

U.S. Office Real Estate Market Summary | Q2 2022

Office Real Estate Statistics

	National Average	Class A	Class B	12-Month Rent Growth	12-Month Net Absorption	12-Month Delivered Construction	Average Sales Price per SF
Vacancy	12.4%	16.9%	11.4%	1.1%	15.2M SF	\$64M	\$334 PSF
Rent	\$34.84 _{psf}	\$45.27 _{psf}	\$30.18 _{psf}				

Executive Summary

After recording three straight quarters with positive net absorption, the office market returned to negative net absorption in Q2 2022. The pool of sublease space available is currently at a record high of 214 million SF. Uncertainty clouds the market as organizations continue to assess their real estate footprint and the role that a physical workspace will play in their future.



LEASING ACTIVITY

While the market returned to negative net absorption in Q2 2022, leasing volume has exceeded 100 million SF for the third consecutive quarter, indicating that companies may be returning to the office.



SALES

Investment activity has remained relatively in line with averages recorded prior to the pandemic. Demand for well-leased, trophy assets has remained strong in the sector, with investors willing to pay top dollar for relatively secure income streams.



RENT

While rent growth is slightly positive, landlords are continuing to offer free rent and generous tenant improvement packages to incentivize space users. The amount of available, quality sublease space on the market will likely place downward pressure on asking rents for the foreseeable future.



LABOR & ECONOMY

The unemployment rate is 3.6%, the lowest number recorded in the pandemic era. The number of job openings decreased to 11.3 million on the last business day of May. In response to rising inflation, the Federal Reserve increased interest rates 75 basis points in June, the largest increase since 1994.



NEW BUILDS

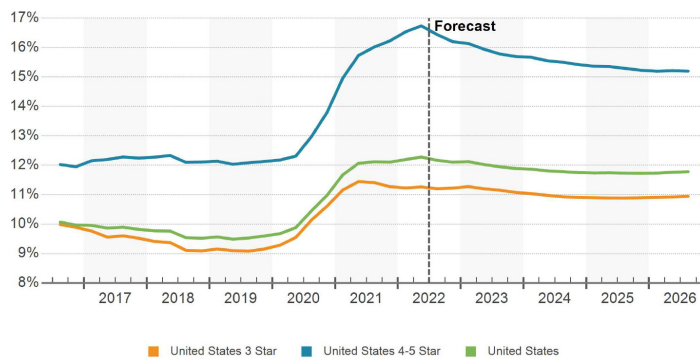
As financing has been difficult to secure due to the uncertainty of the market, new construction has slowed considerably. Space under construction totals 139 million SF, which is less than pre-pandemic levels.

Office Leasing Outlook

Leasing volume has exceeded 100 million SF for the third consecutive quarter. Rental rates have grown 1.1% over a 12-month period. Sublease availability hit 214 million SF, up 15% year-over-year. 46% of sublease space is listed as available, but occupied, signaling that many organizations have space they will vacate at the end of their lease terms. Landlords and building owners continue to incentivize tenants with free rent and tenant improvement packages as opposed to lowering rental rates. With the amount of sublease space expanding and the risk of a recession looming amid high inflation and aggressive federal policy, the full recovery of leasing activity is likely going to be long-term.

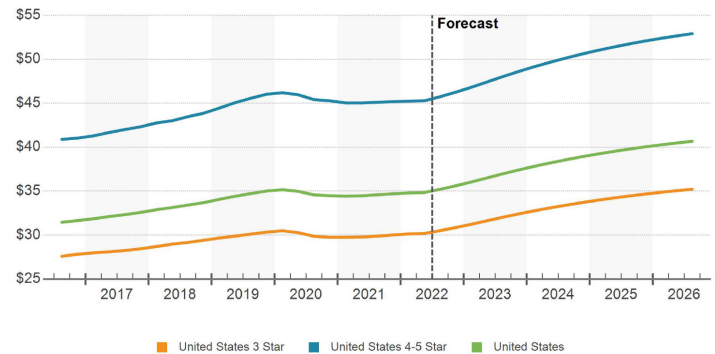
Leasing

VACANCY RATE

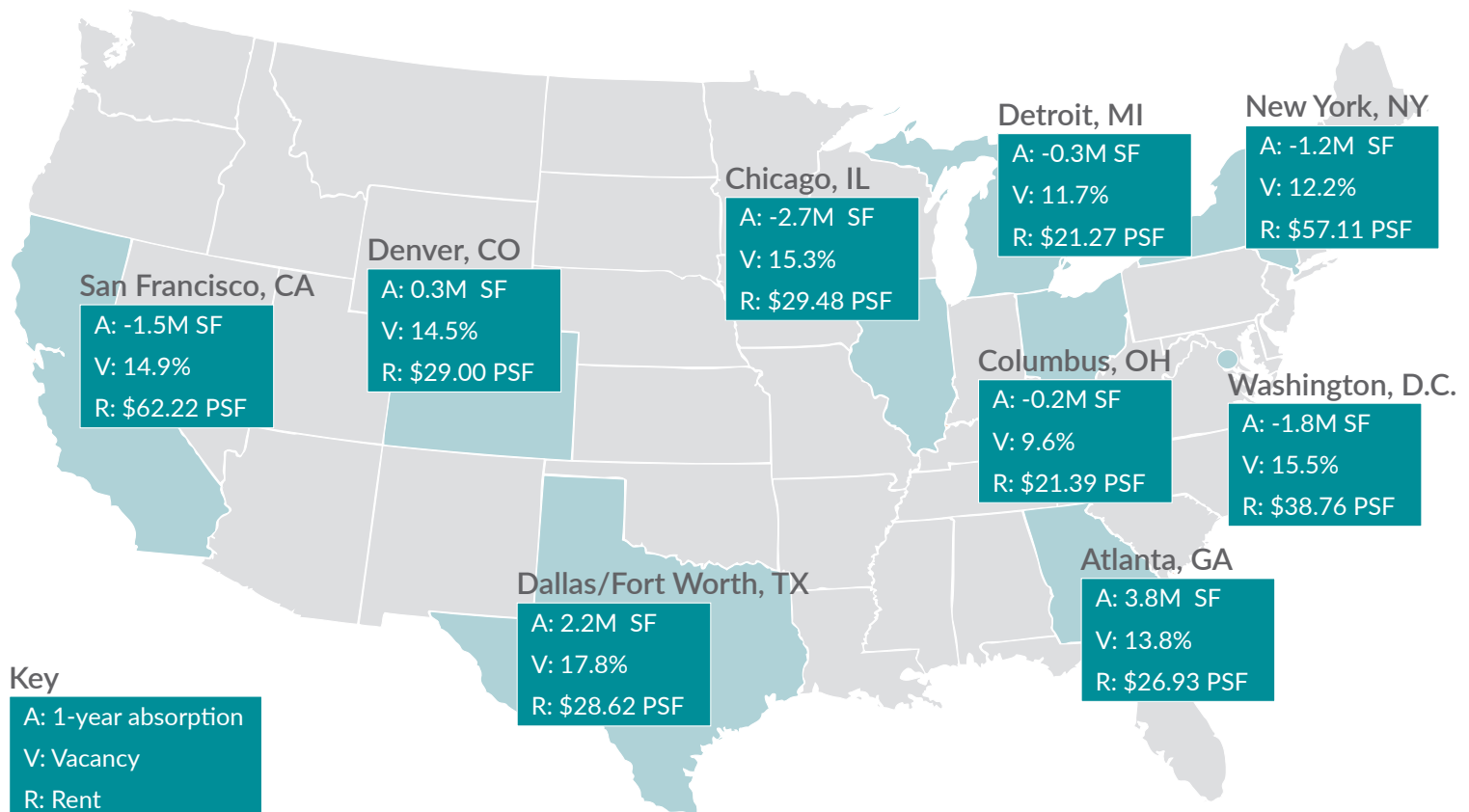


Rent

MARKET RENT PER SQUARE FEET



Metrics from Select Metros



Office Construction & Deliveries

Development activity has fallen slightly since the pandemic, but there is plenty of office space underway. Space under construction today totals 139 million SF, compared to 160 million SF in the months leading up to the pandemic. Even if leasing activity improves, new construction will likely move vacancy rates upward over the next several quarters.

The pandemic has made it far more difficult for developers to secure financing for speculative developments. Pre-pandemic construction starts averaged 24 million SF quarterly, compared to 15 million SF since the pandemic's onset.

Markets with the most spike in construction activity include tech centers San Jose, Austin, and Seattle; life-science hubs Boston and San Diego; and Sun Belt metros such as Nashville, Miami, and Charlotte.

National Metrics

Under Construction

139M SF

12-Month Delivered

64.4M SF

Historical Average

85.8M SF

Top Metros Under Construction

New York, NY | 17.5M SF

Seattle, WA | 10.6M SF

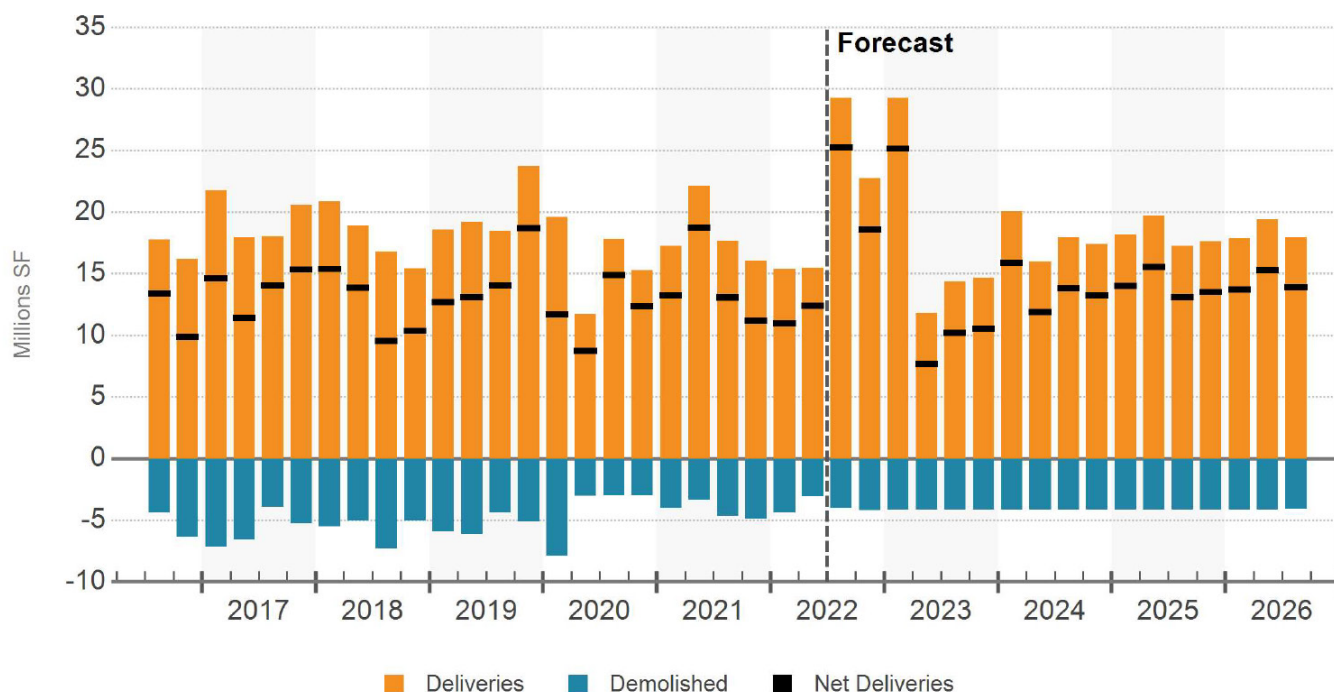
Boston, MA | 15.7M SF

Washington D.C. | 8.3M SF

Austin, TX | 11.8M SF

Dallas, TX | 7.7M SF

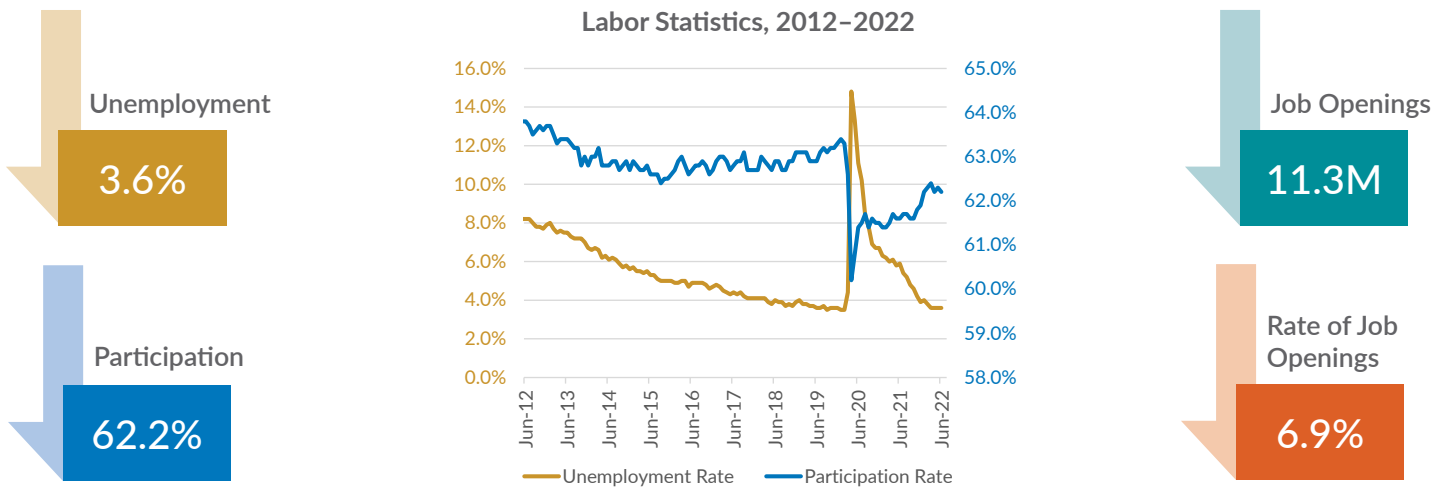
Deliveries & Demolitions



Economy

In response to rising prices, the Federal Reserve increased rates 75 basis points in June, the largest increase since 1994. Fed Chair Powell suggested that similar-sized increases will come at the next few meetings. The Consumer Price Index (CPI) was 9.1% in June, leading many to believe that consumer spending will fall off dramatically in the near future. According to the Bureau of Labor Statistics, the number of job openings decreased to 11.3 million on the last business day of May. Businesses across sectors are beginning to signal a slowdown in hiring, hiring freezes, and layoffs.

National Labor Statistics



Information contained in this report is provided, in part, from third-party sources, including Cresa, the U.S. Bureau of Labor Statistics, the Bureau of Economic Analysis, Real Capital Analytics, and CoStar Group. Even though obtained from sources deemed reliable, no warranty or representation, expressed or implied, is made as to the accuracy of the information herein.

About Plante Moran Cresa

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

