

Yardi® Matrix

# National Office Report

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April 2020



## The Waiting Game

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- The COVID-19 pandemic radically reshaped the country and the economy in March, but the full effect of the virus has not yet come to light in the office data. National full-service equivalent listing rates held steady with an average of \$37.99 per square foot, a 0.2% increase over March of last year, and vacancy rates fell 60 basis points from February to 12.8%. Now the national office market has been immobilized, waiting to see how the pandemic and economic recovery play out.
- At the end of March, 148.9 million square feet of office space was under construction nationally, a number that will likely decline in the coming months. While many states have exempted construction from stay-at-home orders, that likely won't be enough to keep projects on schedule or even guarantee a project will remain active. As of the end of March, Yardi Matrix had yet to see project cancellations in its data. However, the weekly survey done by the Association of General Contractors stated 19% of its respondents reported that "an owner (including a public owner regarding its own projects) had directed them to cancel construction on a current project or one scheduled to start in the next 30 days." Most concerning is that this figure is up from 7% in the same survey two weeks prior.
- While there is still confusion surrounding some of the specifics, the IRS granting an extension for 1031 exchanges will have a significant impact on the office transaction market. First, deals that may have otherwise been rushed through to meet previous deadlines will now be paused while investors see how the next couple of months play out. Second, some 1031 investors were strongly considering forgoing the exchange altogether and instead paying the capital gains tax so they could hold on to their money during the crisis. Consequently, the extension could leave capital available for transactions once the frozen economy begins to thaw.
- On the national employment front, jobs in sectors classified as office-using employment only suffered a 0.2% decline in March, but the worst is surely to come. The BLS conducts its survey in the first half of the month; because of this, it only reported a total loss of 700,000 jobs in the month despite more than 6 million unemployment claims being filed in the last week of March.

