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Seattle Office Space News – November 2023

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

OFFICE DEVELOPMENTS

The Chapter Buildings, a 400,000-square-foot office and life-science development in Seattle's University District, have reached their full height. Set to open next spring, these towers bring "never-before-available" life science workspaces adjacent to the University of Washington. The development emphasizes connectivity, featuring pedestrian walkways, public spaces, and retail areas. Despite the impressive offerings, no leases have been signed for the buildings. These towers mark a significant shift from previous surface parking lots, catalyzed by zoning changes and the proximity to a new light rail station. However, their debut coincides with Seattle's subdued return to office spaces, economic uncertainties, and downsizing trends. The project's financial backing, amenities like fitness centers and rooftop decks, and the potential for creating collaborative spaces for intellect underscore its promise, but it faces challenges within a subdued market.

Trammell Crow is positioned to acquire the site at 901 Lenora St once they acquire a master use permit, which is expected soon with a final design review set for November 21. The planned 11-story office building, designed by Perkins & Will, will encompass approximately 220,000 square feet, and aims to cater to innovative users, potentially accommodating life science endeavors similar to Trammell Crow's neighboring Boren Labs. Howard S. Wright will oversee construction, targeting LEED Gold certification by incorporating features such as landscaped terraces, a glass-enclosed stairway, and a wraparound landscaped roof deck totaling 5,780 square feet.

OFFICE LEASES

November 2023 brought news of the biggest office lease in Seattle in quite a while. Perkins Coie LLP, Seattle's largest law firm, announced its move from the 1201 Third tower to the Russell Investments Center at 1301 Second Ave. This move shrinks its footprint by almost 50% to approximately 150,000 square feet. The firm's decision aligns with a trend seen in downtown Seattle law firms, many downsizing or relocating nearby.

Skanska's Seattle office is set to relocate to the 400 Fairview tower next spring, occupying the 10th floor with a space totaling 26,000 square feet. The move marks a shift from their current location at Alley 24, where Skanska held 26,000 square feet since 2006. The transition comes amid rising office availability rates in the region, prompting landlords to offer increased concessions to attract tenants. The new space promises unobstructed views of the Space Needle, showcasing the company's commitment to a dynamic work environment for its approximately 260 employees, who will rotate between office, field, and remote work settings.

OFFICE BUILDING SALES

There were no office building sales reported in November 2023.

RETURNING TO THE OFFICE

Seattle's office space demand ranks the lowest among major cities in the VTS Office Demand Index (VODI) report by commercial real estate platform VTS. The report outlines a sharp 43% quarterly and 52% yearly decline in Seattle's office space demand, notably led by a three-month absence of demand for larger office spaces exceeding 50,000 square feet. Although mid-sized office space demand (10,000-50,000 square feet) showed an increase, preventing a total demand collapse, the overall trend reflects a significant decrease compared to pre-pandemic levels. Ryan Masiello, VTS's Chief Strategy Officer, highlighted the challenge in Seattle's tech-centric market, attributing the sustained low demand to the region's tech workforce favoring remote work. The report contrasts this with other cities showing signs of stability in office space demand, like Los Angeles, despite challenges such as a cooling job market and remote work trends. The prospect of major employers like Microsoft and Amazon driving a return-to-office initiative could potentially reverse Seattle's downward trend, but as of now, the region faces a persistent decline in office space demand.

DOWNTOWN RECOVERY

Despite a surge in visitors and increased sales during this summer, downtown Seattle's retail landscape continues to lag behind its pre-pandemic state. The retail occupancy, which once stood nearly at 100% from 2019 to 2020, experienced a 10% decline as the pandemic struck and has remained stagnant at 90% since September, marking over a year without change. The issuance of new retail business licenses also plummeted by more than half over three years, with a significant drop from over 540 licenses in summer 2019 to just 270 in the recent summer. This decline in retail activity and occupancy has been attributed to several factors, including the surge in online shopping during the pandemic and a shift away from traditional brick-and-mortar retail. Despite the return of visitors, downtown foot traffic remains notably lower than pre-pandemic levels, with worker foot traffic down by 40%. Rico Quirindongo, director of the Office of Planning and Community Development, highlighted the decline in downtown's status as a shopping destination and the negative impact of deferred maintenance and outdated infrastructure on the pedestrian experience, emphasizing the need for revitalization strategies and new investments in the built environment to stimulate growth.

The closure of notable Downtown storefronts like Niketown and PCC Community Markets' downtown store combined with a stalled return-to-office trend, highlight potential challenges facing Seattle's recovery. However, new entrepreneurs like Jason Lemons are part of a wave fueling hope for revitalization. Despite the lingering effects of the pandemic in Pioneer Square, Lemons took a risk, opening The Lemon Grove (a vintage clothing and household accessories store), benefiting from low rents in a historically significant neighborhood. His move aligns with other businesses banking on Seattle's resurgence, from local entities like Lemons' store to larger brands like Uniqlo and Arcteryx.

ECONOMY

The Paris based Organization for Economic Cooperation and Development (OECD) predicts a global economic slowdown in 2024, projecting a growth rate of 2.7%, the slowest since 2020. Factors contributing to this forecast include wars, persistent inflation, and high interest rates. Despite the anticipation of slower growth, the OECD believes most countries will avoid recessions. The US and China are expected to decelerate in 2024 due to various factors such as Fed interest rate hikes and China's economic challenges. Europe's growth is also predicted to remain weak due to increased energy prices and interest rates. Geopolitical tensions, like the Israel-Hamas conflict, pose new risks that could disrupt energy markets and trade routes, impacting global economic stability.

The US economy saw a robust surge, clocking a 5.2% annual growth rate from July to September, an upward revision from the initial estimate of 4.9%. Consumer spending and private investment contributed significantly to this growth, despite higher borrowing rates. However, economists predict a substantial slowdown in the current fourth quarter due to the cumulative impact of increased borrowing costs on spending. The Federal Reserve raised its benchmark interest rate 11 times since March 2022. Despite this, forecasts suggest a considerable deceleration in economic growth for 2024, as the Fed's continued interest rate increases are expected to restrain expansion to just 1.5%.

Amid a thriving economy, bank profits experienced a 3.4% decline in the third quarter, totaling $68.4 billion, as reported by the Federal Deposit Insurance Corp. Despite the industry's overall financial strength and historically high profit levels, concerns over inflation, rising interest rates, geopolitical tensions, and a volatile office real estate market persist. The number of vulnerable banks on the agency's watch list rose slightly to 44. Although the banking sector displayed resilience, FDIC Chairman Martin Gruenberg highlighted significant downside risks that could impact credit quality, profits, and liquidity. Commercial real estate loans, particularly non-owner-occupied properties, raised worries, with overdue loans for such buildings increasing by 36%, marking the highest level since 2014. Additionally, unrealized losses on securities surged to $76.5 billion from $12.8 billion in the prior quarter, posing potential concerns, primarily reflecting bonds bought when interest rates were lower. Despite these challenges, the FDIC's deposit insurance fund grew to $119.3 billion in the third quarter, bolstered by increased assessments paid by banks.

INFLATION | RETAIL SALES

In October, US wholesale prices took a significant dip, marking the first decline since May and the most substantial drop since April 2020. The Labor Department reported a 0.5% decrease in the producer price index from September, with a 1.3% rise in prices year-over-year from October 2022. When excluding volatile food and energy costs, core consumer prices remained steady from September to October and increased by 2.4% compared to a year ago. Goods' wholesale prices fell by 1.4%, primarily driven by a substantial 15.3% decrease in gasoline prices, while service prices remained unchanged. Consumer prices reported by the Labor Department remained steady in October but were up 3.2% from a year earlier, still surpassing the Fed's 2% target. This decrease in wholesale prices, coupled with a stable economy and moderating inflation, has fueled speculation that the Fed might not pursue further rate hikes, aiming for a controlled economic slowdown without triggering a recession. Matthew Martin of Oxford Economics highlighted that the recent decline in producer prices strengthens the argument for the Fed to refrain from additional rate increases, aligning with the previous day's CPI report.

HOUSING

Seattle's housing market is experiencing a slowdown, as seen through the 15% decrease in pending single-family home sales in King County compared to a year ago. This slump, surpassing the usual fall downturn, demonstrates reluctance among both buyers and sellers. Transactions dropped by 44% in October compared to 2019, indicating a shift from the frenzied market sparked by the pandemic and low interest rates. The market's deceleration has led to relatively stagnant home prices for months, with median prices in King County down by 2% to almost $883,000, while Snohomish County remained stable at about $730,000 and Pierce County at $530,000. However, some areas, like Kitsap County and North King County, saw increases in median home prices due to limited inventory. The future of the market remains uncertain as the winter usually slows activity, with attention turning to interest rates to gauge potential market resurgence in the spring, although experts like Windermere economist Matthew Gardner project rates unlikely to return to pandemic lows anytime soon.

INTEREST RATES

In November, the average rate for a 30-year home loan continued to fall. At the beginning of the month rates slipped to 7.76% after climbing for seven-weeks straight, offering some relief to potential homebuyers in the face of an increasingly expensive housing market. At the end of month the average rate on a 30-year mortgage declined to 7.22%.

JOBS

The US job market displayed a moderate hiring pace in October, with 150,000 jobs added, indicating a robust yet slightly cooling labor market despite ongoing high interest rates. The employment report suggests continued employer demand, reflected in solid job growth, except for auto industry strikes impacting job numbers. This data aligns with the Federal Reserve's assessment, considering whether to maintain or raise interest rates to combat inflation. The slight job increase alongside slower wage growth may influence the Fed's decision, fueling optimism in financial markets regarding potential Fed action. Despite a rise in the unemployment rate and revisions in past job data, several sectors, such as healthcare and government, observed steady job gains, while hospitality and professional services saw limited growth. The moderation in wage pressures is evident, indicating a hopeful trend in controlling inflation, which has been a focus for the Federal Reserve. Additionally, while the jobless rate slightly increased, it remains historically favorable. However, a dip in the labor force and upward trends in unemployment rates are signaling potential concerns. Despite these dynamics, the US economy continues to grow, defying expectations of a recession. Several companies, including Saltbox and Omaha Steaks, noted that wage pressures have eased, demonstrating a stabilization in labor market conditions and a return to more typical job environments, with improvements in holiday worker retention.

In September, employers listed 9.6 million job openings, a slight increase from August. This indicates a robust US job market despite efforts by the Federal Reserve to stabilize the economy. Layoffs declined to 1.5 million, showcasing strong job security, while the number of people quitting remained relatively stable. Although down from a record high in March 2022, September's job openings remain historically elevated. Sectors like hotels and restaurants, grappling with workforce shortages since the pandemic, experienced a rise in available positions. The Fed aims to temper hiring strength to prevent wage hikes and subsequent price increases that contribute to inflation. With ongoing interest rate adjustments, hopes are high for a 'soft landing'—curbing inflation without causing a recession. The Fed is likely to maintain its benchmark rate as it monitors the impact of prior rate hikes. The upcoming October jobs report from the Labor Department is expected to reveal an estimated 189,000 new jobs with an unemployment rate of 3.8%.

In November, the latest data from the Labor Department showed a slight increase in jobless claims at the beginning of November although these figures remain low compared to historical norms, despite the Federal Reserve's efforts to rein in inflation through aggressive interest rate hikes. The Labor Department reported a rise in jobless claims by 13,000 to 231,000 for the week ending Nov. 11, the highest in three months, signaling potential cooling in the labor market despite its overall health.

However, the Labor Department reported at the end of the month that jobless claims dropped by 24,000 to 209,000. The previous week's total — 233,000 — had been the highest since August. This drop, following a spike in the previous week, indicates stability. The four-week moving average also decreased to 220,000, reflecting a smoothing out of weekly fluctuations.

OTHER NEWS

Matt Griffin, with over 50 years of property development experience in Seattle, recently shared insights and reflections during the 10th Annual Runstad Leadership Dinner. His keynote speech focused on lessons learned from projects like the Seattle Convention Center Summit addition and emphasized the need for a realistic approach among developers and landlords. Griffin highlighted the dangers of denial in real estate ventures, noting that inability to pivot in challenging market situations often leads to project failures. He underscored the importance of the "bygones-are-bygones" principle, advising developers to consider future benefits and costs rather than holding onto prior investments. Reflecting on his career, Griffin recalled pivotal moments such as the 1980s office tower development, stressing the significance of adjusting strategies when market conditions change. Despite discussing the pitfalls of denial, Griffin remains optimistic about Seattle's future development, citing the city's resilience through past economic downturns and its potential for growth given intellectual capital and recent developments like Climate Pledge Arena and waterfront redevelopment. His advice for developers navigating the post-pandemic crisis involves letting go of denial, making realistic choices, and embracing the concept of marking to market for downtown retail revitalization.

WeWork Inc. has filed for Chapter 11 bankruptcy protection in New Jersey bankruptcy court with plans to restructure its debt through a support agreement with creditors. The move, which follows concerns about the company's ability to operate, could significantly impact the US office markets, considering WeWork had nearly 18 million square feet of office space in August. The bankruptcy filing includes a request to reject certain leases deemed "largely non-operational," affecting various locations. The company has faced challenges, including closures and lease restructuring of around 600 offices since the start of the pandemic due to cash needs, member churn, and liquidity issues. WeWork's demise reflects broader struggles in the office market, influencing sentiment and potentially making financing harder for landlords. The fallout from the bankruptcy may not be uniform across all spaces and buildings, with some areas facing more significant challenges while others could present investment opportunities at discounted prices.

The Seattle City Council is on the brink of implementing new regulations mandating approximately 4,100 existing buildings over 20,000 square feet to achieve zero greenhouse gas emissions by 2050. Covering a wide spectrum of structures from skyscrapers to multifamily residences, these rules aim to curb Seattle's building sector, responsible for 37% of the city's carbon emissions, primarily originating from oil and natural gas sources. Testimonies and endorsements from various stakeholders, including Mayor Bruce Harrell, support this measure aimed at combatting climate change impacts. The legislation would necessitate property owners to evaluate energy use, document emissions, and implement strategies for emissions reduction over time. Penalties for non-compliance include fines, but the standards offer flexibility, extensions, and customized plans for varied scenarios. Despite widespread support and the extensive outreach and drafting process over a year, the final vote on the legislation is slated for December 12, preceded by a committee vote on December 7.