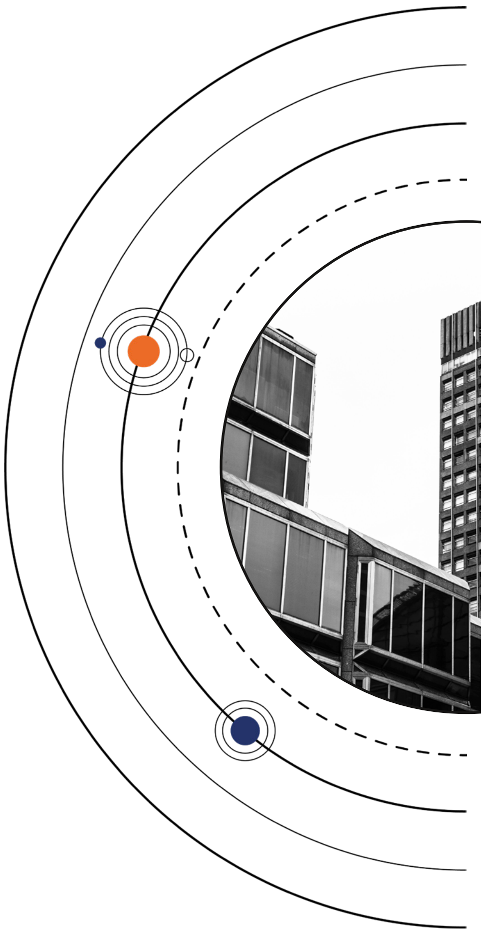
SVN RESEARCH

State of the Market Report

OFFICE | 2025

National Overview



NATIONAL OVERVIEW: SEEKING BOTTOM

US Office fundamentals continue to experience regional divisions, but nationally, listing rates have climbed from a 2023 floor. According to Commercial Edge's National Office Report, the average price per square foot of office space increased by 4.5% year-over-year; all the while, vacancies continue to climb.

Before the Office sector can stand on its feet again, it must first make landfall, and jointly, the uptick in rents and vacancies offer clues about its progress.

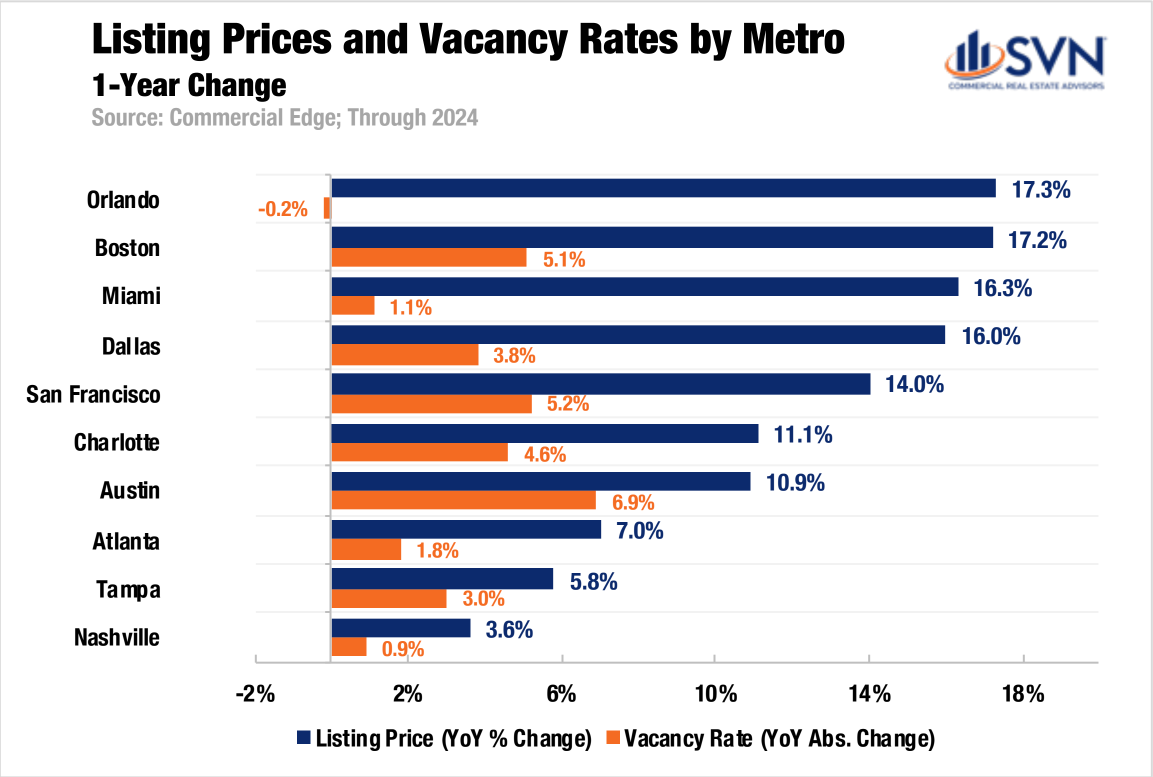
Structural economic changes affecting the economic value of office space — including long-term remote work trends and AI adoption — are spurring a generational downsizing of the sector's footprint. Just 43.2M square feet of Office space was delivered in 2024, 36% lower than the 2019 delivery rate.

Consequently, the national supply of office space is gradually shrinking, and although the vacancy rate continued to rise in 2024, the pace of increase slowed. Over the same period, the most space-shedding tenants have been largely accounted for. According to reporting from Hines, one of the world's largest privately held real estate managers, their tenants returned about 10% of space on average in 2024 compared to nearly 33% 12-18 months prior.

In the immediate term, vacancies continue to rise but are inducing a modernization process where older stock remains vacant, and current demand competes over higher-quality properties. This complex process helps explain why markets with higher vacancy increases in 2024 are, on average, also seeing progressively renewed price momentum.

For example, markets that experienced some of the most substantial increases in vacancy during 2024, such as San Francisco (+5.2 percentage points) and Boston (+5.1 percentage points), also experienced some of the most substantial price momentum (+14.0% and +17.2%, respectively).

Of course, these metrics do not have a perfect correlation. Some Sun Belt metros like Orlando and Miami had robust price momentum in 2024 despite a low or falling vacancy rate. However, this is a relationship one would see in normal market conditions, which some of these markets have enjoyed. More than likely, regional differences in 2025 will continue to reflect where market conditions are more normalized versus still searching for the new equilibrium.

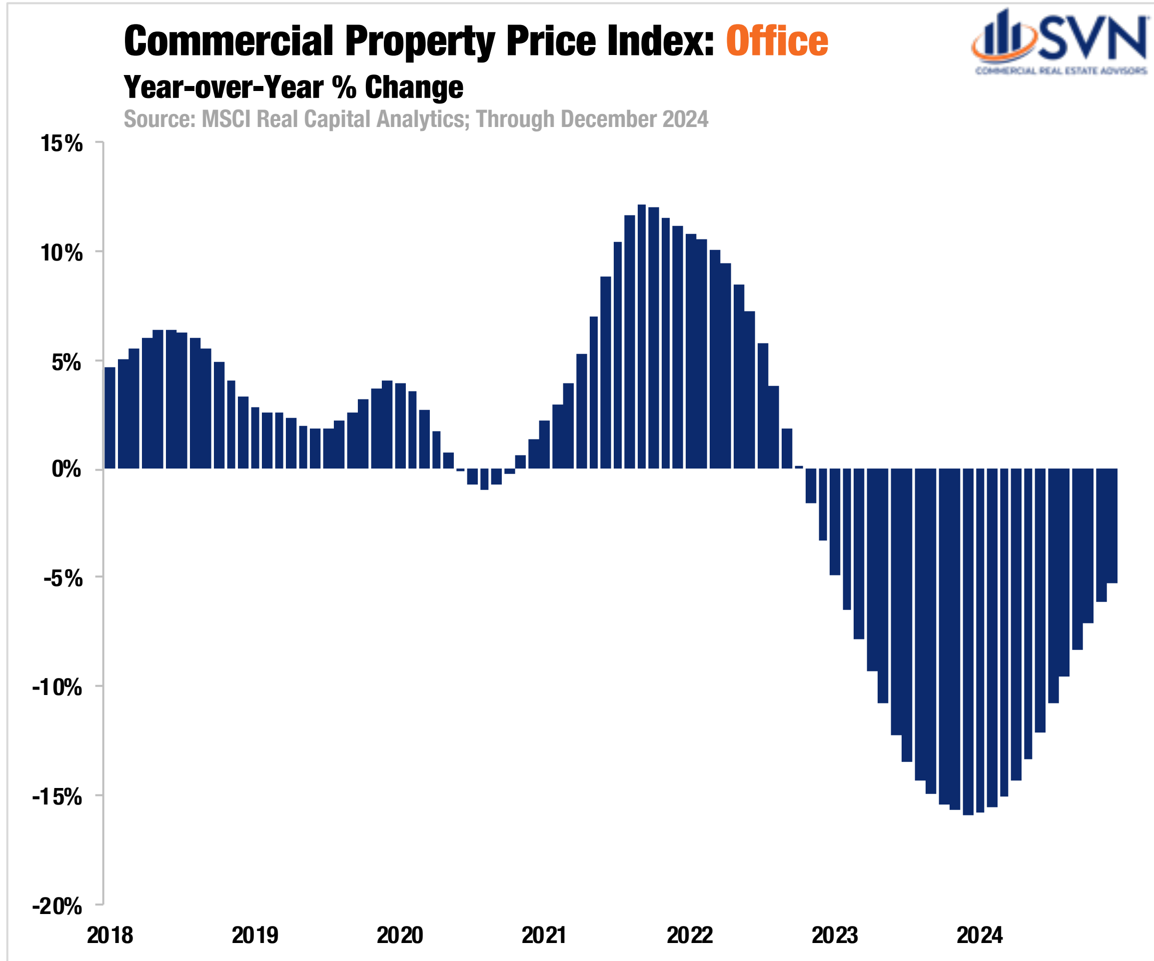


Pricing

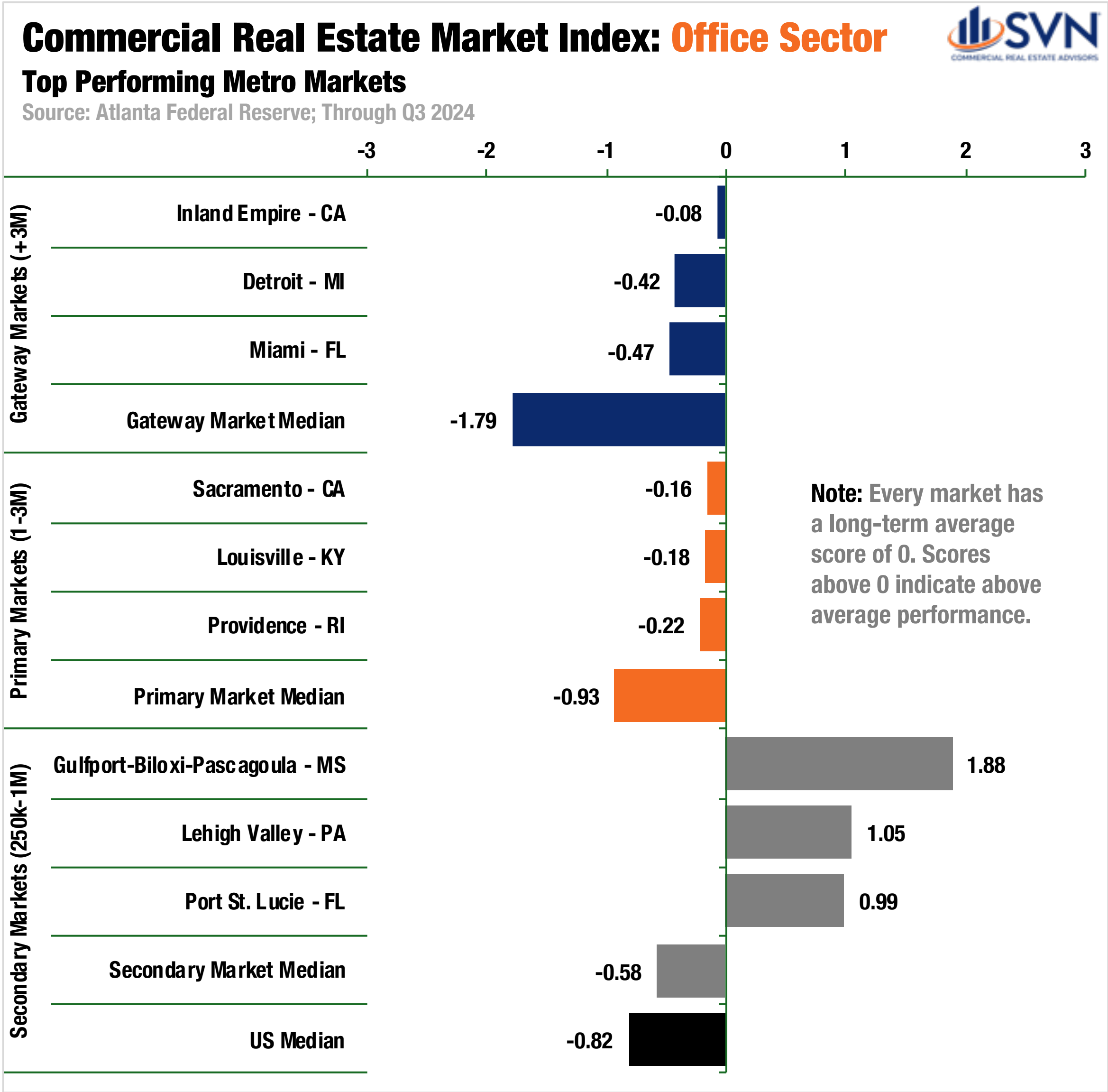
According to MSCI Real Capital Analytics' CPPI, pricing in the Office sector took another hit in 2024. On average, Office asset valuations fell by 5.3% last year. Through the end of 2024, Office valuations have declined on an annual basis for 26 consecutive months.

Moreover, Office prices are down by a cumulative 24.1% compared to the 2022 valuation peak, underscoring the effects of high interest rates and an uncomfortable rightsizing. Still, there are some modest signs of hope on the pricing front. The pace of annual declines has now lessened in each of the past twelve months.

While a sustained pricing recovery appears unlikely over the short term, the Office sector is at least progressing towards stopping the bleeding.



Standout Market Performance



To identify standout Office markets in the past year, the SVN Research Team utilized the Atlanta Federal Reserve Bank's Commercial Real Estate Market Index (CREMI). The CREMI provides a holistic view of a CRE sector's performance within every major US metro — incorporating factors such as occupancy rates, net operating incomes, cap rates, asset pricing, absorption, and other local economic conditions.

Gateway Market Standout: Inland Empire (Riverside-San Bernadino)

In 2024, the Inland Empire's Office sector performed well, driven by its relative affordability compared to neighboring Los Angeles and Orange County and a growing demand for decentralized office space.

Net absorption over the year ending in Q3 2024 grew to 410k square feet — ballooning by more than 400% compared to one year earlier. As more companies embrace a hub-and-spoke office model, the Inland Empire has benefited from its strategic location and expanding infrastructure, becoming an attractive destination for businesses seeking cost-effective alternatives to traditional urban centers. Rents continue to rise at a healthy annual pace (+3.0%). Concurrently, vacancy rates in the metro have improved over the past year (-30 bps), settling down at 5.4%. The Inland Empire remains positioned for continued success as it mixes strong economic fundamentals and an ability to meet demand for cost-effective and well-located office space.

Major Market Standout: Sacramento

As companies and employees continue to seek more affordable living and business environments, Sacramento has benefited from an influx of businesses relocating or expanding from higher-cost markets like San Francisco and Silicon Valley. The region's growing professional services, healthcare, and government sectors have been key drivers of Office demand. Sacramento's status as California's capital ensures steady demand from public-sector tenants and companies supporting state operations.

Despite net delivered square footage increasing by more than 400% over the year ending in Q3 2024, vacancy rates have remained in check — increasing by just 10 bps from a year earlier to settle at 11.2%. Affordability and quality of life play a crucial role in attracting businesses and talent, which is supporting local leasing activity. Compared to the Bay Area, Sacramento offers much lower lease rates and operational costs, making it an increasingly desirable Office market.

Secondary Market Standout: Gulfport-Biloxi

The Gulfport-Biloxi Office sector is performing exceptionally due to growth in key industries and its strategic location along the Gulf Coast. Historically dependent on tourism and gaming, the region has broadened its economic base in recent years, with notable expansions in healthcare, military, and professional services. Military installations, such as Keesler Air Force Base and the Naval Construction Battalion Center, support a growing defense-related business sector and ancillary services, creating a steady stream of Office occupants.

Employment totals in the metro area grew by a robust 2.1% in 2024 — well above the national average (+1.3%). A steady increase in office space demand alongside a tepid construction pipeline has led to a rock-bottom vacancy rate of just 2.9%. Altogether, the trend toward suburban and low-density office spaces benefits Gulfport-Biloxi, with businesses prioritizing flexible, affordable options over higher-cost urban markets.

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