Q2 2016

Americas Office Trends Report

Summary

The overall national office market recovery slowed slightly in the first quarter of 2016 amid financial market volatility. However, as financial markets stabilized later in the quarter, office-using job growth accelerated, likely signaling stronger tenant demand in the months ahead. Tech companies continued to drive growth across the nation, resulting in a scarcity of creative space in many cities. On the inverse, energy-dominated markets slowed further due to sustained low oil prices. Many companies continued to seek space in vibrant downtown and suburban areas near public transportation in order to attract millennial talent desiring a live/work/play environment. With healthy office-using employment growth and limited new supply expected in 2016, rents will likely increase further. However, we continue to keep a close eye on any impact from financial market volatility and global risk factors on office market fundamentals.

Perspectives

This report reflects current observations and sentiments from more than 1,500 CBRE Office Advisory & Transaction and Investment professionals in the Americas.

NATIONAL TENANT / USER PERSPECTIVES

- Many tenants are still focused on downtown and highly amenitized suburban markets with transit access and live/work/play environments.
- Tightening in the Class A market has tenants exploring well-located Class B properties and creative space.
- Tenants across geographies and industries are exploring alternate workplace strategies to maximize efficiencies and collaboration.
- The most active industries are technology and healthcare. The energy sector has slowed due to low oil prices.
- Tech companies continue to look for creative, renovated warehouse space but also are migrating to Class A space with ample amenities.

NATIONAL LANDLORD / OWNER PERSPECTIVES

- Developers are renovating Class B buildings due to a shortage of Class A space.
- A lack of new supply is resulting in a shortage of large, available blocks of Class A space in an increasing number of markets.
- Landlords continue to push rental rate increases and reduce concessions in many markets.
- Speculative construction is increasing slowly. However, rising construction costs are restraining development activity outside of the strongest markets.
- Most markets are witnessing positive absorption.

CAPITAL MARKETS PERSPECTIVES

- U.S. office investment including entity-level acquisitions decreased by 14.8% year-over-year in Q1 2016.
- The ratio of suburban acquisitions to CBD in Q1 2016 was on par with 2015 but higher than previous years, accounting for 53.4% of the Q1 total.
- Cross-border office investment totaled $5.3 billion in Q1 2016, a 23% decrease from Q1 2015.
- The average sales price per square foot for both CBD and suburban asset purchases decreased slightly in Q1 2016, although this could be due to a changing asset mix.
- Real Capital Analytics data indicate that CBD cap rates declined in Q1 2016 while suburban cap rates widened slightly.

REGIONAL PERSPECTIVES

NORTHEAST REGION

- Technology, advertising, media and information (TAMI) tenants continue to dominate demand in **Manhattan**, outpacing the traditional financial and legal industries.
- City, state and federal government tenants are very active in **Downtown Manhattan**.
- Downtown **Boston** trophy assets continue to attract foreign capital.
- Shared workplace providers were the primary drivers of growth in the downtown **Washington, DC** market in Q1 2016.
- A flight to quality has driven down trophy vacancy rates in downtown and suburban **Philadelphia** to near-record lows.
- Mid-sized government contractors and cyber-security firms are a major driver in **Baltimore**.
- Tenants seeking large blocks in both downtown and suburban **Hartford** have few options.
- New and renovated buildings in **Harrisburg** are benefiting from a flight to quality, while older properties are struggling to attract and retain tenants.

SOUTHEAST REGION

- Several million square feet of creative office space are under construction in **Atlanta**.
- Tech companies seeking to attract millennials have driven up rents for new product in downtown **Nashville** to record highs.
- Legal, financial and healthcare tenants were active in **Tampa** in Q1 2016.
- Many **Birmingham** tenants are in expansion mode, driving demand for boutique space attractive to millennials.
- A significant amount of Class A office construction activity is occurring in **Charlotte**.
- Rapid residential and hospitality industry growth in **Greenville** has created parking and infrastructure challenges.
- No new space is expected in the near term in downtown **Savannah**, where height and mass restrictions make development challenging.
- Back office, logistics and bioscience tenants have been driving demand in **Memphis** in recent years.

MIDWESTERN REGION

- Despite cautious sentiment, including increasing sublease space, positive fundamentals continue in **Chicago's** CBD.
- Preleasing remains high in buildings breaking ground in **Dallas**, alleviating fears regarding overbuilding.
- **Houston** sublease space is expected to reach 10 million sq. ft. within the next ten months as energy firms downsize further.
- Robust leasing activity has resulted in virtually no large blocks available in the **Austin** CBD.
- With vacancy rates declining, construction activity in **St. Louis** has risen to the highest level since the recession.
- Healthcare tenants, including expanding hospital systems, are active in **Louisville**.
- Owners in **Minneapolis** are renovating and repositioning existing properties to attract growing tech companies.
- Rents are rising in **Indianapolis**, partially to offset higher TI costs.

WESTERN REGION

- Although up slightly in Q1 2016, sublease space is being rapidly absorbed in **San Francisco**.
- Despite recent rapid growth, rents remain too low to justify new construction in

REGIONAL PERSPECTIVES (CONT.)

Oakland, limiting tenant options.

- Robust tech tenant demand and rent growth are driving the **West Los Angeles** investment market.
- Recent tenant activity in **Los Angeles North** has consisted primarily of consolidations and renewals.
- Tech, gaming and cloud companies, including many Bay Area-based firms, continue to expand in **Seattle**.
- Tenants are relocating from adjacent states to **Phoenix** for its lower costs.
- Tenants in **Reno** face a lack of large, contiguous blocks of Class A space.
- Active tenants in **Sacramento** include state government and healthcare, tech, insurance, education and law firms.

CANADA

- After a slow 2015, Canada's economy started 2016 with relatively strong growth.
- Employment growth in core office-using industries has been positive, bolstering demand for space.
- Although office absorption picked up slightly in Q1 2016, significant regional disparities exist.
- The overall vacancy rate increased in Q1 2016, largely due to slowing demand in energy-centric cities and new office supply being delivered to the market.

MEXICO

- Mexico City has reached 55.7 million sq. ft. of Class A office inventory and a vacancy rate of 12.6%.
- Q1 2016 net absorption remained strong at 885,000 sq. ft., up from 603,000 sq. ft. in Q1 2015.
- Class A under construction projects totaled 18.2 million sq. ft. at the end of Q1 2016.

Contacts

To learn more about CBRE Research, or to access additional research reports, please visit the Global Research Gateway at www.cbre.com/research.

Edward J. Schreyer, SIOR
President, Asset Services & Advisory
and Transaction Services | Investor
The Americas | CBRE
T +1 214 8633042
ed.schreyer@cbre.com
www.cbre.com/ed.schreyer

Whitley Collins
President, Advisory and
Transaction Services | Occupier
The Americas | CBRE
T +1 310 3634842
whitley.collins@cbre.com
www.cbre.com/whitley.collins

Andrea Cross
Head of Office Research,
The Americas | CBRE
T +1 415 7720337
andrea.cross@cbre.com
www.cbre.com/research