U.S. office market report

Q1 2023

AVISON YOUNG

U.S. office market trends

-42.2%

Q1 2023 leasing activity vs. pre-COVID leasing activity

Mounting financial services disruption, highlighted by the collapse of Silicon Valley Bank and several banking acquisitions, contributed to a temporary pullback in office demand. Leasing activity is poised to rise as 2023 progresses—but is still unexpected to approach pre-COVID levels—as tenants capitalize on greater leverage and space utilization strategies come to realization. The quarterly increase of sublease supply could be stemmed by the anticipated continued rise of return-to-office efforts.

+28.4%

post-COVID Trophy net effective rents in Manhattan

Tenants seeking new construction and other high-quality assets need to execute or risk being boxed out by other requirements. Net effective rents in the Trophy sector have continued to climb since the pandemic, despite weakened prevailing fundamentals, highlighted by the 28.4% increase in net effective rents in Manhattan. Conversely, commodity properties continue to linger on the market, incentivizing landlords to offer generous concessions packages to remain competitive. San Francisco net effective rents have softened overall due to its exposure to tech and financial services firms.

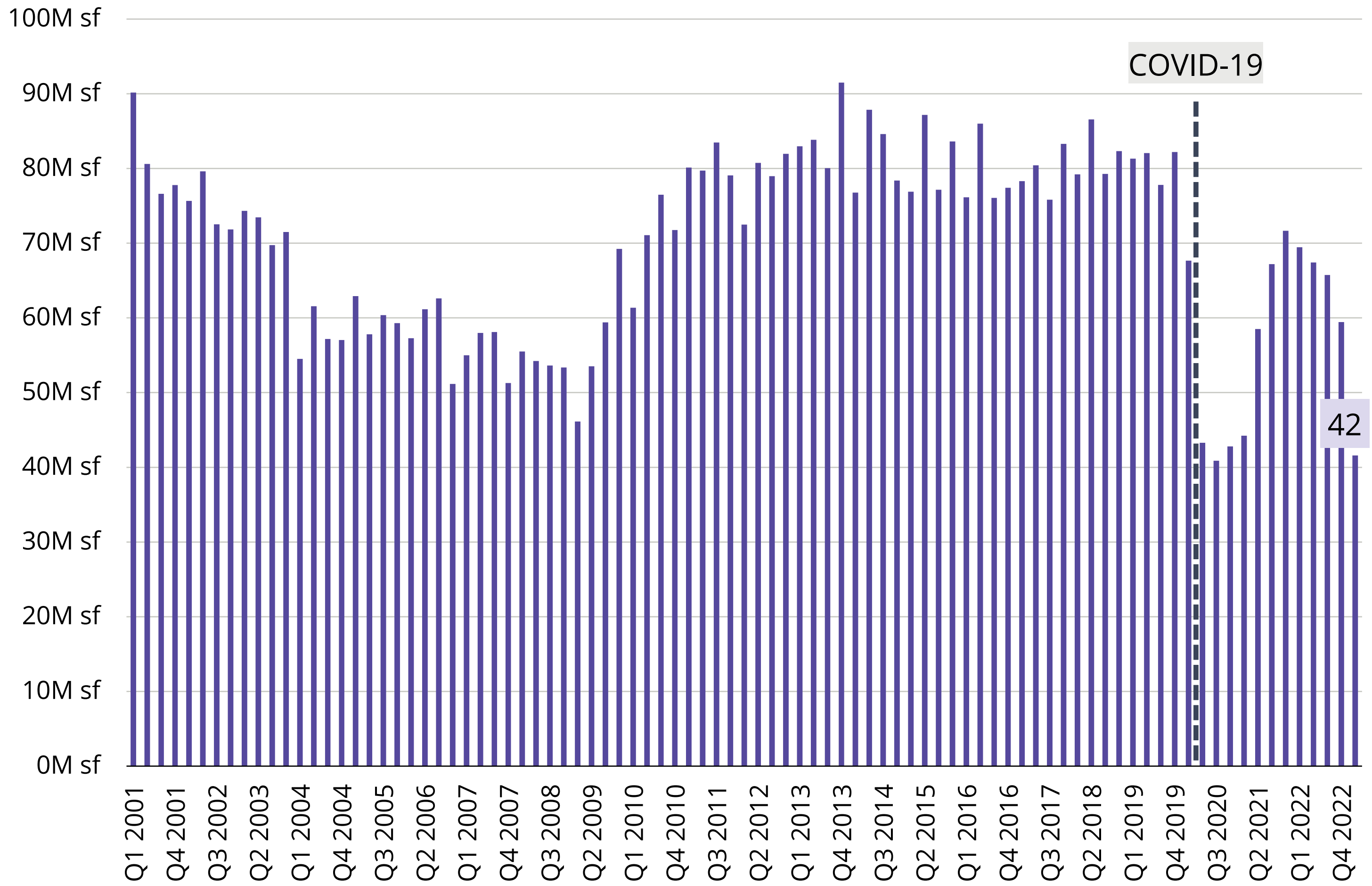
$36.3B

potential at-risk office loans maturing by 2025

Continued office foreclosures, particularly properties encumbered by fixed-rate loans originated before 2021, are expected in the near term, including dispositions by institutional landlords with assets in gateway markets, as debt burdens rise while cash flows decline. According to Trepp, the cost of debt has increased by 40-60% since 2021, signified by benchmark 10-year Treasury rates increasing by nearly 200 basis points, or 119%, from the beginning of 2022 to Q1 2023. Enterprising investors can capitalize on these distressed conditions when acquisition pricing becomes more palatable.

Source: AVANT by Avison Young, CoStar, Trepp

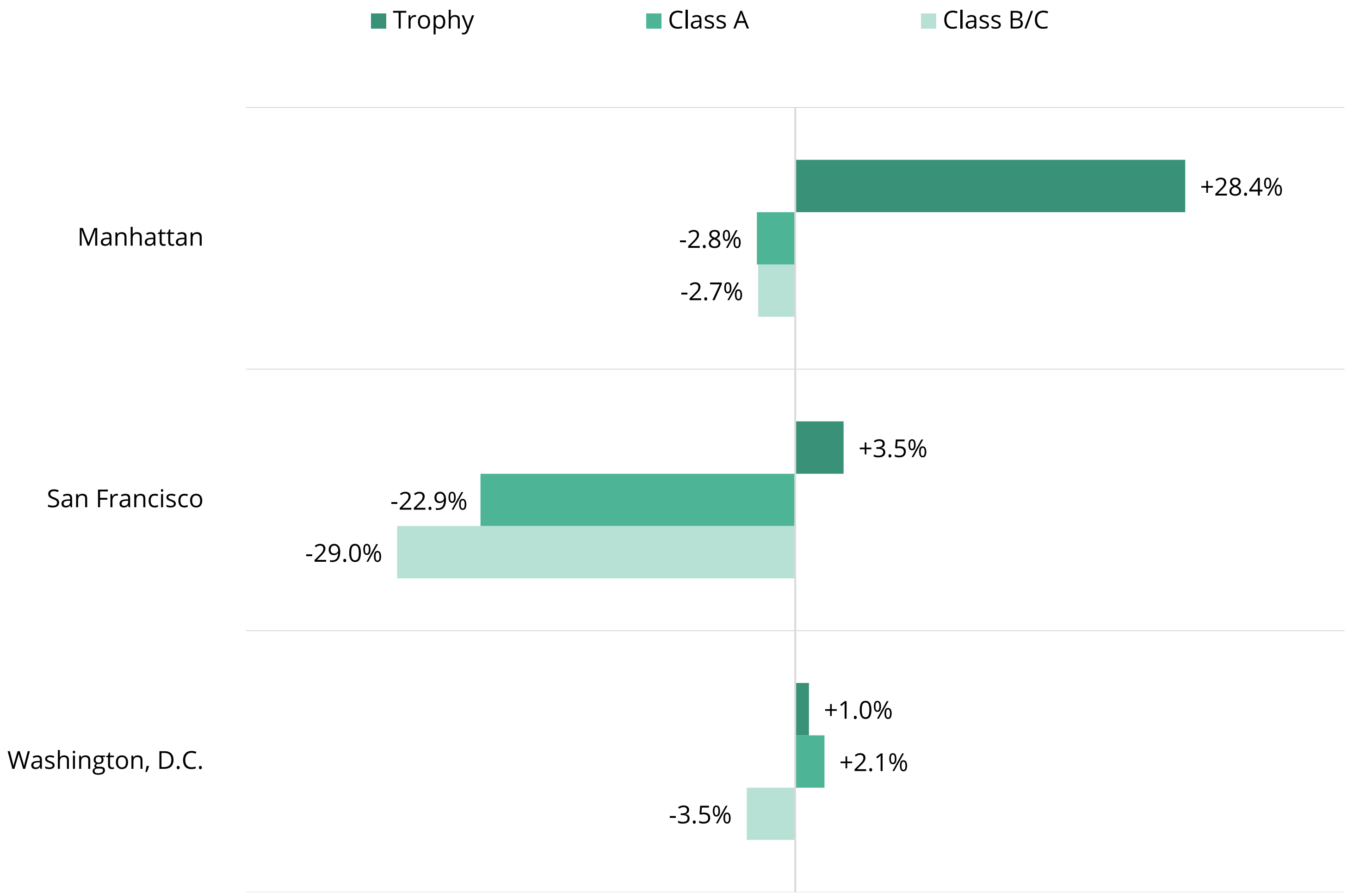
U.S. office leasing activity



Note: Avison Young markets only
Source: AVANT by Avison Young

Leasing activity slowed to the second-weakest amount since 2001, -42.2% from 2001 to Q1 2020 and -27.5% from post-COVID averages.

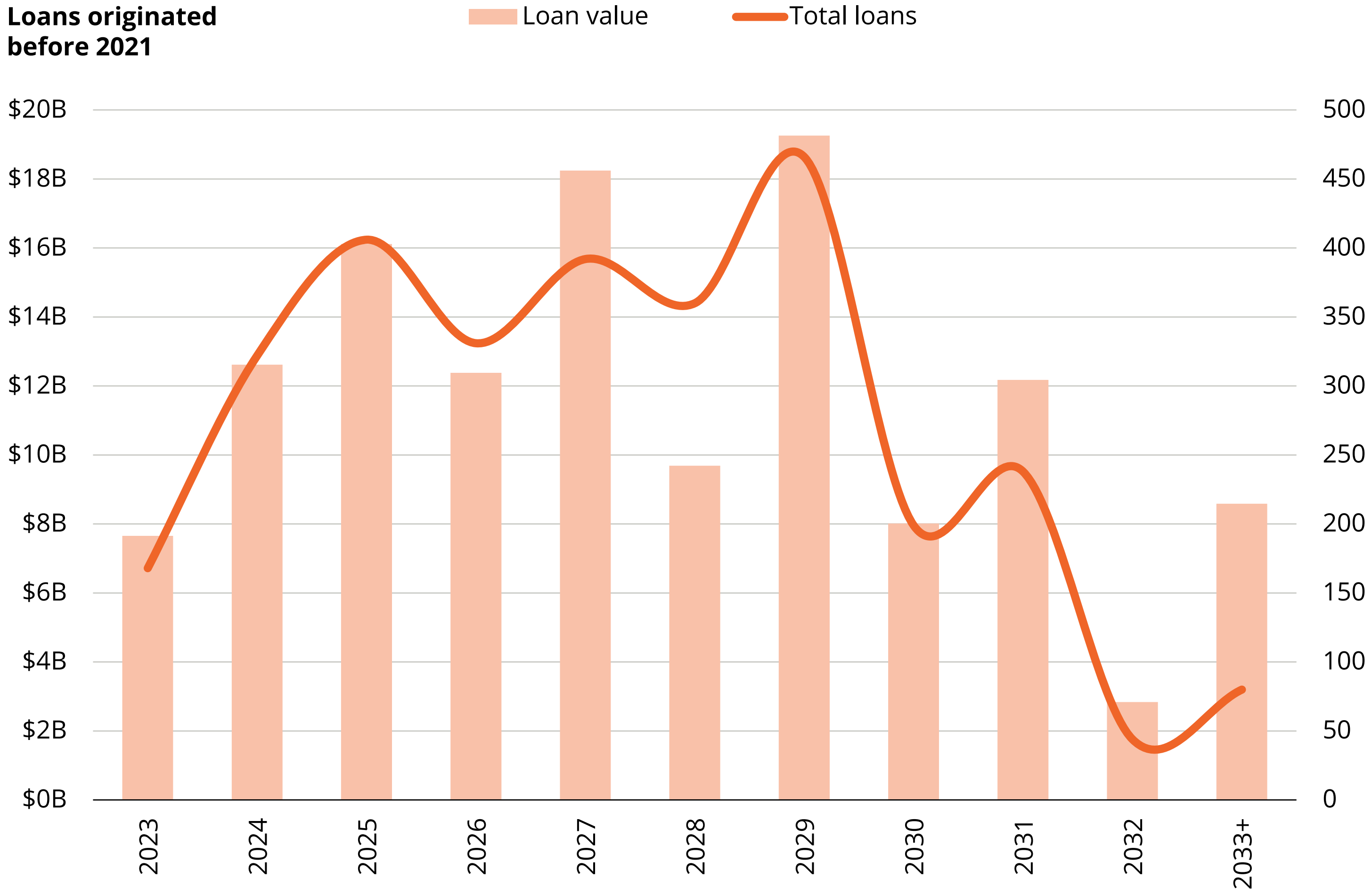
Post-COVID change in net effective rents



Source: AVANT by Avison Young

Flight to quality remains pronounced, especially in markets such as Manhattan (+28.4%) where new construction demand is strong.

Fixed-rate CMBS office loan maturities



According to Trepp, the cost of CMBS debt has increased by 40-60% since 2021, putting $36.3B of fixed-rate loans at risk through 2025.

Source: Trepp

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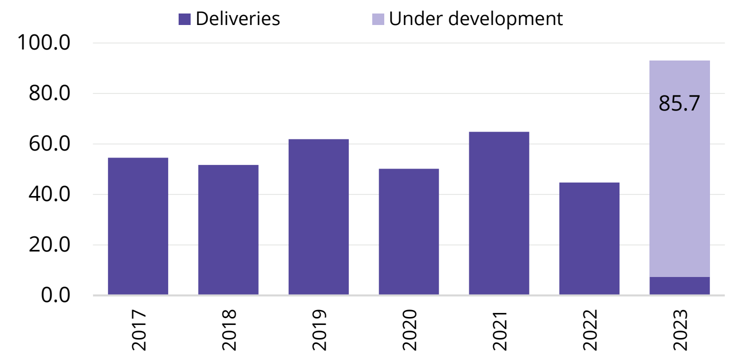
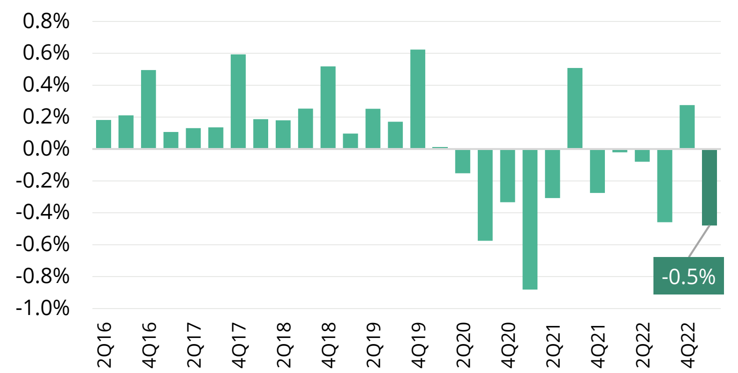
U.S. office market indicators

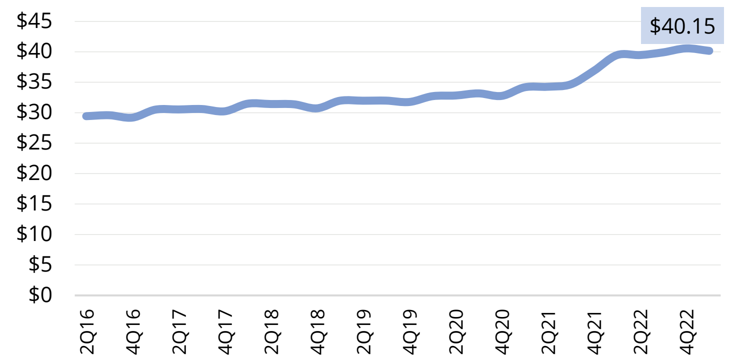
Development (msf)



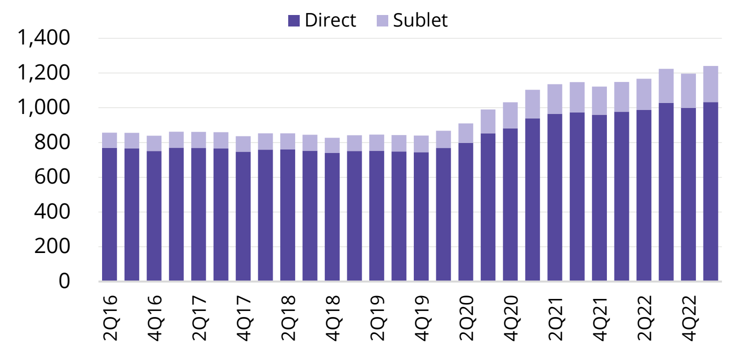
Net absorption as a % of inventory



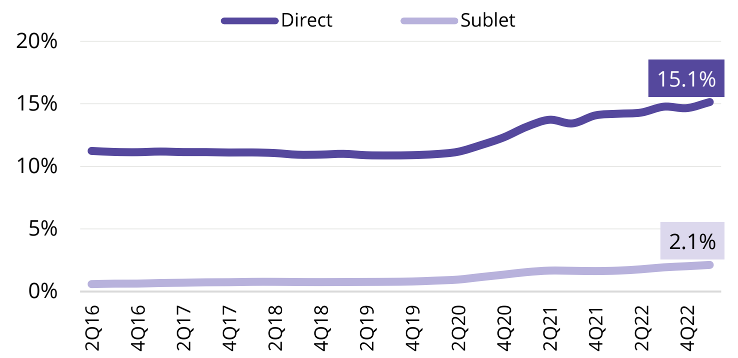
Direct asking rents (psf/FS)



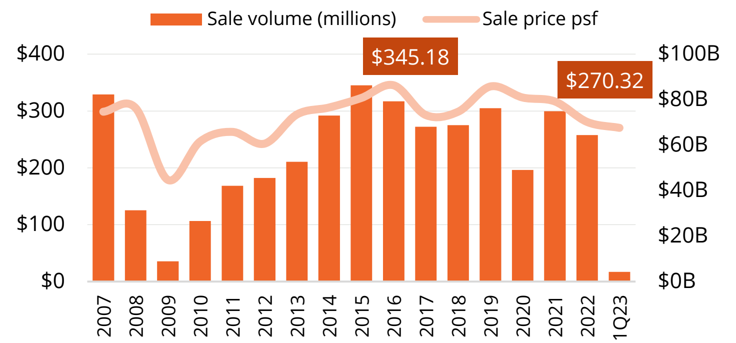
Availability (msf)



Vacancy

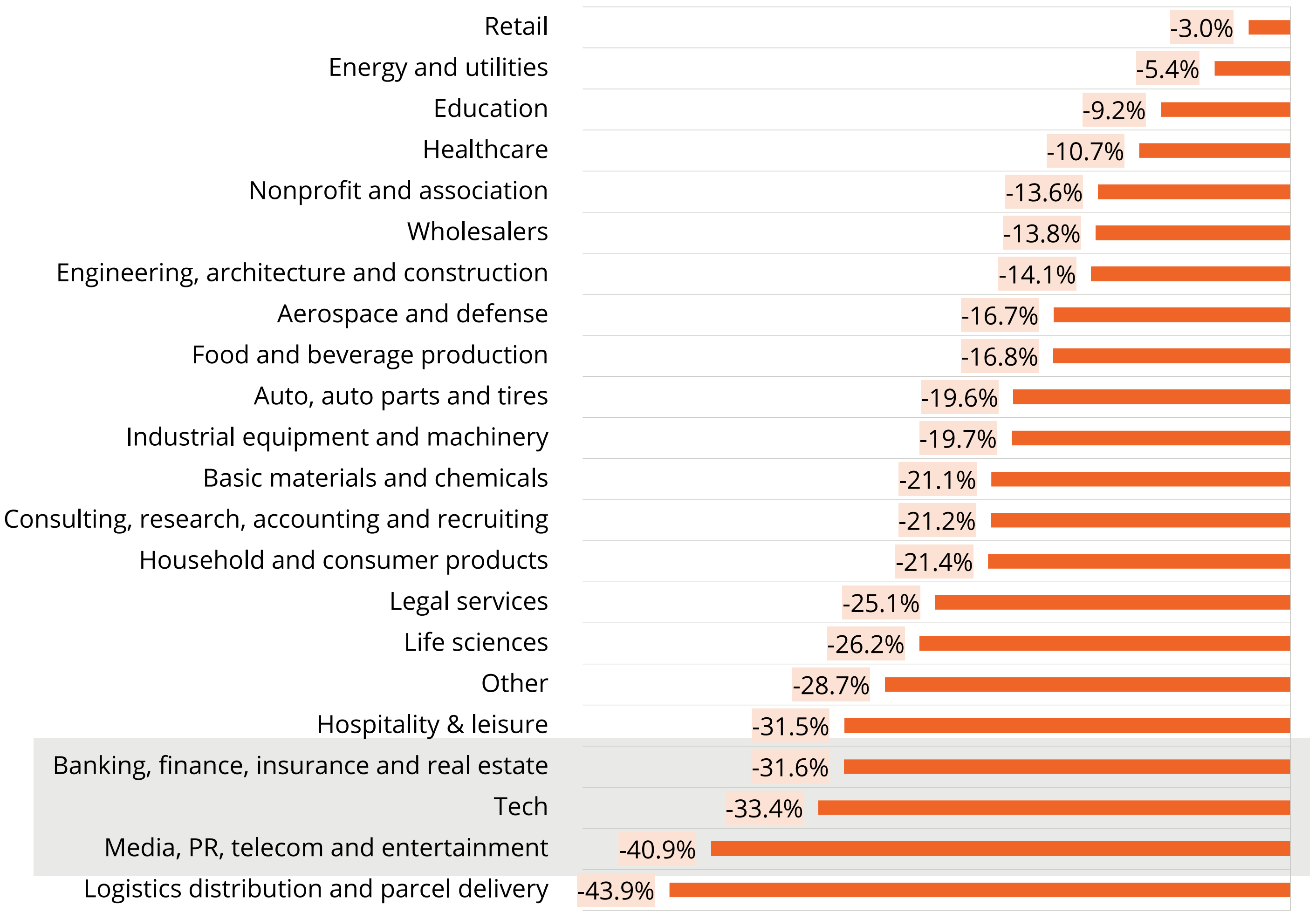


Investment sales



Source: AVANT by Avison Young, CoStar, RCA

Non-remote job postings, 3/2022-1/2023



Total job postings declined by 22.1% since March 2022, impacted by equity and liquidity issues in banking, tech and media.

Source: AVANT by Avison Young, Emsi

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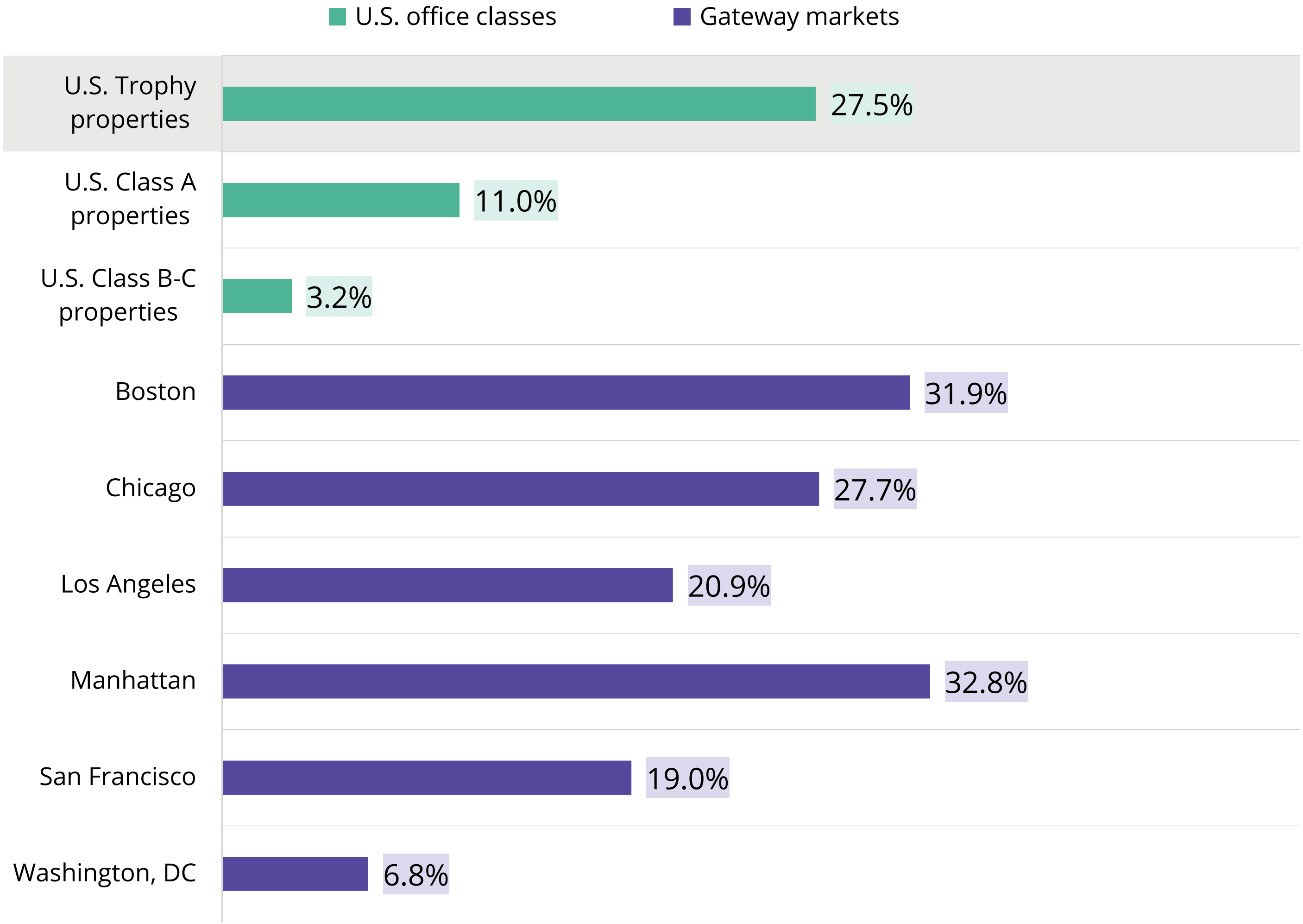
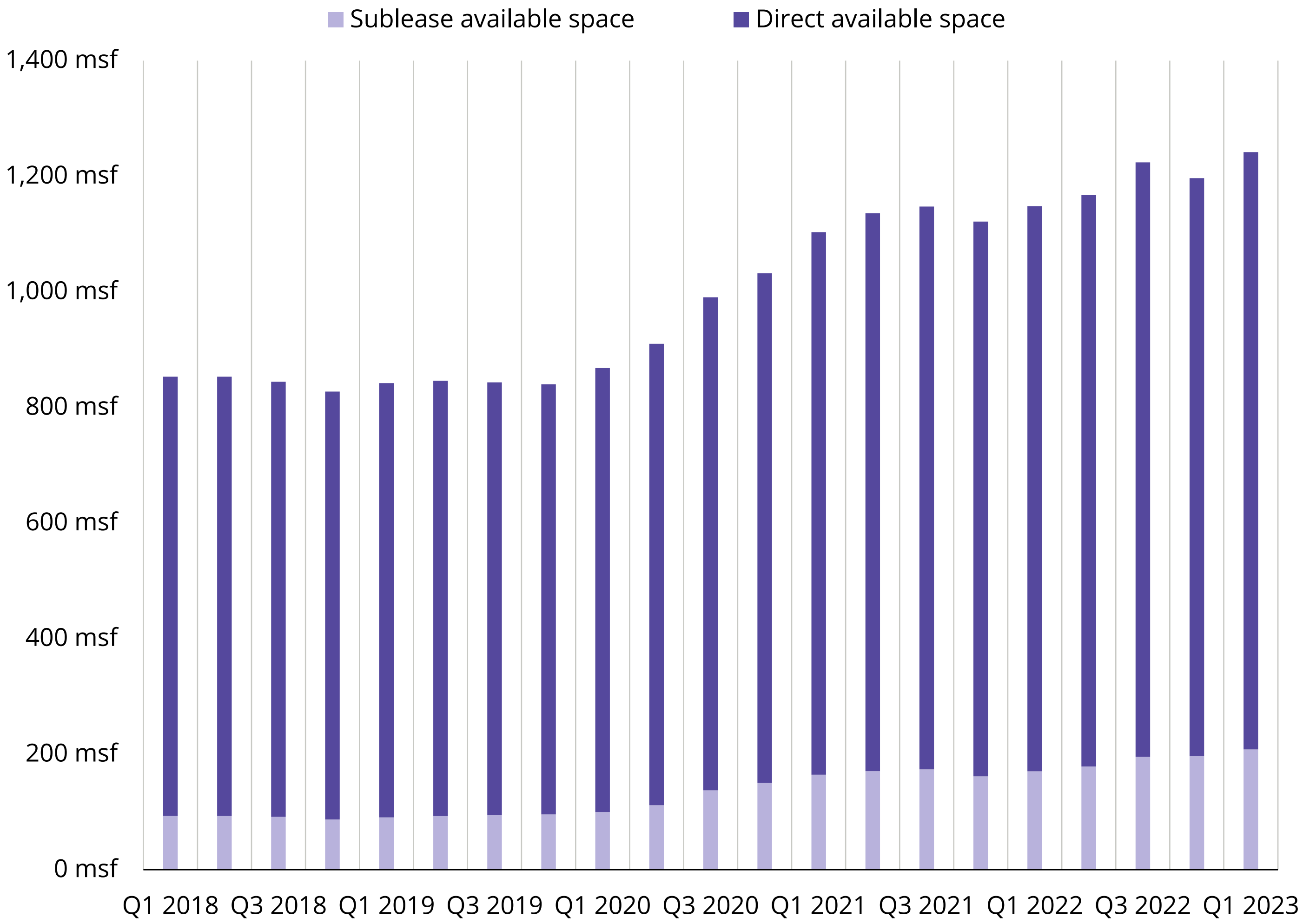
Banking share of major markets/sectors



Note: Based on active leases.
Excludes owner-occupied properties.
Source: AVANT by Avison Young

Disruption to the banking sector could negatively affect demand for Trophy assets, especially in finance hubs.

Available office space



Source: AVANT by Avison Young, CoStar

Sublease availabilities increased to a new record in Q1 2023, more than doubling from Q1 2020 levels as tenants continue cost containment efforts.

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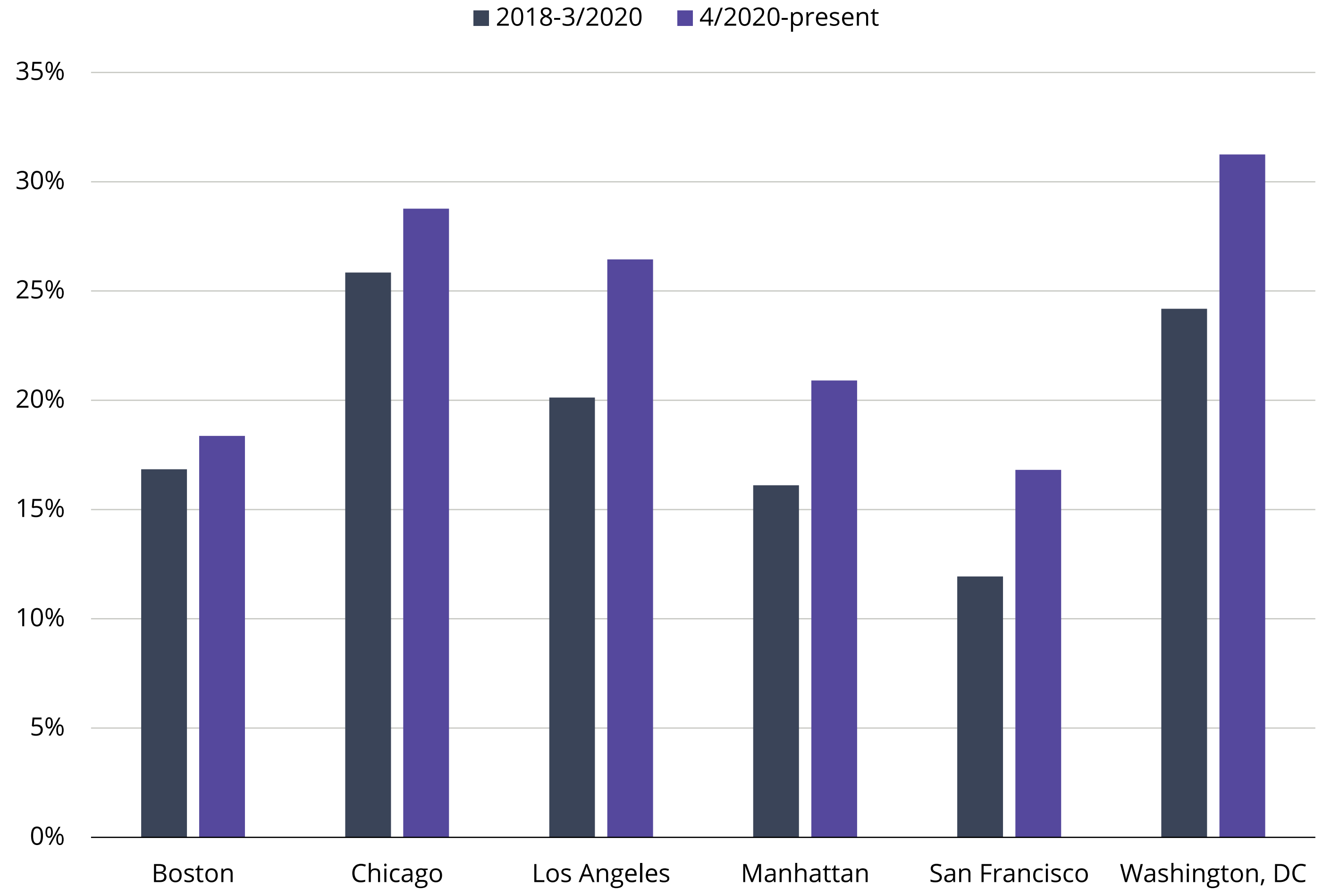
Concessions as a share of lease term



Note: Direct relocations only for 20,000+ sf leases with >7-year lease terms executed in Boston, Chicago, Los Angeles, Manhattan and San Francisco CBDs.
Source: AVANT by Avison Young, CoStar

Tenant leverage has accelerated in U.S. gateway markets, with landlords offering more generous free rent periods and tenant improvement allowances.

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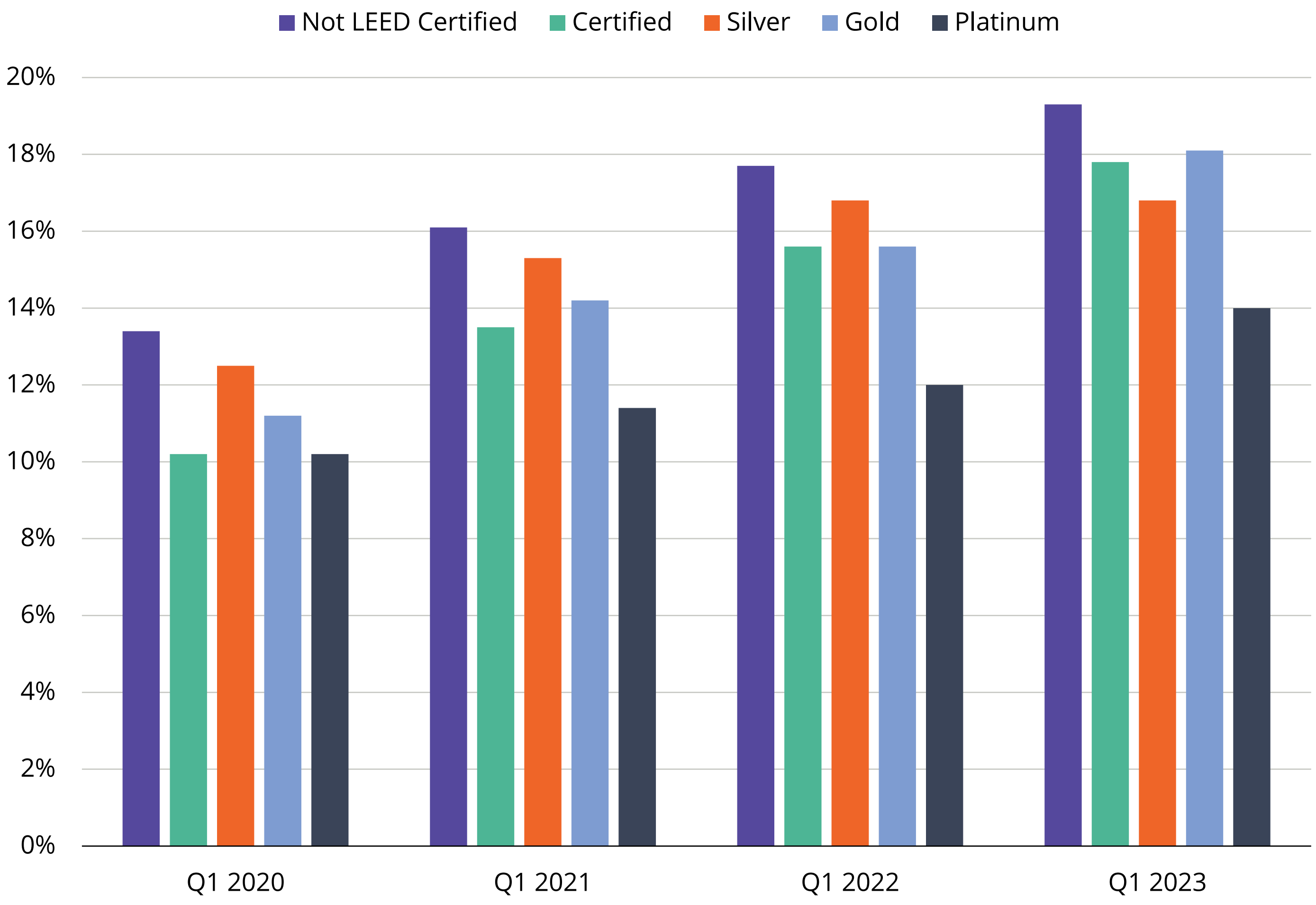
Vacancy rates by LEED certification



Note: Trophy and Class A properties only. Includes direct and sublease vacant spaces.
Source: AVANT by Avison Young, CoStar

Tenants have refocused on sustainability, especially in a supply-rich market. LEED Platinum offices have consistently outperformed peer properties.

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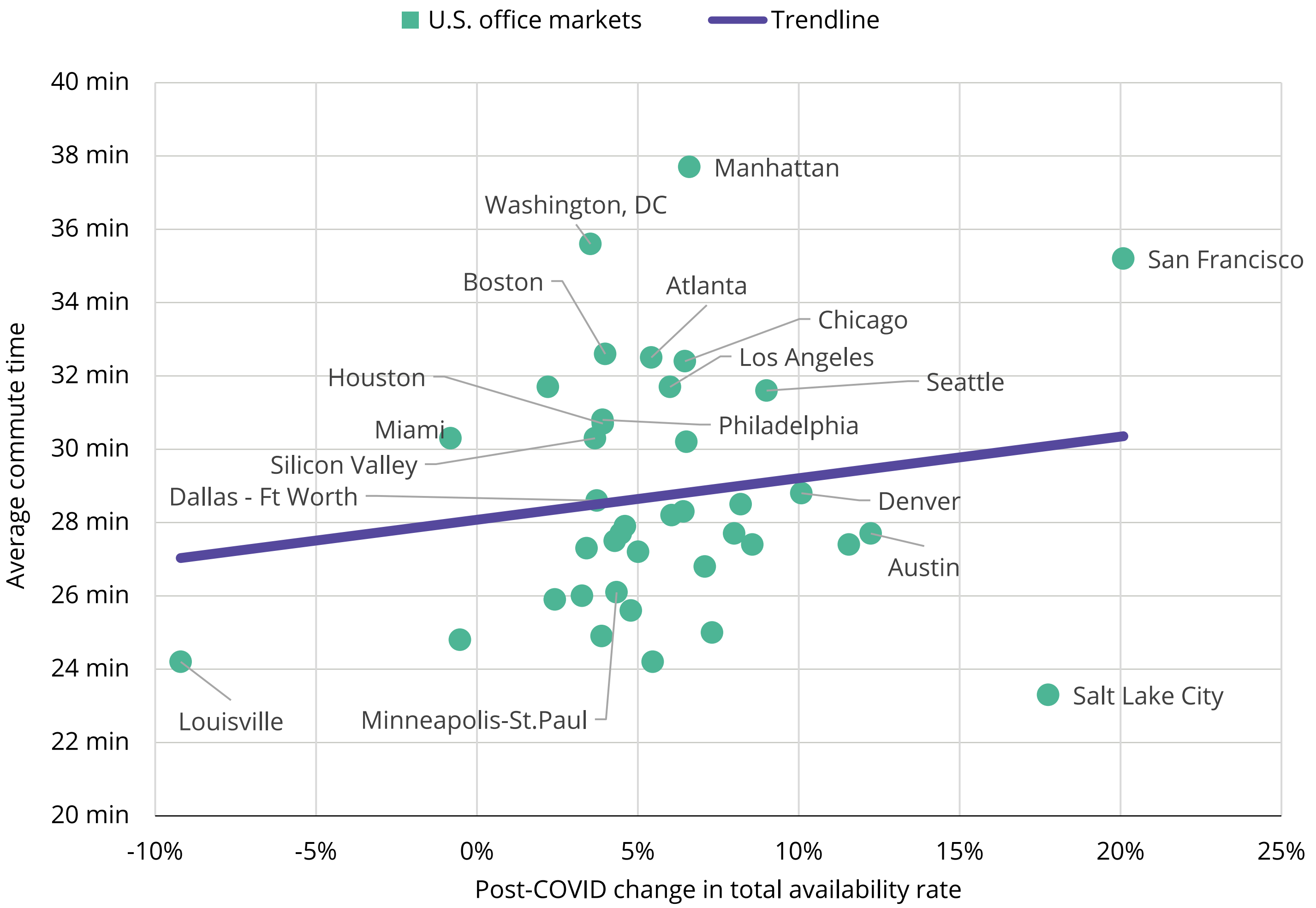
Commute times vs. change in availability



Note: Availability rate includes direct and sublet spaces
Source: AVANT by Avison Young, CoStar, Census

There is a limited correlation of .16 between commutability and office performance; office fundamentals have been influenced by other factors.

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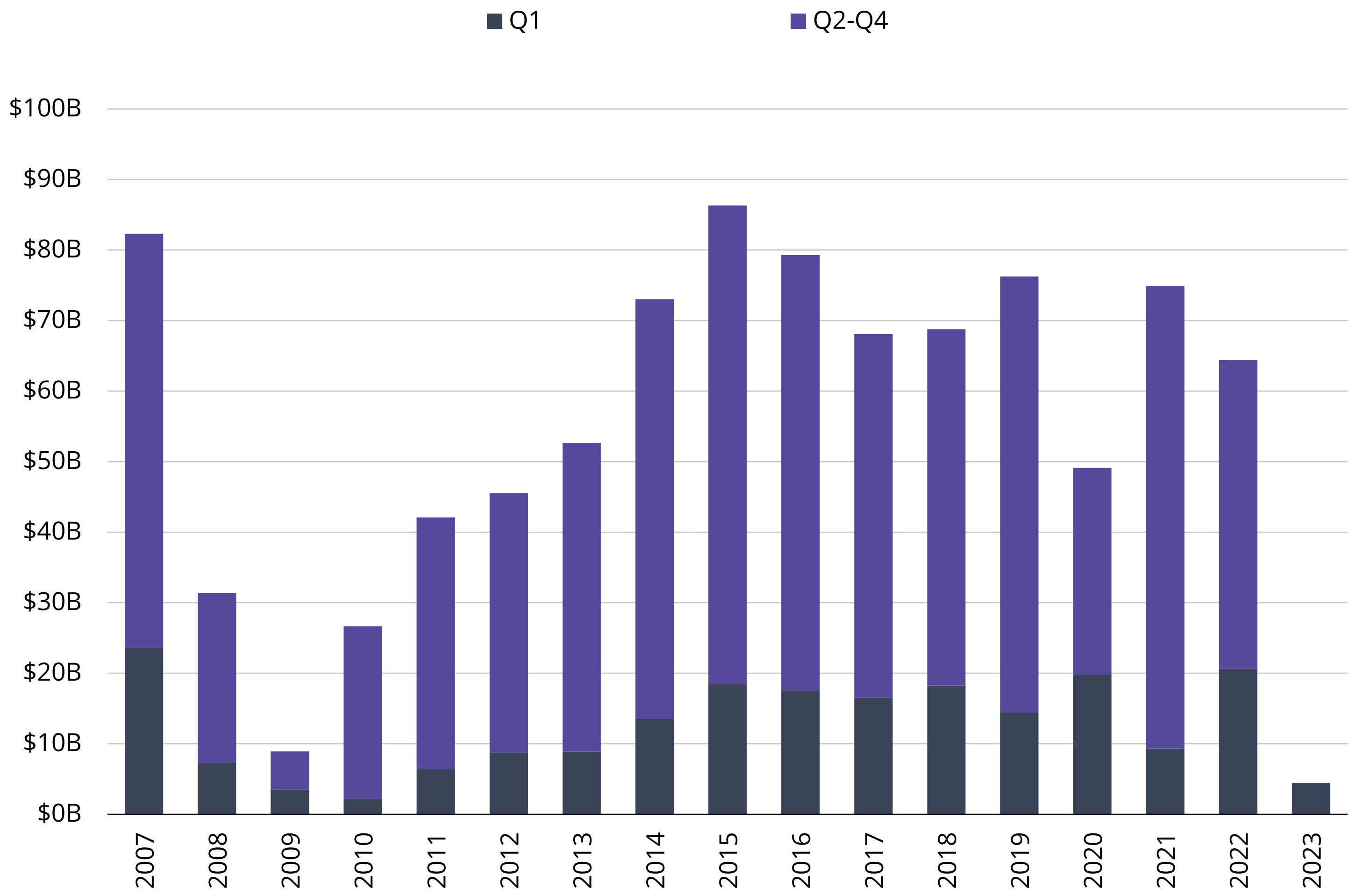
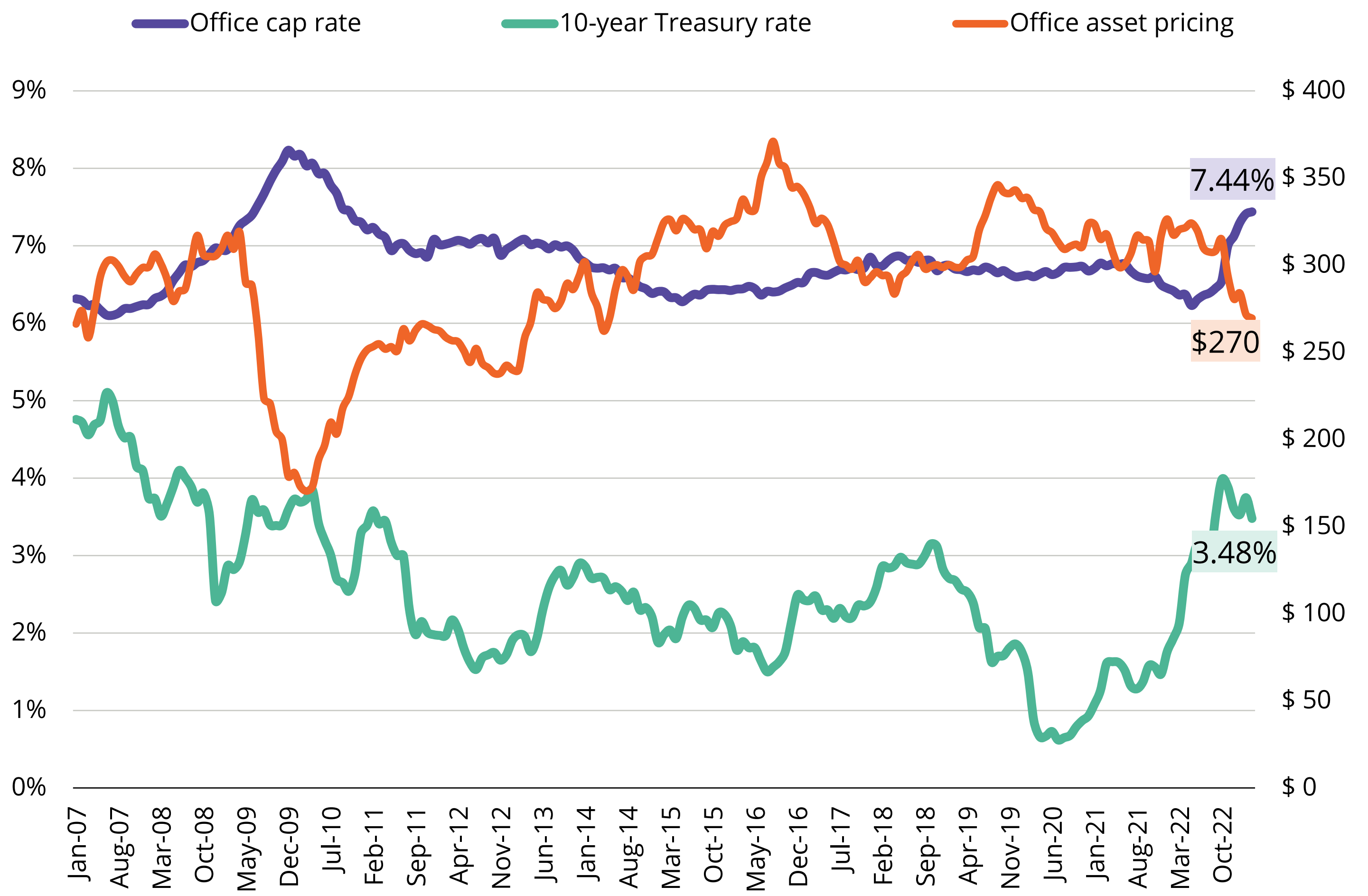
Office investment sales dollar volume



Source: AVANT by Avison Young, RCA

The office market has encountered mounting liquidity issues, with 2023 annual volume on pace to match the 2009 to 2010 average.

U.S. office cap rates vs. asset pricing



Source: AVANT by Avison Young, RCA, U.S. Department of the Treasury, Federal Reserve Bank of St. Louis

Office cap rates have widened by 107bp year-over-year, contributing to offices being devalued by 15.9%.

U.S. office market stats by market

Market	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct availability	Sublet availability	Total availability	Net absorption as a % of inventory (Q1 2023)	Direct asking rent psf FS
Atlanta	170,583,657	58,000	2,506,405	26.4%	4.5%	30.8%	(0.3%)	$31.43
Austin	70,054,965	657,139	5,548,735	22.1%	6.5%	28.1%	(1.2%)	$51.12
Boston	251,523,093	68,352	3,059,707	13.5%	3.9%	17.3%	(0.4%)	$49.95
Charleston	12,584,184	145,000	199,303	13.2%	2.1%	15.3%	0.8%	$33.09
Charlotte	76,710,978	328,780	3,381,340	19.0%	3.4%	22.3%	(0.4%)	$34.06
Chicago	327,382,860	0	2,288,333	23.0%	3.4%	26.3%	(1.0%)	$29.45
Cleveland	69,510,096	40,970	1,214,732	13.0%	1.0%	14.0%	(0.8%)	$20.85
Columbus	56,025,387	311,830	1,136,265	17.9%	3.5%	21.1%	0.4%	$30.56
Dallas - Ft Worth	229,183,868	955,970	6,347,557	25.8%	4.2%	29.9%	(0.9%)	$33.21
Denver	125,770,370	0	2,865,838	22.9%	5.8%	28.3%	(0.9%)	$36.01
Detroit	114,904,565	26,028	722,000	19.6%	2.0%	21.4%	(0.3%)	$31.76
East Bay - Oakland	72,112,163	0	34,905	17.9%	4.6%	22.3%	(0.4%)	$38.88
Fairfield County	41,447,326	0	217,024	21.3%	6.3%	27.6%	(0.4%)	$36.63
Fort Lauderdale	33,165,297	0	164,706	19.0%	2.6%	21.6%	(0.1%)	$38.30
Greenville	17,128,056	0	525,000	12.5%	2.2%	14.6%	0.3%	$24.77
Honolulu	21,855,194	0	65,000	8.7%	0.3%	8.9%	0.5%	$18.73
Houston	209,729,812	0	1,029,217	27.6%	3.6%	30.9%	0.0%	$32.42
Indianapolis	58,136,601	158,065	456,763	15.8%	1.9%	17.6%	(0.6%)	$21.48

Source: AVANT by Avison Young, CoStar

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U.S. office market stats by market

Market	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct availability	Sublet availability	Total availability	Net absorption as a % of inventory (Q1 2023)	Direct asking rent psf FS
Inland Empire	16,584,599	0	0	12.3%	1.2%	13.5%	(0.6%)	$28.56
Jacksonville	26,942,200	0	0	20.0%	2.4%	22.4%	0.1%	$22.38
Las Vegas	33,945,782	100,184	370,000	13.3%	1.6%	14.9%	(0.9%)	$28.00
Long Island	54,376,195	0	138,910	10.2%	2.1%	12.3%	(1.2%)	$28.27
Los Angeles	312,689,590	701,562	3,088,266	18.6%	3.5%	22.0%	(0.6%)	$43.33
Manhattan	514,538,968	0	3,985,838	15.0%	4.8%	19.7%	(0.9%)	$88.22
Miami	56,099,319	0	1,976,603	17.4%	1.4%	18.8%	0.6%	$57.34
Minneapolis-St.Paul	112,357,001	60,000	545,756	18.2%	3.5%	21.5%	(0.4%)	$28.49
Nashville	47,427,554	0	3,036,967	22.1%	4.5%	25.9%	(1.3%)	$32.51
New Jersey	254,148,552	0	501,787	15.3%	3.6%	18.6%	(0.4%)	$32.86
New York City Outer Boroughs	83,978,128	425,982	1,479,327	16.1%	2.0%	18.2%	0.9%	$42.23
Northern Virginia	159,280,441	0	4,911,907	21.9%	3.7%	25.5%	(1.0%)	$35.53
Ocala	1,426,316	0	0	12.4%	0.0%	12.4%	1.3%	$16.44
Orange County	110,447,496	258,395	0	17.3%	3.8%	21.1%	(1.3%)	$31.58
Orlando	39,788,605	0	704,801	17.4%	5.8%	22.3%	(0.7%)	$26.84
Philadelphia	221,883,210	0	1,378,267	15.4%	3.1%	18.3%	(0.5%)	$30.87
Phoenix	133,123,562	138,054	1,143,672	17.6%	5.2%	22.7%	0.0%	$30.70
Pittsburgh	81,011,249	0	172,000	16.5%	2.3%	18.7%	(0.4%)	$25.51

Source: AVANT by Avison Young, CoStar

U.S. office market stats by market

Market	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct availability	Sublet availability	Total availability	Net absorption as a % of inventory (Q1 2023)	Direct asking rent psf FS
Raleigh-Durham	59,197,230	280,000	2,654,486	18.3%	6.9%	25.1%	(1.1%)	$31.06
Sacramento	62,400,755	0	1,045,000	18.3%	2.6%	20.7%	(0.5%)	$25.41
Salt Lake City	1,914,503	0	0	25.3%	6.7%	32.0%	1.0%	$26.58
San Diego	74,975,532	0	1,136,502	16.4%	3.1%	19.2%	(0.1%)	$38.36
San Francisco	91,372,033	300,000	404,618	24.4%	9.2%	33.2%	(0.9%)	$72.51
San Francisco Peninsula	39,398,766	154,000	810,450	11.9%	4.5%	15.9%	0.0%	$66.81
Silicon Valley	111,852,560	1,300,199	6,772,679	15.4%	5.1%	20.1%	0.7%	$52.63
Suburban Maryland	77,011,528	0	1,220,400	19.1%	2.1%	21.2%	(0.3%)	$31.61
Tampa	46,750,258	75,000	131,955	18.5%	6.2%	24.0%	(0.1%)	$30.39
Washington, DC	149,424,486	0	1,355,966	18.6%	2.4%	21.0%	(0.5%)	$58.14
West Palm Beach	28,245,873	0	765,010	14.6%	2.6%	17.1%	(0.6%)	$49.05

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 as a % of inventory (Q1 2023)	Direct asking rent psf FS
Trophy	346,396,986	595,520	26,841,248	17.0%	4.5%	21.5%	(0.8%)	$79.14
Class A	2,411,496,382	5,584,953	54,153,408	20.9%	4.8%	25.7%	(0.5%)	$40.65
Class B	2,258,634,476	1,128,483	4,692,307	17.4%	2.9%	20.3%	(0.5%)	$33.43
Class C	549,320,968	21,391	40,000	10.9%	1.0%	11.9%	(0.3%)	$31.28
Total	**5,565,848,812**	**7,330,347**	**85,726,963**	**18.3%**	**3.7%**	**22.1%**	**(0.5%)**	**$40.15**

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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