SVN® RESEARCH

State of the Market 2024

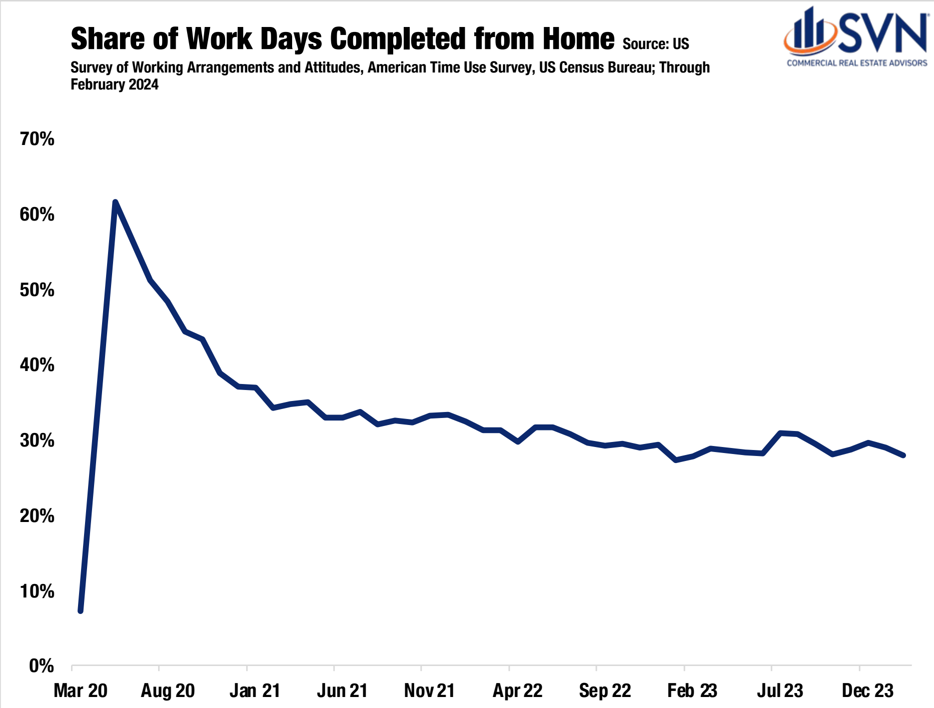
OFFICE

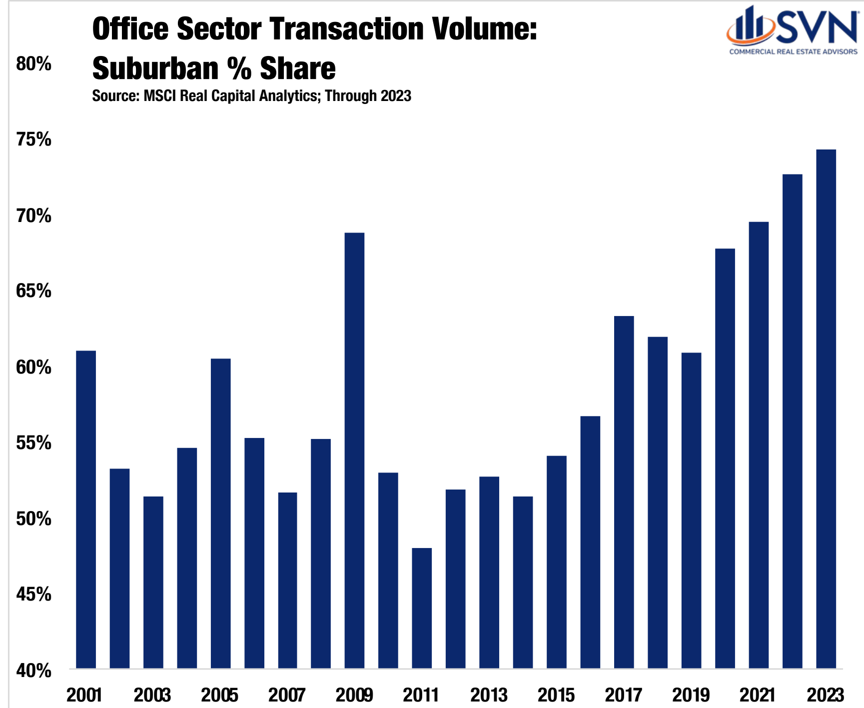
Office

NATIONAL OVERVIEW

Since the onset of the pandemic, many headwinds have been working against commercial real estate — the office sector is the only sector in the crosshairs of all of them.

The pandemic initiated a widespread work-from-home experiment that altered the labor market permanently. **The good news is that we are settling into a new remote work equilibrium.** According to the Survey of Worker Arrangements and Attitudes, **the share of workdays completed at home has stabilized around 28% for the whole working population** — 33.7% down from the COVID-19 peak, though 20.6% above pre-pandemic normality. Moreover, 69.8% of workers want to be in the office at least one day a week. At the very least, **these trends validate that physical office space will still be a central feature of the labor market for the foreseeable future** — even if in a reduced capacity. At the same time, these data highlight how and why many firms want to reduce their physical office footprints. According to Commercial Edge, the national average office vacancy rate finished last year at 18.3%, rising 180 basis points (bps) from a year earlier.





Of course, **the office sector's headaches have been most intense in dense central business districts (CBDs)**. According to MSCI Real Capital Analytics, CBD office assets experienced a larger transaction volume pullback in 2023 (-58.3%) than suburban office properties (-54.6%). Resultingly, the suburban share of total office transactions rose to a new all-time high of 74.3%.

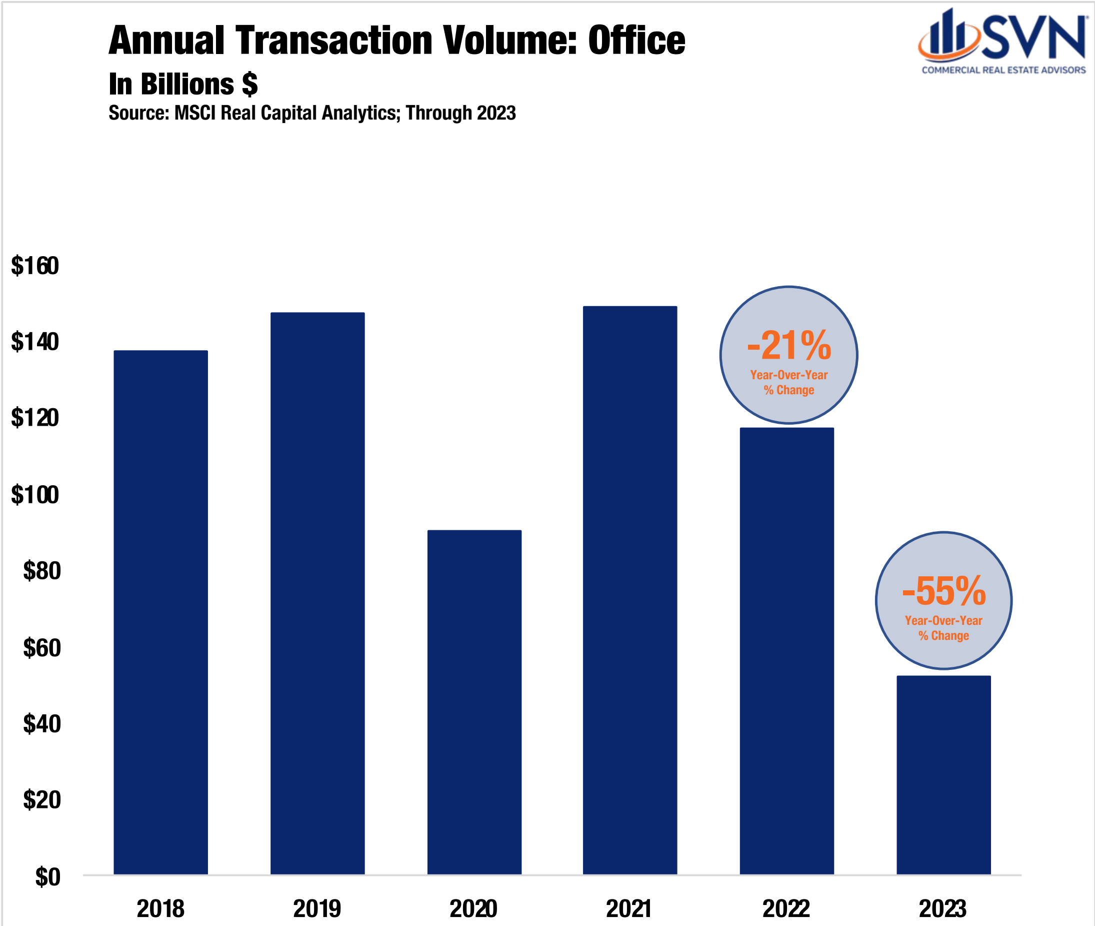
Last year, the biggest difference between CBD and suburban assets came on the pricing front. **In 2023, suburban office property values sank by an average of 7.8%. Meanwhile, CBD-located properties experienced a decline that was more than twice as severe, losing 16.6% in average value.** As echoed by the 2024 ULI/PwC Emerging Trends in Real Estate Report, there is no sugarcoating the fact that the office sector faces serious structural challenges. However, much like how the Financial Crisis set off a re-think about how retail space is designed and utilized, a similar process is now underway for the office sector. **Owners, lenders, and brokers willing to embrace creativity amid a rapidly shifting office landscape will reach greener pastures faster than those waiting for a market turnaround.**

Financials

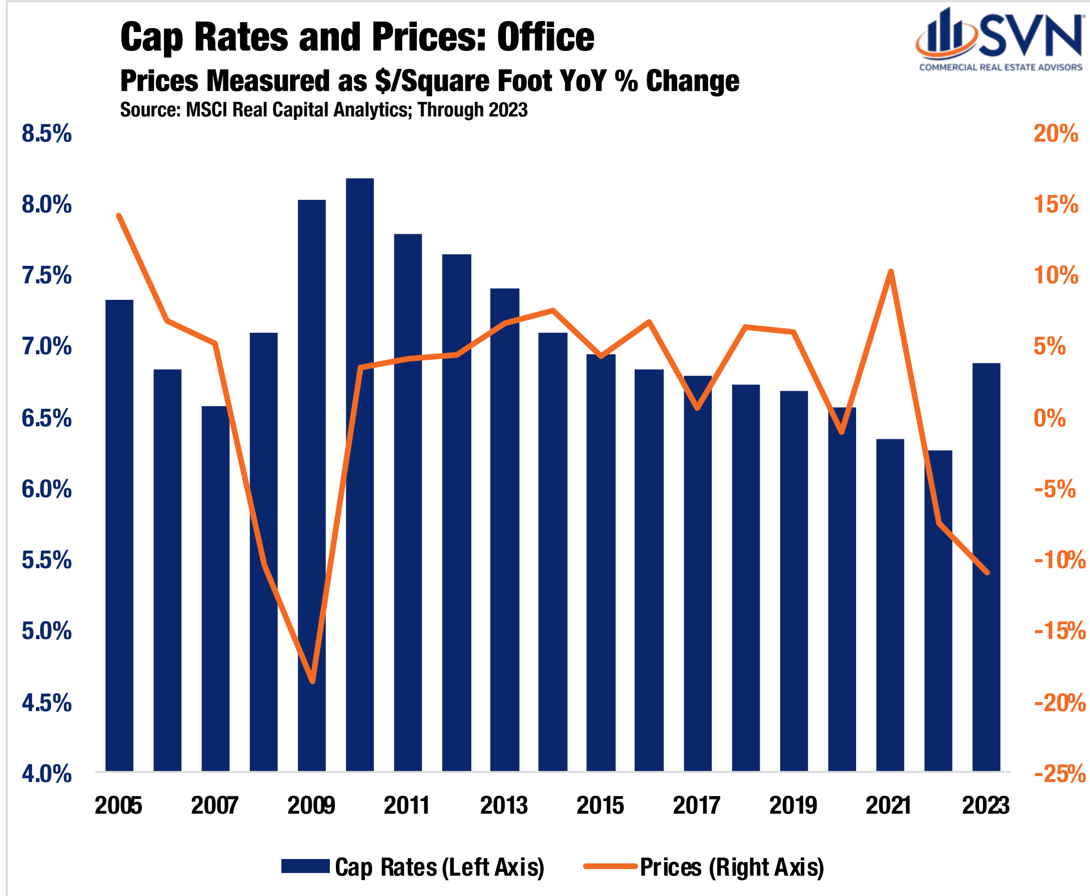
OFFICE: TRANSACTION VOLUME

According to MSCI Real Capital analytics, office transaction volume totaled $52.1 billion in 2023 — a 55.5% drop-off from the previous year. Office asset transaction volume has declined in three of the past four years, including each of the past two. Compared to the 2021 peak ($148.7B), 2023's total is down by 64.9%. Perhaps more telling, 2023's transaction total finished 64.5% below 2019's mark — reflecting how substantially the office sector landscape has shifted.

Moreover, the last time that the annual transaction volume sat lower was in 2010 ($48.5B).



OFFICE: CAP RATES AND PRICES



As the office sector contends with both structural and cyclical headwinds, including the current interest rate environment, cap rates jumped last year. According to MSCI Real Capital Analytics, average cap rates rose to 6.9% in 2023, increasing 61 bps year-over-year. **Within the span of a year, office cap rates rose from their all-time lows to their highest point since 2015**. Moreover, the one-year increase (+61 bps) was the largest since 2009, when office sector cap rates increased by 94 bps.

With office cap rates on the rise, valuations took another hit in 2023. After reaching an all-time annual high of $260 per square foot (PSQFT) in 2021, prices slipped in both 2022 and 2023. Valuations first sank to an annual average of $241 PSQFT in 2022, dropping 7.5% in relative terms. The 2023 drop-off proved slightly steeper, with prices falling another 11.0% ($214 PSQFT). Compared to the 2021 peak, office asset valuations are down in aggregate by 17.6%.

Regional Performance

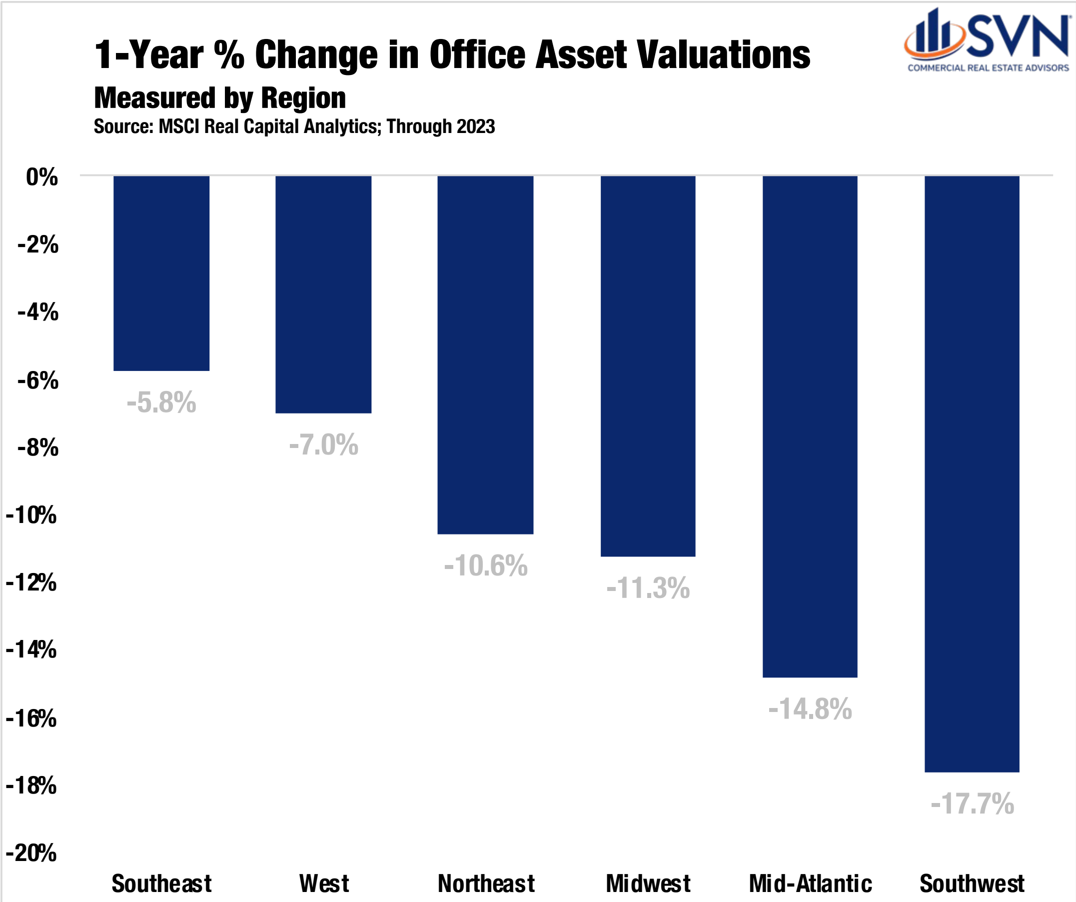
In the development of the office regional rankings, the SVN Research Team utilized a scoring matrix. The matrix offers a comprehensive view of how regional markets performed within the context of growth from a year earlier. The three following criteria were included in the matrix:

1. Transaction Volume: 1-Year % Change
2. Cap Rates: 1-Year Change
3. Pricing: 1-Year % Change

2024 Regional Market Rankings: Office

Source: SVN Research, MSCI Real Capital Analytics; Through 2023

Rank	Region
1	West
2	Mid-Atlantic
3	Midwest
4	Northeast
5	Southeast
6	Southwest



TOP PERFORMERS: WEST

The West rises to the top of this year's office rankings thanks to a well-rounded performance across the three relevant criteria. Of note, **office valuations only sank by an average of 7.0% in 2023** — second only to the Southeast (-5.8%).

Of course, several metro markets in the region performed considerably better. **The Las Vegas office market continued to hit the jackpot, with valuations rising an impressive 8.4% year-over-year**. Assets located in **tertiary markets in the region also continued to see growth (+2.9%)**, further underscoring the bifurcation between CBD and suburban properties.

Cap rates rose an average of 58 bps in the West, which was middle of the pack compared to other regions. However, markets such as Salt Lake City and East Bay (Oakland) bucked the trend entirely, posting cap rate decreases of 5 bps and 11 bps, respectively.

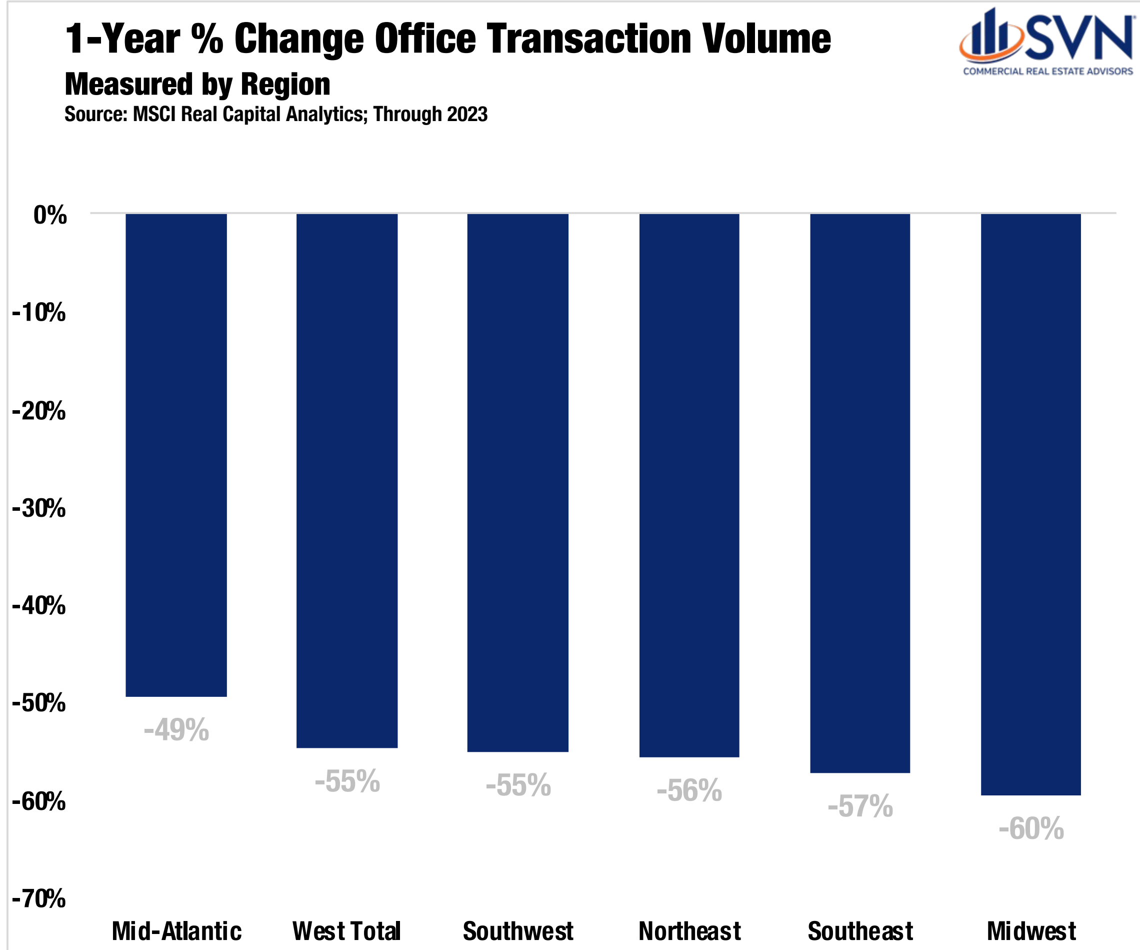
TOP PERFORMERS: MID-ATLANTIC

The Mid-Atlantic pops up again thanks to its ability to attract transaction activity in a difficult year for arms-length sales across all sectors and geographies.

Office sales volume dropped 49.5% last year in the Mid-Atlantic — which only sounds impressive when considering that every other region pulled back by at least 55%.

Compared to the rest of the region, Baltimore's liquidity receives rave reviews, with transaction volume declining by just 25.7% last year.

The Virginia suburbs near DC (-30.7%) and assets in tertiary markets (-43.0%) around the region also held up relatively well.



About SVN®

SVN International Corp. (SVNIC), a full-service commercial real estate franchisor of the SVN® brand, is one of the industry's most recognized names based on the annual Lipsey Top Brand Survey. With over 200 locations serving 500 markets, SVN provides sales, leasing, corporate services and property management services to clients across the globe. SVN Advisors also represent clients in auction services, corporate real estate, distressed properties, golf & resort, hospitality, industrial, investment services, land, medical, multifamily, office, retail, self-storage and single tenant investments. All SVN offices are independently owned and operated.

For more information, visit www.svn.com.

SVN International Corp. (SVNIC)
185 Devonshire Street, M102
Boston, MA 02110
www.svn.com