

## Seattle Office Space News – May 2024

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

### OFFICE DEVELOPMENTS

In May Trammell Crow Co. officially received the [go-ahead](#) from the City of Seattle to build their proposed 179,000 square foot, 11-story life science project at 901 Lenora Street. Currently owned by the Creighton family, Trammell Crow Co has not yet bought the building, but is anticipated to close the deal this fall. TCC's two other projects in the neighborhood are 1930 Boren, which they sold in 2021 for \$119.1 million and 1916 Boren, a 282,700 square foot life project that has Seattle Children's as an anchor tenant

### OFFICE LEASES

Compared to recent memory, May was a pretty active month for office leasing news. Kilroy Realty landed a new tenant at West 8th as Databricks, an artificial intelligence company, [leased](#) space in the 28th story tower located in the Denny Triangle at 2001 8th Avenue. It was reported that the San Francisco based company has at least one floor as shown by construction permit applications. West 8th has been 80% vacant since Amazon vacated the building in the Spring of 2023.

The fourth largest law firm in the Puget Sound region, Lane Powell PC, is [moving](#) their offices in 2025. Lane Powell currently occupies three floors at U.S Bank Center at 1420 5th Ave in the central business district. The firm's new location will be 4 blocks away at the Russell Investments Center located at 1301 Second Ave. Celebrating their 150th anniversary next year, with 250 employees, the firm says they will not lose square footage in the move and may even grow in the future. Perkins Coie, another of Seattle's largest law firms, also plans to relocate to Russell Investment center in 2025.

Subject to approval of the U.S. Bankruptcy Court for the District of New Jersey, it is [reported](#) that WeWork plans to assume six Seattle area leases including: Holyoke Building, Hawk Tower, 1201 3rd, 1448 NW Market, 1600 7th, 1099 Stewart and 3 in Bellevue. WeWork reported that Yardi, a real estate software company will become a major equity owner, agreeing to fund most of WeWorks financing needs to exit bankruptcy.

### OFFICE BUILDING SALES

The Coleman Building, located at 801 First Ave near Pioneer Square, has been [listed](#) by Kidder Mathews in a receivership sale with Newmark as the court-ordered receiver in charge of company dispositions. Originally acquired by Unico in 2019 from Goodman Real Estate, the six story, 143,946 square foot building was said to be half occupied as of last fall. The latter plan from architect BuildingWork in 2021 was to construct apartments on the upper office floors and add a seventh floor. With an estimated cost of \$55 Million this plan would require approval from the city's Landmarks Preservation Board and doesn't appear to pencil.

### RETURNING TO THE OFFICE

According to the VTS Office Demand Index, or VODI, new demand for office space in the city of Seattle [surged](#) over 38% in the first quarter of 2024, but remains far below pre-pandemic percentages at only 47% of 2018-2019 levels. Working from the office is increasingly becoming the norm again nationally. However, certain cities like Seattle and San Francisco have experienced a significant culture shift in hybrid working and numbers reflect a slight resistance in a full return to the office. Cities such as New York and Los Angeles recorded near-normal rates of demand for office space as of March 2024.

### DOWNTOWN RECOVERY

The [revitalization](#) of downtown Seattle has been a major focus of Mayor Bruce Harrell since he came to office in 2022. One initiative, Third Avenue Project, is focused on street disorder in a four-block section of 3rd Avenue between Stewart and University Street known as 'The Blade' because it has been a hub for open drug use and illicit markets for years. Now halfway into year 2, the Third Avenue Project, despite an outreach and "de-escalation" team called We Deliver Care that is present 15 hours per day, has not reduced the number of people there. The initiative has made much progress, reportedly having reversed 135 overdoses and connected hundreds to necessary services. Increased police and security presence has lessened crime in the area, and downtown store owners have stated that We Deliver Care has also been a large part of situational de-escalations.

In addition to Mayor Bruce Harrell's Downtown Activation Plans to decrease homelessness in the area, a split Seattle City Council last fall voted to [significantly upzone](#) a strip of three blocks on Third Avenue in the heart of the retail core. The rezone aims to increase housing and establish a downtown school by raising height limits. This rezone could net up to 1,200 housing units over the next 20 years. The analysis by city staffers estimates the upzone will result in developers paying between \$4.2 million to \$8.4 million into the city's mandatory affordable housing fund. Businesses such as the nonprofit Low Income Housing Institute are in favor of the initiative, while owner such as Art Wahl, of Ross Dress for Less, are exploring redevelopment opportunities as well, searching for a solution to the challenges faces on Third Avenue as Ross continues to pay \$14,000 a month for security. The imitative may not fix all issues currently faced by downtown, but it is a large step in the right direction with improving public safety as the biggest priority.

This May, North Face [shut down](#) their two floor 15,000 square foot flagship location at 520 Pike Street in the central business district. North Face had occupied this space since 2019. This along with Nike's closure across the street in 2023, provokes the question of how well downtown Seattle is recovering. Industry experts suspect that the closing of the North Face store is due to a multitude of factors including challenges in the outdoor clothing sector of retail, rather than their location downtown. In November 2023 North Face laid off around 500 employees and reported a 10% decline in sales. While some companies are on their way out, others including Uniqlo, located in the former Macy's building on Pine Street, have recently opened or expanded their locations.

## ECONOMY

As of the final week in May, the U.S. government [reported](#) that the economy grew at a pace of 1.3% the first three months of 2024, the weakest quarterly rate since 2022. Consumer spending rose, but at a slower pace than in previous months, demonstrating the effects of high interest rates and inflation pressure on household budgets. The nation's total output of goods and services (gross domestic product) expanded at a 1.6% rate last quarter in comparison to a 3.4% rate in the final quarter of 2023. Spending on goods such as appliances and furniture fell at a 1.19% percent annual pace however services spending rose at a healthy 3.9% pace. Despite the slower growing economy, the U.S. remains resilient. After having lifted its benchmark rate to a two-decade high last year, the Fed had signaled that it planned to cut rates three times in 2024. But the central bank has repeatedly pushed back the start of the rate cuts. The Commerce Department will issue its first estimate of the current quarter's economic performance on July 25.

According to the 'Global Cities Index' from Oxford Economics, Seattle [ranks](#) 6th in the top 1,000 largest cities in the world. The study measures indicators such as GDP size, GDP growth, GDP per person, Employment growth, economic stability and economic diversity. Due to Seattle's booming tech scene, it placed number four in the economics category however ranking 40th in the Human Capital category, 56th in Quality of Life, 40th in Environment, and 184th in Governance.

Seattle [fell out](#) of top 10 fastest growing cities in the U.S., in terms of population growth, according to U.S. Census Bureau data. The city now ranks 13th with a total population of 755,078 residents, adding 5,900 between July 1, 2022, and July 1, 2023 almost half the net gain as the previous 2021 to 2022 period of 17,750 people. Sources state this could be due to the 2023 job cuts in large companies such as Amazon, Microsoft and other tech start-ups across the region.

## INFLATION | RETAIL SALES

According to the University of Michigan's consumer sentiment index, consumer spending is [slowing down](#). However, according to Oren Kachkin, an economist at Nationwide Financial, "Perceptions don't always match reality and we think the fundamental backdrop remains strong enough to keep consumers spending." Those who argue that consumers are confident cite the low unemployment rate and booming stock market.

["Money Illusion"](#) is known as the common human failure to see past the prices of inflation and inability to recognize what money is truly worth. A March 2021 dollar is worth less than 85 cents today, according to the government's Consumer Price Index Inflation calculator. Due to higher costs of living low-income employees have received the greatest real wage increases, however as inflation rises, the raise does not keep up, ultimately resulting in a wage cut, disguised due to money illusion. In the three years through March, prices rose 17.9%.

## HOUSING

The number of new listings and home sales [climbed](#) throughout the Puget Sound region in April, with King County condo prices soaring as well. The median single-family home sold for \$980,000 in King County in April, up 12% from April 2023. Median homes sold for \$799,500 in Snohomish County, up 4% from a year earlier; \$565,000 in Pierce County, up 8%; and \$550,000 in Kitsap County, up 6%. Shoppers continue to bid high for the limited available homes. Although listings of homes were up 18%, supply was still low due to the "lock in" effect of homeowners who bought their homes when interest rates were lower and are now reluctant to sell. However, while cities all over the country are dealing with a shortage of homes for sale, listings are flying off the market faster in Seattle than in many other areas.

The rising mortgage rate, which has [jumped](#) over 7%, prevented 23,250 home sales in the Seattle metro area between mid-2022 and the end of 2023, according to new Federal Housing Finance Agency research. The average homeowner in the metro is sitting with a fixed mortgage rate of 3.7%. If re-originated at the current higher rate, the new mortgage would cost Seattle-area homeowners an additional \$813 per month, a 44% increase in payment. Homeowners staying in their homes also puts upward pressure on affordability in the Seattle market.

## INTEREST RATES

Interest rate hikes over the past two years will likely take longer than previously expected to [bring down inflation](#). Several Federal Reserve officials have suggested in recent comments, there may be few, if any, rate cuts this year. The economy remains resilient, but that means the high rates are not slowing down spending in the intended manner.

By the last week of May, the average rate on a 30-year mortgage [moved back above](#) 7% fluctuating from 7.22% the first week, 7.02% the second week, 6.94% the third week, and [now](#) 7.03%. The rate is still below the 23 year high of 7.79% in October of 2023. The Fed has been [holding](#) the federal funds rate at the highest level in more than two decades in hopes of getting inflation under control.

## JOBS

According to the Labor Department, unemployment claims for the week ending May 4 [rose](#) by 22,000 to 232,000, up from 209,000 the week before. Then claims [fell](#) the second week of May by 10,000, to 222,000 and ended the last week of May at 219,000. Weekly unemployment claims are [considered](#) a proxy for the number of U.S. layoffs each week and a sign of where the job market is headed. Unemployment claims remain at historically low levels since the pandemic. Last month, U.S. employers added just 175,000 jobs, the fewest in six months and another sign that the labor market may be loosening.

## OTHER NEWS

Freeway Park is set to see a \$10 million [improvement next year](#). Opened at 700 Seneca Street in the central business district, the inner city park contains approximately 5 acres and stretches over interstate 5. The improvement will be funded by Seattle Convention Center Expansion Projects donation to Seattle Parks and Recreation. Landscape architecture firm Walker Macy has designed the improvements including new lighting, directional and informational signage, drainage and irrigation repairs throughout the park, planting and accessibility improvements in some areas to bring people back to the park and restore its status as a unique downtown destination. SPR estimates that 90% Construction Documents will be completed in July and is targeting to put the project out to bid in early 2025 and completed by the parks 50th anniversary in spring 2026.

The [value](#) of Pacific Place shopping center at 600 Pine Street in the central business district has plunged 75% in the last decade. BH Properties, its new owner, announced it had acquired the property, but did not disclose at what price. One affidavit lists the sale price of the 335,000-square-foot mall at \$66.75 million, about \$200 per square foot, while a second provides a price of \$21.5 million for the 1,200-stall parking garage. In announcing the sale, BH said it plans to breathe new life into the five-story, full-block mall combatting some of the challenges facing downtown Seattle.