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Seattle Office Space News – September 2023

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

OFFICE DEVELOPMENTS

Seattle's Plaza 600 located at 600 Stewart Street in the Denny Triangle completed a multimillion-dollar renovation as reported in September 2023. The focus of the improvements was on the main lobby and the addition of a ground-floor bike storage area. While public records suggest a $2.5 million cost, the ownership group, URG, did not confirm the exact amount. This renovation comes amid a challenging Seattle office market, marked by a significant decline in occupancy and rising vacancies. URG founder and CEO Pat Callahan emphasized the importance of investing in high-quality amenities and experiences for tenants and workers. The renovation includes a new multi-purpose amenity space, bike storage, and an expanded lobby with custom design elements. Grayscale Design Studio and Skyline Construction were responsible for the project.

OFFICE LEASES

Seattle-based data analytics startup MotherDuck, which recently secured a $52.5 million Series B funding round, reportedly signed a lease to expand their operations into a new 10,000-square-foot office in Eastlake. Before leasing its own space, the company rented desks. Founded last year, MotherDuck has grown rapidly and hit a $400 million valuation after its latest funding round. The company currently has 31 employees but expects to increase this number to 50 in the near future and possibly to 60-70 employees within a year. MotherDuck assists clients in making data-driven decisions and uses the open-sourced database DuckDB, developed by CWI, for its platform. The company is focused on stabilizing and preparing for a full product launch by early next year.

The Puget Sound Business Journal reported in September that the newspaper operations have moved into a new office space at 999 3rd Ave in the central business district. The company is temporarily occupying space on the 6th floor while waiting to take occupancy of approximately 5,100 SF on the 15th floor in January. This marks the first time in nearly 21 years that the publication has changed locations. The decision to stay in downtown Seattle was driven by the publication's readers, advertisers, and employees' needs, as many commute by transit, including ferry and water taxi, with marine terminals conveniently nearby. The new permanent office is approximately 44% smaller than the previous one, reflecting changes in staffing and a shift to more remote work.

OFFICE BUILDING SALES

2505 Second Ave located in the Belltown neighborhood has been put on the market for sale. The seller is an LLC associated with PCCP – a large investment company based out of California. The seven story, 73,603 square foot building is listed for $19.1 million or $259.50 per square foot. The building last sold in 2017 for $21.7 million. The new asking price reflects the new market. Current tenants in the building include UW Medicine Primary Care, Lindblad Expeditions and a cocktail bar at the base known as Navy Strength.

RETURNING TO THE OFFICE

In the post-pandemic era, while various aspects of life have returned to normal, the world of in-office work remains in flux. Three and a half years after the mass shift to remote work, differences have emerged across continents and cultures in how companies and employees adapt. Asian and European workers are returning to offices more rapidly compared to America. Europe's remote work habits vary, but several countries have embraced flexible schedules through legislation. In contrast, the US lacks significant policy guidance, leaving companies to set their own return-to-office rules. The debate continues, impacting office space demand and the integration of work and life. Cultural, structural, and industry factors play roles in these differences, with the US seeing more widespread remote work among workers. According to the McKinsey Global Institute, the changes brought about by the pandemic could lead to the depreciation of approximately $1.3 trillion in real estate value in major cities worldwide by 2030

In early September Meta Platforms Inc began mandating that employees assigned to offices must either be physically present at their workplaces for at least three days per week. Non-compliance could result in termination. Managers will monitor adherence to the policy by tracking employees' office badge activity and computer location data on a monthly basis, leading to meetings with managers for those not meeting requirements. However, full-time remote work-approved employees should only visit the office no more than four days every two months, as the company aims to establish predictable schedules and consistent collaboration practices. Meta, based in Menlo Park, California, has approximately 8,000 employees in Washington state.

DOWNTOWN RECOVERY

In September The King County Regional Homelessness Authority put an end to its ambitious "Partnership for Zero" plan aimed at reducing visible homelessness in downtown Seattle in September. This decision, attributed to funding uncertainties and a shift in the authority's goals, has led to the potential layoff of 38 employees, including 31 systems advocates who provide outreach and support to people living outdoors in downtown and the Chinatown International District. While the program helped 231 people find housing, it fell short of its promise, upsetting city and county leaders. The authority is now facing scrutiny, with calls for a review of its governance and oversight systems.

Equinox, the upscale health club chain, is reportedly resuming construction on its first Seattle location at Rainier Square after pausing the project due to the pandemic. The company plans to occupy nearly 50,000 square feet in the 58-story mixed-use tower and is ready to restart work after facing market and financial uncertainties. Equinox had previously considered other locations but didn't move forward with those projects, and it now joins other retail tenants in the tower. Amazon had originally leased all the tower's office space but decided to offer it for sublease in 2018.

ECONOMY

According to the US government, he US economy sustained a 2.1% annual growth rate from April to June 2023, unchanged from the previous estimate, demonstrating resilience amid rising interest rates. This expansion was driven by factors like consumer spending, business investment, and state and local government spending. Despite the Federal Reserve's 11 interest rate hikes since March 2022 to combat inflation, the economy and job market have remained robust, raising hopes for a "soft landing" where inflation is controlled without triggering a recession. However, higher interest rates have affected consumer spending, which rose only 0.8% in the second quarter. The economy is expected to accelerate in the current quarter, with GDP growth estimates ranging from 3.2% to over 4%. But challenges lie ahead, including slowing hiring and income growth, surging oil prices, and other obstacles that could weaken growth in the final months of the year.

HOUSING

As of August 2023, the Puget Sound area's median home sales prices remained relatively stable due to the impact of high mortgage rates. The rates for 30-year home loans reached their highest levels since 2001, peaking at 7.23% on August 24th. These elevated rates have discouraged buyers and caused potential sellers to reconsider trading their existing low-rate mortgages. Industry experts believe that the housing market is lacking direction and expect it to stabilize when mortgage rates begin to recede.

King County's median single-family home price remained relatively stable, increasing by less than 1% from the previous year to reach $906,250, while nearby counties experienced varying price trends. Snohomish County saw a 3% decline, with a median home price of approximately $730,600, Pierce County experienced a 1% drop to nearly $550,000, and Kitsap County recorded a 3% increase to nearly $565,000. The housing market has been affected by high mortgage rates, currently averaging 7%, which have led to decreased competition and more selective buyers. Despite this, a limited supply of homes for sale has kept prices from plummeting further, favoring a sellers' market.

Sales of new homes in the US hit a five-month low in August, dropping by 8.7% compared to the previous month, with a seasonally adjusted annual rate of 675,000 properties, according to the Department of Commerce. High mortgage rates are placing a strain on prospective homebuyers with rates near a 23-year high and the average rate on a 30-year mortgage surpassing 7% in August for the first time since November. The elevated rates are adding hundreds of dollars in monthly costs for borrowers, limiting affordability in an already expensive housing market. However, despite these challenges, new home sales are up 1.8% for the first eight months of the year compared to the same period in 2022.

INTEREST RATES

The average long-term US mortgage rate fell slightly at the beginning of September. According to Freddie Mac, the average rate for a 30-year home loan decreased from 7.18% to 7.12%, while the rate for a 15-year fixed-rate mortgage dropped from 6.55% to 6.52%.

Throughout September, the average 30-year US mortgage rate remained high. The average long-term US mortgage rate inched up with the 30-year rate at 7.18% the second week of September. In the third week of the September 30-year fixed mortgage rates inched up to 7.19% from 7.18% the previous week, marking a continued challenge for potential homebuyers in an increasingly unaffordable housing market. Mortgage rates have been following the trajectory of the 10-year Treasury yield, which has been hovering above 4% since August.

To end the month, the average rate for a 30-year home loan increased to 7.31%, up from 7.19% the previous week and significantly higher than the 6.70% rate a year ago. The combination of elevated mortgage rates and low home inventory has kept home prices near record highs, while sales of previously occupied homes have declined by 21% in the first eight months of this year compared to the same period in 2022.

When the Federal Reserve met in September they decided to leave interest rates unchanged but released new economic projections indicating an expectation of another rate increase before the year's. While the Fed has significantly raised interest rates since March 2022 to combat inflation, with the current range at 5.25% to 5.5%, they now foresee rates nudging up to 5.6% by the year's end. The decision reflects their optimism about economic growth and their focus on inflation control. Despite signs of inflation cooling, the Fed remains cautious, seeking to strike a balance between curbing inflation and avoiding economic harm. The next meetings in November and December.

JOBS

According to the Labor Department in September, the number of U.S. applications for unemployment benefits has reached its lowest level in eight months, falling by 20,000 to 201,000 for the week ending September 16. This decline indicates ongoing strength in the labor market, despite elevated interest rates. The four-week moving average of claims also dropped to 217,000, a less volatile measure showing improved labor market conditions. US employers have been adding an average of approximately 236,000 jobs per month this year, indicating steady job growth. Despite some layoffs earlier this year, many companies are striving to retain their employees, reflecting the ongoing effort to meet elevated consumer demand following the pandemic recession.

OTHER NEWS

In September WeWork announced its intention to renegotiate nearly all of its leases and, in some cases, may exit certain properties. According to CEO David Tolley, WeWork’s operating costs remain too high and out of step with current market conditions. The article notes that WeWork’s lease liabilities accounted for more than two-thirds of its operating expenses. Last month, the company warned of "substantial doubt" about its ability to continue as a going concern due to rising member dwindle and financial losses. While the prospect of bankruptcy may put WeWork in a stronger negotiating position with landlords, the demand for office space remains weak overall, with many Americans still working from home. As of June 30, WeWork had 777 locations in 39 countries. The process to renegotiate numerous leases could take months or longer, and the impact could be felt in cities like New York and San Francisco where WeWork has a significant presence.

Aging office buildings in Seattle, Tacoma, and Bellevue could be converted into thousands of new apartments, potentially helping alleviate the housing crisis. However, the financial feasibility of such conversions may be challenging without government incentives, according to researchers from New York University and Columbia University. The study suggests that office buildings in the Puget Sound region could potentially yield around 14,600 new apartments through conversion, potentially helping address housing shortages in the area. While office-to-residential conversions are an enticing idea, attracting developers to such projects may require government incentives, looser zoning rules, streamlined permitting, or property tax breaks.