

## OFFICE OVERVIEW: TENANT EFFICIENCIES HEIGHTENS TROUBLE FOR LANDLORDS

The drop in demand for North American office space deepened in 2023. Tenants in the United States shed 71 million SF in 2023, slightly more than in the Covid lockdown year 2020, as a renewed focus on efficient use of space led to further footprint reductions and higher overall vacancy. Demand for space in Canada also closed the year in the red.

Since the beginning of 2020, U.S. net absorption has contracted by 188.6 million SF. By comparison, absorption losses associated with the Great Recession totaled about 50 million SF. Negative net absorption was 15,798,403 in Q4 and negative 71,081,718 SF for the year. The U.S. vacancy rate is at a record 13.7%, up 420 basis points since the pandemic hit. A recent Wall Street Journal headline summed it up: 'The Office Market Had It Hard in 2023. Next Year Looks Worse.'

Given the clear trend that tenants are reducing footprints when choosing to renew their leases or relocate, the outlook is sobering. Since nearly half of office leases signed prior to the lockdown remain unexpired, the rate of vacant space could grow more than three percentage points by 2026. Leasing volume is down nearly 20% from its average in the late 2010s, driven by deal sizes that are 20% smaller. Sublease inventory is at 206 million SF, down from its recent peak of 215 million SF but more than double its previous highs.

In Canada, as in the U.S., office use by workers remains down an estimated 50% since the pandemic. The leasing volume of 3.6 million SF in 2023 was off the long-term average of 6%. Available sublease space reached more than 20 million, a record. At the current subdued leasing levels, new deliveries scheduled in Greater Toronto, downtown Vancouver and other key markets will push the vacancy rate to nearly 16% by the end of 2025.

The implications for property values are obvious. Currently, values are down 10-15% since the end of 2021. A small portion of the loss can be tied to the rising rates affecting all commercial property sectors. The remainder is the result of income loss due to vacancy. With higher vacancy rates and deteriorating rents, an added 25% value decline is in the forecast.

About 53 million SF in new inventory was delivered in 2023 with about 15 million SF being demolished or converted. The resulting 37-million-SF of deliveries were the least since 2014. The 30 million SF in new starts in 2023 were the fewest since 2000.

Many landlords have been able to extend their loans, but many are losing hope that occupancy rates will begin to rebound. There will be pressure on landlords to pay off their mortgages, sell their properties at steep discounts or hand over the keys to their creditors.

With more than half of pre-2020 leases yet to roll and a steady stream of low-rate loans maturing into a high-rate environment, the office sector in most markets looks to be in for a protracted correction.

LOWEST VACANCY RATE		HIGHEST MARKET RENT / SF ANNUAL		HIGHEST MARKET SALE PRICE / SF	
CA, Inland Empire	6.1%	NY, New York	\$56.28	CA, San Francisco	\$596
BC, Vancouver	6.1%	CA, San Francisco	\$55.20	NY, New York	\$573
FL, Miami	8.6%	FL, Miami	\$48.72	BC, Vancouver	\$503 CAD
FL, Orlando	8.8%	MA, Boston	\$42.24	WA, Seattle	\$432
NY, Long Island	9.0%	CA, Los Angeles	\$41.52	MA, Boston	\$413
<b>U.S. Index</b>	13.4%	<b>U.S. Index</b>	\$35.04	<b>U.S. Index</b>	\$298
<b>Canada Index</b>	8.9%	<b>Canada Index</b>	\$26.64 CAD	<b>Canada Index</b>	\$270 CAD

  

MOST SF UNDER CONSTRUCTION SF		LARGEST INVENTORY BY SF		LOWEST MARKET CAP RATE	
MA, Boston	16,460,810	NY, New York	978,671,221	BC, Vancouver	4.1%
ON, Toronto	11,361,788	DC, Washington	524,519,901	ON, Toronto	5.9%
WA, Seattle	9,534,397	IL, Chicago	511,448,122	CA, San Francisco	6.0%
NY, New York	9,290,989	CA, Los Angeles	440,824,283	NY, New York	6.5%
TX, Dallas-Fort Worth	7,937,750	TX, Dallas-Fort Worth	424,517,294	CA, Los Angeles	6.7%
<b>U.S. Index</b>	114,664,588	<b>U.S. Index</b>	8,421,746,724	<b>U.S. Index</b>	8.0%
<b>Canada Index</b>	17,020,751	<b>Canada Index</b>	688,722,947	<b>Canada Index</b>	6.8%

\* 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
<b>AB, Calgary **</b>	15.4%	\$1.73	\$127	337,673	99,119,875	11.4%
<b>AZ, Phoenix</b>	16.0%	\$2.45	\$217	1,107,870	195,405,712	8.1%
<b>BC, Vancouver **</b>	6.1%	\$2.81	\$503	5,061,050	96,203,440	4.1%
<b>CA, Bakersfield</b>	11.8%	\$1.96	\$158	4,382	16,193,272	9.7%
<b>CA, East Bay</b>	13.9%	\$3.15	\$298	34,905	115,060,651	7.0%
<b>CA, Fresno</b>	7.4%	\$1.86	\$175	88,911	28,896,045	9.4%
<b>CA, Inland Empire</b>	6.1%	\$2.21	\$199	157,367	76,991,926	8.3%
<b>CA, Los Angeles</b>	15.6%	\$3.46	\$382	3,333,584	440,824,283	6.7%
<b>CA, Orange County</b>	13.5%	\$2.61	\$279	157,196	158,607,341	7.3%
<b>CA, San Diego</b>	11.0%	\$3.21	\$324	4,498,311	119,678,147	7.3%
<b>CA, San Francisco</b>	22.1%	\$4.60	\$596	2,667,684	190,677,744	6.0%
<b>CA, San Luis Obispo</b>	4.2%	\$2.35	\$257	0	6,700,212	8.4%
<b>CA, Santa Barbara</b>	7.0%	\$2.76	\$342	165,641	12,921,011	7.2%
<b>CA, Stockton</b>	6.1%	\$1.79	\$164	0	12,956,476	8.9%
<b>CA, Ventura</b>	11.0%	\$2.30	\$217	0	21,939,521	8.7%
<b>CO, Denver</b>	16.4%	\$2.44	\$227	3,995,042	184,659,630	8.3%
<b>DC, Washington</b>	16.6%	\$3.24	\$319	3,055,427	524,519,901	8.5%
<b>FL, Fort Myers</b>	5.3%	\$2.07	\$176	75,000	21,753,057	8.3%
<b>FL, Miami</b>	8.6%	\$4.06	\$353	4,434,733	115,616,575	6.8%
<b>FL, Naples</b>	4.2%	\$2.76	\$242	59,111	10,497,185	8.2%
<b>FL, Orlando</b>	8.8%	\$2.38	\$187	1,072,493	104,839,820	8.7%
<b>FL, Tampa Bay</b>	9.2%	\$2.42	\$195	1,026,867	129,094,208	8.5%
<b>GA, Atlanta</b>	15.5%	\$2.37	\$208	2,803,106	337,369,252	8.2%
<b>GA, Savannah</b>	1.6%	\$2.16	\$178	43,936	12,519,114	9.7%
<b>ID, Boise</b>	6.1%	\$1.83	\$153	173,336	34,812,277	9.9%
<b>IL, Chicago</b>	16.6%	\$2.49	\$193	1,317,113	511,448,122	8.9%
<b>IN, Indianapolis</b>	9.4%	\$1.82	\$123	1,376,834	110,273,735	9.9%
<b>KS, Lawrence</b>	12.2%	\$1.87	\$121	0	3,320,237	10.8%
<b>KS, Topeka</b>	7.8%	\$1.50	\$113	0	11,651,143	10.3%
<b>LA, Baton Rouge</b>	6.8%	\$1.69	\$106	16,111	28,162,925	11.8%
<b>MA, Boston</b>	11.3%	\$3.52	\$413	16,460,810	377,873,731	7.0%
<b>MD, Baltimore</b>	12.1%	\$2.03	\$151	1,422,766	151,897,700	9.8%
<b>MI, Detroit</b>	12.0%	\$1.80	\$117	1,456,045	200,072,235	10.5%
<b>MN, Minneapolis</b>	11.2%	\$2.24	\$157	516,811	201,734,642	9.0%
<b>United States Index</b>	13.7%	\$2.94	\$290	104,577,868	8,438,206,266	8.2%
<b>Canada Index</b>	8.8%	\$2.24**	\$272**	18,152,383	691,039,378	7.0%

MARKET	VACANCY RATE	MARKET RENT / SF	MARKET SALE PRICE / SF	SF UNDER CONSTRUCTION	INVENTORY SF	MARKET CAP RATE
<b>MO, Kansas City*</b>	12.0%	\$1.84	\$125	958,172	128,108,139	9.6%
<b>MO, Saint Louis</b>	10.5%	\$1.81	\$114	937,324	146,964,900	10.2%
<b>NC, Durham</b>	10.7%	\$2.28	\$225	162,759	37,440,174	8.3%
<b>NC, Raleigh</b>	10.6%	\$2.47	\$216	1,579,819	78,941,207	8.3%
<b>NE, Lincoln</b>	7.6%	\$1.60	\$121	110,512	18,796,817	10.1%
<b>NE, Omaha</b>	7.2%	\$2.05	\$126	1,322,035	48,629,120	10.8%
<b>NJ, Atlantic City</b>	6.2%	\$1.91	\$137	0	7,611,058	10.3%
<b>NJ, Northern New Jersey *</b>	14.1%	\$2.34	\$185	344,812	156,587,521	9.3%
<b>NJ, Trenton</b>	10.5%	\$2.40	\$147	44,604	31,906,050	10.2%
<b>NJ, Vineland</b>	5.1%	\$1.52	\$106	0	2,838,070	10.4%
<b>NV, Reno</b>	9.7%	\$2.03	\$192	277,786	17,508,934	8.9%
<b>NY, Long Island</b>	9.0%	\$2.65	\$183	147,478	99,592,816	9.1%
<b>NY, New York *</b>	14.0%	\$4.69	\$573	9,290,989	978,671,221	6.5%
<b>OH, Cincinnati</b>	9.9%	\$1.72	\$98	86,000	105,218,249	11.1%
<b>OH, Cleveland</b>	9.9%	\$1.63	\$93	1,179,099	113,655,027	12.0%
<b>OH, Columbus</b>	10.2%	\$1.83	\$115	947,629	119,277,032	10.1%
<b>ON, Toronto **</b>	9.3%	\$2.48	\$310	11,361,788	288,293,944	5.9%
<b>PA, Harrisburg</b>	8.2%	\$1.52	\$114	191,284	37,962,837	11.1%
<b>PA, Lehigh Valley *</b>	7.2%	\$1.80	\$102	37,575	32,096,812	11.6%
<b>PA, Philadelphia *</b>	11.2%	\$2.29	\$167	2,346,023	329,824,514	9.5%
<b>PA, Pittsburgh</b>	11.8%	\$1.86	\$116	725,121	142,715,855	10.3%
<b>SC, Charleston</b>	8.0%	\$2.61	\$201	340,876	33,410,587	9.0%
<b>SC, Greenville</b>	8.8%	\$1.90	\$135	297,800	35,008,799	9.5%
<b>SC, Spartanburg</b>	4.1%	\$1.75	\$118	0	7,809,883	10.5%
<b>TN, Nashville</b>	11.9%	\$2.63	\$224	3,627,471	102,489,411	8.0%
<b>TX, Dallas-Fort Worth</b>	17.9%	\$2.53	\$219	7,937,750	424,517,294	8.1%
<b>TX, Houston</b>	18.9%	\$2.47	\$201	3,060,344	356,837,000	9.2%
<b>WA, Seattle</b>	14.4%	\$3.14	\$432	9,534,397	232,238,794	6.8%
<b>WI, Madison</b>	6.3%	\$1.93	\$124	357,013	40,169,707	10.7%
<b>United States Index</b>	13.7%	\$2.94	\$290	104,577,868	8,438,206,266	8.2%
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