

OFFICE OVERVIEW: POSITIVE DEMAND RETURNS

The nation's office market posted positive net absorption in the third quarter. It was the first quarter of growth since the pandemic hit. The tenant expansion came despite spiking Covid Delta infections that began in early July, renewing employer caution over office re-opening plans.

Net absorption totaled 11,792,287 SF in the third quarter. But over the previous 18 months negative absorption totaled 131 million SF, which accounts for 1.6% of the 8.2-billion-SF inventory. It also is equal to two years of growth in a strong pre-Covid economy, during which the five-year absorption average was 65.5 million SF per year. Construction starts since the lockdown are less than 15 million SF. But over the last two years 92 million SF emerged from the construction pipeline. The new space represents 1.2% of total inventory.

Markets with the most supply underway were Austin, San Jose, San Francisco and Seattle. Nashville, Charlotte and Miami are among Sun Belt metros set to add significant space, much of which has not been pre-leased. This adds to concern in markets where sublease space is at record levels.

Trailing-year rent losses currently are greatest in tech markets San Francisco, Seattle, Austin and San Jose. Falling rent is also pronounced in New York City, Los Angeles, Chicago, Washington, D.C., and many California markets. Markets maintaining positive rent growth include Las Vegas, the Inland Empire, Memphis, Raleigh, Charlotte, San Antonio and virtually all Florida markets. In light of the long-term effects remote working could have on office demand and in view of the record volume of space vacated since Q1 of last year, a rebound to pre-pandemic effective rent levels could take years to achieve.

As for tenant growth, there was a hint at mid-year that a reversal was in the offing as occupancy losses began to moderate while vaccine distribution ramped up. Net absorption improved from negative 54.4 million SF in Q1, to negative 12.2 million SF at the end of Q2.

Prior to the rise of the Delta variant in July, most companies were planning to re-open offices by Labor Day and typical office-using job sectors were projected to regain their pre-pandemic peak by the end of the year. Although the number of workers returning to offices has been edging higher lately - with BlackRock Inc, Whirlpool Corp. and Lions Gate Entertainment Corp announcing return dates in early November - many companies have postponed reopening until early 2022 out of concern for employee safety.

Tech leads in embracing the change to remote-based work even though its adoption varies widely. Salesforce said at least half of its employees are to remain working from home, and Facebook is relaxing its in-office policy. Apple's home-office hybrid plan is getting pushback from employees.

LOWEST VACANCY RATE		HIGHEST MARKET RENT / SF ANNUAL		HIGHEST MARKET SALE PRICE / SF	
ON, Toronto	6.7%	NY, New York *	\$56.72	NY, New York *	\$663
MO, Saint Louis	8.2%	MA, Boston	\$41.28	BC, Vancouver	\$546
FL, Orlando	8.2%	CA, Los Angeles	\$41.21	WA, Seattle	\$495
OH, Cleveland	8.2%	FL, Miami	\$39.88	MA, Boston	\$456
IN, Indianapolis	9.1%	CA, East Bay	\$38.67	CA, Los Angeles	\$434
U.S. Index	12.2%	U.S. Index	\$34.32 PSF	U.S. Index	\$323 PSF
Canada Index	7.4%	Canada Index	\$27.92 PSF	Canada Index	\$305 PSF

MOST SF UNDER CONSTRUCTION		LARGEST INVENTORY BY SF		LOWEST MARKET CAP RATE	
NY, New York *	23,308,693	NY, New York *	960,244,795	BC, Vancouver	3.6%
MA, Boston	14,218,979	DC, Washington	510,509,743	ON, Toronto	5.3%
ON, Toronto	13,590,493	IL, Chicago	506,435,700	NY, New York *	5.4%
WA, Seattle	10,267,525	CA, Los Angeles	430,103,847	CA, Los Angeles	5.6%
DC, Washington	9,608,760	TX, Dallas-Fort Worth	409,028,693	WA, Seattle	5.6%
U.S. Index	140,626,211 SF	U.S. Index	8,206,905,006 SF	U.S. Index	7.0%
Canada Index	24,346,703 SF	Canada Index	662,347,635 SF	Canada Index	6.2%

* Please note that the statistics represented in these tables are based on CoStar defined market territories and may not all represent the geographic area the label depicts.

MARKET	VACANCY RATE	MARKET RENT / SF	MARKET SALE PRICE / SF	SF UNDER CONSTRUCTION	INVENTORY SF	MARKET CAP RATE
AZ, Phoenix	14.3%	\$26.46	\$217	1,811,140	193,701,390	7.2%
BC, Vancouver	3.7%	\$34.97	\$546	8,360,013	94,744,224	3.6%
CA, East Bay	12.7%	\$38.67	\$344	260,810	115,604,648	5.8%
CA, Inland Empire	6.8%	\$23.33	\$207	194,601	76,798,371	7.2%
CA, Los Angeles	13.6%	\$41.21	\$434	6,174,495	430,103,847	5.6%
CA, Orange County	12.0%	\$31.37	\$313	1,074,633	159,292,400	6.1%
CA, San Diego	11.7%	\$35.41	\$351	2,381,278	118,687,194	6.2%
CA, San Luis Obispo	4.0%	\$27.05	\$265	63,000	6,473,587	7.2%
CA, Santa Barbara	5.4%	\$28.72	\$352	20,000	12,839,431	6.1%
CA, Stockton	4.9%	\$20.18	\$187	0	12,837,181	7.6%
CA, Ventura	12.1%	\$27.01	\$230	0	22,024,404	7.5%
CO, Denver	14.3%	\$28.34	\$240	1,260,614	181,289,736	7.1%
DC, Washington	15.0%	\$38.59	\$360	9,608,760	510,509,743	7.0%
FL, Fort Myers	5.0%	\$20.26	\$160	430,786	21,102,221	7.7%
FL, Miami	10.4%	\$39.88	\$339	3,545,590	109,103,887	6.1%
FL, Naples	7.7%	\$29.11	\$241	194,060	9,848,336	7.3%
FL, Orlando	8.2%	\$25.42	\$186	588,219	101,159,321	7.7%
GA, Atlanta	13.7%	\$26.92	\$210	4,734,398	329,614,414	7.2%
ID, Boise	4.9%	\$19.32	\$154	100,451	32,990,127	8.6%
IL, Chicago	14.6%	\$29.24	\$222	3,981,568	506,435,700	7.4%
IN, Indianapolis	9.1%	\$20.12	\$130	361,515	107,687,623	8.5%
MA, Boston	9.8%	\$41.28	\$456	14,218,979	356,086,829	6.0%
MD, Baltimore	11.0%	\$23.62	\$177	695,288	151,112,319	7.9%
MI, Detroit	11.7%	\$21.33	\$119	2,388,868	198,285,991	9.3%
MN, Minneapolis	9.8%	\$25.70	\$163	1,430,616	202,159,821	7.7%
MO, Saint Louis	8.2%	\$20.95	\$122	2,660,813	145,734,070	8.7%
NC, Durham	9.4%	\$25.58	\$237	789,732	35,348,854	7.1%
NC, Raleigh	8.7%	\$27.40	\$224	1,646,507	76,583,807	7.2%
NJ, Atlantic City	9.0%	\$22.87	\$145	0	7,202,053	8.9%
NJ, Northern New Jersey *	13.9%	\$26.50	\$181	610,558	153,499,657	8.1%
NJ, Trenton	8.9%	\$28.91	\$183	0	32,110,688	8.3%
United States Index	12.2%	\$34.32	\$323	140,626,211	8,206,905,006	7.0%
Canada Index	7.4%	\$27.92	\$305	24,346,703	662,347,635	6.2%

MARKET	VACANCY RATE	MARKET RENT / SF	MARKET SALE PRICE / SF	SF UNDER CONSTRUCTION	INVENTORY SF	MARKET CAP RATE
NJ, Vineland	6.4%	\$18.17	\$115	0	2,511,099	8.9%
NV, Reno	8.0%	\$23.07	\$188	277,021	16,886,699	7.9%
NY, Long Island	8.0%	\$29.35	\$196	159,512	98,037,052	7.9%
NY, New York *	11.6%	\$56.72	\$663	23,308,693	960,244,795	5.4%
OH, Cincinnati	9.8%	\$19.94	\$110	832,791	105,127,632	9.3%
OH, Cleveland	8.2%	\$19.16	\$107	370,940	106,613,165	9.6%
OH, Columbus	9.9%	\$21.16	\$122	1,529,699	112,252,813	8.6%
ON, Toronto	6.7%	\$30.55	\$345	13,590,493	280,325,437	5.3%
PA, Harrisburg	8.6%	\$17.72	\$126	454,990	36,292,398	9.3%
PA, Lehigh Valley *	9.2%	\$19.91	\$129	1,020,473	30,202,784	9.3%
PA, Philadelphia *	10.3%	\$26.75	\$192	3,453,452	322,041,331	7.9%
SC, Charleston	8.9%	\$28.30	\$204	509,711	32,734,666	7.9%
SC, Greenville	8.8%	\$20.48	\$155	903,725	34,115,856	8.0%
SC, Spartanburg	6.9%	\$18.19	\$128	43,540	7,560,833	9.1%
TN, Nashville	9.9%	\$28.64	\$231	3,204,710	98,235,481	7.0%
TX, Dallas-Fort Worth	17.8%	\$27.84	\$215	7,135,906	409,028,693	7.1%
TX, Houston	19.1%	\$28.44	\$212	5,582,052	343,068,661	7.8%
WA, Seattle	9.6%	\$38.13	\$495	10,267,525	219,677,666	5.6%
WI, Madison	6.2%	\$21.60	\$140	251,536	36,258,179	8.8%
United States Index	12.2%	\$34.32	\$323	140,626,211	8,206,905,006	7.0%
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