Savills Studley Report
Seattle office sector

Q3 2017

SUMMARY

Market Highlights

SUSTAINED LEASING ACTIVITY

Tenants have leased 8.4 msf in the four most recent quarters, on par with the region's long-term average.

AVAILABILITY RATES DECLINE

Seattle's overall availability rate fell by 50 basis points to 12.6%. The Class A availability rate dropped by 0.6% to 10.3%, though. Compared to a year ago, the Class A rate has fallen by 310 basis points.

ASKING RENT STABLE

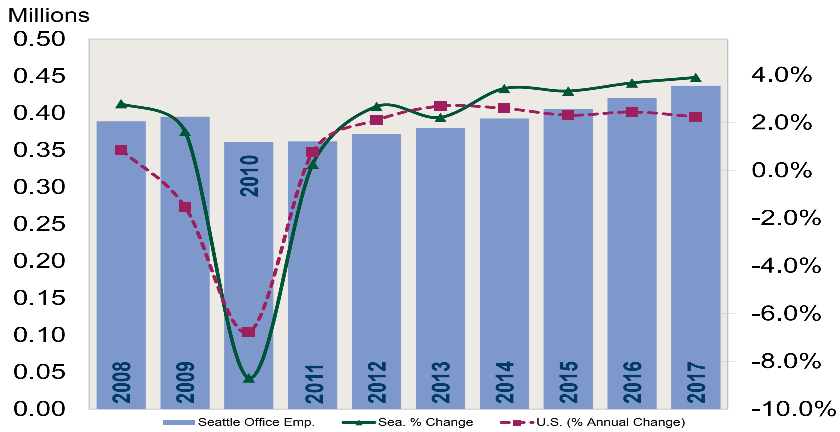
Overall regional asking rent was essentially unchanged, inching 0.1% lower from $30.88 to $30.85. The Class A rent jumped by 0.3% from $39.23 to $39.34.

DECLINE IN SALES ACTIVITY

Office property sales for the first seven months of 2017 totaled $2 billion, a 35% decline from the $3.1 billion sold during the first seven months of 2016.

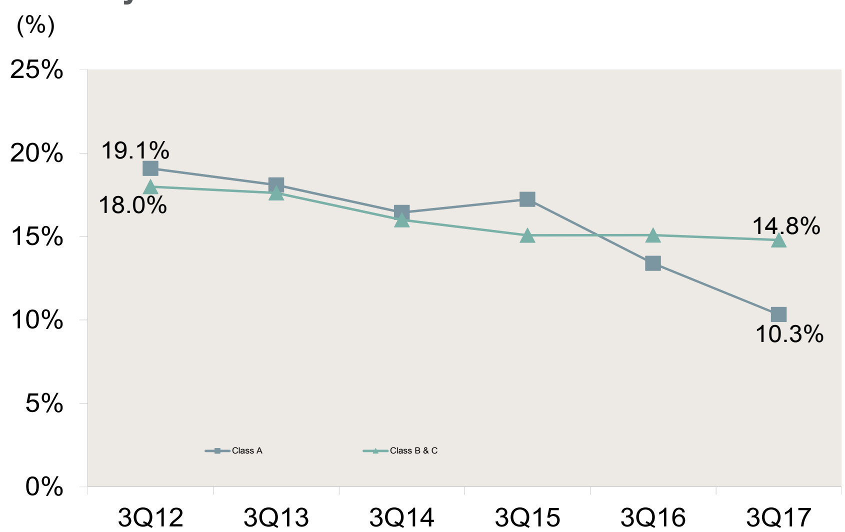
"Amazon has concluded that Seattle's labor market can not keep up with its long-term growth trajectory. Cities are now engaged in the greatest show-and-tell in recent memory – proffering incentives, development sites and their city's quality-of-life – in a bid to land the world's largest online retailer."
Eric Leland, Senior Managing Director

Office-Using Employment Trends

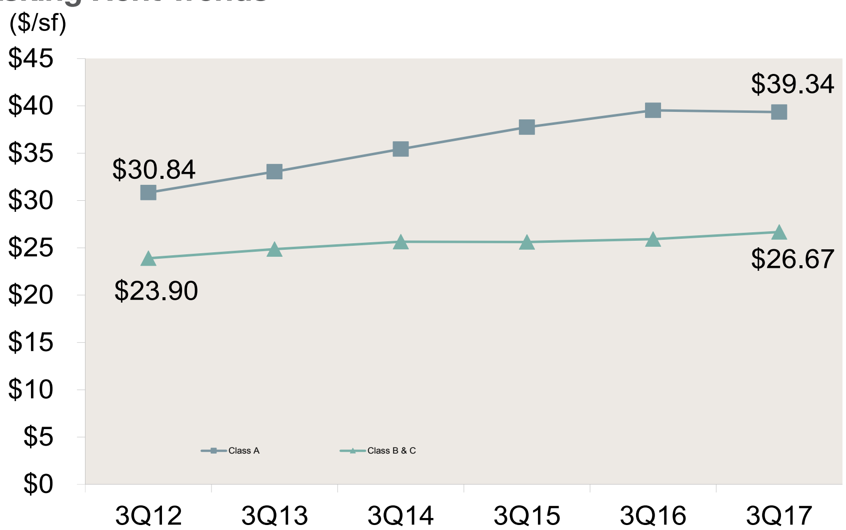


Source: Bureau of Labor Statistics

Availability Rate Trends



Asking Rent Trends



Tapped Out

Amazon's quest for a second base of operations is about labor first and real estate second. Seattle has added more than 16,000 office-using jobs in the last 12 months, a 3.1% gain that exceeds the national increase of 2.1%. The region's pool of tech talent is depleted. Tech sector employment in Washington State spiked by 10.9% during 2016 – triple the 3.1% gain in New York State, and well above the 4.1% increase in California. Amazon faces substantial local competition for talent as competitors such as Oracle significantly ramp up their local headcount.

Amazon has sent out calls for offers from any metro area with 1.0 million people. A lot is on the table. Amazon estimates it will hire 50,000 people in its second location and will need five to six million square feet of space. The search for a second location is intriguing. Over the last few quarters, the headlines have been highlighting how Seattle was poaching talent from the Bay Area. According to CompTIA's CyberState 2017 report, the average tech worker in Seattle earned just over $145,000 – third nationally behind San Francisco ($168,920) and Silicon Valley ($217,260). Salaries are lower than in Northern California, but the dollar goes much further in Puget Sound.

Employers followed the flow of households. A recent analysis of job openings on Indeed.com found that the Bay Area's share of tech job postings has fallen compared to a year ago. San Francisco had an 11 percent share of tech job listings, down by nearly 8% from a year ago. Silicon Valley had a 19% share, a six percent decrease. Seattle appears to have gained at both market's expense – it accounted for nearly 13% of the national total, spiking by 11.0%. Amazon's decision to open a second headquarters suggests that Seattle's labor pool is already getting too depleted to meet the requirements of the rapidly expanding firm. The push of Bay area tech firms, as well as continued expansion among local firms, such as Zillow hastened Amazon's realization of the market's inability to support their outsized labor needs indefinitely.

Preferences & Requirements

Amazon is seeking a market that will offer a highly talented and educated labor pool. Efforts to predict the winning city suggest that there are roughly 20 markets that could provide the required quantity of skilled laborers. Amazon's RFP details a long wish list that includes key preferences such as a highly-educated labor pool. "Suitable buildings and sites" are of "paramount importance." Business-friendly climate and tax structure will be "a high-priority consideration" and "incentives will be a "significant factor." One mandatory feature stands out, "a strong university system is required." The RFP leaves a lot to interpretation, "a strong university system" is a subjective qualification.

There is no under-over on which market will win, but there are some consistent front-runners. Markets such as Boston, New York City and Chicago can check off nearly every feature, but labor in Boston is as depleted as anywhere else. Amazon would make quite an impact even in these markets, but they would be competing against hundreds of other mid-sized and larger firms for space, housing and talent. If Amazon instead pick a mid-tier city such as Raleigh-Durham, Syracuse, New York; Pittsburgh or Salt Lake City, they would almost overnight become a top partner with city government, educational and cultural institutions - similar to Dell in Austin, Google in Mountain View or Apple in Sunnyvale/Cupertino.

A Building at a Time

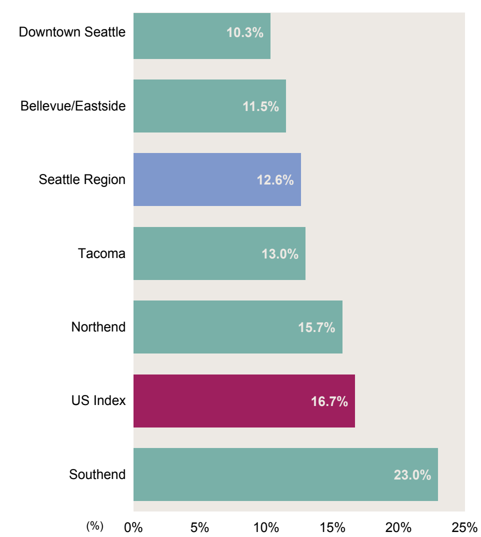
Even as Amazon sets its sights on other markets, its local presence continues to expand. During the quarter, it took the entirety of Rainier Square. Currently under construction, the 58-story tower currently under construction will be Seattle's second-tallest skyscraper. This is the second consecutive quarter in which an entire new property has been pre-emptively leased, greatly simplifying the owner's market and leasing efforts. Last quarter F5 Networks swooped in to take 801 5th Street.

Several other notable mid-sized leases were completed in the quarter. OfferUp took 71,329 sf at 1745 114th Avenue SE in Eastside. WeWork's growth in Seattle continues. They signed a deal for their fourth center in Seattle, leasing 54,336 sf at 1099 Stewart Street. There is more than enough demand for shared office space providers evidently – Industrious, another Manhattan-based coworking space provider leased 28,713 at 2033 6th Avenue.

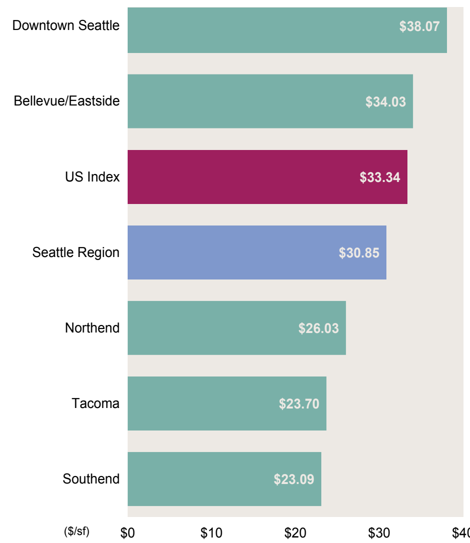
Dueling HQS

Amazon is not abandoning Seattle. It will be several years before HQ2 is up and running. Eventually, though, unless the two different offices fulfill largely separate functions there is likely to be some overlap. If the need to cut back arises, and the talent levels are roughly equal between the two office, the decision of where to cut will presumably come down to cost. Or under a different set of circumstances - such as a recession - talent may not always trump cost.

Vacancy Rate Comparison



Rental Rate Comparison



Major Transactions

Tenant	Sq Feet	Address	Market Area
Amazon.com	738,902	411 Union St	Downtown Seattle
OfferUp	71,329	1745 114th Ave SE	Eastside
WeWork	54,336	1099 Stewart St	Downtown Seattle
Indeed	44,631	1301 2nd Ave	Downtown Seattle
T-Mobile	28,991	3650 131st Ave SE	Eastside
Industrious	28,713	2033 6th Ave	Downtown Seattle
Sterling Talent Solutions	26,167	929 108th Ave NE	Eastside
Textio	22,400	920 5th Ave	Downtown Seattle
Mercedes Benz	15,778	1201 Western Ave	Downtown Seattle
McKinsey & Company, Inc.	13,668	1420 5th Ave	Downtown Seattle
Sum of Top 10 Leases	**1,044,915**		

Tight Market Conditions Prevail

Meanwhile, tenants looking for space in Seattle have to cope with the reality of an extremely competitive market. The Class A availability rate closed the third quarter with a rate of 10.3%. Amazon's leasing of Rainier Square, coupled with the F5 lease last quarter, has wiped two entire properties off the board. The region has 1.7 msf underway, with just over 50.0% pre-leased.

Most businesses do not have the capacity to make pre-emptive space on entire buildings. Tenants are eager to find quality built sublet space. Some companies are putting a bit of sublet space on the market as they become more efficient and densify, but the highest-quality spaces with extended term are generally being grabbed very quickly. Demand is so strong that tech firms are not sticking to the edgy Class B converted brick and beam they target almost exclusively in other markets. Tech firms in the talent war are willing to take on traditional corporate Class A space. Proximity to transit, amenities and like-minded companies is critical. AirBnB, for example, moved into a Class B+/A- building at 8th and Olive in the CBD.

A Desk in the Clouds

Tenants are willing to pay higher rent for an office that doubles as a recruiting and retention tool. It's all about the people and tenants are willing to pay several dollars more if they think it will give them a leg up in terms of recruiting. Firms with more basic needs for lab and manufacturing space, and an established payroll that is not dramatically expanding, can be based in suburban locations with lower rent and free parking such as Redmond and Bothell. They are not after the same engineering talent that rapidly expanding tech firms are pursuing.

Redmond-bsaed Microsoft, for example, had to take space in the CBD because they couldn't miss out on attracting talent there. Microsoft's Redmond campus offers a truly different perk that won't be appearing Downtown anytime soon - treehouses decked out with wi-fi, electricity and gas fireplaces - giving employees a truly distinctive spot to eat lunch, work or meditate.

Map	SUBMARKET	TOTAL	LEASING ACTIVITY		AVAILABLE SF			AVAILABLITY RATE			ASKING RENTS PSF		
		SF (1000's)	Last 12 Mos	Net Absorp Last 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**	60,741	4,567	1,188	6,271	-3.6%	7,230	10.3%	-0.4%	12.1%	$38.07	1.7%	$36.81
	Downtown Seattle - Class A	37,319	2,990	1,052	3,610	-0.1%	4,149	9.7%	-0.2%	11.6%	$43.29	0.6%	$41.22
2	**Bellevue/Eastside**	29,426	2,658	1,057	3,381	-5.9%	4,211	11.5%	-0.7%	15.0%	$34.03	-0.1%	$35.51
	Bellevue/Eastside - Class A	16,545	1,690	1,207	1,674	-12.0%	2,604	10.1%	-1.4%	16.9%	$39.00	0.4%	$40.46
3	**Northend**	9,252	452	-178	1,456	-4.2%	1,414	15.7%	-0.7%	15.3%	$26.03	2.6%	$24.41
	Northend - Class A	1,506	83	19	271	0.8%	271	18.0%	-0.6%	18.8%	$29.67	3.1%	$27.07
4	**Southend**	10,357	442	-383	2,379	0.3%	2,437	23.0%	-0.3%	23.9%	$23.09	0.4%	$22.58
	Southend - Class A	1,518	25	205	354	-5.7%	379	23.3%	-4.1%	27.6%	$27.45	0.8%	$28.17
5	**Tacoma**	8,706	243	63	1,129	-1.1%	1,290	13.0%	-0.2%	14.8%	$23.70	1.9%	$22.48
	Tacoma - Class A	1,447	11	-21	121	9.2%	129	8.4%	0.7%	8.9%	$30.02	3.7%	$29.97
1-5	**SEATTLE REGION TOTAL**	**119,532**	**8,424**	**1,746**	**15,076**	**-3.3%**	**16,725**	**12.6%**	**-0.5%**	**14.3%**	**$30.85**	**-0.1%**	**$31.15**
	SEATTLE REGION TOTAL - Class A	**58,382**	**4,840**	**2,463**	**6,030**	**-3.9%**	**7,438**	**10.3%**	**-0.6%**	**13.4%**	**$39.34**	**0.3%**	**$39.53**

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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.