

Business

Office Landlords See Best Quarter Since Covid But Are Still at Risk

- Group outperforms S&P 500 in 3Q for the first time since 2020
- Best-performing group among REITs, shedding just 1.5%



KKR's Rosenberg Sees No Capitulation for US Real Estate Market

By [Norah Mulinda](#)

October 6, 2023 at 12:45 PM EDT

🔒 This article is for **subscribers only**.

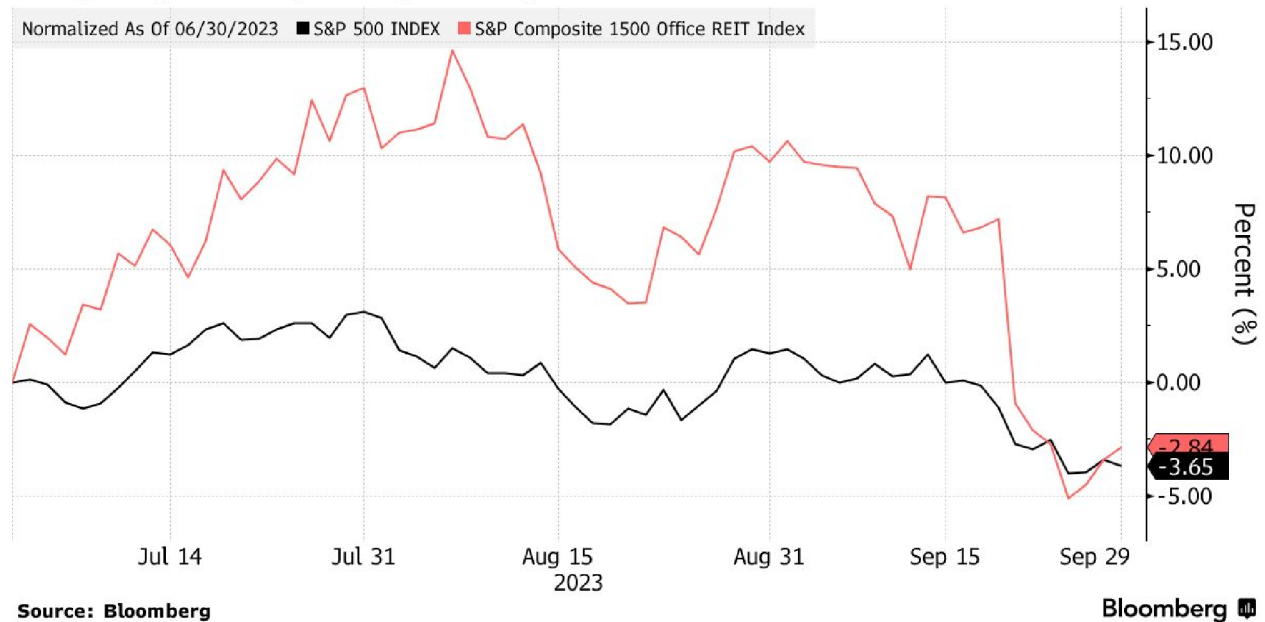
This year's biggest real estate loser is flipping the script when it comes to performance – but it's still on shaky ground.

In a surprising display of strength, one of the real estate sector's weakest links pulled through the third-quarter as a relative bright spot. Office owners staged their first quarterly outperformance against the S&P 500 Index since 2020. The group slipped just 2.8% for the third-quarter, compared to the S&P 500's nearly 3.7% quarterly drop.

It's a drastic improvement from the lows the group has clocked in since the start of the pandemic, but the sector is vulnerable to the elevated interest-rate environment. Last month, there was a surprise spike in hiring in the US, sparking concerns that the Federal Reserve will hike rates again before the end of the year.

Office Landlords Outperform S&P 500

Group stages first quarterly beat against broader market since 2020



The robust jobs report sent real estate 🏢 stocks plummeting, making it among the worst-performing sectors in the S&P 500. Office REITs hit their lowest intraday level since 2009 Friday.

Despite the latest blow, the group just wrapped up its best quarter since the start of the pandemic compared with its real estate landlord peers, falling just 1.5% in the third-quarter, according to Evercore ISI data. Only data centers came close to office landlords shedding 2.5%.

Office owners received a lift during the third-quarter after SL Green Realty Corp. sold its 49.9% stake in 245 Park Avenue in late June, spurring a broad-based relief rally across the entire peer group, according to Bloomberg Intelligence analyst Jeffery Langbaum.

“That may just be one data point, but it showed that at least one investor was willing to put incremental equity capital into an office building, and absorb a large amount of office-backed debt,” he said.

That deal provided a tailwind for even the most beaten-down office owner this year. Los-Angeles-based [Hudson Pacific Properties](#), which is down 40% year-to-date, jumped 58% during the third-quarter becoming the biggest gainer for the period. Similarly, New York-based office owners [Vornado Realty Trust](#) and SL Green advanced 25% and 24%, respectively.

Even in San Francisco, where office landlords have seen outsized vacancy rates since the onset of Covid-19, there are signs of relief. The number of tenants in the market has risen to 180 from 137 at the beginning of the year with square-footage requirements nearly doubling, Evercore ISI analyst Steve Sakwa wrote in a note. But he warns much of the incremental demand stems from tenants with future lease expirations.

“Commercial real estate owners and purchasers have to be willing to play the longer game,” said Mary Daly, the Federal Reserve Bank of San Francisco president at the Economic Club of New York on Thursday. “You have to have a strong constitution to be in commercial real estate because it goes through cycles.”

Contact us:

[Provide news feedback or report an error](#)

Site feedback:

[Take our Survey](#) [↗](#)

Confidential tip?

[Send a tip to our reporters](#)

Before it's here, it's on the [Bloomberg Terminal](#)

©2025 Bloomberg L.P. All Rights Reserved.
