Savills Studley Report
Seattle office sector

Q2 2017

SUMMARY

Market Highlights

LEASING STILL EXCEEDS LONG-TERM AVERAGE

Tenants have leased 9 msf in the four most recent quarters, nearly 10% above the Seattle region's long-term average.

AVAILABILITY STABLE

Seattle's overall availability rate ticked down by 10 basis points to 13.1%. The Class A availability rate inched up from 10.9% to 11.0%, though. Compared to a year ago, the Class A rate has fallen by 340 basis points.

ASKING RENT PUSHES HIGHER

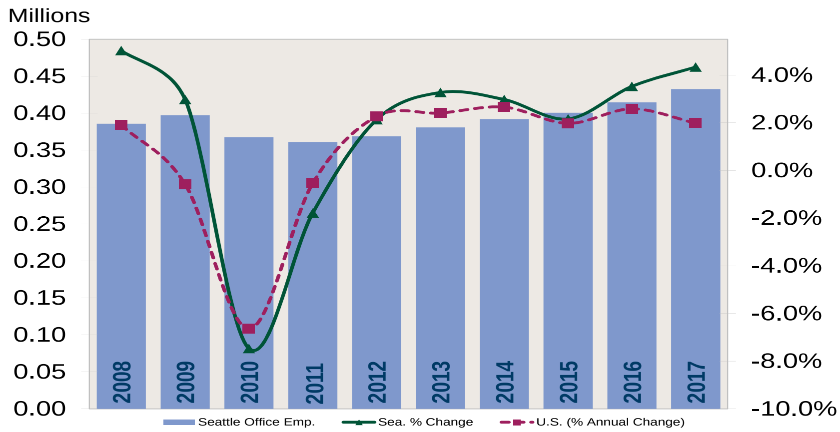
Overall regional asking rent increased by 0.3% from $30.79 to $30.88. The Class A rent jumped by 1.9% from $38.48 to $39.23.

PAUSE IN SALES ACTIVITY

Office property sales exceeded $1.0 billion in nine of the prior 11 quarters, and totaled nearly $2.0 billion in the final quarter of 2016. Sales volume dropped to $605 million in the first quarter, the lowest total in nearly three years.

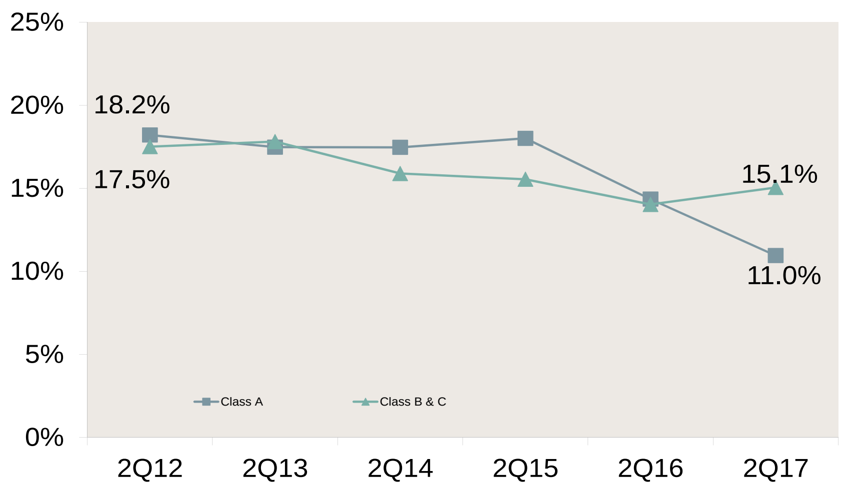
"Tenants expanding in the heart of Seattle's tech districts must expect a vigorous competition for talent and space to house them. Those that can base operations in Seattle's CBD or in more peripheral suburban locations have a few more options. Expanding sublet availabilities can also be a solution for some firms."
Eric Blohm, Senior Managing Director

Office-Using Employment Trends

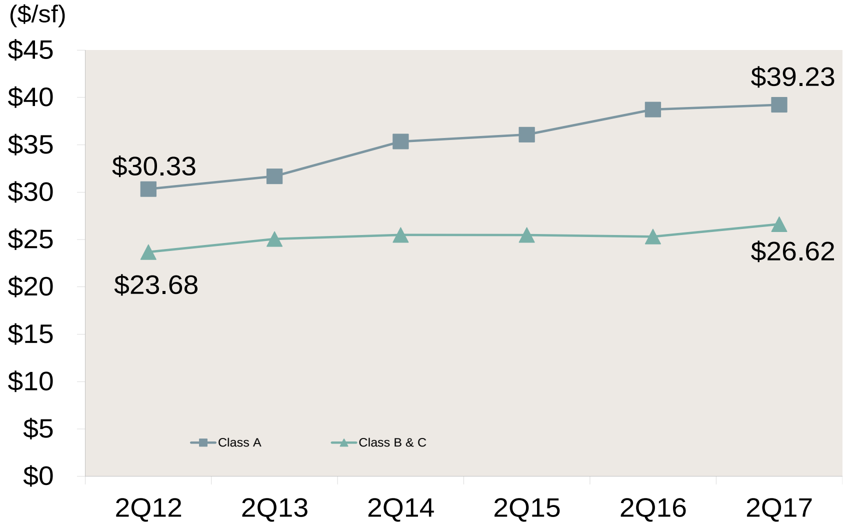


Source: Bureau of Labor Statistics

Availability Rate Trends



Asking Rent Trends



Bidding Wars

Any firm planning to expand in the heart of Seattle's core tech submarkets should expect a fierce competition for space and talent. The most well-funded firms are blowing competitors for top talent and space out of the water. This includes tech heavyweights placing high bids on projects even before they break ground. In the most sought after areas a bidding environment is in place. Seattle has seen this show before. The region has a long track record of dealing with the ups and downs of boom and bust periods. For the time being, Seattle is in the thick of the action as Amazon and a host of other tech firms set the tone for the market.

F5 Makes it Mark on Seattle's Skyline

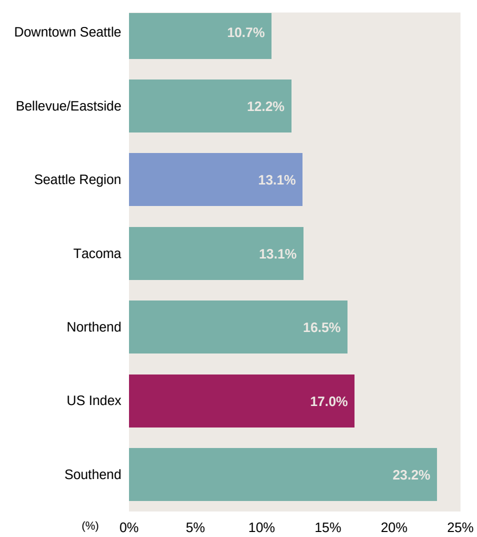
The intensity of hiring and growth among Amazon, Salesforce and other tech heavyweights is pushing tech firms to look outside of their traditional comfort zones in South Lake Union and Pioneer Square. They are expanding their search to include the Seattle and Bellevue CBDs. These areas offer extensive amenities, access to mass transit and the synergy of being hooked into like-minded companies. The likes of Amazon and Facebook get a lot of attention, but other less well-known firms such as F5 Networks are being very aggressive as well. The leader in ADN (application delivery networking) technology created quite a splash with its 515,000-sf pre-lease for the entirety of 801 5th Street – a major increase from the 320,000 sf they currently occupy – giving them ample room to expand. Marketed as the Mark, the building will now be known as the F5 Tower.

Cheaper, but Far From A Bargain

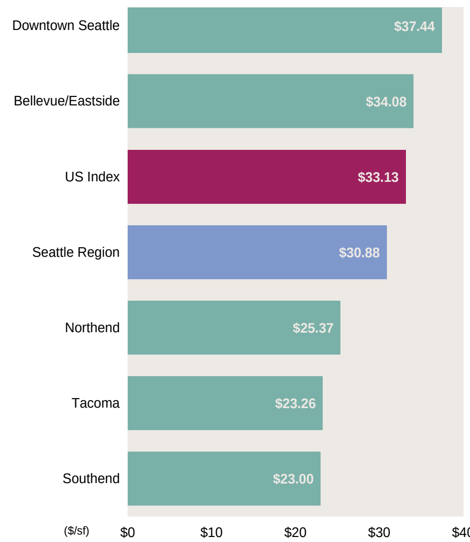
F5 has been on a hiring spree in the last two years. Other tech companies are warehousing space – taking on more space than they need, before they have the bodies to fill it. There is no question, though, that many area firms are in expansion mode. Demand for talent is conveniently dovetailing with an influx of people, particularly from the Bay area. Talented tech workers are moving to Seattle for a lower cost of living. The cost of housing is rising rapidly in the Puget Sound region, though. During April median home prices exceeded $700,000 for the first time, but this was still well below San Jose's $881,200.

According to a recent report from LinkedIn the net number of workers moving to the San Francisco region fell 17% from February to May, in contrast cities such as Seattle

Vacancy Rate Comparison



Rental Rate Comparison



Major Transactions

Tenant	Sq Feet	Address	Market Area
F5 Networks	515,000	801 5th St	Downtown Seattle
Amazon.com	440,000	300 Boren Ave	Downtown Seattle
Amazon.com	109,283	321 Terry Ave N	Downtown Seattle
WeWork	81,494	575 Bellevue way ne	Eastside
Bank Of America	76,000	400 Lincoln Square	Eastside
Oculus	51,000	1531 Utah Ave S	Downtown Seattle
Aduro	46,568	17425 NE Union Hill Rd	Eastside
Airbnb	42,772	720 Olive Way	Downtown Seattle
HDR Engineering	41,754	929 108th Ave NE	Eastside
Xevo	39,516	10900 NE 8th	Eastside
Sum of Top 10 Leases	**1,443,387**		

registered a 2.0% gain in that same time frame. San Francisco also lost workers to Portland, Oregon and Austin, Texas.

Densification Providing Some Breathing Room

While F5 and other tech firms are spreading out, professional and business service companies have become more efficient in their space needs. As banks and law firms densify they are putting some sublet space on the market. Available sublet space has increased by 54% from 1.5 msf to 2.3 msf in the last four quarters. These spaces provide some smaller and mid-sized tech firms with much-needed short-term space options. Companies uncertain about the size of their staff and their growth trajectory in the short-term are targeting these opportunities. On the other hand, they will not always be ideal for mid-sized and larger firms that are on a steady growth path.

Seattle CBD and Suburbs Offer More Options

Despite the lease-up of the Mark, Seattle's CBD presents a less challenging environment for tenants, especially smaller tenants between 10,000 sf and 30,000 sf. In addition to increased efficiency, a few tenants are struggling with some headwinds. This includes some companies in the aviation and retail sectors. Firms that are the most geographically flexible - those that can go further afield to Bothell, Renton or Redmond - have many more options. These areas come with some trade-offs, though. They lack the transportation infrastructure and the amenity base of close-in markets. The rent differential is substantial , though – base rent is 50% lower, parking is free and operating expenses are several dollars lower than in the CBD.

Scant Options in Life Science Sector

Demand for space from biotech and life sciences firms is very intense, with vacancy at less than 2% in lab markets. The University of Washington, one of the largest recipients of NIH grants in the country, and the Fred Hutchinson Cancer Research Center continue to fuel the life sciences industry and demand for space. With such a tight market for lab space, we may see more landlords building on spec for life sciences uses.

Life science firms seeking big blocks of second-generation lab space in Seattle and Bothell have very few options to choose from. Bothell has a few more options than Seattle and rent is significantly lower. Second generation lab space in Seattle is priced in mid-$40.00/sf NNN, compared to mid-$20/sf NNN in Bothell. Purpose-built lab space/shell is equally as scarce. In Seattle, quoted rents are low-$50/sf with $125-$140/sf in tenant improvement allowance. Some relocation activity out of Seattle will provide a bit of relief. Bristol-Myers Squibb is departing Seattle and will leave behind approximately 100,000 square feet of lab space. There are also several new developments coming online in 2019 that will offer new purpose-built lab space, including Alexandria's 1818 Fairview Avenue and BioMed Realty's project on Dexter Avenue.

Looking Forward

The flip side of the aggressive leasing patterns occurring in Seattle at this moment, is that it does create the potential for a more several snapback at some point. Even if there is not a correction some of these firms will inevitably decide to consolidate and develop corporate headquarters. This includes even Amazon, which presumably, at some point will discover the value of combining its sprawling office locations.

The majority of tenants in Seattle will not be able to tap into the resources that are at Amazon's disposal. Given the cost and effort associated with leasing office space, companies are wise to invest ample time considering the best use of their facility. More firms are embracing workplace strategy as a critical next step after they have signed a lease. Careful planning and build out of space with features and amenities that enhance the comfort and experience of their staff will boost retention rates and improve productivity, while ensuring that companies get the highest and best use from their facility.

Map	SUBMARKET	TOTAL	LEASING ACTIVITY		AVAILABLE SF			AVAILABLITY RATE			ASKING RENTS PSF		
		SF (1000's)	Last 12 Mos	Net AbsorpLast 12 Mos	This Qtr	% Change from Last Qtr	Yr Ago	This Qtr	pp Change from Last Qtr (1)	Yr Ago	This Qtr	% Change from Last Qtr	Yr Ago
1	**Downtown Seattle**	60,604	4,700	1,961	6,506	5.4%	6,890	10.7%	0.5%	11.7%	$37.44	-0.2%	$35.85
	Downtown Seattle - Class A	36,427	3,011	1,676	3,614	7.5%	4,131	9.9%	0.6%	11.8%	$43.02	2.5%	$40.50
2	**Bellevue/Eastside**	29,377	3,172	585	3,592	-7.0%	4,596	12.2%	-1.0%	16.4%	$34.08	0.1%	$34.60
	Bellevue/Eastside - Class A	16,527	2,174	547	1,902	-6.3%	3,010	11.5%	-0.8%	19.5%	$38.86	1.0%	$39.08
3	**Northend**	9,230	397	-76	1,520	-0.9%	1,361	16.5%	-0.2%	14.7%	$25.37	1.8%	$23.99
	Northend - Class A	1,443	80	31	269	0.2%	285	18.7%	0.0%	19.7%	$28.78	4.1%	$26.65
4	**Southend**	10,210	554	-376	2,372	0.0%	2,121	23.2%	0.0%	20.8%	$23.00	0.0%	$22.74
	Southend - Class A	1,371	44	103	375	0.0%	285	27.4%	0.0%	20.8%	$27.22	0.0%	$28.57
5	**Tacoma**	8,689	261	75	1,142	-7.6%	1,303	13.1%	-1.1%	15.0%	$23.26	0.8%	$22.47
	Tacoma - Class A	1,447	13	-16	111	-5.6%	133	7.7%	-0.5%	9.2%	$28.94	-2.7%	$29.91
1-5	**SEATTLE REGION TOTAL**	**119,174**	**9,029**	**2,169**	**15,590**	**-0.3%**	**16,494**	**13.1%**	**-0.1%**	**14.2%**	**$30.88**	**0.3%**	**$30.82**
	SEATTLE REGION TOTAL - Class A	**57,263**	**5,336**	**2,341**	**6,271**	**1.9%**	**7,856**	**11.0%**	**0.1%**	**14.4%**	**$39.23**	**1.9%**	**$38.73**

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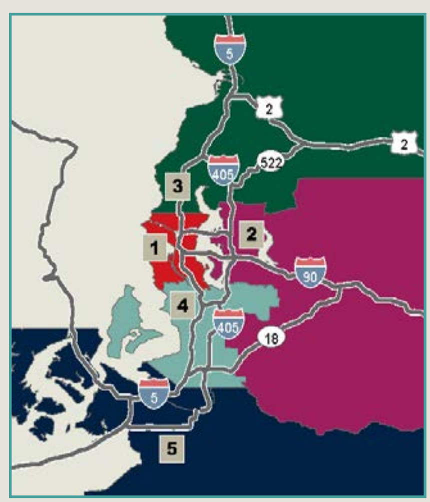

(1) Percentage point change for availability rates.
Unless otherwise noted, all rents quoted throughout this report are average asking gross (full service) rents psf.
Statistics are calculated using both direct and sublease information.
Short-term sublet spaces (terms under two years) were excluded.

The information in this report is obtained from sources deemed reliable, but no representation is made as to the accuracy thereof. Statistics compiled with the support of The CoStar Group.