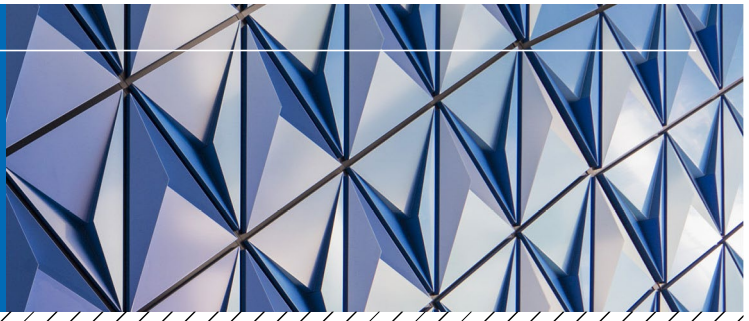
RESEARCH Q4 2021



# National Office Market

## Net Occupancy Tips Modestly Positive; Fundamentals Steady in Recovery

The U.S. office market continued to recover in the fourth quarter of 2021, noted by positive net absorption and slowing vacancy growth. The spread of the Delta variant slowed the pace of office market recovery, but market fundamentals modestly improved nonetheless. The emergence of the Omicron variant presents additional challenges to the recovery of U.S. office markets, but the efficacy of vaccines and the rising rates of immunized Americans are improving the outlook for 2022.

Net absorption measured positive 1.0 million square feet in the fourth quarter of 2021, the first period of occupancy growth since late 2019. This marks an important shift in net demand; however, significant gains will be needed to offset the losses incurred during the pandemic. Modestly positive net demand slowed vacancy growth, which increased just 18 basis points from the third quarter of 2021 to 16.7%. Over 10.4 million square feet delivered in the fourth quarter of 2021, which contributed to the rise in quarterly vacancy. The national construction pipeline is stable at 83.4 million square feet. Flight to quality remains a significant demand driver during recovery, leading to bifurcation of market fundamentals between high-end and lower-quality office product.

Asking rents continue to appreciate, though at a slowing rate. Average asking rents rose 1.8% over the past year, reaching $30.96/SF. Net effective rents have been under consistent downward pressure due to generous concession packages in most major markets aimed at attracting and retaining tenancy.

### Current Conditions

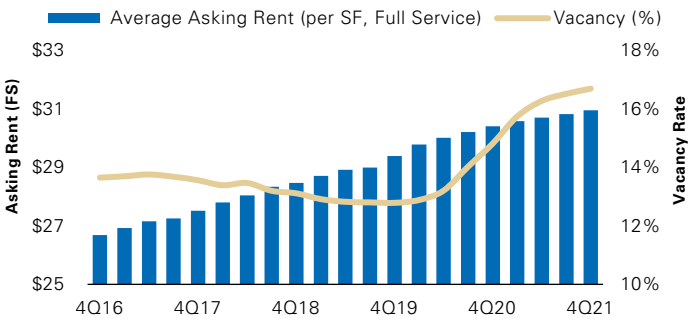
- Quarterly net absorption measured 1.0 million square feet in the fourth quarter; the first period of positive net absorption since late 2019. Year-end net absorption measured negative 68.4 million square feet.
- Vacancy increased by 188 basis points over the last year, reaching 16.7% in the fourth quarter.
- Annual asking rent growth measured 1.8% in the fourth quarter. Asset owners have largely maintained face rents, which averaged $30.79/SF in the fourth quarter.
- Fourth-quarter deliveries added 10.4 million square feet to market inventory and 83.4 million square feet remains under active construction.

### Market Summary

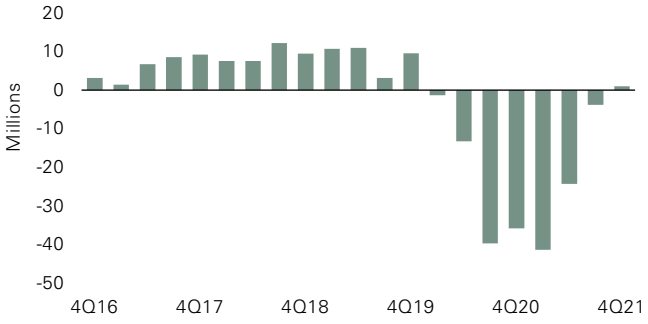
| | Current Quarter | Prior Quarter | Year Ago Period | 24-Month Forecast |
|---|---|---|---|---|
| Total Inventory (SF) | 5.0 B | 5.0 B | 5.0 B | ↑ |
| Vacancy Rate | 16.7% | 16.5% | 14.8% | ↑ |
| Quarterly Net Absorption (SF) | 1.0 M | -3.8 M | -35.8 M | ↑ |
| Average Asking Rent/SF | $30.96 | $30.83 | $30.41 | ↑ |
| Under Construction (SF) | 83.4 M | 80.9 M | 95.1 M | ↓ |
| Deliveries (SF) | 10.4 M | 8.1 M | 8.6 M | ↑ |

### Market Analysis

**ASKING RENT AND VACANCY RATE**




**NET ABSORPTION**




NEWMARK

## Secondary Markets Support National Office Recovery and Expansion

Quarterly net absorption was positive for the first time in two years, driven by steady gains in secondary and tertiary markets. Collectively, primary office markets recorded net occupancy of negative 2.7 million square feet in the fourth quarter of 2021. In contrast, secondary and tertiary markets recorded 2.5 million square feet and 1.2 million square feet of positive net absorption, respectively. Of the 56 markets tracked by Newmark, 33 recorded positive absorption in the fourth quarter of 2021, led by Salt Lake City, Seattle and San Francisco. Western markets similarly recorded the three largest year-end net absorption gains in Salt Lake City, Las Vegas and San Diego. Markets recording the largest occupancy contraction in the fourth quarter of 2021 were Phoenix, Manhattan and Washington, DC. Year-end net occupancy losses were concentrated in primary markets, with Manhattan, Dallas and Washington, DC recording annual occupancy losses of more than 4.0 million square feet. Primary markets, particularly those located in the Northeast and Midwest, have been less agile and have faced greater structural challenges to office reboarding and recovery.

In addition to a natural loosening of pent-up demand in small and mid-sized office markets, an integral factor in driving demand has been construction and inventory expansion. The nation's construction pipeline has begun to contract, a result of the natural ebbs and flows of construction cycles and the limited number of ground breaks since the onset of the pandemic. However, five markets tracked by Newmark have recorded at least 500,000 square feet of construction pipeline growth over the last year, of which all are secondary and tertiary markets. The delivery of net new office space not only fuels occupancy growth but it can also accelerate asking rent growth. Annual asking rent growth in secondary markets measured 3.8% in the fourth quarter of 2021, the highest growth rate measured in a year. Rent growth in tertiary markets slipped to 1.8% but primary markets recorded growth of 3.0%. Markets recording the annual rent growth in excess of 7.0% include: Charleston, SC; Silicon Valley; Austin; Boston; and Columbia, SC.

## Sublease Availability Continues Modest Contraction

Throughout the pandemic, sublease availability has been monitored as an indicator of firms' intentions for existing real estate. While sublease rates remain elevated in most markets, the total supply of availability has fallen in each of the last two quarters. In total, sublease availability has fallen by 6.0 million square feet since the second quarter of 2021. This is a positive sign that firms are beginning to reconsider active sublease listings, which will provide some relief to oversupply.

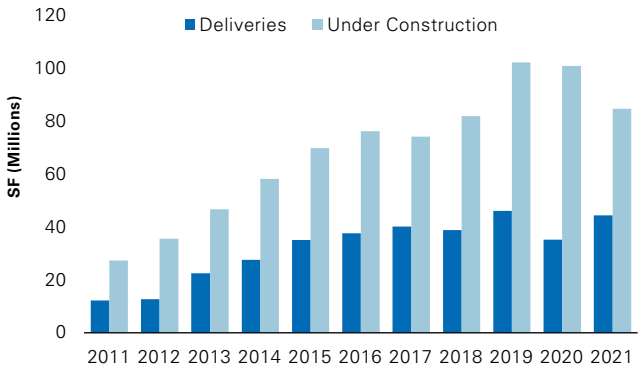
## U.S. Office Market Outlook

Office market fundamentals continued to improve in the closing quarter of 2021. Although the pandemic is still presenting headwinds to office occupancy, pent-up demand has loosened throughout 2021, resulting in recovery to net demand. Still, vacancy remains under pressure, in part due to a steady flow of new construction deliveries and existing oversupply challenges in many markets. Supply is anticipated to continue to outweigh demand through at least the next year in most major metro areas.

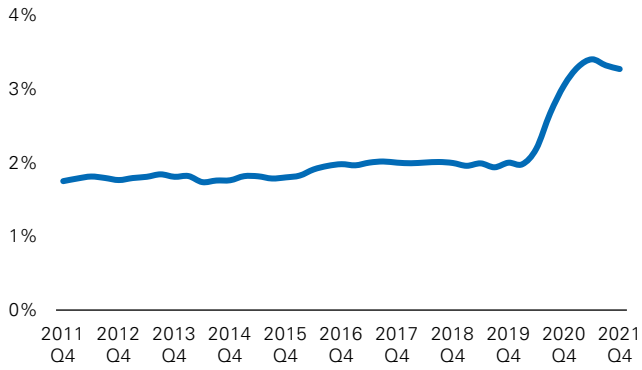
The duration of the pandemic and its slow leasing environment have resulted in greater competition among landlords. In most markets, asking rents have at least held face value throughout the pandemic, but generous landlord concession packages have resulted in downward pressure on effective rents. The imbalance in supply and demand through 2022 is likely to continue to apply pressure on effective rents in most markets. While price competition is a financial strain on any asset owner, office assets that do not feature strong amenities and flexibility, particularly those that are older and lack health/wellness features, including high quality air circulation, may have more difficulty leasing, given the preferences of modern tenants and increased competition in oversupplied markets. In some markets, these challenged office assets are attracting the attention of converters, aimed repositioning office buildings into higher value uses, including multi-family/housing, life science/laboratory facilities and data centers.

The rapid emergence and spread of the Omicron variant late in the fourth quarter of 2021 has again highlighted the dynamic nature of recovery and the importance of flexibility in a post-pandemic period. Tenants are likely to demand greater space and term flexibility to accommodate unanticipated changes in workplace strategies. Although the emergence of the Omicron variant delayed many firms' return-to-office plans in 2022, the strong efficacy of vaccines and boosters against the most recent variant has been encouraging and a genuine return to normal business activities appears increasingly tangible.

### National Construction Pipeline and Deliveries




### National Sublease Availability Rate



## Notable 4Q 2021 Lease Transactions

| Tenant | Building | Market | Type | Square Feet |
|---|---|---|---|---|
| Meta Platforms, Inc. | 1275 Crossman Avenue | Sunnyvale – Northern California | New Lease | 719,037 |
| Meta Platforms signed one of the largest leases recorded in the history of Silicon Valley's office market. Tishman Speyer acquired the campus in early 2021 from NetApp. | | | | |
| District of Columbia Government: Department of General Services | 1100 & 1101 4th Street, SW | Southwest DC – Washington | Renewal | 543,798 |
| The D.C. Government renewed their full footprint at Waterfront Station; housing offices for Consumer and Regulatory Affairs, Planning, and others. | | | | |
| MSG Sports & Entertainment, LLC | 2 Penn Plaza | Penn District – New York | Renewal/Expansion | 429,022 |
| Madison Square Garden signed a 20-year renewal at PENN 2, now 28% leased. Vornado plans to complete a major building renovation by 2023. | | | | |
| Fiserv | 100 Connell Drive | Somerset/I-78 – Northern New Jersey | New Lease | 428,000 |
| Following the appoval of a $109-million tax incentive, the fintech giant will add roughly 2,000 jobs to its in-state workforce. | | | | |
| NBC Universal | 1221 Avenue of the Americas | Midtown – New York | Renewal | 339,833 |
| NBC completed a short term renewal, committing to an additional five years for their 339,833-square-foot office at 1221 Avenue of the Americas. | | | | |

## Notable 4Q 2021 Newmark Sales Transactions

| Building | Market | Sale Price | Price/SF | Square Feet |
|---|---|---|---|---|
| 50-60 Binney Street | East Cambridge – Boston | $1,210,000,000 | $2,272.75 | 532,395 |
| The recapitalization of 50-60 Binney Street in East Cambridge with MetLife and Norges Bank represents one of the largest transactions of the quarter and the year. | | | | |
| Charles Park | East Cambridge – Boston | $815,000,000 | $1,996.28 | 408,259 |
| The Davis Companies sold Charles Park in December for $815.0 million, a 74.5% increase in pricing from just one year ago. | | | | |
| 1000 Flower Street | Glendale – Los Angeles | $326,500,000 | $908.97 | 359,197 |
| DreamWorks Animation's 14.7-acre headquarters campus was sold in a Newmark Capital Markets deal from Hana Asset Management and Ocean West Capital Partners to Brookfield REIT. The seven-building, 497,403-square-foot office campus is 100% leased to DreamWorks through 2035. | | | | |
| 2 Drydock Avenue | Seaport District – Boston | $234,500,000 | $997.87 | 235,000 |
| Two Drydock, a 71% leased and recently-delivered office building, was acquired by KKR and Synergy Investments from Skanska. Some potential investors considered the unleased office space for conversion to lab; KKR/Synergy will continue to lease the building as a traditional office asset. | | | | |
| Cascadian - 330 Yale Avenue N | Lake Union – Seattle | $164,500,000 | $779.37 | 211,066 |
| The newly constructed, nine-story office building was delivered to market in August 2021, with shell spec immediately available presenting the flexibility to covert to life science. | | | | |

## Market Statistics—All Classes (Continued on Next Page)

| | Total Inventory (SF) | Under Construction (SF) | 4Q 2021 Absorption (SF) | YTD 2021 Absorption (SF) | Overall Vacancy Rate | Average Asking Rent (Price/SF) |
|---|---|---|---|---|---|---|
| **National** | **5,001,847,724** | **83,421,008** | **983,766** | **-68,417,338** | **16.7%** | **$30.96** |
| Atlanta | 155,609,032 | 3,117,400 | 188,529 | -2,037,542 | 22.3% | $29.55 |
| Austin | 75,186,063 | 2,816,248 | -110,524 | 205,019 | 17.8% | $40.35 |
| Baltimore | 82,041,351 | 763,553 | -118,427 | -740,063 | 14.8% | $24.94 |
| Boston | 176,626,067 | 4,856,605 | 568,976 | -1,195,390 | 14.5% | $42.17 |
| Broward County, FL | 34,462,024 | 0 | 193,471 | 12,990 | 14.4% | $33.50 |
| Charleston, SC | 55,009,750 | 1,352,120 | 94,748 | 169,882 | 18.8% | $31.90 |
| Charlotte | 14,399,587 | 29,985 | -91,950 | -62,278 | 14.3% | $28.86 |
| Chicago | 245,344,609 | 3,463,878 | -77,978 | -2,925,328 | 20.7% | $31.45 |
| Cincinnati | 36,948,399 | 671,591 | -238,774 | -318,718 | 19.9% | $19.43 |
| Cleveland | 39,063,025 | 270,000 | 135,789 | -416,105 | 19.1% | $18.28 |
| Columbia, SC | 16,015,928 | 79,000 | 7,777 | -591,621 | 12.3% | $19.47 |
| Columbus | 59,192,770 | 0 | 196,065 | -1,354,452 | 14.3% | $20.36 |
| Dallas | 270,516,381 | 6,908,156 | 1,462 | -4,696,413 | 24.0% | $27.72 |
| Delaware | 16,753,306 | 0 | -50,797 | 92,297 | 18.1% | $26.04 |
| Denver | 100,593,190 | 845,793 | -428,871 | -3,092,474 | 21.5% | $28.18 |
| Detroit | 78,949,365 | 513,000 | -126,435 | -1,082,142 | 17.8% | $20.60 |
| Fairfield County, CT | 39,852,686 | 0 | 106,442 | -74,061 | 21.4% | $36.45 |
| Fresno | 21,673,999 | 8,694 | -426,062 | -582,964 | 10.4% | $19.84 |
| Greenville, SC | 21,909,662 | 486,802 | 397,733 | -49,867 | 9.8% | $22.75 |
| Houston | 243,409,060 | 3,615,241 | 81,548 | -2,278,027 | 25.1% | $29.41 |
| Indianapolis | 62,451,406 | 60,000 | 177,929 | -446,280 | 13.2% | $20.44 |
| Inland Empire, CA | 28,188,082 | 81,202 | 91,055 | 162,892 | 11.0% | $24.05 |
| Jacksonville | 32,335,469 | 24,000 | 191,141 | -54,643 | 15.3% | $21.22 |
| Kansas City | 74,389,851 | 631,852 | -327,398 | -1,433,598 | 13.8% | $21.30 |
| Las Vegas | 39,182,874 | 1,126,863 | -17,338 | 607,177 | 12.6% | $23.15 |
| Long Island | 57,594,447 | 35,700 | 326,142 | 103,669 | 9.9% | $28.40 |
| Los Angeles | 212,790,229 | 3,084,528 | 592,952 | -3,232,287 | 19.4% | $44.00 |
| Manhattan | 468,282,792 | 13,588,731 | -767,219 | -27,608,680 | 9.8% | $73.47 |

Note: Absorption is the net change in occupied space over a period of time. Data may not match totals in some Newmark metro reports due to different local methodologies. Asking rents are quoted on a full-service basis.

## Market Statistics—All Classes (Continued on Next Page)

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| Memphis | 32,974,272 | 68,177 | -131,087 | -656,068 | 16.6% | $19.69 |
| Miami | 49,129,392 | 1,035,332 | 294,543 | 25,040 | 15.1% | $42.22 |
| Milwaukee | 36,389,497 | 483,308 | -78,806 | -101,265 | 19.6% | $19.13 |
| Minneapolis | 120,739,429 | 531,000 | -366,901 | -2,359,795 | 14.7% | $25.29 |
| Nashville | 58,441,718 | 1,757,699 | 504,099 | 335,246 | 12.7% | $29.17 |
| New Jersey Northern | 167,277,614 | 121,000 | -40,366 | -2,476,503 | 20.3% | $30.07 |
| New Jersey Southern | 16,805,320 | 0 | -134,169 | -491,913 | 19.1% | $18.90 |
| Oakland/Greater East Bay | 75,941,886 | 330,855 | 453,835 | -1,603,026 | 16.3% | $39.13 |
| Oklahoma City | 20,520,769 | 0 | 11,375 | 18,696 | 16.9% | $18.12 |
| Orange County, CA | 96,131,731 | 881,821 | 26,790 | -1,399,782 | 15.9% | $33.76 |
| Orlando | 65,165,711 | 0 | 140,797 | -133,322 | 7.6% | $24.29 |
| Palm Beach | 25,632,850 | 210,000 | 154,566 | 328,749 | 12.4% | $38.48 |
| Philadelphia | 109,727,847 | 1,602,000 | 481,861 | -1,542,266 | 17.3% | $30.93 |
| Phoenix | 96,023,554 | 1,239,964 | -926,710 | -21,507 | 18.9% | $27.25 |
| Pittsburgh | 56,755,890 | 1,233,561 | -165,521 | -391,030 | 20.8% | $24.78 |
| Portland | 62,198,844 | 654,478 | 223,835 | -763,692 | 15.5% | $31.59 |
| Raleigh/Durham | 52,366,188 | 1,658,886 | 123,500 | 417,601 | 13.2% | $28.31 |
| Sacramento | 70,380,274 | 281,244 | -236,321 | -1,356,121 | 11.9% | $25.06 |
| Salt Lake City | 72,177,279 | 2,464,806 | 814,886 | 633,259 | 13.1% | $23.84 |
| San Antonio | 46,113,121 | 606,794 | -8,180 | 271,844 | 14.4% | $23.92 |
| San Diego | 72,976,070 | 2,505,297 | 488,580 | 549,737 | 14.4% | $39.72 |
| San Francisco | 87,850,954 | 772,000 | 747,323 | -3,297,912 | 15.9% | $77.82 |
| Seattle | 129,871,494 | 9,865,083 | 772,798 | -56,449 | 10.2% | $43.91 |
| Silicon Valley | 81,793,763 | 1,907,346 | 581,906 | -544,548 | 15.0% | $58.44 |
| St. Louis | 74,778,180 | 224,585 | -213,654 | -1,079,628 | 13.2% | $22.03 |
| Tampa/St. Petersburg | 62,293,169 | 27,000 | 31,679 | 386,287 | 10.5% | $27.44 |
| Washington, DC | 370,664,503 | 4,965,659 | -524,612 | -4,266,717 | 18.7% | $41.76 |
| Westchester County, NY | 27,161,634 | 0 | 153,750 | -43,864 | 19.7% | $28.44 |

Note: Absorption is the net change in occupied space over a period of time. Data may not match totals in some Newmark metro reports due to different local methodologies. Asking rents are quoted on a full-service basis.

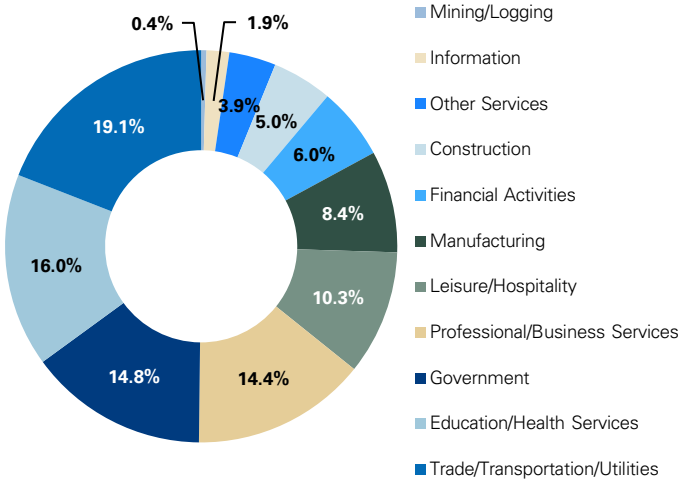
## Economic Conditions

Economic recovery in the U.S. slowed in the second half of 2021. While total employment increased and the unemployment rate continued to fall, the pace of monthly job gains slowed. In the fourth quarter of 2021, nonfarm employment grew by 0.7%, or 1.1 million jobs. This is lower the 1.8 million and 2.0 million jobs added during the second and third quarters of 2021, respectively. Despite the job gains, labor markets have recovered only 90.9% of the jobs lost between March and April 2020. Slowed employment growth has been similarly exhibited in office-using employment; non-government sectors have demonstrated stronger recovery in 2021. Office-using sectors were less severely impacted by job losses in the pandemic due to remote working arrangements. This helped support economic recovery but will likely apply downward pressure on office demand in the period ahead. Non-government office-using labor sectors have recovered 101.2% of the jobs lost between March and April 2020.

Annual inflation, as measured by CPI, has grown rapidly throughout 2021. In December 2021, total CPI and core CPI measure 7.0% and 5.5%, respectively. Inflation has been fueled by the imbalance of rising consumer demand and continued supply chain disruptions, resulting in increased costs for a variety of consumer goods. Federal Reserve Chairman Jerome Powell has stated that the Fed is prepared to raise interest rates to help curb inflation growth.

## Employment by Industry

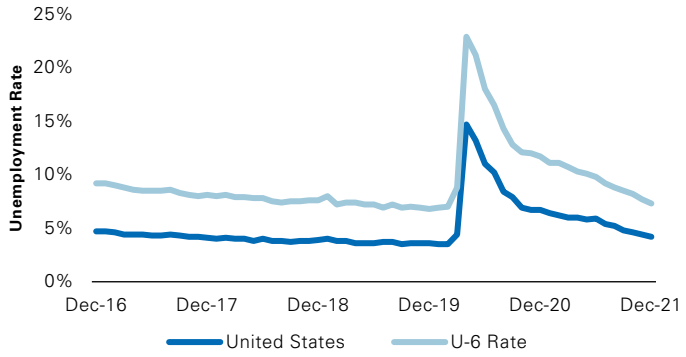
**UNITED STATES, 12-MONTH AVERAGE**




Source: U.S. Bureau of Labor Statistics, Newmark Research, January 2022

## Unemployment Rate

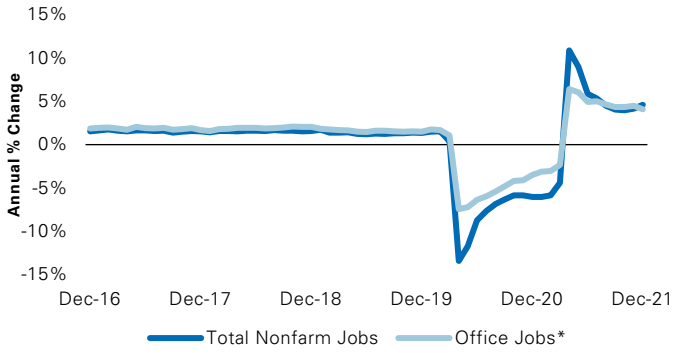
**UNITED STATES, SEASONALLY ADJUSTED**




Note: U-6 rate includes total unemployed, marginally attached workers, and those working part-time for economic reasons
Source: U.S. Bureau of Labor Statistics, Newmark Research, January 2022

## Payroll Employment

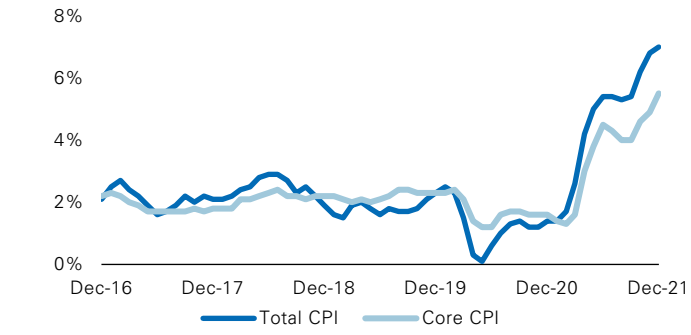
**UNITED STATES, 12-MONTH % CHANGE, NOT SEASONALLY ADJUSTED**




* Includes Professional/Business Services, Information, Financial Activities, Other Services and Government
Source: U.S. Bureau of Labor Statistics, Newmark Research, January 2022

## Consumer Price Index (CPI)

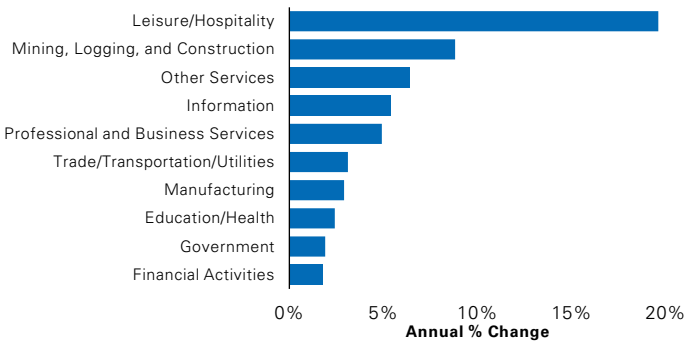
**UNITED STATES, 12-MONTH % CHANGE, NOT SEASONALLY ADJUSTED**




Note: Core CPI excludes food and energy, which can be volatile; Base period = 1982-1982
Source: U.S. Bureau of Labor Statistics, Newmark Research, January 2022

## Employment Growth By Industry

**U.S., DEC 2021, 12-MONTH % CHANGE, NOT SEASONALLY ADJUSTED**




Source: U.S. Bureau of Labor Statistics, Newmark Research, January 2022

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St. Louis

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Reno

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Milwaukee

Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Research Reports are available at nmrk.com/research.

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