Yardi Matrix

National Office Report

August 2020

Transactions Slow During Pandemic

- The national average full-service equivalent listing rate fell to $38.21 in July, down 8 cents from June and 23 cents from July of 2019 (-0.6%). The national vacancy rate was 13.6%.

- Transaction activity has fallen off in recent months, with Yardi Matrix reporting only $7.7 billion of office sales in the second quarter, down nearly 64.5% from the first quarter. Although there is a lag between sale date and research identification, we can confidently say that the second quarter experienced a precipitous drop in transaction activity. Recent reports suggest that the few transactions taking place are 1031 exchanges, as investors would rather pay pre-COVID prices for a property and qualify for the tax incentive than let their 1031 exchange expire and pay the high taxes to which they would be subjected.

- For the rest of the market, many buyers and sellers seem to be at a standstill, waiting for the other side to blink. This is evidenced by the fact that despite deal volume drying up, the price per square foot is higher in 2020 than 2019. Buyers, desiring pre-pandemic target returns for their investments, have found underwriting potential deals to be much more difficult. Knowing that it may be 12 to 24 months before properties start generating pre-pandemic levels of income has reduced the pool of viable buildings. Sellers, not keen on transacting deals at the bottom of the recession, still want the full market price they would have received six months ago. When assets start to become distressed, asking prices may finally drop. Despite the headwinds against completing a transaction, one tailwind is record low interest rates that investors hope to lock into for the long term.

- Currently, one of the biggest hurdles to completing transactions is the presence of ground-floor retail in mixed-use buildings. Many mixed-use buildings will require a potential buyer to thoroughly evaluate tenants on a case-by-case basis. Unless a building has retail tenants that were deemed essential, such as grocery and drug stores, owners will have to deal with the possibility that a significant, and visible, portion of the property sits vacant and generates no income. Retail sales data generated by the Census Bureau suggests that buildings with ground-floor restaurants, clothing and electronic stores will be in the most trouble.