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### *The Evaluator* Industry Spotlight: The Office Market

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#### *Has a New Normal Emerged in the U.S. Office Market?*

This article appeared in the October 2025 edition of *The Evaluator*.

By: **Michael Mangan**

From the shock of the 2020 global pandemic to mid-2025's fragile stabilization, the evolution of the U.S. office market has been a multi-year saga. Vacancy climbed to record highs as hybrid work models gained traction and capital costs rose as tenants fled Class B and C space in search of amenity-rich towers. Net negative absorption has continued, though it has begun to slow in a handful of submarkets. Office construction slowed to a trickle and the construction that has occurred since that time is often a conversion to mixed use retail and residential space.

There is no dispute that the pandemic made an indelible mark on where we work. Nearly five years later, there is mounting evidence that we are settling into a "new normal" in office markets throughout the country. In this article, the Vorys team explores this "new normal" from a property tax perspective and discerns what the data on the office market can tell us.

### Sweeping National Changes from 2020 → Present

#### Hybrid Work Policies

There is no question that the COVID-19 global pandemic changed the way that Americans work. In the aftermath, return to office (RTO) policies are slowly rolling out, varying from hybrid schedules to full returns, often depending upon the industry. The most recent studies find that, while many companies encourage office presence, only a small number have moved back to full-time onsite work. RTO is happening, but there still has not been a universal return to pre-pandemic norms. While hybrid is here to stay, for most companies where need for direct, day-to-day collaboration with clients and

colleagues is high, full-time RTO has been implemented. Ultimately, employee preference remains strong for remote or hybrid work and some form of hybrid work across industries.

## Vacancy

National office vacancies pushed to historically high territory by mid-2025 (~19%). On the West Coast, Seattle and San Francisco are above 30%; Portland and Orange County are much closer to the national average. Texas is experiencing vacancy rates around the mid-20%. Interestingly, these markets were sitting at vacancy rates in the mid to low teens in 2021, so vacancy has continued to grow, but appears to be stabilizing, in the mid-20% and above.

## Absorption

After deep negative absorption from 2020–2023, the losses slowed as subleasing caught on in amenity-rich Class A space. For example, the San Francisco Peninsula had 2Q positive absorption of 563,420 SF because of subleasing. NYC, Columbus, Atlanta, Miami, Houston and Austin all had at least one positive quarter. Most markets are still experiencing negative absorption rates and are expected to continue on that trend.

## Cap Rates

Office cap rates increased from lows around 4.5% to 6.5% nationally to between 7% and 9% by Q1 2025. Rising interest rates, the continuation of remote work post-pandemic and distressed sales of Class A buildings in markets like Seattle, Portland and Denver caused concern for investors by 2023, especially for lower-quality assets. As financing costs rose and investors' risk criteria narrowed, cap rates also rose. A bifurcated market has developed where premium assets significantly outperform lower quality space.

## Distressed Sales and Foreclosures

There are not many comparable sales in most markets due to investor concern. The following transactions were deeply discounted from their pre-COVID sale prices:

- **Market Street Tower (995 Market Street) – San Francisco, CA** – Sold for \$6.5 million in April 2024, roughly 90% less than when it sold for \$62 million in 2016.
- **Ameriprise Financial Center – Minneapolis, MN** – Sold for \$6.2 million in February 2025, 97% less than its \$200 million sale in 2016.
- **Dexter Horton Building – Seattle, WA** – Purchased by King County in 2024 for \$36.6 million, after selling for \$151 million in 2019.
- **Denver Energy Center** – Denver, CO – The 800,000 square-foot space was acquired by the lender in 2022 via an \$88.2 million credit bid, less than half of the \$176 million the borrower had paid for the property in 2013.

## A Potential Silver Lining for Owners of Office Properties – Property Tax Appeals

As investors and owners continue to face and adapt to these new pressures in the market, property tax strategies can play a bigger role. While property tax has traditionally been a minor consideration in overall performance of a property, the evolving office market dynamics are shifting this perspective. Owners and investors can now, more than ever, leverage property tax appeals to optimize their investments in the changing landscape.

Assessors across the country have generally been resistant to acknowledging changes to the office market when valuing impacted properties, but there are strong arguments for lower assessments. We've seen significant taxable reductions for office properties in big markets like Portland, Seattle and San Francisco, with the hope that more assessors will follow suit. Specifically, larger reductions to taxable value are warranted for any office space that does not meet the new high-amenity standards, or which would require significant capital costs for tenant improvements. A high vacancy rate must also be considered.

Some assessors claim that they have not seen enough evidence that the pandemic-driven changes to workplace habits are permanent. Some argue against using discounted sales, which they see as outliers. While Vorys pushes assessors to consider comparable sales in other markets, there remains a general preference (particularly in the West) to stay within the applicable county jurisdiction. Assessors are also unable to gather as much information about subleasing activity. As a result, assessors tend to rely upon the cost approach for valuing office buildings; unfortunately, this approach cannot accurately capture obsolescence the way the sales comparison or income capitalization approach can. Consequently, taxable values remain too high for office properties in high-vacancy markets.

The Vorys team works with clients across the country on these issues, pushing assessors to recognize that these significant changes to the office market warrant reductions in value. We expect to see more movement in 2026 as we continue working with assessors on setting accurate, reduced values for these plagued office buildings.