

U.S. Office, Q3 2016

Suburban demand strengthens, as downtown markets slow

 Vacancy Rate
13.0%

 Lease Rate
\$31.34 PSF

 Net Absorption
5.9 MSF

 Completions
9.5 MSF

Arrows indicate change from previous quarter.
Source: CBRE Econometric Advisors, Q3 2016.

ECONOMY

STRONG OFFICE-USING JOB CREATION CONTINUES

The primary office-using employment sectors (professional and business services, financial activities and information services) added 210,000 jobs in Q3 2016. This was the largest quarterly increase this year and exceeded the average quarterly net gain of 166,000 jobs since 2010. The previously lagging financial activities sector has recorded monthly gains for more than three years.

DEMAND

NET ABSORPTION SLOWS, BUT REMAINS POSITIVE IN MOST MARKETS

Net absorption decreased by 55% year-over-year to 5.9 million sq. ft. in Q3 2016, primarily due to downtown markets registering a combined 1.8 million sq. ft. of negative net absorption. Year-to-date, however, 89% of the markets tracked by CBRE Research posted positive net absorption. Dallas/Ft. Worth, Phoenix, Seattle, New Jersey, Nashville, Detroit and Chicago ranked among the top markets for both quarterly and year-to-date absorption.

SUPPLY

CONSTRUCTION COMPLETIONS CONCENTRATED IN SUBURBS

Construction completions increased by 27.5% to 9.5 million sq. ft. in Q3 2016, with more than 80% of new space delivered in the suburbs. San Jose has the most construction underway both in terms of total square footage (12.8 million sq. ft.) and as a percentage of existing inventory (20.6%). Manhattan, Dallas/Ft. Worth, Washington, D.C., Seattle, San Francisco and Denver also each have more than 5 million sq. ft. underway.

VACANCY

SUBURBAN VACANCY RATE DECREASE OFFSET BY DOWNTOWN INCREASE

The overall vacancy rate was flat at 13% in Q3 2016, marking the 26th consecutive quarter in which it was unchanged or decreased. The suburban vacancy rate decreased by 10 basis points (bps) to 14.3%, just 40 bps above the pre-recession low, while the downtown vacancy rate increased for the third straight quarter to 10.7%.

RENTS

ANNUAL RENT GROWTH PERSISTS IN MOST MARKETS

Year-over-year gross asking rent growth accelerated to 6.3%, the fastest rate of the current cycle. Downtown annual rent growth slowed for the second straight quarter to 6.3%, but exceeded the suburban rate of 4%. Among the markets tracked by CBRE Research, 82% of downtown markets and 88% of suburban markets registered annual rent gains.