
3Q24

Seattle Office Market Overview



NEWMARK

Market Observations

Economy

- The unemployment rate in the Seattle-Tacoma-Bellevue MSA increased over the third quarter and currently sits higher than the national average. As of August 2024, the unemployment rate stood at 4.6%.
- While the Seattle-Tacoma-Bellevue MSA experienced employment growth across most sectors, office-using industries lagged. The financial and business services sectors posted only modest gains, while the information sector continued its decline, contracting by 3.3% over the past year.
- Overall office-using employment improved slightly over the third quarter, rising 0.3%. Employment in these sectors is down year-over-year but remains elevated relative to pre-pandemic levels.

Major Transactions

- Leasing stalled in the third quarter, with few large deals signed, resulting in a total volume of 1.2 million square feet. The market continues to be dominated by renewals and smaller transactions, as tenants maintain a cautious approach.
- Deal volume declined across nearly all submarkets quarter over quarter. While the Eastside experienced a drop in activity following a strong second quarter, it continues to lead leasing volume among submarkets in the region.

Leasing Market Fundamentals

- In the third quarter of 2024, the Puget Sound office market experienced an increase in overall vacancy, rising by 40 basis points to 20.2%, alongside a net negative absorption of 111,928 square feet.
- Rents in the Puget Sound market remained under downward pressure in the third quarter of 2024, with average asking rates falling to \$44.07 per square foot. This represents a 2.0% decline compared to the same period last year.
- Despite increasing vacancy and availability, tenant requirements rose in the third quarter. As of the quarter end, there were 203 traditional tenants and 25 life science tenants actively seeking space, totaling 7.8 million square feet in requirements.

Outlook

- The trend of migrating towards quality continues, especially towards trophy buildings with lower debt burdens. Although overall rents have declined, rates at A+ assets have remained stable.
- There has been a resurgence of touring and tenant activity, particularly from technology users. Bellevue remains a popular choice for tech tenants, and while downtown Seattle has struggled by comparison in recent years, it has been buoyed by its position as a life science hub.
- Return-to-work efforts are boosting the region's recovery. Amazon's 3-day mandate is in effect, and the City of Seattle and King County have announced similar in-office requirements.

1. Economy
2. Leasing Market Fundamentals
3. Appendix / Tables

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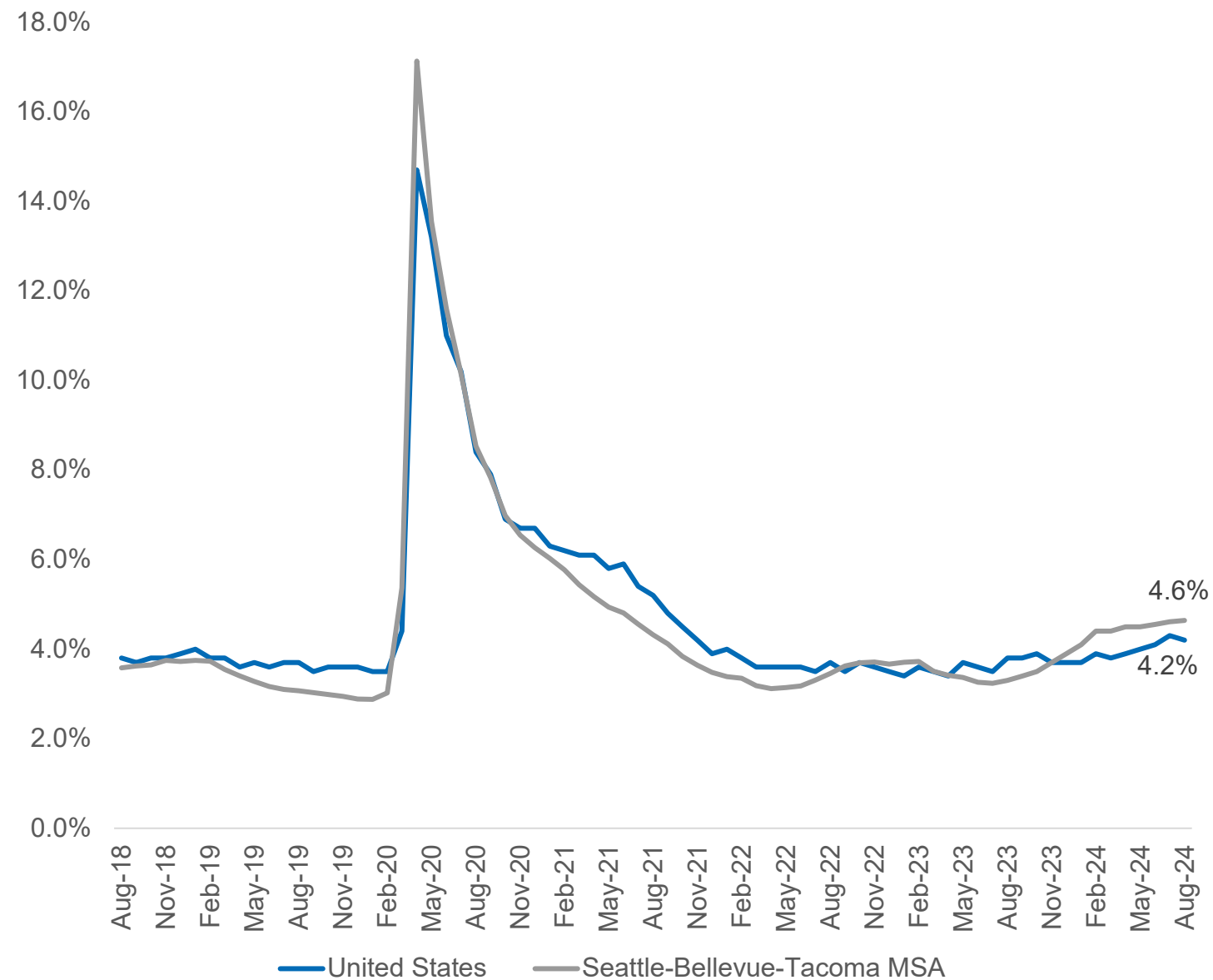
Economy



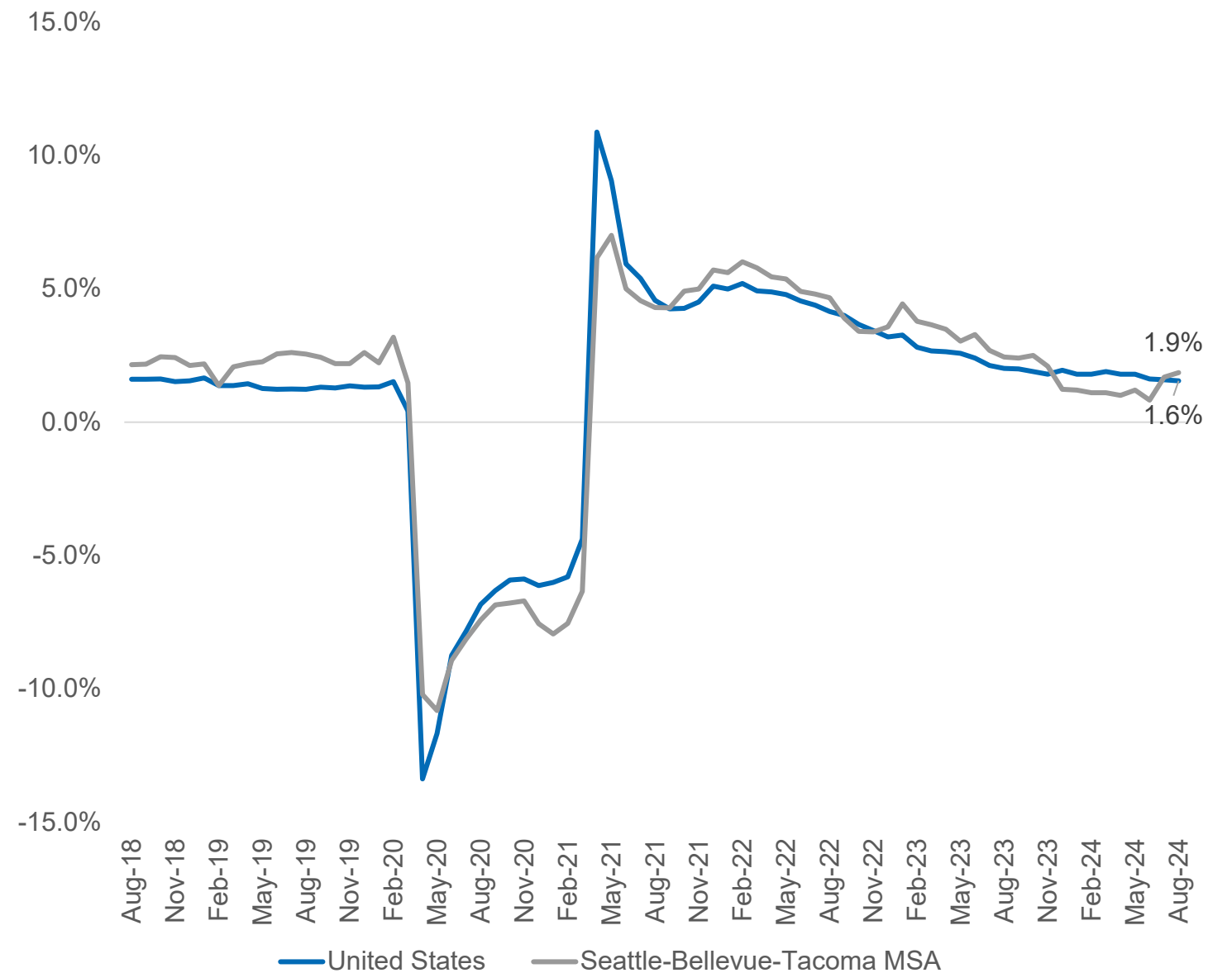
Regional Unemployment Rose in the Third Quarter

The unemployment rate in the Seattle-Tacoma-Bellevue MSA increased over the third quarter and currently sits higher than the national average. As of August 2024, the unemployment rate stood at 4.6%.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change

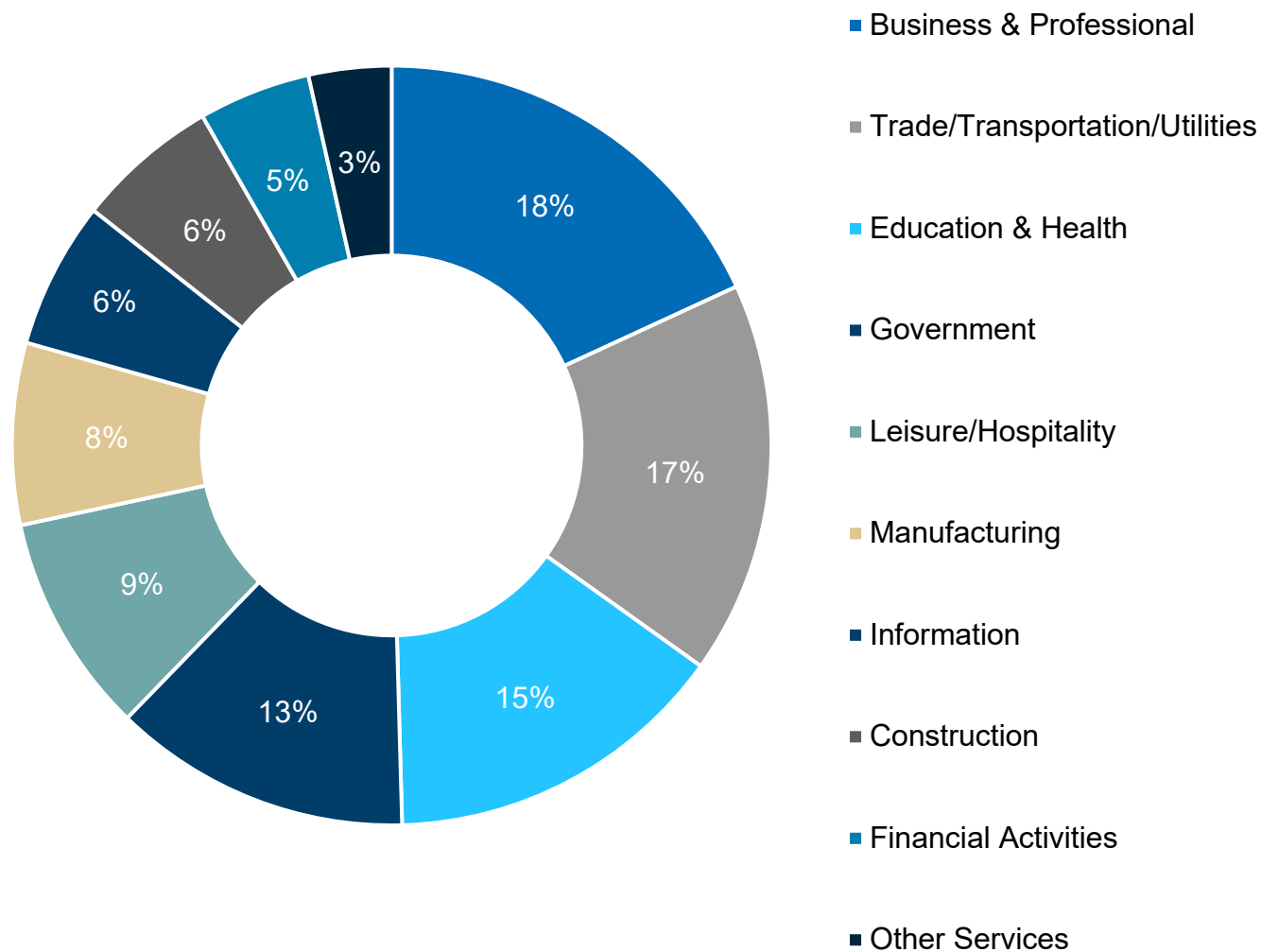


Source: U.S. Bureau of Labor Statistics, Seattle-Bellevue-Tacoma MSA

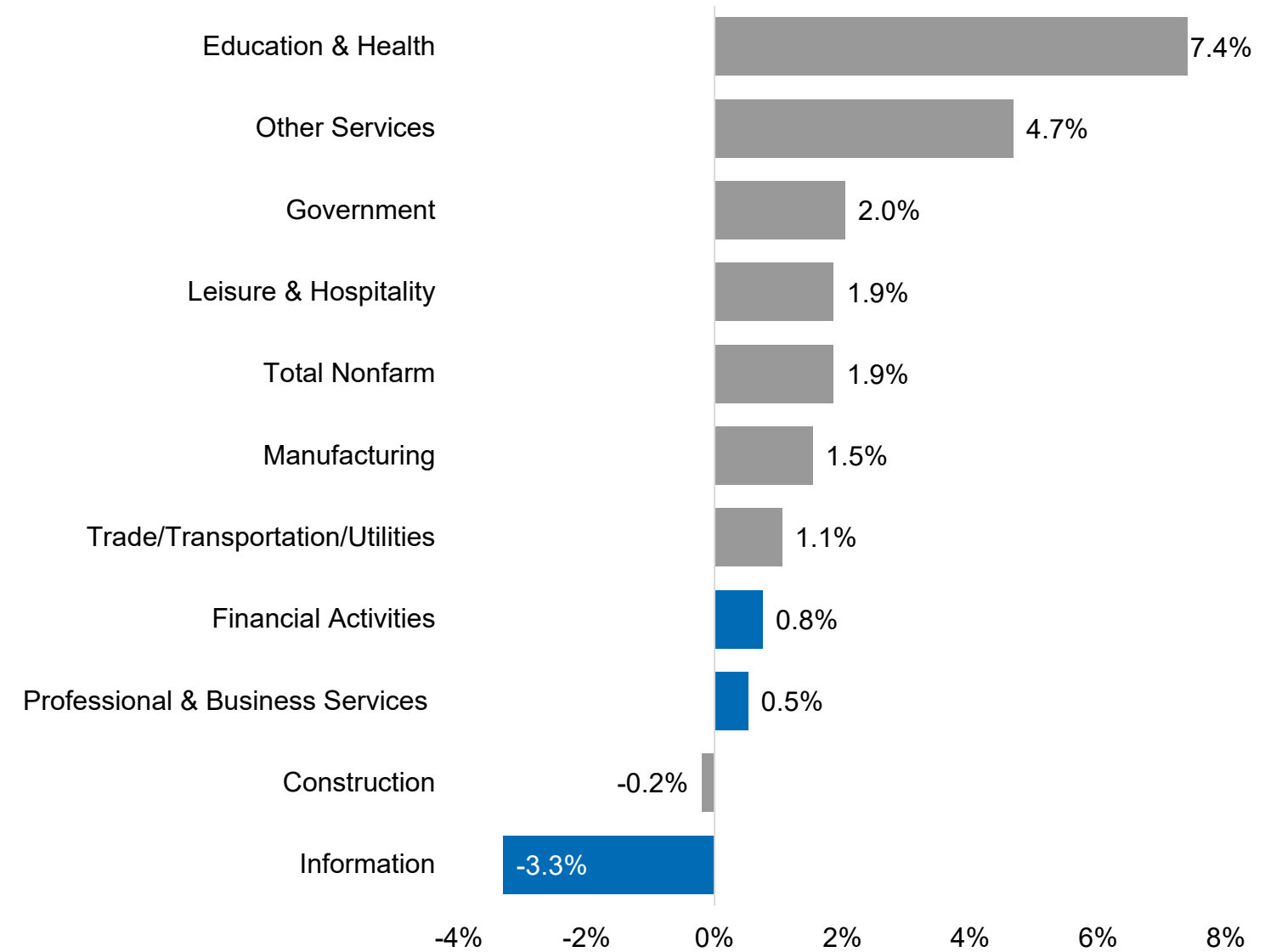
Office-Using Sectors Underperformed Amid Regional Growth

While the Seattle-Tacoma-Bellevue MSA experienced employment growth across most sectors, office-using industries lagged behind. The financial and business services sectors posted only modest gains, while the information sector continued its decline, contracting by 3.3% over the past year.

Employment by Industry, August 2024



Employment Growth by Industry, 12-Month % Change, August 2024

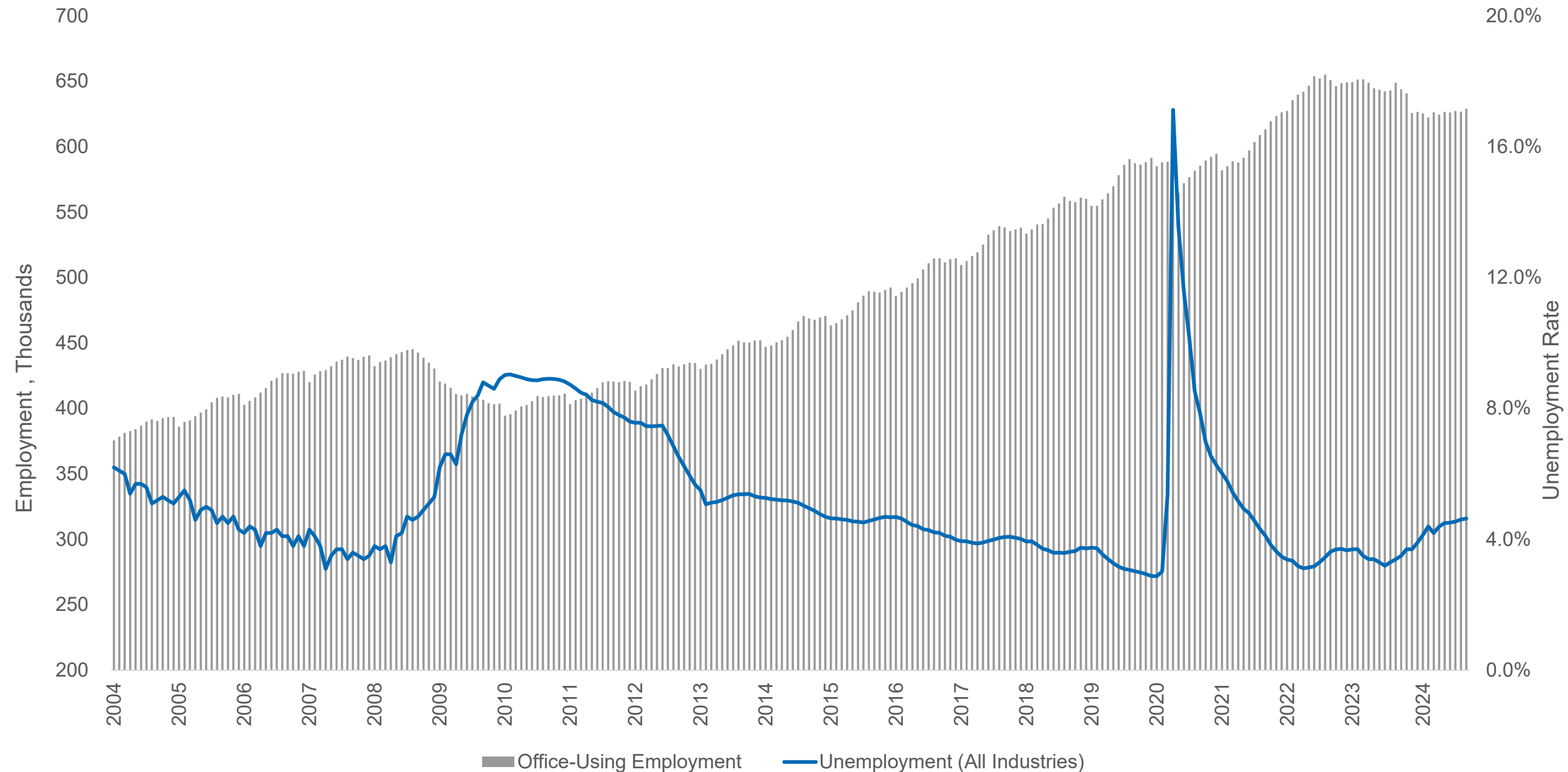


Source: U.S. Bureau of Labor Statistics, Seattle-Bellevue-Tacoma MSA

Overall Office-Using Employment Rose Marginally

Office-using employment improved slightly over the third quarter, rising 0.3%. Overall employment in these sectors is down year-over-year, but remains elevated relative to pre-pandemic levels.

Office-Using Employment* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics Seattle-Bellevue-Tacoma MSA

*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

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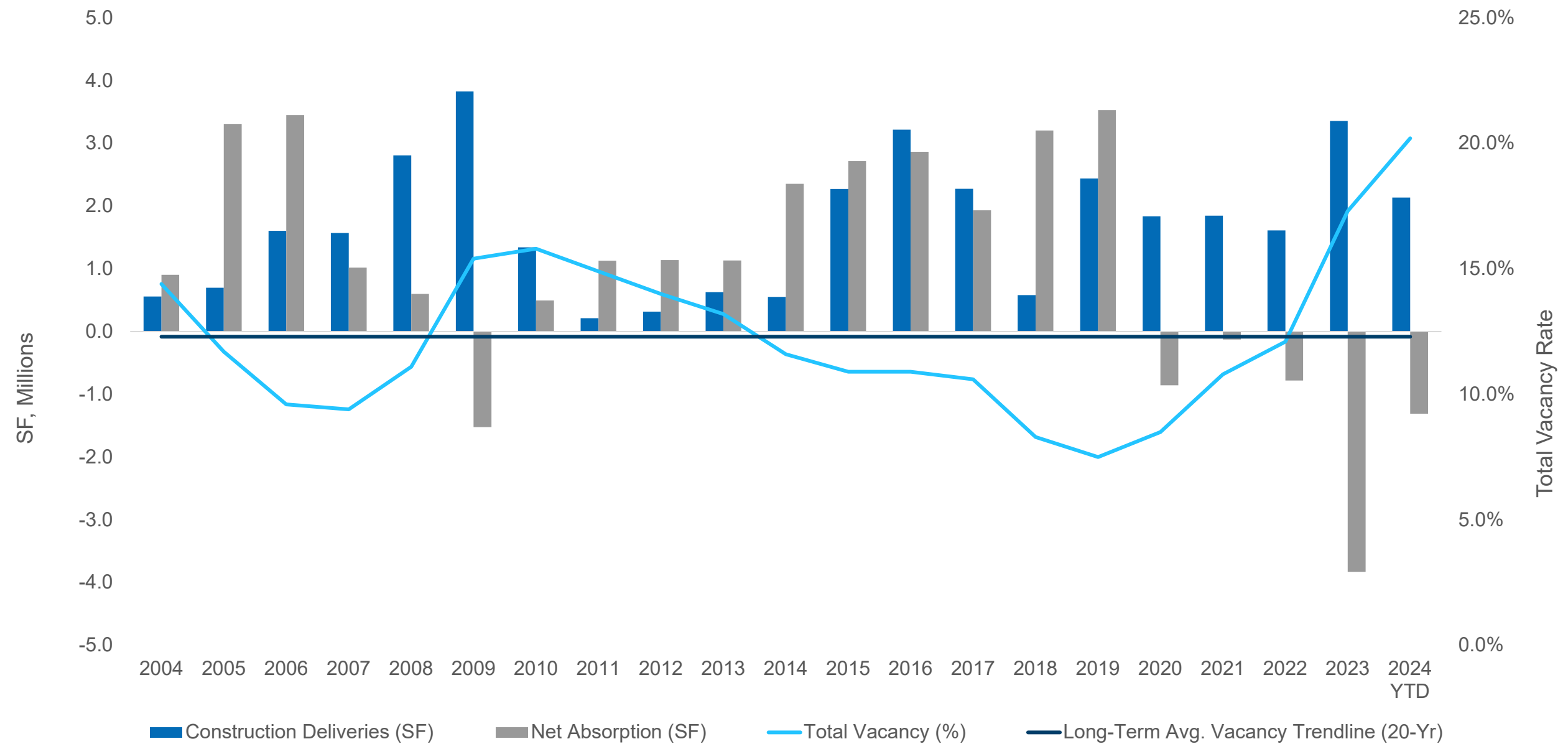
Leasing Market Fundamentals



Occupancy Losses Slowed in the Third Quarter

In the third quarter of 2024, the Puget Sound office market experienced an increase in overall vacancy, rising by 40 basis points to 20.2%, alongside a net negative absorption of 111,928 square feet. This reflects continued challenges in tenant demand and declining occupancy rates across the region. However, year-to-date absorption shows marked improvement compared to 2023, suggesting that while the market faces ongoing hurdles, there are signs of potential stabilization or recovery on the horizon.

Historical Construction Deliveries, Net Absorption, and Vacancy

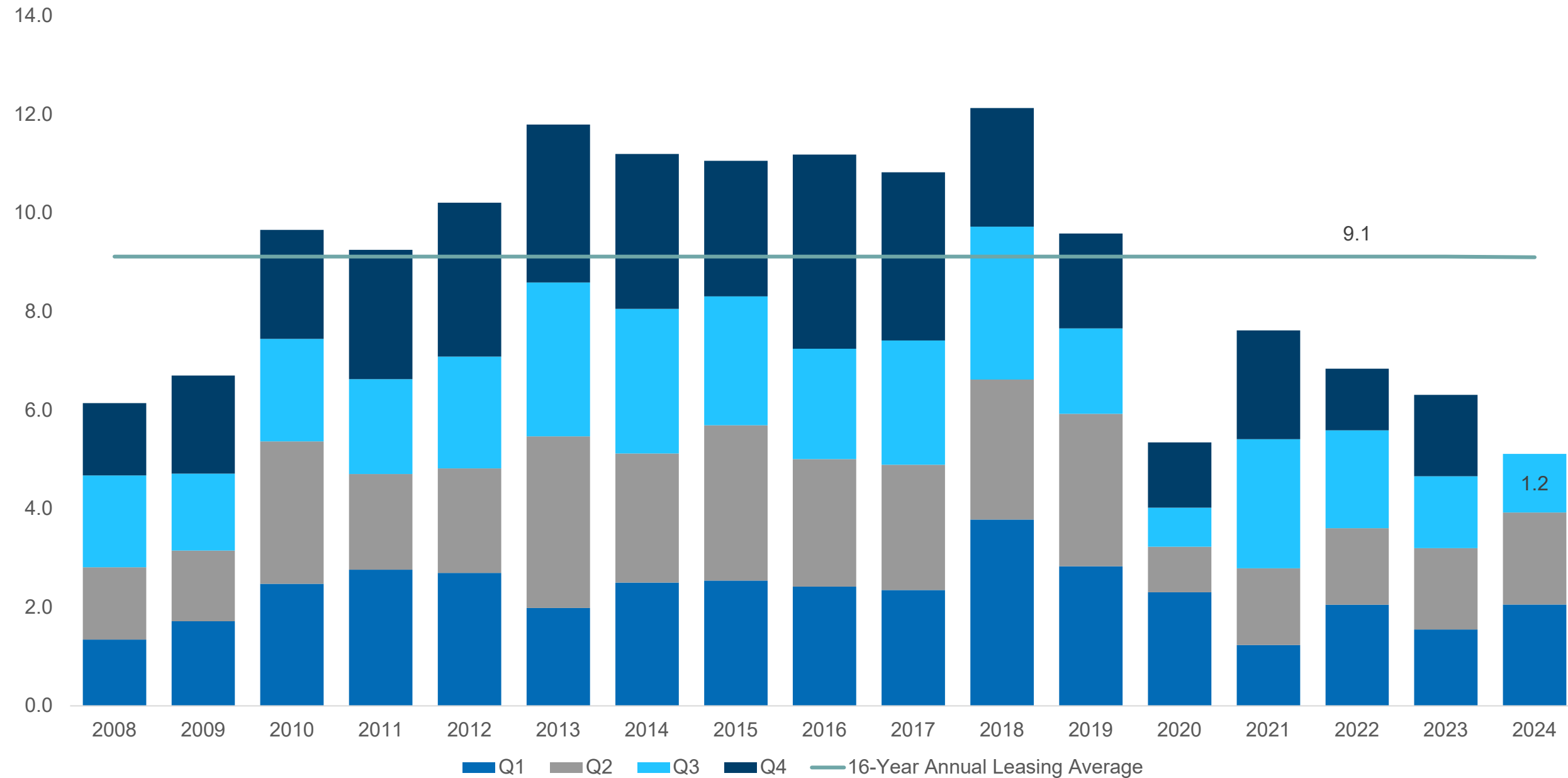


Source: Newmark Research

Third Quarter Saw Cautious Leasing Trends

Leasing activity stalled in the third quarter, with few large deals signed, resulting in a total volume of 1.2 million square feet. While year-to-date leasing volume is the highest since 2022, it remains well below pre-pandemic averages. The market continues to be dominated by renewals and small to mid-sized transactions, as tenants maintain a cautious approach.

Total Leasing Activity (msf)



Source: Newmark Research, CoStar

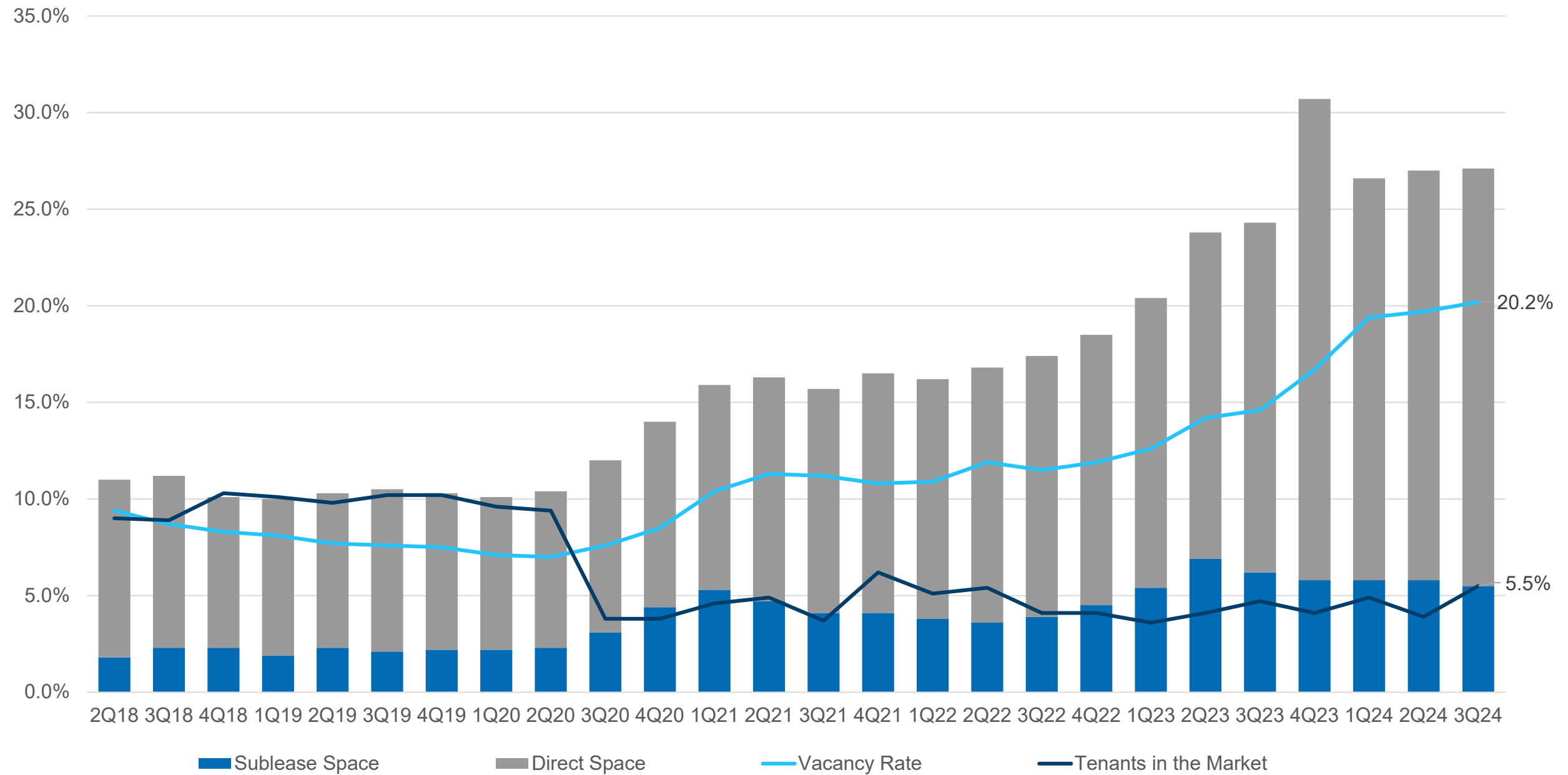


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Tenant Activity Increased in the Third Quarter

Despite increasing vacancy and availability, tenant requirements rose in the third quarter. As of the quarter end, there were 203 traditional tenants and 25 life science tenants actively seeking space, totaling 7.8 million square feet in requirements.

Available Space and Tenant Demand as Percent of Overall Market



Source: Newmark Research

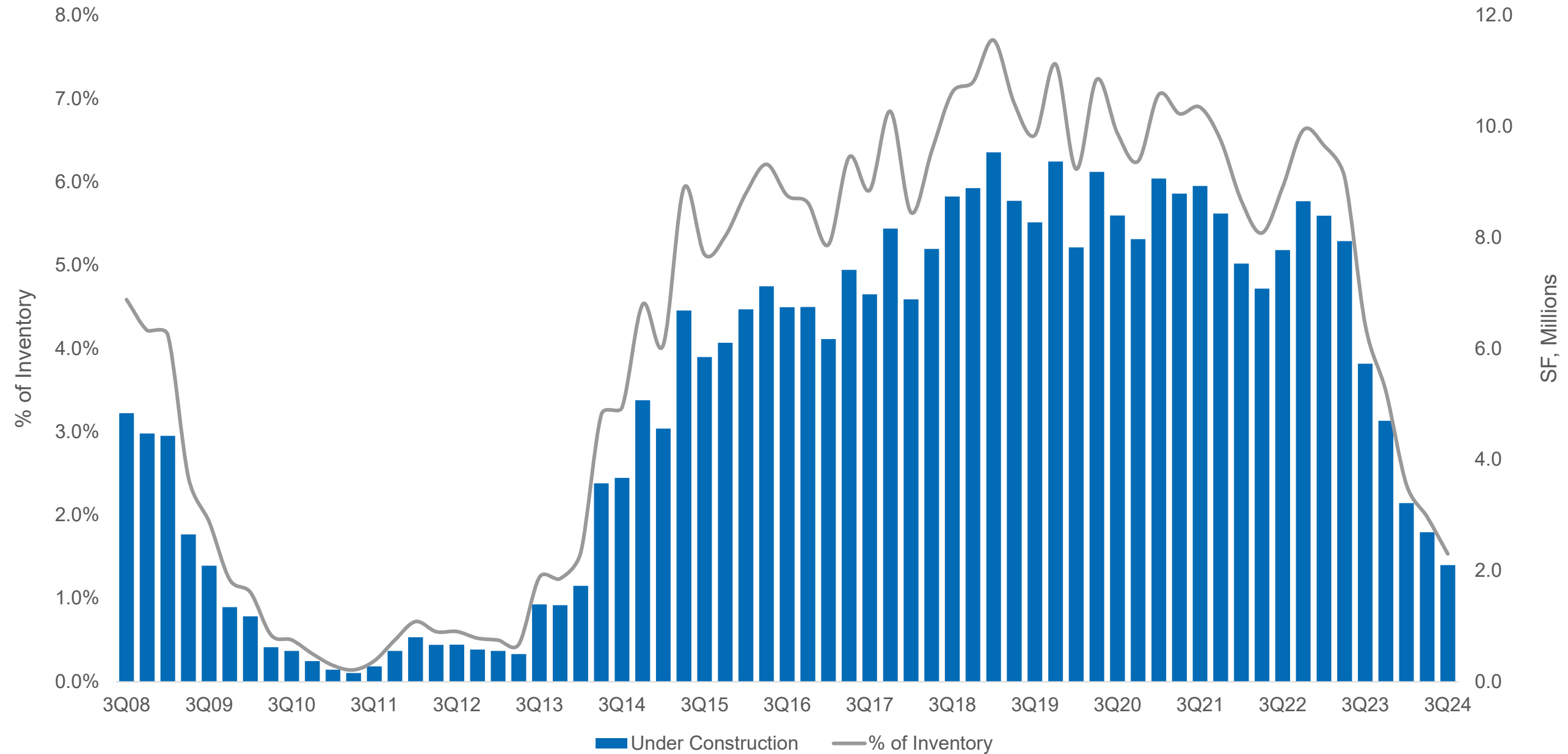


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Development Activity Continued to Decelerate

New starts have significantly slowed in response to rising vacancy and market uncertainty. The delivery of The Eight in Bellevue added 595,937 square feet to the inventory.

Office Under Construction and % of Inventory

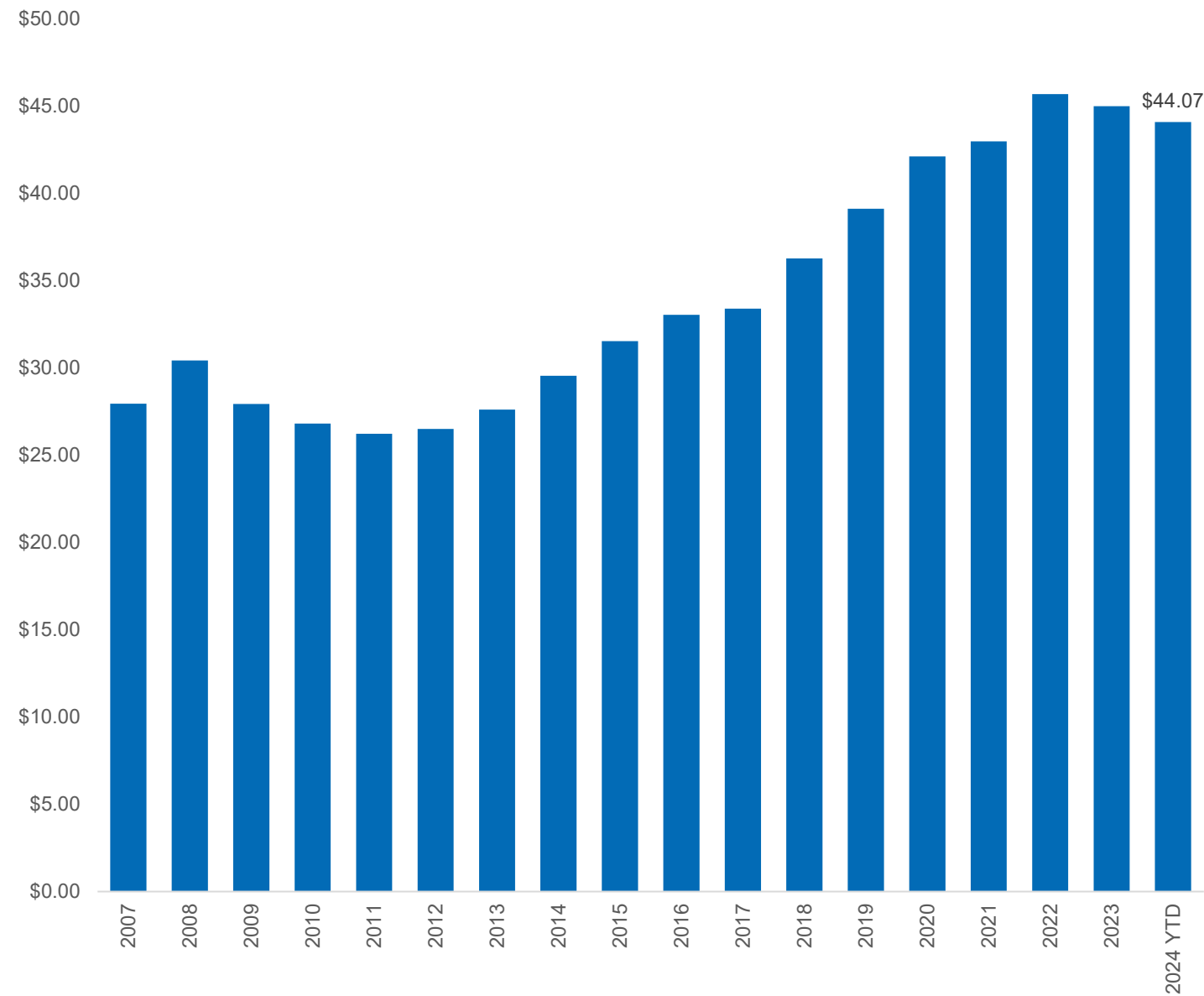


Source: Newmark Research, CoStar

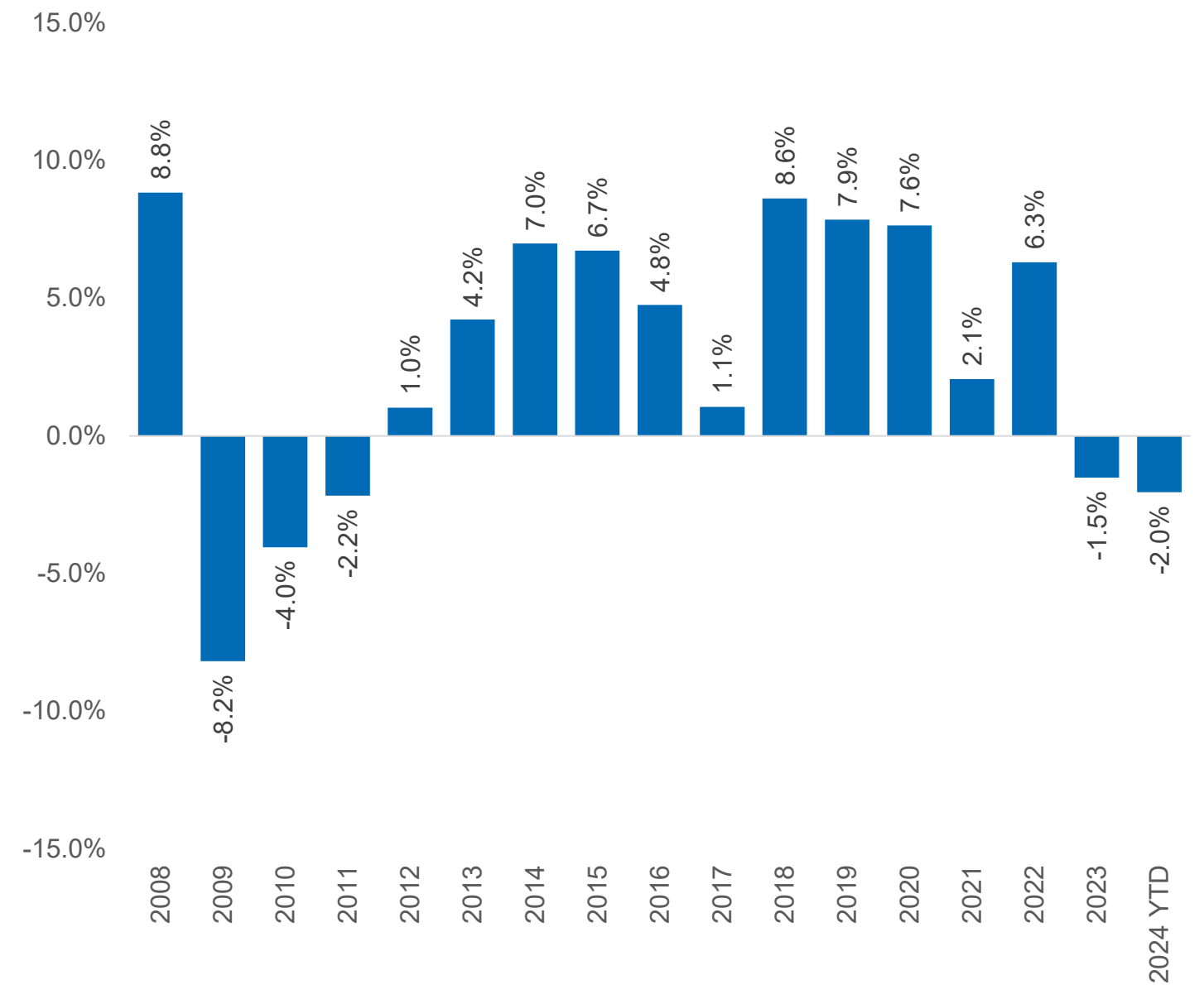
Asking Rents Faced Downward Pressure

Rents in the Puget Sound market remained under downward pressure in the third quarter of 2024, with average asking rates falling to \$44.07 per square foot. This represents a 2.0% decline compared to the same period last year, reflecting continued softening in tenant demand.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate

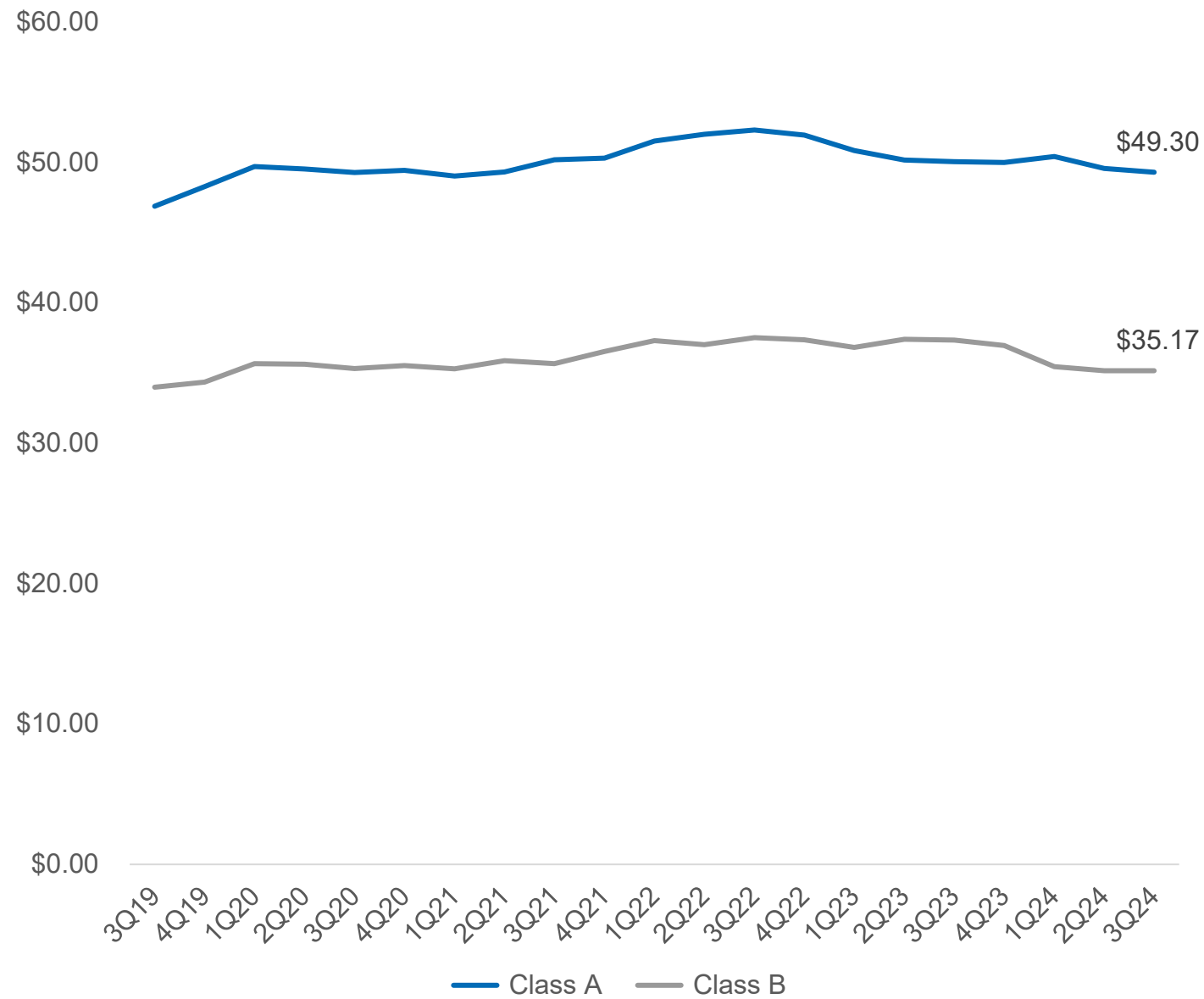


Source: Newmark Research, CoStar

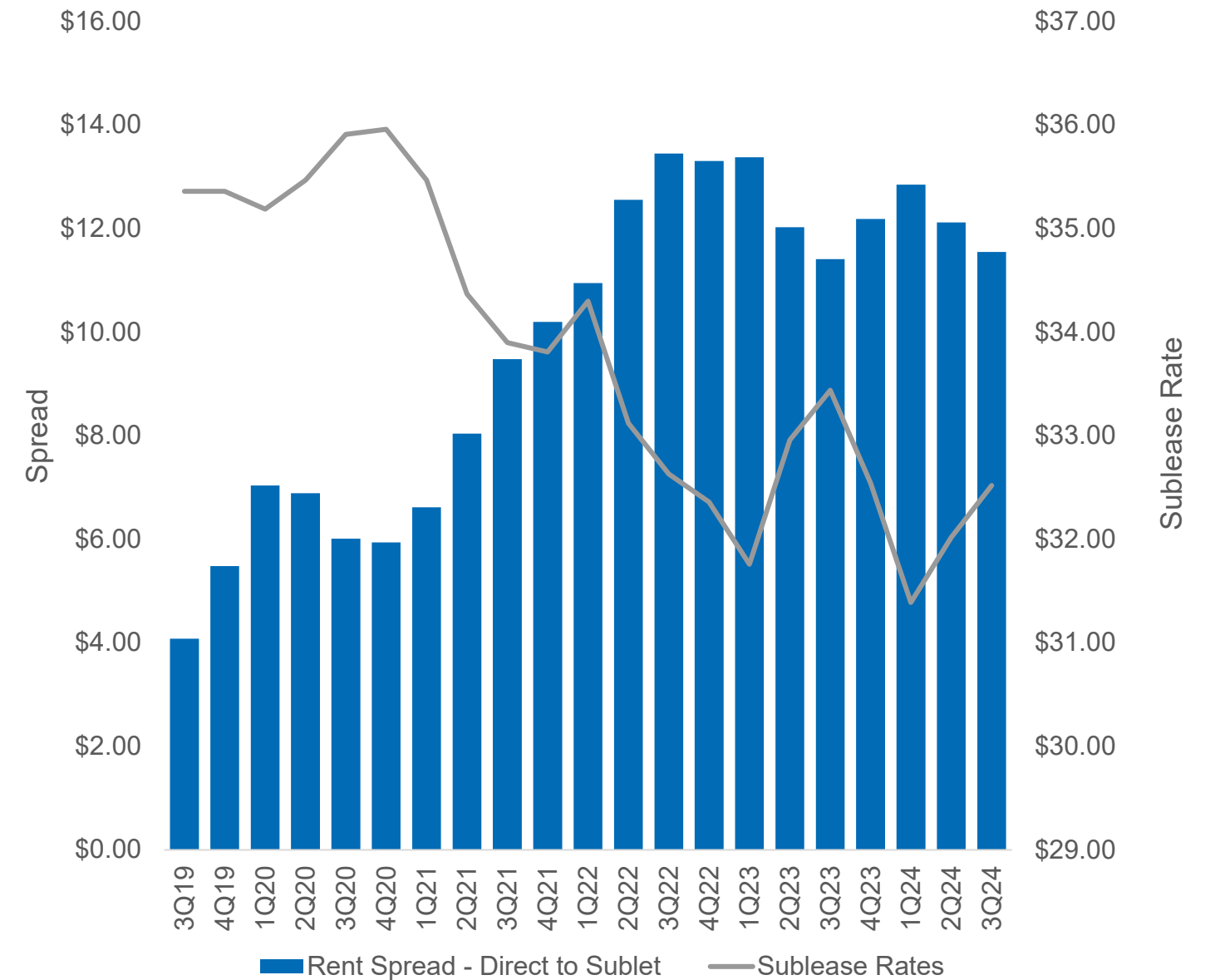
Sublease Rates Have Risen Year-to-Date

In the third quarter of 2024, average asking rates for sublease space experienced a modest rise, further closing the gap between sublease and direct space pricing. This increase reflects the higher quality of available sublease options, especially premium spaces returned by tech companies.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar

Third Quarter Notable Transactions

Leasing activity was subdued in the third quarter, with no significant large transactions taking place. Tenants continue to favor smaller, more flexible leases. This trend underscores the persistent challenges in the market as companies remain hesitant to commit to larger, long-term space requirements.

Notable 3Q24 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Clark Nuber	City Center Plaza	Bellevue CBD	Direct	49,142
<i>Clark Nuber will be one of the first new tenants to occupy two floors in the fully renovated City Center Plaza building.</i>				
Allen Institute for Artificial Intelligence	Northlake Commons	Lake Union	Direct	48,900
<i>AI2 has leased a full floor in the new Northlake Commons building, which will accommodate approximately 200 employees.</i>				
JP Morgan Chase	Russell Investments Center	Seattle CBD	Sublease	44,631
Avalara	Maritime Building	Pioneer Square/ Waterfront	Sublease	33,754
<i>The tax company has subleased the fifth floor of the Maritime Building from Big Fish, the relocation from Hawk Tower represents a downsize of their local footprint.</i>				
Sono Bello	Corporate Campus East – Building C	520 Corridor	Direct	30,949
Consulate General of India	Federal Reserve Building	Seattle CBD	Direct	24,181
<i>Seattle's Indian Consulate has secured a permanent location, leasing two full floors in the Federal Reserve Bank building.</i>				

Source: Newmark Research

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Appendix





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Newmark business contact for this information

For more information:

Nora Leahy

Research Analyst

Seattle Research

nora.leahy@nmrk.com

Seattle

1420 Fifth Avenue

Suite 2600

t 206-388-3000

Bellevue

10900 NE 4th Street

Suite 1430

t 425-362-1400

New York Headquarters

125 Park Ave.

New York, NY 10017

t 212-372-2000

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