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Office Valuations Slide

- The post-pandemic office sector turmoil and rising interest rates have created deep discounts in asset values. Gauging how much is tricky due to low transaction volume, but the average office property value is down at least 25%, with larger declines for older and poorly located buildings. Offices in the MSCI/PREA U.S. ACOE Quarterly Property Fund Index, which represents core property funds, lost 23.5% appreciation value in 2023, and the three-year average is -10.5%.
- Of more than 1,700 office properties that have traded since the start of 2023, 379, or more than 20%, sold at a lower value than their previous sale, per Yardi Matrix's database. Chicago had 30 such sales, followed closely by Washington, D.C., with 29. Among the top markets, those with the highest percentage of lower-price sales were Houston (39%), Portland (38%), Chicago (37%), Washington, D.C. (35%) and Denver (33%). Discounted sales seem to be concentrated in higher-quality buildings. Among transactions since the start of 2023, 42% of A or A+ properties had prices decline from their previous sale, compared to only 19% of B-rated properties and 13% of Cs.
- CBD offices have been hit the hardest by the changes wrought by the pandemic, with 35% of properties since last year trading at a lower sale price. In Washington, D.C., 1101 14th St., N.W., a 13-story building with ground-floor retail, sold for \$18.2 million in 2023, down 70% from its 2017 price tag of \$61.8 million. And Wells Fargo sold the 13-story 550 California in San Francisco's Financial District for \$40.5 million, a 62.5% drop from the building's \$108 million price in 2005.
- Only 21% of properties sold in the suburbs recorded a decline in value. In Orange County, the three-building One Pacific Plaza in Huntington Beach sold in 2023 for \$42 million, down 66% from \$124.5 million in 2018. In Schaumburg, outside Chicago, UNICOM Global paid \$7.2 million for an 11-story tower that will serve as a regional headquarters, a decline of 90% from its 2018 sale price of \$75.4 million.
- Discounted office sales will rise in 2024 as rates stay high and occupier demand shrinks. The bid/ask gap is narrowing as sellers capitulate to the reality of higher-for-longer rates and weak fundamentals. Meanwhile, more borrowers are walking away from underwater loans, and lenders are increasingly reluctant to extend loans indefinitely.

