

HOW HEALTHY IS THE OFFICE MARKET?

In today's business environment, ideas and opinions are widely shared, often without sufficient context or sourcing. This can lead to confusion. We take a disciplined approach by grounding our strategies and conclusions in data, allowing the data to drive the discussion.

The state of the office market's health is currently a topic of significant conversation. To start, there is no single "national" office market. Each city, and each submarket within it, has distinct characteristics that must be analyzed independently.

The health of an office market is fundamentally driven by supply and demand. Office demand is primarily a function of employment, making job growth a critical starting point for any analysis. However, not all jobs require office space. Meaningful demand analysis requires isolating white-collar employment, with particular emphasis on FIRE sector jobs.

Using conservative assumptions for square footage per employee, combined with historical trends and known or planned construction, we project future absorption. By analyzing the relationship between absorption and total inventory, we can forecast occupancy levels. Occupancy, in turn, is the primary driver of rental rates. Studying the historical relationship between occupancy and rents within a specific market allows us to project rental growth over time.

By integrating sourced historical and projected data with market expertise and critical analysis, we develop a clear view of both current and future market health. We have applied this framework across numerous markets, and the results reinforce a simple truth: markets are not uniform. Some, such as DFW, are positioned for strong performance driven by job growth, absorption, and rising rents. Others, including San Francisco, face declining FIRE employment, weaker absorption, and muted rent growth.

Despite these fundamentals, office assets in San Francisco continue to command higher values than those in DFW for reasons beyond market demand alone. Ultimately, investors must determine which factors matter most to them and evaluate markets accordingly. But in no case should investors rely on media reports or national assessments.

Broad generalizations about the office market overlook the complexity of the underlying drivers. The data tells a far more accurate story.



Jon Ruff, President/COO
Spire Realty Group

A TALE OF TWO MARKETS...

The following charts apply the methodology outlined above and present each analytical step for both DFW and San Francisco to provide comparative context.

Chart 1 illustrates employment trends across total, white-collar, and FIRE sector jobs. The data clearly shows that employment growth—particularly within the FIRE sector—is significantly stronger in DFW than in San Francisco.

Chart 2 examines office inventory and occupancy, indicating that San Francisco's occupancy is expected to remain well below its historical average while inventory continues to expand.

Chart 3 compares absorption and occupancy, revealing a stark contrast between the two markets.

Chart 4 presents average rental rates alongside occupancy, demonstrating that growth in DFW substantially outpaces that of San Francisco.

Chart 5 analyzes average sale prices and cap rates. While values in DFW are increasing at a faster rate, cap rates in San Francisco remain lower, resulting in higher overall valuations.

This represents one of several analyses we conduct to identify markets we believe are best positioned for future performance. The process also informs key assumptions used in our underwriting.

If you would like to discuss this analysis or the underlying data, please contact us – we are always happy to discuss.

CONTACT US...

Spire Realty Group, LP
5210 McKinney Dallas TX 75205
p: 214.740.2300
e: info@spirerealty.com
w: www.spirerealty.com

Chart 1

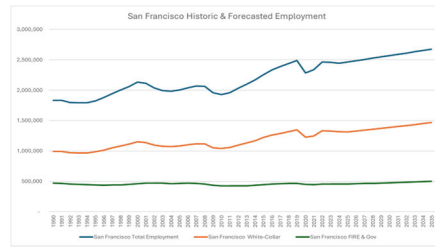
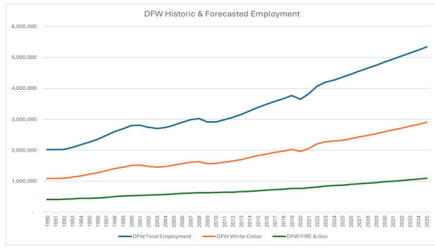


Chart 2

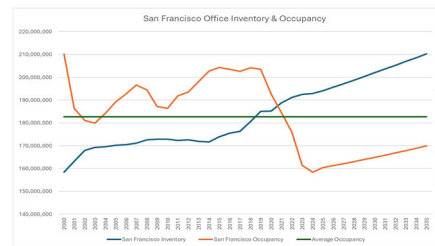
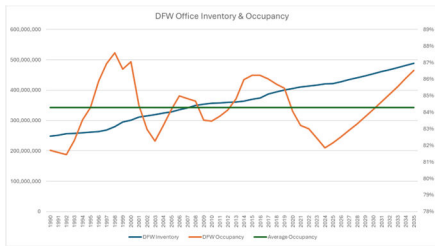


Chart 3

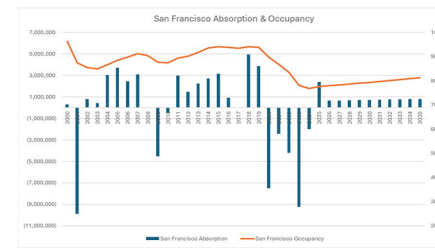
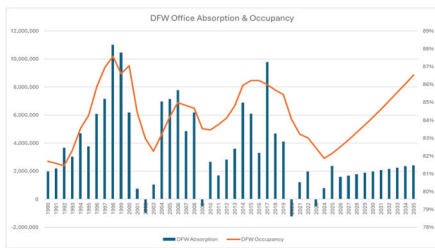


Chart 4

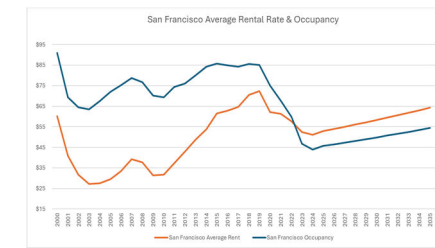
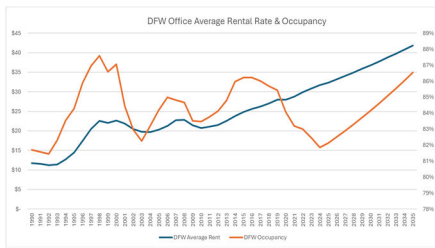


Chart 5

