

MARKETBEAT

Puget Sound Eastside

Office Q1 2017



PUGET SOUND EASTSIDE OFFICE

Economic Indicators

	Q1 16	Q1 17	12-Month Forecast
Seattle-Tacoma-Bellevue Employment	1,927k	1,984k	▲
Seattle-Tacoma-Bellevue Unemployment	5.3%	4.1%	▼
U.S. Unemployment	4.9%	4.8%	■

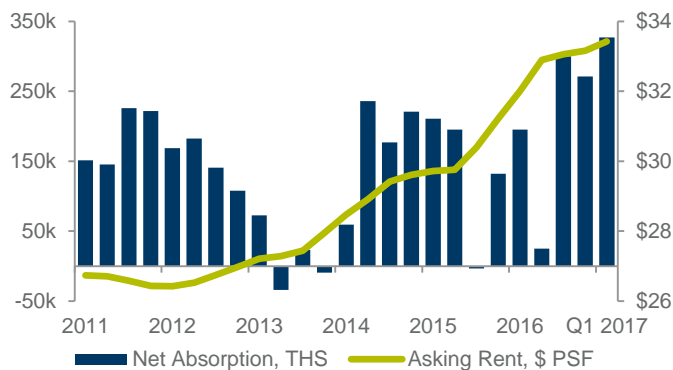
Market Indicators (Overall, All Classes)

	Q1 16	Q1 17	12-Month Forecast
Vacancy	9.7%	8.8%	▼
Net Absorption (sf)	439k	661k	▼
Under Construction (sf)	1.2M	729k	▲
Average Asking Rent*	\$33.20	\$34.26	▲

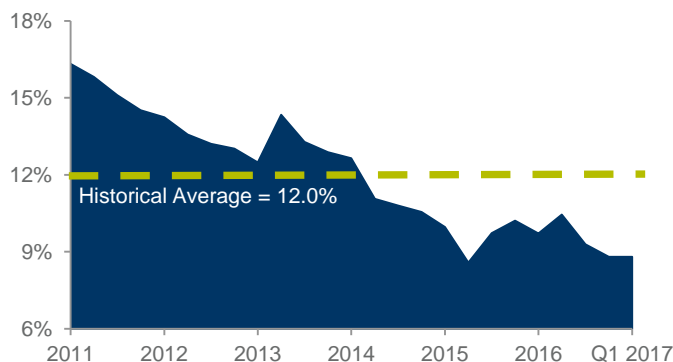
*Rental rates reflect gross asking \$psf/year

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

The U.S. economy reported moderate growth in the first quarter of 2017. For the second time in three months (and the third time in a decade), the Federal Reserve raised its target interest rate, up 25 basis points (bps) to a range of 0.75% to 1.00%. The unemployment rate was below 5.0% for the fifth straight quarter.

In the Seattle-Tacoma-Bellevue Metropolitan Statistical Area (MSA), employment rose 3 bps and unemployment fell 120 bps on a year-over-year basis. The 4.1% unemployment rate ranks sixth-lowest in the U.S. among MSAs with a population of at least three million people (as of the 2010 census).

Market Overview

The Eastside office market opened the year with an overall vacancy rate decrease of 90 bps to 8.8% and an overall asking rent increase of 3.2% to \$34.26 per square foot (PSF) on a year-over-year basis.

Leasing activity in the Eastside in the first quarter totaled 590,000 square feet (SF), a 25.60% year-over-year increase. The largest new lease was HDR's deal for 42,000 SF at 929 Office Tower in the Bellevue CBD.

In the largest sale transaction of the quarter, Embarcadero Capital Partners sold Alderwood Business Center to Alaska Electrical Pension Fund for \$42.05 million (\$211.83 PSF). The two-building, 199,000-SF Class A office park was 92.3% leased at the time of sale and sold at a 7.9% cap rate.

Outlook

Confidence in the Eastside remains high, as new construction has delivered in the CBD and a highly anticipated project is scheduled to break ground in the suburban market.

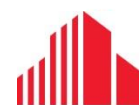
In the CBD, 400 Lincoln Square (724,700 SF), 90% preleased to Pokémon, WeWork, and Valve, among others, delivered during the quarter. The Lincoln Square expansion was the last project under construction in the CBD, following the delivery of Amazon-occupied Centre 425 (354,000 SF) at the end of 2016. No new construction is planned at this time. Expedia extended its lease for 55,000 SF at Skyline Tower through 2022 but is still expected to vacate the 380,000 SF it occupies at its namesake property in Bellevue for Seattle beginning in 2019.

In the suburban market, The Spring District (491,000 SF), in the 405 Corridor submarket, is set to break ground in mid-2017 and will house the Global Innovation Exchange (GIX) and REI in 2018 and 2020, respectively. Phase I of Kirkland Urban (660,000 SF) is due for delivery in 2018.

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CUSHMAN & WAKEFIELD
Commerce

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	OVERALL AVERAGE ASKING RENT (ALL CLASSES)*	OVERALL AVERAGE ASKING RENT (CLASS A)*
BELLEVUE CBD	9,909,888	25,617	790,513	8.2%	601,158	601,158	234,605	0	\$42.41	\$42.72
405 Corridor	2,312,178	4,293	149,083	6.6%	45,704	45,704	40,157	0	\$33.41	\$42.89
520 Corridor	3,320,007	55,644	154,420	6.3%	30,921	30,921	53,410	69,300	\$31.81	\$36.00
I-90 Corridor	6,528,502	44,971	616,149	10.1%	(26,209)	(26,209)	59,637	0	\$33.94	\$34.32
Bel-Red	1,433,699	0	19,867	1.4%	10,693	10,693	6,596	0	\$28.90	\$0.00
Redmond	2,575,428	0	221,824	8.6%	3,237	3,237	3,935	0	\$31.62	\$33.43
Kirkland	2,490,013	51,109	93,928	5.8%	(18,209)	(18,209)	92,453	660,000	\$28.91	\$34.51
Bothell/Woodinville	2,594,550	47,346	446,297	19.0%	(18,247)	(18,247)	29,706	0	\$29.06	\$30.49
EASTSIDE SUBURBAN	21,254,377	203,363	1,701,568	9.0%	27,890	27,890	285,894	729,300	\$31.69	\$33.80
Lynnwood	2,255,863	1,209	188,210	8.4%	34,375	34,375	51,198	0	\$28.10	\$30.44
Everett	2,079,590	10,862	194,734	9.9%	(2,833)	(2,833)	18,488	0	\$21.65	\$0.00
NORTHEND SUBURBAN	4,335,453	12,071	382,944	9.1%	31,542	31,542	69,686	0	\$24.74	\$26.12
SUBURBAN TOTALS	25,589,830	215,434	2,084,512	9.0%	59,432	59,432	355,580	729,300	\$31.37	\$33.31
PUGET SOUND EASTSIDE TOTALS	35,499,718	241,051	2,875,025	8.8%	660,590	660,590	590,185	729,300	\$34.26	\$37.94

*Rental rates reflect gross asking \$psf/year

BLDG CLASS	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	DIRECT AVERAGE ASKING RENT*	OVERALL AVERAGE ASKING RENT*
Class A	19,361,347	104,928	1,496,637	8.3%	606,288	606,288	289,901	660,000	\$38.69	\$37.94
Class B	13,967,602	131,325	1,274,764	10.1%	32,123	32,123	285,192	69,300	\$30.06	\$29.70
Class C	2,170,769	4,798	103,624	5.0%	22,179	22,179	15,092	0	\$26.71	\$26.59

Key Lease Transactions Q1 2017

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
929 Office Tower	41,754	HDR	Lease	Bellevue CBD
Slater Avenue Office Bldg	38,664	DR Horton	Lease	Kirkland
City Center Bellevue	32,304	Caradigm USA LLC	Renewal**	Bellevue CBD

**Renewal - not included in Leasing Activity Statistics

Key Sales Transactions Q1 2017

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
Alderwood Business Center	198,508	Embarcadero Capital Ptrs / Alaska Electrical Pension Fund	\$42,050,000 / \$212	Lynnwood
Quadrant Willows – Bldgs B & D	118,058	Menlo Equities / Equus Capital Ptrs	\$22,320,000 / \$189	Redmond
Evergreen Office Park	88,642	SteelWave / PCCP LLC	\$21,450,000 / \$242	520 Corridor

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