

CoStar Insight

US office forecast brightens as demand steadies, obsolete space removed

Improved long-term outlook reflects stabilized tenant needs

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U.S. office vacancy appears to have reached a cyclical peak, topping out at 14.2% in mid-2025, before edging down slightly by year's end as the updated CoStar forecast anticipates stable vacancy through the end of 2026.

That's now expected to be followed by a gradual decline that would bring the headline vacancy rate near 13% by 2030.

This revised outlook takes a somewhat more optimistic long-term view than the previous forecast, which called for vacancy to keep rising until late 2026 and remain well above 13% through the end of the decade. The shift reflects recovering tenant demand during the back half of 2025, driven by a stabilization in per-worker space needs even as hiring in the traditional knowledge industries continued to lag.

At the same time, a substantial increase in conversion and demolition activity has begun to reshape the market. More than 35 million square feet were removed from inventory in 2025 — about 10 million square feet above the long-run annual norm.

With interest rates stabilizing and price discovery for building trades improving, more low-basis sales are expected in the months ahead, which could trigger additional redevelopment and conversion projects. The accelerated removal of obsolete space, paired with historically limited new construction, should lead to a slow easing of the vacancy rate after 2026.

Compared with prior expectations, CoStar's revised forecast calls for roughly 10 million square feet less occupancy gains in 2026 as office-using job growth continues to decelerate. On the supply side, the near-term outlook is similar, as about two-thirds of the remaining under-construction pipeline is set to be completed this year. The resulting vacancy projection for the end of 2026 is very similar to the previous forecast.

The outlook for the office sector improves after 2026, however. Steady per-employee occupancy signals a reconnection of office demand with job growth, which should support additional office space demand if hiring strengthens as anticipated in 2027.

Meanwhile, elevated demolition activity is likely to continue reducing obsolete inventory for several years, while the record-low level of construction starts that has persisted since mid-2023 indicates that new completions will remain subdued for some time.

Rent growth is expected to hold steady throughout 2026, though the annual average is likely to remain below 1% until an expected acceleration in early 2027 that coincides with the expected pickup in job growth.

While this is a slight change from the earlier outlook, the broader theme remains intact: A scarcity of premium space should continue to support stronger rent performance in the most desirable buildings. In some markets, this should include well-located assets that do not meet the Class A standard.

Risks to the revised outlook remain balanced. Some occupiers may need to expand footprints simply to accommodate office workers attending more consistently, even without strong new hiring. On the other hand, the recent productivity-driven divergence between economic growth and job growth could persist, especially if advances in AI enable firms to expand output with fewer employees. That could dampen demand for additional space.

Looking further ahead, office demand growth is expected to stay muted relative to historical averages due to lower long-term population and job growth. As a result, vacancy is expected to remain structurally higher, staying above its Great Recession peak beyond 2030 despite the supply-side adjustment.

Even so, a shrinking pool of available first-generation office space should help support steady rent and price growth among the most competitive and desirable buildings.