National

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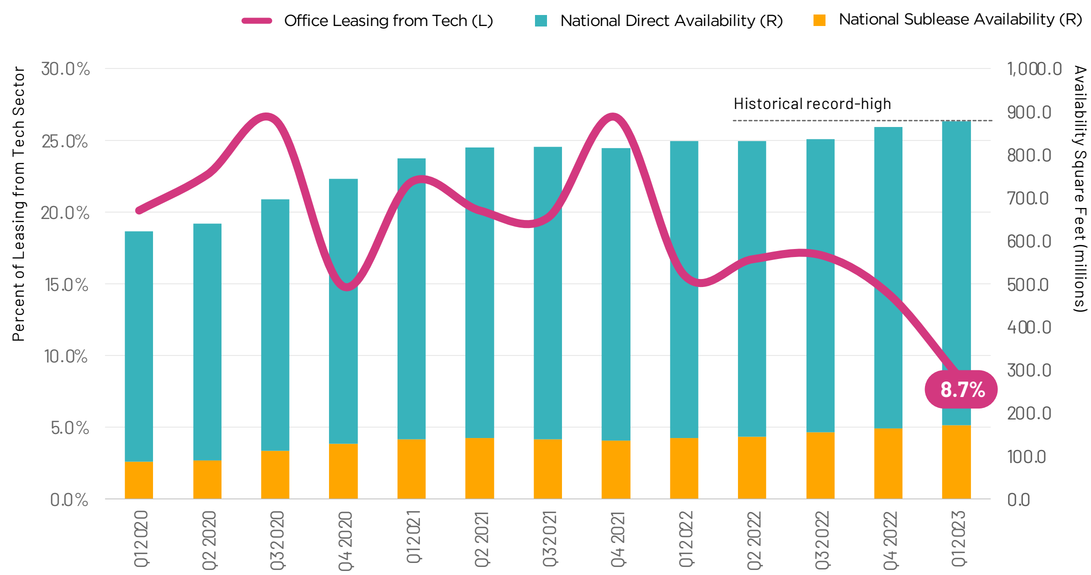
As demand from the tech sector cools, reaching freezing temps in some tech hubs in Q1 – office availability has surged to a historical record-high nationally.

National Office Leasing from the Tech Sector (%)

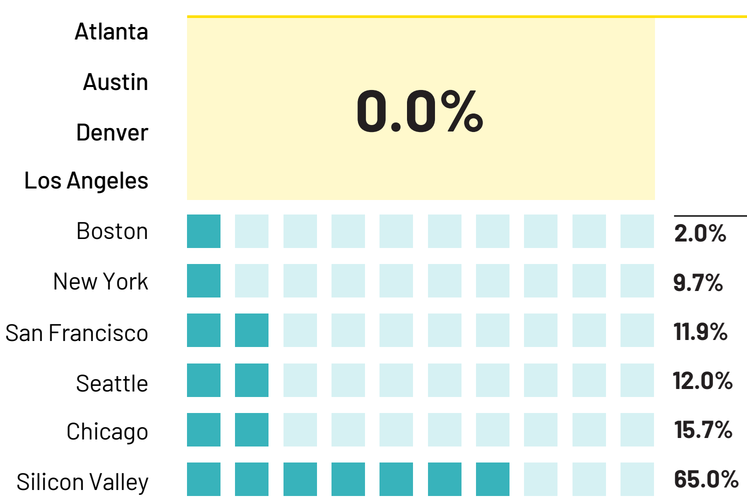
OVERLAYED WITH AVAILABLE SPACE

The tech sector was the main driver of net growth for landlords, with tech leasing making up an average of 21.5% of activity for transactions over 20,000 square feet (sf) between Q1 2020 and Q4 2021. Tech leasing began to slow in 2022 as the economy shifted, interest rates rose, and the period of staggering tech sector employment growth ended. **Tech sector leasing fell to a new low at the start of 2023 – representing only 8.7% of demand in Q1.** Without a new industry poised for growth to absorb the oversupply of office space in these markets, dynamics will remain extremely tenant-favorable in cities where the tech sector is a core industry.



Q1 2023 Market Demand from the Tech Sector (%)

LEASES OVER 20,000 SQUARE FEET



In Q1 2023, **tech leasing** over 20,000 sf **fell to 0.0%** across four major U.S. tech hubs.

Boston only saw **one tech lease signed** over that size threshold.

Silicon Valley had the greatest share of tech activity as tech sector market demand hit **65.0% in Q1** (up from 33.5% in Q4 2022).

Fujitsu America signed the second largest tech lease in Q1 with a sale-leaseback; their second office sale in Silicon Valley in the past three years as they rethink their space needs.

Many tech firms making real estate decisions are doing so in an effort to **right-size, cut costs, or are forced as a result of an upcoming lease expiration date.**

Looking Ahead

01 **Dramatic slowdown of the tech sector has left a void in office market demand**

02 **Landlords are faced with a glut of office space and new tenants difficult to attract**

03 **Billions in loans mature over the next 12-24 months which may leave buildings in distress**

The silver lining is that tenants who are confident in their future office needs are currently in an unprecedented position to choose from a wide range of space options and strike a deal with exceptionally favorable terms. As many of the larger tech firms are beginning to embrace a structured hybrid model with more than 50% of the work week expected to be in-person, it will be interesting to see how many companies decide to provide dedicated and assigned seating to hybrid employees versus embrace a hoteling or desk sharing model. Where most companies land on this decision will have a significant impact on the aggregate demand for office space in each North American tech city.