



Yardi Matrix

# National Office Report

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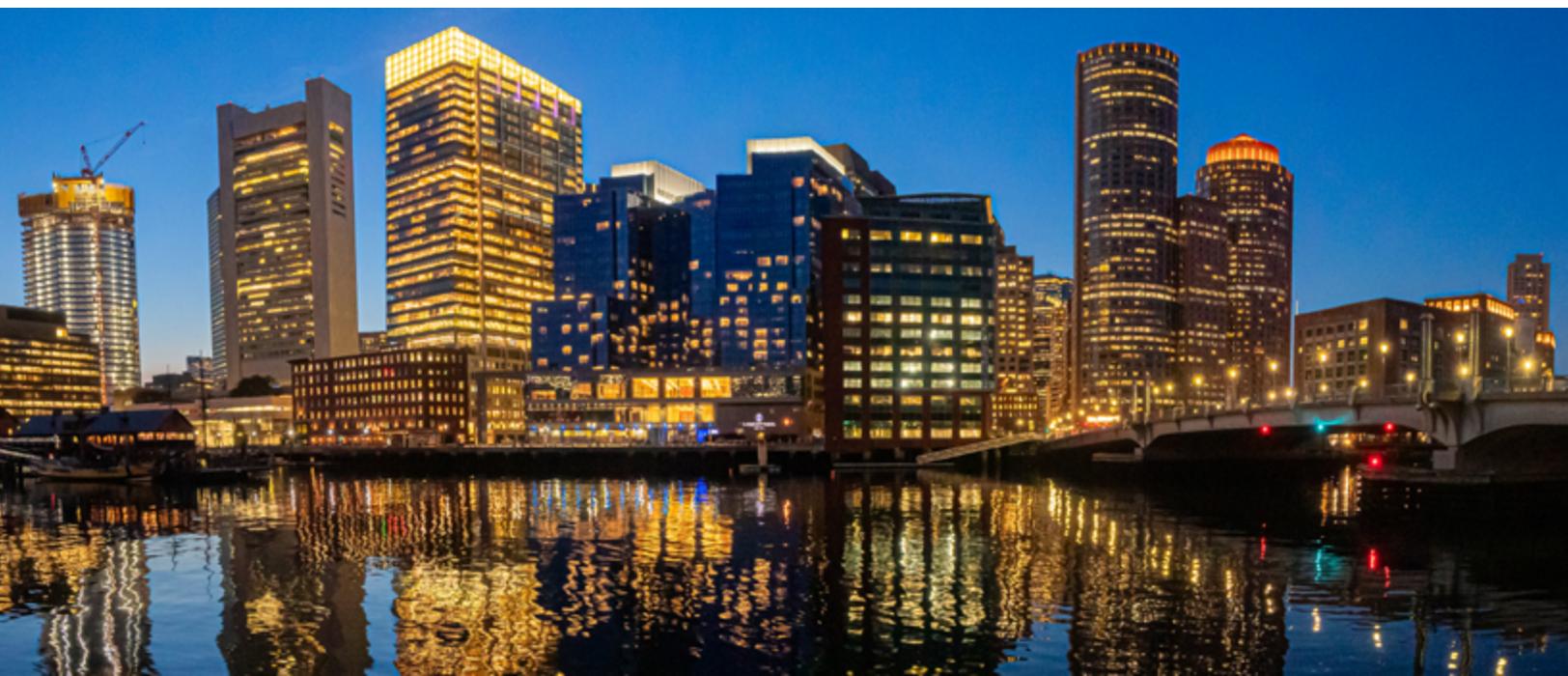
June 2024



# Distress Slowly Plays Out

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- Following years of turbulence, there is less mystery surrounding what comes next for the office sector than there has been in a while. Investors that previously took a wait-and-see attitude are slowly accepting the new reality of valuations and office utilization.
- Most metrics that track office utilization have plateaued in the past year. Kastle's closely tracked Back to Work Barometer has not seen any significant recent increases in the top 10 markets that it surveys. Remote and hybrid work have become the norm for a significant number of firms, a situation that looks more permanent by the day. Further compounding problems for office owners, the Fed now expects to cut the benchmark interest rate just once this year. With many owners looking to extend or renegotiate loans, rates remaining elevated for longer than anticipated spells trouble.
- The wave of distress that many were anticipating still has not materialized, with many factors causing office sector pain to reveal itself slowly rather than hitting all at once. Lease terms that can stretch as long as 10 years mean that some tenants are still locked into prepandemic agreements and have yet to make an official decision on downsizing. The process of negotiating extensions and modifications can take months. According to Trepp, 6.9% of office CMBS loans were delinquent in May, up from 4.0% in May 2023. We anticipate that distress will continue to grow more noticeable through at least the end of next year.
- Sales activity may currently be muted by the lack of sales comps to properly price buildings. There were about 4,000 office transactions in each of 2021 and 2022. Last year, the number of sales fell by half, to slightly more than 2,000. Through May of this year, there have been 600 sales. The properties that have traded are increasingly being sold at discounts. In 2023, slightly more than 20% of all office buildings that traded were sold for less than their previous purchase price. In 2024, the share of sales that are discounted has jumped to nearly 30%.
- One silver lining for owners of existing office buildings is that the new office supply pipeline—competition for tenants in a weak market—will soon dry up. There are more than 80 million square feet being built, a figure that is much lower than prepandemic years and one that will shrink as projects deliver. Yardi Matrix has tracked just 6.2 million square feet of office starts in 2024.



# Listing Rates and Vacancy: Vacancies High in Tech Markets

- The national average full-service equivalent listing rate was \$37.72 per square foot in April, according to Yardi Matrix, an increase of six cents from the previous month but down 1.7% year-over-year.
- The national vacancy rate was 17.8%, an increase of 80 basis points year-over-year.
- Vacancy rates have risen sharply in tech markets since the turmoil that upended the indus-

try at the end of 2022. San Francisco's vacancy rate sits at 25.5%, increasing 510 basis points over the past year. The Bay Area has seen rates grow 230 bps to 20.0%. The problem is not isolated to Northern California either, as Seattle has seen a 350 bps increase in vacancy rates, to 23.0%. There has been optimism that an AI-fueled growth spree could lead to declines in vacancies within these markets, especially in San Francisco and the Bay Area, but so far that has yet to come to fruition.

## Listings by Metro

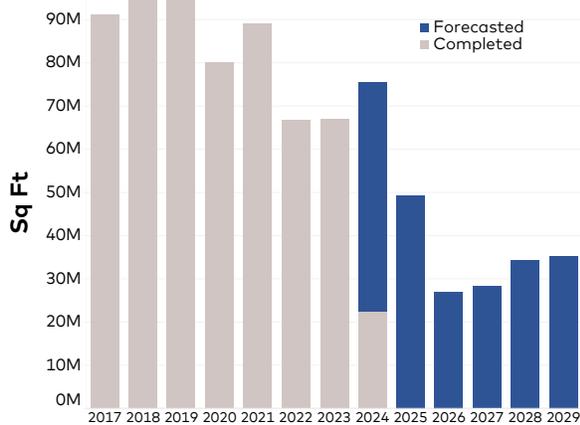
Market	May-24 Listing Rates	12 Month Change	Total Vacancy	12 Month Change	Top Listing	Price Per Sq Ft
National	\$37.72	-1.7%	17.8%	80 bps		
Boston	\$46.71	10.8%	12.1%	180 bps	Alexandria Center at Kendall Square - 75 Binney	\$76.58
Dallas	\$28.99	6.6%	21.6%	450 bps	McKinney & Olive	\$86.31
Miami	\$49.08	6.2%	12.3%	50 bps	701 Brickell	\$130.00
Atlanta	\$31.84	4.7%	18.5%	-90 bps	1180 Peachtree	\$62.50
Detroit	\$22.43	4.5%	20.8%	-450 bps	One Campus Martius	\$39.13
Tampa	\$29.62	3.7%	13.1%	-160 bps	Central, The	\$60.00
Chicago	\$27.73	1.2%	19.1%	40 bps	Innovation and Research Park	\$75.00
Austin	\$42.48	0.9%	23.3%	270 bps	Indeed Tower	\$84.21
Phoenix	\$27.70	0.6%	18.2%	-30 bps	Camelback Collective	\$55.00
Philadelphia	\$31.24	0.4%	15.3%	200 bps	Two Liberty Place	\$53.50
Orlando	\$24.53	0.4%	15.7%	-80 bps	105 East Robinson Street	\$37.79
New Jersey	\$34.80	0.0%	17.3%	30 bps	90 Hudson Street	\$53.88
Nashville	\$30.30	-0.2%	15.0%	-350 bps	Three Thirty Three	\$44.88
Bay Area	\$53.70	-0.6%	20.0%	230 bps	245 Lytton Avenue	\$147.48
Washington DC	\$39.80	-1.2%	16.0%	70 bps	500 8th Street NW	\$79.58
Denver	\$30.05	-1.4%	23.0%	280 bps	200 Clayton Street	\$73.00
Charlotte	\$30.04	-2.4%	14.7%	270 bps	Morehead Place	\$46.00
Manhattan	\$71.30	-3.1%	16.2%	-80 bps	One Vanderbilt	\$252.00
Houston	\$29.56	-3.1%	22.5%	-70 bps	Texas Tower	\$62.90
Los Angeles	\$40.87	-3.5%	16.7%	250 bps	100 Wilshire	\$108.00
Portland	\$27.50	-3.9%	16.5%	70 bps	Fox Tower	\$43.38
Seattle	\$36.78	-6.2%	23.0%	350 bps	1208 Eastlake Avenue East	\$94.00
San Francisco	\$60.79	-7.9%	25.2%	510 bps	Sand Hill Commons	\$204.00
Twin Cities	\$24.91	-7.9%	16.2%	-80 bps	Fifty South Sixth	\$36.85
San Diego	\$42.54	-11.1%	18.5%	310 bps	La Jolla Commons - Tower I	\$72.60

Source: Yardi Matrix. Data as of May 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: New San Diego Lab Space Faces Headwinds

- Nationally, 83.8 million square feet of office space are under construction, representing 1.2% of stock, according to Yardi Matrix. A total of 18.5 million square feet have been completed year-to-date.
- Coming out of the pandemic, the one subsector of office that remained in demand, and continued to be built, was life science space. San Diego, one of the top life science markets in the country, saw much of this development activity. IQHQ spent \$1.6 billion on the recently completed mixed-use Research and Development District (RaDD) along the waterfront in the downtown submarket. The development was an attempt to establish a new life science node, distinct from the existing hub in the northern part of the city near UC San Diego. However, there are reports that RaDD is opening with no biotech tenants. With millions more square feet of lab space in the downtown submarket soon to deliver at The Campus at Horton Plaza, a former mall converted into a mixed-use life science hub, downtown San Diego looks to have a glut of lab space on its hands.

## National New Supply Forecast



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

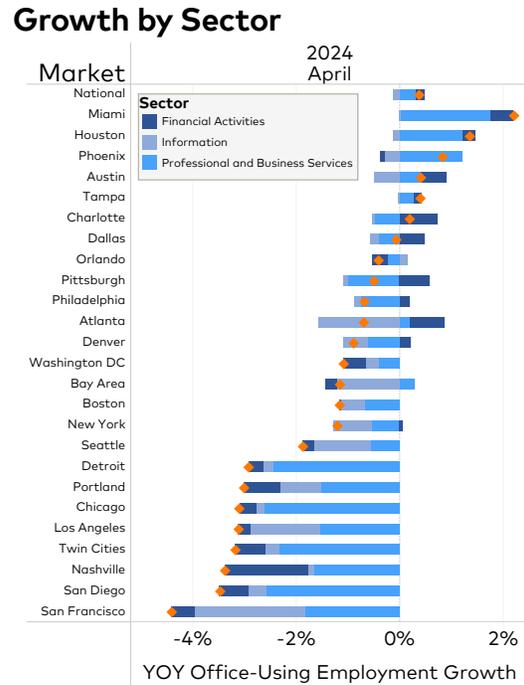
## Supply Pipeline (by metro)

Market	Under Construction	Under Construction % Stock	Plus Planned % Stock
National	83,818,754	1.2%	4.2%
Boston	13,615,390	5.4%	11.6%
San Francisco	5,166,573	3.2%	11.6%
Dallas	4,751,165	1.7%	12.2%
Austin	4,401,557	4.7%	15.2%
San Diego	4,029,166	4.2%	6.8%
Seattle	3,881,699	2.7%	7.7%
Bay Area	3,738,255	1.8%	5.1%
Miami	3,133,333	4.3%	11.2%
Manhattan	2,801,272	0.6%	2.9%
Nashville	2,683,600	4.6%	8.9%
Washington DC	2,634,594	0.7%	4.0%
Atlanta	2,594,995	1.3%	2.8%
Denver	2,118,106	1.3%	3.7%
Philadelphia	2,083,260	1.1%	3.4%
Houston	2,028,178	0.8%	1.8%
New Jersey	1,978,689	1.0%	1.8%
Charlotte	1,800,759	2.3%	6.5%
Los Angeles	1,571,436	0.5%	3.6%
Chicago	1,008,707	0.3%	1.8%
Tampa	969,060	1.2%	6.0%
Detroit	524,000	0.4%	0.9%
Phoenix	480,763	0.3%	2.2%
Orlando	379,209	0.6%	3.9%
Portland	354,450	0.6%	1.5%
Twin Cities	35,666	0.0%	2.2%

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

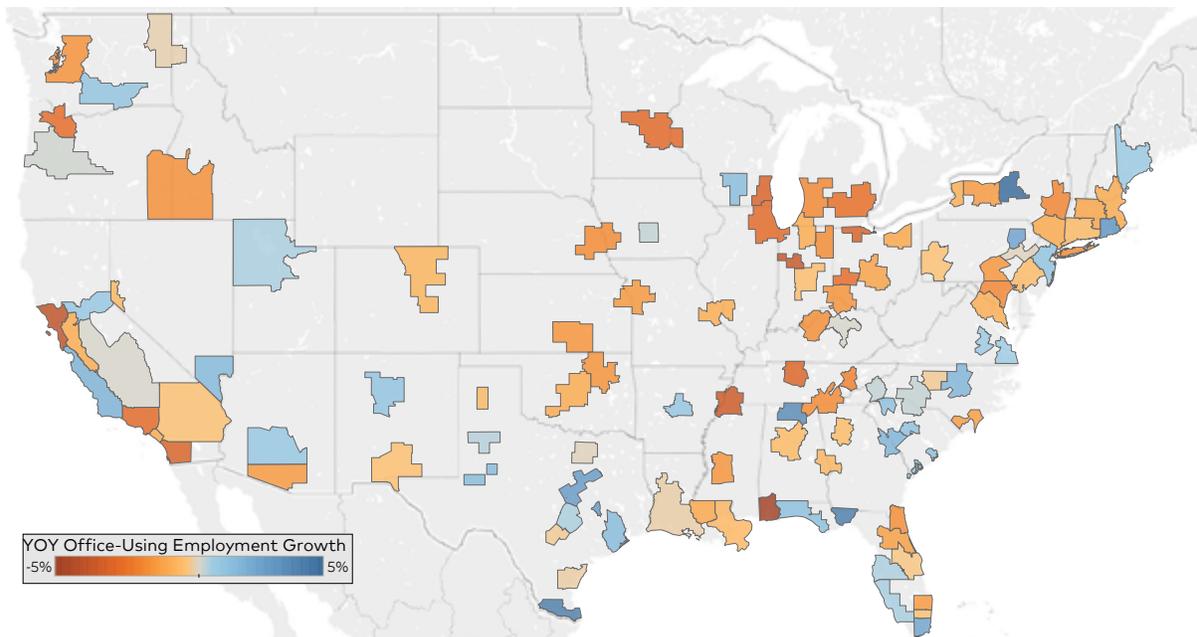
# Office-Using Jobs: Information Sector Lags Behind

- Office-using sectors of the labor market added 43,000 jobs in the month of May, according to the Bureau of Labor Statistics. This was the second-largest figure for office job gains over the past 12 months, behind the 52,000 workers that were added in January. Year-over-year, office-using sectors of the labor market have grown just 0.3%. Metro data, which trails the national release, shows that in April, 76 of the 120 markets covered by Yardi Matrix had year-over-year declines in office employment, and an additional 19 markets grew less than 1%.
- Growth in the financial activities and professional and business services sectors has been stagnant since the start of 2023, but both have managed to add some workers. The information sector has been a different story. Year-over-year growth in the sector has been negative for 12 consecutive months, with 36,000 fewer workers in May 2024 than 12 months prior, a decrease of 1.2%.



Sources: Bureau of Labor Statistics and Moody's Analytics.

## Office-Using Employment Growth



Sources: Bureau of Labor Statistics and Moody's Analytics.

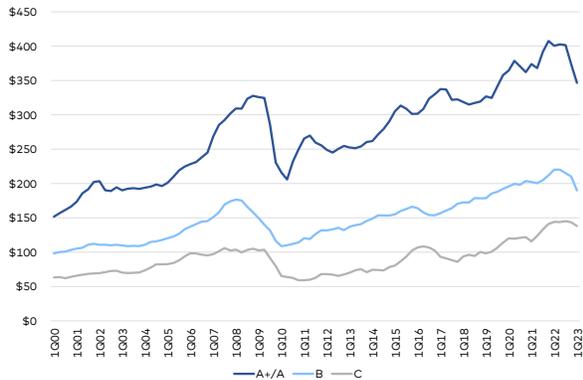
# Transactions: Average Sale Prices Tumble in Manhattan

- Yardi Matrix recorded \$10.2 billion of office sales during the first five months of the year, with properties trading at an average of \$165 per square foot.
- In the first five months of 2024, Manhattan lost its status as the most active market for office investment. It typically leads the nation in sales volume but is fifth so far in 2024, with \$570 million in sales through May. This is driven not only by a falling number of sales in the market but falling average sale prices—down 66% from 2023 and currently at \$300 per square foot.

## Sales Activity

Market	YTD Sales Price PSF	YTD Sales (Mil, as of 05/31)
National	\$165	\$10,217
Washington DC	\$321	\$999
Bay Area	\$248	\$795
Boston	\$262	\$761
Houston	\$125	\$718
Manhattan	\$300	\$570
Phoenix	\$191	\$496
Dallas	\$122	\$410
Austin	\$433	\$324
Miami	\$339	\$318
New Jersey	\$112	\$294
San Diego	\$422	\$269
Los Angeles	\$368	\$261
Chicago	\$81	\$223
Seattle	\$247	\$197
Twin Cities	\$158	\$188
Tampa	\$172	\$184
San Francisco	\$352	\$149
Nashville	\$227	\$146
Philadelphia	\$90	\$145
Detroit	\$125	\$115
Atlanta	\$125	\$108
Denver	\$103	\$99
Orlando	\$152	\$66
Charlotte	\$121	\$30
Portland	\$229	\$25

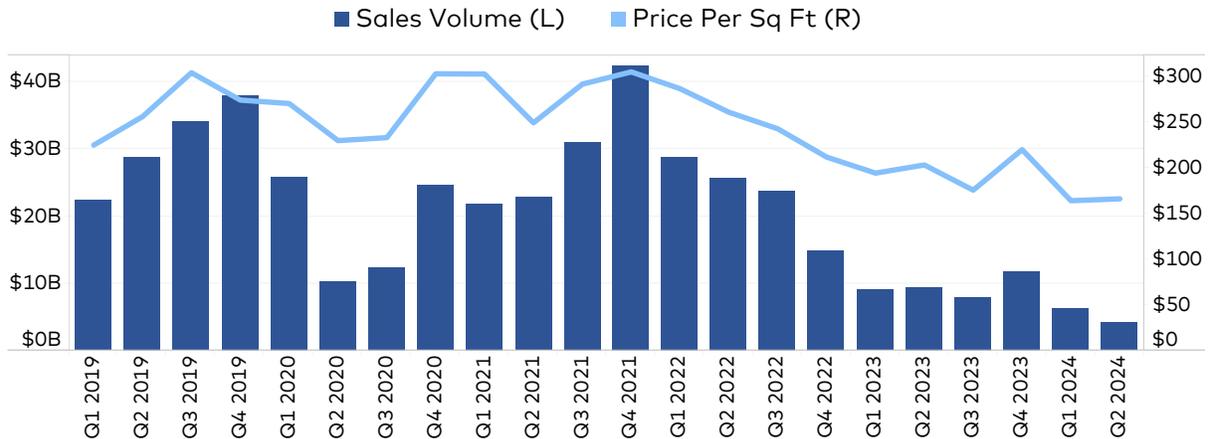
## Asset Class (price PSF)



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

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

## Quarterly Transactions



Source: Yardi Matrix. Data as of May 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.

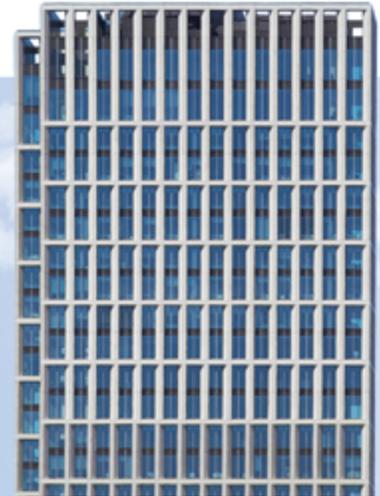
Office-Using Employment is defined by the Bureau of Labor Statistics as including the sectors Information, Financial Activities, and Professional and Business Services. Employment numbers are representative of the Metropolitan Statistical Area and do not necessarily align exactly with Yardi Matrix market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



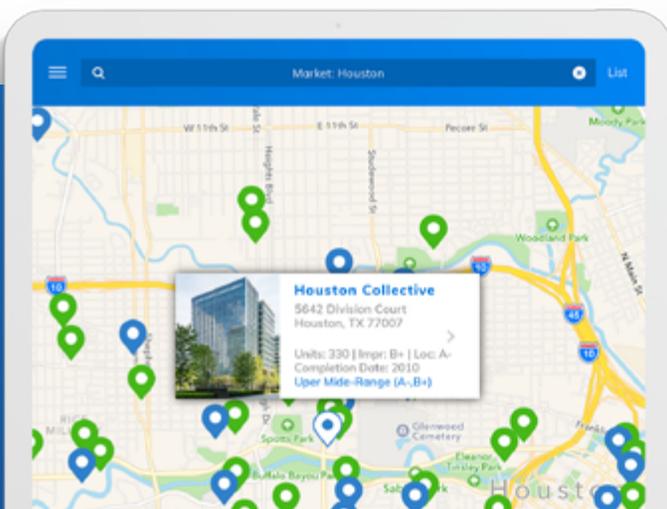
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## OFFICE KEY FEATURES

- Active in 118 markets across the U.S. covering over 70,000 properties
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- Gain new supply pipeline information at the asset, competitive set and market level
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