

# Puget Sound-Eastside

Office Q2 2021



CUSHMAN &amp; WAKEFIELD

**10.7%**

Vacancy Rate

YoY  
Chg12-Mo.  
Forecast**-400K**

Net Absorption, SF

**\$38.51**

Asking Rent, PSF



(Overall, All Property Classes)

## ECONOMIC INDICATORS Q2 2021

**2.00M**Seattle MSA  
EmploymentYoY  
Chg12-Mo.  
Forecast**5.3%**Seattle MSA  
Unemployment Rate**5.9%**U.S.  
Unemployment Rate

Source: BLS

## ECONOMY: Washington State Reopens

Washington officially reopened at the end of the second quarter of 2021, lifting most of the COVID-19 restrictions that have been in place for more than a year and bringing a mixture of relief and uncertainty to residents and businesses. Many employers now face an uphill battle to fully return to pre-pandemic conditions. The major tech firms in the Puget Sound – Amazon, Microsoft, Google, Facebook, et al – announced more flexible back-to-work guidelines in the face of employee backlash regarding remote work. Employment figures in the greater Seattle area grew to nearly two million jobs during the quarter, an increase of nearly 117,000 jobs year-over-year (YOY). The unemployment rate dropped 830 basis points (bps) YOY to 5.3%, just below the US unemployment rate of 5.9%. The labor market should continue to improve throughout the year now that Washington will again require workers collecting unemployment to look for work.

## SUPPLY AND DEMAND: Vacancy Remains High...For Now

Overall vacancy in the Puget Sound-Eastside office market was 10.7% at the end of the second quarter, up 80 bps from the 9.9% rate reported in the first quarter and up 520 bps from the 5.5% rate reported a year ago. Overall vacancy in the Bellevue CBD submarket was 11.7%, up 770 bps from the 4.0% reported in Q2 2020. Sublease vacancy totaled nearly 1.1 million square feet (msf), accounting for 3.1% of the Eastside's office inventory. Sublease vacancy has tripled in the Eastside market since mid-year 2020.

Overall absorption for the second quarter was reported at negative 400,000 square feet (sf), a relapse from the negative 251,000 sf reported a year ago. Overall absorption in the Bellevue CBD was negative 287,000 sf, down from the negative 110,000 sf reported a year ago. Absorption should improve significantly with new office construction, most of which is already fully preleased, due to enter the market during the second half of the year.

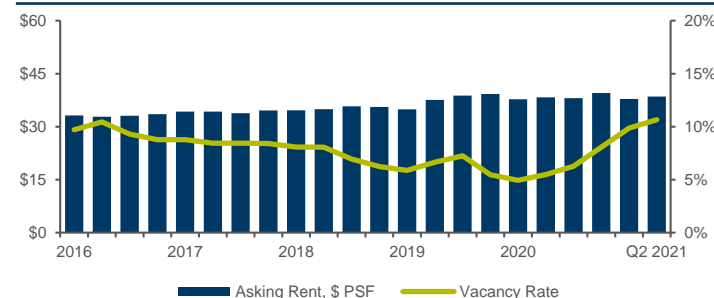
## PRICING: Rents Are On the Rise

The Puget Sound-Eastside asking rents rose somewhat YOY, with the annual gross figure finishing the second quarter at \$38.51 per square foot (psf), a 0.1% (+\$0.21) YOY increase. Class A rent in the Bellevue CBD decreased to \$52.20 psf, a YOY decline of 1.5% (-\$0.81). Prices are expected to continue rising steadily as vacancy lessens and new construction comes online.

## SPACE DEMAND / DELIVERIES



## OVERALL VACANCY & ASKING RENT



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## CONSTRUCTION: Multiple Projects Due For Delivery

The Puget Sound-Eastside office market reported no new construction completions during the second quarter. Of the 3.3 msf under construction in the Eastside, only 537,000-sf (16.1%) is available, with over 92.6% of the space being built located in the Bellevue CBD. Several projects are slated for 2021 deliveries, including the 374,000-sf Summit III project (100% preleased to Amazon) and the 246,000-sf One Esterra Park in Redmond (100% preleased to Microsoft). Microsoft is also in the middle of the expansion of its Redmond headquarters, which began in late 2020 and should be completed by the end of 2023. There are another 7.8 msf of proposed projects in the pipeline, split nearly 50/50 between the Bellevue CBD (3.8 msf) and the suburban submarkets (4.0 msf).

## LEASING ACTIVITY: Tech Reigns Supreme

Leasing activity in the Eastside exceeded first quarter figures, at nearly 1.4 msf. Big Tech continues to migrate/expand to the Eastside, with two of the largest deals in the quarter including Facebook's 327,000-sf lease at The Spring District – Block 5 in the 405 Corridor submarket and Amazon's 137,000-sf lease at Redmond Town Center – Bldg 1 (AT&T's former space) in the Redmond submarket. The Bellevue CBD submarket reported significant activity as well: Epic Games took 46,000 sf at Key Center and Chewy took 44,000 sf at One Twelfth at Twelfth – West Bldg, representing almost half of the nearly 200,000 sf of deals signed in the downtown area.

## INVESTMENT: Investors High on the Eastside

Office investment in the Eastside market improved upon the first quarter's \$361 million of sales, ending at \$411 million traded. The Eastside is on pace to match or exceed 2020's \$1.9 billion in sales. The largest deals of the quarter (by size) included Rialto Capital & SteelWave's purchase of the 201,280-sf Highlands Campus Tech Centre portfolio from Equus Capital Partners for \$53.2 million (\$264 psf) in the Bothell/Woodinville submarket and Brookfield Asset Management's purchase of The Spring District – Block 24 (all 160,734 sf is preleased to Facebook) from Wright Runstad & Shorenstein Properties for \$200 million (\$1,244 psf).

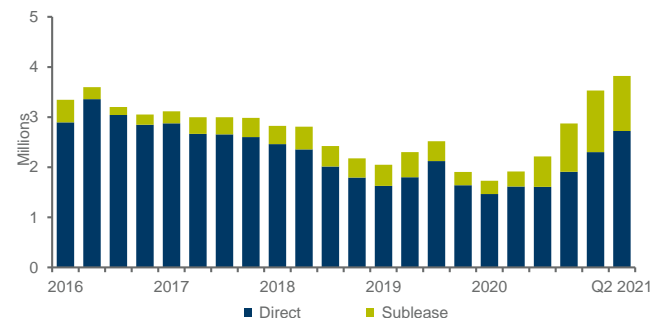
## OUTLOOK

- Now that the state has officially reopened and businesses are free to return to full capacity, the Puget Sound should ramp up its recovery from the COVID-19 pandemic. With near record-high rents and record-low vacancy in early 2020, the region was better positioned to withstand an economic shock before this recession than during the Great Financial Crisis.
- The Puget Sound-Eastside market has continued to record tech investment and leasing interest as Seattle's established tech companies search for better alternatives with strong talent outside of the Seattle metro area. Amazon, Facebook, Google, and Microsoft are all expanding throughout the Eastside.
- In the near term, sublease space is expected to increase further throughout the market as restrictions ease up. New construction with preleases in place will help absorption rise-up out of negative territory.
- Rents are forecast to rise throughout 2021 as leasing activity grows and new deliveries arrive.

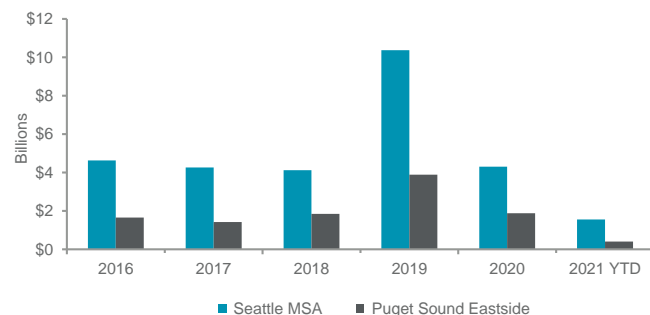
## CLASS A VACANCY AND ASKING RENT



## DIRECT VS. SUBLEASE SPACE AVAILABLE COMPARISON



## OFFICE INVESTMENT



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## MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION	YTD OVERALL ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)*	OVERALL AVG ASKING RENT (CLASS A)*
<b>BELLEVUE CBD TOTALS</b>	<b>9,556,133</b>	<b>535,182</b>	<b>578,792</b>	<b>11.7%</b>	<b>-286,626</b>	<b>-442,342</b>	<b>817,995</b>	<b>3,599,084</b>	<b>\$52.20</b>	<b>\$53.19</b>
405 Corridor	2,927,528	101,536	221,251	11.0%	2,624	99,369	516,229	0	\$40.58	\$45.56
520 Corridor	3,194,800	52,832	335,023	12.1%	-16,725	-48,855	118,477	0	\$38.58	\$46.30
I-90 Corridor	6,766,443	194,223	398,105	8.8%	41,782	-127,459	287,089	0	\$37.70	\$37.26
Bel-Red	1,161,127	20,058	97,090	10.1%	-18,296	-21,264	30,906	0	\$31.45	\$0.00
Redmond	2,683,753	34,486	218,802	9.4%	-13,506	-29,259	161,318	246,638	\$37.22	\$38.34
Kirkland	2,430,709	34,977	149,197	7.6%	-24,805	-45,364	70,614	0	\$37.18	\$51.74
Bothell / Woodinville	2,527,314	64,241	233,645	11.8%	-73,582	-86,728	302,377	0	\$32.23	\$22.00
<b>SUBURBAN TOTALS</b>	<b>21,691,674</b>	<b>502,353</b>	<b>1,653,113</b>	<b>9.9%</b>	<b>-102,508</b>	<b>-259,560</b>	<b>1,487,010</b>	<b>246,638</b>	<b>\$36.99</b>	<b>\$39.36</b>
Lynnwood	2,280,570	41,380	297,800	14.9%	-15,561	-85,851	58,831	0	\$31.80	\$34.99
Everett	2,306,690	20,580	192,194	9.2%	4,865	-4,780	51,842	0	\$24.75	\$0.00
<b>NORTHEND TOTALS</b>	<b>4,587,260</b>	<b>61,960</b>	<b>489,994</b>	<b>12.0%</b>	<b>-10,696</b>	<b>-90,631</b>	<b>110,673</b>	<b>0</b>	<b>\$28.80</b>	<b>\$34.99</b>
<b>NON-CBD TOTALS</b>	<b>26,278,934</b>	<b>564,313</b>	<b>2,143,107</b>	<b>10.3%</b>	<b>-113,204</b>	<b>-350,191</b>	<b>1,597,683</b>	<b>246,638</b>	<b>\$34.81</b>	<b>\$37.80</b>
<b>EASTSIDE TOTALS</b>	<b>35,835,067</b>	<b>1,099,495</b>	<b>2,721,899</b>	<b>10.7%</b>	<b>-399,830</b>	<b>-792,533</b>	<b>2,415,678</b>	<b>3,845,722</b>	<b>\$38.51</b>	<b>\$45.11</b>

\*Rental rates reflect full service asking

## KEY LEASE TRANSACTIONS Q2 2021

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
The Spring District – Block 5	405 Corridor	Facebook	327,000	Prelease
Redmond Town Center – Bldg 1	Redmond	Amazon	137,103	Sublease
Sunset North – Bldg IV	I-90 Corridor	Providence Health	94,722	New
Key Center	Bellevue CBD	Epic Games	45,862	New
One Twelfth at Twelfth – West Bldg	Bellevue CBD	Chewy.com	43,509	Sublease

## KEY SALES TRANSACTIONS Q2 2021

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
Highlands Campus Tech Centre [Portfolio]	Bothell/Woodinville	Equus Capital Ptrs / Rialto Capital Mgmt & SteelWave	201,280	\$53.2M/\$264
The Spring District – Block 24	405 Corridor	Wright Runstad & Shorenstein / Brookfield Asset Mgmt	160,734	\$200.0M/\$1,244
Corporate Campus East [Portfolio]	520 Corridor	Kennedy Wilson / Lake Washington Partners	134,029	\$62.0M/\$462

## KEY CONSTRUCTION COMPLETIONS YTD 2021

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER/DEVELOPER
The Spring District – Block 24	405 Corridor	Facebook	160,734	Brookfield Asset Mgmt
5501 Lakeview Bldg	Kirkland	Undisclosed	50,420	Mt. Baker Holding LLC



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