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Seattle Office Space News – December 2024

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

OFFICE DEVELOPMENTS

In the final office development news of 2024, it was reported that Alexandria Real Estate Equities (ARE) applied for master-use permit to expand their South Lake Union "mega campus." ARE is applying for a permit to add a new life science addition to the landmark Seattle City Light Building, with a project value of $280 million. The property, located at 801 Roy St., will be an addition to ARE's "mega campus" which includes around 1.3 million square feet of other projects such as lab research buildings, office space projects and sustainable living initiative developments.

OFFICE LEASES

2024 concluded with three office leases. The first being the coworking company, Industrious, expanding in Seattle with a new 18,691-square-foot lease at 1000-1100 Dexter Avenue North in South Lake Union. The space will open next spring offering 232 flexible desks. This will be the first partnership between Industrious and property owner Palisade Group, which recently acquired and began renovating the two-building complex. The upgrades will include new amenities like a tenant lounge, outdoor plaza, and wellness facility. Industrious also operates in Rainier Square and Denny Triangle.

Secondly, the Downtown Seattle Association (DSA) is reportedly relocating to two floors, ±21,000 square feet, at the 10-story TwoPine building at 1601 2nd Avenue. The DSA will be closer to ground zero of downtowns challenges in the central business district, as they lead Seattle's downtown revitalization initiative. "This location will allow us to consolidate all our functions under one roof," DSA spokesman James Sido wrote in an email, adding the site is "centrally located for efficient deployment of our services." DSA is currently occupying a total of ±16,500 square feet in the Tower Building and Times Square Building and will relocate in the first quarter of 2025.

Third, and finally, fintech company Brex opened a new Seattle office at the Met Park West building in Seattle's Denny Triangle neighborhood at 1100 Olive Way. The 6,000-square-foot Seattle office opened in October and started with 35-40 employees. It serves as a hub for over 200 Pacific Northwest employees, many working remotely, and hosts events for local founders.

OFFICE BUILDING SALES

The 1800 Ninth Avenue office tower in Seattle's Denny Triangle submarket, was acquired by Lake Washington Partners in September through a "zero-dollar deal," in which they assumed the previous $124 million loan from Wells Fargo. Formerly occupied by Amazon and currently vacant, this 16-story, 321,707 square foot building, is being rebranded as Axis9 and will undergo $15 million in renovations led by JPC Architects. Updates to be completed in Spring 2025 include a new full-service restaurant, upgraded gym, co-working spaces, a lounge on the fourth floor, improved conference rooms, and patios.

One of Seattle's most prominent office investors and developers, Martin Selig Real Estate (MSRE), is facing financial difficulties with increasing vacancies and decreasing property values. In December it was reported that MSRE defaulted on over $200 million in loans tied to two landmark developments: the Federal Reserve Building, located at 1015 2nd Ave in the central business district, and 400 Westlake in South Lake Union. Lender Acore Capital filed default notices in November, with ownership of the properties potentially transferring to Acore as part of Selig's broader debt restructuring plan. MSRE also faces imminent monetary default on $238.9 million in loans secured by seven older office buildings, now managed by a special servicer. The value of the Federal Reserve Building reportedly dropped from $98 million in 2021 to $57.2 million, and 400 Westlake dropped from $111 million to $74.1 million.

RETURNING TO THE OFFICE

A King County audit revealed only 25% of desks in the County's two main downtown Seattle office buildings, Chinook Building and King Street Center, were occupied earlier this year. This data has raised concerns about the need for future office space in a proposed multibillion-dollar King County campus redevelopment. On any given day, workspace occupancy did not exceed 50%, reflecting broader downtown Seattle office trends, where one-third of space remains vacant or underused post-pandemic. The audit highlighted gaps in data tracking, including the absence of a comprehensive workspace inventory and employee assignments, which could undermine planning for the $3 billion redevelopment project. The redevelopment envisions transforming the county's eight-block campus into a mixed-use neighborhood with high-rises, retail, and a new light rail station. King County Executive Dow Constantine has directed departments to implement a minimum three-day in-office requirement and improve workspace tracking, with full implementation planned for 2025.

Amazon's reported return-to-office mandate requiring corporate employees to work in-office five days a week, starting in January 2025, is facing delays in some cities due to space limitations. Offices in Atlanta, Dallas, Houston, Nashville, New York, and Phoenix will see return dates pushed back by up to four months. Most employees will have workspace readiness by January 2, though some locations will vary. Amazon CEO Andy Jassy announced the move to pre-pandemic office norms in September, reinstating assigned desks and ending shared workstations. The shift comes amid widespread employee dissatisfaction with the mandate, as hybrid work remains the preference for most U.S. employees with remote-capable jobs, according to Gallup.

Meta Platforms Inc. is investing $6 million in upgrades to its offices located at 1101 Westlake Ave. N. in Seattle's South Lake Union submarket. The investment signals a commitment by Meta to retain its presence in the city. The tech giant, which has been reducing its Seattle footprint while expanding in Bellevue and Redmond, filed permits for tenant improvements in the building, where it leases 280,000 square feet across eight floors. Meta's Eastside properties include a 1.8 million-square-foot presence in Bellevue's Spring District and its Reality Labs division's offices in Redmond. In Redmond, Meta has opened the Gehry-designed Building X and expanded lab spaces, though some projects like Building Z and other leased spaces have slowed or halted. Meta remains the Puget Sound area's third-largest tech employer, with an estimated local workforce of 8,000 people.

DOWNTOWN RECOVERY

Seattle's downtown recovery is progressing unevenly, with some areas rebounding while others remain challenged by retail theft, public drug use, and safety concerns. National retailers like Nike, Lululemon, and Vans have left the city altogether, and iconic locations such as Pacific Place Mall struggle to retain tenants. Retail theft, driven by organized crime, has become a significant issue with annual losses in Washington State reaching $2.7 billion. While city-led efforts to improve safety and activate vacant spaces have seen some success, including interactive attractions and small business placements, key intersections like Third and Pike remain problematic. Mayor Bruce Harrell's downtown activation plan aims to address safety, homelessness, and empty storefronts while adapting to shifts in retail dynamics. Though some areas, like Pike Place Market, are recovering, they have yet to reach pre-pandemic levels. Meanwhile, short-term attractions and leadership engagement with major retailers show promise for revitalizing downtown's image and appeal, but progress is slow, leaving small businesses struggling to sustain operations.

ECONOMY

The Seattle metro area experienced rapid economic growth from 2022 to 2023, with a 6.2% increase in its gross domestic product (GDP), reaching $487.77 billion. This growth was the fastest among U.S. metros with populations over 1.5 million. Key contributors to this growth included the tech sector, which accounted for one-third of the economy and grew by 15.7%, contributing $130 billion. Other sectors like retail and professional services also saw growth, with retail rising 14.1% and professional services increasing 6.1%. However, the real estate and construction industries faced declines, with real estate shrinking by 0.6% and construction dropping 8.2%. Despite these challenges, Seattle's per capita GDP was one of the highest in the country, behind only New York, San Francisco, and San Jose. The national GDP, by contrast, grew at a slower pace, with projections for future growth showing a continued slowdown.

INFLATION | CONSUMER SPENDING

Inflation in the U.S. rose slightly in November, with consumer prices increasing by 2.7% compared to the previous year, up from 2.6% in October. Core prices, excluding food and energy, also rose 3.3%. Prices for used cars, hotel rooms, and groceries were key drivers of the increase, but certain categories like rents and car insurance saw slower growth. Despite these price pressures, the Federal Reserve is likely to proceed with a quarter-point interest rate cut soon, as inflation remains below its peak from 2022. The Fed's interest rate cuts aim to bring inflation closer to its target of 2%.

HOUSING

Homebuyers hoping for lower mortgage rates in 2025 may be disappointed, as most forecasts predict the average rate on a 30-year mortgage will remain above 6%. Some projections suggest rates could even reach as high as 6.8%. This range is in line with rates seen this year, which fluctuated between 6.08% and 7.22%. Factors such as potential inflation and national debt increases tied to President-elect Donald Trump's policies, including tax cuts and tariffs, could keep rates elevated. However, if the economy weakens or these policies are scaled back, rates might fall to the low 6% range. A few forecasts are more optimistic, predicting rates between 5.8% and 6.4%. Despite lower rates being below the historical average, the combination of rising home prices and stagnant wages continues to make homeownership less affordable. Homebuyers with sufficient financial resources may still benefit from a larger inventory of homes for sale and modest price growth.

In November, the median sale price of single-family homes in the Puget Sound region saw significant increases, with the Eastside experiencing a nearly 10% rise. Data from the Northwest Multiple Listing Service shows an 18% increase in active listings in Pierce County, 14% in King County, and 12% in Snohomish County, with a 3.6% increase in Kitsap County. Lennox Scott, CEO of John L. Scott, anticipates a "frenzy" or "extreme frenzy" market for mid-priced homes in 2025, with a faster pace of sales. New state laws, including increased density and support for accessory dwelling units (ADUs), are expected to gradually ease homeownership costs over time. In terms of price increases, Snohomish County saw the highest jump at 8.3%, with prices reaching $785,000. Pierce and King counties had increases around 4%, with median prices of $565,000 and $925,000, respectively.