

FIGURES | PUGET SOUND OFFICE | Q3 2024

# Rate cuts and mandates foreshadow positive outlook

▲ 26.4%

Vacancy Rate

▲ 29.6%

Availability Rate

▲ (66,238)

SF Net Absorption

▼ 859K

SF Under Construction

▼ \$49.64

Class A Direct Asking Lease Rate  
SF/Year, Full Service

Note: Arrows indicate change from previous quarter.

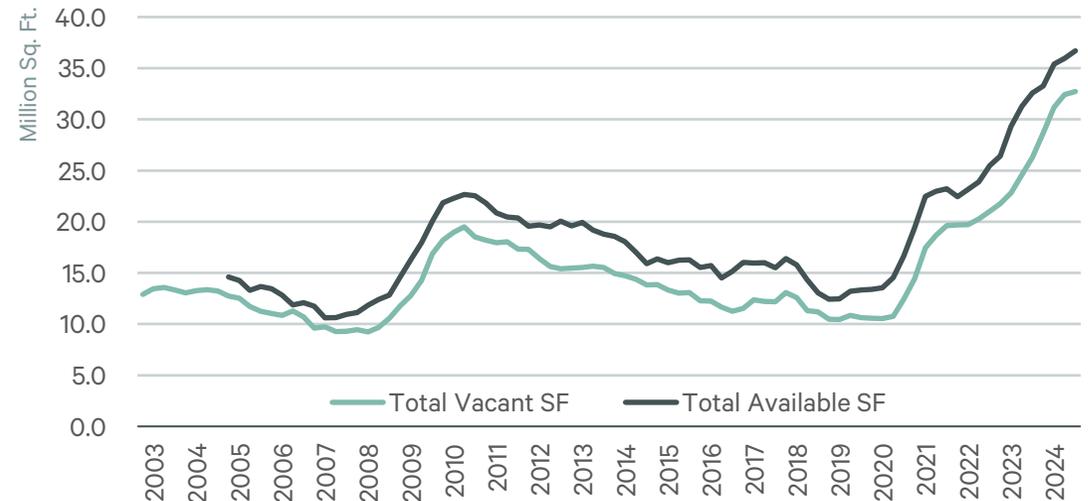
Two events happened during Q3 2024 that significantly improved the outlook for commercial real estate. First, the Federal Reserve cut the Federal Funds Rate by 0.50%. This will allow banks and other lenders to reduce the cost of borrowing, though the effect will take time to flow through the marketplace. Likely more important to Seattle is Amazon’s decision to require a five-day in-office work week beginning January 2025. Downtown Seattle and Bellevue are vibrant with foot traffic, and the return of more workers will enhance amenities available to everyone in the urban cores. The Downtown Seattle Association reports a steady increase in workers Downtown (data source: Placer.ai), registering a 6% annual increase in August 2024 to nearly 90,000 workers per weekday.

Despite optimism regarding future return to the office, net absorption in Q3 was negative. Contractions by both technology and traditional office users downtown were balanced by expansions on the Eastside and the Seattle Close-In markets. Asking rents held steady at \$49.64 per square foot (sq. ft.) for Class A space.

## Downtown Seattle

While Downtown Seattle has not likely bottomed out yet in terms of vacancy, improvements in other fundamentals may push demand for office space. In conjunction with Amazon’s newly

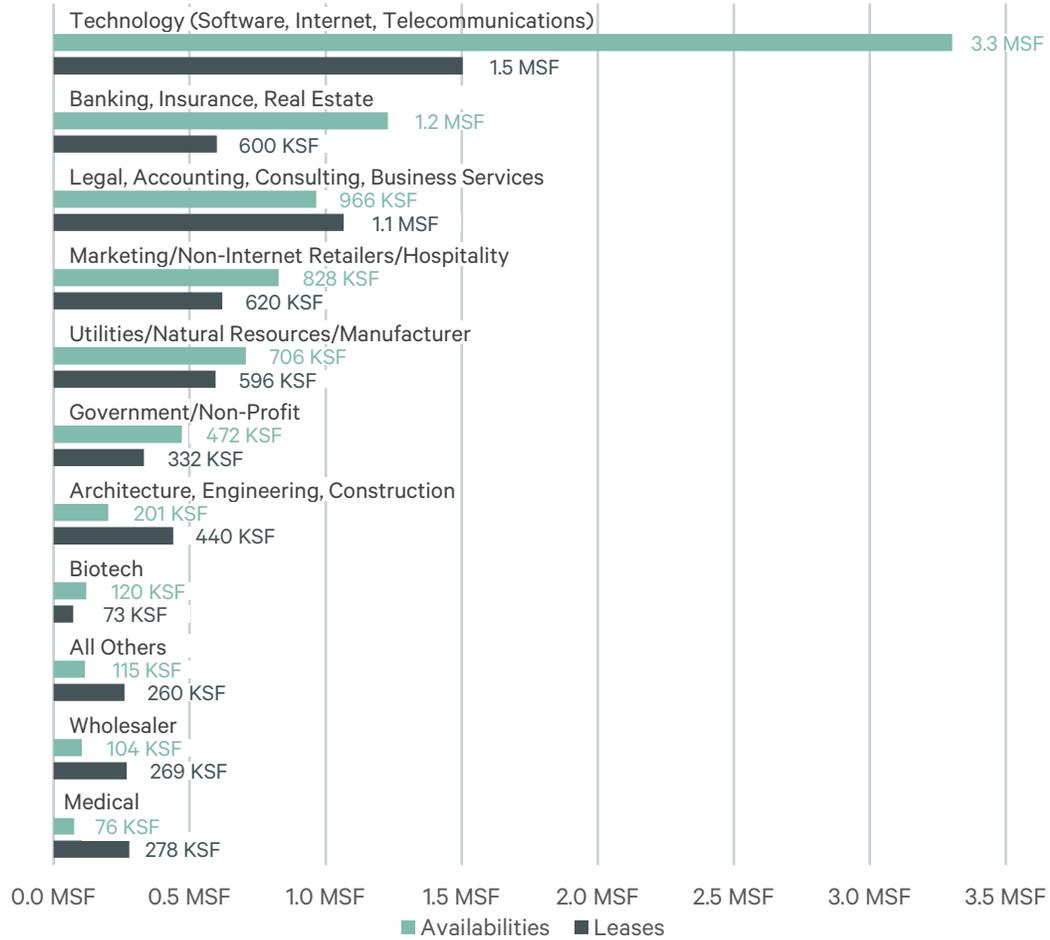
FIGURE 1: Historic Vacancy and Availability



Vacant space is vacant and marketed or newly leased, but not yet occupied. Available space is marketed but may or may not be vacant. Both measures include sublease space.

Source: CBRE Research, Q3 2024

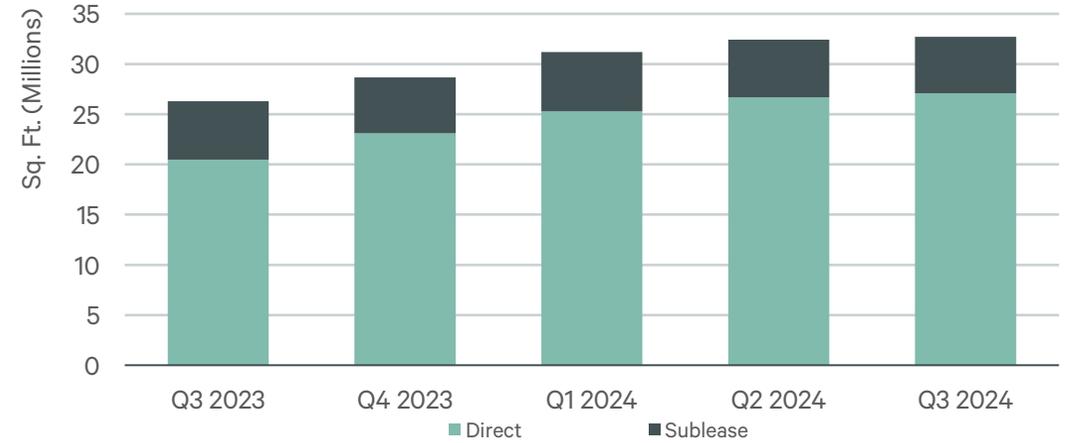
FIGURE 2: Puget Sound Activity by Business Sector, Previous 12 Months (Available Space versus Leased Space)



Available Space is space that is advertised, but not necessarily vacant, by an outgoing tenant in the respective business sector. This analysis excludes first-generation space.  
 Leased Space is space that was signed by a tenant in the respective business sector.

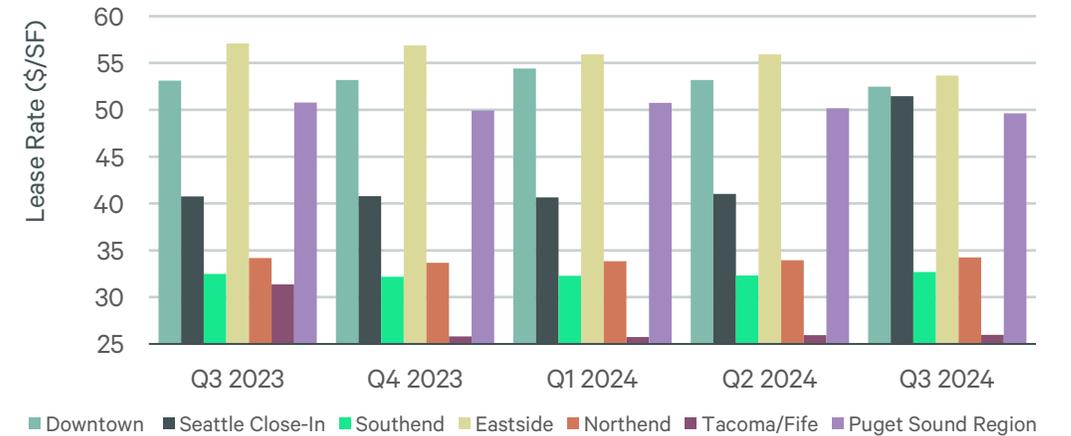
Source: CBRE Research, Q3 2024

FIGURE 3: Puget Sound Vacancy



Source: CBRE Research, Q3 2024

FIGURE 4: Asking Lease Rate, Class A, Full Service per Year



Source: CBRE Research, Q3 2024

announced in-office mandate, the City of Seattle has implemented additional supervision over certain zones in the central business district. The new laws aim to provide a safer environment, a main concern for returning office employees.

Leasing velocity remained subdued, although more tenants are active this quarter compared to Q2; Downtown Seattle saw 643,000 sq. ft. more in requirements, a 35% increase.

This quarter, Amazon let their lease at 1800 Ninth expire, putting 209,000 sq. ft. back on the market. At Madison Centre, Assurance IQ vacated 44,800 sq. ft., and Davis Wright Tremaine vacated 22,300 sq. ft., Knotel left the Seattle market entirely, leaving behind 37,800 sq. ft. of vacant space at the former Federal Reserve Building. All of this contributed to 562,423 sq. ft. of negative net absorption this quarter.

Notable new leases included a confidential technology tenant leasing 27,900 sq. ft. at Fremont Lake Union Center – Plaza Building; Holland America Line moving back into a 21,800 sq. ft. floor at Third & Harrison; Pinterest leased 21,500 sq. ft. at Metropolitan Park East; and new-to-market General Consulate of India signed for 20,800 sq. ft. at the Federal Reserve Building.

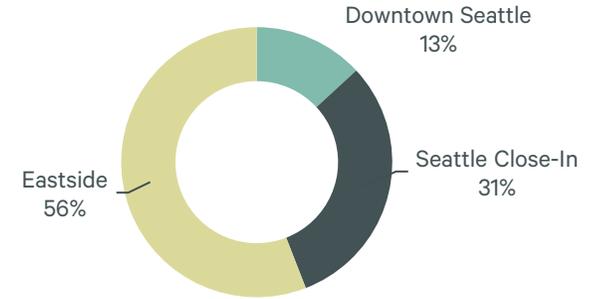
Compared to the previous quarter, the Class A direct asking rate decreased by \$0.70 to \$52.49 per sq. ft., per year, full service.

FIGURE 5: Puget Sound Absorption and Construction



Source: CBRE Research, Q3 2024

FIGURE 6: Square Feet Under Construction, Percent by Market



Source: CBRE Research, Q3 2024

FIGURE 7: Key Transactions

Tenant	Transaction Type	Sq. Ft.	Building	Market	Business Sector	Occupancy Change
Clark Nuber	New Lease	49,064	City Center Plaza	Eastside	Accounting	Positive
Ai2	New Lease	48,900	Northlake Commons	Seattle Close-In	Technology	Positive
HDR Engineering	New Lease	41,940	City Center Plaza	Eastside	Engineering	Neutral
Sono Bello	New Lease	31,016	Corporate Campus East C	Eastside	Medical	Positive
Confidential Tenant	New Lease	27,914	Fremont Lake Union - Plaza	Downtown Seattle	Technology	Positive
Yellow Wood Academy	New Lease	23,608	Cascade Yard B	Eastside	Education	Positive
Holland America Line	Expansion	21,840	Third & Harrison	Downtown Seattle	Travel/Hospitality	Positive

Source: CBRE Research, Q3 2024

## Eastside

In Q3, the Eastside office market saw an 80 basis point (bps) dip in vacancy quarter-over-quarter to 22.3% and positive net absorption of 311,376 sq. ft., predominantly driven by Riot Games and ByteDance. Riot Games relocated to 156,000 sq. ft. at Mercer Park, while ByteDance moved into 133,000 sq. ft. at Lincoln Square North. Meta vacated their 62,000 sq. ft. space at Willow Creek Corporate Center, while Nintex's relocation from US Bank Plaza to 13,058 sq. ft. in One Bellevue Center led to a 2,000 sq. ft. in their footprint.

Signs of stabilization are becoming apparent in the overall availability of space, with a minor decrease noticed on a quarter-over-quarter basis. Sublease availability, however, saw an uptick, increasing by approximately 187,000 sq. ft., primarily due to new sublease space introduced at 929 Office Tower and Willow Creek.

Lease deals in the Eastside region averaged 7,500 sq. ft., with premium Class A transactions in Bellevue's Central Business District (CBD) driving leasing momentum. Significant leases this quarter Clark Nuber securing roughly 49,000 sq. ft. and HDR Engineering locking up 42,000 sq. ft. of new space, both at City Center Plaza.

The Class A direct asking rate decreased quarter-over-quarter from \$55.92 to \$53.66 per sq. ft., per year, full service.

## Northend

In Q3, the Northend office market saw positive absorption of 26,679 sq. ft., compared to 17,171 sq. ft. last quarter and 4,003 sq. ft. of negative net absorption in the same period last year. This increase in absorption was led by the Latino Educational Training Institute's relocation to Everett Business Park. The largest new lease this quarter was the State of Washington signing for 14,416 sq. ft. at Quad I-5 Corporate Park A in Everett. The vacancy rate in the Northend decreased by 160 bps year-over-year to 17.0%, significantly lower than the overall market's vacancy

FIGURE 8A: Statistics by Submarket

Submarket	Net Rentable Area (SF)	Direct Vacancy Rate (%)	Total Vacancy Rate (%)	Total Availability Rate (%)	Q3 2024 Net Absorption (SF)	Last Four Qtrs Net Absorption (SF)	Under Construction (SF)	Direct Class A Avg. Asking Rent, Gross (\$/SF/Yr)	Total Class A Avg. Asking Rent, Gross (\$/SF/Yr)
Seattle CBD	24,221,834	27.4%	34.7%	38.0%	(251,931)	(707,759)	0	51.38	47.76
Waterfront	2,621,425	37.4%	41.8%	47.2%	(28,835)	(421,010)	0	51.12	51.13
Pioneer Square	4,719,771	35.9%	39.9%	44.8%	(2,477)	(257,438)	0	53.64	53.32
Denny Triangle/Regrade	8,639,351	35.2%	36.9%	42.5%	(179,720)	(269,358)	0	55.52	54.96
Lower Queen Anne	2,966,560	35.4%	39.2%	41.0%	(47,681)	(235,557)	0	41.40	39.78
Lake Union	10,343,706	12.9%	15.3%	15.8%	(6,745)	(97,011)	0	55.56	55.11
Canal/Fremont	1,994,129	9.8%	23.7%	26.2%	(45,034)	(262,560)	112,700	45.77	45.77
<b>Downtown Seattle</b>	<b>55,506,776</b>	<b>26.9%</b>	<b>32.1%</b>	<b>35.3%</b>	<b>(562,423)</b>	<b>(2,250,693)</b>	<b>112,700</b>	<b>52.49</b>	<b>50.03</b>
North Seattle/Interbay	2,964,410	21.2%	23.3%	30.3%	33,632	21,332	266,000	54.45	53.76
Capitol Hill/East Seattle/Rainier Valley	1,154,402	12.7%	12.7%	15.3%	61,879	15,330	0	31.55	31.55
South/West Seattle	3,406,647	10.4%	16.8%	20.6%	91,335	75,904	0	44.47	42.37
<b>Seattle Close-In</b>	<b>7,525,459</b>	<b>15.0%</b>	<b>18.8%</b>	<b>23.6%</b>	<b>186,846</b>	<b>112,566</b>	<b>266,000</b>	<b>51.46</b>	<b>50.50</b>
Sea-Tac	1,301,072	8.1%	8.1%	9.2%	18,146	(14,681)	0	32.35	32.35
Tukwila	2,078,892	14.6%	16.0%	14.3%	2,382	(5,588)	0	25.59	24.56
Renton	4,749,044	29.4%	29.7%	30.0%	(36,477)	21,242	0	37.66	37.39
Kent	1,161,442	12.4%	13.8%	18.1%	(23,687)	(62,945)	0	31.74	31.57
Auburn	289,025	11.8%	11.8%	11.8%	6,559	(3,110)	0	26.85	26.85
Federal Way	2,732,820	25.4%	25.9%	26.8%	(16,982)	(16,767)	0	24.70	24.72
<b>Southend</b>	<b>12,312,295</b>	<b>21.7%</b>	<b>22.3%</b>	<b>22.9%</b>	<b>(50,059)</b>	<b>(81,849)</b>	<b>0</b>	<b>32.68</b>	<b>32.23</b>

Source: CBRE Research, Q3 2024

rate of 26.4%. Availability, on the other hand, remained stable at 19.4%. The Class A direct asking rate increased year-over-year from \$33.92 to \$34.24 per sq. ft., per year, full service.

### Southend

The Southend experienced 50,059 sq. ft. of negative absorption this quarter. Notable moves included Bell Anderson vacating 10,460 sq. ft in Renton's Time Square - Building Two and DB Schenker vacating 8,800 sq. ft in Kent's Creekside @ Centerpoint – Building Three. Numerous smaller deals were also completed. The Class A asking rent remained stable at \$32.68 per sq. ft. per year, full service, while the vacancy rate increased 270 bps year-over-year to 22.3%.

### Tacoma

Tacoma experienced a strong rebound this quarter, achieving positive absorption of 21,343 sq. ft. This trend was driven by TriWest Healthcare Alliance occupying 7,659 sq. ft. and Propel Insurance occupying 8,167 sq. ft. at 1201 Pacific in the Tacoma CBD. Despite this quarterly improvement, vacancy increased 340 basis points year-over-year, to 25.7%, and year-to-date net absorption lags the previous two years. The class A rate remained stable at \$25.97 per sq. ft. per year, full service.

### Investment Sales

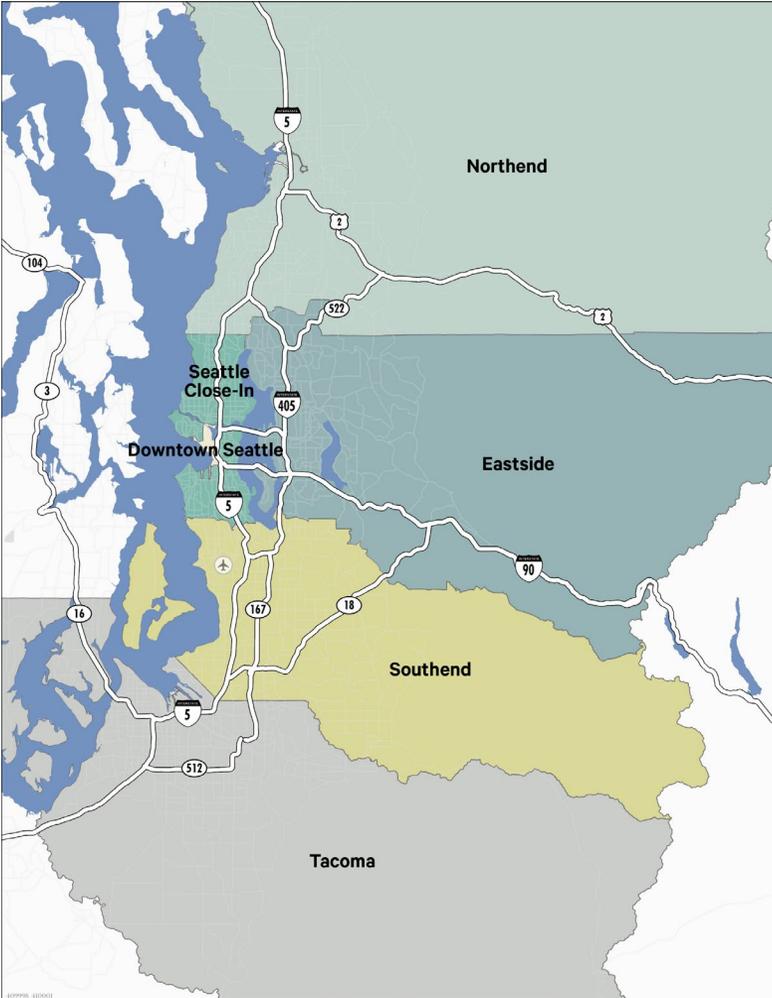
Although sales volume has historically lagged, it rebounded 152.4% year-over-year to \$299M in Q3, according to Real Capital Analytics. The 50 bps interest rate cut from the Federal Reserve may improve future sale velocity. The largest sale this quarter was King County's purchase of the Dexter Horton Building for \$36.6 million, or \$109 per sq. ft. DCL Management's purchase of Plaza Yarrow Bay IV in Kirkland from Clarion Partners for \$16.3 million, or \$210 per sq. ft., was another prominent sale.

FIGURE 8B: Statistics by Submarket

Submarket	Net Rentable Area (SF)	Direct Vacancy Rate (%)	Total Vacancy Rate (%)	Total Availability Rate (%)	Q3 2024 Net Absorption (SF)	Last Four Qtrs Net Absorption (SF)	Under Construction (SF)	Direct Class A Avg. Asking Rent, Gross (\$/SF/Yr)	Total Class A Avg. Asking Rent, Gross (\$/SF/Yr)
Bellevue CBD	13,425,055	15.5%	19.2%	27.7%	193,887	970,818	480,000	64.03	59.46
I-405	2,879,091	12.6%	14.2%	19.1%	(8,681)	(79,257)	0	48.50	46.10
SR-520	2,393,943	18.8%	21.0%	25.0%	17,766	2,714	0	47.16	46.79
I-90	7,661,247	31.6%	35.1%	39.4%	167,529	(894,342)	0	47.18	44.91
Bel-Red Road	2,960,197	14.1%	33.0%	15.1%	5,773	(15,444)	0	36.78	35.88
Kirkland	2,149,885	6.0%	7.2%	8.5%	(12,931)	110,080	0	55.29	49.06
Redmond	4,446,332	3.7%	16.2%	21.4%	(50,203)	(65,843)	0	41.09	40.73
Bothell	2,433,890	19.2%	20.7%	24.0%	(1,764)	(113,658)	0	34.29	34.37
<b>Eastside</b>	<b>38,349,640</b>	<b>16.9%</b>	<b>22.3%</b>	<b>26.2%</b>	<b>311,376</b>	<b>(84,932)</b>	<b>480,000</b>	<b>53.66</b>	<b>51.12</b>
Lynn/Edm/Mtlk Terr	2,571,727	12.2%	16.6%	19.0%	3,022	39,397	0	35.09	34.89
Everett	2,094,204	8.4%	17.6%	19.9%	23,657	28,507	0	29.24	29.19
<b>Northend</b>	<b>4,665,931</b>	<b>10.5%</b>	<b>17.0%</b>	<b>19.4%</b>	<b>26,679</b>	<b>67,904</b>	<b>0</b>	<b>34.24</b>	<b>33.94</b>
Tacoma CBD	3,025,037	23.1%	23.3%	25.6%	25,163	(95,340)	0	30.37	30.87
Tacoma Suburban	1,289,895	5.6%	6.4%	9.3%	1,397	(28,094)	0	26.70	26.70
Fife	159,994	16.8%	16.8%	16.8%	0	12,491	0	N/A	N/A
Puyallup	655,687	32.8%	40.5%	40.5%	(6,110)	(62,109)	0	31.15	31.15
DuPont	348,505	100.0%	100.0%	100.0%	0	0	0	20.00	20.00
Gig Harbor	73,170	0.0%	0.0%	0.0%	893	893	0	N/A	N/A
<b>Tacoma/Fife</b>	<b>5,552,288</b>	<b>24.5%</b>	<b>25.7%</b>	<b>27.7%</b>	<b>21,343</b>	<b>(172,159)</b>	<b>0</b>	<b>25.97</b>	<b>26.19</b>
<b>Puget Sound Total</b>	<b>123,912,389</b>	<b>21.9%</b>	<b>26.4%</b>	<b>29.6%</b>	<b>(66,238)</b>	<b>(2,409,163)</b>	<b>858,700</b>	<b>49.64</b>	<b>47.94</b>

Source: CBRE Research, Q3 2024

### Market Area Overview



#### Definitions

Net Absorption: The change in occupied square feet from one period to the next recognized at the move-in date or delivery of new construction, not lease signing date.

Vacancy: Space that is physically vacant but may be available or newly leased but still vacant.

Available: Space that is marketed that may or may not be vacant

Average Asking Lease Rate: A calculated average that includes full service and triple net + operating expense lease rates, weighted by their corresponding available square footage.

Full Service Lease Rate: Rent typically includes real property taxes, building insurance, common area and major maintenance.

Net Lease Rate: Rent excludes one or more of the "net" costs (real property taxes, building insurance, and maintenance) typically included in a full-service lease rate.

#### Survey Criteria

Survey includes competitive (typically investor-owned) office buildings over 10,000 sq. ft. It does not include medical office or biotech space.

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