Kidder Mathews

MARKET TRENDS

SEATTLE *OFFICE*

The Puget Sound office market continues to experience increasing optimism, despite mixed results during the second quarter.

MARKET OVERVIEW

Over the first half of 2025, the Puget Sound office market has produced mixed results. There have been some very positive market fundamentals, namely a steady increase in tenant demand and leasing activity and an increase in return-to-work trends, which is expected to bolster strengthening office fundamentals. However, there has also been negative net absorption in 2025 and elevated vacancy rates, although the rate of increase has been slowing compared to the consistent increases seen between 2020 and 2023. Overall, the general feeling surrounding the office market is optimistic as the market feels slightly more stable than it did just 12 months ago.

Although leasing activity remains below pre-pandemic levels, 2024 recorded the highest level of activity since 2021 by averaging 2.1M SF per quarter (which includes new leases and renewals). During the first half of 2025, similar trends persist, averaging 2.0M SF during the first two quarters of the year. However, market-wide net absorption was negative for the quarter at -871K SF, bringing the year-to-date total to -1.3M SF. One reason for the gap between leasing activity and net absorption can be largely attributed to the volume of renewals, which accounted for approximately 20% of the total square footage leased during the first two quarters of 2025.

Overall, market fundamentals have slowly been returning to the Puget Sound office market as recent indicators suggest tenant demand is gradually increasing. Tenant demand for quality space has been improving as several premier Class A+ buildings in downtown Seattle have been outperforming the market in recent quarters thanks to the "flight to quality" phenomenon.

Tenants are also starting to make long-term real estate commitment, after a handful of post-covid years of indecision. Buildings with modern amenities in vibrant and perceived "safe" locations are helping to draw employees back. Return to office mandates are also beginning to have a positive impact on revitalizing areas like Seattle's urban core. As employers continue to place more value on the culture-building aspects and collaboration benefits that come with being in the office, the increased foot traffic will have a positive trickle-down effect on other aspects of the community like public safety and retail growth.

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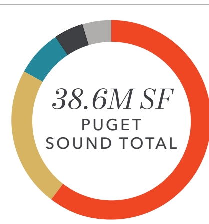
Average Asking Annual Rent/SF 2Q 2025

$36.38 SEATTLE CLOSE-IN	
$41.23 EASTSIDE	*$29.19* PIERCE COUNTY
$27.54 SOUTH KING COUNTY	*$30.62* SNOHOMISH COUNTY

Submarket Vacant Space 2Q 2025



23.4M SF SEATTLE CLOSE-IN	
8.8M SF EASTSIDE	*1.8M SF* PIERCE COUNTY
2.9M SF SOUTH KING COUNTY	*1.8M SF* SNOHOMISH COUNTY

2Q 2025

↓ ABSORPTION

↑ VACANCY RATE

↓ RENTAL RATE

↓ CONSTRUCTION DELIVERIES

Quarter-Over-Quarter Trend

Market Highlights

REGIONAL OFFICE VACANCY ended the quarter at 22.5%, a 70 bps increase compared to last quarter.

NET ABSORPTION totaled -871K SF during the second quarter.

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

INVESTMENT VOLUME collectively totaled $599M during the quarter across 41 transactions.

SEATTLE CLOSE-IN

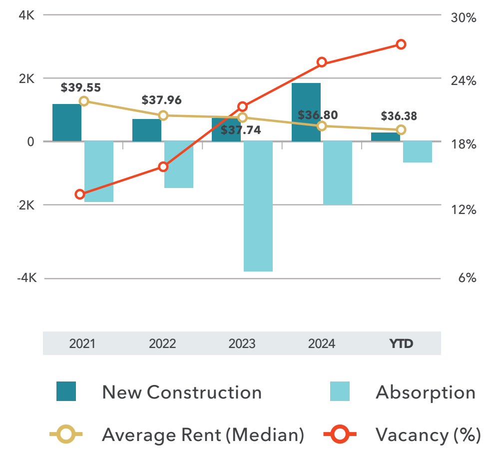
Vacancy continued to rise in Seattle, ending 2Q 2025 at 27.2%, an increase compared to the 26.1% posted last quarter. This was the highest vacancy rate in the region, up 350bps compared to the same time last year. On a positive note, there has been a recent deceleration in vacancy rate increases compared to what the market saw between 2020 and 2023, suggesting that the market may begin to see a plateau and rebound in the near term.

Quarterly net absorption was negative once again with -667,256 SF in 2Q 2025, bringing the year-to-date total to -1.0M SF. 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 $36.38 PSF, a modest quarterly decline and an annual decline of -4.6%. With vacancy rates remaining elevated in Seattle, asking rates are expected to remain soft for the near-term.

One project is currently under construction totaling 266,898 SF (701 Dexter).

The Seattle CBD vacancy rate remains elevated but relatively steady at 34.2%, while the average Class A rent quote increased slightly to $45.39 PSF from $45.20 PSF last quarter and $48.75 PSF at the same time last year.



EASTSIDE REVIEW

The Eastside vacancy rate increased during the quarter to 20.7%.

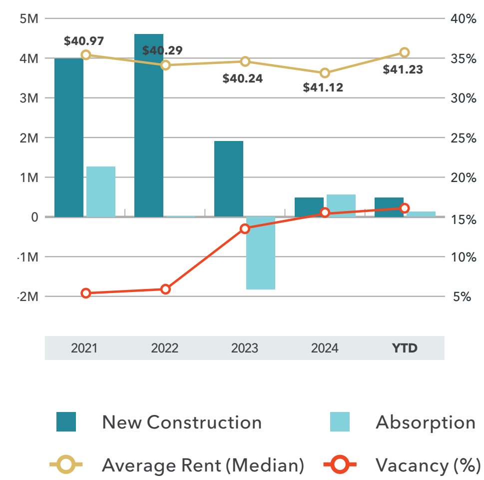
Overall net absorption totaled negative 142,623 SF in 2Q 2025, bringing the year-to-date total to -18,575 SF. For comparison, the quarterly average net absorption total was -140,000 SF in 2024, -460,000 SF in 2023 and -20,000 SF in 2022.

Meanwhile, quarterly leasing activity in 2Q 2025 was 700,349 SF, the second straight quarter above 700K SF, bringing the year-to-date total to 1.5M SF.

Asking rent for the Eastside market (including the Bellevue CBD and surrounding submarkets) decreased slightly from $41.32 PSF to $41.23 PSF, but 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 3Q 2025 and currently 0% pre-leased.

Bellevue's CBD direct vacancy rate posted 15.2% at the end of 2Q 2025 while the overall vacancy rate was 16.6%. The overall average Class A rent quote (including direct and sublease space) rose to $53.17 during the quarter while the direct average Class A rent quote was $65.65, both slight increases compared to last quarter.



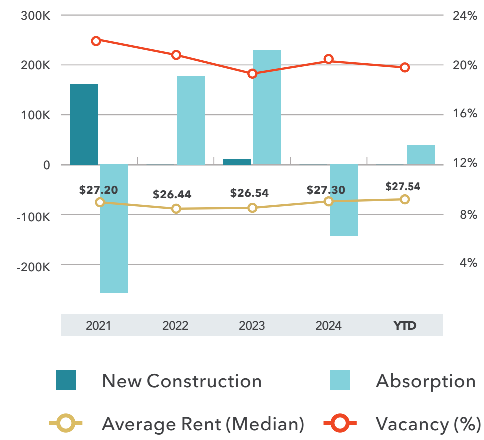
SOUTH KING COUNTY REVIEW

South King County posted a vacancy rate increase during 2Q 2025, rising to 19.8% from 19.5% last quarter. However, the vacancy rate is notable lower than last year when the rate was 20.6% in 2Q 2024.

Net absorption was positive for the third consecutive quarter with 39,000 SF, bring the year-to-date total to 79,130 SF and remaining above last year's quarterly average of -35,000 SF.

Quarterly leasing activity was 112,589 SF, bringing the year-to-date total to 221,414 SF, an increase compared to last quarter and the first half of last year.

Asking rents remained relatively stable in South King County, increasing slightly to $27.54 PSF.



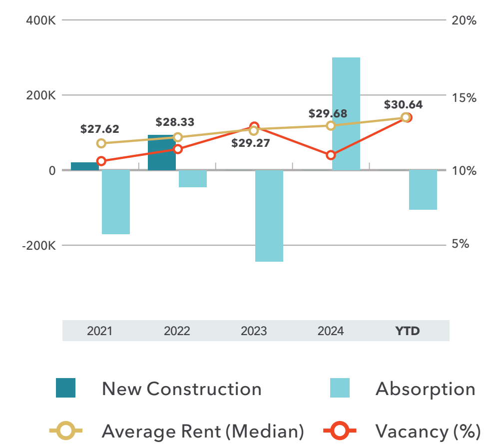
SNOHOMISH COUNTY/NORTHEND REVIEW

The overall vacancy rate in Snohomish County ended the quarter at 13.5%, a slight increase compared to last quarter's rate of 13.2%, but a slightly larger rise compared to last year's rate of 12.5% in 2Q 2024.

Net absorption produced its third straight quarter with negative activity, with -106,040 SF in 2Q 2025.

After averaging 215,000 SF per quarter in 2024, total leasing activity (including renewals) slowed by more than 50% with 234,639 SF of activity during the first half of 2025.

Asking rents fell in 2Q 2025 to $30.62. This was a slight 0.3% dip from last quarter but is still a 3.1% increase compared to 2Q 2024.



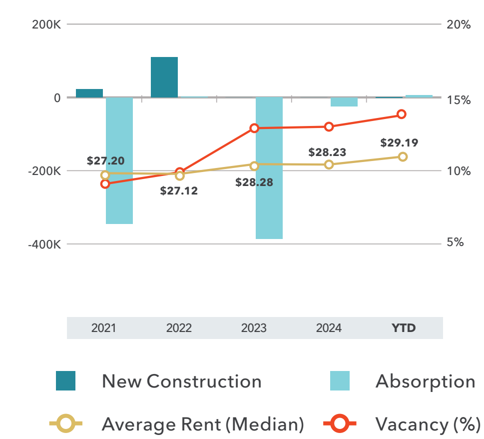
PIERCE COUNTY REVIEW

The overall vacancy rate in 2Q 2025 was 13.8%, a 50 bps increase compared to last quarter. However, the rate was the same as last year; 13.8% in 2Q 2024.

Net absorption totaled –65,231SF year-to-date, 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 136,632 SF year-to-date in 2025.

Asking rents rose to $29.19 PSF, representing 0.1% rent growth quarter-over-quarter and 9% cumulatively since 1Q 2020.



SUBMARKET STATISTICS

Submarket	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	2Q 2025 Total Net Absorption	YTD Total Net Absorption	2Q 2025 Leasing Activity	YTD Leasing Activity	Asking Rental Rate
Ballard/U Dist	5,393,477	18.7%	20.5%	-47,056	-13,581	29,908	62,164	$35.48
Belltown/Denny Regrade	8,175,163	26.3%	28.1%	-83,475	-278,441	49,441	124,677	$33.27
Capitol Hill/Central Dist	4,857,412	11.2%	12.0%	-52,486	-58,803	11,923	49,795	$39.68
Lake Union	14,263,844	16.3%	21.4%	-140,991	-392,899	40,780	239,464	$42.05
Pioneer Square/Waterfront	8,036,853	28.7%	28.8%	-127,277	-119,953	50,987	115,197	$31.98
Queen Anne/Magnolia	5,374,705	26.5%	28.3%	14,494	4,734	12,318	34,836	$33.60
S Seattle	5,151,682	9.6%	12.7%	-41,234	-38,907	18,669	37,846	$25.31
Seattle CBD	34,662,231	30.6%	34.2%	-189,231	-176,081	419,565	876,058	$37.06
Seattle Total	**85,915,367**	**24.3%**	**27.2%**	**-667,256**	**-1,073,931**	**633,591**	**1,540,037**	**$36.38**
520 Corridor	3,327,549	14.0%	19.1%	-34,284	-22,914	54,373	131,200	$34.58
Bellevue CBD	14,276,007	17.2%	19.1%	-218,740	-9,962	251,220	734,373	$51.26
Coal Creek/Issaquah	2,163,461	25.2%	26.2%	1,582	-7,462	10,003	22,850	$35.81
E King County	1,001,062	6.3%	6.3%	-6,640	-1,989	2,712	7,356	$29.32
I-90 Corridor	5,714,253	39.2%	45.1%	-171,172	-66,585	129,095	172,165	$38.79
Kirkland	4,357,844	6.5%	8.0%	134	-23,586	106,447	132,535	$43.41
Mercer Island	392,174	7.1%	7.1%	3,209	13,110	14,139	15,275	$43.55
Redmond	4,348,098	7.4%	22.8%	-56,968	-150,862	63,657	103,987	$34.23
Suburban Bellevue	6,924,608	12.1%	12.6%	340,256	251,675	68,703	192,110	$40.61
East King County Total	**42,505,056**	**17.0%**	**20.7%**	**-142,623**	**-18,575**	**700,349**	**1,511,851**	**$41.23**
Federal Way/Auburn	3,990,210	17.3%	17.8%	30,553	1,920	15,701	51,408	$27.01
Kent Valley	1,853,878	13.1%	13.6%	-31,975	-16,815	12,598	38,307	$29.20
Renton/Tukwila	7,088,870	25.8%	26.2%	34,046	70,796	77,741	125,150	$27.52
Seatac/Burien	1,700,412	4.4%	4.4%	6,376	23,229	6,549	6,549	$28.48
South King County Total	**14,633,370**	**19.4%**	**19.8%**	**39,000**	**79,130**	**112,589**	**221,414**	**$27.54**
Bothell/Kenmore	3,689,032	22.1%	23.3%	-83,892	-116,735	42,113	86,437	$34.12
Edmonds/Lynnwood	3,382,151	10.2%	10.9%	-6,223	-29,251	28,682	57,898	$30.93
Everett CBD	2,738,546	11.1%	11.1%	-4,580	-112,121	20,008	20,008	$23.87
Mill Creek/Woodinville	815,676	2.4%	3.2%	8,740	15,590	6,560	9,107	$32.76
N Snohomish County	774,059	3.8%	3.8%	-20,754	10,261	2,467	4,889	$27.22
S Everett/Harbor Point	1,353,490	11.8%	12.1%	-4,306	-19,028	3,699	54,997	$28.98
S Snohomish County	207,459	0.6%	1.4%	4,975	3,672	1,303	1,303	$32.86
Snohomish Total	**12,960,413**	**12.9%**	**13.5%**	**-106,040**	**-247,612**	**104,832**	**234,639**	**$30.62**
Dupont	80.9%	80.9%	80.9%	80.9%	80.9%	80.9%	80.9%	80.9%
E Pierce County	7.6%	7.6%	7.6%	7.6%	7.6%	7.6%	7.6%	7.6%
Gig Harbor/W Pierce Co	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Puyallup	17.8%	17.8%	17.8%	17.8%	17.8%	17.8%	17.8%	17.8%
Spanaway	3.6%	3.6%	3.6%	3.6%	3.6%	3.6%	3.6%	3.6%
Tacoma CBD	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%
Tacoma Suburban	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Univ. Place/Lakewood	5.4%	5.4%	5.4%	5.4%	5.4%	5.4%	5.4%	5.4%
Pierce County Total	**13.3%**	**13.3%**	**13.3%**	**13.3%**	**13.3%**	**13.3%**	**13.3%**	**13.3%**
Puget Sound Total	**168,798,680**	**20.3%**	**22.5%**	**-871,167**	**-1,326,219**	**1,618,667**	**3,644,573**	**$34.31**

* 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

Overall, there has been a slight downsizing in square footage but upgrading in location and building quality. Companies are leaning into hybrid work models with three times per week in office being the most common solution. As tenants continue to right-size their space plans, we have seen an uptick in the vacancy rate. At the end of 2Q 2025, the regional office market vacancy rate for multi-tenant office properties over 10,000 SF (excluding owner-user buildings) increased by 70 basis points to 22.5%. This was the 14th straight quarterly increase since 4Q 2021 when the rate was 12.1%. Seattle ended the quarter with the highest total vacancy rate in the region at 27.2%, followed by East King County at 20.7% and South King County at 19.8%. On the positive side, total sublease availability across the region declined from 7.0M SF in 2024 to 6.3M SF this quarter, representing a year-over-year decline of -10%. Sublease available space currently represents 14.8% of the total available space on the market, down from 15.0% last quarter and 17.1% 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 ended the quarter at $34.31 PSF, a slight increase compared to last quarter but a decrease of -2.7% compared to the same time last year and -5.8% 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 (-15%) and East King County (-5%). The most expensive submarket remains the Eastside, with an average of $41.23 PSF, followed by Seattle at $36.38 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 2Q 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. No notable new office projects began construction or were delivered this quarter.

INVESTMENT MARKET

Overall, investment volume has been improving over the past couple years with total transactions over $1M increasing by 15% in 2025 compared to the first half of 2024 and increasing 40% compared to the first half of 2023. Year-to-date a total of 70 transactions took place totaling more than $785M in total sales volume. This compares favorably to last year when the first half of 2024 only totaled $425M. Spring District Block 13 located at 1325 123rd Ave NE in Bellevue was the largest sale of the quarter. The project is 212,128 SF and sold to Drawbridge Realty for $192M ($908 PSF). While most sales continue to produce unpublished cap rates, the average cap rate in 2Q 2025 was 6.3%. Headwinds will persist with a difficult lending environment, increased assets in distress, upcoming loan maturities and pricing volatility. However, willing buys are on the sidelines waiting for opportunities and as a result, investment volume will likely continue to gain momentum.

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

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