

# U.S. OFFICE RENTS JUMP IN Q4

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Cushman & Wakefield, a global leader in commercial real estate services, announced today that U.S. office rents increased at their fastest pace in seven years in 2015 as robust job gains and lagging construction continued to create tighter market conditions in most markets.

U.S. office markets absorbed 21.3 million square feet (msf) of office space in the fourth quarter of 2015, up 2% from the previous quarter but down 1.1% from the fourth quarter of a year ago. For all of 2015, net absorption registered at 81.7 msf, which is the highest level since 2006. The national office vacancy rate fell 80 basis points from the fourth quarter of 2014 to 13.9%. Office vacancy has slowly declined since 2011 but still remains 100 basis points (bps) higher than pre-crisis levels.

Kevin Thorpe, Cushman & Wakefield's Chief Economist, says the expansion is now rolling more aggressively into the mid-sized and smaller metro areas. "Secondary and tertiary markets really came on strong in 2015 —that was the news for the office sector. Up until last year, it was still mostly the gateway cities driving the demand metrics. Gateway cities are still performing well, but the fourth quarter data shows that seven of the top 10 absorption cities were non-gateway markets. Markets like Phoenix, East Bay, and Sacramento are surging. On a risk-adjusted basis, the secondary markets should appear increasingly compelling to both foreign and domestic investors."

U.S. office rents increased 4.9% in the fourth quarter compared to a year-ago — the strongest quarterly gain since peaking in 2008. Office rents increased in 70 out of the 87 markets tracked by Cushman & Wakefield from the fourth quarter of 2014 to the fourth quarter of 2015, and the construction pipeline continued to expand. In the fourth quarter of 2015, there was 93.9 msf of new office construction, up 2.7% compared to the same quarter one year ago.

"Although construction is ramping up in certain markets, particularly in tech-fueled cities, in general the supply pipeline continues to lag in this cycle," says Mr. Thorpe. Since 2011, absorption has been nearly 75% higher than the new construction levels. As a result, rents are jumping in many cities. Twelve markets hit double-digits in rental appreciation in the fourth quarter, and many more are on their way."

In the fourth quarter of 2015, the top 10 strongest markets in terms of demand for office space were Phoenix, with 1.5 msf; Los Angeles Metro, with 1.4 msf; Denver, with 1.1 msf; Dallas/Fort Worth, with 1.0 msf; Chicago, with 830,000 sf; East Bay, with 825,000 sf; Atlanta, with 817,000 sf; San Jose, with 816,000 sf; Sacramento, with 805,000 sf; and New York (Midtown), with 743,000 sf.

The top 10 strongest markets in terms of rent growth were San Jose, with 20.3% year-over-year rental appreciation; New York (Downtown), with 16.7%; Seattle, with 16.4%; New York (Midtown South), with 14.7%; San Diego, with 14.1%; Austin, with 13.9%; Dallas, with 13.2%; San Mateo County, CA, with 12.1%; San Francisco, with 11.9%; and Bellevue, with 11.0%.