Occupancy in Older Office Buildings Drops as Tenants Flock to New Builds

Buildings that are 10 years old and older have lost nearly 420 million square feet of occupancy.

By Kristen Smithberg

Office buildings constructed within the past decade are more successful at maintaining occupancy in the new hybrid work environment following the pandemic.

A new analysis from CoStar Group revealed that new office construction has generated positive absorption while buildings that are 10 years old and older are experiencing severe losses – nearly 420 million square feet of occupancy – since the beginning of 2020. That loss – equivalent to losing the entire office inventory of the Dallas-Fort Worth Metroplex – surpasses anything the industry has observed in previous economic cycles, the analysis said.

Buildings in the 3 to 10 year old range are maintaining most tenants and occupancy, the report said. But even those buildings are seeing increased subletting availability as tenants show a preference for the newest construction.

This trend is a departure from what the office sector observed in the wake of the Great Recession, when companies reduced their office footprints but stayed in their existing buildings while waiting for the economy to recover. As a result, availability in new office construction soared and sublet availability for second- and third-generation office space rose briefly but then subsided.

This suggests that today's office tenants prefer brand-new office buildings, CoStar said.

"They've shown an increased willingness to let leases expire even in relatively new buildings to have the opportunity to move into the latest and greatest developments," said Phil Mobley, CoStar's group director of office market analytics. "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."

The pace of absorption has shown signs of slowing, from a quarterly rate of more than 6% of inventory for the past few years to 4% of inventory in the first quarter of 2024, the analysis said. That rate is on par with the pace of office absorption in 2011. CoStar said it is unclear whether this change is a temporary blip or the beginning of a cyclical trend similar to the Great Recession as job growth in major office-using industries has slowed during the past year.