

MARKET TRENDS

SEATTLE OFFICE

MARKET OVERVIEW

The Puget Sound office market began the year slowly with continued signs of stabilization following several years of volatility. Vacancy rates remain elevated but have begun to level off as the rate of increase has slowed during the past couple of quarters. Leasing activity has improved steadily over the past two years but remains slow, with a gradual return-to-office trend and selective expansion among tenants. While annual totals have been negative for the past five years across the entire region, the rate of both leasing activity and absorption has been steadily improving, suggesting fundamentals may be beginning to shift.

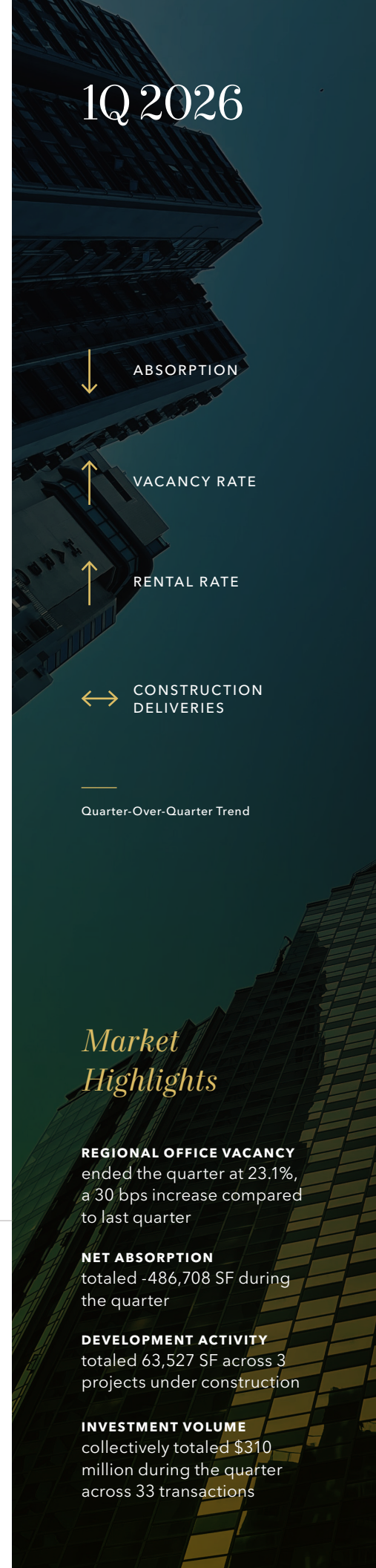
As hybrid work patterns become more established, office demand is increasingly shaped by space utilization rather than growth, with flight-to-quality and flight to value being a pervasive trend. Many employers are consolidating footprints, allowing leases to expire, or shifting employees into fewer locations. Large technology firms have been particularly influential in this “reset” phase. Microsoft and Amazon have paused or scaled back-office expansions near core campuses, contributing to softer leasing conditions even as their local employment bases remain sizable.

Amazon’s approach illustrates the broader trend as they recently announced plans to eliminate 49,000 desks globally, cutting average office vacancy while reducing surplus space through lease roll-offs, subleasing, and temporary building closures. At the same time, a limited amount of new space already under construction is still coming online, signaling portfolio optimization rather than a full retreat. Demand is being concentrated on higher-quality, well-located assets that better support collaboration and retention.

Positively, Seattle ranks third among U.S. metro areas for AI industry growth, driven by high job concentration, strong demand, and competitive pay while AI job postings are almost three times more prevalent than the national average. AI and other new ventures have fueled true “plug & play” space. Generally smaller spaces, market readied and furnished, with owners willing to do lower rate shorter term deals has created market activity for value plays via simple deals.

Downtown Seattle continues to face elevated vacancy and relatively weak demand as many tenants consolidate space and delay commitments, with tax considerations playing a growing role in some of their location decisions. While the region’s position as an AI hub provides strong long-term support, near-term recovery is still expected to be uneven as existing vacancy is slowly absorbed, and tenants favor flexibility over expansion.

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↓ ABSORPTION

↑ VACANCY RATE

↑ RENTAL RATE

↔ CONSTRUCTION DELIVERIES

Quarter-Over-Quarter Trend

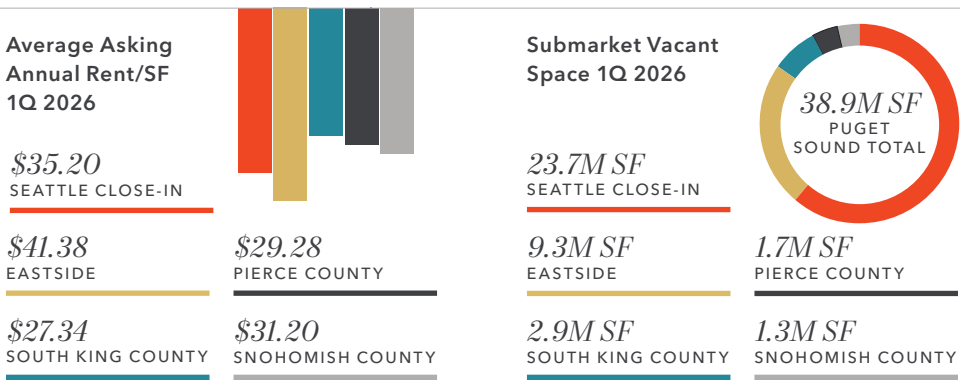
Market Highlights

REGIONAL OFFICE VACANCY ended the quarter at 23.1%, a 30 bps increase compared to last quarter

NET ABSORPTION totaled -486,708 SF during the quarter

DEVELOPMENT ACTIVITY totaled 63,527 SF across 3 projects under construction

INVESTMENT VOLUME collectively totaled \$310 million during the quarter across 33 transactions



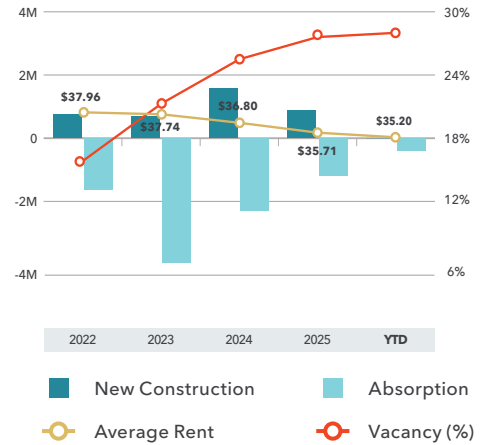
SEATTLE CLOSE-IN

Vacancy continued to rise in Seattle, ending 1Q 2026 at 28.0%, an increase from 27.6% last quarter. This was the highest vacancy rate in the region. However, there has been a recent deceleration in vacancy rate increases compared to the blistering rate of increase between 2020 and 2023, suggesting that the market may begin to see a rebound in the near term.

Quarterly net absorption was negative once again with -391,884 SF in 1Q 2026. For comparison, the quarterly average was -300,000 SF in 2025, -585,000 SF in 2024, -800,000 SF in 2023 and -365,000 SF in 2022, illustrating the slow but steady improvement experienced over the past few years.

Average asking rents for all classes of office buildings decreased to \$35.20 PSF, a modest quarterly decline of -1.4% and an annual decline of -5.2%. With vacancy rates remaining elevated in Seattle, asking rates are expected to remain soft for the near-term.

The Seattle CBD vacancy rate remains elevated but relatively steady at 34.7%, while the average Class A rent quote decreased slightly to \$40.60 PSF from \$42.80 PSF last quarter and \$45.36 PSF at the same time last year.



EASTSIDE REVIEW

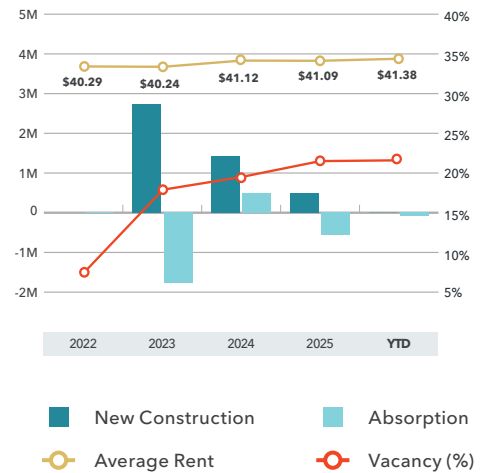
The Eastside vacancy rate experienced a nominal increase during the quarter to 21.6%.

Overall net absorption totaled -98,221 SF in 1Q 2026. For comparison, the quarterly average net absorption total was -140,000 SF in 2025, 125,000 in 2024, -460,000 SF in 2023 and -20,000 SF in 2022.

Meanwhile, quarterly leasing activity in 1Q 2026 was 726,435 SF.

Asking rent for the Eastside market (including the Bellevue CBD and surrounding submarkets) increased slightly from \$41.09 PSF to \$41.38 PSF (0.7%), with an annual increase of roughly 2.7%.

The Bellevue CBD vacancy rate remains steady at 25.4%, while the average Class A rent quote increased slightly compared to last quarter to \$63.72.



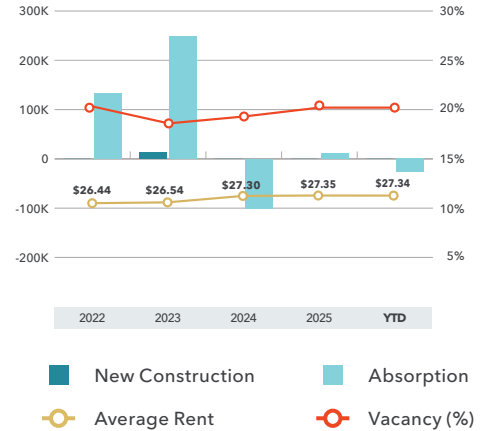
SOUTH KING COUNTY REVIEW

South King County posted a flat quarterly trend in the vacancy rate, remaining at 20.2%. However, this was an increase compared to 1Q 2025 when the rate was 19.0%.

Net absorption was slightly negative in 1Q 2026 with -28,086 SF, averaging -15,000 SF per quarter for the past two years.

In 1Q 2026, leasing activity totaled 354,965 SF, an increase compared to last quarter.

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



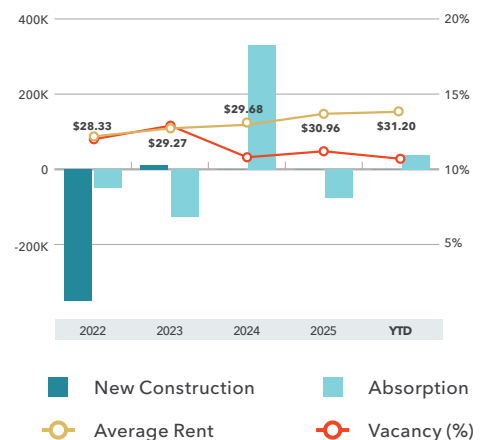
SNOHOMISH COUNTY/NORTHEAST REVIEW

The overall vacancy rate in Snohomish County ended the quarter at 10.7%, a subtle decrease compared to last quarter and a slight decrease compared to last year's rate of 10.8 in 1Q 2025.

After three straight quarters of negative activity, net absorption produced its third straight positive quarter with 37,931 SF in 1Q 2026.

After averaging 215,000 SF per quarter in 2024 and 165,000 in 2025, total leasing activity (including renewals) slowed to 59,395 SF of activity during 1Q 2026.

Asking rents ended the quarter at \$31.20 PSF, a slight 0.8% improvement compared to last quarters rate of \$30.96 PSF.



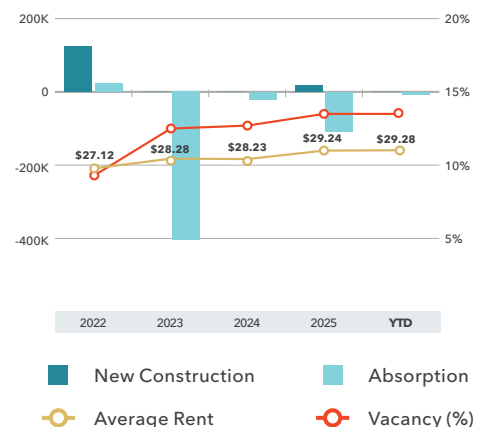
PIERCE COUNTY REVIEW

The total vacancy rate in 1Q 2026 was 13.5%, a 0-bps change compared to last quarter, but an 20-bps increase compared to the same time last year when the rate was 13.3% in 1Q 2025.

Net absorption totaled -6,448 SF this quarter. This compares similarly to the -20,000 SF quarterly average posted in 2025, -6,000 SF in 2024 and -385,000 in 2023.

Leasing activity has been relatively steady over the past couple of years, averaging approximately 90,000 SF per quarter for the past three years. However, activity slowed in 1Q 2026 with only 50,968 SF.

Asking rents ended the year at \$29.28 PSF, representing 0.2% rent growth quarter-over-quarter and 9.5% cumulatively since 1Q 2020.



SUBMARKET STATISTICS

Submarket	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	1Q 2026 Total Net Absorption	1Q 2026 Leasing Activity	Asking Rental Rate
Ballard/U Dist	5,397,289	21.9%	25.0%	-99,024	18,518	\$34.22
Belltown/Denny Regrade	7,203,539	29.3%	30.7%	9,946	24,267	\$30.96
Capitol Hill/Central Dist	4,552,750	11.8%	12.5%	-10,841	24,876	\$40.20
Lake Union	14,363,100	17.9%	21.3%	78,480	35,234	\$40.89
Pioneer Square/Waterfront	7,537,869	29.3%	29.8%	-46,917	46,727	\$30.24
Queen Anne/Magnolia	5,433,178	29.6%	31.0%	-149,860	13,345	\$32.48
S Seattle	5,922,845	8.8%	11.1%	14,297	8,225	\$25.64
Seattle CBD	34,391,665	32.0%	34.7%	-187,965	435,780	\$36.03
Seattle Total	84,802,235	25.7%	28.0%	-391,884	606,972	\$35.20
520 Corridor	3,398,407	14.3%	18.6%	30,732	60,995	\$34.82
Bellevue CBD	14,844,278	23.7%	25.4%	-47,790	485,827	\$52.36
Coal Creek/Issaquah	2,148,771	25.2%	26.2%	2,466	8,938	\$34.92
E King County	1,002,049	5.6%	6.0%	-154	0	\$28.88
I-90 Corridor	5,770,118	38.6%	41.0%	-25,965	42,348	\$36.76
Kirkland	4,354,400	8.2%	9.4%	-34,643	41,645	\$44.30
Mercer Island	392,174	4.8%	4.8%	6,742	4,641	\$42.84
Redmond	4,339,214	13.8%	14.3%	22,722	26,788	\$34.95
Suburban Bellevue	6,608,820	11.9%	12.3%	-52,331	55,253	\$38.72
East King County Total	42,858,231	20.1%	21.6%	-98,221	726,435	\$41.38
Federal Way/Auburn	4,026,319	18.6%	19.3%	-44,524	21,849	\$26.47
Kent Valley	1,859,045	13.9%	14.3%	28,391	29,415	\$29.35
Renton/Tukwila	6,885,729	25.3%	26.2%	-26,862	303,701	\$27.48
Seatac/Burien	1,700,412	4.9%	4.9%	14,909	0	\$27.87
South King County Total	14,471,505	19.6%	20.2%	-28,086	354,965	\$27.34
Bothell/Kenmore	3,433,032	16.2%	18.2%	-10,584	7,725	\$33.91
Edmonds/Lynnwood	3,009,973	7.2%	7.6%	50,455	24,421	\$31.68
Everett CBD	2,967,819	10.5%	10.6%	-13,617	4,694	\$24.08
Mill Creek/Woodinville	809,024	2.9%	3.5%	6,017	4,554	\$32.99
N Snohomish County	774,059	3.9%	3.9%	-2,950	0	\$27.09
S Everett/Harbor Point	1,323,874	7.1%	8.1%	8,610	18,001	\$28.56
S Snohomish County	207,459	0.0%	0.0%	0	0	\$32.88
Snohomish Total	12,525,240	9.8%	10.7%	37,931	59,395	\$31.20
Dupont	430,681	80.9%	80.9%	0	0	\$27.60
E Pierce County	374,287	11.6%	11.6%	-2,742	1,360	\$33.56
Gig Harbor/W Pierce Co	1,085,834	4.6%	5.1%	-1,588	4,786	\$32.35
Puyallup	1,289,663	16.9%	16.9%	7,879	1,866	\$34.18
Spanaway	522,723	4.4%	4.4%	-7,556	816	\$32.24
Tacoma CBD	4,985,094	14.9%	15.2%	43,795	23,596	\$27.68
Tacoma Suburban	2,844,085	6.0%	6.0%	-22,678	12,329	\$32.51
Univ. Place/Lakewood	1,192,116	9.1%	9.1%	-23,558	6,215	\$24.15
Pierce County Total	12,724,483	13.4%	13.5%	-6,448	50,968	\$29.28
Puget Sound Total	167,381,694	21.6%	23.1%	-486,708	1,798,735	\$32.94

* 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

As of the close of 1Q 2026, the vacancy rate for multi-tenant office buildings larger than 10,000 SF (excluding owner-user buildings) rose to 23.1%. This was the seventeenth consecutive quarterly increase, up sharply from 12.1% in 4Q 2021. Vacancy levels remain uneven across the region, with Seattle posting the highest rate at 28.0%, followed by Eastside at 21.6% and South King County at 20.2%.

Sublease availability continued its downward trend during the quarter, totaling 4.97M SF, representing 12.1% of the total available space. This was the lowest share of sublease space since 2018 and points to a constructive and gradual shift in market dynamics. While recovery remains measured, the sustained decline in sublease space suggests early signs of stabilization occurring across the Puget Sound office market.

Looking ahead, vacancy is expected to remain elevated relative to long-term norms as tenants continue to right-size their portfolios and adapt to hybrid work models. Modest upward pressure on vacancy is likely to persist in the near term as occupiers further refine their space requirements and long-term real estate strategies.

NEW CONSTRUCTION

Development activity contracted sharply by year-end 2025 as only 63,527 SF across three projects remained under construction (excluding owner-user developments). This represents a 95% decline year-over-year and a 99% reduction from 2023, when construction peaked near 7.5M SF. No notable completions or ground breakings occurred during the quarter. Major owner-user projects under construction not included in our statistics include Microsoft’s 3.0M SF Redmond campus expansion and Amazon’s 1.0M SF Bellevue 600 development.

RENT TRENDS

Average asking lease rates regionwide edged up modestly to \$32.95 PSF in 1Q 2026, representing a 0.2% increase quarter-over-quarter, though still 0.5% below 1Q 2025. While the pace of decline has moderated compared to early 2024 and 2023, pricing is expected to remain largely flat during the near term as the market slowly moves toward equilibrium.

The Eastside continues to command the region’s highest asking rents, averaging \$41.38 PSF, driven largely by recent development activity and comparatively stronger tenant demand. Seattle follows at \$35.20 PSF; however, it has experienced the most pronounced rent compression over the past five years, with average asking rates approximately 15% lower than 2021.

INVESTMENT MARKET

Investment activity for transactions exceeding \$1M continued to be active during 1Q 2026, with 33 transactions totaling \$309.9M and an average price of \$328 PSF. Key transactions during the quarter include the largely vacant 222 5th Ave N building in the Queen Anne/Magnolia submarket, acquired by 3Edgewood LLC for \$50M (\$248 PSF); Felton Properties purchased Redstone Corporate Center I in Lynnwood for \$48.5M (\$228 PSF); and PGIM, Inc. purchased 11040 Main St in the Bellevue CBD for \$34.2M (\$565 PSF).

Despite ongoing headwinds, tight lending conditions, asset distress, looming loan maturities, and pricing volatility, buyers remain active, particularly targeting value-add opportunities. Looking ahead, investment activity is expected to gain further momentum throughout 2026 as capital continues to adjust to the evolving market environment.



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, 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	<i>\$9B</i> AVERAGE ANNUAL TRANSACTION VOLUME	<i>32.4M</i> ANNUAL SALES SF	<i>32.5M</i> ANNUAL LEASING SF
ASSET SERVICES	<i>55M SF</i> MANAGEMENT PORTFOLIO SIZE	<i>800+</i> ASSETS UNDER MANAGEMENT	<i>250+</i> CLIENTS SERVED
VALUATION ADVISORY	<i>2,700+</i> AVERAGE ANNUAL ASSIGNMENTS	<i>42</i> TOTAL APPRAISERS	<i>23</i> WITH MAI DESIGNATIONS