Yardi® Matrix

National Office Report

September 2020

COVID-19 Reshaping Commercial Real Estate

- The national average full-service equivalent listing rate rose 11 cents to $38.32 in August from the previous month but continues to experience slightly negative year-over-year growth. It decreased 0.4% since August of 2019, amid continued uncertainty for office real estate.

- Many have speculated that new office development may focus less on city centers in the future as the COVID-19 pandemic accelerates the trend toward more remote work. Yardi Matrix data for planned properties shows this speculation is starting to become a reality. At the beginning of the year, 20.8% of all planned office properties were in a CBD submarket. At the end of August the share had fallen to 15.9%. Shifts of this nature take a long time to play out, but this could be a sign of softening in the urban core.

- Office-using employment decreased 5.1% year-over-year in August, slightly better than the 6.8% decline in the overall labor market. While most jobs classified as office-using are currently operating from home, the performance of these sectors relative to the rest of the economy provides a slight measure of optimism for the long-term outlook of the office sector. Employment in the financial activities sector—which includes jobs in finance, insurance and real estate—is only down 1.4% year-over-year and experiencing positive growth in a handful of markets. Locations that were hit earliest by the coronavirus, especially those in the Northeast, experienced the sharpest declines in employment levels. The most resilient locations for office-using employment have been secondary tech markets like Austin, Seattle and Denver, as well as emerging centers for financial activities jobs such as Dallas and Charlotte.

- Industrial has fared better than other real estate sectors during the pandemic. Consumers who don't feel safe visiting traditional retail stores have accelerated the move to online shopping, increasing the demand for speedy delivery of goods and last-mile logistics facilities. One trend to watch is the conversion of abandoned retail into industrial space to meet this demand. Abandoned retail locations, especially former department or big-box stores, may be well suited for conversion due to ideal site locations in proximity to a city's population, existing loading docks and large parking lots. Yardi Matrix is tracking industrial data and will release a full industrial report at the end of this year.