

Office Asking Rents Will Decrease 3% to 4% in 2024

Class A office effective rents have fallen 1.2% since 2022, CBRE said.

By Richard Berger | December 26, 2023 at 07:55 AM



The struggle to maintain effective and asking rents for offices is real.

A new report that analyzed more than 3,400 lease comparables across 12 US office markets from 2019 to Q3 2023 from CBRE showed that effective rents in Class A+/A decreased by 1.2% since 2022 and those for Class B/C dropped by 3.9%.

Base rents for top-tier assets have increased for three consecutive years and are up by 2.6% since 2022.

CBRE said “record-high concessions” such as tenant improvement have driven effective rents lower.

CBRE forecasts that asking rents, which remained steady the past few quarters, will decrease by 3% to 4% in 2024 and concessions are expected to moderate.

Pierre Debbas, Managing Partner, Romer Debbas, tells GlobeSt.com that discounts from pre-pandemic rents on office space are certainly most reflective in the concessions that are being given.

“Landlords have the desire to maintain the recorded price per foot as high as possible and several concessions are generally not made public,” he said.

“Free rent and tenant improvements and allowances are the most common concessions and the ones that have increased the most post-COVID. While free rent was always customary in most office leases, the amount of free rent that is being given is significantly higher than in years past. As the office market adjusts to the new normal, we do not see the trend of concessions changing anytime soon.”

Thomas G. Koelzer, Partner, Tenant Advisors / CORFAC International, tells GlobeSt.com that today, he sees landlords being aggressive and creative with concessions.

“Whenever possible, they want to maintain their ‘face’ or asking net rental rates, preferring to sweeten their deals with aggressive concessions,” Koelzer said.

Free rent and tenant improvement allowances are increasing well beyond their pre-pandemic levels, he said. Additionally, if landlords are well capitalized, they may allow some amount of free rent to be converted to additional improvement funds.

TI allowances for top-tier assets averaged \$98.05 per sq. ft. through Q3 2023, up 13% since 2022, according to the report.

“Conversely, they may allow a good portion of any unused improvement allowance to be applied to additional rent abatement,” according to Koelzer.

“Many landlords are also allowing tenants to use part of the improvement allowance for items like furniture, equipment, etc. Landlords are also more willing to offer termination options, expansion options, etc. to give tenants maximum flexibility.”