Yardi Matrix

National Office Report

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CBD Properties Face Headwinds

- Central business districts continue to struggle as falling listing rates and high vacancy levels persist. Federal government initiatives shifting focus to suburban spaces add yet another hurdle to the post-pandemic restructure.

- CBDs were hit especially hard during the pandemic, as office workers fled urban centers. CBD vacancy is currently at 19.2%, according to Yardi Matrix, up 730 basis points from early 2020. While this is lower than vacancy rates in both urban (20.1%)—defined as within the city center but outside the central business district—and suburban (19.8%) submarkets, CBD listing rates have taken a significant hit to compensate for decreasing demand. Full-service equivalent listing rates for CBD spaces average $38, 29.8% less than they were at pre-pandemic levels in early 2020. Meanwhile, urban rates fell only 20.7% and suburban rates managed to stay positive with an increase of 6.5% over the same period.

- Last month, President Trump signed an Executive Order titled Restoring Common Sense to Federal Office Space. The order revoked two previous directives from President Carter and President Clinton that prioritized CBDs when site-selecting for federal offices. Citing costly and inefficient practices, the new order aims to allow agencies "to select cost-effective facilities and focus on successfully carrying out their missions for American taxpayers."

- The federal government is not the only sector moving away from CBDs, and deliveries have dropped precipitously as a consequence. New office inventory in CBDs fell 42% year-over-year to just under 4 million square feet in 2024, the lowest since 2016. While new office inventory overall fell to a 10-year low of over 47 million square feet last year, CBDs made up just 8.2% of this total.

- Early this year, The 601W Cos. purchased a 910,000-square-foot, 30-story building in Chicago's CBD at 303 E. Wacker Drive. The property sold for $63 million, a 65% discount from its 2018 purchase price of $182 million by Beacon Capital Partners. Although we expect a continuation of steep discounts for some CBD properties, others have been able to maintain occupancy and adequate cash flow throughout the challenges created by COVID. The right property in the right location can continue to thrive in the current environment.