

## Seattle Office Space News – February 2023

Below are comments and links to news articles and other topics relevant to the Seattle office space market from the month of February 2023.

### OFFICE DEVELOPMENTS

As the office market continues to soften, many developers will be considering conversion of office to other uses. In February 2023 Unico Properties [tabled](#) plans to convert the Colman Building located at 811 1st Ave from office to residential due to market conditions. Dan Lowen with Unico stated, "...we are taking a very cautious and conservative approach as we determine the viability of this project." The evaluation of the project will continue, but due to costs and other factors the conversion will not be happening soon.

[Dexter Yard](#), the new 528,000 square foot project located in the South Lake Union neighborhood, is 45% leased after opening in 2022. According to developer BioMed Realty, recent demand has been mostly for the speculatively built and pricey plug-and-play lab and office suites. Also, most tenants are only inquiring for 10,000-20,000 square feet. Building out lab space is expensive and in recent years it can cost as much as \$450 a square foot including furnishings. Landlord's providing move-in-ready spaces eliminates expensive up front costs for tenants, and landlord's of all lab and office products will be offering more of this type of space.

It was also [reported](#) in February that Onni Group is underway on their 940,000 square foot office development in Seattle's South Lake Union. The project hasn't completed any pre-leasing.

### OFFICE LEASES

There were no leases reported in February, but [this article](#) provides interesting perspective on the softening of office markets on a national level. While face rental rates may seem to be similar to pre-pandemic levels, Landlords are offering more concessions to attract tenants and in return the income of office building owners is depleting. According to Compstack, average offerings of free rent are up 32-43% and tenant improvement allowances are up 32-49% depending on the product type.

### OFFICE BUILDING SALES

There were no office building sales reported in February 2023.

### RETURNING TO THE OFFICE

The biggest return to office news from February was an [announcement](#) by Amazon requiring employees to be in the office three days per week starting in May 2023. Employees began a slack channel to vent about the announcement and over 15,000 employees joined in. A petition followed urging the CEO to revise the plans. Jassy stated, "Amazon being together in the office reinforces our culture, fosters collaboration and invention, creates learning opportunities, and builds more connected teams." This policy is [needed news](#) for small businesses that are supported by in-office workers.

Seattle Mayor, Bruce Harrell [praised](#) Amazon's announcement in his State of City address. The Mayor also stated that it is time to revitalize and reimagining downtown Seattle, and his mission is to rebuild the city's urban core, fight crime and improve [safety](#), enhance public transportation, tackle homelessness, and the housing crisis. To watch Harrell's full speech, click [here](#).

In February experience management company Qualtrics's also began [requiring](#) employees to be in the office four days a week. Qualtrics finished building out their 275,000 square foot Seattle headquarters at 1201 2nd Ave in early 2021. The company currently occupies floors 15 through 18 and 21 and 22, which can support around 1,000 employees.

Many companies are considering how to reconfigure space in order to incentivize workers to return to the office. In this [survey](#) of over 300,000 office employees, respondents shared an increased desire to have informal social interactions in their work life. Founder and CEO of HqO, a company that specializes in workplace technology, stated: "People didn't consciously understand community and the social fabric through work, I think that showed up pretty clearly in the data, where it's important for employees to have certain social connection versus being a number in spreadsheet that shows up on Zoom meetings." Other findings included workers continue to have fear about the physical office.

### DOWNTOWN RECOVERY

Last month a study called "The Death of Downtown?" ranked the [recovery](#) of the 31 largest U.S. city centers. In last place is San Francisco, ranked as recouping only 31% of its downtown economy. Second to last is Portland, at 37% recovered. Seattle is fifth to last, at 44% recovered. The study found that downtowns with the most workers in social activities like food and the arts are the quickest to bounce back (Las Vegas is 79% recovered) and those who are heavy in tech have the weakest recovery.

In his State of the City address Seattle's mayor Bruce Harrell [discussed](#) a new public safety division called the CARE (Civilian Assisted Response and Engagement) Department, a possible zoning change to expedite turning old downtown office buildings into housing, and allowing new hotels and entertainment businesses around Lumen Field and T-Mobile Park.

According to [numbers](#) from the Downton Seattle Association, office worker foot traffic in January 2023 was 43% of the January 2019 level. While this is bleak, it is 15 points higher than in January 2022, which is a sign of significant improvement. January hotel room demand was 76% of January 2019's demand, a 64% increase from January 2022.

In February 2022 the King County Regional Homelessness Authority [raised](#) \$10 million in donations from private companies and foundations for a project called Partnership for Zero with a goal of alleviating visible homelessness in downtown Seattle. A year into the project progress has been slow as the agency has been hiring staff. Of the total 931 people living outside in Seattle, as identified

by the Regional Homelessness Authority, only 60 have moved from the streets into long term housing in the past year. However, some investors in the project are patient and optimistic for the future. One complicating factor is that many of tents seen downtown aren't correlated 'homelessness', but rather a place for the sale of illicit goods.

Regal Cinemas in downtown is not closing after all [according](#) to employees. The Meridian property in which the cinemas occupies space at is owned by Clarion Partners. They purchased the buildings back in 2014 for \$113.2 million.

## ECONOMY

The micro and macro economy remains in a state of uncertainty as major indicators diverge.

In February 2023 the S&P 500 [dropped](#) 2.6% while the Dow Jones and the Nasdaq slipped 0.7% and 0.1% respectively. The Commerce Department also revised their Q4 2022 estimated GDP growth from 2.9% to 2.7%, which is still a solid bump given all of the uncertainty in the economy. Also in the GDP report, the government [revised](#) its estimates of Americans' incomes. After-tax income, adjusted for inflation, jumped 4.8%, a much larger gain than the previous 3.3% estimate. The upward revisions reflected higher wages and salaries than was estimated earlier, and state stimulus payments that were intended to offset inflated costs of gas, food, and other necessities.

Inflation slowed to [6.4%](#), as reported in mid-February by the government's consumer price report. Price pressure continues and prices remain elevated for items such as gas, food and clothing. The data shows that while inflation is decreasing it will do so slowly and unevenly. The unemployment rate has dropped to 3.4%, which is the lowest level in 53 years and average wages are rising at 5% year over year. While many economists expect inflation to drop to 4% later in 2023, the key question is whether the labor market softens enough to ease spending.

The national job market [remains](#) hot and resilient through the economic uncertainty and hiring has remained strong even with the rising interest rates which can increase costs for businesses. In January the jobless rate [was](#) at its lowest level since 1969 with nearly 17,000 jobs available in January. The data leaves economists wondering why the rate hikes haven't slowed hiring when many predict a recession.

The sector of work with the most job openings includes hotel, restaurant, and bars. In February the applications for aid [remain](#) below 200,000 per week. The Fed's interest rate policy has somewhat combated inflation but does not seem to greatly impact the U.S. job market.

Several economists and investors believe the economy is on a [rebound](#). The addition of jobs with increased interest rates leads some to believe that the economy is stabilizing. One major service cost — rent — does look poised to decelerate this year. But both the extent and the timing are enormously uncertain.

Others feel the Federal Reserve's rate hikes could cause a recession. Inflation is difficult to combat and as the fed aggressively raises rates companies could cancel new ventures and cut jobs causing consumers to reduce spending. A new [research](#) paper produced by a group of leading economists suggests if the Fed raises its benchmark rate to between 5.2% and 5.5%, three-quarters of a point higher than its current level, the unemployment rate would rise to 5.1%, while inflation would fall as low as 2.9%, by the end of 2025.

In February, [homebuyers](#) in the Seattle area started to make offers on houses again. Sellers are listing new homes for sale and home shoppers are seeing more competition, but prices continue to trend downward especially in the Seattle area. Seattle and San Francisco are some of the fastest cooling housing markets in the country. As homes remain on the market longer and interest rates remain high, sellers start to resort to deeper discounts.

At the beginning of February average long-term mortgage rates fall for the fourth straight week to [6.09%](#). The rate for a 15-year mortgage fell to 5.14% In the second week of February rates inched back up to [6.12%](#) for a 30-year fixed rate and 5.25% for a 15-year mortgage. In the third week of February interest rates continue to trend upwards. The 30-year rate from to [6.32%](#) and the 15-year rate rose to 5.51%. In the fourth week of February, average long term mortgage rates increased to 6.5%--the highest rate this month. The 15-year rate was [5.76%](#).

## OTHER NEWS

The City of Seattle is [planning](#) to adopt a mandatory earthquake retrofit ordinance for the city's 1,100 Unreinforced Masonry Buildings (URM's) that are prone to collapse in the event of an earthquake. The ordinance would require building owners of URM's to perform earthquake retrofitting.