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Seattle Office Space News – October 2023

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

OFFICE DEVELOPMENTS

October brought us news about Blue Rooster Development Partners reemerging with plans for a mixed-use office development project called NorthShore located at 1326 N Northlake Way in Fremont. 80% of the project will be office and the rest will include amenities like a rooftop deck and ground-floor retail. Despite challenges, Blue Rooster remains hopeful that the demand for office space will rebound as remote work trends evolve. The project's design is in the hands of Seattle architecture firm Weber Thompson, and leasing efforts are led by CBRE and Gibraltar.

The Watershed, a regenerative office building located at 900 N. 34th St in Fremont, has achieved Living Building Challenge (LBC) Petal Certification from the International Living Future Institute, one of the world's most stringent sustainability certifications. This accomplishment also fulfills the Living Building Pilot Program requirements of the City of Seattle, making Watershed only the third project to do so. The building, designed by Weber Thompson, significantly reduces water and energy usage while incorporating innovative features like rooftop beehives and bioswales to improve water quality. It also emphasizes the use of environmentally friendly materials and integrates art and education throughout the structure. Watershed's success reflects a growing demand for highly sustainable developments that benefit both the environment and business.

OFFICE LEASES

In a surprise it was revealed in October that Amazon renewed the lease for the 140,000-square-foot office space in Met Park North located at 1220 Howell St. This office is located on the outskirts of its Denny Triangle campus, and the renewal extends the lease for at least the next two years. While the number of employees in Met Park North is relatively small compared to Amazon's other offices in the Denny Triangle area, this renewal reflects a positive sign for the Seattle’s office market.

Seattle-based consulting firm Slalom is relocating its headquarters from the Exchange Building at 821 2nd Ave Seattle’s CBD, to Hawk Tower located at 255 S. King St in Pioneer Square in January. The move, prompted by the expiration of the current lease, will see the renaming of Hawk Tower to "Slalom Hawk Tower." Although the square footage of the new space was not disclosed, it will span multiple floors. Slalom President, Tony Rojas, expressed pride in the company's Seattle heritage and commitment to the Pacific Northwest community. The move comes after Slalom's CEO announced layoffs of around 7% of its 13,000-person team in September. The spokesperson mentioned the potential for expansion in Hawk Tower as the company's needs evolve in the future.

BlackSky Technology Inc, a satellite analytics company, has established a new 14,500-square-foot technology mission control center in South Lake Union, Seattle located at 1000 Dexter Ave. N. The space, designed with an open, flexible layout, will serve as a template for other BlackSky offices across the U.S. The facility will accommodate the company's 60 Seattle employees and support its expansion efforts, with plans to fill 15 additional positions, including remote developer roles and satellite engineering positions. The mission control center will enable real-time satellite imaging tasks and is designed to foster collaboration within the company. BlackSky has experienced significant growth in recent years, with its global workforce doubling from 135 to 275 employees across the U.S., the U.K., and six other countries.

Real estate tech company Flyhomes, has downsized its downtown office space, moving from a 9,000-square-foot location near the waterfront to a 4,000-square-foot space in the Logan Building located at 500 Union St. The move was prompted by the expiration of Flyhomes' lease, which had been signed prior to the COVID-19 pandemic. The company has experienced three rounds of layoffs since July 2022 as the housing market cooled due to rising mortgage rates and reduced demand. This has resulted in a decrease in staff from around 820 employees to fewer than 400. Flyhomes, founded in 2016, offers services to homebuyers, including all-cash offers and long-term mortgages, and has raised substantial funding, including a $150 million Series C round in 2021.

Zulily, the e-commerce retailer, has moved into a new office space at the 95 Jackson building in Seattle's Pioneer Square neighborhood. The building offers nearly 36,000 square feet of office space, and it's part of Zulily's cost-cutting measures under new ownership by private equity firm Regent, which acquired the company in May. Zulily has undergone layoffs and has been facing financial challenges. Despite the move, the new office space seemed to have only a few employees present, and there has been limited communication regarding the move and the office's operations.

RETURNING TO THE OFFICE

According to the KPMG 2023 US “CEO Outlook Survey”, a substantial shift is expected in the working environment for corporate employees traditionally based in offices. With 62% of U.S. CEOs anticipate a return to physical workplaces within the next three years, marking a significant increase compared to 34% in the previous year's survey. Only 4% of CEOs envision these traditionally in-office jobs remaining fully remote, down from 20% in 2022. Furthermore, the survey revealed that 90% of CEOs are willing to reward employees who return to the office with favorable assignments, raises, or promotions, reflecting studies indicating that remote workers are 10% to 18% less productive than in-person workers. While major tech companies like Amazon, Meta, and Apple are calling employees back to the office, KPMG noted potential challenges and risks, such as the loss of diversity, morale, and employee reluctance to return to the workplace. The findings underscore the ongoing debate surrounding remote work in today's workplaces, as some employees resist the return to full in-office schedules.

The share of employees working remotely in Seattle and the Eastside has decreased more than 10% from its peak during the pandemic, according to research by the Economic Innovation Group. In 2021, over half of workers in Seattle's Lake Union-Downtown area were remote, the highest share nationwide. However, this proportion dropped to 40.9% in 2022, with similar trends observed in Kirkland, Redmond, Sammamish, and Issaquah, and an 8% decline in Bellevue, Kenmore, and Bothell. Remote work has persisted in the outer suburbs of the Puget Sound region, with the share of remote workers remaining stable or increasing in parts of Pierce and Snohomish counties. The shift is attributed to changes in work policies and occupational composition as people returned to in-person work as pandemic restrictions eased. Although remote work is less common than during the pandemic, it remains relatively high compared to pre-pandemic levels.

Amazon is updating its guidelines for managers and authorizing them to terminate employees who don't comply with the return-to-office policy, according to internal screenshots viewed by the Puget Sound Business Journal. The guidelines include advice for managers on how to discuss the issue with employees and how to follow up, with a script outlining potential consequences if employees don't return to the office at least three days a week. Amazon's decision to tighten its return-to-office policy comes as it seeks to bring more employees back to the office, and it aims to maintain a strong office presence for the long term. The company had previously flagged employees who didn't meet the in-office policy but was vague on disciplinary measures.

Pamela Hayter, an ex-Amazon employee, was a prominent advocate for remote work within the company and played a crucial role in the walkout against Amazon's return-to-office policy in May of 2023, which garnered participation from thousands of employees. Amazon's RTO policy required employees to work in the office at least three days a week. Hayter, who had been with the company for eight years, took the initiative to create a Slack channel called #remote-advocacy where employees could discuss their concerns, draft petitions, and organize the walkout. Hayter has left Amazon and filed an unfair labor practice complaint against the company, alleging retaliation for her remote work advocacy. Hayter claimed that Amazon gave her a negative review, placed her in a performance improvement plan, and forced her out of the company after the walkout. Amazon disputes her claims and maintains that her departure was unrelated to her remote work advocacy.

DOWNTOWN RECOVERY

The Downtown Seattle Association (DSA) reported that the average daily foot traffic of office workers in downtown Seattle remains below pre-pandemic levels. In September, there was a daily weekday average of 84,067 workers, which was 4.9% lower than August but 22.3% higher than September 2022. The average daily count for the week starting September 24 was 49% of the same period in 2019, fluctuating between 40% and 60% since the beginning of the year. One positive note was that hotel room demand in September reached 103% of the demand in September 2019. However, business travel has been affected by layoffs at major tech companies, but hotel operators are optimistic about a potential recovery in 2024.

While overall crime rates in downtown Seattle have decreased over the past year, certain areas continue to face public safety concerns, affecting businesses in these locations. Factors like drug use and public safety issues, including a "fentanyl marketplace," have posed challenges for business owners in these areas. Business owners have had to invest in added security measures and cope with issues like shoplifting and cleaning up public spaces. Violent crime in areas from Belltown through Pioneer Square and the Chinatown International District has seen a 14% decrease year-over-year, with homicides down by 40% and property crimes reduced by almost 26%. However, a survey revealed that 48% of registered city voters are increasingly concerned about crime, drugs, and public safety, up 10 points from the previous year. The police department has been working to recruit more officers, offering hiring bonuses and increasing marketing efforts to attract new candidates. The police budget for 2023 has been approved at $374.3 million, and Mayor Harrell has suggested a budget of $391.5 million for the following year.

The Seattle City Council is facing historically low approval ratings, with a recent poll showing just 20% approval, indicating a lack of confidence in the council's actions. This comes at a time when Seattle is grappling with rising homelessness, violent crime, and ongoing challenges in the downtown area. Many residents are calling for more to be done to address these issues, with 88% wanting action on violent crime, 81% urging help for businesses affected by crime, and three-quarters agreeing that hiring more police officers should be an immediate priority. The upcoming council election is seen as one of the most consequential in Seattle's history, with residents looking for constructive solutions to the city's challenges.

ECONOMY

There was robust growth of the US economy in the third quarter, with a 4.9% annual rate of expansion from July to September, largely driven by consumer spending on various goods and services. Despite concerns about rising prices, interest rates, and predictions of a recession, Americans maintained a strong spending pace. However, experts expect this rapid growth to slow in the fourth quarter of 2023 and into 2024 due to higher borrowing costs, increased rates, and the potential cooling of spending by businesses and consumers. Several factors that fueled this growth, such as increased inventory and residential construction, are not expected to be sustained. Additionally, the ongoing housing market slump and higher mortgage rates could have negative effects. Consumers are also starting to spend their savings, which might impact future growth. While inflation has eased somewhat, analysts anticipate a reduction in consumer spending during the final quarter. Still, the economy remains resilient overall, and many Americans continue to spend on experiences and goods despite inflation.

Rising interest rates are creating challenges for the US economy and potentially hindering the Federal Reserve's efforts to control inflation without causing a recession. The yield on the 10-year Treasury note has been steadily increasing since mid-summer, impacting various borrowing costs, including mortgages, auto loans, and credit card debt. A combination of factors, including the rise in gas prices, the resumption of student loan payments, an ongoing autoworkers' strike, and the potential for a government shutdown, is putting pressure on consumers, who drive a significant portion of economic growth. While the economy had a robust summer, it's expected to slow down in the final months of 2023 due to higher borrowing costs and elevated inflation, causing consumers to spend more cautiously. The rise in longer-term rates could further contribute to the economic slowdown, potentially influencing the Fed's policy decisions and the economy's future trajectory.

So far in 2023, the state of Seattle's economy and businesses reflects a mixed picture. The seasonally adjusted unemployment rate in Washington was 3.6% in September, lower than the national rate of 3.8%, although some technology companies in the region have experienced layoffs. Remote work has declined since the peak of the pandemic, with around 39% of households in Washington working from home in August. Boeing, a critical player in the Puget Sound region, faced issues due to quality problems at supplier Spirit AeroSystems, which led to delays in deliveries of important aircraft. Trade has been impacted, with lower agricultural exports due to factors like crop yields and competition from Brazil, and the ongoing trade war with China affects the Northwest Seaport Alliance. In the real estate sector, Seattle's ranking in Emerging Trends in Real Estate has dropped to 17th place from its previous top-10 positions, with cost-related challenges limiting its appeal to real estate professionals. Downtown Seattle shows signs of recovery with increased office workers and visitors, but retail closures continue to be a concern for the city.

INFLATION | RETAIL SALES

US wholesale prices have surged, showing a 2.2% increase year-over-year, the highest rate since April, indicating persistent inflationary pressures despite more than a year of rising interest rates. Excluding food and energy, core inflation rose by 2.7% in September from a year earlier, a figure closely monitored by the Federal Reserve. The unexpected increase in wholesale prices, driven by rising costs of goods, raised concerns about ongoing inflation. The Fed has been raising interest rates to curb inflation, but there are growing expectations that it might decide to leave rates unchanged for the rest of the year. The strong economy has raised hopes for a "soft landing" that tames inflation without causing a deep recession.

The Commerce Department's report on a key inflation gauge closely monitored by the Federal Reserve revealed that prices continued to rise in September, with a 0.4% increase from August to September, matching the previous month's rate. Inflation remained unchanged year-over-year at 3.4%. While the data demonstrates the resilience of consumers who continue to spend even in the face of persistent inflation and high interest rates, they relied increasingly on savings as income growth slowed. Income adjusted for inflation even fell slightly. The spending rate is currently considered unsustainable, and growth is expected to slow in the coming months.

Consumer confidence in the United States has declined, with The Conference Board reporting that its consumer confidence index fell from 104.3 in September to 102.6 in October. The index measures how Americans view the current economic conditions and their outlook for the next six months. Concerns are mounting as the index measuring short-term outlook for income, business, and the job market declined to 75.6 in October. Readings below 80 for future expectations often signal an upcoming recession within a year. Consumers are showing increasing skepticism about the future, even though they continued to spend on goods and services through the third quarter of this year. While consumers are spending, economists caution that strong spending may not continue in the coming months, which could impact businesses as the holiday shopping season approaches. Consumer spending accounts for about 70% of the U.S. economy, making consumer sentiment a crucial factor for economic health.

Wages and benefits in the United States increased at a slightly faster pace in the third quarter of 2023 compared to the previous three months, according to the Labor Department's Employment Cost Index (ECI). Compensation grew by 1.1% in the third quarter, up from a 1% rise in the second quarter. However, the year-on-year growth in compensation slowed from 4.5% in the second quarter to 4.3% in the third quarter. Adjusted for inflation, total compensation increased by 0.6% in the third quarter compared to a year earlier. Higher pay is beneficial for workers, but it also poses a risk to the Federal Reserve's efforts to control inflation, as companies may pass on higher labor costs through increased prices or seek to improve workforce efficiency.

HOUSING

Mortgage rates reached a 23-year high in Seattle last month, exacerbating the financial strain for homebuyers in the area's expensive housing market. As a result, buyers and sellers engaged in fewer transactions, causing home prices to largely remain stagnant in September. The median single-family home in King County sold for $900,000, down 1% from the previous month and up 3% from the previous year. In Seattle, the median home price was $926,250, up 3% from the previous year. Economists and brokers attribute the market's slowdown to high interest rates, making it challenging for buyers to afford higher mortgage rates along with home prices that haven't dropped significantly.

INTEREST RATES

Oct 5th: The average long-term US mortgage rate surged in early October to its highest level since December 2000, reaching 7.49%, further straining the affordability for potential homebuyers. High rates add hundreds of dollars a month in costs for borrowers, limiting their ability to purchase homes in an already unaffordable market. The combination of elevated rates and low home inventory has kept home prices near all-time highs.

Oct 12th: The average long-term US mortgage rate continued to rise, reaching 7.57%, the highest level in over two decades and marking the fifth consecutive week of increases. The elevated rates are significantly impacting prospective homebuyers' purchasing power, adding hundreds of dollars a month in costs for borrowers.

Oct 19th: The average long-term US mortgage rate reached its highest level since December 2000, rising to 7.63%, which has significant implications for homebuyers and the real estate market. This increase is the sixth consecutive weekly rise in mortgage rates, making it more challenging for people to afford homes.

Oct 26th: The average rate for a 30-year fixed mortgage reached 7.79%, marking the seventh consecutive weekly rise.

At the end of October, it was reported that the Federal Reserve is expected to leave its key interest rate unchanged, as the U.S. economy remains under pressure from surging interest rates, overseas turmoil, and anxious investors. Despite strong U.S. economic growth in the third quarter and signs of persistent high inflation, Chair Jerome Powell is cautious about the pace of economic cooling and resumption of declining inflation. Turbulent financial markets have raised longer-term US Treasury rates, lowered stock prices, and increased corporate borrowing costs, potentially contributing to an economic slowdown and easing inflation pressures without additional rate hikes. Wall Street traders see a 98% probability of the Fed keeping rates unchanged and only a 24% chance of a rate hike in December, as policymakers strive for a soft landing that tames inflation without causing a deep recession. However, the disruption of traditional economic relationships during the pandemic has left the Fed with less clear guidance for policy decisions.

JOBS

During the week ending October 21, the Labor Department reported a rise of 10,000 in new applications for US unemployment benefits, bringing the total to 210,000. Nevertheless, these figures continue to represent historically low levels. Jobless claim applications are considered a measure of layoffs. The four-week moving average of claims, which smooths out week-to-week fluctuations, rose by 1,250 to 207,500. The overall number of people collecting unemployment benefits increased to 1.79 million for the week ending October 14, up by 63,000 from the previous week. The Federal Reserve has raised its benchmark interest rate 11 times since March 2022 in an effort to control inflation, but the labor market and the economy have held up better than expected, with 336,000 jobs added in September and a surprising 9.6 million job openings in August.

OTHER NEWS

Seattle-area tech companies have returned over 3.8 million square feet of office space to the market in 2023, with many firms reevaluating their space needs amid ongoing remote and hybrid work trends. While some of the 3.8 million square feet is currently available for new tenants, not all of it can be immediately leased due to existing leases that haven't yet expired. Major tech employers like Microsoft, Amazon, T-Mobile, Salesforce, Meta, Oracle, and DocuSign are among those putting sizable chunks of office space up for sublease. While this has resulted in unprecedented office space availability in the region, there is also some optimism with companies like ByteDance expanding in Bellevue's Key Center tower and the Pokemon Co. International looking at significant space in a new Bellevue office tower.

Seattle has maintained its position as the top US city for construction activity in Rider Levett Bucknall's latest fixed crane count, with 45 cranes in operation, signaling the city's continued construction resilience. Seattle's lead is notably ahead of the next two U.S. cities on the list, Los Angeles with 30 cranes and Denver with 24. Seattle regained the top spot in April after trailing either Los Angeles or Washington, D.C., for the previous two years. While Seattle lost six cranes over the six-month period, only Boston added cranes, increasing from nine to 20 units, and the overall crane count across the cities tracked by RLB decreased by 10%. Across North America, 229 cranes were building residential projects, and Toronto led with the largest number of cranes in operation, 240. However, Seattle also experienced the highest year-over-year increase in construction costs, with a jump of 9.19% for July.