CoStar Insight

US office leasing increases 5% in past year

Improving market characterized by smaller-sized deals, geographic unevenness

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Office tenants signed up for an estimated 410 million square feet of space in 2025, a meaningful increase over the prior year. Still, persistently smaller deal sizes and a wide variation in leasing across major cities indicate a choppy recovery from the post-pandemic doldrums.

The result represents an increase of more than 5% from a lackluster 2024, in which office leasing volume fell to its lowest level in 15 years, excluding the pandemic year of 2020. Furthermore, leasing momentum gained traction throughout the year, as 2025 closed out with three consecutive quarters of leasing volume exceeding 100 million square feet, a first since the opening three quarters of 2022.

These figures reflect all new office leases documented in 2025, as well as an estimate of new leases that likely occurred during the year, but have not yet been formally recorded by CoStar Research. Lease renewals are excluded, as they typically have little impact on overall occupancy.

Despite the rebound in 2025, office leasing activity has yet to return to the level typical in the late 2010s. Transaction activity is near its all-time high, with approximately 30,000 lease deals signed in 2025, representing a 5% increase over the average number of leases signed from 2015 to 2019. However, the average lease size was only about 3,500 square feet, more than 15% smaller than the five-year deal-size average before the pandemic.

There is little indication that lease sizes will increase anytime soon. The average size of new office leases has barely budged since the end of 2022, first because many tenants initially chose to downsize when older leases expired, and now because few large blocks of premium space remain available to accommodate major tenants who might otherwise wish to relocate. Thus, the market has become saturated with office tenants having smaller requirements.

Downtown San Jose's 200 Park Ave, completed in 2023, is one of the last remaining trophy office buildings that can accommodate a tenant in the market for at least 100,000 square feet. (CoStar)

The trend toward smaller lease sizes is nearly universal across the country’s largest office markets. Otherwise, however, leasing performance varied widely across local markets. Boston saw the strongest year-over-year recovery, a 52% surge that brought annual leasing volume up to its pre-2020 average.

However, with several deals involving in-market cannibalization and others for yet-to-be-constructed space, the recent strong leasing has done little so far to stem the tide of rising vacancy in the face of Boston's nation-leading supply growth.

Demand from AI firms drove year-over-year office leasing gains of about 40% in both San Francisco and San Jose. Although this was not quite enough to reach the typical 2015-2019 level in either market, associated move-ins in the second half of the year— including some into sublet space — helped reduce office vacancy in both of the West Coast tech hubs.

In the kind of deal that could become more common in the year ahead, Amazon secured nearly 200,000 square feet via sublease at 237 Park Avenue in Midtown Manhattan in early 2025. (CoStar)

New York remained a leader in the national recovery, with office leasing volume rising over 20% from 2024 and reaching 10% above its average from the late 2010s.

Elsewhere, however, results were checkered. Chicago, Dallas-Fort Worth, Los Angeles and Washington, D.C., saw modest year-over-year increases in office leasing, but nevertheless remained below their customary levels. Meanwhile, leasing activity declined somewhat in Atlanta, Houston, Philadelphia, and Seattle from 2024.

Going forward, it may be difficult for the national office market to produce further growth in annual leasing activity for some time. Although demand has begun to recover, the rapid contraction in supply growth is a powerful constraint on tenants.

A third quarter characterized by strong leasing activity, paced once again by increased office demand in Manhattan, is behind a brighter outlook for the office sector. (CoStar)

The lack of appealing options in new buildings appears set to choke off major office relocations, leaving many large tenants to bide their time in place, perhaps executing short-term renewals or committing to small expansions where possible.

The likely result could be more of the same: Smaller deal sizes and suppressed overall leasing volume.