

The Savills logo consists of a yellow square above the word "savills" in a lowercase, sans-serif font.

Q2 2024 | OFFICE

State of the U.S. Office Market

Powered by Savills Research & Data Services

The office market at mid-year 2024 has seen **office space demand increase** from over a year ago but still remains below pre-pandemic levels.

01 **The hybrid workplace becomes the new standard**

The hybrid workplace is now the “new normal.” Despite variations across industries and geographies, office markets overall face significant challenges due to changes in demand and office utilization.

02 **Leasing activity lags for all but the highest quality assets**

Leasing activity remains below pre-pandemic levels. However, demand remains highest for trophy office spaces with the best amenities as flight-to-quality holds firm.

03 **Record concessions lead to lower tenant effective rents**

Effective rents have trended lower in most office markets, favoring tenants. Due to fundamental demand shifts and high construction costs, landlords continue to offer record-level concession packages.






04 **Trophy space options are highly sought-after as flight-to-capital continues**

In many markets, undercapitalized landlords are unable to execute long-term leases leading to tenant flight-to-capital, especially within the trophy Class A segment of the market.

05 **Return to office rates up but concerns over economy an issue again**

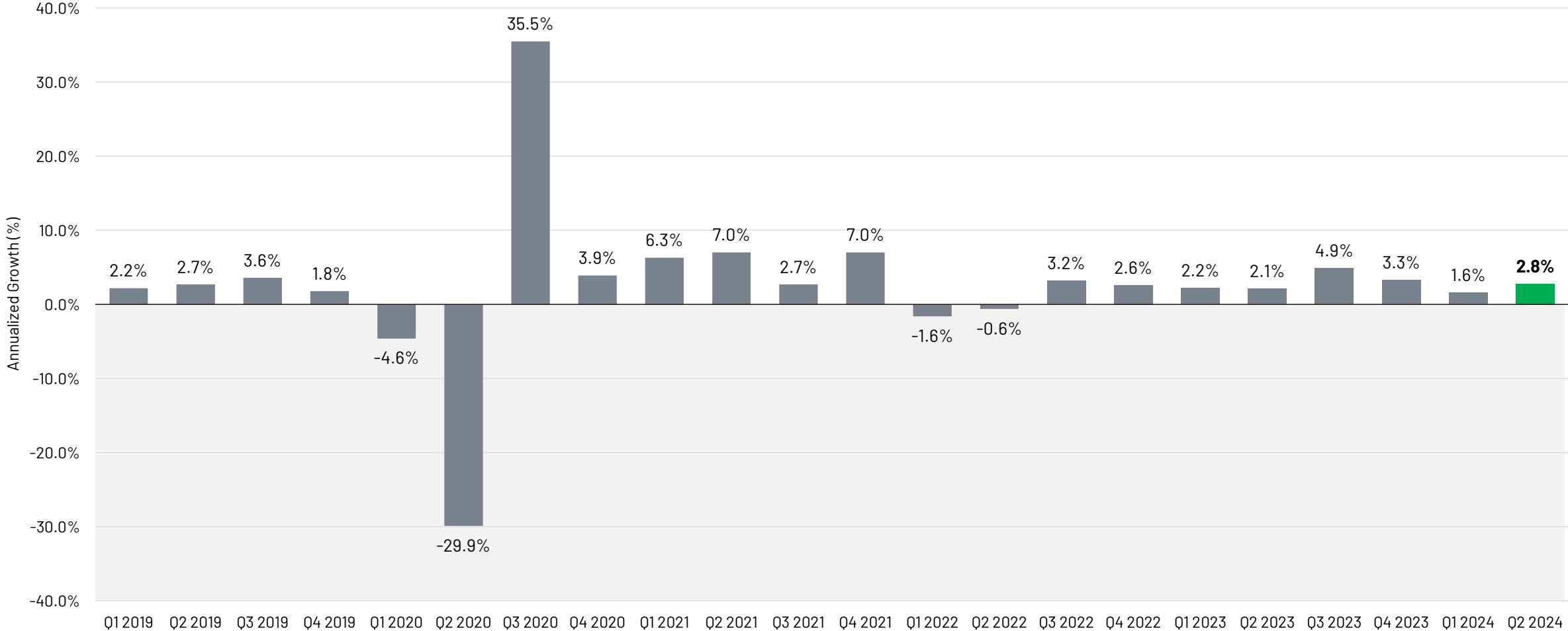
Office utilization has increased as businesses have set firmer in-office expectations, however, concerns over slowing employment growth now an issue in the second half of 2024.

U.S. Office Market Key Statistics and Forecast

	CURRENT QUARTER Q2 2024	PRIOR QUARTER Q1 2024	YEAR AGO PERIOD Q2 2023	12-MONTH FORECAST
Inventory	3.70 BSF	3.69 BSF	3.67 BSF	
Availability Rate	25.1%	25.1%	24.3%	
Asking Rental Rate	\$42.78	\$42.57	\$42.26	
Class A Asking Rental Rate	\$46.33	\$45.99	\$45.65	
Quarterly Leasing Activity	48.6 MSF	45.7 MSF	44.8 MSF	
Available Sublease Space	165.6 MSF	169.7 MSF	176.2 MSF	

Despite Macroeconomic Concerns, Growth Has Been Positive in 2024

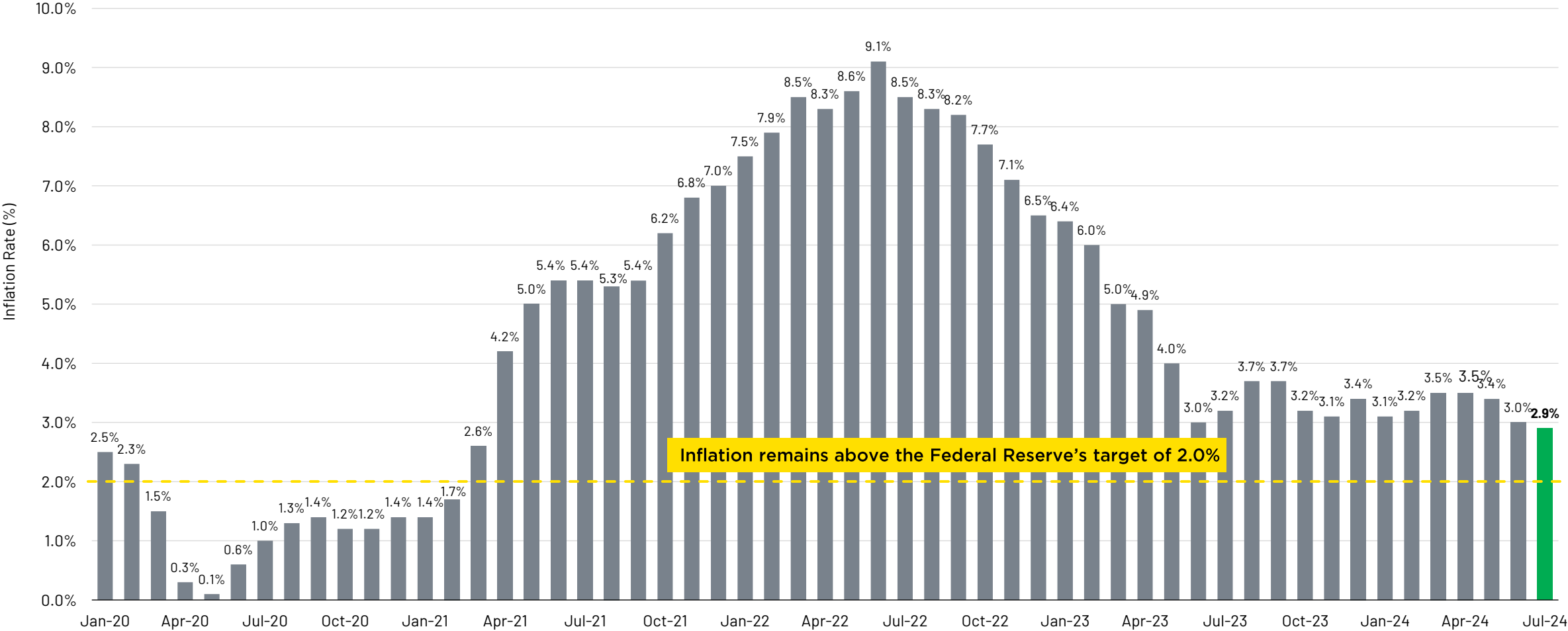
U.S. Gross Domestic Product (Annualized Growth %)



Source: Bureau of Economic Analysis

Inflation Still Above the 2.0% Target But Has Been Cooling in 2024

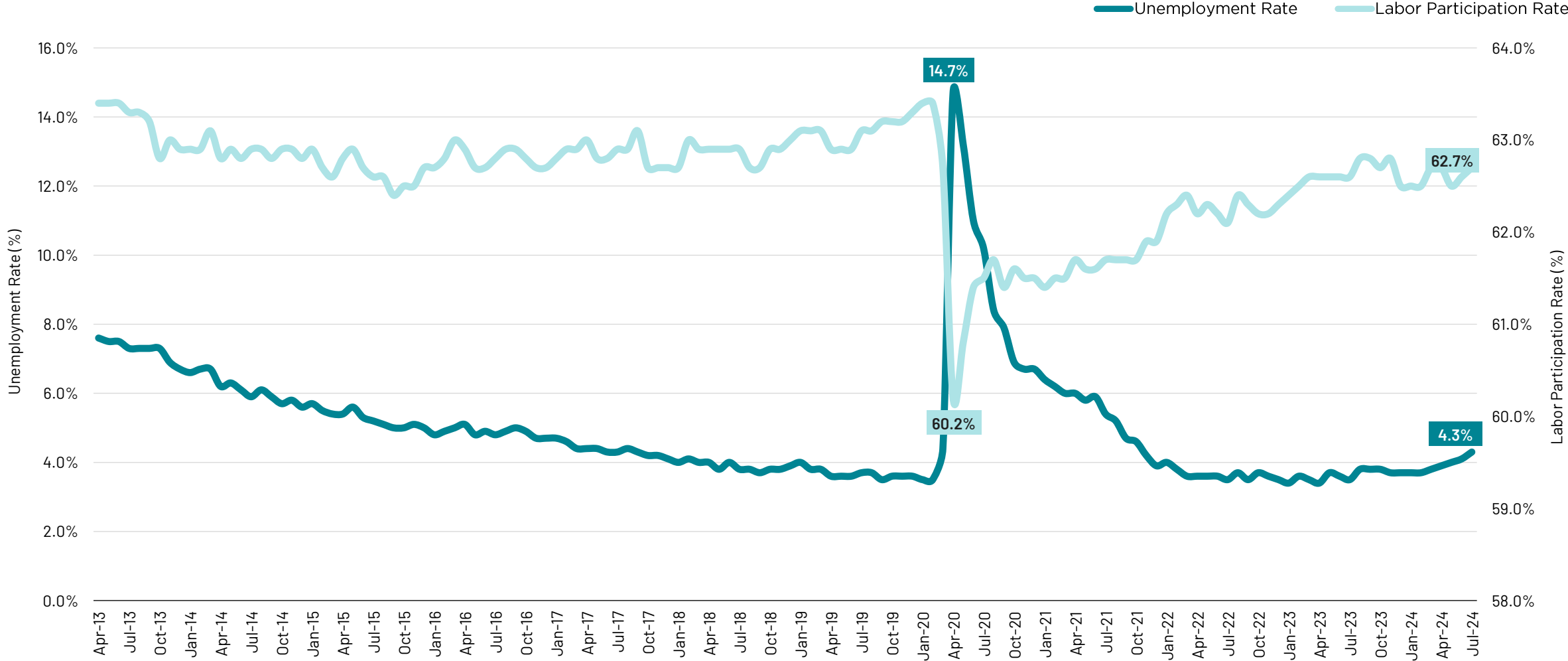
U.S. Consumer Price Index (Annualized Growth %)



Source: Bureau of Labor Statistics

However, Unemployment Now at its Highest Level Since October 2021

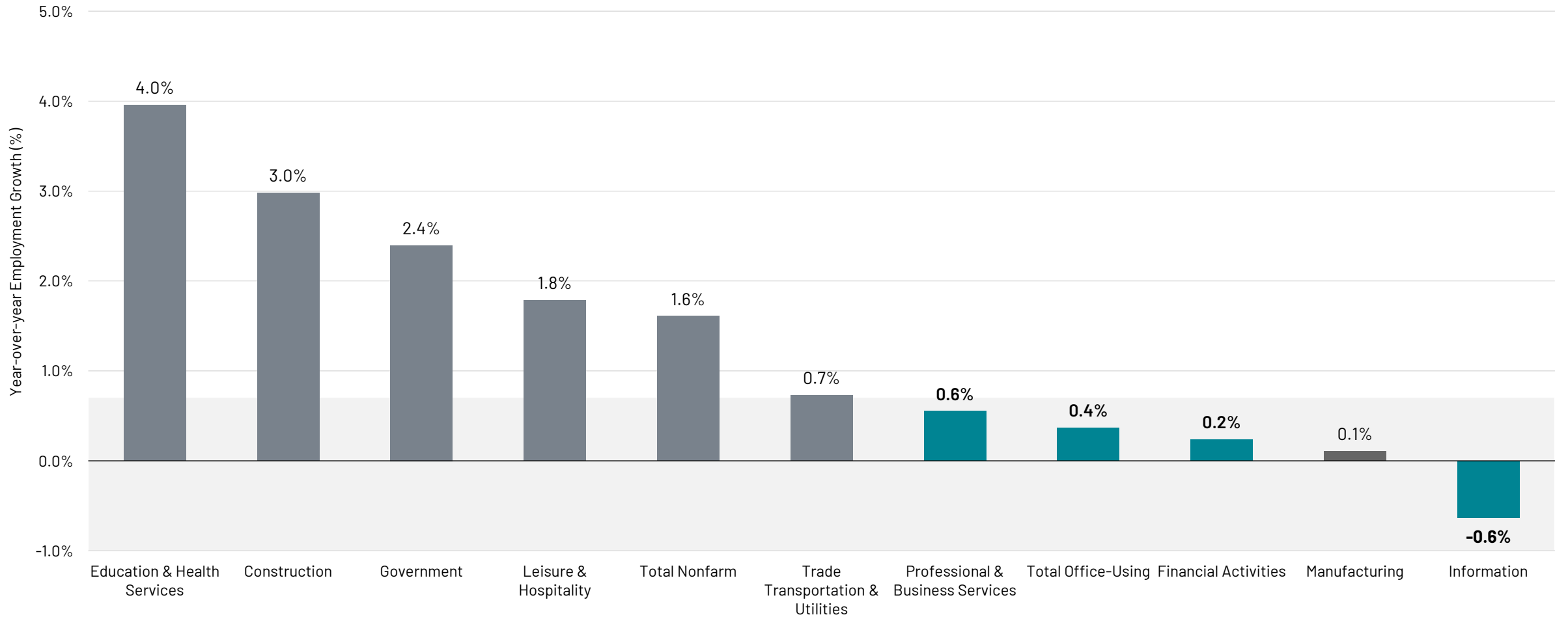
U.S. Monthly Unemployment Rate vs. U.S. Monthly Labor Force Participation Rate (%)



Source: Bureau of Labor Statistics

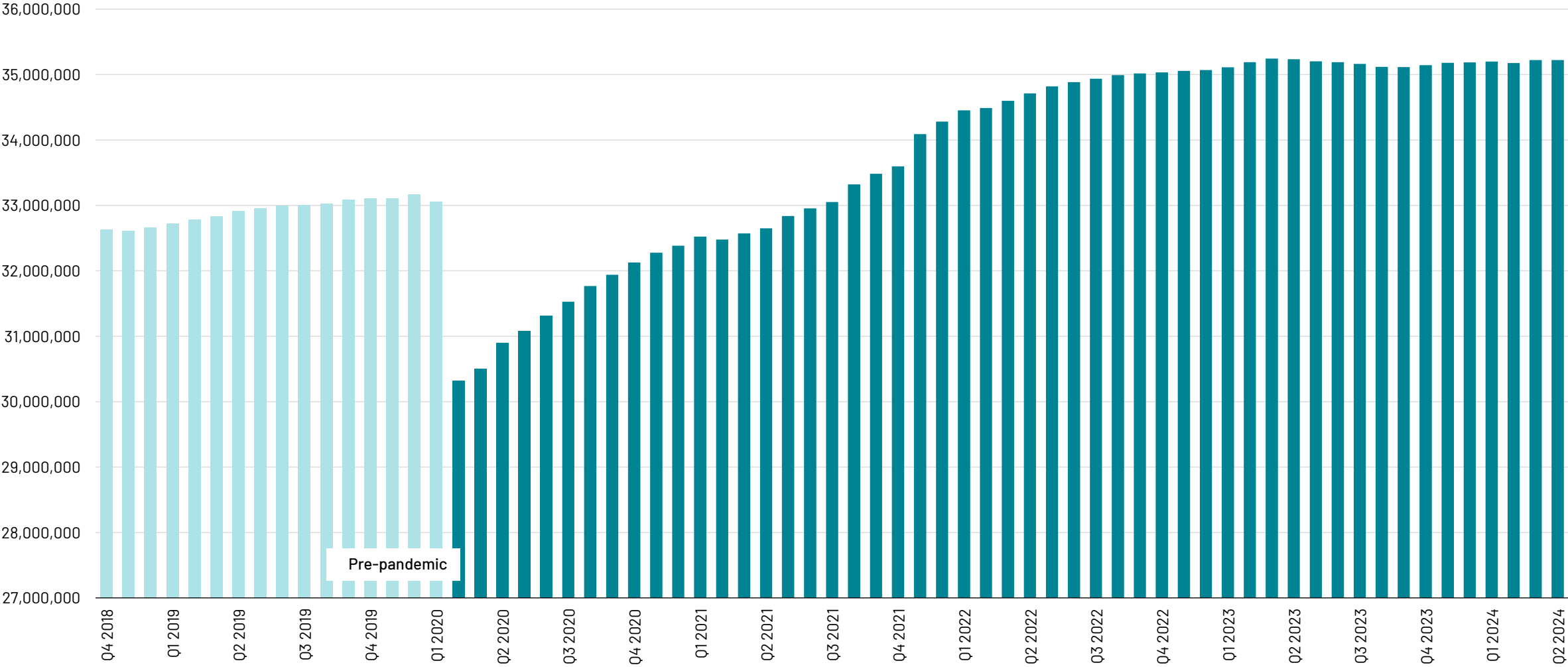
Growth in the Office-Using Employment Sectors Has Slowed

Year-over-Year Employment Growth by Major Sector (%) – July 2024



Source: Bureau of Labor Statistics

Total Office-Using Employment Remains Higher Than Pre-Pandemic



Source: Bureau of Labor Statistics

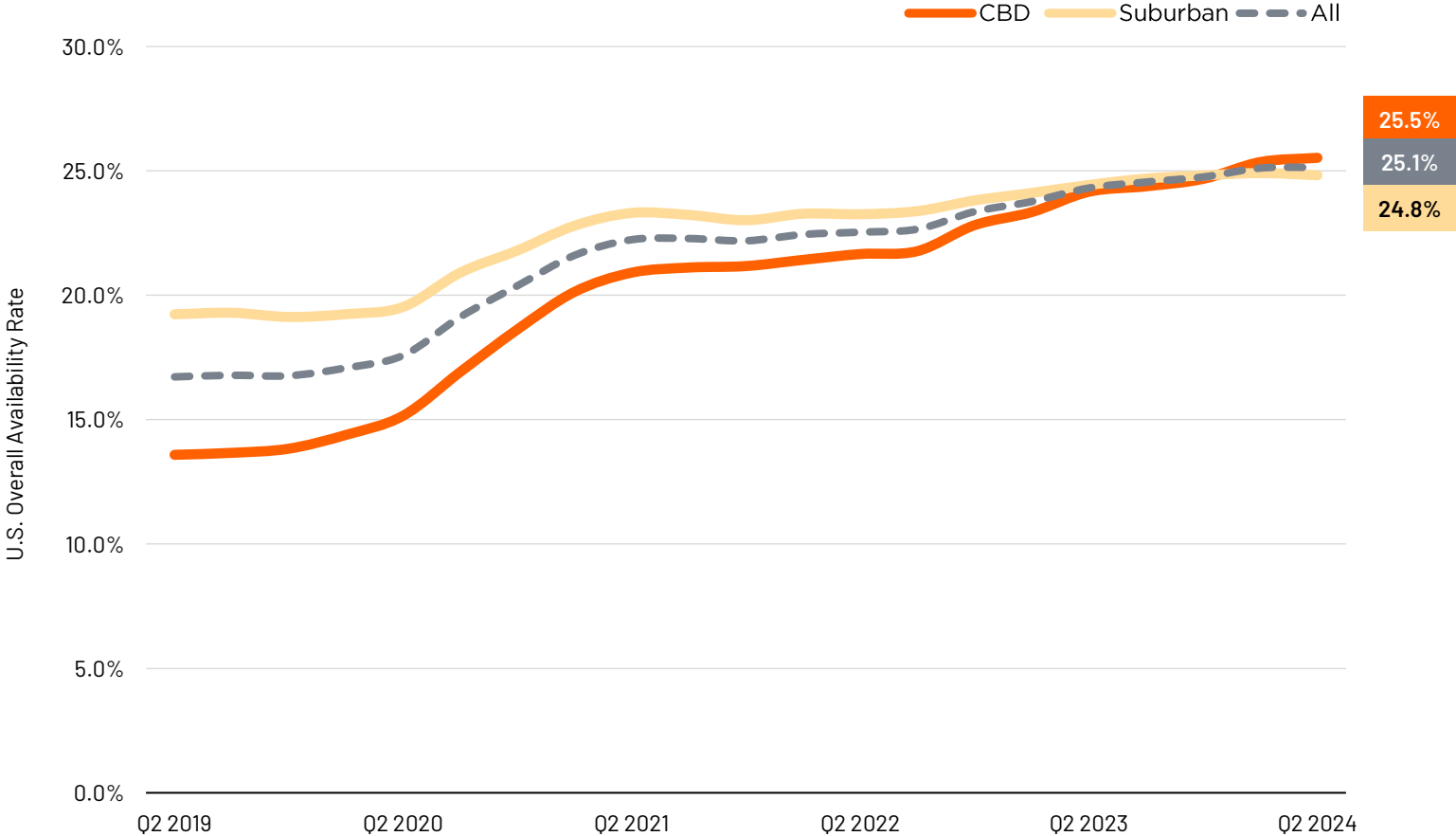
But Office Availability Still Continues to Be at an All-Time High

Availability remains elevated across U.S. markets as sublease space continues to be historically high

Central Business District (CBD) availability currently at 25.5%, up 1,140 basis points from pre-pandemic as dense urban centers remain heavily impacted

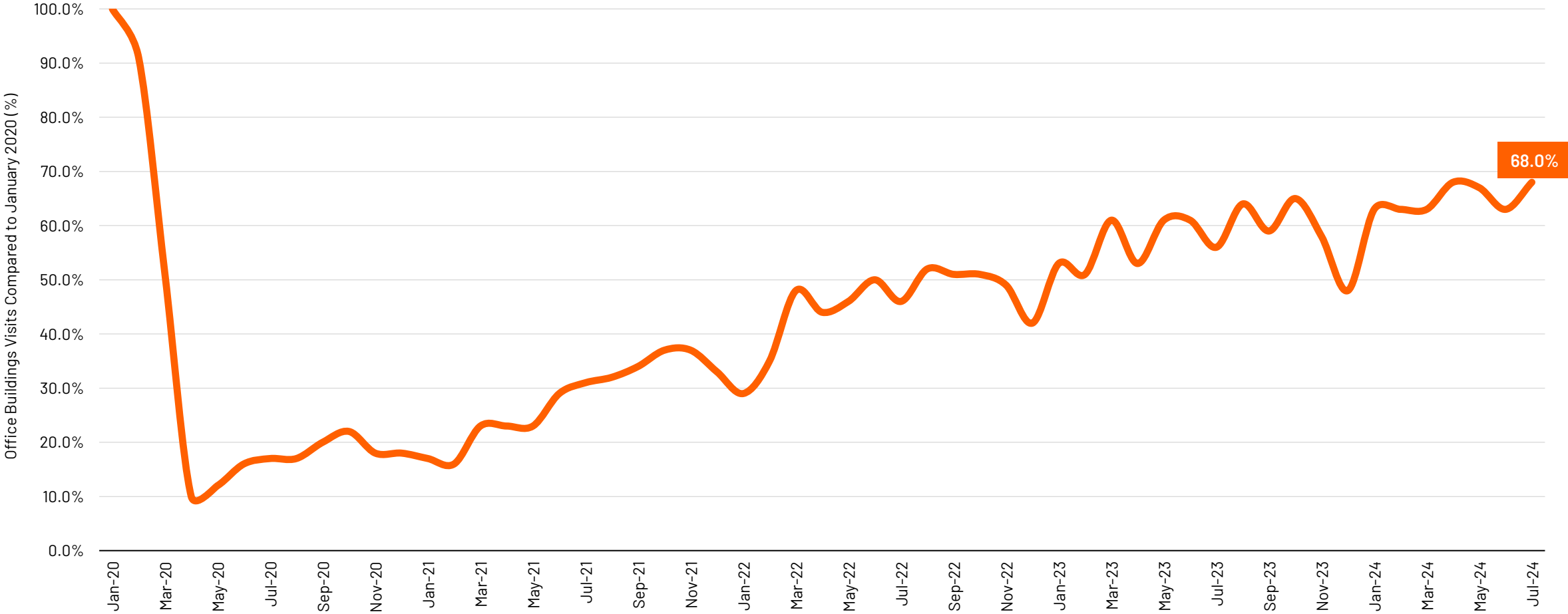
Suburban availability has increased at a slower pace, now at 24.8%, up 550 basis points from pre-pandemic levels

It will take time and sustained leasing activity to substantially offset the amount of space returned to the market since the onset of the pandemic



Return to Office Rates Up as Most Occupiers Now Utilizing Hybrid Work

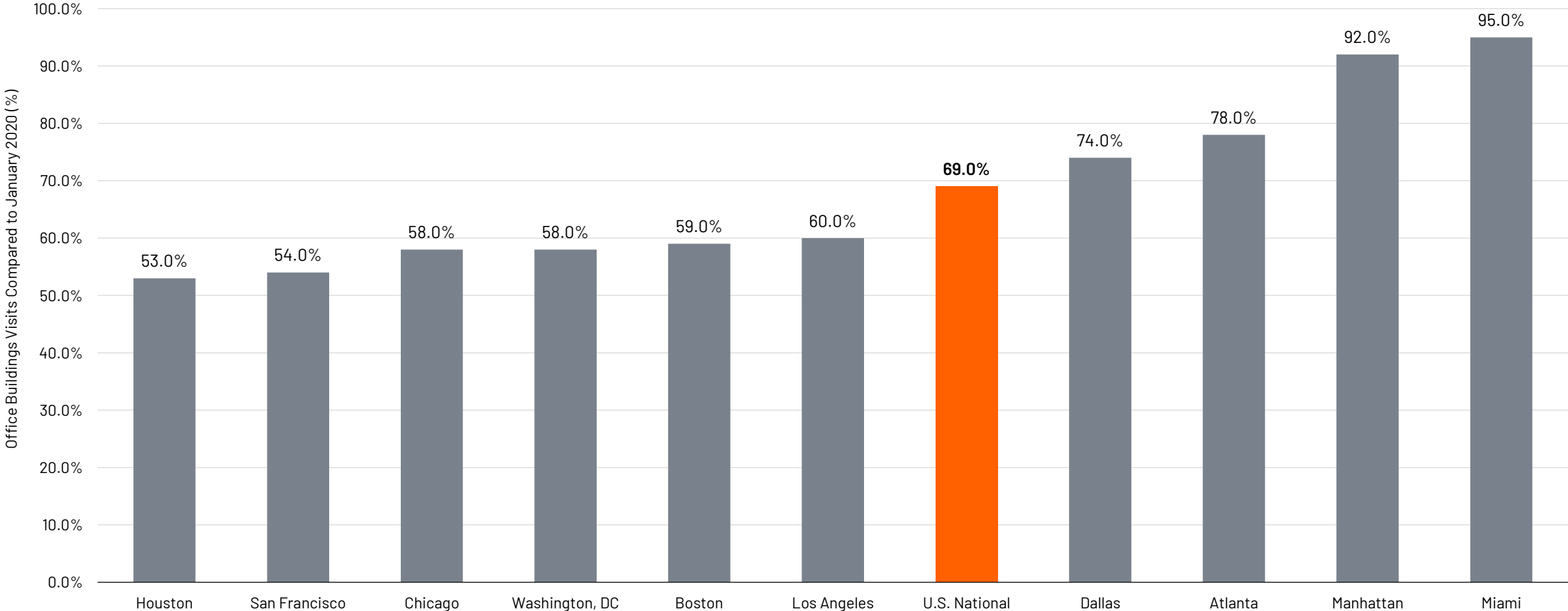
Nationwide Office Building Visits Compared to January 2020 Baseline - All Office Building Types



Source: Placer.ai

In Top Tier Buildings, Miami and Manhattan Lead Return to Office Rates

Nationwide Office Building Visits in July 2024 Compared to January 2020 Baseline - Top Tier Buildings

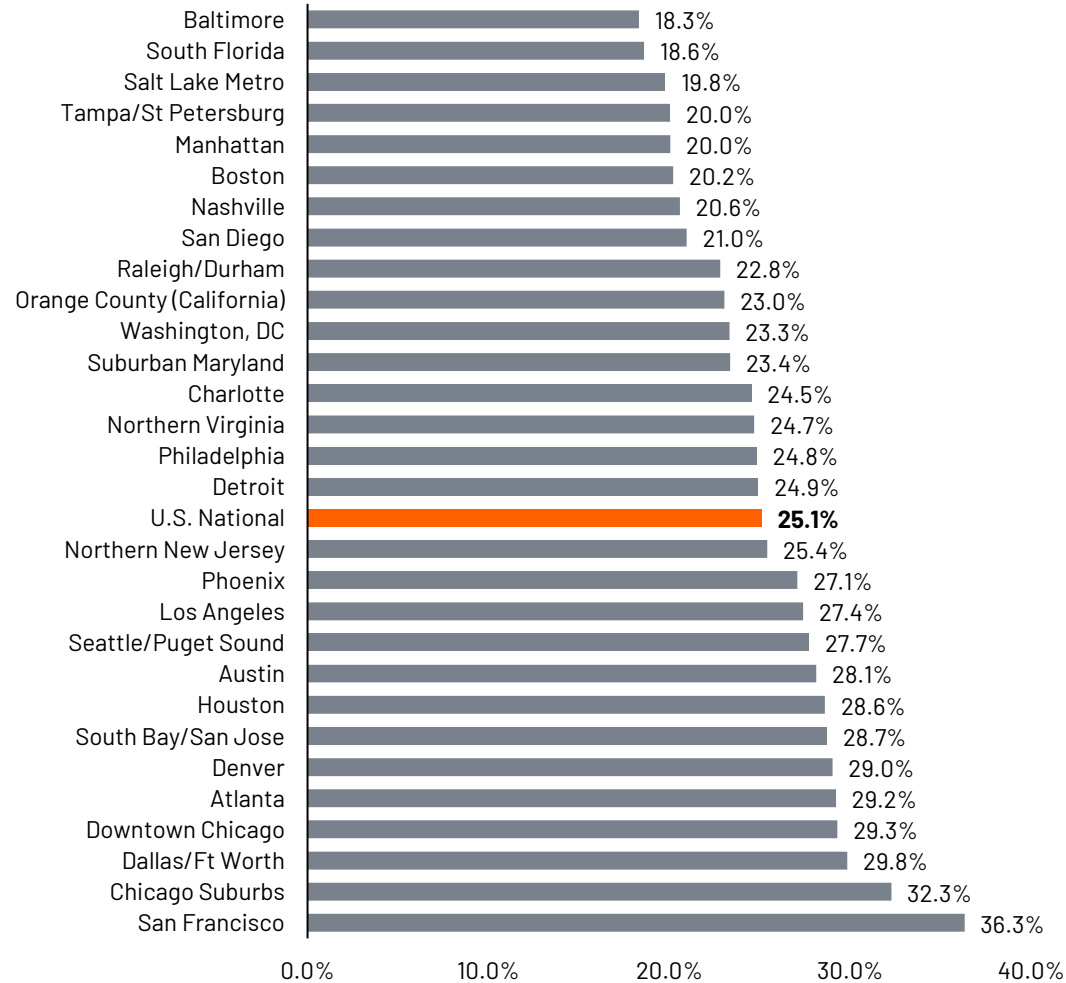


Source: Placer.ai

Tech-Centric Office Markets Observing Largest Increase in Availability

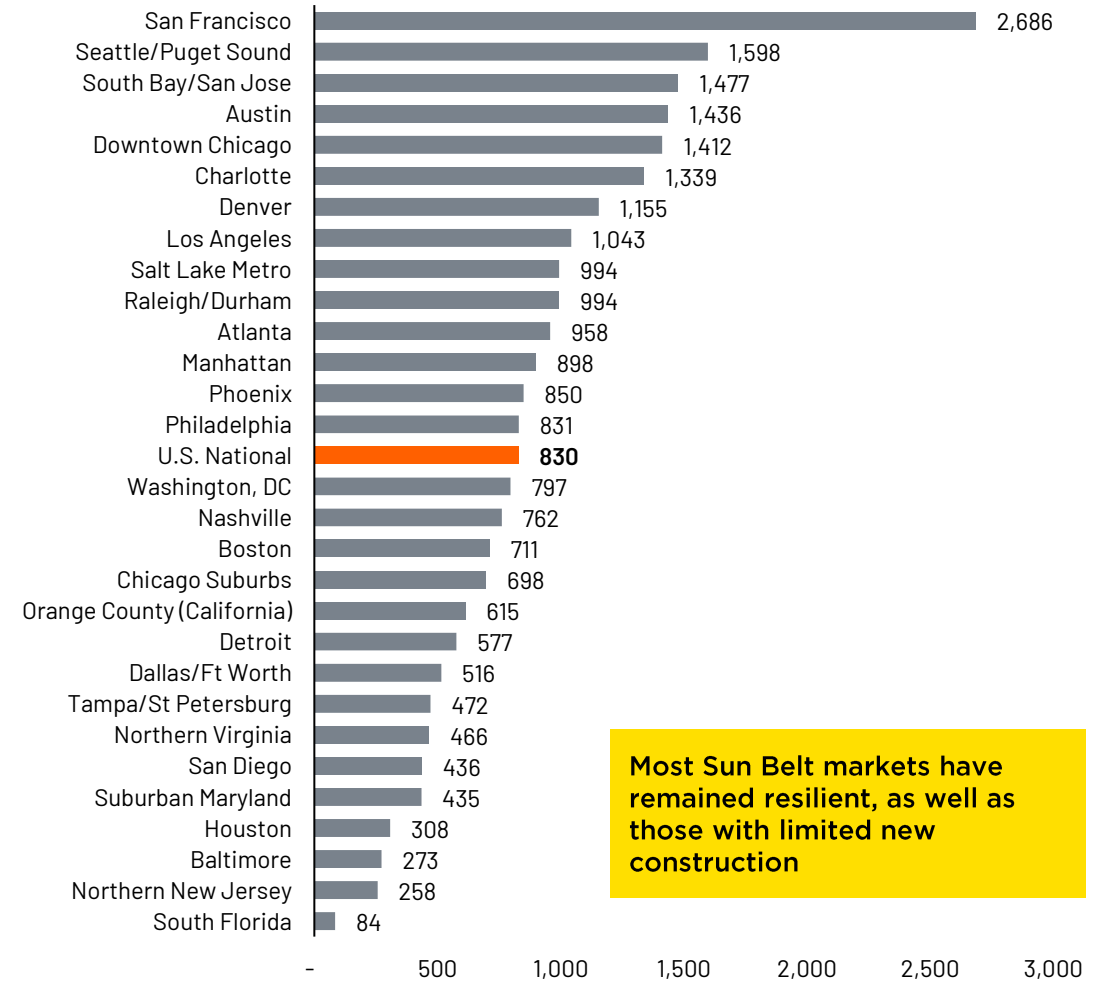
Total Availability Rate (%)

Q2 2024



Total Availability Rate (bps)

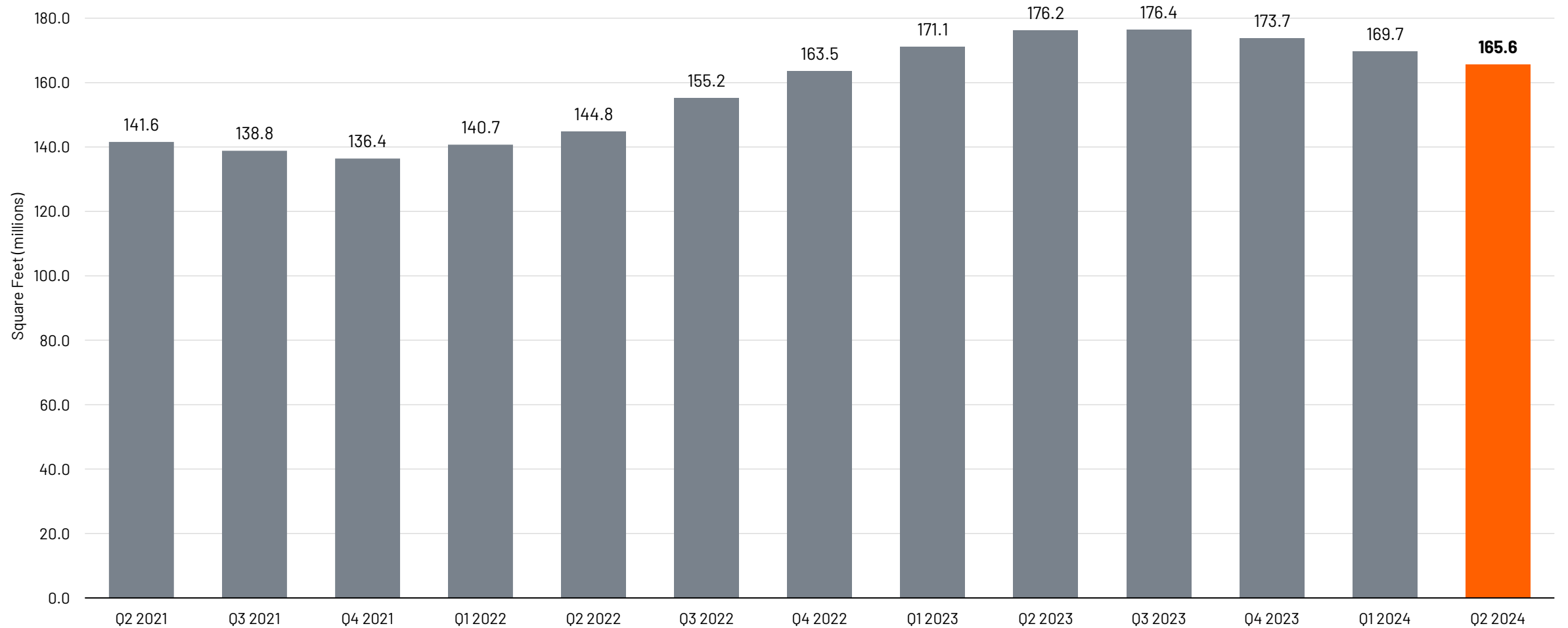
PANDEMIC CHANGE COMPARED TO Q4 2019



Most Sun Belt markets have remained resilient, as well as those with limited new construction

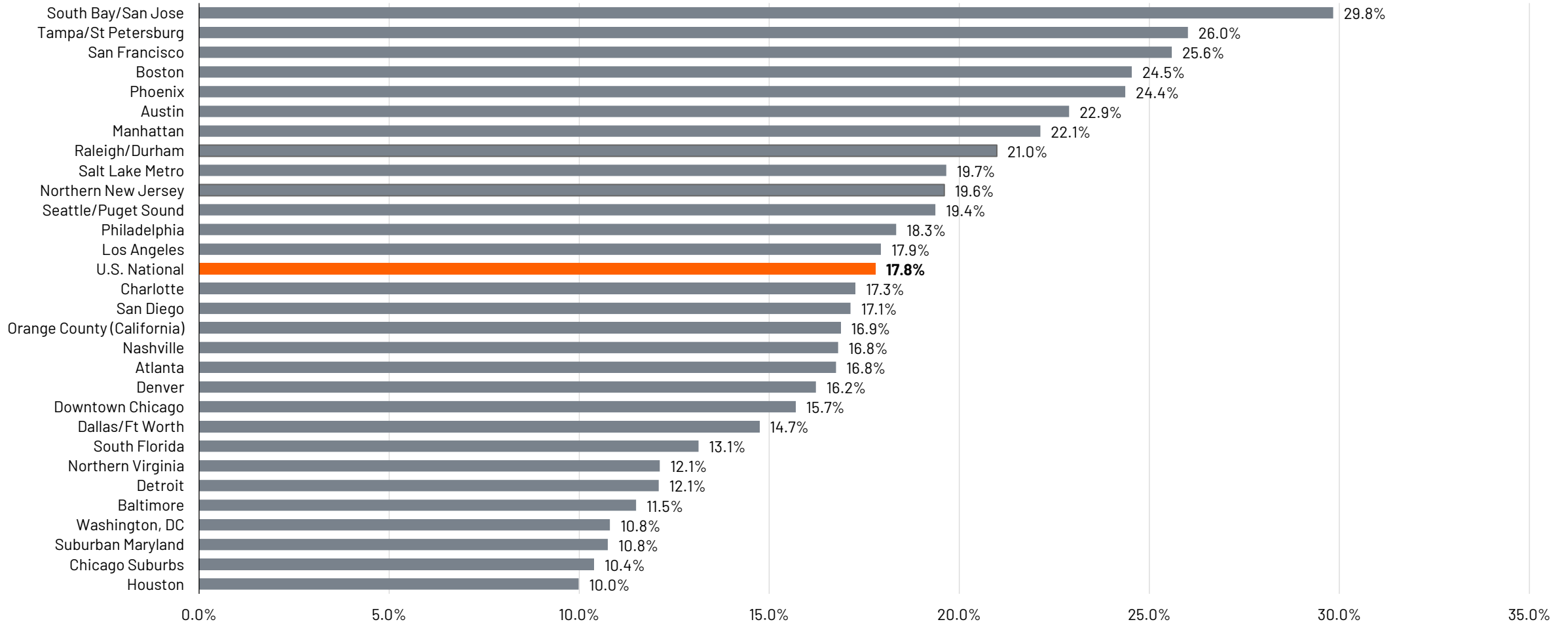
Sublease Space Has Decreased Over the Past Three Quarters

Total Available Sublease Space (msf)



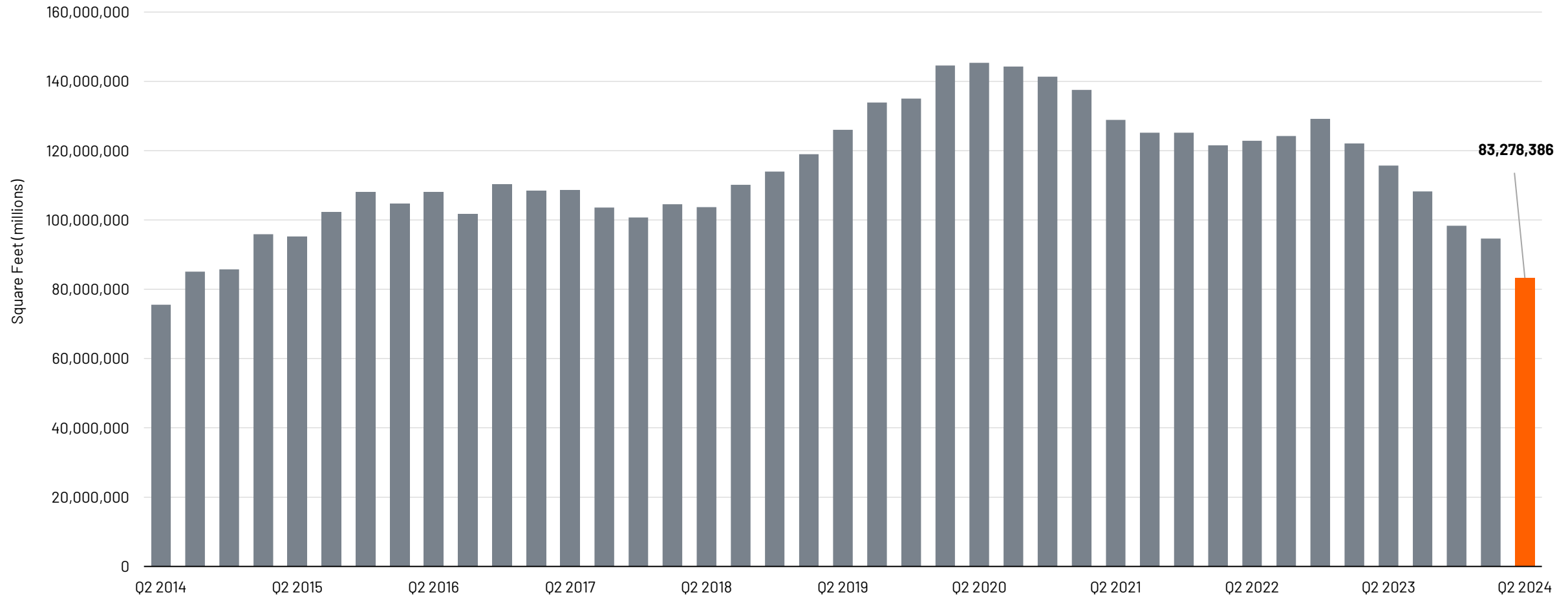
Sublease Space Remains Pronounced in Tech-Oriented Markets

Available Sublease Space as a % of Total Available Space by Market



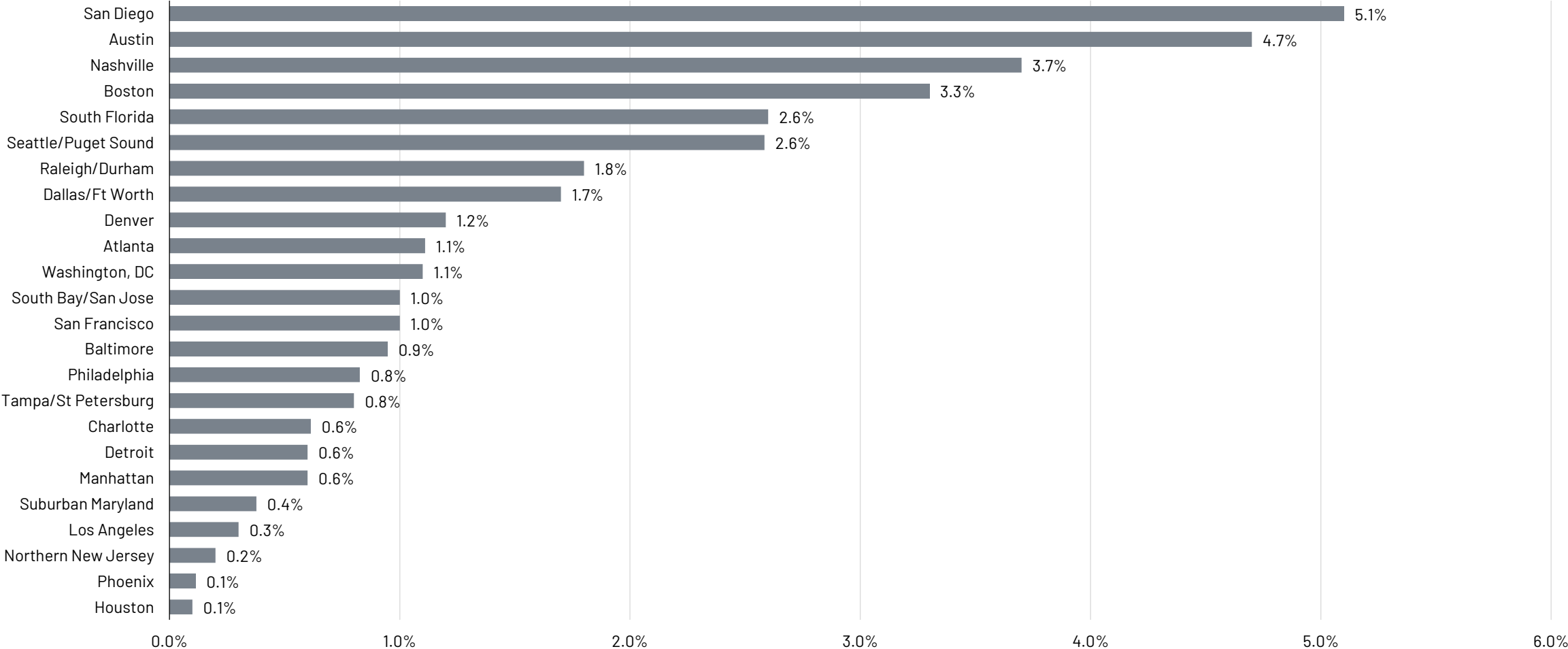
Amount of Office Space Under Construction Now at a 10-Year Low

Total Under Construction (sf)



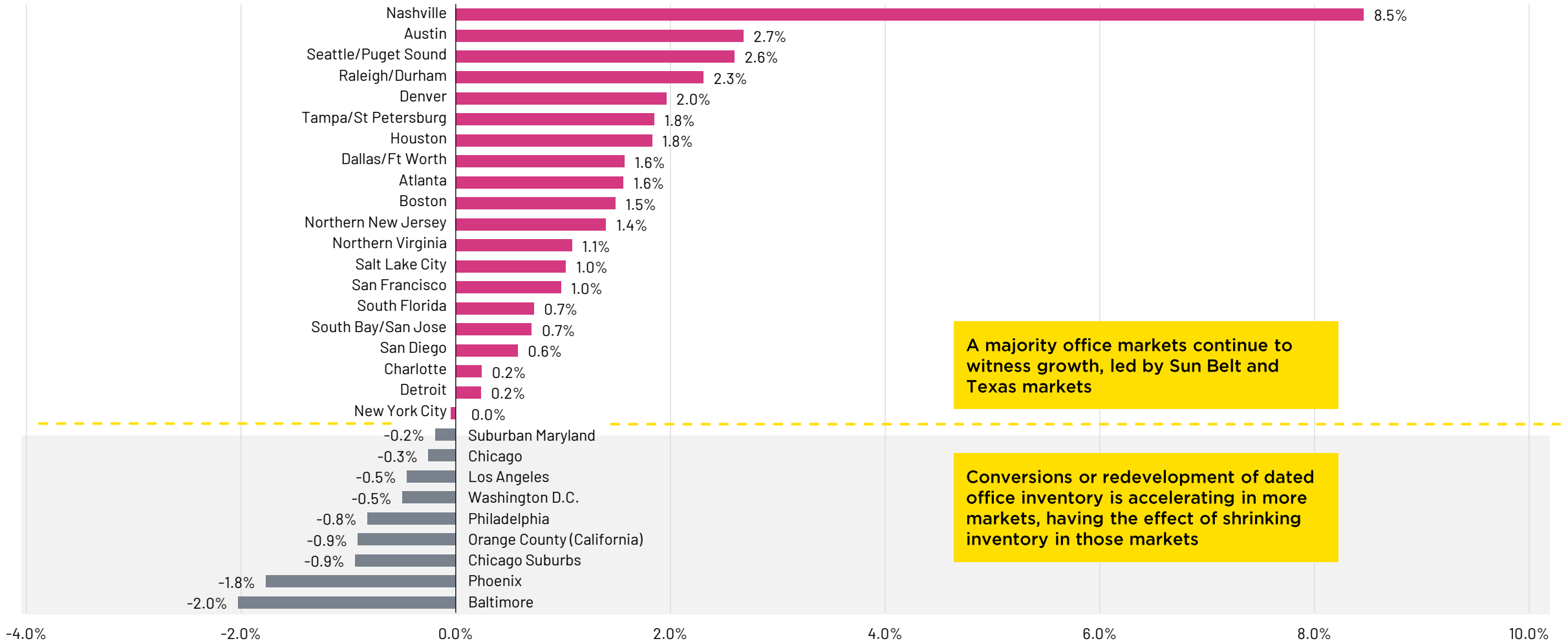
New Supply Concerns Limited to Only a Few Markets Currently

Office Square Footage Currently Under Construction as % of Inventory (100,000+ sf projects)



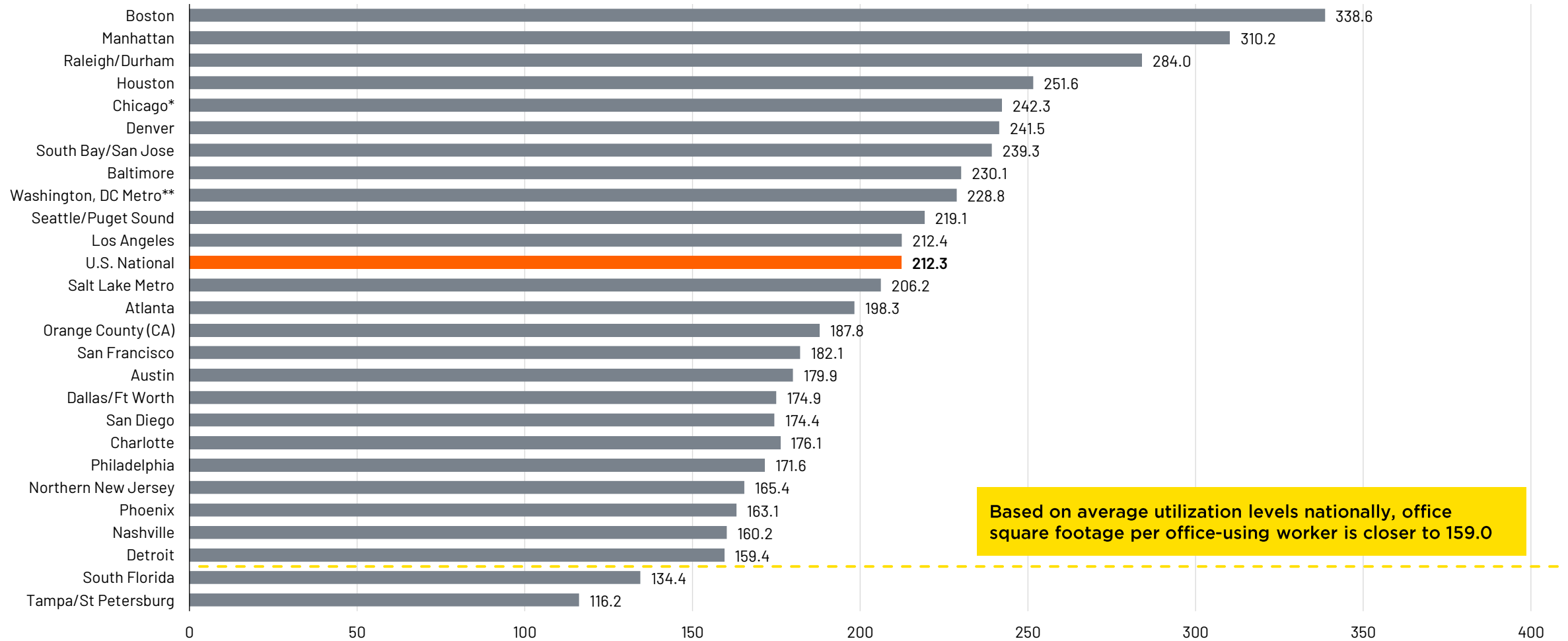
Office Inventory is Now Shrinking in Some Markets

Year over Year Rentable Building Area Change by Market (%)



Office Markets are Now Mostly Oversupplied Compared to Demand

Office Square Footage Per Office-Using Worker by Market (sf)



*Downtown Chicago and Chicago Suburbs combined.

**Washington DC, Northern Virginia and Suburban Maryland combined.

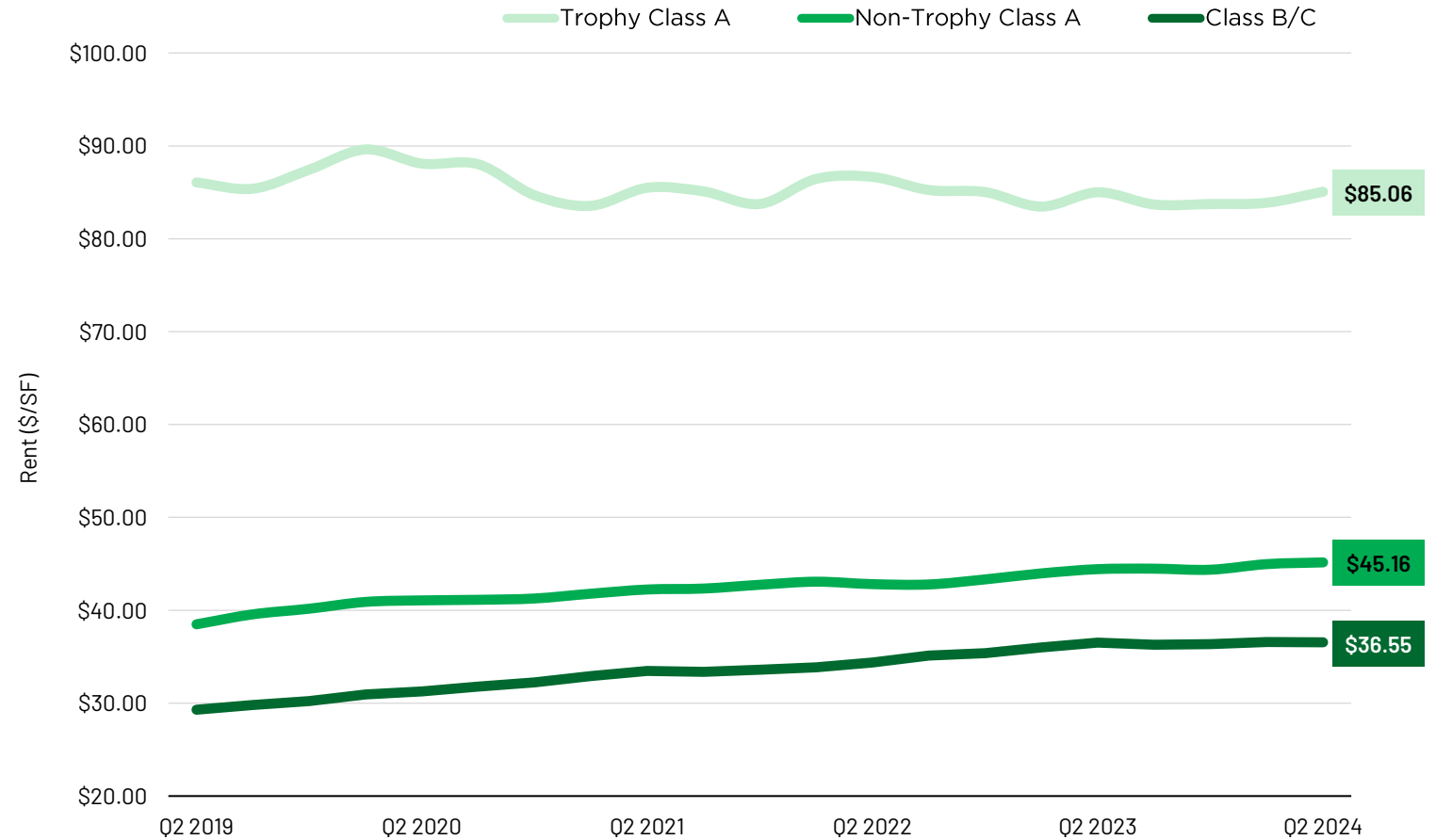
Little Change to Asking Rents as Owners Offer High Concessions

Overall Average Asking Rents – Trophy Class A vs. Non-Trophy Class A vs. Class B/C (\$/sf)

The U.S. office market has not yet seen drastic repricing of asking rents with many owners **continuing to offer high concessions rather than dropping their face rents**

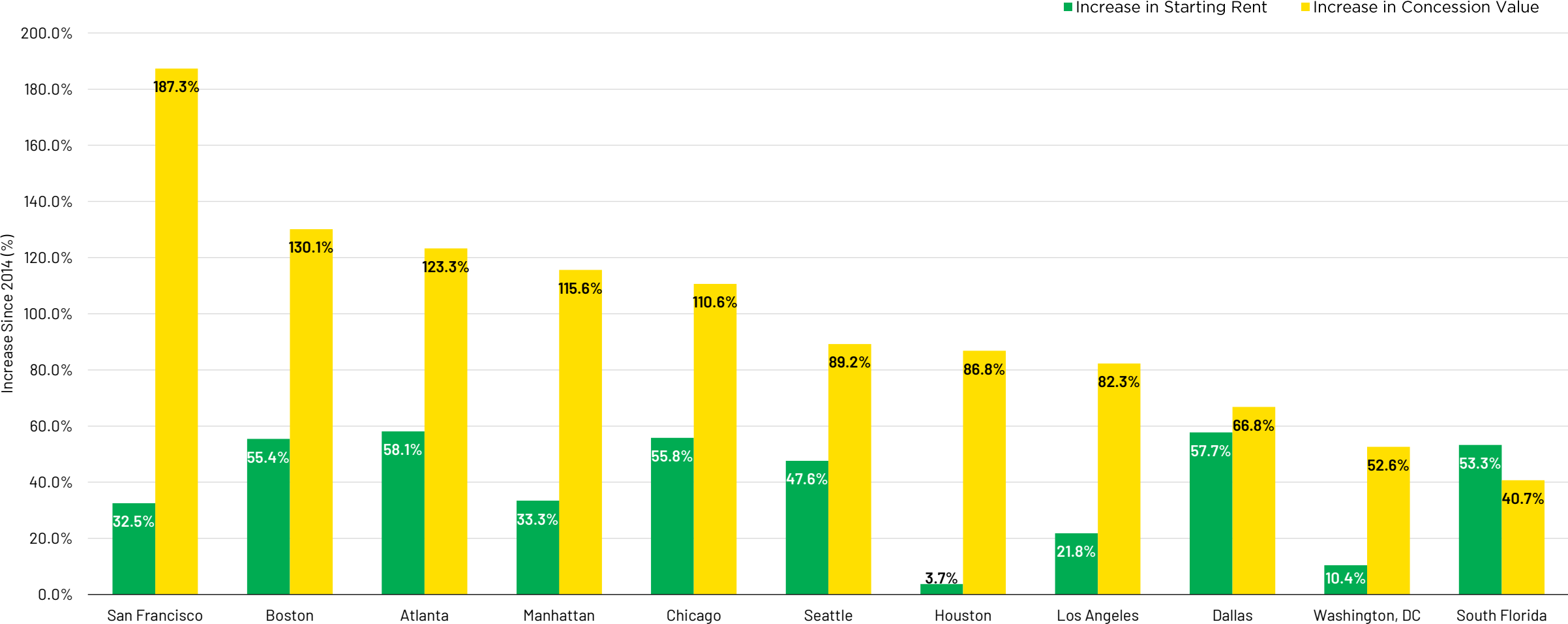
Flight-to-quality and active construction pipelines in some markets have contributed to stabilization and increase in Class A rents as **Trophy segment of the market sees major premium over commodity Class A space**

Growing bifurcation in many markets where pricing is high (and space limited) for top-tier buildings, while **older, more dated space is sitting on the market longer**



Growth in Concession Values Has Outpaced Growth in Starting Rents

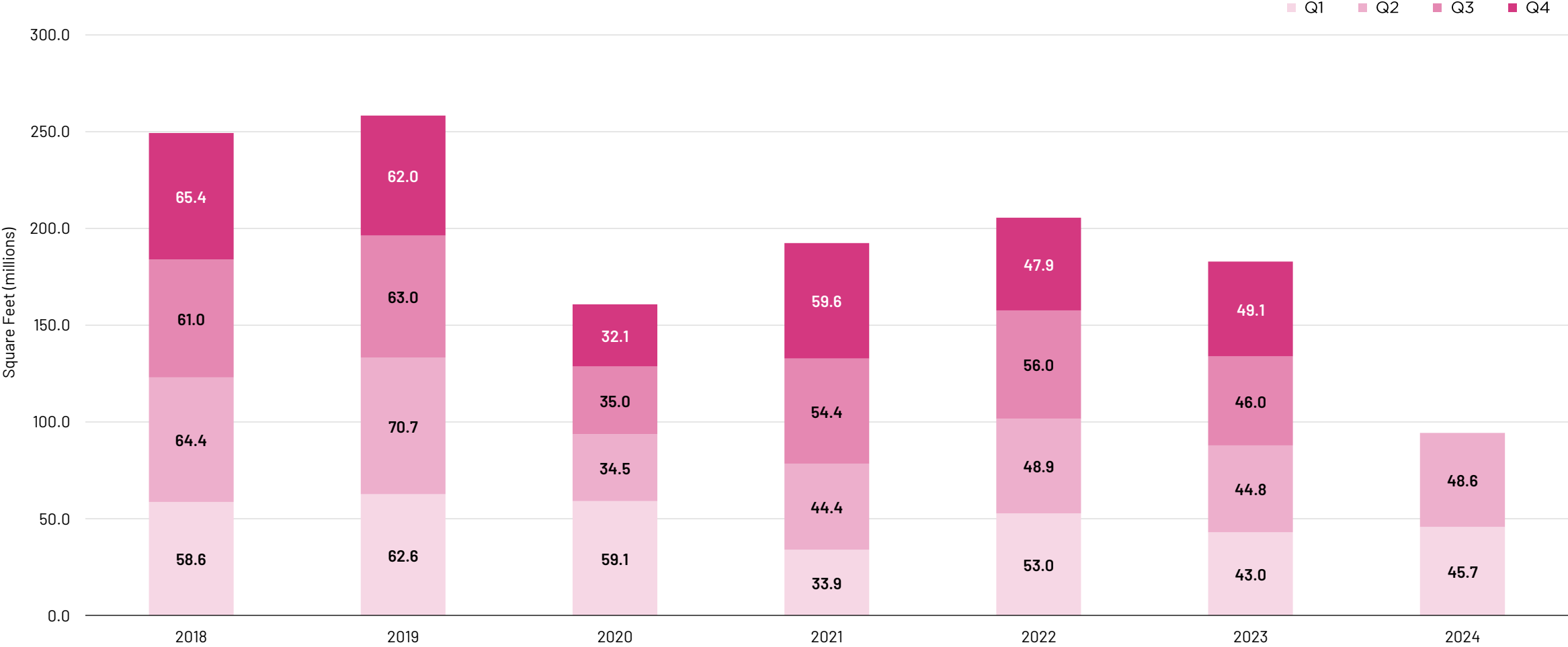
Class A New Long-Term Leases in Select Markets (2014-2024 YTD)



Source: CompStak Analytics

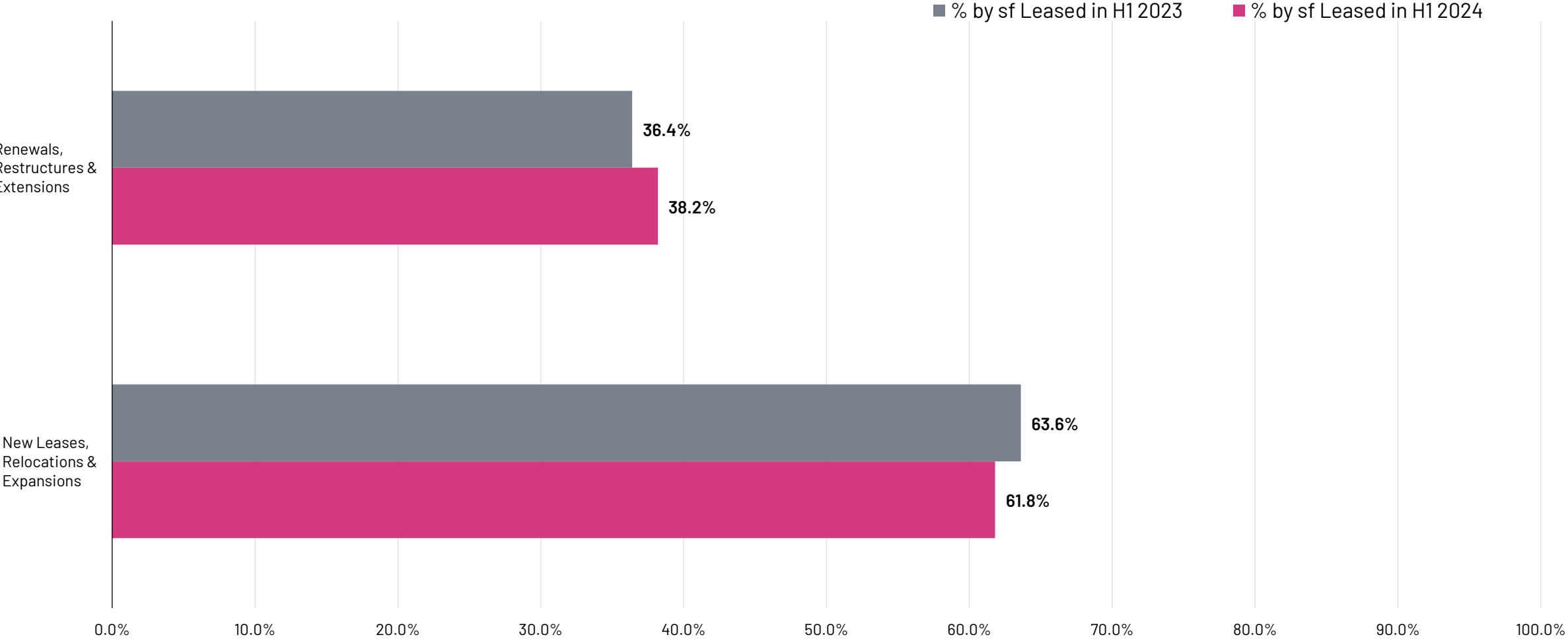
Q2 Leasing Activity Up From a Year Ago But Lower than Pre-Pandemic

Total Leasing Activity (msf)



New Office Space Demand Has Cooled as Renewal Activity Increases

Lease Transactions 20,000+ sf



Largest Office Leases in Q2 2024 Split Between New and Renewals

TENANT	INDUSTRY	MARKET	BUILDING	SIZE (SF)	LEASE TYPE	QUARTER LEASED
Bloomberg L.P.	TAMI*	Manhattan	731 Lexington Avenue	946,815	Renewal	Q2 2024
Federal Housing Finance Agency (FHFA)	Government	Washington, D.C.	400 7th Street SW	377,092	Extension	Q2 2024
American Eagle Outfitters	Retailers & Luxury Goods	Manhattan	63 Madison Avenue	338,085	Relocation***	Q2 2024
D.C. Dept. of General Services	Government	Washington, D.C.	64 New York Avenue NE	333,658	Renewal	Q2 2024
Snowflake	TAMI	Seattle/Puget Sound	1646 123rd Avenue NE	326,731	New Location**	Q2 2024
Northrop Grumman	Manufacturing	Northern Virginia	12900 Federal Systems Park Drive	309,757	Renewal	Q2 2024
Southern Company Gas	Energy and Utilities	Atlanta	725 W Peachtree Street	264,300	Relocation	Q2 2024
Covington & Burling LLP	Legal Services	Manhattan	30 Hudson Yards	235,479	Relocation***	Q2 2024
Bain & Company	Professional, Business and Consulting Services	Manhattan	22 Vanderbilt Avenue	235,201	Relocation	Q2 2024
Universal Music Group	TAMI	Los Angeles	2220 Colorado Avenue	225,773	Renewal	Q2 2024
Wheels	Transportation	Suburban Chicago	1299 Zurich Way	214,000	Relocation**	Q2 2024

*Technology, Advertising, Media and Information

**Sublease deal

***Sublease then Direct Extension

Office Leasing Activity by Market

Total Leasing Activity Q2 2023 vs Q2 2024

Savills Leasing Momentum Meter

BY BUBBLE COLOR

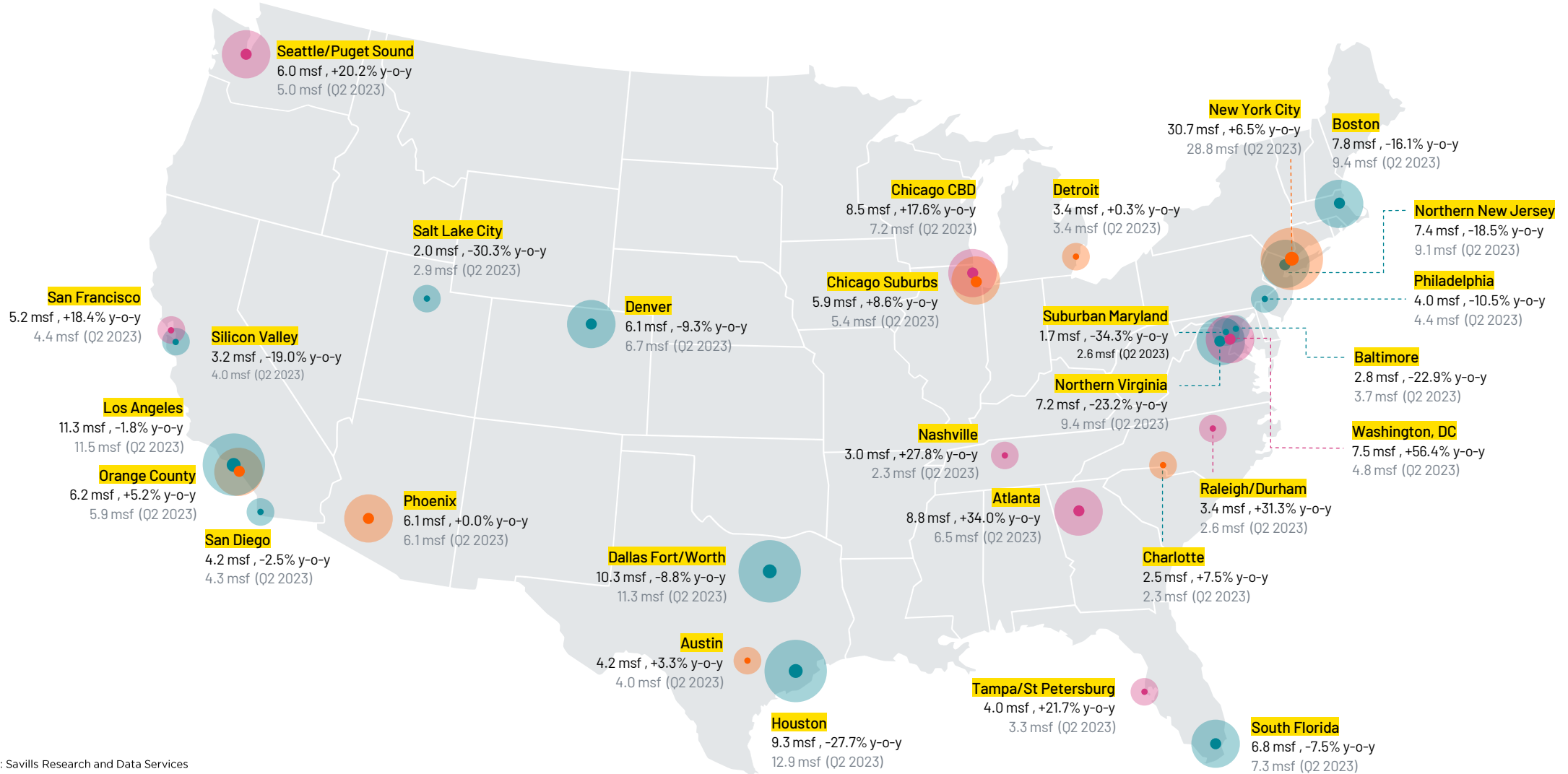
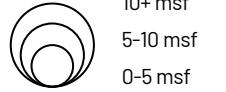


> 10% change y-o-y

< 0% change y-o-y

Trailing 4-Quarter Leasing

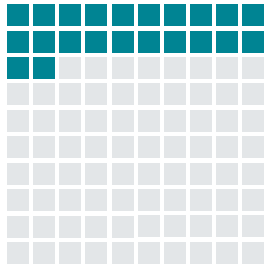
BY BUBBLE SIZE



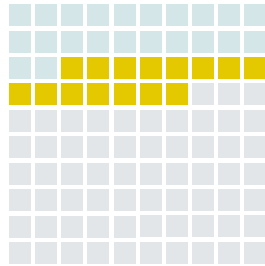
Source: Savills Research and Data Services

TAMI Sector Leads Demand Despite Pullback From Large Tech Firms

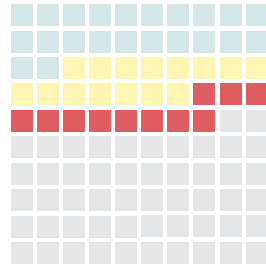
Total Leasing Activity Q2 2024; 20,000+ sf



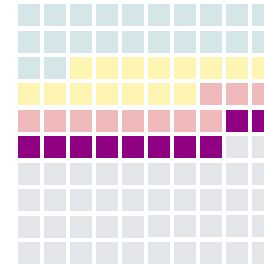
22.0% TAMI



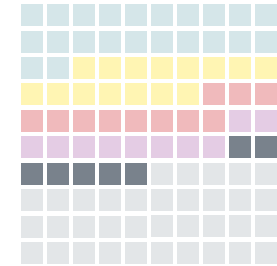
14.6% Financial Services & Insurance



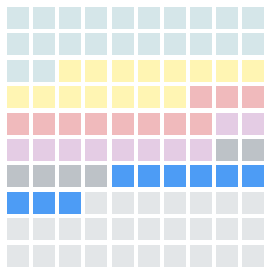
11.4% Legal Services



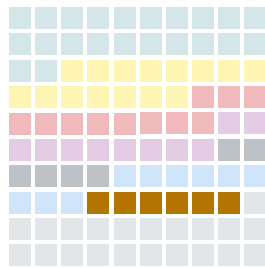
9.7% Professional & Business Services



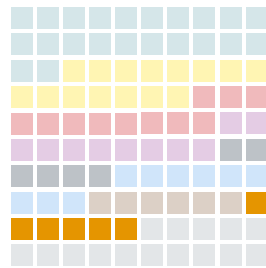
6.8% Retail



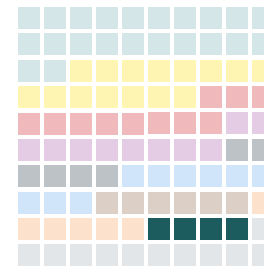
8.6% Government



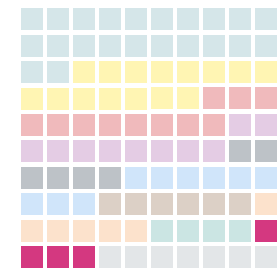
6.1% Manufacturing



5.7% Retail



4.0% Architecture, Engineering, & Construction



3.8% Energy & Utilities



7.3% Other*

*Other includes all remaining industries tracked by Savills Research & Data Services and not represented in the top 10

Office investment sales market continues to be largely frozen as cost of capital remains high but distressed properties have been trading and a floor on valuations is being set.

Investment Sales Activity Has Slowed Significantly in the Office Sector

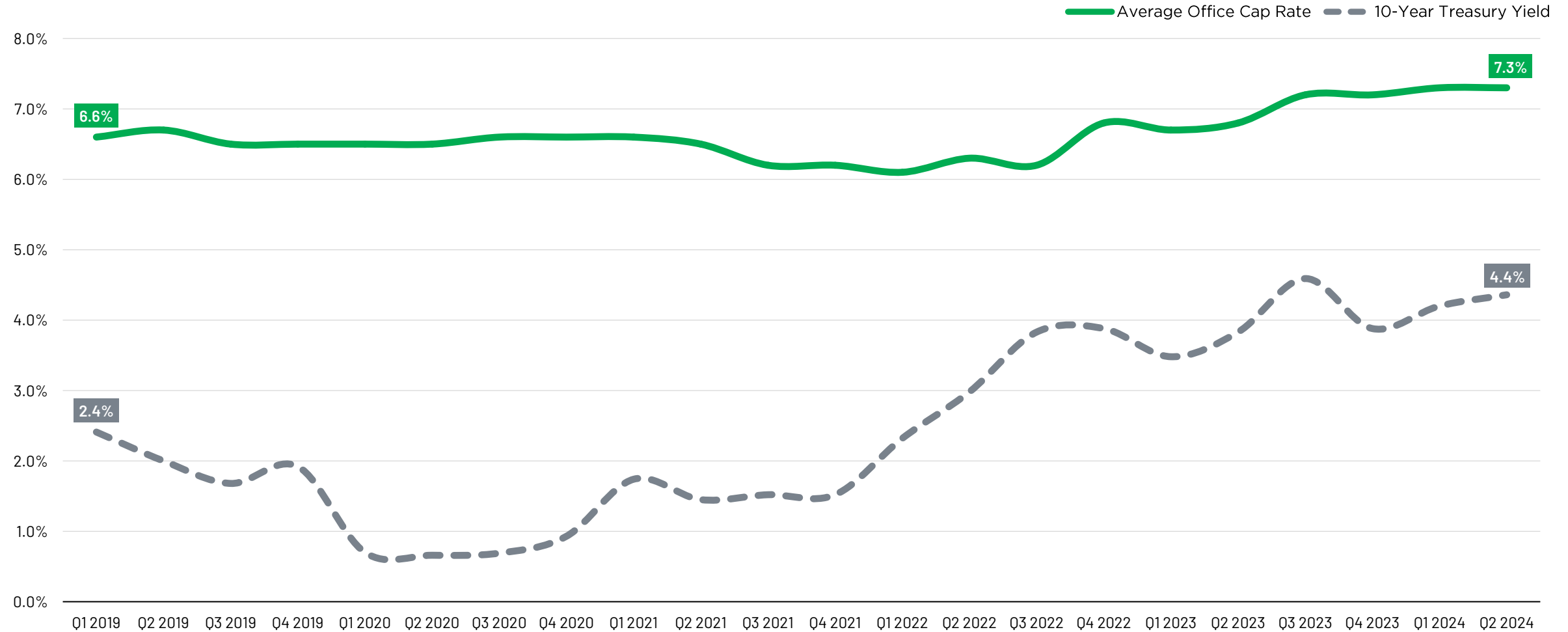
Total Office Property Sales Volume (\$ billions)



Source: MSCI Real Capital Analytics

Office Cap Rates Have Increased as Interest Rates Have Increased

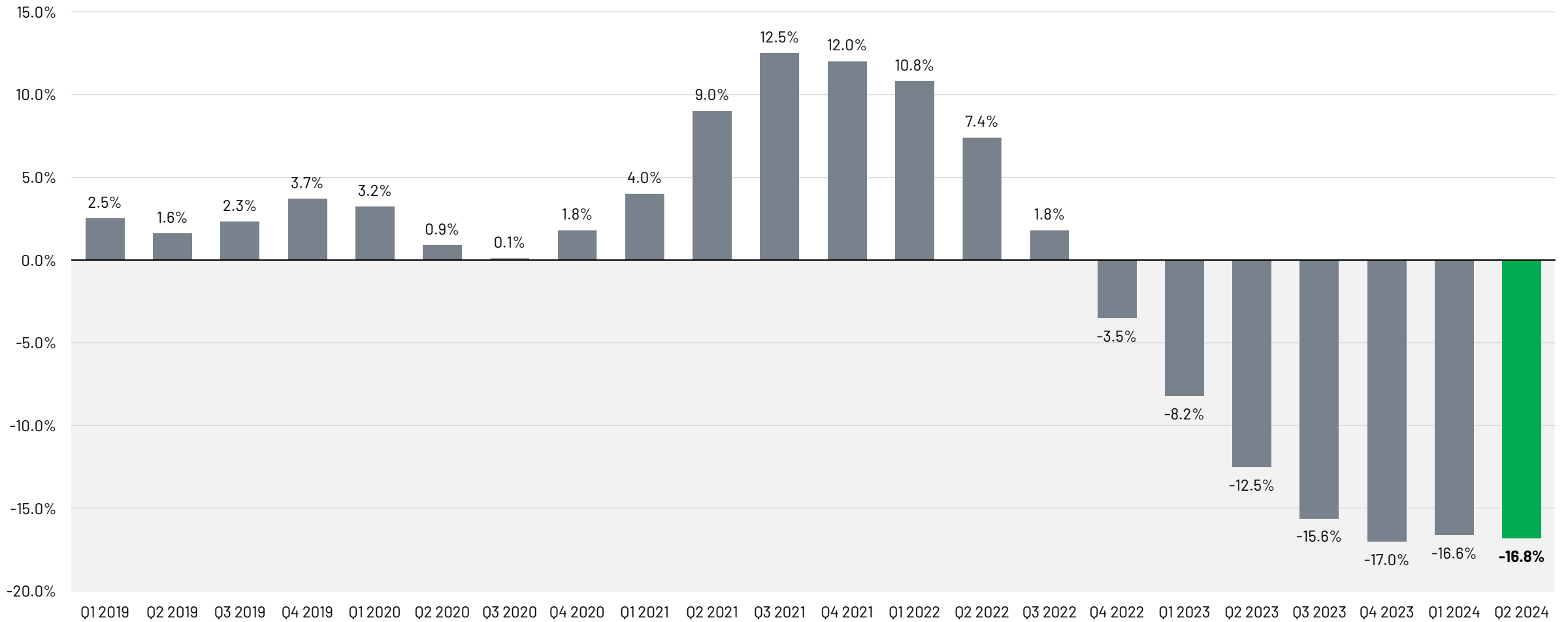
CBD and Suburban Office Average Cap Rate vs. 10-Year Treasury Yield (%)



Source: MSCI Real Capital Analytics, Federal Reserve Economic Data (FRED)

Office Property Valuations Have Decreased and Continue to Drop

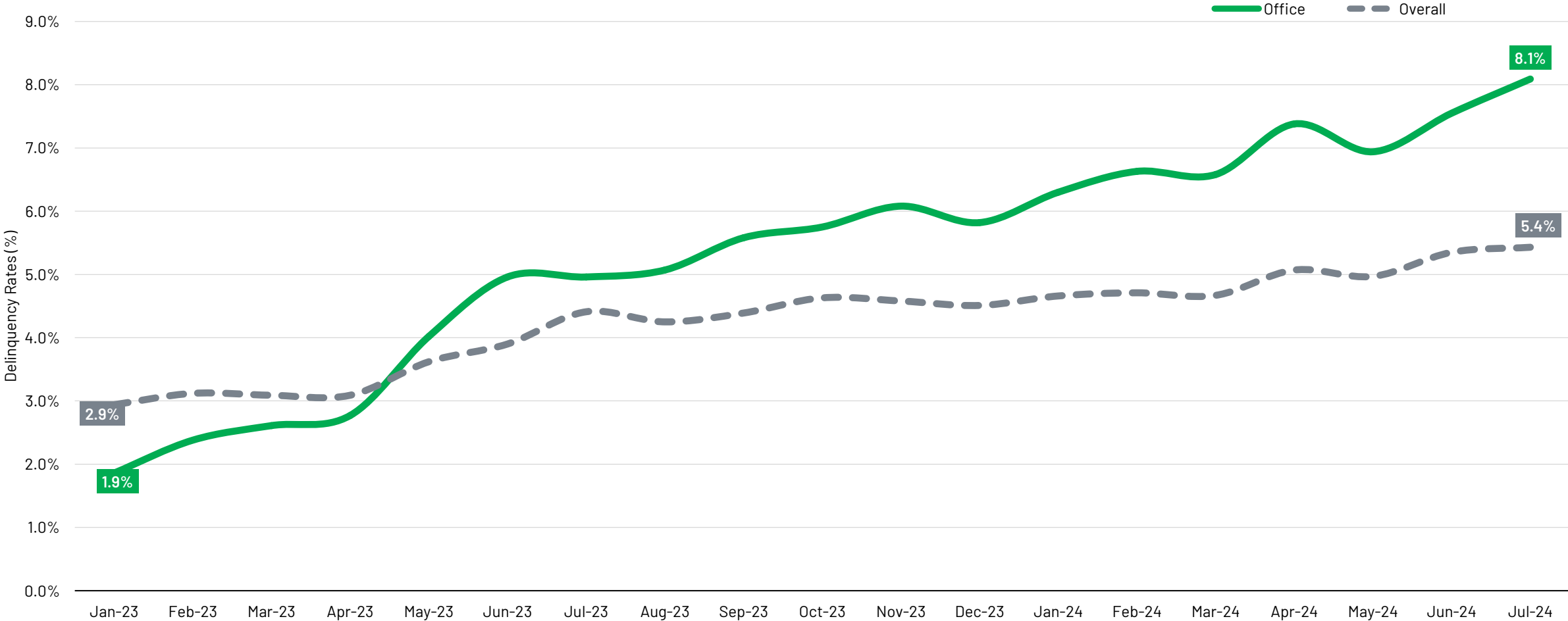
MSCI Real Capital Analytics Commercial Property Price Index (CPPI) – Year over year change (%) by quarter



Source: MSCI Real Capital Analytics

CMBS Delinquency Rates Have Continued to Increase in 2024

Overall Loan Delinquency vs. Office Loan Delinquency (%)



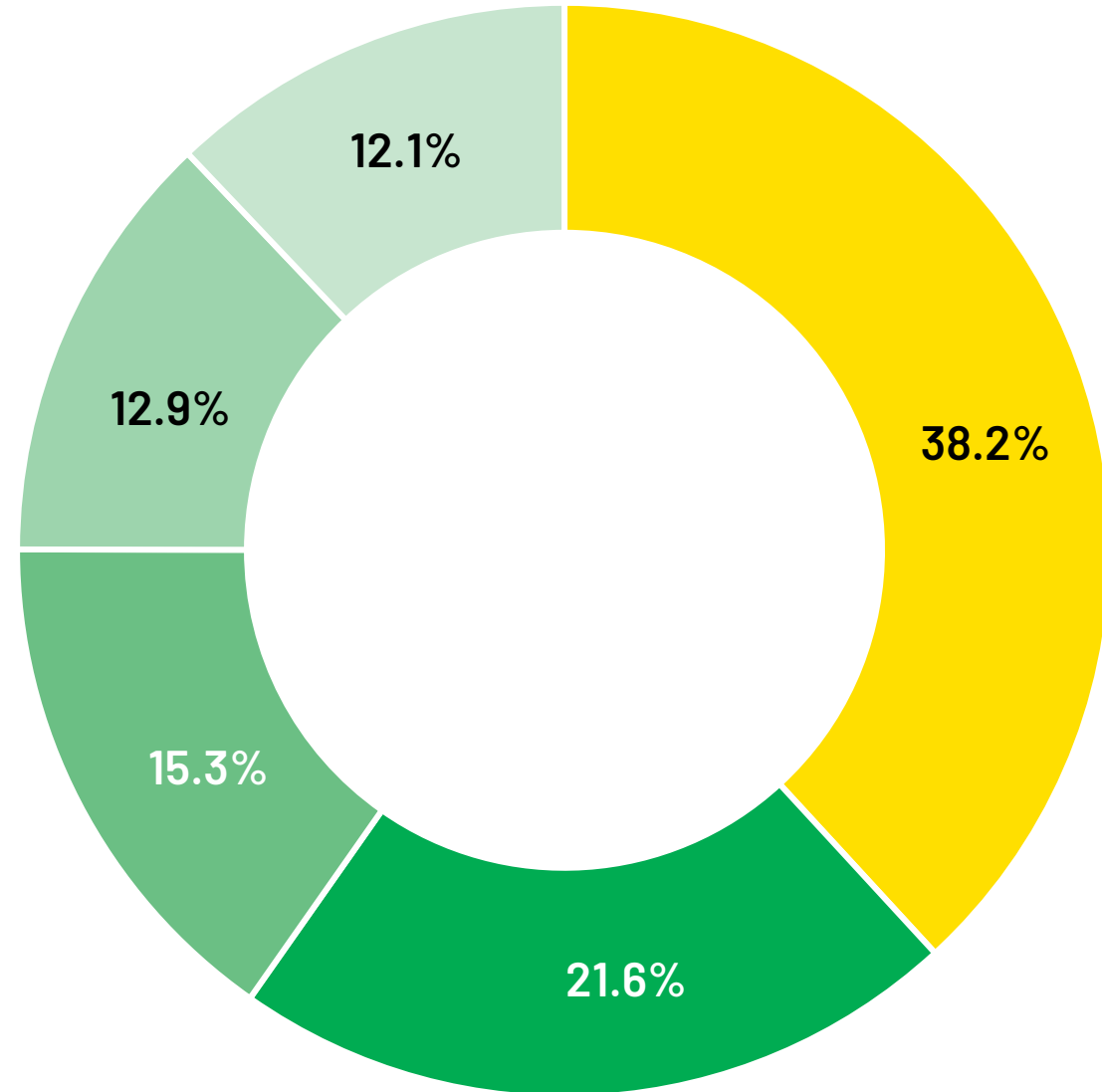
Source: Trepp

CMBS Remains Only 12.9% of Total Commercial/Multifamily Debt Outstanding

Est. \$4.70 trillion

Commercial/Multifamily Debt Outstanding from Mortgage Bankers Association

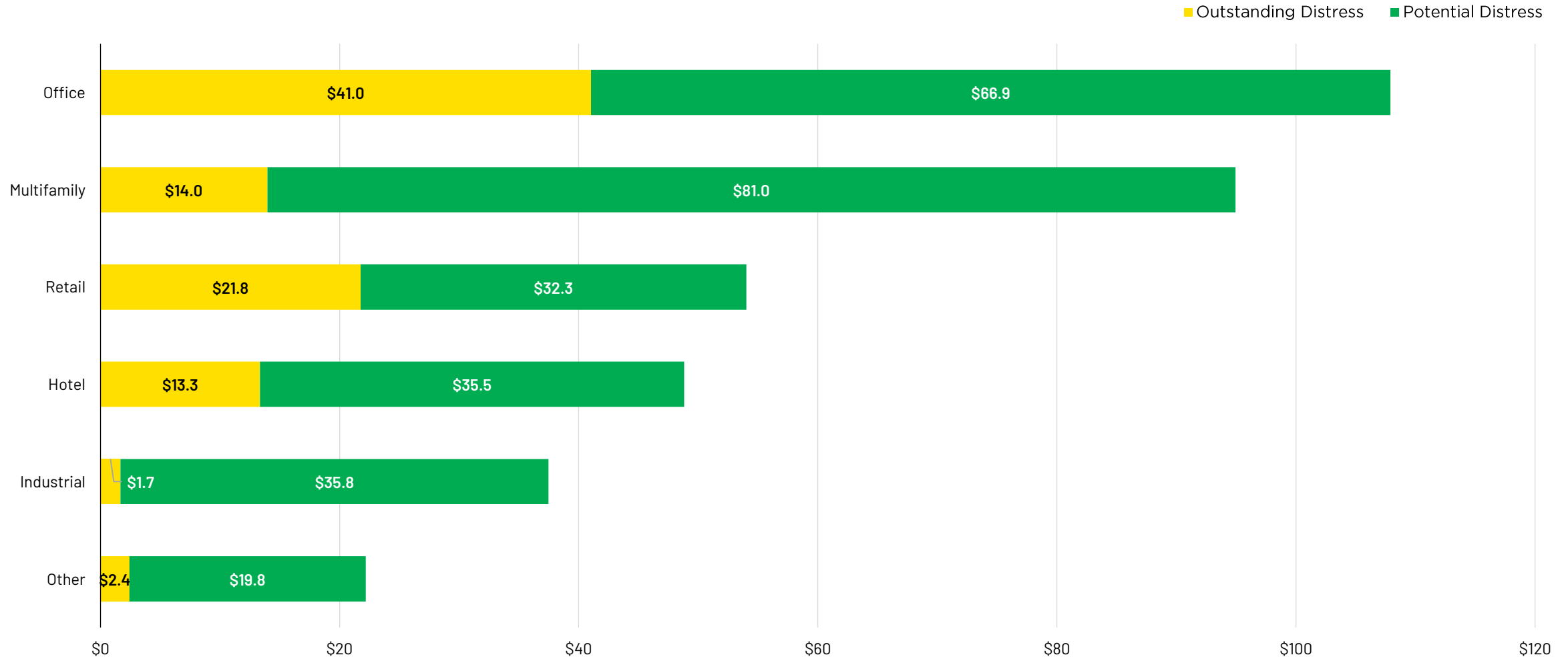
- Banks & Thrifts
- Agency and GSE Portfolios & MBS
- Life Insurance Companies
- CMBS, CDO & Other ABS Issues
- Others



Source: Mortgage Bankers Association

Commercial Property Loan Distress Led by Office and Multifamily Sectors

Balance of Distress by Property Type - Cumulative through Q2 2024 (\$ billions)



Source: MSCI Real Capital Analytics

Occupiers with Superior Credit Continue to be in the Driver's Seat as Property Owners Realize Interest Rates Now Higher-for-Longer

Cautious optimism as the Federal Reserve is signaling rate cuts in H2 2024

- Inflation has moderated in 2024; however, concerns about a weakening overall economy and slowing job growth mean a rate cut is imminent
- The days of near-zero interest rates are now over, which has led to a rise in cap rates and a decrease in property valuations
- Capital remains available but is expensive, especially as banks have pulled back on new lending
- Flight-to-capital expected to continue as occupiers who can, will gravitate towards the best buildings that do not have debt issues and can still offer high concessions

More than \$2.0 trillion in outstanding CRE loans will mature between now and 2027

- In Q2 2024, \$94.2 billion in commercial real estate loans are now distressed, the highest level since 2013
- Office property loans comprise \$41.0 billion, or 44% of all currently distressed commercial real estate loans
- Another \$66.9 billion in office loans have been identified as potentially distressed
- Expect more lender-facilitated sales and deed-in-lieu of foreclosures as distressed office property loans continue to be a major issue in the short-term

What does this mean for office occupiers over the short-term?

- Critical to understand underlying debt situation of ownership, as well as the property's financial situation and capital stack
- Distress does not necessarily mean rents will decline or there will be a substantial increase in concessions as owners might be constrained by their lenders
- Occupiers in a strong financial position with superior credit remain in the driver's seat as landlords aggressively look to preserve occupancy and lock in cash flow long-term

Thank you

The Savills logo, consisting of the word "savills" in a lowercase, sans-serif font, is positioned in the top right corner of the slide. The text is white and is set against a light yellow rectangular background.

MICHAEL SOTO

Vice President, Research West
North America

+1 213 553 3833 | msoto@savills.us

MARISHA CLINTON

Vice President, Research East
North America

+1 212 588 3480 | mclinton@savills.us

ANDERS KLEIN

Regional Research Director, Midwest and
Southwest

North America

+1 312 595 2932 | aklein@savills.us

SID JAITLY

Data & Technology Manager

North America

+1 206 773 2276 | sjaitly@savills.us

For more articles and research from Savills experts offering industry-leading advice and analysis, visit our [research and insights hub here](#).

[savills.us](https://www.savills.us)

Disclaimer: The material in this presentation has been prepared solely for informational purposes and is strictly confidential. Any disclosure, use, copying or circulation of this presentation (or the information contained within it) is strictly prohibited, unless you have obtained Savills prior written consent. Neither this presentation nor any part of it shall form the basis of, or be relied upon in connection with, any offer or transaction, or act as an inducement to enter into any contract or commitment whatsoever. NO WARRANTY OR REPRESENTATION, EXPRESS OR IMPLIED, IS GIVEN AS TO THE ACCURACY OR COMPLETENESS OF THE INFORMATION CONTAINED HEREIN AND SAVILLS IS UNDER NO OBLIGATION TO SUBSEQUENTLY CORRECT IT IN THE EVENT OF ERRORS. Savills shall not be held responsible for any liability whatsoever or for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document or any errors therein or omissions therefrom.