

PUGET SOUND OFFICE MARKET

SEATTLE RENTAL RATES HIT NEW HIGH

The Puget Sound office market continued to roll in the third quarter of 2018, with asking rents edging upward 0.6% to a new record high of \$36.91/SF and positive absorption of 1,498,038 square feet. Average asking rent on the Eastside increased slightly to \$41.10/SF, up 0.7% from the prior quarter. The Eastside also experienced another quarter of positive absorption, totaling 223,654 square feet. The Redmond submarket was a particularly strong performer in the third quarter, as rents increased 3.8%, vacancy dropped 260 basis points from 5.7% to 3.1%, and absorption was positive 83,975 square feet. This surge in the Redmond submarket can be attributed to the rapid expansion of Oculus, which has leased nearly 700,000 square feet of office space in Redmond since the beginning of 2017, mostly on Willows Road.

The average vacancy rate on the Eastside decreased by 20 basis points from the prior quarter, from 8.1% to 7.9%. The drop was led by the Bothell submarket, where vacancy dropped 190 basis points from 15.6% in the second quarter to 13.7% in the third quarter. Bothell's decrease in vacancy can be attributed in part to a large move-in from Premera Blue Cross, which occupied 65,586 square feet at 3855 Monte Villa Parkway and was the main contributor to the submarket's 86,665 square feet of positive absorption. Premera is among a growing number of tenants, including Greenpoint Technologies, Puget Sound Energy and Seattle Genetics, that are choosing Bothell over Seattle and Bellevue. The migration is being driven by the lack of large-block space, particularly in the Bellevue Central Business District, where vacancies and rental rates are at record levels.

Downtown Seattle had a huge quarter of positive absorption at 1,221,286 square feet, the bulk of which came from the Seattle CBD, Pioneer Square/Waterfront and Lake Union submarkets. The Seattle CBD had positive absorption of 735,179 square feet in third-quarter 2018, largely because of move-ins from Amazon, for 480,000 square feet at the newly renovated 300 Pine; from Clearlink and First American Title, for a combined 50,331 square feet at Madison Centre; and Electronic Arts, for 41,070 square feet at 800 Fifth Avenue. These move-ins significantly impacted the CBD's vacancy rate, which dropped 160 basis points from 10.9% to 9.3%. The Pioneer Square/Waterfront submarket also had a tremendous quarter, generating 236,374 square feet of positive absorption while the vacancy rate dropped by 110 basis points to 4.5%. This market shift can be ascribed to the completed renovation of the Maritime Building, which Big Fish Games occupied in July after leasing the entire building in November of 2016. Rents in Lake Union jumped from \$39.53/SF in second-quarter 2018 to \$44.21/SF, an increase of 11.8%. Lake Union had 252,685 square feet of positive absorption, which was boosted thanks to a 168,094-square-foot move-in from Amazon at 9th & Thomas.

CURRENT CONDITIONS

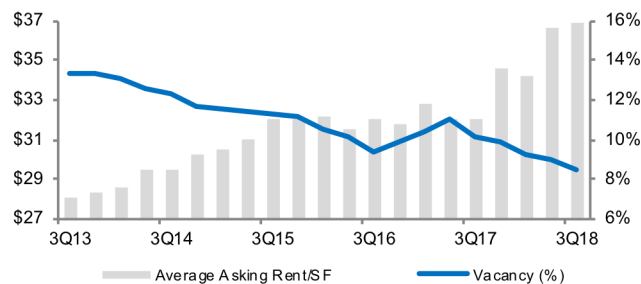
With rents in the mid-\$40's, sub-4.0% vacancy, 252,685 square feet of absorption and by far the most construction activity, Lake Union has become the region's most desirable and strongest-performing submarket.

Third-quarter moves highlight developing trend of tenants choosing Bothell instead of or in addition to Seattle and Bellevue.

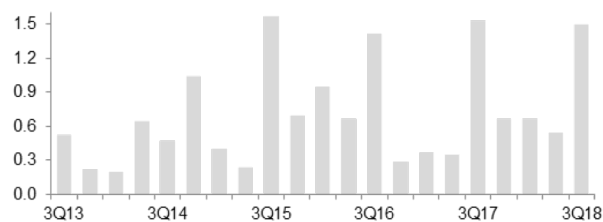
Tech, Coworking and a burgeoning Life Sciences industry are the main drivers of activity in the Puget Sound region.

MARKET ANALYSIS

Asking Rent and Vacancy



Net Absorption (SF, Millions)



MARKET SUMMARY

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	122 MSF	122 MSF	115 MSF	↑
Vacancy Rate	8.5%	9.0%	10.1%	↑
Quarterly Net Absorption	1,498,038	538,730	1,525,080	↓
Average Asking Rent	\$36.91	\$36.70	\$32.00	↑
Under Construction	7.8 MSF	6.5 MSF	5.0 MSF	↓
Deliveries	38,640	0	447,950	↑

DEVELOPMENT ACTIVITY

Seattle Progressing; Kirkland Urban Nearly Complete

Major office development projects underway in Seattle include: 2&U, a 683,030-square-foot project being developed by Skanska; 1818 Fairview, a 204,941-square-foot building being developed by Alexandria Real Estate; and 333 Dexter, a 650,000-square-foot building from Kilroy Realty. The lone new construction delivery of the third quarter was S.E. Grainger's 38,640-square-foot 503 Westlake building in Lake Union, which was built on spec. 503 Westlake has three floors of office space over two floors of retail; tenants have not been announced.

Two major renovations were completed this quarter. Starwood Capital put the finishing touches on floors three through eight of 300 Pine in the Seattle CBD, which will now be 480,000 square feet of Amazon office space, which had previously been occupied by Macy's corporate. Also completed in the third quarter was the Maritime Building on Seattle's waterfront, renovated by Beacon Capital and then sold to STRS Ohio in July for \$186.0 million. Big Fish Games took the entire 186,974-square-foot office portion of the building.

On the Eastside, construction continues at Kirkland Urban, a 401,297-square-foot, two-building project, which is being developed through the partnership of Talon Private Capital, Ryan Companies and Prudential. The North building is scheduled to deliver next quarter, while the Central building should be completed in first-quarter 2019.

LEASE AND SALE TRANSACTIONS

Tech, Coworking and Life Sciences Continue to Drive Demand

There were a slew of significant leases signed this quarter, including Amazon taking all 413,100 square feet of Expedia's space in Tower 333 in the Bellevue CBD. The lease commences in 2020, at which point Expedia will vacate Tower 333 and move to their new Seattle headquarters at the former Amgen site in Interbay.

There were two massive leases signed in Bothell, with Seattle Genetics taking 206,771 square feet at Canyon Park and T-Mobile leasing 174,546 square feet at Canyon Pointe. Fresh off their ninth round of venture capital funding, this time from SoftBank, WeWork took a large space in the Seattle CBD, leasing 91,096 square feet at Madison Centre in the Seattle CBD. Leasing activity at Madison Centre has been brisk this quarter and it is now nearly 75% leased. WeWork also took 20,234 square feet at 501 Eastlake in Lake Union.

On the sales side, volume this quarter was the highest since fourth-quarter 2012 and with a strong finish to the year could rival the record-setting annual total from 2015. Notable sales include the Metropolitan Park East and West buildings, sold by CBRE Global Investors to CalSTRS for \$435M or \$613/SF, 400 Fairview, which was sold by TIAA-CREF to Pembroke Real Estate for \$338M or \$969/SF, approaching the \$992 price-per-square foot record established last quarter by the 202 Westlake sale.

SELECT LEASE TRANSACTIONS

Tenant	Building	Submarket	Type	Square Feet
Amazon	Tower 333	Bellevue CBD	Direct	413,100
Seattle Genetics	Canyon Park	Bothell / Kenmore	Direct	206,771
T-Mobile	Canyon Pointe	Bothell / Kenmore	Direct	174,546
Mindtree	90 North - Bldg 2	I-90 Corridor	Direct	93,840
WeWork	Madison Centre	Seattle CBD	Direct	91,096

SELECT SALES TRANSACTIONS

Building	Submarket	Sale Price	Price/SF	Square Feet
Metropolitan Park East & West	Seattle CBD	\$435,000,000	\$613	709,108
1111 Third and 2 nd & Spring	Seattle CBD	\$359,000,000	\$505	710,948
400 Fairview	Lake Union	\$338,425,250	\$969	349,152
Maritime Building	Pioneer Square / Waterfront	\$186,000,000	\$879	211,640
Millennium Corporate Park	Redmond	\$153,490,280	\$285	536,958

SUBMARKET STATISTICS

	Total Inventory (SF)	Under Construction (SF)	Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Average Direct Asking Rent (Price/SF)
Downtown Seattle	62,044,926	5,862,662	7.2%	1,221,286	2,327,042	\$41.83
Ballard/University District	2,878,119	270,750	2.7%	14,519	60,960	\$35.60
Belltown/Denny Regrade	5,117,146	0	6.0%	28,590	(50,174)	\$36.76
Capitol Hill/Central District	1,663,892	75,400	1.7%	(3,207)	27,369	\$39.18
Lake Union	8,773,136	3,916,110	3.9%	252,685	409,076	\$44.21
Pioneer Square/Waterfront	6,343,473	0	4.5%	236,374	503,716	\$36.62
Queen Anne/Magnolia	4,244,163	0	9.8%	(55,737)	(55,234)	\$33.28
South Seattle	2,676,436	0	7.0%	12,883	33,676	\$32.86
Seattle CBD	30,348,561	1,600,402	9.3%	735,179	1,397,653	\$45.29
Eastside	33,114,818	1,112,530	7.9%	223,654	393,968	\$41.10
520 Corridor	3,004,699	0	9.7%	(24,373)	(10,188)	\$38.55
Bellevue CBD	9,878,672	0	7.3%	(96,673)	(5,335)	\$48.50
Bothell/Kenmore	3,308,588	0	13.7%	86,665	149,413	\$34.66
Coal Creek/Issaquah	1,839,200	0	0.3%	117,599	218,095	\$40.31
I-90 Corridor	4,595,098	0	14.7%	(21,308)	(230,253)	\$39.80
Kirkland	3,071,149	401,297	5.2%	44,286	(16,521)	\$41.60
Mercer Island	547,753	0	1.3%	6,632	3,168	\$36.71
Redmond	3,267,612	0	3.1%	83,975	301,124	\$36.93
Suburban Bellevue	3,602,047	711,233	5.7%	26,851	(15,535)	\$34.27
Northend	7,932,911	0	7.0%	(28,000)	(3,572)	\$29.85
Southend	13,664,826	833,765	17.2%	(2,597)	(103,449)	\$28.51
Tacoma	6,066,696	0	8.2%	83,695	58,200	\$24.22
Puget Sound Market	122,824,177	7,808,957	8.5%	1,498,038	2,672,189	\$36.91

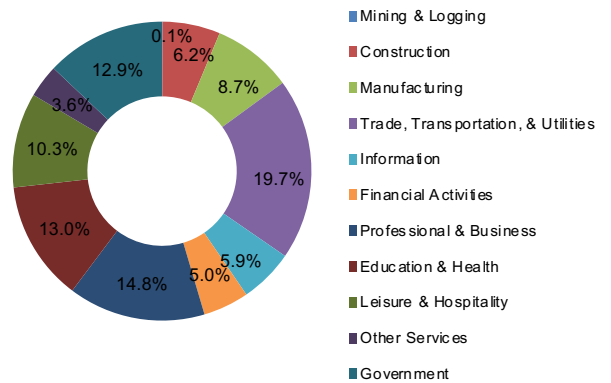
ECONOMIC CONDITIONS

The local economy continues to run hot, with year-over-year nonfarm payroll increasing at 3.9%, the fastest growth rate since the turn of the century. The Seattle-Tacoma-Bellevue metropolitan statistical area had an unemployment rate of 3.9% in July, in line with the national rate, which is near an all-time low. The job growth is being led by technology jobs, and software developers are the most sought-after position, with more than 5,000 open positions in Seattle alone.

At the national level, the country is in the midst of the longest bull market in history, which has extended for a remarkable 38 consecutive quarters. The Federal Reserve raised interest rates in September for the third time this year, with another raise anticipated to occur in December. The S&P 500 is up 8.98% since the start of the year, but earnings are up 9.13% and cash flows are up 17.01%, indicating the S&P is less expensive today than it was at the start of the year relative to earnings and cash flows. Uncertainty surrounding the ongoing global trade war could prematurely curtail the booming U.S. economy, but the full impact of the new trade policies has yet to be measured.

EMPLOYMENT BY INDUSTRY

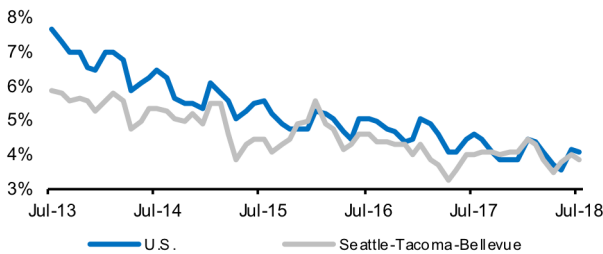
Seattle-Tacoma-Bellevue, August 2018



Source: U.S. Bureau of Labor Statistics

UNEMPLOYMENT RATE

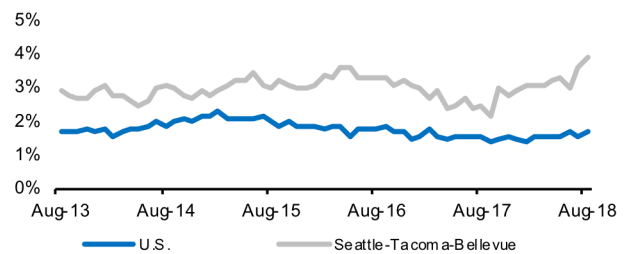
Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

PAYROLL EMPLOYMENT

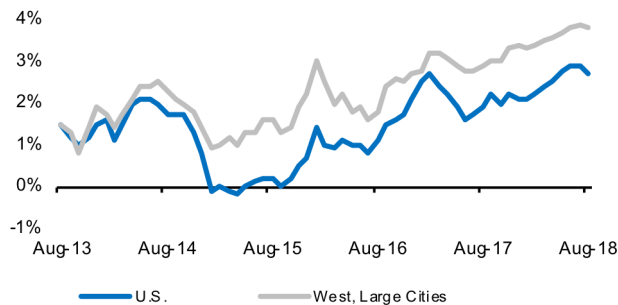
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

CONSUMER PRICE INDEX (CPI)

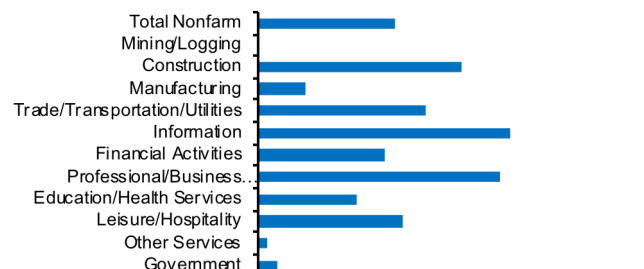
All Items, 12-Month % Change, Not Seasonally Adjusted,



Source: U.S. Bureau of Labor Statistics

EMPLOYMENT GROWTH BY INDUSTRY

Seattle-Tacoma-Bellevue, 12-Month % Change, Not Seasonally Adjusted, August 2018



Source: U.S. Bureau of Labor Statistics

Seattle

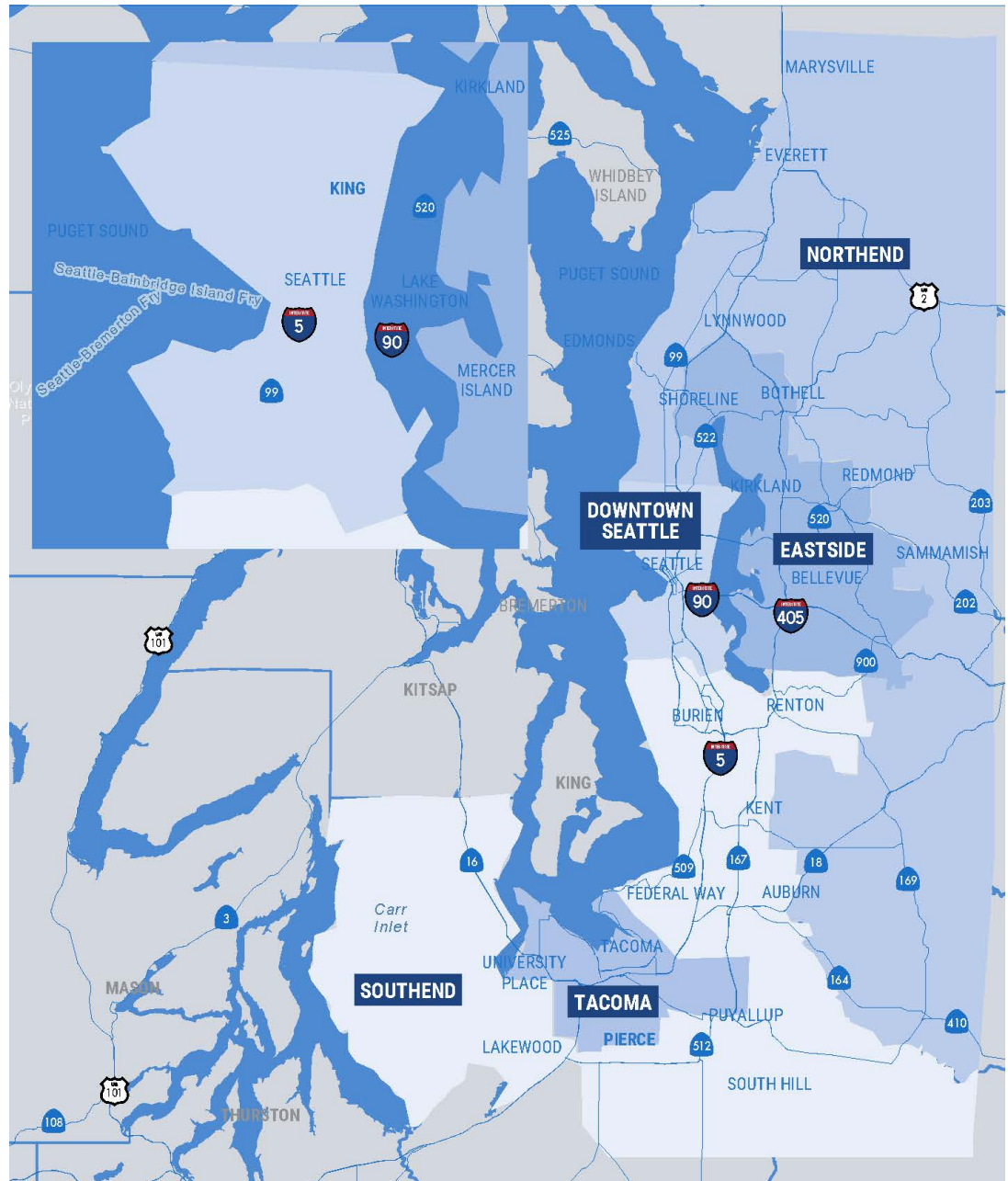
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