



MARKET ADVANTAGE

From the Tenant's Perspective

MARKET FORECAST 2018

A look back at the top news in the commercial real estate market from 2017, and how tenants can effectively use what we know to be successful in 2018

Over the past year, the Puget Sound region has developed into one of the most economically healthy markets in North America. A strong technology environment and an increasingly diverse population continue to fuel growth and investor interest in Seattle and the Eastside.

2017 brought changes to how tenants should view the market. Following are a few of the top stories of 2017, the implications they might have on the local office markets in 2018 and how tenants can use this to their advantage over the next year.

AMAZON'S GROWTH CREATES CHALLENGES FOR TENANTS

Will HQ2 relieve some of the pressure?

In September 2017, Amazon announced plans for "HQ2", a second "fully equal" headquarters location outside of Seattle. Based on current leasing, however, there is no indication that Amazon's growth will slow in Seattle in the short term as a result of HQ2.

Amazon's footprint in Seattle extends around 13.6 million SF, according to a report published by BuildZoom, which is much higher than the 8.1 million SF that Amazon disclosed when HQ2 was first announced. This includes 45 structures in downtown Seattle, Bellevue, Queen Anne and South Lake Union.

The explosive growth of Amazon has challenged other companies that are looking for space in the downtown core; pushing them further south. A more central location has its perks, like easier access to public transit and a wider talent pool. With Amazon attracting more qualified tech candidates, other large tech companies are being drawn to Seattle as well, so smaller businesses and startups are finding it harder to get the space they need.

What will this mean for tenants in the market?

Due to traffic congestion and a lack of space in the downtown core, tenants looking for space are advised to broaden their search to beyond the downtown core. Currently, many tenants are finding that the best selections are in alternative locations on the Eastside or south of the downtown core in Seattle.

TENANT TIPS AND STRATEGIES

- Broaden horizons when looking for space
- Consider alternate locations
- Plan ahead

What will Amazon's affect on the market mean for the future?

- Amazon is looking for larger spaces, entire floors or buildings, to accommodate their massive growth. This will leave spaces in multi-tenant buildings, which would have interested Amazon in the past, available.
- It is plausible that developers in South Lake Union and the downtown core will wait for tenants, like Amazon, to swoop in and lease the entire building. This will likely make negotiations difficult since developers will prefer to lease to a single user rather than multiple tenants.
- Even with Amazon's continued growth in their hometown, HQ2 could draw workers from Seattle and slowly dilute the local tech talent.
- Larger tech companies, such as Facebook and Google, will benefit from Amazon's growth, since attracted tech talent will possibly consider those companies in their employment search.

TECH DEMAND CREATES COMPETITIVE LANDSCAPE

What advice do we have for tenants in the market?

Since 2015, Seattle's tech sector has accounted for 93% of all new office jobs in the city, based on a report published by CBRE. Demand for space by companies such as Amazon, F5, Oracle, Google, Facebook and others has made it difficult for creative-type spaces to stay on the market for long. As a result tenants are now looking to high-rise spaces to fill their requirements.

What will this mean for tenants in the market?

Tenants are advised to evaluate alternate locations outside of where they think they want to be. For example, a tenant that thinks they need to be in Seattle might actually discover that Bellevue offers better infrastructure. They will also find more tech-type tenants in the newer high-rise buildings there, as opposed to having to adapt to older high-rise space in Seattle. Bellevue also offers more millennial-friendly amenities, less traffic congestion and a more casual business environment.

TENANT TIPS AND STRATEGIES

- Tenants are advised to have multiple options, considering different locations, when looking for space
- Be prepared to have competition for the spaces you are considering
- Don't just have a backup plan; actively negotiate a backup option

What can we expect to see from Seattle's booming tech sector in 2018?

- With 3,125 residents coming to Seattle per month, based on research done by the Silicon Valley Competitiveness and Innovation Project, no slowdown in growth is expected in the tech sector for the foreseeable future.
- Tech giants will continue to make negotiations more competitive and expensive for smaller businesses to find space.

INCREASED CONSTRUCTION COST IMPACT LEASING STRATEGIES

How can tenants mitigate the cost impact of raising tenant improvement (TI) expenses?

In 2017, we experienced record levels of new office construction in downtown Seattle and on the Eastside. Due to a robust building cycle, construction costs are soaring - particularly for TI. Additionally, the Microsoft campus renovation in Redmond will be a significant drain on contractor availability for the next 24-36 months. As a result, TI costs for shell space will go up significantly, resulting in higher rents and more upfront costs to tenants.

What will this mean for tenants in the market?

Some tenants are willing and able to pay more for "cool space", but for the rest, planning ahead to lessen the

MARKET FORECAST 2018

impact will be critical. Although there is limited contractor availability in the surrounding area, contractors outside of Seattle will be more available and willing to travel from further south for the work. A tenant advisor can help direct you toward the best solution, and help you consider all your options before you make a decision. When looking at the market, it is important to keep in mind not only a preferred location, but also the costs of TI to any spaces you may be evaluating.

What will we see in 2018?

- There could likely be more push back during negotiations in regards to TI expenses, and upfront costs for tenants could increase.
- Newer spaces in Bellevue will be a viable solution for many, as they won't require as many improvements.
- Likely more options will become available in multi-tenant buildings in the next construction cycle.
- Contractors outside of Seattle will likely come to the area to satisfy demand. This influx will keep prices competitive.

TENANT TIPS AND STRATEGIES

- Do advanced due diligence on tenant improvements; how far will your TI dollars stretch in today's market?
- Seek out and partner with landlords that are doing big capital improvements and have contractors onsite
- Plan ahead

MARKETS EVOLVING WITH CHANGES IN DEMAND AND INFRASTRUCTURE

How can you minimize the impact of congestion?

Let's face it: traffic in and around Seattle can be a nightmare, particularly during commute times. Getting from Point A to Point B in Seattle is going to be increasingly challenging over the next three

years. Drive times are shifting considerably based on road closures around construction projects in Seattle. While this

all points to progress for the future, the impact that congestion has on business and commuters should be taken into account before signing a lease or sublease.

TENANT TIPS AND STRATEGIES

- Transit-served locations are becoming more desirable
- Evaluate options outside of Seattle
- Flexible work hours for employees is one strategy many are adopting

2018 AND BEYOND

As we move into 2018, some of the top stories we will be watching include:

- Announcements regarding the final HQ2 selection by Amazon and the impact on plans for continued growth in Seattle.
- The renovation of the Microsoft campus in Redmond and the impact that will have on its leased space off main campus (2020/2021).
- The trend of office tenants continuing to migrate south of the downtown Seattle core to find space.
- Continued tech growth and the "critical mass" in Seattle.
- Will sustained demand for space spur the next wave of development, and if so, where?
- Expansion of Asian presence in the market.

What can tenants do about it?

With congestion growing in downtown Seattle, the Eastside may become a more attractive option for many tenants. Companies are encouraged to consider satellite concepts closer to where their employees live. Drive-time studies, while not always reliable since traffic changes daily, can paint a picture of where employees call home, and how far they are willing to commute to get to work.

What might happen in the future?

- The East Link Extension of the Light Rail will have a significantly positive impact for commutes, allowing employees access to and from the Eastside. East Link is expected to open in 2023.
- 2018 to 2021 have been labeled as the "period of maximum constraint," but once construction completes and Link stations begin to open commuters should experience relief of the current congestion.

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Washington Partners

Corporate Real Estate

FOURTH QUARTER 2017

SIGNIFICANT LEASE TRANSACTIONS

Tenant	Building	Size (SF)	Submarket
Amazon.com	Rainier Square	722,000	Seattle CBD
Amazon.com	9th & Thomas	168,094	Lake Union
Amazon.com	Yale & Thomas	159,334	Lake Union
T-Mobile	3305 @ I-90 Eastgate	70,123	I-90 Corridor
Cascadian Therapeutics	3101 Western	44,050	Queen Anne
Gersh Academy	5410 194th Ave	36,886	Issaquah
T-Mobile	Newport Tower	34,949	I-90 Corridor
Privateer Holdings	2701 Eastlake	34,800	Lake Union
Peterson Russell Kelly	Skyline Tower	12,509	Bellevue CBD

SIGNIFICANT SALES TRANSACTIONS

Building	Price	RSF	Submarket
Centre 425	\$313M	356,909	Bellevue CBD
Tilt49	\$268.5M	290,573	Seattle CBD
The Plaza Buildings (2 bldgs)	\$240M	490,096	Bellevue CBD
8th & Olive	\$185.9M	301,725	Seattle CBD
Bellevue Tech Center (9 bldgs)	\$131.1M	326,384	Sub. Bellevue
Millenium Tower	\$119.9M	201,371	Seattle CBD
Industrial Bldg (Spring District)	\$49.3M	700,000	Sub. Bellevue
North Creek Pkwy Center (6 bldgs)	\$36.5M	205,554	Bothell
I-90 Bellevue Campus (2 bldgs)	\$35.7M	253,857	I-90 Corridor

SEATTLE STATISTICS

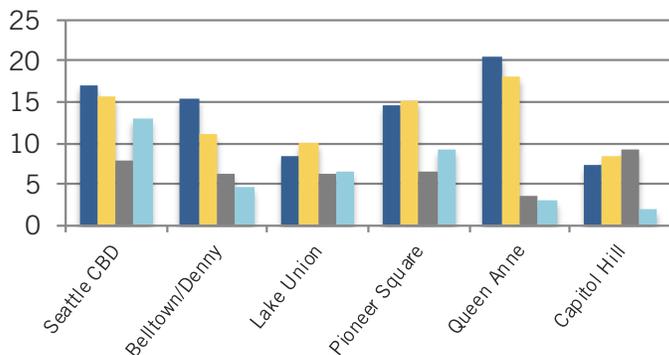
Submarket	Inventory (SF)	Total Vacancy	Avg Rent (FS PSF)
Seattle CBD	32,632,818	12.96%	\$44.65
Belltown/Denny	8,127,194	4.50%	\$36.37
Lake Union	12,584,717	6.39%	\$33.13
Pioneer Square	5,909,457	9.18%	\$38.09
Queen Anne/Magnolia	4,889,454	2.96%	\$36.15
Capitol Hill/First Hill	4,176,057	1.83%	\$38.35

EASTSIDE STATISTICS

Submarket	Inventory (SF)	Total Vacancy	Avg Rent (FS PSF)
Bellevue CBD	10,485,023	7.01%	\$43.19
I-90 Corridor	6,008,866	7.58%	\$31.68
520/Overlake	9,686,316	2.25%	\$32.18
Bellevue Suburban	5,549,350	6.59%	\$33.29
Kirkland/Totem Lake	3,886,160	4.72%	\$33.63
Redmond/Willows	7,257,206	8.08%	\$28.05
Bothell/Woodinville	4,681,906	13.40%	\$27.17

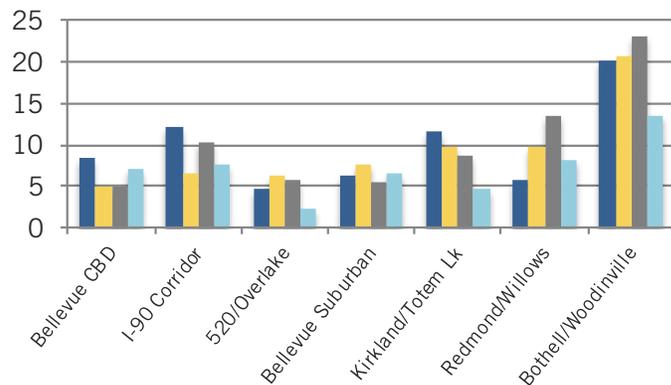
SEATTLE VACANCY (%)

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



EASTSIDE VACANCY (%)

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



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