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National Office Report

January 2026



Vacancy in Decline After Peaking in 2025

- Bright spots are emerging in office as vacancy begins to decline in metros outside of Manhattan and coworking continues to increase its footprint in the sector.
- For several years, vacancy rates rose sharply across most of the country; however, that trend began to break down in 2025. The national vacancy rate peaked in March of last year, then fell 150 basis points to its current rate of 18.4%. Manhattan has been leading the way in this revival, with vacancy rates falling by more than 400 basis points from its peak in 2023. Recently, other markets have begun to follow suit, reaching peak vacancy sometime in late 2024 or early 2025 and reversing course thereafter. It is still unclear how far vacancy will drop, but it is unlikely ever to approach pre-Covid levels. The relationship between workers and the office has fundamentally changed, and only another seismic shift on the scale of Covid will alter that.
- The Federal Reserve cut rates by 25 basis points in December, and two additional cuts are expected over the next three quarters. Lower interest rates could provide a boost to the declining supply pipeline; however, discounts in the sector have been plentiful. Lower interest rates combined with discounted properties would make expensive conversion projects more financially feasible for developers. Yardi's Conversion Feasibility Index (CFI) scores buildings based on a variety of factors, with a Tier I building being a top candidate for conversion and Tier II possessing strong potential but requiring some adjustments. Nationally, 23.4% of all office buildings are either Tier I or Tier II conversion candidates, leaving developers with ample opportunity for targeted conversion projects.
- Coworking continued to grow in 2025, adding over 1,000 locations to the sector and increasing its total share of the office market to 2.2%. Coworking has been filling the gap for companies less able to commit to the costs of a traditional, long-term office lease but unwilling to make the transition to a fully remote work environment. As such, coworking has proven to be a competitive alternative to traditional office spaces. This presents an opportunity for owners of underperforming assets to attract tenants that have been underserved by the traditional office model and to fill spaces that have struggled to remain occupied in recent years. As the sector grows, those who are new to coworking will find plenty of opportunity to network with experienced operators, as well as partner with management services that can aid in a successful transition to the coworking sector.

