

OFFICE OVERVIEW: OFFICE DOWNTURN DEEPENS, SUBLEASE SPACE MOUNTS

Tenants in the United States shed a record amount of space in the first half of 2023 and net absorption is on pace for its biggest annual loss ever, exceeding the negative 68 million SF in 2020, the first year of the pandemic. Net absorption nationwide in the second quarter was negative 10.9 million SF, bringing the mid-year total to negative 39.7 million SF, as the internet and social distancing combined to dramatically alter the entrenched regimen of the office worker. While hybrid work has become a fixture in many companies, studies show that fully remote work has declined.

Canadian markets have held up better, although leasing volume in Canada this year was down 20% from a year ago and is half the pre-pandemic average. On a regional basis, conditions have been stronger in the Western markets of Vancouver and Calgary while activity in Toronto and Montreal remains depressed.

Top-quality buildings have seen consistently positive net absorption throughout the pandemic era. So have newer buildings, completed after 2015. Leasing data shows that since the beginning of 2022, tenants have been taking nearly 10% less space since before the pandemic. The U.S. market has contracted by 150 million SF over an unprecedented three straight years beginning early in 2020 when the vacancy rate was 10%, or 2% of total inventory. The vacancy rate at the end of Q2 was 13.2% and short- and long-term pressures are lined up to drive it higher. For example, new leasing activity this year has been off 17% from its pre-pandemic average. Also, about 67 million SF of new inventory - the most since 2009 - is projected for delivery by the end of the year.

With 65% of leases set to expire in the next five years an imminent turnaround is unlikely. Also, the amount of available sublease inventory has soared to 216 million SF, a 120% increase since the end of 2019. Sublease space is the proverbial canary in the coal mine and can signal an extended period of weak demand. Conditions in San Francisco are acute. The city has 13 million SF available for sublease, representing 6.7% of total inventory. New York City's 30 million SF of sublease space is equal to 3% of inventory. Even more resilient markets have been hit by the sublease wave. San Jose and Austin, for example, each have more than 6 million SF of sublease space available.

Taken together, depressed occupancy and second-hand space have created a demand gap of more than 400 million SF, rivaling the size of office markets in Dallas or Los Angeles. Demand has been comparatively healthier in several secondary and Sun Belt markets, including Miami and Las Vegas.

Maturing debt looms as a challenge. More than \$24.5 billion in CMBS office loans will come due this year. Delinquency rates are up 2.4 percentage points since December and are projected to reach 6% or more next year.

LOWEST VACANCY RATE		HIGHEST MARKET RENT / SF ANNUAL		HIGHEST MARKET SALE PRICE / SF	
FL, Fort Myers	4.4%	CA, San Francisco	\$57.12	CA, San Francisco	\$652
BC, Vancouver	5.8%	NY, New York*	\$56.40	NY, New York*	\$594
CA, Inland Empire	5.9%	FL, Miami	\$47.64	BC, Vancouver	\$513 CAD
WI, Madison	6.0%	CA, Los Angeles	\$41.88	WA, Seattle	\$454
LA, Baton Rouge	6.1%	MA, Boston	\$41.52	MA, Boston	\$413
U.S. Index	13.2%	U.S. Index	\$35.16	U.S. Index	\$301
Canada Index	9.2%	Canada Index	\$27.48 CAD	Canada Index	\$279 CAD

MOST SF UNDER CONSTRUCTION SF		LARGEST INVENTORY BY SF		LOWEST MARKET CAP RATE	
MA, Boston	18,632,193	NY, New York*	979,344,450	BC, Vancouver	4.0%
WA, Seattle	11,902,984	DC, Washington	521,802,414	CA, San Francisco	5.6%
ON, Toronto	10,341,175	IL, Chicago	511,895,648	ON, Toronto	5.8%
NY, New York*	9,303,932	CA, Los Angeles	437,206,837	NY, New York*	6.2%
TX, Dallas-Fort Worth	8,162,053	TX, Dallas-Fort Worth	421,504,740	CA, Los Angeles	6.4%
U.S. Index	124,708,586	U.S. Index	8,399,356,698	U.S. Index	8.0%
Canada Index	17,483,297	Canada Index	683,266,399	Canada Index	6.7%

* 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 **	16.3%	\$1.76	\$137	393,139	97,664,507	10.8%
AZ, Phoenix	15.7%	\$2.43	\$221	1,332,788	194,143,515	8.0%
BC, Vancouver **	5.8%	\$2.86	\$513	5,325,258	96,191,964	4.0%
CA, Bakersfield	9.2%	\$2.03	\$163	9,611	16,037,545	9.4%
CA, East Bay	13.8%	\$3.27	\$314	53,730	115,490,067	6.7%
CA, Fresno	8.5%	\$1.77	\$183	104,125	28,725,965	9.2%
CA, Inland Empire	5.9%	\$2.13	\$202	240,459	77,486,143	8.1%
CA, Los Angeles	15.1%	\$3.49	\$400	4,175,665	437,206,837	6.4%
CA, Orange County	13.4%	\$2.58	\$288	265,361	158,585,583	7.1%
CA, San Diego	11.2%	\$3.21	\$340	4,102,493	119,380,365	7.0%
CA, San Francisco	18.9%	\$4.76	\$652	2,951,168	189,210,780	5.6%
CA, San Luis Obispo	3.7%	\$2.34	\$259	120,000	6,637,159	8.2%
CA, Santa Barbara	6.8%	\$2.76	\$347	165,641	12,831,002	7.0%
CA, Stockton	5.5%	\$1.81	\$169	0	12,911,431	8.7%
CA, Ventura	10.9%	\$2.33	\$231	0	21,933,914	8.3%
CO, Denver	15.6%	\$2.43	\$237	4,111,388	184,284,773	8.0%
DC, Washington	16.1%	\$3.24	\$331	5,319,043	521,802,414	8.2%
FL, Fort Myers	4.4%	\$2.00	\$173	129,000	21,522,537	8.2%
FL, Miami	9.5%	\$3.97	\$357	5,525,640	115,042,736	6.6%
FL, Naples	4.8%	\$2.71	\$247	117,348	10,118,432	8.0%
FL, Orlando	8.7%	\$2.31	\$187	1,327,179	103,905,952	8.5%
GA, Atlanta	14.7%	\$2.34	\$212	3,305,916	335,748,451	8.0%
GA, Savannah	1.7%	\$2.05	\$180	43,936	12,413,697	9.5%
ID, Boise	6.9%	\$1.79	\$157	337,510	34,163,400	9.6%
IL, Chicago	15.7%	\$2.48	\$199	1,752,811	511,895,648	8.6%
IN, Indianapolis	9.6%	\$1.78	\$124	1,247,077	109,714,045	9.7%
KS, Lawrence	10.5%	\$1.88	\$127	0	3,300,434	10.4%
KS, Topeka	6.6%	\$1.49	\$117	111,447	11,571,244	10.0%
LA, Baton Rouge	6.1%	\$1.66	\$108	40,363	27,826,684	11.5%
MA, Boston	10.7%	\$3.46	\$413	18,632,193	373,932,600	6.9%
MD, Baltimore	11.8%	\$2.05	\$166	1,383,529	152,346,135	9.1%
United States Index	13.2%	\$2.93	\$301	124,708,586	8,399,356,698	8.0%
Canada Index	9.2%	\$2.29**	\$279**	17,483,297	683,266,399	6.7%

MARKET	VACANCY RATE	MARKET RENT / SF	MARKET SALE PRICE / SF	SF UNDER CONSTRUCTION	INVENTORY SF	MARKET CAP RATE
MI, Detroit	12.3%	\$1.80	\$117	1,466,558	201,170,135	10.4%
MN, Minneapolis	10.8%	\$2.21	\$157	813,768	202,776,566	8.8%
MO, Kansas City*	11.5%	\$1.81	\$130	1,081,965	128,089,975	9.3%
MO, Saint Louis	10.9%	\$1.78	\$121	1,587,924	148,491,969	9.8%
NC, Durham	10.5%	\$2.30	\$233	399,159	36,927,531	8.0%
NC, Raleigh	9.9%	\$2.44	\$220	2,554,561	77,557,523	8.1%
NE, Lincoln	6.6%	\$1.59	\$125	192,932	18,227,646	9.8%
NE, Omaha	6.9%	\$2.01	\$134	1,361,935	48,455,594	10.4%
NJ, Atlantic City	6.6%	\$1.90	\$141	0	7,552,389	10.0%
NJ, Northern New Jersey *	14.1%	\$2.30	\$187	504,312	156,166,595	9.1%
NJ, Trenton	8.8%	\$2.45	\$161	38,000	31,960,325	9.6%
NJ, Vineland	4.8%	\$1.51	\$109	0	2,839,438	10.1%
NV, Reno	10.1%	\$2.01	\$193	268,021	17,482,469	8.7%
NY, Long Island	9.0%	\$2.60	\$185	209,037	99,382,001	9.0%
NY, New York *	13.1%	\$4.70	\$594	9,303,932	979,344,450	6.2%
OH, Cincinnati	10.4%	\$1.71	\$98	171,738	104,637,803	10.9%
OH, Cleveland	9.3%	\$1.63	\$99	1,420,846	111,738,420	11.4%
OH, Columbus	10.8%	\$1.83	\$116	1,052,969	118,078,417	9.8%
ON, Toronto **	9.7%	\$2.57	\$316	10,341,175	287,179,758	5.8%
PA, Harrisburg	8.9%	\$1.52	\$118	109,740	37,754,932	10.8%
PA, Lehigh Valley *	7.8%	\$1.79	\$105	55,175	31,820,858	11.3%
PA, Philadelphia *	10.7%	\$2.30	\$171	2,952,929	327,303,384	9.2%
SC, Charleston	7.8%	\$2.60	\$197	583,040	33,372,135	8.9%
SC, Greenville	7.9%	\$1.86	\$144	582,980	35,423,469	9.1%
SC, Spartanburg	5.1%	\$1.71	\$121	3,200	7,786,603	10.2%
TN, Nashville	11.8%	\$2.62	\$228	3,738,527	101,706,673	7.9%
TX, Dallas-Fort Worth	18.0%	\$2.52	\$226	8,162,053	421,504,740	7.8%
TX, Houston	18.9%	\$2.43	\$207	4,961,909	352,593,343	8.9%
WA, Seattle	12.7%	\$3.17	\$454	11,902,984	229,915,944	6.5%
WI, Madison	6.0%	\$1.92	\$124	565,800	38,299,752	10.5%
United States Index	13.2%	\$2.93	\$301	124,708,586	8,399,356,698	8.0%
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** Numbers shown are in Canadian dollars (CAD)