
THE BRIGHT SIDE OF
OFFICE
Growth Opportunities
in the Urban Core
CUSHMAN &
WAKEFIELD

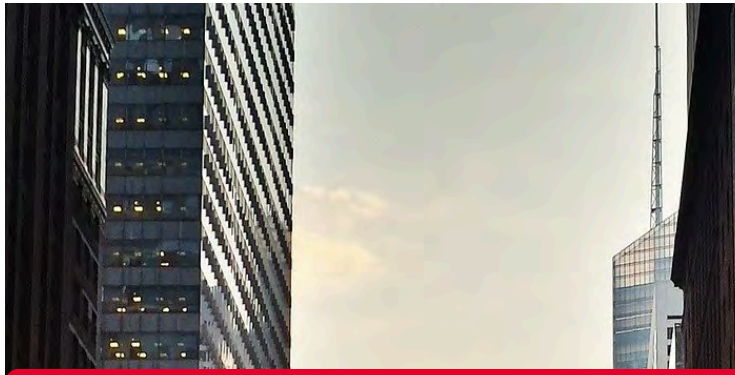


Overview

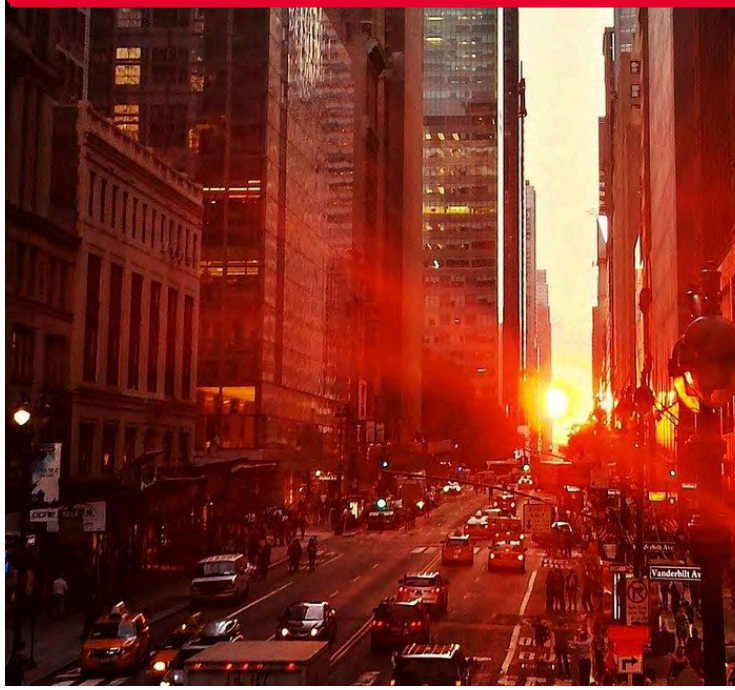
Opportunities in the Urban Core

Key Takeaways

- The urban office market faces challenges in 2024, but there are bright spots in activity.
- Some of the demographic shifts at the height of the pandemic were temporary, as people still want to live in large, vibrant cities.
- Increased remote and hybrid work is shifting occupier demand, and reducing willingness of employees to commute, but much of that impact has already filtered through the system. Portfolio right-sizing will moderate in coming years.
- Top-tier office product is very much in demand. There is going to be less new construction delivered, however, opportunities arise for renovated offices and assets slightly further down the value chain.
- Occupiers are committed to the office as a part of their business strategy, even if they are offering more employee flexibility than they did five years ago.
- Many young employees want to be in the office because it is a place for connection and personal development. To appeal to workers of all ages, the office experience should focus on sustainable practices, superior technology and inviting amenities.
- While the office job market has been lagging lately, employment growth will return. As a result, occupiers will need to provide space commensurate with their expanding headcounts.



The office is still a central part of the economy and a driver of productivity, career development, culture and innovation.



Opportunities in the Urban Core

Cushman & Wakefield has not been naïve about the current state and future of office in North America. Since 2020, the company has recognized that increased remote work would create sustained impacts on occupier demand and that the nature of office would need to evolve as a result. Cushman & Wakefield also anticipated that some portion of existing office stock would be obsolete, that the glidepath to recovery would take some time and that owners should be realistic about the outlook for 2024.

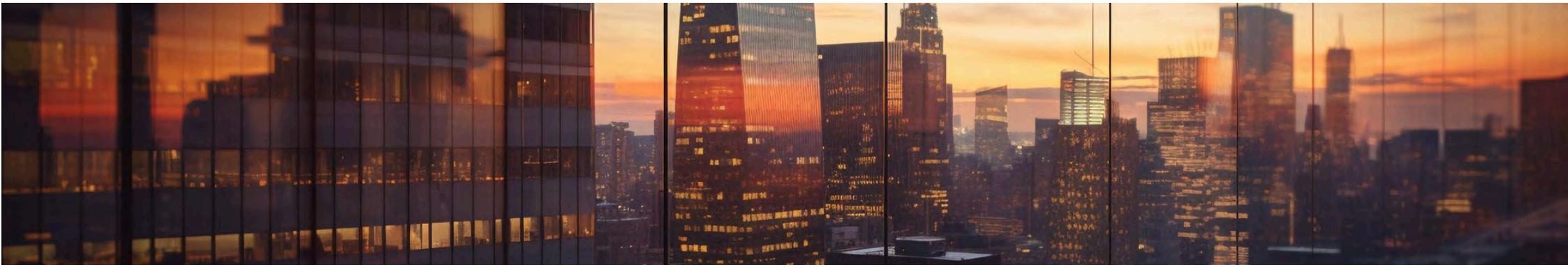
With all that stated, there are some bright spots within the office market in urban, central business districts (CBDs).

1. The population out-migration trends in large cities that accelerated early during the pandemic are returning to long-term norms.

2. The supply-side boom is quickly unwinding, and new office deliveries will be historically low in the middle of this decade.

3. Occupiers have been right-sizing their portfolios, but much of the effects of increased remote and hybrid work environments have filtered through the system.

4. Although office employment declined in the second half of 2023, it is still 1.9 million jobs above its pre-pandemic level. Once it resumes growing, look for occupiers to need more office space for their growing workforces.



The Death of Cities Has Been Overstated

The pandemic disproportionately impacted urban cores of cities. Densely populated areas were less attractive for health reasons and because many city centers were less active due to government policy, business closures and consumer behavior changes. This led to a well-documented increase in the net migration out of urban cores, especially in larger North American cities.

Not everyone, however, is leaving New York City or San Francisco to be in South Beach or Boise. In fact, net migration patterns have returned from the 2020-2021 extremes and in some cases look more promising for large cities than they did prior to the pandemic. For example, net out-migration is now 17% lower in the six U.S. gateway markets than it was in 2019.[1] Additionally, after decreasing for five years, net international immigration into the U.S. nearly tripled in 2022, breaking the 1-million mark for the first time since 2016. Net international migration increased another 48% in 2023, exceeding the 30-year historical average by 23%.[2] This is an important development because international immigration is a key driver of population growth in large North American cities.

MONTHLY NET MIGRATION IN U.S. GATEWAY MARKETS

After an exodus in 2020, population trends have returned in U.S. gateway markets



Source: Cushman & Wakefield Research analysis of U.S. Postal Service (USPS) Change of Address data

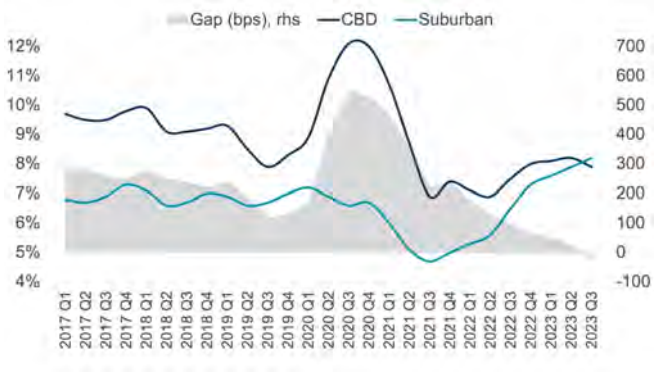
[1] Cushman & Wakefield Research analysis of U.S. Postal Service (USPS) Change of Address data

[2] U.S. Census Bureau; Moody's Analytics Estimated

All of this points to a recovering population trend in and around large North American cities. The urban core continues to be attractive to people looking for economic opportunity and vibrant, diverse places to live. Residents have flocked back to the cities. Multifamily absorption as a share of inventory has been double that of the suburbs over the past four years (16.4% vs. 8.7%).[3] National U.S. multifamily vacancy in the CBD is currently lower than in the suburbs, which has not occurred since 2012. Cities are still places where people want to live, creating opportunity for more conversions of office space to housing over the next decade.

U.S. MULTIFAMILY VACANCY RATE, CBD VS. SUBURBS

Urban multifamily vacancy is lower than in the suburbs for first time since 2012



Source: CoStar; Cushman & Wakefield Research



Occupier interest in CBD office submarkets has boomeranged slightly over the past four years. In 2019, 41.7% of Class A office leasing occurred in the CBD. That proportion dropped to 37.2% in 2021 before improving to 38.7% in 2023. Office vacancy has increased more steeply in CBDs than the suburbs, but some of that has been driven by supply-side dynamics. Nearly half (46.1%) of office deliveries over the past two years have been in the urban core even though the CBD historically only accounts for approximately one-third of total office inventory.

Even with supply-side challenges, CBD vacancy is still lower than suburban vacancy in 40% of U.S. markets. In a hybrid work environment, many occupiers continue to look at centralized, urban office locations as the best option for their workforce.

[3] CoStar

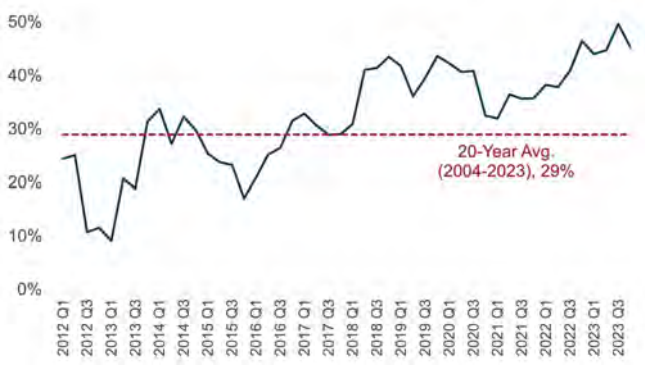
New Supply Will Slow Over the Next Few Years

Office construction activity had been gathering steam in the latter years of the last decade, and by early 2020, the under-construction pipeline was at historically high levels. New office deliveries over the past four years have been a significant contributor to growing vacancies, with 185 million square feet (msf) of office deliveries since the beginning of 2020 (representing 3.0% of U.S. inventory and 5.4% of Canadian inventory) plus another 23 msf of completed office renovations that increased inventory.

However, due to rising construction costs, labor challenges and high interest rates, the new construction pipeline is shrinking for commercial property types, including industrial, multifamily and office. Now the new office construction pipeline is at less than half of its 2020 peak, and is equal to 1.1% of current inventory, down from 2.5% in 2020 and below the pre-pandemic norm of 1.5%.

CBD SHARE OF NEW CONSTRUCTION, 4-QTR. ROLLING

Office deliveries in CBD have been elevated since 2018



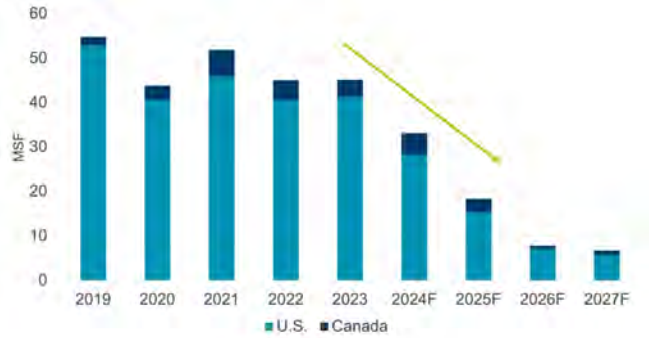
Source: Cushman & Wakefield Research

Construction activity has been occurring disproportionately in the urban core. At the beginning of 2020, the CBD construction pipeline was 3.9% of existing inventory, while in the suburbs the equivalent of 2.0% of inventory was under construction. In CBDs, 4.1% of current inventory is comprised of space delivered over the last four years while outside of urban cores, just 3% is. This elevated construction activity creates opportunities for occupiers looking for the best office product, but it has also put upward pressure on CBD vacancy rates as new construction has accounted for over 40% of the increase in vacancy over the past four years.

Office construction activity is slowing and will continue to moderate through the middle of the decade. In fact, over the next four years, the North American office market is forecast to deliver just over one-third of the space that came online since 2020 (66 msf vs. 185 msf).

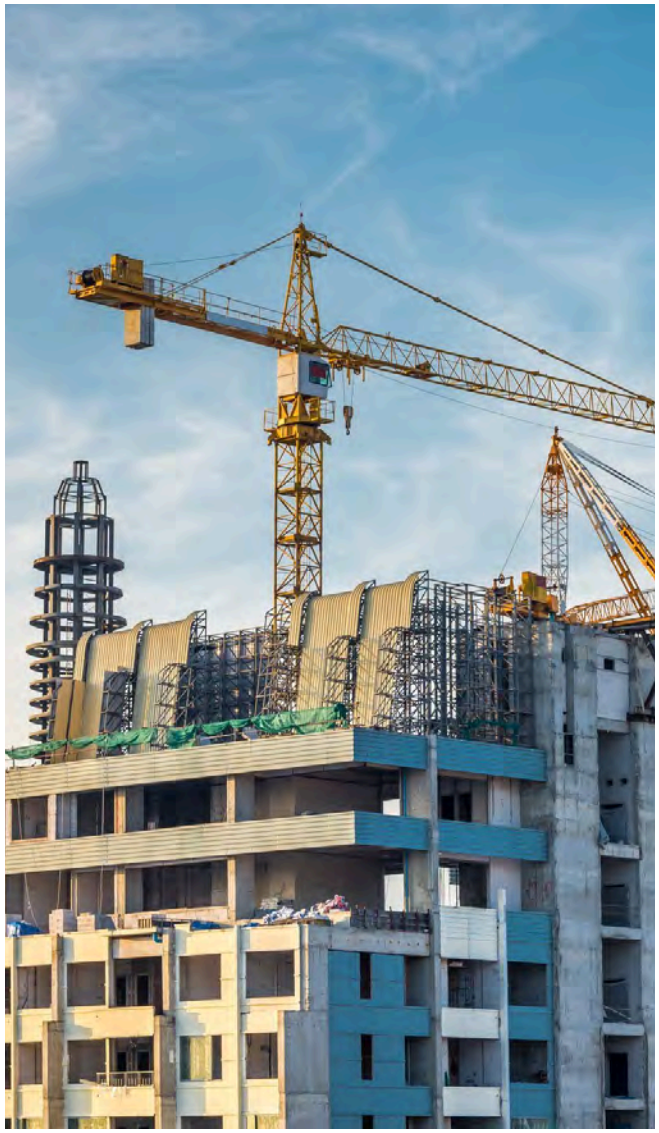
PACE OF NEW OFFICE DELIVERIES TO PLUMMET

Total square footage of office deliveries in U.S. & Canada by year



Source: Cushman & Wakefield Research

The effects of this are twofold. First, occupiers will have fewer options for leases in the newest and best spaces since there will be less new construction. Second, owners will have an opportunity to fill in the high-quality office market by renovating and upgrading existing space over the next few years. Not surprisingly, the amount of office buildings undergoing significant investment and renovation has doubled since 2019.



Occupiers Are Still Committed to the Right Type of Office

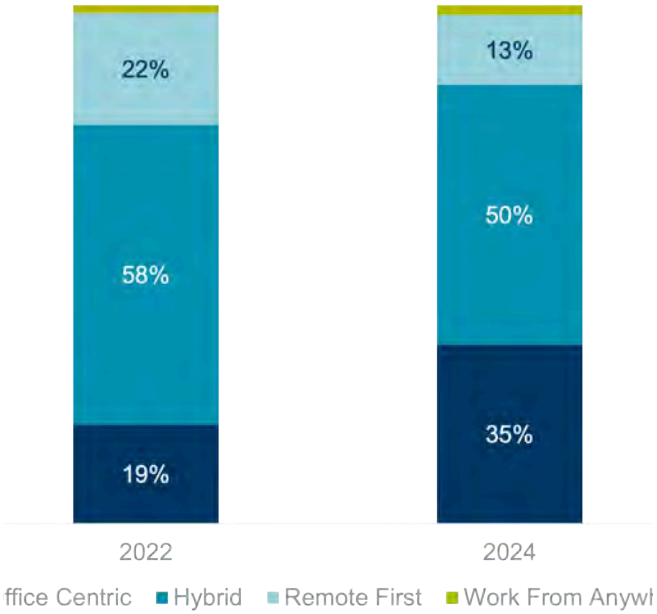
Although the amount of remote work is structurally higher than it was in 2019, the majority of companies are moving forward with hybrid workplace strategies that have employees splitting time between being in the office several days a week and working remotely. The net impact of hybrid work policies on space needs is much smaller than when employees shift to 100% remote work, and fully remote workplace strategies continue to be an outlier among North American companies.

There is reason to believe that much of the impacts of increased hybrid and remote work have worked their way through the system. Organizations with stated workplace policies are still leaning heavily on hybrid work ecosystems, with 50% of the firms tracked by Cushman & Wakefield Research currently utilizing a hybrid structure. However, that is down from 58% in 2022, and the share of companies with an office-centric (i.e., 3+ days per week in the office) workplace policy has increased from 19% to 35%.

As companies change their policies, they almost always shift towards *more* in-office work, not less. In fact, over one-third of firms that were "remote-first" in 2022 have shifted to either hybrid (25%) or office-centric (11%) policies. One-fourth of organizations that were hybrid in 2022 have shifted to be office-centric over the past two years. All of this points to the fact that companies may be past "peak remote" work, as most occupiers are focused on how they optimize in-office attendance along with employee flexibility to maximize productivity, career development, innovation, culture and employee engagement.

COMPANIES SHIFTING TOWARDS MORE IN-OFFICE WORK

Share of companies with each workplace strategy in 2022 and 2024



Source: Cushman & Wakefield Research



According to a current survey being conducted in partnership between CoreNet Global and Cushman & Wakefield, office occupiers expect to shrink their overall office portfolios by just under 3% on average in 2024. This magnitude of tenant downsizing countered by new entrants to the leasing market lines up with our U.S. Macro Outlook published in December in which our base case scenario calls for an increase of vacancy of approximately 160 basis points (bps) this year before national vacancy declines in 2025. When economic uncertainty fades and office job growth picks up again, expect occupancy to stabilize and absorption to turn positive.

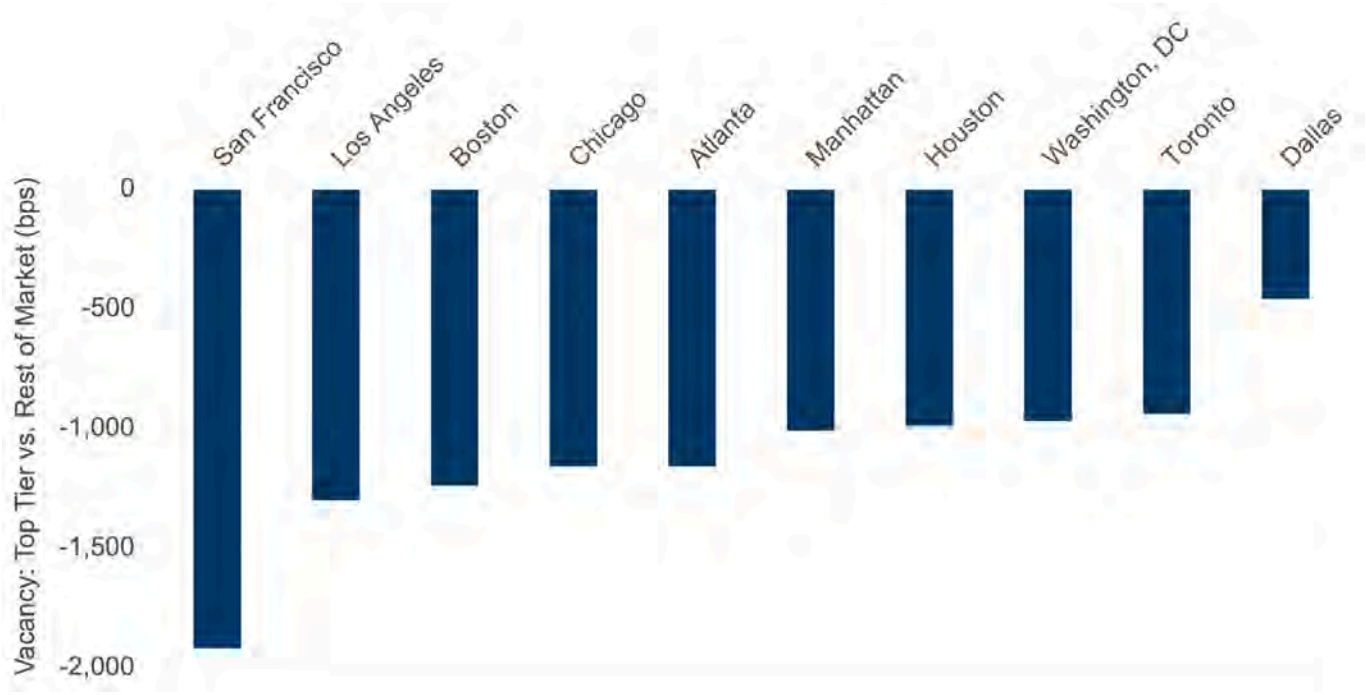
Cushman & Wakefield is already seeing some positive glimpses in the data. In 2023, 44% of renewals over 15,000 sf were expansions—that is, occupiers renewed in place and increased their square footage in the building. One-third of renewals were completed with the exact same amount of space, leaving less than one-fourth of office renewals that were signed for less space this past year. The local market sections of this report highlight some of the most significant occupier expansions that occurred in the past two years—instances where tenants are doubling down on the office in key urban corridors of North America's largest cities.

Overall gross asking rents at top-tier assets are 51.5% higher than the rest of the office space in gateway markets. Vacancy rates in North American top-tier office assets (excluding lease ups) are 530 bps lower.

Of course, this demand is not equally shared across office product. The real winners over the past four years have been offices that are newly constructed, recently renovated and/or offer the latest in amenities for its occupants. This top-tier office space, however, only accounts for 10%-15% of total inventory. While small, this section of the market is clearly outperforming. Vacancy rates in North American top-tier office assets (excluding lease ups) are 530 bps lower. Quality matters even more in large cities; vacancy in top-tier office properties in gateway markets is 700 bps lower than the rest of the market.

CBD VACANCY SIGNIFICANTLY LOWER IN TOP TIER ASSETS

Top tier vacancy vs. reset of office market for select markets, bps difference



Source: Cushman & Wakefield Research

The Office Economy Will Recover

Job growth numbers surprised to the upside throughout 2023, but this masks the fact that U.S. office-using employment declined by nearly 90,000 jobs in the second half of the year. Employment gains in late 2023 were concentrated in other sectors, many of which were slower to recover from the effects of the pandemic: leisure and hospitality, government, education and healthcare, for example.[4] Office employment is already in a recession.

Even when office-using employment was experiencing strong growth (approximately 3 million office jobs were added in 2021 and 2022), the relationship between employment and office demand had been dislocated.

In other words, even with positive job creation, tenants were not increasing the square footage of their occupancy, as they right-sized portfolios and adjusted to new hybrid paradigms of work. This negative correlation will not last forever.

Cushman & Wakefield forecasts that after a moderate recession in 2024, office employment in the U.S. and Canada will recover in 2025, ending next year with approximately 2.5 million more office workers than at the end of 2019. Lower interest rates than today will help the housing and financial services sectors recover, while artificial intelligence will supplement employment for North American technology firms.

Another 1.8 million office jobs will be created in the second half of the decade, and tenants will find themselves needing more office space to support their teams. In fact, the Cushman & Wakefield Macro Outlook forecasts 67 msf of positive absorption in the U.S. and Canada between 2025 and 2027. Urban cores have a higher share of office-using employment. Housing density, walkability, public transit access and highly amenitized neighborhoods will continue to drive agglomeration effects, attracting college-educated residents, young employees and office workers.

[4] U.S. Bureau of Labor Statistics

Research Contacts

David Smith
Head of Americas Insights
Global Research
david.smith4@cushwake.com

Richard Persichetti
Americas Markets Research Leader
richard.persichetti@cushwake.com

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Atlanta

Creating Opportunity in Atlanta



Why Atlanta?

Home to world-class universities such as Emory and Georgia Tech, Atlanta is exceedingly attractive to companies seeking access to talented, diverse, and highly educated young professionals—with 17 Fortune 500 companies having established headquarters in the metro area. Complementing the city’s strong workforce are favorable tax incentives and regulatory policies, both of which have further enticed companies to expand in the region.

Atlanta’s relative affordability over higher-cost, high-tax markets has also played an integral role in its ability to thrive, spurring robust in-migration in recent years and helping the region outpace the national economy’s growth trajectory. Further aiding the region’s in-migration is its vibrant cultural and entertainment scene that has contributed to the rapid transformation of Atlanta's urban core over the past decade. Atlanta’s most visible change has been to Midtown, the epicenter of Atlanta’s big tech employment boom.

Local Economy/Job Growth

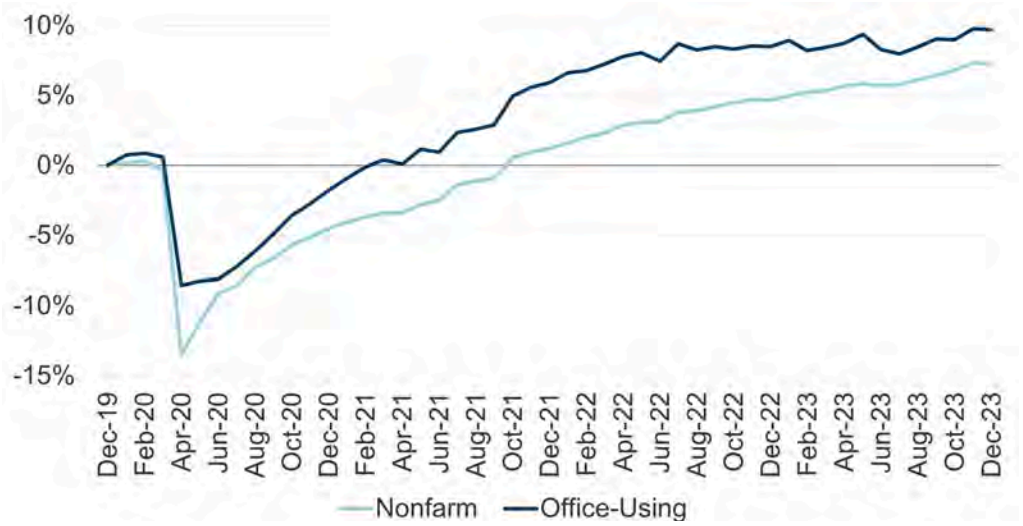
Metro Atlanta payroll increased by 2.5% annually in November 2023 as local employers added 76,500 jobs. Strong job gains in November occurred despite a hiring slowdown in the information and business/professional services sectors, which contracted by 3.6% and 0.9%, respectively. Job losses were offset, however, by a 5.3% uptick in financial services employment. This increase comes as several major financial services companies plan expansions in Atlanta, including Morgan Stanley, Trimont and American Express.

Robust job creation also occurred in education and health services, which expanded by 7.1% year-over-year (YOY). Close behind, the leisure and hospitality sector added jobs at a rate of 6.7% in November YOY, buoyed by recent growth in business travel.

Amid sustained employment creation, Atlanta registered a 172% increase in annual net migration, jumping from 21,800 people in 2021 to 59,443 in 2022. Of those who moved to Atlanta last year, 37% were from other countries. Driven by Atlanta's popularity, the state of Georgia recorded the fifth-highest net gain of residents in the U.S. YOY in 2022. The most common states for new residents to relocate from were Florida, California and Texas.

EMPLOYMENT

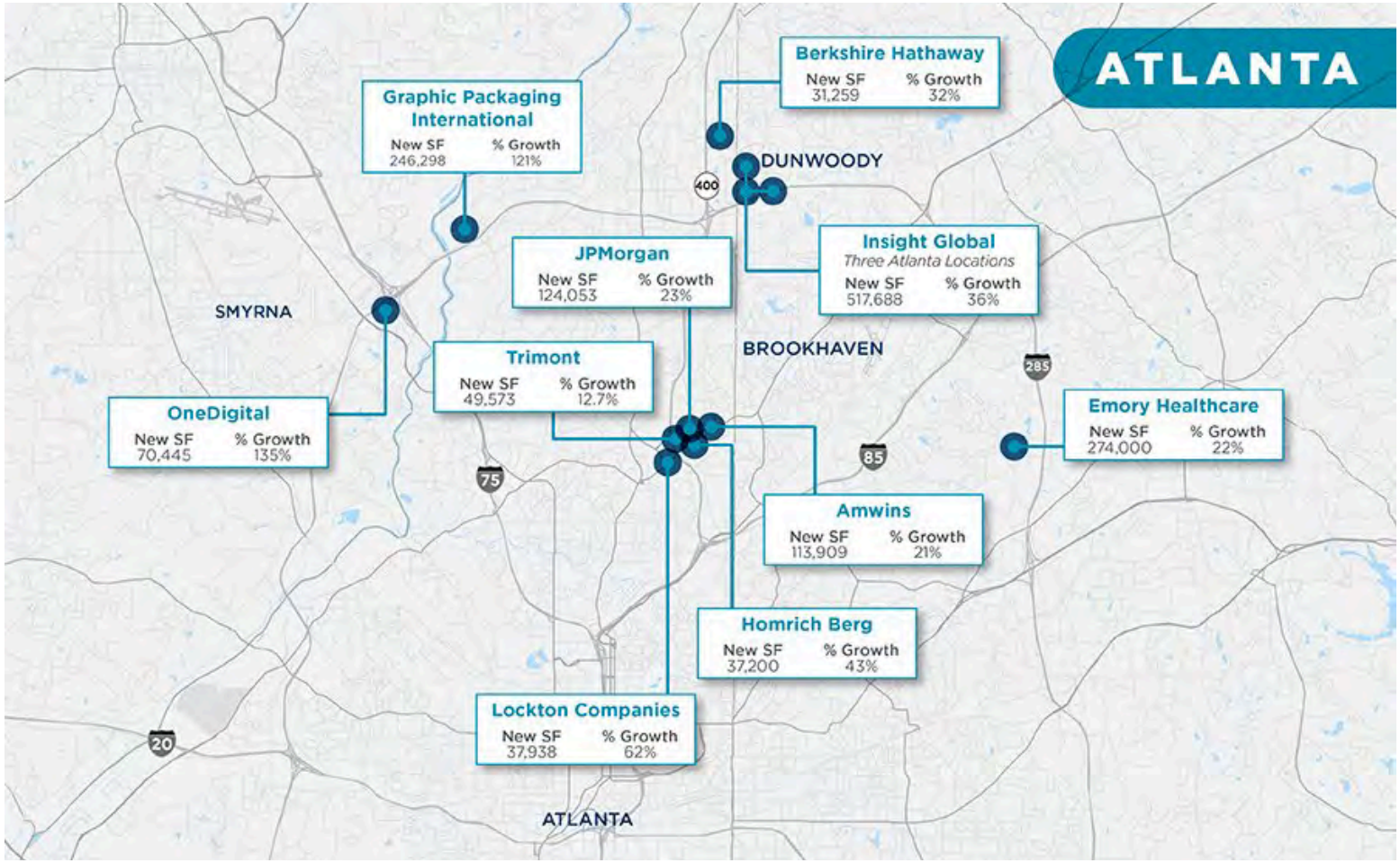
Nonfarm Payroll vs. Office-Using, % Change Since December 2019



Source: U.S. Bureau of Labor Statistics

Tenant Expansions

As tenants right-size, many companies across a wide range of industries are opting to expand their footprints in Metro Atlanta with professional services and finance/insurance firms representing the largest share of expansions between 2022 and 2023. PGA TOUR Superstore, Hexagon's Xalt Solutions and Kimley-Horn recorded the greatest percent increase in their footprints, with increases of 262%, 207% and 194%, respectively. Insight Global, Emory Healthcare and Graphic Packaging International are some of the largest office tenants with expansions across the metro, adding over 300,000 sf of space.

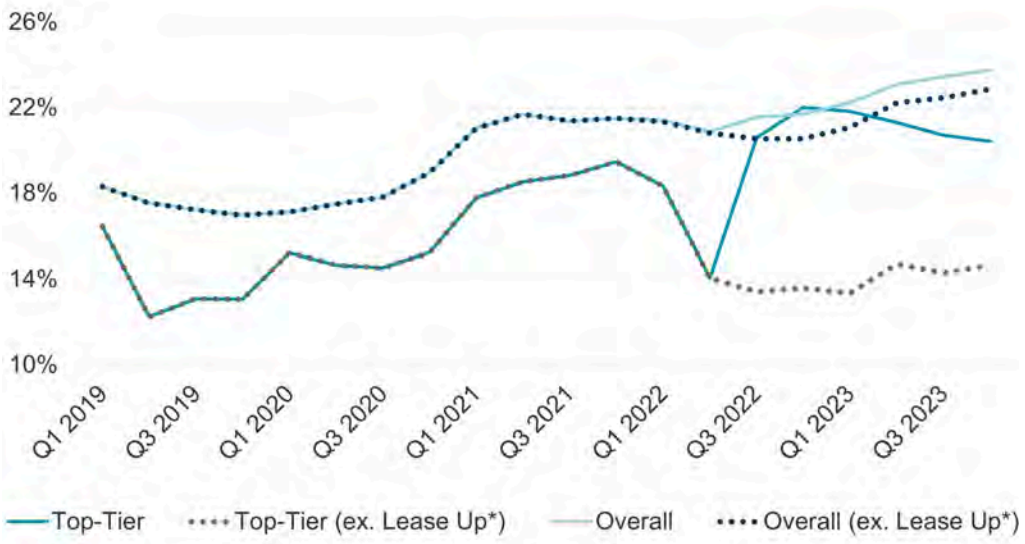


Flight to Quality

As companies reevaluate their office footprints, interest in Metro Atlanta's top-tier buildings outpaced activity in the remainder of the region's inventory. While many tenants are rightsizing, they are also seeking space within the highest-quality buildings with ample access to amenities, even if it comes at a premium.

Since the onset of the global pandemic and the emergence of remote and hybrid work models, tenants have leased 26.0% of the city's top-tier inventory, 16.2% of the remaining Class A building inventory, and only 12.9% of the Class B and C segments. Of the new leases signed since 2020, the top five largest transactions all occurred in top-tier buildings, accounting for a combined 1.9 million square feet (msf) of space: Carvana, Google, Microsoft, MailChimp, and Truist Bank.

SUPPLY
Top-Tier vs. Traditional Vacancy



*Does not include buildings built after 2021

Source: Cushman & Wakefield Research

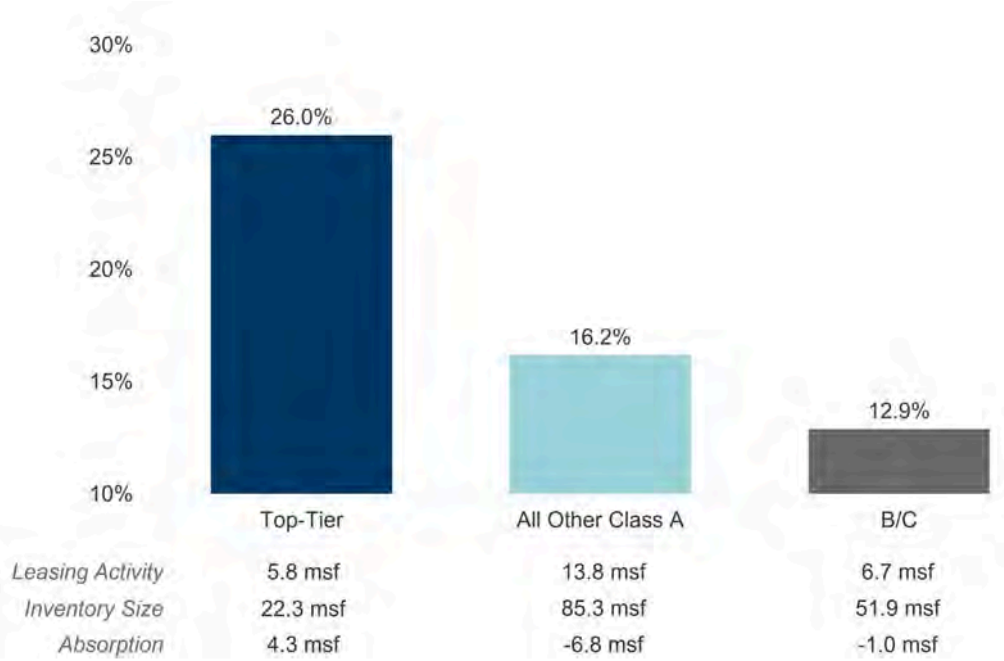
Flight to Quality

Atlanta's occupancy followed a similar trend. Despite most U.S. office markets registering net occupancy losses over the last several years, Atlanta's top-tier building segment recorded 4.3 msf of positive net absorption from 2020 to 2023. All Other Class A and B/C sets recorded negative occupancy during that time.

Vacant space was also tightest in Atlanta's highest quality buildings. While vacancy reached 20.4% in the top-tier building set, including those still in their lease up period, the rate still maintained 332 basis points (bps) lower than the overall building set. Excluding new deliveries in their initial lease-up period, top-tier vacancy rates totaled 14.7% in the third quarter—820 basis points (bps) lower than the overall Metro Atlanta building set.

DEMAND

New Leasing as % of Inventory: 2020-Present



Source: Cushman & Wakefield Research

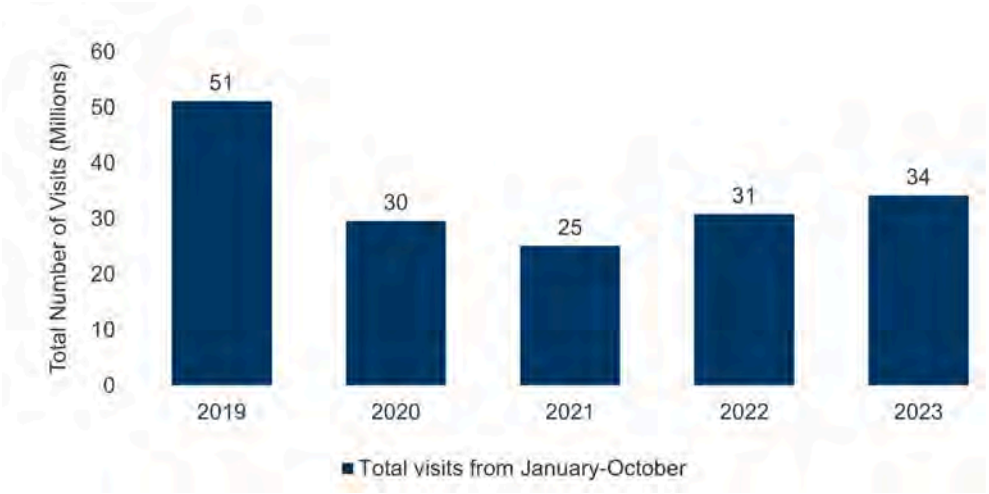
Return to Office

Understanding return-to-office trends has been key to assessing the health of Atlanta's office market, and Cushman & Wakefield Research has gathered foot traffic data for 160 office buildings across Metro Atlanta from January 2019 to October 2023.

On an annual basis, and aggregated for all 160 buildings, the data indicates that foot traffic has grown steadily since 2021 but has yet to reach pre-pandemic levels of 2019. Between 2021 and 2023, Metro Atlanta recorded a 36.2% increase in office building visitors. This trend is similar across both suburban and urban office product. The CBD reported a 36.7% increase in visitors while non-CBD buildings reported a 35.4% increase during that time.

Submarkets with the most significant declines in visitors after the onset of the pandemic have rebounded the most over the last three years. Central Perimeter, a suburban market, documented a 76.1% jump in visitors between 2021 and 2023—the most of any submarket. The uptick followed a 66.8% decline in visits after the pandemic, also a metro high. Buckhead, Atlanta's northern most submarket in the urban core, recorded a 56.6% drop in visits during the pandemic, but yielded the second highest uptick of 44.0% since the recovery. Conversely, Midtown—Atlanta's premiere urban submarket—lost the fewest visitors after the pandemic, and thus reported a smaller relative increase in visits since 2021 (31.3%).

FOOT TRAFFIC
Visitors Across Metro Atlanta: 2019-2023



Source: Placer.ai

While Atlanta buildings have not yet reached pre-pandemic foot traffic levels, the consistent increase each year in the recovery could indicate stabilization in the office market over the next several years.

Research Contacts

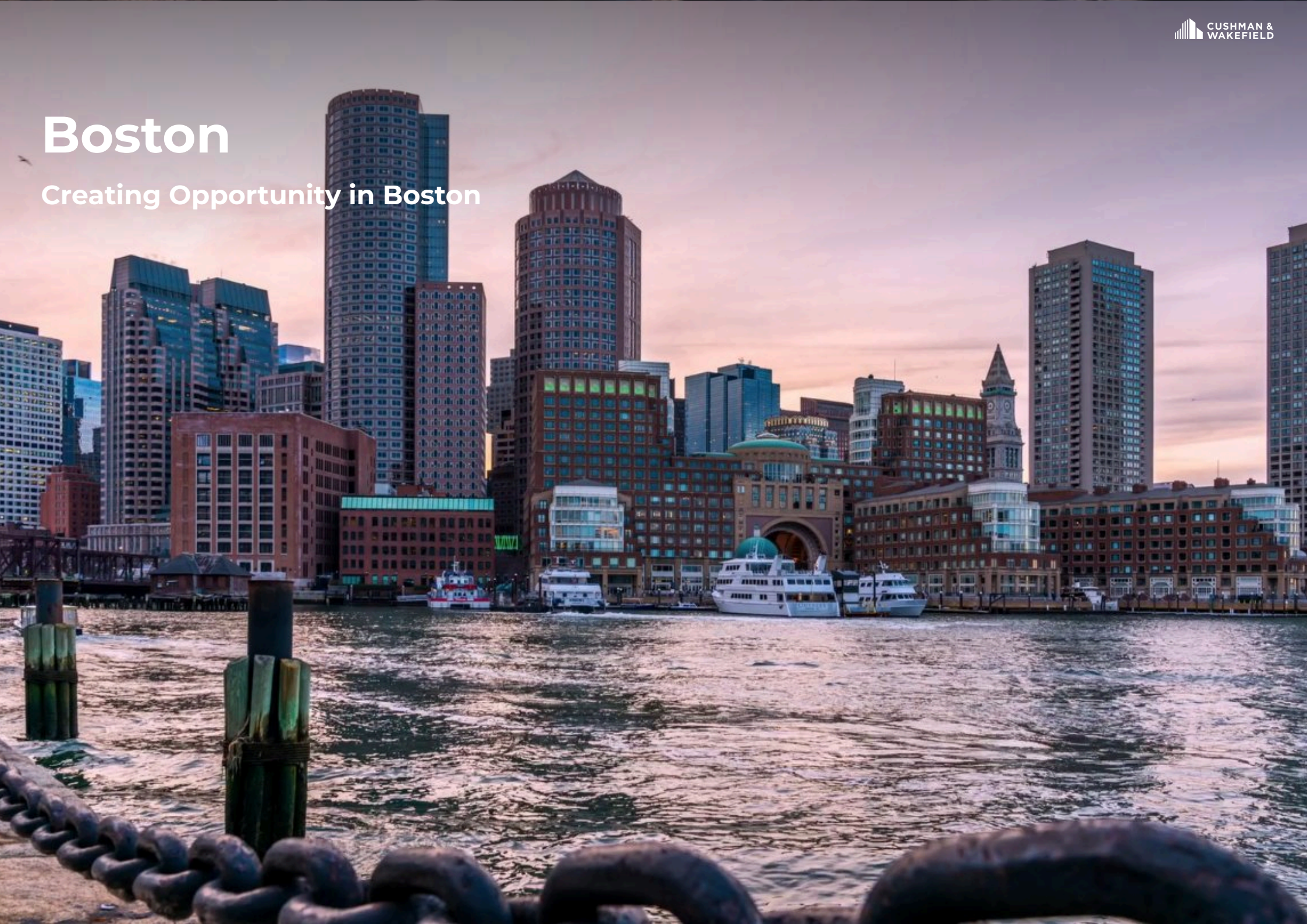
Audrey Giguere
Research Manager, Atlanta
audrey.giguere@cushwake.com

Maija Sunnarborg
Research Analyst, Atlanta
maija.sunnarborg@cushwake.com

Alex Kaplan
Senior Research Analyst, Atlanta
alex.kaplan@cushwake.com

Christa DiLalo
Research Director, Southeast
christa.dilalo@cushwake.com




CUSHMAN &
WAKEFIELD
Boston
Creating Opportunity in Boston

Why Boston?

Greater Boston, the 11th largest metropolitan area in the U.S., is home to one of the most educated workforces in the nation. Of its population of more than 4.9 million, 51.4% of residents hold a bachelor's degree or higher and the city boasts one of the highest concentrations of colleges and universities globally, many of which, including Harvard and the Massachusetts Institute of Technology, are world-renowned for producing premier talent. Although higher education, biotechnology, finance and healthcare are the market's leading drivers—education and healthcare employ more than one of every five workers. Unsurprisingly, Massachusetts ranks in the top three best states for both industries according to U.S. News.

In addition to traditionally stable economic sectors, the market recently recorded tremendous growth in the life sciences and technology industries, with Massachusetts-based startups raising a healthy $19.5 billion in venture capital funds in 2022. The commitment of VC funding to the Boston area continues to exceed pre-pandemic levels. Further, Boston consistently tops the list as the largest recipient of funding from the National Institutes of Health, a distinction it's held for the past 25 years. Seventeen Fortune 500 companies are headquartered in Greater Boston, notably General Electric, Liberty Mutual Insurance, and Thermo Fisher. Anchored by its vibrant urban core, sustained high employment levels and wealth of young and motivated talent, the region is poised for continued success.



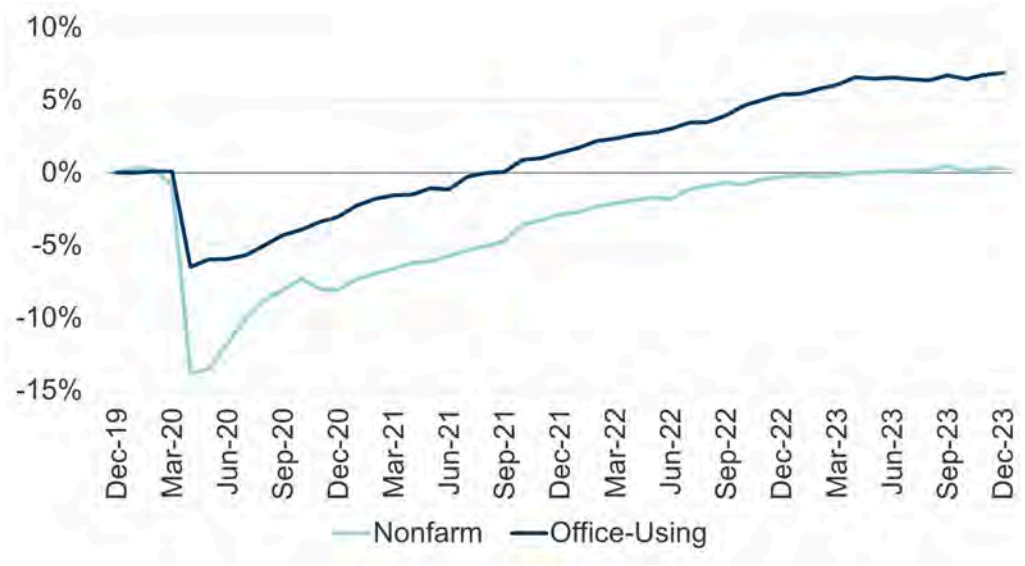
Local Economy/Job Growth

Boston recorded low unemployment rates in comparison to other major markets in recent years, a sign of a strong labor market throughout the city. In the past few years, employment continued to grow, reaching nearly 2.87 million jobs in October 2023. Although employment continued to thrive, migration posed a challenge for the Boston economy. USPS address data showed Boston trending towards outward migration over the past three years. These levels of outmigration, however, have begun to stabilize to below 2018 levels in recent months.

Consumer spending is at an all-time high in Boston, signaling a rebounding economy. Having steadily increased over the past five years, excluding 2020, this spending recorded a record-high of $356M in Q4 2022, significantly higher than pre-pandemic levels. The city's economy is well-positioned for future growth as it maintains its reputation for top-tier colleges and universities, while drawing in companies seeking a skilled workforce. New developments also provide ample opportunity for a thriving economy as new large-block users are drawn to Boston's talent-rich environment. Lego's headquarters move from Connecticut to Boston, for example, reveals the strength of the Boston market as it leads the way for more companies to follow.

EMPLOYMENT

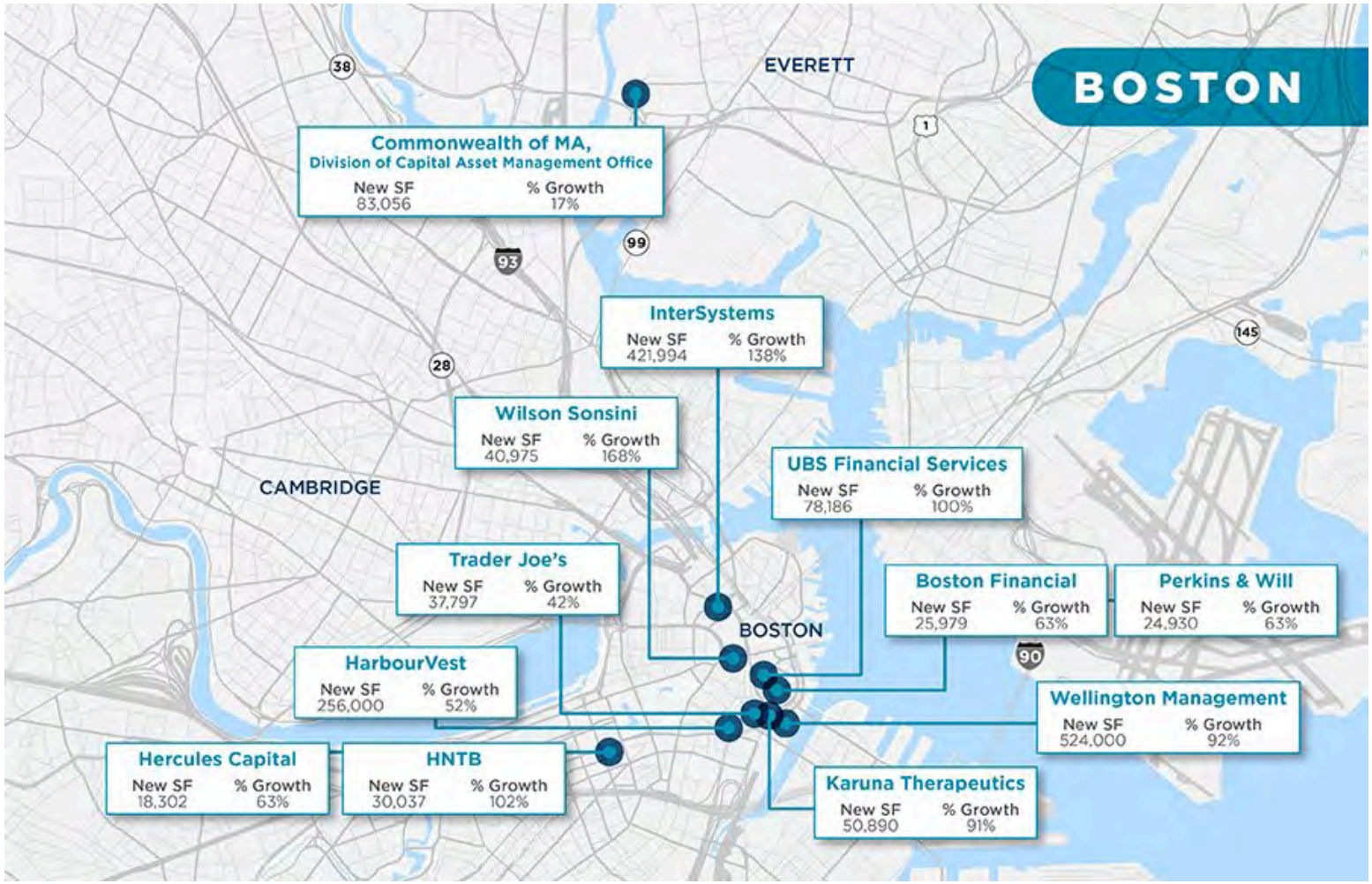
Nonfarm Payroll vs. Office-Using, % Change Since December 2019



Source: U.S. Bureau of Labor Statistics

Tenant Expansions

Despite the pandemic-induced period of contraction, in which many users downsized amid remote and hybrid work trends, some users have leveraged tenant-favorable market conditions to expand their footprints. While occupiers in the technology and retail/ wholesale sectors shed excess space leased from prior cycle-highs in anticipation of future growth, tenants in traditionally reliable office-using sectors proved their worth in maintaining economic stability. Five financial firms expanded by an average of 66.6% in the past two years, some exceeding 100%, with legal, government, and biotech also noting growth among their tenant bases.

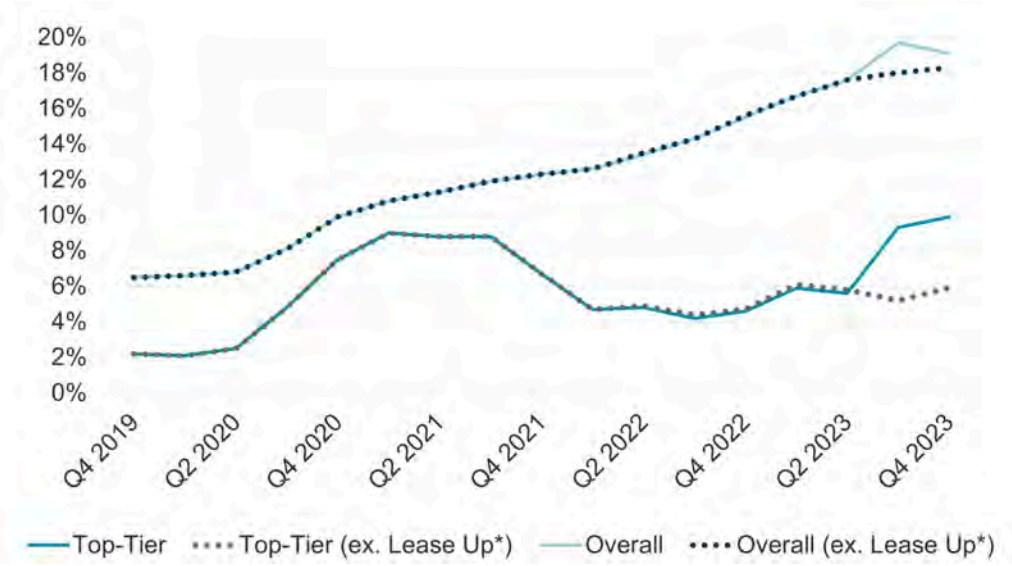


Flight to Quality

The post-pandemic return-to-office push has emerged as one of the dominant drivers in Boston's office market, further accelerating and amplifying occupier preference for highly-amenitized, well-located office space to lure employees back to in-person work. From "earning the commute" to creating work environments that serve as a "magnet" for employees rather than a "mandate" to return to the office, space in top-tier office buildings has become a crucial tool for employers in their efforts to return their workplaces to pre-pandemic occupancy levels.

Though vacancy in top-tier buildings hit a recent high of 10.6%, it marked the first time vacancy had surpassed 10.0%, and, more notably, is still 780 basis points (bps) lower than the average vacancy in other Class A buildings not considered top-tier. The gulf in demand between the top-tier group of buildings in Boston and the overall Class A market is most astounding when viewed through the lens of absorption. Since the start of 2020, Boston's top-tier buildings have collectively recorded 2.3 million square feet (msf) of positive net absorption, while non-top-tier Class A buildings posted nearly 7.8 msf of net absorption losses over the same period.

SUPPLY
Top-Tier vs. Traditional Vacancy



*Does not include buildings built after 2021

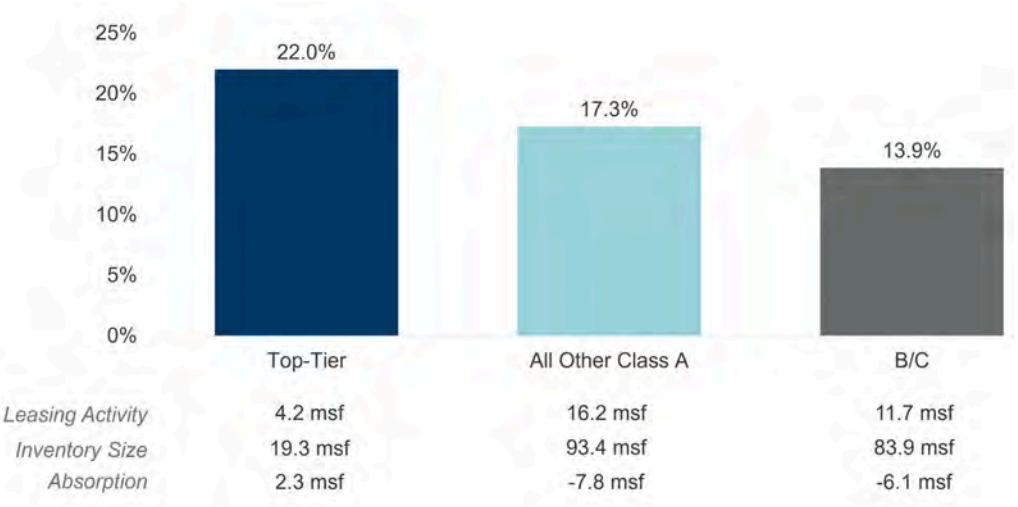
Source: Cushman & Wakefield Research

Flight to Quality

More than 4.6 msf of new inventory has been delivered across Boston's office market since the start of 2021, 80.0% of which is currently occupied. Much of the activity in these new assets has been from users who relocated from older, less-amenitized buildings elsewhere in the market, putting further upward pressure on vacancy rates in older product. Despite the record-breaking flurry of completions, nearly 2.5 msf remains under construction. While already 44.5% preleased, this new inventory will provide attractive opportunities for occupiers who want to take advantage of favorable market conditions to seize top-tier space. Lego is one such company, recently announcing plans to move its headquarters from Connecticut to the under-construction 1001 Boylston Street development in the Back Bay where its logo will soon adorn the highly-visible building above the Massachusetts Turnpike.

DEMAND

New Leasing as % of Inventory: 2020-Present



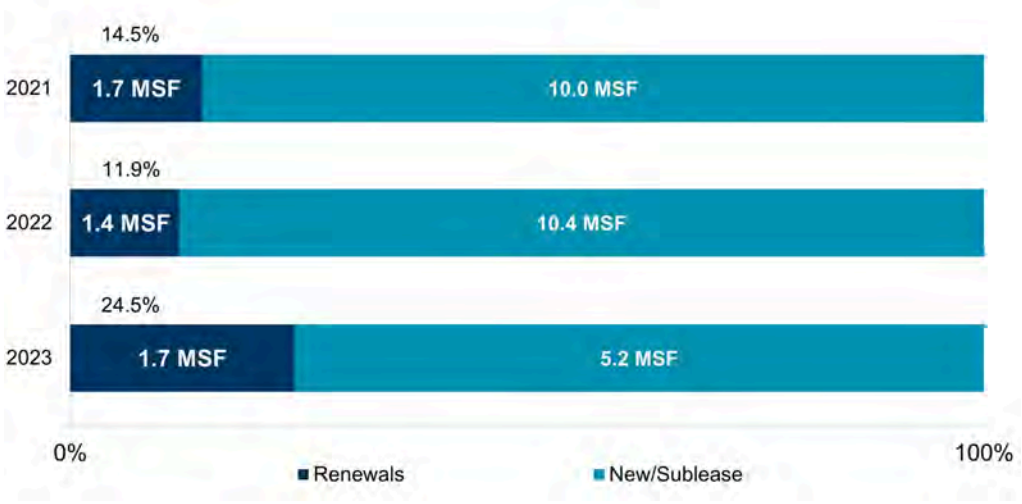
Source: Cushman & Wakefield Research

A Robust Lease Renewal Trend

Though many tenants opted to divest large blocks of space over the past three years amid uncertain market conditions by either terminating leases or putting space on the sublease market, others have taken a different approach, choosing to renew-in-place and retaining the same square footage over downsizing. In a testament to the strength of some occupiers' spaces in the market, each of the largest transactions of the year in 2021, 2022 and 2023 were renewals of 300,000 sf or more. Most recently, MFS Investment Management inked a deal to remain in its 300,000-sf space at 111 Huntington Avenue in Downtown Boston's Back Bay–a nod to the strength of the highly walkable, transit-connected and amenity-rich submarket, as well as the stability of users in the traditionally reliable financial services sector.

As new demand slowed in Greater Boston's office market, the share of renewals across all transactions increased. In 2021, renewals comprised 14.5% of total office transaction volume, falling even lower in 2022 at just 11.9% of activity when three of the five largest transactions of the year were preleased in under-, or yet-to-be constructed assets. In 2023, renewals accounted for nearly one-quarter of total leasing volume in Greater Boston, a 1,260-bps spike over the prior year. Since the start of 2023, nearly 40 tenants occupying spaces 10,000 sf or larger have renewed for an average of 39,000 sf each, substantially larger than the average 26,000-sf

RENEWALS
Share of Renewals Across Total Leases



Source: Cushman & Wakefield Research

blocks taken in new transactions in the same size range. In accordance with the overall flight to quality, users occupying space in Class A inventory were far likelier to renew than those in Class B. Of the 5.2 msf of renewals recorded from 2021-2023, a stunning 73.5% were concentrated in Class A assets, as tenants continued to demonstrate a clear preference for high-quality space.

Research Contacts

Riley McMullan
Senior Research Manager, Boston
riley.mcmullan@cushwake.com





Chicago

Creating Opportunity in Chicago

Why Chicago?

As the third-largest metropolitan area of the U.S.—home to 9.6 million people, 2.7 million residing within the city limits[1]—Chicago's diverse labor pool, central location, infrastructure, and quality of life combine to make the city an economic powerhouse.

Chicago is a top destination for recent Midwest college graduates, regularly contributing to the 44.3% of the city's population having a bachelor's degree or higher. These young professionals tend to reside in the neighborhoods surrounding the city's core, further supporting a thriving retail and multifamily market. Additionally, Chicago's central location and robust infrastructure play an important role in its economic vitality. Home to an expansive highway system, significant multimodal rail access and two international airports, the region boasts superior access to global markets and consumers. Within the city limits, Chicago boasts an extensive public transit system that promotes accessibility to the majority of surrounding neighborhoods and residential areas. Chicago offers residents and visitors countless cultural activities and is truly a live-work-play city. These attributes combined with a relatively low cost of living when compared to other major markets makes Chicago a prime candidate for both residential and business growth.

[1] US Census Bureau

Local Economy/Job Growth

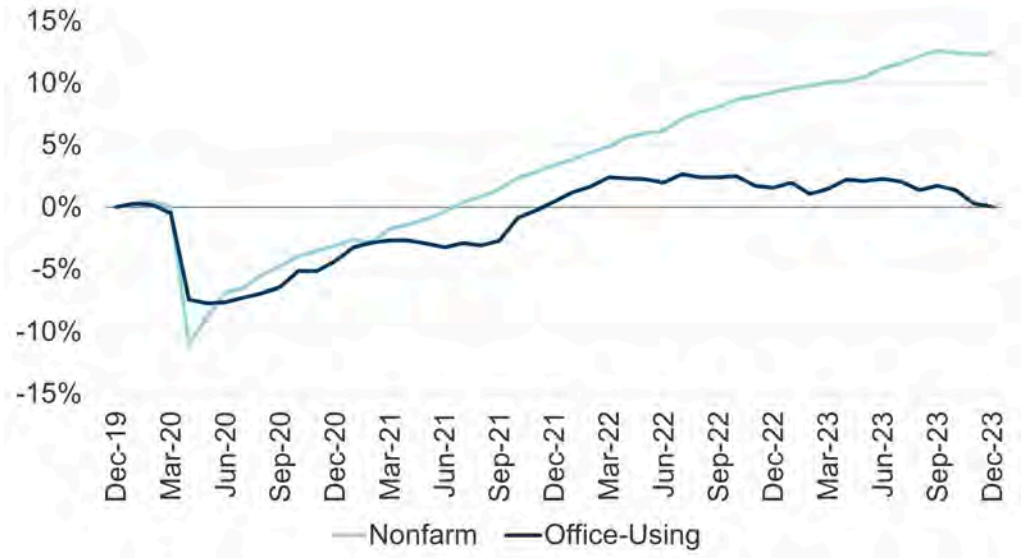
As one of the most diverse economies in the U.S., Chicago's economic climate remained stable throughout much of 2023. Emphasizing this resiliency, the Chicago metro area retained its number one spot for the 10th year in a row as the Top Metro in the U.S. for Corporate Relocation and Site Selection based on an annual study conducted by Site Selection Magazine.

Total non-farm employment increased by 13,300 jobs between January and October 2023, up 0.3%. Over the same period, office-using employment lagged, down 0.7%. The business/professional services and information sectors lost jobs through October 2023, down 11,900 and 6,600 year-over-year (YOY), respectively. While these sectors recorded a decrease in job growth over 2023, they are collectively up 5.2% over the pre-pandemic high. The financial services industry added 4,400 jobs over the last 12 months, up 1.4%. Education and health services employment grew by 4.6% during the same period, increasing by 35,400 jobs.2

The unemployment rate fell an additional 30 basis points (bps) from January 2023 to 4.4% in October, well below the April 2020 peak of 18.4%. Consumer spending reached its highest recorded level at year-end 2022, up 34.4% from Q2 2020 to $564 billion.

EMPLOYMENT

Nonfarm Payroll vs. Office-Using, % Change Since December 2019

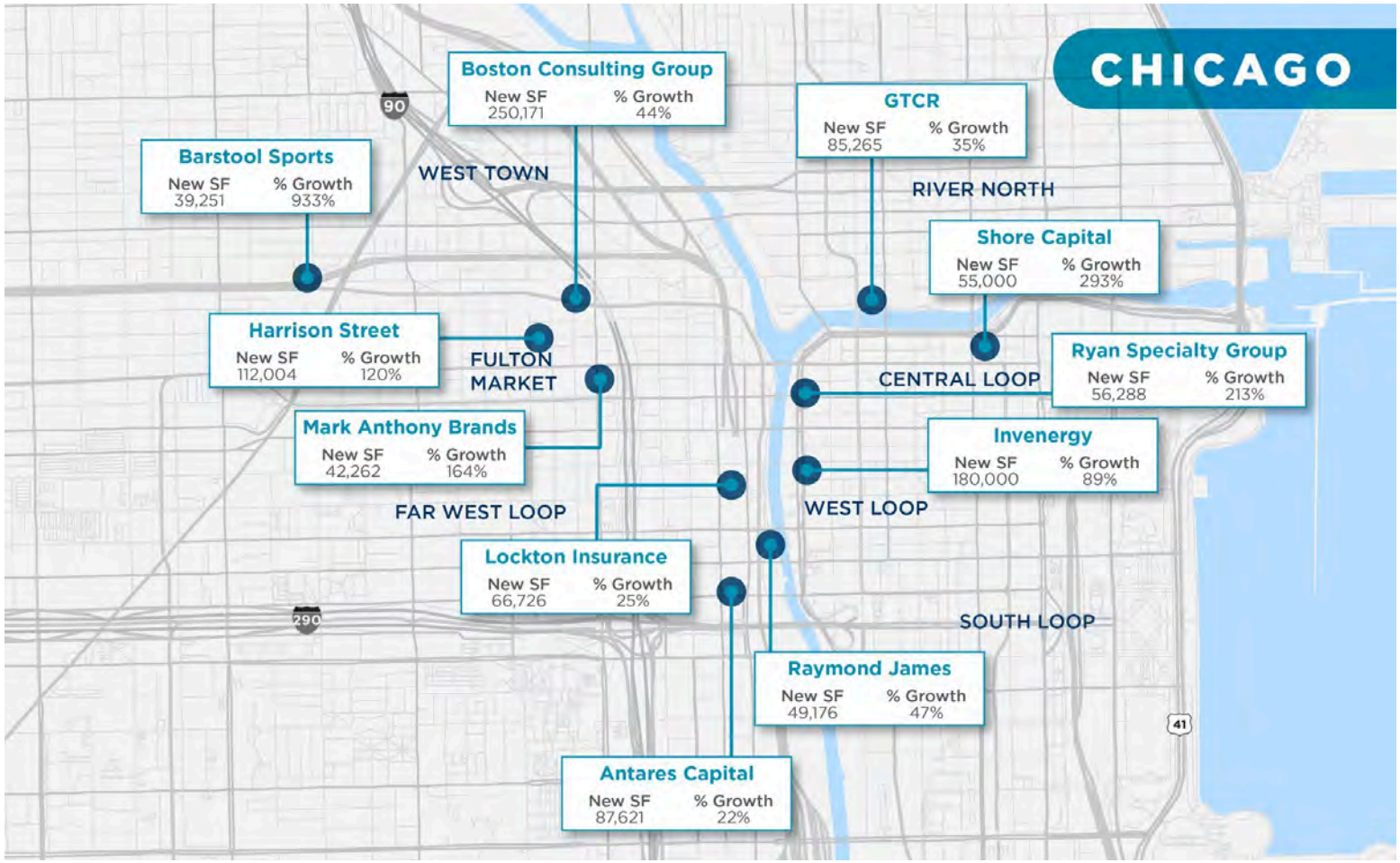


Source: U.S. Bureau of Labor Statistics

[2] U.S. Bureau of Labor

Tenant Expansions

The increased emphasis on rightsizing as tenants look to reduce costs and accommodate the hybrid work model has negatively impacted Chicago's CBD. Not all tenants, however, have prioritized this strategy as some major tenants have increased their footprints by over 800,000 square feet (sf) in aggregate since 2022—with the average increase among these expansions 156% or 38,477 sf. The financial services industry led expansion activity, increasing office footprints by an average of 30,000 sf or by approximately 89.0% with notable expansions including Shore Capital and Antares Capital.



Flight to Quality

Chicago's top-tier CBD office market continues to outperform lower-tier classes as occupiers aim to attract and retain talent by seeking space in well-located and amenity-rich buildings. Although the overall vacancy rate trended upwards, available space in top-tier office inventory remains limited relative to user demand. As of Q4 2023, overall top-tier vacancy was 17.2% which is 630 bps and 320 bps below overall classes and Class A vacancy rates, respectively. Further, for tenants looking for premium high-rise space within top-tier buildings, the vacancy rate is even lower at 6.5%.

Chicago's top-tier buildings continued to dominate leasing activity with overall deal volume totaling 7.1 million square feet (msf) since 2020. Over the same period, new leasing within top-tier trophy buildings accounted for 34.1% of overall new activity, totaling 3.7 msf. Collectively, top-tier buildings were one of the few subsets of the broader market that recorded consistent positive net absorption since the onset of the pandemic. Net absorption totaled positive 4.9 msf since 2020, with only two quarters recording negative absorption. For perspective, over the same period, Class A totaled just 690,514 sf of positive net absorption with the overall market totaling net absorption of negative 7.8 msf.

SUPPLY
Top-Tier vs. Traditional Vacancy



*Does not include buildings built after 2021

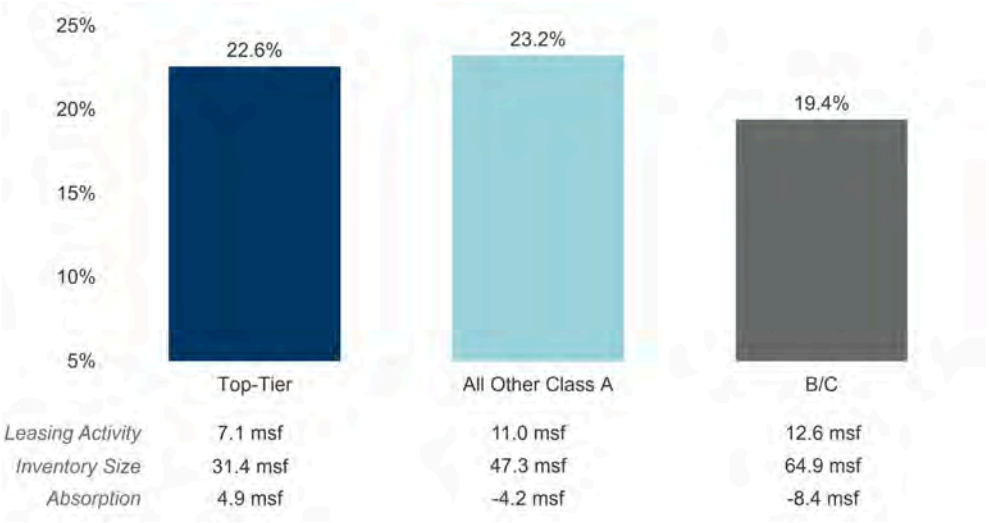
Source: Cushman & Wakefield Research

Flight to Quality

Top-tier assets within the CBD continue to record significant rent growth, with tenants wishing to lease space, paying high premiums due to a general lack of availability. Overall gross asking rental rates for these assets increased 6.2% since year-end 2020 to $57.51 per square foot (psf). In comparison, the overall market rent only increased 1.3% to $42.06 psf. Asking rental rates for the highest-quality assets are nearly 42.8% higher psf than the market average, currently at $60.07 psf. These high-demand assets are generally owned by well-capitalized landlords who can fund tenant improvement allowances and other concessions, making them sought after in the current economic climate.

DEMAND

New Leasing as % of Inventory: 2020-Present



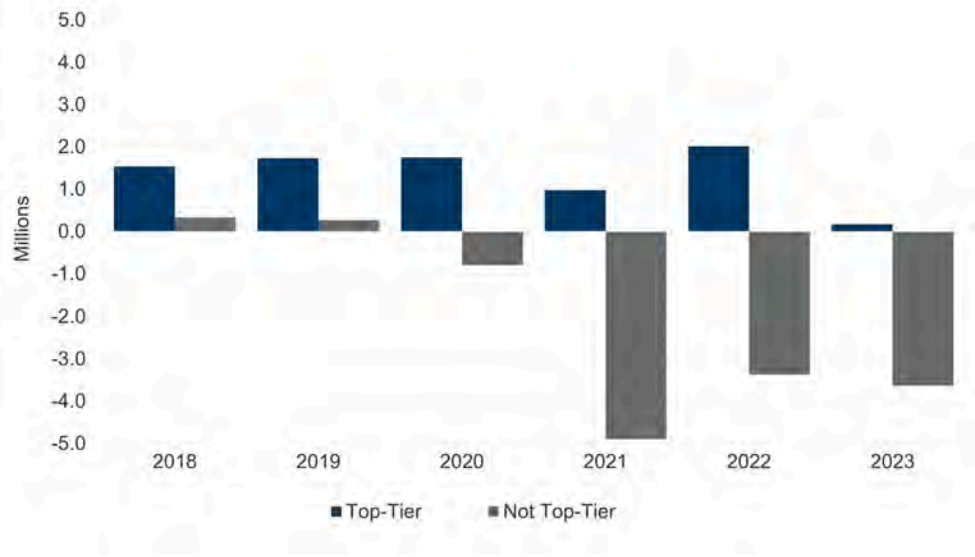
Source: Cushman & Wakefield Research

Key Submarkets Drive Demand

Top-tier office assets along Chicago's riverfront continue to attract significant tenant demand, primarily due to their prominent location and many being iconic new developments. There have been four trophy developments delivered since 2014, totaling 5.1 msf and accounting for 33.1% of all Class A space delivered over the period. The most recent development, a 1.2-msf tower located at 333 West Wolf Point Plaza, was delivered 100% preleased to Salesforce and Kirkland & Ellis. Since 2020, these riverfront assets have recorded 3.5 msf of new leasing with an average lease size of 15,073 sf—60.8% higher than the overall market average.

West of the river front, the Fulton Market District submarket continued to make headlines with several notable wins. Most recently, 919 West Fulton secured financing which broke ground during Q4 2023 and, once completed, will add an additional 369,000 sf of Class A space to the submarket. The project is being anchored by Harrison Street, which agreed to terms on a 112,000-sf lease for 30.4% of the building. Other area developments include Sterling Bay's 498,0000-sf development at 360 North Green Street. The project is 71.2% preleased to Boston Consulting Group, Greenberg Traurig and ReadyState Asset Management.

ABSORPTION
Top-Tier vs. Not Top-Tier



Source: Cushman & Wakefield Research

Return to Office on the Rise

Return to office (RTO) has been a highly watched trend over the last several years. When considering a sampling of Chicago's Class A CBD buildings, the average daily visitor count is trending back towards pre-pandemic levels. In October 2023, the average daily visitor count rose 28.0% YOY—the highest level since February 2020. While office mandates vary by tenant, Class A buildings that contain large tenants (50,000+ sf) that have mandated employees work in the office two to five days per week have reached much higher occupancy levels. As of October 2023, the average daily visitor count for this subset of buildings was 49.3% higher than the broader Class A sample.



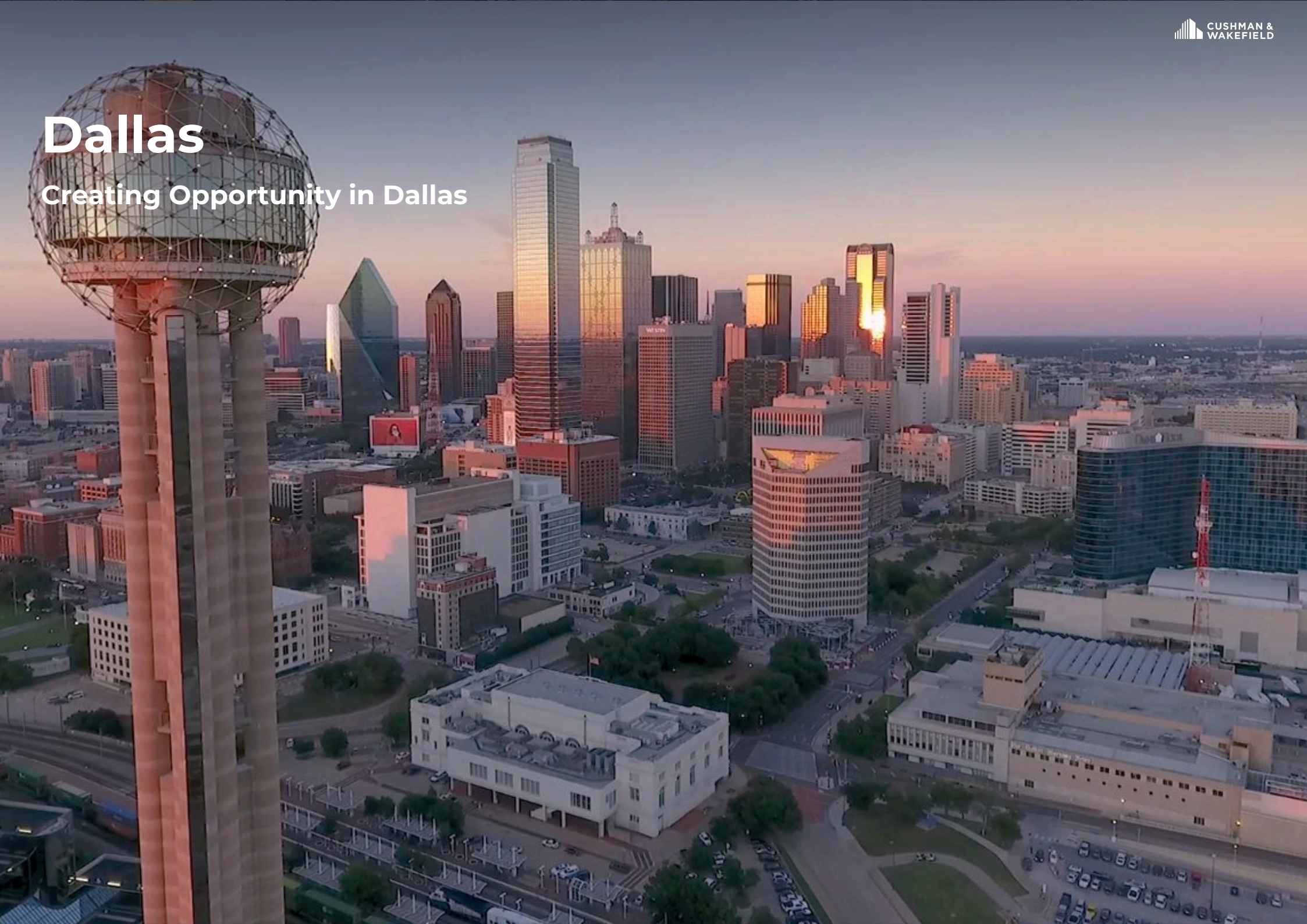
Research Contacts

Kevin Auble
Research Analyst, Chicago
kevin.auble@cushwake.com

Gregory Rogalla
Research Manager, Chicago
gregory.rogalla@cushwake.com

David Hoebbel
Research Director, Chicago
david.hoebbel@cushwake.com




CUSHMAN &
WAKEFIELD
Dallas
Creating Opportunity in Dallas

Why Dallas?

Dallas is widely recognized as a premier location for businesses and real estate investment, resulting from a diverse economy that consistently ranks among the top in the nation. The Dallas-Fort Worth (DFW) Metroplex is a strategic hub for national and international commerce, which is why the city is home to 24 Fortune 500 and 49 Fortune 1000 companies across various industries, including finance, technology, healthcare and telecom. With a well-connected transportation infrastructure, including a major international airport and an extensive highway system, businesses in DFW have unparalleled access to customers in both domestic and global markets. Additionally, with no personal or corporate income tax and a relatively low cost of doing business, the city offers an attractive environment for businesses to establish and grow operations.

This cost advantage, combined with the region's strong talent pool and excellent educational institutions, continues to attract companies to the DFW Metroplex which contributes to the overall business-friendly atmosphere. DFW’s thriving economy, central location, support for entrepreneurship and high quality of life contribute to the city's appeal as a prime destination for businesses and individuals looking to flourish.



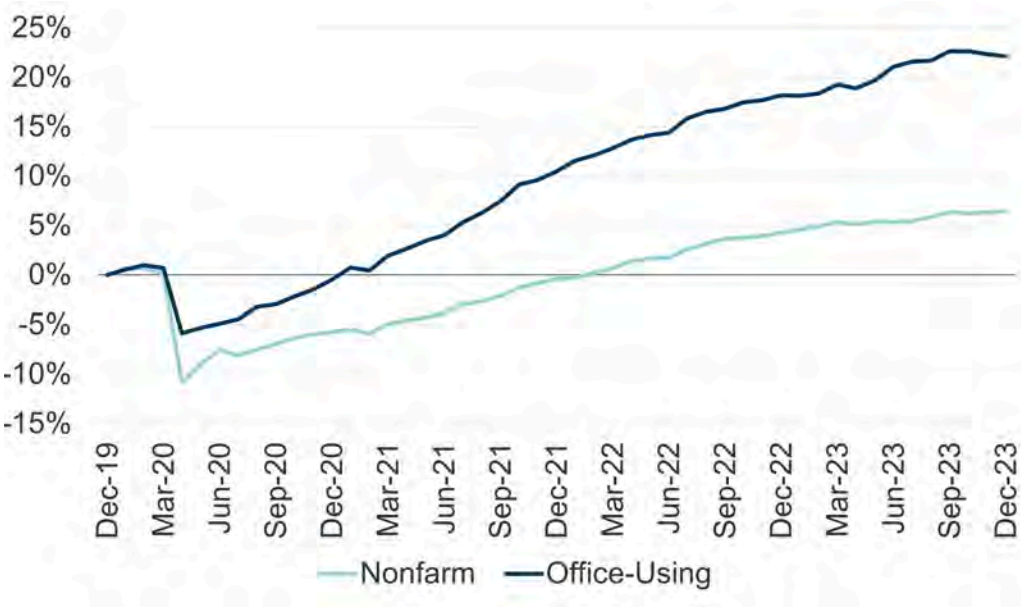
Local Economy/Job Growth

The DFW Metroplex ranks among the top U.S. metropolitan areas in terms of population and economic growth, offering high-paying employment opportunities, the presence of life sciences and tech innovation hubs, and a lower cost of living compared to other major cities across the globe. At the end of December 2023, the population in the metroplex reached a record high of 8.1 million residents, with an estimated net domestic in-migration of 130,890 new residents in 2022. This gain led the nation in total net new in-migrations for any U.S. metro.

DFW also recorded sustained economic expansion throughout 2023 with significant job growth throughout the pandemic. The pandemic-induced economic downturn had minimal impact on demand for office space in DFW after the initial uncertainty. Demand for investments from outside the state of Texas changed minimally compared to before the pandemic, even as the use of office space changed to incorporate more flex space in support of hybrid work options. Year-over-year (YOY), the region added 54,570 new office-using jobs, a 1.3% increase from the previous year, and 286,860 new office-using jobs over the past five years, growing by 28.4%.

EMPLOYMENT

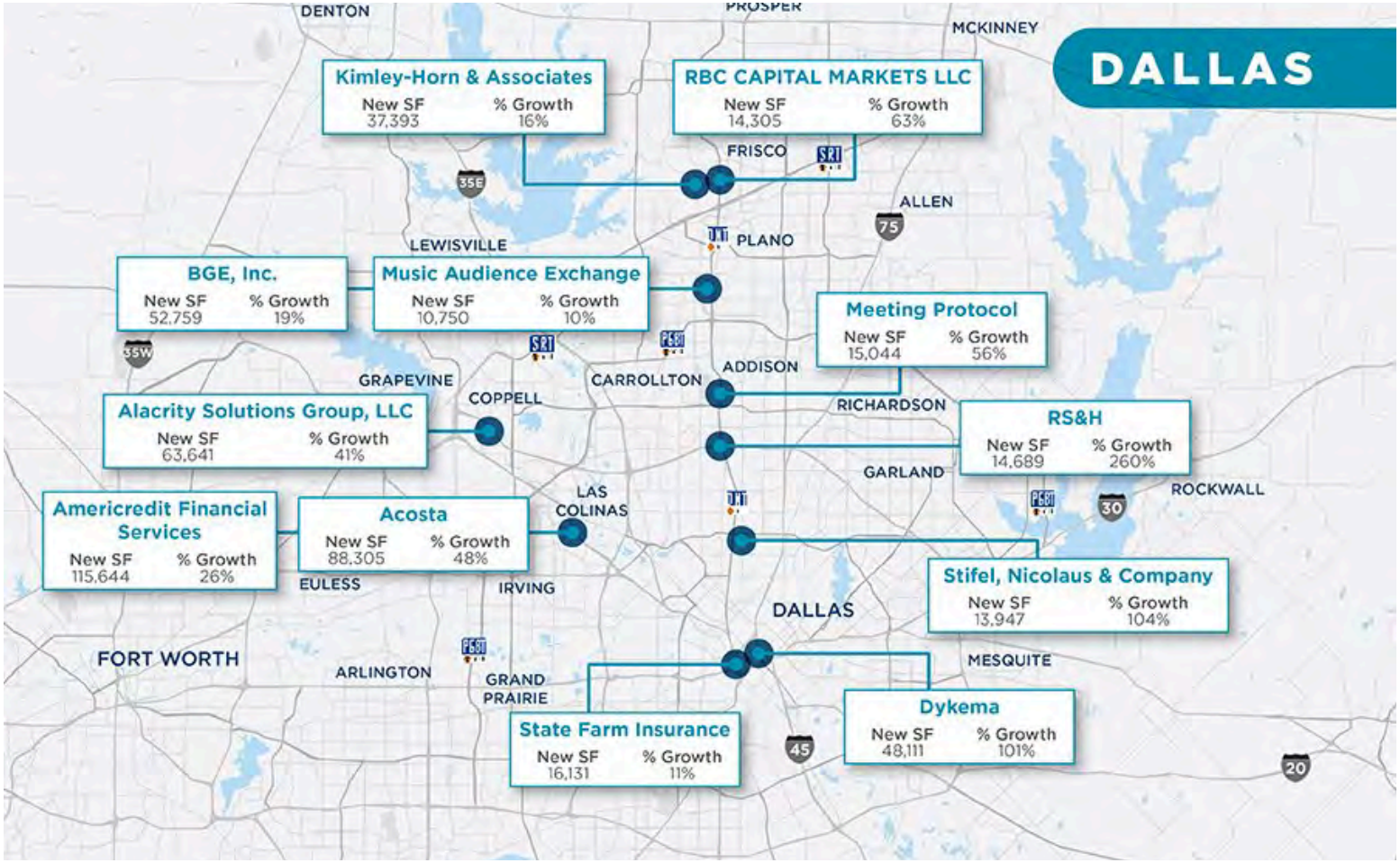
Nonfarm Payroll vs. Office-Using, % Change Since December 2019



Source: U.S. Bureau of Labor Statistics

Tenant Expansions

Despite headwinds felt in most major markets, office-using jobs such as professional services, information/technology, and financial sectors, continued to experience growth in the Metroplex. Dallas' largest expansions came from the finance, insurance, professional, scientific, and technical services industries. Recent examples include RS&H, a national architectural and engineering firm that renewed and expanded its footprint by 260%, and Stifel, Nicolaus & Company, a brokerage and investment bank that renewed and expanded by 104%. DFW's 15 largest expansions saw a 40.0% increase in total square footage, with financial, legal, and consulting firms making up two-thirds of those renewals.



Flight to Quality

As with most major urban cores across the nation, the flight to quality narrative continues to hold true in Dallas' downtown submarket. Businesses, particularly those with stable or growing operations, are increasingly leasing quality spaces in highly amenitized, top-tier office properties. These upgraded spaces provide many benefits for tenants including increased market presence, the ability to attract top talent, and a more conducive environment for business operations. This trend is also beneficial to owners of recently constructed, top-tier office properties. Spaces are achieving record-high rental rates despite near-term headwinds and projected economic outlook for the next few years.

SUPPLY

Top-Tier vs. Traditional Vacancy



*Does not include buildings built after 2021

Source: Cushman & Wakefield Research

Flight to Quality

Downtown Dallas' set of top-tier properties lead all other categories of CBD (Central Business District) office product in terms of leasing, absorption and rental rates. It is important to note the differences in the total inventory tracked in the CBD. Of the total 27.8 million square feet (msf) tracked, top-tier properties make up 34.8% of inventory, while non-top-tier Class A account for 44.6% of CBD inventory. Top-tier properties recorded a total of 2.6 msf of leasing activity from 2020 to present day, which is 27.1% of the total top-tier inventory, and a current gross rental rate of $36.59 per square foot (psf). Non-top-tier Class A properties recorded 5.3 msf of leasing activity during the same period, 24.5% of the inventory, and a current gross rate of $32.37 psf. Class B and C office properties recorded the lowest leasing activity totaling 688,179 sf, just 12.0% of its office inventory, and a current gross rate of $22.27 psf. Rental rates for top-tier properties in the CBD commanded a 64.3% premium over Class B and C properties.

One area of focus in the CBD submarket, along with Dallas as a whole, is the elevated levels of sublease space being brought to market. While the entire DFW market recorded a total of 12.5 msf of available sublease space at the end of Q4 2023, levels which are off their peak of 12.6 msf in Q2 2023, the CBD had just 1.3 msf of available sublease space at the end of Q4 2023.

DEMAND

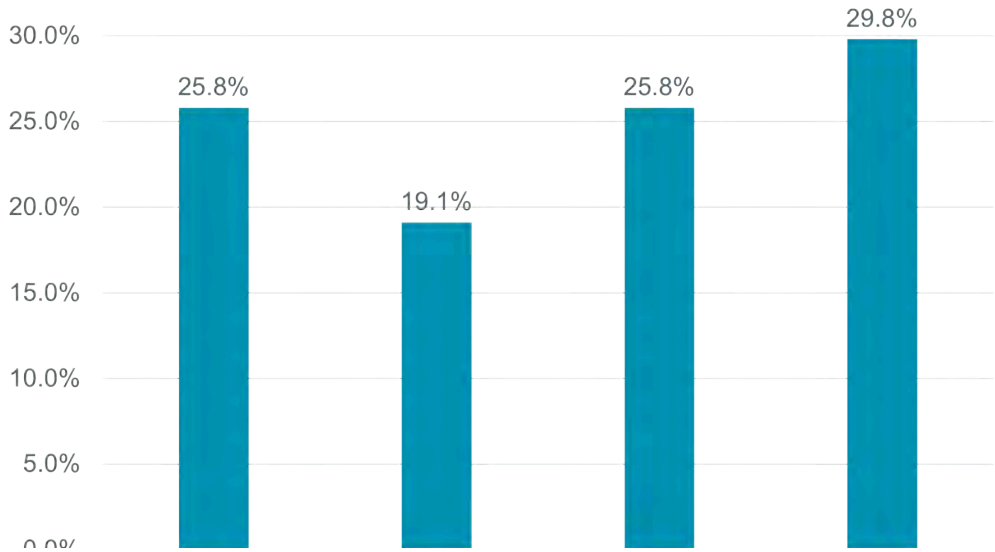
New Leasing as % of Inventory: 2020-Present



Source: Cushman & Wakefield Research

Presence of the Legal Sector in the CBD

Over the past four years, law firms in the metro have consolidated their presence from across the market and have been clustering in the core, leasing over 10.0 msf of office space, or 24.0% of all leasing activity in the submarket since 2020. Prominent legal entities have been integrating design features that prioritize maintaining perimeter offices for attorneys, diverging from conventional office-size norms while maximizing the efficiency of central workspace, including more collaborative spaces and digitization of law libraries and file rooms.



Source: Cushman & Wakefield Research

Office-to-Residential Conversion

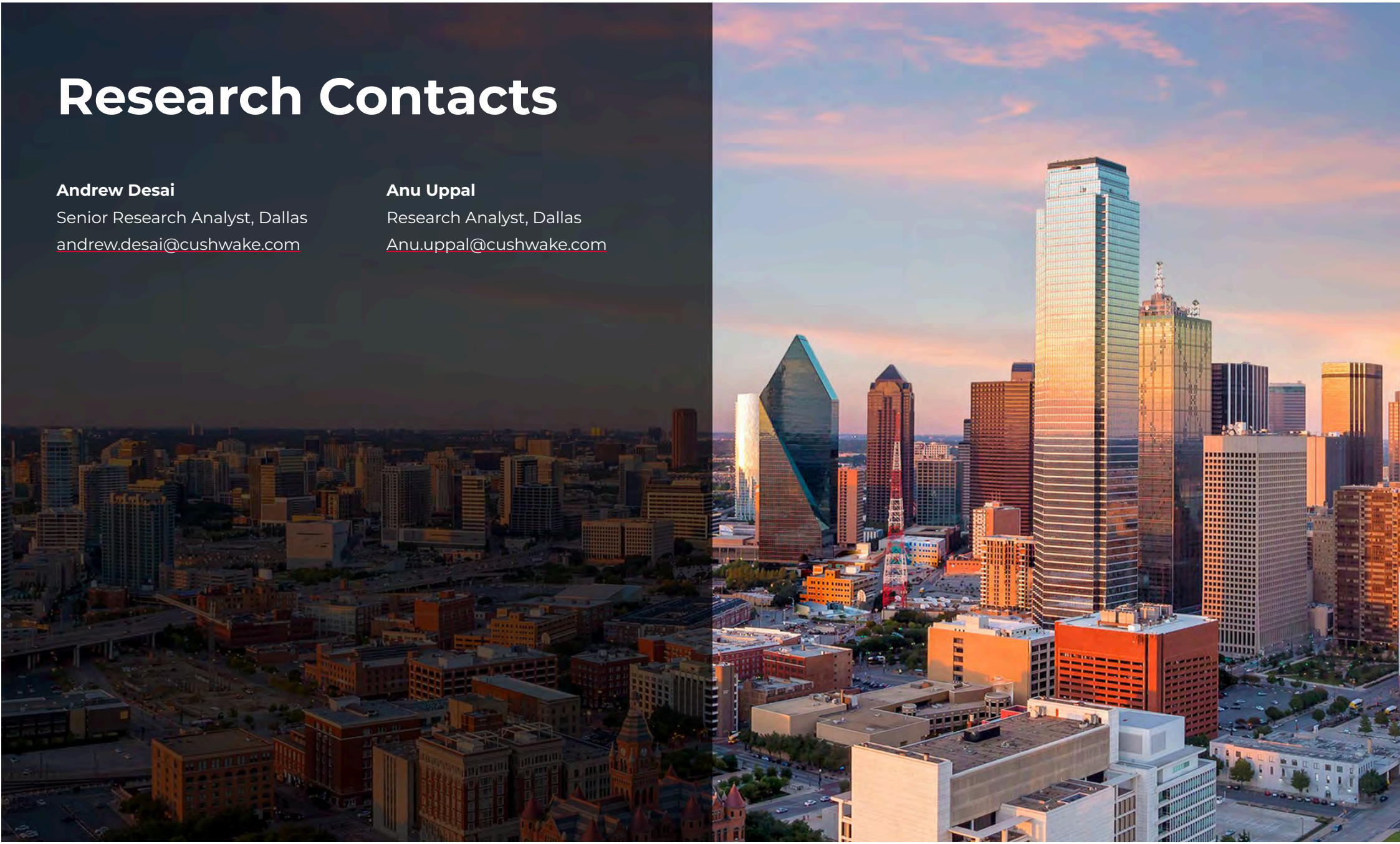
With a growing number of older, obsolete and amenity-light office properties in the CBD, an interesting trend is emerging in Dallas, demonstrating the resiliency and strength of the market to adapt. There has been an ongoing effort by local and national investors to convert obsolete, non-top-tier office properties to multifamily units, solving for multiple problems at once: a growing inventory of vacant aging office product, an ongoing housing shortage and upward pressure on residential rental rates caused by that lack of available units. Key office-to-residential projects in the CBD include the partial conversion of Energy Plaza (294 units) and Santander Tower (228 units) to mixed-use properties, adding 522 new residential units to Dallas' urban core.



Research Contacts

Andrew Desai
Senior Research Analyst, Dallas
andrew.desai@cushwake.com

Anu Uppal
Research Analyst, Dallas
Anu.uppal@cushwake.com



CUSHMAN & WAKEFIELD

Houston

Creating Opportunity in Houston



Why Houston?

The Greater Houston Metropolitan Statistical Area (MSA)—which comprises an estimated population of 7.5 million, is the fourth most populous city and fifth most populous MSA in the nation. It continues to attract people due to its low cost of living, business-friendly political environment, energy and petrochemical industries, and Texas Medical Center.

A convergence of lifestyle, culture and commerce, the city's Central Business District (CBD) submarket is comprised of 56 buildings totaling over 38.2 million square feet (msf) of office space. A dynamic range of industries can be found within the CBD including energy, finance, technology and legal, creating a resilient workforce. Although minimal in comparison to other major metro areas, venture capital funding exceeded $1.6 billion in 2023. This marked a 71.5% increase compared to the five-year pre-pandemic investments made in Houston companies from 2015-2019. While its signature skyline symbolizes corporate dominance, over 39.4 million people also visit the CBD for fun and leisure on an annual basis.

Local Economy/Job Growth

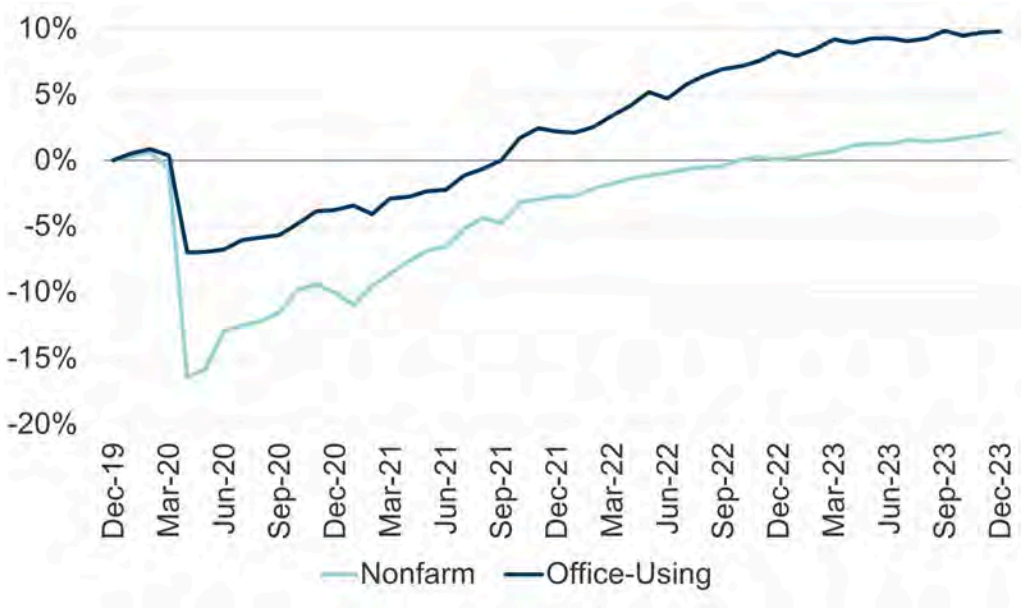
With a labor force of nearly 3.5 million workers, the Houston MSA boasts a diverse mix of talent at all skill levels necessary for a wide range of industries including business/professional services, healthcare, advanced manufacturing and technology. Houston is also a top-ranking market for attracting millennials and retaining college graduates due to a relatively high local income, moderate cost of living and the absence of state taxes.

Consistently ranked among the nation's leaders when it comes to job growth, Houston set a record for employment growth in 2021, adding 170,000 jobs or +5.7% growth year-over-year (YOY). The Houston metro area added another 148,200 jobs in 2022 and 77,200 jobs in 2023, (+4.7% and +2.3%, respectively, YOY).

Three sectors make up just over half of the total employment in Houston: trade, transportation and utilities (21%); professional services (17%); and education and health services (14%). Growth in the office-using sector was positive in 2023, but decelerated from the rate of the prior two years. After growing 6.5% during 2021 and another 5.4% during 2022, office-using job growth in 2023 was closer to 2.0%.

EMPLOYMENT

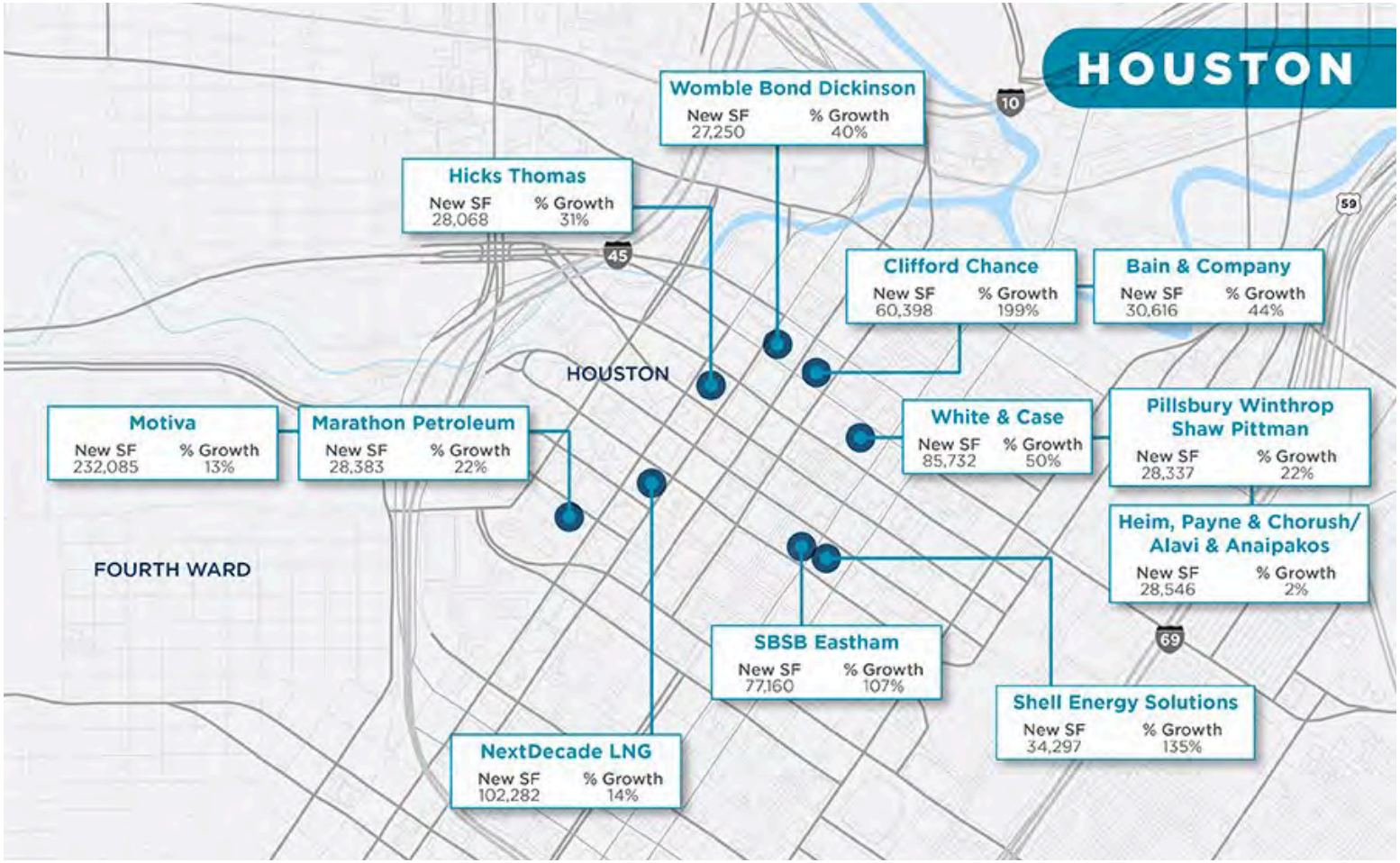
Nonfarm Payroll vs. Office-Using, % Change Since December 2019



Source: U.S. Bureau of Labor Statistics

Tenant Expansions

Houston's CBD experienced numerous expansions during 2022-2023. Of the 20 largest expansions in percentage growth, three sectors grew significantly. Five law firms expanded their footprints, averaging 103% in growth. Five energy-related companies expanded at an average of 187% (mainly due to HIF USA relocating from 1,530 square feet (sf) at Total Plaza to just over 10,000 sf at Pennzoil Place South) and another four energy-related companies grew at an average of 87%. The finance industry rounded out the largest expansions with four companies each expanding at an average of 71%.



Flight to Quality

Flight to quality continues to dominate in the CBD. Currently, seven buildings totaling 6.1 msf—nearly 16.1% of the overall inventory—are considered top-tier buildings benefiting from the ongoing flight-to-quality trend. While the overall Class A CBD market ended Q4 2023 at 28.5% vacant, top-tier buildings ended the quarter 830 basis points (bps) lower at 20.2% vacant.

Demand in the CBD has been largely concentrated on top-tier assets. Since the onset of the pandemic and subsequent office market recovery, top-tier assets recorded 1.2 msf of positive net absorption, while all other Class A buildings recorded negative 1.6 msf and Class B recorded 667,368 sf.

SUPPLY
Top-Tier vs. Traditional Vacancy



*Does not include buildings built after 2021

Source: Cushman & Wakefield Research

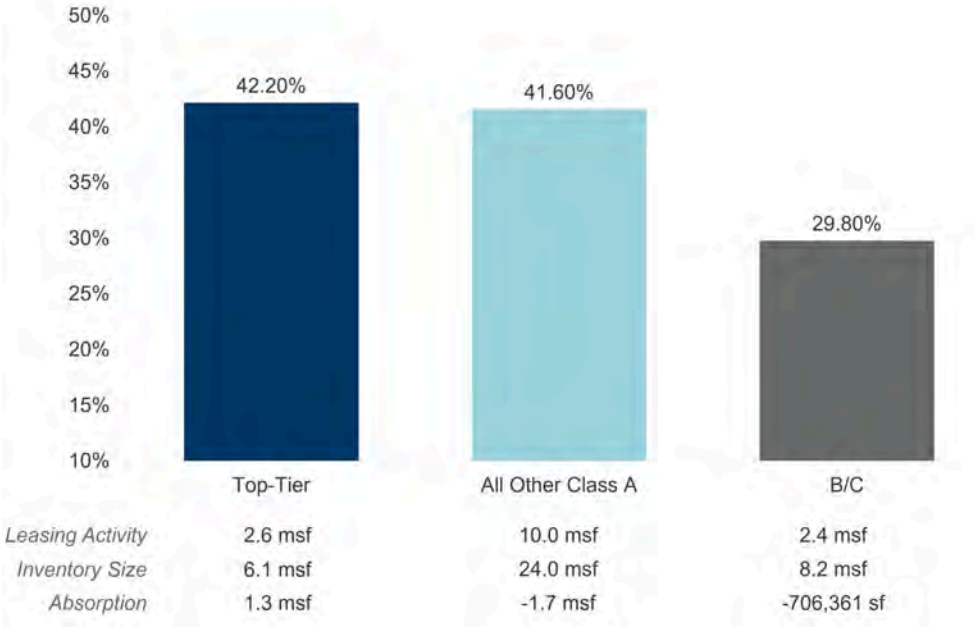
Flight to Quality

Since the beginning of 2022, Class A office product accounted for 89.5% of the total leasing activity in the CBD. Three of the five largest new leases signed in the CBD since the onset of the pandemic occurred in top-tier buildings—Cheniere Energy, Norton Rose Fulbright and Maverick Natural Resources. All three tenants relocated from Class A buildings within the CBD.

As top-tier buildings in the CBD continue to thrive, data confirms the flight-to-quality trend and a bifurcated office sector between older and newer office product. High-quality and newer office space is dominating as a product that users are demanding, while lower-quality and older office product is struggling to attract occupiers. This pressure continues to result in millions of dollars being spent on renovations of older buildings to avoid becoming obsolete.

DEMAND

New Leasing as % of Inventory: 2020-Present



Source: Cushman & Wakefield Research

Still The Energy Capital of the World

As large leases signed by energy-related companies dominate new leasing activity—both market-wide and in the CBD—Houston remains the Energy Capital of the World, home to every segment of the industry from exploration to production, transportation, marketing and technology.

New leases signed by energy-related companies accounted for 30.5% of the total square feet signed in 2022-2023 in the Houston overall market. In the CBD, energy-related companies accounted for almost half of the total square feet signed during the same period.

Within the Energy Corridor

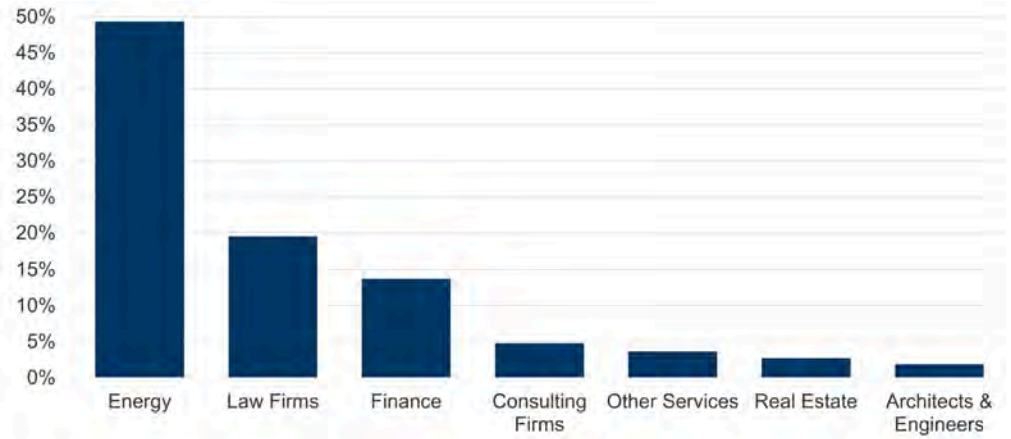
- Enbridge: 292,892 sf
- Technip Energies: 171,600 sf
- Baker Hughes: 129,231 sf
- Callon Petroleum: 107,171 sf

CBD

- NRG: 245,163 sf
- Cheniere Energy: 152,169 sf

CBD LEASING ACTIVITY

New Leasing Activity: 2022-2023



Source: Cushman & Wakefield Research

Additionally, LyondellBasell signed the largest new lease in the market (318,504 sf) and plans to relocate its headquarters from the CBD to the West Loop/Galleria submarket.

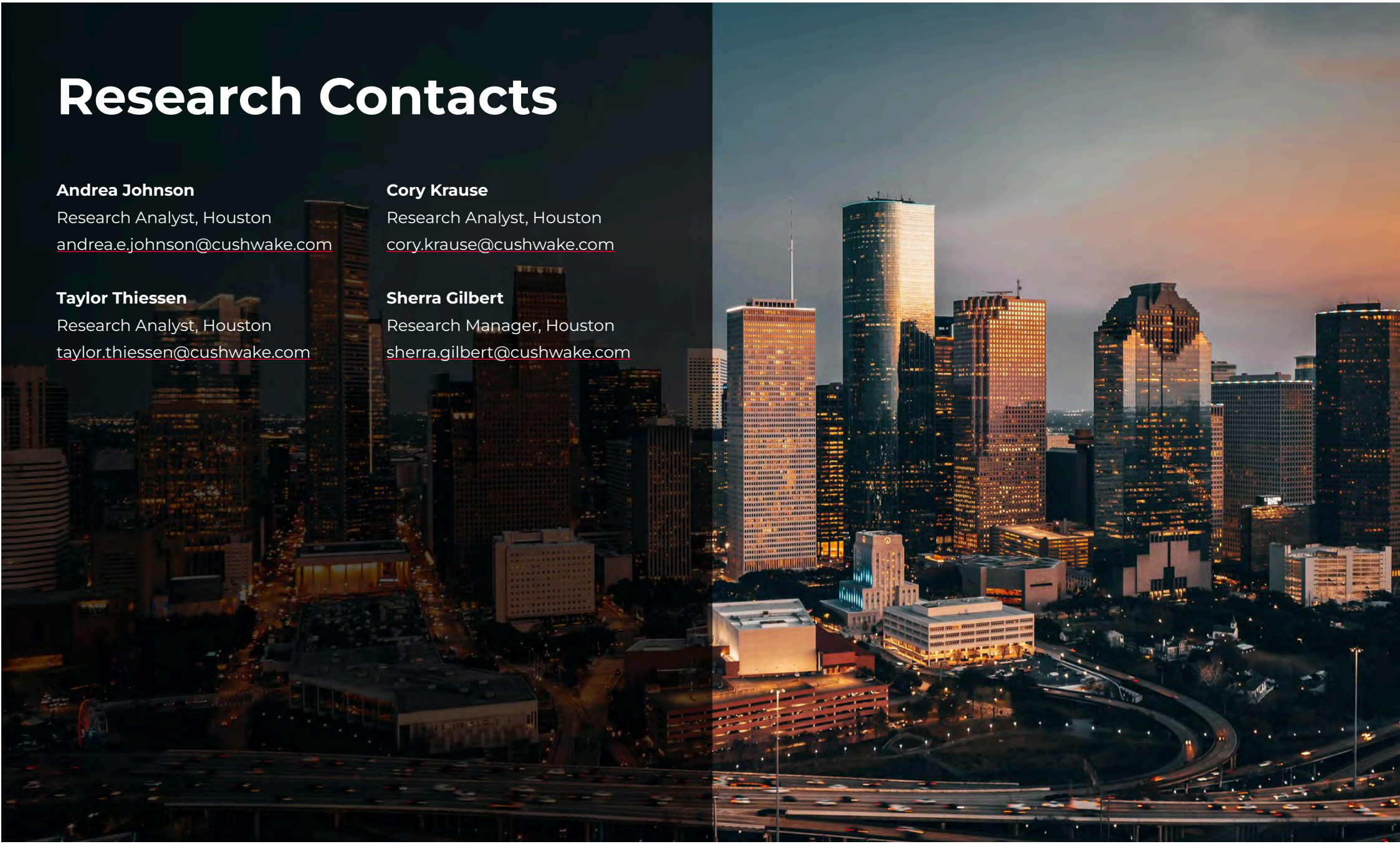
Research Contacts

Andrea Johnson
Research Analyst, Houston
andrea.e.johnson@cushwake.com

Taylor Thiessen
Research Analyst, Houston
taylor.thiessen@cushwake.com

Cory Krause
Research Analyst, Houston
cory.krause@cushwake.com

Sherra Gilbert
Research Manager, Houston
sherra.gilbert@cushwake.com





Los Angeles

Creating Opportunity in Los Angeles

Why Los Angeles?

With over 213 million square feet (msf) of office inventory, Los Angeles (LA) is an attractive location for companies seeking amenity-rich office space due to its unique blend of economic vibrancy and cultural diversity. As the entertainment capital of the world and a rapidly budding technology hub for the southwest, LA has emerged as a one-of-a-kind environment in which creativity and innovation co-mingle and foster further collaboration.

Though the velocity of leasing activity has slowed considerably compared to before the pandemic, law firms, financial institutions and major film and digital entertainment content producers have been critical drivers of post-pandemic activity, even as many occupiers embrace hybrid or remote working schemes.

Local Economy/Job Growth

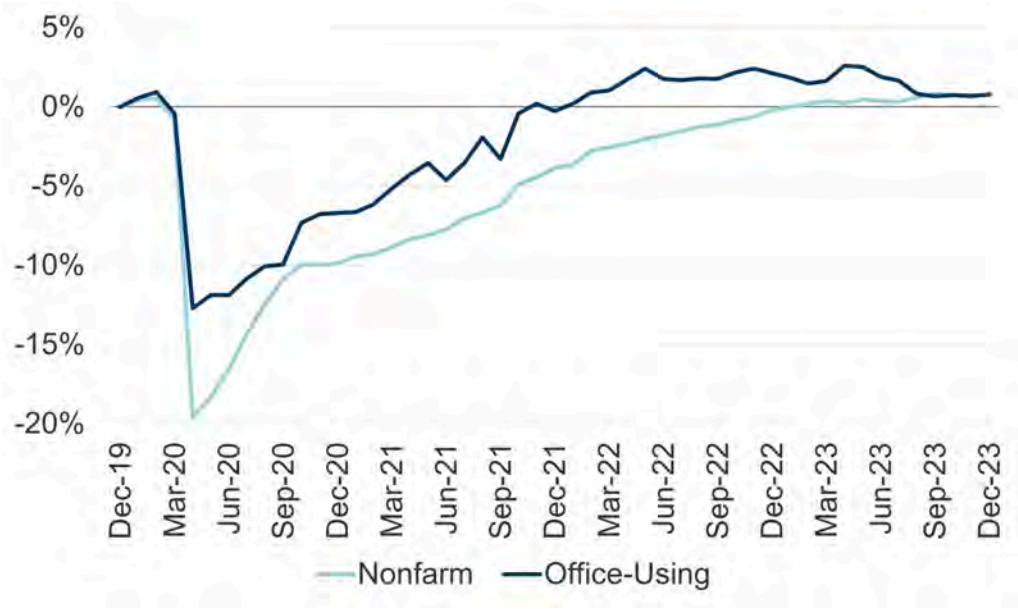
As of November 2023, nonfarm employment for the Los Angeles metro area totaled 6.5 million, an increase of 2.4% from February 2020 and 23.0% higher than the pandemic low achieved in April 2020. Office-using employment in the LA metro is nearly on par with levels recorded pre-pandemic and is 15.4% higher than April 2020.

Compared to other major industry sectors, office employment remained resilient through the pandemic as companies transitioned to fully remote or hybrid working models to retain their staff.

LA's diverse talent pool, young population and multicultural roots provide local companies with access to a broad range of skills and perspectives. These factors collectively position LA as a premier destination for companies seeking a dynamic and growth-oriented environment. According to the U.S. Census Bureau, as of 2022, 34.6% of LA County residents over the age of 25 have attained a bachelor's degree or higher.

EMPLOYMENT

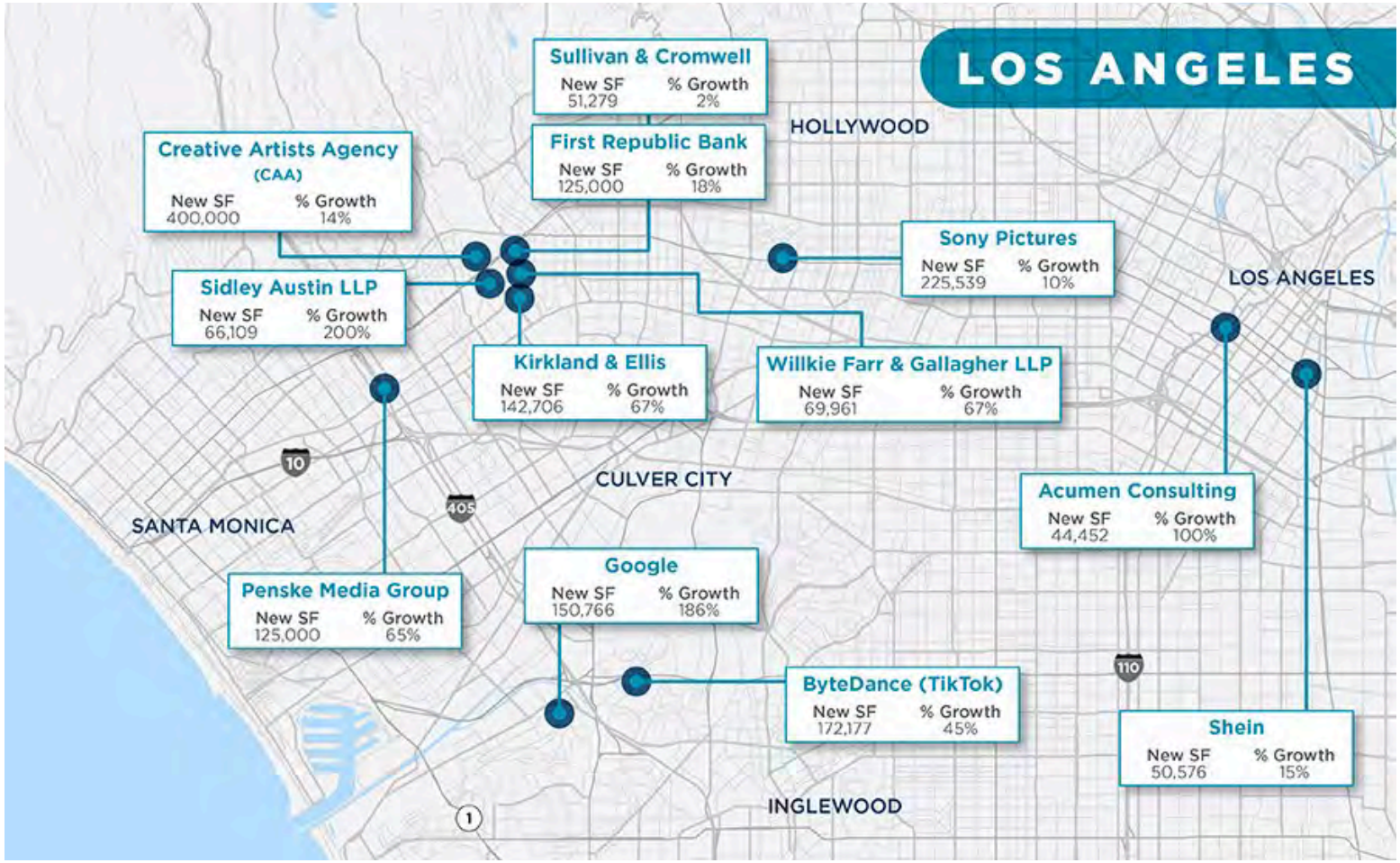
Nonfarm Payroll vs. Office-Using, % Change Since December 2019



Source: U.S. Bureau of Labor Statistics

Tenant Expansions

The Los Angeles region has experienced its share of high-profile tenant expansions—with some of the of the most notable being migrations out of the region's urban core. Google and ByteDance (parent company of TikTok) expanded their footprints by 186% and 45% respectively, while Sony Pictures Animation grew by 10%. Legal firms were far and away the most active industry expanding in the market, with six different firms expanding by an average of 69.1%. Law is inherently mentorship-based and relies heavily on in-person working environments to foster collaboration and growth among young associates. These examples and more highlight a recurring theme of occupiers flocking to higher-end submarkets along the coast while shunning the high-rises of downtown.

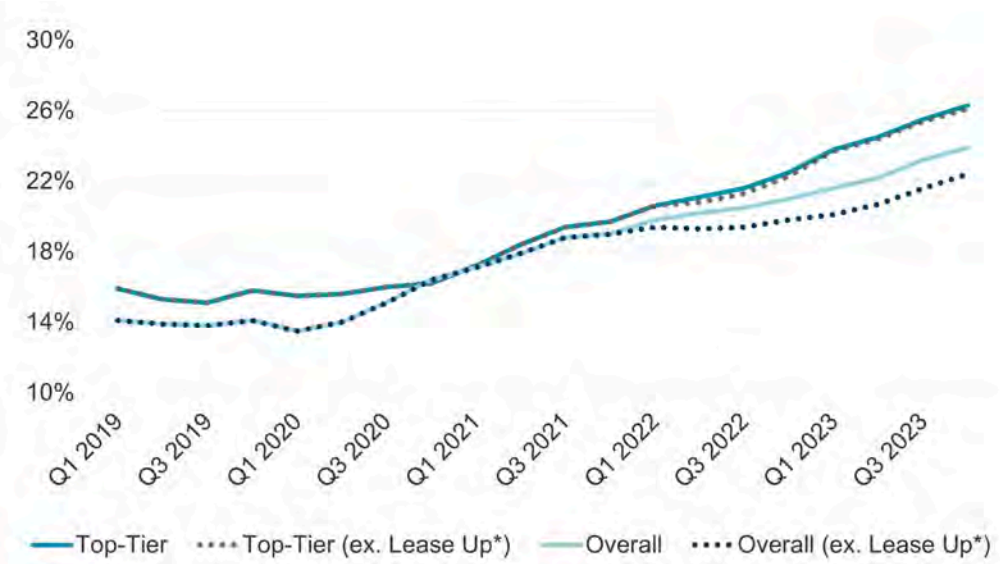


Flight to Quality

Leasing velocity slowed substantially in 2020 due to the pandemic but quickly regained lost ground thanks to a strong tenant appetite for amenity-rich office space in the region. Class A leasing activity totaled 5.7 msf in 2020 and rose to 8.2 msf and 9.9 msf in 2021 and 2022, respectively. Even amid economic headwinds incurred by the pandemic, Class A office leasing has encompassed, on average, 70% of the region's leasing activity between Q1 2020 and Q4 2023. Compared to Class B and C products, it is clear how much LA occupiers favor high-quality space above all else. Over 28.3% and 29.3% of top-tier office products and all other Class A assets have leased since 2020 compared to just 22.7% of Class B and C properties in the same period. Activity has been heavily slanted toward the region's coastal market with the majority of new deals signed in one submarket in particular: Century City. Of the 16.2 msf of new leasing activity that has taken place in LA West since 2020, Century City alone was responsible for 21% (3.4 msf) of the deals signed in that timeframe.

SUPPLY

Top-Tier vs. Traditional Vacancy



*Does not include buildings built after 2021

Source: Cushman & Wakefield Research

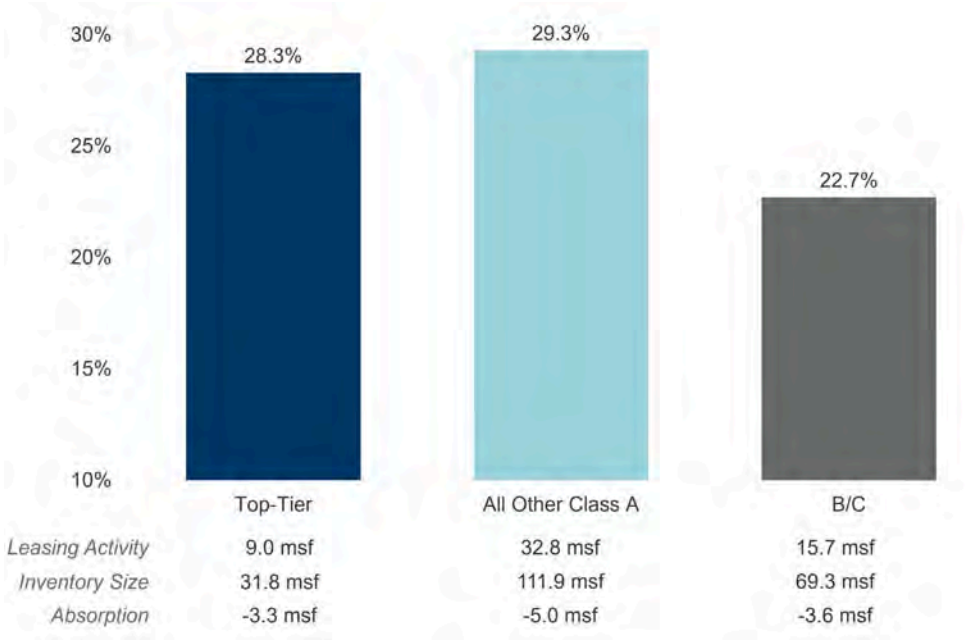
Flight to Quality

Demand for LA's top-tier offices has made these spaces a hot commodity, and the heights achieved by their asking rent reflect this. As of Q4 2023, asking lease rates for LA's top-tier office averaged $3.54 per square foot (psf). This starkly contrasts with non-top-tier Class A space, which averaged $2.45 psf in the same period and $2.41 psf for Class B and C combined. Since Q1 2020, asking lease rates for top-tier office has climbed a staggering 11.1%—well above all other Class A products (4.4%) and Class B and C office space (5.0%). Though leasing demand has broadly softened throughout most of 2023 in the face of economic headwinds and further workforce reductions and rightsizing, notable leases from major tech and entertainment players have maintained the popularity of these spaces.

As of Q4 2023, over 2.3 msf of office space was under construction in the LA region—92.0% of which was new Class A space. 1950 Avenue of the Stars in Century City is the highest-profile project under construction; the 825,000-sf development is due to complete construction by year-end 2026 and is 81.0% pre-leased.

DEMAND

New Leasing as % of Inventory: 2020-Present



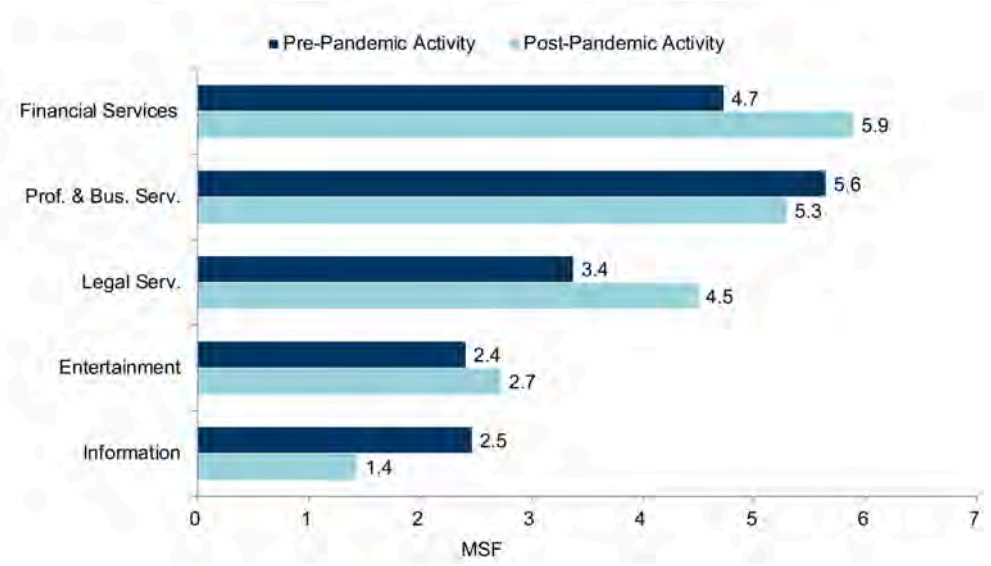
Source: Cushman & Wakefield Research

Entertainment and Tech Industries Remain Key

Despite the challenges of return to office, the LA region had several high-profile leases signed—new and renewals—from major players in the technology and entertainment spheres. These include the Hollywood talent firm Creative Arts Agency (400,000 sf), Sony Pictures Animation (225,539 sf), Amazon (207,821 sf), Riot Games (199,882 sf) and Lionsgate (192,584 sf)—all of which took place in LA West. Though these numbers are impressive in themselves, they pale compared to the cadence these sectors were leasing before the pandemic. For instance, since shifting workforces to hybrid schedules and readjusting labor forces, leasing activity from tech-centric firms has totaled 1.4 msf between 2020 and 2023, a decrease of 41.7% compared to pre-pandemic years.

The entertainment industry is a cornerstone of LA and a significant player in the region's expansive office footprint. Amid the pandemic, Hollywood was still hard at work in satiating the appetite for quarantined families for streaming content. As such, the entertainment sector recorded a noticeable bump in leasing activity between 2020 and 2023. Creative Arts Agency, one of the most prominent talent representatives in the industry, leased nearly 400,000 sf at 1950 Avenue of the Stars in Century City.

PRE-PANDEMIC VS. POST-PANDEMIC LEASING
Activity by Industry Sector (2018-2023)



Source: Cushman & Wakefield Research

Meanwhile, Sony Pictures Animation expanded its footprint from approximately 205,100 sf to more than 225,000 sf in LA West's Miracle Mile submarket.

The 'Big Three' of LA

Three industries that have demonstrated their resilience to economic headwinds and changing workplace dynamics have far and away been business/professional services, financial firms and law firms. This trio of heavy-hitting office users have long been occupier staples in LA with the legal sector, in particular, emphasizing mentorship-based learning, team collaboration and in-person networking as critical paradigms for upward mobility in this industry. These three office-using sectors alone have been responsible for over 15.7 msf, or 26.0%, of the region's overall leasing activity (including renewals) since 2020. Some of the most significant movements from the 'big three' include First Republic Bank, Interpublic Group, Kirkland & Ellis, Willke Farr & Gallagher and Sidley Austin.



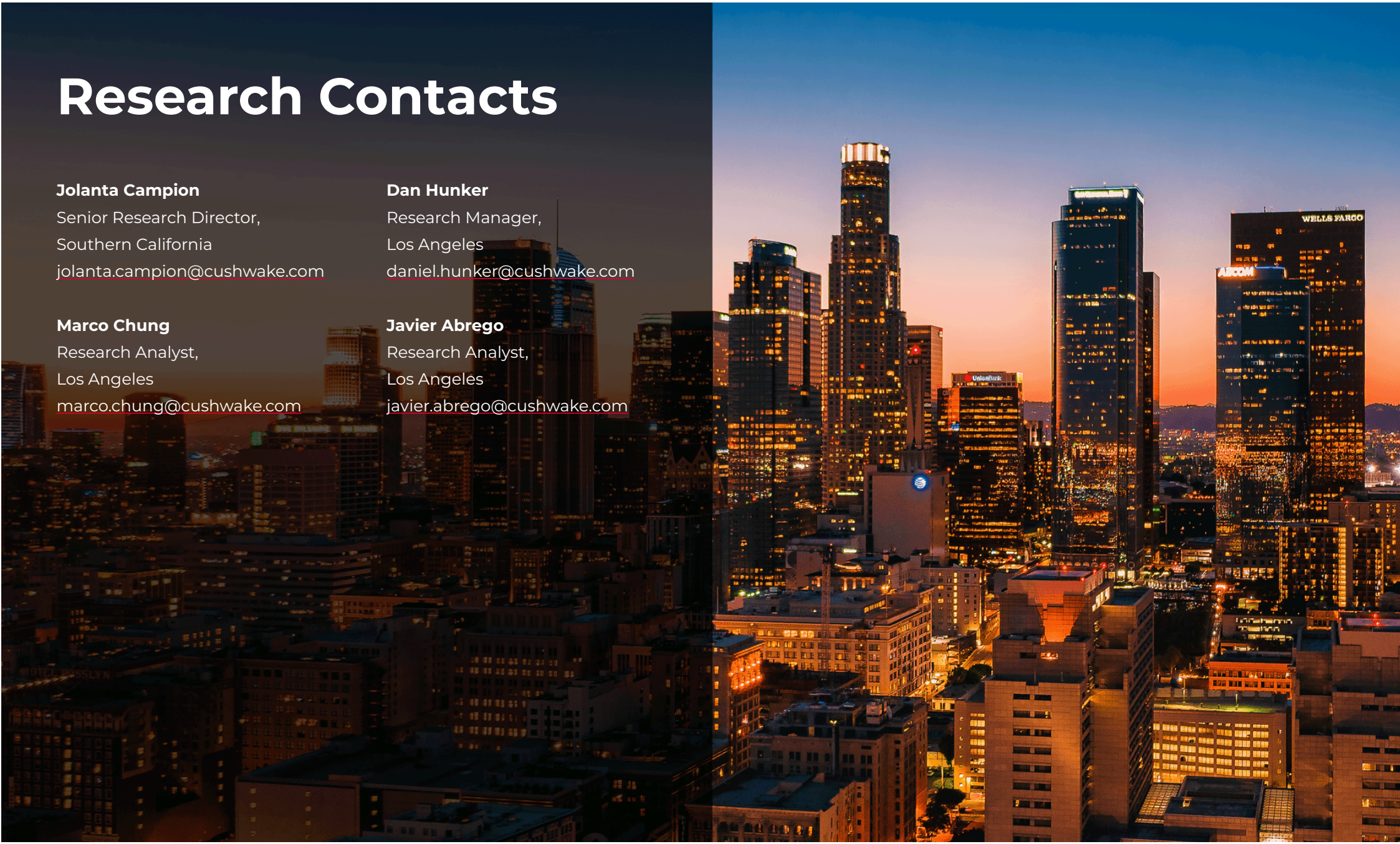
Research Contacts

Jolanta Campion
Senior Research Director,
Southern California
jolanta.campion@cushwake.com

Dan Hunker
Research Manager,
Los Angeles
daniel.hunker@cushwake.com

Marco Chung
Research Analyst,
Los Angeles
marco.chung@cushwake.com

Javier Abrego
Research Analyst,
Los Angeles
javier.abrego@cushwake.com





New York City

Creating Opportunity in New York City

Why New York?

New York City serves as a global hub for finance, technology, media and other major industries, offering unparalleled access to talent, investors and potential clients. The city boasts the highest concentration of Fortune 500 company headquarters in the U.S., with 44 calling the New York City metropolitan area home. This translates into a robust economic landscape that nurtures innovation and growth. This wealth concentration also fosters a dynamic ecosystem, where capital flows freely, providing crucial support for emerging businesses and further solidifying New York's status as a premier business destination.

New York City boasts a diverse and highly educated workforce. The city's population of 8.3 million includes nearly 40% with college degrees, one of the highest rates in the nation. This talent pool is further enriched by the presence of world-renowned universities and colleges, which ensure a continuous influx of fresh graduates and innovative thinkers. Additionally, New York City's vibrant cultural scene and diverse population create a unique and dynamic environment that attracts top talent from around the world.

New York City has also prioritized modernizing its transportation infrastructure, with projects like Moynihan Train Hall and LaGuardia Airport upgrades enhancing connectivity. The Second Avenue Subway expansion and Gateway Program currently underway further solidify the city's commitment to efficient transportation, ensuring infrastructure supports continued business growth.

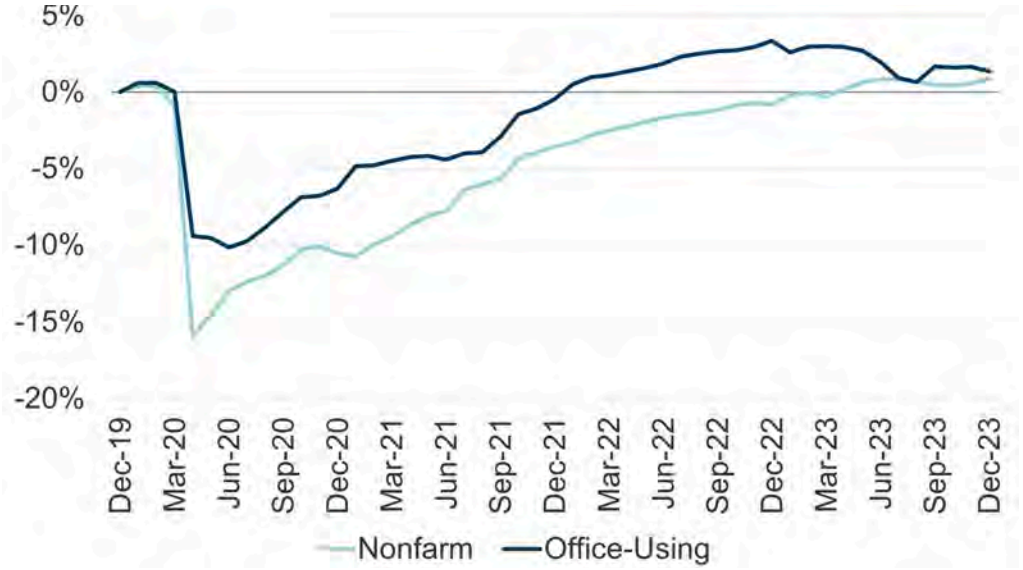
Local Economy/Job Growth

Like other large metropolitan regions across the U.S., New York City's labor market was severely impacted by the pandemic. However, as of August 2023, it had recovered all lost jobs. While economic headwinds in 2023 have caused job growth to slow, total non-farm employment for the New York Metropolitan Statistical Area (MSA) was 10 million as of October 2023, just below the historic peak of 10.1 million set in September and 25.3% above the April 2020 trough.

Office-using employment for the MSA rebounded even quicker from the pandemic, regaining all jobs lost by February 2022 and reaching an all-time high of 2.8 million jobs in December 2022. While employment has fallen in 2023 by nearly 50,000 workers to 2.7 million from year-end 2022, it remains above its pre-pandemic peak. The job losses have been largely driven by weakness in the tech sector, with information services employment down 8.5% through November 2023. Financial services and professional services, however, have proven more resilient, with jobs down just 0.3% and 1% respectively through November 2023.

EMPLOYMENT

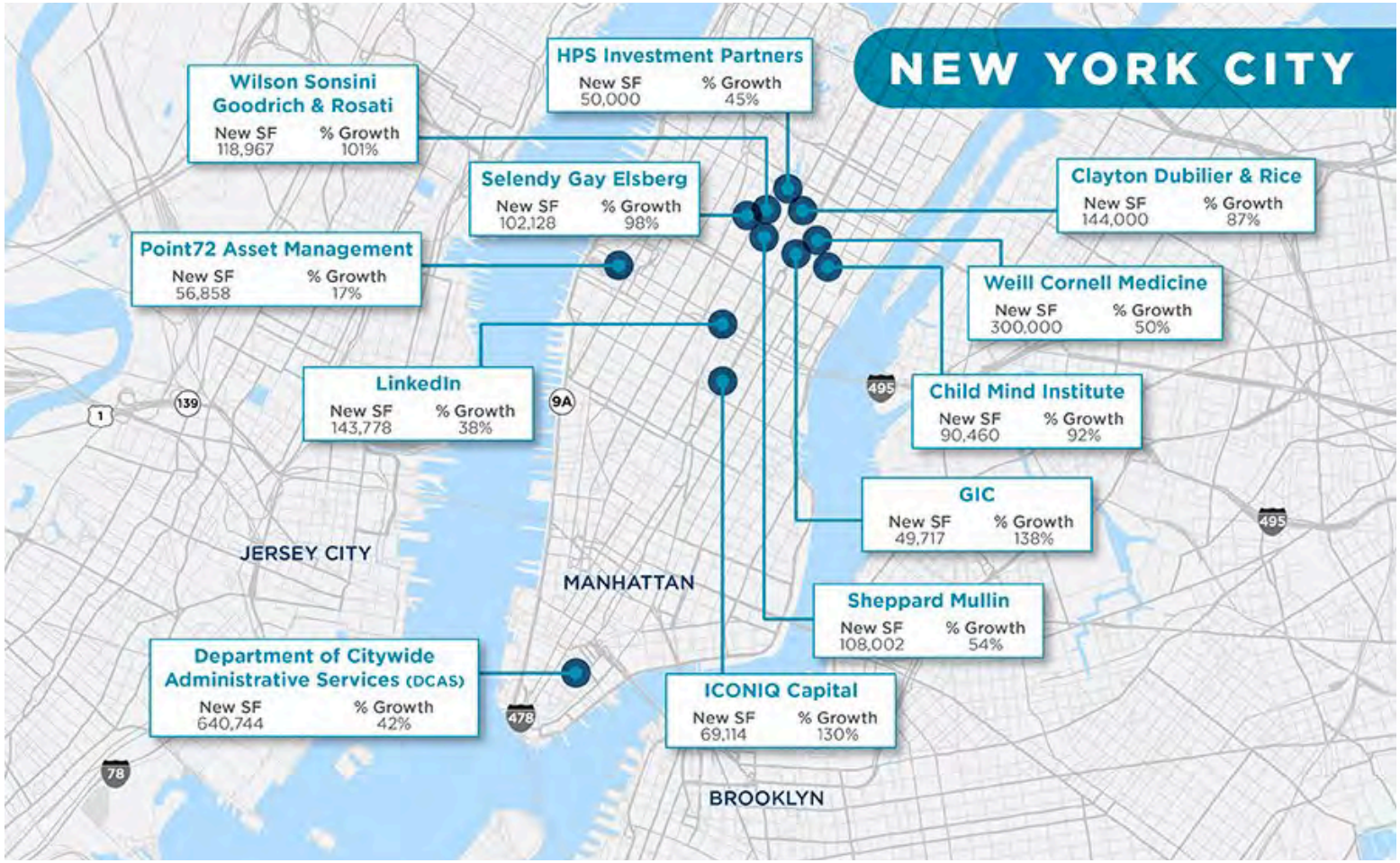
Nonfarm Payroll vs. Office-Using, % Change Since December 2019



Source: U.S. Bureau of Labor Statistics

Tenant Expansions

New York City's office-leasing landscape following the onset of the pandemic was dominated by indecision, with short-term renewals composing the bulk of overall lease activity. In 2022 and 2023, however, companies began to rethink how they operate, and a certain level of decision-making confidence was restored. In some cases, tenants realized the value and opportunity in growing their office footprint in the city. The following map highlights several of the largest tenant expansions in New York City, all of which supported positive absorption in 2023.

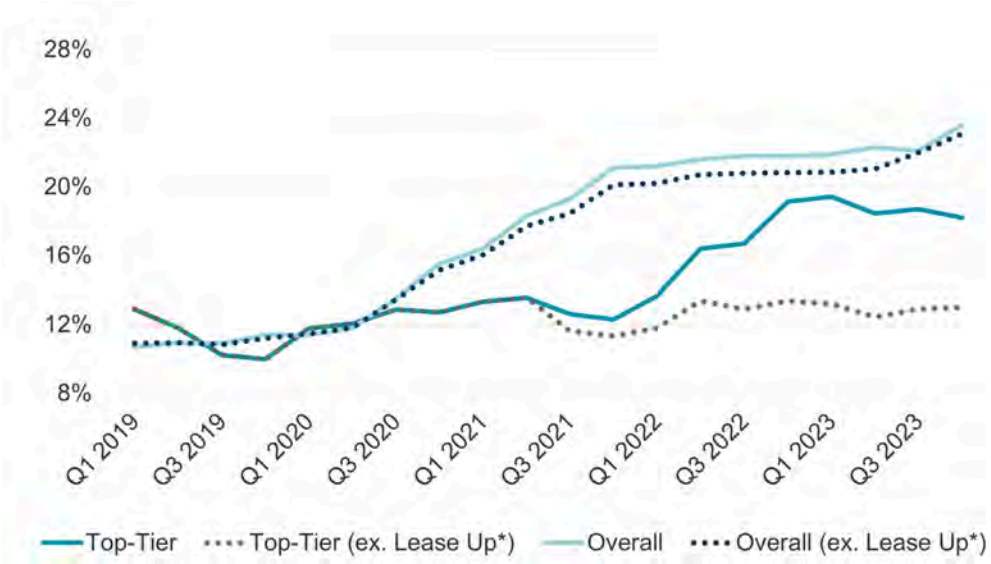


Flight to Quality

Since the pandemic, there has been a growing flight-to-quality trend in New York City, driven strongly by the desire to attract staff back to the office. While some occupiers have long favored new construction, the properties most in demand during this current cycle have been those that are highly amenitized and close to public transportation.

The flight-to-quality trend has been supported by a wave of new construction and building renovations. In the past two years, an annual average of 9.5 million square feet (msf) of new office space was added to the market, compared to an annual average of 5.5 msf over the previous five years. On the demand side, new development was the only building class to experience positive absorption in 2022 and 2023, totaling 8.6 msf. Meanwhile, leasing activity in top-tier properties reached 3.8 msf in 2023, accounting for 15.3% of all leasing activity, up from 11.7% in 2019. In Midtown, where the flight-to-quality trend has been most pronounced, leasing activity in top-tier properties has accounted for 21.6% of all leasing in 2023.

SUPPLY
Top-Tier vs. Traditional Vacancy



*Does not include buildings built after 2021

Source: Cushman & Wakefield Research

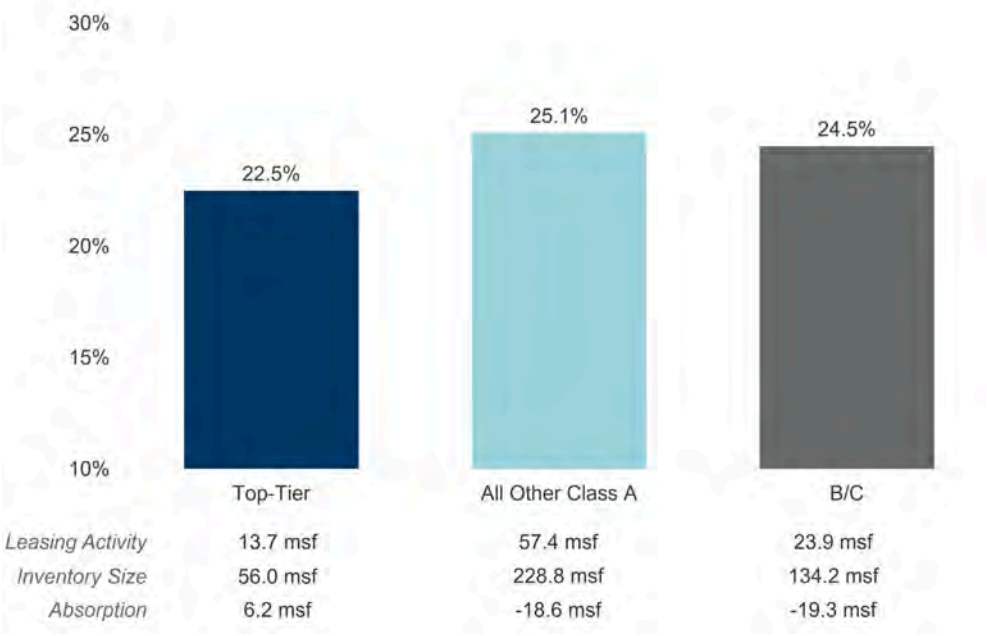
Flight to Quality

Since the third quarter of 2020, the average vacancy rate for top-tier properties diverged from that of the overall market. Excluding recent completions still being leased, the average vacancy rate remained relatively stable over the past three years, measuring 13% as of fourth quarter 2023. In contrast, vacancy for the market overall climbed 850 basis points (bps) to 21.9% during the same period.

The strong demand for top-tier buildings pushed asking rents for top-tier buildings higher, while rents for the wider market stagnated. Since the first quarter of 2020, average asking rents for top-tier buildings increased by 14.2% to $121.70 per square foot (psf) as of fourth quarter 2023. By comparison, overall asking rents increased by just 1.1% over the same period to $70.10 psf.

DEMAND

New Leasing as % of Inventory: 2020-Present

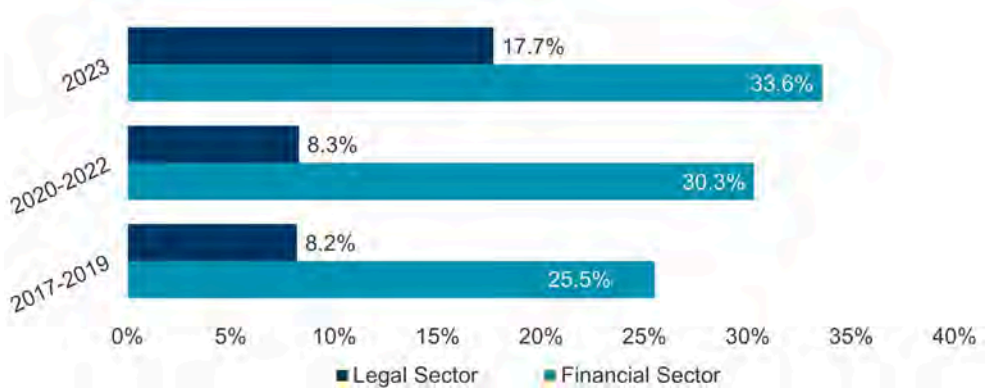


Source: Cushman & Wakefield Research

Financial & Legal Sector Demand

In recent years, the financial services and the technology, advertising, media and information (TAMI) sectors have been leading pillars of demand in New York City. TAMI was the largest contributor of demand between 2018 and 2020, however, in 2021 it was superseded by financial services, which continued to lead all industry types in leasing activity through 2023. While most sectors have yet to rebound to pre-pandemic activity levels, the legal sector has clearly emerged as the second most active. This year leasing activity was the highest it has been in a decade. The financial services and legal sectors, combined, accounted for 51.3% of total annual leasing in 2023, up from 33.7% pre-pandemic. While overall leasing is down in 2023, the positive trend reflects their relative resilience amid current economic uncertainties that have impacted many sectors.

OVERALL LEASING
% of Total: 2017-2023



Source: Cushman & Wakefield Research

In 2023, financial services tenants committed to 140 leases totaling over 5.5 msf, nearly half of the leases committed in the Plaza District. Flight to quality has been a factor for many, with over 70% of leases occurring in newly developed or renovated assets. During the same period, legal sector tenants executed 45 transactions, totaling over 3.6 msf, predominantly in the Grand Central and Sixth Avenue/Rock Center submarkets. The largest contributors to the strong annual leasing total included Paul Weiss, Davis Polk & Wardwell, Wachtell Lipton Rosen & Katz, Cadwalader Wickersham & Taft LLP, Paul Hastings, and Quinn Emanuel Urquhart & Sullivan LLP. Combined, these leases accounted for a total of 1.6 msf. Another 29 tenants are actively pursuing new leases for an additional 2.9 msf of space, suggesting that 2024 will likely be another strong year for New York City's legal sector.

Research Contacts

Lori Albert
Research Director,
New York City
lori.albert@cushwake.com

Reed Hatcher
Sr. Research Manager,
New York City
reed.hatcher@cushwake.com

Seth Schiffman
Sr. Analyst,
New York City
seth.schiffman@cushwake.com

Catherine Trevey
Research Analyst,
New York City
catherine.trevey@cushwake.com





San Diego

Creating Opportunity in San Diego

Why San Diego?

With near-perfect weather throughout the year, the San Diego office market is attractive to companies with employees seeking an active lifestyle and quality of life. The San Diego market is primarily suburban, with its downtown Central Business District (CBD) comprising just 15.1% of office inventory. The city's history as a military port and longstanding support for the defense industry has paved the way for companies like telecommunications giant Qualcomm, which is anchored in Sorrento Mesa and has created a hub of technology and innovation around it. The center around University of California San Diego is a vibrant and expanding life sciences core, filled with research institutions and major pharmaceutical and biotechnology firms.

Just before the pandemic, Google, Apple, and Amazon placed their initial footprints in the market, and they continued to grow after the pandemic settled. Apple was especially aggressive in the market, leasing and purchasing 2.7 million square feet (msf) between the University Town Center (UTC) and I-15 corridor submarkets. Historical anchors, like Qualcomm, Illumina and General Atomics, along with new technology tenants, will foster new businesses and innovations within the market.

Local Economy/Job Growth

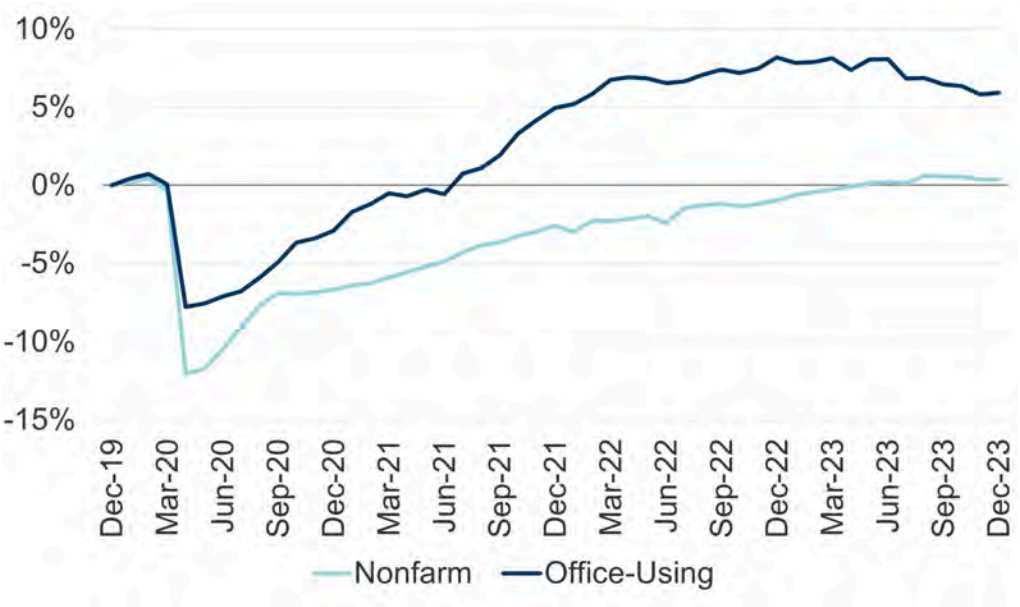
San Diego's total non-farm employment was 1.59 million as of November 2023, a 4.6% increase from February 2020, and 26% increase from April 2020.[1] Office employment has grown from the pre-pandemic peak to 384,000, up 5.8% compared to February 2020, and up 15.6% from the April 2020 low. Office employment was resilient through the pandemic, declining just 8.5% compared to 17% for all industries, as result of work-from-home policies and companies maintaining a "wait-and-see" strategy on employment and real estate.

Consumer spending in San Diego only dipped during the second quarter of 2020, immediately returning to pre-pandemic levels in the third quarter of 2020 and continuing to increase since then. In the fourth quarter of 2023, consumer spending reached $194 billion, a 22.7% increase from the pre-pandemic peak.[2]

San Diego also continues to be a major target for venture capital (VC). Though overall investment declined significantly in 2022, it reverted to pre-pandemic levels, averaging $1.2 billion each quarter from 2022. Life sciences is the major target of investors, averaging $578 million per quarter.[3]

EMPLOYMENT

Nonfarm Payroll vs. Office-Using, % Change Since December 2019



Source: U.S. Bureau of Labor Statistics

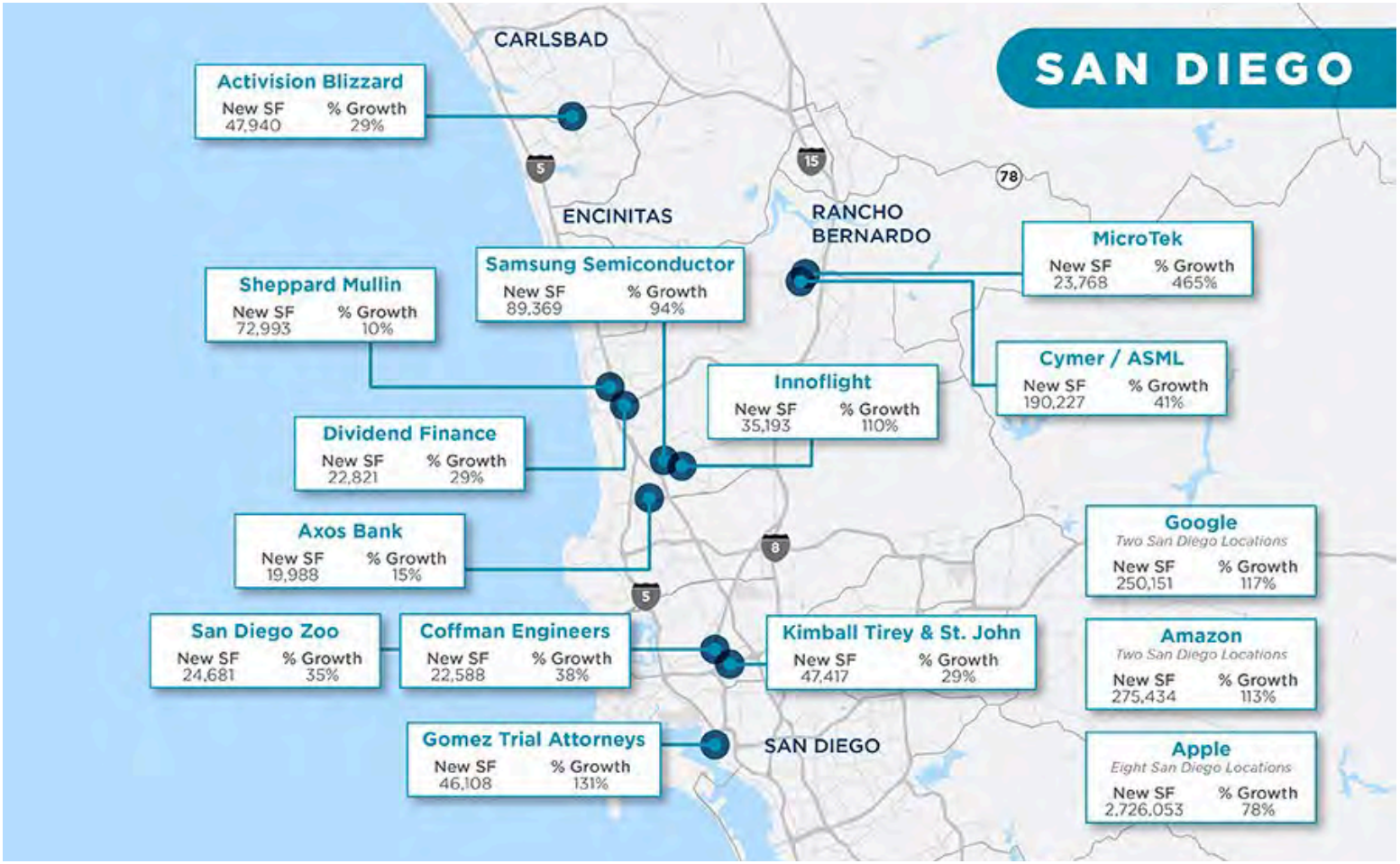
[1] Bureau of Labor Statistics

[2] Bureau of Economic Analysis

[3] Pitchbook

Tenant Expansions

Major technology firms grew significantly during the first three quarters of 2022, including Apple's purchase of an 800,000-sf campus in Rancho Bernardo. Legal and financial services tenants, like Gomez Trial Attorneys and Axos Bank, grew their footprints in 2023. But the latter half of 2023 saw technology companies, including Apple and Google, ink expansion deals. Overall, a wide variety of companies have grown their footprints since 2022, including defense contractors, nonprofits and engineering firms.



Flight to Quality

Class A space comprised 76.4% of square feet (sf) and 75.5% of deals for new leases over 10,000 sf in 2023, and has accounted for 70% of new leasing for three consecutive years. An abundance of new construction resulted in higher vacancy among top-tier assets, however, leasing activity outpaced other Class A assets. Approximately 49% of top-tier product has leased since 2020 compared to just 35.2% of other Class A buildings. Tenants that signed new deals at premier office buildings in 2023 include MediaTek, Pimco and CoStar. Additionally, San Diego Association of Governments leased 87,000 sf inside West, a multi-mixed-use tower currently under construction.

SUPPLY
Top-Tier vs. Traditional Vacancy



*Does not include buildings built after 2021

Source: Cushman & Wakefield Research

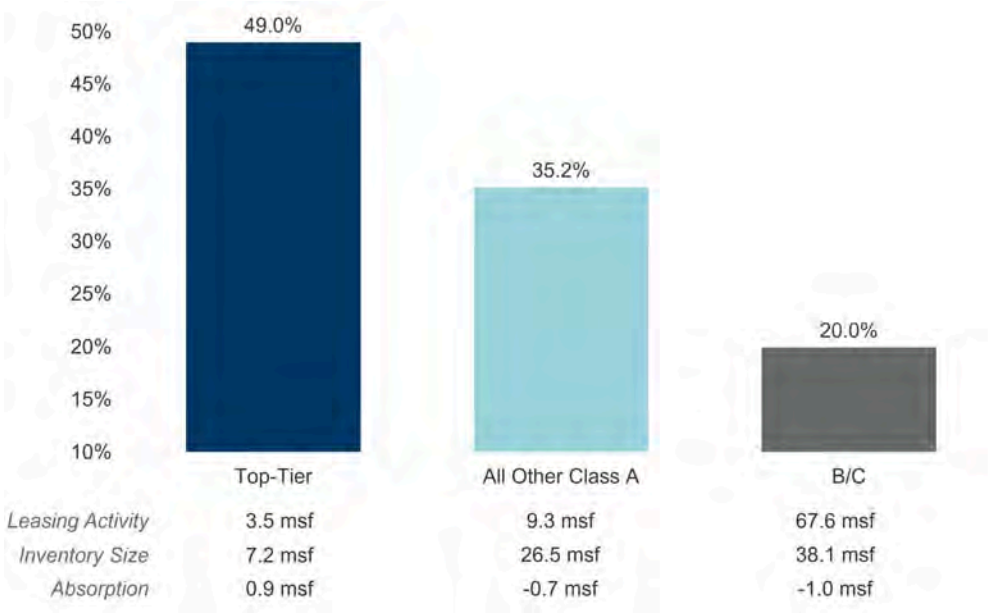
Flight to Quality

Landlords are seeking to attract tenants with increased investment and concessions. For some large vacancies, landlords are building out multi-tenant speculative suites for smaller tenants. For larger tenants, tenant improvements and rent abatement have increased over the last two years. Tenant improvement allowances in 2022 and 2023 increased to more than $70.00 per square foot (psf). Rent abatements increased by two months in 2023—a 33.9% increase when accounting for term length. These concessions reduced effective rents from higher sticker prices, but increased escalations above the previous standard of 3% to help mitigate the change.

Newer speculative developments, including La Jolla Commons III, the San Diego Research and Development District (RaDD) and The Campus at Horton, have yet to secure tenants by the end of 2023, however, they all continue to receive interest and tour activity from a variety of companies attracted to their unique locations and high-quality spaces.

DEMAND

New Leasing as % of Inventory: 2020-Present



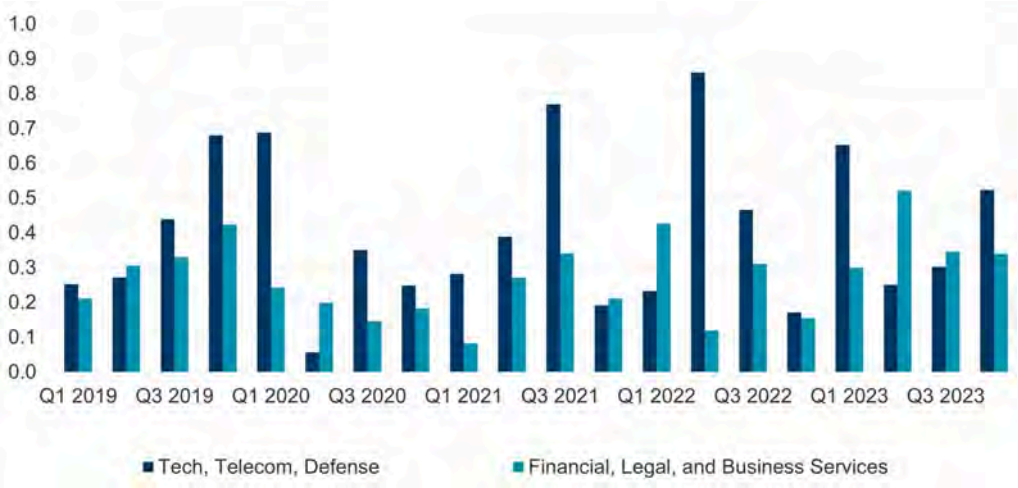
Source: Cushman & Wakefield Research

San Diego Tech Resilience

In 2022, technology, telecommunications and defense tenant activity began to pick up again after the pandemic paused their growth, with Apple expanding and purchasing Rancho Vista Corporate Center. Overall leasing slowed in 2023, but these sectors continue to have major players for blocks of space over 10,000 sf, even more so than tenants in traditional office industries of financial, legal and business services. Tech, telecom and defense currently comprise 36% of tenants in the market compared to just 24.6% for financial, legal and business services.

These tech-oriented industries are also signing deals for longer terms, more square feet and at higher rates. In the second half of 2023, average lease terms are 21 months longer for technology companies that stake footprints 22% larger than other office users. These tenants are also signing deals with 25.7% higher starting rents, while only slightly more likely to favor Class A space (67% vs. 62.6%). In 2023, 53.6% of tech, telecom and defense deals were signed in Rancho Bernardo, while traditional office users heavily preferred the downtown and UTC submarkets.

LEASING ACTIVITY
Office Tenant (MSF)



Source: Cushman & Wakefield Research

Apple, Google and Amazon each signed multiple leases in San Diego, with focus on long-term growth and opportunity with the market's talent and resources. Technology, telecommunications and defense firms were already major players in late 2019 and early 2020 before the pandemic slowed their growth but are now beginning to heat up once again. Other technology tenants have followed suit of the larger firms, including MediaTek, which tripled its footprint near the beginning of 2023. Even given economic uncertainty, some companies have managed to stay resilient. Video game developer Psyonix, a division of Epic Games, renewed in its full two floors, while another video game developer, Activision Blizzard, expanded its Carlsbad footprint by 29%. Technology, telecommunications, and defense tenants are expected to be primary drivers of office market recovery and growth.



Research Contacts

Justin Balagtas
Senior Research Analyst,
San Diego
justin.balagtas@cushwake.com

Jolanta Campion
Senior Research Director,
Southern California
jolanta.campion@cushwake.com




CUSHMAN &
WAKEFIELD
San Francisco
Creating Opportunity in San Francisco

Why San Francisco?

San Francisco serves as the de facto capital of the Bay Area and as the global hot spot for technology. The city is known as the hub for startups as well as mature technology companies that are known throughout the world. Over the years, San Francisco has become home to a diverse tech ecosystem that fuels innovation and growth through a strong talent pool and a deep bench of local venture capital and private equity investors. VC funding continues to pour into the San Francisco area—and with more than $34.2 billion invested in 2023, it marked a 72.4% increase over the five-year pre-pandemic average between 2015-2019.

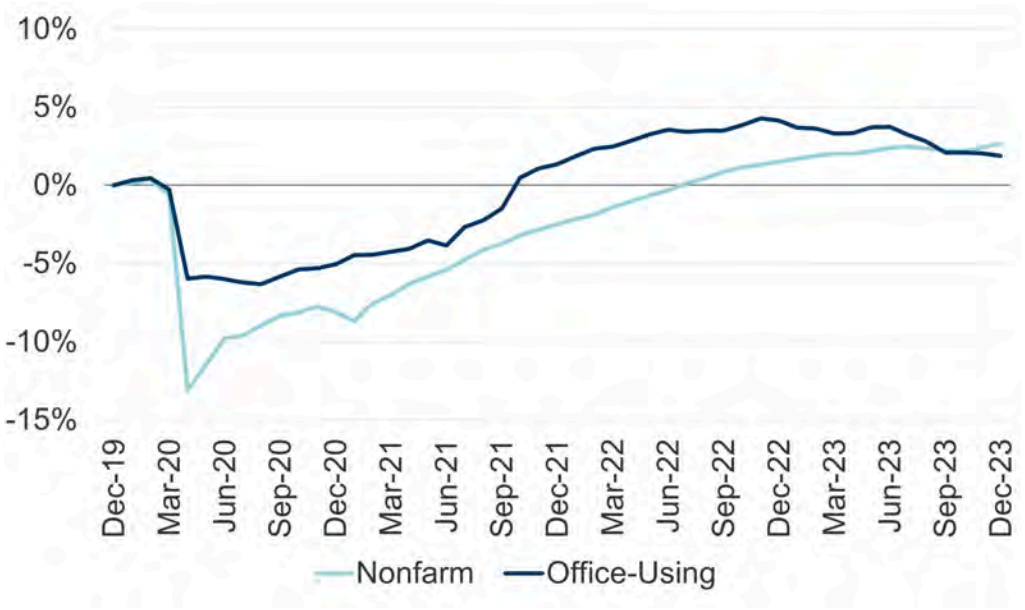
Nearly 60% of the Bay Area's diverse and educated population of 8 million residents have college degrees, and the median income is $136,689, ranking the area high in both wealth and education. Renowned institutions, such as Stanford University and the University of California, Berkeley provide a steady stream of talent that are attracted to career opportunities and the region's diverse cultural scene.

Local Economy/Job Growth

San Francisco's labor market was severely impacted by the pandemic, and the city is still feeling the aftershocks. However, as of May 2023, the total job count had surpassed its pre-pandemic record high. Total non-farm employment for the San Francisco Metropolitan Statistical Area (MSA) reached 2.52 million as of November 2023, just below the historic peak of 2.53 million set in June 2023, and 19.7% above the April 2020 pandemic trough. However, jobs have been reshuffled somewhat during the past four years. Though many categories, such as health, education and government, have bounced back, there are others that remain well below their pre-pandemic figures, especially leisure and hospitality, and retail trade. It's not that there hasn't been a need to fill positions in the latter categories, but a significant number of workers in those fields moved away from the area during the pandemic and have not returned.

EMPLOYMENT

Nonfarm Payroll vs. Office-Using, % Change Since December 2019



Source: U.S. Bureau of Labor Statistics

Local Economy/Job Growth

Office-using employment for the MSA rebounded even quicker from the pandemic, regaining all lost jobs by October 2021 and reaching an all-time high of 831,000 in November 2022. While employment has fallen since that time by nearly 20,000 positions to 811,000, it remains above its pre-pandemic peak. Tech companies hired voraciously during the pandemic though over the past year they have been cutting positions and focus more on revenue and their core competencies. One segment of the industry that has been hiring in San Francisco is generative artificial intelligence (AI), whether within a division of a Big Tech player or a stand-alone startup.



Tenant Expansions

Despite the evolving landscape of remote work and flexible office arrangements, there has been a surprising trend in office expansions, notably among law firms and tech companies. These entities are driving a surge in physical workspaces in San Francisco, while many other industries are in the process of downsizing or resizing. Within tech, there has been a huge uptick in demand from generative artificial intelligence (AI) companies, as they are growing rapidly and require a flexible physical footprint to foster innovation and accommodate their growing workforces.

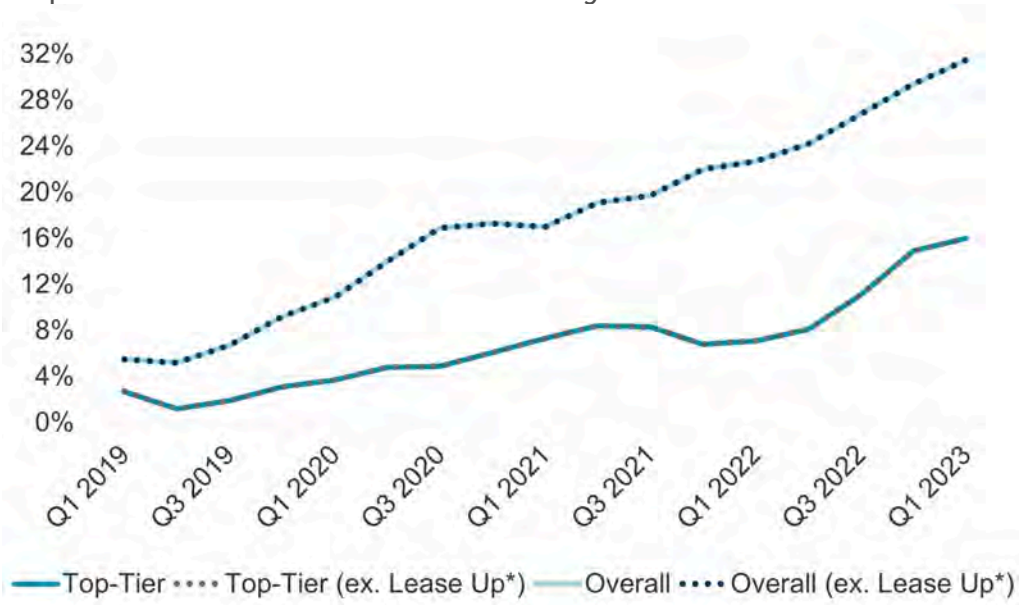


Flight to Quality

For San Francisco, companies continue to navigate the challenges posed by hybrid work models and flexible office arrangements. A significant portion of companies today seek top-quality spaces in premium buildings for two reasons: They want to attract their workers back to the office and pricing to lease such prime space has shifted in their favor. Still, these trophy buildings command the highest rents in the market and maintain a lower vacancy in comparison to the overall market. The top-tier vacancy currently sits at 15.8%, which is 17.4% lower than the vacancy for the rest of the overall CBD market. The divisions in the market will continue to mean tight availability in top-tier buildings, as commodity space will face obsolescence and thus demolition or conversion to other uses.

SUPPLY

Top-Tier vs. Traditional Vacancy



*Does not include buildings built after 2021

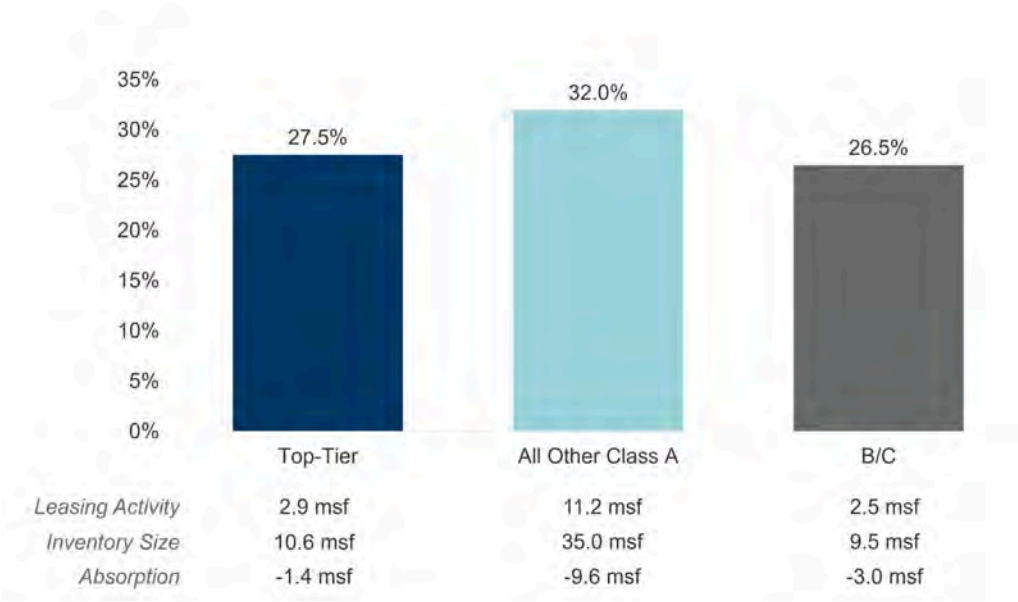
Source: Cushman & Wakefield Research

Flight to Quality

New construction over the past five years added 6.4 million square feet (msf) of Class A office space, which attracted mature tech tenants that expanded their footprint or headquarters. At close of the fourth quarter of 2023, there is nearly 1.7 msf of vacant space in new construction buildings which translates to a 25.8% vacancy rate, though much of that total is sublease space. The overall asking rates have dropped $13.84 from a peak of $104.21 full-service gross (FSG) on an annual basis in the fourth quarter of 2020 to $90.37 FSG, mostly due to the influx of sublease space. Direct rents have been firmer, at $99.01 FSG, just $5.20 down from its peak, as landlords believe the quality of the space will translate to new tenants. This scenario recently played out as a global generative AI company signed for 457,000 sf in a premium building in the largest deal of 2023.

DEMAND

New Leasing as % of Inventory: 2020-Present



Source: Cushman & Wakefield Research

Market Trends

Generative AI has been the significant bright spot for San Francisco and the Bay Area economy over the past year. Of the 1,056 public and private generative AI companies in the U.S., 44% are in the Bay Area, with 25% in San Francisco. In 2023, companies based in San Francisco and in the Bay Area received 67% and 78% of VC funding, respectively, for global AI. This substantial VC funding is now equating into transactions, with over 1.1 msf in leasing activity in San Francisco this year. The rapid pace of change and discovery in this industry pushes AI companies to be office-first, meaning they come into the office four to five days a week.

Leasing activity, including renewals, climbed from the pandemic low of 592,000 sf in the fourth quarter of 2020 to 1.3 msf in the third quarter of 2023—though far from its historic peak of 3.9 msf in the second quarter of 2014. While tenants have been hesitant to transact new leases, there has been an uptick in renewals as a percentage of all activity. Since 2020, renewals accounted for 33.9% of all leases compared to 2018-2019 at 25.5%. The increase in lease commitments implies that companies are leaning toward maintaining return-to-office policies going forward. Bay Area public transit has experienced a slow recovery post-pandemic, with San Francisco's Muni Metro and regional BART system at 65% and 41%, respectively, of pre-pandemic ridership.

RENEWALS

Share of Renewals Across Total Leases



Source: Cushman & Wakefield Research

Anticipated service cuts for the Muni Metro and BART have been averted with $776 million in state and regional subsidies. Ferries have outperformed, reaching 80% ridership, but Caltrain, California's commuter rail line, has struggled with just 28% ridership. Annual visits to the CBD have increased, from 6.1 million in 2020 to 8.8 million in 2023, a positive sign from the shift in remote to in-person work.

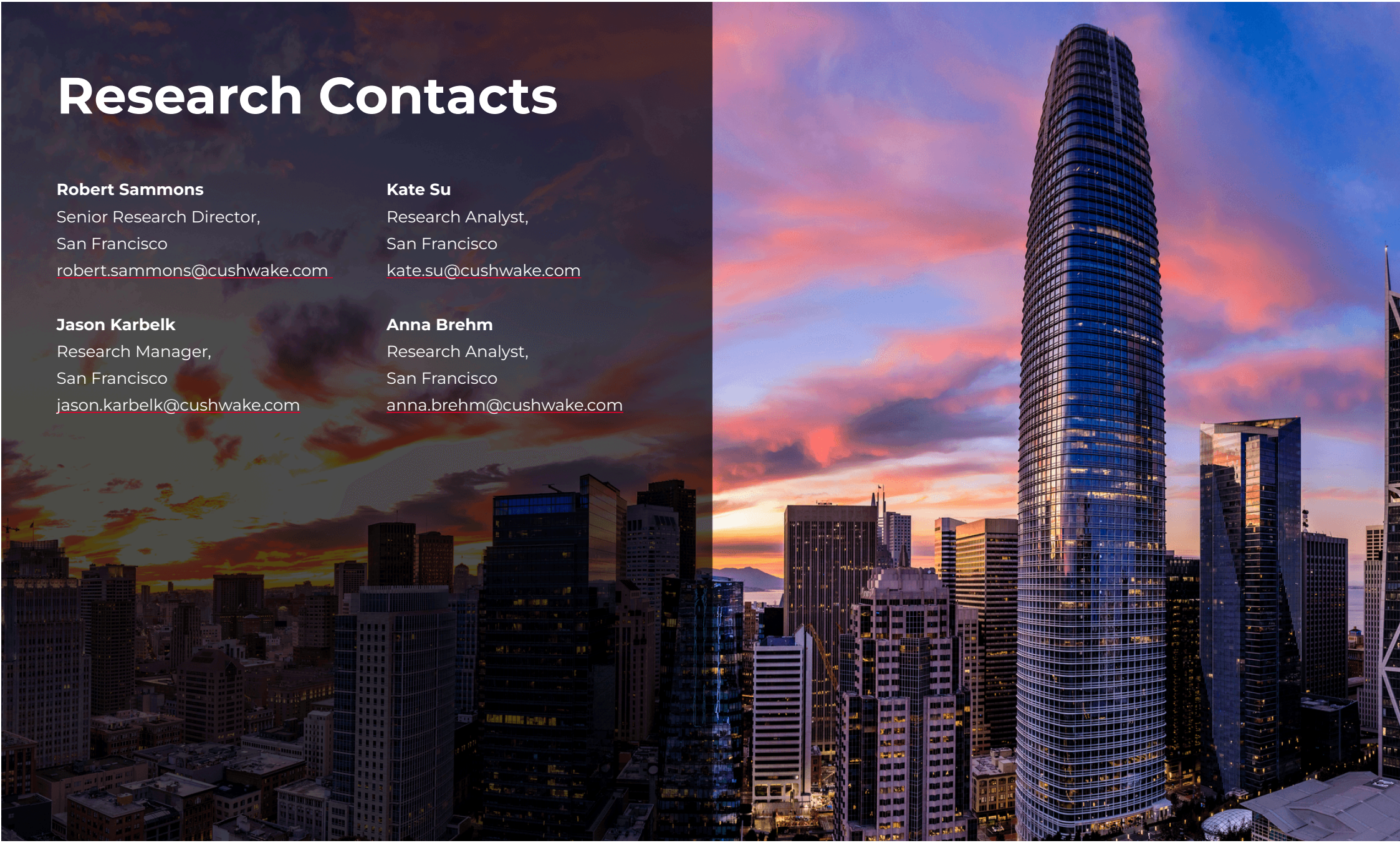
Research Contacts

Robert Sammons
Senior Research Director,
San Francisco
robert.sammons@cushwake.com

Kate Su
Research Analyst,
San Francisco
kate.su@cushwake.com

Jason Karbelk
Research Manager,
San Francisco
jason.karbelk@cushwake.com

Anna Brehm
Research Analyst,
San Francisco
anna.brehm@cushwake.com



Toronto

Creating Opportunity in Toronto



Why Toronto?

The Greater Toronto Area (GTA) stands out as Canada's largest and most culturally diverse urban center, recognized for its stable economic environment, high quality of life and abundant talent pool. The city's significance and vibrancy resonate nationally, generating close to a quarter of Canada’s GDP. With a population exceeding 6 million residents and counting, it ranks among the largest cities in North America and serves as the home to a quarter of Canada's population.

Downtown Toronto's strategic positioning within the GTA allows for convenient connections to numerous U.S. cities via a quick 90-minute flight. As Canada's primary business and financial center, it hosts the headquarters of five of the country's six largest banks and holds the position as the second-largest financial services center in North America. While the city is a pivotal financial hub, its competitiveness extends to other major business sectors. In recent years, Toronto's technology ecosystem witnessed substantial growth, establishing itself as one of North America’s fastest-growing tech hubs. Venture capital funding continues to fuel company growth in Toronto, with nearly $2.4 billion invested in 2023—a 42.9% increase compared to the pre-pandemic average from 2015-2019. Additionally, the city emerged as a leader in artificial intelligence research and development, contributing significantly to the global tech landscape.

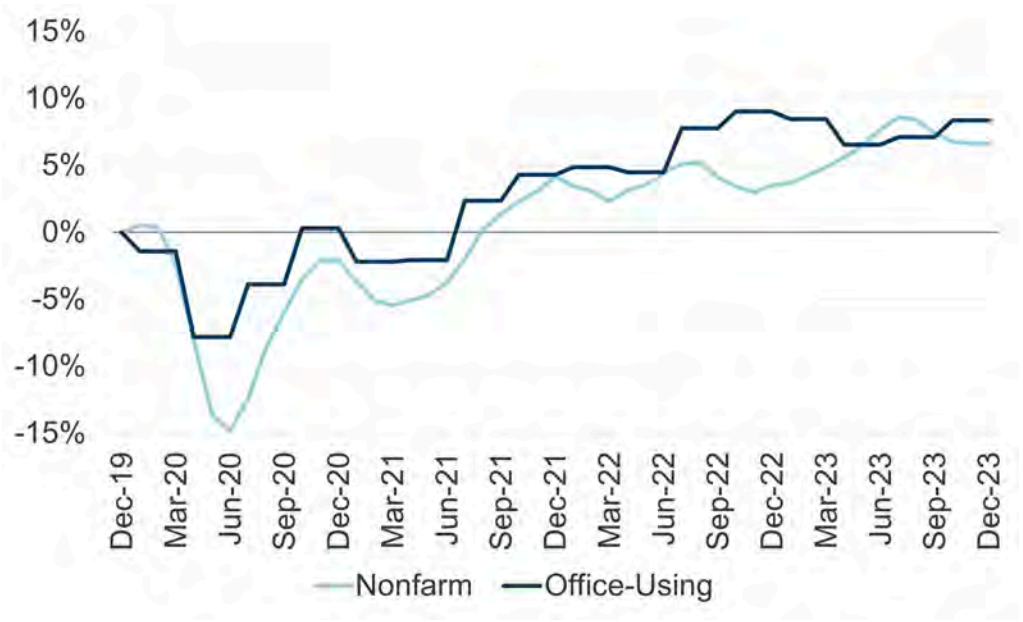
Local Economy/Job Growth

Thanks to favorable immigration policies, Canada's labor force continues to grow, with the Toronto region being a primary beneficiary. Annually, Toronto is chosen as the new home of more than 100,000 international immigrants, the largest number of immigrants across all Canadian cities. The presence of four of Canada’s top ten universities within the region, including the University of Toronto, ensures a steady influx of talent. Moreover, with 39.9% of the city's population holding university degrees, businesses can tap into a highly educated and skilled workforce.

Before the pandemic, Toronto's employment numbers showed steady growth, with office-using employment increasing by 5.9% and non-farm payroll increasing by 4.3% between February 2019 and January 2020. However, with the onset of the pandemic, employment dipped, with non-farm and office-using jobs falling by 5.5% and 0.8%, respectively. By March 2021, the labor market began to rebound, and employment in both categories surpassed pre-pandemic levels, experiencing growth of 9.1% for non-farm and 7.2% for office-using jobs by February 2022.

While non-farm and office-using jobs grew by 6.2% and 9.9%, respectively, since February 2020, by the mid-point of 2023, the labor market began to exhibit signs of softening. Non-farm jobs experienced a decline of 1.8% percent, while office-using sectors had a marginal growth of 1.1%.

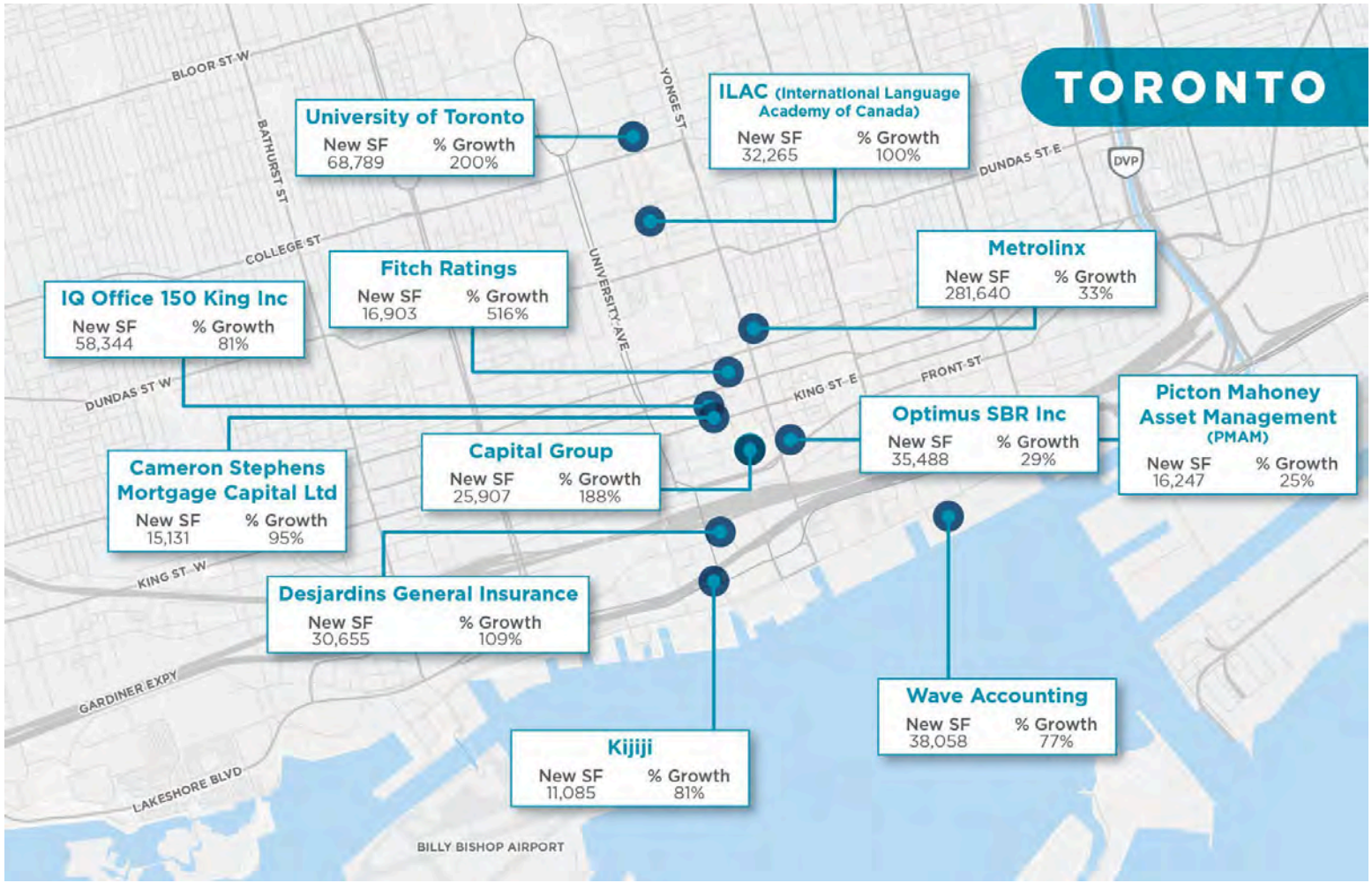
EMPLOYMENT
Total vs. Office-Using (000’s)



Source: Cushman and Wakefield Research, Statistics Canada, Moody's Investors Service, Global Toronto

Tenant Expansions

Despite the prevalence of remote work, there is still expansion occurring in some sectors. In the high-growth period from 2018 to 2019, the tech sector dominated Toronto's downtown market growth, accounting for an average of 39.7% of the total expansion area tracked annually. Fast forward to 2023, and traditional drivers like financial services outpaced the tech sector in the past two years—contributing to 18.7% of the expansion area tracked, compared to tech's 6.7%. Also, a new player has entered the scene—the education sector is rapidly emerging as a growth driver. Since 2022, education growth downtown has made up about 20.7% of the expansion area.



Flight to Quality

The flight-to-quality trend persists within Toronto's downtown market, as occupiers increasingly direct attention toward top-tier buildings with features that foster experiential workplaces designed to attract talent and enhance their competitive advantage. The top-tier office market in Toronto has proven resilient to cyclical changes, consistently emerging as a frontrunner, even in the current cycle.

In the fourth quarter of 2023, the overall vacancy rate in top-tier buildings stood at 7.6%, positioning this cohort 970 basis points (bps) lower than the broader market, which closed the year with a 17.3% vacancy rate. Although the top-tier segment has not been entirely shielded from prevailing headwinds, registering a 6.1% increase in overall vacancy since the second quarter of 2020, the broader market posted a more significant surge of 14.9% during the same period. Direct vacancy in top-tier buildings experienced minimal fluctuations, reaching a three-year low of 1.7% by the fourth quarter of 2023. In contrast, a ballooning sublet inventory acted as the driving force, exerting upward pressure on vacancy in the top-tier market. Since the first quarter of 2019, sublet vacancy ticked up by an average 30 bps quarterly, capping off the year at 5.8%.

SUPPLY

Top-Tier vs. Traditional Vacancy



*Does not include buildings built after 2021

Source: Cushman & Wakefield Research

The introduction of 40 Temperance Street, a new building inthe top-tier mix, had a minimal impact. Its impressive preleasing rate of 93.8% underscored the high level of interest occupiers have in modern, centrally located buildings.

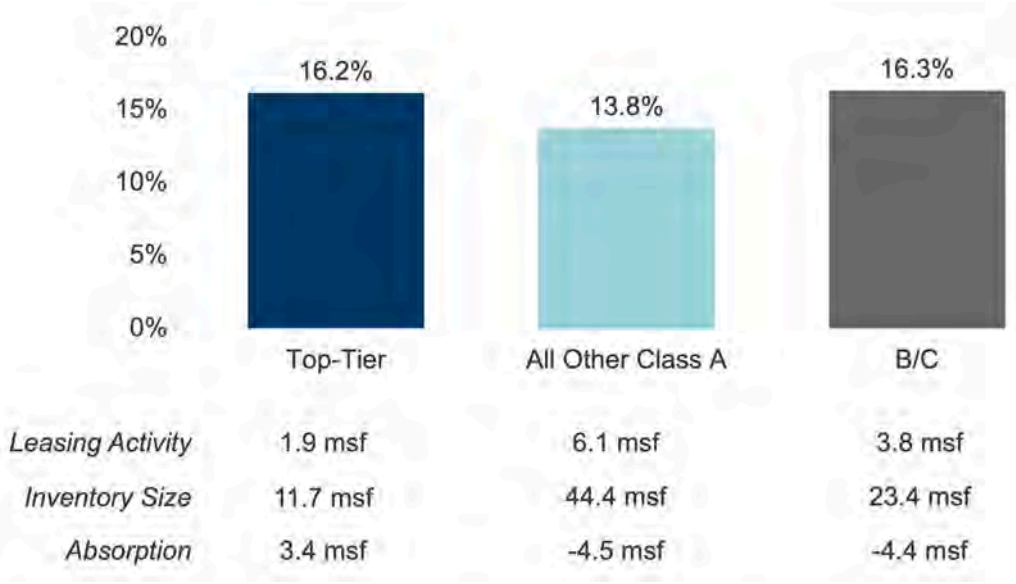
Flight to Quality

The appeal of the top-tier market is further highlighted by the total absorption of 3.4 million square feet (msf) since the second quarter of 2020, a sharp contrast to the balance of the market where cumulative absorption totaled negative 4.5 msf.

An unusual lag exists in the correlation between rising vacancy and quoted net rent declines in this cycle. Although quoted net rents have started to soften, the trend isn't widespread. In commodity Class A assets, landlords are taking a proactive approach, offering extended rent-free periods and higher cash incentives rather than lowering rents aggressively. Since 2020, net effective rents (NERs) in these assets have receded by around 9.4%, widening the gap between asking rents from $2.50 per square foot (psf) to about $7.24 psf. Top-tier buildings with virtually no direct vacancy have not needed to deploy similar strategies to compete for transactions. In fact, NERs have followed a different trajectory, edging up by about 6.5% between 2020 and mid-2023.

DEMAND

New Leasing as % of Inventory: 2020-Present



	Top-Tier	All Other Class A	B/C
Leasing Activity	1.9 msf	6.1 msf	3.8 msf
Inventory Size	11.7 msf	44.4 msf	23.4 msf
Absorption	3.4 msf	-4.5 msf	-4.4 msf

Source: Cushman & Wakefield Research

Hot Submarket: Downtown South

The flight-to-quality trend is as much about location as it is about the quality of the building itself, and this shift propelled the Downtown South submarket to the forefront of high-performance nodes in the current cycle. Over the past decade, Downtown South experienced remarkable growth, with its inventory more than doubling, climbing to 10.3 msf from 4.5 msf. About 44.7% (4.7 msf in five buildings) of the current inventory introduced to the submarket within the last decade is strategically located within a 10-minute walk to Union Station, Toronto's primary transit hub.

These developments have proven to be highly attractive to occupiers, as highlighted by the consistently low direct vacancy rate, which has averaged 2.8% since 2020. By the fourth quarter of 2023, direct vacancy in these buildings dipped to 2.4%, marking the lowest level in the past three years. Further highlighting the importance of location and convenient access to amenities, the second phase of CIBC Square, slated for completion by early 2025, was already 72.2% preleased by the end of 2023.

CYCLE IMPACTS ON VACANCY

Downtown Submarkets Q2 2020 – Q4 2023



Source: Cushman & Wakefield Research

Downtown South's standing as the shining star in the downtown area is further highlighted by absorption trends over the past four years. Total absorption between the second quarter of 2020 and the fourth quarter of 2023 reached 2 msf, solidifying its unique position as the only downtown submarket where cumulative absorption remained positive. Meanwhile, total absorption during this period ranged from negative 3.9 msf to negative 231,000 sf in the remaining five nodes. Quarterly increases in overall vacancy, averaging 60 bps, contributed to a 7.7% upswing in overall vacancy during the same timeframe. In contrast, the remaining five downtown submarkets registered upticks exceeding 13.3%.

With an average tenant size of 63,000 sf, the Downtown South submarket is home to an array of major players, including two of the country’s largest banks, financial services firms and several leading tech companies, like Apple, LinkedIn, Amazon and Microsoft. This dynamic mix of large tenants contributes to the node's vibrancy and underscores its appeal as a preferred destination for diverse and influential businesses.



Research Contacts

Juana Ross
Research Director, Toronto
juana.ross@cushwake.com

Leah Campos
Sr. Research Analyst, Toronto
leah.campos@ca.cushwake.com





Washington, D.C.

Creating Opportunity in Washington, D.C.

Why Washington, D.C.?

Washington, D.C. is not only home to our nation's capital, but also to some of the country's most vibrant and diverse communities. With a population of more than 6.4 million—and a workforce of nearly 3.4 million—it is the sixth-largest metropolitan area in the U.S. It harbors a highly educated workforce, thanks to 31 major universities in the metro area. With a median income nearly twice as high as the national average, it's also one of the most affluent areas of the country.

Washington is one of the most globally connected cities in the world. A beacon of foreign investment, it is home to over 1,000 internationally owned companies and nearly 400 international associations. Three international airports and sophisticated rail transportation connect the world to the Washington area. In 2022, more than 41 million people flew in and out of Washington, and over 96 million boarded the metro area's diverse rail system.



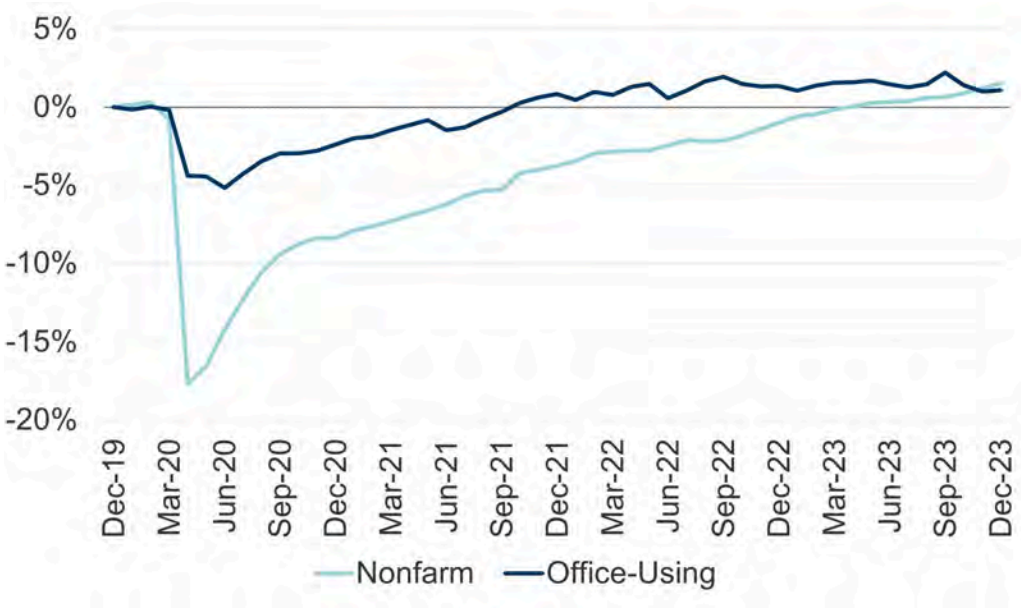
Local Economy/Job Growth

While the pandemic had a substantial impact, the regional economy recovered and remains strong. Job losses have been regained, and there are now more jobs in the area—3.4 million—than at any other point in history.[1] Job growth is particularly strong in office-using sectors like professional and business services, which boasts 16,500 more jobs than before the pandemic. The federal government also has been a major driver of job growth. Along with the 368,000 federal employees working across the region, the contracting and consulting sectors have generated $127 billion in contracts. Washington also contains the third-largest number of nonprofits, with 26,485 organizations that maintain $166.7 billion in in assets.[2]

Other job sectors experiencing growth include construction, information, education and healthcare services. The regional unemployment rate ended November 2023 at 2.7%—the lowest on record. The Washington unemployment rate is significantly lower than the overall U.S. rate (3.7%) and is second only to Miami for the lowest unemployment rate among major metropolitan markets.[3]

EMPLOYMENT

Nonfarm Payroll vs. Office-Using, % Change Since December 2019



Source: U.S. Bureau of Labor Statistics

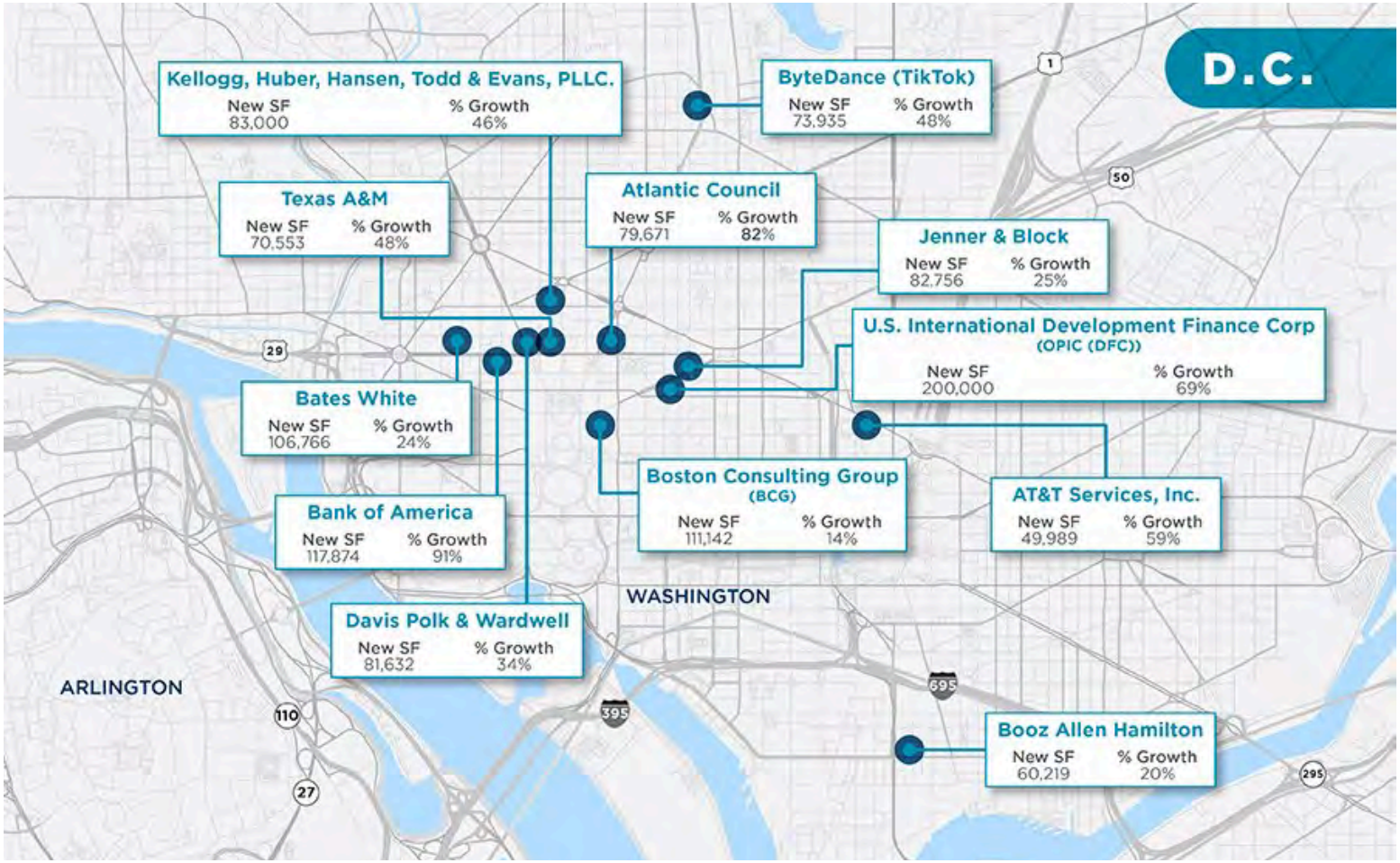
[1] U.S. Census Bureau

[2] Tax Exempt World

[3] U.S. Bureau of Labor Statistics

Tenant Expansions

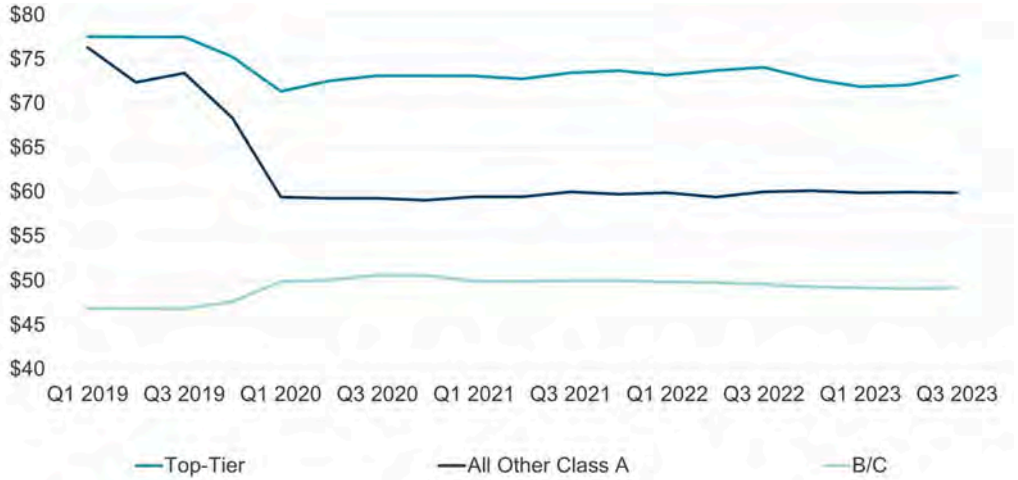
While large tenants are downsizing an average of 32% in relocations, growth among smaller users is notable. Nearly 170 occupiers have increased their office leases since 2022, with an average increase of 6,383 square feet (sf) or an increase of 45%. Nearly half of expanding users came from the legal, financial or nonprofit sectors. Large tenants that have expanded their space in 2023 include the law firm Kellogg Huber, which expanded by 26,000 sf, and Davis Polk, which relocated and added 20,632 sf. Some other notable expansions were TikTok, which grew by 24,000 sf—a 48% increase—and the University of Texas A&M, which expanded by 22,749 sf, or 48%.



Flight to Quality

There have been news reports recently about turmoil in the Washington office market, but these reports often overlook the strength of top-tier product. While vacancy for the market—excluding top-tier buildings—sits at 21.4%, average vacancies for top-tier products were a modest 13%, with large blocks of high-end space increasingly hard to come by. Top-tier inventory accounts for 19.2 msf across 58 buildings, while the rest of the market includes 93.5 msf across 468 buildings. The market is increasingly bifurcated, with top-tier product significantly outperforming the rest of the market. Despite only accounting for 15% of inventory, top-tier product commanded 25% of all new leases in 2023. Seven out of the top 10 largest new deals were signed in top-tier buildings in 2023. The top-tier segment of the market has recorded 1.2 msf of positive absorption in 2022-2023 compared to the 2.6 msf of negative absorption in the rest of the market. With only 2.5 msf of current vacancy, combined with falling new supply, availability in trophy buildings will continue to become harder to secure in the next four years. Vacancy in trophy assets that were delivered in 2010 or later is currently in the single digits.

RENTS
Top-Tier vs. Traditional Rents



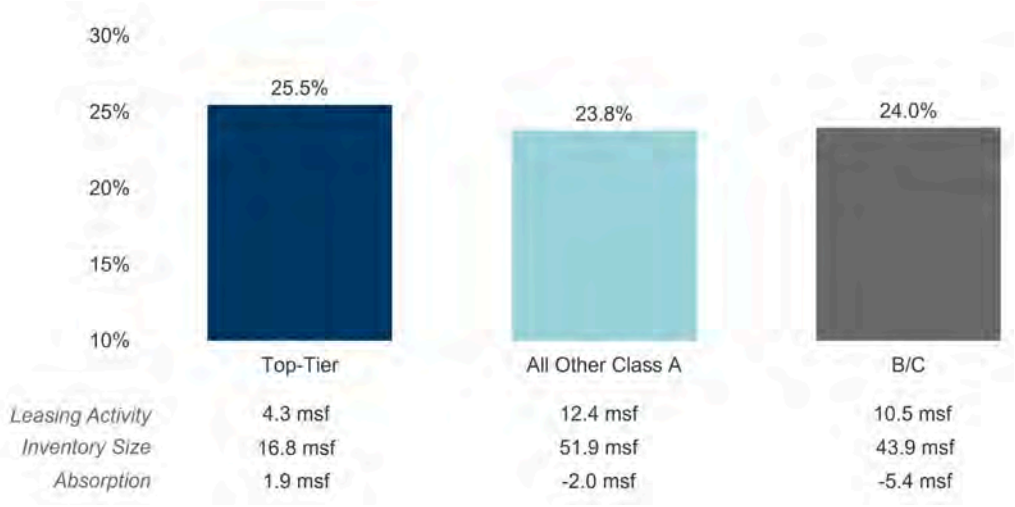
Source: Cushman & Wakefield Research

Flight to Quality

Tightening in the trophy office sector is unlikely to be affected by new supply. New trophy product under construction is now at 700,782 sf, the lowest point in over 20 years. For comparison, there was an average of 2.2 msf of annual deliveries from 2018 to 2022. The spaces under construction are already 55.7% leased, with robust activity on the remaining 310,630 sf, which will be available for occupancy in 2024 and 2026. The slowdown in new construction is caused by several factors, including inflation in the price of materials, labor pricing and constraints, and a much stricter construction lending environment. The rent needed to economically build new construction will also be significantly higher than in recent transactions.

DEMAND

New Leasing as % of Inventory: 2020-Present



Source: Cushman & Wakefield Research

Spec Suites: The Post-Pandemic Solution?

Spec suites, favored by smaller tenants in Washington, are now even more in demand post-pandemic. These move-in-ready spaces offer landlords higher rental rates and enable tenants to swiftly become operational, typically within 30-90 days. They particularly attract rapidly growing companies that have outgrown home offices or flexible coworking spaces.

There are over 1.8 msf of spec suites in the Washington market and another 1 msf currently under construction. Nearly half of this inventory is made up of suites under 5,000 sf, and 73% of the inventory is in the core CBD and East End submarkets. An increasingly popular option for landlords is to build spec suites together in a town hall model that features a shared tenant lounge and conference amenity. Currently, more than 241,000 sf of town hall suites are on the market or under construction.

Spec suites offer an opportunity for landlords to achieve higher rents. Class A spec suites command rates nearly $1 psf higher than Class A direct availability, and Class B spec suites surpass Class B prime availability by $3.47 psf. In 2023, spec suites accounted for 79% of all deals under 5,000 sf. The top industries leasing spec suites are nonprofits and associations that have leased over 160,000 sf of spec suites in 2023, followed by law firms that signed over 60,000 sf and consultants that inked over 52,000 sf.

SPEC SUITE
Average Rent and Term



Source: Cushman & Wakefield Research

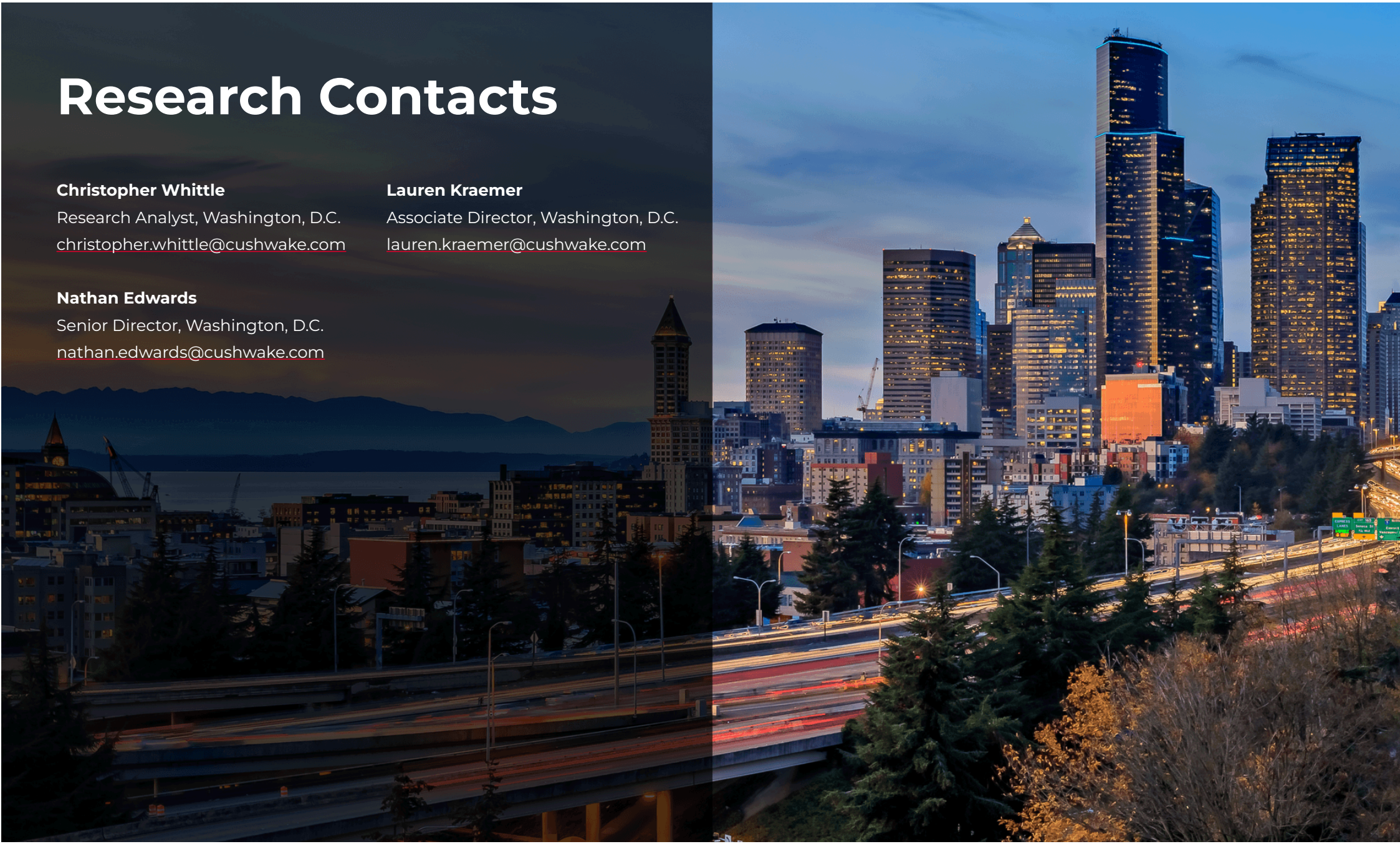
Not only are spec suites becoming more popular, but tenants are signing longer-term leases in them. In 2019, the average spec suite term was 5.7 years, but the average climbed to 7.5 years in 2023. In today's economic climate, spec suites will remain a great opportunity, as they offer tenants added flexibility and landlords an occasion to achieve higher rents on otherwise vacant space.

Research Contacts

Christopher Whittle
Research Analyst, Washington, D.C.
christopher.whittle@cushwake.com

Lauren Kraemer
Associate Director, Washington, D.C.
lauren.kraemer@cushwake.com

Nathan Edwards
Senior Director, Washington, D.C.
nathan.edwards@cushwake.com





Thank you

The Bright Side of Office

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