CommercialEdge

National Office Report

January 2025

Another Rocky Year Expected in 2025

- 2025 will be another tough year for office, and the worst may not yet be in the rearview mirror. We are in the early innings of a multi-decade transformation, with the sector still adapting to the post-pandemic world.

- The national vacancy rate to end the year was 19.8%, an increase of 150 basis points over the last 12 months. We do not anticipate that vacancies will fall this year despite high-profile return-to-office mandates from major corporations. Office utilization rates, though imperfect, have plateaued in the last two years, indicating a permanent adoption of remote and hybrid work. While a firm like AT&T may generate headlines announcing that all employees must return to the office five days a week, a company that quietly commits to hybrid work and downsizes its office space will receive little to no attention from the press. Any vacancy decreases in the next few years will be driven by a shrinking stock of office space—due to obsolescence or conversion—not by a rapid rise in occupied space.

- We anticipate that conversions will continue in 2025 at much the same rate they have in recent years. While there was some expectation that a wave of conversions would take root this decade, that has not been the case. Logistical and financial roadblocks have made many conversion projects difficult to pencil out. We expect that localities will continue to explore ways to provide incentives for developers that can creatively repurpose empty offices, such as New York's Office Conversion Accelerator Program or Washington, D.C.'s Office-to-Anything initiative. While office-to-residential will remain the primary category of conversion, we expect interest to increase in conversions to data centers and industrial. Some owners may opt to transition their vacant space to meet demand for coworking, which has grown consistently in the past few years.

- There may be an uptick in sales volume this year, but the average price of an office building will not increase much, if at all, in 2025. Interest rate cuts in recent quarters have made debt somewhat cheaper, but inflation remaining stubbornly above target will lead to fewer cuts in 2025 than previously anticipated. Given that office utilization rates have plateaued and hybrid work is now the norm for many firms, investor demand will remain muted. We also expect that a significant portion of office transactions will continue to be distressed sales. Billions of dollars in loans are maturing this year, and many loans are for buildings that have struggled to maintain occupancy in recent years.

Listing Rates and Vacancy: Where Vacancies Increased the Most in 2024

- The national average full-service equivalent listing rate was $33.11 per square foot in December, according to CommercialEdge, up 26 cents in the month and 4.5% year-over-year.

- The national vacancy rate was 19.8%, an increase of 40 basis points in the month and 150 points year-over-year.

- While every market has seen vacancies grow in recent years, some places are experiencing sharper increases than others. Six of the top 25 markets covered by CommercialEdge had vacancy rate increases of more than 500 basis points in 2024. Austin's jump was the biggest, with its vacancy rate increasing 690 bps since December of 2023 and now sitting at 27.9%. Other markets with large vacancy increases in 2024 included the Bay Area and Portland (both 620 bps), San Francisco (520 bps), Philadelphia (520 bps) and Boston (510 bps).

Listings by Metro

Market	Dec-24 Listing Rates	12-Month Change	Total Vacancy	12-Month Change	Top Listing	Price Per Sq. Ft.
National	$33.11	4.5%	19.8%	150 bps		
Orlando	$28.11	17.3%	16.9%	-20 bps	Capital Plaza Two	$33.00
Boston	$53.35	17.2%	17.0%	510 bps	Genesis 55 Summer	$116.33
Miami	$54.37	16.3%	15.2%	110 bps	701 Brickell	$140.00
Dallas	$31.31	16.0%	24.0%	380 bps	McKinney & Olive	$88.84
San Francisco	$70.56	14.0%	28.8%	520 bps	Sand Hill Commons	$204.00
Charlotte	$34.95	11.1%	17.5%	460 bps	Morehead Place	$46.00
Austin	$45.68	10.9%	27.9%	690 bps	Indeed Tower	$84.21
Atlanta	$33.57	7.0%	18.9%	180 bps	1180 Peachtree	$63.00
Tampa	$30.29	5.8%	16.3%	300 bps	Bayshore Place	$52.00
Nashville	$31.40	3.6%	17.5%	90 bps	3322 West End Avenue	$38.00
San Diego	$43.28	3.1%	18.8%	140 bps	One La Jolla Center	$70.20
Denver	$31.09	2.9%	24.7%	250 bps	200 Clayton Street	$73.00
Phoenix	$28.39	2.7%	19.4%	40 bps	Watermark, The	$58.00
Washington DC	$41.41	2.0%	18.5%	60 bps	500 8th Street NW	$79.58
Los Angeles	$42.41	1.8%	16.0%	-80 bps	100 Wilshire	$108.00
Houston	$30.24	1.2%	24.5%	-40 bps	Texas Tower	$64.90
Twin Cities	$26.25	0.8%	16.2%	-160 bps	Nordic, The	$41.42
Detroit	$21.46	0.6%	24.7%	-30 bps	Orchestra Place	$36.14
Bay Area	$54.13	-0.2%	26.4%	620 bps	245 Lytton Avenue	$147.48
Chicago	$27.30	-0.2%	18.8%	70 bps	222 North LaSalle Street	$51.00
Portland	$27.89	-1.6%	21.8%	620 bps	Fox Tower	$43.38
Manhattan	$68.42	-2.3%	16.6%	20 bps	101 Park Avenue	$175.00
New Jersey	$33.71	-3.4%	19.4%	-40 bps	Newport Tower	$54.80
Philadelphia	$30.80	-3.5%	19.4%	520 bps	Two Liberty Place	$53.50
Seattle	$36.23	-5.1%	26.3%	380 bps	Lincoln Square South	$67.24

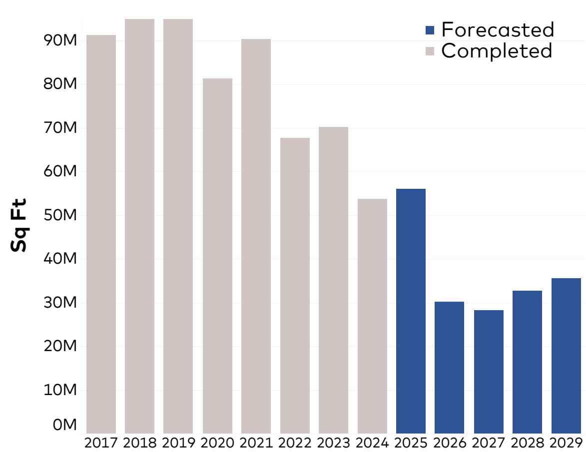
Source: CommercialEdge. Data as of December 2024. Listing rates are full-service or "full-service equivalent" rates for spaces available as of report period. National listing rate is an average of all markets. Prior to July 2024, this report used the top 50 markets for a national average.

Supply:
2024 Delivers 10-Year Low

- Nationally, there are 54.7 million square feet of office space currently under construction, according to CommercialEdge, representing 0.8% of stock. This represents a 43.6% drop year-over-year from last January's 97 million square feet under construction. During 2024, 43.2 million square feet of office stock were delivered, the lowest yearly total since 2013.

- The reduction in activity is in line with what we have seen since COVID, as office culture has moved away from in-person collaboration. Attitudes from workers, who have built their lives around a new remote work model, remain entrenched on this issue. Despite media buzz around major U.S. companies demanding a return to the office, it is unlikely any large-scale cultural change with happen soon, especially considering many workers in their 20s have only ever known a remote work environment. New starts in 2024 reflect this sentiment, with a mere 9.8 million square feet beginning construction, a low mark for this century. For context, pre-COVID, 83 million square feet of total starts were recorded in 2019, rapidly declining since.

National New Supply Forecast



Source: Yardi Matrix. Data as of December 2024.
Data in this chart includes owner-occupied properties.

Supply Pipeline (by metro)

Market	Under Construction	Under Construction % Stock	Plus Planned % Stock
National	54,683,927	0.8%	2.9%
Boston	8,700,117	3.4%	8.6%
San Francisco	3,784,611	2.3%	9.0%
Austin	3,536,899	3.7%	12.6%
San Diego	3,082,034	3.1%	5.6%
Dallas	2,931,645	1.0%	4.6%
Manhattan	2,741,227	0.6%	3.0%
Nashville	2,132,547	3.6%	6.1%
Los Angeles	1,875,590	0.7%	3.0%
Houston	1,856,892	0.8%	1.9%
Miami	1,844,598	2.6%	9.6%
Seattle	1,789,581	1.2%	4.1%
Philadelphia	1,475,190	0.8%	2.7%
Bay Area	1,399,416	0.7%	2.7%
New Jersey	1,374,251	0.7%	1.1%
Washington DC	1,072,674	0.3%	3.1%
Atlanta	934,186	0.5%	2.0%
Chicago	870,344	0.3%	2.0%
Denver	680,961	0.4%	2.9%
Tampa	663,292	0.8%	3.8%
Orlando	646,141	0.9%	1.8%
Phoenix	618,816	0.4%	1.9%
Detroit	553,680	0.4%	0.8%
Charlotte	524,657	0.7%	5.5%
Twin Cities	426,076	0.3%	1.6%
Portland	63,899	0.1%	0.8%

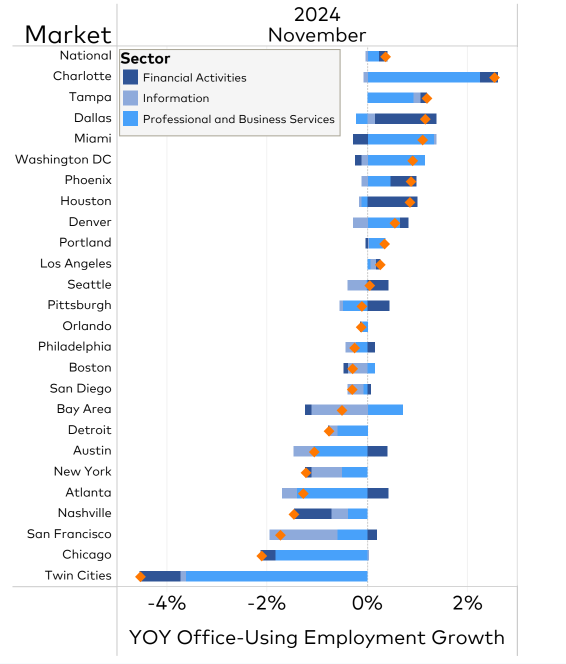
Source: CommercialEdge. Data as of December 2024. Table does not include owner-occupied properties.

Office-Using Jobs:
Charlotte Leads Office Employment

- Office-using sectors of the labor market gained 51,000 jobs during the month of December, according to the Bureau of Labor Statistics. This grew 0.4% year-over-year to a total of 35 million. Most of this gain was in the professional and business services sector, which added a total of 28,000 jobs, with Charlotte far in the lead. Meanwhile, the financial activities sector added only 13,000 jobs, and the information sector added a mere 10,000 jobs.

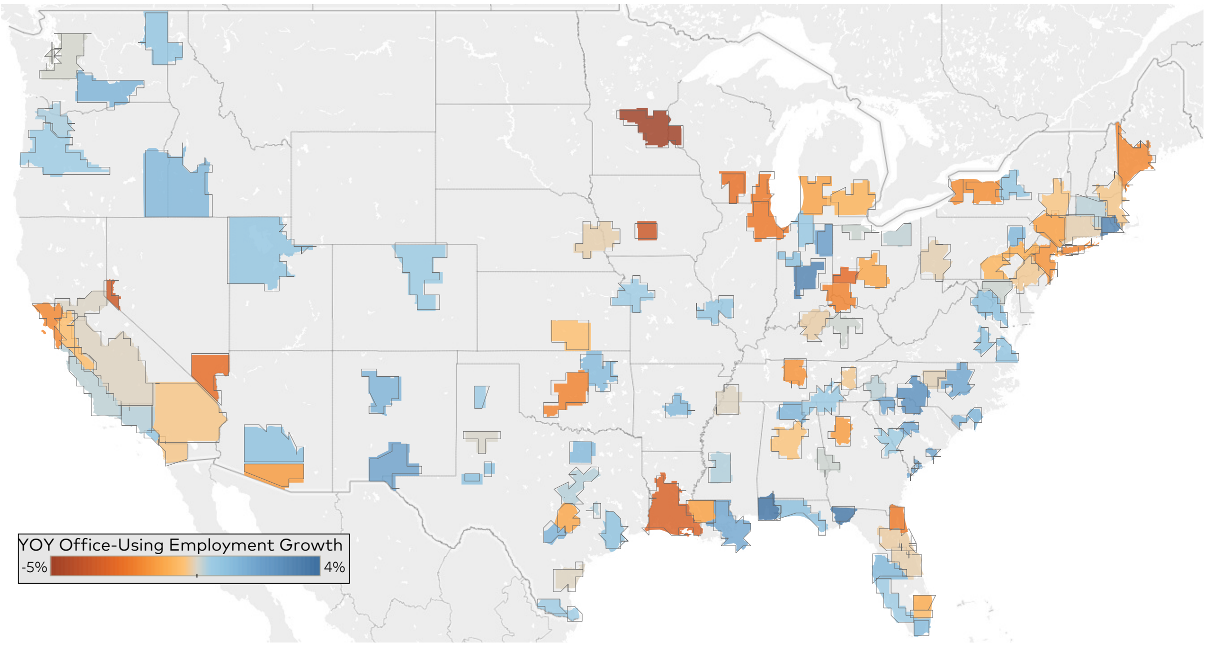
- Year-over-year, additions to office-using jobs have been relatively flat since the steep decline during the height of the COVID reshuffle. In 2024, office-using sectors added on average 137,000 jobs year-over-year, compared to a 1.6 million average in 2022. On Dec. 18, the Federal Reserve Board announced a 25-basis-point rate reduction with an aim to increase employment. Despite recent cuts, remote-work trends are likely to remain, hindering any boost lower rates may give to the sector.

Growth by Sector



Sources: Bureau of Labor Statistics and Moody's Analytics

Office-Using Employment Growth



Sources: Bureau of Labor Statistics and Moody's Analytics

Definitions

This report covers office buildings 25,000 square feet and above. CommercialEdge subscribers have access to more than 14,000,000 property records and 300,000 listings for a continually growing list of markets.

CommercialEdge collects listing rate and occupancy data using proprietary methods.

- *Listing Rates*—Listing Rates are full-service rates or "full-service equivalent" for spaces that were available as of the report period. CommercialEdge uses aggregated and anonymized expense data to create full-service equivalent rates from triple-net and modified gross listings. Expense data is available to CommercialEdge subscribers. National listing rate is an average of all markets. Prior to July 2024, this report used the top 50 markets for a national average.

- *Vacancy*—The total square feet vacant in a market, including subleases, divided by the total square feet of office space in that market. Owner-occupied buildings are not included in vacancy calculations.

A and A+/Trophy buildings have been combined for reporting purposes.

Stage of the supply pipeline:

- *Planned*—Buildings that are currently in the process of acquiring zoning approval and permits but have not yet begun construction.

- *Under Construction*—Buildings for which construction and excavation has begun.

Supply pipeline figures do not include owner-occupied properties unless otherwise noted.

Office-Using Employment is defined by the Bureau of Labor Statistics as including the sectors Information, Financial Activities, and Professional and Business Services. Employment numbers are representative of the Metropolitan Statistical Area and do not necessarily align exactly with CommercialEdge market boundaries.

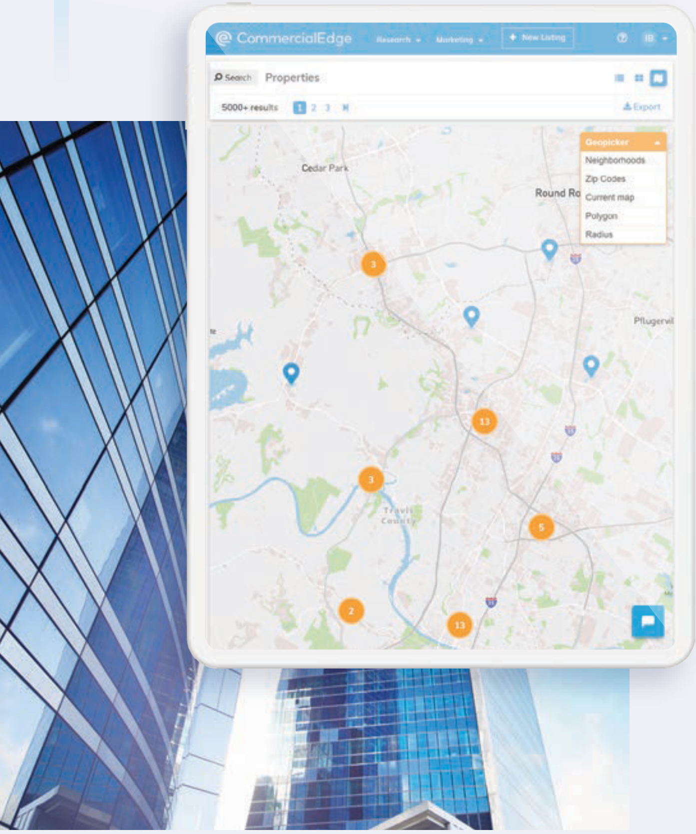
Sales volume and price-per-square-foot calculations for portfolio transactions or those with unpublished dollar values are estimated using sales comps based on similar sales in the market and submarket, use type, location and asset ratings, sale date and property size.

Sales figures were not available for this month's report. Year-end figures for 2024 will be available in the February 2025 report.

CommercialEdge

Reliable commercial real estate data, built up over more than a decade of extensive research. Powered by Yardi.

CommercialEdge provides the office segment's most comprehensive market intelligence service and listing management platform, sustaining data-driven decisions.



Key features:

- Continually growing nationwide coverage with 162 markets currently included
- Researched and verified data, powered by a team of 400 experienced property research specialists
- Exhaustive property reports featuring data points such as ownership, leases, sales, debt, taxes and more
- Building and portfolio performance overview with current average rents, vacancy rates and maturing leases
- Extensively researched tenant data with an accuracy rate two to three times higher than the industry average
- Real-time market trends based on actual transactional and leasing data with Yardi Market Insight
- Dedicated tools, including automated competitive building sets, broker tour books and dedicated property webpages
- Access to the CommercialEdge Listing Network — including CommercialCafe, PropertyShark, Point2 and CommercialSearch

Capitalize on comprehensive commercial real estate research
Nationwide property and listing data all in one place, specifically engineered for CRE professionals.

The data presented in this report is provided by CommercialEdge.
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