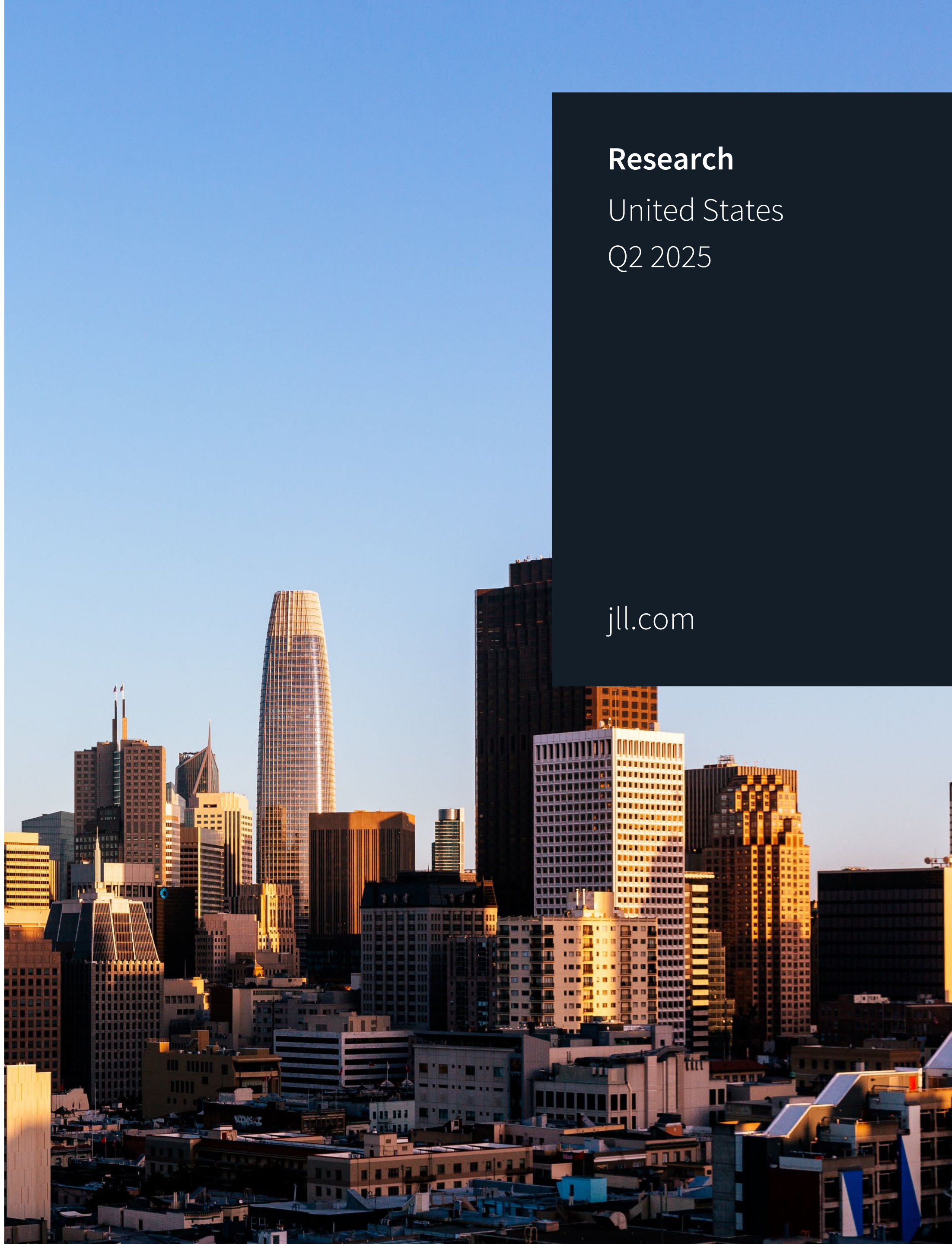
Office Market Dynamics

SEE A BRIGHTER WAY



Research

United States

Q2 2025

jll.com

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Office headlines

1 Demand holding steady, with active deal pipeline growing

- Leasing volume held essentially flat in Q2 (-2.2%)
- Active space requirements grew by 5.8% quarter-over-quarter and currently reflect the highest levels of demand since Q4 2021.

2 Occupancy stabilizing as return-to-office push materializes

- Office occupancy held relatively firm in Q2 as modest negative net absorption was recorded in Q2 (-2 million s.f.), an improvement relative to the -7 million s.f. experienced in Q1.
- NYC and select Sun Belt markets – including Atlanta, Austin, Dallas, Houston, Nashville and Tampa – registered positive net absorption in Q2.

3 High-end buildings commanding record-high rents

- Trophy buildings across Miami, NYC, SF and other markets captured all-time high rents.
- Average asking rent within the construction pipeline has grown 27% year-over-year and currently stands at $92.38, the highest level on record by a substantial margin.

4 Conversions and demolitions to persist for foreseeable future

- Overall inventory declined by another 700,000 s.f. nationally in Q2 as deliveries continue to be outweighed by inventory removals for conversion and redevelopment.
- Although 7.7 million s.f. delivered in Q2, more than 8 million s.f. was removed for conversion, and under 1 million s.f. of new projects broke ground.

By the numbers

4.8 billion
Existing inventory (s.f.)

28 million
Under construction (s.f.)

20.1%
Direct vacancy

22.5%
Total vacancy

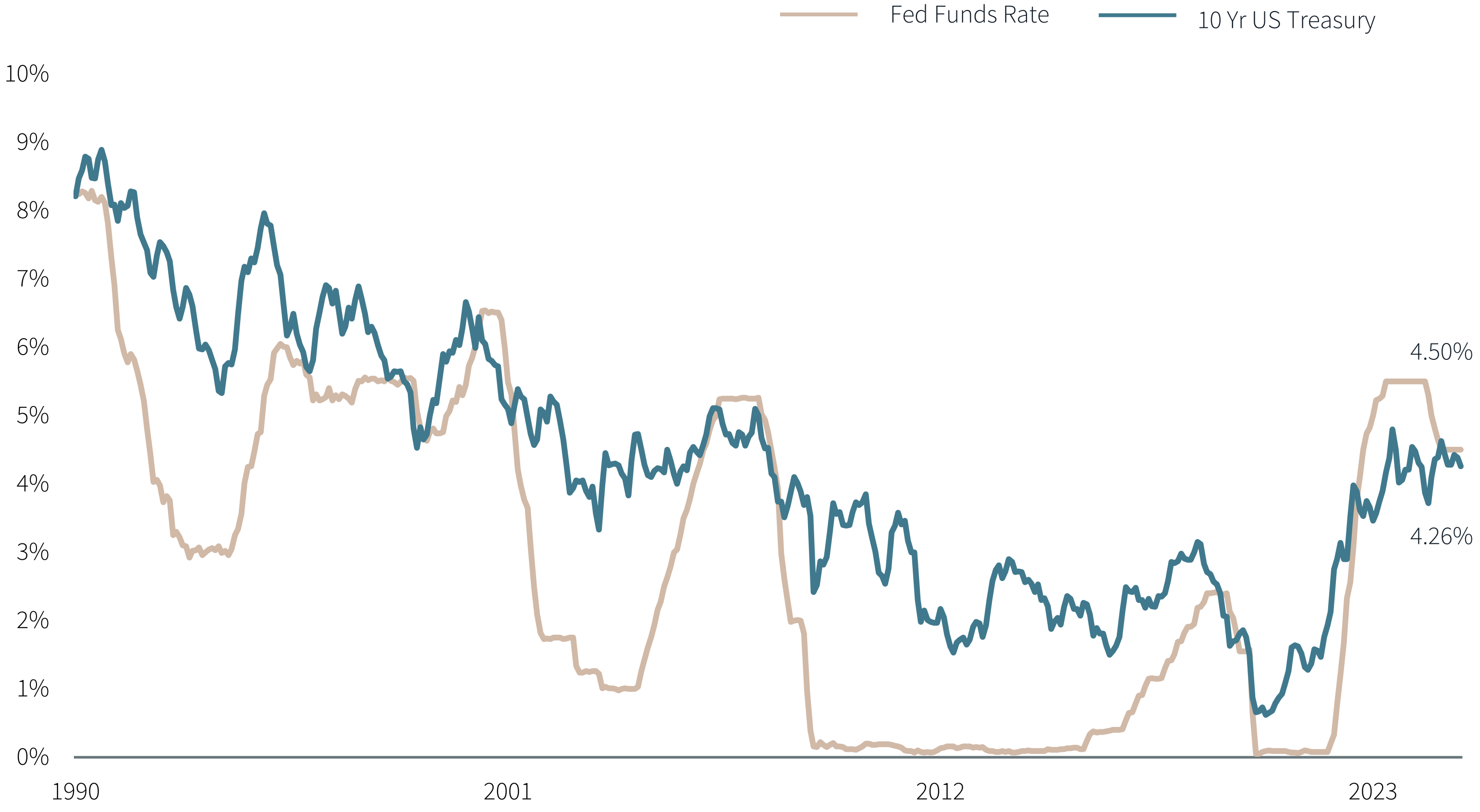
-9.4 million
YTD net absorption (s.f.)

Long-term rates stable in Q2; two to three rate cuts expected by year-end

- Uncertainty stemming from aggressive trade policy shifts from the Trump administration have stalled forecasts for global economic growth and monetary easing, but office-using industries have been resilient to date.
- Office-using employment in the private sector was unchanged quarter-over-quarter, with gains of 19,000 jobs in Finance cancelled out by 19,000 job losses in Professional Services, with Information employment unchanged. Government employers added 6,000 positions in the last three months, with growth in state and local governments overcoming a reduction of almost 50,000 employees in the federal government.
- Despite fresh macroeconomic headwinds, equity markets have recovered and recently achieved new 52-week highs: the NASDAQ index grew by 15.8% over the course of Q2 while the S&P 500 grew by 10.0%. Since the outset of the pandemic in 2020, equity prices have borne a stronger correlation to office market performance than headcount.

Interest rates and government bond yields

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

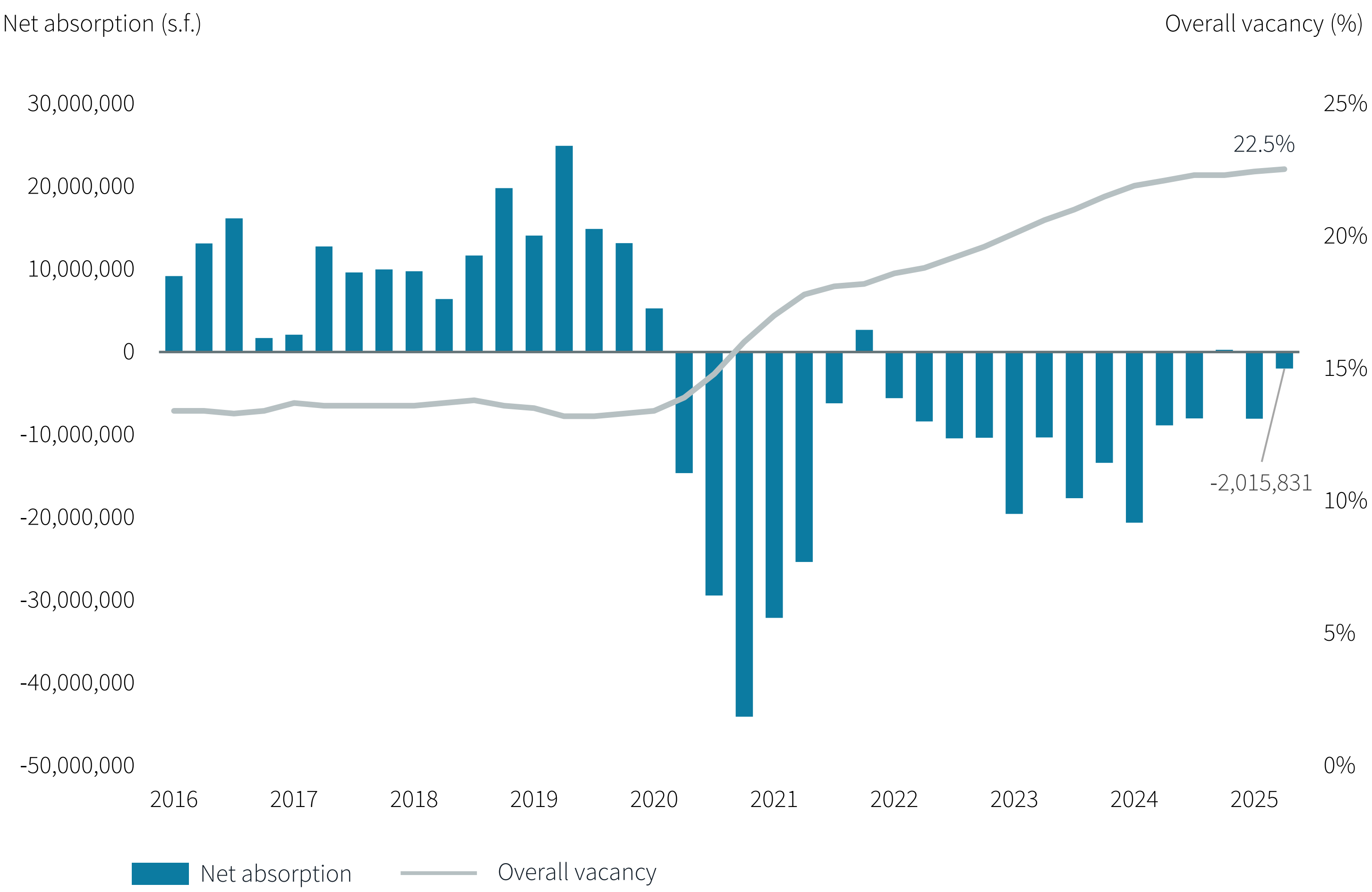


Source: U.S. Federal Reserve

Occupancy losses stabilizing as federal terminations fade

- Without the influence of large-scale federal lease terminations elevating downsizing in Q2, net absorption continued to stabilize, with just over 2 million s.f. of occupancy loss in Q2.
- Similar to Q1, a large volume of inventory removals contributed to occupancy loss, with nearly 9 million s.f. of buildings removed in Q2, which were roughly 20% occupied on average. This nominal occupancy loss accounted for roughly 85% of negative net absorption in Q2.
- As occupancy is stabilizing, positive net absorption that had only been present in new construction segments for much of the past six years is now spilling over more broadly. In Q2, the entire Class A market (2.7 billion s.f. of national inventory) posted nearly 5 million s.f. of positive net absorption.
- While marginal occupancy losses persist, downsizing rates have improved dramatically over the past 12 months: larger tenants facing expirations have cut just 2.8% of their footprint in the past year—during the preceding 12 months, tenants had been cutting more than 11% of their footprints on average.
- Overall vacancy rates have yet to decline as lingering construction projects deliver, but availability rates have declined for four consecutive quarters and declined by an additional 10 basis points in Q2.

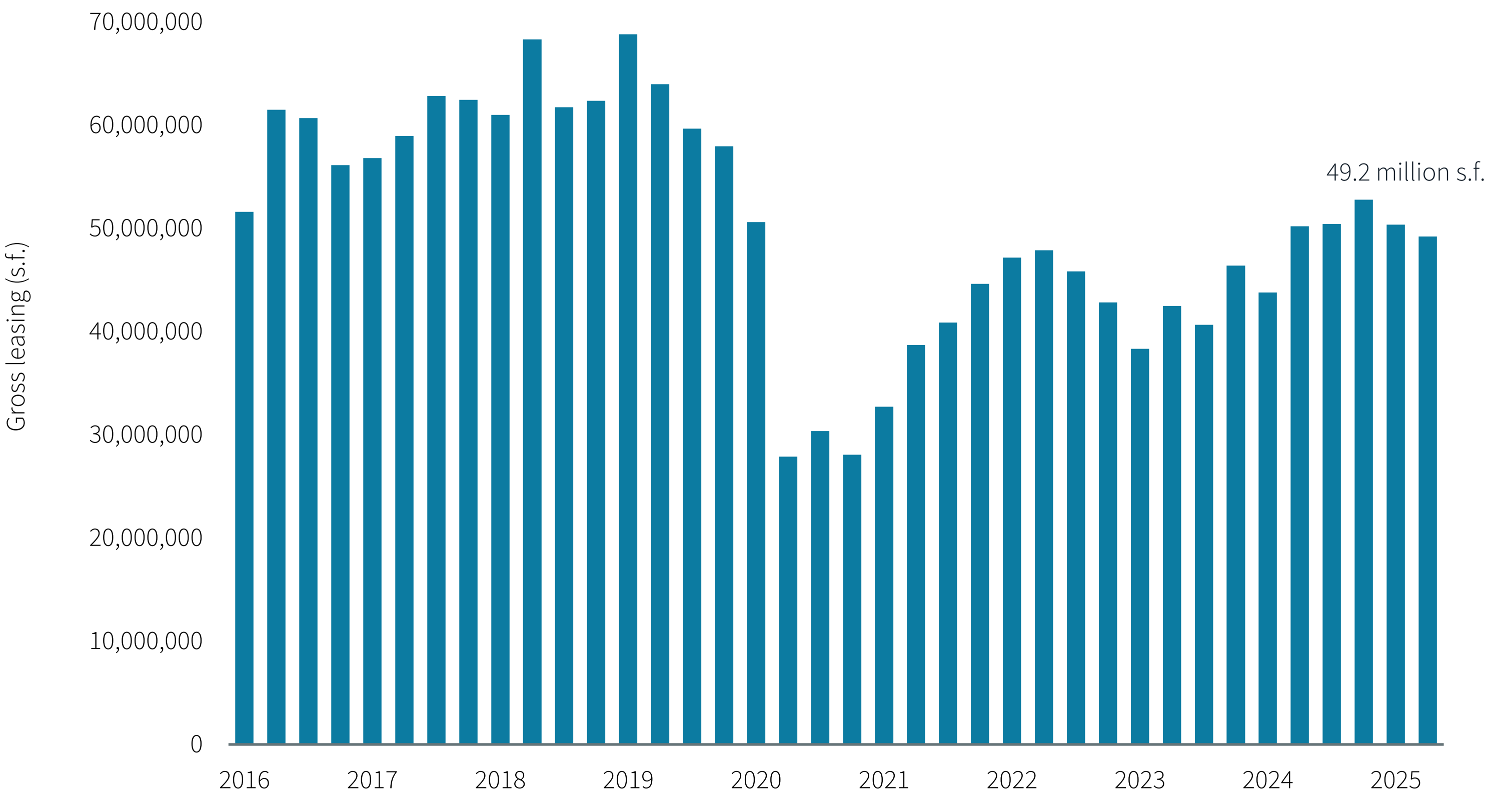
Historical absorption and vacancy



Leasing activity moderates after six quarters of year-on-year growth

- The leasing recovery is showing its first indications of a plateau, but the slowdown in the first half of the year shows signs of being a temporary disruption that will give way to continued recovery in the second half. Leasing volume declined 2.2% quarter-over-quarter to 49.2 million s.f., and over the past 12 months reflects roughly 81% of pre-pandemic volume.
- Lower leasing volume followed a decline in tenant requirements in Q1, when active requirements fell by 1.6%, largely attributable to caution driven by trade policy or federal budget shifts that had an outsized impact on select industries. Many lease transactions in-progress have also experienced extended due diligence and closing processes which have delayed transaction activity.
- The slowdown in Q2 was mostly felt in larger markets: leasing volume in gateway markets fell by 6% quarter-over-quarter, but volume in tertiary markets grew by more than 16%.
- Strong signals remain that office demand will bounce back quickly if macroeconomic headwinds abate: tenant requirements grew by 5.8% quarter-over-quarter and currently reflect the highest levels of active demand since Q4 2021.

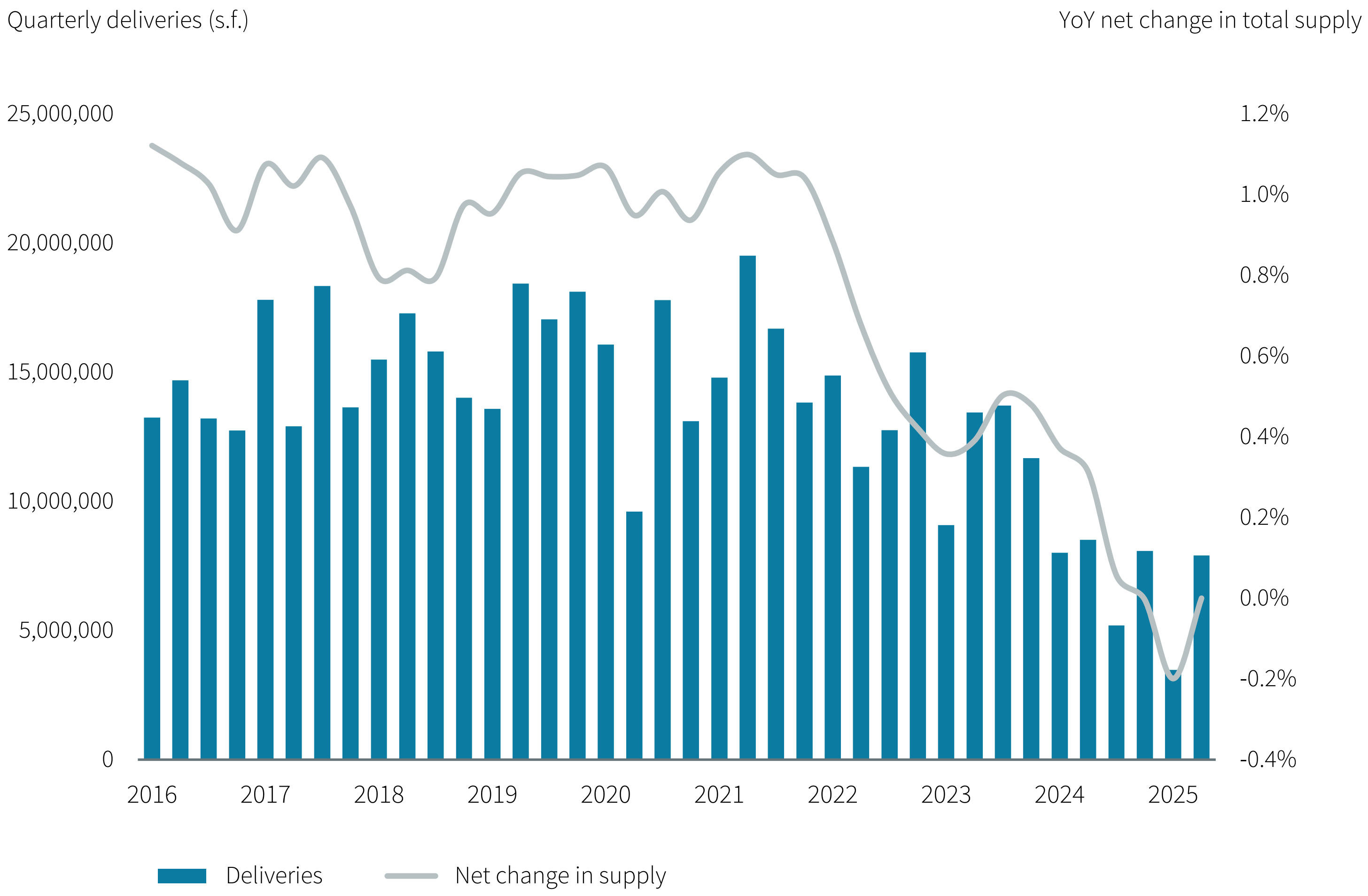
Historical gross leasing activity



Overall inventory continues to decline as removals outpace deliveries

- Overall inventory declined by another 700,000 s.f. nationally as deliveries continue to be outweighed by inventory removals for conversion and redevelopment. Although 7.7 million s.f. delivered in Q2, more than 8 million s.f. was removed for conversion, and under 1 million s.f. of new projects broke ground.
- With this quarter's deliveries, just 27.1 million s.f. remains under construction, nearly matching record lows seen in Q4 2010. Preleasing rates are increasing, reaching 75% in Q2, the highest level since late 2017. Accounting for preleasing, availability levels in the pipeline have declined by 86% since Q4 2019.
- Conversion and redevelopment activity remains elevated, with large shares of office assets experiencing significant valuation declines and many of the largest CBDs creating new programs to incentivize office-to-residential conversion. With very limited development expected to occur over the next five years, this could drive national inventory down by up to 50 million s.f. by the end of the decade.

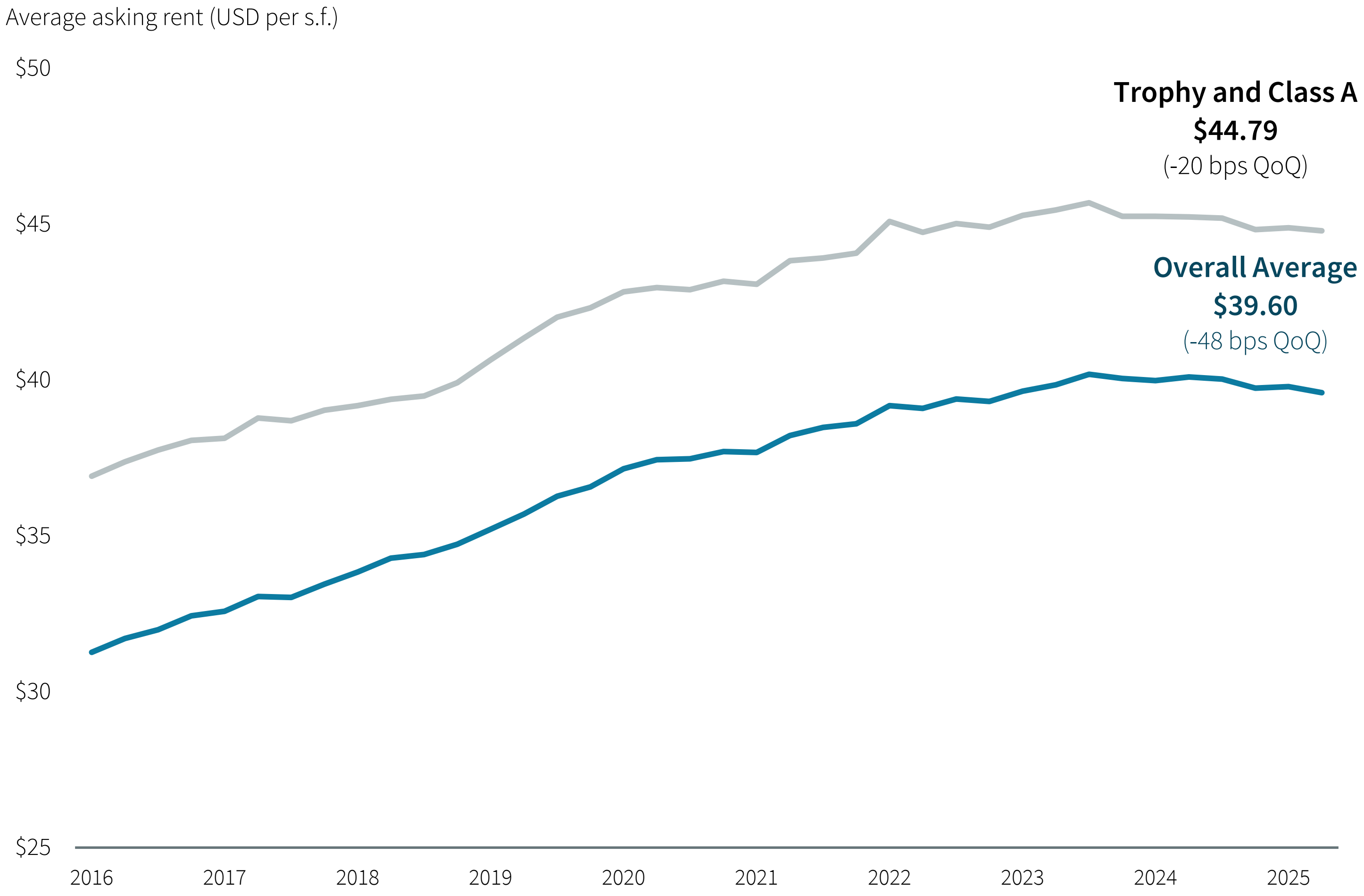
Historical deliveries and pipeline



Asking rents are stabilizing, but taking rents continue to grow

- Direct asking rents declined by 0.6% quarter-over-quarter, but the decline is largely driven by outpaced leasing of high-end space, which is skewing market averages. On a same-asset basis, rents increased by 17 bps quarter-over-quarter, indicating that there have been more price increases on actively marketed space than price cuts.
- Despite the relative stagnation in asking rents over the past several quarters, executed rents on leases being signed in the past year are continuing to trend upwards. Base rents and effective rents have increased across all deal types over the past year, and concessions rates have stabilized after a significant runup in the past decade.
- As a top-down tightening occurs across most major markets, high-end supply is seeing availabilities disappear much more rapidly than the market at large, and as a result, remaining high-end availabilities are generating aggressive rent growth. Asking rent within the construction pipeline has grown 27% year-over-year and currently stands at $92.38, the highest level on record by a substantial margin.

Historical direct asking rents

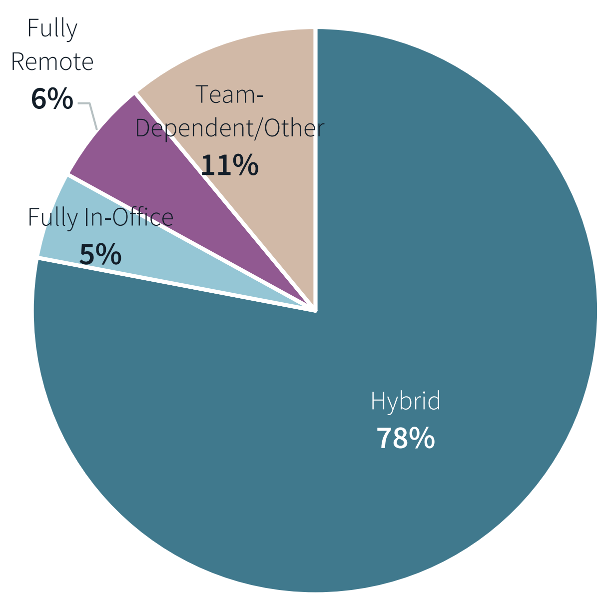


Full attendance requirements supplant hybrid as dominant Fortune 100 policy

- Office attendance grew 1.3% in the first two months of Q2 compared to the corresponding period of 2024.
- In addition to the President's Executive Order commanding federal employees back to the office, many private-sector companies quietly increased their requirements, and across the Fortune 100 there are now more workers subject to full attendance requirements than hybrid workers.
- Seven of the 10 largest employers in the Fortune 100 now have requirements of four or more days in office, and the three largest employers among the set require full attendance.
- Attendance policies are expected to continue incrementally shifting in favor of greater required attendance amid more employer-favorable labor market conditions, which could offset the impacts of slowing job growth on national office demand.

Fortune 100 Office Attendance Policies

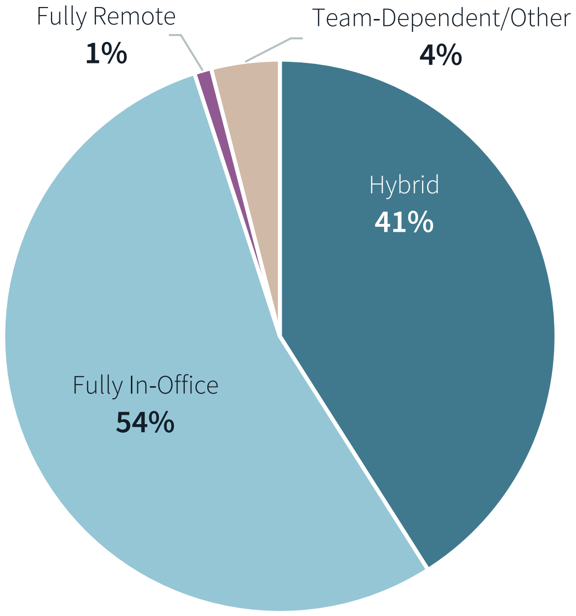
Q2 2023



Average weekly requirement:

2.6 days

Q2 2025



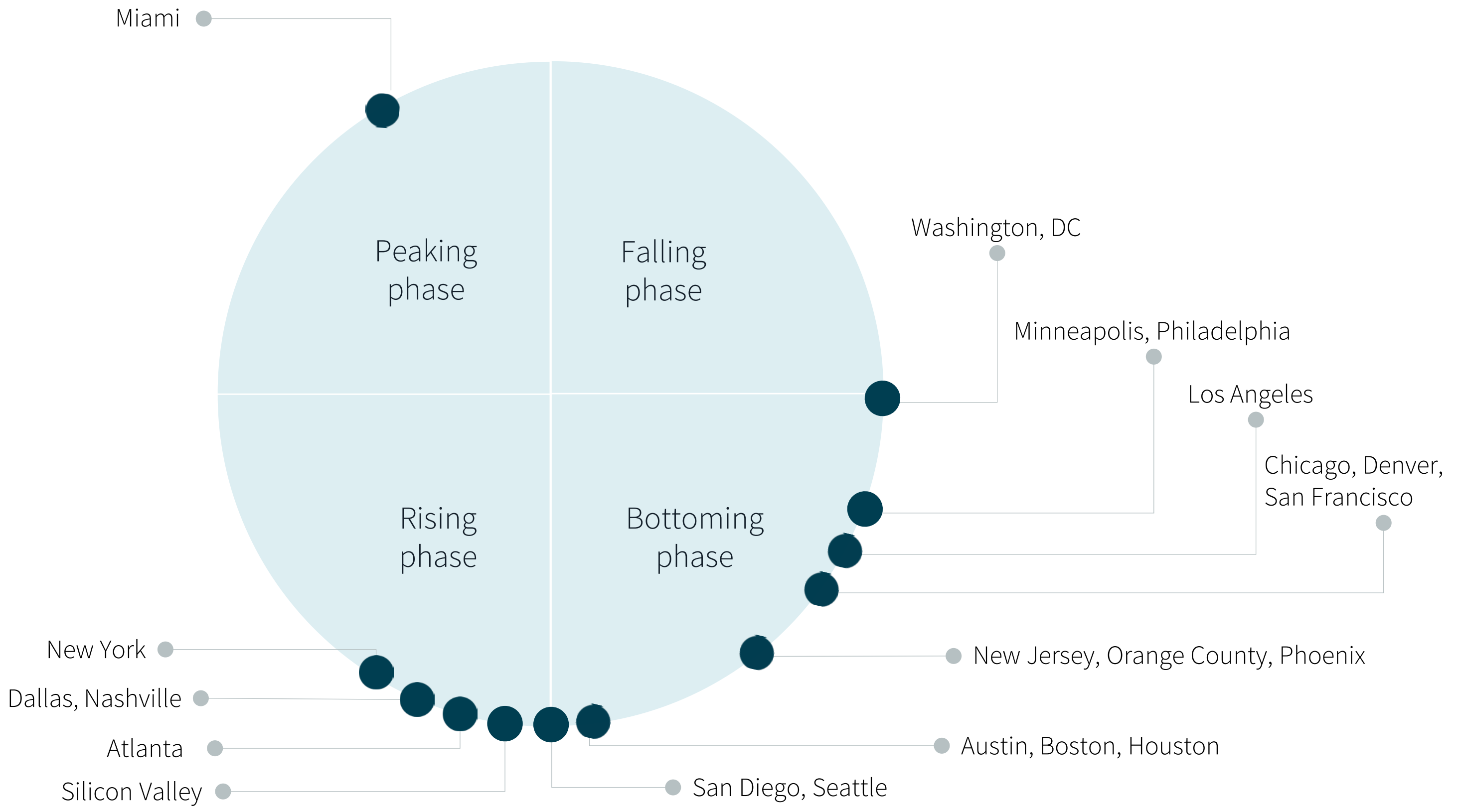
Average weekly requirement:

3.8 days

Diversified Sun Belt markets, New York leading recovery

- New York continues to lead the recovery trajectory among major markets, generating positive absorption market-wide in both Q1 and Q2 and with the lowest vacancy rate of any major market.
- Q2 net absorption was positive in surrounding markets that function off the broader NYC metro: New Jersey, Long Island, Fairfield County and Westchester County all registered positive net absorption in Q2.
- In contrast, other gateway metros continue to see negative net absorption in Q2: Boston (-80,000 s.f.), Chicago (-427,000 s.f.), LA + Orange County (-571,000 s.f.), the Bay Area (-1,010,000 s.f.), Seattle (-802,000 s.f.) and Washington, DC (-548,000 s.f.)
- Regionally, Sun Belt and Midwest markets have seen the strongest momentum or most resilient recoveries of late: Sun Belt markets posted just 376,000 s.f. of negative net absorption, and Midwest markets saw 600,000 s.f. of positive net absorption when excluding Chicago.

Office rental clock

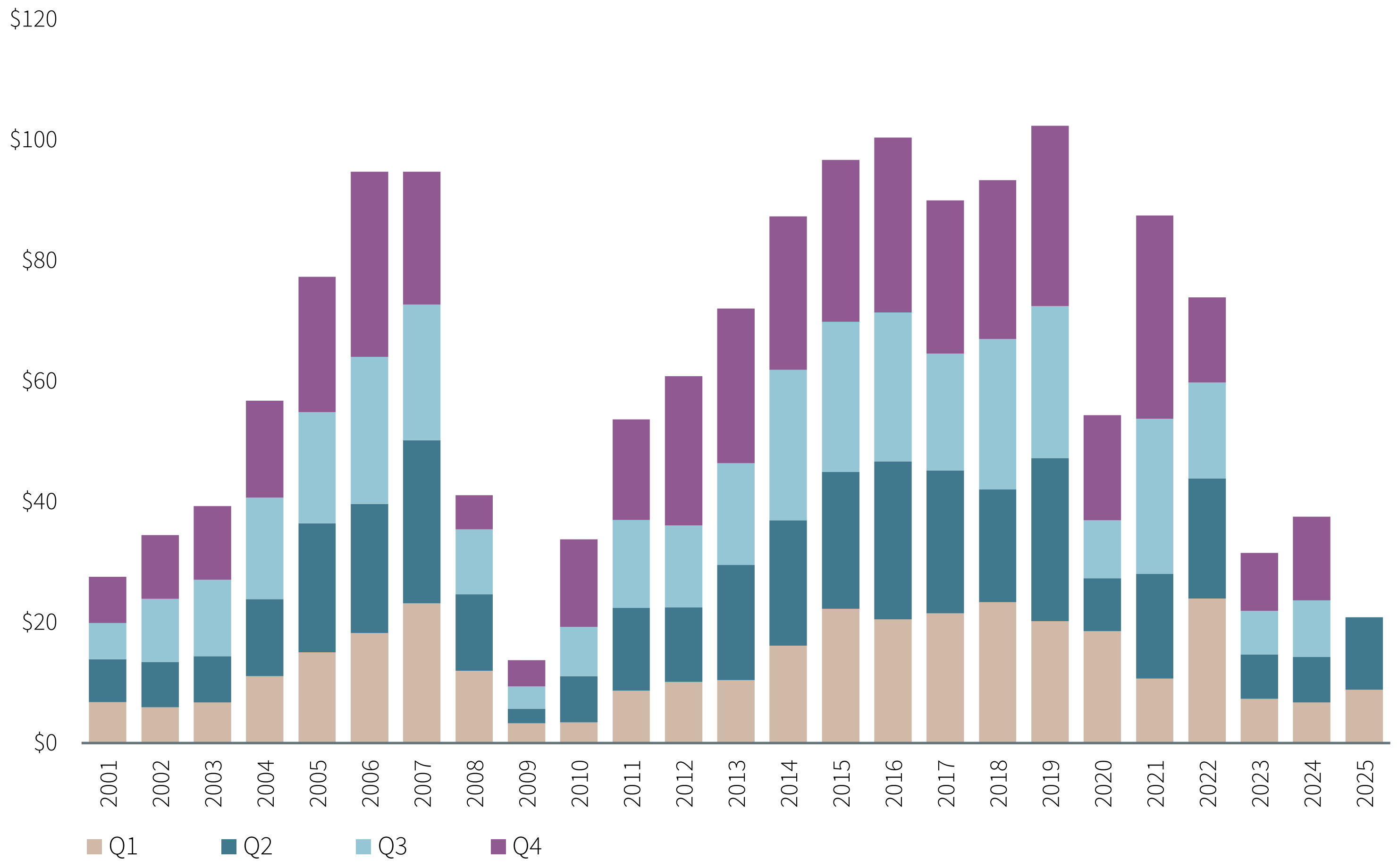


Meaningful improvements in liquidity during the first half

- Single-asset office transaction volume totaled $12.0 billion in Q2, the strongest Q2 activity since 2022 and a 60% improvement against Q2 2024.
- Large-scale liquidity has been a major driver of the improvement year-to-date: in the first half of 2025 there were 34 trades over $100 million comprising $7.6 billion in collective volume, compared to just 15 trades comprising $3.4 billion in the first half of 2024.
- There is also evidence that groups that had deprioritized the office sector are beginning to consider acquisitions. Institutional groups comprised more than 25% of acquisitions in Q2, the highest share of the buyer pool since mid-2022.
- Although liquidity is beginning to notably improve, delinquency rates are increasing once again after leveling off in Q1 – delinquency rates have returned to 10.54% on office CMBS debt, just 6 bps lower than the previous peak in December 2024.

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.

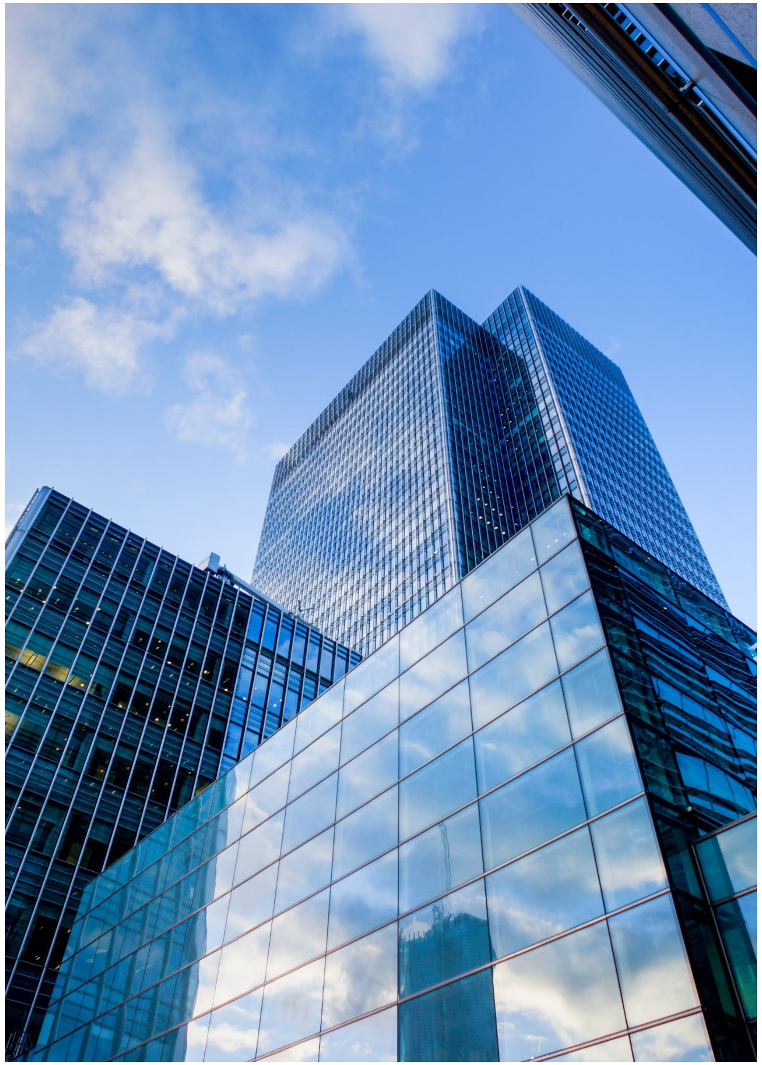
Outlook

- Although geopolitical volatility in the first half of the year has put a damper on a bourgeoning recovery that has been intensifying since early 2023, beneath the surface demand formation remains strong and the market is slated for continued growth as clarity emerges. Tenant requirements have reached their highest level since late 2021 with a large share of those groups aiming to transact by the end of the year.

- The path forward for the remainder of the year will be a function of global growth expectations and uncertainty: tenants are poised for an active second half of the year with growing leasing volume, positive net absorption and declining vacancy rates if headwinds around trade, growth and geopolitics stabilize or abate. However, amid continued or intensified headwinds, office tenants could continue to exercise caution and extend deal-making timelines, driving a slower recovery in leasing activity and delayed expansionary leasing activity.

- The rapid decline in availability of high-end space will limit options for tenants. A lack of newly-delivered or recently-renovated product over an extended period will drive higher renewal rates, reduce activity from tenants seeking space upgrades and drive asking rents higher in premium buildings.

- While office investment sales activity is improving and select developments have been proposed in high-rent nodes of major CBDs, a more robust recovery in valuations and liquidity will be required to meaningfully increase capital deployment and begin to create more high-end product.



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