

OFFICE INDEX

MIXED SIGNALS AND FUTURE OFFICE USE

Overall, third-quarter non-farm employment gains were impressive, adding over 1.8 million jobs with revisions forthcoming. But job expansion trends slowed in August and September after robust gains in July. Even as pandemic cases have declined and government unemployment programs have expired, the leap to return to work continues not to be a priority.

In September, the number of individuals returning to work or even looking has declined. According to the Bureau of Labor Statistics (BLS), the prime-age labor force participation rate, ages 25 to 54, sat at a stubborn 81.7% displaying signs of pandemic damage and the difficulty to recover. Although employer sentiment remains positive, the economy still lacks skilled labor, with 4.2 million jobs shy of pre-pandemic levels. This struggle is in our backyard as real estate industry executives continue to stress a lack of needed talent in their workforce.

Even with varied employment viewpoints, the NCREIF Office Property Index posted a positive total return for the third quarter, up 1.87%, its most significant gain in 2021. The income component remained relatively stable quarter-over-quarter, but more importantly, appreciation was up 0.76%, posting consecutive quarterly positive figures. Dissecting the South region's data showed it was the significant contributor to total return gaining 2.42%, comprised of 1.13% in appreciation, for the quarter, followed by the West at 2.23%. The Midwest, a usual recovery lagger, brought up the rear at 1.33%.

CBD office and the urbanized trends that have been discussed repeatedly for some time again seem to be taking a backseat to a shift in suburban office interest. Conceivably driving this swing are higher consumer expenses, as the Consumer Price Index (CPI), our inflationary gauge, is up 5.4% through 2021. For example, consumer prices for meats, poultry, fish, and eggs are up 10.5% this year. All the while, economists continue to shout warnings of goods and services cost increases well into 2023. Although wage growth finally flashed positive signs after years of flat to no change. Overdue adjustments won't offset the surge in pricing, pushing families to reevaluate their future living and employment locations.

Looking at the CBD vs. Suburban returns, it wasn't a fair fight. Suburban total returns were up 3.11% this past quarter compared to 0.93% from the CBD space, as appreciation fell 93 basis points for CBD, with suburban posting a 1.91% jump. Digging deeper, looking at the regional subtype returns of the 14 areas covered, 13 Suburban locations appreciated greater than CBD. Suburban East office had the biggest jump in property values, up 2.77% compared to Midwest CBD space, down 35 basis points.

Data supports the suburbanization movement, but it's difficult to disconnect the institutional demand in CBD Class A office space leased by dominant industry tenants, even during these unique times. And though there were spikes this quarter in those types of transactions, the future of filling office-using space remains a mystery. Don't forget, the pandemic didn't spark the first telecommuting office leasing concern. Yet, now we've "successfully" experienced it, making it difficult to imagine no long-term changes to either CBD or suburban office use.

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OFFICE TOTAL RETURNS

	Total NPI	Total Office	East	Midwest	South	West
3rd Q 2021	5.23	1.87	1.48	1.33	2.42	2.23
2nd Q 2021	3.59	1.44	1.11	1.50	1.44	1.80
One Year	12.15	4.86	3.83	4.62	5.44	5.88
Three Years	6.72	4.72	3.30	3.29	4.94	6.55
Five Years	6.84	5.34	3.82	4.13	5.84	7.20
Ten Years	8.99	7.71	6.30	6.03	8.10	9.57
Twenty Years	8.40	7.28	7.40	5.18	6.86	7.93

OFFICE INCOME RETURNS

	Total NPI	Total Office	East	Midwest	South	West
3rd Q 2021	1.05	1.11	1.04	1.05	1.29	1.14
2nd Q 2021	1.06	1.12	1.05	1.18	1.22	1.16
One Year	4.22	4.50	4.20	4.46	5.09	4.64
Three Years	4.35	4.44	4.15	4.41	5.10	4.57
Five Years	4.47	4.49	4.15	4.86	5.28	4.57
Ten Years	4.92	4.84	4.53	5.56	5.63	4.82
Twenty Years	5.81	5.84	5.65	6.39	6.38	5.75

OFFICE APPRECIATION RETURNS

	Total NPI	Total Office	East	Midwest	South	West
3rd Q 2021	4.18	0.76	0.44	0.28	1.13	1.09
2nd Q 2021	2.54	0.31	0.06	0.32	0.22	0.63
One Year	7.69	0.35	-0.36	0.16	0.34	1.19
Three Years	2.29	0.27	-0.82	-1.09	-0.15	1.92
Five Years	2.30	0.83	-0.33	-0.70	0.54	2.55
Ten Years	3.93	2.78	1.72	0.45	2.37	4.59
Twenty Years	2.48	1.38	1.68	-1.16	0.45	2.08

OFFICE INDEX—QUARTILE RANGE OF RETURNS

