



Yardi[®] Matrix

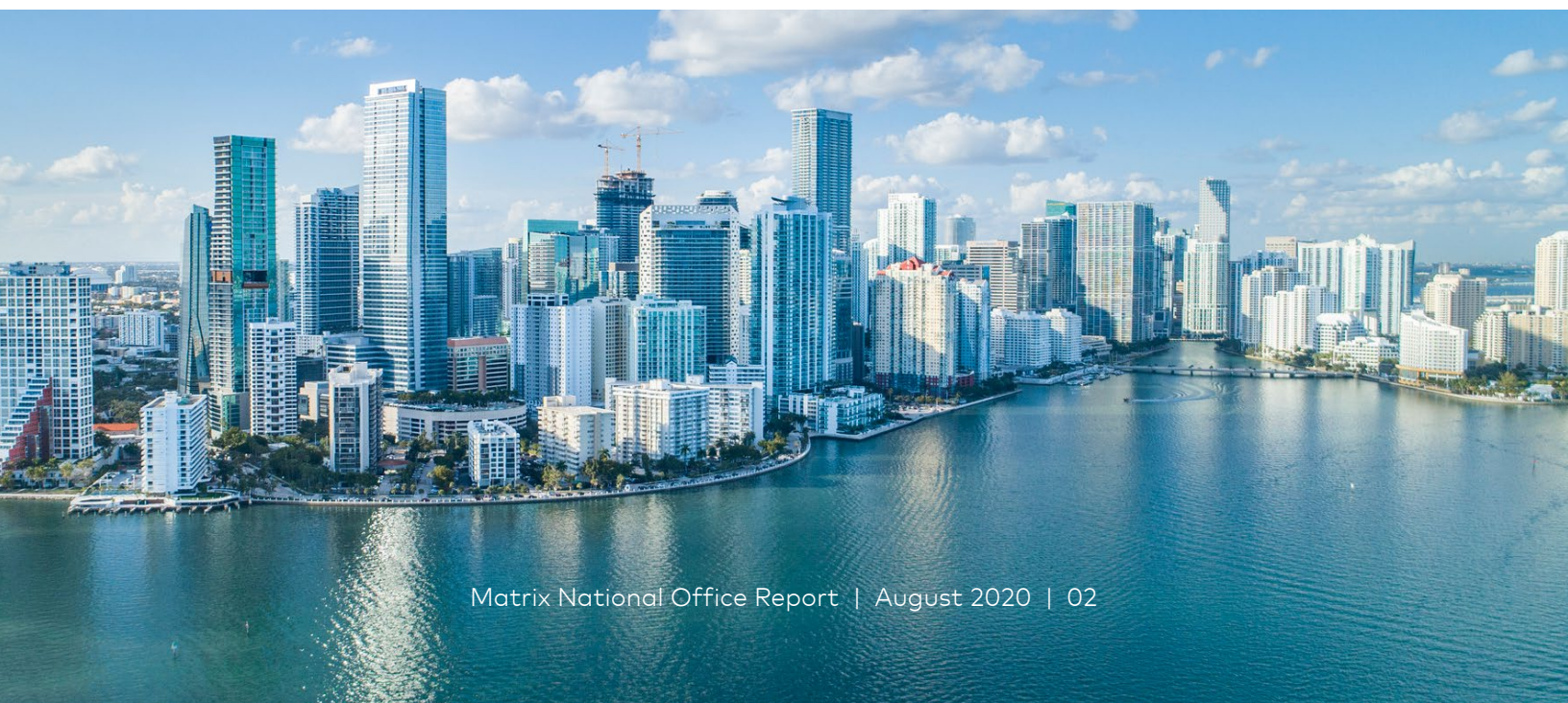
National Office Report

August 2020



Transactions Slow During Pandemic

- The national average full-service equivalent listing rate fell to \$38.21 in July, down 8 cents from June and 23 cents from July of 2019 (-0.6%). The national vacancy rate was 13.6%.
- Transaction activity has fallen off in recent months, with Yardi Matrix reporting only \$7.7 billion of office sales in the second quarter, down nearly 64.5% from the first quarter. Although there is a lag between sale date and research identification, we can confidently say that the second quarter experienced a precipitous drop in transaction activity. Recent reports suggest that the few transactions taking place are 1031 exchanges, as investors would rather pay pre-COVID prices for a property and qualify for the tax incentive than let their 1031 exchange expire and pay the high taxes to which they would be subjected.
- For the rest of the market, many buyers and sellers seem to be at a standstill, waiting for the other side to blink. This is evidenced by the fact that despite deal volume drying up, the price per square foot is higher in 2020 than 2019. Buyers, desiring pre-pandemic target returns for their investments, have found underwriting potential deals to be much more difficult. Knowing that it may be 12 to 24 months before properties start generating pre-pandemic levels of income has reduced the pool of viable buildings. Sellers, not keen on transacting deals at the bottom of the recession, still want the full market price they would have received six months ago. When assets start to become distressed, asking prices may finally drop. Despite the headwinds against completing a transaction, one tailwind is record low interest rates that investors hope to lock into for the long term.
- Currently, one of the biggest hurdles to completing transactions is the presence of ground-floor retail in mixed-use buildings. Many mixed-use buildings will require a potential buyer to thoroughly evaluate tenants on a case-by-case basis. Unless a building has retail tenants that were deemed essential, such as grocery and drug stores, owners will have to deal with the possibility that a significant, and visible, portion of the property sits vacant and generates no income. Retail sales data generated by the Census Bureau suggests that buildings with ground-floor restaurants, clothing and electronic stores will be in the most trouble.



Listing Rates: Miami's Average Rate Soars

- The average full-service equivalent listing rate was \$38.21 per square foot in July, down 0.6% year-over-year.
- Same-store listing rate growth was highest in Manhattan (19.9%), Tampa (9.6%), the Bay Area (8.2%) and Miami (7.5%). The biggest decreases in same-store listing rates were in Brooklyn (-18.3%) and San Francisco (-9.8%).
- Miami saw strong growth across both measures, with overall rates increasing 15.8% year-over-year. The high overall growth rate is

driven by a handful of new properties that are currently under construction but are now officially listing space in the market. The largest contributor to the spike in rates is 830 Brickell Plaza, a 57-story Class A+ building in the Brickell submarket, currently listing 352,000 square feet at a full-service rate of \$73 per square foot. Also contributing to overall rates growing faster than same store is MedSquare Health, a medical office building currently under construction in the Miami West submarket, offering 128,000 feet of space at a full-service equivalent of \$60.26 per square foot.

Listings by Metro

Market	Jul-20 Listing Rate	12-Month Change	Total Vacancy	Top Listing	Price Per Square Foot
National	\$38.21	-0.6%	13.6%		
Miami	\$41.56	15.8%	12.6%	830 Brickell Plaza	\$73.00
Bay Area	\$51.52	15.0%	14.0%	525 University Avenue	\$149.42
Manhattan	\$88.41	11.2%	8.2%	550 Madison Avenue	\$210.00
Los Angeles	\$38.80	8.0%	12.2%	100 Wilshire	\$111.00
Atlanta	\$27.02	6.4%	17.0%	Three Alliance Center	\$54.98
Boston	\$36.02	6.3%	9.8%	399 Boylston Street	\$95.96
Houston	\$30.77	4.5%	22.0%	Texas Tower	\$58.40
Austin	\$42.00	3.3%	9.4%	Indeed Tower	\$70.67
Denver	\$28.81	2.2%	11.6%	William Building, The	\$59.67
New Jersey	\$32.04	2.1%	20.3%	Newport Tower	\$57.80
Nashville	\$29.80	2.0%	12.3%	Peabody Plaza at Rolling Mill Hill	\$50.81
Chicago	\$28.56	0.6%	14.5%	River Point	\$60.55
Philadelphia	\$28.36	0.5%	12.1%	One Liberty Place	\$51.71
San Diego	\$38.05	0.1%	13.7%	Molecular and Experimental Medicine Building	\$74.54
Portland	\$29.62	0.1%	12.4%	5 MLK	\$48.03
Charlotte	\$28.51	-0.7%	10.7%	300 South Tryon	\$42.00
Twin Cities	\$26.98	-0.8%	13.2%	Offices at MOA, The	\$41.00
Phoenix	\$26.91	-1.2%	18.4%	Watermark-Phase I, The	\$45.00
Orlando	\$21.43	-2.7%	13.0%	Sand Lake IV	\$32.00
Dallas	\$27.34	-2.8%	18.3%	Victory Commons	\$56.94
Washington DC	\$40.17	-3.7%	15.2%	One Freedom Plaza	\$81.83
Tampa	\$29.37	-5.9%	11.6%	1001 Water Street	\$55.70
San Francisco	\$63.63	-7.1%	8.5%	2180 Sand Hill Road	\$150.84
Seattle	\$37.64	-7.4%	9.1%	U.S. Bank Centre	\$66.39
Brooklyn	\$50.97	-14.5%	13.1%	One MetroTech Center	\$65.59

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

Supply: Brooklyn's Slowing Building Boom

- During the first seven months of the year, 34.9 million square feet of office space was completed, with the vast majority (85.9%) being properties rated as A+ or A, continuing a trend that began in the middle of the last decade. From 2010 to 2014, Class B office buildings accounted for 20-30% of new square footage annually. Since 2015, however, 87.5% of new space has been an A+ or A property. This trend will continue in the coming years, as 91.5% of square feet currently under construction are in the A+/A space.
- After five years as one of the fastest-growing office markets, Brooklyn appears to be slowing its mad dash to add new office buildings. More than a fifth (22.3%) of all office space in Brooklyn was completed since 2015, and 1.5 million square feet has already been delivered this year. However, the borough had 4.8 million square feet of new stock under construction a year ago and has seen its pipeline shrink to 2.1 million square feet at the end of July. Whether this is due to the pandemic and recession or it was a decrease that was bound to occur is unclear. Its under-construction inventory as a percentage of stock (5.2%) is still one of the highest rates in the country, but the pipeline is contracting.

Supply Pipeline (by asset class and location)

National Market	Under Construction	Under Construction % Stock	Plus Planned % Stock
A+/A	131,742,925	4.4%	4.6%
B	11,492,362	0.4%	0.4%
C	673,363	0.2%	0.2%
CBD	38,091,473	2.9%	3.6%
Urban	65,232,512	4.9%	6.7%
Suburban	40,584,665	1.1%	1.6%

Source: Yardi Matrix. Data as of July 2020

Supply Pipeline (by metro)

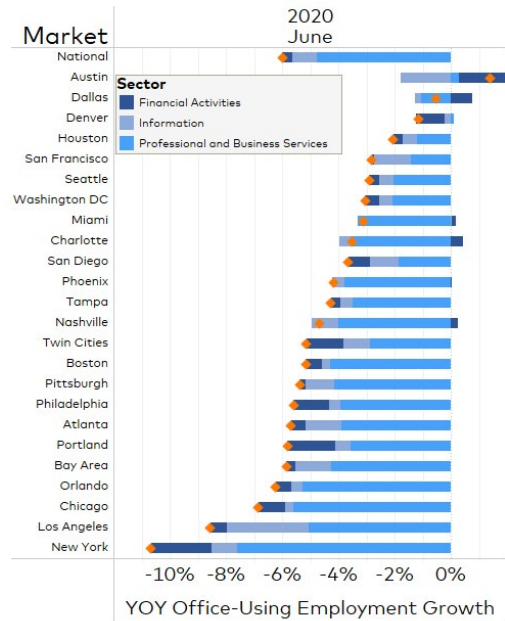
Market	Under Construction	Under Construction % Stock	Plus Planned % Stock
National	143,908,650	2.2%	3.1%
Austin	8,020,177	10.8%	15.7%
Nashville	4,425,695	8.3%	10.7%
Charlotte	4,090,609	6.1%	9.0%
Brooklyn	2,058,102	5.2%	6.5%
San Francisco	7,710,120	5.0%	7.2%
Seattle	6,145,600	4.5%	5.5%
Manhattan	19,081,404	4.0%	4.3%
Boston	9,243,697	3.9%	4.5%
Miami	2,280,982	3.4%	4.4%
Bay Area	6,264,517	3.1%	5.9%
Chicago	8,718,753	2.9%	3.4%
Los Angeles	8,084,602	2.8%	3.1%
Atlanta	4,644,224	2.5%	2.5%
Tampa	1,486,504	2.4%	2.9%
San Diego	1,868,005	2.1%	2.4%
Denver	3,215,353	2.1%	3.2%
Washington DC	7,614,868	2.0%	2.7%
Houston	4,374,018	1.9%	2.6%
Portland	1,059,254	1.8%	1.8%
Phoenix	2,069,204	1.6%	2.1%
Dallas	4,209,951	1.6%	3.0%
Philadelphia	2,295,452	1.3%	1.8%
Twin Cities	1,243,008	1.1%	1.4%
Orlando	408,018	0.7%	1.9%
New Jersey	121,800	0.1%	0.3%

Source: Yardi Matrix. Data as of July 2020

Office-Using Employment: Financial Activities Sector Weathers the Storm

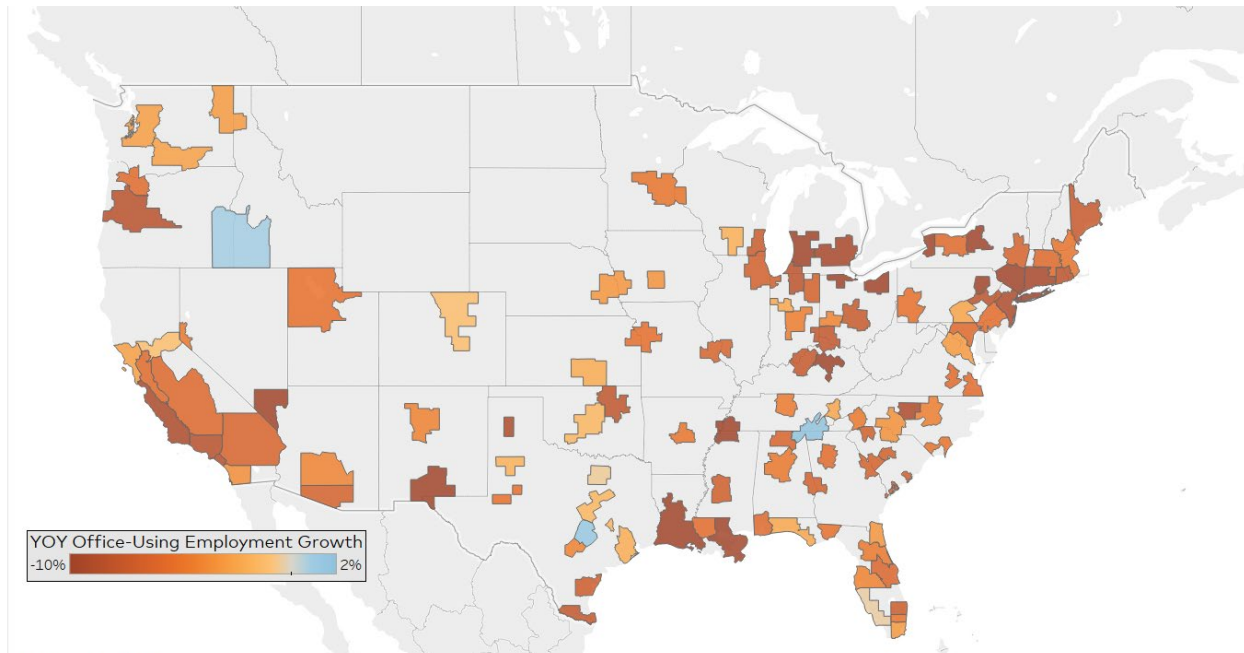
- Nationally, employment in office-using sectors of the economy experienced job losses at a rate of 5.6% year-over-year in July, 190 basis points lower than the economy as a whole, which was down 7.5%.
- In June, metro employment, which is released later than the national figures, showed only three markets with positive year-over-year growth for office-using employment. Chattanooga (1.8%), Austin (1.4%) and Boise (0.8%) experienced growth behind strong gains in the financial activities sector. These secondary and tertiary tech markets could pique development and investment interest.
- Employment in the financial activities sector has suffered far fewer losses than the information and professional and business services sectors. Financial activities—which includes employment in finance, insurance and real estate—has only dipped 1.4% nationally year over year.

Growth by Sector



Sources: Bureau of Labor Statistics and Moody's Analytics

Office-Using Employment Growth

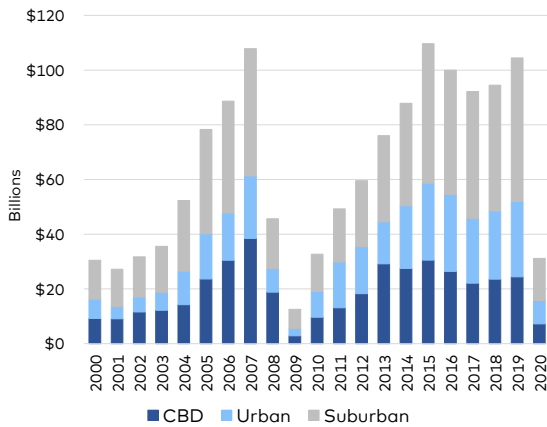


Sources: Bureau of Labor Statistics and Moody's Analytics

Transactions: Largest Quarterly Drop in Activity Since Financial Crisis

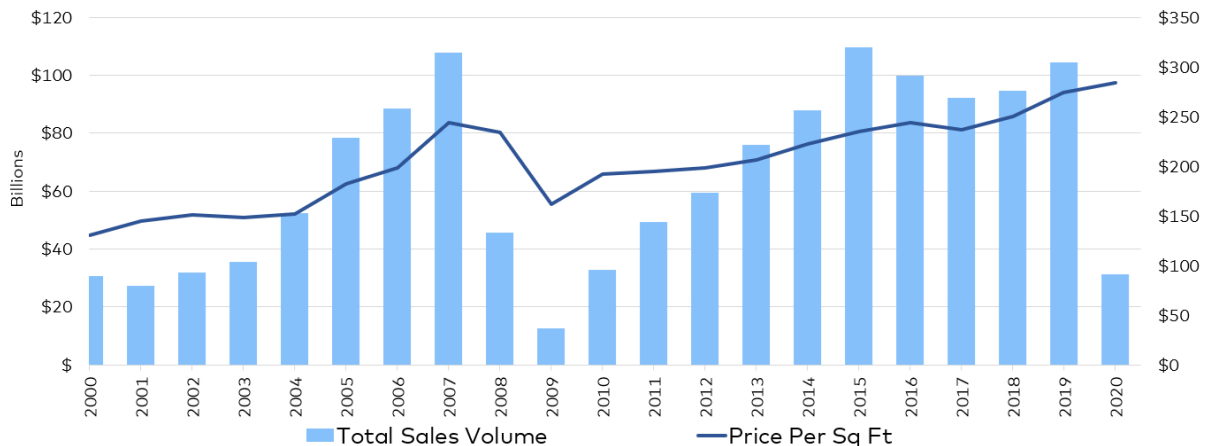
- Only \$7.7 billion of transactions have currently been logged for the second quarter of 2020. While a lag in collecting all sales data means additional activity will be added to the data set, by this point the vast majority of transactions have been recorded. By comparison, at this point in 2019, \$21.7 billion of a total \$25 billion in second quarter sales had been logged.
- As it stands now, the second quarter saw a quarter-over-quarter drop in activity of 64.5%. Only the quarters following the financial crisis had declines anywhere near this magnitude since the turn of the century.

Sales by Location



Source: Yardi Matrix; Data as of July 2020

Total Sales



Source: Yardi Matrix. Data as of July 2020

Sales Activity

Market	YTD Sales Price PSF	YTD Sales (Mil, as of 7/31)
National	\$284	\$31,173
Manhattan	\$793	\$3,964
Boston	\$448	\$3,038
Washington DC	\$310	\$2,518
Los Angeles	\$390	\$2,099
Bay Area	\$386	\$1,979
San Francisco	\$1,127	\$1,509
New Jersey	\$206	\$1,438
Dallas	\$291	\$1,270
Houston	\$400	\$934
Denver	\$204	\$887
San Diego	\$370	\$716
Philadelphia	\$179	\$703
Charlotte	\$326	\$685
Chicago	\$189	\$650
Seattle	\$527	\$571
Phoenix	\$182	\$492
Nashville	\$369	\$485
Atlanta	\$168	\$450
Twin Cities	\$117	\$357
Portland	\$278	\$332
Brooklyn	\$600	\$304
Miami	\$182	\$262
Austin	\$356	\$171
Tampa	\$136	\$104
Orlando	\$172	\$93

Source: Yardi Matrix. Data as of July 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.

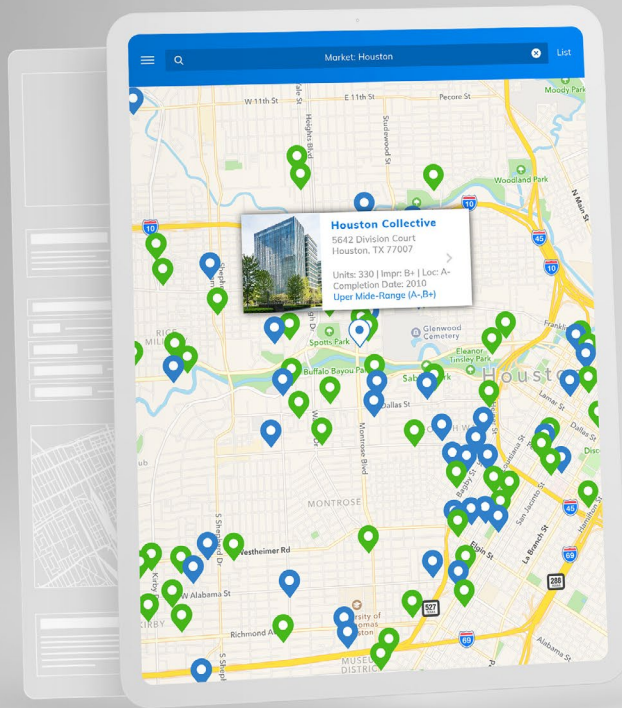
Sales volume and price-per-square-foot calculations do not always include portfolio transactions or those with unpublished dollar values.

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