



United States | Q1 2022

Research

# Office Outlook

Market bifurcation continues apace as tenants seek top-quality product

# Executive summary

Leasing activity rose by a healthy 5.4% on the back of improved clarity surrounding return-to-office timelines.

Occupancy changed little in the first quarter, while absorption in new supply since the onset of the pandemic has surpassed 61 million square feet.

A thinning construction pipeline will bring needed new space to the market, albeit pushing vacancy upward in the process.



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# Market momentum continued to build over the first three months of 2022 as gross leasing volume increased by 5.4%, the fifth consecutive quarter of improved tenant demand.

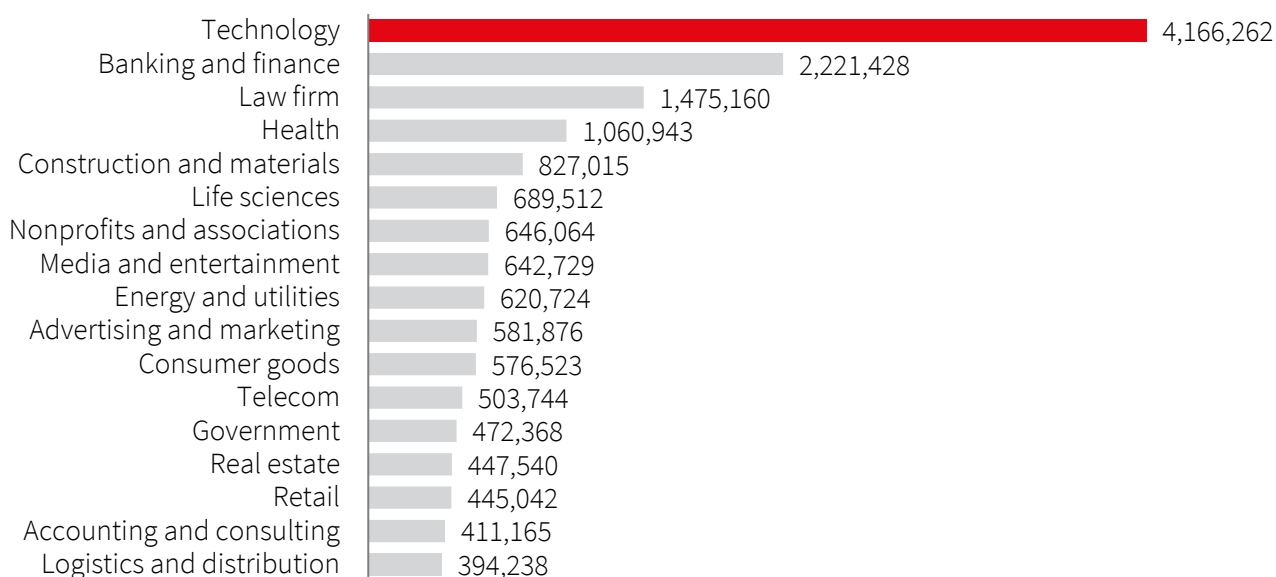
On the back of continued tech-sector expansion and stable sublease inventory, the market demonstrated signs of durability and resiliency since hitting a trough in late 2020. After recording net occupancy growth for the first time since the onset of COVID-19 in Q4 2021, absorption ended Q1 essentially flat, with a quarterly decline of 5 million square feet representing a modest 0.1% decline in occupancy. Utilization nudged upward in response to a rapid decline in omicron cases, coupled with the subsequent removal of almost all remaining restrictions and mandates, enabling numerous major tech, financial, legal services and other professional services firms to set clearer targets for office reentry.

At the same time, clarity surrounding hybrid arrangements has helped to bring more certainty for

tenants regarding their longer-term space needs, boosting term lengths in the process. Flight to quality remains the dominant theme affecting market performance: divergence in absorption, vacancy and rents is widening between first- and second-generation product, with little sign of slowdown. This splitting of the market into two distinct environments will define tenant and investor activity alike moving forward.

Uncertainty surrounding geopolitical tensions remains, as do concerns about inflation and new shocks to supply chains, but employment and wage growth as well as consumer spending, jobless claims and investment activity remain robust and will keep demand buoyant in spite of headwinds.

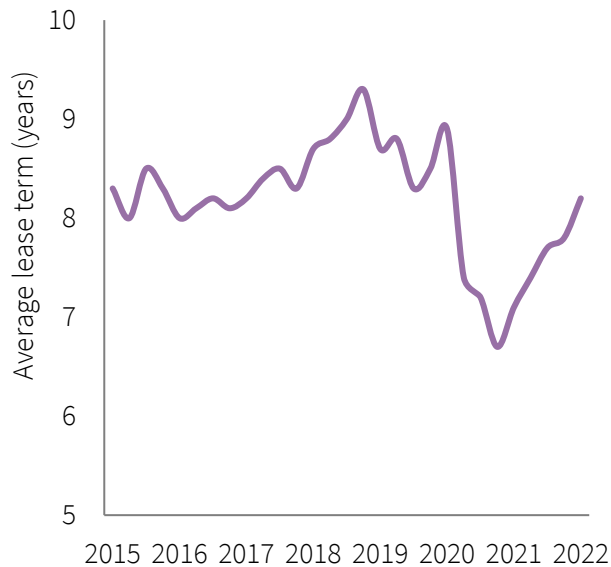
## Tech sector's dominance continues unabated, with over 4 million s.f. of deals in Q1



Source: JLL Research; only leases > 20,000 s.f.



**The average lease term jumped back above the eight-year mark, driven by large-scale relocations to new supply**



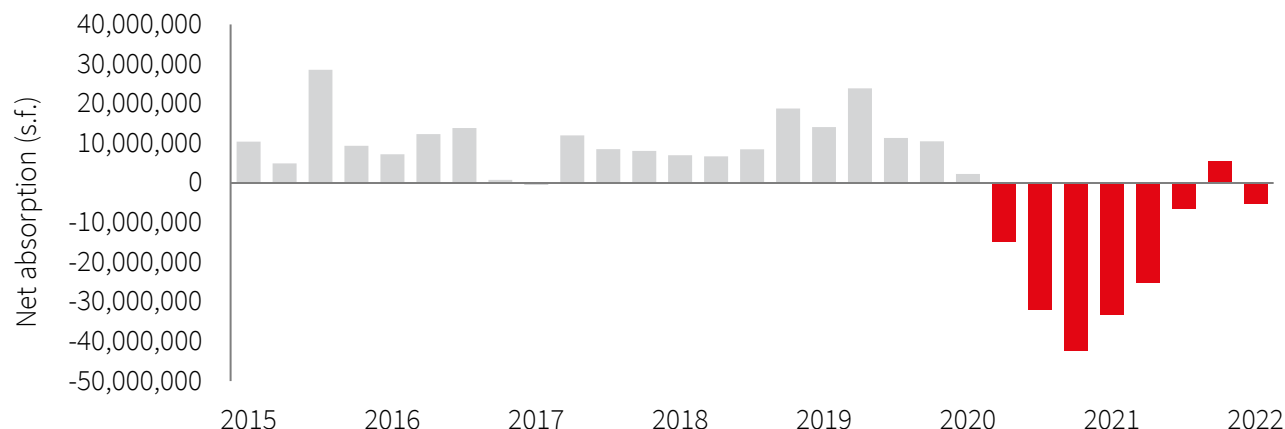
Source: JLL Research; covers all leases > 20,000 s.f.

Underlining improvements in tenant confidence over space needs, lease terms rose once again to back above 8 years on average to 8.2 years, up 30 basis points from Q4 2021. Deals 10 years or longer are now 51% of all activity, the first time that these transactions have represented more than half of volume since the onset of the pandemic.

New supply is still capturing an outsized amount of demand, as 20.7% of leasing was in buildings delivered since 2015 compared to it representing 12.8% of inventory. On the other hand, the 1970–1999 segment got 38.6% of leasing in Q1 but represents 60.4% of national inventory. Along with gains in creative and adaptive reuse properties, the “hollowing out” of the market into a barbell is intensifying.



## Although negative in Q1 2022, occupancy losses were not enough to erase Q4 2021 gains

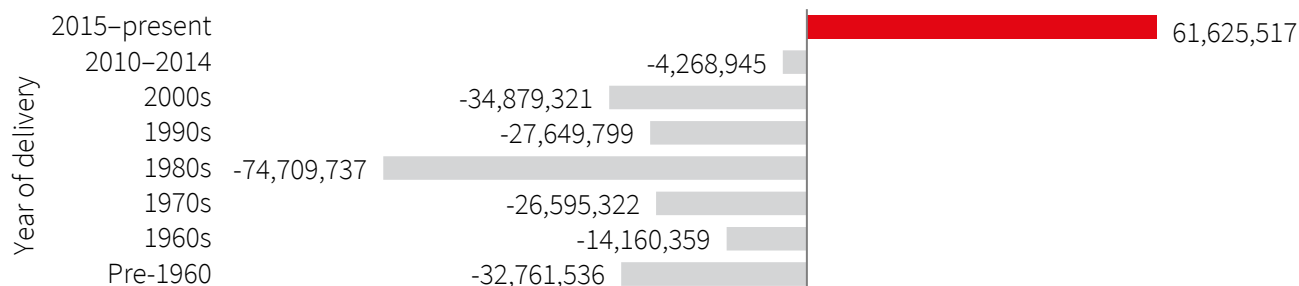


Source: JLL Research

Net absorption dipped back into slightly negative territory in Q1 2022 on the back of givebacks due to relocations and consolidation, although this was minimal at 0.1% of inventory. As a whole, Class A space saw a second consecutive quarter of overall net expansion, with losses concentrated in older and lower-quality assets.

Buildings delivered since 2015, on the other hand, are witnessing intense demand for remaining blocks. More than 61.6 million square feet of net occupancy gains have taken place in these properties, leading landlords to up rents and gain greater leverage in terms of negotiations, standing in stark contrast to the 215 million square feet of outflows in the rest of the market.

## Flight to quality isn't slowing down, surpassing 61.6 m.s.f. since the onset of COVID-19



Trailing eight-quarter net absorption (s.f.)

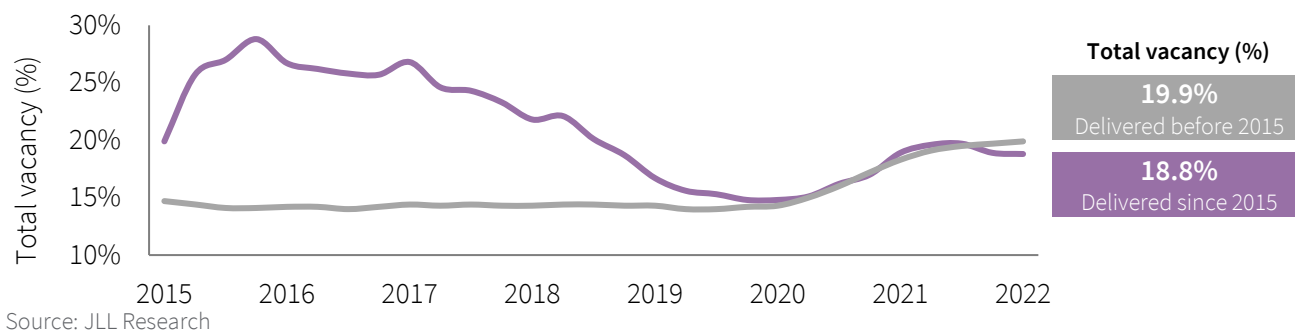
Source: JLL Research

Overall, total vacancy rose by an additional 20 basis points during the quarter to a new high of 19.9%. Continuing on the inversion in fundamentals seen in recent quarters, vacancy in new supply fell by 10 basis points to 18.8%, making a nearly 100-basis-point fall from its high in Q3 2021. Sustained intra-market movement from tenants is likely to widen this gap in the coming quarters.

Geographically, net absorption was balanced. Austin, Denver, Miami, Nashville, Phoenix, Raleigh,

Salt Lake City and West Palm Beach, which have all benefitted from migration to lower-tax and business-friendly states, all recorded positive absorption in Q1 totaling just over 1.9 million square feet. Among gateway markets, Boston, San Francisco and Seattle also grew on the back of recovering big tech activity, life sciences and a resetting of space expectations from large occupiers who anticipated a larger shift to fully remote work than occurred.

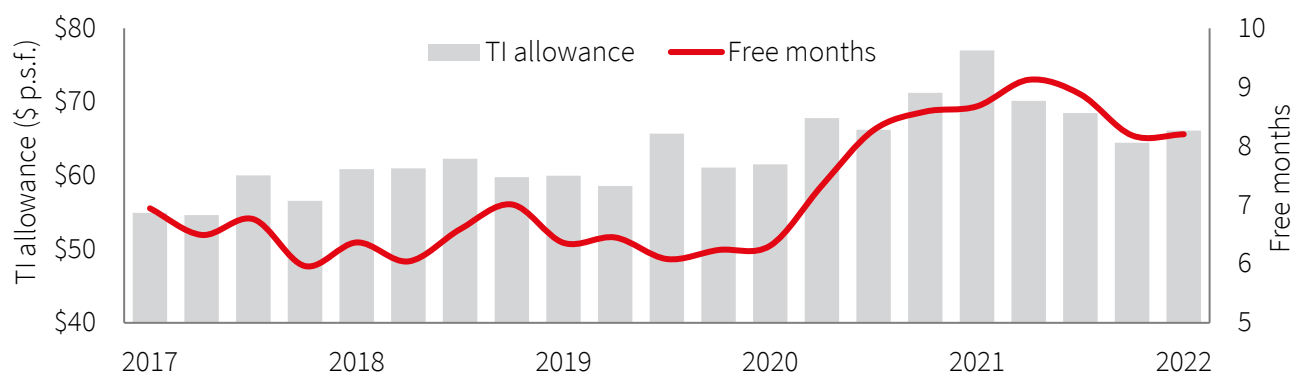
## Vacancy bifurcation is accelerating, falling in new supply and rising in second-generation space



Asking rents nationally rose by 0.5% on a direct basis as new, top-priced blocks hit the market from space yet to be preleased in new supply. This was particularly apparent in Miami (+4.4%), New York (+3.5%) and Nashville (+3.4%), while rents in Downtown West Palm Beach surged to nearly \$102 per square foot on the back of intense demand from asset-management firms and hedge funds relocating to or expanding in the submarket.

Landlords continue to broadly hold firm on asking, instead keeping concessions elevated irrespective of building quality. Within the CBD Class A segment, asking rents are 0.2% above pre-pandemic levels and taking rents are only 0.3% away from a full recovery, but effective rents are still 5.1% below where they were at the end of 2019.

## CBD Class A concession packages remain elevated



Even within the super-Trophy new construction segment, where achievable rents are also breaking records, concession packages are high to cover rapidly increasing build-out costs. In nearly all gateway geographies, tenant improvement allowances average well over \$100 per square foot, rising beyond \$200 per square foot in select cases such as Downtown DC. At the same time, the first lease to break the \$200-per-square-foot barrier outside of New York was recorded in Q1 2022 at the Transamerica Pyramid in San Francisco, demonstrating the willingness to pay for quality.

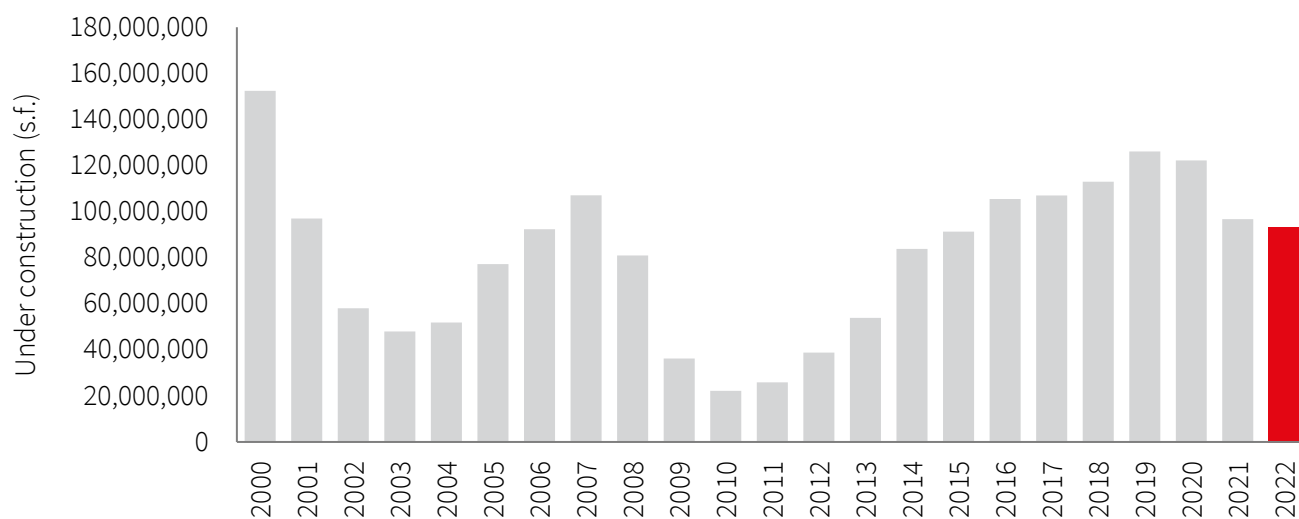
The construction pipeline remains on a thinning trajectory and declined to 93.3 million square feet at

the end of the first quarter, as the 12.5 million square feet of completions far surpassed the 6 million square feet in starts that took place. Deliveries will surpass groundbreakings for the foreseeable future, although the need for quality space will spur some anchor-led developments.

Among the largest deliveries this quarter were BMO Tower in Chicago and Texas Tower in Houston, home to the new regional offices for BMO, Vinson & Elkins and Hines, among other tenants, and contributing 2.6 million square feet of new space to the market. Additionally, RBC Gateway in Minneapolis and 111 Harbor Way in Boston also hit the market, both larger than 400,000 square feet.



**The construction pipeline continues to contract on the back of further deliveries and limited groundbreakings**



Source: JLL Research

Dallas, Nashville and South Florida were hotbeds for office groundbreakings during the first quarter. Granite Park Six, the Quad and 3300 Olympus all started construction in Dallas and pushed up the region's pipeline by 1.1 million square feet. Similarly, inbound migration spurred the starts of One Flagler in West Palm Beach and Southside Park in Miami, along with a further expansion of the Nashville Yards complex in Downtown Nashville, whose first two office components are well under way. These developments are largely characterized by greater emphasis on placemaking and mixed-use and amenitized locations where possible in order to differentiate themselves and attract more selective tenants.



## United States office statistics

Market totals (CBD and Suburban)	Inventory (s.f.)	Quarterly total net absorption (Including Subleases)	YTD total net absorption (Including Subleases)	YTD total net absorption (% of inventory)	Total vacancy (s.f.)	Total vacancy (%)	Current quarter direct average marketed rent (\$p.s.f.)	Quarterly rent growth	YTD Completions / deliveries (s.f.)	Under construction (s.f.)	Under const. (% of inventory)
Atlanta	157,356,168	-732,137	-732,137	-0.5%	36,827,577	23.4%	\$31.33	0.4%	100,000	5,323,863	3.4%
Austin	62,343,798	216,521	216,521	0.3%	10,446,058	16.8%	\$51.16	0.8%	702,847	4,996,413	8.0%
Baltimore	69,466,454	-114,694	-114,694	-0.2%	11,517,648	16.6%	\$25.85	0.0%	0	1,052,559	1.5%
Boston	168,587,490	372,570	372,570	0.2%	27,379,027	16.2%	\$46.75	-1.9%	574,000	4,983,516	3.0%
Charlotte	59,968,174	-275,477	-275,477	-0.5%	11,805,872	19.7%	\$33.43	0.8%	148,661	2,722,784	4.5%
Chicago	259,252,894	-238,145	-238,145	-0.1%	58,845,179	22.7%	\$35.54	0.7%	2,200,835	2,745,612	1.1%
Cincinnati	37,623,344	-101,734	-101,734	-0.3%	9,171,384	24.4%	\$20.60	-0.6%	229,506	626,571	1.7%
Cleveland	27,425,049	102,630	102,630	0.4%	5,651,189	20.6%	\$20.35	0.8%	0	186,900	0.7%
Columbus	33,336,167	494,045	494,045	1.5%	7,897,606	23.7%	\$21.70	-0.3%	327,811	847,472	2.5%
Dallas	196,338,444	-473,517	-473,517	-0.2%	51,604,486	26.3%	\$32.15	1.7%	327,000	4,163,255	2.1%
Denver	118,118,352	135,756	135,756	0.1%	24,158,781	20.5%	\$32.24	-0.8%	0	989,863	0.8%
Des Moines	15,294,720	23,444	23,444	0.2%	2,414,470	15.8%	\$19.87	1.9%	10,000	66,800	0.4%
Detroit	73,403,343	-351,312	-351,312	-0.5%	16,914,998	23.0%	\$20.39	0.8%	23,826	968,712	1.3%
Fairfield County	39,538,191	160,708	160,708	0.4%	9,356,685	23.7%	\$38.48	-2.4%	0	338,800	0.2%
Fort Lauderdale	23,003,820	-134,816	-134,816	-0.6%	4,689,087	20.4%	\$37.72	0.2%	0	240,320	1.0%
Fort Worth	35,694,084	-238,869	-238,869	-0.7%	7,192,453	20.2%	\$26.19	0.5%	0	246,594	0.7%
Grand Rapids	11,600,957	-26,758	-26,758	-0.2%	1,478,813	12.7%	\$20.61	-0.5%	0	421,000	3.6%
Hampton Roads	20,816,796	-131,918	-131,918	-0.6%	3,029,347	14.6%	\$20.78	1.2%	0	0	0.0%
Houston	176,601,674	22,343	22,343	0.0%	50,122,392	28.4%	\$30.76	-1.3%	1,573,619	593,112	0.3%
Indianapolis	34,591,620	-258,502	-258,502	-0.7%	7,664,850	22.2%	\$22.33	1.8%	0	371,503	1.1%
Jacksonville	22,814,504	79,170	79,170	0.3%	5,078,714	22.3%	\$22.14	-0.8%	0	453,000	2.0%
Kansas City	55,455,985	-218,535	-218,535	-0.4%	10,305,453	18.6%	\$22.24	-2.3%	0	512,596	0.9%
Long Island	40,807,080	-129,027	-129,027	-0.3%	6,051,161	14.8%	\$29.57	-6.5%	0	155,471	0.4%
Los Angeles	191,518,227	-1,054,781	-1,054,781	-0.6%	39,780,578	20.8%	\$46.22	0.1%	0	4,591,300	2.4%
Louisville	20,858,638	-211,838	-211,838	-1.0%	3,146,843	15.1%	\$19.13	0.9%	0	116,000	0.6%
Miami	40,871,864	503,719	503,719	1.2%	7,646,019	18.7%	\$48.23	4.4%	144,430	1,420,301	3.5%
Milwaukee	32,290,585	48,593	48,593	0.2%	7,187,286	22.3%	\$22.46	-0.4%	45,000	276,000	0.9%
Minneapolis	88,104,116	-360,759	-360,759	-0.4%	16,973,830	19.3%	\$29.04	0.0%	531,419	345,000	0.4%
Nashville	44,933,142	155,671	155,671	0.3%	8,403,495	18.7%	\$35.36	3.4%	112,292	3,003,422	6.7%
New Jersey	153,821,249	299,615	299,615	0.2%	40,979,419	26.6%	\$29.82	0.2%	0	235,318	0.2%
New York	464,736,146	-1,615,354	-1,615,354	-0.3%	70,411,677	15.2%	\$84.25	3.5%	1,751,079	19,653,013	4.2%
North San Francisco Bay	21,463,330	-32,235	-32,235	-0.2%	3,621,817	16.9%	\$32.83	-1.9%	0	0	0.0%
Oakland-East Bay	50,696,692	-179,974	-179,974	-0.4%	10,826,431	21.4%	\$46.50	1.8%	0	81,575	0.2%
Orange County	95,513,063	-96,832	-96,832	-0.1%	15,477,602	16.2%	\$33.71	-0.5%	0	1,240,998	1.3%
Orlando	33,238,311	125,078	125,078	0.4%	4,472,434	13.5%	\$27.61	0.1%	0	347,315	1.0%
Philadelphia	139,780,389	-145,870	-145,870	-0.1%	25,908,749	18.5%	\$28.11	-1.5%	0	308,000	0.2%
Phoenix	98,377,442	168,621	168,621	0.2%	21,347,853	21.7%	\$28.73	1.0%	287,000	923,926	0.9%
Pittsburgh	55,543,510	-107,038	-107,038	-0.2%	12,806,456	23.1%	\$26.45	1.8%	0	1,149,649	2.1%
Portland	59,946,678	-541,654	-541,654	-0.9%	11,590,159	19.3%	\$33.75	-0.9%	0	794,066	1.3%
Raleigh-Durham	49,424,552	275,648	275,648	0.6%	6,970,566	14.1%	\$30.21	0.8%	408,048	2,079,113	4.2%
Richmond	24,978,083	-43,362	-43,362	-0.2%	3,045,036	12.2%	\$20.91	-0.7%	27,000	25,567	0.1%
Sacramento	46,639,428	-548,149	-548,149	-1.2%	8,989,835	19.3%	\$27.49	2.0%	0	124,471	0.3%
Salt Lake City	69,054,797	373,109	373,109	0.5%	11,546,432	16.7%	\$26.08	0.9%	832,000	1,179,008	1.7%
San Antonio	40,157,249	-435,430	-435,430	-1.1%	6,397,094	15.9%	\$25.53	-2.8%	182,875	936,856	2.3%
San Diego	80,602,557	184,855	184,855	0.2%	10,936,418	13.6%	\$40.35	3.2%	203,544	2,199,384	2.7%
San Francisco	83,365,213	204,883	204,883	0.2%	18,233,012	21.9%	\$79.77	0.0%	653,900	692,387	0.8%
San Francisco Peninsula	34,057,519	229,868	229,868	0.7%	4,336,445	12.7%	\$68.86	-3.0%	221,000	1,252,476	3.7%
Seattle	101,238,420	182,322	182,322	0.2%	18,366,659	18.1%	\$47.43	0.6%	695,102	4,962,619	4.9%
Silicon Valley	68,029,440	-178,872	-178,872	-0.3%	10,349,842	15.2%	\$67.54	2.2%	172,000	5,882,560	8.6%
St. Louis	44,746,689	-135,198	-135,198	-0.3%	7,309,985	16.3%	\$23.02	-1.3%	0	589,585	1.3%
Tampa	39,112,315	-300,438	-300,438	-0.8%	7,449,656	19.0%	\$29.48	-1.0%	0	195,000	0.5%
Washington, DC	333,927,985	-195,911	-195,911	-0.1%	69,623,573	20.8%	\$43.75	1.0%	0	5,187,098	1.6%
West Palm Beach	20,605,462	182,307	182,307	0.9%	2,788,326	13.5%	\$53.47	8.1%	0	542,355	2.6%
Westchester County	27,145,220	13,083	13,083	0.0%	5,906,438	21.8%	\$29.63	-1.5%	0	0	0.0%
<b>United States totals</b>	<b>4,394,217,419</b>	<b>-5,054,577</b>	<b>-5,054,577</b>	<b>-0.1%</b>	<b>872,433,192</b>	<b>19.9%</b>	<b>\$38.35</b>	<b>0.5%</b>	<b>12,484,794</b>	<b>93,341,078</b>	<b>2.1%</b>

Source: JLL Research





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