



US Office Sector May Be on Verge of 'Unfortunate New Territory'

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With job losses far exceeding initial expectations, the U.S. office market may be entering "unfortunate new territory," according to CoStar's latest analysis.

Last week's unemployment claims report raised the total number to 22 million Americans out of work in the past four weeks, Michael Roessle, CoStar's director of U.S. office analytics, said in a new video.

"The extent of job losses to date far exceeds the 5.3 million assumed by the economic inputs underlying our current office forecasts," Roessle said. So CoStar has been re-running its forecasts, using new guidance calling for job losses totaling 23.8 million in the second quarter

for a baseline, according to Roessle. CoStar also did two additional, more pessimistic projections, based on even greater unemployment figures.

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"This is unfortunate new territory as we have never entered figures like this into our forecasting models," Roessle said.

In terms of the coronavirus outbreak's impact on office rent increases, CoStar's new baseline scenario "shows rent growth reaching a trough in early 2021, with a strong rebound at year-end," according to Roessle.

"Thereafter, growth reverts back close to the pace we've seen over the last few years," he said. "The new moderate downside scenario has somewhat greater losses, but the recovery starts later and is weaker as the economic impact of the pandemic stretches longer. And, in the severe downside, asking rent losses total nearly 20% and don't return to current levels for the remainder of the forecast."

Roessle added a caveat: "It's important to remember that these are all asking rent forecasts and don't include the effects of higher concessions, which will undoubtedly put further downward pressure on a landlord's effective rent. At the same time, this could present opportunities for well-capitalized, stable tenants to negotiate deal terms not seen in a decade or more for top-quality space."

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