Kidder Mathews

WESTERN U.S. *OFFICE* BY THE NUMBERS

2026 Mid-Year Market Forecast

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THE OFFICE MARKET IS *GAINING STABILITY AS DEMAND STRENGTHENS*

The office market continues to stabilize as leasing activity improves and supply pressures ease.

Leasing activity has strengthened as companies gain greater clarity around workplace strategies, long-term space needs, and the role of hybrid work within their organizations. At the same time, increased investment in artificial intelligence is beginning to support demand for high-quality office environments that foster collaboration, innovation, and talent attraction.

Although vacancy remains elevated in many markets, tenant demand, leasing activity and overall market optimism continues to gain velocity. Limited new construction and the continued conversion or removal of obsolete office buildings are helping reduce excess supply, and create a more balanced environment in many markets.

THE FLIGHT TO QUALITY REMAINS *ONE OF THE DEFINING TRENDS* IN THE OFFICE MARKET

Companies continue to gravitate toward newer, well-located properties that offer modern amenities, support collaboration, and help attract and retain talent.

As office attendance gradually increases and organizations place greater emphasis on employee experience, demand has become increasingly concentrated among premium assets.

With new development near historic lows, competition for the highest-quality space has intensified, while upgraded and repositioned properties are beginning to benefit as tenants seek attractive alternatives in markets where premier space is becoming more limited.

SHIFTS IN VACANCY & SUBLEASE SPACE

Occupancy is beginning to improve as leasing activity strengthens and sublease availability declines.

Technology-focused markets and major gateway cities have led this progress, supported by larger lease transactions, increased tenant demand, and the continued absorption of sublease space. Although vacancy remains above pre-pandemic levels, positive net absorption and declining sublease inventories across many markets suggest conditions are gradually improving.

The Western U.S. sublease rate, as a percent of total available space, has fallen from a peak of 15.3% in 2023 to 9.0% by mid-year 2026. While still above the pre-pandemic average of 4.7%, the continued decline is an encouraging sign that the market has reached a turning point and is moving toward recovery.

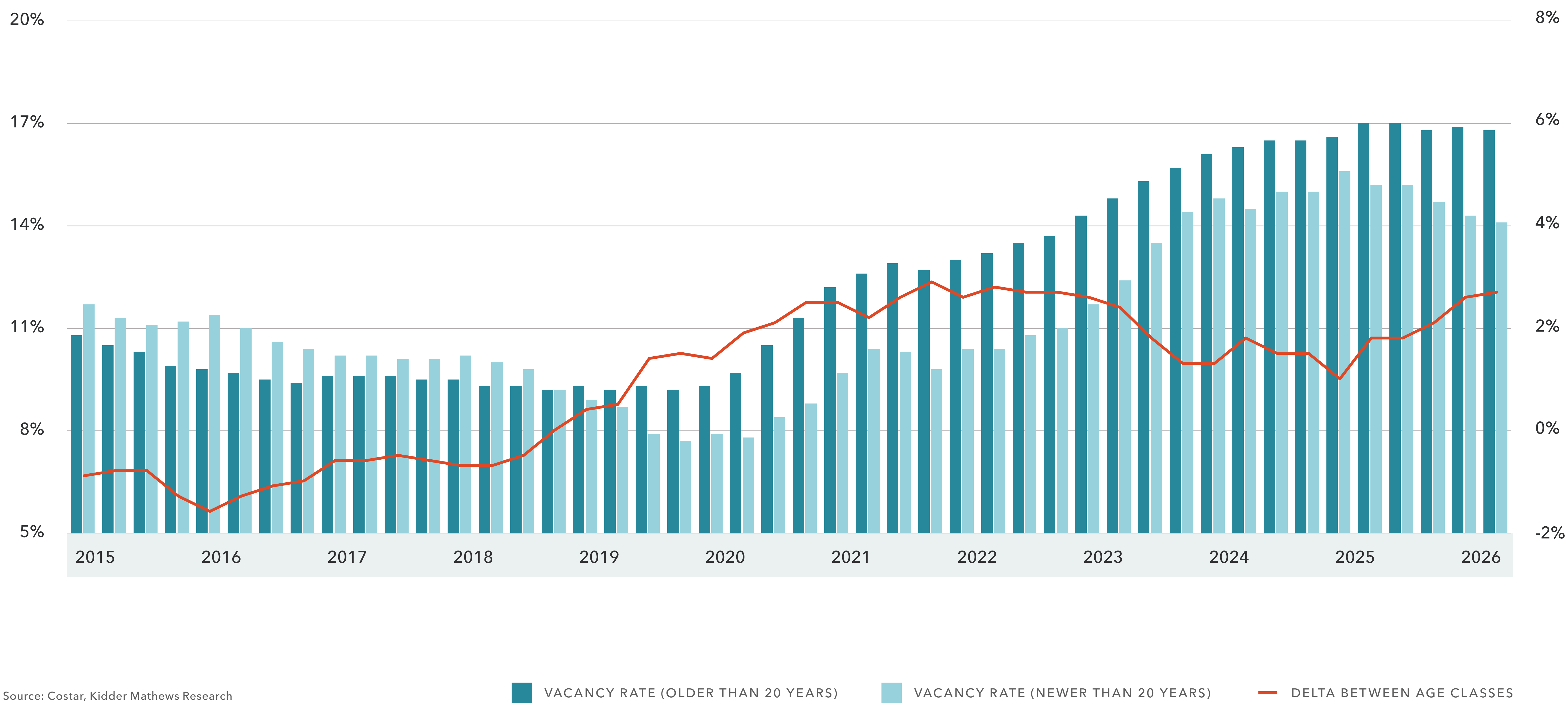
OFFICE OUTLOOK: *RECOVERY TAKES HOLD*

The office sector remains positioned for steady improvement.

Demand is expected to benefit from more stable economic conditions, continued job growth across office-using industries, and greater certainty around long-term workplace strategies. Premium buildings are likely to remain the strongest performers, while older properties may continue to face pressure to invest, reposition, or explore alternative uses.

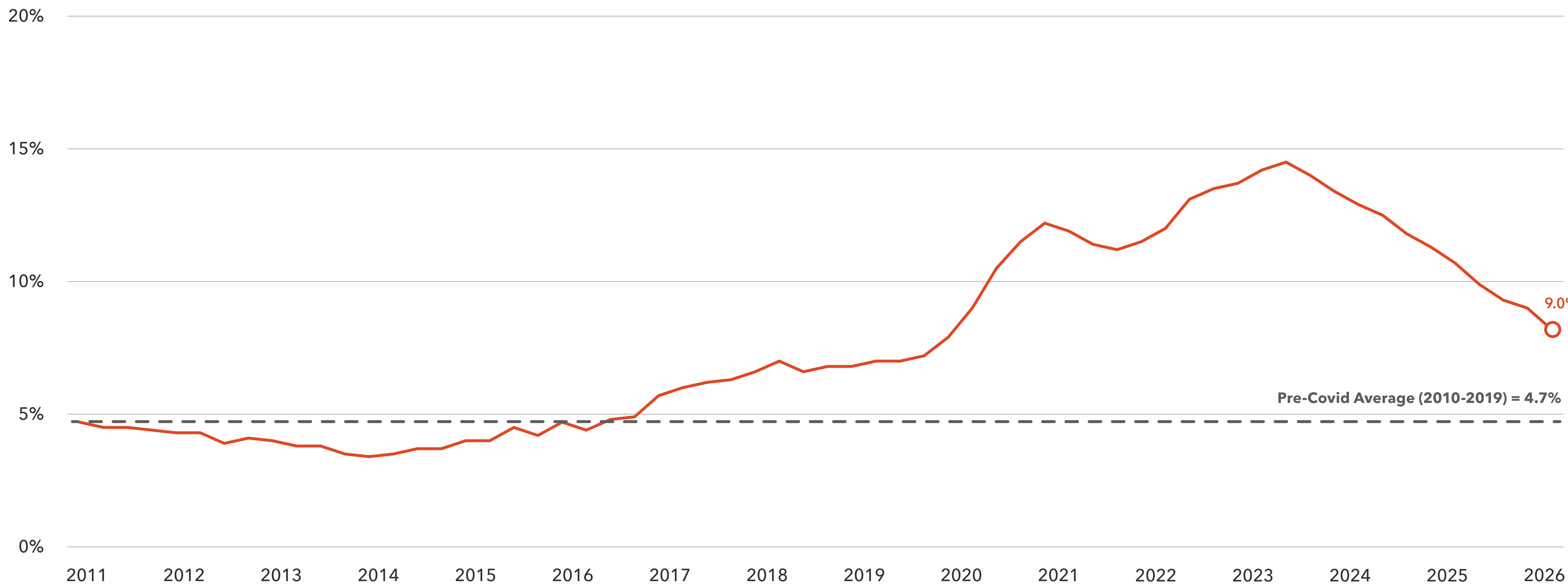
Combined with limited new supply, these trends should support higher occupancy and a healthier balance between supply and demand over time. Although challenges remain, particularly for lower-quality assets, the outlook for the office sector is becoming increasingly positive and optimistic.

THE FLIGHT TO QUALITY *DRIVES PERFORMANCE*



Source: Costar, Kidder Mathews Research

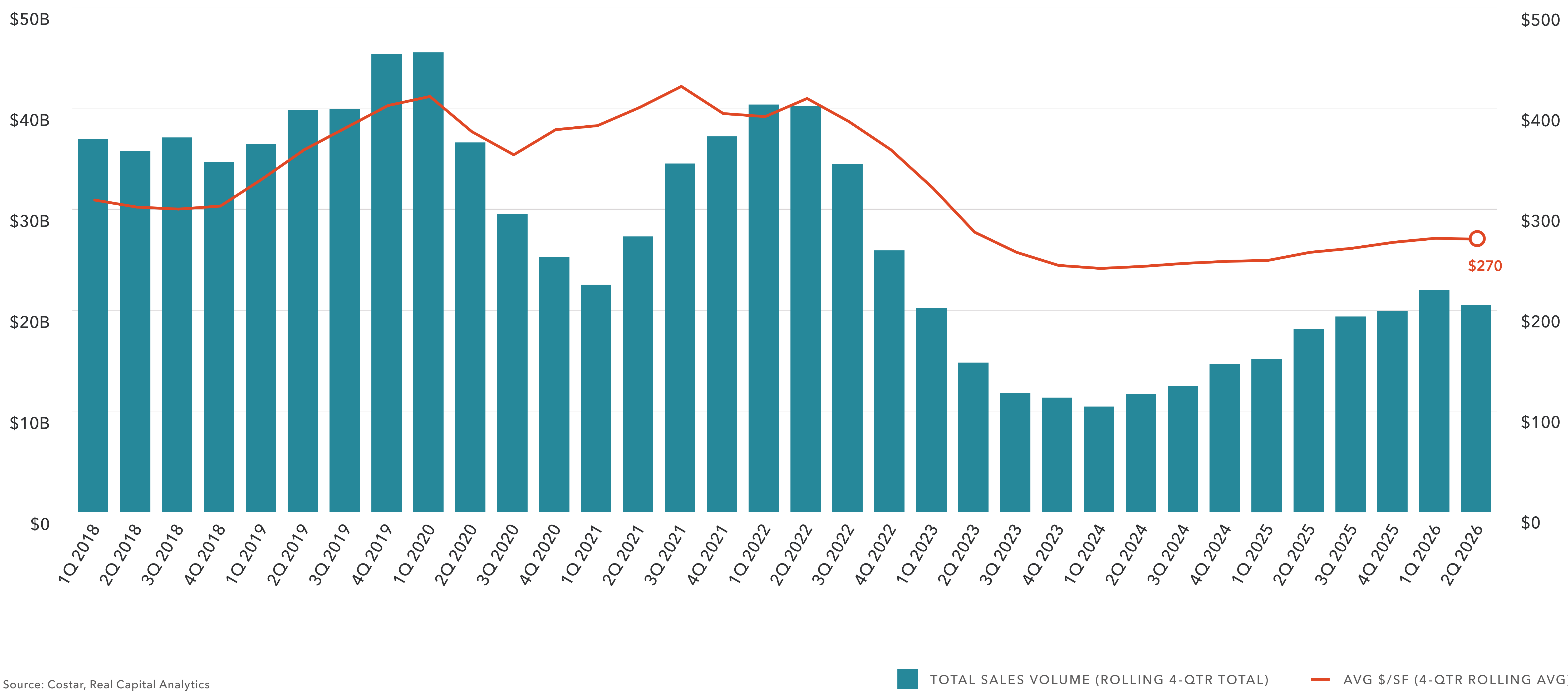
SUBLEASE SPACE *CONTINUES TO DECLINE*



Source: Costar, Kidder Mathews Research

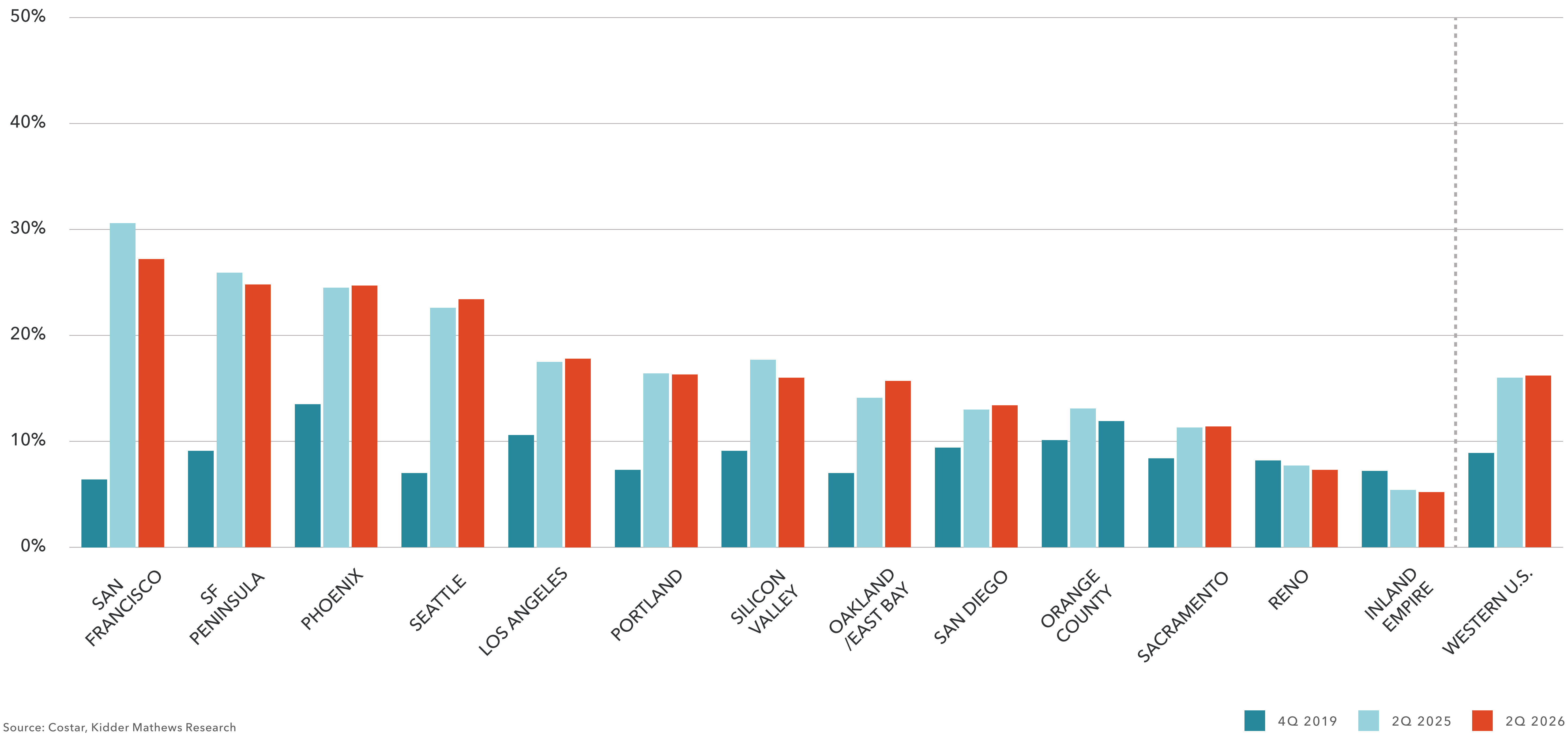
SUBLEASE SPACE (% OF TOTAL AVAILABLE SPACE)   PRE-COVID AVERAGE (2010-2019)

INVESTMENT MARKET *ACTIVITY*



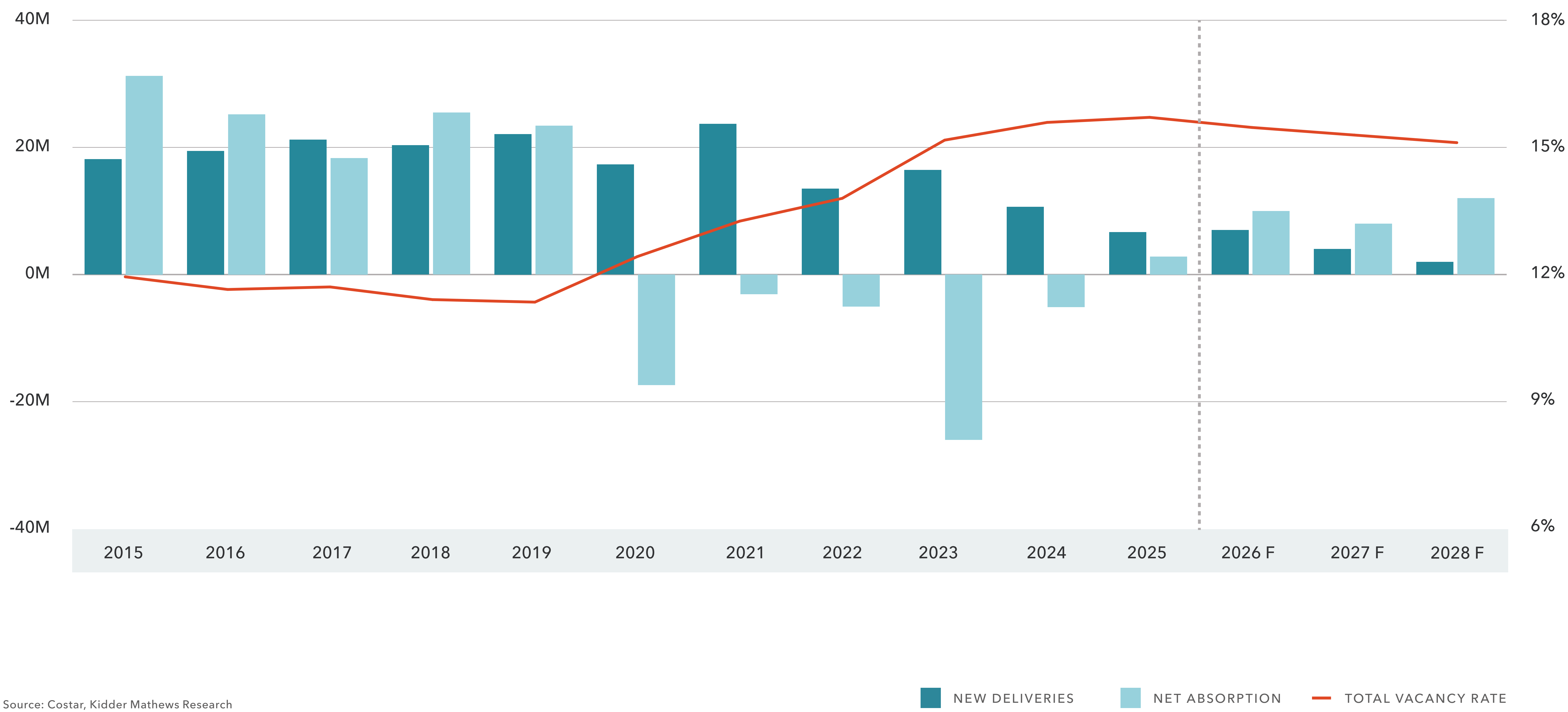
Source: Costar, Real Capital Analytics

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 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.

COMMERCIAL BROKERAGE

$9B
AVERAGE ANNUAL TRANSACTION VOLUME

32.4M+
ANNUAL SF OF SALES

32.5M+
ANNUAL SF OF LEASING

ASSET SERVICES

54M SF
MANAGEMENT PORTFOLIO SIZE

800+
ASSETS MANAGED

250+
CLIENTS SERVED

VALUATION ADVISORY

2,700+
AVERAGE ANNUAL ASSIGNMENTS

42
TOTAL NO. OF APPRAISERS

23
WITH MAI DESIGNATIONS