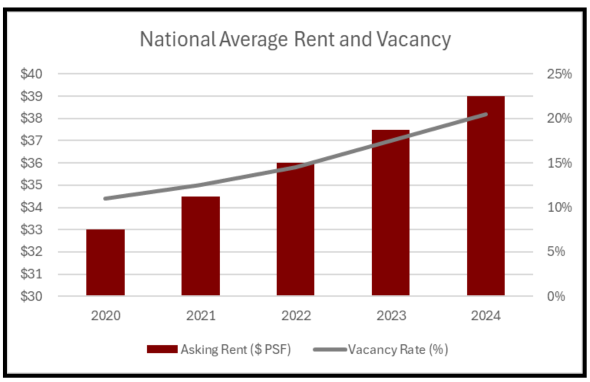
SREIF
Culverhouse College of Business

2024 National Market Report - Office

Prepared by Jacob Schurman, Preston Ewing, Jacob Cook,
Carter Rawson

National Asset Overview

The U.S. office market is faced with challenges in 2024, marked by a Q3 vacancy rate of 20.9%: a decrease from the previous quarter suggests some optimism. Leasing activity has declined, and average lease sizes have increased, indicating potential resilience. Notably, occupancy rose in over a quarter of markets, and sublease inventory remained steady at 149 million square feet, declining in more than half of markets. There is strong demand for class A office, which have higher occupancy rates compared to the overall market. However, the rise of hybrid work and stagnation in job growth continue to challenge office demand. Additionally, approximately $41 billion in distressed office loans, accounting for 44% of all distressed commercial real estate loans, poses further risks to the office market.



Industry Insight

In September, Amazon mandated corporate workers return to the office five days a week beginning January 2nd. Recently, there has been a strong push from some major corporations for their workers to return fully to in-person work, which is expected to revamp some demand in the office market.

Key Takeaways

1. **U.S. Economy:** The U.S. economy remains strong with a 3% real GDP growth in Q2 and continued healthy growth in Q3. The Fed's rate cuts are supporting a soft landing, improving business confidence in space decisions.
2. **Office Space Trends:** While businesses are shedding office space overall, some markets are showing resilience. Over a quarter of markets saw QOQ increases in office occupancy, and half of U.S. markets improved in absorption compared to last year.
3. **High-Quality Office Demand:** Demand is concentrated on high-quality office buildings, particularly in gateway markets, where occupancy rates are 800 basis points higher than the overall average. Existing high-quality buildings are expected to continue outperforming due to less competition from new construction.

Key Statistics

YOY Change

20.90 %
Vacancy Rates

$ -18.5 MM
Net Absorption

$ 38.15
Asking Rent

2.60 %
Rent Growth

$ 35.9 MM
Under Construction

Economic Indicators

4.10 %
Unemployment Rate

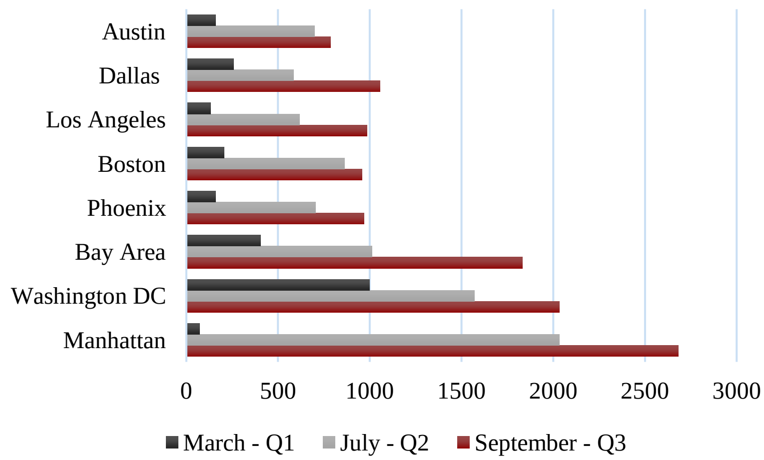
4.75 %
Fed Funds Rate

Source: Cushman & Wakefield

Top Markets Transaction Volume:

As illustrated in Chart A, year-to-date sales have risen notably in select markets, with Manhattan, Washington D.C., and the San Francisco Bay Area leading since the start of the year. Manhattan remains a top destination for real estate investment, driving high transaction volumes. Washington D.C. has also seen strong activity, reflecting sustained investor interest. Meanwhile, the Bay Area has experienced a sharp increase in transaction volume, fueled by premium valuations in the office sector. These markets exemplify the continued appeal of key U.S. cities for commercial real estate investment, despite broader market challenges.

Year to Date Sales (Millions)



Hot Office Market Insights:

1. **Boston**- Boston's office market is characterized by strong demand in sectors such as life sciences, technology, and education.
2. **Dallas**- Dallas has seen a steady increase in office demand, thanks to its business-friendly climate, low cost of living, and corporate relocations.
3. **San Francisco**- San Francisco's office market has been undergoing significant shifts due to the rise of remote work and the tech sector's evolving space needs. However, high-quality, flexible office spaces are still in demand.

City	Rent (Sq/F)	Vacancy
Boston	$49	16.4%
Dallas	$29	22.9%
San Francisco	$60	27.6%
NYC	$71	15.2%
Washington D.C.	$40	17.7%

Largest Office Market Insights:

1. **Manhattan, NY**- Manhattan remains one of the largest and most competitive office markets globally.
2. **Washington, D.C.**- The Washington, D.C. office market has been largely driven by federal government agencies, law firms, and lobbyists.
3. **San Francisco (Bay Area)**- Silicon Valley has seen some large tech firms re-evaluate their real estate needs, focusing on flexibility and incorporating co-working spaces. Sublease activity has since increased.

Evolution of Office:

Adapting To Demand- Rise of Conversions

The rise of office conversions into multifamily and other asset types is reshaping commercial real estate as demand for traditional office space declines due to hybrid work models. Older office buildings, particularly Class B and C properties, are being repurposed into multifamily housing, hotels, and mixed-use developments, especially in cities like New York, San Francisco, and Washington, D.C., where housing demand is high. These conversions help address housing shortages and underutilized office space, though they can be complex due to building infrastructure and regulatory challenges. Cities are increasingly offering incentives and zoning changes to support these adaptive reuse projects.

	Up to 1990s	1990s – Early 2000's	Modern Office
Information Storage Systems	Physical files	Hybrid servers + file rooms	Cloud services