

## OFFICE OVERVIEW: AWAITING 'RETURN TO OFFICE,' RECOVERY

After posting two straight quarters of modest growth and showing early signs of a recovery, the United States office market slipped into neutral in the first quarter and the national vacancy rate ticked up slightly to 12.3%, the highest since 2011. Tenants shed 468,602 SF in Q1 following net absorption gains of nearly 27 million SF in the second half of 2021, which ended the year 42.4 million SF in the red. Even though leasing activity has improved, it remains below the quarterly average of about 115 million SF prior to the lockdown. Rent growth has been nil. Gains will have to wait until positive net absorption returns along with reductions of sublease space, which totals nearly 200 million SF. Although the supply pipeline has slowed somewhat, there still is plenty of spec product under construction with 40% of the 142-million-SF pipeline listed as unleased. Among markets with the most supply underway are tech centers such as Boston, San Jose, Austin and Seattle.

In Canada, net absorption was negative 863,133 SF in Q1. It was in the red 3.1 million SF in 2021, but the nationwide vacancy rate remains in single digits. An increase of about 150 basis points pushing the vacancy rate to nearly 10% in the next 18 months is forecast as 23 million SF of new space is delivered. About 80% of the new construction is in Toronto and Vancouver, adding 4.7% and 8.3% respectively to inventories in each market.

With Covid-19 vaccines readily available and serious infection rates mercifully reduced, corporate America appears determined to adhere to "return to office" plans. Most return mandates were set to fully take effect in the second quarter, which is being met in some cities with indoor mask measures against BA.2, the emerging subvariant of Omicron. One of the first reported workplace Covid-19 studies was completed recently in Houston, where 85% of businesses have brought employees back to their desks. Under hybrid work arrangements employees are at the office less often, 10.7 days a month compared to 17 days a month before the pandemic, according to the survey by Central Houston, Inc., an association of downtown landlords, businesses and residents.

Texas was selected for a similar study by security company Kastle Systems, which found that, because of the state's low reliance on public transit and decisions keeping public schools open during most of the pandemic, more Texas workers have returned to the office than in other states. According to Kastle's card-swipe security data, Dallas, Houston and Austin had office return rates of 51%, 52% and 58% respectively in mid-March. The average return rate for office workers in 10 large cities Kastle surveyed was 41%, up from 28% in late January. U.S. building sales rebounded in the second half of 2021, final year-end reports show, with trophy assets leased to credit tenants continuing to trade at top dollar. Moreover, despite zero rent growth and high vacancy there are few office properties showing up as distress sales.

LOWEST VACANCY RATE		HIGHEST MARKET RENT / SF ANNUAL		HIGHEST MARKET SALE PRICE / SF	
ID, Boise	4.2%	CA, San Francisco	\$62.18	CA, San Francisco	\$779
FL, Fort Myers	4.4%	NY, New York	\$57.00	NY, New York	\$653
BC, Vancouver	4.8%	CA, Los Angeles	\$41.55	BC, Vancouver	\$553
CA, Stockton	4.8%	FL, Miami	\$41.48	WA, Seattle	\$505
CA, Santa Barbara	5.8%	MA, Boston	\$41.08	MA, Boston	\$478
<b>U.S. Index</b>	12.3%	<b>U.S. Index</b>	\$34.60 PSF	<b>U.S. Index</b>	\$329 PSF
<b>Canada Index</b>	8.6%	<b>Canada Index</b>	\$28.11 PSF	<b>Canada Index</b>	\$302 PSF

  

MOST SF UNDER CONSTRUCTION		LARGEST INVENTORY BY SF		LOWEST MARKET CAP RATE	
NY, New York	21,406,745	NY, New York	966,243,069	BC, Vancouver	3.7%
MA, Boston	14,965,302	DC, Washington	513,956,371	CA, San Francisco	4.7%
ON, Toronto	12,435,080	IL, Chicago	507,089,748	NY, New York	5.4%
WA, Seattle	11,050,810	CA, Los Angeles	431,860,643	CA, Los Angeles	5.5%
DC, Washington	8,951,483	TX, Dallas-Fort Worth	411,000,936	ON, Toronto	5.5%
<b>U.S. Index</b>	142,049,283 SF	<b>U.S. Index</b>	8,256,916,700 SF	<b>U.S. Index</b>	7.0%
<b>Canada Index</b>	21,512,373 SF	<b>Canada Index</b>	672,204,854 SF	<b>Canada Index</b>	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	14.3%	\$27.06	\$224	1,599,913	193,422,795	7.2%
BC, Vancouver	4.8%	\$35.65	\$553	6,735,453	96,494,272	3.7%
CA, East Bay	12.4%	\$39.41	\$354	360,955	115,552,977	5.8%
CA, Inland Empire	6.4%	\$23.70	\$216	406,859	76,858,991	7.1%
CA, Los Angeles	13.8%	\$41.55	\$455	4,809,021	431,860,643	5.5%
CA, Orange County	12.0%	\$31.28	\$322	1,279,713	159,323,534	6.0%
CA, San Diego	11.4%	\$37.01	\$359	4,142,961	119,195,952	6.2%
CA, San Francisco	14.0%	\$62.18	\$779	2,599,938	187,260,666	4.7%
CA, San Luis Obispo	3.7%	\$27.46	\$264	0	6,482,594	7.2%
CA, Santa Barbara	5.8%	\$30.25	\$353	24,720	12,860,560	6.2%
CA, Stockton	4.8%	\$21.47	\$194	0	12,949,392	7.4%
CA, Ventura	10.8%	\$27.47	\$247	0	21,942,732	7.3%
CO, Denver	14.2%	\$28.73	\$244	1,252,295	181,553,577	7.1%
DC, Washington	15.2%	\$38.68	\$363	8,951,483	513,956,371	7.1%
FL, Fort Myers	4.4%	\$20.83	\$159	362,328	21,311,479	7.8%
FL, Miami	10.3%	\$41.48	\$373	3,331,136	109,509,955	5.9%
FL, Naples	7.0%	\$29.79	\$252	80,837	9,954,766	7.1%
FL, Orlando	7.8%	\$26.02	\$196	1,434,349	101,985,663	7.6%
GA, Atlanta	13.9%	\$27.09	\$218	5,780,313	332,503,465	7.2%
ID, Boise	4.2%	\$19.72	\$159	246,035	33,385,634	8.6%
IL, Chicago	15.2%	\$29.41	\$221	2,211,432	507,089,748	7.5%
IN, Indianapolis	8.8%	\$20.23	\$130	213,816	109,095,365	8.6%
MA, Boston	9.7%	\$41.08	\$478	14,965,302	363,009,541	5.9%
MD, Baltimore	11.2%	\$23.84	\$173	829,045	151,338,258	8.1%
MI, Detroit	11.8%	\$21.19	\$122	2,197,190	197,839,411	9.2%
MN, Minneapolis	10.2%	\$26.15	\$173	1,229,192	202,602,449	7.6%
MO, Saint Louis	9.1%	\$21.20	\$133	2,219,085	146,927,512	8.5%
NC, Durham	9.9%	\$25.94	\$239	411,757	35,833,811	7.2%
NC, Raleigh	8.2%	\$28.08	\$237	2,076,926	76,917,098	7.0%
NE, Omaha	9.0%	\$22.98	\$143	420,098	47,365,912	9.0%
NJ, Atlantic City	7.4%	\$22.49	\$150	0	7,200,242	8.9%
United States Index	12.3%	\$34.60	\$329	142,049,283	8,256,916,700	7.0%
Canada Index	8.6%	\$28.11	\$302	21,512,373	672,204,854	6.3%

MARKET	VACANCY RATE	MARKET RENT / SF	MARKET SALE PRICE / SF	SF UNDER CONSTRUCTION	INVENTORY SF	MARKET CAP RATE
<b>NJ, Northern New Jersey *</b>	13.2%	\$26.74	\$198	636,726	152,752,637	8.0%
<b>NJ, Trenton</b>	8.4%	\$28.37	\$195	0	32,199,280	8.1%
<b>NJ, Vineland</b>	6.4%	\$18.09	\$114	0	2,513,663	9.0%
<b>NV, Reno</b>	8.9%	\$23.70	\$199	51,081	17,315,468	7.8%
<b>NY, Long Island</b>	7.4%	\$29.48	\$200	159,512	98,734,315	7.9%
<b>NY, New York *</b>	11.9%	\$57.00	\$653	21,406,745	966,243,069	5.4%
<b>OH, Cincinnati</b>	10.4%	\$19.75	\$110	664,484	104,238,578	9.3%
<b>OH, Cleveland</b>	8.0%	\$19.34	\$105	2,700,507	107,819,757	9.8%
<b>OH, Columbus</b>	9.4%	\$21.19	\$127	1,740,620	113,863,411	8.5%
<b>ON, Toronto</b>	8.2%	\$30.51	\$334	12,435,080	286,054,207	5.5%
<b>PA, Harrisburg</b>	8.6%	\$17.94	\$133	239,534	36,625,441	9.2%
<b>PA, Lehigh Valley *</b>	9.0%	\$19.99	\$130	1,022,273	30,465,705	9.4%
<b>PA, Philadelphia *</b>	10.4%	\$26.81	\$191	2,619,373	322,158,481	8.0%
<b>SC, Charleston</b>	8.2%	\$28.88	\$211	569,634	32,615,305	7.8%
<b>SC, Greenville</b>	7.5%	\$20.55	\$154	758,257	34,285,715	8.0%
<b>SC, Spartanburg</b>	4.4%	\$19.05	\$126	81,200	7,604,025	9.2%
<b>TN, Nashville</b>	10.7%	\$28.81	\$236	4,065,074	100,619,489	7.0%
<b>TX, Dallas-Fort Worth</b>	17.6%	\$28.21	\$233	7,482,654	411,000,936	7.0%
<b>TX, Houston</b>	18.9%	\$28.50	\$214	3,570,560	350,919,283	7.9%
<b>WA, Seattle</b>	9.9%	\$38.39	\$505	11,050,810	221,665,177	5.6%
<b>WI, Madison</b>	5.9%	\$22.05	\$140	343,000	37,724,226	8.9%
<b>United States Index</b>	12.3%	\$34.60	\$329	142,049,283	8,256,916,700	7.0%
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