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2Q24

# Seattle Office Market Overview



**NEWMARK**

# Market Observations

## Economy

- The unemployment rate in the Seattle-Tacoma-Bellevue MSA increased over the second quarter and was higher than the national average. As of May 2024, the unemployment rate stood at 4.5%.
- Office-occupying or adjacent industries have contracted by 1.2% over the past 12 months, most notably the information sector, which saw a decrease of 4.2% in employment over the period.
- Office-using employment saw a slight decline at the beginning of the year but remained significantly higher than pre-pandemic levels. Unemployment rose by 10 basis points during the quarter, reaching 4.5% as of May 2024. Despite this uptick, unemployment remained well below its peak of 17.1% in April 2020.

## Major Transactions

- Year-to-date leasing volume was the highest recorded since 2019, although it remained considerably lower than pre-pandemic averages. Renewals and small to mid-sized deals continued to dominate the leasing landscape.
- Leasing activity in the second quarter showed promise, especially on the Eastside, where significant new deals were secured. Tech giants Snowflake and ByteDance both expanded their presence in Bellevue, underscoring their confidence in the region.

## Leasing Market Fundamentals

- In the second quarter of 2024, overall vacancy increased by 30 basis points to reach 19.7%, accompanied by a net negative absorption of 127,826 square feet in the region.
- Leasing activity was healthy, with total leasing volume reaching 1.9 million square feet, marking a 13.1% year-over-year increase.
- While leasing activity in the Seattle CBD remained subdued, there has been a notable resurgence in leasing across the Eastside and Northend submarkets year-to-date.
- Rents in the Puget Sound market continued to face downward pressure, with average asking rates at \$44.14 per square foot during the second quarter of 2024, marking a year-over-year decrease of -1.9%.

## Outlook

- Occupancy losses in the region are anticipated to persist as leases signed pre-pandemic approach expiration; however, the rate of decline has slowed and leasing activity year-to-date has improved, fostering optimism that stabilization may be on the horizon.
- Demand for existing sublease space remains strong as tenants acquire premium offerings at discounted rates. Meanwhile, the rate at which new sublease space is being added to the market has decelerated.
- The trend of migrating towards quality is expected to continue, especially towards trophy buildings and landlords with lower debt burdens.

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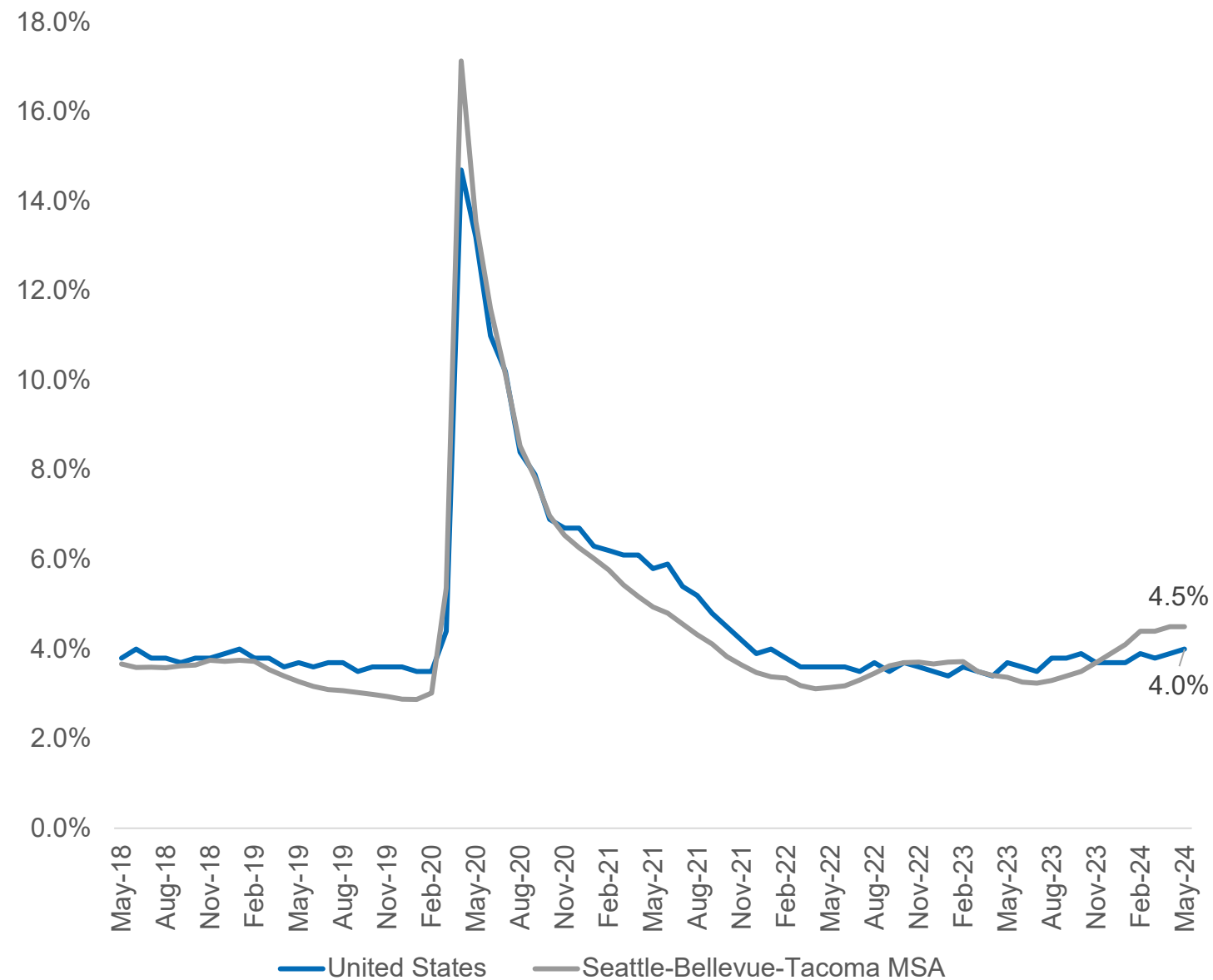
# Economy



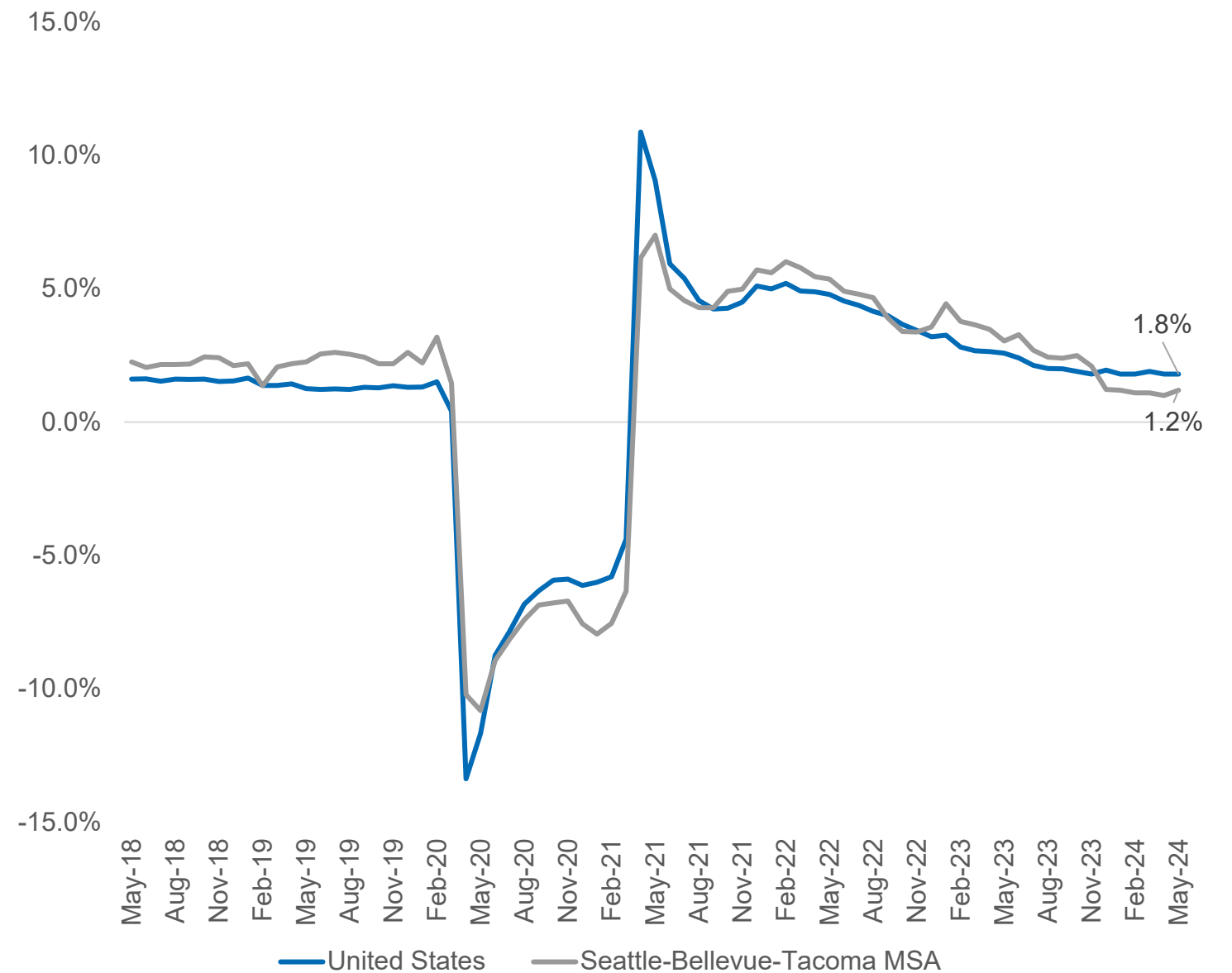
# Regional Unemployment Remains Above National Average

The unemployment rate in the Seattle-Tacoma-Bellevue MSA increased over the second quarter and currently sits higher than the national average. As of May 2024, the unemployment rate stood at 4.5%.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change

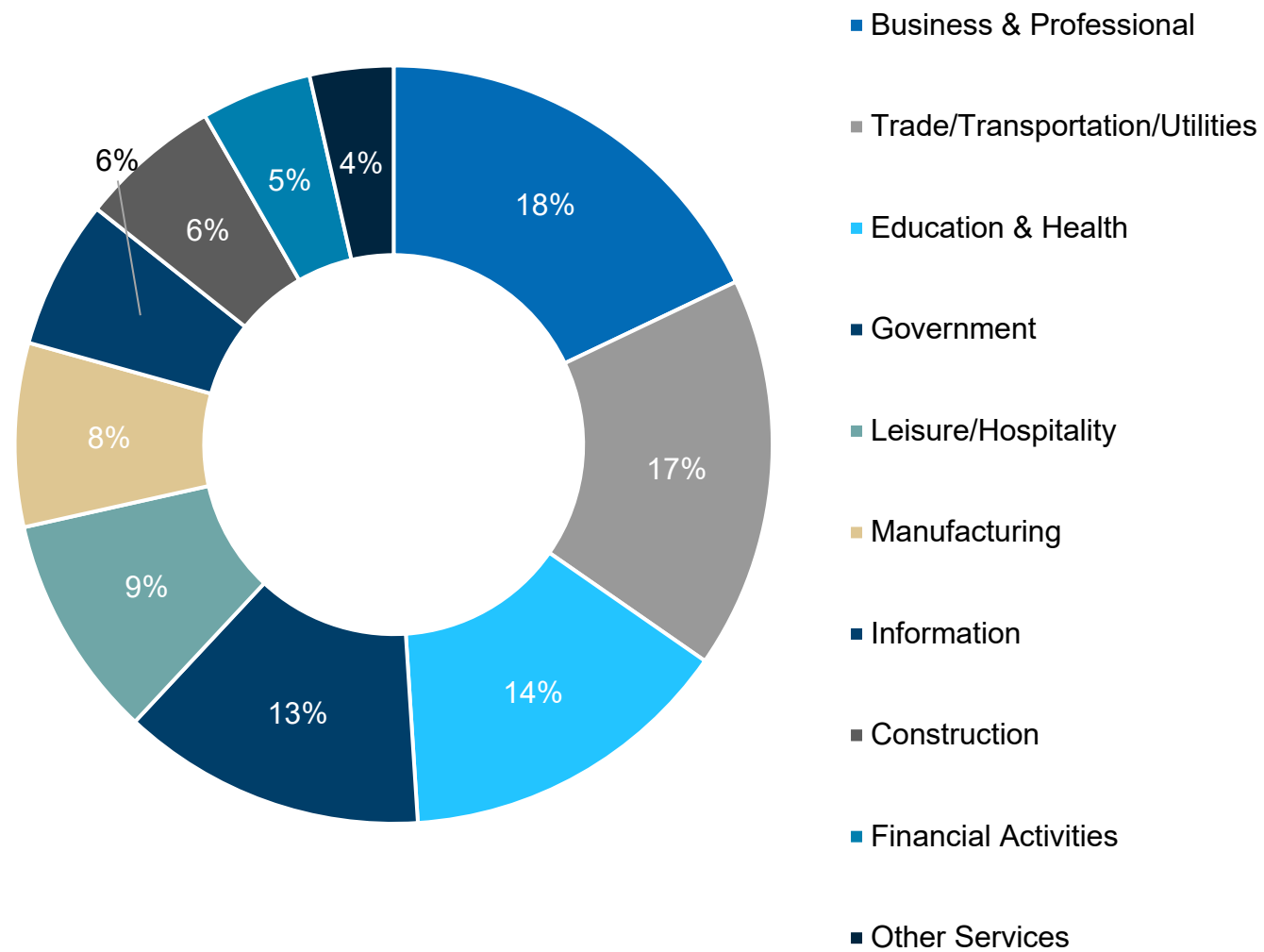


Source: U.S. Bureau of Labor Statistics, Seattle-Bellevue-Tacoma MSA

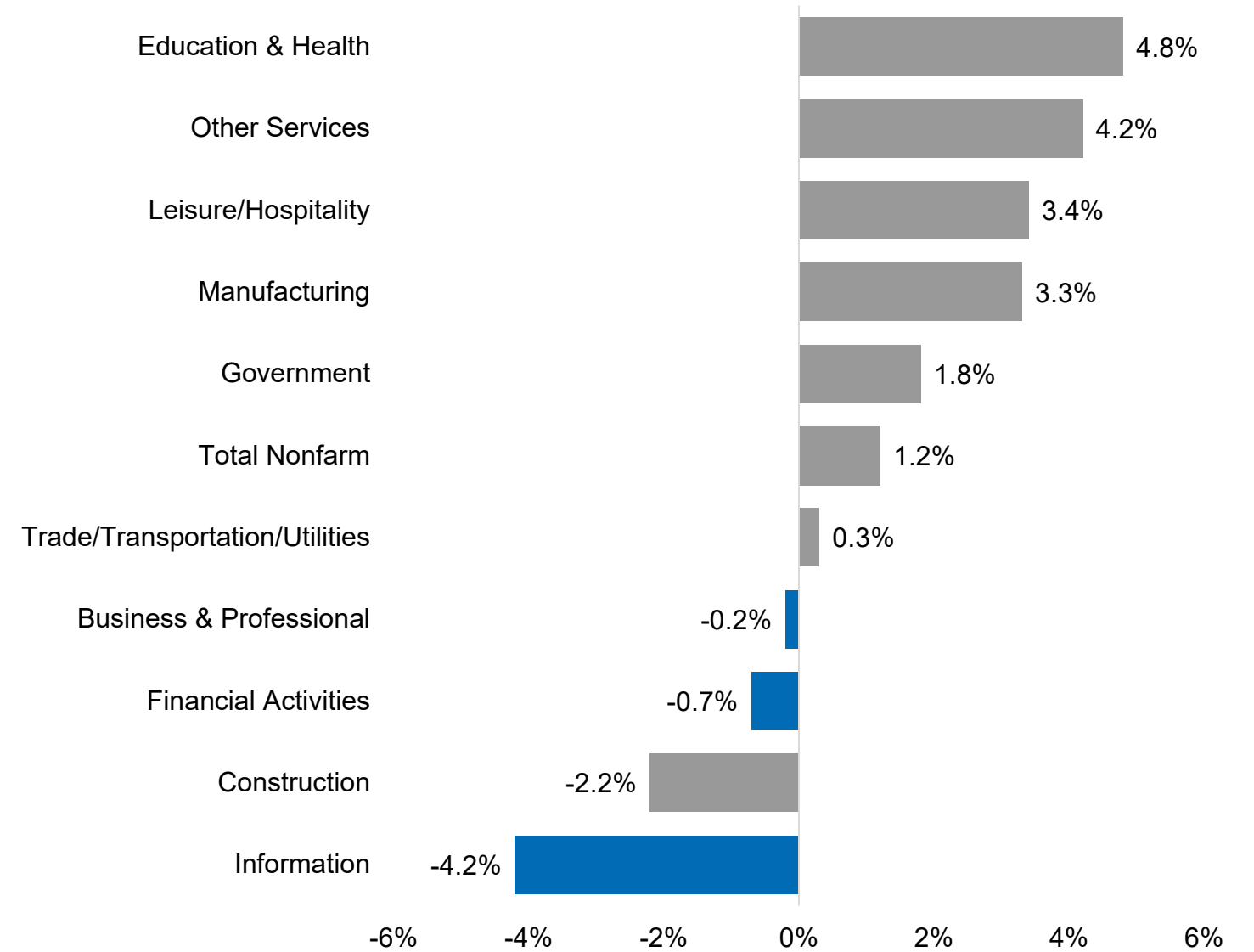
# Information Sector Continues to Contract

Office-occupying or adjacent industries have contracted by 1.2% over the past 12 months, most notably the information sector, which saw a decrease of 4.2% in employment over the period.

Employment by Industry, June 2024



Employment Growth by Industry, 12-Month % Change, June 2024

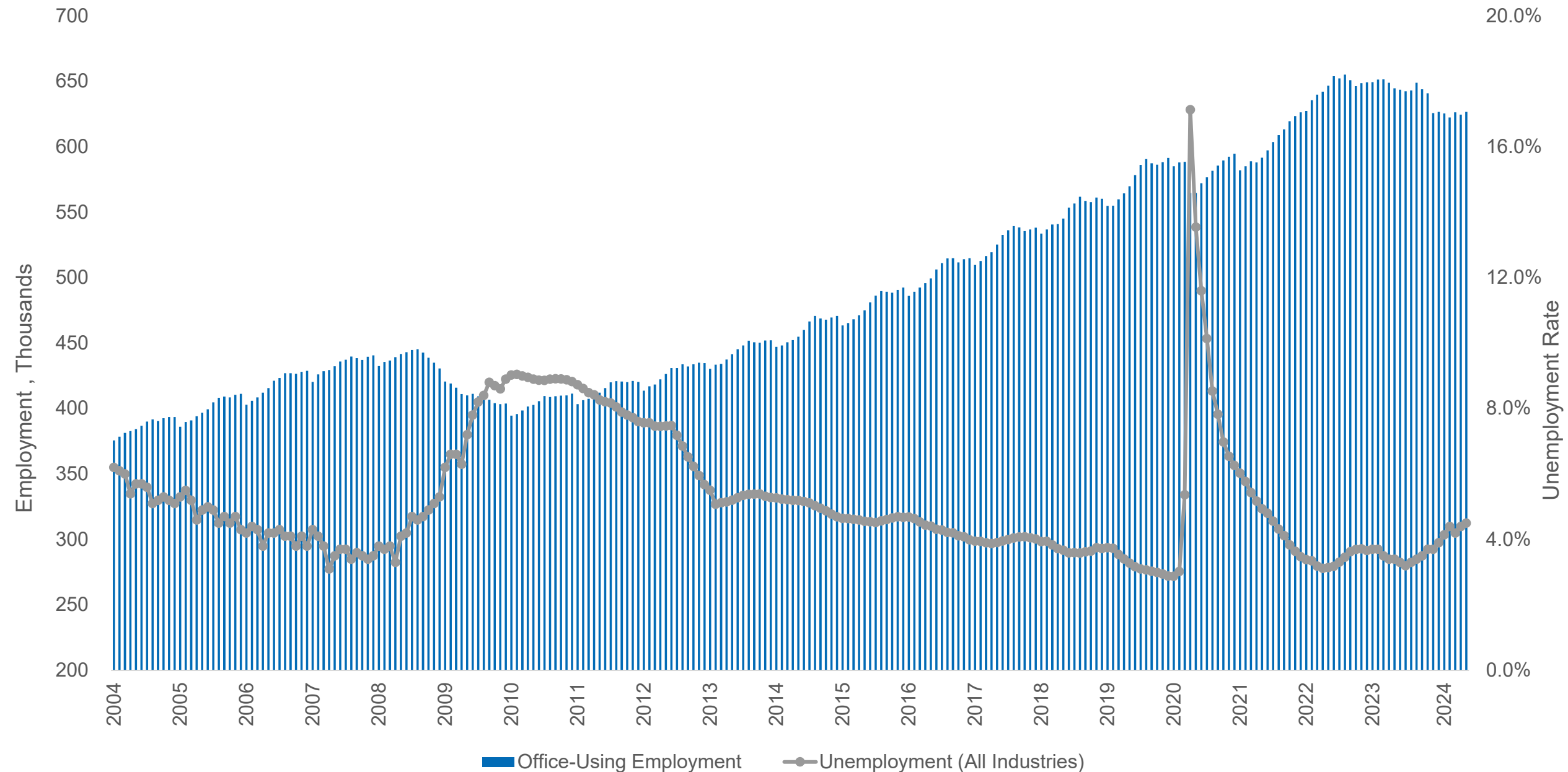


Source: U.S. Bureau of Labor Statistics, Seattle-Bellevue-Tacoma MSA

# Overall Office-Using Employment Declined Slightly

Office-using employment saw a slight decline at the beginning of the year but remained significantly higher than pre-pandemic levels. Unemployment rose by 10 basis points during the quarter, reaching 4.5% as of May 2024. Despite this uptick, unemployment remained well below its peak of 17.1% in April 2020.

## Office-Using Employment\* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics Seattle-Bellevue-Tacoma MSA

\*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

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# Leasing Market Fundamentals

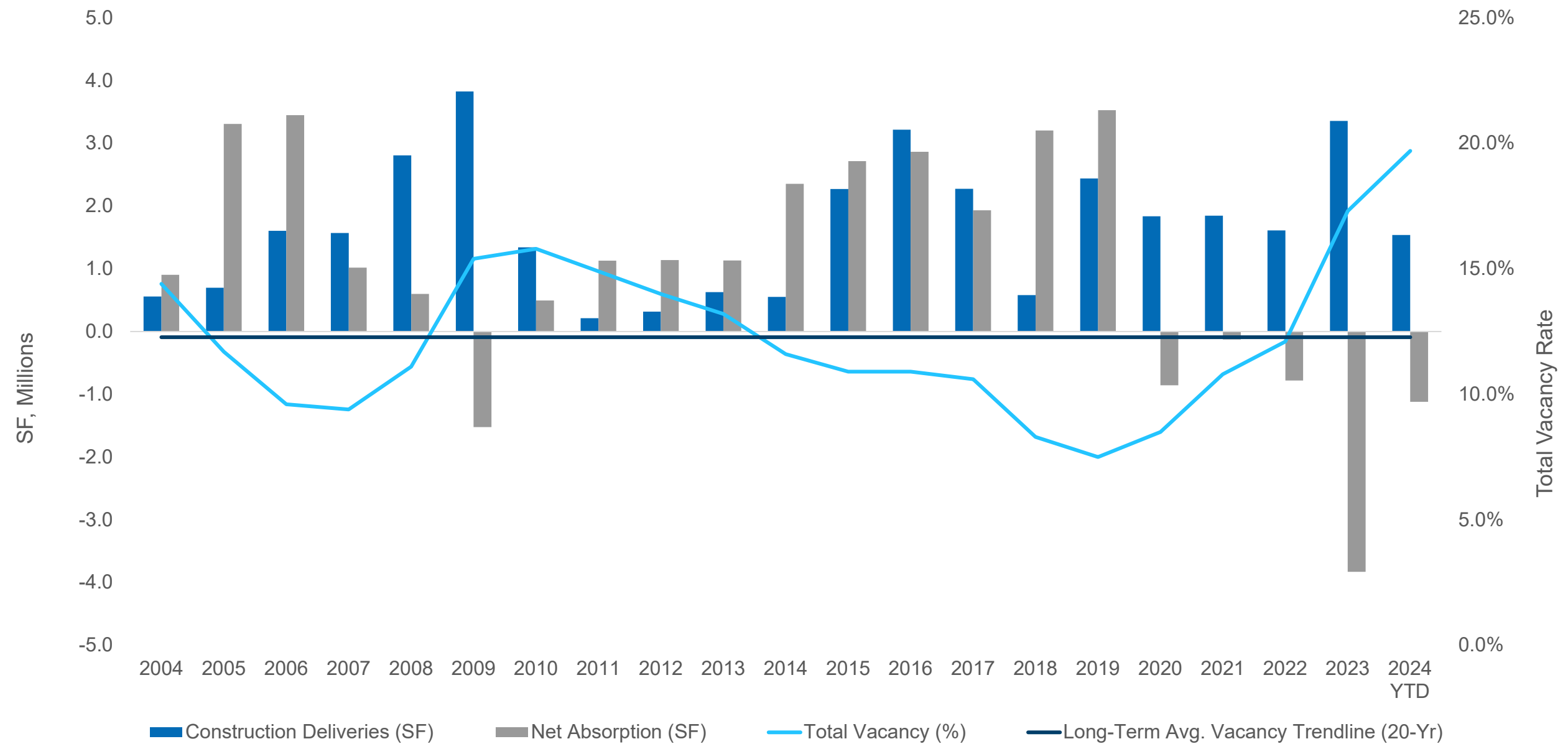




# Absorption Losses Slow in Second Quarter

In the second quarter of 2024, overall vacancy increased by 30 basis points to reach 19.7%, accompanied by a net negative absorption of 127,826 square feet in the region. Despite ongoing occupancy declines, the absorption rate in the second quarter showed notable improvement compared to previous quarters. This, combined with increased leasing activity year-to-date, suggests a potential path towards stabilization in the coming quarters.

## Historical Construction Deliveries, Net Absorption, and Vacancy

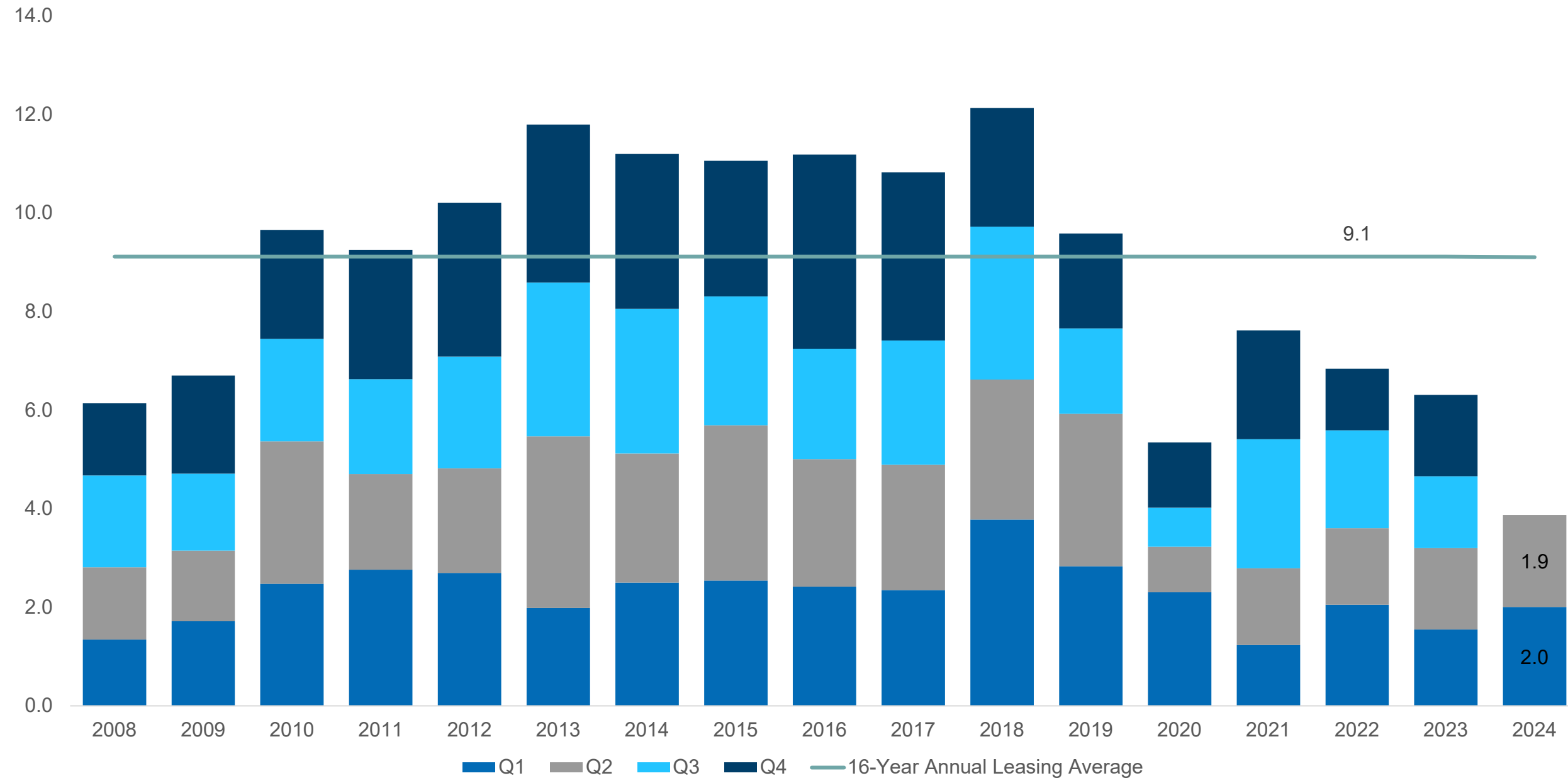


Source: Newmark Research

# Year-to-Date Leasing Volume Highest Since 2019

Second quarter leasing activity remained robust, with total leasing volume reaching 1.9 million square feet, marking a 13.1% year-over-year increase. Year-to-date leasing volume is the highest recorded since 2019, although it remains considerably lower than pre-pandemic averages. Renewals and small to mid-sized deals continue to dominate the leasing landscape.

Total Leasing Activity (msf)



Source: Newmark Research, CoStar

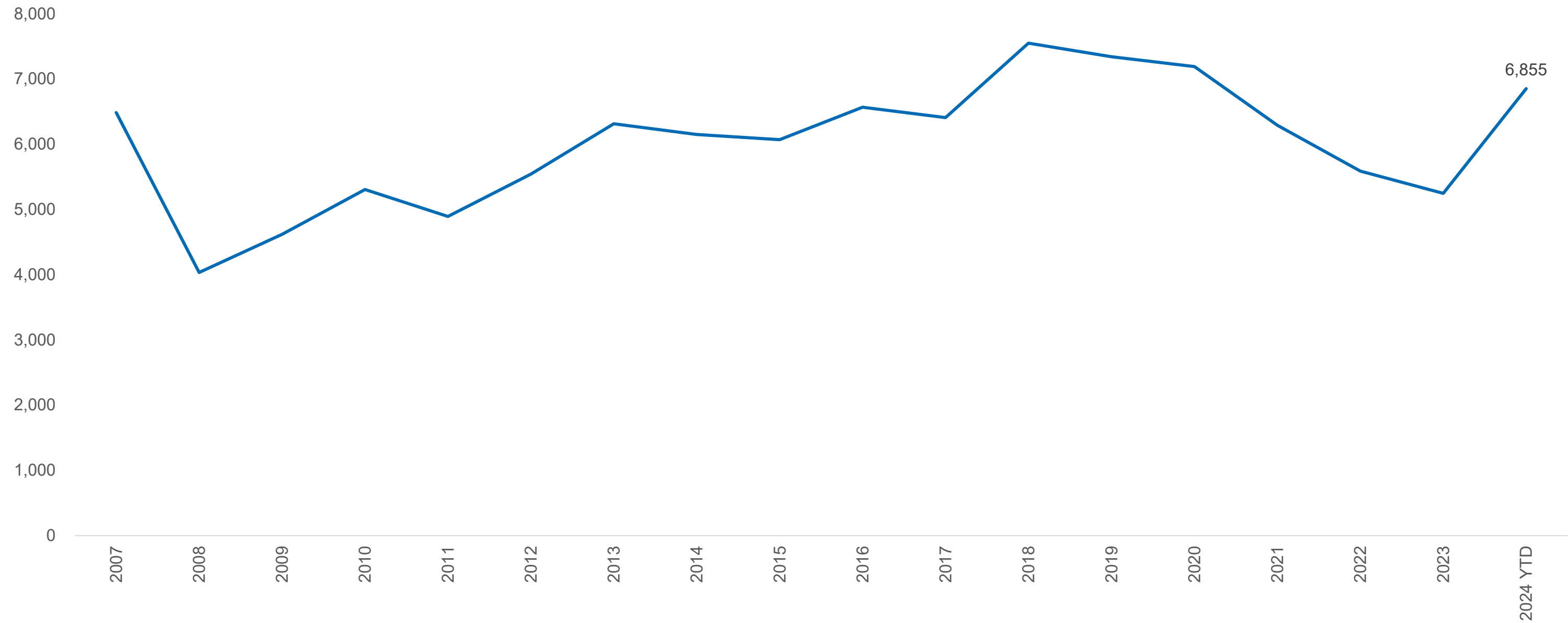


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# Average Lease Size Increased Year-Over-Year

Small and mid-size transactions dominated the activity in the second quarter, with the average transaction size totaling 6,855 SF.

Average Lease Size (sf)

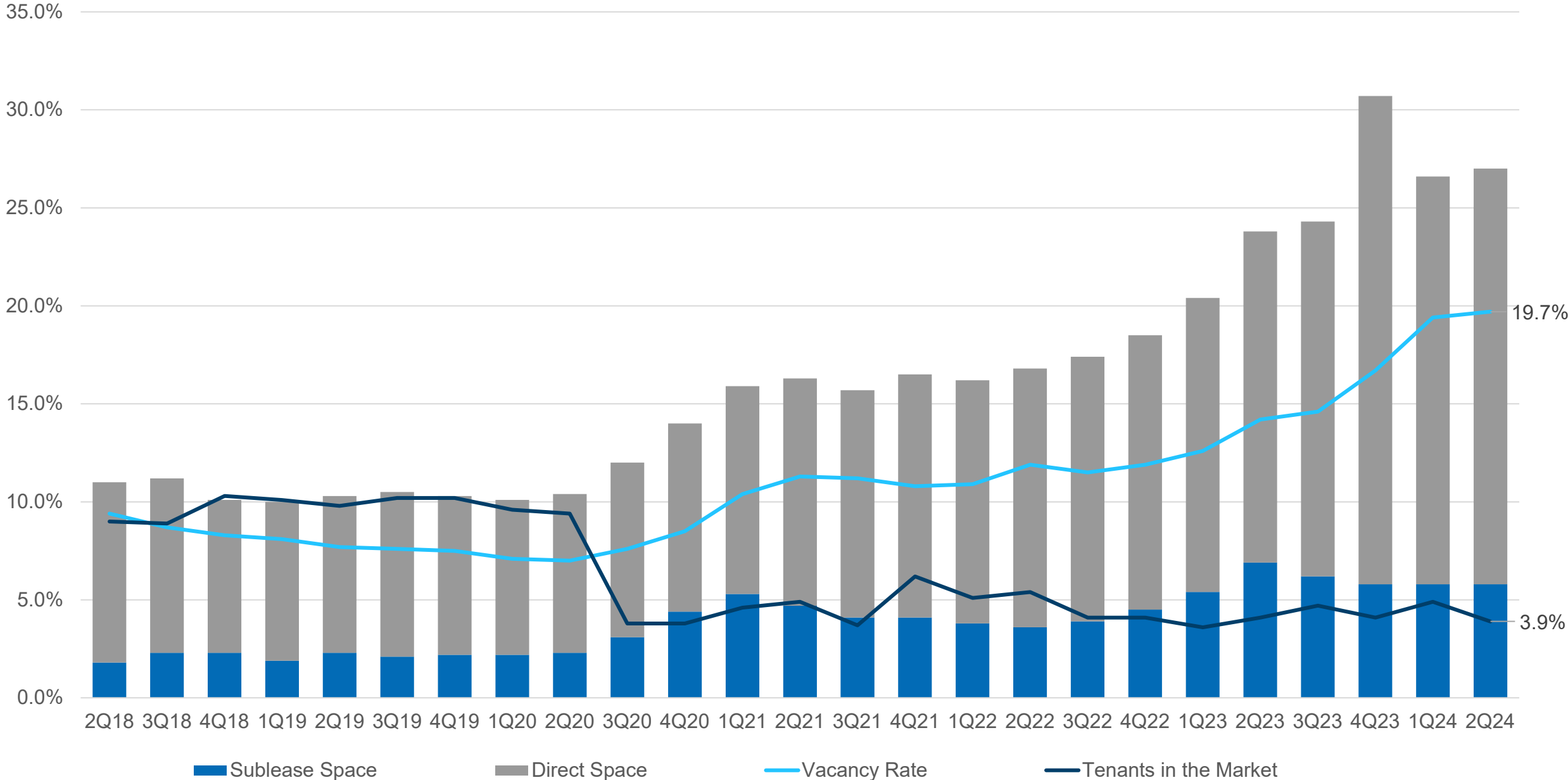


Source: Newmark Research, CoStar

# Tenants Remained Active Despite Rising Availability

Despite increasing vacancy and availability, leasing activity and tours have been gaining momentum. As of the end of the second quarter, there were 106 traditional tenants and 24 life science tenants actively seeking space, totaling 5.2 million square feet in requirements. Thirty-four of these requirements were for spaces exceeding 50,000 square feet.

Available Space and Tenant Demand as Percent of Overall Market



Source: Newmark Research

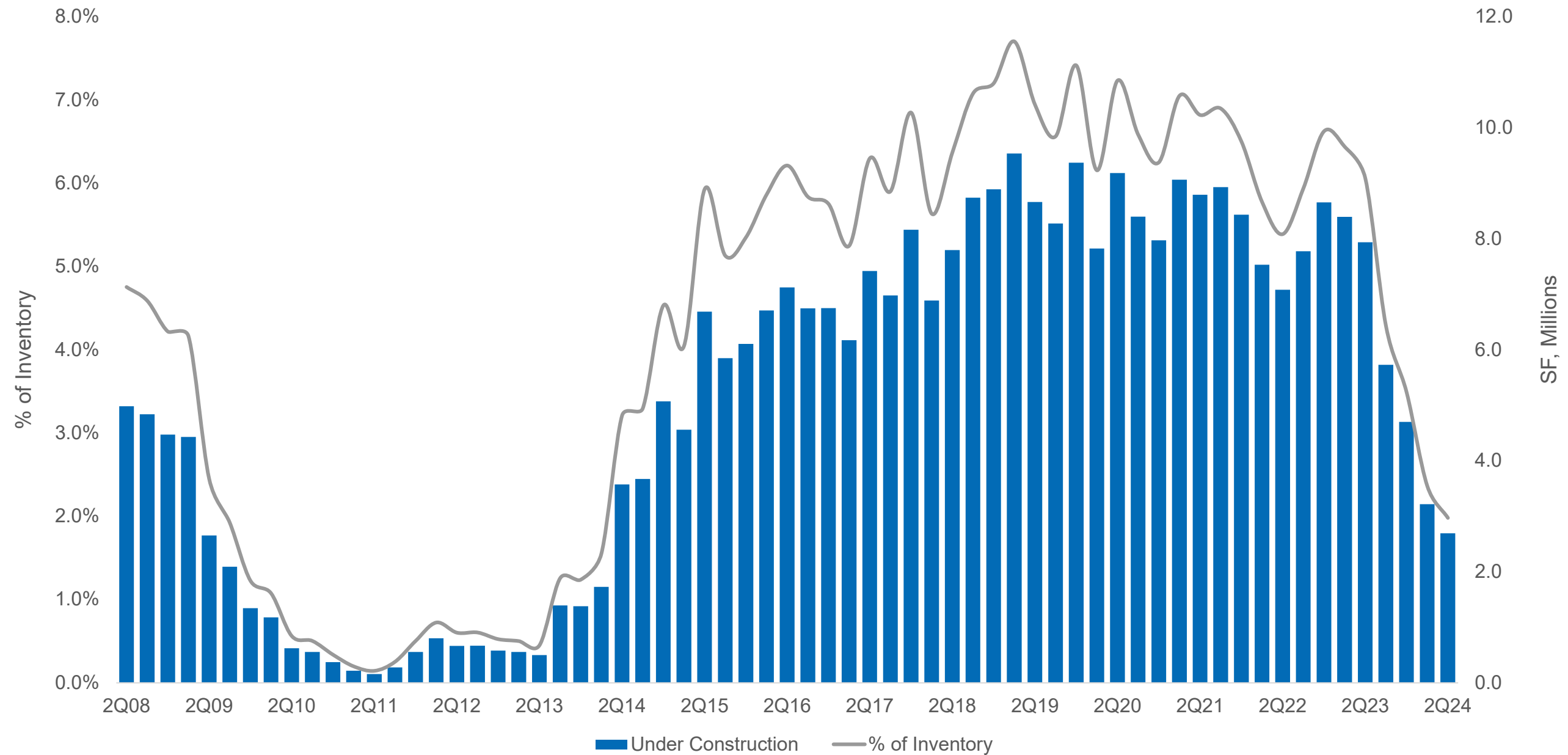


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# Decelerating Development Activity Reflects Economic Caution

Development activity has slowed as economic uncertainty has deterred new projects in the near term. The completion of Kirkland Ascent this quarter added 57,432 square feet to the inventory.

## Office Under Construction and % of Inventory

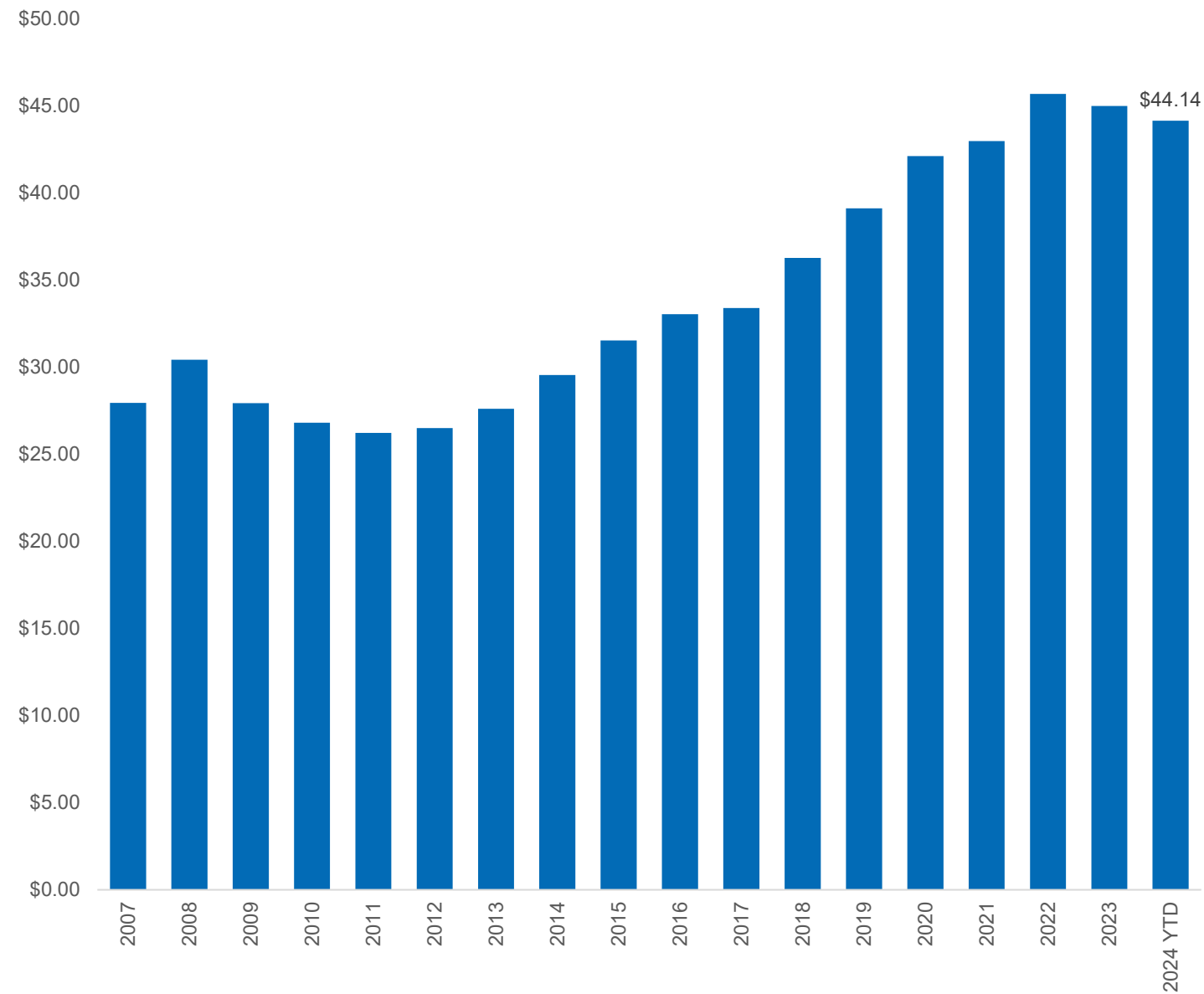


Source: Newmark Research, CoStar

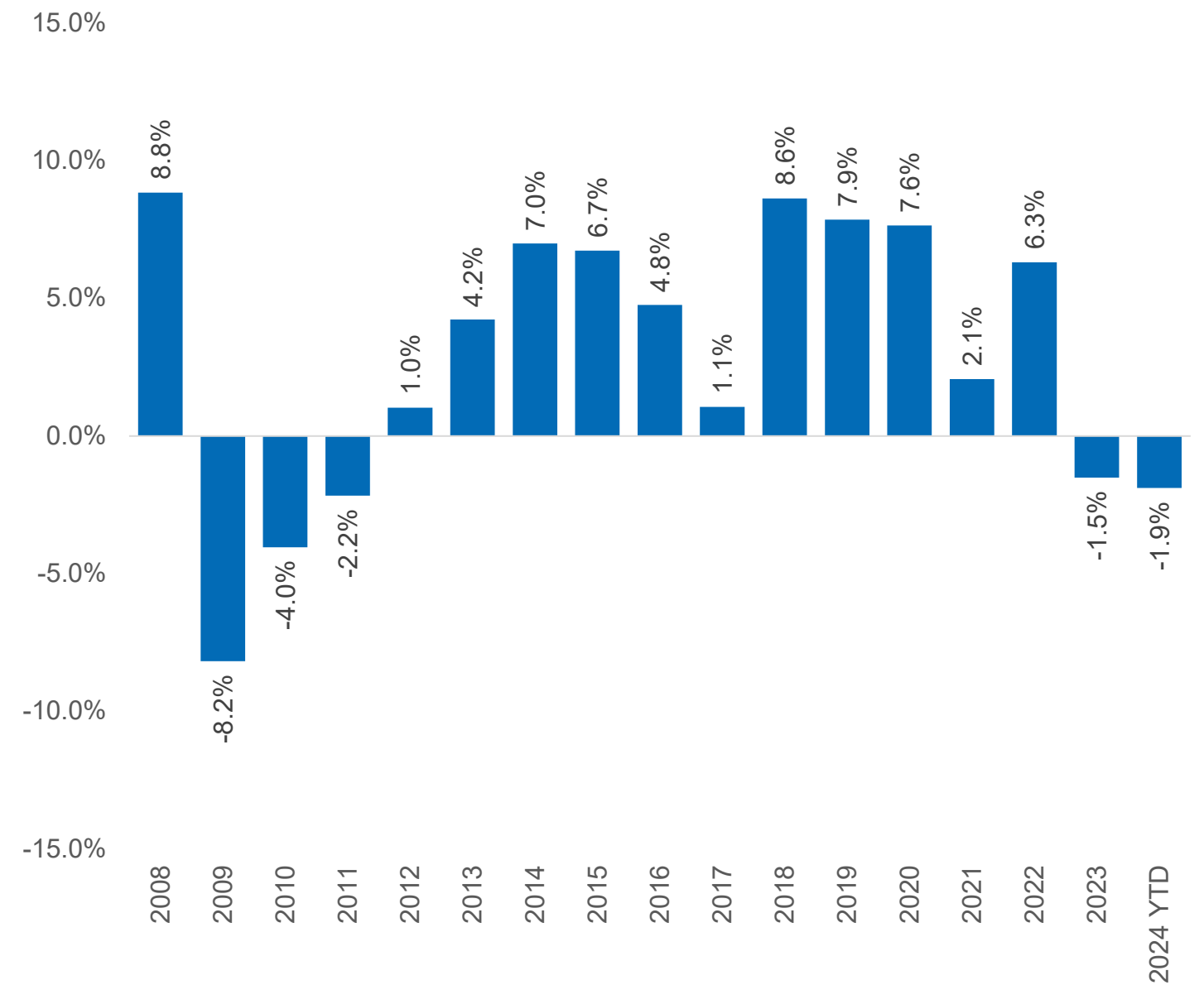
# Average Asking Rents Continued to Cool

Rents in the Puget Sound market continued to face downward pressure, with average asking rates at \$44.14 per square foot during the second quarter of 2024, marking a year-over-year decrease of -1.9%.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate



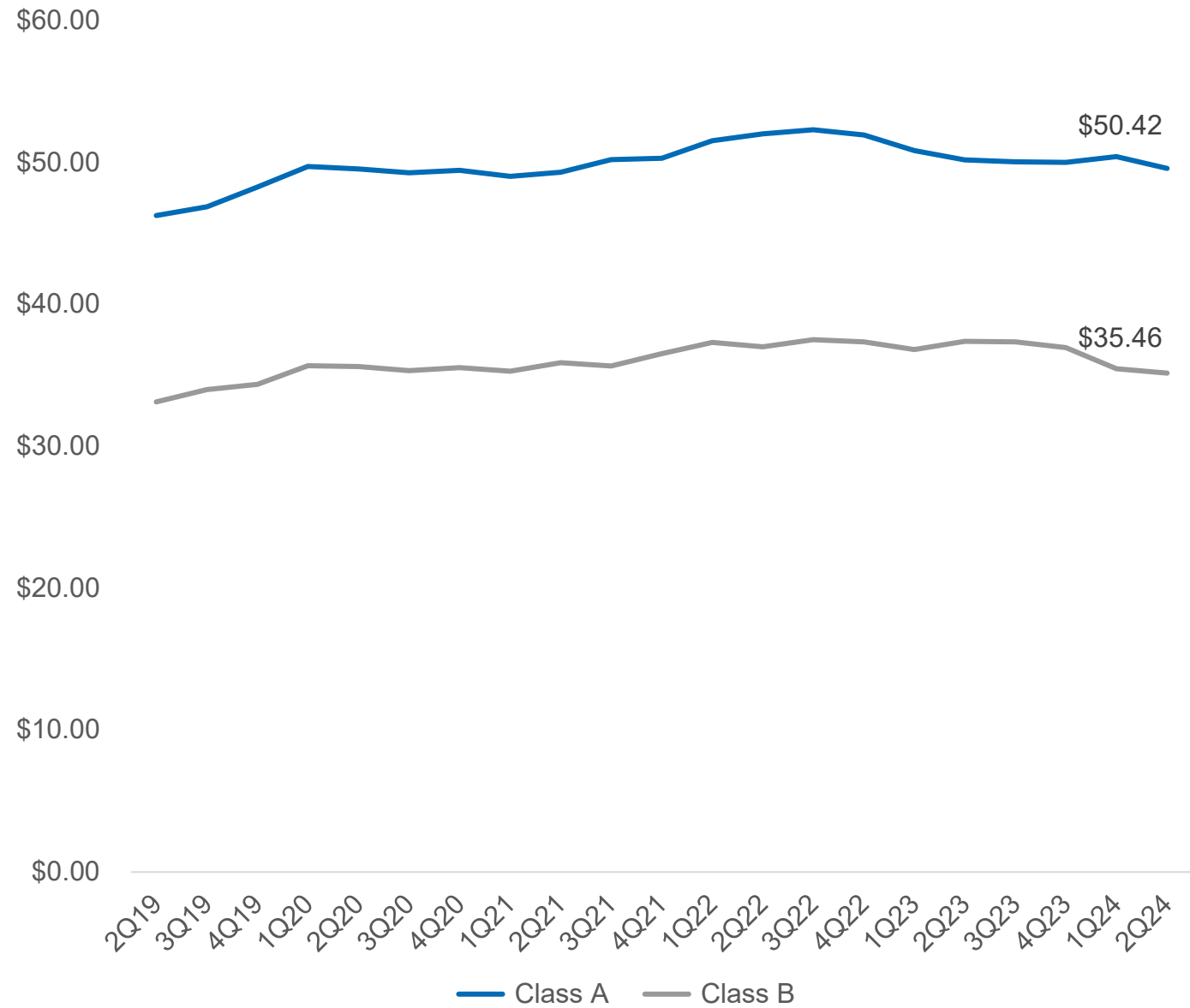
Source: Newmark Research, CoStar



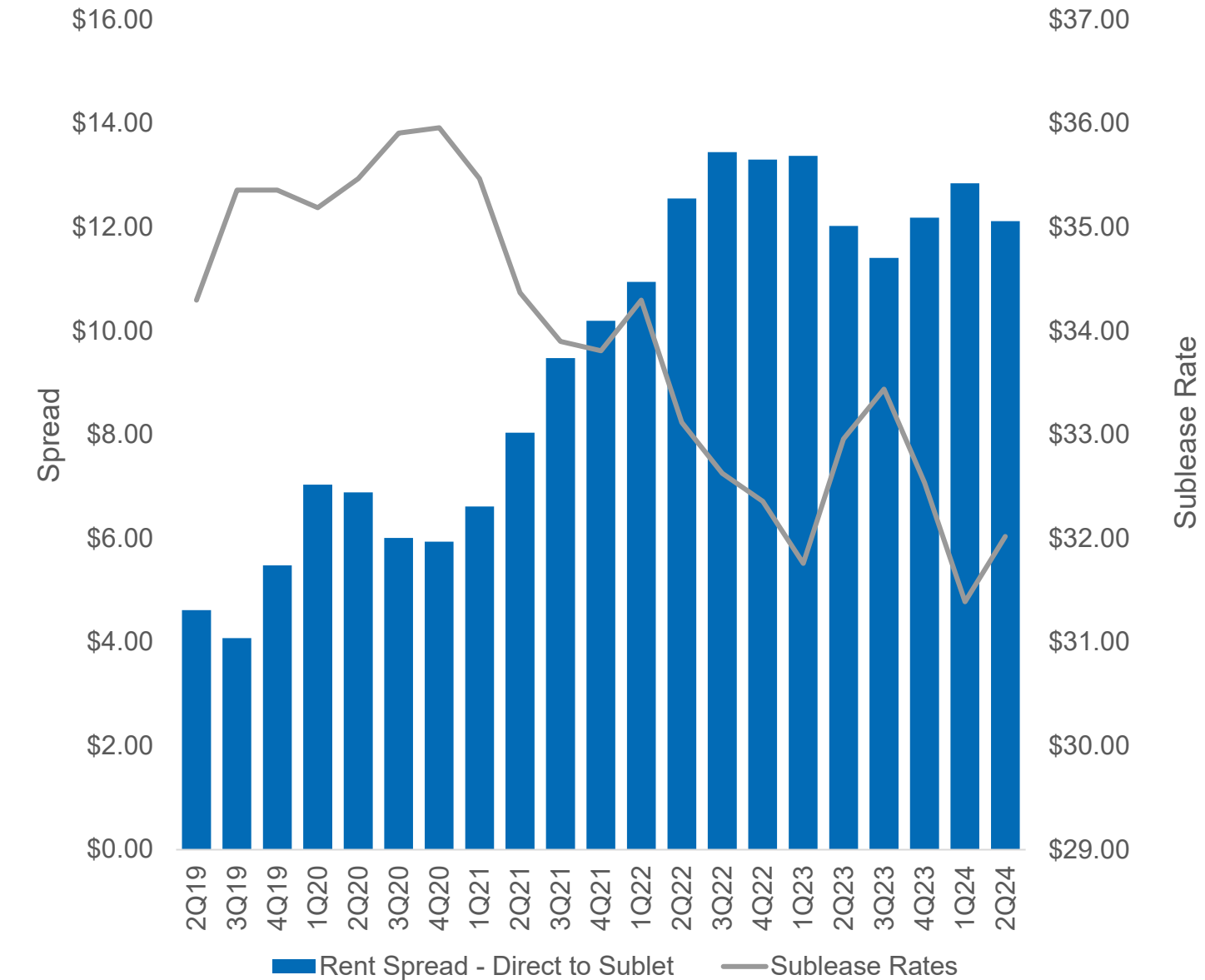
# Spread Between Sublet and Direct Rates Narrowed

In the second quarter of 2024, average asking rates for sublease space saw a slight increase, narrowing the gap between sublet and direct space. This uptick highlights the improved quality of available sublease spaces, particularly premium product returned by tech occupiers, which have been appealing options for tenants seeking high-quality space in prime locations.

**Class A and Class B Asking Rents**



**Sublease Rates**



Source: Newmark Research, CoStar

# Second Quarter Notable Transactions

Leasing activity in the second quarter showed promise, especially on the Eastside, where significant new deals were secured. Tech giants Snowflake and ByteDance both expanded their presence in Bellevue, underscoring their confidence in the region.

## Notable 2Q24 Lease Transactions

| Tenant   | Building(s)                | Submarket                  | Type         | Square Feet |
|--|----------------------------|----------------------------|--------------|-------------|
| Snowflake  | Spring District Block 6    | Suburban Bellevue          | Sublease     | 326,731     |
| <i>Snowflake has taken the Meta sublease at the Block 6 building in the Spring District development, as part of a larger plan for growth in the region.</i>                            |                            |                            |              |             |
| ByteDance  | Lincoln Square North Tower | Bellevue CBD               | Expansion    | 153,610     |
| <i>TikTok's parent company ByteDance is expanding its presence in the Bellevue CBD, adding more than 150,000 square feet to its existing six-floor, 132,000-square-foot footprint.</i> |                            |                            |              |             |
| Remitly  | Rainier Square             | Seattle CBD                | Sublease     | 86,519      |
| <i>The tech company has secured a sublease at Rainier Square, and plans to relocate from its current space at 1111 3<sup>rd</sup> Ave.</i>   |                            |                            |              |             |
| Sound Transit Service  | 705 Union Station          | Pioneer Square/ Waterfront | Renewal      | 79,799      |
| <i>Sound Transit renewed its existing footprint in 705 Union Station.</i>  |                            |                            |              |             |
| Lane Powell  | Russell Investments Center | Seattle CBD                | Direct Lease | 66,094      |
| <i>Lane Powell plans to relocate its Seattle headquarters to the Russell Investments Center in June 2025, bringing over 250 local employees to the space.</i>                          |                            |                            |              |             |
| Parker, Smith & Feek   | Lincoln Square South Tower | Bellevue CBD               | Direct Lease | 49,700      |
| <i>Parker, Smith &amp; Feek, the insurance firm, has expanded and will move its offices from Bellwood Office Park to Lincoln Square South Tower.</i>                                   |                            |                            |              |             |

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# Appendix





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