



CommercialEdge

National Office Report

October 2020



Fallout of Pandemic Trickles Into Commercial Office Data

- The national average full-service equivalent listing rate fell 25 cents in September from the previous month, to \$38.07, a 0.5% decrease from the same period last year. The national vacancy rate increased 30 basis points month-over-month to 13.6%.
- Listing rates have remained relatively sticky during the pandemic, with rates not decreasing concurrent with falling demand. The long-term nature of office leases coupled with a lack of potential tenants gives owners no incentive to dramatically lower rates at the current time.
- Employment in office-using sectors continued a modest recovery from the initial downturn in April, when 2.7 million jobs were lost in Information, Financial Activities, and Professional and Business Services as the country reeled from COVID-19 lockdowns. In the subsequent five months, those sectors averaged 207,000 new jobs per month. Financial Activities—which includes insurance, banking and real estate employment—has been the strongest performer of the three, down only 1.0% year-over-year. Office-using sectors have consistently outperformed overall job growth for years, a trend that has continued during the pandemic. In September, office-using employment was down 4.8% year-over-year, whereas the labor market as a whole was down 6.4%.
- The total square footage of new stock under construction has fallen steadily throughout the year. Only 24 of the top 75 markets covered by Commercial Edge currently have more square feet under construction than at the start of 2020. Projects that were underway when the coronavirus hit America continue to be delivered, since most construction was exempt from initial stay-at-home orders and continued as restrictions eased throughout the summer. However, as it becomes increasingly clear that things will not return to normal until a vaccine is made widely available, developers have not been replacing completed properties with new construction in the pipeline. With 134.1 million square feet under construction nationally, this portion of the pipeline has shrunk 8.8% since the start of the year, and we expect this number to continue to decline for the foreseeable future. It is noteworthy that the total amount of planned stock has actually increased 10.0% this year to 55.9 million square feet. Once companies feel it is safe to open offices to their employees, there may be a large backlog of projects on which developers will be looking to break ground.



Listing Rates: New Listings Cause Surge in Bay Area Average Rates

- The average full-service equivalent listing rate was \$38.07 per square foot, a decrease of 0.5% from September of last year.
- Same-store listing rate growth was highest in Manhattan (6.5%), the Bay Area (4.0%) and New Jersey (2.8%). Same-store listing rates dropped the most in San Francisco (-8.3%), Brooklyn (-6.2%) and Boston (-5.5%).
- The Bay Area, which includes Silicon Valley and the East Bay, had stronger listing-rate growth overall, with rates jumping 10.2% year-over-

year. Much of the discrepancy between same-store and overall growth was new listings for buildings under construction. Chief among those is CityView Plaza in downtown San Jose. Not scheduled for completion until 2023, the 19-floor building is listing 885,000 square feet at a full-service equivalent of \$84.68 per square foot. The tech industry has not been exempt from the economic turbulence the pandemic has caused, but many of Silicon Valley's titans have thrived this year. Recent listing-rate trends suggest the Bay Area will continue to be attractive to tech firms big and small.

Listings by Metro

Market	Aug-20 Listing Rate	12-Month Change	Total Vacancy	Top Listing	Price Per Square Foot
National	\$38.07	-0.5%	13.6%		
San Diego	\$42.61	10.6%	14.3%	ARE Spectrum-3033 Science Park Road	\$75.17
Bay Area	\$53.10	10.2%	13.8%	525 University Avenue	\$168.02
Miami	\$42.35	8.6%	12.6%	830 Brickell Plaza	\$73.00
Manhattan	\$86.62	5.9%	8.8%	550 Madison Avenue	\$210.00
Denver	\$29.07	2.8%	12.9%	William Building, The	\$59.67
Austin	\$42.36	2.8%	10.6%	Indeed Tower	\$70.67
New Jersey	\$32.28	2.1%	18.3%	Newport Tower	\$57.80
Los Angeles	\$38.74	1.7%	12.5%	100 Wilshire	\$111.00
Atlanta	\$26.87	1.3%	17.5%	300 Colony Square	\$50.00
Orlando	\$21.42	1.3%	12.5%	250 Park Avenue South	\$40.00
Charlotte	\$28.66	1.0%	10.9%	300 South Tryon	\$42.00
Houston	\$29.96	0.9%	22.0%	Texas Tower	\$58.40
Washington DC	\$39.90	0.3%	15.1%	601 Pennsylvania Avenue NW-North Building	\$90.00
Phoenix	\$27.69	0.2%	17.5%	One Hundred Mill	\$50.50
Portland	\$29.55	-0.2%	12.5%	Broadway Tower	\$46.16
Twin Cities	\$27.27	-0.3%	12.6%	RBC Plaza	\$39.85
Philadelphia	\$28.46	-1.5%	12.6%	One Liberty Place	\$51.71
Dallas	\$27.68	-2.2%	18.9%	Weir's Plaza	\$63.44
Chicago	\$28.32	-2.5%	14.2%	PNC Centre at One North Franklin	\$62.30
Boston	\$34.14	-3.7%	10.1%	60 State Street	\$88.00
Nashville	\$29.91	-3.7%	12.3%	1201 Demonbreun	\$43.00
Brooklyn	\$51.03	-4.5%	13.9%	One MetroTech Center	\$65.59
Seattle	\$35.96	-4.9%	9.6%	City Center Bellevue	\$63.50
Tampa	\$27.43	-8.8%	12.5%	Heights Union-West Building	\$45.00
San Francisco	\$64.18	-11.1%	9.8%	2180 Sand Hill Road	\$150.84

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

Supply: Chicago Pipeline Grows Throughout Year

- Nationally, 49.0 million square feet of office space was delivered in the first three quarters. The majority of this new supply (87.0%) is in properties rated as A+ or A.
- Although properties that were already under construction have continued to be delivered during the pandemic, the total amount of new square footage under construction is shrinking, as not many new projects have broken ground since the initial shutdowns in the spring.
- Chicago is one of the few metros that has added to its stock under construction this year, driven in large part by Salesforce Tower. The 1.2 million-square-foot tower at Wolf Point, which will make an impression on the city's iconic skyline, has been in the planning stages since 2017 and isn't scheduled for completion until 2023. An additional 1.6 million square feet is being added at Bellworks Chicagoland, a former AT&T corporate campus being repurposed as a "metroburbs," a concept that tries to bring the live-work-play lifestyle to the suburbs. Despite large projects that began construction this year, Chicago's square feet under construction as a percentage of stock sits at a modest 2.8%, providing hope to developers that the market won't be oversaturated whenever things begin a return to normal.

Supply Pipeline (by asset class and location)

National Market	Under Construction	Under Construction % Stock	Plus Planned % Stock
A+/A	121,970,579	4.1%	4.2%
B	10,406,707	0.3%	0.4%
C	492,153	0.2%	0.2%
CBD	35,275,605	2.7%	3.3%
Urban	60,577,063	4.5%	6.6%
Suburban	38,249,261	1.0%	1.5%

Source: CommercialEdge. Data as of September 2020

Supply Pipeline (by metro)

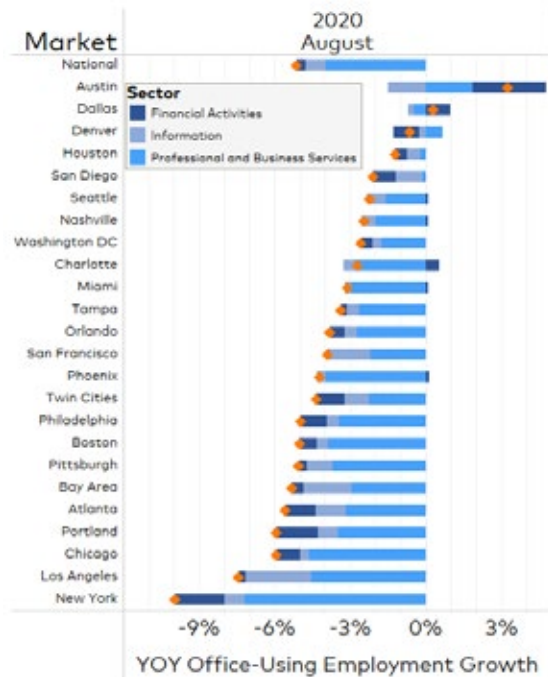
Market	Under Construction	Under Construction % Stock	Plus Planned % Stock
National	134,101,929	2.1%	3.0%
Austin	7,575,954	10.2%	15.3%
Nashville	4,001,696	7.5%	9.0%
Charlotte	4,499,765	6.6%	9.3%
San Francisco	7,373,056	4.8%	6.7%
Brooklyn	1,854,312	4.6%	5.4%
Boston	9,997,750	4.2%	4.7%
Manhattan	17,305,590	3.6%	3.9%
Seattle	4,474,079	3.3%	4.2%
Los Angeles	7,942,282	2.8%	3.0%
Chicago	8,542,113	2.8%	5.5%
Bay Area	5,500,816	2.7%	5.2%
Miami	1,827,261	2.7%	3.7%
Atlanta	4,734,836	2.5%	2.8%
Tampa	1,446,504	2.3%	2.9%
Phoenix	2,406,447	1.9%	2.4%
Denver	2,746,632	1.8%	2.9%
Houston	4,162,589	1.8%	2.6%
Dallas	4,204,816	1.6%	3.2%
Portland	917,229	1.6%	1.6%
Washington DC	5,498,379	1.5%	1.7%
Philadelphia	2,252,160	1.3%	1.8%
San Diego	1,041,350	1.1%	1.5%
Twin Cities	1,140,643	1.0%	1.3%
Orlando	465,131	0.8%	2.0%
New Jersey	121,800	0.1%	0.3%

Source: CommercialEdge. Data as of September 2020

Office-Using Employment: Job Losses Not Bigger in Texas

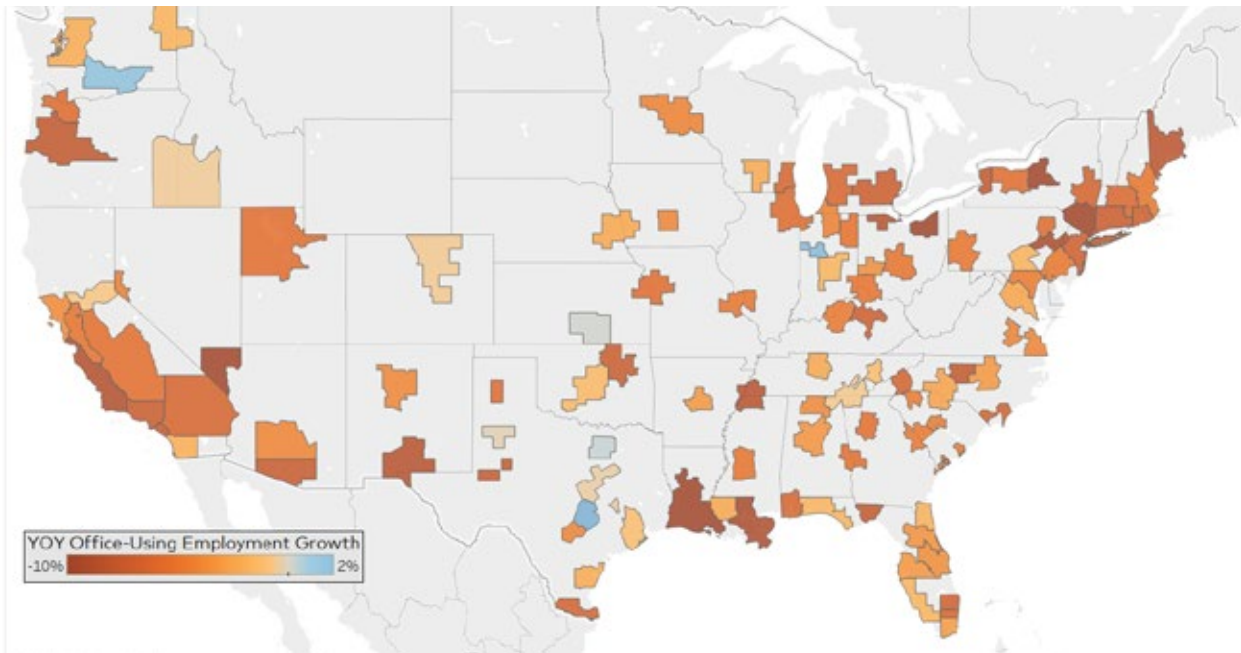
- Nationally, employment in office-using sectors decreased by 4.8% in September. Since the initial loss of 2.7 million jobs in April, office-using jobs have slowly recovered, as 1.0 million jobs have been added in the last five months.
- Metro employment data for August, which trails the national release, shows only five of the 120 markets covered by Commercial Edge with positive year-over-year growth.
- Possibly due to the state's lighter touch when it comes to pandemic shutdowns, office-using employment in Texas metros has fallen less than in most other markets. Of the top 25 markets, the only two with positive year-over-year growth were Austin (3.3%) and Dallas (0.3%). The gains in both cities were driven by the financial activities sector, which includes jobs in banking, real estate and insurance. Energy-centered Houston has seen its total number of office-using jobs fall by only 1.2%, despite the drop in oil prices earlier this 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: Volume Drops in Austin

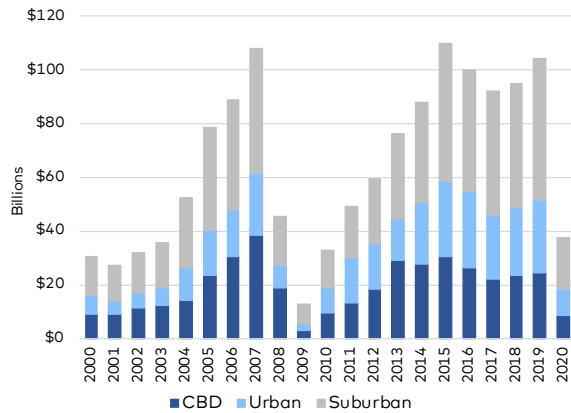
- National transaction volume sat at \$33.9 billion after three quarters, following a significant drop in activity this year.
- Perhaps wary of a glut of new supply and the long-term impacts of the pandemic on office utilization, transaction volume in Austin has fallen steeply from previous years. Despite its being the only major market in the country seeing appreciable gains in office-using employment year-over-year, only \$170.8 million of office transactions have taken place so far. This is in stark contrast to recent trends. Total volume in the Texas capital has averaged \$1.3 billion over the previous eight years.

Sales Activity

Market	YTD Sales Price PSF	YTD Sales (Mil, as of 8/31)
National	\$276	\$37,634
Manhattan	\$771	\$4,314
Boston	\$444	\$3,679
Los Angeles	\$367	\$2,647
Washington DC	\$306	\$2,551
Bay Area	\$407	\$2,457
New Jersey	\$198	\$1,722
San Francisco	\$1,181	\$1,421
Dallas	\$279	\$1,347
Chicago	\$206	\$1,117
Seattle	\$615	\$1,094
Denver	\$214	\$1,044
Houston	\$357	\$1,000
San Diego	\$384	\$915
Philadelphia	\$175	\$838
Charlotte	\$319	\$719
Atlanta	\$160	\$553
Phoenix	\$179	\$532
Nashville	\$344	\$531
Portland	\$294	\$498
Twin Cities	\$125	\$420
Brooklyn	\$511	\$334
Miami	\$178	\$305
Tampa	\$173	\$186
Austin	\$356	\$171
Orlando	\$145	\$132

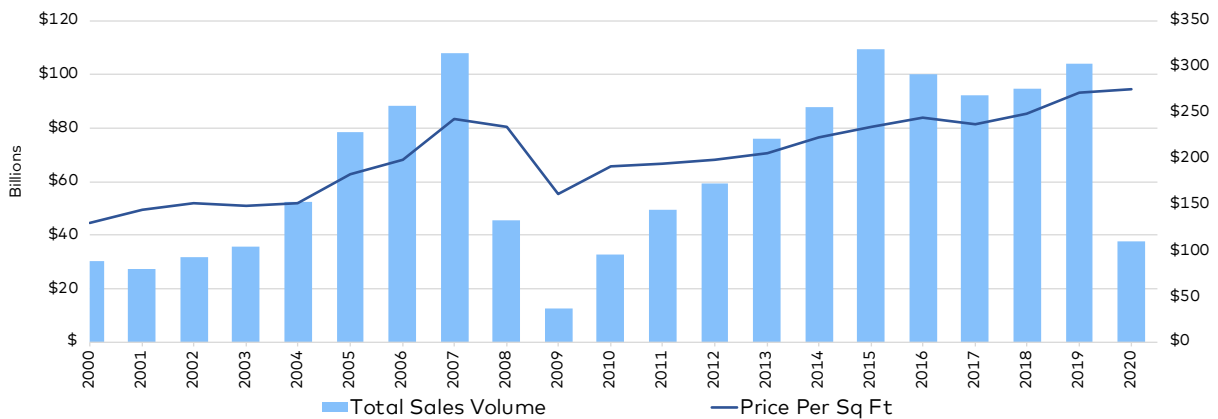
Source: CommercialEdge. Data as of September 2020

Sales by Location



Source: CommercialEdge; Data as of September 2020

Total Sales



Source: CommercialEdge. Data as of September 2020

Definitions

This report covers office buildings 50,000 square feet and above. CommercialEdge subscribers have access to 25,000-square-foot and larger buildings for a continually growing list of markets.

CommercialEdge 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. CommercialEdge uses aggregated and anonymized expense data to create full-service equivalent rates from triple-net and modified gross listings. Expense data is available to CommercialEdge 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 CommercialEdge market boundaries.

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

Contacts

Peter Kolaczynski

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

Matt Gleason

Senior Account Executive, Commercial
Matthew.Gleason@Yardi.com
(800) 866-1124 x7763

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 CommercialEdge does not guarantee, warrant, represent or undertake that the information provided is correct, accurate, current or complete. CommercialEdge 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 CommercialEdge's Terms of Use (<https://resources.yardi.com/legal/commercialedge/commercialedge-terms-of-service/>) 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 CommercialEdge publications and for no other purpose.

Yardi®, Yardi Systems, Inc., the Yardi Logo, CommercialEdge, 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.