

Puget Sound Office Market

Fourth-Quarter Sales Demonstrate Market Strength

Puget Sound finished 2020 as one of the hottest office markets in the country, ranking among the top in terms of sales, new deliveries, construction and vacancy. More than 2.0 million square feet of new office product was delivered during 2020 and 7.5 million square feet of office product is currently under construction, ranking 5th and 2nd respectively among U.S. markets. Vacancy increased to 8.5%, up 90 basis points for the quarter and 100 basis points year over year. Puget Sound has weathered the downturn better than most, as the market currently has the third-lowest vacancy rate in the country.

Leasing activity was below average for the quarter as landlords and tenants remained content to wait and see where rental rates will end up once a new market equilibrium is established. Landlords held firm on average asking rates at \$41.86/SF FSG, more or less flat from the prior quarter. Sublease availability increased by 40.2% in the fourth quarter of 2020, considerably increasing negotiating leverage for tenants after years of being heavily in favor of landlords. Subleases have accounted for many of the year's largest deals, including UW Medicine subletting 55,000 square feet at Safeco Plaza in the Seattle Central Business District and CustomArray taking 28,265 square feet at 9911 Willows Road in Redmond.

Current Conditions

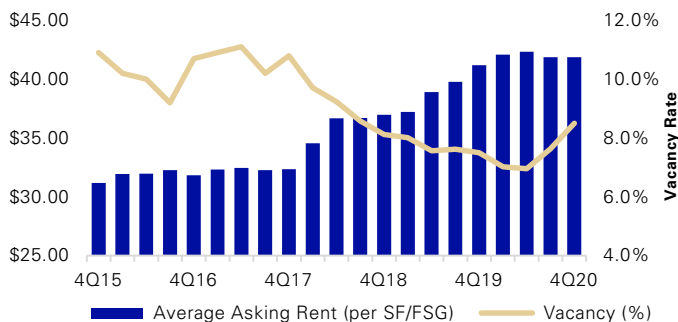
- Lake Union submarket had a strong quarter with rents hitting \$45.32/SF FSG, an increase of 1.3% compared with Q3.
- \$2.61 billion in office sales in the fourth quarter was the third-highest quarterly sales volume ever recorded in the region.
- Average class A asking rent in the Bellevue CBD was \$58.34/SF FSG, an increase of 13.0% since fourth-quarter 2018.
- Hudson Pacific Properties and Canada Pension Investment Board purchased 1918 8th Avenue from JP Morgan Asset Management for \$625.0 million, or \$935/SF.

Market Summary

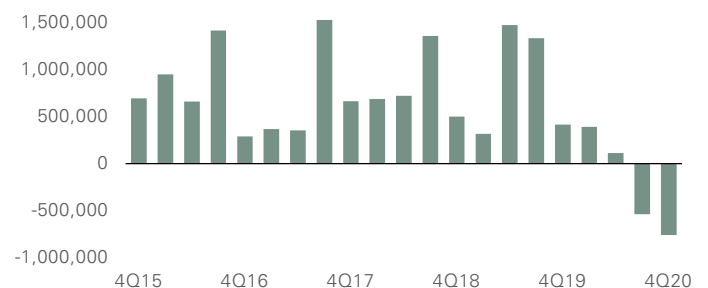
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	128.0M	127.7M	126.4M	↑
Vacancy Rate	8.5%	7.6%	7.5%	→
Quarterly Net Absorption (SF)	-761,790	-537,949	412,046	↑
Average Asking Rent/SF (FSG)	\$41.86	\$41.86	\$41.18	↑
Under Construction (SF)	7.5M	8.1M	9.3M	↑

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION (SF)



Downtown Seattle

Vacancy in Downtown Seattle increased to 7.8%, up 120 basis points for the quarter and up 200 basis points year over year. The largest contributor to the jump in vacancy was the 233,034-square-foot former Federal Reserve Building in the Seattle CBD, which was developed by Martin Selig Real Estate and delivered unleased this quarter. Downtown Seattle experienced -471,431 square feet of net absorption in the fourth quarter, marking the third consecutive quarter of negative absorption and bringing the annual total to -674,789 square feet. The largest move-out occurred at 2nd & Spring in the Seattle CBD, where Moz vacated 55,000 square feet. Moz moved to a new building and downsized, subleasing 18,414 square feet at 1111 3rd. UW Medical also vacated 37,973 square feet at the IBM Building in the Seattle CBD. Statewide occupancy restrictions related to the pandemic have impacted absorption figures drastically this year. Downtown Seattle alone has more than 1.0 million square feet of signed leases whose tenants have yet to fully occupy.

The Lake Union submarket had a strong quarter, with rents hitting \$45.32/SF FSG, an increase of 1.3% compared with the previous quarter. Absorption for the year was 123,052 square feet, one of the few submarkets with positive absorption. There were two large Lake Union sales in December: GI Partners bought the 168,260-square-foot Yale & Thomas building from the joint venture of Unico Properties and Goldman Sachs for \$121.0 million, or \$719/SF; and Zurich Alternative Asset Management bought the 44,445-square-foot Terry Thomas building, which is leased to Amazon, from Terry & Thomas Land Associates for \$52.1 million, or \$1,172/SF.

In the region’s second-largest sale, Hudson Pacific Properties and Canada Pension Investment Board (via joint venture) purchased 1918 8th Avenue from JP Morgan Asset Management for \$625.0 million, or \$935/SF. 1918 8th is located near the convergence of

South Lake Union, Denny Triangle and the Seattle CBD, and is currently leased to Amazon, KPMG and RBC Wealth Management. With contractual must-take, the office portion of 1918 8th will be 100% leased to Amazon on a long-term basis.

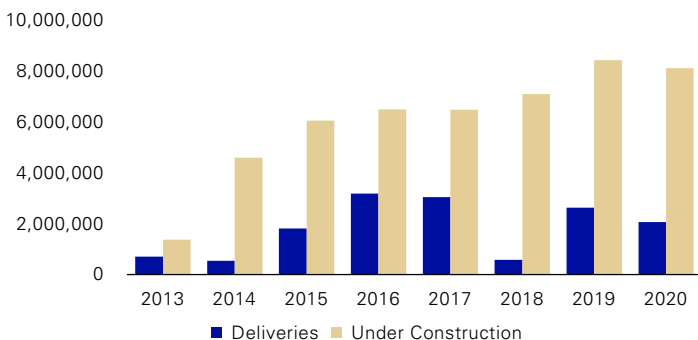
Eastside

The Eastside remained a bright spot for the region as average asking rents reached \$44.26/SF FSG, an increase of 1.9% for the quarter. Vacancy increased to 5.8%, up 70 basis points for the quarter but down 20 basis points year over year. The availability rate jumped to 10.7%, an increase of 210 basis points for the quarter. Notable large blocks hitting the market in the Bellevue CBD include Symetra subletting 155,415 of the 240,050 square feet it occupies at Symetra Financial Center and Jacobs Engineering subletting its 67,383-square-foot space at One Twelfth @ Twelfth.

Investment activity was brisk on the Eastside, with a flurry of sales closing near the end of 2020. Amazon’s prolific expansion in the Bellevue CBD, where it has 4.5 million square feet of office space either proposed or under construction, is driving asking rents upward. Class A rent in the Bellevue CBD ticked up by 0.8% in the fourth quarter to \$58.34/SF FSG, an increase of 13.0% since fourth-quarter 2018. Amazon is not the only technology giant expanding on the Eastside. Google, Facebook and Microsoft are also growing, though in the Eastside’s suburban submarkets, a fact that is not lost on investors. Four deals closed in December alone in the Eastside’s suburban submarkets, two in Kirkland and two in Redmond, for a total of \$305.6 million. In one of the Redmond sales, Nicola Crosby paid PMF Investments \$32.5 million for the 32,636-square-foot Studio 7500, which was recently leased by Volkswagen. The sales price of \$996/SF for Studio 7500 was among the highest ever recorded on the Eastside and akin to rates that in the past were only seen in the Bellevue CBD.

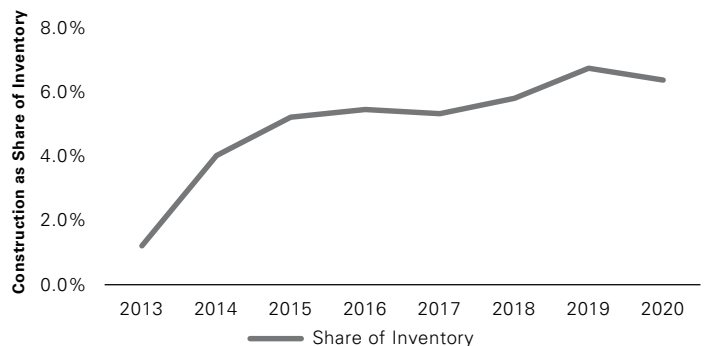
Development Activity

UNDER CONSTRUCTION AND DELIVERIES (SF)



Rate of Development

CONSTRUCTION AS % OF BUILDING INVENTORY



RESEARCH Q4 2020

In another blockbuster deal, Spring District Block 16 in Suburban Bellevue was sold in October by the joint venture of Shorenstein Properties, Wright Runstad, CalSTRS and JP Morgan to Brookfield Property Partners for \$365 million, or \$1,062/SF. Block 16 delivered in first-quarter 2020 and has been leased by Facebook, which also purchased what was to be the REI Spring District Headquarters last quarter for \$378.9 million, or \$947/SF. Facebook now owns or leases four buildings in the Spring District, which will total nearly 1.3 million square feet of office space when finished.

Capital Markets

The \$2.61 billion in office sales in the fourth quarter was the third-highest quarterly sales volume ever recorded in the region, only trailing fourth-quarter 2019, which was boosted by an impending change in the tax code, and fourth-quarter 2012, which included Amazon selling a 1.8 million-square-foot, 11-building portfolio containing most of its headquarters to Vulcan and Schnitzer West for \$1.16 billion. The strong fourth quarter pushed Puget Sound's annual office sales north of \$4 billion, ranking third among all U.S. markets. The average sale price per square foot has nearly doubled in region over the last five years, up 91.2% since fourth-quarter 2015. The hottest markets for sales have been the Eastside, the Lake Union submarket and the Seattle CBD, where premium properties have been trading for more than \$1,000/SF.

The largest transaction of the quarter was in the Seattle CBD, where the Hana Financial Group acquired a 95% interest in the

703,003-square-foot 2+U from Skanska USA for \$668.8 million, reflecting a gross value of \$703.5 million, or \$1,001/SF. 2+U delivered fully leased in the first quarter of this year to tenants including Qualtrics, Spaces, Indeed and Dropbox.

In December, Clarion and Alexandria Real Estate completed a joint venture transaction in which Clarion acquired 70.0% of a 322,858-square-foot, three-property life science portfolio in the Lake Union submarket, which included 1201 and 1208 Eastlake Avenue, as well as 199 East Blaine Street. The deal worked out to a full-building value of \$449.2 million, or \$1,391/SF. Alexandria Real Estate also bought two buildings in Bothell, which total 180,246 square feet, 3555 and 3755 Monte Villa Parkway, for \$56.9 million, or \$316/SF. Bothell continues to make strides as the region's secondary life science hub, with tenants frequently expanding there after establishing an initial presence in South Lake Union. Life science has been one of the best-performing industries since the start of the pandemic, and office buildings with lab space have become more highly sought after than ever. The life science market in Puget Sound has exceeded the performance of the overall market by a wide margin. Vacancy among all Puget Sound life science buildings is roughly 8.0% but it is less than 2.0% in Seattle. New inventory is virtually impossible to find, putting strong upward pressure on asking rents, which are currently ranging from \$65.00/SF to \$75.00/SF NNN for top-tier space.

Select Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
Seattle Times	1000 Denny	Belltown/Denny Regrade	Renewal	47,424
CustomArray	9911 Willows	Redmond	Sublease	28,265
Radiant Logistics Inc	Triton Towers Two	Renton/Tukwila	Direct	20,025
Athira Pharma	North Creek Parkway Center	Bothell/Kenmore	Direct	19,326
Moz	1111 3rd	Seattle CBD	Sublease	18,414

Select Sales Transaction

Building	Submarket	Sale Price	Price/SF	Square Feet
2+U	Seattle CBD	\$703,500,000	\$1,001	703,003
1918 8th Avenue	SLU/Denny Triangle	\$625,000,000	\$936	668,000
1201/1208 Eastlake & 199 E Blaine	Lake Union	\$449,237,143	\$1,391	322,858
Spring District Block 16	Suburban Bellevue	\$365,000,000	\$1,155	316,000
Millennium Corporate Park	Redmond	\$217,000,000	\$365	594,694
325 Eastlake (Yale & Thomas)	Lake Union	\$121,000,000	\$719	168,260
Monte Villa Farms	Bothell/Kenmore	\$65,000,000	\$232	280,150
3555 & 3755 Monte Villa Pkwy	Bothell/Kenmore	\$56,900,000	\$316	180,246

RESEARCH Q4 2020

Submarket Statistics							
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Direct Asking Rent (Price/SF)	YOY Asking Rent Change (%)
Downtown Seattle	65,905,371	3,807,331	7.8%	-471,431	-674,789	\$46.77	-1.5%
Ballard/University District	3,385,589	0	6.8%	22,866	67,473	\$43.91	-5.5%
Belltown/Denny Regrade	5,600,135	892,008	9.6%	-41,139	-268,686	\$40.07	-4.2%
Capitol Hill/Central District	1,749,883	0	4.1%	-14,890	44,141	\$40.14	-13.3%
Lake Union	10,763,915	1,355,094	2.1%	-55,323	123,052	\$45.32	-5.9%
Pioneer Square/Waterfront	6,270,440	0	7.5%	-111,510	-215,113	\$41.13	-9.6%
Queen Anne/Magnolia	4,241,458	49,012	16.3%	-11,676	-220,874	\$37.76	-7.0%
South Seattle	2,820,026	0	6.4%	-5,797	20,675	\$34.42	-3.7%
Seattle CBD	31,073,925	1,511,217	8.9%	-253,962	-225,457	\$51.72	1.9%
Eastside	34,214,621	3,626,208	5.8%	-160,679	-69,074	\$44.26	-0.1%
520 Corridor	3,107,442	246,638	7.5%	-27,645	60,427	\$41.92	-4.6%
Bellevue CBD	9,646,698	2,943,070	4.2%	-88,002	-161,337	\$57.04	1.0%
Bothell/Kenmore	3,375,909	0	7.3%	59,316	63,886	\$35.36	-3.3%
Coal Creek/Issaquah	1,867,877	0	5.3%	-4,568	-12,933	\$48.54	17.9%
I-90 Corridor	4,876,396	0	5.0%	-74,855	-68,675	\$41.38	0.3%
Kirkland	2,411,939	186,500	2.7%	5,879	101,382	\$45.37	-12.5%
Mercer Island	575,995	0	30.8%	-3,918	-15,699	\$41.94	-0.1%
Redmond	3,512,099	0	5.6%	4,528	63,669	\$40.96	7.0%
Suburban Bellevue	3,902,449	250,000	7.4%	-26,956	-104,827	\$41.19	6.8%
Totem Lake	937,818	0	3.7%	-4,458	5,033	\$38.60	10.4%
Southend	11,249,842	0	21.5%	-74,548	4,243	\$36.17	2.9%
Federal Way/Auburn	3,315,577	0	22.8%	9,075	5,894	\$26.23	-3.1%
Kent Valley	1,610,503	0	6.9%	20	-22,897	\$29.46	3.0%
Renton/Tukwila	5,129,342	0	27.6%	-45,722	61,038	\$43.15	6.3%
Seatac/Burien	1,194,420	0	11.0%	-37,921	-39,792	\$29.48	-4.3%
Northend	7,766,194	0	6.9%	-96,778	-136,741	\$31.37	0.5%
Tacoma	8,814,048	75,000	8.5%	41,646	74,799	\$27.92	-2.1%
Puget Sound Market	127,950,077	7,508,539	8.5%	-761,790	-801,562	\$41.86	1.7%

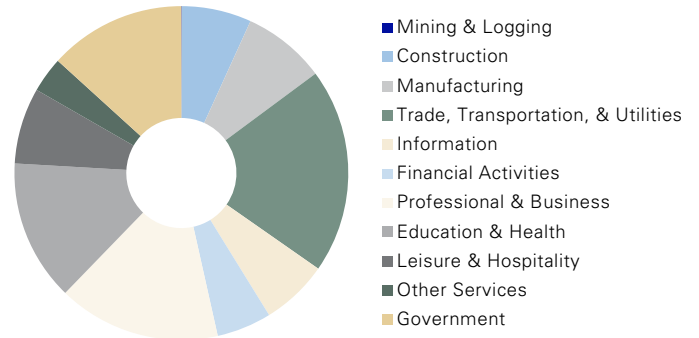
Economic Conditions

The Puget Sound economy steadily regained momentum throughout the second half of 2020 and enters 2021 on a roll. The unemployment rate dropped to 5.1% in November after reaching a record high of 16.6% in April. It is the lowest unemployment has been since February and 130 basis points lower than the national unemployment rate of 6.4%.

The national economy continued to forge ahead despite the pandemic. The S&P 500 closed 2020 at a record high, up 15.9% on the year. Unemployment and job growth rates are the strongest they have been since March. Third-quarter GDP increased by an annualized rate of 33.4%, the highest ever recorded, and the Atlanta Fed has estimated fourth-quarter GDP growth of 8.9% annualized.

Employment By Industry

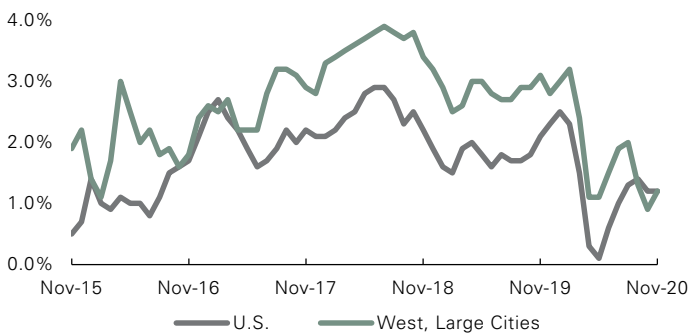
Seattle-Tacoma-Bellevue



Source: U.S. Bureau of Labor Statistics

Consumer Price Index (CPI)

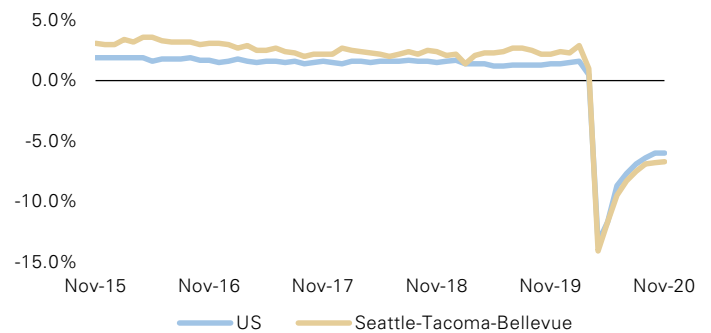
All Items, 12-Month % Change, Not Seasonally Adjusted



*Source: U.S. Bureau of Labor Statistics

Payroll Employment

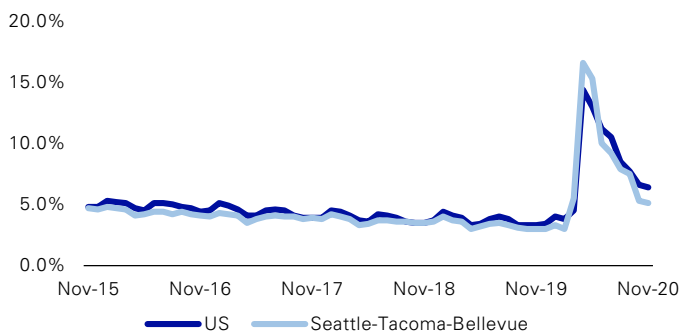
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



*Source: U.S. Bureau of Labor Statistics

Unemployment Rate

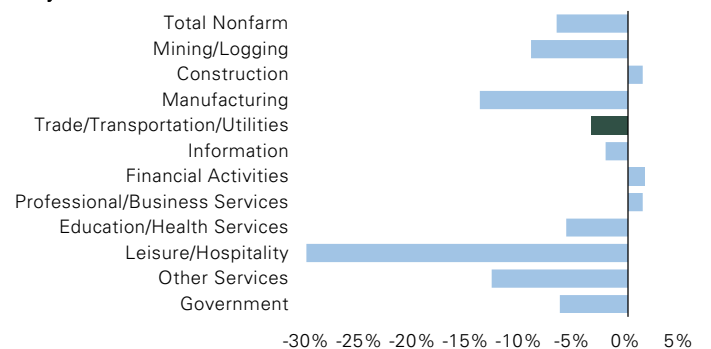
Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

Employment Growth by Industry

Seattle-Tacoma-Bellevue, 12-Month % Change, Not Seasonally Adjusted



*Source: U.S. Bureau of Labor Statistics

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