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Seattle Office Space News – August 2023

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

OFFICE DEVELOPMENTS

In August 2023 Urban Visions closed on a 7-acre portion of land in Seattle that will be a part of the future S Campus office development in SODO. The property was purchased for $6.6 million by S-QOZB LLC, marking a value of approximately $428 per square foot. Urban Visions obtained a demolition permit for the century-old building. The proposed project, spanning 1.3 million square feet across six buildings, is aimed to open around 2030.

Also in August, BioMed Realty proposed a $1 million plan to convert NorthEdge building in Fremont from offices to life-science use. While no specific tenants are mentioned, the move reflects the stronger demand for life-science commercial real estate compared to traditional office spaces. The four-story, 205,000 square foot NorthEdge building, located at 1621 N 34th Street was previously leased by Tableau Software and was recently put on the market for Sublease by Tableau's parent company, Salesforce. The LEED Silver-certified property features south-facing views, bike amenities, parking, and nearby restaurants. The building was purchased by BioMed for almost $220 million in late 2021.

The Port of Seattle Commission approved $32.6 million in funds to transform the historic Ship Supply Building at Fishermen's Terminal into a Maritime Innovation Center in August 2023. The building, constructed in 1918, will be restored and modernized into a 15,000-square-foot facility with spaces for incubators, accelerators, anchor tenants, and various meeting and seminar spaces. Construction is set to begin in spring 2024, with an opening planned for late 2025. The project aims to attract global industry leaders to the Puget Sound area and highlight the connection between technology and the maritime industry.

OFFICE LEASES

Marcus & Millichap's Seattle office will be moving to Rainier Square at 411 Union Street in Seattle's central business district on a sublease from Amazon. The new location on the 32nd floor will occupy an 11,000-square-foot space. While the broader commercial market faces challenges due to weak demand, Marcus & Millichap's move reflects expansion rather than downsizing. The firm's move also signifies a growth-oriented strategy that prompts a desire to have productive teams working together. After Amazon secured a lease for the entire 720,000 square feet of office space in Rainier Square, Amazon chose to make the entire space available for sublease in 2018. This decision came in response to the city's implementation of a "head tax" on Amazon and other major employers.

OFFICE BUILDING SALES

Seattle's historic Smith Tower is on the market for sale with an undisclosed asking price. The investment offering, marketed by Eastdil Secured, includes the adjacent two-story Florence Building. What was once one of the tallest structures outside of New York, the Smith Tower includes a 35th-floor observatory, a bar, and a pyramid-shaped penthouse. With nearly half its office and retail space currently vacant, the listing emphasizes the potential for business plan flexibility and residential conversion in response to a struggling office market. The building's location at 506 2nd Ave within the Pioneer Square Preservation District would require preservation board and city approval for any significant changes.

The historic Occidental Building at 311 ½ Occidental Ave. S. in Seattle's Pioneer Square is up for sale for the first time in about 35 years. Listed by MaKensay Real Estate Services, the 133-year-old building has an asking price of nearly $5.8 million or $251 per square foot for the 23,086 sf building. The building's top two office floors are largely vacant and with some tenants having departed during the pandemic. With the trend of converting empty downtown offices into residences gaining traction, there is speculation about the possibility of a conversion into apartments or condos.

RETURNING TO THE OFFICE

Workers in the Midwest region of the US are returning to offices more frequently than their counterparts in other parts of the US. According to workplace-occupancy analytics firm Basking.io, the Midwest's offices recorded a 60% weekly average peak occupancy rate during the first half of the year, the highest in the nation. In contrast, the Northeast averaged 24% peak occupancy, and the West averaged 31%. The data suggests that the Midwest's higher office attendance might be due to more stringent return-to-office policies, shorter commutes, or a combination of both. The findings align with previous research showing that work-from-home rates are lower in smaller cities and higher in major metropolitan areas. Additionally, Basking.io's report indicates that the traditional 9-to-5 office day is becoming less common, with many office visits lasting shorter durations.

Washington workers continue to work remotely at a higher rate than the national average, with over 24.2% working remotely in 2021 compared to the national average of 17.9%. In fact, more than 1 in 3 Washingtonians are on a hybrid work schedule or are totally virtual according to data from the Census Pulse survey taken in late July. The Seattle-Tacoma-Bellevue metro area, abundant in tech companies, sees about 40% of its labor force working from home at least once a week. The Census Pulse survey also concluded that education and income levels are key factors, with those holding a bachelor's degree or higher, along with higher household incomes, more likely to work remotely.

Amazon's decision to require employees to return to the office has sparked controversy and pushback, with employees seeking data and better explanations that support the move. Amazon Web Services (AWS) CEO, Adam Selipsky, shared some words to justify the return-to-office policy, emphasizing the importance of serendipity of in-person interactions. However, this approach hasn't convinced all employees, as many feel demoralized and undervalued, lacking concrete data to back up the decision. Questions about metrics for evaluating the success of the return-to-office policy remain unanswered, causing frustration among workers who have sought clarity. Amazon's implementation of the policy has led to protests, petitions, and a lack of trust among some employees, impacting productivity and morale.

Amazon CEO Andy Jassy addressed employee resistance to the company's return-to-office policy during an internal Q&A session in August. He invoked Amazon's leadership principle of "disagree and commit," emphasizing that it's time to accept the policy, which mandates corporate employees to be in the office three days a week. Jassy's comments noted that the policy's consistency is important and that some employees can't work in the office while others choose not to. The policy change, implemented in May, shifted from allowing team leaders to decide remote work. While Jassy had claimed greater in-person engagement and collaboration, employees remain skeptical. Earlier protests against the policy had taken place, with requests for data to support Jassy's assertions.

Meta Platforms Inc. issued a warning to its employees in August, stating that non-compliance with its return-to-office policy could result in termination. The policy mandates that employees assigned to an office must work from that location three days a week or participate in equivalent in-person work activities. Managers will be monitoring adherence and considering disciplinary action for violations. Monthly tracking will involve reviewing office badge usage and computer location data. This directive aims to create consistent collaboration practices and emphasizes remote work for those truly committed to it. As one of the Seattle area's major tech employers, Meta employs around 8,000 people locally.

Zoom, the video conferencing company that became synonymous with remote work during the pandemic, is now adopting a return-to-office strategy. It is mandating that employees residing within a 50-mile radius of its offices work onsite for two days a week, beginning in August and September. Zoom's effort towards a structured hybrid approach, where employees near an office interact with their teams in person, aligns with similar trends seen in other major companies like Google, Salesforce, and Amazon. Despite Zoom's explosive growth during the pandemic's initial phase, its shares have plummeted since then, and the company faced challenges, including layoffs and a shift in demand as the pandemic situation evolved. This shift back to office work reflects the ongoing evolution of hybrid work as a prominent post-pandemic work model.

ECONOMY

The U.S. economy grew at a 2.1% annual pace in the second quarter, slightly lower than the initial estimate of 2.4%, but still showing resilience despite rising borrowing costs. The Commerce Department's report released in August indicated a modest acceleration from the first quarter, driven by increased consumer spending, business investment, and government spending. The report also revealed cooling inflation, potentially reducing pressure on the Federal Reserve to raise interest rates further. While the economy has been slowed by the Fed's efforts to control inflation, it has continued to expand with ongoing hiring and consumer spending. The report suggests a possible soft-landing scenario, where the economy successfully manages inflation without triggering a recession.

The City of Seattle is facing economic challenges due to its heavy reliance on the technology industry, as noted in a city budget office revenue report. The report highlights how the tech sector, which accounts for nearly 30% of the local economy, has seen a slowdown in growth, impacting overall wage growth and job availability. Layoffs and hybrid work policies have also affected the commercial real estate market, with rising office vacancies despite recent job growth and return-to-office mandates from companies like Amazon. Seattle is exploring progressive taxes, including expanding the existing "JumpStart" payroll tax, to address its budget deficit.

INFLATION | RETAIL SALES

As reported from their July meeting, most Federal Reserve officials still viewed high inflation as an ongoing threat that might require additional interest rate hikes. The officials noted "tentative signs that inflation pressures could be abating." This mixed view aligns with Chair Jerome Powell's uncertain stance on future rate hikes. While they saw some progress on inflation, it was still above their 2% target, and they indicated they would need more data to be confident that inflation pressures were easing. The Fed raised its benchmark rate for the 11th time in 17 months in the effort to curb inflation, but provided little guidance on when or if they might raise rates again. The consensus among most investors and economists is that the July rate hike might be the last one.

After a significant drop in US inflation from 9% to 3% over the past year, the challenge lies in further reducing it to the Federal Reserve's target rate of 2%. The "core" inflation measure, excluding volatile food and energy prices, remains higher than overall inflation and is expected to decrease gradually. A sustained high level of inflation could endanger the possibility of a "soft landing," where the Fed manages to slow inflation to target levels without harming the economy. While the Fed has recognized a reduction in inflation pressures, core prices are likely to remain elevated, primarily due to service costs reflecting healthy wage gains. Economists expect inflation data for July to show a slight increase to 3.3%, primarily due to higher gas prices, and warn that the process of reducing inflation to the target rate could be a challenging and slow process.

As summer comes to a close, Americans are feeling less financially confident due to high prices and interest rates impacting their spending intentions. The consumer confidence index, measured by the Conference Board, dropped to 106.1 in August from 114 in July. This decline is attributed to anxiety over spending on non-essential items, heightened by the prospect of elevated credit card interest rates. Rising prices for essential goods like groceries and gasoline are also contributing to reduced consumer confidence. This downturn in consumer spending has been reflected in the earnings reports of major retailers, with cautious spending behavior observed at Target, Home Depot, and Best Buy. Despite the U.S. economy's resilience in the face of high borrowing costs and steady job growth, recent data suggests that Americans might be adopting more cautious spending habits as the school year begins and the holiday season approaches.

HOUSING

Sales of existing homes in the US experienced a decline in July to the slowest rate since January. A mix of higher mortgage rates and an ongoing scarcity of homes available for sale has prompted this decrease, ultimately discouraging prospective homebuyers. Existing home sales dropped 2.2% compared to June, reaching an annual rate of 4.07 million, below economists' expectations. Sales were down 16.6% from July of the previous year, with the steepest annual decline in the Northeast and Midwest. However, the West, which includes the Seattle area, saw a 2.7% increase in existing-home sales from the previous month. Despite falling sales, competition for the limited inventory resulted in higher prices, with the national median sales price rising 1.9% from the previous year. The shortage of homes for sale contributed to bidding wars, particularly for more affordable homes. The combination of high mortgage rates and intense competition has kept many first-time buyers on the sidelines, accounting for just 30% of home sales in July.

The Puget Sound region experienced a historic low in the number of homes hitting the market for sale in July. King County alone saw 2,200 newly listed detached single-family houses and townhomes, marking a decrease of 1,000 from the previous year and the lowest number for July since at least 2017. Similar shortages were observed in neighboring counties like Pierce, Kitsap, and Snohomish. The increase in mortgage rates over the past two years has added hundreds of dollars to monthly mortgage payments, affecting buying power even as home prices flatten or slightly decrease. Despite relatively flat or slightly declining home prices in the region, demand remains inconsistent, resulting in fewer pending home sales.

INTEREST RATES

The average 30-year U.S. mortgage rate increased early in August, reaching 6.90% from 6.81% the previous week, impacting potential homebuyers and those looking to refinance. The 15-year fixed-rate mortgage rate also rose to 6.25% from 6.11% that week.

In the 2nd week of August, the average long-term U.S. mortgage rate increased to nearly 7%. Freddie Mac reported that the average rate on the 30-year home loan rose to 6.96% from 6.90% the previous week, marking the third consecutive weekly increase. The average rate on 15-year fixed-rate mortgages, commonly used for refinancing, also increased, rising to 6.34% from 6.25% the previous week.

In the 3rd week of August the average 30-year US mortgage rate climbed to 7.23%, marking the highest level since 2001. The 15-year fixed-rate mortgage average also rose to 6.55% from 6.46% the previous week.

At the end of the month Freddie Mac reported that the 30-year fixed mortgage rate dropped from 7.23% to 7.18%, although still significantly higher than the previous year's 5.66%. The lower average rate remains above 7%, leading to increased costs for borrowers and hindering affordability in an already expensive market. High rates also discourage existing homeowners from selling, exacerbating the housing shortage. The 15-year fixed-rate mortgage rate remained at 6.55%. The recent fluctuation in rates has been tied to the 10-year Treasury yield, and while future rate direction remains uncertain, the Federal Reserve's decisions regarding interest rate hikes will likely play a role. The current high rates contribute to reduced home sales and a scarcity of available homes in the market.

JOBS

Amidst rising interest rates aimed at tempering economic growth, weekly applications for unemployment benefits in the US saw a slight decrease at the end of August. This decline indicates that the job market has maintained its resilience despite a year of interest rate increases. The Labor Department reported a drop of 4,000 in jobless claims to 228,000 for the week ending August 26. The four-week moving average increased to 237,500. These numbers are often reflective of weekly layoffs. Despite the Federal Reserve's 11 interest rate hikes over the past year and a half, the job market has fared better than expected, with the unemployment rate at 3.5%. While job openings decreased slightly to 8.8 million, many businesses are focused on retaining workers, and most industries have not been cutting jobs extensively. Around 1.73 million people were still receiving unemployment benefits as of the week ending August 19.

OTHER NEWS

WeWork raised concerns in August about its ability to remain operational in the coming year due to financial losses and among other factors. The New York-based workspace-sharing company, which sublets office spaces to small businesses and freelancers, went public in 2021 after a failed attempt two years prior due to erratic behavior and overspending from past CEO and founder, Adam Neumann. While WeWork's interim CEO, David Tolley, expressed optimism in the company's second-quarter results, including a $349 million loss, he highlighted ongoing efforts to enhance member retention, optimize real estate portfolios, and reduce operating costs. The company aims to improve liquidity and profitability through negotiating lease terms, controlling spending, and seeking additional capital through debt, stock issuance, or asset sales.

Gensler, an architecture company, has undergone a $2.6 million Seattle office renovation that started in 2018 and was completed this spring. The end result includes a flexible and adaptable workspace that responds to changing ways of working, including the impact of the pandemic. The renovated office features a workshop concept that allows for tinkering, experimentation, and building culture, with spaces that can easily change over time. The design emphasizes sustainability by integrating new types of spaces into the existing interiors and diverting materials from landfills. The office includes a variety of flexible workspaces, social areas, and rooms that can be adapted for different functions. The office's fluidity is exemplified by its elevator lobby, plastered with biodegradable posters of employee sketches and art. The company aims to continue evolving the workspace based on feedback and changing needs.