This building was worth NOK three billion in 2019. Now it has been sold for NOK 600 million.

Five minutes away, this hotel has lost
90 percent of its value.

Experts describe the situation as "an apocalypse".

Photo: Jason Henry / E24

E24 in Silicon Valley

The office collapse in the US

Av Linn Kongsli Hillestad og Jason Henry (Photo)

Updated yesterday 12:49

The short version

- The pandemic and a growing trend of home offices have led to a drop in

view more

SAN FRANCISCO (E24): The band has almost no audience. Only a security guard and a handful of others have gathered to watch them play.

It's Wednesday and lunchtime in the heart of San Francisco's financial district, but many of the windows are dark in the skyscraper in front of the five musicians.

The 52-story building is owned by Donald Trump and the investment company Vornado Realty Trust, and it should have been a lucrative investment.

Before the pandemic, some of the world's most valuable properties were located in this area.

Now the property barons have asked for more time to repay their loan of around NOK 12 billion. Monthly costs have increased by 38 percent since 2021, and in February the building was placed on a special watch list for lenders, according to Bloomberg .

SMALL AUDIENCE: A band plays in front of a debt-ridden skyscraper at 555 California Street on a Wednesday in the middle of lunch. But there aren't that many to entertain. Photo: Jason Henry / E24

Nevertheless, this is by no means the most exposed high-rise building in the area.

Just across the street, the major bank Wells Fargo recently sold an office building at a loss of over NOK 600 million. The owners of two other skyscrapers a stone's throw away are no longer able to service their debts.

If you walk three minutes down towards the harbour, you will find another office building, which just four years ago was valued at over three billion kroner, according to the Wall Street Journal . At the end of May it was sold. For 600 million.

- The values of office properties are just plummeting, says CEO Harold Bordwin of Keen-Summit Capital Partners, a company that assists debt-ridden property owners.

He emphasizes that the price drop can have major knock-on effects.

- We are in a very dangerous situation, where we can end up in a very vicious circle, he says.

"Zombie Offices"

The financial drama unfolding in the American office market has several causes. It started with the pandemic when the vast majority of people worked from home.

Many people in the USA have continued with this, and employers therefore no longer see the same need for office premises.

Thus, they terminate or scale back contracts, which has resulted in half-empty office buildings, or "zombie offices" as they have been dubbed by more or less tabloid newspapers.

At the same time, the owners' loans must preferably be refinanced every five to seven years. Then both value and interest are adjusted - which have not been higher in the US for 22 years.

This is how property values of billions of kroner have almost evaporated.

- We have loans maturing, while income and valuations have decreased and costs have increased, says Harold Bordwin.

- Many are simply unable to refinance their debt, because the value of the building is lower than the loan, he says.

IN THE MIDDLE OF THE BUTTER EYE: Passers-by in Union Square, San Francisco's most vibrant commercial area before the pandemic. Now at least 17 stores have closed down, and the owners of the iconic Westin St. Francis Hotel have applied to lower the value by as much as 90 percent, from approx. NOK 7.9 billion down to approx. 770 million. Photo: Jason Henry / E24

This year alone, more than NOK 800 billion in debt on American office buildings will have to be refinanced, according to data firm Trepp .

At the same time, there are more and more people in this sector who are unable to service their loans.

- Outstanding payments have increased sharply. It is rather worrying, says senior director Manus Clancy at Trepp.

He explains that the share of unpaid debt in the office sector was around 1.5 per cent at the end of last year. Now it is almost up to 5 percent - a tripling in eight months.

In May, the US Federal Reserve highlighted commercial real estate as an area of concern in its Financial Stability Report , warning that the scale could be "significant".

The author of "Rich Dad, Poor Dad", Robert Kiyosaki, has gone even further. In June, he declared that the United States was facing "the biggest real estate crash ever." The financial crisis in 2008 will look insignificant in comparison, he claims.

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Nowhere is the situation bleaker than in San Francisco, and John Bryant is at the heart of the storm.

As head of the local branch of the Building Owners and Managers Association, Bryant represents both those who own and operate the city's skyscrapers. The clients' situation is described as "challenging".

- When you don't have customers who are willing to pay for your services, it becomes difficult for us as an industry, says Bryant.

- If the demand is not present, the business model will suffer.

"IN THE MIDDLE OF THE STORM": John Bryant heads the Building Owners and Managers Association in San Francisco. They live in the middle of the city's financial district, or "in the heart of the storm", as he puts it himself. The clients struggle both with lower values, empty buildings and a market that pushes rental prices down. Photo: Jason Henry / E24

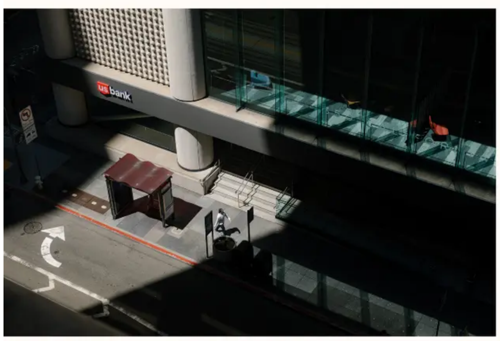
"An Apocalypse"

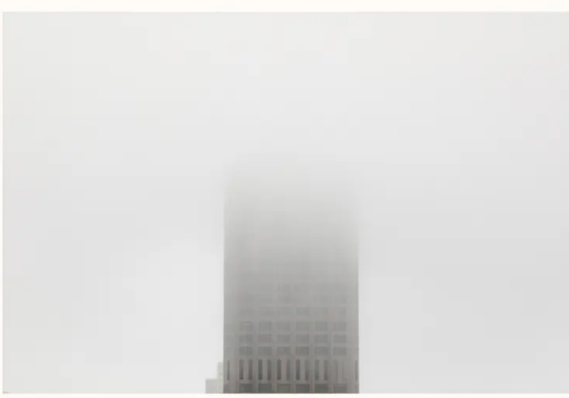
In total, there are now over 2.5 million square meters of office space available in the foggy city, according to real estate company CBRE – enough to house over 92,000 people, the San Francisco Chronicle estimates . The technology industry is the main reason why San Francisco is so hard hit.

Many tech companies expanded widely before the pandemic, and therefore had too much space

- In addition, there are extra people in this industry who work from home, says Richard Barkham, global chief economist at CBRE.

They estimate that the office vacancy rate in San Francisco was at a record 31.6 percent in the second quarter, more than seven times higher than before the pandemic. And the situation doesn't seem to be improving anytime soon.





According to Capital Economics, commercial real estate values in San Francisco will drop by 40-45 percent between 2023 and 2025. McKinsey predicts a decline in demand for office and retail space of between 20 and 42 percent until 2030.

In New York, researchers from New York University and Columbia University have estimated that the value of the city's office space will have fallen by 44 percent by 2029, compared to before the pandemic.

The title of the study is telling. Here, the academics describe the situation as "an apocalypse".

In many other large American cities too, unemployment is well over 20 per cent, and Richard Barkham in CBRE believes it may take around ten years before the situation returns to normal.

This applies both in the technology capital on the west coast and in the rest of the country.

- These things don't change very quickly, says Barkham.

- Many offices will never be used again, and it is not so easy to simply convert them into homes either.

That said, local and federal policymakers are thinking hard about how to accelerate the transition from offices to more housing, using tax credits and subsidies.

Towards a deficit of billions

In San Francisco, a bunch of building owners have already given up. A shopping center and the city's largest hotel are examples of properties recently handed over to lenders. They probably won't be the last either, says economics professor Ken Rosen.

- This is just the beginning, says Rosen, who heads Berkeley's Center for Real Estate and Urban Economics.

- I think this will happen more and more, not just here, but all over the country, he says.

TOM MAGI: Two lonely unicorns stand in a dark office window in San Francisco's financial district. As a reminder of brighter times, when far more start-ups reached unicorn status, with a valuation of over a billion dollars. Photo: Jason Henry / E24

That could be bad news for creditors. They are not contractors, and the question is how long they can keep the buildings, we are to believe Harold Bordwin of Keen-Summit Capital Partners.

- In the end, they have to sell, and then they don't get the value the properties were listed at in the accounts, he says.

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The luxury hotel Huntington Hotel, for example, was put up for forced auction after a loan of over NOK 560 million fell due last year. It was sold for about half.

Recent examples also do not give more reason for hope for the banks. Last week, a commercial building in downtown San Francisco changed hands, and the sale price was NOK 660 million lower than nine years ago.

- This is going to be a significant burden on the financial institutions, says Harold Bordwin.

HUGE DROP IN VALUE: This commercial building was bought for around NOK 1.1 billion in 2014. Last week it was sold for approx. 410 million, explains Manus Clancy in Trepp to E24. Photo: Jason Henry / E24

The vicious circle he describes, however, extends further than this.

Because when property values deteriorate, large parts of the local authorities' tax income disappear. Then they have to cut services to the residents, who may decide to move away. It affects property prices even more. And so on.

- The cities will start to weather, says David Bitner, who works as an analyst for Newmark in San Francisco.

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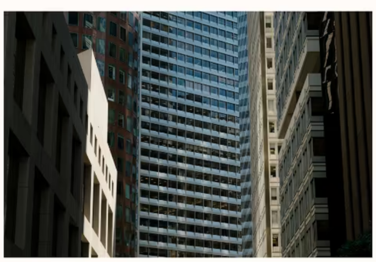
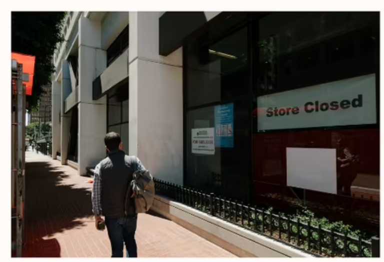
Here, mayor London Breed has already estimated a budget deficit of approx. NOK 7.8 billion over the next two years, but there are also some bright spots on the horizon.

Research director Alexander Quinn at the real estate company JLL says that the gold rush in artificial intelligence has brought them several new tenants in San Francisco.





Since January, there has also been an increase in foot traffic in the center of around 40 percent, but there is still not much to celebrate, according to general manager Robbie Silver of the organization Downtown Community Benefit District.

Now - *this autumn* - he has faith that it can really come off.

In the meantime, the organization has implemented a number of measures to revitalize the city.

Like hiring musicians to play outside office buildings during lunchtime.

- In order for the situation to improve, people are needed who are physically present in the city centre, people who return to work, says Silver.

SMALL JUBILEE: The situation in the center of San Francisco has improved a lot in the past year, with far more people out on the streets, says general manager Robbie Silver of the organization Downtown Community Benefit District. But there is still a long way to go. Photo: Jason Henry / E24

If or when that will happen, no one knows. Among the experts E24 has spoken to, there are divided opinions. Some believe that a structural shift has taken place, and that the situation will never be the same as it was.

Others predict that people will gradually return to the offices again, at least for part of the week.

However, Berkeley professor Ken Rosen does not believe that San Francisco is in a downward spiral.

- I think it will take a lot of work to get the city back on track, he says.

- But we have done it before, and I really hope and believe that it will happen again.

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Linn Kongsli Hillestad skriver om teknologi og næringsliv i USA

Tips: Linn@e24.no

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Kontorkollaps i Norge er like om hjørnet. Medarbeider som arbeider hjemme sparer fort netto 300-600:-/arbeidsdag. Bildrift inkludert bompenger og parkering blir fort store summer i måneden. Lunsj hjemme sparer noen kroner det også. Å så var det timene i pendler kø, 200-300 timer/år, tilsvarer 25-35 arbeidsdager. Eiendomsselskaper med høy gjeldsgrad får helt sikkert problemer, renten skal forhandles på et høyt nivå ved neste korsvei. En del arbeidsgivere prøver å tvinge ansatte tilbake til pulten, risikerer da å miste vedkommende. Fortsatt godt om ledige jobb for tiden.

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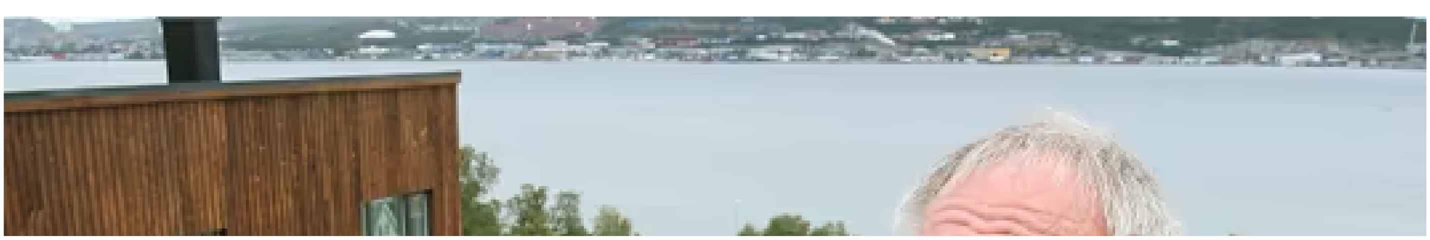

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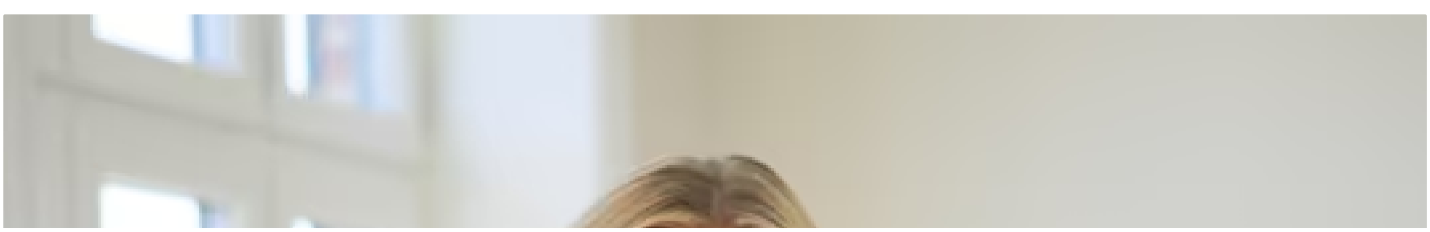

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