

OFFICE OVERVIEW: LABOR PRESSURES WEIGH ON OFFICE DEMAND

Demand weakened again in the third quarter as employers remained reluctant to deliver unpopular return-to-office commands to workers and amid concerns of the rising cost of credit in an uncertain economy.

Net absorption in the 8.3-billion-SF United States market was negative 3.5 million SF in the third quarter and negative 4.9 million SF year to date. Since the lockdown, the contraction has totaled 118 million SF, or 1.4% of the base. Meanwhile, 136.7 million SF of new space has been added to the inventory. To help put the shock of the absorption reversal in perspective, in the five years prior to Covid net absorption ranged from 90 million SF in 2015 to 46.5 million, averaging 67 million SF per year.

Canadian tenants have shed 5.1 million SF since the lockdown, driving up the nation's vacancy rate from 6.2% to 8.7%. In view of the United States' comparative oversupply, Canadian property owners are under far less stress. About 80% of the 20 million SF of space in Canada's construction pipeline is in Toronto and Vancouver, where the vacancy rate is 5.1%. Reflective of the appetite for new product, 75% of the space is pre-leased.

Despite a return-to-office push that started last year, a white-hot labor market has workers unexpectedly holding the whip hand. In its samplings of 8,000 workers, Gallup said the desire to work exclusively from home has more than doubled since last fall. Sixty percent said they would change jobs to work remotely, a meaningful threat at a time when the labor department shows there are two job openings for each worker. In the first four months of 2022, office occupancy rose 20%, said Kastle Systems, which tracks building entries through security cards and key fobs. Since April, it's hovered around 44% of pre-Covid levels. Apple executives recently were slapped with a petition signed by 1,000 workers reportedly opposing the company's addition of a third day in the office.

Sublease availability now totals more than 230 million SF, a record, and is up more than 60% in Indianapolis, Tampa, Nashville, Cincinnati and St. Louis. San Francisco's 10 million SF of second-hand space is equal to 2.5% of its base and double the national average. Development activity launched just before the lockdown is starting to hit the market. Net deliveries this year total about 26 million SF through Q3 but nearly 50 million SF of new space is slated for completion by mid 2023.

The strongest markets are in the Sun Belt and include Palm Beach, Austin and Las Vegas. A resurgent tech sector is boosting demand in San Jose and life science gains are producing tenant growth in San Diego and Boston. Salt Lake City gets high marks for its low cost of doing business. The weakest demand is in the Midwest and Northeast markets, including Minneapolis and Northern New Jersey. Starts generally have been restrained in New York City, Washington, D.C., and Los Angeles, but the perennial leading cities still have an abundance of new supply underway.

LOWEST VACANCY RATE		HIGHEST MARKET RENT / SF ANNUAL		HIGHEST MARKET SALE PRICE / SF	
GA, Savannah	2.2%	CA, San Francisco	\$61.92	CA, San Francisco	\$785
CA, San Luis Obispo	3.0%	NY, New York*	\$57.24	NY, New York*	\$691
SC, Spartanburg	4.2%	FL, Miami	\$44.16	WA, Seattle	\$515
ID, Boise	4.5%	MA, Boston	\$42.36	BC, Vancouver	\$501
CA, Stockton	4.7%	CA, Los Angeles	\$42.00	MA, Boston	\$479
U.S. Index	12.5%	U.S. Index	\$35.04 PSF	U.S. Index	\$339 PSF
Canada Index	8.7%	Canada Index	\$25.80 PSF	Canada Index	\$282 PSF

MOST SF UNDER CONSTRUCTION		LARGEST INVENTORY BY SF		LOWEST MARKET CAP RATE	
NY, New York*	17,874,850	NY, New York*	971,927,770	BC, Vancouver	3.7%
MA, Boston	15,992,227	DC, Washington	518,556,866	CA, San Francisco	4.6%
ON, Toronto	14,944,934	IL, Chicago	509,025,244	NY, New York*	5.3%
WA, Seattle	11,542,742	CA, Los Angeles	433,291,507	ON, Toronto	5.4%
DC, Washington	8,515,875	TX, Dallas-Fort Worth	414,818,652	CA, Los Angeles	5.5%
U.S. Index	141,167,313 SF	U.S. Index	8,318,741,244 SF	U.S. Index	6.9%
Canada Index	22,539,398 SF	Canada Index	684,763,425 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	14.9%	\$2.34	\$233	1,378,790	194,957,420	7.1%
BC, Vancouver	5.1%	\$2.70	\$501	6,691,782	97,799,600	3.7%
CA, East Bay	12.8%	\$3.31	\$354	127,145	115,121,865	5.8%
CA, Inland Empire	5.9%	\$2.04	\$222	213,189	76,736,133	7.1%
CA, Los Angeles	14.1%	\$3.50	\$457	3,736,012	433,291,507	5.5%
CA, Orange County	12.2%	\$2.60	\$328	814,060	158,376,459	6.0%
CA, San Diego	11.0%	\$3.14	\$373	3,964,079	119,345,048	6.1%
CA, San Francisco	15.7%	\$5.16	\$785	2,318,926	188,984,519	4.6%
CA, San Luis Obispo	3.0%	\$2.33	\$277	36,039	6,504,543	7.1%
CA, Santa Barbara	5.7%	\$2.61	\$380	20,000	12,809,700	6.0%
CA, Stockton	4.7%	\$1.81	\$194	0	12,982,648	7.4%
CA, Ventura	0	0	0	0	0	0
CO, Denver	15.0%	\$2.43	\$259	2,362,122	182,406,040	7.0%
DC, Washington	15.6%	\$3.24	\$369	8,515,875	518,556,866	7.1%
FL, Fort Myers	4.9%	\$1.81	\$178	154,942	21,627,928	7.4%
FL, Miami	9.5%	\$3.68	\$389	4,371,345	112,668,267	5.8%
FL, Naples	6.0%	\$2.53	\$262	149,060	9,983,247	7.0%
FL, Orlando	8.1%	\$2.26	\$203	1,758,393	102,505,999	7.5%
GA, Atlanta	14.3%	\$2.29	\$224	3,760,532	334,953,491	7.1%
GA, Savannah	2.2%	\$1.92	\$186	57,999	12,576,939	8.5%
ID, Boise	4.5%	\$1.76	\$169	481,508	33,417,644	8.3%
IL, Chicago	15.0%	\$2.47	\$225	2,900,750	509,025,244	7.5%
IN, Indianapolis	8.6%	\$1.75	\$135	271,602	109,830,369	8.5%
MA, Boston	9.9%	\$3.53	\$479	15,992,227	367,720,289	5.9%
MD, Baltimore	11.6%	\$2.03	\$184	1,640,147	151,210,535	7.9%
MI, Detroit	11.4%	\$1.78	\$132	1,480,551	198,968,136	9.0%
MN, Minneapolis	10.5%	\$2.18	\$175	867,528	201,989,507	7.6%
MO, Saint Louis	9.8%	\$1.77	\$134	2,791,747	145,638,836	8.5%
NC, Durham	9.4%	\$2.22	\$243	675,625	36,086,937	7.1%
NC, Raleigh	8.5%	\$2.35	\$236	2,239,565	77,287,269	7.1%
NE, Omaha	8.0%	\$1.97	\$150	413,298	47,618,507	8.9%
United States Index	12.5%	\$2.92	\$339	141,167,313	8,318,741,244	6.9%
Canada Index	8.7%	\$2.15	\$282	22,539,398	684,763,425	6.2%

MARKET	VACANCY RATE	MARKET RENT / SF	MARKET SALE PRICE / SF	SF UNDER CONSTRUCTION	INVENTORY SF	MARKET CAP RATE
NJ, Atlantic City	7.3%	\$1.89	\$151	11,000	7,321,777	8.8%
NJ, Northern New Jersey *	13.5%	\$2.28	\$199	451,127	156,177,415	8.0%
NJ, Trenton	7.6%	\$2.42	\$182	0	32,047,005	8.3%
NJ, Vineland	4.9%	\$1.58	\$121	0	2,595,882	8.8%
NV, Reno	8.1%	\$2.05	\$206	330,267	17,268,092	7.7%
NY, Long Island	8.3%	\$2.52	\$202	144,786	99,259,816	7.9%
NY, New York *	12.3%	\$4.77	\$691	17,874,850	971,927,770	5.3%
OH, Cincinnati	10.7%	\$1.68	\$112	280,522	104,247,147	9.3%
OH, Cleveland	8.1%	\$1.60	\$114	2,180,131	108,514,401	9.7%
OH, Columbus	10.0%	\$1.78	\$120	1,650,071	116,424,108	8.8%
ON, Toronto	8.6%	\$2.40	\$312	14,944,934	286,700,674	5.4%
PA, Harrisburg	9.6%	\$1.52	\$128	102,990	36,890,894	9.4%
PA, Lehigh Valley *	7.9%	\$1.73	\$114	546,039	31,015,968	9.9%
PA, Philadelphia *	10.3%	\$2.24	\$194	2,328,362	323,121,188	7.9%
SC, Charleston	7.8%	\$2.48	\$219	764,109	32,644,417	7.7%
SC, Greenville	7.1%	\$1.76	\$151	663,275	34,883,145	8.1%
SC, Spartanburg	4.2%	\$1.64	\$126	81,200	7,631,016	9.1%
TN, Nashville	11.2%	\$2.49	\$243	3,866,778	101,173,941	6.9%
TX, Dallas-Fort Worth	17.3%	\$2.42	\$245	7,448,808	414,818,652	6.9%
TX, Houston	19.0%	\$2.38	\$234	4,972,046	349,770,692	7.6%
WA, Seattle	10.5%	\$3.21	\$515	11,542,742	227,264,528	5.6%
WI, Madison	5.6%	\$1.88	\$140	244,800	38,086,219	9.0%
United States Index	12.5%	\$2.92	\$339	141,167,313	8,318,741,244	6.9%
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