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# National Office Report

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January 2024



# Another Precarious Year for Office

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- The office sector has traveled a rocky road since the pandemic, and 2024 will likely be another painful year. However, the year will bring the sector closer to the eventual post-pandemic status quo.
- In 2024, we anticipate office utilization rates will slowly creep up, even if a full-scale return will never materialize. Return-to-office mandates have been more common in recent quarters, with large firms such as Amazon, Meta and Zoom announcing policies around working in the office. Yet even among firms that have moved to require in-office attendance, most are embracing hybrid work schedules and downsizing office footprints. Many companies are settling around two to three days a week of in-person work, and we anticipate that the physical occupancy rates will not see a major uptick from last year. We also expect the effect of hybrid and remote work will continue to decrease the prevalence of long-term fixed leases, with flexibility remaining important to tenants.
- In 2024, we expect an acceleration of less desirable office buildings being removed from the marketplace. So far, there hasn't been a wave of foreclosures, but we anticipate distress on these buildings to ramp up at varying rates between markets, submarkets and property quality. Loan extensions, workouts, defaults and foreclosures will all be more common this year. The direction of interest rates will be one of the biggest determinants of the level of distress and delinquencies.
- While interest rates are still the biggest unknown in commercial real estate, it appears that increases are likely finished for the time being. This year should see an increased number of transactions as expectations are realigned and the bid/ask gap narrows due to a stabilizing cost of capital. While the number of transactions will increase, the average sale price of an office property will likely decrease for the third year in a row. Office investors must have an appetite for risk, but discounts on attractive opportunities will be available.
- We anticipate the pace of office conversions to hold steady at 2023 levels. Turning vacant office buildings into residential space has been an attractive fix for the problems the pandemic created, but one that still has many roadblocks. The White House recently made financing for conversions available through a variety of sources, but notably provided no net new funding, only opening up existing programs to conversion projects.

