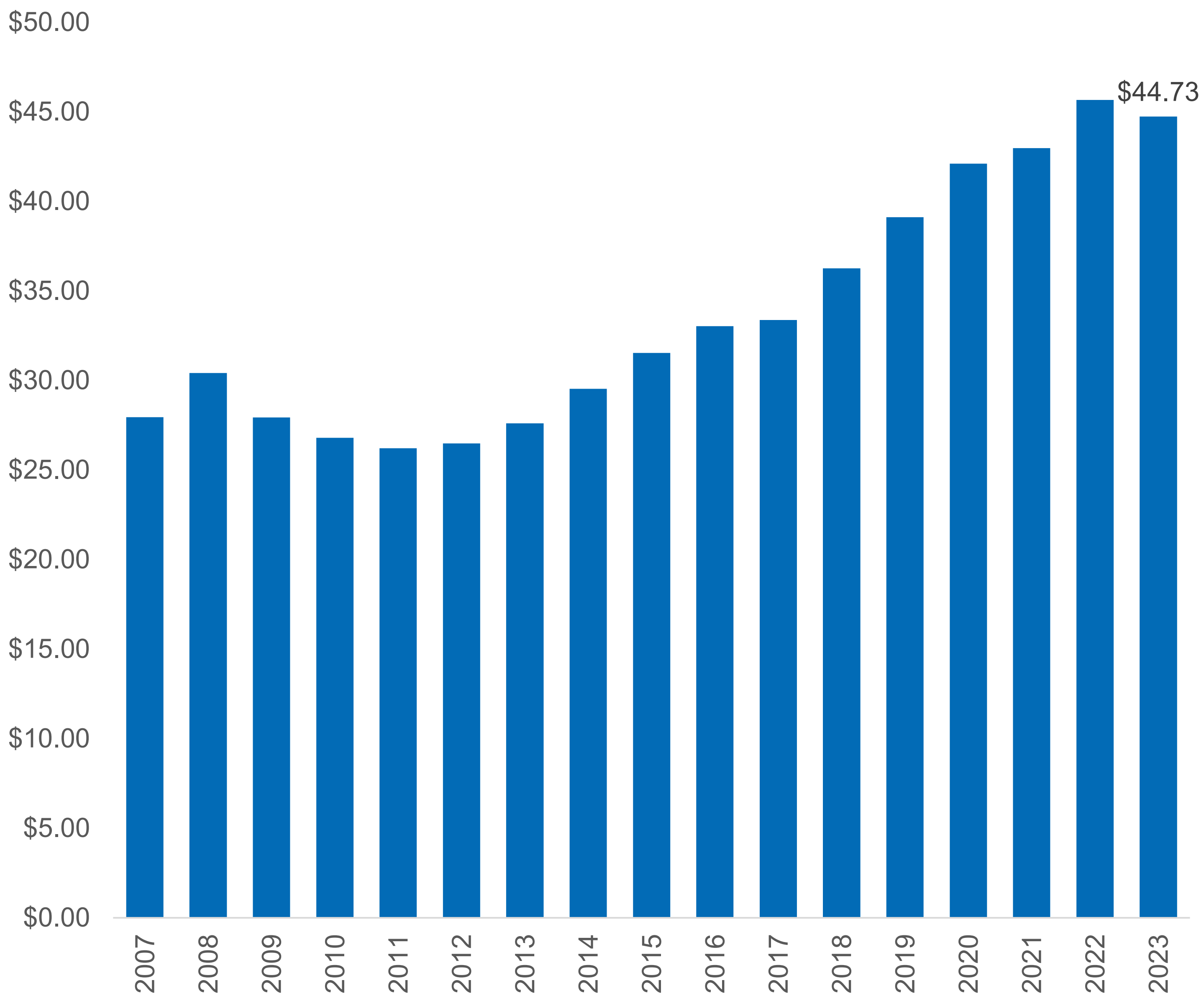


Source: Newmark Research, CoStar

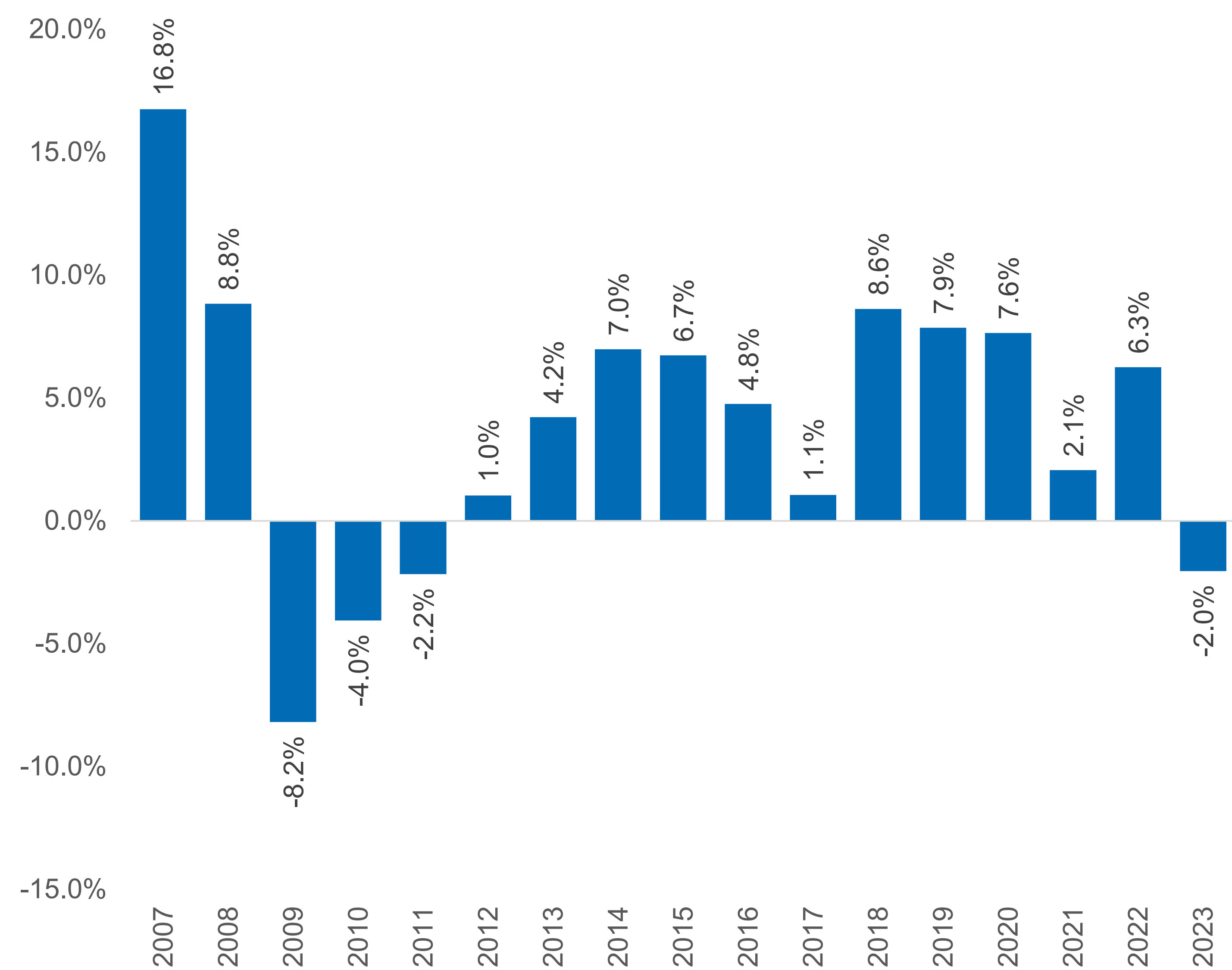
Average Asking Rents Softened During 2023

Overall asking rates fell to $44.73/SF during the fourth quarter of 2023, down 2.0% year-over-year. Although average rates have steadily declined over the year, rates are expected to stabilize in the coming quarters as the market recalibrates.

Office Average Asking Rent, $/SF, FS



Year-over-Year Asking Rent Growth Rate

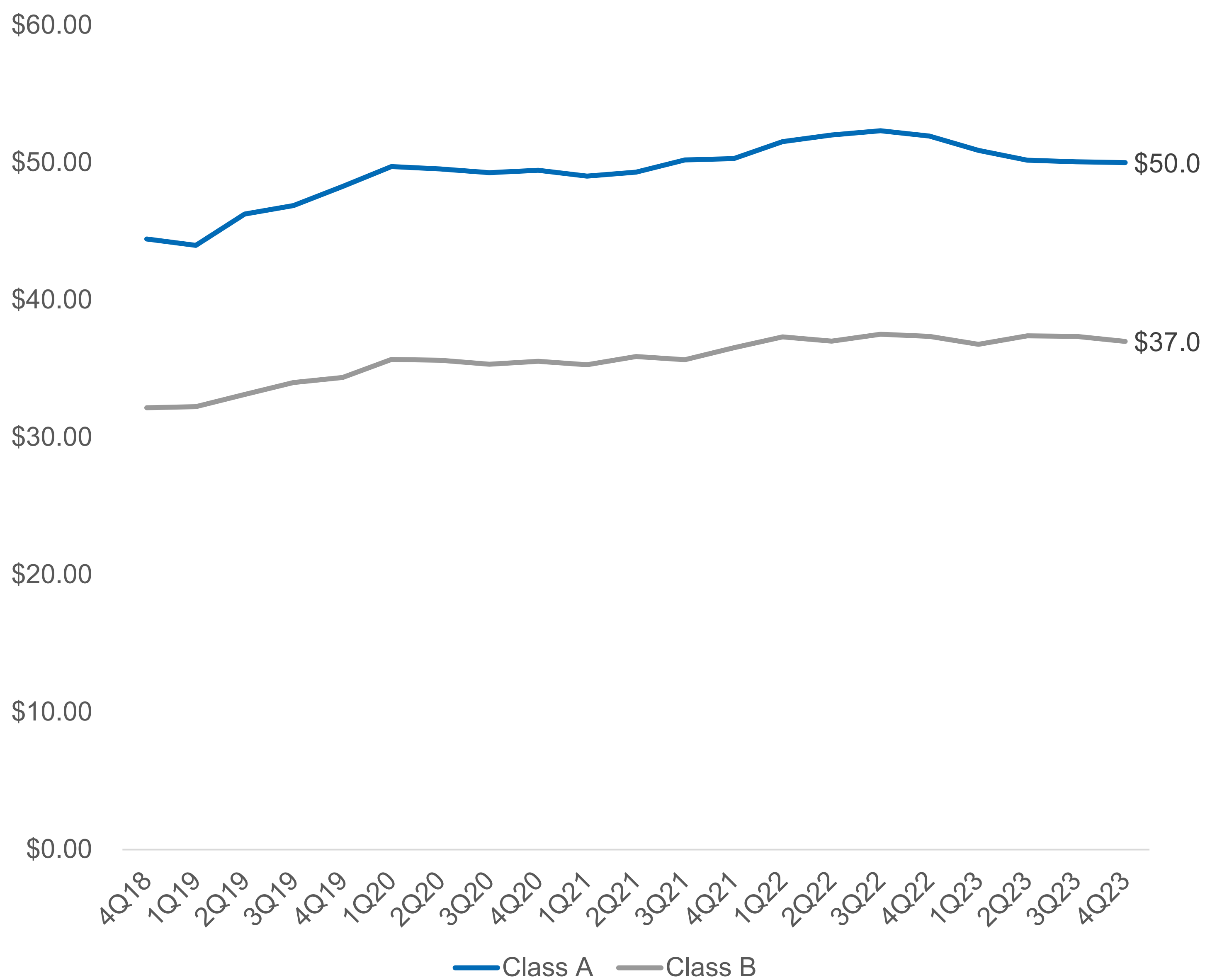


Source: Newmark Research, CoStar

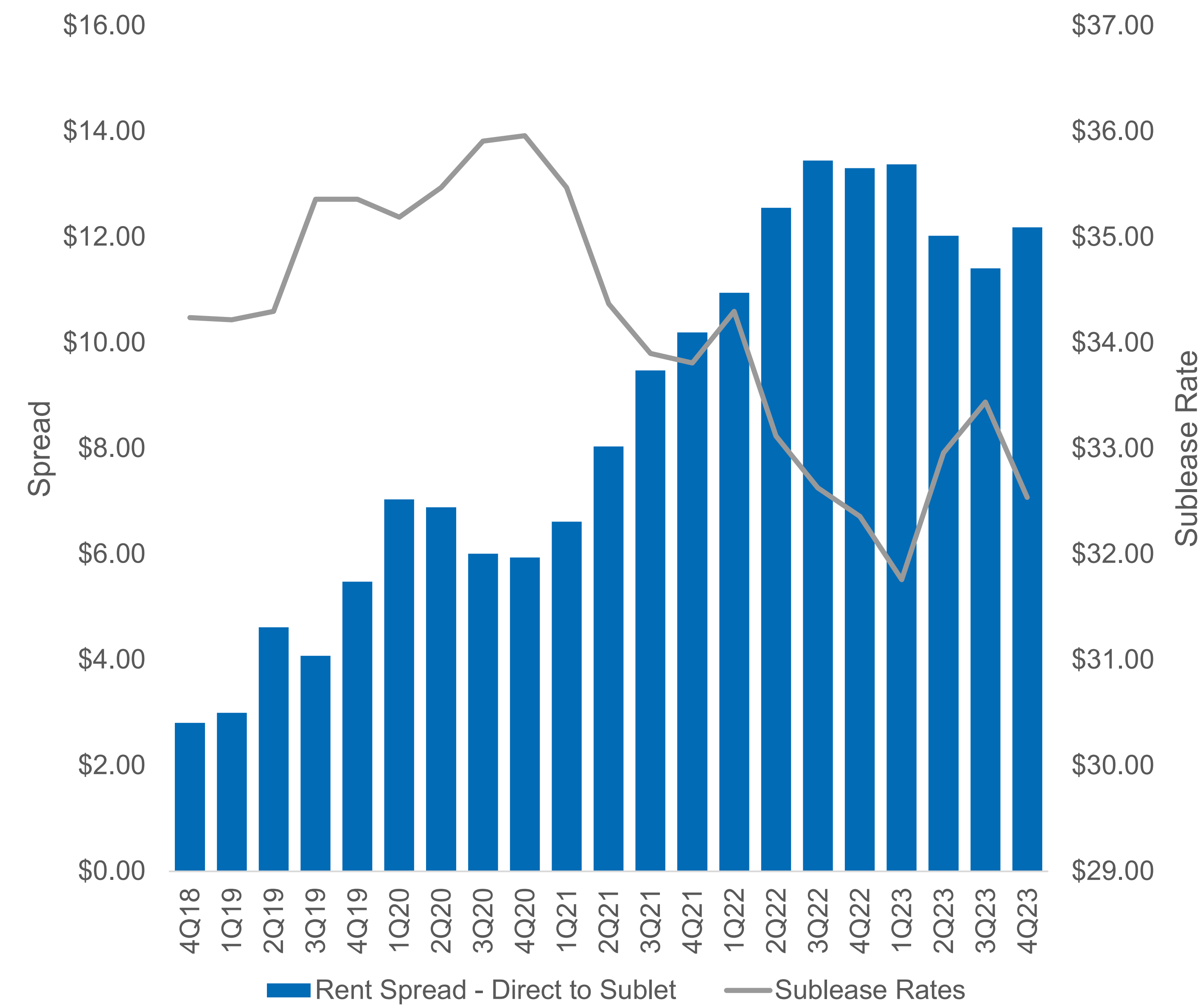
Flight to Quality Buoys Class A Rates

Continued flight to quality ensures that Class A asking rates, which averaged $50.00/SF in the fourth quarter, will continue to hold steady. Demand for sublease space remains strong as much of the new inventory is high-quality product with flexible terms and aggressive pricing.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar

Fourth Quarter Notable Transactions

Leasing activity in the fourth quarter was indicative of the ongoing rightsizing efforts by major occupiers. There were several renewals in the region, and many of the direct leases signed represented contractions of previous footprints. Despite some downsizing, tenants are showing a continued commitment to the Puget Sound market by renewing in place or relocating within the region.

Notable 4Q23 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Perkins Coie	Russell Investments Center	Seattle CBD	Direct Lease	151,784
Perkins Coie signed a new lease in the Seattle CBD as part of an overall downsizing of their footprint.				
GoDaddy	3000 Carillon Point	Kirkland	Renewal	39,495
GoDaddy chose to renew in place, though the renewal represents a 7,000 SF downsize from their previous footprint.				
Group 14 Technologies	400 Fairview	Lake Union	Expansion	26,286
Group14 is expanding its presence in the Lake Union submarket, the new lease is triple the size of their previous footprint.				
Skanska	400 Fairview	Lake Union	Direct Lease	26,278
Skanska is relocating their Lake Union office from Alley 24.				

Source: Newmark Research

Appendix

Please reach out to your
Newmark business contact for this information

Please reach out to your
Newmark business contact for this information

For more information:

Nora Leahy
Research Analyst
Seattle Research
nora.leahy@nmrk.com

Seattle
1420 Fifth Avenue
Suite 2600
t 206-388-3000

Bellevue
10900 NE 4th Street
Suite 1430
t 425-362-1400

New York Headquarters
125 Park Ave.
New York, NY 10017
t 212-372-2000

nmrk.com

Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Research Reports are available at nmrk.com/insights.

NEWMARK