

Office Occupier Outlook

United States Overview:

The Economy and Its Impact on Commercial Real Estate

Cresa Research | Q3, 2026

OCCUPIER OUTLOOK

FIVE BIG THINGS OCCUPIERS SHOULD KNOW

Key Takeaways for our Q3 2026 Occupier Outlook

1 QUALITY

The office recovery is happening at the top.



+34.7M SF

Top-Tier Class A absorption since Q3 2020

2 TIME

Office leasing is taking longer.



17.2 months

Compared with 13.1 months in 2019

3 CAPITAL

Long-term borrowing costs remain elevated.



5.2%

10-year Treasury yield—highest since early 2002

4 SUPPLY

Industrial supply is becoming more selective



92.6M SF

Industrial construction starts in Q3 -- 83% was distribution projects

5 SCARCITY

Retail construction has reached a record low.



10.0M SF

Retail construction starts hit the lowest quarterly total on record

Implications for Occupiers

Plan earlier and preserve flexibility as quality space becomes scarcer, industrial supply becomes more use-specific, and long-term capital costs remain elevated.

ECONOMIC RESILIENCE SUPPORTS CRE FUNDAMENTALS

Commercial Real Estate Adjusts to Slower Growth and More Selective Demand

Executive Summary

Macroeconomic View

- Economic growth remains positive, but employment gains have slowed, and inflation remains above the Federal Reserve's target. Monetary policy remains data-dependent, keeping borrowing costs elevated.
- Consumers and businesses remain active, but decisions are becoming more measured, with greater focus on productivity and operating efficiency.
- Real estate performance continues to vary by sector, market, building quality, and tenant demand.

Office Market

- Class A office absorption remained positive through Q3 2026, while Class B absorption remained negative. Class A vacancy has improved, but availability remains elevated.
- Limited new construction and declining sublease supply support gradual stabilization, although the recovery remains uneven by market and building quality.
- Occupiers can use favorable conditions to upgrade, right-size, and improve lease flexibility, particularly where Class B vacancy remains elevated.

Industrial Market

- Industrial demand remains resilient, but leasing and construction have normalized from pandemic-era highs. Distribution occupiers have more choice as prior speculative projects deliver.
- New construction is increasingly selective and concentrated in manufacturing, specialized facilities, and markets with strong preleasing, power, and labor availability.
- Occupiers should begin site selection early for specialized facilities and prioritize infrastructure, labor, and supply-chain resilience.

Retail Market

- Retail sales remain positive, and vacancy remains low, but rent growth and leasing activity have moderated. Demand remains strongest in neighborhood and convenience formats.
- Retailers are shifting from broad expansion toward portfolio optimization, using renewals, relocations, resizing, and second-generation space to improve productivity.
- Record-low construction starts and limited net inventory growth will keep competition elevated for well-located retail space.

COMMERCIAL REAL ESTATE MARKET BY THE NUMBERS

Year-Over-Year Change Indicators Mixed

OCCUPIER OUTLOOK

Performance Snapshot

	Office			
	Q3 2026	Q3 2025	Change	Trend
Inventory SF	5.660 B	5.676 B	-15.2 M	►
Class A Rate Growth (Y-o-Y)	2.19%	1.92%	+027 bps	▲
Class B Rate Growth (Y-o-Y)	1.94%	2.55%	-061 bps	▼
Leasing Activity (TTM)	311.6 M	313.1 M	-1.5 M	►
Vacancy Rate	18.4%	18.4%	000 bps	►
Availability Rate	21.7%	22.5%	-080 bps	▼
Net Absorption (TTM)	+18.1 M	-85.0 M	+103.2 M	▲
Under Construction SF	53.5 M	59.2 M	-5.7 M	▼
Net Deliveries (TTM)	26.4 M	49.9 M	-23.5 M	▼
Sales Volume (TTM)	\$95.1B	\$76.1B	+\$19.0B	▲
Sales Price Per SF	\$215	\$205	+\$9.99	▲
Market Cap Rate	7.44%	7.39%	+005 bps	►

	Industrial			
	Q3 2026	Q3 2025	Change	Trend
Inventory SF	10.743 B	10.508 B	+235.1 M	▲
Manufacturing Rate Growth (Y-o-Y)	1.25%	3.56%	-231 bps	▼
Distribution Rate Growth (Y-o-Y)	2.47%	3.44%	-097 bps	▼
Flex Rate Growth (Y-o-Y)	1.97%	2.64%	-067 bps	▼
Leasing Activity (TTM)	+848.8 M	+685.9 M	+162.9 M	▲
Vacancy Rate	10.2%	10.4%	-020 bps	▼
Availability Rate	14.7%	14.8%	-010 bps	►
Net Absorption (TTM)	+359.7 M	+214.8 M	+144.9 M	▲
Under Construction SF	+482.0 M	+449.0 M	+33.0 M	▲
Net Deliveries (TTM)	+338.7 M	+396.9 M	-58.3 M	▼
Sales Volume (TTM)	\$82.5B	\$66.3B	+\$16.2B	▲
Sales Price Per SF	\$135	\$136	-\$0.20	►
Market Cap Rate	6.51%	6.19%	+031 bps	▲

	Retail			
	Q3 2026	Q3 2025	Change	Trend
Inventory SF	4.518 B	4.510 B	+8.2 M	►
Neighborhood & Convenience Rate Growth (Y-o-Y)	2.6%	3.4%	-077 bps	▼
Destination Rate Growth (Y-o-Y)	2.7%	3.4%	-066 bps	▼
Regional & Mixed-Use Destination Rate Growth (Y-o-Y)	1.8%	3.0%	-117 bps	▼
Leasing Activity (TTM)	81.6 M	98.3 M	-16.7 M	▼
Vacancy Rate	6.3%	6.4%	-008 bps	►
Availability Rate	6.3%	6.6%	-031 bps	▼
Net Absorption (TTM)	+11.5 M	-15.2 M	+26.7 M	▲
Under Construction SF	15.4 M	12.3 M	3.2 M	▲
Net Deliveries (TTM)	10.3 M	9.1 M	1.2 M	▲
Sales Volume (TTM)	\$20.9B	\$20.3B	+\$0.6B	▲
Sales Price Per SF	\$186	\$182	+\$3.59	▲
Market Cap Rate	6.27%	6.35%	-008 bps	▼

Occupier Leverage



Occupier Leverage



Occupier Leverage



Economic Overview



Economic Growth Supports More Measured Real Estate Decisions

The U.S. economy continues to expand, supported by business investment and consumer spending, although growth and employment gains have moderated. Inflation has eased from its peak but remains above the Federal Reserve's 2 percent target, keeping monetary policy cautious and borrowing costs elevated.

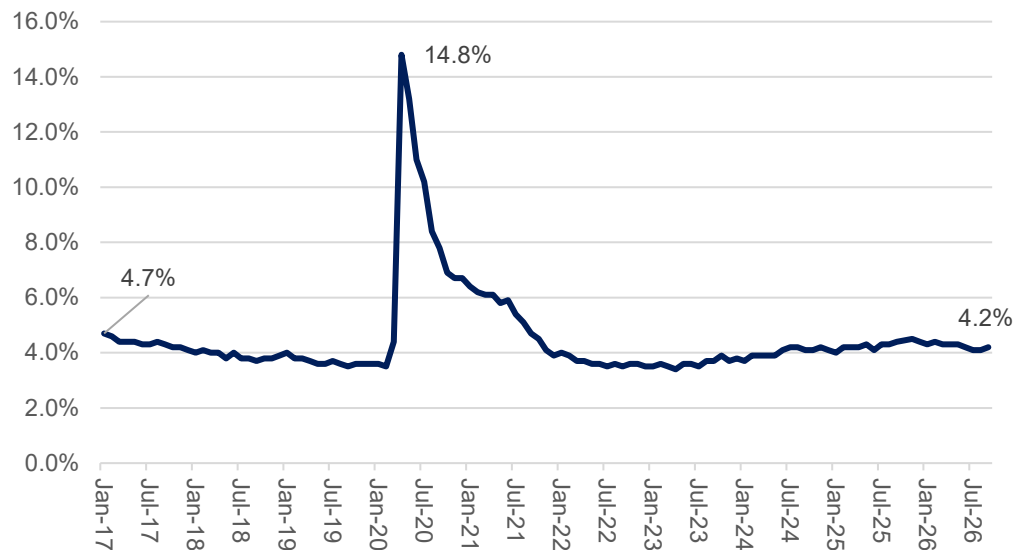
These conditions are encouraging more measured real estate decisions. Office users are consolidating and favoring higher-quality space, industrial occupiers are prioritizing supply-chain resilience and specialized facilities, and retailers are focusing on productive locations and existing portfolios. Across sectors, flexibility and operating efficiency remain central to real estate strategy.

Unemployment

Unemployment Steadies After Drifting Higher

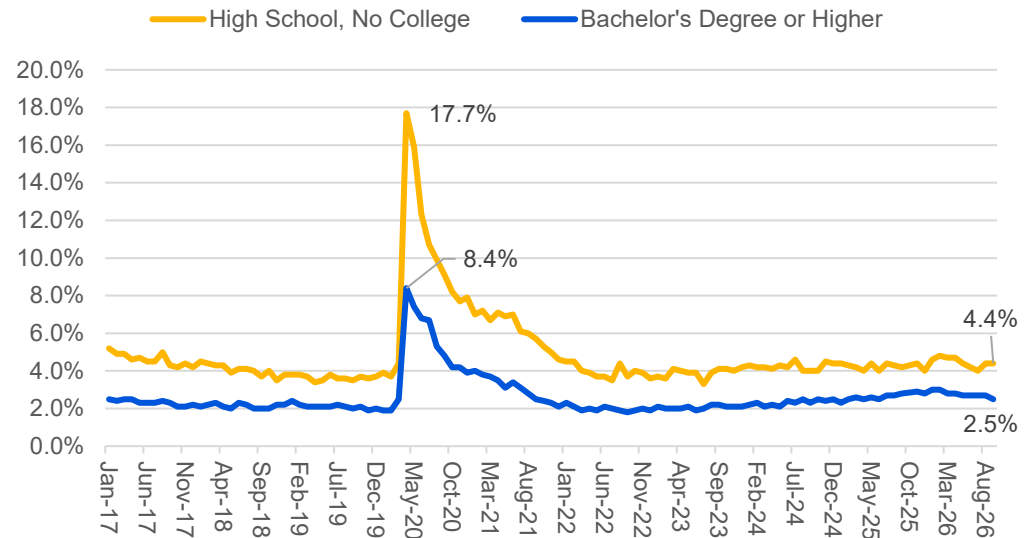
The Bureau of Labor Statistics (BLS) reported a steady U.S. unemployment rate of 4.2 percent in September 2026. Unemployment has held within a narrow range, but limited payroll growth and downward revisions point to a low-hire, low-turnover environment.

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



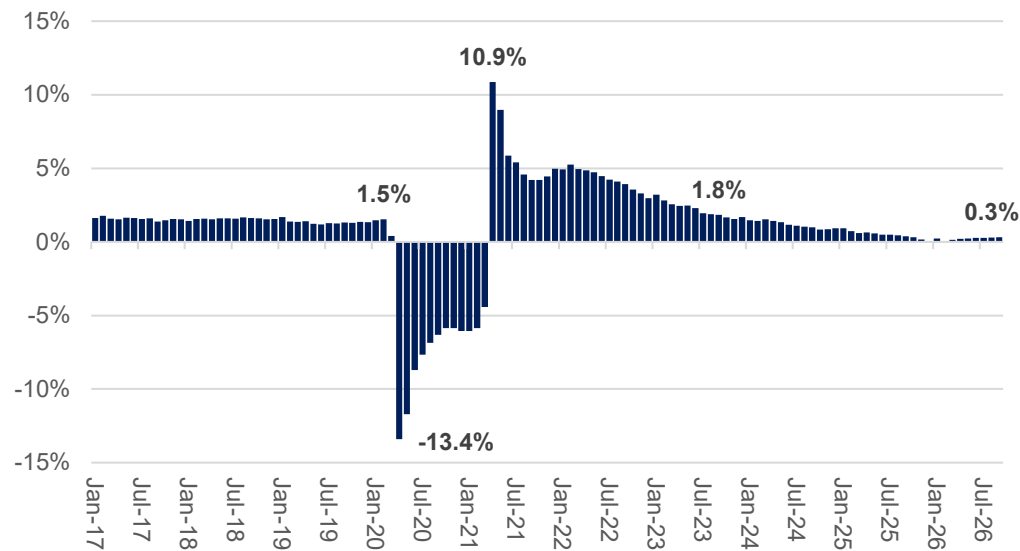
Source: U.S. Bureau of Labor Statistics, <https://bls.gov>; Seasonally adjusted

Employment

Job Creation Slows as Employers Remain Cautious

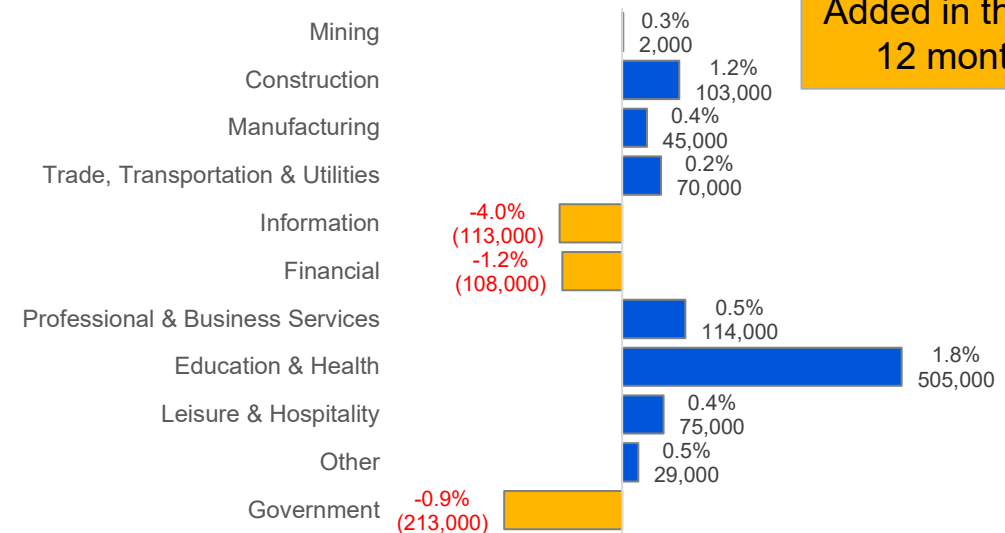
Employment growth has slowed significantly, but the labor market remains stable. Payroll gains totaled only 29,000 in September, while revisions reduced reported employment growth by a combined 60,000 for July and August. For office occupiers, slower employment growth is likely to limit large-scale expansion and reinforce the focus on utilization, right-sizing, and portfolio efficiency. Demand remains strongest in healthcare and selected professional services.

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)



509 K JOBS
Added in the last
12 months

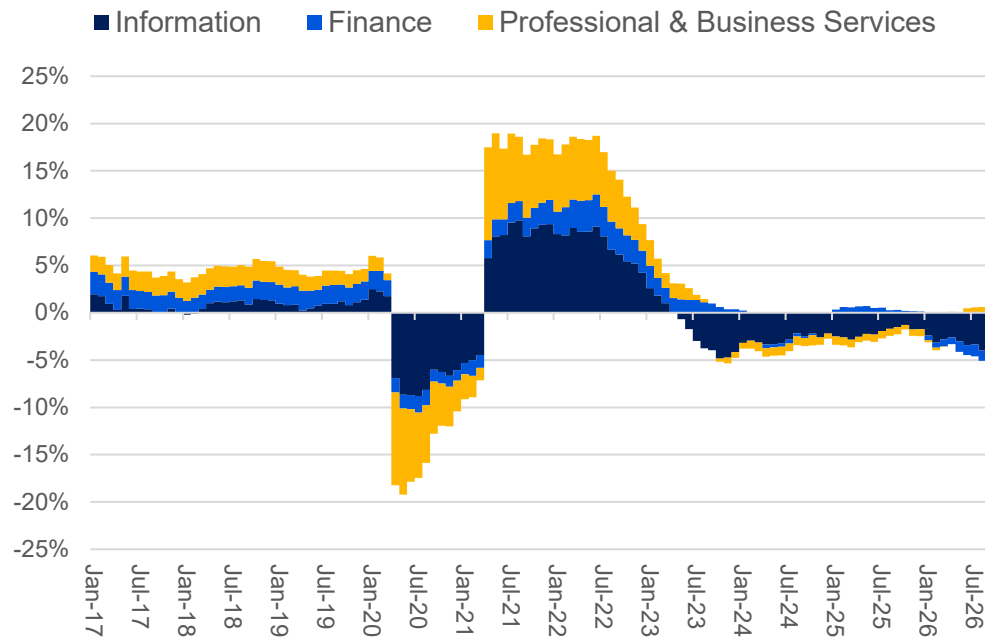
Source: U.S. Bureau of Labor Statistics, <https://bls.gov>, Not seasonally adjusted

Employment

Office Employment Stalls While Industrial Jobs Hold Steady

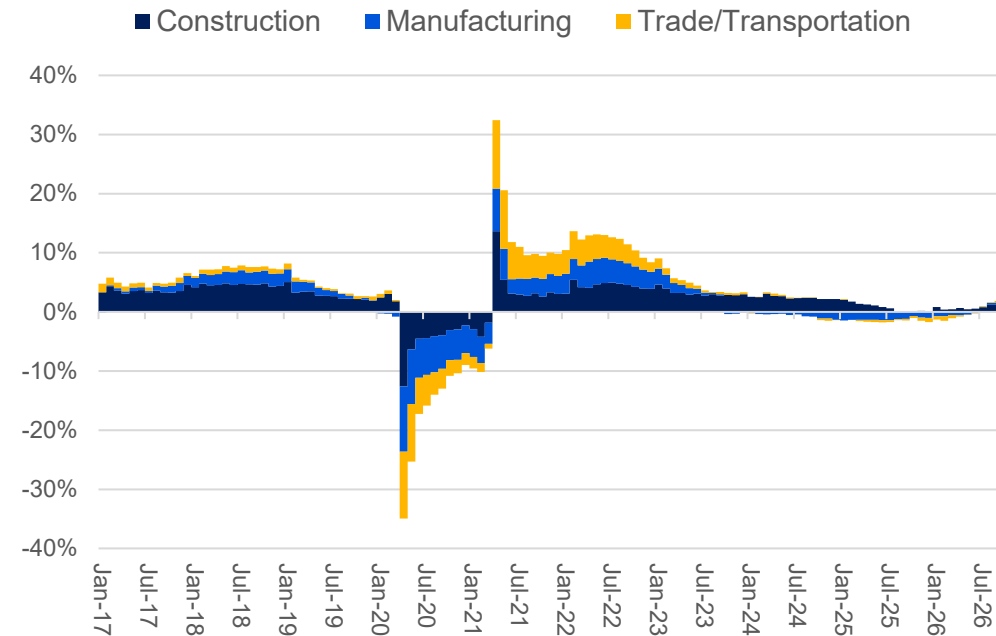
Office-occupying employment remains largely flat, with little recent growth in information, finance, and professional and business services. Industrial-related employment has remained mixed, with modest gains in manufacturing and construction offset by limited growth in transportation and warehousing. Together, the trends favor selective expansion and continued portfolio discipline rather than broad-based real estate growth.

Office-Occupying Jobs (12-Month Change)



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

Industrial-Related Jobs (12-Month Change)



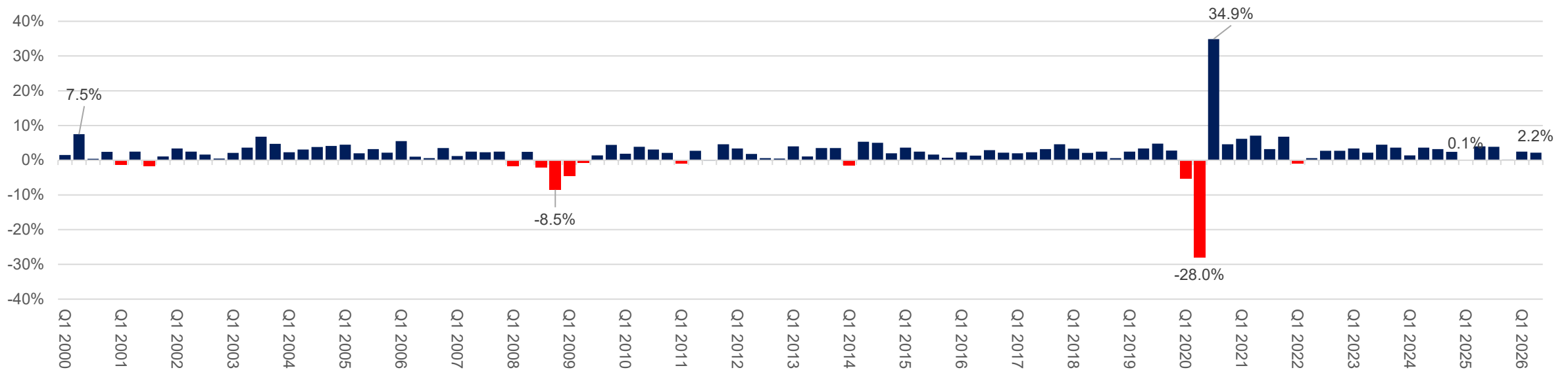
Source: U.S. Bureau of Labor Statistics, <https://bls.gov>, Not seasonally adjusted

GDP

Economic Growth Holds Up as Consumer Spending and Investment Support Expansion

The U.S. economy expanded at a 2.2 percent annualized rate in the second quarter of 2026, following a revised 2.5 percent increase in the first quarter. Growth was supported by consumer spending, investment, and exports, while higher imports partially offset the gain. The economy remains resilient, but the modest deceleration from the first quarter and limited labor market growth point to a more measured expansion. For occupiers, positive GDP growth supports continued operating demand while reinforcing disciplined capital allocation and selective expansion.

Real GDP Percent Change from Preceding Quarter: Q2 2026



Source [Real Gross Domestic Product \(A191RL1Q225SBEA\)](https://fred.stlouisfed.org/series/A191RL1Q225SBEA) | FRED | St. Louis Fed ([stlouisfed.org](https://fred.stlouisfed.org))

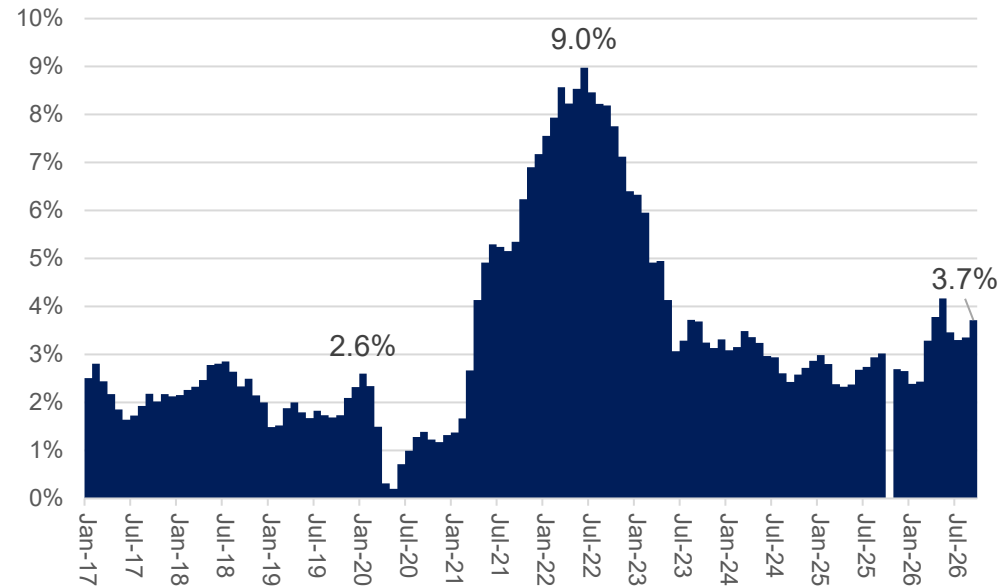
Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/A191RL1Q225SBEA>, October 15, 2026. U.S. Bureau of Economic Analysis, GDP—Third Estimate, Q2 2026, released September 30, 2026.

Inflation

Inflation Reaccelerates as Energy Costs Push Prices Higher

The latest BLS release shows that consumer prices increased 0.6 percent in September after rising 0.4 percent in August, bringing annual inflation to 3.7 percent. Energy costs drove more than half of the monthly increase, with gasoline prices rising 9.1 percent, while core inflation increased 2.6 percent over the past year. The report suggests that inflation remains uneven and above the Federal Reserve's 2 percent target. For occupiers, renewed price pressure reinforces the need for disciplined operating budgets, careful evaluation of occupancy costs, and selective capital commitments.

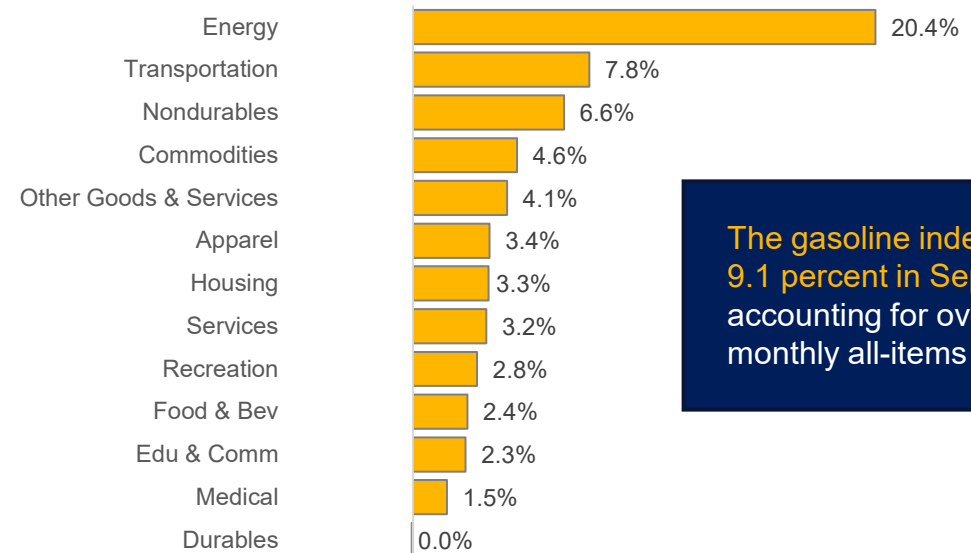
Consumer Price Index (12-Month Change)



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

Note: Seasonally adjusted, Data pulled October 20, 2026. Data not reported in September 2025

Consumer Price Index by Sector (12-Month Change)



The gasoline index rose 9.1 percent in September, accounting for over half of the monthly all-items increase

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

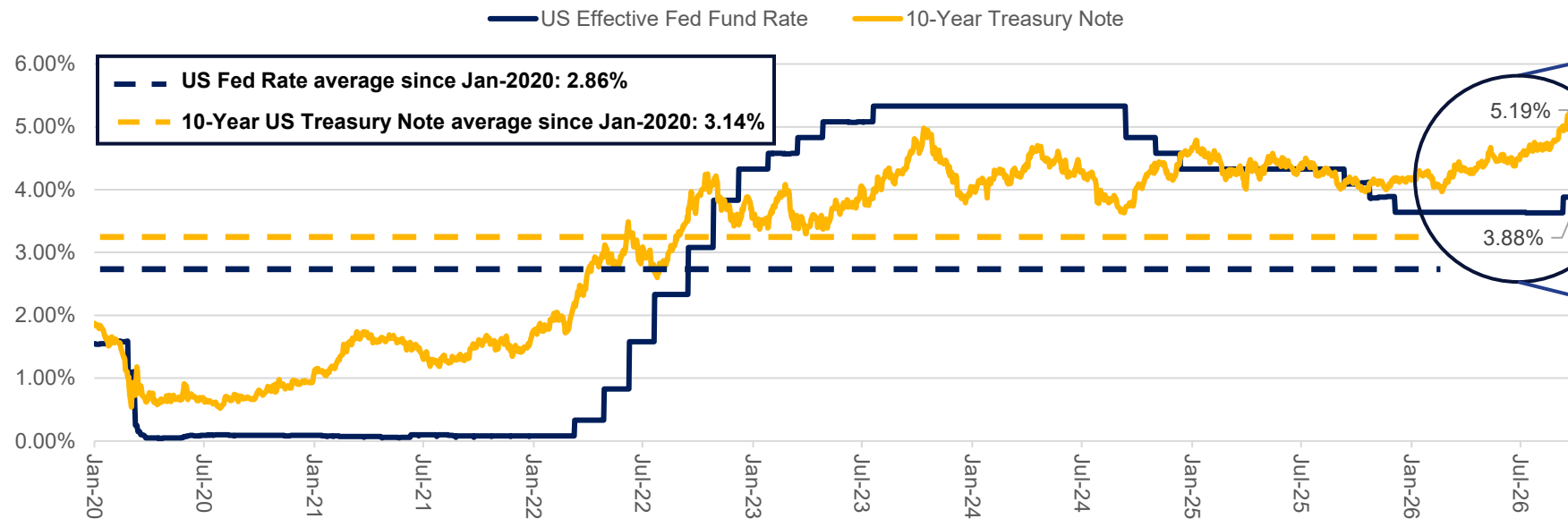
Note: Seasonally adjusted, Data pulled October 20, 2026

Monetary Policy

Fed Raises Rates as Inflation Remains Elevated and Long-Term Yields Stay High

In September, the Federal Reserve raised the federal funds target range by 25 basis points to 3.75–4.00 percent, its first increase since 2023. The decision reflects a resilient economy but renewed concern about inflation, which remains above the Fed's 2 percent target. Long-term borrowing costs remain substantially higher than the short-term policy rate, with the 10-year Treasury yield near 5.2 percent compared with an effective funds rate of approximately 3.9 percent as of mid-October. For occupiers, the spread reinforces that lower short-term rates may not translate quickly into materially lower real estate financing or capital costs.

US Effective Fed Fund Rate & 10-Year Treasury Note



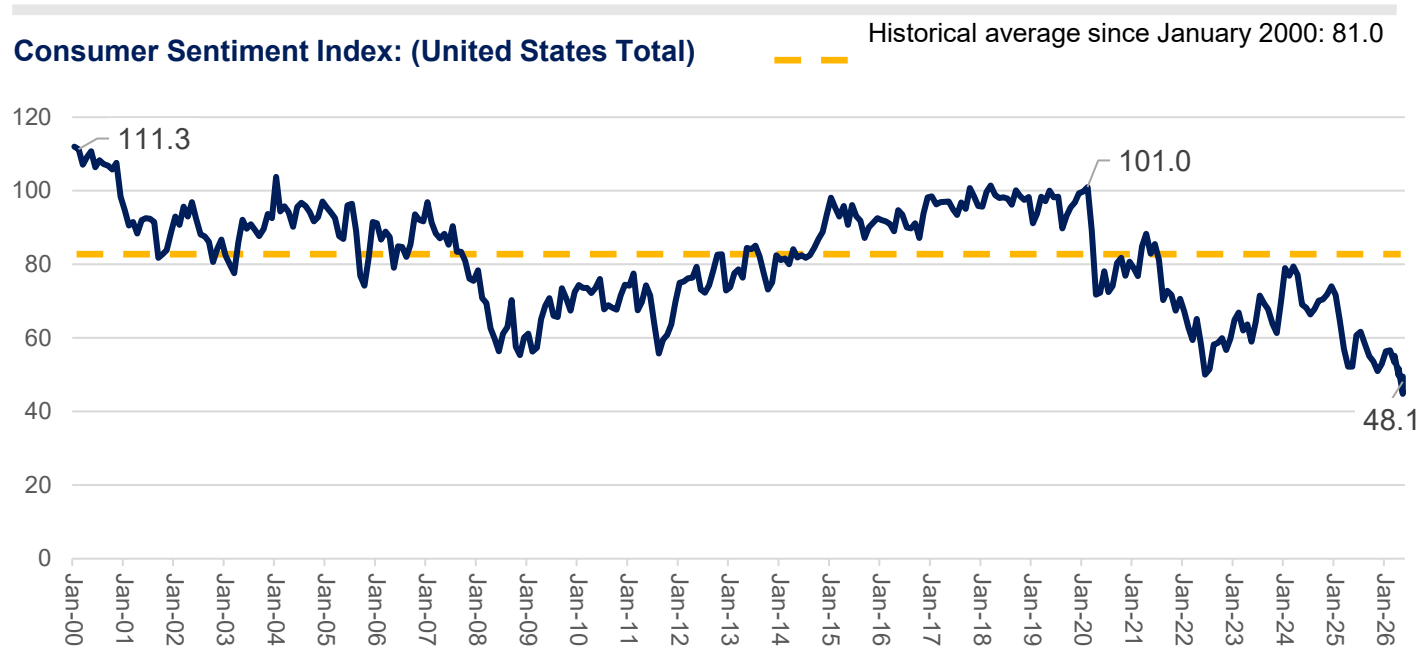
10-Year Treasury Passes US Federal Reserve Rate

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 Remains Near Historic Lows as Cost Concerns Persist

Consumer sentiment weakened during the third quarter, with the University of Michigan's index falling to 48.1 in September. The reading was down from 51.7 in August and 15 percent below January, as households remained concerned about high prices, fuel costs, and the economic outlook. Long-term inflation expectations also increased to 3.4 percent, above the range recorded throughout 2024. For occupiers, persistently weak sentiment supports a cautious view of consumer-facing demand and reinforces the need for disciplined expansion, location decisions, and operating costs.



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 through September 2026 (UMCSENT). Data pulled October 20, 2026

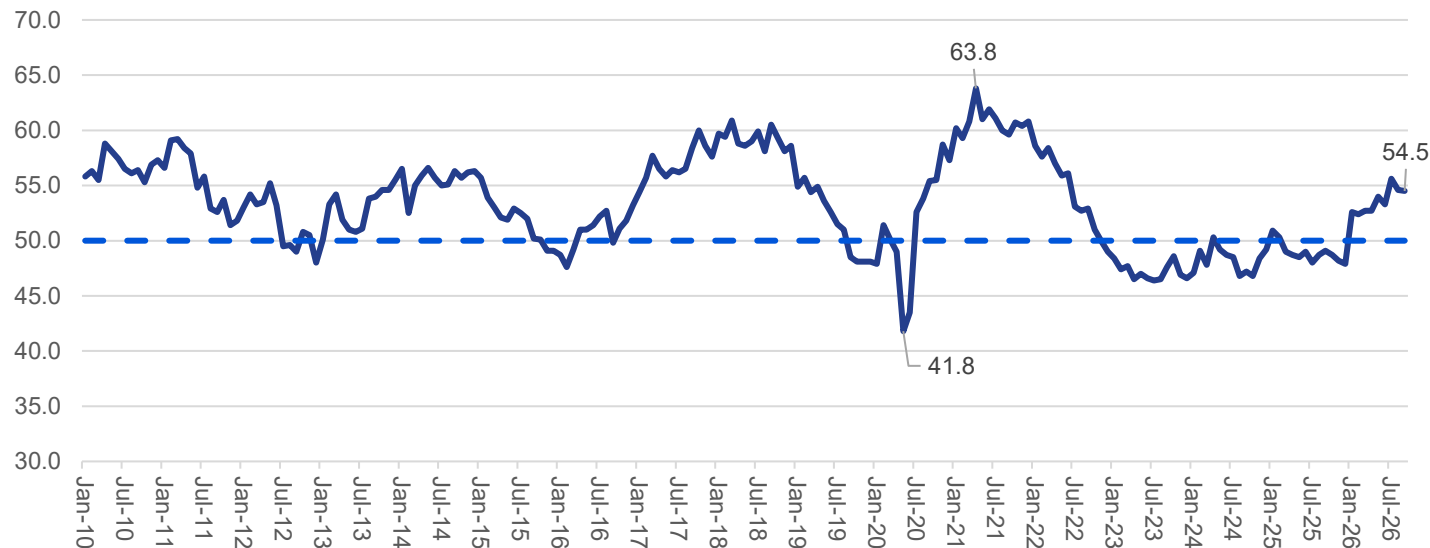
Consumers

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 September registered 54.5, marking the ninth consecutive month of expansion. New orders and backlogs strengthened, while the employment index moved further into expansion territory. The improvement in demand was accompanied by a sharp increase in the Prices Index, which rose to 77.9, indicating renewed pressure on materials and operating costs. For industrial occupiers, the data support continued demand for production and specialized facilities, but elevated input costs and policy uncertainty may encourage more selective capital investment and greater flexibility in facility commitments.

ISM Manufacturing Index: (United States Total)

— A score of 50 indicates that the manufacturing sector is generally expanding



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.

Source: [Institute of Supply Management](https://www.ism-usa.org/)

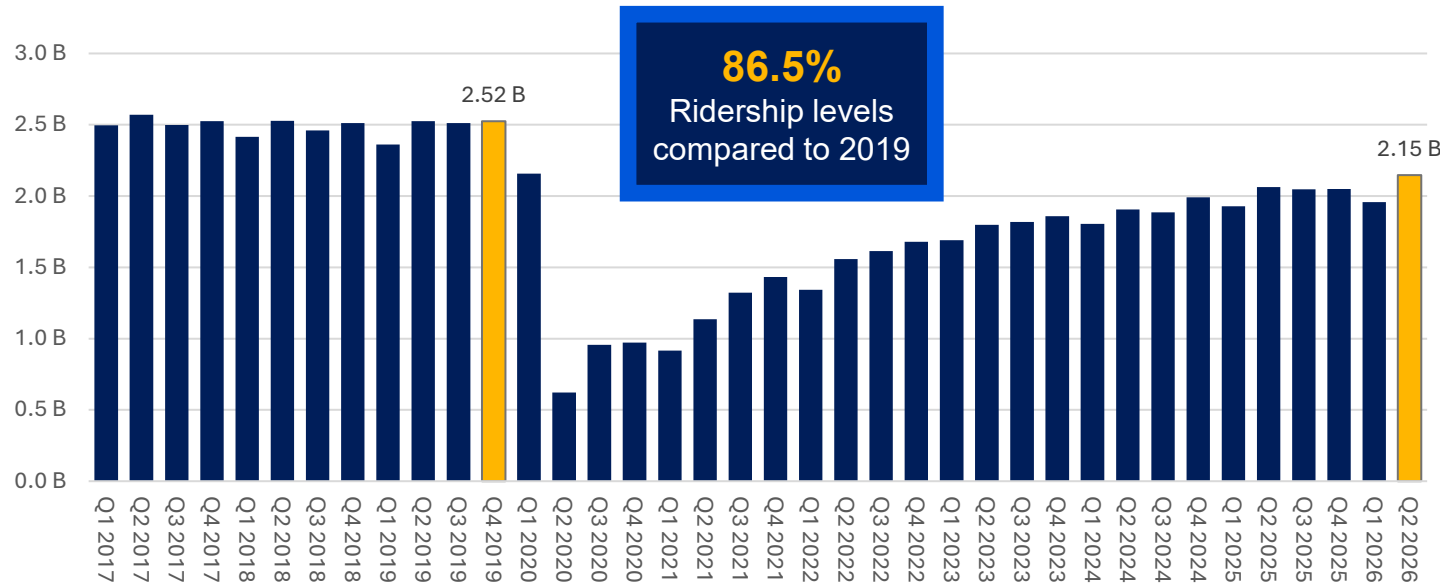
Note: Data through September 2026

Public Transit

Public Transit Ridership Improves in the Second Quarter, But Below Pre-Pandemic Levels

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 increased to 2.15 billion in the second quarter, the highest level since the pandemic. Based on several additional indicators, the momentum for returning to office work seems to have stabilized. For occupiers, transit access remains an important consideration for talent access and office location decisions, but transit recovery alone should not be treated as a proxy for office demand.

Public Transit Ridership: (United States)



Public Transit Still Lags Historic Norms

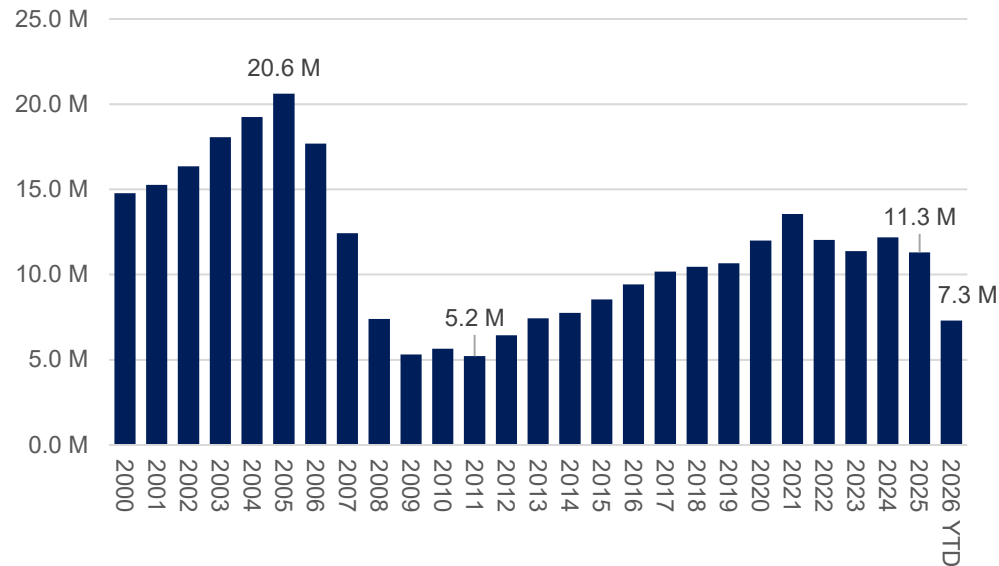
Public transportation has been consistently reliable since the beginning of the century. In 2008, rising gas prices led to a temporary increase in public ridership, but it quickly returned to historic levels. During the first year of the declared pandemic, ridership was cut in half, experiencing a 52.8 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 second quarter of 2026, public transportation ridership had 86.5 percent of the 2019 average, the last full year before the pandemic began.

Housing

Housing Activity Softens as Affordability and Financing Costs Constrain Demand

Housing activity weakened at the end of the third quarter as builders continued to navigate elevated financing costs and affordability challenges. September housing starts declined 5.2 percent from August and were 7.4 percent below the prior year. At the same time, new-home sales prices have begun to adjust, with the median price down 5.8 percent and the average price down 8.8 percent year-over-year in August. The combination of slower starts and lower prices suggests that builders are using price and other incentives to support demand, but affordability remains a significant constraint.

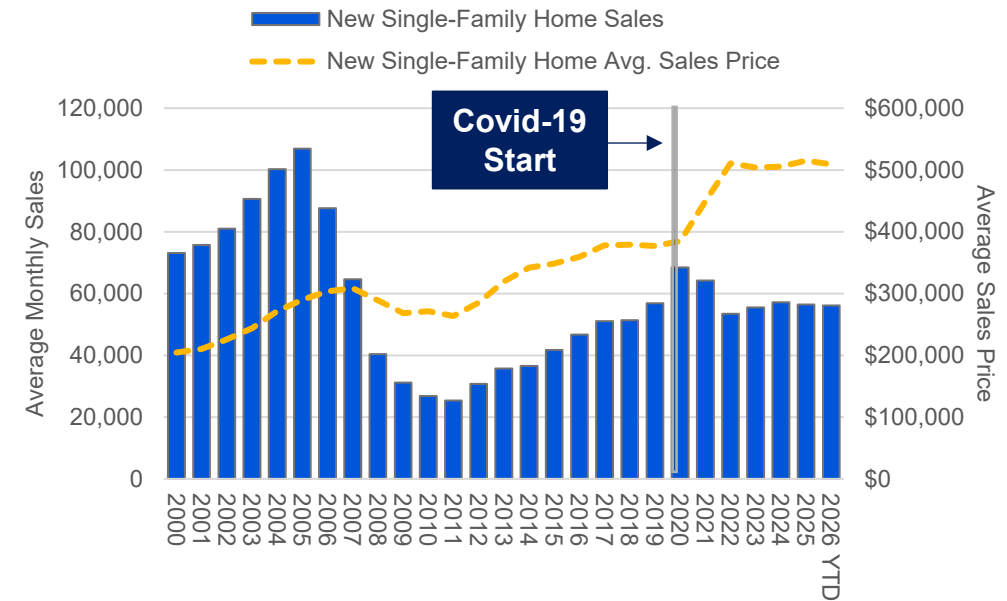
Single-Family Residential Housing Starts



Source: U.S. Census Bureau, <https://census.gov/construction>

*Note: Data through September 2026

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



Source: U.S. Census Bureau, <https://census.gov/construction>

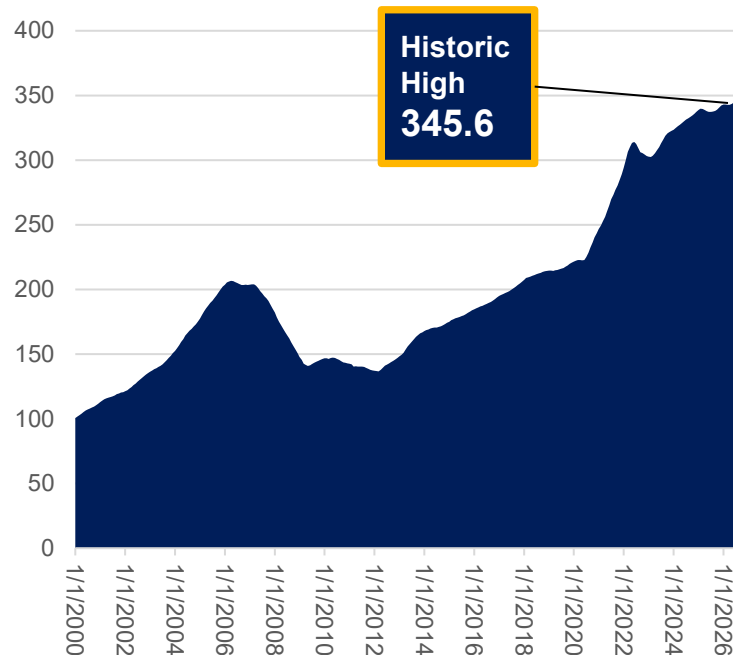
Note: Data through September 2026

Home Price Index

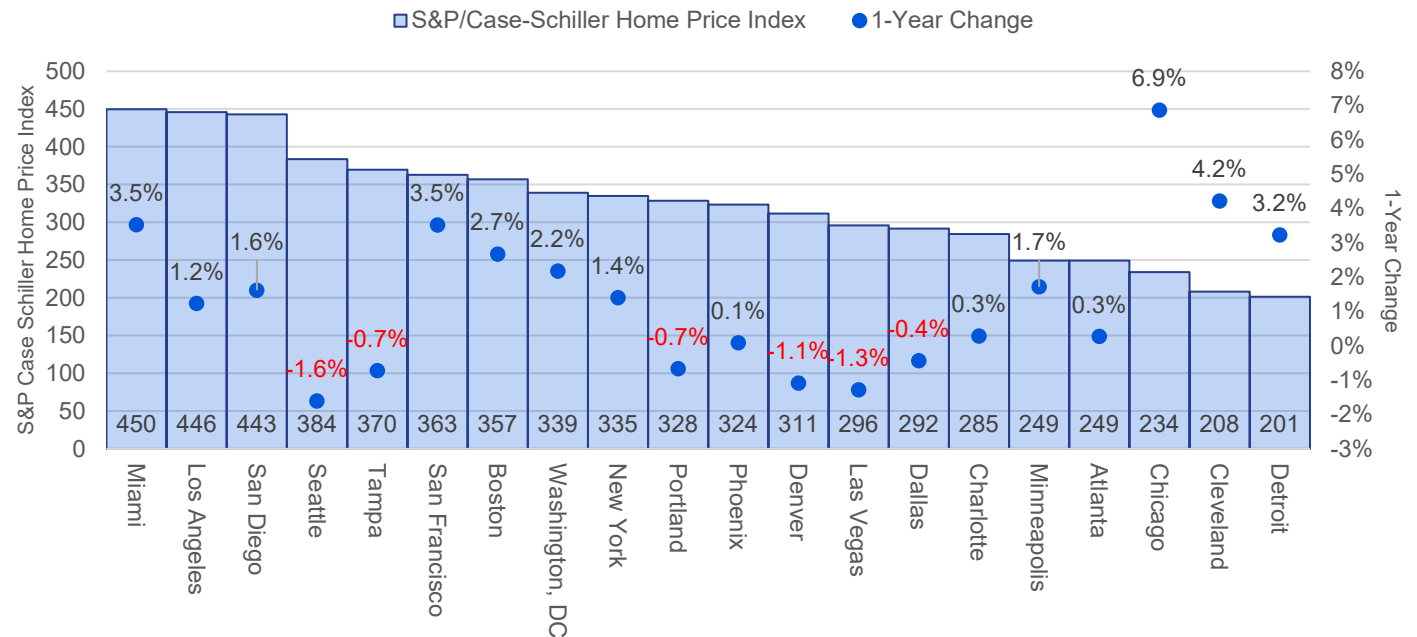
S&P Cotality Case-Shiller Home Price Index Growth Remains Positive as Regional Differences Widen

The Case-Shiller Index is an economic indicator that measures the monthly change in the value of the U.S. single-family home market. The latest S&P Cotality Case-Shiller data show national home prices increased 1.9 percent year-over-year, while the 20-City Composite rose 2.5 percent. Price growth remains positive, but monthly momentum is modest and regional performance has diverged sharply. Chicago, New York, and Cleveland posted the strongest annual gains, while Seattle and several Sun Belt markets recorded declines. The data suggest that housing conditions are becoming increasingly market-specific rather than moving in a uniform direction. For occupiers, these differences affect labor costs, employee housing affordability, and the relative attractiveness of competing locations.

Home Price Index: 20-City Average



S&P Cotality Case-Shiller Home Price Index



Office Trends



Office Recovery Becomes More Selective
as Demand Shifts Toward Quality

The U.S. office market showed measured improvement through the third quarter of 2026. Class A absorption remained positive, direct vacancy continued to decline, and new construction stayed limited. Demand remains concentrated in higher-quality buildings that support collaboration, employee experience, and long-term workplace strategies.

The recovery remains uneven. Class B space continues to face weaker absorption and more persistent vacancy, while tenants are taking smaller footprints and taking longer to finalize decisions. For occupiers, favorable leasing conditions create opportunities to upgrade or restructure portfolios, although competition is increasing for the best buildings and locations.

Office Tenant View

- Evaluate Class A upgrades while availability remains elevated and landlords continue to compete for tenants.
- Use persistent Class B vacancy and weaker absorption to negotiate renewals, rightsizing, relocations, and improved economics.
- Measure office utilization before committing to space, and direct investment toward layouts, amenities, and technology that support collaboration and attendance.

Flight-to-Quality

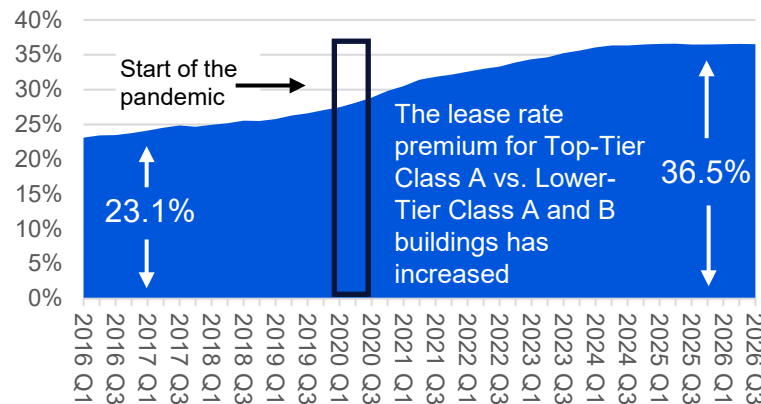
Top-Tier Buildings Outperform Lower-Tier Buildings in Large Office Market Urban Cores

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.

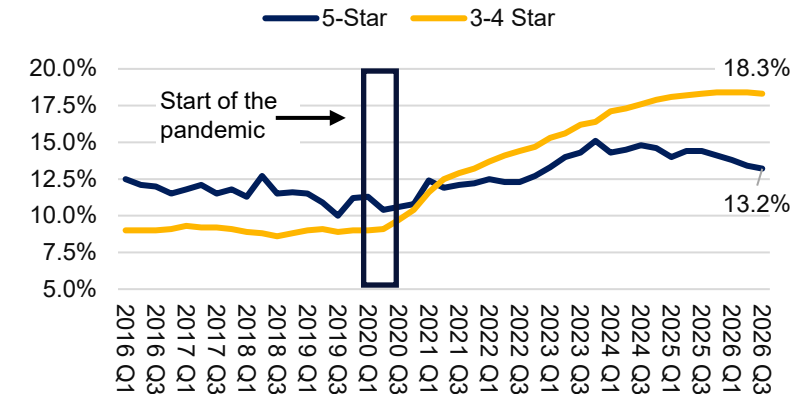
The gap between lease rates and direct vacancy rates for Top-Tier Class A office buildings compared to Lower-Tier Class A and Class B buildings is widening. **Since the beginning of Q3 2020, Top-Tier spaces in the central business districts (CBDs) of major office markets have recorded a positive net absorption of 34.7 million square feet. In contrast, Lower-Tier buildings have seen a negative net absorption of 130.7 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 through Q3 2026

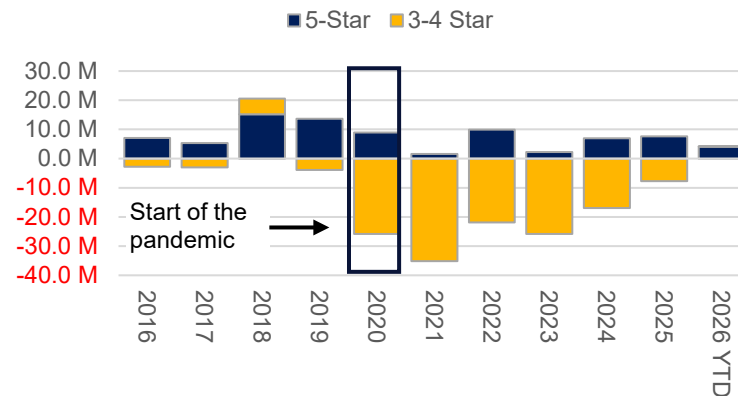
Lease Spread - Percentage



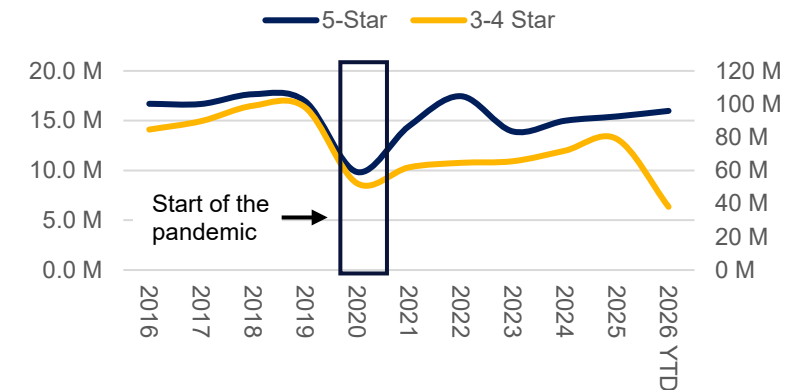
Direct Vacancy



Net Absorption



Leasing Activity – Number of Signed Leases



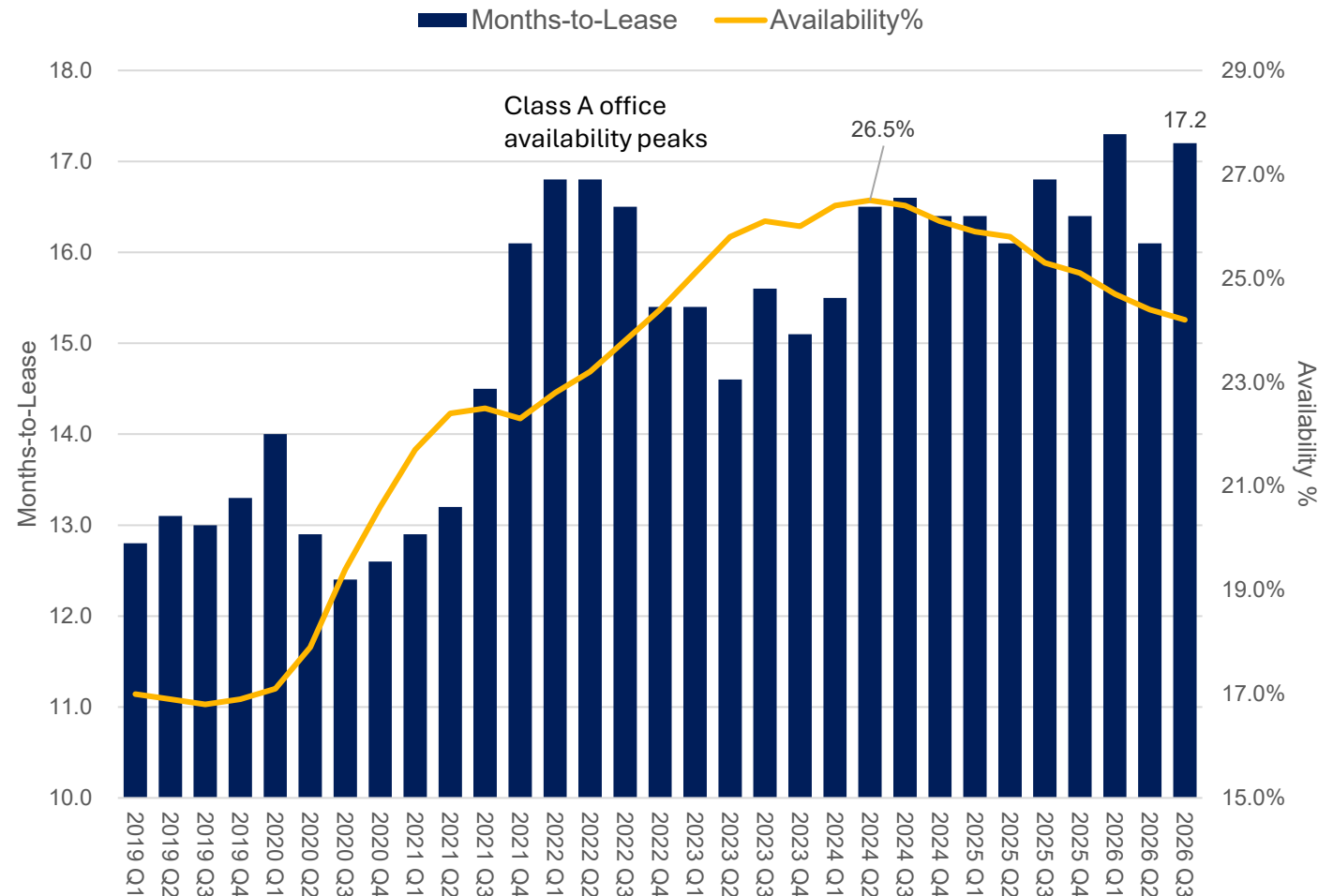
Class A Availability vs. Months-to-Lease

Class A Availability is Falling, But Leasing Times Remain Elevated

Class A availability has declined from its 2024 peak, but the time required to lease office space remains well above pre-pandemic levels. This divergence suggests that improving availability does not yet reflect a fully balanced market, as demand remains selective and landlords continue to face challenges converting available space into completed leases. For occupiers, the market still offers negotiating leverage, particularly where buildings require significant capital investment or where landlords face pressure to demonstrate leasing progress. Longer leasing timelines may reflect more selective tenant decision-making and additional due diligence related to building quality, capital needs, and landlord financial stability.

	2019 Average	Q3 2026	Change
Average time to lease	13.1 months	17.2 months	+4.1 months
Class A availability	16.9%	24.2%	+7.3 percentage points

Although availability has declined from its 2024 peak, it remains well above pre-pandemic levels, while the average time to lease has lengthened by more than four months.

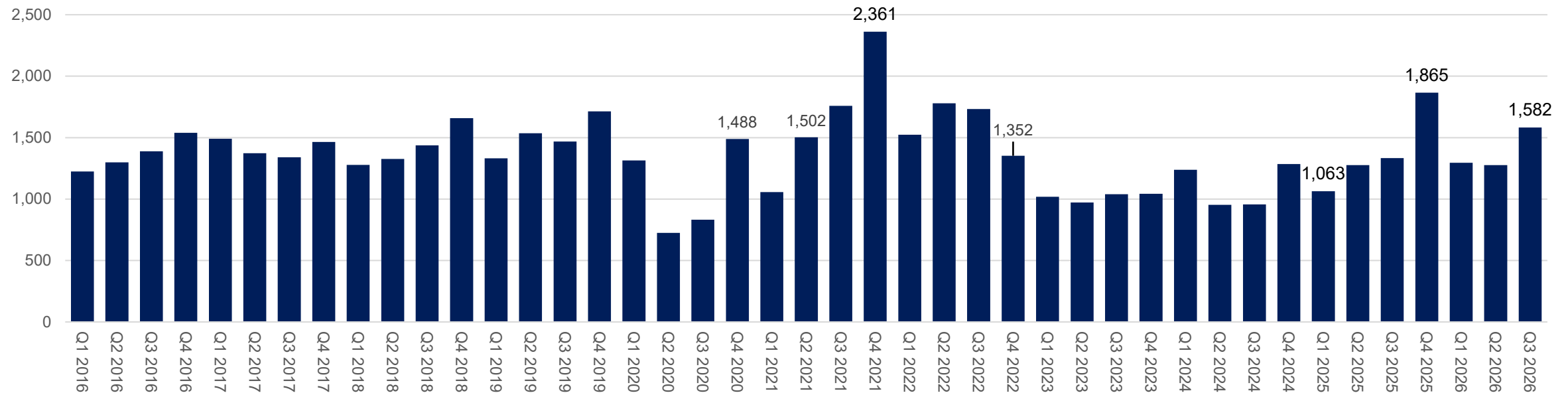


Capital Markets

Sales Velocity Jumps in the Third Quarter, But Remains Selective

Office sales activity recovered in the third quarter, rising to 1,582 transactions from 1,276 in the second quarter. Although activity remains below the fourth-quarter 2025 peak of more than 1,800 sales, the Q3 rebound suggests that buyers and sellers are gradually reaching greater agreement on pricing and property quality. The recovery remains selective, with capital concentrated in buildings that have stronger leasing prospects, better locations, or clearer repositioning potential. For occupiers, the return of transaction activity does not necessarily signal a broad recovery in office values, but it may create more opportunities to evaluate ownership changes, recapitalizations, and landlord financial stability.

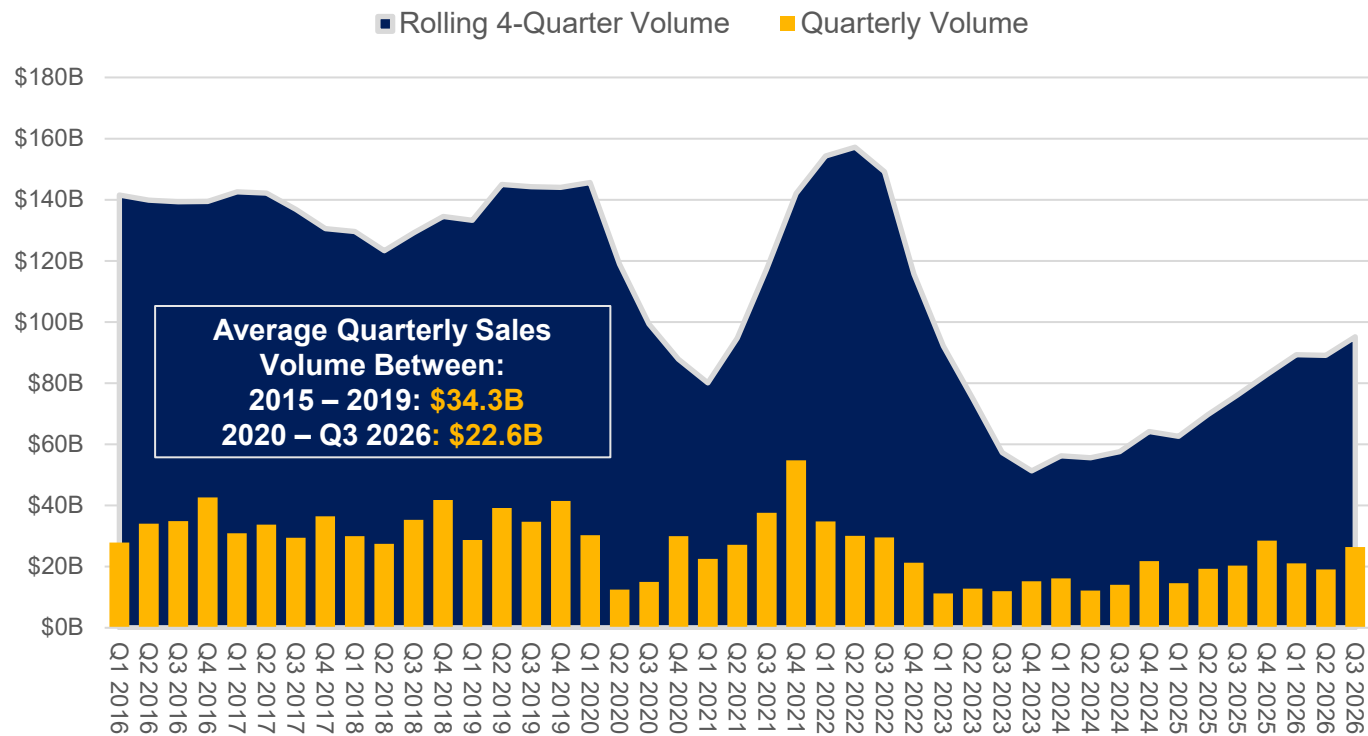
Office Sales Velocity: (United States)



Capital Markets

Office Sales Volume Recovers in Q3, But Remains Well Below Pre-Pandemic Levels

Office Sales Volume: (United States)

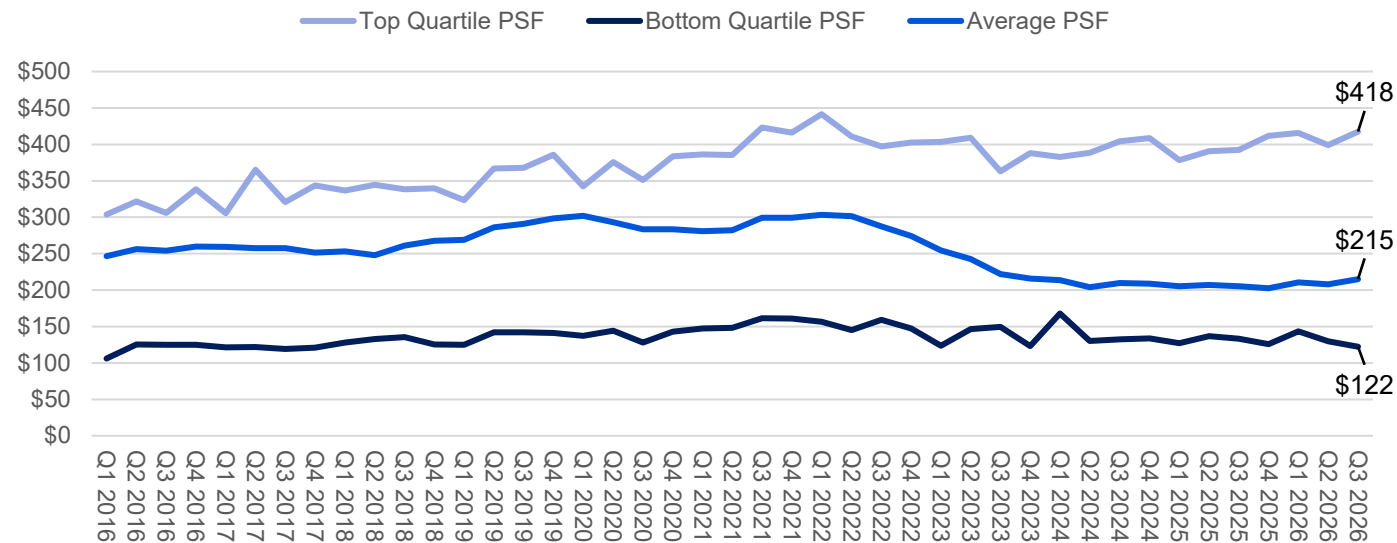


Office sales volume improved in the third quarter after slowing during the first half of 2026. However, transaction activity remains well below historical norms. The reduced level of activity indicates that price discovery remains limited and that investors continue to be selective about asset quality, leasing performance, and future capital needs. For occupiers, **limited transaction volume makes ownership changes and landlord financial conditions important issues to monitor during lease negotiations and renewals.**

Capital Markets

Office Pricing Remains Bifurcated as High-Quality Assets Hold Their Value

Average Office Sale Price/SF (United States)

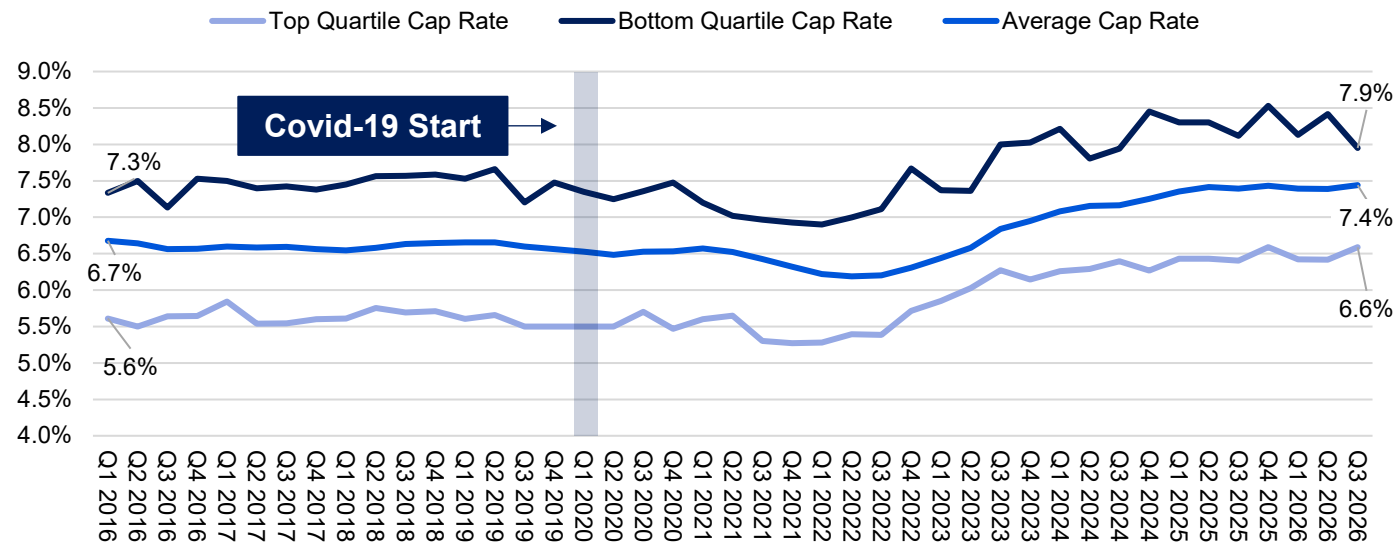


Average sales prices have remained relatively flat since early 2024, but the market continues to separate sharply by asset quality. In the third quarter, top-quartile office properties traded at approximately \$418 per square foot, compared with \$122 per square foot for bottom-quartile assets. The spread reflects continued investor preference for buildings with strong locations, amenities, tenant demand, and clearer leasing prospects. **For occupiers, lower pricing in weaker assets may create opportunities, but building quality, required capital improvements, and landlord financial capacity remain critical considerations.**

Capital Markets

Office Cap Rates Remain Elevated as Investors Price in Asset Risk

Office Cap Rates (United States)



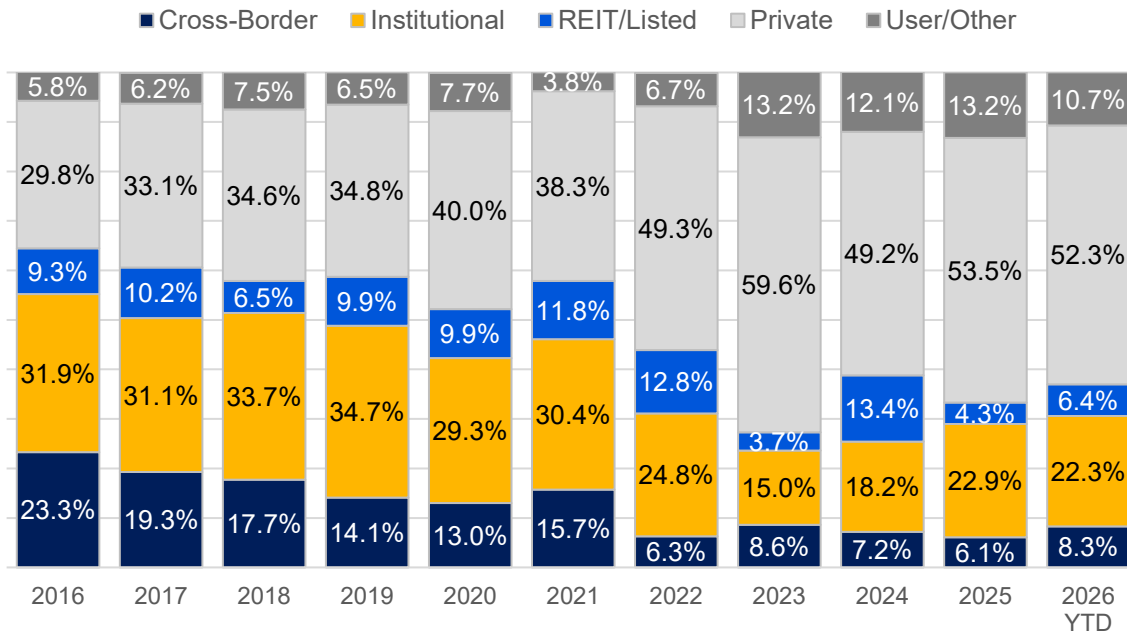
Despite sales volume trending higher, **cap rates have increased over the past four years.** Currently, the average cap rate for office properties stands at 7.4 percent, near the highest level in the past decade. While prices per square foot for top-tier office assets have remained stable, cap rates are now above 6.5 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. For occupiers, elevated cap rates increase the importance of monitoring landlord financing, ownership changes, and capital capacity, particularly when negotiating renewals or committing to long-term leases.

Capital Markets

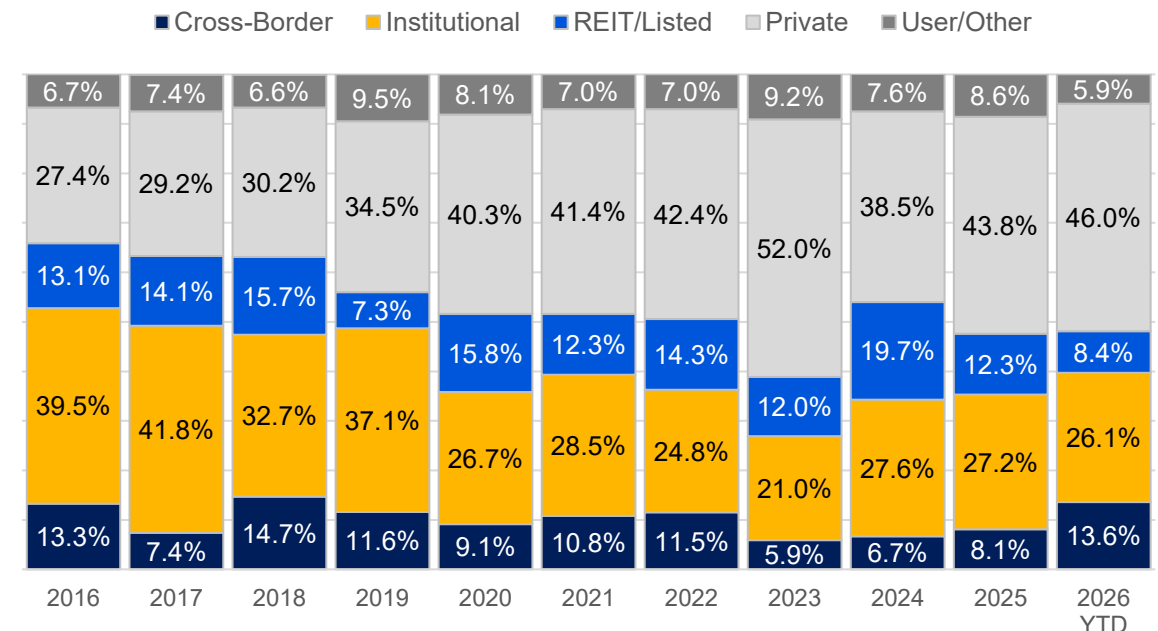
Private Capital Dominates Office Transactions as Institutional Activity Retreats

Private investors have become the most active participants in the office market, accounting for the largest share of both buying and selling activity in 2026 year-to-date. Institutional investors have maintained a smaller role than in the years before the market correction, while REITs, listed companies, and cross-border investors remain selective. The shift reflects greater participation from investors willing to underwrite leasing risk, capital needs, and potential repositioning opportunities. For occupiers, changes in ownership can affect landlord priorities, capital investment, operating standards, and long-term lease flexibility.

Office Buyer: (United States)



Office Seller: (United States)

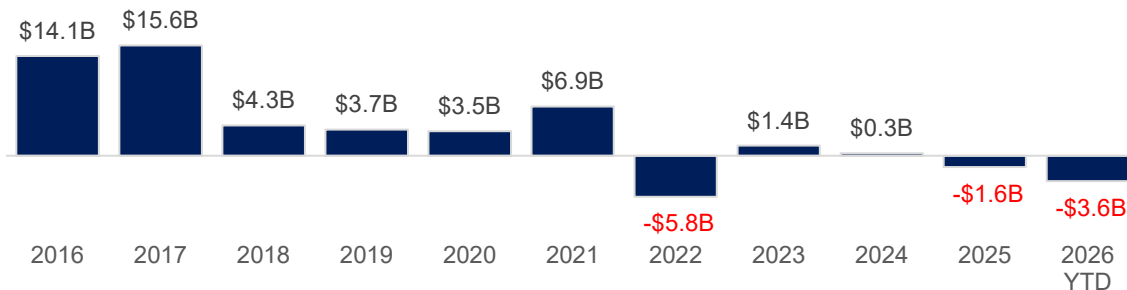


Capital Markets

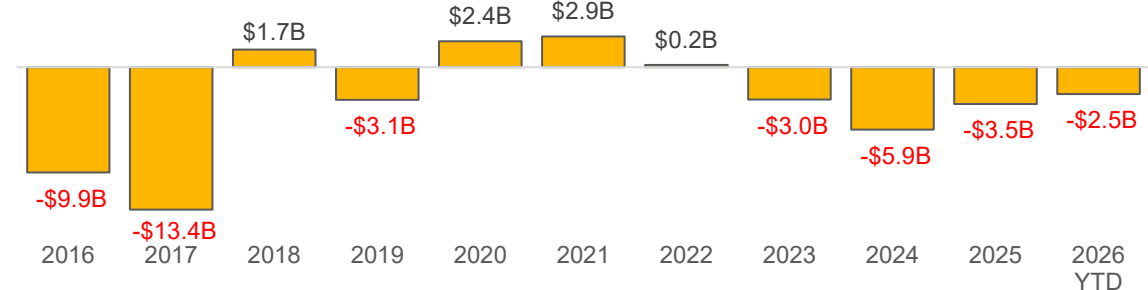
Private Investors Remain the Only Net Buyers of Office Assets

Office capital flows represent whether companies netted more acquisitions or dispositions by year. Private investors were the only major investor group with positive net acquisitions in 2026 year-to-date, adding approximately \$4.8 billion more in assets than they sold. Other major investor groups have been net sellers over the past several years. The pattern points to an office recovery led by opportunistic private capital rather than a broad return of institutional demand. For occupiers, differences in ownership strategy and hold periods may affect landlord investment decisions, building operations, and long-term lease flexibility.

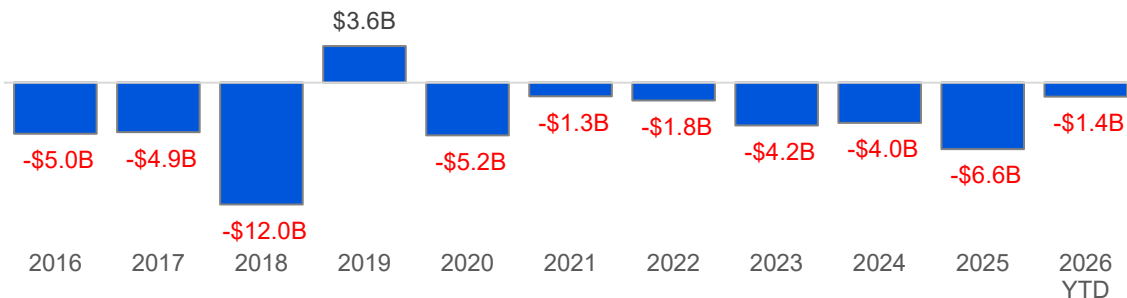
Cross-Border



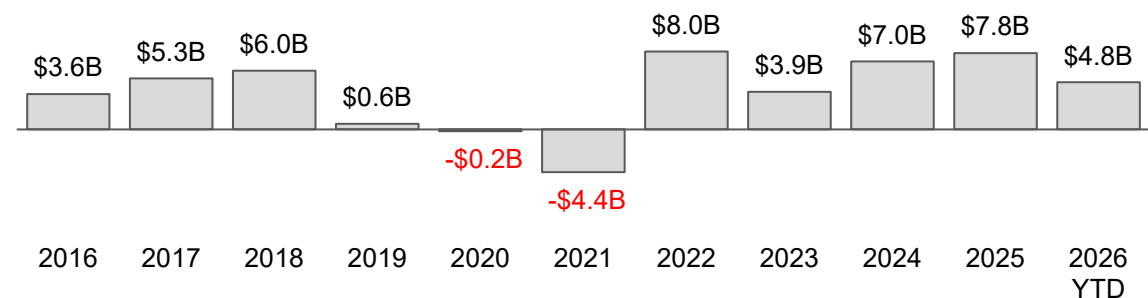
Institutional



REIT/Listed



Private

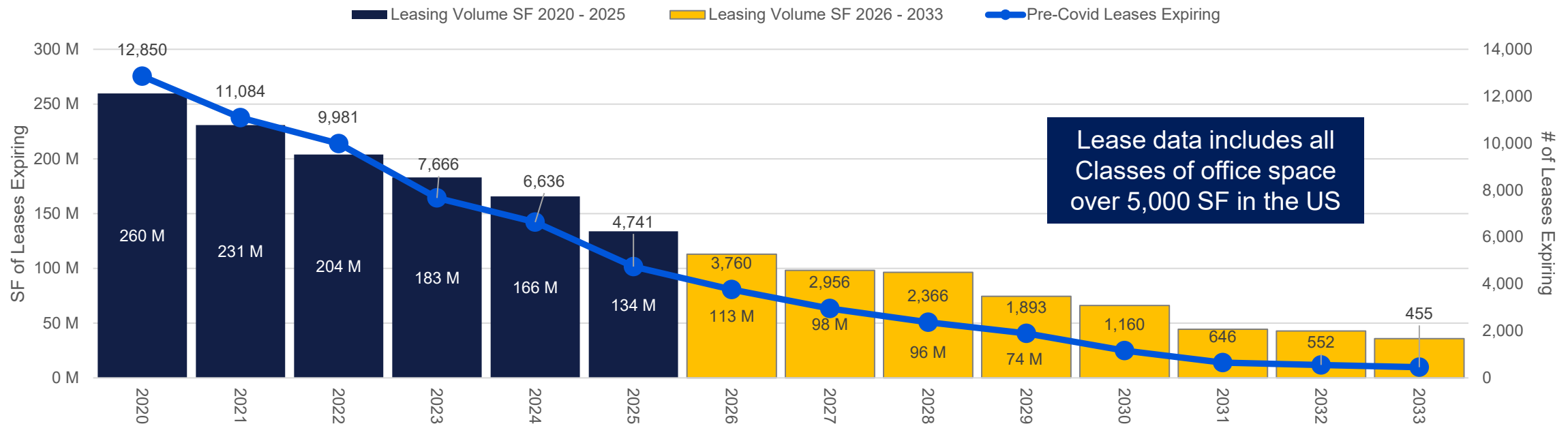


Lease Trends

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.

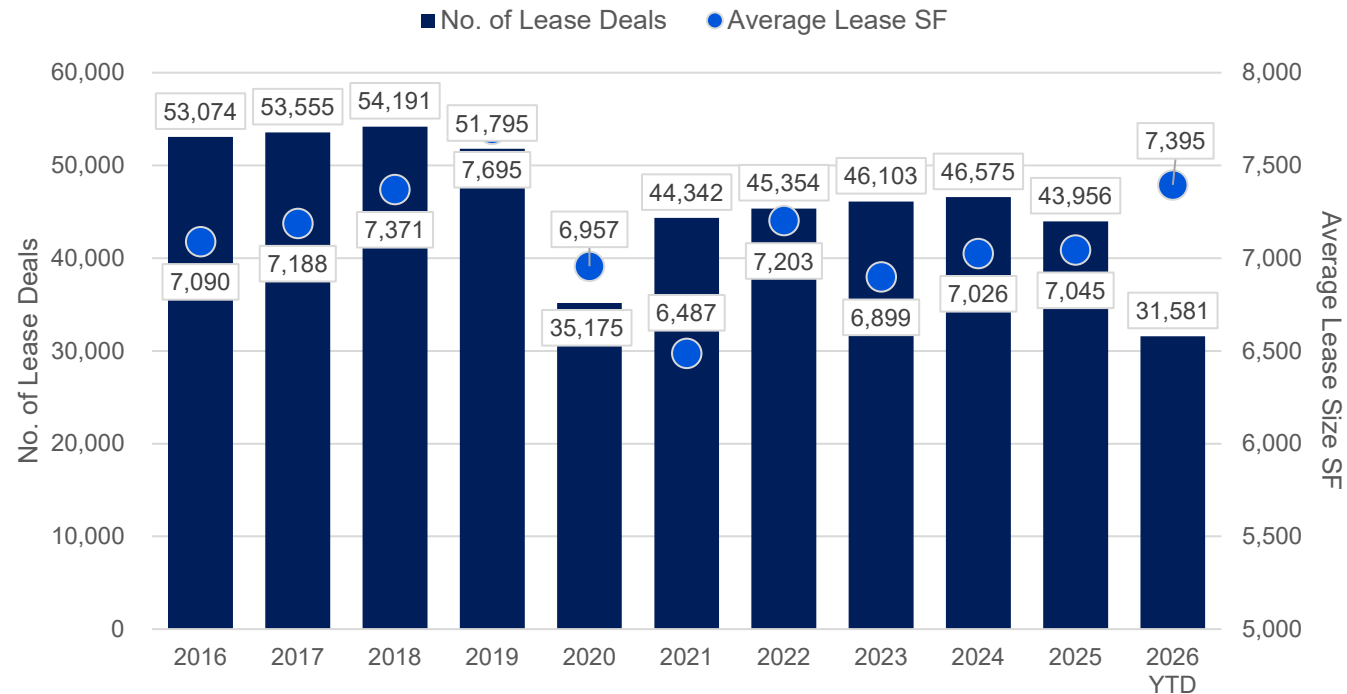
Leases Signed Prior to 2020 and Expirations by Year



Leasing Trends

Leasing Activity Holds Up as Occupier Footprints Shrink

Historic Office Activity – Average Deal Size



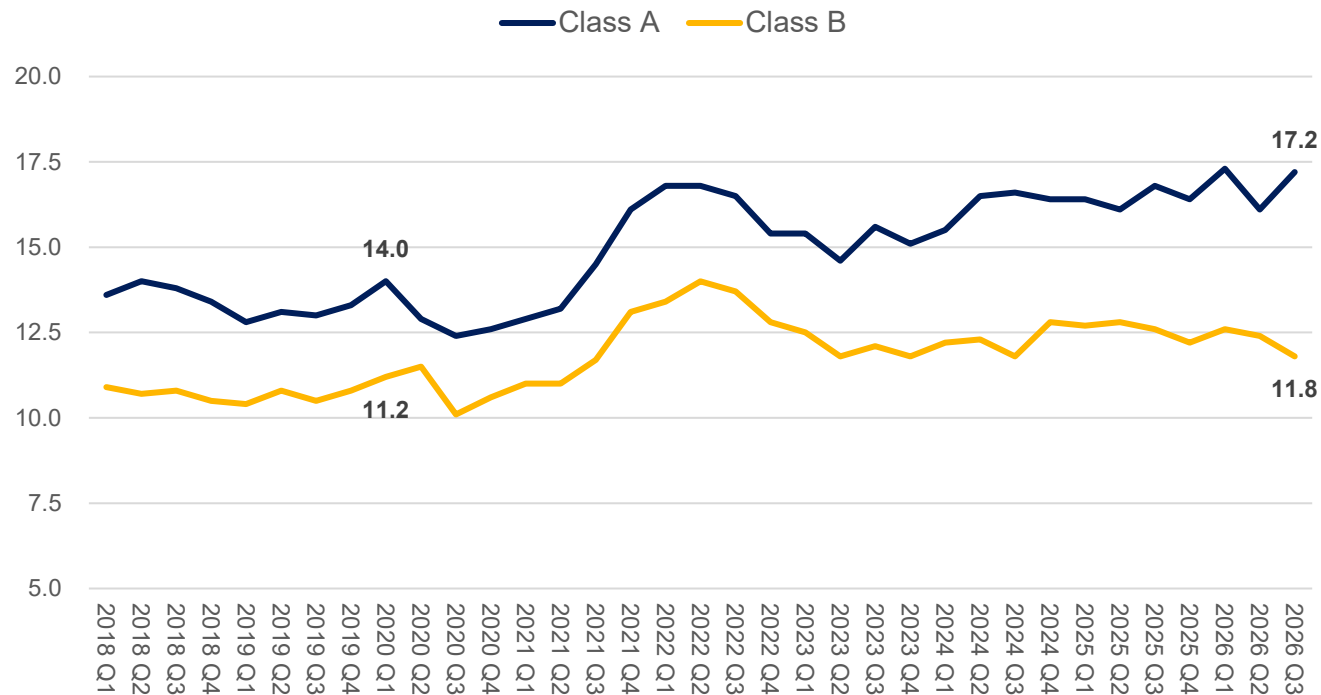
Office leasing activity remains relatively resilient, but occupiers are signing smaller commitments.

Average lease size in 2025 was 8.5 percent below 2019, while the number of completed deals was 15.1 percent lower. The pattern reinforces continued portfolio discipline and demand for flexible space commitments.

Leasing Trends

Class A Leasing Times Remain Elevated While Class B Stabilizes

Months-To-Lease

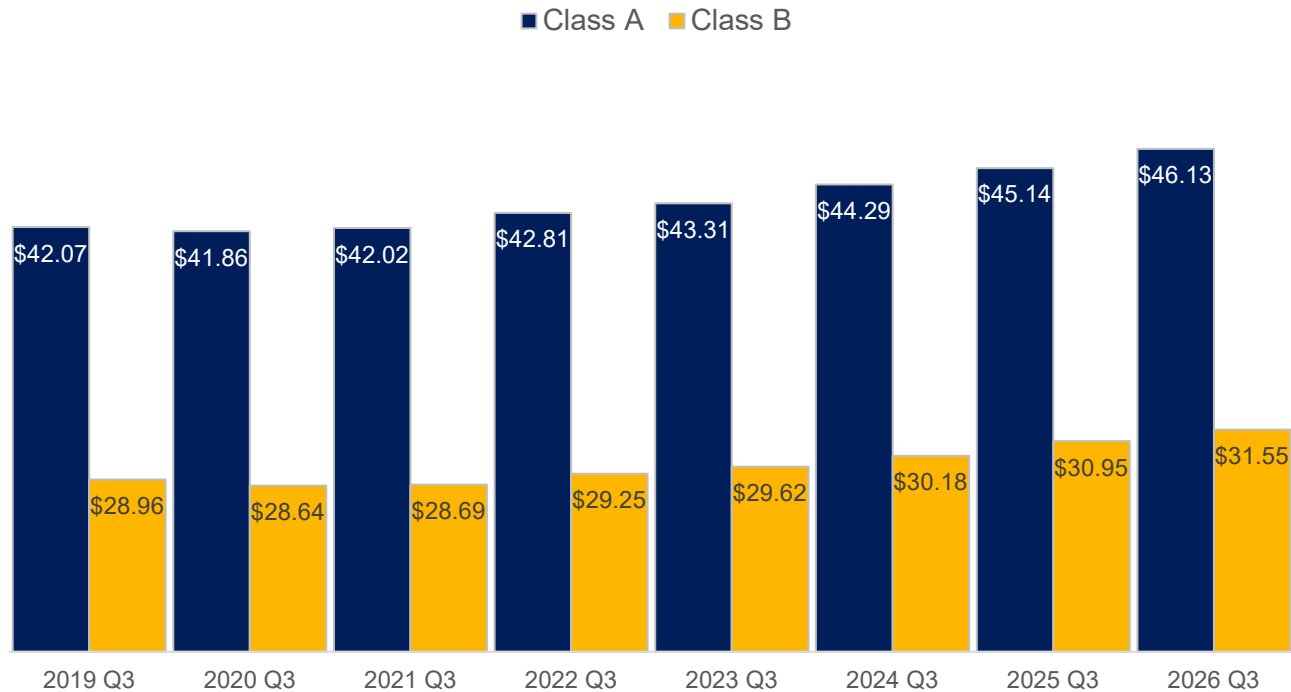


Class A office space now takes 17.2 months to lease, well above the 14.0-month pre-pandemic level. Class B leasing times have improved to 11.8 months but remain above historical norms. **The divergence suggests that tenants remain selective even as availability improves**, with building quality, capital needs, and landlord financial capacity extending decision timelines. For occupiers, the prolonged Class A leasing cycle continues to support negotiating leverage.

Market Rent

Asking Rents Rise Modestly as Concessions Offset Increases

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

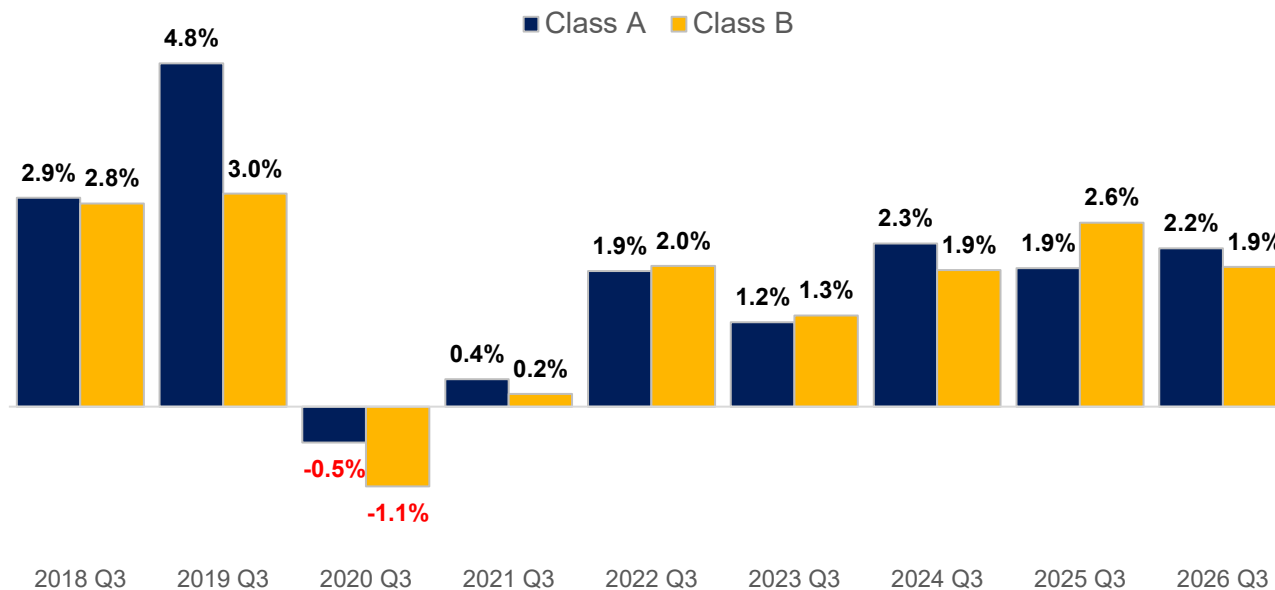


Nominal asking rents have increased since 2019, reaching \$46.13 per square foot for Class A and \$31.55 per square foot for Class B in Q3 2026. However, **landlords are increasingly using free rent, tenant improvements, and other concessions to support leasing**. For occupiers, effective occupancy costs remain negotiable, particularly in Class B buildings.

Market Rent

Office Asking Rent Growth Remains Below Pre-Pandemic Norms

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



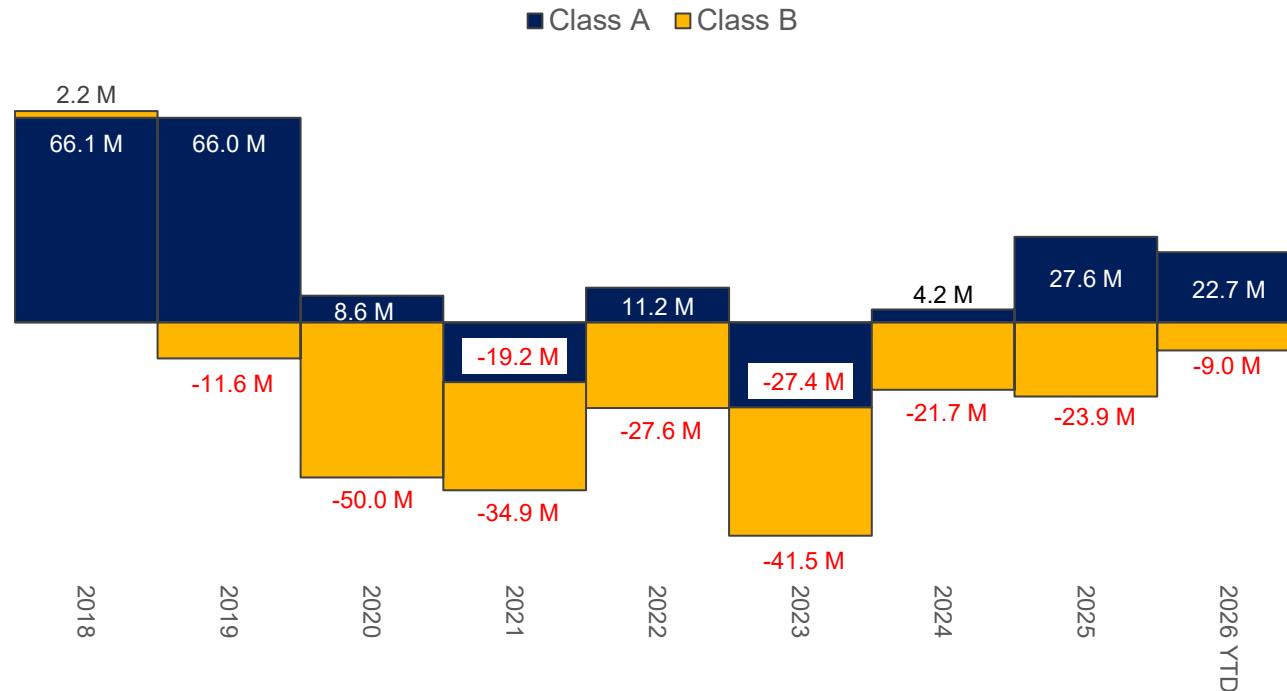
During pre-pandemic years, office rates historically increased 2.5 to 4.0 percent annually. **After an initial drop in 2020, class A rents have increased moderately** as landlords look to hold rates as long as possible, providing incentives and TIs to attract tenants. As demand continues to drag, rates 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 Absorption Remains Positive While Class B Continues to Contract

Office Net Absorption (SF): (United States)



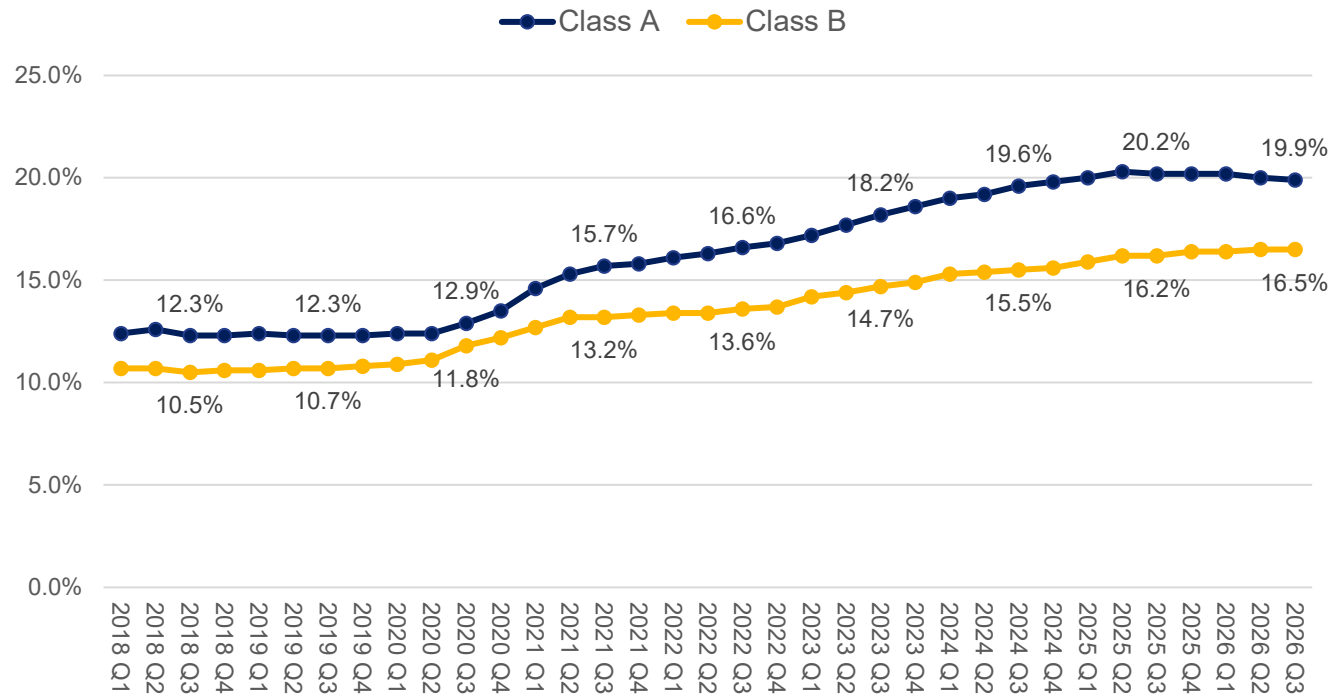
Class A office space is projected to show a third straight year of positive net absorption, although modest compared to pre-pandemic levels. Class B space is set to complete an eighth straight year of contraction. **The divergence of Class A and B absorption reinforces the continued flight-to-quality and ongoing space consolidation among occupiers.**

As pre-pandemic leases continue to expire, absorption will likely remain constrained. It may take several years for net absorption to recover from the overall losses incurred since the beginning of 2020.

Direct Vacancy

Class A Office Vacancy Drifts Lower

Office Direct Vacancy Rate: (United States)

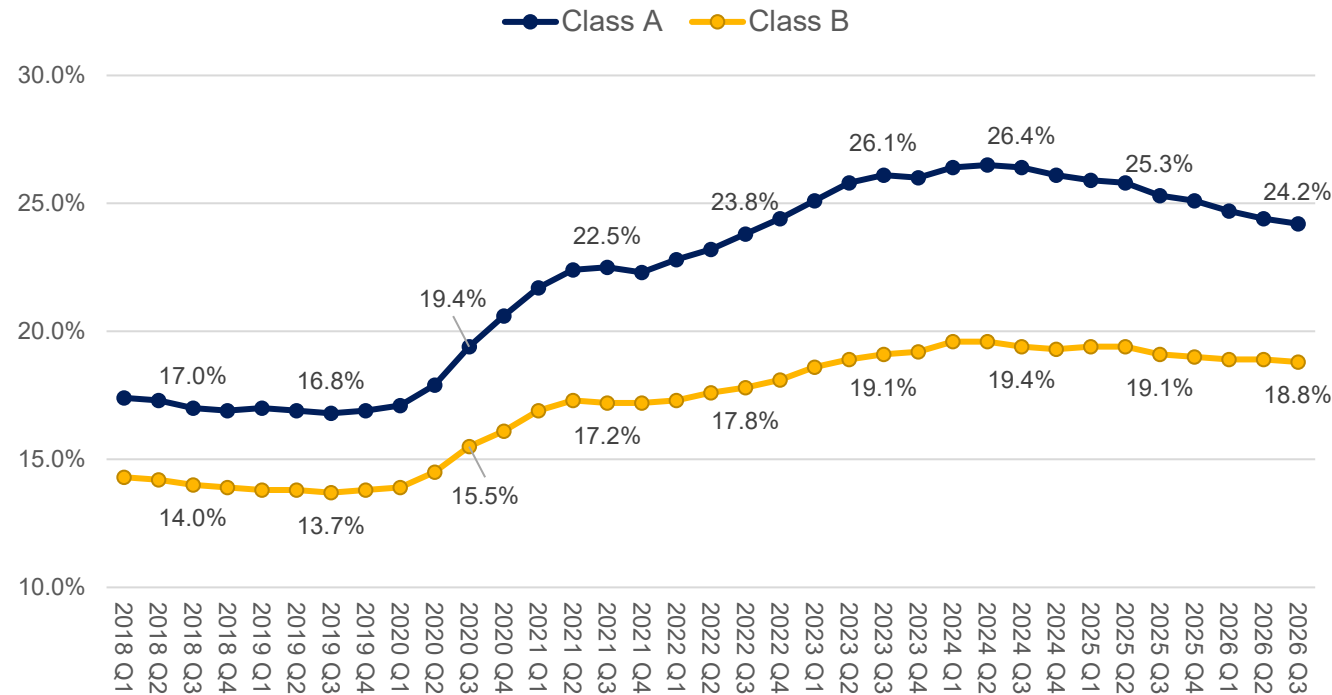


Both Class A and B direct vacancy have remained elevated. **However, the third quarter of 2026 marked the fifth straight quarter in which Class A direct vacancy has fallen.** Still, newly signed leases are, on average, trending smaller, which may keep vacancy levels elevated even as some spaces are being removed from the market due to demolitions or office conversions to alternative uses.

Availability

Class A Availability Continues to Improve

Office Availability Rate: (United States)

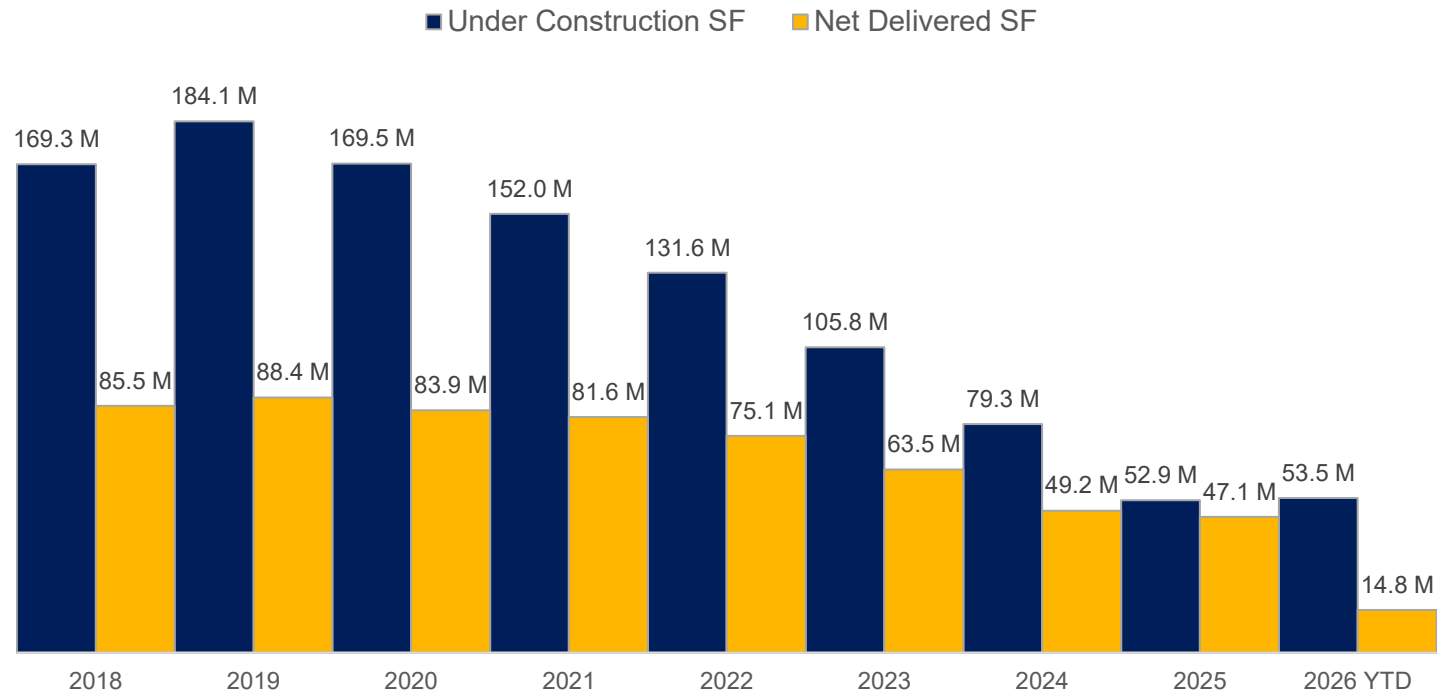


The availability rate includes the amount of space that is being marketed as available for lease, regardless of whether the space is vacant, occupied, available for sublease, or available at a future date. Therefore, the availability rate may be a more accurate depiction of the market during this volatile period than the direct vacancy rate. **Class A availability ticked lower for the ninth consecutive quarter to 24.2 percent to end the third quarter of 2026, indicating that demand is improving but still elevated.** For occupiers, the market continues to offer meaningful choice and negotiating leverage, particularly where landlords face long leasing timelines.

Construction

Office Construction Pipeline Remains Historically Low

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

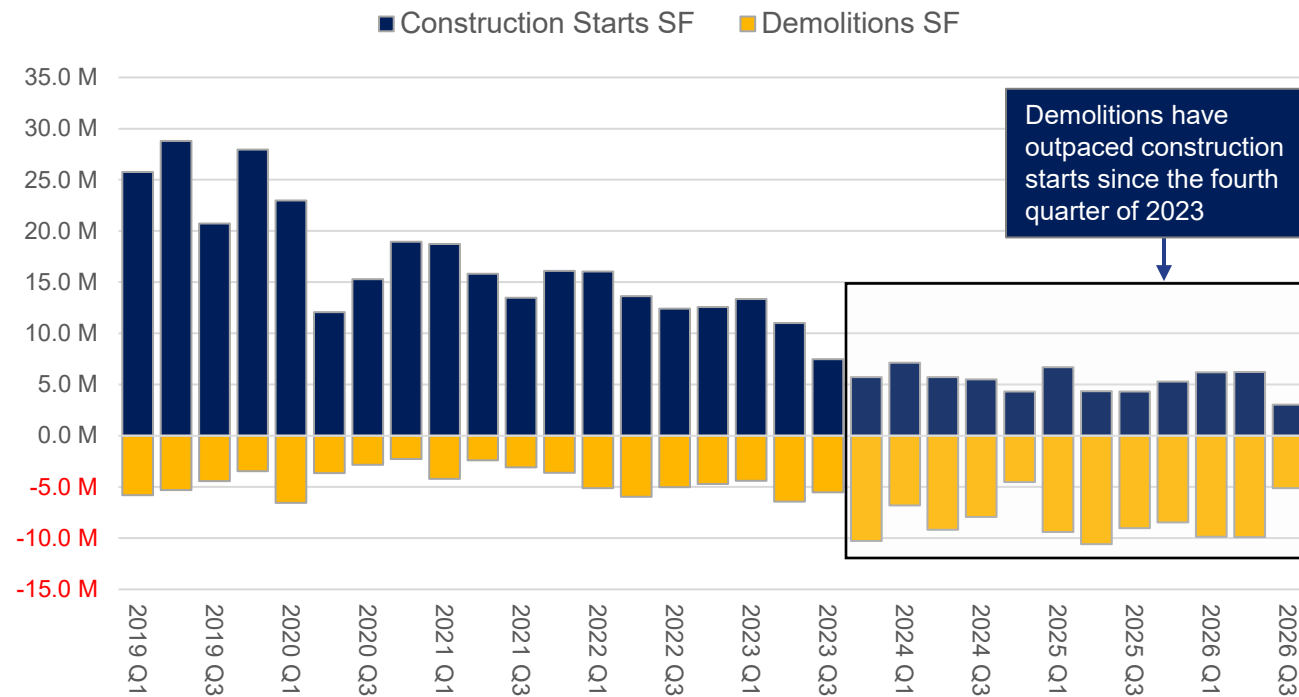


As pre-pandemic office projects are delivered, the amount of under-construction space is dropping. Weak demand, increasing labor and construction costs, and higher interest rates have stalled many office projects. However, the 53.5 million square feet under construction marks a slight increase from the previous year. **During 2025, 47.1 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)



Since the fourth quarter of 2023, **the amount of demolished square footage (101.0 million square feet) has eclipsed construction starts** (64.6 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 stakes are high for occupiers. Real estate is expensive and inflexible. With the pandemic, labor dynamics, and economic instability, all bets are off.

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

THE SYSTEM FAVORS
LANDLORDS NOT OCCUPIERS.

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

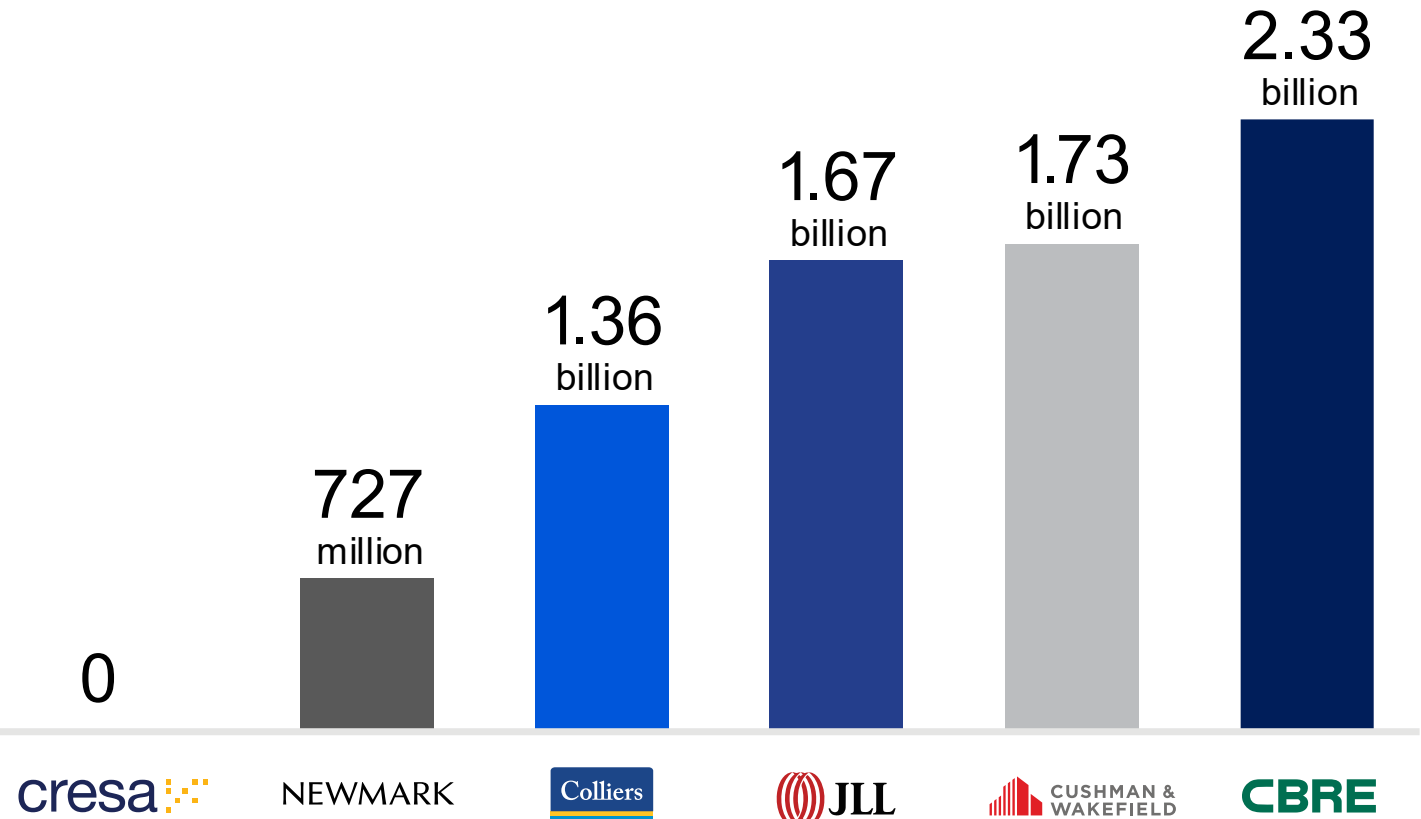
How We're Different

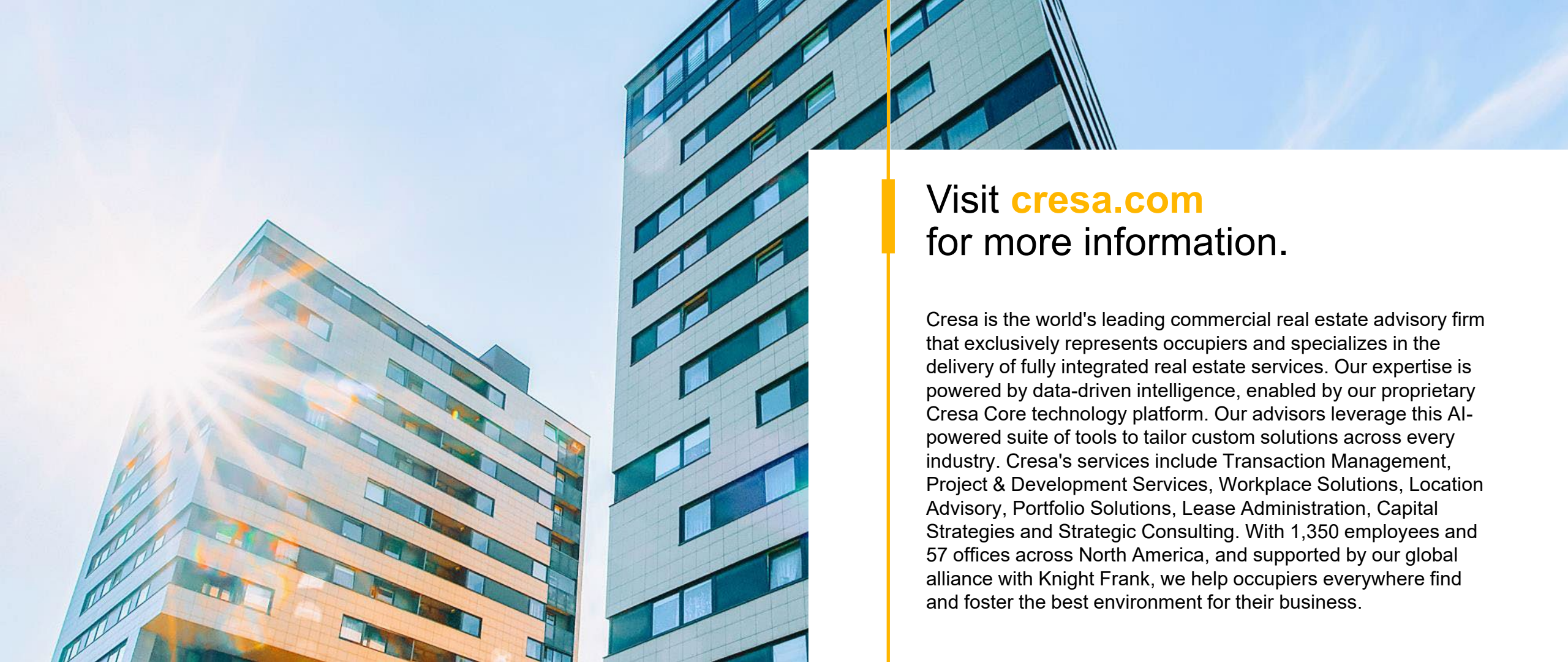
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We believe this combination of transparency and executive involvement generates the superior service our clients have come to expect from Cresa.

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