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National Office Report

December 2025



Bifurcation Emerges Among Metros

- The office landscape became clearer in 2025 as the pricing bottom emerged, the supply pipeline shrank for another year, and coworking continued to solidify its place in the market.
- The construction pipeline is significantly lower than it has historically been, with just over 13 million square feet starting construction in 2025 through November, about the same as last year. Projects that are either in the planning process or currently under construction represent only 1.7% of stock nationally, down from 3.0% a year ago. Despite vacancy inching down in recent months, demand is still historically low and physical occupancy has not increased in any meaningful way. Employment growth in office-using sectors has been flat, and concerns about a recession just over the horizon are growing. As such, new projects are increasingly difficult to pencil out. Despite this, a bifurcation has begun and bright spots have emerged in 2025. Manhattan has had very low vacancy and a growing supply pipeline, while San Francisco saw significant increases in demand over the past year.
- For the first time since 2022, the national average price per square foot increased and the bottom finally appeared. Properties sold for \$190 per square foot in 2025, up 7.1% from 2024, a modest increase considering prices are down 33% from the peak in 2021. Despite the uptick in prices, 44.2% of transactions with two sales prices for comparison sold at a discount in 2025. More than half of loans maturing in the coming years originated prior to Covid, and weary lenders are less willing to extend the loans of struggling properties. As these loans mature, discounted properties will mount, and markets more conducive to conversions will benefit as these costly projects become feasible.
- There were 22 million square feet of coworking space opened in 2025, a 16% uptick year-over-year. This increased its share of office space by 30 basis points to 2.2%. Coworking has been filling the gap between fully remote and full-time, in-person office work. Currently, two-thirds of firms are offering location flexibility to their employees, and the structured hybrid model has been increasingly dominant, adopted by 42% of all U.S. firms, according to Flex Index. This has opened a space in the market for coworking to fill, providing an alternative to costly office leases. As coworking grows, so will competition. Smaller operators will need to find solutions to remain competitive and tap into corporate demand. Currently, 98.5% of operators have fewer than 10 locations, leaving the sector with plenty of opportunities for networking that can reduce costs and expand the reach of smaller operations.

