

Investors are returning to office property

Commercial real estate investment sales climbed again in 2025 as offices led the way

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Workers were not the only ones coming back to offices last year.

Stable interest rates, improving supply-and-demand fundamentals and broader agreement on pricing underpinned a surge in building sales in the beleaguered sector. Office sales volume for 2025 was more than \$56 billion, an increase of \$10 billion from 2024, according to CoStar's preliminary year-end figures. The year-over-year sales increase of more than 20% far exceeded that of the other major property sectors.

Several factors contributed to the rebound. For commercial real estate generally, a more favorable interest rate environment was perhaps paramount. The yield on the 10-year Treasury, a key benchmark rate for commercial real estate investment, began 2025 above 4.5%. By the fourth quarter, it had come down to around 4.1%, and has since remained reasonably close to that level.

While borrowing costs are still higher than typical in the last economic cycle, recent rate stability has given investors more confidence to move forward with loans and purchases. Thus, overall sales of commercial real estate rose more than \$25 billion in 2025, with every major property sector clocking an increase.

Within the office sector, a tighter occupancy market also played a key role in attracting increased investment. The national vacancy rate peaked in the middle of 2025, and net absorption, or the change in net occupancy, turned positive for the first time in several years. In some strong markets, like New York and Dallas, the inflection point came even earlier. Meanwhile, a generationally small construction pipeline is likely to constrain future availability for some time to come.

Price stability was one result of these improved conditions. According to the CoStar Commercial Repeat Sales Value-weighted Index, commercial property pricing stayed essentially flat throughout 2025 after three years of precipitous declines. Capitalization rates also held steady at about 200 basis points above their level from late 2021.

While values are still approximately 45% below the cyclical peak, the stabilization suggests that buyer interest in investment-grade multitenanted office assets is returning. While the risks have not disappeared, the prospect of capitalizing on lower property values has brought even some institutional buyers back off the sidelines.

Institutional buyers accounted for about 40% of transacted office value in the late 2010s, but their share began to fall sharply in early 2022. By 2024, they were involved in less than 20% of purchased office value. Occupiers and private buyers helped fill some of the gap, though many office building trades simply did not occur — as evidenced by depressed sales volumes in 2023 and 2024.

Last year, however, the institutional share of buying activity picked up again, ending the year above 25%. The return of these buyers was a major driver of the outsized increase in office sales activity, which accounted for its largest share of overall commercial property transaction volume since 2021.

It remains to be seen whether the resurgence of office investment activity represents the beginning of a new trend or a temporary aberration. Despite the increase, overall office sales in 2025 were still only about half the typical transaction value in the late 2010s. Furthermore, the office sector's share of overall investment sales volume has been declining for a decade, from more than 30% to closer to 15%.

Even so, the rebound in 2025 office sales indicates that at least some investors are demonstrating restored conviction about the sector. The prospect of acquiring office assets at a basis well below replacement cost offers these buyers both the time and the potential flexibility to earn an outsized return. For an increasing number of them, office has now become worth the risk.