FLINN FERGUSON cresa

Seattle Office Space News – December 2023

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

OFFICE LEASES

In one of the larger leases on memory, December 2023 brought news of Slalom Consulting moving their headquarters to Seattle's "Hawk Tower" at 255 King Street in Pioneer Square. While specific square footage details were undisclosed, Slalom plans to occupy multiple floors with an eye toward potential future expansion. This move stems from the expiration of Slalom's current lease at the Exchange Building at 821 2nd Ave and aims to align with their evolving hybrid-work culture, prioritizing connectivity and collaboration for their teams.

Alternatively, it was reported in December that Amazon will not renew its lease of approximately 209,000 square feet at 1800 Ninth Ave in Seattle's central business district. Amazon moved into this building in 2013 and the lease expires in February 2024. The decision involves relocating 1,100 employees to other local offices and follows previous similar shifts, like the non-renewal of their lease in West 8th tower earlier this year. Amazon is also vacating a smaller space – 19,000-square-foot lease in South Lake Union in June. This move contributes to Amazon's relinquishment of at least 800,000 square feet of downtown Seattle office space starting in 2020, reflecting a broader trend of tech companies shedding office space. Meanwhile, Amazon has been expanding in downtown Bellevue, relocating thousands of employees there in recent years. The trend of tech companies departing from significant office spaces continues in both downtown Seattle and Bellevue, with major players like Microsoft, Meta, T-Mobile, Salesforce, Oracle, and DocuSign also downsizing or subleasing office spaces across various locations in the region.

OFFICE BUILDING SALES

While there were no building sales reported in December, what we may see more of is the tactic of owners "handing back the keys" to lenders. While office landlords are grappling with the impact of remote work and interest rate increases, many will find defaulting on their loan is the best logical option. Major real estate players like Brookfield and Blackstone have defaulted on mortgages, reflecting the depth of office market issues. The pandemic demonstrated remote work viability, causing reluctance among office employees to return, and prompting companies to downsize office space, rendering many towers unprofitable. About 23% of US office space was vacant by November's end, up from 16% pre-pandemic. "Handing back the keys" limits a landlord's losses on a devalued building, allowing lenders to take over the distressed property. While reminiscent of the 2008 "jingle mail" phenomenon, where homeowners abandoned homes, this differs as property firms can continue operations post-default and are seen as savvy for shedding troubled assets, unlike homeowners who faced severe credit repercussions.

RETURNING TO THE OFFICE

John Schoettler, the VP of Amazon's global real estate and facilities, navigates the post-pandemic era, tasked with optimizing the colossal 15 million square feet of Puget Sound office space for the returning corporate workforce. Despite Amazon's insistence on a three-day office mandate since May 1, hybrid work remains integral. Schoettler's team experiments with "team suites" in Bellevue's 555 Tower, embracing hybridity with a test environment featuring couches and monitor-facing desks. They strategically plan for a hybrid workforce by repurposing space, leaving the tower's top half empty while focusing on structural completion. Schoettler's team faces decisions on older offices while negotiating lease renewals as part of Amazon's evolving real estate strategy. Amidst employee pushback, the company's return to offices has rejuvenated foot traffic in South Lake Union, highlighting its economic impact, yet hybrid work remains a priority for Amazon's future workspaces.

DOWNTOWN RECOVERY

The area around Fourth and Union in Seattle epitomizes the city's contrasting narratives. Street-level storefronts are deserted, and even the Rainier Square complex displays empty retail spaces, soon to include the closure of the PCC Community Market after only two years downtown. However, above ground, the residential scene tells a different tale. Luxurious penthouses in the tallest West Coast residential tower fetch up to $19,999 per month, showcasing a thriving residential market amidst a narrative of downtown's decline. Seattle defies gravity in its construction boom, with a staggering number of cranes and a surfeit of residential units being built, even surpassing larger cities like Los Angeles in construction activity. The paradox emerges as street-level struggles contrast with the residential boom seen high above, raising concerns about the disconnect between the city's elevated growth and the struggles at ground level. Seattle grapples with a discrepancy—its residential prosperity unfolds in the sky, while the streets below face economic and social challenges, emphasizing the need to bridge this divide for a cohesive urban future.

ECONOMY

In 2023, despite strong stock gains and volatile crypto markets, the highlight was the moderation of inflation globally, notably in the U.S. and the European Union. The US economy defied earlier concerns of a recession, maintaining strength, albeit with worries of excessive strength that could fuel inflation. Investors looked ahead to potential interest rate cuts in 2024, sparking market enthusiasm. While US stocks rebounded, a handful of big names propelled much of the S&P 500's return. Conversely, higher interest rates affected the US housing market, witnessing a significant decline in home sales. From inflation rates to unemployment streaks, global trade growth to housing market fluctuations, 2023 showcased various economic trends, reflecting shifts in markets and monetary policies.

INFLATION | RETAIL SALES

Economists foresee a continued decrease in US inflation rates, predicting that the economy can steer clear of a recession. This outlook is based on factors like reduced consumer demand and slowing price increases, offering hope for a more stable economic landscape. However, uncertainties persist, particularly regarding potential shifts in government policy and global events that could impact this forecast.

The latest projections suggest another dip in US inflation rates, marking a trend of cooling prices, while the Federal Reserve prepares to evaluate interest rates. This anticipated decline in inflation is attributed to moderating energy and used vehicle prices, shaping the backdrop for the Fed's decision-making on monetary policies. The upcoming assessment holds significance in determining how the Fed will navigate economic adjustments amid these changing inflation dynamics. Core prices — which exclude volatile food and energy costs give us a better picture of inflation — rose 0.3% from October to November. Compared to a year ago, core prices were up 4%.

November witnessed a 0.3% rise in retail sales, underscoring ongoing consumer spending trends in the US. This increase reflects Americans' sustained willingness to spend, indicating a robust economic environment despite concerns about inflation and supply chain challenges. The data portrays consumer resilience and their contributions to economic momentum, offering insights into the nation's spending patterns amidst various financial considerations.

HOUSING

In Seattle's four-county metro area, November saw a staggering 24% annual drop in single-family home sales, indicating continued constraints in the housing market. Median sales prices in Pierce, Snohomish, King, and Kitsap counties showcased varied appreciation, ranging from 2.8% to nearly 9%. Despite earlier predictions of price drops in 2023, the lack of inventory upheld values. Windermere's Chief Economist, Matthew Gardner, forecasts minimal price growth of around 1% in 2024, attributing the steady prices to constrained inventory and low mortgage rates deterring homeowners from selling, contributing to an 8.5% annual decrease in new listings. While a slight decrease in interest rates to 7.2% by December improves the market outlook, the trend of declining inventory levels continues, bolstering prices by 4.6% year-over-year. Gardner anticipates a slight mortgage rate reduction to approximately 6% by next year's end due to signs of inflation and economic slowdown. However, his predictions for 2024 include increased market share for new construction, exacerbation of housing affordability issues, modest sales activity growth, and ongoing seller advantage due to high demand outstripping supply.

INTEREST RATES

Average long-term US mortgage rates continued to fall in December. At the beginning of the month the average rate on a 30-year mortgage rate dropped to 7.03% from 7.22%. Throughout the month rates trended downward. In the middle of December rates for the 30-year fixed rate fell 6.95% and round of the month rates hit 6.67% - the lowest level since June. Borrowing costs on 15-year fixed-rate mortgages, popular with homeowners refinancing their home loan, also declined falling to 5.95% from 6.38% the third week of December. To end the month, rates fell for the ninth straight week hitting 6.61% -- its lowest level since last May. The decline tracks the trajectory of the 10-year Treasury yield.

The Federal Reserve held interest rates and signaled that its aggressive hiking campaign shall cool down next year. Policymakers penciled in no further interest-rate hikes in their projections for the first time since March 2021, based on the median estimate. However, Chair Jerome Powell said they are prepared to increase rates if pressure returns.

JOBS

The job market indicates a reversal in the tide of worker-employer dynamics and the labor market's trajectory. While the data still reflects job gains surpassing losses, recent Bureau of Labor Statistics figures reveal rising unemployment rates in various metro areas, including Seattle-Tacoma-Bellevue, albeit with other parts of Washington experiencing more favorable trends.

The nation's overall employment growth slowed compared to the robust recovery years of 2021 and 2022, raising concerns among economists about a potential economic slowdown. Despite a slight increase in Seattle's unemployment rate, the metro area witnessed significant job gains, ranking 10th nationally. Economists emphasize that a slowing economy doesn't inherently signify weakness but rather a move toward normalization, urging a balanced perspective.

Across the country, fluctuations in unemployment rates and job growth varied widely among different metros, with cities like Honolulu seeing significant declines while some California metros faced steep increases. Sunbelt and mountain towns showcased robust job growth, while certain large metros witnessed declining or stagnant employment figures. Concerns about workforce shortages persist, with Federal Reserve Chairman Jerome Powell highlighting a substantial labor force deficit, largely attributed to lower population growth and reduced labor force participation. To adapt, businesses are exploring innovative recruitment strategies, including removing college-degree requirements from job listings and embracing second-chance hiring to tap into alternative talent pools.

At the end of December more Americans applied for unemployment benefits, but not enough to raise major concerns about the economy. To end the month jobless claims rose to 218,000. The four-week average of claims smooths out to 212,000. Weekly unemployment claims remain at extremely low levels in the face of high interest rates. Overall, the combination of decelerating inflation and low unemployment has raised hopes that the Fed is managing a so-called soft landing: raising rates just enough to bring down prices without causing a recession.

OTHER NEWS

Seattle recently passed a law aiming to eliminate greenhouse gas emissions from large buildings by 2050, starting with a gradual reduction of emissions from 2023. This legislation requires buildings over 50,000 square feet to report their energy performance annually and implement efficiency measures. By targeting emissions from these structures, Seattle aims to make significant strides toward its climate goals and reduce environmental impact.