FLINN FERGUSON cresa

Seattle Office Space News – March 2024

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

OFFICE DEVELOPMENTS

There were no news articles related to office development in Seattle in March 2024.

OFFICE LEASES

One of the biggest office leases in recent memory was reported in June. PATH, a non-profit health-equity organization, plans to occupy all of 437 N 34th Street in Fremont known as "West Dock." The property was purchased by Hess Callahan and Grey in 2014. It had been home to Tableau for years before the pandemic and Tableau's sale to Salesforce. Approximately 200 employees PATH employees will move to this new location from their previous space at 2201 Westlake in South Lake Union.

Previously located in the Fourth and Union building, MLA Engineering, a structural consulting, and design firm recently leased a new office at 1109 First Ave Watermark Tower. Although square footage has not been disclosed, MLA says their office space in the 22-story building is much bigger and a great base for their hybrid office model. MLA shared their new location overlooking the Puget Sound and Elliott Bay is fitting since they oversee the construction of aquatic concrete structures and wanted to remain connected to the downtown core.

OFFICE BUILDING SALES

There were no reports of office building sales in Seattle in March.

RETURNING TO THE OFFICE

Seattle's office market has been more affected by pandemic-era hybrid working trends than the fallout from the dot-com bubble in the early 2000s. Office space occupancy in the area has dropped by almost 9.2 million square feet since the beginning of the pandemic. The eastside, mainly Bellevue, has experienced many shifts as Microsoft moved from Bellevue offices into Redmond. However, Bellevue is performing well in the current office downturn as compared to Seattle. Amazon has provided some relief as they move nearly 12,000 employees into the city and other tenants including Pokémon Co. International, ByteDance's TikTok have leased both new space and blocks left behind by companies like Microsoft and SAP Concur. Only time will tell, but as company leases begin to expire, vacancy rates will likely continue to increase.

Amazon's current office vacancy rate within the buildings they own and lease is 33.8%, so the company is looking to reduce their footprint over the next few years. Amazon has identified savings of around $1.3 billion in the upcoming years by terminating some leases and letting other leases expire. Its 256,000-square-foot lease in Blanchard Plaza at 2201 Sixth Ave. in Seattle is expiring next year. Meanwhile, in Bellevue, work at the 25-story Artise tower and Bellevue 600 towers are nearing completion. To reduce costs, Amazon is also reportedly considering "hibernating" some office floors, by limiting heat and electricity use, to reduce HVAC and lighting expenses. Amazon has some heavy decisions to make as they consider what their future in the office looks like. To read more about the Amazon office moves in the past few years click here.

Statsig, a small tech start-up, joins the trend of companies returning to a 5 day in office, work week. The company boosts morale by encouraging celebrations of success, catered lunches, and dinners as well as more interactive collaborations. There are pros and cons to both remote and in person work environments, but it can be argued that the deep in person connections made when in the office are irreplicable in any other form of work environment.

Seattle City Council President Sara Nelson speaks on the importance of working in person and hopes to lead by example as the council members of city hall return to a 5 day in office work week. In January, there were more than 80,000 daily workers on average in downtown Seattle — a 13% increase from the same period last year, according to DSA. But that's just 51% of pre-pandemic levels. DSA President Jon Scholes, however, argues that in order for people to want to return to in person work environments Seattle needs to focus more on public safety.

DOWNTOWN RECOVERY

The Downtown Seattle Association held its annual State of Downtown Event atop Summit, the new north expansion of our Seattle Convention Center. The theme of the night was centered around what is being called "the experience district", the DSA's rename for Seattle's central business district. Leaders of the DSA discussed the importance of public safety in Seattle, especially in relation to the current fentanyl crises. The report highlighted a record number of residents live in the central core and in 2023, downtown weekday worker foot traffic averaged around 80,000 per day — a 33% increase from 2022. However, the call to action was to create an atmosphere that not only excites tourists when visiting, but locals as well and get more eyes on the streets. An interesting fact shared surrounded certain business sectors that matter when it comes to populating downtown. Seattle lacks high concentrations of finance, insurance, and real estate employees. Cities with these sectors have a higher degree of work from the office. Thus, New York, Miami, Dallas, and Los Angeles have more workers in the office than the national average.

Major investments are taking place downtown, most of which were commitments to mixed-use projects and apartments. Hopefully, with more downtown housing comes more foot traffic. Offices are currently at an 18% vacancy rate, according to CoStar, and this will only worsen if people do not come back to the office. Only about 80,000 people are coming in person 5 days a week, and while that number is upward trending by 33%, it is only half of the pre-pandemic data.

Seattle's foot traffic data released the week of March 17 reveals that downtown Seattle has averaged more than 85,000 weekday workers, however that number is only 57% of pre-pandemic numbers.

Aleksandr Butowicz, the founder of Iron and Oak Protective Services discusses security challenges in downtown Seattle. Iron and Oak employs 125 unarmed officers trained in OHDT or open-handed defense tactics. Iron Oak is one of many private security firms seen in Seattle streets stationed in front of private properties. Police department statistics show downtown crime has declined, reporting an 18% decrease in violence reported in comparison to 2023. In addition, police defunding has led to a significant reduction of officers, leading to a greater demand for services and less deployable officers.

ECONOMY

U.S. economic growth is up to 3.4% as reported in March, for the months of October through December 2023. This marks the sixth quarter in which the economy has grown at an annual rate above 2%. The economy remains resilient however inflation rates remain above the Fed's target rate sitting at 3.2%. Hopes are high for a soft landing. January-March GDP estimates will be released at the end of April.

INFLATION | RETAIL SALES

Overall inflation has plummeted from its peak of 9.1%. However Fed officials say that they need a "greater confidence" that inflation will fall to their 2% target before cutting interest rates. The economy remains healthy, however prices from January to February have risen just 0.4% including core prices. More volatile prices such as gas prices and air fare surged to a mean of 3.7% while housing and rental costs cooled.

The Federal Reserve reported easing price pressures suggested by core prices (prices excluding volatile energy and food costs). These prices rose 0.3% from January to February, down from 0.5% the previous month. And core prices rose just 2.8% from 12 months earlier — the lowest such figure in nearly three years — down from 2.9% in January. Retail sales are expected to increase this year according to the latest Commerce Department report.

HOUSING

Seattle area home prices ticked up 8% in February 2024 and 14% from the previous year. As we approach the spring season, more homes are expected to hit the market, but supply is still limited. Buyers are making higher downpayments and offering as much as 30% more than the asking price to secure their offers.

On a national level, price cuts in homes for sale signals the housing market is shifting back toward a more balanced market between buyers and sellers. Low mortgage rates in the first two years of the pandemic armed homebuyers with more purchasing power, which fueled bidding wars, driving the median sale price for previously occupied U.S. homes 42% higher from 2019 through 2022. However, 14.6% of U.S. homes listed for sale last month had their price lowered, according to Realtor.com – up 13.2% a year earlier. Sellers are forced to "meet buyers where they are" by scaling back their asking price.

INTEREST RATES

In the beginning of March, the average long-term U.S mortgage rate lowered for the first time in 5 weeks. The average 30-year fix rate fell to 6.88% from 6.94% the previous week. Later in the month rates declined to levels last seen in February. 30-year mortgage rates have fluctuated right below 7% and both rates are higher than they were a year ago. Feds are holding interest rates longer than originally expected, stating that they need to first "see" evidence that inflation is cooling. Despite the fluctuating trajectory, mortgage rates are still lower than their 30 year all time high of 7.79%. At the end of the month, average rate on a 30-year mortgage slipped to 6.79% from 6.87% the previous week. The average rate is now at its lowest level in a couple of weeks. Borrowing costs on 15-year fixed-rate mortgages, popular with homeowners refinancing their home loans, also dipped at the end of the month pulling the average rate to 6.11% from 6.21% last week. A year ago it averaged 5.56%.

Federal Reserve officials left interest rates unchanged towards the end of March and continued to forecast that borrowing costs will come down somewhat by the end of the year as inflation eases. Officials held interest rates steady at about 5.3%, where they have been set since July. The Fed said they are encouraged by recent progress, but are not yet ready to lower rates. Currently taking on a "wait and see approach" we continue to hear the term "soft landing" as The Fed intends to cool inflation back to normal without a painful economic slowdown that causes a recession. As of now, it is expected that rates will be lowered before the end of the year, with June being the earliest possible month.

JOBS

By March 8th, another 275,000 jobs had been added to the market with unemployment remaining below 4% as reported by the Labor Department. Despite some economic challenges, the job market remains strong. Wage increases sparked more people to seek jobs, however as rates begin to cool, the job market may as well.

In the second to last full week of March, the Labor Department reported that unemployment benefit claims dipped by 2,000. Despite the many tech companies partaking in job cuts, unemployment levels have remained lower than pre-pandemic levels.

Long time tech workers laid off from their companies struggle to find new work despite many years of experience. The job search becomes even more challenging as new technology is introduced and many applicants are "aged out" when younger crowds of tech savvy candidates are offered the roles.

OTHER NEWS

Budgets have begun to tighten as numerous factors contribute to the lack of spending in the business districts and plummeting commercial building prices. In Chicago a 200,000-square-foot-office building that sold in 2004 for nearly $90 million was purchased last month for $20 million, a 78% markdown. This is the same trend noticed in many other large cities in the U.S. The National League of Cities fiscal report found that weaker sales, lower property taxes, remote work and high interest rates coinciding with the expiration of federal funds are likely to have far-reaching economic consequences for the district of Columbia and ultimately the rest of the country.

Originally bought for $70.25 million by Crescent Heights affiliates in 2015, a parking garage was proposed to become a 101 story residential tower at 701 Fourth Ave located on the half block between Columbia and Cherry streets. The parking lot is now for sale with a $40 million asking price, a 28% reduction. The submarket is struggling the most with vacant storefronts and limited foot traffic compared with the central downtown core about seven blocks to the north.

Seattle Mayor Bruce Harrell's office recently submitted new legislation to the Seattle City Council to cut red tape costs for developers converting underused office space into housing. Converting commercial office spaces into housing can be difficult and expensive, but this is the mayor's latest effort to put a few of the numerous empty office buildings to use among his many other initiatives. Other than costs, future problems could arise due to the mayor's inclusion of MHA programs being exempt from conversion requirements, in relation to great need for affordable housing and whether it makes financial sense. Developer documents for The Queen Anne Plaza building are currently under review. It is set to be the first post-pandemic conversion.