

Yardi® Matrix

National Office Report

April 2020



The Waiting Game

- The COVID-19 pandemic radically reshaped the country and the economy in March, but the full effect of the virus has not yet come to light in the office data. National full-service equivalent listing rates held steady with an average of \$37.99 per square foot, a 0.2% increase over March of last year, and vacancy rates fell 60 basis points from February to 12.8%. Now the national office market has been immobilized, waiting to see how the pandemic and economic recovery play out.
- At the end of March, 148.9 million square feet of office space was under construction nationally, a number that will likely decline in the coming months. While many states have exempted construction from stay-at-home orders, that likely won't be enough to keep projects on schedule or even guarantee a project will remain active. As of the end of March, Yardi Matrix had yet to see project cancellations in its data. However, the weekly survey done by the Association of General Contractors stated 19% of its respondents reported that "an owner (including a public owner regarding its own projects) had directed them to cancel construction on a current project or one scheduled to start in the next 30 days." Most concerning is that this figure is up from 7% in the same survey two weeks prior.
- While there is still confusion surrounding some of the specifics, the IRS granting an extension for 1031 exchanges will have a significant impact on the office transaction market. First, deals that may have otherwise been rushed through to meet previous deadlines will now be paused while investors see how the next couple of months play out. Second, some 1031 investors were strongly considering forgoing the exchange altogether and instead paying the capital gains tax so they could hold on to their money during the crisis. Consequently, the extension could leave capital available for transactions once the frozen economy begins to thaw.
- On the national employment front, jobs in sectors classified as office-using employment only suffered a 0.2% decline in March, but the worst is surely to come. The BLS conducts its survey in the first half of the month; because of this, it only reported a total loss of 700,000 jobs in the month despite more than 6 million unemployment claims being filed in the last week of March.



Listing Rates: Rates Not Yet Affected in March

- Average full-service equivalent listing rates have yet to respond to the pandemic. Average rates nationally were \$37.99 per square foot, down only 26 cents from February (-0.7%).
- Although counterintuitive considering the dismayed news coming out of New York, Manhattan had the highest year-over-year growth for full-service equivalent rates in March and was number one (13.3%) in same-store growth, as well. Other leaders in same-store growth in March were San Francisco (8.3%), Seattle (6.7%) and Tampa (6.2%).
- While it is currently seeing the worst impacts of COVID-19 in the nation, Manhattan's office market entered the crisis with large increases in average rates over the last two quarters and sported a vacancy rate of 7.4%. Moreover, with very little leasing activity taking place, lowering rates would have no impact, anyway. We likely won't see significant movement in rates until shelter-in-place orders are lifted and offices start to reopen. Even then, it could take months until we know the full impact.

Listings by Metro

Market	Mar-20 Listing Rate	12-Month Change	Total Vacancy	Top Listing	Price Per Square Foot
National	\$37.99	0.2%	12.8%		
Manhattan	\$85.84	14.2%	7.4%	One Manhattan West	\$140.00
Miami	\$41.48	8.2%	12.0%	830 Brickell Plaza	\$73.00
Bay Area	\$50.38	7.4%	12.8%	525 University Avenue	\$149.42
Tampa	\$29.09	7.1%	10.6%	1001 Water Street	\$55.70
San Diego	\$39.07	4.9%	11.6%	Campus Pointe 1	\$76.20
San Francisco	\$71.64	4.8%	6.9%	2180 Sand Hill Road	\$150.84
Atlanta	\$27.09	4.5%	15.7%	Three Alliance Center	\$54.98
Portland	\$29.92	3.9%	11.9%	M Financial Plaza	\$45.90
Twin Cities	\$27.00	3.3%	11.3%	Offices at MOA, The	\$41.00
Charlotte	\$28.88	2.7%	9.4%	Hearst Tower	\$41.00
Los Angeles	\$39.39	2.6%	11.0%	100 Wilshire	\$111.00
Austin	\$41.31	1.7%	7.4%	100 Congress	\$71.83
Houston	\$29.91	1.3%	20.6%	Texas Tower	\$58.40
Orlando	\$21.47	1.1%	11.2%	Lake Nona Town Center—Phase II	\$36.41
Phoenix	\$26.93	1.1%	17.0%	Watermark—Phase I, The	\$45.00
Washington DC	\$39.51	0.7%	13.7%	2000 K Street	\$81.86
Denver	\$28.31	0.6%	12.1%	William Building, The	\$59.67
Seattle	\$37.92	0.3%	7.7%	U.S. Bank Centre	\$66.39
New Jersey	\$31.58	0.0%	20.6%	10 Exchange Place	\$55.30
Dallas	\$27.60	-1.6%	17.6%	Weir's Plaza	\$63.44
Nashville	\$30.67	-2.4%	11.1%	Three Thirty Three	\$44.38
Philadelphia	\$28.45	-2.6%	12.7%	Two Liberty Place	\$51.50
Chicago	\$28.79	-3.4%	13.7%	300 North LaSalle Drive	\$59.46
Brooklyn	\$53.11	-4.9%	11.5%	One MetroTech Center	\$65.59
Boston	\$33.57	-12.4%	9.6%	160 Federal Street	\$71.80

Source: Yardi Matrix. Data as of March 2020. Listing rates are full service or "full service equivalent" rates for spaces available as of report period.

Supply: Pipelines in Miami, Houston Most Threatened

- Most markets with new construction representing a high percentage of stock have both high employment growth and low vacancy rates and thus may be able to easily bounce back once normalcy returns. However, Miami and Houston may not have the underlying fundamentals for a smooth recovery.
- Miami's stock under construction represents 3.8% of its total inventory despite its having only 0.9% year-over-year growth in office-using job sectors and a middle-of-the-road vacancy rate (12.0%). Nearly half of this construction is Class A properties clustered in the Miami North submarket, and it's not clear how much appetite for these types of spaces there will be coming out of a massive economic shock.
- Despite representing only 1.8% of current stock, Houston's 4.2 million square feet of new construction could be in serious trouble due to the downturn in oil prices. While the oil industry typically doesn't affect the office market, Houston is the exception. Office job growth was strong before the pandemic at 2.9%, but the vacancy rate was already one of the highest in the nation at 20.6%.

Supply Pipeline (by asset class and location)

National Market	Under Construction	Under Construction % Stock	Plus Planned % Stock
A+/A	134,069,629	4.5%	4.7%
B	13,367,174	0.4%	0.4%
C	581,953	0.2%	0.2%
CBD	37,900,368	2.9%	3.7%
Urban	65,894,539	5.0%	6.8%
Suburban	45,054,795	1.2%	1.7%

Source: Yardi Matrix. Data as of March 31, 2020

Supply Pipeline (by metro)

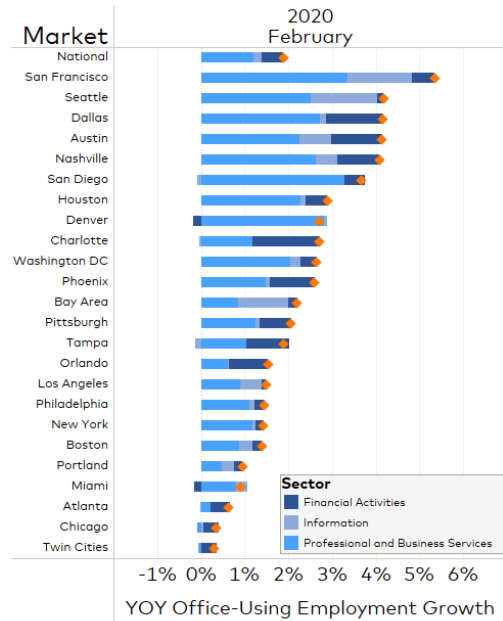
Market	Under Construction	Under Construction % Stock	Plus Planned % Stock
National	148,894,337	2.3%	3.2%
Austin	7,747,661	10.9%	16.1%
Nashville	3,817,999	7.2%	11.7%
Brooklyn	2,488,491	6.5%	7.9%
Charlotte	3,754,153	5.6%	8.0%
San Francisco	7,715,117	5.1%	7.3%
Seattle	6,736,770	5.0%	6.2%
Boston	10,319,755	4.4%	5.3%
Manhattan	18,297,458	3.8%	4.5%
Miami	2,527,862	3.8%	4.3%
Los Angeles	8,906,104	3.2%	3.3%
Bay Area	6,413,335	3.2%	5.8%
Tampa	1,721,148	2.8%	3.5%
Atlanta	4,944,924	2.7%	2.7%
Chicago	6,959,199	2.3%	3.0%
Denver	3,407,771	2.2%	3.2%
Washington DC	7,980,010	2.1%	2.2%
Dallas	5,384,362	2.0%	3.1%
Twin Cities	2,243,008	1.9%	2.4%
Houston	4,249,046	1.8%	2.6%
San Diego	1,562,005	1.7%	2.2%
Phoenix	1,960,161	1.5%	2.3%
Portland	829,415	1.4%	2.4%
Philadelphia	2,342,452	1.4%	1.7%
Orlando	711,625	1.3%	2.4%
New Jersey	161,800	0.1%	0.2%

Source: Yardi Matrix. Data as of March 31, 2020

Office-Using Employment: Downturn Could Be More Pronounced in High-Risk Markets

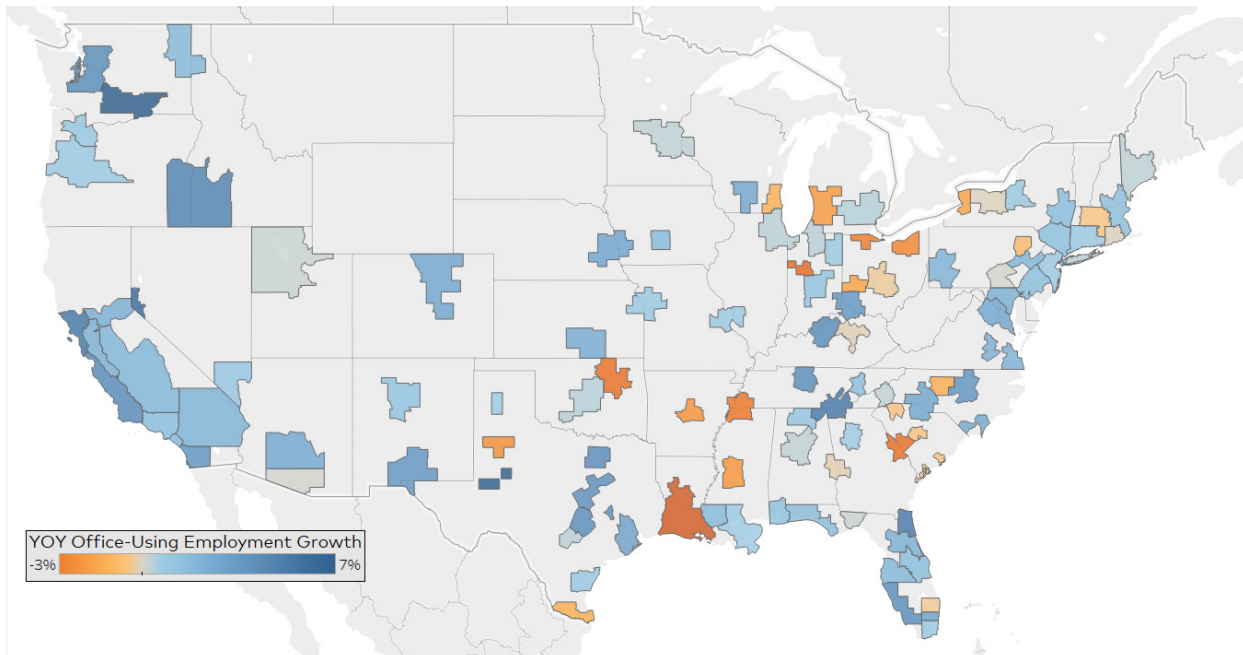
- Employment in office-using sectors in February followed much of the same trends that were seen in 2020, with national growth of office jobs at 1.9% year-over-year.
- The ability to work from home will insulate many of these jobs from the initial impacts of the downturn, but it does not make them insusceptible to the effects of economic contraction.
- Once the March metro data is released, we will have a better idea of how badly office-using sectors will be hit by the pandemic and what the regional impacts may look like. Markets that have large swaths of their economy exposed through tourism and oil—such as Houston, Orlando and Las Vegas—are the most high-risk to job losses spilling over into office-using sectors.

Growth by Sector



Sources: Bureau of Labor Statistics and Moody's Analytics

Office-Using Employment Growth

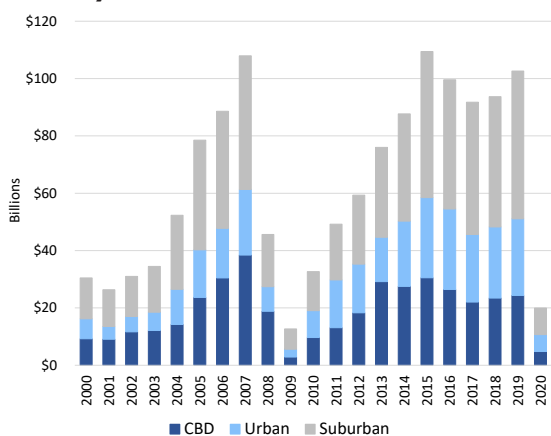


Sources: Bureau of Labor Statistics and Moody's Analytics

Transactions: First Quarter Solid Before Downturn

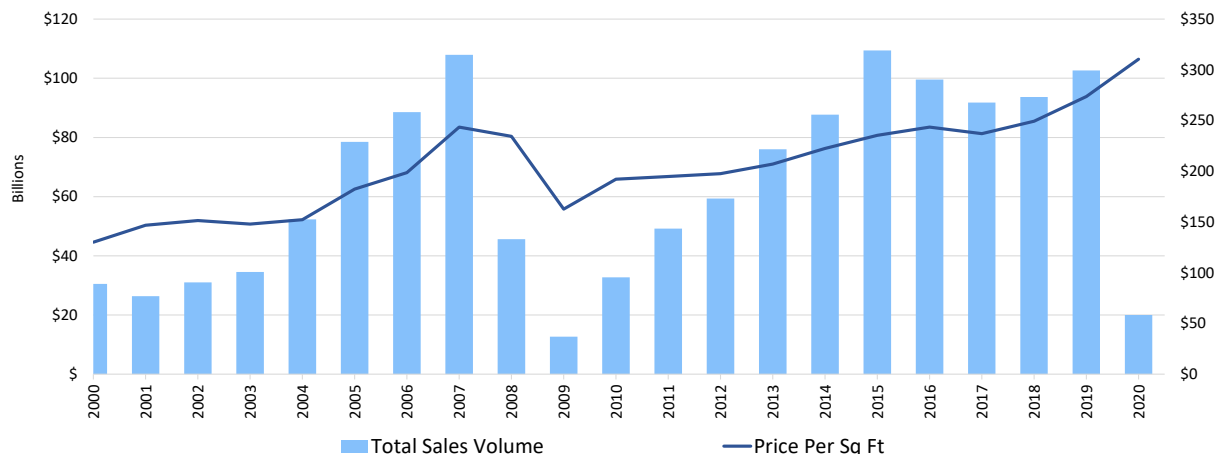
- Very few sales will occur in the second quarter, but before the COVID-19 crisis hit, 2020 was on track to be a notable year for office transactions. Despite a lag in collecting transaction information, the first quarter of 2020 was already on par with the previous two years' opening quarters, at \$20 billion in sales.
- The spike in price per square foot that began in the second half of 2019 continued into 2020, with an overall average of \$310.47 per square foot. This wasn't simply driven by outliers, either: Price per square foot increases were evident across all asset classes and locations.

Sales by Location



Source: Yardi Matrix; Data as of March 31, 2020

Total Sales



Source: Yardi Matrix. Data as of March 31, 2020

Sales Activity

Market	YTD Sales Price PSF	YTD Sales (Mil, as of 3/31)
National	\$310	\$19,977
Manhattan	\$753	\$2,824
Boston	\$481	\$1,967
Washington DC	\$324	\$1,331
Los Angeles	\$615	\$1,290
New Jersey	\$221	\$1,187
San Francisco	\$1,289	\$1,087
Dallas	\$321	\$1,048
Bay Area	\$370	\$945
Houston	\$419	\$806
Denver	\$209	\$731
Charlotte	\$343	\$608
Seattle	\$614	\$469
Nashville	\$433	\$412
Austin	\$389	\$386
Portland	\$257	\$316
Atlanta	\$164	\$240
Chicago	\$155	\$234
Phoenix	\$164	\$227
San Diego	\$283	\$215
Philadelphia	\$112	\$184
Brooklyn	\$687	\$165
Twin Cities	\$144	\$97
Orlando	\$174	\$88
Miami	\$193	\$66
Tampa	\$135	\$37

Source: Yardi Matrix. Data as of March 31, 2020

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.

Contacts

Jeff Adler

Vice President & General
Manager of Yardi Matrix
Jeff.Adler@Yardi.com
(800) 866-1124 x2403

Jack Kern

Director of Research
& Publications
Jack.Kern@Yardi.com
(800) 866-1124 x2444

Paul Fiorilla

Director of Matrix Research
Paul.Fiorilla@Yardi.com
(800) 866-1124 x5764

Chris Nebenzahl

Institutional
Research Manager
Chris.Nebenzahl@Yardi.com
(800) 866-1124 x2200

Peter Kolaczynski

Manager, Commercial
Peter.Kolaczynski@Yardi.com
(800) 866-1124 x2410

Justin Dean

Senior Research Analyst
Justin.Dean@Yardi.com
(800) 866-1124 x2071



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