



U.S. office market report

Q2 2023

**AVISON
YOUNG**

U.S. office market trends

53.2 msf

Q2 office leasing activity, the weakest reported since 2000

The aftermath of the regional banking crisis beginning in March 2023 contributed to a temporary slowdown in office leasing activity. The 53.2 msf of reported activity did not meet Q2 2020 levels of 55.6 msf and was 41.6% below the quarterly average reported from 2000 to Q1 2023. Tenant-favorable conditions largely persist, as shown by the concession trends explored in this report, though there are signs that tenants are navigating the market with more conviction.

9.0%

Law firms' share of total office leasing activity to date in 2023

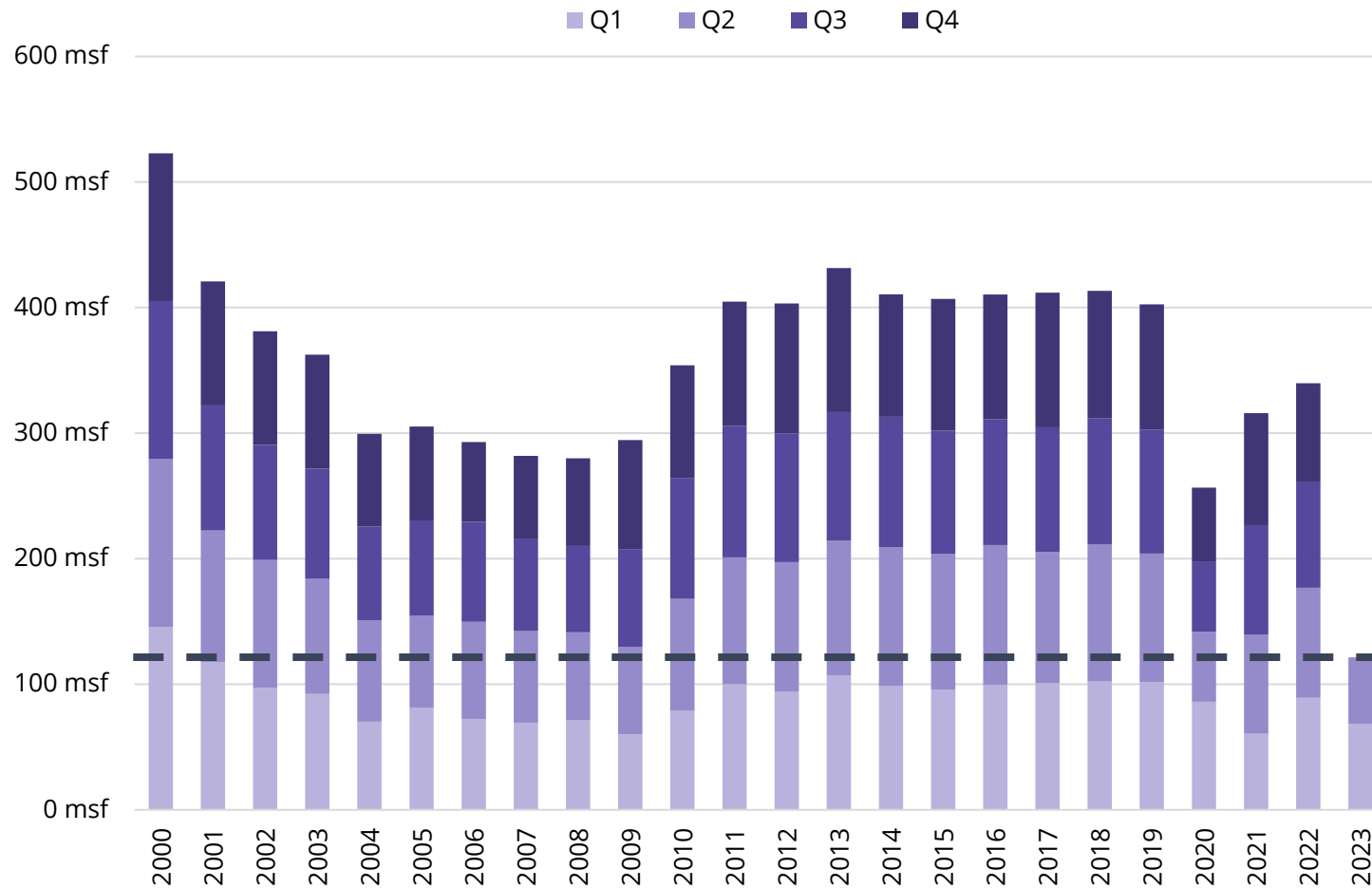
Law firms are renowned for timing the market well, and their recently increased activity—closed deals and active requirements—indicates that the market is nearing its bottom. Legal services firms' share of total leasing activity of 9.0% to date in 2023 is the highest reported since the 2008 to 2012 period (9.6% annual average).

12.7%

Total availability rate for Class C properties in Q2 2023

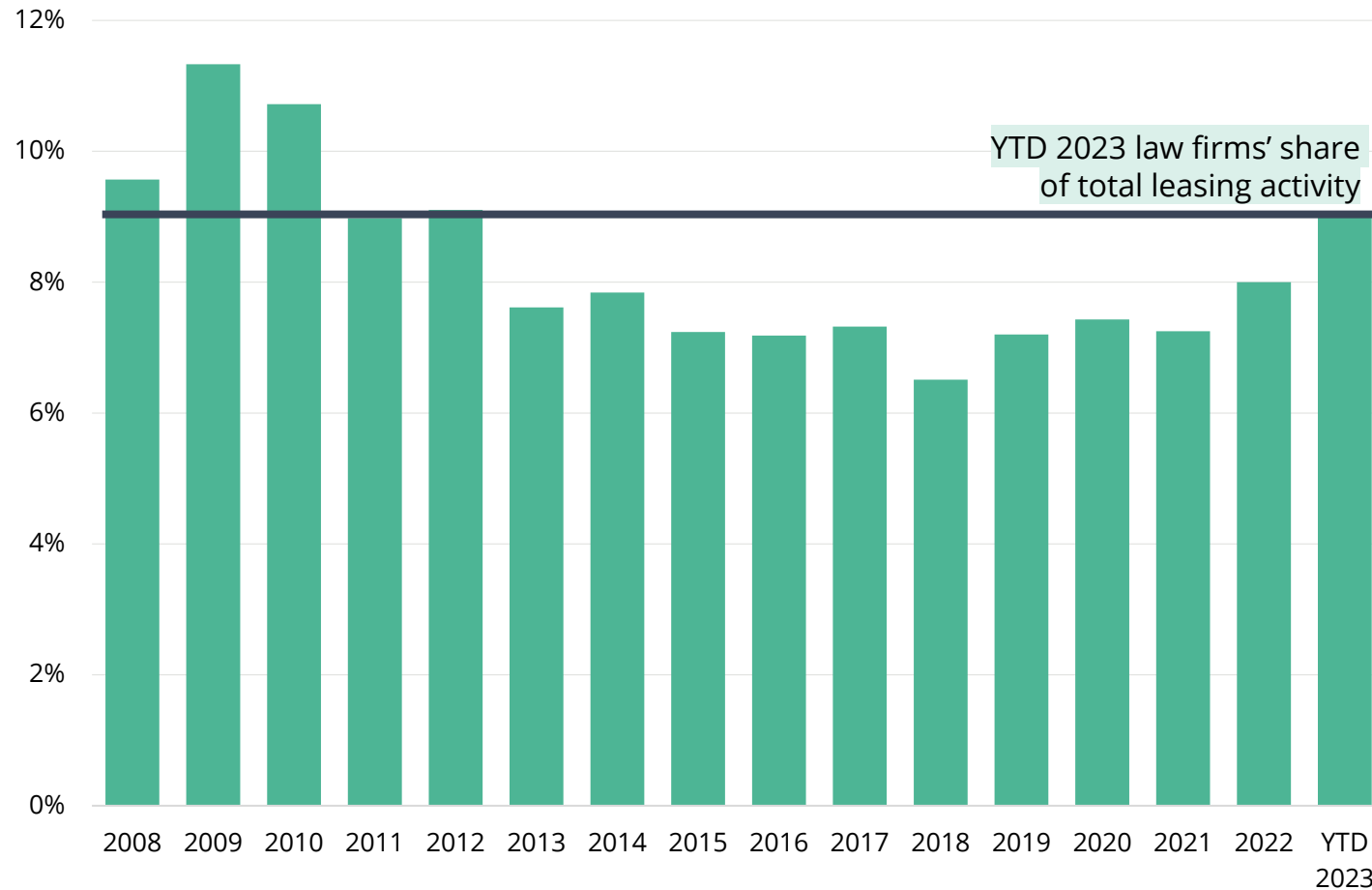
Trophy properties get most of the press, though the value proposition of cheaper alternatives in a weakening economy should not be discounted. Class C properties list the lowest availability rates and have been least impacted by the slowdown in demand brought on by the pandemic. From Q1 2020 to Q2 2023, Class C availability rates have risen by 2.6%, significantly lower than the supply increases reported in the Trophy (+5.8%), Class A (+9.0%) and Class B (+5.6%) sectors.

Office leasing activity



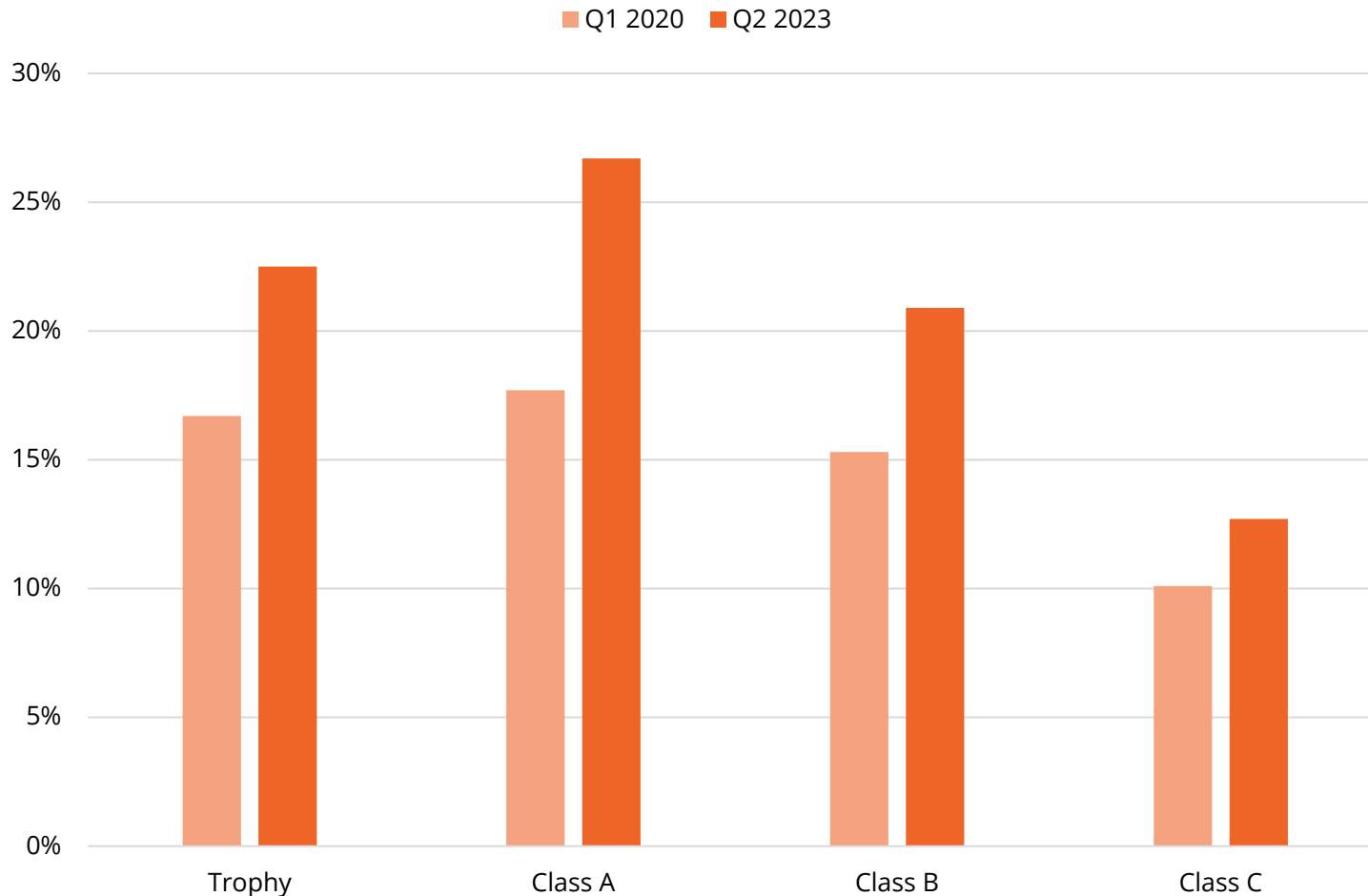
Office demand temporarily stalled in the aftermath of the regional banking crisis. The 53.2 msf activity in Q2 was the lowest reported since at least 2000.

Law firms' share of total leasing activity



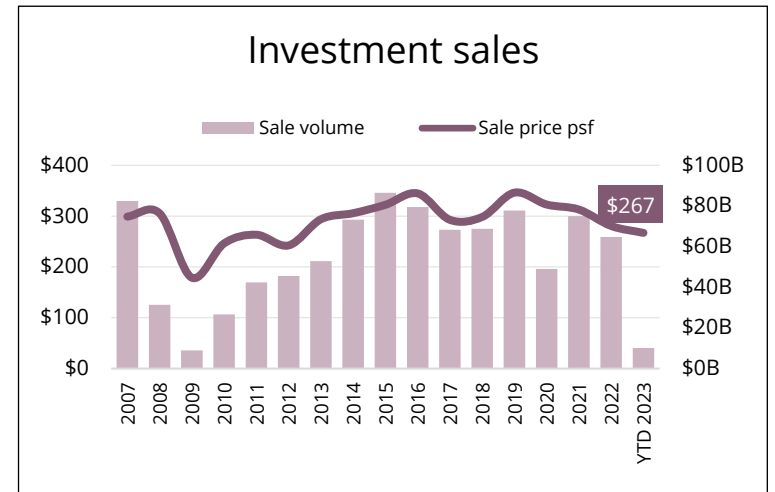
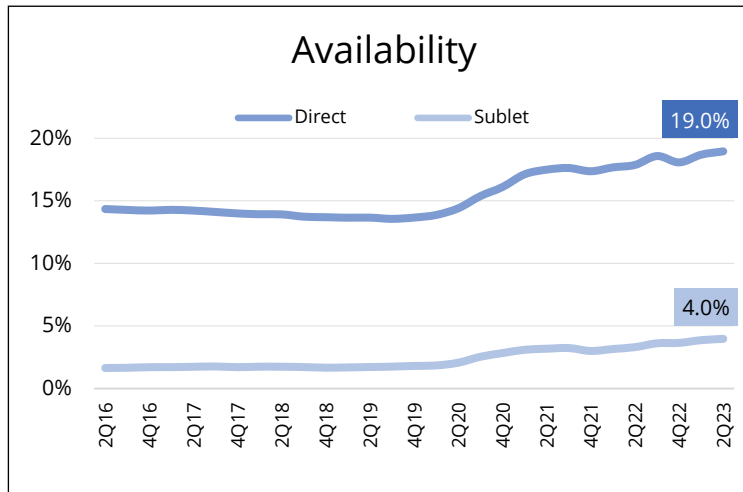
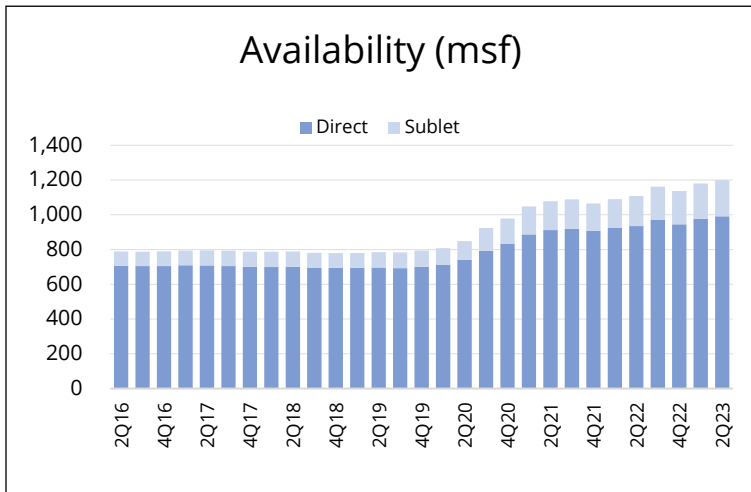
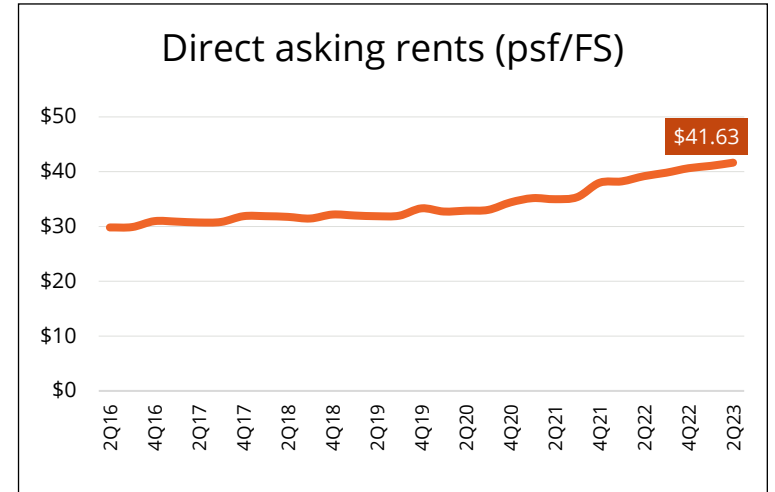
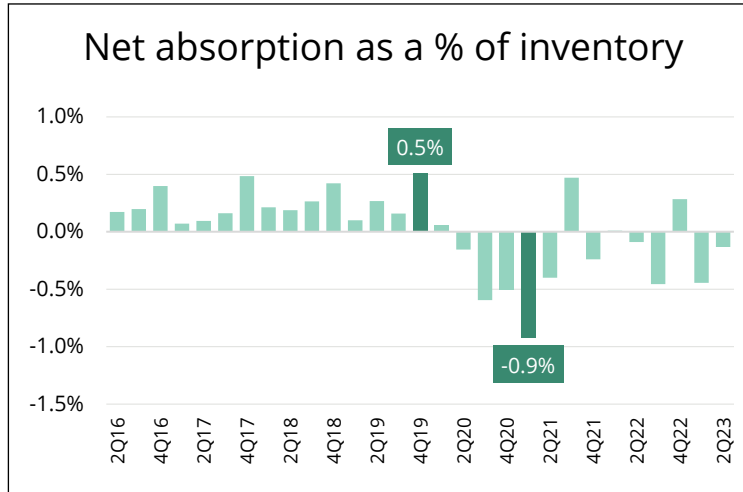
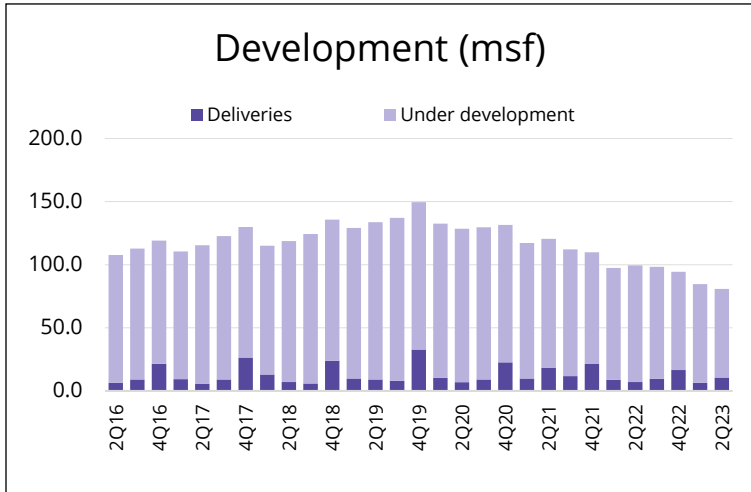
Has the office market reached its bottom? Law firms have become increasingly active, akin to the aftermath of the Global Financial Crisis.

Total availability rates by property class



While the “flight to quality” trend is real, don’t discount the cost competitiveness of Class C properties, which have weathered the current market conditions well.

U.S. office market indicators

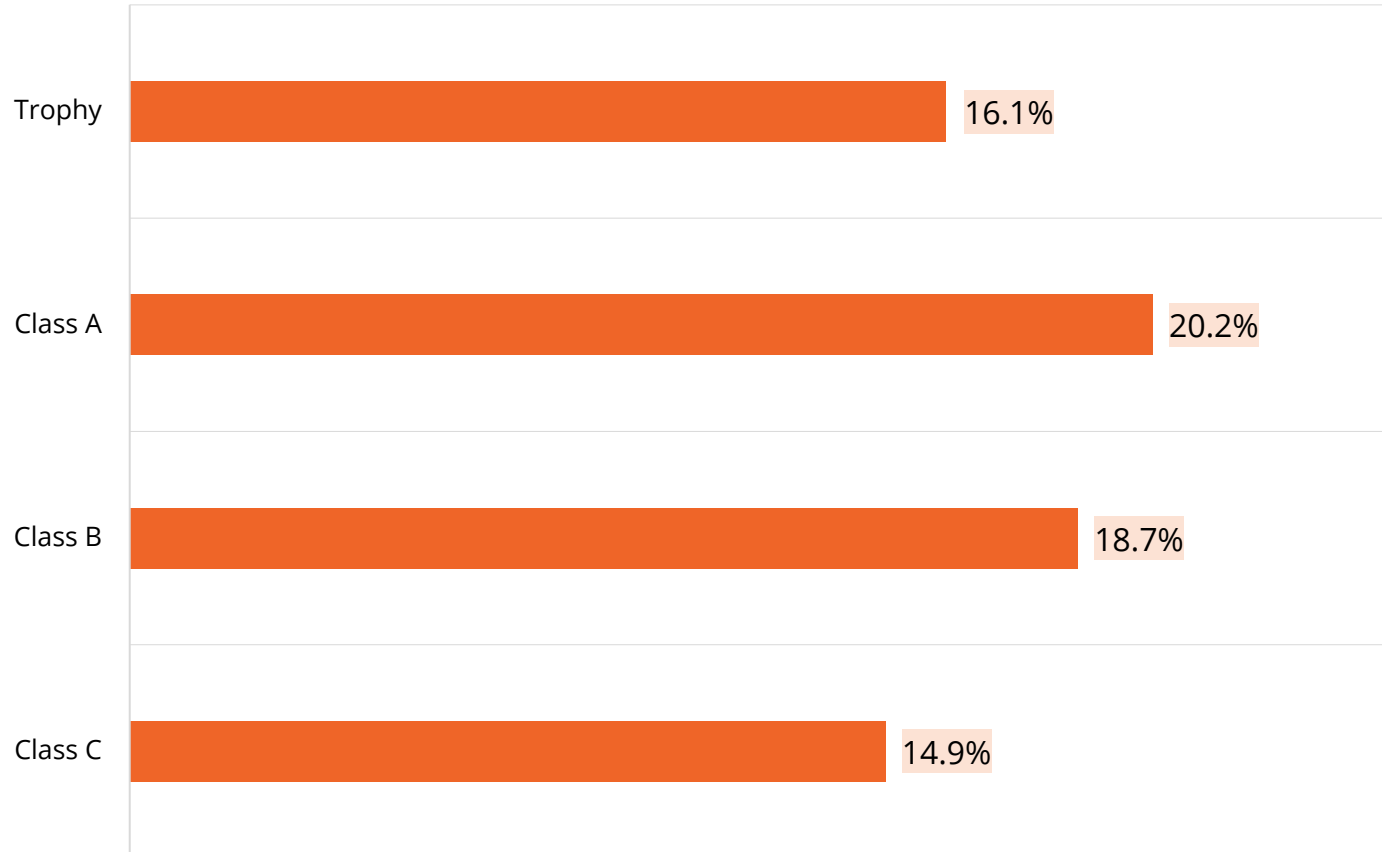


Occupier market conditions



Agency leasing changes by property class

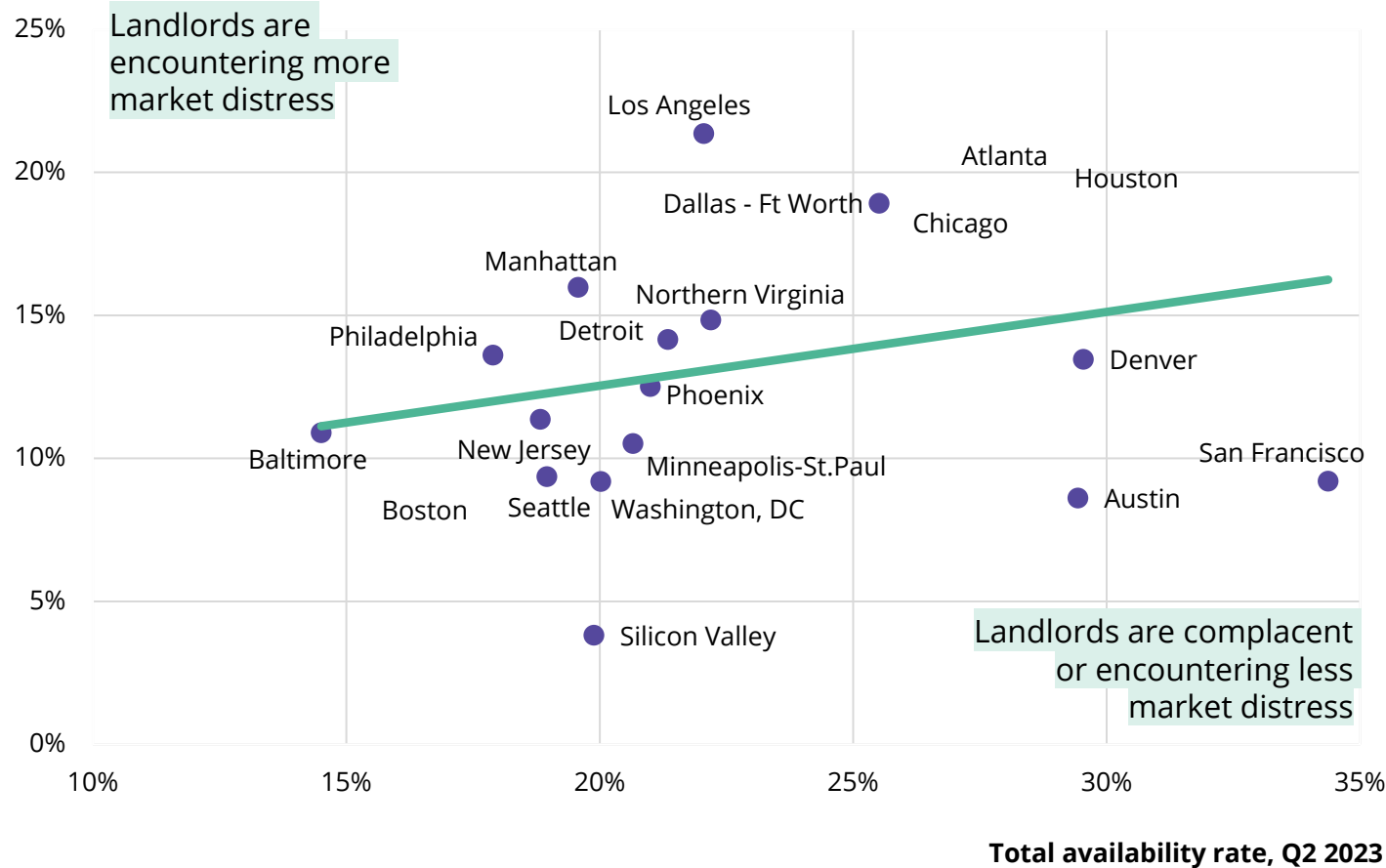
Share of agency leasing brokerage changes
May 2021 to June 2023



Class A and Class B properties are experiencing the greatest current and near-term distress, as measured by agency leasing brokerage changes.

Landlords' perceived market distress

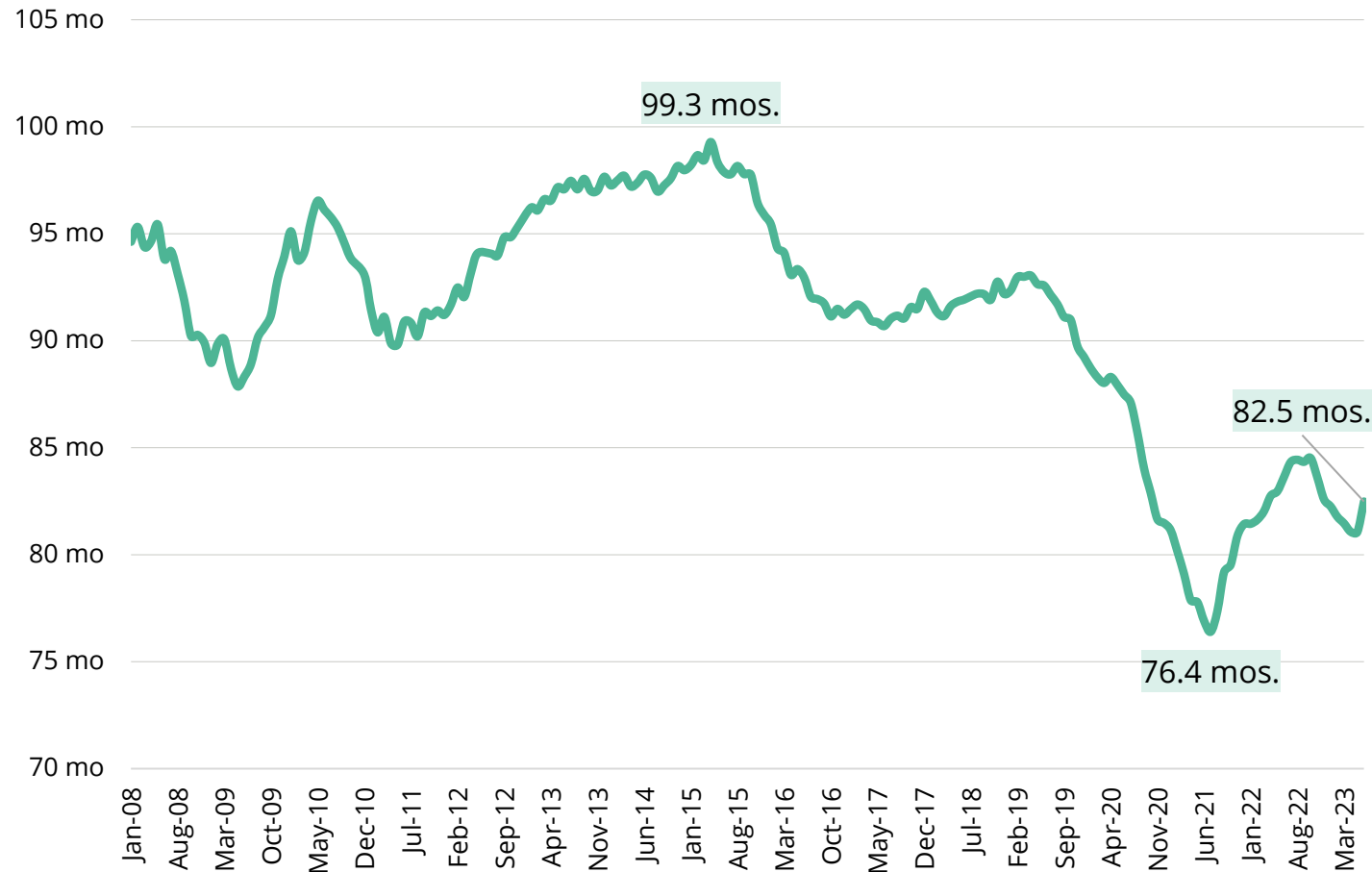
Share of inventory that has changed agency leasing brokers, May 2021 to June 2023



Landlords may elect to make agency leasing changes when absorption does not meet expectations – a leading indicator of continued market distress.

U.S. gateway city office lease term lengths

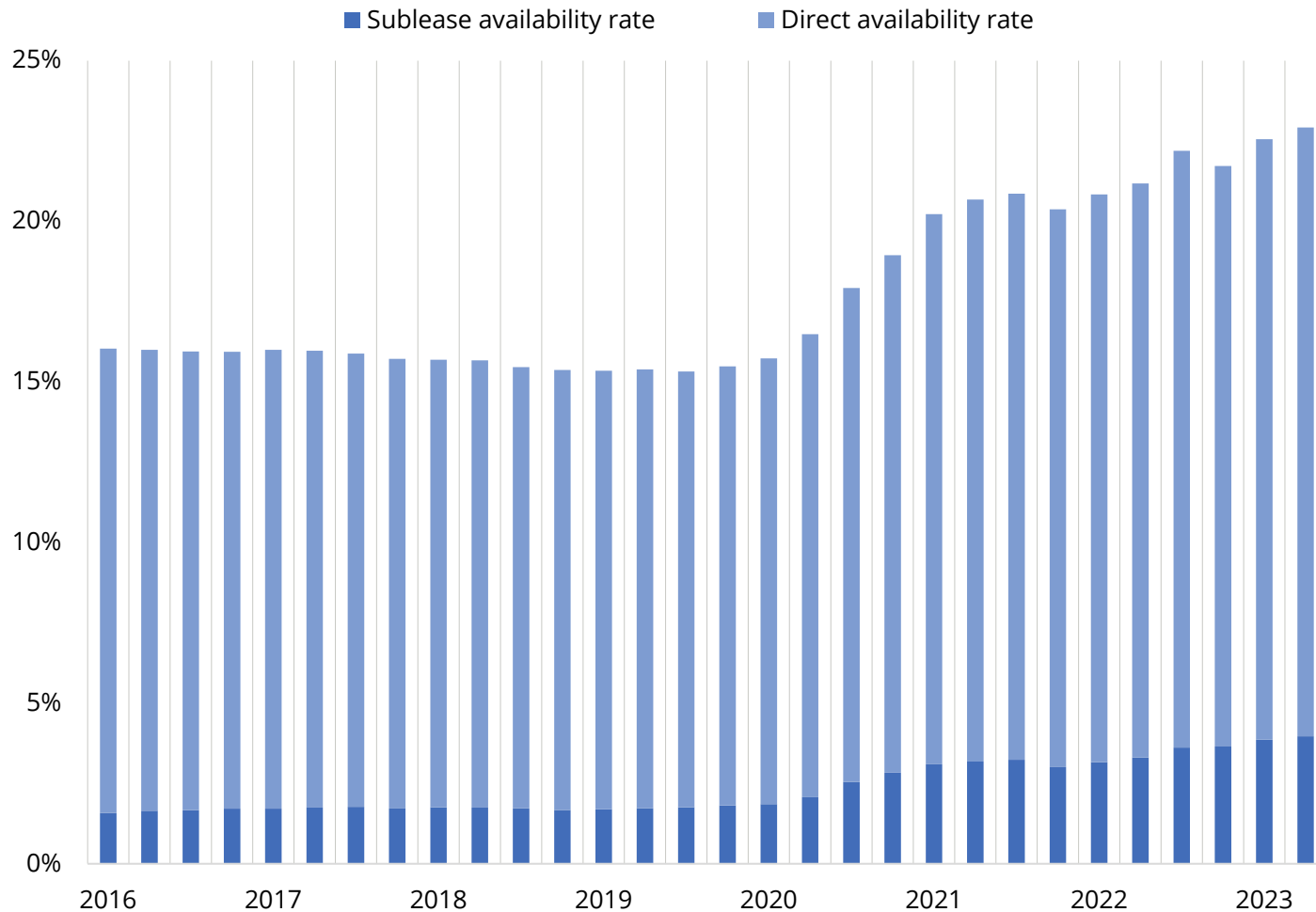
Average lease term length



Tenants are navigating their occupancy strategies with more conviction, though term lengths are still down 16.9% or 16.8 months below 2015 levels.

Note: Boston, Chicago, Los Angeles, Manhattan, San Francisco and Washington, D.C. Includes relocations, renewals, expansions and subleases. 12-month moving averages.
Source: AVANT by Avison Young

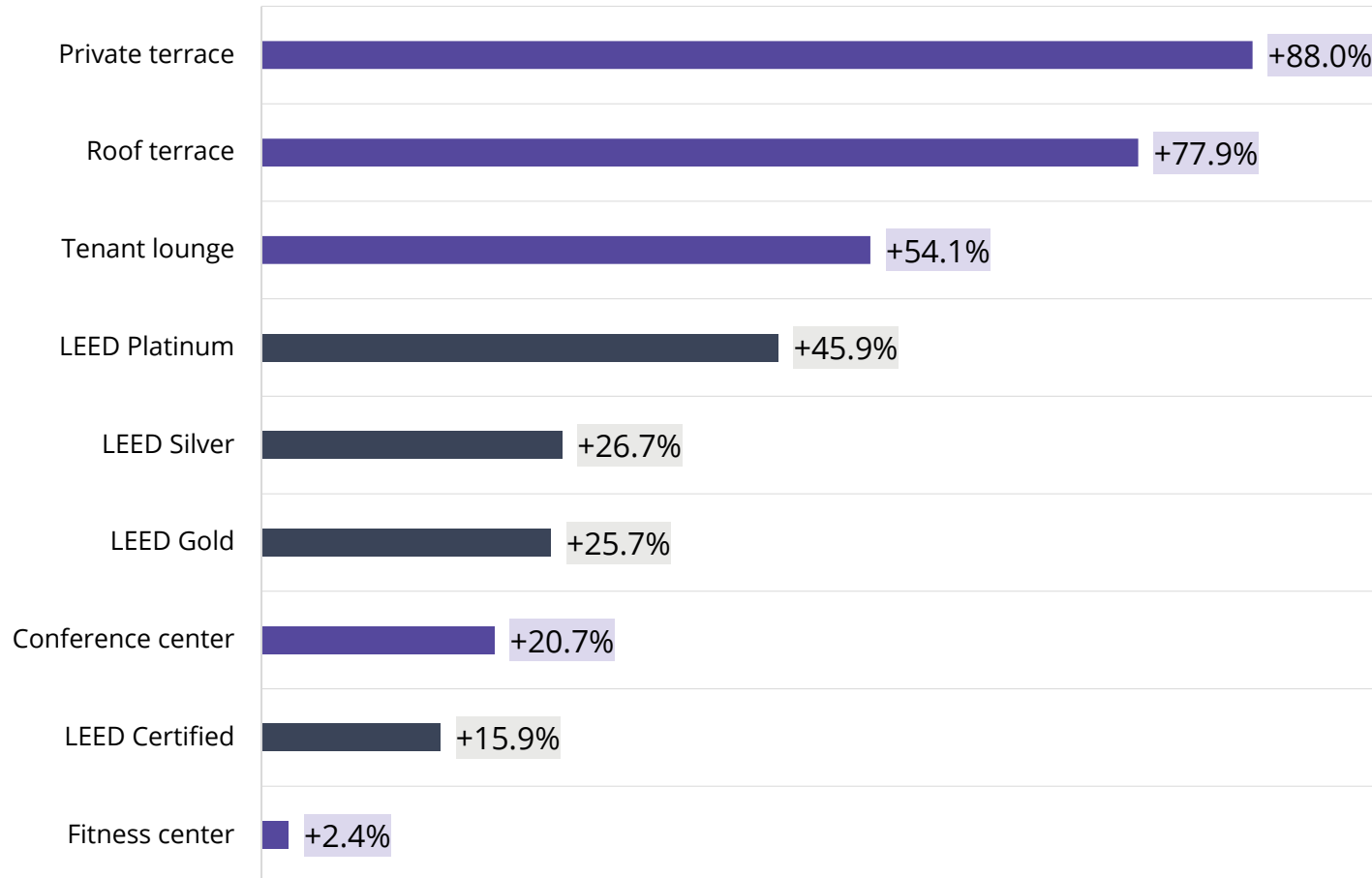
Availability rate



Direct and sublease availability rates increased to their highest levels since at least 2016, which was largely attributable to weakened demand.

Amenity and sustainability rent premiums

FS asking rent premium

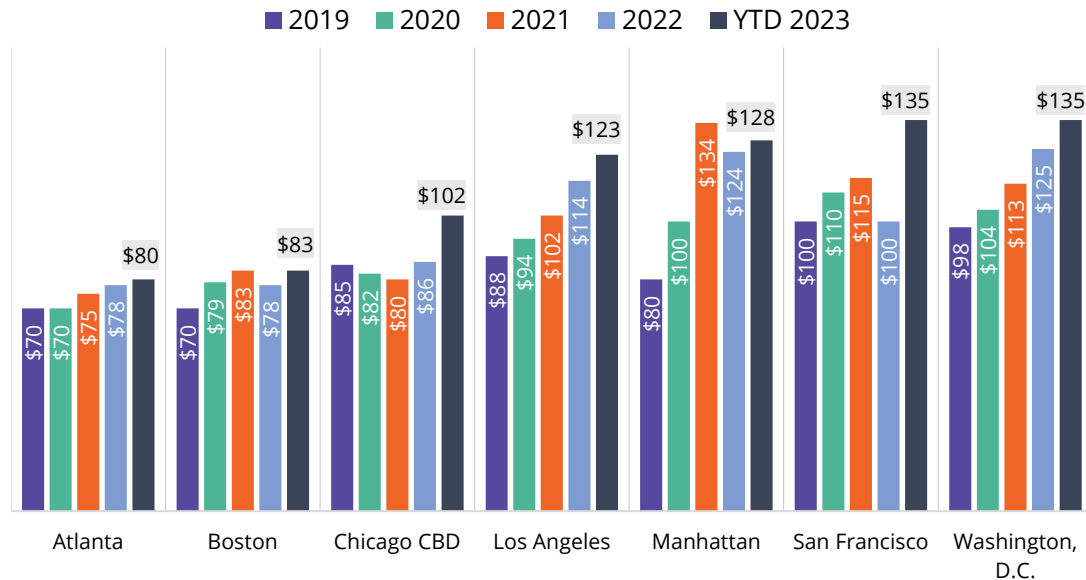


Fitness centers have not meaningfully impacted office performance, though sustainability and other amenities are driving asking rent premiums.

Office concessions packages are still trending upward, demonstrating continued tenant-favorable market conditions

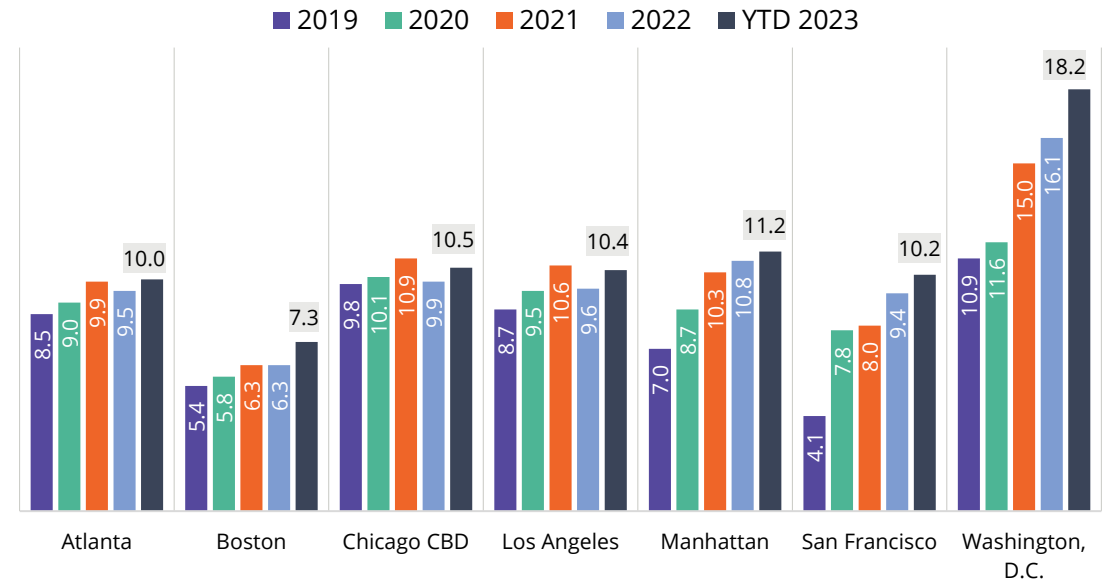
+17.4%

year-to-date increase in tenant improvement allowance concessions in Chicago, Los Angeles, San Francisco, and Washington, D.C.

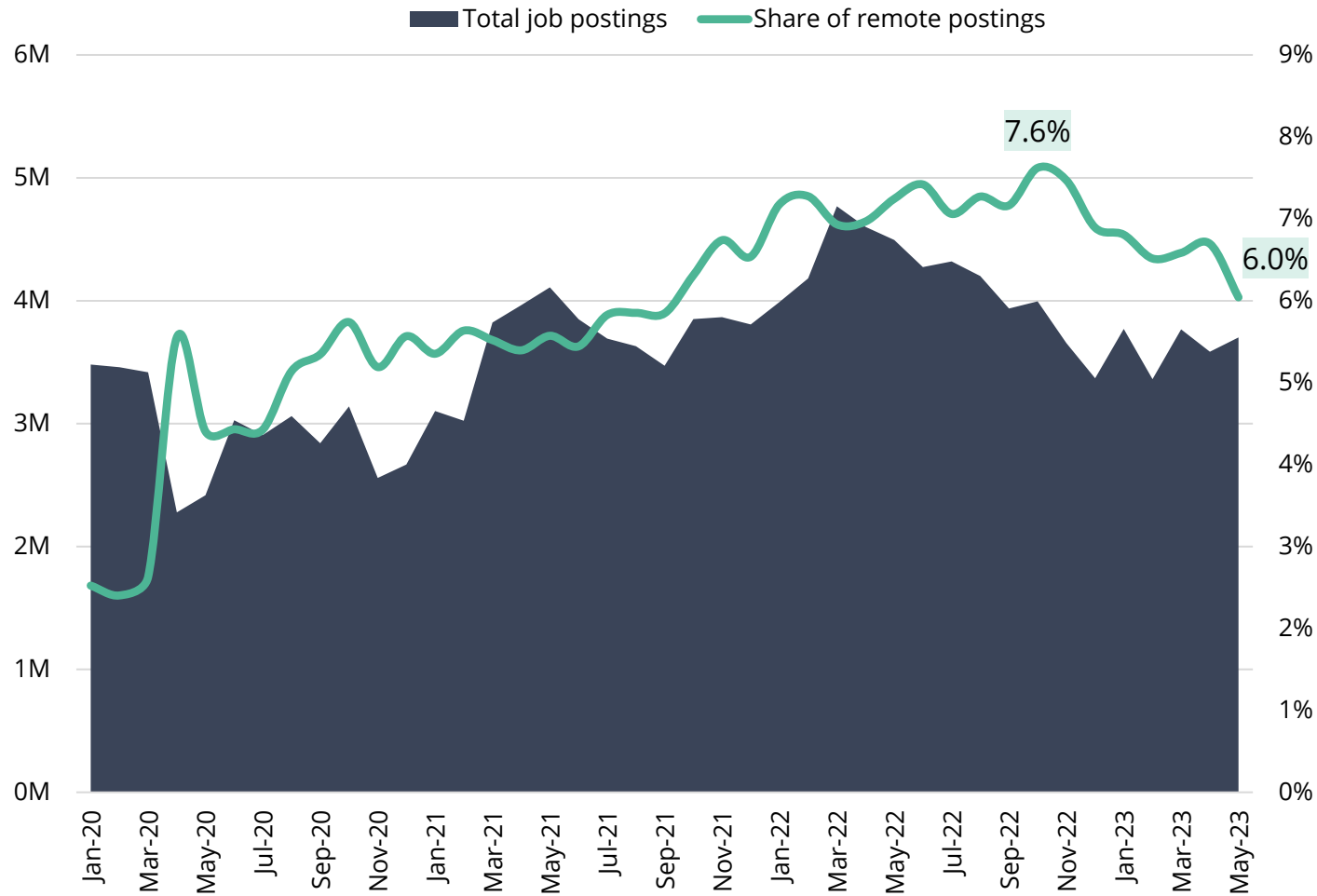


+8.7%

year-to-date increase in free rent period concessions on average across U.S. gateway markets.

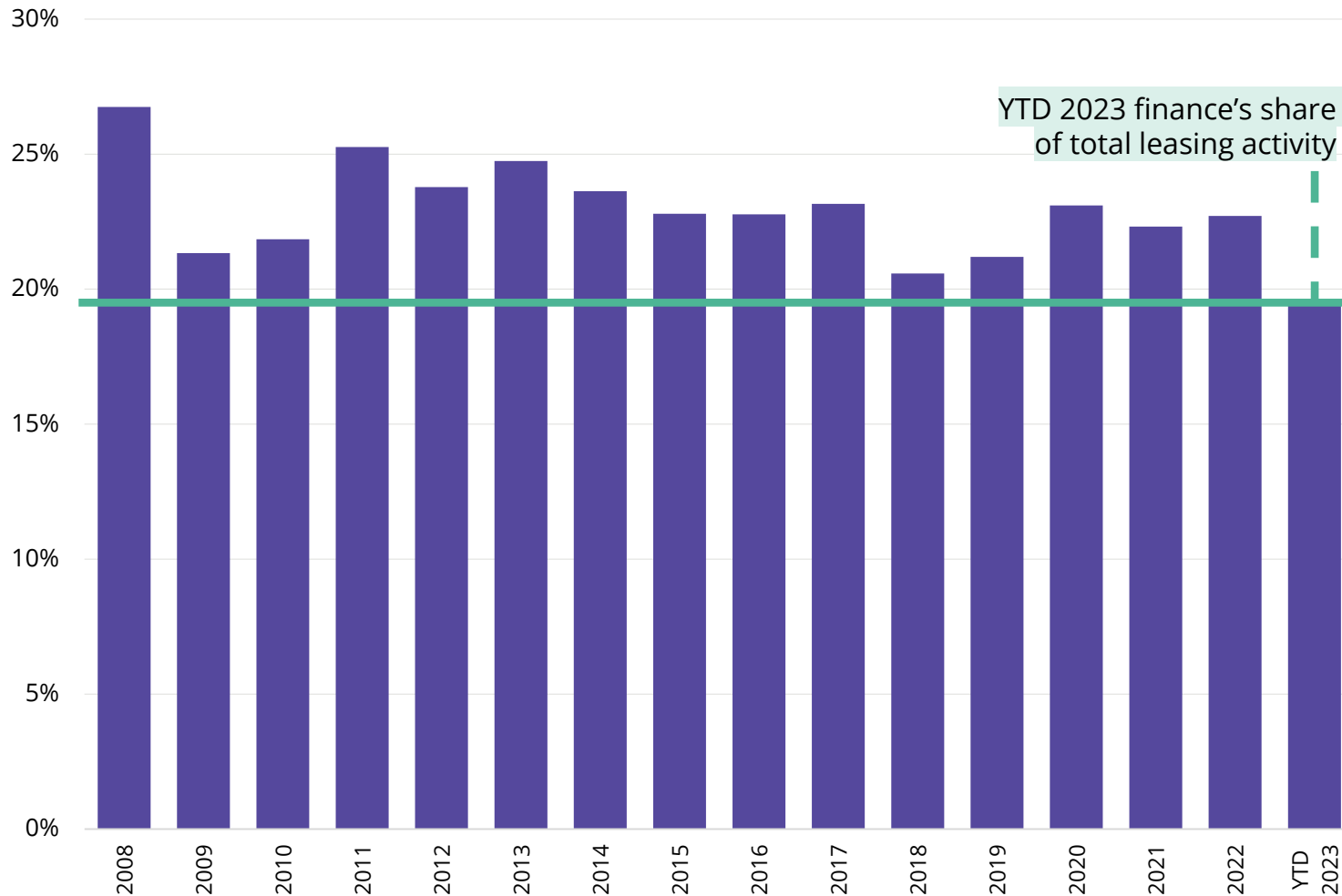


Office job postings



Total job postings are down 22.4% from the March 2022 high, but have shown signs of stabilization – yet the share of remote job postings has declined since Q4 2022.

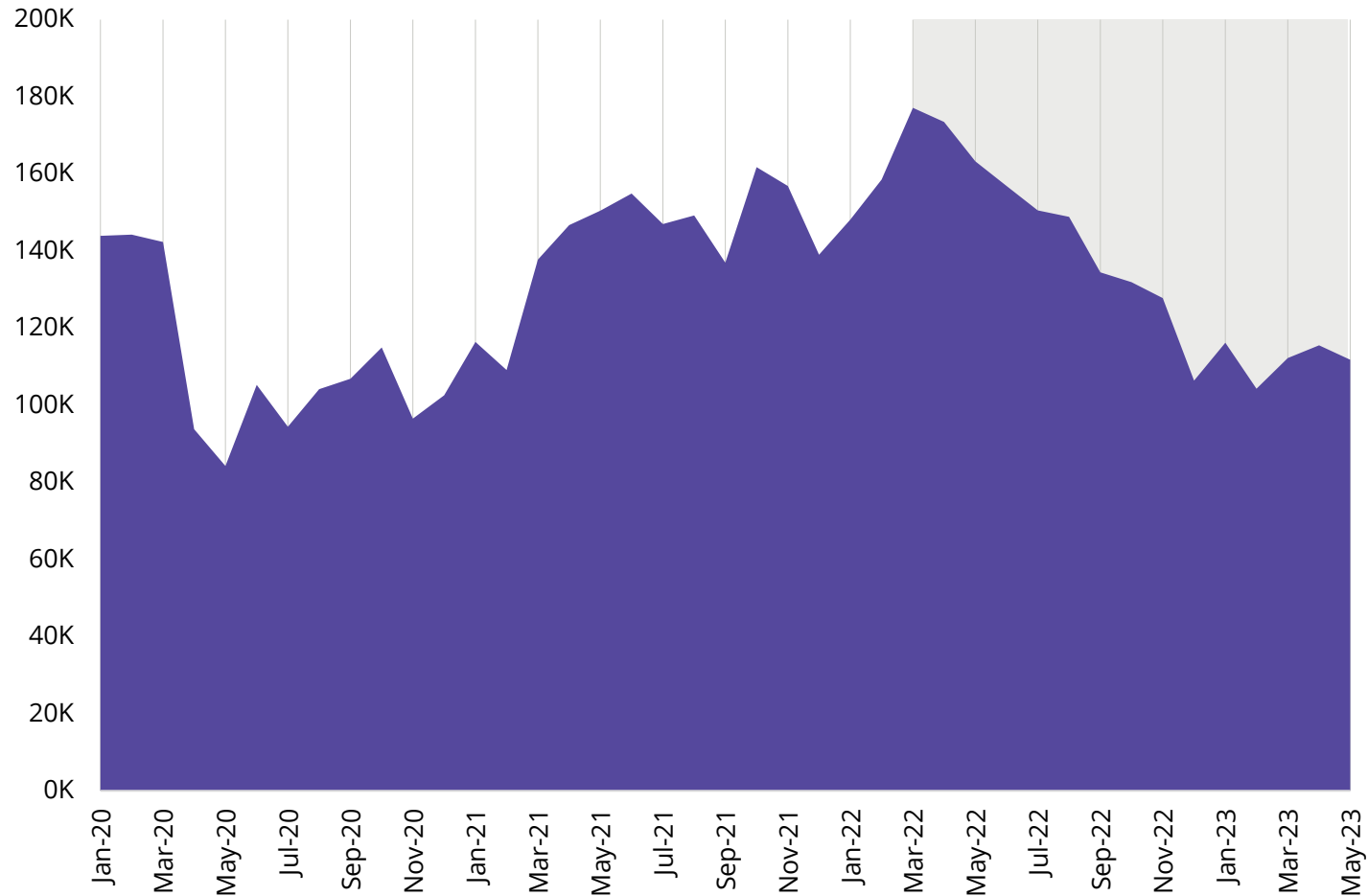
Finance's share of total leasing activity



Finance demand has noticeably slowed in part due to the regional banking crisis. Markets with heightened exposure to the sector are now more at risk.

Finance job postings

Non-remote

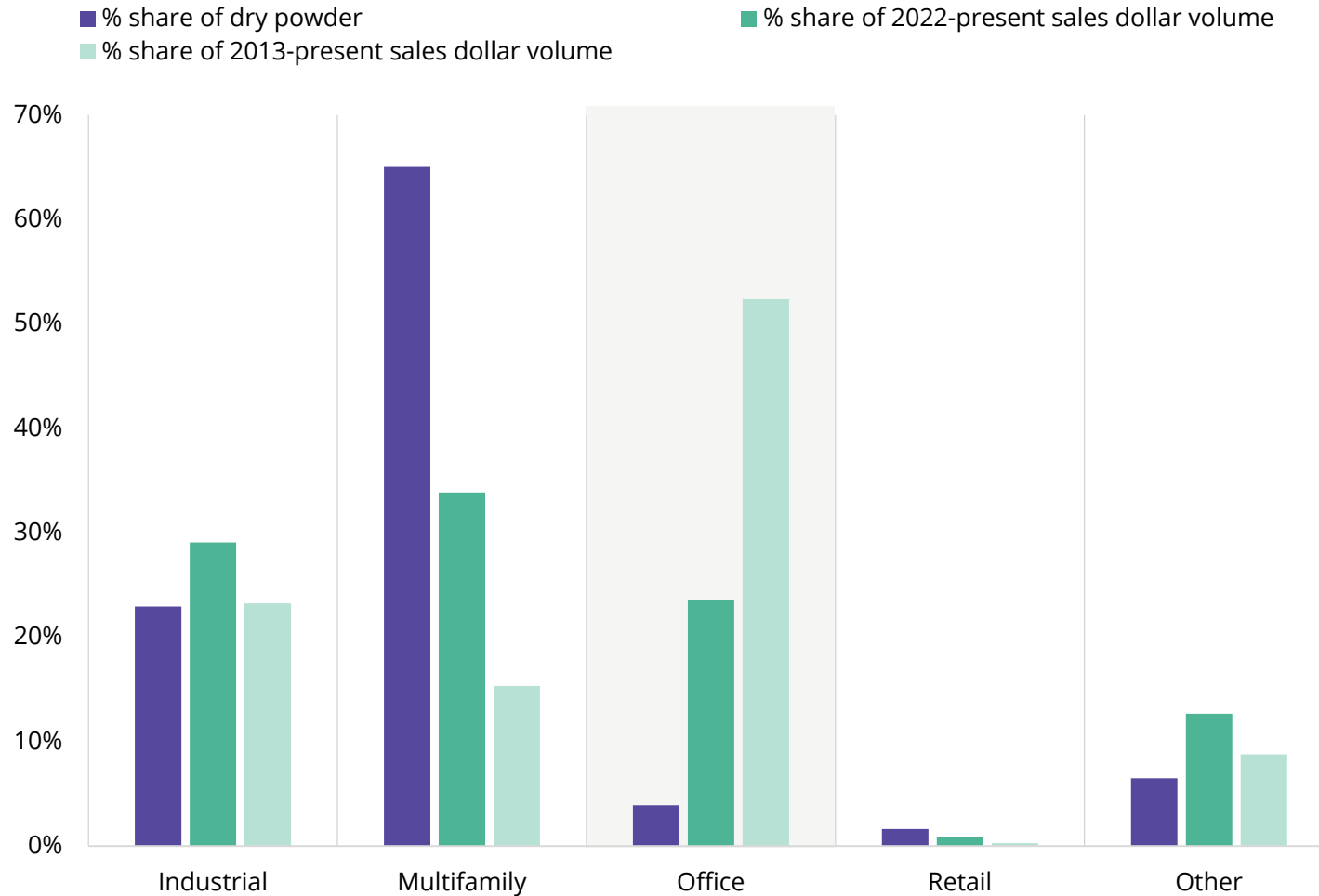


Finance and insurance non-remote job postings have declined by 36.9% since April 2022 and have trended downward, signifying weaker future demand.

Capital markets conditions



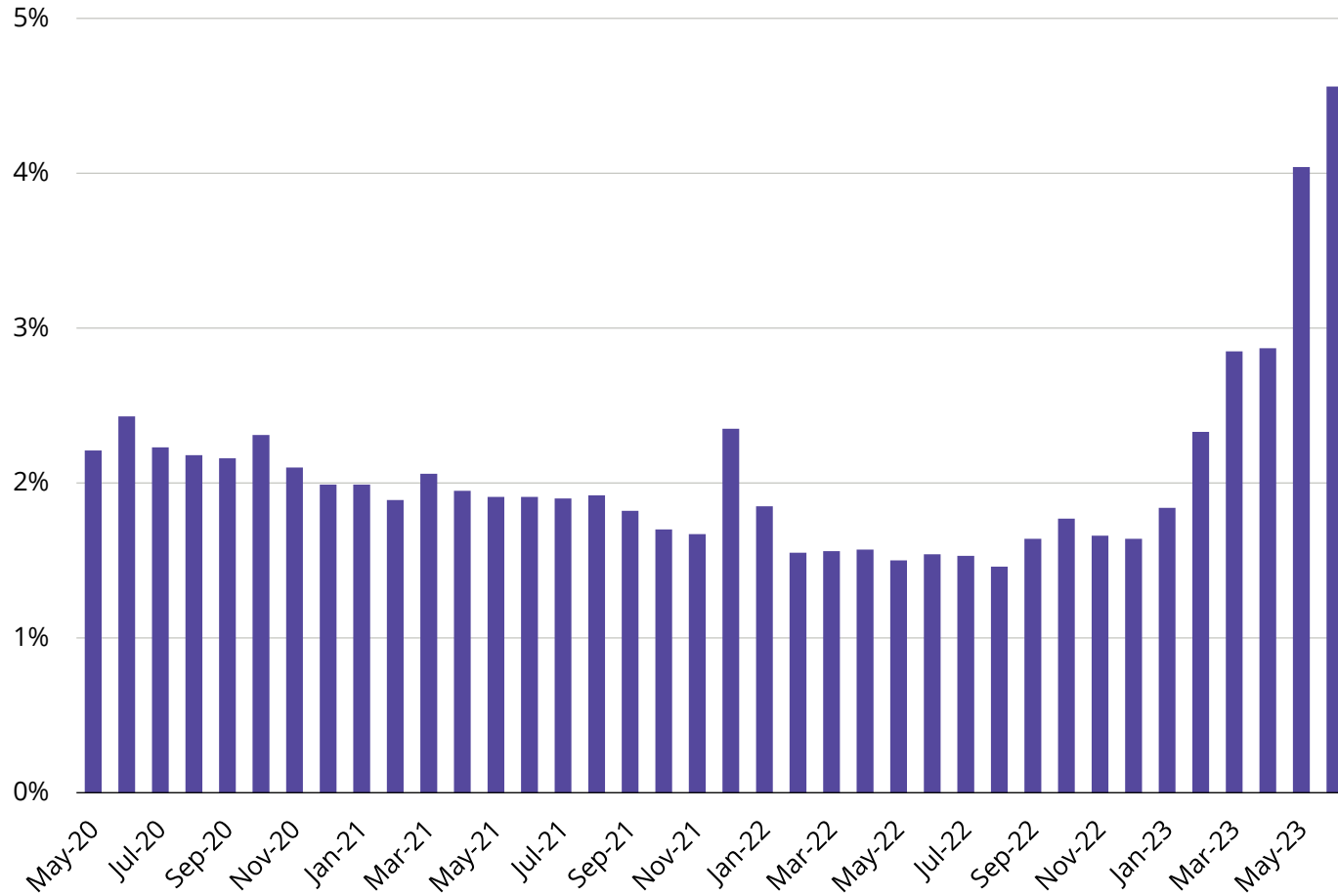
Dry powder vs. historical investments



Investors have increasingly soured on the office sector – though enterprising, patient investors could reap favorable returns in this environment.

CMBS office loan delinquencies

Share of delinquent loans

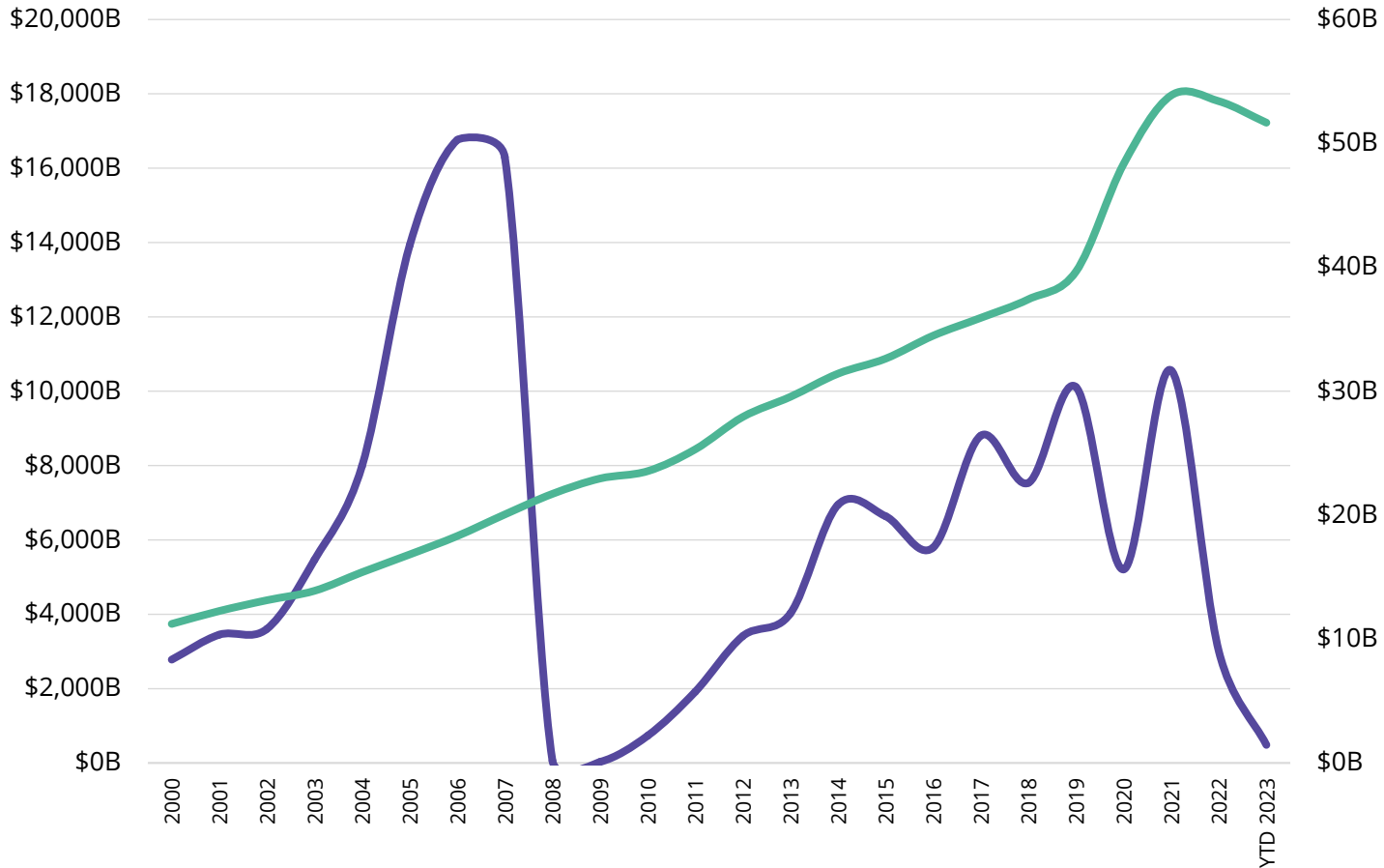


CMBS office loan delinquencies increased by 58.9% from April to June as distress mounted.

Office debt liquidity

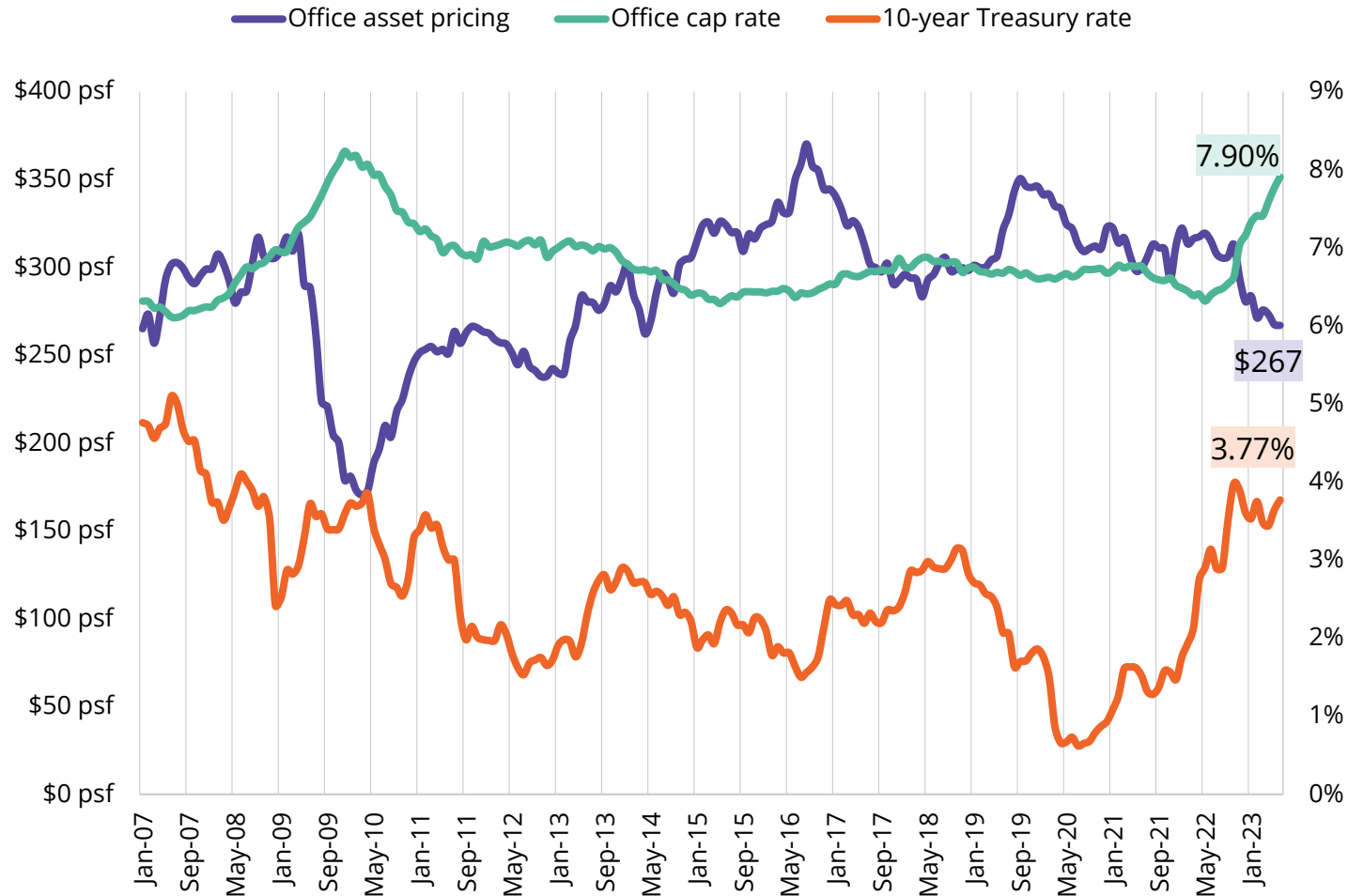
Bank deposits

CMBS office loan originations



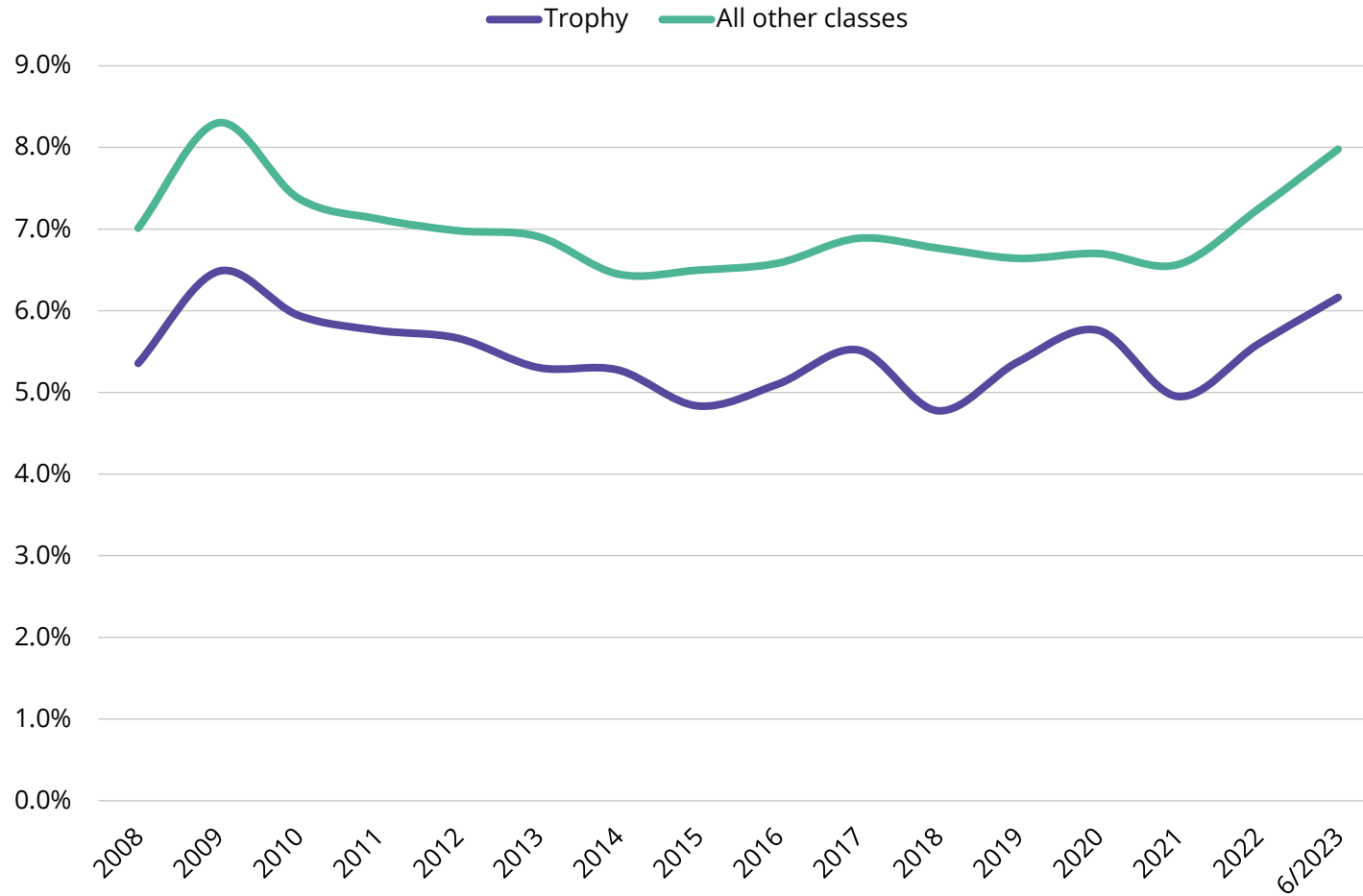
Declining banking deposits, down 5.3% since April 2022, and fewer CMBS loan originations are indicators of weakening debt liquidity in the office sector.

Office asset pricing



Rising interest rates and weaker investment demand applied downward pressure on office valuations down 17.3% since year-end 2020.

Office cap rates by property class



The cap rate spread between Trophy assets and other offices has been remarkably consistent, averaging 151bp since 2008.

Appendix



U.S. office market stats

| | Existing inventory sf | Deliveries sf (YTD) | Under development sf | Direct availability | Sublet availability | Total availability | Net absorption sf (YTD) | Net absorption % of inventory (YTD) | Annual direct asking rent psf FS |
|--------------------|-----------------------|---------------------|----------------------|---------------------|---------------------|--------------------|-------------------------|-------------------------------------|----------------------------------|
| Atlanta | 168,588,222 | 58,000 | 2,852,787 | 26.4% | 5.0% | 31.2% | (1,729,361) | (1.0%) | \$31.92 |
| Austin | 70,988,922 | 921,440 | 5,337,225 | 21.9% | 7.6% | 29.4% | (1,233,941) | (1.7%) | \$52.77 |
| Boston | 251,424,417 | 1,128,896 | 4,314,276 | 13.9% | 4.0% | 17.8% | 103,114 | 0.0% | \$55.56 |
| Charleston | 12,598,318 | 181,532 | 48,771 | 14.0% | 3.1% | 17.1% | (151,466) | (1.2%) | \$32.89 |
| Charlotte | 78,423,579 | 390,780 | 2,019,340 | 19.1% | 3.7% | 22.8% | (1,020,696) | (1.3%) | \$33.94 |
| Chicago | 328,159,619 | 1,255,653 | 1,032,680 | 23.4% | 3.6% | 26.8% | (1,863,526) | (0.6%) | \$33.57 |
| Cleveland | 69,448,615 | 40,970 | 1,214,732 | 13.4% | 1.1% | 14.5% | (729,947) | (1.1%) | \$21.16 |
| Colorado Springs | 18,462,309 | 0 | 0 | 14.6% | 2.2% | 16.8% | (249,719) | (1.4%) | \$24.63 |
| Columbus | 56,019,485 | 507,360 | 940,735 | 17.9% | 3.8% | 21.3% | 28,535 | 0.1% | \$22.94 |
| Dallas - Ft Worth | 229,916,241 | 1,632,662 | 6,279,865 | 26.0% | 4.2% | 30.0% | (1,687,722) | (0.7%) | \$34.08 |
| Denver | 118,653,957 | 0 | 3,647,338 | 24.0% | 5.5% | 29.3% | (756,487) | (0.6%) | \$34.58 |
| Detroit | 114,860,425 | 151,028 | 597,000 | 19.4% | 2.4% | 21.5% | (670,349) | (0.6%) | \$22.14 |
| East Bay - Oakland | 63,094,126 | 0 | 0 | 20.4% | 4.7% | 24.9% | (744,921) | (1.2%) | \$45.98 |
| Fairfield County | 41,376,981 | 0 | 217,024 | 20.9% | 5.6% | 26.5% | (142,378) | (0.3%) | \$35.98 |
| Fort Lauderdale | 33,165,297 | 0 | 164,706 | 19.3% | 2.7% | 22.0% | 61,661 | 0.2% | \$38.46 |
| Greenville | 17,315,699 | 75,000 | 435,000 | 13.3% | 2.2% | 15.4% | 69,400 | 0.4% | \$25.28 |
| Hartford | 48,431,140 | 0 | 0 | 16.3% | 1.7% | 17.9% | (347,250) | (0.7%) | \$21.40 |
| Honolulu | 21,697,700 | 0 | 65,000 | 8.4% | 0.8% | 9.2% | 37,395 | 0.2% | \$19.64 |
| Houston | 202,587,047 | 342,553 | 686,664 | 27.1% | 3.1% | 30.0% | 455,040 | 0.2% | \$32.09 |
| Indianapolis | 58,086,981 | 158,065 | 516,763 | 15.6% | 2.0% | 17.5% | (463,131) | (0.8%) | \$21.55 |

U.S. office market stats (continued)

| | Existing inventory sf | Deliveries sf (YTD) | Under development sf | Direct availability | Sublet availability | Total availability | Net absorption sf (YTD) | Net absorption % of inventory (YTD) | Annual direct asking rent psf FS |
|------------------------------|-----------------------|---------------------|----------------------|---------------------|---------------------|--------------------|-------------------------|-------------------------------------|----------------------------------|
| Jacksonville | 26,839,846 | 0 | 0 | 21.5% | 3.1% | 24.6% | 165,928 | 0.6% | \$22.54 |
| Las Vegas | 33,983,182 | 137,584 | 332,600 | 13.2% | 1.5% | 14.6% | (326,346) | (1.0%) | \$27.13 |
| Long Island | 54,303,105 | 26,910 | 393,726 | 10.4% | 2.4% | 12.8% | (449,161) | (0.8%) | \$32.54 |
| Los Angeles | 306,431,837 | 718,009 | 3,128,900 | 18.9% | 3.7% | 22.6% | (618,723) | (0.2%) | \$42.86 |
| Manhattan | 515,956,500 | 1,604,227 | 2,381,611 | 15.4% | 4.5% | 19.9% | (1,944,461) | (0.4%) | \$86.72 |
| Miami | 55,905,492 | 168,731 | 1,983,049 | 18.4% | 1.8% | 20.2% | 260,392 | 0.5% | \$56.52 |
| Minneapolis-St.Paul | 112,334,159 | 60,000 | 545,756 | 18.4% | 3.7% | 21.8% | (622,202) | (0.6%) | \$28.40 |
| Nashville | 47,549,224 | 615,375 | 2,487,593 | 22.0% | 4.5% | 26.4% | 76,429 | 0.2% | \$35.39 |
| New Jersey | 245,276,051 | 309,787 | 312,750 | 15.7% | 3.9% | 19.4% | (1,340,121) | (0.5%) | \$33.08 |
| New York City Outer Boroughs | 84,082,255 | 480,982 | 907,677 | 16.7% | 2.1% | 18.7% | (80,429) | (0.1%) | \$42.84 |
| Northern Virginia | 160,732,559 | 2,156,964 | 2,018,263 | 22.1% | 3.7% | 25.7% | 236,216 | 0.1% | \$36.18 |
| Orange County | 107,074,718 | 258,395 | 0 | 18.0% | 4.0% | 22.0% | (1,458,027) | (1.4%) | \$32.89 |
| Orlando | 39,696,453 | 68,703 | 636,652 | 18.0% | 5.3% | 22.5% | (373,418) | (0.9%) | \$27.44 |
| Philadelphia | 222,641,394 | 77,258 | 1,171,009 | 15.5% | 3.3% | 18.6% | (1,696,621) | (0.8%) | \$29.72 |
| Phoenix | 133,086,551 | 408,054 | 1,181,101 | 18.1% | 5.4% | 23.4% | (1,050,212) | (0.8%) | \$30.87 |
| Pittsburgh | 80,908,174 | 0 | 172,000 | 17.2% | 2.4% | 19.5% | (519,488) | (0.6%) | \$25.63 |
| Portland | 63,456,784 | 0 | 0 | 17.0% | 2.7% | 19.7% | 315,516 | 0.5% | \$34.24 |
| Raleigh-Durham | 58,950,652 | 81,500 | 2,275,707 | 17.6% | 6.2% | 23.8% | (744,802) | (1.3%) | \$31.67 |
| Sacramento | 61,678,951 | 0 | 1,045,000 | 18.9% | 2.5% | 21.1% | (724,999) | (1.2%) | \$25.70 |
| San Diego | 74,837,097 | 0 | 1,136,502 | 16.9% | 3.0% | 19.6% | (442,970) | (0.6%) | \$38.94 |

U.S. office market stats (continued)

| | Existing inventory sf | Deliveries sf (YTD) | Under development sf | Direct availability | Sublet availability | Total availability | Net absorption sf (YTD) | Net absorption % of inventory (YTD) | Annual direct asking rent psf FS |
|-------------------------|-----------------------|---------------------|----------------------|---------------------|---------------------|--------------------|-------------------------|-------------------------------------|----------------------------------|
| San Francisco | 89,635,877 | 325,000 | 379,618 | 25.0% | 9.5% | 34.5% | (2,906,047) | (3.2%) | \$74.45 |
| San Francisco Peninsula | 26,837,280 | 272,136 | 816,525 | 17.2% | 7.5% | 24.3% | (266,450) | (1.0%) | \$64.74 |
| Seattle | 164,026,353 | 2,270,416 | 9,030,896 | 15.2% | 4.7% | 19.8% | (732,941) | (0.4%) | \$44.87 |
| Silicon Valley | 90,793,707 | 0 | 3,908,511 | 19.8% | 7.8% | 27.3% | (2,032,427) | (2.2%) | \$54.86 |
| Suburban Maryland | 76,361,902 | 315,000 | 905,400 | 19.3% | 2.0% | 21.3% | (89,094) | (0.1%) | \$31.66 |
| Tampa | 46,756,218 | 75,000 | 131,955 | 18.0% | 6.2% | 23.5% | 340,069 | 0.7% | \$29.83 |
| Washington, DC | 148,592,128 | 0 | 1,755,583 | 19.2% | 2.4% | 21.6% | (1,408,843) | (0.9%) | \$58.41 |
| West Palm Beach | 28,304,673 | 0 | 765,010 | 14.3% | 3.1% | 17.3% | (261,389) | (0.9%) | \$52.63 |
| U.S. total | 5,160,332,202 | 17,273,970 | 70,173,300 | 19.0% | 4.0% | 23.0% | (29,730,370) | (0.6%) | \$41.63 |

U.S. office market stats by class

| | Existing inventory sf | Deliveries sf (YTD) | Under development sf | Direct availability | Sublet availability | Total availability | Net absorption sf (YTD) | Net absorption % of inventory (YTD) | Annual direct asking rent psf FS |
|-------------------|-----------------------|---------------------|----------------------|---------------------|---------------------|--------------------|-------------------------|-------------------------------------|----------------------------------|
| Trophy | 345,208,079 | 6,233,854 | 21,479,331 | 17.7% | 4.9% | 22.6% | 3,583,605 | 1.0% | \$80.35 |
| Class A | 2,250,237,562 | 9,462,202 | 45,368,513 | 21.6% | 5.3% | 26.7% | (16,269,470) | (0.7%) | \$42.23 |
| Class B | 2,082,195,728 | 1,556,523 | 3,285,456 | 18.% | 3.1% | 20.9% | (14,768,942) | (0.7%) | \$34.46 |
| Class C | 482,690,833 | 21,391 | 40,000 | 11.7% | 1.1% | 12.7% | (2,275,563) | (0.5%) | \$32.46 |
| U.S. total | 5,160,332,202 | 17,273,970 | 70,173,300 | 19.0% | 4.0% | 23.0% | (29,730,370) | (0.6%) | \$41.63 |

Office insights glossary of terms

Demand

- **Leasing activity:** total square footage of relocations, renewals, expansions and subleases expressed when the leases are signed, not when tenants take physical occupancy of the space
- **Absorption:** period-over-period change in occupied square footage

Supply

- **Direct vacancy rate:** space operated by landlords that is ready for immediate occupancy
- **Sublease vacancy rate:** space operated by sublandlords that is ready for immediate occupancy
- **Total vacancy rate:** sum of direct vacancy rate and sublease vacancy rate
- **Availability rate:** space that is vacant plus space that will become vacant over an indefinite time horizon, including spaces that are occupied by vacating tenants and under-construction properties

Office rents and concessions

- **Asking rents:** pricing guidance provided by landlords to tenants for available space expressed as full service (FS)
- **Base rents:** fair market value of market-level lease pricing based on representative executed leases, expressed as full service (FS)
- **Free rent period:** months of free rent that are typically provided upfront by landlords to tenants as a concession to offset the total cost of a lease and/or the construction timeline of an office suite
- **Tenant improvement allowance:** an allowance expressed in dollars per square foot provided from landlords to tenants to offset build-out, engineering, space planning and related permit costs
- **Net effective rent:** base rents discounted by the dollar values of tenant improvement allowance and free rent concessions expressed as full service (FS)

Capital markets

- **Investment volume:** office sales dollars expressed when the transactions close and based on inventory thresholds; partial-interest sale dollar amounts are not grossed-up to reflect the 100% value of the sale
- **Asset pricing:** unweighted average per-square-foot asset pricing of market-level closed sales
- **Cap rate:** net operating income divided by sale price; this measurement of market-level investment returns is calculated as an unweighted average based on closed investment sales

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Craig Leibowitz

Senior Director
Market Intelligence