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REALPOINT

Real Estate Market Report

Office | Q2 2024

Executive Summary

Shrinking demand continues to affect the U.S. office market, shooting vacancy up to a record 13.9%, and cumulative negative absorption to nearly 205 million square feet (SF) since April 2020. This figure is about four times the lost occupancy observed since the Great Recession. Stagnating attendance and slowing employment growth offer little indication of a trend reversal in the months ahead.

Office Real Estate Statistics

	National Average	*Class A*	*Class B*
Vacancy	13.9%	19.5%	12.7%
Rent psf	$35.42	$45.55	$31.02

0.7% 12-Month Rent Growth

50.2M 12-Month Delivered Construction

(48.4M) SF 12-Month Net Absorption

$270 PSF Average Sales Price per SF

Leasing Activity

In the first quarter of 2024, tenants returned an additional 20 million SF, marking the eighth consecutive quarter of negative growth. Currently, 199 million SF is available for sublease, with over half of it vacant.

Rent

Despite office asking rents remaining stable for four years, aggressive discounts and enticements with an excess of sublease inventory are expected to drive rents down over the next 12 to 18 months.

New Builds

Around 45 million SF of net supply additions are expected this year, the majority of which are due in the second half. The smaller number of new projects underway suggests that less than half that amount will come to market in 2025.

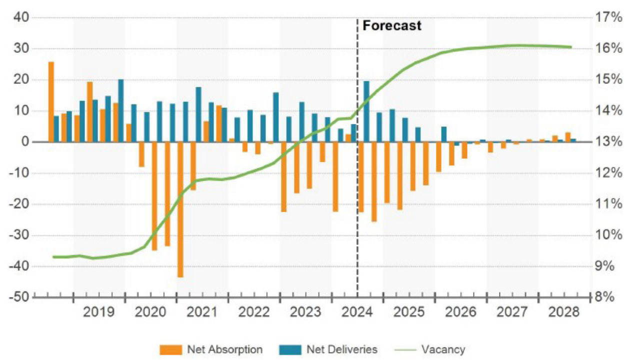
Labor & Economy

Economic activity and job growth are projected to slow through 2024 as the effects of higher interest rates take hold. Price increases in core services, excluding housing services, keep the Federal Reserve vigilant for potential inflation acceleration.

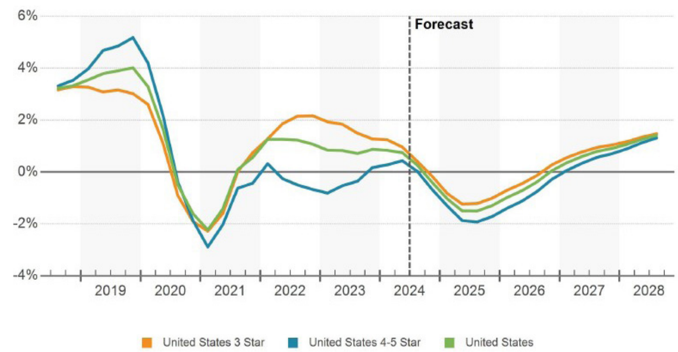
Leasing Outlook

In the first quarter of 2024, tenants returned an additional 20 million SF, bringing the total lost occupancy since 2020 to over 200 million SF. The stagnation in office attendance has led to an active yet depressed leasing market. New leasing volume has remained around 100 million SF for the past six quarters, approximately 12% below the average from 2015 to 2019. With nearly half of pre-pandemic leases still to expire, vacancy rates are expected to continue rising, potentially exceeding 16% by the end of 2026.

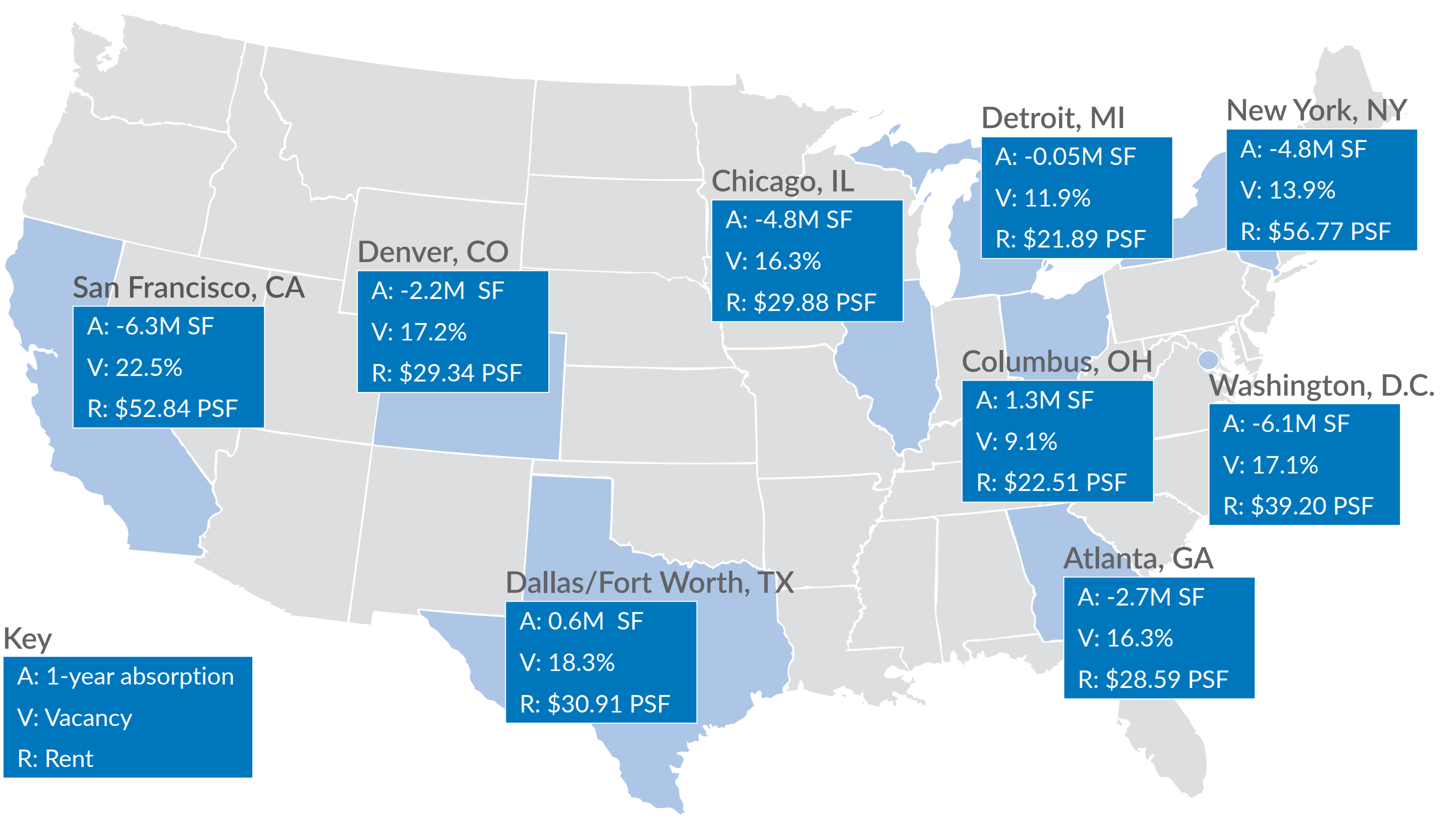
Leasing



Rent



Metrics from Select Metros

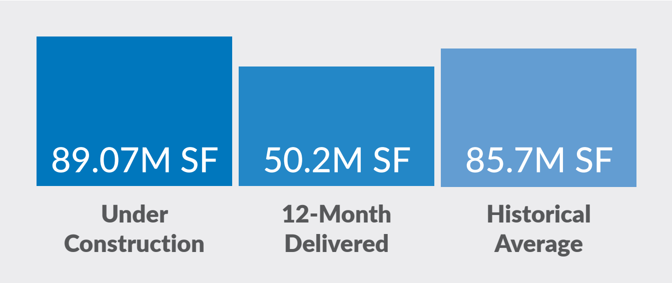


Construction & Deliveries

Developers completed less than 10 million SF in the first quarter, the lowest amount since early 2013. Even less is slated for completion in the second quarter. Though deliveries are expected to reaccelerate later in 2024, the recent slowdown is an indicator of what is to come in the next few years. Around 45 million SF of net supply additions are expected this year, the majority of which are due in the second half. The smaller number of new projects suggests that less than half of this amount will be introduced to the market in 2025.

Construction starts fell to 35 million SF in 2023, the lowest since the 30 million recorded in 2010, following the Great Recession. Overall, the supply picture indicates rapidly slowing development activity, which may not impact fundamentals in the near term but should ease supply-side pressure within a few years.

National Metrics



Top Metros Under Construction

Boston, MA 13.7M SF	Dallas/Fort Worth, TX 7.6M SF
New York, NY 10.1M	Austin, TX 5.6M SF
Seattle, WA 8.1M SF	San Jose, CA 4.2M SF

Construction Cost Index

+1.5% Over Year

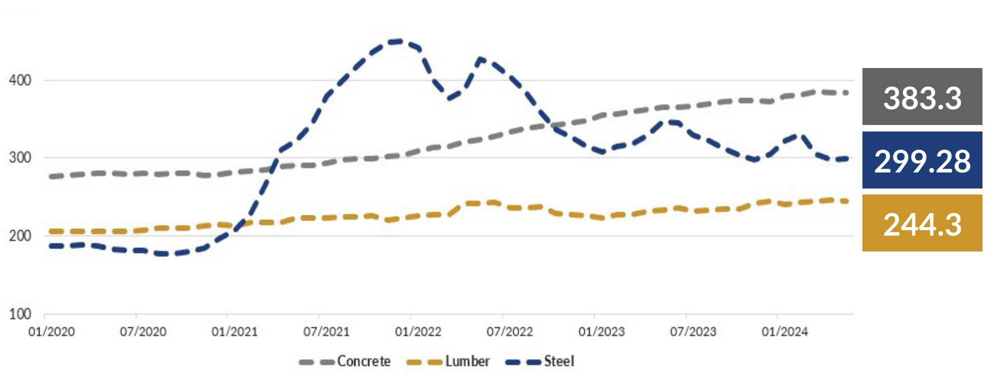
Materials Cost Index

+5.3% 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.

Producer Price Index



The PPI for concrete and lumber are up 5% to 4.6%, respectively, over last year, while steel has seen a modest 3% decrease. Since last month, concrete has remained the same at -0.3%, lumber is down 0.2%, and steel is down 4%.

Economy

The U.S. economy decelerated in the first quarter of the year following a strong second half of 2023. This slowdown was primarily due to reduced household spending growth, which has persisted into the second quarter. The labor market is also experiencing a downturn, with the unemployment rate rising to 4% and increases in both initial and continuing claims for unemployment benefits. The Federal Reserve's monetary tightening has impacted inflation, but economic activity and job growth are expected to slow throughout 2024 as higher interest rates take hold. Price increases in core services, excluding housing services, keep the Federal Reserve vigilant for potential inflation acceleration.

National Labor Statistics

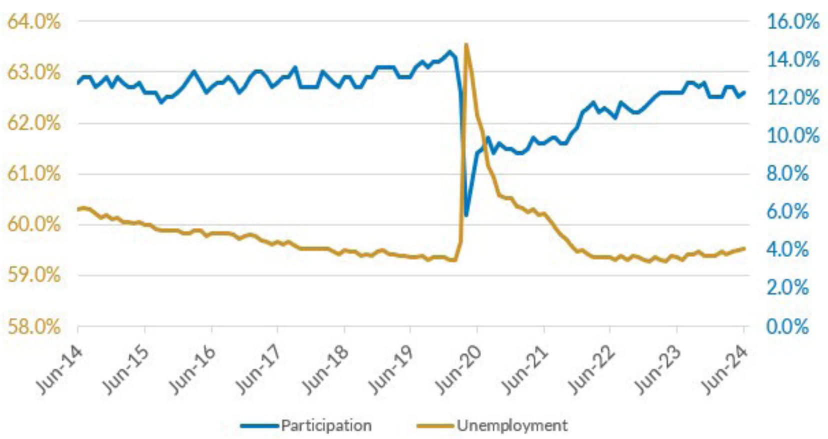
+4.1% Unemployment

+62.6% Participation

+8.1M Job Openings

+4.9% 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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