

# Capital Trends

US Office

**12.2%** YOY price change  
**\$5.1b** Transaction volume  
**-34%** YOY volume change

The \$5.1b in office transactions recorded in May represented another significant double-digit decline in volume from the prior year. At 34%, the drop was the largest decline in annual growth across all property types in the month.

Comparisons against 2021 are challenged as pent-up demand and cheap debt drew investors back to the market last year. That said, comparisons against the pre-pandemic average for May are even starker. Assessed against the average for the five years leading up to the pandemic, May of 2022 came in 56% below the prior level.

Inflationary pressures, higher interest rates, and the persistent rise in the cost of gasoline have done little but increase uncertainty for corporations and put downward pressure on consumer demand. A potential demand shock and difficulty enticing employees back to the office amid the ever-increasing cost of their commute has given investors reason to pause.

Between the office subtypes, the scale of the annual decline was more severe for CBD assets. At \$1.6b, investment in these urban assets was 40% lower than May of 2021. Suburban office activity declined 31%, with volume for the month coming in at \$3.5b. For both subtypes, declines in portfolio activity were steeper than those for single asset sales.

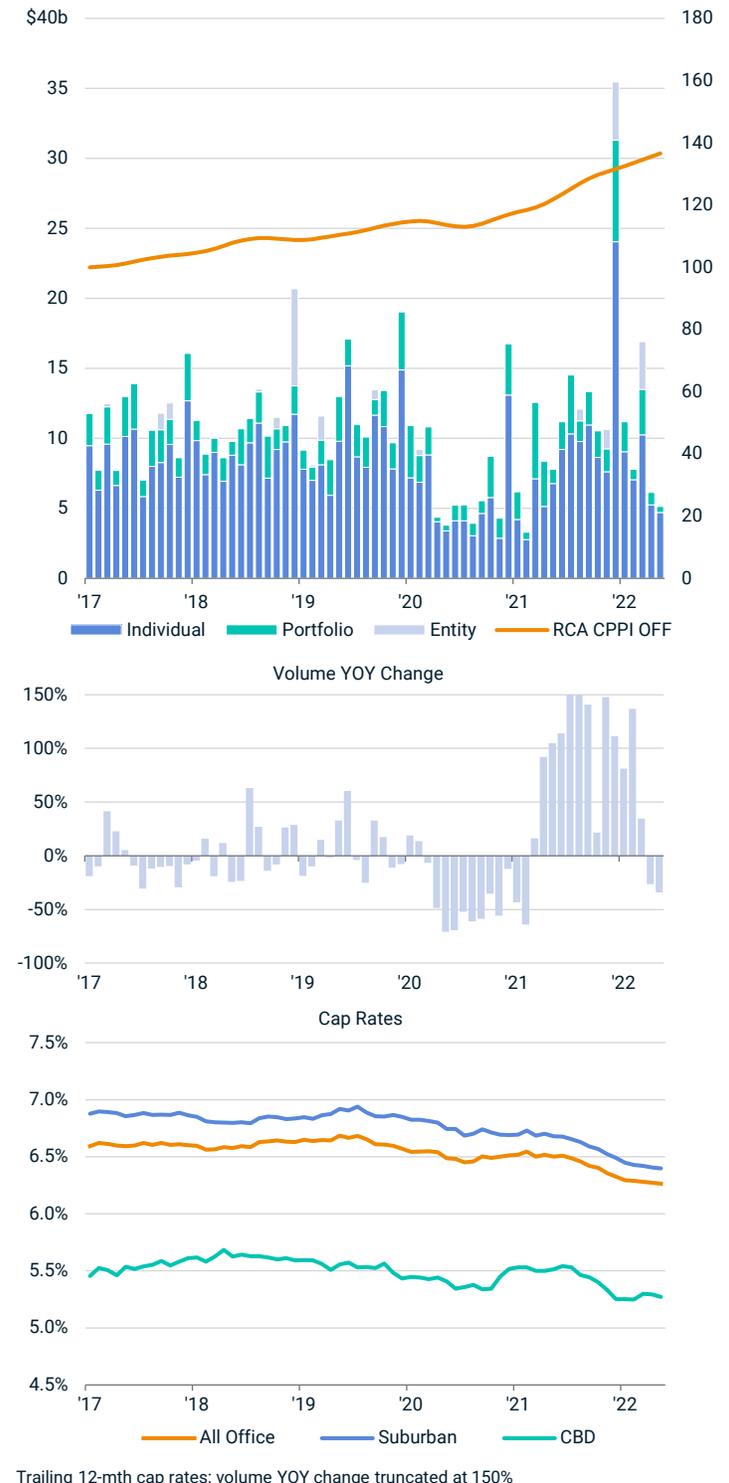
The unique count of transactions provides a look at activity levels without the impact of pricing. In the office sector, despite an exceptionally strong first quarter, the total number of deals through the first 22 weeks of the 2022 was 13% lower than in the year prior, and 19% below the average for the five years before the pandemic.

Despite declining deal activity, pricing has remained intact. The RCA CPPI for offices climbed 12.2% YOY in May. Cap rates compressed 30 bps from the prior year to 6.4%. With the 10yr UST at 2.9%, the spread between the average cap rate and 10yr UST was around 350 bps, some 130 bps narrower than a year ago. Until investors feel they are being rewarded for their risk, deal activity may remain muted.

## Transaction Volume Summary

	May 2022		YTD 2022	
	Vol (\$b)	YOY	Vol (\$b)	YOY
Office Total	5.1	-34%	47.2	24%
CBD	1.6	-40%	14.5	18%
Sub	3.5	-31%	32.7	26%
Portfolio	0.4	-58%	10.9	-11%
Single Asset	4.7	-31%	36.3	40%

## Monthly Transaction Volume and Pricing



Trailing 12-mth cap rates; volume YOY change truncated at 150%

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**Methodology**

Data based on properties and portfolios \$2.5m and greater unless otherwise stated. Data as of June 21, 2022 unless otherwise stated.

**About Capital Trends**

Capital Trends reports analyze and interpret trends in the global real estate market. US Capital Trends is a monthly edition comprising an overview of the U.S. market and separate reports on the five main property types. Asia Pacific, Australia, Europe and Global Capital Trends are published quarterly.

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