

Yardi® Matrix

# National Office Report

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April 2019



# U.S. Office Property: Asking Rents Up as Sales Activity Slows

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- Office absorption remains robust, leading office asking rents to increase by 1.0% nationally during the first quarter, according to Yardi Matrix. The national vacancy rate remained steady at 13.7%.
- The increases were led by the San Francisco area and parts of New York City, and the changes in most metros were fairly minor. The highest increase in asking rents came from markets where new projects are pushing up the average listed price.
- Transaction activity was slow in the first quarter, with only \$13.3 billion of deals closed. That was down 37% from the \$21.1 billion closed in the first quarter of 2018, down 44% quarter-over-quarter, and the lowest quarterly total since the first quarter of 2013, when \$12.3 billion of deals closed. The number of closed deals also dropped below 500 for the first time in six years.
- Reasons for the slowdown in sales are not entirely clear. To some degree the first quarter is typically less active than the fourth quarter, when firms rush to close deals by year-end. But seasonality can't be the entire cause. One possibility is that the slowdown is a carryover from the capital markets volatility in the fourth quarter, when interest rates spiked and investors were unduly worried about the state of economic growth. The year also started during the government shutdown, which created some paralysis among investors.
- But there's no reason to think demand has fallen off a cliff. Investors are exhibiting more caution as they assume the economic cycle hits the late stages, and some foreign buyers have reduced their levels of interest, as acquisition yields remain extremely tight in primary markets. Yet demand is strong for properties with the right profile in the right place at the right price, and we expect office transactions to rebound in the near term, coming closer to the \$20.4 billion rolling four-quarter average.
- The rolling four-quarter average transaction price per square foot of \$243.70 is roughly the same quarter-over-quarter and year-over-year.