Green Street
Real Estate Alert
THE WEEKLY UPDATE ON THE INSTITUTIONAL MARKETPLACE

Office Sales Crater; Eastdil Again Tops List

Sales of large office properties plummeted 45% amid the worst public-health crisis in a century, erasing seven years of gains notched during the sector's longest-running bull market.

Some $60.6 billion of offices changed hands last year, a sharp drop from the $109.7 billion of deals that closed in 2019, a blockbuster year. It's a low that matches 2012, when the market was crawling back from the Great Recession, according to **Real Estate Alert's** Deal Database, which tracks sales of at least $25 million dating to 2001.

Virtually every brokerage took a hit to its sales volume. **Eastdil Secured** was again the most active, but its $14.3 billion of sales was 39% lower than last year's figure. **Newmark** moved up two notches to second place, but its $10.3 billion of activity marked a 26% year-over-year decline. **CBRE,** which usually claims one of the top two spots, saw volume fall 49% to $10.1 billion, placing it third. Rounding out the top five were **JLL**, down 28% to $9.5 billion, and **Cushman & Wakefield,** 62% lower at $6.8 billion.

Last year kicked off strong, with $21.7 billion of sales in the first three months, but volume dropped off in the second and third quarters as the pandemic paralyzed the country. A resurgence in the final three months — $21.3 billion — has led some market pros to believe that the worst is over.

"By the summer, we will have vaccinated away the black swan," said **Doug Harmon,** chairman of capital markets at Cushman. "The office worker will be free to return, the investor free to travel and U.S. real estate will once again provide the best risk-adjusted return and safe haven to accommodate the almost $300 billion of dry powder currently on the sidelines."

But exactly when sales momentum will pick up remains an open question. "You will look back and say 2020 was the bottom and the recovery started late in the fourth quarter," said **Jeff Scott,** a managing director at Eastdil. He pointed to the tremendous amount of liquidity earmarked for office investment and the growing pipeline of new deals. He also predicted foreign capital will return once travel restrictions are lifted. "People are going to be surprised at the level of activity that you will see early in the second quarter."

Today, the market is bifurcated. Investors overwhelmingly favor core offerings with lengthy remaining lease terms and sectors with strong leasing fundamentals, particularly life-science and laboratory space. Meanwhile, deals for multi-tenanted properties with shorter lease terms continue to struggle, as questions about future tenant demand loom and investors hesitate to move out on the risk spectrum.

A return to more normal sales activity hinges on improvement in the leasing market, which ended 2020 on a sour note. Nationwide office occupancy dropped to 84.5% in the fourth quarter, according to a Cushman report, and 103 million sf was returned to the market from April to December, the largest three-quarter decline in occupancy the firm has recorded. The amount of available sublease space has doubled year over year, which will likely weigh on asking rates.

"I really think we need clarity around the leasing markets first in order to set the stage for how to underwrite cashflow," said **Brad Gries,** co-chief investment officer and head of U.S. transactions at **LaSalle Investment** of Chicago. "By and large, it is going to be a slow start."

On the bright side, investor confidence is expected to grow as the virus is mitigated. "I [believe] that if the vaccine is distributed more broadly and the pandemic abates, we will have investors widen their lens for product … [to include] core-plus and lighter value-add," said **Chris Ludeman,** CBRE's global president of capital markets. He expects buildings with efficient ventilation systems and floor plates that allow for spacing and social distancing to receive the most interest.

So-called "gateway cities," such as New York and San Francisco, were hit hardest in the crisis and are expected to be the last to recover. Among the first markets to emerge from the previous downturn, they benefited from a trend toward urbanization during the bull market. Today, most office personnel are working remotely, and their return to the office, if it happens at all, is expected to be slow.

Even buyers with favorable outlooks for those cities say a rebound will take time. "Long term, we are bullish on office real estate in gateway cities, and we do believe that … there is going to be a return [of office tenants] to the cities in a meaningful way," said **Andrew Nathan,** a managing principal at **MC Real Estate** of New York. "Realistically, that's probably six to 12 months away."

New York lost its spot atop the ranking of most active office sales markets for the first time, with volume falling 63% to $6.4 billion. The Boston area, riding a wave of lab and life-science sales, took the crown, with $8.6 billion of activity, bucking the national trend with a 2% uptick.

The Seattle area saw a fourth-quarter surge, powered by sales of single-tenant properties leased to major technology companies. But it wasn't enough to make up for that market's slow start to the year, and its annual sales were down 64% from its second-place 2019 tally. Other big percentage drops among top-10 markets were in San Francisco (53%), Los Angeles (39%) and

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RANKINGS

Top Office Brokers in 2020

Brokers representing sellers in deals of at least $25 million

		2020 Amount ($Mil.)	No. of Properties	Market Share (%)	2019 Amount ($Mil.)	No. of Properties	Market Share (%)	'19-'20 % Chg.
1	Eastdil Secured	$14,317.8	161	26.8	$23,499.2	117	24.1	-39.1
2	Newmark	10,299.4	124	19.3	13,865.4	149	14.2	-25.7
3	CBRE	10,090.3	157	18.9	19,594.6	283	20.1	-48.5
4	JLL	9,534.6	127	17.9	13,151.3	228	13.5	-27.5
5	Cushman & Wakefield	6,803.7	99	12.7	17,682.0	172	18.1	-61.5
6	Colliers International	1,267.6	25	2.4	528.8	11	0.5	139.7
7	Transwestern	222.2	5	0.4	255.8	12	0.3	-13.1
8	Avison Young	136.7	4	0.3	762.7	13	0.8	-82.1
9	Savills	135.8	2	0.3	228.1	5	0.2	-40.5
10	Hoffman Co.	106.0	1	0.2	0.0	0	0.0	
11	Hodges Ward Elliott	100.0	1	0.2	126.0	1	0.1	-20.6
12	Lee & Associates	84.4	1	0.2	0.0	0	0.0	
13	Marcus & Millichap	73.5	2	0.1	57.3	2	0.1	28.4
14	Hayes Commercial	66.2	2	0.1	0.0	0	0.0	
15	Founders 3	49.0	1	0.1	0.0	0	0.0	
16	Meridian Capital	36.0	1	0.1	0.0	0	0.0	
17	TerraCRG	29.5	1	0.1	55.9	1	0.1	-47.2
18	Rosewood Realty	28.6	1	0.1	37.5	1	0.0	-23.7
	OTHERS	0.0	0	0.0	7,607.4	222	7.8	-100.0
	Brokered Total	**53,381.3**	**704**	**100.0**	**97,451.9**	**1,139**	**100.0**	**-45.2**
	No Broker	7,230.8	69		12,286.5	91		-41.1
	TOTAL	**60,612.0**	**773**		**109,738.4**	**1,230**		**-44.8**

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Washington (31%).

While buyers continue to circle those markets, they are underwriting more conservatively than most owners are willing to accept. "There's not a real marketplace at the moment because of the valuation issues," said **David Marks,** senior vice president and head of acquisitions at **Silverstein Properties** of New York. The firm paid $430 million for US Bank Tower in downtown Los Angeles in September, and it is scouting more deals, which are few and far between. Owners who don't have to sell would rather wait, Marks said.

The upside for buyers willing to transact now is less competition. "Institutional capital is taking a pause in investing in office," said **Chang Lee,** principal and chief investment officer of **Sterling Bay** of Chicago. However, he expects that to change later this year. In December, Sterling Bay, through a joint venture with **Declaration Partners** of New York, closed its first Washington office purchase, paying $92 million for the 191,000-sf building at 1899 Pennsylvania Avenue NW, which is slated to lose its largest tenant next year. "We saw an opportunity for a building at a great location at a great basis, and we think office leasing will return," Lee said.

Pros have a sunnier view of markets beyond gateway cities that are attracting tenants seeking lower costs and balmier climates. "Suburban submarkets in the gateway cities and urban cores in the South — that's where we see property fundamentals outperforming now and for the near term," said **Jimmy Hinton,** head of investor strategies at Newmark. By his firm's measure, those markets saw substantial gains in investment sales in the fourth quarter. "We are very bullish on those two segments of the market."

Case in point: The only major market aside from Boston to post a slight year-over-year increase in activity was Northern New Jersey, which logged $1.9 billion of activity, up almost 2%.

Brokers also expect that the value proposition offered by office properties relative to sectors that have seen strong interest amid the pandemic will drive more sales activity. "Yields for industrial and multi-family assets have compressed so much due to frothy investor demand. … We would expect to see more investors buying office buildings because the relative return is becoming so attractive," said **Bruce Miller,** a senior managing director and co-head of the U.S. office group at JLL.

Broker rankings are based on property transactions that closed in 2020 and involved full or partial stakes valued at $25 million or more. When multiple brokers shared a listing, the dollar credit was divided evenly, but each broker was credited with one transaction. Only brokers for sellers were given credit. Portfolio transactions were included if the overall price was at least $200 million or if at least one property in the portfolio had a value of at least $25 million. ❖