

# U.S. Office Real Estate Market Summary | Q3 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	12.5%	17.1%	11.3%	1.1%	6.1M SF	\$64M	\$339 PSF
Rent	\$35.06 <sub>psf</sub>	\$45.37 <sub>psf</sub>	\$30.43 <sub>psf</sub>				

## Executive Summary

Demand for office space is weakening on a national scale, as net absorption remained negative and the amount of sublease space available expanded in Q3 2022. The pool of sublease space available is currently at a record-high 230 million SF, up almost 16% from Q4 2021. 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 continued negative net absorption in Q3 2022, leasing volume has exceeded 100 million SF for the fourth consecutive quarter, indicating that companies may be returning to the office.



### SALES

Investment in office properties has remained active, with more than \$60 billion in assets trading as of mid-September. 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 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 years to come.



### LABOR & ECONOMY

In response to inflation, the Federal Reserve has raised its policy rate by 225 basis points since March. The unemployment rate in August was 3.7%, which is slightly higher than the previous five months. Consumer sentiment has fallen, which may foreshadow a decrease in consumer spending over the coming months.



### NEW BUILDS

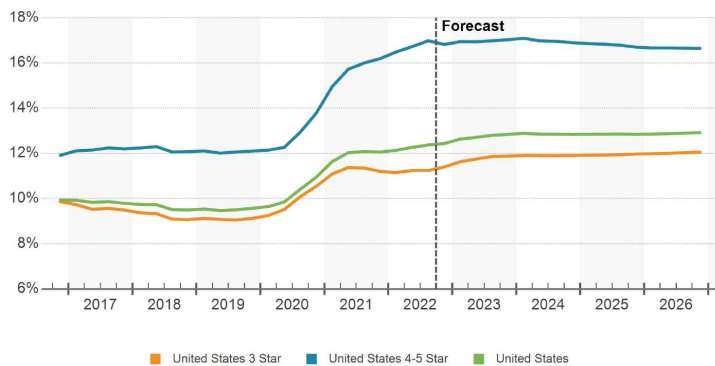
As financing has been difficult to secure due to market uncertainty, new construction has slowed considerably. New office construction projects have averaged 14 million SF per quarter since the pandemic, as opposed to 24 million SF in 2019.

## Office Leasing Outlook

Leasing volume has exceeded 100 million SF for the fourth consecutive quarter. Rent growth is in positive territory, but gains are relatively modest. Landlords have been offering generous free rent and tenant improvement packages in lieu of lowering rent. Sun Belt markets have had the strongest leasing performance, including Palm Beach, Austin, and Las Vegas. While office space use is at a fraction of pre-pandemic levels, it will take some time for office-using tenants to assess space needs in this new environment, and even longer for the full impact on office space demand to be realized. The value of tenant improvement packages has been minimized due to increased construction costs.

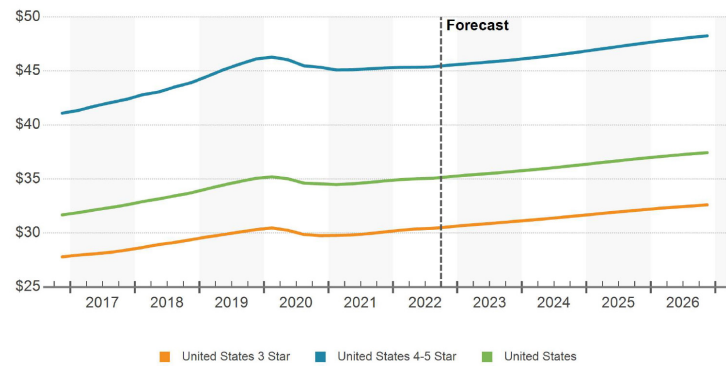
### Leasing

VACANCY RATE

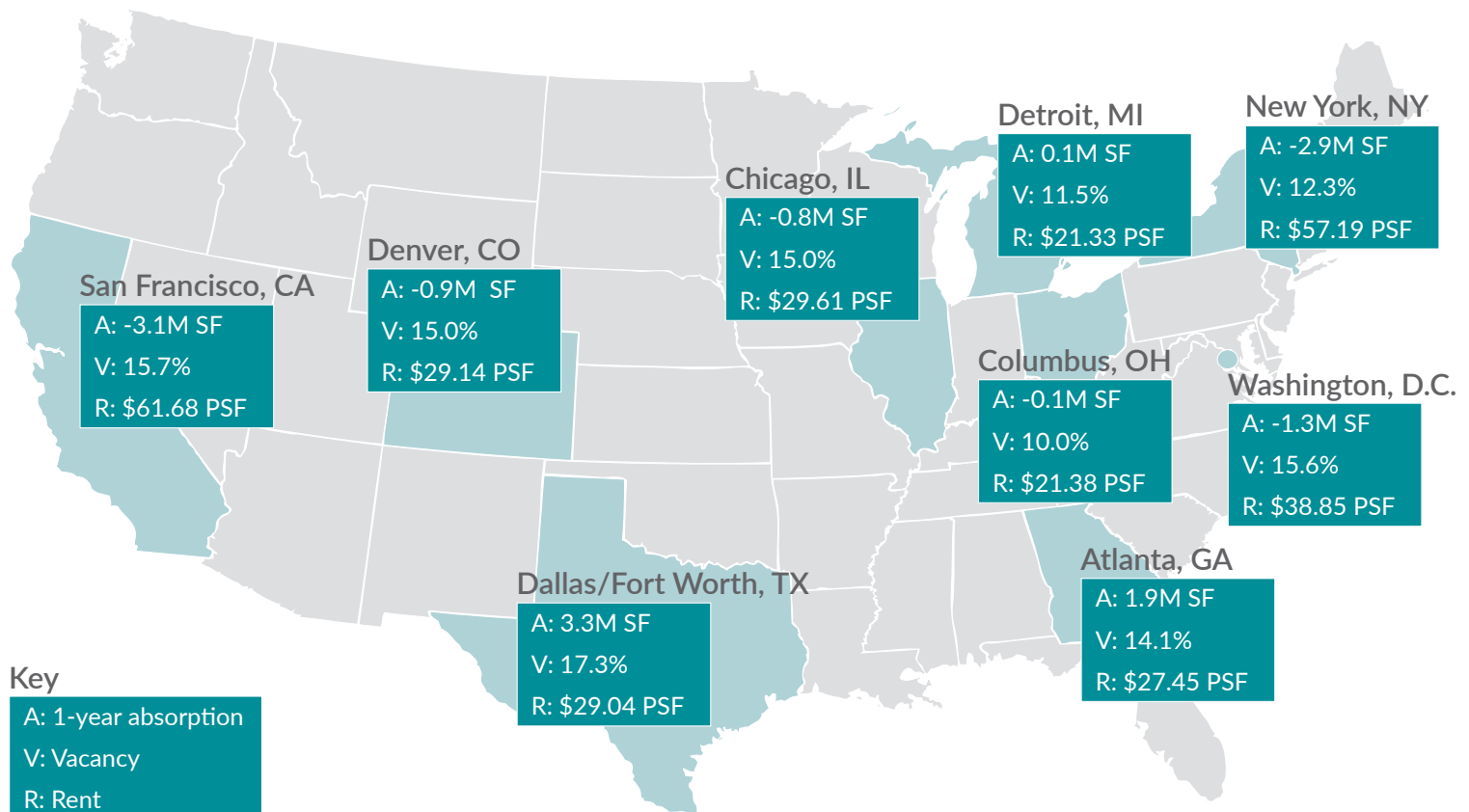


### Rent

MARKET RENT PER SQUARE FEET



## Metrics from Select Metros



## Office Construction & Deliveries

Development activity has fallen since the pandemic, but there is plenty of office space under construction. Space under construction today totals 141 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 14 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

141M SF

12-Month Delivered

64.2M SF

Historical Average

86.0M SF

### Top Metros Under Construction

New York, NY | 17.9M SF

Austin, TX | 11.5M SF

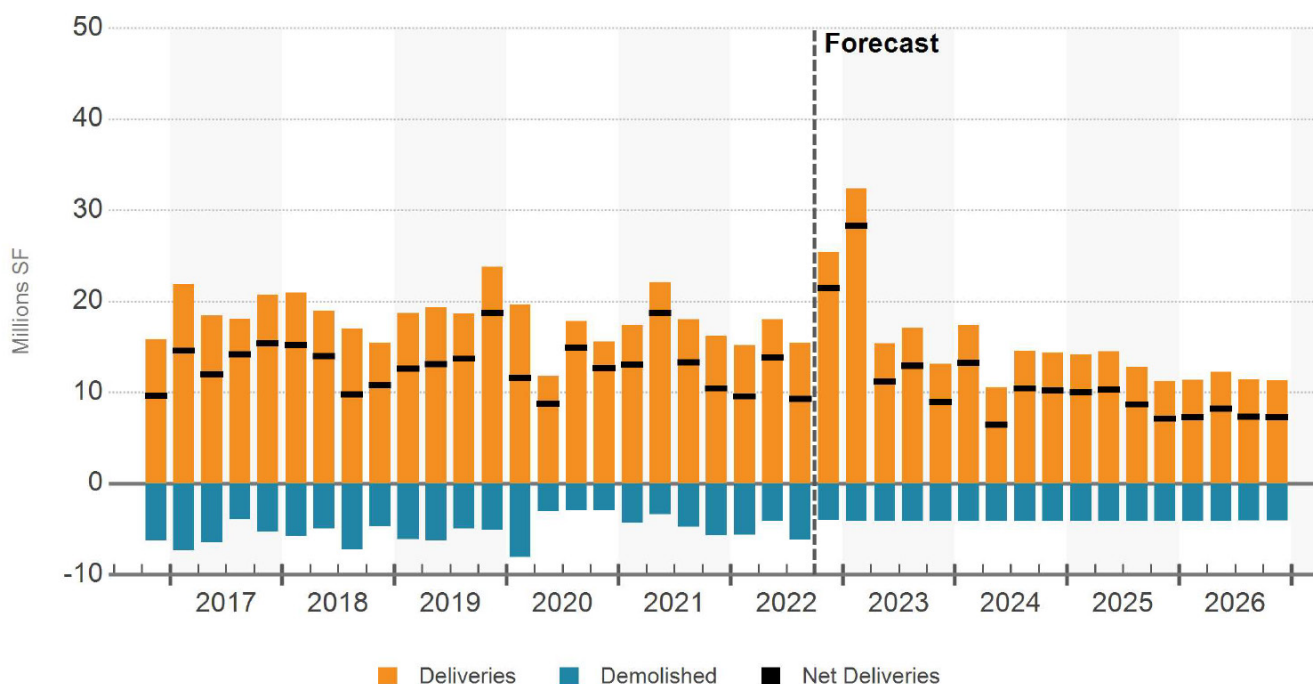
Boston, MA | 16.0M SF

Washington D.C. | 8.5M SF

Seattle, WA | 11.5M SF

San Jose, CA | 7.7M SF

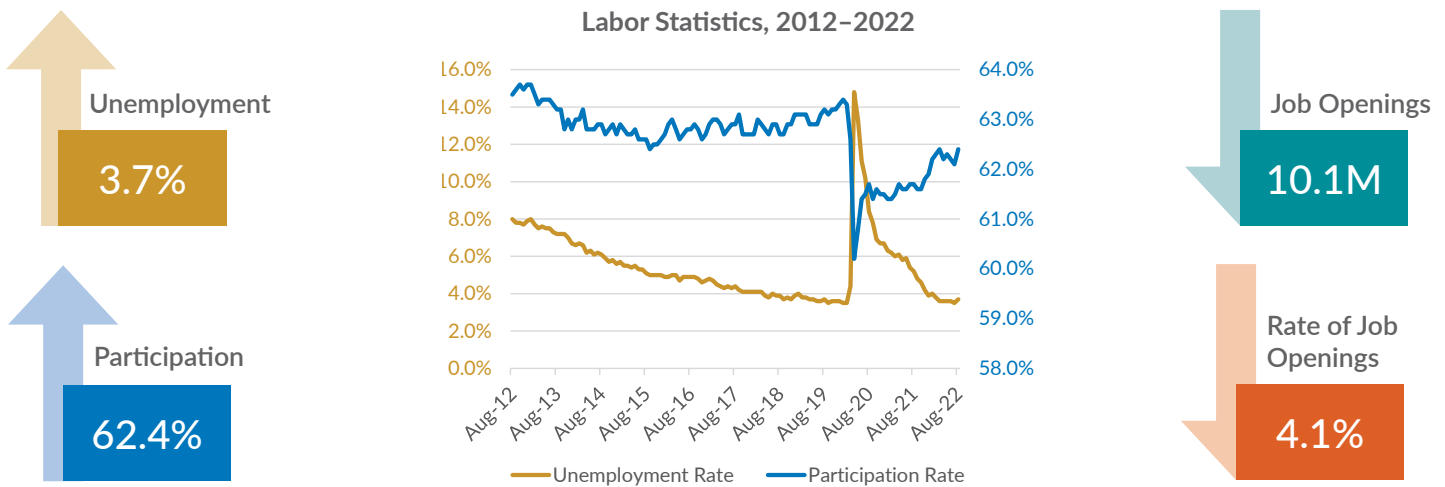
### Deliveries & Demolitions



## Economy

The odds of the economy falling into recession are climbing, as the Federal Reserve boosts interest rates sharply to rein in inflation that is lingering at a decade's high rate. In response to rising prices, the Federal Reserve is engaging in an aggressive tightening program, having already raised its policy rate by 225 basis points since March, including unusually large increases of 75 basis points at both its June and July FOMC meetings. As a result, consumer sentiment has plunged and threatens to derail consumer spending that supports roughly two-thirds of the economy.

### 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

