Yardi Matrix

National Office Report

March 2021

Vacancy Rates Rise Across Country

- The national average full-service equivalent listing rate was $38.31 per square foot in February, virtually unchanged from the previous month (-$.01) and a decrease of 0.6% from February of last year. The national average vacancy rate was 15.0%, an increase of 40 basis points (bps) over the previous month and 160 bps over the last year. Vacancy increased the most in CBD submarkets (250 bps), as urban cores are at odds with the concept of social distancing.

- Austin has seen the largest increase in vacancy rate over the past 12 months, jumping from 7.8% in February of last year to 15.1%, which at first comes as a surprise. Austin by far had the strongest growth in office-using sectors of the labor market last year, with an increase of almost 6% despite the economic turmoil. Further, the Texas capital has landed high-profile corporate relocations like Oracle and Tesla. Yet Austin has a high concentration of tech firms that were able to seamlessly transition to remote work and one of the most active construction pipelines in the country, with 4.6% of stock delivered since the start of 2020. Compounding the issue is the fact that many firms are looking to sublease, with Austin's sublease vacancy rate increasing from 1.5% to 3.6% over the last year.

- Nationally, new supply that was already under construction has continued to be delivered during the pandemic, but absorption will be tough in the near term. Because of this, new supply is forecasted to drop steeply in the coming years, according to Yardi Matrix. This year's deliveries are forecasted at 75.3 million square feet, on par with previous years, followed by decreasing supply through 2025.

- Physical space will have value in the post-COVID world, but the type of space and its location will be more important than ever. A case in point is the recent $1.1 billion sale of The Exchange on 16th in San Francisco, a 750,000-square-foot building sold at a $1,440 per-square-foot average. It ranks as one of the most expensive deals by square foot ever tracked by Yardi Matrix. Yet despite the economic contraction and companies leaving San Francisco, this property remains attractive. The building, located a short walk from Mission Bay, is LEED Platinum certified and able to be configured as lab space. Dropbox signed a 15-year lease to base its corporate headquarters there, then recently adopted a permanent remote work strategy, placing half of the building for sublease. However, Vir Biotechnology has already taken more than a third of that space.