Kidder Mathews

WESTERN U.S. *OFFICE* BY THE NUMBERS

2025 Mid-Year Market Forecast

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WESTERN U.S. OFFICE MARKET *–NAVIGATING PROLONGED HEADWINDS*

After years of disruption, the Western U.S. office market is showing early signs of stabilization.

While challenges persist–including elevated vacancy rates, negative net absorption, and evolving workplace preferences–momentum is slowly building across both urban and suburban areas. The market's initial upheaval was driven by the Covid-19 pandemic and further impacted by a softening economy and the widespread adoption of hybrid and remote work. In response, many tenants reassessed their long-term space needs, often reducing footprints by 20% to 30% to align with new workforce expectations and enhance space efficiency.

Today, while uncertainty lingers, leasing tours are increasing, vacancy growth is slowing, and some markets are experiencing positive absorption. Suburban areas generally lead due to accessibility and lower perceived risk, while urban cores are starting to benefit from civic reinvestment and evolving policy. This isn't a story of winners and losers but of a market-wide recalibration–one with growing signs of cautious optimism and emerging pricing stability.

RETURN TO OFFICE TRENDS STABILIZING

Return-to-office (RTO) trends have steadily gained momentum over the past few years, particularly as more companies implement on-site mandates.

These efforts have led to boosted foot traffic, particularly in urban centers. At the same time, a hybrid work model has become widely adopted across markets, with employees typically spending three days in the office and two days working remotely.

This hybrid pattern has held steady over the last two years and is expected to remain in the near term. Despite the upward shift, RTO activity continues to fall short of pre-pandemic levels, though it has significantly rebounded from the lows of 2020 and 2021. Notably, urban markets trail suburban counterparts by approximately 20% in overall RTO rates.

Looking ahead, remote and hybrid work are likely to persist, but there is a clear movement with organizations moving toward a more balanced workforce–one that integrates flexibility with a greater presence in the office.

URBAN VS SUBURBAN A WIDENING PERFORMANCE GAP

A clear performance divide remains between urban and suburban commercial markets, with the latter consistently outperforming the former.

Compared to Pre-COVID Benchmarks:

Urban cores have seen a sharp increase in vacancy rates (+17.8%) and a notable decline in asking rents (-6.9%).

Suburban markets, by contrast, have seen a more modest vacancy increase (+7.6%) and a healthy uptick in asking rents (+12.6%).

These trends are expected to persist over the next 12 to 18 months. As workforce dynamics continue to evolve and tenant demand gradually recovers in downtown areas, market conditions are expected to rebalance.

FLIGHT TO QUALITY *REDEFINED*

The flight to quality continues to shape the office space landscape, although the definition of "quality" has become increasingly subjective in recent quarters.

In the aftermath of COVID, decreased tenant demand, rising vacancy rates, and declining asking lease rates have opened the door for tenants who were previously priced out of premium spaces to lease high-quality locations at more accessible price points.

While the migration toward Class A and Trophy properties is well-documented, a parallel trend has emerged within the age segment of office buildings. Since 2018, a clear divergence has taken shape between older buildings (20+ years) and newer ones (less than 20 years old). Before 2020, the vacancy gap between these segments hovered below 1%. However, the pandemic accelerated this trend, with the gap expanding to a consistent range between 2% and 3%. As of mid-year 2025, vacancy in older office properties reached 17.2%, compared to just 14.2% in newer developments—highlighting a growing tenant preference for modern infrastructure, amenities, and energy efficiency.

17.2%
Older Building Vacancy Rate

14.2%
Newer Building Vacancy Rate

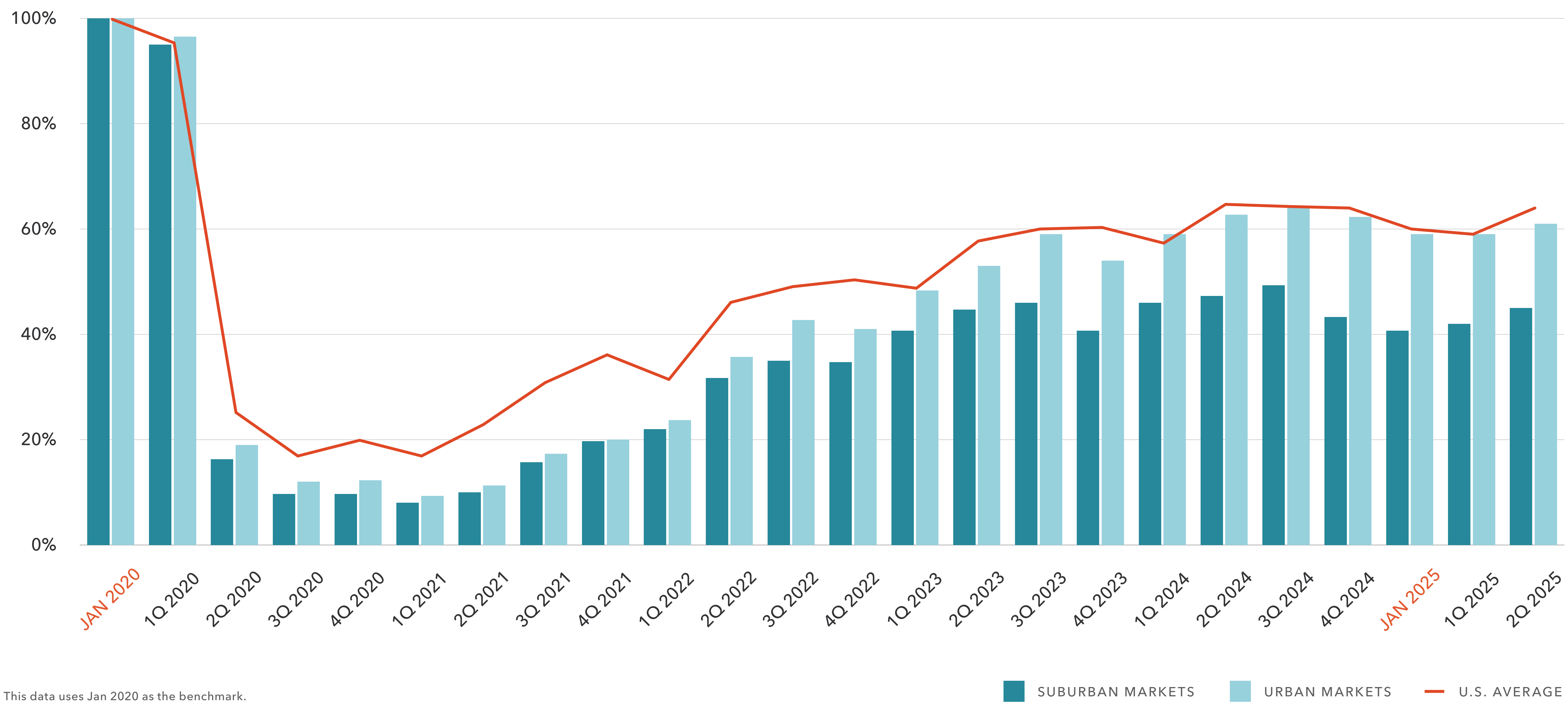
OFFICE OUTLOOK SIGNS OF MEASURED RECOVERY

The Western U.S. office sector is poised for a slow and steady rebound, with tenant demand projected to rise by the end of the year, driving an increase in leasing activity.

Office market fundamentals are expected to gain momentum heading into 2026 and 2027, with mid-to-late 2026, marking the first period of positive net absorption since 2019.

The continued tapering in the development pipeline will help stabilize vacancy rates, while asking rents are forecasted to see moderate gains. Recovery will be uneven across regions and segments, with suburban markets outpacing their urban counterparts over the next 3 to 5 years.

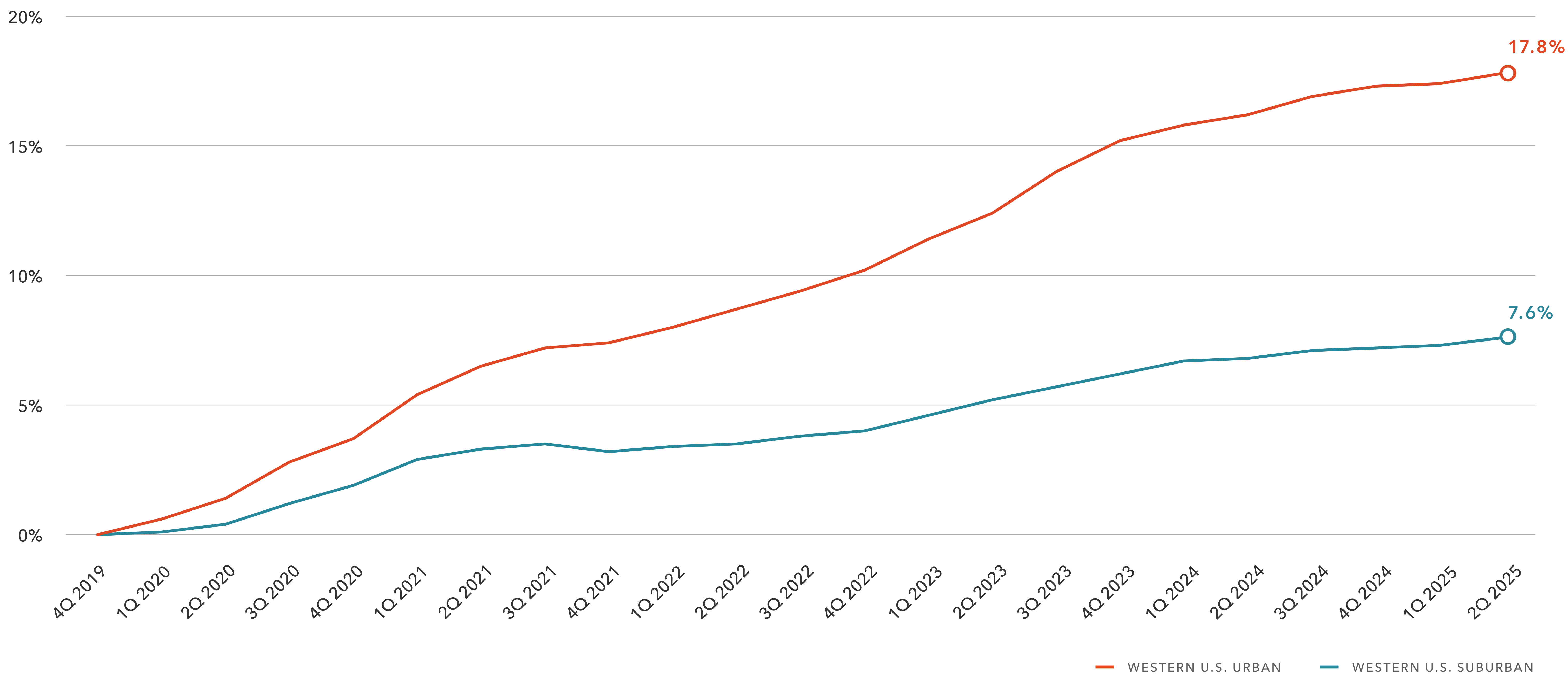
RETURN TO OFFICE TRENDS LAG IN URBAN MARKETS



This data uses Jan 2020 as the benchmark.

Source: Placer.ai

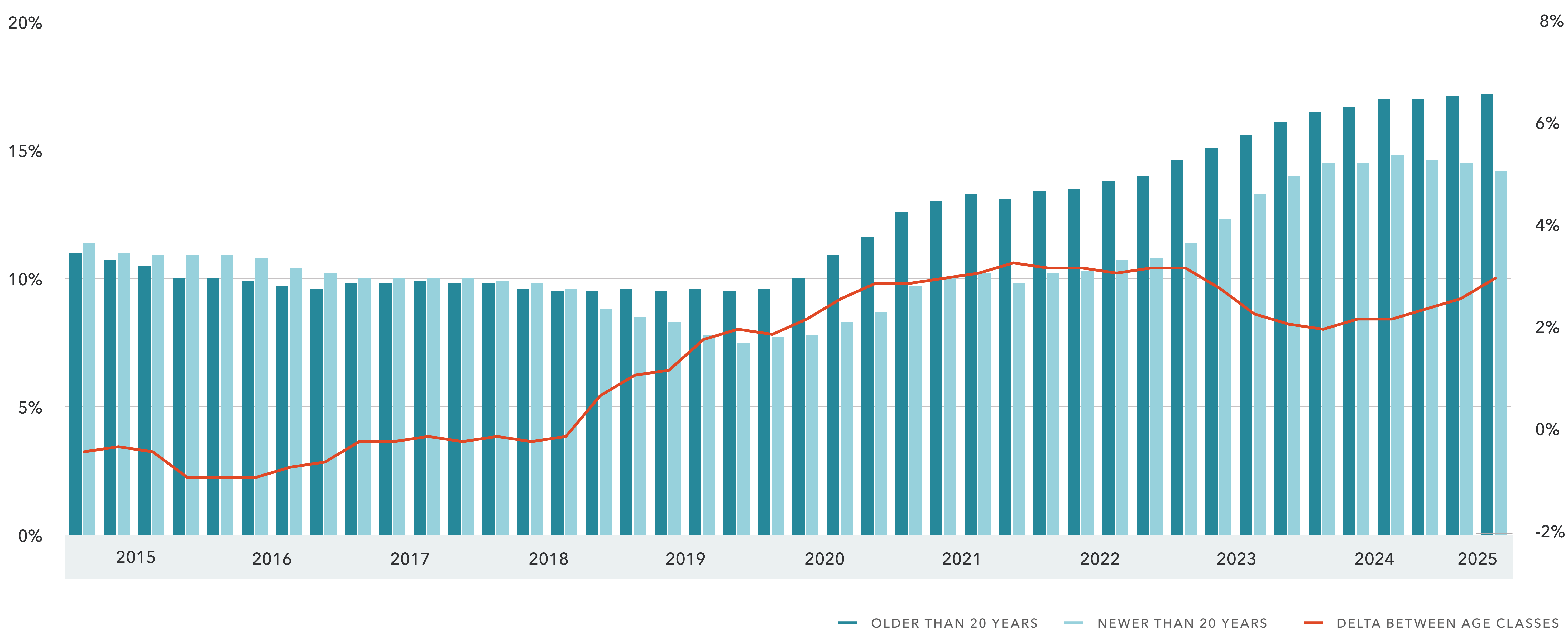
URBAN VS SUBURBAN CUMULATIVE VACANCY CHANGE %



Source: Costar, Kidder Mathews Research

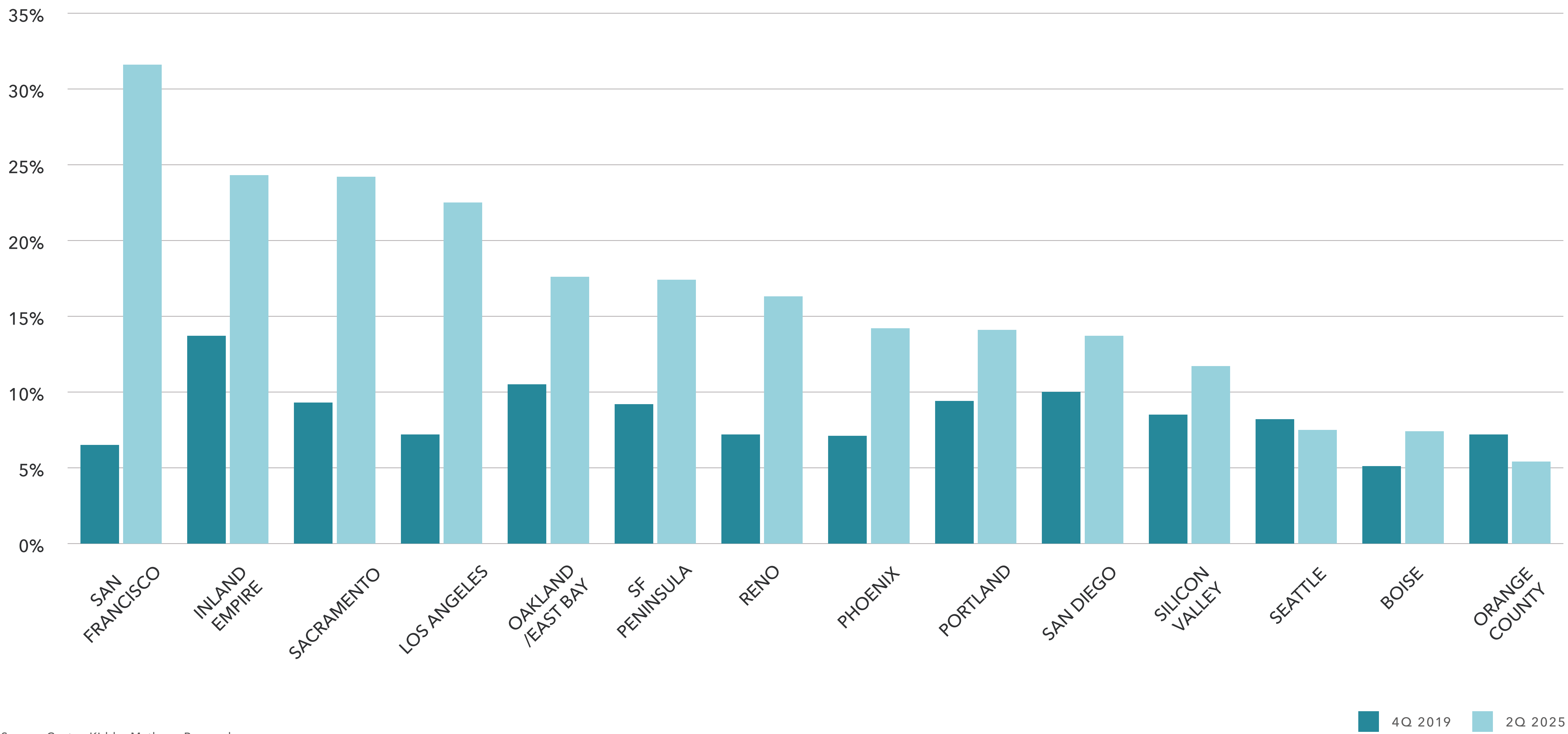
FLIGHT TO QUALITY TRENDS CONTINUES

TOTAL VACANCY RATE



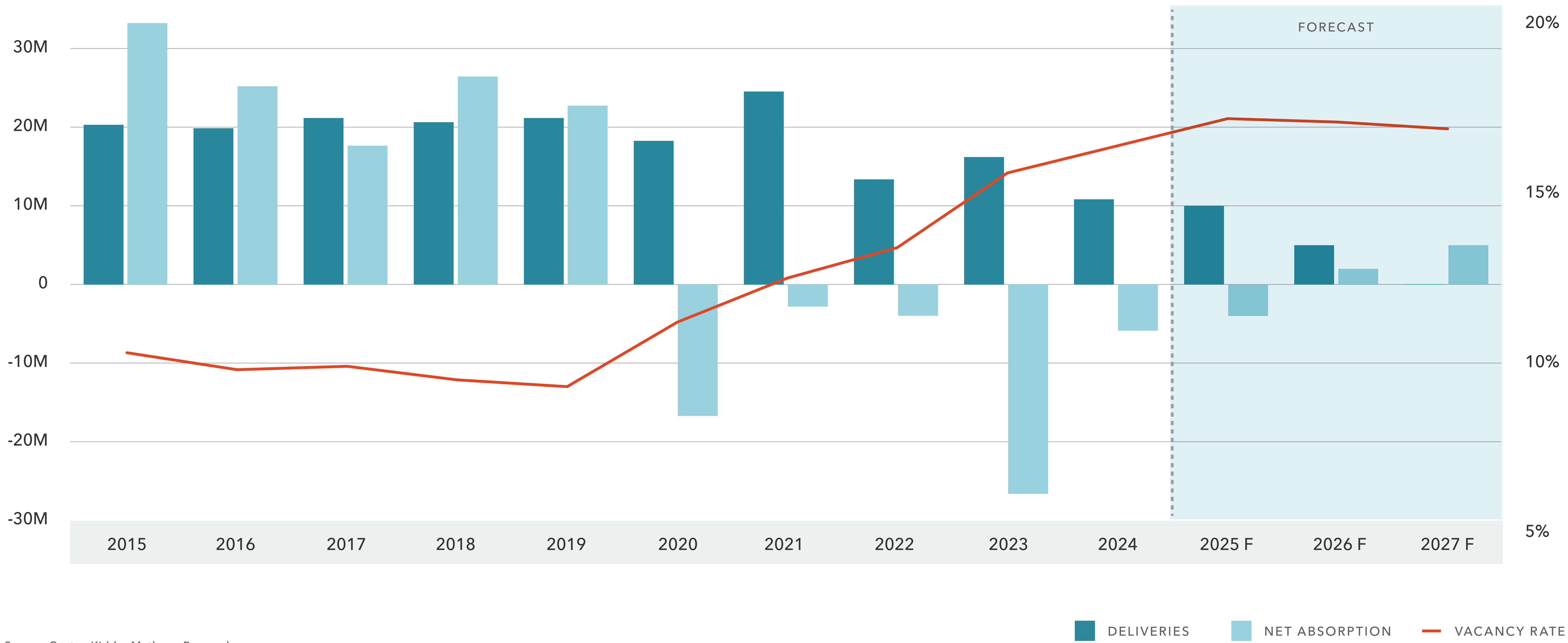
Source: Costar, Kidder Mathews Research

VACANCY RATE *BY MARKET*



Source: Costar, Kidder Mathews Research

WESTERN U.S. *FORECAST*



Source: Costar, Kidder Mathews Research

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

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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 20 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.

COMMERCIAL BROKERAGE

$9B AVERAGE ANNUAL TRANSACTION VOLUME	26.2M+ ANNUAL SF OF SALES	36.7M+ ANNUAL SF OF LEASING

ASSET SERVICES

58M SF MANAGEMENT PORTFOLIO SIZE	850+ ASSETS MANAGED	260+ CLIENTS SERVED

VALUATION ADVISORY

2,400+ AVERAGE ANNUAL ASSIGNMENTS	39 TOTAL NO. OF APPRAISERS	24 WITH MAI DESIGNATIONS