

Puget Sound Office, Q1 2016

Sublease space vanishes as regional growth flourishes

▼ Total Vacancy Rate
12.0%

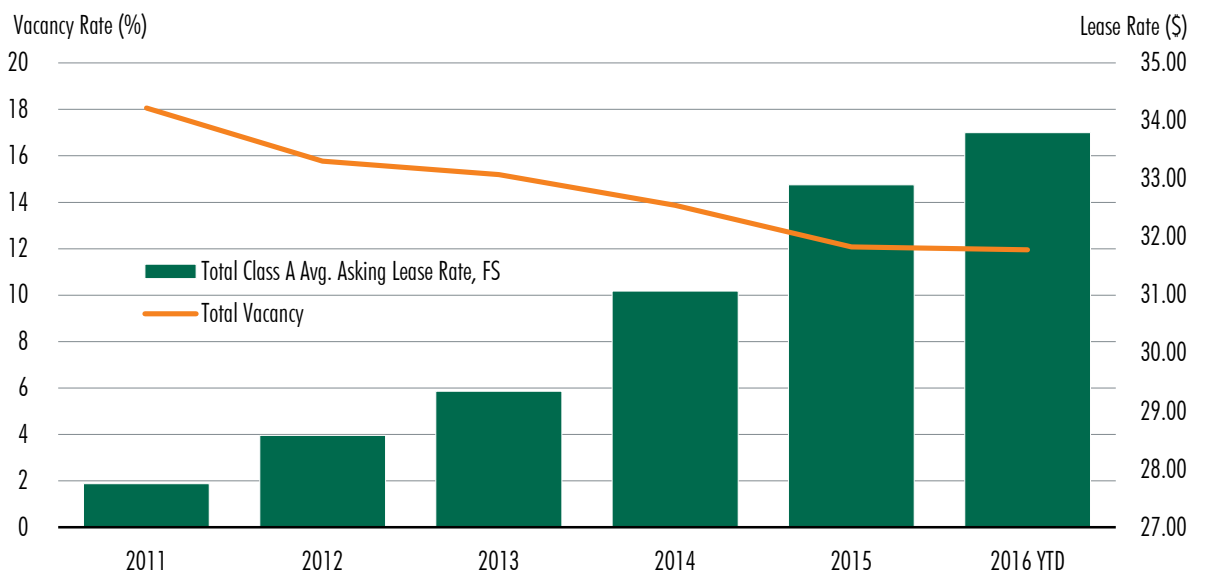
▲ Lease Rate
\$34.45 PSF

▲ Net Absorption
674,729 SF

▼ Completions
782,792 SF

*Arrows indicate change from previous quarter.

Figure 1: Vacancy vs. Class A Avg. Asking Lease Rate



Source: CBRE Research, Q1 2016.

2016 is off to a strong start as the Puget Sound region continues to be recognized as a center of cloud computing and innovation, furthering the influx of companies eager to establish a presence in the area. Huawei Technologies, a leading global information and telecommunications solutions provider, is the latest to set up a research and development office in the Puget Sound region. According to the *Seattle Times*, its new location in the Bellevue CBD will grow to 100 employees.

For new and innovative enterprises, sublease space created by growth from established companies has

been an extremely attractive alternative due to the dynamic options available, but is in short supply. At 0.65%, the region had the lowest sublease vacancy rate since Q3 2000. To combat this hurdle, an alternative option in the form of coworking space has emerged. A well-known coworking company with offices in Seattle recently expressed interest in several floors of a building under construction the Bellevue CBD, and two coworking ventures are touring Downtown Seattle seeking additional locations. Largely occupied by independent workers, these spaces allow for both growth and cross pollination of talent.

Figure 2: Market Statistics

Submarket	Net Rentable Area (SF)	Direct Vacancy Rate (%)	Total Vacancy Rate (%)	Q1 2016 Net Absorption (SF)	Last 4 Qtrs Net Absorption (SF)	Under Construction (SF)	Class A Direct Wtd. Avg. Asking Lease Rate, FS (\$/SF/Yr)	Class A Total Wtd. Avg. Asking Lease Rate, FS (\$/SF/Yr)
Seattle CBD	20,561,510	10.9	11.5	243,092	675,107	1,274,000	41.09	40.16
Waterfront	2,510,686	3.9	4.3	31,010	122,735	0	37.75	33.75
Pioneer Square	4,051,828	7.7	8.8	(52,962)	76,530	496,803	34.84	33.17
Denny Triangle/Regrade	7,198,394	9.0	9.2	35,775	273,058	777,300	41.36	41.26
Lower Queen Anne	3,105,417	5.8	7.1	(31,263)	101,931	185,000	34.14	33.26
Lake Union	6,774,407	13.7	13.7	(84,355)	643,126	1,123,895	42.68	41.04
Canal	1,499,836	2.9	3.2	(7,179)	3,457	333,000	32.93	32.93
Downtown Seattle	45,702,078	9.7	10.3	134,118	1,895,944	4,189,998	40.64	39.60
North Seattle/Interbay	2,381,460	4.0	4.1	17,173	33,504	75,285	27.01	26.96
Capitol Hill/E Seattle/Rainier	1,158,482	1.4	1.4	892	83,605	0	26.28	27.40
South/West Seattle	1,925,886	22.2	23.7	69,936	141,315	0	31.98	31.98
Seattle Close-In	5,465,828	9.8	10.4	88,001	258,424	75,285	30.28	29.88
Sea-Tac	957,876	30.1	30.1	(12,692)	(21,433)	300,000	21.22	21.22
Tukwila	2,132,576	10.7	11.4	5,123	34,682	0	23.11	23.11
Renton	3,189,774	9.7	9.7	12,443	51,450	735,000	23.85	23.84
Kent	1,223,908	25.3	25.3	45,260	101,356	0	23.63	23.63
Auburn	289,025	1.9	1.9	0	52,359	0	22.87	18.30
Federal Way	2,289,565	22.2	25.5	28,370	32,493	0	20.89	20.89
Southend	10,082,724	16.3	17.2	78,504	250,907	1,035,000	22.17	22.07
Bellevue CBD	8,337,371	11.4	12.3	94,904	202,985	1,060,000	42.91	42.71
I-405	2,879,969	8.5	9.3	28,240	29,469	0	31.81	31.51
SR-520	2,579,812	11.0	14.1	(1,450)	26,611	0	31.22	29.51
I-90	6,698,025	11.9	13.0	(164,763)	(30,791)	0	31.90	31.23
Bel-Red Road	1,501,719	4.3	4.3	3,665	44,484	0	31.85	31.85
Kirkland	1,646,598	1.5	1.5	177,323	188,069	0	39.99	37.49
Redmond	4,238,667	7.4	7.6	111,388	233,188	0	25.52	25.97
Bothell	2,787,948	15.3	15.7	(13,092)	(131,576)	0	26.91	26.32
Eastside	30,670,109	10.1	11.0	236,215	562,439	1,060,000	34.48	33.71
Lynn/Edm/Mtlk Terr	2,480,810	15.2	15.6	46,525	66,185	0	26.18	25.83
Everett	1,966,996	14.1	14.1	29,700	29,704	0	21.88	21.88
Northend	4,447,806	14.7	15.0	76,225	95,889	0	24.62	24.44
Tacoma CBD	2,890,214	14.3	15.0	24,160	16,021	0	26.11	26.36
Tacoma Suburban	1,307,321	15.1	15.1	26,160	(22,713)	0	22.55	22.55
Fife	213,994	26.4	26.4	0	(25,192)	0	24.00	24.00
Puyallup	456,997	6.6	6.6	11,346	14,312	0	N/A	N/A
DuPont	1,038,802	45.5	45.5	0	(451)	0	N/A	N/A
Tacoma/Fife	5,907,328	19.8	20.2	61,666	(18,023)	0	24.77	25.07
Market Total	102,275,873	11.3	12.0	674,729	3,045,579	6,360,283	34.45	33.87

Source: CBRE Research, Q1 2016.

DOWNTOWN SEATTLE

The biggest news this quarter was the announcement by a internet related products and services company that it would relocate from Fremont to 607,000 sq. ft. in Lake Union by 2019. On a different scale, Qumulo grew by a third, signing a renewal/expansion for 67,228 sq. ft. in Century Square. Large moves included Avvo absorbing 110,000 sq. ft. in 8th + Olive and Pemco Insurance halving its footprint to 77,000 sq. ft. but gaining efficiency and an eastern view of Lake Union at 1300 Dexter. The Downtown Seattle office vacancy rate decreased 30 basis points (bps) to 10.3% - the lowest rate since 2008.

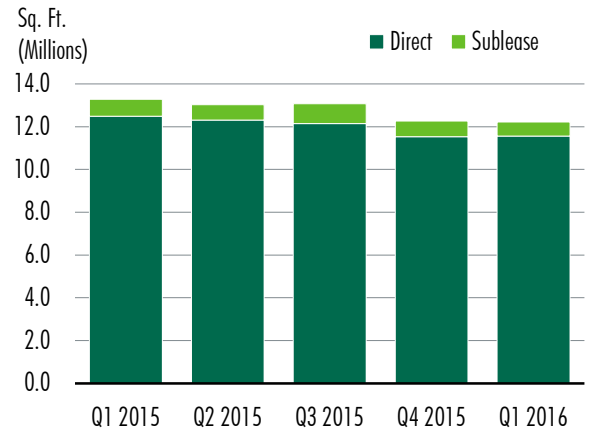
The market stayed on an upward trajectory with falling vacancy and higher average asking rates. At \$42.68 per sq. ft. per year, full service, Lake Union still has the highest Downtown, although rates dropped slightly from last quarter due to leases being signed in prime Class A buildings.

Fueled by strong demand, development continued unabated. There is 4.2 million sq. ft. in 15 projects under construction, mostly in Lake Union and the Seattle CBD submarkets. Approximately 1.9 million sq. ft. is pre-leased, with 90% of that to expansions or tenants new to the market, meaning little new vacancy for existing landlords.

EASTSIDE

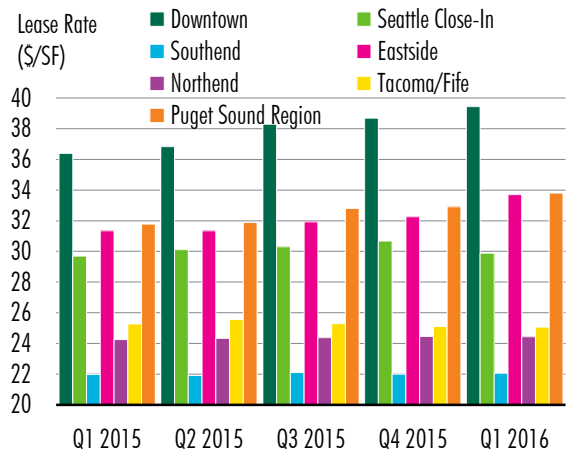
Collectively, the Eastside market had a strong start to the year; the Bellevue CBD claimed the highest Class A asking rates in the Puget Sound at \$42.91 per sq. ft., proving that demand for core space remains high. Total vacancy ticked up to 11.0%, a 110 bps bump from last quarter due to the delivery of new Class A product. In the largest announcement of the quarter, news broke that Recreational Equipment Inc. (REI) plans to relocate their headquarters from Kent to Wright Runstad's \$2.3billion dollar Spring District

Figure 3: Vacant



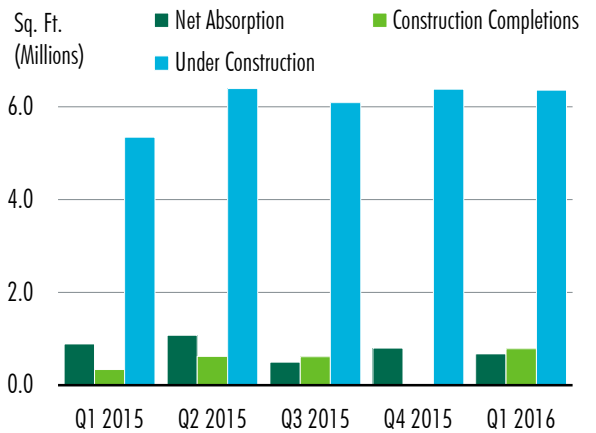
Source: CBRE Research, Q1 2016.

Figure 4: Total Class A Asking Rent, Full Service, per Year



Source: CBRE Research, Q1 2016.

Figure 5: Absorption and New Construction



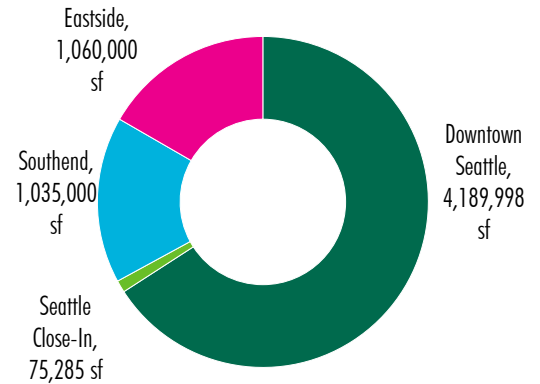
Source: CBRE Research, Q1 2016.

development in Bellevue. REI will develop eight acres of the project for their buildings and join the Global Innovation Exchange (GIX) campus, adding to the overall appeal of the Eastside.

In terms of development, Kemper’s 400 Lincoln Square expansion and Schnitzer’s Centre 425 project will add over 1 million sq. ft. to the market upon delivery in late 2016 and early 2017. Trammell Crow’s 19-story 929 Office Tower was finished this quarter, adding 462,000 sq. ft. to the Bellevue CBD, with 84,794 sq. ft. pre-leased to Salesforce.com. In Kirkland, Talon Private Capital’s Kirkland Urban will begin construction next quarter, adding 650,000 sq. ft. of office space in three buildings with an expected delivery date of November 2018. Talon inked two large pre-leases at the beginning of the year: Tableau will take 92,000 sq. ft. and Wave will take 87,150 sq. ft., continuing the expansion by established technology companies on the Eastside.

Several large moves occurred this quarter, adding to Kirkland’s bustling office submarket. SRM delivered a 180,000 sq. ft. build-to-suit at 500 7th Avenue South. UI Evolution expanded into 34,517 sq. ft. at Kirkland 405 Corporate Center and Allyis grew by 25,326 sq. ft. in Plaza Yarrow Bay. Due to the considerable growth occurring in the area, Kirkland’s vacancy rate came in at 1.5% - the lowest in Puget Sound.

Figure 6: Sq. Ft. Under Construction

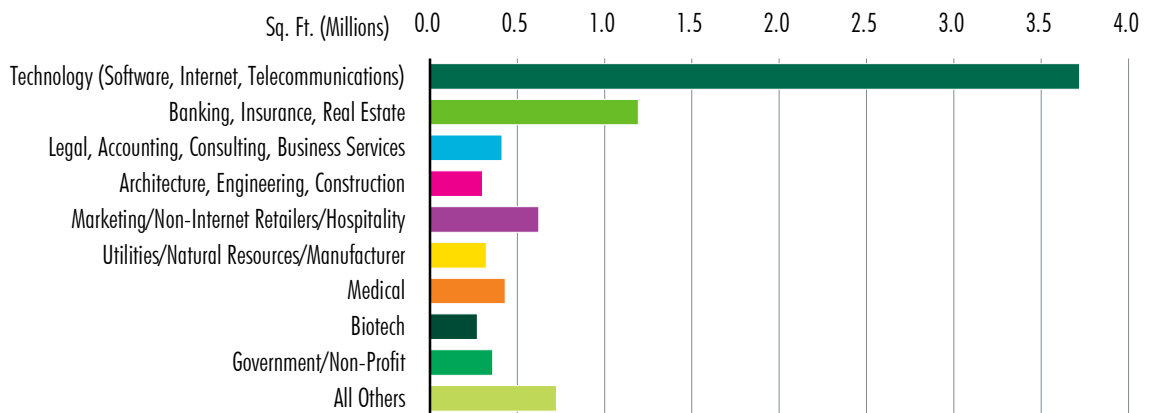


Source: CBRE Research, Q1 2016.

NORTHEND

This quarter saw a major drop in vacancy across the Northend market as smaller tenants played musical chairs, moving from Class B and C buildings to Class A buildings. Vacancy fell from 17.1% in Q4 2015 to 15%. Most of the velocity took place in Lynnwood near Alderwood Mall, bringing a slight bump in Class A rents. The average asking rate was \$24.62 per sq. ft., making the Northend an attractive place for companies to acquire Class A space at lower rates than Downtown Seattle or the Eastside.

Figure 7: Previous 12 Months New Office Leasing by Business Sector



Source: CBRE Research, Q1 2016. Includes buildings outside the survey criteria

SOUTHEND

Hoping to capture its share of the rising tide, Seco Development broke ground on the three-tower Southport office development along the shore of Lake Washington in Renton. The 730,000 sq. ft. development is joining a 347-room Hyatt Regency hotel that is already under construction. In the SeaTac submarket, work is progressing on the FAA’s 300,000 sq. ft. build-to-suit project.

The market saw 78,504 sq. ft. of absorption, led by Blue Origin, who moved into 20,084 sq. ft. in Cascade East at Centerpoint Corporate Park; and Providence Health & Services, which added an 18,643-sq. ft., full-building location at Blackriver Corporate Park.

TACOMA

The push towards the urban core is finally affecting the Tacoma CBD. David Evans & Associates leased almost 10,000 sq. ft. at Horizon Pacific Center in order to be located downtown instead of suburban Fife.

After failing to get voter approval to build a Pierce County Administration building to replace leased space from several landlords, a new proposal is emerging. Two other government agencies would be added to the proposal in order to offset the costs. The new plan still faces a vote by the county council.

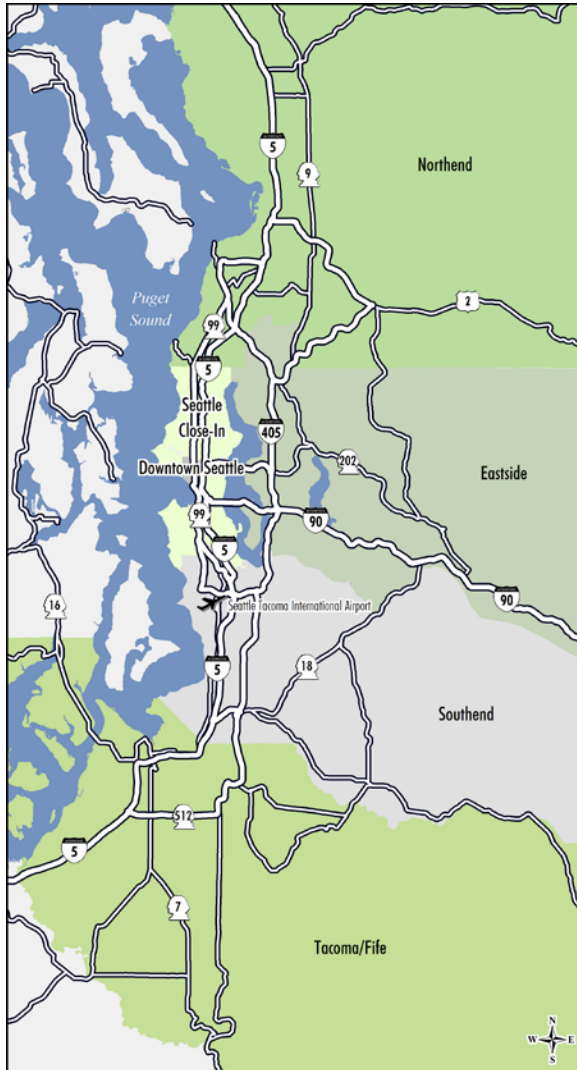
INVESTMENT SALES

The Puget Sound market saw another strong quarter, with core, suburban and value-add properties seeing significant demand. West 8th was the biggest sale of the quarter, with a \$370 million price tag. Other large sales included First Hill Medical Pavilion and Alley24. The First Hill Medical Pavilion sold by Trammell Crow Company for \$884 per sq. ft., a record for a medical office building in Seattle.

Figure 8: Key Transactions

Tenant	Type	Sq. Ft.	Building	Submarket	Business Sector
Undisclosed Internet Related Products and Services Company*	New	607,000	Lakefront Blocks	Lake Union	Technology
Undisclosed Online Retailer*	New	285,000	Urban Union	Lake Union	Technology
Tableau	New	92,000	Kirkland Urban	Kirkland	Technology
Saltchuk	New	91,357	450 Alaskan	Pioneer Square	Transportation
Wave	New	87,150	Kirkland Urban	Kirkland	Technology
Voicebox Technologies	New	67,383	112th @ 12th, West Bldg	Bellevue CBD	Software
Qumulo	Renewal & Expansion	67,228	Century Square	Seattle CBD	Software
Qualtrics	New	46,138	505 First	Pioneer Square	Software
Expedia	New	38,000	645 Elliott (North)	Lower Queen Anne	Internet Travel Agency
Deloitte Digital	New	29,235	Exchange Building	Seattle CBD	Marketing

Source: CBRE Research, Q1 2016.



SURVEY CRITERIA

Survey includes competitive (typically investor-owned) office buildings over 10,000 sq. ft. It does not include medical office or biotech space.

*Due to client sensitivities, some company names are not disclosed.

CONTACTS

Carolyn Davis
Research Manager
 +1 206 292 6098
 Carolyn.Davis@cbre.com

John R. Miller
Managing Director
 +1 206 292 6102
 John.Miller@cbre.com

CBRE OFFICES

CBRE Seattle
 1420 5th Ave, Suite 1700
 Seattle, WA 98101 +1 206 292 1600

CBRE Bellevue
 10885 NE 4th St, Suite 500
 Bellevue, WA 98004 +1 425 455 8500

CBRE Tacoma
 1201 Pacific Ave, Suite 1502
 Tacoma, WA 98402 +1 253 572 6355

To learn more about CBRE Research, or to access additional research reports, please visit the Global Research Gateway at www.cbre.com/researchgateway.