

Yardi® Matrix

National Office Report

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U.S. Office Property: Moderate Gains for Office Rents

- U.S. office asking rents increased by 0.4% in May over the previous three-month period, to \$36.33, according to Yardi Matrix. The national vacancy rate remained unchanged at 13.7%. The market continues to produce steady but moderate growth, as strong demand from the bullish job market is counterbalanced to some degree by companies' increasingly selective use of office space.
- Some 173 million square feet, representing an additional 2.9% of stock, is under construction. That seems like a lot, considering that we could be entering the later portion of the economic cycle. However, the pipeline is mostly concentrated in metros that have growing space needs and those where there is strong demand for newer product with the latest technology and amenities.
- Transaction volume continues to run behind last year's pace, with \$28.5 billion of sales closed through May. However, deal flow has picked up since the first quarter, and the drop in the 10-year U.S. Treasury rate to just over 2.0% could boost sales, as the cost of debt is expected to remain low.
- Markets with the biggest short-term growth in average asking rates include Brooklyn (10.0% three-month change), Houston and San Francisco (3.8%), Orlando (3.1%) and the Bay Area (2.7%). On the flip side, markets that have seen average prices drop include Philadelphia (2.3% over three months), Boston (-4.7%) and Seattle (-5.4%). The numbers represent the average asking rent of space available for lease, so they are susceptible to changes as large properties come on and off the market.
- In Houston, for example, same-store rent growth has increased only slightly in recent months. The short-term gains in asking rents are driven by new listings at the Texas Tower in the central business district, which has listings at \$59 per square foot. The 1 million-square-foot, 47-story tower is being built by a Hines and Ivanhoe Cambridge partnership on the site of the former Houston Chronicle building close to the Theater District and Historic District, and is scheduled to open in the spring of 2021. Although Houston's vacancy rate is 20%, the Texas Tower checks the box for tenant demand with retail and restaurant space, a conference center and outdoor green space for exercise. Another new listing in Houston is the 1.4 million-square-foot Williams Tower, a Class A+ building with an asking rate of \$48.86 per square foot.

