PROPERTY REPORT

Office Market Growth Slows

Pace of office-space leasing slowed in second quarter, weighed down by country's top five markets

Sluggish activity in the top five U.S. markets, including New York, contributed to the slowing pace of office-space leasing.
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By Peter Grant
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The pace of office-space leasing slowed in the second quarter, mostly because of sluggish activity in the country's top five markets, according to new figures from data firm Reis Inc.

The amount of occupied office space in New York, Los Angeles, Chicago, Houston and Dallas increased by a total of 789,000 square feet in the three-month period ending in June. By comparison, the amount of so-called positive absorption rose by a combined 3.63 million square feet in those five markets during the first quarter, Reis said.

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Leasing activity also was lackluster in many smaller markets. A total of 3.33 million square feet was absorbed in the second quarter in the 79 metropolitan areas studied by Reis. That was down from 5.2 million square feet in the first quarter and represented the lowest level of positive absorption since the second quarter of 2014.

By comparison, in the fourth quarter of 2015—the strongest quarter since 2012—office tenants absorbed 15.3 million square feet.

Office leasing has been tepid throughout most of the economic expansion. Businesses have been slow to add jobs and many of those that are growing are figuring out ways to use space more efficiently, according to Barbara Byrne Denham, Reis's senior economist.

Political uncertainty might also be weighing on employers.

"Many had hoped that there would be more clarity from Washington by now on what fiscal stimulus they would be promoting," Ms. Denham said in an email. "The lack of a plan for either tax reform or infrastructure investment has discouraged many from over-leasing or over-expanding."

The current expansion, which already has run seven quarters longer than the previous one, has seen a much slower decline in the national vacancy rate. It remained flat in the second quarter of 2017 at 16%, down from 17.6% at the height of the recent downturn. By comparison, the office vacancy rate fell from 17% to 12.5% between 2003 and 2007, Reis said.

Asking office rents have increased 1.6% since the second quarter of 2016. That was the lowest annual growth rate since 2011, Reis said.

Fortunately for landlords, supply growth also has been slow. The market added 7.5 million square feet in the second quarter compared with 10.1 million square feet in the second quarter of 2016, Reis said.

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