



# — SIO — SNAPSHOT SENTIMENT REPORT

**SECOND QUARTER 2021**

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## SUMMARY

As summertime emerges, so have businesses and economies, report SIORs in the second quarter SIOR Snapshot Sentiment Report. On-schedule deals are more prevalent than ever, and market confidence is at its highest on record for SIOR's snapshot reporting. The office sector is finally making its comeback, with reporting improving nearly across all areas. The industrial sector continues to flourish, but did remain constant or saw minor decline in some segments. The biggest challenge now seems to be a lack of product. Many SIORs report that, with construction prices high, vacancy low, and demand increasing, we're seeing less flexibility with rents and concessions, and transaction volume is something to watch carefully going forward. Below are highlights from SIOR's report on the current state of the industry.

- Overall market **confidence** has risen to 7.6 (out of 10), maintaining steady growth and reaching its highest level to date for sentiment reporting.
  - » The increase is solely attributed to a growth in office confidence, rising from 5.9 in Q1 to 6.7 in Q2.
  - » The industrial market confidence remained steady at 8.0.
- On-time **transactions** continue to increase, with SIORs reporting 79% of deals are on schedule, a nearly 150% increase from Q2 2020 when only 32% were on schedule.
  - » Only 7% of transactions were cancelled outright, dropping 59% in one year (when 17% were cancelled).
  - » On-hold transactions dropped to 14%, reaching its lowest number since the start of the pandemic.
  - » Office specialists reported the greatest improvement in on-schedule transactions, increasing to 77%, up from 60% in Q1. That's a 175% increase from a year ago, when only 28% of transactions were on-schedule. On-hold and cancelled transactions decreased in Q2 as well.
  - » On the industrial side however, we've seen the first-ever decline in on-schedule transactions, dropping from 82% in Q1 to 80% in Q2, although that's still a large number of transactions on schedule compared to 34% in Q2 2020. On-hold and cancelled transactions each increased 1% in Q2 as well.
- Across all markets, the **economic conditions** are continuing to have a more positive impact.
  - » Locally, the economy is positively impacting 65% of brokers in Q2 2021, a 400% increase from the 13% reported a year ago. 56% of office brokers reported a positive local impact, a major increase from 30% in Q1. However, industrial saw a slight decline from 75% in Q1 to 69% in Q2.
  - » Nationally, economic conditions positively impacted 65% of brokers in Q1 2021, an 18% jump from Q1. There was little change on the industrial side, with 72% noting a positive impact (compared to 73% in Q1). Meanwhile, 49% of office specialists reported a national positive impact, rising significantly from only 21% in Q1.
  - » Overall 46% reported a positive global impact, increasing 15% from Q1. Similar to national economic conditions, there was an increase in positive global impacts reported on the office side, with 26% noting a positive impact compared to only 9% in Q1, while industrial sentiment declined ever so slightly.
- **Leasing activity** rose again this past quarter to its highest level in more than five years, with 72% of SIORs reporting more leasing. This was also a 16% increase from last quarter (at 62%).
  - » The main reason for the increase was the jump in office leasing in Q2, with 68% of office specialists reporting higher leasing activity, up from 38% in Q1.
  - » Industrial office leasing saw little change with 74% still noting higher activity.
  - » For the first time, 38% of both industrial and office responses reported much higher leasing activity, a major jump for office from Q1, when only 7% reported much higher leasing.

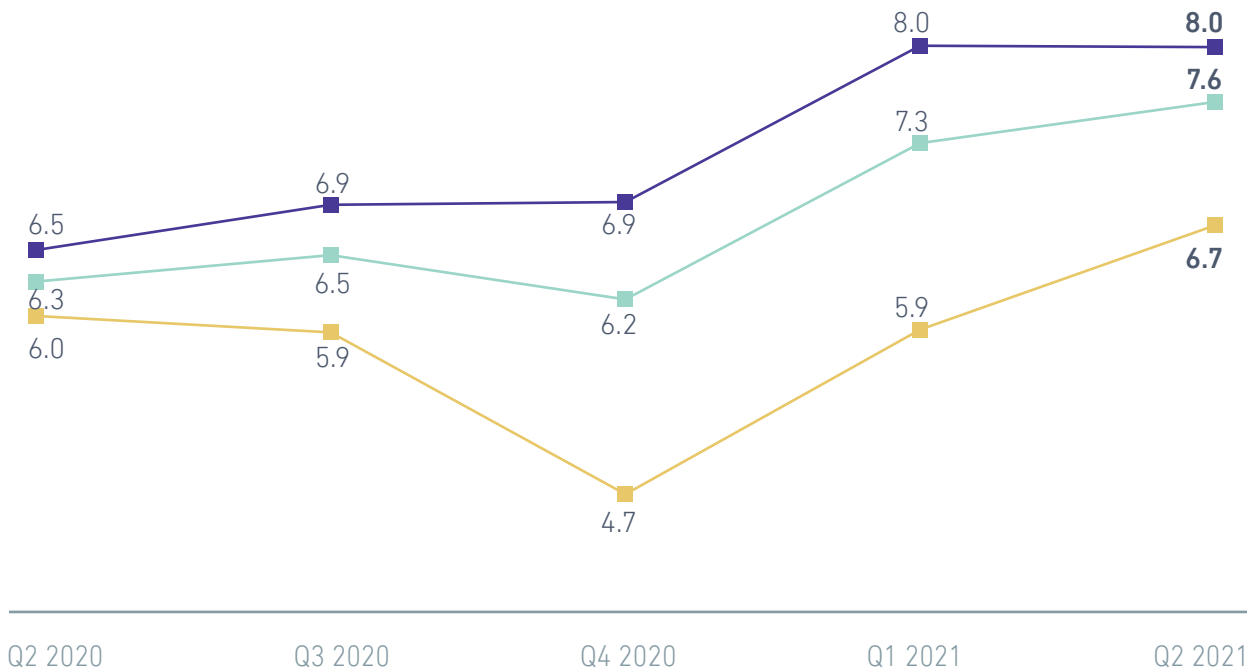
- **Asking rents** continued to rise this past quarter, as 64% of all brokers reported higher asking rents, a 21% increase from last quarter, and a 190% increase from Q2 2020. Rents are edging closer to pre-pandemic levels, although still not near the 87% levels of Q4 2019.
  - » 84% of industrial SIORs indicated higher rents, up from 78% last quarter. The West and Great Lakes saw the higher asking rents in the industrial sector.
  - » On the office side, 16% reported higher asking rents, an improvement from 7% in Q1. Low office asking rents were mostly reported in the West.
- Available **vacancy** has declined to levels not seen since before the pandemic. SIORs now report 61% lower vacancy, (compared to 48% in Q1).
  - » Industrial saw the most reduction, with 75% reporting low vacancy, up from 60% in Q1.
  - » Even office vacancy declined this past quarter, with 30% reporting low vacancy in Q2 compared to 25% in Q1.
- Available **subleasing space** decreased as well, with 55% of SIORs reporting limited to no available subleasing space, a figure not seen since Q1 2020 reporting.
  - » Industrial specialists have less subleasing space available, with 68% noting low space, compared with 59% in Q1.
  - » Subleasing is more available in the office sector, but also declining, with 24% of office brokers reporting limited to no subleasing space, up from 10% in Q1.
- **Development conditions** continued to increase in Q2, with 56% of overall members reporting average or booming development conditions in their markets, up almost 10% from Q1 and nearly doubling levels seen a year prior (35% in Q2 2020).
  - » Industrial continues to see the most development, but actually dropped one percentage from 70% in Q1 to 69% in Q2.
  - » Office brokers, on the other hand, reported a 63% increase in development conditions, going from 16% in Q1 to 26% in Q2.
- If Q1 2021 was good for sellers, Q2 was even better. In fact, this past quarter 77% of SIORs reported the highest increase in prices for **site acquisition conditions** seen in more than five years, only coming close in Q4 2019 at 74%.
  - » Most of the seller positivity comes from the industrial sector, with 87% reporting increased pricing. This was an increase from 77% in Q1.
  - » The larger increase, however, is from the office side, where 52% now report a seller's market, compared to only 35% in Q1.
- Extensive **concessions** were common at the height of the pandemic, but with demand high and vacancy low, concessions continue to become less and less available. Landlords' bargaining power increased to 58% in Q2, up 29% from Q1.
  - » Concessions were most limited for industrial specialists, with 76% reporting little to no concessions, up from 65% in Q1.
  - » Office specialists also reported fewer concessions at 14%, up from 7% in Q1.
- **Investment pricing conditions** declined this past quarter, with 41% of SIORs claiming it was more profitable to build, as opposed to 52% last quarter. Of the 41%, 52% were industrial and 36% were office, with the biggest change coming from office.

*\* Previous CREI survey data did not include global SIOR responses. SIOR began tracking global data beginning in Q4 2020. In addition to combining the sentiment survey and CREI survey, beginning in the Q4 2020 report, several survey questions were also reformatted and streamlined to enhance the user experience, which should not change the response outcome, but must be noted.*

## AVERAGE LEVEL OF CONFIDENCE

Average level of market confidence on a 10-point scale.

**KEY** ● Office Confidence ● Industrial Confidence ● Overall Confidence



*\*Confidence data reflects sentiment survey responses reported beginning in Q2 2020. No prior data exists for this metric.*

## FROM THE EXPERTS

“

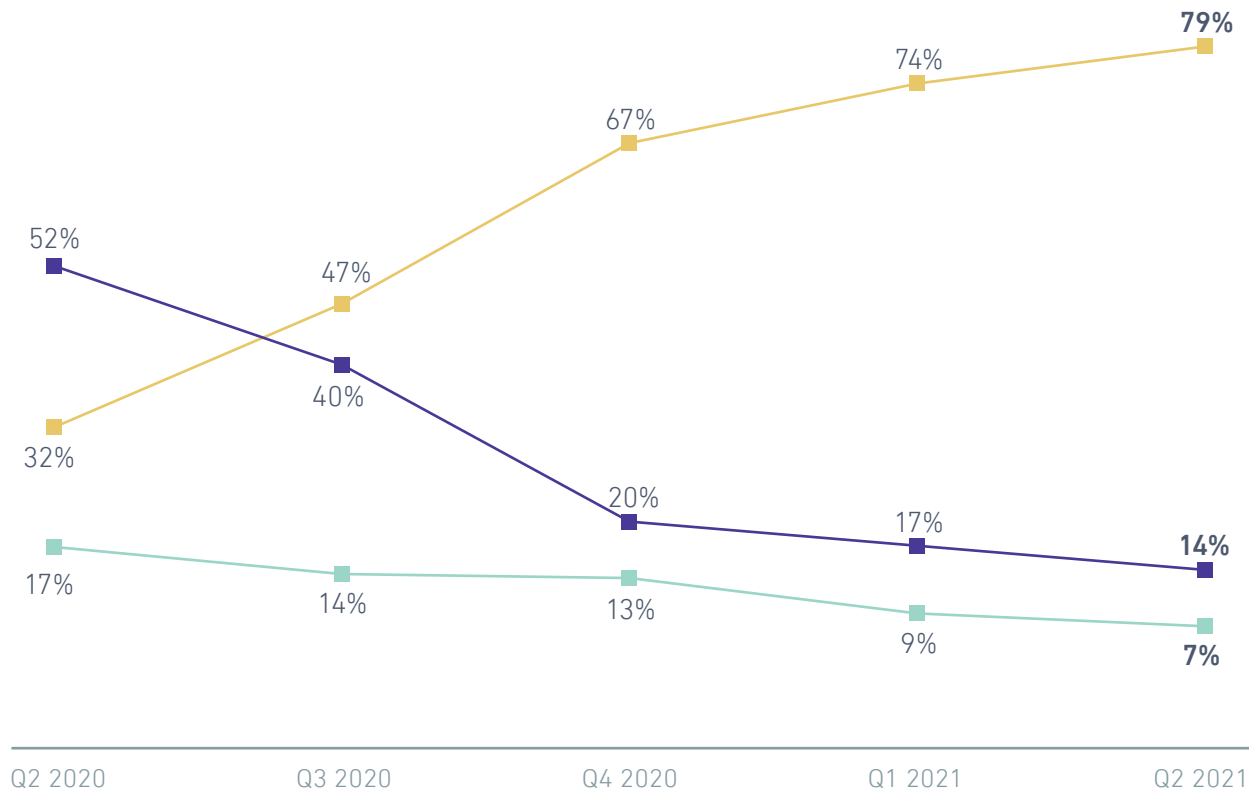
I've never seen a market this hot in my 25-year career.”

- Industrial Specialist  
SIOR Greater Los Angeles Chapter

## STATUS OF IN-PROGRESS TRANSACTIONS

Average percent of the status of all respondents' in-progress transactions.

**KEY** ● Transaction On Schedule ● Transaction On Hold ● Transaction Cancelled



Totals may not equal 100% due to rounding or not applicable responses.

\*Transaction data reflects sentiment survey responses reported beginning in Q2 2020. No prior data exists for this metric.

## FROM THE EXPERTS

“Our deal flow and activity is at the same level as we were pre-pandemic.”

- Office Specialist  
SIOR North Texas Chapter

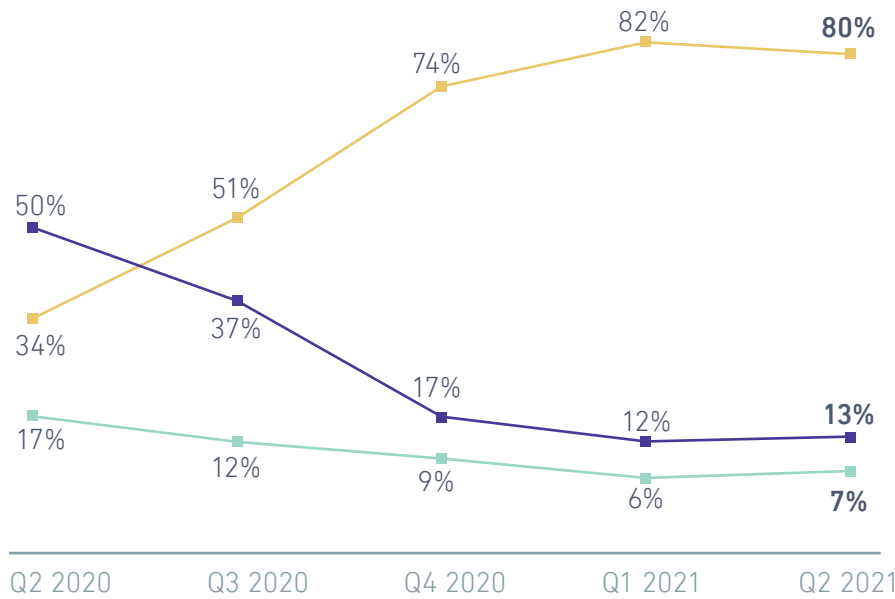


## STATUS OF IN-PROGRESS TRANSACTIONS - INDUSTRIAL VS. OFFICE

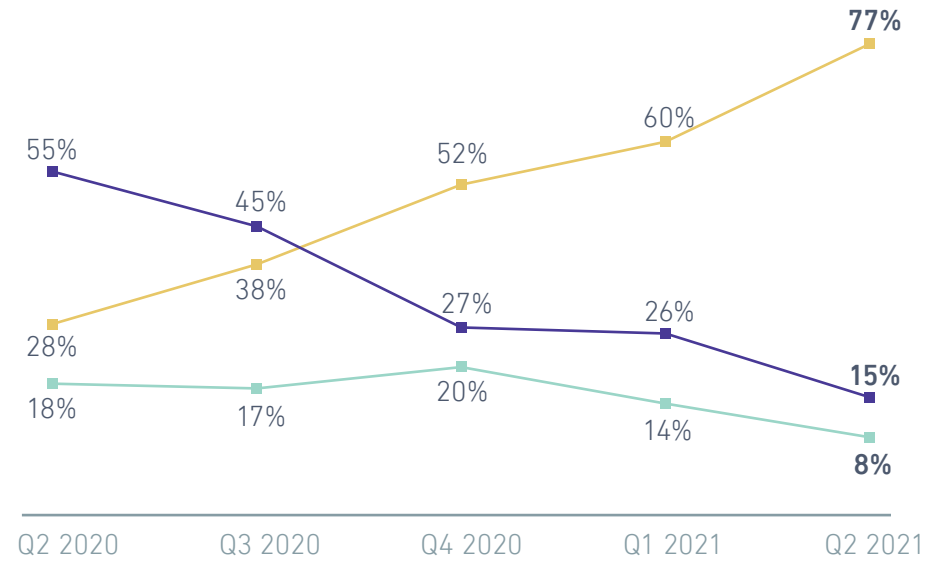
Average percentage of current transactions by sector.

**KEY**   ● Transaction On Schedule   ● Transaction On Hold   ● Transaction Cancelled

### INDUSTRIAL



### OFFICE



Totals may not equal 100% due to rounding or not applicable responses.

\*Transaction data reflects sentiment survey responses reported beginning in Q2 2020. No prior data exists for this metric.

# POSITIVE ECONOMIC IMPACTS ON MARKET CONDITIONS

Cumulative reporting of the positive economic conditions on all respondents' current market performance\*



\*Positive conditions reflect the combined average of moderately positive and significantly positive responses in the survey results.

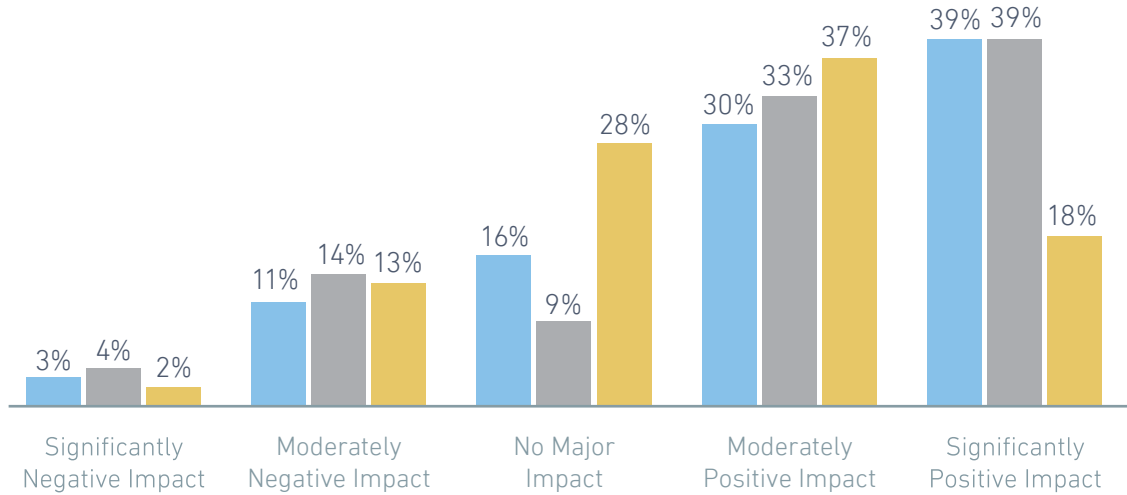
† Collection of National and Global data began Q4 2020. No prior data exists for these metrics.

# ECONOMIC IMPACTS ON MARKET CONDITIONS

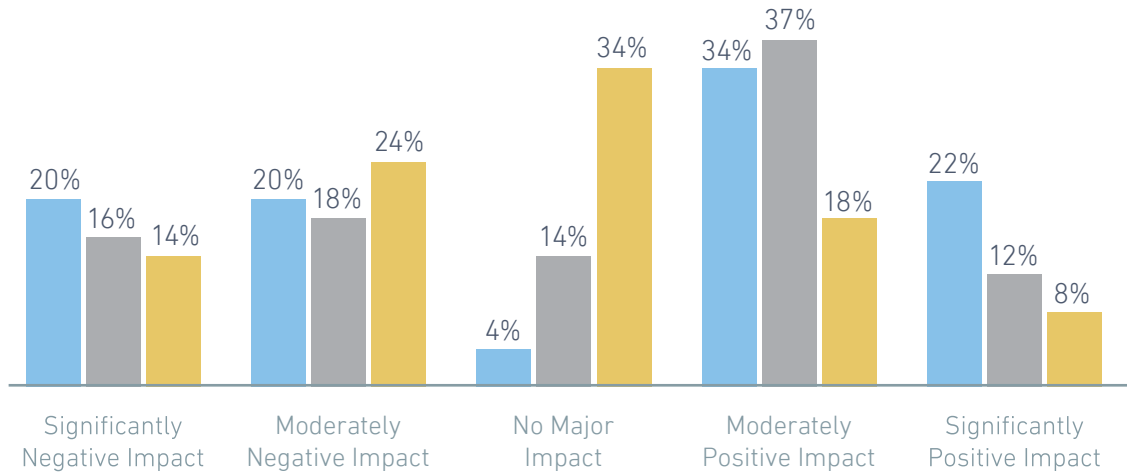
Average percent of economic conditions on all respondents' current market performance

**KEY** ● Local ● National ● Global

## INDUSTRIAL



## OFFICE



Totals may not equal 100% due to rounding or not applicable responses.

“**FROM THE EXPERTS**”

Any existing space is leasing rapidly; we do not have enough product in the flex market to keep up with demand. Demand is outpacing supply.”

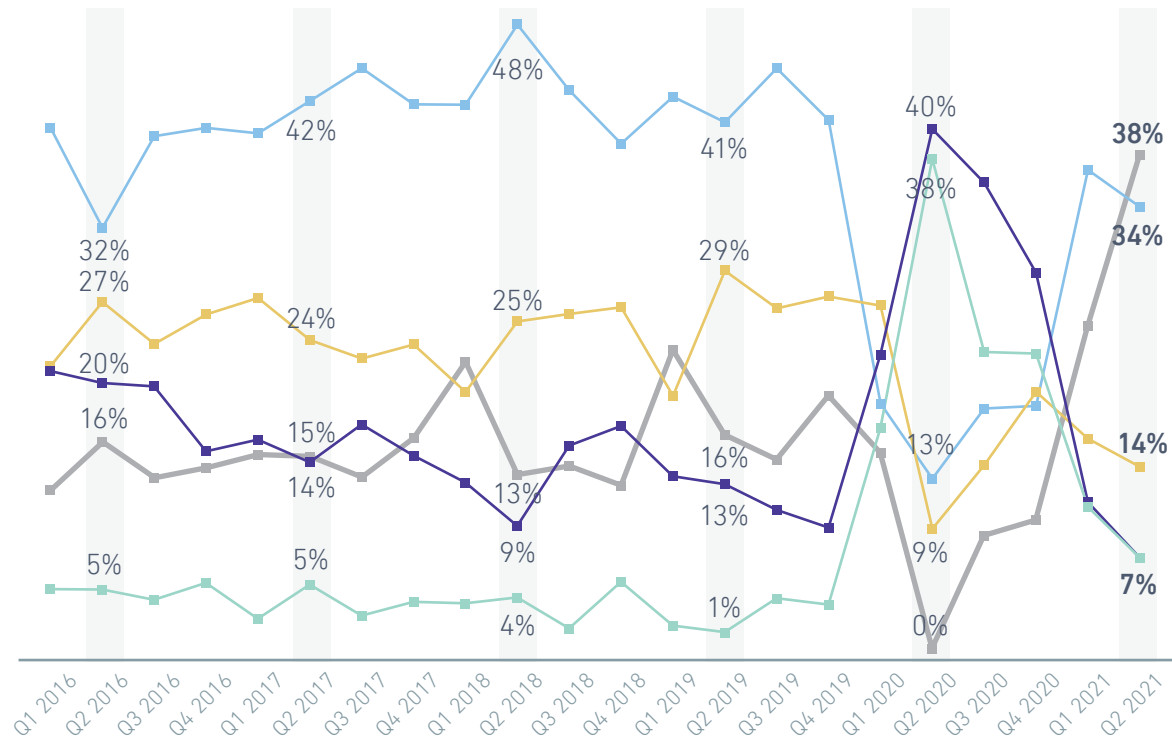
- Industrial Specialist  
SIOR Carolinas Chapter



## QUARTERLY LEASING ACTIVITY

Data reflects percentage of ratings for leasing activity per quarter.

**KEY** ● Much Lower ● A Little Lower ● About the Same as Previous Year ● A Little Higher ● Much Higher

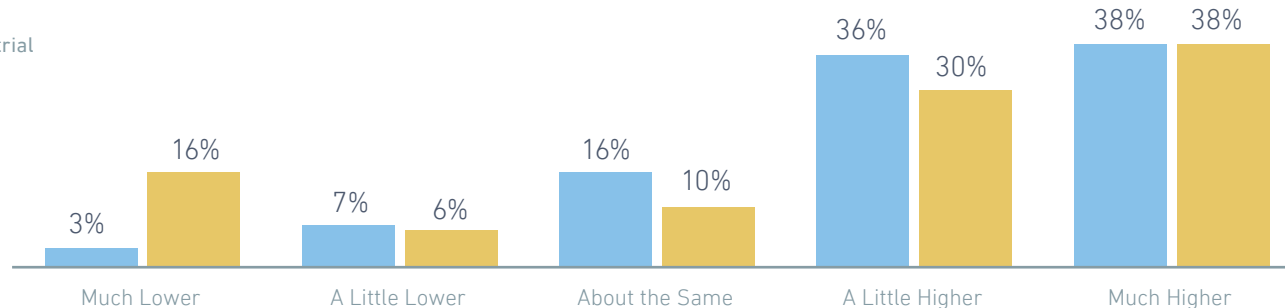


Totals may not equal 100% due to rounding or not applicable responses.

## Q2 2021 CURRENT LEASING ACTIVITY - INDUSTRIAL VS. OFFICE

Data reflects average percentage of responses per level of leasing activity in each sector.

**KEY** ● Industrial ● Office

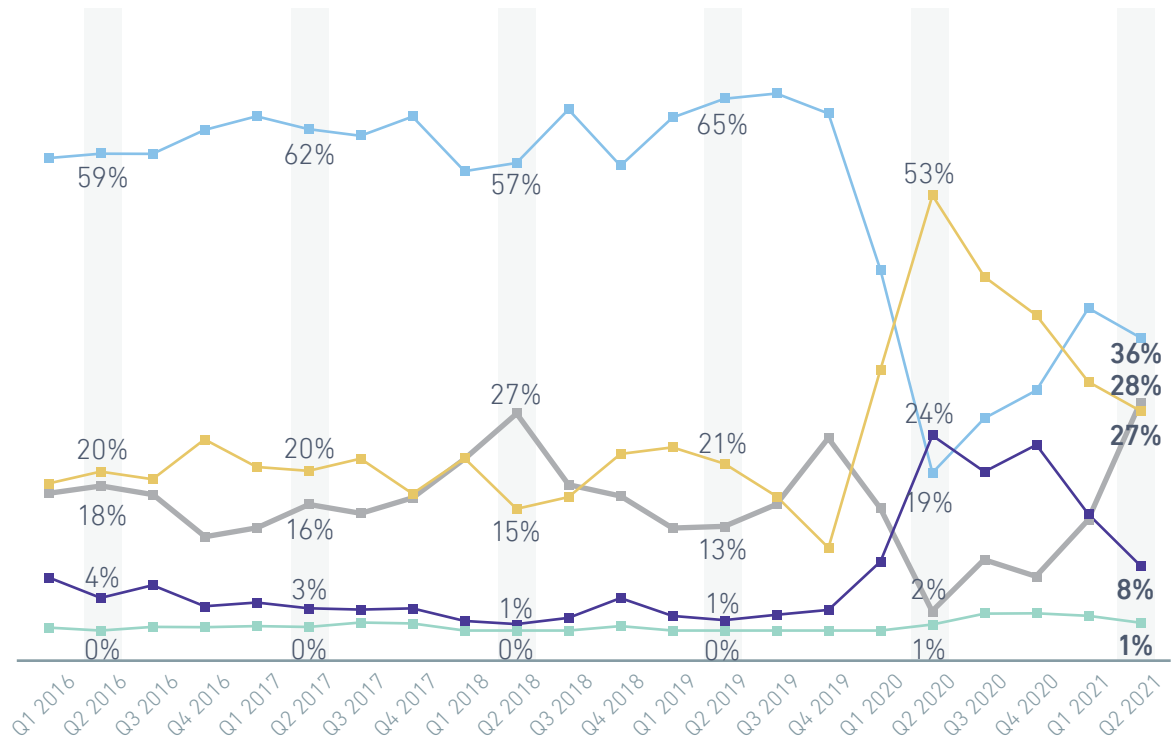


Totals may not equal 100% due to rounding or not applicable responses.

# QUARTERLY ASKING RENTS

Data reflects percentage of ratings for asking rents per quarter.

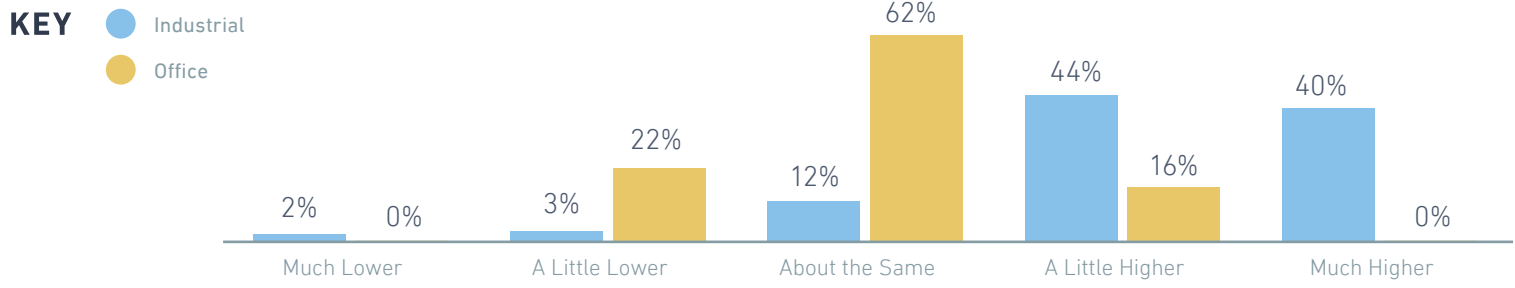
**KEY** ● Much Lower ● A Little Lower ● About the Same as Previous Year ● A Little Higher ● Much Higher



Totals may not equal 100% due to rounding or not applicable responses.

## Q2 2021 CURRENT ASKING RENTS - INDUSTRIAL VS. OFFICE

Data reflects average percentage of responses per level of asking rent in each sector.

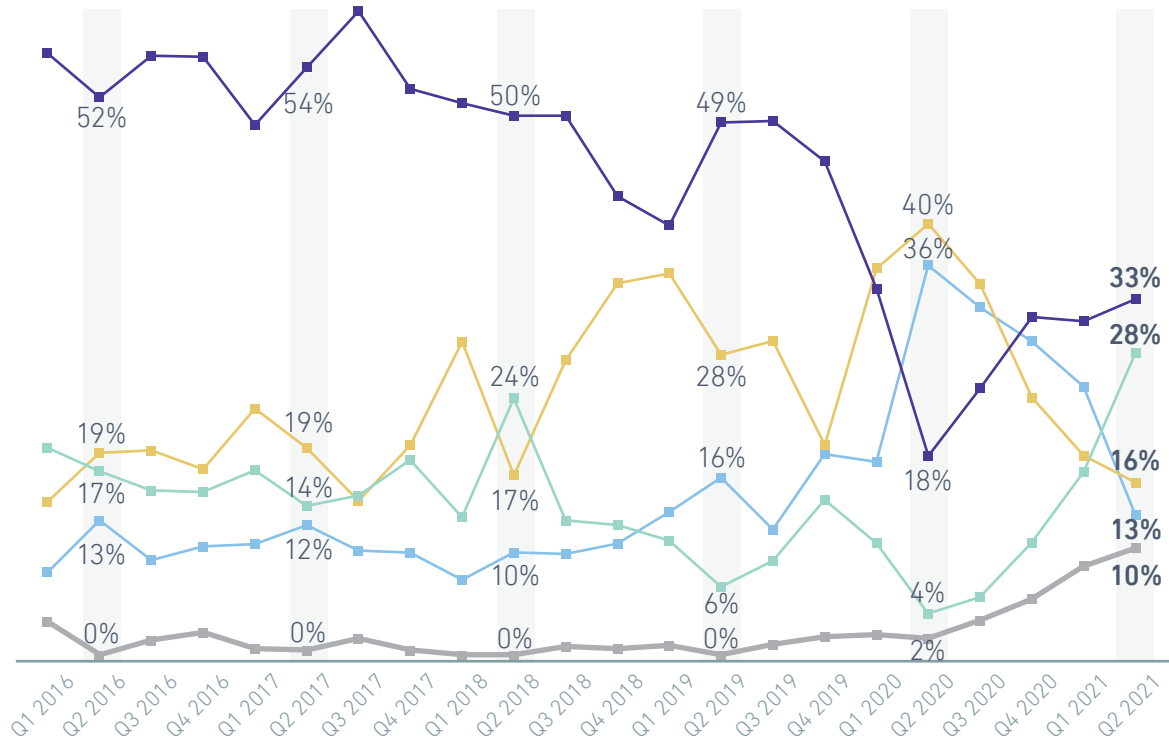


Totals may not equal 100% due to rounding or not applicable responses.

# QUARTERLY VACANCY CONDITIONS

Data reflects percentage of ratings for current vacancy per quarter.

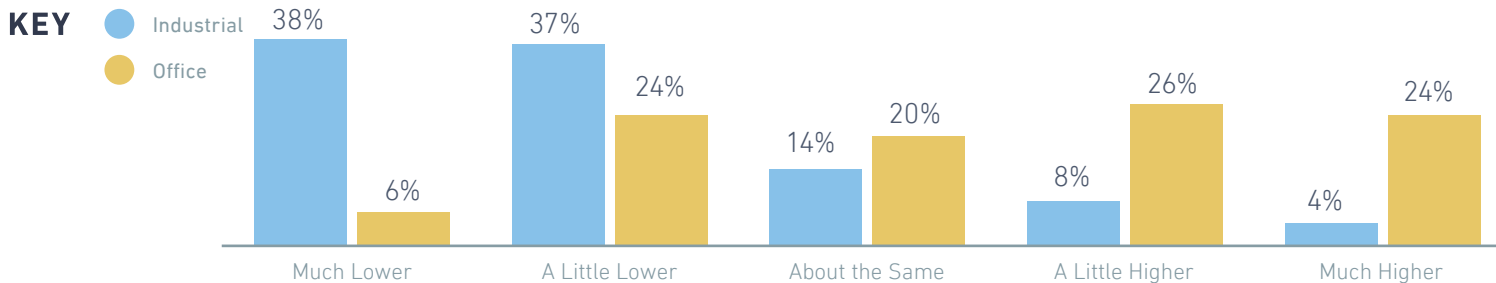
**KEY** ● Much Lower ● A Little Lower ● About the Same as Previous Year ● A Little Higher ● Much Higher



Totals may not equal 100% due to rounding or not applicable responses.

## Q2 2021 CURRENT VACANCY CONDITIONS - INDUSTRIAL VS. OFFICE

Data reflects average percentage of responses per level of vacancy in each sector.

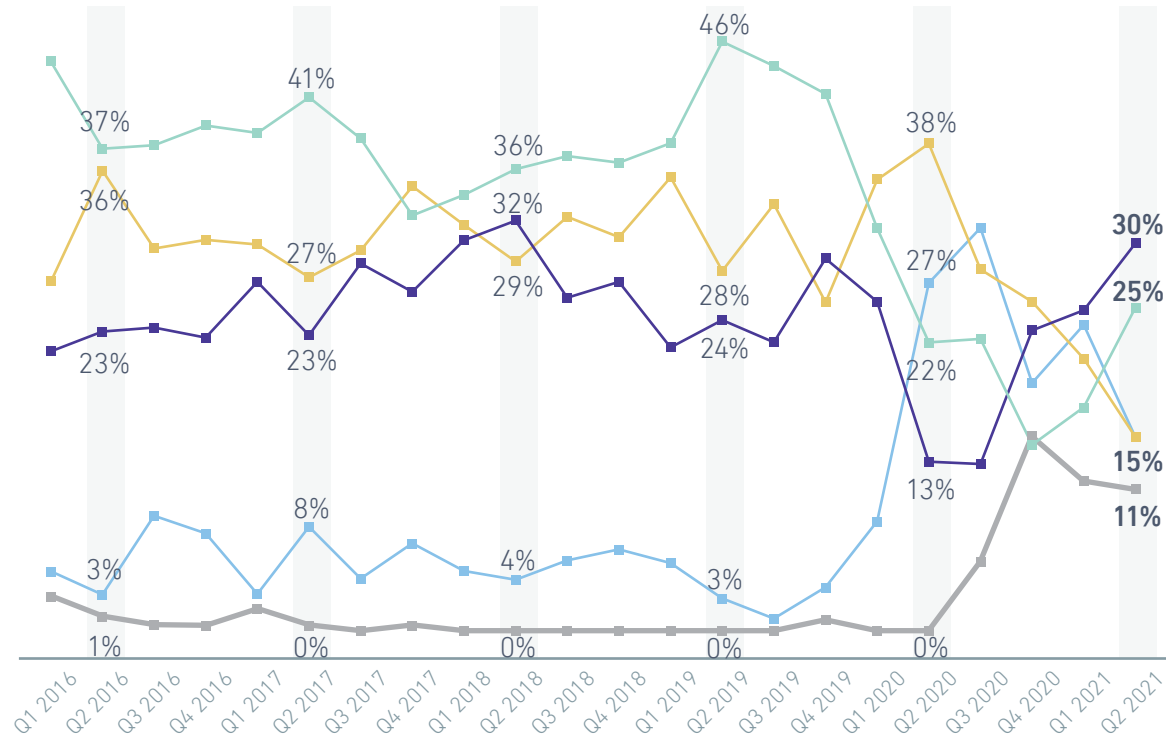


Totals may not equal 100% due to rounding or not applicable responses.

# QUARTERLY SUBLEASING CONDITIONS

Data reflects percentage of ratings for amount of subleasing space per quarter.

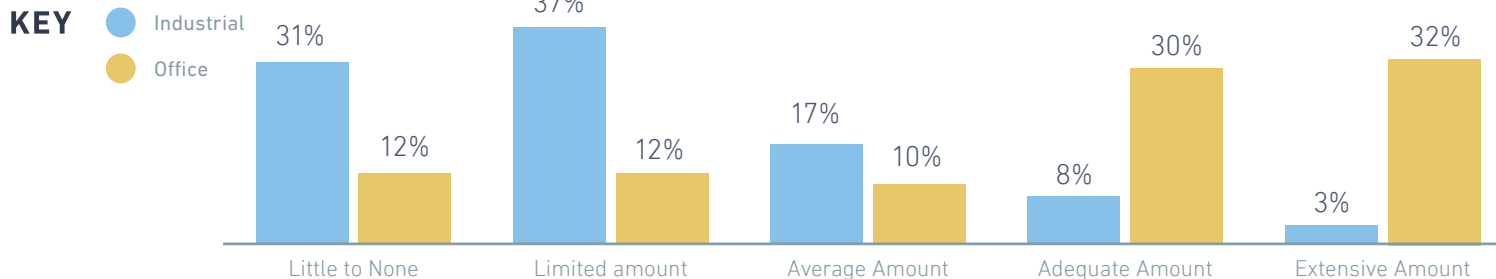
**KEY** ● Little to no subleasing space ● Limited amount of subleasing space ● Average amount of subleasing space ● Adequate amount of subleasing space ● Extensive amount of subleasing space



Totals may not equal 100% due to rounding or not applicable responses.

## Q2 2021 SUBLEASING CONDITIONS - INDUSTRIAL VS. OFFICE

Data reflects average percentage of responses per level of subleasing space in each sector.

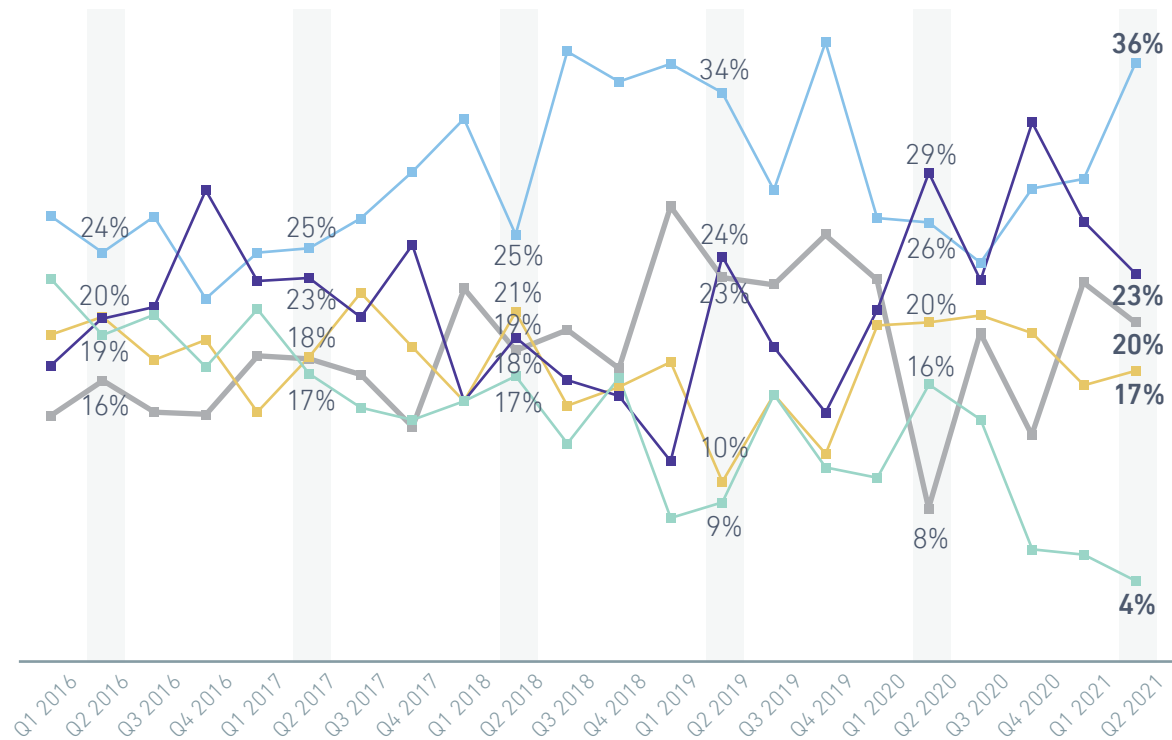


Totals may not equal 100% due to rounding or not applicable responses.

# QUARTERLY DEVELOPMENT CONDITIONS

Data reflects percentage of ratings for development conditions per quarter.

**KEY** ● Nonexistent ● Minimal ● Close to its historical average ● Above average ● Booming

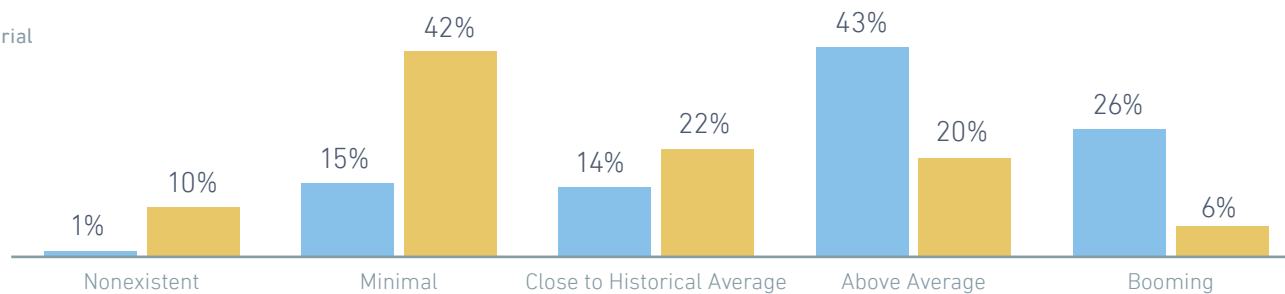


Totals may not equal 100% due to rounding or not applicable responses.

## Q2 2021 DEVELOPMENT CONDITIONS - INDUSTRIAL VS. OFFICE

Data reflects average percentage of responses per level of development condition in each sector.

**KEY** ● Industrial ● Office

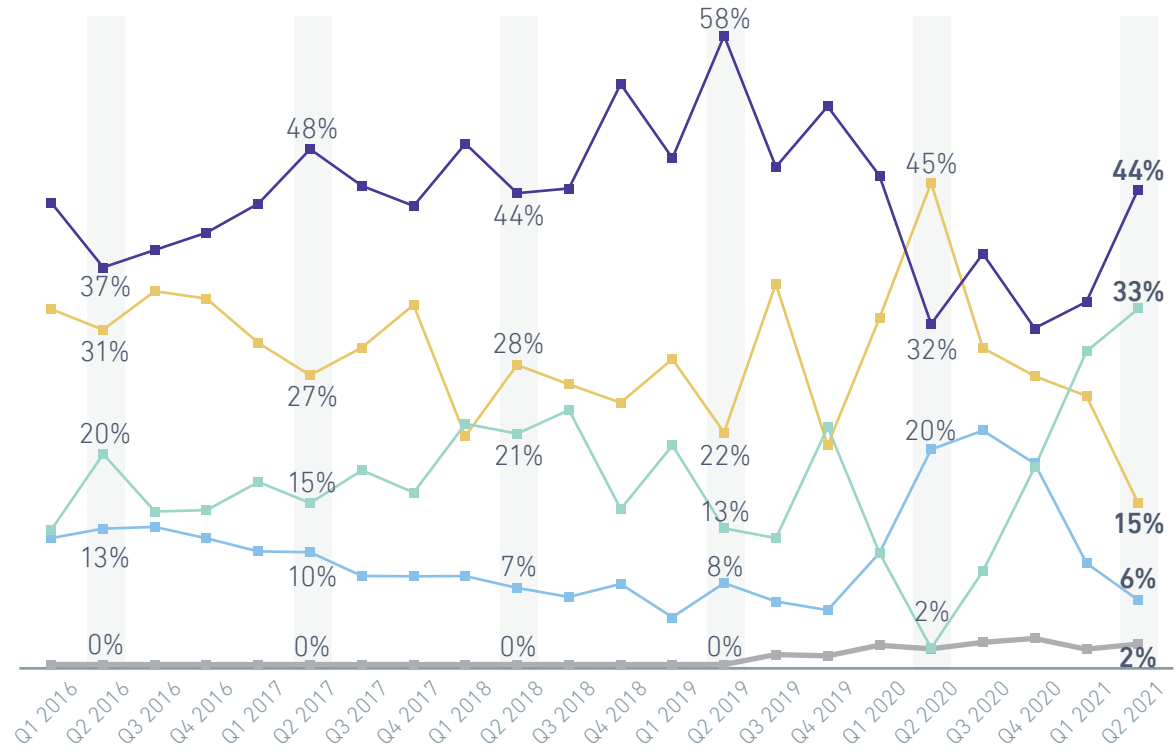


Totals may not equal 100% due to rounding or not applicable responses.

# QUARTERLY SITE ACQUISITION CONDITIONS

Data reflects percentage of ratings for site acquisition per quarter.

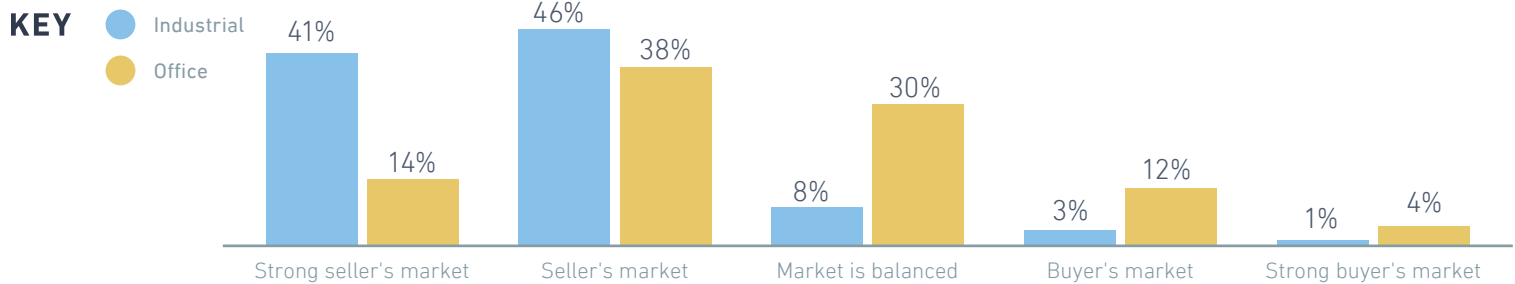
**KEY** ● Strong seller's market, prices increasing rapidly. ● Seller's market, prices rising at a steady pace. ● Market is balanced, with prices stable to slightly rising. ● Buyer's market, but prices are stable at present. ● Strong buyer's market and prices are low and falling.



Totals may not equal 100% due to rounding or not applicable responses.

## Q2 2021 SITE ACQUISITION CONDITIONS - INDUSTRIAL VS. OFFICE

Data reflects average percentage of responses per level of site acquisition condition in each sector.



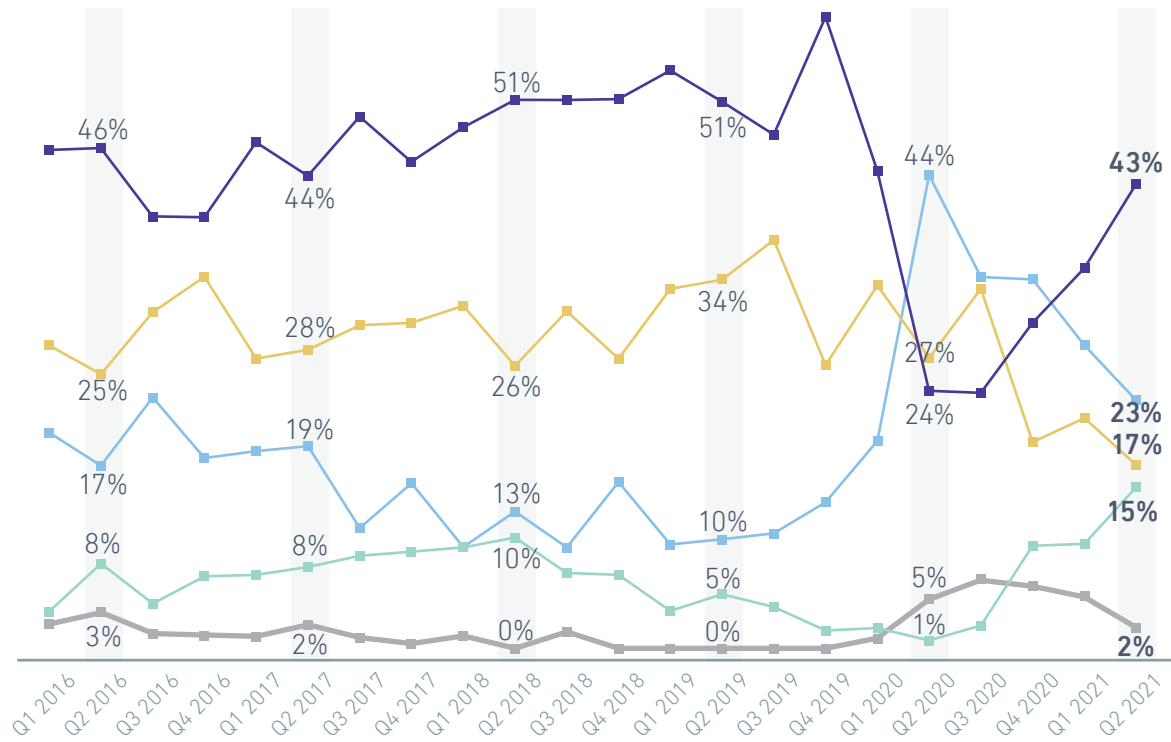
Totals may not equal 100% due to rounding or not applicable responses.

# QUARTERLY TENANT CONCESSIONS

Data reflects percentage of ratings for tenant concessions per quarter.

**KEY**

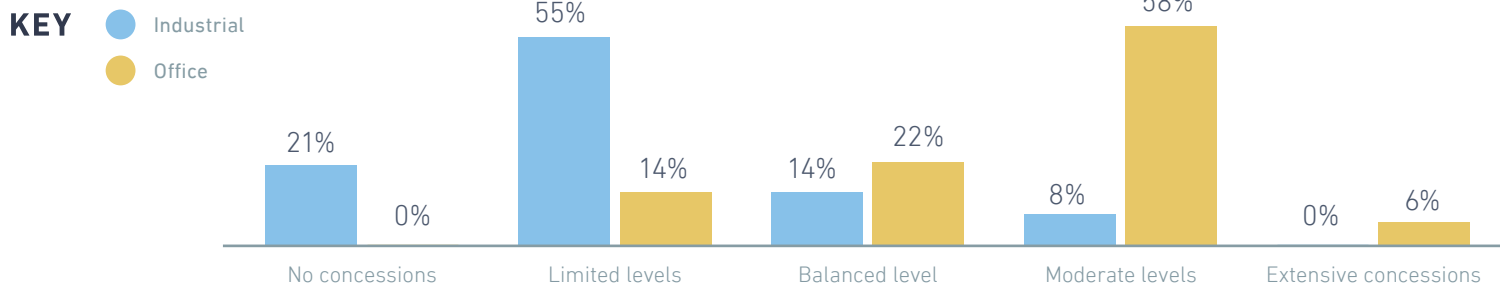
- No concessions are available as the landlords have strong bargaining power.
- Limited levels of concessions, with the market slightly favoring the landlord
- Balanced level of concessions, with no bargaining advantage for landlord or tenant
- Moderate levels of concessions, and the market favors tenants
- Extensive concessions, with deep discounts on asking rents, substantially favoring tenants



Totals may not equal 100% due to rounding or not applicable responses.

## Q2 2021 TENANT CONCESSIONS - INDUSTRIAL VS. OFFICE

Data reflects average percentage of responses per level of tenant concession in each sector.

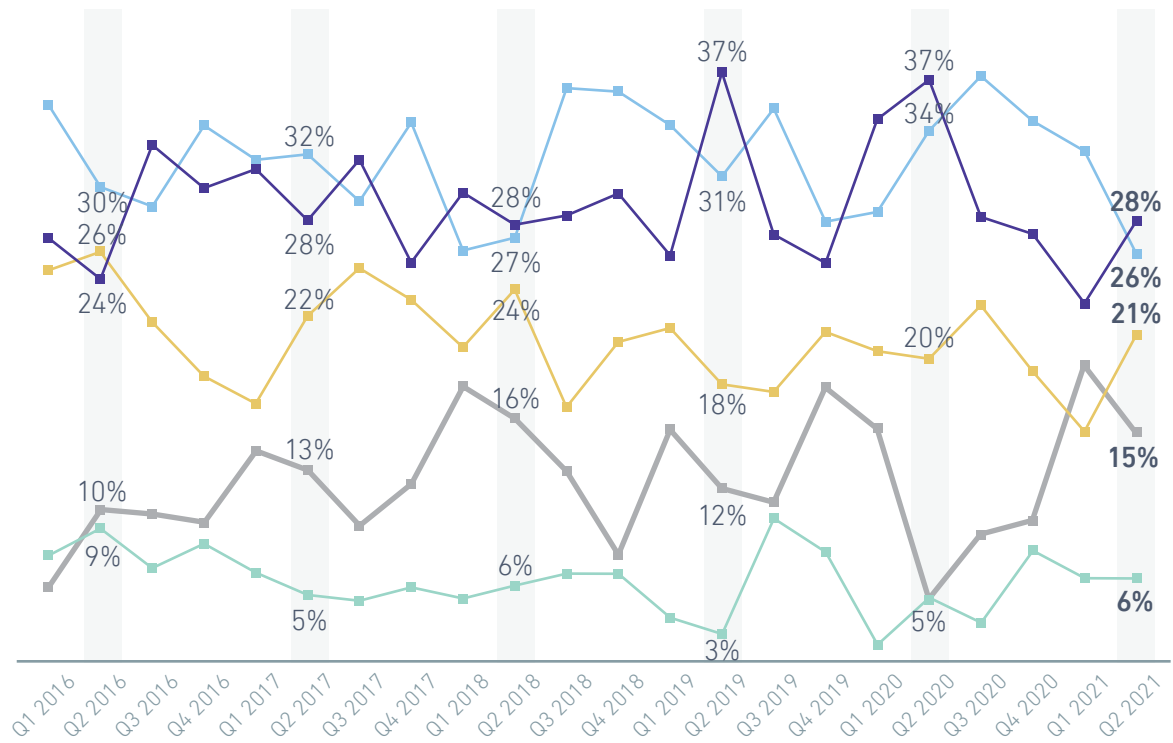


Totals may not equal 100% due to rounding or not applicable responses.

# QUARTERLY INVESTMENT PRICING CONDITIONS

Data reflects percentage of ratings for investment pricings per quarter.

**KEY** ● Substantially below replacement cost. ● Somewhat below replacement cost. ● Approximately at replacement cost. ● Somewhat above cost and it is profitable to build. ● Well above cost and it is extremely profitable to build.

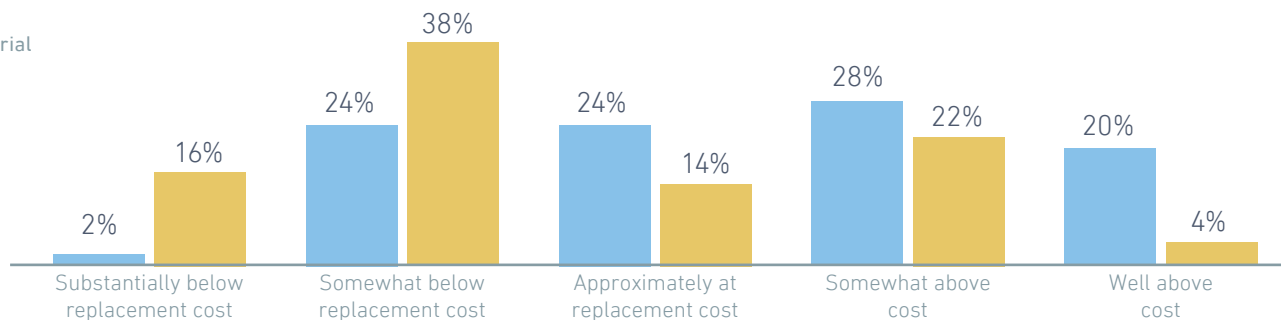


Totals may not equal 100% due to rounding or not applicable responses.

## Q2 2021 INVESTMENT PRICING CONDITIONS - INDUSTRIAL VS. OFFICE

Data reflects average percentage of responses per level of investment pricing condition in each sector.

**KEY** ● Industrial ● Office



Totals may not equal 100% due to rounding or not applicable responses.





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## REPRESENTATIVE COMMENTS FROM RESPONDENTS

“We expect the lowest industrial property vacancy to occur within the next six months, putting lots of pressure on rising rents and stimulus for new construction”

- *Industrial Specialist, SIOR Arizona Chapter*

“Construction costs are crazy!”

- *Office Specialist, SIOR Virginia Chapter*

“Back to office is slow, with office buildings less than 15% occupied. There’s an uptick in vehicular traffic, but very low public transportation use. Summer 2021 will be quiet downtown.”

- *Office Specialist, SIOR New England Chapter*

“Rapidly increased costs of building materials is threatening spec development.”

- *Industrial Specialist, SIOR Greater Los Angeles Chapter*

“We have a shortage of industrial buildings. Having a listing is Gold.”

- *Industrial Specialist, SIOR Connecticut Chapter*

“eCommerce prompting a strong positive trend in leasing activity and all other industries related to eCommerce. Challenges: lack of land/product and supply chain delays.”

- *Industrial Specialist, SIOR Southern Nevada Chapter*

“Retail is starting to see a comeback in my local market. Industrial vacancy is almost zero for good product. The area is in need of spec warehousing for job growth. Demand is there, just little product.”

- *Industrial Specialist, SIOR LA/MS/AL/NW FL Chapter*

“Catch 22: No speculative development ongoing due to high construction costs.”

- *Industrial Specialist, SIOR Ohio Chapter*

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## REPRESENTATIVE COMMENTS FROM RESPONDENTS

“Reshoring is happening at a faster rate than just generational. Development is pushing land prices well past market lease rates, which is compressing Cap Rates at an unsustainable velocity.”

- Industrial Specialist, SIOR Canada Central Chapter

“Demand will continue. Hopefully costs will stabilize. Rents will continue to increase.”

- Industrial Specialist, SIOR Carolinas Chapter

“Any existing space is leasing rapidly; we do not have enough product in the flex market to keep up with demand. Demand is outpacing supply.”

- Industrial Specialist, SIOR Carolinas Chapter

“Plenty of demand but escalating costs are a concern.”

- Industrial Specialist, SIOR Ohio Chapter

“Construction costs are escalating rapidly. Our clients are having difficulty finding qualified employees.”

- Industrial Specialist, SIOR Michigan Chapter

There continues to be a shortage of warehouse and industrial space with vacancy rates at historical lows.

- Industrial Specialist, SIOR New Mexico Chapter

“As the vaccine continues to get out there and States continue to lift restrictions, the market will continue to improve!”

- Office Specialist, SIOR Western Pennsylvania Chapter

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## APPENDIX

### Survey Questions:

1. Indicate the property type (one only) that you will evaluate on this survey form.
  - Industrial
  - Office
2. What effects do each of the below have on your market's performance currently? (Local economic conditions, National economic conditions, and Global economic conditions)
  - Significant negative impact, with serious handicaps on the market
  - Moderately negative impact, slowing the market somewhat
  - No major impact, neither impeding nor stimulating the market to any degree
  - Moderately positive impact, slightly accelerating the market
  - Significantly positive impact, greatly impacting the market
3. What is the status of your transactions from the last quarter (Answers must total 100)?
  - Transactions have been cancelled outright
  - Transactions are on hold
  - Transactions are moving forward on schedule
4. How does each of the following in your market compare with a year ago? (Leasing Activity, Asking Rents, Current Vacancy)
  - Much lower
  - A little lower
  - About the same as last year
  - A little higher
  - Much higher
5. What are subleasing conditions like in your market?
  - Extensive amount of subleasing space
  - Adequate amount of subleasing space
  - Average amount of subleasing space
  - Limited amount of subleasing space
  - Little to no amount of subleasing space
6. What are development conditions like in your market?
  - Nonexistent
  - Minimal
  - Close to its historical average
  - Above average
  - Booming

- 
7. What are acquisition conditions for development in your market?
    - Strong buyer's market - prices are low and falling.
    - Buyer's market, but prices are stable at present
    - Market is balanced, with prices stable to slightly rising
    - Seller's market, prices rising at a steady pace
    - Strong seller's market, prices increasing rapidly
  8. In negotiations between landlords and tenants, what level of tenant concessions characterize your market?
    - Extensive concessions, with deep discounts on asking rents, substantially favoring tenants
    - Moderate level of concessions, and the market favors tenants
    - Balanced level of concessions, with no bargaining advantage for landlord or tenant
    - Limited levels of concessions, with the market slightly favoring the landlord
    - No concessions are available as the landlords have strong bargaining power
  9. What are investment pricing conditions for a good building in your market?
    - Substantially below replacement cost
    - Somewhat below replacement cost
    - Approximately at replacement cost
    - Somewhat above cost and it is profitable to build
    - Well above cost and it is extremely profitable to build
  10. What is your level of confidence in your local market conditions (what will conditions be like) for the next quarter?
    - (1) Lowest confidence: activity is much worse and down more than 10%
    - (2) Low confidence: activity is worse and down by 6-10%
    - (3-4) Moderately low confidence: there is slight decline in activity by 1-5%
    - (5-6) No change from last quarter
    - (7-8) Moderately high confidence: activity has slightly improved by 1-5%
    - (9) Higher confidence: activity has improved by 6-10%
    - (10) Highest confidence: market activity is much better and improved by more than 10%
  11. Please share what is working well or what challenges you see in your market.
    - Opportunity for open-ended responses.
  12. Please share any additional comments related to your forecast for the future, such as trends, market conditions, etc.
    - Opportunity for open-ended responses.

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