



Yardi® Matrix

# National Office Report

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March 2023



# The State of Loan Maturities

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- With interest rates rising, the economy slowing and demand for office space falling, office owners are in a tough position. This is especially true for owners with loans maturing in the next three years, which accounts for more than 9,500 buildings and 17% of all office stock, according to Yardi Matrix.
- Nationally, there is no wall of office maturities on the horizon, with the amount of office space with maturing loans holding at around 380 million square feet for the next three years.
- Loans are not maturing equally across markets, however, and some places will see more maturities than others in the near term. Among the largest markets, three—Portland, Atlanta and Denver—have more than 10% of office stock subject to a maturing loan in 2023, and two others—Chicago and Los Angeles—have more than 7% of office stock maturing this year. Over the next three years, eight of the top 25 markets will see at least 20% of stock subject to a maturing loan, led by Atlanta (29.1% maturing by the end of 2025), followed by Portland (27.5%), Denver (24.3%), Chicago (23.0%), Los Angeles (21.5%), Washington, D.C. (20.4%), Austin (20.0%) and Dallas-Fort Worth (20.0%). Some of these markets also have vacancy rates above the national average—with Atlanta sitting at 20.5%, Chicago 19.2% and Denver 17.6%—which will add more uncertainty for owners.
- Recent high-profile defaults hint that the pain may be only beginning for office owners. Columbia Property Trust defaulted on \$1.7 billion in loans backed by seven buildings, Brookfield Asset Management defaulted on \$784 million in loans for two office towers in downtown Los Angeles and RXR is reportedly considering handing the keys over to the lender for at least two of its New York offices.
- With weak demand and a rising cost of borrowing, refinancing office buildings will be challenging unless they include solid leases with high-quality tenants. In most cases, borrowers will need to bring more equity to refinance. The average sale price of an office building, which fell from a national average of \$299 per square foot in the fourth quarter of 2021 to \$214 a year later, could decline further as prices adjust to the current environment. Falling prices may lead to more buildings becoming candidates for adaptive reuse, although such projects will still require the building to have characteristics amenable to conversion.



# Listing Rates and Vacancy: Rental Rates Sticky Despite Rising Vacancies

- The national average full-service equivalent listing rate for office space in February was \$38.28 per square foot, according to Yardi Matrix, down 1.6% year-over-year.
- The national vacancy rate in the month was 16.5%, up 70 basis points over February 2022.
- Demand for office space has declined since the pandemic, leading to vacancy rates rising steadily over the last three years. However, we have yet to see average listing rates fall in response. One reason for this could be

that the average listing rates can reflect the quality of space listed as much as underlying fundamentals. All types of space, from A+ to C, are being listed, meaning that the overall average will see little movement. However, we believe that concessions play a large role in the stickiness of listing rates. Owners have been offering large tenant improvement allowances and months of free rent as a way to attract tenants to their buildings. Many landlords are wary of dropping listing rates because of the impact that doing so could have on valuations.

## Listings by Metro

Market	Feb-23 Listing Rate	12-Month Change	Total Vacancy	12-Month Change	Top Listing	Price Per Square Foot
National	\$38.28	-1.6%	16.5%	70 bps		
Orlando	\$24.62	11.6%	16.3%	-60 bps	Celebration Medical Center	\$42.40
San Diego	\$44.97	11.3%	13.2%	-80 bps	One La Jolla Center	\$69.00
Seattle	\$38.63	8.8%	18.2%	330 bps	1208 Eastlake Avenue East	\$89.50
Charlotte	\$34.49	8.2%	12.7%	-260 bps	Rotunda Building, The	\$44.42
Philadelphia	\$31.24	7.4%	14.3%	20 bps	Two Liberty Place	\$53.50
San Francisco	\$67.25	6.5%	19.2%	230 bps	Sand Hill Collection–The Quad	\$195.60
Atlanta	\$30.60	5.0%	20.5%	-190 bps	Star Metals Offices	\$58.00
New Jersey	\$33.63	4.8%	17.0%	-30 bps	Newport Tower	\$54.80
Nashville	\$31.59	4.1%	17.5%	-130 bps	Three Thirty Three	\$44.38
Chicago	\$28.23	3.6%	19.2%	-120 bps	300 North LaSalle Drive	\$59.46
Manhattan	\$76.04	3.4%	16.0%	290 bps	550 Madison Avenue	\$210.00
Miami	\$46.89	2.8%	12.8%	-20 bps	830 Brickell	\$137.50
Tampa	\$28.41	2.4%	16.4%	-20 bps	Water Street Tampa–Thousand & One	\$58.00
Phoenix	\$27.38	2.1%	17.1%	150 bps	Camelback Collective	\$52.50
Bay Area	\$57.10	1.2%	17.6%	280 bps	325 Lytton Avenue	\$160.20
Houston	\$30.48	1.1%	22.5%	-240 bps	Texas Tower	\$58.40
Los Angeles	\$42.70	0.6%	14.6%	120 bps	1999 Avenue of the Stars	\$96.90
Dallas	\$28.95	-0.1%	16.8%	-50 bps	Rosewood Court	\$60.43
Denver	\$30.06	-0.1%	17.6%	110 bps	1144 Fifteenth Street	\$62.08
Twin Cities	\$26.05	-0.8%	15.5%	90 bps	Tractor Works Building, The	\$40.71
Washington DC	\$40.52	-2.4%	13.8%	-290 bps	601 Pennsylvania Avenue NW–North Bldg	\$79.00
Austin	\$41.00	-5.5%	20.4%	520 bps	Indeed Tower	\$82.34
Portland	\$27.99	-6.5%	14.6%	30 bps	M Financial Plaza	\$47.40
Boston	\$35.77	-6.9%	9.8%	-70 bps	116 Huntington Avenue	\$75.07
Brooklyn	\$44.22	-11.0%	18.6%	70 bps	200 Kent Avenue	\$75.00

Source: Yardi Matrix. Data as of February 2023. Listing rates are full-service or “full-service equivalent” rates for spaces available as of report period. National listing rate is an average of the top 50 markets.

# Supply: Life Science Fuels San Diego Development

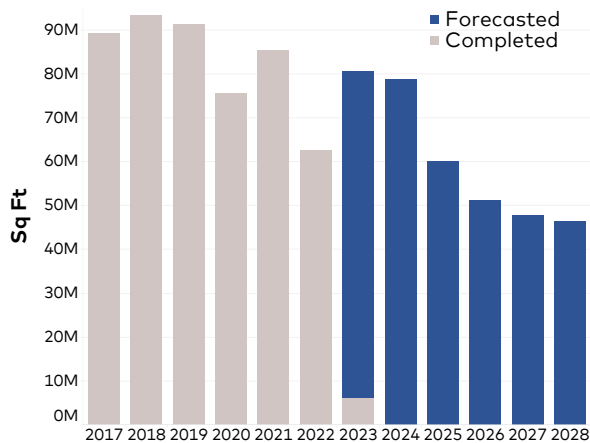
- Nationally, there are 123.5 million square feet of new office stock currently under construction, representing 1.9% of stock. An additional 271.3 million square feet are in the planning stages (4.2% of stock), although that number is likely to decrease in the future as projects are indefinitely paused or canceled in response to remote and hybrid work becoming entrenched in the economy.
- While many office use types are struggling with post-pandemic demand, the life science sector is not, especially in top markets like Boston, the Bay Area and San Diego.
- In San Diego, the third-largest life science market in the country, the largest projects under construction are all delivering lab space to market. IQHQ is building the \$1.6 billion RaDD (Research and Development District) along the waterfront in an attempt to attract life science companies to downtown San Diego. The mixed-use project will include five buildings of lab, general office and retail space and is set to open early next year. Nearby, The Campus at Horton Plaza is an adaptive reuse project that covers 10 acres and seven city blocks, offering the same mix of lab space, retail and office.

## Supply Pipeline (by metro)

Market	Under Construction	Under Construction % Stock	Plus Planned % Stock
National	123,468,045	1.9%	6.1%
Austin	6,644,767	7.5%	24.4%
Boston	13,511,197	5.6%	11.3%
Nashville	2,994,433	5.3%	14.7%
Seattle	6,785,457	5.0%	20.5%
San Diego	4,620,289	5.0%	9.4%
San Francisco	7,523,298	4.9%	12.9%
Brooklyn	1,530,937	4.3%	7.4%
Charlotte	2,927,549	3.9%	13.8%
Miami	2,176,985	3.1%	8.3%
Bay Area	5,940,733	3.0%	16.6%
Orlando	1,616,228	2.9%	6.6%
Dallas	6,553,773	2.4%	9.1%
Manhattan	9,269,815	2.0%	4.0%
Atlanta	3,864,601	2.0%	5.5%
Houston	4,063,500	1.7%	3.3%
Denver	2,583,739	1.7%	4.8%
Philadelphia	2,607,830	1.5%	5.4%
Washington DC	4,532,389	1.2%	3.5%
Tampa	814,099	1.2%	4.3%
Portland	681,714	1.2%	6.5%
Chicago	3,460,437	1.1%	6.4%
Los Angeles	2,556,369	0.9%	3.6%
New Jersey	1,628,396	0.8%	2.3%
Phoenix	833,766	0.6%	5.3%
Twin Cities	676,369	0.6%	2.5%

Source: Yardi Matrix. Data as of February 2023

## National New Supply Forecast

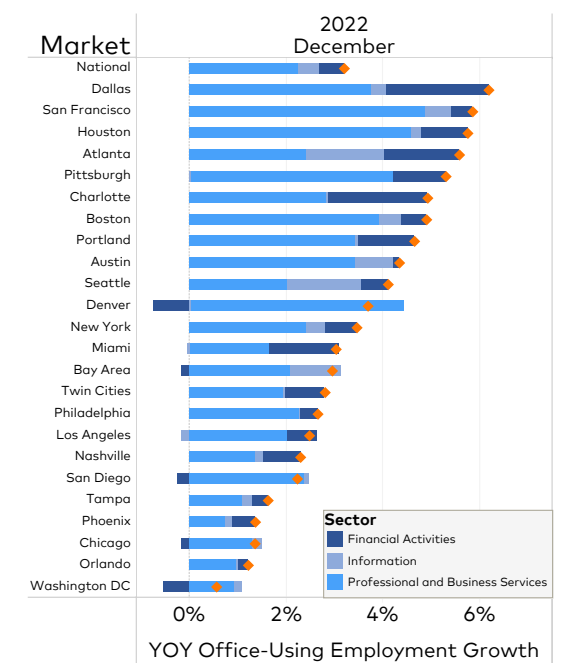


Source: Yardi Matrix. Data as of February 2023  
Data in this chart includes owner-occupied properties

# Office-Using Employment: Tech Layoffs Continue in 2023

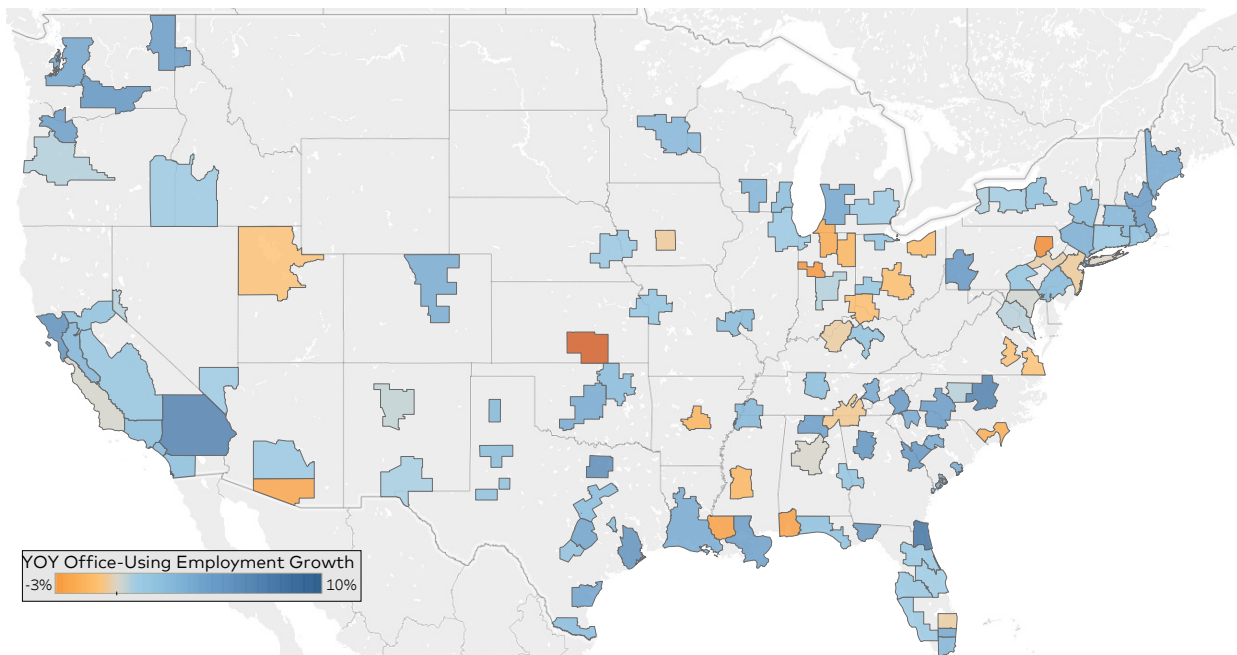
- Office-using sectors of the labor market grew 2.4% year-over-year in February, adding only 19,000 jobs in the month, according to the Bureau of Labor Statistics. Growth in office-using sectors has decelerated in the last eight months.
- One culprit behind this slowdown is the tech sector, which has been slashing payrolls in recent quarters. After a wave of layoffs among tech firms at the end of 2022, the bleeding has not stopped in the early part of 2023. Google has announced it will reduce its workforce by 12,000 in 2023, Microsoft will lay off 10,000 workers, and Salesforce and Amazon are both dropping 8,000 employees. Meta laid off 11,000 late last year, and reporting indicates that an equal-size reduction will occur in 2023. Tech layoffs will impact San Francisco, the Bay Area and Seattle the hardest, though the pain will also be felt in markets like Austin, Manhattan and Northern Virginia, where Amazon recently paused construction on the second phase of its HQ2 in Arlington.

## Growth by Sector



Sources: Bureau of Labor Statistics and Moody's Analytics

## Office-Using Employment Growth



Sources: Bureau of Labor Statistics and Moody's Analytics

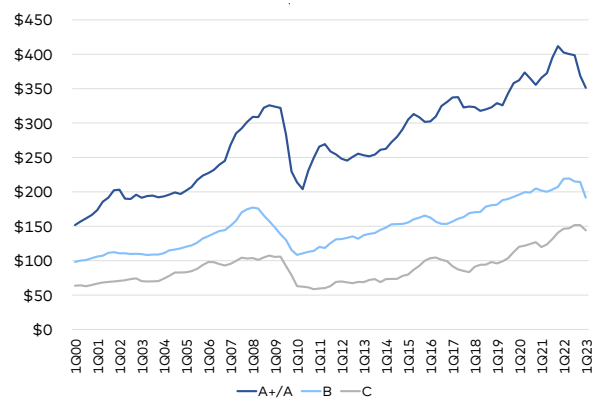
# Transactions: Lab Space Trades in Uncertain Climate

- Yardi Matrix recorded \$4.6 billion in office transactions through the first two months of the year, with properties trading at an average of \$232 per square foot.
- While investment has slowed in response to reduced office demand and rising interest rates, lab space is still in demand for investors. Private equity firm TPG sold the Center-Point life science campus in Waltham, Mass., to CS Capital Management for \$578 million, an average of \$1,000 per square foot for the three buildings. We expect that life science properties will drive much of the sales activity that occurs in 2023.

## Sales Activity

Market	YTD Sales Price PSF	YTD Sales (Mil, as of 2/28)
National	\$232	\$4,578
Boston	\$605	\$666
New Jersey	\$142	\$423
Manhattan	\$1,507	\$351
Miami	\$556	\$332
Houston	\$178	\$329
San Francisco	\$566	\$308
Dallas	\$287	\$268
Washington DC	\$289	\$170
Los Angeles	\$254	\$154
Philadelphia	\$146	\$148
Tampa	\$146	\$117
Phoenix	\$198	\$90
Bay Area	\$492	\$57
San Diego	\$271	\$46
Chicago	\$41	\$43
Twin Cities	\$203	\$40
Denver	\$257	\$40
Seattle	\$234	\$11
Austin	\$323	\$10
Charlotte	\$109	\$6
Atlanta	\$0	\$0
Brooklyn	\$0	\$0
Nashville	\$0	\$0
Orlando	\$0	\$0
Portland	\$0	\$0

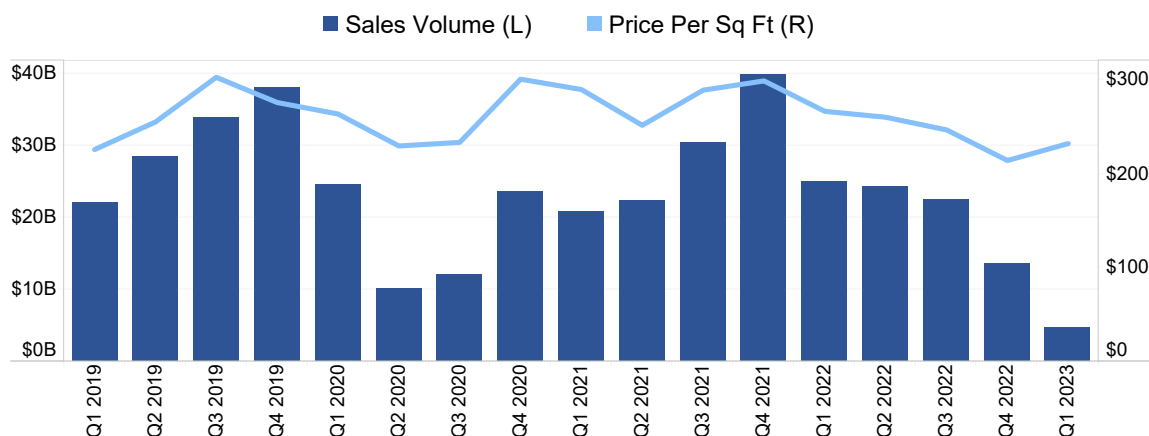
## Asset Class (price per sq. ft.)



Source: Yardi Matrix; 12-month moving average. Does not include unpublished and portfolio transactions.

Source: Yardi Matrix. Data as of February 2023. Sales data for unpublished and portfolio transactions is estimated using sales comps.

## Quarterly Transactions



Source: Yardi Matrix. Data as of February 2023

# Definitions

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This report covers office buildings 25,000 square feet and above. Yardi Matrix subscribers have access to more than 14,000,000 property records and 300,000 listings for a continually growing list of markets.

Yardi Matrix collects listing rate and occupancy data using proprietary methods.

- *Listing Rates*—Listing Rates are full-service rates or “full-service equivalent” for spaces that were available as of the report period. Yardi Matrix uses aggregated and anonymized expense data to create full-service equivalent rates from triple-net and modified gross listings. Expense data is available to Yardi Matrix subscribers. National average listing rate is for the top 50 markets covered by Yardi Matrix.
- *Vacancy*—The total square feet vacant in a market, including subleases, divided by the total square feet of office space in that market. Owner-occupied buildings are not included in vacancy calculations.

A and A+/Trophy buildings have been combined for reporting purposes.

Stage of the supply pipeline:

- *Planned*—Buildings that are currently in the process of acquiring zoning approval and permits but have not yet begun construction.
- *Under Construction*—Buildings for which construction and excavation has begun.

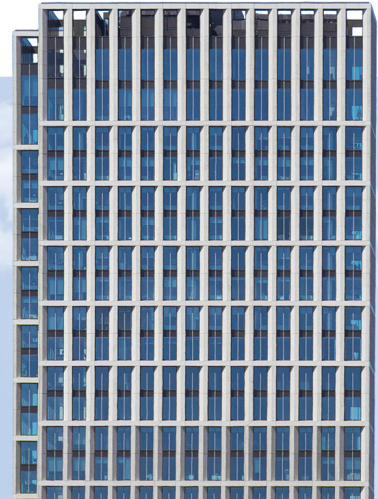
Office-Using Employment is defined by the Bureau of Labor Statistics as including the sectors Information, Financial Activities, and Professional and Business Services. Employment numbers are representative of the Metropolitan Statistical Area and do not necessarily align exactly with Yardi Matrix market boundaries.

Sales volume and price-per-square-foot calculations for portfolio transactions or those with unpublished dollar values are estimated using sales comps based on similar sales in the market and submarket, use type, location and asset ratings, sale date and property size.



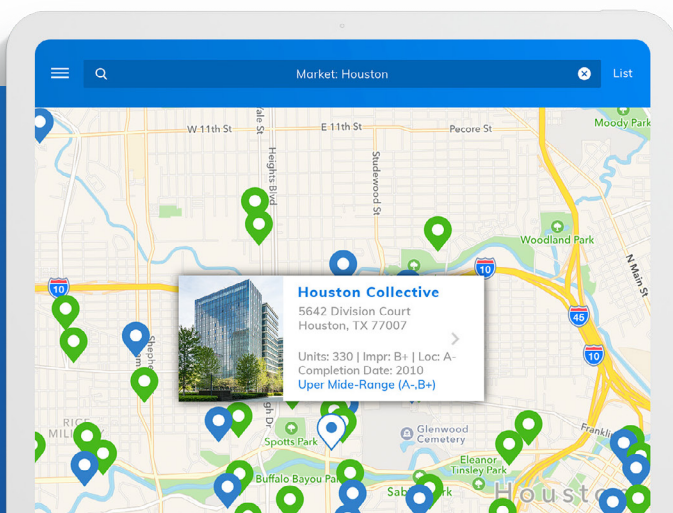
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## OFFICE KEY FEATURES

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- Find acquisition prospects based on in-place loans, maturity dates, lenders and originators
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- Gain new supply pipeline information at the asset, competitive set and market level
- Benchmark performance to similar assets



Yardi Matrix Office delivers detailed property-level information, allowing you to analyze current market conditions at the micro and macro level.



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