Occupier Outlook

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

Cresa Research | Q2, 2025

OCCUPIER OUTLOOK

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

Executive Summary

Macro Economic View

- Inflation showed a 2.4 percent increase over the past 12 months, which is slightly higher than economists predicted.
- In March 2025, the U.S. economy added 147,000 jobs, exceeding expectations, while the unemployment rate remained stable at 4.2 percent.
- Home sales have remained resilient, falling in line with historic averages, as prices hover near all-time highs.
- 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

- Positive demand momentum from the past two quarters has slowed as more occupiers give back space.
- 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.
- Top-tier buildings remain competitive, but limited new supply and a dwindling pipeline may cause occupiers to remain in place and reconfigure existing spaces for changes in occupancy and work trends.

Industrial Market

- Three straight years of increasing vacancy rates is shifting leverage to the occupier.
- Warehouse/distribution lease rate year-over-year growth has moved to the lowest level in the past 10 years.
- The U.S. industrial market is on the tail of a record development wave, but quarterly net supply additions are pace to fall below the pre-pandemic three-year average by the second half of 2025.

Economic Overview

The US Economy Stabilizes as Uncertainty Weighs on Growth

Heading into the second half of 2025, the U.S. economy is presenting a contradictory view. Economic growth has slowed, as evidenced by a 0.5 percent drop in real GDP in the first quarter of the year. However, there are signs of resilience due to strong corporate investment, consumer spending, and labor market health. While job creation is slowing, unemployment remains low, closing June 2025 at 4.1 percent. Although personal income and consumption dropped in May, household savings remain robust, providing a cushion if economic headwinds increase.

Inflation continues to be a looming concern, with the annual consumer price index increasing to 2.4 percent in May, slightly higher than the Fed's two percent target. Rising tariffs and the threat of additional tariffs are expected to pressure prices further, risking more persistent inflation through the end of the year. As a result, the Fed has kept interest rates elevated in anticipation of ongoing inflation. This has a cause and effect of potentially slowing future job growth and curbing growth in the housing market.

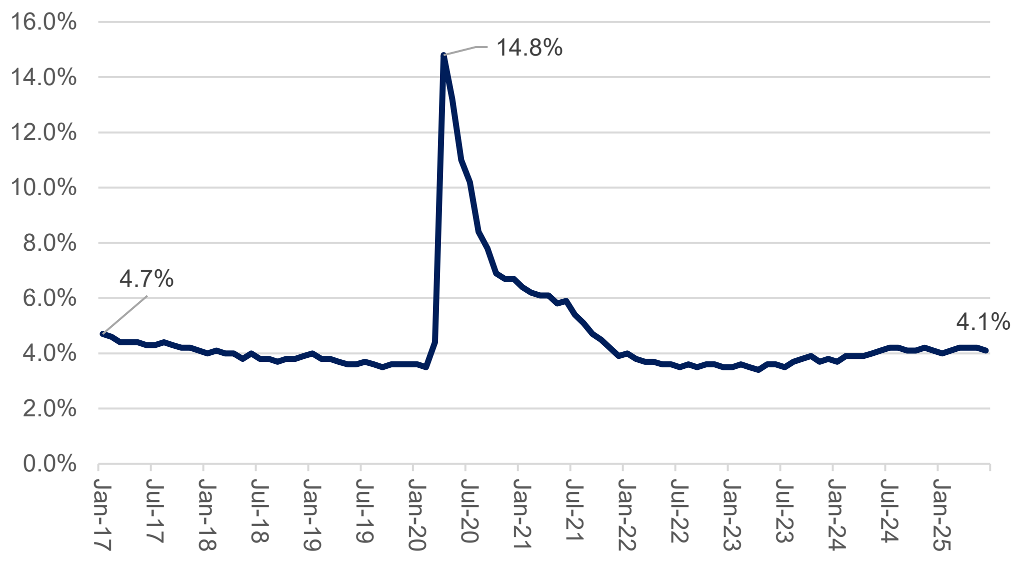
Looking forward, the economy faces heightened uncertainty. Escalating prices and costs as tariffs take hold are expected to weigh on investment activity and consumer spending. Still, growth is expected to reaccelerate next year as expansionary fiscal policies take hold. There is concern that longer-term impacts due to restrictive immigration measures and fiscal deficits could pose future risks.

Unemployment

Unemployment Steadies After Drifting Higher

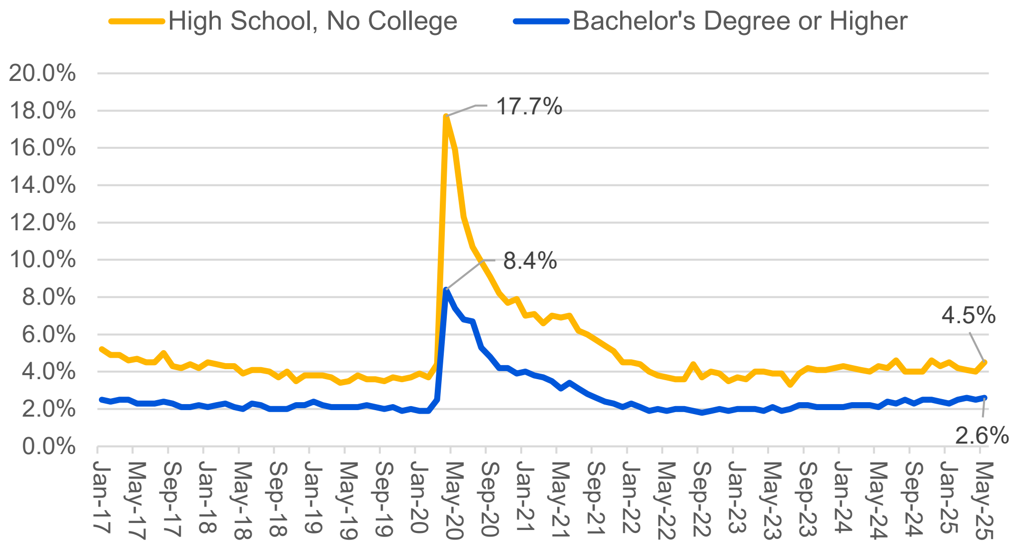
Unemployment ticks higher but is still low by historic standards. The market is closely watching for additional Fed rate reductions, but volatile inflation is making the timing murkier. College-educated employees remain near full-employment despite recently announced layoffs in the tech industry. Additionally, lower-skilled service-oriented jobs along with the healthcare sector are the main drivers of job growth. The looming threat of additional tariffs and a potential recession may negatively impact employment in the near- to mid-term.

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



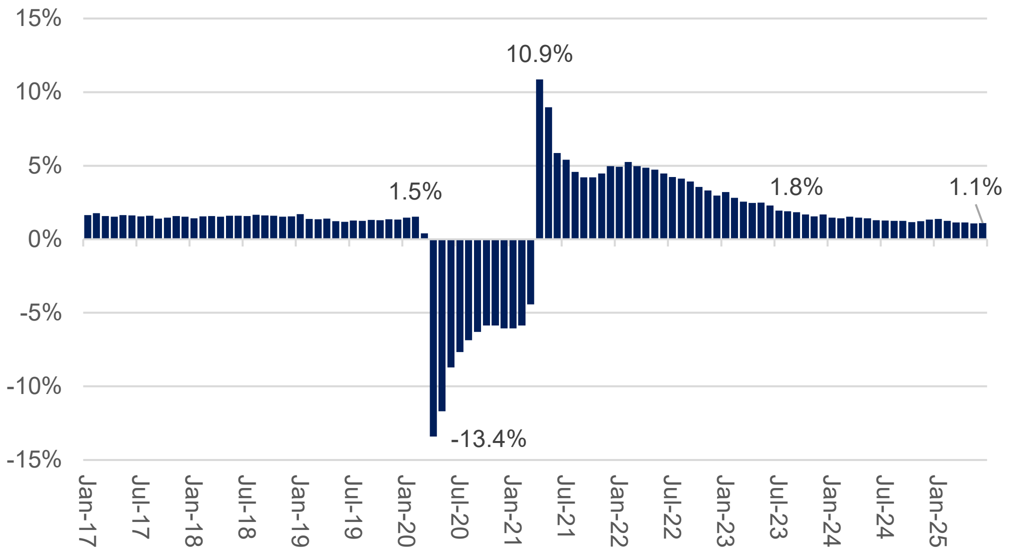
Source: U.S. Bureau of Labor Statistics, https://bls.gov, Seasonally adjusted

Employment

Job Creation Falls Below Pre-Pandemic Levels

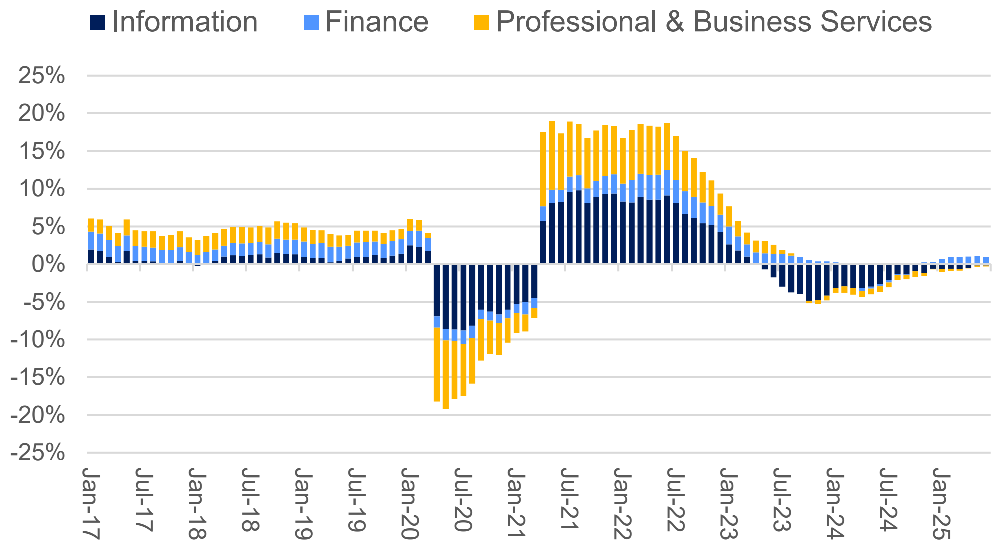
Total nonfarm employment rose by 147,000 in June, despite looming concerns over the broader economy. Gains occurred in health care and state government sectors. Not surprisingly, federal employment declined in conjunction with the new presidential administration's focus on efficiency. Office-occupying job creation has essentially come to a halt with weak increases in the finance sector, while the information and professional and business service sectors shed jobs compared to a year ago.

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

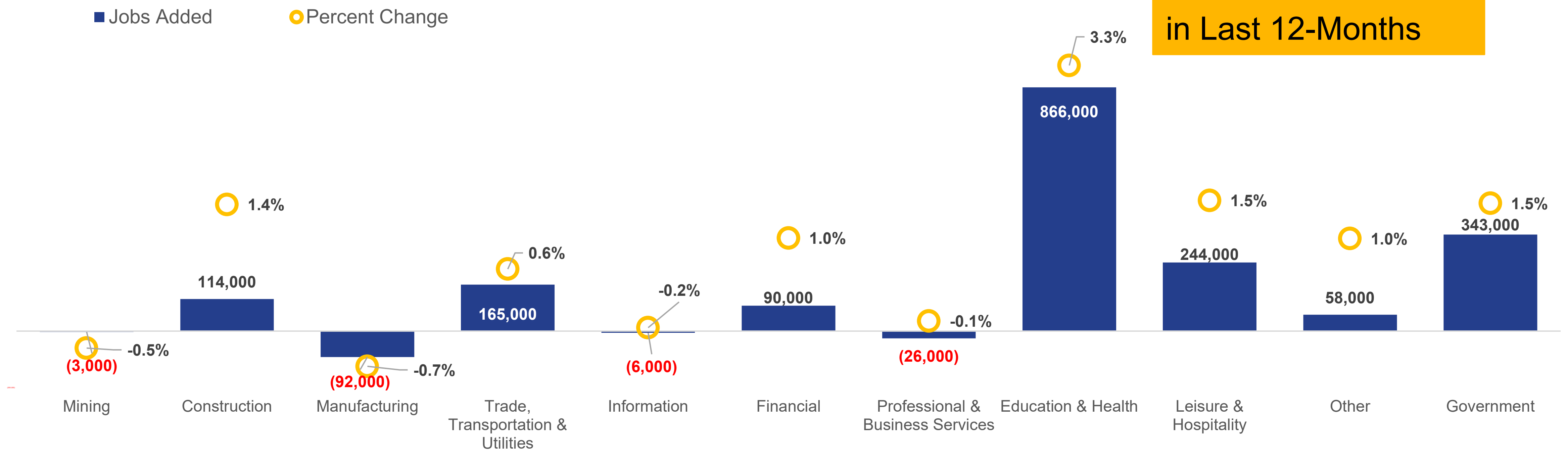
Employment

Education and Healthcare Sectors Lead the Way

Education and health services continued strong growth, with nearly 900,000 jobs added in the past year, representing a 3.3 percent increase. The jobs being added are not concentrated in office-occupying sectors, with an anemic 58,000 net jobs added in the past 12-months. The manufacturing sector pulled back over the past year, while the construction and the trade, transportation, and utilities sectors added approximately 279,000 jobs. While federal jobs have dropped sharply, state and local governments have added jobs in the past year.

Job Creation by Sector (12-Month Change)

1.75M Jobs Added in Last 12-Months



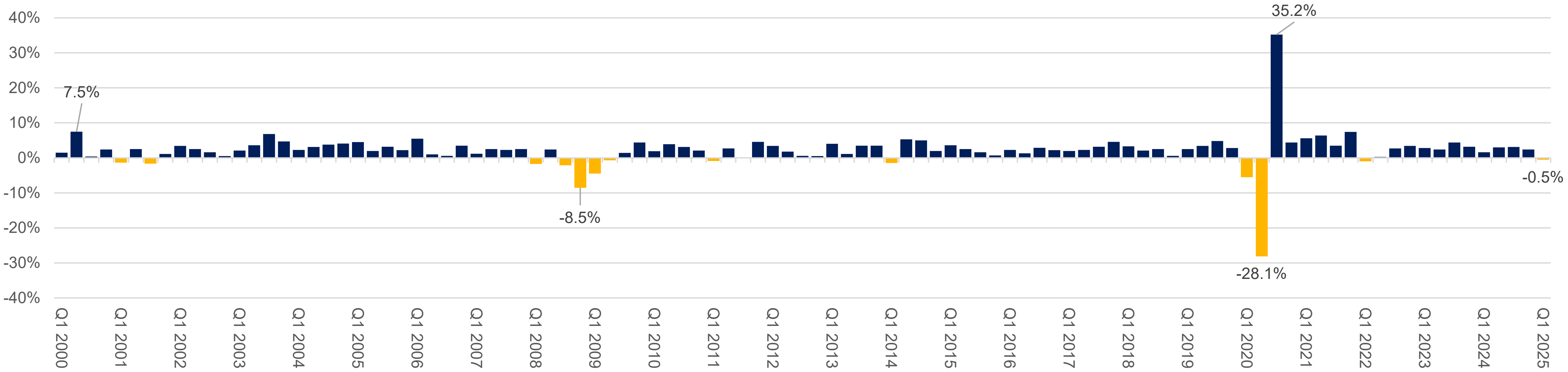
Source: U.S. Bureau of Labor Statistics, https://bls.gov

GDP

Real GDP Drops in the First Quarter

The GDP had expanded for the previous 11 quarters before dropping 0.5 percent during the first quarter of 2025. According to the Bureau of Economic Analysis, the most recent quarter decline was mainly attributed to a rise in imports and a fall in government spending. These negative impacts were counteracted by increases in investment and consumer spending.

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, July 15, 2024.

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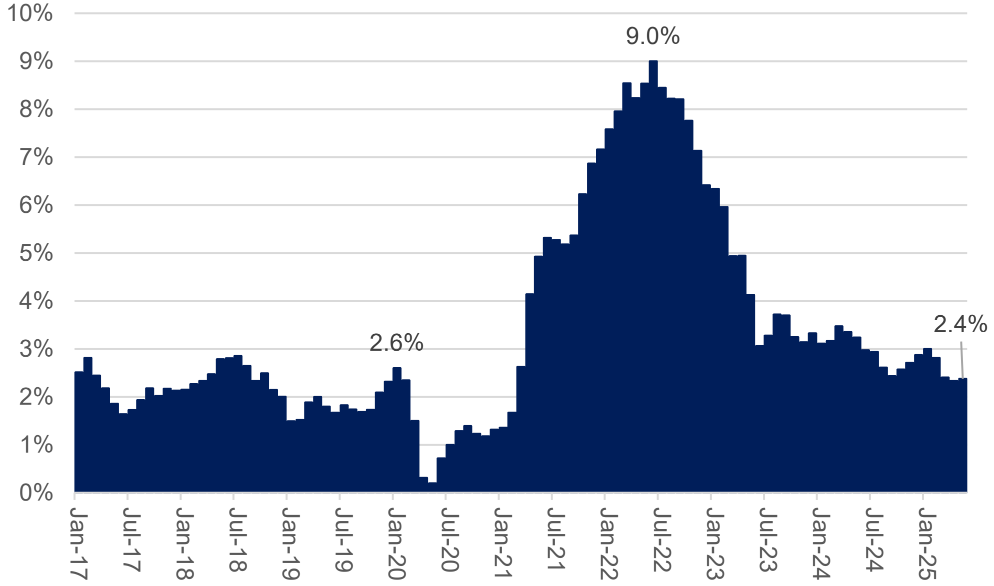
Inflation

Inflation Steadies But Indications Point To a Volatile Second Half of 2025

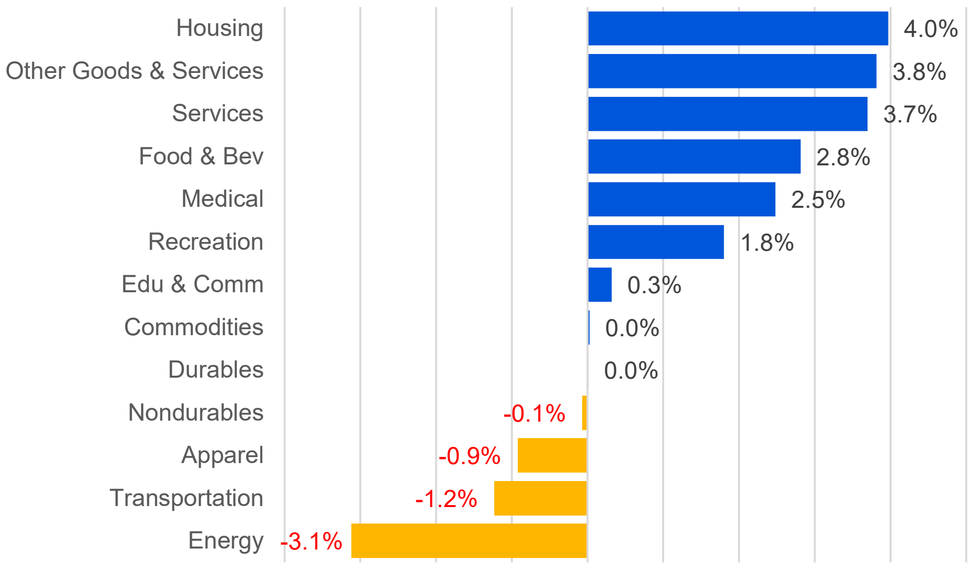
The May 2025 Consumer Price Index (CPI) from the Bureau of Labor Statistics reported inflation has flattened for the past three quarters, settling on a 2.4 percent annual increase. Pre-covid rates were typically 2-3 percent annual increases, indicating the US economy has stabilized. Indexes that increased in May include *Housing*, *Other Goods & Services*, and *Food & Beverage*, while *Energy* and *Transportation* decreased.

Consumer Price Index (12-Month Change)



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

Consumer Price Index by Sector (12-Month Change)



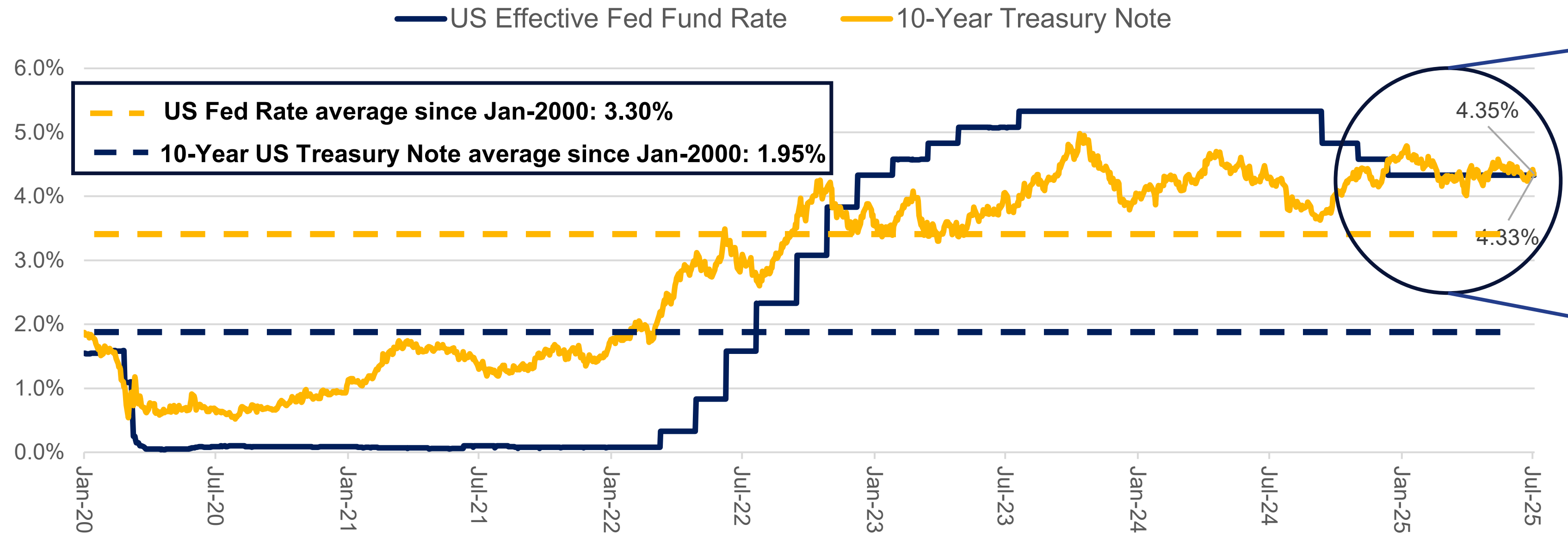
Source: U.S. Bureau of Labor Statistics, https://bls.gov
Note: Seasonally adjusted, Data pulled July 2025

Monetary Policy

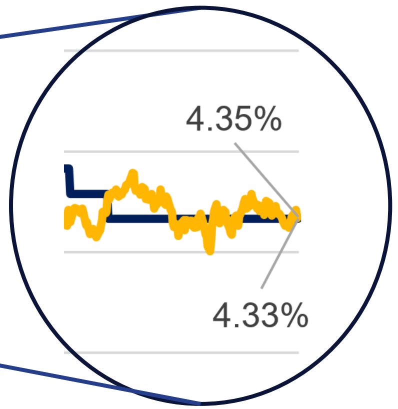
The Fed Holds Rates Steady

On June 18, 2025, the Federal Reserve held rates, after lowering interest rates in the second half of 2024 – the first decrease in more than four years. The Federal Open Market Committee (FOMC) held the federal funds rate at 4.25 to 4.50, the fourth consecutive meeting that federal funds maintained the same target range.

US Effective Fed Fund Rate & 10-Year Treasury Note



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.

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

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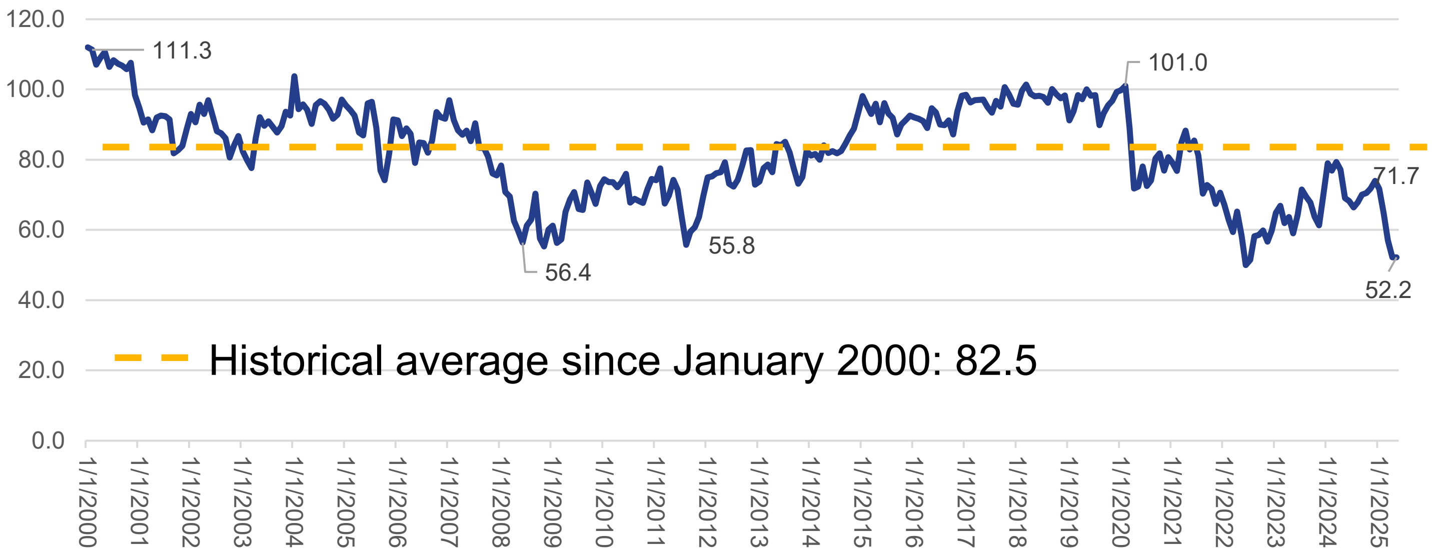
Consumers

Consumer Sentiment Moves Lower

The Consumer Sentiment Index fell to 52.2 in May, the lowest level since November 2022, and marking the fifth straight dip. The decline was attributed to rising inflation fears and worries about economic policy uncertainty, such as tariffs. While consumer spending remains strong, durable goods are still lagging, representing a reluctancy to spend money on higher ticket items. **Sentiment has now decreased nearly 30 percent since December 2024, the biggest drop since the period following the initial pandemic lockdowns.**

Consumer Sentiment Index: (United States Total)



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.

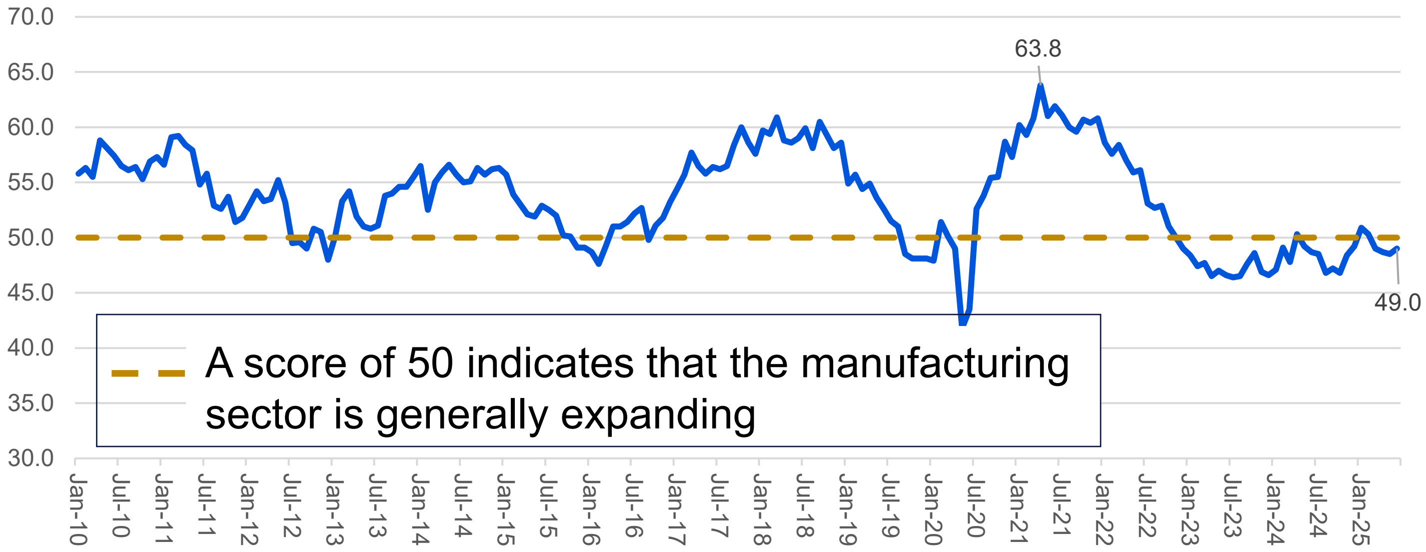
Source: Federal Reserve Economic Data, https://fred.stlouisfed.org;
Note: Data thru June 2025 (UMCSENT)

Consumers

ISM Manufacturing PMI Trails After Peaking in January 2025

The Institute for Supply Management (ISM) Manufacturing PMI (Purchasing Managers Index) for June 2025 registered at 49.0, indicating a contraction in the U.S. Manufacturing sector for four 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 June 2025

ISM Manufacturing PMI

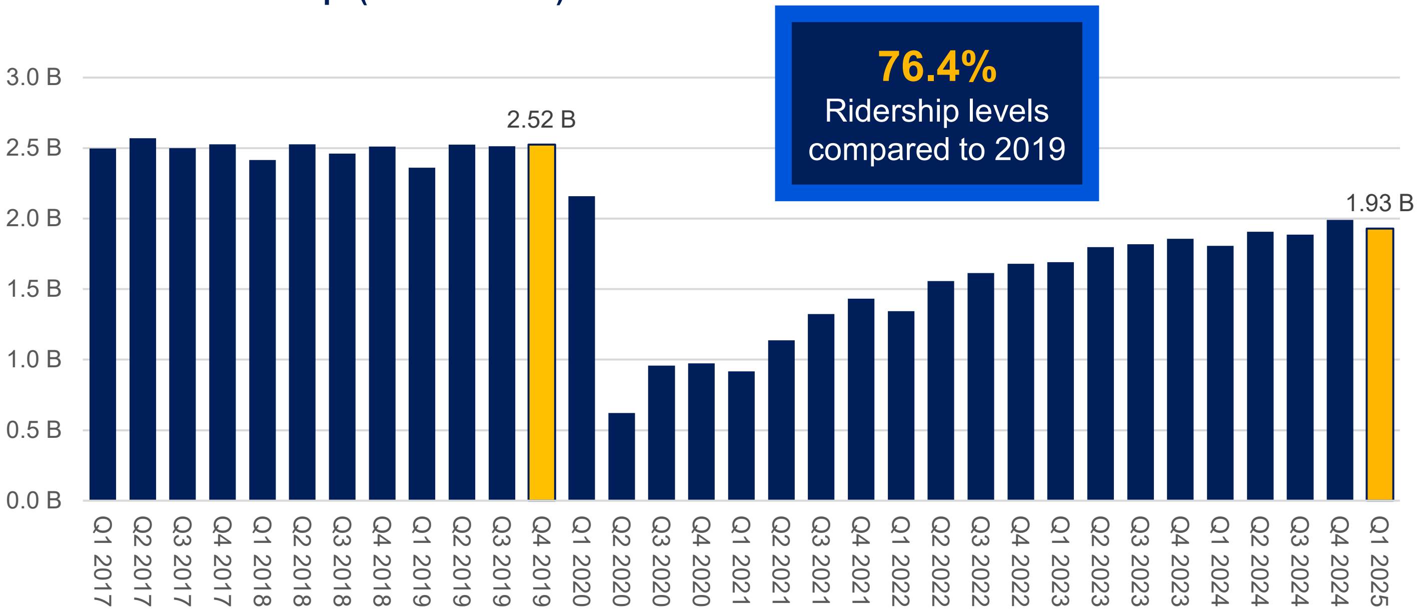
The ISM Manufacturing Index is a key economic indicator that measures the level of demand for products by surveying purchasing managers at manufacturing companies. The PMI is based on five major components: new orders, production, employment, supplier deliveries, and inventories. The index is seasonally 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.

Public Transit

Public Transit Levels Off

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 dropped to 1.93 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 has been level.

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 first quarter of 2025 at 76.4 percent of the average ridership of 2019, the last full-year before the start of the pandemic.

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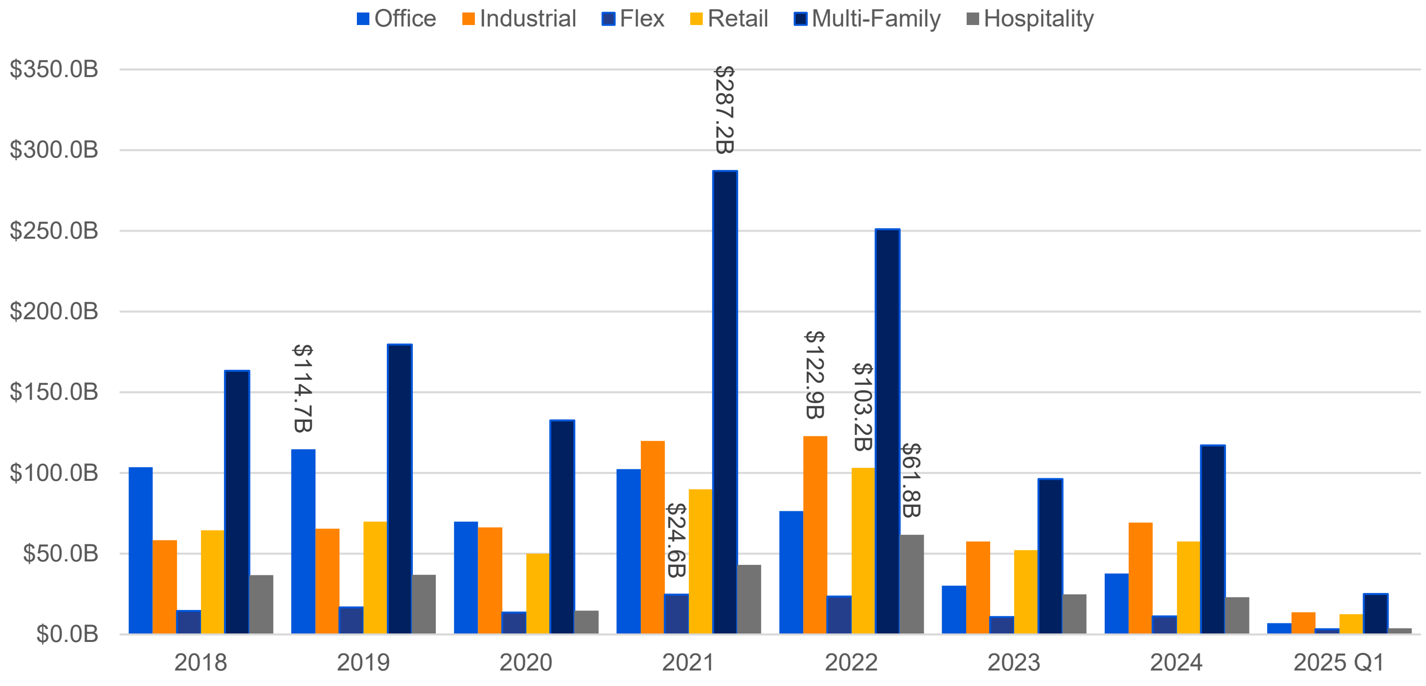
Capital Markets

All Asset Types Recover From Down 2023

Sales Volume By Asset Type (United States)



Source: CoStar and Cresa; thru Q1 2025

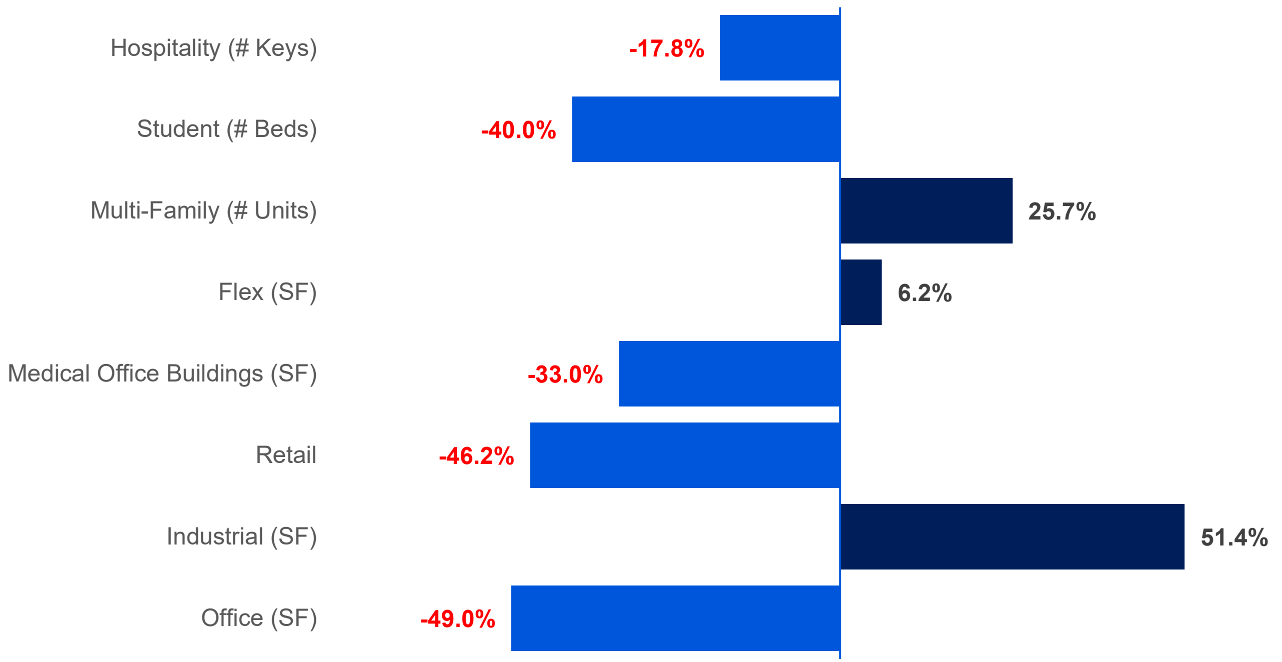
Capital Markets

After peaking in 2021, the sales volume for all asset types have quickly fallen. Demand within the office space asset type has led to a steep decrease in sales volume, but higher interest rates, rising costs, and a cloudy economic landscape have hindered capital markets across all asset types. The least volatile asset type has been retail, which has remained remarkably stable. Both multi-family and industrial asset types quickly fell after peaking in 2021 and 2022. Sales volume in 2024 for all asset types – except for hospitality – has passed totals from 2023. Overall sales by all asset types was muted in the first quarter of 2025.

Capital Markets

Construction starts for industrial properties, despite falling sharply in the past year, are still well-above levels from 2015 through 2019. Not surprisingly, office and retail asset types are far below pre-Covid levels.

Average Construction Starts Per Quarter By Asset Type (United States)
(Q1 2015 – Q4 2019) vs. (Q1 2020 – Q1 2025)



Source: Real Capital Analytics and Cresa; thru Q1 2025

Construction Starts

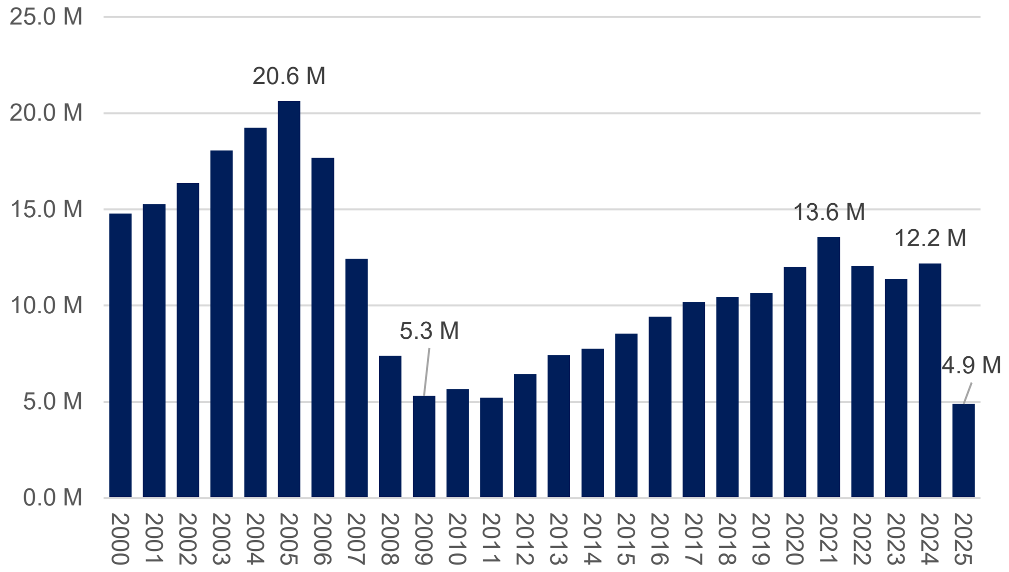
New office space has generally paused, with the number of demolitions nearly equal to new office deliveries. Industrial and flex space projects under construction are above historic averages. While multi-family starts are still above averages compared to pre-Covid, the number of starts for new units is slowing. Meanwhile, the student housing boom of the 2010s has lessened in the past 12-months.

Housing

Housing Starts Pick Up, as Interest Rate Cut Encourages Developers

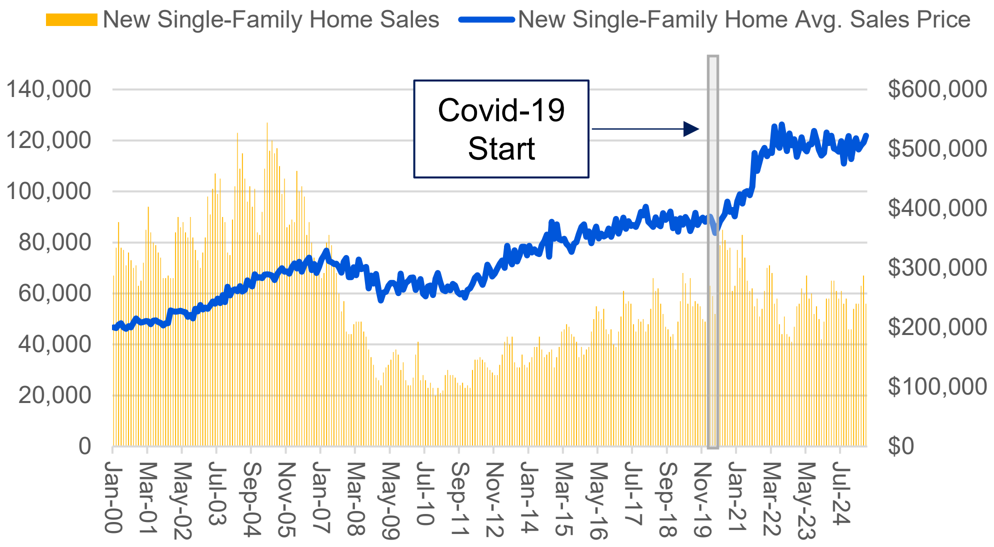
The number of residential housing starts soared at the start of the pandemic, while sale prices reached record highs in 2022. This growth is being tempered as mortgage rates remain elevated, labor and material costs rise, and supplies remain scarce. During 2023, home starts declined from the previous two years but remain near pre-pandemic levels. Meanwhile, prices have begun to stabilize as demand softens. After passing an average sale price of over $540,000 in July 2023, prices have fallen to $522,200 to close May of 2025, a decrease of approximately 3.5 percent. Nevertheless, the average sales price for new single-family homes is over $125,000 higher compared to pre-Covid levels.

Single-Family Residential Housing Starts



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

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



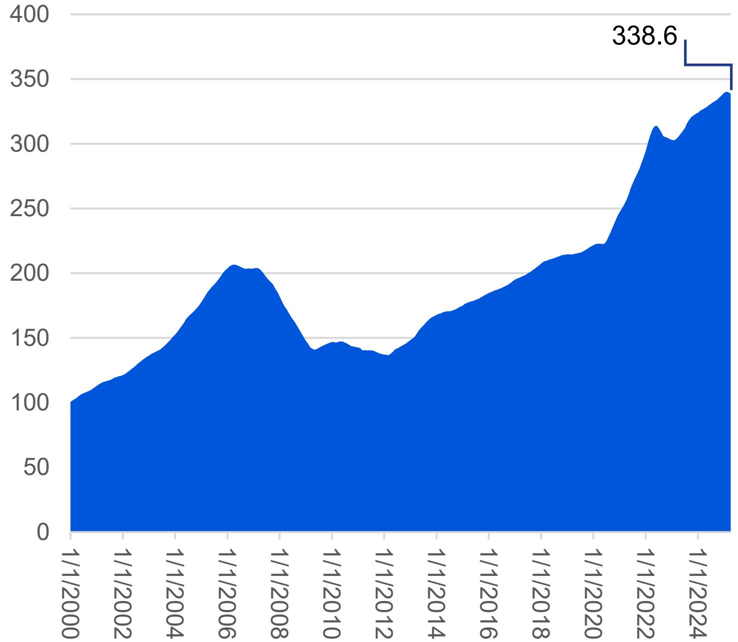
Source: U.S. Census Bureau, https://census.gov/construction
Note: Data thru May 2025

Home Price Index

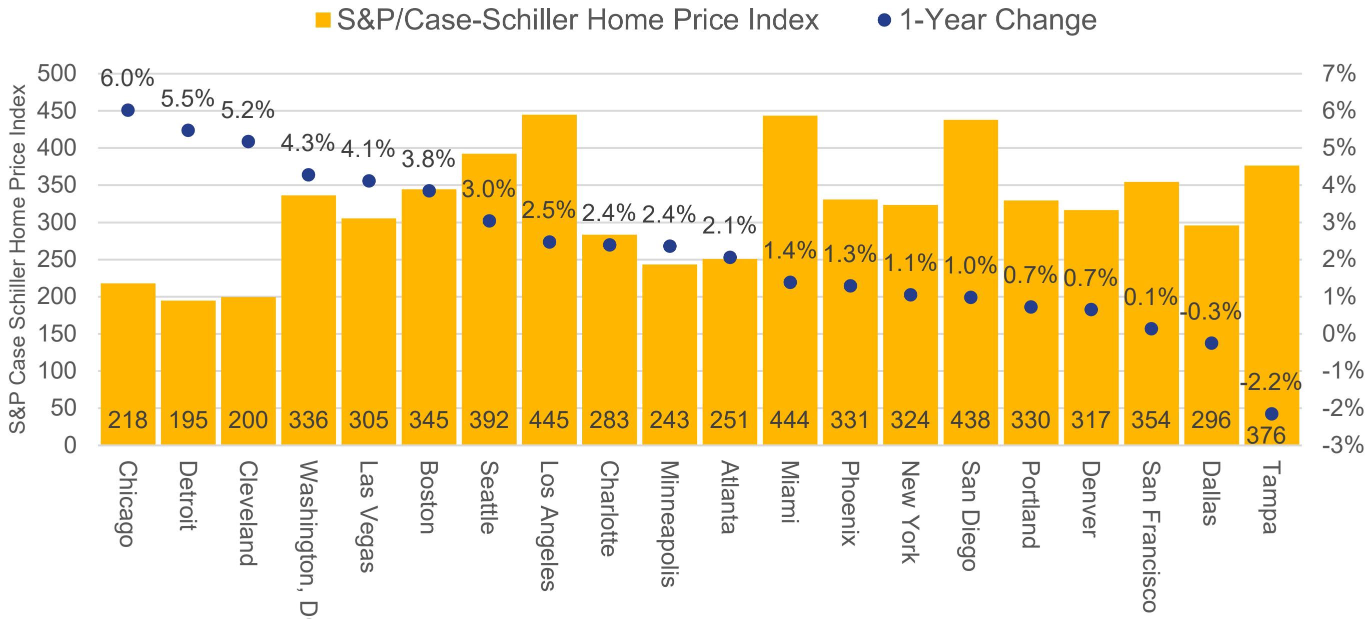
Case-Schiller Home Price Index Peaks in February

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 straight months, before ticking higher for the past 2 years closing May near a record high. Los Angeles and Miami hold the highest Home Price Index, followed closely by San Diego. Chicago, Detroit, and Cleveland increased the most in the past 12-months, while Tampa, fell 2.2 percent 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, May 2025.

Office Trends

Office Recovery Slows to the New Normal As Demand Flattens

Hopes for a broad office recovery have been dampened as demand has slowed due to anemic knowledge worker job creation and economic uncertainty. While some markets have seen a notable uptick, such as New York, a majority have seen continued negative absorption and rising vacancy. Leasing activity, which still lags pre-pandemic activity, appears to have stabilized. Still, deal sizes continue to be between 10 to 15 percent below historic levels. Availabilities are ticking lower but remain above 25 percent. Overall rent growth has been stagnant but top-tier buildings remain in demand as occupiers look to upgrade. On the supply side, construction starts have decreased more than expected and new deliveries have slowed due to construction delays. Along with the conversion of office space, fewer future deliveries may bring supply and demand more in balance.

Office Tenant View

- Many large occupiers are renewing in place due to limited large block availability in prime buildings, with smaller tenants filling in the gaps.
- Lack of new supply should support second- and third-generation buildings, which have been hit particularly hard in the period since the pandemic.
- Office attendance is gradually rising, resulting in some occupiers re-examining current space configurations.

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TRENDS

Since the last iteration of the Remote Work Index in the Winter, there has been a nominal amount of movement in remote work characteristics. With the Fall announcement from Amazon that employees will be required to return-to-the-office for a full five-day work week, there is anticipation that this may be the edict that will finally move the needle in return-to-work trends. Further, the new administration has indicated a return-to-the-office for federal workers is imminent. It is still unclear how this may impact future moves by both public and private employers.

Generally, there has only been moderate change in data included within the sources tracked for the Cresa Remote Work Index. Public transit ridership, a proxy for office attendance increased to nearly two billion riders in the fourth quarter, the highest level since the start of the pandemic. The American Community Survey, which is released in September of every year, reported that the number of employees (all job types) working from home decreased from the prior year. However, the percentage is still nearly three times higher than it was pre-Covid. Trends over the next 12-months will be followed closely to see if companies will follow Amazon's lead – and potentially government workers – and place stricter policy on working from the office a greater percentage of the time.

Remote Work Index

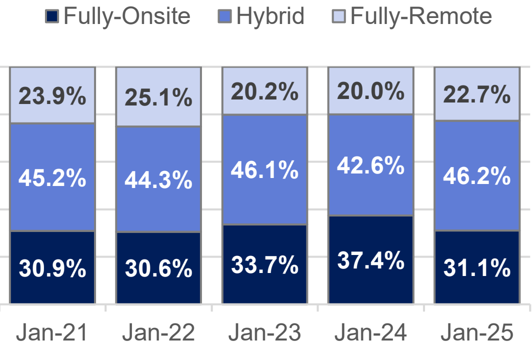
Spring 2025

Remote Work Trend:

Increasing ↑; Decreasing ↓; Unchanged ↔

SWAA Data: Tele-workable Jobs ↔

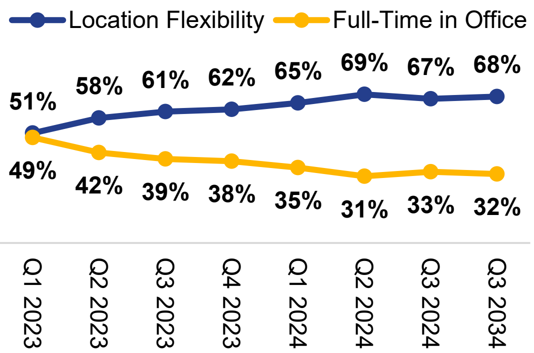
(% of Workers Able to WFH): Mar. 2025



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 ↔

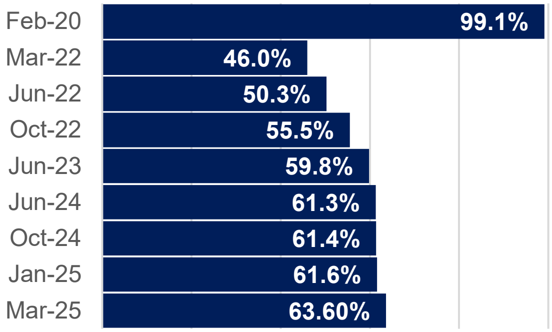
(% of Companies Offering Flexibility): Q4 2024



Source: Flex Index, Q4 2024

Kastle Systems ↔

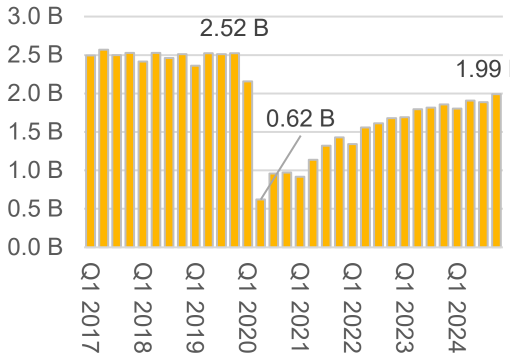
(Weekly Peak Occupancy %): Mar. 2025



Source: Kastle

Public Transit Ridership ↑

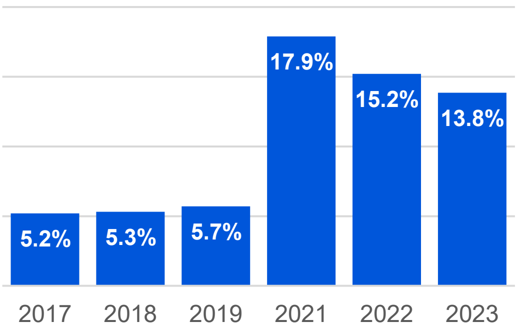
(APTA Public Ridership Report): Q4 2024



Source: Ridership Report – American Public Transportation Assoc

American Community Survey ↓

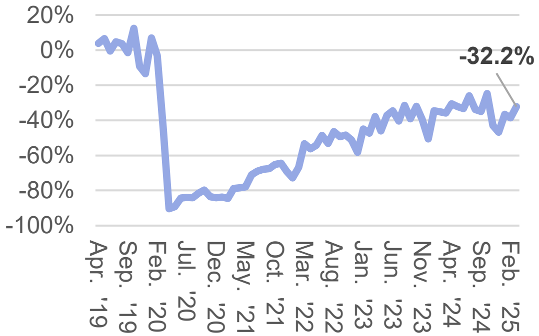
All Jobs: % of People WFH: Sept. 2024



Source: U.S. Census Bureau

Placer.ai Office Building Index ↑

Monthly Office Visits Compared to March 2019



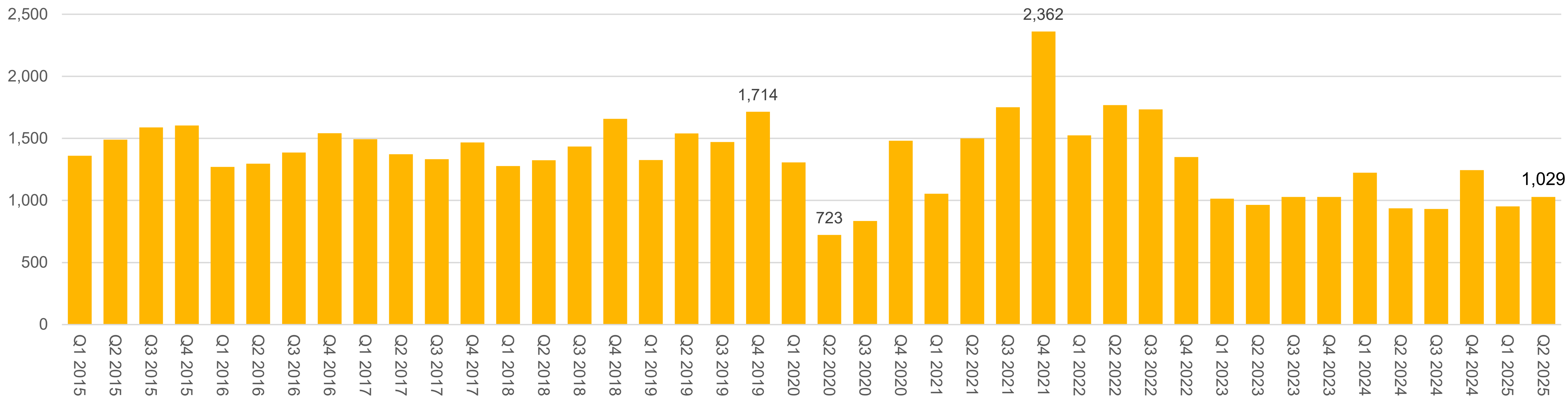
Source: Placer ai. The Return-To-Office Report

Capital Markets

Sales Velocity Falls to Near Lows of Great Recession Era

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 nine quarters, approximately two-thirds of levels from 2015 through 2020.

Office Sales Velocity: (United States)



Source: Real Capital Analytics and Cresa; thru Q2 2025

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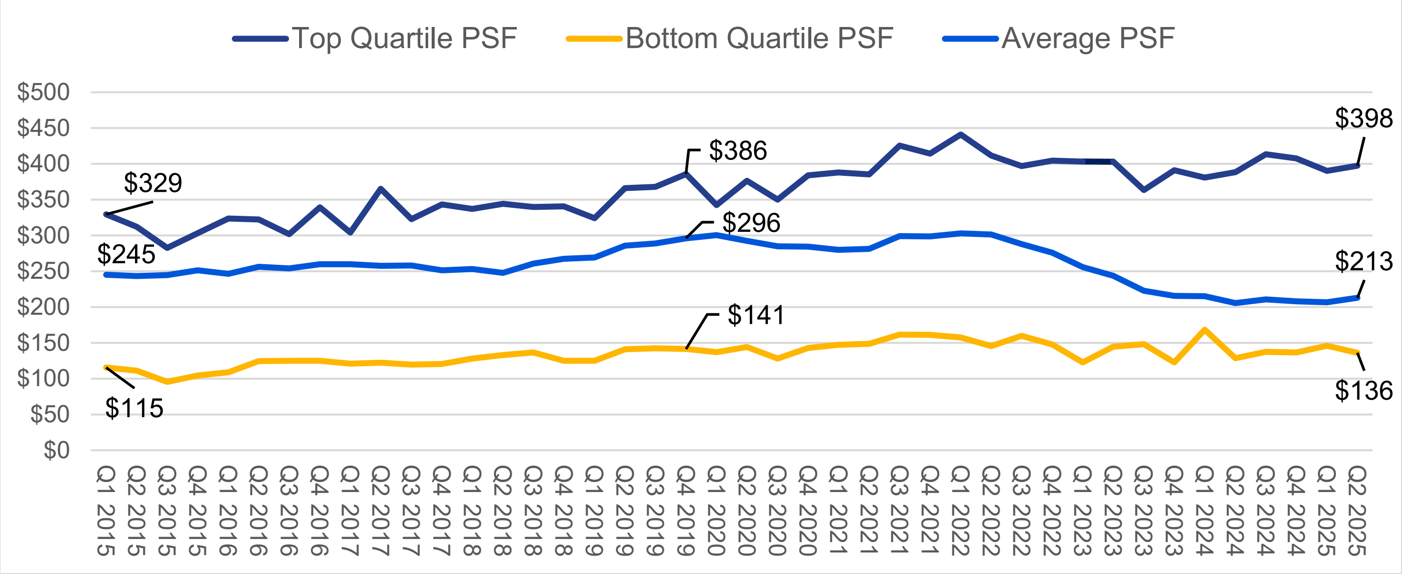
Capital Markets

Average Sale Prices Per Square Foot Remain Volatile

Average Office Sale Price/SF (United States)



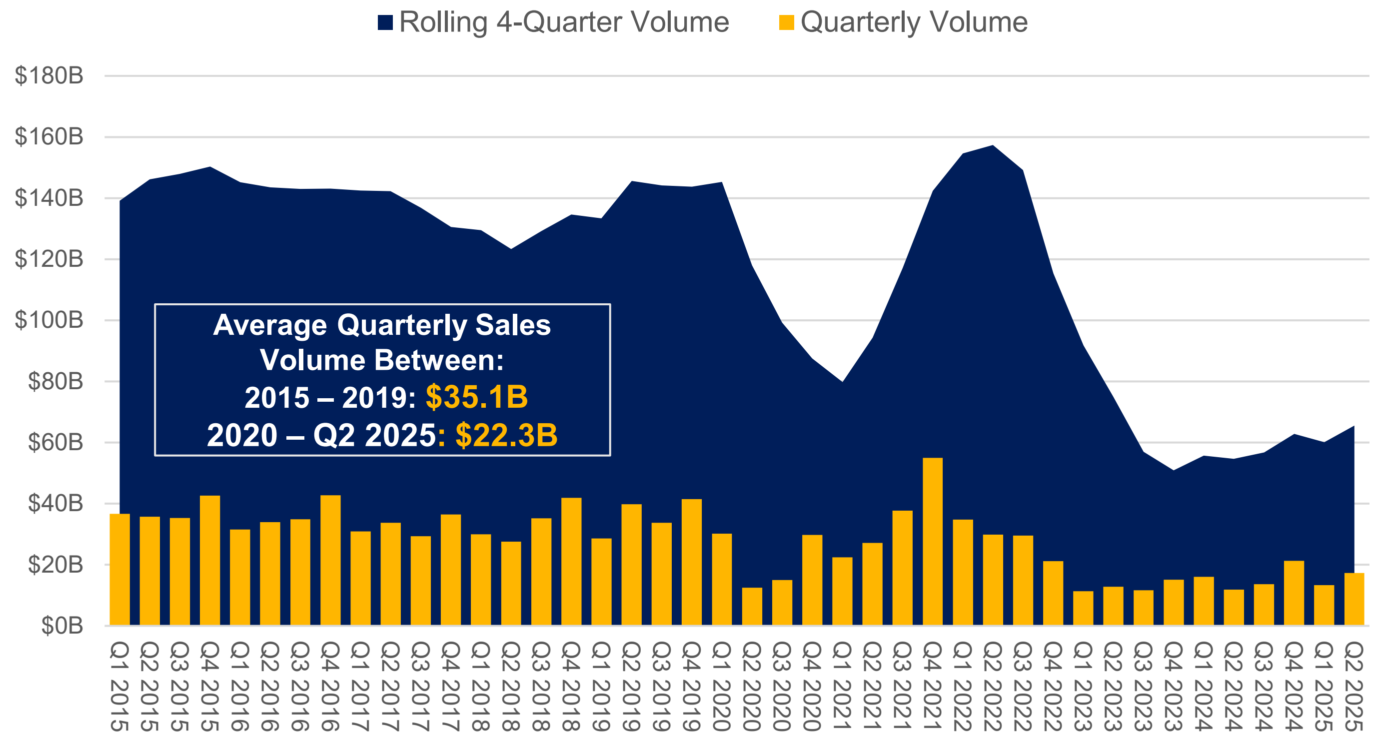
Sales of office properties in the top quartile have remained stable for the past two years. It should be noted that the lower number of overall sales has caused prices to appear more volatile. Meanwhile, the overall average sale price per square foot of office properties has dropped more than 30 percent 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 Q2 2025

Capital Markets

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

Office Sales Volume: (United States)



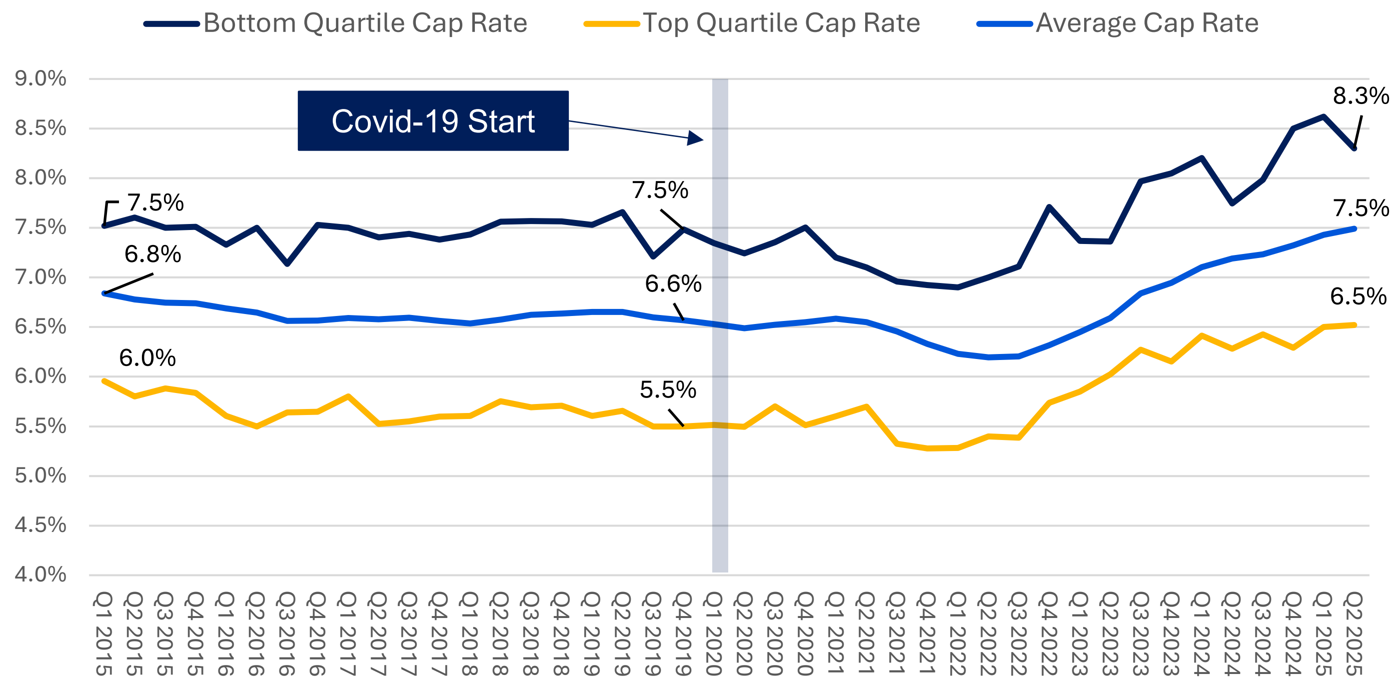
Source: Real Capital Analytics and Cresa; thru Q2 2025

Office sales volume closed the second quarter of 2025 at approximately $17 billion, the second highest volume since the fourth quarter of 20222 (the tale end of the pandemic). With the Fed cutting rates in September and November, there may be more sales activity in the near-term. The diminishing number of sales and fluctuating sale prices per square foot indicate that investors are still practicing caution.

Capital Markets

Cap Rates Drift Higher as Risk Increases

Office Cap Rates (United States)



Source: Real Capital Analytics and Cresa; thru Q2 2025

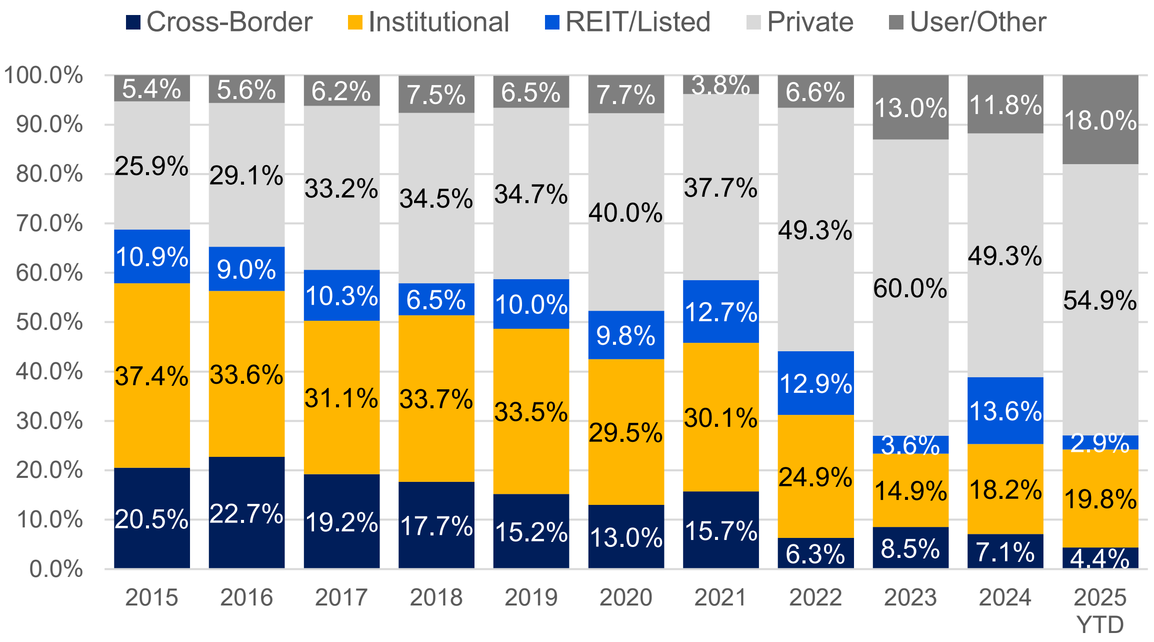
As sales volume has dropped, cap rates have reacted accordingly, trending higher for the past four years. The 7.5 percent average cap rate for office properties is at the highest level in the past 10 years. Although prices paid per square foot for top quartile office assets have held steady, cap rates are hovering above 6 percent, pricing in the additional risk of the office sector, markedly higher than the 5.5 percent cap rate before the announcement of the pandemic.

Capital Markets

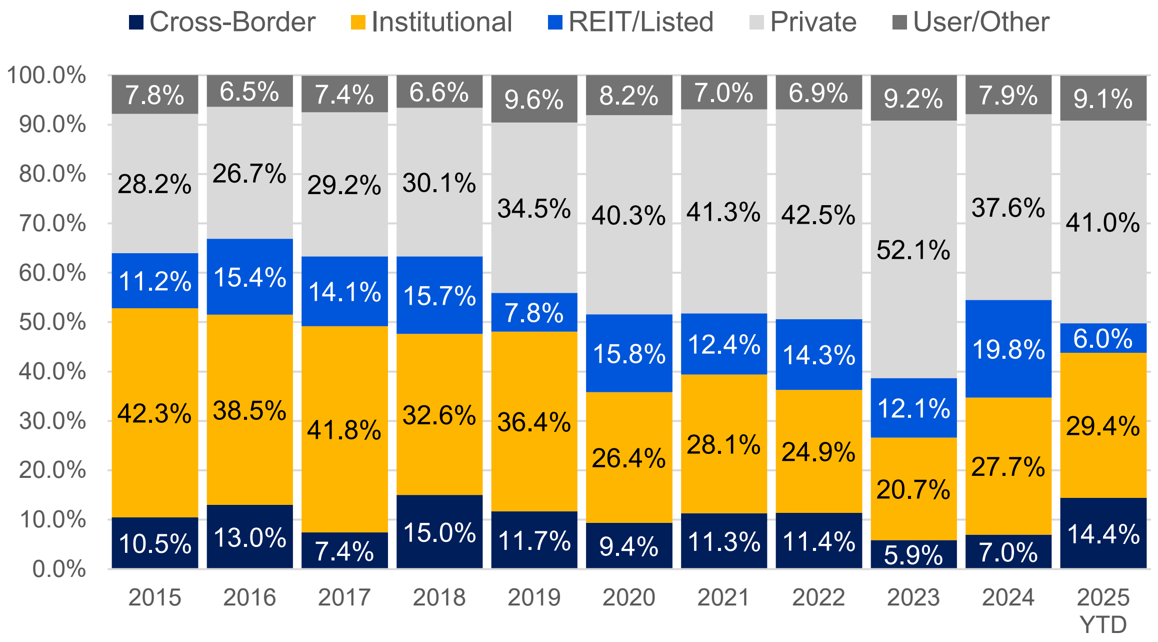
Office Capital Composition

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)



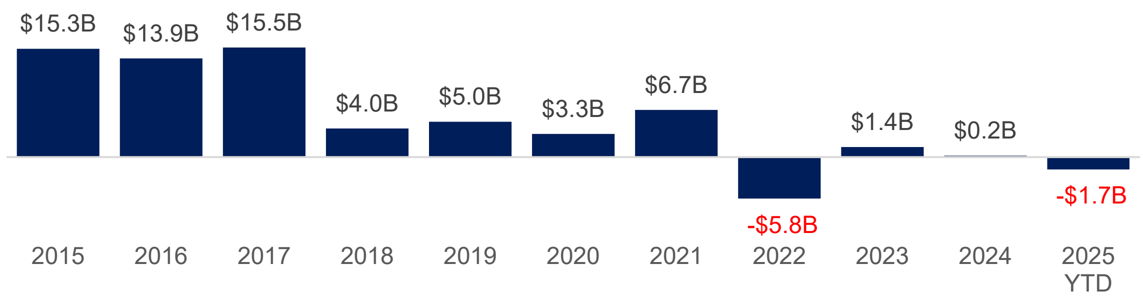
Source: Real Capital Analytics and Cresa; thru Q2 2025

Capital Markets

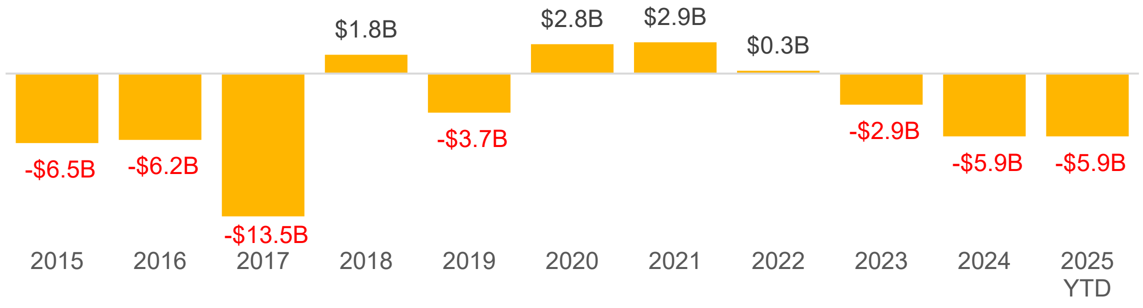
Office Capital Flows: Net Acquisitions

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 10 years.

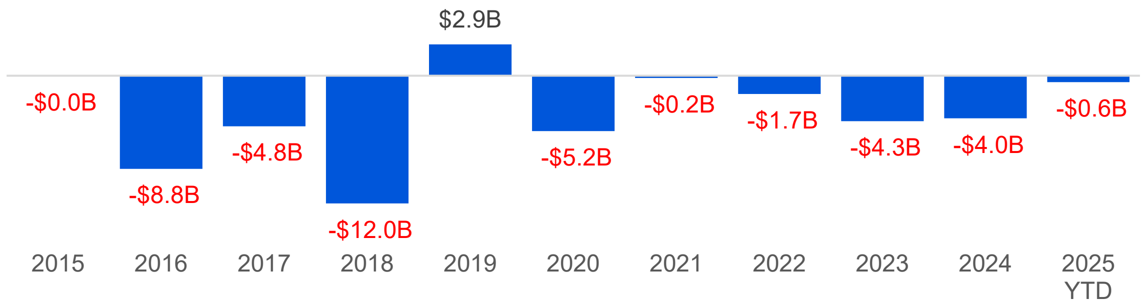
Cross-Border



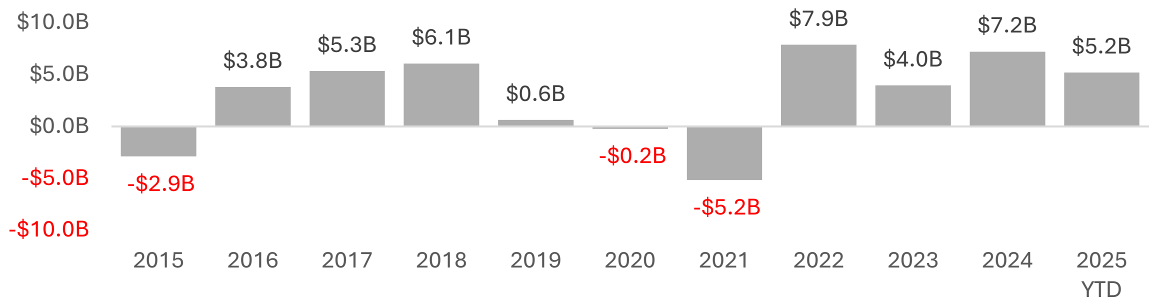
Institutional



REIT/Listed



Private



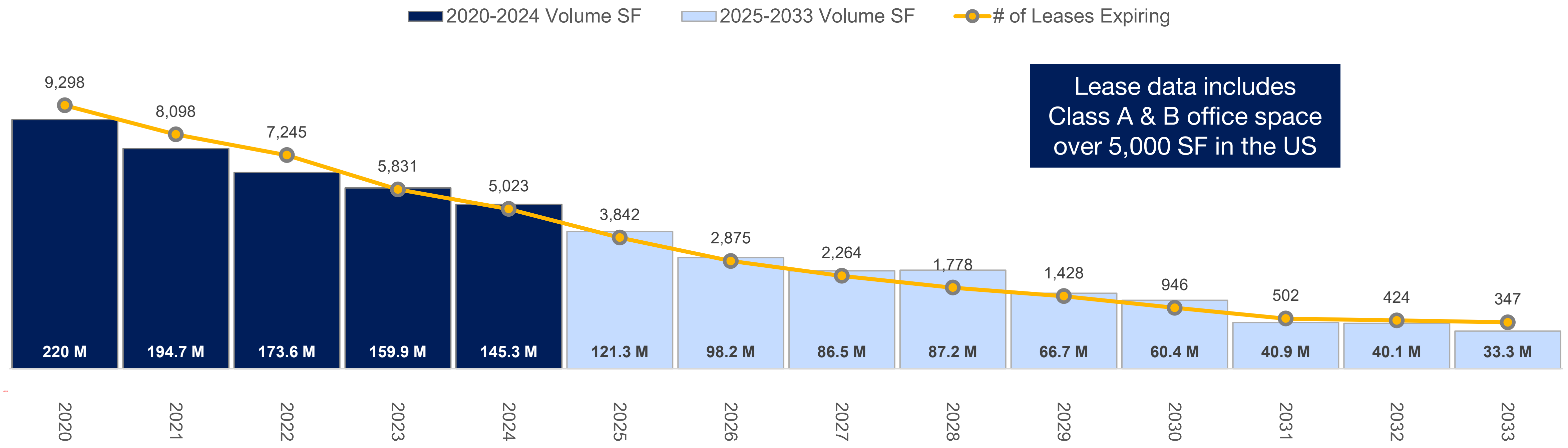
Source: Real Capital Analytics and Cresa; thru Q2 2025

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 January 2025

Leasing Trends

Deals Getting Done, but Deal Size Shrinks

Historic Office Activity – Average Deal Size

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

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

The number of deals completed in 2024 decreased by **8.8 percent compared to 2019.**

While the number of lease deals through the second quarter of 2025 are 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 fully understand.

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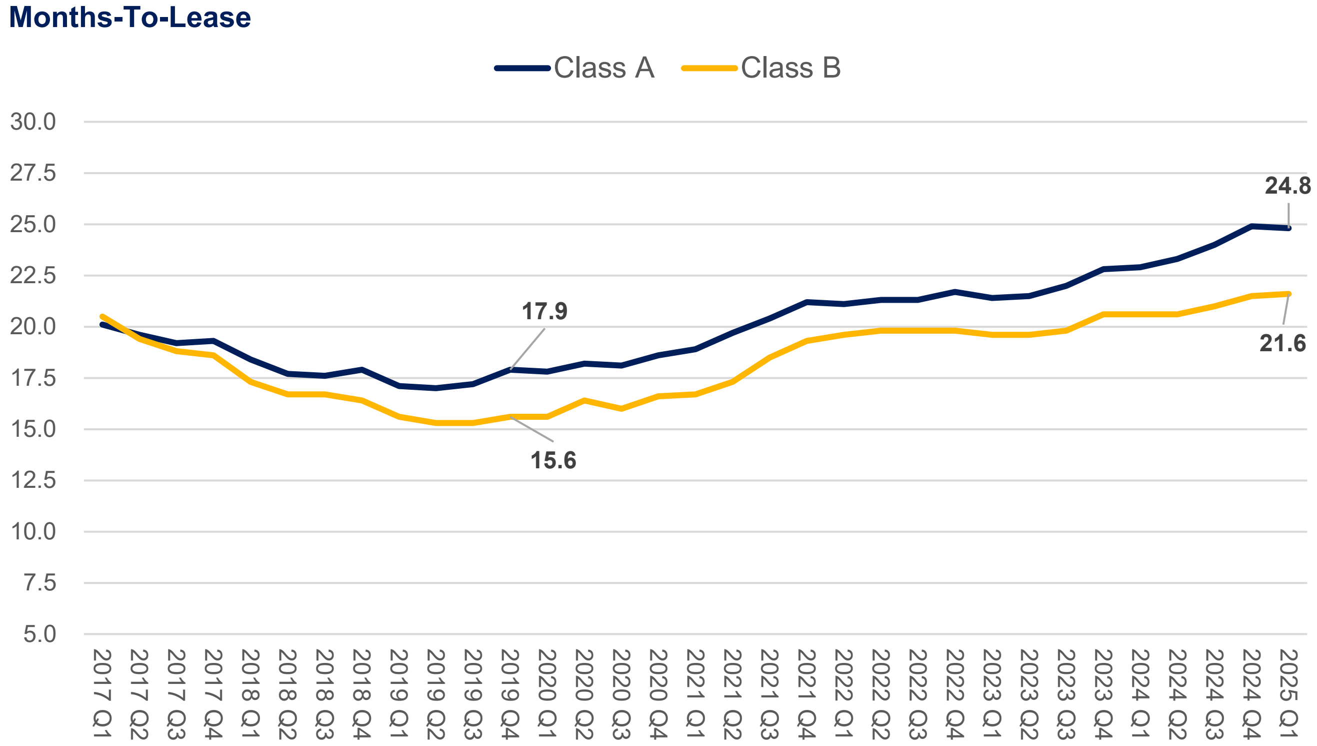
Leasing Trends

Time to Lease Office Properties Increases



The average time to lease office properties has trended higher in the past 5 years. **For class A office spaces, the time to lease has increased from 17.9 months in 2019 to 24.8 months to close the second quarter of 2025, lengthening the average time on the market by 7 nearly 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 second quarter of 2025.

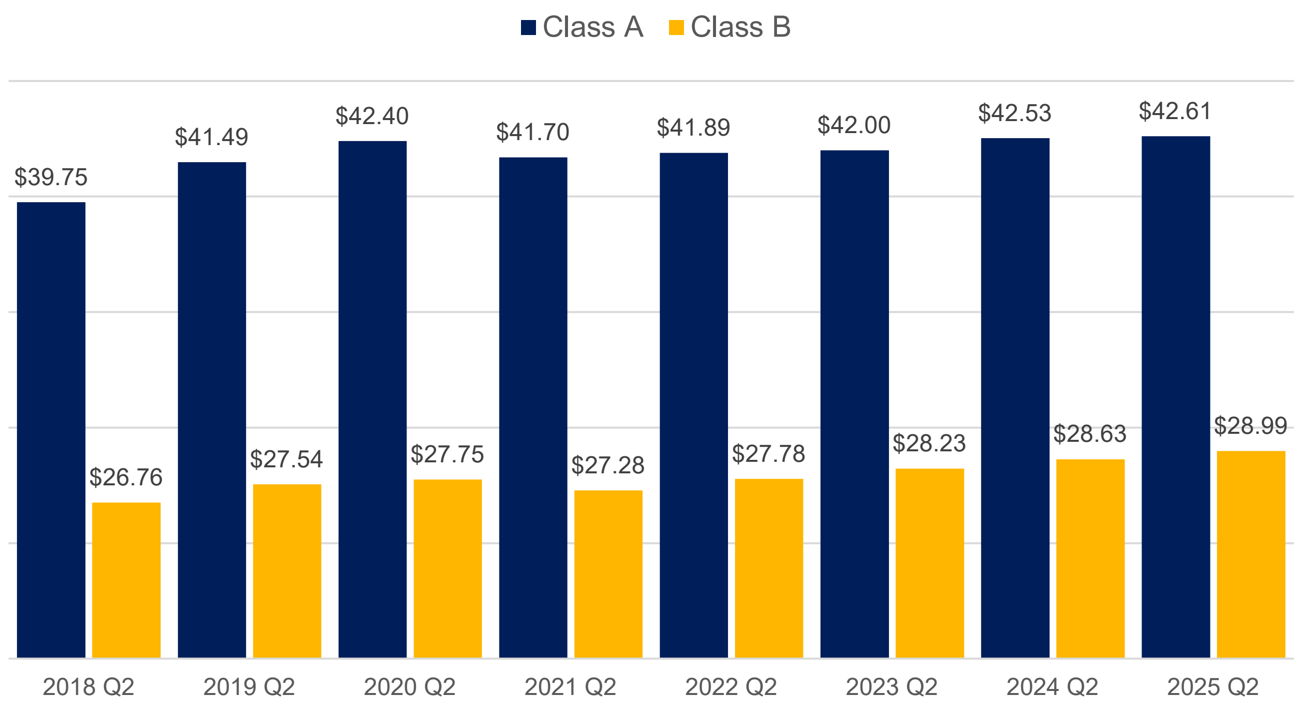
Time to close deals is also being lengthened by increased due diligence to confirm that landlords/owners are financially stable and able to fund improvements and other leasing fees.

Source: CoStar and Cresa; thru Q2 2025

Market Rent

Asking Office Rents Tick Higher as Landlords Offset Demand With Concession Packages

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



Source: CoStar and Cresa; thru Q2 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.

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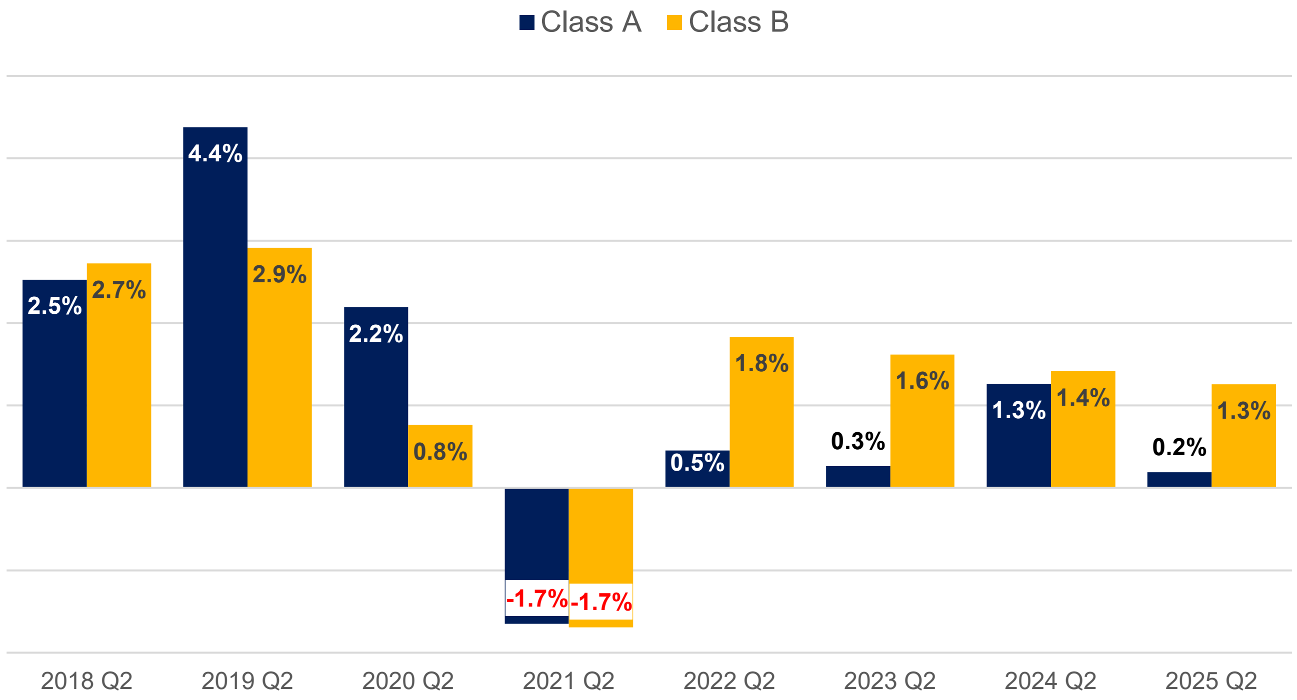
Market Rent

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 Q2 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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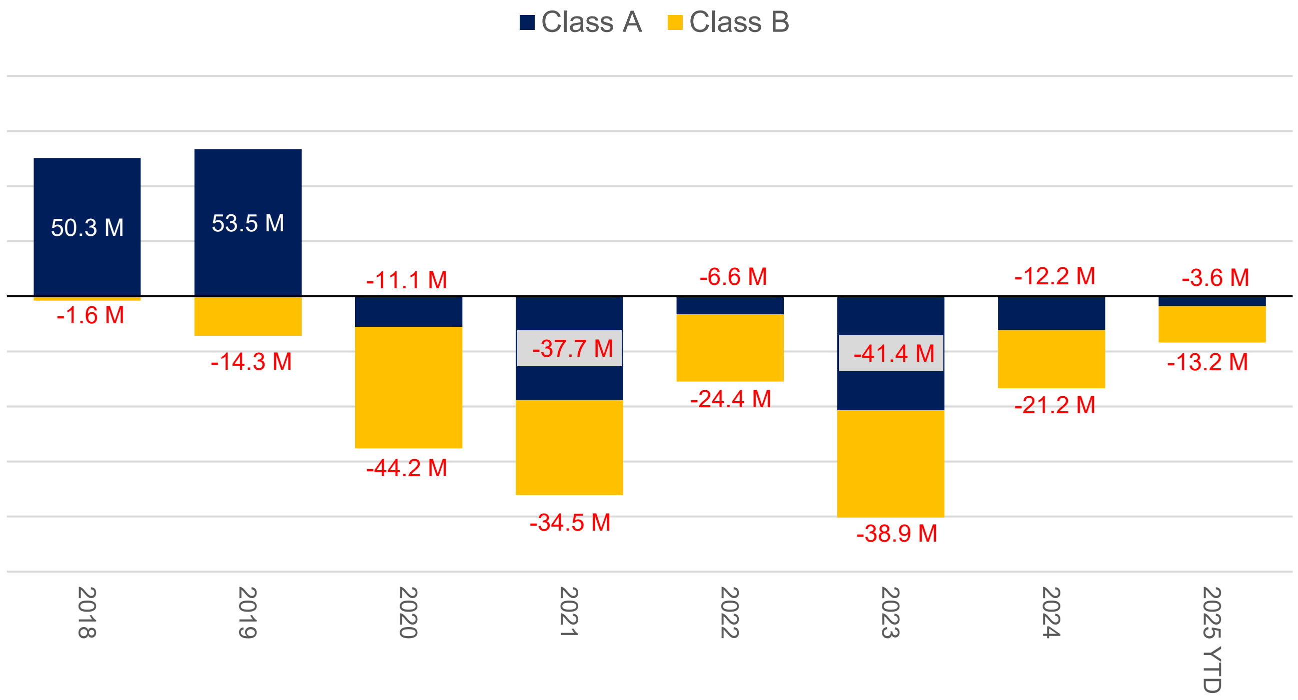
Absorption

Office Absorption Records Another Quarter in the Red, but is Slowing

Office Net Absorption (SF): (United States)



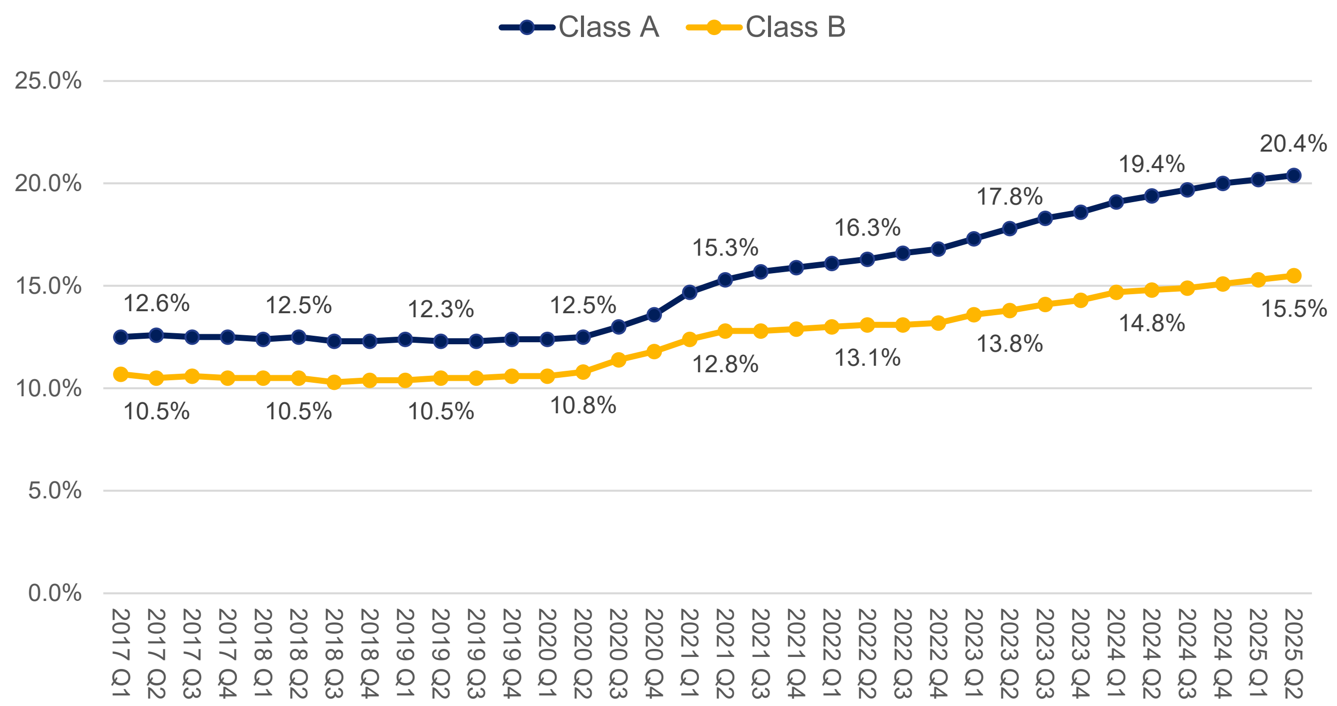
Source: CoStar and Cresa; thru Q2 2025

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 289 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.

Direct Vacancy

Office Vacancy Spikes as Companies Right-Size

Office Direct Vacancy Rate: (United States)



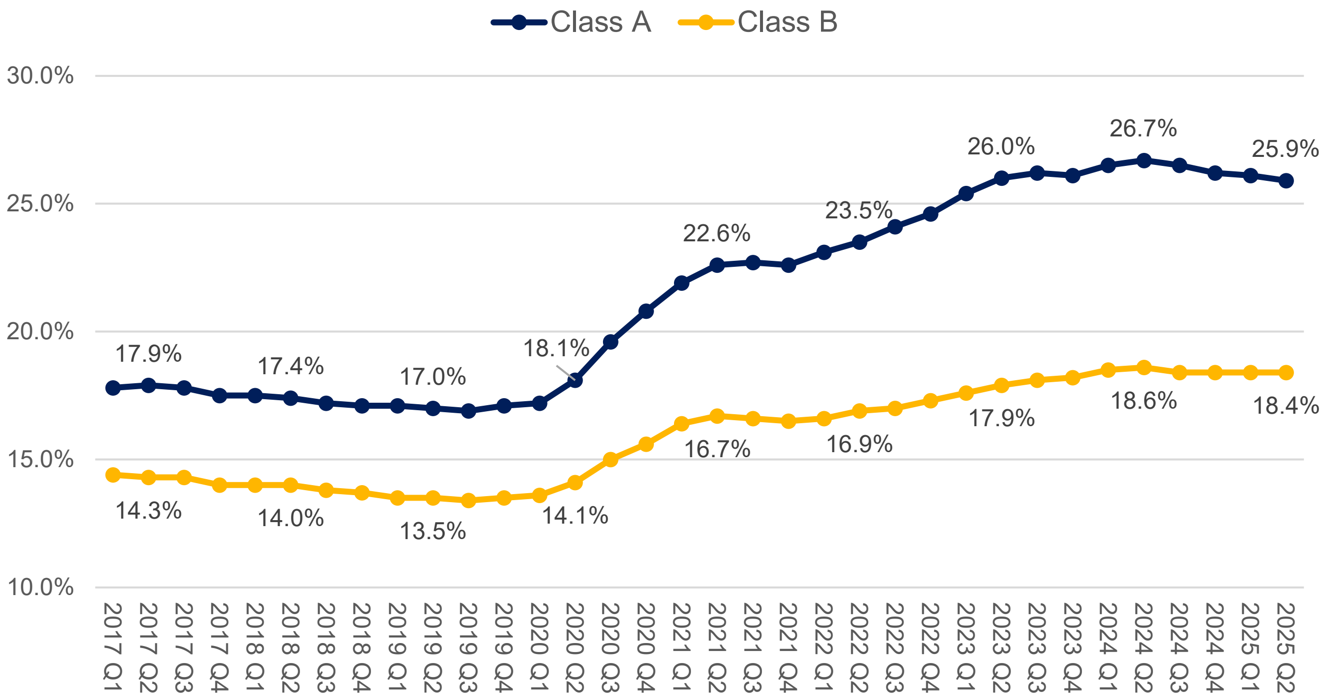
Source: CoStar and Cresa; thru Q2 2025

Class A direct vacancy has increased at a faster pace compared to class B space. Direct vacancy is expected to continue to rise as pre-pandemic signed leases begin to roll, adding to **the 24 straight quarters vacancy has increased.** Additionally, newly signed leases on average are shrinking which may buoy vacancy even as space is being removed from the market. Class B vacancy may be positively impacted long-term by office conversions to other uses.

Availability

Availability May Have Peaked as Rates Decrease

Office Availability Rate: (United States)



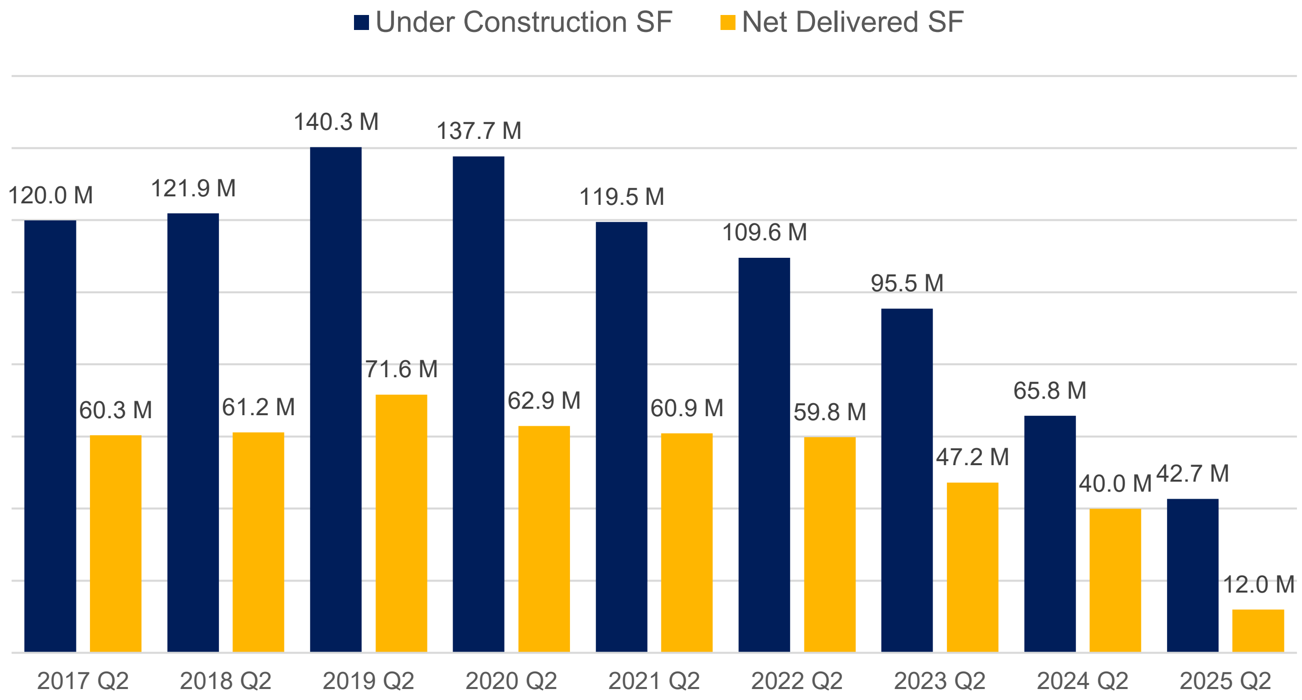
Source: CoStar and Cresa; thru Q2 2025

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 fourth straight quarter to 25.9 percent to end the second quarter of 2025, indicating that demand remains soft as the office market resets, but the bottom may be near.

Construction

Office Construction Slows to a Near Halt

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



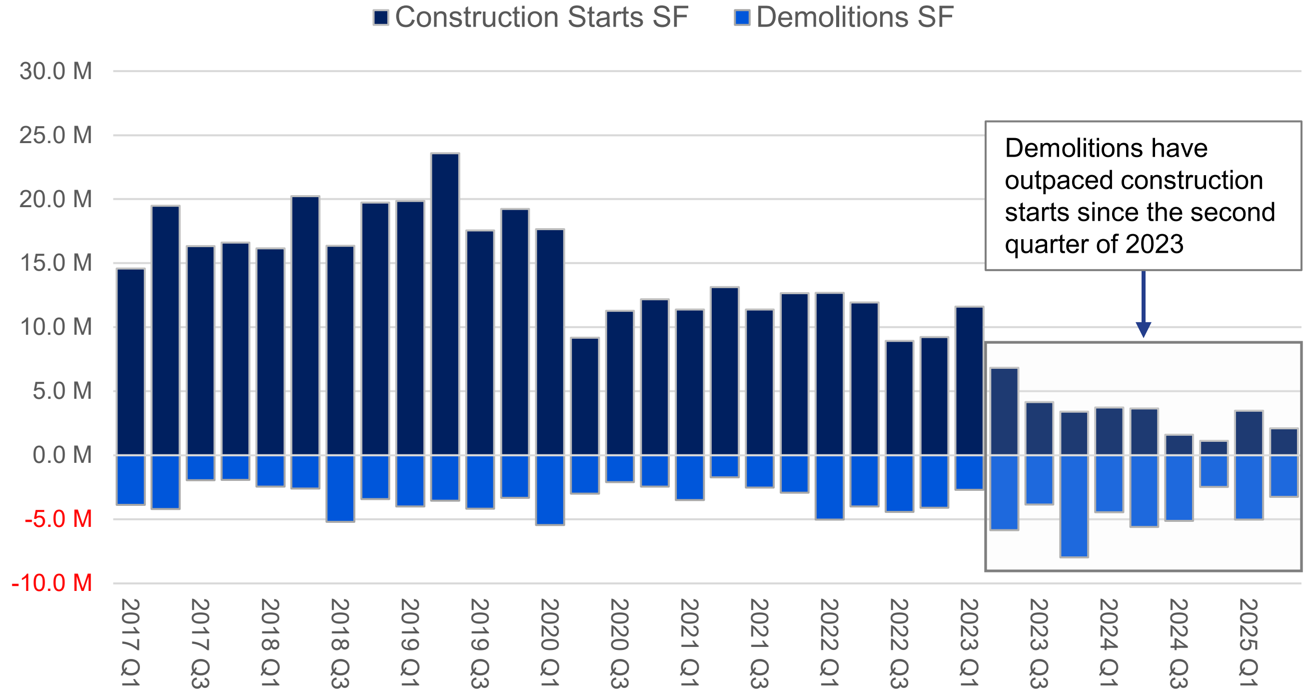
Source: CoStar and Cresa; thru Q2 2025; Data for Q2 represents the total Net Delivered SF for the entire year, while Under Construction represents only the amount during that specific quarter.

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 42.9 million square feet currently under construction, representing less only 1.0 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.**

Construction

New Office Construction Starts Over the Past Two Years are Below Office Demolitions

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



Since the second quarter of 2023, the amount of square footage demolished (43.5 million square feet) outpaced the amount of construction starts (30.2 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 Q2 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.

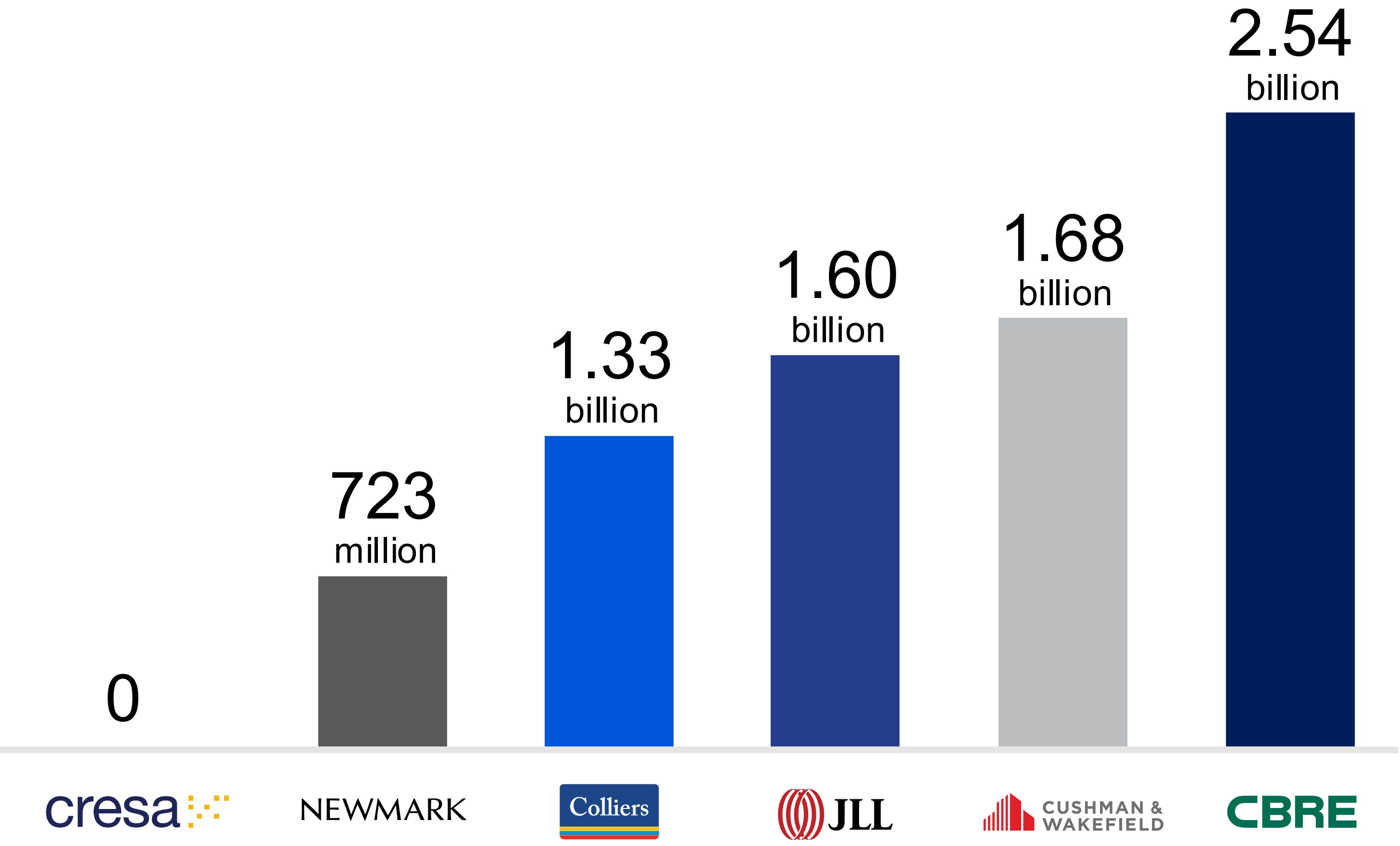
How We're Different

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.



Visit cresa.com for more information.

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