

# OFFICE PRICING AND RENT RATES RESEARCH ARTICLE

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The U.S. office market is the largest of the four major commercial real estate sectors totaling more than \$131 billion in market value, or 35.9% of the NCREIF market cap, which often causes investors to have a substantial weighting of office product within an investment portfolio. The ability to understand office space volatility, associated with market prices and rental rates, can shed light on investment risk.

On a price per square foot basis, secondary markets are generally more volatile than primary markets. The national average annual price volatility is 27%, with the more volatile markets like Kansas City, Fort Worth, and Charlotte having annual volatility above 35% and less volatile markets such as Washington DC, Chicago, and Boston are at or below 21%.<sup>1</sup>

However, the reverse is true for market rents, where primary markets tend to be more volatile. The national average rental rate volatility is 7% with some of the more volatile markets (Boston, San Francisco, and New York) ranging from 10% to 15% and lower volatility markets such as Charlotte, Memphis, and San Antonio are at or below 4%.

Interestingly, primary markets such as Boston, Chicago, Los Angeles, and Washington DC have above average rent volatility and below average price volatility. This is likely due to established companies gravitating toward major markets, and often signing longer-term leases that result in predictable cash flow and thus more stable pricing. Meanwhile market rents are at the margin, and real estate in primary markets tends to be supply constrained; volatility of asking rents can fluctuate widely at different points in the cycle. The volatility of both rents and pricing at the market level can influence whether a market is better suited to strategic or tactical investment. Generally, markets that are more volatile are better suited for tactical investment or short-term hold as opposed to long-term, strategic investing.

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<sup>1</sup> Per the RCA transaction data, based on assets that traded in a particular year.



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