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National Office Report

October 2019



U.S. Office Property: New Supply Increasingly Urban

- Average U.S. office asking rates increased 1.4% year-over-year in September to \$37.18. National vacancy rates dropped 10 basis points from the previous month, to 13.3%.
- Year-over-year average listing rates were again led by San Francisco (32.0%), Tampa (16.4%) and Austin (12.5%). Much of this growth can be attributed to expensive new listings entering the market and inflating the average. Same-store rates in these metros grew at a slower rate, with Tampa (4.5%) and Austin (2.5%) appearing much more moderate. However, San Francisco has still seen remarkable growth across all measures, as same-store rates grew 17.4% over the last 12 months.
- New deliveries sat at 50.6 million square feet during the first three quarters of the year, putting new supply on pace to finish 2019 somewhere in the ballpark of 2018's 72.7 million square feet. Two major trends in new office supply have become apparent of late. First, new supply is heavily concentrated in just a handful of metros, with more than half (54.6%) of the square feet in the top 10 most active markets and more than three quarters (79.1%) in the top 20. Second, new supply is increasingly concentrated in urban submarkets, a recent occurrence that bucks historic trends. The share of new suburban office buildings as a percentage of the total remains around 43%, where it was in 2018 and a post-recession low by a healthy margin. Before 2018, suburban properties had constituted at least half of new deliveries every year since the Great Financial Crisis. This trend will continue, as only 31.3% of square footage under construction is in suburban submarkets.
- The 1.7% job growth in office-using employment sectors, resulting in 568,000 jobs added in the period between August 2018 and August 2019, continues to beat the growth rate (1.4%) of the overall labor market. This trend has persisted throughout the economic recovery. The national share of office-using employment increased from 20.8% of total employment to 21.8% during this decade.
- Total office transaction activity was down somewhat in the first three quarters of the year compared to 2018. While there was some anticipation that sales would increase in the third quarter due to low interest rates, the third quarter of the year will finish close to the second quarter's \$22.8 billion of sales.

