



Yardi® Matrix

Office National Report

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Demand for Flexibility in Office Grows

- The increasing influence of coworking is a testament to the growing demand for flexibility from the modern workforce. Traditional office arrangements are changing as owners adapt to tenant needs by providing concessions and amenities that more closely resemble the coworking model.
- Coworking increased its footprint by 16.5% over the past year, bringing the national total to 164 million square feet and raising its total share of the office sector to 2.3%, a 30-basis-point increase. The growing success of coworking is largely due to the need for flexible office solutions that initially became necessary during the pandemic; however, demand for hybrid working conditions remains high years after workers were first given a taste of it. Many employers have taken these new conditions as an opportunity to consolidate their operations to reduce their need for costly office space.
- Physical office occupancy has floated around 55% for the last three years, with office attendance currently ranging from 66% on high days to 38% on low days, according to Kastle's Back to Work Barometer. Low office utilization due to the mass adoption of hybrid work has led many tenants to reconsider renewing leases or to negotiate more favorable terms that fit their changing needs. With the current national average vacancy rate sitting at 17.8%, owners are left with little option but to adapt and provide concessions, especially as underperforming properties sell at record discounts.
- The strategies owners are adopting to retain tenants are moving closer to the coworking model. The terms and conditions of office leases are changing to provide more flexibility, meaning shorter leases, leniency for early lease termination, and the willingness to adapt floor plans to provide workspaces that fit the size and financial means of smaller tenants. Some are even partnering with established coworking operators to facilitate this transition through networking and management agreements.
- Though traditional office spaces are more stable at the enterprise level, smaller operations will need to adapt to the changing needs of tenants to remain competitive in a struggling sector. Disruptions to the workforce caused by the implementation of AI or a possible recession could force these changes even faster as firms find it increasingly difficult to commit to the restrictions of traditional office leases. Smaller, strategically located office spaces with abundant amenities and flexible accommodations will better serve the needs of the current workforce, especially during economic uncertainty.

