Office Developments

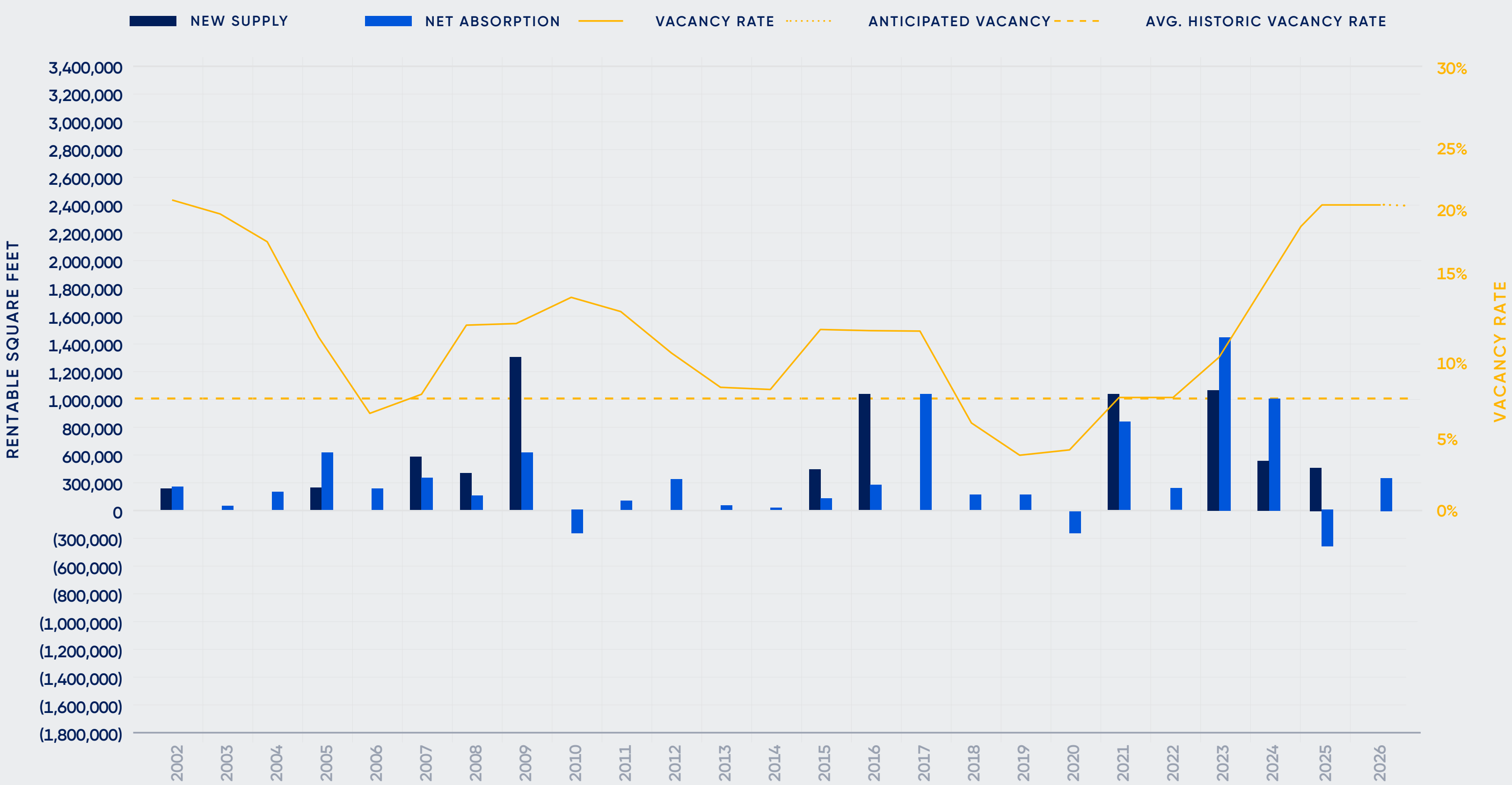
No new office projects are currently under construction in downtown Bellevue, but a few notable sites remain hopeful subject to adequate preleasing interest including Schnitzer West's "The Arcadian" (±435,000 SF), Beam Reach's "Kanon" (±780,000 SF) and Tishman Speyer's "Merge on Main" (up to 1.25m SF). Skanska continues to progress their 12-story, mass-timber downtown Bellevue office project (±200,000 SF) given their ongoing success leasing up The Eight next door. Despite certain ambitions, most office plans along 112th Avenue remain stalled as Amazon, Bellevue's larges office occupier, continues to fill surplus space within its existing portfolio and significant market vacancy still remains.

Office Leases

Bay Area tech and AI companies continued to expand their Eastside footprints in June and July. Databricks signed a 160,000 square foot lease at the new Four106 tower in downtown Bellevue, pushing its regional presence above 270,000 square feet and rivaling competitor Snowflake. Uber had earlier committed to 170,000 square feet in the same 21-story, 485,000 square foot building. With the majority of Four106 now leased, Dune Real Estate Properties is reportedly seeking a nearly $500 million refinance.

Snowflake continues its steady expansion in the Spring District, building out floors 7–9 of the 11-story Block 6 building that it subleased from Meta in 2024. The company already occupies the first six floors of the 330,000 square foot property as it hires locally, with more than 60 open roles reported. Meta has scaled back its own presence in the district after significant layoffs.

AI infrastructure firms are establishing a deeper presence on the Eastside. Lambda, a San Jose-based AI hyperscaler, subleased 18,244 square feet from Smartsheet at City Center Bellevue, joining CoreWeave, Nscale, and Crusoe. Separately, UK-based Nscale leased nearly 24,000 square feet at The Eight for a primary U.S. engineering hub scheduled to open in January 2027, with capacity for up to 250 people. Nscale recently raised $2 billion (valuing the company at $14.6 billion) and hired former Microsoft Azure AI executive Nidhi Chappell as president of AI infrastructure. Bay Area tech companies increasingly view Bellevue versus Seattle as a natural expansion market due to its talent density, transit access, and business climate.



Office Building Sales | Repositionings

A medical office building at 620 Kirkland Way traded for just over $15.7 million. The seller, associated with local investors, had acquired the property in 2020 for approximately $11.1 million.

Schnitzer West is reclaiming the vacant Bravern office towers (11 & 21 story towers totaling ±750,000 SF) on the perimeter of downtown Bellevue, the property it originally developed and later sold. Microsoft vacated the complex last year after consolidating employees to its newly renovated Redmond campus, leaving the prior owner in default on a substantial mortgage. Schnitzer West expects to close the acquisition this fall, renovate the buildings with hospitality-inspired amenities (including a signature Great Room), and return the space to the market for large tenants. The transaction also includes the underground parking garage serving the broader Bravern complex while the retail is separately owned. Schnitzer West also recently refinanced the Amazon-leased Artise office tower (±600,000 SF) and hopes to break ground on its Arcadian office project (±435,000 SF) in the near term subject to preleasing interest.

Interest Rates

At the end of July 2026, the average long-term U.S. mortgage rate rose for the fourth consecutive week to its highest level in a year. The month began at 6.43%, increased to 6.49% the second week, rose again to 6.55% in week three, climbed to 6.58% in week four and ended the month off at 6.66%. Mortgage applications, which include loans to buy a home or refinance an existing mortgage, fell 6.4% last week from the previous week, according to the Mortgage Bankers Association.

Economy

According to the U.S. Commerce Department, the U.S. economy grew at an annualized 1.5% in Q2 2026, down from 2.1% in Q1, as an 11.5% increase in imports reduced GDP growth by 1.5 percentage points. Consumer spending rose 3.2%, underlying domestic demand increased 3.9%, and business investment grew 8.4%, driven by AI-related spending. The Commerce Department also reported that the Fed's preferred inflation measure, the PCE price index, rose 3.7% year over year (down from 4.1%), while core PCE increased 3.3% (down from 3.4%), remaining above the Federal Reserve's 2% target. Meanwhile, according to the Associated Press, employers have added an average of 92,000 jobs per month in 2026, compared with fewer than 10,000 per month in 2025.

Washington's economy posted a strong start to 2026, with the state's real GDP increasing 1.1% in the first quarter to nearly $730 billion, according to the Bureau of Economic Analysis. If sustained, that pace would translate to approximately 4.5% annual GDP growth, outperforming the projected 2.1% national growth rate. The expansion was driven primarily by Washington's information sector, including software, cloud computing, and digital services, with economists attributing much of the growth to significant artificial intelligence investments. While economists view the performance as an encouraging sign for the state's economy, they caution that the first-quarter results may have been influenced by several large one-time investments.

Inflation | Consumer Spending

A report this July from the U.S. Labor Department revealed annual inflation eased to 3.5% from 4.2% in May. Core inflation, which excludes food and energy, remained unchanged from the previous month and slowed to 2.6% year over year. The report reduces pressure on the Federal Reserve to raise interest rates, although policymakers remain divided. Lower prices for gasoline, clothing, electricity, and used cars helped drive the decline, while grocery and rental costs continued to rise modestly. Economists also noted that continued investment in artificial intelligence infrastructure could create future inflationary pressure through higher demand for semiconductors and electricity.

U.S. retail sales increased 0.2% in June following a revised 1.0% gain in May, reflecting continued consumer resilience. Lower gasoline prices caused gas station sales to fall 5.3%, weighing on overall retail spending, while sales excluding gas stations rose a solid 0.7%. Consumers continued spending on vehicles, with motor vehicle and parts sales rising 1.9%, and online purchases increased 1.9%, driven in part by Amazon Prime Day. Sporting goods retailers also benefited from World Cup-related spending, while discretionary purchases such as clothing and furniture remained relatively soft. The report, combined with easing inflation and lower fuel prices, suggests consumers remain financially resilient but are becoming increasingly selective about discretionary spending as they navigate higher living costs and continued economic uncertainty.

Housing

According to the National Association of Realtors (NAR), existing U.S. home sales fell 2.4% in June to a seasonally adjusted annual rate of 4.09 million, below economists' expectations. Median home prices rose 1.8% year over year to a record $440,600. Home sales continue to be constrained by affordability challenges, limited inventory, and elevated mortgage rates. Inventory, on the other hand, has improved modestly, rising 1.3% from a year ago to 1.56 million homes.

Jobs

By the end of July, unemployment claims increased by 9,000, to total 197,000. The four-week moving average declined to 202,750, while continuing claims fell by 7,000 to 1.78 million. The report comes as hiring continues to cool without a significant rise in layoffs. According to the Labor Department, employers added 57,000 jobs in June, and the unemployment rate declined to 4.2% from 4.3%, largely because fewer unemployed Americans were actively seeking work. Higher energy prices, persistent inflation, and slower economic growth continue to pose risks to the labor market, though layoffs have remained historically subdued

Other News

Vulcan Real Estate is negotiating the sale of its Amazon-leased Tower 1 at West Main (±365k SF). Los Angeles-based Preylock Real Estate Holdings has been identified as the prospective buyer. The building was listed in February and Preylock has been active in the regional tech corridor with recent purchases in Redmond.

Microsoft just announced 605 Washington layoffs as part of a broader 4,800 person reduction focused primarily on sales and gaming roles. The cuts follow larger 2025 reductions and the company's first voluntary buyout program. Separately, Sony-owned Bungie disclosed plans to lay off 292 employees at its Bellevue offices (effective July 9), primarily from the Destiny team and some Marathon and operations staff, as the studio pivots after its final Destiny 2 content update.

Downtown Bellevue office values declined approximately $1.61 billion (19%) between 2022 and 2025 according to King County Assessor data, even as new towers opened. Vacancy rose from 3.3% at the end of 2019 to approximately 23% today. However, second-quarter absorption improved, with 24 full floors leased and large commitments from Databricks, Uber, and OpenAI tightening the supply of contiguous blocks above 100,000 square feet. Average asking rents in downtown Bellevue reached about $65 per square foot, full-service, roughly 31% higher than downtown Seattle.

In Issaquah, Vintage Housing (an affiliate of Kennedy Wilson) is pursuing conversion of two vacant former Microsoft buildings at The ParQ (near Costco headquarters) into 262 affordable housing units. The adaptive-reuse project would repurpose 410,848 square feet of office space without significant site expansion. Permits are expected by year-end, with completion targeted for fall 2028. This would rank among the larger office-to-housing conversions in the Seattle region.