

Yardi® Matrix

National Office Report

February 2019



U.S. Office Property: Demand for Offices Remains Steady

- The U.S. office market continued its strong performance in January, as healthy demand for space lifted asking rents by 0.5% nationally over the last three months, according to Yardi Matrix's database.
- Continued job growth in office-using industries has propelled demand for space. Office-using jobs increased by 2% year-over-year as of January. The demand has boosted absorption, as the national occupancy rate rose only 10 basis points month-over-month in January despite an acceleration of late-cycle development. Nearly 170 million square feet of office space were under construction in February, representing 2.9% of existing inventory.
- Inventory growth is generally concentrated in coastal markets such as New York City and San Francisco, and rapidly growing metros such as Austin, Nashville and Charlotte. Over the short term, the impact on asking rents is mixed. Brooklyn and Austin, which have among the highest percentage growth in supply, have seen rents cool slightly. Other high-growth metros—such as Nashville, San Francisco and Seattle—have increases in asking rents despite a fair amount of new supply set to come online.
- The development pipeline remains well stocked in the office sector as projects in the planning phase add another 6.7% to inventory. As in many other real estate sectors, office deliveries have been slowed by construction delays as a result of labor shortages; however, ample capital remains. As demand for new commercial real estate continues, many of the projects in planning phases will move forward even if they are not delivered for a few years.
- Transaction activity in the past three months has averaged roughly \$7 billion, in line with the soft decline seen throughout 2018. Investment activity climbed in December to more than \$10 billion as investors looked to close deals before year-end. Although primary markets such as Manhattan, Washington D.C., and Boston are the target of the most investor dollars, suburban transactions topped \$8 billion over the last three months, a sign that investors are also looking for value-add properties and higher yields offered by suburban markets.

