

Capital Trends

US Office

11.8% YOY price change
 \$5.0b Transaction volume
 -40% YOY volume change

Office investment retracted in April after 13 months of double- or triple-digit growth in sales volume. Some sort of pullback in growth should have been seen as the market was moving past the bounceback from the fear-induced lows of 2020. That said, the outright decline in sales relative to last year was a shock.

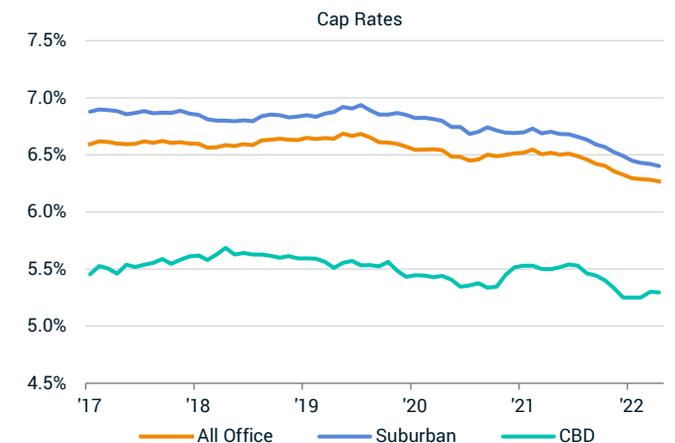
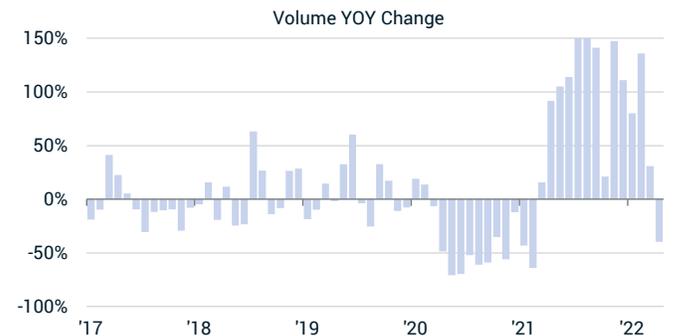
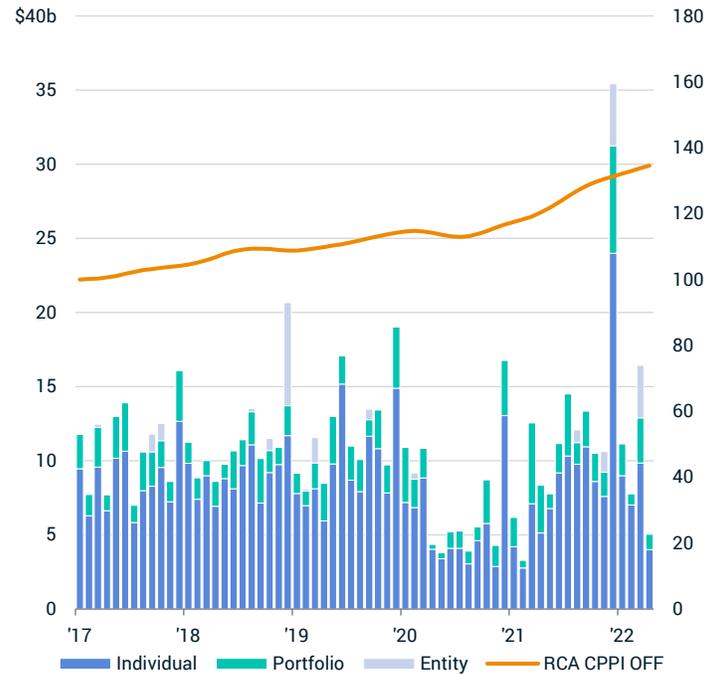
The office market is responding to the change in the interest rate environment that hit in the second half of March. Once the 10yr UST pushed past the 2% level on a consistent basis, investors began to worry about underwriting for new acquisitions. Deal volume has become the first sign of market difficulty as potential buyers and lenders reassessed their ability to put capital to work in the office sector.

The scale of the decline in April did not wipe out all the gains seen since the worst parts of the pandemic faded. Office investment volume in April of last year came in at \$8.4b, essentially back to normal. Deal volume had dropped to a low of \$4.4b in April of 2020 as investor fears over the scale of the shock ahead was still unknown. The \$5.0b in April of this year is ahead of the worst part of the pandemic, but not by much.

There was a difference in the scale of the pullback for deal volume across office subtypes versus the worst part of the pandemic. Investment activity fell at double-digit year-over-year rates in April for both CBD and suburban assets: down 45% and 38% YOY, respectively. CBD office sales, however, closed 1% lower than the pace set in April of 2020. Sales of suburban office assets this year stood 21% higher than that low point.

Despite these shocks to deal activity, it is too early to see any impacts on pricing or cap rates. The RCA CPPI for offices climbed 11.8% YOY in April. Still, the change in this price measure from March to April suggests only a 7.3% annualized pace of growth. So clearly price growth is decelerating. Any impact on cap rates from the interest rate increases is yet to be seen. Cap rates stood at 6.3% in April, down 20 bps from a year earlier.

Monthly Transaction Volume and Pricing



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

Transaction Volume Summary

	April 2022		YTD 2022	
	Vol (\$b)	YOY	Vol (\$b)	YOY
Office Total	5.0	-40%	40.4	33%
CBD	1.1	-45%	12.7	33%
Sub	4.0	-38%	27.7	33%
Portfolio	1.0	-68%	10.5	-6%
Single Asset	4.0	-22%	29.9	56%

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Methodology

Data based on properties and portfolios \$2.5m and greater unless otherwise stated. Data as of May 24, 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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