

# U.S. Office Real Estate Market Summary | Q4 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	13.7%	19.0%	12.3%	0.7%	(69.8M) SF	\$55.1M	\$200 PSF
Rent	\$35.22 <sub>psf</sub>	\$44.94 <sub>psf</sub>	\$30.72 <sub>psf</sub>				

## Executive Summary

A renewed focus on the efficient use of office space led to further footprint reductions and higher overall vacancy in 2023. The national vacancy rate, currently at a record 13.7%, has climbed 420 basis points in that same period. Leasing volume is down nearly 20% from its average in the late 2010s, driven by deal sizes that are 20% smaller.



### LEASING ACTIVITY

Overall leasing volume has trended downward for four consecutive quarters. By the end of Q4, tenants will have vacated another 15 million SF more than they occupied, bringing 12-month net absorption to negative 69.8 million SF.



### SALES

The office sector's challenges continue, with increasing vacancies, heightened tenant improvement costs, and waning rent growth tempering investor interest. As quarterly sales volumes have dipped below the pandemic's lows, Q3 2023 sales volumes fell 75% below the five-year average leading up to 2019. This mirrors the figures from early 2010.



### RENT

Though office rents have recovered somewhat since the pandemic, outsized sublease availability has put downward pressure on growth. Landlords' costs to build out space have risen, and many are facing higher interest payments. Tenants may turn to discounted sublease space as an alternative, leaving landlords struggling to compete.



### LABOR & ECONOMY

Expectations for the U.S. economy to fall into recession this year have not been met. With the Federal Reserve adding 5.25 percentage points to its overnight lending rate over the past two years, most market observers had forecast a recession to begin by mid-year. It was a surprise that the economy surged in the third quarter, growing by 4.9%. Many economists now see the Fed engineering a "soft landing" and avoiding a recession as predicted.



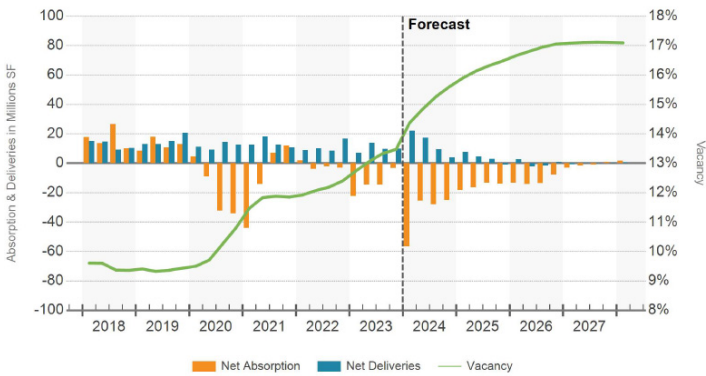
### NEW BUILDS

just over 55 million SF in new office inventory was completed in 2023. About 15 million SF in obsolete stock was demolished or converted to alternative uses. The other 40 million SF in net deliveries was the lowest since 2014.

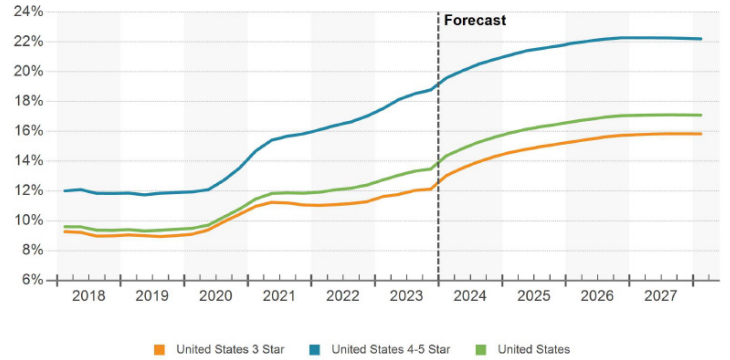
# Office Leasing Outlook

Overall leasing volume has trended downward for four consecutive quarters as tenants have taken the opportunity to rationalize their occupancy when their existing leases roll over. Renewal volume has trended well below historical norms, while new leasing has stabilized below 95 million SF per quarter, 20% below its average from 2015 to 2019. By the end of Q4, tenants will have vacated another 15 million SF more than they occupied, bringing 12-month net absorption to negative 69.8 million SF. Included in this is 206 million SF of sublease availability, an amount that has risen more than 100% since the end of 2019 and is well above its previous peak during the Great Recession. Nearly 60% of this space is already vacant, indicating that it is unlikely to be part of the original tenants' long-term occupancy plans.

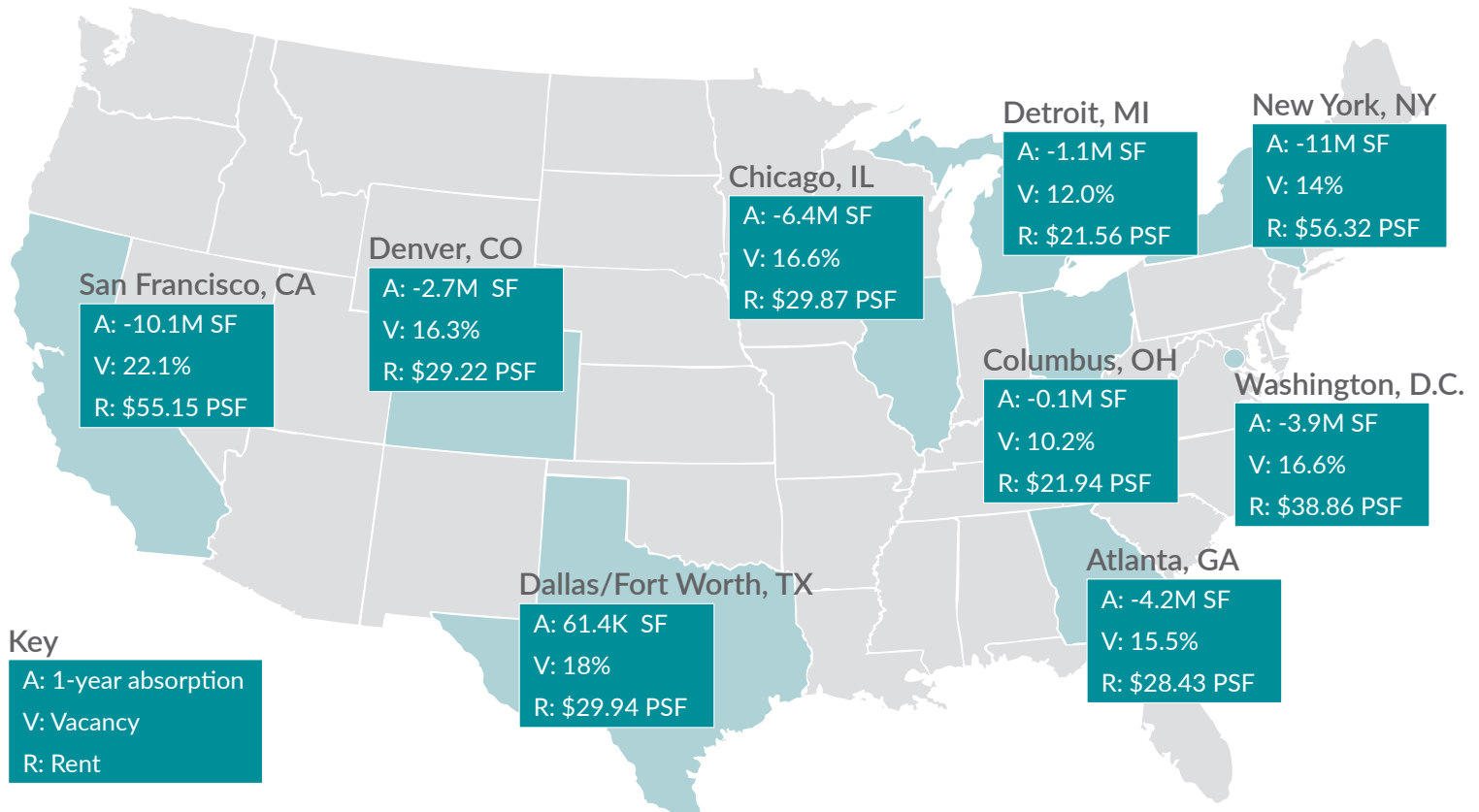
## Leasing



## Rent



# Metrics from Select Metros



# Office Construction & Deliveries

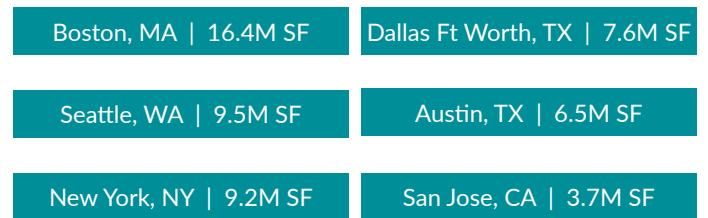
A little over 55 million SF in new office inventory was completed in 2023, with about 15 million SF in obsolete stock being demolished or converted. The resulting 40 million SF in net deliveries was the lowest amount since 2014, though the expected 56 million SF in 2024 would be the second-most over the same period. Thus, with demand still faltering, new supply should exacerbate vacancy in the near term.

The conversion of office buildings to alternative uses has been taking shape in different markets. Major metropolitan areas, such as Chicago, New York, and Washington, D.C., have recommended using public funds to convert office buildings to multifamily housing. In October, the Biden administration announced a set of initiatives to support conversions, but these discussions are only one factor that makes the challenge of office-to-residential conversions deep and multilayered.

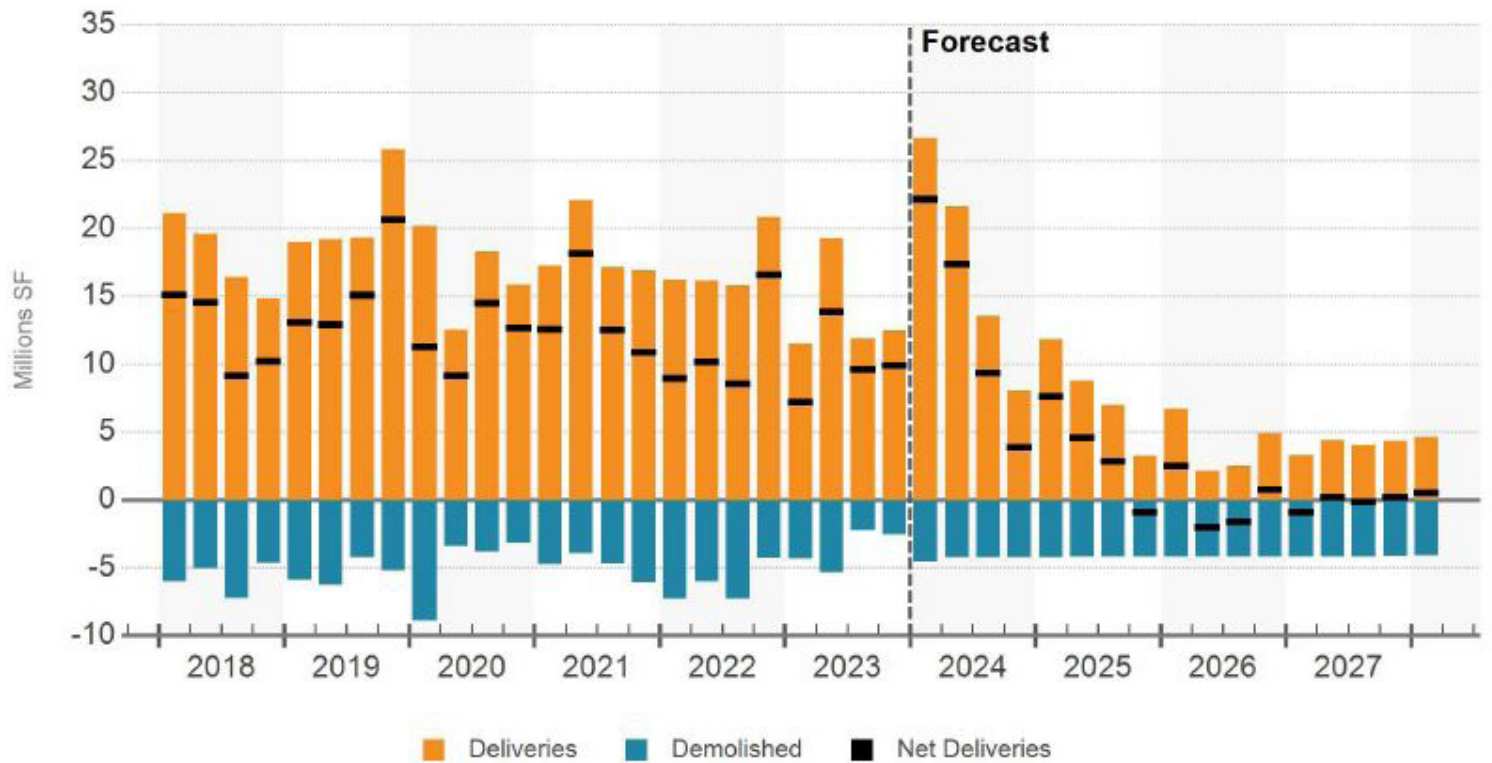
## National Metrics



## Top Metros Under Construction



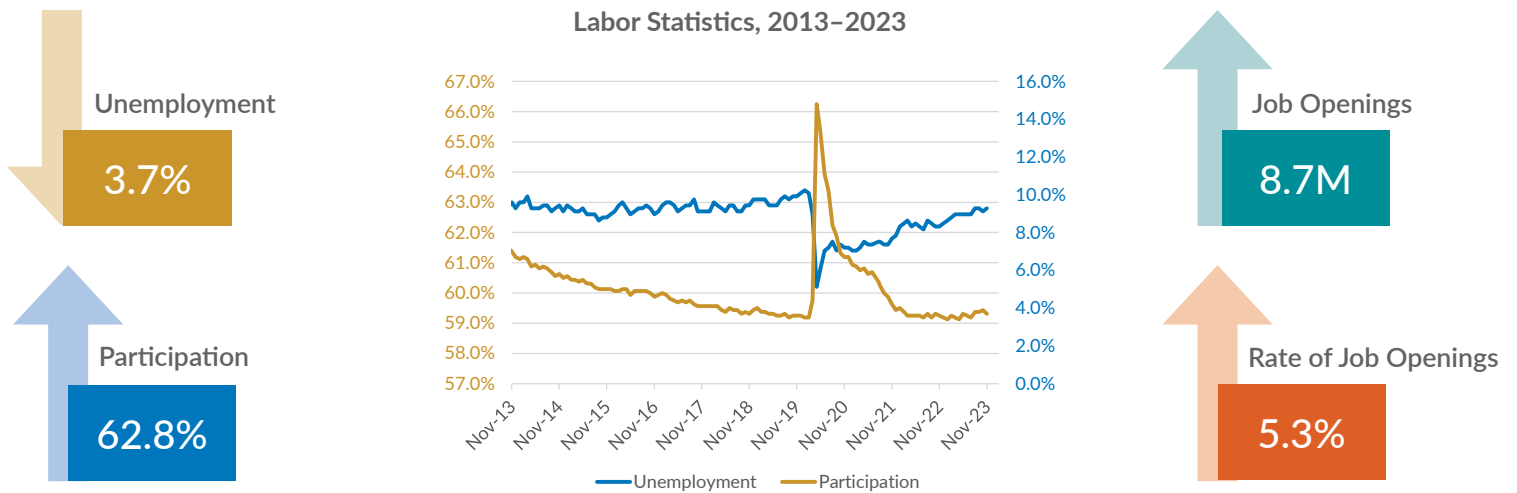
## Deliveries & Demolitions



# Economy

Despite tightening financial conditions and higher business costs, the U.S. economy has remained resilient. The Federal Reserve has made some headway in its attempt to tamp inflation down as its preferred measure of inflation, the personal consumption expenditures (PCE) price index, eased from its peak of 7.1% in June 2022 to 3.0% in October of this year. Recent revisions to economic data show that households have been spending at a slower pace than previously reported and business investment has weakened more in response to higher borrowing costs. These trends are expected to continue, slowing the economy in coming months.

## National Labor Statistics



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# About Plante Moran Realpoint


Plante Moran Realpoint 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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