Seattle Office Space News – May 2023

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

OFFICE LEASES, DEVELOPMENTS, & SALES

There were no reports of new offices leases, developments or sales in May 2023

RETURNING TO THE OFFICE

In May 2023, Amazon welcomed employees back to its Seattle headquarters for the first official in-person workday in over three years. This movement indicates an attempt to return to its pre-pandemic office culture. The company's CEO, Andy Jassy, greeted employees as they arrived, and the return of its 55,000 Seattle-based employees is expected to give a boost to the downtown area's economic recovery. As Amazon employees return, small businesses and restaurants are swarming with activity. Other companies, including Google, Microsoft, Redfin, Lyft, DocuSign and T-Mobile have already instructed employees to return to work or are beginning to implement hybrid work policies.

Also in May, Weyerhaeuser announced a policy requiring employees to return to the office three days a week starting July 18. “Communication, collaboration and personal connections are key to our success,” CEO Devin Stockfish wrote in an email to 600 HQ employees. The policy comes after a little over three years of remote work and concerns about public safety in the Pioneer Square area. Weyerhaeuser has implemented safety measures and will cover parking expenses in non-company lots for employees until the end of 2023. The return of employees is expected to support local businesses in Pioneer Square and bring more activity to the neighborhood. The directive applies to Weyerhaeuser’s other offices across the nation as well.

Starting June 5, the electronic-signature company, DocuSign, is implementing a policy that designates hybrid employees to come into the office at least twice per week. This move follows previous attempts to call employees back to the office, which were disrupted by pandemic-related setbacks. The return-to-office trend is welcomed by Seattle civic leaders seeking to boost economic activity downtown and supports local businesses that rely on worker foot traffic.

T-Mobile CEO Mike Sievert addressed a crowd of more than 700 corporate leaders at an event for the Technology Alliance in May. Sievert stressed the importance of returning to the office regularly for the benefit of vitality of downtown areas and mentorship of the next generation of workers. T-Mobile was early among tech companies in a return-to-office mandate that started in the fall of 2021. Sievert's recent comments came as part of a broader conversation about the region's progress and future prospects.

DOWNTOWN RECOVERY

The return of Amazon employees to their offices in Seattle's South Lake Union created a scene reminiscent of the city's pre-pandemic days. The streets have been filled with employees reconnecting, enjoying outdoor spaces, and patronizing local businesses. This return is significant not only for Amazon but also for the overall health of downtown areas, which have been struggling due to the impact of remote work. The increased foot traffic and energy generated by Amazon's return may serve as a catalyst for other employers to follow suit. However, Seattle still faces challenges in its downtown recovery, as reflected in rankings and reports highlighting the city's slower progress compared to other North American cities. Nonetheless, the return of workers is seen as a positive step toward revitalizing the downtown area and supporting small businesses, restaurants, arts, and culture.

INFLATION | RETAIL SALES

Consumer prices in the United States continued to rise in April, indicating that a decline in inflation will be slow and uneven. Prices increased by 0.4% from March to April, a significant jump compared to the 0.1% rise in the previous month. On a year-over-year basis, prices climbed 4.9%, the smallest increase in two years. However, there were signs of cooling inflation, with grocery prices falling for the second consecutive month and the cost of services like airline fares and hotel rooms dropping. While a slowdown in consumer spending could help ease inflation, average wages are still rising rapidly, prompting companies to offset higher labor costs by raising prices. The Federal Reserve has raised interest rates in an attempt to bring down inflation, but this has also contributed to the collapse of several banks and could weaken the economy further.

HOUSING

The persistently low inventory of homes for sale continued to hinder U.S. home sales in April, resulting in a 3.4% decline from March. Annually, sales dropped 23.2% compared to April of last year. The national median home price also experienced a modest decline of 1.7% from the previous year. Despite lower prices, the housing market is still impacted by a lack of supply and elevated borrowing costs, leading to frustrated would-be homebuyers and bidding wars for affordable homes. The market remains unbalanced with a shortage of inventory, hindering overall sales. NAR’s chief economist, Lawrence Yun, calls this time in the housing market “strange and dynamic”.

The central Puget Sound region is experiencing a significant decrease in new listings of single-family homes, down nearly 42% compared to the previous year, while demand is also lagging. As a result, median sale prices have declined. In King County, the median sale price dropped by 12% to $875,000, while other counties saw smaller declines. The limited supply of houses for sale is attributed to homeowners holding onto their properties after securing low mortgage interest rates during the pandemic.

The housing market in the Seattle area is showing mixed trends this spring. While home prices have been increasing since the beginning of the year, they are rising lower compared to last year. Fewer buyers are entering the market, resulting in bidding wars for some listings and extended listing times for others. The median home prices in various counties have experienced declines ranging from 8% to 16%. Despite some improvement from last year, inventory remains tight, creating a market favoring sellers. Overall, the market appears uncertain and unpredictable, with a combination of positive and challenging conditions for buyers and sellers.

Despite the possibility of a pause in the Federal Reserve's rate hikes, homebuyers should expect to face high mortgage rates. The Fed recently raised its short-term rate to around 5.1%, the highest level since 2007. Even if there is a pause, mortgage rates are likely to only experience a modest decrease. Meaningful declines would require further easing of inflation pressures and continued economic slowdown. Although inflation has decreased from its peak, it remains above the Fed's target rate of 2%, and there are indications of a slowing economy. The average rate on a 30-year mortgage is currently 6.39%, slightly lower than last week. The combination of higher borrowing costs and a limited housing supply have been a highly contributing factor to the drop in home sales over the past year.

According to this article, rent prices in the Seattle area are stabilizing after years of dramatic increases, providing some relief for renters. In April, median rent remained nearly flat compared to the previous year when Seattle area rent spiked 17% from the prior year. Various factors contributed to this cooling effect, including inflation, economic uncertainty, and the availability of new apartments in the market. Additionally, the trend of people moving from downtown areas to suburban "Zoom towns" during the pandemic is fading as in-office work resumes. Despite the stabilization, rents have not experienced a significant decline. The median price for a one-bedroom apartment in the city of Seattle has decreased by approximately 1%, amounting to $1,568. Moving to the suburbs no longer guarantees more affordable housing, as prices in nearby cities have risen as well. Renters may still face challenges, with some experiencing rent hikes as landlords adjust prices after pandemic-related concessions. However, experts predict that rents will gradually return to a more typical growth rate in the coming years.

INTEREST RATES

At the start of May, the average long-term US mortgage rate fell to 6.39% from 6.43% the previous week and the 15-year fixed rate rose to 5.76% from 5.71% last week. In April, we saw a decline for five straight weeks before an increase.

In the second week of May, the average rate on long-term U.S. home loans declined to the lowest level in five weeks, providing some relief for homebuyers in a market characterized by high prices and low inventory. According to Freddie Mac, the average rate on a 30-year mortgage dropped from 6.39% to 6.35%. This rate still remains higher compared to last year's average rate of 5.30%. This decline in rates follows a trend of several weeks of slight decreases since reaching a peak earlier this year. The recent decline in mortgage rates comes as a welcome development for potential homebuyers who have been affected by rising borrowing rates set by the Federal Reserve to curb inflation.

However, at the end of May the average long-term mortgage rate in the US rose to its highest level since mid-March, up to 6.57% from 6.39% the previous week. The average 15-year fixed rate rose to 5.97% from 5.75% the previous week. A year ago, the 15-year rate averaged 4.31%. The increase in borrowing costs impacts prospective homebuyers who already face limited housing inventory and soaring home prices. The median monthly payment for home purchase loans rose nearly 12% from a year ago. The rise in mortgage rates mirrors the increase in the 10-year Treasury yield, influenced by stronger-than-expected economic data and concerns over a potential government debt default. Resolving the adverse effects on the housing market is crucial, as the industry is already grappling with high prices and elevated mortgage rates. Last month, the national median home price experienced its largest year-over-year decline since January 2012, dropping by 1.7% to reach $388,800.

JOBS

In April, U.S. job openings unexpectedly increased, reaching the highest level since January, signaling the strength of the labor market, and complicating the Federal Reserve's efforts to curb inflation. Employers posted 10.1 million job openings, surpassing economists' expectations. While layoffs have decreased, the number of individuals voluntarily leaving their jobs has decreased, which typically indicates their confidence in finding improved compensation or working conditions elsewhere. The Federal Reserve has been raising interest rates to achieve a soft landing, but economists remain skeptical, anticipating a recession later this year. Despite the mixed signals, consumer spending remains resilient, and the unemployment rate is at a 54-year low of 3.4%.

Although jobs remain abundant compared to historical standards, the number of Americans filing for unemployment benefits has reached its highest level in a year and a half. Jobless aid applications for the week ending May 6 increased by 22,000 to 264,000, marking the highest level since November 2021. After US job openings fell in March to the lowest level in nearly two years, US employers added a healthy 253,00 jobs in April. So, while there are signs of a cooling labor market, the Federal Reserve may pause its interest rate increases in response.

OTHER NEWS

Seattle's new Waterfront Park, a $781 million project, is facing criticism from detractors who believe there is excessive concrete, narrow walking paths, and too many lanes for vehicles. Bob Donegan, a prominent figure, and president of Ivar's, who supports the project, urges patience and explains that the promised landscaping and bike paths will be added by next summer. Donegan himself has some complaints, including the obstruction of water views by the Colman Dock and the significant reduction in public parking spaces. He noted that Alaskan Way can be overwhelming for pedestrians but shared that the city plans to repurpose some lanes for pedestrian and green spaces in the future. Despite the criticism, more visitors are coming to the waterfront with 5.6 million unique visitors in 2022. The completion of the park and Ocean Pavilion expansion is expected by the fourth quarter of 2024 or the first quarter of 2025, after which Donegan plans to step down.