

Real Estate Market Report

Office | Q1 2025



Executive Summary

The office real estate market tells a complex story. Demand has risen since late 2024, led by New York's surge in office attendance and a recent government return-to-office mandate. Despite this, the national vacancy rate remains high. Users of space continue the trend of upgrading to nicer buildings but taking less space. A new class of A+ office buildings with rich amenities in vibrant markets is in demand, but construction has reached its lowest point since 2012, making competition for A+ space robust.

Office Real Estate Statistics

	National Average	Class A	Class B		
Vacancy	13.9%	20.8%	12.5%	12-Month Rent Growth	41.9M 12-Month Delivered Construction
Rent PSF	\$35.96	\$47.67	\$31.56	(1.9M) SF 12-Month Net Absorption	\$177 PSF Average Sales Price per SF

Leasing Activity

New York's positive net absorption couldn't lower the national vacancy rate, which rose to 13.9% due to supply growth. Smaller occupiers are upgrading their spaces, while larger ones stay put due to limited premium space. Newer buildings face nearly 30% vacancy, reflecting selective demand.

New Builds

Supply growth hit a decade-low in 2024 with less than 45 million SF of new deliveries, far below the 10-year average. Less than 18 million SF broke ground in 2024, the lowest recorded since 2010. Future supply is expected to remain historically low, with significant reductions in new office space through 2029.

Rent

Office asking rents have been flat for four years, with future growth expected to remain positive but near 1% for the next couple of years. National average rents are slightly higher than in 2020, but lag behind consumer price increases, which have risen 25% in the same period.

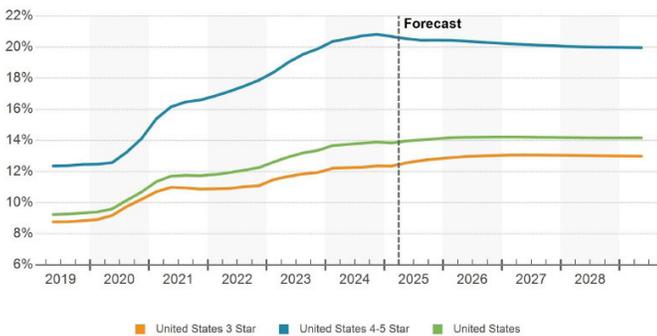
Labor & Economy

The U.S. economy entered 2025 with relatively strong momentum, growing faster than other advanced economies. However, consumer sentiment dropped sharply in April, reaching 50.8, near its lowest reading ever. This decline is driven by soaring inflation expectations and concerns over tariff impacts. As a result, households may rein in spending, potentially slowing the economy.

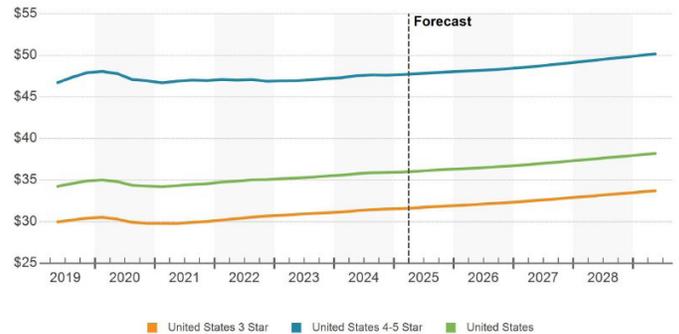
Leasing Outlook

The office real estate market reveals a nuanced story. Despite positive net absorption in New York, the national vacancy rate climbed to 13.9% due to ongoing supply growth. Office job growth has stalled in most markets, casting a shadow over the market's recovery. The future of office space is marked by a shrinking supply pipeline, with rents expected to grow modestly. Economic uncertainties and potential government support will play crucial roles in shaping demand. Newer buildings face nearly 30% vacancy, reflecting selective demand. Smaller occupiers are upgrading their spaces, while larger ones remain anchored due to limited premium space.

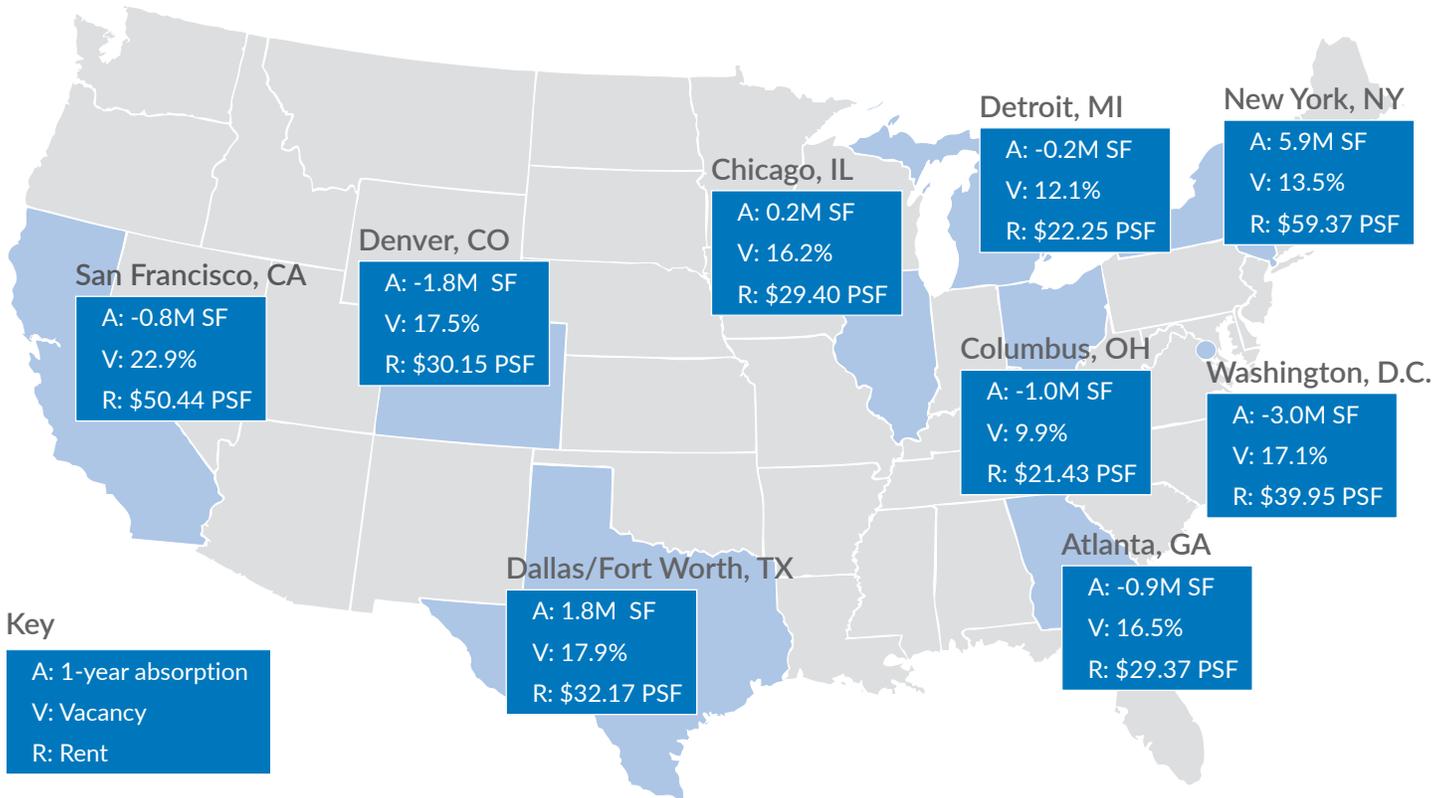
Vacancy Rates



Rent PSF



Metrics from Select Metros



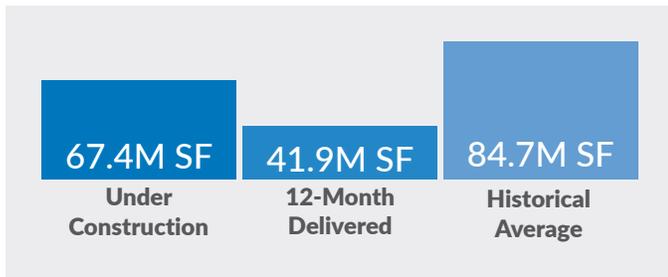
Key
 A: 1-year absorption
 V: Vacancy
 R: Rent

Construction & Deliveries

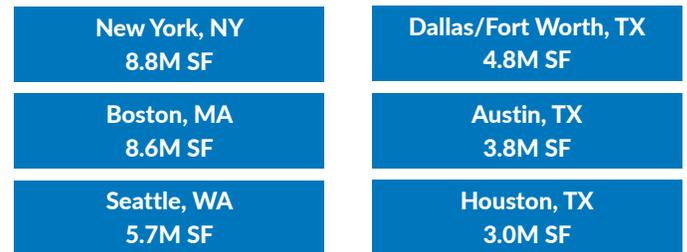
In 2024, supply growth slowed to a decade-low pace, with less than 45 million SF in new deliveries, far below the 10-year average of 70 million SF. Net of demolitions, office space stock rose by 24 million SF, with similar growth expected in 2025. From 2026 to 2029, net supply additions are forecasted to be historically low, at less than 30 million SF. The current 67.4 million SF under construction is the least since 2012, with only 18 million SF breaking ground in 2024. The pipeline is shifting, with 13% medical office, 17% biotech labs, and 38% owner-occupied spaces, leaving less than a third for traditional office buildings.

Preleasing commitments also point to why new office construction may be slowing. Five years ago, 65% of new office construction was preleased. That number has declined to only 48%. While it only represents less than 2% of aging office spaces, building conversions is a trend that may start to impact the office market. Developers are slowly starting to find more ways to profitably convert office space into multifamily, especially as cities reduce regulations and offer more financial incentives.

National Metrics



Top Metros Under Construction



Cost of Materials

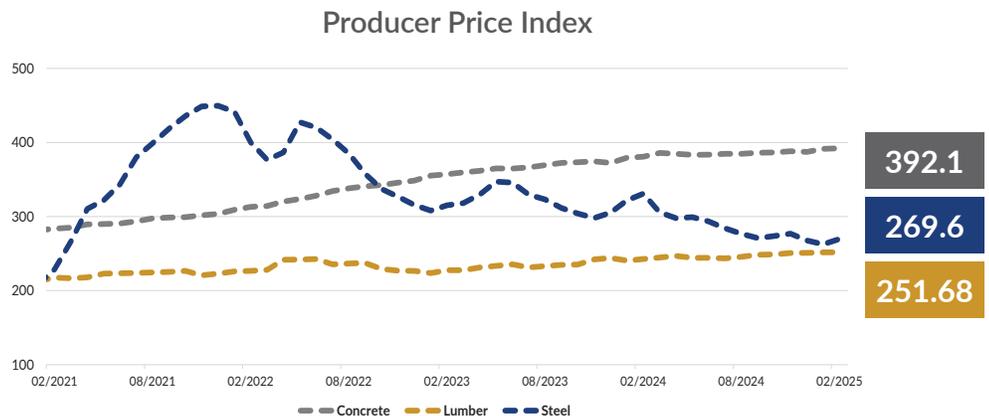
The price of construction materials in the first quarter continues to impact the cost of construction. As determined by the U.S. Bureau of Labor Statistics, the Producer Price Index (PPI) for concrete, lumber, and steel have shown significant changes in construction material costs, with concrete and lumber prices rising by 2.9% and 3.75% respectively over the past year. Steel is a different story, declining 18.5%. The decline in steel prices is signaling slowing construction spending, flat manufacturing activity, and global trade dynamics.

Construction Cost Index

+0.9% Over Year

Materials Cost Index

+3% Over Year



Economy

The U.S. economy entered 2025 with relatively strong momentum, growing faster than other advanced economies, driven by consumer spending and business investment. The labor market is strong, though inflation and higher interest rates pose challenges. Economic activity and job growth are expected to slow gently in 2025, with a potential re-acceleration in the next two years.

National Labor Statistics

+4.2% Unemployment

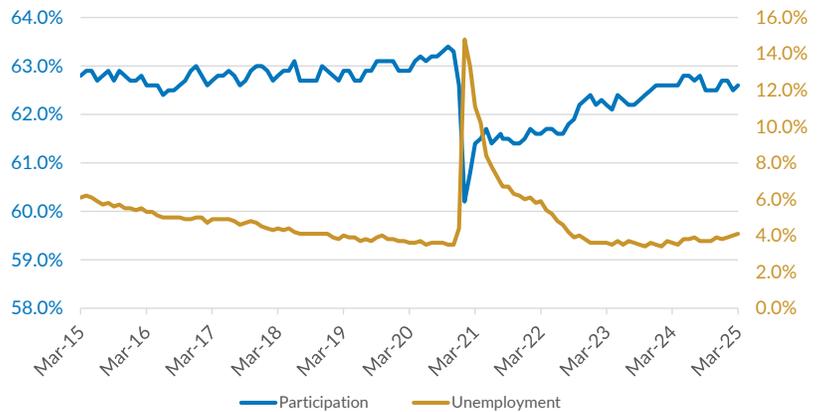
+62.5% Participation

+7.6M Job Openings

+4.5% Rate of Job Openings

Changes in data are reflective of the previous month.

Labor Statistics, 2015–2025



About Plante Moran Realpoint

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