

# Buffalo Office Market

## Market Trends

As a result of the pandemic, during April 2020 the Buffalo MSA lost 12,700 information, financial activities, and professional and business services sector jobs, or 11.2% of the employment base.

By year-end 2020, employment in the information, financial activities, and professional and business services sectors began to recover adding 7,000 jobs. During 2021 and 2022, these sectors grew by 1.6 percent, adding another 1,700 new jobs.

## Overall Market Overview

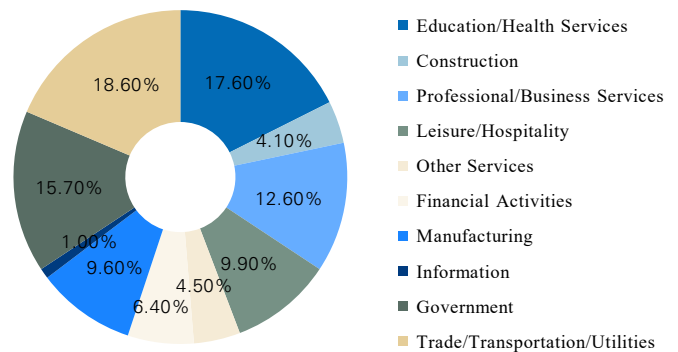
By the fourth quarter of 2022, the Buffalo MSA office market supported 24.8 million square feet of space concentrated in the Buffalo CBD and the Northtowns suburban market.

By year-end 2022, the Buffalo office market was operating at an overall vacancy rate of 11.6%. Despite the business disruptions caused by the pandemic, throughout 2022 the Buffalo office market supported positive net absorption of 123,648 square feet. Net office space absorption for the year totaled 138,911 SF in the Buffalo CBD and -15,263 SF in the Northtowns suburban market.

Office rents in the Buffalo market increased 0.6% in 2021 and 1.8% in 2022, now averaging \$16.75 per square foot. Class A office space commands a higher premium rent averaging \$25.00 per square foot.

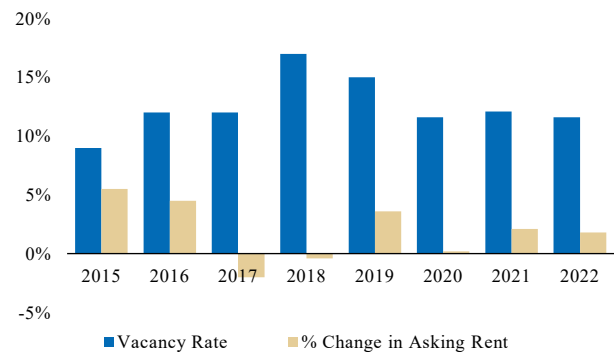
Class A space totals 5.2 million square feet, with 2.4 million square feet located in the Buffalo CBD and 2.8 million square feet in the Northtowns. During 2022, net absorption of Class A space totaled -18,823 SF. As of the fourth quarter 2022, Class A was operating at a vacancy rate of 10.9 percent. The CBD Class A market is operating at an 9.4% vacancy rate and average rent of \$29.11/SF. The Northtowns Class A market is operating at a 12.1% vacancy and average rent of \$22.00/SF.

## Buffalo MSA Employment by Sector 2022



## Market Analysis

### ASKING RENT AND VACANCY RATE



## Overall Market Summary

	2022 Q4	2021 Q4	2020 Q4	12-Month Forecast
Total Inventory (SF)	24.8M	24.8M	24.7M	→
Vacancy Rate	11.6%	12.1%	12.7%	→
Net Absorption (SF)	124K	123K	510K	←
Average Asking (Rent/SF)	\$16.75	\$16.45	\$16.35	→
New Construction (SF)	0K	50K	48K	→

**Overall Market Overview Continued...**

Class B and flex space in the Buffalo office market totals 19.6 million square feet. The Buffalo CBD supports 11.3 million square feet of Class B office space with 8.3 million square feet operating in the Northtowns suburban market. During 2022, net absorption of Class B and flex space totaled 142,471 square feet. The net demand for space effectively reduced the overall vacancy rate from 12.6 percent at year-end 2021 to 11.8 percent by year-end 2022. The average rent for Class B and flex space is \$15.95 per square foot.

Since 2015, new office construction in the Buffalo market totaled 1.08 million square feet, peaking in 2015 with 594,405 square feet. Recent new construction totaled 48,310 square feet in 2020, 50,000 square feet in 2021, and none in 2022.

Throughout 2020, 21 sale transactions of office buildings of 10,000 square feet or more in the Buffalo MSA market garnered total proceeds of \$73.4 million. During 2021, 11 office building sale transactions totaling \$64.7 million were recorded in the Buffalo MSA. Office sales for 2022 totaled 16 properties of 10,000 square feet or more totaling \$65.8 million in proceeds, averaging \$82/SF and a capitalization rate of 9.6 percent.

**Buffalo CBD Market Overview**

Over the past decade the Buffalo CBD has experienced a renaissance supporting new restaurants, entertainment venues, hotels, office buildings, and new housing. The Buffalo CBD and Buffalo-Niagara Medical Campus now collectively supports a workforce exceeding 50,000. The Buffalo CBD now attracts over 7 million visitors annually.

As of the fourth quarter 2022, the Buffalo CBD supported 13.7 million square feet of office space. Throughout 2022, 138,911 square feet of space was absorbed into the market, reducing the overall vacancy rate from 12.9% at year-end 2021 to 11.9% by the fourth quarter 2022. The average asking rent is \$17.45 per square foot.

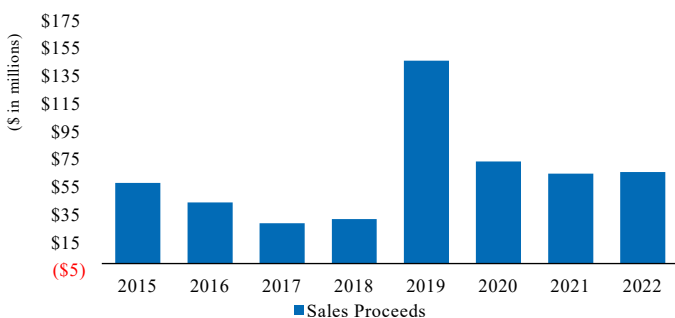
Class A office space in the Buffalo CBD totals 2.4 million square feet. By the fourth quarter 2022, Class A space was operating at a vacancy rate of 9.4 percent, up slightly from 8.9 percent at year-end 2021. For 2022, net office space absorption of Class A space was reported at -11,464 square feet. The average asking rent stands at \$29.11 per square foot.

Class B office space in the Buffalo CBD totals 11.3 million square feet. Through the fourth quarter of 2022 net absorption of Class B space totaled 150,375 square feet. By year-end 2022, Class B space was operating at a vacancy rate of 12.4 percent, down from 13.7 percent at year-end 2021. The average asking rent stands at \$16.45 per square foot.

Douglas Development has redeveloped the former 38-story HSBC Tower at the foot of Main Street. HSBC and Phillips Lytle vacated 738,000 square feet of space and the building eventually went into foreclosure. Now known as Seneca One, the building has been transformed into a mixed-use property offering retail space, event space, and luxury apartments. The occupancy by M&T Bank’s IT Department of approximately 340,000 square feet of space at Seneca One has attracted other tech firms and transformed the once vacant building into a technology hub. In December 2022, Douglas Development purchased the HSBC Atrium building at 95 Washington Street for \$9 million.

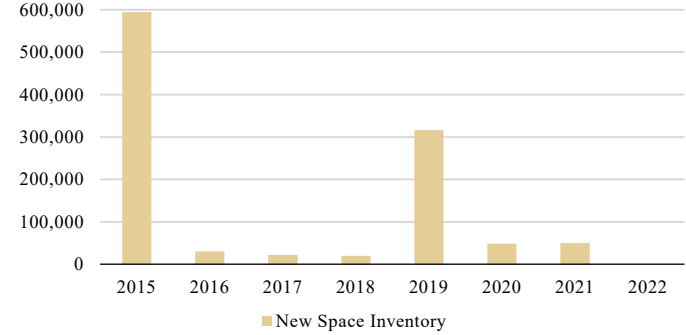
**Buffalo Market Office Sales**

OFFICE BUILDING SALES PROCEEDS



**Office Construction**

INVENTORY GROWTH (Sq. Ft.)



## Buffalo CBD Market Overview Continued...

Many older office properties in the CBD are no longer desirable for office use but their historical character are ideal for adaptive re-use as apartments, lodging, and banquet space. Examples of conversion projects include Priam Enterprises' Main-Seneca Building at 237 Main Street and Stanton Building 251 Main Street, Kissling Interests' Main Cathedral Building at 298 Main Street, and the conversion of the former Buffalo Police Headquarters into rental apartments by Douglas Development

## Northtowns Market Overview

The Northtowns submarket consisting primarily of the affluent communities of Amherst and Williamsville represents the region's largest suburban office market supporting approximately 11.1 million square feet of space. The Northtowns as a professional office location boasts freeway access, an educated workforce, wide range of housing options, high quality of life, proximity to Buffalo-Niagara International Airport, and presence of The University at Buffalo Main Campus. Due to its attractive business location, the Northtowns is home to many institutional tenants.

Most of the Northtowns office space is located within master planned office parks and business parks. By the fourth quarter 2022, the Northtown office market was operating at an overall vacancy rate of 11.4 percent and an average rent of \$16.00 per square foot gross. Throughout 2022, net space absorption amounted to -15,263 square feet.

Despite the business interruption resulting from the pandemic, Class A office space in the Northtowns remained stable throughout 2022. By the fourth quarter 2022, the 2.8 million square feet of Class A office space was operating at an overall vacancy rate of 12.1 percent, up slightly from 11.8 percent at year-end 2021. Class A office space absorption of -7,359 square feet was reported for 2022. The average rent for Class A space amounts to \$22.00 per square foot gross. As of the close of fourth quarter 2022 no new office space was under construction within the Northtowns submarket.

Class B and flex space totals 8.3 million square feet of space. By the fourth quarter of 2022 Class B and flex space was operating at an overall vacancy rate of 11.1 percent, up from 11.0 percent at year end 2021. During 2022, net space absorption totaled -7,904 square feet. The average rent for Class B and flex space is \$15.00 per square foot.

Northtowns Office Market			Buffalo CBD Office Market			Buffalo MSA Office Market		
	2021 Q4	2022 Q4		2021 Q4	2022 Q4		2021 Q4	2022 Q4
<b>Total Inventory of Space</b>			<b>Total Inventory of Space</b>			<b>Total Inventory of Space</b>		
Space/Sf. Ft.	11,107,455	11,107,455	Space/Sf. Ft.	13,728,352	13,728,352	Space/Sf. Ft.	24,835,807	24,835,807
Vacant Space	1,246,632	1,261,895	Vacant Space	1,767,504	1,628,593	Vacant Space	3,014,136	2,890,488
Vacancy Rate	11.2%	11.4%	Vacancy Rate	12.9%	11.9%	Vacancy Rate	12.1%	11.6%
Average Rent/ Sq. Ft.	\$15.75	\$16.00	Average Rent/ Sq. Ft.	\$17.45	\$17.45	Average Rent/ Sq. Ft.	\$16.55	\$16.75
<b>Class A Space</b>			<b>Class A Space</b>			<b>Class A Space</b>		
Total Class A Space	2,813,013	2,813,013	Total Class A Space	2,382,835	2,382,835	Total Class A Space	5,195,848	5,195,848
Vacant Space	332,247	339,606	Vacant Space	213,112	224,576	Vacant Space	545,359	564,182
Vacancy Rate	11.8%	12.1%	Vacancy Rate	8.9%	9.4%	Vacancy Rate	10.5%	10.9%
Average Rent/ Sq. Ft.	\$22.04	\$22.00	Average Rent/ Sq. Ft.	\$29.11	\$29.11	Average Rent/ Sq. Ft.	\$25.00	\$25.00
<b>Class B &amp; Flex Space</b>			<b>Class B</b>			<b>Class B</b>		
Total Class B & Flex Space	8,294,442	8,294,442	Total Class B & Flex Space	11,345,517	11,345,517	Total Class B & Flex Space	19,639,959	19,639,959
Vacant Space	914,385	922,289	Vacant Space	1,554,392	1,404,017	Vacant Space	2,468,777	2,326,306
Vacancy Rate	11.0%	11.1%	Vacancy Rate	13.7%	12.4%	Vacancy Rate	12.6%	11.8%
Average Rent/ Sq. Ft.	\$14.75	\$15.00	Average Rent/ Sq. Ft.	\$16.25	\$16.45	Average Rent/ Sq. Ft.	\$15.75	\$15.95

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