

# U.S. Office Rents Growing at Fastest Pace in 7 Years

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Despite the recent global volatility, tenant demand for U.S. office space remained strong in the third quarter of 2015 pushing rental rates up in three-quarters of the U.S. according to new research by Cushman & Wakefield.

Preliminary data show that U.S. office markets absorbed 19.2 million square feet (msf) of office space in the third quarter of 2015, down 12.6 percent from the same quarter one year ago. Even with a deceleration in activity, demand for office space continues to outstrip the new development, which pushed vacancy rates down by 10 basis points (bps) from the previous quarter to 14.1 percent in the third quarter of 2015.

Kevin Thorpe, Cushman & Wakefield's Chief Economist, says the U.S. office sector continues on a strong, steady path despite a number of global economic headwinds. "There were plenty of reasons for the office metrics to slump this quarter: financial market volatility, China's economic slowdown, the rapid appreciation of the U.S. dollar, uncertainty regarding monetary policy, along with the possibility of a government shutdown. But what we are learning is that the U.S. economy and the property markets are proving, time and time again, to be resilient in the face of all of these headwinds. This quarter was still one of the strongest in the cycle in terms of occupancy gains."

U.S. office rents increased 3.1 percent in the third quarter compared to one year ago – the strongest quarterly gain since peaking in 2008. Office rents rose in 60 out of the 80 metros tracked, and the construction pipeline continued to expand. In the third quarter of 2015, there was 107.5 msf of new office construction, up 25 percent compared to the same quarter one year ago.

"Tech markets are absolutely soaring, and they continue to drive the overall gains," Mr. Thorpe said. "But one emerging trend is the increasingly impressive performance of secondary and tertiary markets. If you look at office-using job growth in these cities, compared to the size of the labor force, it's the secondary markets that are now at the top of the list. We expect this narrative to continue as an increasing number of firms are drawn towards more affordable markets, and that will be reflected in the leasing fundamentals. We know we are reaching a strong place in the cycle when we see that both gateway cities and secondary cities are benefitting more evenly in the expansion, which is what we are now observing."

Regionally, the West led the way with 7.3 msf of net absorption in the third quarter of 2015, down from 9.3 msf registered in the previous quarter; office rents in the West increased by 6.0 percent in the third quarter compared to a year ago. In the South region, net absorption registered at 6.3 msf, down from 7.7 msf in the previous quarter; office rents rose by 2.3 percent in the South. Net absorption in the Northeast registered at 2.9 msf, up from 2.1 msf registered in the previous quarter; office rents rose by 2.3 percent. In the Midwest, net absorption registered at 2.6 msf, up from 2.2 msf in the previous quarter; office rents increased by 1.1 percent.