# National Office Market Update

By Victor Calanog and Barbara Byrne Denham

# The Nation's Office Market Continues to Hum Along

Judging by recent data, the pace of growth in the office market has not changed much in 2017. Overall, the office market has grown at a very steady rate throughout this expansion.

In the second quarter of the year, rents climbed 0.4 percent, slightly below the average quarterly growth rate in 2016: 0.5 percent. Office-employment growth has held steady as well, growing 0.5 percent in the second quarter and 2.4 percent on a year-over-year basis.

Indeed, companies have leased far fewer square feet per employee than they have in previous expansions, but office leasing has been steady relative to job growth. One could also argue that this current pace is healthier and less likely to lead to a major correction like the one seen in 2008-2010 following the over-exuberant leasing of 2005-2008.

Another positive story is the general consistency in office-market growth in most metros across the U.S. While eight metros posted an office-rent decline in the second quarter, the declines were very low, in the -0.1 percent to -0.4 percent range. Likewise, only three metros recorded a decline of more than 1,000 office jobs in the second quarter: (Little Rock, Chicago and Greensboro/Winston-Salem).

Moreover, the office market is not facing as much new supply as the apartment market is facing. Our current estimates show that of the 82 office markets we track, only 32 are expected to add more supply than is expected to be absorbed — to the extent that vacancy rates will increase more than 0.3 percent by the end of 2018. And only four are expected to see a vacancy-rate increase of more than 1 percent.

*Originally published by Scotsman Guide August 2017.*

**Victor Calanog, PhD CRE®** is the Chief Economist & Senior Vice President at Reis. He and his team of economists and analysts are responsible for the firm's market forecasting, valuation, and real estate portfolio analytics services. He holds a PhD in Applied Economics and Management Science, trained by a dissertation committee composed of faculty from the Wharton School of the University of Pennsylvania and Harvard Business School.

**Barbara Byrne Denham** is a Senior Economist in the research and economics department at Reis, the team responsible for the firm's market forecasting, valuation, and portfolio analytics services. Throughout her 20-year career, Barbara has written a number of white papers on the commercial real estate market.

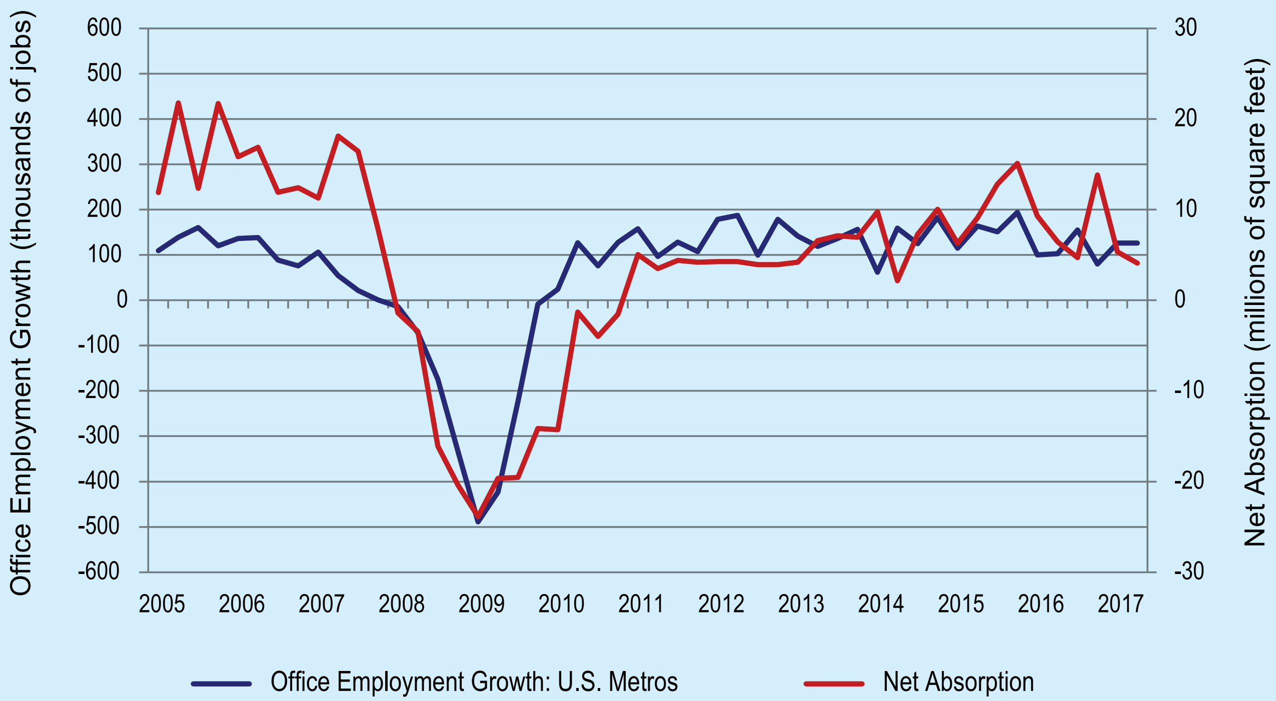
A number of the markets with significant new supply are healthy markets, such as Seattle, San Jose, Dallas and Atlanta — all of them saw rents this past quarter grow in the range of 0.4 percent (San Jose) to 1.3 percent (Seattle).

Other markets facing significant new construction include surprises such as Nashville, Charlotte, Fort Worth and Memphis. Office-rent increases in these metros ranged from 0 percent (Memphis) to 1.4 percent (Charlotte), in the quarter. Job growth, however, was mixed, with office job growth in the second quarter ranging from 0.2 percent in San Jose to 1.3 percent in both Atlanta and Charlotte. These are markets to keep an eye on.

Finally, the two markets that are most sought after, San Francisco and New York City, are also expected to add significant new construction. New York City has the lower vacancy rate, 8.8 percent, but New York is expected to add 1.9 million square feet of space this year along with 4.3 million square feet in 2018. This added supply will subdue rent growth over the next few years to a rate that is on par with the national growth rate. Likewise with San Francisco as its vacancy rate could climb above 11% from the current 10.5% this quarter.

Still, with steady job growth, overall occupancy levels should continue to expand over the next few quarters while rent growth should stay positive as well.

**Quarterly Trends in U.S. Office Net Absorption and Employment**

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Call us toll free (US) 800.366.REIS (7347)
Reis, Inc. 1185 Avenue of the Americas, New York, NY 10036

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