



Amazon's Impact on the Seattle Office Market

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1. INTRODUCTION

The 2019 Baker Program Class trip to Seattle was an eye-opening experience. Among the biggest surprises was the dominance of Amazon within the city. As we met with developers, alumni and even Uber drivers, everyone was talking about the company's impact on the growth of the community.

According to CoStar, Amazon is the dominant space user in the Seattle office market, accounting for almost 45% of all the gross leasable class A office space. Amazon occupies more office space than the city's next 40 biggest employers combined.

2. VULCAN REAL ESTATE INTRODUCTION – SOUTH LAKE UNION DISCOVERY CENTER

Vulcan Real Estate, the real estate investment arm of billionaire Paul Allen's private investment company was the first stop. Lori Mason Curran, the Director of Real Estate Strategy, introduced the South Lake Union area of Seattle and discussed its portfolio and what is happening in the broader area. It did not take long to see Amazon's clear impact on the office market in the area.

Looking at a large-scale model of the city at Vulcans facilities,



Ms. Curran pointed out some of Amazon's first buildings scattered around the South Lake Union area. Almost no one could have predicted just how quickly Amazon would grow and how difficult it would be to find or create space to meet the company's needs. Amazon's office properties in the late 2000's consisted primarily of mid-rise office structures around the South Lake Union neighborhood. In total, over 40 of these structures in downtown Seattle, Bellevue and South Lake Union were redeveloped or built to suit. It was difficult to bring on the million or half million square feet needed every year to keep pace. In 2005, Amazon's leaders had an initial meeting to discuss adding even more office in the South Lake Union area and considered building the downtown campus for the first time.

Ms. Curran mentioned that currently Amazon has around 14 million square feet of office in the Seattle area for 40,000 local employees, about 205 of whom walk to work daily. Amazon added a fourth streetcar with funds to operate it for 10 years and built bike lanes to separate bike traffic from cars. To assist food shopping along the routes, the first Amazon Go location was introduced. This is a cashier-less grocery store that uses facial recognition technology and your Amazon account to charge for what ever items you choose to take out of the store. This means no checkout and no lines. The 1,800 square foot Amazon Go test site was launched to the public the day after the program left Seattle, but 6 more are reportedly opening. Amazon is leading the way with hopes that the technology changes the way people interact with retail shopping.

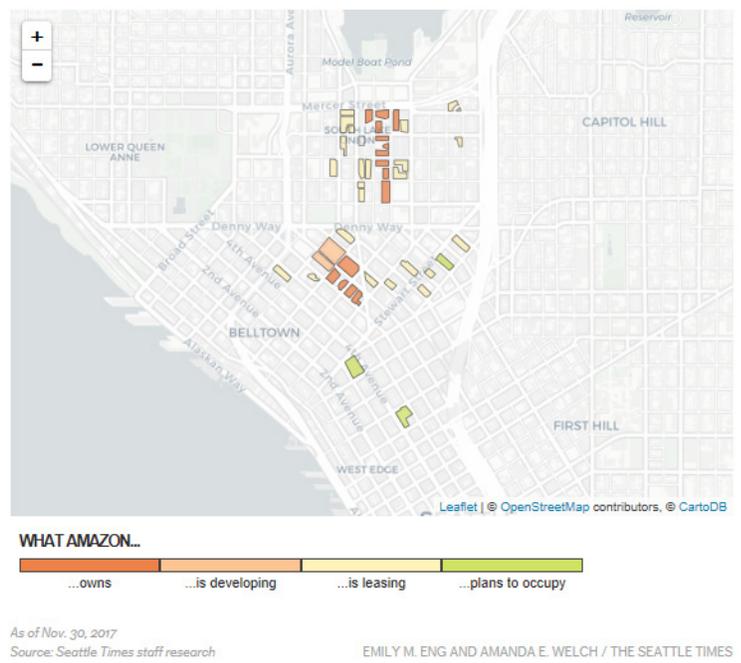


Figure 1. Amazon's Seattle footprint. Source: <https://www.seattletimes.com>.

3. SKANSKA USA COMMERCIAL DEVELOPMENT – 400 FAIRVIEW

Alumnus Stephen Porter, Manager of Development at Skanska USA Commercial Development led a tour of his company’s new 400 Fairview building, a mixed-use office and retail building located in the heart of South Lake Union. In contrast to much of the new space coming to market, Skanska’s new building targeted a diverse office tenant mix rather than looking to Amazon to occupy their project.

Skanska wanted to create a building that was a positive and inclusive addition to the greater neighborhood. It wanted a structure that wasn’t just for the office workers or a typical all glass office building but something that brought people in from the community. It partnered with a local architectural firm, SkB Architects, and focused on building an open place that welcomed the community inside it’s ground floor. The high ceilings and open concept environment combined with locally based coffee and dining options gave the building a warmth that office tenants seemed to embrace. The large glass warehouse style doors are inviting and the smell of the fresh baked goods and coffee create a space that’s appealing to office workers wanting a coffee break.

Unlike other developers, Skanska can use its large balance sheet to build buildings of consequence and not

just maximize profit per square foot. Mr. Porter pointed out that this scale of mixed-use development with local ground floor retailers is unique on the West Coast and has attracted a different type of tenant. Tommy Bahama is a major tenant and the building serves as their corporate headquarters. Rather than build more square footage for Amazon like many developers have focused on, Skanska began the project with other future tenants in mind but that doesn’t mean they don’t necessarily feel the impact of Amazon’s growth. The area has a large footprint of tech talent due to companies like Amazon and Microsoft being located nearby and other companies are moving to Seattle to capitalize on the rising talent pool in the city. Companies like Facebook (already up to 2,000 employees in the Dexter Station location) and Google (occupying a 600,000 square foot building in South Lake Union that will be finished in 2019) have begun acquiring office space. The Seattle economy is now being stoked by demand from a range of other companies like technology firm F5 Networks Inc., which leased more than 500,000 square feet in the city in the second quarter. The Puget Sound’s office vacancy rate was 11.3% at the end of the quarter, compared with around 16% in 2012, according to CBRE Group Inc. As these other companies come to Seattle, projects like 400 Fairview are positioned to absorb them as tenants.

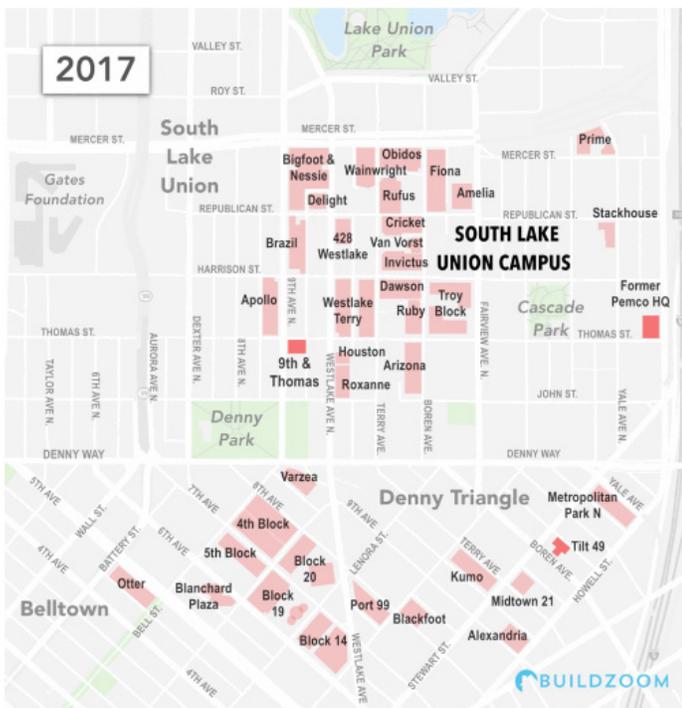


Figure 2. Amazon real estate growth. Source: <https://www.cnbc.com>.

4. WRIGHT RUNSTAD & COMPANY: RAINIER SQUARE TOWER

The Baker Program met with Wright Runstad & Company to talk about another large mixed-use development going up in Seattle. As the developer working on behalf of the land owner and capital provider, University of Washington, Wright Runstad & Company is building a mixed-used retail, office and luxury apartment building that will stand out in the skyline of Seattle when it's completed in 2020.

First year Baker student Julian Karel said, "It was interesting to see the public/private partnership from the inception of the idea for Rainer Square all the way through to zoning and the city changing the height of the sloping glass out to the property line." The city changed the sloping profile of the building so as not to obstruct views of the neighboring Rainier Tower pedestal.

The Rainer Square Tower project's 722,000 square foot office component was pre-leased by one tenant, Amazon. At a cost of an estimated \$600 million, this is one of the biggest projects in Seattle, the second tallest building in the city and underscores Amazon's dominance in the office market.

The growth of Amazon has impacted Seattle's office market in several different ways and there's no slowdown in sight. The addition of Whole Foods and Amazon Go to Amazon's business model will continue to impact how Seattle, and the rest of the world interacts with Amazon.

