C&W: U.S. office market vacancy falling, rents rising

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The U.S. office market maintained its healthy tempo through the first quarter of 2015, according to commercial real estate services firm Cushman & Wakefield. “While a slow start for leasing velocity and vacancy rate movement kept those fundamentals in check, early positive momentum can be seen in absorption, rental rates and with growth acceleration in markets beyond gateway and tech-centric cities, noted Cushman & Wakefield’s Maria T. Sicola, head of Research for the Americas.

The national CBD and non-CBD office vacancy rates remained virtually unchanged during the first quarter of 2015, at 11.9 and 16.4 percent, respectively. Yet on a year-on-year basis, CBD vacancy dropped 120 basis points, while non-central locations saw vacancy drop 69 basis points. Seven CBD and non-CBD markets now have office vacancies in the single digits, with the lowest recorded in suburban San Francisco – at 4.1 percent. New office construction deliveries, totaling 4.2 million square feet, achieved 54 percent occupancy, which helped boost absorption. CBD markets enjoyed occupancy gains of 2.1 million square feet, with Midtown N.Y. accounting for more than half of this total (1.1 million square feet). In the suburbs, where tenants absorbed 3.1 million square feet of space, Silicon Valley led with 707,000 square feet in occupancy gains. Improving office markets nationwide pushed up asking rents by 6.0 percent year-on-year in central locations, and by 2.5 percent in non-central markets. New York City and the West Coast experienced the greatest improvement for downtown markets. Northern California also took the lead for suburban market rent increases, with Houston and Atlanta rounding out the top five.

“Looking ahead, the office development pipeline remains robust,” Sicola said. “We expect an additional 33.0 million square feet to come online and that figure is still only 1.0 percent of total inventory. When we look at that supply component, and we couple that with stronger employment growth in 2015, Cushman & Wakefield believes that will lead to increased market tightness and further upward pressure on rents. For the U.S. as a whole, we anticipate a 120-150 basis point drop in vacancy rates by year end and 4 to 6 percent growth in asking rents.” He said that office development supply would continue to be robust, with 33 million sq. ft. due to come online. He also predicted that nationwide, the average vacancy rate would fall by up to 150 bps, while rents could rise by 4 to 6 percent.