NATIONAL OFFICE MARKET • Q2 2024 US

The National Office market saw a marginally positive absorption in the second quarter, breaking a two-year trend of shrinking demand. However, leasing activity remains subdued with lease sizes still below pre-pandemic norms. New leasing volume is about 10% lower than 2015-2019 averages, with smaller lease sizes driving much of the decline. Elevated sublease inventory indicates lower demand, with 196 million SF available, half of which is vacant.

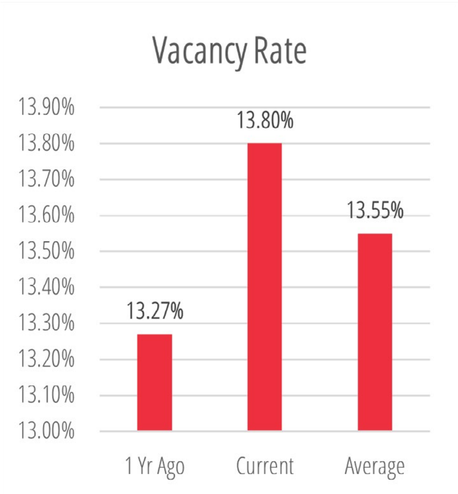
Asking rents are expected to dip due to the oversupply of sublease inventory and lower valuations, especially in tech markets like San Francisco, Seattle, and San Jose. National average rents have remained steady at $36/SF, comparable to early 2020 levels, but have not kept pace with inflation. Concessions, such as free rent and tenant improvement allowances, are rising, which could further pressure rents. Well-capitalized owners are offering these incentives to secure long-term leases, but this strategy may risk negative returns.

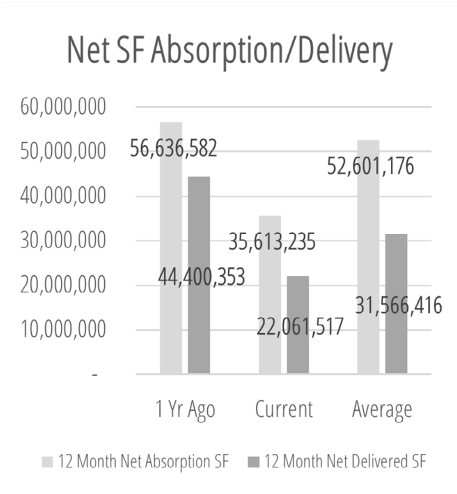
The construction pipeline is shrinking significantly, with 86.2 million SF under construction—the lowest since 2013. Net deliveries are expected to taper off by 2025, potentially tightening the market for first-generation space. Construction starts are at historically low levels, with only 20 million SF starting in the past year, indicating limited future supply. This could lead to market tightness for new space in the coming years, despite ongoing struggles for older buildings.

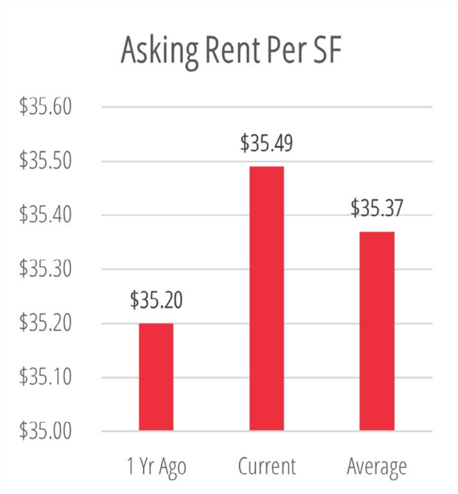
HIGHLIGHTS

- **196 million SF available for Sublease, 50% vacant**
- **Well-capitalized owners are offering larger concessions to secure long-term leases**
- **86.2 million SF under construction—the lowest since 2013**
- **Office sales constrained due to a challenging financing environment and uncertainty in long-term demand, only about $15 billion in transactions year-to-date in 2024, a volume reminiscent of the post-Great Recession period levels, with only 20 million SF starting in the past year, indicating limited future supply. This could lead to market tightness for new space in the coming years, despite ongoing struggles for older buildings.**

KEY INDICATORS • US OFFICE







Source: CoStar Group