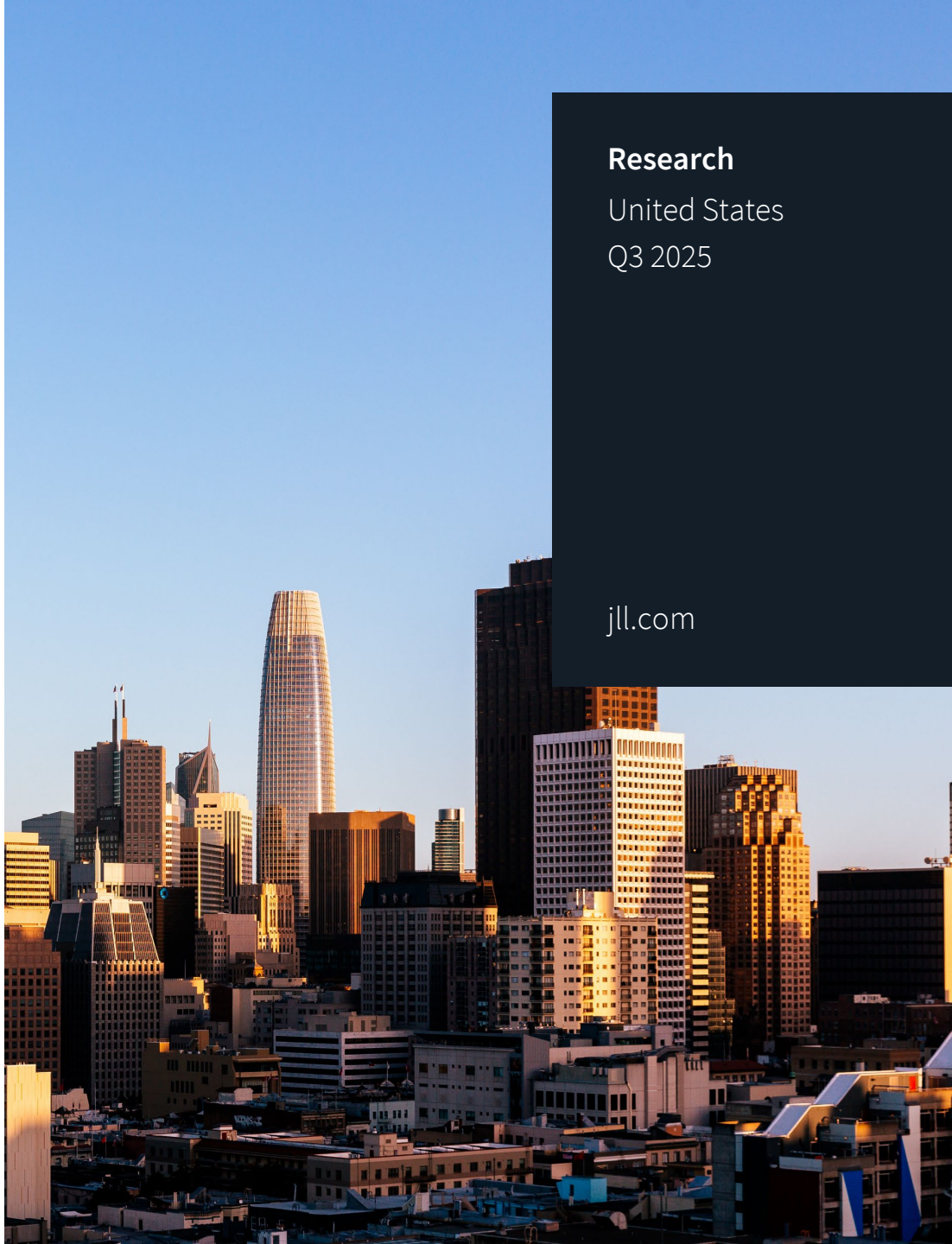
Office Market Dynamics

Research

United States

Q3 2025

jll.com



JLL SEE A BRIGHTER WAY

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Office headlines

1

Vacancy declining for first time in seven years as office enters a new growth cycle

- Consistent stabilization of demand over the past two years has driven the first decline in vacancy since early 2019.
- With footprints beginning to expand and little new development, office could be entering an extended period of declining vacancy rates.

2

Quality space becoming harder to find and more expensive for occupiers

- Less than 6 million s.f. is available in the construction pipeline – down from over 50 million s.f. in 2019.
- Class A stock built since 2000 has seen vacancy decline by 104 basis points over the past 12 months, tightening in advance of the broader market.

3

Demand bouncing back strongly from mid-year lull, driven by large transactions

- Gross leasing volume grew 6.5% QoQ to 52.4 million s.f., just 400,000 s.f. under a post-pandemic record volume.
- 18 markets are exceeding pre-pandemic leasing activity over the past year, and an additional seven markets have returned to over 90% of pre-pandemic levels.

4

Net negative inventory environment expected to continue for 2+ years

- The active construction pipeline has fallen by an additional 20% in Q3 – on average major office markets have less than 500,000 s.f. under construction.
- Some speculative trophy products are being proposed in high-cost gateway markets but are doing little to offset broader declines in new development activity.

Key Trends

By the numbers

4.8 billion
Existing inventory (s.f.)

23 million
Under construction (s.f.)

20.2%
Direct vacancy

22.5%
Total vacancy

-3.7 million
YTD net absorption (s.f.)

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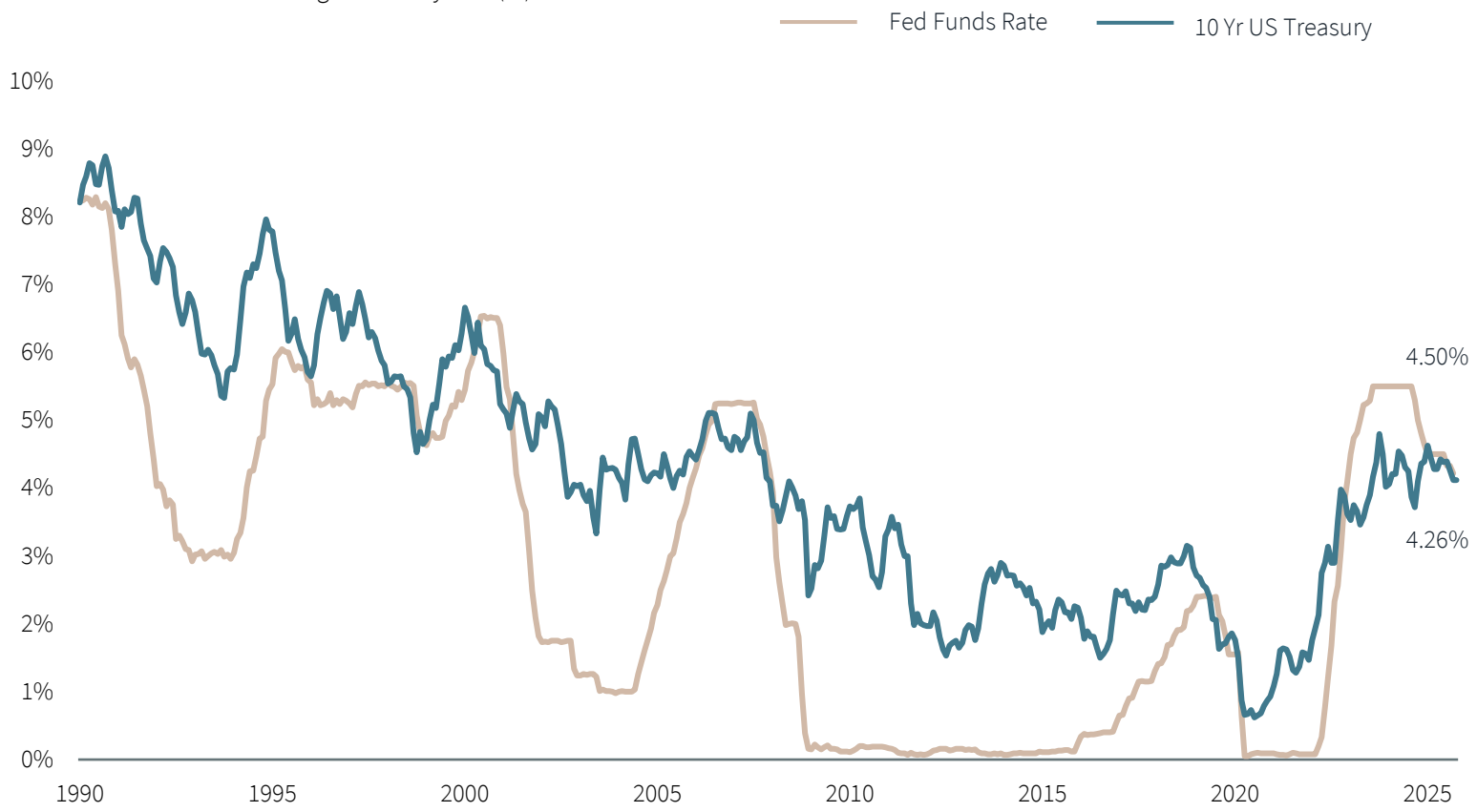
Softening job market is driving increasingly dovish monetary policy

- Office-using job markets rapidly softened in Q3, with employment declining by 15,000 in Information, 51,000 in Professional Services, and remaining unchanged for Financial Services and Government sectors over the past three months. Job openings in those sectors declined by 218,000 collectively over the past three months.
- Though labor markets are marginally softening, slowing growth expectations are leading to more action from the Federal Reserve in easing interest rates—the Fed reduced target rates by 25 basis points in September and an additional two to three cuts are anticipated over the next three months.
- Equity markets, which have correlated more strongly with office sector performance than labor markets in the post-pandemic era, saw continued growth in Q3: the NASDAQ index grew by 12.2%, the S&P 500 index grew by 7.2%, and YoY earnings growth for S&P 500 companies was 8%, the ninth consecutive quarter of earnings growth.

Interest rates and government bond yields

Central bank interest rate and gov't bond yields (%)



Source: U.S. Federal Reserve

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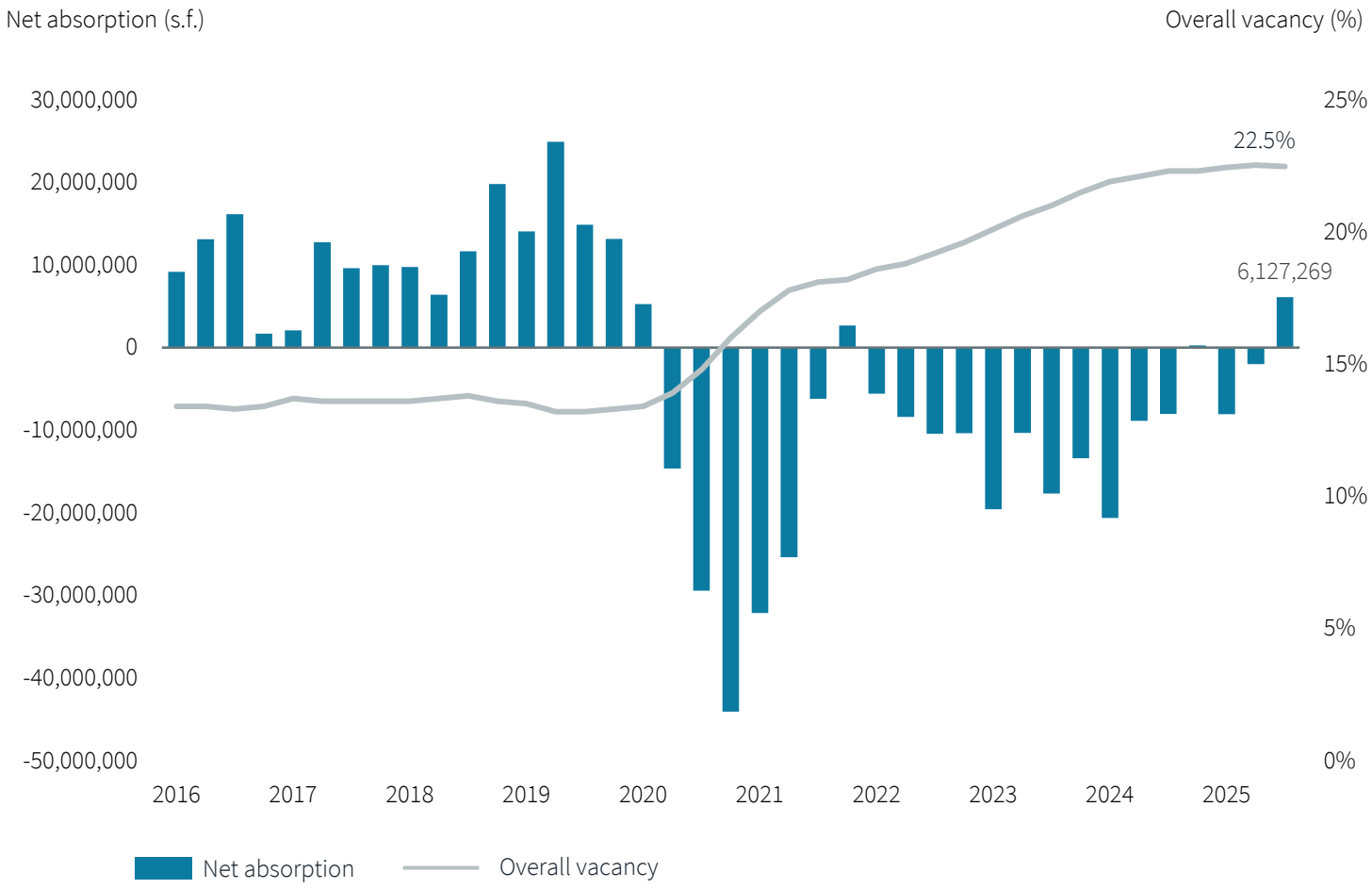
Office enters a new cycle as vacancy declines for first time in seven years

- After a prolonged runup that had seen overall vacancy rates nearly double nationally since 2019, office vacancy rates have begun to decline for the first time since early 2019, with vacancy falling 5 bps to 22.5% at the end of Q3.
- Net absorption surged ahead in Q3, reaching 6.1 million s.f., more than double the previous post-pandemic high in Q4 2021. YTD net absorption is now just -3.7 million s.f., and most of this occupancy loss occurred in either buildings being removed from inventory for conversions and redevelopments, or properties impacted by federal lease terminations in Q1.
- Footprint adjustments for large expiring leases validate the completion of the pandemic-driven downsizing cycle: tenants over 25,000 s.f. facing an expiration have cut just 2.2% of their footprint when signing a new lease in the past year.
- While vacancy reached an inflection point nationally in Q3, high-end supply has outperformed since the onset of the pandemic and began tightening much sooner—new supply has seen declining availability for more than two years, and second-generation construction (e.g. 2010-2014 build) have been tightening since early 2024.

Historical absorption and vacancy



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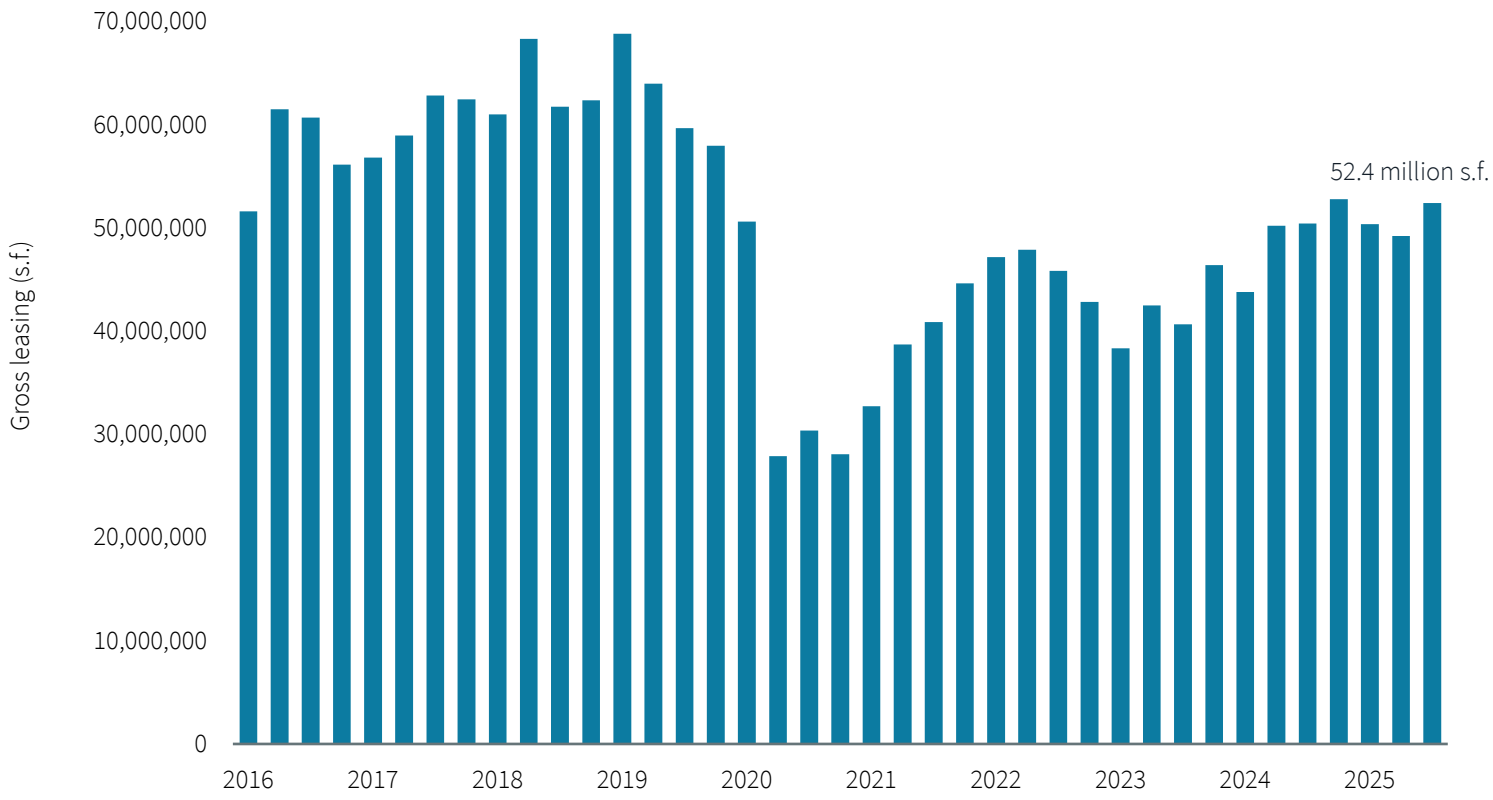
Leasing activity accelerating after mid-year lull in large transactions

- Leasing activity bounced back from a lull in the first half of the year, growing 6.5% QoQ to 52.4 million s.f., marginally below the highest post-pandemic levels reached in Q4 2024. The past year reflects 82% of pre-pandemic leasing activity nationally.
- Gateway markets have seen the most significant leasing momentum in recent quarters, led by Silicon Valley, San Francisco and Chicago which have grown by 58%, 34% and 28% respectively over the past 12 months. 18 of JLL's 53 tracked markets are now exceeding pre-pandemic leasing over the past year, and an additional seven have reached over 90%.
- Importantly, large-scale transaction activity that had been acutely impacted in Q2 has returned to the market. Leasing transactions over 100,000 s.f. had fallen by over 40% in Q2, but large leases grew by over 50% in Q3 to return to the trend of recovery. Diminished volumes of large leases continue to be one of most significant drivers of the gap between leasing over the past year and pre-pandemic norms: large leasing over the past year reflects only about two-thirds of pre-pandemic volume, which was elevated by speculative technology expansion and the spread of coworking operators.

Historical gross leasing activity



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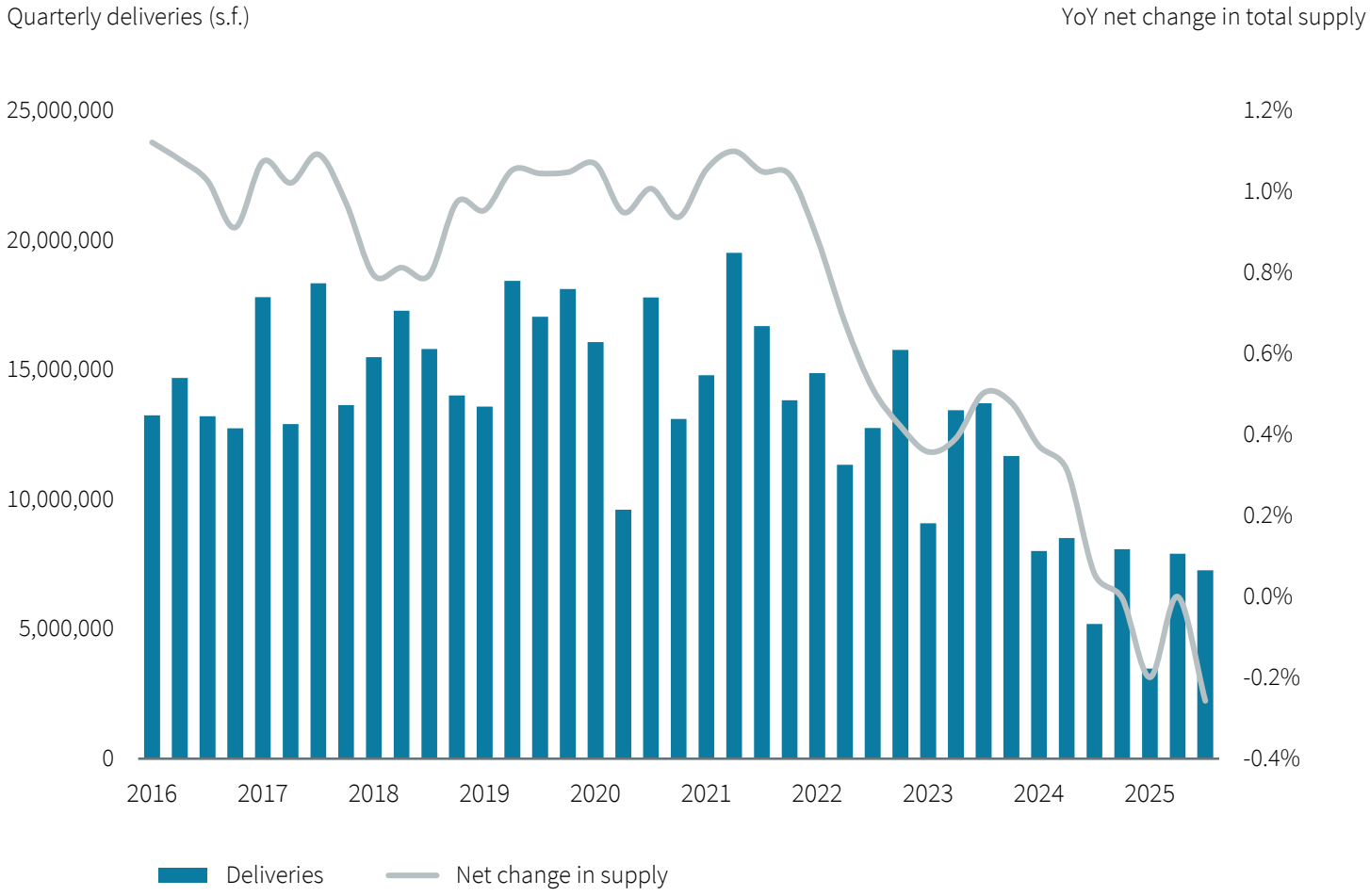
Pipeline still indicating negative inventory growth over medium term

- Despite improvement in fundamentals, the pipeline continues to reflect an aggressive correction – the U.S. has averaged less than 1 million s.f. of quarterly groundbreakings for the past year, and in Q3 overall national inventory declined by an additional 1.2 million s.f. The construction pipeline has fallen by 84% from 2019 levels, and today just over 6 million s.f. remains available in buildings under development.
- While a negligible amount of development breaks ground, high vacancy, discounted sales, and new incentives from major cities have spurred a record volume of conversions which have continued in 2025. Through Q3, more than 25 million s.f. has been removed from inventory, matching 2024's record pace of inventory removals.
- Some first-mover developers have proposed new trophy development in high-cost gateways to capitalize on the scarcity of newer stock—in Washington, DC, Boston Properties' trophy development at 725 12th St NW was 87% preleased to law firms in April, less than a year after acquiring the site. While several other similar examples have been rumored in gateway markets, this type of development is only economically viable in select high-rent nodes with robust trophy tenant bases. While it will moderately alleviate the scarcity of high-end space in select regions, these trophy developments are unlikely to counterbalance the volume of inventory removals without a more widespread acceleration of development.

Historical deliveries and pipeline



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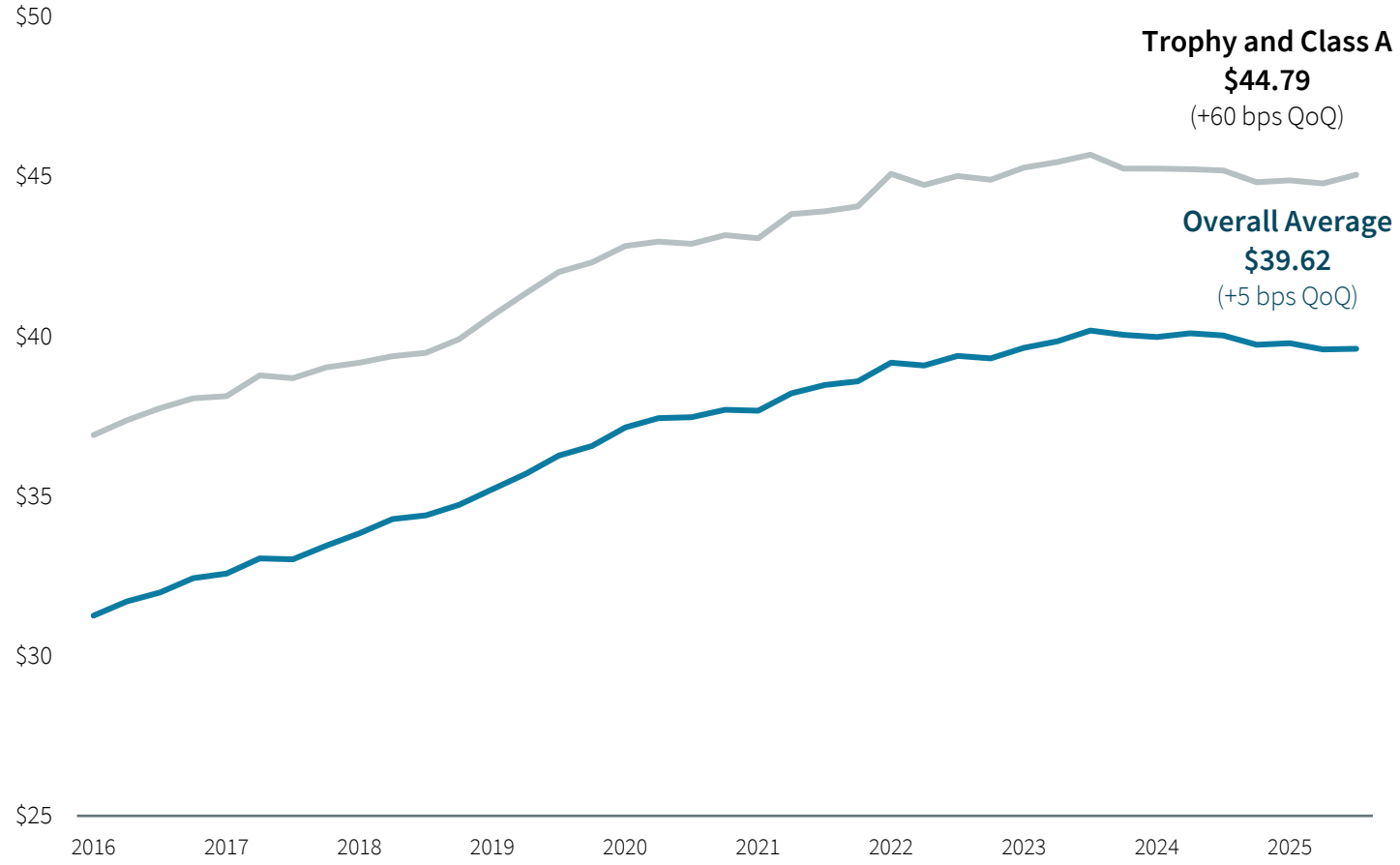
Rents

Asking rents plateauing, but some segments are still driving growth

- Asking rents grew marginally QoQ but have largely stagnated since mid-2023. Overall asking rents have softened largely due to declining availability of higher-quality spaces and relatively static availability in lower-quality segments.
- One phenomenon occurring across several markets is the melt-up of Tier 2 rental rates as Tier 1 and trophy stock becomes scarce. In markets where new supply has few larger blocks of availability, second-generation buildings are seeing more aggressive rent growth. In Washington, DC, where less than 2 million s.f. of Tier 1 stock remains available, Tier 2 rents have grown 2.1% in the past year.
- In trophy developments that are still in progress or being proposed recently, base rents on leases signed are still routinely rivaling market records. In the past year, New York, Miami and other major markets have established new record rental rates as high-end tenants compete for increasingly few options available in newer properties.

Historical direct asking rents



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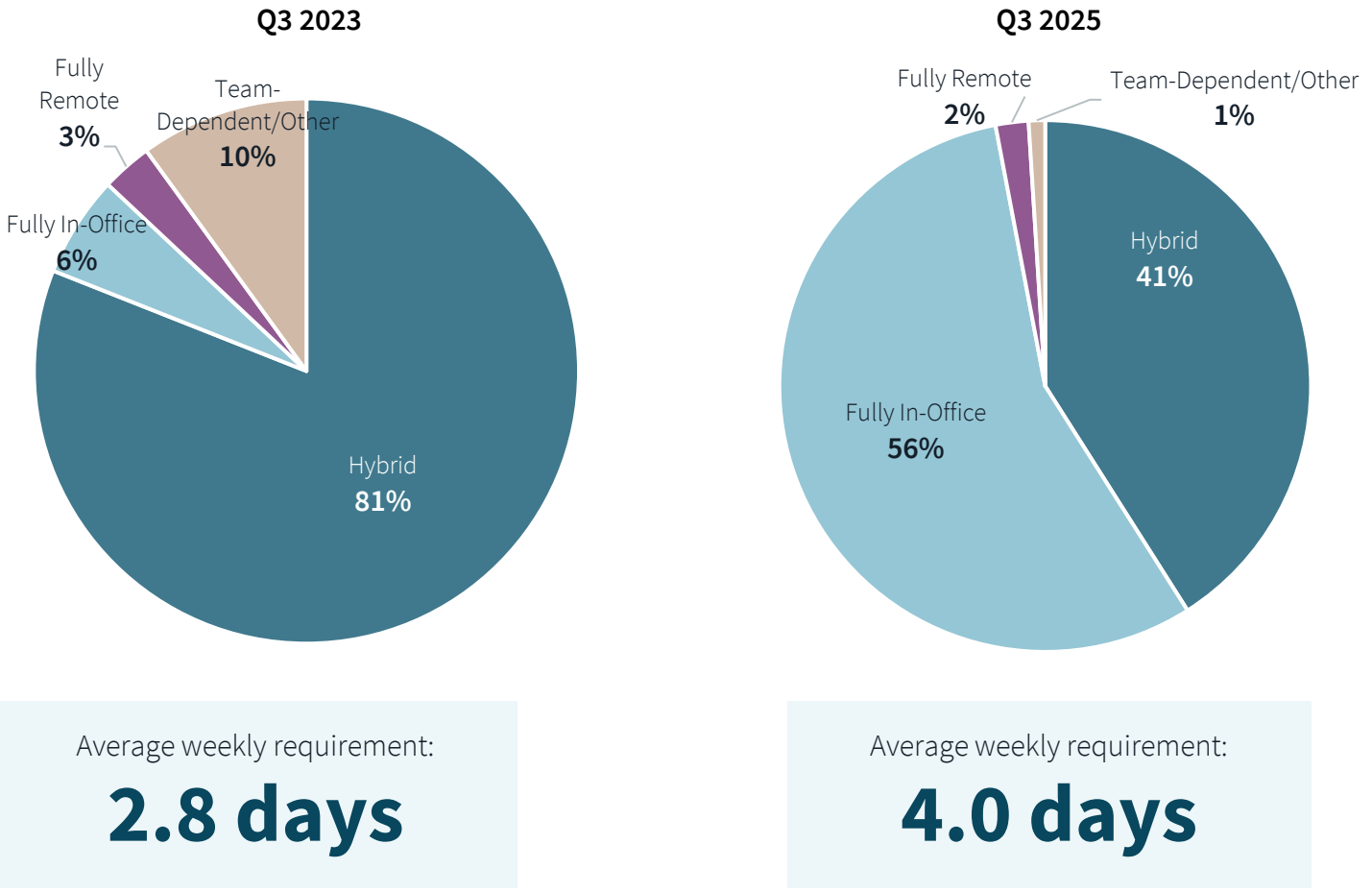
Company policies continue to shift towards more office attendance

- Office attendance hit a fresh post-pandemic high in July, with foot traffic reaching 80% of pre-pandemic levels.
- Flexible policies continue to fade in favor of more stringent attendance requirements—during Q3, Ford (4 days), 3M (4 days), Target (3 days), Starbucks (4 days), TD Bank (4 days), Intel (4 days), Samsung (5 days), Microsoft (3 days) and T. Rowe Price (4 days) all increased weekly attendance mandates.
- Continued shifts have brought the majority of office-based employees of Fortune 100 companies back to the office on a full-time basis: as of October, 56% of employees face five-day requirements and 97% have some degree of hybrid weekly requirements, with an average requirement of 4 days.
- Office mandates that were issued in Q3 effected roughly 250,000 workers; other companies are likely to follow suit in the coming months as they continue to prioritize attendance.
- The return to an average requirement of four days likely signals that most companies have returned to similar flexibility compared to pre-pandemic policies: many employers were permitting one or more weekly days of hybrid work prior to the pandemic.

Fortune 100 Office Employee Attendance Policies



Average weekly requirement:
2.8 days

Average weekly requirement:
4.0 days

Note: Excludes warehouse, retail and non-office roles

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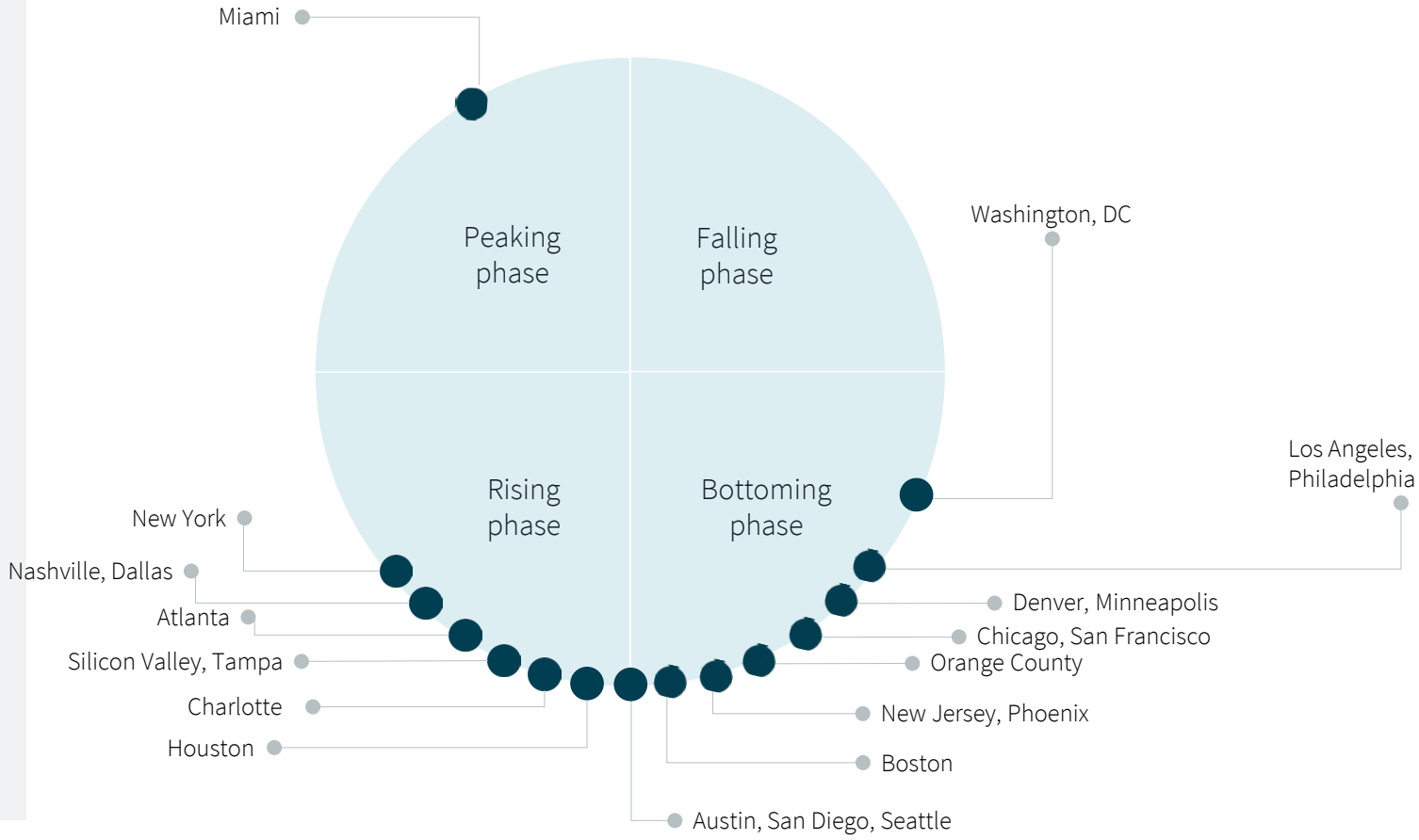
Diversified Sun Belt markets, New York leading recovery

- While most U.S. markets are well along their recovery trajectory, the pace of improvement has differed geographically.
- Markets in the Sun Belt that have been the beneficiaries of corporate relocations in the past decade, most notably Texas, Florida, North Carolina, Nashville and Atlanta, have been among the leading regions for office occupancy stabilization. These markets have experienced positive net absorption YTD and only generated marginal occupancy losses in 2024.
- As an increasing share of large organizations begin to consolidate employees in key hub markets, gateway cities have seen elevated momentum of late. Gateway leasing activity has grown by over 15% YoY, despite still reflecting just 76% of pre-pandemic averages. New York has experienced the most rapid recovery among gateway markets, generating nearly 10 million s.f. of net absorption YTD.
- As of Q3, 20 of 53 markets have overall vacancy rates below 20%, and five markets (Grand Rapids, New York, Orlando, San Diego and West Palm Beach) have vacancy rates below 15%.

Office rental clock



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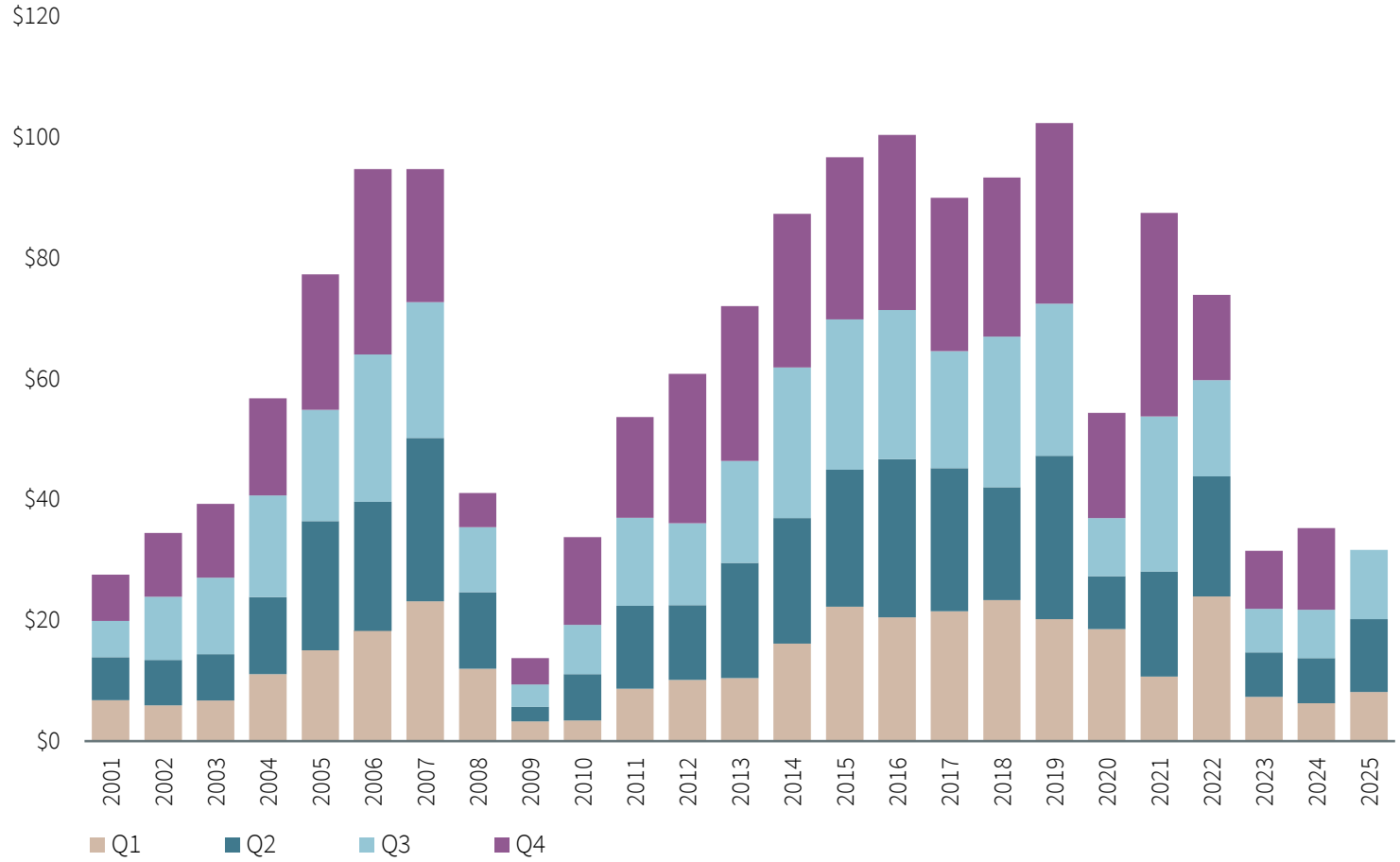
Investment sales accelerating, pointing to broader improvement in capital flow

- Investment sales activity has meaningfully improved over the course of the year--$11.4 billion in Q3 sales volume brought YTD totals to $32 billion, outpacing 2024 by 45%.
- There are signs that institutional buyers are tentatively returning to the market. Institutional groups comprised 20.6% of acquisition volume in 2024 but have comprised 21.6% YTD.
- Large transaction volume has also been returning steadily: through Q3, sales above $100 million have already outpaced 2023 totals, and are on pace to exceed 2024 levels by approximately 30%.
- Despite the improvement in liquidity, delinquency rates for office debt continue to rise. CMBS office delinquency reached a cyclical high of 11.43% in August but fell back to 10.72% in September. Delinquency rates had previously fallen temporarily in April 2024 and December 2024 only to continue rising in subsequent months.
- Expected rate cuts through mid-2026 will continue to support improvements in liquidity and offer relief to distressed landlords. Lower costs of capital will also encourage or facilitate other capital expenditures, including leasing concessions, building improvements and renovations.

Historical office transaction volumes

Transaction volumes (US$ billions)



Source: JLL Research, Real Capital Analytics
Note: Single-asset transactions above $5 million; excludes medical office, data center and lab.

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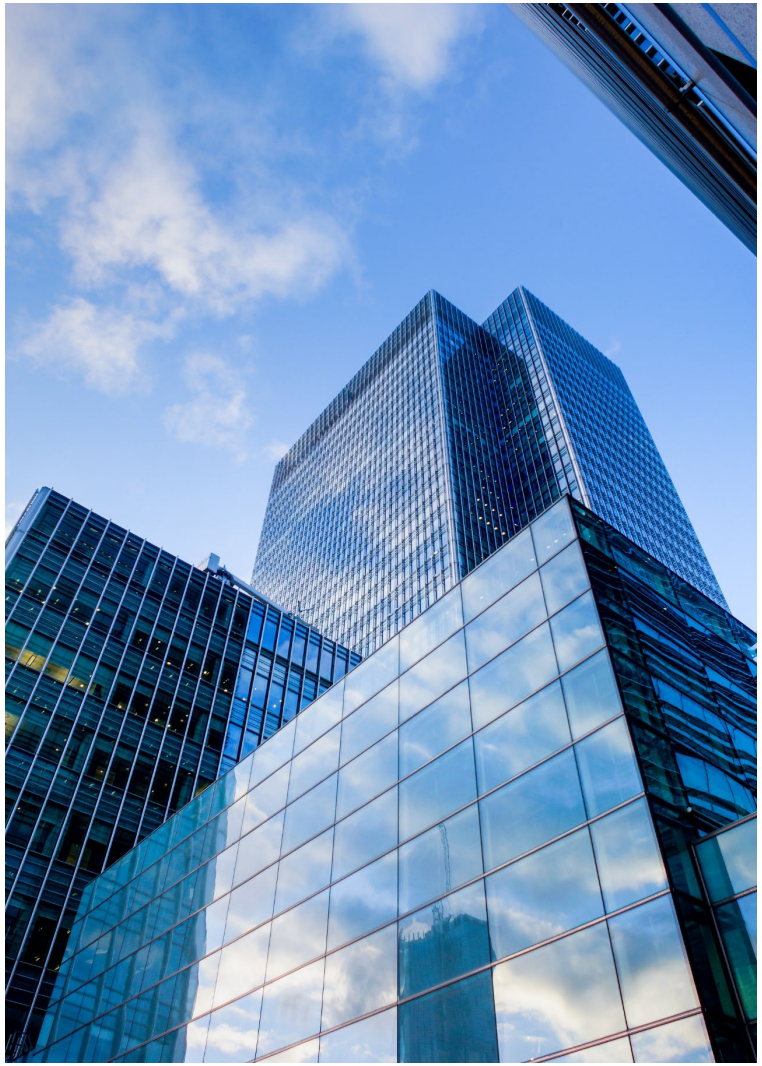
Outlook

- Q3 activity has given a strong indication that office tenants are largely shrugging off macroeconomic volatility, and that return-to-office momentum is counteracting a softening labor market, and creating expansionary pressures for many large organizations that have cut space over the past six years.
- The combined forces of expanding footprints, a lack of new development and record volume of inventory removals are pushing the market in a more landlord-favorable direction, with that momentum likely to persist for at least three or more years with the current state of the development pipeline.
- Tenants seeking high-end space, particularly those with large-block requirements, are facing increasingly few options and increasingly competitive rental rates to secure newer high-end space. While select markets are showing an appetite for new trophy development, the overall impact on supply-demand equilibrium will be minimal, and tenants seeking a footprint in those projects will likely need to pay near-record rental rates to justify new development in a high cost of capital environment.
- A persistent acceleration in investment sales over the past 12-18 months bodes well for an acceleration in capital flows over the next 6-12 months. While the development pipeline will likely be slow to recover, stabilized valuations will allow more landlords to fund transaction costs, and new owners will increasingly choose to upgrade acquisitions as offices, rather than pursue conversion and redevelopment strategies.



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