U.S. office insights

Q4 2023

AVISON YOUNG

U.S. office market trends

+26%

increase in trophy share of subleasing, pre-COVID to 2023

From the beginning of 2018 until the onset of the pandemic in March 2020, trophy subleases represented 21.9% of sublease activity by square footage in major U.S. office markets. In 2023, however, trophy subleases represented 27.6% of all sublease activity — reflecting a 26% increase.

In 2023, trophy and class A subleases together constituted 71.8% of all subleasing activity, as occupiers actively sought high-end and built sublease spaces. As a result, available sublease space has declined.

23.4%

renewals as a share of 2023 leasing activity

In 2023, renewals accounted for nearly a quarter of total leasing activity by square footage in major U.S. office markets – at 23.4%. This figure has increased year-over-year since 2021, largely due to lingering uncertainty relating to return-to-office strategies.

Many large occupiers are continuing to delay committing to a long-term occupancy strategy as return-to-office efforts gradually normalize. As more companies finalize their long-term return-to-office plans, office demand will likely rise - likely towards the back half of 2024.

3.6%

offices encumbered by distressed loans

Despite a low percentage of office properties considered "in distress", only 3.6% ($33.7B) of fixed-rate office loans are maturing through 2025, indicating that distress is likely to mount and potentially tip the scale by 2025 – dependent on monetary policy in the upcoming year.

Over 50% of these distressed loans are secured by class A office properties with an average direct availability rate of 22.3% – the highest of all asset classes – which can be seen as a sign of distress in the current office climate.

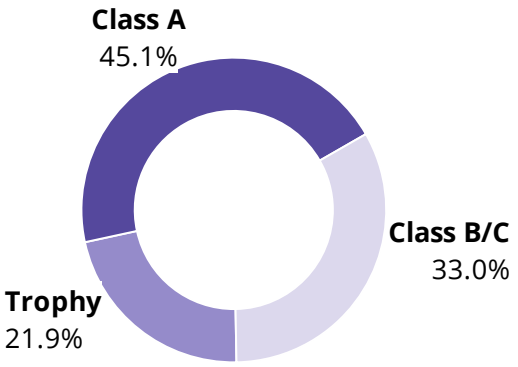
Source: AVANT by Avison Young, CoStar, RCA

Sublease activity by asset class

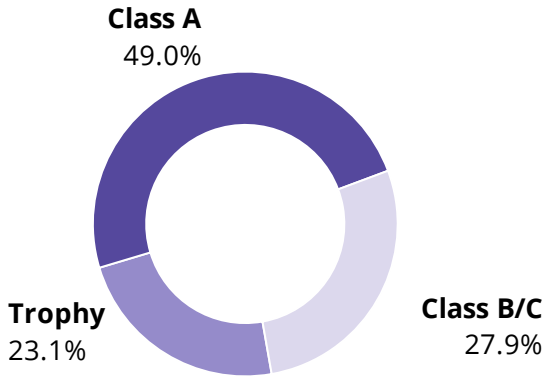
+26.0%

increase in trophy subleasing as a share of total subleasing activity, 2023 vs. pre-COVID

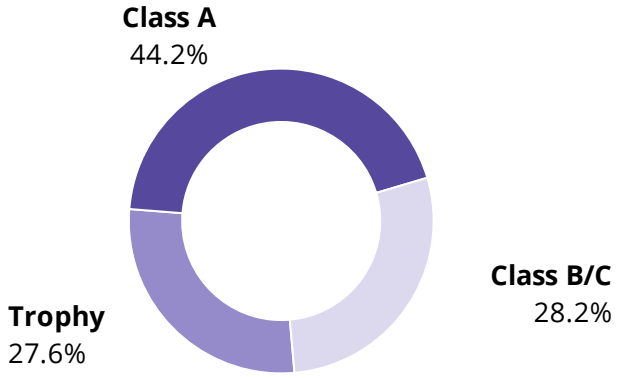
Pre-COVID
2018 - March 2020



Post-COVID
April 2020 - present



2023



Note: Boston, Manhattan, San Francisco, Washington, DC.
Source: AVANT by Avison Young. Subleases only.

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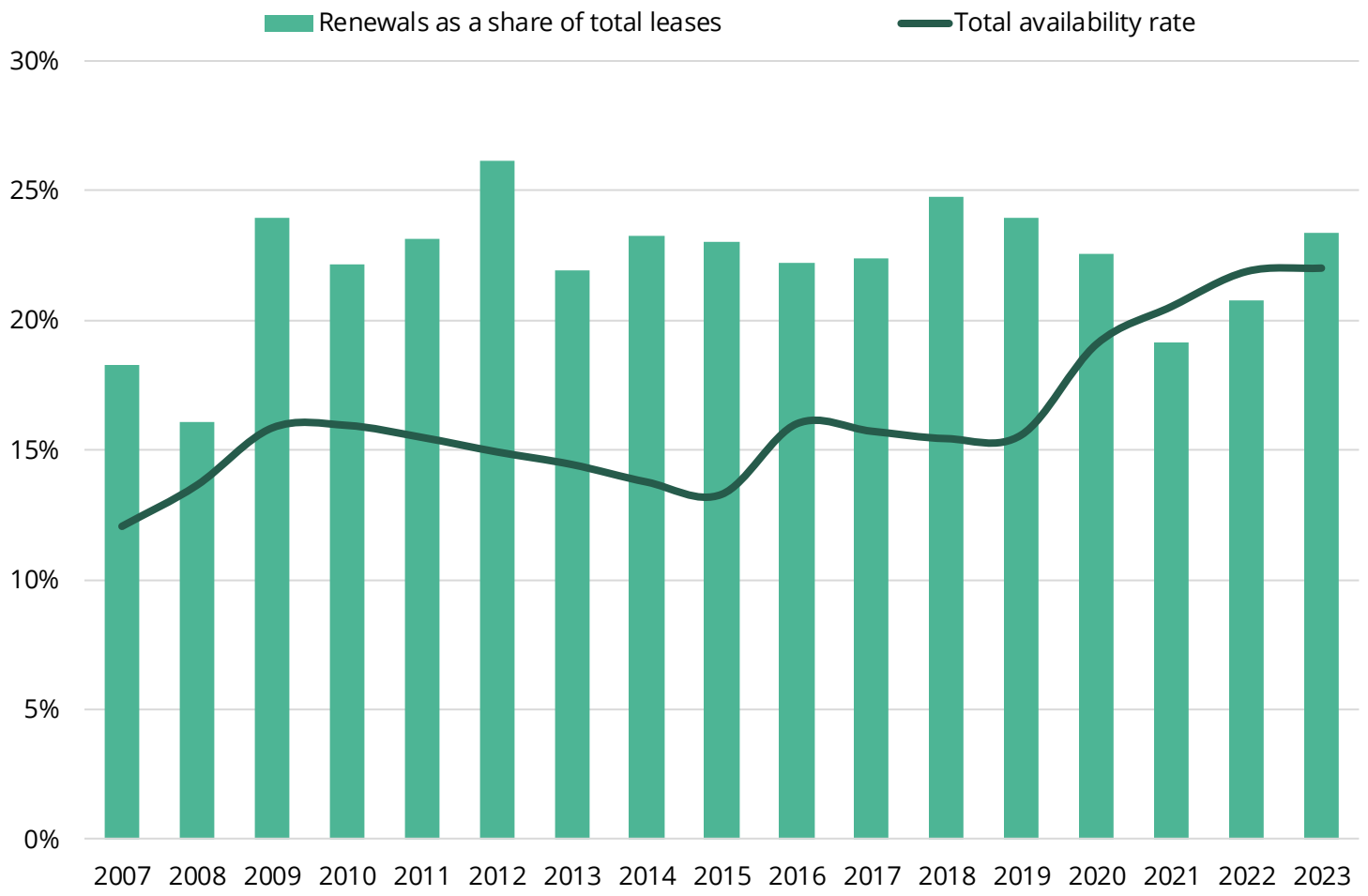
Leasing activity by transaction type



Note: Boston, Manhattan, San Francisco, Washington, DC.
Renewals references 100k+ sf leases only
Source: AVANT by Avison Young, CoStar

Large-block tenants continued to take a protectionist approach towards their occupancy plans through the end of 2023, despite the scale of available supply.

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Diagnosing CMBS office loan distress

Fixed-rate loans originated when interest rates were much lower than present rates and occupier conditions were stabilized. At present day, they are becoming increasingly distressed as loan maturities approach. Still, **just 3.6% of U.S. office properties are encumbered by distressed loans**.

52.3%

class A share of properties encumbered by a distressed CMBS loan; class A properties comprise 43.7% of U.S. office properties

25.2%

average direct availability rate for distressed offices; U.S. direct availability rate was 19.7% in Q4 2023

83.1%

distressed loans have fixed interest rates

9/2016

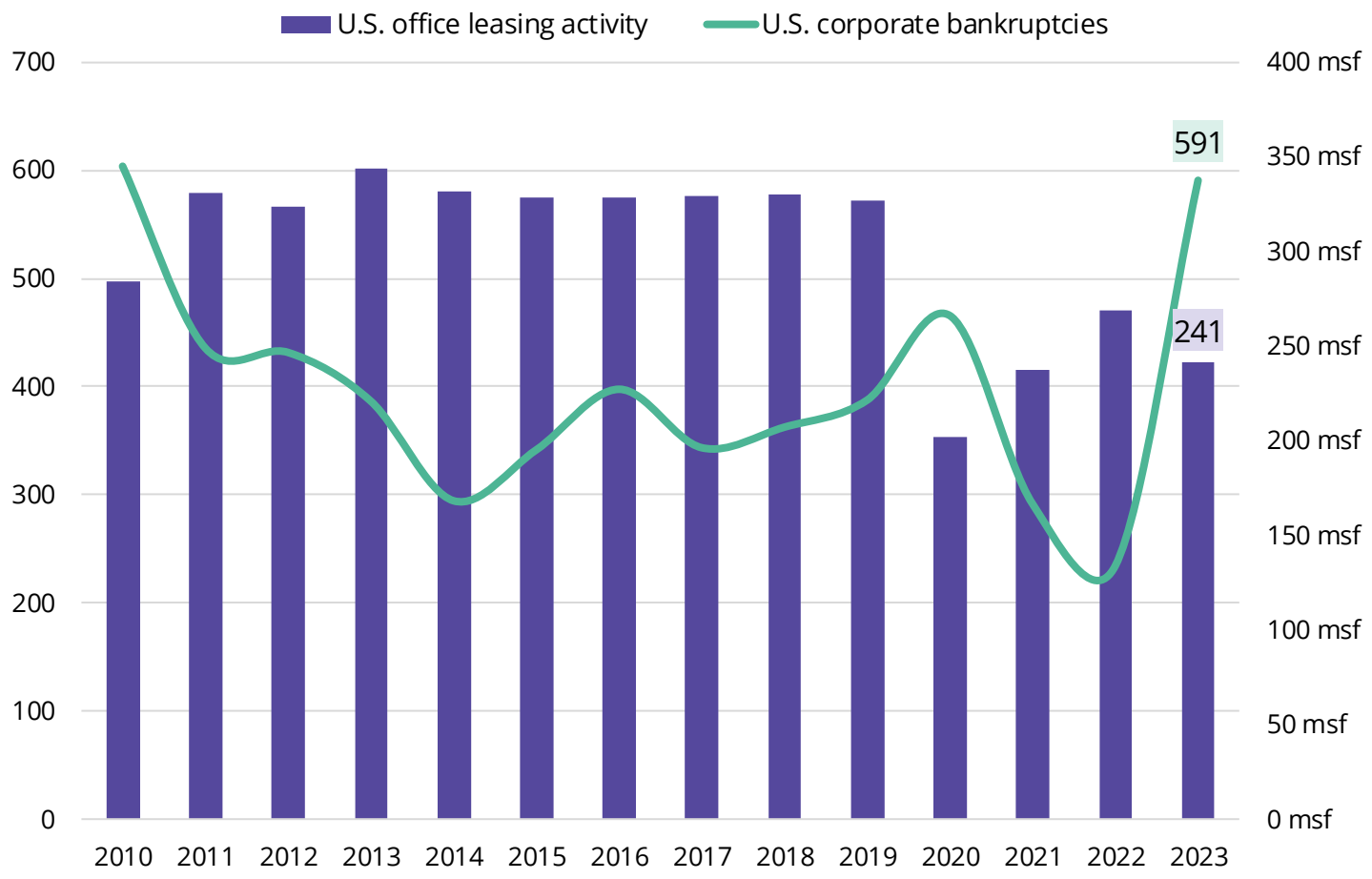
average origination date of distressed loans

Source: AVANT by Avison Young, RCA, CoStar

U.S. office occupier conditions

Tenants are still navigating their long-term occupancy strategies while landlords are offering more favorable concessions to sway them to renew.

Bankruptcies vs. leasing activity



Source: AVANT by Avison Young, S&P Global Market Intelligence, CoStar

Weighed by inflation and other headwinds, corporate bankruptcies skyrocketed in 2023, partially causing the dip in current leasing activity and potentially for the next several quarters.

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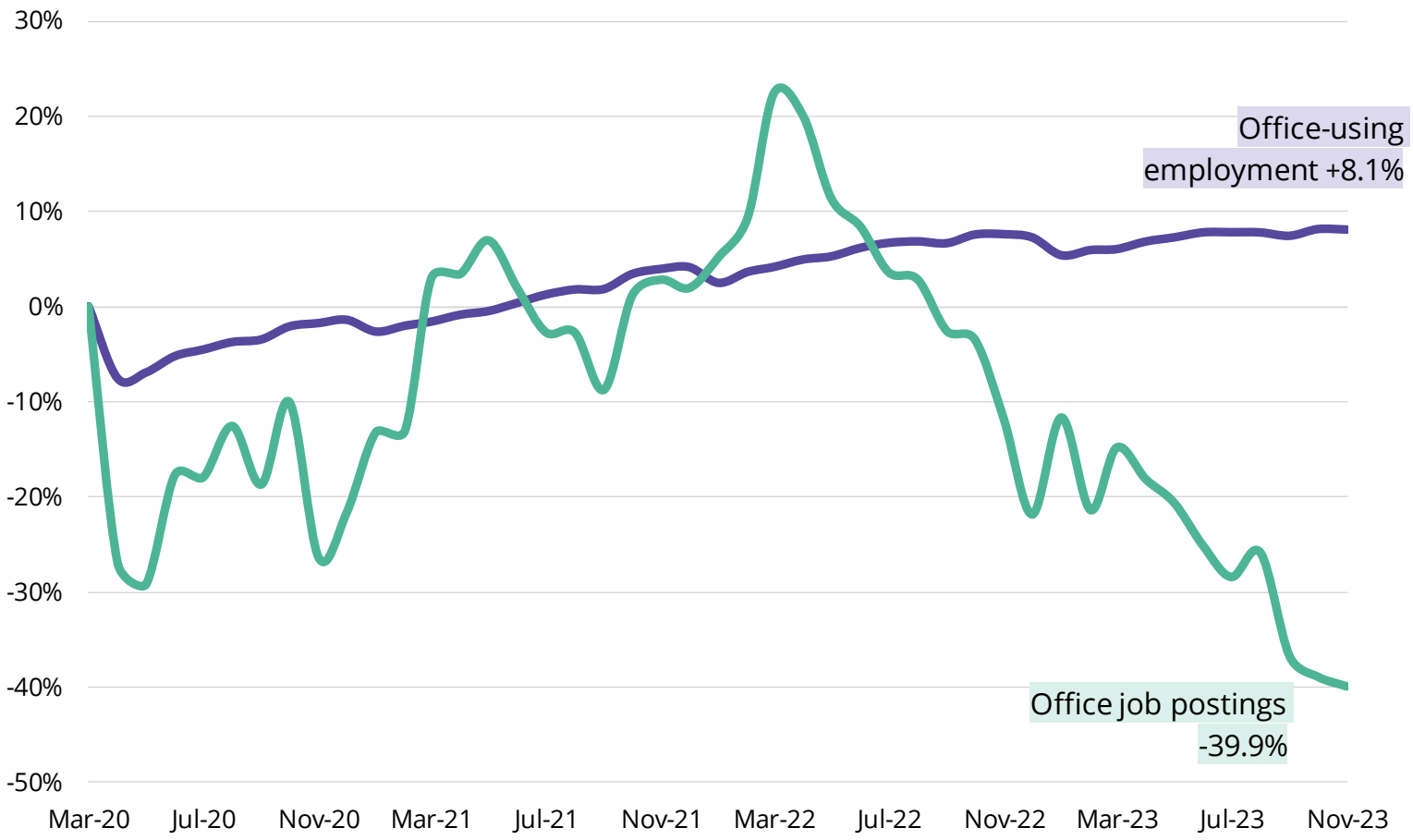
Office employment and job postings

Percentage change since the pandemic



Job postings, a directional indicator of future employment growth, have declined by 39.9% since March 2022.

Source: AVANT by Avison Young, Lightcast, BLS

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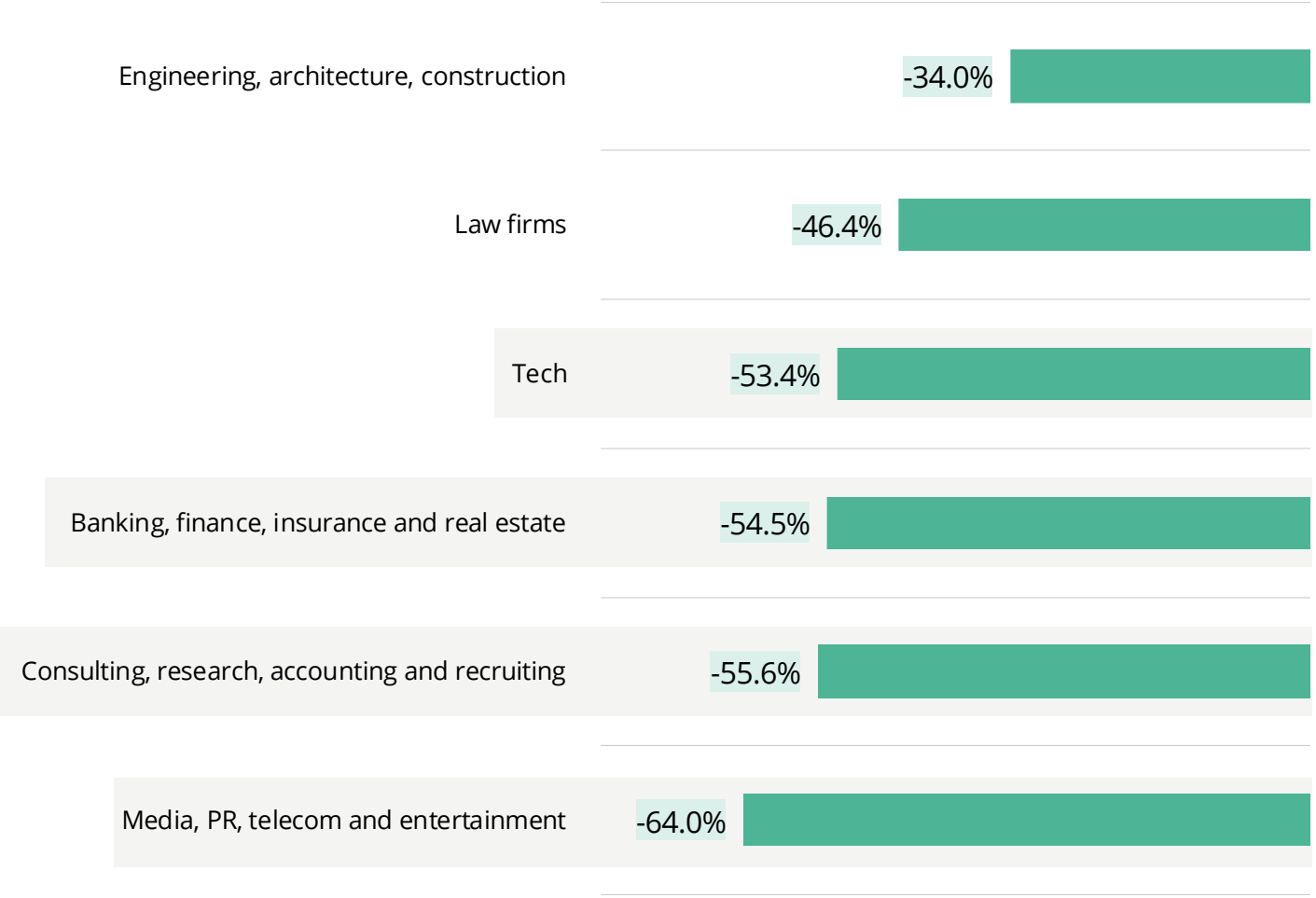
Office job postings, March – November 2022



Note: Includes remote jobs. Private office sectors only.
Source: AVANT by Avison Young, Lightcast

New at-risk office industries have emerged based on office job posting trends – with four major office-using industries decreasing by more than 50% since March 2022.

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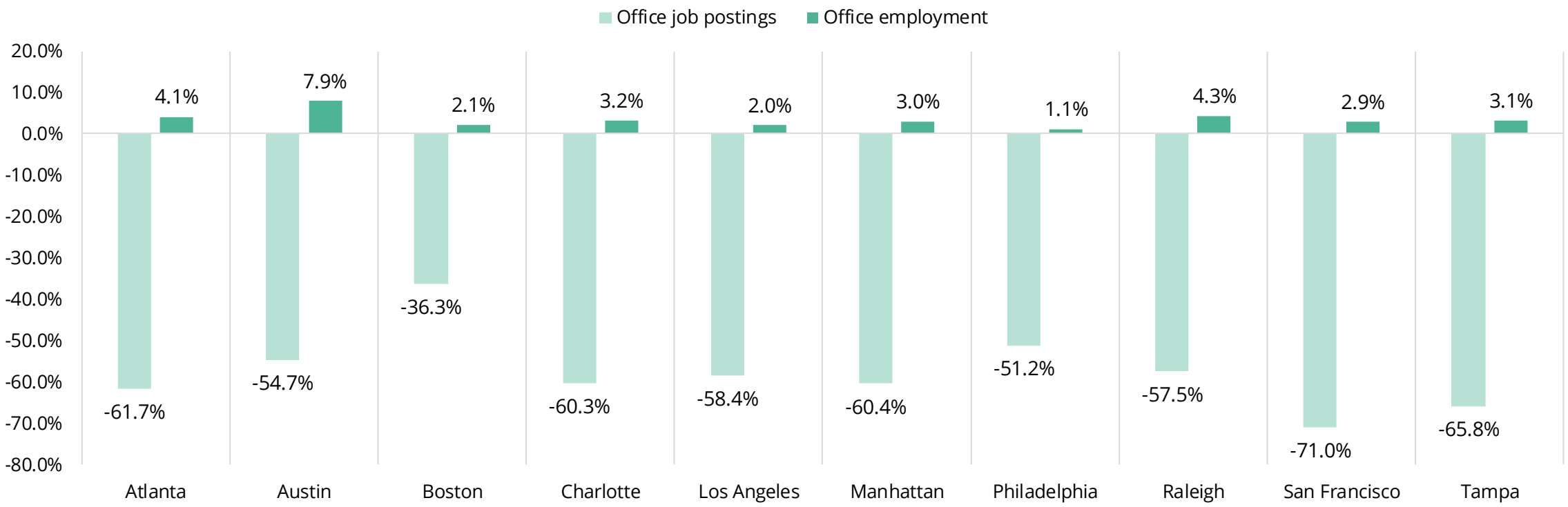
Office job postings vs. office employment since March 2022

-57.7%
Change in job postings

+3.3%
Change in employment



Note: Job postings data as of November 2023, employment data as of March 2023
Source: AVANT by Avison Young, Lightcast, Bureau of Labor Statistics

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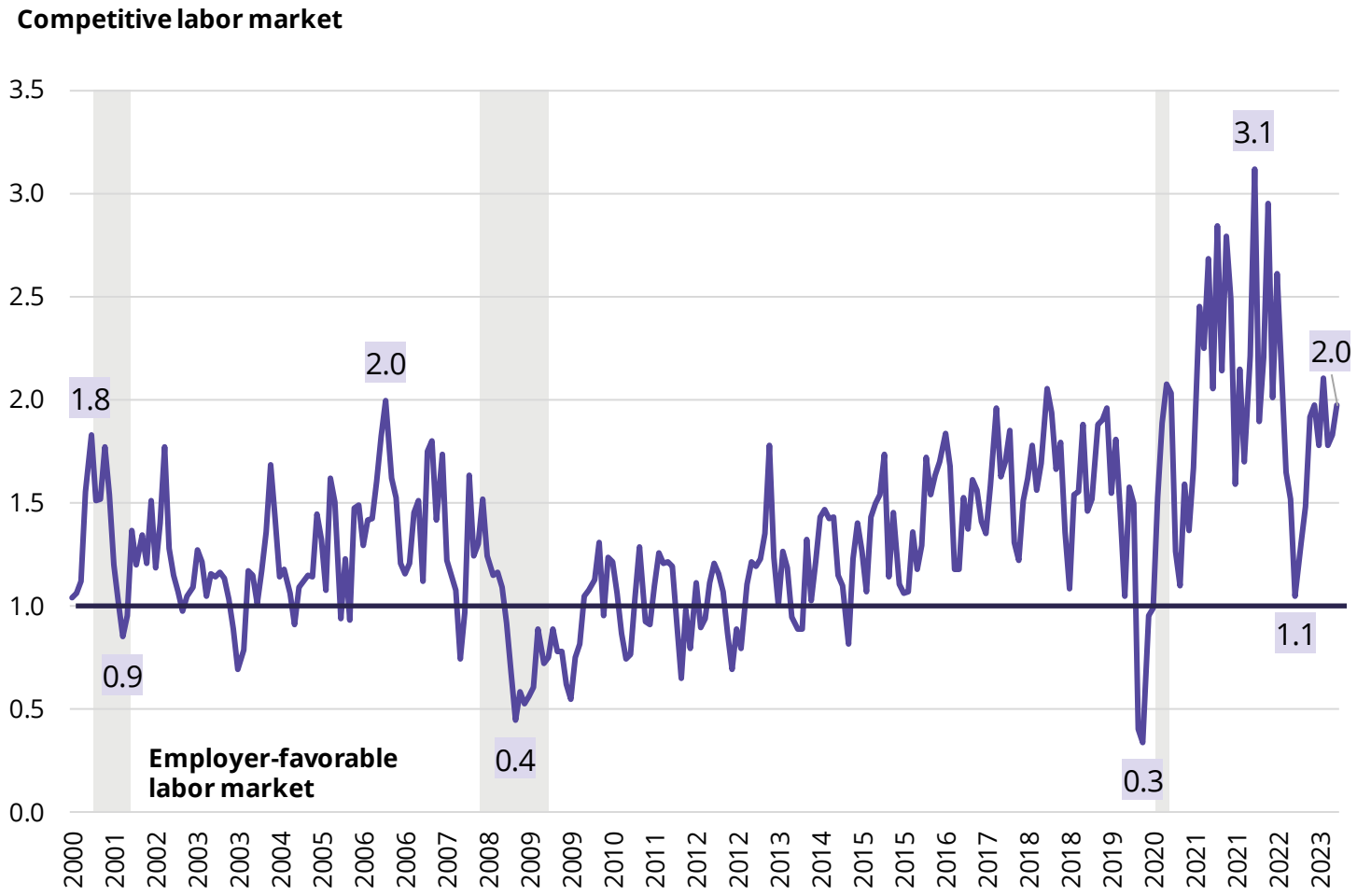
Office quits-to-layoffs and discharges ratio



This ratio measures the tightness of the office labor market. Employees still have leverage for now, but this may change due to a ramp up in RTO efforts.

Source: Bureau of Labor Statistics

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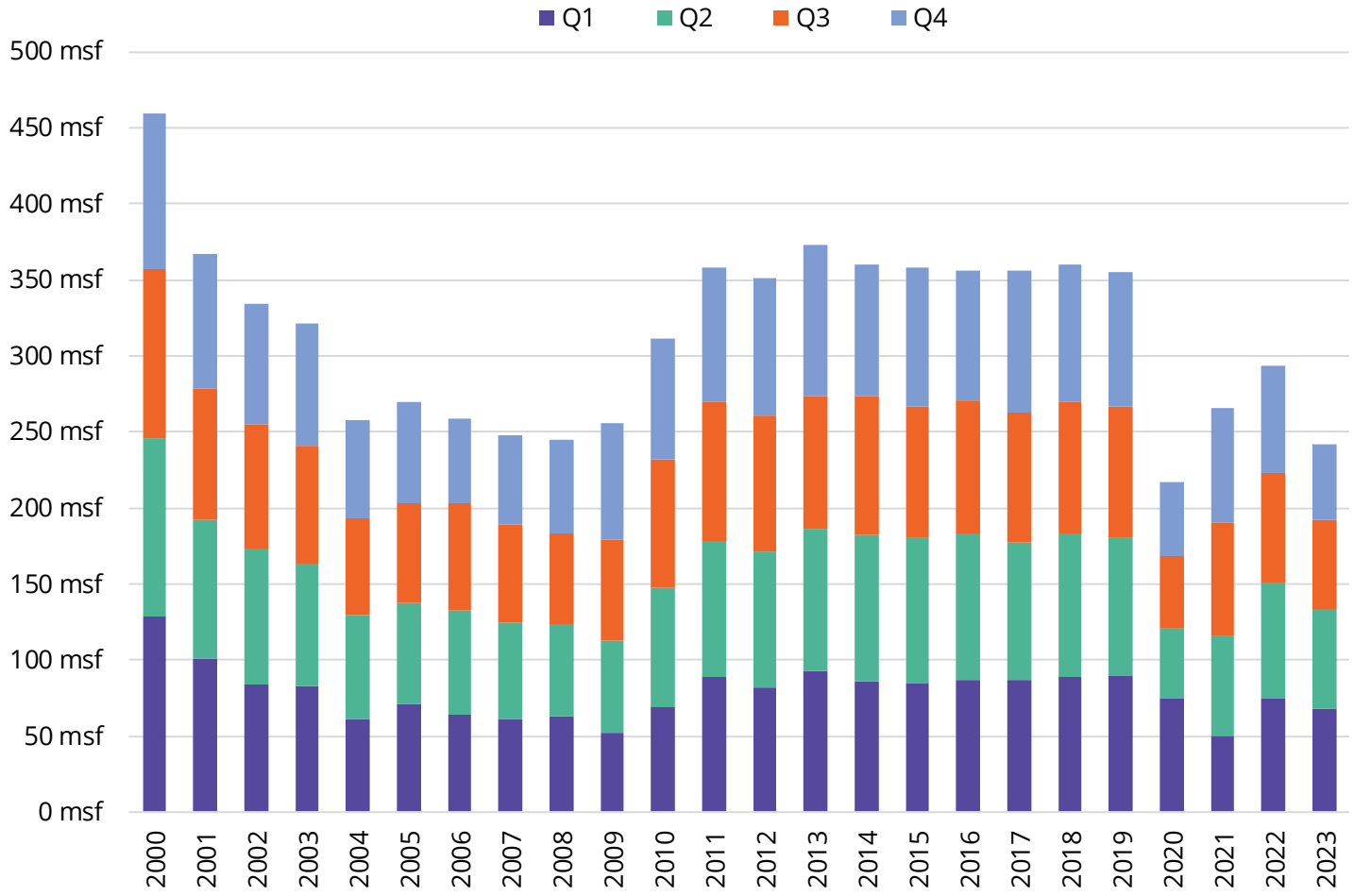
Office leasing activity



Note: Includes relocations, renewals, expansions and subleases
Source: CoStar

2023 marks the lowest year of leasing activity since 2020. Deal flow is down 17.6% year-over-year and down 26.3% from the pre-COVID (2000-2019) average.

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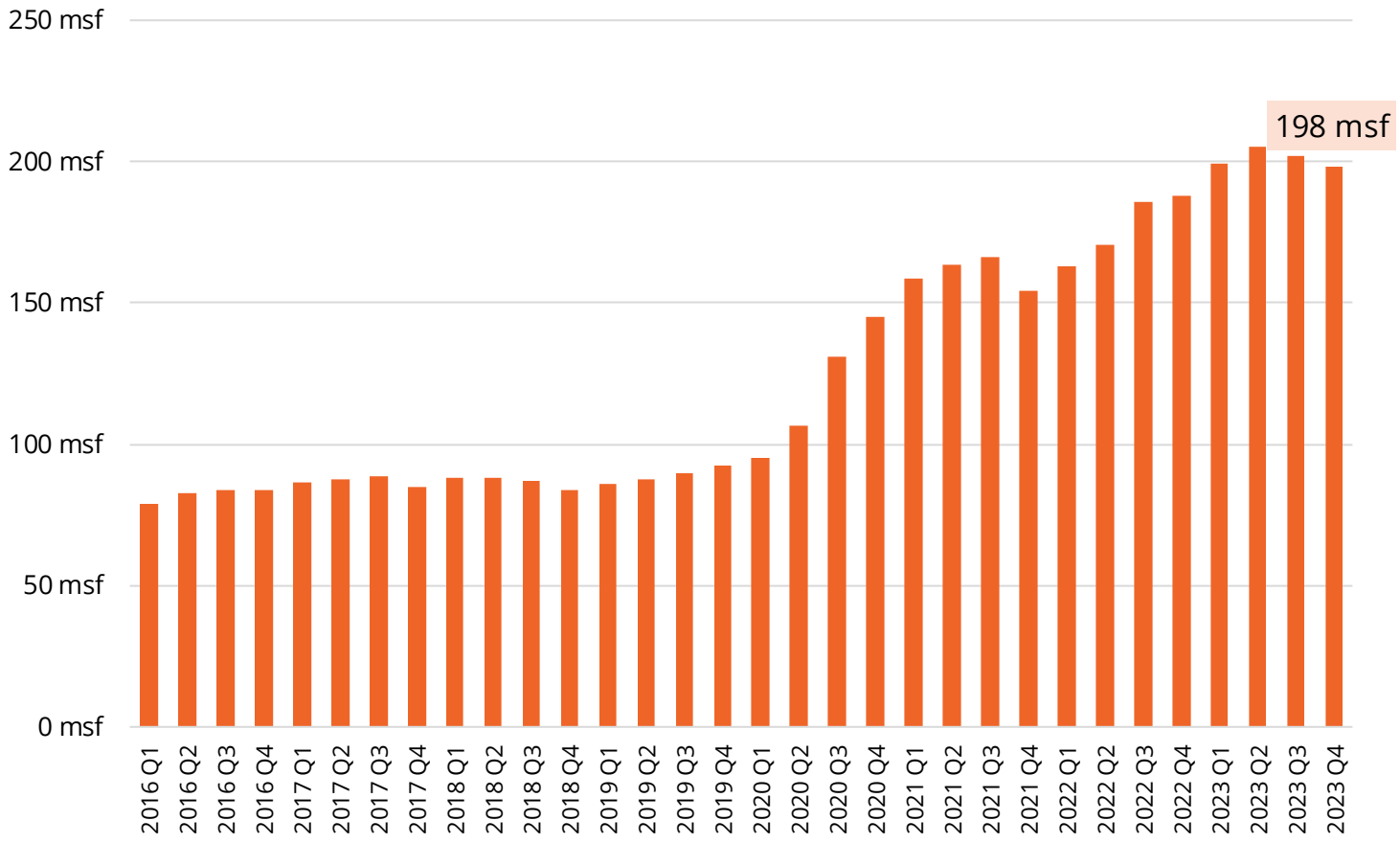
Available sublet space



Available sublet space, currently standing at 198 million sf, has experienced two consecutive quarters of decline after six continuous quarterly increases since Q4 2021.

Source: AVANT by Avison Young, CoStar

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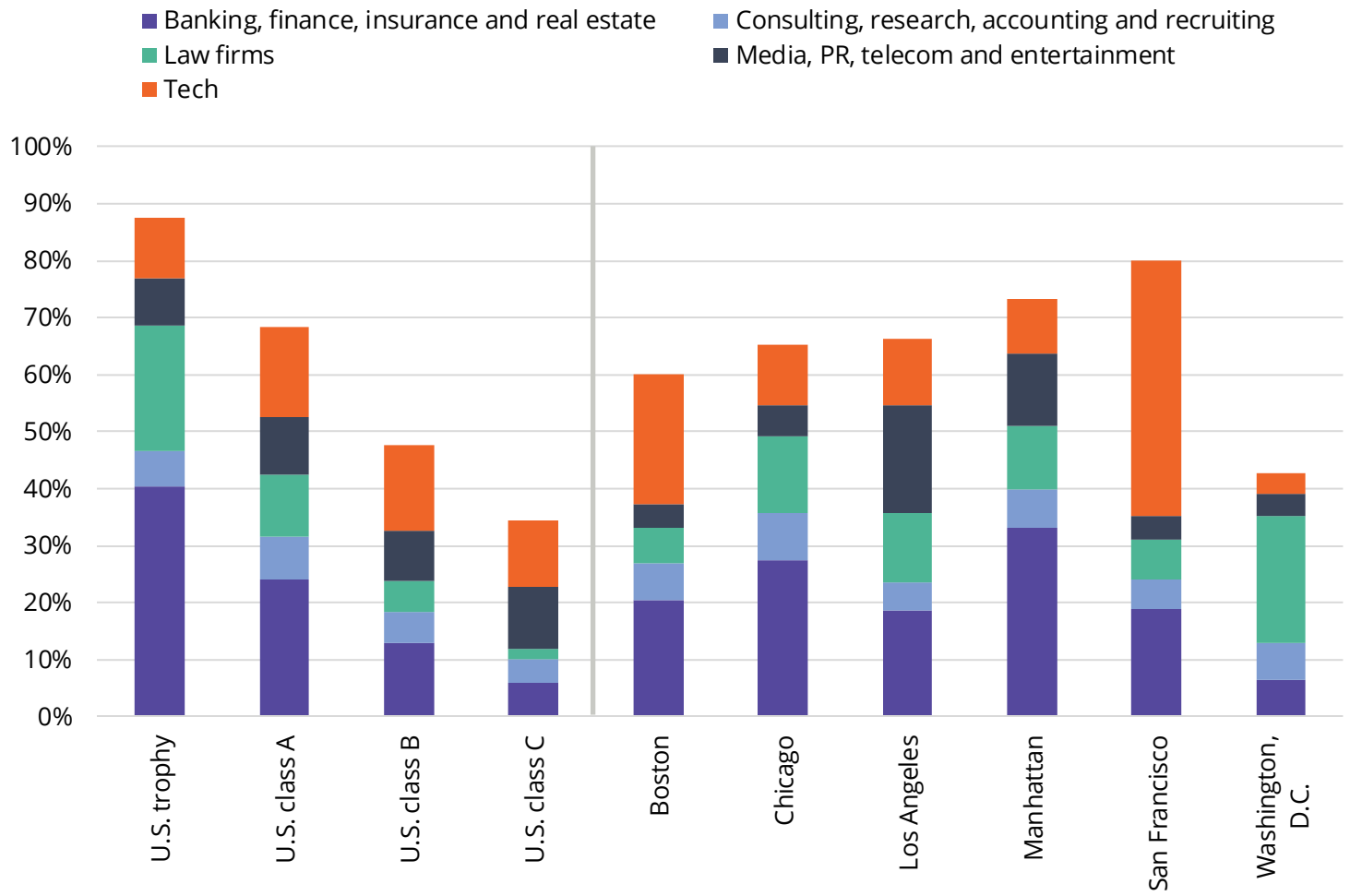
Exposure to at-risk industries



Note: Central business districts and private office sectors only.
Source: AVANT by Avison Young

Class C properties have the least exposure to the presently at-risk office industries.

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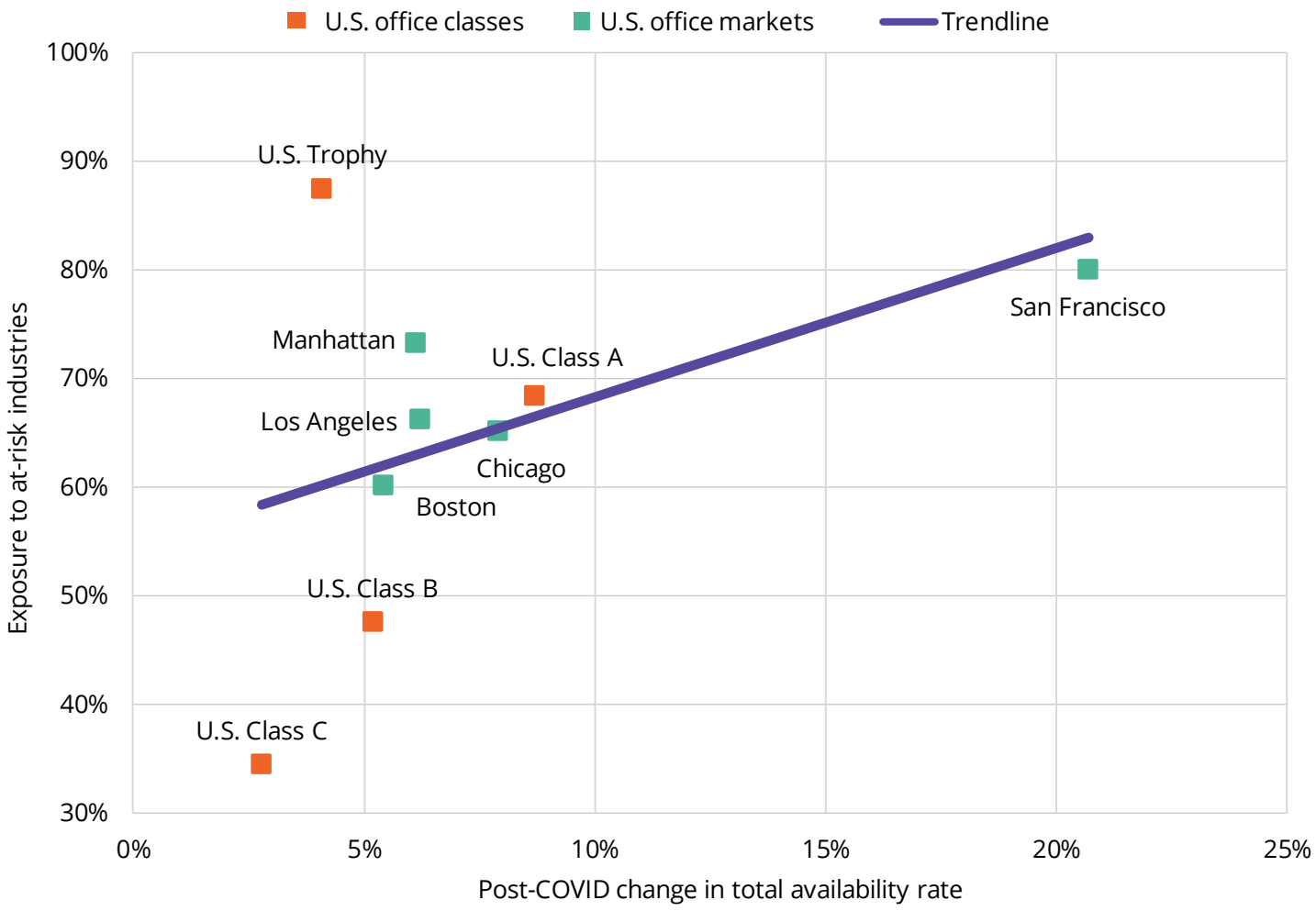
At-risk markets vs. post-COVID new supply



Note: Central business districts and private office industries only.
Includes sublet and direct availability rates.
Source: AVANT by Avison Young, CoStar

Class B/C properties are partly insulated from potential market distresses compared with other market segments.

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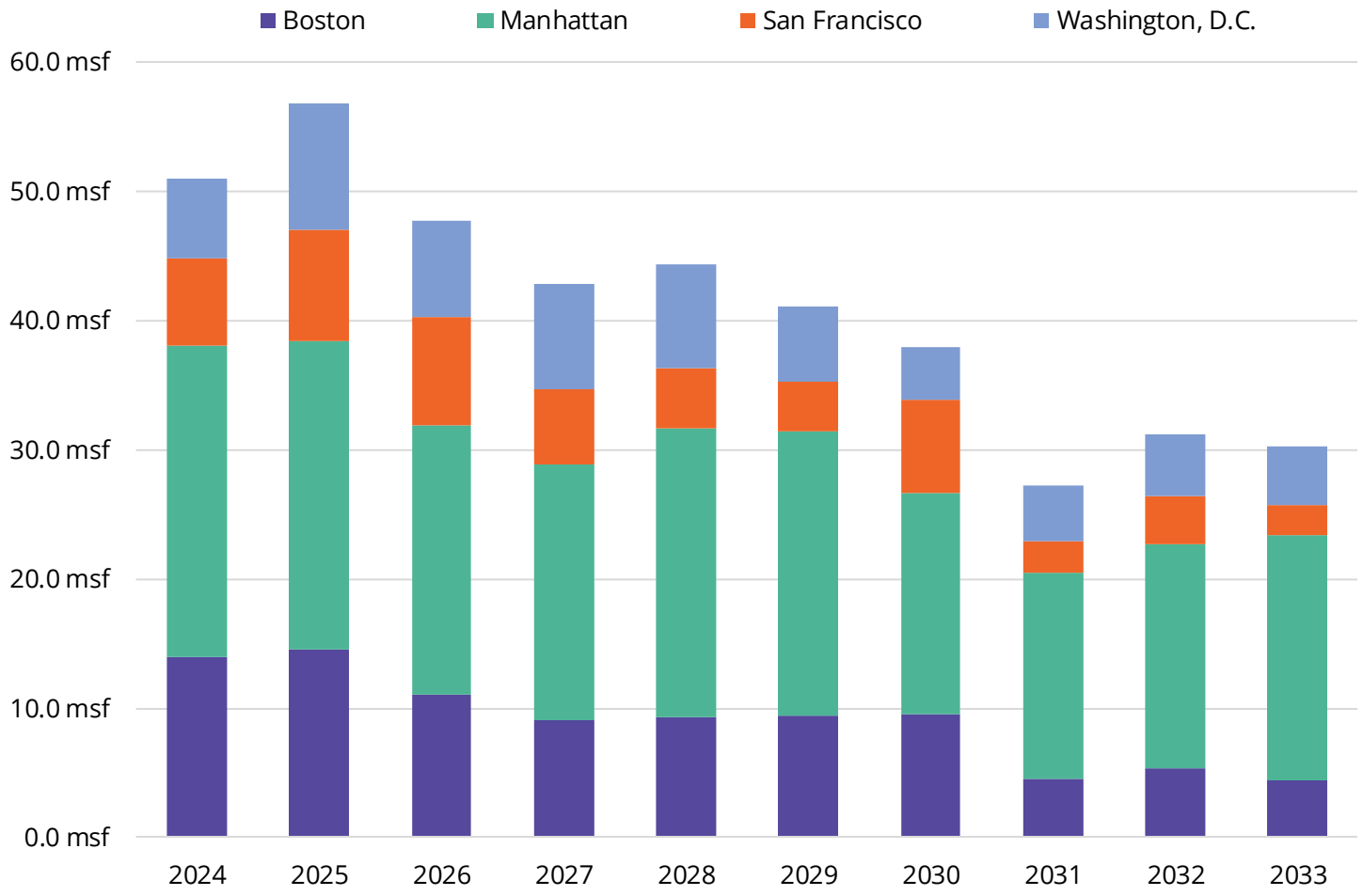
Upcoming lease expirations by market



Source: AVANT by Avison Young

Additional leasing activity is anticipated, especially in the second half of 2024, based on impending lease expirations.

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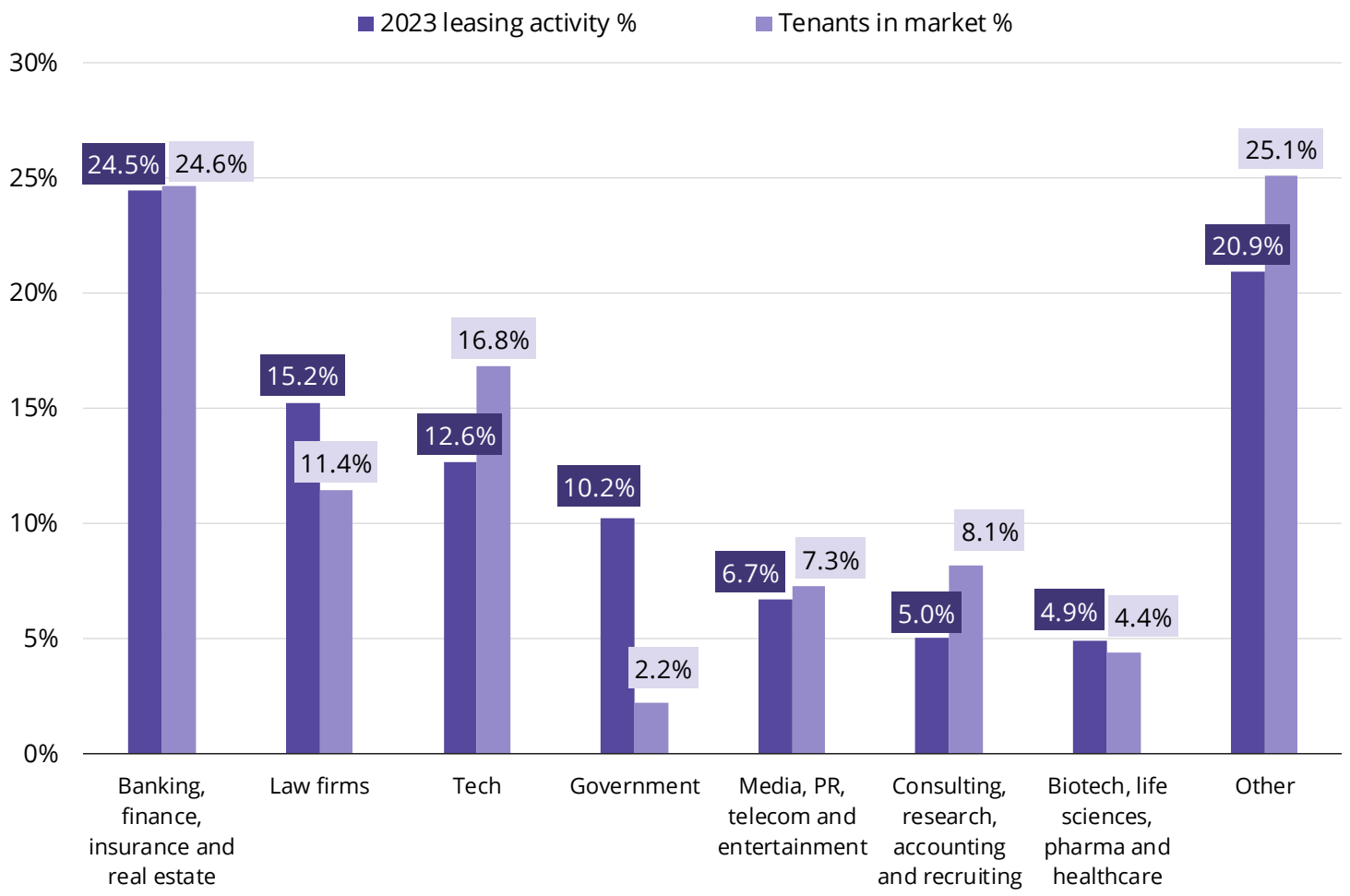
Leasing activity and tenants in the market



Note: Boston, Manhattan, San Francisco, Washington, DC.
Source: AVANT by Avison Young

Across U.S. gateway markets, finance, insurance, and real estate tenants comprised over a quarter of leasing activity in 2023 – and up 24.6% of the current active requirements.

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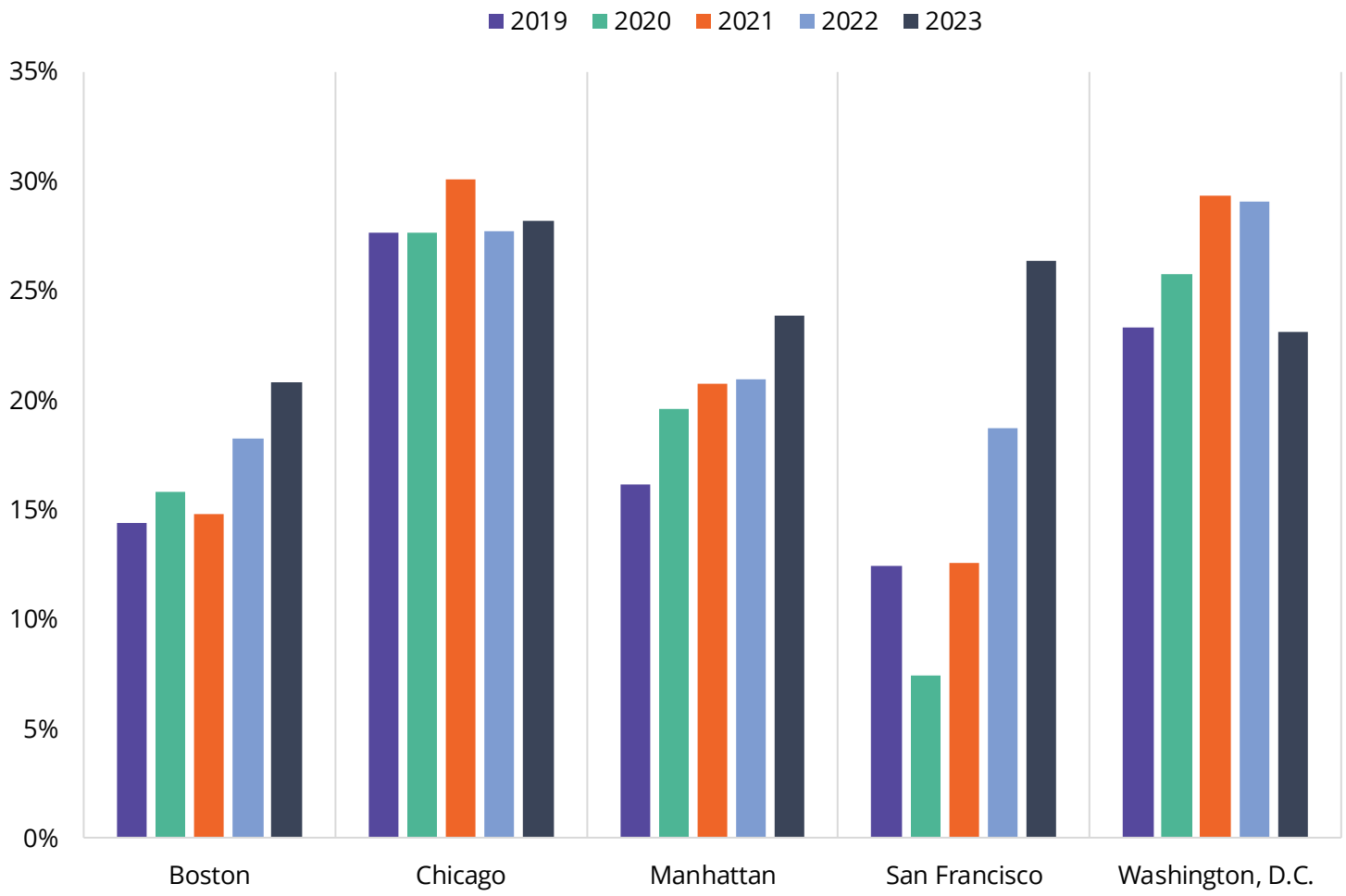
Concessions as a share of lease term



Note: Concessions include the value of tenant improvement allowances and free rent periods. Central business districts only. Direct relocations only with 7+ year lease terms.
Source: AVANT by Avison Young

Excluding Manhattan and San Francisco, concessions for relocations have begun to moderate towards historical levels in U.S. gateway markets when controlling for lease term length.

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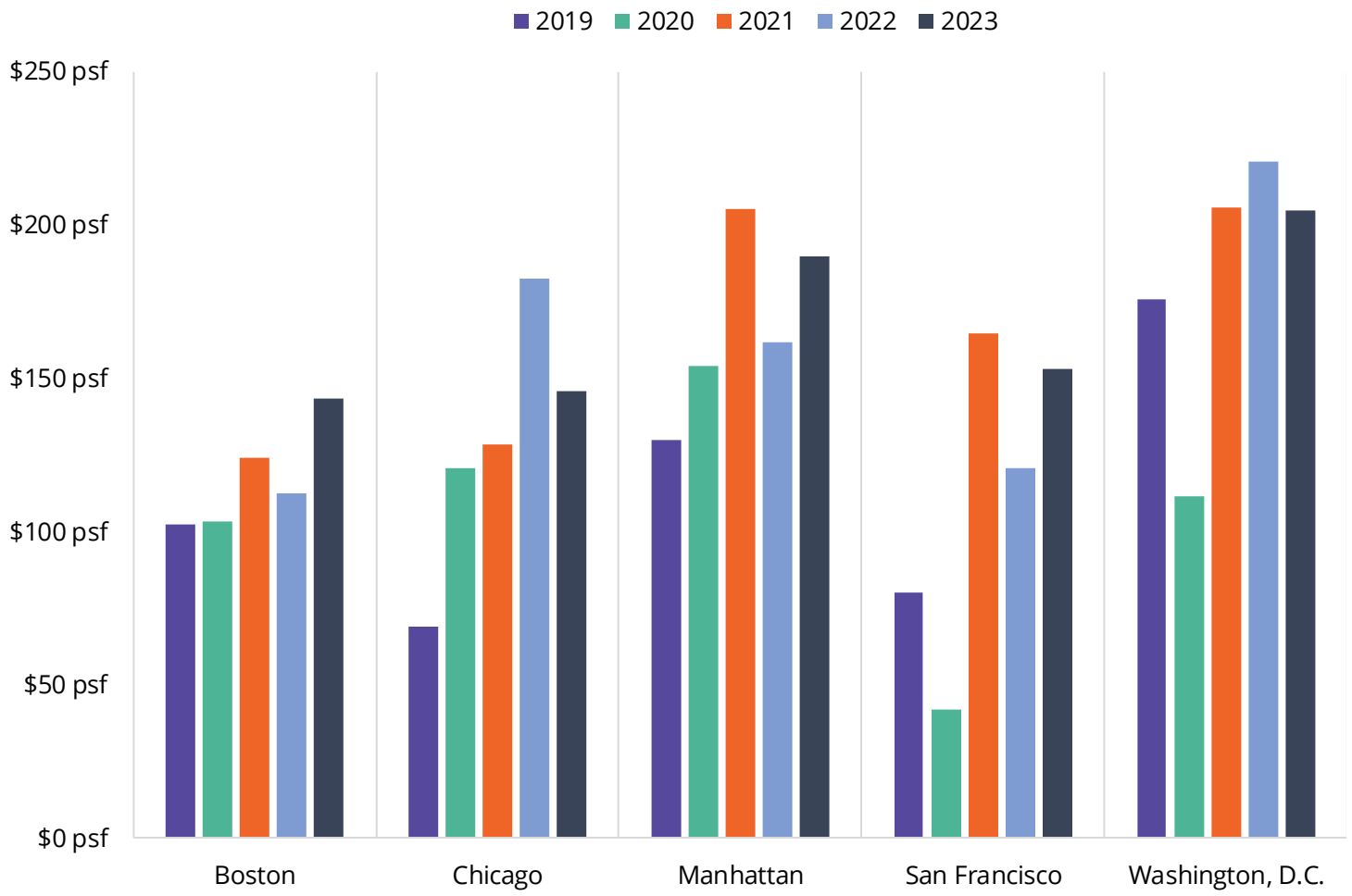
Renewal total concessions values



Note: Concessions include the value of tenant improvement allowances and free rent periods. Central business districts only. Direct renewals with 10+ year lease terms only.
Source: AVANT by Avison Young

Landlords are offering record-breaking concessions packages to existing tenants as a method of inducing long-term recommitments to stabilize properties.

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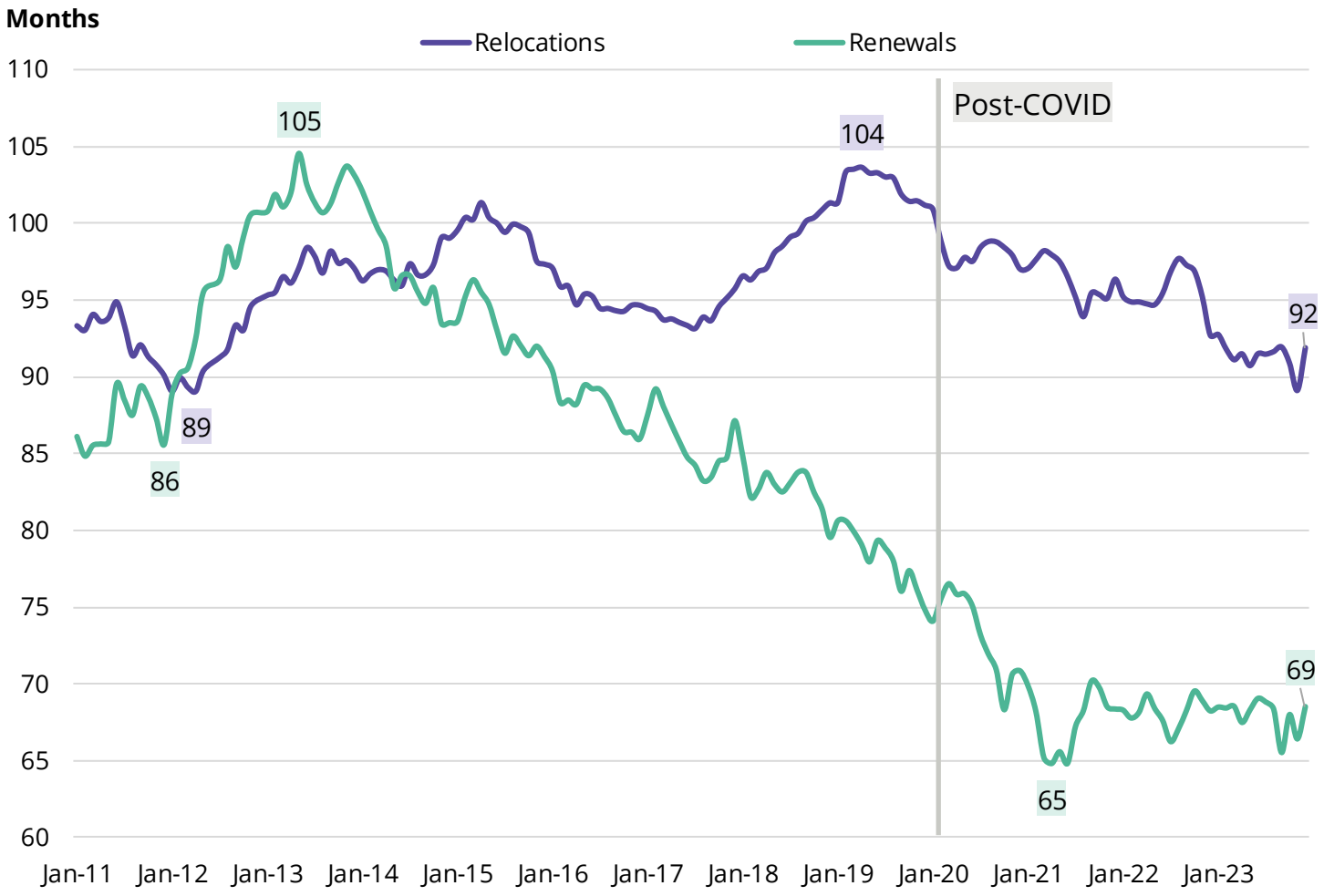
Office lease term lengths



Note: Boston, Los Angeles, Manhattan, San Francisco, Washington, DC.
12-month moving averages. Includes subleases. Trophy and Class A properties.
Source: AVANT by Avison Young

Tenants continue to navigate the market with trepidation, with relocation lease term lengths down 11.3% since the pre-COVID high. Flexible options are also contributing to this trend.

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U.S. office capital markets conditions

Enterprising investors are favorably positioned to pounce on office acquisition opportunities while asset values remain in flux and distressed loans mature.

Upcoming CMBS loan maturities

$33.7B of outstanding fixed-rate loans that originated before 2021–before the spike in interest rates – are maturing through 2025.

Source: AVANT by Avison Young, RCA

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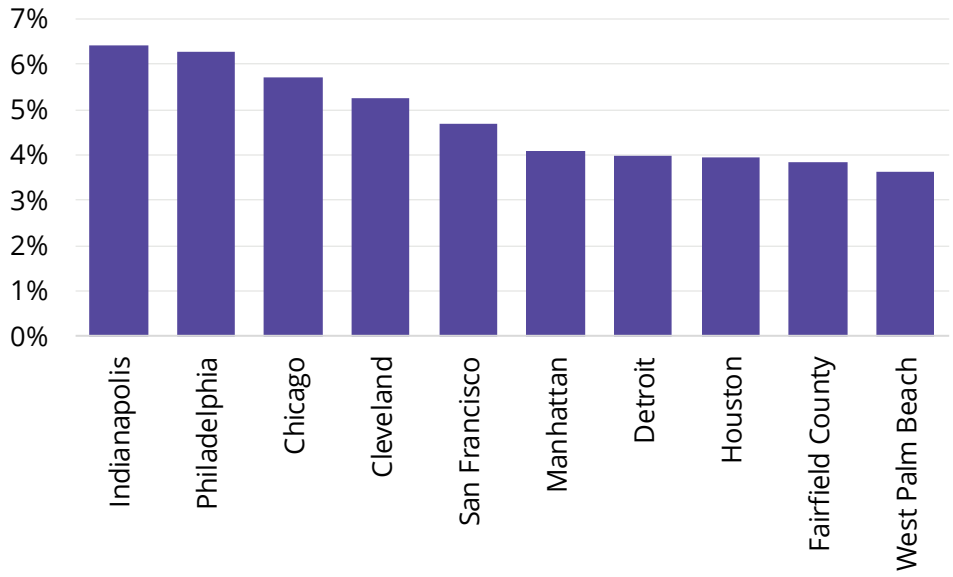
Markets with the greatest and least exposure to at-risk loans

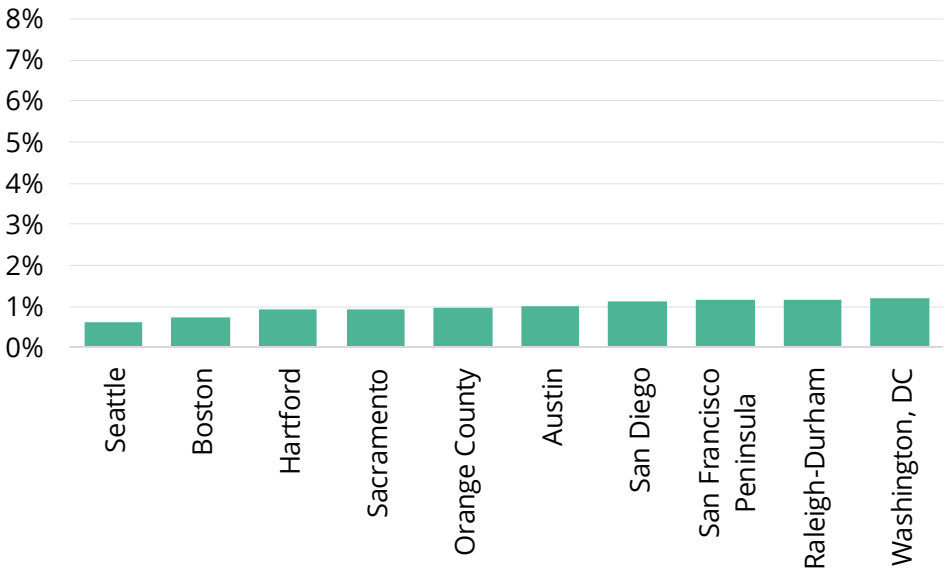
4.8%

Average exposure to at-risk loans,
10 markets with the **greatest exposure**.



1.0%

Average exposure to at-risk loans,
10 markets with the **least exposure**.



Note: Share by sf of properties encumbered by loans on CMBS watchlist
Source: AVANT by Avison Young, RCA

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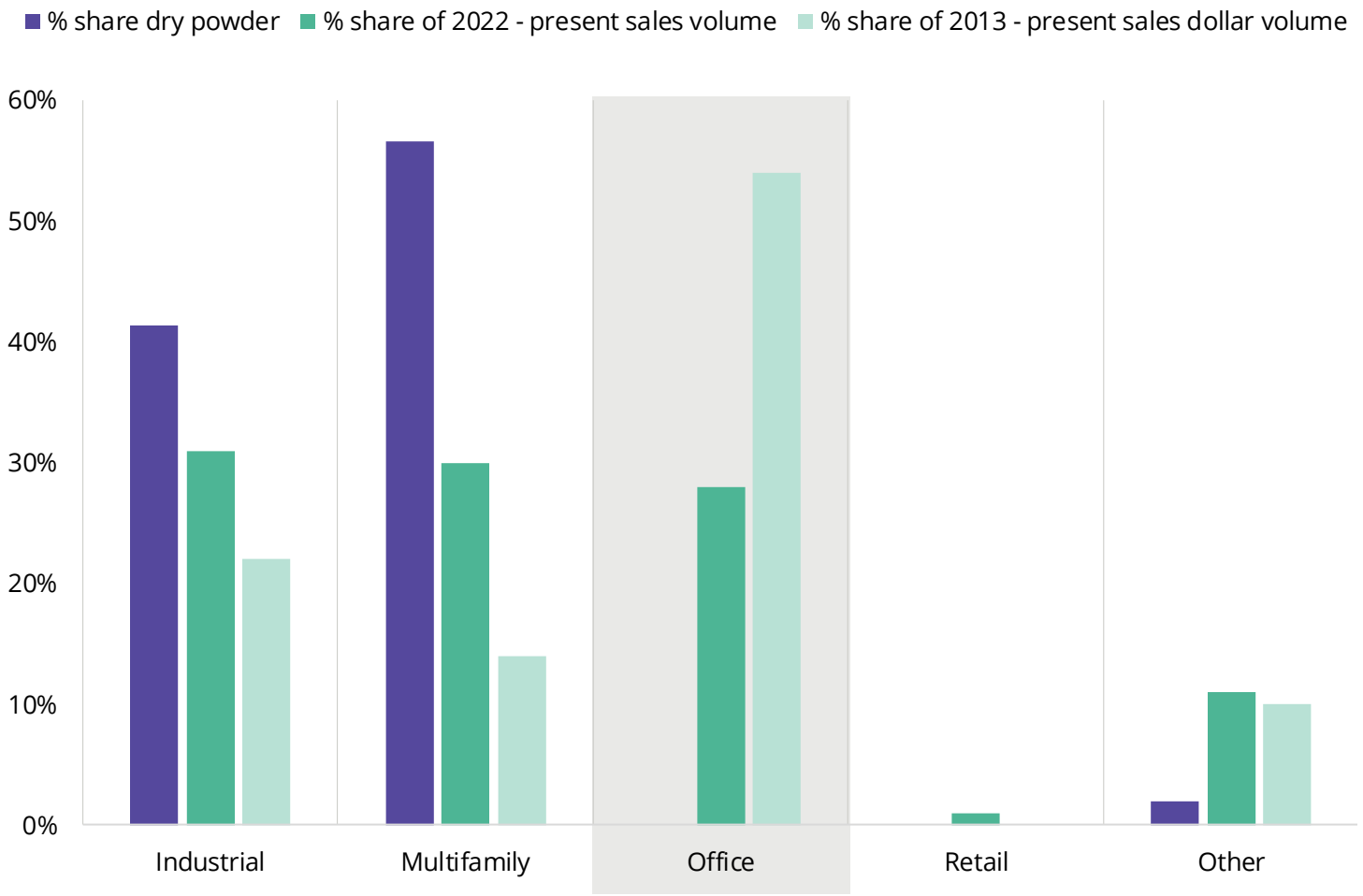
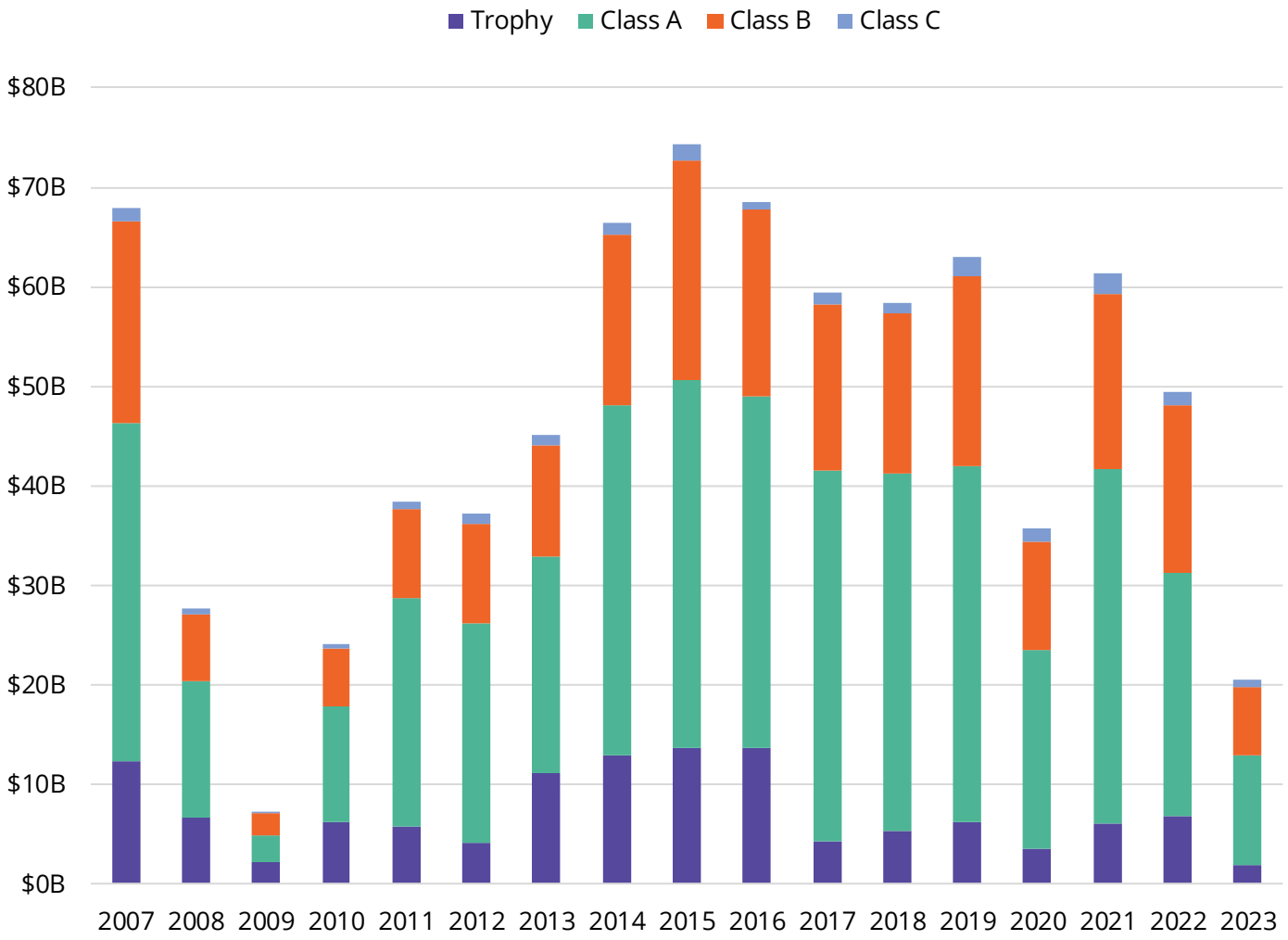
Dry powder vs. historical sales activity



Note: Diversified funds excluded from dry powder
Source: AVANT by Avison Young, RCA, CoStar

Alternative sectors such as data centers and mainstay multifamily assets have become more attractive investments relative to offices.

Investment dollar volumes



Source: AVANT by Avison Young, RCA

At just under $21B of investment volume in 2023, office investment activity is 65% lower than the preceding 10-year annual average and the lowest since 2010.

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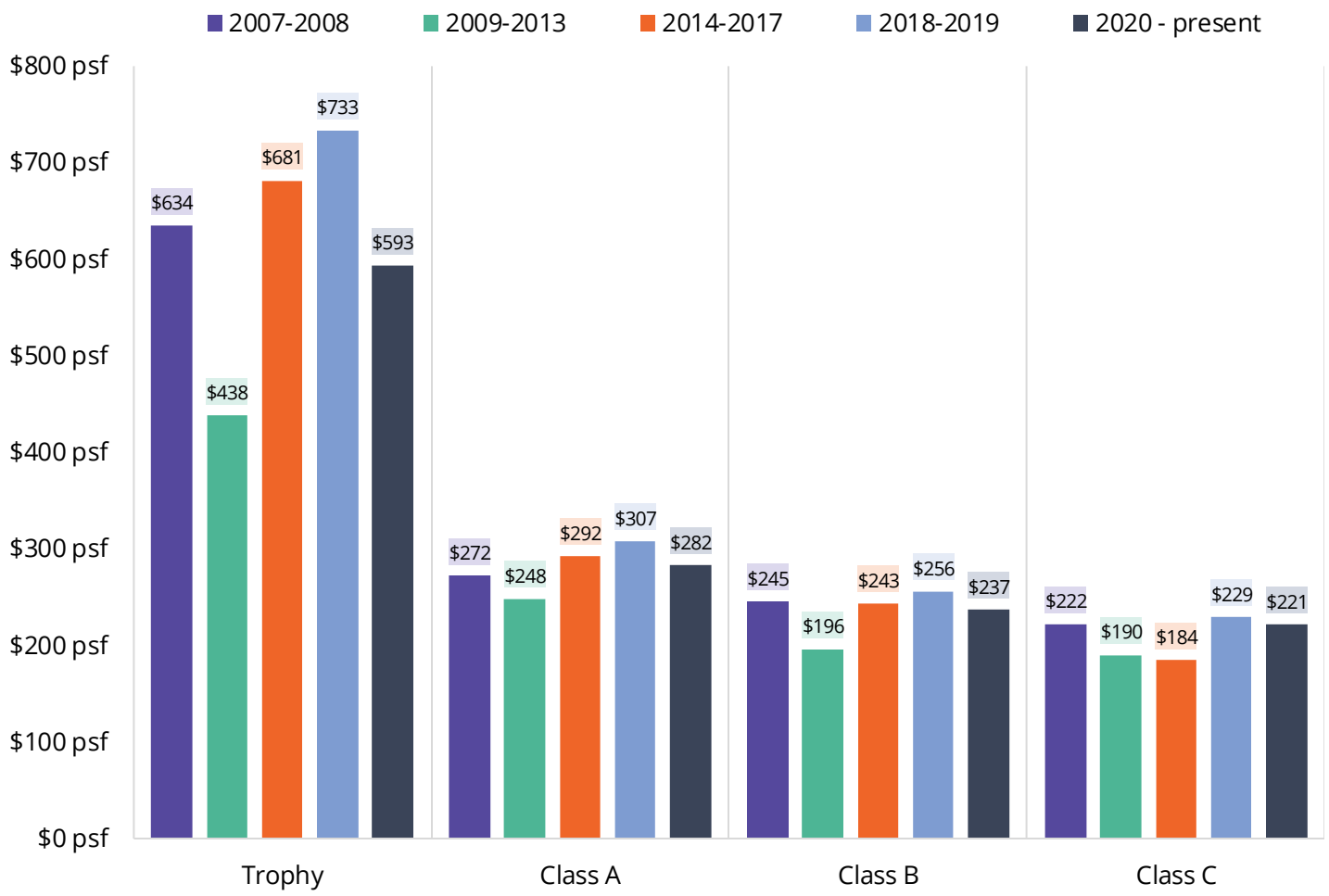
Office asset pricing by investment era



Source: AVANT by Avison Young, RCA

Trophy properties have encountered the greatest post-COVID devaluations at 19.1% as investors have refocused on higher-yielding opportunities.

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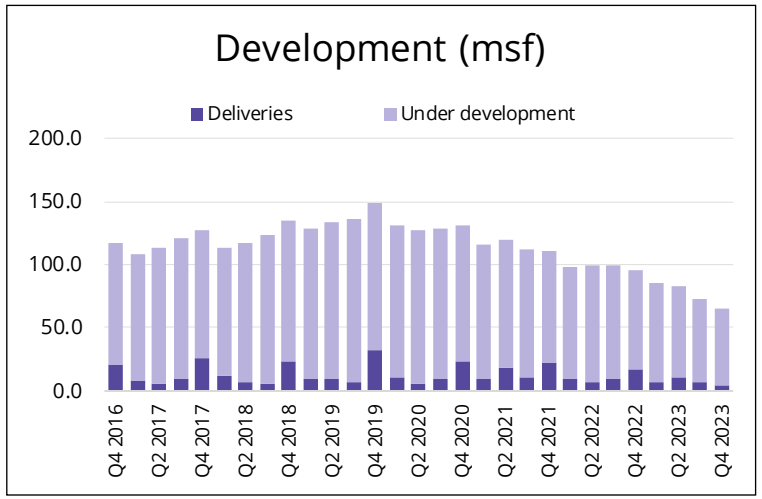
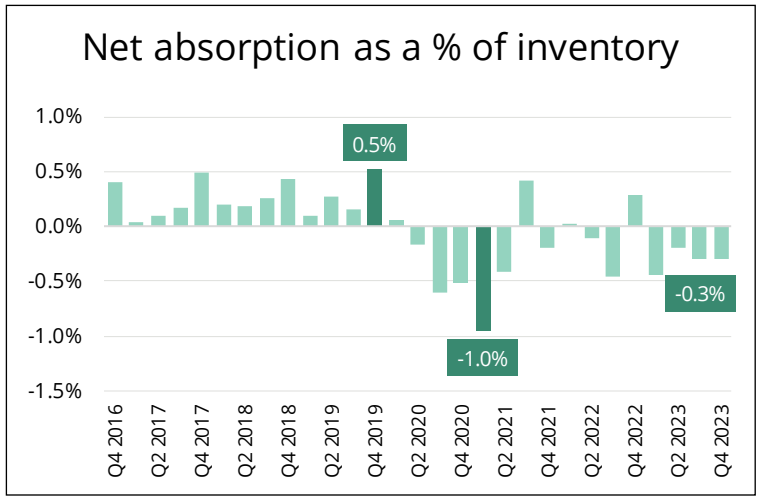
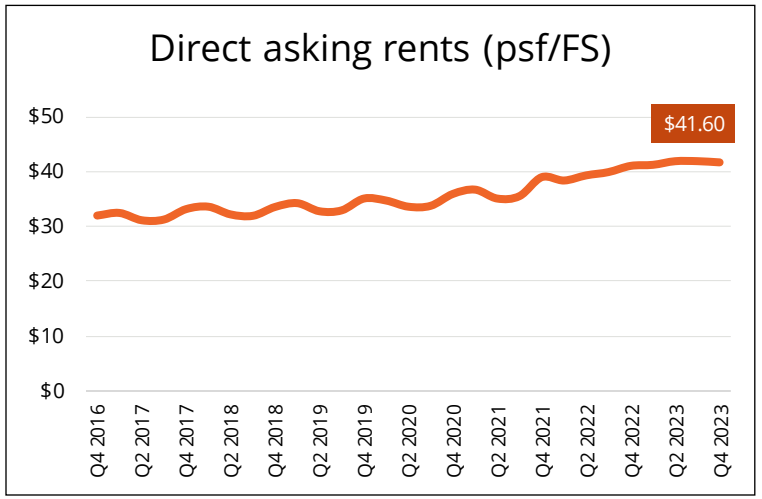
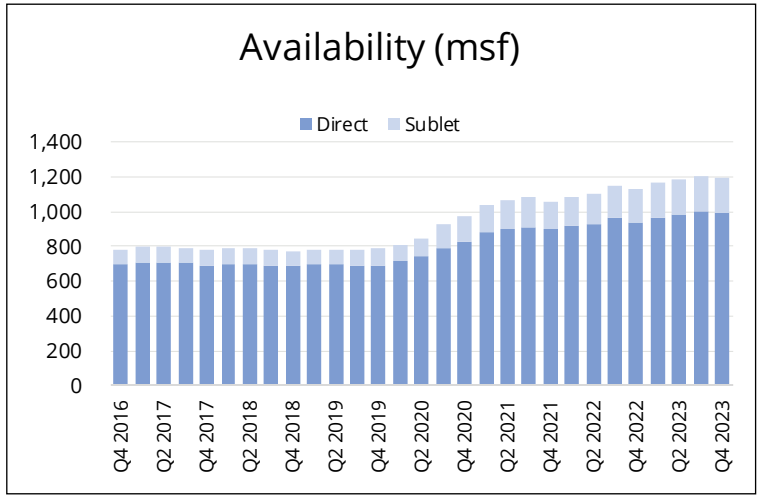
Appendix

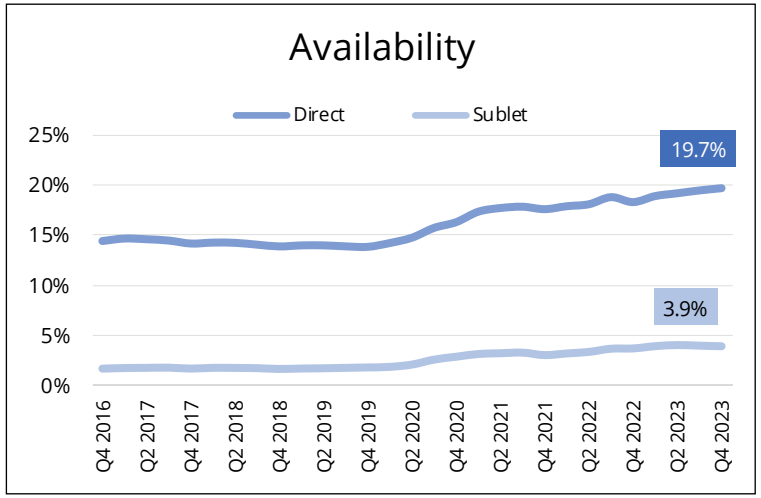
U.S. office market indicators

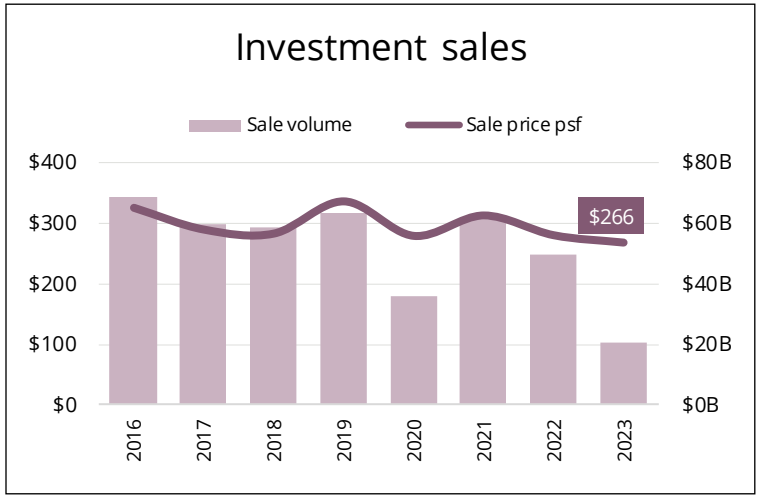












Source: AVANT by Avison Young, CoStar, RCA

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U.S. office market stats

	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct availability	Sublet availability	Total availability	Net absorption % of inventory (QTD)	Net absorption % of inventory (YTD)	Annual direct asking rent psf FS
Atlanta	168,893,959	534,841	2,310,678	27.0%	5.0%	31.8%	(0.8%)	(2.4%)	$ 31.97
Austin	71,742,339	1,703,377	4,595,244	22.5%	7.8%	30.2%	0.6%	(1.6%)	$ 52.19
Boston	216,513,646	2,115,577	3,502,276	16.7%	4.9%	21.4%	(0.5%)	(2.8%)	$ 55.27
Charleston	12,472,265	181,532	126,000	12.4%	4.3%	16.7%	(1.1%)	(0.7%)	$ 33.20
Charlotte	78,671,203	878,120	1,472,000	20.1%	3.6%	23.7%	(0.8%)	(1.8%)	$ 33.80
Chicago	324,272,761	-946,347	710,680	22.8%	3.7%	26.4%	(0.2%)	(1.5%)	$ 32.39
Cleveland	69,452,019	111,910	1,143,792	13.1%	1.1%	14.2%	0.1%	(1.3%)	$ 21.50
Columbus	55,686,630	546,960	772,991	18.8%	3.1%	21.5%	0.7%	0.7%	$ 23.12
Dallas - Ft Worth	230,242,644	2,930,332	5,593,843	26.0%	4.1%	30.0%	0.0%	(0.4%)	$ 34.62
Denver	119,152,332	484,088	3,761,423	24.7%	5.2%	29.8%	(0.5%)	(1.9%)	$ 35.34
Detroit	113,739,895	101,028	663,295	20.1%	2.2%	22.0%	(0.3%)	(1.0%)	$ 22.27
East Bay - Oakland	62,141,703	-	-	21.4%	4.3%	25.6%	(1.1%)	(2.2%)	$ 44.72
Fairfield County	40,896,251	-	217,024	20.1%	5.3%	25.2%	(0.7%)	(1.3%)	$ 35.78
Fort Lauderdale	33,193,109	59,756	503,590	20.4%	3.0%	23.4%	0.2%	0.5%	$ 38.34
Greenville	16,880,155	-	380,000	14.7%	2.7%	17.4%	(0.5%)	(1.4%)	$ 25.34
Hartford	48,086,692	-	-	17.1%	1.8%	18.8%	(0.6%)	(1.6%)	$ 21.53
Honolulu	21,762,700	65,000	-	8.4%	0.9%	9.3%	0.1%	0.5%	$ 19.87
Houston	201,777,385	610,694	418,523	27.0%	2.8%	29.6%	0.2%	(0.2%)	$ 32.01
Indianapolis	43,440,800	158,065	377,263	19.8%	1.9%	21.4%	0.9%	(1.0%)	$ 21.72
Jacksonville	26,839,846	-	22,932	22.5%	3.7%	25.3%	(2.6%)	(1.6%)	$ 22.70
Las Vegas	33,882,289	137,584	420,076	13.2%	1.2%	14.4%	0.3%	(0.5%)	$ 27.65
Long Island	54,181,475	188,636	35,700	10.4%	2.4%	12.8%	(0.2%)	(1.1%)	$ 33.16
Los Angeles	299,155,452	934,325	2,355,791	19.6%	3.6%	23.0%	(0.6%)	(1.3%)	$ 43.03
Manhattan	514,123,687	1,604,227	2,423,103	15.2%	4.0%	19.2%	(1.0%)	(1.4%)	$ 87.67

Source: AVANT by Avison Young, CoStar

AVANT by AVISON YOUNG

U.S. office market stats (continued)

	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct availability	Sublet availability	Total availability	Net absorption % of inventory (QTD)	Net absorption % of inventory (YTD)	Annual direct asking rent psf FS
Miami	55,346,613	91,331	2,175,615	17.4%	1.8%	19.1%	0.0%	0.1%	$ 57.28
Minneapolis-St.Paul	113,395,534	294,431	807,729	18.9%	3.2%	21.9%	0.5%	(0.6%)	$ 29.11
Nashville	47,837,809	1,414,443	1,959,827	22.3%	4.2%	26.5%	1.2%	2.5%	$ 31.13
New Jersey	243,904,611	324,287	312,750	15.5%	3.8%	19.2%	(0.2%)	(1.2%)	$ 31.38
New York City Outer Boroughs	84,712,830	791,059	605,966	16.7%	2.2%	18.9%	(0.9%)	(1.0%)	$ 44.12
Northern Virginia	160,542,647	2,953,241	1,221,986	22.2%	3.4%	25.4%	0.2%	(0.1%)	$ 36.27
Orange County	97,987,039	258,395	-	19.5%	3.8%	23.0%	0.5%	(1.3%)	$ 34.13
Orlando	40,297,999	647,620	184,735	17.5%	4.8%	21.7%	0.8%	(1.0%)	$ 27.33
Philadelphia	180,362,792	680,043	1,069,735	18.4%	4.1%	22.2%	(0.2%)	(1.4%)	$ 30.66
Phoenix	132,469,541	598,053	1,001,484	18.8%	5.6%	24.2%	(0.2%)	(1.4%)	$ 31.06
Pittsburgh	81,196,043	-	689,000	18.5%	2.4%	20.7%	(0.5%)	(1.0%)	$ 25.92
Portland	50,217,946	-	-	19.9%	2.5%	22.4%	(1.2%)	(1.5%)	$ 39.61
Raleigh-Durham	59,494,847	652,895	1,254,725	19.3%	5.6%	24.3%	(0.7%)	(2.6%)	$ 31.07
Sacramento	61,638,725	20,000	1,025,000	19.3%	2.1%	21.1%	(0.2%)	(1.5%)	$ 26.47
San Diego	74,411,153	267,696	501,865	16.0%	3.2%	18.8%	0.4%	(0.2%)	$ 38.21
San Francisco	90,656,093	325,000	144,547	28.1%	8.6%	36.2%	(1.9%)	(6.6%)	$ 72.69
San Francisco Peninsula	26,122,664	530,740	878,710	21.4%	8.1%	29.3%	(3.1%)	(4.8%)	$ 68.07
Seattle	158,732,028	3,433,259	7,868,053	17.0%	4.3%	21.2%	(0.4%)	(2.0%)	$ 48.57
Silicon Valley	91,624,029	1,385,278	4,145,873	19.5%	8.2%	27.3%	(1.5%)	(4.4%)	$ 53.82
Suburban Maryland	74,566,720	623,400	511,500	20.1%	2.1%	22.2%	(0.0%)	(0.3%)	$ 32.09
Tampa	46,355,077	75,000	428,929	17.4%	5.6%	22.5%	(0.6%)	(0.2%)	$ 30.41
Washington, D.C.	148,937,344	660,715	1,094,868	20.0%	2.3%	22.4%	0.1%	(1.2%)	$ 59.14
West Palm Beach	28,420,804	-	765,010	15.6%	3.1%	18.7%	0.0%	(1.6%)	$ 49.23
U.S. total	**5,006,432,125**	**28,426,591**	**60,454,131**	**19.7%**	**3.9%**	**23.4%**	**(0.3%)**	**(1.4%)**	**$41.67**

Source: AVANT by Avison Young, CoStar

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U.S. office market stats by class

	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct availability	Sublet availability	Total availability	Net absorption % of inventory (QTD)	Net absorption % of inventory (YTD)	Annual direct asking rent psf FS
Trophy	345,933,672	10,708,978	18,656,960	17.6%	4.7%	22.3%	(0.1%)	1.0%	$80.91
Class A	2,198,328,204	15,071,474	38,569,912	22.3%	5.2%	27.4%	(0.5%)	(1.9%)	$42.35
Class B	2,005,042,261	2,624,748	2,836,759	18.7%	2.9%	21.5%	(0.3%)	(1.3%)	$34.59
Class C	456,834,811	21,391	48,000	12.5%	1.1%	13.6%	(0.2%)	(0.9%)	$32.70
U.S. total	**5,006,432,125**	**28,426,591**	**60,454,131**	**19.7%**	**3.9%**	**23.4%**	**(0.3%)**	**(1.4%)**	**$41.67**

Source: AVANT by Avison Young, CoStar

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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For more market insights and information visit **avisonyoung.com**

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