Yardi Matrix

National Office Report

January 2024

Another Precarious Year for Office

- 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.

Listing Rates and Vacancy: Vacancy Rate Ticks Up in Dallas

- The national average full-service equivalent listing rate was $37.64 per square foot in December, according to Yardi Matrix, a decrease of 1.4% year-over-year and down nine cents over the previous month.
- The national vacancy rate was 18.3%, an increase of 180 basis points year-over-year.
- Over the last year, Dallas vacancy rates have increased 170 basis points while average listing rates fell more than 6%. Strong employment growth cannot prevent rising vacancies in Dallas, which has seen some of the nation's most robust job growth in office-using sectors. The financial activities sector in particular has driven growth, as the market's standing as a banking hub continues to grow. More than 17,000 financial jobs were added year-over-year (4.7%) as of November. Bank of America recently signed a 238,000-square-foot lease at Parkside, an upcoming property in Uptown, downsizing from 500,000 square feet at its namesake tower.

Listings by Metro

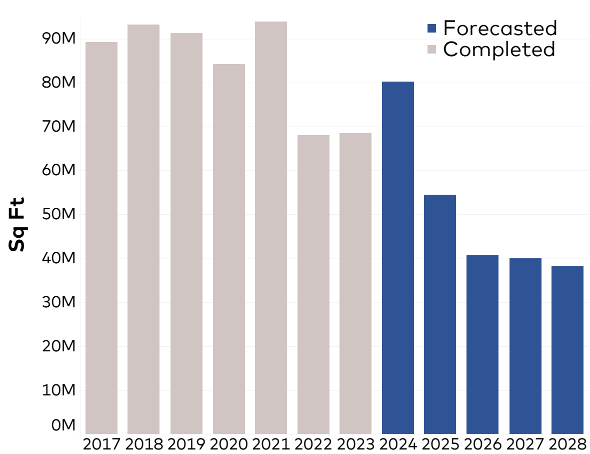
Market	Dec-23 Listing Rate	12-Month Change	Total Vacancy	12-Month Change	Top Listing	Price Per Square Foot
National	$37.64	-1.4%	18.3%	180 bps		
Boston	$47.27	26.6%	11.8%	280 bps	Kendall Center–255 Main Street	$126.34
New Jersey	$34.88	5.3%	19.8%	260 bps	10 Exchange Place	$55.30
Tampa	$28.64	2.3%	13.3%	-330 bps	Water Street Tampa–Thousand & One	$61.50
Philadelphia	$31.90	1.9%	14.3%	60 bps	Two Liberty Place	$53.50
Denver	$30.22	1.1%	22.2%	400 bps	200 Clayton Street	$73.00
Detroit	$21.34	0.9%	25.0%	470 bps	One Campus Martius	$39.13
Houston	$29.88	0.9%	24.0%	-180 bps	Texas Tower	$62.90
Atlanta	$30.55	0.6%	17.1%	-290 bps	300 Colony Square	$52.00
Austin	$41.20	0.4%	21.1%	150 bps	Indeed Tower	$83.77
Twin Cities	$26.04	-0.1%	17.8%	280 bps	Offices at MOA, The	$40.00
Miami	$46.76	-0.5%	14.1%	240 bps	830 Brickell	$180.00
Phoenix	$27.63	-0.5%	19.0%	300 bps	Camelback Collective	$55.00
Seattle	$38.16	-0.9%	22.5%	410 bps	1208 Eastlake Avenue East	$94.00
Chicago	$27.35	-1.4%	18.2%	-130 bps	Innovation and Research Park	$75.00
Washington DC	$40.62	-1.9%	17.9%	420 bps	455 Massachusetts Ave NW	$76.00
Los Angeles	$41.67	-2.2%	16.8%	180 bps	2000 Avenue of the Stars	$118.20
Orlando	$23.95	-2.9%	17.1%	100 bps	Heritage Park	$42.00
Bay Area	$54.23	-3.0%	20.2%	270 bps	325 Lytton Avenue	$159.00
Nashville	$30.32	-3.6%	16.5%	-150 bps	Three Thirty Three	$44.38
San Diego	$42.00	-3.6%	17.4%	320 bps	One La Jolla Center	$70.20
Dallas	$26.99	-6.3%	20.2%	170 bps	17Seventeen McKinney	$67.42
Portland	$28.34	-6.9%	15.6%	-170 bps	12th & Morrison	$47.01
Charlotte	$31.44	-7.7%	12.9%	-30 bps	Rotunda Building, The	$46.42
San Francisco	$61.91	-7.8%	23.6%	430 bps	Sand Hill Collection–The Quad	$195.60
Manhattan	$70.00	-8.0%	16.4%	120 bps	550 Madison Avenue	$210.00

Source: Yardi Matrix. Data as of December 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: Austin Cools but Remains Among Largest Pipelines

- Nationally, 96.9 million square feet of office space are under construction, representing 1.4% of stock.
- Including owner-occupied properties, 40.6 million square feet of new office space were started last year, down more than 35% from 2022 and an even sharper decline from pre-pandemic years. In 2018, 80.8 million square feet were started, while 2019 had 98.5 million started. We anticipate starts will slide even further in 2024 as construction loans become still harder to come by and vacancy rates for office tick further upward.
- Austin exemplifies the slowdown in starts. After being one of the hottest office markets in the country for the first few years of this decade, it slowed considerably in 2023. Some 9.2 million square feet of office space were started between 2020 and 2022, but only 910,499 square feet were started in 2023. Much of that was in two buildings that will be added to the Texas Capitol Complex. Despite the slowdown, the market still has a large pipeline, with 5 million square feet (5.4% of stock) underway.

National New Supply Forecast



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

Supply Pipeline (by metro)

Market	Under Construction	Under Construction % Stock	Plus Planned % Stock
National	96,944,425	1.4%	4.7%
Boston	14,587,704	5.9%	10.7%
Austin	5,021,097	5.4%	22.2%
San Diego	5,078,283	5.4%	9.3%
Nashville	2,746,187	4.7%	12.3%
San Francisco	6,987,345	4.4%	12.1%
Seattle	5,858,265	4.1%	11.8%
Miami	2,813,272	3.9%	13.8%
Charlotte	2,631,259	3.3%	8.7%
Bay Area	4,520,667	2.2%	8.7%
Dallas	4,875,147	1.7%	8.3%
Denver	2,552,166	1.6%	5.6%
Philadelphia	2,810,312	1.5%	4.6%
Atlanta	2,940,369	1.5%	3.5%
Orlando	837,256	1.2%	4.8%
Washington DC	3,489,278	0.9%	3.2%
Houston	2,249,380	0.9%	2.2%
New Jersey	1,725,898	0.9%	2.3%
Los Angeles	2,027,824	0.7%	3.4%
Manhattan	3,082,850	0.7%	2.2%
Portland	354,450	0.6%	2.1%
Chicago	1,753,463	0.6%	3.1%
Detroit	524,000	0.4%	1.0%
Tampa	314,699	0.4%	6.5%
Twin Cities	486,166	0.4%	2.8%
Phoenix	478,721	0.3%	3.4%

Source: Yardi Matrix. Data as of December 2023. Table does not include owner-occupied properties.

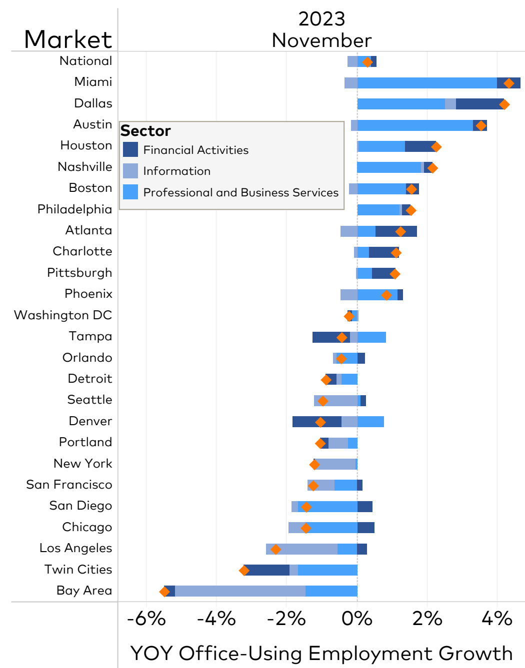
Office-Using Jobs: Growth Turns Negative in Additional Markets

- Office-using sectors added 29,000 jobs nationally in the month of December, an increase of only 0.3% year-over-year. Some 14,000 jobs were added in information, 13,000 in professional and business services and 2,000 in financial services.

- Of the 120 markets covered by Yardi Matrix, 56 saw a year-over-year decline in office employment. Of those that added jobs, 18 grew by less than 1.0%.

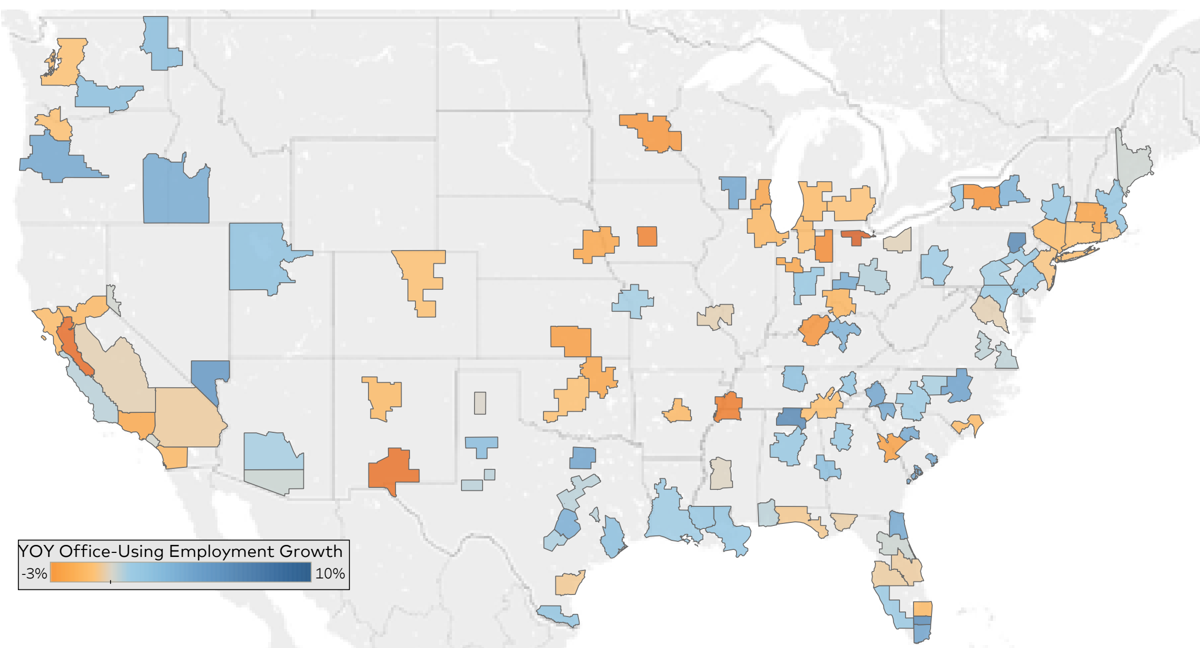
- Metro-level data for November, which trails the national release, shows that the slowdown in office jobs has been more pronounced in the Northeast, the Midwest and California. Markets across the Southeast and Texas have continued to add jobs, albeit at lower levels than previous years. This trend holds for the top markets as well, with Miami, Dallas, Austin, Houston and Nashville leading in job gains while the Bay Area, the Twin Cities, Los Angeles, Chicago and San Diego have seen the biggest drops.

Growth by Sector



Sources: Bureau of Labor Statistics and Moody's Analytics

Office-Using Employment Growth



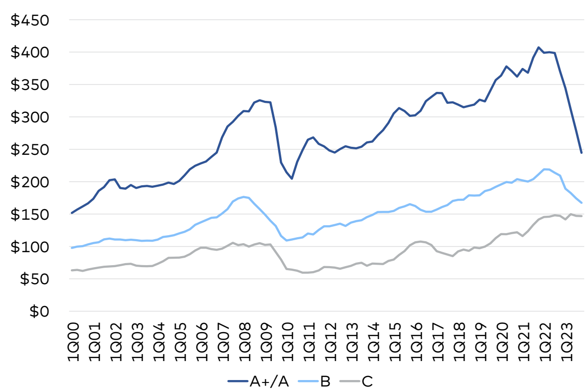
Sources: Bureau of Labor Statistics and Moody's Analytics

Transactions:
Spread Narrows Between Class A and B Assets

- Yardi Matrix recorded $33.8 billion of office sales in 2023, with properties trading at an average of $196 per foot.

- Prices are falling for all types of offices, but high-quality properties have seen bigger declines than mid-tier offices. In 2023, the average sale price of A+/A buildings fell 21.1% year-over-year to $390 per foot. Class B property prices fell 8.5% in the year, to $278. The spread between the average sale price of Class A+/A and Class B properties fell to $112 per foot, one of the smallest-ever spreads tracked by Yardi Matrix.

Asset Class (price PSF)



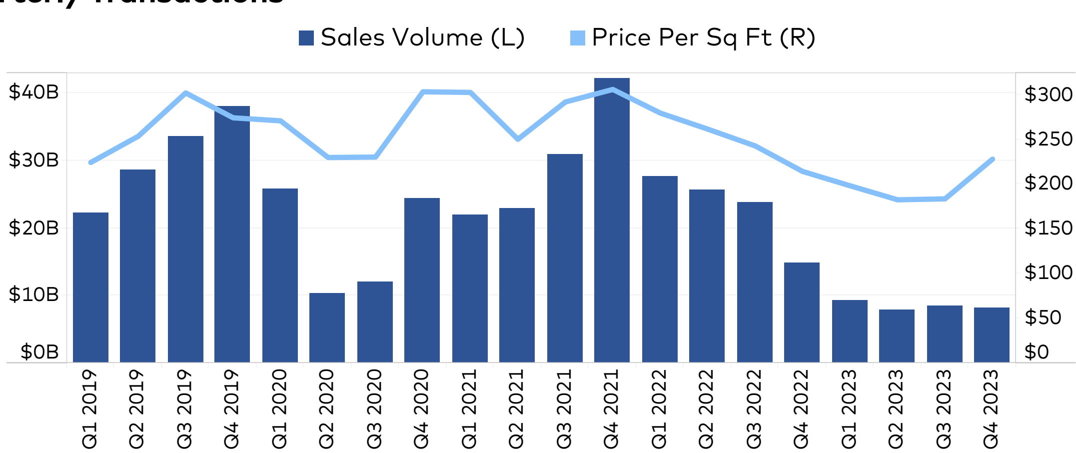
Source: Yardi Matrix; 12-month moving average.
Does not include unpublished and portfolio transactions.

Sales Activity

Market	YTD Sales Price PSF	YTD Sales (Mil, as of 12/31)
National	$196	$33,793
Manhattan	$783	$2,694
Los Angeles	$263	$2,394
Washington, D.C.	$232	$2,095
Dallas–Fort Worth	$209	$1,968
Boston	$300	$1,553
Bay Area	$339	$1,307
Houston	$125	$1,288
New Jersey	$142	$1,244
Chicago	$100	$1,140
Miami	$338	$1,078
Denver	$254	$1,050
Austin	$393	$1,050
Phoenix	$183	$1,031
San Francisco	$322	$803
Tampa	$160	$632
San Diego	$363	$612
Atlanta	$153	$589
Philadelphia	$135	$542
Minneapolis	$190	$499
Detroit	$129	$342
Nashville	$269	$236
Seattle	$267	$226
Orlando	$182	$226
Portland	$187	$211
Charlotte	$152	$211

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

Quarterly Transactions



Source: Yardi Matrix. Data as of December 2023.

Definitions

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.

Supply pipeline figures do not include owner-occupied properties unless otherwise noted.

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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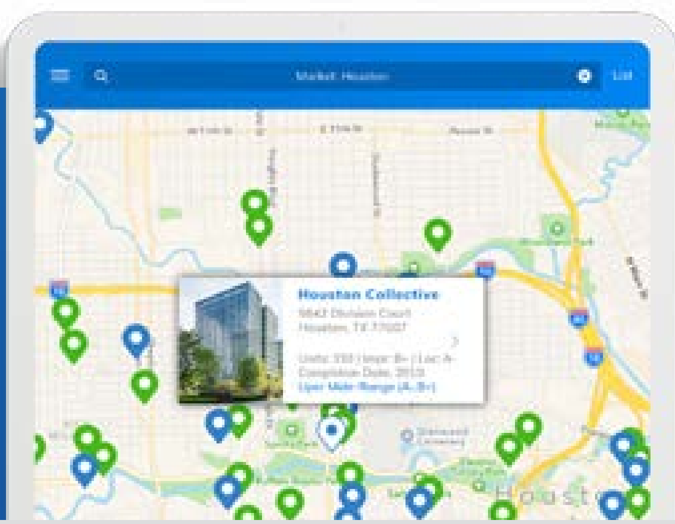
OFFICE KEY FEATURES

- Active in 118 markets across the U.S. covering over 70,000 properties
- Find acquisition prospects based on in-place loans, maturity dates, lenders and originators
- Pierce the LLC with true ownership and contact info at the asset and portfolio level
- 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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(800) 866-1144

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Contact us

Contacts

Peter Kolaczynski
Manager, Commercial
Peter.Kolaczynski@Yardi.com
(800) 866-1124 x2410

Rob McCartney
Sales Manager, Matrix
Rob.McCartney@Yardi.com
(800) 866-1124 x2412

Doug Ressler
Media Contact
Doug.Ressler@Yardi.com
(800) 866-1124 x2419

Author

Justin Dean
Senior Research Analyst

Yardi Matrix