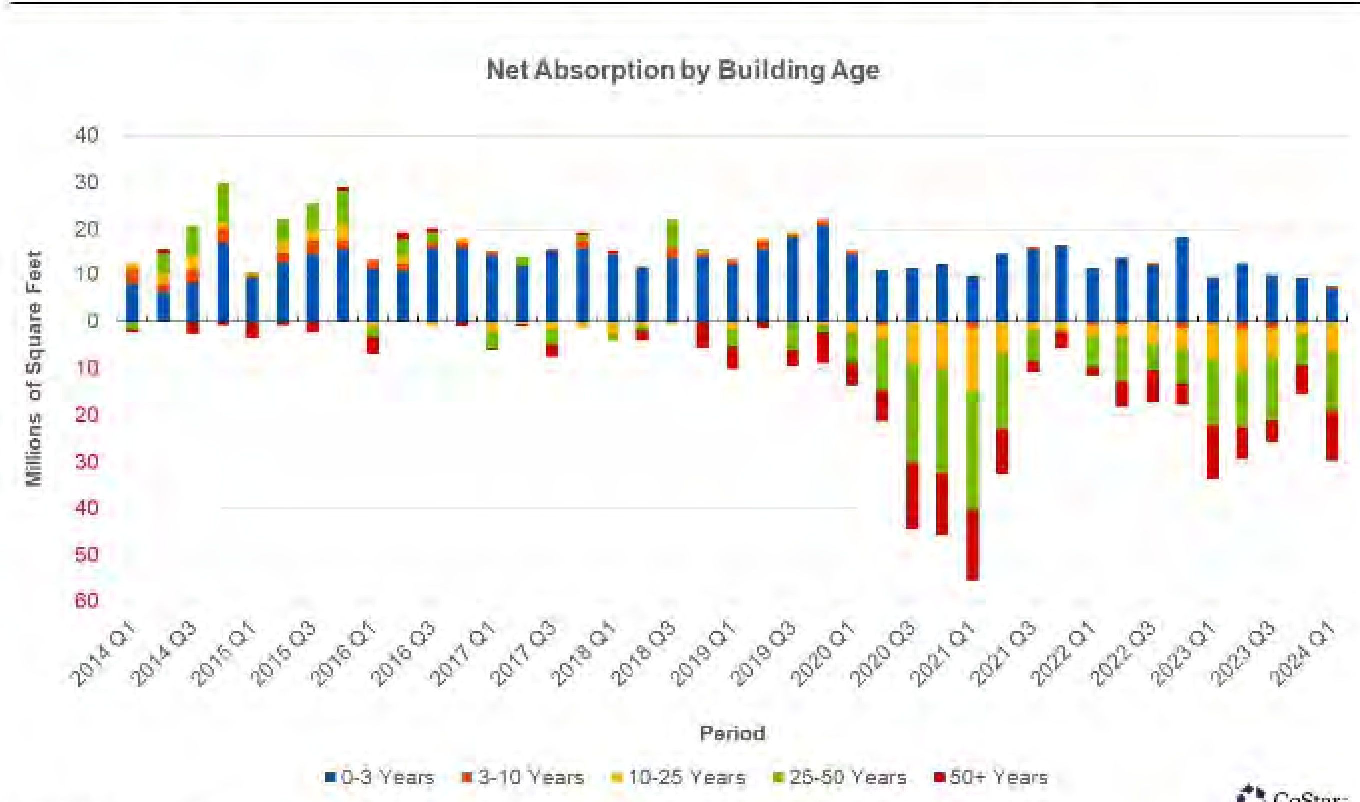
Newly Built Office Buildings Hang Onto the Greatest Demand

Office Tenants Still Fill New Construction, but Leasing Pace May Be Slowing

By Phil Mobley

The office market has become a less-than-zero-sum game since 2020, one in which only buildings not yet a decade old have managed to increase occupancy. But now it faces another unprecedented set of circumstances, with lease-up occupancy slowing even as construction grinds nearly to a halt.

It is not new, of course, for recently completed buildings to account for the largest portion of net absorption, the net change in occupied space. In a healthy market, it would be reasonable to expect that new office buildings would capture almost all net new demand, while older ones would maintain occupancy by backfilling vacated space with new tenants. Sometimes, however, this state of equilibrium can be disrupted.



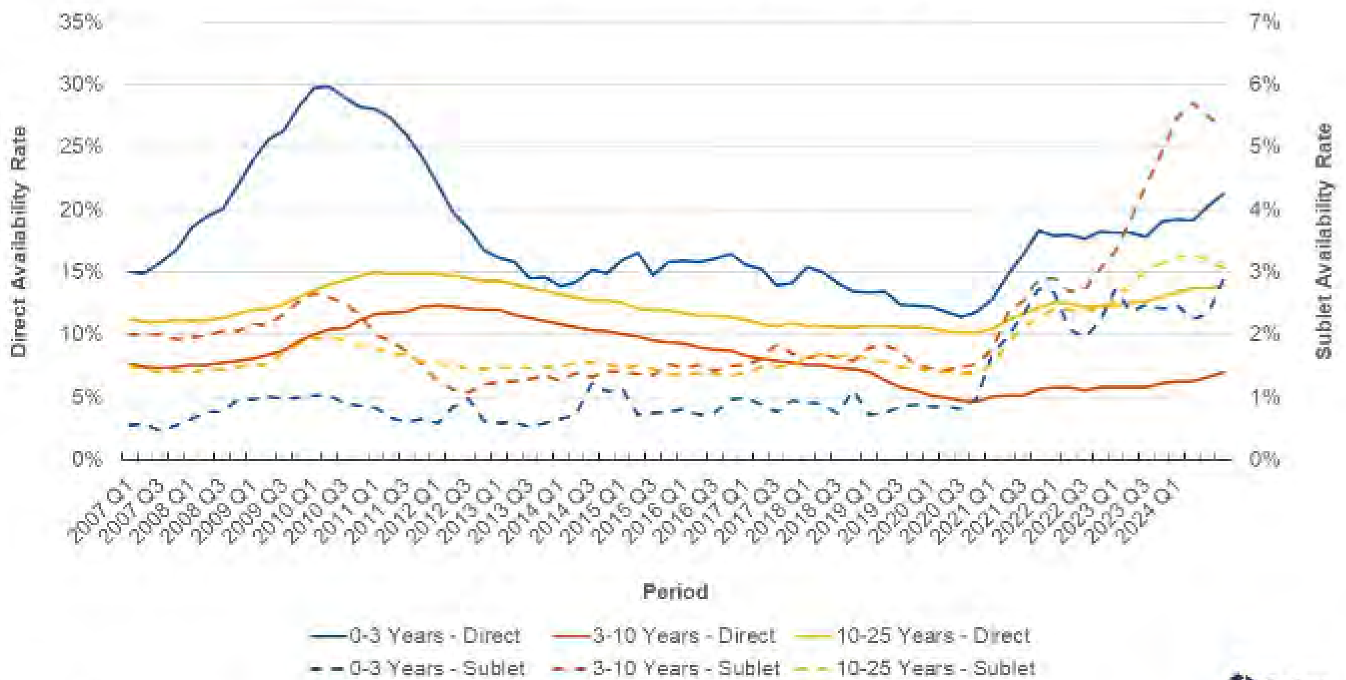
In the middle of the 2010s, for example, as the recovery from the Great Recession accelerated, office buildings of almost all ages attracted demand. Even buildings as old as 50 years saw positive

absorption in the aggregate. This was partly because the post-recession supply pipeline was still ramping up, limiting the supply of new construction. By 2019, demand in older buildings had returned to a near-neutral level.

More recently, new office construction has continued to generate positive absorption, while buildings aged three to 10 years have managed to hold onto most of their tenants and maintain the occupancy they had. Older buildings, however, have experienced severe losses.

Since the beginning of 2020, buildings older than 10 years have lost nearly 420 million square feet of occupancy — an amount roughly equivalent to all the office inventory in the Dallas-Fort Worth Metroplex.

This occupancy loss far surpasses anything observed in previous economic cycles. The differences go beyond magnitude, revealing new tenant behaviors as occupiers make a long, slow adjustment to new ways of using office space.



During the Great Recession, some companies reduced their office footprints, but to the extent that they held onto space, they mostly stayed put. Direct availability in newly completed office buildings soared as these occupiers hunkered down in existing locations, waiting for the recovery

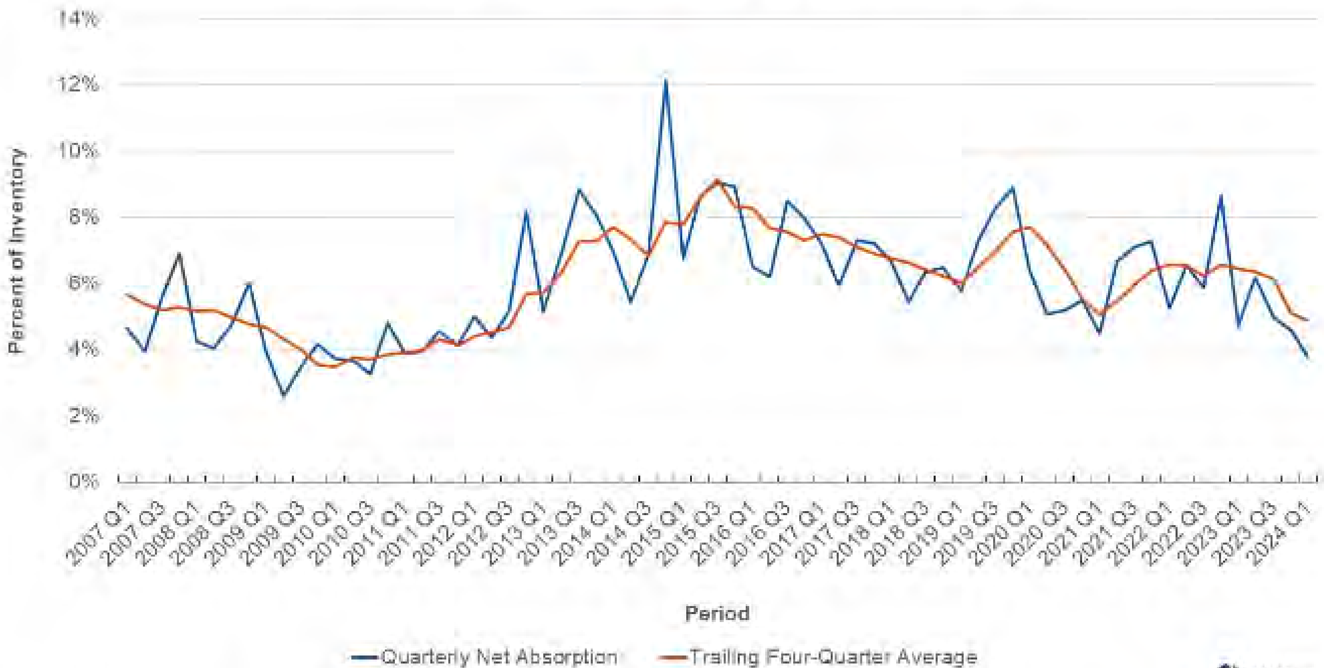
to begin before seeking new space. Meanwhile, sublet availability for second and third-generation office space rose meaningfully for a time but then subsided quickly.

This time around, office occupiers have reacted differently. While direct availability has risen across the board since mid-2020, it has increased less at new office buildings than during the Great Recession. At the same time, the amount of sublet space available at office buildings under 25 years old has been striking. The trend has been most pronounced — and has even accelerated — at buildings between three and 10 years old.

This suggests that office tenants today prefer brand-new office buildings more strongly than they did 15 years ago. They have been more willing to let leases expire even in relatively new buildings to have the opportunity to move into the latest and greatest developments. In some cases, they have even moved out of space before their current lease expires in order to relocate into newer space, adding to the glut of recent vintage sublet availability.

Pace of Occupancy in New Buildings Slows Down

Net Absorption in Office Buildings Aged 0-3 Years



Source: CoStar, June 2024

While the relative preference for new office space is clear, the absolute level of demand bears close attention. For most of the past few years, office buildings less than three years old have been filling up at a quarterly rate averaging more than 6% of inventory. More recently, however, the pace of absorption has slowed. In the first quarter of 2024, it fell to 4% of inventory, a rate not seen

since 2011. This brought the trailing 12-month average down to about 5%.

This dip in leasing activity could be a temporary blip. Take-up of new space is inherently volatile, as myriad factors can affect the timing of move-ins.

Still, with job growth in the major office-using industries having slowed dramatically over the past year, it could be the beginning of a cyclical reaction akin to the one office occupiers displayed during the Great Recession.