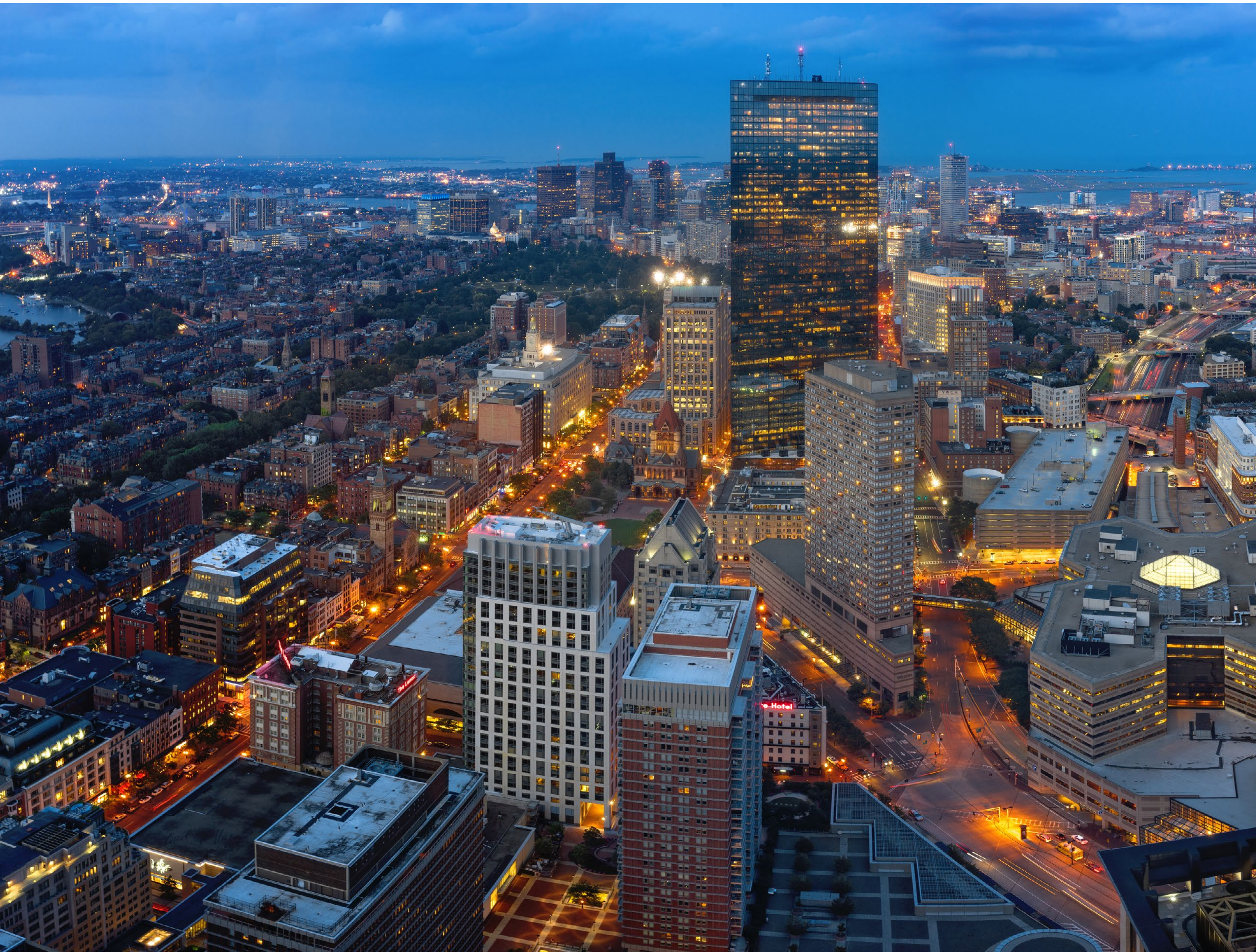
Yardi® Matrix

National Office Report

January 2025



Another Rocky Year Expected in 2025

- 2025 will be another tough year for office, and the worst may not yet be in the rearview mirror. We are in the early innings of a multi-decade transformation, with the sector still adapting to the post-pandemic world.

- The national vacancy rate to end the year was 19.8%, an increase of 150 basis points over the last 12 months. We do not anticipate that vacancies will fall this year despite high-profile return-to-office mandates from major corporations. Office utilization rates, though imperfect, have plateaued in the last two years, indicating a permanent adoption of remote and hybrid work. While a firm like AT&T may generate headlines announcing that all employees must return to the office five days a week, a company that quietly commits to hybrid work and downsizes its office space will receive little to no attention from the press. Any vacancy decreases in the next few years will be driven by a shrinking stock of office space—due to obsolescence or conversion—not by a rapid rise in occupied space.

- We anticipate that conversions will continue in 2025 at much the same rate they have in recent years. While there was some expectation that a wave of conversions would take root this decade, that has not been the case. Logistical and financial roadblocks have made many conversion projects difficult to pencil out. We expect that localities will continue to explore ways to provide incentives for developers that can creatively repurpose empty offices, such as New York's Office Conversion Accelerator Program or Washington, D.C.'s Office-to-Anything initiative. While office-to-residential will remain the primary category of conversion, we expect interest to increase in conversions to data centers and industrial. Some owners may opt to transition their vacant space to meet demand for coworking, which has grown consistently in the past few years.

- There may be an uptick in sales volume this year, but the average price of an office building will not increase much, if at all, in 2025. Interest rate cuts in recent quarters have made debt somewhat cheaper, but inflation remaining stubbornly above target will lead to fewer cuts in 2025 than previously anticipated. Given that office utilization rates have plateaued and hybrid work is now the norm for many firms, investor demand will remain muted. We also expect that a significant portion of office transactions will continue to be distressed sales. Billions of dollars in loans are maturing this year, and many loans are for buildings that have struggled to maintain occupancy in recent years.