

# U.S. Office Real Estate Market Summary | Q2 2023

## 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	13.2%	18.4%	11.8%	0.9%	45.5M SF	\$85.7M	\$310 PSF
Rent	\$35.19 psf	\$45.03 psf	\$30.70 psf				

## Executive Summary

The office real estate market remains subdued as industry players across the country settle in for an extended down-period of demand. So far this year, tenants have vacated nearly 40 million SF more than they have occupied, putting 2023 on pace for the largest amount of negative net absorption on record. Vacancy is at a record 13.2% and is predicted to continue climbing for the foreseeable future.



### LEASING ACTIVITY

The adoption of hybrid work continues to lessen the amount of office space needed by in-person organizations. Sublease inventory is at 217 million SF, a 115% increase since 2019.



### RENT

The competitive reality facing landlords has yielded longer periods of free rent and higher tenant improvement allowances for office space users. The most pronounced downward pressure on rents continues to be sublease space available at significantly discounted rates.



### NEW BUILDS

About 65 million SF of office real estate developments are projected to enter the market this year, the most delivered since 2009. This is expected to further tip the market in the tenant's favor.



### SALES

The office sector has witnessed a significant decrease in transaction volume. Office sales in April measured at \$5.1 billion, the lowest monthly figures measured since 2021 and relative to the same transaction volume measured during the Great Recession in 2008.



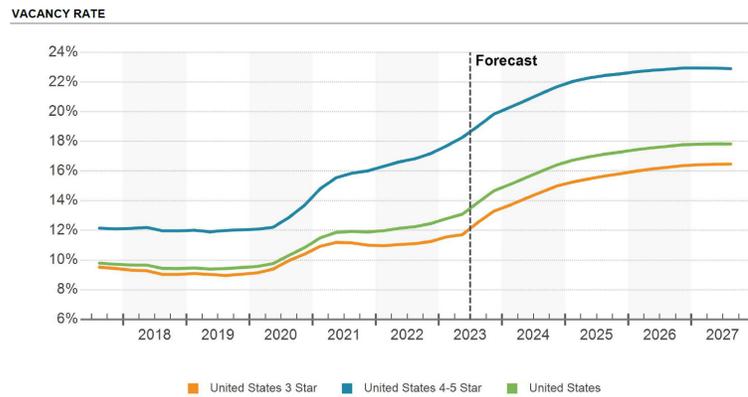
### LABOR & ECONOMY

Many economic professionals predict a recession this year as a result of pulled-back consumer spending and decreased business investment. This is a direct result of higher borrowing costs and weakening demand. The Federal Reserve has raised lending rates by 500 basis points from near zero in March of 2022, marking the most aggressive tightening program in history.

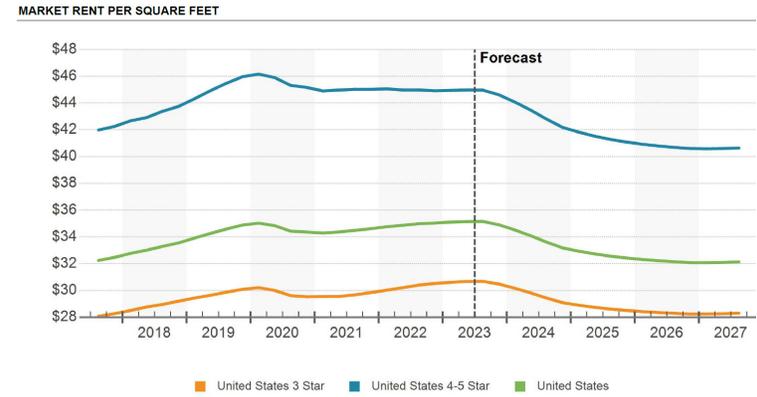
# Office Leasing Outlook

The average lease size is over 20% below its pre-pandemic norm. The record high amount of sublease space available is placing even further downward pressure on asking rents around the country. One bright spot of the office real estate market is Class A properties and buildings delivered since 2015, which have seen positive net absorption throughout the pandemic. These buildings typically offer highly valued features, including premium amenities, natural lighting, top-tier locations, and floor plates suited to the contemporary workplace environment. Meanwhile, older properties suffer from an extreme lack of demand. The future of the office real estate market is highly uncertain, exacerbated by the fact that 65% of leases are expiring over the next five years.

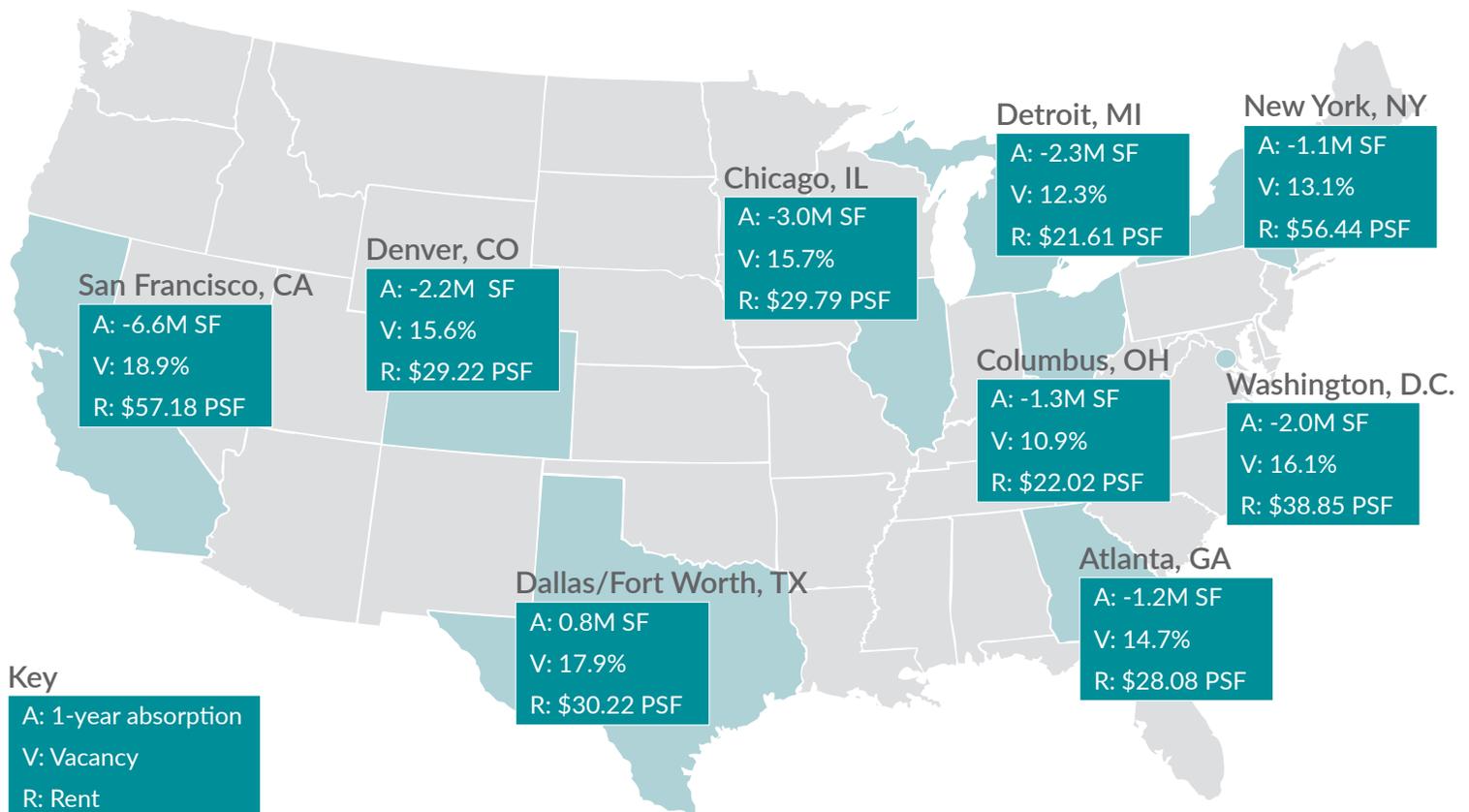
## Leasing



## Rent



## Metrics from Select Metros



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

# Office Construction & Deliveries

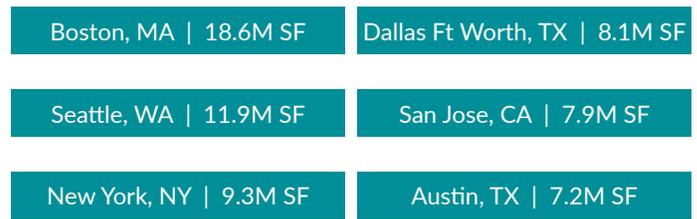
Construction starts on office buildings have been subdued throughout the pandemic era. At 14.1 million SF, groundbreakings in Q1 2023 were the lowest in 10 years. About 124 million SF of office space is still under development, subject to the supply chain delays and construction material price hikes that have spared no industry and have likely delayed deliveries that broke ground pre-pandemic.

The conversion of office buildings to alternative uses has been taking shape in different markets. In cities such as Boston, a significant amount of office space has been converted to life science labs. Major metropolitan areas, such as Chicago and Washington, D.C., have recommended using public funds to convert office buildings to multifamily housing. A national conversion strategy has yet to emerge, as most successful conversions have been isolated to specific metropolitan areas.

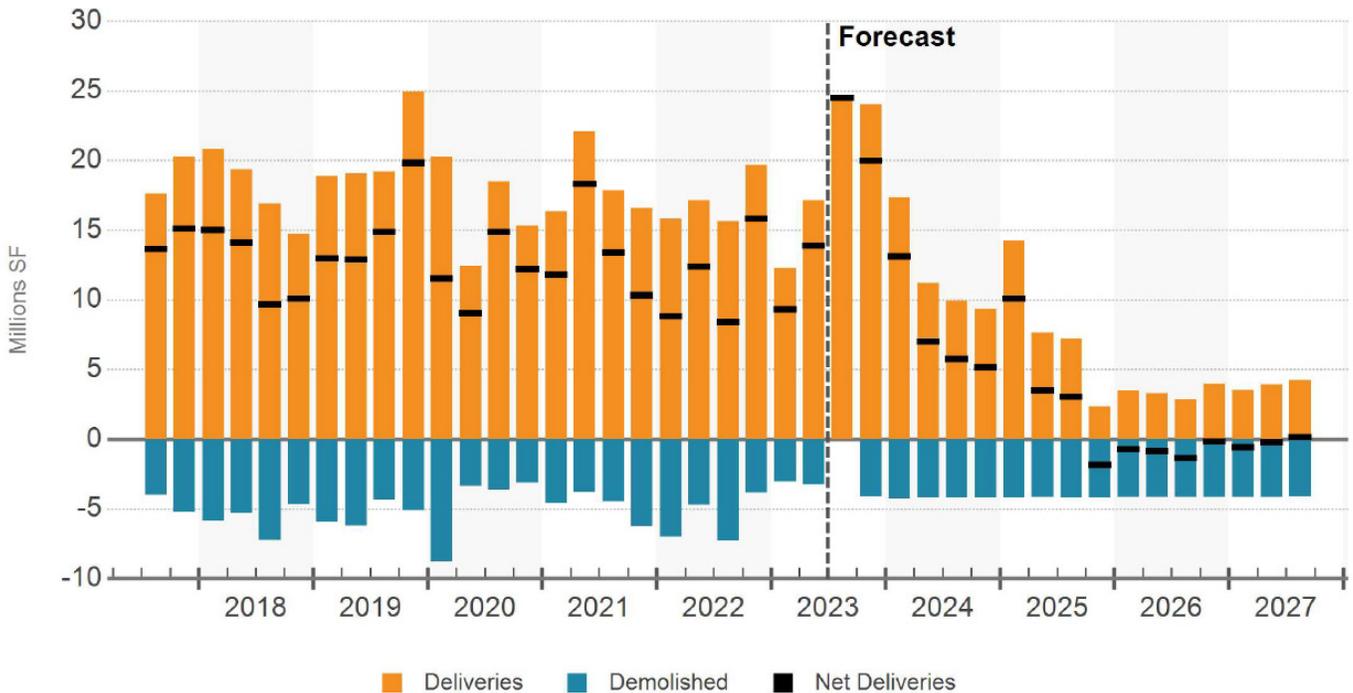
## National Metrics



## Top Metros Under Construction



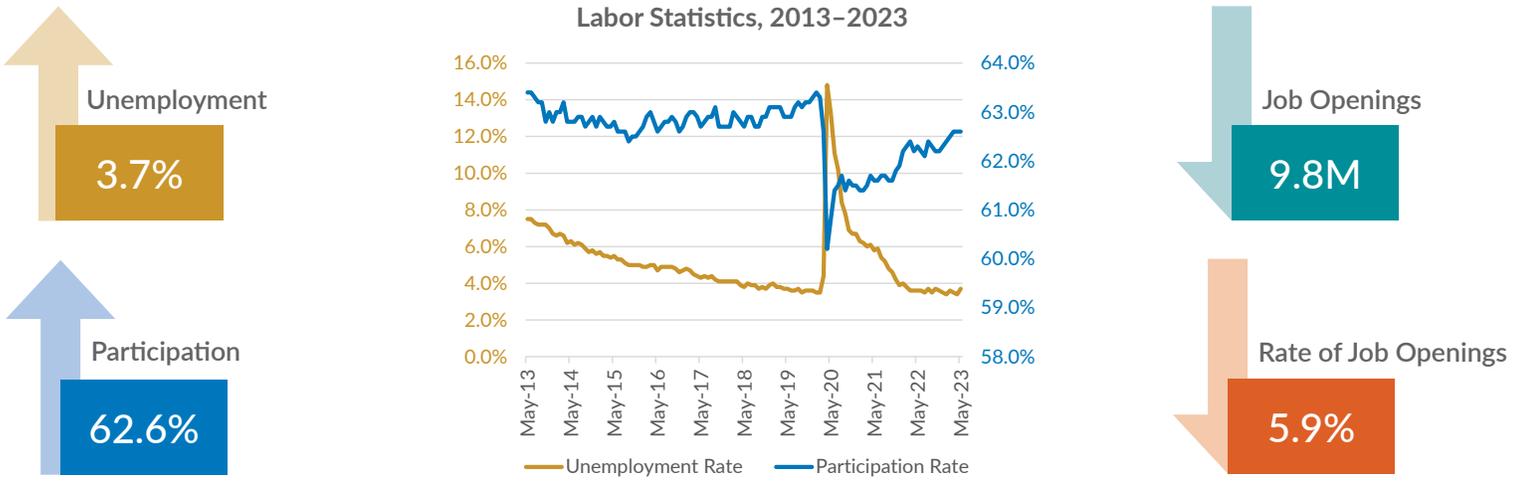
## Deliveries & Demolitions



# Economy

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## 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:

 <p><b>Tenant &amp; Buyer Representation</b></p> <ul style="list-style-type: none"> <li>Portfolio Optimization</li> <li>Site Selection</li> <li>Lease Administration</li> <li>Incentives</li> </ul>	 <p><b>Owner's Representation</b></p> <ul style="list-style-type: none"> <li>Program Management</li> <li>Team Selection</li> <li>Master Budget &amp; Schedule</li> </ul>	 <p><b>Real Estate Consulting</b></p> <ul style="list-style-type: none"> <li>Strategic Planning</li> <li>Due Diligence</li> <li>Programming/Benchmarking</li> </ul>
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# 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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