



Yardi[®] Matrix

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Office Pipeline Flows Amid Changes

- While the shift to remote and hybrid work has resulted in a smaller pipeline of new office supply, many developers believe that the right project in the right location still makes sense. New office starts have slowed considerably during the pandemic—from 86.4 million square feet in 2019 to 58.4 million in 2020 and 63.1 million in 2021—but have not completely cratered, as many were predicting two years ago.
- Domestic migration to Sun Belt markets has led to new development, despite uncertainty about the future of the office. In 2021, Austin (5.3 million square feet) and Dallas (4.5 million) led the country in new office starts while both outpaced all other markets in office-using employment growth. Dallas added more office jobs (107,000) than any other market over the last 12 months, while Austin had the highest office-using employment growth (14%) over the same period. Both markets routinely rank at the top of Kastle Systems' weekly occupancy rankings. Austin's robust population and employment growth gives developers more confidence about breaking ground on office projects, even after multiple new towers, including the 36-story Indeed Tower, were delivered last year.
- Markets with a heavy concentration of jobs in the life sciences also saw new development break ground throughout the pandemic. Besides Austin and Dallas, four of the remaining seven top markets for construction starts in 2021 were all life sciences hubs. The Bay Area (3.8 million square feet of starts) and San Francisco (3.1 million) have been top markets, despite domestic out-migration and languid employment growth. With their life sciences clusters, the Brisbane and South San Francisco submarkets account for nearly half of all stock under construction. Kilroy Oyster Point started construction on the second phase of its life science campus in South San Francisco last summer after fully leasing phase one. Raleigh-Durham (2.8 million) and Boston (2.7 million) are two other life sciences hubs that saw high levels of office starts in 2021. According to Yardi Matrix, more than half of all properties under construction in Boston include at least some life science capacity.
- More than 93% of all office properties under construction are rated Class A or A+, so new office development is counting on a continued flight to high-quality spaces as a way for companies to retain and recruit workers. If this trend continues, then many owners of Class B and Class C buildings may feel the squeeze and look for conversion opportunities. We expect that those exploring conversions will be looking at life science, multifamily and, to a lesser extent, industrial.

