

FIGURES | PUGET SOUND OFFICE | Q1 2024

Eastside shines amid muted demand

▲ 25.3%

Vacancy Rate

▲ 28.9%

Availability Rate

▲ (555)K

SF Net Absorption

▼ 2.0M

SF Under Construction

▲ \$50.71

Class A Asking Lease Rate
SF/Year, Full Service

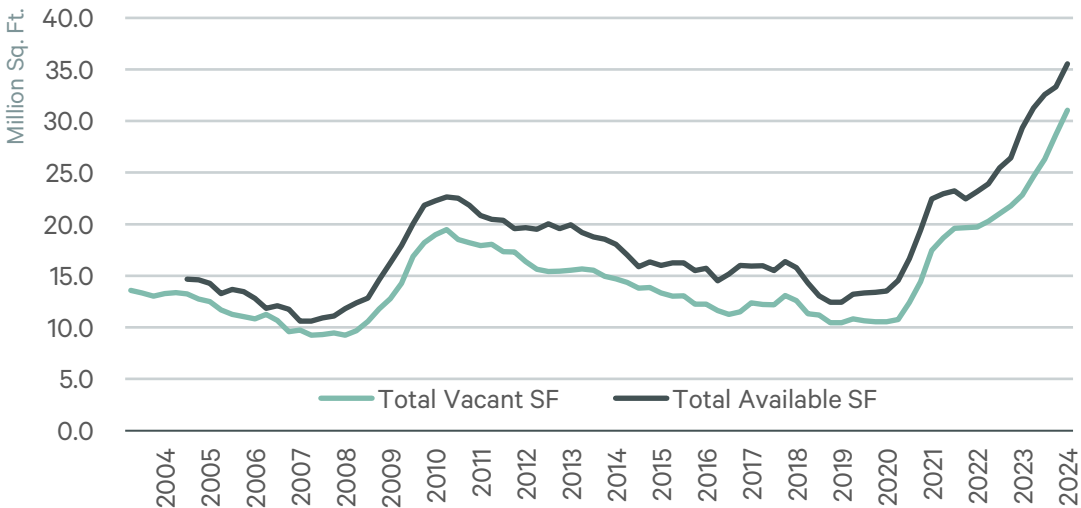
Note: Arrows indicate change from previous quarter.

Puget Sound office demand for new space remained stable over the last 24 months though vacancy continued to climb as other tenants right-size. Work from home trends, and employment in the professional services and technology sectors show little movement, causing new vacancy as leases expire. Leasing volume measured 1.8 million sq. ft. during the quarter; the average lease size rose to just over 9,000 sq. ft., from 6,000 sq. ft. last quarter, due to Pokémon's new lease in the Bellevue CBD.

Demand from expanding tenants on the Eastside demonstrates the attraction of that market compared to others in the Seattle area. While there has not been a mass exodus from other submarkets to the Eastside, some Eastside tenants with in-office operations are looking for space in proximity to their current address for expansion or to refresh their work environment.

Conversion of office to multifamily or other uses took concrete steps forward at the start of 2024. The Mayor of Seattle proposed legislation to exempt a converting property from design standards review and from Mandatory Housing Affordability requirements, which will reduce costs and speed approval. Two new conversion projects were announced during Q1. Specifically in Downtown Seattle, a change to multifamily for 183,000 sq. ft. of office space at Martin Selig's newly built Third & Lenora, and a conversion of 50,235 sq. ft. at Queen Anne Plaza, built in 1985, are in process.

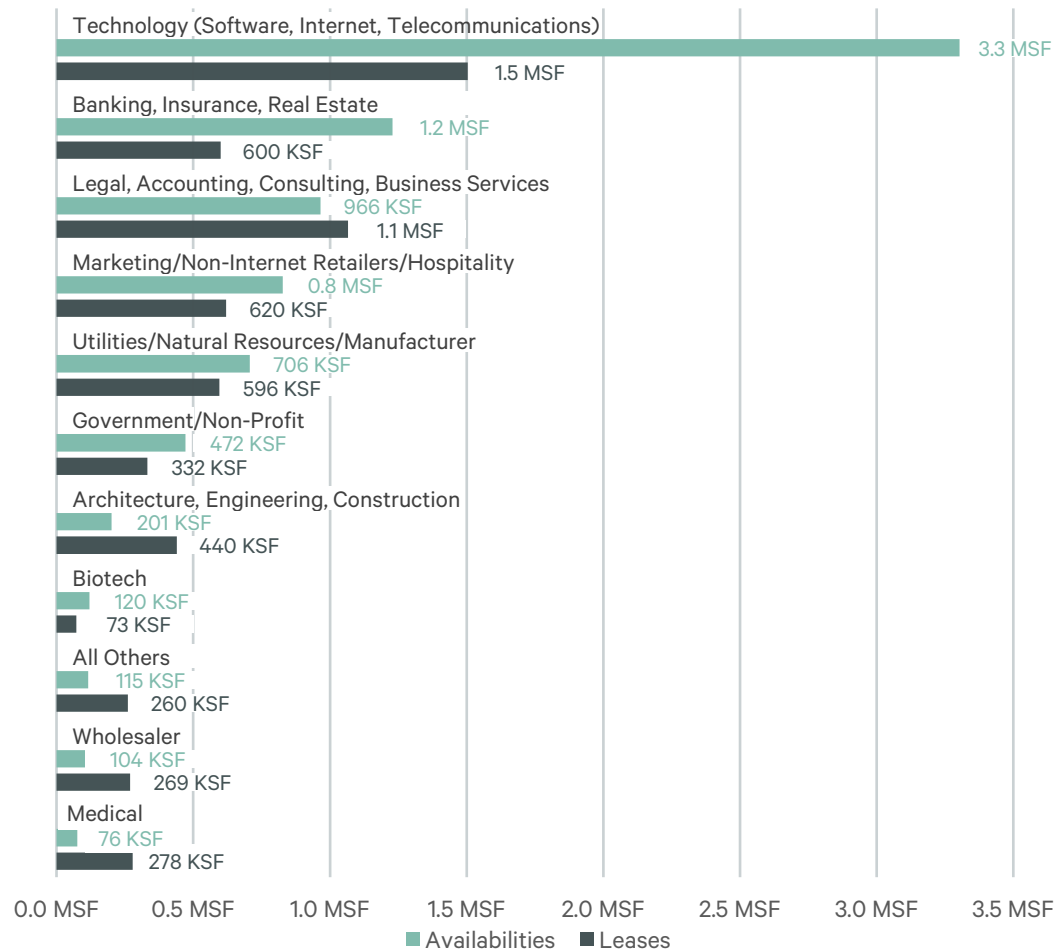
FIGURE 1: Historic Vacancy and Availability



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, Q1 2024

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

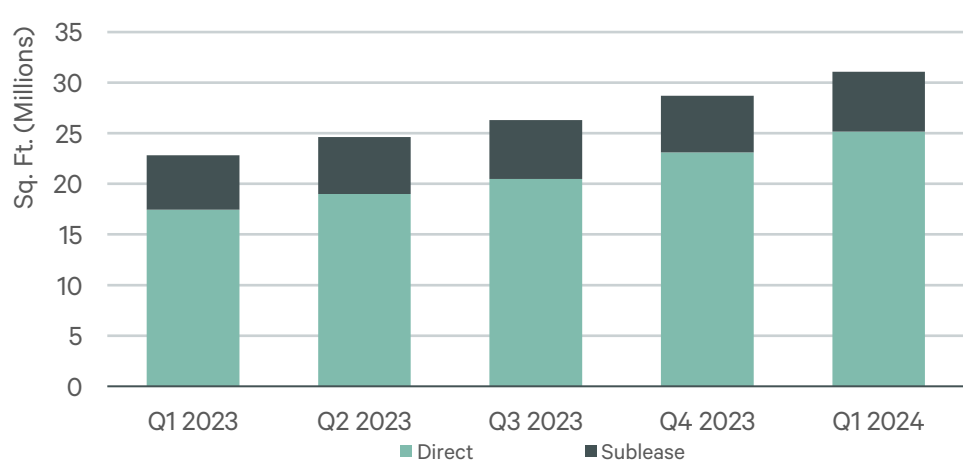


Available Space is space that is advertised, but not necessarily vacant, by an outgoing tenant in the respective business sector. This analysis excludes first-generation space.

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

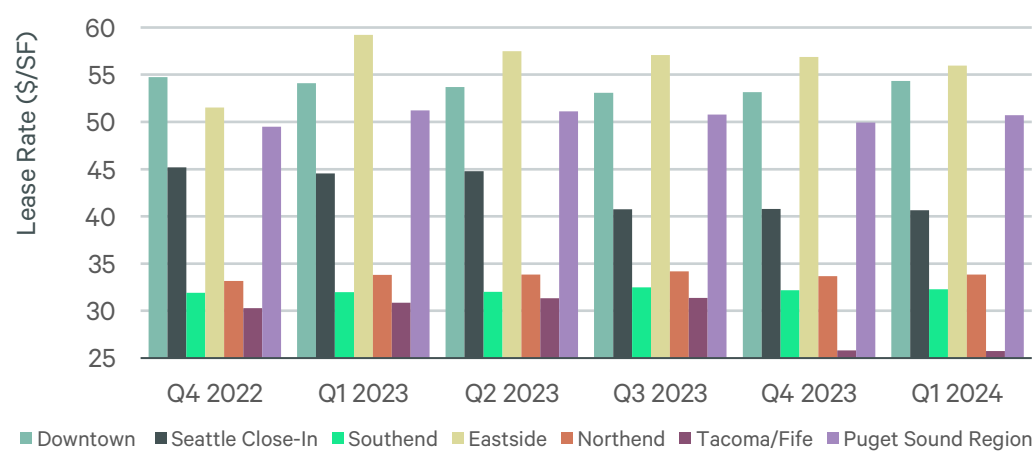
Source: CBRE Research, Q1 2024

FIGURE 3: Puget Sound Vacancy



Source: CBRE Research, Q1 2024

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



Source: CBRE Research, Q1 2024

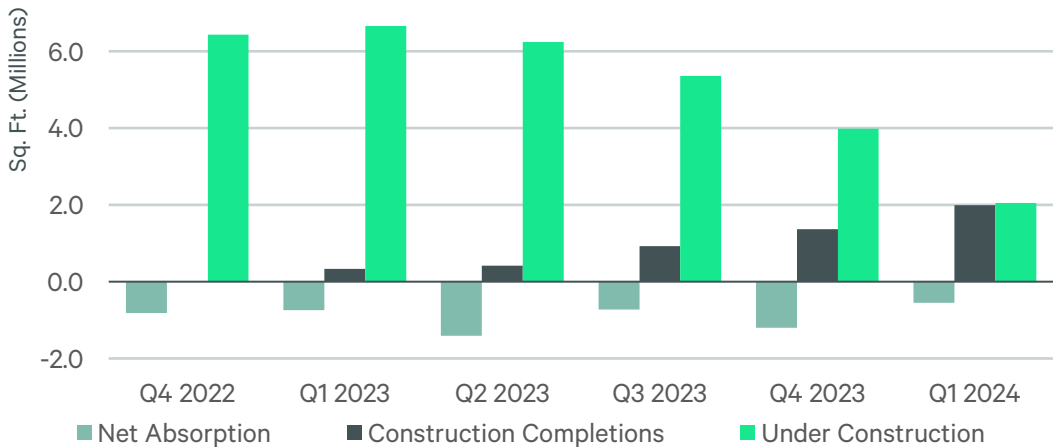
Downtown Seattle

Leasing activity remained moderate in Downtown Seattle, with gross lease volume around 750,000 sq. ft., similar to the first quarters of 2022 and 2023. The size of the average lease has also remained steady for the same time period, at approximately 8,400 sq. ft. The Downtown Seattle market experienced 795,962 sq. ft. of negative net absorption in Q1 due to tenant contractions. The Class A direct asking rate increased by \$1.09 to \$54.33 per sq. ft., per year, full service.

The market did see several key leases signed in Q1 2024, with PATH leasing 52,000 sq. ft. at the West Dock Building and Verkada leasing nearly 25,000 sq. ft. of sublease space at 83 S King St. The biggest move-in during the quarter was Slalom occupying approximately 60,000 sq. ft. at Hawk Tower, part of Avalara’s former space, after signing a new lease in Q3 2023 that includes future expansion. Other positive absorption included 21,824 sq. ft. by Helsell Fetterman at 800 Fifth, and 21,428 sq. ft. by the Puget Sound Regional Council and 23,441 sq. ft. from P2S Engineering at 1201 Third.

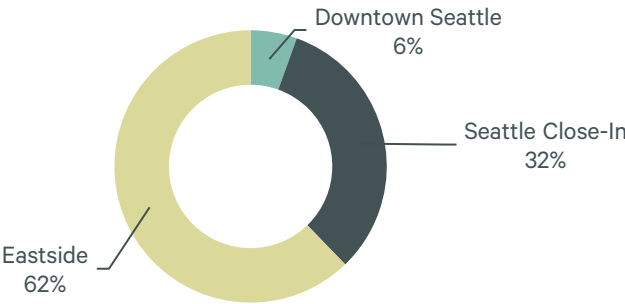
The biggest move-out was Salesforce vacating 209,000 sq. ft. at NorthEdge in the Canal submarket. Dell left 43,000 sq. ft. at King Street Crossing – 505 1st Ave S, and Zulily left their 36,000 sq. ft. short-term space after announcing bankruptcy in Q4 2023.

FIGURE 5: Puget Sound Absorption and Construction



Source: CBRE Research, Q1 2024

FIGURE 6: Square Feet Under Construction, Percent by Market



Source: CBRE Research, Q1 2024

FIGURE 7: Key Transactions

Tenant	Transaction Type	Sq. Ft.	Building	Market	Business Sector	Net Absorption
Pokémon	New Lease	374,286	The Eight	Eastside	Retailer	Positive
ByteDance	New Lease	132,621	Lincoln Square-North Tower	Eastside	Technology	Positive
K2 Sports	New Lease	70,123	Commons on 90 Building III	Eastside	Manufacturer	Positive
CENTRL Office	New Lease	53,365	Kelly-Springfield	Seattle Close-In	Flexible Space	Positive
PATH	New Lease	52,000	West Dock Building	Downtown Seattle	Life Science	Negative
ByteDance	Expansion (sublease)	45,078	Key Center	Eastside	Technology	Positive
UIPath	New Lease	44,677	Lincoln Square-North Tower	Eastside	Technology	Positive
LinkedIn	New Lease	44,677	Lincoln Square-North Tower	Eastside	Technology	Neutral

Source: CBRE Research, Q1 2024

Eastside

Lease volume significantly outpaced the previous year in Q1 2024 on the Eastside, reaching over 900,000 sq. ft. in total. This surge was largely driven by the Bellevue Central Business District, which emerged as a preferred location for technology firms seeking better market options. The Eight, a prime office development nearing completion, was instrumental in this expansion, securing a 374,000 sq. ft. lease with Pokémon, bringing its pre-delivery occupancy to 72%. Notably, TikTok expanded its regional footprint by leasing six floors in the Lincoln Square North Tower, totaling over 132,000 sq. ft.

The Eastside office market witnessed positive net absorption of 384,320 sq. ft. The quarter marked the shell & core completion of the Artise where Amazon has leased the project, yet the occupancy date remains unclear. Major movers in the market included a telecommunication tenant vacating the entire Commons on 90 building, Oracle moving out of 50,000 sq. ft. from One Bellevue Center, and IonQ's expansion in Bothell. The Class A direct asking rate was \$55.95 per sq. ft. per year, full service, a \$0.94 drop from the previous quarter.

Additionally, infrastructure development marked by the launching of the Eastside Link light rail Line 2 on April 27 is expected to enhance connectivity, potentially influencing future leasing dynamics.

Northend

The Northend market experienced minor negative net absorption of 10,905 sq. ft, without any major shifts. Leasing activity predominantly consisted of small new leases. Negotiations were notably extended, suggesting tenants experienced no urgency with abundant market options. While concessions were given on free rent, tenant improvement (TI) concessions remained limited due to persistently high construction costs. The Class A direct asking rate dropped to \$33.82 per sq. ft. per year, full service, a slight decrease of \$0.05.

FIGURE 8A: Statistics by Submarket

Submarket	Net Rentable Area (SF)	Direct Vacancy Rate (%)	Total Vacancy Rate (%)	Total Availability Rate (%)	Q1 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	24,218,544	25.8%	33.3%	37.0%	(267,727)	(1,407,200)	0	53.93	49.59
Waterfront	2,621,425	35.1%	39.5%	46.9%	(40,552)	(397,539)	0	51.09	51.09
Pioneer Square	4,707,769	35.7%	40.0%	43.4%	(123,789)	(234,331)	0	54.83	53.89
Denny Triangle/Regrade	8,639,351	32.9%	34.9%	40.1%	(42,640)	(542,082)	0	56.25	55.17
Lower Queen Anne	2,980,441	33.1%	36.1%	37.6%	(62,987)	(17,996)	0	41.53	39.59
Lake Union	10,343,706	12.2%	15.0%	17.0%	(65,495)	(230,366)	0	58.09	57.14
Canal/Fremont	1,994,129	4.3%	19.7%	28.2%	(192,772)	(226,065)	112,700	51.70	44.24
Downtown Seattle	55,505,365	25.2%	30.7%	34.5%	(795,962)	(3,055,579)	112,700	54.33	51.10
North Seattle/Interbay	2,742,277	16.0%	18.1%	22.6%	(32,860)	(20,404)	660,277	39.91	39.52
Capitol Hill/E Seattle/Rainier	1,154,402	16.3%	19.0%	13.9%	(63,613)	(67,893)	0	31.26	31.26
South/West Seattle	3,406,647	10.1%	19.0%	23.7%	(965)	(136,568)	0	45.07	43.08
Seattle Close-In	7,303,326	13.3%	18.7%	21.8%	(97,438)	(224,865)	660,277	40.63	39.91
Sea-Tac	1,301,072	9.3%	9.3%	9.9%	(31,325)	(54,519)	0	32.45	32.45
Tukwila	2,078,892	15.0%	16.2%	13.7%	(10,417)	9,766	0	25.99	24.95
Renton	4,749,044	27.7%	28.2%	24.4%	49,252	235,279	0	37.59	37.43
Kent	1,161,442	10.2%	10.8%	14.2%	(34,114)	(20,129)	0	27.93	27.93
Auburn	289,025	20.8%	20.8%	15.5%	0	335	0	26.75	26.75
Federal Way	2,732,820	24.4%	25.1%	27.2%	42,820	34,499	0	24.94	24.94
Southend	12,312,295	21.1%	21.7%	20.5%	16,216	205,231	0	32.27	31.92

Source: CBRE Research, Q1 2024

Southend

The Seattle Sounders revealed their new office headquarters and training facilities at Longacres in Renton, creating a buzz in the Southend market. The absorption rate in the Southend culminated at 16,216 sq. ft. positive in Q1 2024. Additionally, the direct asking rate for Class A properties saw an increase to \$32.27 per sq. ft. per year, full service, although the overall vacancy rate rose by 150 basis points (bps) to 21.7%. Despite these changes, the Southend market continues to offer attractive Class A options at favorable rates.

Tacoma

The Tacoma market experienced some setbacks, with a few tenants vacating large office spaces. Notably, Pierce County left approximately 29,000 sq. ft. of office space in the Columbia Bank Building. Consequently, absorption for Q1 dipped significantly to negative 51,503 sq. ft. Despite this trend, Class A direct rates have only seen a slight decline at \$25.73 per sq. ft. per year, full service, and the total vacancy rate remained relatively stable, increasing slightly by 80 bps to 22.1%.

Investment Sales

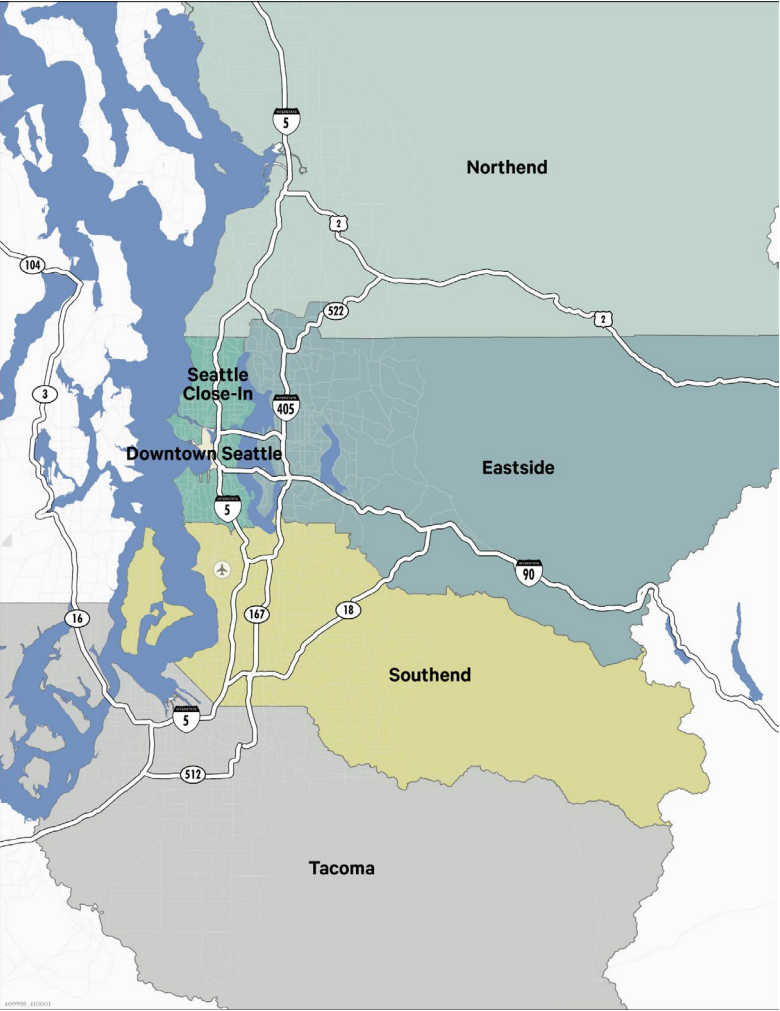
Real estate investment activity is expected to remain sluggish through the first half of 2024 due to high interest rates. These factors have created a cautious environment for investors, and slower pace of transactions and development. However, experts anticipate that the real estate market will gradually regain momentum in the second half of the year as economic conditions stabilize and investor confidence improves. Locally, there was only one transaction that exceeded \$10 million - the sale of 1000 & 1100 Dexter, two Class A office buildings located in South Lake Union with a combined area of over 200,000 sq. ft. The Palisade Group and Sabal Investment Holdings purchased the buildings for \$47.5 million (\$213 per sq. ft.), at a cap rate of 8.5%.

FIGURE 8B: Statistics by Submarket

Submarket	Net Rentable Area (SF)	Direct Vacancy Rate (%)	Total Vacancy Rate (%)	Total Availability Rate (%)	Q1 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	12,929,272	12.5%	16.8%	27.6%	454,664	1,646,189	1,008,700	67.17	62.08
I-405	2,943,825	13.9%	15.1%	18.8%	(47,633)	(64,969)	0	49.71	47.47
SR-520	2,393,943	18.0%	21.5%	26.4%	(35,550)	(135,064)	0	46.88	46.06
I-90	7,661,247	33.7%	37.7%	39.1%	(103,047)	(1,739,175)	0	47.21	45.84
Bel-Red Road	2,742,805	15.0%	27.8%	20.9%	(10,484)	5,844	208,000	36.76	35.56
Kirkland	2,092,690	2.2%	3.5%	4.6%	5,283	16,218	56,470	55.55	48.08
Redmond	4,446,332	3.3%	15.1%	19.1%	(6,248)	(544,525)	0	42.58	40.48
Bothell	2,433,890	13.7%	17.1%	23.2%	127,335	(6,687)	0	39.06	39.06
Eastside	37,644,004	15.9%	21.1%	26.1%	384,320	(822,169)	1,273,170	55.95	52.93
Lynn/Edm/Mtlk Terr	2,571,727	13.1%	16.9%	17.9%	(11,437)	942	0	34.83	34.83
Everett	2,074,129	9.5%	19.3%	21.4%	532	(14,577)	0	29.51	29.25
Northend	4,645,856	11.5%	18.0%	19.5%	(10,905)	(13,635)	0	33.82	33.50
Tacoma CBD	3,025,037	15.8%	19.0%	28.5%	(44,128)	(16,765)	0	30.88	30.07
Tacoma Suburban	1,289,895	4.4%	5.2%	6.6%	(6,384)	11,486	0	N/A	N/A
Fife	159,994	16.8%	16.8%	16.8%	0	12,491	0	N/A	N/A
Puyallup	655,687	24.1%	32.2%	32.2%	(991)	8,184	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	1.2%	1.2%	6.9%	0	1,738	0	N/A	N/A
Tacoma/Fife	5,552,288	19.3%	22.1%	27.7%	(51,503)	17,134	0	25.73	25.60
Puget Sound Total	122,963,134	20.5%	25.3%	28.9%	(555,272)	(3,893,883)	2,046,147	50.71	48.60

Source: CBRE Research, Q1 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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