Tech Markets Post Sudden Jump in Vacancies

This is a change from last quarter when many tech markets posted declines in vacancies.

By Erik Sherman

Office valuations and rents have been hit hard with changing conditions of work and how companies are being forced to manage their real estate. But what's happening with tech office use, particularly in the wake of the Biden administrations tech hubs strategy?

The general view across all office properties is tough. CRED iQ reviewed 190 appraisals of major properties across all asset classes in special servicing for the first half of 2023 to determine the impact of current market conditions on asset values. Office saw a collective valuation decline of 48.7%.

Moody's Analytics CRE found CMBS loan payoffs struggling. "The month of September saw ~$755mm CMBS office loans reach their fully extended maturity, the lowest number since April," they wrote. "The payoff rate of these maturities, while better than July and August, still came in at a paltry 11.1%. The YTD pay off rate fell slightly to 31.2%. Of the loans that have failed to pay off at maturity in 2023, half have managed to secure extensions from special servicers."

But those are collective averages. Moody's recently looked at the performance in tech markets, where the strength — or possibly weakness — could have an outsized impact.

"The third quarter presented a shift in the tech market, contrasting with the previous quarter's significant vacancy decline in emerging markets," wrote David Caputo, a data scientist at Moody's. "This quarter, traditional tech markets, emerging markets, and the national average all moved in harmony, each experiencing a 30 bps increase in vacancies."

Traditional tech markets San Francisco, Raleigh-Durham, and Austin respectively saw vacancy increases of 140, 120, and 100 basis points. Emerging tech markets Nashville and Greenville were up 170 and 100 basis points respectively. In the second quarter, Nashville saw an improvement of 320 basis points and Greenville, 80.

Rent trends are heading in two directions overall. Emerging markets in the third quarter saw a 0.6% increase; established markets saw a drop of -0.1%. The overall national market increased by 0.1%. "As expected, the top-performing metros were predominantly emerging markets, with three of the top four being Miami (1.2%), San Bernardino (0.6%), and Norfolk (0.5%)," Caputo wrote. "The highest-performing established tech markets included Colorado Springs (0.7%), Atlanta (0.4%), and Dallas (0.4%)."

As for the White House's Regional Tech Hubs and Strategy Development Grants, Caputo noted, "Five of our established tech markets (Dallas, Baltimore, Denver, Chicago, Seattle) and three of our emerging markets (Miami, Greenville, Buffalo) have been included in the 2023 Tech Hub Designees. Additionally, three of our metros have received strategy development grants, including traditional tech metro Dallas and emerging markets Salt Lake City and San Bernardino."

It isn't surprising that more traditional tech locations received hub status. As the White House wrote when announcing the hub selections, "For too long, economic growth and opportunity has clustered in a few cities on the coasts. Tech Hubs awardees were selected to represent the full diversity of America, selected from more than 370 applications spanning 49 states and four territories."