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Amazon's shift to South Lake Union leaves empty feeling

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By Eric Pryne

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While Amazon.com's move to spacious new digs in South Lake Union and the Denny Triangle has given the Seattle office market a huge boost, the relocation also has left some big holes to fill in downtown's more southerly reaches.

Amazon's leases on about 900,000 square feet in four buildings either have expired over the past few months or will terminate shortly.

The online retailer's former headquarters on Beacon Hill — the old hospital many still know as the PacMed Center — is empty. Likewise, no new tenants have been found yet for the vast majority of the space Amazon is leaving at 605 Union Station, 705 Union Station and the Columbia Center.

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Despite those vacancies, Amazon's move still represents a big net gain for the greater downtown office market.

Altogether, the fast-growing company has signed long-term leases for about 2.3 million square feet at its new, 11-building headquarters complex in South Lake Union and two nearby towers.

Vacancy rates have dropped as a consequence. Amazon's South Lake Union complex is transforming a once-sleepy neighborhood.

"From a city-building standpoint, it's great," said Greg Johnson, president of longtime Seattle developer Wright Runstad. "But, yes, of course we'd still love to have them in our building."

Wright Runstad was Amazon's landlord for a dozen years at the north end of Beacon Hill in 1200 12th, the landmark former Public Health Service hospital overlooking Interstates 5 and 90.

Amazon's lease for 13 of the tower's 16 floors — 205,000 square feet — expired May 1, leaving Wright Runstad with big bills and no rental income to pay them.

The company doesn't own 1200 12th outright. It signed a 99-year lease on the property in 1998, converted it into office space and subleased it to Amazon.

The tower's owner is Pacific Hospital Preservation & Development Authority, a quasi-public entity. Rosemary Aragon, the authority's executive director, said Wright Runstad has assured it that the monthly lease payments of \$143,000 will continue despite Amazon's departure.

Pacific uses the money to provide access to health care for the uninsured and underinsured.

Wright Runstad also faces monthly payments of \$181,000 on a \$23 million loan it took out in 1999 to renovate the tower, according to loan-servicer reports.

"It's no fun paying debt service out of reserves," Johnson said. "We are incredibly focused on getting a new user."

Education and health-care institutions, as well as traditional office tenants, have expressed interest in the building, Johnson said. Some may want part of Amazon's former space, some may want it all, and some may want even more — Wright Runstad can build up to 225,000 square feet in the tower's north parking lot.

But Wright Runstad has been showing 1200 12th since late 2007 — before Amazon formally announced its move to South Lake Union — without inking a deal.

Commercial real-estate brokers say the building presents both unusual challenges and unusual opportunities. For many prospective tenants, "the location is subpar relative to being in the [downtown] core," said Kip Spencer, co-founder of real-estate database Officespace.com.

But the tower's prominence could appeal to a company or organization "that wants to have a building that's branded as their building," said Oscar Oliveira, managing director at Seattle brokerage Broderick Group.

Amazon had grown too big for 1200 12th even before it moved there in 1999. So it signed 10-year leases for about 450,000 square feet in two then-new buildings between Pioneer Square and the Chinatown International District.

The company took all 11 floors in 705 Union Station and seven of the nine floors in neighboring 605 Union Station, later subleasing some space in both buildings.

Amazon is completely out of both buildings now and the leases have expired, said listing agent Jesse Ottele of CB Richard Ellis.

Cobalt, which provides digital marketing services for auto dealers, has leased two of Amazon's former floors in 605, and Ottele said there's a tentative deal with another tenant for three more floors.

Amazon didn't move out of 705 until the end of last month, he said, so prospective tenants are just now getting a good look at that building.

The two buildings' proximity to transit — the downtown transit tunnel with light rail and frequent bus service, King Street Station with Amtrak and Sounder trains — is a big selling point, brokers say.

Amazon also for several years has leased about 250,000 square feet — about one-sixth — of the 76-story Columbia Center, downtown's tallest building. The tower's listing agent didn't return calls.

But Amazon's space is listed on Officespace.com as available for new tenants effective June 1. And loan-servicer reports indicate Amazon's lease is to expire this month.

Partly because of Amazon's departure, bond-rating agency Fitch this spring downgraded some commercial mortgage-backed securities issued in 2007 to help finance Beacon Capital Partners' purchase of the Columbia Center.

"Rollover [of leases] remains a concern" for the building, Fitch's analysts wrote. There has been some preliminary interest in parts of the Amazon space, they added.

But Columbia Center has lots of empty space. Including Amazon's floors, nearly 40 percent of the building — close to 600,000 square feet — is listed as vacant or available on Officespace.com.

Filling it could be a challenge. "New economy" technology and Internet companies, which are fueling much of the resurgence in demand for Seattle office space, are showing a preference for buildings on downtown's northern and southern fringes, brokerage Kidder Mathews said in a market report this spring.

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