

MARKET TRENDS

SEATTLE *OFFICE*

The Puget Sound office market continues to find its footing as a few market indicators trend towards stabilization.

MARKET OVERVIEW

Positive market fundamentals are slowly returning to the Puget Sound office market as recent indicators suggest tenant demand is gradually increasing, and the regional vacancy rate may be on the verge of stabilization. These trends, coupled with a positive job growth forecast for 2025, especially in the technology sector, are fueling an optimistic mid-term outlook. While work from home and hybrid work policies will persist, there is expected to be a methodical shift to a more balanced workforce. If this trend continues to gain momentum and employees continue to fill office buildings, the office market may begin to shift to recovery and growth sooner than expected.

While leasing activity remains relatively subdued compared to pre-pandemic levels, 2024 recorded the highest level of activity since 2021. Demand in Q1 2025 was slightly above the 2024 average, with 2.2 MSF of leasing activity during the quarter (this includes new leases and renewals). However, market-wide net absorption was negative for the quarter at -322,842. The disparity between leasing activity and net absorption can be partially attributed to the volume of renewals, which accounted for approximately 35% of the total square footage leased during the quarter. While renewals are included in leasing activity, they are excluded from net absorption because there is not a physical change in occupancy. As a result, the Puget Sound office market vacancy rate increased to 21.8%.

Although a full office rebound appears to be a considerable distance away, cautious optimism is already taking shape for 2025 in hopes the market will find solid footing for mid-term future growth. With many new proposed policies being discussed at the national, state and local levels which include tariffs, decreased corporate taxes, and deregulation, it has become difficult to project the impact on commercial real estate in 2025. A few indicators worth monitoring include return to office employee policies, sublease space levels, future space planning and density levels, leasing and net absorption trends, inflation rates, interest rates, impact of tariffs, the potential occupancy impact from Federal downsizing, and future lender underwriting policy changes.

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Average Asking Annual Rent/SF 1Q 2025

\$36.56
SEATTLE CLOSE-IN

\$41.32
EASTSIDE

\$27.34
SOUTH KING COUNTY

\$29.16
PIERCE COUNTY

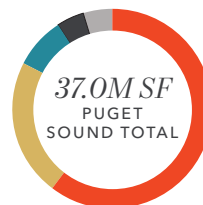
\$30.64
SNOHOMISH COUNTY

Submarket Vacant Space 1Q 2025

22.4M SF
SEATTLE CLOSE-IN

8.3M SF
EASTSIDE

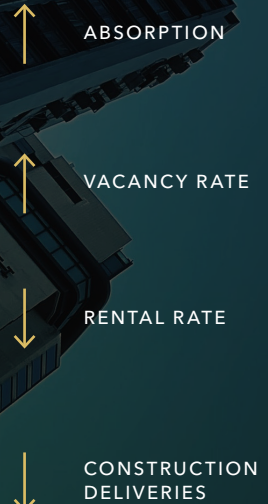
3.0M SF
SOUTH KING COUNTY



1.7M SF
PIERCE COUNTY

1.7M SF
SNOHOMISH COUNTY

1Q 2025



Quarter-Over-Quarter Trend

Market Highlights

REGIONAL OFFICE VACANCY ended the quarter at 21.8%, a 40 bps increase compared to last quarter.

NET ABSORPTION totaled -322,842 SF during the first quarter.

DEVELOPMENT ACTIVITY totaled 777,633 SF across 3 projects under construction.

INVESTMENT VOLUME collectively totaled \$191 million during the quarter across 31 transactions.

SEATTLE CLOSE-IN

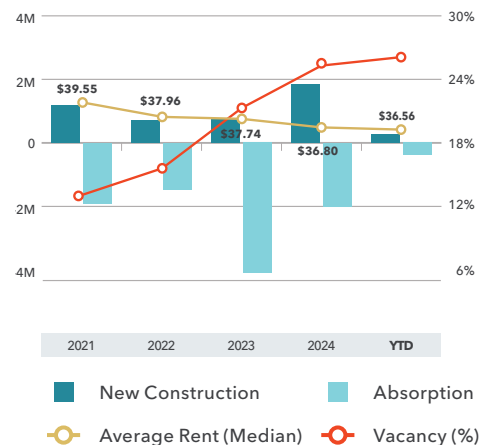
Vacancy continued to rise in Seattle, ending Q1 2025 at 26.1%, a notable increase compared to the previous quarter. This was the highest vacancy rate in the region, up 80 bps from last quarter and 270 bps compared to the same time last year. On a positive note, there has been a recent deceleration in vacancy rate increases over the past year, suggesting that the market may begin to see a plateau in the near term.

Quarterly net absorption was negative once again with -406,675 SF in Q1 2025. For comparison, the quarterly average was -585,000 SF in 2024, -800,000 SF in 2023 and -365,000 SF in 2022.

Average asking rents for all classes of office buildings decreased to \$36.56 PSF, a modest quarterly decline of -0.7% and an annual decline of -4.8%. With vacancy rates remaining elevated in Seattle, asking rates are expected to remain soft for the near-term.

Two projects delivered in Q1 2025, collectively totaling 549,741 SF and 77% preleased (Gateway Building and 1916 Boren). One project remains under construction totaling 266,898 SF (701 Dexter).

The Seattle CBD vacancy rate remain steady at 32.5%, while the average Class A rent quote decreased to \$45.20 PSF from \$45.22 PSF last quarter and \$48.67 PSF at the same time last year.



EASTSIDE REVIEW

The Eastside vacancy rate decreased over the quarter from 19.6% to 19.3% but was up slightly compared to the same time last year when the rate was 18.7%.

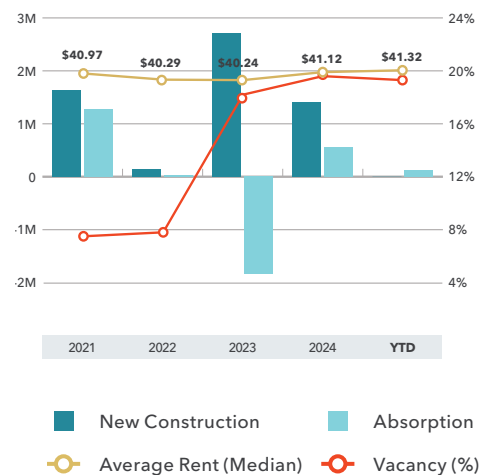
Overall net absorption totaled 124,048 SF in Q1 2025. For comparison, the quarterly average net absorption total was -140,000 SF in 2024, -460,000 SF in 2023 and -20,000 SF in 2022.

Meanwhile, quarterly leasing activity in Q1 2025 was 835,103 SF, a nice increase compared to last quarter's total of 626,969 SF but lower than Q1 2024 when the total was 1.1 MSF.

Asking rent for the Eastside market (including the Bellevue CBD and surrounding submarkets) increased slightly from \$41.12 PSF to \$41.32 PSF, a quarterly increase of 0.5% and an annual increase of approximately 3%.

One speculative multi-tenant office project is under construction in the Bellevue CBD, Four106. The project is 485,000 SF, scheduled for delivery in Q2 2025 and currently 0% pre-leased.

Bellevue's CBD vacancy rate decreased slightly during the quarter to 15.3% due to 208,778 SF of positive net absorption. The overall average Class A rent quote (including direct and sublease space) fell to \$52.13 during the quarter while the direct average Class A rent quote was \$64.42, both slight increases compared to last quarter.



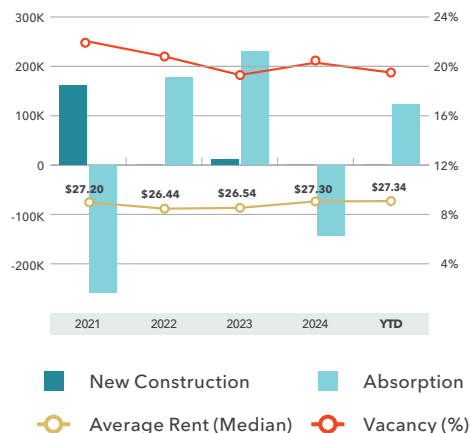
SOUTH KING COUNTY REVIEW

South King County posted a vacancy rate decline in Q1 2025, dropping to 19.5% compared to 20.3% last quarter and 20.0% last year.

Net absorption was positive for the second consecutive quarter with 122,410 SF, above last year's quarterly average of -35,000 SF.

Quarterly leasing activity was 99,058 SF, a decrease compared to last quarters total of 131,816 SF and lower than last year's Q1 2024 total of 114,930 SF.

Asking rents remained relatively stable in South King County, increasing slightly to \$27.34 PSF.



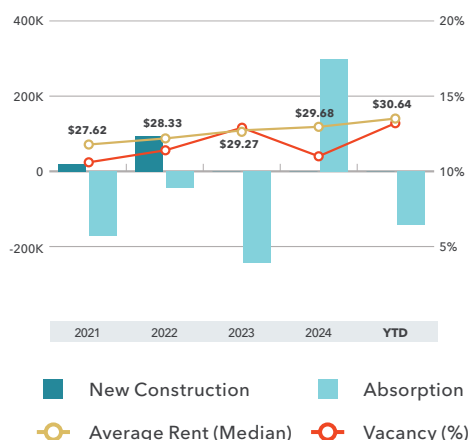
SNOHOMISH COUNTY/NORTHEAST REVIEW

The vacancy rate for Snohomish County ended the quarter at 13.2%, a notable rise compared to last quarter's rate of 11.0%, but only a slight increase from last year's rate of 13.1%.

Net absorption produced its second straight quarter with negative activity, with -141,572 SF in Q1 2025.

After averaging 215,000 SF per quarter in 2024, total leasing activity (including renewals) slowed by more than 23% with 164,529 SF of activity in Q1 2025.

Positive rent growth continued, rising 3.7% compared to last year and ending the quarter at \$30.64 PSF, the second straight quarterly increase



PIERCE COUNTY REVIEW

The overall vacancy rate in Q1 2025 was 13.3%, an increase compared to last quarter's rate of 13.0%. However, the rate was below the rate at the same time last year; 13.7% in Q1 2024.

Net absorption totaled -21,053 SF during the quarter, compared to the -6,000 SF quarterly average posted in 2024 and -385,000 in 2023.

Leasing activity has been steady over the past couple of years, averaging approximately 90,000 SF per quarter for the past three years. However, activity was slightly below last year's average, with 85,164 SF leased in Q1 2025.

Asking rents rose to \$29.16 PSF, representing 1.8% rent growth quarter-over-quarter and 9% cumulatively since Q1 2020.



SUBMARKET STATISTICS

Submarket	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	1Q 2025 Total Net Absorption	1Q 2025 Leasing Activity	Asking Rental Rate
Ballard/U Dist	5,337,930	17.8%	19.5%	33,475	40,137	\$36.02
Belltown/Denny Regrade	8,299,234	24.5%	25.8%	-194,966	75,400	\$33.12
Capitol Hill/Central Dist	4,844,609	10.1%	10.9%	-6,317	41,852	\$39.75
Lake Union	14,071,317	15.3%	21.0%	-251,908	234,839	\$42.30
Pioneer Square/Waterfront	7,852,760	27.9%	27.9%	7,324	64,210	\$32.51
Queen Anne/Magnolia	5,378,615	26.9%	29.1%	-9,760	23,684	\$36.30
S Seattle	5,082,357	9.1%	12.2%	2,327	19,822	\$25.65
Seattle CBD	34,808,553	28.3%	32.5%	13,150	530,561	\$36.98
Seattle Total	85,675,375	22.8%	26.1%	-406,675	1,030,505	\$36.56
520 Corridor	3,369,894	12.5%	18.7%	11,370	97,476	\$34.01
Bellevue CBD	14,255,031	13.5%	15.3%	208,778	460,943	\$49.48
Coal Creek/Issaquah	2,188,934	25.9%	26.0%	-9,044	12,847	\$34.62
E King County	935,653	5.8%	5.8%	4,651	4,644	\$29.37
I-90 Corridor	5,741,395	37.3%	42.1%	104,587	48,750	\$37.97
Kirkland	4,511,034	6.9%	7.8%	-23,720	26,088	\$40.57
Mercer Island	392,174	7.9%	7.9%	9,901	12,376	\$43.55
Redmond	4,345,379	5.1%	18.8%	-93,894	39,380	\$34.25
Suburban Bellevue	6,982,033	12.0%	17.4%	-88,581	132,599	\$41.41
East King County Total	42,721,527	15.2%	19.3%	124,048	835,103	\$41.32
Federal Way/Auburn	4,036,982	17.0%	17.4%	8,105	37,357	\$26.27
Kent Valley	1,853,878	11.5%	12.0%	12,796	17,964	\$29.20
Renton/Tukwila	7,106,116	26.3%	26.8%	26,362	38,025	\$27.52
Seatac/Burien	1,920,272	4.2%	4.2%	75,147	5,712	\$28.43
South King County Total	14,917,248	19.1%	19.5%	122,410	99,058	\$27.34
Bothell/Kenmore	3,756,058	20.2%	21.2%	-32,843	46,924	\$33.93
Edmonds/Lynnwood	3,161,078	10.8%	11.7%	-23,028	35,373	\$31.04
Everett CBD	2,686,865	11.2%	11.2%	-107,541	18,458	\$23.52
Mill Creek/Woodinville	815,676	3.5%	4.3%	6,850	8,200	\$31.91
N Snohomish County	697,737	1.1%	1.1%	31,015	2,422	\$26.95
S Everett/Harbor Point	1,353,490	11.4%	11.8%	-14,722	53,152	\$29.09
S Snohomish County	207,459	3.8%	3.8%	-1,303	0	\$32.86
Snohomish Total	12,678,363	12.6%	13.2%	-141,572	164,529	\$30.64
Dupont	430,681	80.9%	80.9%	2,430	2,430	\$27.56
E Pierce County	433,865	7.6%	7.6%	37,235	1,378	\$33.70
Gig Harbor/W Pierce Co	1,126,759	4.4%	4.5%	-4,569	14,746	\$33.34
Puyallup	1,256,820	17.8%	17.8%	6,722	5,868	\$34.37
Spanaway	524,033	3.6%	3.6%	-3,419	1,250	\$32.67
Tacoma CBD	5,119,393	16.3%	17.0%	-49,828	29,100	\$27.99
Tacoma Suburban	2,866,437	4.0%	4.0%	-2,315	10,819	\$28.76
Univ. Place/Lakewood	1,202,538	5.4%	5.4%	-7,309	19,573	\$24.45
Pierce County Total	12,960,526	13.0%	13.3%	-21,053	85,164	\$29.16
Puget Sound Total	168,953,039	19.1%	21.8%	-322,842	2,214,359	\$34.18

* Kidder Mathews redefined and recalculated its Puget Sound office market statistics and reporting criteria. Previously, our office statistics included all office properties, regardless of building size or occupancy category. As of Q1 2025 and going forward, our office statistics will now track office buildings over 10,000 SF and will exclude owner-user properties.

VACANCY TRENDS

At the end of Q1 2025, the regional office market vacancy rate for multi-tenant office properties over 10,000 SF (excluding owner-user buildings) increased 40 basis points to 21.8%. This was the 13th straight quarterly increase since Q4 2021 when the rate was 12.1%. The direct vacancy rate increased by 0.4 percentage points during the quarter and the market posted its highest overall vacancy rate on record, higher than the previous peak of 14.9% in 2010. Seattle ended the quarter with the highest vacancy rate in the region at 26.1%, followed by South King County at 19.5% and East King County at 19.3%. On the positive side, total sublease availability across the region declined from 6.7M SF last quarter to 6.3M SF this quarter, representing a quarterly decline of -6.0%. Sublease available space currently represents 15.0% of the total available space on the market, down from 16.1% last quarter and 18.7% at the same time last year. Overall, the vacancy rate is expected to remain elevated in 2025 with cautious optimism for stabilization in the near term.

RENT TRENDS

The average asking lease rate continued to decline in Q1 2025, ending the quarter at \$34.18 PSF and registering the seventh straight quarterly decrease. Region wide, asking rates fell by -1.1% compared to last quarter and -3.4% compared to the same time last year and -7.1% since the most recent high in early 2023. While the rate of decline may be decelerating compared to the first half of 2024 and 2023, this trend will likely continue in the near term until stabilization occurs. The bulk of the decline over the past five years has been driven by Seattle (-14%) and East King County (-5%). The most expensive submarket remains the Eastside, with an average of \$41.32 PSF, followed by Seattle at \$36.56 PSF.

NEW CONSTRUCTION

Due to the recent surge in new deliveries over the past few years, the development pipeline fell by 72% compared to last year and by 90% compared to 2023 when the under construction total was just below 7.5 MSF. The total of under construction projects (excluding owner-user projects) was 888,633 SF at the end of Q1 2025. These construction figures exclude two owner-user projects: Microsoft's nearly complete 3.0 MSF campus expansion in Redmond and Amazon's 1.0 MSF owner-user build-to-suit in Downtown Bellevue (Bellevue 600). Of the multi-tenant projects under construction, the largest includes Four106 totaling 485,000 SF in the Bellevue CBD, followed by 701 Dexter totaling 266,898 SF in Lake Union. During the quarter, there were three regional office deliveries, led by 1916 Boren totaling 282,741 SF in the Seattle CBD and The Gateway Building totaling 267,000 SF in the Ballard/University District submarket. No notable new office projects began construction this quarter.

INVESTMENT MARKET

The Seattle office investment market started to gain momentum in the second half of 2024 and while it slowed a bit in Q1 2025, respectable numbers were posted for the quarter. More than 31 properties traded hands over \$1M in Q1 2025, with total sales volume exceeding \$190M. While the number of transactions ended slightly below the 2024 quarterly average of 35 transactions per quarter. Total transaction volume was much lower than the 2024 quarterly average of \$370M. SeaTac Office Center was the largest sale of the quarter, The three building project totaling 548,704 SF sold for \$111M (\$202 PSF). While most sales continue to produce unpublished cap rates, the average cap rate in Q1 2025 was 6.0%. Headwinds will persist with a difficult lending environment, increased assets in distress, upcoming loan maturities and pricing volatility.



Kidder Mathews is the largest fully independent commercial real estate firm in the Western U.S., with over 900 real estate professionals and staff in 19 offices in Washington, Oregon, California, Idaho, Nevada, and Arizona. We offer a complete range of brokerage, appraisal, asset services, consulting, and debt & equity finance services for all property types.

The information in this report was composed by the Kidder Mathews Research Group.

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COMMERCIAL BROKERAGE

\$9B

AVERAGE ANNUAL
TRANSACTION VOLUME

26.2M

ANNUAL
SALES SF

36.7M

ANNUAL
LEASING SF

ASSET SERVICES

58M SF

MANAGEMENT
PORTFOLIO SIZE

850+

ASSETS UNDER
MANAGEMENT

250+

CLIENTS
SERVED

VALUATION ADVISORY

2,400+

AVERAGE
ASSIGNMENTS

39

TOTAL
APPRAISERS

24

WITH MAI
DESIGNATIONS