

# National Office Report



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Ask a question related to the PDF :

Summarize the state of the office market

Response:

The office market is experiencing a complex and widely variable landscape across geographies. While some markets, such as New York, have seen positive demand since 2024 Q2, others are still losing occupancy due to slow job growth. The national vacancy rate has reached a record 14.0%, driven by the addition of new supply and the expiration of leased space before the pandemic. Overall, demand remains anemic in most major markets, with rents expected to decelerate into 2025 and settle into anemic growth of around 1% per year through 2026.



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Ask a question related to the PDF :

What is the office national vacancy rate?

Response:

The national vacancy rate for office space in the United States is currently a record 14.0%, up 470 basis points from the end of 2019, according to the provided context. This is also supported by the KEY INDICATORS table, which lists the national vacancy rate as 14.0%.



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Ask a question related to the PDF :

What are the biggest headwinds for office?

Response:

The biggest headwinds for office space are:

- The persistence of inflation and the prospect of higher-for-longer interest rates, which could stifle economic growth and hiring.
- The stagnation of knowledge-oriented job growth, including layoffs in both public and private sectors, making job losses among office-using occupiers possible.
- The constrained supply pipeline, with diminishing large-block availabilities in premium buildings.



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Ask a question related to the PDF :

What are the biggest upsides for office?

Response:

According to the report, some of the biggest upsides for the office market include:

- Smaller occupiers continue to upgrade their spaces, indicating ongoing demand.
- Larger employers are tending to stay in place, enabled by smaller headcount growth and constrained by a lack of large-block availabilities in premium buildings.
- The anticipated fiscal stimulus from extended tax cuts could lead to accelerated economic growth and a near-term surge in hiring, boosting office demand.

# Forecast and Data White Paper



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Ask a question related to the PDF :

What kind of regression is used for the market models? Is it OLS or a different kind of regression?

Response:

The text doesn't explicitly mention the type of regression used in the market models, but it does discuss panel regressions and metro models.

However, based on common practices, it's likely that Ordinary Least Squares (OLS) regression is used for these market models, as OLS is a widely used method for linear regression analysis.

Answer: OLS





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Ask a question related to the PDF :

In the Vacancy forecast model, It is unclear what data is used : Is it log of vacancy in SF or log of vacancy rate?

Response:

According to Equation 1 in the Vacancy Model context ( $Vac = f(DD)$  ) where Vac is log vacancy and DD is demand driver growth), it appears that the model uses the "log vacancy" metric. However, I should note that I don't know if this specifically refers to the logarithm of vacancy rate or vacancy rate itself in square feet (SF).

Answer: log of vacancy rate



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Ask a question related to the PDF :

We are using some of your industrial submarket forecasts and notice a lot of negative net deliveries in t

Response:

The forecasts are based on the amount of construction underway, which is calculated by adding modeled starts and subtracting modeled deliveries (Equation 2). Modeled deliveries are estimated using the historical average of deliveries as a share of space underway in each market (Equation 3). Additionally, to account for potential delays, the forecast moves forward by one month the completion dates for every property currently under construction, effectively shifting approximately one-third of the supply into the following quarter. This adjustment can result in negative net deliveries in the future due to delayed completions and projects being pushed into subsequent quarters.

Answer: Every submarket's forecast includes an estimate for future demolitions/removals based on its historical average (see chart below with negative net deliveries in history). And if a submarket, such as this one, has little or no under construction, then the net deliveries forecast will be slightly negative in each quarter. Note that these do not represent actual properties that will be demolished in the future (CoStar does not track future demolitions), these just represent a chance of a demolition based on the submarket's historical average demolitions.

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Ask a question related to the PDF :

Does the forecasted office inventory account for planned demolitions or conversions from Office to anc

Response:

Yes, the forecasted office inventory can account for planned demolitions or conversions. According to the text, CoStar has a capability to make adjustments in the models using add factors to cluster or submarket forecasts, which includes accounting for known future events such as demolitions or conversions. This allows for more accurate forecasts by incorporating information that may not be reflected in the data.

Answer: The market level guidelines are just using historical averages of demolitions in the forecast. I don't believe they're in the property forecast until they happen, but then it's history



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Ask a question related to the PDF :

When CoStar reports market/submarket rents is this an aggregation of just market rate units or is it incl

Response:

I don't know. The provided context only mentions the methodology used to estimate rents for specific unit types and the creation of same-store rent series, but does not specify whether these reports include affordable units or are limited to market-rate units.

**Answer: Aggregate market/submarket rents are only of market rate units**



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Ask a question related to the PDF :

Are CoStar's market and submarket forecasts derived from property-level forecasts (data feeding botto

Response:

CoStar's market and submarket forecasts are actually the opposite, with data flowing from top-down. They start with market guidelines, which are then shared down to submarkets and finally to individual properties. In other words, CoStar's property-level forecasting process starts at the top (market level) and flows down, rather than starting at the bottom (property level) and aggregating up. This is illustrated in Exhibit 5.8.

Answer: CoStar's market and submarket forecasts are derived from property level forecasts that take into account individual building characteristics as well as those of nearby buildings such as impacts from new construction. These property forecasts, however, are also driven by a market level forecast based on an econometric model that takes into account each market's historical trends and macroeconomic factors such as interest rates and employment.



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Ask a question related to the PDF :

What are the drivers of the cap rate forecast model?

Response:

The drivers of the cap rate forecast model are secular capital market conditions and metro-level vacancy change. The model specification is  $\text{CapRate} = f(B, \Delta\text{Vac})$ , where  $B$  is the BBB corporate bond yield rate at time  $t$  and  $\Delta\text{Vac}$  is the change in vacancy rate at time  $t$ . This model performs particularly well at capturing the rise in long-term interest rates that began in 2022.

Answer: BBB corporate bond yield and change in vacancy rate



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Ask a question related to the PDF :

How do you model same store rent history for apartment?

Response:

To create a full time series back to 2000 for every unit model in any property for which a rent observation has been collected, CoStar follows three steps. First, they select the set of rents to use from available sources. Second, they estimate rents missing for time periods between actual observations. Finally, they estimate rents for unit models for which no rent information is available. This process ensures that rent trends only reflect market-driven movements, rather than changes in property composition and availability.

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Ask a question related to the PDF :

How is CoStar's historical data collected? Where does it come from?

Response:

Prior to 2012, CoStar draws on broad, metro-level trends from the U.S. Census. For other periods, the exact source of historical data collection for CoStar is not specified in the provided context. However, it can be inferred that CoStar uses a combination of actual rent information and market trends to fill gaps between observations for properties with some reported rent data. The company aggregates property-level data to produce series that control for changing market compositions and biases towards properties that report rents.

- Above is true for apartment, and in general. Need vectors to keep context: separate by heading? Or more naturally?



# Glossary

Ask a question related to the PDF :

Does leasing activity include renewals of existing leases?

Response:

Yes, leasing activity includes renewals of existing leases. Leasing activity refers to the volume of square footage committed to and signed in a given period, including direct leases, subleases, and renewals of existing leases. This means that lease renewals are factored into the calculation of leasing activity, unless the renewal involves the occupancy of additional space. If the lease renewal only continues the same occupancy as before, it is included in the leasing activity total.

- First two sentences are true, then adds extraneous details.