MARKETBEAT

Seattle CBD

Office Q4 2021

CUSHMAN & WAKEFIELD

	YoY Chg	12-Mo. Forecast
17.9% Vacancy Rate	▲	▲
-307k Net Absorption, SF	▼	▲
$44.49 Asking Rent, PSF	▼	▲

(Overall, All Property Classes)

ECONOMIC INDICATORS Q4 2021

	YoY Chg	12-Mo. Forecast
2.07M Seattle MSA Employment	▲	▲
4.7% Seattle MSA Unemployment Rate	▼	▼
4.2% U.S. Unemployment Rate	▼	▼

Source: BLS

ECONOMY: Labor Force Continues Recovery in Face of Covid Variants

As 2021 comes to an end, remote or hybrid remote/in-person work has continued in the face of rising cases of Covid and its Delta and Omicron variants. Most of the major employers in the Puget Sound region, including Amazon, Meta, and Google, have delayed full returns beyond Q1 2022; Apple and Microsoft, meanwhile, have indefinitely delayed reopening their offices. Employment figures in the greater Seattle area grew to nearly 2.1 million jobs during the quarter, an increase of 106,000 jobs year-over-year (YOY). The unemployment rate dropped 180 basis points (bps) YOY to 4.7%, just above the US unemployment rate of 4.2%. Despite the threat of Covid and its variants, the labor market in the Puget Sound region is nearly back to pre-pandemic levels.

SUPPLY AND DEMAND: Vacancy High, Absorption Low; Both Improving

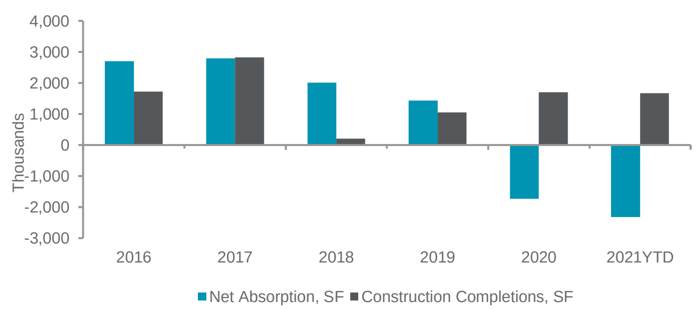
Overall vacancy in the Seattle CBD office market was reported at 17.9% to close out the year, up 110 bps from the 16.8% rate reported in the third quarter and up 650 bps from the 11.4% rate reported a year ago. Sublease vacancy dropped nearly 273,000 square feet (sf) between quarters, with a year-end total of 2.2 million square feet (msf), which accounted for 4.1% of the downtown office inventory. Sublease vacancy has fallen steadily from the peak of 2.8 msf that was reached at the start of the year. Despite the rise in leasing, it is expected that vacancy will continue increasing for the time being, as new construction comes online with no preleases in place and companies remain somewhat hesitant to take large blocks of contiguous space downtown.

Overall absorption in the Seattle CBD was reported at negative 307,000 sf in the fourth quarter, a substantial improvement from the negative 1.2 msf reported a year ago. Year-to-date (YTD) absorption closed out 2021 at negative 2.3 msf, a number that should improve by the end of next year considering the slow but steady growth in leasing activity.

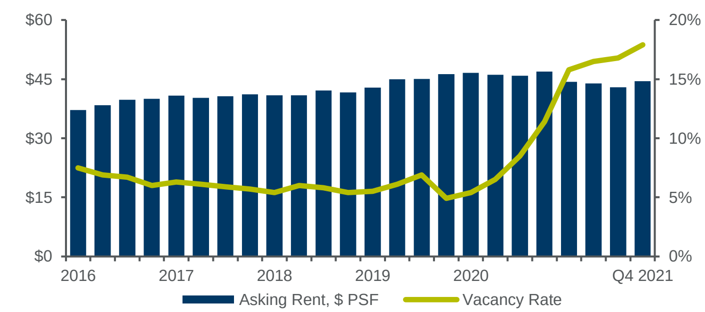
PRICING: Asking Rents See an Increase at Year's End

Seattle CBD average asking rents ended the year at $44.49 per square foot (psf) gross, a YOY decline of 5.2% (-$2.46). On a positive note, this rate ended three straight quarters of a decline in rents, with an increase of 3.6% ($1.54) from the third quarter. Class A rents closed at $48.73 psf, a YOY drop of 7.9% (-$4.16). While asking rents may not return to pre-Covid levels in the near-term, the increase will continue considering the slowdown in sublease availability and high-end Class A space still asking in the low- to mid-$50s range.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



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CONSTRUCTION: Deliveries Reach Nearly 2 MSF in 2021

The Seattle CBD office market reported one new delivery in the fourth quarter of 2021: the two-tower Dexter Yard biotech campus in the Lower Queen Anne/Lake Union submarket. The addition of the 500,000-sf project brought the YTD total to nearly 1.7 msf. Of the 741,000 sf under construction, over 394,000 sf (53%) is available for prelease. Projects set to deliver in early 2022 include the 218,000-sf 400 Westlake project (100% available) and the 322,000-sf 520 Westlake (100% preleased to Google). An estimated 8.6 msf of proposed projects are in the pipeline.

LEASING ACTIVITY: Leases Exceed 2 MSF in 2021

Leasing activity in the CBD slowed considerably from the third quarter, with 512,000 sf transacted, a little over half of what had leased the previous quarter. Most of the deals, for both the fourth quarter and the year in general, occurred in the Financial District submarket. The largest of the quarter was an undisclosed tenant leasing 46,000 sf at King Street Crossing – 505 First. Leasing activity in the downtown area reached just beyond the forecasted mark of 2.0 msf, with nearly 2.2 msf taken in 2021.

INVESTMENT: CBD Reaches $2.6 Billion in Sales in 2021

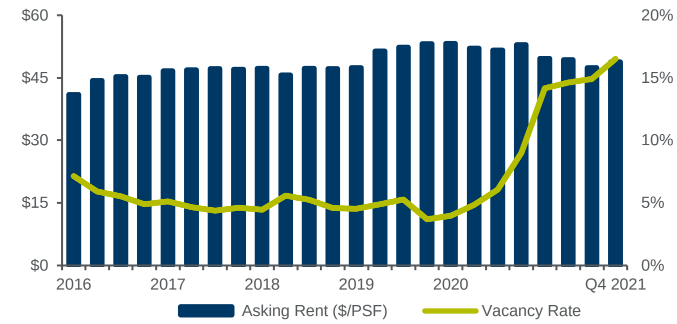
Office investment in the Seattle CBD market ended the fourth quarter at $271 million traded, declining from the $1.6 billion traded the previous quarter. With YTD figures at over $2.6 billion, the CBD surpassed 2020's $2.0 billion in sales. In the most significant deal of the quarter, Hines purchased the historic Norton Bldg – Seattle's original modern office – from Matthew G. Norton Company for $147.25 million ($597 psf) in the Financial District submarket. Hines plans to renovate the 247,000-sf building beginning in mid-2022.

Seattle MSA office investment reported $5.9 billion in sales in 2021, with $1.6 billion traded during the fourth quarter. The region had already surpassed 2020's figure of $4.3 billion at the end of the previous quarter.

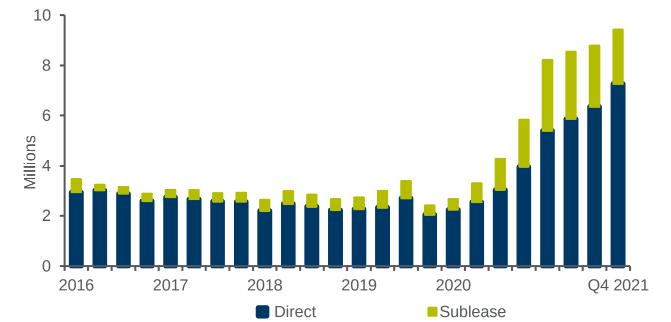
OUTLOOK

- The Puget Sound region is slowly but surely ramping up its recovery from the 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.
- Tech and biotech tenants will be instrumental in driving the rise in leasing activity.
- A further decline in available sublease space and tenants taking new construction will help push absorption out of the negative in 2022.
- Buyers remain invested in the Seattle CBD as the market has recorded an improvement from 2020's sales.

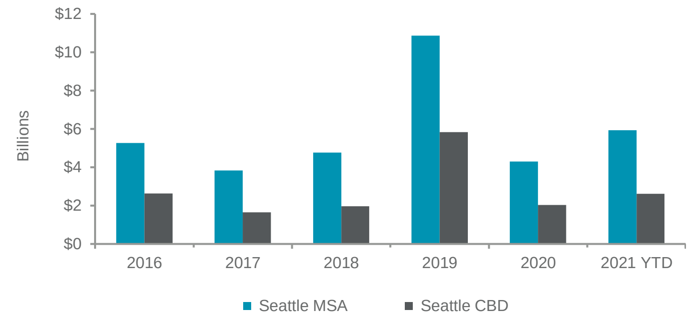
CLASS A VACANCY AND ASKING RENT



DIRECT VS. SUBLEASE VACANT SPACE 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 CONSTRUCTION (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)*	OVERALL AVG ASKING RENT (CLASS A)*
Financial District	23,808,092	1,520,604	3,547,794	21.3%	-98,282	-1,064,528	1,257,763	0	$44.99	$47.78
Denny Regrade	9,587,787	266,706	1,185,440	15.1%	-44,003	-457,493	291,818	0	$44.04	$54.87
Pioneer Square / International District	4,717,167	126,837	1,041,901	24.8%	-183,921	-672,205	254,528	136,157	$44.71	$50.25
Lower Queen Anne / Lake Union	14,653,344	252,830	1,485,902	11.9%	19,389	-124,749	391,466	605,269	$43.50	$47.84
SEATTLE CBD TOTALS	**52,766,390**	**2,166,977**	**7,261,037**	**17.9%**	**-306,817**	**-2,318,975**	**2,195,575**	**741,426**	**$44.49**	**$48.73**

*Rental rates reflect full service asking

KEY LEASE TRANSACTIONS YTD 2021

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
800 Fifth	Financial District	Attorney General	133,400	Renewal**
Russell Investments Center	Financial District	Convoy	123,469	Sublease
1150 Eastlake	Lower Queen Anne / Lake Union	Umoja BioPharma	99,271	Prelease
Madison Centre	Financial District	Stripe	66,000	Expansion
West 8th	Denny Regrade	Casey Family Programs	66,000	Renewal**
Qualtrics Tower at 2+U	Financial District	Bungie	60,480	Sublease

**Renewals are not included in statistics

KEY SALES TRANSACTIONS YTD 2021

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / $PSF
Safeco Plaza	Financial District	GLL & Vestas / Boston Properties et. al.	810,493	$465M/$574
300 Pine	Financial District	Urban Renaissance & KKR / Starwood Capital	770,000	$580M/$753
West 8th	Denny Regrade	DWS / Kilroy Realty	539,000	$490M/$909
2601 Elliott Ave	Denny Regrade	JPMorgan Chase / Shorenstein Properties LLC	345,000	$126M/$365

KEY CONSTRUCTION COMPLETIONS YTD 2021

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER / DEVELOPER
Rainier Square	Financial District	n/a	722,416	Wright Runstad
Dexter Yard	Lower Queen Anne / Lake Union	n/a	499,803	BioMed Realty
Amazon – Block 18***	Denny Regrade	Amazon	388,000	Amazon

***Owner/User Bldgs are not included in statistics

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OFFICE SUBMARKETS

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