Office Occupier Outlook

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

Cresa Research | Q2, 2026

ECONOMIC RESILIENCE SUPPORTS CRE FUNDAMENTALS:

Commercial Real Estate Adjusts to a Moderating Economy

OCCUPIER OUTLOOK

Executive Summary

Macroeconomic View

- The Federal Reserve has maintained rates and is continuing its data-dependent approach, with future policy decisions likely to be influenced by inflation and labor market conditions rather than a predetermined path.
- Price growth continues to moderate, although inflation remains above the Federal Reserve's long-term target, supporting a cautious approach to monetary policy.
- The labor market has devolved into a low-hire, low-fire environment, as unemployment claims remain contained while the hiring rate is at a decade low.

Office Market

- Net absorption for Class A office space kept its momentum, remaining positive for the first half of 2026, a good sign for market recovery.
- Office market performance continues to vary significantly by geography, with markets benefiting from strong population growth, employment gains, and limited new supply generally outperforming slower growth regions.
- While improving, the office market is being hindered by slower office-using employment growth and ongoing efforts by occupiers to improve space utilization.

Industrial Market

- Industrial fundamentals are strong, with demand recovering after the post-pandemic period, while vacancy rates stabilize as new supply decreases.
- Industrial construction has become more disciplined, as higher financing costs and slowing spec development shift new projects toward build-to-suit and preleased facilities.
- Consumer spending remains resilient, continuing to support freight volumes, warehousing demand, and retail supply chains despite moderating economic growth and higher borrowing costs.

COMMERCIAL REAL ESTATE MARKET BY THE NUMBERS:
YEAR-OVER-YEAR CHANGE INDICATORS MIXED

OCCUPIER OUTLOOK

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Performance Snapshot

Office Market

	Office			
	Q2 2026	Q2 2025	Change	Trend
Inventory SF	5.665 B	5.673 B	-8.1 M	▶
Class A Asking Rate $SF	$44.38	$43.75	+$0.63	▲
Cass B Asking Rate $SF	$31.12	$30.58	+$0.54	▲
Leasing Activity (TTM)	300.7 M	311.0 M	-10.3 M	▼
Vacancy Rate	18.5%	18.5%	+000 bps	▶
Availability Rate	21.9%	22.9%	-100 bps	▲
Net Absorption (TTM)	+29.5 M	-115.7 M	+145.2 M	▲
Under Construction SF	55.2 M	67.8 M	-12.6 M	▼
Net Deliveries (TTM)	33.6 M	43.5 M	-9.9 M	▼
Sales Volume (TTM)	$87.9B	$70.4B	+$17.4B	▲
Sales Price Per SF	$210	$207	+$2.72	▲
Market Cap Rate	7.39%	7.42%	-003 M	▶

Occupier Leverage

LANDLORD TENANT

Industrial Market

	Industrial			
	Q2 2026	Q2 2025	Change	Trend
Inventory SF	10.675 B	10.454 B	0.221 B	▲
Manufacturing Asking Rate $SF	$9.69	$9.56	+$0.13	▲
Distribution Asking Rate $SF	$9.46	$9.25	+$0.21	▲
Flex Asking Rate $SF	$19.31	$18.95	+$0.36	▲
Leasing Activity (TTM)	+805.9 M	+658.1 M	+147.9 M	▲
Vacancy Rate	10.5%	10.4%	+010 bps	▶
Availability Rate	15.0%	14.7%	+030 bps	▲
Net Absorption (TTM)	+311.2 M	+225.8 M	+85.4 M	▲
Under Construction SF	457.9 M	434.1 M	23.8 M	▲
Net Deliveries (TTM)	+320.0 M	+427.7 M	-107.7 M	▼
Sales Volume (TTM)	$128.4B	$107.2B	+$21.2B	▲
Sales Price Per SF	$143	$135	+$7.10	▲
Market Cap Rate	6.53%	6.31%	+022 bps	▲

Occupier Leverage

LANDLORD TENANT

Highlights

- Office leasing activity remains robust, though it slightly trails year-over-year averages from the same period last year.
- Office net absorption has been modestly positive over the past year, an improvement over the past several years.
- All industrial types experienced only modest lease rate gains over the same period of a year ago, below historic averages.
- The average price per square foot of industrial properties increased 5.24 percent year-over-year.

Economic Overview

The U.S. economy continues to show resilience despite higher interest rates, slowing employment growth, and ongoing geopolitical uncertainty. Economic growth remains positive, supported by business investment, robust consumer spending, and a labor market that continues to add jobs at a slower but sustainable pace. Although inflation has eased from its peak, it still exceeds the Federal Reserve's long-term target, leading policymakers to adopt a cautious approach to monetary policy. While borrowing costs are high, businesses have shifted from rapid expansion to more measured investments, focusing on productivity, operational efficiency, and strategic capital deployment.

The current economic environment is affecting commercial real estate across different property types, with a key trend emerging: occupiers prioritizing flexibility, operational efficiency, and long-term strategy.

Office occupiers are consolidating underutilized spaces and investing in high-quality workplaces to enhance collaboration and attract talent. In the industrial sector, while economic growth has slowed speculative development, demand remains strong in logistics modernization, manufacturing, and data centers influenced by power availability. Retail continues to benefit from robust consumer spending, limited new construction, and low vacancy rates, allowing well-located centers and experiential destinations to excel.

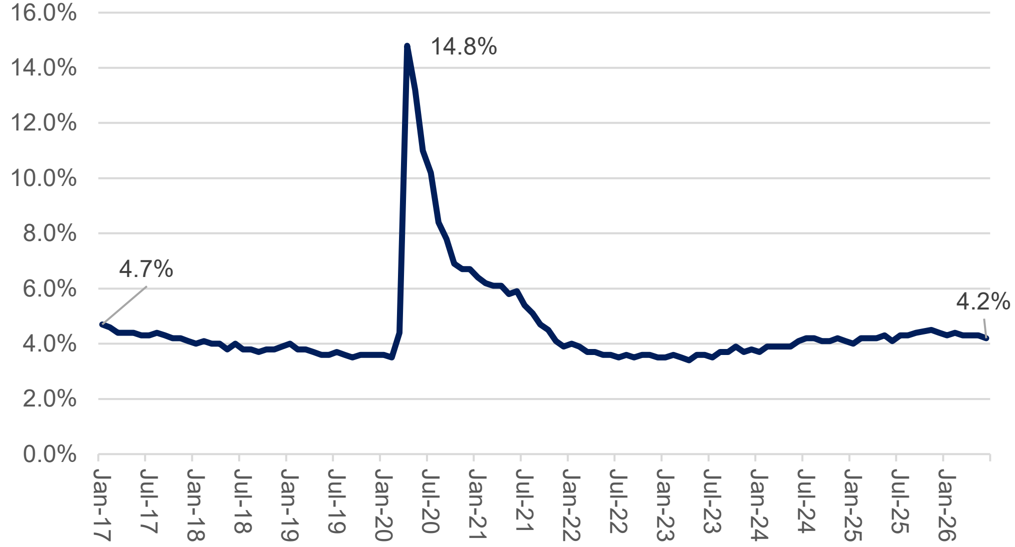
Overall, companies are making more strategic real estate decisions, focusing on locations and facilities that boost productivity and adapt to evolving economic conditions.

Unemployment

Unemployment Steadies After Drifting Higher

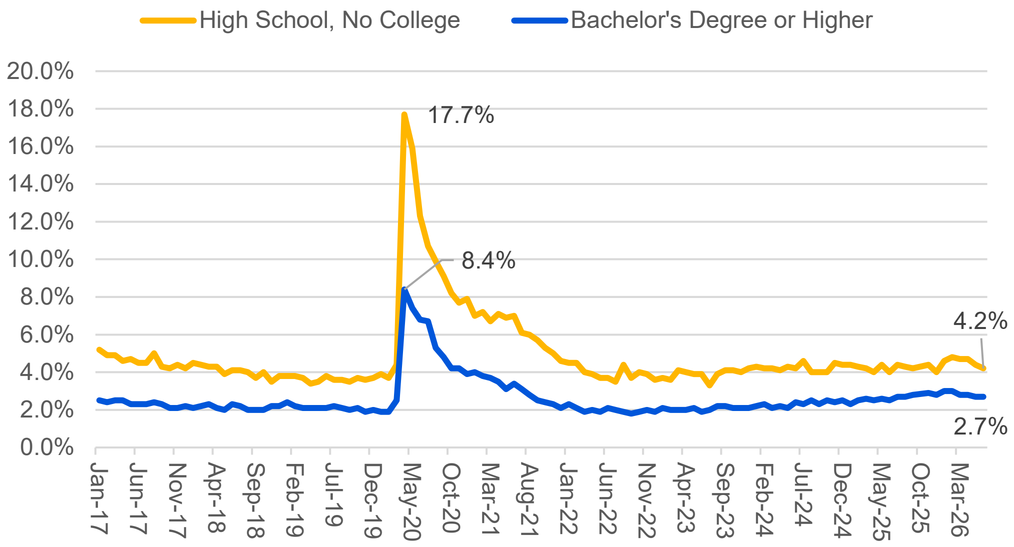
The Bureau of Labor Statistics (BLS) reported a steady U.S. unemployment rate of 4.2 percent in June 2026. The overall labor market shows signs of slowing hiring and limited turnover, indicating a “low-hire, low-fire” environment. The labor market is shifting from resilient growth to a late-cycle slowdown. In June, U.S. employers added 57,000 jobs, below expectations and marking a moderation in hiring.

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



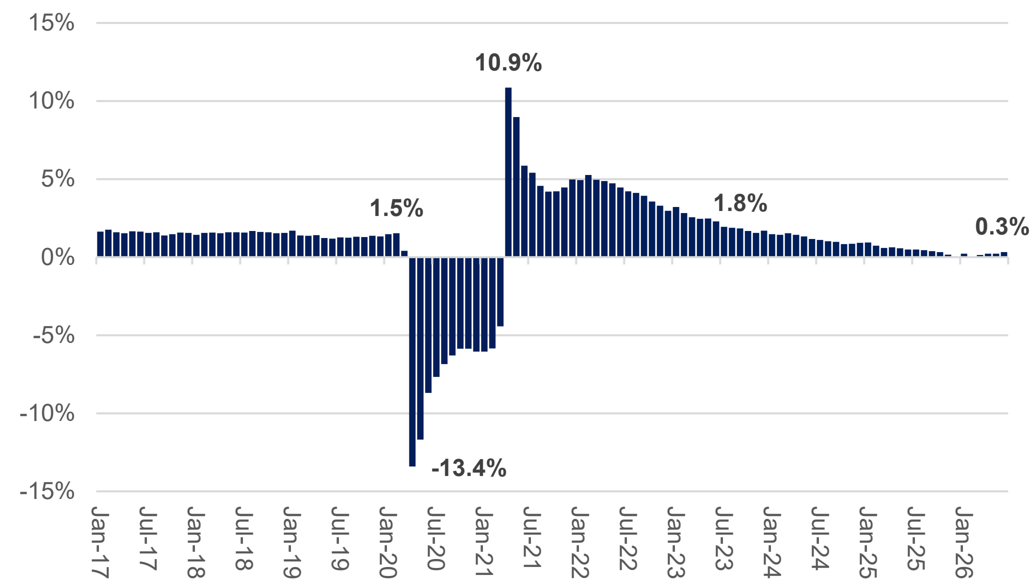
Source: U.S. Bureau of Labor Statistics, https://bls.gov, Seasonally adjusted

Employment

Job Creation Stalls in the Second Quarter

While employment growth has cooled, layoffs remain relatively limited, suggesting employers continue to retain workers despite a more cautious economic environment. Hiring continues to be concentrated in service-oriented sectors. Professional and business services, healthcare, and social assistance accounted for most of the job gains over the past year. Meanwhile, government, finance, and information jobs have shed positions over the past 12 months.

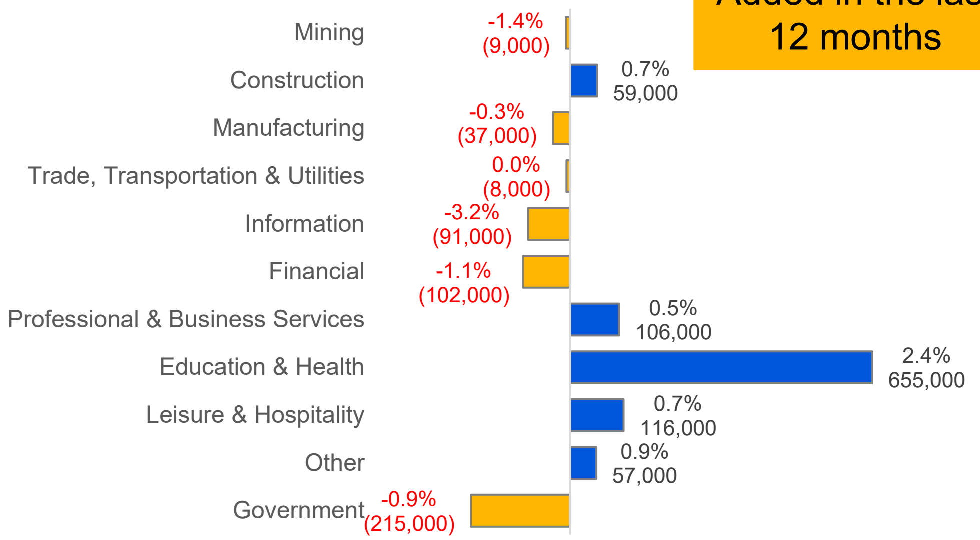
All Job Sectors (12-Month Change)



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

Job Sector Adjustment (12-Month Change)

531 K JOBS
Added in the last 12 months



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

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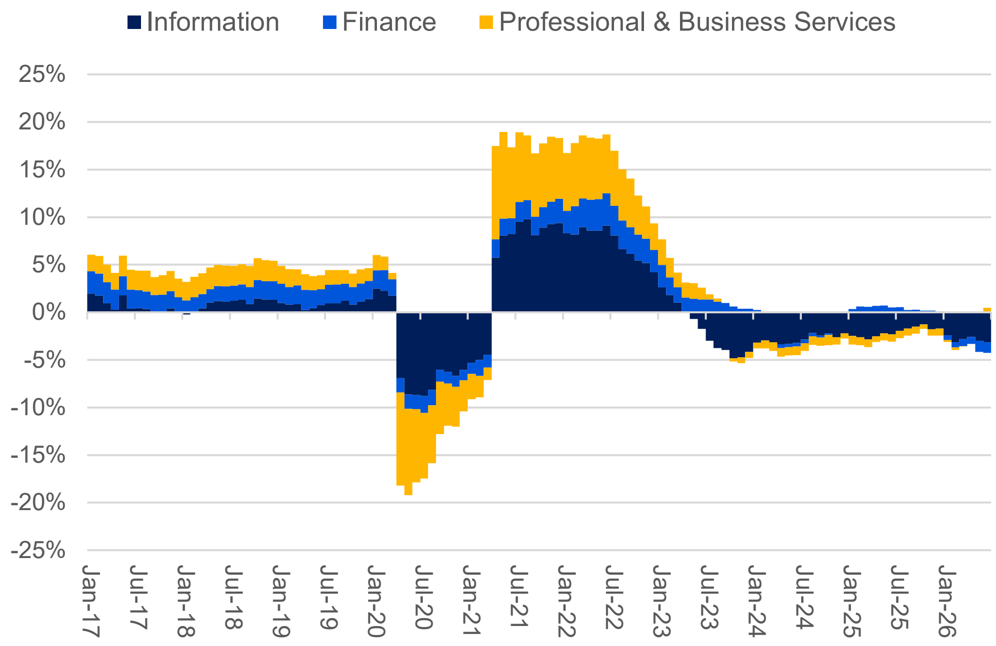
Employment

Hiring Slows, but the Labor Market Remains Resilient

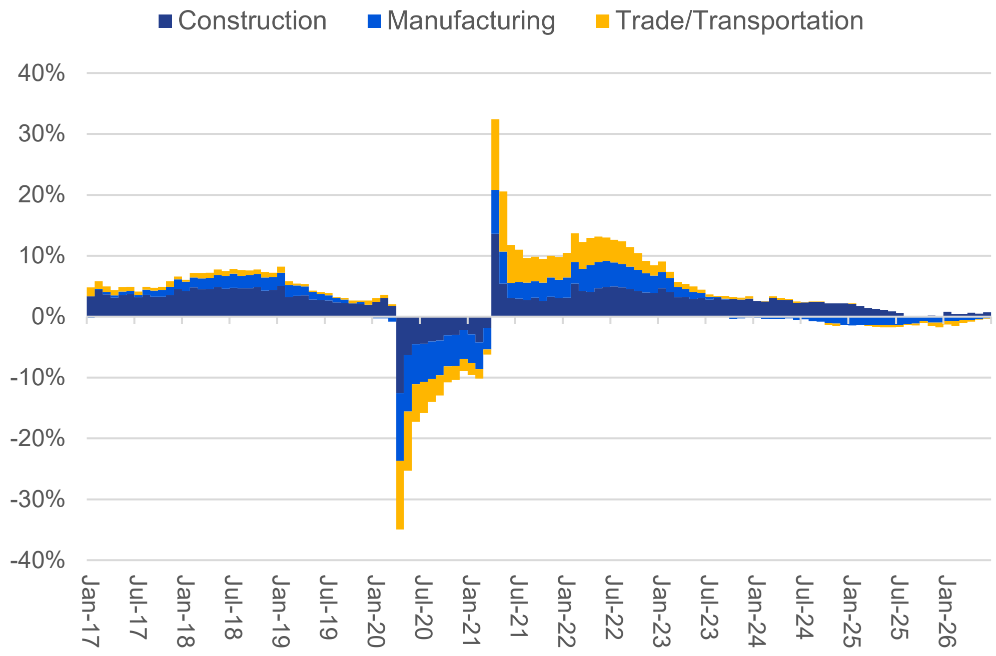
A moderating labor market is likely to temper large-scale office expansions in the near term, encouraging occupiers to remain disciplined in portfolio decisions. At the same time, continued job growth in professional services and healthcare supports demand for high-quality office space, while slower hiring reinforces the emphasis on portfolio optimization. Manufacturing-related jobs have declined or remained steady in the last year, despite manufacturing orders holding steady.

Office-Occupying Jobs (12-Month Change)



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

Manufacturing Jobs (12-Month Change)



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

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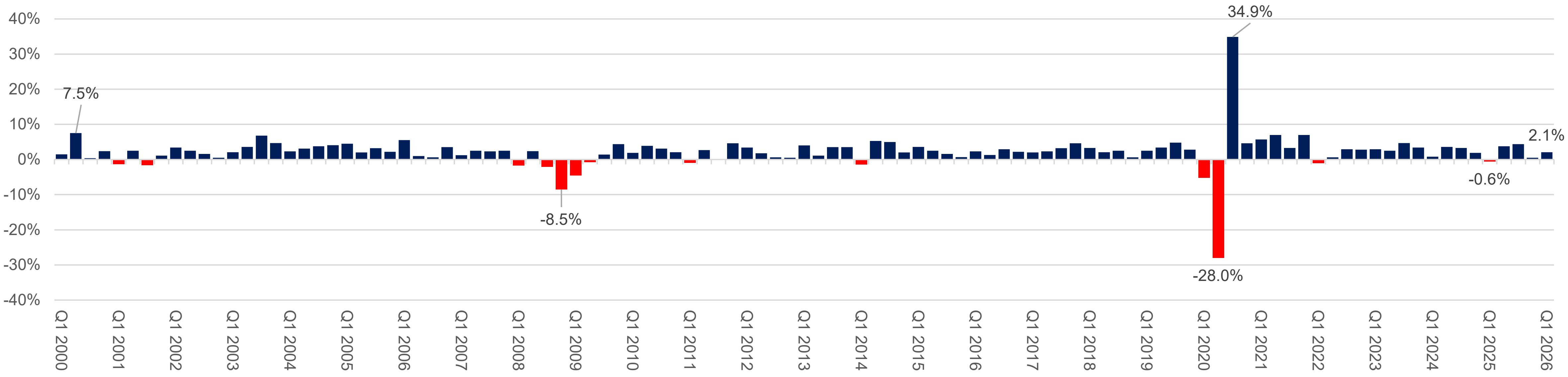
GDP

U.S. Economic Growth Stabilizes as Business Investment Supports Expansion

The U.S. economy grew at an annualized rate of 2.1 percent in the first quarter of 2026, showing a significant improvement from the 0.5 percent growth recorded in the fourth quarter of 2025. This growth was driven by increases in business investment, exports, government spending, and consumer spending. However, the rise in imports partially offset these gains. Continued investment in equipment and technology, including capital expenditures related to artificial intelligence, has contributed to this GDP growth.

Real GDP Percent Change from Preceding Quarter: Q1 2026



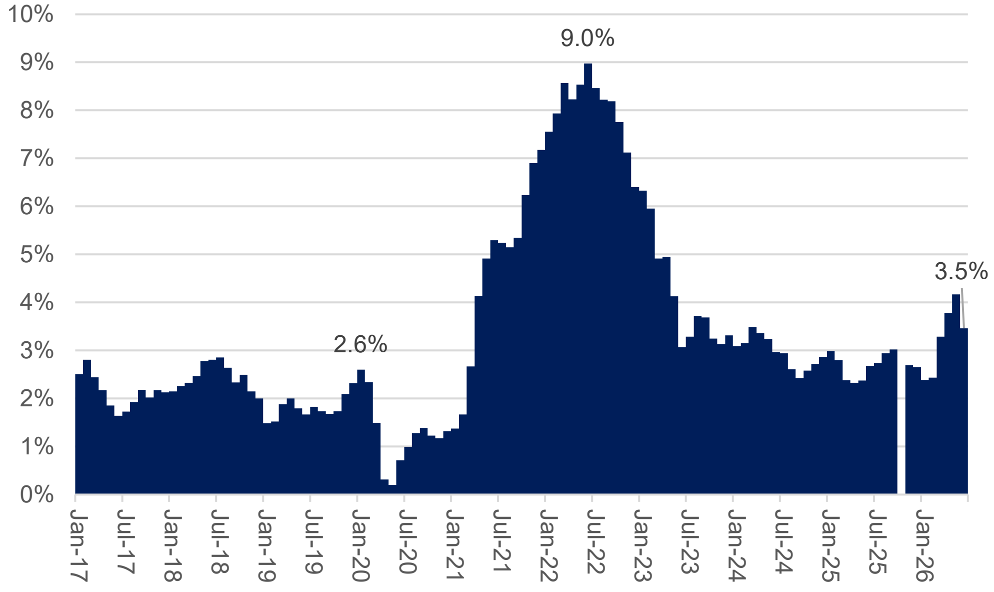
Source [Real Gross Domestic Product (A191RL1Q225SBEA) | FRED | St. Louis Fed (stlouisfed.org)](https://fred.stlouisfed.org/series/A191RL1Q225SBEA)
Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/A191RL1Q225SBEA, July 15, 2026.

Inflation

Inflation Eases, Offering Encouraging Signs While Price Pressures Remain Above Target

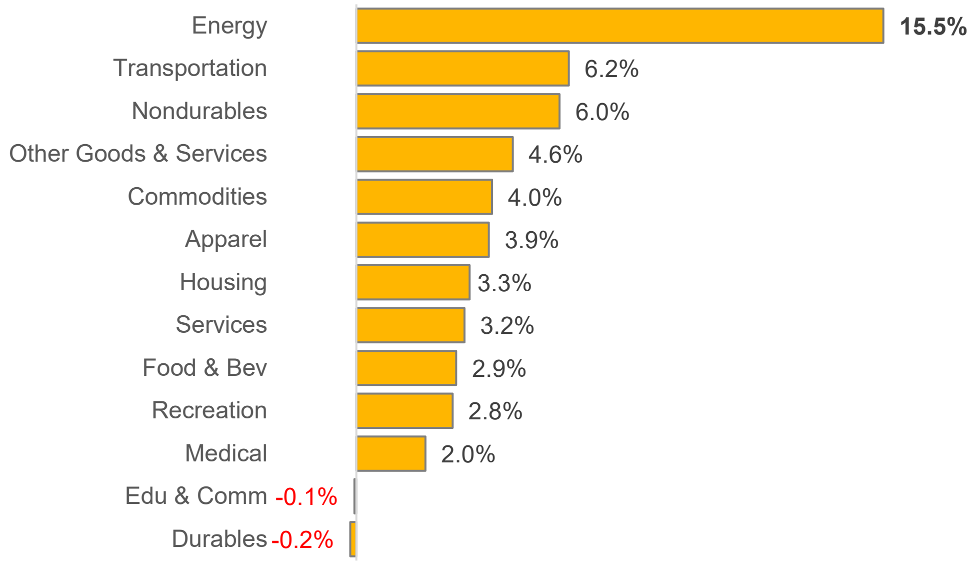
Inflation decreased in June, offering some relief after several months of high price growth. The Consumer Price Index (CPI) fell by 0.4 percent month-over-month, leading to an annual inflation rate of 3.5 percent. This decline was mainly due to lower energy prices, although food and shelter costs continued to rise. For commercial real estate occupiers (CRE), the latest reports reinforce expectations that inflation is gradually easing but remains above the Federal Reserve's target of 2 percent. While easing inflation may improve financing conditions over time, businesses are likely to continue prioritizing cost discipline and workplace efficiency.

Consumer Price Index (12-Month Change)



Source: U.S. Bureau of Labor Statistics, https://bls.gov
Note: Seasonally adjusted, Data pulled July 15, 2026. Data not reported in September 2025

Consumer Price Index by Sector (12-Month Change)



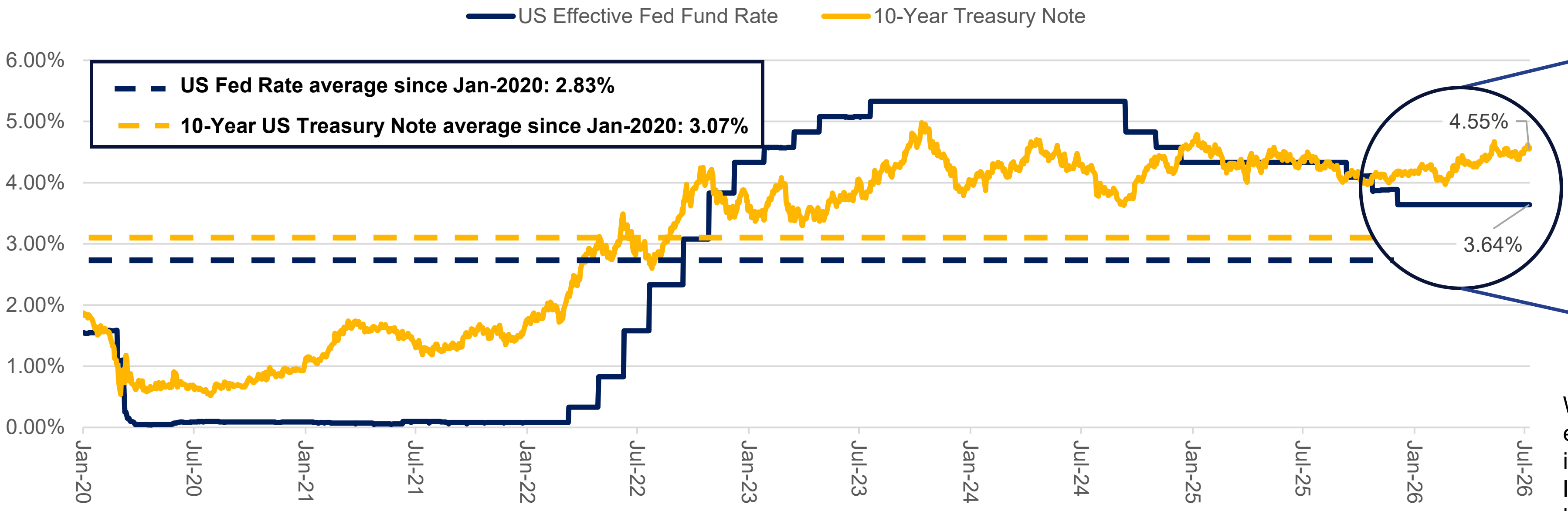
Source: U.S. Bureau of Labor Statistics, https://bls.gov
Note: Seasonally adjusted, Data pulled July 15, 2026

Monetary Policy

Fed Reserve Holds Rates Steady as Long-Term Treasury Yields Reflect Growth and Inflation Expectations

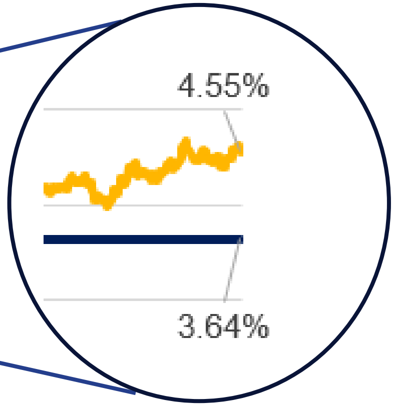
In its June meeting, the Federal Reserve decided to keep the federal funds target range at 3.5 to 3.75 percent. This decision was based on solid economic growth, a strong labor market, and inflation rates that remain above target levels. Policymakers emphasized their data-dependent approach, indicating that a restrictive monetary policy will stay in place until there is sustained improvement in inflation. The 10-year Treasury yield is mainly influenced by investor expectations regarding long-term growth, inflation, and future monetary policy. For CRE occupiers, higher long-term yields are affecting borrowing costs, capitalization rates (cap rates), and investment decisions, even when the Fed keeps its policy rate unchanged.

US Effective Fed Fund Rate & 10-Year Treasury Note



Source: Federal Reserve Economic Data, https://fred.stlouisfed.org; Data is through July 15, 2026
Wall Street Journal; Data is through July 15, 2026

10-Year Treasury Passes US Fed Fund Rate

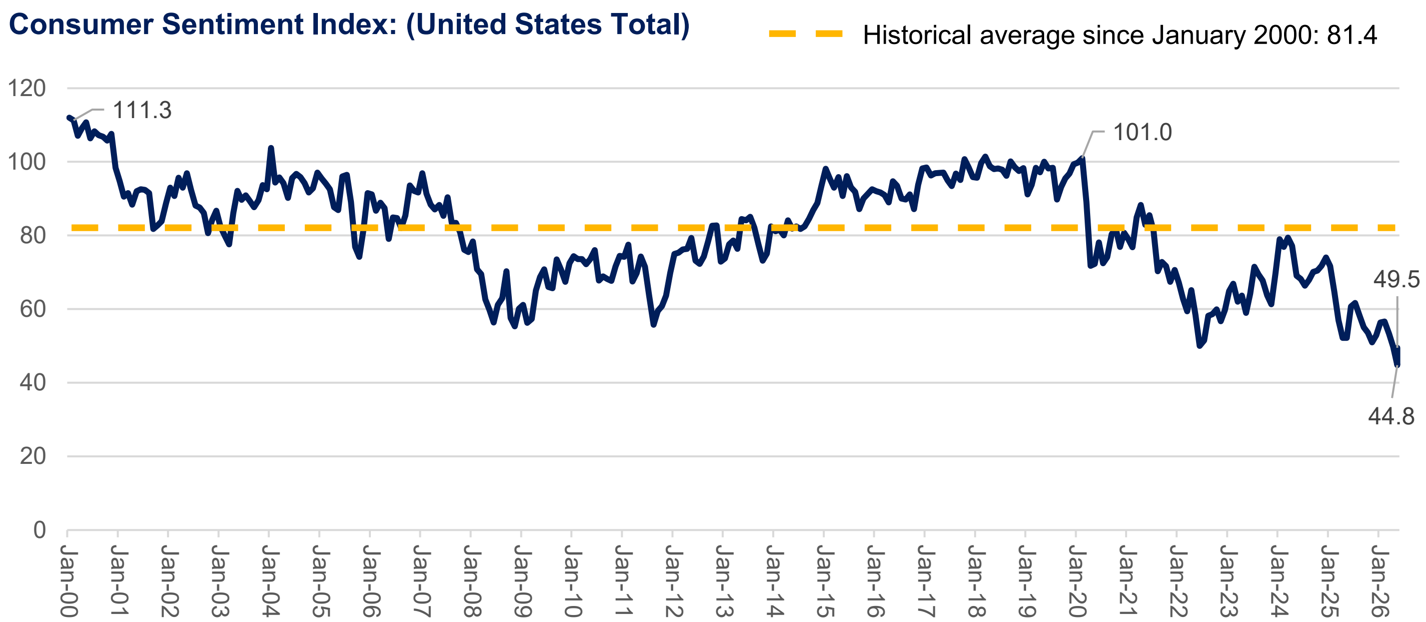


When the 10-year Treasury note yield exceeds the US effective rate, it indicates that investors are demanding higher returns on longer-term bonds. The result is typically higher mortgage rates and higher interest rates on other debt, like credit cards.

Consumers

Consumer Sentiment at Lowest Level Since 2000 in April 2026

The Consumer Sentiment Index rose to 49.5 percent in June, marking the highest reading since February. The improvement was driven primarily by easing gasoline prices and a modest improvement in consumers' views of current economic conditions and future expectations. Despite the recent improvement, consumer confidence remains well below historical averages, reflecting ongoing concerns about affordability, inflation, and the broader economic outlook.



Consumer Sentiment Index

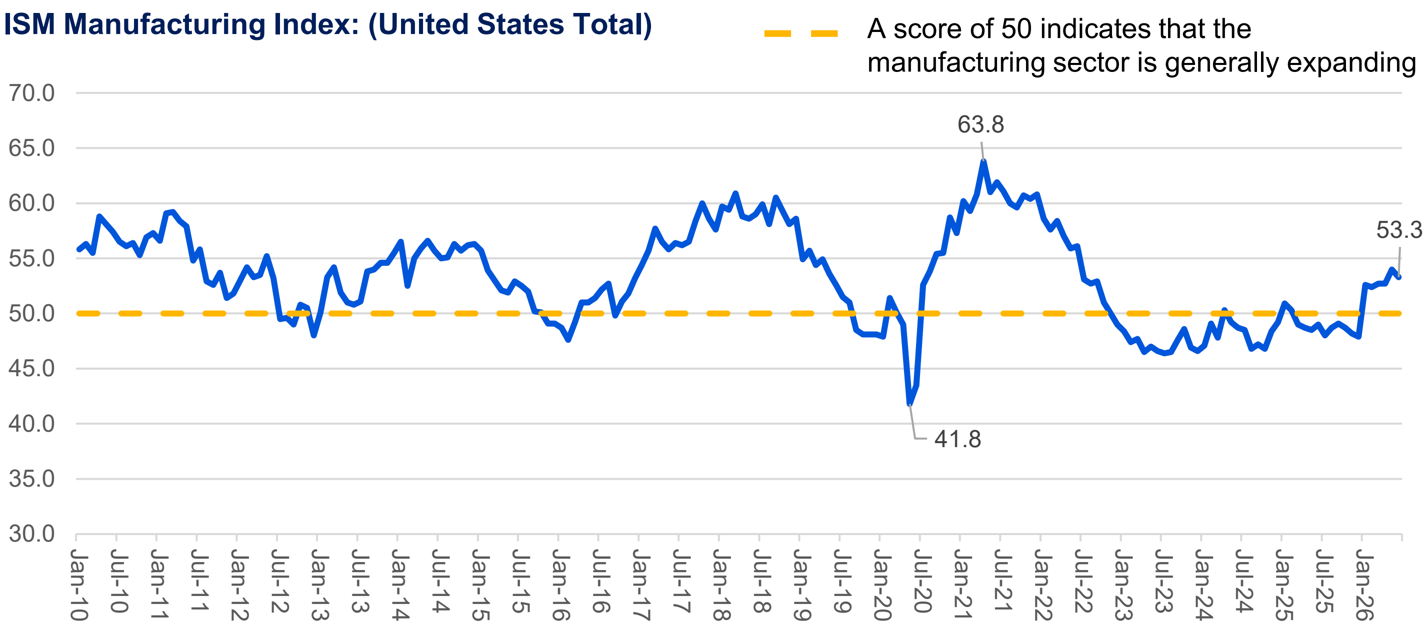
Consumer sentiment is a statistical measurement of the overall health of the economy as determined by consumer opinion. It considers people's feelings toward their current financial health, the health of the economy in the short-term, and the prospects for longer-term economic growth.

Source: Federal Reserve Economic Data, https://fred.stlouisfed.org;
Note: Data thru May 2026(UMCSENT). Data pulled July 15, 2026

Consumers

ISM Manufacturing PMI Continues to Expand, Signaling Resilient Industrial Activity Despite Moderating Momentum

The Institute for Supply Management (ISM) Manufacturing PMI (Purchasing Managers Index) for June registered 53.3, marking the sixth consecutive month of expansion. Although activity moderated slightly from May's reading of 54, new orders and production remained in expansion territory, indicating continued strength in the manufacturing sector despite a slower pace of growth. For industrial occupiers, the ISM Manufacturing PMI points to steady underlying demand rather than rapid acceleration.



Source: [Institute of Supply Management]
Note: Data thru May 2026

ISM Manufacturing PMI

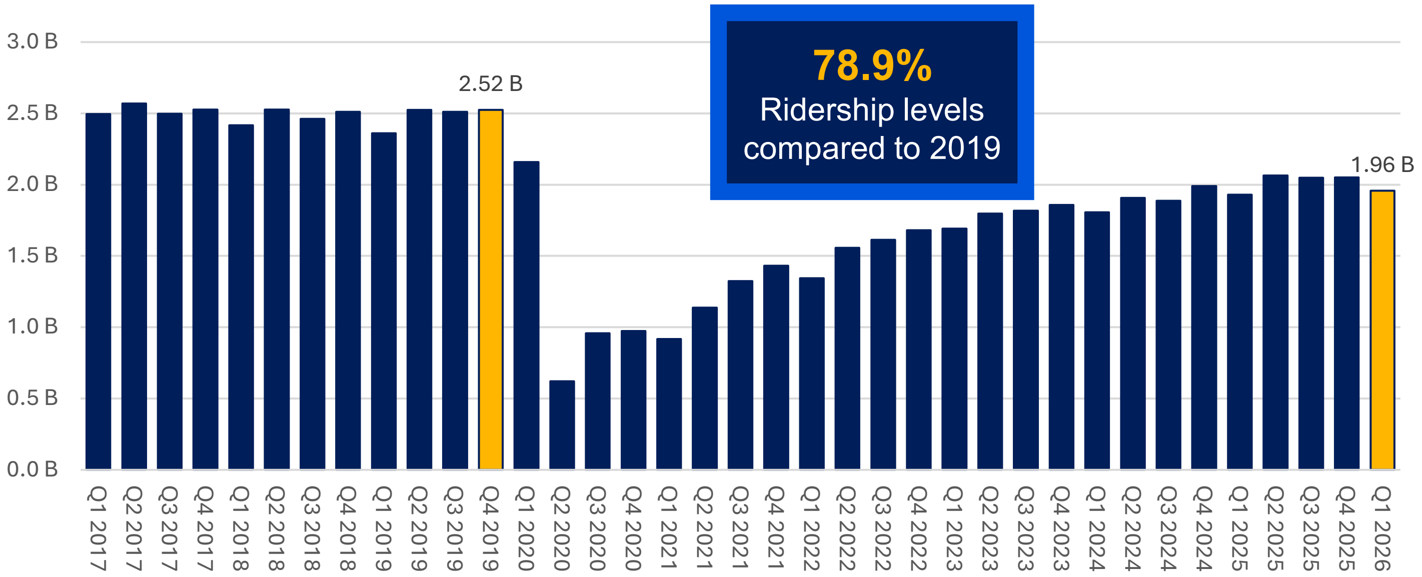
The ISM Manufacturing Index is a key economic indicator that measures the level of demand for products by surveying purchasing managers at manufacturing companies. The PMI is based on five major components: new orders, production, employment, supplier deliveries, and inventories. The index is seasonally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

A good indicator of the health of an urban core, and consequently the downtown office market, is the use of public transportation. Public transit ridership dropped to 1.96 billion in the first quarter. Based on several additional indicators, the momentum for returning to office work seems to have stabilized; however, the new administration's stance on return-to-office policies may lead to changes in the future. Despite this, public transit ridership has remained flat over the past ten quarters. Nevertheless, public transit surpassed 2 billion riders in late 2025.

Public Transit Ridership: (United States)



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

Public Transit Still Lags Historic Norms

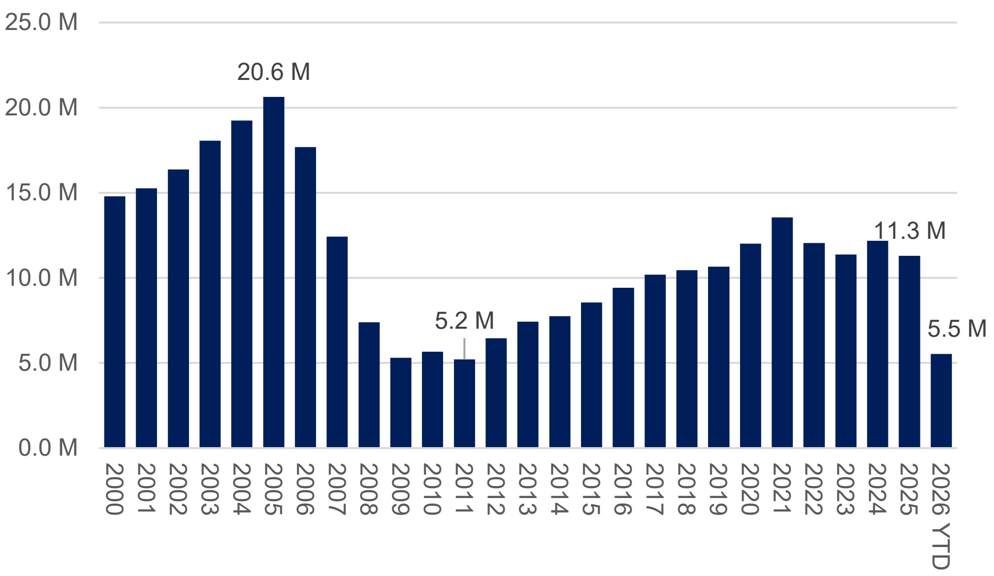
Public transportation has been consistently reliable since the beginning of the century. In 2008, rising gas prices led to a temporary increase in public ridership, but it quickly returned to historic levels. During the first year of the declared pandemic, ridership was cut in half, experiencing a 52.8 percent decrease. As the economy began to reopen in 2021, ridership saw only a modest increase of 3.1 percent compared to the previous year. By early 2022, the economy was moving towards pre-pandemic levels. However, by the end of the first quarter of 2026, public transportation ridership had only reached 78.9 percent of the average ridership from 2019, the last full year before the pandemic began.

Housing

Single-Family Housing Starts Remain Stable as Builders Navigate Affordability and Financing Challenges

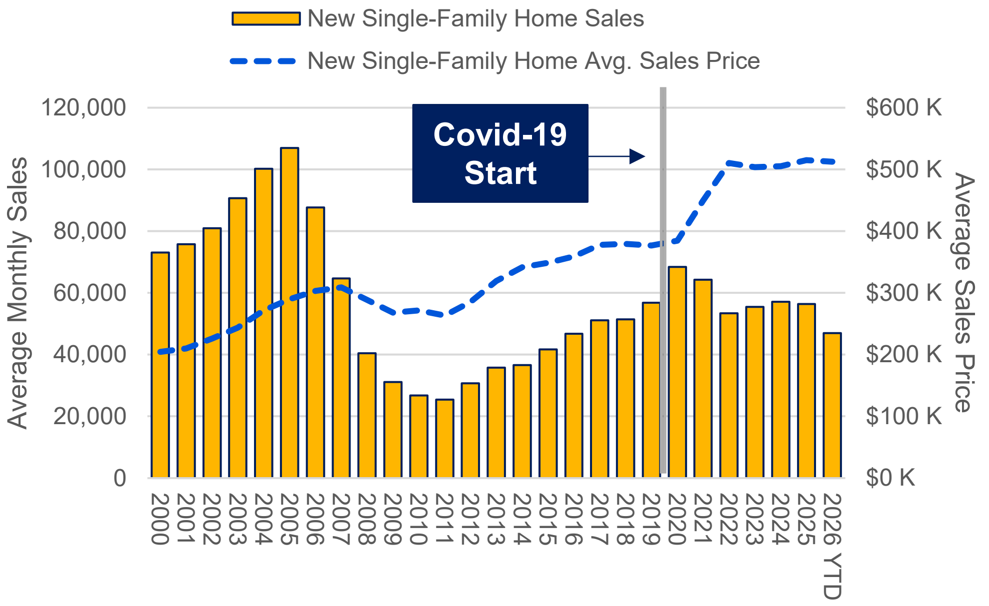
Single-family housing starts were essentially unchanged in June, edging down 2 percent to a seasonally adjusted rate. Elevated mortgage rates, construction costs, and affordability challenges continue to weigh on new single-family development. Limited single-family home inventory, driven by owners holding on to low interest rates has caused home prices to hover near all-time highs.

Single-Family Residential Housing Starts



Source: U.S. Census Bureau, https://census.gov/construction
*Note: Data thru May 2026

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



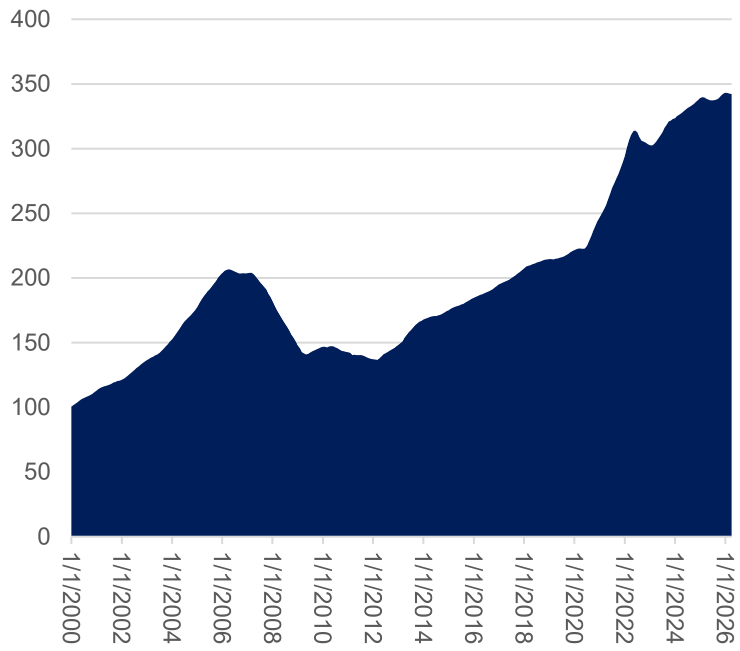
Source: U.S. Census Bureau, https://census.gov/construction
Note: Data thru May 2026

Home Price Index

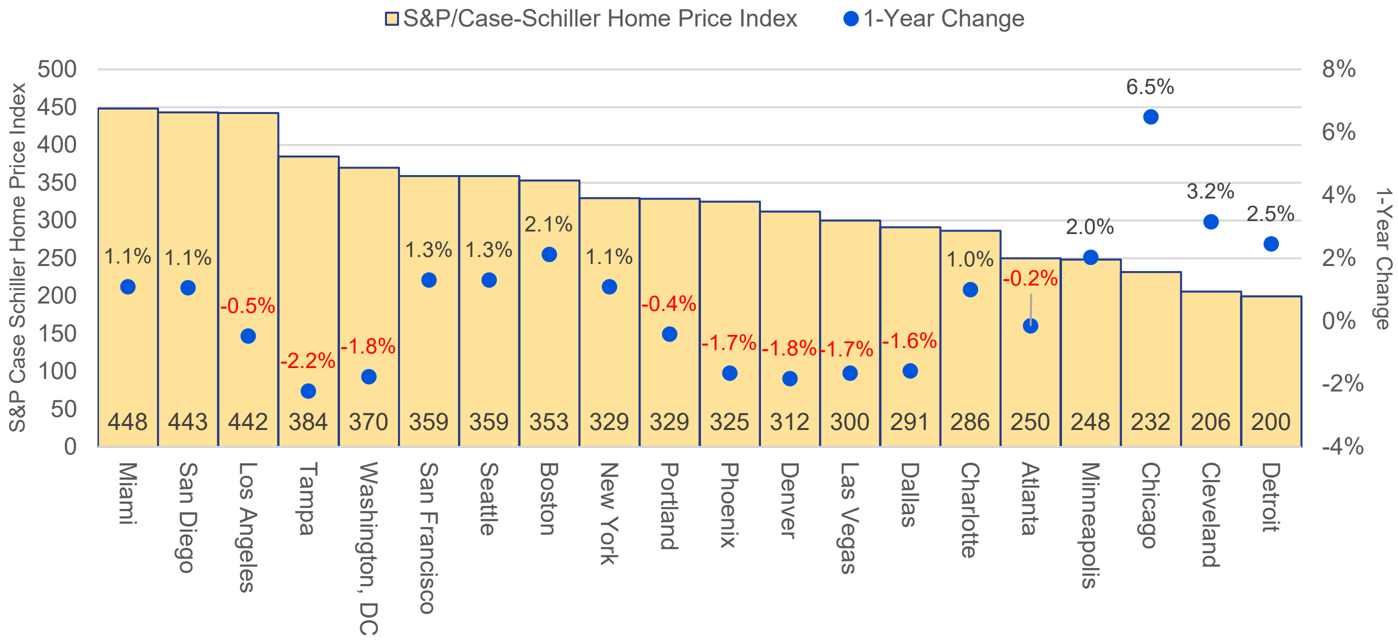
Case-Schiller Home Price Index Peaks in January

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. The current level marks a continuation of high, albeit slowing, price levels, showing a deceleration in growth Miami and San Diego hold the highest Home Price Indexes. Detroit, Cleveland, and Chicago increased the most in the past 12-months, while 9 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, July 15, 2026.

Office Trends

The U.S. Office Market Continues Its Gradual Recovery as Demand Shifts Toward Quality

The U.S. office market continued to stabilize in the first half of 2026, bolstered by increasing leasing activity, positive net absorption, and a notable slowdown in new construction. Demand is primarily focused on Class A buildings that offer extensive amenities, as companies prioritize employee experience, collaboration, and long-term workplace strategies. Although overall vacancy rates remain high by historical standards, conditions are improving. New supply is at its lowest level in decades, sublease availability is decreasing, and more companies are making long-term occupancy decisions.

For occupiers, the market remains highly favorable despite improving fundamentals. The recovery has also not been uniform, as some markets such as New York, Miami, and Dallas are thriving more than others. Looking ahead, constrained construction activity and steady leasing demand are expected to gradually rebalance the market, although recovery will continue to vary by geography, building quality, and industry sector.

Office Tenant View

- Capitalize on favorable leasing conditions by evaluating opportunities to upgrade into higher-quality buildings while landlords continue to offer competitive concession packages.
- Leverage strong tenant position by prioritizing flexibility through negotiating lease structures and workplace solutions that can adapt to changing headcount, technology, and business requirements.
- Focus is shifting from the amount of leased space to its usage, emphasizing investments in layouts, amenities, and especially technology that foster collaboration, improve employee engagement, and encourage higher in-office attendance.

Flight-to-Quality

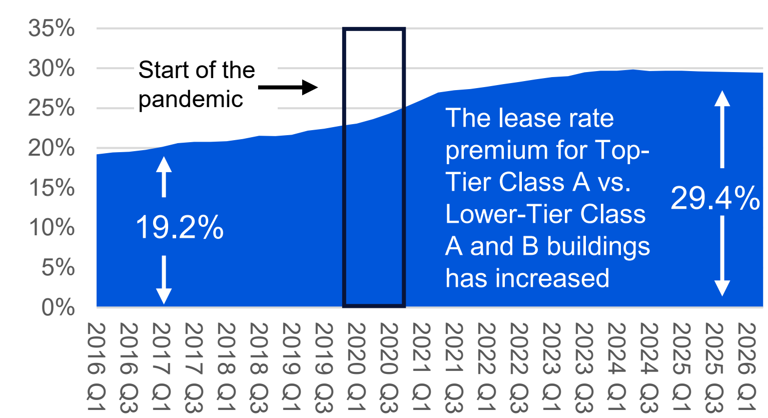
Top-Tier Buildings Outperform Lower-Tier Buildings in Large Office Market Urban Cores

The "flight to quality" was triggered by the onset of the pandemic and a significant decline in office market conditions. A combination of tenant leverage and reduced space requirements created an opportunity for businesses to upgrade their office environments and optimize their lease expenditures. Furthermore, modern office spaces that are rich in amenities, along with attractive neighborhoods, serve as a key incentive for encouraging workers to return to the office.

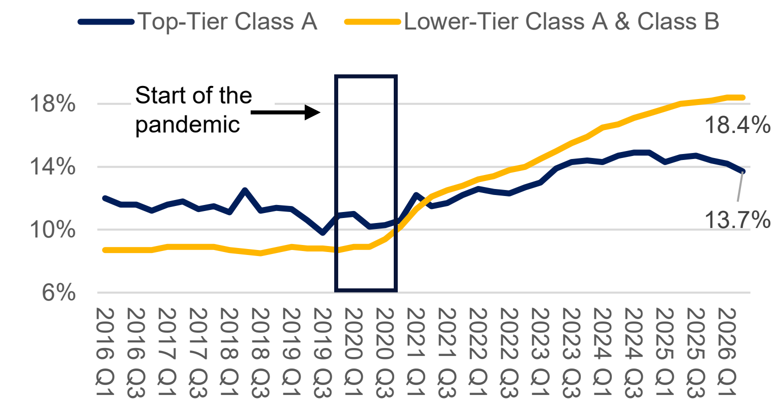
The gap between lease rates and direct vacancy rates for Top-Tier Class A office buildings compared to Lower-Tier Class A and Class B buildings is widening. **Since the beginning of Q3 2020, Top-Tier spaces in the central business districts (CBDs) of major office markets have recorded a positive net absorption of 33.7 million square feet. In contrast, Lower-Tier buildings have seen a negative net absorption of 105.5 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 50,000 square feet located within the CBD. Owner-occupied buildings were removed. The top 13 office markets in terms of inventory were included: New York, Los Angeles, Chicago, Houston, Dallas, Philadelphia, Washington, DC, Atlanta, Phoenix, Miami, San Francisco, Seattle, and Boston. Data thru Q2 2026

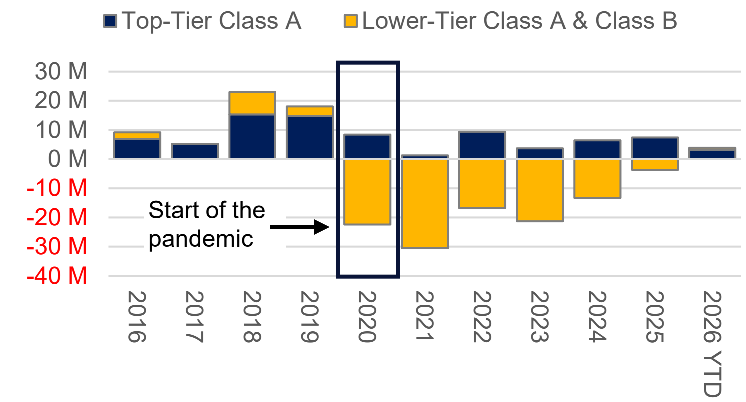
Lease Spread - Percentage



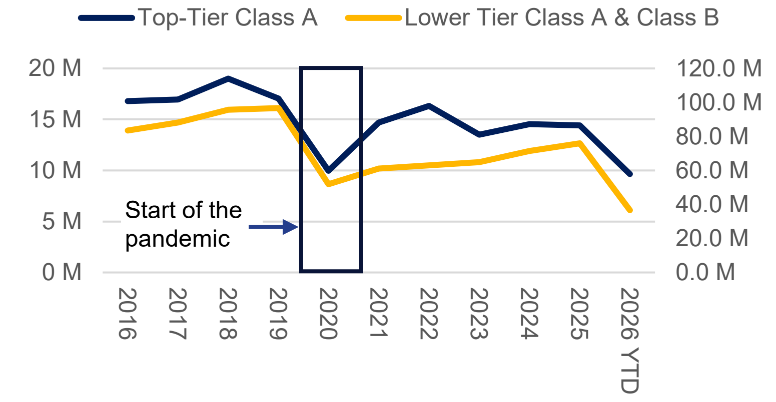
Direct Vacancy



Net Absorption



Leasing Activity – Number of Signed Leases



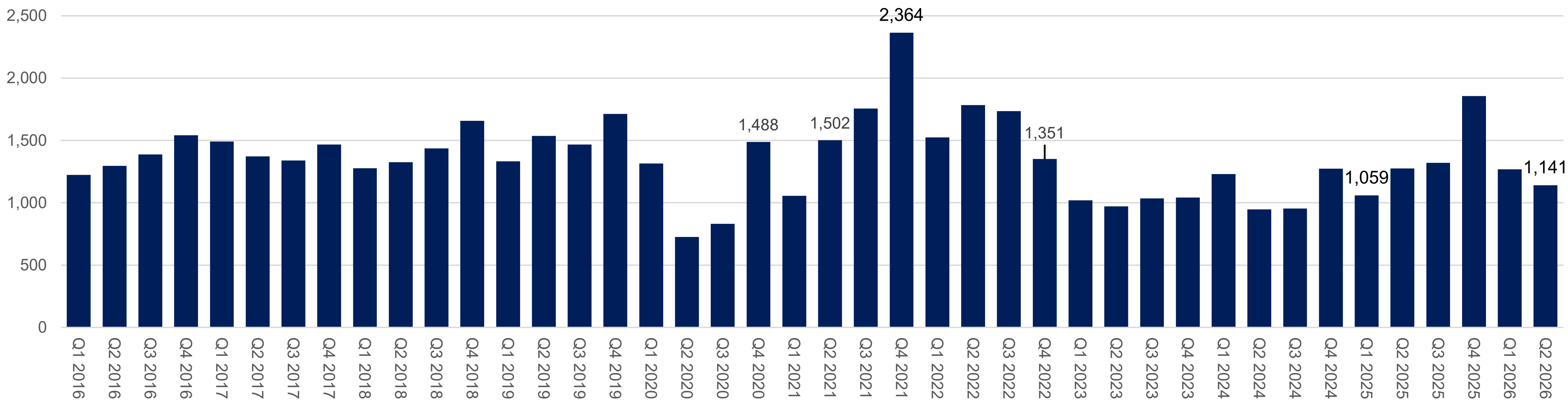
Source: CoStar, Cresa

Capital Markets

Sales Velocity Trends Drop in the First Half of 2026

Sales velocity fell back to post-pandemic norms after jumping in the fourth quarter, surpassing 1,800 sales, marking the highest level in the past 10 years. Investors are looking for office buildings with strong leasing trends to align with underwriting standards.

Office Sales Velocity: (United States)

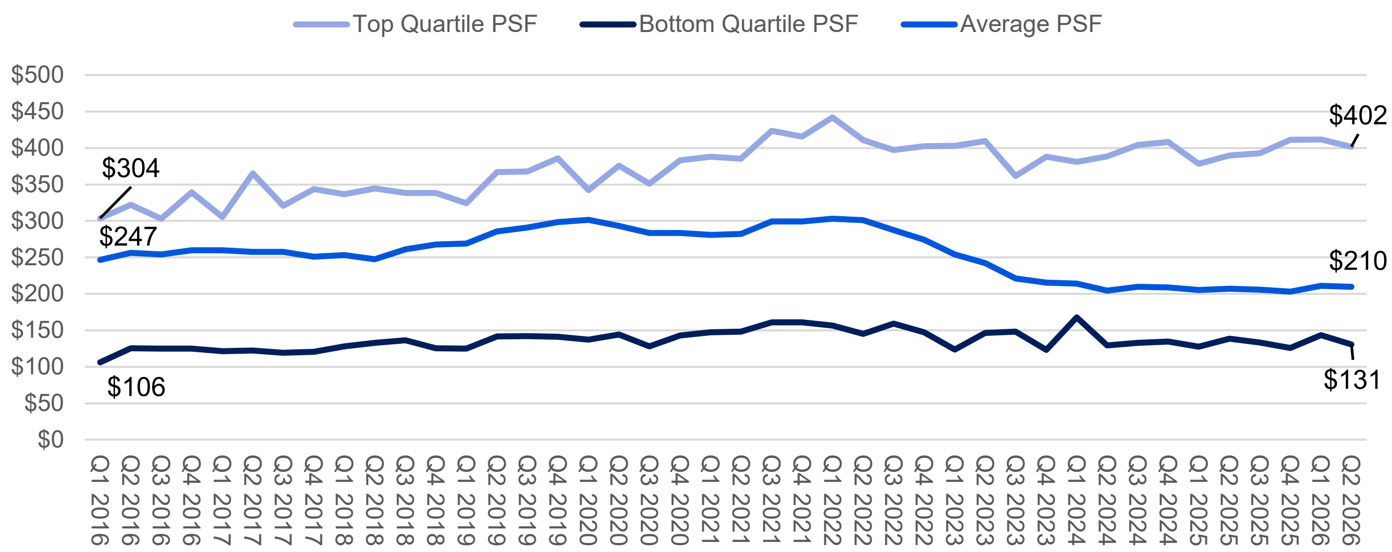


Source: Real Capital Analytics and Cresa; thru Q2 2026

Capital Markets

Average Sale Prices Per Square Foot Flatten Since early 2024, While Top-Tier Properties Hold Values

Average Office Sale Price/SF (United States)



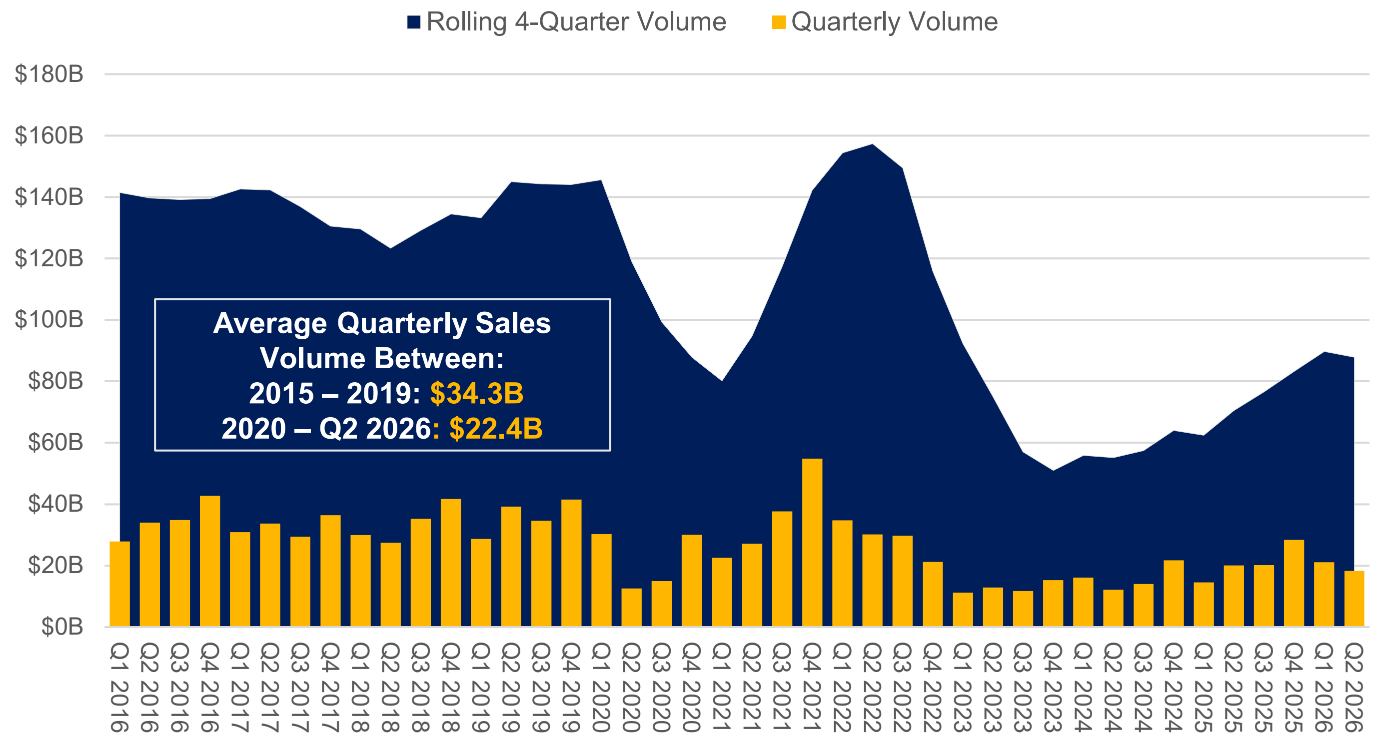
Sales of office properties in the top quartile have remained stable for the past two years. It should be noted that the jump in the number of overall sales in the fourth quarter did not impact prices per square foot, with top-end prices increasing at the highest percentage. Meanwhile, the overall average 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 2026

Capital Markets

Sales Volume Flattens After Trending Higher, but Remains Below Historic Levels

Office Sales Volume: (United States)



Source: Real Capital Analytics and Cresa; thru Q2 2026

Office sales volume closed the second quarter of 2026 at approximately $18 billion, falling from a spike during the fourth quarter. With the Fed considering additional rate cuts, there may be more sales activity in the near term. With the overall number of sales stabilizing, the volume has followed suit, but at a slower rate. **The average quarterly sales volume since 2020 remains about two-thirds of pre-pandemic levels.**

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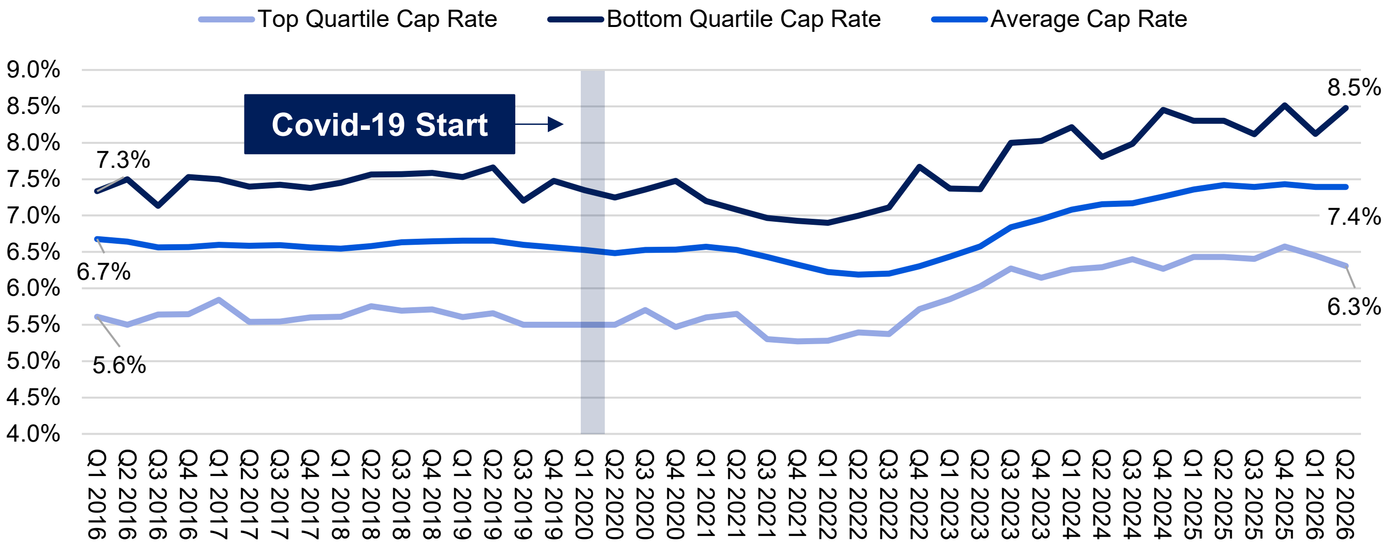
Capital Markets

Cap Rates Stable in Top-Tier Office Buildings, but Still Elevated

Office Cap Rates (United States)



Despite sales volume trending higher, cap rates have increased over the past four years. Currently, the average cap rate for office properties stands at 7.4 percent, near 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.

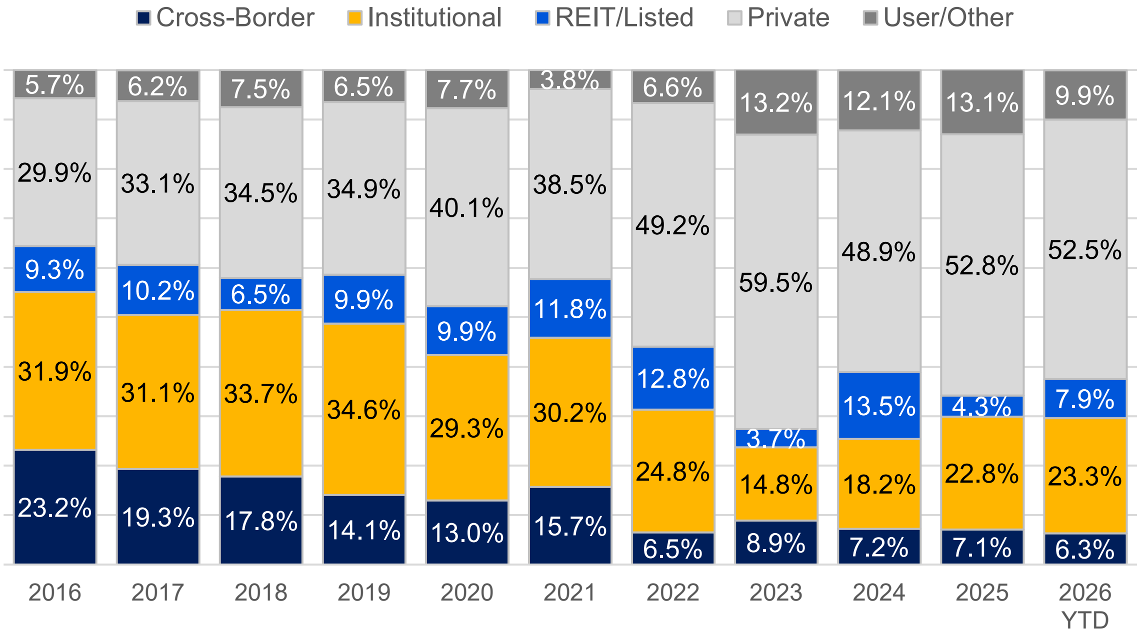
Source: Real Capital Analytics and Cresa; thru Q2 2026

Capital Markets

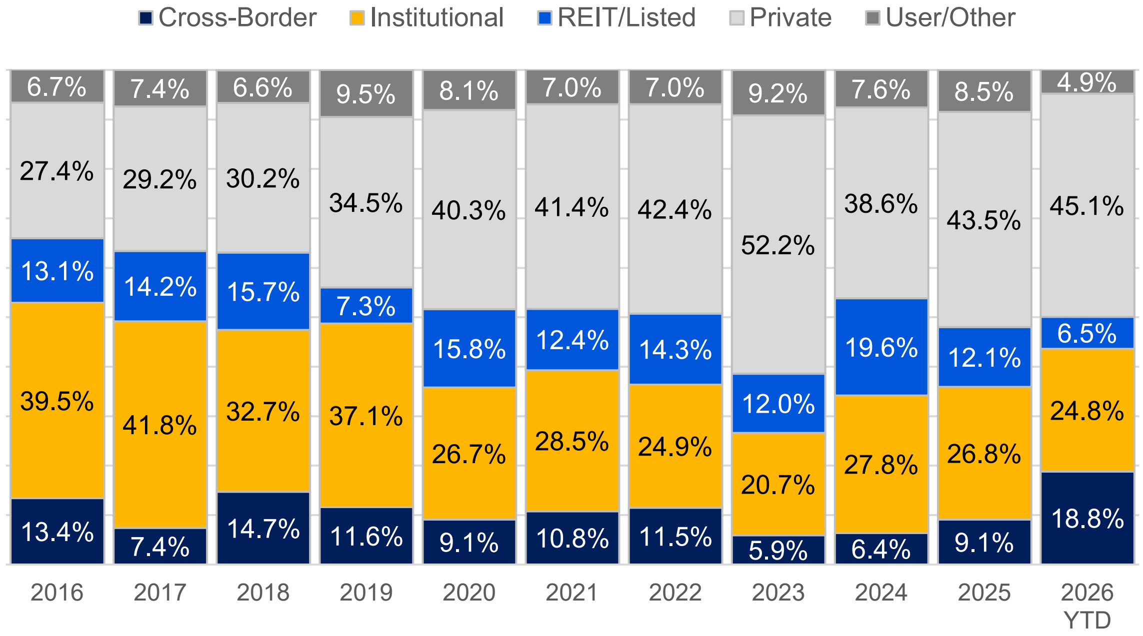
Office Capital Composition

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, Institutional investors have decreased their exposure in 2024 and 2025, perhaps looking for a more stable office market in the next three to five years. Private investors were the biggest buyers and sellers in the past year, shifting their portfolios.

Office Buyer: (United States)



Office Seller: (United States)



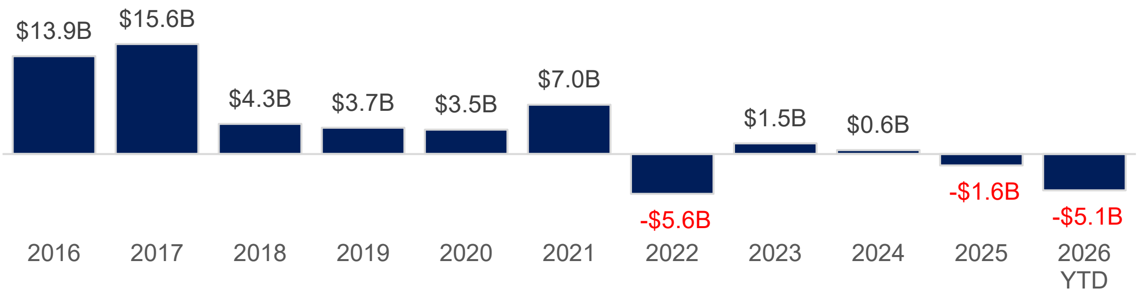
Source: Real Capital Analytics and Cresa; thru Q2 2026

Capital Markets

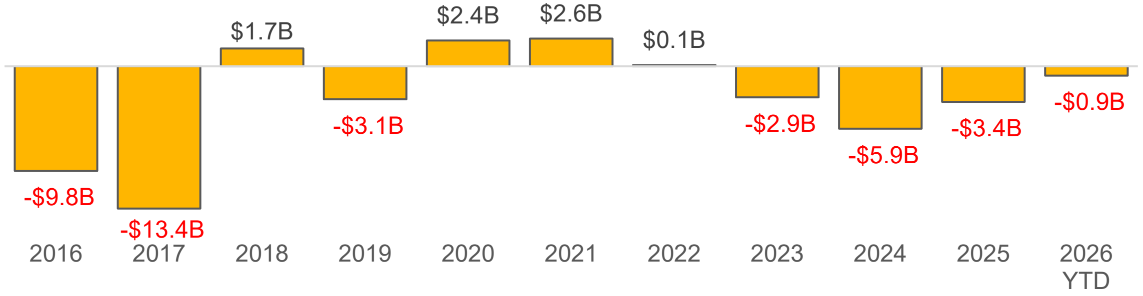
Office Capital Flows: Net Acquisitions

Office capital flows represent whether companies netted more acquisitions or dispositions by year. Cross-Border investment in office real estate has dropped for the last six quarters, as overall capital markets have ticked higher. Only private investors have made positive bets in each of the past five years, looking for bargains and potential significant upside. Meanwhile, REITs and other listed investments have shed assets in nine of the last 11 years but remain slightly net positive for the first half of 2026.

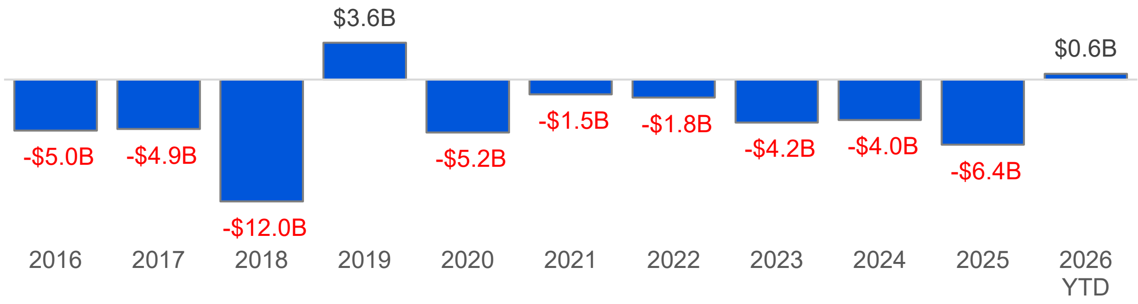
Cross-Border



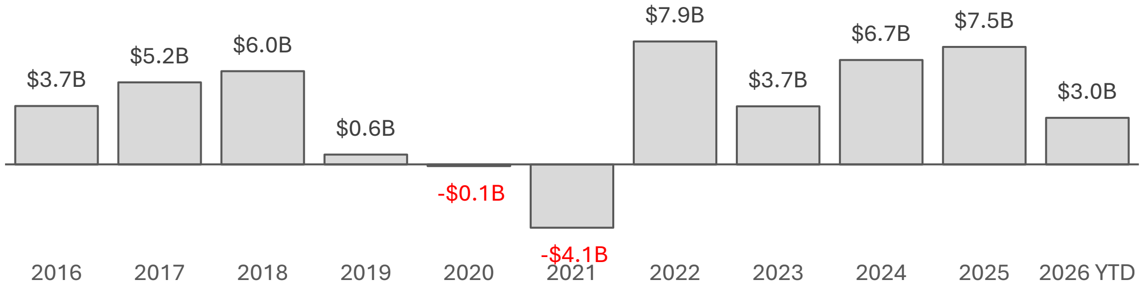
Institutional



REIT/Listed



Private



Source: Real Capital Analytics and Cresa; thru Q2 2026

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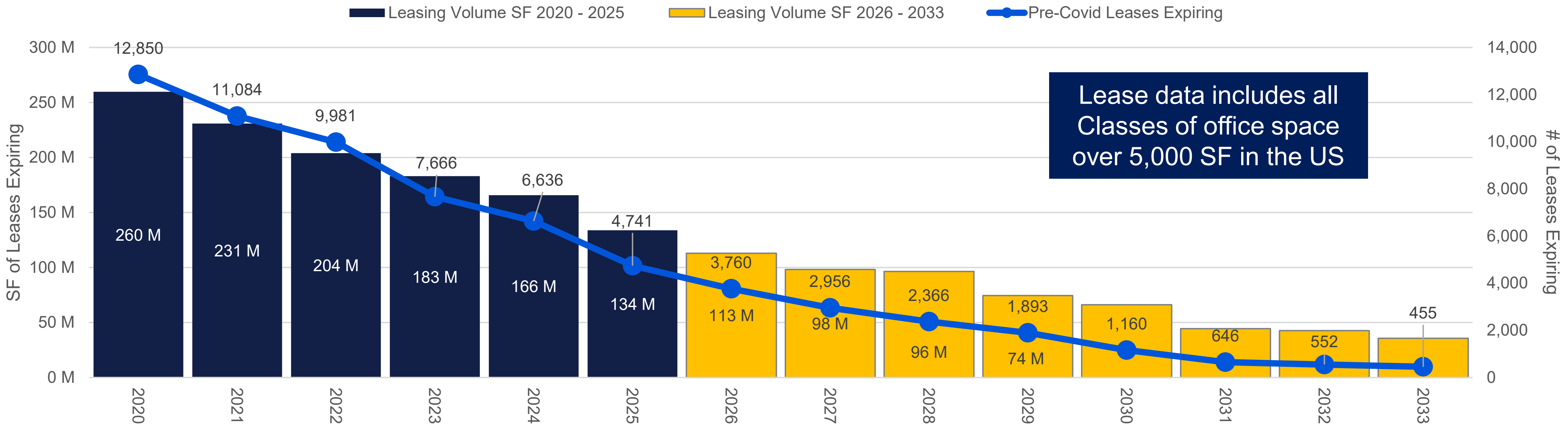
Lease Trends

Lease Expirations for Pre-COVID Signed Leases Continue to Roll

Office leases signed before the Covid-19 pandemic are currently about **two-thirds (67.3%) through their term, with 1.18 billion square feet set to expire by 2025**. Looking ahead, approximately 571 million square feet of office space is scheduled to expire by 2033. As companies make decisions regarding their strategic real estate plans, many are likely to right-size their office spaces to better align with their current and anticipated hybrid work models. However, new job growth could have the opposite effect, particularly if companies have overestimated the decline in office usage.

Leases Signed Prior to 2020 and Expirations by Year



Source CoStar and Cresa; Data pulled in Q2 2026

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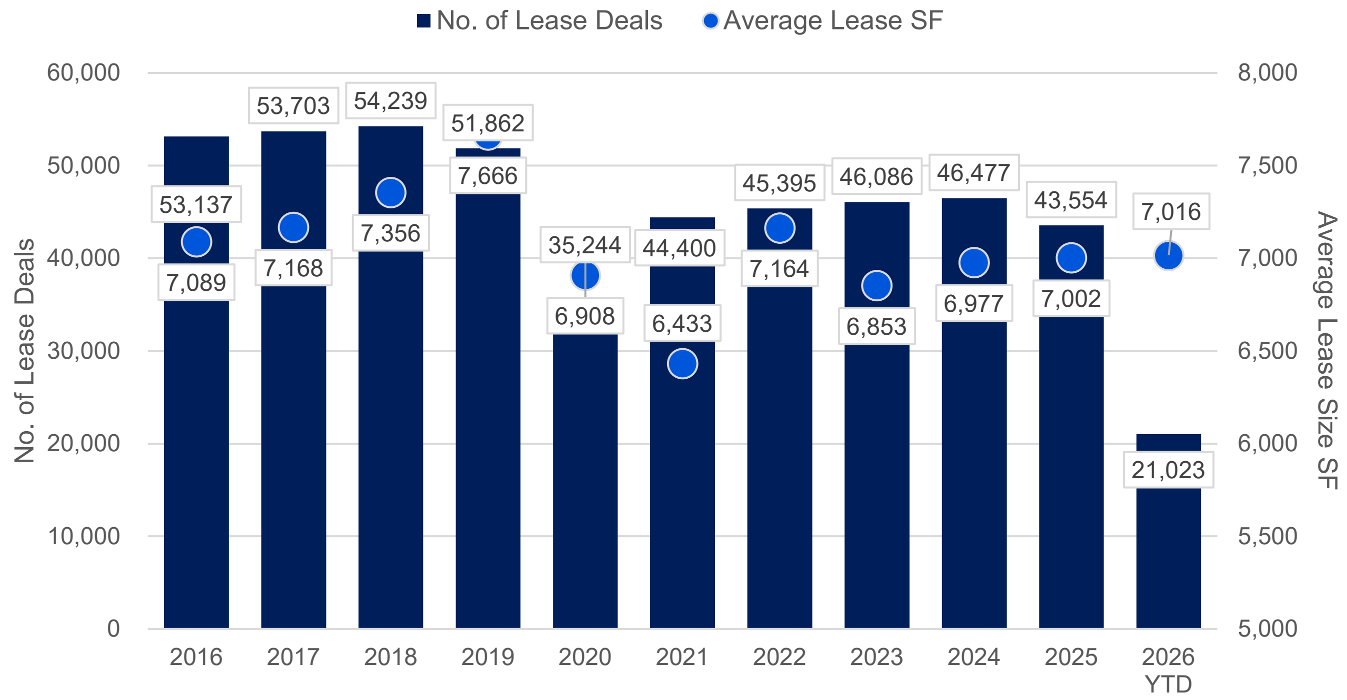
Leasing Trends

Deals Getting Done, but Deal Size Shrinks

Historic Office Activity – Average Deal Size



Lease deal sizes in 2025 were **8.6 percent** smaller than in 2019.

The number of deals completed in 2025 decreased by **16 percent compared to 2019.**

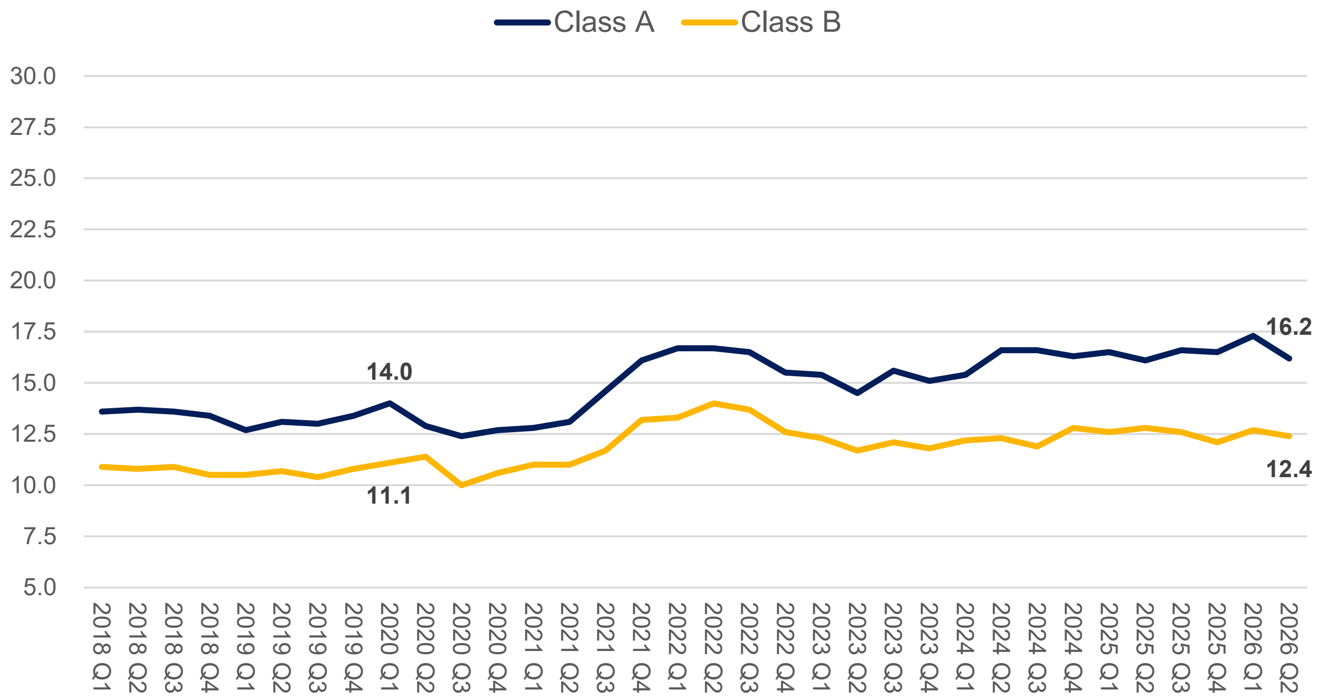
The number of lease deals per year has remained remarkably stable over the past five years, while average deal size has been somewhat variable.

Source: CoStar, Cresa; data is through the second quarter of 2026. 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 Stabilize

Months-To-Lease



Source: CoStar and Cresa; thru Q2 2026

The average time to lease office properties has trended higher in the past two years. **For class A office spaces, the time to lease has increased from 14 months in 2019 to 16.2 months to close the second quarter of 2026, lengthening the average time on the market by more than two months.**

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.

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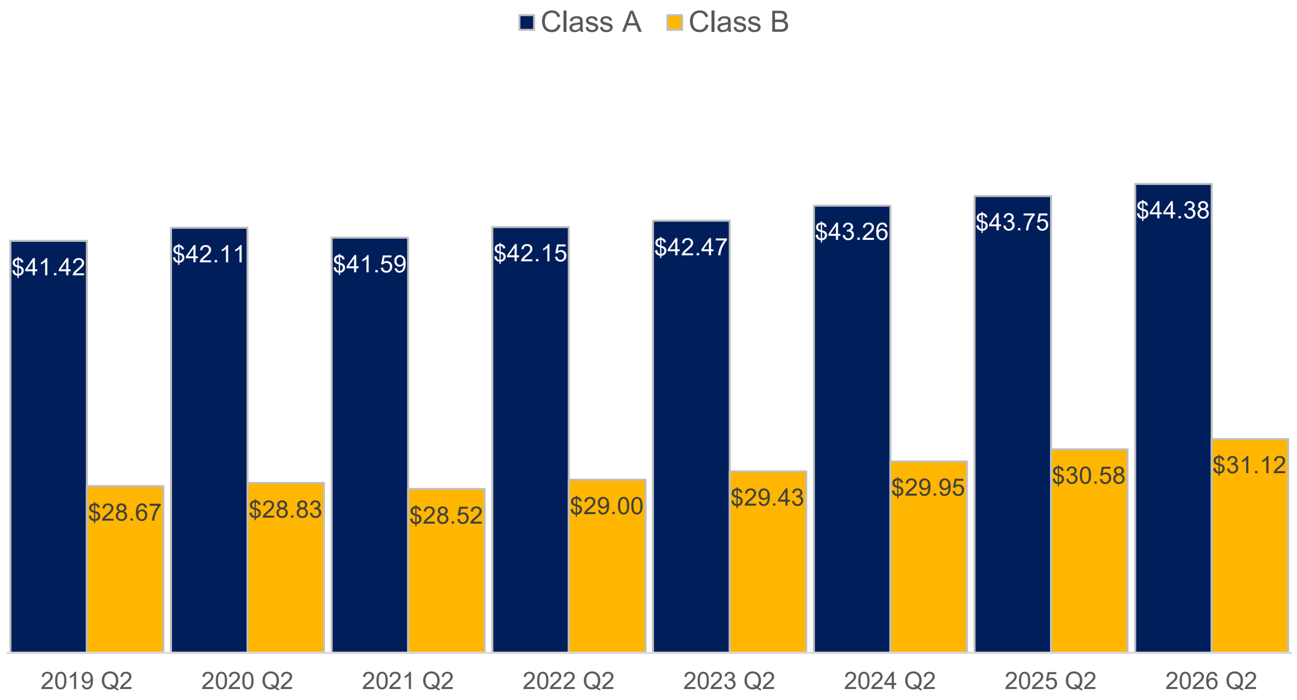
Market Rent

Asking Office Rents Remain Flat

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



Source: CoStar and Cresa; thru Q2 2026

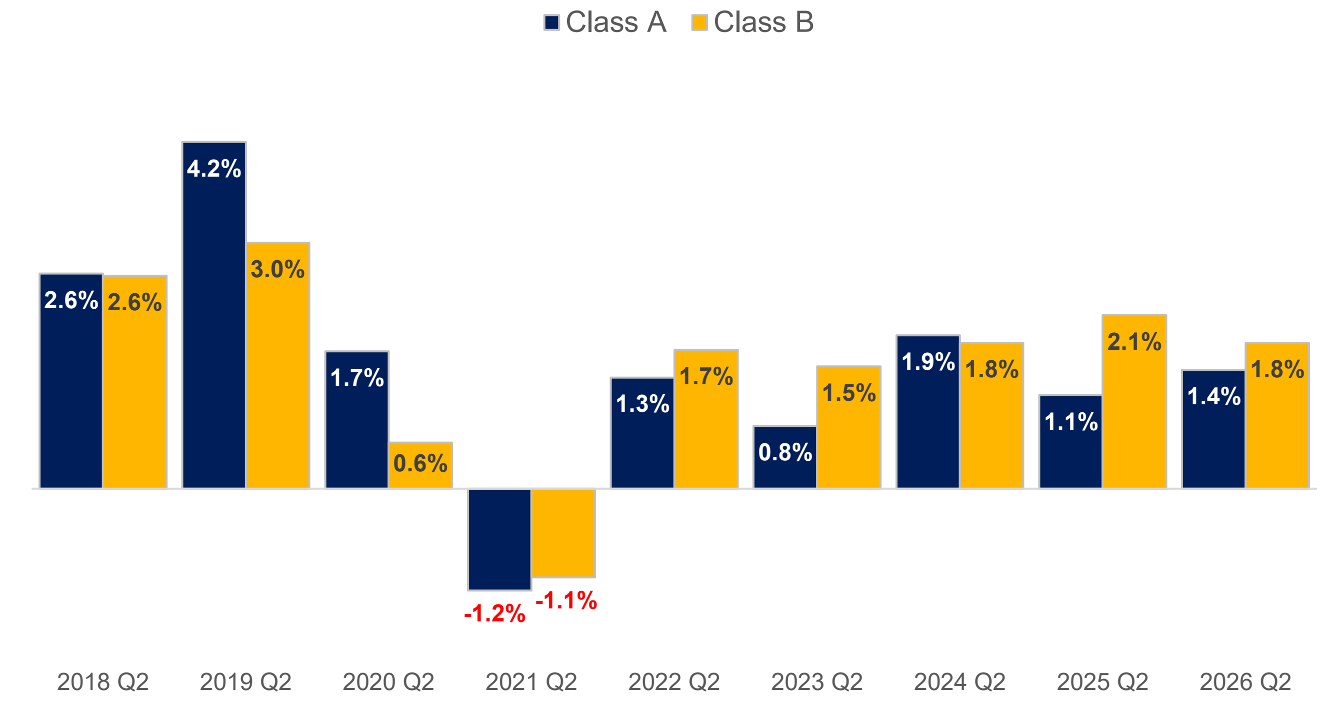
Lease rates for both Class A and Class B spaces have remained stable over the past five years. As demand has diminished, landlords have maintained their asking rates, although this trend seems to be changing. To attract tenants, landlords are increasingly offering concessions, such as free rent and tenant improvements (TIs), which effectively lower the nominal rent. However, rising operating costs driven by inflation and interest rates are diminishing some of these benefits for tenants.

Despite this, the office market is currently favorable for tenants, giving them more leverage, especially in Class B buildings. As a result, tenants can secure more advantageous terms, including contraction clauses, early termination options, and shorter lease durations. Meanwhile, top-tier properties are seeing larger rent increases as they seek to attract quality tenants.

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 2026

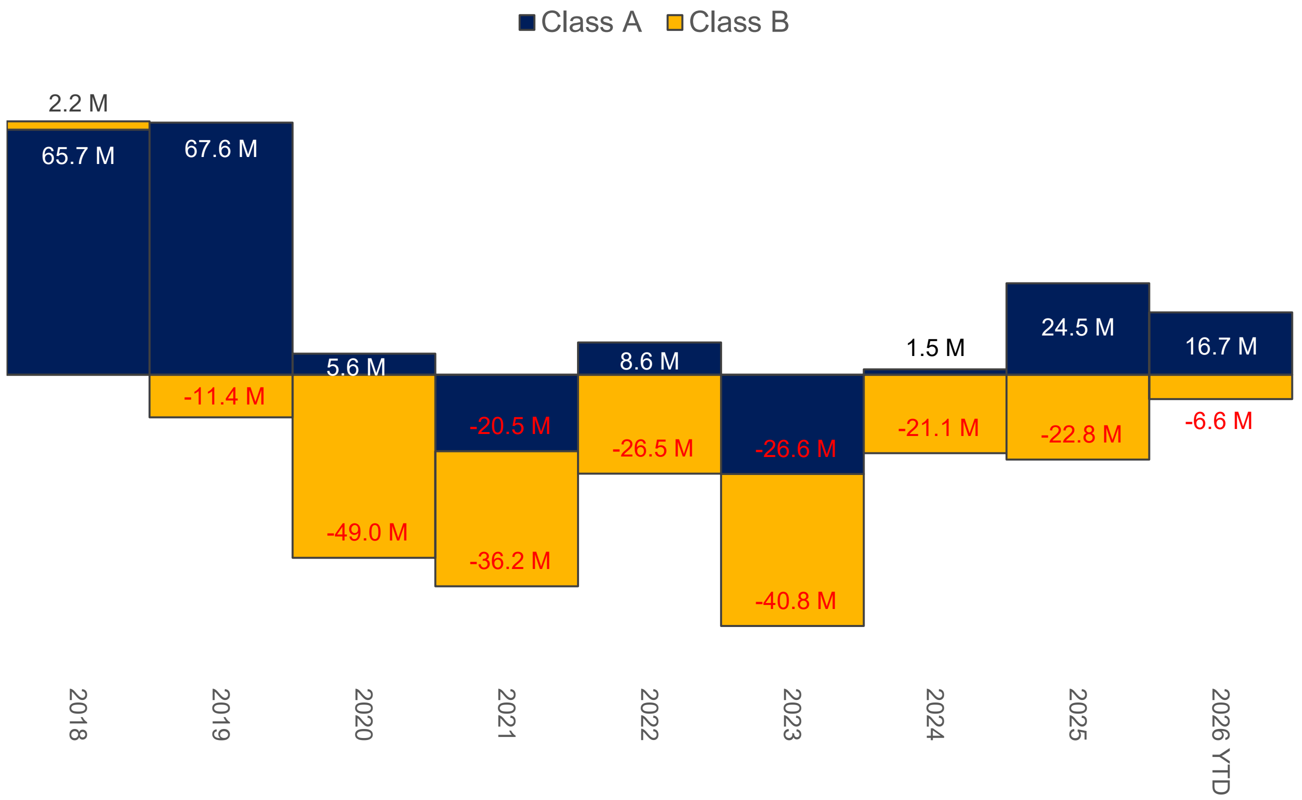
During pre-pandemic years, office rates historically increased 2.5 to 4 percent annually. After an initial drop in 2020, class A rents have increased moderately as landlords look to hold rates as long as possible, providing incentives and TIs to attract tenants. As demand continues to drag, rates will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

Absorption

Class A Space Marks Positive Net Absorption for the Year for the First Time Since 2019

Office Net Absorption (SF): (United States)



Source: CoStar and Cresa; thru Q2 2026

The good news for the office market is that class A space is projected to show a modest gain in net absorption in 2025, and this trend remained positive during the first half of 2026. However, the ongoing work-from-home policies have led many companies to reevaluate their office needs. As organizations reduce their office space and eliminate under-utilized areas, overall office absorption has experienced a significant decline. Class B space has been especially affected since the pandemic began. **Since 2020, there has been a negative net absorption of 193 million square feet for both Class A and B spaces, which represents nearly 4.5 percent of the total office space.**

As pre-pandemic leases continue to expire, it's likely that absorption will remain constrained. Nevertheless, as stability returns to the market, the overall net absorption is expected to stabilize. It may take several years for net absorption to recover from the losses incurred since the beginning of 2020.

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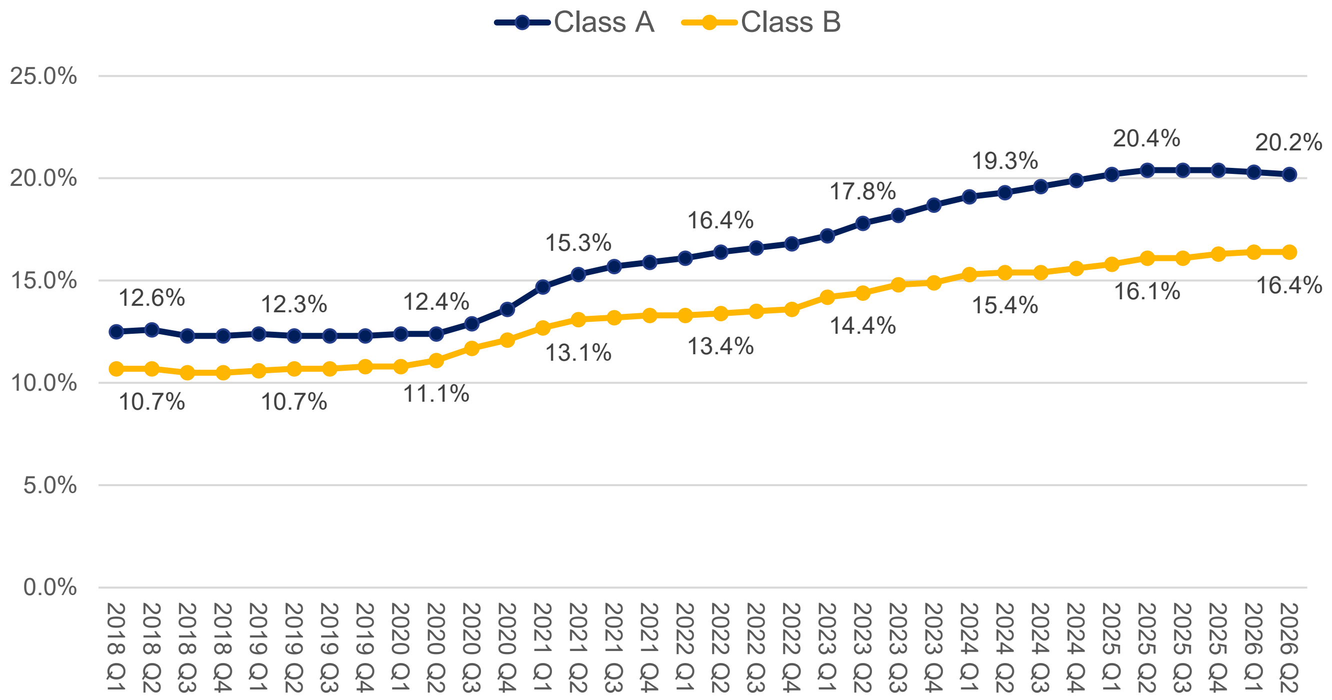
Direct Vacancy

Class A Office Vacancy Drifts Lower

Office Direct Vacancy Rate: (United States)



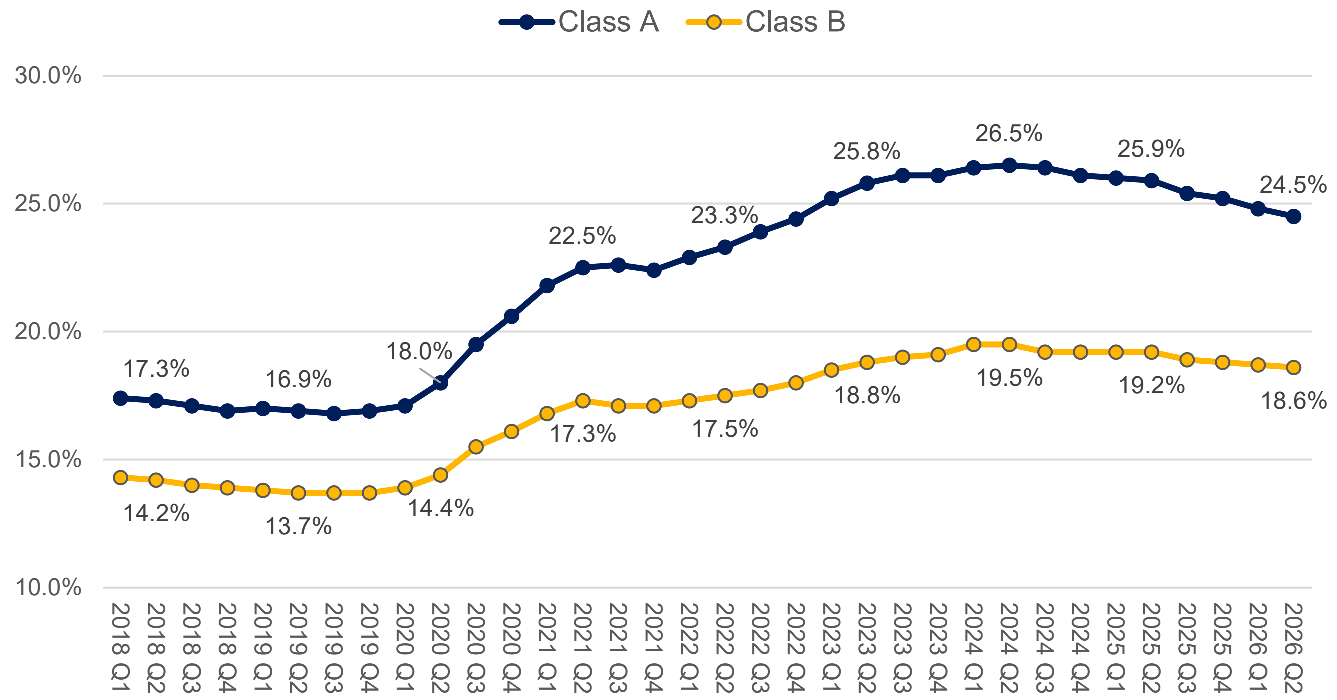
Source: CoStar and Cresa; thru Q2 2026

Class A direct vacancy has increased at a faster rate than Class B space. **The second quarter of 2026 marked the third straight quarter in which Class A direct vacancy has decreased.** Newly signed leases are, on average, becoming smaller, which could keep vacancy levels elevated 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

Availabilities for Class A Space Drops for Ninth Straight Quarter

Office Availability Rate: (United States)



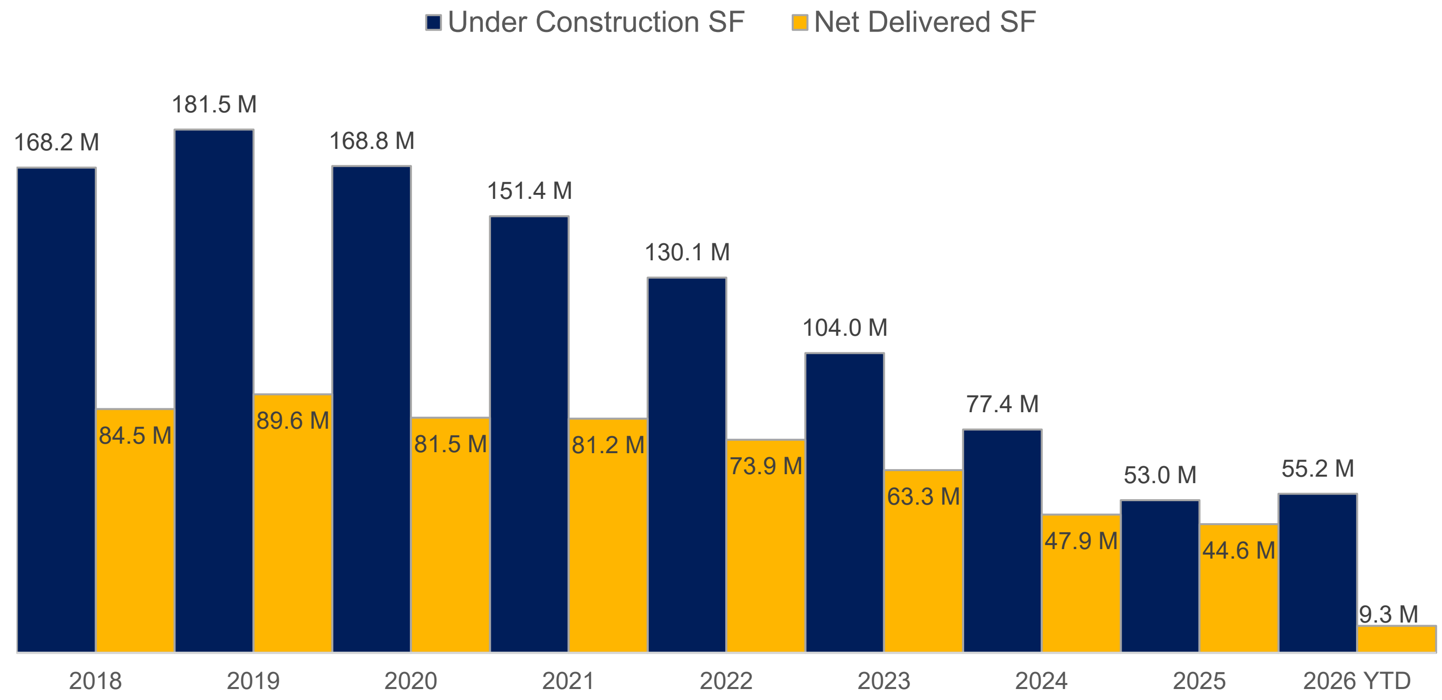
Source: CoStar and Cresa; thru Q2 2026

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 ninth consecutive quarter to 24.5 percent to end the second quarter of 2026, indicating that demand remains soft as the office market resets, but the bottom has been reached.

Construction

Office Construction Slows to a Near Halt

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



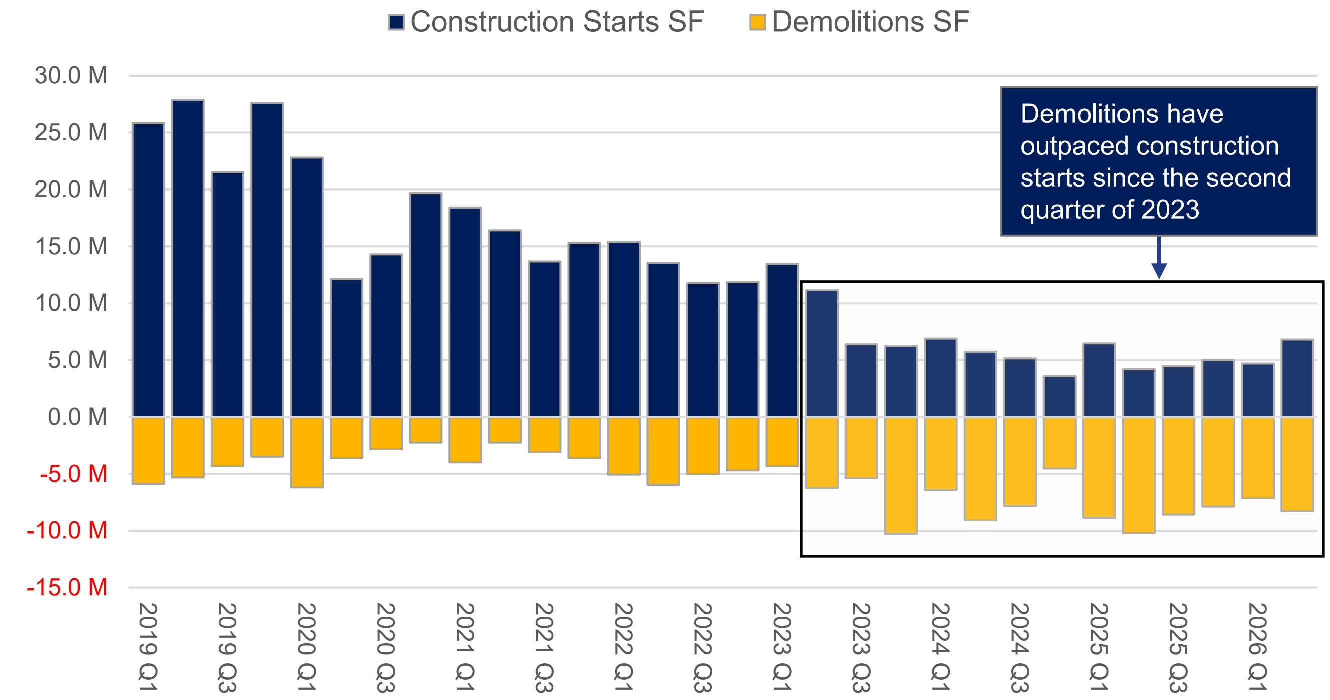
Source: CoStar and Cresa; thru Q2 2026; Data for Q4 represents the total Net Delivered SF for the entire year, while Under Construction represents only the amount during that specific quarter.

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 have stalled many office projects. However, the 55.2 million square feet under construction marks a slight increase from the previous year. **During 2025, 44.6 million square feet was delivered, the lowest amount in more than 20 years.**

Construction

New Office Construction Starts Over the Past Three Years Trails Demolitions

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



Source: CoStar and Cresa; thru Q2 2026

Since the second quarter of 2023, the amount of demolished square footage (100.7 million square feet) has eclipsed construction starts (76.8 million square feet). Demolitions also do not reflect the buildings removed from the total office inventory due to conversions to other uses.

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.

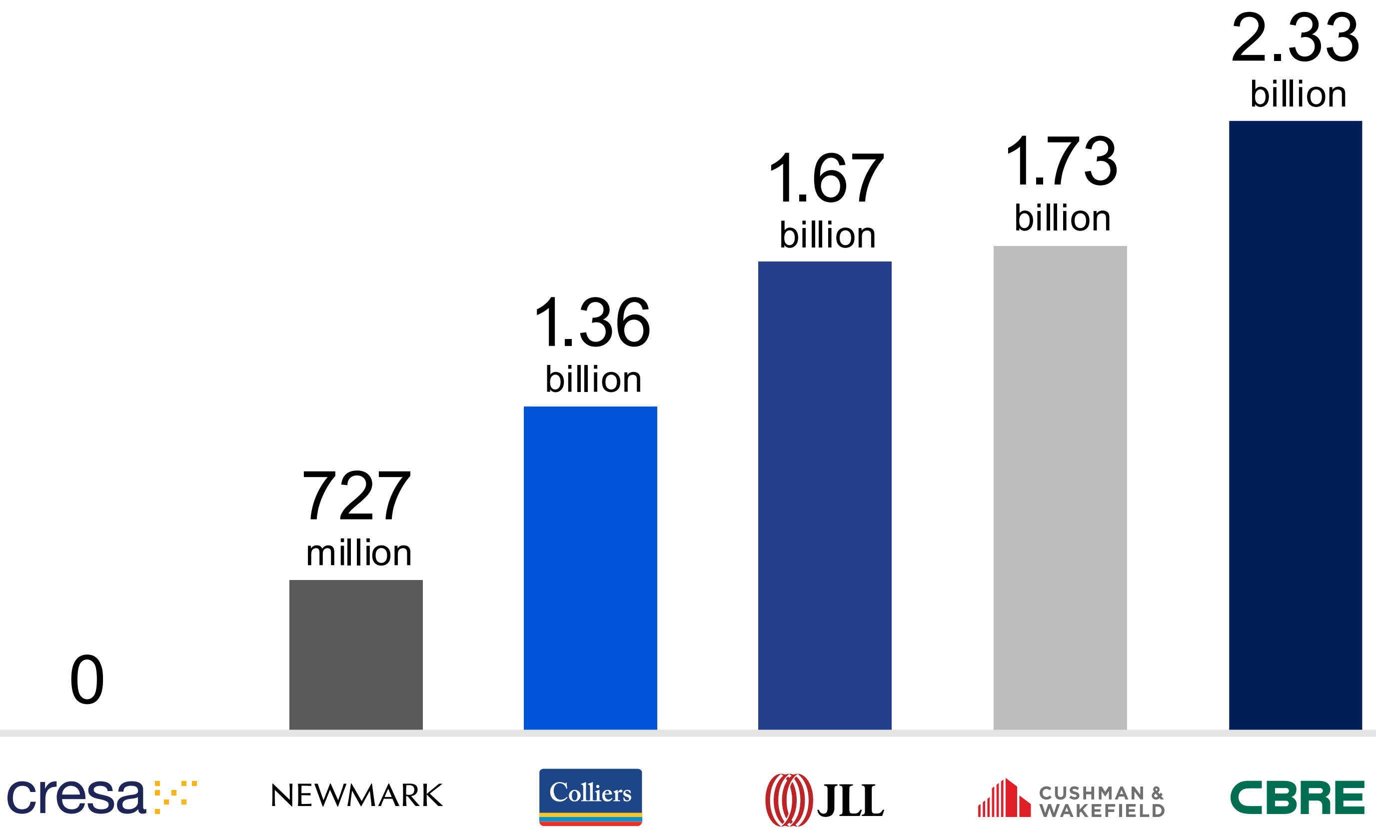
How We're Different

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.



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