



U.S. office market report

Q3 2024

**AVISON
YOUNG**

U.S. office market trends

23.5%

overall availability rate sees first decrease since Q4 2022

Through Q3 2024, the overall availability rate for U.S. office space sits at 23.5%—comprised of a 20% direct availability rate and 3.5% sublet availability rate. This 20-basis point (bp) decrease quarter-over-quarter represents the first quarterly decrease in overall availability since Q4 2022.

Quarter over quarter, direct available space has decreased by 14.3 million square feet (msf) and sublet available space has decreased by 7.0 msf—netting a 21.3-msf quarter-over-quarter decrease in total available space. While the availability rate remains historically high, the quarterly decrease in supply is a positive indicator for the U.S. office market.

175.7 msf

U.S. office leasing activity through Q3 2024

U.S. office leasing activity has reached 175.7 msf through Q3 2024—sitting 29.4% behind the pre-COVID average (2000-2019) at 248.9 msf, and 17.4% behind this time last year at 212.6 msf. When annualized, year-end leasing activity is likely to sit around the 240 msf mark.

Certain markets like Manhattan and San Francisco, however, are up almost 30% from this time last year. Additionally, the Federal Reserve's recent interest rate cut should provide a boost in the office market in the coming quarters.

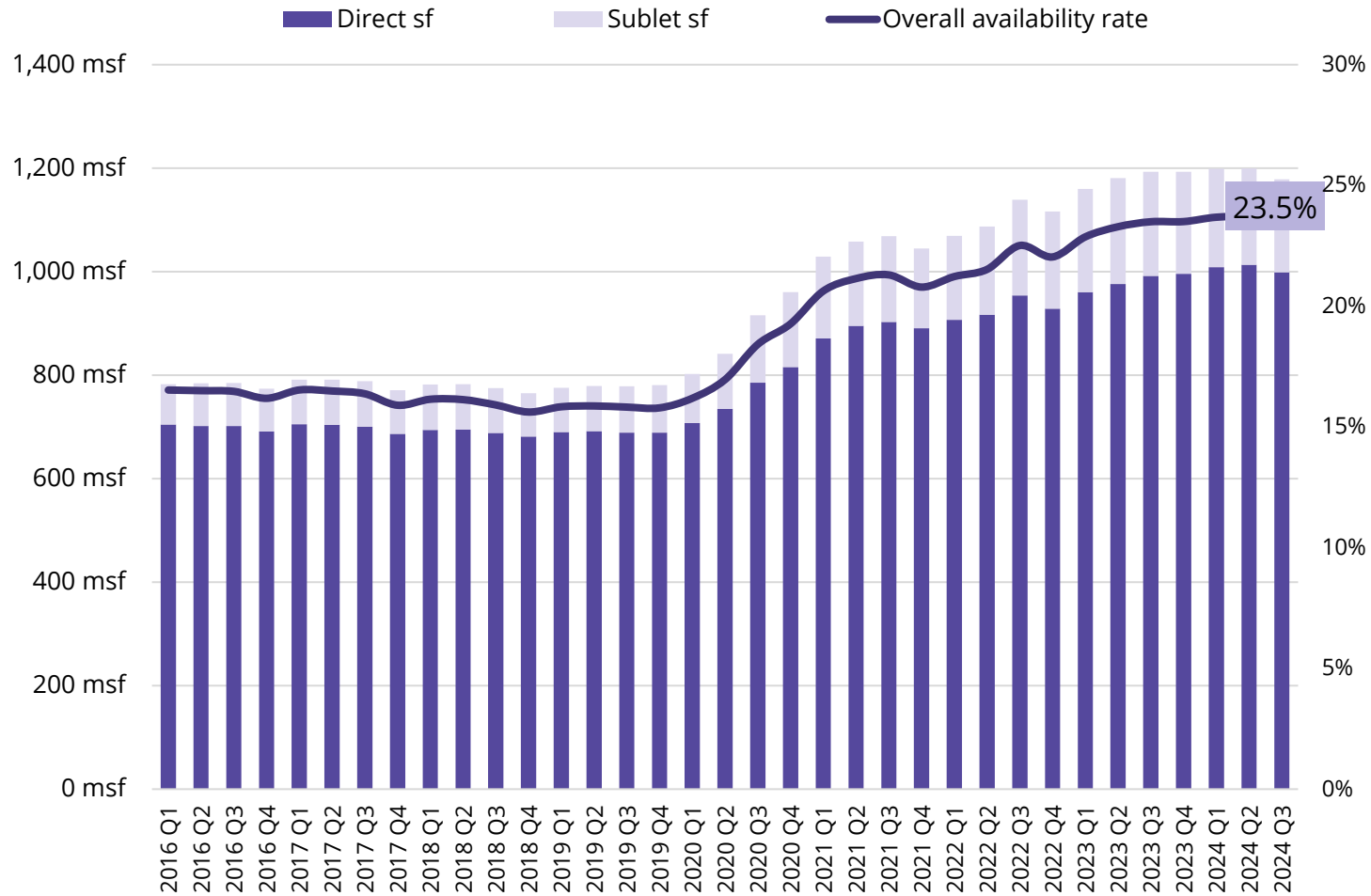
+14%

increase in average renewal square footage vs. 2019

Across the U.S., the average office lease size has decreased by 17% from 2019 to today. This downsize is largely captained by new leases, which have dropped 22.8% in average lease size in the same period as a result of many occupiers upgrading to more efficient office space. Despite this, renewals across the U.S. have seen an increase of 14% in average lease size from 2019 to year-to-date 2024.

The growth of average renewal lease sizes signals that large occupiers are taking advantage of current market conditions and signing renewals at a higher frequency.

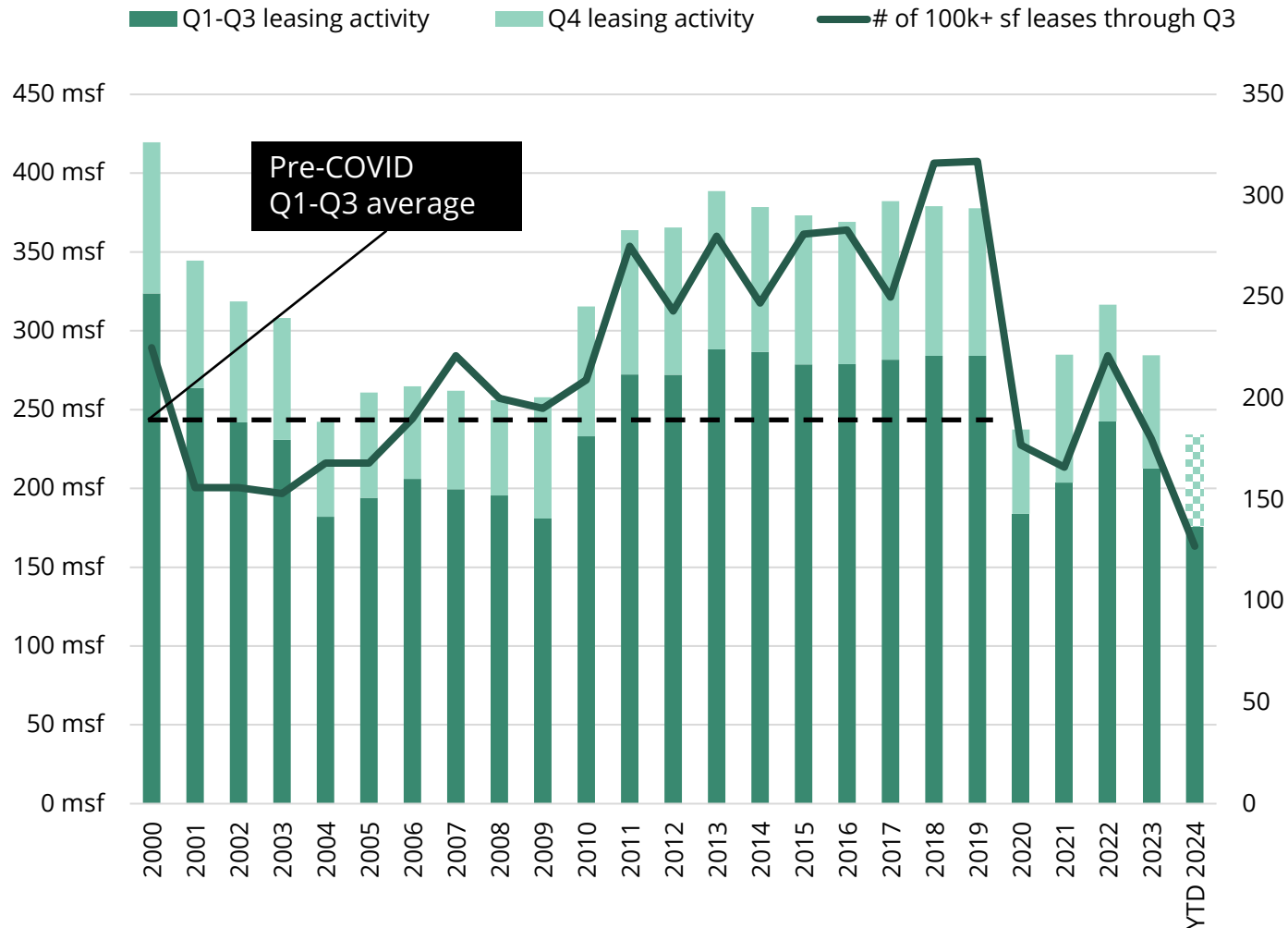
Available space



The overall availability rate across the U.S. dropped by 20 basis points quarter over quarter to 23.5%. This marks the first quarter-over-quarter decrease in overall availability since Q4 2022.

Direct available space has decreased by 14.3 msf and sublet available space has decreased by 7.0 msf—netting a 21.3 msf quarter-over-quarter decrease in available space.

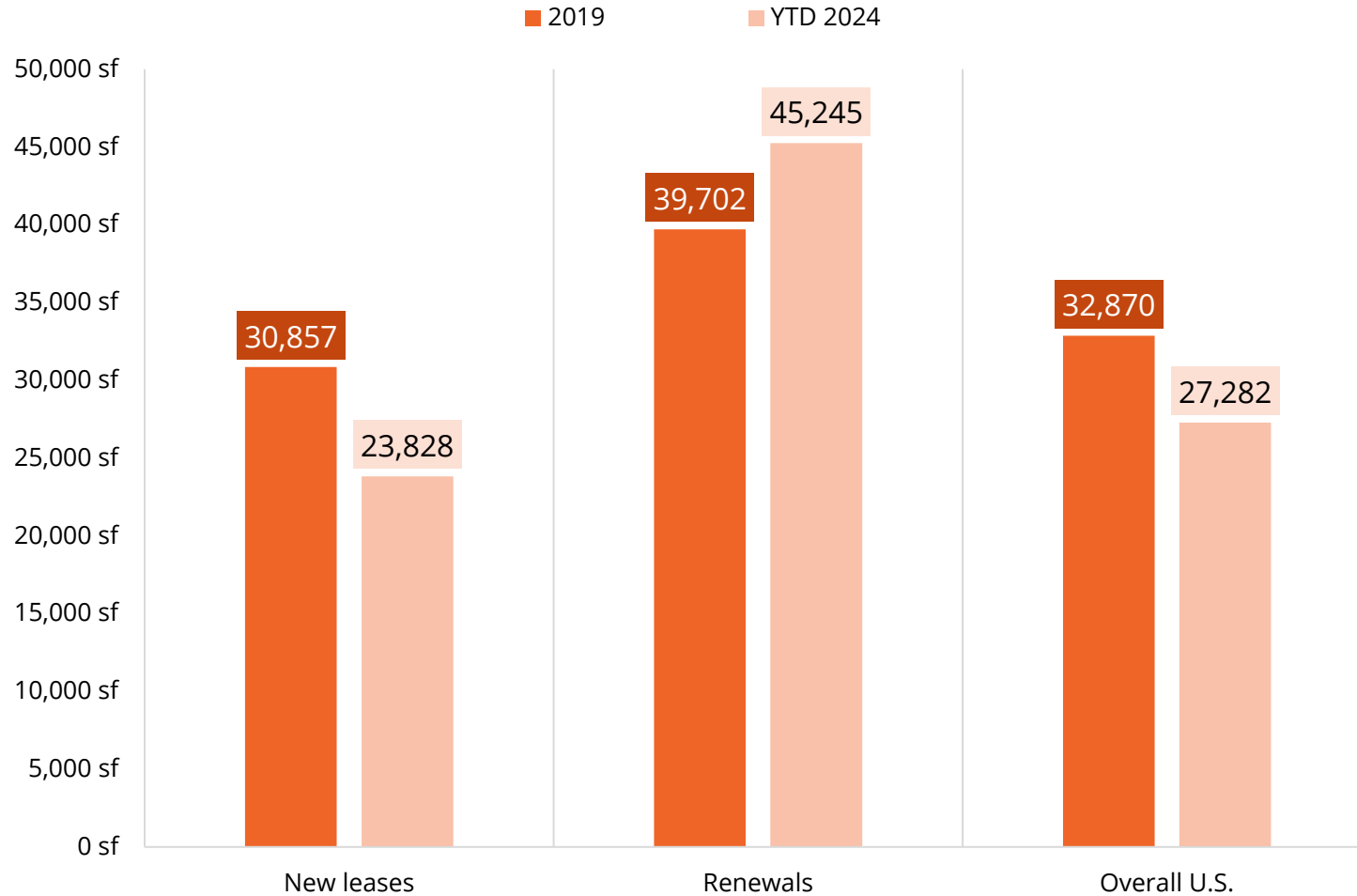
Leasing activity



U.S. office leasing activity sits at 175.7 msf through Q3 2024, falling 29.4% short of the pre-COVID Q1-Q3 average (2000-2019) and 17.4% below the first half of 2023.

Year to date, there have been only 127 leases exceeding 100,000 sf—a 29.4% drop compared to this time last year.

U.S. average office lease size



Average lease sizes across the U.S. have decreased from 2019 to Q3 2024 (-17.0%). This is entirely led by new leases.

Renewals, on the other hand, have increased in average lease size by 14% across the U.S. compared to 2019.

Introducing

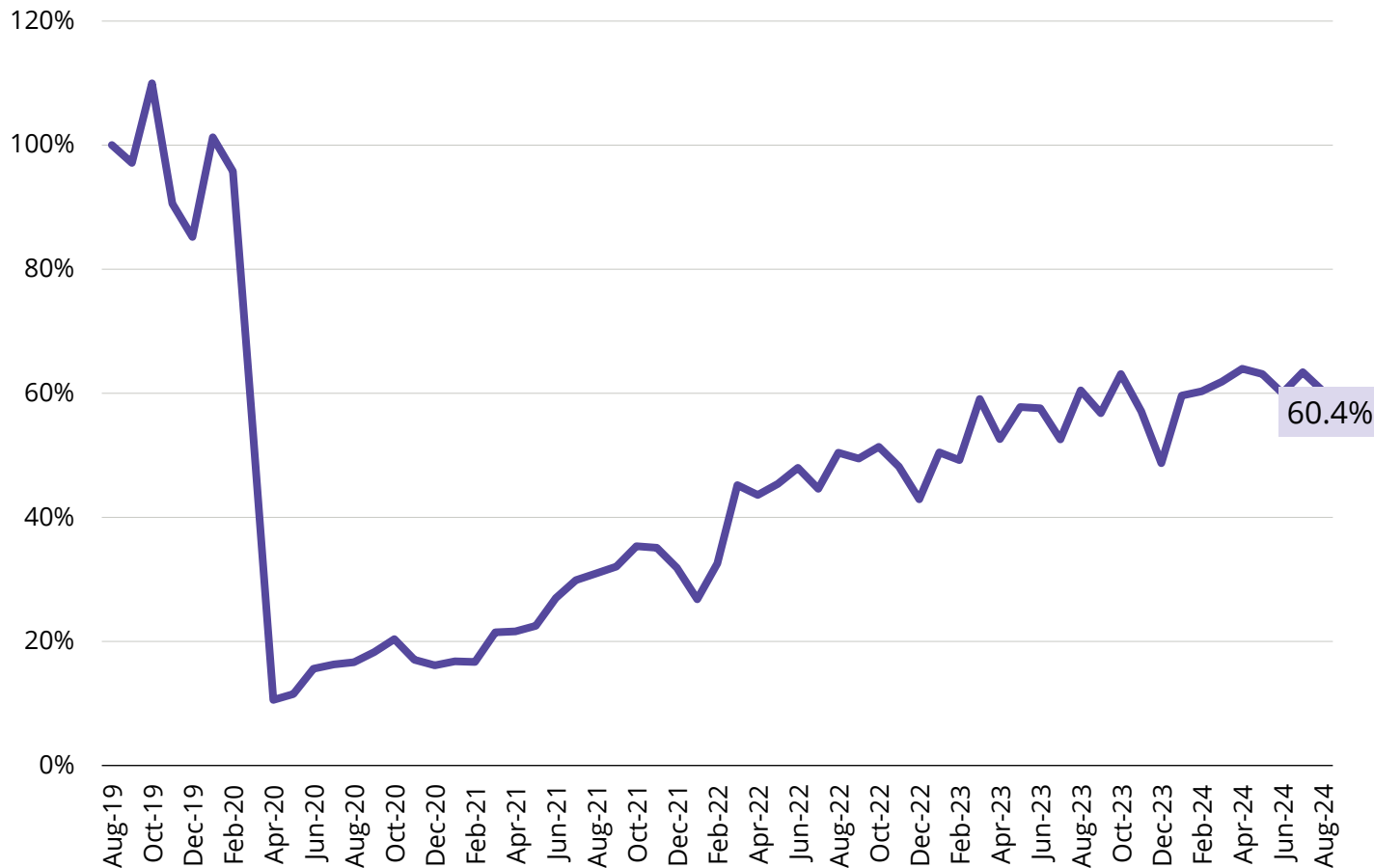
The Office Busyness Index

Access the most accurate view of office utilization in the industry today. Explore our interactive dashboard to uncover how busy office buildings truly are across U.S. markets.

[Learn more](#)



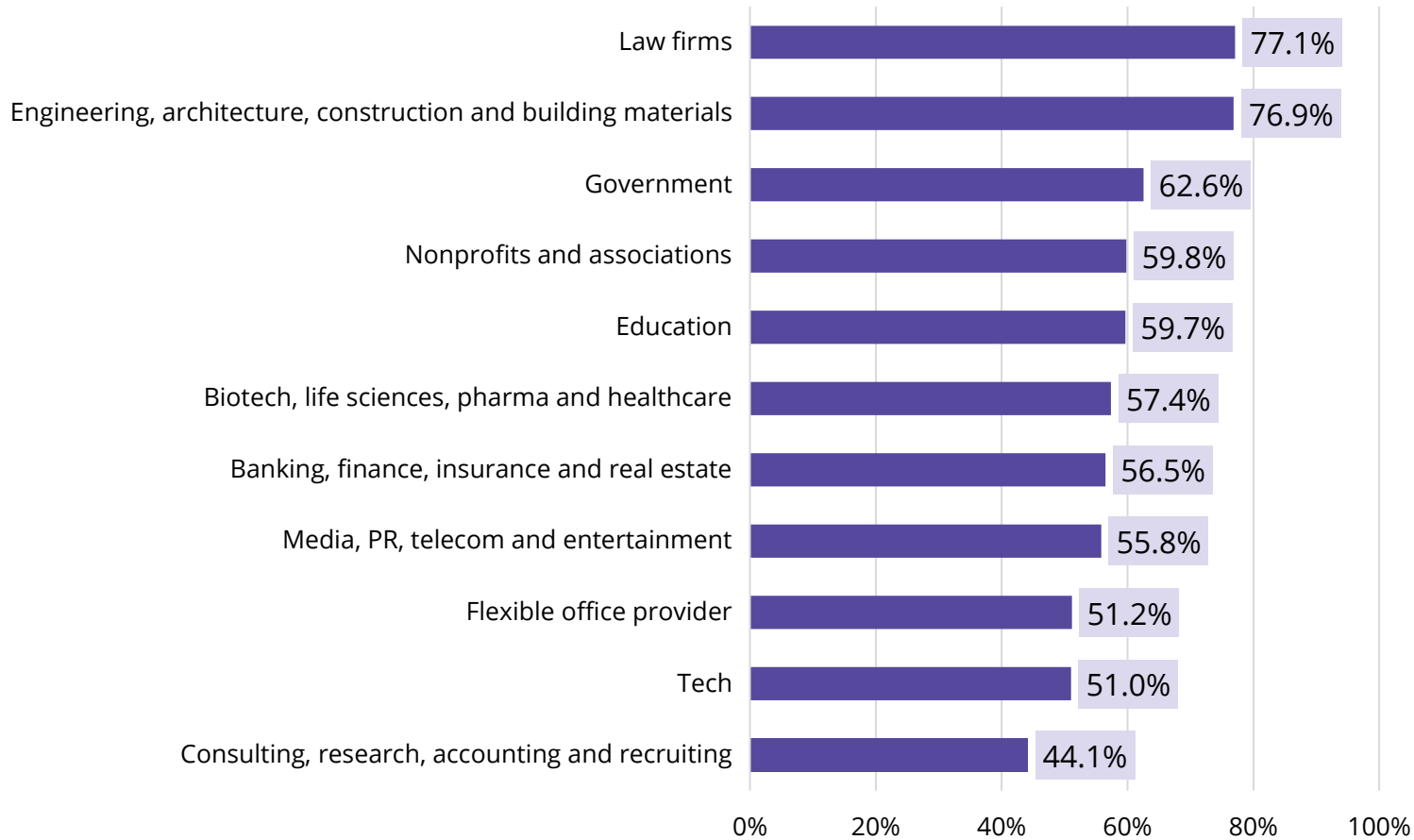
U.S. office busyness, August 2024 vs. August 2019



As of August 2024, office buildings across the U.S. are 60.4% as busy as they were in August 2019.

Despite seeming like relatively low office visitation, U.S. office buildings have been experiencing slow and steady increases since the onset of the pandemic in early 2020.

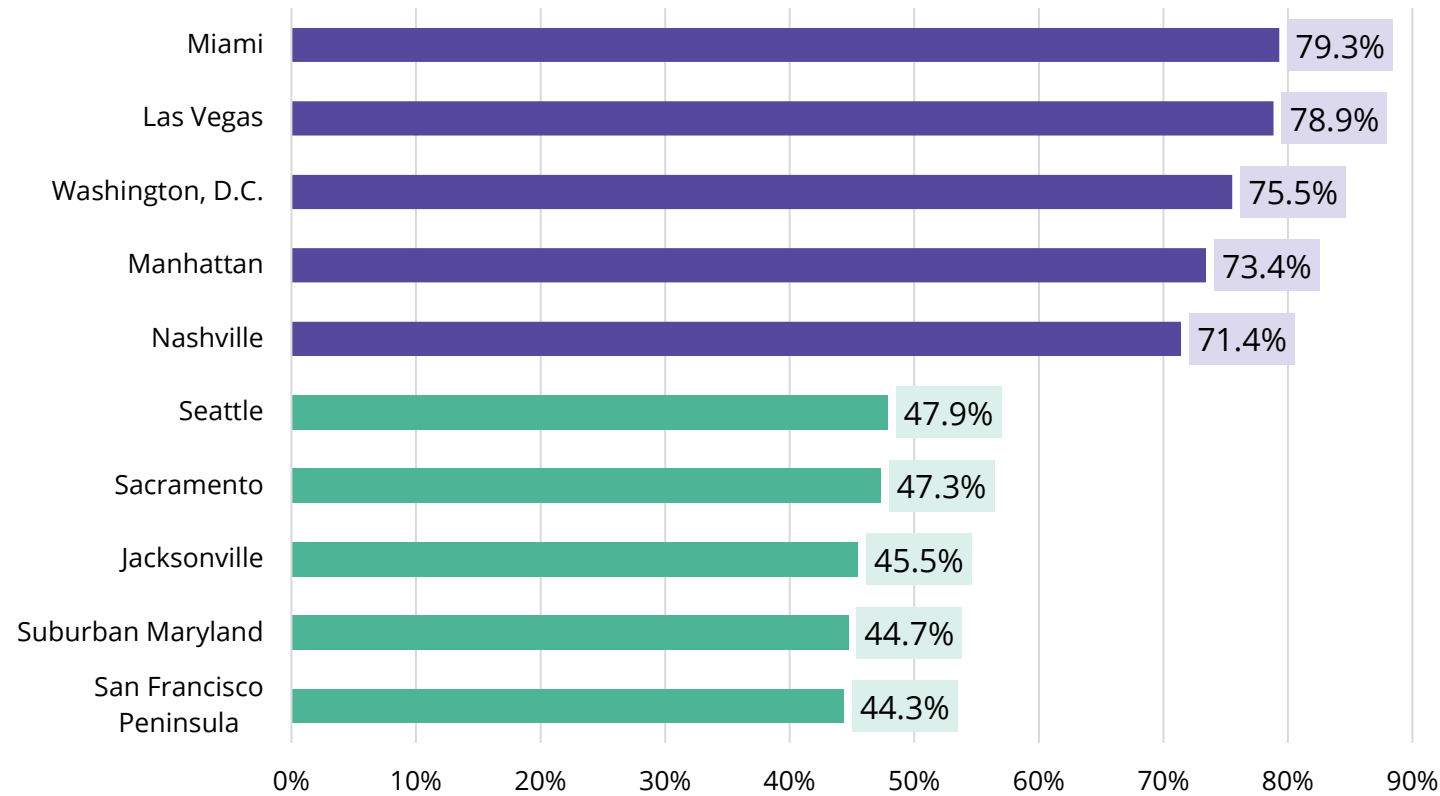
U.S. office busyness by major industry, August 2024 vs. August 2019



Certain industries across the U.S. have seen stronger office busyness than others compared to 2019. Law firms and engineering/architecture firms—for example—remain at 77.1% and 76.9% of 2019 levels, respectively.

Other major industries, like tech and consulting, have seen weaker busyness figures across the U.S. at around 50% of 2019 levels.

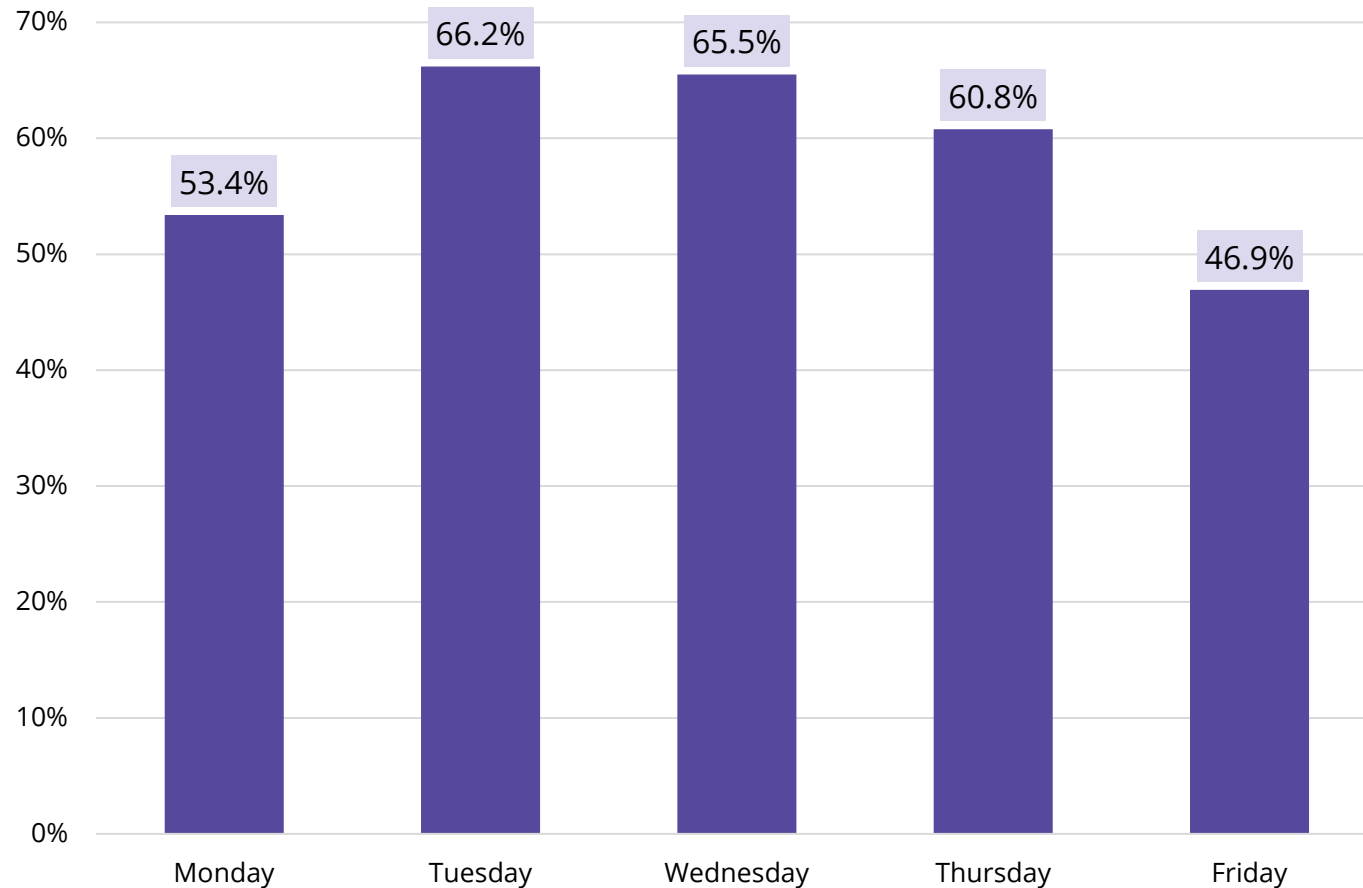
U.S. office busyness – overperforming and underperforming markets August 2024 vs. August 2019



As of August 2024, certain office markets across the U.S. have recovered toward 2019 levels better than others.

Miami and Las Vegas, for example, sit at 79.3% and 78.9% of August 2019 levels, respectively. On the other hand, San Francisco Peninsula and Suburban Maryland have not recovered as well, and sit at 44.3% and 44.7%, respectively.

U.S. office busyness by day of week, August 2024 vs. August 2019



Looking at office busyness across the U.S. by day of the week, it is no surprise that Tuesday through Thursday lead the way when compared to 2019.

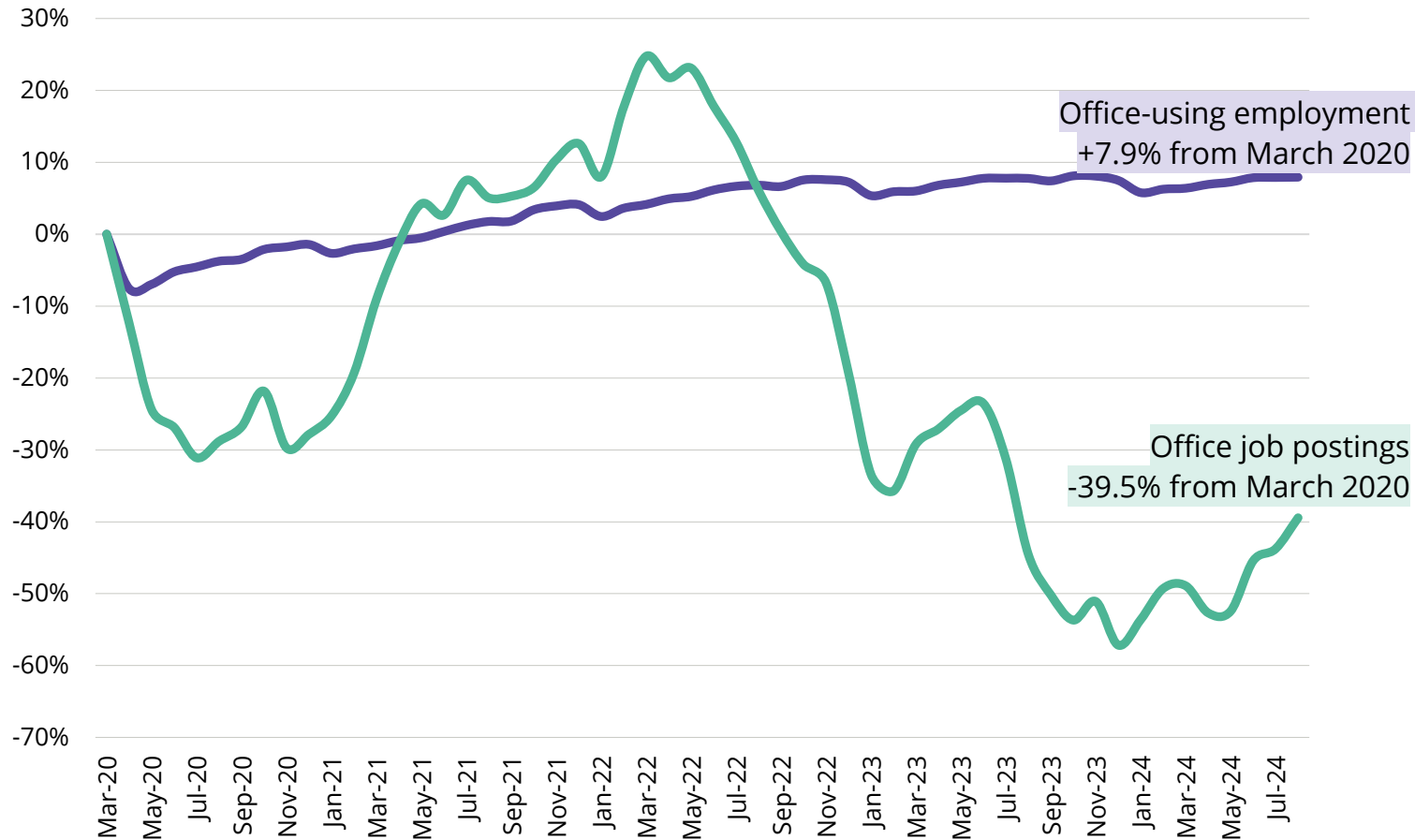
Given the evolving hybrid structure of many companies, employees seem to be adopting a Tuesday, Wednesday, and Thursday office schedule with some Mondays and Fridays remote.

U.S. office market drivers



Office employment and job postings

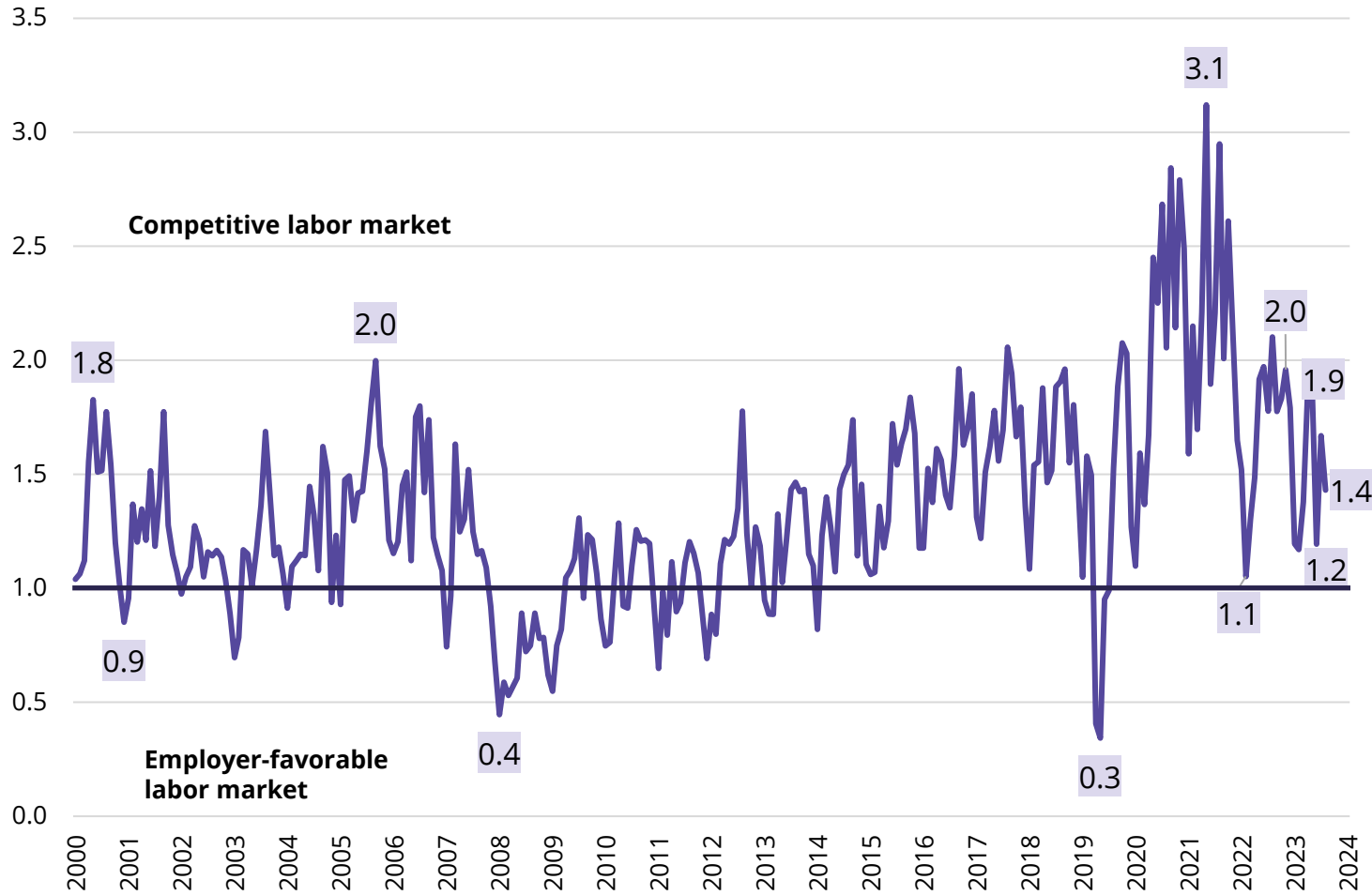
Percentage change since the pandemic



Office-using employment across the U.S. continues to trend upward, now reaching a +7.9% increase from March 2020.

Job postings, while still well below March 2020 levels, have seen significant growth since Q3 2023.

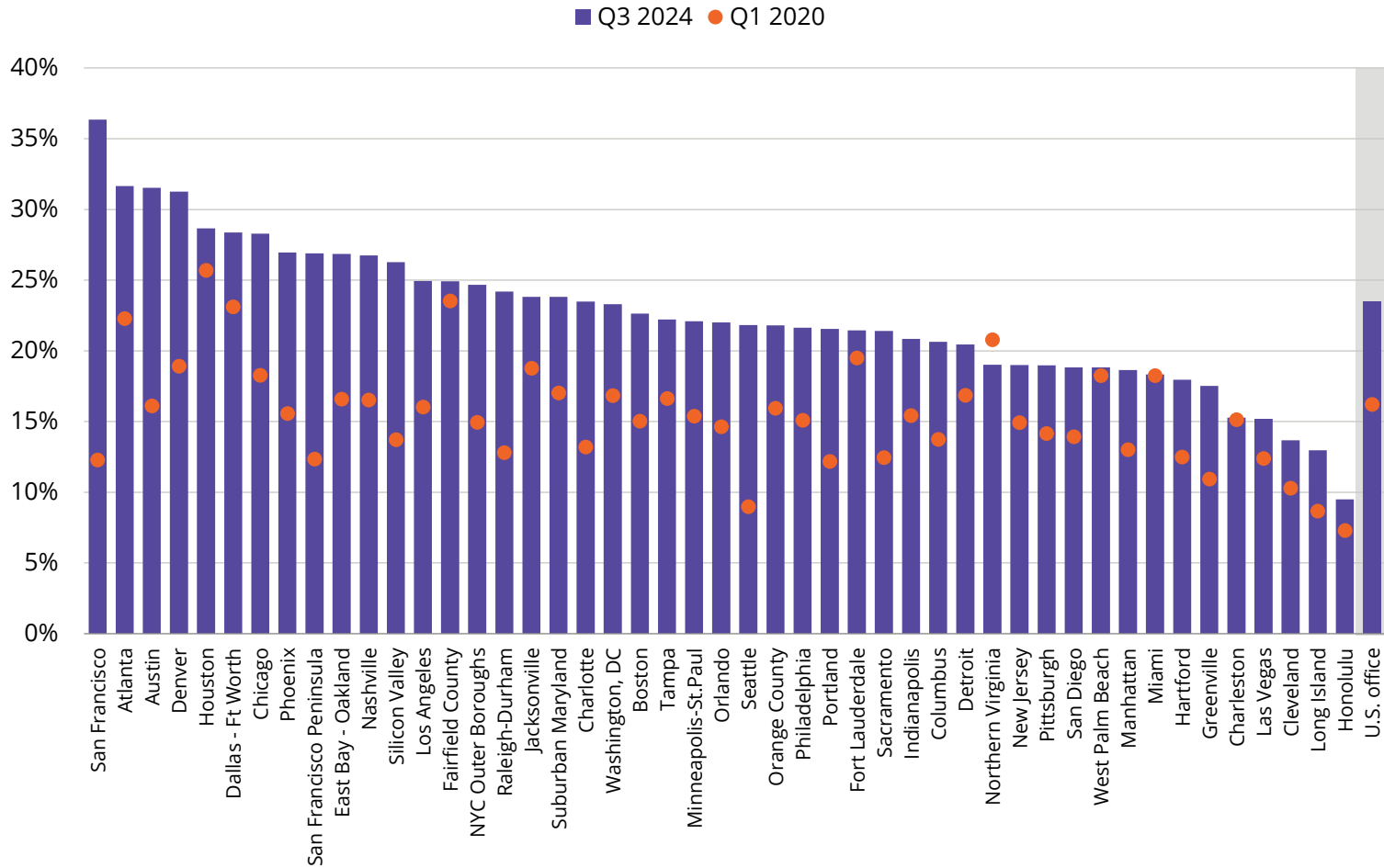
Office quits-to-layoffs/discharges ratio



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

The ratio, or employee leverage, has hovered between 1.2 and 1.9 all year, and currently sits in the middle at 1.4 quits per layoff/discharge. This is a slight nudge toward an employer-favorable labor market compared to last quarter.

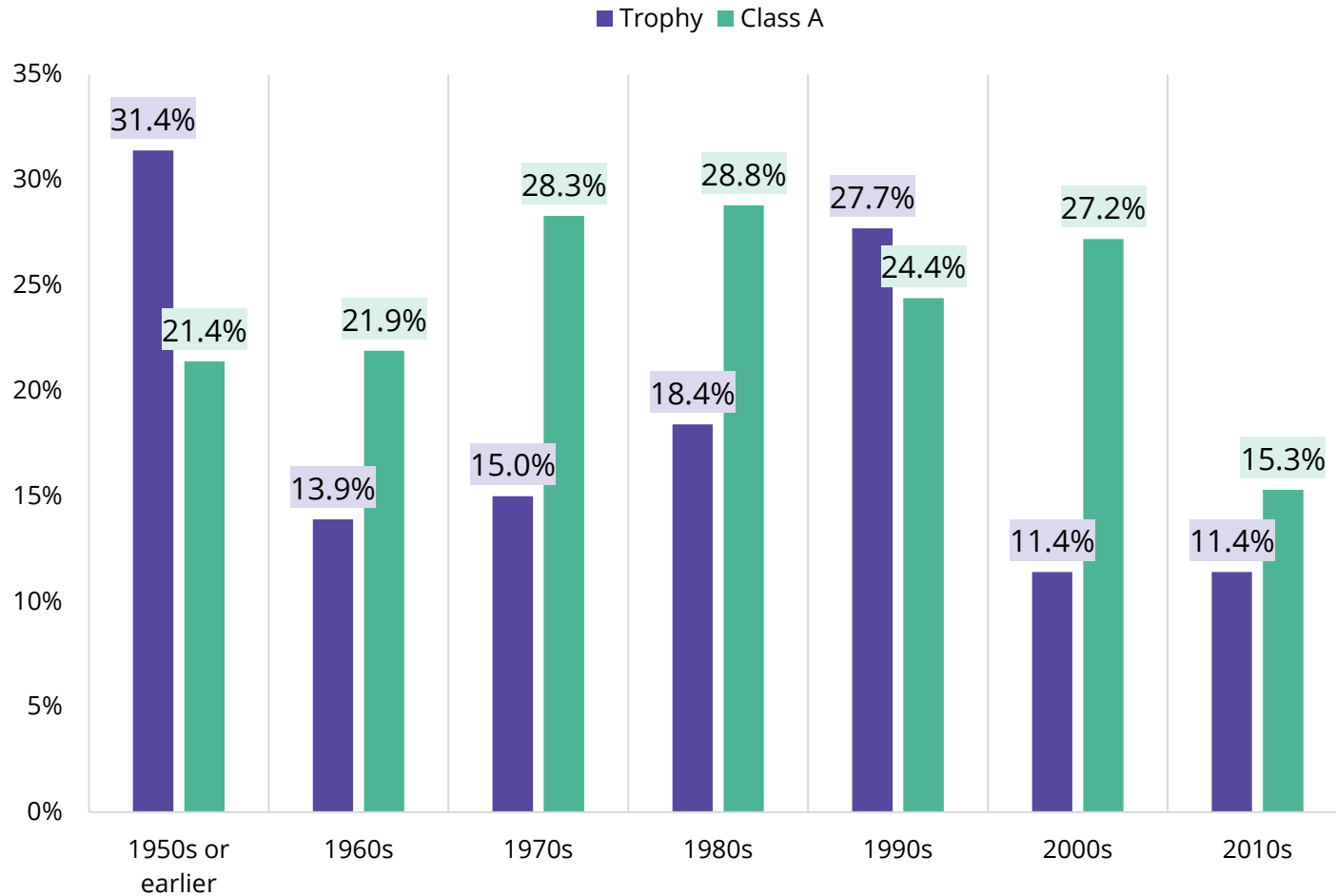
Office availability rate by market, Q3 2024 vs. Q1 2020



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

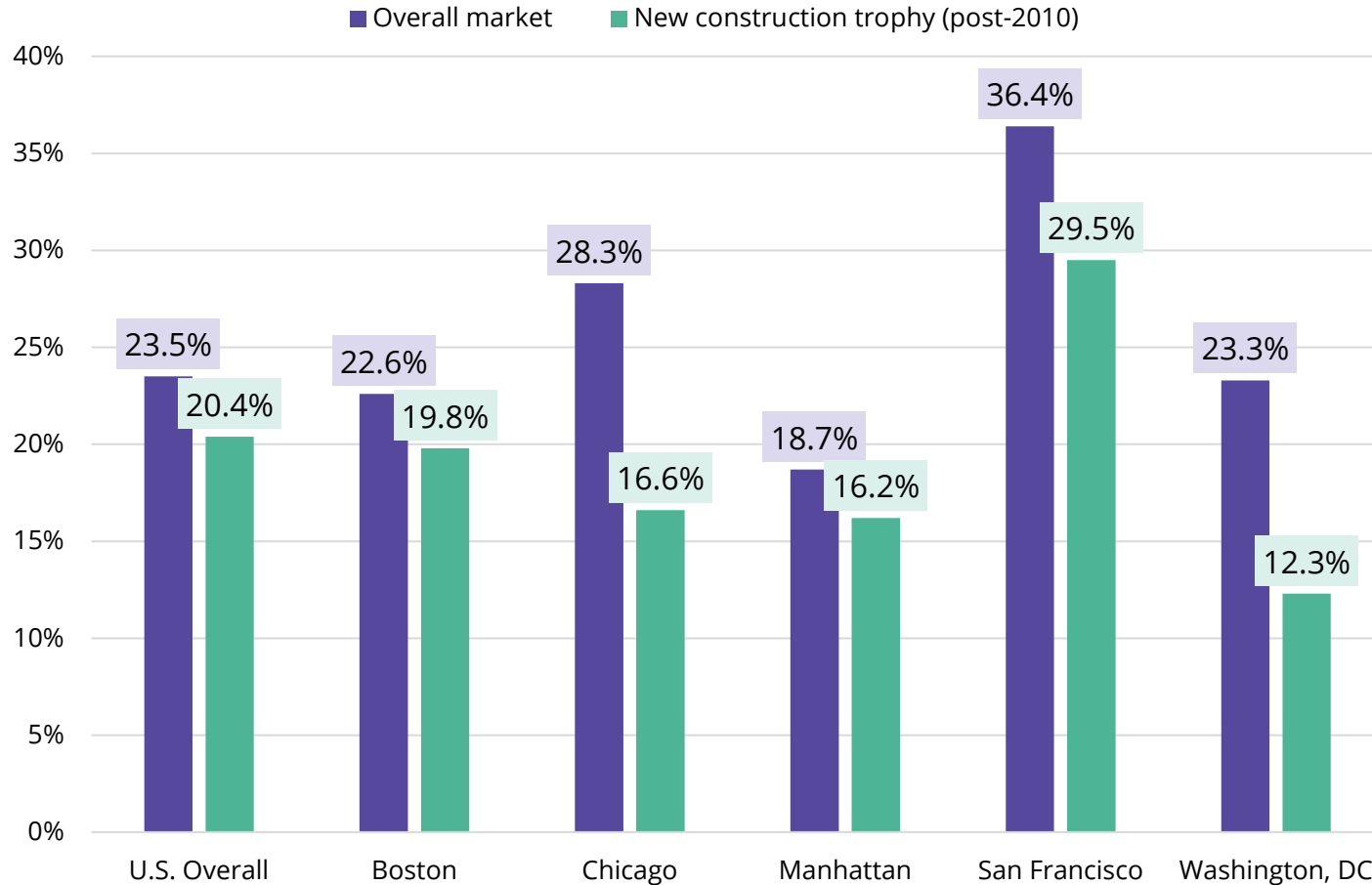
San Francisco, much like last quarter, continues to see a significant increase in overall availability from Q1 2020—rising from 12.3% to 36.4%. Hardly any of the U.S. office markets have seen a decrease in overall availability rate compared to Q1 2020.

Total availability rates by delivery date



Older to semi-modern class A properties, built from the 1960s through the 2000s, continue to experience significant distress in trying to fill their available space across the U.S.—especially compared to recently constructed trophy properties.

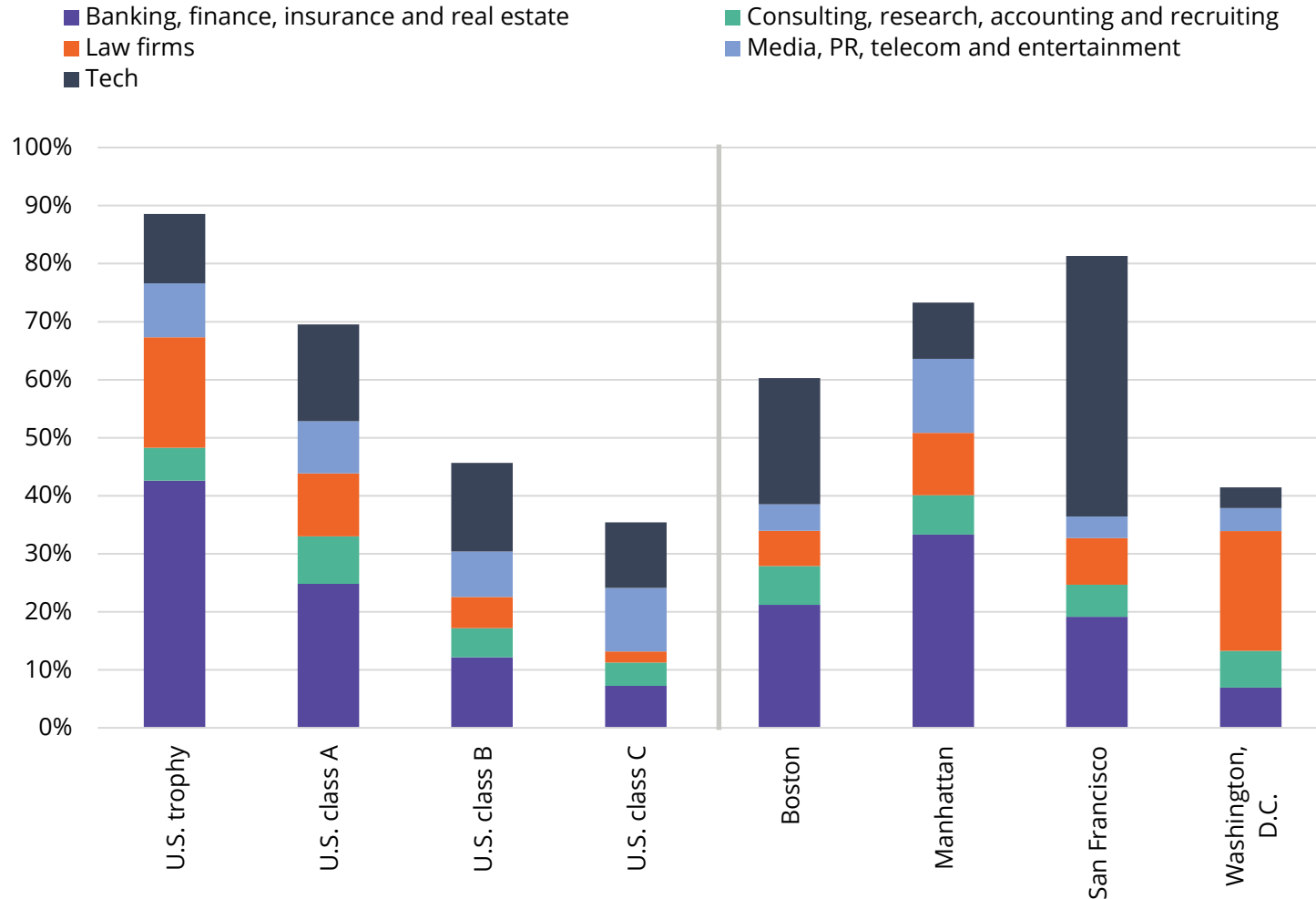
Gateway markets availability rates



In gateway markets across the U.S., trophy properties constructed since 2010 are greatly outperforming their respective overall markets.

The biggest gap can be found in Chicago, where availability rate for post-2010 trophy properties is over 11 percentage points lower than the overall availability rate.

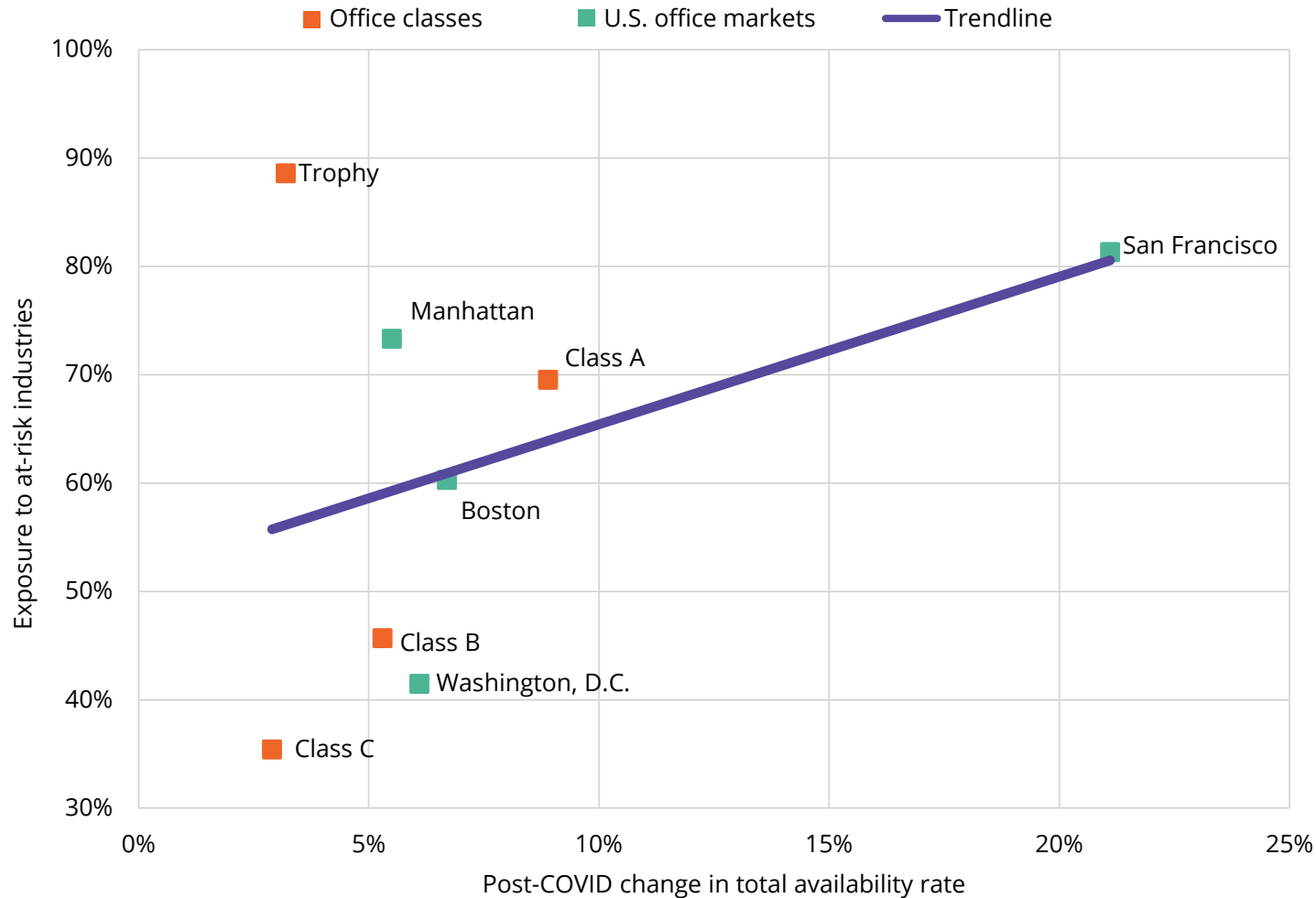
Exposure to at-risk industries



Across the U.S., trophy properties continue to have the most exposure to at-risk industries at nearly 90%.

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 banking and finance tenants.

At-risk markets vs. post-COVID new supply

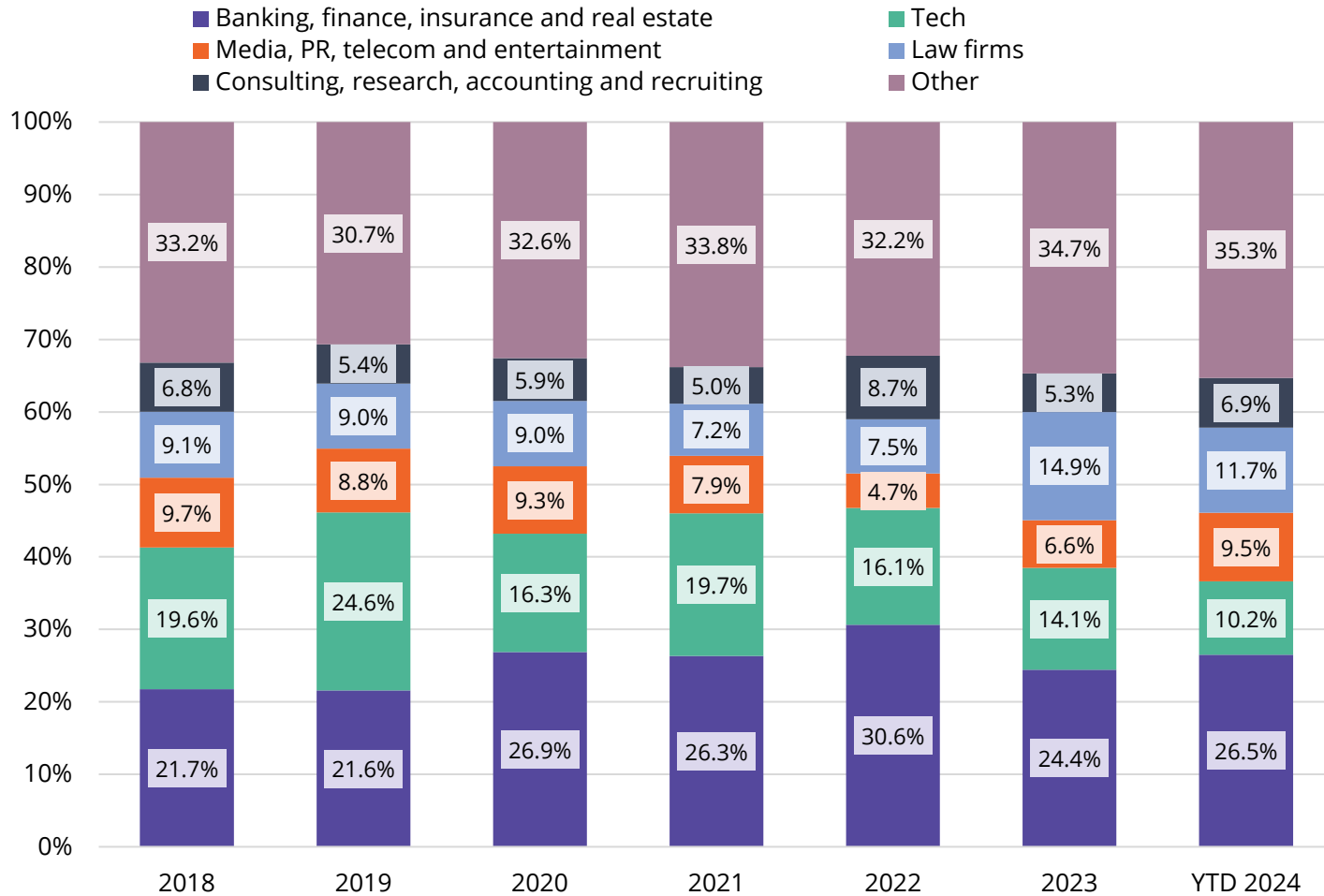


Class B and C properties across the U.S. are partly insulated from potential market distresses, largely due to their lack of reliance to a single industry sector.

Other market segments like trophy and class A, and more notably all asset classes across San Francisco, are more exposed.

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

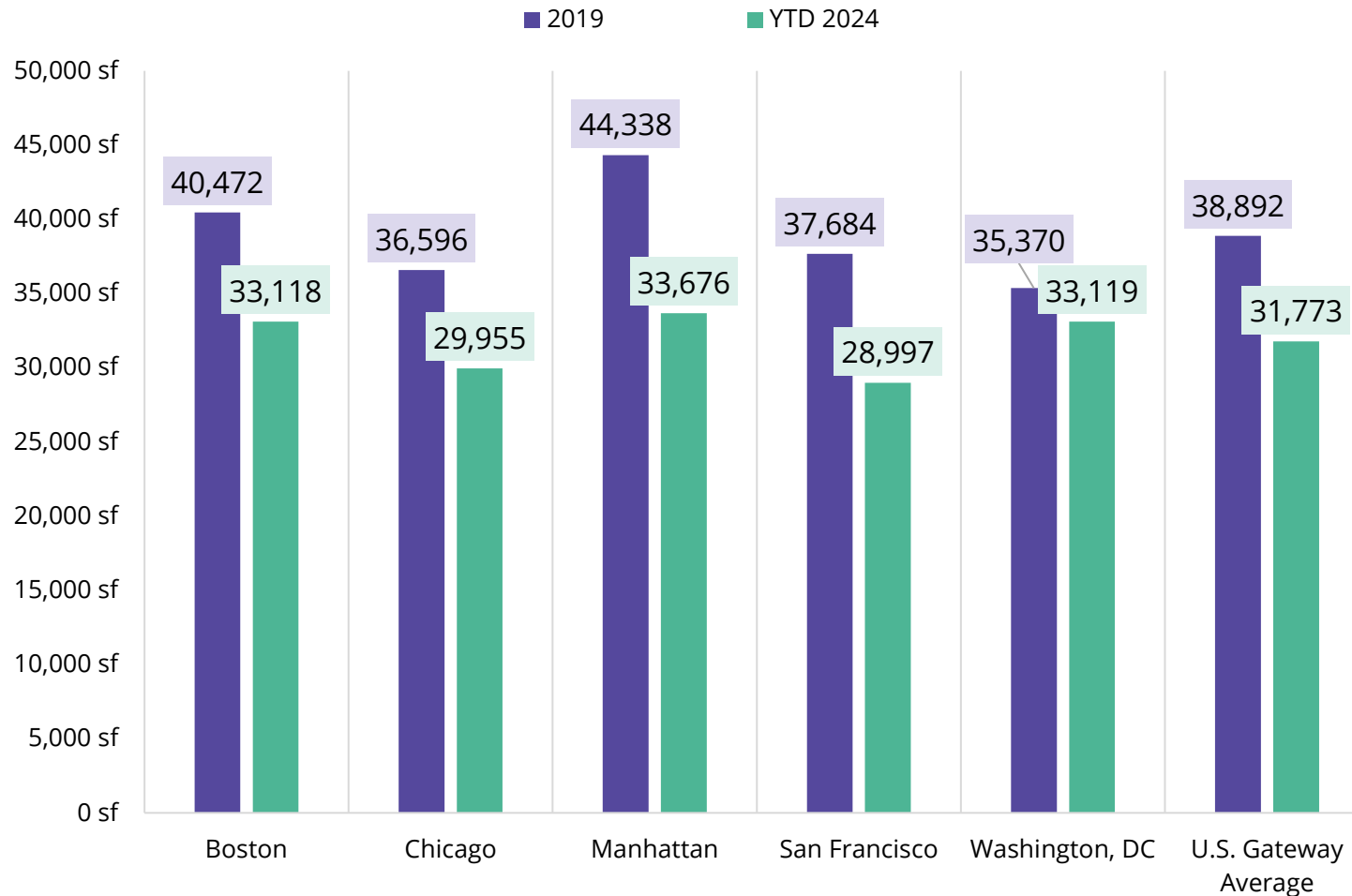
Leasing activity share by major industry



Office-using industries across the U.S. gateway markets have fallen into different leasing cycles over time.

Notably, law firms have seen a significant increase in their share of leasing activity in 2023 and year-to-date 2024.

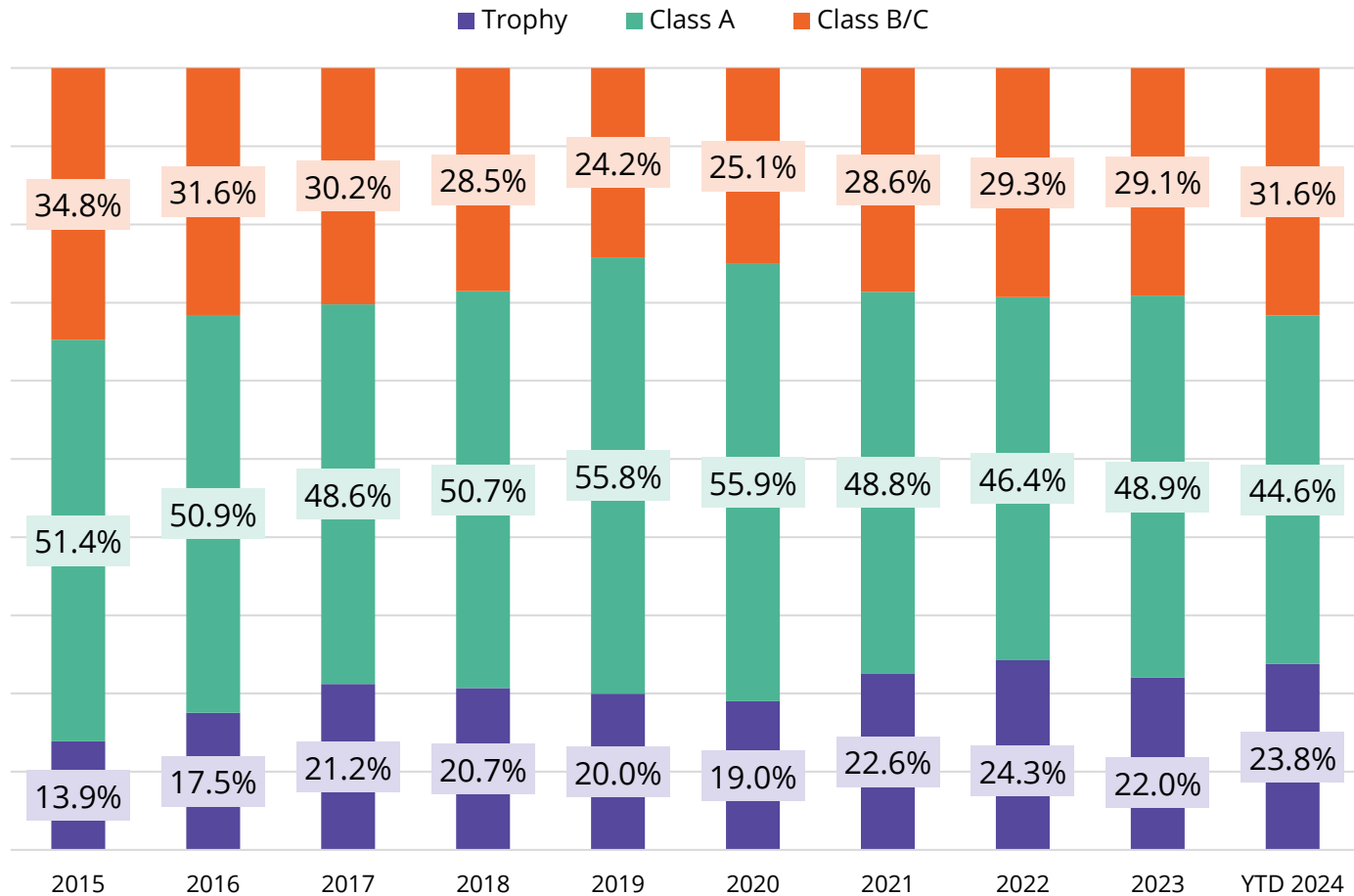
Average office lease size by gateway markets



Every gateway market across the U.S. has seen a decrease in average office lease size from 2019 to year-to-date 2024.

On average, lease sizes across U.S. gateway markets have decreased 18.3% from 2019 to today.

Transaction activity by asset class

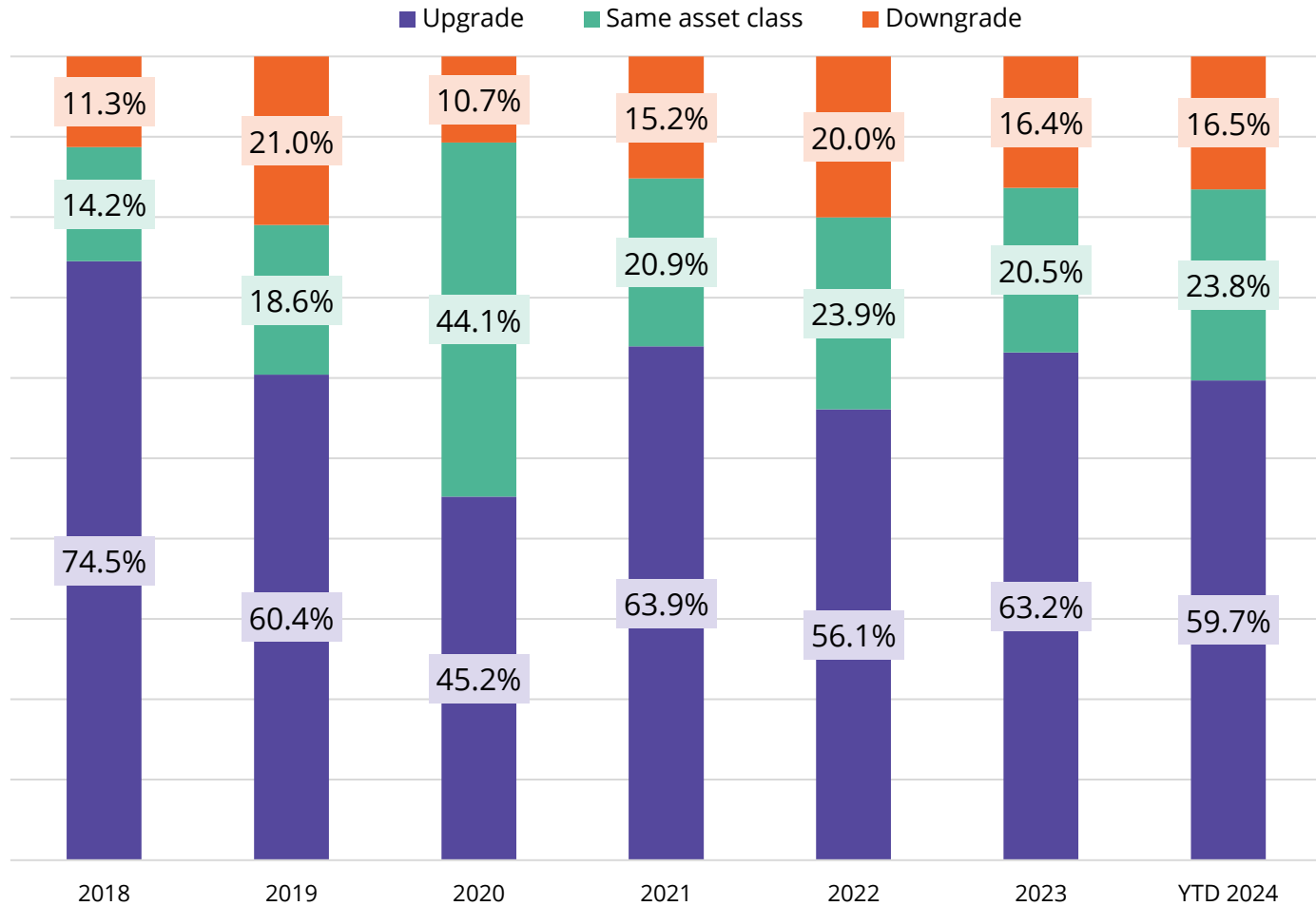


Year-to-date transaction activity by asset class has hovered right around historical levels, with class A properties accounting for just under 45% of leasing activity across U.S. gateway markets.

Trophy properties captured a slightly elevated 23.8% and class B/C captured 31.6%.

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

Office relocations by year

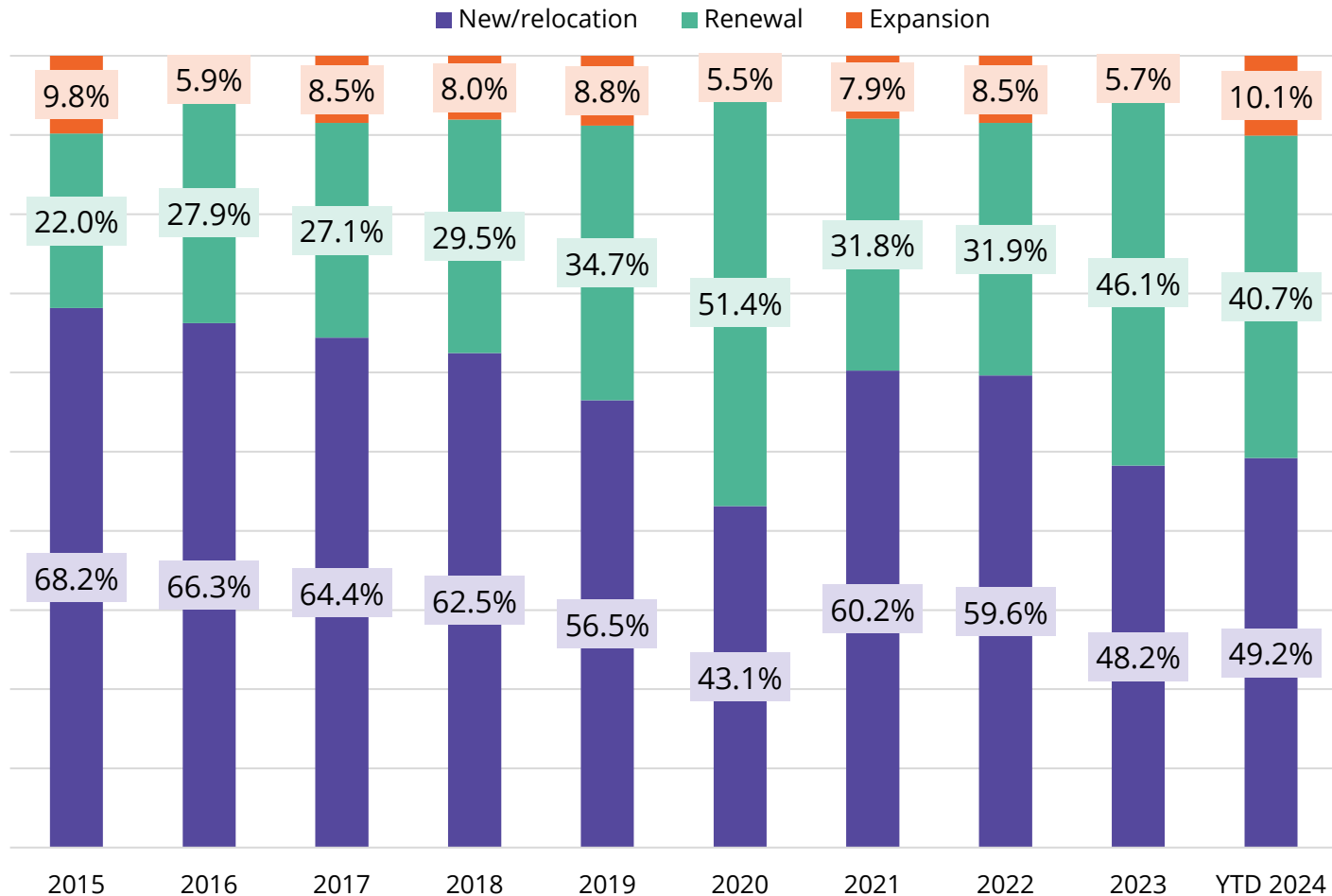


In 2020, 44.1% of office leases in U.S. gateway markets were tenants relocating within the same asset class. In the years following, that number dropped closer to 20%.

Year to date, the number of tenants relocating to a higher quality building, or an “upgrade,” has slightly dropped from historical levels to 59.7%.

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

Transaction activity by lease type

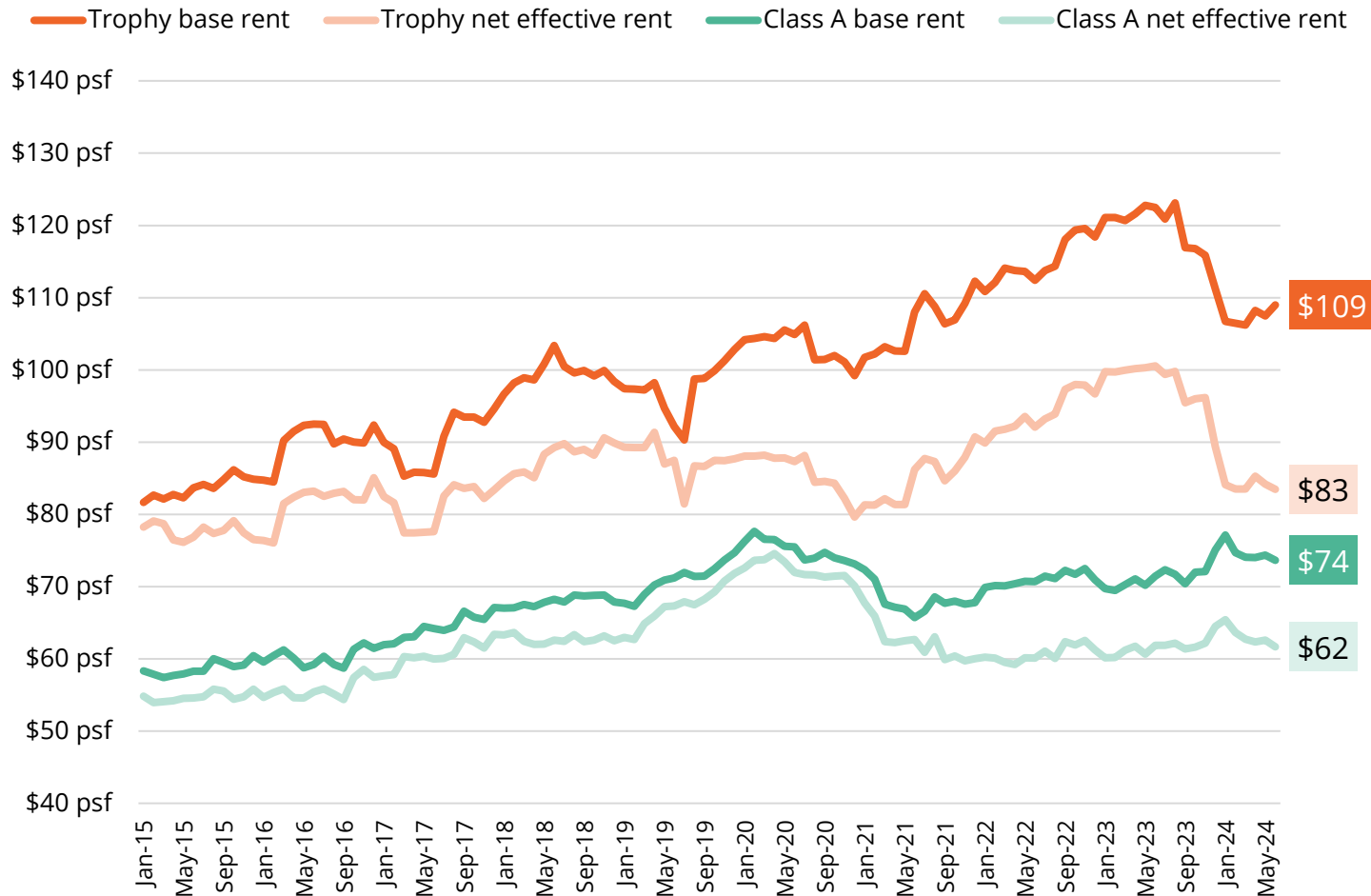


In 2023, there was a historically oversized share of renewals across U.S. gateway markets, reaching the highest level since the start of the pandemic in 2020.

This trend has begun to normalize thus far in 2024, though remains historically elevated with renewals accounting for 40.7% of year-to-date transaction activity. Additionally, expansion's year-to-date share of transaction activity has almost doubled since last year and is the highest level in the last decade.

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

Base and net effective rents by class

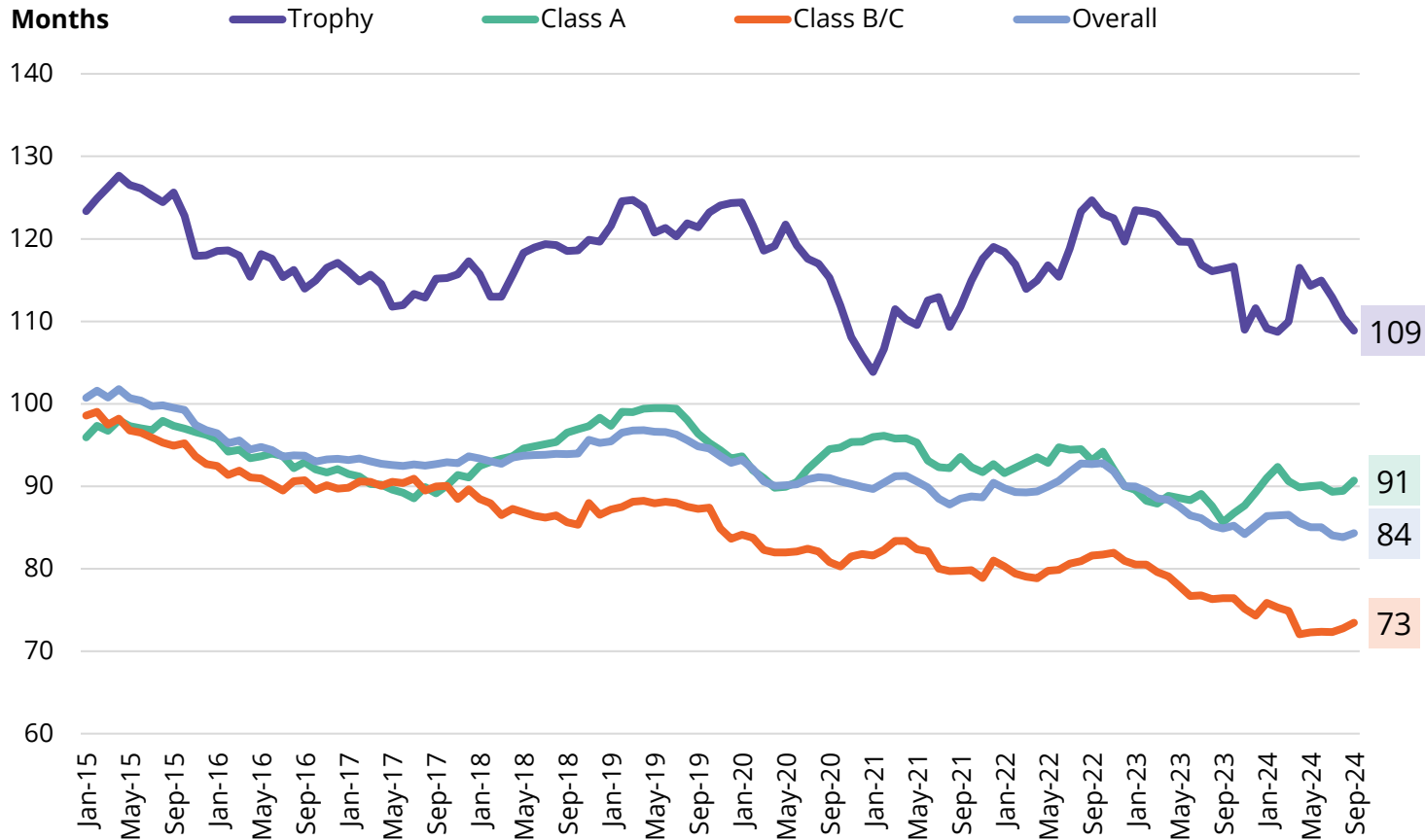


As a result of many of the top-tier product being leased in the last several quarters, trophy base and net effective rents have experienced a slight decline throughout 2024 with a minor uptick in recent months.

Class A base and net effective rents are following a similar trend, with a slight decrease this quarter somewhat reverting the year-to-date increases.

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

Length of lease terms by class

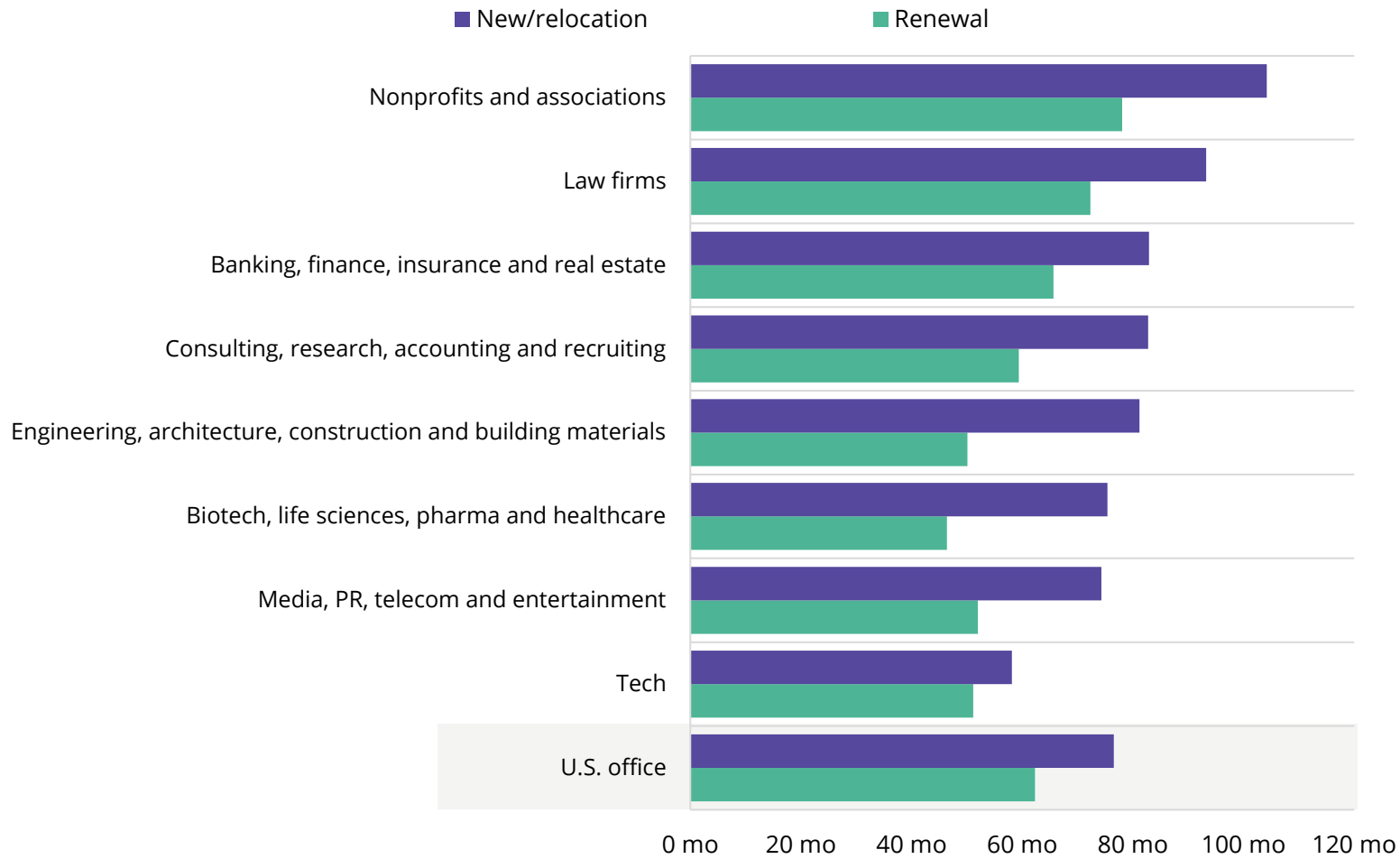


Across U.S. gateway markets, trophy properties continue to heavily outperform the other asset classes in terms of average lease term lengths—despite a quarter-over-quarter decrease.

Class A lease term lengths fall just above the overall average by seven months, while class B/C fall 11 months below the overall average.

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

Lease terms by major industries

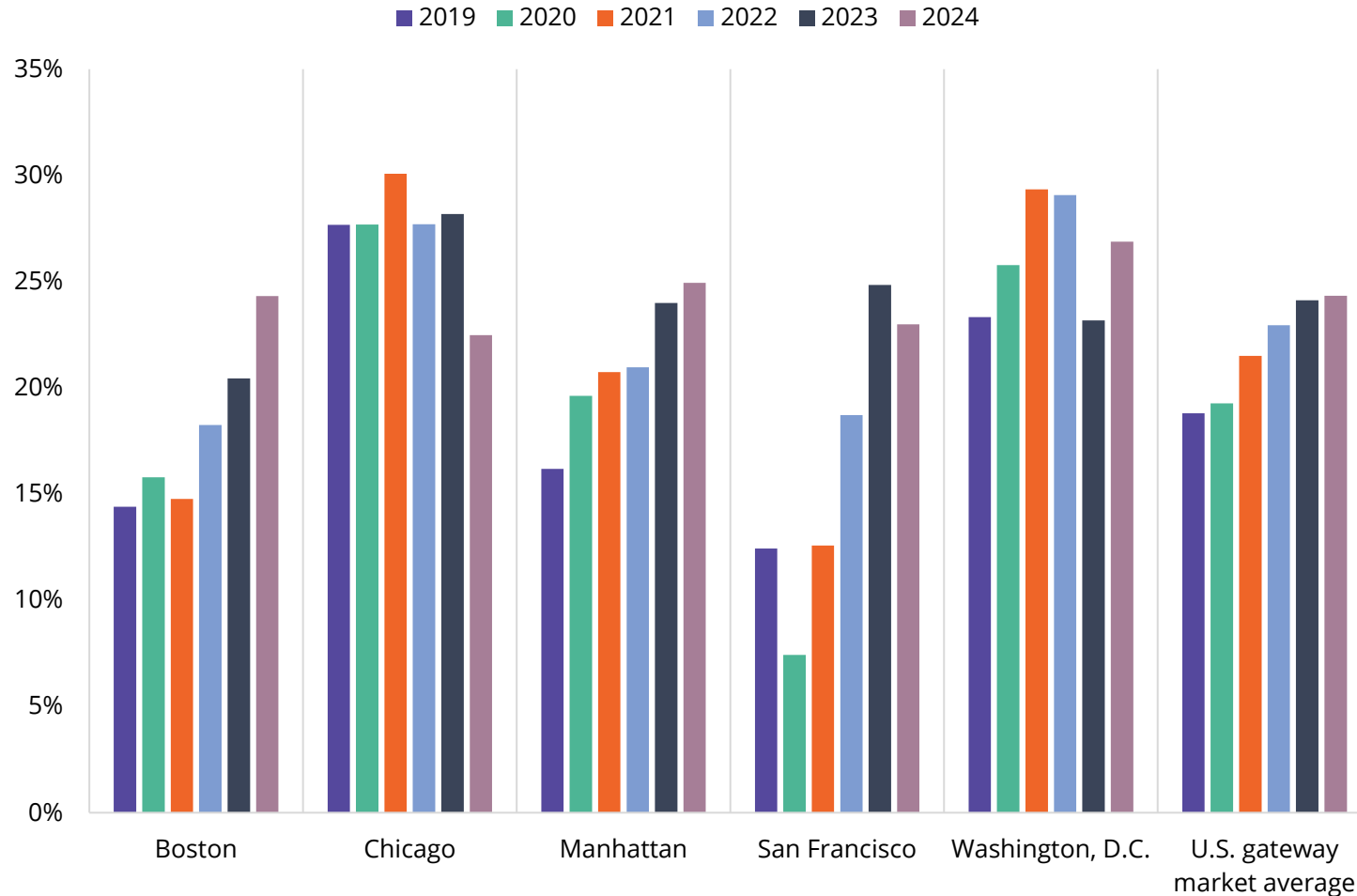


In the past 12 months, length of lease terms for office leases in the U.S. averaged 77 months for new leases/relocations and 62 months for renewals.

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

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

Concessions as a share of lease term

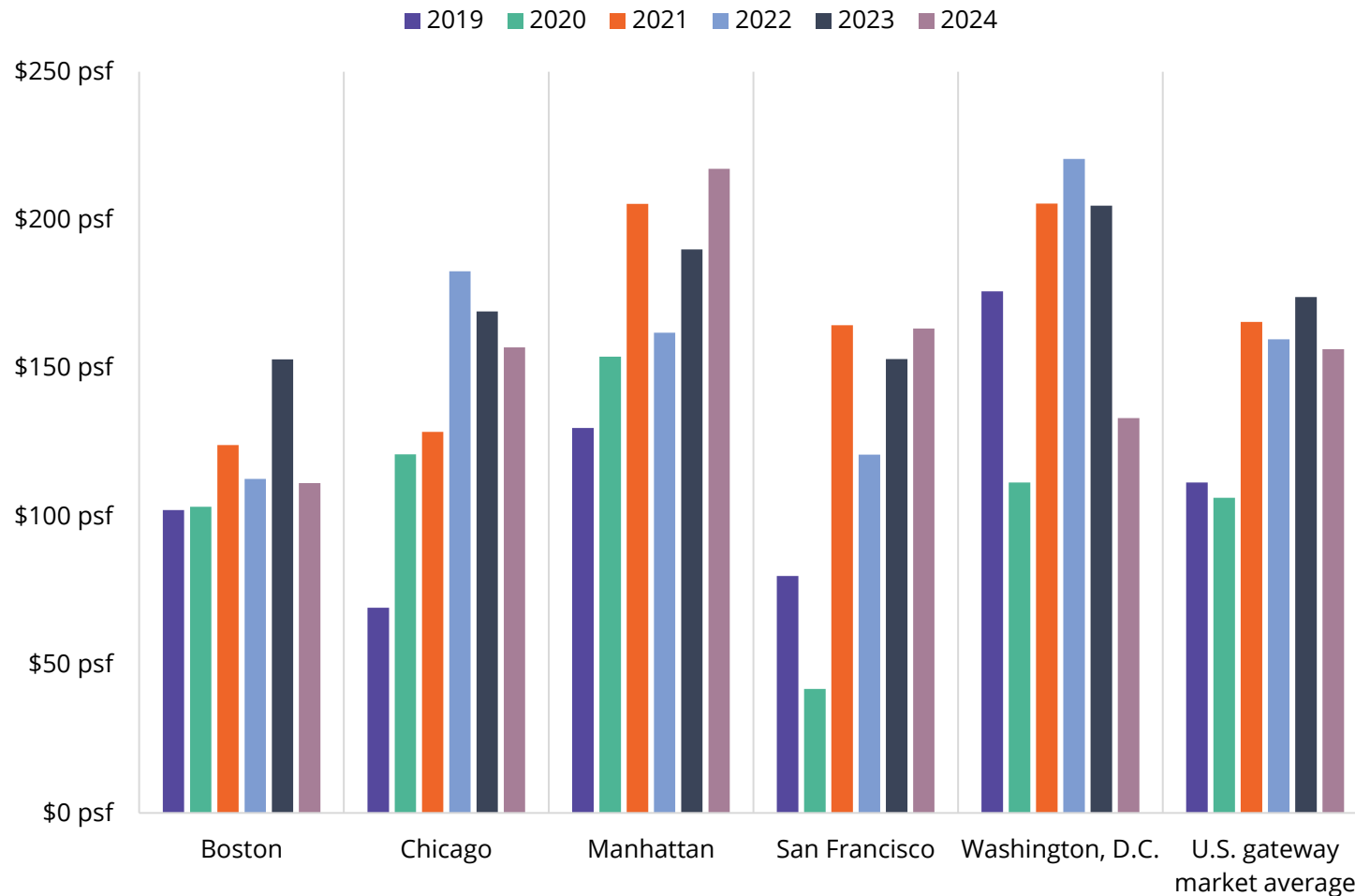


The average concessions share of lease terms for U.S. gateway markets has increased every year since 2019, and currently sits 0.8% above last year.

Most gateway markets have seen a slight uptick in concession packages through Q3 2024 apart from San Francisco and Chicago, declining year-over-year by 7.4% and 20.2%, respectively.

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

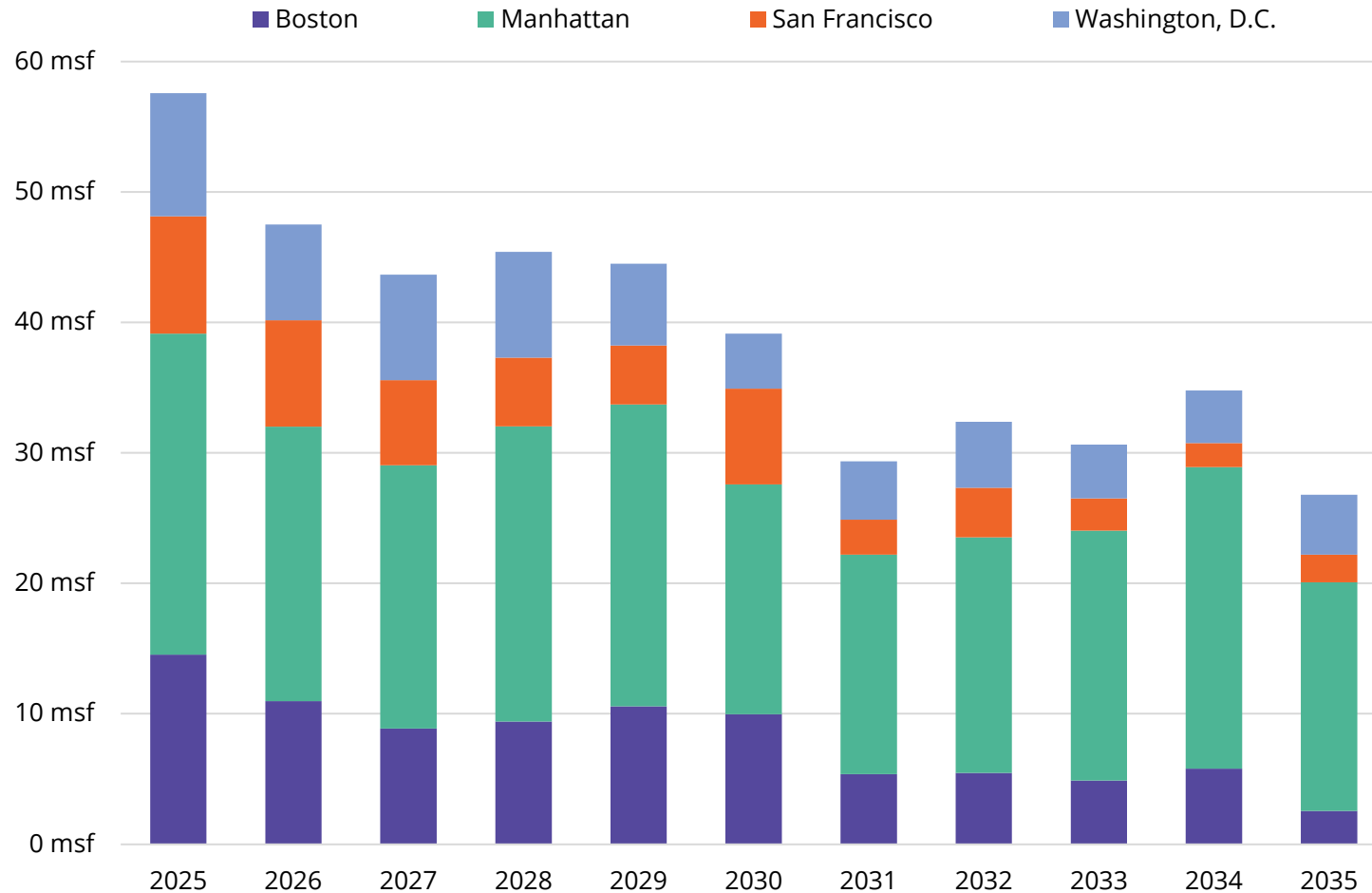
Renewal total concessions values



Most U.S. gateway markets have experienced a slight correction in renewal concessions and are approaching 2019 level. This excludes San Francisco and Manhattan which have increased year-over-year by 14.3% and 6.7%, respectively.

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

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 potential spike in future leasing activity.

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. Through Q3 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.**

52%

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

21.4%

average direct availability rate for distressed offices; the U.S. direct availability rate was 20% in Q3 2024

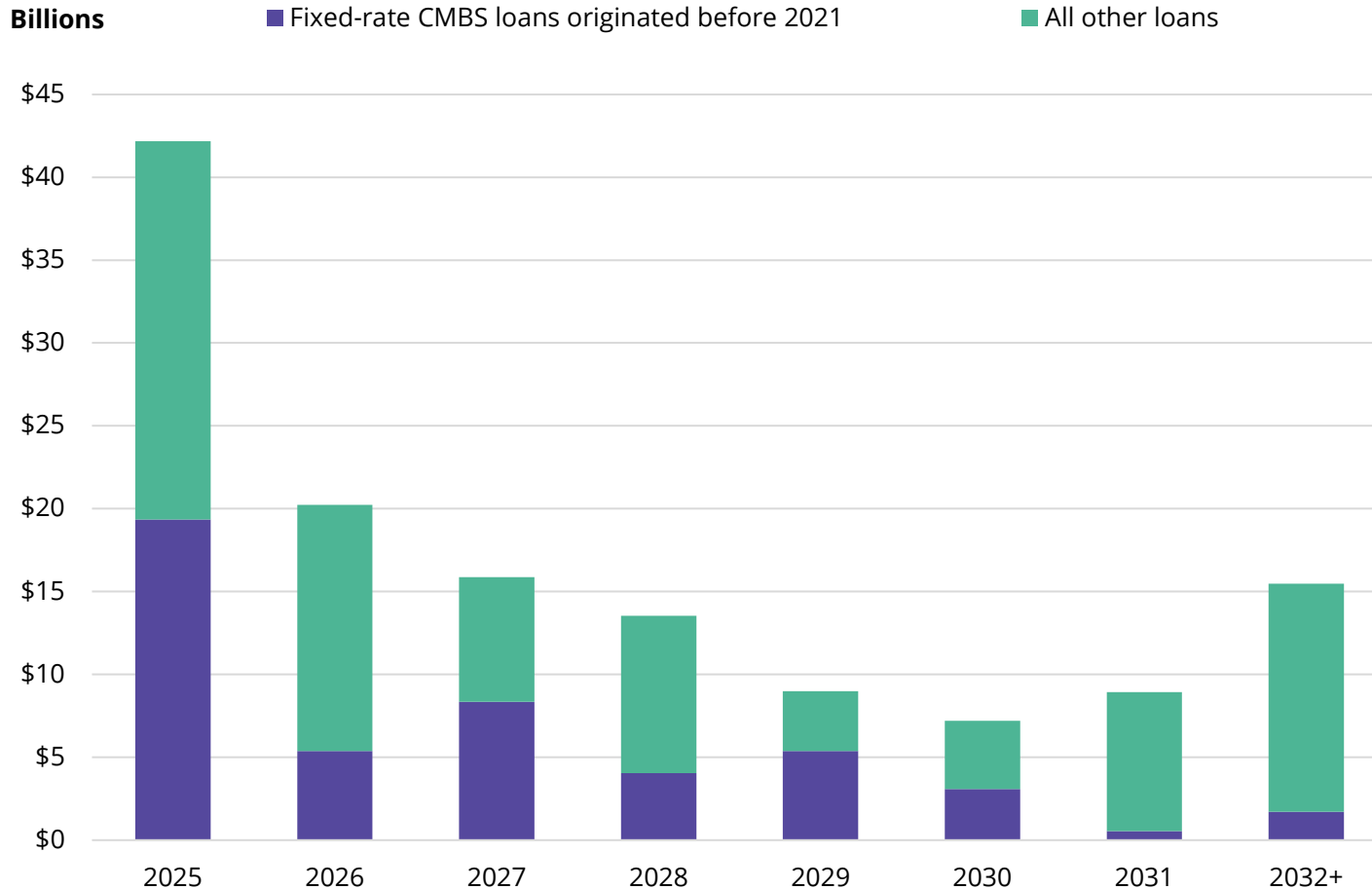
72.4%

distressed loans have fixed interest rates

4/2017

average origination date of distressed loans

Upcoming loan maturities

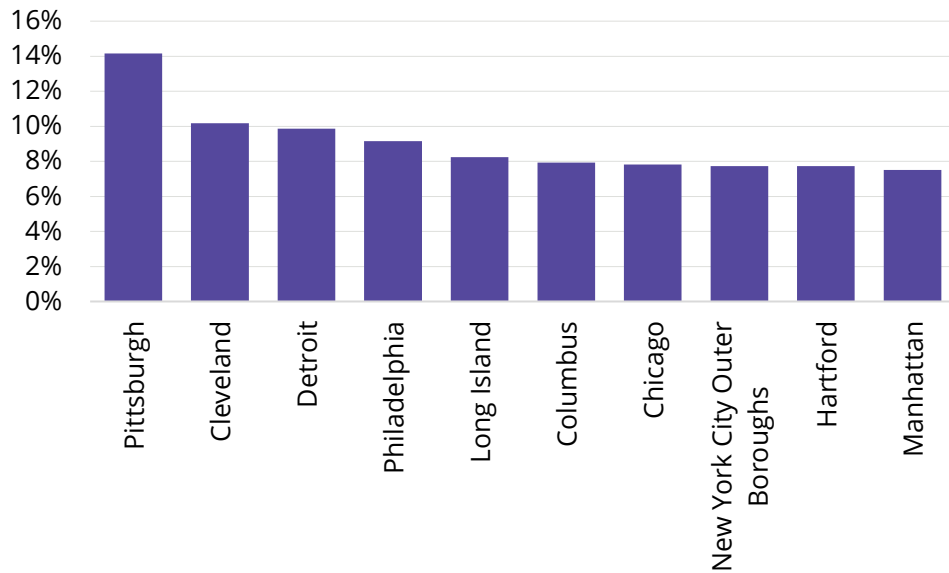


\$19.3 billion of outstanding fixed-rate loans that originated before 2021—before the spike in interest rates—are maturing in 2025, in addition to \$22.8 billion of other CMBS loans.

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

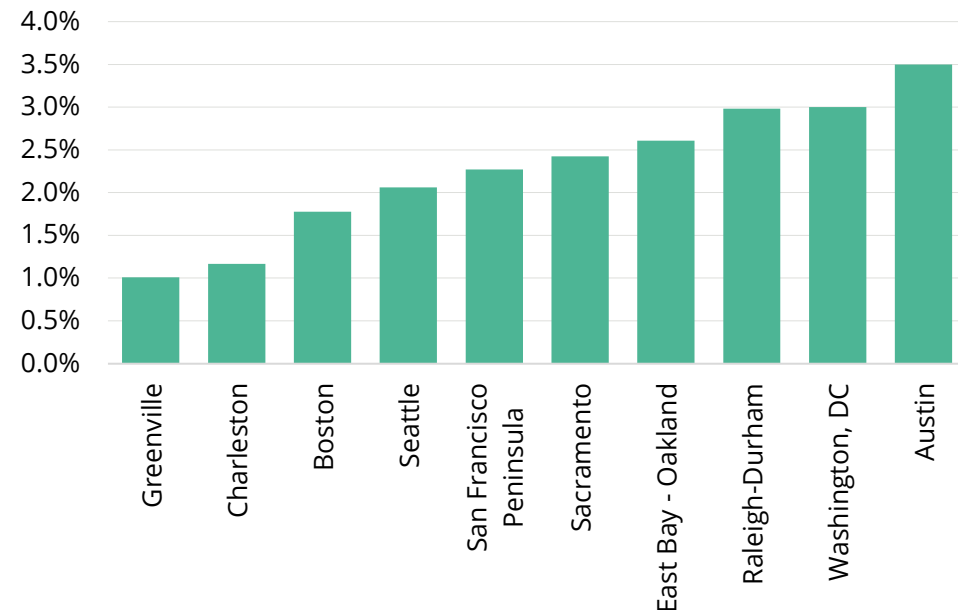
9.0%

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

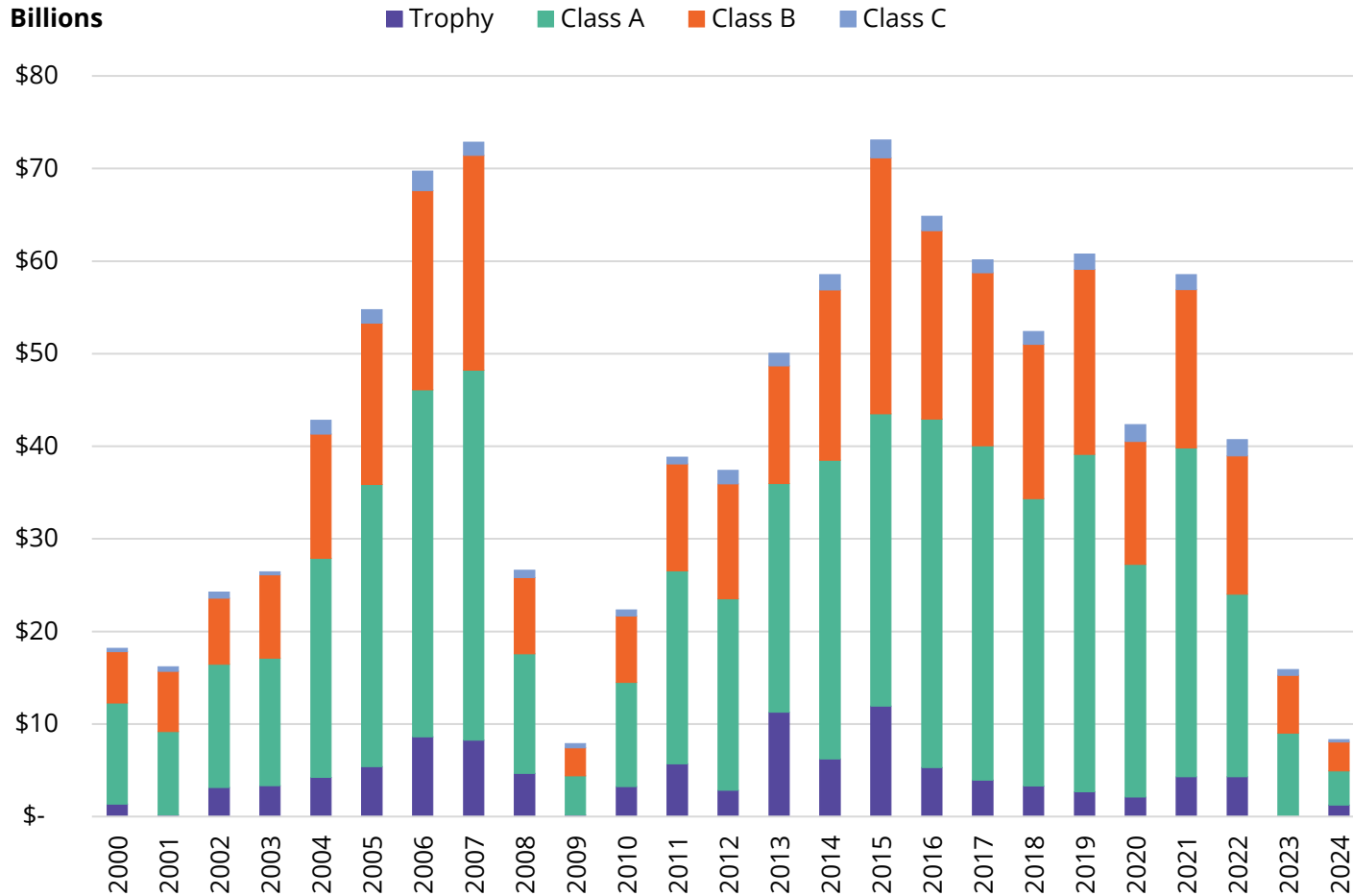


2.3%

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



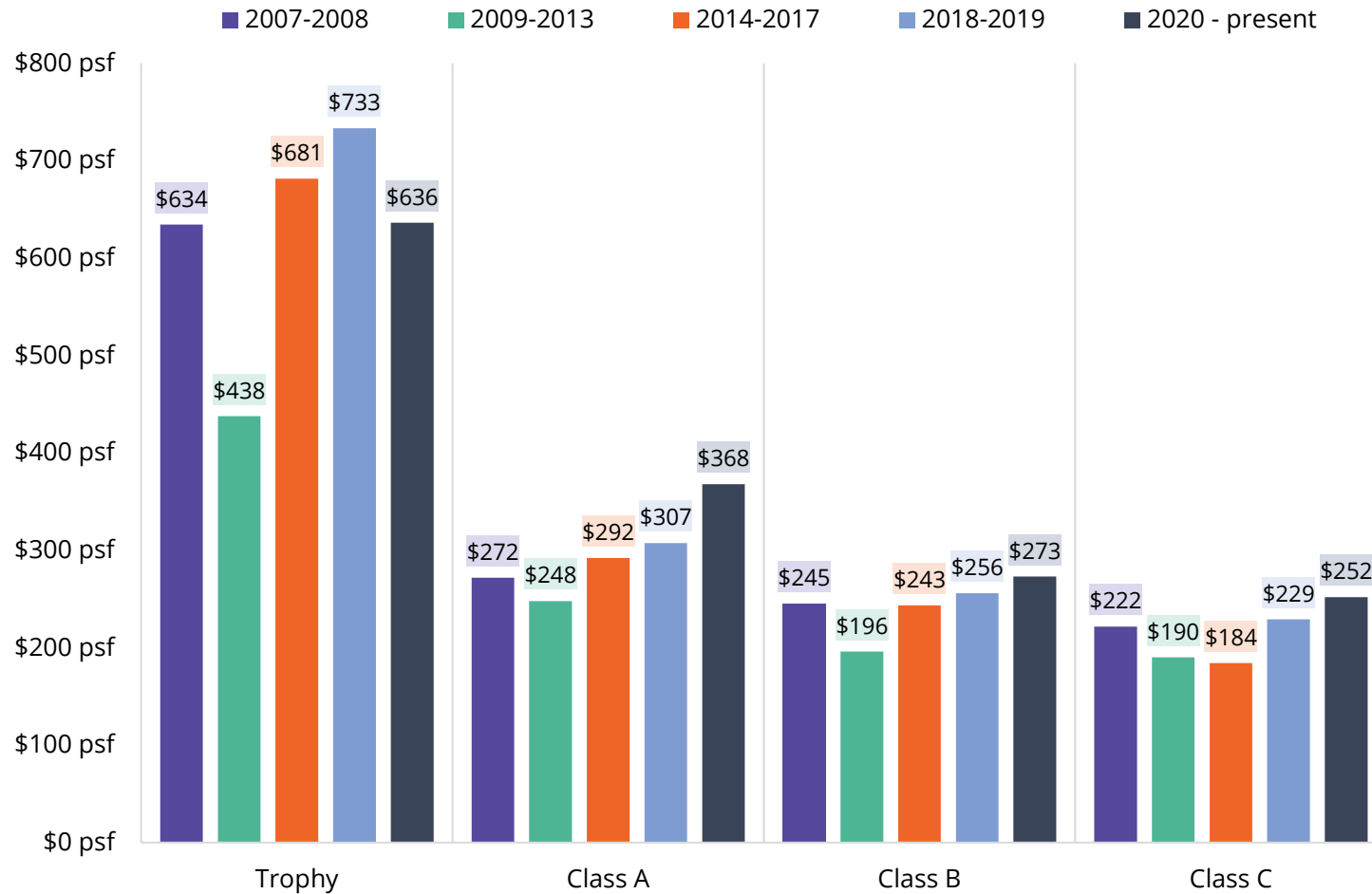
Office investment volume by class



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

Year to date, office investment activity clearly remains well below historical levels. The Federal Reserve's recent interest rate cut should help increase investment volume in the future.

Office investment pricing by era



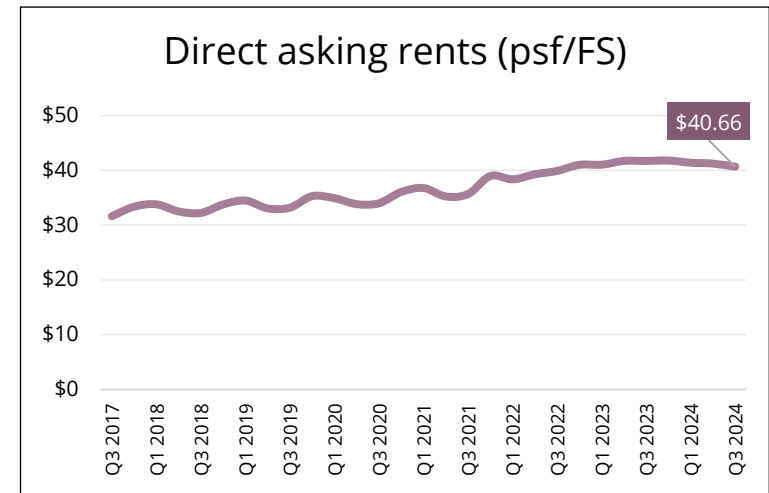
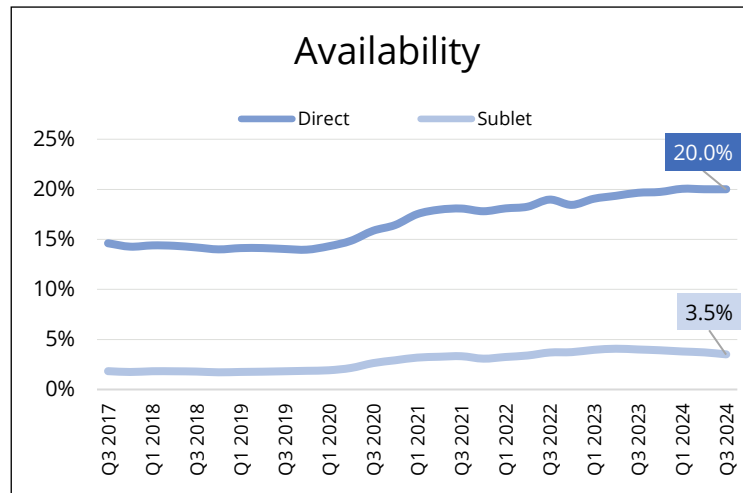
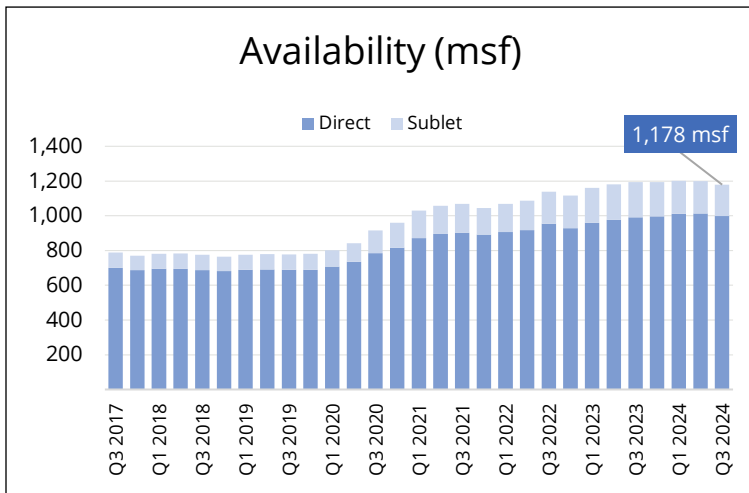
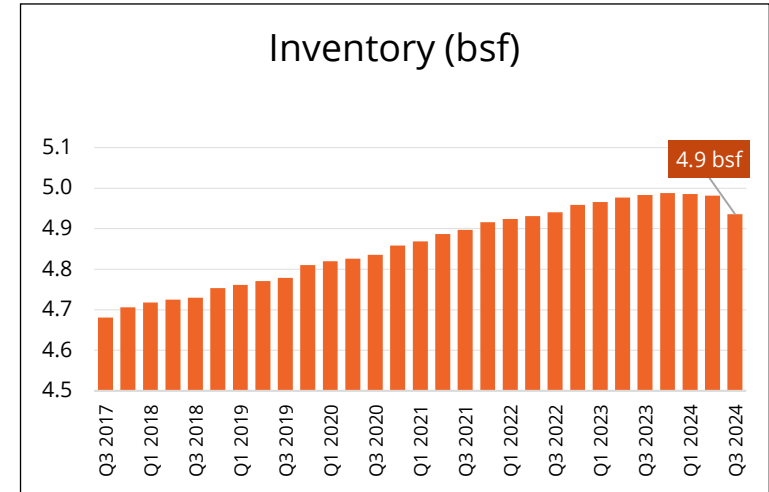
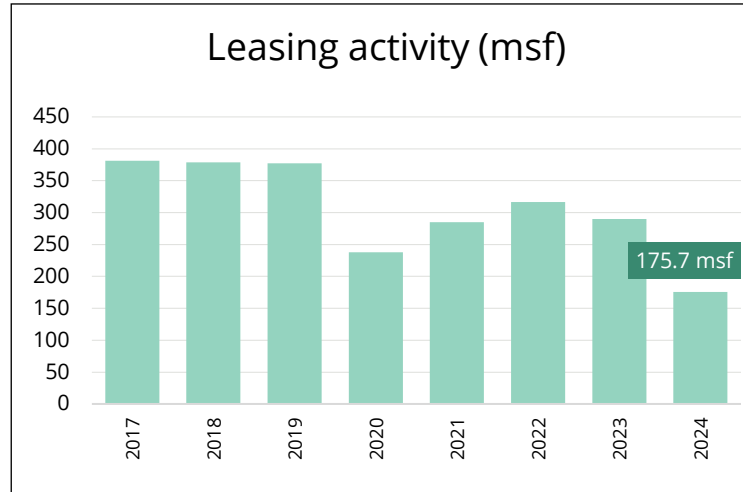
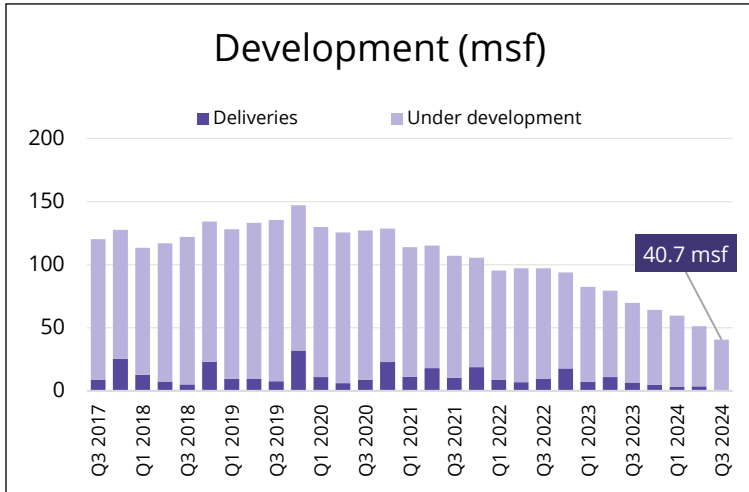
Trophy office properties have seen a significant post-pandemic correction in value of all office asset classes, correcting by over 13% since the last cycle.

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

Appendix



U.S. office market indicators



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	363,952,370	15,665,559	16.5%	4.4%	20.9%	\$71.51
Class A	2,165,803,264	23,028,052	23.1%	4.8%	27.9%	\$42.08
Class B	1,949,734,452	1,760,810	19%	2.6%	21.6%	\$34.62
Class C	454,872,466	267,453	13.1%	0.9%	14%	\$31.85
U.S. total	4,934,362,552	40,721,874	20%	3.5%	23.5%	\$40.66



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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