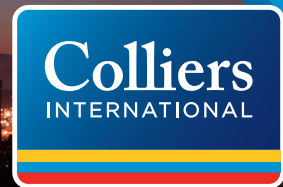


RESEARCH & FORECAST REPORT

PUGET SOUND REGION | Q1 2017 | OFFICE



REGIONAL SUMMARY

The Seattle/Puget Sound office market started strong in 2017. The regional vacancy rate ended the first quarter at 8.0%, down 60 basis points from Q4 2016. The Puget Sound market enjoyed the 28th straight quarter of positive absorption with 837,076 SF, slightly up from Q1 2016 when the region saw 812,097 SF. Unemployment in the region is anticipated to drop to 4.5% in 2017, according to the Puget Sound Economic Forecaster, while personal income is expected to grow by 5.2%, 40 basis points up from last year. Redmond-based Microsoft has not added much to employment growth (only 4,000 jobs since the recession) but has increased total wages and salaries by \$4 billion. On the Eastside, the Salesforce engineering office finally moved into 929 Office Tower in the Bellevue CBD. Sterling Talent Agency and HDR Engineering have also decided to make 929 their new home in Bellevue as the CBD's vacancy dropped 1.6% quarter-over-quarter. Lincoln Square's South Tower is already 76% leased after delivering in December 2016 as WeWork plans to open three coworking floors next quarter. Back in Seattle, Urban Union was a hub of activity this quarter, selling for almost \$940/SF while Amazon moved into the building. Amazon also signed a lease at Tilt49 for 290,000 SF, which will commence next year. Since 2012, Amazon's commenced leases have accounted for 62% of Seattle area absorption. Tech tenants continue to dominate the area as Google added another 51,000 SF to its Fremont footprint at 437 N 34th while Redfin moved into 112,000 SF of new space at Hill7. In 2017, we should start to see some tapered growth, but the Seattle region will remain a resilient office market as it benefits from the talent and success of companies that call the Puget Sound 'home.'

REGIONAL VACANCY

- » Seattle vacancy is 7.6%, far lower than Q1 2016's 8.9%, and 40 basis points below Q4 2016.
- » Eastside vacancy is 5.7%, 1.5% lower than Q4 2016 as the suburbs remain in high demand.

NET ABSORPTION

- » Seattle submarkets recorded 243,937 SF positive net absorption for Q1 2017, up from Q1 2016's 156,995 SF. Amazon moved into Urban Union and 428 Westlake, contributing 365,978 SF of absorption while Safeco moved out of 204,620 SF at Second & Seneca.
- » Eastside submarkets had 469,983 SF of positive net absorption in Q1 with Salesforce's move into 929 Office Tower in the Bellevue CBD accounting for 21% of all Eastside absorption.

CONSTRUCTION ACTIVITY

- » There is 7.3 million SF of office under construction across the Seattle/Puget Sound region – 5.7 million SF in Seattle and 1.5 million SF on the Eastside or South King County. Pre-leasing reached 59% on all under construction space by end of Q1 2017.
- » The Mark and Madison Centre (1.2 million SF combined) deliver next quarter and leasing activity is light but increasing on the two speculative developments, ensuring a significant rise in vacancy later this year.

SALES ACTIVITY

- » 26 office properties totaling over 1.4 million SF sold during Q1 as total sales volume topped \$546 million at an average of \$337/SF, according to Real Capital Analytics.
- » Urban Union in South Lake Union sold for \$269 million (\$939/SF) to Tristar Capital and RFR Holding. Amazon committed to the full building and the 285,000 SF lease commenced in Q1.

ECONOMIC DRIVERS

MARKET INDICATORS	QoQ	YoY
VACANCY	↓	↓
RENTAL RATES	↑	↑
NET ABSORPTION	↓	↑
CONSTRUCTION	↑	↓
SALES VOLUME	↓	↓
SALE PRICE	↓	↓

RENTAL RATE QUARTERLY COMPARISON

Market	Quarter over Quarter			Year over Year		
	Q1 2017	Q4 2016	QoQ % Change	Q1 2017	Q1 2016	YoY % Change
Seattle CBD: Class A	\$43.88	\$43.49	0.9%	\$43.88	\$40.37	8.7%
Seattle CBD: Class B	\$36.91	\$31.76	16.2%	\$36.91	\$28.99	27.3%
Bellevue CBD: Class A	\$43.61	\$44.05	-1.0%	\$43.61	\$39.89	9.3%
Bellevue CBD: Class B	\$35.32	\$36.60	-3.5%	\$35.32	\$36.03	-2.0%

*Rates represent full service asking rents for available space.



UPDATE—REGIONAL Lease and Investment Transactions

NOTABLE LEASE COMMENCEMENTS—Q1 2017

Tenant	Property Name	Class	SF	Submarket
Amazon	Urban Union	A	285,000	Lake Union
Redfin	Hill7	A	112,990	Seattle CBD
Amazon	428 Westlake	A	80,978	Lake Union
Delta Dental	400 Fairview	A	61,556	Lake Union
Tata Consultancy Services	Oakhurst Center - Bldg. B	B	40,361	520 Corridor
DR Horton *	Slater Avenue Office Bldg.	B	27,965	Kirkland
Wood Harbinger	929 Office Tower	A	25,691	Bellevue CBD

* Renewal

NOTABLE LEASE SIGNATURES—Q1 2017

Tenant	Property Name	Class	SF	LCD	Submarket
Amazon	Tilt49	A	288,927	5/1/2018	Seattle CBD
Google	437 N 34th St	B	50,939	5/1/2017	Ballard/U-Dist
Sound Transit *	705 Union Station	A	49,724	2/1/2017	Pioneer Sq./Waterfront
HDR Engineering	929 Office Tower	A	41,754	6/1/2017	Bellevue CBD
Capital One	501 Eastlake	B	39,489	6/1/2017	Lake Union
Epic Games	Lincoln Square S Tower	A	24,865	8/1/2017	Bellevue CBD

* Sublease

NOTABLE SALE COMPS—Q1 2017

Building Name	Submarket	Class	RBA	Sale Price	Price/SF	Seller	Buyer	Sale Date
Urban Union	Lake Union	A	286,299	\$268,940,438	\$939.37	Schnitzer West	Tristar Capital / RFR Realty	1/13/2017
Willows Commerce Park II	Redmond	B	426,548	\$75,245,000	\$176.40	Blackstone	Kennedy Wilson	3/9/2017
2505 Second	Belltown/ Denny Regrade	B	62,130	\$21,950,000	\$353.29	SteelWave	Pacific Coast Capital Partners	1/27/2017
Evergreen Office Park	520 Corridor	B	101,089	\$21,375,000	\$211.45	SteelWave	Pacific Coast Capital Partners	1/27/2017

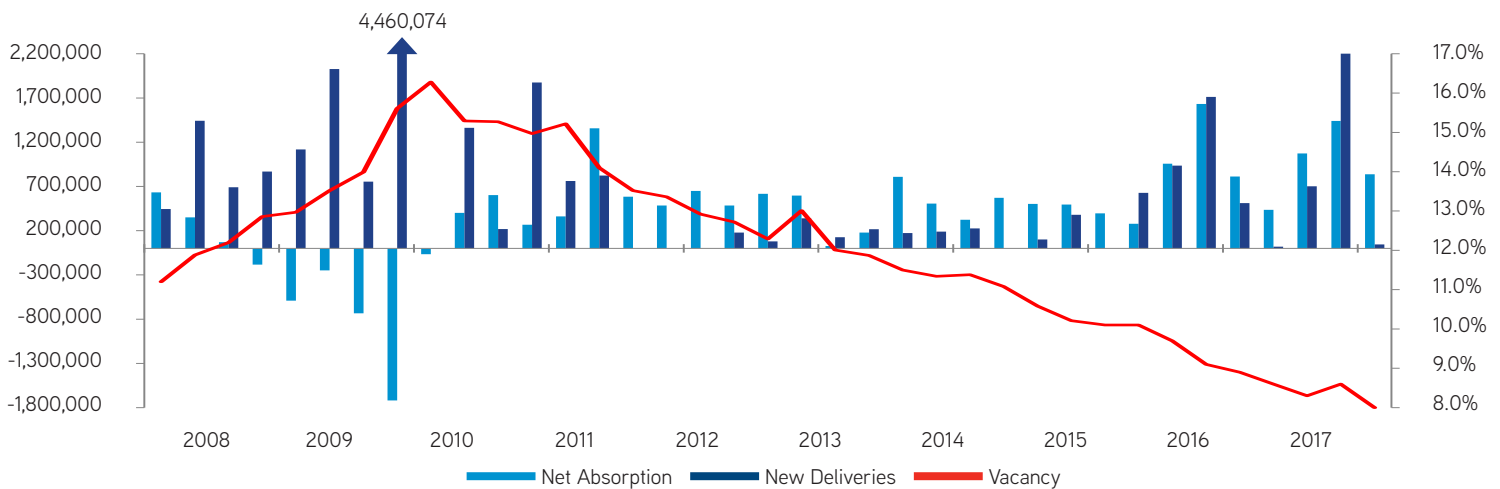
NOTABLE PROPERTIES LIKELY TO TRADE IN 2017

Price	Building SF	Price/SF	Property Name	Owner	Submarket	Class
Unpriced	345,821	TBD	Centre 425	Schnitzer West	Bellevue CBD	A
Unpriced	332,597	TBD	Midtown21	MetLife/Trammel Crow	Seattle CBD	A
\$70,836,800	88,546	\$800.00	428 Westlake	Vulcan	Lake Union	A
\$9,400,000	37,486	\$250.76	Kirkland 405 Corp Ctr - Bldg. C	Gary Rubens	Kirkland	B
Unpriced	310,633	TBD	Park Place	Pearlmark RE Partners	Seattle CBD	A

MARKET OVERVIEW

	EXISTING PROPERTIES					ABSORPTION		
	Stock	Total Inventory (SF)	Direct Vacant (SF)	Sublease Vacant (SF)	Total Vacant (SF)	Vacancy Rate Current Period (%)	Absorption Current Quarter (SF)	Absorption YTD (SF)
Seattle Office:								
Class A	124	38,505,674	2,512,494	156,282	2,668,776	6.9%	382,255	382,255
Class B	296	19,964,788	1,733,468	121,927	1,855,395	9.3%	-156,285	-156,285
Class C	120	2,853,182	147,046	3,634	150,680	5.3%	17,967	17,967
Total	540	61,323,644	4,393,008	281,843	4,674,851	7.6%	243,937	243,937
Eastside Office:								
Class A	122	21,334,357	1,326,354	63,296	1,389,650	6.5%	310,353	310,353
Class B	400	19,240,376	832,625	166,492	999,117	5.2%	156,798	156,798
Class C	72	1,383,386	18,276	348	18,624	1.3%	2,832	2,832
Total	594	41,958,119	2,177,255	230,136	2,407,391	5.7%	469,983	469,983
Northend Office:								
Class A	13	1,461,153	228,620	1,209	229,829	15.7%	-2,413	-2,413
Class B	206	8,235,243	669,888	19,442	689,330	8.4%	40,263	40,263
Class C	60	1,083,695	58,400	0	58,400	5.4%	-1,309	-1,309
Total	279	10,780,091	956,908	20,651	977,559	9.1%	36,541	36,541
Pierce County Office:								
Class A	6	1,037,175	59,916	0	59,916	5.8%	2,611	2,611
Class B	168	5,894,678	758,851	13,356	772,207	13.1%	-3,264	-3,264
Class C	92	1,940,186	132,207	0	132,207	6.8%	513	513
Total	266	8,872,039	950,974	13,356	964,330	10.9%	-140	-140
South King County Office:								
Class A	74	6,859,972	993,135	125,205	1,118,340	16.3%	20,790	20,790
Class B	221	8,349,903	673,747	5,843	679,590	8.1%	25,383	25,383
Class C	74	1,685,533	415,602	3,509	419,111	24.9%	40,582	40,582
Total	369	16,895,408	2,082,484	134,557	2,217,041	13.1%	86,755	86,755
Seattle Region								
Class A	339	69,198,331	5,120,519	345,992	5,466,511	7.9%	713,596	713,596
Class B	1,291	61,684,988	4,668,579	327,060	4,995,639	8.1%	62,895	62,895
Class C	418	8,945,982	771,531	7,491	779,022	8.7%	60,585	60,585
MSA Total	2,048	139,829,301	10,560,629	680,543	11,241,172	8.0%	837,076	837,076

REGIONAL ABSORPTION & VACANCY RATES



REGIONAL OVERVIEW

REGIONAL SUPPLY

- » 2.9 million SF is set to deliver in Seattle & Bellevue in 2017, yet, 55% of this space has already been pre-leased. Under construction projects are 62% leased in Seattle and 58% leased on the Eastside.
- » Amazon projects make up almost 1.9 million SF of the office inventory currently under construction, which does not include additional office developments it still has in its pipeline.

REGIONAL DEMAND

- » Seattle tenants in the market for space exceed 4.3 million SF of demand. Tech tenants = 61% of total demand.
- » Eastside tenants in the market for space exceed 3.5 million SF of demand. Tech tenants = 56% of total demand.

REGIONAL OUTLOOK

- » Seattle – the market will continue to level out as more supply comes online, spiking the vacancy rate. Technology giants like Amazon, Facebook, and Google should continue to grow and attract more talent to the area, leading to more start-ups and therefore more competition for space in a landlord favored market.
- » Eastside – vacancy rates are at post-recession lows yet demand continues at elevated levels with the help of existing and expanding tech tenants. With no major speculative office deliveries on the near horizon, finding space could be difficult for tenants for the next two years, potentially spurring developers to break ground on additional office projects sooner than expected.

502 offices in
67 countries on
6 continents

United States: **140**
Canada: **31**
Latin America: **24**
Asia Pacific: **199**
EMEA: **108**

\$2.3
billion in
annual revenue

1.7
billion square feet
under management

16,300
professionals
and staff

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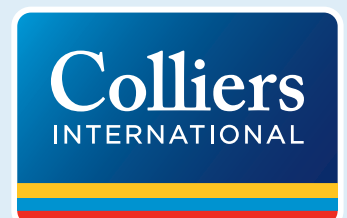
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