U.S. office market report

Q2 2024

AVISON YOUNG

U.S. office market trends

23.7%

overall availability rate stabilizes across the U.S.

At the midway point of 2024, the overall availability rate for U.S. office space sits at 23.7%—comprised of a 20% direct availability rate and 3.7% sublet availability rate. The total figure remains nearly unchanged from Q1 2024 but marks a year-over-year increase of 40 basis points (bps).

Total available space has seen consistent incremental quarter-over-quarter increases since Q2 2023, and now appears to be heading toward stabilization. While the availability rate remains historically high, the slowdown in supply growth is a welcome sign for the future of the U.S. office market.

124.3 msf

of U.S. office leasing activity through the first half of 2024

Through Q2 2024, U.S. office leasing activity has reached 124.3 million square feet (msf)—sitting 25.4% shy of the pre-COVID average (2000-2019) at 166.6 msf, and 13.2% below the first half of 2023 at 143.2 msf. However, the 72.1 msf of leasing activity this quarter represents a 38.1% increase over last quarter, providing positive momentum going into the second half of the year.

As return-to-work efforts continue toward reaching an equilibrium, office occupiers' understanding of their space needs will solidify and present a clearer picture on what to expect for future U.S. office leasing activity.

26.3%

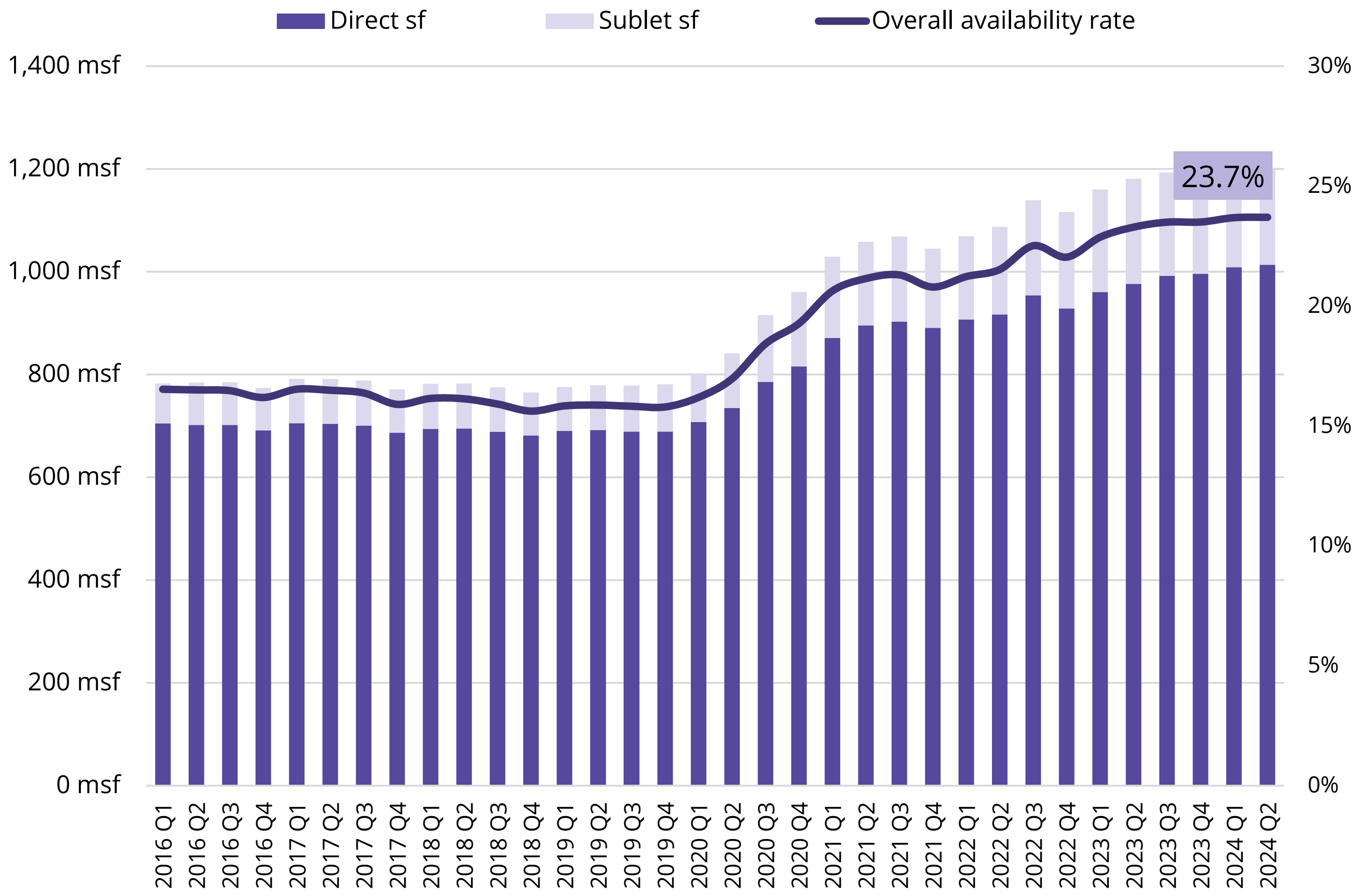
average value of concessions as a share of U.S. lease terms

When looking at office concession packages as a share of total rent paid throughout the term of the lease, the year-to-date average across U.S. gateway markets sits at 26.3%. This means that a tenant paying $100 per square foot (psf) will, on average, receive $26 psf of concessions per year in the form of free rent and tenant improvement allowances.

Concession packages across the U.S. office market have been inflated since the onset of the pandemic in 2020 and have continued to grow every year since then—currently up 8.9% from 2023.

Source: AVANT by Avison Young, CoStar

Available space



Total available space for the U.S. remains nearly identical from last quarter, marking a notable slowdown in recent growth of available space.

Quarter-over-quarter, direct available space has grown by 4.6 msf while sublet available space has declined by 4 msf—netting a 600,000-sf increase in total available space.

Source: AVANT by Avison Young, CoStar

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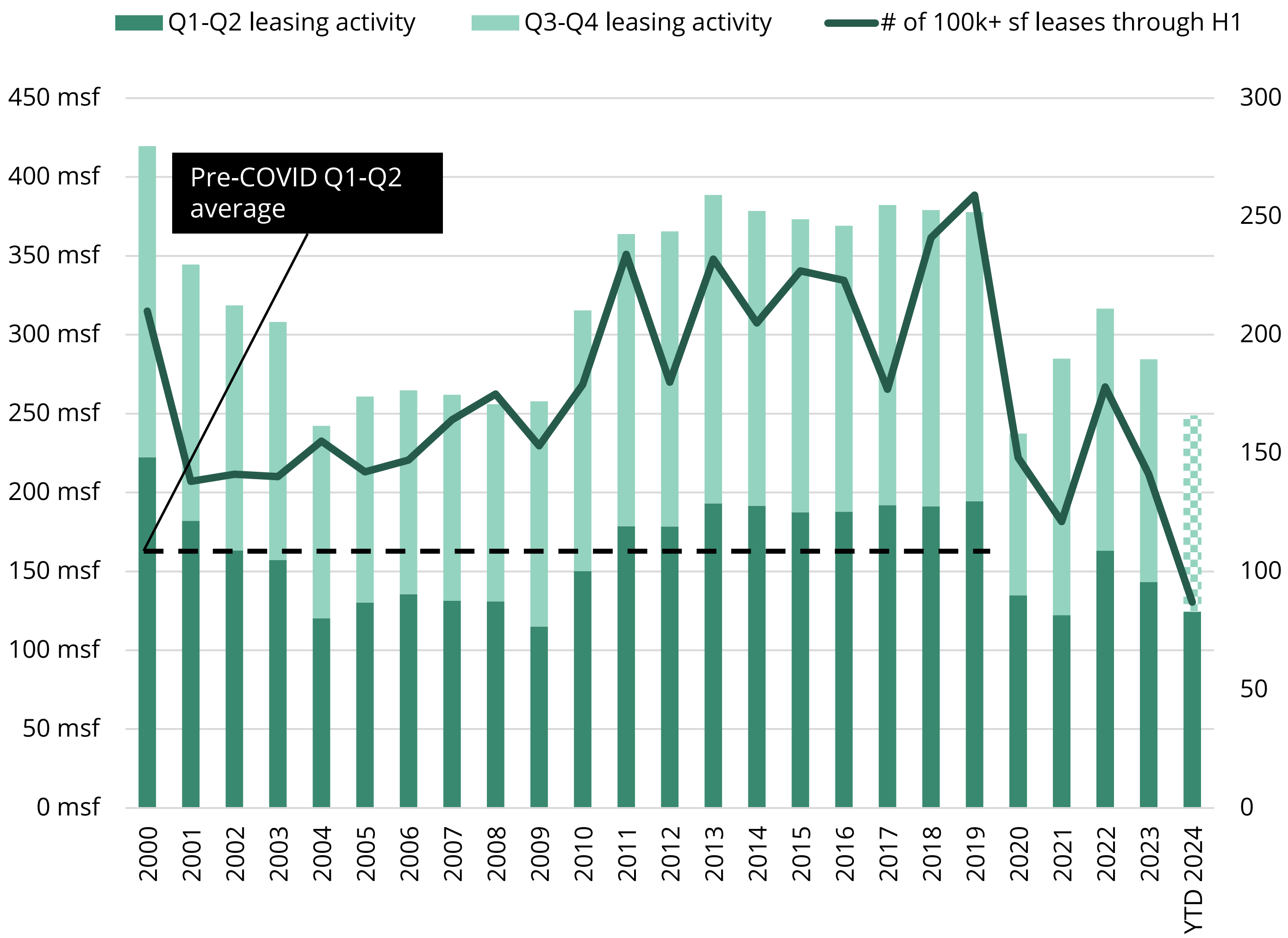
Leasing activity



U.S. office leasing activity has reached 124.3 msf through the first half of 2024, falling 25.4% short of the pre-COVID average (2000-2019) and 13.2% below the first half of 2023.

Year-to-date, there have been only 87 leases exceeding 100,000 sf—a 38.3% drop compared to this time last year.

Source: AVANT by Avison Young, CoStar

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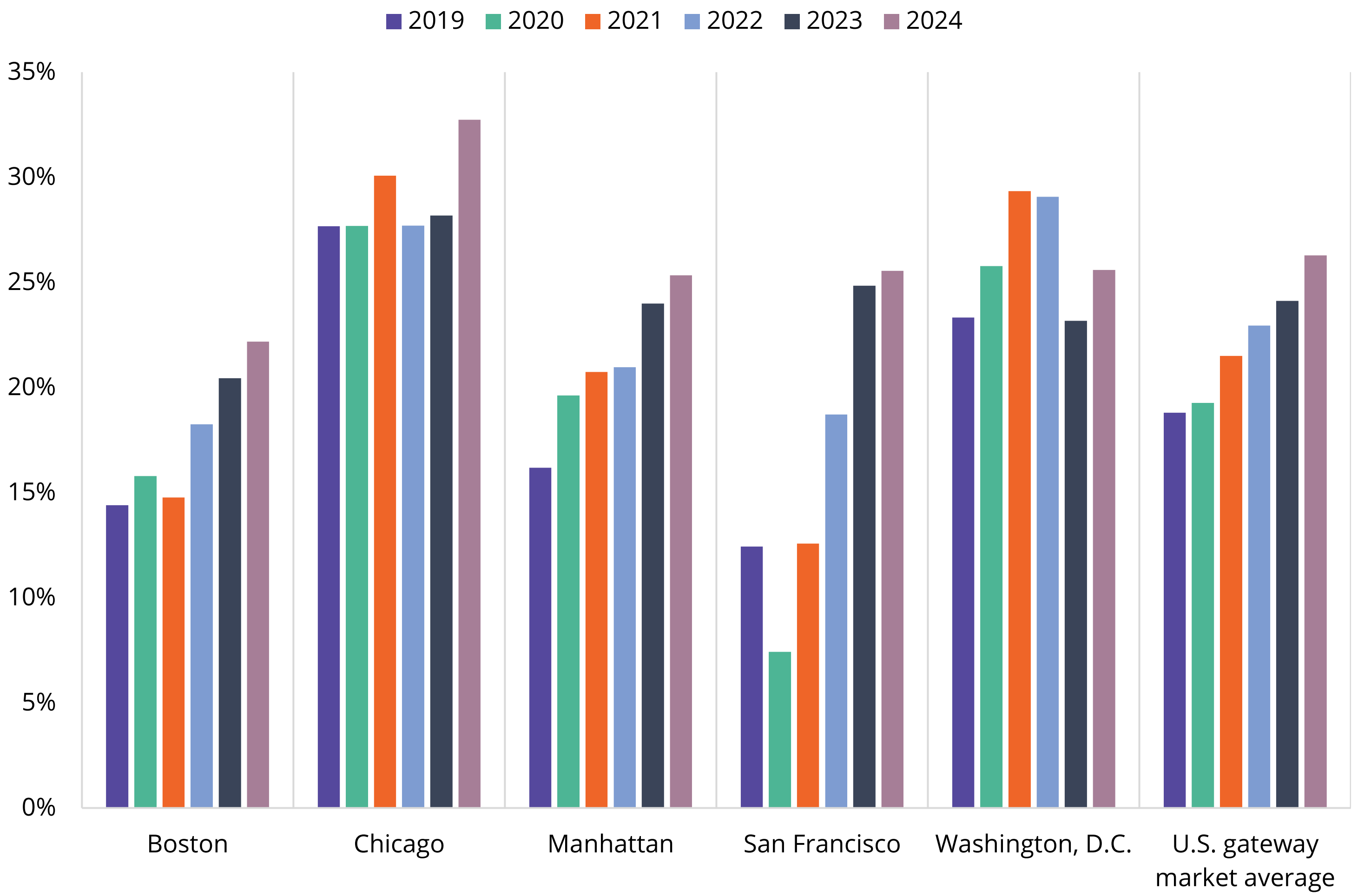
Concessions as a share of lease term



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

The average concessions share of lease terms for U.S. gateway markets has increased year-over-year since 2019, and currently sit 8.9% above last year.

Most gateway markets have seen a slight uptick in concession packages through the first half of 2024. Chicago has seen the largest increase, currently representing 32.7% of the total lease term.

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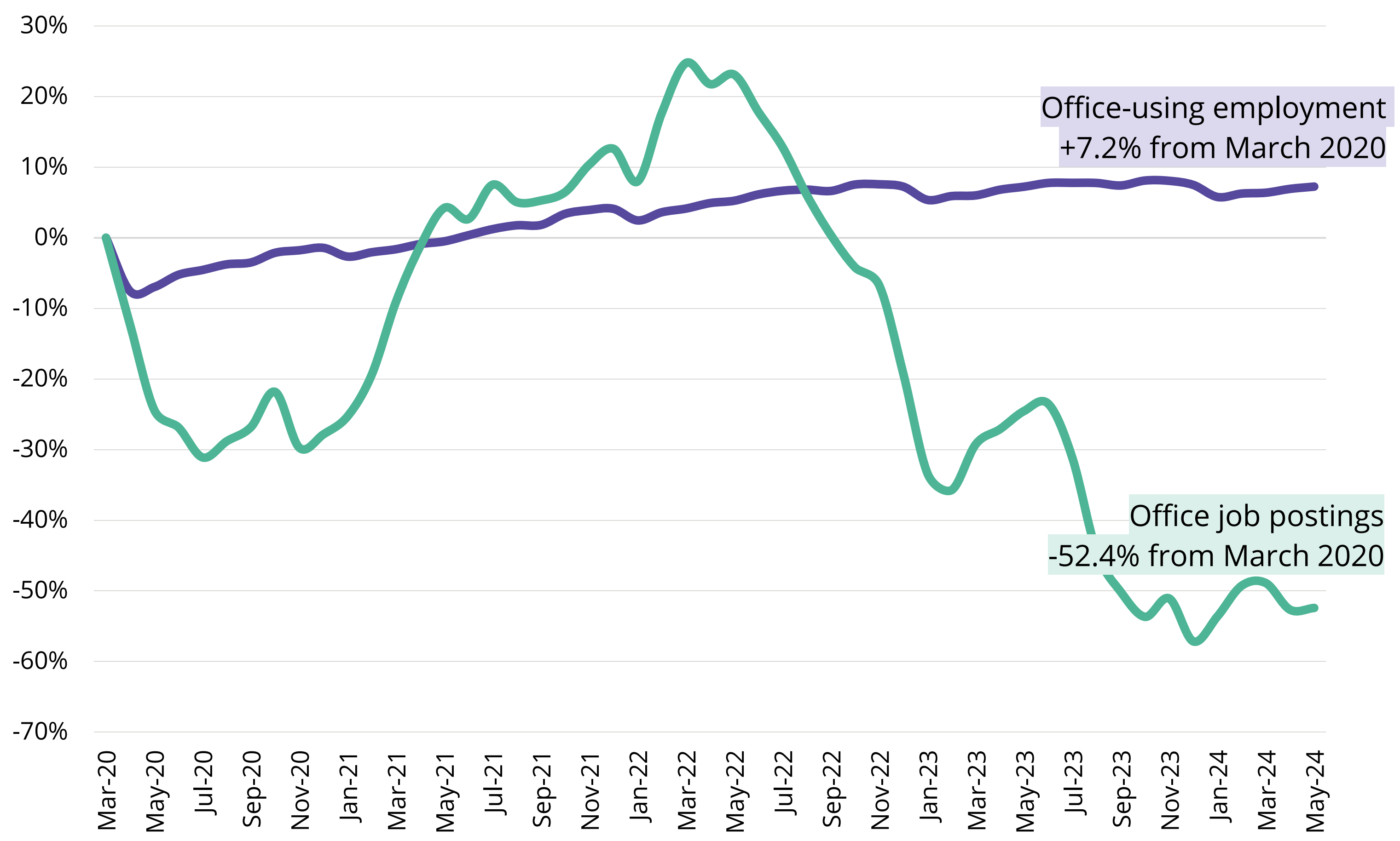
U.S. office market drivers

Office employment and job postings

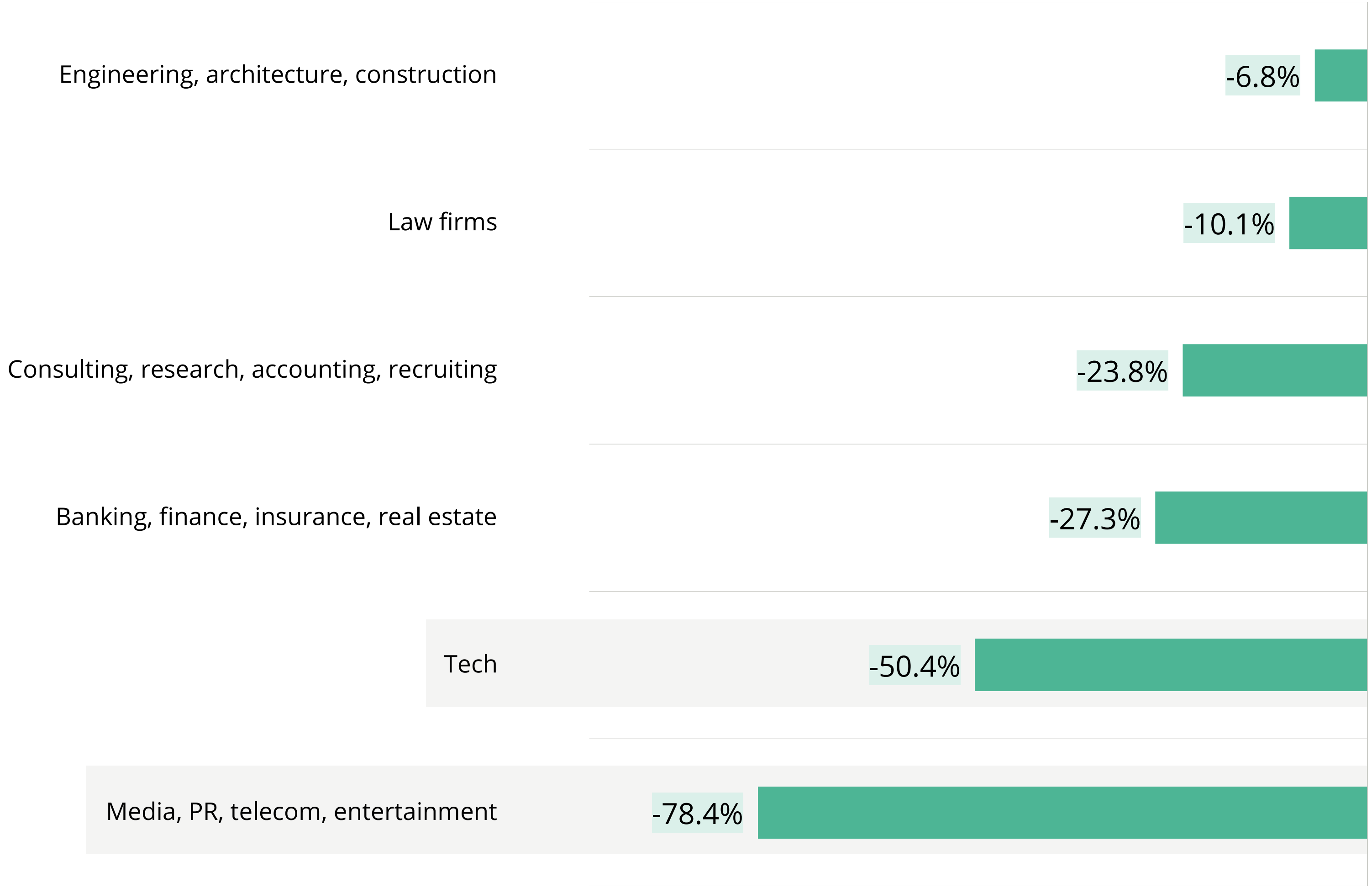
Percentage change since the pandemic



Job postings, a directional indicator of future employment growth, have declined by 52.4% since March 2020. However, office-using employment has grown 7.2% in the same period.

Source: AVANT by Avison Young, Lightcast, BLS

Office job postings, 3/2022 – 5/2024

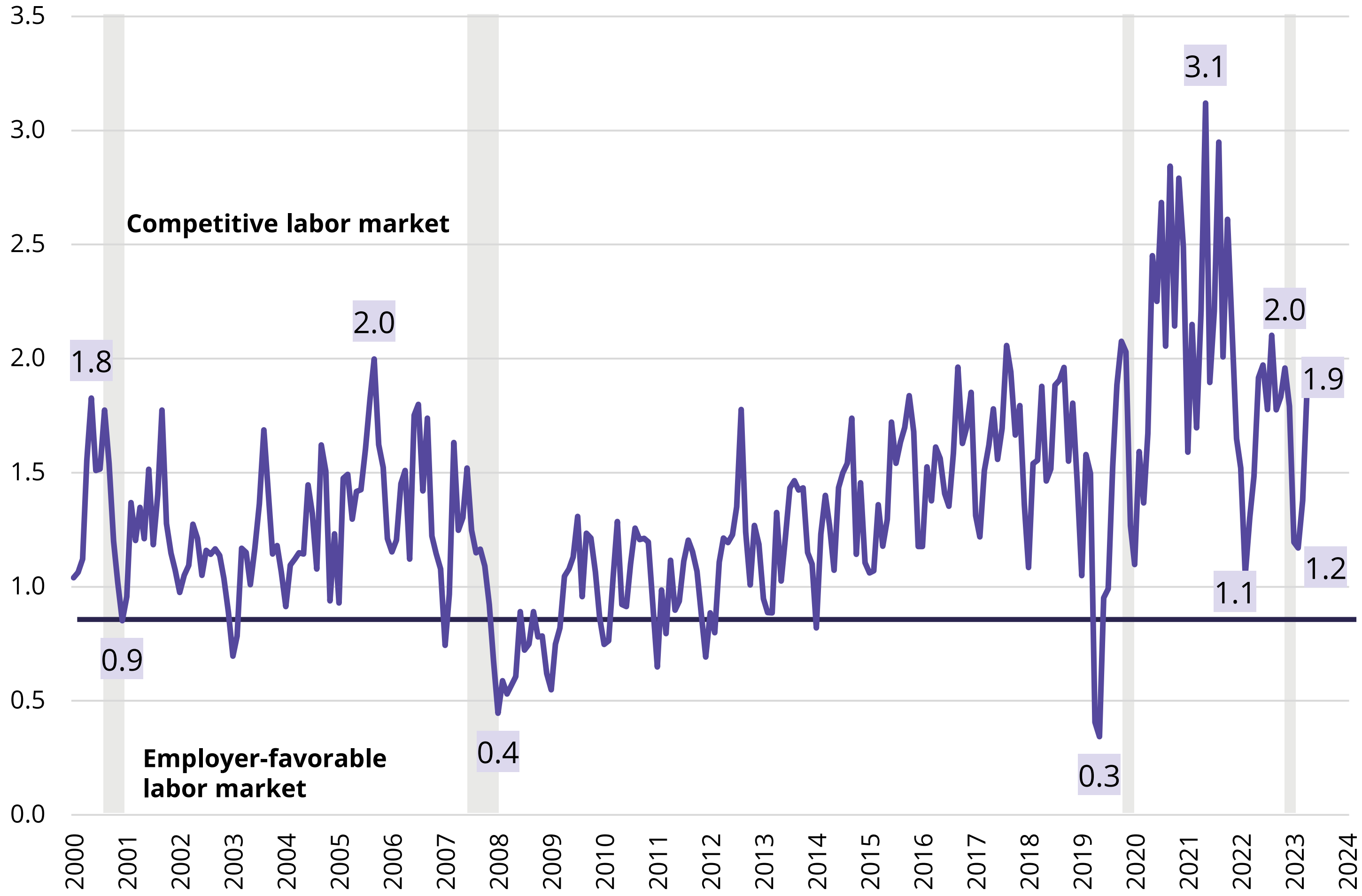


Note: Includes remote jobs. Private office sectors only.
Source: AVANT by Avison Young, Lightcast

Many office-using industries across the U.S. have been affected by economic hardships, forcing layoffs.

Certain industries, like tech and media, have suffered the most due to over-hiring in 2022 and 2023.

Office quits-to-layoffs and discharges ratio

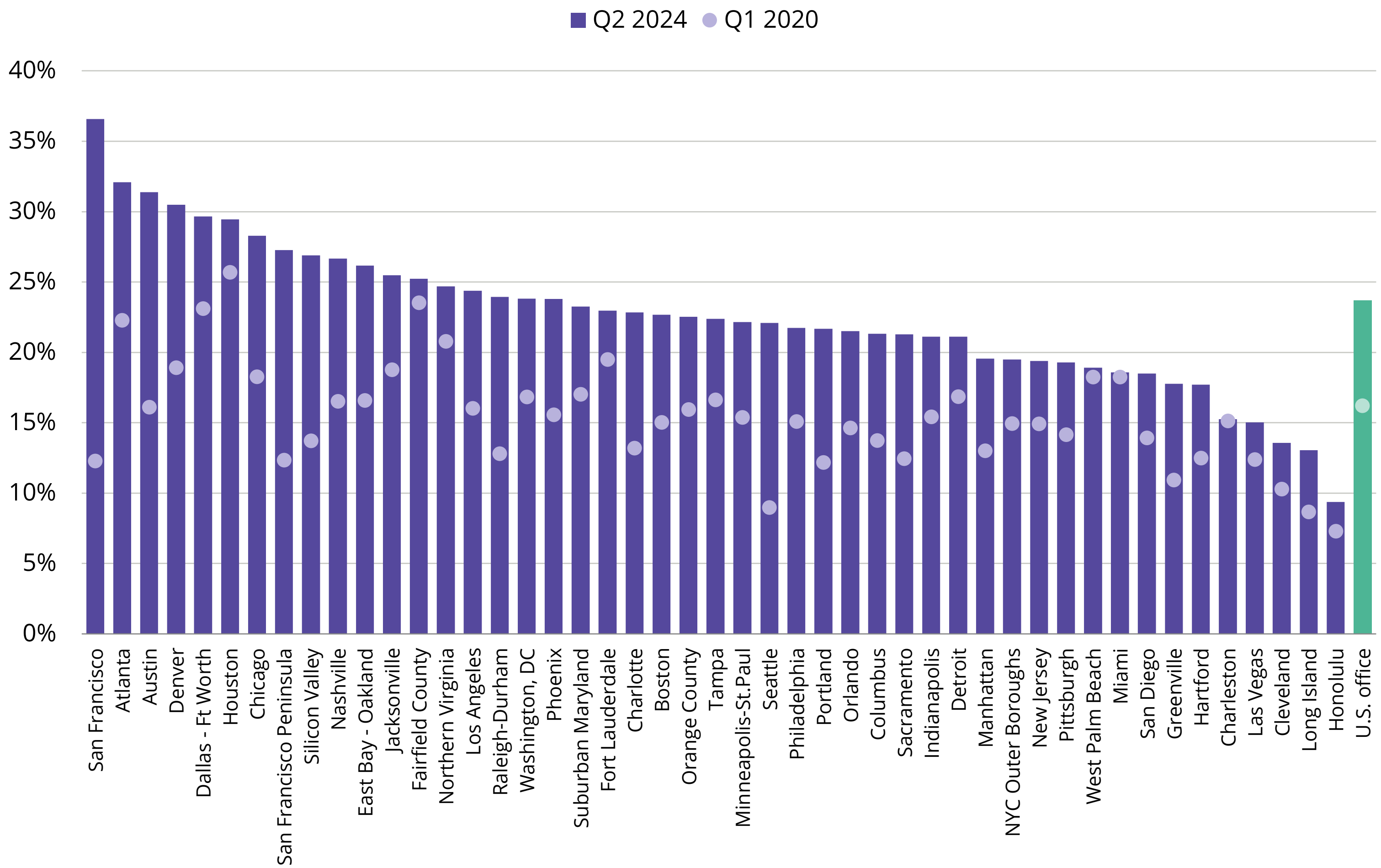


Source: Bureau of Labor Statistics

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

Employee leverage declined heavily at the start of 2024, but has rebounded in recent months—bringing the ratio up to 1.9 quits per layoff/discharge. This is the most competitive the labor market has been thus far in 2024.

Office availability rate by market, Q2 2024 vs. Q1 2020



Certain office markets across the U.S. have seen a greater change in office availability from pre-COVID levels to today.

San Francisco, for example, has seen a significant increase in overall availability—rising from 12.3% to 36.6% since Q1 2020. None of the U.S. office markets have seen a decrease in overall availability rate compared to Q1 2020.

Source: AVANT by Avison Young, CoStar

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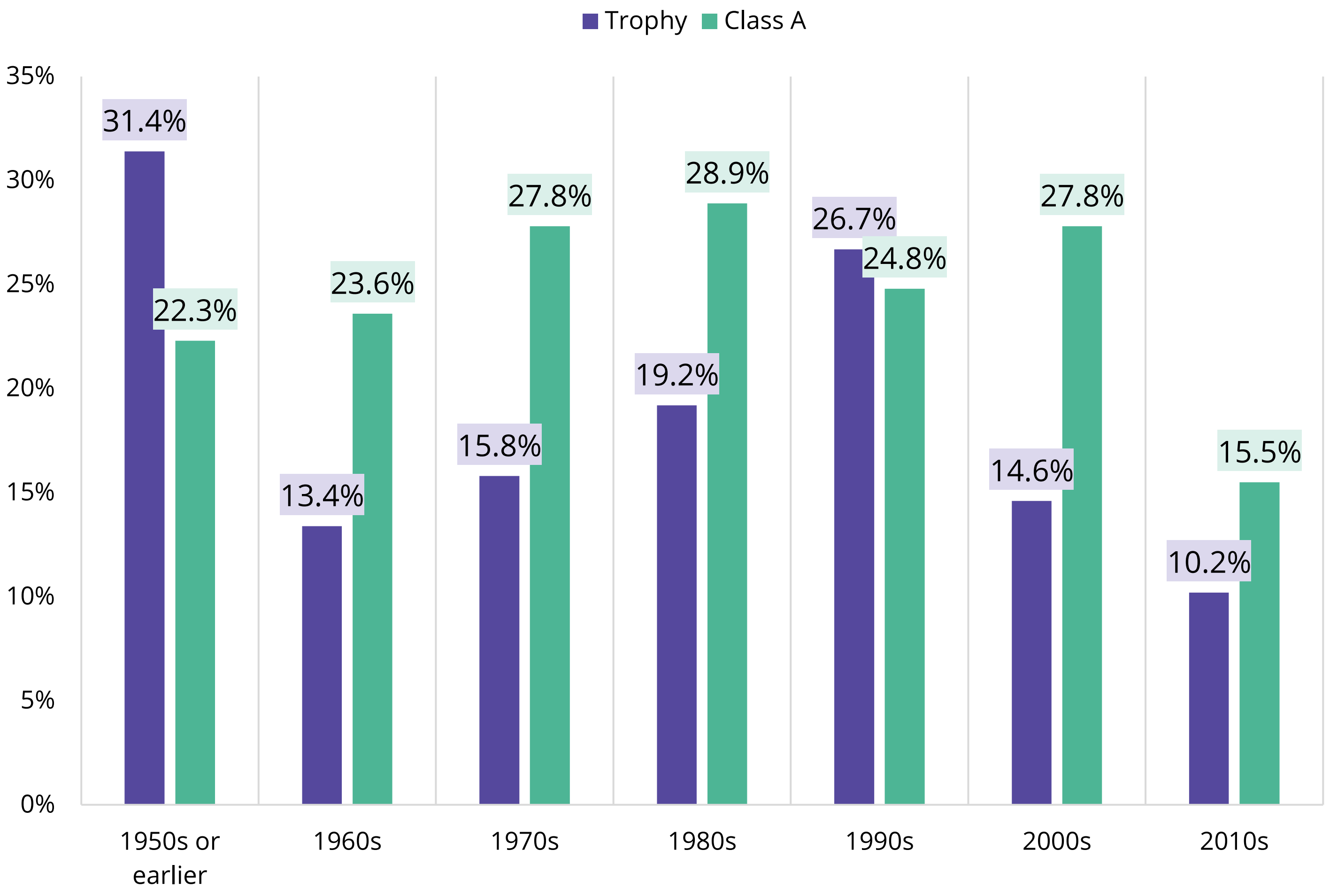
Total availability rates by delivery date



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

Older class A properties, built from the 1960s through the 2000s, have seen significant distress in trying to fill their available space across the U.S.

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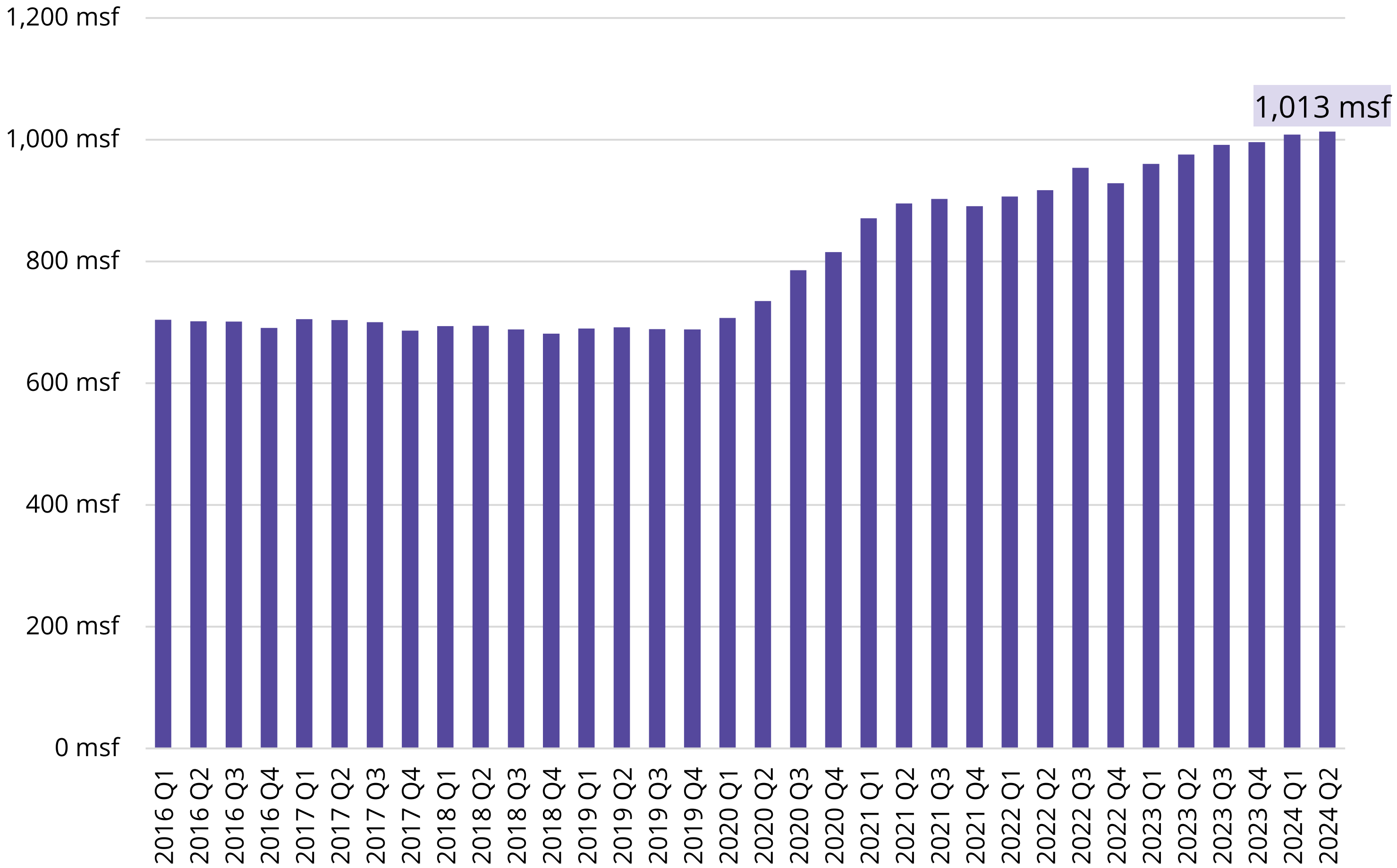
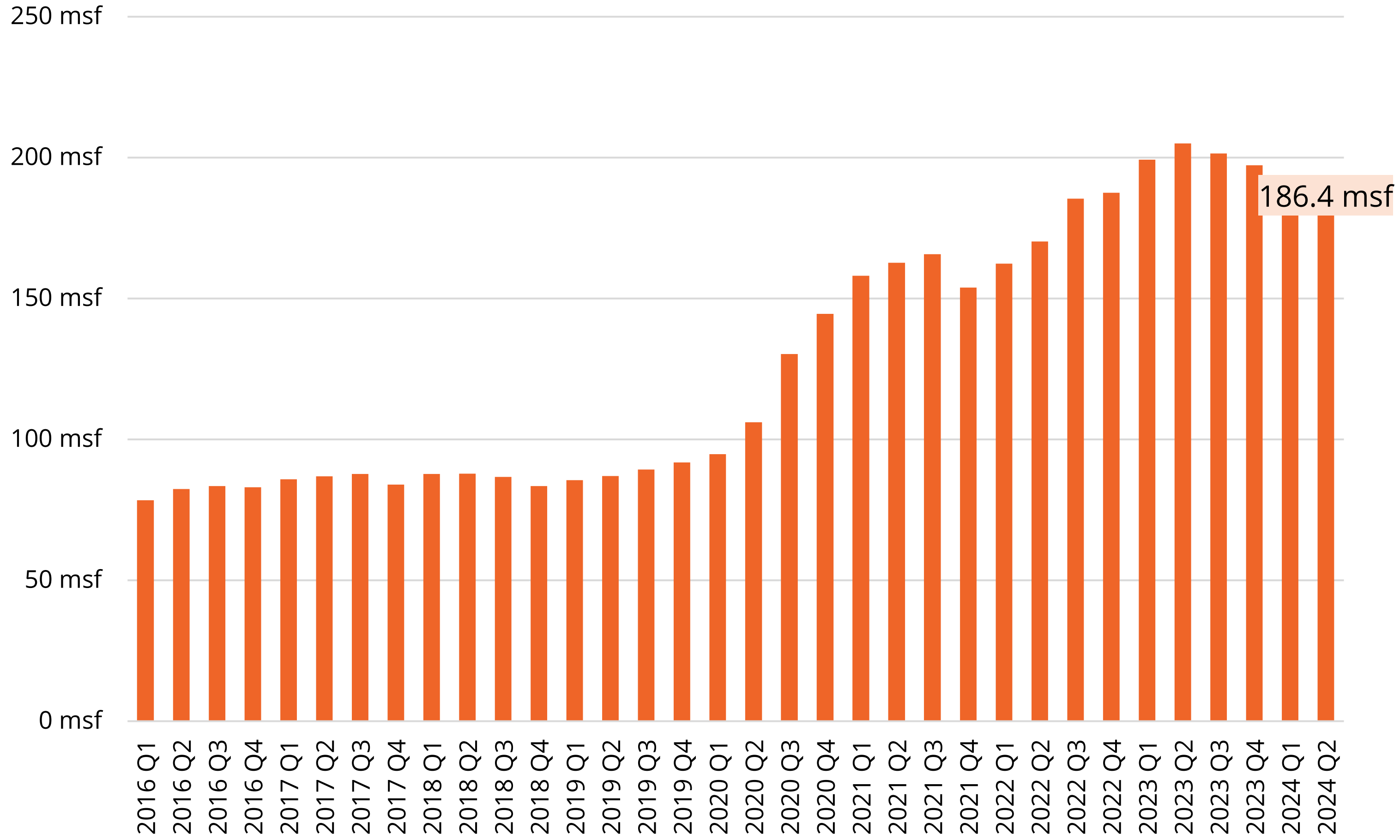
Available direct space



Source: AVANT by Avison Young, CoStar

Direct available office space across the U.S. has reached a new peak of 1,013 msf—or over 1 billion square feet. This value has grown every quarter since Q4 2022.

Available sublet space



Source: AVANT by Avison Young, CoStar

Sublet available office space across the U.S. has declined from last quarter, now at 186.4 msf. Contrary to direct available space, available sublet space has been on a continuous decline every quarter since Q2 2023.

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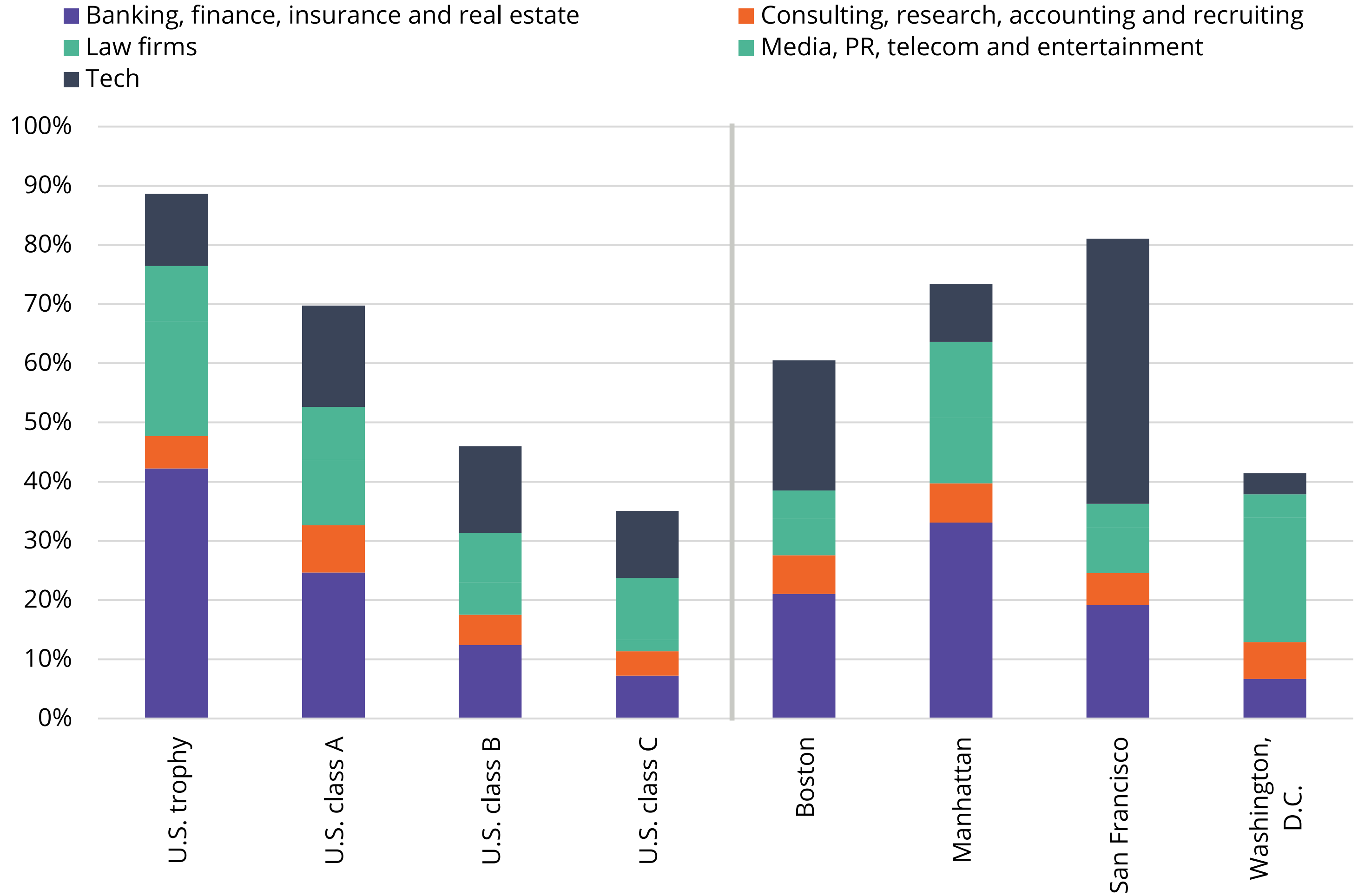
Exposure to at-risk industries



Across the U.S., trophy properties continue to have 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. Manhattan may experience similar stress due to its oversized exposure to a singular industry in banking and finance.

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

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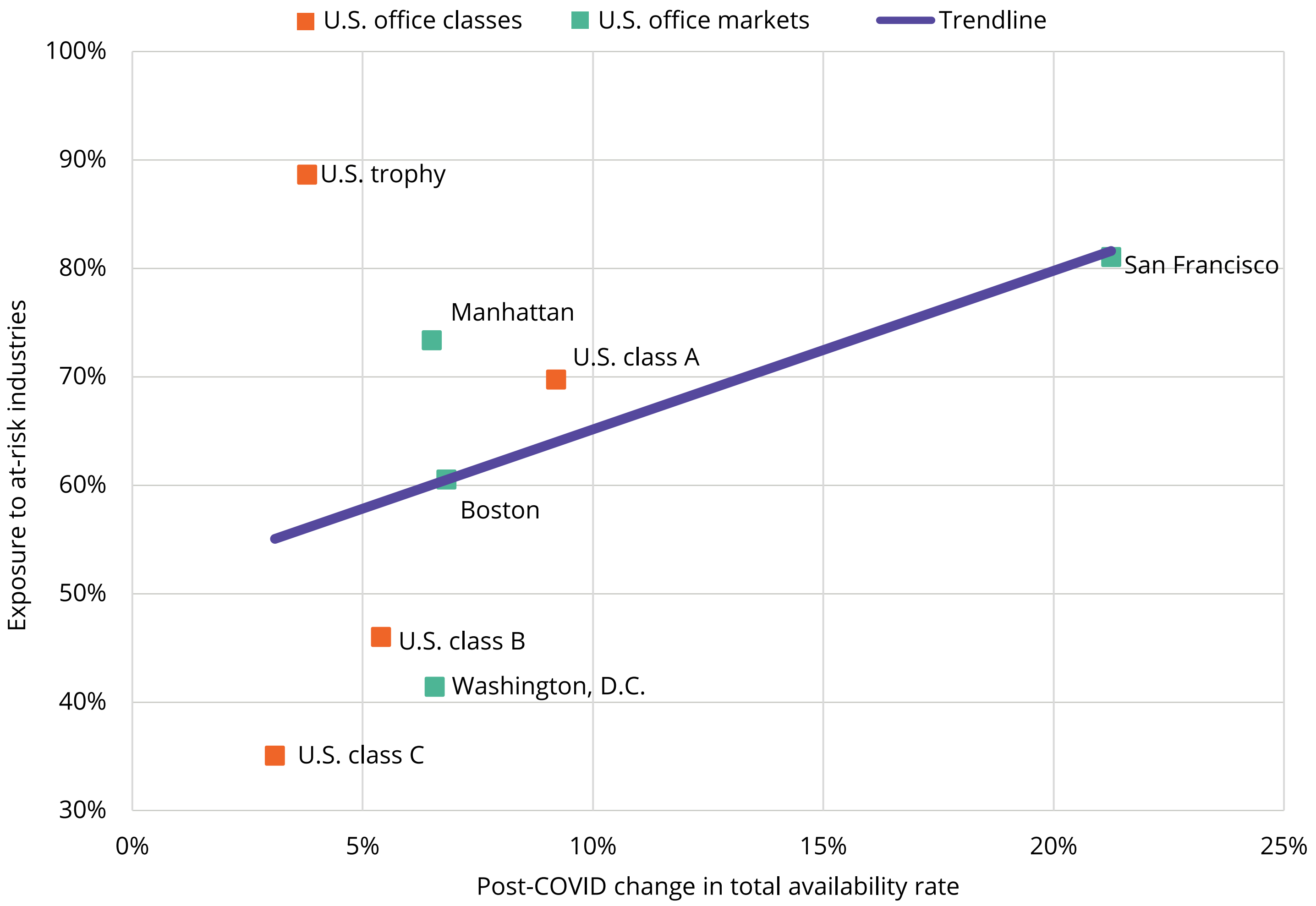
At-risk markets vs. post-COVID new supply

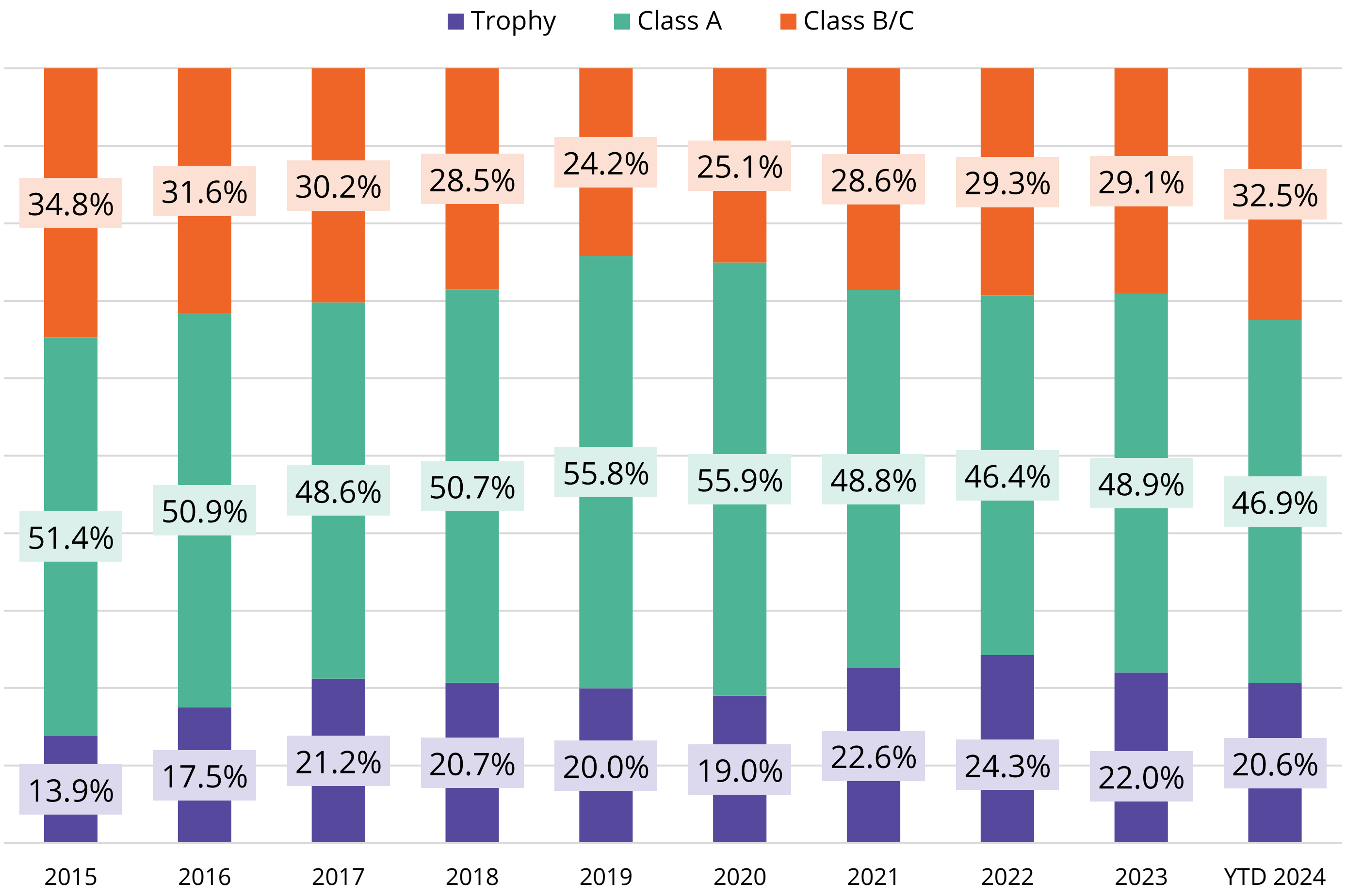


Central business districts and private office industries only.
Includes sublet and direct availability rates.
Source: AVANT by Avison Young, CoStar

Class B and C properties across the U.S. are partly insulated from potential market distresses, largely due to their lack of allegiance to a single industry sector.

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

Transaction activity by asset class

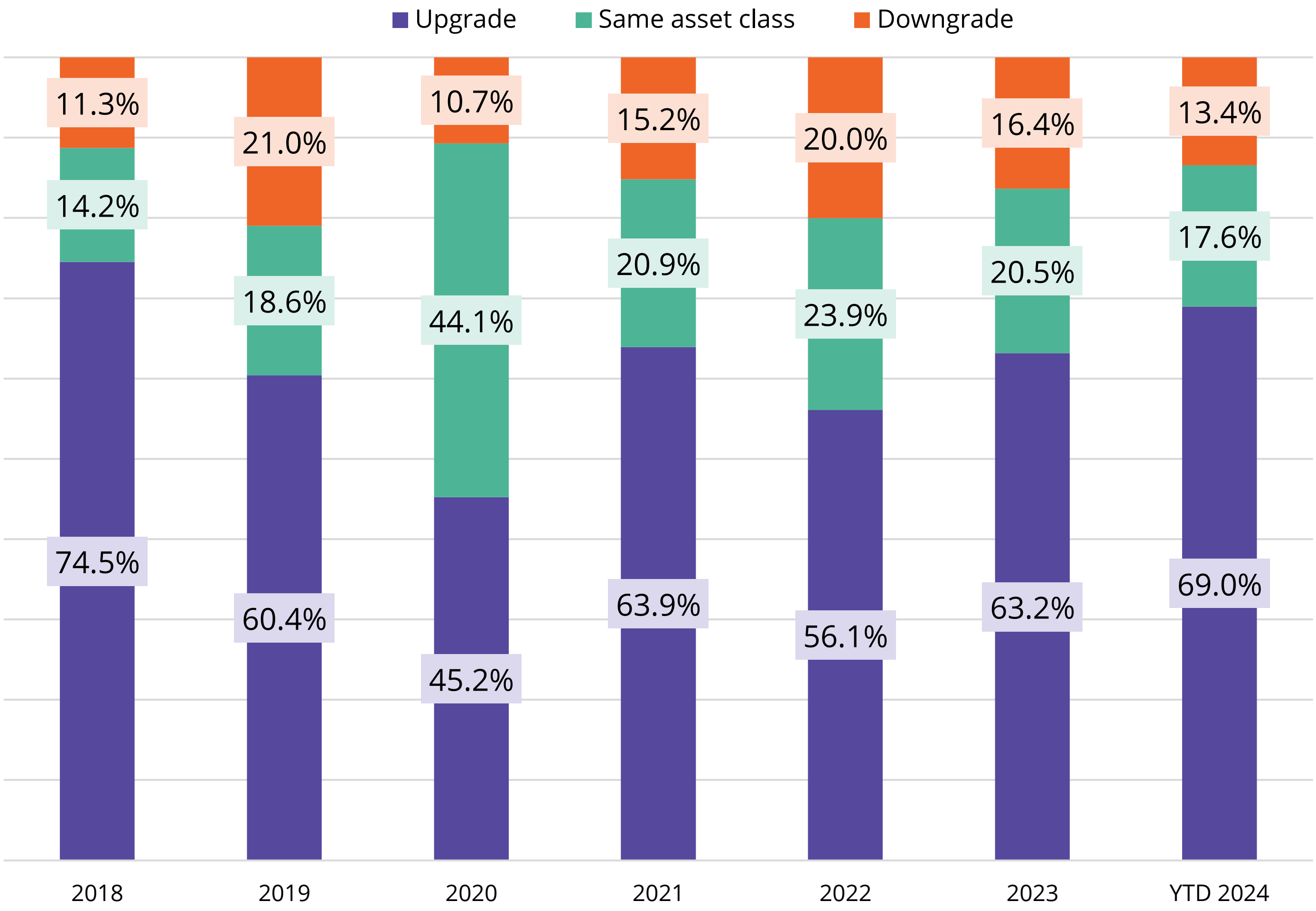


Chicago, Boston, Houston, Manhattan, San Francisco, Washington, D.C.
Includes direct and subleases.
Source: AVANT by Avison Young, CoStar

Year-to-date transaction activity by asset class has hovered right around historical levels, with class A properties accounting for just under 50% of leasing activity in U.S. gateway markets.

Trophy properties captured 20.6% and class B/C captured 32.5%.

Office relocations by year

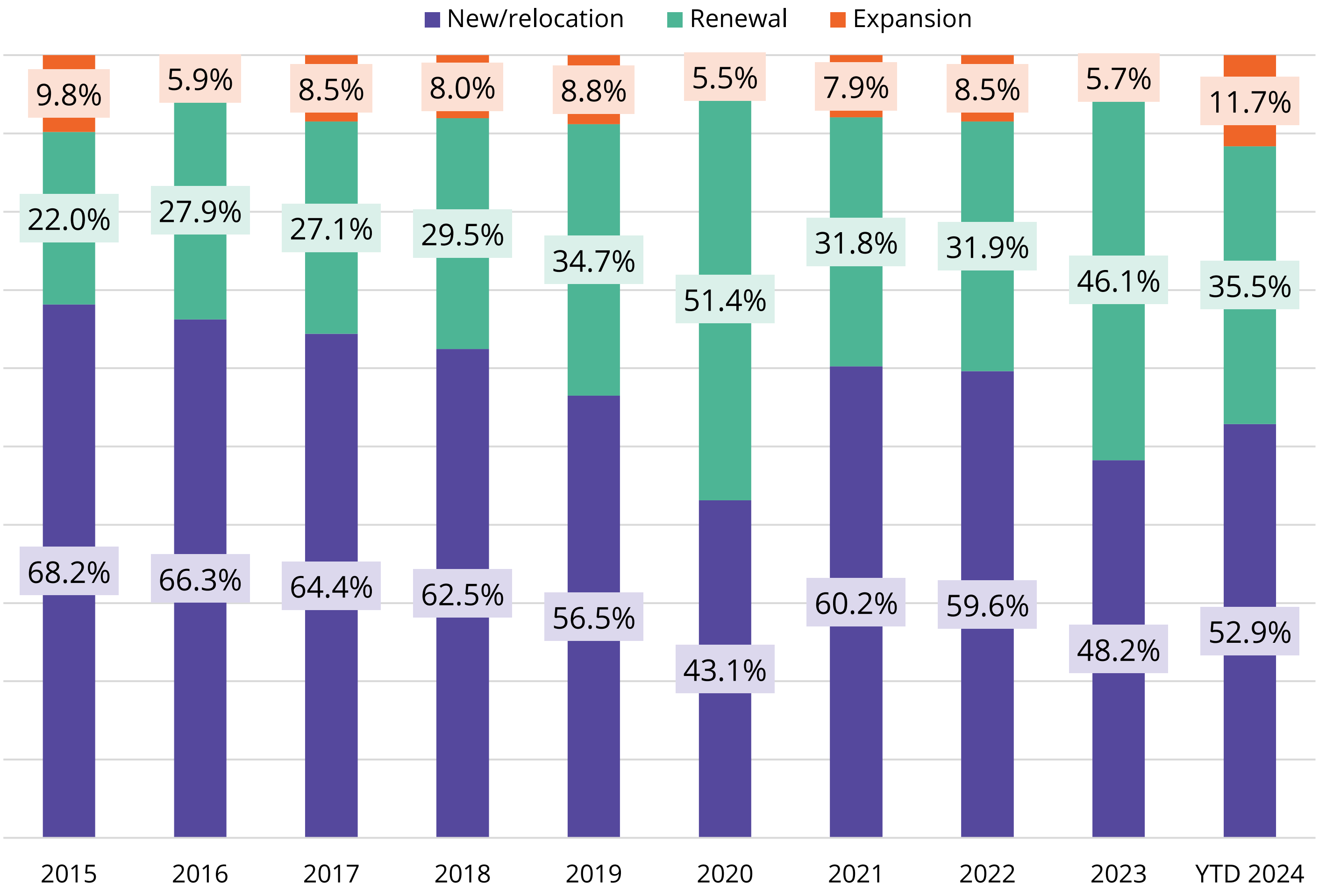


Boston, Manhattan, San Francisco, Washington, D.C.
Relocations only, includes both direct and sublease.
Source: AVANT by Avison Young

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, the most notable share of office relocations is upgrades at a 69% share, marking the largest level of tenant upgrades since 2018.

Transaction activity by lease type



Boston, Manhattan, San Francisco, Washington, D.C.
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 begun to normalize thus far in 2024, with renewals accounting for 35.5% of year-to-date transaction activity. Additionally, expansion's share of transaction activity has more than doubled since last year and is the highest level in the last decade.

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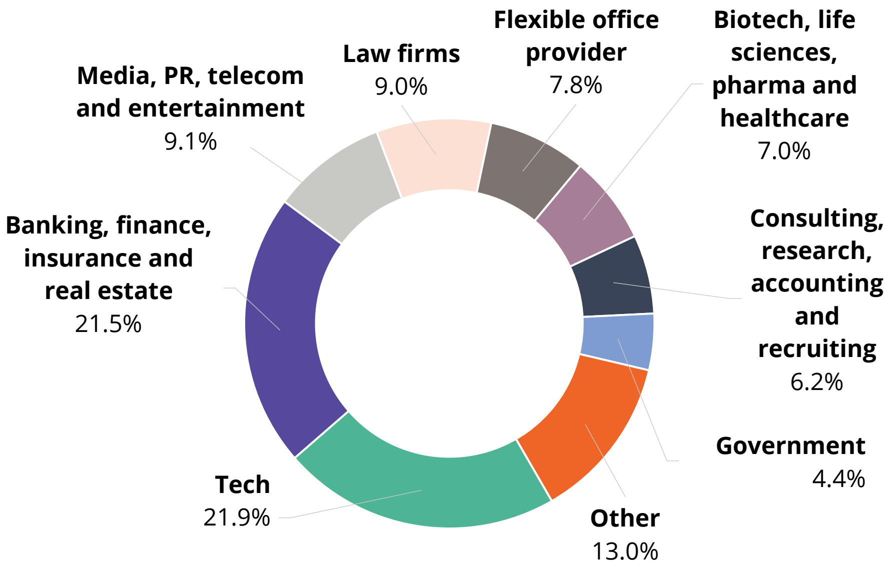
Leasing activity share by industry

-85.9% decrease in flexible office providers as a share of total leasing activity, post-COVID vs. pre-COVID

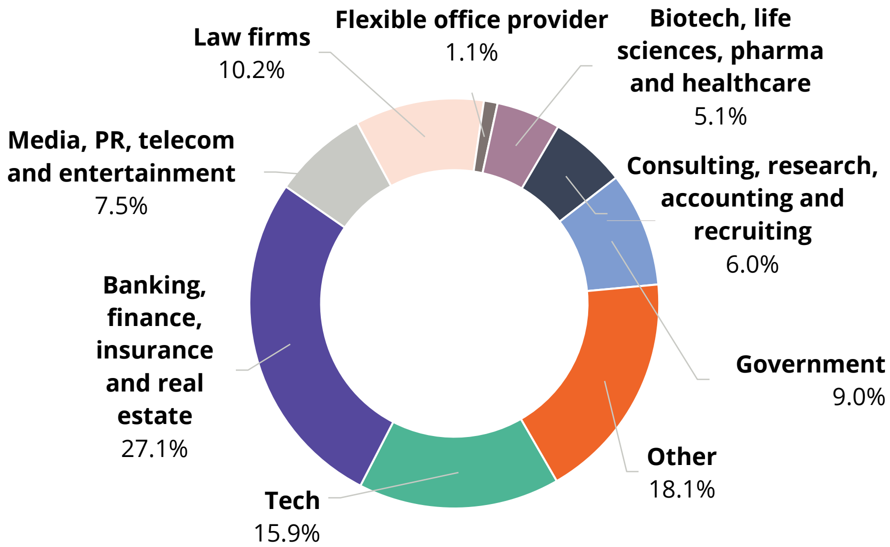
Pre-COVID

2018 to March 2020



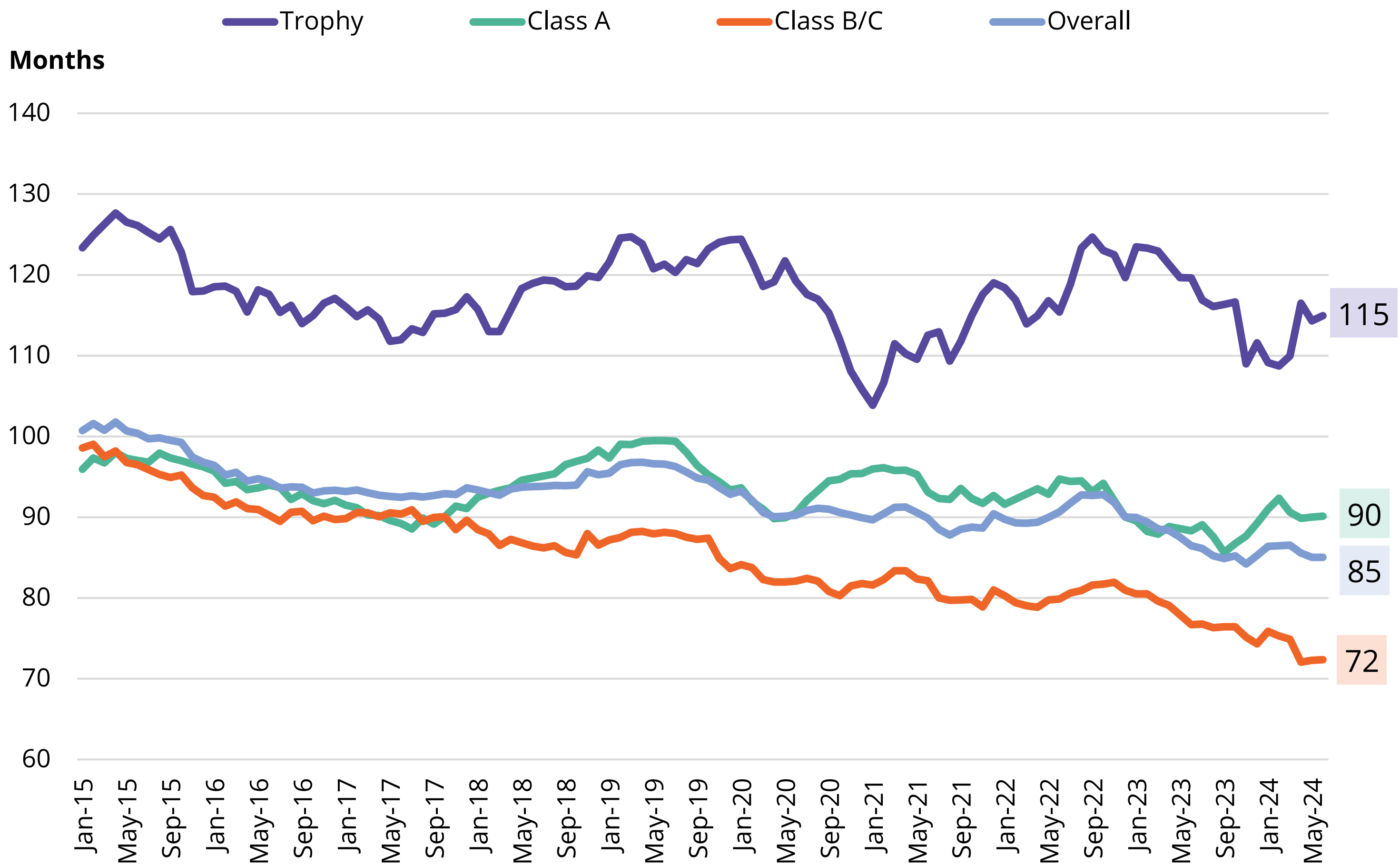
Post-COVID

April 2020 to present



Boston, Manhattan, San Francisco, Washington, D.C.
Source: AVANT by Avison Young

Length of lease terms by class



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

Across U.S. gateway markets, trophy properties continue to heavily outperform the other asset classes in terms of average lease term lengths.

Class A lease term lengths fall just above the overall average by five months, while class B/C fall 13 months below the overall average.

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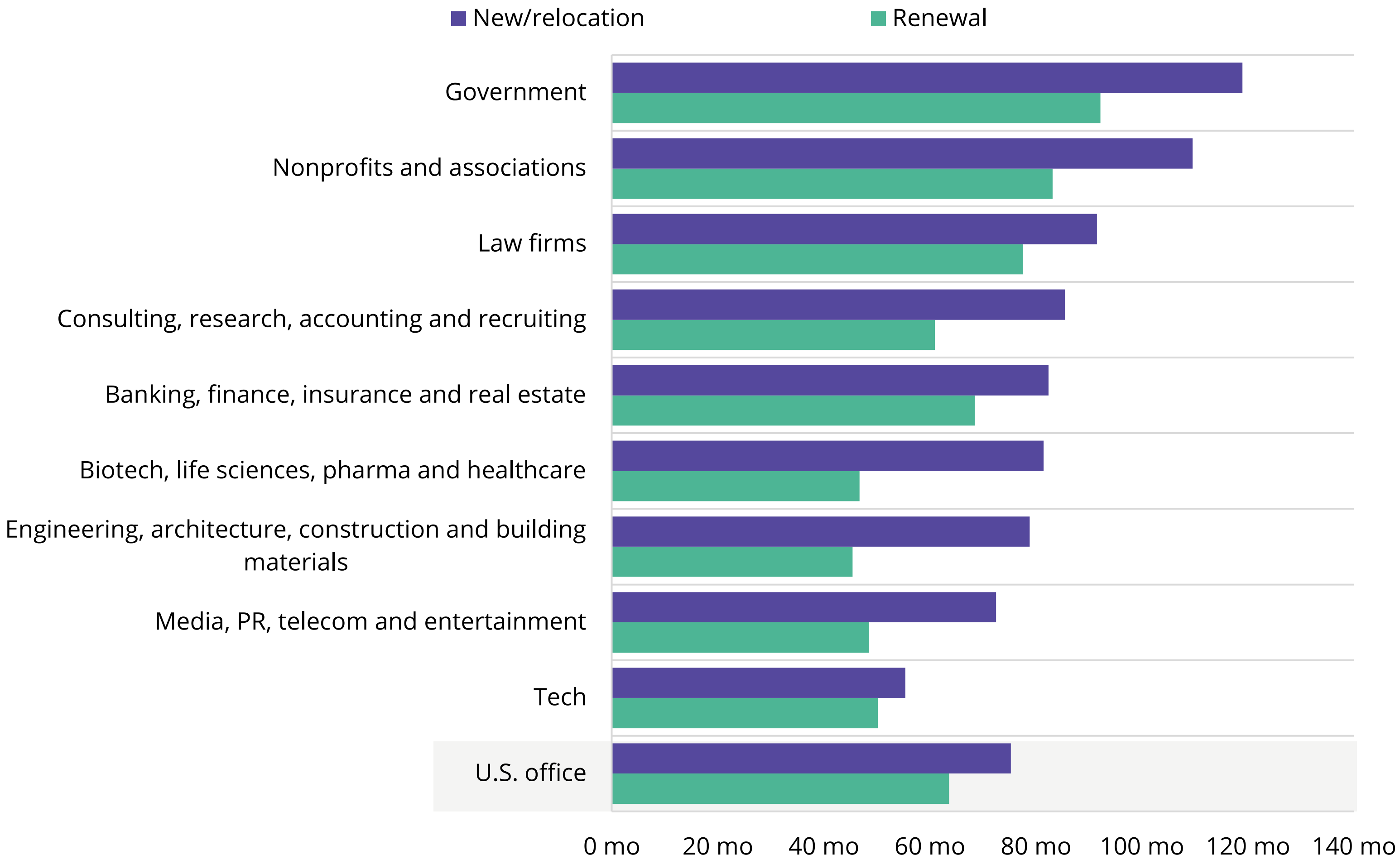
Lease terms by major industries



Boston, Chicago, Dallas – Ft Worth, Los Angeles, Manhattan, San Francisco, Washington, D.C
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 64 months for renewals.

Government and nonprofits have historically signed the longest-term leases and continue to do so across major U.S. office markets.

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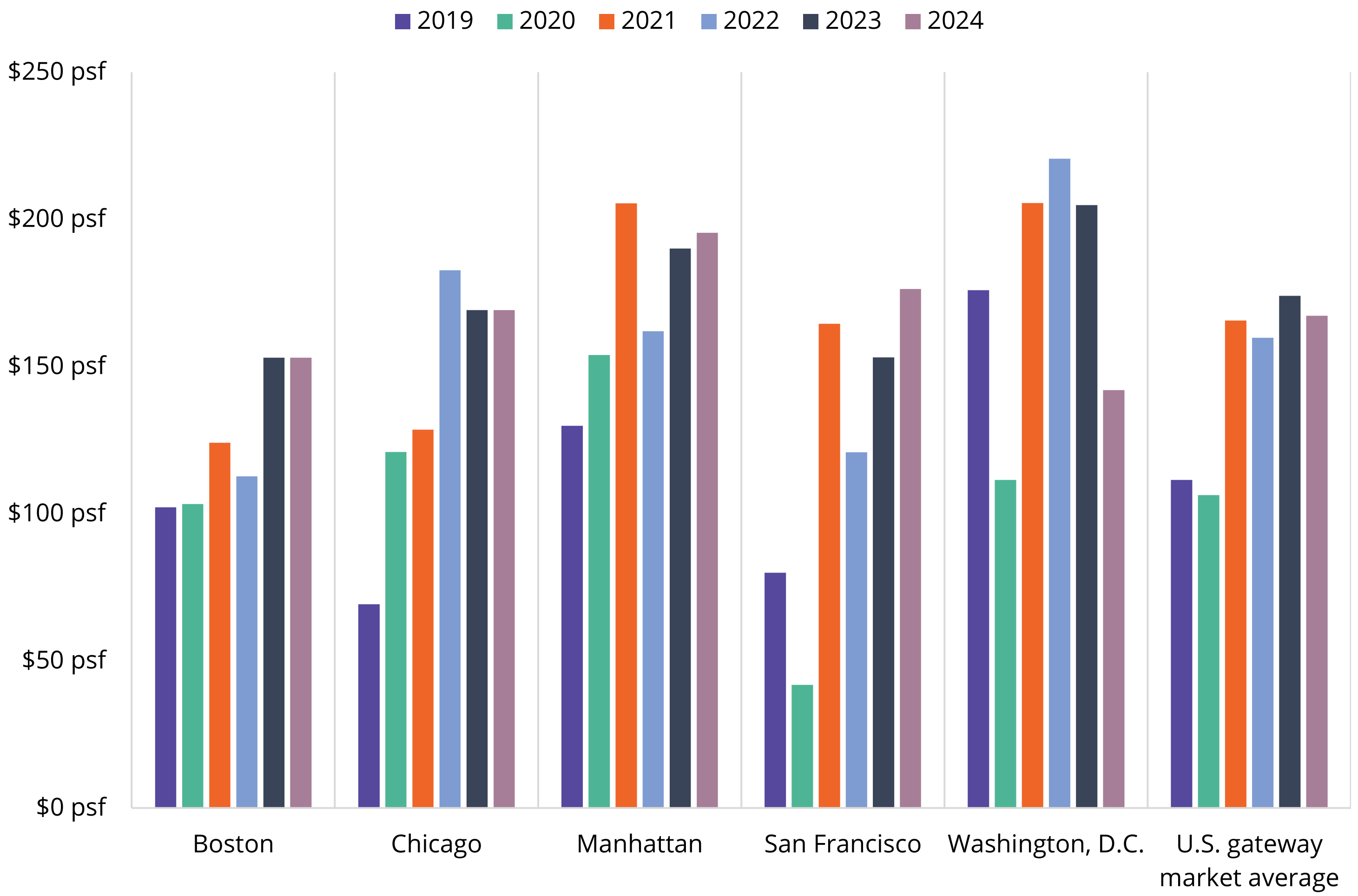
Renewal total concessions values



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

However, Washington, D.C. is the sole market to witness a major decrease, falling to $142.05 psf from $204.86 psf, largely due to a lack of renewals.

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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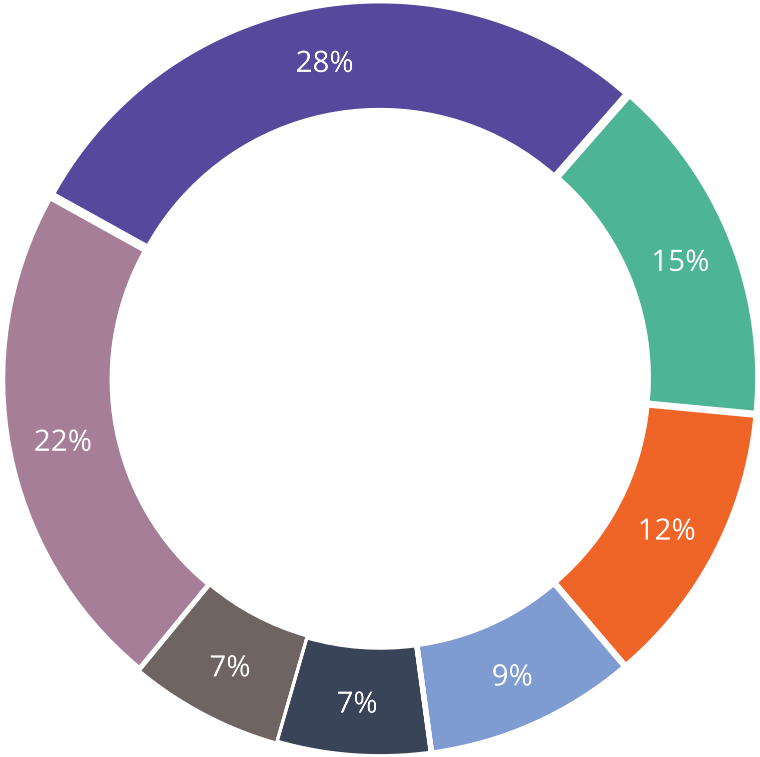
Composition of active requirements



Banking, finance, insurance and real estate: 28%

Tech: 15%

Law firms: 12%

Media, PR, telecom and entertainment: 9%

Consulting, research, accounting and recruiting: 7%

Government: 7%

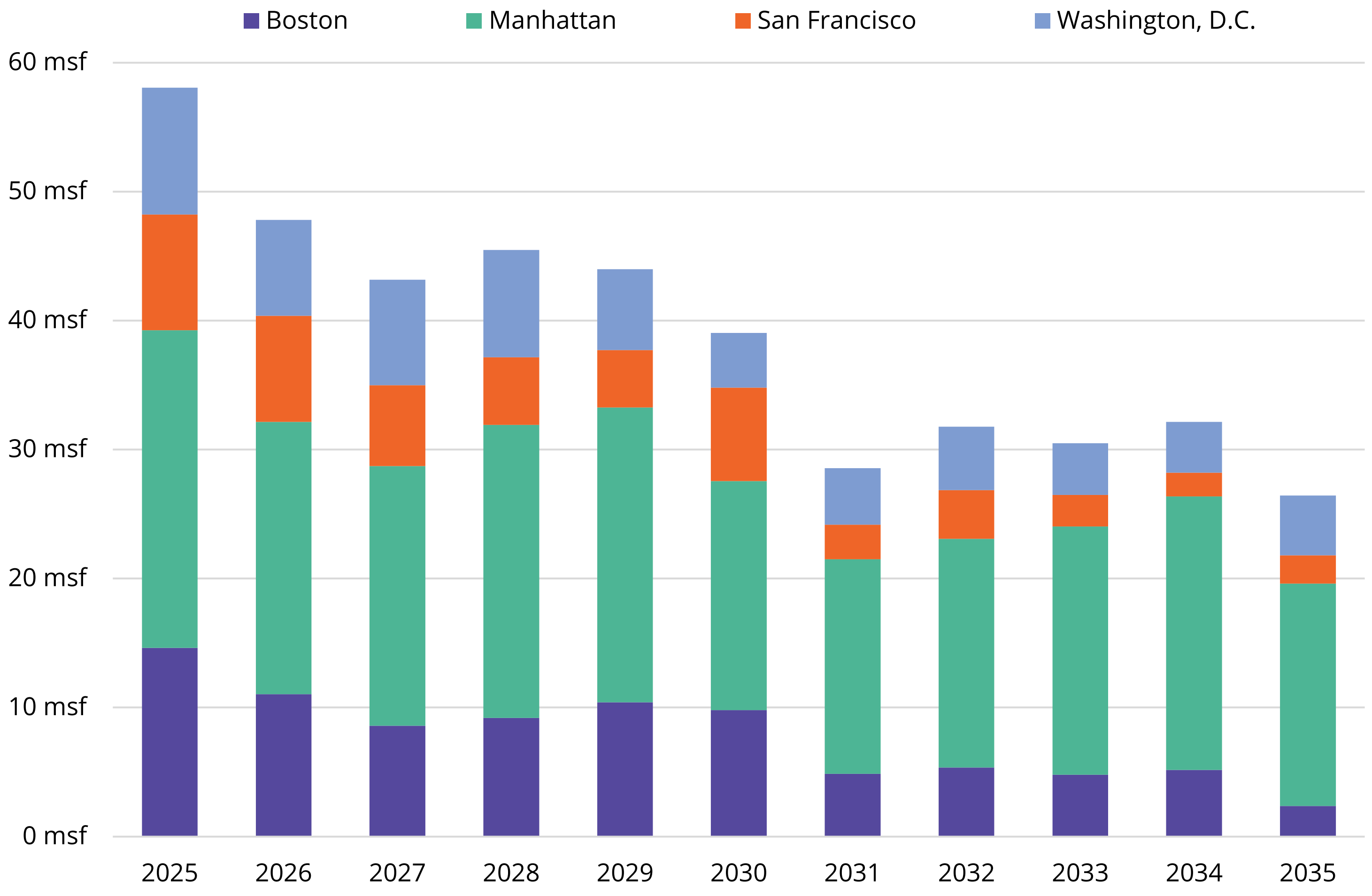
All others: 22%

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

Breaking down tenants in the market by industry can help visualize the upcoming leasing landscape.

Across U.S. gateway markets, the three most active industries continue to be finance/real estate, law firms, and tech.

Upcoming lease expirations by market



Major U.S. markets can use upcoming lease expirations as a barometer for future demand.

Due to expiring leases often requiring tenants to sign a new lease, the large amount of expiring square footage suggests a future spike in leasing activity.

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. Midway through 2024, they continue to become increasingly distressed as loan maturities approach. **Still, just 3.6% of U.S. office properties are encumbered by distressed loans**.

53%

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

25%

average direct availability rate for distressed offices; the U.S. direct availability rate was 20% in Q2 2024

80.9%

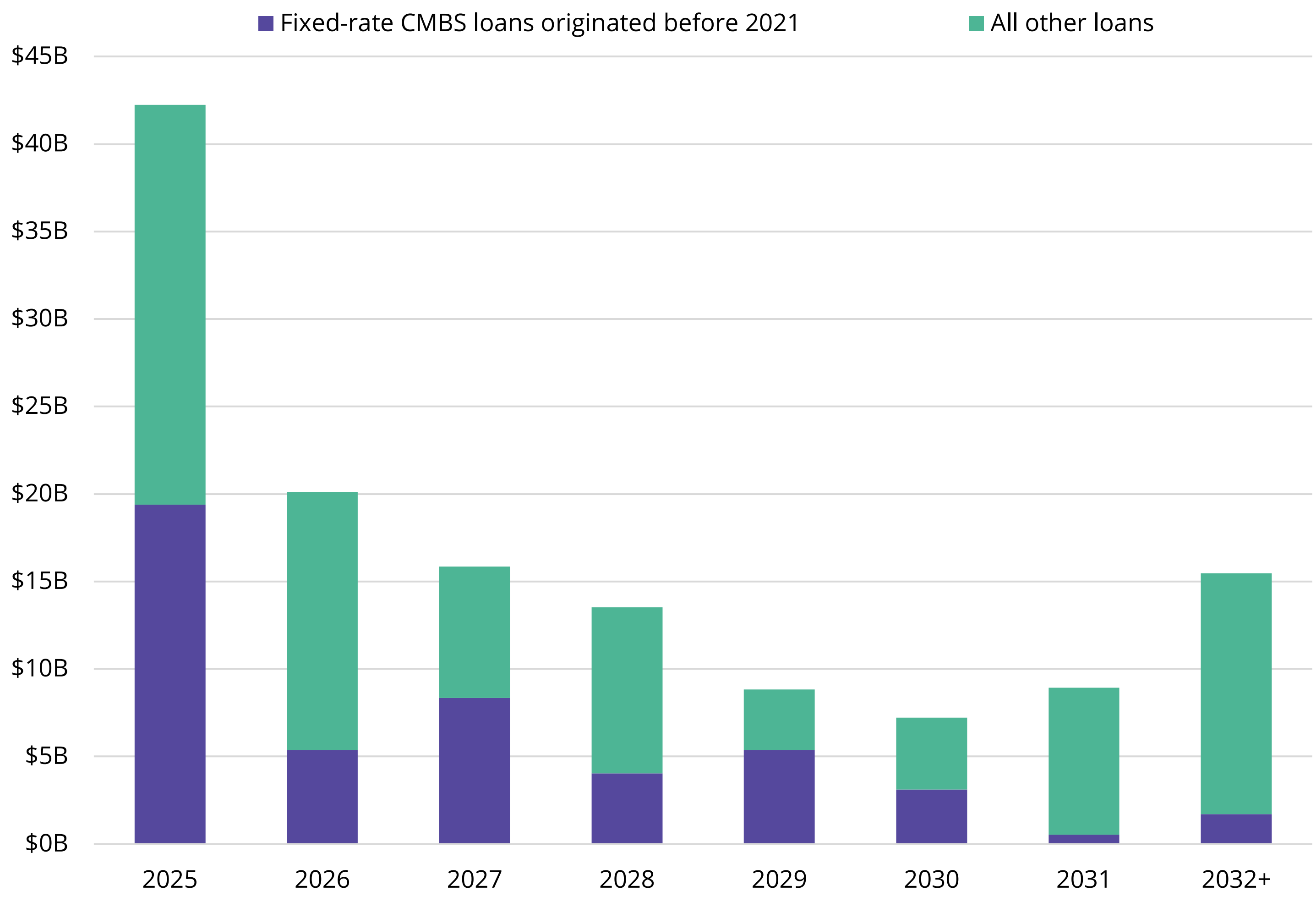
distressed loans have fixed interest rates

1/2017

average origination date of distressed loans

Source: AVANT by Avison Young, RCA, CoStar

Upcoming loan maturities



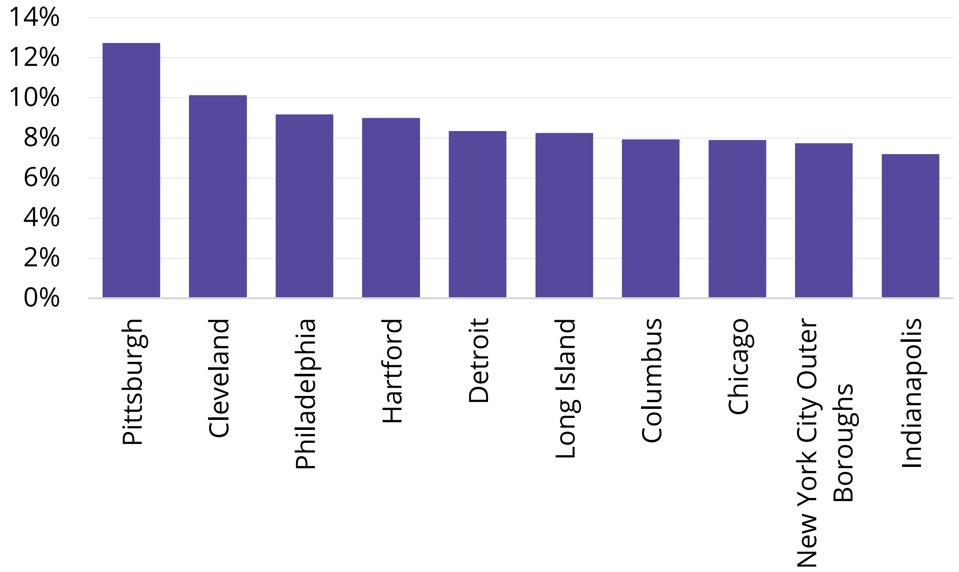
$19.4 billion of outstanding fixed-rate loans that originated before 2021—before the spike in interest rates—are maturing in 2025, in addition to $22.8 billion of other CMBS loans.

Source: AVANT by Avison Young, RCA, CoStar

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

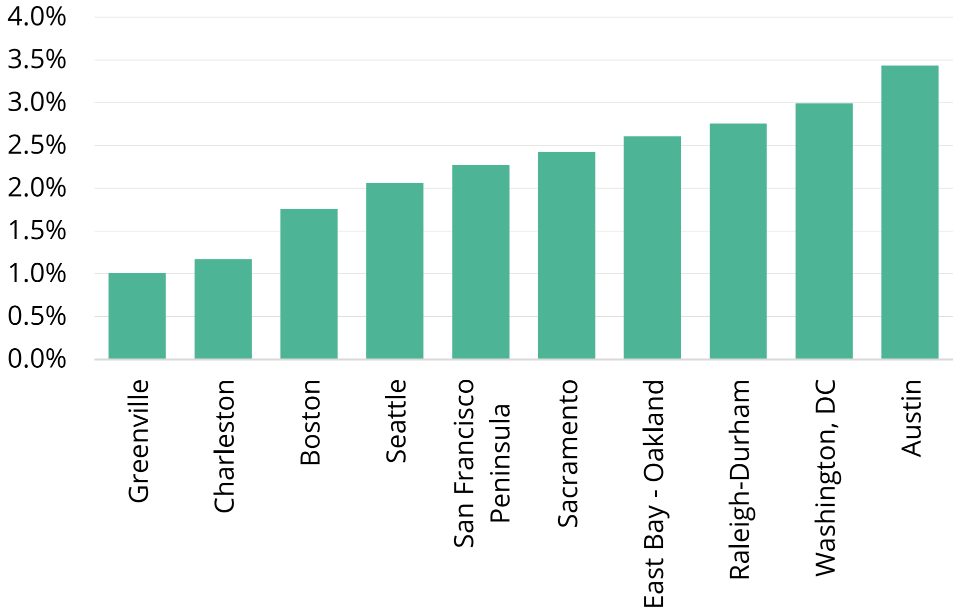
8.8%

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



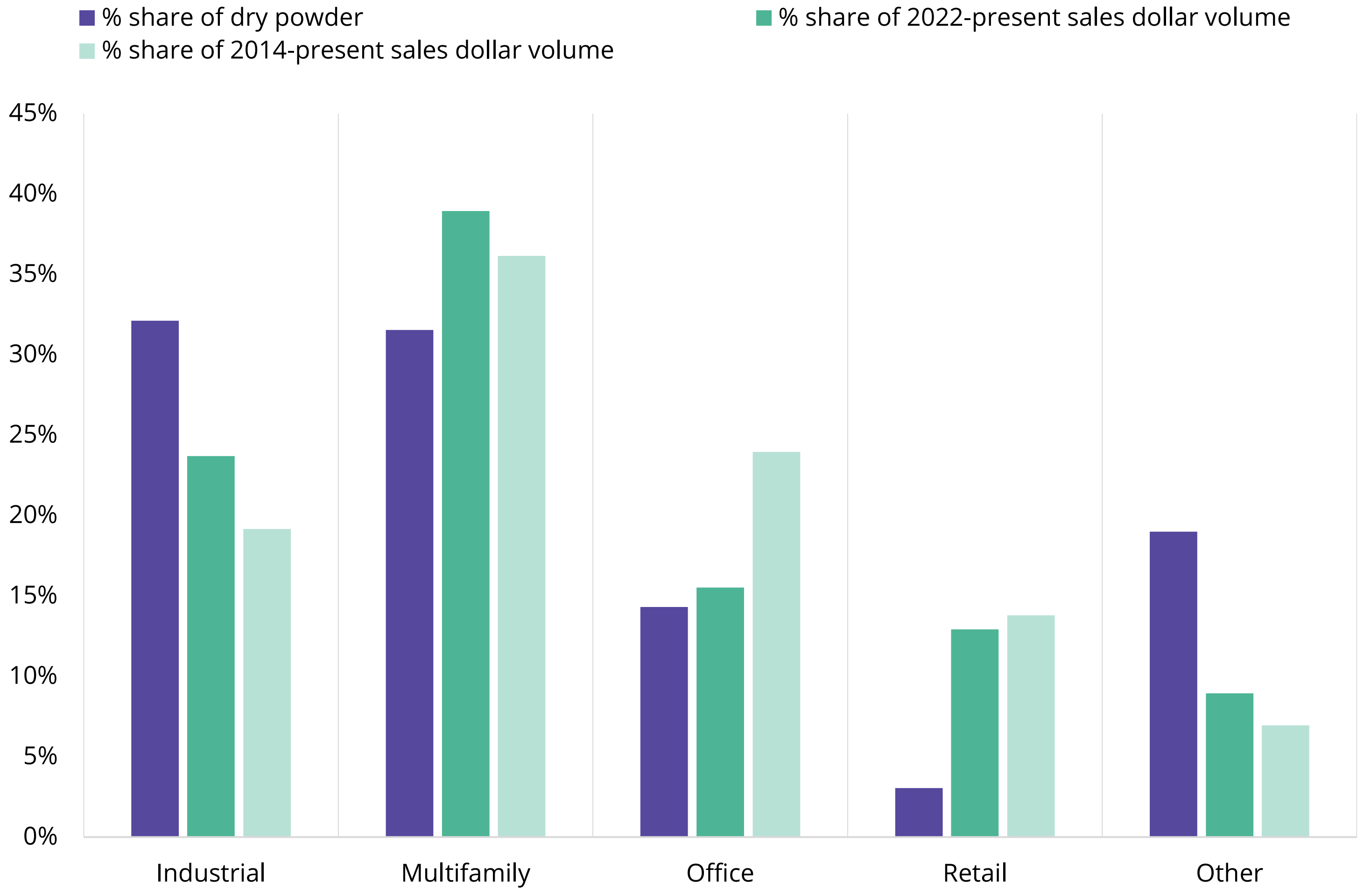
2.2%

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

Sales volume vs. dry powder

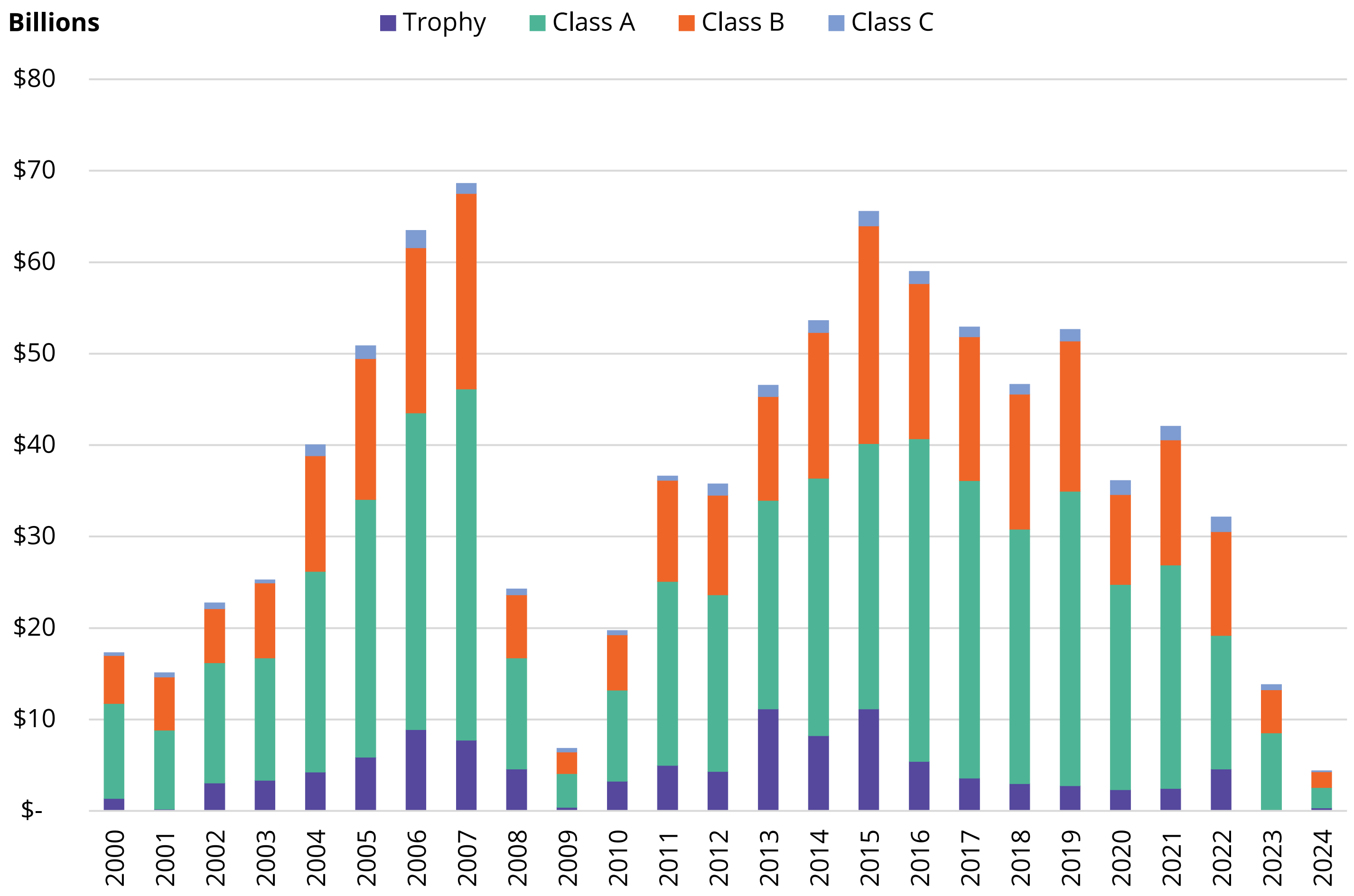


Investor appetite can be monitored over time by comparing historical sales volume with dry powder allocations.

Although multifamily has remained relatively consistent, investor sentiment toward office has clearly shifted.

Source: AVANT by Avison Young, CoStar

Office investment volume by class

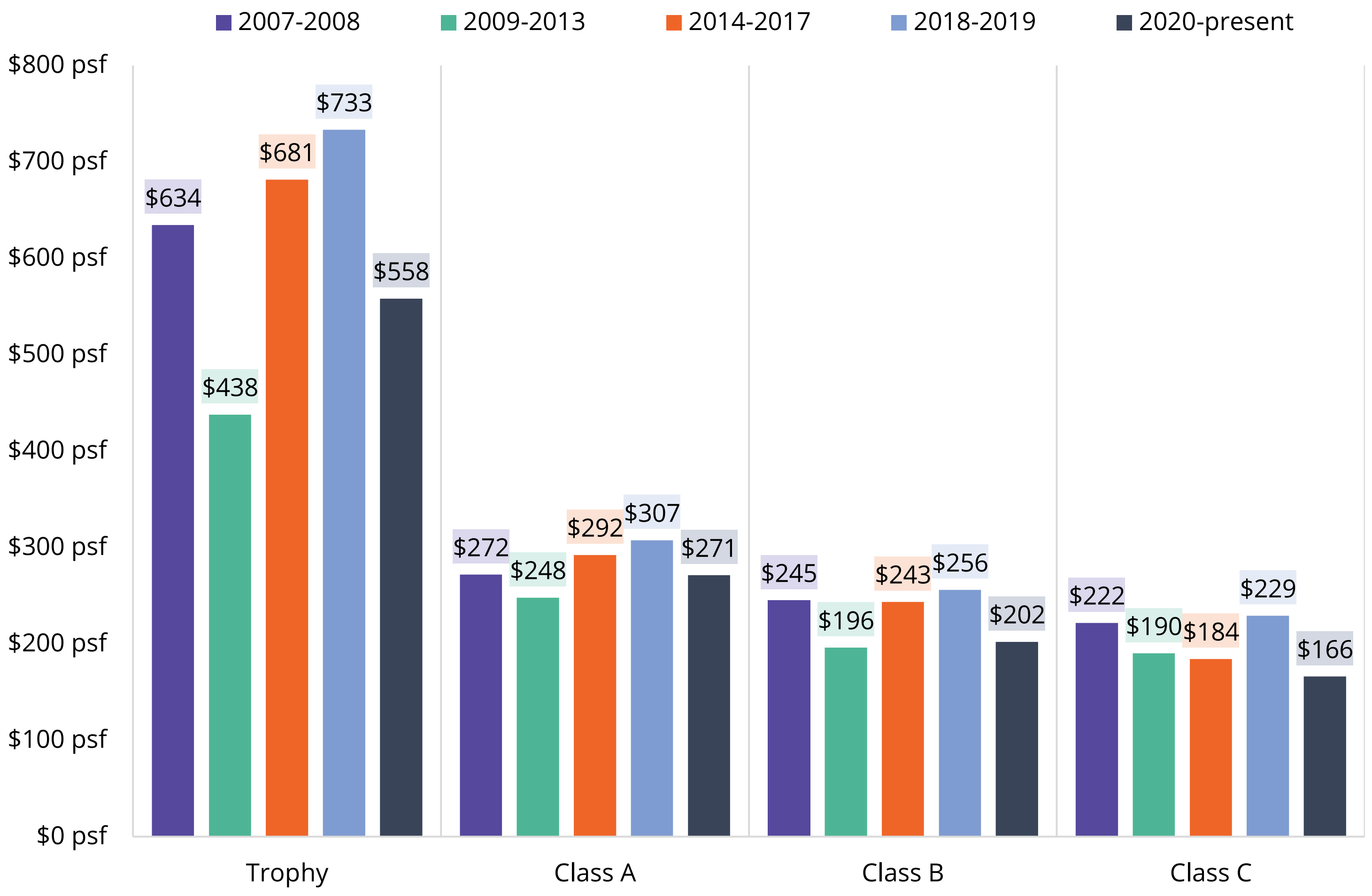


Transactional volume has fluctuated as lenders have been more open to loan modifications.

Although Q2 2024 saw an increase of investment dollar volume compared to the previous quarter, the U.S. market has not fully rebounded.

Source: AVANT by Avison Young, CoStar

Office investment pricing by era



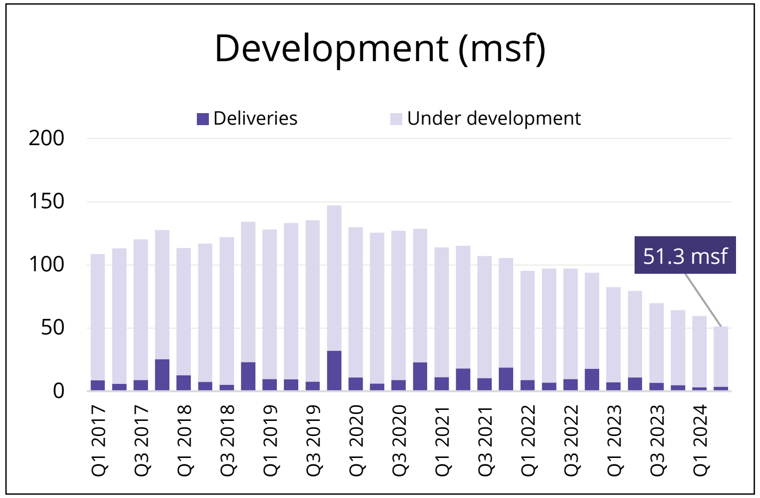
Trophy office properties have seen a significant post-pandemic correction in value of all office asset classes, correcting by almost 24% since the last cycle.

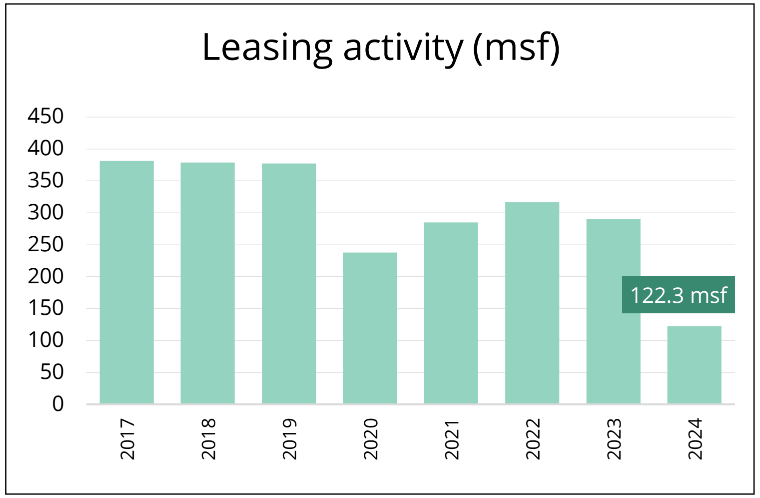
However, pricing remains above levels during the great financial crisis in 2009 in these higher quality assets.

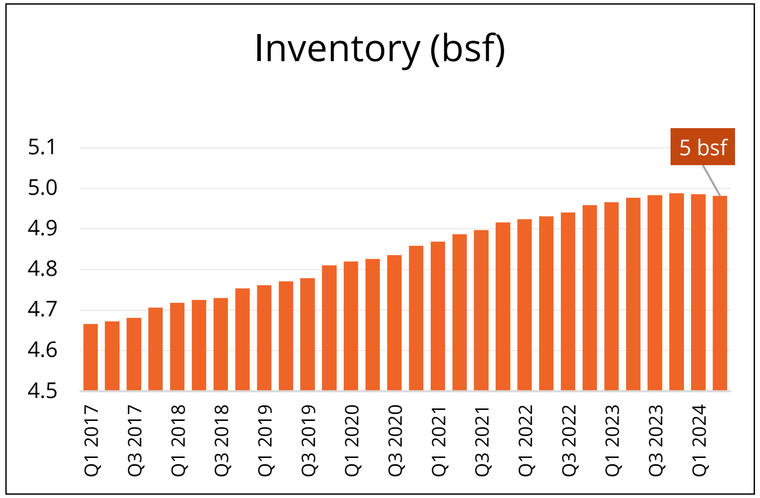
Source: AVANT by Avison Young, CoStar

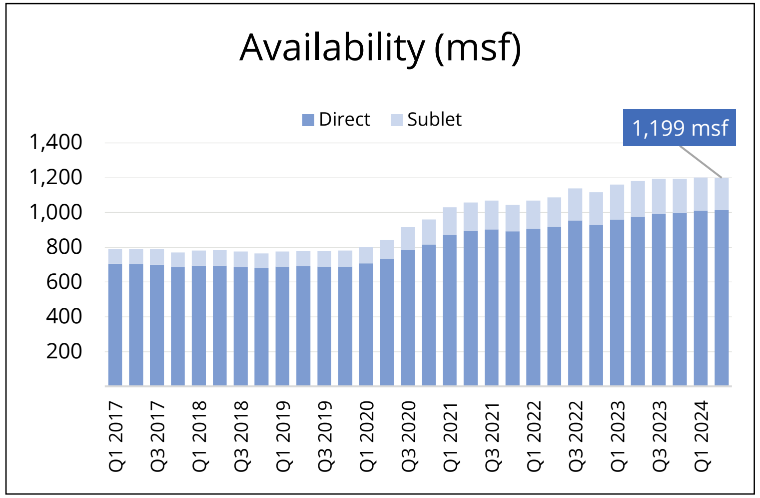
Appendix

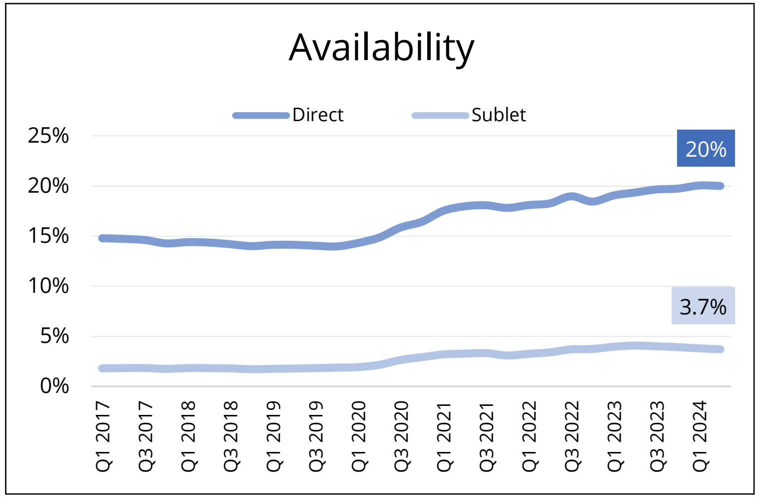
U.S. office market indicators

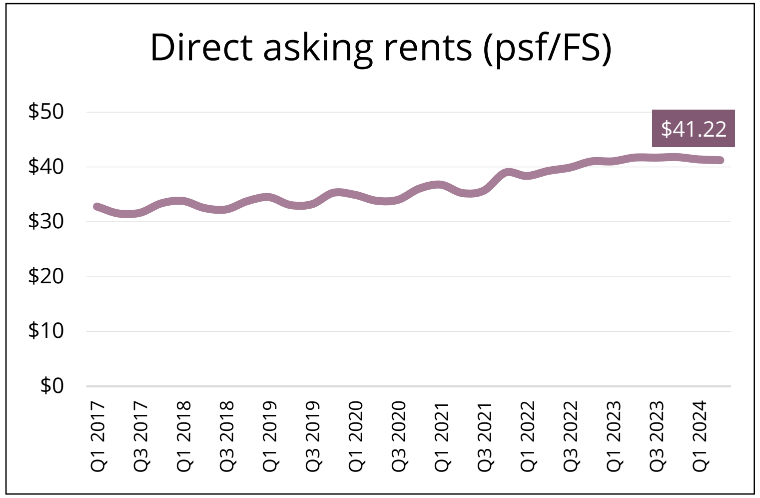












Source: AVANT by Avison Young, CoStar

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U.S. office market stats by class

Class	Existing inventory sf	Under development sf	Direct availability	Sublet availability	Total availability	Annual direct asking rent psf FS
Trophy	363,826,183	14,661,037	17.2%	4.5%	21.7%	$76.30
Class A	2,180,243,346	30,515,267	23%	5%	28%	$42.37
Class B	1,977,769,776	2,077,463	19.1%	2.7%	21.8%	$34.54
Class C	460,010,190	455,953	13.2%	1.1%	14.3%	$31.88
U.S. total	**4,981,849,495**	**47,709,720**	**20%**	**3.7%**	**23.7%**	**$41.22**

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

For more market insights and information visit **avisonyoung.com**

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