COSTAR INSIGHT

US office leasing bounces back to start 2025

Activity surges to highest level in more than five years

Increased leasing in Century City helped propel volume in Los Angeles close to its pre-pandemic norm in the first quarter of 2025. (Sherri Johnson/CoStar)

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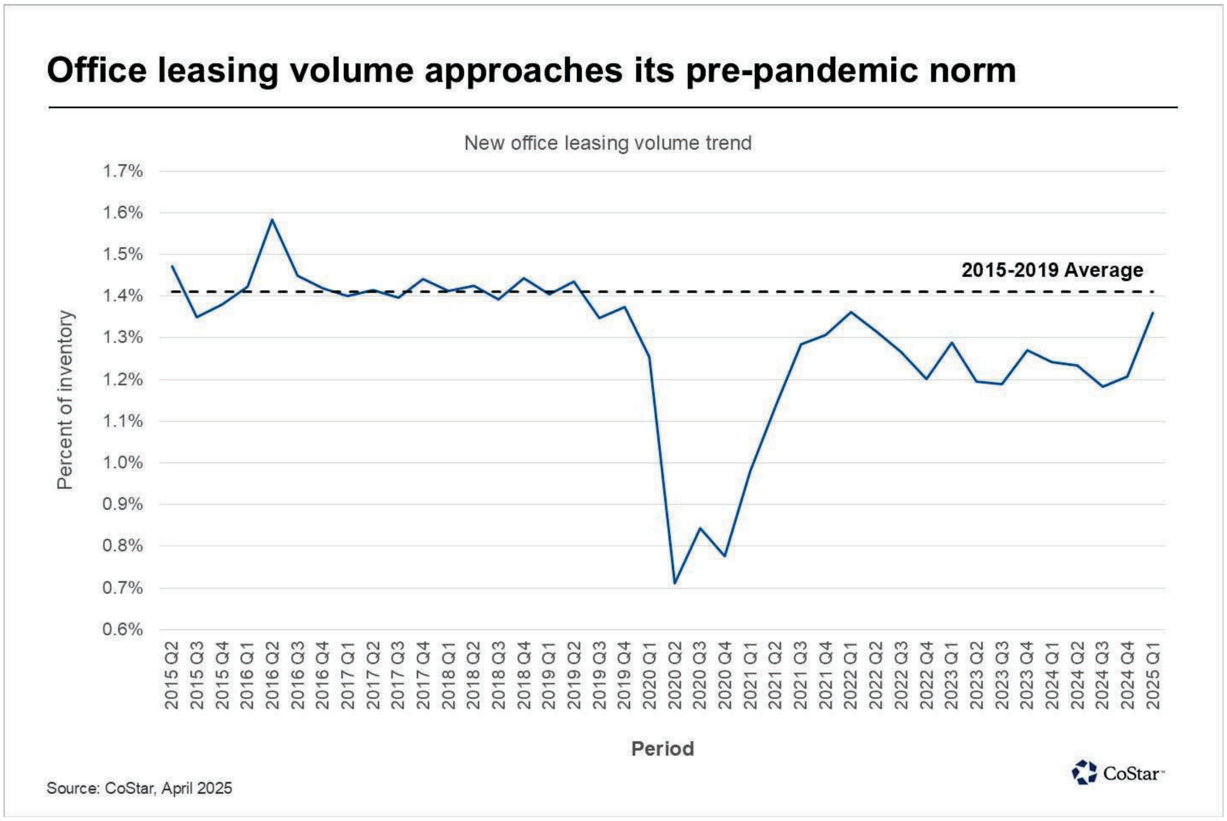
April 4, 2025 | 3:06 P.M.

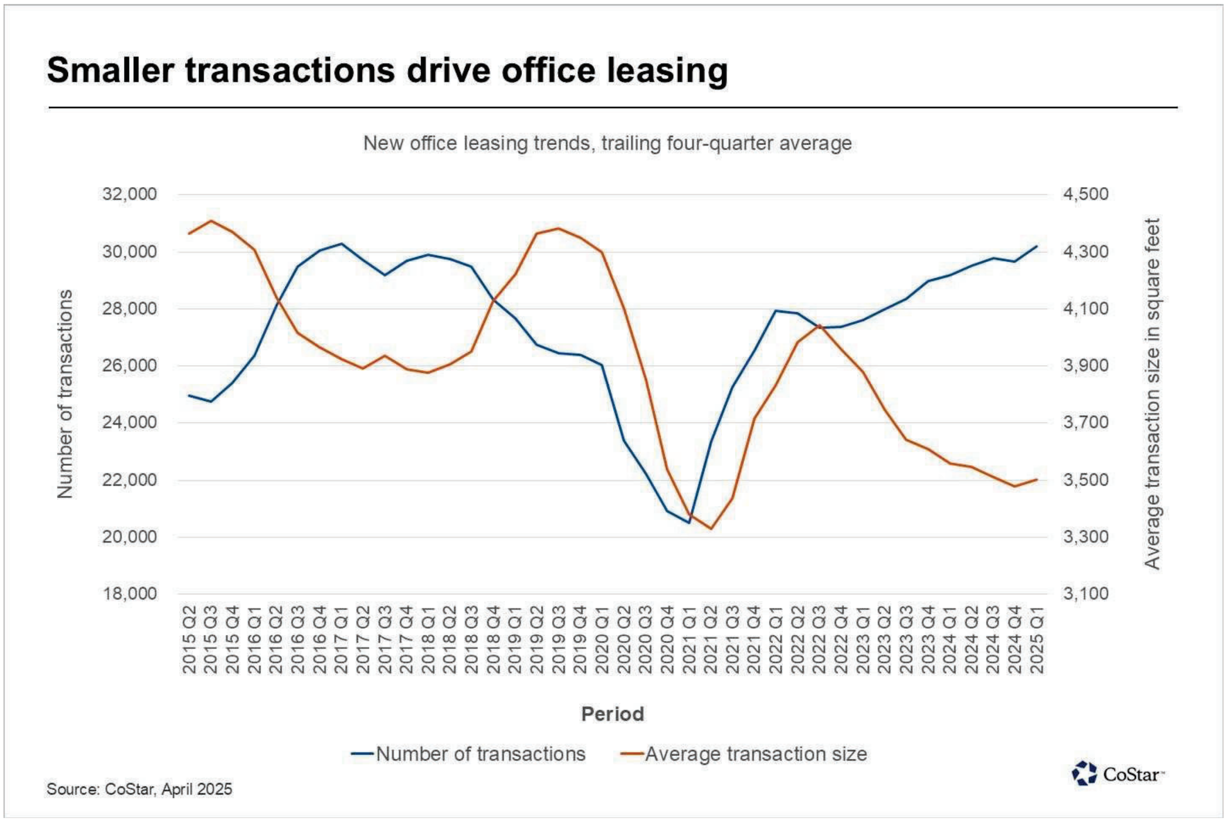
Growing economic uncertainty was not enough to stem the tide of tenants' appetite for U.S. office space in the first quarter of the year.

Office-seeking companies leased an estimated 115 million square feet in the first three months of 2025, according to preliminary CoStar data. This was a 13% increase from the prior quarter and the most since the middle of 2019, offering the strongest evidence to date that a sector-wide recovery is underway as companies set their expectations for office attendance and space utilization.



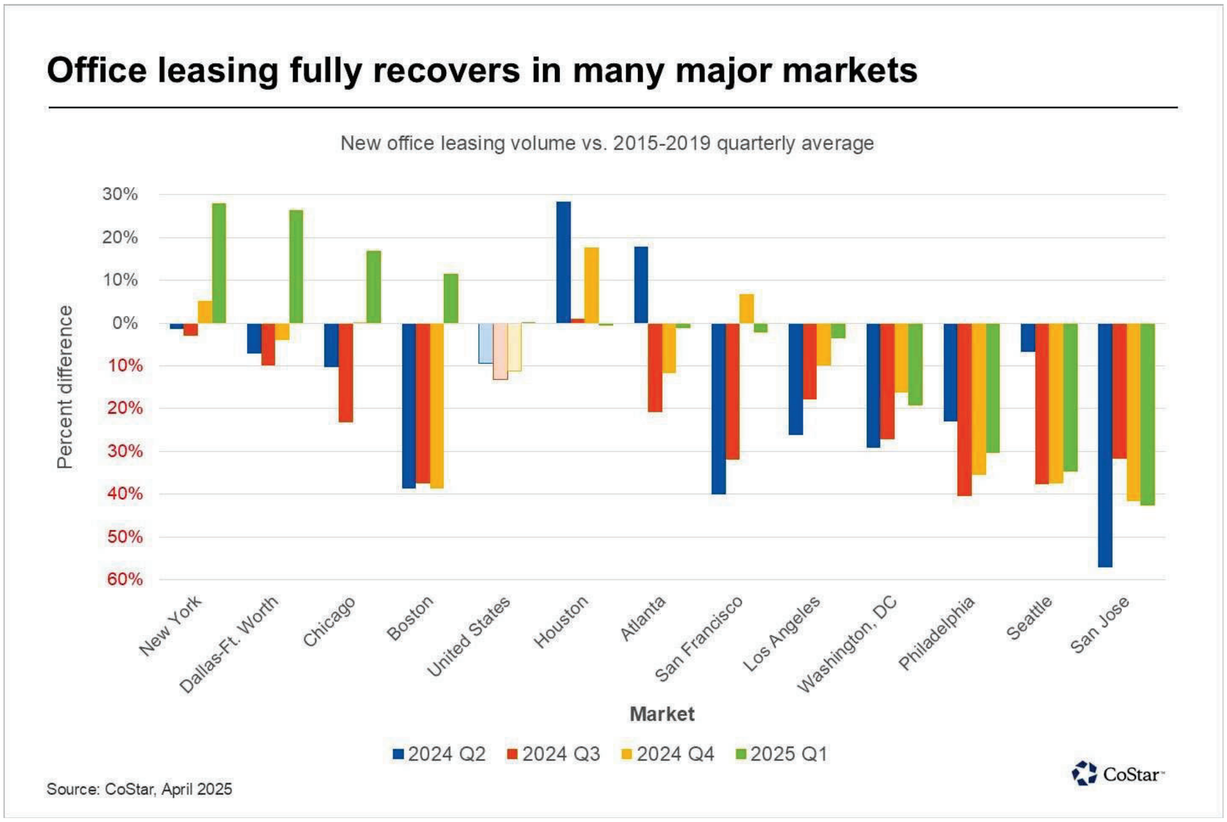
The amount of square footage leased represents almost 1.4% of the country's office inventory. That is a shade below the average quarterly amount observed between 2015 and 2019. However, it matches the figure from the opening quarter of 2022 as easily the most since the beginning of the decade.

The surge in overall volume occurred despite a continuation of a trend of smaller transaction sizes. The trailing four-quarter average lease size of about 3,500 square feet is about 15% below its five-year, pre-pandemic norm. This was more than offset, though, by an estimated 33,000 transactions, a number that, when finalized, may ultimately be the highest on record.



The leasing recovery has some geographic breadth, with eight of the top 12 markets — including much-beleaguered San Francisco — showing first-quarter volume within 5% of the pre-2020 average.

Boston, which had suffered from the evaporation of demand from biotech lab occupiers, saw a tremendous swing in the first quarter, led by Biogen's commitment to 580,000 square feet at the future 75 Broadway in Cambridge's Kendall Square outside Boston.



Other major markets have shown improved leasing activity in recent quarters even if it remains depressed by historical standards. Washington, D.C., for example, saw a slight quarter-over-quarter decline in volume, likely related to reductions in the federal workforce and announced plans by the government to consolidate its real estate footprint. Even so, the general trend has been positive over the past year.

Leasing trends will be worth watching closely in the coming months. The rapid drawdown of the office supply pipeline means that tenants have fewer options for first-generation space. Most markets, of course, still have plenty of vacated space available for backfilling — but will tenants settle for space that may not tick every box on their wish lists? The answer will determine which landlords win the biggest in the new cycle.
