



Yardi<sup>®</sup> Matrix

# National Office Report

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September 2020



# COVID-19 Reshaping Commercial Real Estate

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- The national average full-service equivalent listing rate rose 11 cents to \$38.32 in August from the previous month but continues to experience slightly negative year-over-year growth. It decreased 0.4% since August of 2019, amid continued uncertainty for office real estate.
- Many have speculated that new office development may focus less on city centers in the future as the COVID-19 pandemic accelerates the trend toward more remote work. Yardi Matrix data for planned properties shows this speculation is starting to become a reality. At the beginning of the year, 20.8% of all planned office properties were in a CBD submarket. At the end of August the share had fallen to 15.9%. Shifts of this nature take a long time to play out, but this could be a sign of softening in the urban core.
- Office-using employment decreased 5.1% year-over-year in August, slightly better than the 6.8% decline in the overall labor market. While most jobs classified as office-using are currently operating from home, the performance of these sectors relative to the rest of the economy provides a slight measure of optimism for the long-term outlook of the office sector. Employment in the financial activities sector—which includes jobs in finance, insurance and real estate—is only down 1.4% year-over-year and experiencing positive growth in a handful of markets. Locations that were hit earliest by the coronavirus, especially those in the Northeast, experienced the sharpest declines in employment levels. The most resilient locations for office-using employment have been secondary tech markets like Austin, Seattle and Denver, as well as emerging centers for financial activities jobs such as Dallas and Charlotte.
- Industrial has fared better than other real estate sectors during the pandemic. Consumers who don't feel safe visiting traditional retail stores have accelerated the move to online shopping, increasing the demand for speedy delivery of goods and last-mile logistics facilities. One trend to watch is the conversion of abandoned retail into industrial space to meet this demand. Abandoned retail locations, especially former department or big-box stores, may be well suited for conversion due to ideal site locations in proximity to a city's population, existing loading docks and large parking lots. Yardi Matrix is tracking industrial data and will release a full industrial report at the end of this year.



## Listing Rates: New Construction Pushes San Diego's Rates Upward

- The average full-service equivalent listing rate was \$38.32 per square foot in August, down 0.4% year-over-year.
- Same-store listing rate growth was highest in Manhattan (16.5%), San Diego (5.9%) and Denver (3.0%). Same-store listing rates decreased the most in Brooklyn (-12.0%) and San Francisco (-7.9%).
- San Diego's overall growth was more than double its same-store rate, with average full-service equivalent listing rates increas-

ing 12.5% since August of last year. This discrepancy in average rate growth is driven by recently listed new construction, most notably 2100 Kettner in the Little Italy neighborhood of the downtown submarket. The building, with an anticipated completion in March and a proposed Platinum LEED certification, will include 190,000 square feet for leasing, with a full-service average of \$69 per square foot. Downtown San Diego underwent a substantial revitalization last decade, with new high-end apartment and office buildings dotting the skyline.

### Listings by Metro

Market	Aug-20 Listing Rate	12-Month Change	Total Vacancy	Top Listing	Price Per Square Foot
National	\$38.32	-0.4%	13.3%		
Manhattan	\$88.61	14.4%	8.4%	550 Madison Avenue	\$210.00
San Diego	\$43.03	12.5%	12.9%	ARE Spectrum-3033 Science Park Road	\$75.17
Bay Area	\$52.32	11.5%	13.8%	525 University Avenue	\$168.02
Miami	\$41.65	6.9%	12.4%	830 Brickell Plaza	\$73.00
Los Angeles	\$39.01	3.7%	12.0%	100 Wilshire	\$111.00
Denver	\$29.10	3.3%	11.2%	William Building, The	\$59.67
Houston	\$30.64	3.2%	21.8%	Texas Tower	\$58.40
New Jersey	\$32.21	1.9%	19.3%	Newport Tower	\$57.80
Atlanta	\$27.04	1.4%	17.2%	Three Alliance Center	\$54.98
Orlando	\$21.42	1.3%	12.3%	Crescent at Primera-Primera Tower IV, The	\$31.50
Austin	\$42.33	1.3%	10.0%	Indeed Tower	\$70.67
Boston	\$35.35	1.2%	10.2%	399 Boylston Street	\$95.96
Washington DC	\$39.84	0.6%	15.1%	One Freedom Plaza	\$81.83
Charlotte	\$28.38	-0.4%	10.7%	300 South Tryon	\$42.00
Twin Cities	\$26.91	-0.5%	10.8%	10 West End	\$37.83
Phoenix	\$27.23	-1.0%	17.5%	One Hundred Mill	\$50.50
Dallas	\$27.53	-2.3%	18.3%	Weir's Plaza	\$63.44
Portland	\$29.31	-2.5%	12.3%	M Financial Plaza	\$45.90
Chicago	\$28.72	-2.6%	14.5%	300 North LaSalle Drive	\$59.46
Seattle	\$36.59	-2.9%	8.9%	Key Center	\$62.91
Philadelphia	\$28.38	-2.9%	12.3%	One Liberty Place	\$51.71
Nashville	\$29.71	-9.0%	10.3%	Three Thirty Three	\$44.38
Tampa	\$27.49	-10.2%	11.6%	Heights Union-West Building	\$45.00
Brooklyn	\$51.05	-11.1%	13.4%	One MetroTech Center	\$65.59
San Francisco	\$64.12	-12.6%	8.7%	2180 Sand Hill Road	\$150.84

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: Charlotte's Pipeline Grows Amid Pandemic

- Nationally, 41.9 million square feet of office space was delivered through August. Slightly more of it (52.0%) was in CBD or urban sub-markets.
- Overall, the COVID-19 pandemic has yet to have an impact on the national new-supply pipeline. In January, there were 147 million square feet of new office space under construction and an additional 50.8 million planned. Under-construction square footage has fallen to 141 million square feet, but the 56.2 million square feet of planned new space means the pipeline has remained roughly the same size.
- Charlotte has seen its supply pipeline grow since the beginning of the year despite the pandemic and economic turmoil. There is 4.1 million square feet of construction currently underway in the city, 500,000 square feet more than at the end of last year. Additionally, the planned portion of the pipeline grew from 1.3 million square feet to 2 million square feet over the same time period. Before COVID-19 hit, Charlotte was a booming financial center, with Wells Fargo and Bank of America as two of the five largest employers in the city. The financial activities job growth has been so strong that the sector still saw positive growth on a year-over-year basis in July.

## Supply Pipeline (by asset class and location)

National Market	Under Construction	Under Construction % Stock	Plus Planned % Stock
A+/A	129,474,638	4.3%	4.5%
B	10,569,375	0.3%	0.4%
C	673,363	0.2%	0.2%
CBD	38,078,678	2.9%	3.6%
Urban	63,416,138	4.7%	6.8%
Suburban	39,485,560	1.1%	1.6%

Source: Yardi Matrix. Data as of August 2020

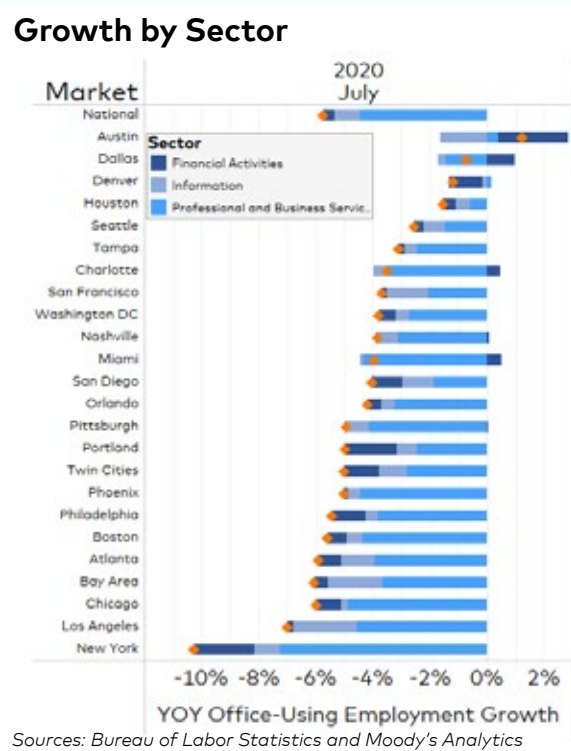
## Supply Pipeline (by metro)

Market	Under Construction	Under Construction % Stock	Plus Planned % Stock
National	140,980,376	2.2%	3.1%
Austin	8,317,607	11.2%	15.2%
Nashville	4,426,992	8.3%	10.9%
Charlotte	4,090,609	6.0%	9.0%
San Francisco	7,285,551	4.7%	6.7%
Brooklyn	1,854,312	4.6%	5.4%
Boston	10,106,637	4.3%	4.9%
Seattle	5,815,914	4.3%	5.3%
Manhattan	19,081,404	4.0%	4.3%
Miami	2,280,982	3.4%	4.4%
Los Angeles	7,898,200	2.8%	3.0%
Bay Area	5,772,515	2.8%	5.6%
Chicago	8,588,753	2.8%	5.4%
Atlanta	4,583,224	2.4%	2.7%
Tampa	1,446,504	2.3%	2.9%
Washington DC	7,614,868	2.0%	2.2%
Denver	3,110,019	2.0%	3.1%
Houston	4,266,374	1.8%	2.6%
Dallas	4,382,622	1.7%	3.0%
San Diego	1,581,455	1.7%	2.1%
Phoenix	2,069,204	1.6%	2.1%
Portland	917,229	1.6%	1.6%
Philadelphia	2,252,160	1.3%	1.8%
Twin Cities	1,243,427	1.1%	1.4%
Orlando	453,531	0.8%	2.0%
New Jersey	121,800	0.1%	0.3%

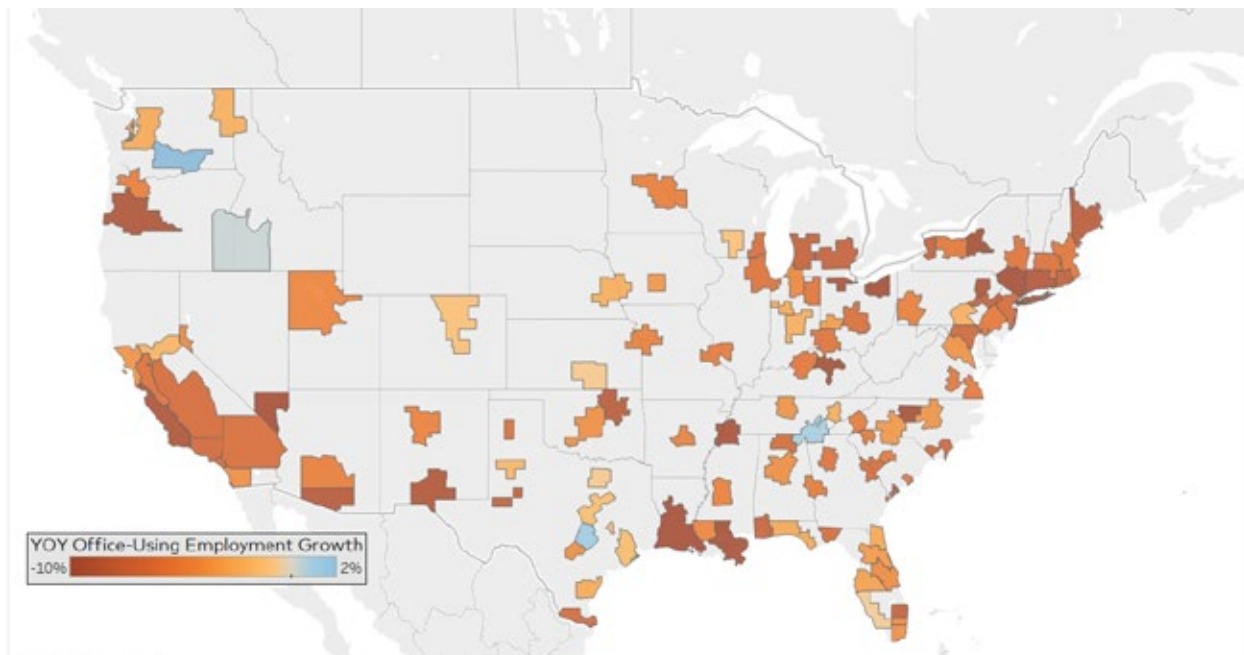
Source: Yardi Matrix. Data as of August 2020

# Office-Using Employment: Jobs Picture Slowly Improving

- Nationally, employment in office-using sectors decreased by 5.1% year-over-year in August. Office-using jobs continue to fare better than the overall labor market, which decreased 6.8% year-over-year. Despite many employees in these sectors continuing to work from home into the fall, the employment data suggests demand for office space may rebound quickly if a vaccine for the coronavirus is delivered within the next six to 12 months.
- Metro employment data for July, which is released later than the national figures, shows New York still dealing with fallout from COVID-19 shutdowns in the early stages of the pandemic. Markets in the southern U.S., which were hit hard in the summer but resisted a second round of lockdowns, have not been as severely impacted.
- Only three of the 120 markets Yardi Matrix covers—Austin, Chattanooga and the Tri-Cities—added office-using jobs in the last year.



## Office-Using Employment Growth

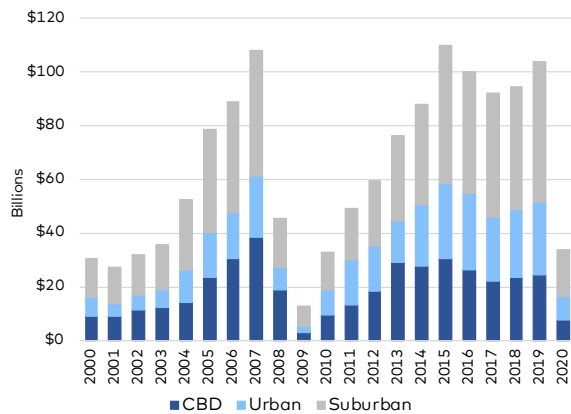


Sources: Bureau of Labor Statistics and Moody's Analytics

# Transactions: Brooklyn's Sales Volume Grows Despite Downturn

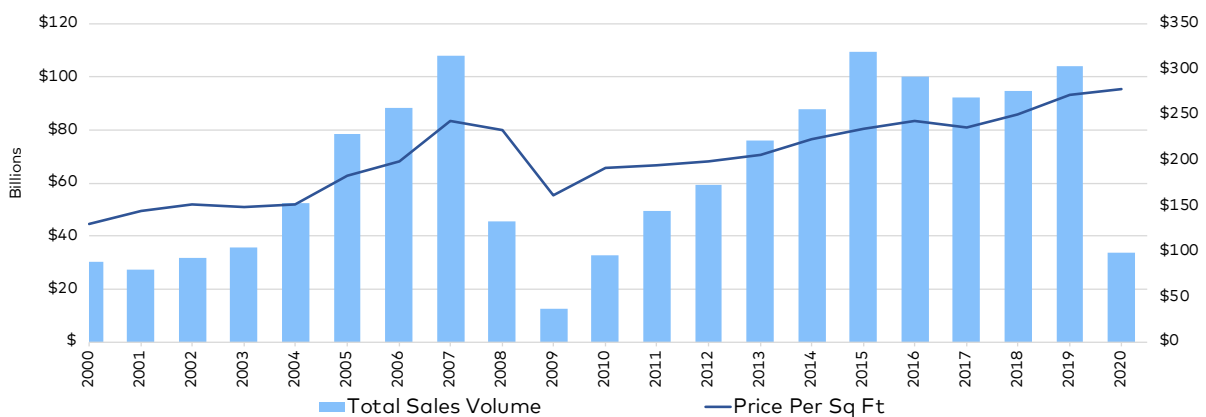
- In all, \$33.9 billion of office transactions was logged in the first eight months of the year. Transactions slowed due to the pandemic and have yet to recover to the pace of 2019. Despite the drop-off in transaction volume, the price per square foot for office buildings is up 2% from 2019 and 11% from 2018.
- Despite a plethora of new supply and some of the highest rates of job loss in the country, the Brooklyn market still looks appetizing to investors. Not only was overall sales volume \$254 million higher through August than all of last year but the price per square foot for office sales spiked 34.9%, from \$379 to \$511.

## Sales by Location



Source: Yardi Matrix; Data as of August 2020

## Total Sales



Source: Yardi Matrix. Data as of August 2020

## Sales Activity

Market	YTD Sales Price PSF	YTD Sales (Mil, as of 8/31)
National	\$278	\$33,877
Manhattan	\$793	\$3,964
Boston	\$459	\$3,502
Washington DC	\$308	\$2,551
Bay Area	\$391	\$2,195
Los Angeles	\$389	\$2,141
New Jersey	\$214	\$1,606
San Francisco	\$1,194	\$1,403
Dallas	\$281	\$1,313
Chicago	\$210	\$1,050
Denver	\$215	\$1,037
Houston	\$357	\$1,000
San Diego	\$386	\$873
Philadelphia	\$185	\$796
Charlotte	\$322	\$702
Seattle	\$524	\$595
Phoenix	\$182	\$492
Atlanta	\$167	\$487
Nashville	\$369	\$485
Portland	\$302	\$475
Twin Cities	\$115	\$362
Brooklyn	\$511	\$334
Miami	\$182	\$262
Austin	\$356	\$171
Tampa	\$148	\$135
Orlando	\$169	\$97

Source: Yardi Matrix. Data as of August 2020

# Definitions

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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.

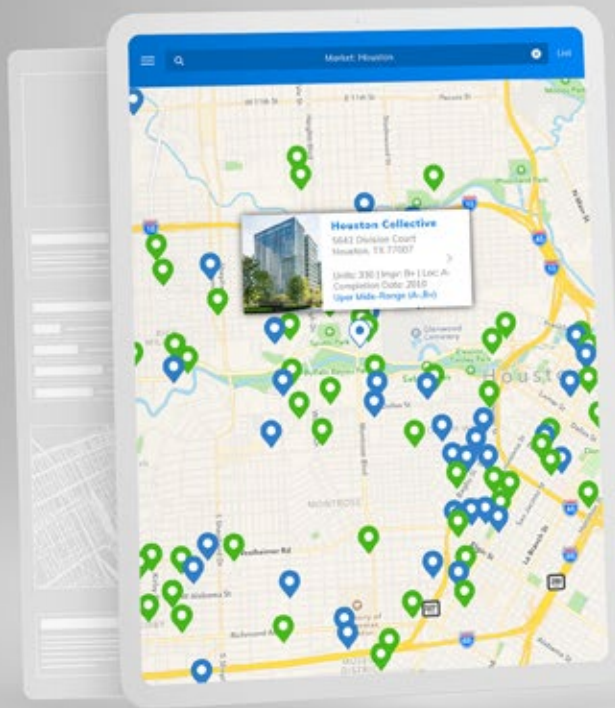
Sales volume and price-per-square-foot calculations do not always include portfolio transactions or those with unpublished dollar values.

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## Contacts

### **Jeff Adler**

Vice President & General  
Manager of Yardi Matrix  
Jeff.Adler@Yardi.com  
(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

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