



Yardi<sup>®</sup> Matrix

# National Office Report

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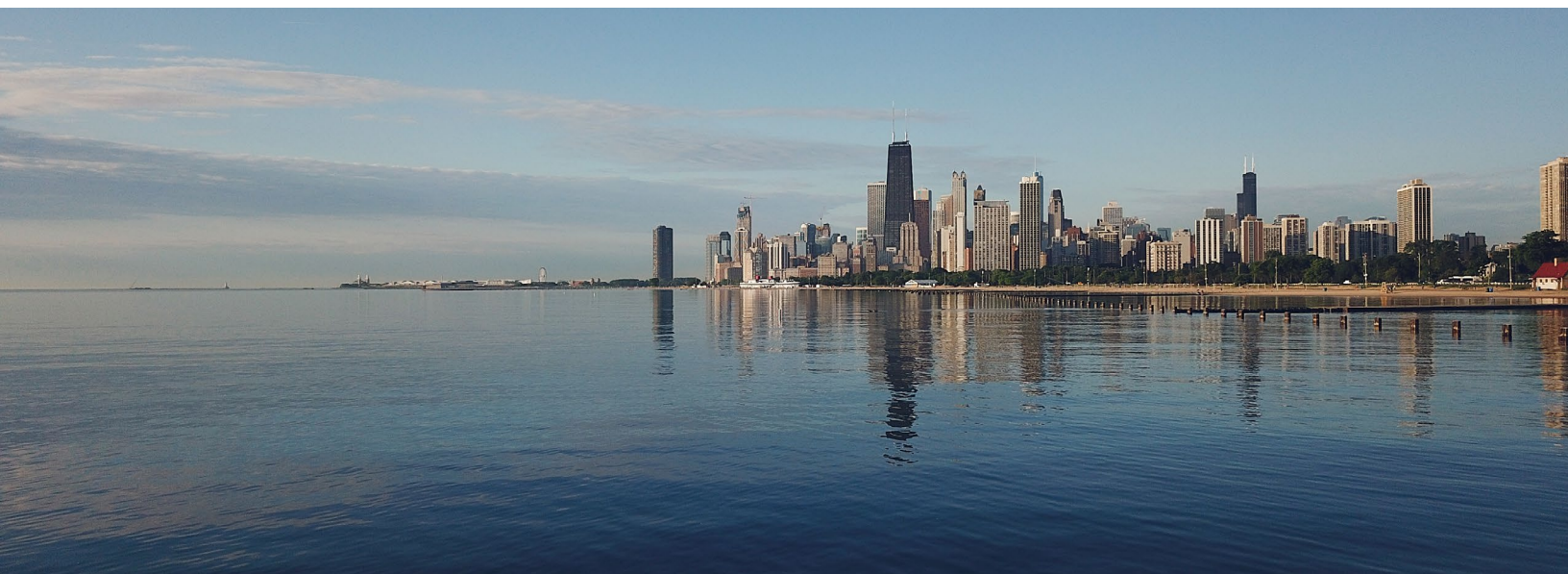
February 2024



# Office Valuations Slide

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- 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.



## Listing Rates and Vacancy: Austin Vacancies Rise Despite Growing Demand

- The national average full-service equivalent listing rate was \$37.35 per square foot in January, according to Yardi Matrix, a decrease of 1.8% year-over-year and down 29 cents from the previous month.
- The national vacancy rate was 18.0%, an increase of 130 basis points year-over-year.
- Austin's vacancy rate has soared to 22.0% during the past year, despite years of strong demand and a growing economy. Since the

start of 2017, the number of office-using jobs in Austin has increased by 147,000, up 54%. That prompted developers to rush to add new stock to the market. Since 2017, 23.8 million square feet (21.3% of stock) have been delivered, with 11.1 million square feet added in the last three years alone. The deluge of new supply, slowing office job formation and remote work becoming entrenched pushed Austin's vacancy rate up by 290 basis points to 22.0% over the past year, while rents are down 0.4%.

### Listings by Metro

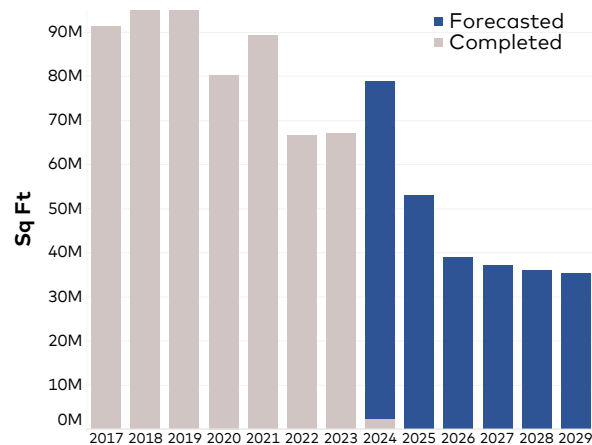
Market	Jan-24 Listing Rate	12-Month Change	Total Vacancy	12-Month Change	Top Listing	Price Per Square Foot
National	\$37.35	-1.8%	18.0%	130 bps		
Boston	\$45.71	25.8%	12.5%	310 bps	200 Clarendon Street	\$83.00
New Jersey	\$34.41	5.4%	19.7%	270 bps	Newport Tower	\$54.80
Tampa	\$29.54	5.1%	13.3%	-310 bps	Water Street Tampa–Thousand & One	\$61.50
Atlanta	\$31.46	3.6%	17.8%	-220 bps	300 Colony Square	\$52.00
Detroit	\$21.67	1.9%	25.4%	550 bps	One Campus Martius	\$39.13
Denver	\$30.30	1.5%	22.2%	390 bps	200 Clayton Street	\$73.00
Twin Cities	\$26.02	0.7%	16.9%	190 bps	Offices at MOA, The	\$40.00
Chicago	\$27.73	-0.3%	18.1%	-130 bps	Innovation and Research Park	\$75.00
Phoenix	\$27.55	-0.3%	18.6%	160 bps	Camelback Collective	\$55.00
Washington DC	\$40.39	-0.3%	17.1%	340 bps	455 Massachusetts Ave NW	\$76.00
Austin	\$41.15	-0.4%	22.0%	290 bps	Indeed Tower	\$83.77
Philadelphia	\$31.11	-1.0%	13.9%	-20 bps	Two Liberty Place	\$53.50
Seattle	\$38.09	-1.0%	23.0%	450 bps	1208 Eastlake Avenue East	\$94.00
Houston	\$29.46	-2.0%	24.3%	-170 bps	Texas Tower	\$62.90
San Diego	\$42.95	-2.0%	17.2%	310 bps	One La Jolla Center	\$70.20
Miami	\$45.96	-2.7%	12.4%	80 bps	830 Brickell	\$180.00
Los Angeles	\$41.48	-2.7%	16.7%	200 bps	2000 Avenue of the Stars	\$118.20
Orlando	\$23.89	-3.4%	16.3%	20 bps	105 East Robinson Street	\$42.79
Nashville	\$30.27	-4.5%	17.0%	-100 bps	Three Thirty Three	\$44.38
Bay Area	\$54.45	-4.6%	19.9%	200 bps	325 Lytton Avenue	\$159.00
Dallas	\$26.49	-8.3%	19.7%	180 bps	17Seventeen McKinney	\$67.42
San Francisco	\$61.56	-8.7%	23.7%	490 bps	Sand Hill Collection–The Quad	\$195.60
Portland	\$27.91	-9.7%	15.8%	-150 bps	12th & Morrison	\$47.01
Manhattan	\$68.28	-9.9%	16.5%	100 bps	550 Madison Avenue	\$210.00
Charlotte	\$30.66	-9.9%	12.9%	-30 bps	Fifth Third Center	\$42.00

Source: Yardi Matrix. Data as of January 2024. 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 Propels San Francisco Market Development

- Nationally, 97.2 million square feet of office space are under construction, representing 1.4% of stock.
- While total office starts have fallen precipitously since the pandemic began, life science is comprising a growing share of office development. Life science starts in 2023 accounted for 27.8% of all office starts (11.5 million square feet), up from 26.9% in 2022 (17.3 million square feet) and 7.3% in 2019 (7.2 million square feet).
- While remote work and turmoil in the tech sector have wreaked havoc on offices in CBDs and urban submarkets, life science development continues to thrive in outlying portions of San Francisco. Since July 2023, the market has recorded 1.6 million square feet of starts on properties that contain at least some life science components, all located along the peninsula between San Francisco and Silicon Valley. Life science developer IQHQ last year started ELCO Yards in Redwood City, a facility that will offer 590,000 square feet in a mixed-use development.

## National New Supply Forecast



Source: Yardi Matrix. Data as of January 2024.  
Data in this chart includes owner-occupied properties.

## Supply Pipeline (by metro)

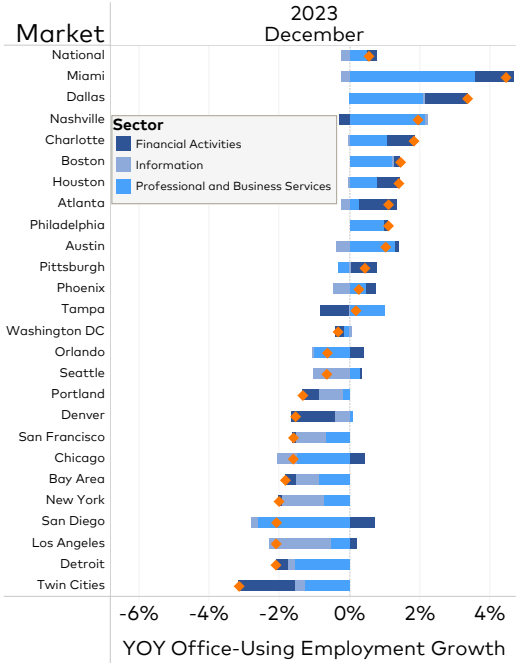
Market	Under Construction	Under Construction % Stock	Plus Planned % Stock
National	97,238,994	1.4%	4.8%
Boston	14,462,484	5.8%	10.6%
Austin	4,932,079	5.3%	21.8%
San Diego	4,895,567	5.2%	9.2%
Nashville	2,748,453	4.7%	9.5%
San Francisco	6,635,022	4.2%	13.2%
Seattle	5,858,265	4.1%	11.7%
Miami	2,761,114	3.8%	11.9%
Charlotte	2,578,259	3.3%	9.7%
Bay Area	4,524,346	2.2%	8.7%
Dallas	4,631,655	1.7%	11.4%
Philadelphia	2,960,312	1.6%	4.6%
Denver	2,562,706	1.6%	5.5%
Atlanta	3,114,410	1.6%	3.3%
Orlando	771,156	1.1%	7.4%
New Jersey	1,965,898	1.0%	2.4%
Washington DC	3,489,278	0.9%	4.1%
Houston	1,991,239	0.8%	2.1%
Manhattan	3,082,850	0.7%	2.8%
Los Angeles	1,890,427	0.7%	3.6%
Portland	354,450	0.6%	1.5%
Chicago	1,757,453	0.6%	3.0%
Tampa	440,323	0.6%	6.4%
Detroit	524,000	0.4%	0.9%
Twin Cities	486,166	0.4%	2.7%
Phoenix	427,831	0.3%	3.0%

Source: Yardi Matrix. Data as of January 2024. Table does not include owner-occupied properties.

# Office-Using Jobs: Office Employment Growth Slows in 2023

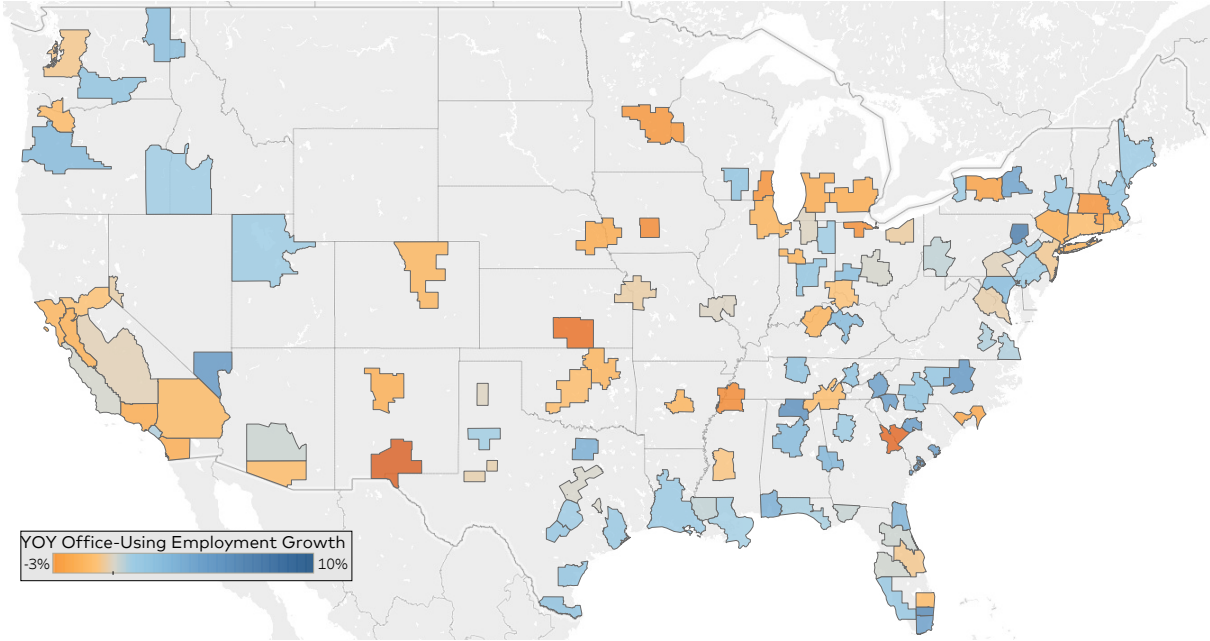
- While the overall labor market continues to beat expectations, office-using sectors are lagging behind. Total non-farm employment grew 1.9% nationally year-over-year in January, while office-using sectors increased just 0.8%. Emerging from the pandemic, office-using sectors outpaced overall job growth for 18 consecutive months, from June 2021 through November 2022. Since then, however, office-using sectors have grown more slowly than overall employment every single month.
- The slowdown in office job growth has been widespread geographically. Metro-level data for December, which trails the national release, shows that office-using employment levels declined last year in 56 of the 120 markets covered by Yardi Matrix. Of the top 25 markets, Miami was the fastest growing, with employment in office-using sectors increasing 4.4%. In 2022, only 15 markets ended the year with office job losses, and six of the top 25 markets grew at a rate higher than 5% year-over-year.

## 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

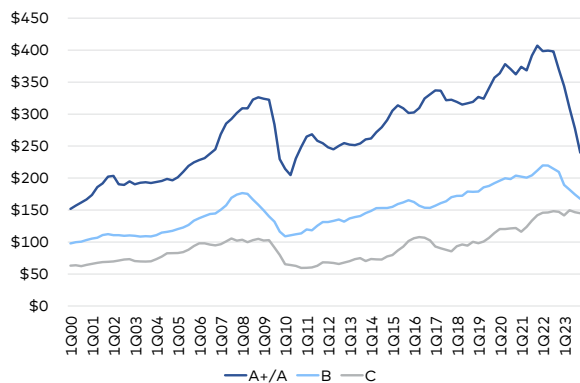
# Transactions: Silicon Valley Nets Largest Sale YTD

- Yardi Matrix recorded \$1.5 billion in office transactions to start the year, with properties trading at an average of \$195 per square foot.
- Despite layoffs and stagnation in the tech sector, some firms have expanded, helping prop up activity in Silicon Valley. The Bay Area began the year with the nation's highest sales volume, led by cybersecurity firm Fortinet's \$192 million acquisition of a campus in Santa Clara from Texas Instruments, which is leaving that building and moving to another space in the same city.

## Sales Activity

Market	YTD Sales Price PSF	YTD Sales (Mil, as of 01/31)
National	\$195	\$1,518
Bay Area	\$244	\$259
San Diego	\$673	\$142
Austin	\$471	\$112
Dallas	\$134	\$109
New Jersey	\$140	\$104
Chicago	\$99	\$83
Twin Cities	\$355	\$80
Los Angeles	\$1,406	\$71
Manhattan	\$1,094	\$51
Atlanta	\$157	\$49
Boston	\$319	\$36
Denver	\$126	\$32
Miami	\$385	\$27
Tampa	\$306	\$27
Phoenix	\$89	\$26
Washington DC	\$152	\$18
Houston	\$137	\$16
Detroit	\$43	\$3
Orlando	\$137	\$2
Philadelphia	\$0	\$0
Seattle	\$0	\$0
Nashville	\$0	\$0
San Francisco	\$0	\$0
Portland	\$0	\$0
Charlotte	\$0	\$0

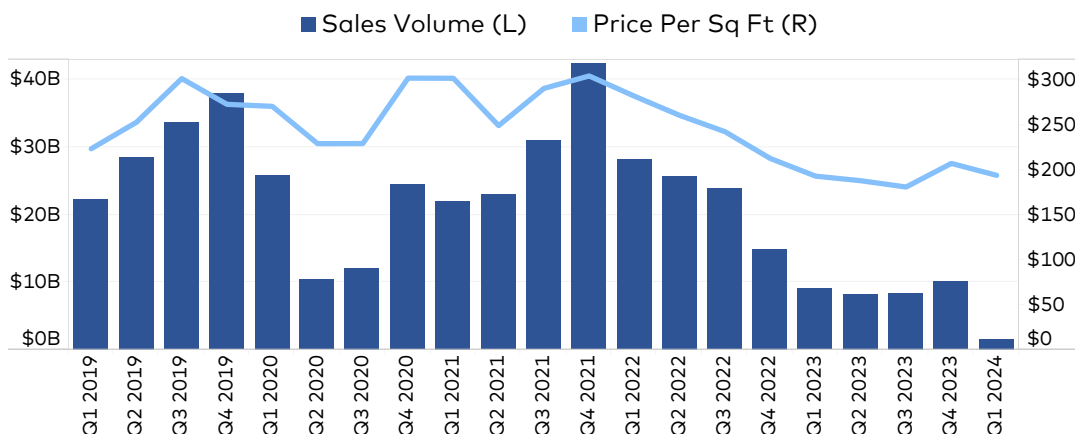
## Asset Class (price PSF)



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

Source: Yardi Matrix. Data as of January 2024. Sales data for unpublished and portfolio transactions is estimated using sales comps.

## Quarterly Transactions



Source: Yardi Matrix. Data as of January 2024.

# 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.

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

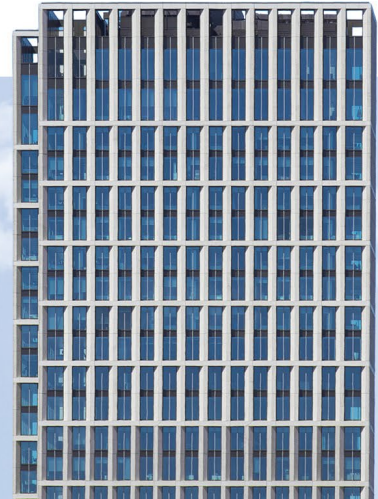
Office-Using Employment is defined by the Bureau of Labor Statistics as including the sectors Information, Financial Activities, and Professional and Business Services. Employment numbers are representative of the Metropolitan Statistical Area and do not necessarily align exactly with Yardi Matrix market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



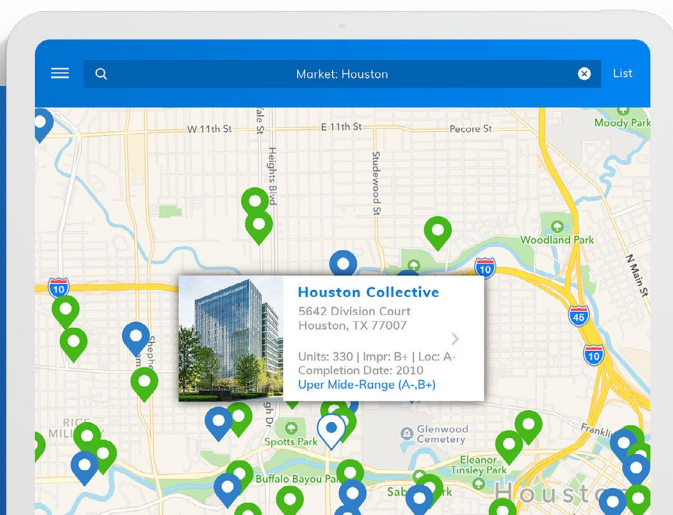
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## OFFICE KEY FEATURES

- 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



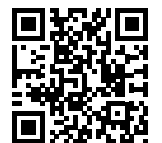
Yardi Matrix Office delivers detailed property-level information, allowing you to analyze current market conditions at the micro and macro level.



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