MUST Insights

U.S. Office Outlook: Key Trends Shaping the Landscape

January 2025

JLL CAPITAL MARKETS

Key office sector themes

By the numbers

4.8 billion
Existing inventory (s.f.)

37 million
Under construction (s.f.)

19.6%
Direct vacancy

22.3%
Total vacancy

-33.7 million
YTD net absorption (s.f.)

180 million
Sublease available (s.f.)

1 Tenant demand has nearly returned to pre-pandemic levels

- Office leasing volume has climbed for three consecutive quarters, establishing a new post-pandemic high in Q4 2024
- Q4 leasing volume reflected over 92% of typical pre-pandemic averages

2 Net absorption flips positive for first quarter since 2021

- The market experienced its first quarter of positive net absorption since Q4 2021, and just the second time since the pandemic began
- Availability has declined for two consecutive quarters, pointing towards meaningful declines in vacancy in 2025

3 Rent momentum remains broadly positive

- Despite lagging against inflation, same-store asking rents continue to grow
- Face rates and effective rates on leases signed in 2024 saw an improvement from softening economics in 2023

4 New supply will become even more scarce in 2025

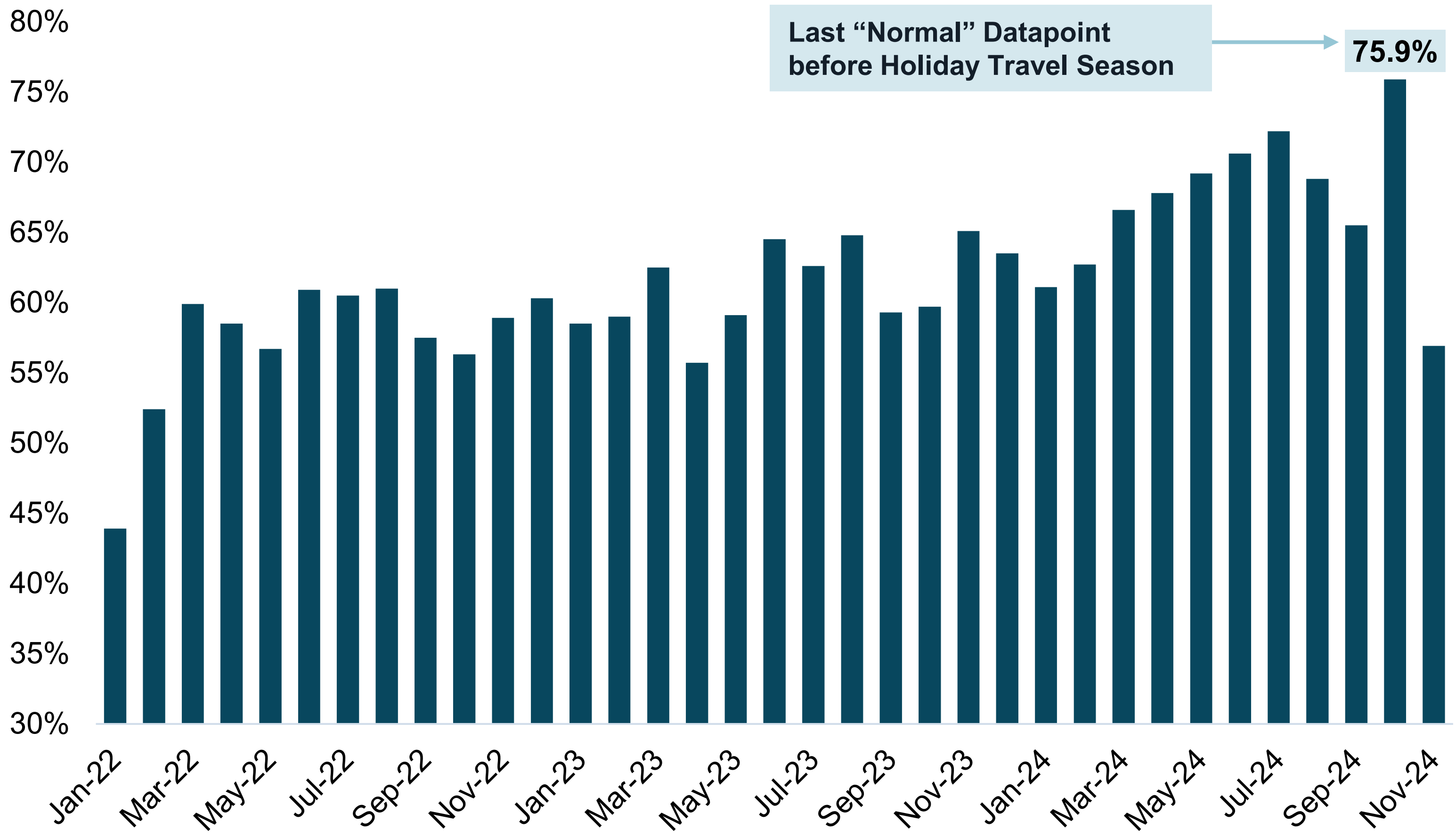
- Groundbreakings for the past six quarters have averaged 10% lower than the previous historical low
- Record volume of inventory continues to be removed for conversion and redevelopment

5 Hybrid employers still requesting more office attendance

- Momentum continues for return-to-office, with several major employers establishing or increasing requirements, or announcing new mechanisms of enforcement in Q4

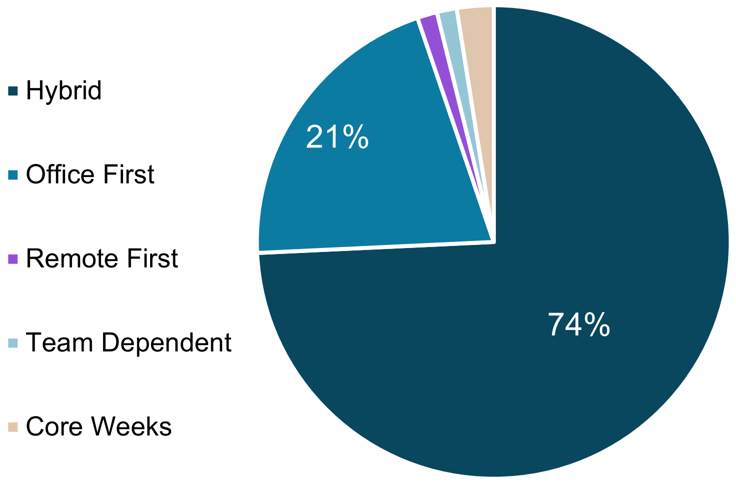
National re-entry rates reflect dominance of three-day workweek; further gains in office attendance will likely be incremental as policies evolve more slowly

Placer.AI weekly average attendance rate



Source: JLL Research, Placer.ai, KPMG

Fortune 100 Office Attendance Policies



3.36 days

Average weekly attendance requirement for the Fortune 100

F100 recent announcements:

amazon	3 days to 5 days
AT&T	3 days to 5 days
J.P.Morgan	5 days for all employees

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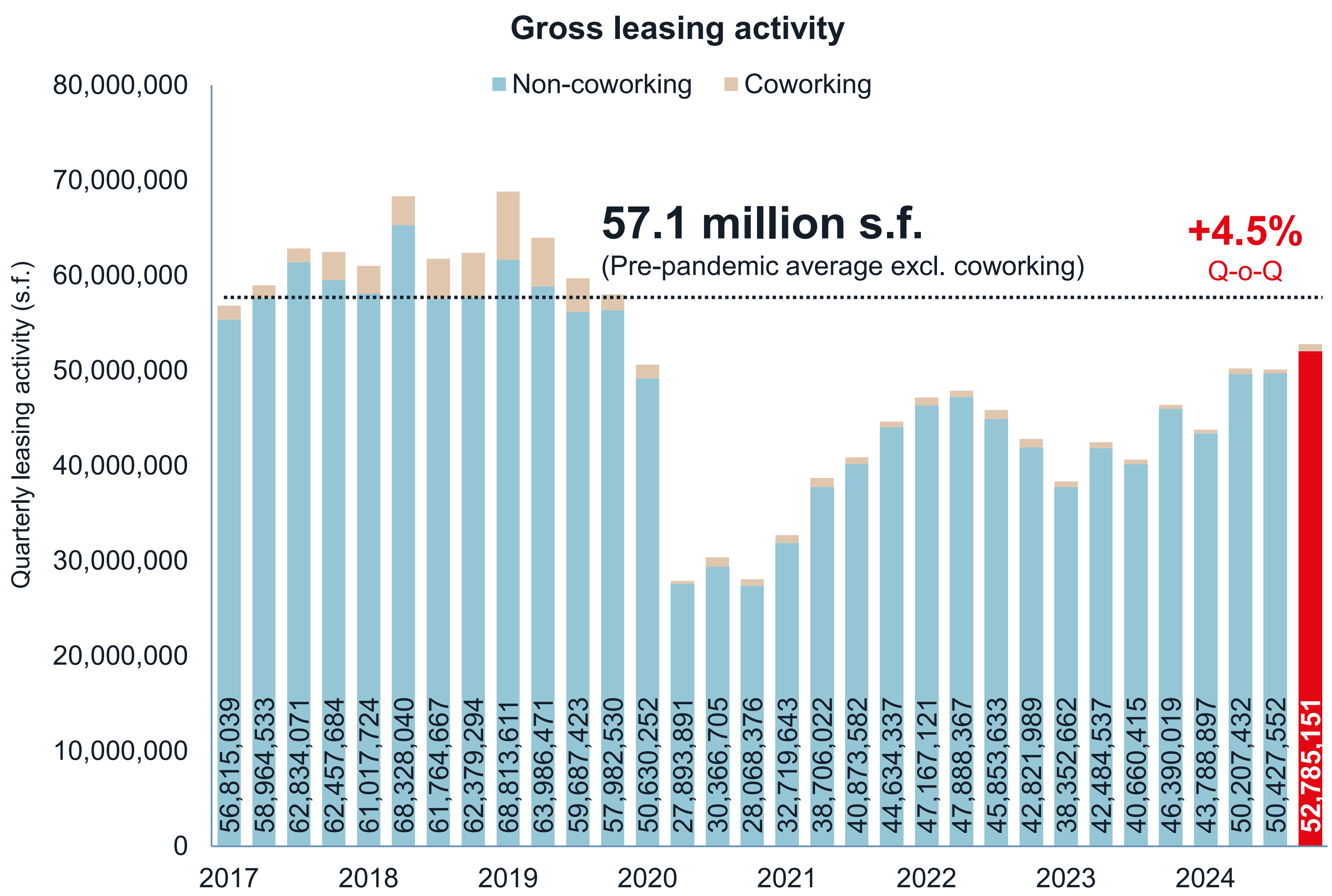
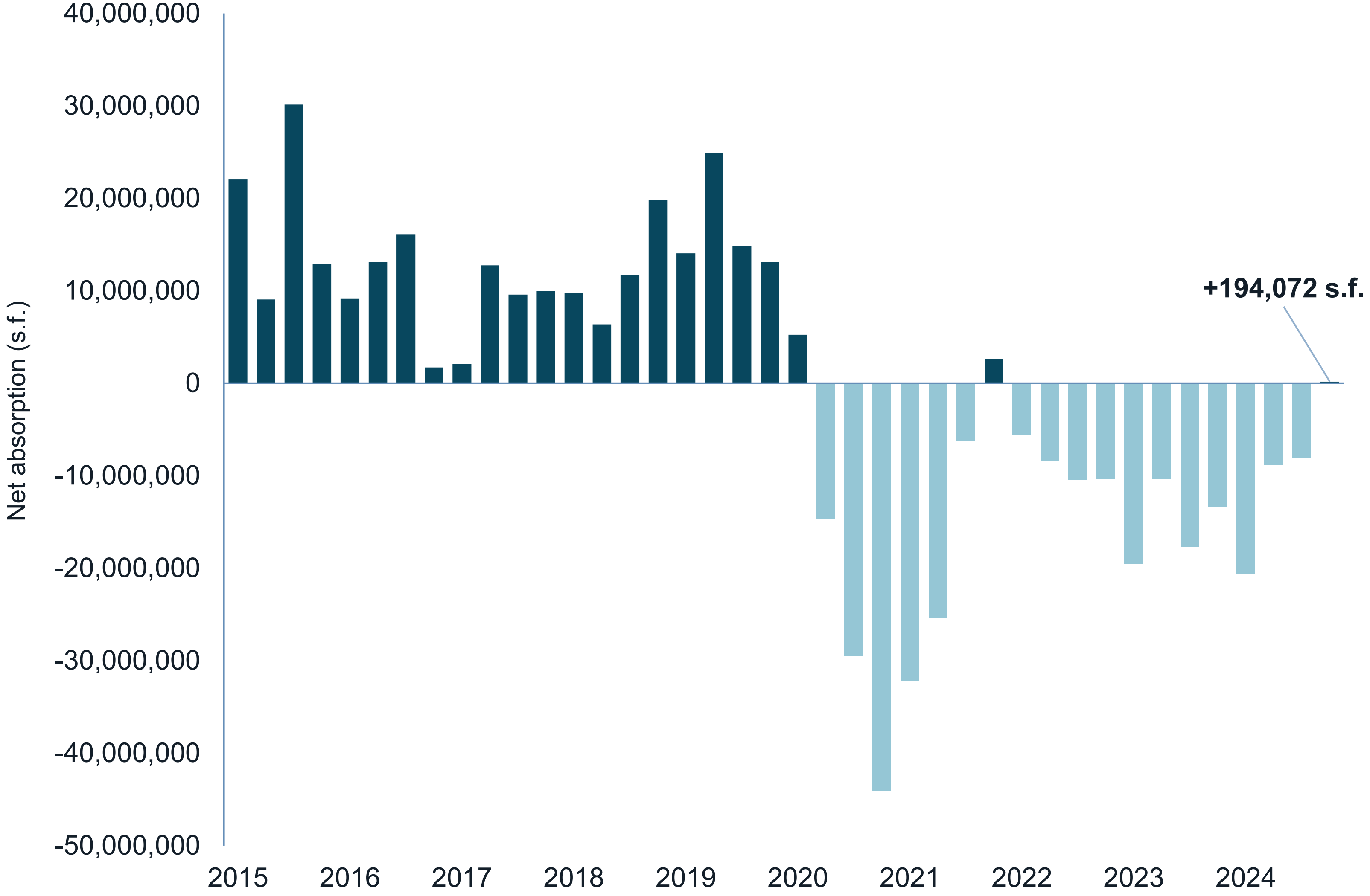
Leasing volume establishes new post-pandemic high for third consecutive quarter

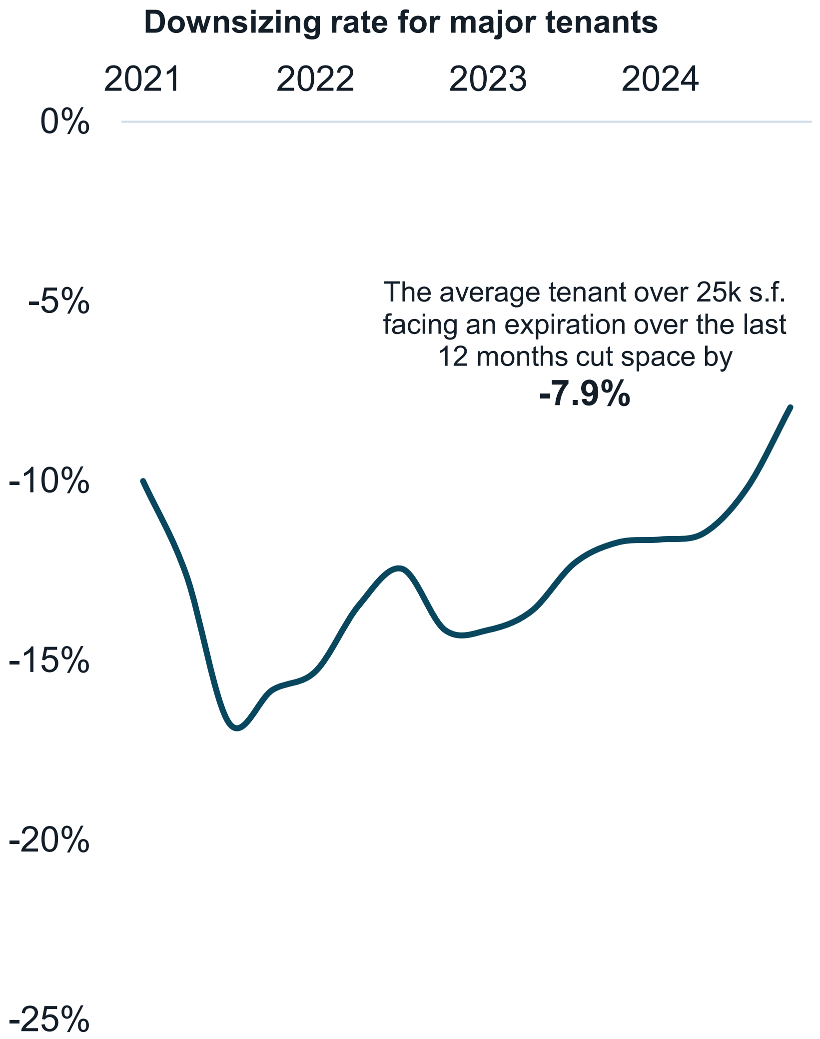


Industry	2024 leasing activity (m.s.f.)
Technology	35.2
Banking & Finance	28.6
Legal Services	17.8
Health	11.0
Government	9.9
Architecture & Engineering	9.3
Accounting & Consulting	9.1
Insurance	7.6
Retail	6.7
Energy & Utilities	6.3
Construction & Materials	6.0
Real Estate	5.9
Media & Entertainment	5.2
Nonprofits & Associations	5.1
Aerospace & Defense	5.0
Education	4.6
Other Professional Services	3.9
Life Science	3.6
Coworking	3.6
Telecommunications	2.4
Logistics & Distribution	2.4
Advertising & Marketing	2.2
Food & Beverage	2.1
Travel & Recreation	1.7
Automotive	1.0

Source: JLL Research
Note: Tan bars represent leasing volume by coworking providers and are excluded from pre-pandemic average.

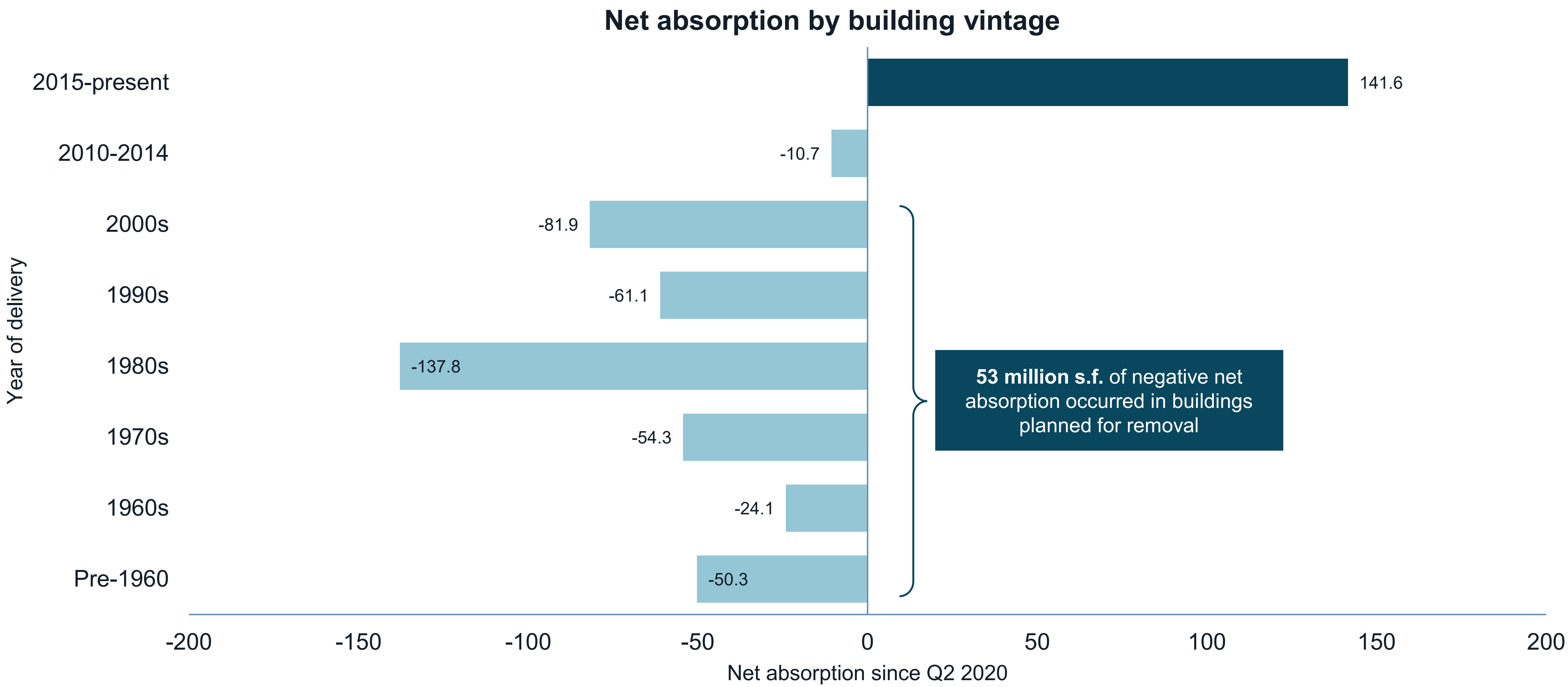
Absorption flips marginally positive as new demand begins to eclipse downsizing





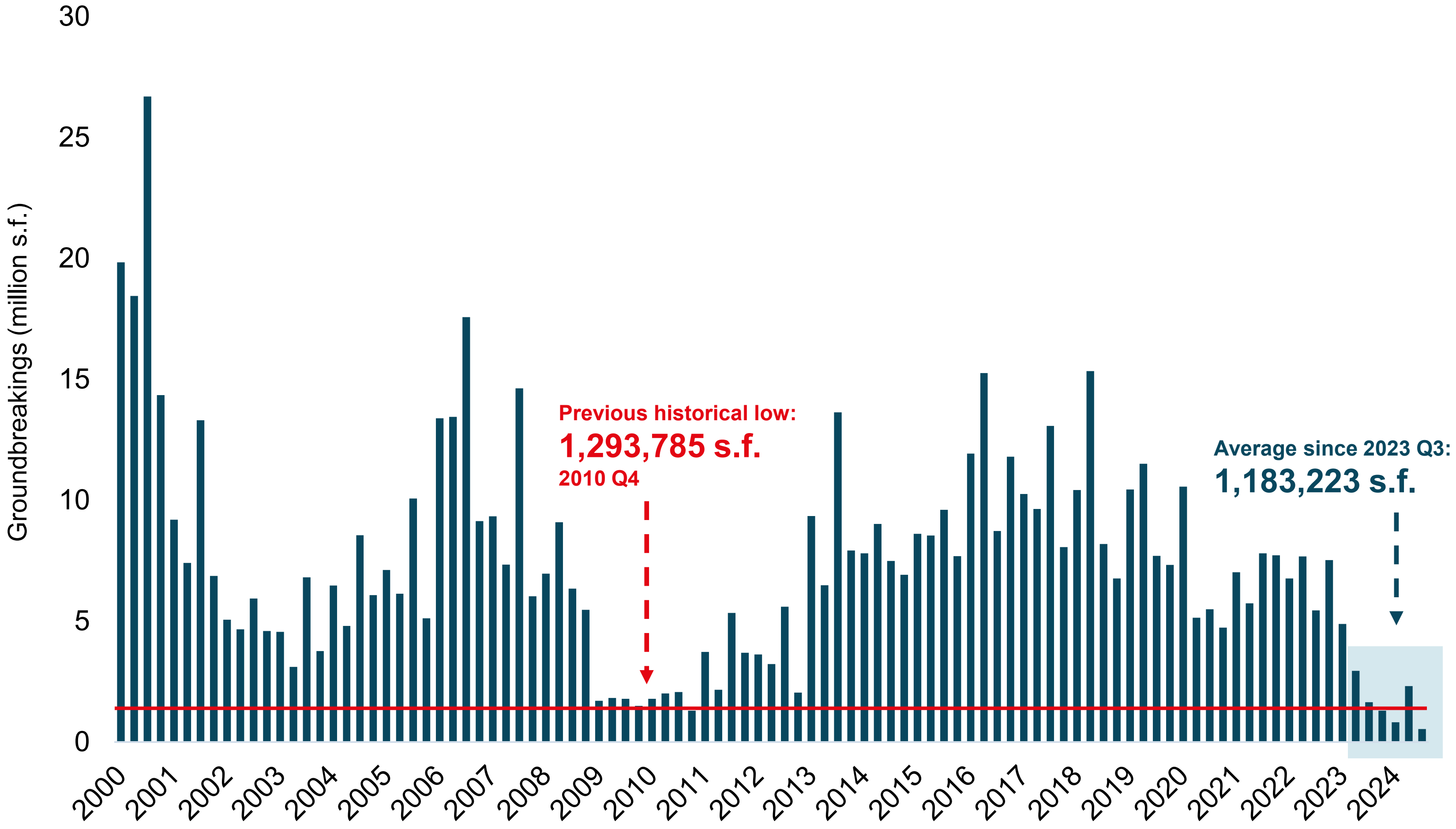
Source: JLL Research
Note: Right - Includes tenants above 25,000 s.f. with a single office location in the market. Excludes tenants who downsized by more than 50% or expanded by more than 50%. N = 1,612

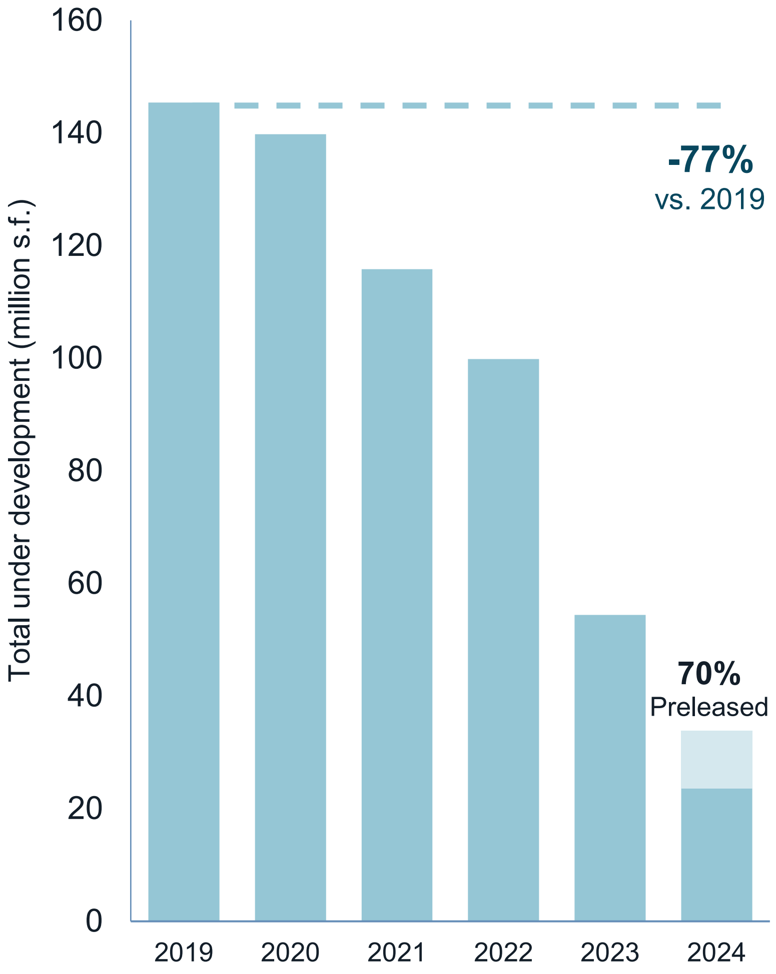
Flight to quality continues to drive occupancy gains in newer product; negative net absorption in older product elevated by conversions and redevelopments



Source: JLL Research

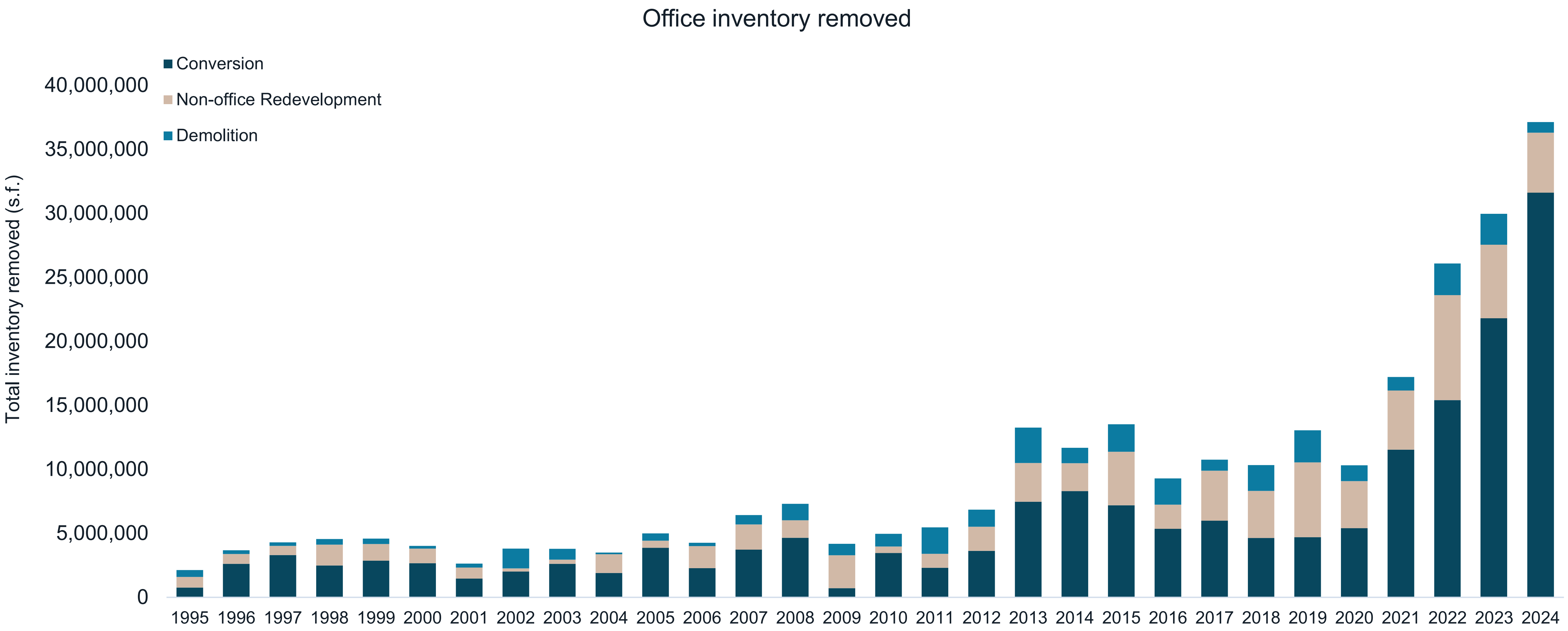
Groundbreakings remain near all-time lows; pipeline has declined by over 75%





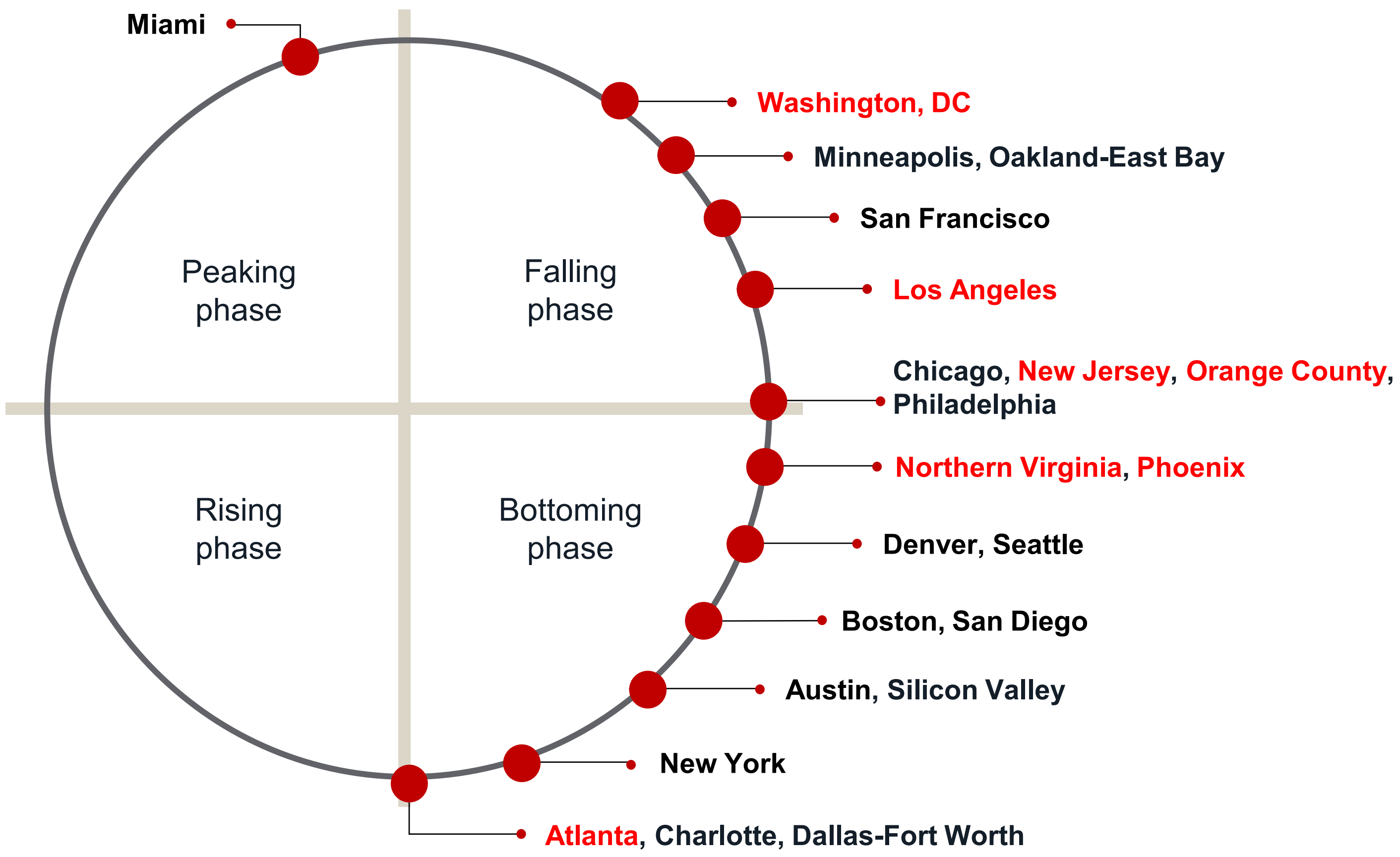
Source: JLL Research

Inventory removal volume is increasing by more than 20% annually since 2019



Source: JLL Research
Demolition = tear-down of existing office building with no imminent plans for new development. Conversion = change in the use of all or a portion of the asset, while retaining all or a portion of existing structure. Redevelopment = capital improvement project which changes the use of a site by demolition and ground-up new development. Non-office redevelopment excludes office demolitions replaced with new traditional office ground-up development.

Office market recovery is uneven across geographies



Market	2024 Net Absorption (% inventory)	Total Vacancy	Direct Rent (p.s.f.)	U/C Pipeline (% inventory)
Atlanta	-1.4%	26.7%	$33.65	0.3%
Austin	0.0%	25.2%	$51.92	3.9%
Boston	-2.1%	22.7%	$45.72	0.9%
Charlotte	0.1%	22.4%	$34.40	0.8%
Chicago	-1.3%	26.5%	$38.89	0.5%
Dallas	-0.6%	25.5%	$34.46	1.3%
Denver	-1.1%	25.2%	$35.42	0.6%
Houston	-0.4%	26.4%	$22.36	0.3%
Los Angeles	-1.6%	28.4%	$48.52	1.1%
Miami	0.6%	15.8%	$66.86	3.2%
Minneapolis	-1.5%	24.6%	$31.22	0.4%
New Jersey	0.3%	26.6%	$30.74	0.2%
New York	0.2%	16.2%	$80.41	1.0%
Oakland-East Bay	-2.6%	27.1%	$41.91	0.0%
Orange County	-0.4%	17.2%	$35.49	0.2%
Philadelphia	-0.7%	20.6%	$28.99	0.3%
Phoenix	-0.7%	24.8%	$30.86	0.5%
San Diego	-0.5%	14.0%	$40.05	0.8%
San Francisco	-1.8%	34.3%	$72.34	0.0%
Seattle	-0.5%	23.0%	$49.46	1.6%
Silicon Valley	0.6%	22.2%	$65.58	2.2%
Washington, DC	-1.3%	23.1%	$43.51	0.2%
United States	**-0.7%**	**22.3%**	**$40.71**	**0.8%**

Office market forecast

Tenant demand

Tenant demand has recovered over the last few quarters, with net absorption swinging positive and total leasing volume just 8% below pre-pandemic averages.

Supply

Construction activity remains near historical lows and more office buildings are being demolished and converted than delivering new.

Vacancy rates

Availability has declined for two consecutive quarters, pointing towards meaningful decreases in vacancy in 2025, especially in pockets with more intense redevelopment activity.

Rental rates

Trophy properties continue to command record-high rents and elevated borrowing costs and loan covenants will restrict tenants' ability to find bargains.

Sales volume

Opportunistic investors are targeting distressed assets and owner-users are finding purchases an attractive alternative to leases.

Economic growth

Inflation remains a concern and long-term interest rates have not declined in lockstep with recent cuts to the Fed Funds rate, which may dampen an otherwise strong economy.

Source: JLL Research

State of the office capital markets

OFFICE SALES BEGIN TO REBOUND

Preliminary 2024 FY volume reached $42.2B, which is an increase of 8% YoY, marking a "bounce" off the bottom.

A "BOTTOM" HAS FORMED IN THE OFFICE MARKET

A combination of reset values, uptick in leasing demand and more institutional capital targeting acquisitions marks a definitive change in the market

PERFORMANCE BIFURCATION BY QUALITY & MICRO-LOCATION REMAIN AT ALL TIME HIGHS

Benefitting newer vintage / highly renovated product and coming at the expense of lower quality product.

THERE WILL BE NET SUPPLY LOSS IN OFFICE OVER THE NEXT 5 YEARS

new supply pipeline is slowing considerably at the same time as conversion activity accelerates

DISTRESS IS HERE BUT COMING IN MANY FORMS

ranging from traditional foreclosure / auctions, to short sales, loan sales and deed in lieus. Sensationalized "maturity wall" has not materialized

CMBS / SASB REMAINS THE MOST ACCRETIVE SOURCE OF DEBT FOR OFFICE, BUT AVAILABILITY IS LIMITED

75% of $50M+ office trades in 2024 have been acquired all cash or financed by incumbent lender as other lender types remain highly selective

COST OF DEBT CONTINUES TO DRIVE PRICING

Best-of-best pricing for stabilized, well-located core product is 6.25% - 7.5%. A small grouping of deals in the top submarkets in the country have traded at sub 6% cap rates.

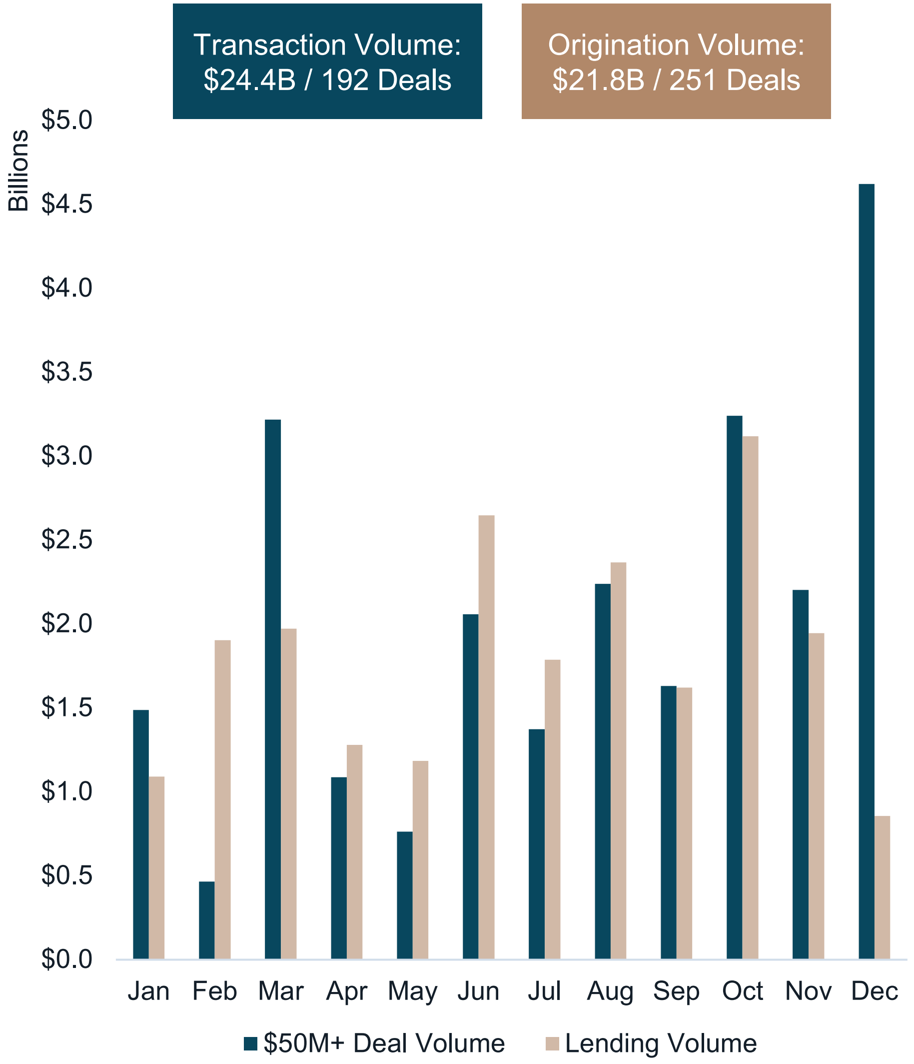
HIGHER FOR LONGER INTEREST RATE ENVIRONMENT

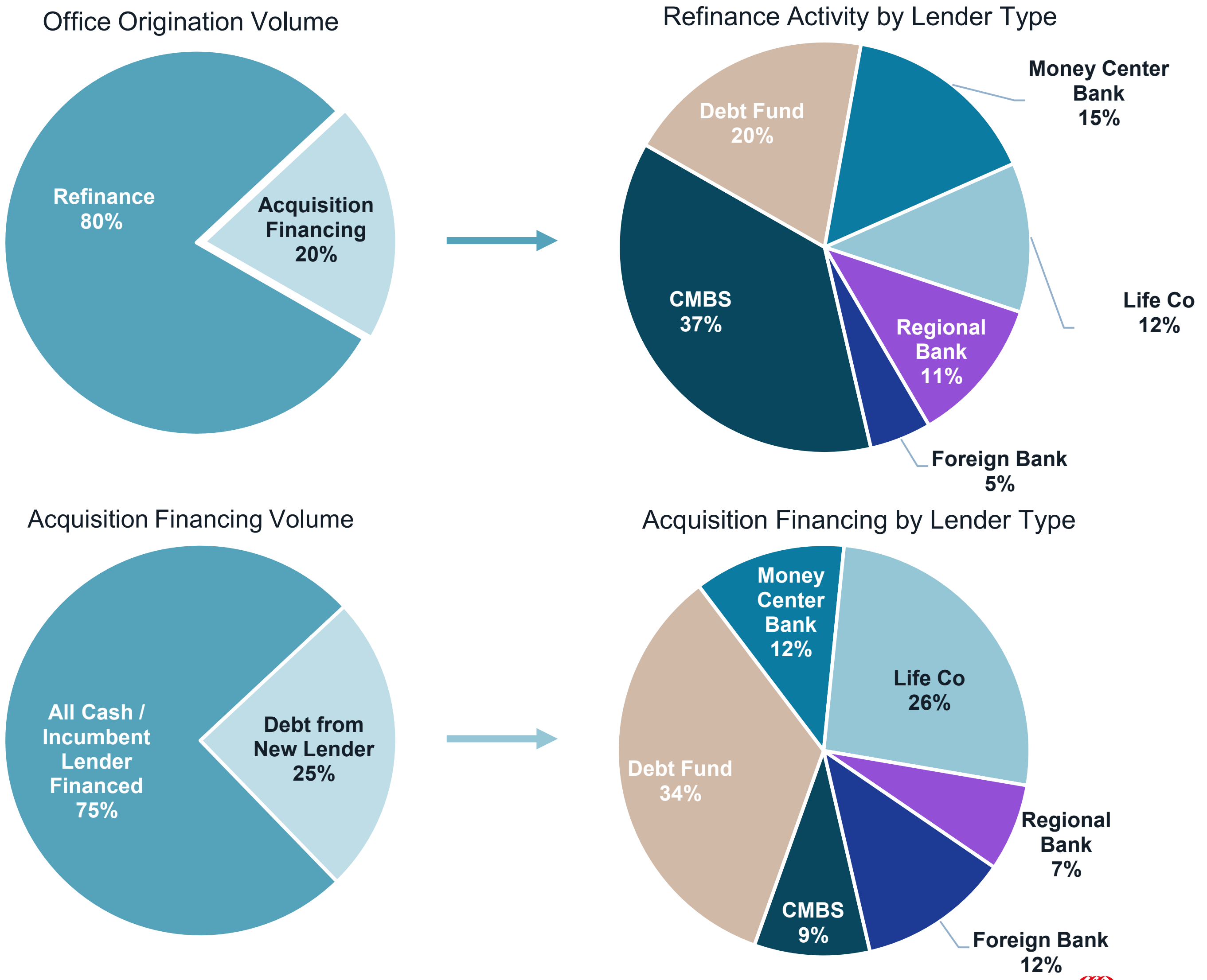
A strong December jobs report and economic tailwinds are impacting rate sentiment – many investors expect higher for longer rates, will impact borrowing costs / cap rates

NATIONAL OFFICE LEASING AND RTO EXPERIENCE TANGIBLE MOMENTUM

Renewal rates are up 15% YoY, leasing activity is up 15% YoY, sublease additions are down 79% from peak levels

Office lending activity remains obstacle to liquidity as 75% of institutional trades($50M+) go all-cash / incumbent lender financed in 2024





Source: JLL Research, Real Capital Analytics ($50M+ Deal Size)

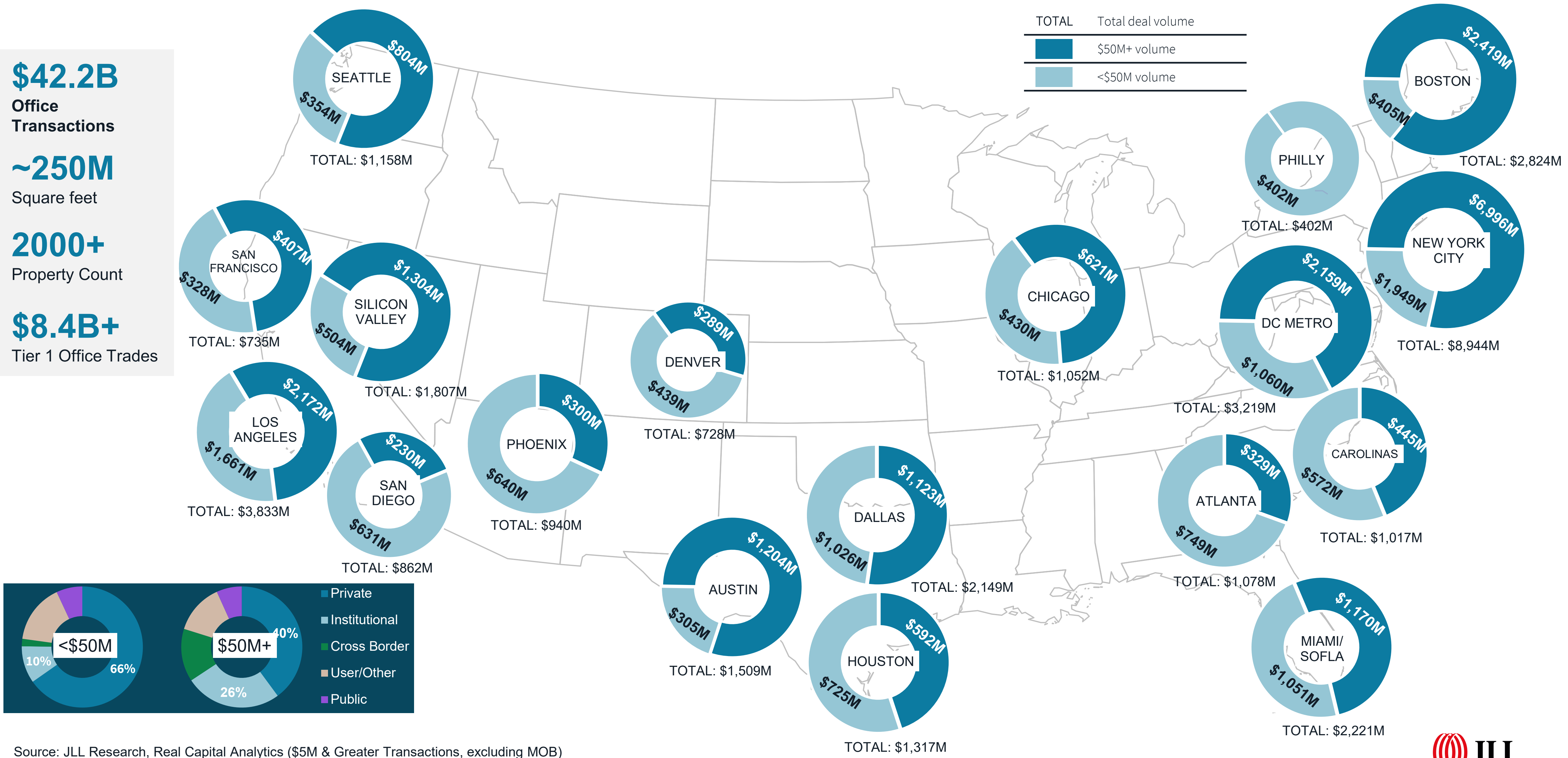
National office transaction activity | 2024 full-year volume

$42.2B
Office Transactions

~250M
Square feet

2000+
Property Count

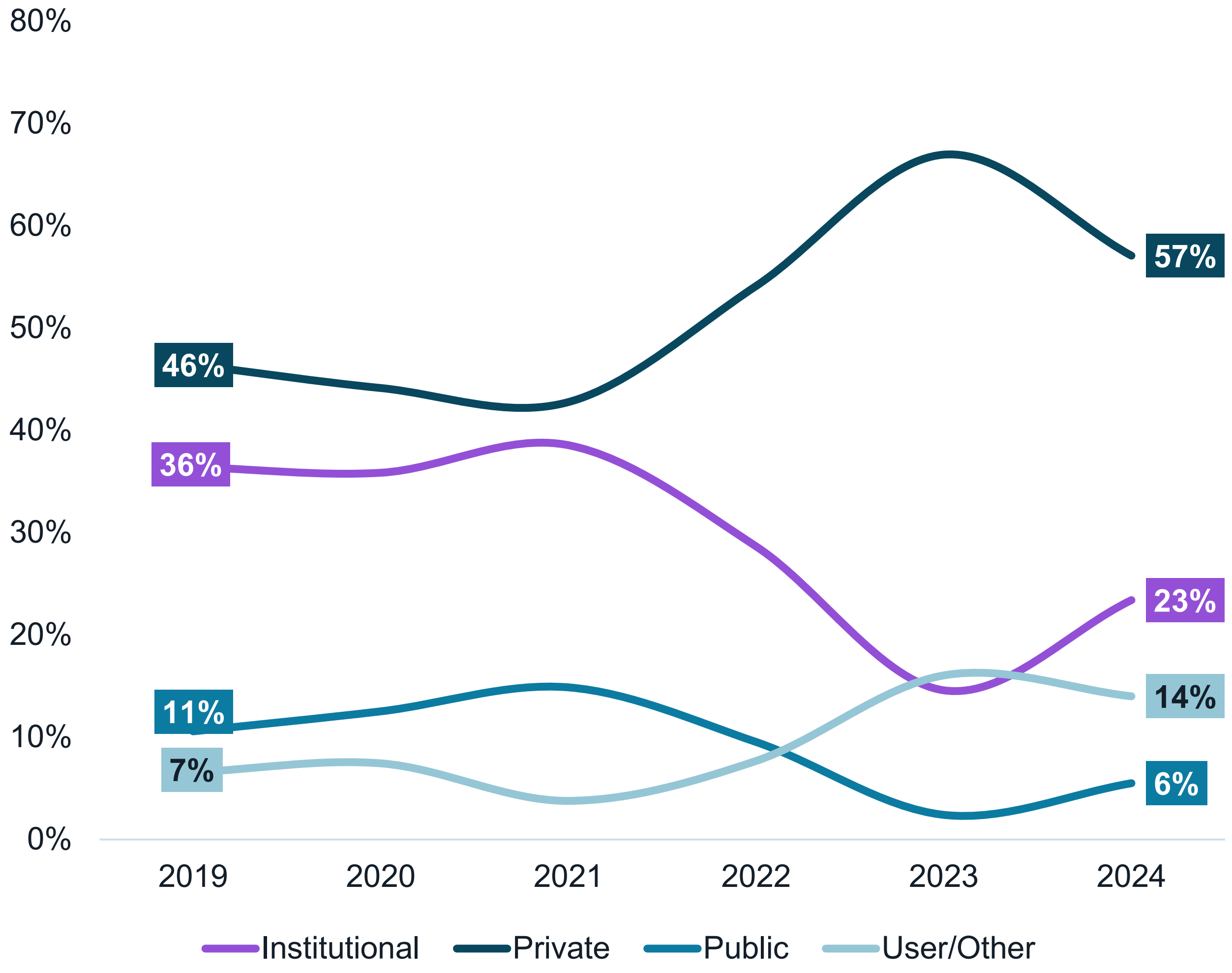
$8.4B+
Tier 1 Office Trades



Source: JLL Research, Real Capital Analytics ($5M & Greater Transactions, excluding MOB)

Window for private capital is closing for top quality product – institutional investor momentum is building, for the “right” product

Investment Sales Activity by Primary Buyer Type



*Excludes MOB

Source: JLL Research, Real Capital Analytics ($5M Transactions & Greater)

Select Top Office Buyers 2023-2024

Investor	Volume	Investor Type
3Edgewood	$2.2B	Private / HNW
Norges	$2.0B	Cross Border
Mori Trust	$1.0B	Cross Border
Blackstone	$950M*	Institutional
Cousins Properties	$930M	Public REIT
Beacon Capital Partners	$750M	Institutional
Spear Street Capital	$600M	Institutional
Blue Owl Capital	$600M	Institutional
Bloomberg	$560M	Owner-User
Sovereign Partners	$520M	Private

*Incudes Life Science / Lab Product

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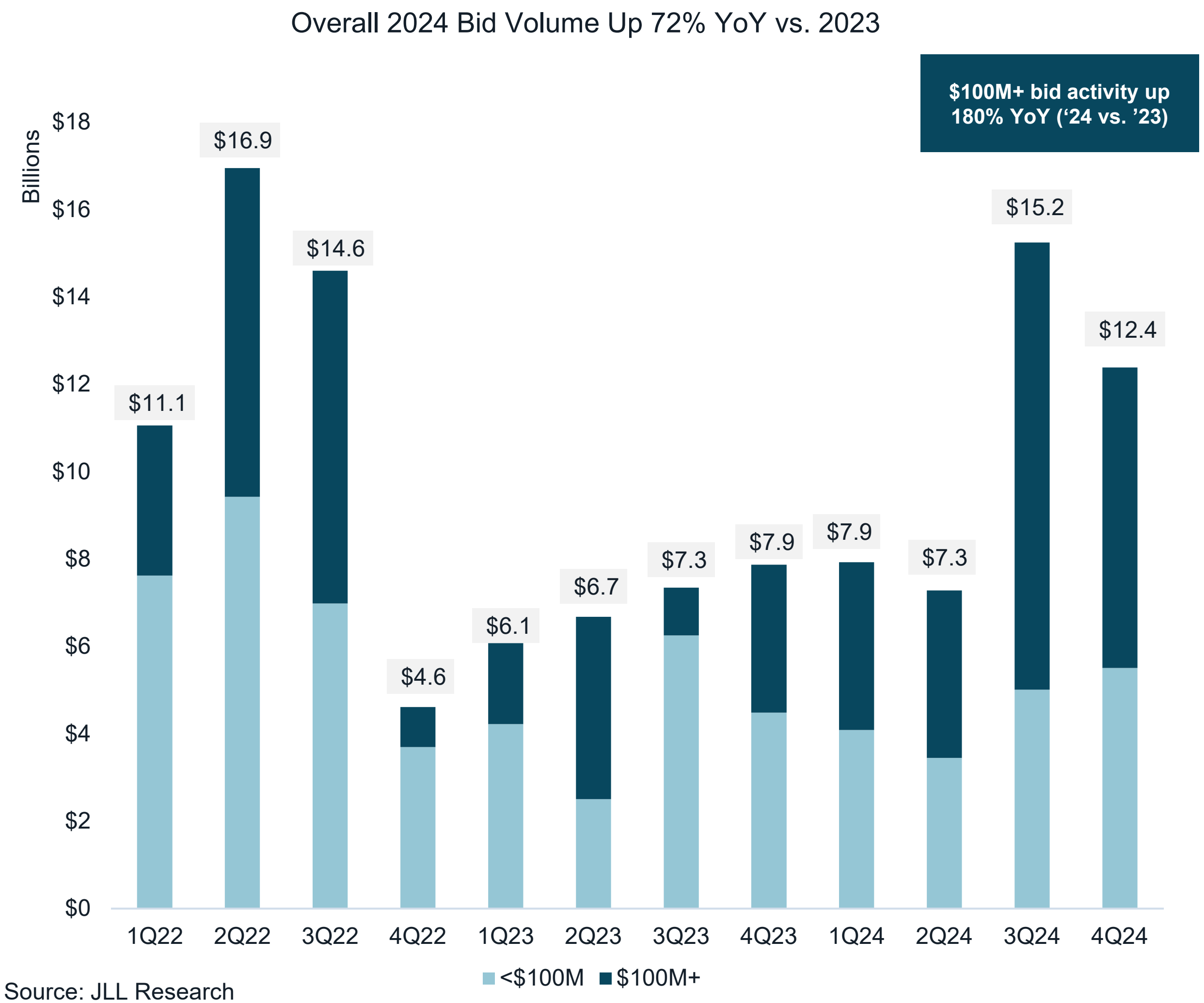
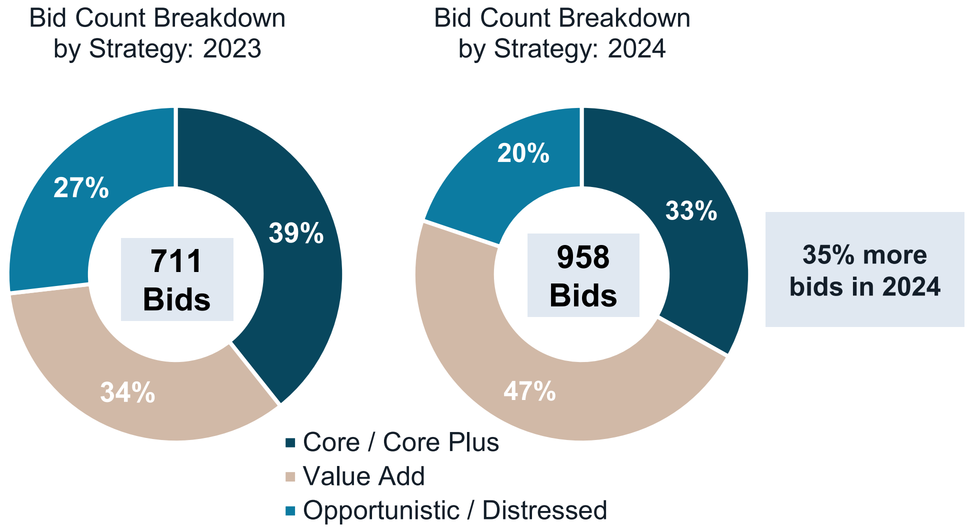
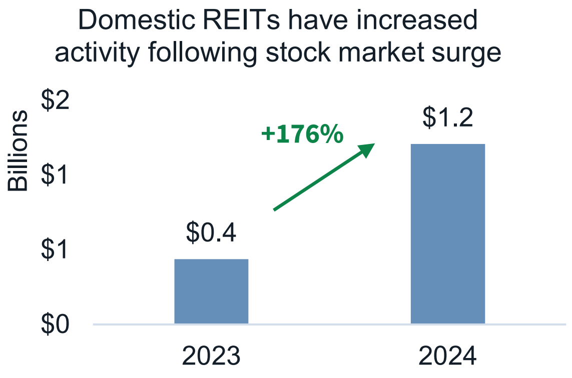
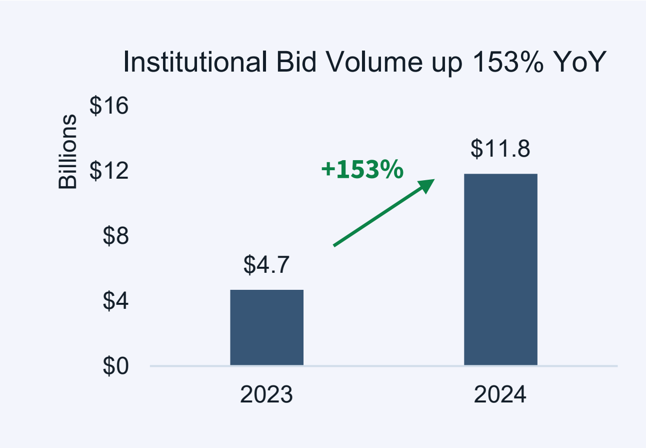
Office bid activity gains momentum in 2024 – institutional investors have become larger portion of bidder pool



Source: JLL Research







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How investors are underwriting office buildings

CORE / TROPHY / STABILIZED

» **GOING-IN YIELD:** going-in yield higher than borrowing cost (i.e., "positive leverage")

» **NPV FROM CASH FLOW:** Increased focus on return coming from cash flow than reversion - this is expected to continue in 2025

» **UNLEVERED IRR:** high single-digits to low double-digits depending on profile and location

» **LEVERED IRR:** mid-high teens

» **BASIS:** substantially below current replacement cost

NON-CORE / SUB-STABILIZED

» **BASIS:** entering & exiting substantially below replacement cost

» **GOING-IN CAP RATE (75% + OCCUPIED) - ACCRETIVE FINANCING:** positive leverage day-one (or immediate path to positive leverage)

» **STABILIZED YIELD ON COST:** 200-250bps+ residual cap rate

» **UNLEVERED IRR:** mid-high teens

» **LEVERED IRR:** mid-twenties

» **EQUITY MULTIPLE:** Increased focus for rescue capital, as opposed to IRR

» **CONSERVATIVE LEASE-UP & CAPITAL ASSUMPTION:** Extended lease-up assumptions with highly conservative tenant improvements

» **UNDERWRITING "AGGRESSIVE" RENT GROWTH**: In select submarkets / assets

Current national office transaction environment for top quality product

Recent Pricing Indicators

Orange County, CA – Value Add – $37M – Closed 4Q24

- 231k SF 1985 vintage asset / 55% occupied
- 13% ROC, 19% UIRR
- Short sale
- **Buyer: Greenlaw Partners / Monster Energy**
- **Seller: New York Life / Bank of America**

Atlanta, GA – Value Add – $51M – Closed 4Q24

- 305k SF 2024 vintage asset / 100% vacant
- Existing lender, Bank OZK, recast the existing loan
- 12% ROC / high-teens UIRR / mid-twenties IRR
- **Buyer: Menlo Equities**
- **Seller: Lincoln Property Co JV Bridge Investment Group**

Silicon Valley, CA – Core – $108M – Closed 3Q24

- 190k SF 2020 vintage asset / 100% occ.
- Google leased, but space is only in shell condition
- Traded for 10% in place cap rate
- **Buyer: DivcoWest, TMG**
- **Seller: Renault and Handley**

Recent Pricing Indicators

Dallas, TX– Core – $121M – Closed 3Q24

- 388k SF 2000 vintage asset w/ 11 years of WALT / 94% occ.
- Traded for $121M @ 8.4% Cap Rate
- Pricing driven largely by the financing markets
- Financing: 5 Year CMBS financing: 65% LTV,

5 Yr UST + 360 bps (7.5% interest rate)

- **Buyer: Shorenstein**
- **Seller: Taconic**

Miami, FL– Core – $443M – Closed 4Q24

- 685,279k SF 1985 vintage asset, but renovated / 90% occ.
- Traded for 7.2% cap rate ($646 PSF) all cash
- Multi tenanted, with 5+ years of WALT
- **Buyer: Morning Calm / Elliot Management**
- **Seller: Nuveen**

Washington, DC – Core – $140M – Closed 3Q24

- 233k SF 2017 vintage asset / 91% occ.
- Traded for $140M @ 9.0%
- 5-year seller financing offered @ 5%
- **Buyer: Spear Street**
- **Seller: Tishman Speyer**

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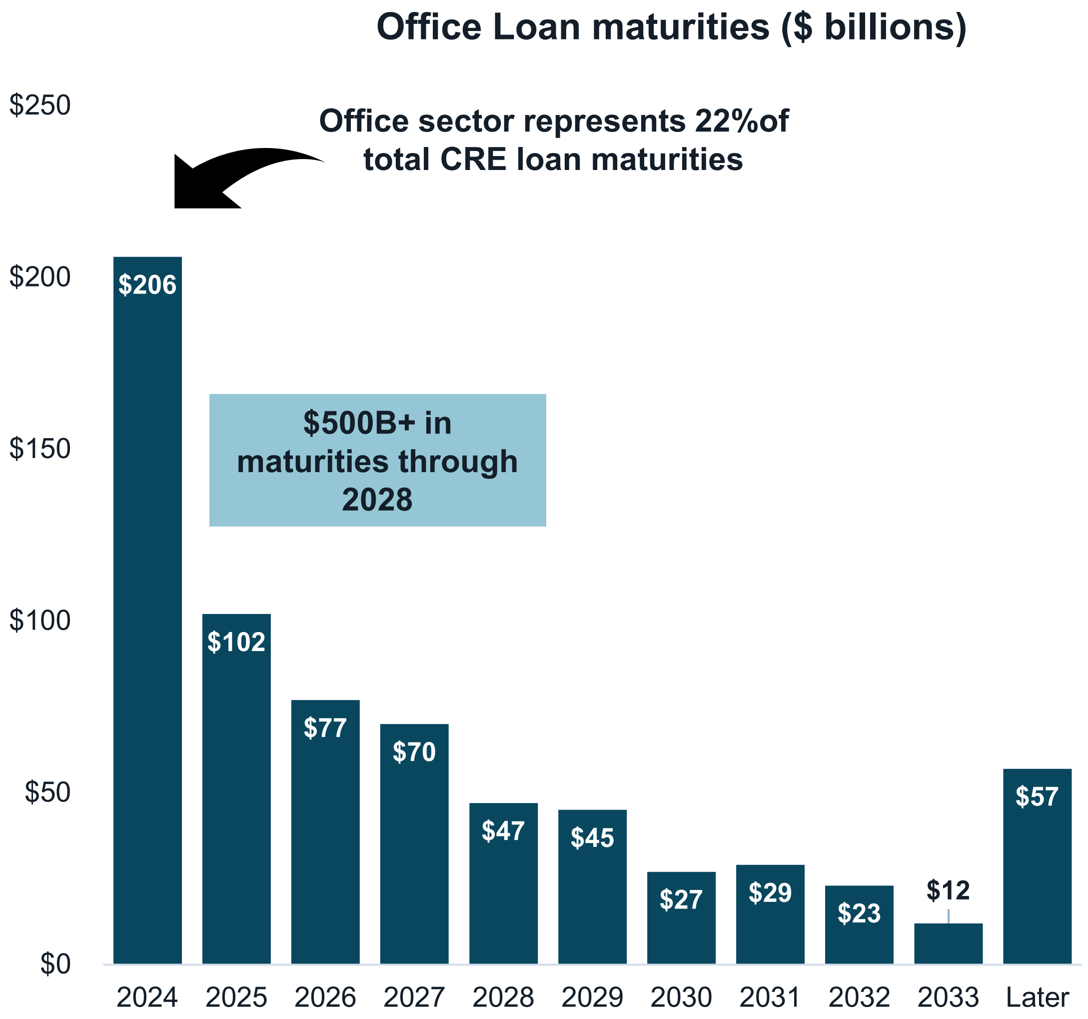
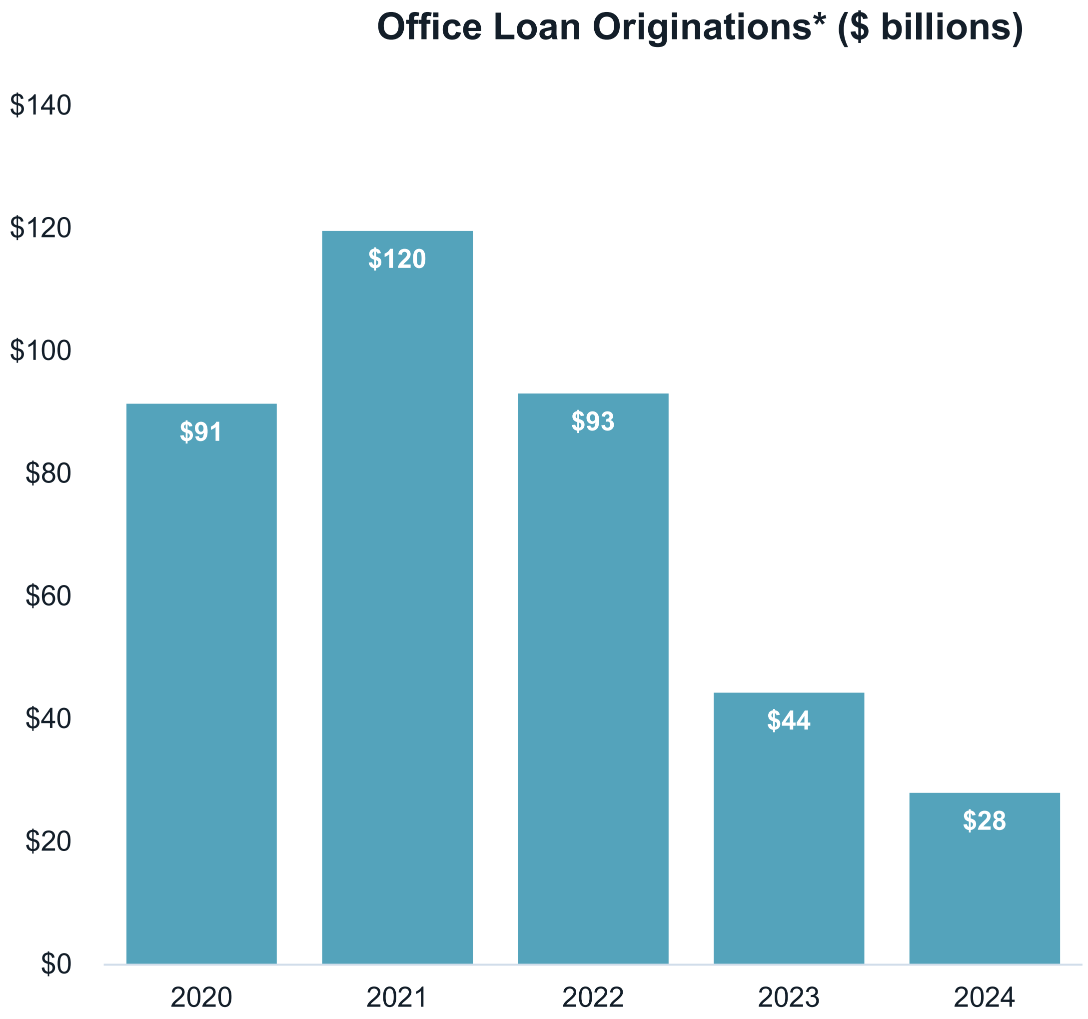
Upcoming loan maturities will catalyze transactions activity; originations remain muted





*Office only, excluding MOB, includes all loan types (refinancing & acquisition financing)

Source: JLL Research, Mortgage Bankers Association (Data is as of December 31, 2023, and is released once per year, and does not reflect extensions that have taken place during the year)

Thank you

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