Yardi® Matrix

National Office Report

May 2020

COVID-19 Abruptly Shifts Office Trends

- The effects of the COVID-19 pandemic had still to make an impact on Yardi Matrix commercial office data in April, with the industry in wait-and-see mode like much of the rest of the nation. The average full-service equivalent listing rate in April was $37.89 per square foot, a 0.2% decrease from the same period last year.

- The pandemic will accelerate some trends in the office sector, but none has a bigger potential impact than how businesses will respond to the massive natural experiment of working from home. Emerging from the most severe economic contraction in a century, it is reasonable to expect that some firms could look to cut costs by reducing office space and transitioning some of their workforce to permanent work-from-home positions. It is still too early to say how businesses will weigh the benefits of in-person collaboration against the costs of office space in a post-pandemic world.

- Conversely, some office trends could come to a screeching halt due to the pandemic. The movement to open-office floor plans that has occurred over the past few decades is now inconsistent with the concept of social distancing. Office spaces may need to be reformatted to increase distance between workers, and the much-maligned private cubicle may make a comeback. Coworking had picked up a lot of steam in the second half of the last decade but is now in grave danger. The type of companies that tended to utilize coworking the most, tech startups and small businesses, may not survive the crisis. Further, many coworking spaces are designed to maximize collaboration and socialization, features that may not be part of the office experience for quite a while.

- The worst labor market effects from the pandemic are still only now coming to light and the scope of the downturn has yet to be fully understood. April saw 20.5 million people lose their jobs and unemployment skyrocket to the highest levels since the Great Depression. While every sector registered losses, jobs classified as office-using were three of the four least hit sectors on a month-over-month basis. Financial activities (-3.0%), information (-8.8%) and professional and business services (-9.9%) saw losses smaller than all other sectors of the economy, except for government (-4.3%).

Listing Rates:
Rates Yet to See Downturn Despite Pandemic

- Average full-service equivalent listing rates were $37.89 per square foot, down 36 cents from March (-0.9%). The national vacancy rate increased 30 basis points to 13.1%.

- Markets with the highest same-store listing rate growth were Manhattan (14.4%), San Diego (6.0%) and Brooklyn (5.7%). The largest same-store decreases were in Boston (-13.9%), the Bay Area (-4.7%) and Philadelphia (-3.8%).

- Despite getting hit hardest by COVID-19, Manhattan still exhibits the highest rates of growth for full-service equivalent listing rates on a year-over-year basis. This is being driven in part by 160,000 square feet of A+ space at 550 Madison Ave. listed between $185 and $210 per foot that came on the market in late September, pushing up overall rates. It is unlikely that rates will be lowered anytime soon because tenants aren't currently able to sign leases. However, it will bear monitoring how much rates decrease in Manhattan high-rise office buildings once economic activity resumes.

Listings by Metro

Market	Apr-20 Listing Rate	12-Month Change	Total Vacancy	Top Listing	Price Per Square Foot
National	$37.89	-0.2%	13.1%		
Manhattan	$86.19	15.3%	7.9%	One Manhattan West	$140.00
Miami	$41.62	8.1%	11.8%	830 Brickell Plaza	$73.00
San Diego	$38.88	6.0%	11.6%	Campus Pointe 1	$76.20
Tampa	$29.49	4.6%	11.3%	1001 Water Street	$55.70
Atlanta	$27.09	3.9%	15.6%	Three Alliance Center	$54.98
Charlotte	$29.10	3.2%	9.5%	Hearst Tower	$41.00
Portland	$29.86	2.5%	12.4%	M Financial Plaza	$45.90
Houston	$30.21	1.4%	21.6%	Texas Tower	$58.40
San Francisco	$72.01	1.2%	6.9%	2180 Sand Hill Road	$150.84
Washington DC	$39.80	1.0%	14.3%	2000 K Street	$81.86
Denver	$28.29	0.8%	12.0%	The William Building	$59.67
Los Angeles	$38.97	0.5%	11.4%	100 Wilshire	$111.00
Twin Cities	$27.07	0.3%	11.2%	10 West End	$37.83
Bay Area	$48.41	-1.2%	13.7%	525 University Avenue	$149.42
Dallas	$27.57	-1.4%	17.3%	Weir's Plaza	$63.44
Orlando	$21.53	-1.5%	12.7%	Lake Nona Town Center - Phase II	$36.41
Seattle	$37.55	-1.5%	8.4%	U.S. Bank Centre	$66.39
New Jersey	$31.46	-2.0%	20.8%	10 Exchange Place	$55.30
Chicago	$28.97	-2.4%	14.1%	300 North LaSalle Drive	$59.46
Phoenix	$26.40	-2.4%	17.3%	The Watermark - Phase I	$45.00
Philadelphia	$28.56	-2.9%	12.7%	Two Liberty Place	$51.50
Austin	$41.32	-3.0%	7.4%	100 Congress	$71.83
Brooklyn	$51.18	-6.3%	12.0%	One MetroTech Center	$65.59
Nashville	$29.18	-8.3%	10.6%	Three Thirty Three	$44.38
Boston	$32.23	-17.6%	9.9%	Seaport Towers	$80.05

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

Supply: Developers Still Believe in Austin

- Despite the lockdowns that began in mid-March, 16.9 million square feet of office space were delivered in the first four months of the year.

- We have yet to see projects be removed from the pipeline during the crisis. It is likely that those that have already begun construction will be completed eventually, albeit on a longer timeline than initially anticipated. As of now, we can start to see the impact of the pandemic on supply by looking at planned projects. They haven't yet been removed from the pipeline, but nothing is being added, either. Only a few metros have added planned projects to their pipelines since January. The one exception is Austin, which had 2.2 million square feet of planned office space at the start of January and has added 2.0 million square feet since. This is especially remarkable considering the amount of construction in Austin currently represents 10.9% of existing stock. Developers are betting that the trends bringing highly educated workers and businesses to the Texas capital will continue after the crisis.

- Yardi Matrix will closely monitor pipelines in the coming months to track the attrition of planned and prospective projects.

Supply Pipeline (by asset class and location)

National Market	Under Construction	Under Construction % Stock	Plus Planned % Stock
A+/A	134,929,070	4.5%	4.8%
B	13,586,480	0.4%	0.5%
C	581,953	0.2%	0.2%
CBD	37,727,085	2.9%	3.7%
Urban	66,955,630	5.0%	6.7%
Suburban	45,163,464	1.2%	1.7%

Source: Yardi Matrix. Data as of April 30, 2020

Supply Pipeline (by metro)

Market	Under Construction	Under Construction % Stock	Plus Planned % Stock
National	149,846,179	2.4%	3.2%
Austin	7,793,518	10.9%	16.8%
Nashville	3,821,194	7.3%	11.8%
Brooklyn	2,374,435	6.2%	7.6%
Charlotte	3,758,678	5.6%	8.0%
Seattle	7,308,018	5.5%	6.4%
San Francisco	8,008,253	5.3%	7.5%
Boston	9,775,865	4.2%	5.1%
Manhattan	18,096,958	3.8%	4.5%
Miami	2,359,982	3.6%	4.5%
Los Angeles	8,907,914	3.2%	3.3%
Bay Area	6,375,719	3.2%	5.6%
Tampa	1,629,752	2.6%	3.4%
Atlanta	4,620,753	2.5%	2.5%
Chicago	6,989,306	2.3%	3.0%
Denver	3,397,354	2.2%	3.2%
Dallas	5,726,762	2.1%	3.2%
Washington DC	8,095,991	2.1%	2.2%
Portland	1,148,889	2.0%	2.4%
Twin Cities	2,243,008	1.9%	2.4%
Houston	4,400,641	1.9%	2.6%
Phoenix	2,255,061	1.8%	2.5%
San Diego	1,562,005	1.7%	2.2%
Philadelphia	2,379,452	1.4%	1.7%
Orlando	681,834	1.3%	2.3%
New Jersey	161,800	0.1%	0.2%

Source: Yardi Matrix. Data as of April 30, 2020

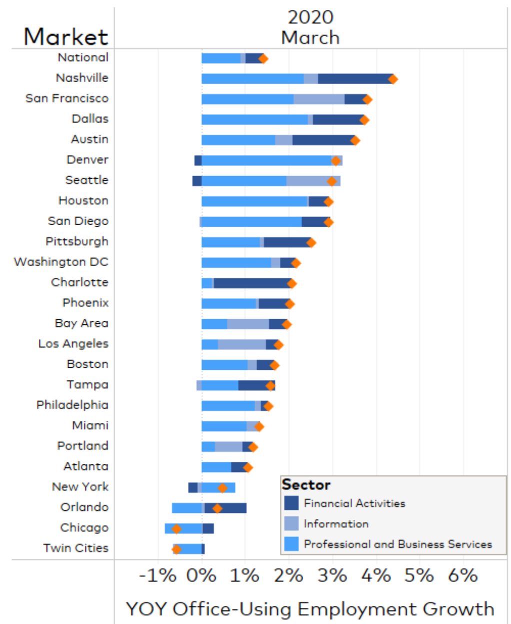
Office-Using Employment:
March Data Shows Beginning of Downturn

- March metro employment started to show the early signs of the downturn with office-using sectors growing slower than previous months. At the end of 2019, nine of the top 25 markets had office-using growth greater than 3% for the year. In March, only five passed that threshold.

- When metro employment data for April is released, it is likely that metros that are more dependent on office-using sectors will be better off than those that are heavily reliant on the leisure and hospitality sector.

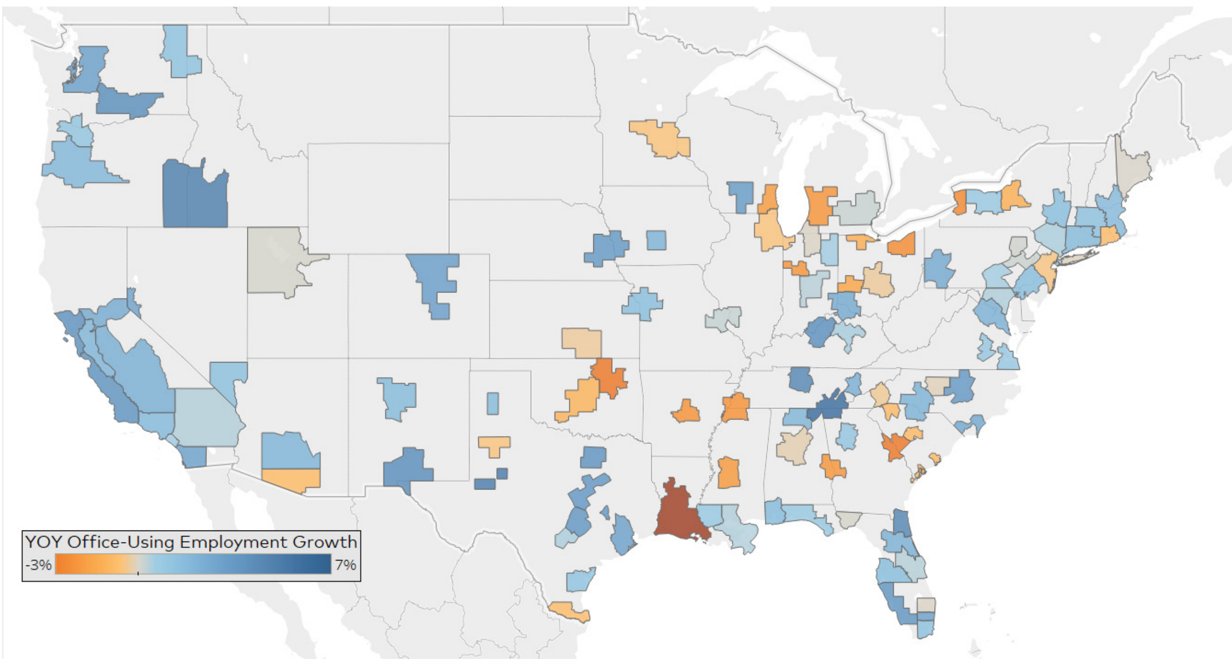
- Orlando, which last year had shown surprising growth in office-using sectors, had already started to see the impact of the crisis on those sectors in March. After increasing office-using employment by 3.1% in 2019, Orlando saw only 0.4% year-over-year growth in March, a sign of the trouble to come for the tourism-dependent economy.

Growth by Sector



Sources: Bureau of Labor Statistics and Moody's Analytics

Office-Using Employment Growth



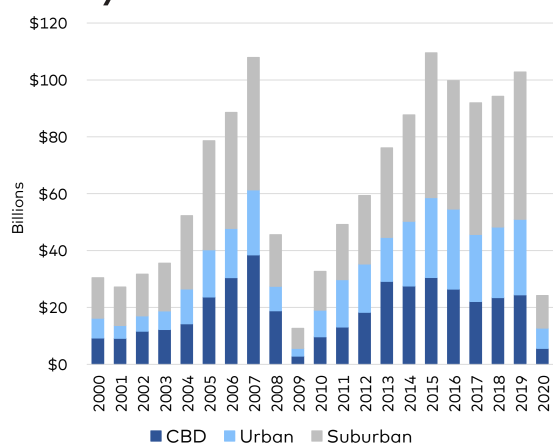
Sources: Bureau of Labor Statistics and Moody's Analytics

Transactions:
Spattering of Activity Since Shutdowns

- Despite shutdowns that began in mid-March, Yardi Matrix is tracking some sales activity in the second quarter, with 72 transactions totaling $3 billion known so far. There is a lag in collecting sales data, so the number for April should increase further as more sales become visible. Last year, there were $5.6 billion in sales visible for the second quarter at this time.

- Even with activity occurring during the pandemic, we expect overall sales volume to be greatly suppressed this year as the market deals with both an economic downturn and a health crisis.

Sales by Location



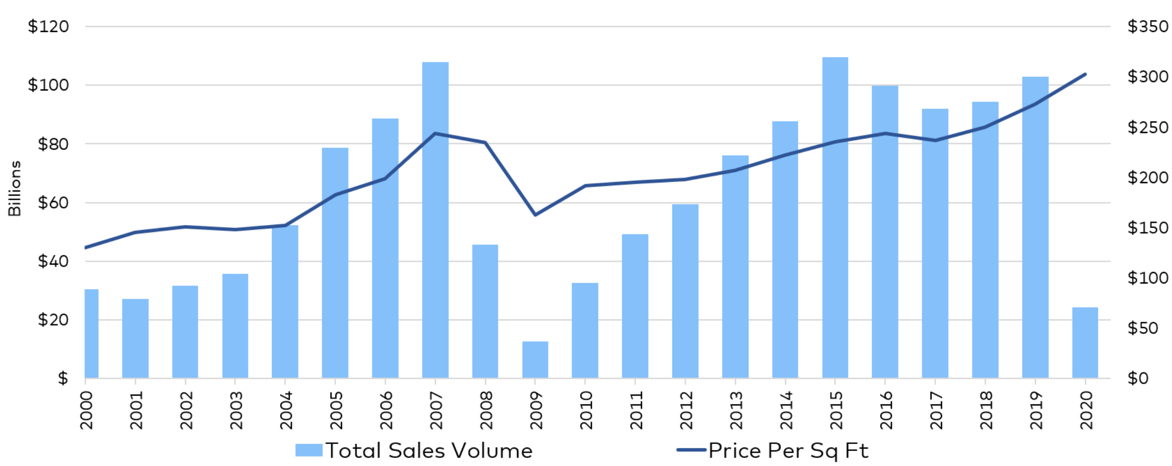
Source: Yardi Matrix; Data as of April 30, 2020

Sales Activity

Market	YTD Sales Price PSF	YTD Sales (Mil, as of 4/30)
National	$303	$24,234
Manhattan	$764	$3,350
Boston	$489	$2,945
Washington DC	$302	$1,889
Los Angeles	$509	$1,471
New Jersey	$223	$1,297
San Francisco	$1,221	$1,268
Bay Area	$391	$1,221
Dallas	$295	$1,219
Houston	$392	$819
Denver	$210	$768
Charlotte	$340	$673
Seattle	$529	$551
Nashville	$420	$432
Austin	$389	$386
San Diego	$369	$357
Atlanta	$175	$329
Portland	$257	$316
Chicago	$150	$301
Phoenix	$165	$300
Philadelphia	$114	$291
Twin Cities	$127	$196
Brooklyn	$687	$165
Orlando	$174	$88
Miami	$193	$66
Tampa	$145	$62

Source: Yardi Matrix. Data as of April 30, 2020

Total Sales



Source: Yardi Matrix. Data as of April 30, 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.

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