

## OFFICE OVERVIEW: DEMAND FALLS; VACANCIES, SUBLETS CLIMB

Demand for North American office space weakened in the second quarter with net absorption slipping into negative territory and vacancies hitting their highest levels in a decade as companies continue to assess workplace schedules and real estate needs. Although the 8.3-billion-SF U.S. market closed out the second half of 2021 with a strong 27 million SF of positive net absorption, demand went flat in January. Tenants shed 1.5 million SF of space in the first half with 992,701 SF of negative absorption coming in Q2. The overall vacancy rate settled at 12.4%.

Across Canada, leasing volumes are below their long-term averages heading into the summer. Demand is strongest in Vancouver and other West Coast cities. About 3 million SF under construction in each Toronto and Vancouver are set for completion by 2024. Approximately 75% of the space is preleased.

After stabilizing in the second half of 2021, sublease availability in the U.S. has moved higher, setting a record at 214 million SF. Available second-hand space is up more than 50% in Salt Lake City, more than 40% in Cincinnati and more than 30% in Tampa, Minneapolis, San Antonio and Orange County, California. In San Francisco, sublease inventory totals more than 9.6 million SF, more than half of which still is occupied, representing 2.5% of inventory, double the national average.

The effects of Covid continues to alter the office landscape. Utilization is at a fraction of pre-pandemic levels. One of the largest conversions of the pandemic, a nearly empty 30-story office building at 55 Broad Street in Manhattan's financial district is being turned into 571 apartments. Suburban office parks - initially thought to be a healthier alternative to subways, elevators and lunch counters in urban settings - also are posting high vacancies. With 75% of its employees working remotely, Allstate agreed to sell its headquarters campus of 55 years in the leafy Chicago suburb of Northbrook for \$232 million. Dermody Properties plans to redevelop the 122-acre office park with 3.2 million SF of logistics buildings.

Markets with the most supply underway on a percentage basis are tech centers such as San Jose, Austin and Seattle. Life science hubs San Diego and Boston along with Sun Belt metros Nashville, Miami, Charlotte and others have seen demand exceed the national average. Whatever demand can be mustered for office space, it will be difficult to offset the level of scheduled new supply. Although development has moderated since the lockdown, there still is plenty of speculative space underway. About 140 million SF are under construction, compared to 160 million SF going into the lockdown.

Construction starts have cooled in perennial leading cities such as New York City, Washington, D.C., and Los Angeles, in part because financing requirements on speculative developments have toughened since Covid hit. Overall construction starts have declined notably. After averaging 24 million SF in new starts each quarter prior to the lockdown, quarterly construction starts have averaged about 15 million SF since.

LOWEST VACANCY RATE		HIGHEST MARKET RENT / SF ANNUAL		HIGHEST MARKET SALE PRICE / SF	
GA, Savannah	2.6%	CA, San Francisco	\$62.28	CA, San Francisco	\$800
CA, San Luis Obispo	3.1%	NY, New York	\$57.12	NY, New York	\$691
SC, Spartanburg	3.9%	FL, Miami	\$42.84	BC, Vancouver	\$574
ID, Boise	4.4%	MA, Boston	\$42.00	WA, Seattle	\$529
FL, Fort Myers	4.6%	CA, Los Angeles	\$41.76	MA, Boston	\$480
<b>U.S. Index</b>	12.4%	<b>U.S. Index</b>	\$35.04 PSF	<b>U.S. Index</b>	\$342 PSF
<b>Canada Index</b>	8.6%	<b>Canada Index</b>	\$27.60 PSF	<b>Canada Index</b>	\$307 PSF

  

MOST SF UNDER CONSTRUCTION		LARGEST INVENTORY BY SF		LOWEST MARKET CAP RATE	
NY, New York	17,651,144	NY, New York	972,521,384	BC, Vancouver	3.5%
MA, Boston	15,656,997	DC, Washington	516,025,617	CA, San Francisco	4.5%
ON, Toronto	11,759,383	IL, Chicago	509,199,460	NY, New York	5.2%
WA, Seattle	10,647,860	CA, Los Angeles	432,430,984	ON, Toronto	5.3%
DC, Washington	9,030,539	TX, Dallas-Fort Worth	413,934,934	CA, Los Angeles	5.3%
<b>U.S. Index</b>	141,779,259 SF	<b>U.S. Index</b>	8,290,787,488 SF	<b>U.S. Index</b>	6.8%
<b>Canada Index</b>	19,907,305 SF	<b>Canada Index</b>	678,204,642 SF	<b>Canada Index</b>	6.1%

\* 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%	\$2.28	\$233	2,206,167	194,333,628	7.0%
BC, Vancouver	4.6%	\$2.90	\$574	6,907,487	97,190,151	3.5%
CA, East Bay	12.6%	\$3.28	\$363	347,855	115,704,068	5.6%
CA, Inland Empire	5.9%	\$2.03	\$222	188,189	77,063,823	6.9%
CA, Los Angeles	13.8%	\$3.48	\$471	4,458,718	432,430,984	5.3%
CA, Orange County	11.6%	\$2.61	\$334	1,278,785	158,053,060	5.9%
CA, San Diego	10.8%	\$3.11	\$374	4,157,113	119,375,354	6.0%
CA, San Francisco	15.0%	\$5.19	\$800	1,853,310	187,988,278	4.5%
CA, San Luis Obispo	3.1%	\$2.33	\$283	36,039	6,503,166	6.9%
CA, Santa Barbara	5.2%	\$2.57	\$380	20,000	12,847,523	5.9%
CA, Stockton	5.0%	\$1.79	\$201	0	12,957,026	7.2%
CA, Ventura	11.0%	\$2.32	\$256	0	21,949,098	7.1%
CO, Denver	14.4%	\$2.42	\$255	1,510,638	181,739,527	6.9%
DC, Washington	15.5%	\$3.23	\$372	9,030,539	516,025,617	6.9%
FL, Fort Myers	4.6%	\$1.77	\$175	351,112	21,418,487	7.4%
FL, Miami	10.1%	\$3.57	\$386	3,234,000	110,387,195	5.7%
FL, Naples	6.7%	\$2.52	\$262	139,060	9,953,046	6.9%
FL, Orlando	7.7%	\$2.20	\$207	1,724,013	102,201,605	7.3%
GA, Atlanta	13.8%	\$2.24	\$229	5,382,202	333,010,133	6.9%
GA, Savannah	2.6%	\$1.88	\$186	48,000	12,345,647	8.3%
ID, Boise	4.4%	\$1.70	\$170	343,185	33,420,862	8.2%
IL, Chicago	15.3%	\$2.46	\$226	2,228,316	509,199,460	7.3%
IN, Indianapolis	9.0%	\$1.73	\$135	207,595	109,234,691	8.4%
MA, Boston	9.5%	\$3.50	\$480	15,656,997	363,826,456	5.7%
MD, Baltimore	11.6%	\$2.01	\$183	1,563,752	151,801,734	7.8%
MI, Detroit	11.7%	\$1.77	\$132	2,012,648	198,216,172	8.8%
MN, Minneapolis	10.6%	\$2.18	\$181	1,205,346	201,930,838	7.4%
MO, Saint Louis	9.2%	\$1.77	\$136	2,246,747	146,797,759	8.2%
NC, Durham	9.8%	\$2.20	\$245	583,625	36,046,058	7.0%
NC, Raleigh	8.3%	\$2.34	\$238	2,021,697	77,262,629	6.9%
NE, Omaha	8.5%	\$1.95	\$149	439,438	47,297,232	8.7%
United States Index	12.4%	\$2.90	\$342	141,779,259	8,290,787,488	6.8%
Canada Index	8.6%	\$2.30	\$307	19,907,305	678,204,642	6.1%

MARKET	VACANCY RATE	MARKET RENT / SF	MARKET SALE PRICE / SF	SF UNDER CONSTRUCTION	INVENTORY SF	MARKET CAP RATE
<b>NJ, Atlantic City</b>	7.6%	\$1.89	\$154	11,000	7,307,202	8.6%
<b>NJ, Northern New Jersey *</b>	13.7%	\$2.25	\$208	378,500	154,389,995	7.7%
<b>NJ, Trenton</b>	8.1%	\$2.39	\$186	0	31,964,059	8.1%
<b>NJ, Vineland</b>	6.3%	\$1.51	\$118	0	2,571,774	8.7%
<b>NV, Reno</b>	8.3%	\$2.02	\$208	242,332	17,195,325	7.5%
<b>NY, Long Island</b>	7.6%	\$2.47	\$206	156,102	98,743,153	7.7%
<b>NY, New York *</b>	12.2%	\$4.76	\$691	17,651,144	972,521,384	5.2%
<b>OH, Cincinnati</b>	10.6%	\$1.67	\$113	288,366	104,333,079	9.1%
<b>OH, Cleveland</b>	8.2%	\$1.60	\$109	2,130,107	108,315,110	9.6%
<b>OH, Columbus</b>	9.6%	\$1.78	\$127	1,706,029	114,877,041	8.4%
<b>ON, Toronto</b>	8.3%	\$2.54	\$344	11,759,383	287,883,030	5.3%
<b>PA, Harrisburg</b>	8.7%	\$1.51	\$133	96,390	36,819,450	9.1%
<b>PA, Lehigh Valley *</b>	8.5%	\$1.70	\$122	395,473	30,869,885	9.3%
<b>PA, Philadelphia *</b>	10.1%	\$2.24	\$198	2,766,304	322,534,844	7.8%
<b>SC, Charleston</b>	7.8%	\$2.43	\$220	523,353	32,709,784	7.5%
<b>SC, Greenville</b>	7.6%	\$1.74	\$156	655,375	34,864,243	7.9%
<b>SC, Spartanburg</b>	3.9%	\$1.60	\$131	81,200	7,597,631	8.9%
<b>TN, Nashville</b>	10.7%	\$2.46	\$243	4,417,652	101,048,204	6.8%
<b>TX, Dallas-Fort Worth</b>	17.8%	\$2.39	\$244	7,680,525	413,934,934	6.7%
<b>TX, Houston</b>	19.1%	\$2.37	\$221	5,105,056	349,525,083	7.7%
<b>WA, Seattle</b>	10.2%	\$3.21	\$529	10,647,860	223,081,933	5.4%
<b>WI, Madison</b>	5.6%	\$1.86	\$145	439,800	37,877,438	8.7%
<b>United States Index</b>	12.4%	\$2.90	\$342	141,779,259	8,290,787,488	6.8%
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