U.S. Office Real Estate Market Summary | Q1 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	13.0%	17.9%	11.7%	0.9%	(36.2M) SF	$63.3M	$334 PSF
Rent	$35.23 psf	$45.28 psf	$30.59 psf				

Executive Summary

With net absorption negative in 2022 for the third consecutive year, the national office real estate market has been characterized by persistent negative demand since the onset of the pandemic. In addition to hybrid work and remote work considerations, a looming recession has decision-makers hesitant and to make long-term commitments to a physical workspace.

LEASING ACTIVITY

Leasing activity has slowed considerably in the second half of 2022 and into early 2023. As many organizations brace for a looming recession, 2023 is expected to be the fourth consecutive year of negative net absorption.

RENT

Now at double the number recorded in 2019, the amount of sublease space available has placed tremendous downward pressure on asking rents. Generous tenant improvement allowances are becoming the standard for new lease executions.

NEW BUILDS

Construction starts have slowed quickly – at just over 10 million SF, starts in the last quarter are at the lowest level in 10 years and less than half of the quarterly average of 20.7 million from 2015 to 2019.

SALES

An expected slowdown in transaction volume has finally begun to materialize. In Q4 2022, total transaction volume was $13.7 billion, the lowest figure for the final quarter of a year since 2009. There is still an abundance of capital to invest in real estate, but the slow activity suggests that investors and REITs are patiently waiting for a repricing to occur.

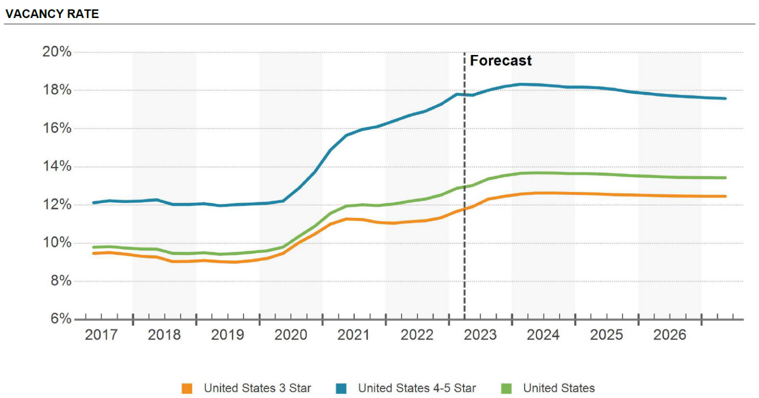
LABOR & ECONOMY

The U.S. economy is still expanding, but signs of slowing are becoming more evident as the Federal Reserve boosts interest rates to tackle inflation that is still stubbornly high. With a pullback of consumer spending and business investment, many are expecting the economy to tip into a recession this year.

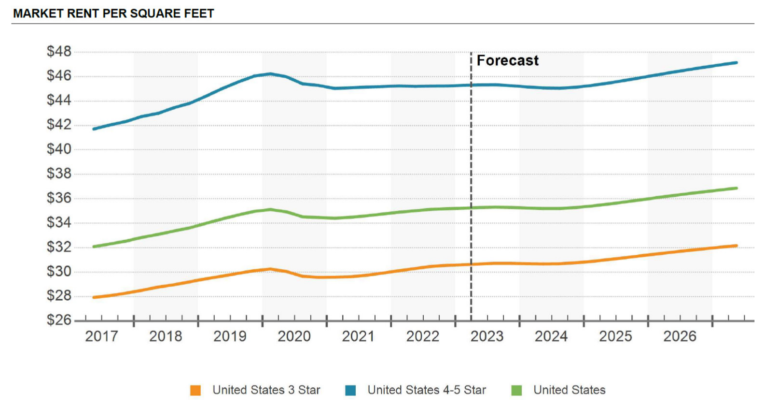
Office Leasing Outlook

Leasing activity remains suppressed from pre-pandemic levels and is expected to worsen as organizations prepare for an expected recession. A key indicator of the market's performance is the amount of sublease space available, which is more than double the amount at the end of 2019. In some key metropolitan markets, sublease space represents over 5% of available inventory. Demand has held up well for some asset classes, including properties delivered since 2010, where net absorption has been positive every quarter despite the pandemic. Overall asking rent has remained relatively flat since 2020, falling far behing the inflation rate hikes of 7.0% in 2021 and 6.5% in 2022.

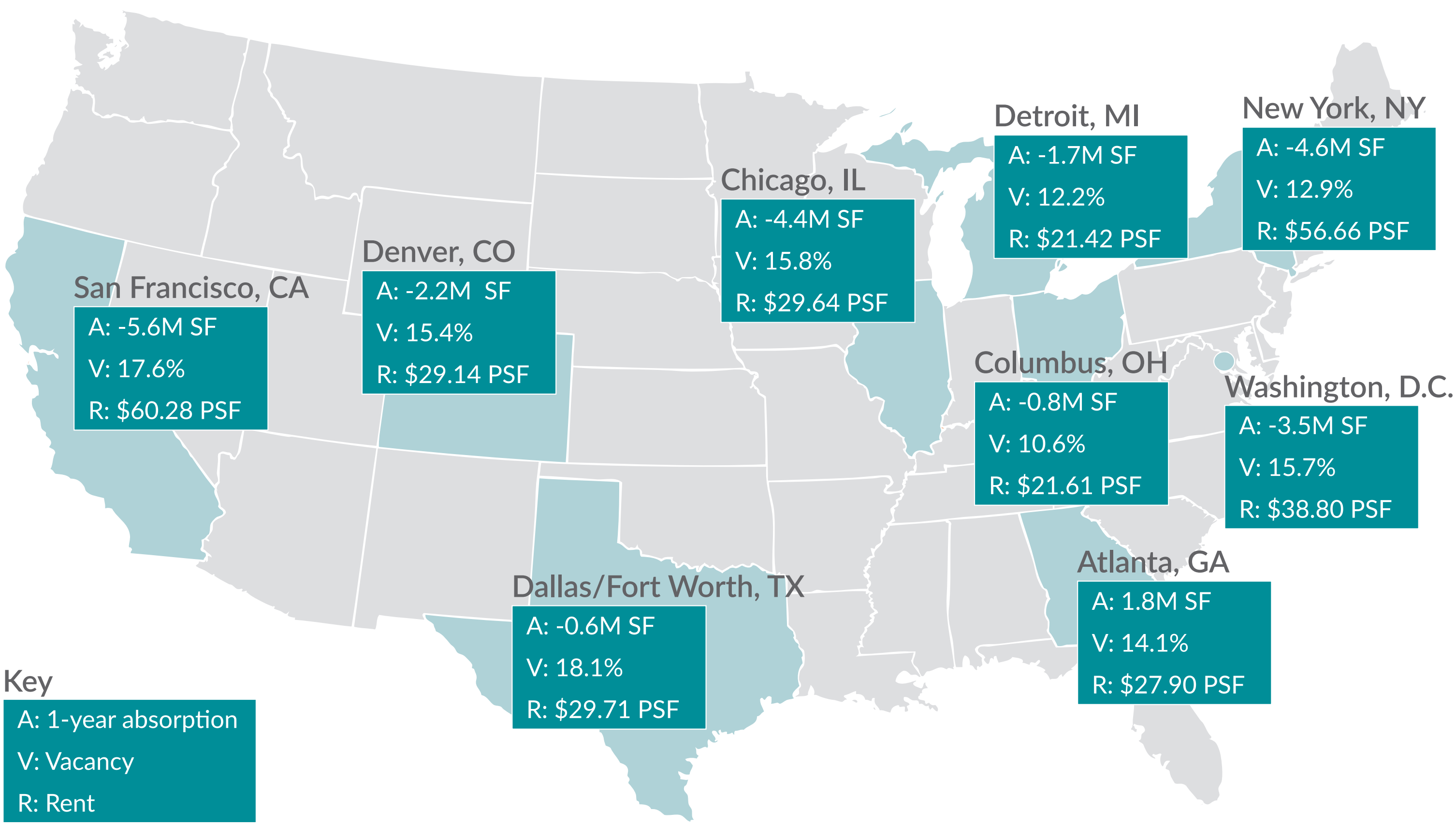
Leasing



Rent



Metrics from Select Metros



Office Construction & Deliveries

In 2022, 42.9 million SF were delivered, while another 70 million SF is expected to be delivered in 2023. Construction starts have slowed quickly – at just over 10 million SF, starts in the last quarter are at the lowest level in 10 years and less than half of the quarterly average of 20.7 million from 2015 to 2019.

Construction activity is concentrated where demand has been resilient. San Jose and Seattle have over 20 million SF in their collective development pipeline. There is also a large amount of development activity in Boston and San Diego, as well as Sun Belt metros Austin, Nashville, Miami, and Charlotte. As organizations implement hiring freezes and planned layoffs, there is a high likelihood that new construction supply pulls ahead of demand, tipping the market even more in the tenant's favor.

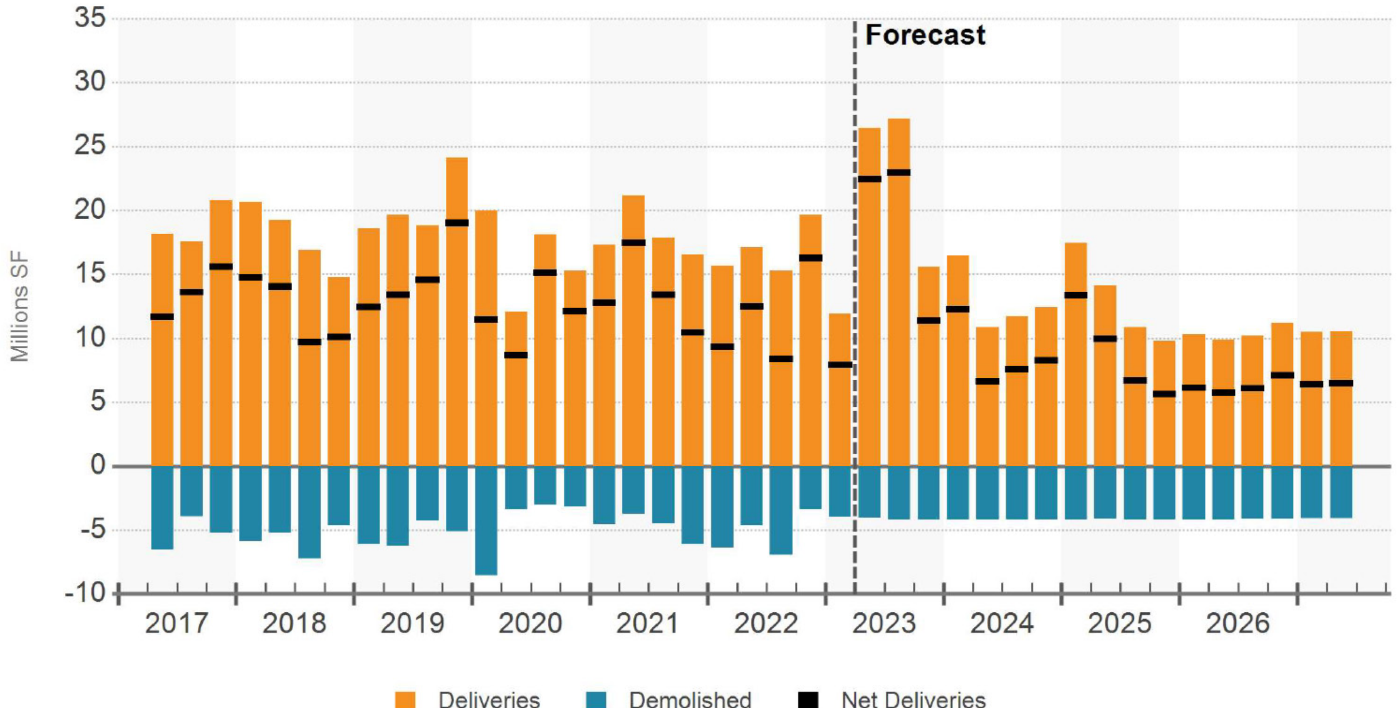
National Metrics

Under Construction	12-Month Delivered	Historical Average
134M SF	63.3M SF	85.7M SF

Top Metros Under Construction

Boston, MA | 18.8M SF	Dallas Ft Worth, TX | 7.8M SF
New York, NY | 14.8M SF	San Jose, CA | 7.4M SF
Seattle, WA | 12.8M SF	Austin, TX | 7.4M SF

Deliveries & Demolitions



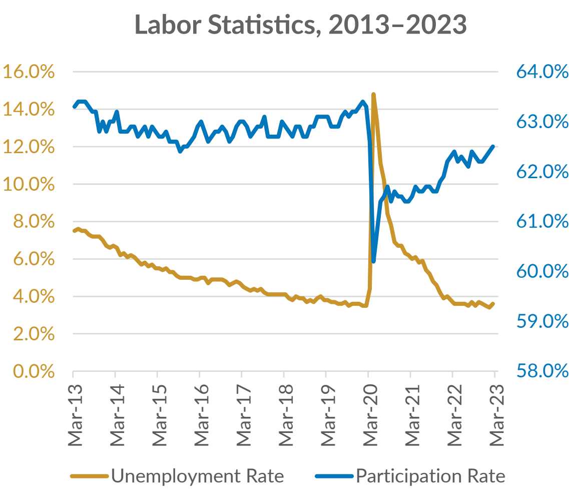
Economy

The U.S. economy is still expanding, but signs of slowing are proliferating as the Federal Reserve boosts interest rates to tackle inflation that is still stubbornly high. With a pullback of consumer spending and business investment, many are expecting the economy to tip into a recession by the end of the year. With COVID relief payments in the rear-view mirror, consumer spending is expected to moderate. Hiring freezes and impending layoffs are widespread across industries.

National Labor Statistics

Unemployment
3.6%

Participation
62.5%



Job Openings
10.8M

Rate of Job Openings
6.5%

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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.

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

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