



CommercialEdge

# National Office Report

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April 2023

# Conversions Become a Reality

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- With housing in short supply and many office buildings sitting vacant, conversions appear to be an attractive opportunity for many owners and investors. While conversions have become more common as of late, though, they will likely not be the answer to the nation's housing shortage.
- Conversion projects are underway in an array of markets. In Dallas, five buildings are currently being converted, bringing an estimated 1,500 units to the market within the next few years. The McGraw-Hill building in midtown Manhattan will convert more than 20 floors into apartments beginning this summer. Washington, D.C., has been the most active conversion market, with a reported 2.5 million square feet earmarked. Yet D.C. added only 1,147 units from office conversions between 2020 and 2021, according to a recent analysis by RentCafe.
- Many challenges arise in converting an office building to residential. For one, the building needs to be well located, not only in an area zoned for residential but within a neighborhood where people want to live. The configuration of the building is also important—floor plates can be too large, ceilings can be too high or HVAC systems can be ill suited for residential. Some developers have looked to add amenities, such as storage units or gyms, in the center of the building to solve floor plate issues, but that reduces rentable space. Even when an office can check all of these boxes, conversions are expensive, and for an investor to profit, a majority of converted units have become luxury multifamily or condos. Distressed offices selling at bargain prices may allow previously unfeasible projects to pencil out, but many projects will still need further support to become reality.
- For office-to-residential conversions to be more than just a niche opportunity, government incentives will be needed to make more projects viable. Some places have already begun to address this. California's 2023 budget allocates \$400 million in grants for conversions, and the governor signed a new law that will help ease zoning issues. Baltimore recently reauthorized a tax credit that incentivizes conversions. Chicago solicited bids from developers to convert office in the city's LaSalle Street Corridor into housing, and has recently begun selecting proposals. While it can be expensive to provide incentives for developers to convert vacant offices into housing, doing nothing while property values fall could also be costly. A large share of many local governments' budgets comes from property taxes on commercial real estate, and declining office building values could wreak havoc on collections.



# Listing Rates and Vacancy: High-Quality Space Leases in Austin

- The national average full-service equivalent listing rate was \$38.22 in March, according to [CommercialEdge](#), increasing 1.5% over the previous 12 months.
- The national vacancy rate in the month was 16.7%, up 20 basis points over the previous month and 80 basis points over the prior year.
- A change in a market's average listing rate can reflect the composition of space available more than underlying fundamentals. In Austin, one of the stronger markets for

office since the pandemic, average listing rates have fallen 5.5% year-over-year, in part due to expensive space coming off the market. In downtown, recent leases signed by tech companies TikTok at 300 Colorado—subleased from Parsley Energy after it was acquired by Pioneer Natural Resources—and Snap at 405 Colorado have taken high-quality listings off the market, driving down the average rate. If trophy properties like Indeed Tower, listing space at a full-service equivalent of \$76.67 per foot, can secure leases, the market average may slip further.

## Listings by Metro

Market	Mar-23 Listing Rate	12-Month Change	Total Vacancy	12-Month Change	Top Listing	Price Per Square Foot
National	\$38.22	1.5%	16.7%	80 bps		
San Diego	\$47.98	18.8%	14.4%	90 bps	One La Jolla Center	\$69.00
Orlando	\$24.58	11.2%	16.3%	30 bps	Celebration Medical Center	\$42.40
Seattle	\$39.46	10.5%	18.6%	370 bps	1208 Eastlake Avenue East	\$89.50
Philadelphia	\$31.37	7.5%	14.3%	90 bps	Two Liberty Place	\$53.50
Twin Cities	\$26.93	6.3%	15.9%	130 bps	Tractor Works Building, The	\$37.75
Portland	\$29.36	4.9%	16.7%	440 bps	M Financial Plaza	\$47.40
San Francisco	\$66.07	4.9%	19.1%	170 bps	Sand Hill Collection—The Quad	\$165.17
Atlanta	\$30.62	4.4%	19.8%	-170 bps	300 Colony Square	\$52.00
Nashville	\$31.73	4.0%	17.4%	-130 bps	Three Thirty Three	\$44.38
Phoenix	\$27.51	2.9%	18.2%	300 bps	Camelback Collective	\$52.50
Charlotte	\$32.85	2.7%	11.4%	-330 bps	Rotunda Building, The	\$44.42
Chicago	\$28.00	2.5%	19.1%	-120 bps	Five One Five North State	\$66.02
Denver	\$30.61	2.4%	19.4%	220 bps	1144 Fifteenth Street	\$62.08
New Jersey	\$33.13	1.9%	17.0%	-60 bps	Newport Tower	\$54.80
Houston	\$30.66	1.1%	23.4%	-150 bps	Texas Tower	\$60.90
Bay Area	\$57.41	0.9%	17.3%	230 bps	325 Lytton Avenue	\$145.22
Los Angeles	\$42.39	0.8%	14.7%	110 bps	100 Wilshire	\$108.00
Manhattan	\$74.22	0.6%	16.5%	230 bps	550 Madison Avenue	\$210.00
Tampa	\$27.78	0.4%	16.3%	20 bps	Water Street Tampa—Thousand & One	\$58.00
Miami	\$47.27	-0.2%	11.9%	-70 bps	830 Brickell	\$137.50
Boston	\$38.77	-0.5%	9.9%	-50 bps	116 Huntington Avenue	\$75.07
Dallas	\$28.39	-1.0%	16.6%	-80 bps	Rosewood Court	\$60.43
Washington DC	\$40.44	-2.8%	14.8%	-210 bps	455 Massachusetts Ave NW	\$76.00
Austin	\$40.95	-5.5%	22.2%	630 bps	Indeed Tower	\$76.67
Brooklyn	\$42.45	-20.0%	19.4%	220 bps	200 Kent Avenue	\$75.00

Source: CommercialEdge. Data as of March 2023. 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 Lab Space Plentiful in Boston

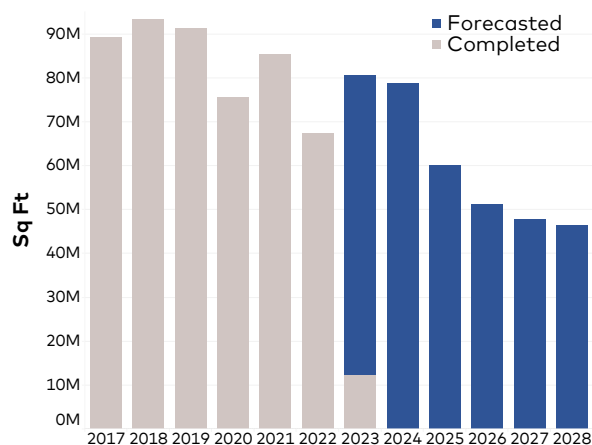
- Nationally, 117.5 million square feet of new office stock are under construction. This number has steadily decreased over the last few years, as properties have delivered and new buildings have not been starting at the same rate.
- Nationally, only 6.1 million square feet of new office stock have started construction this year. We anticipate that starts will remain subdued for the foreseeable future, with most office buildings that begin construction being life science properties, owner occupied or attached to solid preleases.
- As the largest life science hub in the nation, Boston should continue to see office starts. There are more than 13 million square feet under construction in the market, of which lab space has a large share. The 960,000-square-foot Fenway Center will offer a mix of lab space and general office overlooking Fenway Park. In addition, BioMed Realty is developing 585 Third St. in Cambridge, already fully leased to The Takeda Pharmaceutical Co. Not all of Boston's under-construction stock is lab space, though. The 1.1 million-square-foot One Post Office Square Redevelopment in the CBD, begun in 2019, is set to deliver this year.

## Supply Pipeline (by metro)

Market	Under Construction	Under Construction % Stock	Plus Planned % Stock
National	117,542,006	1.8%	5.7%
Boston	13,099,344	5.5%	11.2%
Manhattan	9,269,815	2.0%	3.8%
San Francisco	7,839,443	5.1%	13.0%
Seattle	6,414,528	4.7%	20.4%
Austin	6,217,834	7.0%	23.9%
Bay Area	5,707,385	2.9%	12.3%
Dallas	5,559,497	2.0%	8.2%
San Diego	4,907,699	5.3%	9.3%
Washington DC	3,889,904	1.0%	3.2%
Atlanta	3,745,111	1.9%	5.3%
Chicago	3,677,734	1.2%	4.6%
Nashville	3,644,433	6.4%	14.5%
Houston	3,564,346	1.5%	3.1%
Philadelphia	2,921,405	1.6%	6.8%
Charlotte	2,842,167	3.8%	13.3%
Los Angeles	2,623,837	0.9%	3.5%
Denver	2,493,739	1.6%	5.7%
Miami	2,310,265	3.3%	8.1%
Orlando	1,670,242	3.0%	8.3%
Brooklyn	1,515,937	4.2%	7.3%
New Jersey	1,476,166	0.8%	1.8%
Phoenix	859,539	0.6%	5.3%
Tampa	853,014	1.1%	4.1%
Twin Cities	616,369	0.5%	2.4%
Portland	565,714	1.0%	6.1%

Source: CommercialEdge. Data as of March 2023

## National New Supply Forecast

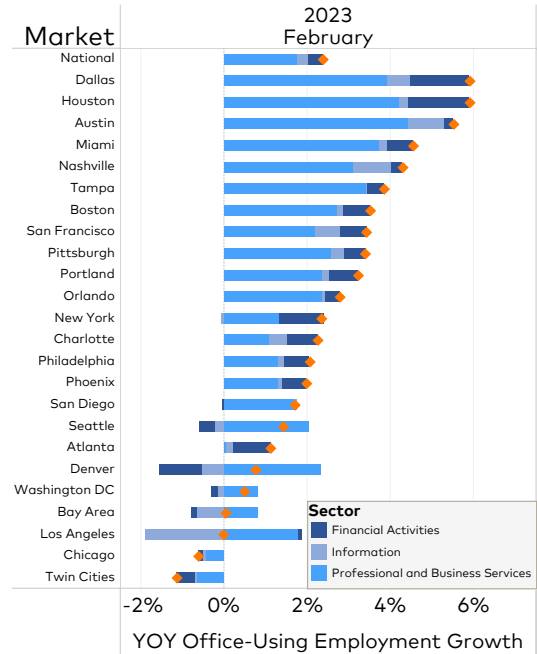


Source: Yardi Matrix. Data as of March 2023  
Data in this chart includes owner-occupied properties

# Office-Using Employment: Texas Leads Nation in Office Job Gains

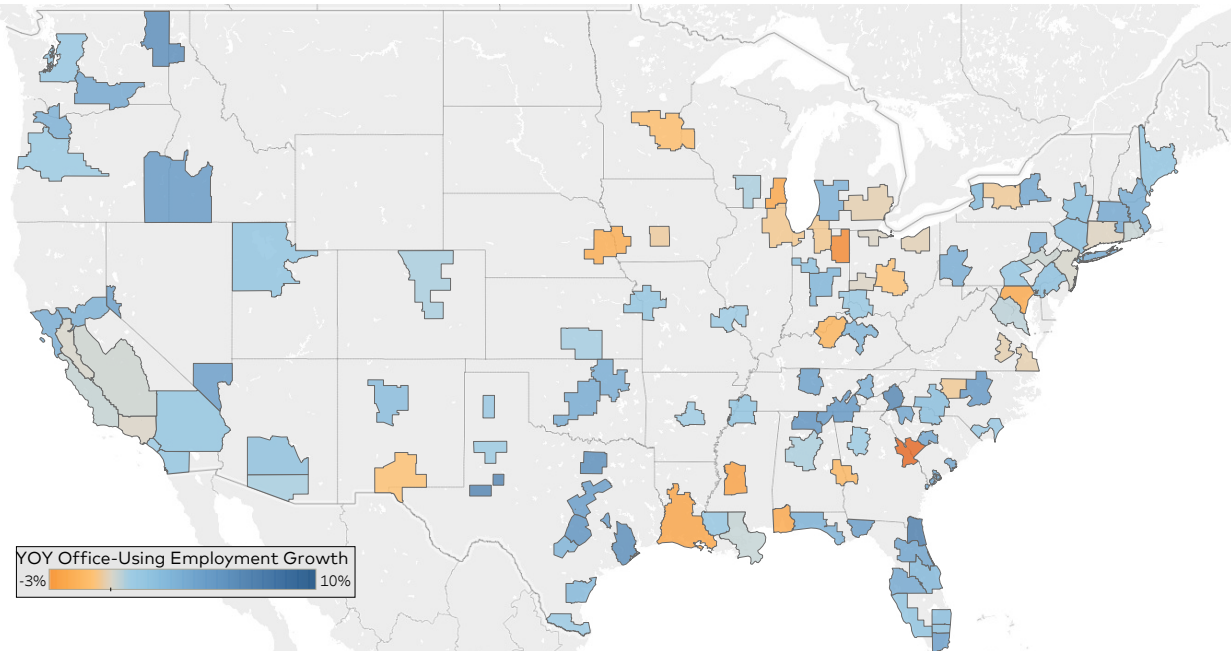
- Office-using sectors of the labor market added 44,000 jobs in the month of March and have grown 2.0% year-over-year.
- Metro employment data for February, which trails the national release, shows Texas markets leading the nation in office-using job growth. Office sectors have grown 5.9% year-over-year in both Dallas and Houston and 5.5% in Austin, the three highest marks among the top 25 markets covered by CommercialEdge. Since the start of the pandemic, both workers and firms have relocated to the Lone Star State in large numbers, driving office-using job growth in the state's top markets.
- Workers are occupying offices more frequently in Texas, as well. Of the 10 markets sampled by Kastle's Back to Work Barometer, Austin (63.6%), Houston (60.9%) and Dallas (53.7%) were the only three with office utilization above 50% during the week ending April 5th.

## 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: Outliers to Sway Averages in 2023

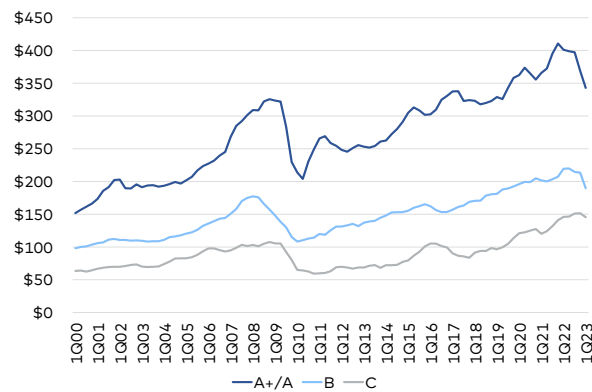
■ **CommercialEdge** has recorded \$6.5 billion in transactions so far in 2023, with buildings trading at an average of \$195 per foot.

■ With sales subdued in 2023, large trades will have a greater impact on market totals and averages. In New York City, \$417 million of transactions have occurred, at an average of more than \$1,000 per square foot. However, that mark is heavily influenced by Hyundai's \$274 million purchase of Fifteen Laight in the desirable Tribeca neighborhood. The building, outside the Holland Tunnel, will feature a ground-floor showroom and more than 100,000 square feet of office space.

## Sales Activity

Market	YTD Sales Price PSF	YTD Sales (Mil, as of 3/31)
National	\$195	\$6,464
Boston	\$555	\$680
Miami	\$396	\$435
Houston	\$119	\$431
Manhattan	\$1,002	\$417
New Jersey	\$106	\$371
Los Angeles	\$196	\$343
Washington, D.C.	\$311	\$322
San Francisco	\$520	\$316
Dallas-Ft Worth	\$344	\$227
Philadelphia	\$144	\$197
Tampa	\$165	\$184
Phoenix	\$210	\$164
Chicago	\$66	\$127
San Diego	\$295	\$119
Denver	\$264	\$118
Austin	\$392	\$104
Portland	\$273	\$53
Bay Area	\$604	\$53
Atlanta	\$103	\$48
Minneapolis	\$159	\$48
Seattle	\$294	\$46
Charlotte	\$155	\$24
Nashville	\$226	\$15
Orlando	\$72	\$7
Portland	\$0	\$0

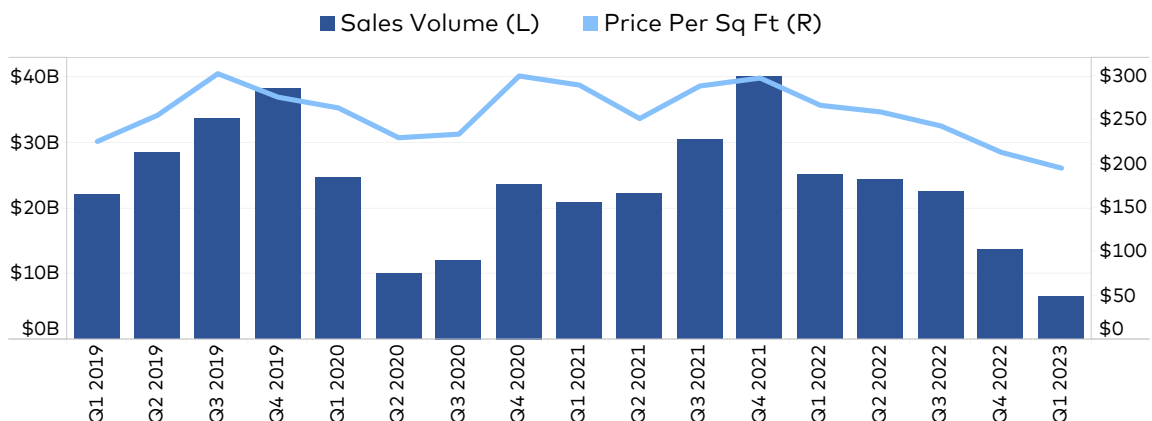
## Asset Class (price per sq. ft.)



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

Source: CommercialEdge. Data as of March 2023. Sales data for unpublished and portfolio transactions is estimated using sales comps.

## Quarterly Transactions



Source: CommercialEdge. Data as of March 2023

# 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.

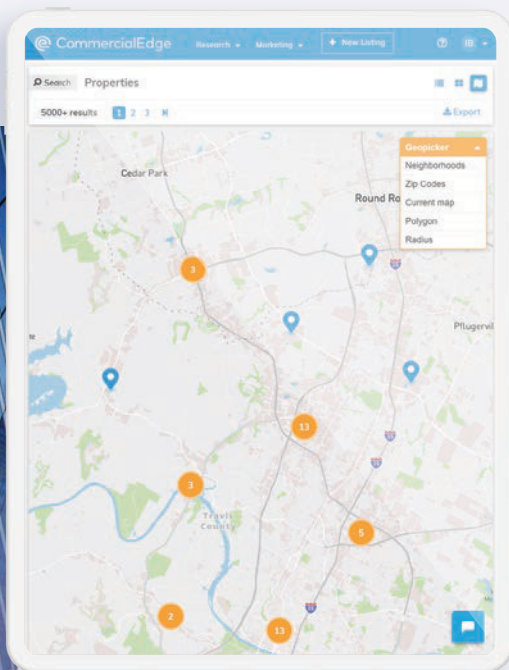
Office-Using Employment is defined by the Bureau of Labor Statistics as including the sectors Information, Financial Activities, and Professional and Business Services. Employment numbers are representative of the Metropolitan Statistical Area and do not necessarily align exactly with CommercialEdge 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

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Nationwide property and listing data all in one place, specifically engineered for **CRE professionals**.



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