

MARKET ADVANTAGE

From the Tenant's Perspective

SECOND QUARTER 2017

MARKET OVERVIEW

Have you counted the number of construction cranes in Seattle and Bellevue recently? Suffice it to say, development of new office space continues to boom around the Puget Sound region. [A recent story in the Seattle Times](#) found that Seattle has the most construction cranes in the country, for the second year in a row.

We are seeing more interest from developers acquiring sites outside of their usual geographic areas. In early July, it was announced that Vulcan had purchased a significant block of property in the Bellevue CBD, directly across from the Bellevue Transit Center, for a reported \$24 million. Fronting 108th Avenue NE, the site is currently zoned for a high-rise tower of up to 450,000 square feet. Additionally, just a few days later Vulcan acquired a second parcel in the Bellevue CBD for a reported \$26.55 million, also on 108th Ave NE. These acquisitions mark a continued foray into the Bellevue CBD by Vulcan, which purchased its first site in downtown Bellevue a year ago, when it acquired Bellevue Plaza for \$45.35 million. At the time, the company cited an interest in expanding its portfolio, which includes a significant amount of space for Amazon in the South Lake Union area.



With several high-profile primarily tech companies such as Facebook, Google and Amazon consuming space as quickly as it is built, you might imagine vacancy rates and absorption would reflect extreme statistical shifts, as well. However, the actual impact is relatively negligible, as these new buildings aren't statistically added to inventory until they are completed. Additionally, in the current cycle, most new construction has been delivered fully leased. Due to rental rates being approximately 25 percent lower than the Bay Area and a rich local talent pool, companies are drawn to our region to either establish outpost or headquarter locations.

While CBD properties in both Seattle and Bellevue now draw tenants seeking urban locations with amenities and access to transit, the subset of older properties in peripheral submarkets continues to offer good alternatives for tenants in lower price ranges. Renovations of several of these secondary property types is becoming increasingly common, bringing them up to today's tech standards. We see this most commonly in the suburban Bellevue area, where multiple properties have undergone interior remodeling and systems upgrades.

Another interesting trend we've been watching is the impact the current construction boom has had on tenant improvement costs. With contractors so busy keeping up with the pace and volume of development, we are seeing landlord concessions diminish as construction costs continue to rise. This will be a factor for tenants that are actively negotiating leases throughout this current development cycle.

MARKET ADVANTAGE

From the Tenant's Perspective

Washington Partners

Corporate Real Estate

SECOND QUARTER 2017

SIGNIFICANT LEASE TRANSACTIONS

Tenant	Size (SF)	Submarket
F5 Networks	515,000	Seattle CBD
Puget Sound Energy	45,532	I-90 Corridor
Airbnb	42,772	Seattle CBD
XEVO	39,516	Bellevue CBD
T-Mobile	28,991	I-90 Corridor
GeoEngineers	25,541	Redmond
98point6	22,913	Seattle CBD
Propel Insurance	21,254	Seattle CBD
Think Space	19,398	Lake Union
Ossia Inc	18,222	Bellevue CBD
Healthy Paws	17,704	520 Corridor

NEW CONSTRUCTION

Development	Completion	RSF	Submarket
The Mark	Q2 2017	528,000	Seattle CBD
Madison Centre	Q3 2017	764,000	Seattle CBD
450 Alaskan	Q3 2017	166,772	Pioneer Square
Hawk Tower	Q1 2018	208,840	Pioneer Square
9th & Thomas	Q1 2018	168,094	Lake Union
Kirkland Urban N	Q3 2018	220,000	Kirkland
2&U	Q3 2019	685,000	Seattle CBD
TOTAL:		2,740,706	

SEATTLE STATISTICS

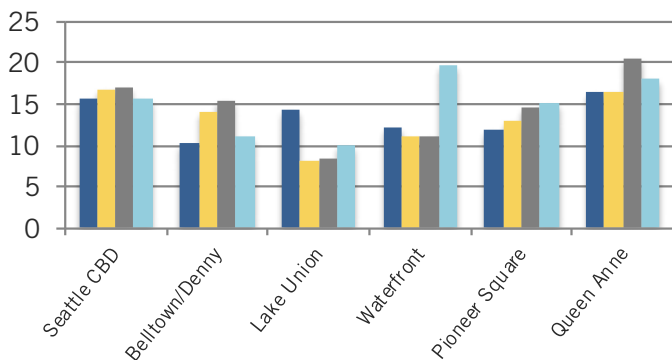
Submarket	Inventory (SF)	Total Vacancy	Avg Rent (FS PSF)
Seattle CBD	20,176,976	15.57%	\$34.29
Belltown/Denny	8,225,868	11.21%	\$32.98
Lake Union	5,163,040	9.88%	\$30.51
Waterfront	4,347,603	19.60%	\$29.62
Pioneer Square	5,479,097	15.26%	\$26.02
Queen Anne/Magnolia	2,567,522	18.13%	\$24.27
Capitol Hill/First Hill	2,370,262	8.36%	\$31.74

EASTSIDE STATISTICS

Submarket	Inventory (SF)	Total Vacancy	Avg Rent (FS PSF)
Bellevue CBD	9,756,802	4.94%	\$38.56
I-90 Corridor	6,926,491	6.47%	\$30.26
520/Overlake	1,865,043	6.15%	\$28.69
Bellevue Suburban	3,123,974	7.69%	\$32.23
Kirkland/Totem Lake	3,343,101	9.87%	\$35.10
Redmond/Willows	3,379,387	9.67%	\$26.93
Bothell/Woodinville	2,656,629	20.62%	\$27.91

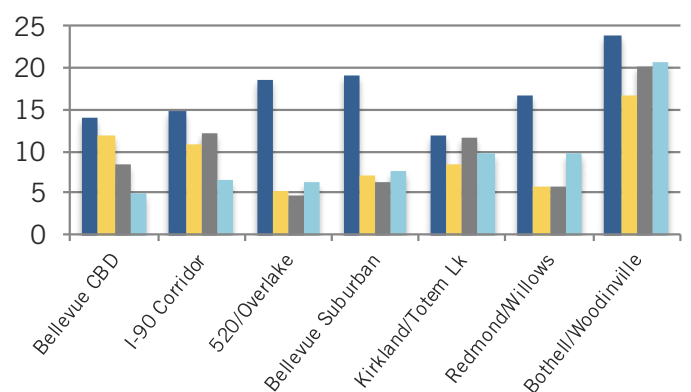
SEATTLE VACANCY (%)

■ 3rd Qtr 2016 ■ 4th Qtr 2016 ■ 1st Qtr 2017 ■ 2nd Qtr 2017



EASTSIDE VACANCY (%)

■ 3rd Qtr 2016 ■ 4th Qtr 2016 ■ 1st Qtr 2017 ■ 2nd Qtr 2017



WASHINGTON PARTNERS CORPORATE REAL ESTATE, INC.

601 108th Ave NE, Ste 1510
Bellevue, WA 98004
Tel: 425.455.2200 206.388.0003

OUR TENANT ADVISORS:

Leo Backer Craig Levine
Brian Kelly Eric Postle
Bryan Oliver Tony Rona
Eric Lonergan
Cody Morrison
Justin Johnson

FOR ADDITIONAL MARKET INSIGHTS:
[PLEASE SUBSCRIBE TO OUR BLOG](#)

FOLLOW WASHINGTON PARTNERS:

