



CommercialEdge

# National Office Report

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May 2024



# Debt Service Looms Over Offices

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- The wave of office distress that many anticipated has yet to materialize, but research from [CommercialEdge](#) shows that many markets are exposed to potential distress.
- Debt service coverage ratios—a measure of net operating income against current debt obligations—have declined for offices in recent years, due to the two components of the ratio moving in opposite directions. As interest rates shot upwards in the last year-and-a-half, so did debt costs for commercial real estate. At the same time, cash flow has fallen—vacancy rates spiked as firms downsized or eliminated physical office footprints altogether—and expenses have grown. Despite DSCRs' downward movement, market-level average ratios show only a handful of markets exposed to widespread risk. Using aggregated and anonymized income and expense data along with researched loan information and vacancy rates, [CommercialEdge](#) estimates market-level DSCRs for many of the metros covered by the service.
- In March, five of the 91 markets analyzed by [CommercialEdge](#) had average DSCRs below 1.0: Brooklyn, N.Y. (0.81), Oklahoma City (0.89), Chicago (0.90), El Paso (0.92) and Cleveland (0.96). Another eight markets—including Manhattan (1.05), St. Louis (1.16) and Nashville (1.25)—sit at or below the 1.25 ratio that most lenders require. However, it is important to note that these market-level rates are only estimates, and DSCRs can vary vastly from property to property. Many properties within markets with low average DSCRs continue to perform well, while properties in markets with a high average DSCR face distress. [CommercialEdge](#) has DSCR estimations at the property level to identify potential future distress situations.
- The forces behind downward pressure on DSCR are unlikely to reverse in the near future. Demand for offices remains stagnant, as hybrid and remote work has become fully entrenched within many firms. Expense increases, like insurance and maintenance, have cooled in recent months but continue to eat into NOI. Interest rate cuts may begin this summer, but in all likelihood will not be steep enough to save properties that are teetering on the edge of distress. Office loans that mature are at greater risk of distress and delinquency because of the difficulty of generating enough cash flow to cover debt obligations in the current environment. Many in the sector have adopted the mantras of "extend and pretend" and "survive until '25," hoping for circumstances to improve in the next year.



# Listing Rates and Vacancy: Vacancies Grow Everywhere

- The national average full-service equivalent listing rate was \$37.66 per square foot in April, according to [CommercialEdge](#), a decrease of 8 cents from the previous month and 1.5% year-over-year.
- The national vacancy rate was 18.8%, an increase of 210 basis points year-over-year.
- Vacancy rates have been on the upswing in nearly every market. Tech markets have been

hit the worst, with San Francisco (650 basis point increase over the last 12 months), the Bay Area (400 bps) and Seattle (400 bps) all experiencing significant increases. Markets with a high concentration of financial jobs like Dallas (390 bps) and Charlotte (380 bps) have also seen large jumps in the last year. Even lab space centers like Boston (230 bps) and San Diego (370 bps) have seen vacancies rise despite the in-person nature of most work in the life sciences field.

## Listings by Metro

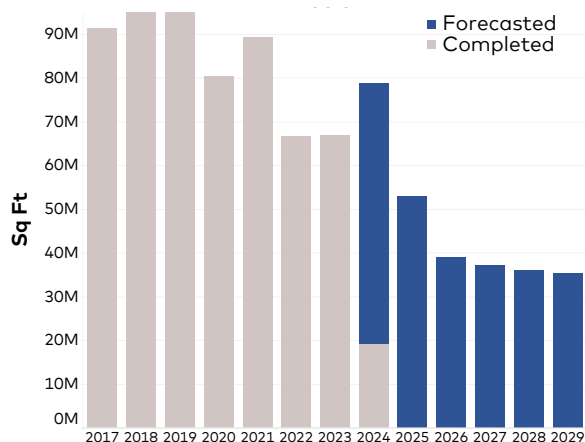
Market	Apr-24 Listing Rate	12-Month Change	Total Vacancy	12-Month Change	Top Listing	Price Per Square Foot
National	\$37.66	-1.5%	18.8%	210 bps		
Boston	\$46.62	9.8%	12.4%	230 bps	Alexandria Center at Kendall Square-75 Binney St.	\$76.58
Miami	\$49.00	5.2%	13.0%	90 bps	701 Brickell	\$130.00
New Jersey	\$35.40	4.8%	18.1%	150 bps	10 Exchange Place	\$54.30
Detroit	\$22.46	4.2%	28.8%	630 bps	One Campus Martius	\$39.13
Atlanta	\$31.68	3.8%	18.4%	-130 bps	1180 Peachtree	\$60.00
Tampa	\$28.69	2.9%	12.4%	-360 bps	Water Street Tampa-Thousand & One	\$65.50
Austin	\$42.25	2.0%	22.4%	30 bps	Indeed Tower	\$84.21
Philadelphia	\$31.88	1.9%	16.0%	280 bps	Two Liberty Place	\$53.50
Phoenix	\$27.67	1.2%	17.5%	-80 bps	Camelback Collective	\$55.00
Orlando	\$24.84	0.9%	17.1%	160 bps	105 East Robinson Street	\$42.79
Washington DC	\$40.59	0.6%	16.8%	170 bps	500 8th Street NW	\$79.58
Dallas	\$28.56	0.0%	21.1%	390 bps	McKinney & Olive	\$86.31
Chicago	\$27.85	-0.2%	19.1%	30 bps	Innovation and Research Park	\$75.00
Nashville	\$30.21	-0.8%	15.8%	-190 bps	Three Thirty Three	\$44.88
Denver	\$30.08	-1.3%	23.9%	390 bps	200 Clayton Street	\$73.00
Houston	\$29.38	-2.5%	23.6%	30 bps	Texas Tower	\$62.90
Charlotte	\$31.62	-2.9%	15.6%	380 bps	Morehead Place	\$46.00
Los Angeles	\$41.03	-3.4%	16.5%	210 bps	100 Wilshire	\$108.00
Bay Area	\$52.89	-4.0%	21.1%	400 bps	245 Lytton Avenue	\$147.48
Twin Cities	\$25.83	-4.2%	18.1%	130 bps	Offices at MOA, The	\$40.00
Manhattan	\$69.72	-5.8%	17.6%	80 bps	550 Madison Avenue	\$210.00
Seattle	\$37.02	-6.8%	23.0%	400 bps	1208 Eastlake Avenue East	\$94.00
Portland	\$27.22	-7.4%	16.2%	-40 bps	Fox Tower	\$43.38
San Francisco	\$59.30	-9.3%	25.9%	650 bps	Sand Hill Commons	\$204.00
San Diego	\$43.00	-9.8%	18.4%	370 bps	La Jolla Commons-Tower I	\$72.60

Source: CommercialEdge. Data as of April 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 Office Starts Disappear

- Nationally, 83.7 million square feet of office are under construction, representing 1.2% of stock, according to [CommercialEdge](#). The office under-construction pipeline has shrunk by more than 50% in the past 18 months, as buildings have been completed and starts have slowed to a crawl.
- Office starts have been nearly nonexistent in 2024, with just 3.2 million square feet of new space breaking ground through the end of April. While office construction began slowing in response to the shifts the pandemic brought to office utilization, some development was still occurring. In 2023, 44.2 million square feet of office space was started, buoyed by the life science and medical office sectors. Now, even development for those uses has dried up. We anticipate that once interest rate cuts begin, developers will slowly dip their toes back into the water, but given the current state of office demand, it may be years until there is a meaningful uptick in office starts.

## National New Supply Forecast



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

## Supply Pipeline (by metro)

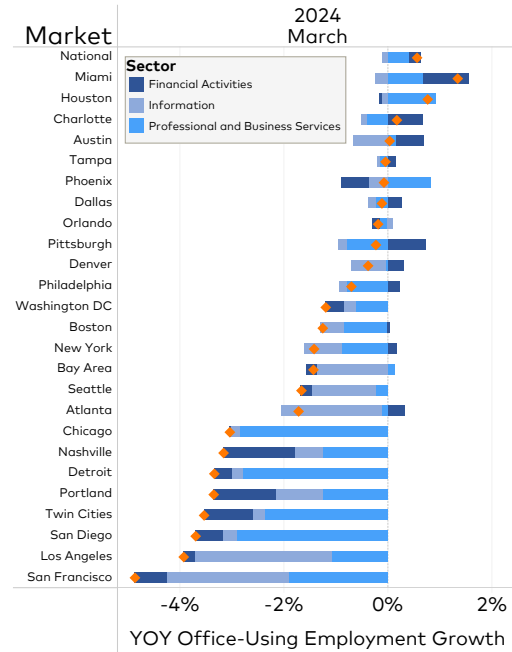
Market	Under Construction	Under Construction % Stock	Plus Planned % Stock
National	83,670,417	1.2%	4.4%
Boston	13,865,515	5.6%	11.6%
San Francisco	5,135,573	3.2%	13.1%
Dallas	4,917,796	1.8%	12.2%
Austin	4,100,470	4.4%	16.0%
Bay Area	3,735,136	1.8%	5.1%
San Diego	3,706,969	3.8%	6.9%
Seattle	3,338,239	2.3%	9.8%
Atlanta	3,337,077	1.7%	3.3%
Washington DC	3,283,216	0.9%	4.7%
Miami	2,903,799	4.0%	11.0%
Manhattan	2,713,272	0.6%	2.9%
Nashville	2,683,600	4.6%	9.2%
Philadelphia	2,083,260	1.1%	3.4%
New Jersey	1,978,689	1.0%	1.8%
Denver	1,925,993	1.2%	3.3%
Charlotte	1,800,759	2.3%	7.7%
Houston	1,737,281	0.7%	1.9%
Los Angeles	1,643,761	0.6%	4.0%
Chicago	1,036,707	0.3%	2.2%
Tampa	844,060	1.1%	6.1%
Phoenix	650,385	0.4%	2.7%
Detroit	524,000	0.4%	0.9%
Orlando	406,708	0.6%	6.9%
Portland	354,450	0.6%	1.5%
Twin Cities	35,666	0.0%	2.6%

Source: CommercialEdge. Data as of April 2024. Table does not include owner-occupied properties.

# Office-Using Jobs: Employment Declines in San Francisco

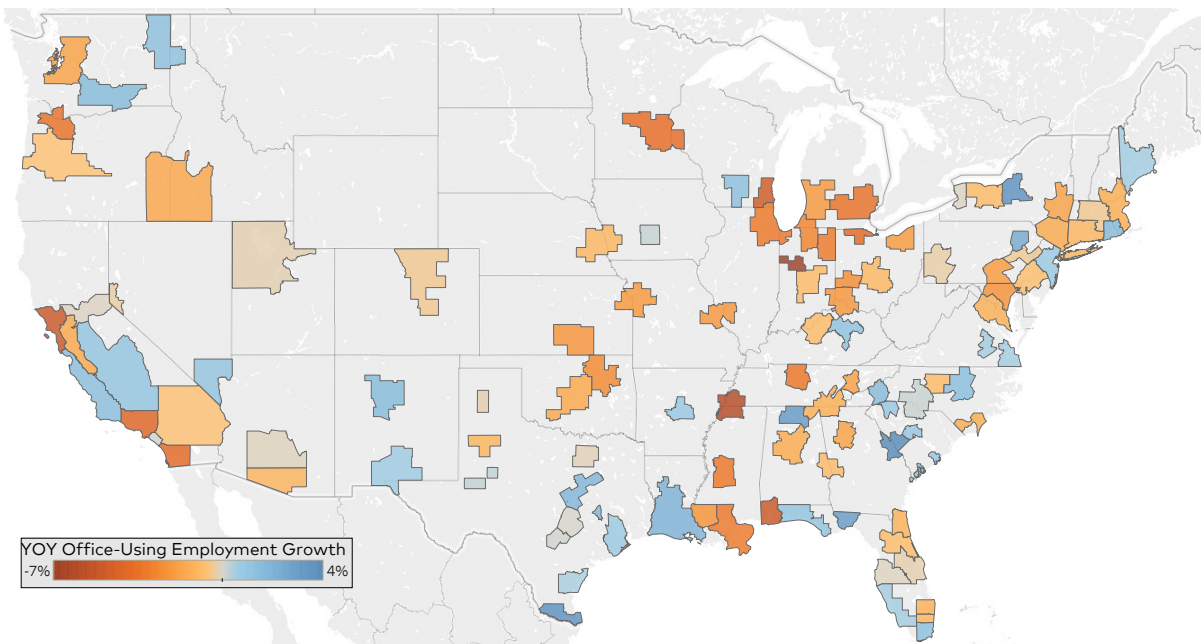
- Office-using sectors of the labor market lost 6,000 jobs in the month of April, according to the Bureau of Labor Statistics. The information sector lost 8,000 workers, and professional and business services lost 4,000. Financial activities was the only office-using sector that grew in April, adding 6,000 workers on the month. Office-using employment has been stagnant during the past year, growing only 0.4% in the past 12 months. The annual growth rate has not topped 1% since last June. The information sector has been the worst performer of the bunch, declining 1.3% over the past 12 months.
- The Information sector's poor performance is felt deeply in tech markets like San Francisco, where office employment has fallen by 4.9% year-over-year, making it the worst-performing major market covered by CommercialEdge. This poor performance has been driven by the information sector, which has lost 13,000 workers in the past 12 months, a decline of 10.5%.

## Growth by Sector



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

## Office-Using Employment Growth



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



# Transactions: High-Quality Assets Remain in Demand

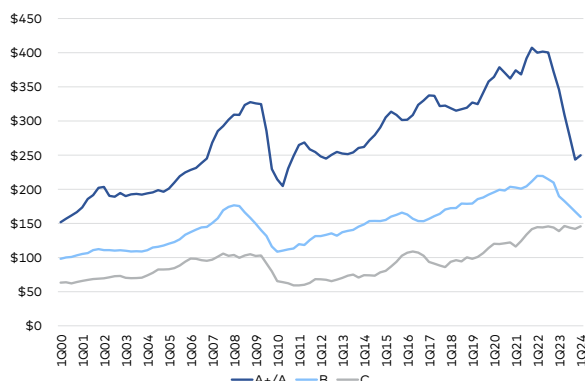
■ **CommercialEdge** has recorded \$7.5 billion in transactions so far this year, with properties trading at an average of \$157 per foot.

■ Top-tier assets in quality locations remain in demand, as evidenced by Columbus Properties' \$86.1 million purchase of 24th at Camelback I. The eight-story, LEED Platinum-certified, Class A building is in one of Phoenix's hottest office submarkets. It marked the largest sale in the Phoenix market recorded by **CommercialEdge** since 2022, yet the sale price was lower than the \$100 million the property traded for in 2018.

## Sales Activity

Market	YTD Sales Price PSF	YTD Sales (Mil, as of 04/30)
National	\$157	\$7,499
Washington DC	\$345	\$937
Bay Area	\$231	\$469
Dallas	\$129	\$357
Phoenix	\$199	\$349
Manhattan	\$351	\$290
New Jersey	\$106	\$280
San Diego	\$397	\$253
Miami	\$279	\$252
Boston	\$146	\$223
Chicago	\$81	\$208
Houston	\$109	\$197
Austin	\$401	\$188
Los Angeles	\$359	\$182
Twin Cities	\$163	\$177
Tampa	\$175	\$169
Denver	\$172	\$166
Seattle	\$241	\$160
Nashville	\$227	\$146
San Francisco	\$407	\$101
Philadelphia	\$90	\$92
Atlanta	\$123	\$81
Orlando	\$146	\$62
Detroit	\$76	\$43
Portland	\$184	\$20
Charlotte	\$143	\$11

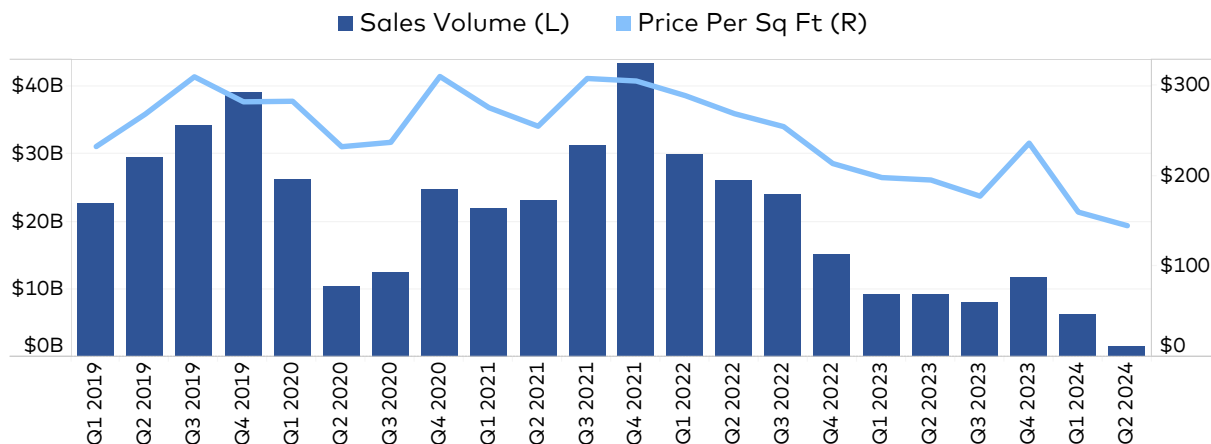
## Asset Class (price PSF)



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

Source: CommercialEdge. Data as of April 2024. Sales data for unpublished and portfolio transactions is estimated using sales comps.

## Quarterly Transactions



Source: CommercialEdge. Data as of April 2024.

# Definitions

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This report covers office buildings 25,000 square feet and above. CommercialEdge subscribers have access to more than 14,000,000 property records and 300,000 listings for a continually growing list of markets.

CommercialEdge 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. CommercialEdge uses aggregated and anonymized expense data to create full-service equivalent rates from triple-net and modified gross listings. Expense data is available to CommercialEdge subscribers. National average listing rate is for the top 50 markets covered by CommercialEdge.
- *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 CommercialEdge market boundaries.

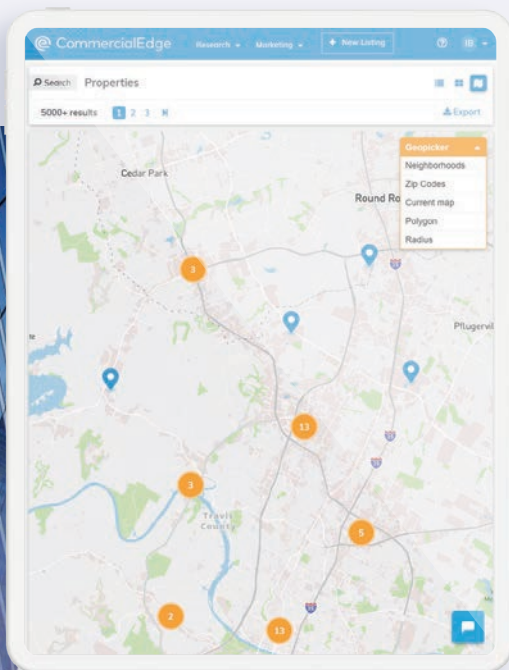
Sales volume and price-per-square-foot calculations for portfolio transactions or those with unpublished dollar values are estimated using sales comps based on similar sales in the market and submarket, use type, location and asset ratings, sale date and property size.



# CommercialEdge

Reliable commercial real estate data, built up over more than a decade of extensive research. Powered by Yardi.

**CommercialEdge** provides the office segment's most comprehensive market intelligence service and listing management platform, sustaining data-driven decisions.



## Key features:

- ✓ Continually growing nationwide coverage with 162 markets currently included
- ✓ Researched and verified data, powered by a team of 400 experienced property research specialists
- ✓ Exhaustive property reports featuring data points such as ownership, leases, sales, debt, taxes and more
- ✓ Building and portfolio performance overview with current average rents, vacancy rates and maturing leases
- ✓ Extensively researched tenant data with an accuracy rate two to three times higher than the industry average
- ✓ Real-time market trends based on actual transactional and leasing data with Yardi Market Insight
- ✓ Dedicated tools, including automated competitive building sets, broker tour books and dedicated property webpages
- ✓ Access to the CommercialEdge Listing Network — including CommercialCafe, PropertyShark, Point2 and CommercialSearch

Capitalize on comprehensive commercial real estate research  
Nationwide property and listing data all in one place, specifically engineered for **CRE professionals**.



## Contacts

**Peter Kolaczynski**

Manager, Commercial  
Peter.Kolaczynski@Yardi.com  
(800) 866-1124 x2410

**Matt Gleason**

Senior Account Executive, Commercial  
Matthew.Gleason@Yardi.com  
(800) 866-1124 x7763

**Doug Ressler**

Media Contact  
Doug.Ressler@Yardi.com  
(800) 866-1124 x2419

## Author

**Justin Dean**

Senior Research Analyst

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