

OFFICE OVERVIEW: DEMAND IMPROVES IN THE FOURTH QUARTER

Tenant demand continued for the second straight quarter to close out 2021, as employers grew increasingly confident that vaccines and safety protocols have dramatically reduced the risk of reopening the workplace.

There were 15.1 million SF of net absorption in Q4, which reduced the negative total for the year to 39.8 million SF. In 2020, office net absorption was 74.5 million SF in the red. But the glut of vacant direct and sublet space, virtually frozen rents, leasing volume below pre-pandemic levels, new space emerging from the pipeline and widespread hybrid work setups all combine to make the timing of a full office recovery difficult to predict.

The volume of new space coming out of the national pipeline has slowed since the first half of 2021, but there still is plenty of spec product underway. About 144 million SF are under construction – about 60% of which is pre-leased – compared to 160 million SF underway prior to the lockdown. Unsurprisingly, groundbreakings are off about 35% since Covid hit, averaging 13 million SF per quarter.

Markets with the most new construction on a percentage basis include tech centers San Jose, Austin and Seattle. Other construction leaders include life sciences hub Boston and Sun Belt metros such as Miami, Nashville and Charlotte, where demand exceeds the national average. Construction activity has cooled in New York City, Washington, D.C., and San Francisco, but the perennial leading metros still have plenty of new supply underway.

The volume of sublet space remains near 200 million SF, a record high. Second-hand space accounted for 12% of leasing activity in Q3, well above the pre-pandemic average of 8%.

It's likely that office-using companies will continue to reassess their physical footprints as leases roll over. Many office users have committed to large physical space expansions despite delaying return-to-office mandates. Microsoft, Google, Apple, Oracle and others are making large capital investments in office space across the country. Additionally, office employment has rebounded quicker than the average for all job sectors. But even under a rosy scenario, it will take years to work through all space that's hit the market since early 2020.

Sales volume picked up in the second half of 2021 and was in line with the market's pre-pandemic quarterly average. Cap rates have remained stable over the last several quarters and average pricing generally has flattened out. Some assets in the hardest hit markets have sold at slight discounts. Generally, rent collections remain strong and well-capitalized institutional owners reduce the opportunities for distressed asset sales.

Buyers have shown a willingness to pay top dollar for premium assets leased to credit tenants. KKR, in partnership with Urban Renaissance Group, acquired 300 Pine Street in Seattle, which is fully leased to Amazon, for \$753 per SF at a 4.3% cap rate.

LOWEST VACANCY RATE		HIGHEST MARKET RENT / SF ANNUAL		HIGHEST MARKET SALE PRICE / SF	
ON, Toronto	7.5%	NY, New York*	\$56.64	NY, New York*	\$678
OH, Cleveland	8.0%	CA, Los Angeles	\$41.38	BC, Vancouver	\$549
FL, Orlando	8.3%	MA, Boston	\$40.89	WA, Seattle	\$503
IN, Indianapolis	8.8%	FL, Miami	\$40.73	MA, Boston	\$460
MO, Saint Louis	8.9%	CA, East Bay	\$38.94	CA, Los Angeles	\$450
U.S. Index	12.3%	U.S. Index	\$34.40 PSF	U.S. Index	\$328 PSF
Canada Index	8.4%	Canada Index	\$27.75 PSF	Canada Index	\$307 PSF

MOST SF UNDER CONSTRUCTION		LARGEST INVENTORY BY SF		LOWEST MARKET CAP RATE	
NY, New York*	22,337,992	NY, New York*	964,301,328	BC, Vancouver	3.7%
MA, Boston	16,222,657	DC, Washington	512,236,442	NY, New York*	5.4%
ON, Toronto	13,754,654	IL, Chicago	507,217,104	ON, Toronto	5.4%
DC, Washington	10,482,678	CA, Los Angeles	431,488,806	CA, Los Angeles	5.5%
WA, Seattle	10,282,322	TX, Dallas-Fort Worth	408,781,956	WA, Seattle	5.6%
U.S. Index	143,622,417 SF	U.S. Index	8,240,066,021 SF	U.S. Index	7.0%
Canada Index	24,301,678 SF	Canada Index	666,724,137 SF	Canada Index	6.3%

* 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	14.1%	\$26.80	\$225	1,686,002	193,800,317	7.1%
BC, Vancouver	4.1%	\$35.00	\$549	7,931,838	95,014,603	3.7%
CA, East Bay	12.1%	\$38.94	\$349	368,641	115,753,987	5.8%
CA, Inland Empire	6.5%	\$23.38	\$207	217,396	76,847,201	7.2%
CA, Los Angeles	13.7%	\$41.38	\$450	5,756,365	431,488,806	5.5%
CA, Orange County	11.9%	\$31.25	\$320	1,084,765	159,382,726	6.0%
CA, San Diego	11.5%	\$35.94	\$351	3,913,027	119,025,472	6.2%
CA, San Luis Obispo	3.9%	\$27.19	\$268	63,000	6,473,654	7.2%
CA, Santa Barbara	5.3%	\$29.52	\$356	24,720	12,858,857	6.1%
CA, Stockton	5.0%	\$20.78	\$189	8,626	12,927,238	7.6%
CA, Ventura	10.9%	\$27.32	\$239	0	21,930,406	7.4%
CO, Denver	14.6%	\$28.60	\$248	1,429,816	180,997,434	7.0%
DC, Washington	15.2%	\$38.79	\$359	10,482,678	512,236,442	7.1%
FL, Fort Myers	4.6%	\$20.66	\$156	325,086	21,262,973	7.9%
FL, Miami	10.5%	\$40.73	\$340	2,782,747	110,414,060	6.1%
FL, Naples	6.9%	\$29.46	\$251	98,360	9,956,969	7.2%
FL, Orlando	8.3%	\$25.73	\$194	1,015,375	102,265,027	7.6%
GA, Atlanta	14.1%	\$26.98	\$215	4,817,658	332,197,375	7.2%
GA, Savannah	2.7%	\$21.39	\$177	32,800	12,212,504	8.6%
ID, Boise	4.4%	\$19.48	\$155	113,065	33,330,797	8.6%
IL, Chicago	14.8%	\$29.36	\$221	4,373,986	507,217,104	7.4%
IN, Indianapolis	8.8%	\$20.25	\$131	217,521	107,768,047	8.5%
MA, Boston	10.0%	\$40.89	\$460	16,222,657	359,162,479	5.9%
MD, Baltimore	11.3%	\$23.69	\$174	931,264	151,056,519	8.0%
MI, Detroit	11.8%	\$21.31	\$119	2,527,204	197,950,371	9.3%
MN, Minneapolis	9.8%	\$25.64	\$166	1,843,285	202,912,834	7.7%
MO, Saint Louis	8.9%	\$21.05	\$120	2,238,465	146,615,862	8.9%
NC, Durham	9.5%	\$25.42	\$246	797,642	35,374,358	7.0%
NC, Raleigh	8.5%	\$27.68	\$239	2,023,598	76,922,881	7.0%
NJ, Atlantic City	7.4%	\$23.03	\$147	0	7,190,608	8.9%
NJ, Northern New Jersey *	13.6%	\$26.68	\$181	639,414	154,239,489	8.2%
United States Index	12.3%	\$34.40	\$328	143,622,417	8,240,066,021	7.0%
Canada Index	8.4%	\$27.75	\$307	24,301,678	666,724,137	6.3%

MARKET	VACANCY RATE	MARKET RENT / SF	MARKET SALE PRICE / SF	SF UNDER CONSTRUCTION	INVENTORY SF	MARKET CAP RATE
NJ, Trenton	8.3%	\$28.30	\$184	0	32,441,931	8.3%
NJ, Vineland	5.1%	\$17.94	\$124	0	2,509,593	8.6%
NV, Reno	8.5%	\$23.47	\$189	64,707	17,219,150	7.9%
NY, Long Island	7.5%	\$29.50	\$195	159,512	98,531,976	8.0%
NY, New York *	11.9%	\$56.64	\$678	22,337,992	964,301,328	5.4%
OH, Cincinnati	10.1%	\$19.88	\$111	775,891	104,575,525	9.3%
OH, Cleveland	8.0%	\$19.17	\$105	1,465,607	107,355,135	9.8%
OH, Columbus	9.6%	\$21.16	\$121	1,709,942	113,055,842	8.7%
ON, Toronto	7.5%	\$30.26	\$344	13,754,654	282,499,695	5.4%
PA, Harrisburg	8.8%	\$17.60	\$127	381,534	36,558,669	9.3%
PA, Lehigh Valley *	9.4%	\$19.91	\$132	1,022,273	30,339,343	9.2%
PA, Philadelphia *	10.3%	\$26.87	\$195	2,960,884	322,154,819	7.8%
SC, Charleston	8.9%	\$28.54	\$211	672,482	32,755,008	7.8%
SC, Greenville	7.9%	\$20.21	\$171	965,980	34,089,792	7.7%
SC, Spartanburg	5.8%	\$18.36	\$132	43,540	7,566,501	9.1%
TN, Nashville	10.2%	\$28.94	\$231	3,542,808	100,047,016	7.0%
TX, Dallas-Fort Worth	17.8%	\$28.06	\$225	7,783,387	408,781,956	7.0%
TX, Houston	19.1%	\$28.34	\$216	4,964,126	347,697,089	7.8%
WA, Seattle	9.7%	\$38.25	\$503	10,282,322	221,177,430	5.6%
WI, Madison	6.1%	\$21.85	\$140	505,400	37,435,614	8.9%
United States Index	12.3%	\$34.40	\$328	143,622,417	8,240,066,021	7.0%
Canada Index	8.4%	\$27.75	\$307	24,301,678	666,724,137	6.3%

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