

Seattle Office Space News – February 2024

Below are comments and links to news articles and other topics relevant to the Seattle office space market from the month of February 2024.

OFFICE DEVELOPMENT

Last fall, developer [Ben Maritz](#) created a proposal to convert Smith Tower into residences. Maritz had hoped to create affordable housing residencies with the top floors converted into market rate condos. Ultimately the conversion didn't make sense for the price the owner, and Broad Street Principal Investments, wants. In February 2024 it was reported that Broad Street has listed the property for sale with Eastdil Capital.

On track for a spring opening, [Hudson Pacific](#) has received their temporary certificate of occupancy for the Washington 1000 office tower next to the convention center in the central business district. The 16 story, 546,000 square foot site, located at 1000 Olive Way and built by Lease Crutcher Lewis has not announced any tenants, but began touring in September. The project also includes a planned apartment tower East of Washington 1000, however no buyer or builder has emerged.

Awaiting construction permits, Fred Hutch Cancer center has begun their early [design](#) with Perkins & Will of what will be known as the Molly Sloan Oncology Institute building, a 500,000 square foot, eight-story laboratory expected to be located at 1340 Aloha St. in South Lake Union. The final building program has not been set in stone, but with \$78 Million donated by the Sloans and \$710 Million in donations from Mike and Jackie Bezos we can expect to see many scientific breakthroughs take place in this building in the years to come.

OFFICE LEASES

800 5th Ave, in Seattle's central business district, has welcomed a new educational institution as the newest lessee. [Tufts](#) School of Medicine is bringing their Doctorate of Physical Therapy Program to the city, planning to occupy 23,000 square feet in the building. The inaugural class will begin the Fall of 2024, bringing students from all over the country into the Seattle area.

OFFICE BUILDING SALES

1000-1100 Dexter Avenue Inc, formerly owned by [Stockbridge](#) Capital Group, sold the 1000-1100 Dexter Ave N office complex in South Lake Union for \$47.5 million or roughly \$223/sf. The price is 51% less than the buildings' assessed value, and the buyer is 1000-1100 Dexter PG LLC, associated with Palisade Group. The five-story north and south office buildings total about 213,000 square feet, with tenants such as [BlackSky](#) Technology, CBS Radio, Teleion, and Pacific Northwest National Laboratory. Currently only 7,003 square feet of office space is listed as available.

The decline in office sale activity in [Puget](#) Sound leads some to believe that the commercial real estate market may never be the same. In 2023, overall 100 inked sale transactions totaled \$2.79 billion in comparison to \$7.48 billion in 2022. On this year's lists, multifamily real estate represents more than half of the 100 commercial real estate deals across four counties. Office vacancy rates in Puget Sound were at 14% by the end of 2023. Even as buildings sell, they are being bought for millions less than their original acquisition price. As interest rates lower, those in the industry hope to see an increase in sale volume.

DOWNTOWN RECOVERY

This year, Seattle has ranked 24 out of 200 in the "2024 Best-Performing Cities Index". Based on 13 factors including job growth, wage growth, and [high-tech](#) impact, Seattle jumped 10 spots. However, some still believe Seattle is struggling to find its way in post-pandemic America. One main cause for this belief is remote work and safety concerns. Mayor Bruce Harrell has instated a Downtown Activation Plan addressing public safety, homeless and outdoor drug use among other peripheral factors-with remote work being the main one- contributing to a less busy downtown.

In addition to [Mayor](#) Bruce Harrell's focus on public safety and the economy through the Downtown Activation Plan, Harell delivered a plan to implement more environmentally friendly initiatives in Seattle to target carbon reduction as well. The project includes incentivizing the use of electric freight trucks and rules phasing out the use of gas-powered leaf blowers and includes steps to transition Seattle homes to energy efficient appliance, with no-cost conversions offered by the city.

Growing in Bellevue and shrinking in Seattle, [Amazon](#) has let go of at least 800,000 square feet of office space in Seattle, laying off 1,852 Seattle-based employees in January 2023. Amazon left West 8th Tower last year and plans to leave 1800 Ninth. The Bellevue workforce on the other hand expanded by 11,000 last year with its move into the West Main campus targeting the goal of 25,000 employees.

ECONOMY

Struck with the fear of [recession](#), a quarter of economic experts predicted the United States would experience an economic downturn. Fortunately for us, this has not been the case. The Federal Reserve raised their benchmark rate 11 times between March 2022 and July 2023, but more recently have stopped raising rates, and in the next few months are expected to reduce them. With inflation falling to 3.4% in December, experts are now optimistic about the future economy. Conversely, business forecasters predict the conflict in the Middle East may greatly influence our economy given possible implications regarding the supply and demand of oil. In addition, the presidential election and government spending are among the other concerns held.

During the last week of February, economic experts had a much more [positive](#) outlook on the U.S. economy. Adjusted to inflation, the economy is set to grow 2.2% this year, in comparison to predictions of 1.3% last November. GDP slipped from 4.9% last September to 3.3% in the last quarter, but U.S. growth has now topped 2% for [six](#) quarters. High interest rates were expected to

drag the economy down, with an eventual slide into a recession. However, the U.S. job market and household spending have contributed to a resilient economy. Inflation is still high, but slowly cooling. As of now, the Feds are set to cut interest rates mid-June.

INFLATION | CONSUMER SPENDING

The holidays were a hit for many retail sales companies, but in January sales fell to 0.8%. With this fall in sales, however, comes good news for the [economy](#). If sale growth declines, a continued “economic resilience” reigniting inflation, is one less component to worry about.

New apartments are being built, more jobs offered, minimum wage is high, but so is inflation. The Feds stay optimistic that the time will come that we see their goal of a [2% inflation](#) rate, so the question is not if, but when. [Economists](#) predict that the cause of the continued high inflation rates at this time of year is partially due to the normalcy of price raises in January. At a current benchmark rate of 5.4% Feds need to be strategic with how, and when they lower rates, because lower rates, mean more spending, but with more demand, more supply is required and if businesses cannot keep up with the new pace of spending, we end up right back where we started.

Construction materials prices surged by 1.0% in January, ending a streak of three consecutive monthly declines. Although overall [construction](#) prices are 0.4% higher than a year ago with nonresidential prices 0.7% higher, contractors still expect to see their profit margins expand over the next 6 months. Big price drops could be found in natural gas and unprocessed energy. Other commodities necessary to produce all construction foundations have seen large price jumps ranging from 4.4%-8.1%. The busiest construction projects to date are those having to do with aviation, K-12 Schools, and transport/infrastructure.

A confidence index measuring [Americans' assessment](#) of current economic conditions and their outlook for the next sixth months, shows that many Americans fear a recession is near. This data is important because consumer spending is a large part of what drives the economy. Consumers afraid of a recession, may spend less, to save more, ironically causing a recession. The upcoming election also has a lot of influence on consumer views of the economy, and many report feeling very nervous. Despite this, the economy grew 3.3% from October to December 2023 and as of January, the unemployment rate stays below 4%.

HOUSING

Nine is the median number of days a typical sold home in the Puget Sound region was on the market before going [pending](#), in comparison to Hartford, Connecticut where the median days to pending is seven. Seattle ties with Boston and Washington DC for having the second-fastest market. 29% of homes sold over listing price in December.

The median sales price of single-family houses in the Puget Sound region [increased](#) in January because of limited inventory and continued high interest rates. Pierce and Snohomish County reported a 4% increase whereas King County saw an 8.8% increase. Apart from this increase the market has not changed much in the past few months. [Mortgage](#) rates remaining around 7% and the number of closed sales in the region only differed by 17 in comparison with last years number of 1,934. Real estate agents are hoping to see more sales take place in the year to come. As of February 22nd, existing home sales have [risen](#) 3.1%, slightly better than the sales pace economists were predicting.

U.S. home prices are up [45%](#) from March 2020, and the limited supply on homes continued to enforce the price increase. CoreLogic forecasts that home prices will rise 3% this year, but many economists predict lowering mortgage rates.

INTEREST RATES

The [average](#) rate on a 30-year mortgage two years ago was 3.92% and now climbs to nearly 7%, jumping each week this month to the highest level in 10 weeks. However, those looking to refinance their home will find that 15-year fixed rate mortgages decreased this last week of February. Nonetheless, elevated mortgage rates for new home buyers and limited availability of homes have kept the U.S. housing market in a slump. Stronger-than-expected reports on inflation, the job market and the overall economy have stoked worries that the Federal Reserve will have to wait longer before cutting [interest rates](#).

JOBS

353,000 new jobs were added to the market the beginning of January and [unemployment](#) rates have stayed below 4% for 24 straight months. Applications for unemployment benefits fell by 8,000 in the second week of February. Possibly due to the layoffs in companies such as Google, eBay, TikTok and many more, in January, and then a drop off in the following weeks, the job market, nonetheless, has stayed surprisingly resilient. Though [inflation](#) has eased considerably in the past year, consumer prices remain well above the Fed's 2% target.

Employment in the Seattle [construction](#) industry declined by 2,500 jobs in 2023. As one of the hardest hit metros in the country, large employers who depended on the industry for expansion plans were forced to halt these plans, possibly for the best, as office vacancy rates rose. In addition, construction costs have risen.

OTHER NEWS

As companies move out of office spaces or downsize, many are asking if there is a large market for used or surplus [furniture](#). Some pieces of furniture may get taken to the landfill, or recycled, when possible, but the ones that do not end up in the Goodwill version of a furniture store. Entrepreneurs are making a business out of the moving and discarding necessities of businesses moving out of or relocating office spaces, with companies like target auctioning off supplies and furniture as well. With such a surplus in the market there is more furniture than can be sold, with certain styles more in demand than others.

5 years ago, Unico Properties bought [Colman Building](#) at 811 First Ave for \$37 million. The group had initially planned to convert the property into an apartment complex however the group is no longer willing to contribute additional capital into the property. According to a service report, the loan matures March 1, 2025. Newmark Management Company currently manages the property,

court appointed and is marketing to lease more than 56,300 square feet in office space. Occupancy in the 139,000 square foot building is at 71%.

Washington lawmakers are mulling new financial breaks for developers who [convert](#) commercial buildings into apartments or condos. This effort is in response to the plethora of empty office buildings and need for new homes. The incentives would give developers a property tax exemption on the value of the building for 30 years if at least one-fifth of the new homes were affordable. Although there are many socioeconomic benefits to this initiative, skeptics argue that a tax break is not the right incentive for the project. About 14% of office space is empty or available for sublease across the Puget Sound region, the highest share since 2010. Demand for office space in Seattle is among the weakest of the country's major cities.