Is Now a Good Time to Buy Office? Experts Weigh In

History shows that opportunities now could prove to pay off.

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Colliers wonders if the “next great buying cycle” for office could be now.

It points to research by Revolution that notes that when lenders tighten, the four-year forward price change vastly outperforms.

“Think back to the early 1990s savings and loan crisis, the dot-com bust, and the Global Financial Crisis,” Colliers’ Aaron Jodka wrote. “Those who acquired assets during those periods saw strong outperformance in the years that followed.”

Not everyone would agree. Indeed, office investment sales have plunged amid the sector’s uncertainty. Thomas G. Koelzer, partner, Tenant Advisors/CORFAC International, tells GlobeSt.com that office building values are declining, and that sellers and buyers are far apart in agreeing on values. “Many sellers have resorted to auctions to sell their properties since there’s not enough market data to support the normal sales channels.”

Furthermore, “more bad news is coming for landlords because the full pain of the post-pandemic office market hasn’t been felt, since many tenants still have time left on their leases. As these leases expire, many tenants will either reduce their size or simply not renew their leases. This phenomenon means a long-term (if not permanent) reduction in the demand for office space.”

Then again, Jodka may have a point. An informal survey of CRE experts suggests that there are some niche opportunities presenting themselves in certain markets and property types.

Small-Office Buyers Have Opportunities

Craig Tomlinson, Northmarq senior vice president, tells GlobeSt.com that office is out of favor with the investor herd, but that spells an opportunity for buyers willing to do their homework.

“The ‘bad news’ is derived from increasing vacancy and sublet space surrendered by large corporations in urban office towers and in leased corporate campuses,” he said.

"Large corporations, in general, have not mandated return-to-work, or have shifted to hybrid models that need significantly less space. Not so with the smaller suburban offices. Those buildings tend to be occupied by small or private businesses where the decision makers are onsite and want their staff presents too."

Tomlinson said that suburban office 100,000 SF and less also tends to have a rent roll without a dominant tenant, diversifying an investor's rollover risk.

"Smaller office buildings are more likely to be owned by private investors who may be more motivated to transact in a rising rate environment," he said. "'Big capital' doesn't like 'small office' because aggregation is a chore and so is management. That fact has created a real opportunity for buyers of smaller office buildings that will persist through 2023."

'Everything is Still Scrambled'

Manuel Fishman, shareholder, Buchalter who represents real estate developers and owners in the acquisition, sale, and financing of commercial properties, tells GlobeSt.com that when it comes to buying office assets today, the short answer is "no" for multi-tenant office and "yes" for single-tenant occupancy, triple net buildings, with a credit tenant.

"There is too much uncertainty for multi-tenant office, office occupancy, office demand, interest rate climate, and return on capital," Fishman said.

"Everything is still scrambled, and assets are still not being written down to true value. Now is the time to fundraise for money and come up with a thesis for which segment of the market to invest in. The time to invest will be later."

The Next Buying Cycle 'Has Started'

Ed Del Beccaro, EVP/San Francisco Bay Area regional manager of TRI Commercial Real Estate/CORFAC International, tells GlobeSt.com that the next buying cycle for office has started.

"Higher interest rates, high vacancies are having various office ownerships receding their office portfolios both on the mom-and-pop and institutional levels," Beccaro said.

"In some cases, owners are just going to sell to cut their losses as loans become due or major tenant leases expire who are not renewing over next year. In other cases, opportunistic buyers will look at buying older class and B buildings to convert to life science or housing or just tear down."

Price Discounts Not Seen in 14 Years

Chris Okada, CEO, Okada & Company, tells GlobeSt.com that today, select asset classes in New York City's commercial real estate market, including office space, are experiencing a decline in prices, reaching levels last observed in 2009.

"High vacancy rates due to remote and hybrid work models, high-interest rates, limitations imposed by rent stabilization and rent control laws, and economic uncertainty have led to this decline," Okada said.

As a result, the number of office-related foreclosures, mortgage defaults, and deeds in lieu of foreclosure negotiations have skyrocketed in 2023," he said. "However, due to the problems this sector faces, we have begun to see some incredible price discounts not seen in 14 years.

"With discounts ranging from 30% to 60% off-peak pricing, there are remarkable investment opportunities present in New York City commercial real estate, particularly in office space. Okada & Co. believes the next 12 to 24 months present opportunities for significant returns on real estate investments, possibly the most significant in a 25-year period."

Erik Edeen, director of operations, Tri-State Investment Sales, based in Avison Young's New York City office, tells GlobeSt.com that the office sales market in New York follows the "tale of two cities" narrative prevalent in the leasing market.

"Trophy/Class-A buildings with strong rent rolls can still be underwritten and financed while the lower quality buildings have a less certain future," Edeen said. "While cap rates have expanded across the board, the more speculative and lower-end assets are finding difficulty in a market that's sparse with price discovery."

South Florida Is Thriving

Daniel Chaberman, Grupo Eco Developer, tells GlobeSt.com that South Florida is an attractive market for many forms of CRE.

"While most of the country and cities in the world are struggling, facing a recession or dealing with the consequences of COVID-19, we are on the opposite side of the spectrum in South Florida," he said.

"The response to COVID-19 generated a large amount of migration of wealthy families from New York, Chicago, and the West Coast. We have been receiving a lot of businesses and many like Grupo Eco have relocated their headquarters to South Florida.

"And we are still seeing important businesses and firms relocating into the state. We are very positive about the transformation of the market here that started with COVID-19."

Don't Acquire Just Because Asset Looks 'Cheap'

All that said, Mukang Cho, CEO and managing principal of Morning Calm Management, reminds readers of the volatility in the capital markets, which could make any purchase difficult.

He said the financing environment for real estate is difficult with lenders of all types continuing to deleverage and stay on the sidelines as they deal with certain issues, such as problems with their legacy portfolios or an inability to effectively finance their positions.

“Financing for office buildings as a whole remains dislocated if not broken,” Cho said. “This environment is different from the Great Financial Crisis and will reward the best ‘stock pickers.’ One cannot acquire office buildings indiscriminately just because they seem “cheap”; and just about everything will appear “cheap” compared to recent historic prices.

“Market fundamentals, the relative competitiveness of the underlying asset versus the market, nature of the existing rent roll, a sponsor’s expertise in operating office buildings – these things will matter more than ever as the capital markets will no longer bail out underperformance.”

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