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Moody's Analytics: US Office Rents Won't Reach Pre-Pandemic Rates Until 2026

NEW YORK, February 02, 2021 – Moody's Analytics today announced new forecasts for commercial real estate (CRE) rents and vacancies covering eight property types and more than 3,000 submarkets across the United States. These forecasts reflect the latest Q4 data on US CRE markets available via the REIS platform, the cornerstone of Moody's Analytics CRE Solutions.

The office sector will suffer more in 2021 than it did in 2020. According to our forecasts, the vacancy rate will rise to 19.4% this year (surpassing the previous high of 17.6% from 2010) and then hold steady in 2022. Although effective rents in this sector fell only 0.7% in 2020, the average effective office rent is projected to decline by 7.5% in 2021 before steadying in 2022. We do not expect average effective office rents to reach their pre-pandemic levels until 2026.

Silicon Valley will be hit hard this year, with our forecasts projecting effective office rent declines of 15% for San Francisco and 13.3% for San Jose. We expect New York to incur a rent decline of 8.9% in 2021; effective office rents in all three metro areas are likely to reach their respective low points in late 2022.

"Though we expect the office sector will suffer more severely in 2021 than it did in 2020, the vaccine rollout brings hope for more in-person business later this year and into 2022," said Barbara Denham, Senior CRE Economist at Moody's Analytics.

The overall outlook for the apartment sector is mixed, with New York and San Francisco expected to remain among the most affected cities. Our forecasts show the national average effective rent declining 1.8% in 2021 after falling a record 3.0% in 2020. We project apartments in New York City to see an effective rent decline of 6.4% this year, compounding their 12.2% decline last year. San Francisco, meanwhile, is expected to see its average rent decline 5.4% in 2021, following a 14.9% drop in 2020.

Many will be watching the rent declines in New York and much of California in the hope of migrating back or seeking a cost-adjusted lifestyle in the coastal cities," continued Ms. Denham. "We expect both New York and San Francisco to see some recovery in 2022."

The bricks-and-mortar retail sector has so far been the sector most affected by the pandemic and the subsequent rise in e-commerce sales. We project neighborhood and community shopping center vacancy rates to reach a high this year of 12.7%, up from 10.5% at the end of 2020. As bricks-and-mortar retailers continue to suffer, however, the warehouse/distribution sector is expected to see effective rent growth of 0.2% in 2021 and then a 1.7% rise in 2022. This was the only property type to see positive rent growth last year.

CRE market participants can access these forecasts through the Moody's Analytics REIS platform and gain further insight by using the Moody's Analytics COVID-19 CRE Impact Dashboard, available free for the duration of the crisis.

About Moody's Analytics

Moody's Analytics provides financial intelligence and analytical tools to help business leaders make better, faster decisions. Our deep risk expertise, expansive information resources, and innovative application of technology help our clients confidently navigate an evolving marketplace. We are known for our industry-leading and award-winning solutions, made up of research, data, software, and professional services, assembled to deliver a seamless customer experience. We create confidence in thousands of organizations worldwide, with our commitment to excellence, open mindset approach, and focus on meeting customer needs. For more information about Moody's Analytics, visit our website or connect with us on Twitter or LinkedIn.

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