Occupier Outlook

United States Overview:
The Economy and Its Impact on Commercial Real Estate

Cresa Research | Q3, 2025

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COMMERCIAL REAL ESTATE MARKET AT CROSSROADS:
BALANCING RECOVERY, HIGHER RATES, AND EVOLVING WORK TRENDS

OCCUPIER OUTLOOK

Executive Summary

Macro Economic View

- Inflation remains persistently elevated as prices negatively impact consumer confidence. The Fed cut rates in late October to 3.75 to 4 percent, reflecting growing concern about downside risks to the labor market.
- Job growth slows down as employers hold off on new hiring.
- The manufacturing sector is under significant pressure and has shed 85,000 jobs over the past year.
- Rising tariffs and other restrictive policies are making mid- to long-term demand for consumer goods uncertain, particularly non-durable goods, and may slow decision-making for companies.

Office Market

- The office market may have hit an inflection point as vacancy retreats and net absorption turns positive in the third quarter.
- Office demand remains complex and highly variable across markets, with only about half of the nation’s top 50 markets seeing positive demand in the first half of 2025.
- Overall office occupancy improves in the margins as workers come to the office more frequently, but hybrid work scenarios remain prevalent.

Industrial Market

- Three straight years of increasing vacancy rates is shifting leverage to the occupier.
- Large distribution spaces (over 250,000 square feet) expand vacancy as smaller bay spaces (under 50,000 square feet) surge in demand.
- Tariffs and protectionist trade policies weigh on decision-making for companies, expanding the time to lease spaces.
- Industrial sales volume picks up steam as investors look to cash in on substantial lease rate increases over the past five years.

Economic Overview

U.S. Economy Enters a Slower but Stable Phase Amid Cooling Growth

Entering the last quarter of 2025, the U.S. economy is navigating a slowdown as opposed to a steep downturn. Economic expansion has turned modestly positive, with indicators that the catalyst of the economy – consumer spending – has remained resilient. Still, inflation remains persistently elevated, and job growth has slowed to a crawl, creating a scenario for slight headwinds to protract growth. Higher interest rates, trade and tariff uncertainty, and structural shifts such as in labor markets and supply chains are weighing on business investment and confidence. Many firms remain cautious about hiring decisions, and the overall economic backdrop is relatively muted optimism.

Within the commercial real estate landscape, these economic dynamics are having divergent impacts across sectors. Employment for knowledge workers, the driving force for increased demand in the office market, has seen a pullback in the last 18-months. Combined with office occupancy now stabilized at 65 to 75 percent of pre-pandemic levels due to hybrid work scenarios, the demand for office space continues to weaken. Nevertheless, it appears the national office market has hit the bottom and is beginning to make some positive, although modest, gains.

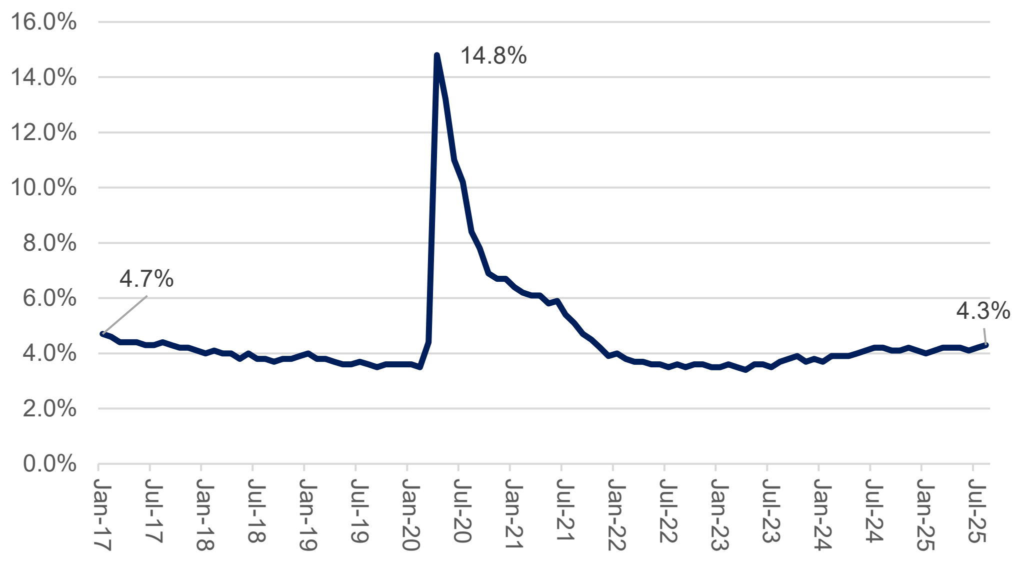
On the industrial side, long-term tailwinds remain, but the exception boom is in our rearview mirror. The industrial sector is becoming increasingly sensitive to the broader economic environment and will need to adapt to slower growth, higher financing costs, and evolving occupier needs.

Unemployment

Unemployment Steadies After Drifting Higher

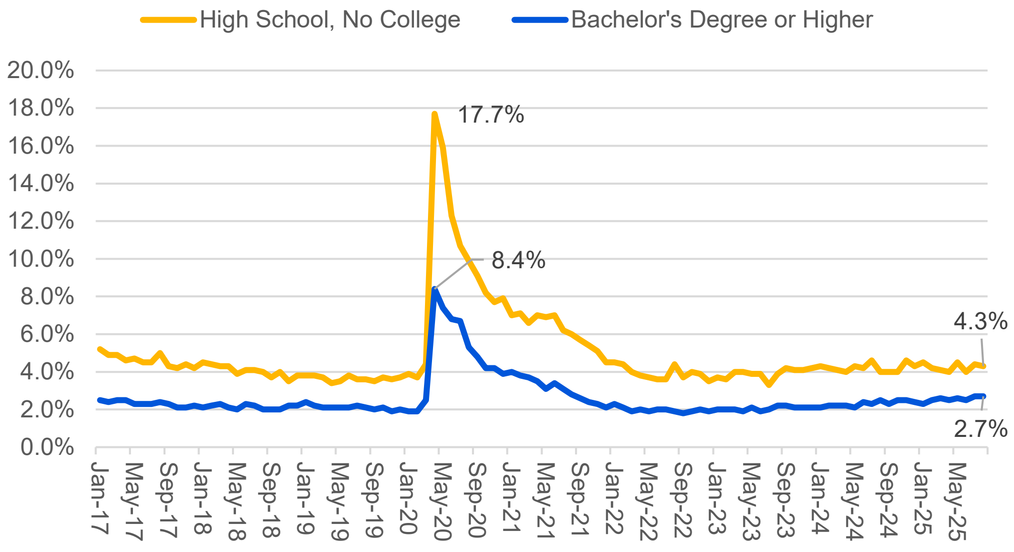
Unemployment rates tick higher but remain low by historical standards. The market is closely watching for additional Fed rate reductions, but volatile inflation is making the timing murkier. College-educated unemployment is below 3 percent, but it has increased by 700 basis points over the past 12-months. Knowledge worker employment, particularly tech jobs, has retreated since 2023.

Total Unemployment: (United States)



Source: U.S. Bureau of Labor Statistics, https://bls.gov; Seasonally adjusted

High School Only vs. Bachelor's Degree or Higher



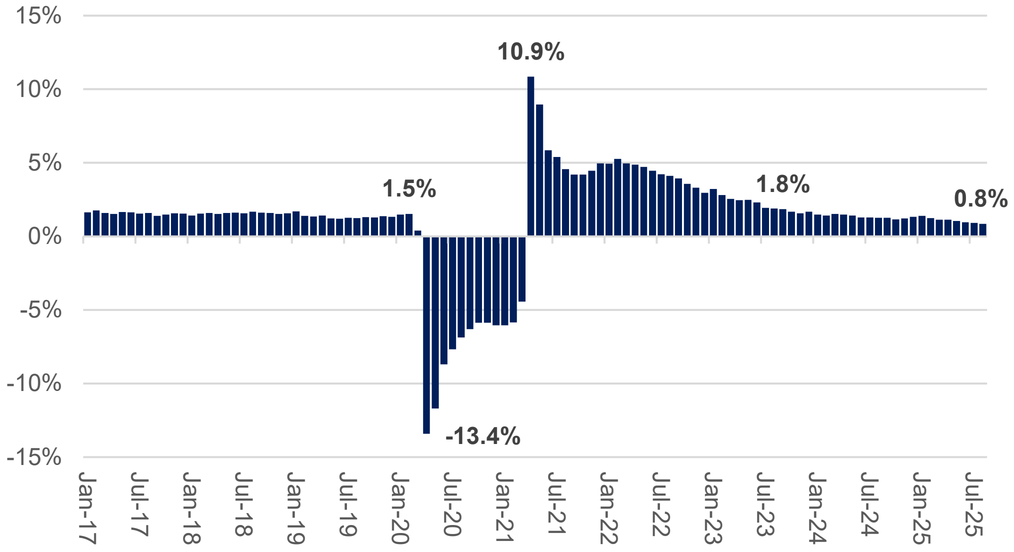
Source: U.S. Bureau of Labor Statistics, https://bls.gov, Seasonally adjusted

Employment

Job Creation Falls Below Pre-Pandemic Levels

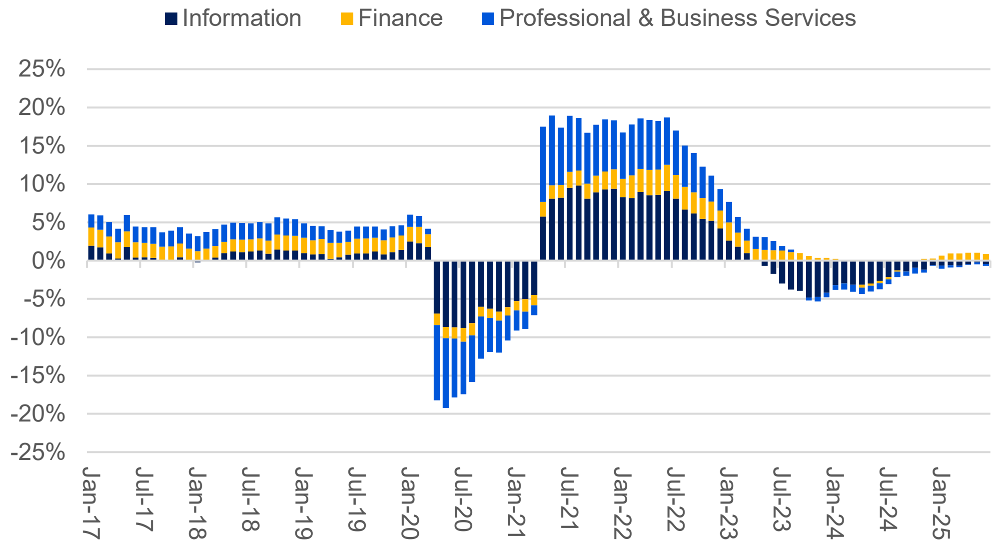
The August jobs report showed weak growth, with non-farm payrolls increasing by only 22,000 jobs. Further, the Bureau of Labor Statistics revised previous employment gains by 911,000 for the 12 months through March 2025. For September, although the BLS number has not yet been released, private-sector payroll data from the ADP Research Institute showed a decline of 32,000 jobs, which is below projections.

All Job Sectors (12-Month Change)



Source: U.S. Bureau of Labor Statistics, https://bls.gov, Not seasonally adjusted

Office-Occupying Jobs (12-Month Change)



Source: U.S. Bureau of Labor Statistics, https://bls.gov, Not seasonally adjusted

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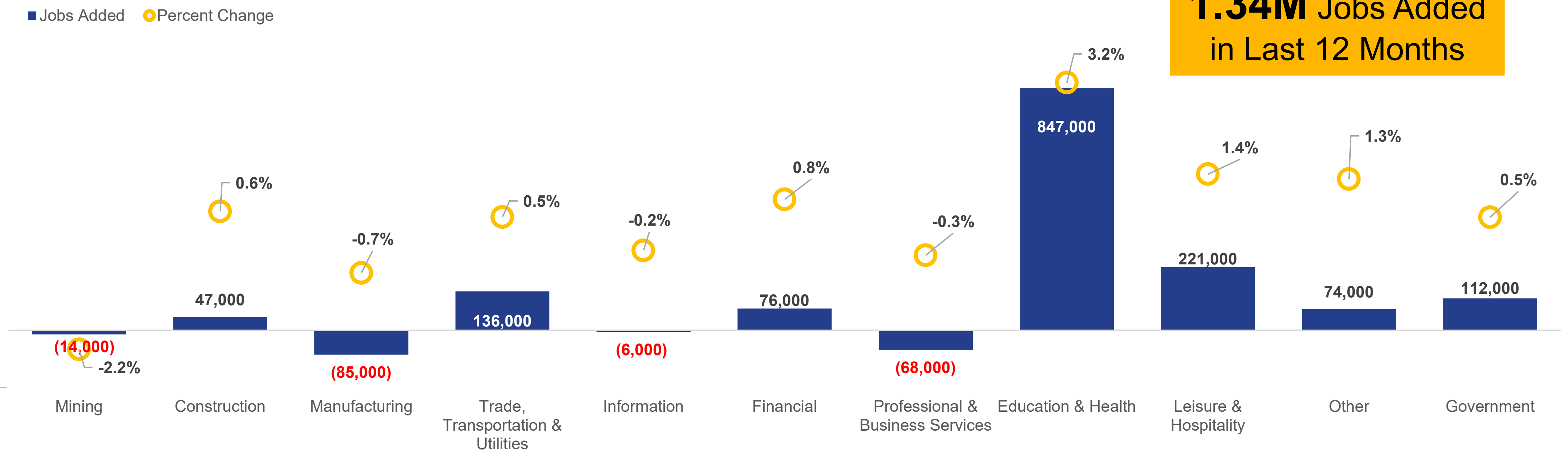
Employment

Education and Healthcare Sectors Lead the Way

Despite overall weak employment numbers, healthcare and social assistance posted gains of approximately 47,000 jobs in August. Leisure and hospitality also showed growth in August by about 28,000 jobs, although there are signs the sector may be softening. The manufacturing sector is under significant pressure and has shed 85,000 jobs over the past year. While still positive, construction employment has slowed for the third straight month, indicating a potential pause in some projects. More broadly, modest and concentrated growth indicates firms appear to be cautious about hiring.

Job Creation by Sector (12-Month Change)

1.34M Jobs Added in Last 12 Months



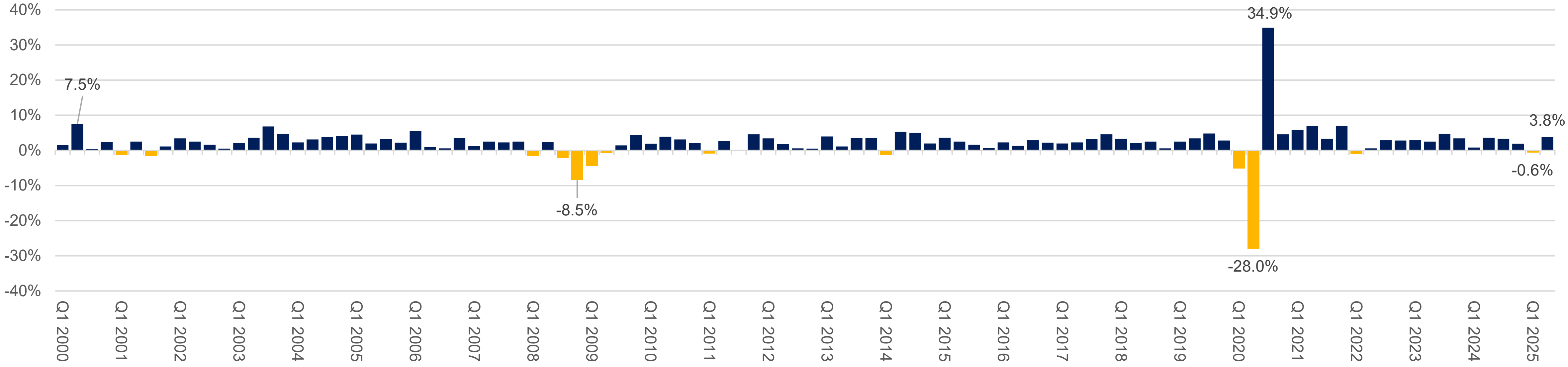
Source: U.S. Bureau of Labor Statistics, https://bls.gov

GDP

Real GDP Increases After a Drop in the First Quarter

The GDP increased at an annualized rate of 3.8 percent in the second quarter. The bounce was primarily driven by a sharp decline in imports, which boosts measured GDP, since imports are a subtraction in GDP. Consumer spending was revised upward, which is a key positive contributor. Economic expansion for the second half of 2025 is projected to be modest.

Real GDP Percent Change from Preceding Quarter: Q4 2024



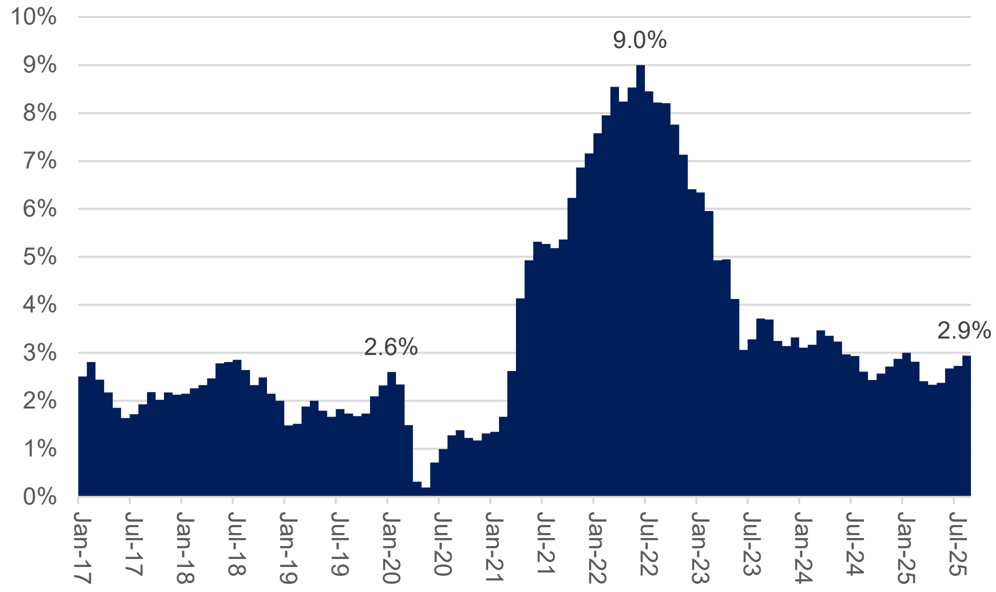
Source [Real Gross Domestic Product (A191RL1Q225SBEA) | FRED | St. Louis Fed (stlouisfed.org)](https://fred.stlouisfed.org/series/A191RL1Q225SBEA)
Note April 15, 2024. Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/A191RL1Q225SBEA, October 15, 2025.

Inflation

Inflation Increases as Indications Point to a Volatile Second Half of 2025

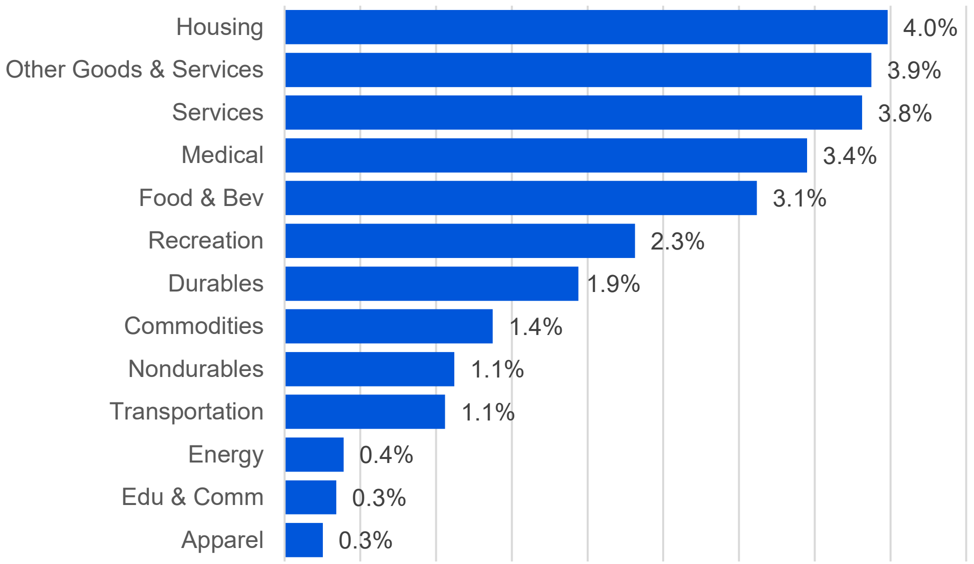
The August 2025 Consumer Price Index (CPI) from the Bureau of Labor Statistics reported inflation reached 2.9 percent over the past year, the third straight month of increases. Pre-covid rates were typically 2-3 percent annual increases, indicating the US economy has stabilized. Indexes that increased in May include *Housing*, *Other Goods & Services*, and *Medical*. Every sector increased over the past year, after energy and transportation retreated earlier in the summer.

Consumer Price Index (12-Month Change)



Source: U.S. Bureau of Labor Statistics, https://bls.gov
Note: Seasonally adjusted, Data pulled October 2025.

Consumer Price Index by Sector (12-Month Change)



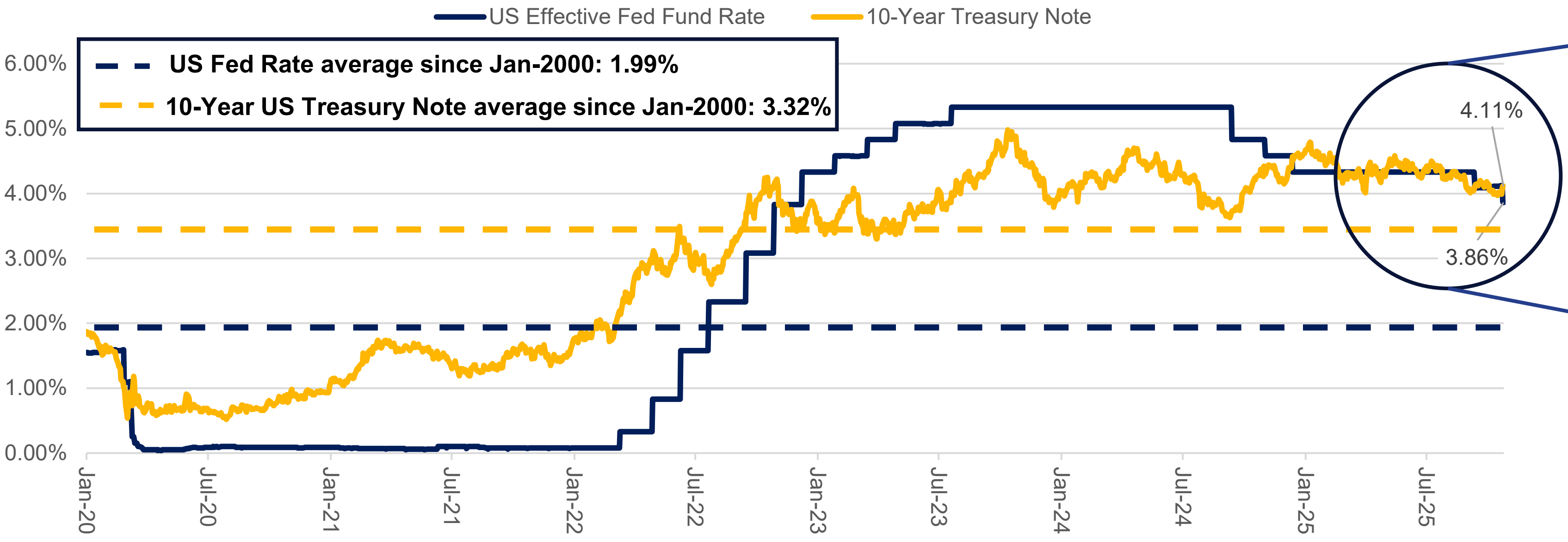
Source: U.S. Bureau of Labor Statistics, https://bls.gov
Note: Seasonally adjusted, Data pulled October 2025

Monetary Policy

The Fed Holds Rates Steady

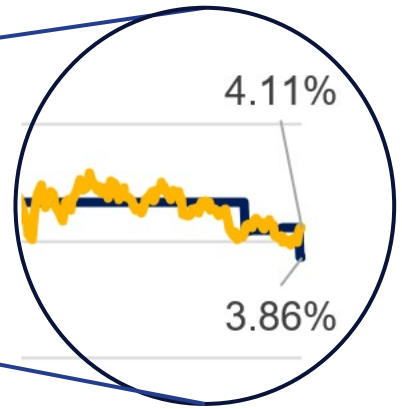
At the Fed's meeting in September 2025, the Fed cut the federal funds target rate by 25 basis points (0.25%) to 4.00% to 4.25%, followed by another 25-basis point cut to 3.75% - 4% The cuts reflect the growing concern about downside risks to the labor market, even as inflation remains elevated. The Fed has signaled that further cuts are not guaranteed, although analysts expect them before the end of the year. The 10-year treasury rate is slightly below the long-term average of about 4.25%. The current rate of 4.11% suggests that investors expect a moderate amount of inflation and or moderate growth ahead.

US Effective Fed Fund Rate & 10-Year Treasury Note



Source: Federal Reserve Economic Data, https://fred.stlouisfed.org; Data is through July 15, 2025
Wall Street Journal; Data is through October 15, 2025

10-Year Treasury Passes US Fed Fund Rate



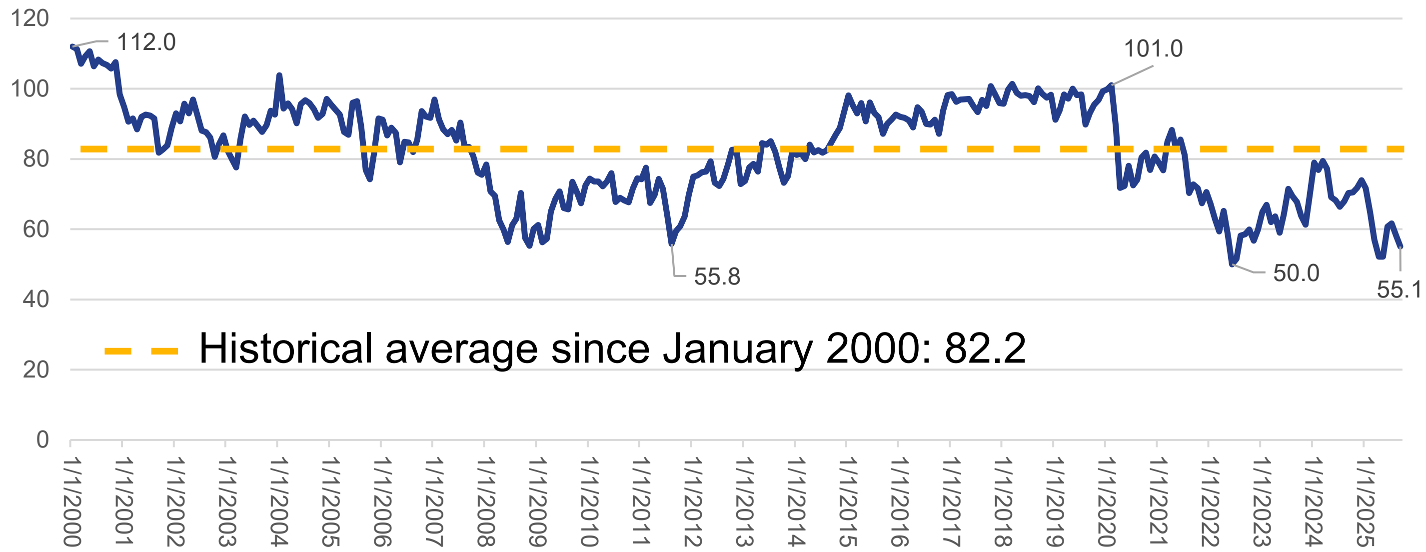
When the 10-year treasury note yield is higher than the US effective rate, it indicates that investors are demanding higher returns on longer-term bonds. The result is typically higher mortgage rates and higher interest rates on other debt like credit cards.

Consumers

Consumer Sentiment Moves Lower

The Consumer Sentiment Index reported a reading of 55.1 in September, which is low by historical standards and suggests consumers are cautious. Broad concern across the economy, including job-market concerns, inflation, trade/tariff worries, is negatively impacting sentiment. Since the start of 2025, the Consumer Sentiment Index has generally been declining, decreasing from a reading of 71.7 in January.

Consumer Sentiment Index: (United States Total)



Source: Federal Reserve Economic Data, https://fred.stlouisfed.org;
Note: Data thru September 2025 (UMCSENT)

Consumer Sentiment Index

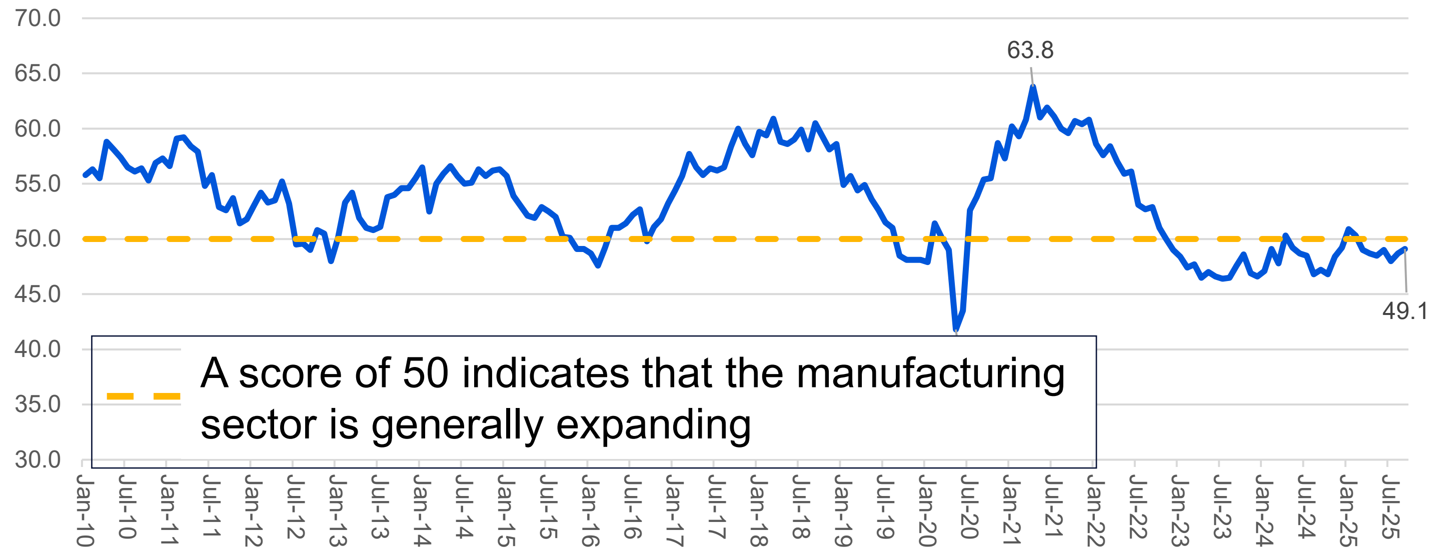
Consumer sentiment is a statistical measurement of the overall health of the economy as determined by consumer opinion. It considers people's feelings toward their current financial health, the health of the economy in the short-term, and the prospects for longer-term economic growth.

Consumers

ISM Manufacturing PMI Trails After Peaking in January 2025

The Institute for Supply Management (ISM) Manufacturing PMI (Purchasing Managers Index) for September 2025 registered at 49.1, indicating a contraction in the U.S. Manufacturing sector for six consecutive months. ISM reported that the manufacturing sector is sending mixed signals, with positive signs like the rebound in production alongside continued contraction in new orders and employment.

ISM Manufacturing Index: (United States Total)



Source: Institute of Supply Management
Note: Data thru September 2025

ISM Manufacturing PMI

The ISM Manufacturing Index is a key economic indicator that measures the level of demand for products by surveying purchasing managers at manufacturing companies. The PMI is based on five major components: new orders, production, employment, supplier deliveries, and inventories. The index is seasonally adjusted to account for differences in weather, holidays, and other factors. A reading above 50 percent indicates that the manufacturing sector is generally expanding; below 50 percent indicates that it is generally contracting.

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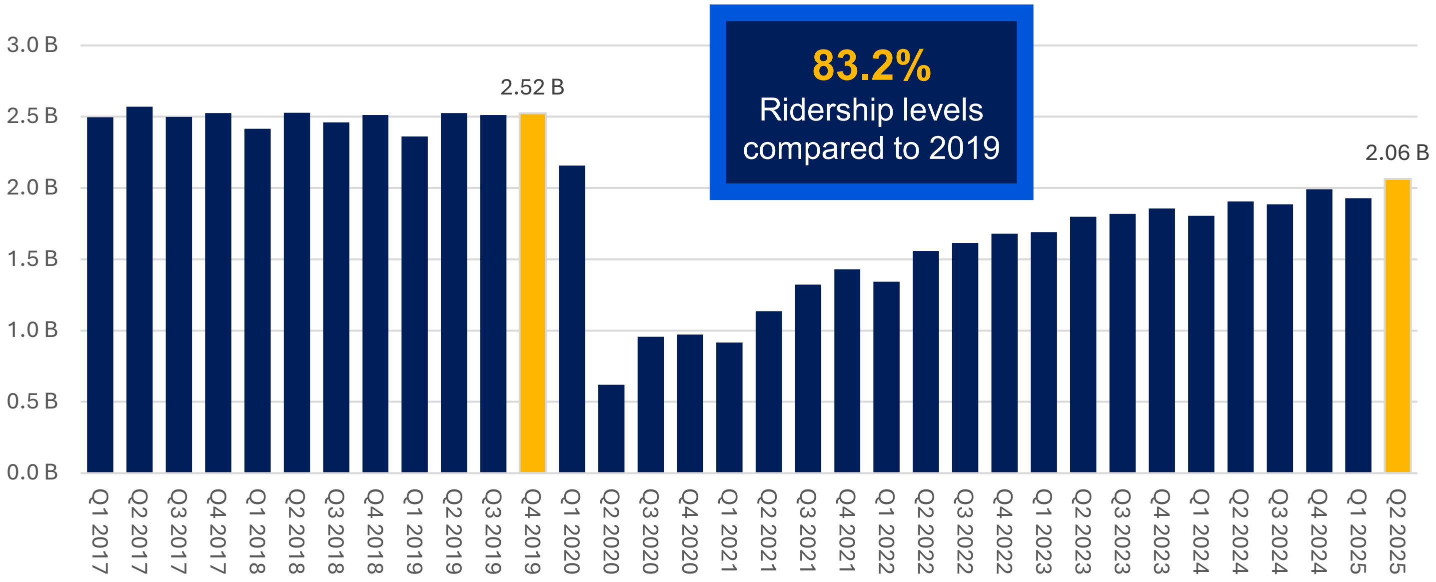
Public Transit

Public Transit Ridership Speeds Up

A good indicator of the health of an urban core, and by extension the downtown office market, is the use of public transportation. Public transit ridership jumped to 2.06 billion in the first quarter. Based on several additional indicators, return-to-office momentum has appeared to stabilize but given the new administration's view on return-to-office, it may shift in the future. Nevertheless, the past seven quarters of public transit have been level. Still, public transit crossed two billion riders in the second quarter for the first time since the first quarter of 2000.

Public Transit Ridership: (United States)



Source: American Public Transportation Association Quarterly Ridership Report. Ridership Report - American Public Transportation Association (apta.com)

A Fare to Remember

Public transportation has been reliably consistent since the turn of the century. Sky-rocketing gas prices temporarily encouraged public ridership in 2008 but quickly dropped back to historic levels. During the first year of the declared pandemic, ridership was cut in half (52.8% decrease). The economy opened wider in 2021, but ridership still only increased 3.1 percent from the previous year. The beginning of 2022 marked the beginning of the economy opening back to near pre-pandemic levels, yet ridership on public transportation ended the second quarter of 2025 at 83.2 percent of the average ridership of 2019, the last full-year before the start of the pandemic.

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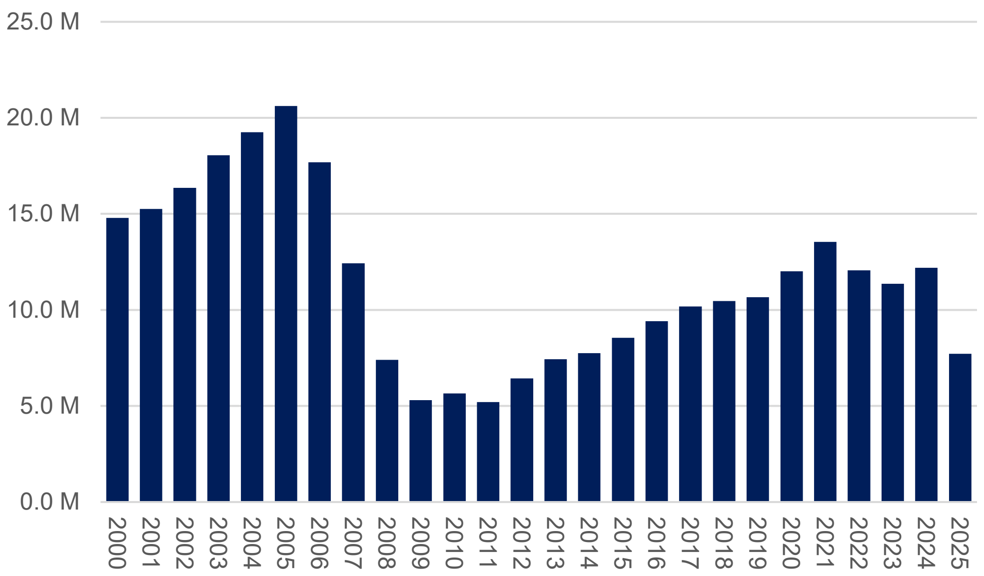
Housing

Sale Prices Fluctuate But Remain Near Historic Highs

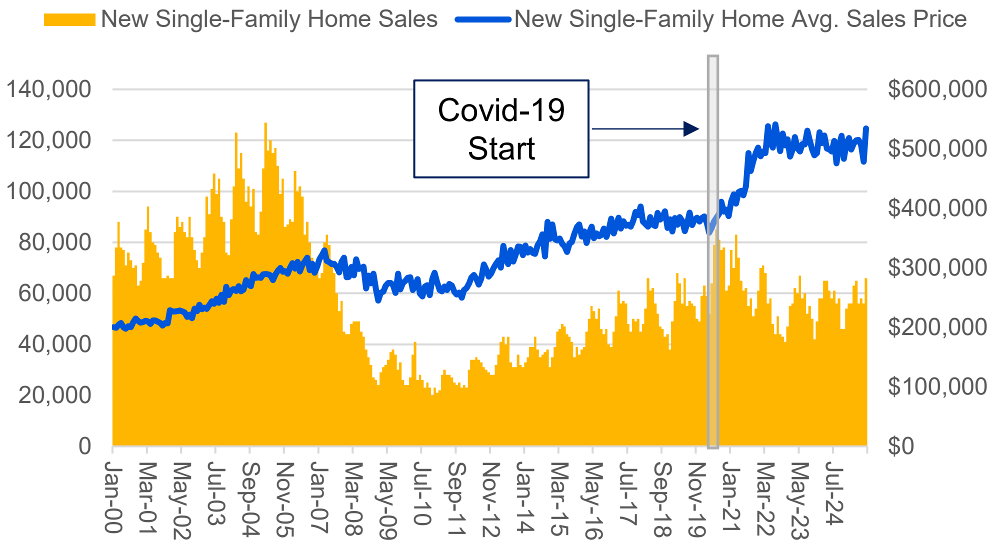
The number of residential housing starts soared at the start of the pandemic, while sale prices reached record highs in 2022. This growth is being tempered as mortgage rates remain elevated, labor and material costs rise, and supplies remain scarce. During 2023, home starts declined from the previous two years but remained near pre-pandemic levels. Meanwhile, prices have begun to stabilize as demand softens. After reaching an average sale price of over $540,000 in July 2023, averages slid to $534,100 by the end of September 2025, representing a decrease of 1.1 percent. Nevertheless, the average sales price for new single-family homes is over $150,000 higher compared to pre-Covid levels.

Single-Family Residential Housing Starts



Source: U.S. Census Bureau, https://census.gov/construction
*Note: Data thru August 2025

Single-Family Homes: No. of Sales vs. Avg Sales Price



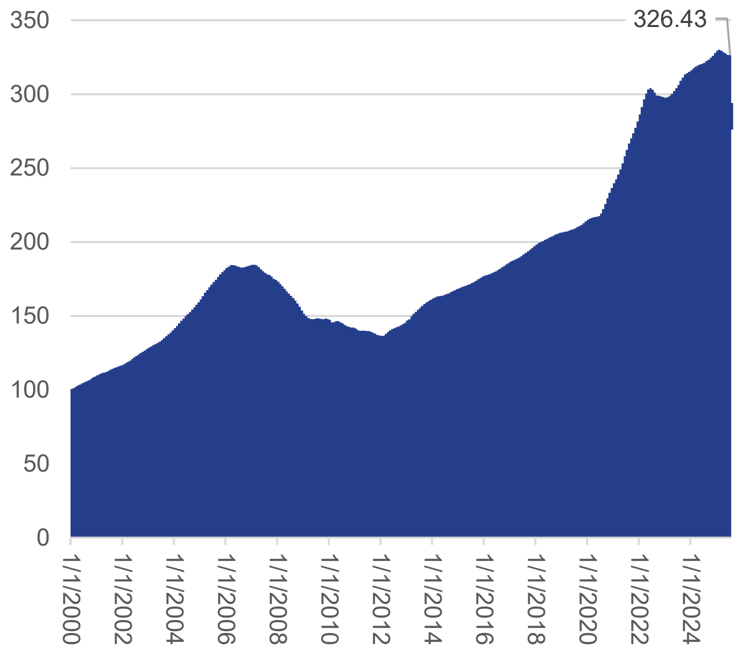
Source: U.S. Census Bureau, https://census.gov/construction
Note: Data thru August 2025

Home Price Index

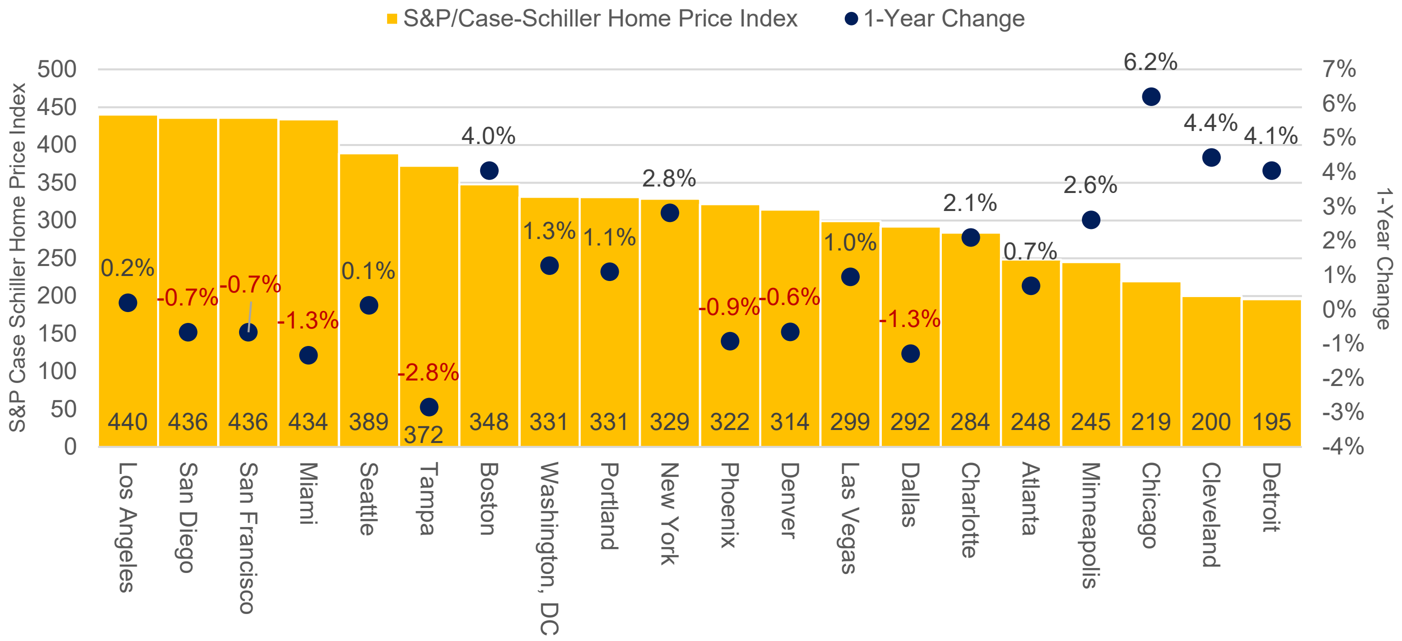
Case-Schiller Home Price Index Peaks in February

The Case-Schiller Index is an economic indicator that measures the monthly change in the value of the U.S. single-family home market. The 20-City Home Price Index briefly peaked in June 2022 and dropped for eight consecutive months before ticking higher over the past two years, closing July near a record high. Los Angeles and San Diego hold the highest Home Price Index, followed closely by San Francisco and Miami. Chicago, Detroit, and Cleveland increased the most in the past 12 months, while seven of the 20 markets in the index retreated in the past year.

Home Price Index: 20-City Average



S&P/Case-Schiller Home Price Index



Source: S&P Dow Jones Indices LLC, S&P/Case-Shiller U.S. National Home Price Index [CSUSHPINSA], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/CSUSHPINSA, October 2025.

Office Trends

The office market showed signs of recovery in the third quarter of 2025, indicating a potential turning point. Both vacancy and availabilities have receded, while net absorption and occupancy posted meaningful gains. Still, the positive performances are not uniform, with New York and Dallas outperforming, while Chicago, Washington, DC, and several large West Coast markets continue to search for stability. A full recovery remains in the distant future, as leasing activity and average deal size continue to lag pre-pandemic levels. On the supply side, growth has slowed to a trickle, which looks to linger for several years. The result should help to backfill existing buildings. However, with weak knowledge worker job expansion and a softening economy, there are still roadblocks to navigate in the near-term. Additional time is needed to understand if recent positive signs mark an inflection point for the broader office market.

Office Tenant View

- Asking rates for top-tier, prime space have held firm, but landlords are still aggressively providing incentives to attract tenants, particularly stable, good credit companies.
- Many firms remain cautious about expansion plans, but with limited new products coming online, occupiers are feeling more secure in making decisions about rightsizing their space before the next up-cycle.
- Office attendance is gradually rising, resulting in some occupiers re-examining their current space configuration.

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TRENDS

As hybrid work continues to be common in many office jobs, several companies that previously permitted flexible or mostly remote work are now gradually increasing the number of days employees are required to be in the office. Despite this shift toward more structured hybrid work or scheduled attendance, peak office occupancy has not seen a significant change. Consequently, there is no urgent need to expand real estate footprints; however, there is a greater requirement for intentional space planning and optimization of collaborative areas and shared spaces.

Overall, there have been moderate changes in the data tracked for the Cresa Remote Work Index. Many of these changes have occurred in the margins, as hybrid work patterns have led to employees spending more days in the office. Owl Labs reports that 73 percent of hybrid workers are in the office for three or four days a week. Kastle Systems has noted a modest increase in weekly peak occupancy over the past two years, and public transit ridership saw a rise in the last quarter. Meanwhile, the Flex Index indicates that companies are still offering flexibility at levels comparable to a year ago.

Four years after the tapering from COVID-19 restrictions, it is evident that most organizations are not reverting to full in-office attendance. This is despite several high-profile firms, such as Dell Technologies and JP Morgan, announcing plans to do so. Data reveals considerable pushback from employees, with 76 percent stating they would seek new job opportunities if remote or hybrid work options were eliminated.

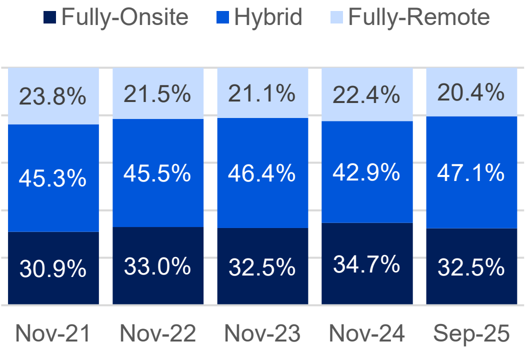
Remote Work Index

Fall 2025

Remote Work Trend:
Increasing ↑; Decreasing ↓; Unchanged ↔

SWAA Data: Tele-workable Jobs ↔

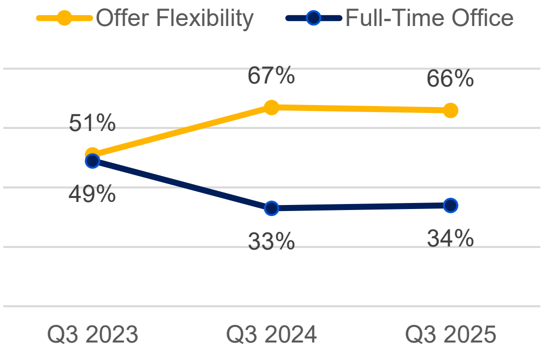
(% of Workers Able to WFH): Sep. 2025



Source: Barrero, Jose Maria, Nicholas Bloom, and Steven J. Davis, 2021. "Why working from home will stick," National Bureau of Economic Research Working Paper 28731

Flex Index ↔

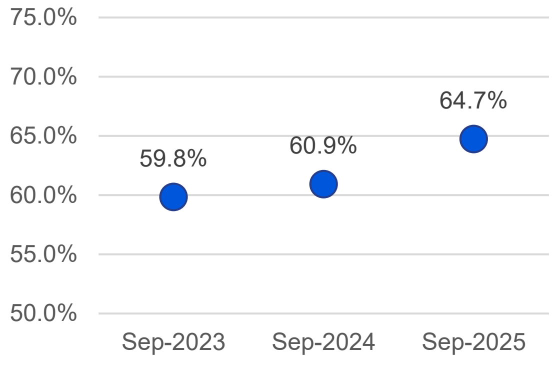
(% of Companies Offering Flexibility): Q3 2025



Source: Flex Index, Q3 2025

Kastle Systems ↑

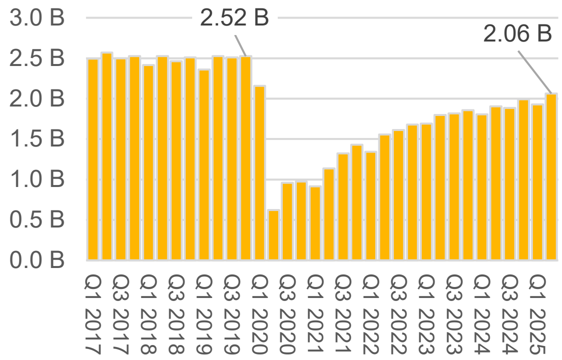
(Weekly Peak Occupancy %): Sep. 2025



Source: Kastle Occupancy Barometer; averages of September 2025

Public Transit Ridership ↑

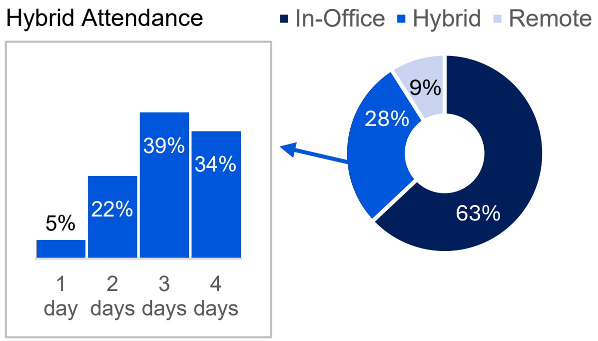
(APTA Public Ridership Report): Q2 2025



Source: Ridership Report – American Public Transportation Assoc

Owl Labs: State of Hybrid Work ↔

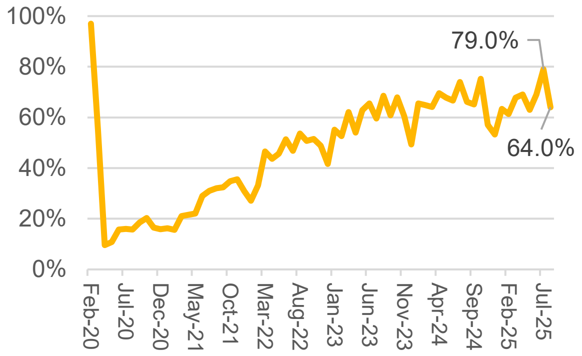
Worker Type & Number of Days in Office, 2025



Source: Owl Labs: State of Hybrid Work, 2025

Placer.ai Office Building Index ↑

Monthly Office Visits Compared to March 2019



Source: Placer ai. The Return-To-Office Report; August 2025

Flight-to-Quality

Top-Tier Buildings Outperform Lower-Tier Buildings in Large Office Market Urban Cores

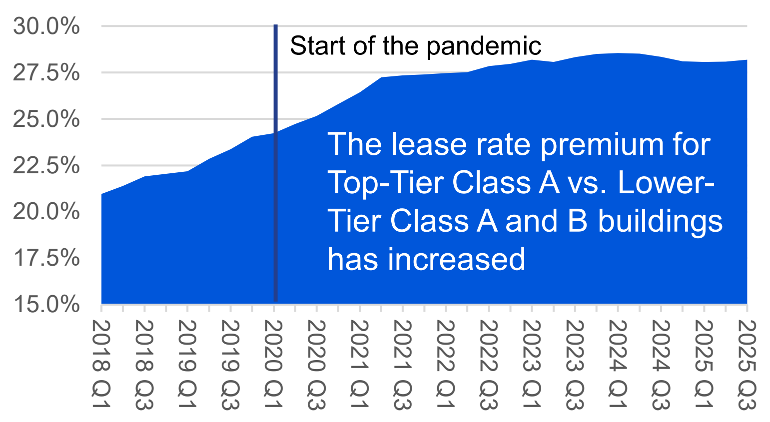
The "*flight-to-quality*" was spurred by the start of the pandemic and the dramatic weakening of office market conditions. A combination of tenant leverage and shrinking footprints provided an opportunity to upgrade space and stretch tenants' lease spend. Additionally, upgraded, amenity-rich office spaces and neighborhoods act as a motivator for drawing workers back to the office.

The gap between lease rates and direct vacancy rates for Top-Tier Class A office buildings compared to Lower-Tier Class A and Class B buildings is widening. Since the beginning of Q3 2020, Top-Tier spaces in the central business districts (CBDs) of major office markets have recorded a positive net absorption of 32.6 million square feet. In contrast, Lower-Tier buildings have seen a negative net absorption of 125.8 million square feet. Additionally, leasing activity in Top-Tier buildings has surpassed that in Lower-Tier buildings.

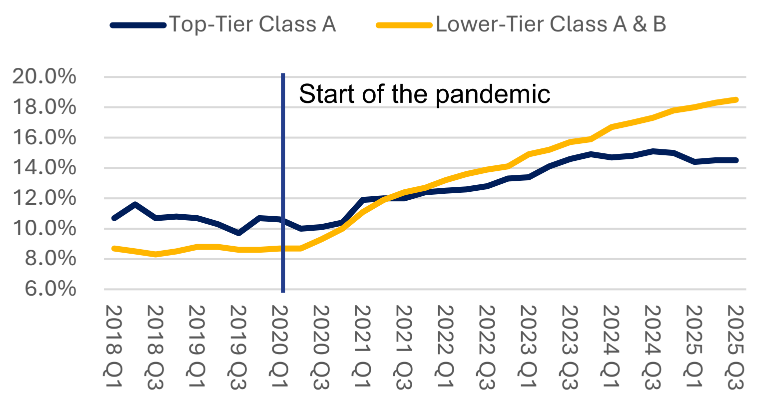
Note: This analysis includes buildings rated as Top-Tier Class A (5 Star) and Lower-Tier Class A, and Class B buildings (3 & 4 Star) with a minimum of 100,000 square feet located within the CBD. Owner-occupied buildings were removed. The top 15 office markets in terms of inventory were included: New York, Los Angeles, Chicago, Houston, Dallas, Philadelphia, Washington, DC, Atlanta, Phoenix, Miami, Orlando, San Francisco, Seattle, Tampa, and Boston.

Source: CoStar, Cresa

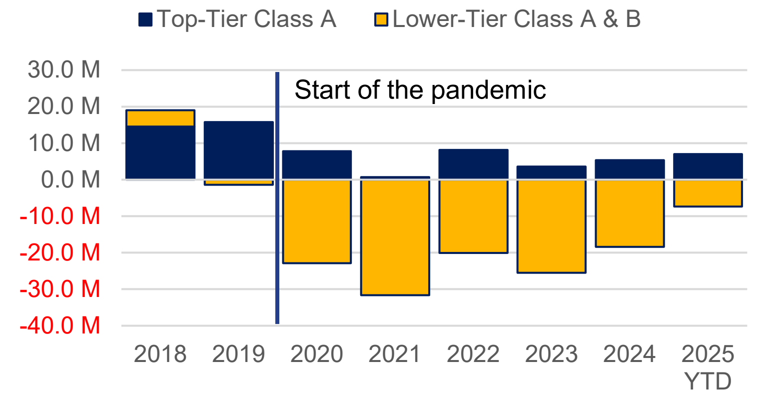
Lease Spread - Percentage



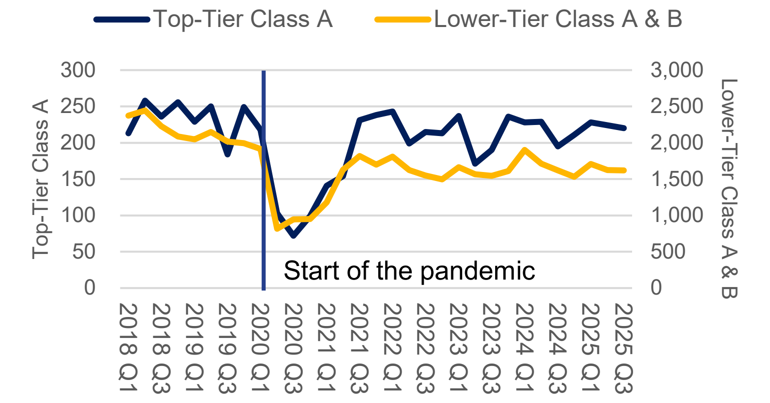
Direct Vacancy



Net Absorption



Leasing Activity – Number of Signed Leases

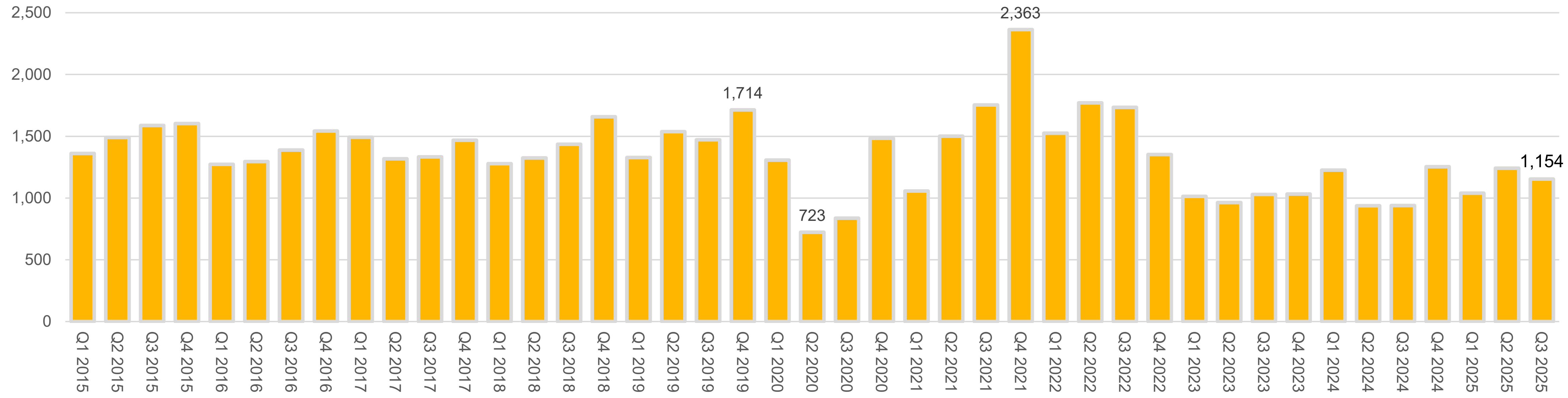


Capital Markets

Sales Velocity Trends Move Higher

While office sales velocity has rapidly dropped in the past several years, it is still on track to match levels from 2008 to 2011. The sales velocity (or number of sales per quarter) has hovered around 1,000 for the past 11 quarters, approximately two-thirds of levels from 2015 through 2020.

Office Sales Velocity: (United States)

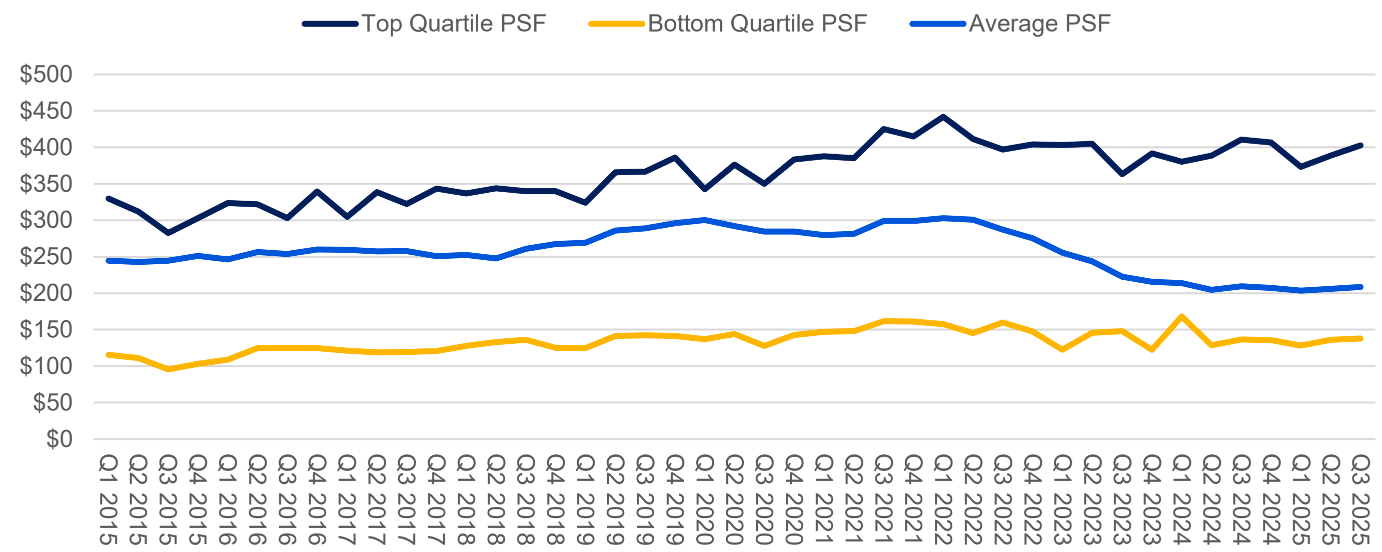


Source: Real Capital Analytics and Cresa; thru Q3 2025

Capital Markets

Average Sale Prices Per Square Foot Remain Muted, While Top-Tier Properties Hold Values

Average Office Sale Price/SF (United States)



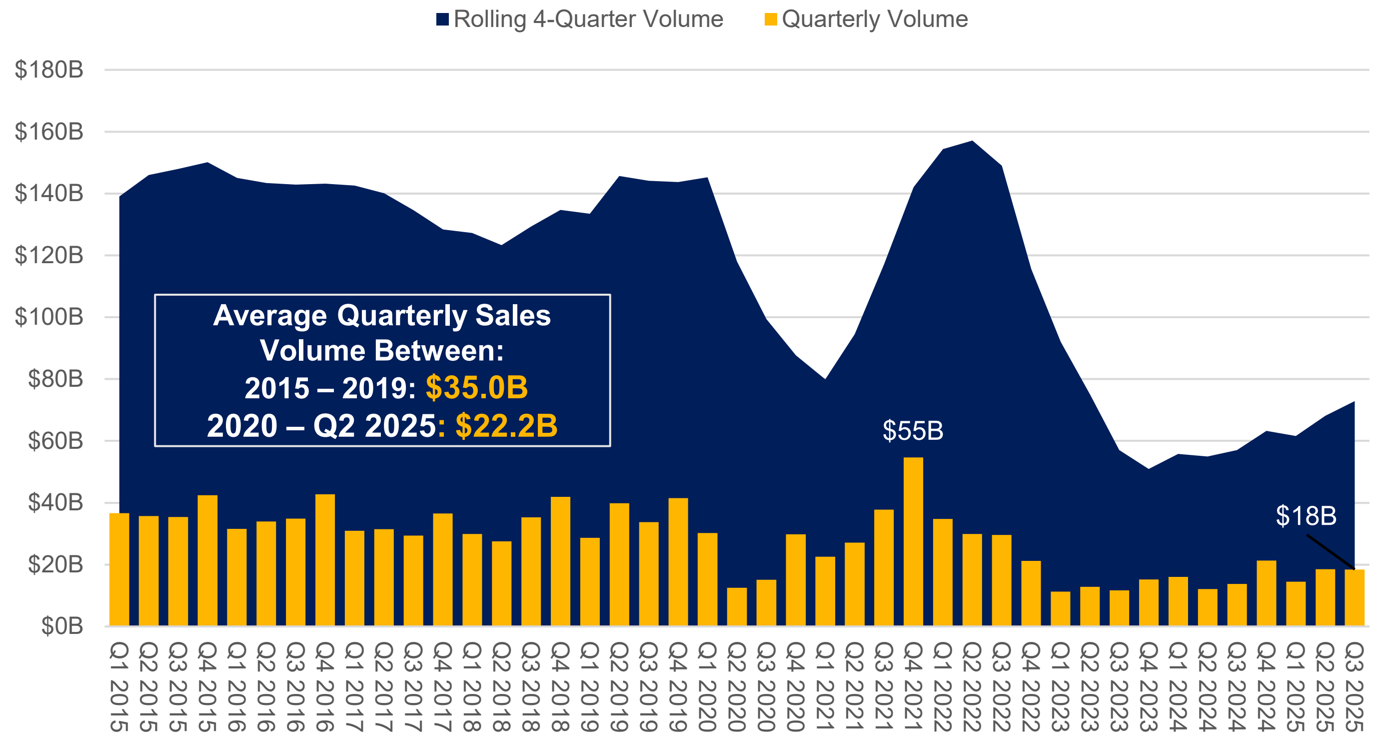
Sales of office properties in the top quartile have remained stable for the past two years. It should be noted that the lower number of overall sales has caused prices to appear more volatile. Meanwhile, the overall average sale price per square foot of office properties has dropped more than 30 percent since the start of 2022. The takeaway is that **high-end properties with amenities, high-quality finishes, and good locations have generally held their value.**

Source: Real Capital Analytics and Cresa; thru Q3 2025

Capital Markets

Low Demand and High Interest Rates Stall Office Sales, But Volume is Trending Higher

Office Sales Volume: (United States)



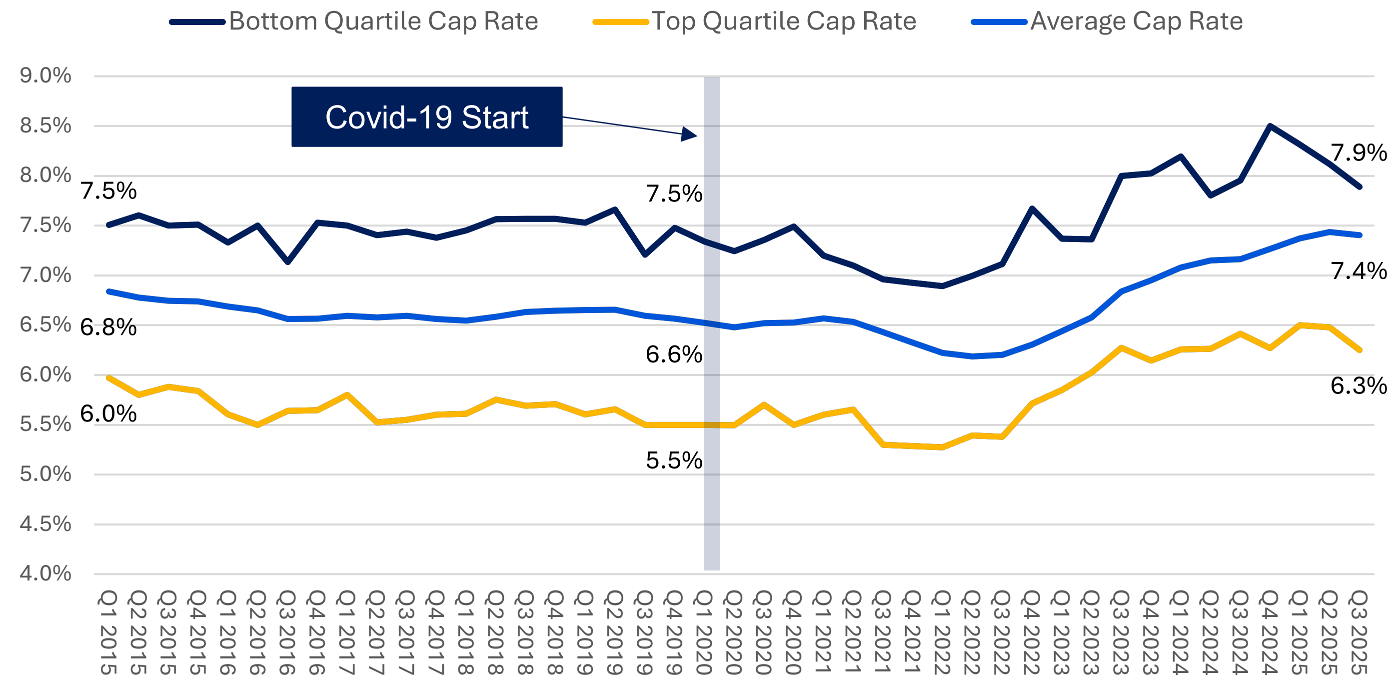
Source: Real Capital Analytics and Cresa; thru Q3 2025

Office sales volume closed the third quarter of 2025 at approximately $18 billion, the third-highest volume since the fourth quarter of 2022 (the tail end of the pandemic). With the Fed considering additional rate cuts, there may be more sales activity in the near term. However, the declining number of transactions and the variability in sale prices per square foot suggest that investors remain cautious.

Capital Markets

Cap Rates Move Lower in Top-Tier Office Buildings

Office Cap Rates (United States)



Source: Real Capital Analytics and Cresa; thru Q3 2025

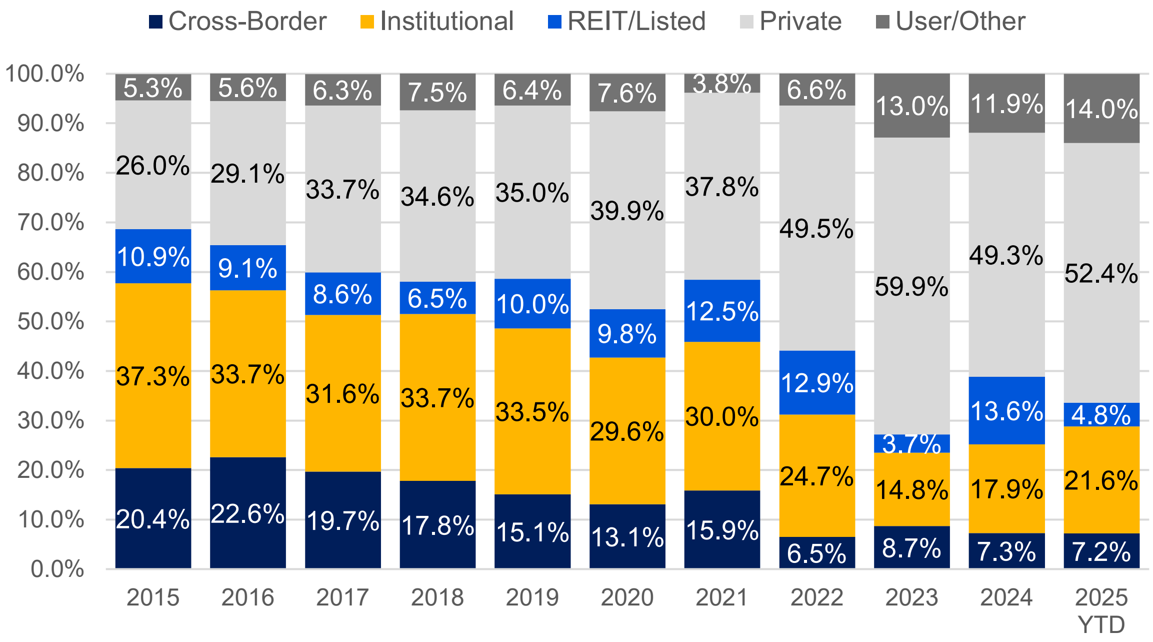
As sales volume has declined, cap rates have responded by increasing over the past four years. Currently, the average cap rate for office properties stands at 7.4 percent, the highest level in the past decade. While prices per square foot for top-tier office assets have remained stable, cap rates are now above 6 percent, reflecting the heightened risks associated with the office sector. This rate is significantly higher than the 5.5 percent cap rate recorded before the pandemic was announced.

Capital Markets

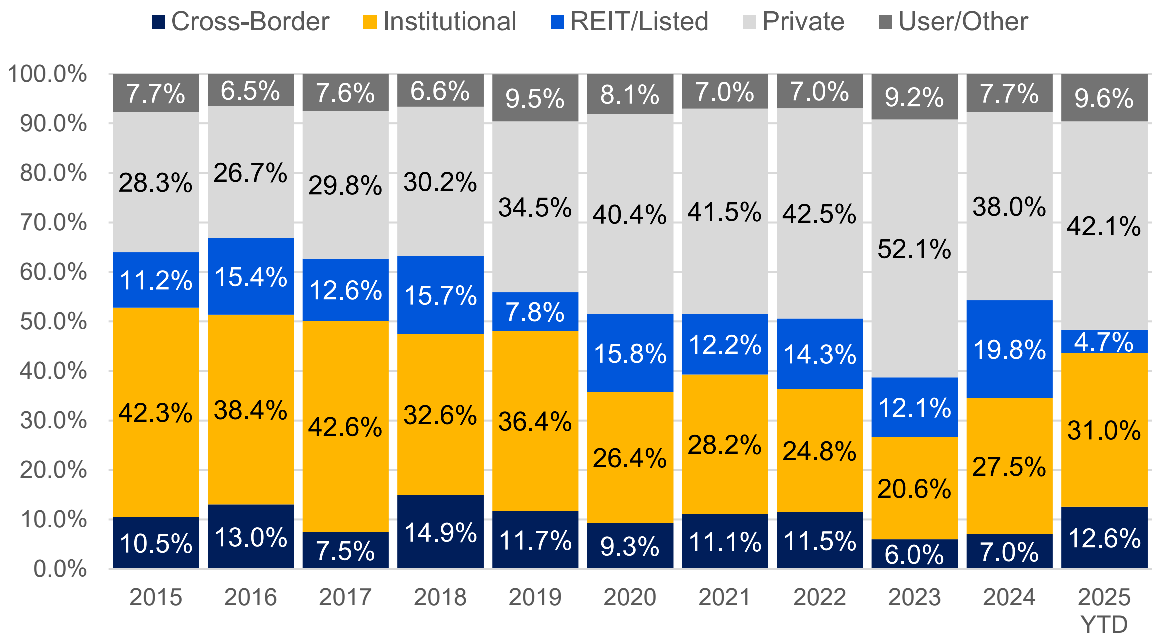
Office Capital Composition

The buyer profile has shifted over the past several years within the office market, as private investment has taken a larger percentage. As demand has dropped, investors with more of an appetite for risk have swooped in looking for deals with large upsides. Meanwhile, Real Estate Investment Trusts (REITs) and Institutional investors have decreased their exposure in 2024, perhaps looking for a more stable office market in the next three to five years. Private investors and institutional investors were the biggest sellers in the second quarter of 2025.

Office Buyer: (United States)



Office Seller: (United States)



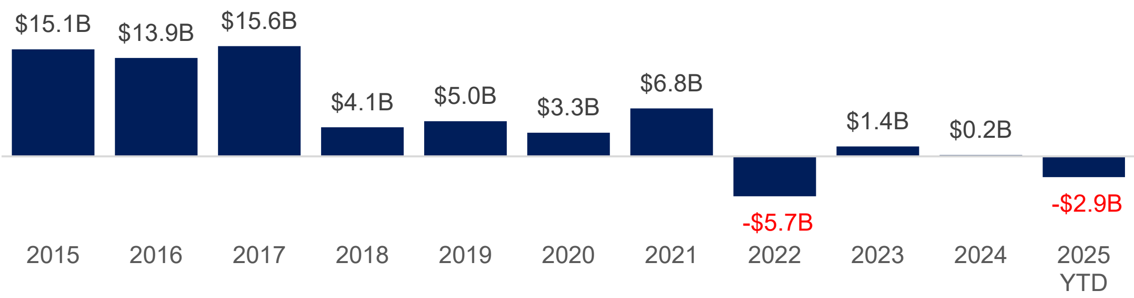
Source: Real Capital Analytics and Cresa; thru Q3 2025

Capital Markets

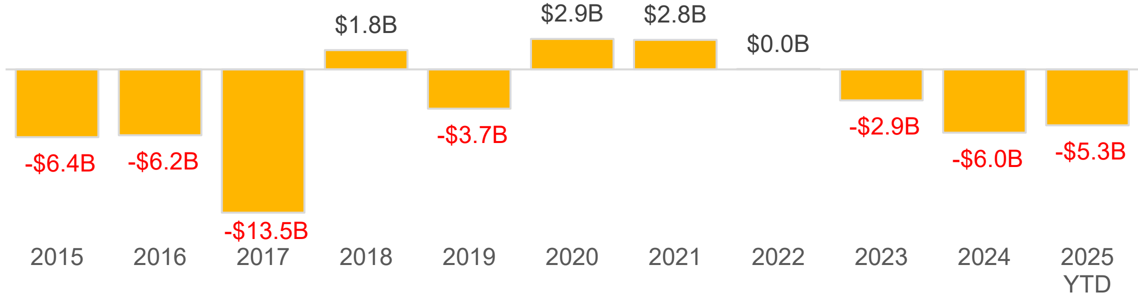
Office Capital Flows: Net Acquisitions

Office capital flows represent whether companies netted more acquisitions or dispositions by year. Cross-border investment in office real estate has dropped in two of the past four years, as overall capital markets have broadly slowed. Only private investors have made positive bets in each of the past three years, looking for bargains and potential significant upsides. Meanwhile, REITs and other listed investments have shed assets in nine of the last ten years.

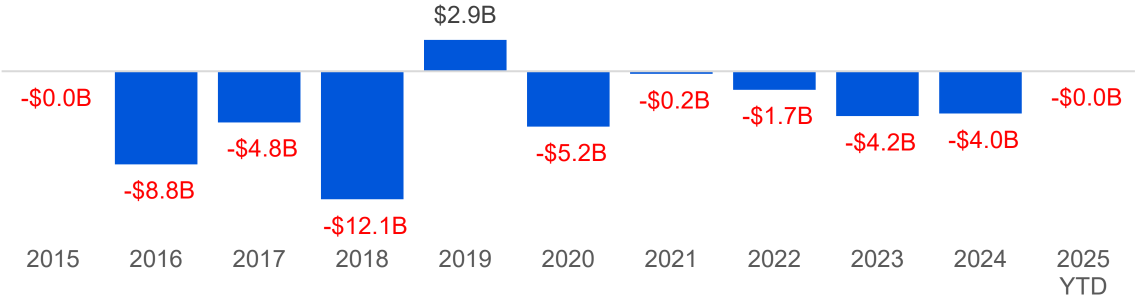
Cross-Border



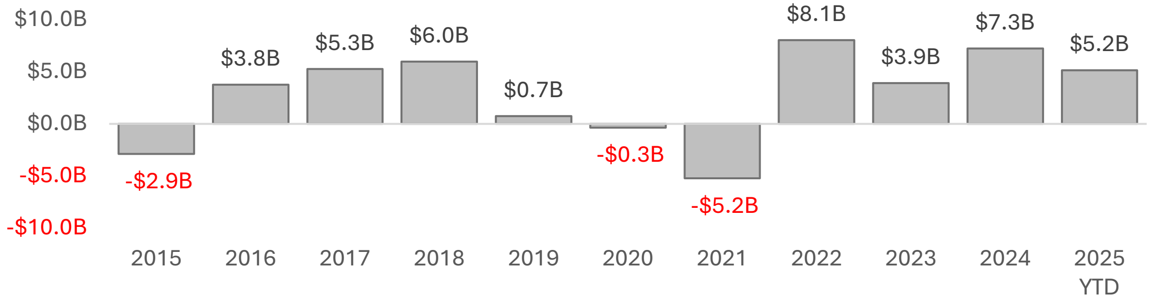
Institutional



REIT/Listed



Private



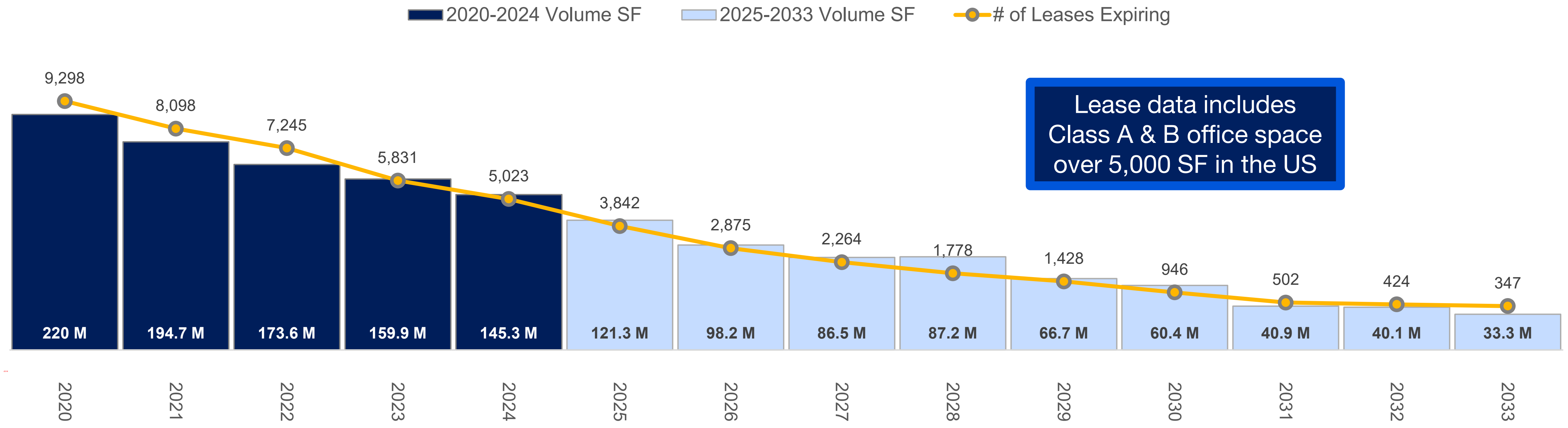
Source: Real Capital Analytics and Cresa; thru Q3 2025

Lease Trends

Lease Expirations For Pre-Covid Signed Leases Continue to Roll

Class A & B office leases signed before the Covid-19 pandemic are more than halfway (**58.5%**) through their roll, with **894 million square feet expired through 2024**. Moving forward, there is approximately **635 million square feet that is still set to expire through 2033**. As occupiers continue to make decisions on strategic real estate plans, it is likely many companies will continue to right-size their space to reflect their current and anticipated hybrid work scenarios. New job growth may have a counter effect, especially if occupiers have over-compensated for expected reduced use.

Leases Signed Prior to 2020 and Expirations by Year

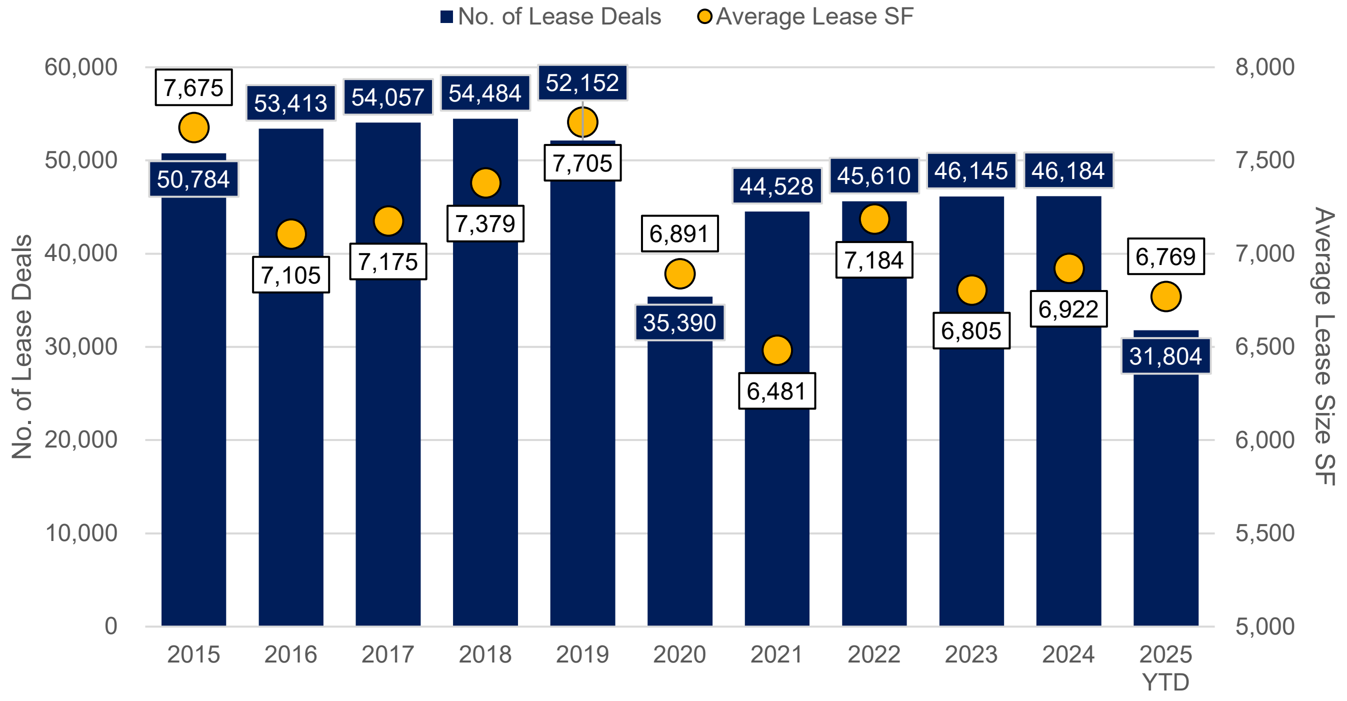


Source CoStar and Cresa; Data pulled in October 2025

Leasing Trends

Deals Getting Done, but Deal Size Shrinks

Historic Office Activity – Average Deal Size



Lease deal sizes in the third quarter of 2025 were **12.7 percent** smaller compared to 2019.

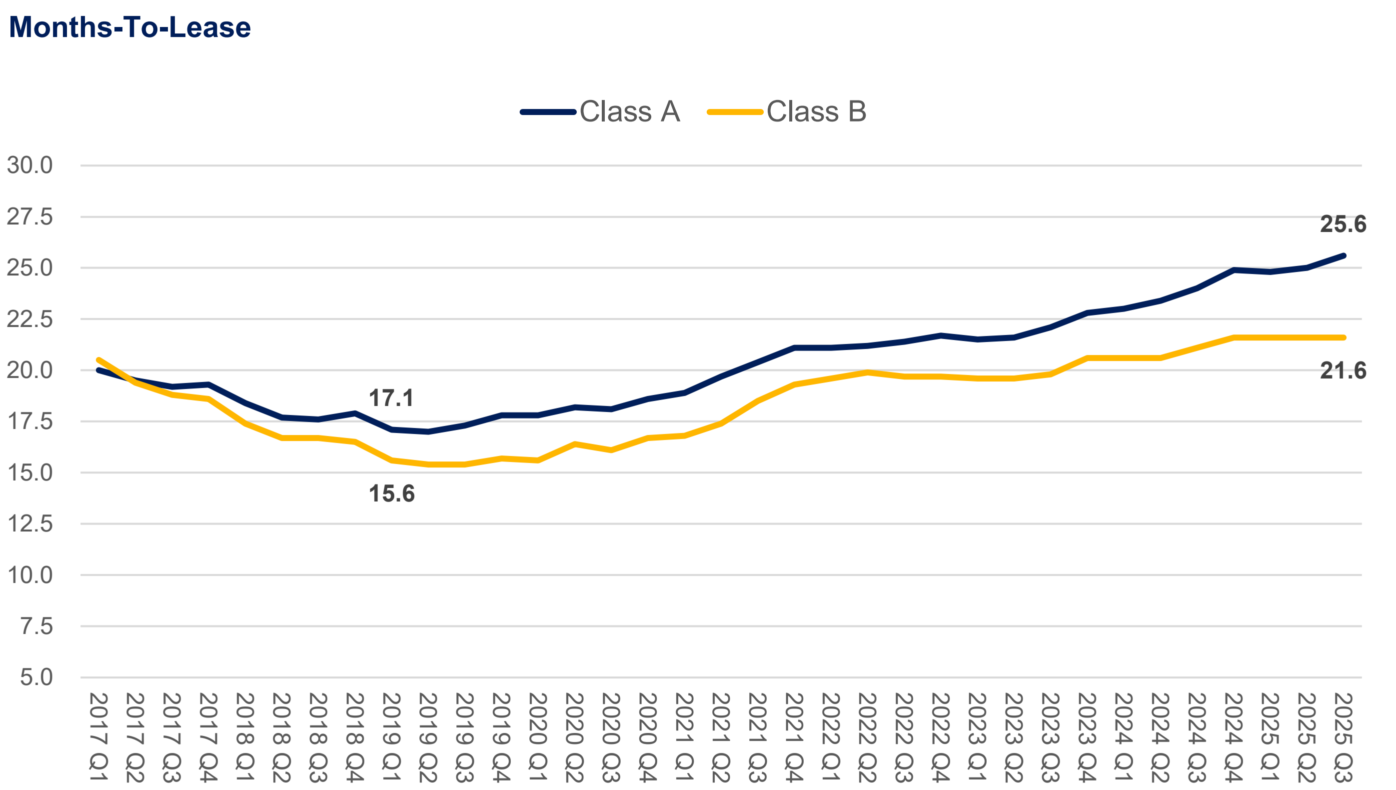
The number of deals completed in 2024 decreased by **11.4 percent compared to 2019.**

While the number of lease deals through the third of 2025 is on track to trail 2024, deals have historically taken time to be recorded, so a final understanding of deal volume may take some time to get a clearer picture.

Source: CoStar, Cresa; data is through the third quarter of 2025. The office data includes all class A and B properties, minimum 50,000 square feet buildings, non-owner-occupied.

Leasing Trends

Time to Lease Office Properties Increases



Source: CoStar and Cresa; thru Q3 2025

The average time to lease office properties has trended higher in the past five years. **For class A office spaces, the time to lease has increased from 17.1 months in 2019 to 25.6 months to close the third quarter of 2025, lengthening the average time on the market by more than eight months.**

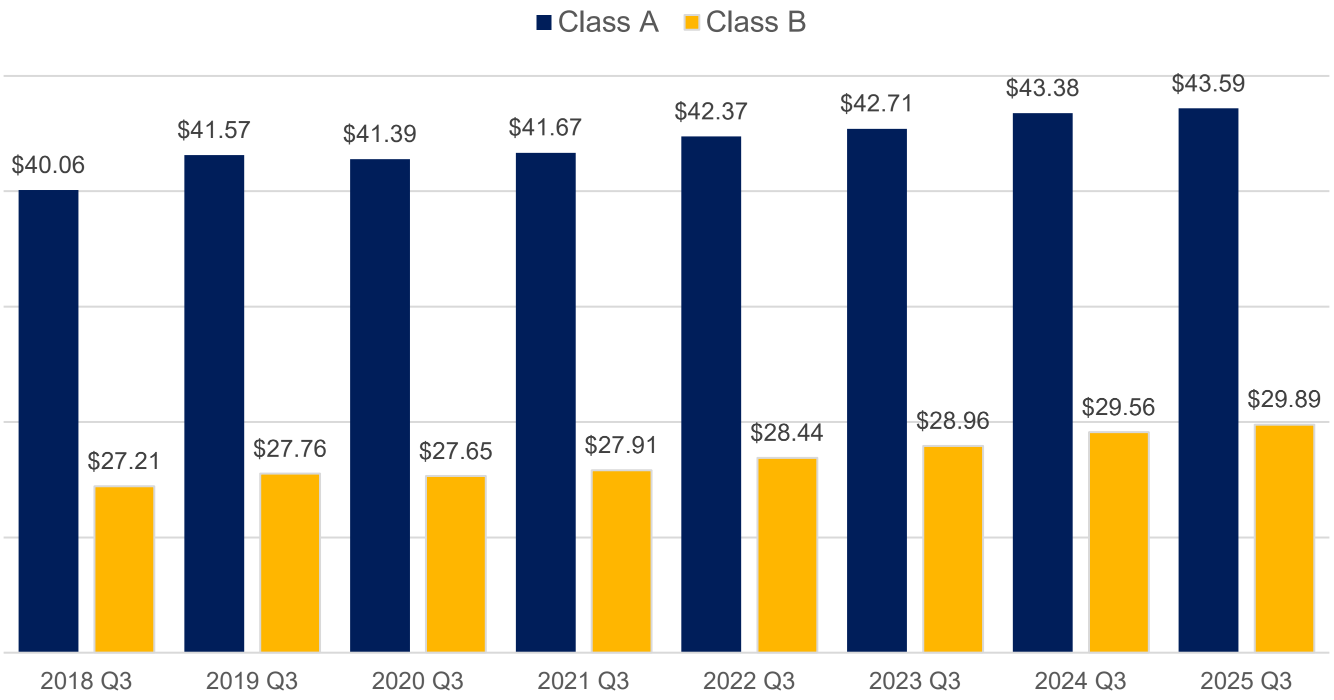
Time to lease class B properties has increased by six months for the period between the start of 2019 and the end of the third quarter of 2025.

Time to close deals is also being lengthened by increased due diligence to confirm that landlords/owners are financially stable and able to fund improvements and other leasing fees.

Market Rent

Asking Office Rents Remain Flat

Class A/B Office Asking Lease Rate ($/SF): (United States)



Source: CoStar and Cresa; thru Q3 2025

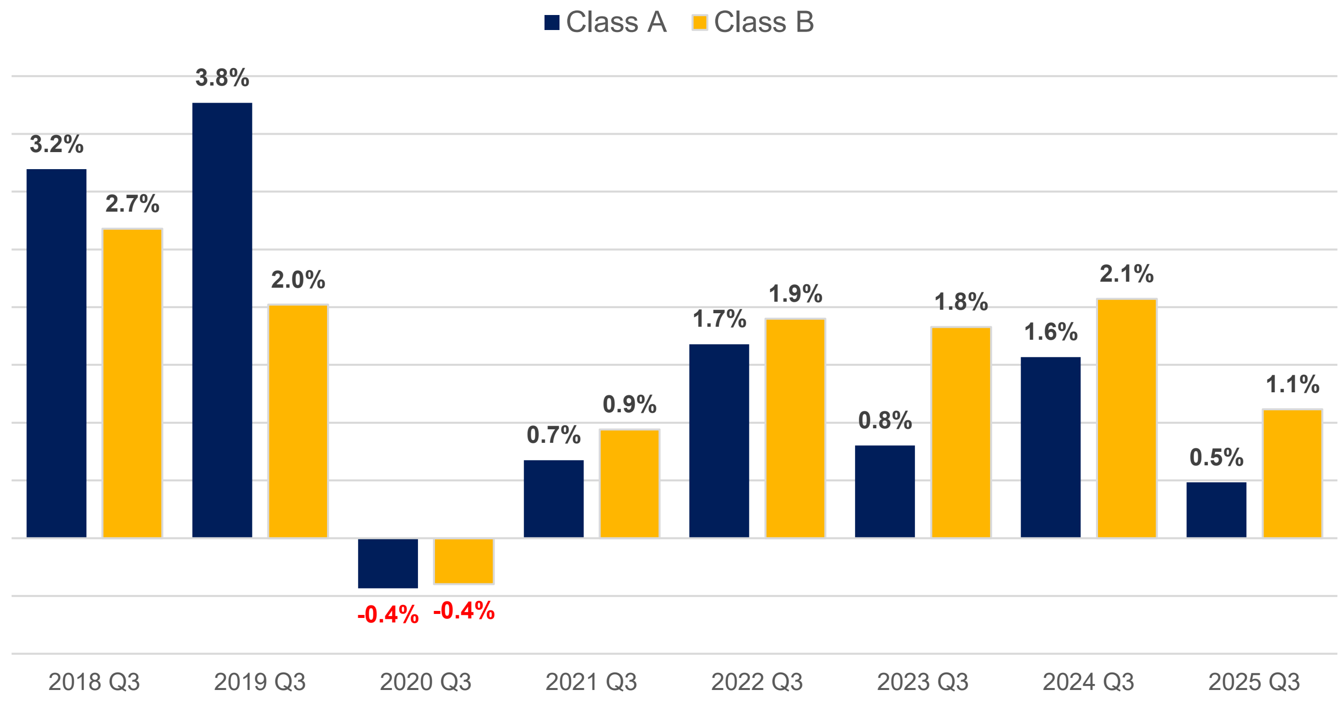
Lease rates have remained static for the past five years within both class A and class B spaces. As demand has weakened, landlords have held steady with asking rates, although this notion is reportedly softening. Increasing concessions, free rent, and TIs are being used to attract occupants, lowering the nominal rent. However, increasing operating costs due to rising inflation and interest rates are eroding some of these gains for tenants.

Nevertheless, the **office market is tenant-favorable, providing generational leverage for occupiers**. The result has allowed tenants to receive more favorable terms such as contraction clauses, early termination options, and shorter terms.

Market Rent

Class A Direct Asking Rent Growth Flat Since the End of 2019

Class A/B Office Asking Rent Annual Increase: (United States)



Source: CoStar and Cresa; thru Q3 2025

During pre-pandemic years, office rates historically increased 2.5 to 4 percent annually. After an initial drop in 2020, class A rents have increased moderately as landlords look to hold rates as long as possible, providing incentives and TIs to attract tenants. As demand continues to drag, rates will correct until market stability is reached.

Meanwhile, class B rates have not seen a meaningful increase in average asking rates since 2019. Further, class B rents may not reflect what is happening on the building level as demand is weak and asking rates may not be publicly available. Strong evidence indicates that class B rates are widely negotiable due to the financial stability of landlords and the ability to finance concessions.

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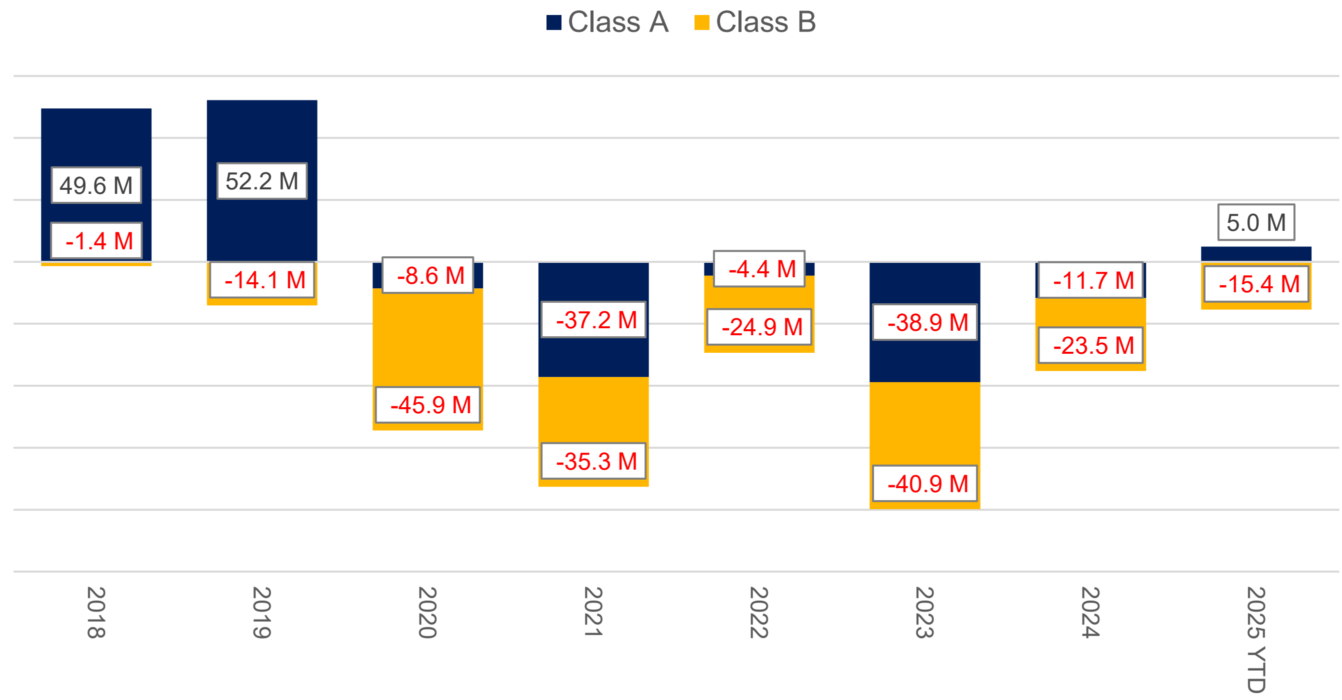
Absorption

Class A Space is On Track to Record Positive Net Absorption for the Year for the First Time Since 2019

Office Net Absorption (SF): (United States)



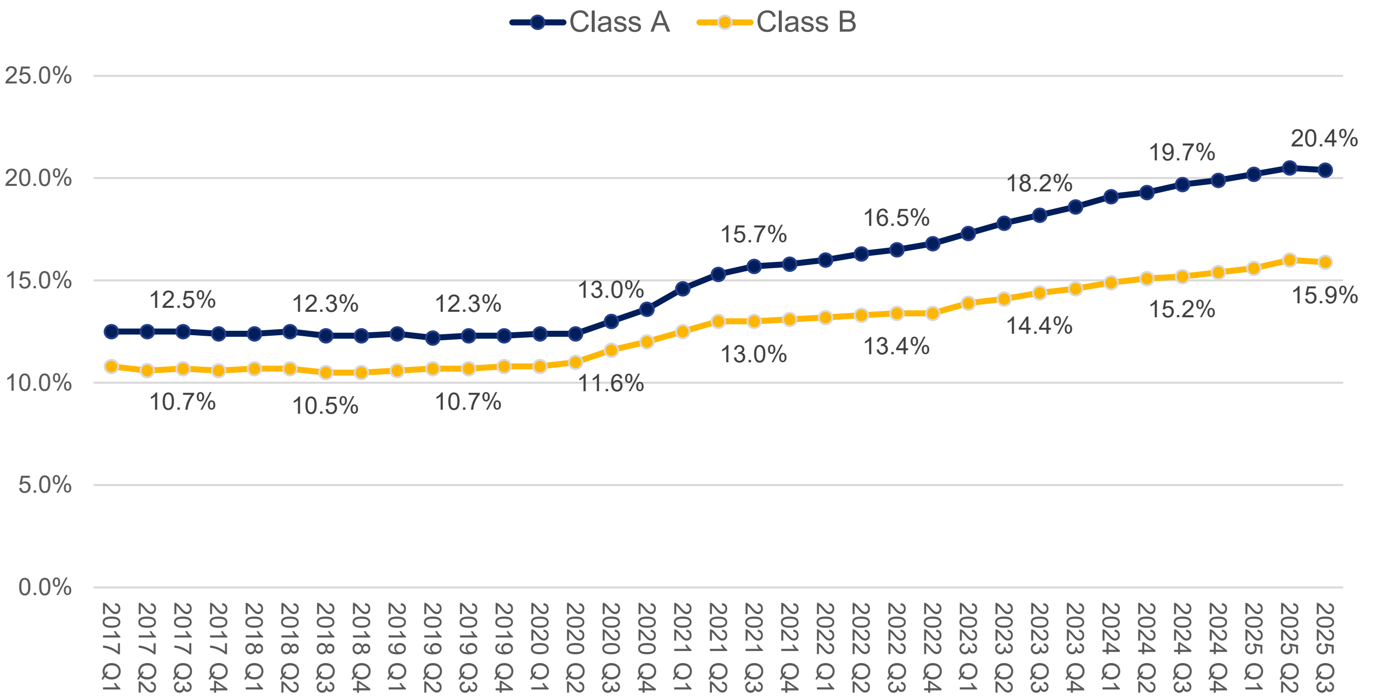
The good news for the health of the office market is that class A space is on track to make modest gains in net absorption in 2025. However, work-from-home policies have caused many companies to reevaluate their existing office footprint. As organizations right-size and eliminate under-utilized space, office absorption has been overwhelmingly negative. Class B space has been particularly hard hit since the start of the pandemic. **There has been 282 million square feet of negative net absorption for class A and B space since 2020, representing a total of nearly 5 percent of total office space.** As pre-covid leases continue to roll, absorption will likely continue to drop. However, as stability returns overall net absorption is expected to moderate. It will take several years before net absorption recovers the losses since the start of 2020.

Source: CoStar and Cresa; thru Q3 2025

Direct Vacancy

Office Vacancy Spikes as Companies Right-Size

Office Direct Vacancy Rate: (United States)



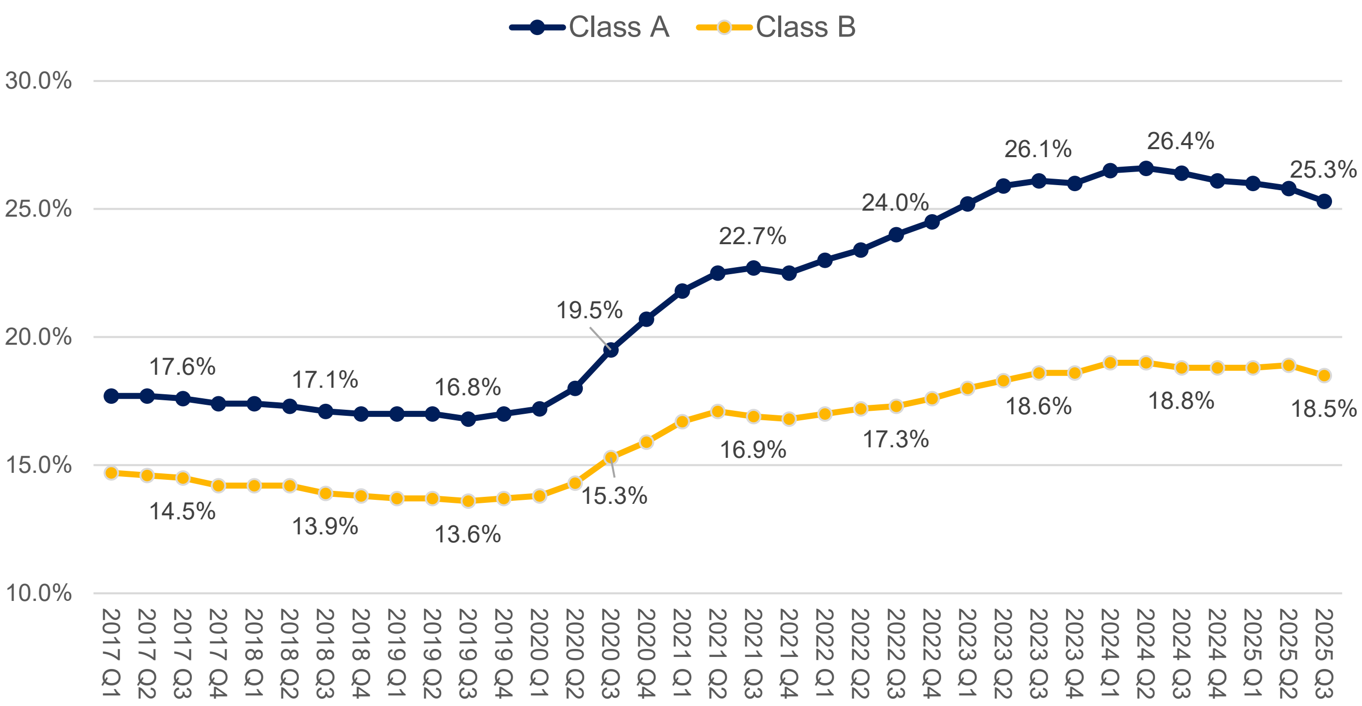
Source: CoStar and Cresa; thru Q3 2025

Class A direct vacancy has increased at a faster pace compared to class B space. **The third quarter of 2025 marked the first time in 25 quarters that class A direct vacancy dropped from the previous quarter.** Newly signed leases are, on average, becoming smaller, which could keep vacancy levels high even as some spaces are being removed from the market. In the long term, class B vacancy may benefit from office conversions to alternative uses..

Availability

Availability May Have Peaked as Rates Decrease

Office Availability Rate: (United States)



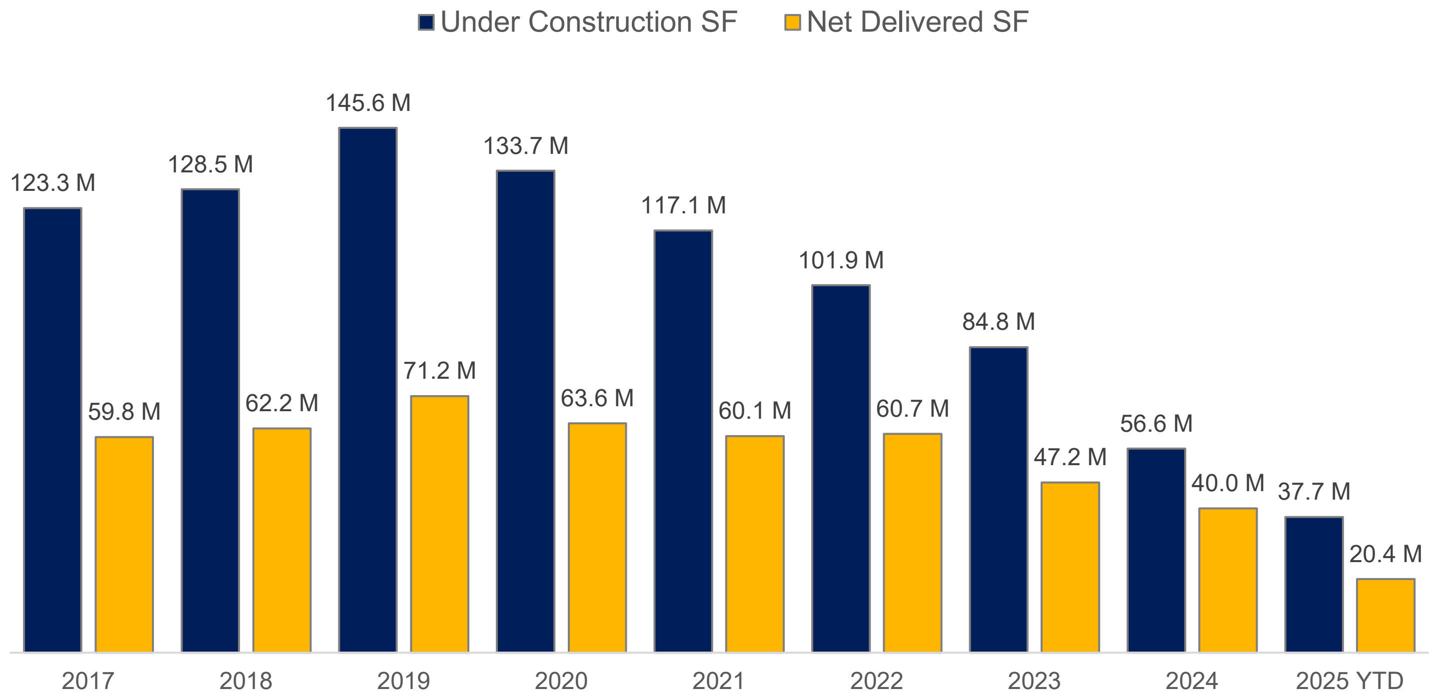
Source: CoStar and Cresa; thru Q3 2025

The availability rate includes the amount of space that is being marketed as available for lease, regardless of whether the space is vacant, occupied, available for sublease or available at a future date. Therefore, the **availability rate may be a more accurate depiction of the market during this volatile period than the direct vacancy rate.** Class A availability ticked lower for the fifth consecutive quarter to 25.3 percent to end the third quarter of 2025, indicating that demand remains soft as the office market resets, but the bottom may have been reached.

Construction

Office Construction Slows to a Near Halt

Office Space Under Construction (SF): (United States)



As pre-pandemic office projects deliver, the amount of under-construction space is dropping. Weak demand, increasing labor and construction costs and higher interest rates has stalled many office projects. The 37.7 million square feet currently under construction, representing less than only 1 percent of total office inventory, well-below historical averages. **During the 2024, only 40 million square feet was delivered, the lowest amount in more than 20 years.**

Source: CoStar and Cresa; thru Q3 2025; Data for Q3 represents the total Net Delivered SF for the entire year, while Under Construction represents only the amount during that specific quarter.

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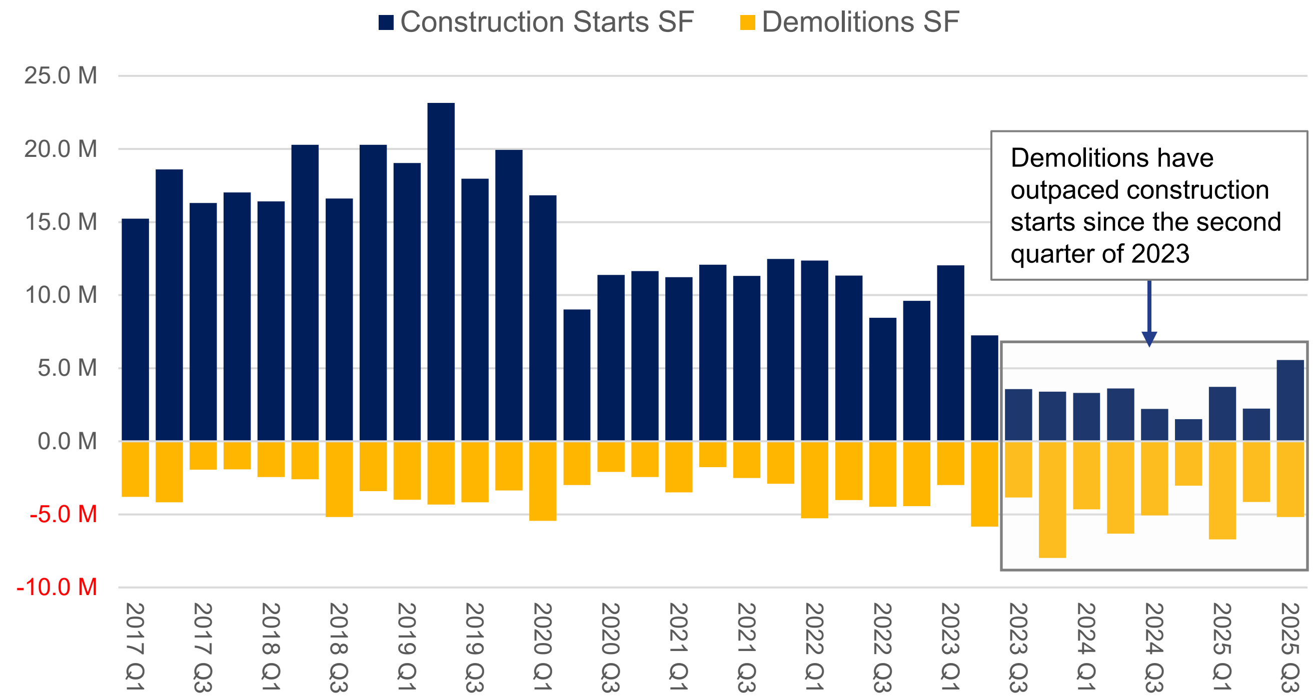
Construction

New Office Construction Starts Over the Past Two Years Trails Demolitions

Office Starts & Demolitions (SF): (United States)



Since the second quarter of 2023, the amount of square footage demolished (52.7 million square feet) has eclipsed the amount of construction starts (36.4 million square feet). Demolitions also do not represent the buildings that were removed from the total office inventory due to conversions to other uses.

Source: CoStar and Cresa; thru Q3 2025

The problem with the real estate market is the market itself.

THE MARKET SEES YOU AS A **TARGET.**

THE MARKET CHASES THE **DEAL.**

THE MARKET IS SHORT TERM AND **REACTIVE.**

THE SYSTEM FAVORS **LANDLORDS** NOT OCCUPIERS.

The stakes are high for occupiers. Real estate is expensive and inflexible. With the pandemic, labor dynamics, and economic instability, all bets are off.

It's time to go beyond the market and uncover how your commercial real estate can drive your goals, not impede them.

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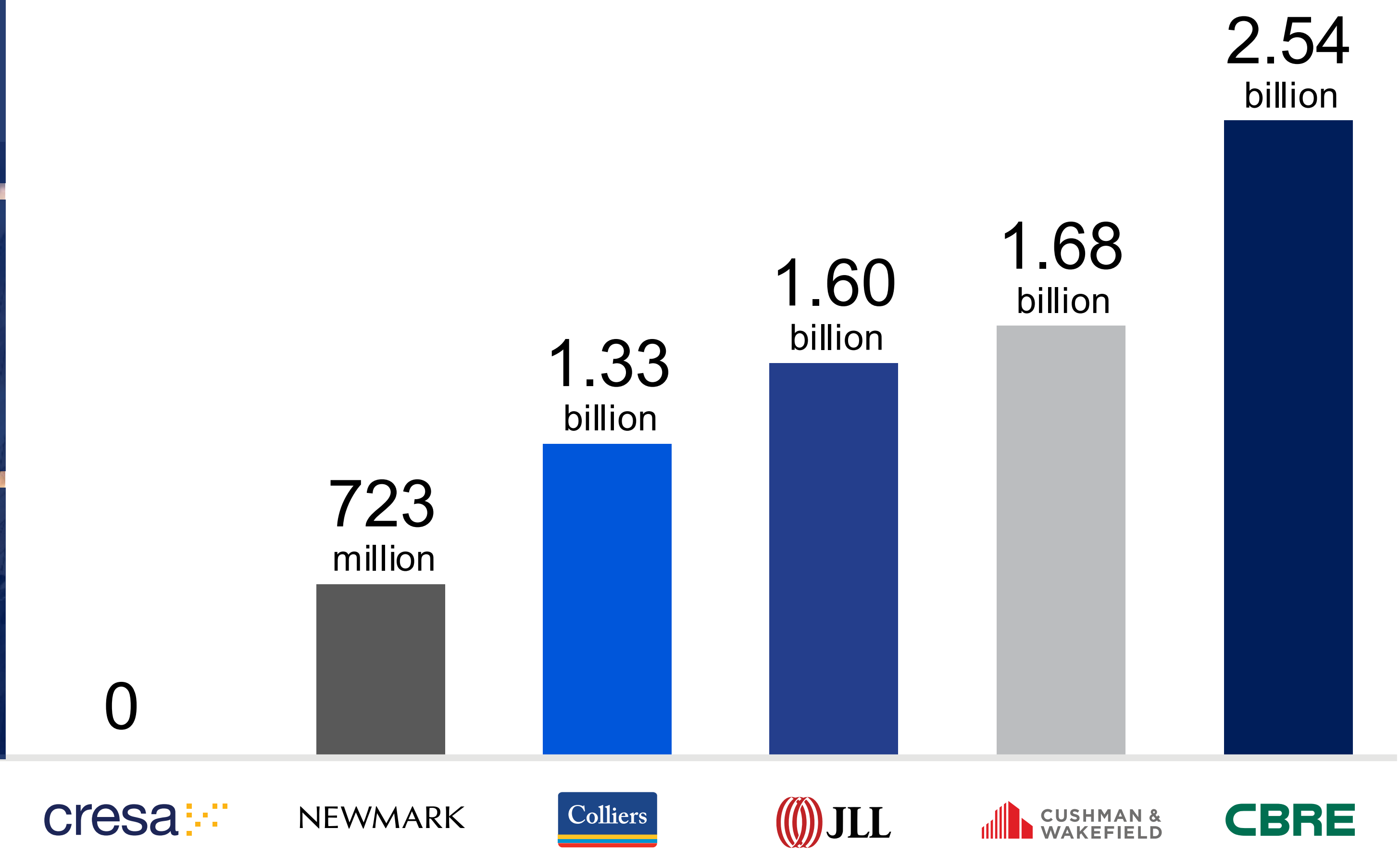
How We're Different

As the world's largest corporate real estate provider committed exclusively to serving occupiers, we're in a league of our own.

We offer creative solutions, unbiased advisory services and executive leadership on every account.

We believe this combination of transparency and executive involvement generates the superior service our clients have come to expect from Cresa.

Billions of square feet are represented on the landlord's behalf nationally. Cresa never does business on behalf of landlords.



Don’t let uncertainty **dictate your strategy.**

Contact your local Cresa advisor to turn challenges into opportunities.

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