

# U.S. Office Real Estate Market Summary | Q4 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	12.7%	17.4%	11.5%	1.0%	(18.3M) SF	\$61.6M	\$337 PSF
Rent	\$35.17 psf	\$45.45 psf	\$30.46 psf				

## Executive Summary

After two years of uncertainty, the “hybrid” work arrangement has emerged as the preferred model for many office tenants. This has resulted in a decreased demand for office space as well as an influx of sublease listings on the market. The office real estate market’s performance is anticipated to worsen as organizations plan for a projected economic downturn.



### LEASING ACTIVITY

Vacancy is at 12.5%, the highest level recorded since the Great Recession more than a decade ago. More than 230 million SF is available for sublease, which is 90% higher than the pre-pandemic levels.



### RENT

Rental growth rates have fallen behind inflation, meaning that real market rents have been in steady decline. Landlords have often been willing to grant generous concession packages to attract new tenants and retain existing tenants. National average rent is on par with what it was entering the pandemic.



### NEW BUILDS

Construction starts have slowed quickly – prior to the pandemic, construction starts averaged 20.8 million SF per quarter. Post-pandemic, starts average 14.9 million SF per quarter, representing a 28% reduction.



### SALES

In terms of dollar value, office sales in 2022 are about the same as they were in 2019. Pricing has held up relatively well, with an average sale price of \$337 PSF and a cap rate of just under 7%. A significant slowdown in transaction activity is likely in the coming months, with buyers looking for discounts and sellers unwilling to budge unless and until they must.



### LABOR & ECONOMY

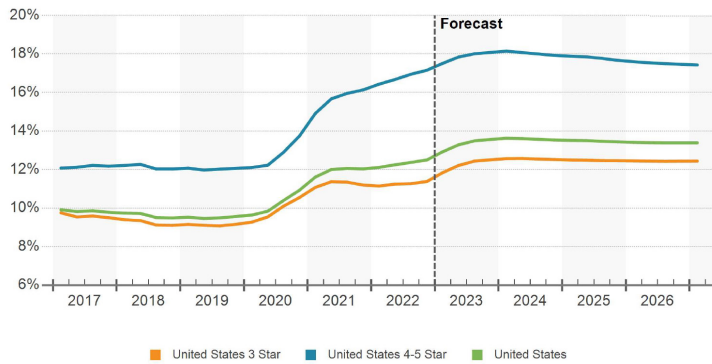
Consumer sentiment is unsteady as the odds of a recession are climbing. Inflation, shortages of material and labor, as well as supply chain issues have caused prices of consumer goods to rise significantly in recent months.

# Office Leasing Outlook

Q4 2022 marks two consecutive quarters – and seven of the past 10 – of negative absorption for the office real estate market. Vacancy is at 12.5%, the highest level recorded since the Great Recession more than a decade ago, and is anticipated to reach a record high of 13.6% in the beginning of 2024. Rental growth rates have fallen behind inflation, meaning that real market rents have been in steady decline. Landlords have often been willing to grant generous concession packages, including longer periods of free rent and higher tenant improvement allowances intended to attract tenants and help them adapt to rising build-out costs.

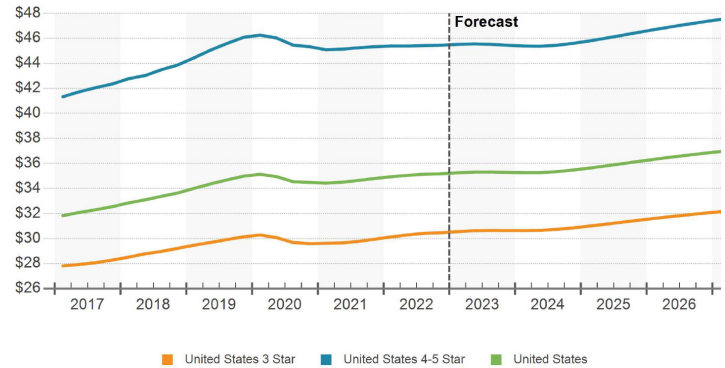
## Leasing

VACANCY RATE

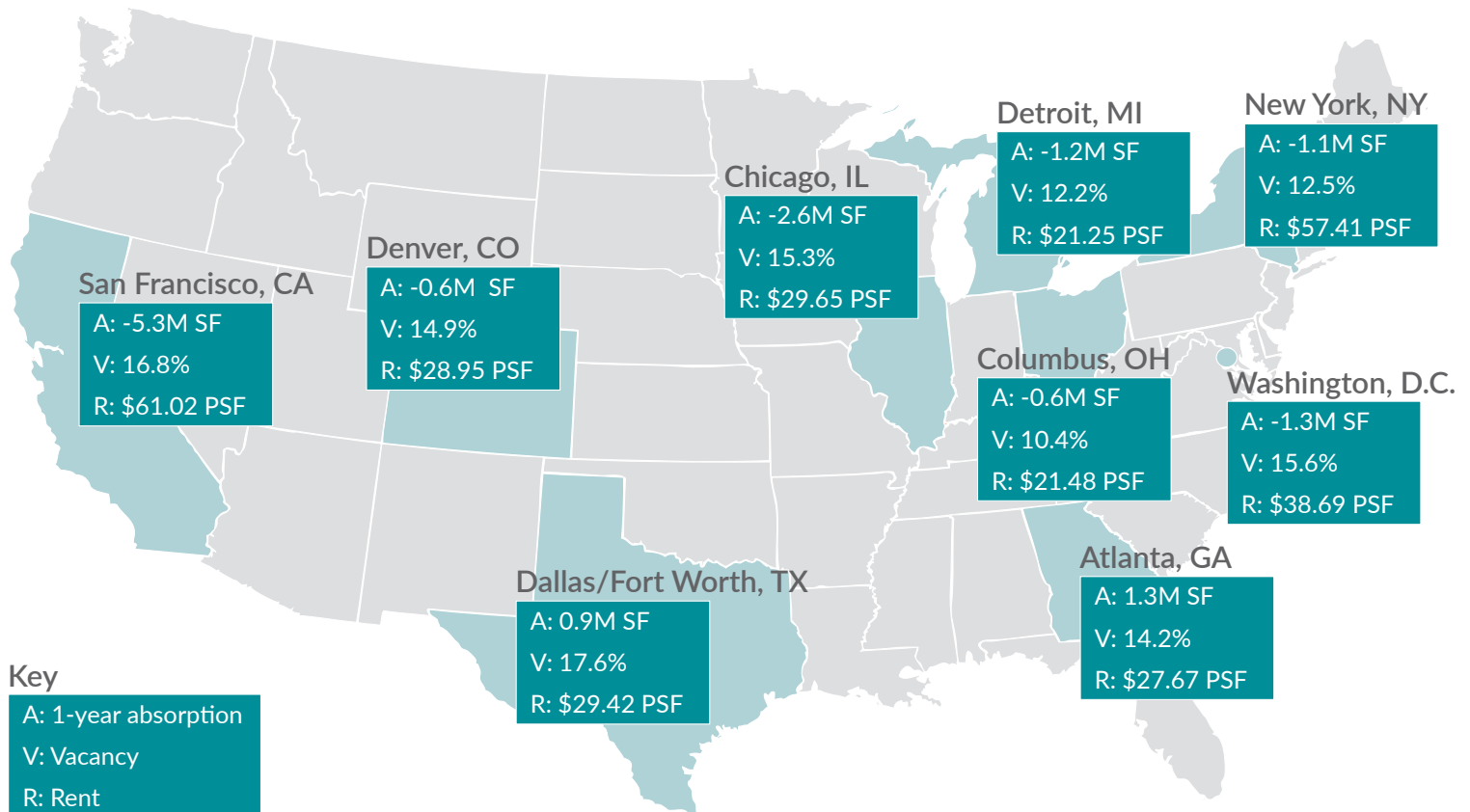


## Rent

MARKET RENT PER SQUARE FEET



## Metrics from Select Metros



**Key**  
 A: 1-year absorption  
 V: Vacancy  
 R: Rent

# Office Construction & Deliveries

Over 31 million SF of new inventory was delivered in the first three quarters of 2022. Construction starts have slowed quickly – prior to the pandemic, construction starts averaged 20.8 million SF per quarter. Post-pandemic, starts average 14.9 million SF per quarter, representing a 28% reduction.

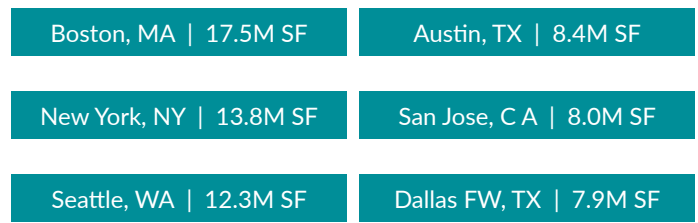
With tighter financing conditions and economic headwinds, construction starts are anticipated to slow even further in 2023.

Areas with the most construction include tech-hubs San Jose and Seattle, life science hubs Boston and San Diego, and Sun Belt metros such as Nashville, Charlotte, and Austin.

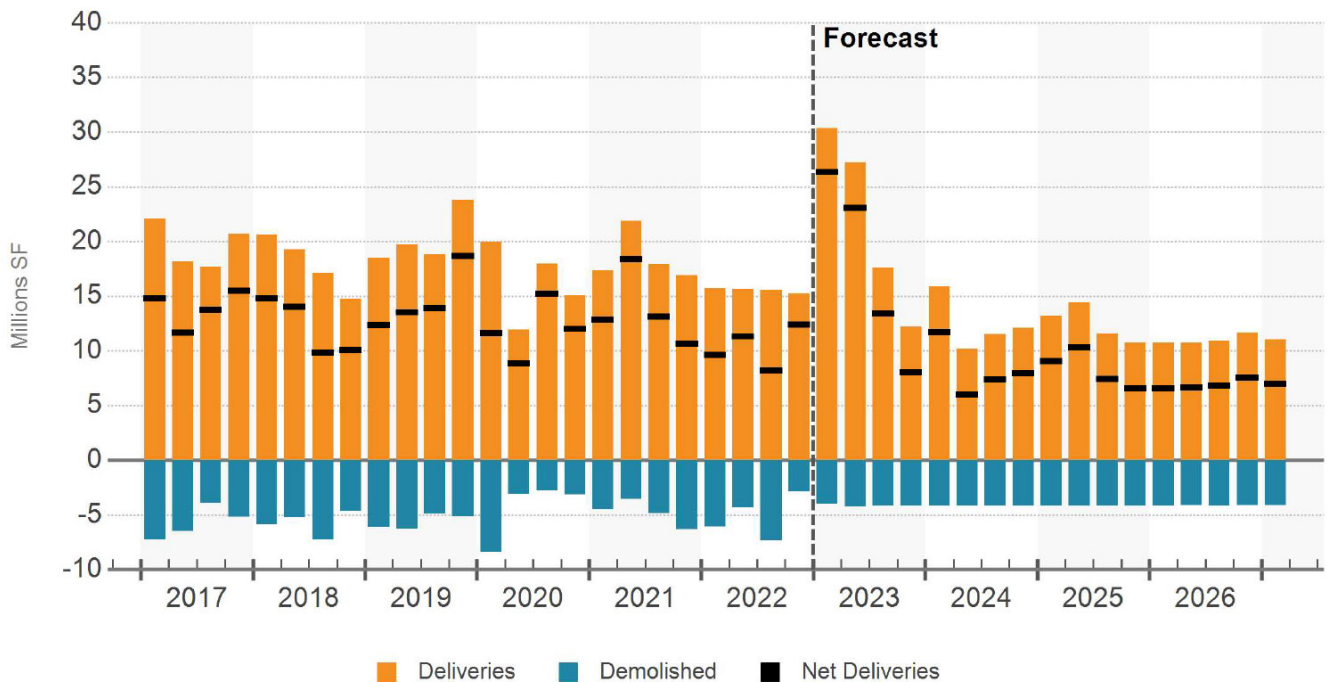
## National Metrics



## Top Metros Under Construction



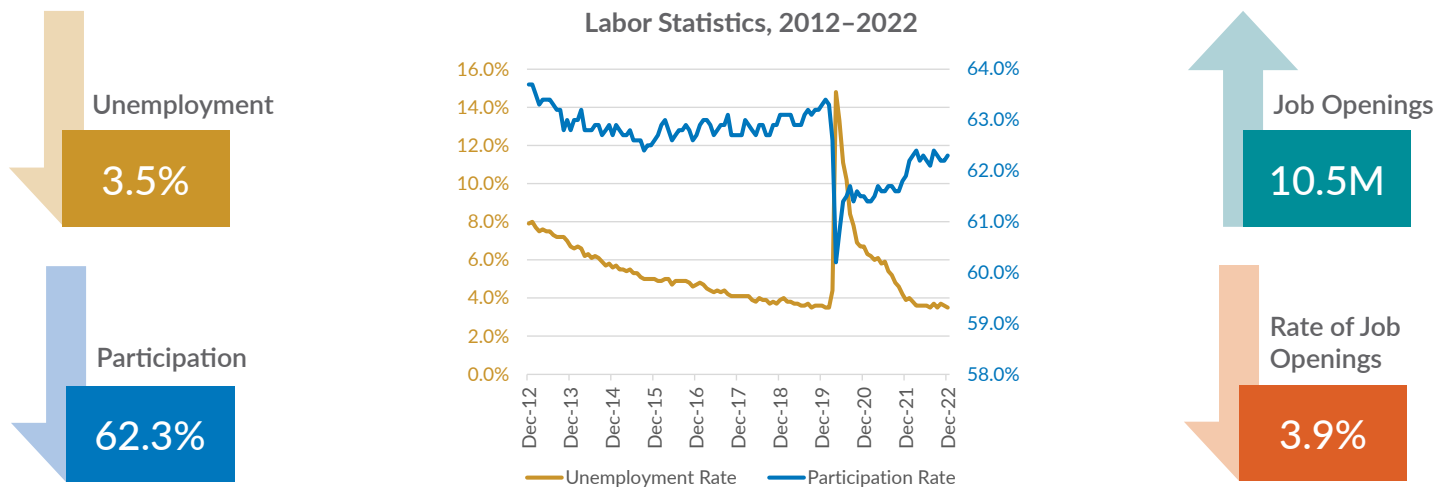
## Deliveries & Demolitions



## Economy

With the odds of the economy falling into a recession climbing, consumer sentiment is unsteady and threatens to derail consumer spending, which supports two-thirds of the U.S. economy. Shortages of materials, labor, supply chain disruptions, and inflation rates all contributed to rising prices. At 3.5%, the Q4 2022 unemployment rate hovers around its pre-pandemic level. With 10.5 million job openings in December 2022, there are almost two job vacancies for every unemployed worker.

### National Labor Statistics



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## 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.

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