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Seattle – Landlords Lose Leverage

By Scott Donald, Irvine

IN THE PAST TWO YEARS, THERE HAS BEEN A DRAMATIC SHIFT IN THE SEATTLE OFFICE market. While landlords previously held the upper hand in lease negotiations, the recession and resulting real estate downturn has given tenants much more leverage. Landlords are now offering free rent, tenant improvements and other concessions just to keep their space occupied.

The current challenges may provide opportunities for lower tax assessments. Typically, more than 50% of the property values appealed to the King County Board of Equalization result in some type of reduction. The deadline for filing an appeal is July 1st or within 60 calendar days after the date on the assessment notice, whichever is later.

MORE SPACE – MORE COMPETITION

The Seattle metro area is projected to receive the highest amount of new office construction this year since the tech boom a decade ago, with most deliveries concentrated in the Central Seattle submarket. Meanwhile, only about one-fourth of the 3.8 million square feet of new office space downtown has been preleased – putting even more pressure on existing landlords.

It's becoming common for tenants with more than three years remaining on their lease to be courted by the owners of new offices who are willing to buy out expiring leases in order to fill their buildings. At the same time, landlords are more willing to renegotiate leases with their current tenants to avoid losing them.

VACANCIES INTENSIFY

Office vacancies are increasing amid all the new construction. The influx of sublease space projected to hit the market in 2009 is expected to push the vacancy rate to 15.7% by the year's end.

Another important factor is the massive reduction in office-related jobs. Layoffs that include 3,400 jobs in Washington Mutual's downtown Seattle headquarters, 5,000 spots at Microsoft, and more than 5,000 positions at Boeing are fueling the rising vacancies.

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RENTS FALL

Following a steep run-up in recent years, Seattle office rents are now dropping. Asking rents are forecast to fall 6.1% to \$28.39 per square foot. Effective rents are projected to end the year at \$24.31 per square foot, a decline of 7.8%.

With more competition, increased vacancies and falling rents, Class A office space is suffering much more than Class B and C.





SUCCESSFUL APPEALS

Convincing evidence is the key to a successful appeal. Studies, articles and statistics on competing properties are effective documentation to help define current market conditions and challenge roll-over assessments or minimal value declines.

Local taxing authorities presented similar data during the recent growth period to justify raising values. Now that the tide has turned, this information should carry significant weight to reduce an assessment that is too high.

Assessors revalue properties each year, which means you must file a petition annually to protect your appeal rights. Taxpayers dissatisfied with the board's decision can take their case to the State Board of Tax Appeals. The deadline is 30 calendar days from the mailing date of the board's decision.

2009 SEATTLE OFFICE MARKET FORECAST

New Construction		53%
Office-Using Employment		4.6%
Vacancies		5%
Rent		7.8%

Source: Marcus & Millichap