

# Occupier Outlook

## United States Market Overview

Cresa Research

Q4, 2022



# A Tale of Two Property Sectors

Mixed economic signals have caused organizations to be cautious. Low unemployment and strong job creation have been set against high inflation and rising interest rates. Long-awaited wage gains have been eroded by rising prices, but pent-up demand has caused strong consumer spending.

## Office Market

After two years of uncertainty, the hybrid work model has emerged as the most popular approach for office tenants. The result has been a precipitous drop in demand for office space. Newly delivered office buildings and the accompanying amenities and ability to meet contemporary demands have been successful.

## Industrial Market

Threats of an impending recession are becoming clearer, but economic drivers remain positive heading into 2023. Inflation-adjusted retail goods and truck tonnage remain at historic high levels, providing an optimistic setting for continued demand.



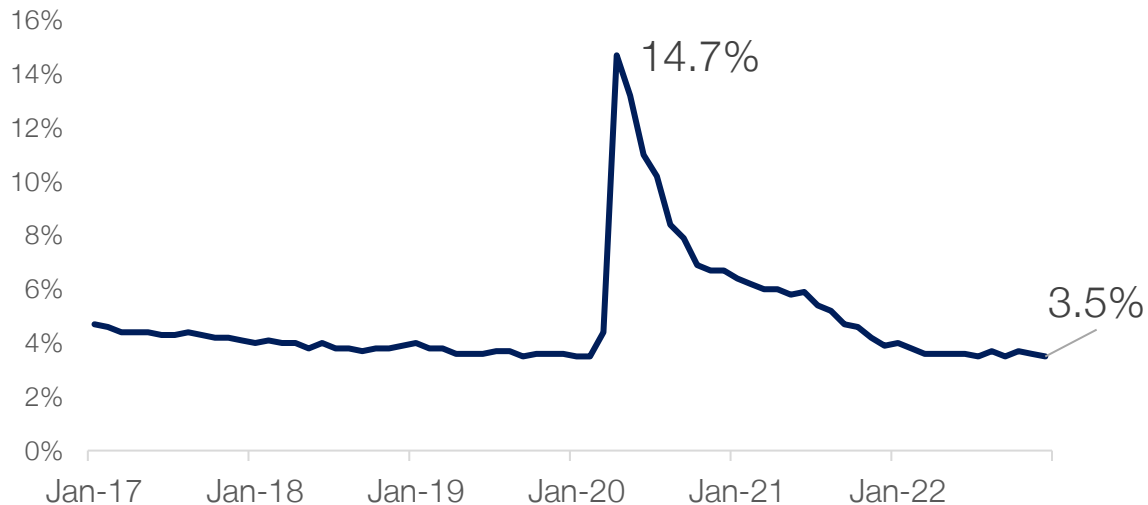
**Volatility and Uncertainty are Trending**

# Economy

## Unemployment Returns to Pre-Pandemic Levels

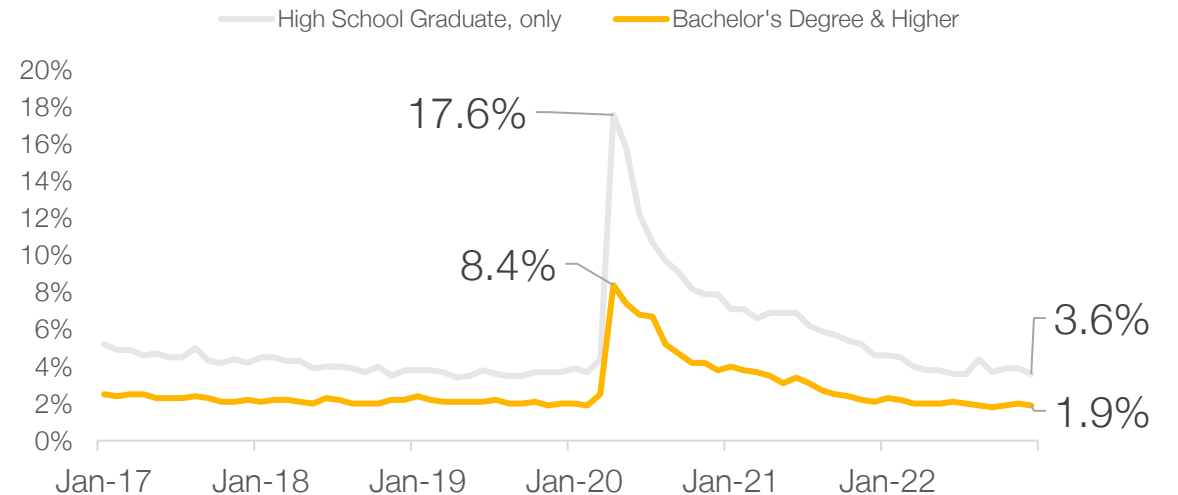
Despite economic headwinds, unemployment remains near historic lows. Continued Fed rate increases are expected to continue, albeit at a slower pace, coupled with high inflation, which will likely push unemployment higher.

### Total Unemployment



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

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



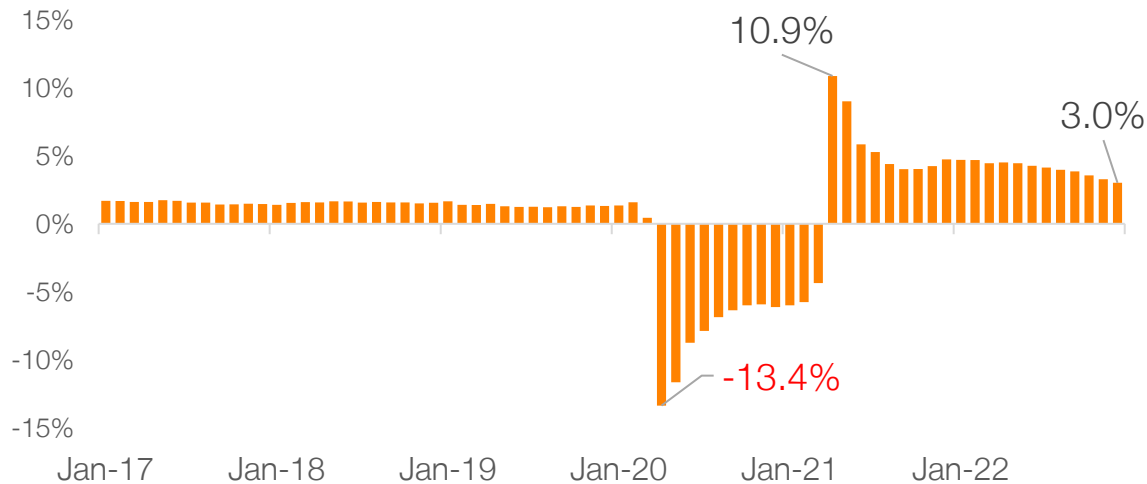
Source: U.S. Bureau of Labor Statistics, <https://bls.gov>

# Economy

## Job Creation Continues Despite Economic Headwinds

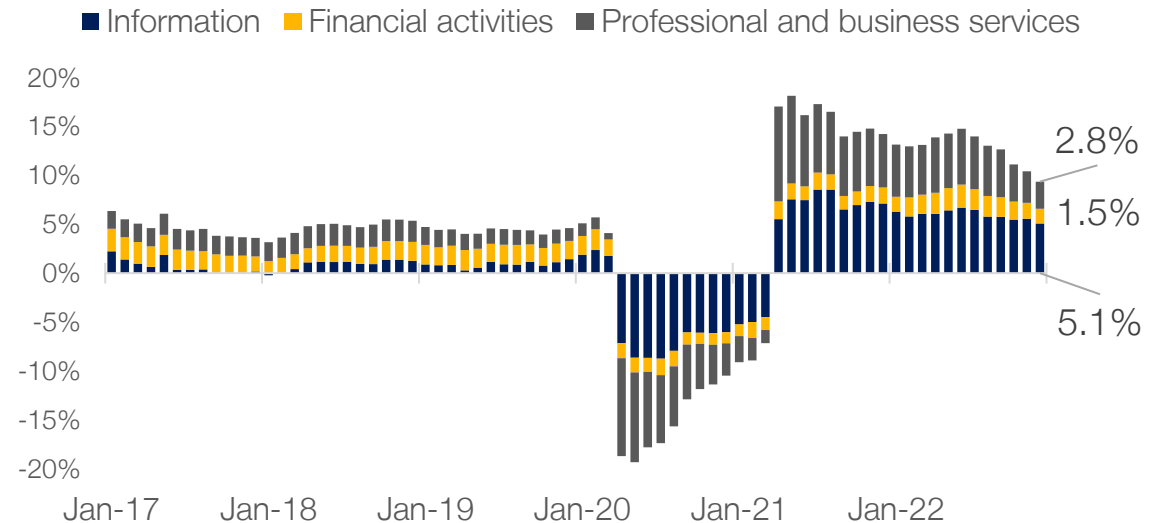
Low unemployment is being spurred by strong job creation, but companies are having difficulty filling the 10.5 million job opening reported by the *Bureau of Labor Statistics*. Additionally, the number of people that left the job market during the pandemic has been slow to re-enter the labor force, causing a slightly blurred image of the recovery.

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



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

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



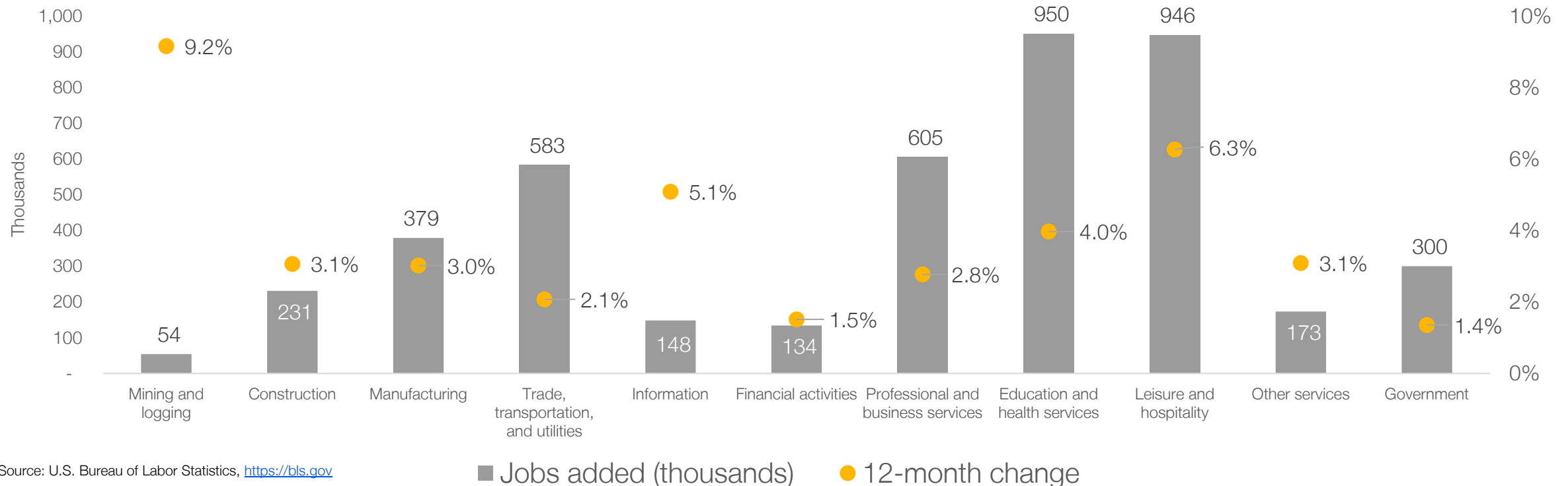
Source: U.S. Bureau of Labor Statistics, <https://bls.gov>

# Economy

## Hospitality and Health Services Lead the Way

Pent-up demand leads to increases in leisure and hospitality and education and health services sector jobs. Industrial-related jobs also posted big gains as consumer demand and supply chain issues continue.

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

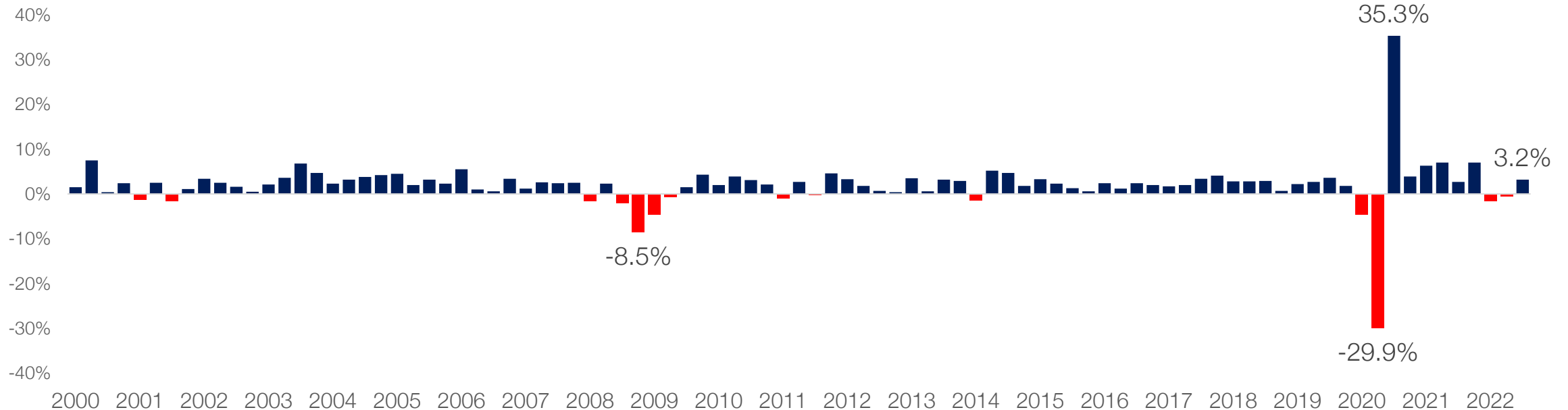


# Economy

## Gross Domestic Product

The Gross Domestic Product ended the third quarter up a surprising 3.2 percent, after two-  
quarters of negative growth. The strong growth was supported by increases in exports and  
consumer spending, stalling a sustained period of weak or negative growth that results in a  
recessionary period.

### GDP Percent Change from Preceding Quarter

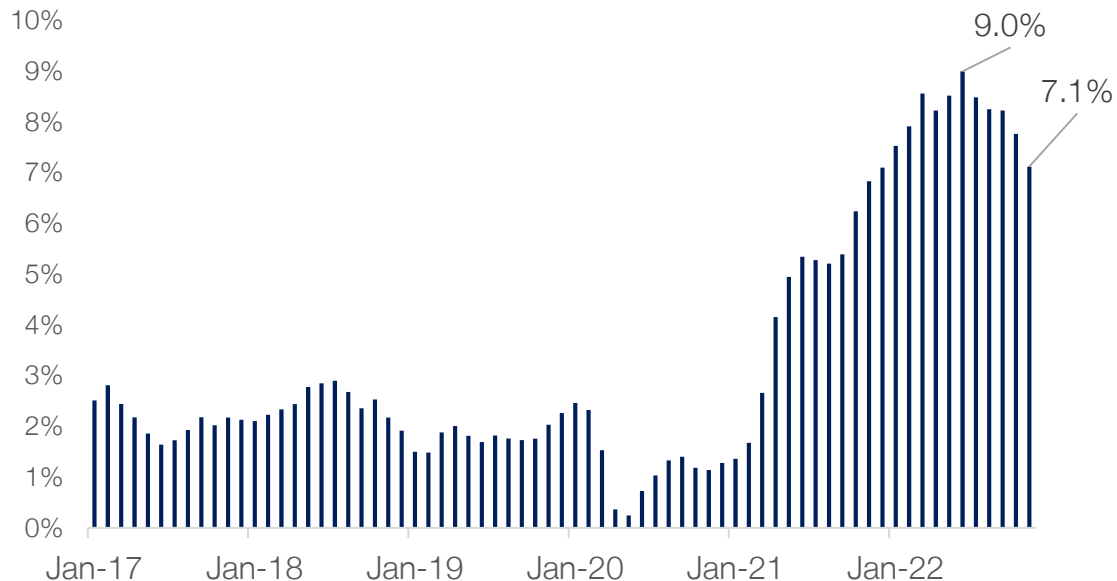


# Economy

## Inflation Begins to Slow, but Still High

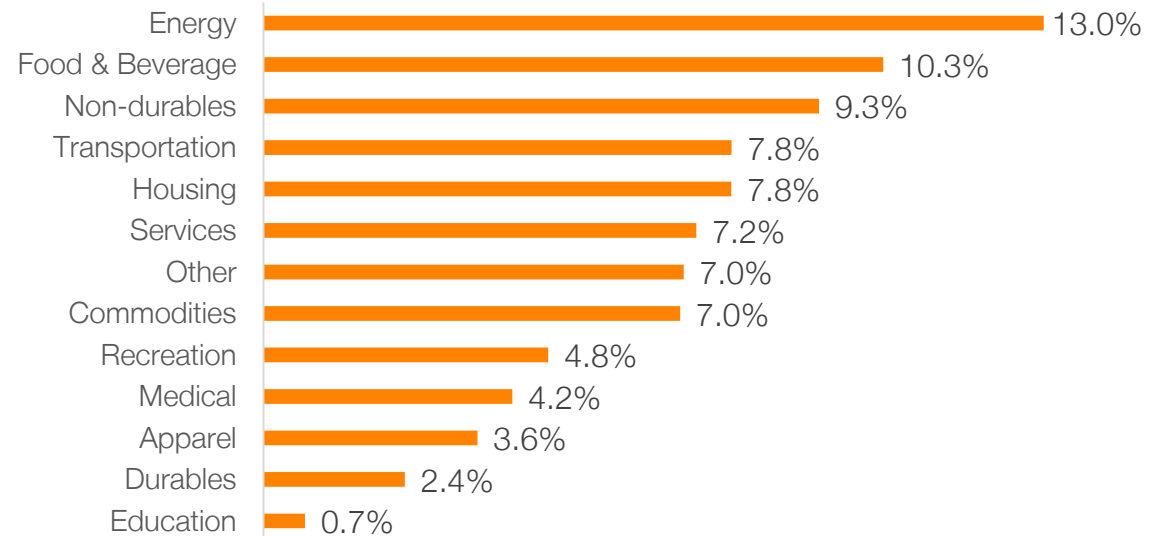
Driven by consumer demand, supply chain disruptions and a tight labor market, inflation has pushed prices higher throughout 2022. Rapidly increasing food prices, along with higher energy costs have been one of the main drivers in increasing inflation. While the rate of increase in the CPI is beginning to slow, prices have eroded by recent increases in standards of living.

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



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

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



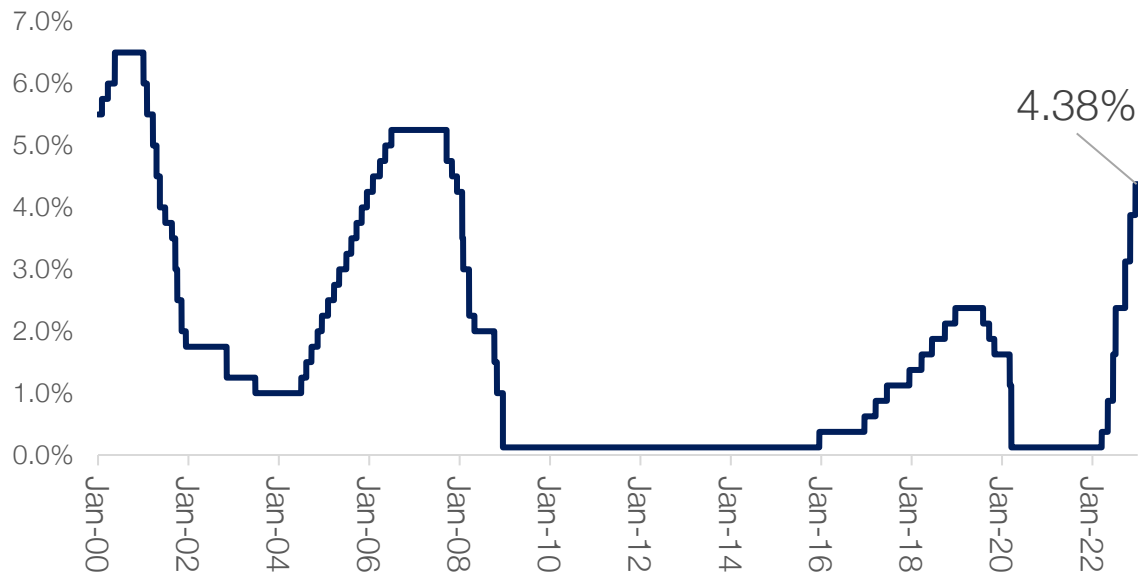
Source: U.S. Bureau of Labor Statistics, <https://bls.gov>

# Economy

## Rates Continue to Rise as Fed Attempts to Control Inflation

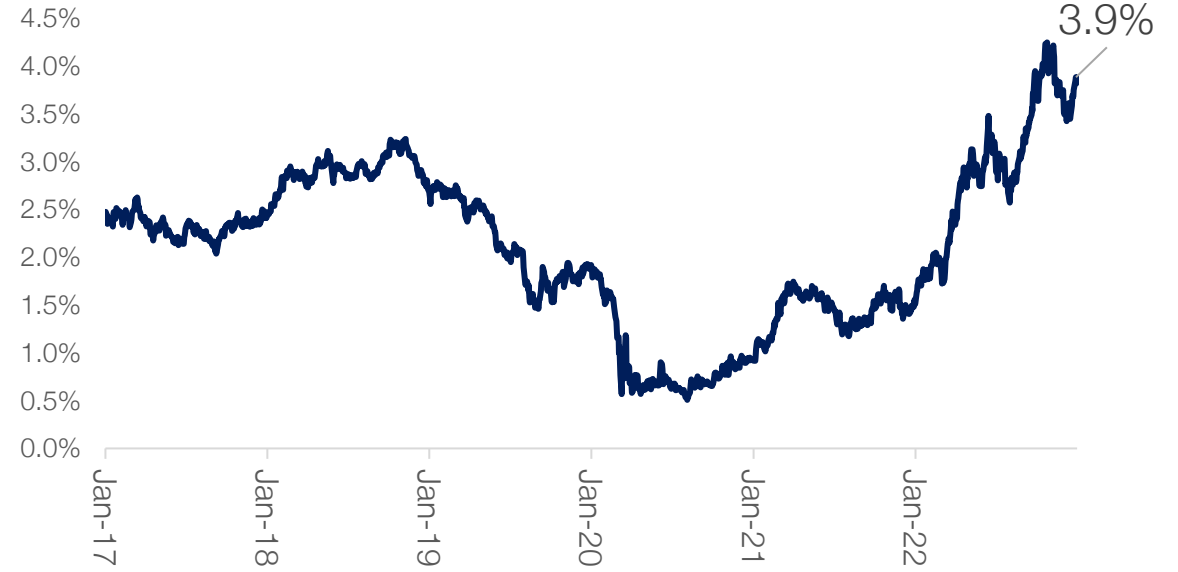
A series of increases in the Fed rate, including three 75bps increases in 2022, has bumped the range to 4.25% to 4.50%, the highest level in 15 years. Meanwhile, the 10-year US treasury note, an indicator for broader investment confidence, has generally increased ending the year at 3.54%. Rates haven't reached this level before the pandemic since 2011.

**Fed Fund Rate**



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

**10-Year US Treasury Note**



Source: Wall Street Journal



# Economy

## Consumer Sentiment Remains Near Decade Low

Despite strong consumer spending related to pent-up demand, the consumer sentiment index has dropped precipitously since the beginning of the pandemic. Given rapidly rising prices due to inflation, consumer spending will likely begin to tighten.

Consumer sentiment index



## Consumer Sentiment Index

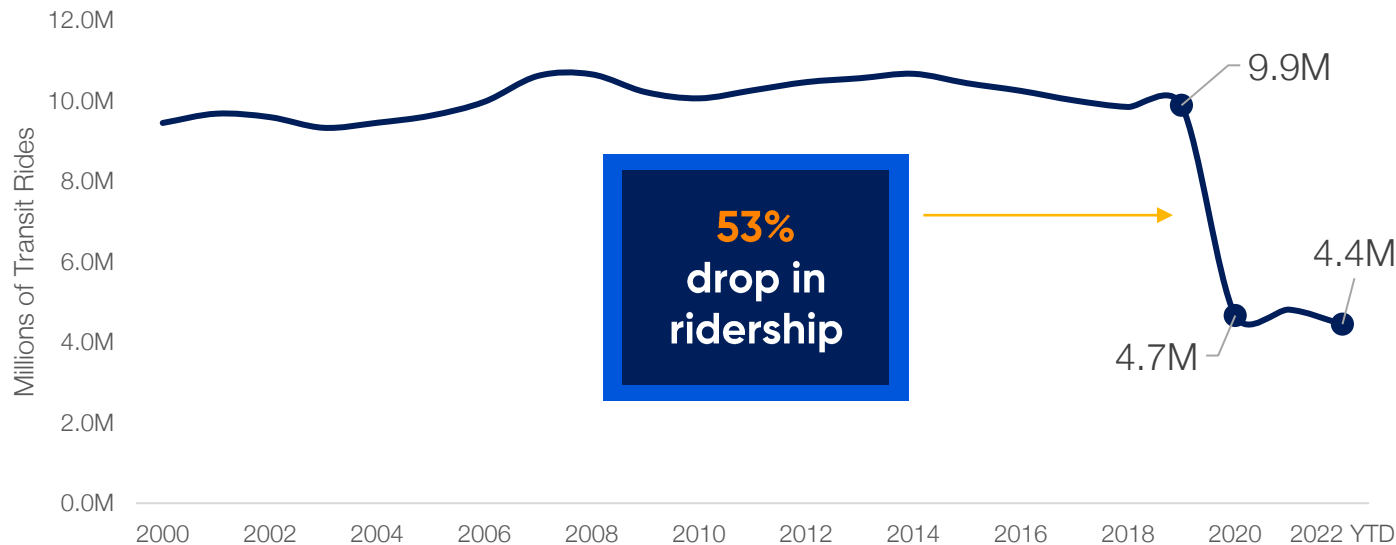
Consumer sentiment is a statistical measurement of the overall health of the economy as determined by consumer opinion. It considers people's feelings toward their current financial health, the health of the economy in the short-term, and the prospects for longer-term economic growth.

# Economy

## Public Transit Still Greatly Lags Pre-Pandemic Levels

A good indicator of the health of an urban core, and by extension the downtown office market, is the use of public transportation. While trending in the right direction, public transportation is still struggling.

### Public Transit Ridership



Source: U.S. Bureau of Transportation Statistics, Public Transit Ridership [TRANSIT], retrieved from FRED, Federal Reserve Bank of St. Louis. The data includes thousands of unlinked trips, not seasonally adjusted. The 2022 data is through September.

### Consumer Sentiment Index

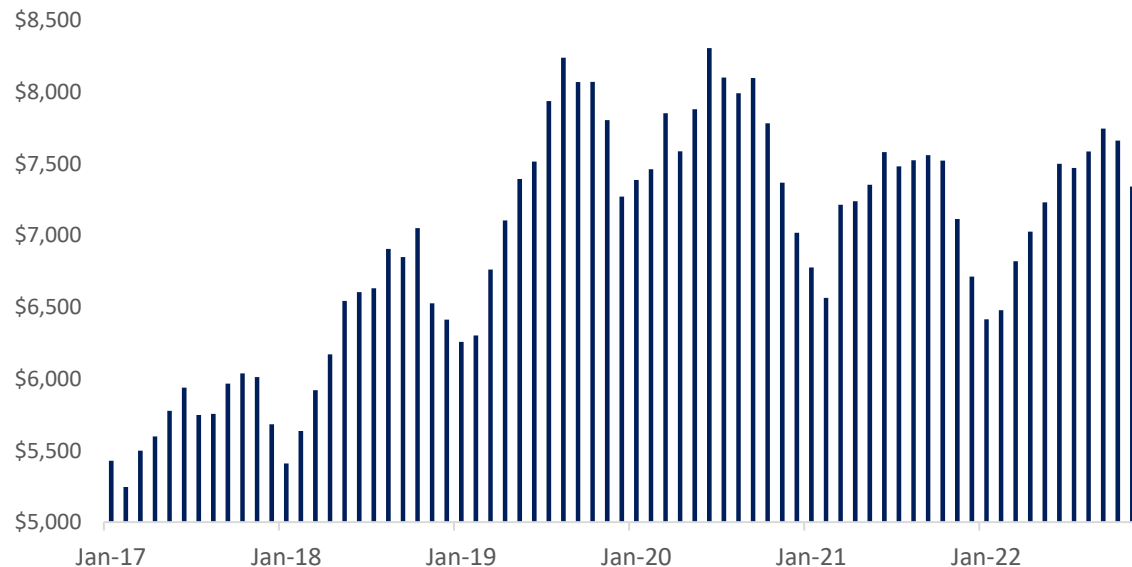
Public transportation has been reliably consistent since the turn of the century. Sky-rocketing gas prices temporarily encouraged public ridership in 2008, but quickly dropped back to historic levels. During the first year of the declared pandemic, ridership was cut in half (52.8% decrease). The economy 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 in 2022 is on track to trail pre-pandemic levels by nearly 35 percent.

# Construction

## Office Construction Spending Falls, While Industrial Spending Increases

Office construction is beginning to fall as projects started pre-pandemic deliver. It is expected that spending will fall further as demand wanes.

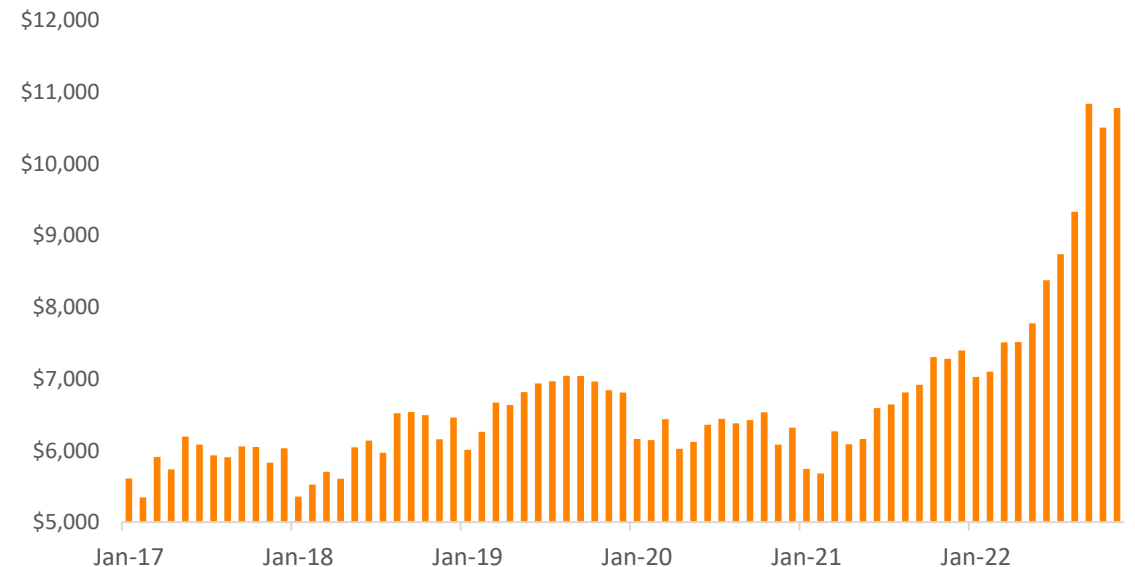
**Construction Spending: Office (\$ Millions)**



Source: U.S. Census Bureau, <https://census.gov/construction>

Construction in manufacturing has exploded as the need for space has climbed sharply. Spending has more than doubled since the start of the pandemic.

**Construction Spending: Manufacturing (\$ Millions)**



Source: U.S. Census Bureau, <https://census.gov/construction>

# Construction

## Housing Starts Taper, as Rising Interest Rates Slow the Market

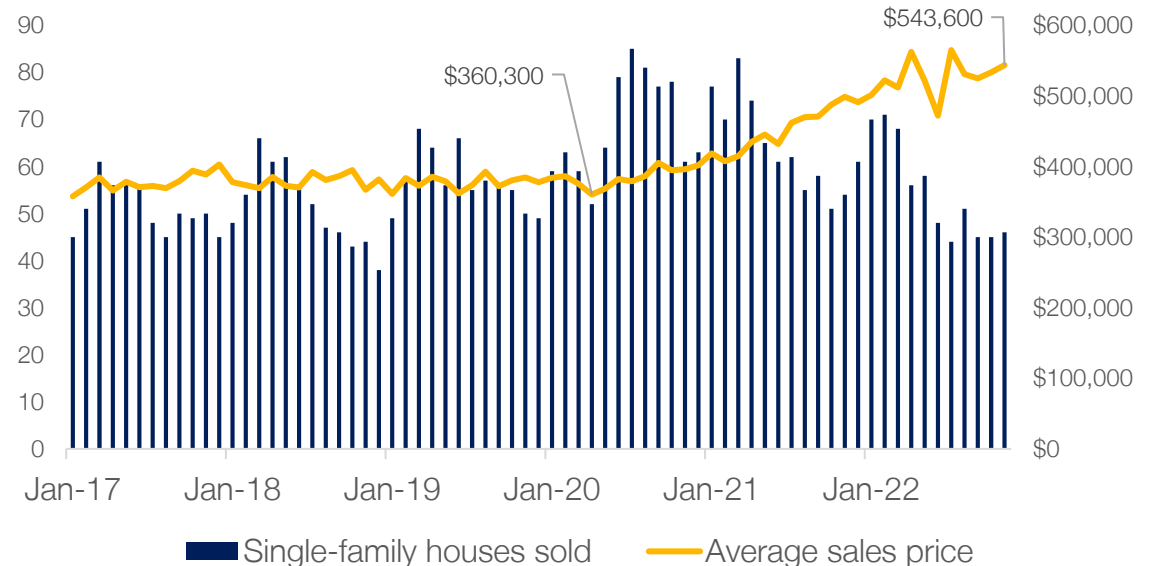
The number of residential housing starts soared since the start of the pandemic, while the number of homes sold reached record highs in both 2020 and 2021. This demand drove prices higher. This growth is being tempered as mortgage rates increase. Meanwhile, prices have begun to fall as demand softens.

### Residential Housing Starts (Thousands of Units)



Source: U.S. Census Bureau, <https://census.gov/construction>

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



Source: U.S. Census Bureau, <https://census.gov/construction>



The new normal is **disruption**.

# Real Estate Trends

As office-occupying companies vacillate between edicts of returning to the office and work-from-home models, many organizations are taking a measured approach. The softening economy is making matters increasingly cloudy for decision-makers as they consider right-sizing their space. Meanwhile, occupiers of industrial space are still navigating an imbalance of supply and demand. Record warehouse/distribution construction may provide some relief as new spec developments begin to deliver.

## Movements

### Office

- Asking rates flat
- Concessions/TIs increase
- Vacancy increases

### Industrial

- Rates continue steady rise
- Vacancy near historic lows
- Construction peaks



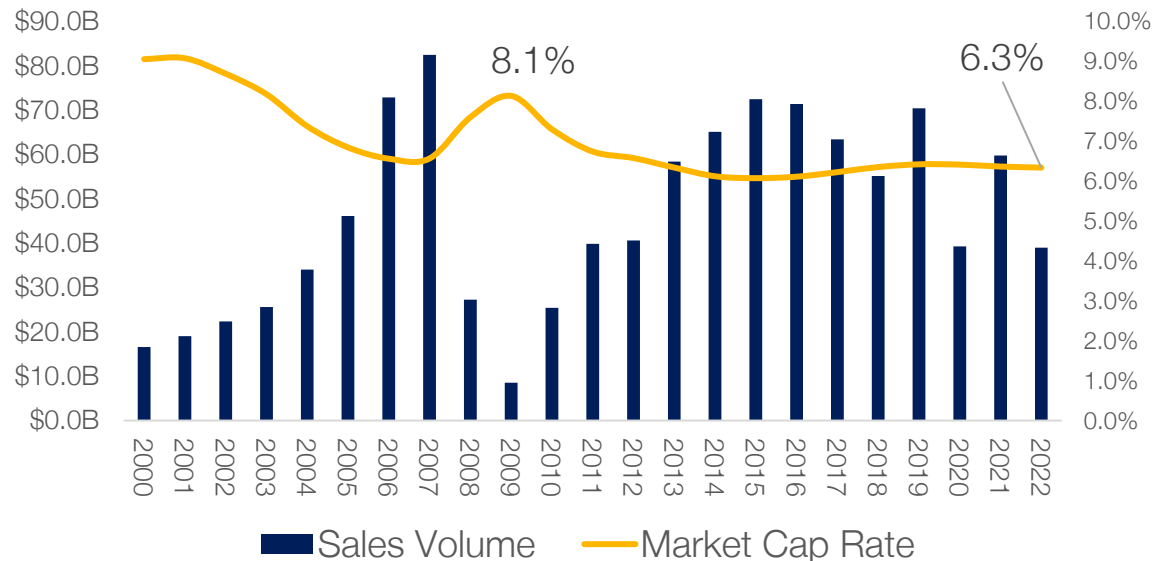
# Capital Markets

## Class A Office Volume Falls, While Demand for Industrial Properties Climb

Class A office sales volume dropped after an uptick in 2021. Cap rates have remained flat as prices for quality buildings have held during the pandemic.

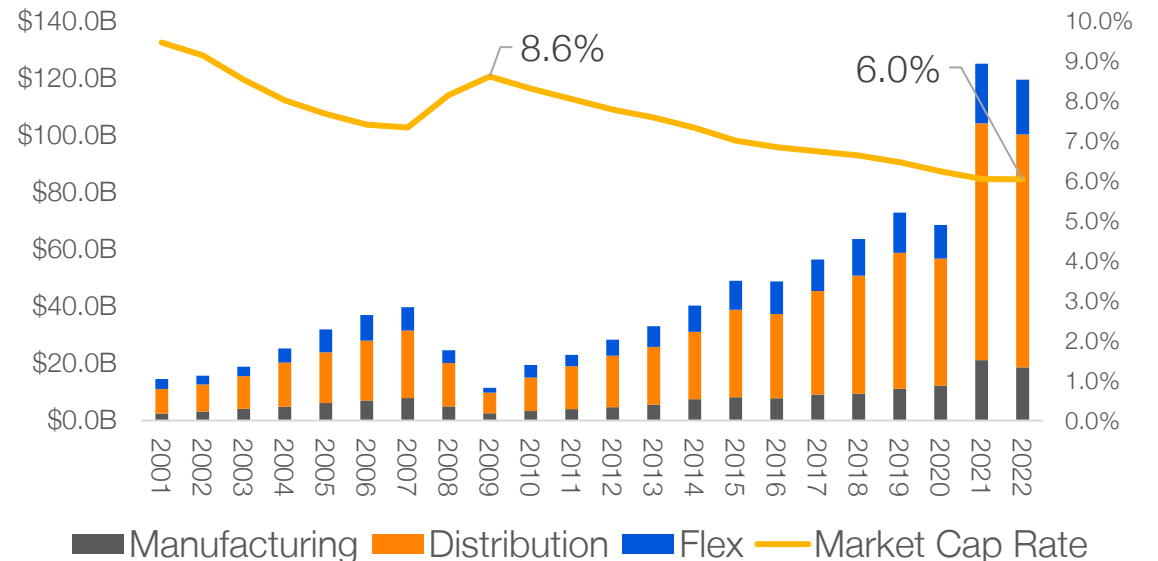
Strong demand has caused industrial sales volume to nearly double in the year following the Covid lockdown. As a result, cap rates have fallen to the lowest level in 20 years.

### Class A Office (United States)



Source: CoStar and Cresa

### Industrial (United States)



Source: CoStar and Cresa

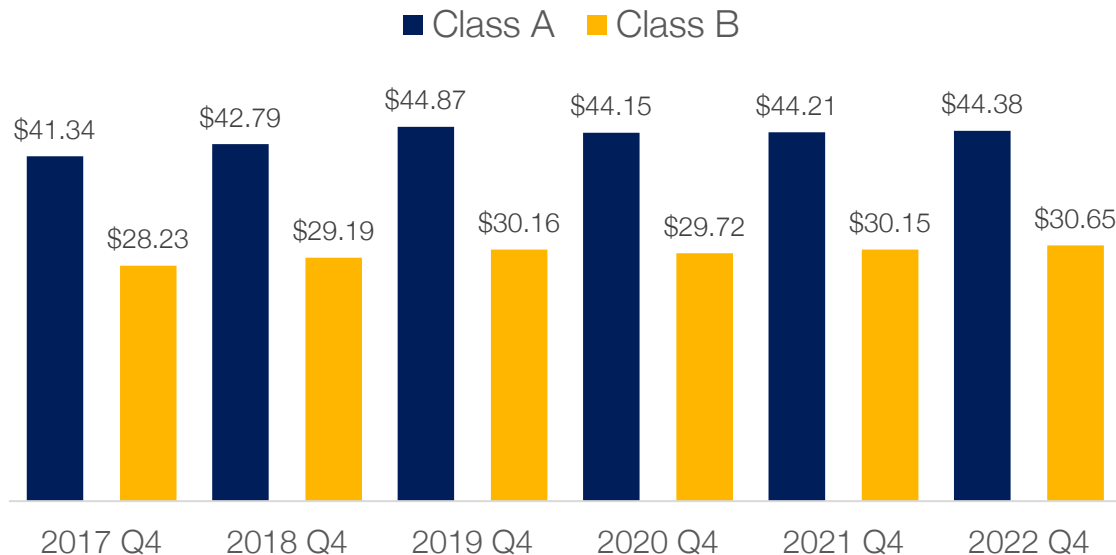
# Market Rent

## Office Rents Remain Flat, as Industrial Rents Hit Historic Highs

Office rates have stayed flat over the past three years, but nominal lease rates have gone down as inflation has increased other costs.

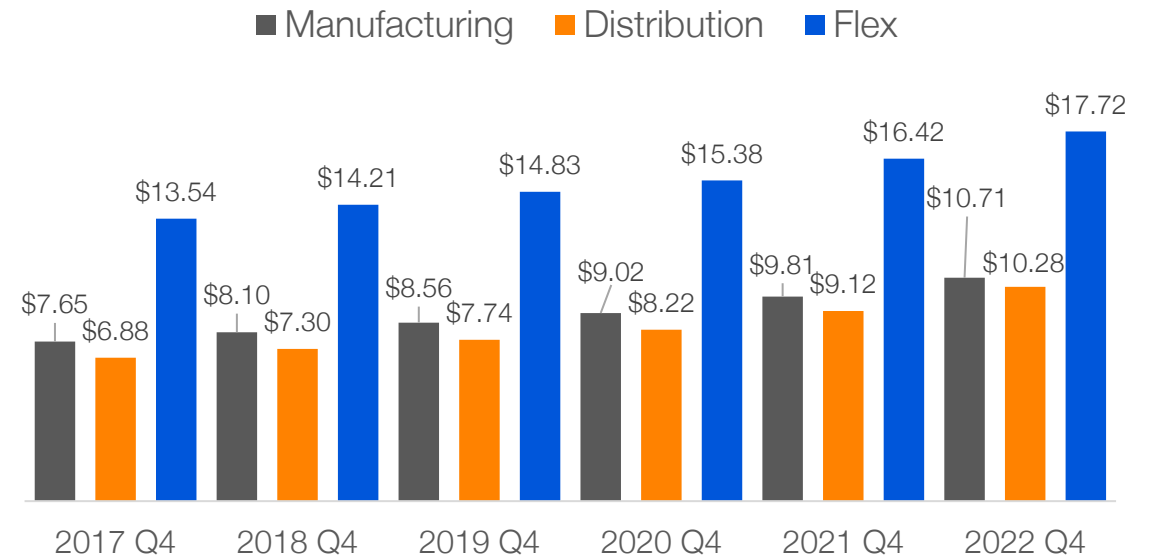
Industrial rates have increased steeply since the end of 2020, particularly distribution space, which has increased by 18.7 percent in the past two years.

### Office (National)



Source: CoStar and Cresa

### Industrial (National)



Source: CoStar and Cresa

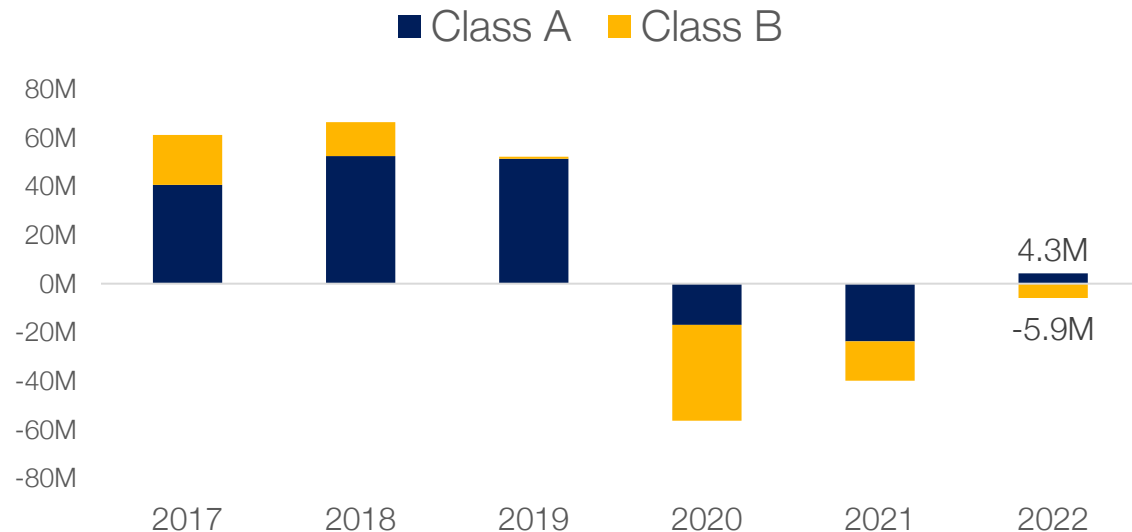
# Absorption

## Office Absorption Recovers, as New Deliveries Drive Industrial Absorption

Work-from-home policies have caused many companies to reevaluate their existing office footprint. As organizations right-size, office absorption has been overwhelmingly negative.

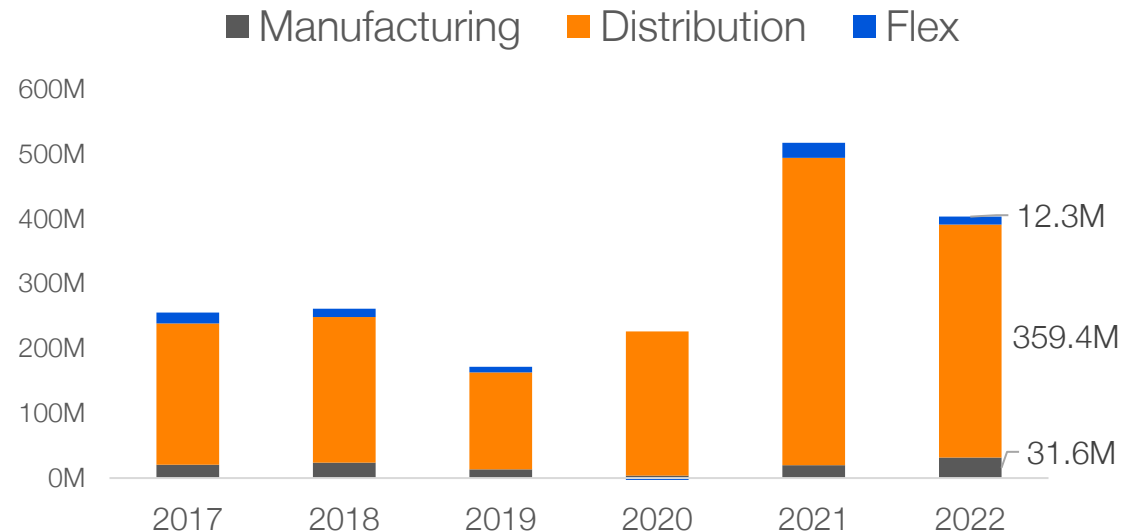
In 2021 absorption reached over 500 million square feet, a historic high. New construction deliveries are expected to push levels well above historic averages.

### Office (National)



Source: CoStar and Cresa

### Industrial (National)



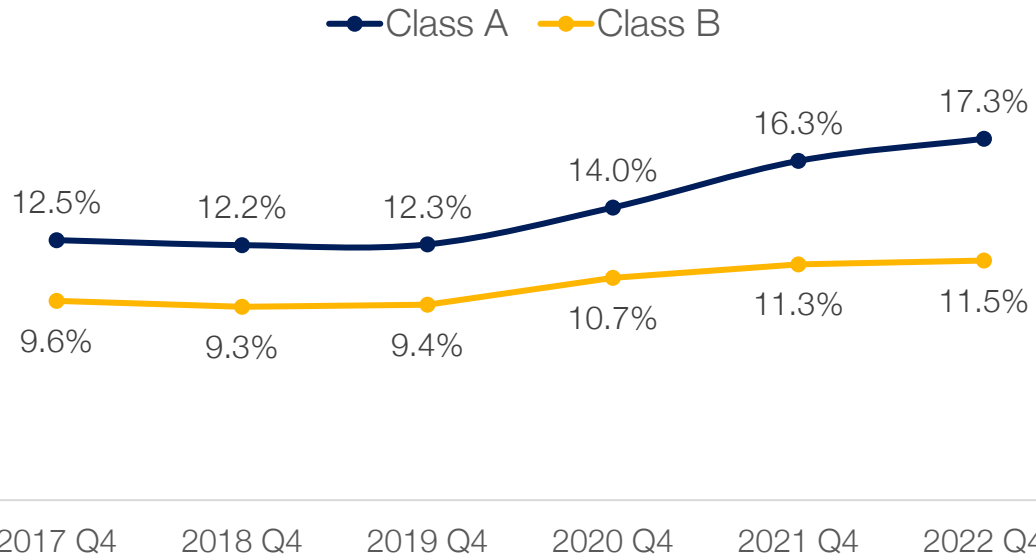
Source: CoStar and Cresa

# Direct Vacancy

## Office Vacancy Spikes, While Industrial Vacancy Continues to Compress

Class A direct vacancy has increased at a faster pace compared to Class B space. Direct vacancy is expected to continue to rise as pre-pandemic signed leases begin to roll.

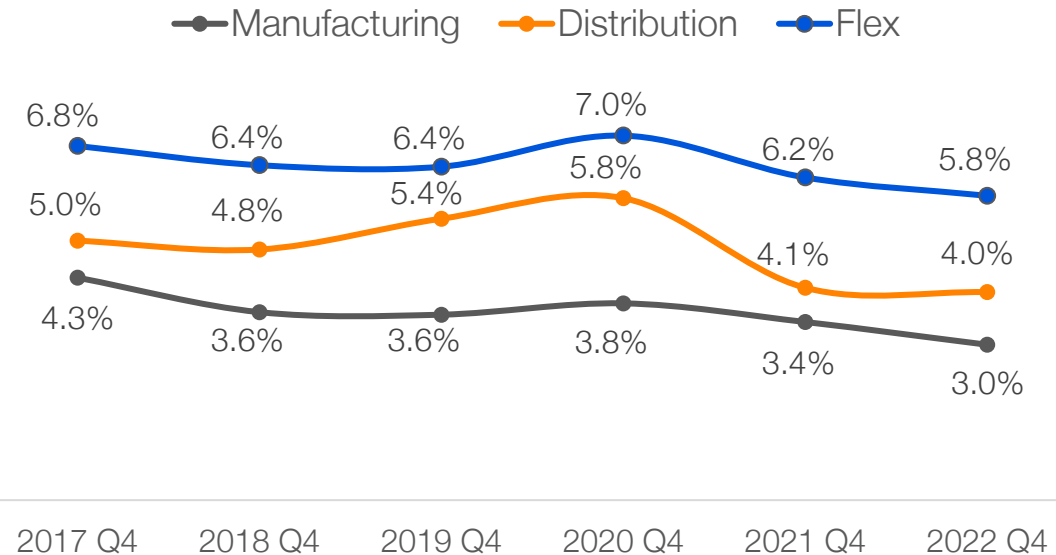
### Office (National)



Source: CoStar and Cresa

Direct vacancy within the industrial market has dropped for three straight years, with distribution properties falling to historic lows.

### Industrial (National)



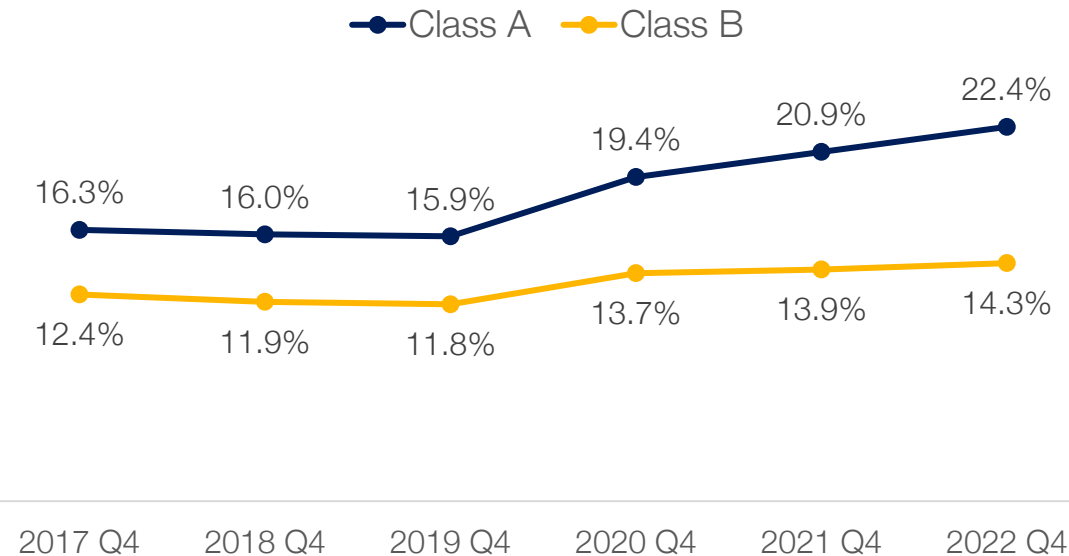
Source: CoStar and Cresa

# Availability

## Availability Climbs in Class A Office Space, Industrial Availability Steady

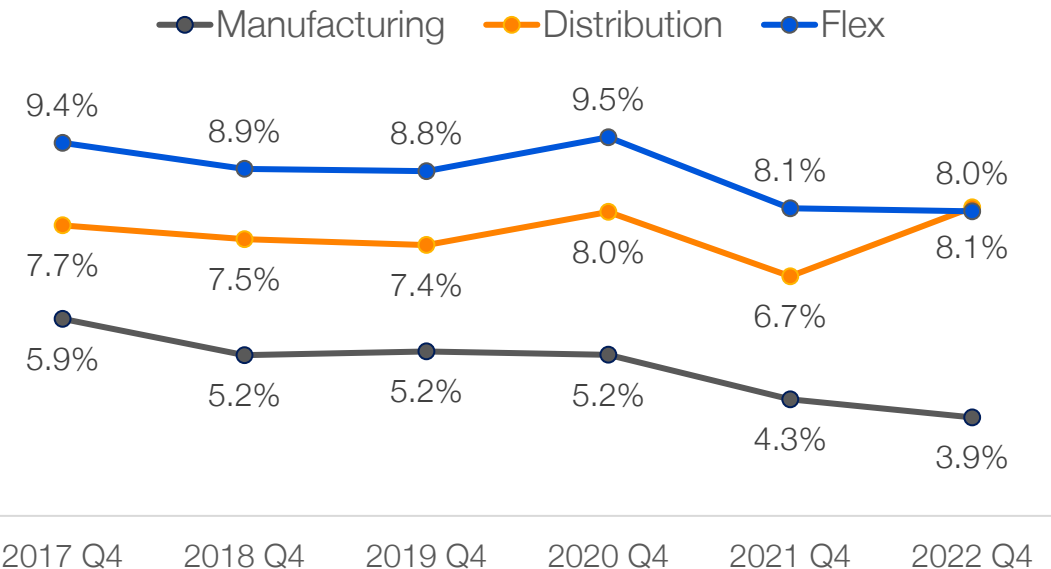
The availability rate includes the amount of space that is being marketed as available for lease, regardless of whether the space is vacant, occupied, available for sublease or available at a future date. Therefore, the availability rate may be a more accurate depiction of the market during this volatile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

### Office (National)



Source: CoStar and Cresa

### Industrial (National)



Source: CoStar and Cresa



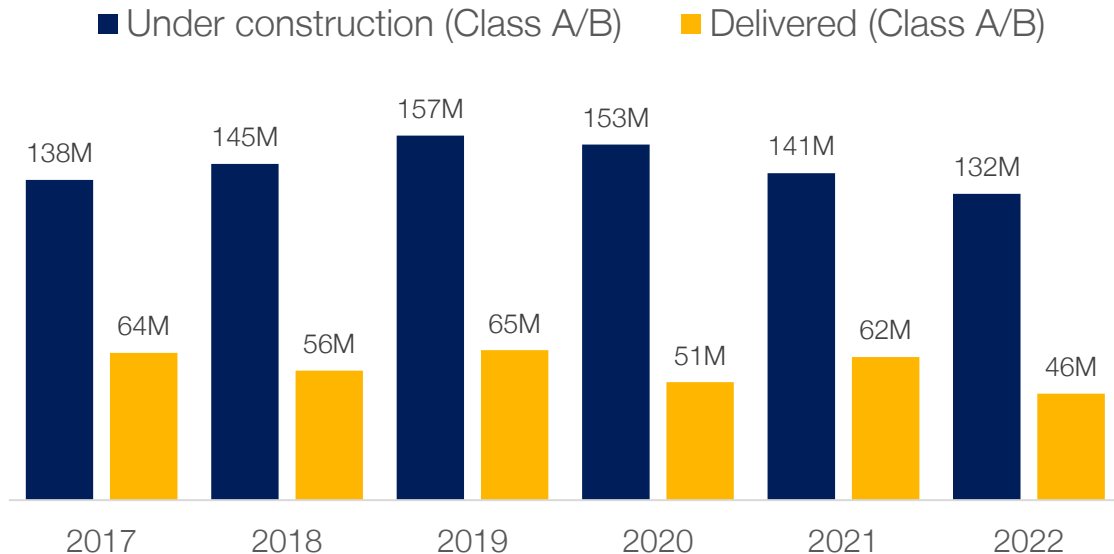
# Construction activity

## Office Construction Tapers, While Industrial Projects Continue to Break Ground

As pre-pandemic office projects deliver, the amount of under-construction space will drop. Demand and the cost of construction materials will likely stall many office projects.

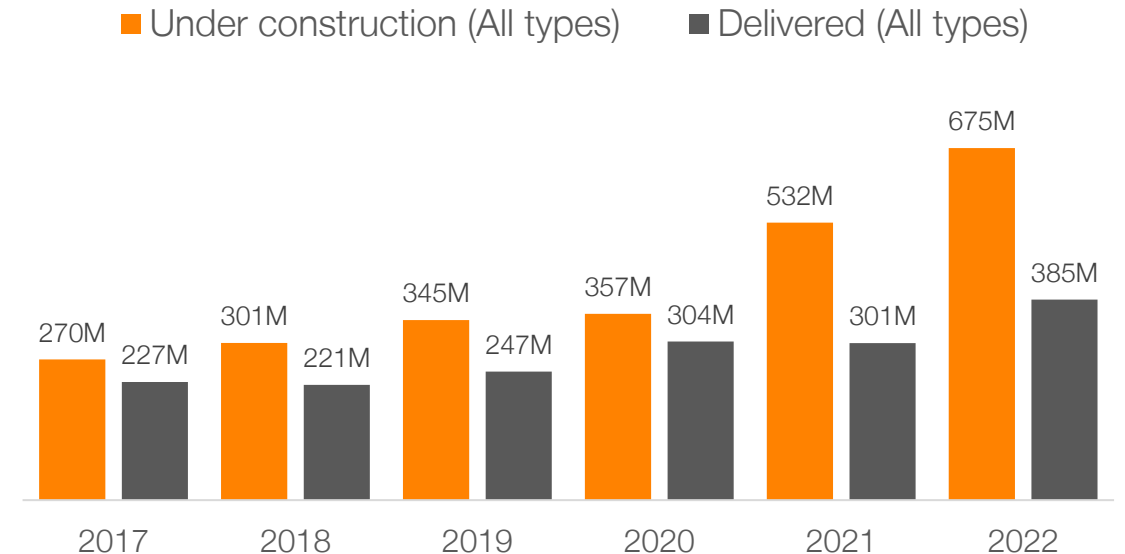
Under construction industrial projects reached 675 million square feet in 2022, a historic high. However, as interest rates increase developers will likely pull back moderately.

### Office (National)



Source: CoStar and Cresa

### Industrial (National)



Source: CoStar and Cresa

# 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 largest 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

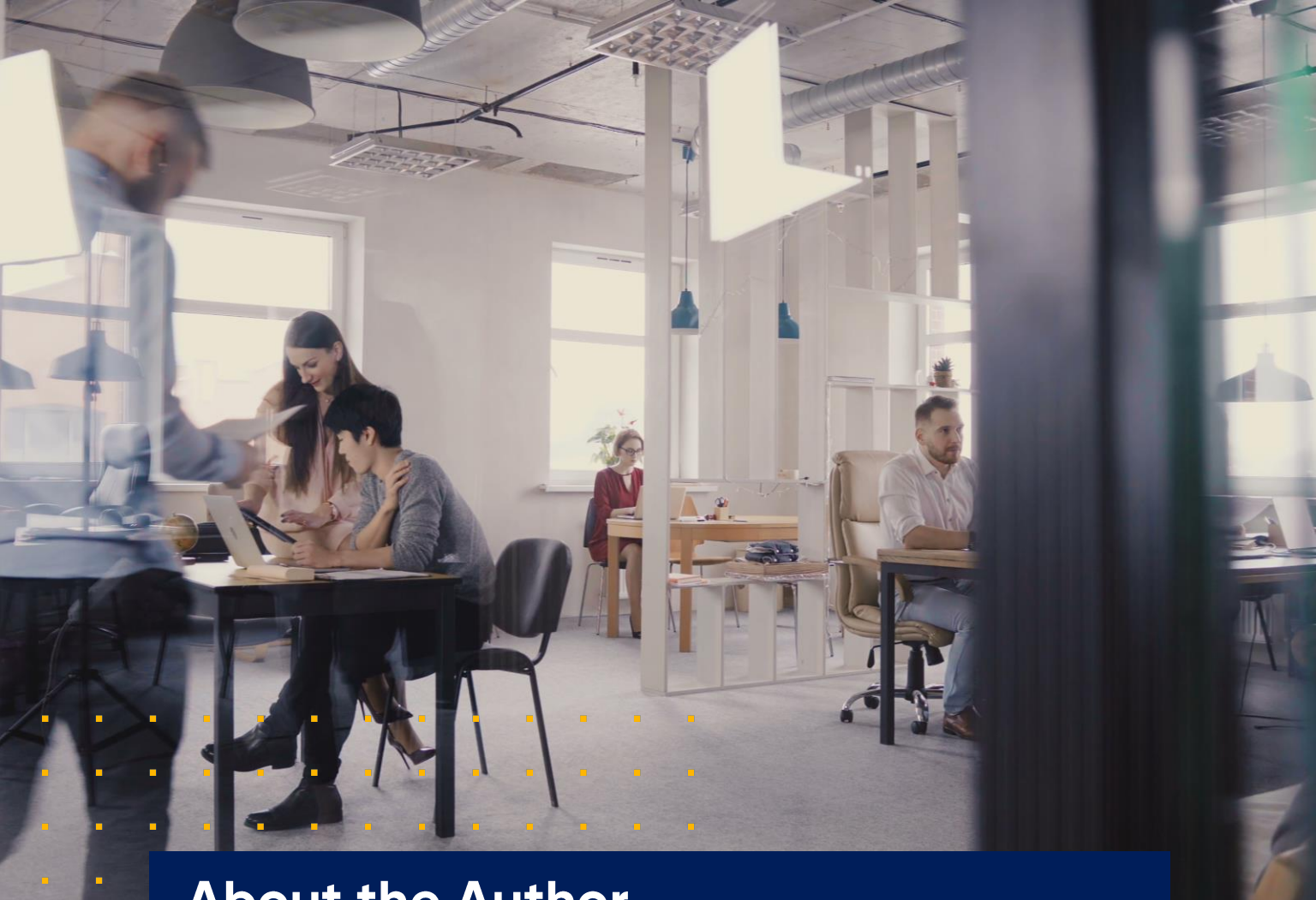
Our services, each led by specialists in their field, are interconnected to enrich our clients' businesses and ensure seamless delivery.

## 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** for more information.

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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 to 16,000 people, across 380 offices in 51 territories.

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