

OFFICE OVERVIEW: DESPITE JOB GAINS OFFICE FOOTPRINTS CONTINUE TO SHRINK

Tenant demand for North American office space over the last two quarters has gone from bad to worse for landlords, affirming that the lingering and painful impact of post-pandemic workplace arrangements has yet to play out.

Net absorption for U.S. office space in Q1 was negative 28,749,399 SF. It was the third largest quarterly contraction since the Covid lockdown three years ago. It also comes on the heels of 16.6 million SF of negative absorption in the last quarter of 2022. The combined 35.3 million SF of negative absorption of the last six months represents 27% of the 131 million SF that have been put back on the market since Covid. Canadian markets reported negative 1.7 million SF of net absorption in the first quarter. Mobility data shows activity in workplaces in downtown Toronto and Vancouver remains down as much as half since the pandemic hit in 2020.

The U.S. vacancy rate increased to 13% from 12.5% at the end of 2022. In Canada, the vacancy rate was up 40 basis points from the close of last year. Comparisons with the effects of the so-called Great Recession are useful in calculating the character and magnitude of the current office downturn. In both cases there were declines of about 2.5 million office-using workers, but the office recoveries were significantly different. It took nearly six years to recover the jobs lost in the 2008-09 recession.

Despite the shock of the pandemic, all the positions lost were recovered in less than 20 months. Through January of 2023, office employment was nearly 6% more than in January 2020, when the Covid threat was first reported. In view of the strong job growth, historical patterns dictate that office demand would have rebounded by now. But demand for increased space has decoupled from employment gains.

Corporate users have been reducing their office footprints, adding to available sublease inventory. Although several large companies are requiring more employees to report in person, in a Labor Department survey last year 67.4% of companies in the information sector said their staff worked remotely some or all the time. The same was reported by 49% of companies in the professional and business sector, which includes law and accounting firms.

The volume of second-hand space available has more than doubled since 2019. The impact is acute in markets like San Francisco, which has more than 11 million SF available for sublease, or 5.8% of its inventory. New York has nearly 30 million SF of sublease space available, representing 3% of the total inventory. Adding to the stress on the overall fundamentals is the 70 million SF of space under construction, most of which is slated for completion in the first half this year. However, new starts have slowed dramatically. The 10 million SF of new starts in Q4 2022 is the lowest in 10 years. Transaction volume also has slowed considerably. Investment capital is abundant but buyers are moving to the sidelines until repricing is complete. Sales at the close of 2022 were the lowest of any fourth quarter since 2009. Last year's \$81.8 billion in sales was second to 2020 for the least volume in 10 years.

LOWEST VACANCY RATE		HIGHEST MARKET RENT / SF ANNUAL		HIGHEST MARKET SALE PRICE / SF	
GA, Savannah	2.0%	CA, San Francisco	\$60.24	CA, San Francisco	\$763
FL, Fort Myers	4.4%	NY, New York*	\$56.64	NY, New York*	\$662
CA, Stockton	4.6%	FL, Miami	\$47.28	WA, Seattle	\$506
BC, Vancouver	5.5%	MA, Boston	\$42.60	BC, Vancouver	\$491 CAD
FL, Naples	5.5%	CA, Los Angeles	\$42.24	MA, Boston	\$478
U.S. Index	13.0%	U.S. Index	\$35.28	U.S. Index	\$334
Canada Index	9.1%	Canada Index	\$26.64 CAD	Canada Index	\$280 CAD

MOST SF UNDER CONSTRUCTION SF		LARGEST INVENTORY BY SF		LOWEST MARKET CAP RATE	
MA, Boston	18,835,883	NY, New York*	974,301,852	BC, Vancouver	3.9%
NY, New York*	14,809,530	DC, Washington	523,012,127	CA, San Francisco	4.8%
WA, Seattle	12,820,657	IL, Chicago	507,938,350	NY, New York*	5.5%
ON, Toronto	11,029,490	CA, Los Angeles	436,497,481	ON, Toronto	5.6%
TX, Dallas-Fort Worth	7,823,688	TX, Dallas-Fort Worth	418,699,132	CA, Los Angeles	5.6%
U.S. Index	134,335,694	U.S. Index	8,359,421,271	U.S. Index	7.0%
Canada Index	18,705,911	Canada Index	686,448,014	Canada Index	6.4%

* 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
AB, Calgary **	17.2%	\$1.64	\$155	394,740	98,464,363	9.8%
AZ, Phoenix	15.2%	\$2.42	\$239	1,309,938	194,570,425	7.1%
BC, Vancouver **	5.5%	\$2.77	\$491	5,787,372	98,652,544	3.9%
CA, Bakersfield	12.5%	\$1.95	\$175	50,000	15,969,178	8.4%
CA, East Bay	12.6%	\$3.27	\$350	128,970	115,268,380	5.9%
CA, Fresno	8.6%	\$1.76	\$198	114,266	28,585,111	8.1%
CA, Inland Empire	5.7%	\$2.05	\$218	240,459	77,351,013	7.2%
CA, Los Angeles	15.0%	\$3.52	\$450	3,750,694	436,497,481	5.6%
CA, Orange County	13.4%	\$2.60	\$325	285,361	158,552,912	6.2%
CA, San Diego	11.0%	\$3.16	\$368	4,052,556	119,227,185	6.3%
CA, San Francisco	17.6%	\$5.02	\$763	3,505,039	189,805,970	4.8%
CA, San Luis Obispo	3.3%	\$2.34	\$272	36,039	6,553,146	7.3%
CA, Santa Barbara	7.1%	\$2.70	\$386	165,641	12,825,725	6.1%
CA, Stockton	4.6%	\$1.81	\$187	0	12,938,469	7.7%
CA, Ventura	11.6%	\$2.34	\$255	0	22,003,439	7.4%
CO, Denver	15.4%	\$2.43	\$257	2,799,852	183,862,200	7.1%
DC, Washington	15.7%	\$3.23	\$361	7,026,040	523,012,127	7.3%
FL, Fort Myers	4.4%	\$1.90	\$185	136,070	21,447,413	7.4%
FL, Miami	9.2%	\$3.94	\$391	4,727,005	113,838,341	5.9%
FL, Naples	5.5%	\$2.62	\$265	129,060	10,102,764	7.1%
FL, Orlando	8.7%	\$2.28	\$206	1,264,781	103,459,248	7.6%
GA, Atlanta	14.1%	\$2.33	\$230	3,481,599	334,209,081	7.2%
GA, Savannah	2.0%	\$1.99	\$191	22,938	12,391,814	8.5%
ID, Boise	6.3%	\$1.83	\$173	478,136	34,032,106	8.4%
IL, Chicago	15.8%	\$2.47	\$220	3,381,630	507,938,350	7.6%
IN, Indianapolis	9.2%	\$1.79	\$136	734,633	110,174,657	8.6%
KS, Lawrence	10.7%	\$1.87	\$142	0	3,284,779	9.2%
KS, Topeka	5.8%	\$1.49	\$128	0	12,043,690	8.9%
LA, Baton Rouge	6.8%	\$1.64	\$118	50,967	27,607,198	10.1%
MA, Boston	10.6%	\$3.55	\$478	18,835,883	371,242,721	6.0%
MD, Baltimore	11.6%	\$2.03	\$178	1,378,317	152,708,970	8.1%
United States Index	13.0%	\$2.94	\$334	134,335,694	8,359,421,271	7.0%
Canada Index	9.1%	\$2.22**	\$280**	18,705,911	686,448,014	6.4%

MARKET	VACANCY RATE	MARKET RENT / SF	MARKET SALE PRICE / SF	SF UNDER CONSTRUCTION	INVENTORY SF	MARKET CAP RATE
MI, Detroit	12.2%	\$1.78	\$127	1,436,325	200,362,357	9.2%
MN, Minneapolis	10.9%	\$2.20	\$171	724,277	202,129,621	7.8%
MO, Kansas City*	11.2%	\$1.79	\$144	1,374,500	127,691,046	8.2%
MO, Saint Louis	10.4%	\$1.78	\$134	1,773,747	145,508,827	8.6%
NC, Durham	10.6%	\$2.29	\$247	382,640	36,377,019	7.2%
NC, Raleigh	10.0%	\$2.41	\$239	2,461,235	77,533,834	7.2%
NE, Lincoln	6.8%	\$1.60	\$137	159,512	18,241,739	8.7%
NE, Omaha	6.9%	\$1.99	\$150	561,935	47,955,128	9.0%
NJ, Atlantic City	7.2%	\$1.91	\$154	5,000	7,514,715	8.9%
NJ, Northern New Jersey *	14.3%	\$2.29	\$205	514,312	155,877,624	8.1%
NJ, Trenton	8.8%	\$2.42	\$180	0	32,062,483	8.4%
NJ, Vineland	4.6%	\$1.63	\$125	0	2,825,980	8.9%
NV, Reno	10.0%	\$2.06	\$214	207,137	17,483,781	7.7%
NY, Long Island	9.0%	\$2.59	\$205	139,037	99,209,546	7.9%
NY, New York *	12.8%	\$4.72	\$662	14,809,530	974,301,852	5.5%
OH, Cincinnati	10.7%	\$1.71	\$108	193,896	104,448,725	9.6%
OH, Cleveland	8.9%	\$1.61	\$112	1,933,478	110,013,662	10.0%
OH, Columbus	10.5%	\$1.80	\$129	1,109,069	117,281,369	8.7%
ON, Toronto **	9.4%	\$2.50	\$314	11,029,490	287,836,606	5.6%
PA, Harrisburg	9.2%	\$1.54	\$128	129,240	36,905,457	9.6%
PA, Lehigh Valley *	8.5%	\$1.77	\$120	22,175	32,029,049	9.7%
PA, Philadelphia *	10.6%	\$2.26	\$191	2,420,031	325,312,871	8.1%
SC, Charleston	7.9%	\$2.56	\$217	602,572	33,140,395	7.8%
SC, Greenville	7.7%	\$1.81	\$159	1,598,725	35,247,622	8.0%
SC, Spartanburg	4.4%	\$1.66	\$130	78,200	7,698,238	9.1%
TN, Nashville	12.1%	\$2.55	\$248	3,548,584	102,462,722	7.0%
TX, Dallas-Fort Worth	18.1%	\$2.48	\$241	7,823,688	418,699,132	7.0%
TX, Houston	19.1%	\$2.42	\$231	5,294,761	349,549,835	7.8%
WA, Seattle	11.4%	\$3.20	\$506	12,820,657	227,684,603	5.7%
WI, Madison	5.9%	\$1.88	\$133	446,800	38,195,729	9.3%
United States Index	13.0%	\$2.94	\$334	134,335,694	8,359,421,271	7.0%
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** Numbers shown are in Canadian dollars (CAD)