

FIGURES | PUGET SOUND OFFICE | Q2 2023

Definitive hybrid requirements offer hope amid falling absorption

▲ 20.7%
Vacancy Rate

▲ 26.3%
Availability Rate

▼ (1.53)M
SF Net Absorption

▼ 6.3M
SF Under Construction

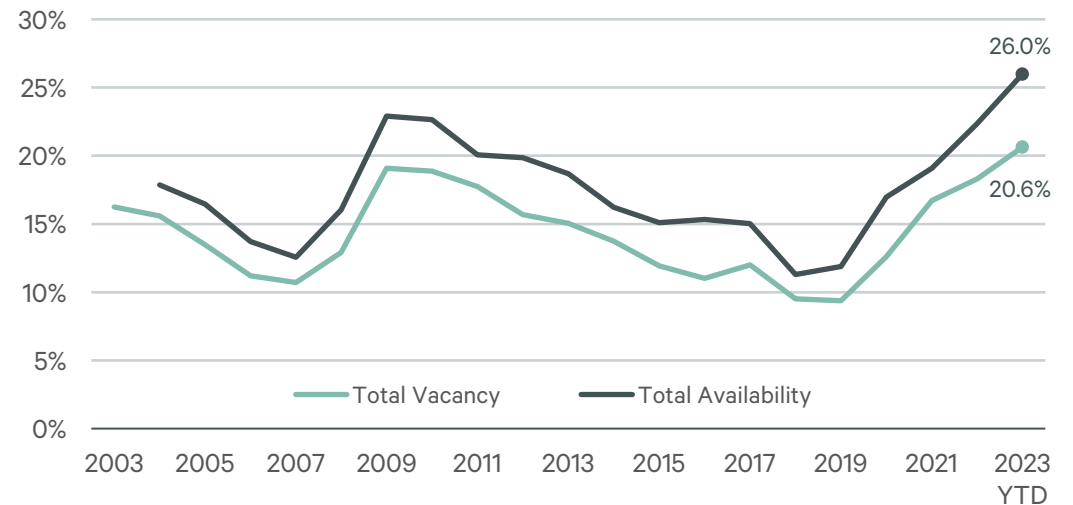
▼ \$51.07
Class A Asking Lease Rate
SF/Year, Full Service

Note: Arrows indicate change from previous quarter.

Amazon’s announcement on May 1 requiring employees in-office three days per week led in terms of number of employees in a string of announcements from other major local firms. DocuSign, Google, Lyft, Meta, Oracle, Redfin, Robinhood, Salesforce and Weyerhaeuser all recently solidified their hybrid work plans with expectations of 2-4 days in the office per week. Despite these announcements, Q2 2023 net absorption dropped to 2021 levels, when remote work was settling in and many companies did not foresee a future in the office, adding almost double the amount last quarter to negative 1.53 million sq. ft. for the region.

Nevertheless, excluding move-outs from office users vacating entire buildings, net absorption for small-to-medium sized tenants was decent compared to last quarter. These traditional service tenants continued to move to a healthy but often smaller square footage, a new norm for the market. As the market braces for the day big tech users would let their leases expire—either due to over-leasing pre-pandemic or a reevaluation of office space needs—big tech continues to offer sublease space in large blocks, reminiscent of the dot-com era two decades ago. More vacancy is anticipated, but with more in-office mandates emerging and more touring activity from tenants, the market could soon tighten, making it unpredictable how much longer prospective tenants can leverage the downturn for the best lease terms.

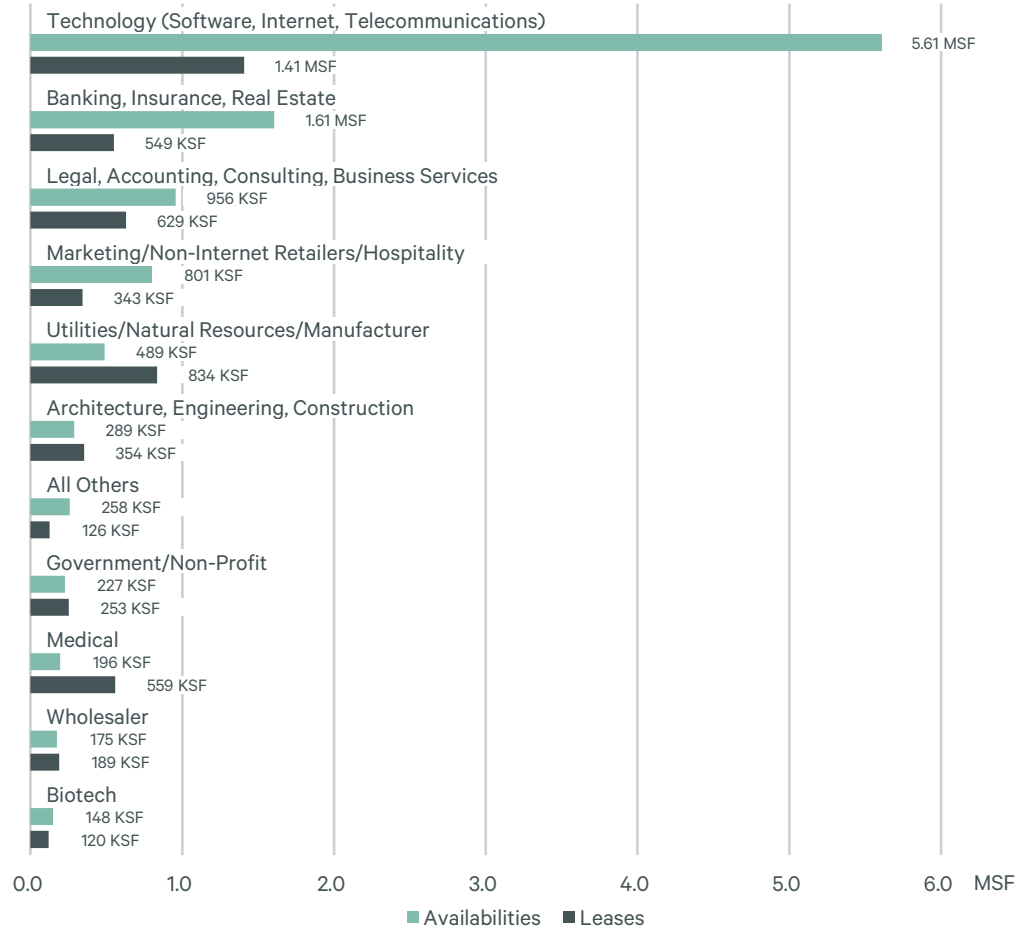
FIGURE 1: Historic Vacancy and Availability



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

Source: CBRE Research, Q2 2023

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

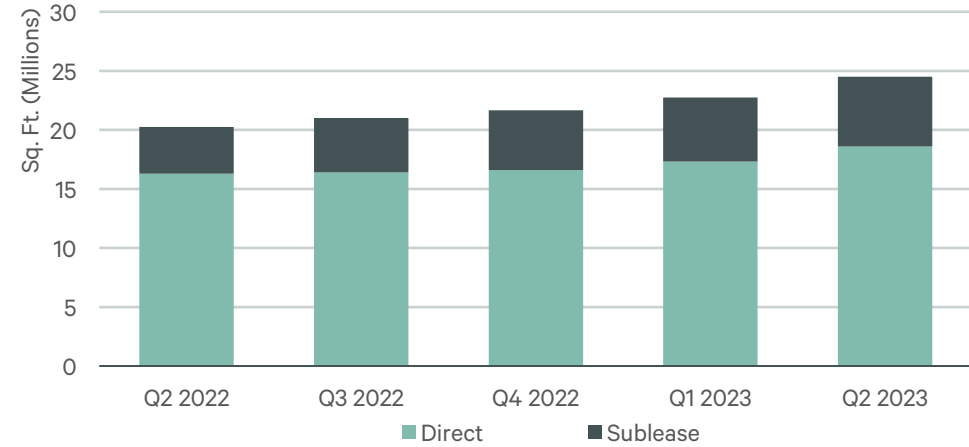


Available Space is space that is advertised, but not necessarily vacant, by an outgoing tenant in the respective business sector. It excludes first-generation space.

Leased Space is space that was signed by a tenant in the respective business sector.

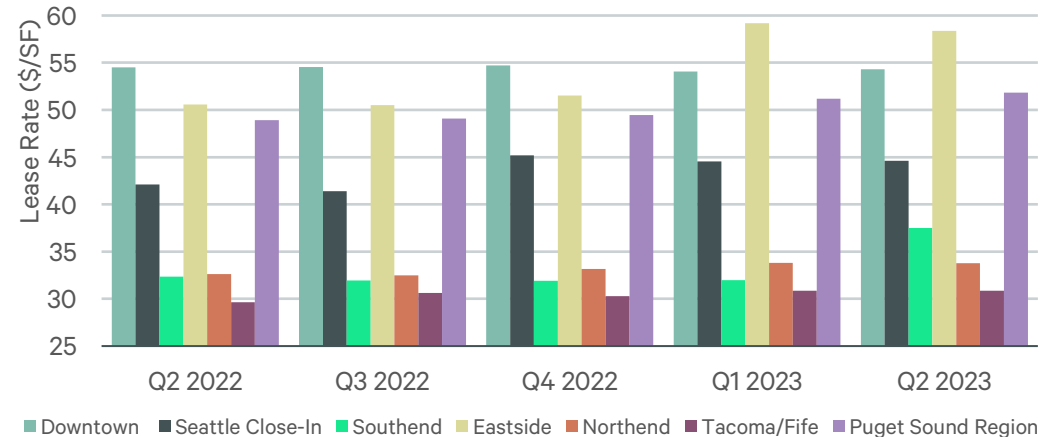
Source: CBRE Research, Q2 2023

FIGURE 3: Vacancy



Source: CBRE Research, Q2 2023

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



Source: CBRE Research, Q2 2023

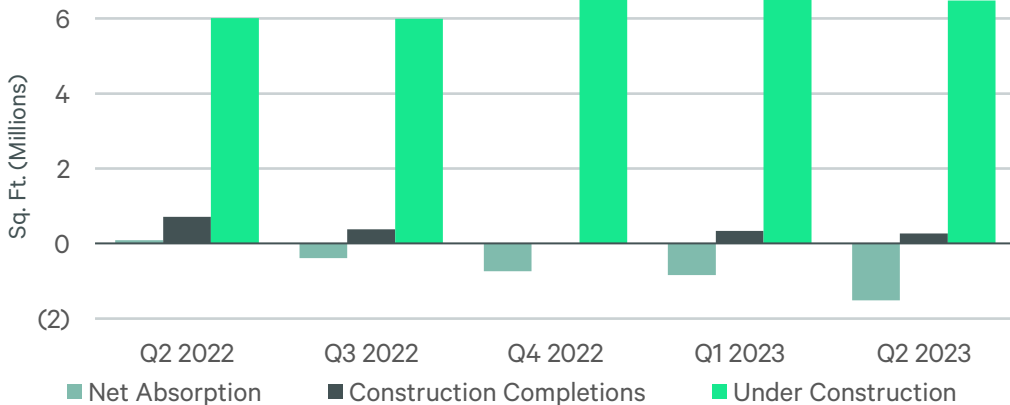
Downtown Seattle

The Downtown Seattle market continued its streak of negative net absorption at 890,201 sq. ft. The market Class A direct asking rate decreased by \$0.39 to \$53.70 per sq. ft., per year, full service compared to Q1. As anticipated, large users let major leases expire in Q2. Amazon did not renew 340,000 sq. ft. at West 8th in Denny Regrade. In the Seattle CBD, Providence vacated 174,184 sq. ft. at 800 Fifth. With a wide selection of discounted premium space on the market, savvy tenants and creative landlords can still thrive in this opportunistic market.

While nearly a quarter of the market’s inventory sat empty, the total availability rate set an all-time high at 30.6%, up 190 basis points (bps). The average time on market for sublease space was 399 days before being leased in Q2, which is about a quarter of the length of the average sublease term of 4.5 years (new leases signed after Q1 2020). More sublease spaces are transitioning to direct through expiration or an option to terminate, driving up direct vacancy.

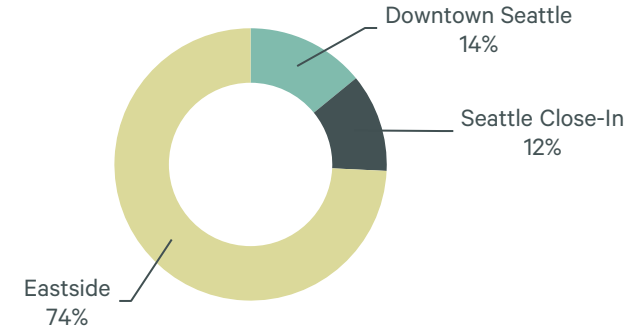
Insight Global, a staffing agency, signed the largest deal of the quarter, committing to Downtown Seattle after a long stint on the Eastside. The company expanded its footprint by leasing the entire 2323 Elliott building, a 74,722-square-foot building in the Waterfront submarket, almost tripling their Bellevue size.

FIGURE 5: Absorption and Construction



Source: CBRE Research, Q2 2023

FIGURE 6: Square Feet Under Construction, Percent by Market



Source: CBRE Research, Q2 2023

FIGURE 7: Key Transactions

Tenant	Transaction Type	Sq. Ft.	Building	Market	Business Sector	Net Absorption
Insight Global	New Lease	74,722	2323 Elliott	Downtown Seattle	Consulting	Positive
Flexport	New Lease (Sublease)	55,585	Skyline Tower	Eastside	Technology	Positive
Seyfarth Shaw	Renewal/Expansion	45,942	999 Third	Downtown Seattle	Legal	Positive
Omniva	New Lease	26,077	Nine Two Nine Office Tower	Eastside	Technology	Positive
Hellsell Fetterman	New Lease	21,824	800 Fifth	Downtown Seattle	Legal	Positive
Hiya	New Lease (Sublease)	19,064	Columbia Center	Downtown Seattle	Technology	Negative
GSA	New Lease	15,404	Auburn Corporate Center - Bldg II	Southend	Government	Positive
First Choice Health	New Lease	14,926	400 Westlake	Downtown Seattle	Healthcare	Negative

Source: CBRE Research, Q2 2023

Eastside

In Q2 2023, the Eastside office leasing market faced an unprecedented setback with a record negative absorption of 739,781 sq. ft., a peak unseen since the Great Financial Crisis. This was largely due to two major technology tenants reevaluating and rightsizing their real estate portfolios, contributing to over 87% of the negative absorption. Microsoft vacated and offered approximately 500,000 sq. ft. at Millennium Corporate Park for sublease, a precursor to the delivery of their new office campus expansion soon. The Class A Direct asking rate dropped \$1.71 to \$57.48 per sq. ft. per year, full service in response to rising availability.

Contrary to the narrative of a disappearing office culture, Amazon signaled interest in resuming its previously-halted Bellevue projects, planning to accommodate a wave of returning office workers. The tech giant’s recently announced plan involves transferring 2,000 employees from Seattle to Bellevue by the end of the year. Meanwhile, Eastside office requirements by tenants actively looking for space increased by 50% from under 1 million sq. ft. in August 2022 to 1.5 million sq. ft. in Q2, with tech companies still accounting for 39% of the total demand. While the market has yet to bottom out in terms of vacancy and availability, the increasing demand from active tenants is a positive sign.

Northend

Mirroring the broader regional pattern, the Northend saw subdued leasing activity, with the vacancy rate climbing 80 bps to 18.5%. Although the Class A direct asking rate held steady at \$33.83 per square foot annually on a full-service basis, landlords displayed a greater openness to negotiating favorable lease terms in order to attract and secure quality tenants.

FIGURE 8A: Statistics by Submarket

Submarket	Net Rentable Area (SF)	Direct Vacancy Rate (%)	Total Vacancy Rate (%)	Total Availability Rate (%)	Q2 2023 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	24,218,544	22.4%	29.1%	33.1%	(461,055)	(1,389,097)	0	54.83	50.20
Waterfront	2,621,425	20.0%	25.6%	44.2%	(34,622)	(65,334)	0	51.44	50.40
Pioneer Square	4,657,448	28.3%	34.3%	43.1%	54,695	(189,762)	0	54.99	52.79
Denny Triangle/Regrade	8,148,307	26.3%	29.6%	34.3%	(411,996)	(950,644)	654,247	51.09	49.35
Lower Queen Anne	2,980,441	30.7%	34.8%	34.2%	23,845	(109,471)	0	41.96	40.07
Lake Union	10,324,382	9.9%	12.5%	13.5%	(33,318)	122,788	0	58.14	57.85
Canal	1,994,129	4.5%	9.8%	21.4%	(27,750)	(16,018)	112,700	56.04	46.63
Downtown Seattle	54,944,676	20.8%	26.0%	30.6%	(890,201)	(2,597,538)	766,947	53.70	50.30
North Seattle/Interbay	2,655,277	11.9%	14.1%	16.0%	11,003	1,962	755,944	43.44	43.17
Capitol Hill/E Seattle/Rainier	1,169,311	12.2%	15.4%	18.9%	(19,596)	(19,472)	0	51.90	53.38
South/West Seattle	3,406,647	8.7%	14.9%	19.9%	2,583	(40,027)	0	45.64	42.97
Seattle Close-In	7,231,235	10.4%	14.7%	18.3%	(6,010)	(57,537)	755,944	44.79	43.99
Sea-Tac	1,301,072	6.4%	6.4%	9.4%	(10,330)	53,884	0	32.42	32.42
Tukwila	2,112,067	15.9%	16.1%	13.4%	7,495	48,980	0	25.17	25.17
Renton	4,437,062	26.4%	27.2%	24.7%	46,241	140,869	0	37.47	37.36
Kent	1,161,442	7.8%	8.5%	10.1%	6,982	2,791	0	27.22	27.22
Auburn	289,025	12.2%	12.2%	5.4%	25,167	17,778	0	26.35	26.35
Federal Way	2,732,820	24.3%	25.3%	27.4%	29,183	80,178	0	25.15	25.15
Southend	12,033,488	19.8%	20.4%	19.8%	104,738	344,480	0	32.00	31.89

Source: CBRE Research, Q2 2023

Southend

The Southend market posted a positive net absorption of 104,738 sq. ft. in Q2, showcasing resilience amid ongoing market challenges. Standout transactions of the quarter saw an undisclosed health institution acquiring 15,889 sq. ft. of office space at Southport on Lake Washington, while the GSA secured 15,404 sq. ft. at the Auburn Corporate Center. As a result, the vacancy rate dipped 100 bps to 20.4%, and the direct asking rate for Class A space held steady at \$32.00 per sq. ft. per year, full service.

Tacoma

The Tacoma market saw positive net absorption of 41,683 sq. ft., as one medium-sized move-in in Puyallup balanced the several small move-outs concentrated in Tacoma CBD. The Tacoma Class A direct asking rate increased by \$0.49 to \$31.34 per sq. ft. per year, full service. Tacoma Rhodes Center entered the co-working game and has started to build out space for UrbanWork Spaces. Landlords across the Puget Sound area are seeing more potential in incorporating co-working spaces as part of their efforts in providing more flexible and amenitized packages to keep tenants in office.

Investment Sales

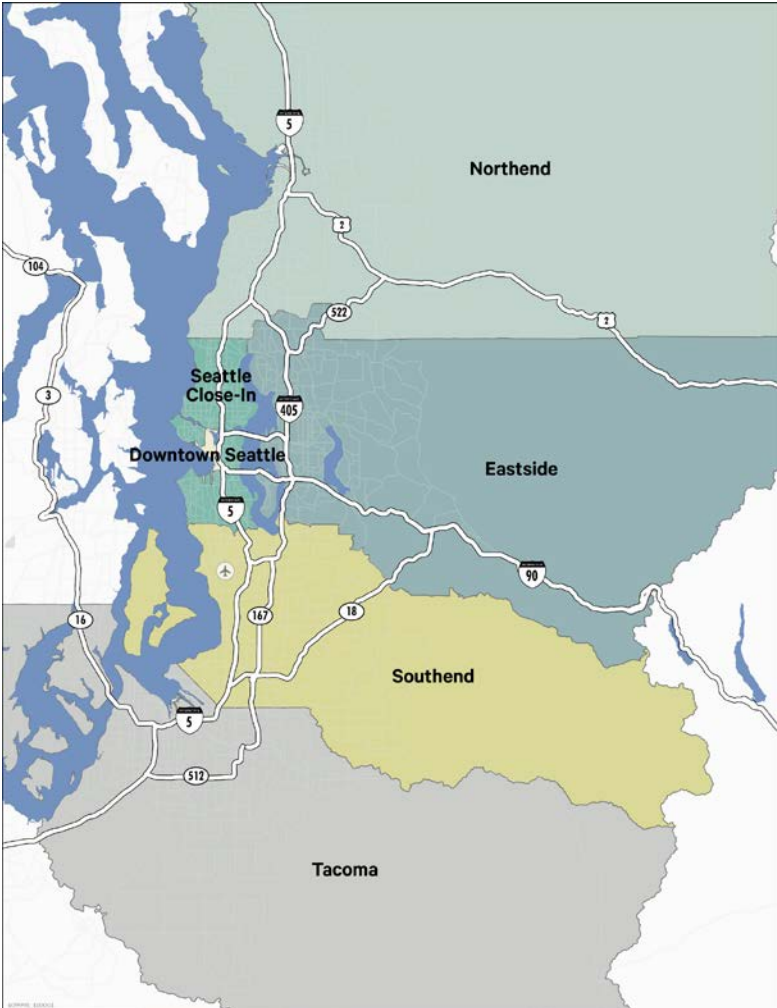
Sales volume was lackluster, which is reflective of the market’s current sentiment toward the feasibility of office buildings in a remote-enabled world. The largest transaction was the sale of the 60,423-square-foot Department of Ecology Building in Bellevue, which sold for \$18 million, or \$298 per sq. ft., to Intracorp, a residential developer who could replace the building with housing. In Redmond, the 25,700-square-foot Cascade View Medical Office building sold for \$10 million, or \$389 per sq. ft., to Ponsky Capital Partners, who is affiliated with a multifamily development company.

FIGURE 8B: Statistics by Submarket

Submarket	Net Rentable Area (SF)	Direct Vacancy Rate (%)	Total Vacancy Rate (%)	Total Availability Rate (%)	Q2 2023 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	10,411,953	7.8%	13.1%	24.7%	(59,165)	(348,934)	3,611,199	68.79	63.27
I-405	2,943,825	10.9%	11.7%	15.4%	34,684	(16,534)	0	51.18	47.51
SR-520	2,393,943	16.4%	18.5%	24.7%	(66,755)	(141,979)	0	48.61	46.72
I-90	7,654,813	12.6%	15.4%	37.8%	(29,604)	(136,219)	0	45.87	43.37
Bel-Red Road	2,083,805	3.7%	4.7%	11.5%	10,928	(1,623)	867,000	43.26	40.03
Kirkland	2,092,690	2.1%	9.8%	11.7%	(114,860)	9,795	330,562	55.33	49.68
Redmond	4,446,332	2.8%	14.5%	16.9%	(517,328)	(396,027)	0	42.69	40.54
Bothell	2,583,387	13.5%	21.6%	26.3%	2,319	(70,365)	0	38.81	36.74
Eastside	34,610,748	8.9%	14.0%	24.4%	(739,781)	(1,101,886)	4,808,761	57.48	52.16
Lynn/Edm/Mtlk Terr	2,571,727	13.6%	17.6%	17.8%	(15,672)	(23,916)	0	35.21	35.21
Everett	2,074,129	9.9%	19.6%	21.7%	(21,264)	(101,680)	0	28.70	28.63
Northend	4,645,856	12.0%	18.5%	19.6%	(36,936)	(125,596)	0	33.83	33.74
Tacoma CBD	3,025,037	15.9%	18.2%	25.4%	7,429	10,561	0	31.45	30.93
Tacoma Suburban	1,228,895	4.7%	5.4%	7.7%	11,112	11,644	0	-	-
Fife	220,994	17.8%	17.8%	17.8%	0	0	0	-	-
Puyallup	655,687	22.5%	30.0%	31.5%	22,487	17,367	0	31.15	31.15
DuPont	348,505	0.0%	100.0%	100.0%	0	0	0	-	20.00
Tacoma/Fife	5,552,288	13.1%	21.7%	26.3%	41,683	42,344	0	31.34	25.69
Puget Sound Total	119,018,291	15.9%	20.7%	26.3%	(1,526,507)	(3,495,733)	6,331,652	51.07	47.89

Source: CBRE Research, Q2 2023

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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