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Real Estate Market Report

Office | Q4 2024

Executive Summary

A complex recovery of the U.S. office market continues as employers require more attendance, including a recent mandate for federal employees. Despite strong demand for A+ office space in vibrant work, live, play communities, other office classes still have a lot of ground to make up. New office construction is below historic averages and existing space values continue to decline, which is expected to put pressure on building owners as loans come due.

Office Real Estate Statistics

	National Average	*Class A*	*Class B*
Vacancy	13.9%	20.8%	12.4%
Rent psf	$36.11	$48.02	$31.76

1.0% 12-Month Rent Growth

43.2M 12-Month Delivered Construction

(26.2M) SF 12-Month Net Absorption

$278 PSF Average Sales Price per SF

Leasing Activity

Net absorption has stabilized over the past three quarters, with owner-occupied and medical office move-ins balancing traditional office move-outs. Vacancy rates have risen to a record 13.9% due to supply growth and are expected to peak in 2026, leaving occupiers with fewer premium office options.

New Builds

Supply growth hit a decade-low in 2024 with less than 45 million SF of new deliveries, far below the 10-year average. Future supply is expected to remain historically low, with significant reductions in new office space through 2029.

Rent

Office asking rents have been flat for four years, with future growth expected to stay below 1% due to aggressive discounts, limited premium space, and sublease inventory. National average rents are slightly higher than in 2020, but lagging behind consumer price increases.

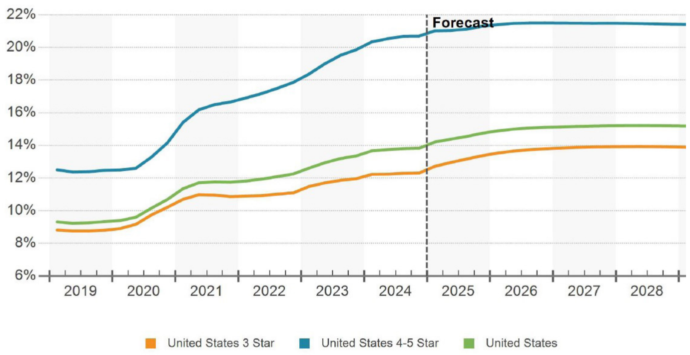
Labor & Economy

The U.S. economy is growing faster than other advanced economies, with 3.1% growth in the third quarter thanks to strong consumer spending and business investment. The economy is expected to slow in early 2025 due to higher import prices, before potentially accelerating again in 2026. With the recent federal return-to-work mandate, it will be interesting to see how the private sector is affected.

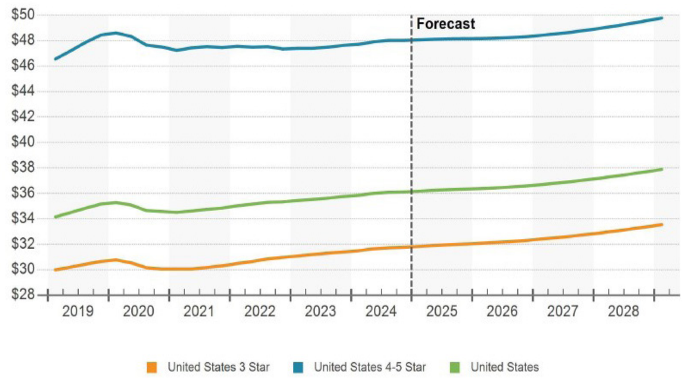
Leasing Outlook

Net absorption has stabilized over the past three quarters, with owner-occupied and medical office buildings balancing out move-outs from multi-tenanted traditional offices. Despite this, vacancy rates have risen to a record 13.9% due to supply growth. Office attendance is slowly increasing, but office-using job growth has nearly stalled, with payrolls in major knowledge industries growing at just 0.4% since November 2023. With gradual attendance increases and slow job growth, significant changes in demand are unlikely in the next 18 to 24 months. Higher vacancy rates are expected to peak in 2026, with much of the vacant space being non-competitive.

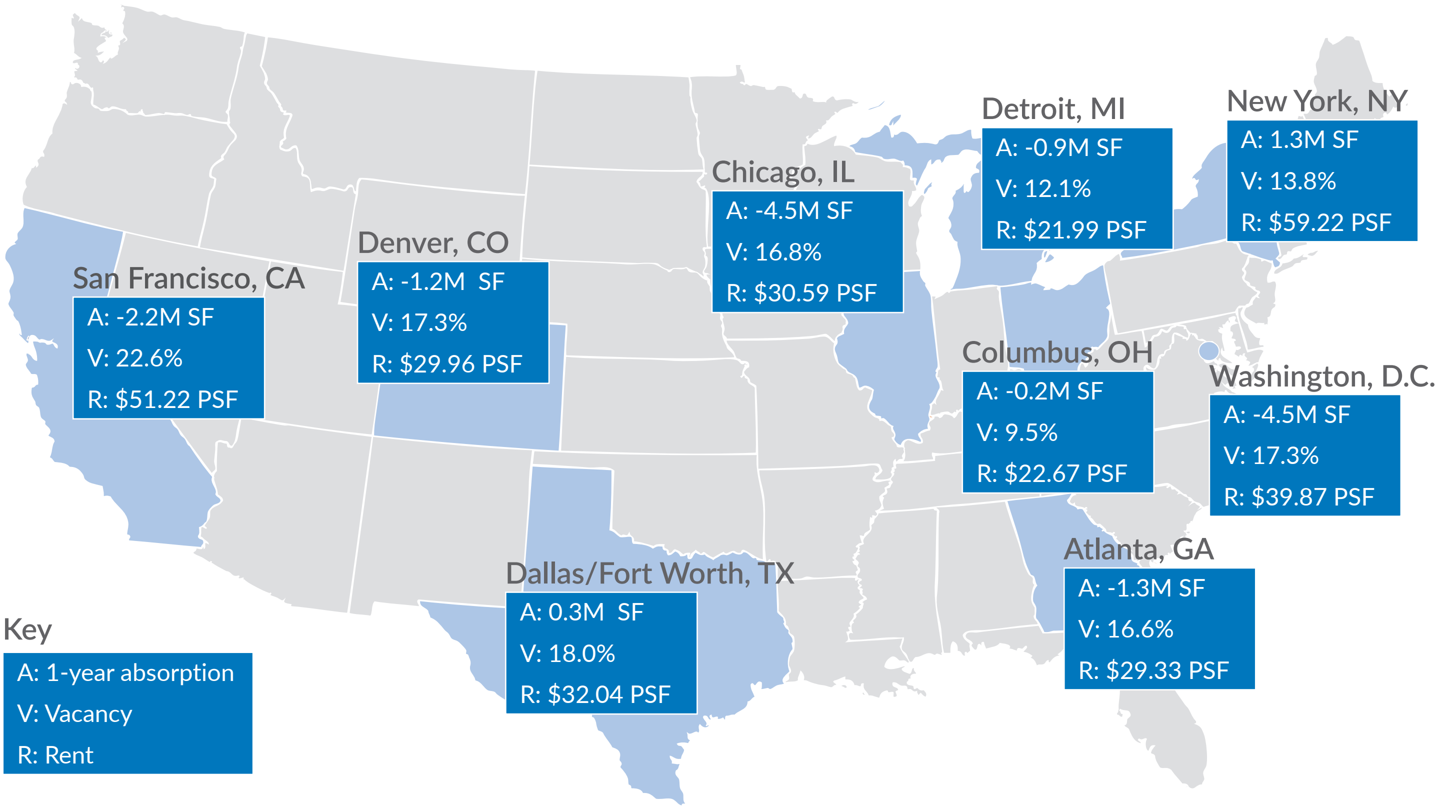
Vacancy



Rent



Metrics from Select Metros

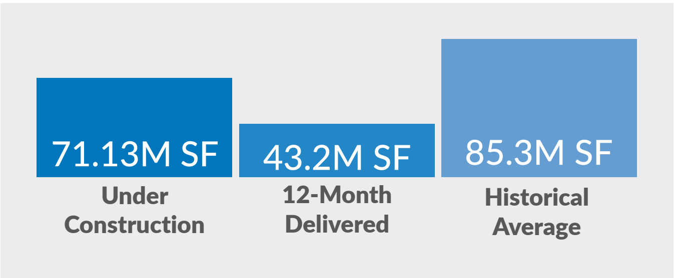


Construction & Deliveries

In 2024, supply growth hit a decade-low, with less than 45 million SF of new deliveries, far below the 10-year average of 70 million SF. Net of demolitions, office space stock rose by about 25 million SF, with similar growth expected in 2025. From 2026-2029, net supply additions are forecasted to be historically low at less than 25 million SF. The current 71.1 million SF under construction is the least since mid-2012, with only 14 million SF breaking ground in 2024. The pipeline is shifting, with 14% medical office, 20% biotech labs, and 20% owner-occupied spaces, leaving less than 45% for traditional office buildings.

Despite fewer new products, the availability rate for new space has risen above 27%, as tenants balk at high rents and self-funded buildouts. Lower interest rates and pricing resets may trigger more renovations and conversions, with potential transformations in supply quality and quantity, especially with public sector support. The supply pipeline slowdown presents tactical opportunities for owners of occupancy-challenged buildings.

National Metrics



Top Metros Under Construction

Boston, MA 11.3M SF	Dallas/Fort Worth, TX 5.2M SF
New York, NY 8.7M SF	Austin, TX 4.1M SF
Seattle, WA 5.4M SF	San Diego, CA 3.1M SF

Construction Cost Index

+0.9% Over Year

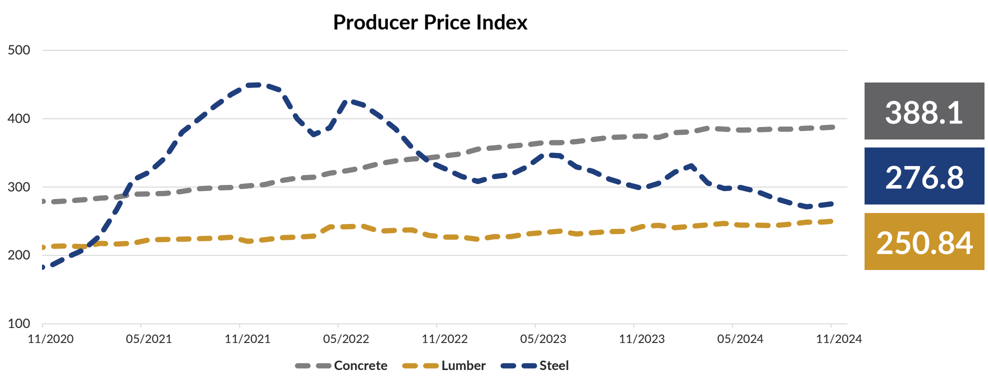
Materials Cost Index

+1.8% 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 39.5%, 15.8%, and 53.2%, respectively, since January 2020. Steel saw the most fluctuation since that time, hitting a high of 445.3 in December 2021.

Producer Price Index



The PPI for concrete is up 3.9%, while lumber increased 2.1% over last year, and steel has seen a 9.8% decrease. Since last month, concrete has decreased 0.2%, lumber is up 1.7%, and steel has decreased 0.4%

Economy

The U.S. economy is growing faster than other advanced economies, driven by consumer spending and business investment. Growth may slow in early 2025 due to higher import prices and potential tariff increases, but tax cuts could boost growth in 2026. The labor market is strong, though inflation and higher interest rates pose challenges. Economic activity and job growth are expected to slow gently in 2025, with a potential re-acceleration in the next two years.

National Labor Statistics

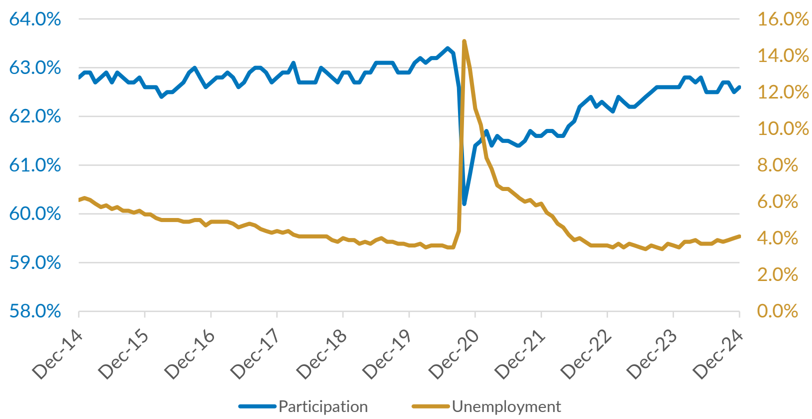
+4.2% Unemployment

+62.5% Participation

+8M Job Openings

+4.8% Rate of Job Openings

Labor Statistics, 2014–2024



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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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