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# Seattle Office Space News – June 2023

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

## OFFICE DEVELOPMENTS

There were no news articles related to office development in Seattle in June 2023.

## OFFICE LEASES

There weren't any office leases reported in June 2023, except for that of Atlas Networks relocating to the Mottman Building located 307 Third Ave S in Pioneer Square, doubling the size of its previous office space. The new office includes 6,239 square feet with an additional 2,000 square feet of warehouse space. Atlas moved all 34 employees to this location in May.

## OFFICE SALES

There were no office building sales in the news in June.

## RETURNING TO THE OFFICE

Hybrid work for many businesses is transitioning from scattered remote work plans to implementation of more serious and structured return-to-office policies for employees. Companies like Disney, Amazon, Meta, and Lyft have called workers back to the office. Salesforce is donating $10 per day on behalf of any employee who returns to the office. At this point it seems most business leaders have realized the value of in-person interactions and resulting productivity, while many employees still complain about commuting and the inconvenience of working in the office.

Google is discouraging remote work and emphasizing the importance of in-person collaboration. The company plans to track attendance based on badge data and include in-office attendance into performance reviews. Google is the fifth largest tech employer in the Puget Sound with approximately 7,200 people located here. Fiona Cicconi, Google's chief people officer, shared many of the products announced at its annual development conference were a direct result of in-office work. The shift to in-office work has yielded positive results, with employees reporting increased connection and productivity.

## DOWNTOWN RECOVERY

According to data from Placer.ai, the number of office workers in downtown Seattle has reached its highest level in three years. In May, the number of office workers downtown was nearly 49% of the pre-pandemic level, rising to 51% on weekdays from Tuesday to Thursday. This increase in foot traffic coincides with the implementation of hybrid work policies by major tech employers like Microsoft, Meta, Google, and T-Mobile, requiring employees to return to the office regularly. Specifically Amazon's push to enforce hybrid requirements on their 55,000 Seattle employees, helped factor into the increase of workers returning Downtown. Downtown businesses, including restaurants and hotels, are preparing for a busy summer season, with optimism fueled by events such as the MLB All-Star Game.

Seattle Mayor Bruce Harrell unveiled his "Downtown Activation Plan" in June 2023. The plan details a series of initiatives that should help the city's downtown bounce back from the pandemic. The goal is to create a downtown where residents, workers, and visitors want to spend time. The plan calls to the City Council to update zoning policies to allow for taller residential buildings, and potential conversion of downtown office space into residential space. The plan is broken into three timelines: Bold Actions Now—initiatives that are underway or starting soon, Near-term Initiatives—efforts that will happen over the next three years, and Space Needle Thinking – visionary possibilities for the future of Downtown Seattle. Here are a few of the ideas being generated for repurposing office and other commercial space to residential.

According to data from the Downtown Seattle Association, foot traffic in downtown Seattle and around Amazon's headquarters experienced record highs in May 2023, driven by Amazon's back-to-office mandate. Though Seattle still lags behind other cities in its downtown recovery, and worker foot traffic remains at about half of pre-pandemic levels, foot traffic has increased by 9.5% from the prior month and 38.7% from a year ago. The increased activity is positive for local businesses, but it has also sparked protests from employee groups who oppose the return-to-office policy and prefer a more flexible work model.

## ECONOMY

In June, it was reported that American consumer's confidence reached its highest level in 18 months. The consumer confidence index rose to 109.7 in June from 102.5 in May, surpassing economists' forecasts and marking the highest reading since January 2022. The present situation index, which measures consumers' assessment of current business and labor market conditions, also increased to 155.3 in June from 148.9 in May and the expectations index which reflects consumers' outlook for income, business, and labor conditions in the next six months increases to 79.3 in June from 71.5 in May. The decline in consumers' fears of a recession was noted, with a lower percentage expecting a recession in the next 12 months. Consumer spending jumped 0.8% from March to April—the largest increase since January driven by spending on new cars. There was evidence of cooling inflation at the grocery store.

## INFLATION | RETAIL SALES

Inflation in the United States is easing with lower gas prices and slower increases in food prices. However, Federal Reserve Chair Jerome Powell remains cautious and emphasizes that it is too early to declare victory in the battle against rapid price increases.

While overall inflation has fallen from its peak last summer, the core inflation rate, which excludes food and fuel, continues to show resilience. Fed officials have revised their forecast for core inflation at the end of 2023 to 3.9%, higher than their previous prediction and above the 2% target. Despite the recent cooling in inflation, economists and policymakers express concerns about underlying trends and the need for additional measures to prevent sustained elevated price increases. Many economists noted that we have seen a reduction in inflation because most factors that have helped inflation fall have been widely anticipated. The supply chain has sorted itself out and oil price surge tied to the war in Ukraine have faded. However, inflation lingers in services that are labor-intensive because prices tend to rise when wages increase, and employers look to consumers to cover their costs who are earning more and have the ability to pay for the service.

Wholesale prices in the United States decreased by 0.3% from April to May, indicating continued easing of inflationary pressures following the Federal Reserve's interest rate hikes. The producer price index, which measures inflation before it reaches consumers, showed a 1.1% increase from May 2022, the smallest year-over-year gain since December 2020. In May, wholesale inflation was pulled down by a 13.8% drop in gasoline prices. Excluding food and energy prices, core wholesale inflation increased by 0.2% from April and 2.8% from a year earlier, the mildest gain since February 2021. Since producer prices peak in March 2022 at 11.7% we have seen them fall for 11 straight months.

## HOUSING

The housing market in Washington state is experiencing the largest decline in homeowner equity in the country, with an average loss of about $74,300 or 18% in equity over the past year.  However, the percentage of homeowners who owe more than their property is worth remains low, at 2%, in line with the national rate. In the Seattle area, only 0.7% of homeowners owe more than their homes are worth, a slight increase compared to previous years but significantly lower than the levels seen after the 2008 housing market crash. Despite the decline in equity, homeowners who bought during the pandemic market boom and can wait for the market to rebound may be able to offset the loss.

For the first time in over a decade, the average U.S. homeowner with a mortgage has experienced a decline in home equity compared to the previous year. According to CoreLogic, the average homeowner equity per borrower in the first quarter was $274,070, down 1.9% from the same period last year. This marks a departure from the consistent growth seen since the housing market recovered from the Great Recession. Homeowners collectively lost $108.4 billion in home equity during this period. The decline in home equity can be attributed to the slowdown in the housing market due to higher mortgage rates and limited inventory. Despite the decline, the number of homeowners with negative equity, owing more on their mortgages than their homes are worth, remained steady at around 2.1% of properties with a mortgage. Washington, California, and Utah experienced the largest declines in average home equity.

Single-family home prices in the Puget Sound region continued to decline in May, with a year-over-year drop of 8.9% in King County. While this decline tempts potential buyers into waiting for further price drops, it overlooks data indicating that the median price in King County actually increased by 16.5% to reach $910,000. Similar trends were observed in other parts of the region, such as Snohomish County, Pierce, and Kitsap. For Instance, Snohomish County's median price of $780,000 was down 4.3% year over year but up 11.6% year to date. Despite the decline in prices, industry experts suggest that buyers waiting for further drops may be disappointed, as current trends indicate a lack of significant decreases.

## INTEREST RATES

At the beginning of June, the average long-term U.S. mortgage rate climbed to its highest level since November, increasing borrowing costs for homebuyers amid a low inventory of homes available for sale. Freddie Mac reported that the average rate for a 30-year fixed-rate mortgage increased to 6.79% from 6.57% the previous week, marking the third consecutive weekly increase. The average rate for a 15-year fixed-rate mortgage rose to 6.18% from 5.97%. High rates are limiting affordability in a market already burdened by soaring home prices and limited inventory. The slow recovery of the housing market has led to reduced demand for both home purchase and refinancing loans. Mortgage rates have increased along with the 10-year Treasury yield, which lenders use as a guide to pricing loans. The yield hit 3.81% at the end of May, its highest point since the start of March.

In the second week of June, the average long-term mortgage rates in the US dipped slightly from a seven-month high, providing some relief to homebuyers grappling with high borrowing costs and limited housing inventory. Freddie Mac reported that the average rate on a 30-year fixed-rate home loan dropped to 6.71% from 6.79% the previous week, while the average rate on 15-year fixed-rate mortgages decreased to 6.07% from 6.18%. Despite the decline, rates remain significantly higher compared to last year, adding financial pressure for buyers in a competitive market with soaring home prices. Inventory shortages continue to be the main obstacle for potential buyers, hampering the recovery of the US housing market.

In the third week of June, the average long-term U.S. mortgage rate decreased slightly. Freddie Mac reported that the average rate for a 30-year fixed-rate mortgage fell to 6.69% from 6.71% last week, although it is only slightly down from the 2023 high of 6.79% in early June. On the other hand, the average rate for a 15-year fixed-rate mortgage rose to 6.10% from 6.07%. The Federal Reserve's decision to pause interest rate hikes played a role in the rate adjustment. The housing market continues to face challenges with elevated rates and a limited inventory of available homes.

At the end of June, the average long-term mortgage rates in the U.S. fell for the third consecutive week. The average rate for a 30-year home loan dropped to 6.67% from 6.69% the previous week, while the rate for 15-year fixed-rate mortgages also decreased. Despite the decline, mortgage rates remain higher compared to the same time last year and more than double what they were two years ago. The Federal Reserve's decisions on interest rates, along with global demand for U.S. Treasuries and inflation expectations, influence mortgage rates. The uncertain outlook for the Fed's future rate hikes may introduce more volatility in mortgage rates throughout the year.

## JOBS

The number of Americans filing for unemployment benefits increased in the beginning of June to the highest level since October 2021, reaching 261,000 claims for the week ending on June 3. This is a 28,000 increase from the previous week. Analysts caution against interpreting this as a sign of widespread layoffs, citing possible distortions due to the Memorial Day weekend. The labor market has remained robust, with the U.S. economy adding jobs at a strong pace since the pandemic-induced job losses, and the unemployment rate rose to 3.7% in May. While there have been some high-profile layoffs in the technology sector, overall, the job market continues to favor workers.

Jobless claims for the week ending June 17 were 264,000, the same as the previous week but slightly higher than expected. The four-week moving average rose to 255,750, the highest level since November 2021. While fraudulent claims and fluctuations in continuing claims complicate the interpretation, if jobless claims persist around 260,000, it could indicate a notable slowdown in the labor market. Despite the recent rise in claims, the U.S. labor market has been resilient, with strong job gains and low unemployment rates.