



Yardi[®] Matrix

National Office Report

June 2020



COVID-19's Uneven Effect on Office Data

- COVID-19 has impacted nearly every aspect of life in the U.S., but it has yet to show up in all of the data for the commercial office industry. Listing rates have not displayed any significant decreases, and completions look much as they did at this point in 2019. However, office-using employment has fallen substantially, the planned portion of the new-supply pipeline has started to shrink and transaction volume has slowed.
- Average full-service equivalent listing rates fell 0.7% year-over-year to \$38.15 per square foot in May, with the pandemic having no major impact to date on office listing rates. The top two markets for growth on a year-over-year basis are cities that were hit early and hardest, Manhattan (15.5%) and San Francisco (9.9%). Most of this increase comes from a run-up in average rates before the pandemic, and office owners have not shown a willingness to reduce rates in response to the recession.
- May's employment report included a slight bump from the historic losses witnessed in April, and employment in office-using sectors followed the trend. After losing 2.7 million jobs in April, office-using sectors added 122,000 jobs in May, likely the result of furloughs ending as lockdowns and other restrictions are lifted. The metro data for April, which is released later than national employment data, showed every metro covered by Yardi Matrix taking a significant hit to office-using employment.
- New supply is being added at a pace only slightly behind 2019. Given the long time frame over which most projects are developed, it is not surprising that buildings near completion are still being delivered. However, given the severity of the current recession, we expect that deliveries will slow in the coming years. Even as projects already underway are continuing construction, the planned portion of the development pipeline has shrunk from earlier in the year. The total amount of planned office space has fallen 8.5%, from 56.5 million square feet in February to 51.7 million square feet in May.
- Yardi Matrix has only logged \$4.4 billion of transactions in the second quarter. While there is typically a lag period before all sales activity is captured, at this point last year \$12.7 billion of sales activity had been recorded.



Listing Rates: Rates Not Dropping in Most Markets

- Average full-service equivalent listing rates were \$38.15 per square foot, up 26 cents from April but down 0.7% from May of 2019. The national vacancy rate increased 10 basis points to 13.2%.
- Same-store listing rate growth was highest in Manhattan (16.1%), Seattle (11.1%) and Austin (9.2%). The biggest decreases in same-store rates were in Boston (-7.9%), Brooklyn (-4.6%) and the Bay Area (-4.1%).
- It may seem counterintuitive that full-service

equivalent listing rates have not budged as millions of office employees work from home and the country experiences the most significant economic downturn in a century. Many office owners may be in a holding pattern and hoping for a V-shaped recovery, where things return to pre-COVID-19 levels by the end of the year. Additionally, demand for new office space has fallen to such lows that a traditional price reduction would not produce the desired effect, anyway. The multi-year nature of office leases makes substantial price drops untenable for many owners.

Listings by Metro

Market	May-20 Listing Rate	12-Month Change	Total Vacancy	Top Listing	Price Per Square Foot
National	\$38.15	-0.7%	13.2%		
Manhattan	\$87.41	15.5%	8.0%	550 Madison Avenue	\$210.00
San Francisco	\$71.59	9.9%	7.0%	2180 Sand Hill Road	\$150.84
Austin	\$42.21	8.3%	7.7%	100 Congress	\$71.83
Miami	\$41.55	8.1%	11.7%	830 Brickell Plaza	\$73.00
Atlanta	\$27.39	6.6%	15.7%	Three Alliance Center	\$54.98
Nashville	\$31.70	5.9%	11.1%	Three Thirty Three	\$44.38
Tampa	\$29.26	5.9%	11.4%	1001 Water Street	\$55.70
Seattle	\$38.23	4.2%	9.3%	U.S. Bank Centre	\$66.39
Los Angeles	\$39.28	3.9%	11.7%	100 Wilshire	\$111.00
Bay Area	\$49.28	3.3%	14.0%	525 University Avenue	\$149.42
Twin Cities	\$27.28	2.8%	11.6%	10 West End	\$37.83
San Diego	\$38.65	2.5%	11.3%	Campus Pointe 1	\$76.20
Charlotte	\$28.98	2.2%	10.1%	615 South College	\$41.50
Portland	\$30.03	1.5%	12.5%	5 MLK	\$48.03
Denver	\$28.76	1.3%	11.7%	William Building, The	\$59.67
Brooklyn	\$54.25	0.4%	12.0%	One MetroTech Center	\$65.59
Houston	\$30.25	0.3%	21.4%	Texas Tower	\$58.40
Phoenix	\$26.59	0.3%	17.3%	Watermark-Phase I, The	\$45.00
Washington DC	\$40.00	0.1%	14.6%	2000 K Street	\$81.86
Dallas	\$27.48	-0.2%	18.2%	Weir's Plaza	\$63.44
New Jersey	\$31.36	-0.3%	20.3%	Newport Tower	\$57.80
Philadelphia	\$28.21	-2.5%	12.5%	Two Liberty Place	\$51.50
Orlando	\$21.59	-3.6%	12.9%	GuideWell Innovation Center	\$34.66
Chicago	\$28.31	-4.6%	14.2%	300 North LaSalle Drive	\$59.46
Boston	\$32.86	-13.6%	9.9%	Seaport Towers	\$80.05

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

Supply: Planned Portion of Pipeline Begins to Shrink

- The first five months of 2020 saw 21.4 million square feet of office space completed. Surprisingly, this is only slightly off the 22.3 million mark that was reported during the same period in 2019. Of that, 18.7 million square feet (87.4%) were in properties rated as A or A+. The split between suburban and CBD/urban submarkets was almost even, with the inner cities adding 11.2 million square feet (52.3%) through May.
- Currently, 150.4 million square feet of office space is under construction, and as of yet, Yardi Matrix has not seen a pullback on projects underway. The top 20 markets comprise 122.2 million square feet (81.3%) of construction.
- Planned projects, on the other hand, have begun to soften. In February, Yardi Matrix tracked 56.6 million square feet of new office space in the planned phase of development. By May, that number had dropped to 51.7 million square feet. We expect the number of planned projects to continue to decline for the foreseeable future as developers wait to see what the long-term impacts of the pandemic will be on the demand for office space.

Supply Pipeline (by asset class and location)

National Market	Under Construction	Under Construction % Stock	Plus Planned % Stock
A+/A	136,499,718	4.6%	4.7%
B	13,133,773	0.4%	0.4%
C	763,163	0.2%	0.2%
CBD	39,102,720	3.0%	3.7%
Urban	67,348,900	5.1%	6.9%
Suburban	43,974,808	1.2%	1.7%

Source: Yardi Matrix. Data as of May 2020

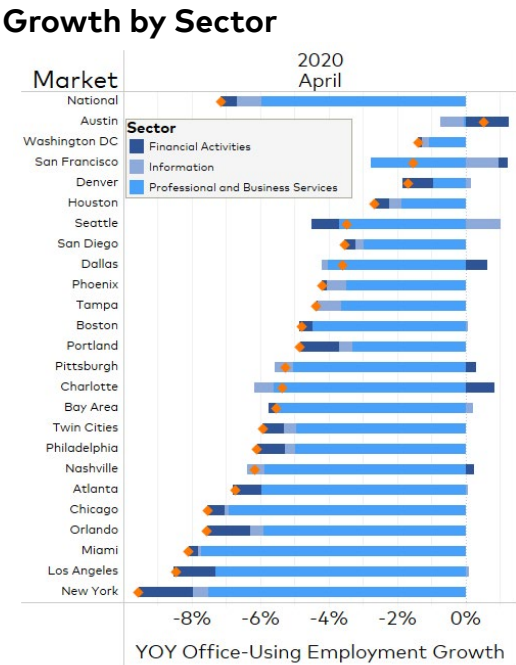
Supply Pipeline (by metro)

Market	Under Construction	Under Construction % Stock	Plus Planned % Stock
National	150,426,428	2.4%	3.2%
Austin	7,691,529	10.6%	16.5%
Nashville	4,622,144	8.8%	11.5%
Brooklyn	2,374,246	6.2%	7.6%
Charlotte	3,673,263	5.5%	7.8%
San Francisco	8,008,253	5.3%	7.5%
Seattle	7,116,591	5.3%	6.3%
Boston	9,555,865	4.1%	5.0%
Manhattan	17,781,343	3.7%	4.4%
Miami	2,359,982	3.6%	4.5%
Bay Area	6,570,780	3.3%	5.7%
Los Angeles	9,049,208	3.2%	3.3%
Chicago	8,183,663	2.7%	3.0%
Tampa	1,597,752	2.6%	3.3%
Atlanta	4,661,253	2.5%	2.5%
Denver	3,397,354	2.2%	3.2%
Washington DC	8,213,808	2.2%	2.9%
Portland	1,206,644	2.1%	2.4%
Dallas	5,652,219	2.1%	3.2%
Houston	4,527,708	2.0%	2.7%
Twin Cities	2,293,008	2.0%	2.6%
San Diego	1,562,005	1.7%	2.2%
Philadelphia	2,768,452	1.6%	2.0%
Phoenix	2,062,061	1.6%	2.4%
Orlando	655,118	1.2%	2.3%
New Jersey	161,800	0.1%	0.2%

Source: Yardi Matrix. Data as of May 2020

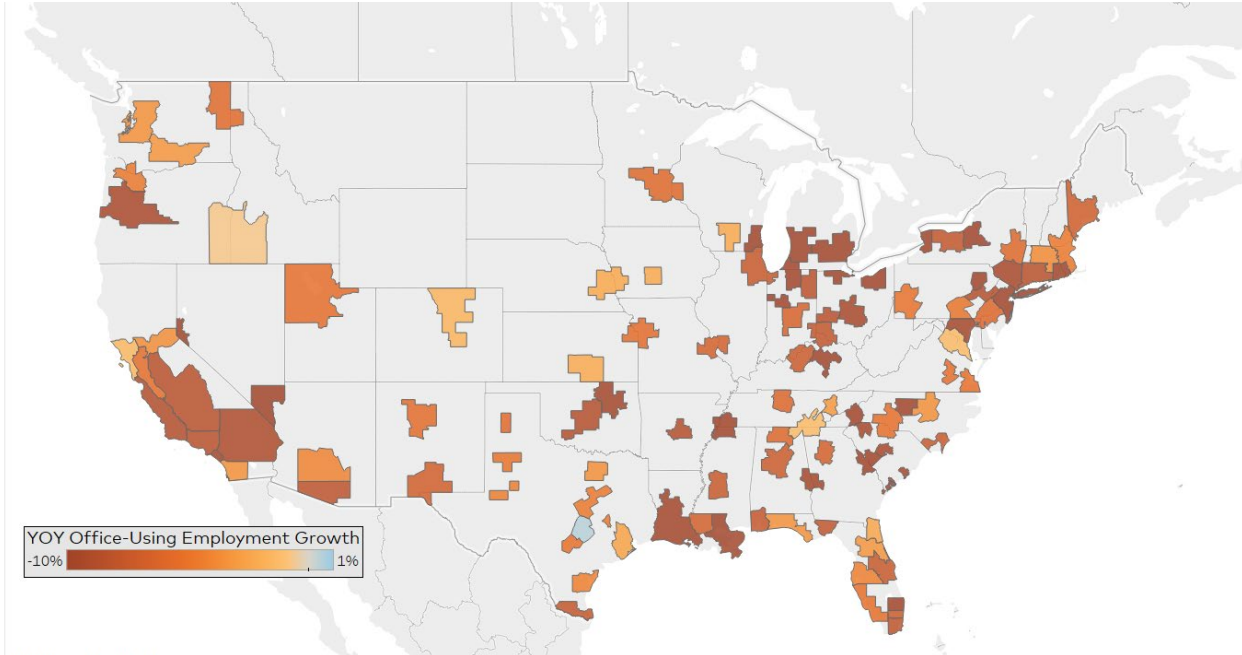
Office-Using Employment: April Data Shows Office Jobs Not Protected From Downturn

- Only one market in the entire country, Austin, saw positive job growth for office-using employment in April. Behind strong growth in financial activities employment, the Texas capital added a net 1,600 jobs in office-using sectors. Yet, this small year-over-year gain masks the fact that Austin lost 8,000 office-using jobs between March and April.
- The losses between March and April were highest in Los Angeles, which lost 11.1% of its office employment (-130,300 jobs) and New York, where office-using sectors decreased by 9.4% (-190,500 jobs).
- The slight bump in May national employment numbers indicates there will be some moderate increases in office-using employment for various metros when the localized May data is released. However, it could be into 2022 before office-using employment reaches pre-pandemic levels in some markets.



Sources: Bureau of Labor Statistics and Moody's Analytics

Office-Using Employment Growth

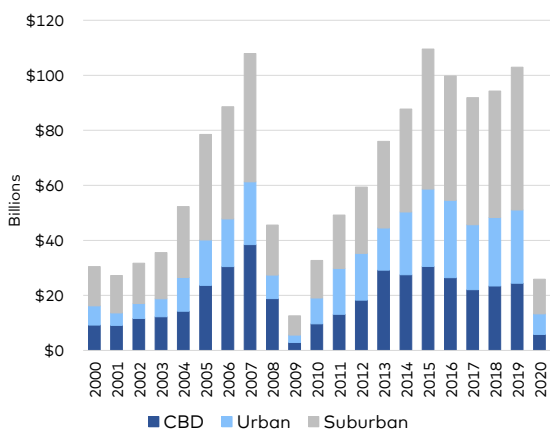


Sources: Bureau of Labor Statistics and Moody's Analytics

Transactions: Sales Volume Continues to Slow

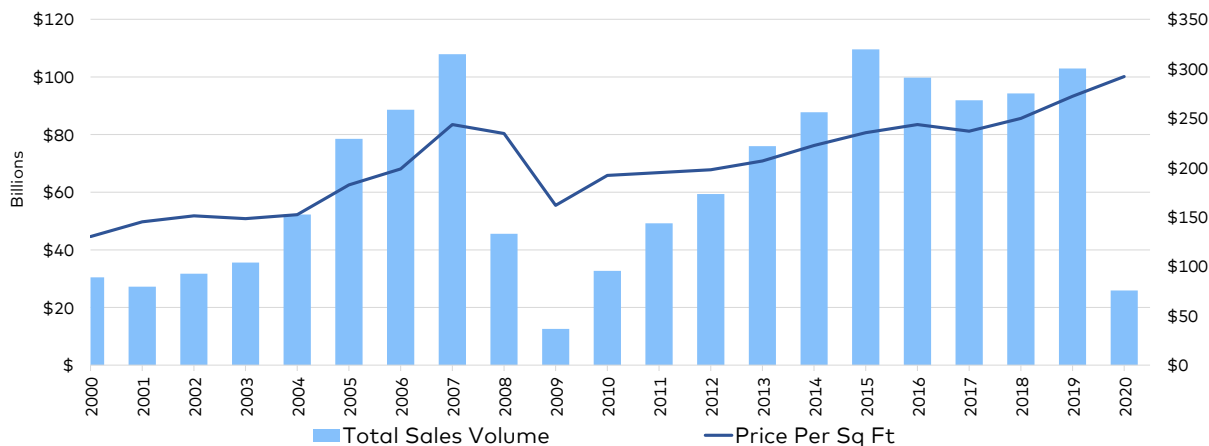
- Nationally, there have been \$25.9 billion in sales through the first five months of the year. Of that, \$21.5 billion occurred in the first quarter, as sales have slowed to a trickle during the pandemic.
- While there is a lag in picking up some transactions, we are nearing the end of the second quarter with only \$4.4 billion in sales volume visible to Yardi Matrix. As a point of comparison, at the same time last year, Yardi Matrix had logged \$12.7 billion of sales for the second quarter, increasing to \$24.1 billion by the time all sales were captured.

Sales by Location



Source: Yardi Matrix; Data as of May 2020

Total Sales



Source: Yardi Matrix. Data as of May 2020

Sales Activity

Market	YTD Sales Price PSF	YTD Sales (Mil, as of 5/31)
National	\$292	\$25,916
Manhattan	\$760	\$3,332
Boston	\$489	\$2,945
Washington DC	\$291	\$2,017
Los Angeles	\$427	\$1,647
Bay Area	\$369	\$1,426
New Jersey	\$220	\$1,347
San Francisco	\$1,221	\$1,268
Dallas	\$292	\$1,250
Denver	\$208	\$829
Houston	\$392	\$819
Charlotte	\$340	\$673
Chicago	\$211	\$598
Seattle	\$529	\$551
Nashville	\$420	\$432
Austin	\$368	\$409
San Diego	\$357	\$395
Phoenix	\$169	\$347
Atlanta	\$170	\$347
Portland	\$287	\$316
Philadelphia	\$112	\$298
Twin Cities	\$124	\$233
Brooklyn	\$687	\$165
Orlando	\$174	\$88
Tampa	\$124	\$67
Miami	\$193	\$66

Source: Yardi Matrix. Data as of May 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) 303-615-3676

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



DISCLAIMER

Although every effort is made to ensure the accuracy, timeliness and completeness of the information provided in this publication, the information is provided "AS IS" and Yardi Matrix does not guarantee, warrant, represent or undertake that the information provided is correct, accurate, current or complete. Yardi Matrix is not liable for any loss, claim, or demand arising directly or indirectly from any use or reliance upon the information contained herein.

COPYRIGHT NOTICE

This document, publication and/or presentation (collectively, "document") is protected by copyright, trademark and other intellectual property laws. Use of this document is subject to the terms and conditions of Yardi Systems, Inc. dba Yardi Matrix's Terms of Use (<http://www.yardimatrix.com/Terms>) or other agreement including, but not limited to, restrictions on its use, copying, disclosure, distribution and decompilation. No part of this document may be disclosed or reproduced in any form by any means without the prior written authorization of Yardi Systems, Inc. This document may contain proprietary information about software and service processes, algorithms, and data models which is confidential and constitutes trade secrets. This document is intended for utilization solely in connection with Yardi Matrix publications and for no other purpose.

Yardi®, Yardi Systems, Inc., the Yardi Logo, Yardi Matrix, and the names of Yardi products and services are trademarks or registered trademarks of Yardi Systems, Inc. in the United States and may be protected as trademarks in other countries. All other product, service, or company names mentioned in this document are claimed as trademarks and trade names by their respective companies.

© 2020 Yardi Systems, Inc. All Rights Reserved.