

# Puget Sound-Eastside

Office Q2 2022



CUSHMAN &amp; WAKEFIELD

**8.4%**

Vacancy Rate

YoY  
Chg12-Mo.  
Forecast**109K**

Net Absorption, SF

**\$42.39**

Asking Rent, PSF



(Overall, All Property Classes)

## ECONOMIC INDICATORS Q2 2022

**2.09M**Seattle MSA  
EmploymentYoY  
Chg12-Mo.  
Forecast**3.2%**Seattle MSA  
Unemployment Rate**3.6%**U.S.  
Unemployment Rate

Source: BLS

## ECONOMY: Labor Force Nearing Full Recovery In 2022

Entering the midyear point of 2022, most office employers in the Seattle metro area continued remote or hybrid remote/in-person work, due to threats of Covid-19 variants, rising gas prices, and the risk of high turnover (especially in the tech sector). Employment in the greater Seattle area reached nearly 2.1 million jobs during the second quarter of 2022, a rise of 103,200 jobs year-over-year (YOY). The unemployment rate dropped 190 basis points (bps) YOY to 3.2%, just below the US unemployment rate of 3.6%. With all this in mind, the labor market in the Puget Sound region has seemingly returned to pre-pandemic levels.

## SUPPLY AND DEMAND: Vacancy and Absorption Both Improving YOY

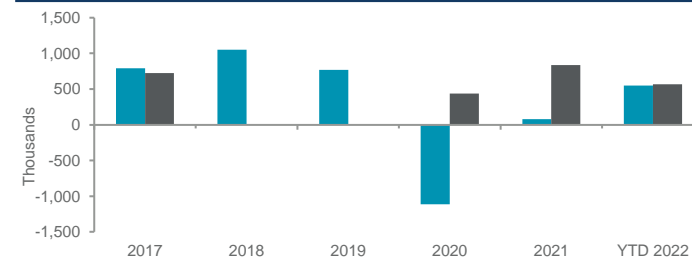
Overall vacancy in the Puget Sound-Eastside office market dropped to 8.4% at mid-year 2022, down 60 bps from the 9.0% rate reported in the first quarter and down 230 bps from the 10.7% rate reported a year ago. Overall vacancy in the Bellevue CBD submarket was 8.2%, down 350 bps from the 11.7% reported at mid-year 2021. Sublease vacancy totaled nearly 453,000 square feet (sf), accounting for 1.2% of the Eastside's office inventory. Sublease vacancy has plummeted 143% in the Eastside in a year's time. The drop in overall vacancy is expected to continue with the increase in leasing activity and absorption.

Overall absorption for the Eastside in the second quarter was reported at positive 109,000 sf, well above the negative 400,000 sf reported a year ago; the Bellevue CBD accounted for positive 29,000 sf of the current figure. Fully preleased new construction has been a major factor for the improvement in absorption. The expected delivery of 1.1 million square feet (msf) of fully leased space by the end of the year will further keep absorption in the black.

## PRICING: CBD Rents Highest in Region; Suburban Rents Also High Overall

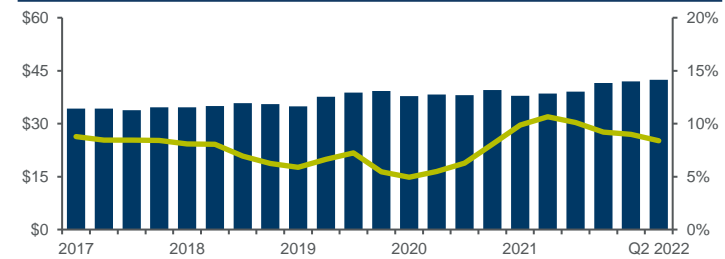
The Puget Sound-Eastside office market reported average annual gross rental rates of \$42.39 per square foot (psf), a 10.1% (+\$3.89) YOY increase. Class A rent in the Bellevue CBD submarket rose to \$60.15 psf, up 13.1% (+\$6.96) YOY. Class A rents in the suburban submarkets are averaging above the \$40 mark. Average rents are expected to keep increasing as vacancy declines, new projects deliver, and the tech industry continues its growth in the Eastside. Despite its higher rents, Bellevue has been attracting tech tenants from Seattle due mainly to its lower crime rate and business-friendly environment.

## 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 Forecasted to Add 1.6 MSF in 2022

The 565,000-sf Binary Towers project was the sole addition to the Eastside office inventory in the first half of 2022, as no projects were delivered in the second quarter. Nearly 1.1 msf of new inventory is expected by the end of the year. Due to Amazon, Meta, and Google having preleases in place, only 595,000 sf (17.0%) of the 3.5 msf under construction is available. Approximately 75.9% of the space being built is in the Bellevue CBD submarket. Nearly 14.1 msf of proposed projects are in the pipeline, with 10.3 msf in the CBD.

## LEASING ACTIVITY: The Eastside Leases 1.1 MSF at Mid-Year

Leasing activity in the Eastside reached 1.1 msf at mid-year 2022, with over 435,000 sf leased in the second quarter. The largest deal of the quarter was the Electronic Arts sublease of nearly 53,000 sf at Lakeview Bldg in the Kirkland submarket. Other notable deals include Egencia's 46,000-sf deal at Mid Station and Nokia's 32,000-sf renewal at One Twelfth at Twelfth – South Bldg, both in the Bellevue CBD submarket.

## INVESTMENT: Eastside Investment Sales Down YOY

Office investment in the Eastside market ended the second quarter with \$7.9 million in sales, a significant decrease from the \$529.0 million that traded a year ago. The only transaction tracked this quarter (based on a minimum of 20,000 sf) was the sale of the Greenwich Bldg office condo in the Everett submarket, which sold from Devon Group LLC to Spring Hill Tract LLC for \$7.9 million (\$249 psf). The 32,000-sf property was fully occupied at the time of the sale and sold at a 6.3% cap rate.

Seattle MSA office investment reported nearly \$3 billion in sales in the first half of 2022, up from the \$2.1 billion traded in the first half of 2021.

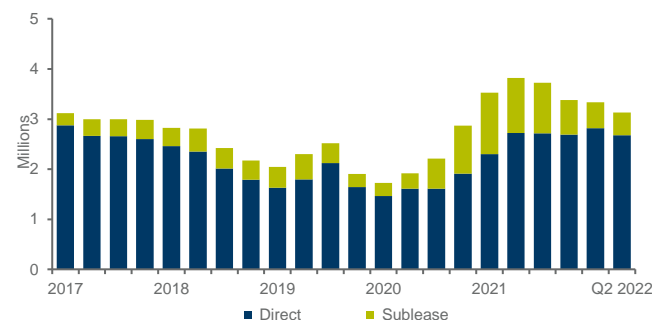
## OUTLOOK

- 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 half 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.

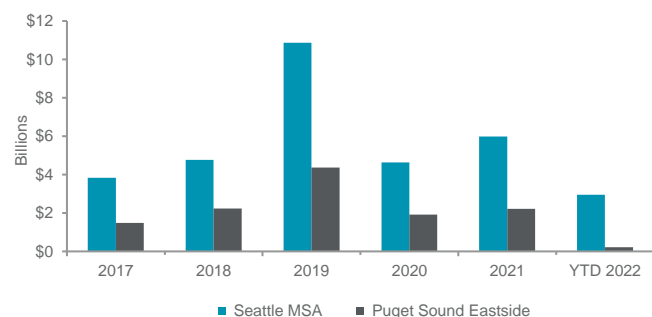
## CLASS A VACANCY AND ASKING RENT



## 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)*
<b>BELLEVUE CBD TOTALS</b>	<b>10,495,646</b>	<b>650,257</b>	<b>209,682</b>	<b>8.2%</b>	<b>28,682</b>	<b>548,858</b>	<b>374,258</b>	<b>2,659,571</b>	<b>\$58.85</b>	<b>\$60.15</b>
405 Corridor	2,933,322	142,870	22,674	5.6%	31,341	56,671	129,310	649,367	\$41.91	\$54.47
520 Corridor	3,188,167	245,536	57,652	9.5%	-17,746	10,255	92,031	0	\$38.29	\$42.87
I-90 Corridor	7,064,547	652,395	94,080	10.6%	-76,104	-86,876	190,741	0	\$41.31	\$40.89
Bel-Red	1,192,865	84,330	6,553	7.6%	-2,815	2,366	18,136	0	\$32.73	\$0.00
Redmond	2,930,391	83,117	14,550	3.3%	130,871	146,722	37,954	0	\$38.10	\$39.75
Kirkland	2,436,209	192,451	4,483	8.1%	15,792	649	88,044	194,110	\$44.04	\$58.84
Bothell / Woodinville	2,484,168	200,234	5,200	8.3%	9,495	50,425	42,667	0	\$33.28	\$32.20
<b>SUBURBAN TOTALS</b>	<b>22,229,669</b>	<b>1,600,933</b>	<b>205,192</b>	<b>8.1%</b>	<b>90,834</b>	<b>180,212</b>	<b>598,883</b>	<b>843,477</b>	<b>\$39.67</b>	<b>\$43.39</b>
Lynnwood	2,228,687	264,996	0	11.9%	2,856	-15,465	108,661	0	\$34.12	\$35.83
Everett	2,171,181	164,210	37,997	9.3%	-13,035	-1,031	45,590	0	\$25.55	\$0.00
<b>NORTHEND TOTALS</b>	<b>4,399,868</b>	<b>429,206</b>	<b>37,997</b>	<b>10.6%</b>	<b>-10,179</b>	<b>-16,496</b>	<b>154,251</b>	<b>0</b>	<b>\$30.49</b>	<b>\$35.83</b>
<b>NON-CBD TOTALS</b>	<b>26,629,537</b>	<b>2,030,139</b>	<b>243,189</b>	<b>8.5%</b>	<b>80,655</b>	<b>163,716</b>	<b>753,134</b>	<b>843,477</b>	<b>\$37.80</b>	<b>\$41.14</b>
<b>EASTSIDE TOTALS</b>	<b>37,125,183</b>	<b>2,680,396</b>	<b>452,871</b>	<b>8.4%</b>	<b>109,337</b>	<b>712,574</b>	<b>1,127,392</b>	<b>3,503,048</b>	<b>\$42.39</b>	<b>\$49.64</b>

\*Rental rates reflect full service asking

## KEY LEASE TRANSACTIONS Q2 2022

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
Lakeview Bldg	Kirkland	Electronic Arts	52,857	Sublease
Mid Station	Bellevue CBD	Egencia	46,448	New
One Twelfth at Twelfth – South Bldg	Bellevue CBD	Nokia	32,173	Renewal**
Northview Center	Lynnwood	Orbis	19,161	New

\*\*Renewals are not included in statistics

## KEY SALES TRANSACTIONS Q2 2022

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
The Greenwich Bldg (Office Condo)	Everett	Devon Group LLC / Spring Hill Tract LLC	31,907	\$7.9M/\$249

## KEY CONSTRUCTION COMPLETIONS YTD 2022

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



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