Yardi® Matrix

National Office Report

July 2019

U.S. Office Property: Rates Rise Moderately in First Half of 2019

- Average U.S. asking rents for office space increased 1.7% over the six-month period ending in June, to $36.44. National vacancy rates fell 20 basis points from the previous month, to 13.5%. Demand for office space remains strong, as office-using employment sectors grew 1.7% year-over-year, slightly above the 1.5% rate for all employment.

- With 26.5 million square feet delivered year-to-date and an additional 174.7 million square feet under construction, the supply pipeline shows no sign of slowing down. Half of all space under construction is in the top six gateway markets and three growing tech markets: Seattle, the Bay Area and Austin.

- Transaction volume accelerated in the second quarter, with $38.8 billion of sales completed through June. If the momentum continues, activity would be on track to finish near last year's total volume of $91.1 billion. The decline of the 10-year Treasury yield, which has hovered in the low-2.0% range since the beginning of June, should continue to act as a catalyst for transactions.

- San Francisco (18.8%), Brooklyn (11.2%) and the Bay Area (10.0%) led the nation in overall year-to-date asking rate growth. On the other end of the spectrum, nine of the top 25 markets tracked by Yardi Matrix have seen average asking rates decline over the six-month period, led by Boston (-3.6%), Seattle (-2.6%), Chicago (-1.8%) and Miami (-1.6%). The average listing rate is representative of asking rents in spaces available for lease, and rates fluctuate based on new supply and space becoming occupied. This fluctuation can be seen in Boston, where the average lease rate dropped 3.2% during the past six months due to absorption of Class A space. For example, 27,000 square feet of space was leased for $98 a month at the recently completed 399 Binney St. Newer listings have a lower asking rate, averaging under $40 per square foot.

- Demand is robust for higher-quality spaces with more amenities and heftier price tags. Boston's same-store performance—the measurement of the average asking rate for the same properties with listings in both December and June—is slightly positive, at 0.7%, painting a brighter picture for a market whose strong fundamentals have helped keep its vacancy rate at 9.6%, well below the national rate of 13.5%.