

Puget Sound-Eastside

Office Q1 2022



CUSHMAN & WAKEFIELD

YoY Chg 12-Mo. Forecast

9.0%

Vacancy Rate

**550K**

Net Absorption, SF

**\$41.99**

Asking Rent, PSF



(Overall, All Property Classes)

ECONOMIC INDICATORS Q1 2022

YoY Chg 12-Mo. Forecast

2.07MSeattle MSA
Employment**3.9%**Seattle MSA
Unemployment Rate**3.6%**U.S.
Unemployment Rate

Source: BLS

ECONOMY: Labor Force Nearing Full Recovery Heading Into 2022

Entering the third year of the Covid pandemic, employers in the Puget Sound region have continued to face challenges enticing workers back to the office. Employees and job candidates have found themselves with a huge amount of leverage in negotiating for continued remote or hybrid remote/in-person work. Employment in the greater Seattle area reached nearly 2.1 million jobs during the first quarter of 2022, a rise of 106,300 jobs year-over-year (YOY). The unemployment rate dropped 180 basis points (bps) YOY to 3.9%, slightly above the US unemployment rate of 3.6%. With all this in mind, the labor market in the Puget Sound region is seemingly back to pre-pandemic levels.

SUPPLY AND DEMAND: Vacancy and Absorption on the Upswing

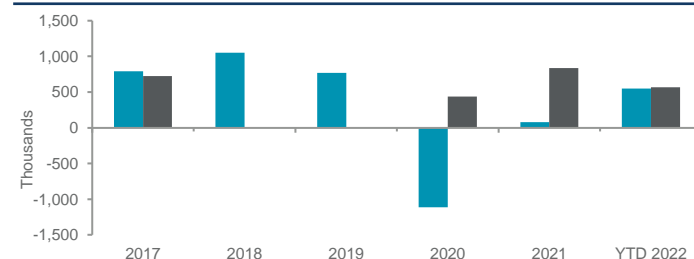
Overall vacancy in the Puget Sound-Eastside office market opened the year at 9.0%, down 20 bps from the 9.2% rate reported in the fourth quarter of 2021 and down 90 bps from the 9.9% rate reported a year ago. Overall vacancy in the Bellevue CBD submarket was 9.2%, up 30 bps from the 8.9% reported at the start of 2021. Sublease vacancy totaled nearly 516,000 square feet (sf), accounting for 1.4% of the Eastside's office inventory. Sublease vacancy has dropped 58% in the Eastside in a year's time. The downward trajectory in overall vacancy is expected to continue with the increase in leasing activity and absorption.

Overall absorption for the Eastside in the first quarter was reported at positive 550,000 sf, a vast improvement from the negative 551,000 sf reported a year ago; the Bellevue CBD accounted for positive 456,000 sf of the current figure. Fully preleased new construction was a major factor for the turnaround in absorption. The expected delivery of 2.2 million square feet (msf) in the first half of 2022 will further keep absorption in the black.

PRICING: Rents Still On the Rise Thanks To Tech

The Puget Sound-Eastside office market reported average annual gross rental rates of \$41.99 per square foot (psf), a 7.5% (+\$2.94) YOY increase. Class A rent in the Bellevue CBD rose to \$56.09 psf, up 6.9% (+\$3.62) YOY. Prices are projected to keep rising as vacancy declines, new projects deliver, and the tech industry continues its growth in the Eastside. Even with its higher rents, Bellevue has been attracting tech tenants from Seattle due mainly to its lower crime rate and business-friendly politics.

SPACE DEMAND / DELIVERIES



■ Net Absorption, SF ■ Construction Completions, SF

OVERALL VACANCY & ASKING RENT



■ Asking Rent, \$ PSF — Vacancy Rate

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CONSTRUCTION: The Eastside Adds 565,000 SF to Start 2022

The Puget Sound-Eastside office market added 565,000 sf to its inventory with the delivery of 1001 Office Towers in the Bellevue CBD submarket, a two-tower office project preleased to Amazon. Of the 3.5 msf under construction, only 595,000 sf (17.0%) is available. Approximately 75.9% of the space being built is in the Bellevue CBD submarket. Nearly 15.8 msf of proposed projects are in the pipeline, with 9.6 msf in the CBD.

LEASING ACTIVITY: The Eastside Leases 540,000 SF in Q1

Leasing activity in the Eastside has slowed the past three quarters. Following 1.1 msf in Q3 2021 and 725,000 sf a quarter ago, the Eastside reported nearly 540,000 sf leased in the first quarter of 2022. Despite the lapse, the Eastside is expected to increase in deal activity in tandem with the continued decrease in vacancy.

The largest deal of the quarter was Snapchat's new lease of nearly 77,000 sf at Mid Station (formerly 110 Atrium) in the Bellevue CBD submarket. Other notable deals include ProbablyMonster's sublease at Sunset North – Bldg IV in the I-90 Corridor submarket; Pokémon's 53,000-sf expansion at Lincoln Square – North Tower in the Bellevue CBD submarket; and Artica's 26,000-sf new lease at 929 Office Tower, also in the Bellevue CBD submarket.

INVESTMENT: Eastside Investment Sales Down YOY

Office investment in the Eastside market ended the first quarter with \$278.9 million in sales, a significant decrease from the \$723.5 million that traded a year ago. In the most noteworthy deal of the quarter, Alexandria Real Estate bought Canyon Pointe, located in the Bothell/Woodinville submarket, from TPG Real Estate for \$72.5 million (\$401 psf). The two-building campus totals 181,000 sf and was fully leased to T-Mobile at the time of sale.

Seattle MSA office investment reported \$1.4 billion in sales in the first quarter, double the \$737.9 million transacted a year ago.

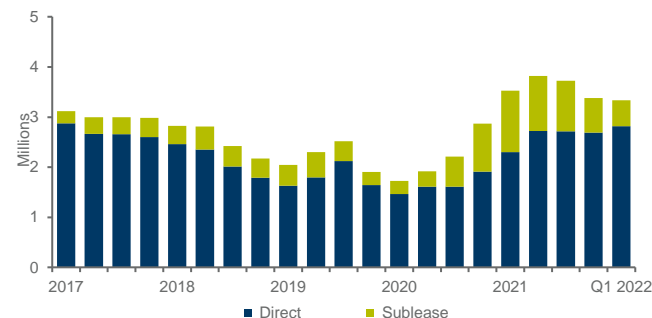
OUTLOOK

- The Puget Sound region is nearing a full 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.
- The Puget Sound-Eastside market has continued to record tech investment and leasing interest as Seattle's established tech companies search for better alternatives. Amazon, Meta, Google, and Microsoft are all expanding throughout the Eastside.
- New construction with preleases in place will help keep absorption out of negative territory.
- Rents are forecasted to stay on the rise heading into the second quarter with the continued growth in leasing activity and new construction.
- The opening of the Eastside link light rail in 2023 will help boost this tech hub further.

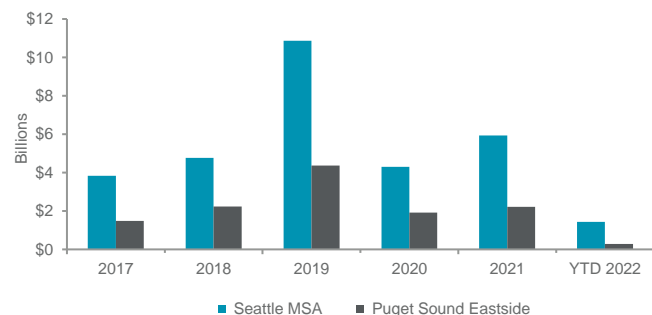
CLASS A VACANCY AND ASKING RENT



DIRECT VS. SUBLEASE SPACE AVAILABLE COMPARISON



OFFICE INVESTMENT



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MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	DIRECT VACANT (SF)	SUBLET 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)*
BELLEVUE CBD TOTALS	10,495,646	681,999	282,657	9.2%	456,107	456,107	165,652	2,659,571	\$55.51	\$56.09
405 Corridor	2,933,322	188,392	13,398	6.9%	26,060	26,060	72,858	649,367	\$39.38	\$54.38
520 Corridor	3,188,167	245,970	56,844	9.5%	25,734	25,734	59,210	0	\$38.04	\$41.73
I-90 Corridor	7,056,247	584,057	89,849	9.6%	-11,175	-11,175	123,536	0	\$40.43	\$39.23
Bel-Red	1,189,355	83,430	5,596	7.5%	5,181	5,181	7,634	0	\$32.23	N/A
Redmond	2,930,391	202,837	25,175	7.8%	15,851	15,851	22,962	0	\$37.72	\$38.38
Kirkland	2,436,209	192,296	20,227	8.7%	-15,143	-15,143	8,840	194,110	\$42.60	\$59.23
Bothell / Woodinville	2,484,168	209,729	5,200	8.7%	40,930	40,930	11,900	0	\$32.95	\$32.20
SUBURBAN TOTALS	22,217,859	1,706,711	216,289	8.7%	87,438	87,438	306,940	843,477	\$38.72	\$41.72
Lynnwood	2,280,570	256,978	0	11.3%	-5,406	-5,406	42,253	0	\$33.84	\$35.81
Everett	2,171,181	172,175	16,997	8.7%	12,004	12,004	24,875	0	\$25.38	N/A
NORTHEND TOTALS	4,451,751	429,153	16,997	10.0%	6,598	6,598	67,128	0	\$30.35	\$35.81
NON-CBD TOTALS	26,669,610	2,135,864	233,286	8.9%	94,036	94,036	374,068	843,477	\$36.87	\$39.61
EASTSIDE TOTALS	37,165,256	2,817,863	515,943	9.0%	550,143	550,143	539,720	3,503,048	\$41.99	\$48.78

*Rental rates reflect full service asking

KEY LEASE TRANSACTIONS Q1 2022

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
Mid Station (fmrly 110 Atrium)	Bellevue CBD	Snapchat	76,847	New
Sunset North – Bldg IV	I-90 Corridor	ProbablyMonsters	57,911	Sublease
Lincoln Square – North Tower	Bellevue CBD	Pokémon	53,109	Expansion
929 Office Tower	Bellevue CBD	Artica	26,077	New
Bellevue Pacific Center	I-90 Corridor	Samsung	23,282	New

KEY SALES TRANSACTIONS Q1 2022

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
Canyon Pointe [Portfolio]	Bothell/Woodinville	TPG Real Estate / Alexandria Real Estate	181,008	\$72.5M/\$401
Bel Spring Office Park [Portfolio]	520 Corridor	Swift Real Estate Partners / American Assets Trust	91,048	\$45.4M/\$500

KEY CONSTRUCTION COMPLETIONS YTD 2022

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER/DEVELOPER
1001 Office Towers	Bellevue CBD	Amazon	565,293	Trammell Crow

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