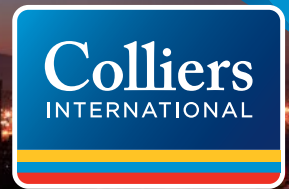


RESEARCH & FORECAST REPORT

PUGET SOUND REGION | Q2 2018 | OFFICE



Positive momentum continued for the Puget Sound office market in first half of 2018.

Strong leasing and few new deliveries or availabilities drive positive absorption and lower vacancy.

The Puget Sound Region's office market continued on a healthy trajectory in the first six months of this year. The direct vacancy rate remained unchanged from June 2017 at 8.2%, but fell 20 basis points from Q1 due to significant leasing, 368,620 SF of positive net absorption and no construction deliveries. Rental rates for Class A properties rose in both the Seattle and Bellevue CBDs, with large blocks of space hard to come by for tenants in each market. Despite the rise in material costs and something of a slowdown in the frantic pace experienced over the past few years, construction activity remained strong in the region, with Amazon Towers III and IV the largest projects area-wide. On the Eastside, large-block availability continued to dwindle. As of the end of the quarter, just three blocks exceeding 100,000 SF were available in that market. New developments expected to break ground next quarter will help ease the stress on tenants with requirements of that size, but not until 2020. Sales volume reached nearly \$902.7 million in Q2, greatly surpassing last quarter's total. The Redmond market emerged as maybe the hottest investment market, with three properties accounting for \$564 million of the quarter's sales at an average of \$350/SF. The Blackstone Group was active on both sides of the lake this quarter, selling both the 5th & Bell Building in Seattle's Belltown and the Daytona Laguna Campus in Redmond.

REGIONAL VACANCY

- » Seattle's overall vacancy totaled 7.9% at the end of Q2, up 20 basis points from a year ago primarily due to vacancy at Madison Centre. Vacancy in the CBD fell 140 points from a year ago to 11.2%, however, as leasing at 300 Pine and 1201 Third removed large blocks from the inventory. Quarter over quarter, Ballard/U-District and Pioneer Square/Waterfront saw the greatest change in vacancy, dropping to 2.4% and increasing to 7.3%, respectively.
- » Eastside vacancy remained flat from last quarter at 5.6%. Strong activity in the Bellevue CBD resulted in a decline in that submarket's vacancy to 6.8% — the first time it fell below 7% this decade.

NET ABSORPTION

- » Seattle submarkets recorded an aggregate 554,058 SF of positive net absorption, largely due to Amazon's occupancy of 300 Pine downtown and WeWork's occupancy of 1201 Third.
- » Eastside submarkets saw a total of 44,891 SF of negative absorption in Q2, mostly due to new availabilities in Class B buildings including the Sunset and I-90 Corporate campuses. Class A properties in the Bellevue CBD saw 36,344 SF of positive absorption, as large availabilities in 929 Office Tower and Lincoln Square South were occupied. Overall Class A absorption was positive in Q2.

CONSTRUCTION ACTIVITY

- » Approximately 6.9 million SF of office space is under construction across the Puget Sound Region — 6.5 million SF in Seattle and 389,459 SF on the Eastside. Sixty-four percent of all under-construction space is pre-leased.

SALES ACTIVITY

- » The region saw 25 office transactions averaging \$350/SF, up from \$248/SF in Q1. Amazon-occupied properties 202 Westlake and 5th & Bell dominated Seattle activity, trading for record prices of \$992/SF and \$481/SF, respectively.
- » In Seattle, Met Park East and West, Troy Block, and 501 Eastlake are for sale. On the Eastside, 110 Atrium in Bellevue also hit the market.

RENTAL RATE QUARTERLY COMPARISON

| Market | Quarter over Quarter | | | Year over Year | | |
|-----------------------|----------------------|---------|--------------|----------------|---------|--------------|
| | Q2 2018 | Q1 2018 | QoQ % Change | Q2 2018 | Q2 2017 | YoY % Change |
| Seattle CBD: Class A | \$48.33 | \$47.67 | 1.4% | \$48.33 | \$43.92 | 10.0% |
| Seattle CBD: Class B | \$37.62 | \$37.49 | 0.3% | \$37.62 | \$36.99 | 1.7% |
| Bellevue CBD: Class A | \$49.80 | \$46.52 | 7.1% | \$49.80 | \$43.87 | 13.5% |
| Bellevue CBD: Class B | \$38.85 | \$35.82 | 8.5% | \$38.85 | \$36.19 | 7.4% |

ECONOMIC DRIVERS

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

*Rates represent full service asking rents for available space.



Regional Lease and Investment Transactions

| NOTABLE LEASE COMMENCEMENTS—Q2 2018 | | | | | |
|-------------------------------------|---------------------------------|-------|---------|-----------------------|--|
| Tenant | Property Name | Class | SF | Submarket | |
| WeWork | 1201 Third | A | 115,000 | Seattle CBD | |
| Costco | Sammamish Park Place - Bldg. A | B | 97,191 | Coal Creek / Issaquah | |
| Puget Sound Energy | Parklands North Creek - Bldg. O | A | 96,350 | Bothell / Kenmore | |
| EagleView Technologies | Skyline Tower | A | 55,584 | Bellevue CBD | |
| Coufang Global LLC | Eighth & Olive | A | 46,686 | Seattle CBD | |

| NOTABLE LEASE SIGNATURES—Q2 2018 | | | | | |
|----------------------------------|-----------------------------|-------|---------|------------|---------------------------|
| Tenant | Property Name | Class | SF | LCD | Submarket |
| WeWork | Met Park East | A | 120,000 | 11/1/2018 | Seattle CBD |
| WeWork | Summit II | A | 118,000 | 12/31/2018 | Bellevue CBD |
| Wells Fargo | 999 Third | A | 88,609 | 1/1/2020 | Seattle CBD |
| Premiera Blue Cross | 3855 Monte Villa Pkwy Bldg. | B | 65,586 | 8/1/2018 | Bothell / Kenmore |
| RealSelf | 83 King | B | 49,799 | 12/30/2022 | Pioneer Square/Waterfront |
| Virtuoso Ltd. | 5050 1st Ave S | B | 36,500 | 1/1/2019 | South Seattle |
| WeWork | Bellevue Place | A | 32,228 | 6/1/2018 | Bellevue CBD |

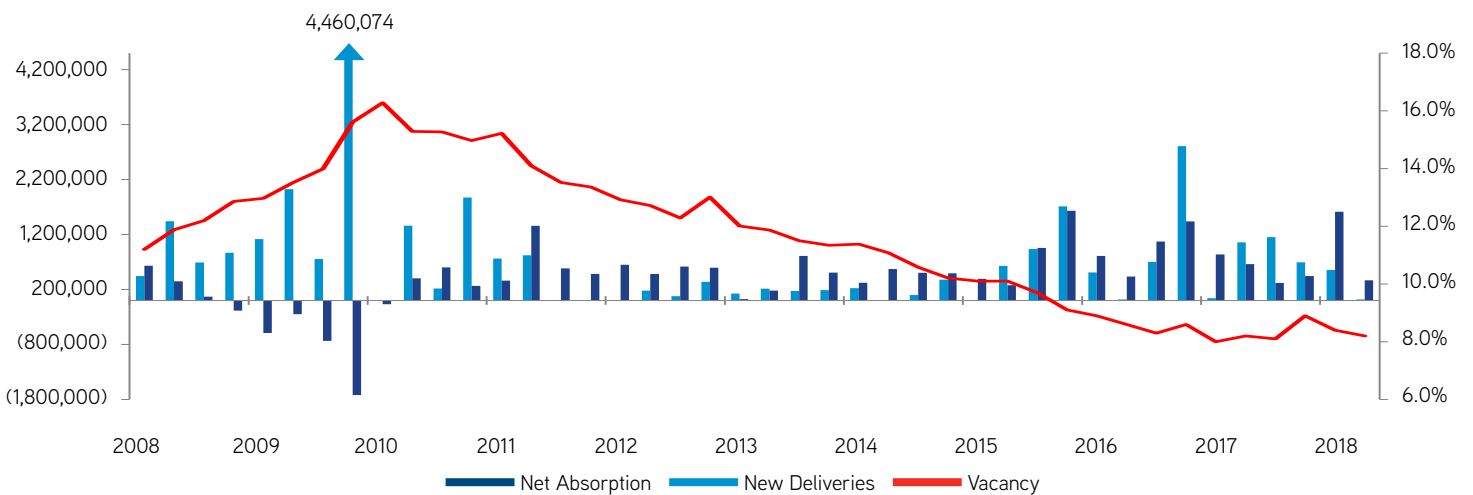
| NOTABLE SALES—Q2 2018 | | | | | | | | |
|------------------------------|------------------------|-------|---------|---------------|----------|--------------------------------|-------------------------------|-----------|
| Building Name | Submarket | Class | RBA | Sale Price | Price/SF | Seller | Buyer | Sale Date |
| 202 Westlake | Lake Union | A | 130,525 | \$129,500,000 | \$992 | GLL Real Estate Partners, Inc. | LaSalle Investment Management | 5/24/2018 |
| Chromer Building | Seattle CBD | B | 50,680 | \$32,500,000 | \$641 | Urban Visions | Plus Investment USA | 6/6/2018 |
| 5th & Bell | Belltown/Denny Regrade | A | 197,136 | \$95,000,000 | \$482 | The Blackstone Group | Alexandria RE Equities, Inc. | 6/1/2018 |
| Redmond Town Center - Office | Redmond | B | 582,000 | \$268,388,891 | \$461 | Shorenstein Properties, LLC | Invesco | 6/20/2018 |
| Daytona Laguna Campus | 520 Corridor | A | 715,000 | \$250,000,000 | \$350 | The Blackstone Group | Microsoft Corporation | 6/20/2018 |
| Oakhurst Center | 520 Corridor | A | 143,191 | \$45,400,000 | \$317 | Barings RE Advisers, LLC | Swift RE Partners | 5/31/2018 |

| NOTABLE PROPERTIES LIKELY TO TRADE IN 2018 | | | | | |
|--|-------------|----------------------------------|--|--------------|-------|
| Property Name | Building SF | Owner | | Submarket | Class |
| Troy Block - North & South | 818,000 | USAA Real Estate Co. | | Lake Union | A |
| Met Park East | 367,161 | CBRE Global Investors | | Seattle CBD | A |
| 400 Fairview Ave North | 345,542 | Skanska USA Building | | Lake Union | A |
| Met Park West | 341,122 | CBRE Global Investors | | Seattle CBD | A |
| 110 Atrium | 237,437 | Lionstone Investments | | Bellevue CBD | B |
| 501 Eastlake | 103,494 | LBA | | Lake Union | B |
| Redmond Technology Center | 100,978 | Acento Real Estate Partners, LLC | | Redmond | A |

MARKET OVERVIEW

| | 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 | 135 | 41,210,915 | 3,188,693 | 193,997 | 3,382,690 | 8.2% | 418,881 | 1,406,748 |
| Class B | 291 | 19,448,250 | 1,333,850 | 175,519 | 1,509,369 | 7.8% | 129,621 | 83,263 |
| Class C | 116 | 2,724,861 | 90,750 | 14,707 | 105,457 | 3.9% | 5,556 | 43 |
| Total | 542 | 63,384,026 | 4,613,293 | 384,223 | 4,997,516 | 7.9% | 554,058 | 1,490,054 |
| Eastside Office | | | | | | | | |
| Class A | 121 | 21,250,087 | 1,024,184 | 154,549 | 1,178,733 | 5.5% | 4,004 | 93,328 |
| Class B | 397 | 19,134,078 | 1,003,030 | 90,988 | 1,094,018 | 5.7% | (47,152) | 188,372 |
| Class C | 63 | 1,150,419 | 39,815 | 0 | 39,815 | 3.5% | (1,743) | (5,839) |
| Total | 581 | 41,534,584 | 2,067,029 | 245,537 | 2,312,566 | 5.6% | (44,891) | 275,861 |
| Northend Office | | | | | | | | |
| Class A | 13 | 1,461,153 | 85,240 | 0 | 85,240 | 5.8% | 104,771 | 128,264 |
| Class B | 204 | 8,209,564 | 746,644 | 78,213 | 824,857 | 10.0% | (8,815) | 3,794 |
| Class C | 57 | 1,006,095 | 93,249 | 0 | 93,249 | 9.3% | (37,348) | (16,507) |
| Total | 274 | 10,676,812 | 925,133 | 78,213 | 1,003,346 | 9.4% | 58,608 | 115,551 |
| Pierce County Office | | | | | | | | |
| Class A | 6 | 1,037,175 | 29,023 | 4,300 | 33,323 | 3.2% | 28,383 | 32,111 |
| Class B | 167 | 5,884,500 | 600,677 | 30,000 | 630,677 | 10.7% | 32,792 | 336 |
| Class C | 90 | 1,933,557 | 129,215 | 0 | 129,215 | 6.7% | (30,796) | (33,441) |
| Total | 263 | 8,855,232 | 758,915 | 34,300 | 793,215 | 9.0% | 30,379 | (994) |
| South King County Office | | | | | | | | |
| Class A | 74 | 6,864,148 | 1,175,333 | 23,502 | 1,198,835 | 17.5% | (96,116) | (42,908) |
| Class B | 220 | 8,401,191 | 860,139 | 8,452 | 868,591 | 10.3% | (140,236) | 147,726 |
| Class C | 74 | 1,685,533 | 399,435 | 10,981 | 410,416 | 24.3% | 6,818 | (2,943) |
| Total | 368 | 16,950,872 | 2,434,907 | 42,935 | 2,477,842 | 14.6% | (229,534) | 101,875 |
| Puget Sound Region | | | | | | | | |
| Class A | 349 | 71,823,478 | 5,502,473 | 376,348 | 5,878,821 | 8.2% | 459,923 | 1,617,543 |
| Class B | 1,279 | 61,077,583 | 4,544,340 | 383,172 | 4,927,512 | 8.1% | (33,790) | 423,491 |
| Class C | 400 | 8,500,465 | 752,464 | 25,688 | 778,152 | 9.2% | (57,513) | (58,687) |
| MSA Total | 2,028 | 141,401,526 | 10,799,277 | 785,208 | 11,584,485 | 8.2% | 368,620 | 1,982,347 |

REGIONAL ABSORPTION & VACANCY RATES



REGIONAL OVERVIEW

REGIONAL SUPPLY

- » Puget Sound saw no new deliveries this quarter. However, more than 700,000 SF of new construction is scheduled to hit the market in Q3 2018. On the Eastside, Block 16 in The Spring District is expected to break ground next quarter, adding 311,000 SF to the expanding Bel-Red neighborhood. Kirkland Urban North is expected to deliver by the end of the year, and Urban South at the beginning of 2019. Vulcan Development began the pre-application process to develop 1 million SF of office space at its Bellevue Plaza development downtown, on a spec basis. The organization is also reportedly moving forward with plans to develop its other downtown sites, which could deliver additional space as early as 2023.
- » Sixty-four percent of all under-construction office space has already been pre-leased, a slight increase from last quarter's total.

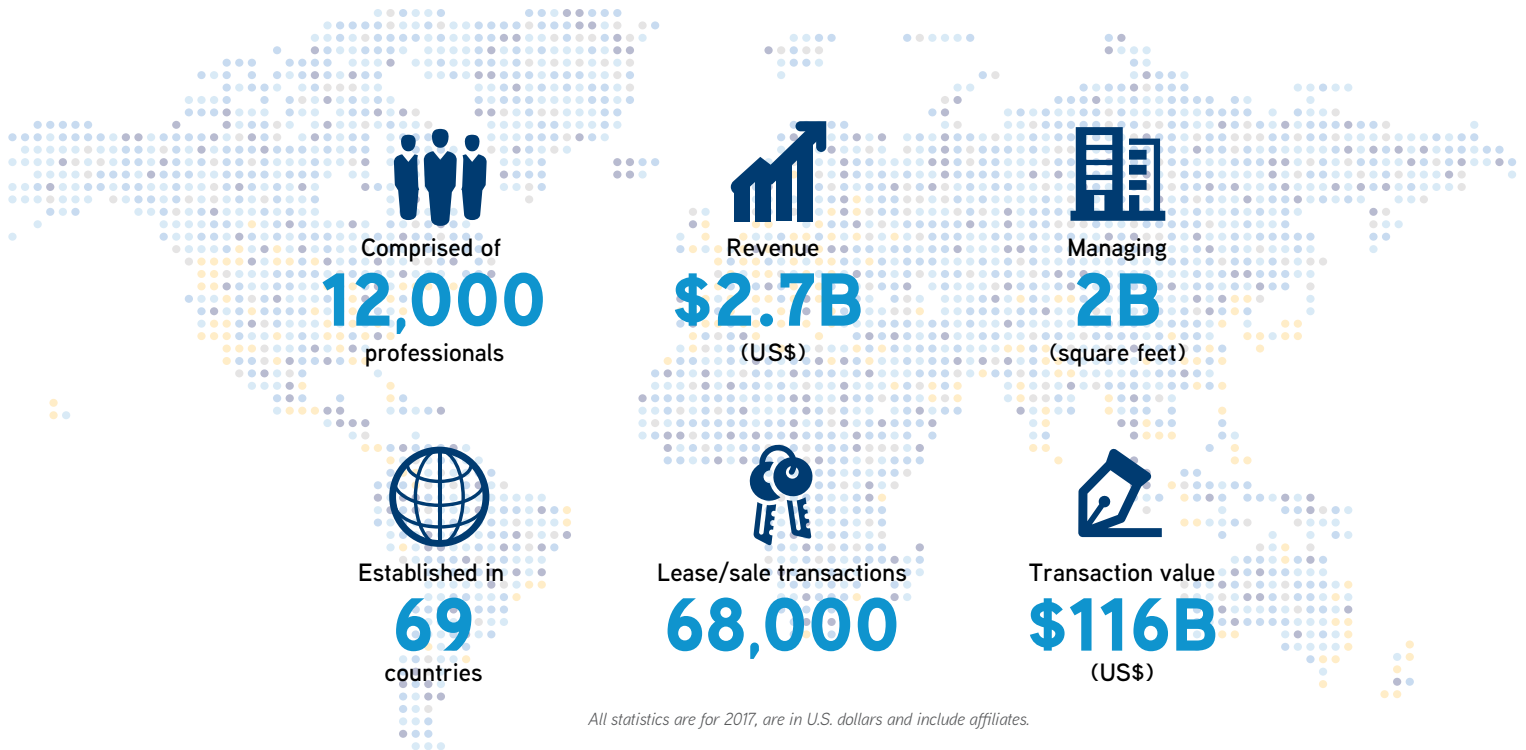
REGIONAL DEMAND

- » Puget Sound tenants are currently in the market for 6.02 million SF of space, with 21% of Eastside requirements in large blocks of at least 50,000 SF.

REGIONAL OUTLOOK

- » Seattle—Even though many construction projects are in the pipeline, a new May report from Turner & Townsend states that construction costs are expected to increase by five percent in 2018, matching the San Francisco market. This is due to rising labor costs, spikes in material fees, and steady tech demand. Rental rates for Class A properties in all submarkets reached \$48.00/SF in Q2, the highest ever recorded rate in the area.
- » Eastside – Class A rates in the Bellevue CBD continue to rise and approach unprecedented highs. Overall rents for premium spaces increased to \$49.80/SF this quarter but some top-tier downtown offices are asking close to \$60/SF full service. Some tenant downsizing has happened as a result of these increases — possibly the beginning of a trend. Several downtown blocks exceeding 50,000 SF are expected to be absorbed before 2019, pushing the vacancy rate even lower and rates even higher.

THE WORLD OF COLLIERS

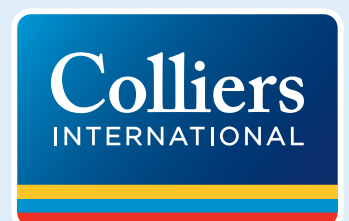


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