

## Seattle Office Space News – July 2024

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

### OFFICE LEASES

The office leasing market appears to be picking up based on reports from July 2024. Amazon's sublease at Rainier Square, located at 401 Union Street in the central business district, [landed](#) two new subtenants. First, Remitly subleased 86,519 square feet and will be adding space and relocating their headquarters from 1111 Third Ave. The other subtenant is Russell Investments who subleased 55,286 square feet and will be relocating from 1301 Second Ave.

The Allen Institute for AI (AI2) will be the first office tenant for the new Northlake Commons project at 3800 Latona Ave. N.E in Fremont. The nonprofit artificial intelligence research institute will fill just over a third of the space in the project, or approximately 50,000 square feet. Northlake Commons developer Hess Callahan Grey Group [announced](#) the deal in early July. Other tenants in the project include Dunn Lumber and restaurant Wayland Mills. Northlake Commons was also [awarded](#) LEED Platinum certification in July, the highest level in the U.S. Green Building Council's (USGBC) LEED v4 certification program for sustainable buildings.

Seattle's Indian Consulate leased two floors of office space in the Federal Reserve building at 1015 2nd Ave in Seattle's central business district. The city issued a building permit valued at \$2.2 million for the "Consulate General of India" on June 18 for the tenant improvement project. The lease for two floors, or roughly 38,000 square feet, was [confirmed](#) by the building owner Martin Selig.

Seattle-based biotechnology company Bonum Therapeutics is [doubling](#) their space with a lease of 31,000- at 1150 Eastlake Ave. E. Bonum is developing protein drugs, with the initial target being solid tumors and plans to gradually expand its team over the next few years.

### OFFICE BUILDING SALES

Cascadian, a vacant 211,066 square foot life science building at 330 Yale Ave in South Lake union, has been [acquired](#) for \$161.76 million or \$766 per square foot. The buyer is KKR & Co and the seller is LPC West and Invesco Real Estate. LPC West and Invesco bought the building in 2021 for \$164.5 million or \$777 per square foot.

### RETURNING TO THE OFFICE

Amazon's return-to-office mandate may now include not only a set amount of in-office workdays per week, but a [daily hour minimum](#) as well. Amazon's potential regulation comes from the speculation of "Coffee Badging" a term referring to workers who pop into the office to grab a coffee and then head home, allowing them to skirt in-office requirements but still clock the appropriate number of badge swipes. While some employees welcomed the return to office, others have pushed back on the mandate since it was announced in February 2023.

Banks and credit unions are facing unique challenges due to regulatory requirements and the need for employees to meet customers in branches. The Financial Industry Regulatory Authority (FINRA) has [issued](#) stringent rules requiring firms to bring their workforce back to the office full time. Washington Federal Bank back-office employees are required to come into the office a few days each month. Umpqua Bank has implemented a flexible model for remote employees, requiring them to use VPNs and secure email for sensitive data transmission.

### DOWNTOWN RECOVERY

Downtown Seattle experienced a [surge](#) in office workers in June 2024 according to the Downtown Seattle Association. The month brought over 90,000 daily workers to the City, the highest since March 2020. Hotel demand also increased, with nearly 400,000 downtown hotel rooms sold, the highest since March 2020. The number of occupied apartment units reached 58,000, a significant increase from the 49,100 recorded in the third quarter of 2020.

According to Visit Seattle [data](#), Seattle hotels have seen their occupancy rates increase by 10% in the first six months of 2024, reaching 66%. Total revenue reached \$419 million, surpassing 2019 levels by 4%. The rise in corporate travel is a welcome sight for Seattle hoteliers, who have seen business bookings recover more slowly than recreational tourism. However, corporate visitors have not completely returned to pre-pandemic levels, as more employers are leaning towards a tighter hybrid model. The average occupancy to start 2024 is still 10% behind the 2019 benchmark, but the forecast is for continued improvement in the back half of the year and beyond.

The New York City-based health club and gym chain, Equinox, will be resuming [construction](#) soon at Rainier Square at 401 Union Street in the central business district. The report is based on recent construction permit requests filed with the City of Seattle. The efforts to begin construction come four months after Equinox announced nearly \$2 billion in funding from outside investors. Previous filings show Equinox planning to occupy nearly 50,000 square feet between the tower's first and fourth floors.

Pioneer Square's Il Terrazzo Carmine, a staple in Seattle's food scene, is [coming](#) to the U.S. Bank Center at 1420 5th Ave in the central business district. Carmine's 5th Ave will be opening a 7,500 space as the first full-serviced restaurant in the tower since before the pandemic. When complete, the space will include both indoor and outdoor seating, private dining and a bar. Olympia Coffee will also open a space at Cedar Hall along Fifth Avenue later this month.

## ECONOMY

According to a report from the Commerce Department, the US economy [accelerated](#) last quarter at a strong 2.8% annual pace, driven by consumers and businesses despite high interest rates. The report showed that the gross domestic product (GDP) picked up in the April-June quarter after growing at a 1.4% pace in the January-March period. Inflation continued to ease, with the central bank's favored inflation gauge rising at a 2.6% annual rate last quarter, down from 3.4% in the first quarter of the year. The latest figures should reinforce confidence that the US economy is on the verge of achieving a rare "soft landing" where high interest rates, engineered by the Fed, tame inflation without tipping the economy into a recession.

Wells Fargo economists Tim Quinlan and Shannon Seery Grein have [concerns](#) about the US economy despite strong growth. They believe consumers are showing signs of fatigue due to lower revolving credit debt and slower growth in discretionary spending. They also caution that even when the Federal Reserve starts cutting rates in September, consumers may not have the savings and credit to resume spending right away.

Deutsche Bank and Blackstone Mortgage Trust have set aside more money for souring US commercial real estate loans, [signaling](#) that lenders may not be able to amend and extend loans in the hope that lower interest rates will give property owners more time to refinance debt. Over \$94 billion of U.S. commercial real estate is currently distressed, with a further \$201 billion at risk of slipping into that category. As a \$1.5 trillion wall of loan maturities hits over the next two years lenders and borrowers will be forced to face the music. Private credit providers see an opportunity to profit as borrowers approach maturity walls, with commercial real estate debt funds seeking to raise about \$50 billion in capital over the near term.

Private equity firms are [preparing](#) to buy troubled US real estate assets as the commercial property crash continues to roil the market. About 64% of the \$400 billion set aside for property investment is targeted at North America, the highest share in two decades. The Mortgage Bankers Association predicts almost \$1 trillion of debt linked to commercial real estate will mature this year in the US, creating more options for distressed asset buyers.

## INFLATION | CONSUMER SPENDING

Seattle's construction cost increases are still [outpacing](#) many major US cities, according to Rider Levett Bucknall's Quarterly Construction Cost Report for Q2 2024. Seattle's cost increased by 6.53% from April 2023, second only to Chicago's 7.67% increase. Portland, Las Vegas, and Boston also experienced increases. Seattle was among the cities experiencing gains lower than the national average of 1.12%, with a 0.97% increase in construction costs over the previous quarter.

US wholesale prices [rose](#) by 2.6% last month, the sharpest year-over-year increase since March 2023. This increase comes as other price indicators show inflation has continued to ease. The Labor Department reported a 0.2% rise in the producer price index from May to June, while core wholesale prices increased 0.4% and 3% from June 2023. The overall prices of goods fell 0.5%, and gasoline prices tumbled 5.8% at the wholesale level. The Fed raised its benchmark interest rate 11 times in 2022 and 2023 to curb price spikes and is expected to begin cutting interest rates in September.

## HOUSING

Home buyer transactions from April 2023 through March of 2024 totaled \$42 billion, a 21.2% [decline](#) from the prior-year period. The U.S. housing market has been in a slump since 2022, with mortgage rates rising from pandemic-era lows. The U.S. Dollar Index has risen 3.9% over the past 12 months, making international travel cheaper for Americans but making U.S. homes more expensive for foreigners. All-cash sales accounted for half the international buyer transactions.

King County's median single-family home sold for \$965,000 in June, [down](#) from a month earlier and about 3% higher than a year ago. Condo prices are following a similar trend, with the median condo selling for about \$555,000 last month, down from May but up 5% from a year earlier. High mortgage rates, hovering around 7% for much of the year, continue to compound the pain of high prices.

## INTEREST RATES

The first week of [July](#) started us off with interest rates at 6.95% then 6.89% the second week, 6.77% the third week, and now a .01% increase to 6.78% in the final week of this month. The average rate on a [15-year fixed-rate](#) mortgage also increased, pushing the average rate to 6.07% from 6.05%. Recent signs of [cooling](#) inflation have raised expectations that the Federal Reserve will cut its [benchmark](#) rate in September

The Federal Reserve's recent interest rate hikes have had unexpected [effects](#) on the US economy. Higher-income households are benefiting from a booming stock market and rising home values, while corporations are borrowing rapidly. However, the year of high borrowing costs is beginning to take a toll on Americans, with longer job searches, higher unemployment rates, smaller businesses suffering from costlier loans, and lower-income households falling behind on payments for car loans and credit cards. The housing market has been significantly impacted by the Fed policy, with mortgage rates hovering around 7%. This has led to a surge in borrowing costs and a run-up in home prices. The S&P 500 has climbed 25% since the Fed started raising rates in March 2022, adding about \$3 trillion to household wealth.

## JOBS

In June, the US economy saw a [healthy](#) hiring surge, adding 206,000 jobs and demonstrating the resilience of the consumer-driven economy. However, data from the Labor Department report showed signs of a slowing job market, with the unemployment rate rising from 4% to 4.1%, the highest rate since November 2021. Job growth from April through June averaged 177,000, a decent figure but still the lowest three-month average since January 2021. While economists agree that the job market is slowing, they suggest that it remains resilient. Both May and June hiring was above 200,000 even after revisions, and the trajectory looks stable.

## VENTURE CAPITAL

Venture capital activity in Seattle has [fallen](#) to its lowest count since 2016, with 75 deals bringing \$412.17 million into local startups in the second quarter. This is a 48% drop from the \$786.75 million in the second quarter of 2023. Venture capitalists are pulling back from fundraising due to the difficulty in financing and growing capital. In 2022, local startups attracted \$7.91 billion across 483 VC deals, while the market contracted by 61% in 2023.

Startup companies in the Pacific Northwest [raised](#) \$382 million in Q2 over 34 deals, a 50% decrease from the previous quarter. AI startups are currently the largest contributors to funding, raising nearly a third of all dollars during Q2. The Seattle region did not crack the top 10 among metropolitan areas ranked by total funding raised in Q2, behind Chicago, Austin, and Philadelphia.

## OTHER NEWS

The King County Assessor's Office [predicts](#) a 10% average increase in residential valuations for tax year 2025, while Seattle office properties could fall by up to 40%. Industrial properties will see up to a 10% increase. Larger office properties may see a 30%-35% decrease due to expired leases and shorter lease terms. Eastside office valuations will average a 30% decrease, with the Interstate 90 corridor experiencing a 35% drop. Most residential market areas will see value increases, with some Eastside communities experiencing a 50% year-over-year increase.

Seattle's City Council has [passed](#) new legislation to facilitate office-to-residential conversions by removing regulatory barriers. The ordinance establishes clear guidelines for residential conversions and provides broad exemptions from design development standards for conversions to housing or residential uses within existing buildings. It also exempts conversions to housing from Seattle's Mandatory Housing Affordability requirements, which the Mayor and supporters argue will significantly reduce the cost of conversion to residential use.