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Real Estate Market Report

Office | Q3 2024

Executive Summary

Marginally positive absorption ended a two-year trend of declining demand, though supply additions pushed vacancy to a record 13.9%. Increased owner occupancy and medical office usage contributed to higher occupancy rates, but small leases and rollover exposure suggest this improvement may be temporary. With office attendance at 70% of 2019 levels and a high sublease inventory, further occupancy losses and value corrections are anticipated.

Office Real Estate Statistics

	National Average	*Class A*	*Class B*
Vacancy	13.9%	20.8%	12.3%
Rent psf	$35.57	$46.70	$31.59

0.9% 12-Month Rent Growth

45.9M 12-Month Delivered Construction

(35.5M) SF 12-Month Net Absorption

$278 PSF Average Sales Price per SF

Leasing Activity

For the first time since 2022, the second quarter saw positive demand. However, the vacancy rate remains at 13.9% as supply growth continues to exceed absorption. Of the 192 million square feet (SF) available for sublease, more than half remains vacant.

New Builds

Developers completed only 22 million SF in the first half of the year, the lowest in over a decade. An additional 32 million SF is expected by year-end, bringing the annual total to under 55 million SF. This marks the lowest yearly total in the past 10 years.

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.

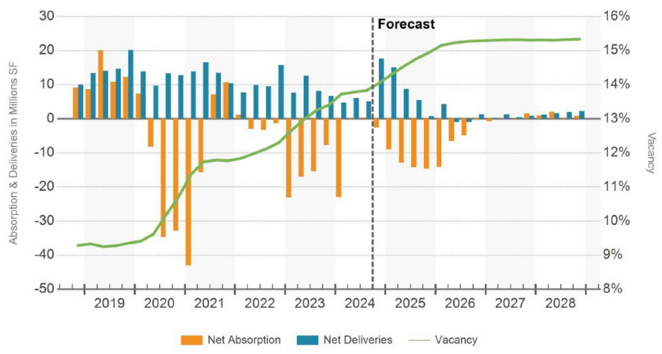
Labor & Economy

Economic activity reaccelerated in the second quarter with 3.0% growth, thanks to strong household spending and business investment. However, growth is expected to slow due to a cooling job market and the Federal Reserve's tightening measures.

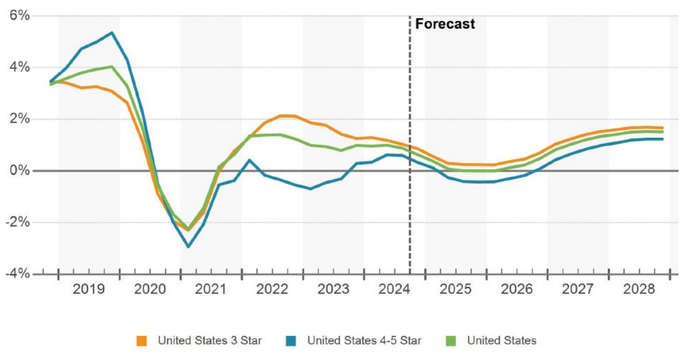
Leasing Outlook

Office demand turned positive in the second quarter for the first time since 2022. Despite this, supply growth exceeded net absorption, keeping the vacancy rate at 13.9%. With stagnant office attendance and job growth, a significant change in office demand is unlikely in the next 18 to 24 months. New leasing volume is about 10% below the 2015-2019 average, driven by smaller leases. With nearly half of pre-pandemic leases still to expire, vacancy rates are projected to reach 15.5% by early 2026.

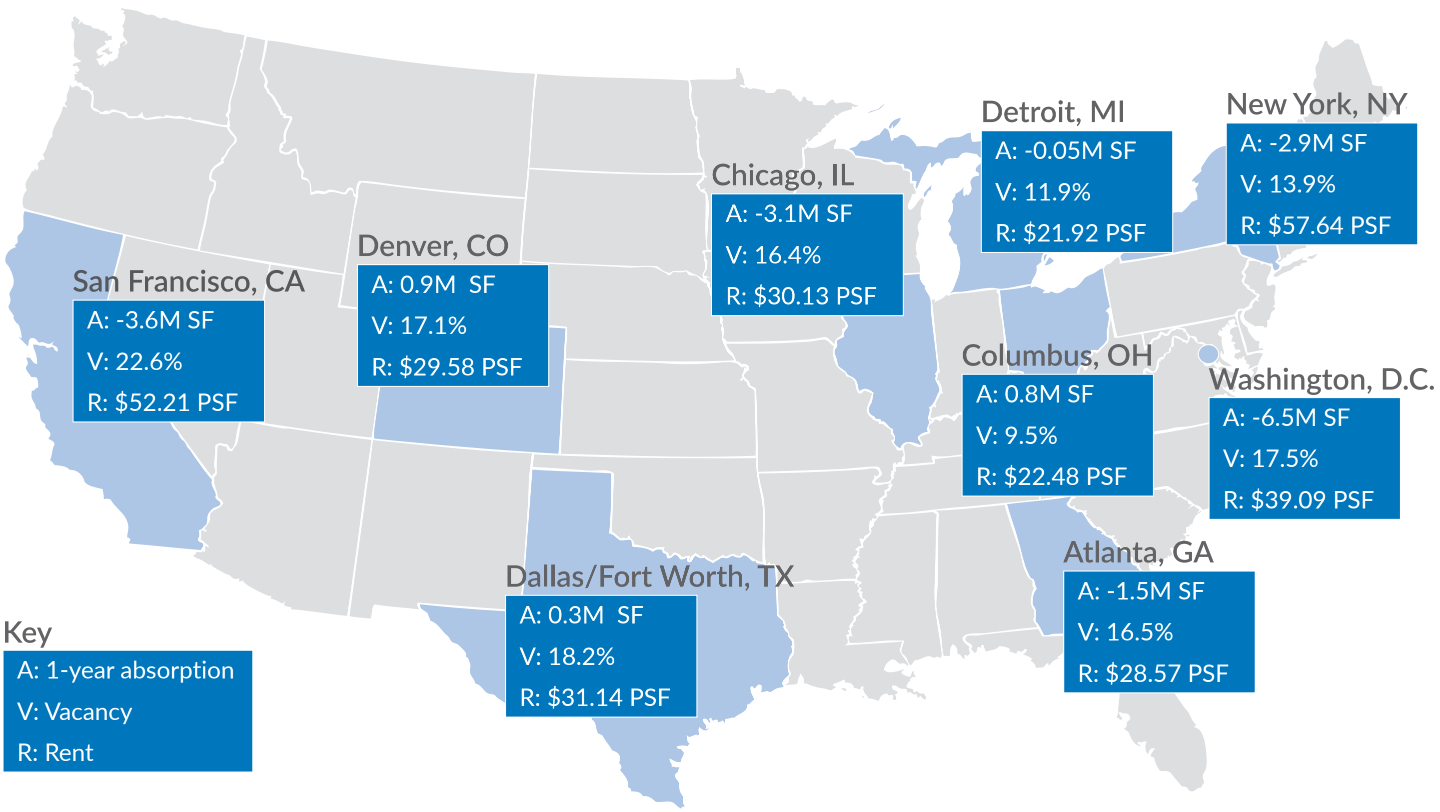
Leasing



Rent



Metrics from Select Metros

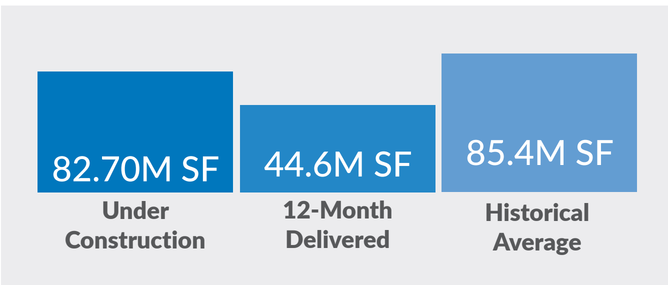


Construction & Deliveries

Developers completed roughly 22 million SF in the first half of the year, the lowest half-year total since 2014. Approximately 32 million SF is expected in the remainder of 2024, bringing the expected annual total to less than 55 million SF — the lowest yearly total in a decade. Future deliveries are expected to be significantly below historical norms, with less than 45 million SF expected in 2025.

Construction starts fell to 35 million SF in 2023, the lowest since the 30 million SF recorded in 2010, following the Great Recession. The deceleration has continued in the second half of 2024, with less than 10 million SF started. 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 12.9M SF	Seattle, WA 6.3M SF
New York, NY 10.1M	Austin, TX 4.4M SF
Dallas/Fort Worth, TX 6.4M SF	San Jose, CA 4.3M SF

Construction Cost Index

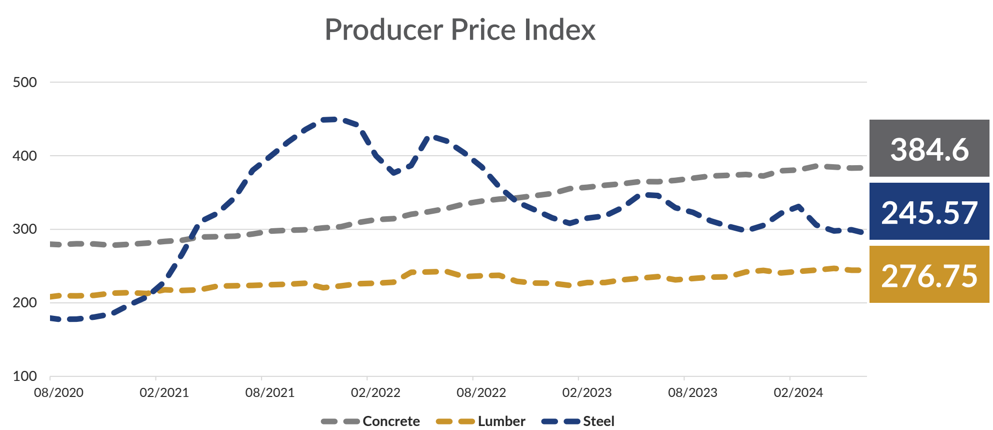
+1.1% Over Year

Materials Cost Index

+2.6% 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 37.8%, 17.1%, and 55.8%, 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 is up 4.2%, while lumber decreased -1.3% over last year, and steel has seen a 10% decrease. Since last month, concrete has decreased 0.16%, lumber is up 1.8%, and steel has decreased 0.3%.

Economy

The U.S. economy reaccelerated in the second quarter with a 3.0% growth rate, driven by strong household spending and business investment, following a slowdown at the beginning of the year. Policymakers are shifting their focus from inflation risk to decelerating job growth, which has fallen since mid-2021. Still, rapid economic growth could soon prompt a reevaluation of the Federal Reserve's rate cut projections. However, at present, the Fed appears strategically positioned to continue its gradual rate reductions as inflation continues to ease.

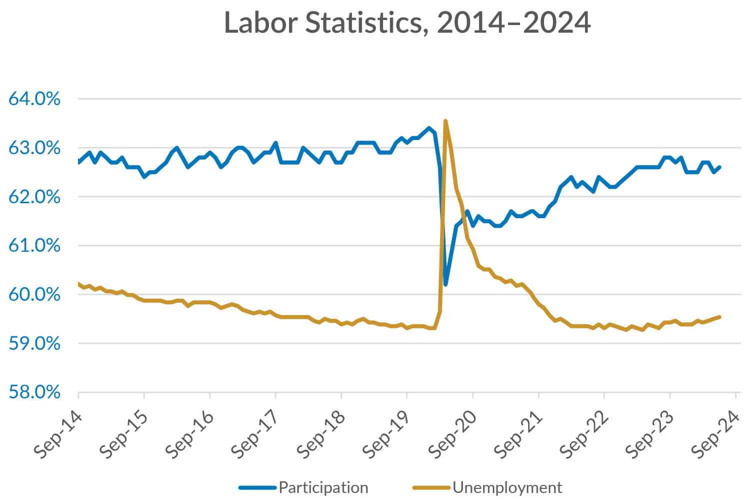
National Labor Statistics

+4.1% Unemployment

+62.7% Participation

+8M Job Openings

+4.8% Rate of Job Openings



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Plante Moran Realpoint offers unbiased advocacy for companies looking to lease, buy, build, invest, or develop a real estate strategy that will align their company goals and real estate. Learn more at pmrealpoint.com/office.

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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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