Real Estate Market Report

Office | Q1 2024

Executive Summary

Stagnating attendance and slowing employment growth led to further occupancy losses and higher office vacancy in 2023, sending the national vacancy rate to a record high of 13.8%. Should tenants continue trimming occupancy in the next 24 months, the result could be 150 million square feet (SF) or more in negative absorption on record, with vacancy climbing to over 16%.

Office Real Estate Statistics

	National Average	Class A	Class B
Vacancy	13.8%	19.5%	12.3%
Rent psf	$35.23	$44.90	$30.81

0.7% 12-Month Rent Growth

54M 12-Month Delivered Construction

(64.6M) SF 12-Month Net Absorption

$200 PSF Average Sales Price per SF

Leasing Activity

Tenants executed new leases for about 395 million SF in 2023, 13% below the average amount from 2015 to 2019. About 204 million SF is available for sublease, half which lies vacant.

Rent

Though office asking rents have held steady for four years, aggressive discounts and excess sublease inventory is primed to pull rents down in the next 12 to 18 months.

New Builds

Developers delivered just under 57 million SF of new office space in 2023, the least since 2014. Net of demolitions, inventory increased by 39 million SF, 20% below the annual average from 2015 to 2022.

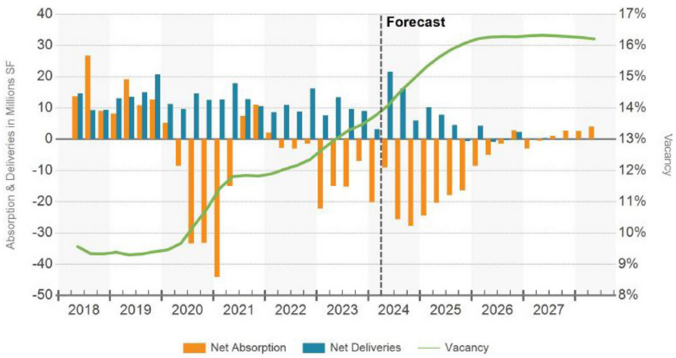
Labor & Economy

With inflation receding, the Federal Reserve expects to cut its policy rate by 75 basis points in 2024, with additional cuts coming in 2025.

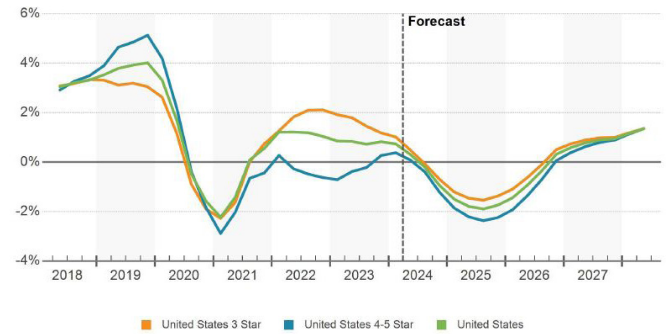
Leasing Outlook

Tenants gave back 58 million SF in 2023, making it the fourth straight year of negative absorption. The amount of occupancy lost since 2020 is four times the amount recorded during the Great Recession. The occupier reaction to trends in a stagnation of office attendance has produced a leasing market that is active, but depressed. Tenants executed new leases for about 395 million SF in 2023, 13% below the average amount from 2015 to 2019. With nearly half of pre-pandemic leases yet to expire, the outlook for the coming months is for a continued rise in vacancy, which is expected to exceed 16% by the end of 2025.

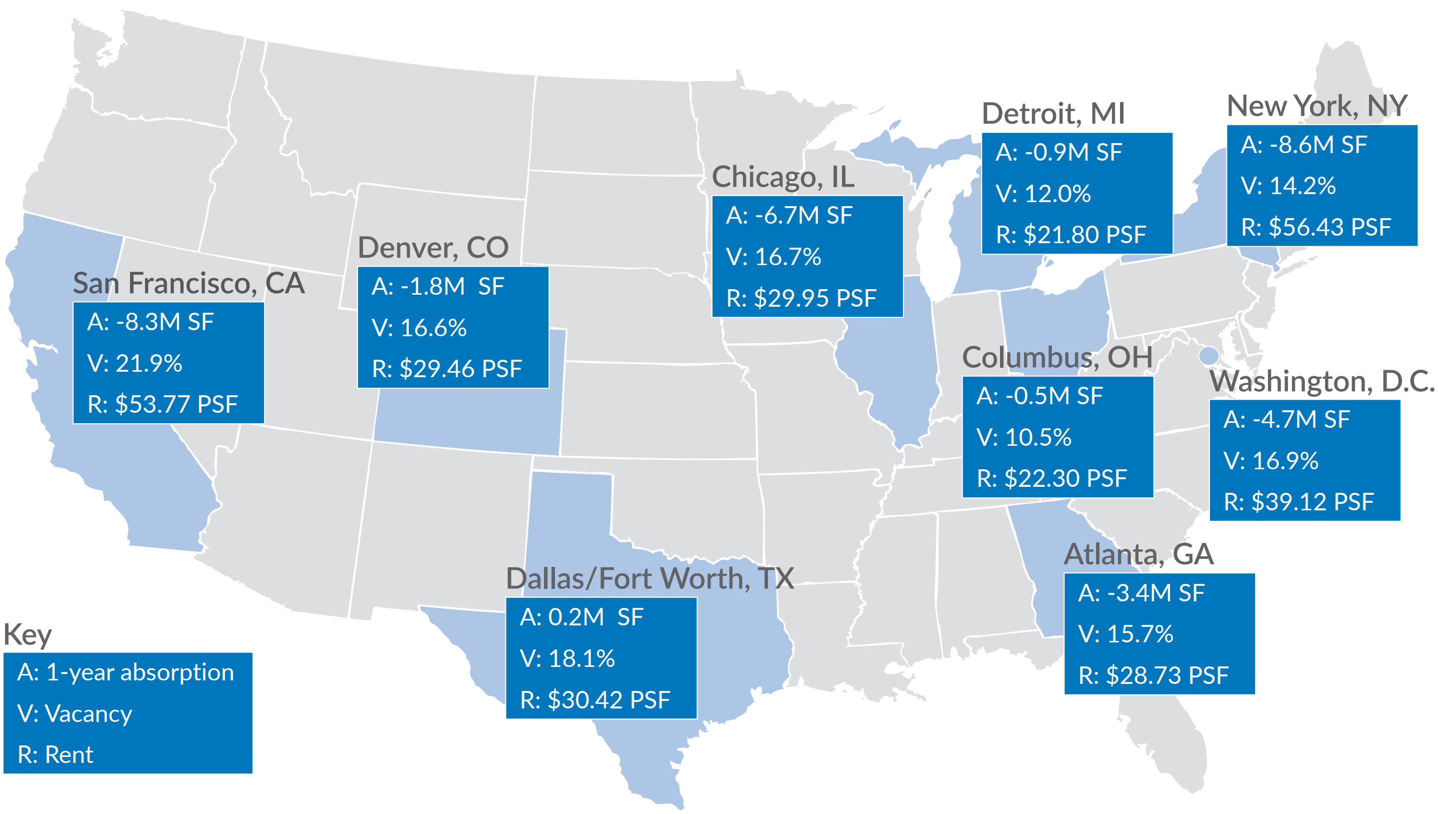
Leasing



Rent



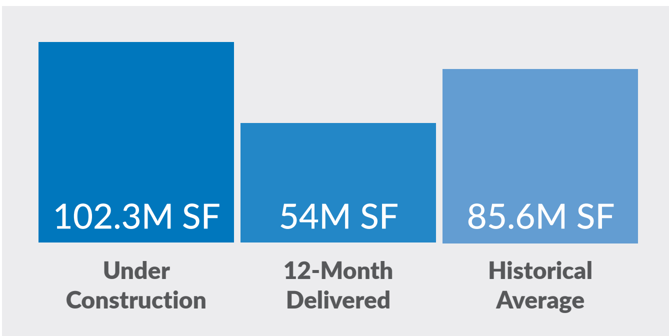
Metrics from Select Metros



Construction & Deliveries

Developers delivered just under 57 million SF of new office space in 2023, the least since 2014. Net of demolitions, inventory increased by 39 million SF, or about 0.5%. This was 20% below the annual average from 2015 to 2022. A more typical amount of approximately 50 million SF is expected in 2024 before the pipeline starts to dry up, leading to less than 25 million SF in net deliveries in 2025 and 2026 combined. Construction starts fell to 32 million SF in 2023, the lowest amount since the 30 million recorded in 2010, in the aftermath of the Great Recession. The overall supply picture is one of rapidly slowing development activity that may not influence fundamentals in the near term but could be enough to create a future crunch in the market for premium space.

National Metrics



Top Metros Under Construction

Boston, MA 16.4M SF	Seattle, WA 8.3M SF
New York, NY 10.5M	Austin, TX 6.7M SF
Dallas/Fort Worth, TX 8.4M SFSF	San Diego, CA 4.4M SF

Construction Cost Index

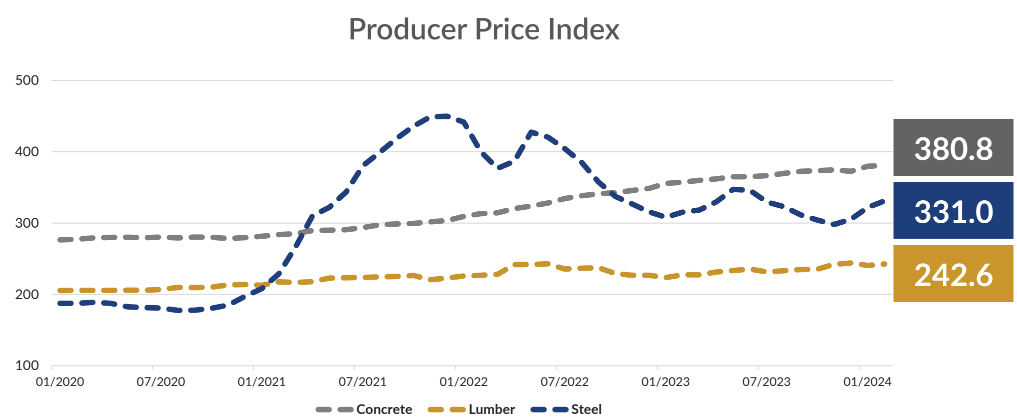
+2.2% Over Year

Materials Cost Index

+6.0% Over Year

Cost of Materials

Increases in the cost of construction materials and higher interest rates are leading to more expensive construction projects. As determined by the U.S. Bureau of Labor Statistics, the Producer Price Index (PPI) for concrete, lumber, and steel has increased by 35.3%, 19.0%, and 65.1%, respectively, since January 2020. Steel saw the most fluctuation since that time, hitting a high of 449.7 in December 2021. The PPI for concrete and lumber are up 7.3% to 7.8%, respectively, over last year, while steel has seen a modest 2.0% decrease. Since last month, concrete is down 0.1%, lumber is up 1.2%, and steel is up 3.3%.



Economy

Despite widespread predictions, the U.S. economy avoided a recession in 2023. While most observers expect the economy to slow in 2024, few expect a contraction this year, as labor market conditions, household incomes, and business margins have all shown relative health. 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 beginby mid-2023. However, economic growth continued in the second half of 2023, reaching 3.2% in the fourth quarter. With inflation receding, the Federal Reserve expects to cut its policy rate by 75 basis points in 2024, with additional cuts coming in 2025.

National Labor Statistics

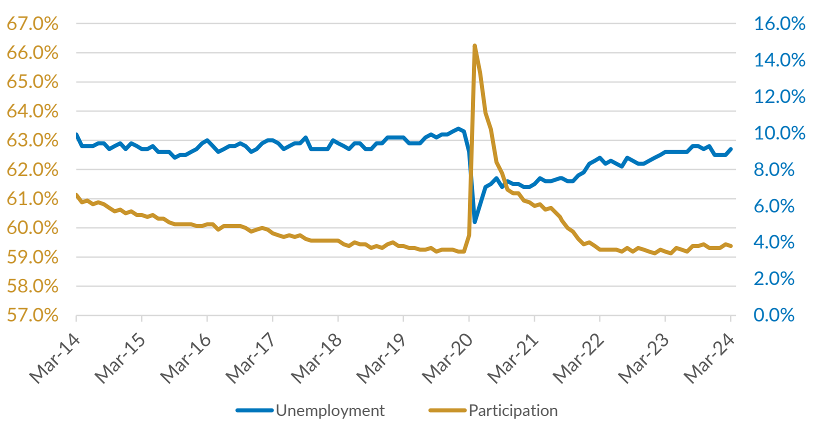
+3.8% Unemployment

+62.7% Participation

+8.7M Job Openings

+5.3% Rate of Job Openings

Labor Statistics, 2014–2024



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To learn more about your real estate market or to discuss your company's real estate needs, contact us today.

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