Value-Add Office Is Back In Favor With Investors

Risk tolerance is growing among office investors, driving improved liquidity for value-add assets.

By **Paul Bergeron** | November 19, 2021

Throughout the majority of the pandemic, office investors were widely driven by a flight-to-quality, as those assets offered the most resilience amid demand uncertainty.

While core and core-plus office properties are still in favor, value-add liquidity is quickly recovering as clarity surrounding rent growth and the future of office demand improve, according to new findings from JLL.

Thus far in 2021, value-add is the most sought-after profile with the share of value-add office properties in the current pipeline recovered from declines in 2020, and now recovering towards the 2017-2019 levels, JLL said. Additionally, value-add buyer pools are broadening after significant impact in 2020 and have seen the most improvement in 2021 relative to 2020.

“We’re seeing investors pivot back to previously out of favor sectors like office and hospitality that can produce very attractive yields,” said Coleman Benedict, senior managing director and co-head of JLL’s National Office Practice, in prepared remarks. “As part of this rotation back to office, value-add is definitely back on investors’ radar reinforcing the investment community’s confidence in the long-term stability of the office market.”

‘Uncertainty No Longer Clouds’ Multi-Tenant Asset Sectors

Ryan Roedersheimer, director in Stan Johnson Company’s Cincinnati office, specializes in nationwide multi-tenant investment property sales. He tells GlobeSt that he has seen a resurgence of interest in recent months for a variety of asset classes that had demand levels squeezed by the pandemic.

“The most renewed interest is in multi-tenant assets—this includes office and retail, with an emphasis on value-add properties,” Roedersheimer said. “Uncertainty no longer completely clouds these sectors. Workers are returning to office environments and consumers are returning to stores.

“For investors who’ve been chasing yield, they’re finding fewer options in the red-hot industrial market, and this dynamic is leading them to look elsewhere. With suppressed demand for multi-tenant assets in the last two years, there’s a lot of opportunity here for investors, and it will be interesting to see the story play out in 2022.”

The Specter of Hybrid Work

To be sure, questions remain surrounding the impact of hybrid work on office demand. However, the majority of corporate occupiers have signaled that the office will remain the center of the work ecosystem. Hybrid work’s net impact on space usage and footprints will be relatively minor. Leasing activity supports this thesis, JLL notes, which nearly surpassed 40 million square feet in Q3 2021 for the first time since the onset of the pandemic and bringing the trailing six-month transaction total almost 40% above the same time period in 2020.

Recent sales also drive home the rediscovery of value-add office's appeal. There was the $155 million sale of Mount Eden Research Park in the Bay Area and the $56.5 million sale of CASA in Phoenix.

"The amount of interest we received for Mt. Eden was truly astounding," said Senior Managing Director Rob Hielscher, JLL Capital Markets. "A combination of value-add and life sciences drove pricing and the number of bids upward in a highly competitive process."

The CASA office sale set a new price-per-square-foot record for Phoenix's Piestewa Peak submarket.
