U.S. office insights

Q1 2024

AVISON YOUNG

U.S. office market trends

1 bsf

of direct available office space across the U.S.

As a result of quarter-over-quarter increases since Q4 2022, direct available office space in the U.S. reached a decades-long high of 1 billion square feet (bsf). This figure increased from 995.8 million square feet (msf) in Q4 2023 and caused the direct availability rate to increase from 19.7% to 20%.

Despite the record high direct available space, sublet available space reached its lowest value since Q4 2022. The inversion of these trends can be linked to an increase in occupiers' need for flexibility, drawing them towards signing subleases.

52.2 msf

of U.S. office leasing activity in Q1 2024

Through Q1 2024, U.S. office leasing activity reached 52.2 msf—falling 36.1% below the pre-COVID average (2000-2019) for Q1 leasing and 32.1% below Q1 2023. In the same vein, only 36 office leases over 100,000 sf were signed this quarter, compared to 67 leases in Q1 2023.

The slowdown in large block leasing is likely a symptom of large occupiers' hesitancy to commit to long term occupancy strategies. Return-to-work policies are starting to finalize and will soon provide occupiers with a better understanding of their space needs, which should provide a boost to leasing activity in the second half of the year.

+27.1%

average length of lease terms, trophy vs. overall

As of Q1 2024, trophy properties are significantly outperforming the other asset classes across U.S. gateway markets in terms of average lease term lengths. Currently at 110 months, average trophy lease term lengths sit 27.1% longer than the overall average of 87 months.

Seemingly a function of flight-to-quality, in addition to large concession offerings, occupiers are willing to sign longer lease terms in high quality product more so than in average product. This trend will likely continue to occur in the coming quarters.

Source: AVANT by Avison Young, CoStar

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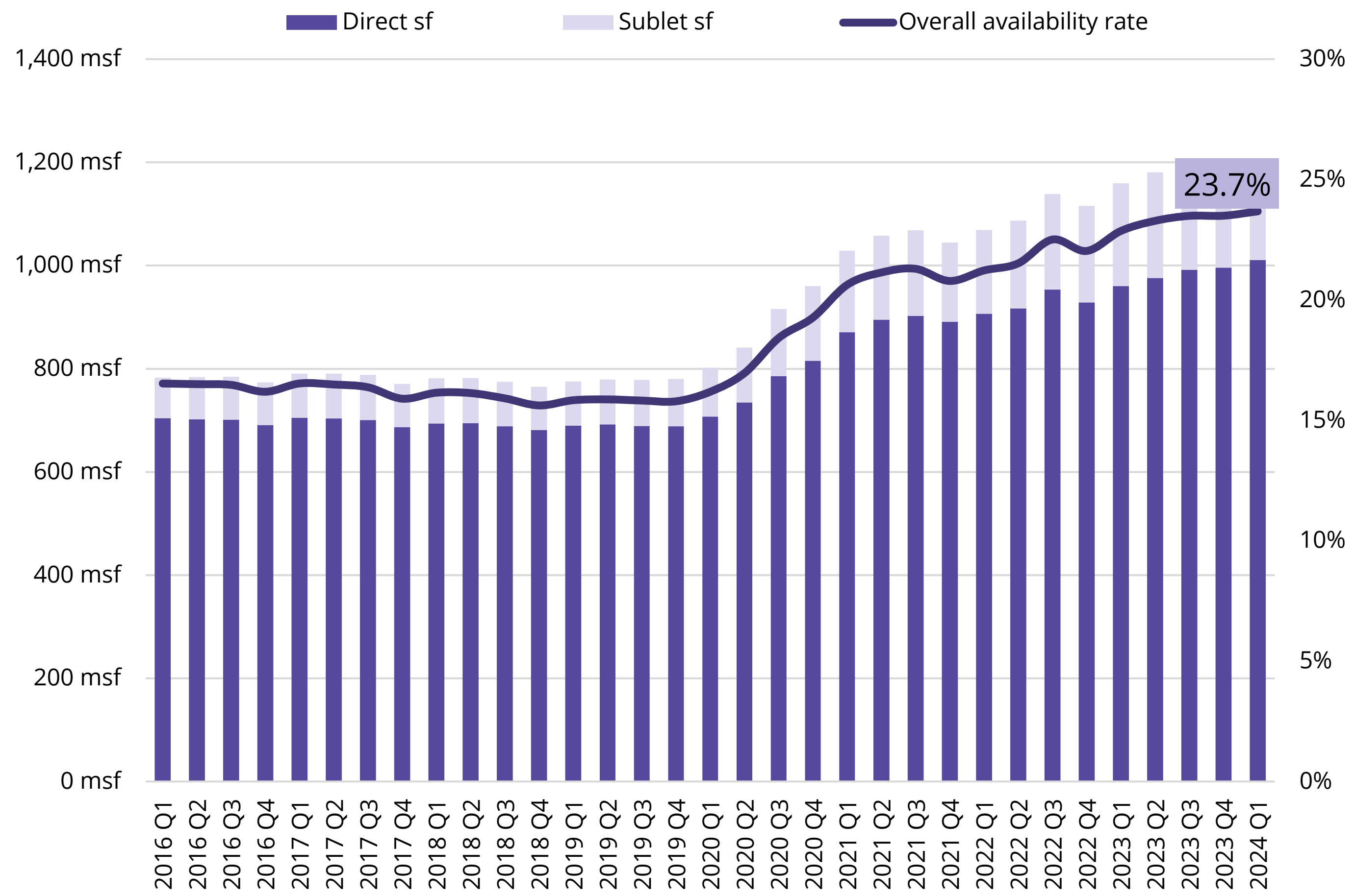
Available space

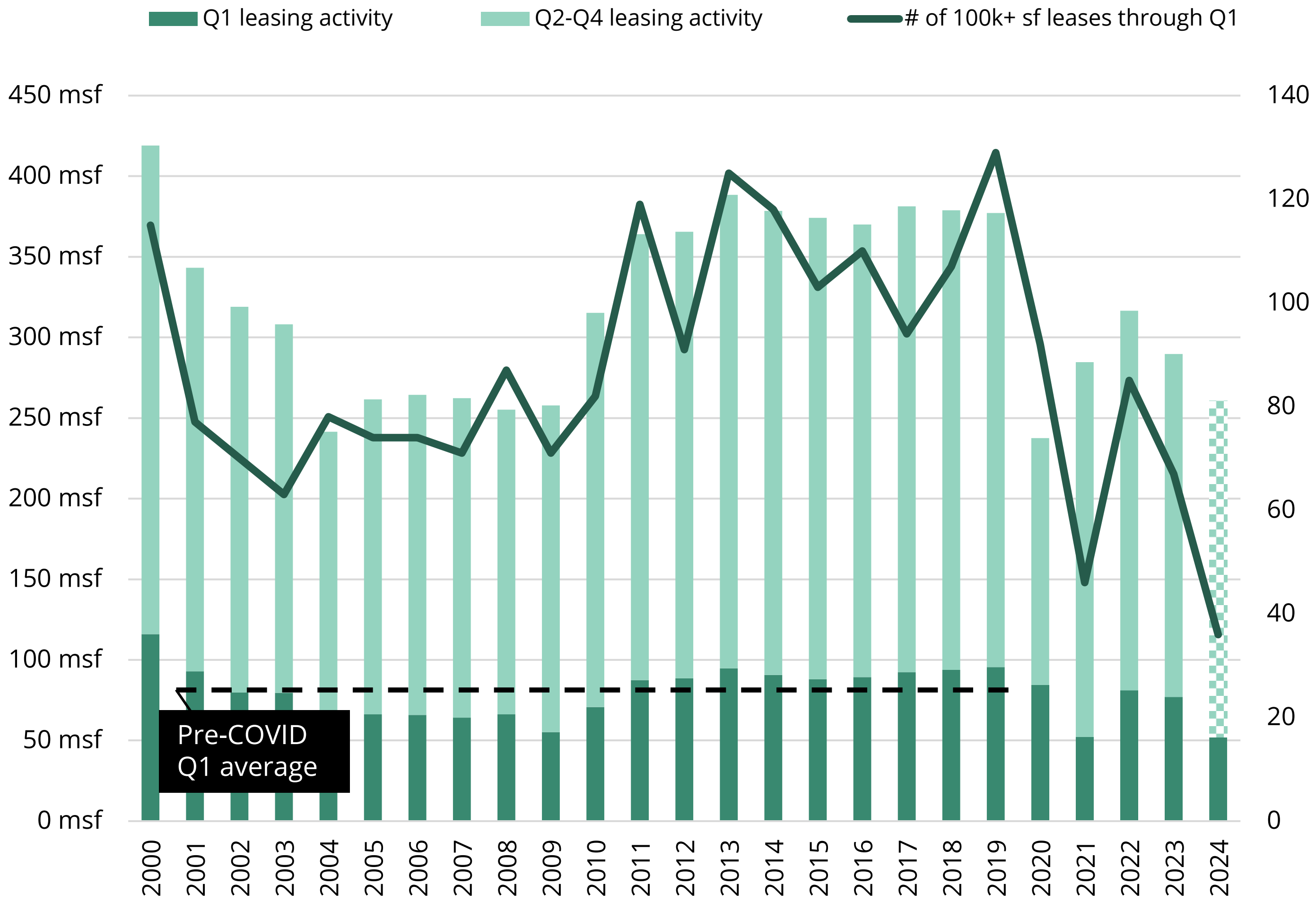


Source: AVANT by Avison Young, CoStar

The overall availability rate for U.S. office continues to increase, reaching 23.7% or 1.2 bsf.

Since last quarter, direct available space increased by 14.8 msf while sublet available space decreased by 6.2 msf.

Leasing activity



U.S. office leasing activity totaled 52.2 msf in Q1 2024, falling 36.1% below the pre-COVID average (2000-2019) for Q1 leasing.

Year-to-date, there have been only 36 leases exceeding 100,000 sf, which is 46.2% lower than the figure in Q1 2023 (67 leases).

Source: AVANT by Avison Young, CoStar

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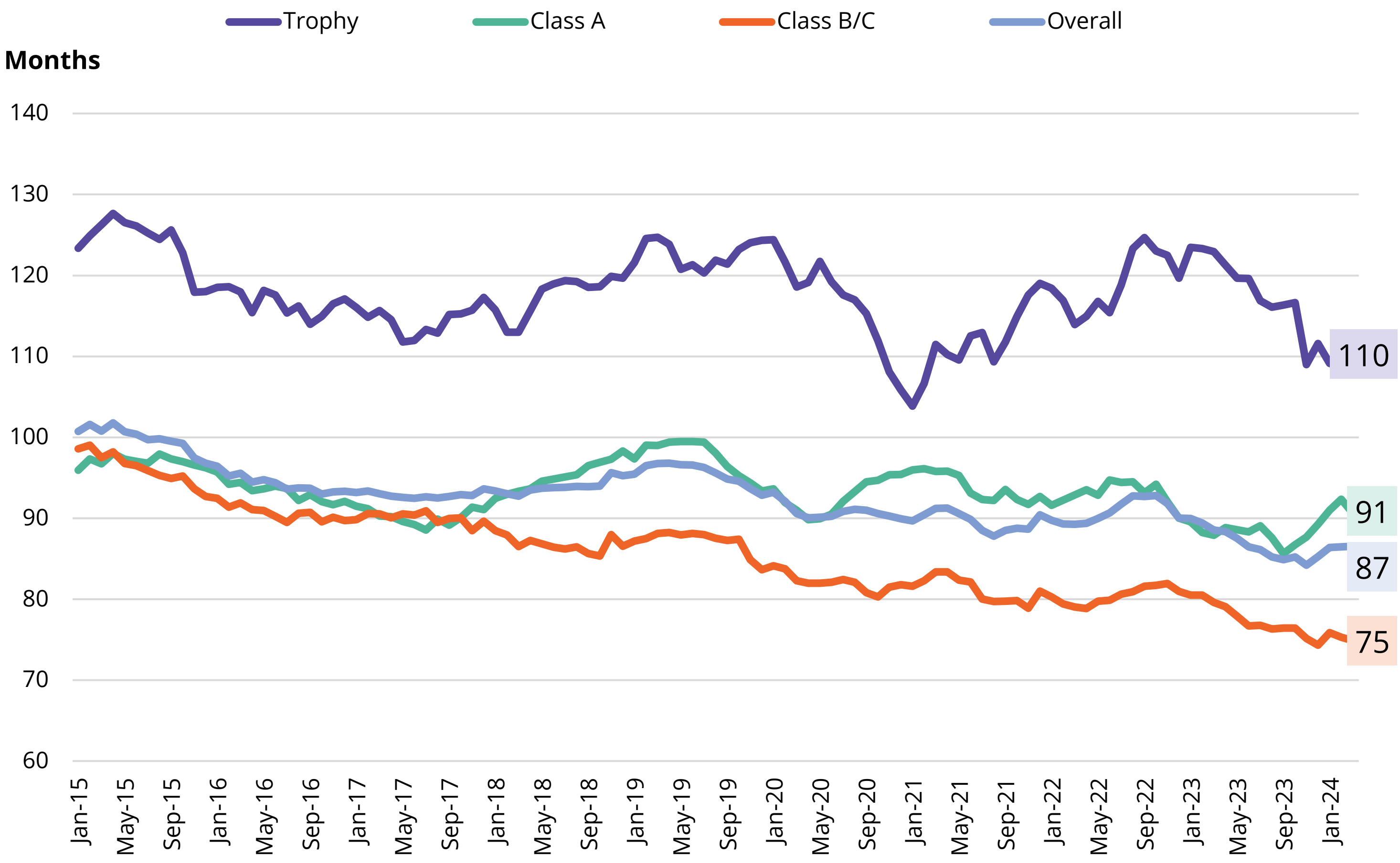
Length of lease terms by class



Boston, Manhattan, San Francisco, Washington, DC.
Direct relocations only.
Source: AVANT by Avison Young

Despite a recent dip, trophy properties across U.S. gateway markets are strongly outperforming the other asset classes in terms of average lease term lengths.

Class A lease term lengths fall right around the overall average, while class B/C fall slightly below the overall average.

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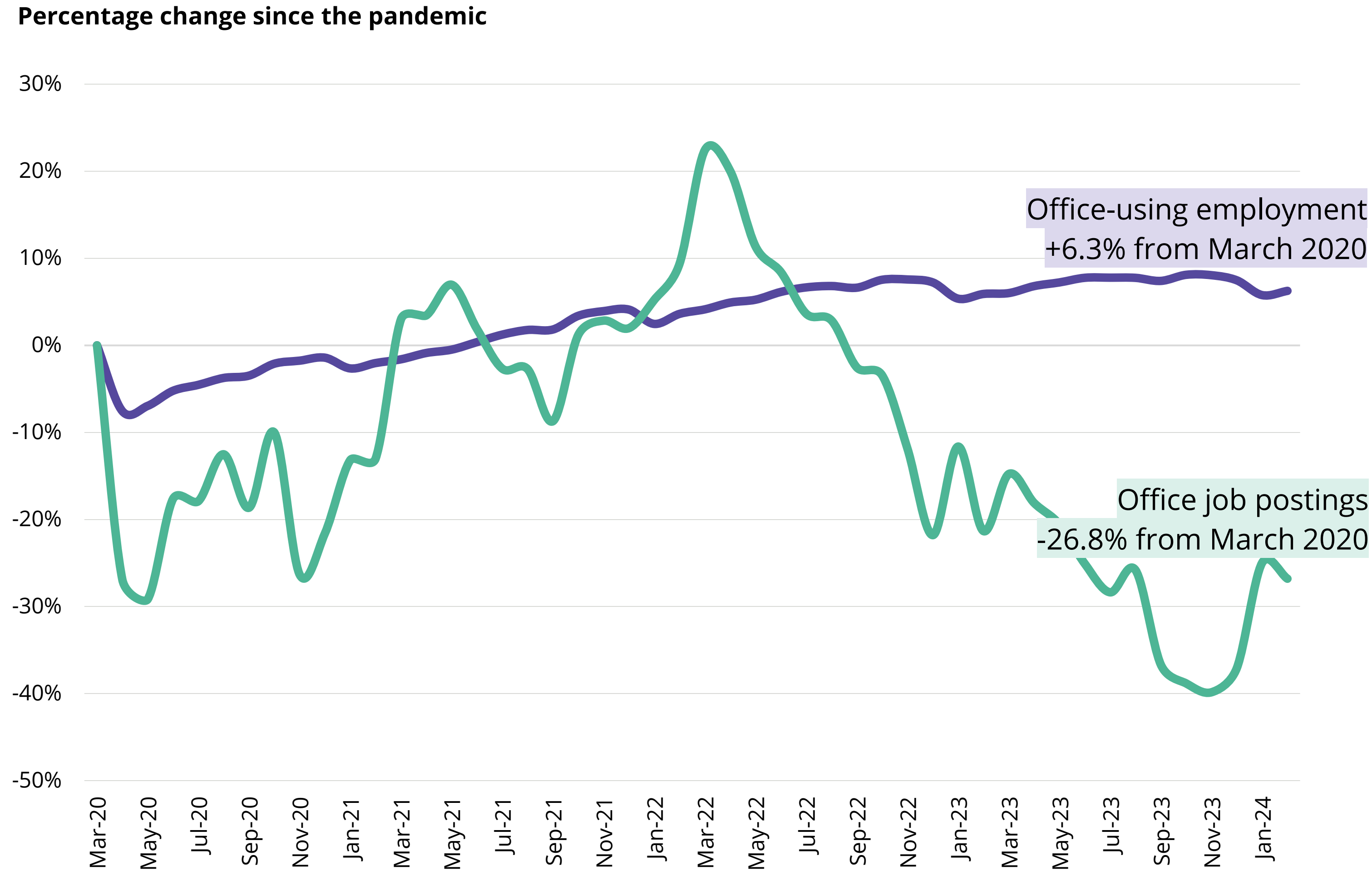
U.S. office occupier conditions

Office employment and job postings



Job postings, a directional indicator of future employment growth, have declined by 26.8% since March 2022. However, office using employment has grown 10.3% from Q4 2023.

Source: AVANT by Avison Young, Lightcast, BLS

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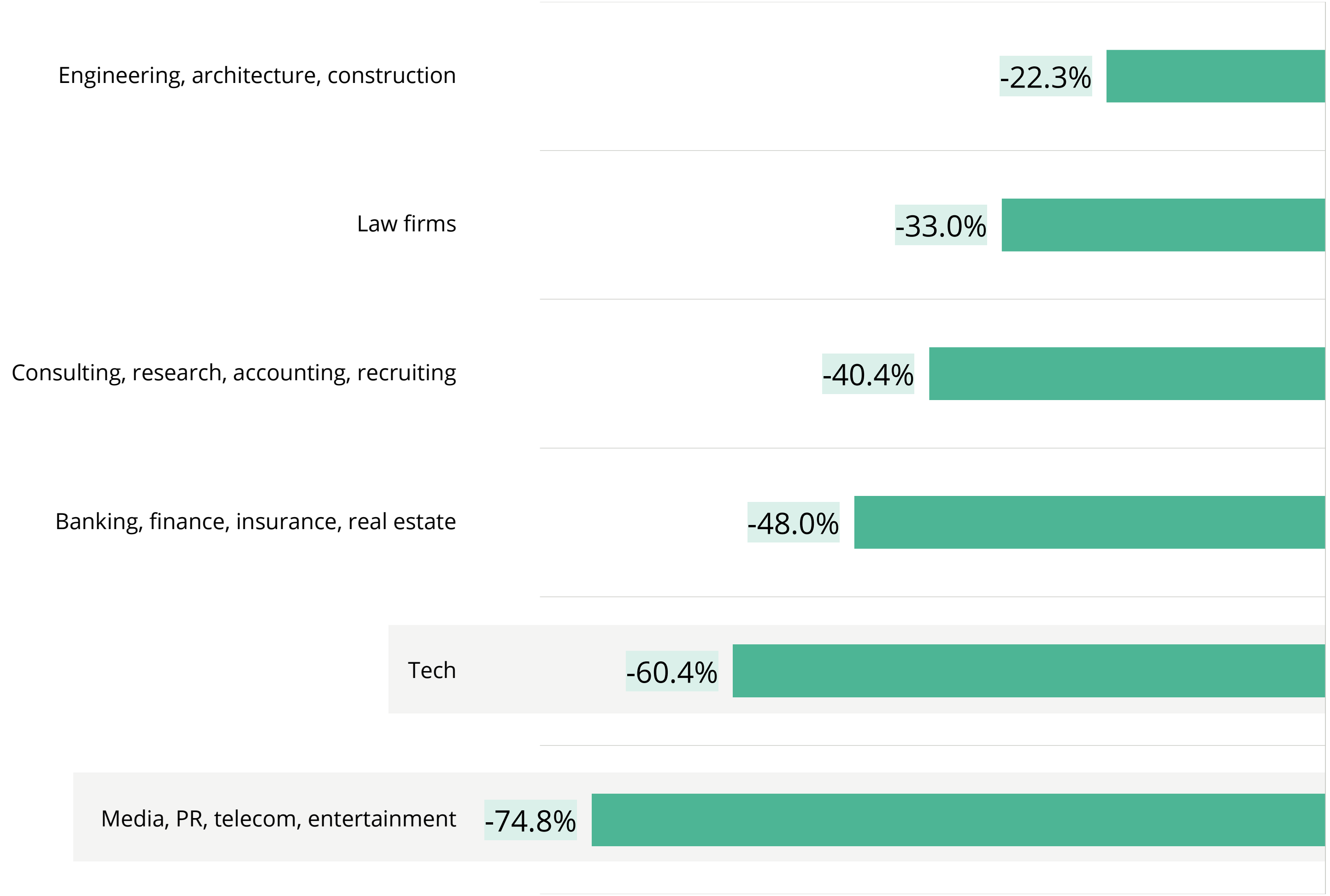
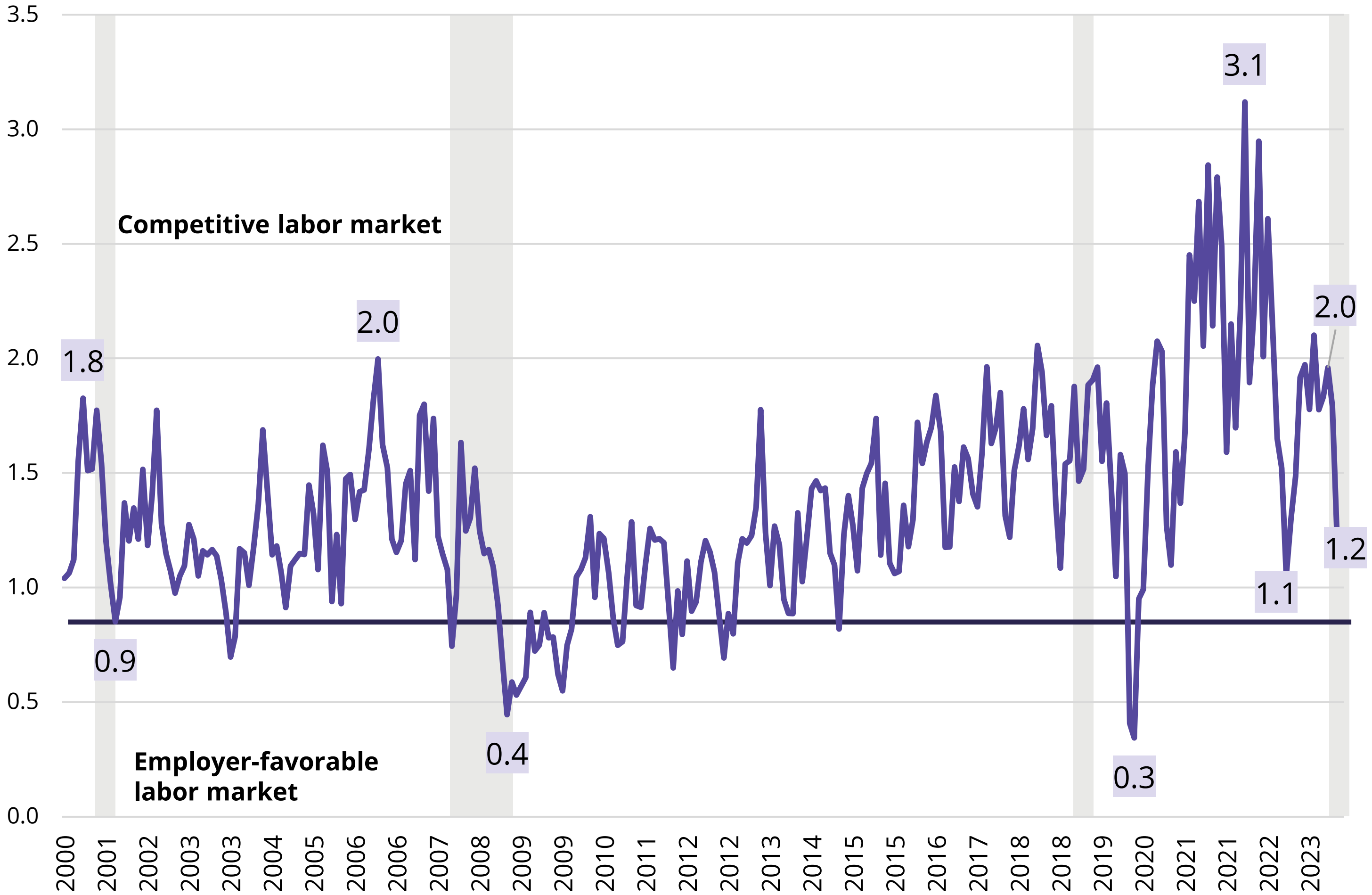
Office job postings, 3/2022 – 1/2024



Many office-using industries across the U.S. have been affected by recent economic downturn, forcing layoffs. Certain industries like tech and media have suffered more than others.

Note: Includes remote jobs. Private office sectors only.
Source: AVANT by Avison Young, Lightcast

Office quits-to-layoffs and discharges ratio

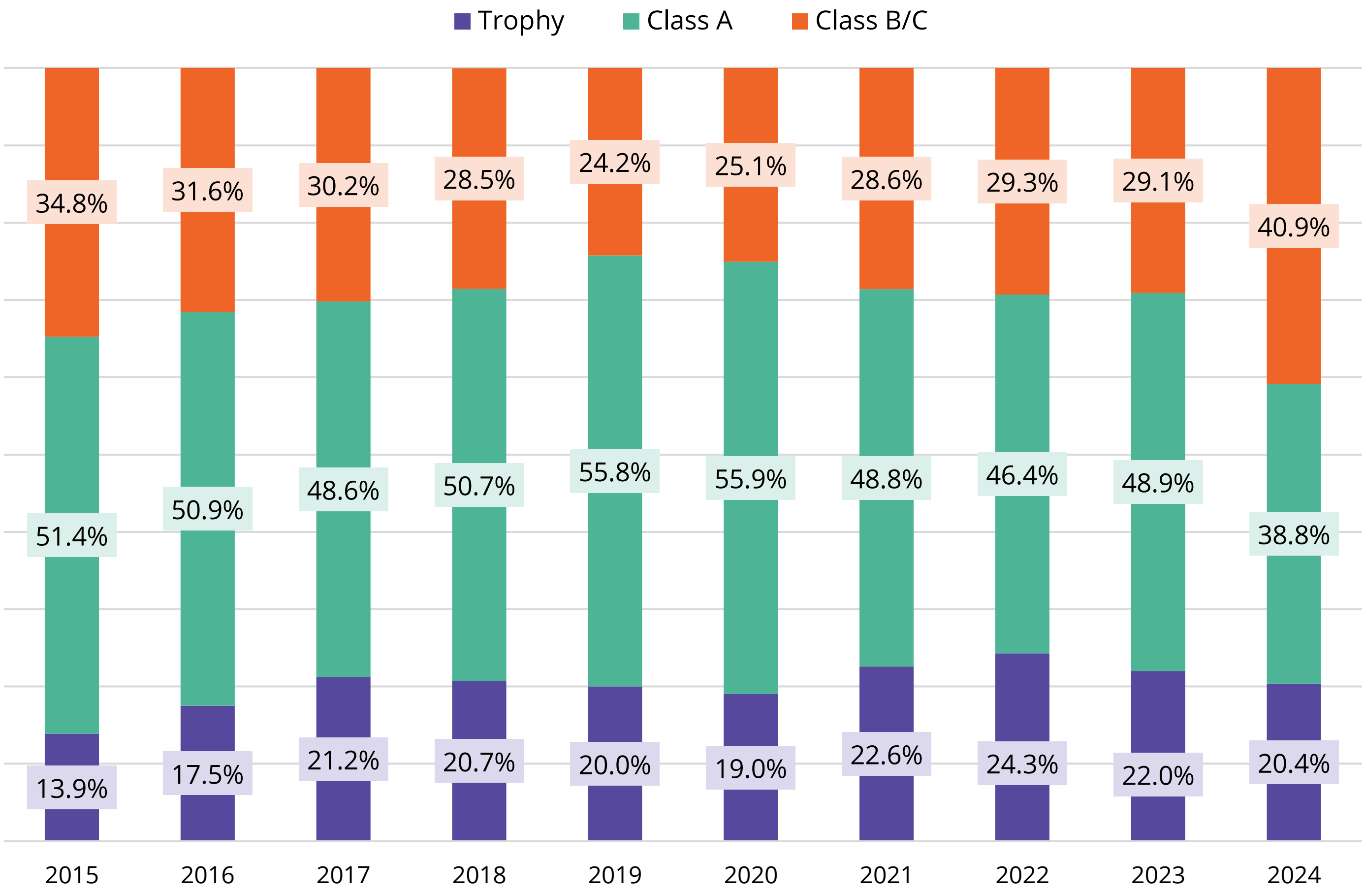


Source: Bureau of Labor Statistics

The "quits-to-layoffs" ratio measures the tightness of the office labor market.

Employee leverage has all but vanished in recent months, with the ratio dropping to its lowest value since January 2023—potentially due to increased return-to-office efforts across the U.S.

Transaction activity by asset class



Year-to-date, class B/C office space across U.S. gateway markets has captured a historically large share of leasing activity—27.3% above the previous five-year average.

Chicago, Boston, Houston, Manhattan, San Francisco, Washington, DC.
Includes direct and subleases.
Source: AVANT by Avison Young, CoStar

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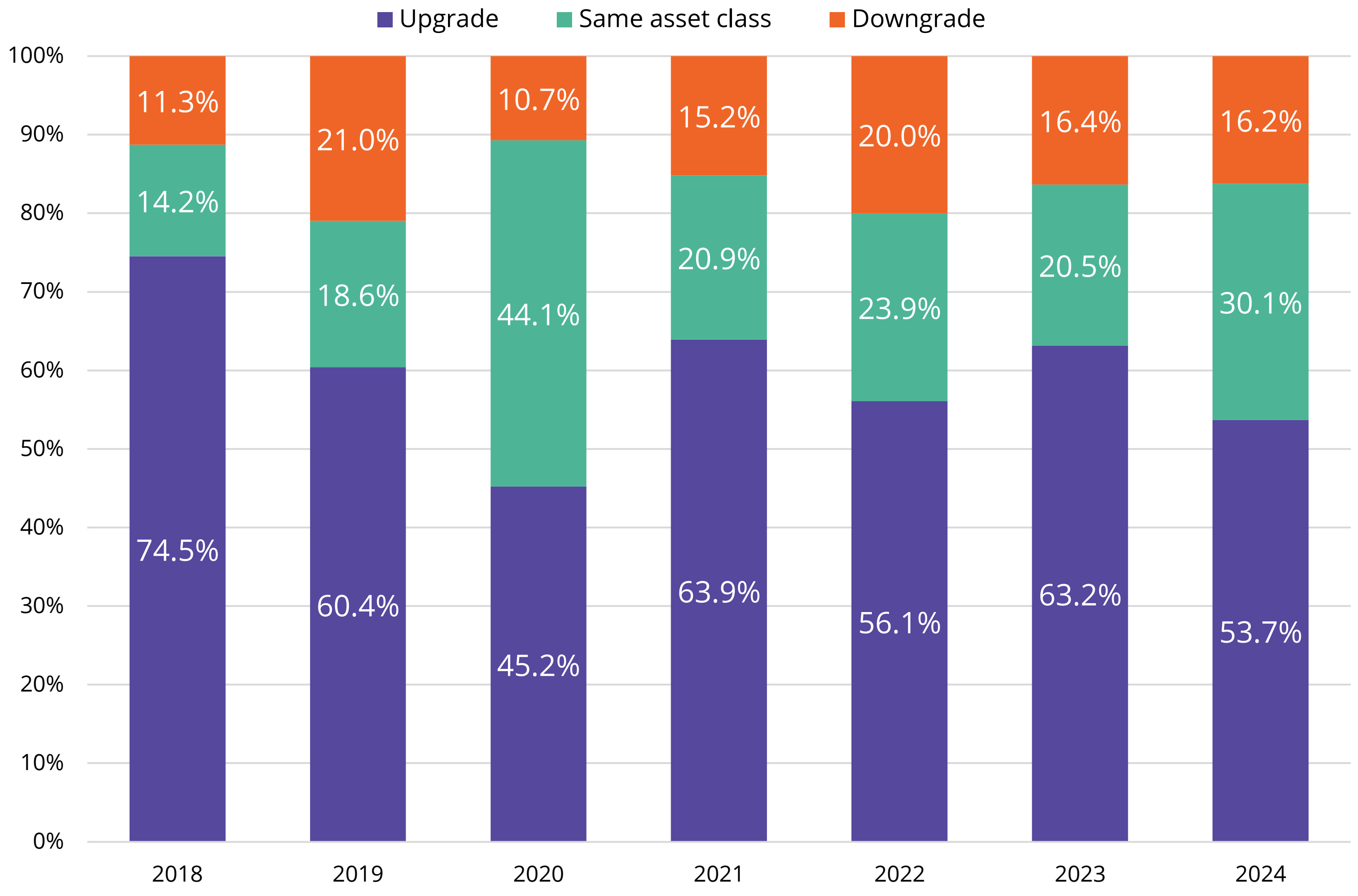
Office relocations by year



Boston, Manhattan, San Francisco, Washington, DC.
Relocations only, includes both direct and sublease.
Source: AVANT by Avison Young

In 2020, 44.1% of office leases in U.S. gateway markets were tenants relocating within the same asset class. In the years following, that number dropped closer to 20%.

Year-to-date, relocations within the same asset class have jumped back up to 30.1% of total relocations.

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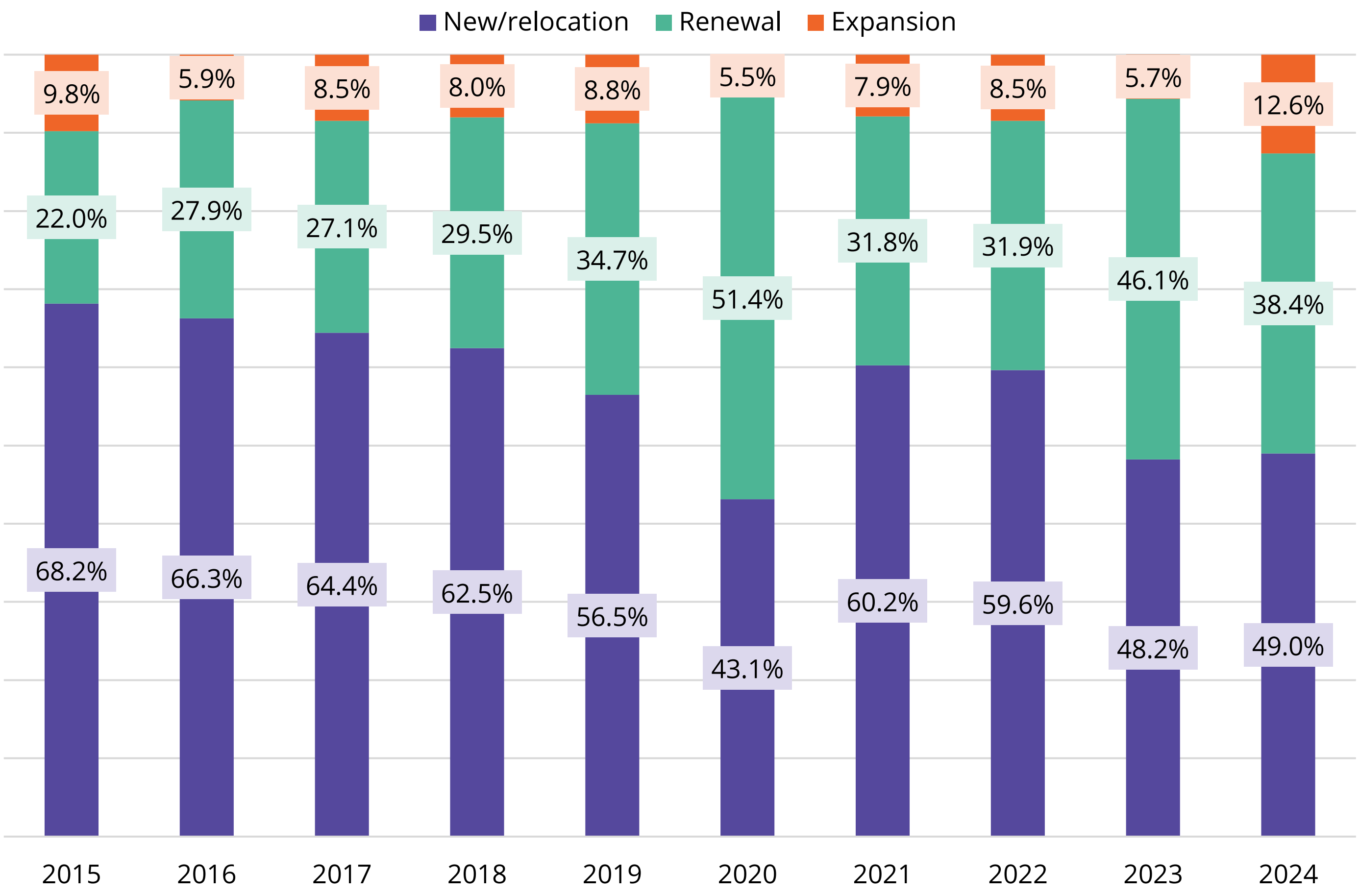
Transaction activity by lease type



Boston, Manhattan, San Francisco, Washington, DC.
Direct leases only.
Source: AVANT by Avison Young, CoStar

In 2023, there was a historically oversized share of renewals across U.S. gateway markets, reaching the highest level since the start of the pandemic in 2020.

This trend has continued into 2024, with renewals' share of leasing surpassing the 2015-2019 average by 35.8%.

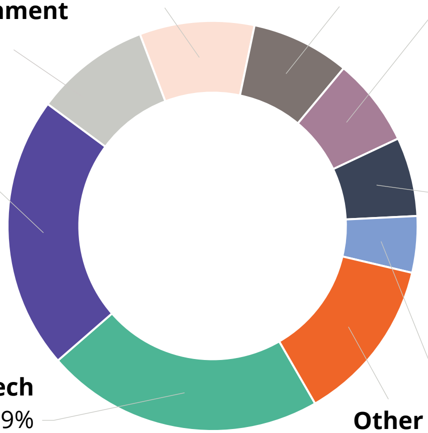
Leasing activity share by industry

+29.3%

increase in banking, finance, insurance and real estate leasing as a share of total leasing activity, post-COVID vs. pre-COVID

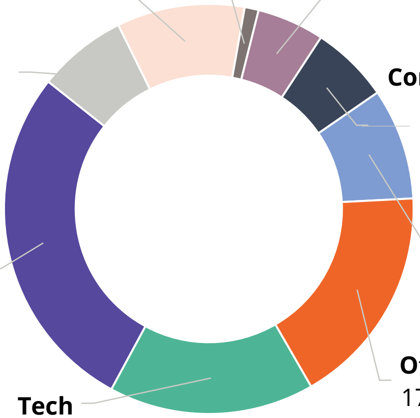
Pre-COVID

2018 to March 2020



Post-COVID

April 2020 to present



Source: AVANT by Avison Young

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Sublease activity by asset class

+12.2% increase in class A subleasing activity as a share of total leasing activity, post-COVID vs. pre-COVID

Pre-COVID
2018 - March 2020

Class A: 45.1%
Class B/C: 33%
Trophy: 21.9%

Post-COVID
April 2020 - present

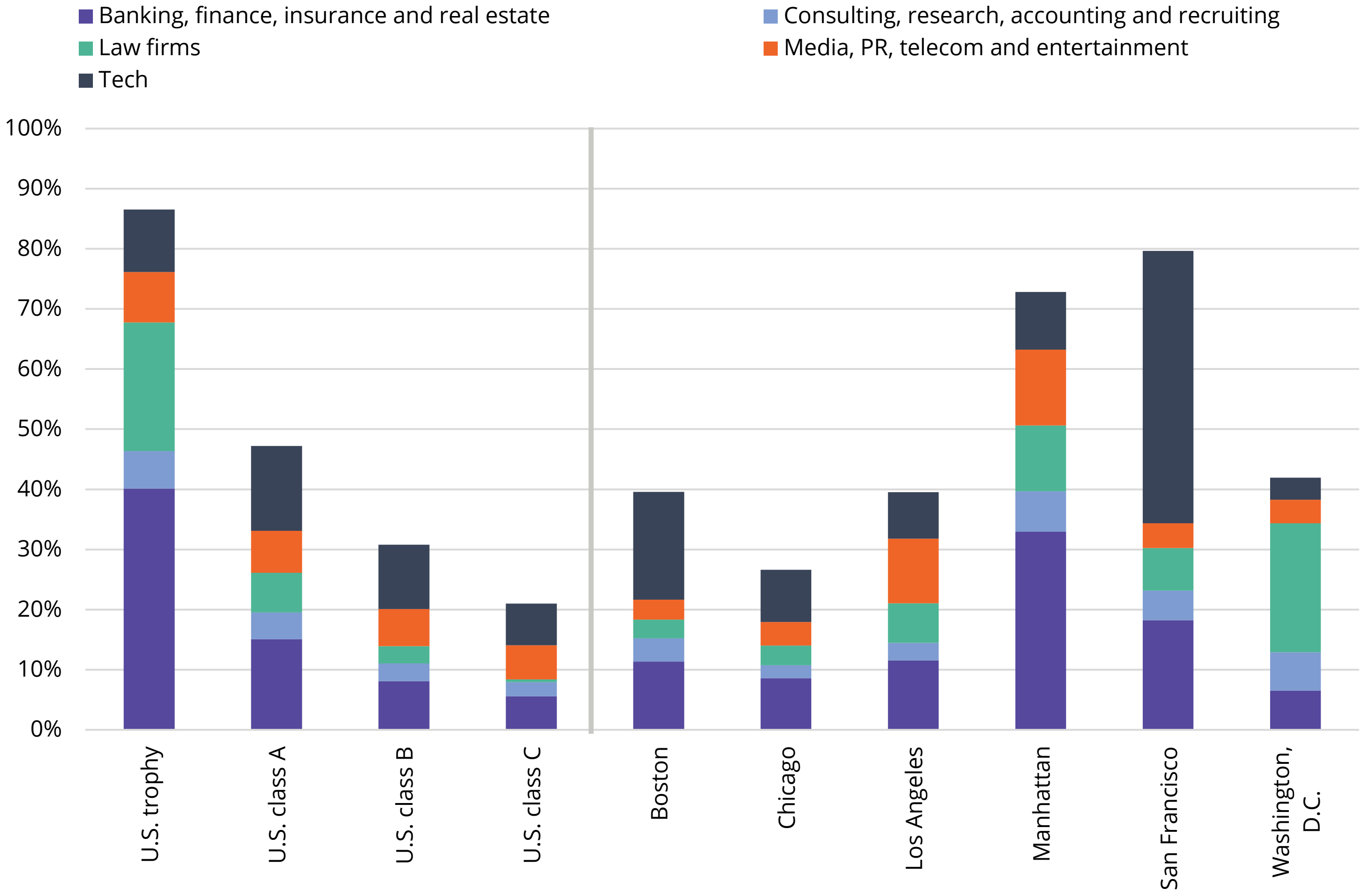
Class A: 50.6%
Class B/C: 26.2%
Trophy: 23.2%

YTD 2024

Class A: 48/0%
Class B/C: 13.9%
Trophy: 38.2%

Boston, Manhattan, San Francisco, Washington, DC.
Source: AVANT by Avison Young. Subleases only.

Exposure to at-risk industries



Across the U.S., trophy properties have by far the most exposure to at-risk industries. On the market level, San Francisco may experience distress in the future due to their reliance on the tech sector.

Note: Central business districts and private office sectors only.
Source: AVANT by Avison Young

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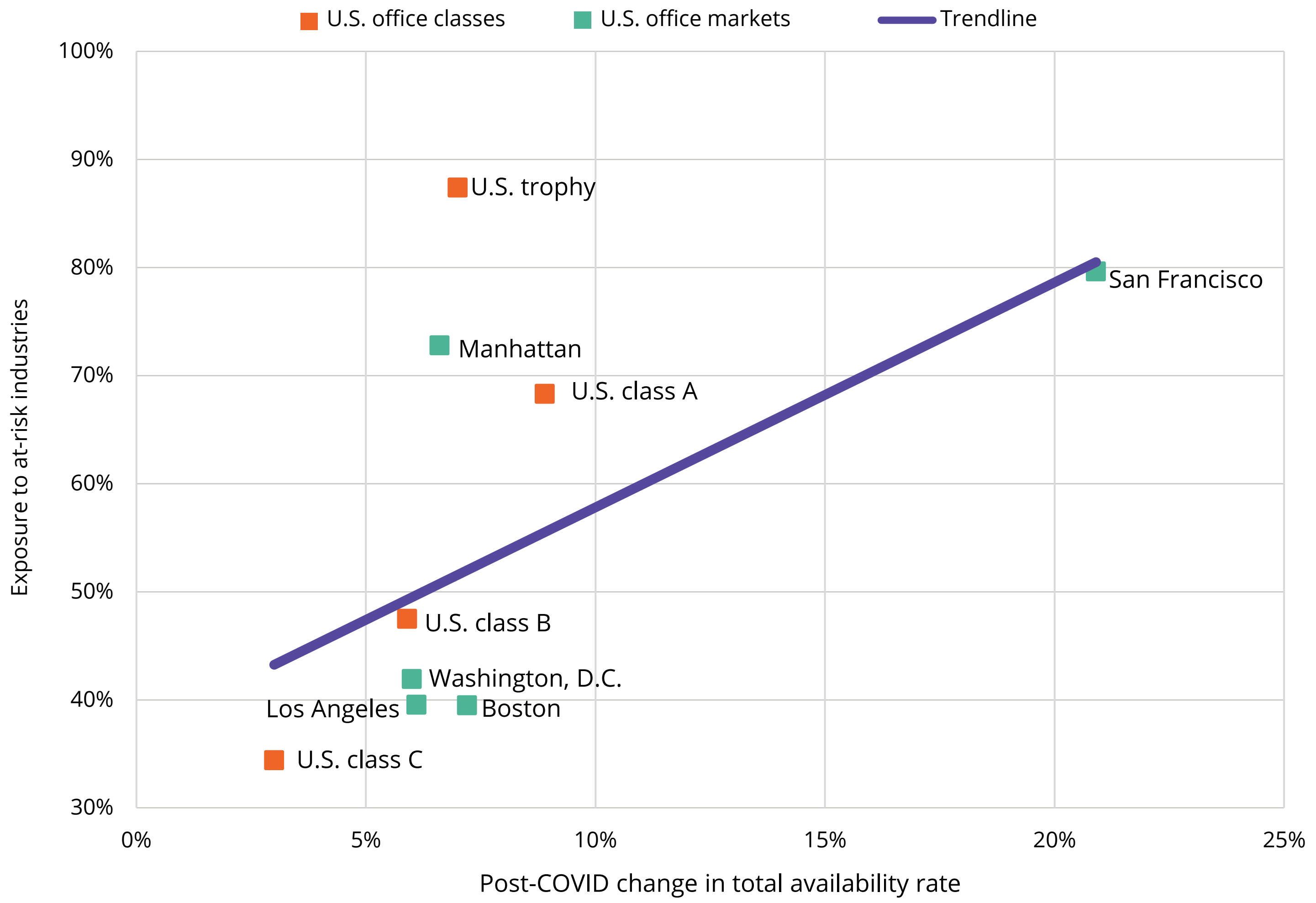
At-risk markets vs. post-COVID new supply



Central business districts and private office industries only.
Includes sublet and direct availability rates.
Source: AVANT by Avison Young, CoStar

Class B and class C properties across the U.S. are partly insulated from potential market distresses.

Other market segments like trophy and class A, as well as San Francisco, are more exposed.

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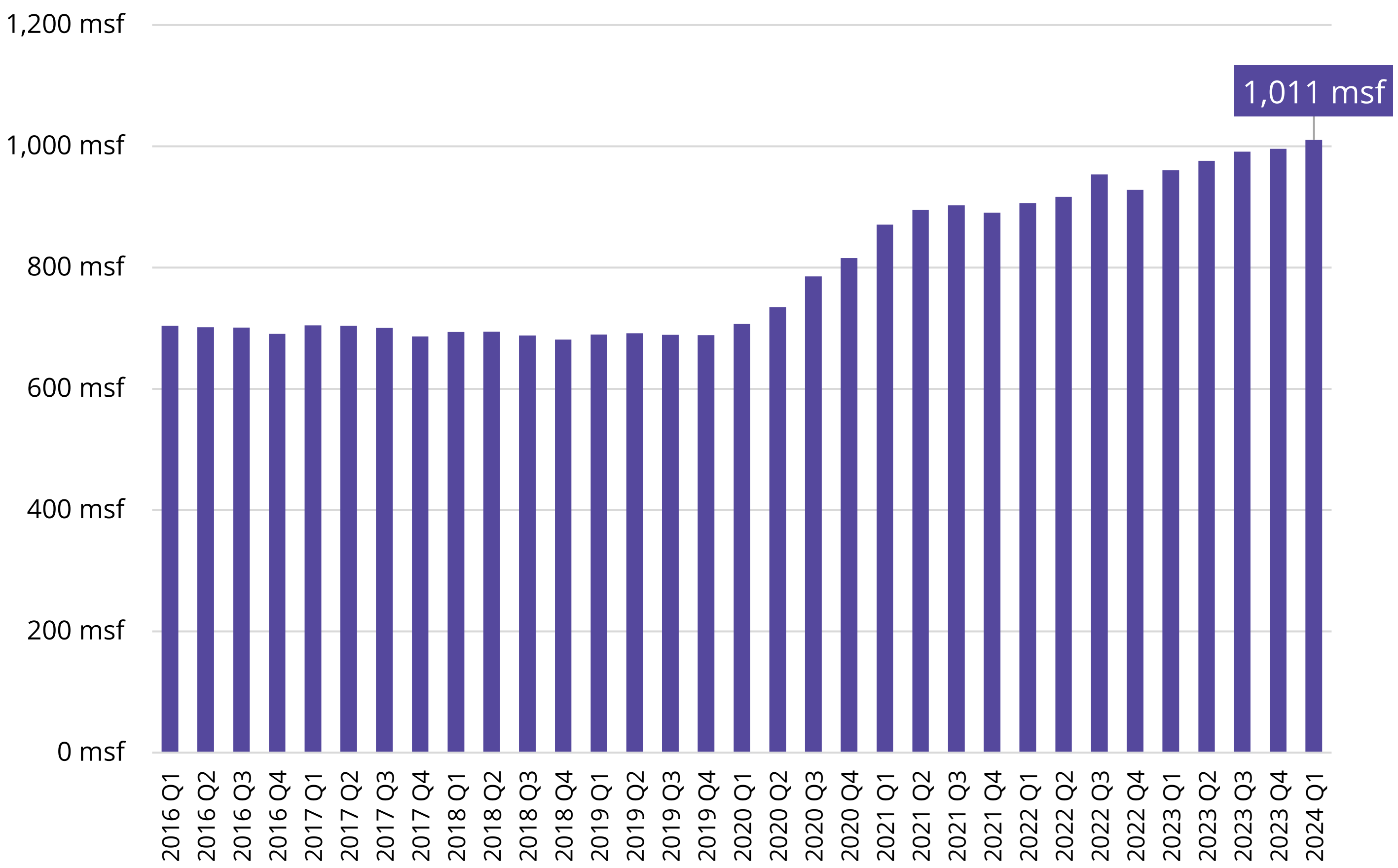
Available direct space



Source: AVANT by Avison Young, CoStar

Direct available office space in the U.S. has increased quarter-over-quarter since Q4 2022 and has now reached over 1 billion sf—a decades-long high.

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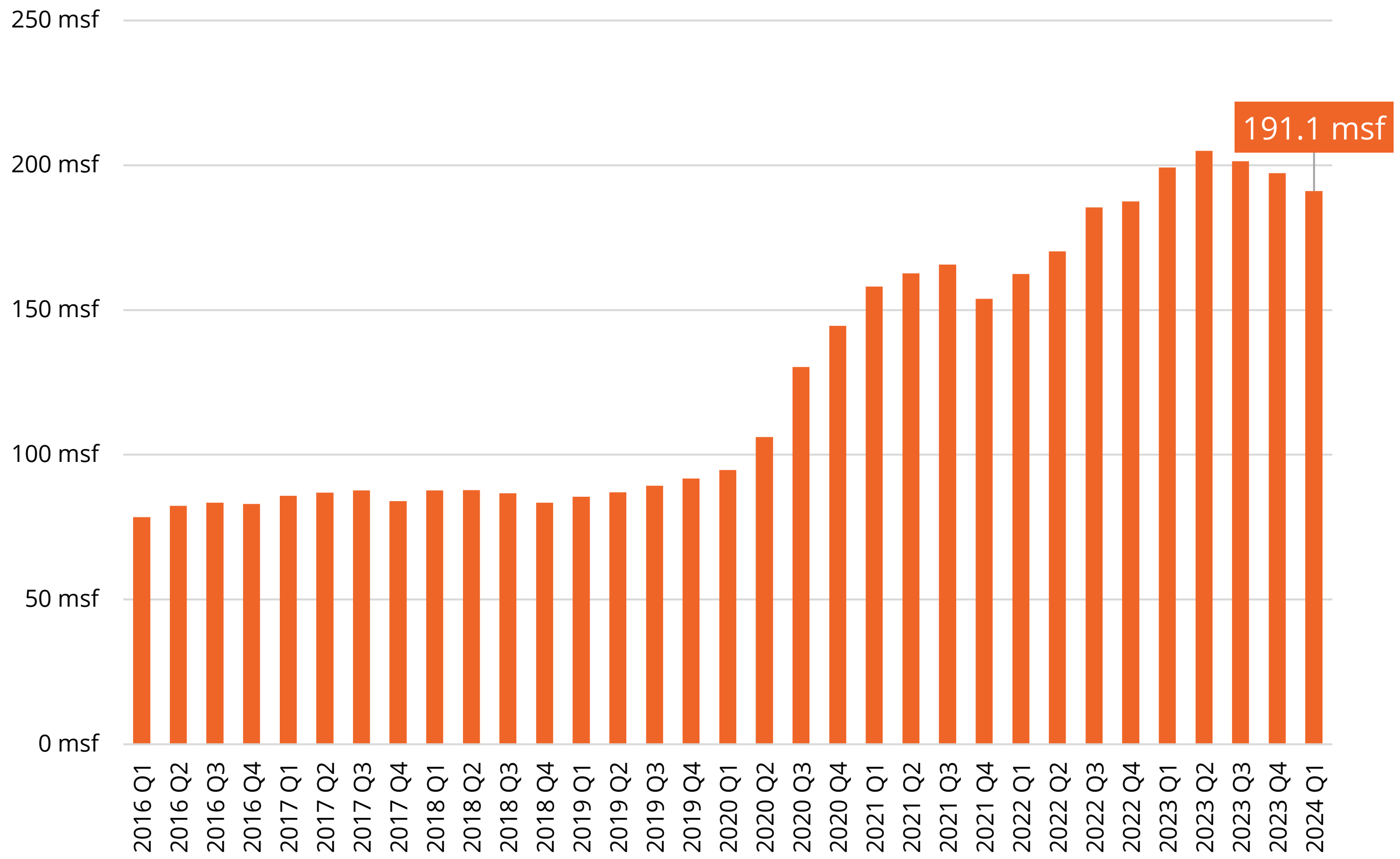
Available sublet space



Source: AVANT by Avison Young, CoStar

While direct available office space in the U.S. has been continuously increasing, sublease available space in the U.S. has been on the decline—reaching its lowest level since Q4 2022.

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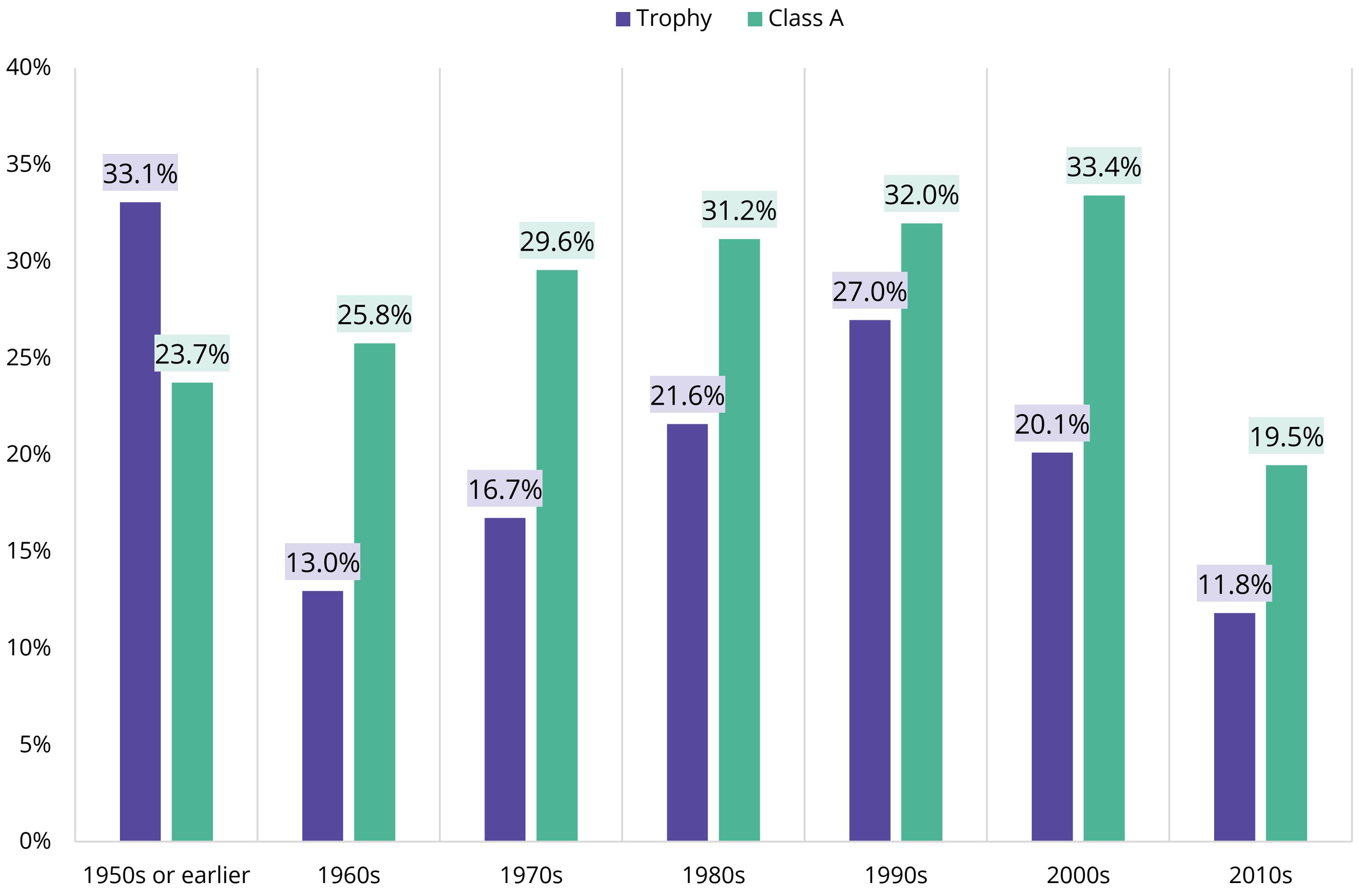
Total availability rates by delivery date



Atlanta, Austin, Boston, Charlotte, Los Angeles, Manhattan, Philadelphia, Raleigh, San Francisco, Silicon Valley, Tampa, Washington, D.C.
Source: AVANT by Avison Young, CoStar

Commodity class A properties built in the 1960s through the 2000s continue to be the most distressed in terms of availability.

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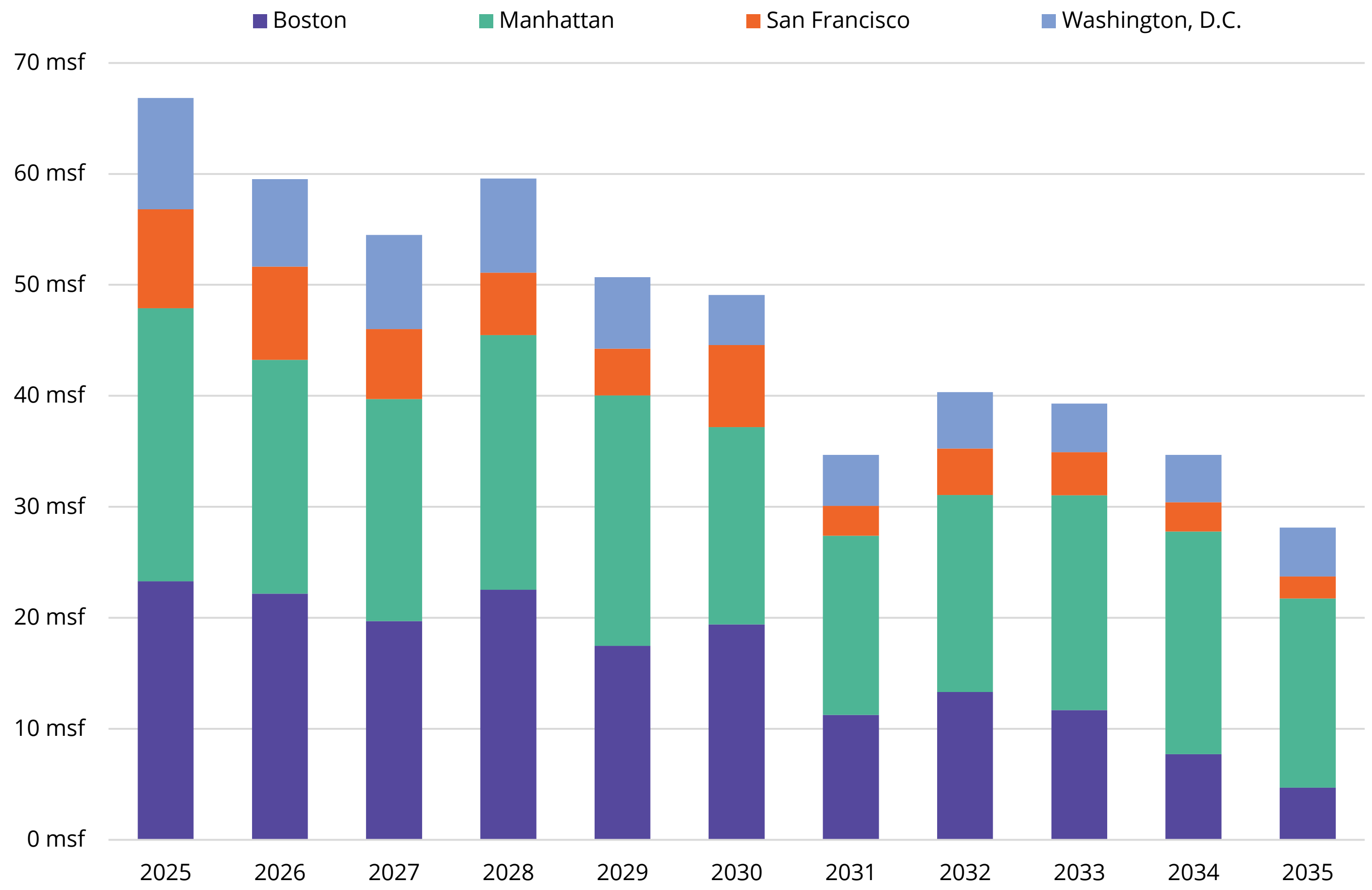
Upcoming lease expirations by market



The large amount of lease expirations in the coming years across major U.S. office markets suggests a future spike in leasing activity.

Source: AVANT by Avison Young

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Composition of active requirements

Banking, finance, insurance and real estate: 26%

Tech: 13%

Law firms: 12%

Media, PR, telecom and entertainment: 10%

Consulting, research, accounting and recruiting: 7%

Government: 5%

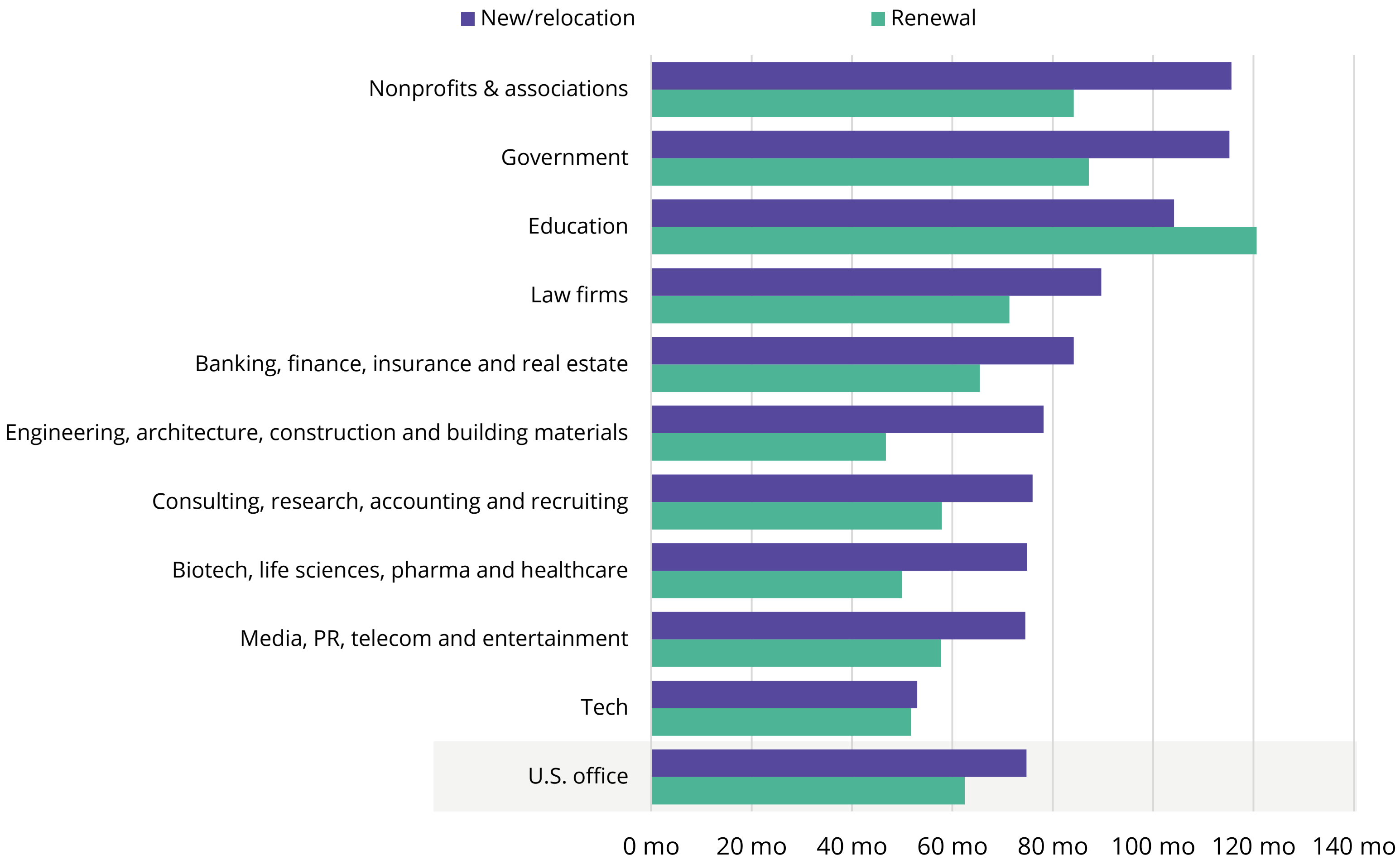
All others: 27%

Boston, Manhattan, San Francisco and Washington, D.C. tenants in the market
Source: AVANT by Avison Young

The three most active industries, finance/real estate, law, and tech, are expected to gain momentum as the year goes on.

AVANT by AVISON YOUNG

Lease terms by major industries

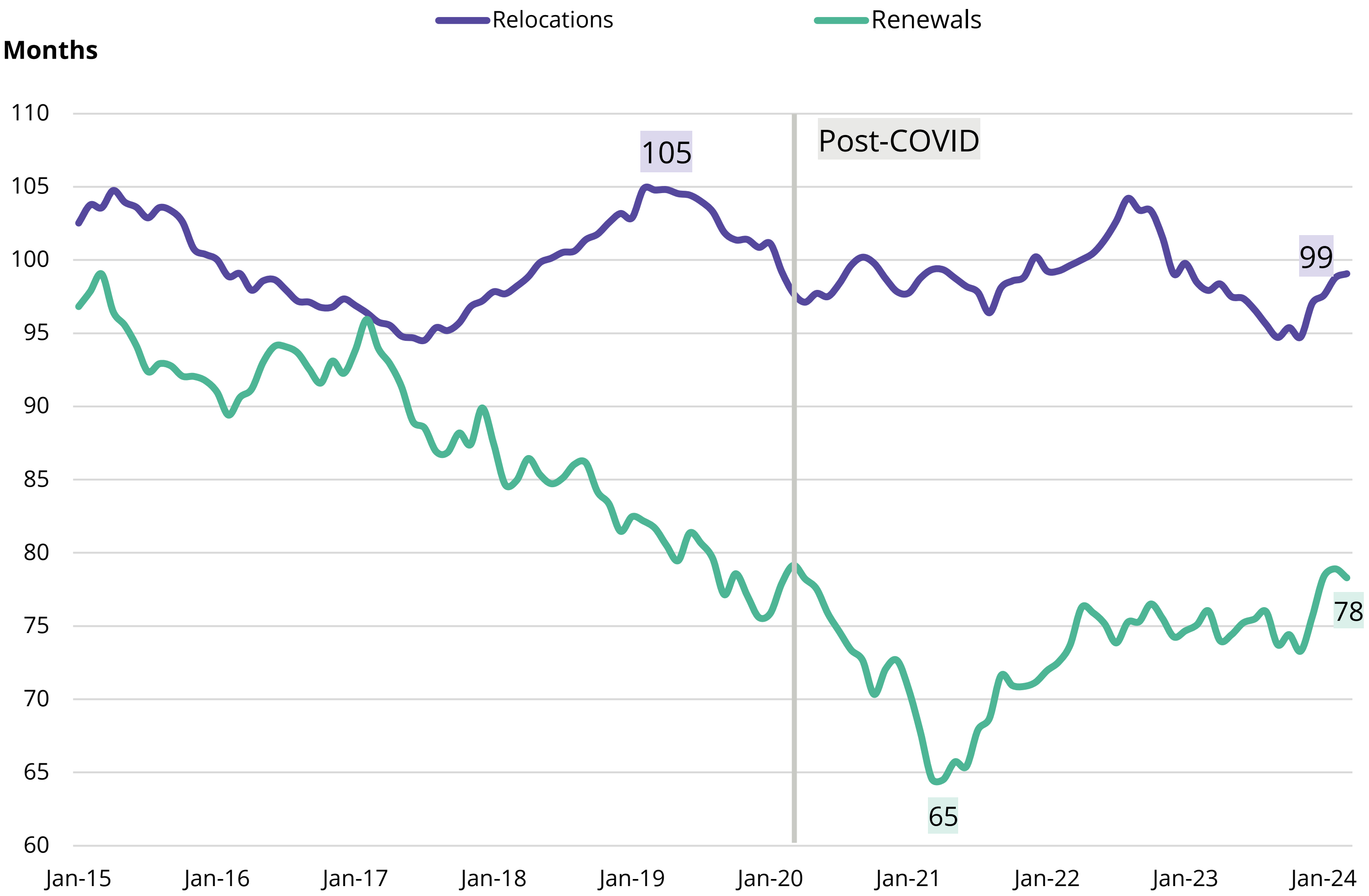


Boston, Chicago, Dallas – Ft Worth, Los Angeles, Manhattan, San Francisco, Washington DC.
Data reflects 12-month average, direct and sublease. Includes all classes.
Source: AVANT by Avison Young

In the past 12 months, length of lease terms for office leases in the U.S. averaged 75 months for new leases/relocations and 62 months for renewals.

The influence of sublease space and the growing demand for flexibility has led to term lengths falling below historical averages.

Office lease term lengths



Boston, Manhattan, San Francisco, Washington, DC.
12-month moving averages, direct leases only. Trophy and Class A properties.
Source: AVANT by Avison Young

Lease term lengths for both relocations and renewals among trophy and class A properties have increased since last quarter—despite the gap between them remaining historically wide at 21 months.

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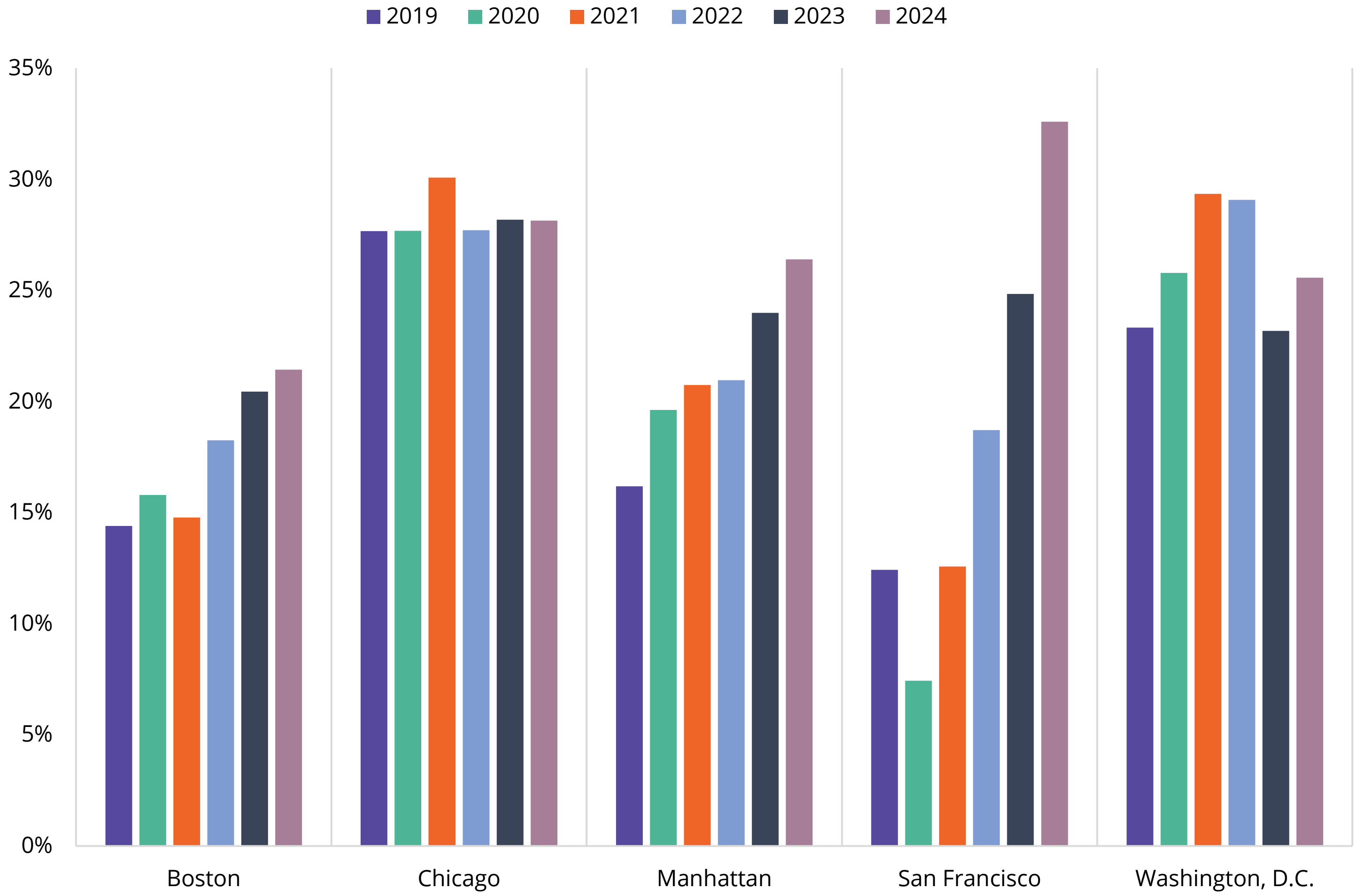
Concessions as a share of lease term



Note: Concessions include the value of tenant improvement allowances and free rent periods.
Central business districts only. Direct relocations only with 7+ year lease terms.
Source: AVANT by Avison Young

Excluding Manhattan and San Francisco, concessions for relocations have begun to moderate towards historical levels in U.S. gateway markets when controlling for lease term length.

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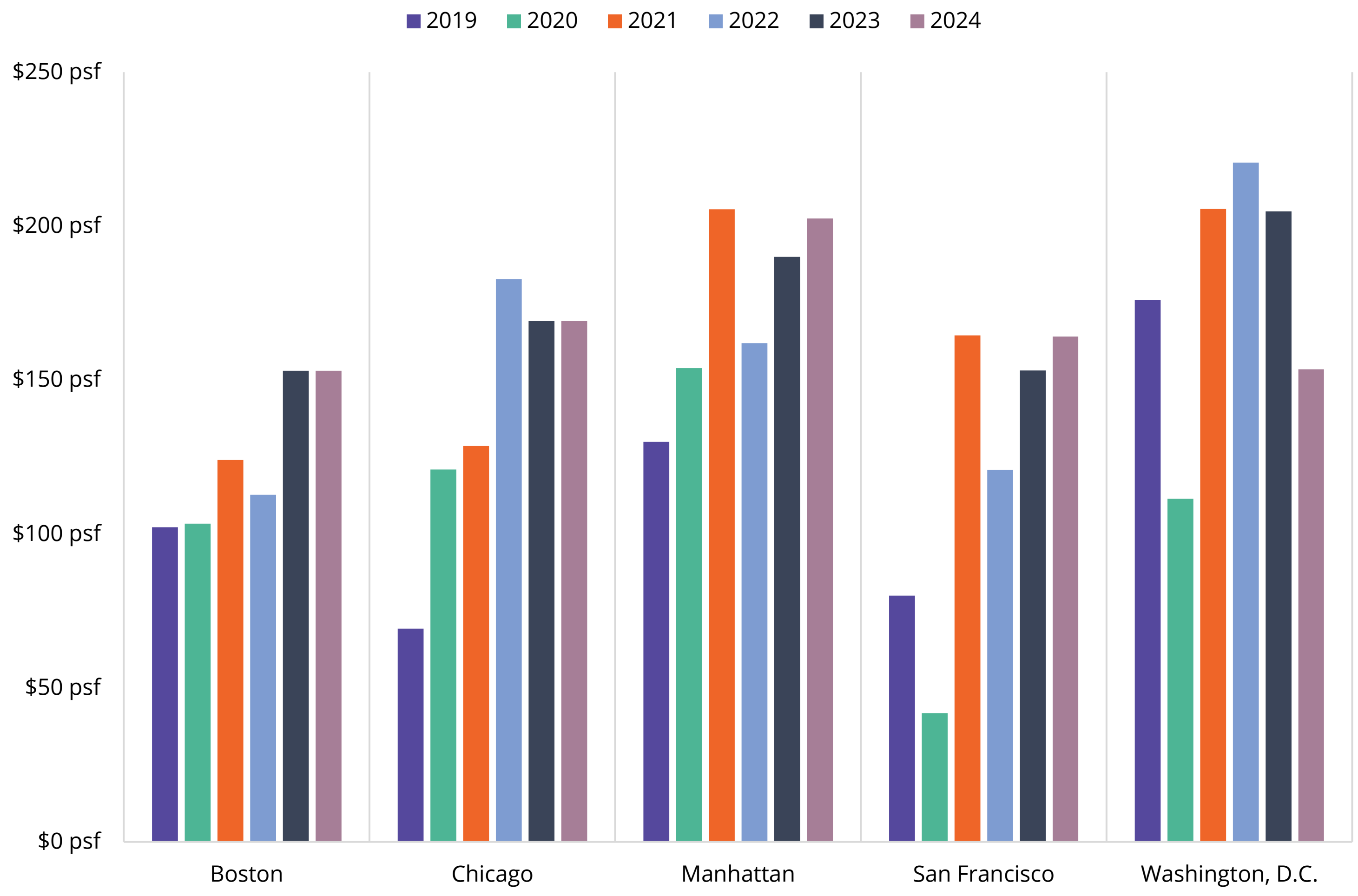
Renewal total concessions values



Landlords are offering record-breaking concessions packages to existing tenants as a method of inducing long-term recommitments to stabilize properties.

Note: Concessions include the value of tenant improvement allowances and free rent periods. Central business districts only. Direct renewals with 10+ year lease terms only.
Source: AVANT by Avison Young

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U.S. office capital markets conditions

Diagnosing CMBS office loan distress

Fixed-rate loans originated when interest rates were much lower than present rates and occupier conditions were stabilized. At present day, they are becoming increasingly distressed as loan maturities approach. Still, **just 3.6% of U.S. office properties are encumbered by distressed loans**.

52%

Class A share of properties encumbered by a distressed CMBS loan; class A properties comprise 43.7% of U.S. office properties

25.1%

Average direct availability rate for distressed offices; U.S. direct availability rate was 20% in Q1 2024

77.4%

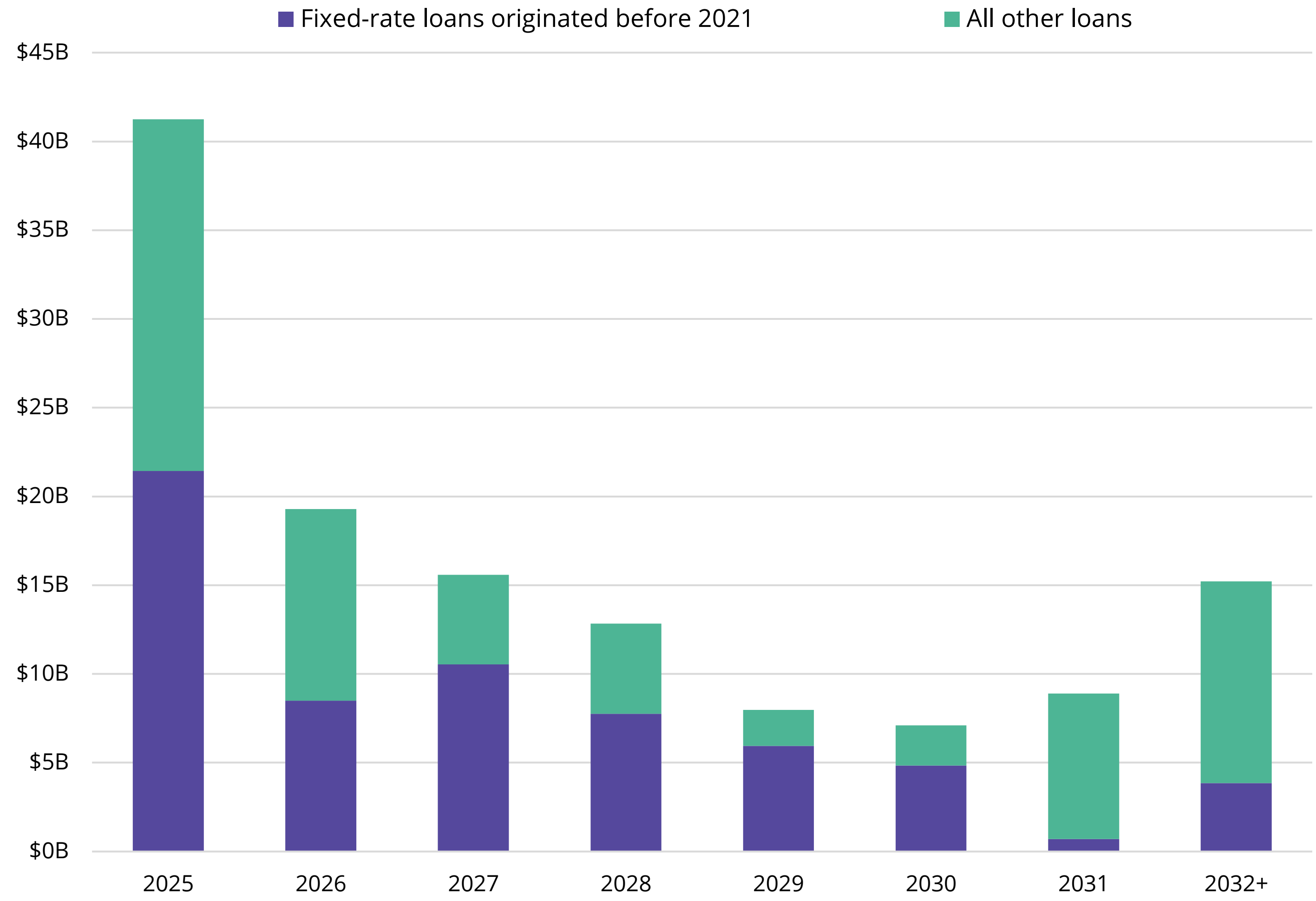
Distressed loans have fixed interest rates

1/2017

Average origination date of distressed loans

Source: AVANT by Avison Young, RCA, CoStar

Upcoming CMBS loan maturities



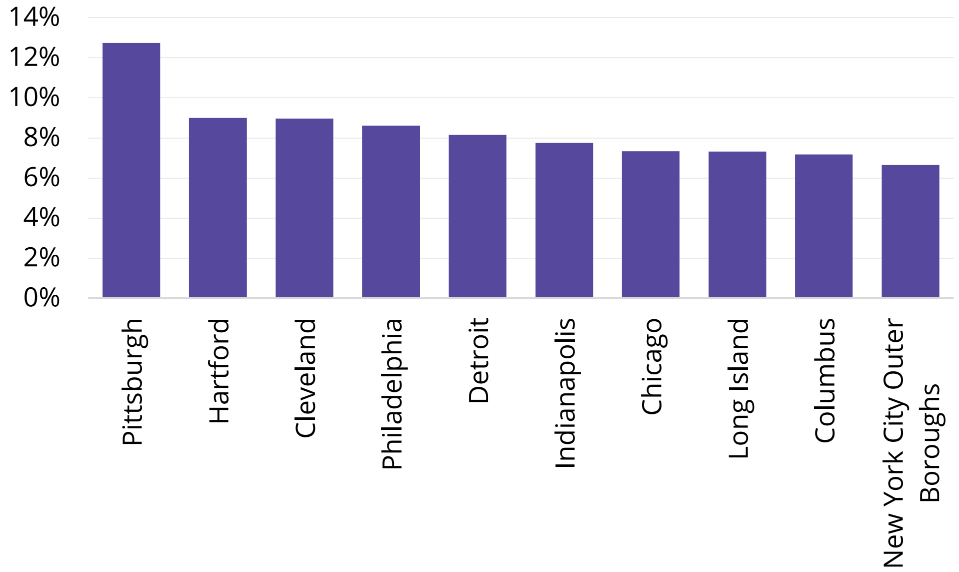
$21.4B of outstanding fixed-rate loans that originated before 2021—before the spike in interest rates—are maturing in 2025, in addition to $19.8B of other CMBS loans.

Source: AVANT by Avison Young, RCA

Markets with the greatest and least exposure to at-risk loans

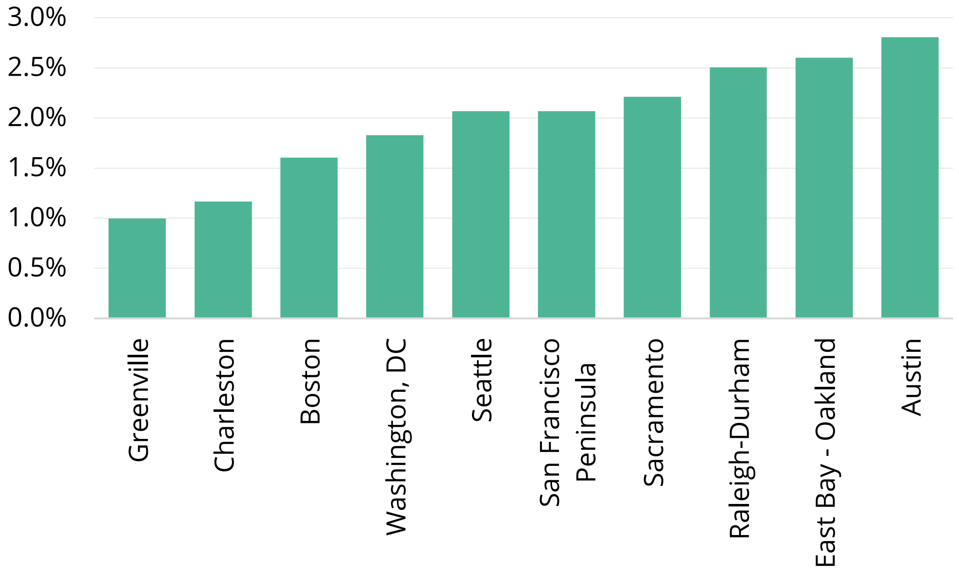
8.3%

Average exposure to at-risk loans,
10 markets with the **greatest exposure**.



2%

Average exposure to at-risk loans,
10 markets with the **least exposure**.



Share by sf of properties encumbered by loans on CMBS watchlist
Source: AVANT by Avison Young, RCA

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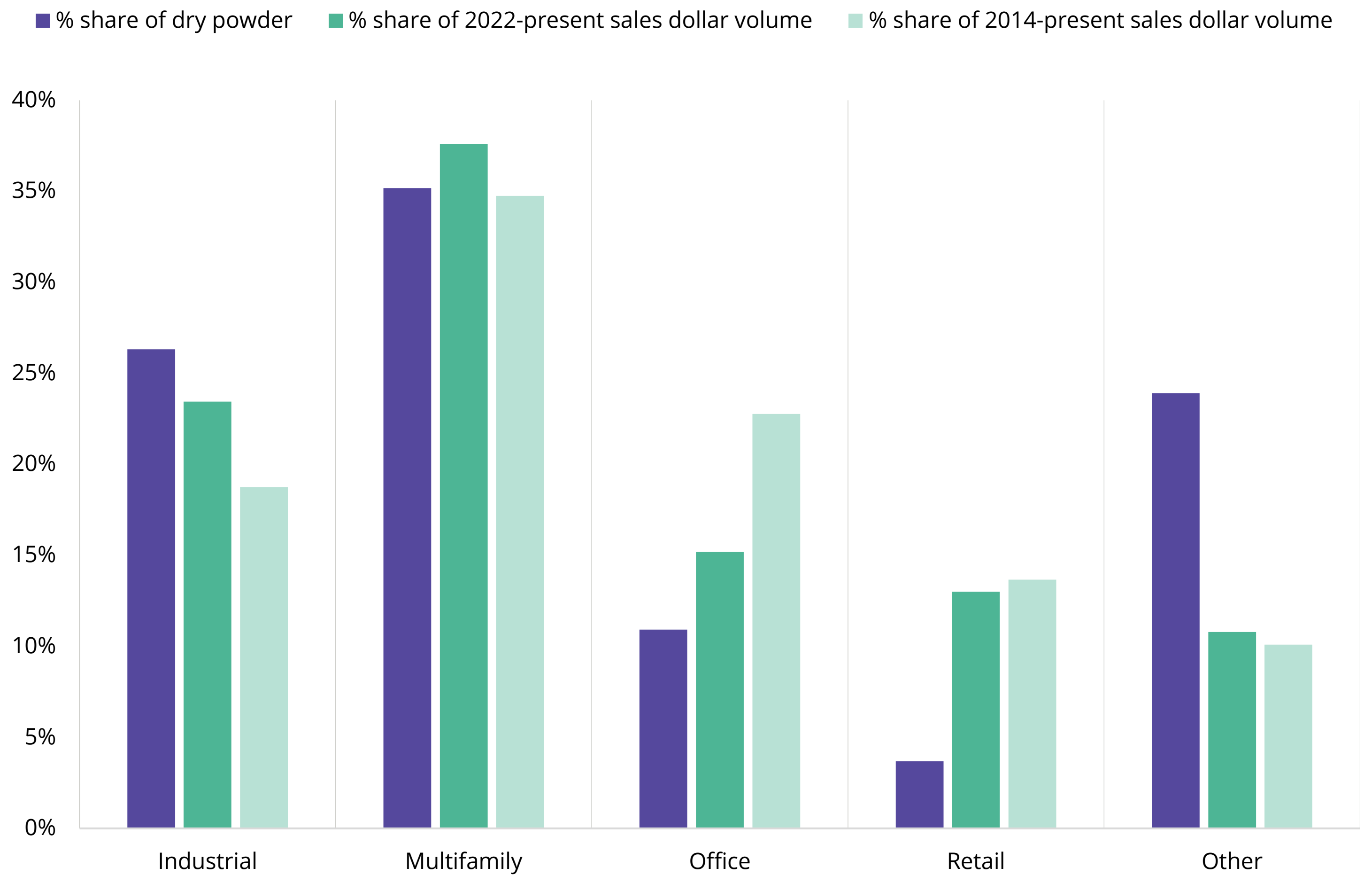
Sales volume vs. dry powder

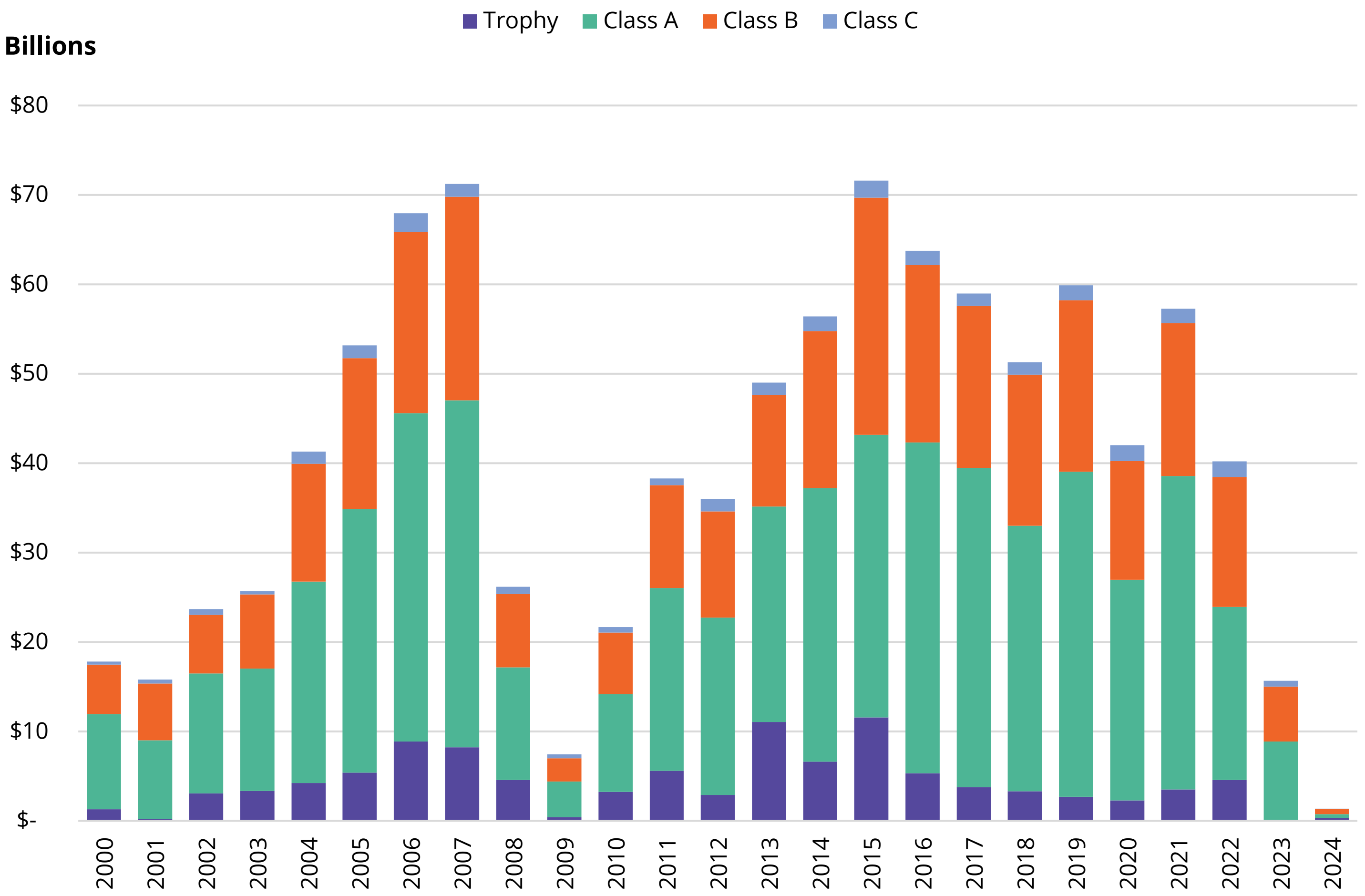


Comparing historical sales volume with dry powder allocations demonstrates how investor appetite has shifted over time.

Multifamily has remained relatively constant, but it is clear how investor sentiment toward office has shifted.

Source: AVANT by Avison Young, CoStar

Office investment volume by class



As lenders have been open to loan modifications and extensions, it has come at the expense of transactional volume.

At just $1.3B of investment sales volume for office buildings through Q1 2024, the U.S. is on pace to have the lowest total sales volume since 2009.

Source: AVANT by Avison Young, CoStar

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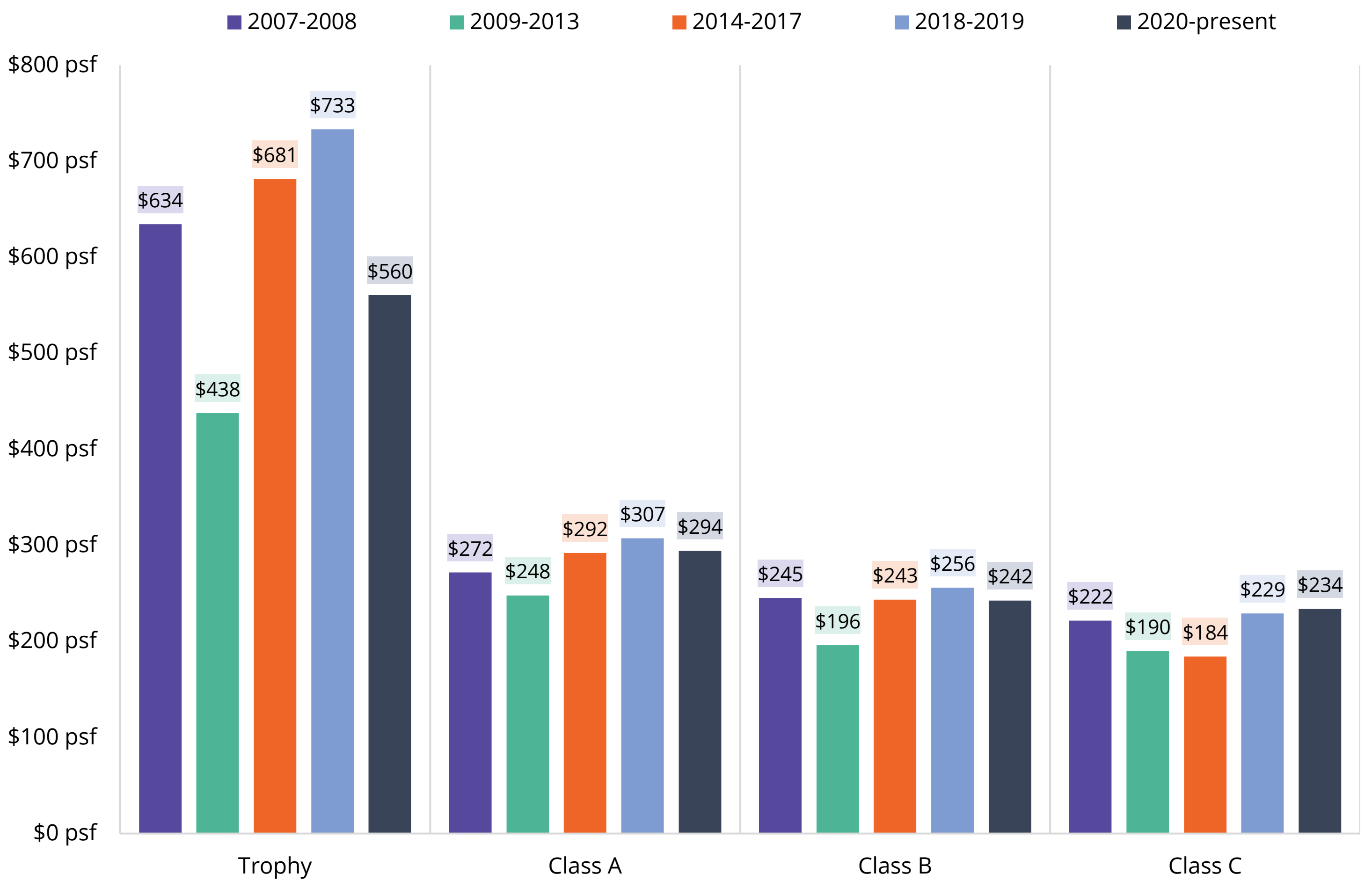
Office investment pricing by era



Trophy office properties have seen the largest post-pandemic correction in value of all office asset classes, correcting by over 20% since the last cycle.

However, pricing remains above levels observed in the wake of the great financial crisis in 2009.

Source: AVANT by Avison Young, CoStar

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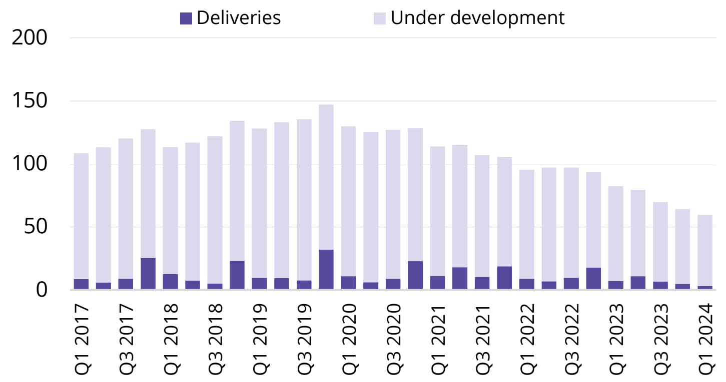
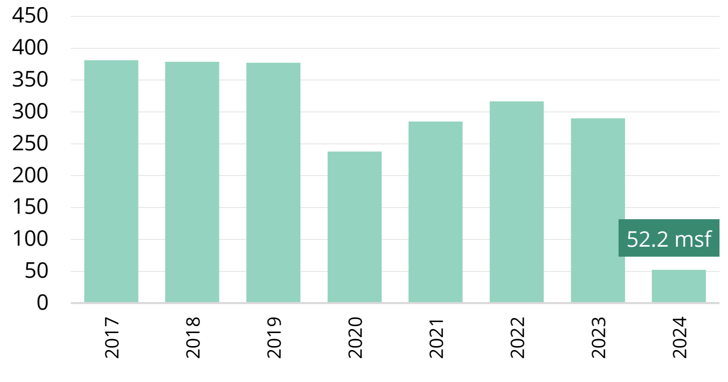
Appendix

U.S. office market indicators

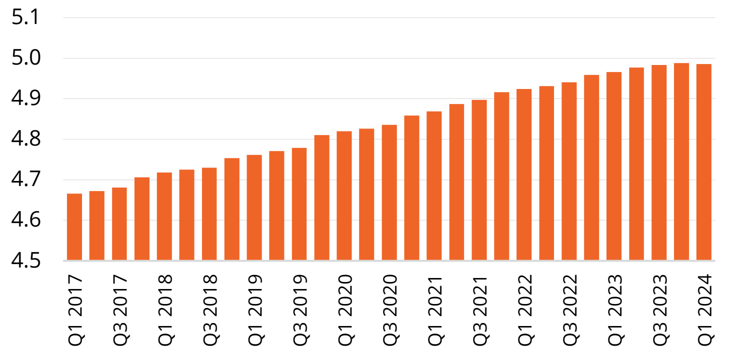
Development (msf)



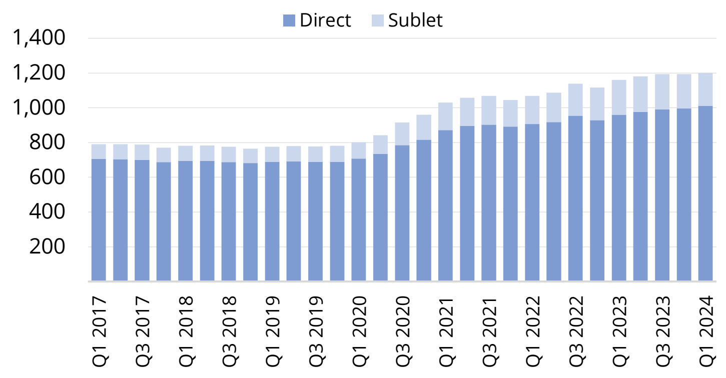
Leasing activity (msf)



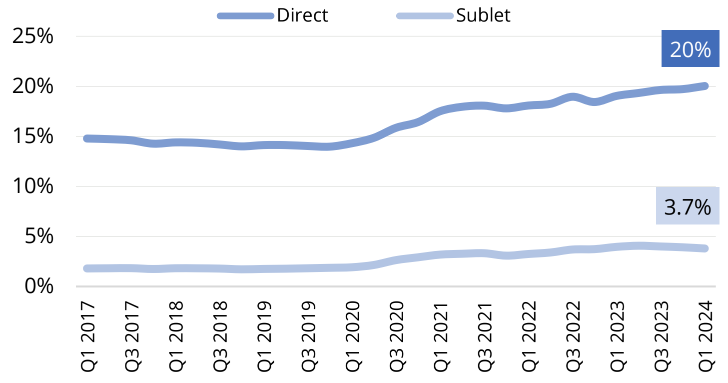
Inventory (bsf)



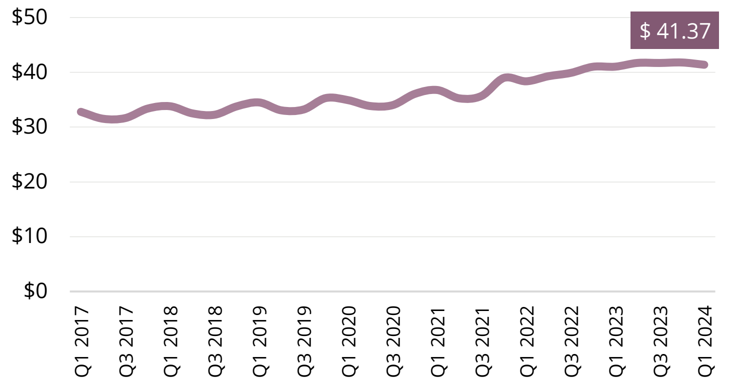
Availability (msf)



Availability



Direct asking rents (psf/FS)



Source: AVANT by Avison Young, CoStar

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U.S. office market stats by class – change availabilities

Class	Existing inventory sf	Under development sf	Direct availability	Sublet availability	Total availability	Annual direct asking rent psf FS
Trophy	351,382,862	19,789,535	17.7%	4.9%	22.6%	$79.29
Class A	2,176,518,086	37,082,879	22.2%	5.3%	27.4%	$42.51
Class B	1,991,030,599	2,937,878	19%	2.8%	20.8%	$34.61
Class C	351,382,862	490,713	13.1%	1%	14.1%	$31.44
U.S. total	**4,982,096,761**	**60,301,005**	**20%**	**3.7%**	**23.7%**	**$41.37**

Source: AVANT by Avison Young, CoStar

Office insights glossary of terms

Demand

- **Leasing activity:** total square footage of relocations, renewals, expansions and subleases expressed when the leases are signed, not when tenants take physical occupancy of the space
- **Absorption:** period-over-period change in occupied square footage

Supply

- **Direct vacancy rate:** space operated by landlords that is ready for immediate occupancy
- **Sublease vacancy rate:** space operated by sublandlords that is ready for immediate occupancy
- **Total vacancy rate:** sum of direct vacancy rate and sublease vacancy rate
- **Availability rate:** space that is vacant plus space that will become vacant over an indefinite time horizon, including spaces that are occupied by vacating tenants and under-construction properties

Office rents and concessions

- **Asking rents:** pricing guidance provided by landlords to tenants for available space expressed as full service (FS)
- **Base rents:** fair market value of market-level lease pricing based on representative executed leases, expressed as full service (FS)
- **Free rent period:** months of free rent that are typically provided upfront by landlords to tenants as a concession to offset the total cost of a lease and/or the construction timeline of an office suite
- **Tenant improvement allowance:** an allowance expressed in dollars per square foot provided from landlords to tenants to offset build-out, engineering, space planning and related permit costs
- **Net effective rent:** base rents discounted by the dollar values of tenant improvement allowance and free rent concessions expressed as full service (FS)

Capital markets

- **Investment volume:** office sales dollars expressed when the transactions close and based on inventory thresholds; partial-interest sale dollar amounts are not grossed-up to reflect the 100% value of the sale
- **Asset pricing:** unweighted average per-square-foot asset pricing of market-level closed sales
- **Cap rate:** net operating income divided by sale price; this measurement of market-level investment returns is calculated as an unweighted average based on closed investment sales

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