

A photograph of a modern cityscape with several tall glass skyscrapers under a clear blue sky. In the foreground, there are lush green trees and a white, curved architectural structure with a grid-like pattern. A decorative pattern of small yellow squares is overlaid on the left side of the image.

# Occupier Outlook

United States Overview:  
The Economy and its Impact on Commercial Real Estate

Cresa Research

Q1, 2024



# Executive Summary

## Macro Economic View

- Office-occupying/knowledge worker jobs retreat as the health and service sector employment jumps higher
- The US economy continues expansion as GDP growth exceeds expectations
- Inflation remains stubbornly elevated, but consumers continue to spend down recession-era savings
- All eyes will be on the Fed to see if they hold rates steady or cut rates heading into the middle of 2024
- Housing starts tick higher, but sales drag as interest rates discourage both buyers and sellers

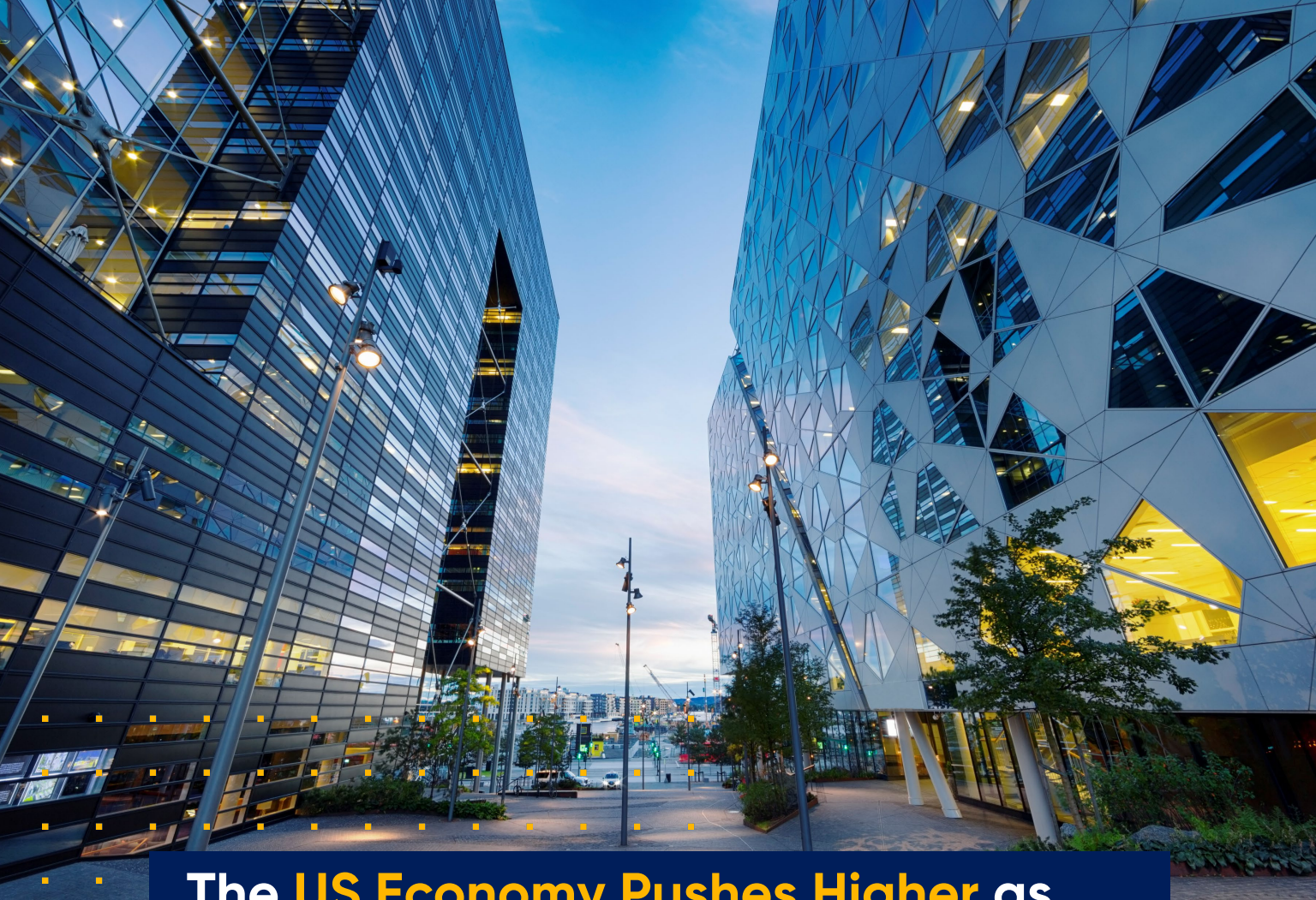
## Office Market Searches for the Bottom

- Employee occupancy levels have now remained stable for the past 18-months
- Lack of new office construction is limiting top-tier space availability as flight-to-quality remains
- Landlords are holding firm on asking rents, but net effective rent drops due to attractive concessions and more favorable lease terms

## Industrial Sector Comes Up for Air

- The US industrial market continues to downshift from historic highs in 2021 and 2022
- Supply is outpacing demand as new industrial products deliver, but a dramatic decrease in new starts will bring stability in the mid-term

**The economy stabilizes,** as the commercial real estate sector continues to search for buoyancy.



# The Economy Defies Expectations With Strong Start to 2024

The economy kicked off 2024 with positive momentum from outsized GDP growth spurred by consumer spending and a tight employment market. Many economists predicted a shallow recession in 2023 that never materialized, and few expect a contraction this year. Despite the Fed raising 525 basis points in the past 24-months, the labor market has been resilient, with more than 300,000 jobs added in March. This marks the fourth straight month of job gains.

The result of the Fed boosting interest rates dropped inflation from the peak in June 2022. However, inflation has remained stubbornly above three percent annual growth. Persistent elevated inflation has caused concern that the Fed may prolong long-awaited rate cuts or even cause additional hikes.

Still, there has been a general slowdown in some activity, including manufacturers experiencing a slowdown in product orders in 2023. The housing market has seen sales activity slow due to increasing rates. Nevertheless, elevated prices have eroded affordability. The services sector has defied some market indicators with demand for services such as travel, entertainment, and dining expanding throughout the past year.

**The US Economy Pushes Higher as Inflation Lingers**

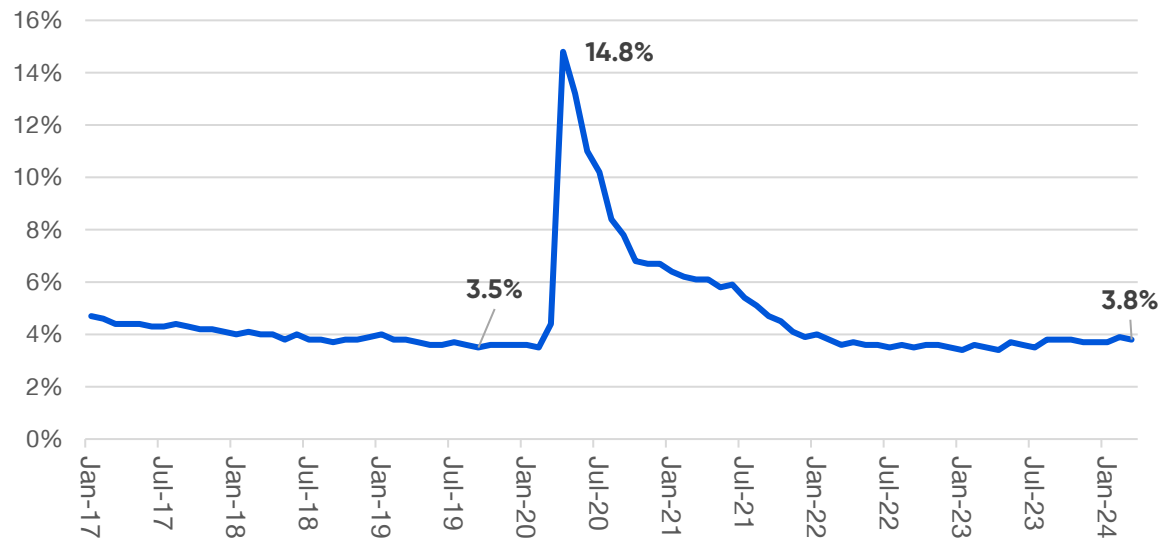


# Unemployment

## Unemployment Remains Steady

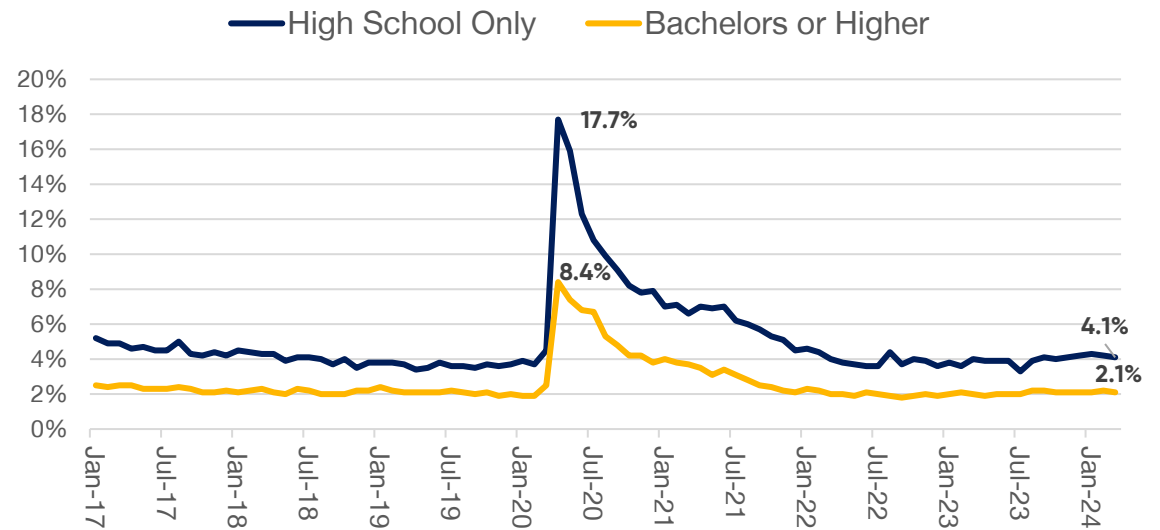
Unemployment remains near historic lows. The market is closely watching Fed rate changes as inflation remains elevated. College-educated employees remain near full-employment despite recently announced layoffs in the tech industry. Additionally, lower-skilled service-oriented jobs are the main driver of job growth.

### Total Unemployment: (United States)



Source: U.S. Bureau of Labor Statistics, <https://bls.gov>

### High School Only vs. Bachelor's Degree or Higher



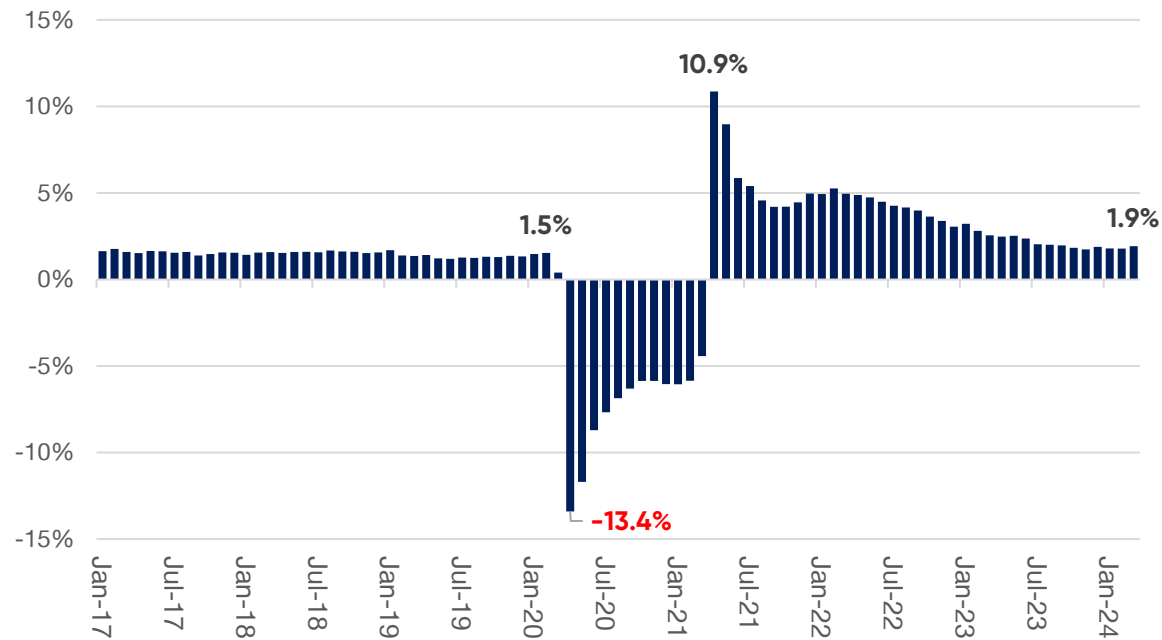
Source: U.S. Bureau of Labor Statistics, <https://bls.gov>

# Employment

## Job Creation Slows, but Maintains Momentum

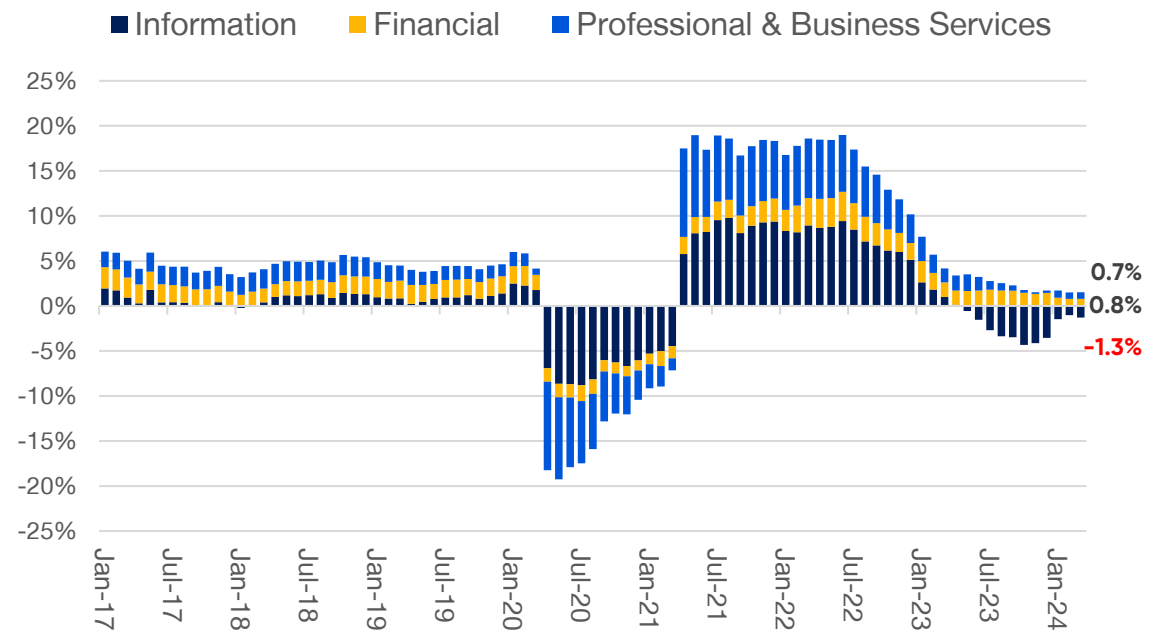
Total nonfarm payroll employment rose by 659,000 jobs in March, surpassing expectations. Job gains occurred in government and healthcare jobs underpinned the growth. Office-occupying job creation is slowing to a trickle, with information sector jobs down 1.3 percent from a year earlier.

### All Job Sectors (12-Month Change)



Source: U.S. Bureau of Labor Statistics, <https://bls.gov>

### Office-Occupying Jobs (12-Month Change)



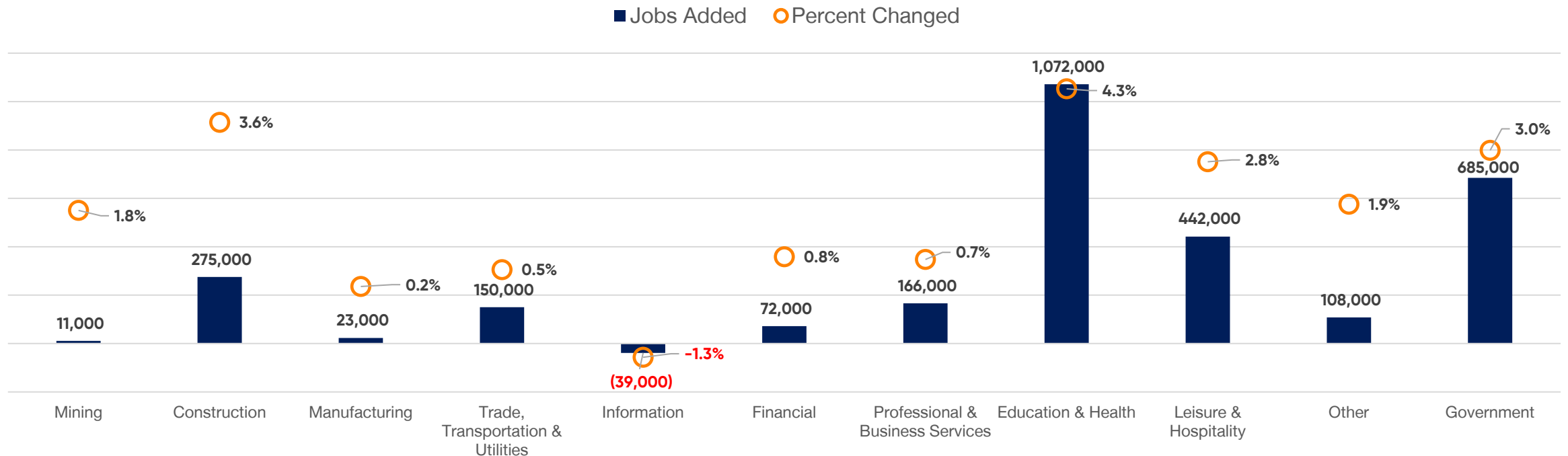
Source: U.S. Bureau of Labor Statistics, <https://bls.gov>

# Employment

## Education/Health and Leisure/Hospitality Lead the Way

Pent-up demand leads to increases in leisure and health services sector jobs, with more than 1.5 million jobs added in the past year. The jobs being added are not concentrated in office-occupying sectors. Meanwhile nearly 450,000 jobs were created in the industrial sector last year, highlighted by the construction sector.

### Job Creation by Sector (12-Month Change)

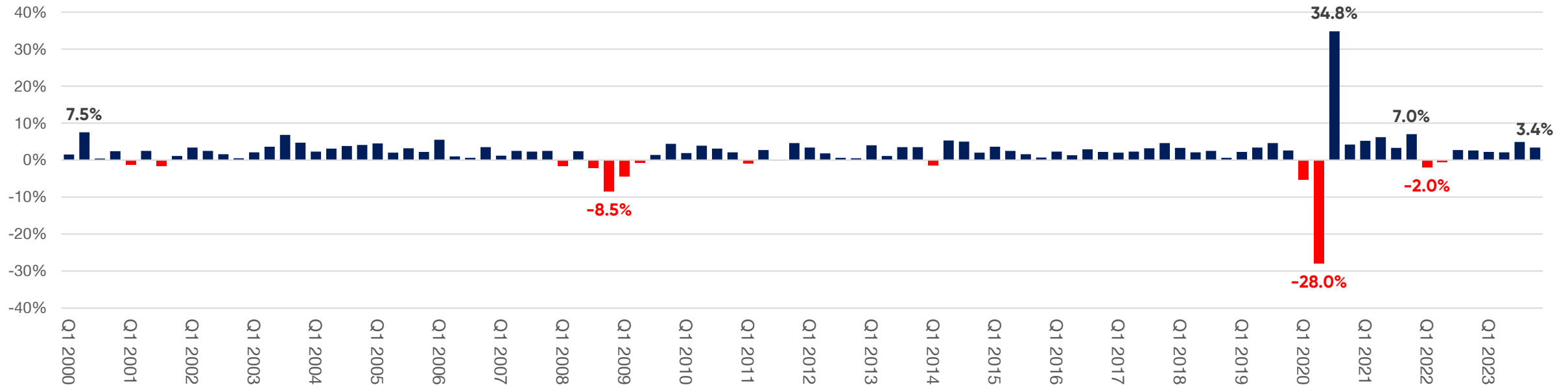


# GDP

## Gross Domestic Product Posts Sixth Consecutive Quarter of Growth

The GDP has expanded for the past six quarters. According the *Bureau of Economic Analysis*, the increase in the first quarter primarily reflected increases in consumer spending and nonresidential fixed investment that were partly offset by a downward revision to private inventory investment. Profits increased 3.4 percent in the fourth quarter after increasing 4.9 percent in the third quarter.

### Real GDP Percent Change from Preceding Quarter



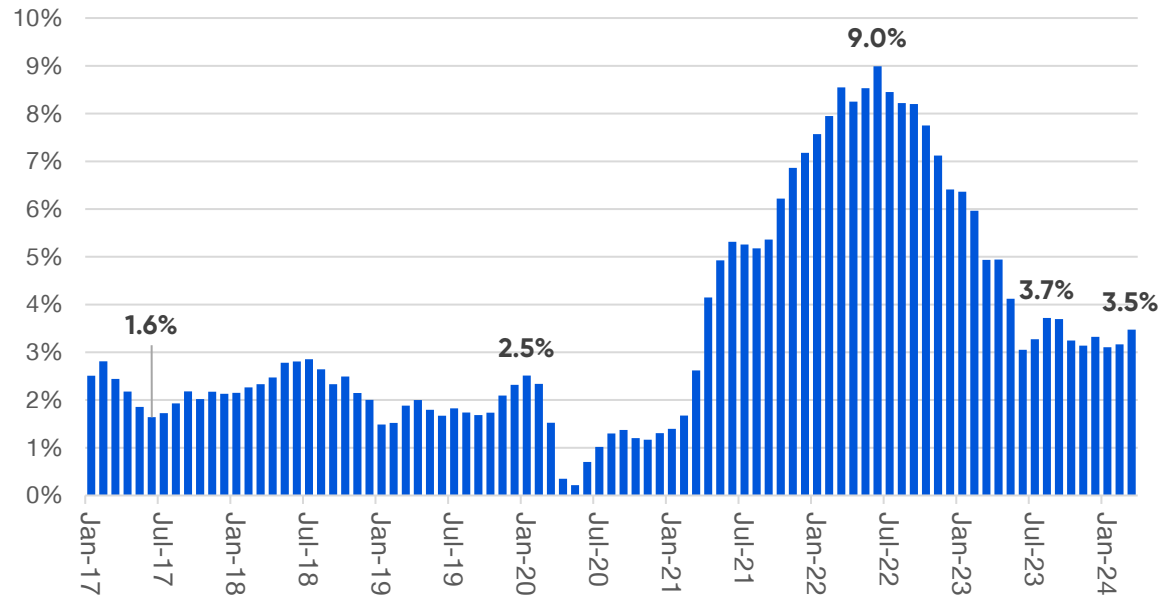
Source [Real Gross Domestic Product \(A191RL1Q225SBEA\)](#) | FRED | [St. Louis Fed \(stlouisfed.org\)](#)  
Note: Seasonally adjusted at annual rates, Bureau of Economic Analysis date published March 28, 2024 (third estimate)

# Inflation

## Inflation Remains Elevated

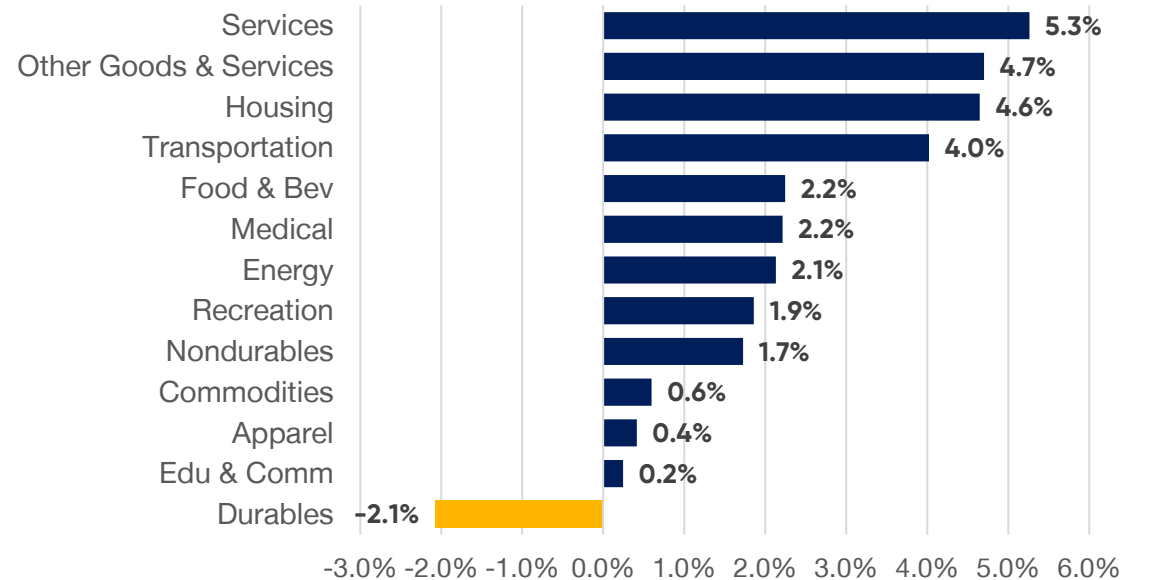
Driven by consumer demand, supply chain disruptions and a tight labor market, inflation pushed prices higher, peaking in June 2022. Inflation growth had slowed for 12 consecutive months, before ticking higher in mid-2023. Overall, inflation has ticked higher the past two months, led by services and houses. The drop in durable goods means demand for big-ticket items like vehicles, household goods, and electronics are slowing.

### Consumer Price Index (12-Month Change)



Source: U.S. Bureau of Labor Statistics, <https://bls.gov>  
Note: Seasonally adjusted, Data pulled April 2024.

### Consumer Price Index by Sector (12-Month Change)



Source: U.S. Bureau of Labor Statistics, <https://bls.gov>  
Note: Seasonally adjusted, Data pulled April 2024

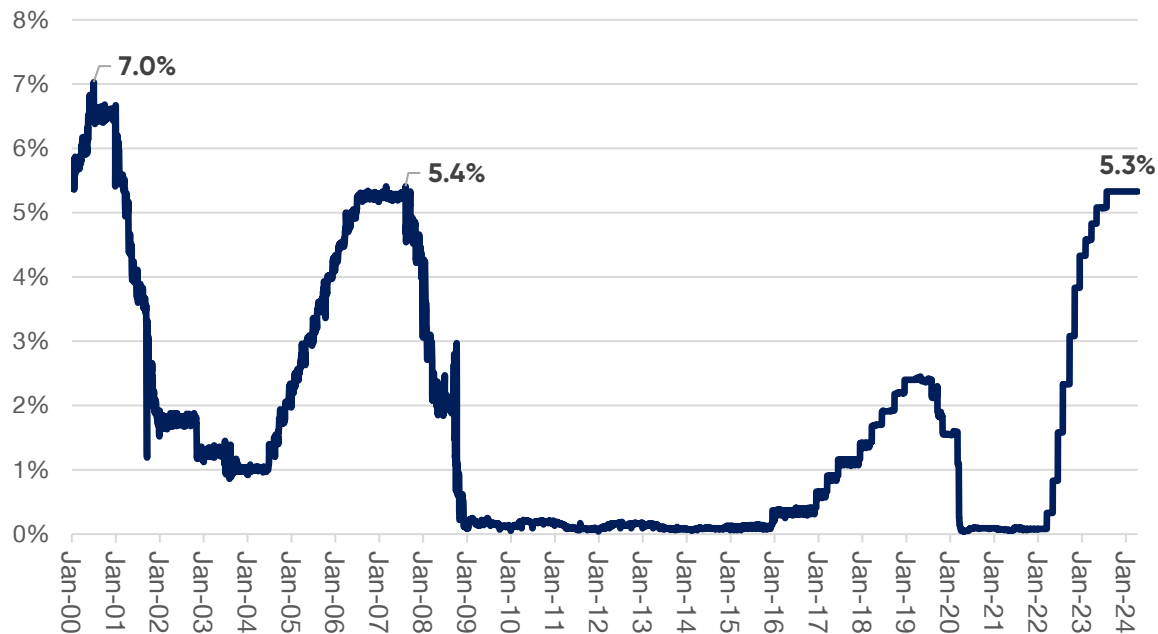


# Monetary Policy

## Rate Increases Pause as Fed Attempts to Control Inflation

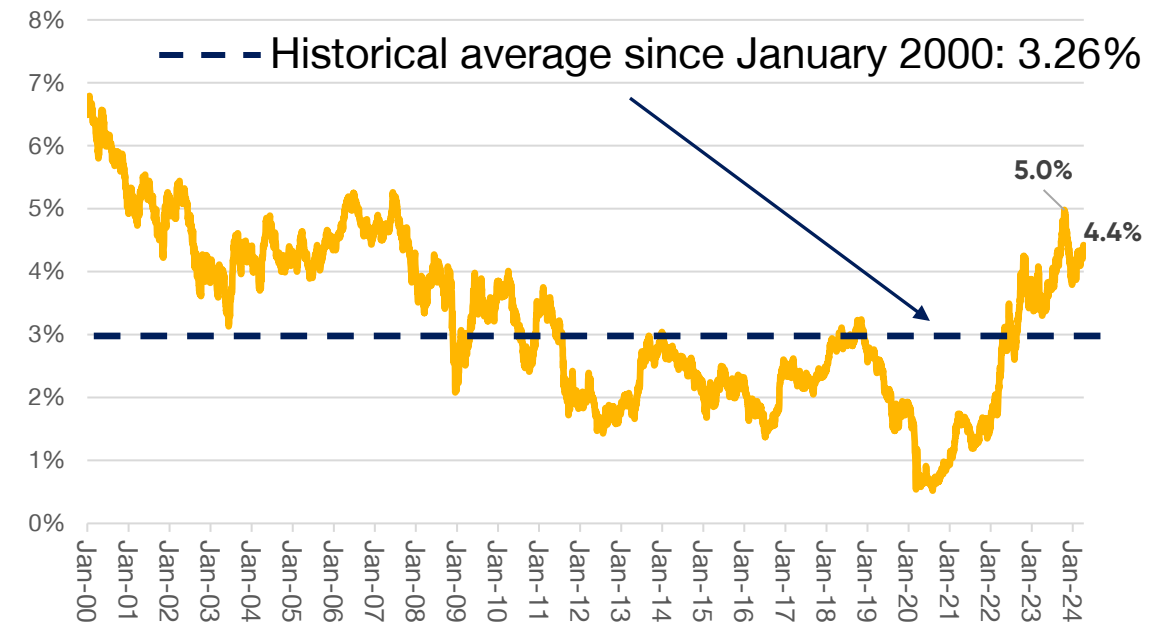
A series of increases in the Fed rate, including three 75bps increases in 2022, has bumped the range from 5.25% to 5.50%, the highest level in more than 20 years. The Fed has held rates steady after a 25-basis point increase in July 2023. Rate movement is being closely monitored as stubborn inflation remains above three percent annual growth. Meanwhile, the 10-year US treasury note, an indicator for broader investment confidence, has slowed, rising to 4.4 percent in early April.

### US Effective Fed Fund Rate



Source: Federal Reserve Economic Data, <https://fred.stlouisfed.org>  
Data is through April 2024

### 10-Year US Treasury Note



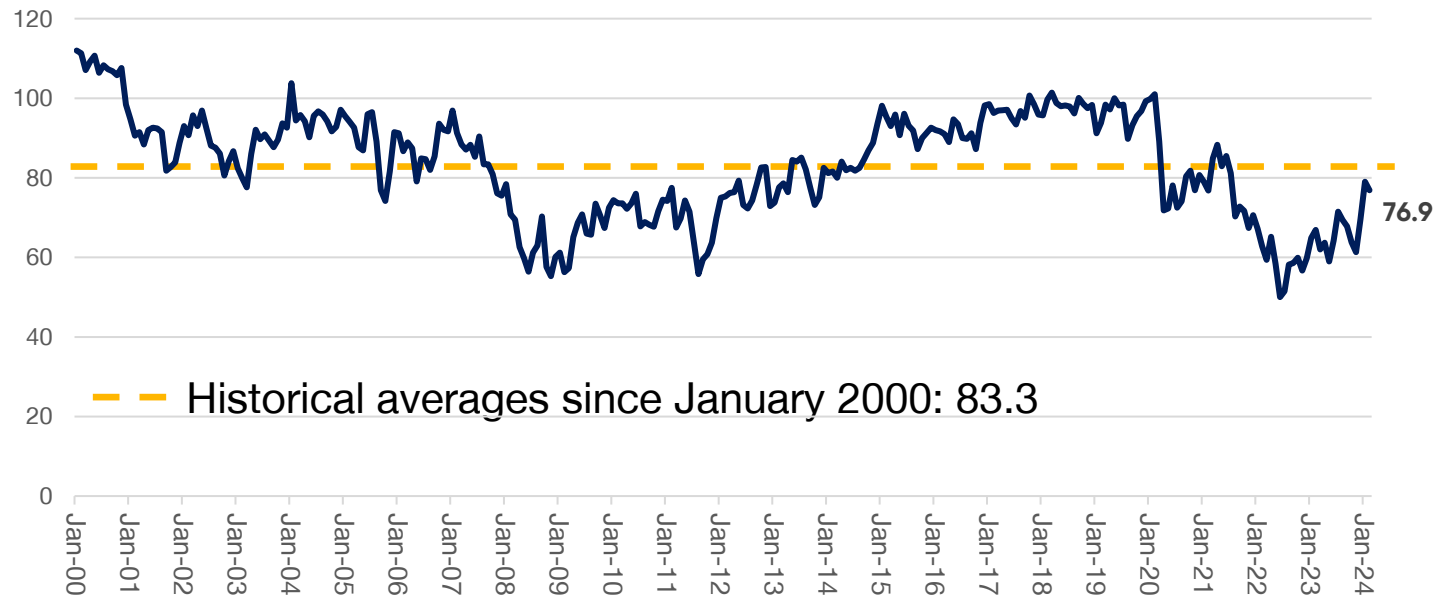
Source: Wall Street Journal  
Data is through April, 2024

# Consumers

## Consumer Sentiment Trending Higher

Despite strong consumer spending related to pent-up demand, the consumer sentiment index remains well-below pre-pandemic levels. The index is now (76.9) near levels following the end of the Great Recession in 2011 before going on a near decade long trend of increases leading up to the start of the Covid-19 pandemic. Moving into 2024, consumer sentiment is approaching historical averages.

### Consumer Sentiment Index: (United States Total)



Source: Federal Reserve Economic Data, <https://fred.stlouisfed.org>;

Note: Data thru February 2024

## Consumer Sentiment Index

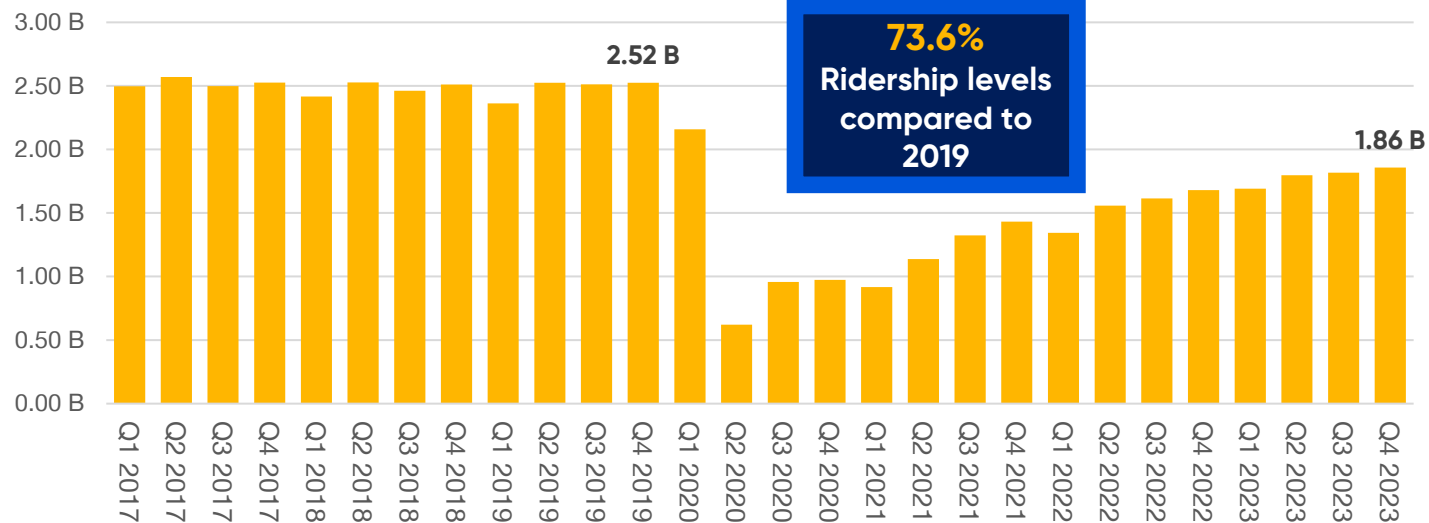
Consumer sentiment is a statistical measurement of the overall health of the economy as determined by consumer opinion. It considers people's feelings toward their current financial health, the health of the economy in the short-term, and the prospects for longer-term economic growth.

# Public Transit

## Public Transit Slowly Gains Momentum

A good indicator of the health of an urban core, and by extension the downtown office market, is the use of public transportation. Public transit ridership has increased for the past seven quarters, experiencing a 38.3 percent increase since the start of 2022. As more workers return to the office, these increases are expected to continue. However, as return-to-work continues to stabilize, ridership levels will likely see only moderate gains.

### Public Transit Ridership: (United States)



### Ticket to Ride

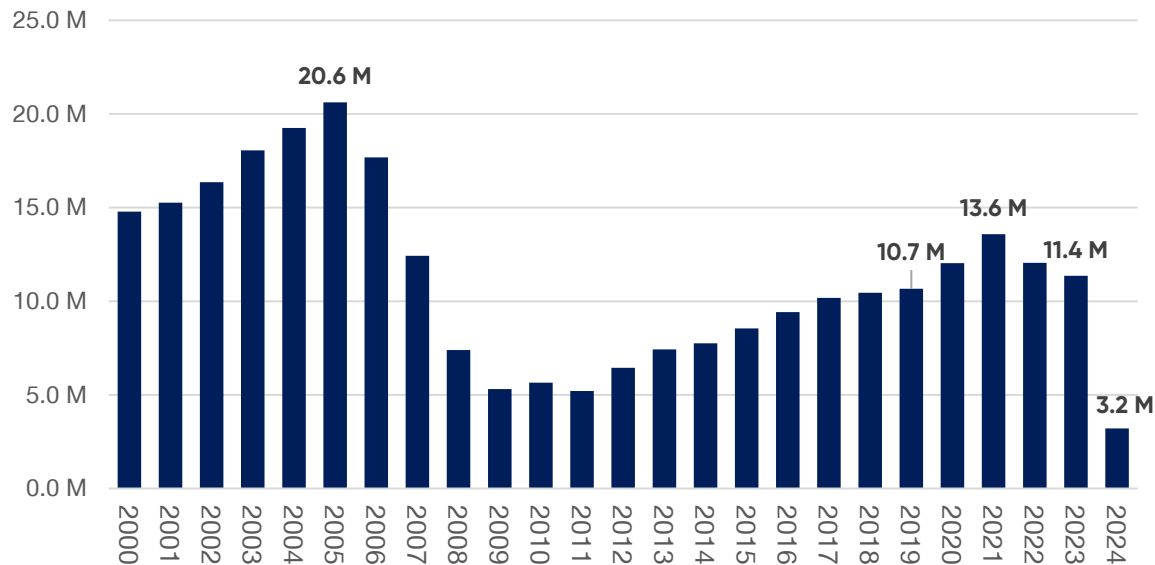
Public transportation has been reliably consistent since the turn of the century. Sky-rocketing gas prices temporarily encouraged public ridership in 2008, but quickly dropped back to historic levels. During the first year of the declared pandemic, ridership was cut in half (52.8% decrease). The economy opened wider in 2021, but ridership still only increased 3.1 percent from the previous year. The beginning of 2022 marked the beginning of the economy opening back to near pre-pandemic levels, yet ridership on public transportation ended 2023 at 74 percent of the average ridership of 2019, the last full-year before the start of the pandemic.

# Housing

## Housing Starts Pick Up, as Interest Rates Slow the Market

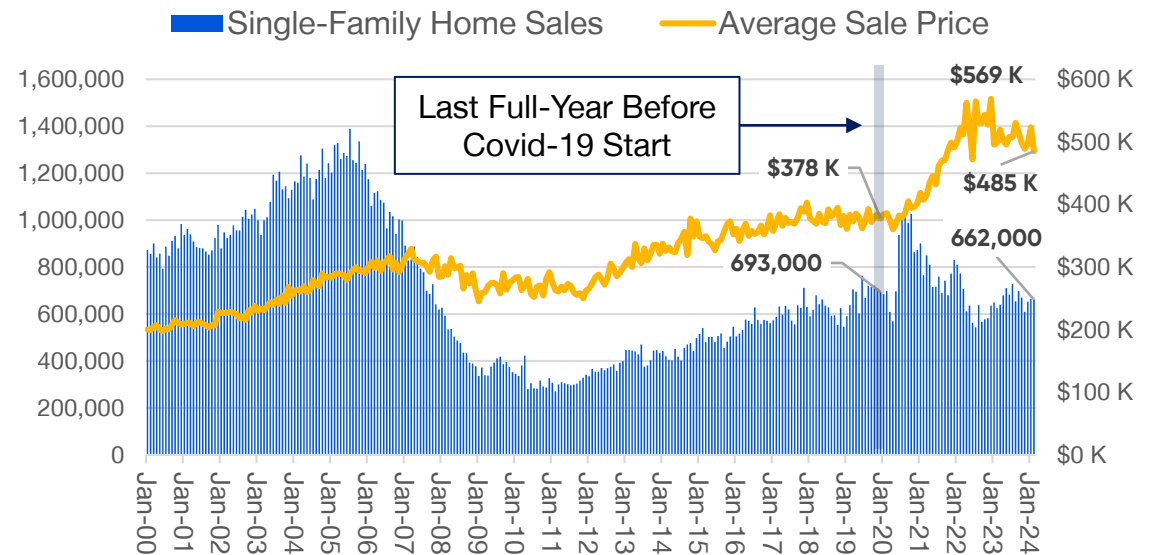
The number of residential housing starts soared at the start of the pandemic, while sale prices reached record highs in 2022. This growth is being tempered as mortgage rates increase, labor costs rise, and supplies remain scarce. During 2023, home starts declined from the previous two years but remain near pre-pandemic levels. Meanwhile, prices have begun to fall as demand softens. After passing an average sale price of over \$569,000 to end 2022, prices have fallen 14.7 percent through February.

### Residential Housing Starts



Source: U.S. Census Bureau, <https://census.gov/construction>  
\*Note: Data thru March 2024

### Single-Family Homes: No. of Sales (Thousands) vs. Price



Source: U.S. Census Bureau, <https://census.gov/construction>  
Note: Data thru February 2024

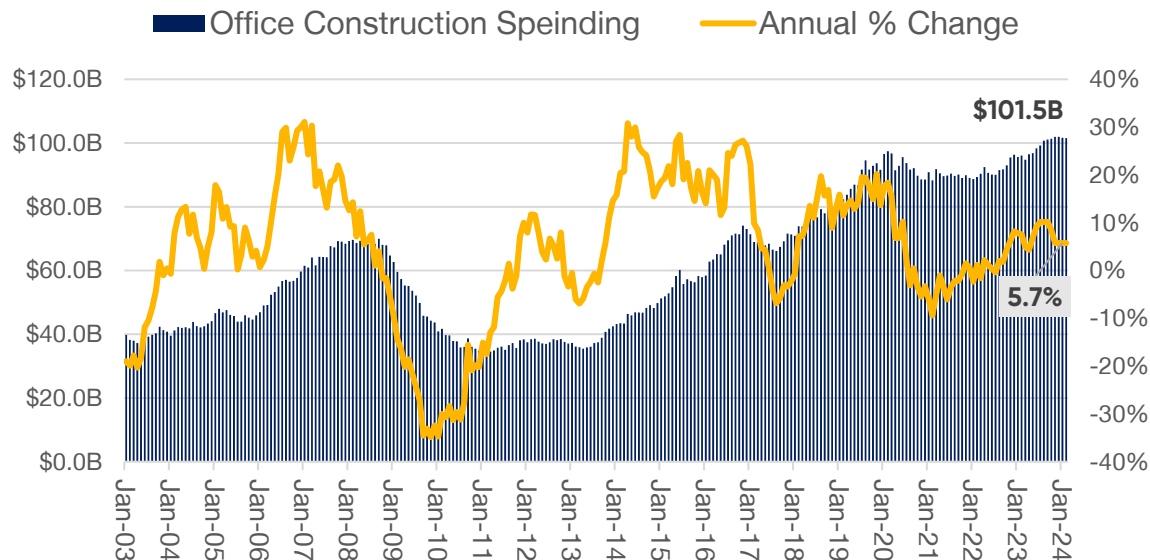
# Construction

## Office Construction Spending Falls, While Industrial Spending Peaks

Perhaps surprisingly, the amount spent on office construction has not fallen below pre-pandemic levels. New, well-located office construction with plentiful amenities are drawing interest from occupiers as they look to entice people to the office.

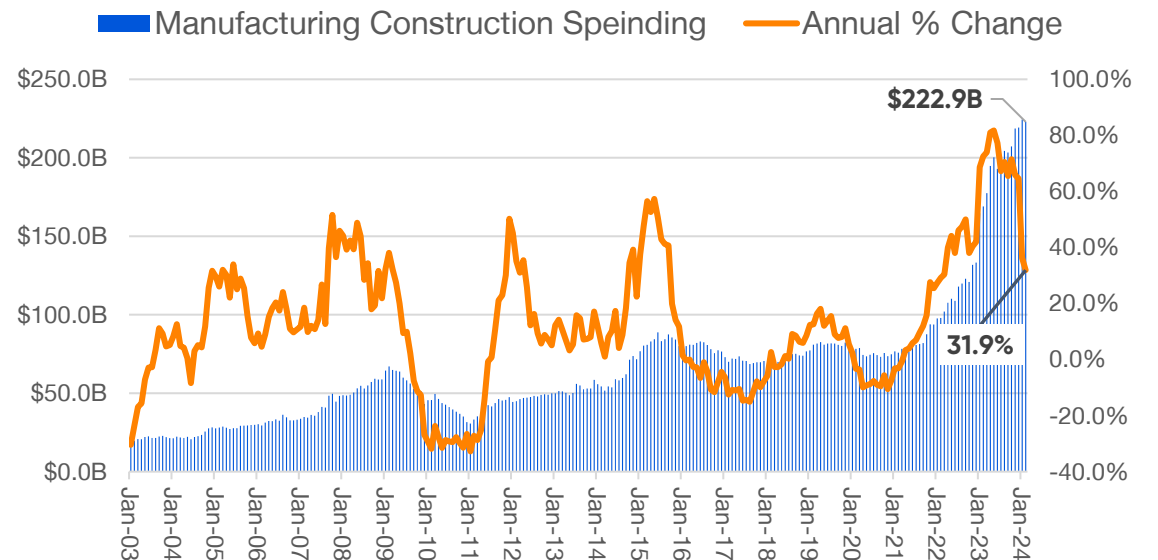
After sky-rocketing for the past three-plus years, spending in the industrial sector has begun slowing from prior years. While still near record highs, spending will likely decelerate as investors/ developers wait to test demand as new products deliver.

### Construction Spending: Office



Source: U.S. Census Bureau, <https://census.gov/construction>  
Note: Data thru February 2024

### Construction Spending: Manufacturing



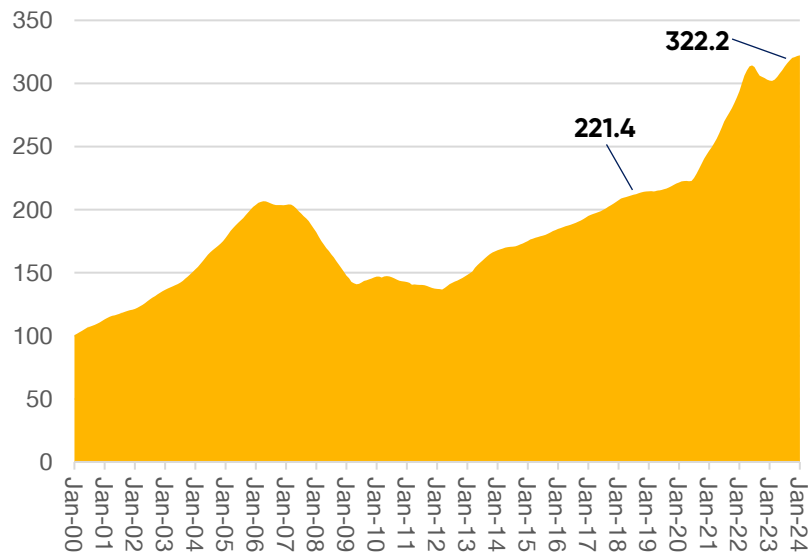
Source: U.S. Census Bureau, <https://census.gov/construction>  
Note: Data thru February 2024

# Home Price Index

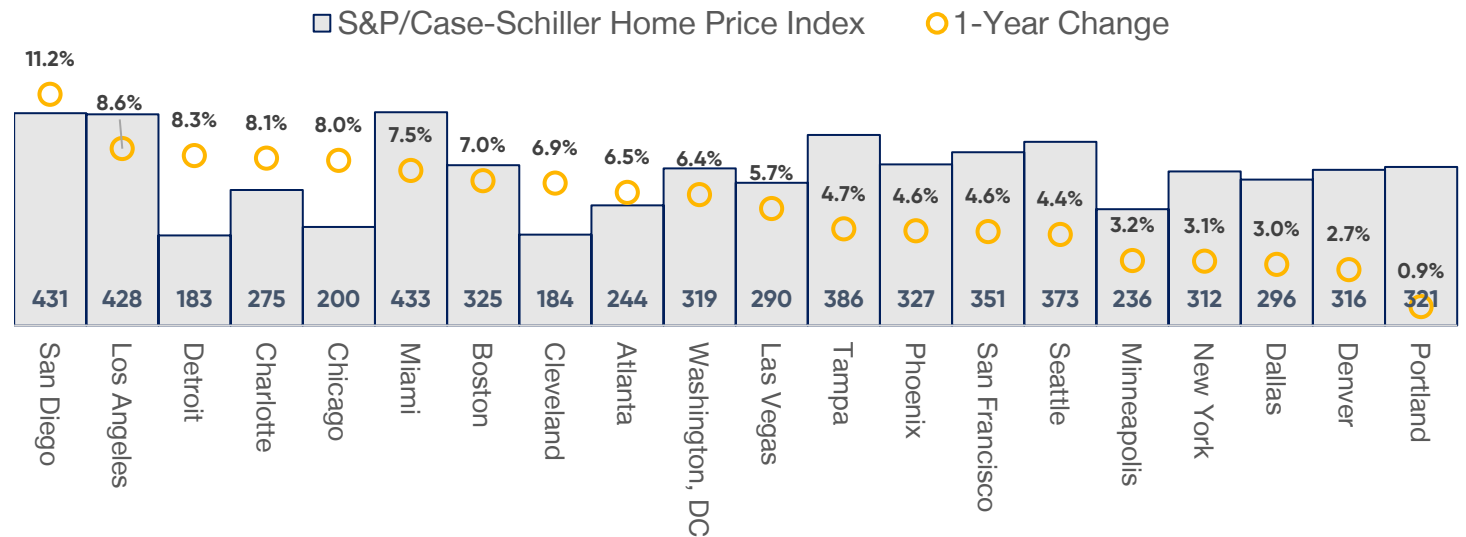
## Case-Schiller Home Price Index Reclaims Recent Drops to Reach Record High

The Case-Schiller Index is an economic indicator that measures the monthly change in the value of the U.S. single-family home market. The 20-City Home Price Index peaked in June 2022 and dropped for 8-straight months, before ticking higher for the past 8 months closing January at a record high. Miami holds the highest Home Price Index, followed closely by Los Angeles and San Diego. Portland and Denver increased the least in the past 12-months, while San Diego jumped the highest, closing 2023 11.2 percent higher than a year earlier.

### Home Price Index: 20-City Average



### S&P/Case-Schiller Home Price Index: January 2024





**Supply is Outpacing Demand** as New Construction Continues to Deliver

**Q1, 2024**

# Industrial Trends

The US industrial market continues to downshift from historic highs in 2021 and 2022. While vacancy is not expected to pass the 20-year average, additional space will be added to the market as a robust construction pipeline continues to deliver. The slowing demand is being driven by low-home sales and the decrease in spending on durable goods. However, overall consumer spending remains strong despite elevated inflation. Nevertheless, the torrid pace of rental rates has slowed considerably with quarter-over-quarter increases in the distribution sector under one percent last quarter. With under construction supply continuing to deliver, new construction starts have pumped the brakes, which should help bring some stability to the market in the next 12 to 24 months.

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## Industrial Tenant View

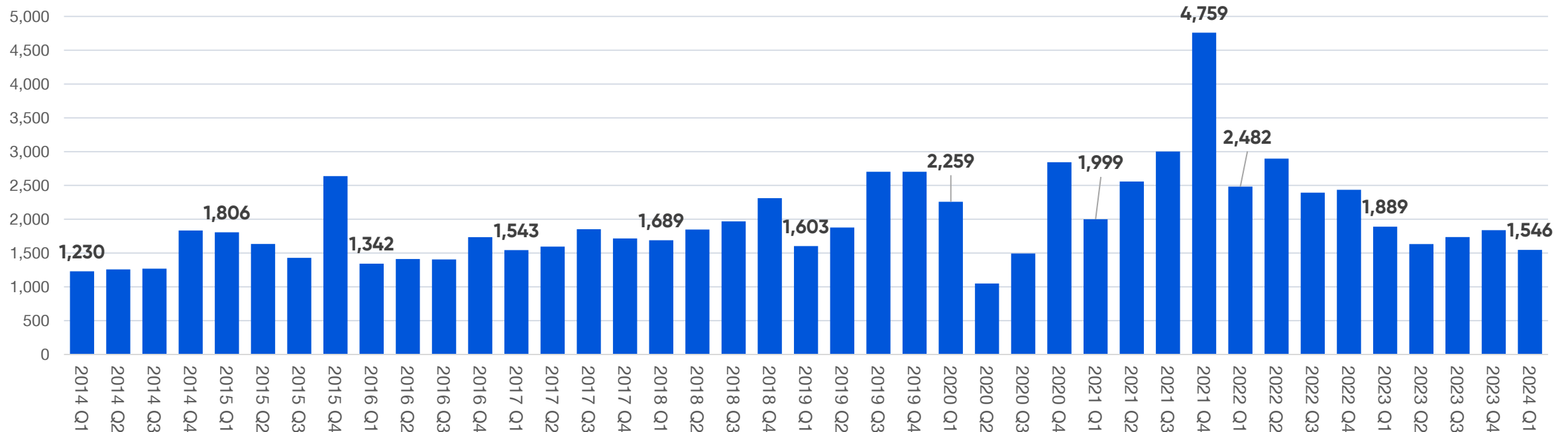
- With demand waning and supply growing, occupiers have a window to negotiate for more favorable lease terms.
- Sublease space entering the market has pushed levels higher than pre-pandemic levels.
- Emerging markets with lower costs such as labor and real estate are becoming increasingly desirable.

# Capital Markets

## Industrial Sales Velocity Decelerates

Strong demand has caused industrial sales velocity (number of sales) to nearly double in the year following the Covid lockdown. Warehouse/distribution spaces consist of nearly 70 percent of the sales volume in 2023. Higher interest rates, lack of available buildings for sale, and broad economic volatility have all contributed to the slower pace of sales in 2023, which **trailed total transactions by 30.5 percent in 2022**. The first quarter of 2024 is at similar levels as the past four quarters and compares to levels pre-pandemic.

### Industrial Sales Velocity: (United States)

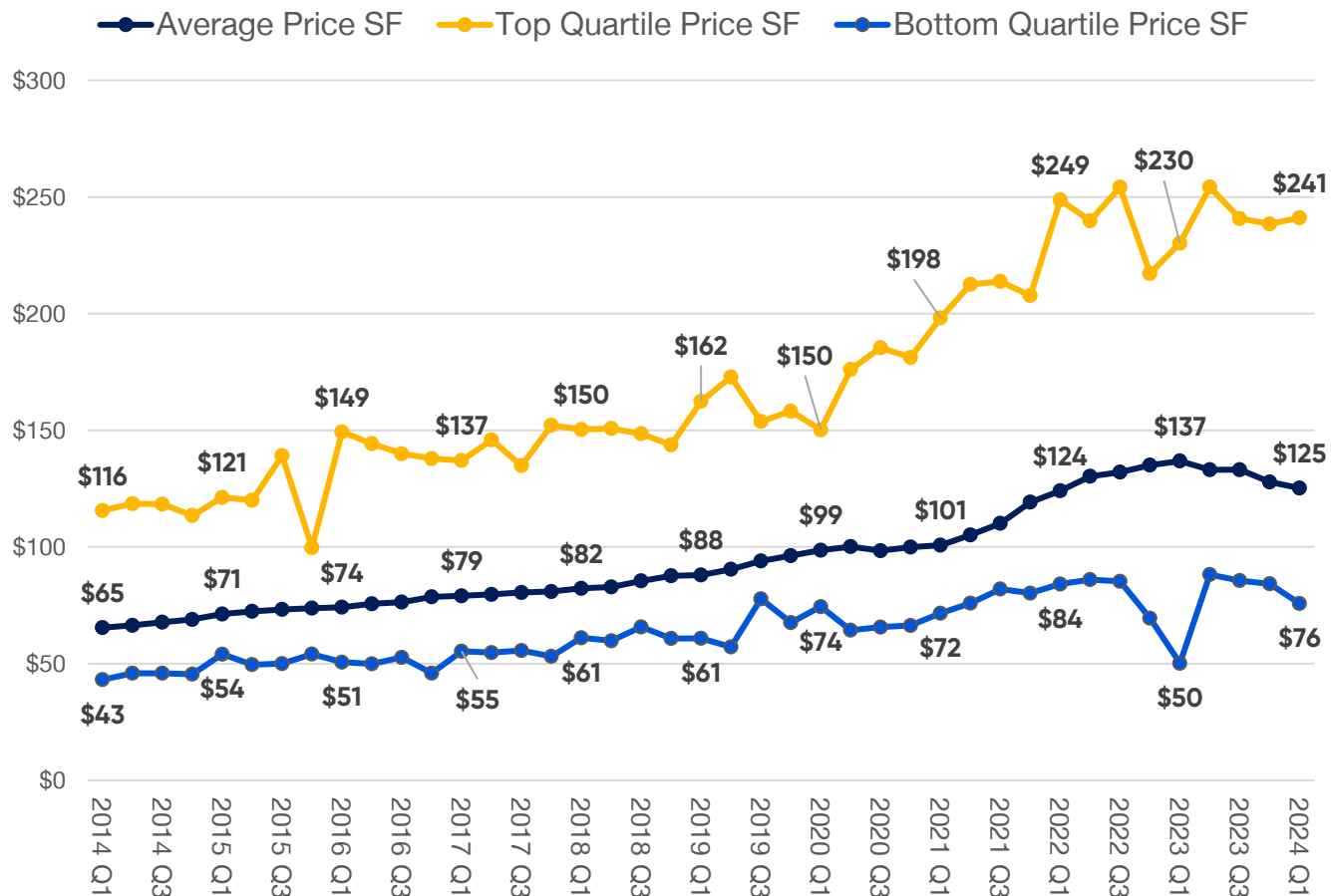




# Capital Markets

## Industrial Sale Prices Per Square Foot Levels Off After Tremendous Increase

Average Industrial Sale Price/SF (United States)

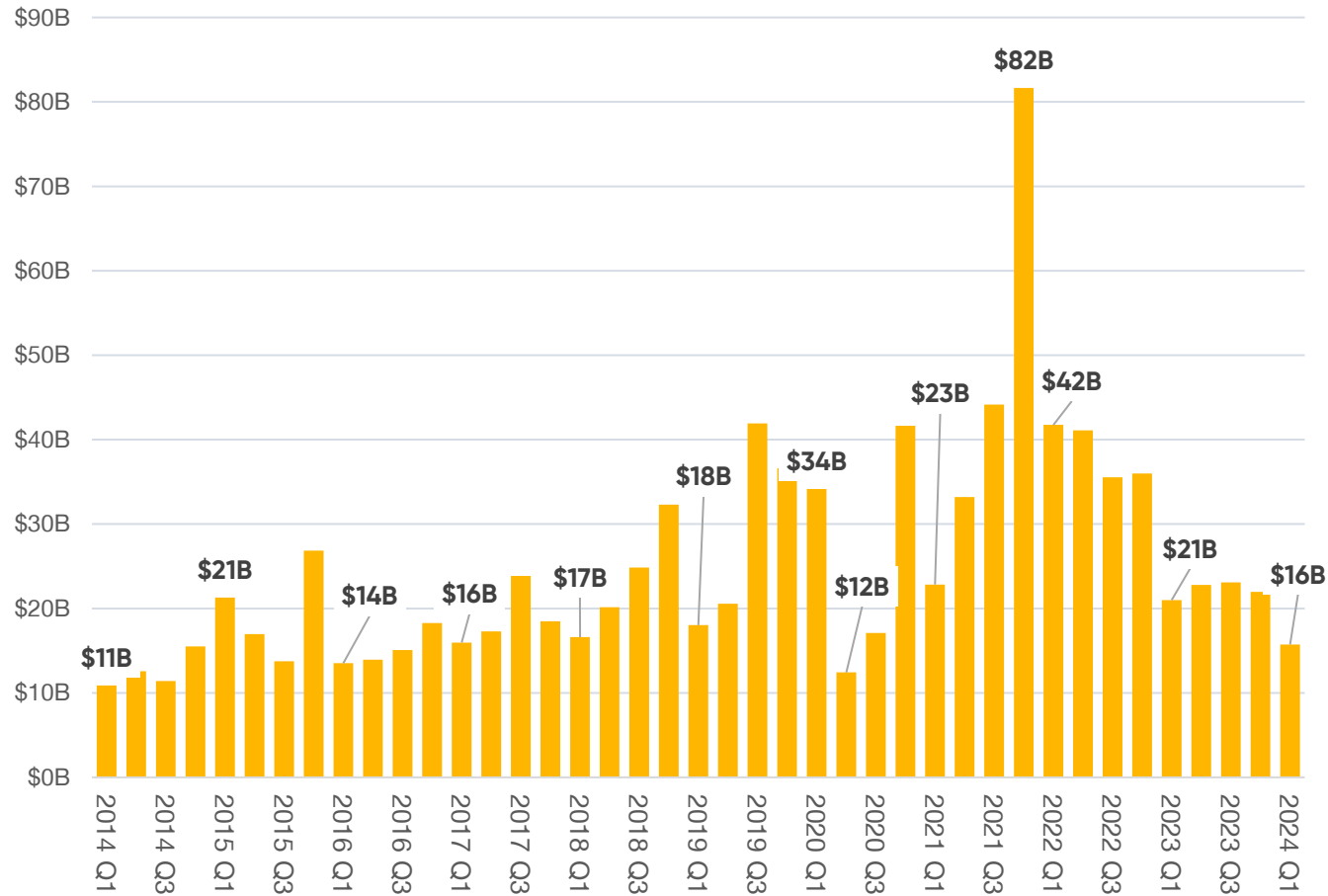


The average sales price per square foot of industrial properties has dropped slightly four of the past five quarters. Nevertheless, the average sale price of \$125 per square foot has still increased 30 percent over prices realized since before the start of the pandemic (fourth quarter of 2019). With the high volume of sales in the past four years, the pool of available properties, particularly newer, class A buildings, on the market is considerably down, potentially skewing numbers for the most recent quarter. Still, prices are trending flatter on a per square foot basis.

# Capital Markets

## Industrial Sales Volume Drops to Pre-Pandemic Levels

### Industrial Sales Volume: (United States)

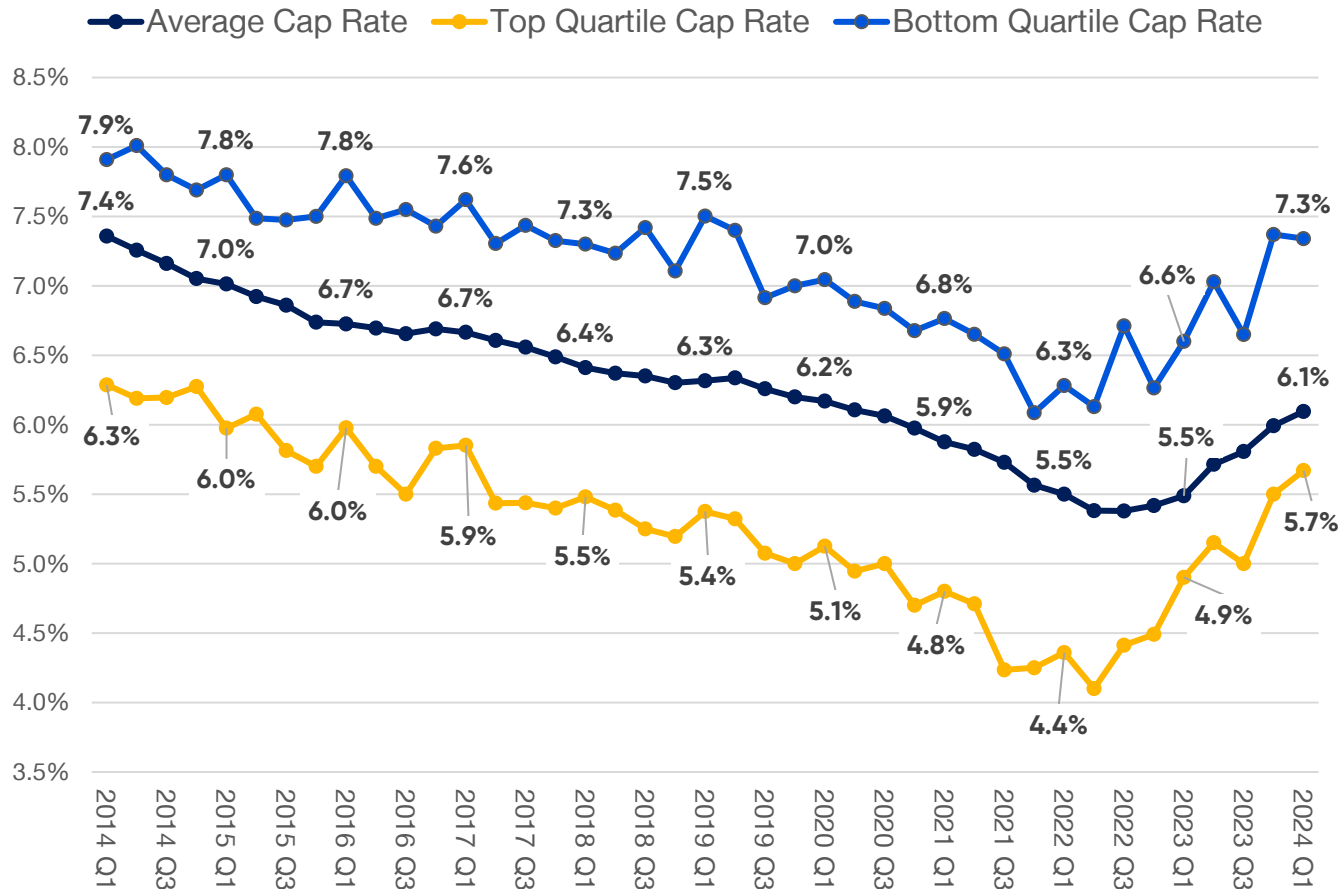


Sales volume in 2023, while trailing 2021 and 2022 levels, is comparable to pre-pandemic levels. Higher prices have pushed volume higher, despite the number of total sales declining from prior years. The first quarter of 2024 is the lowest sales volume since the second quarter of 2020.

# Capital Markets

## Industrial Cap Rates Float Higher as Risk Increases

### Industrial Cap Rates (United States)



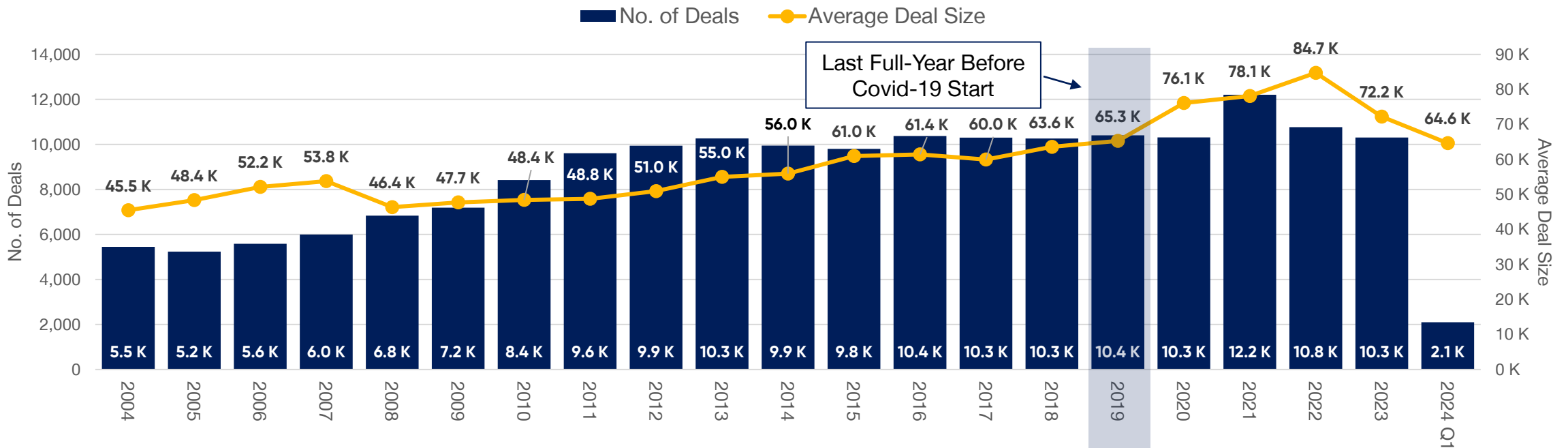
Economic volatility, increasing borrowing rates, and rising construction costs have pushed cap rates for industrial properties higher in the past 24 months. This higher risk has slowed overall sales and leveled prices paid for industrial assets. While there is still money available for investment in a stable asset class, the lack of available top-quality properties with modern amenities is causing hesitation in capital markets. The industrial market will likely adjust as economic conditions stabilize and the market better understands demand after buildings are delivered in the current robust industrial pipeline.

# Leasing Trends

## Transaction Size is Smaller Than 2019

Lease deal sizes in 2022 were **27.4 percent** larger compared to 2019. While lease deals in the 2023 are smaller compared to 2022, lease deals have historically taken time to be recorded and may cause a slight change final numbers for the past year. The number of deals between 2023 and 2023 have stayed relatively flat, with deals peaking in 2021.

### Historic Industrial Leasing Activity/Average Deal Size

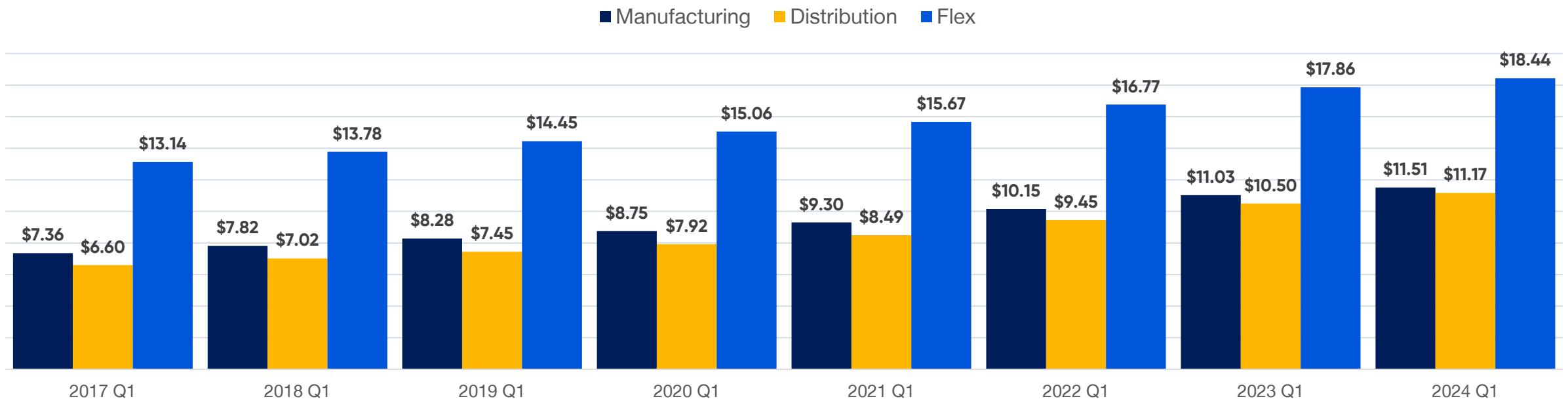


# Market Rent

## Industrial Rents Growth Slows

Industrial rates have steeply increased since the end of 2020, particularly distribution space, which has increased by 31.6 percent in the past three years. Logistics asking rates have increased every quarter since 2017. While rates continue to rise, quarterly increases have begun to slow, with rates jumping just 0.7 percent last quarter, the smallest quarterly increase since before the pandemic.

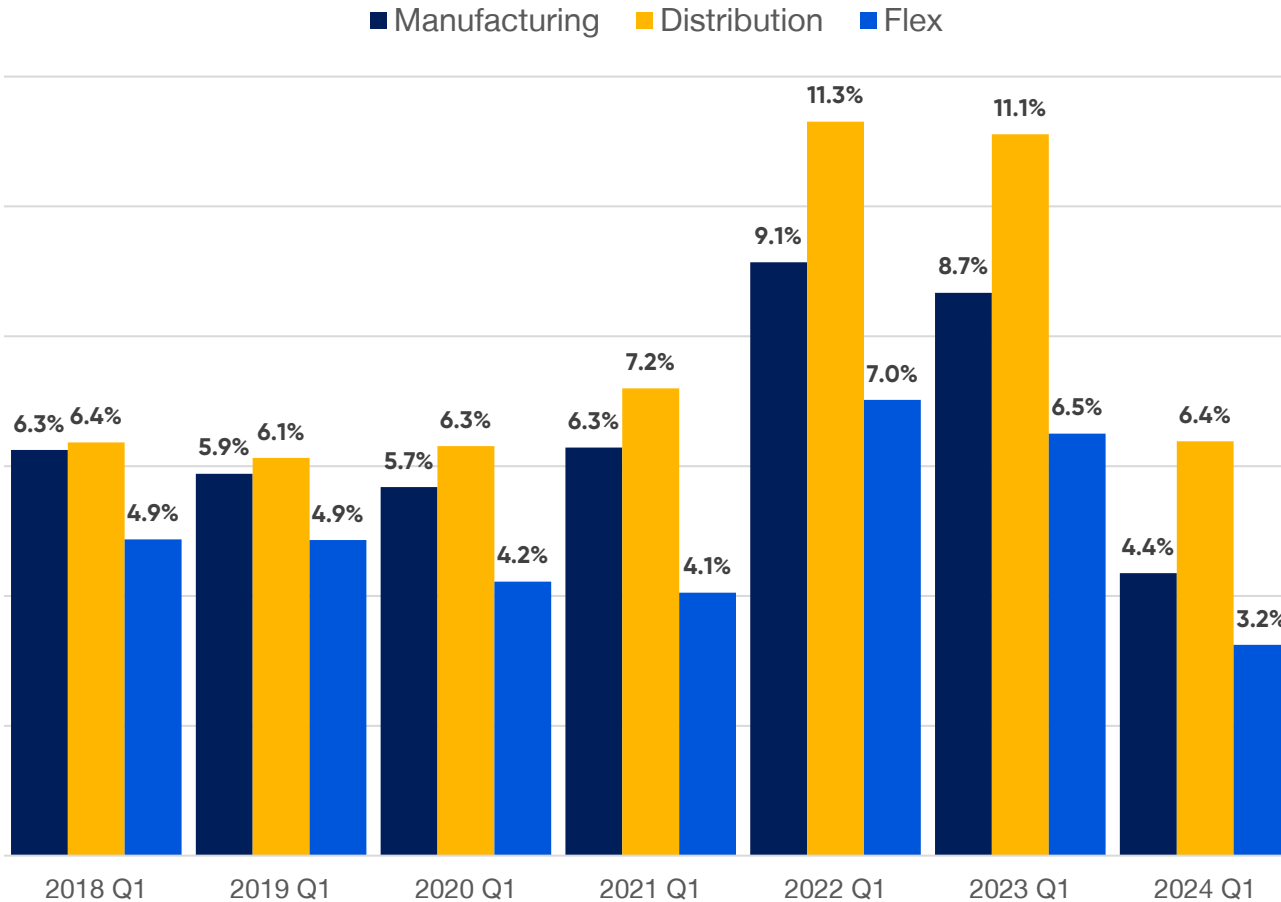
### Industrial Lease Asking Rates (\$/SF): (United States)



# Market Rent

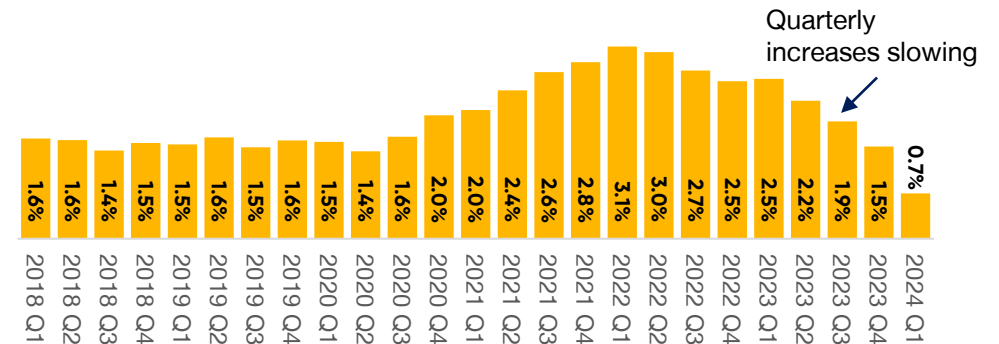
## Direct Asking Rent Growth Reverts to Pre-Pandemic Levels

### Industrial Asking Rent Annual Increase: (United States)



Industrial lease rates continue to set new water marks each quarter. The growth rate is slowing. Still, **the compounded annual growth rate (CAGR) for distribution spaces has increased 7.8 percent per year since the start of 2017.** With demand remaining firm and vacancy low, rates are expected to grow in line with pre-pandemic levels in the near-term. While it is unlikely rates will correct, other incentives like TIs and abatements may become more negotiable for occupiers.

### Distribution Asking Rent Quarterly Increase

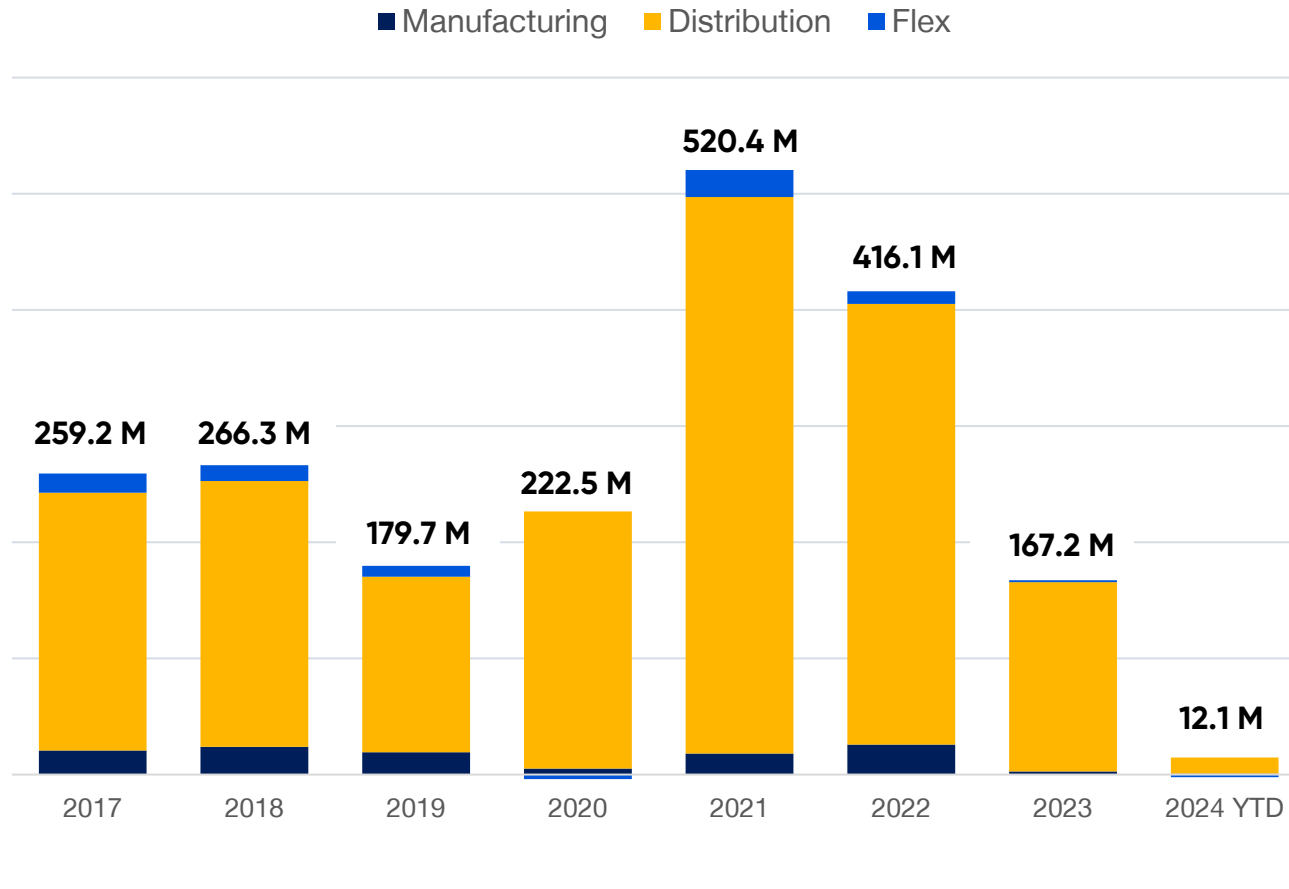


Source: CoStar and Cresa; thru Q1 2024

# Absorption

## Industrial Absorption Dramatically Slows

### Industrial Net Absorption (SF): (United States)



After a record-breaking 2021, absorption has experienced a slowdown. Some of this can be explained by economic conditions softening, but overall imports have been slowing, too. Absorption in the first quarter of 2024 dropped to the lowest level since the first quarter of 2012. Nevertheless, the amount of new construction being delivered and ongoing demand over the next several quarters will likely keep absorption higher than historical averages.

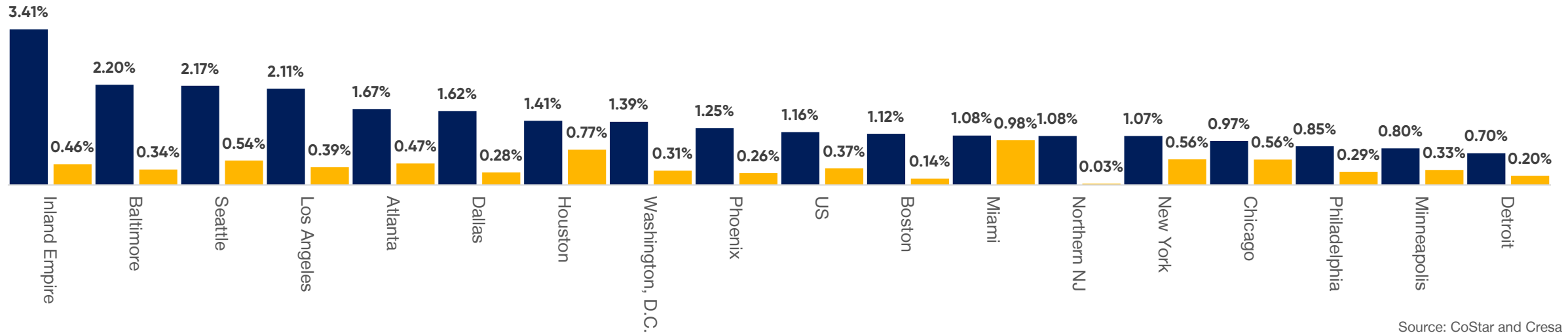
# Sublease Space

## Largest US Industrial Markets: Change Since the Start of 2021

### Industrial: Sublease Space as a Percentage of Total Inventory (United States)

Note: Includes **sublease space** for industrial properties over 50,000 SF and class A and B properties only

■ Q1 2024 ■ Q4 2021



Source: CoStar and Cresa

**300%**

Increase in sublease SF on market in largest metros compared to the end of 2021

**80.9 M**

SF of sublease space available in largest metros in March 2024, compared to **20.2 M** at the end of 2021

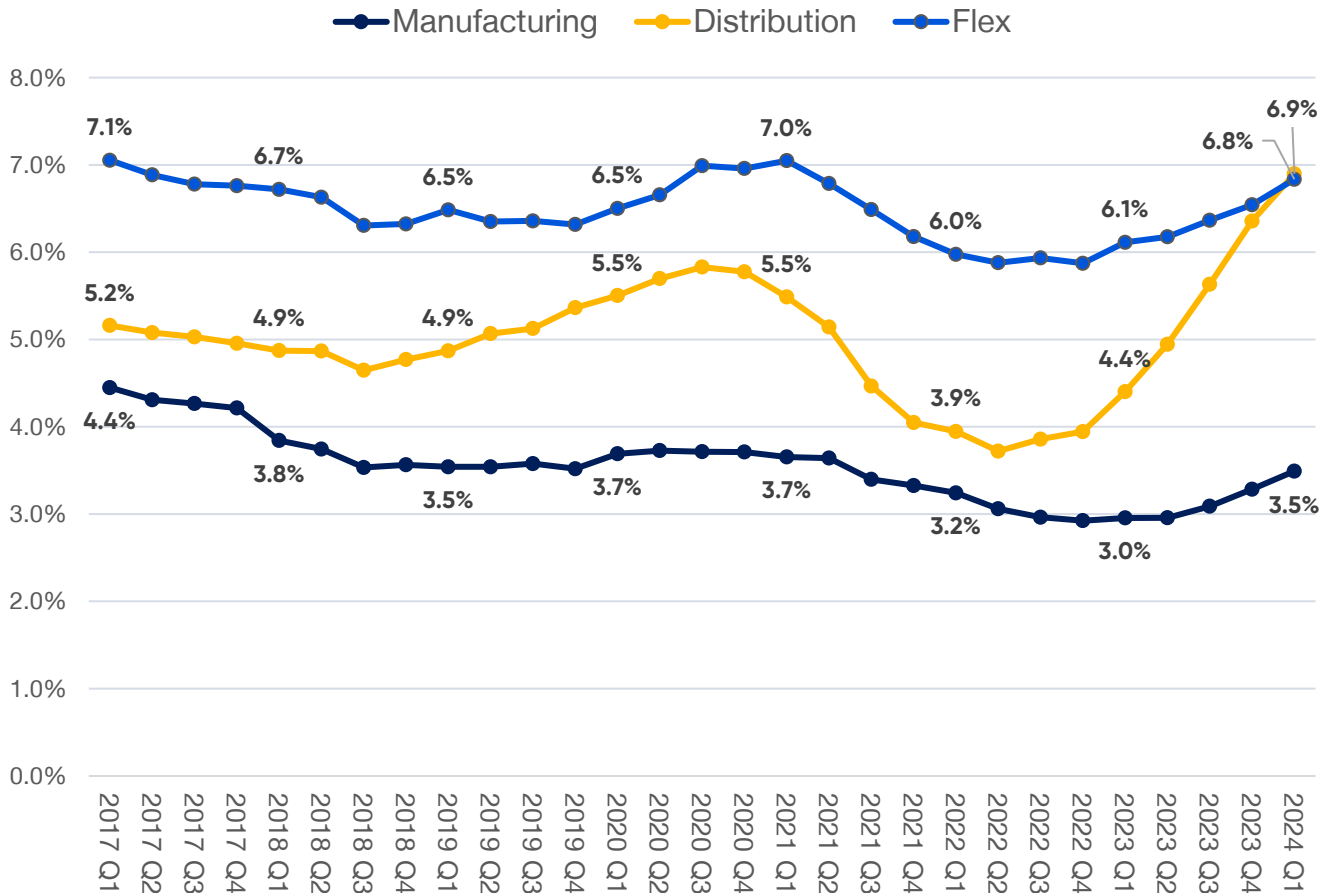
Sublease space has moderately increased since the end of 2021. Markets that have experienced tremendous industrial growth have shown the highest amount of sublet space increase as new inventory is delivered. Although sublease space is increasing, rate growth remains strong. It is expected that sublease space will begin to trend lower as space is absorbed. **Current sublease space as a percentage of inventory are generally higher (1.6%) than levels at the start of 2021 (0.4%), the peak of the market.**



# Direct Vacancy

## Industrial Vacancy Moves Higher as New Product Delivers

### Industrial Direct Vacancy: (United States)

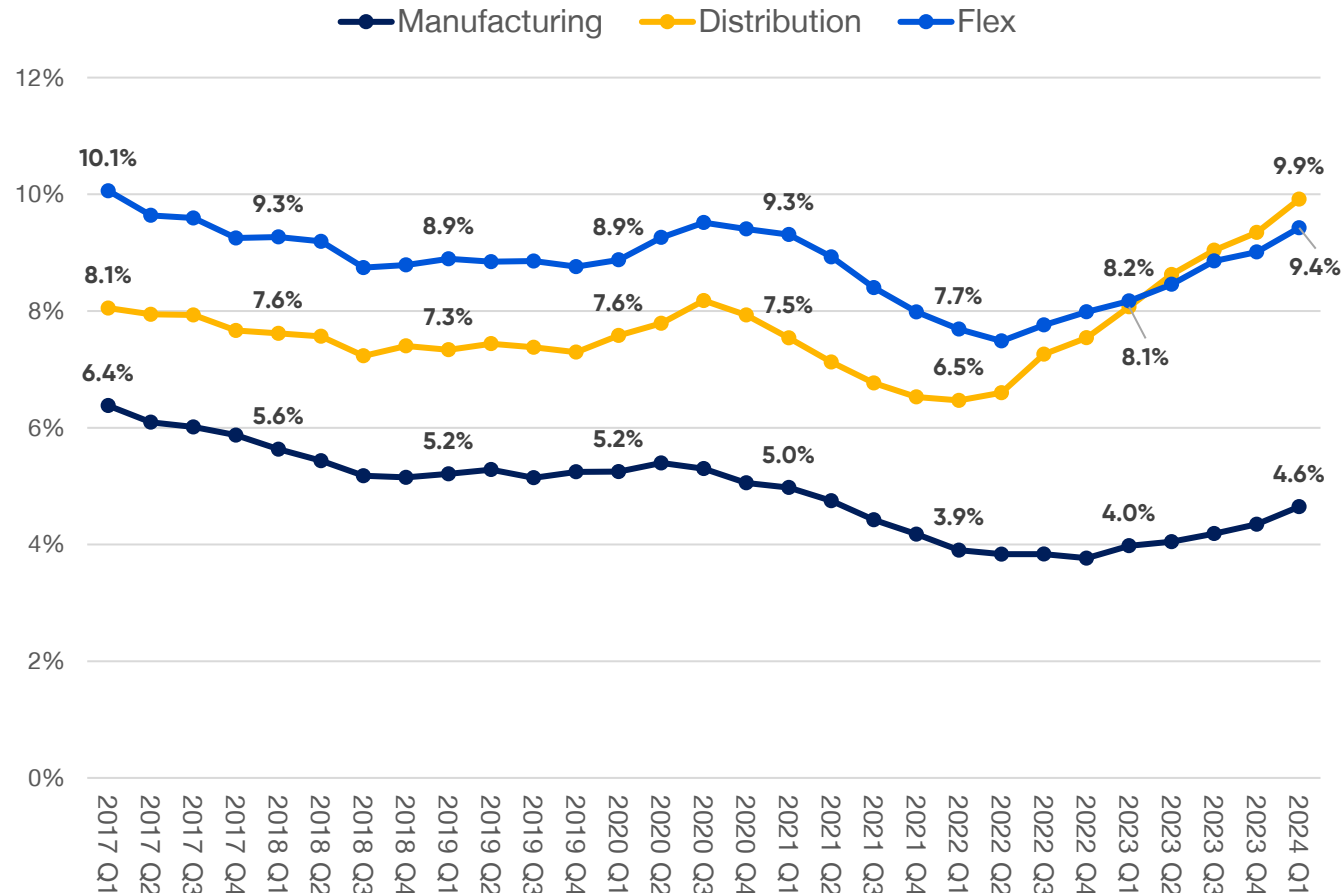


Direct vacancy has remained below historical averages, despite a bump in distribution and flex space vacancy during 2023. It is likely that the large amount of new construction being delivered contributed to the increase. Large occupiers of space like Amazon have also curtailed new commitments as tenants prepare for lessened demand due to volatile economic conditions. Large retailers are still looking to shore up distribution facilities, so they are better positioned for future growth.

# Availability

## Industrial Availability Drifts Higher

### Industrial Availability Rate: (United States)



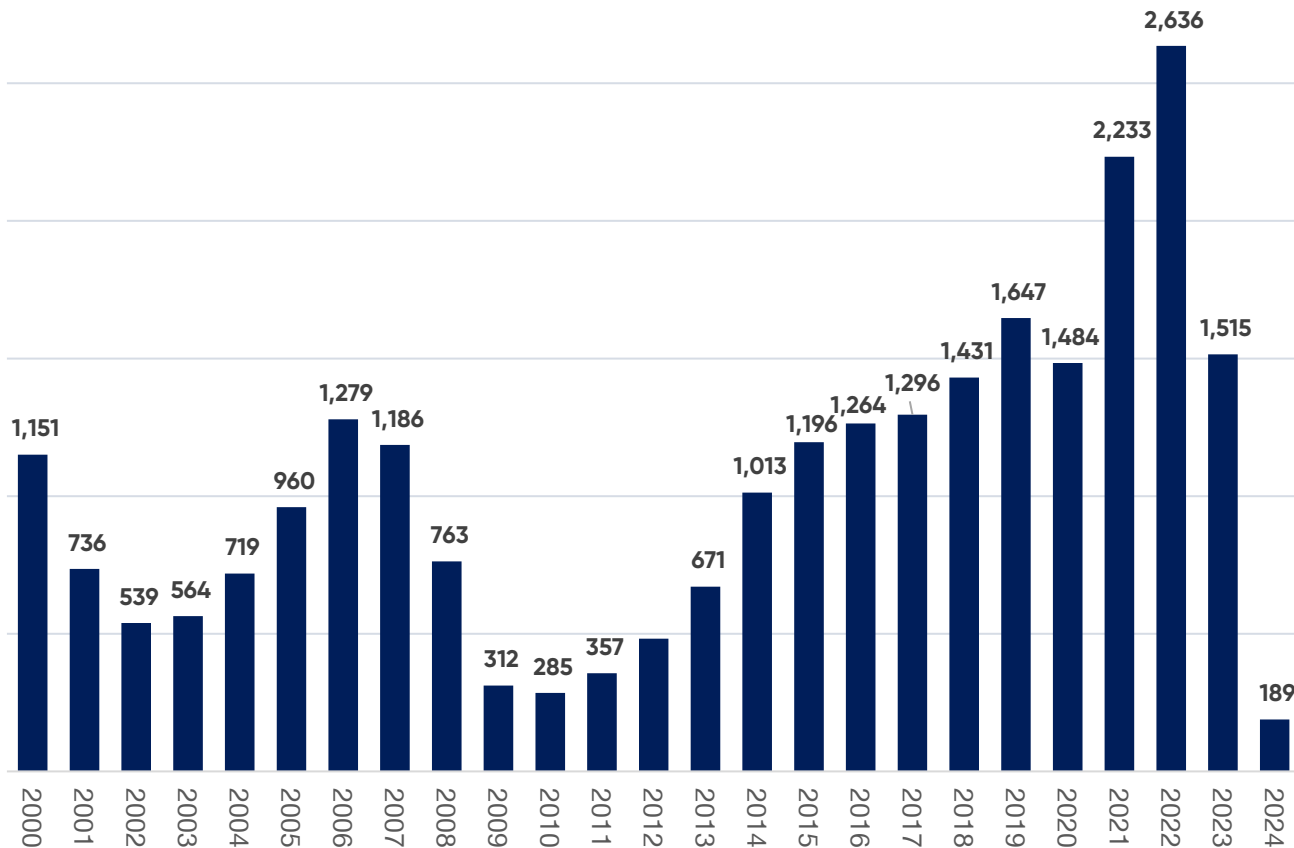
The availability rate includes the amount of space that is being marketed as available for lease, regardless of whether the space is vacant, occupied, available for sublease or available at a future date. Therefore, the availability rate may be a more accurate depiction of the market during this volatile period than the direct vacancy rate.

**Availability in the distribution asset type jumped from 6.5 percent to 9.9 percent in the first quarter of 2024.**

# Construction

## Industrial Construction Starts Fall Sharply

### Industrial Construction Starts: All Types (United States)

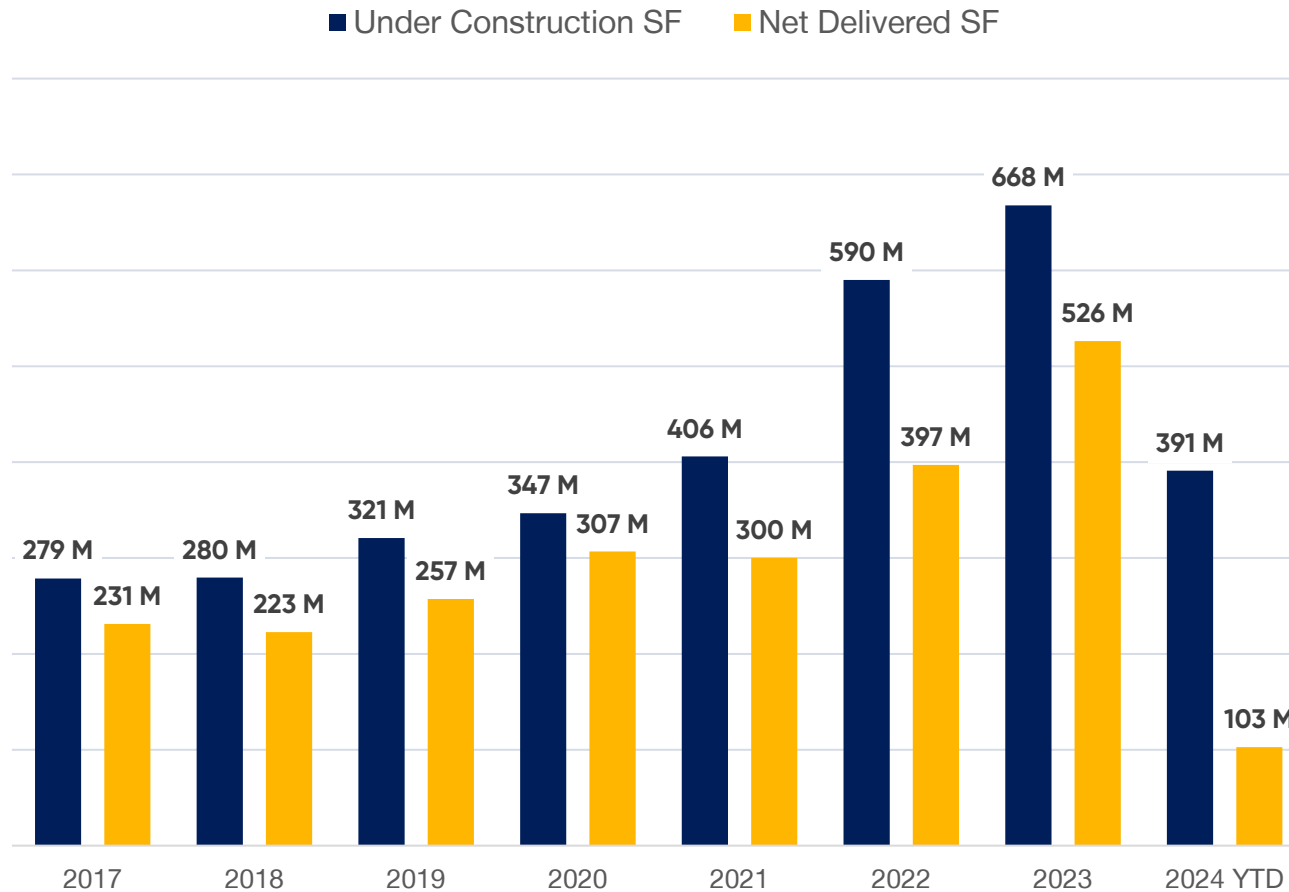


New industrial construction starts topped 2,600 in 2022, after breaking 2,000 for the first time in 2021. Starts for 2023 were comparable to pre-pandemic levels. However, given the torrid pace of construction and rising construction costs, elevated interest rates, supply chain constraints, the number of new industrial starts is robust. It is expected that construction starts will dip further in 2024 before falling back in line with pre-pandemic levels moving forward.

# Construction

## New Industrial Projects Pump the Brakes

### Industrial Under Construction – All Types (SF): (United States)



Industrial inventory grew nearly three percent in 2023, an increase not seen in the United States in the past 30 years. The number of industrial starts appears to have peaked last year, as developers are taking a more cautious approach as interest rates increase, construction costs rise, and the amount of time to complete a project has lengthened. However, the demand for warehouse/distribution space remains resilient, likely resulting in a temporary lull in the breakneck speed of new construction starts. **The total square footage under construction has fallen 41.4 percent in the past 12-months.**

# The problem with the real estate market is the market itself.

The market  
Sees you as  
a **target**.

The market  
chases the  
**deal**.

The market  
is short term  
and  
**reactive**.

The system  
favors  
**landlords**  
not  
occupiers.

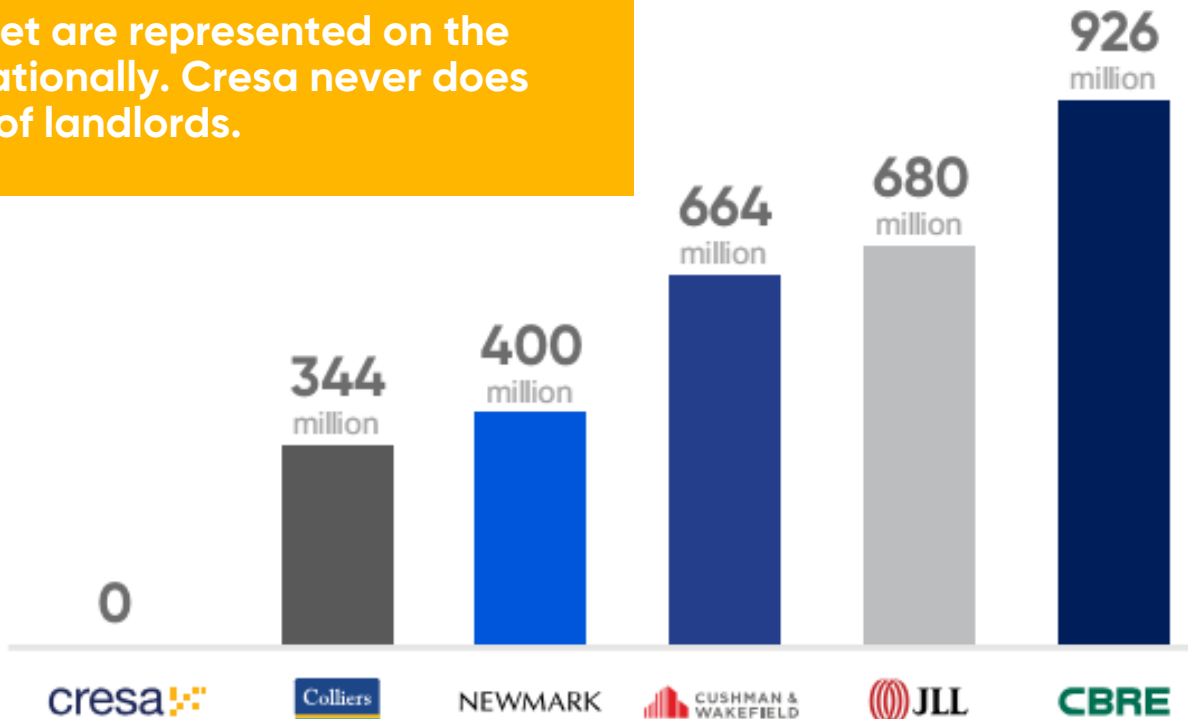
The stakes are high for occupiers. Real estate is expensive and inflexible. With the pandemic, labor dynamics, and economic instability, all bets are off.

It's time to go beyond the market and uncover how your commercial real estate can drive your goals, not impede them.

# How We're Different

As the world's leading corporate real estate provider committed exclusively to serving occupiers, we're in a league of our own. We offer creative solutions, unbiased advisory services and executive leadership on every account. We believe this combination of transparency and executive involvement generates the superior service our clients have come to expect from Cresa.

Billions of square feet are represented on the landlord's behalf nationally. Cresa never does business on behalf of landlords.



## An Unbiased Advocate

We're unbiased, uninfluenced by landlords. Everything we do is from an occupier perspective – and to their advantage.

## Our Structure

As a privately-owned firm, we can adjust quickly, easily scaling project teams or service offerings to suit client needs.

## Our Integrated Platform

Our services, each led by specialists in their field, are interconnected to enrich our clients' businesses and ensure seamless delivery.

## Our People

Led by seasoned principals with years of experience, we hire selectively and empower our employees to think innovatively.

## Transparency

Transparency is what allows us to foster lasting, meaningful relationships with each other and with our clients.



Visit [cresa.com](https://cresa.com)  
for more  
information.

Cresa is the world's only global commercial real estate advisory firm that exclusively represents occupiers and specializes in the delivery of fully integrated real estate solutions. Our purpose is to think beyond space, strengthening those we serve and enhancing the quality of life for our clients. Delivered across every industry, Cresa's services include Transaction Management, Workplace Solutions, Project Management, Consulting, Lease Administration, Technology, Investment Banking & Capital Markets and Portfolio Solutions. In partnership with London-based Knight Frank, Cresa provides service through 16,000 people, across 380 offices in 51 territories.

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