

Tech Markets Performance Index: AI Investment Boosting Office Markets

By David Caputo

The national office market has been on rocky footing for a few years now, but better leasing activity combined with limited construction prevented vacancy rate spikes as expected this quarter – vacancy actually fell to 18.8%, while rent grew by 0.2%. What else was happening in Q2? Artificial intelligence (AI) investment skyrocketed in the tech sector.

Here is a quick update on how tech markets fared in the second quarter of 2023, as well as some specific market activity highlights worthy of continued attention with some in-depth analysis on AI's impact on the tech sector.

Office Vacancy Updates

In the first quarter of 2023, Moody's Analytics updated tech designations based on how the metros performed over the past year. To recap, New Orleans, Ventura, and Greensboro dropped out of the emerging markets designations, while Salt Lake City and Oklahoma City were bumped up into that group. Even though the designations have been updated, the 2023Q2 results are following the old pattern: emerging markets saw their office vacancy rate decline by 70 bps, favorable in comparison to established tech markets which stayed flat while the national average declined by 20 bps.

The driving force behind the emerging market's vacancy decline were standout markets Nashville, Knoxville, and Buffalo. Nashville's vacancy boasted a 340 bps drop, Knoxville experienced a 160 bps decline, and Buffalo followed behind with a decrease of 90 bps. Of all the tech and emerging markets covered, 12 saw vacancy drops while 14 markets that saw a vacancy increase or flat movement.

Established tech metros lagged behind emerging metros and the national average, so it is not surprising to see that the worst performing metros this quarter were in this designation. Denver, Dallas, San Francisco, and Washington, DC were the main culprits: they saw vacancy increases of 100 bps, 90 bps, 60 bps, and 60 bps, respectively. The worst emerging market performer was Norfolk, which saw a vacancy increase of 50 bps. This was the only emerging market that saw an increase of over 10 bps in the second quarter.

Office Rent Updates

Similar to last quarter, both designations of tech markets and the national average are again moving positively in unison. Emerging markets led the way with 0.4% rent growth but established markets and the national average weren't far behind as both grew by 0.2%. Emerging markets showing the strongest growth has been a common theme since the pandemic. The strongest performing metros were littered with both emerging and established markets as the top four overall