

## Office Sector to Continue Shifting in 2023

**Economic headwinds and heightened interest in conversions of office buildings will cause further changes within the industry, according to the latest CommercialEdge report.**

By Corina Stef

The office sector's future remains uncertain nearly three years after the pandemic disrupted the industry. Although some companies became more aggressive about bringing employees back into the office, others have fully embraced hybrid and remote work practices. According to the latest CommercialEdge office report, 2023 will bring further ambiguity to the office sector as it enters its post-pandemic phase.

National average full-service equivalent listing rates averaged \$38.19 per square foot at the end of December, down 70 basis points year-over-year but a 16-cent increase from the previous month. The highest gains of full-service rates were recorded in Charlotte (12.9 percent), Orlando and Seattle (9.8 percent each), San Diego (9.1 percent) and San Francisco (7.0 percent), thanks to a combination of factors such as the quality of space listed and underlying fundamentals.

Meanwhile, the national office vacancy rate continued its upward trajectory, clocking in at 16.5 percent in December, up 90 basis points from the same period last year. Throughout the last year, the steepest vacancy increases were recorded in West Coast markets such as San Francisco (410 basis points), Portland (360 basis points) and Seattle (240 basis points), the report shows.

The office-using sector shed 6,000 jobs in December—the second monthly decline since the pandemic began. While the financial activities sector added 5,000 new jobs during the month, the information and professional and business services sectors lost a combined 11,000 jobs. Meanwhile, office employment recorded robust growth in Sun Belt markets such as Dallas (6.4 percent year-over-year growth in November 2022), Atlanta (6.1 percent) and Charlotte (5.9 percent).

### Uncertain future ahead for planned pipeline

Some 135.3 million square feet of office space was under construction across the nation at the end of 2022, accounting for 2.1 percent of total stock. Another 261.3 million square feet was in the planning stages, bringing the national construction pipeline to 396.6 million square feet, or 6.1 percent of total inventory. Due to economic headwinds, CommercialEdge expects that some of these projects to be delayed or canceled in 2023.

As of December, Austin had nearly 8 million square feet of office space underway, accounting for 8.7 percent of total stock; Charlotte followed closely with 4.8 million square feet underway, then Atlanta with 12.4 million under construction, representing 6.3 percent of stock for both markets. Meanwhile, office investment throughout 2022 totaled \$83.6 million.