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Office Capital Flows Curbed by Uncertainty

- COVID-19-related trends led U.S. office transaction activity to drop by almost half in 2020. Some \$56.1 billion of office properties traded last year, down 46.9% from \$105.6 billion in 2019, according to Yardi Matrix data. The impact was felt broadly by region, with only a handful of exceptions.
- By region, gateway markets and the Northeast fared better than most secondary and tertiary markets. Markets in which sales held up in 2020 have strong niche sectors, such as life sciences, biotechnology and pharmaceuticals.
- The pandemic introduced a great deal of uncertainty into the market that contributed to the decline. The roadblocks to transactions include logistics and the diminished availability of debt. But the biggest uncertainty involves pricing properties when most office workers are working from home and corporations are assessing future space needs.
- Sales dropped sharply in many "hot" markets where population and employment are growing (such as Austin, Atlanta and Miami), mainly due to a lack of willing sellers. Owners in those metros that have no compelling reason to offload assets are waiting for the downturn to end.
- Rent collections remain well above 90%, even though most office-using jobs have moved to a work-from-home model. While this has created stability over the short term for offices, questions abound over the utility of office space and future space needs. The pandemic has demonstrated that work-from-home can be effective, but questions remain about productivity and how corporate culture and onboarding are achieved remotely.
- Investors by-and-large are taking a wait-and-see approach to 2021. Transaction activity is likely to remain tepid through mid-year or longer. As vaccines are becoming available, offices will re-open, but it remains unclear when most workers will return.