

Yardi® Matrix

National Office Report

May 2019



U.S. Office Property: Austin Powers Rise in Asking Rents

- U.S. office asking rents increased by 1.1% in April over the previous three-month period, to \$36.40, according to Yardi Matrix. Despite the steady growth in new supply, robust absorption helped the national vacancy rate remain unchanged at 13.7%.
- A handful of markets, led by Austin at 9.1%, saw outside increases in asking rents. Of the 25 major markets in our report, 19 saw gains over the last three months, while six had declines. Office rents are fairly strong across the board, reflecting the continued health of the economy and the growth of the technology, health care and coworking segments. Most of the markets with the largest increases have in recent months added listings of new Class A buildings with attractive amenity packages and the most up-to-date technology.
- Recently added listings in Austin include Indeed Tower, Sol at 618 Tillery and One Barton Skyway. Indeed Tower is a 36-story building known as Block 71 until internet job search firm Indeed occupied a large chunk of the building and assumed the naming rights. It is scheduled to come online in the spring of 2021. The 680,000-square-foot Downtown building has gotten off to a good start on the leasing front, but 265,000 square feet remains available at an average list price of \$48 per square foot triple-net. The Teachers Retirement System of Texas recently announced it would occupy part of the building, which will have a mix of New Economy and traditional institutional tenants. Trammell Crow Co. is the developer.
- Austin's Sol at 618 Tillery, located in an urban East Austin submarket, is a converted warehouse being repurposed as a Class A office property by developer Peter Barlin. Scheduled to open this summer, the property has 187,000 square feet of rentable space available at \$38 per square foot triple-net. One Barton Skyway, a circa-1999 four-story suburban office building at 1501 S. Mopac Expressway, has 110,000 square feet available at \$33 per square foot triple-net. The 195,000-square-foot property is owned by Brandywine Realty Trust of Philadelphia.
- Transaction activity has picked up somewhat, with \$19.8 billion of deals closed through the end of April, but deal flow remains weak compared to recent years.

Lease Rate and Occupancy Trends: Asking Rents on the Rise in Most Metros

- Asking rents averaged \$36.40 per square foot nationally in April, up 1.1% from three months ago, as the vacancy rate remains unchanged. Metros with gains outnumbered those with decreases by a three-to-one ratio.
- Growth was strongest in markets with a healthy dose of New Economy and technology tenants, namely Austin (9.1%), Brooklyn (8.6%), the Bay Area (6.5%) and San Francisco (4.0%). But smaller markets have also seen decent rental rate growth in the last few months, including Tampa (3.5%) and Nashville (3.2%).
- Only two metros—Chicago (-1.9%) and Seattle (-1.8%)—saw declines of more than 1.0%. Seattle's office market remains healthy, with a slim 8.7% vacancy rate, so the decline likely reflects a temporary dip due to new supply.
- Chicago's decline is slightly more worrisome. The market's vacancy rate is 14.7%, with the Loop submarkets more in demand than elsewhere in the metro. Also, the 2.1 million-square-foot rehabilitation of The Post Office building is set to come online in the third quarter with more than half of the space still vacant.

Listings by Metro

Market	Apr-19 Listing Rates	3-Month Change	Total Vacancy	Top Listing	Price Per Square Foot
National	\$36.40	1.1%	13.7%		
Austin	\$40.43	9.1%	9.1%	Block 71	\$70.67
Brooklyn	\$53.72	8.6%	8.2%	Brooklyn Navy Yard–Dock 72	\$73.00
Bay Area	\$47.55	6.5%	14.9%	444 Castro	\$120.67
San Francisco	\$67.94	4.0%	8.7%	Sand Hill Commons	\$150.00
Tampa	\$26.12	3.5%	11.1%	MetWest International–MetWest One	\$40.00
Nashville	\$29.23	3.2%	10.4%	615 Third	\$42.81
Twin Cities	\$26.70	2.6%	12.4%	Offices at MOA, The	\$41.00
Los Angeles	\$38.62	2.2%	13.4%	Union Bank of California Building, The	\$84.00
Houston	\$29.62	2.1%	21.0%	Texas Tower	\$59.90
Charlotte	\$27.86	2.1%	10.1%	RailYard, The	\$42.00
Orlando	\$21.76	1.9%	14.0%	GuideWell Innovation Center	\$34.66
Dallas	\$28.00	0.9%	18.7%	Saint Ann Court	\$56.71
Washington DC	\$39.39	0.8%	14.7%	1000 F Street NW	\$83.08
New Jersey	\$32.08	0.7%	20.4%	150 John F. Kennedy Pkwy	\$56.78
Atlanta	\$25.87	0.7%	16.0%	Three Alliance Center	\$52.98
Philadelphia	\$29.35	0.6%	13.0%	Three Logan Square	\$56.57
Manhattan	\$74.29	0.2%	8.5%	101 Park Avenue	\$200.00
Phoenix	\$27.21	0.2%	16.8%	Hayden Ferry Lakeside I	\$46.50
Denver	\$27.89	0.1%	13.9%	Civica Cherry Creek	\$51.32
Portland	\$27.77	-0.5%	12.6%	Clay Pavilion	\$45.55
Boston	\$39.74	-0.7%	9.9%	One Federal Street	\$76.00
Miami	\$38.18	-0.9%	13.5%	1450 Brickell	\$67.00
San Diego	\$36.58	-1.0%	12.3%	Paseo Del Mar–Building II	\$60.18
Seattle	\$37.57	-1.8%	8.7%	188 East Blaine Street	\$68.66
Chicago	\$29.47	-1.9%	14.7%	110 North Wacker	\$60.78

Source: Yardi Matrix. Data as of 5/17/19. Listing rates are full service or "full service equivalent" rates for spaces available as of report period.

Supply: Suburban Deliveries Keep Pace

- Some 14.4 million square feet of office space came online through April, with Class A space accounting for about 90% of that total (13.0 million square feet).
- Properties under construction represent a 2.9% growth of total inventory, while the total amount in the pipeline represents 8.7% of stock. In addition, roughly 35 million square feet of owner-occupied space is currently under construction.
- While it is early in the year and we expect the pace of deliveries to step up later in the year, so far in 2019 suburban construction has outpaced that in central business districts compared to last year. Through April, 6.7 million square feet of suburban offices came online, or 46.7% of all deliveries. Last year, 29.9 million square feet of suburban deliveries accounted for 42% of new office supply.
- Suburban offices have taken market share of new deliveries from CBDs, which saw 1.9 million square feet come online through April, 13.3% of the U.S. total. Last year, CBDs had 14 million square feet of new inventory, the highest annual total in the last 15 years, representing 20.0% of all office deliveries in the U.S.
- Through April, 5.8 million square feet of urban office space was delivered, or 40.0% of the U.S. total.

Supply Pipeline (by asset class and location)

National Market	Under Construction	Under Construction % Stock	Plus Planned % Stock
A+/A	162,186,770	5.6%	6.0%
B	11,962,316	0.4%	0.5%
C	530,233	0.2%	0.2%
CBD	44,408,653	3.4%	7.2%
Urban	79,097,806	6.3%	15.5%
Suburban	51,304,917	1.5%	6.8%

Source: Yardi Matrix. Data as of 5/17/19

Supply Pipeline (by metro)

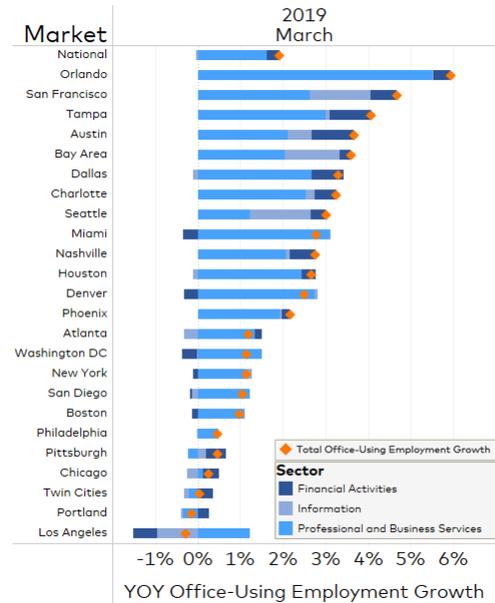
Market	Under Construction	Under Construction % Stock	Plus Planned % Stock
National	174,811,376	2.9%	8.7%
Brooklyn	7,692,970	24.2%	36.7%
Nashville	5,881,888	11.9%	23.9%
Austin	6,641,000	9.7%	31.1%
San Francisco	11,792,679	8.2%	21.7%
Charlotte	3,785,898	5.8%	12.6%
Seattle	7,381,959	5.7%	14.4%
Manhattan	20,771,738	4.4%	6.1%
Boston	8,740,867	3.9%	15.3%
Atlanta	6,694,902	3.6%	17.7%
Bay Area	6,526,092	3.4%	13.6%
Orlando	1,747,892	3.3%	11.4%
Miami	2,097,653	3.2%	18.3%
Los Angeles	8,596,345	3.2%	7.4%
Phoenix	3,740,909	3.1%	13.0%
San Diego	2,663,426	3.0%	8.0%
Washington DC	10,333,480	3.0%	8.8%
Chicago	7,267,865	2.4%	8.7%
Denver	3,156,274	2.1%	8.3%
Dallas	4,771,221	1.8%	13.6%
Twin Cities	1,608,725	1.8%	4.6%
Portland	1,022,317	1.8%	6.6%
Tampa	879,283	1.5%	9.6%
Houston	2,955,858	1.3%	3.6%
New Jersey	1,088,492	0.7%	4.2%
Philadelphia	1,211,249	0.7%	3.2%

Source: Yardi Matrix. Data as of 5/17/19

Office-Using Employment: Job Growth Spurs Rent Demand

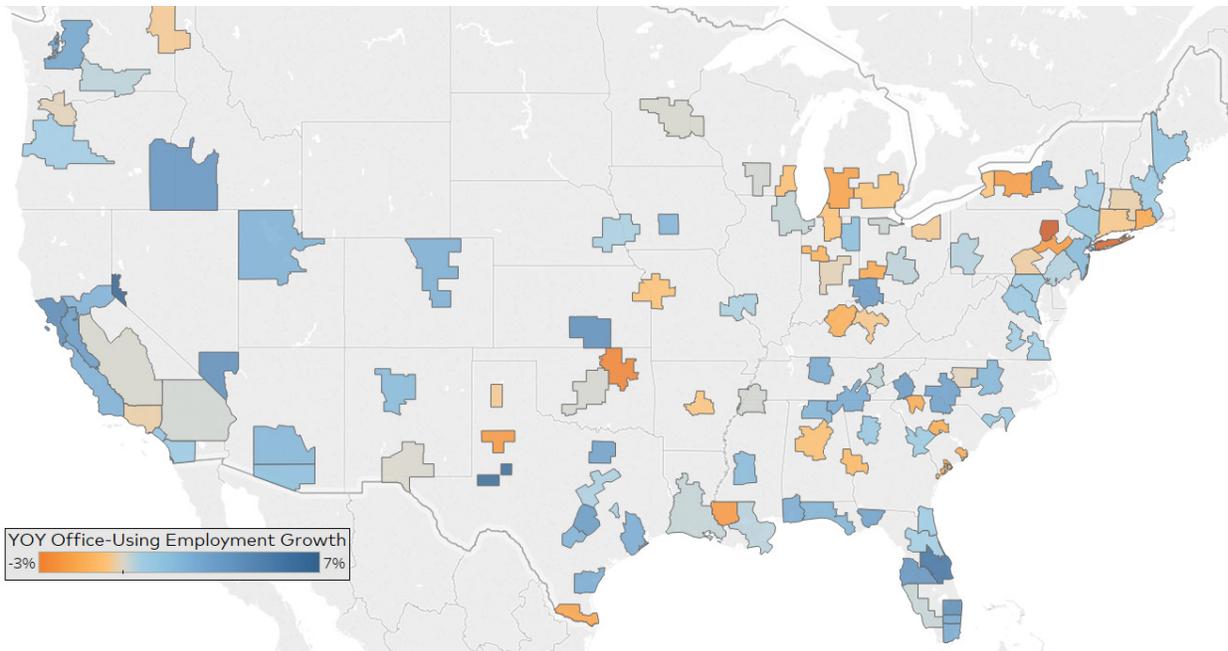
- Office-using employment growth continues to outpace all job growth. Office-using jobs grew by 1.9% year-over-year through April, or 15 basis points higher than the increase in all U.S. jobs.
- The metros with the most growth in office-using jobs have generally seen strong levels of absorption and recent increases in asking rents. Orlando, which at 5.9% led all metros in the rate of growth in office-using employment, has had a 1.9% rise in asking rents over the last three months.
- Other metros have seen similar results. San Francisco had a 4.7% growth in office-using jobs and 4.0% increase in asking rents. Tampa (4.1% office job growth, 3.5% increase in rents), Austin (3.7% office job growth, 9.1% increase in rents), the Bay Area (3.5% office job growth, 6.5% increase in rents) and Charlotte (3.3% office job growth, 2.1% increase in rents) are among the other examples.

Growth by Sector



Sources: Bureau of Labor Statistics and Moody's Analytics

Office-Using Employment Growth

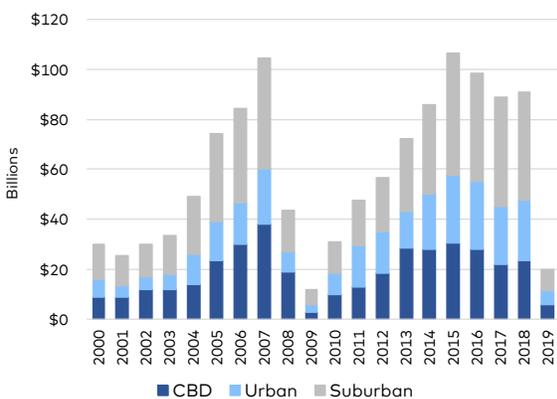


Sources: Bureau of Labor Statistics and Moody's Analytics. Due to BLS benchmarking, office-using employment data for the following markets reflect Dec-18 values: Boston, Bridgeport-Newhaven, Portland ME, and Worcester-Springfield

Transactions: Deal Flow Rises Slowly

- After a slow start to the year, transaction activity has started to pick up. Sales through April totaled \$19.8 billion, just shy of \$5.0 billion per month. That still trails the \$6.8 billion monthly average in 2018, but the number has grown since the first quarter ended.
- Interest rates' drop and expected stabilization should help generate activity. Last year's fourth quarter and January were impacted by rate volatility. Now the 10-year Treasury has dropped some 80 basis points from its fourth-quarter high and the Federal Reserve may even lower short-term rates.

Sales by Location



Source: Yardi Matrix; Data as of 5/17/19

Sales Activity

Market	YTD Sales Price PSF	YTD Sales (Mil, as of 4/30)
National	\$243	\$19,828
Manhattan	\$550	\$1,921
Bay Area	\$513	\$1,819
San Francisco	\$896	\$1,587
Washington DC	\$225	\$1,419
Seattle	\$473	\$1,127
Los Angeles	\$516	\$998
Twin Cities	\$188	\$788
Denver	\$177	\$697
Atlanta	\$166	\$640
Philadelphia	\$205	\$626
New Jersey	\$172	\$621
Nashville	\$224	\$600
Boston	\$306	\$569
Chicago	\$118	\$548
Dallas	\$250	\$467
Phoenix	\$170	\$411
Portland	\$295	\$392
San Diego	\$314	\$362
Houston	\$195	\$303
Charlotte	\$177	\$221
Orlando	\$152	\$173
Austin	\$219	\$141
Tampa	\$112	\$133
Miami	\$119	\$19
Brooklyn	\$402	\$11

Source: Yardi Matrix. Data as of 5/17/19

Total Sales



Source: Yardi Matrix. Data as of 5/17/19.

Definitions

This report covers office buildings 50,000 square feet and above. Yardi® Matrix subscribers have access to 25,000-square-foot and larger buildings for a continually growing list of markets.

Yardi® Matrix collects listing rate and occupancy data using proprietary methods.

- *Listing Rates*—Listing Rates are full-service rates or “full-service equivalent” for spaces that were available as of the report period. Yardi® Matrix uses aggregated and anonymized expense data to create full-service equivalent rates from triple-net and modified gross listings. Expense data is available to Yardi® Matrix subscribers.

- *Vacancy*—The total square feet vacant in a market, including subleases, divided by the total square feet of office space in that market. Owner-occupied buildings are not included in vacancy calculations.

A and A+/Trophy buildings have been combined for reporting purposes.

Stage of the supply pipeline:

- *Planned*—Buildings that are currently in the process of acquiring zoning approval and permits but have not yet begun construction.

- *Under Construction*—Buildings for which construction and excavation has begun.

Office-Using Employment is defined by the Bureau of Labor Statistics as including the sectors Information, Financial Activities, and Professional and Business Services. Employment numbers are representative of the Metropolitan Statistical Area and do not necessarily align exactly with Yardi® Matrix market boundaries.

Sales volume and price-per-square-foot calculations do not always include portfolio transactions or those with unpublished dollar values.

To learn more about Yardi® Matrix and subscribing, please visit www.yardimatrix.com or call Ron Brock, Jr., at 480-663-1149 x2404.

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