

U.S. Office Real Estate Market Summary | Q3 2021

Office Real Estate Statistics

	National Average	Class A	Class B	12-Month Rent Growth	Delivered Construction	Sales	Average Sale Price
Vacancy	12.2%	16.2%	11.6%	-0.4%	15.1M SF	\$26B	\$323 PSF
Rent	\$34.32 psf	\$44.84 psf	\$29.94 psf				

Executive Summary

Market trends established during the pandemic continued to plague the U.S. office sector in the third quarter. Vacancy rose higher as struggling businesses and tenants adopting remote work relinquished space. However, some more forward-looking metrics indicate the market's downturn is dissipating. Representing the strongest positive trend of the third quarter, leasing activity bounded above its pre-pandemic level for the first time.



In the third quarter, new leasing volume rose above its pre-pandemic pace for the first time.



Transaction velocity in the office sector remains subdued. Roughly 8,500 office building sales closed in the first half of 2021, which puts the market on pace to nearly match last year's total.



Including rates for sublet space, average asking rents nationally have declined 2% on a same-store basis since the pandemic hit in Q1 2020, and concessions packages have expanded.



The unemployment rate has fallen to 5.2%, a new pandemic-era low, but labor participation is still weak as workers cite lingering fears of COVID. Depending on the trends in hybrid and remote work, the relationship between job growth and office space needs may become less correlated.

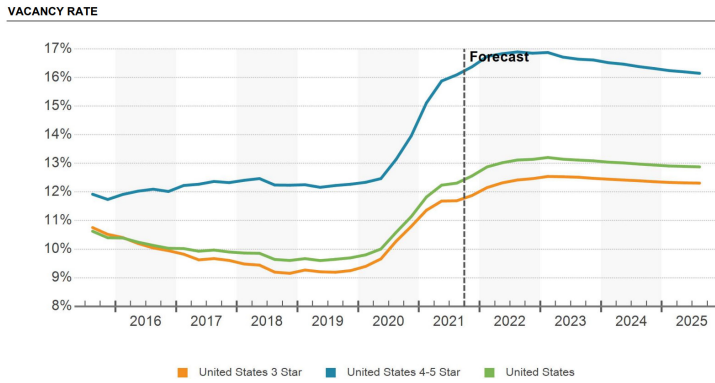


Restrained supply levels have been acting as a headwind to keep the vacancy rate from spiking further north. The 141 million SF currently underway represents less than 2% of the total existing stock in the United States.

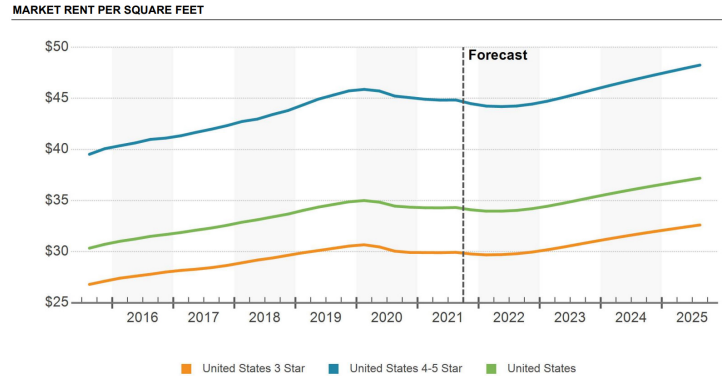
Office Leasing Outlook

In Q3 2021, new leasing volume surged above its pre-pandemic pace for the first time. Major cities are regaining leasing momentum as workers return to downtown offices. Negative net absorption in Q3 2021 totaled just 13 million SF, a far more moderate downturn than seen in the previous three quarters, in which losses were nearly three times as severe. Asking rents continued to tick lower in Q3 2021, as vacancy rose higher and sublet availability increased. A flood of sublease listings has placed pressure on landlords as they are often available at a significant discount.

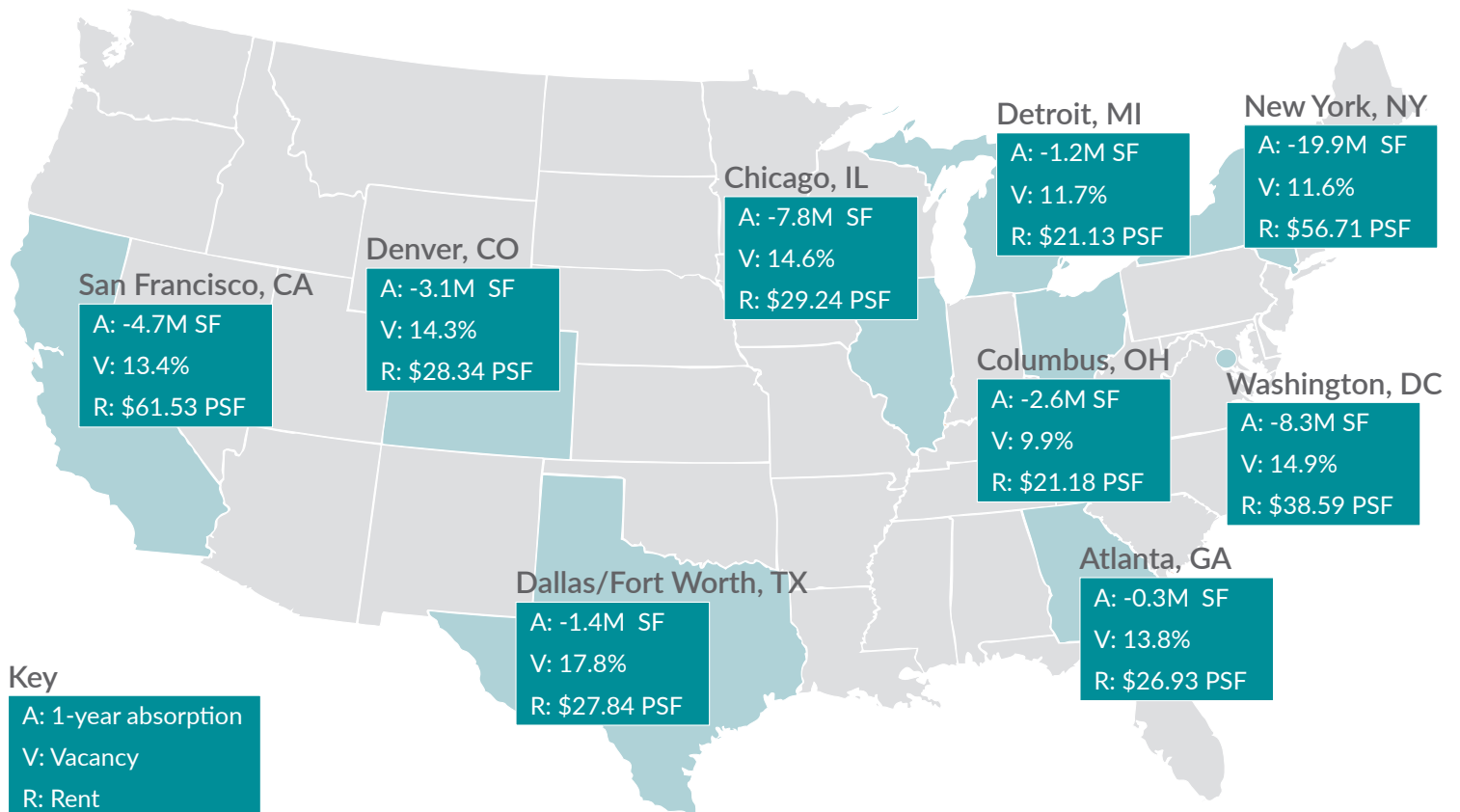
Leasing



Rent



Metrics from Select Metros





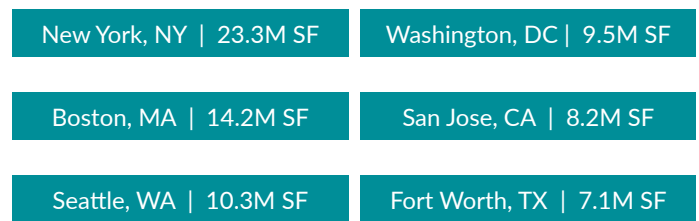
Office Construction & Deliveries

When demand returns to the office market, newly constructed buildings may attract an even larger share of tenant interest as office occupiers will look for the latest in health and wellness systems and certification. However, developers have not been as keen to break ground on projects since the pandemic hit. Demand was curtailed amid the pandemic, and raw construction costs have soared. Construction starts have registered below 15 million SF since Q2 2020. The last time starts hovered at this level was around 2012 to 2013, following the supply boom that delivered just prior to the Great Recession.

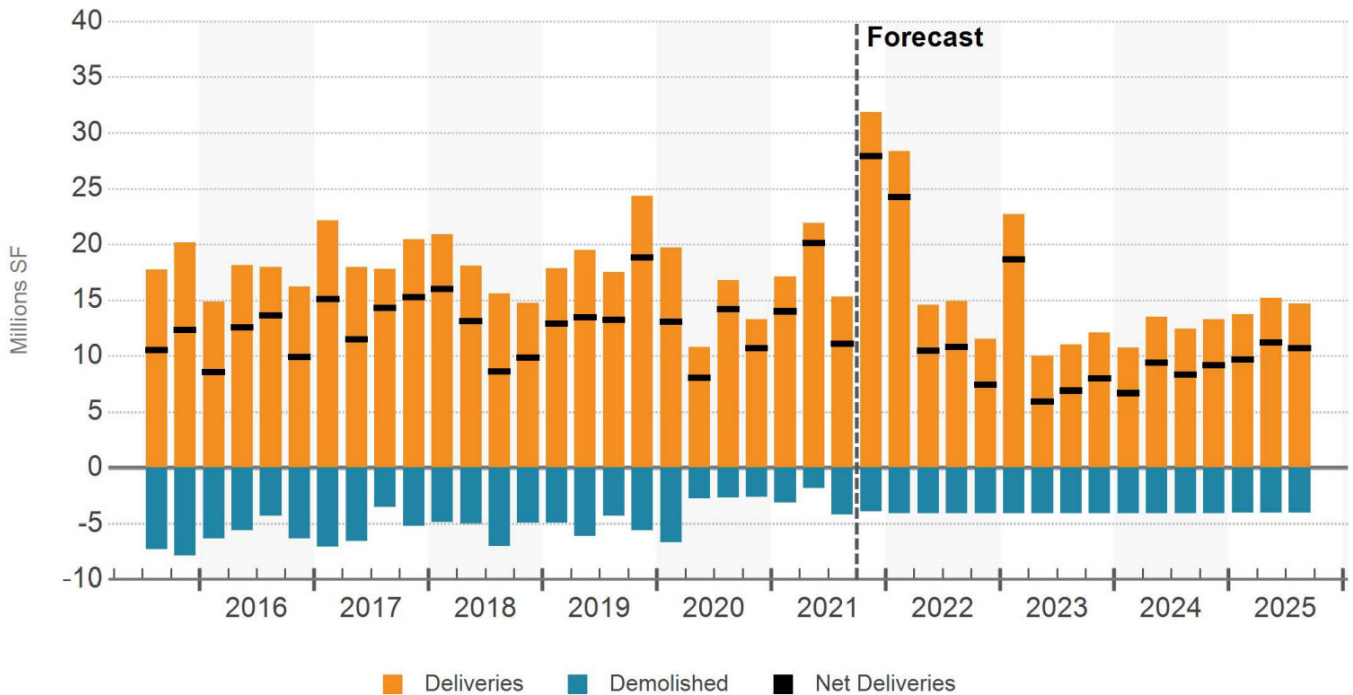
National Metrics



Top Metros Under Construction



Deliveries & Demolitions

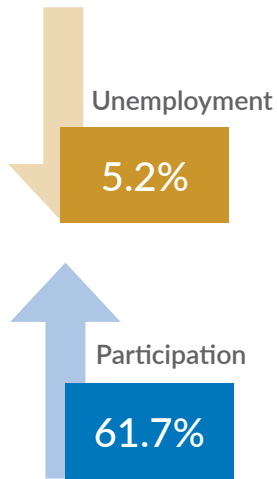




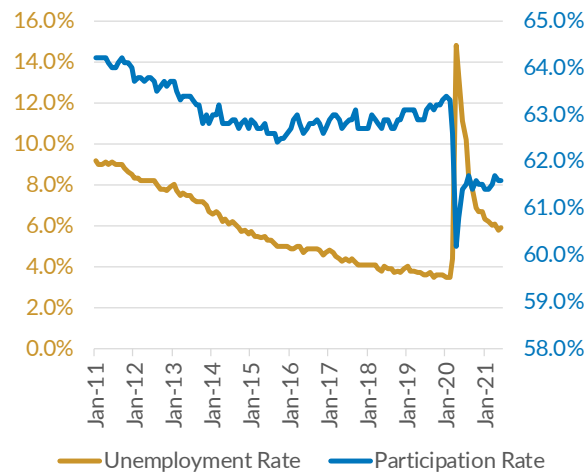
National Labor Statistics

Data from the Bureau of Economic Analysis (BEA) shows that fifteen months after the onset of the coronavirus pandemic, the U.S. economy had fully recovered to its pre-COVID level of output in the second quarter, but the delta variant of COVID has negatively impacted economic activity. Overall, there are about 5.3 million fewer jobs today than in February 2020. High levels of consumer spending have been fueled by three waves of stimulus payments, injecting \$6 trillion into the economy.

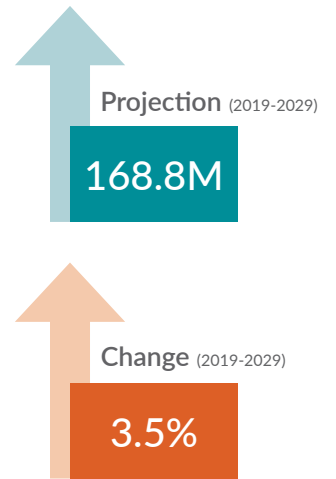
Employment



Labor Statistics, 2011-2021



Job Growth



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Plante Moran Cresa offers unbiased advocacy for companies looking to lease, buy, build, or develop a comprehensive real estate strategy that will align their company goals and real estate. Here's how we serve office space users:



Tenant & Buyer Representation

- Portfolio Optimization
- Site Selection
- Lease Administration
- Incentives



Owner's Representation

- Program Management
- Team Selection
- Master Budget & Schedule



Real Estate Consulting

- Strategic Planning
- Due Diligence
- Programming/Benchmarking

Contact

To learn more about your real estate market or to discuss your company's real estate needs, contact us today.

Ron Gantner, CPA

Ron.Gantner@plantemoran.com
(248) 603-5257



Rick Pifer

Rick.Pifer@plantemoran.com
(248) 223-3698

