



CommercialEdge

National Office Report

February 2021



Coworking Operators Close Locations, But New Opportunities Arise

- The national average full-service equivalent listing rate in January was \$38.32 per square foot, an increase of 26 cents from December. The national vacancy rate increased 40 basis points to 14.6%.
- Office-using employment sectors continue to weather the storm better than others, as many of-office-using jobs have transitioned seamlessly to remote work. This marks a stark contrast from past recessions, when office-using job losses were more severe than those in other sectors. For instance, the dot-com crash and the Great Financial Crisis were facilitated by office-using industries, which consequently took the brunt of the damage. In 2020, however, office-using sectors performed relatively well, and office-using employment is now on track to recover to pre-pandemic levels much sooner than the rest of the labor market. The question now is whether office-using employment will continue to be an indicator of demand for office space.
- While it will take a long time to fully understand how the pandemic reshaped the office industry, we are already beginning to see trends emerge in coworking. WeWork has closed more than 100 locations since the pandemic began and had to renegotiate leases on dozens of other spaces. The business model—also employed by many of its competitors—of leasing expensive space in the city center and renting it out to users at a profit was likely not sustainable for a sharp economic downturn, and certainly not one that was instigated by a pandemic. Going forward, we expect franchising and revenue-sharing agreements to become more common for coworking as the industry looks for ways to attain both profitability and stability.
- Another coworking trend that has gained prominence in the last few months is real estate service firms operating coworking spaces. CBRE's Hana recently opened its third location in the U.S. and plans to open three more before the first quarter is over. Newmark made headlines when it agreed to purchase Knotel after the coworking firm filed for Chapter 11 bankruptcy protection. JLL took over the flagship space of the now defunct MakeOffices at The Wharf in Washington, D.C. That real estate service firms are looking to operate their own coworking spaces while so much of the industry is in flux suggests coworking will be an integral element of the recovery. Businesses may be hesitant to sign long-term leases, and coworking could bridge that gap.



Listing Rates and Vacancy: Vacancy Rates Climb Across the Country

- National vacancy rates rose 40 basis points on a month-over-month basis and 80 basis points year-over-year.
- Vacancy rates continue to rise, with remote work becoming widespread and many smaller companies allowing leases to expire.
- While at the national level an 80-basis-point increase is non-trivial, some markets are experiencing significantly steeper spikes in vacancy. These markets mostly fall into one of two camps: First, gateway markets with as-

tronomical lease rates, such as San Francisco (410 bps increase y-o-y) and Manhattan (250 bps). Both workers and businesses have left these markets during the pandemic. And then there are Nashville (550 bps y-o-y) and Austin (380 bps). While both are major beneficiaries of coastal outmigration, they are also dealing with major supply pressure. Nashville's office stock increased 4.1% last year, while Austin's rose 3.9%. Combining new stock with a heavy tech industry predominantly working from home has led to the uptick in vacancy.

Listings by Metro

Market	Nov-20 Listing Rate	12-Month Change	Total Vacancy	12-Month Change	Top Listing	Price Per Square Foot
National	\$38.32	0.2%	14.6%	80 bps		
San Diego	\$41.21	6.8%	13.9%	240 bps	RaDD - Block 1B, The	\$77.05
Bay Area	\$54.45	5.2%	15.1%	150 bps	525 University Avenue	\$168.02
New Jersey	\$32.65	4.5%	17.9%	-350 bps	Liberty Innovation Center	\$70.29
Nashville	\$30.57	3.6%	17.1%	550 bps	Broadwest	\$47.22
Washington DC	\$41.33	3.4%	15.6%	0 bps	PNC Place	\$87.29
Miami	\$42.60	2.5%	15.3%	200 bps	Two Brickell City Centre	\$75.00
Manhattan	\$85.21	2.0%	10.5%	250 bps	809 Broadway	\$155.00
Los Angeles	\$40.20	2.2%	13.6%	110 bps	100 Wilshire	\$111.00
Philadelphia	\$29.30	1.6%	12.8%	-40 bps	One Liberty Place	\$51.71
Austin	\$42.34	1.2%	12.1%	380 bps	Indeed Tower	\$70.67
Phoenix	\$27.49	1.0%	18.4%	-10 bp	One Hundred Mill	\$50.50
Charlotte	\$28.92	0.9%	12.5%	180 bps	300 South Tryon	\$42.00
Tampa	\$29.24	0.7%	12.8%	120 bps	Heights Union - West Building	\$45.00
Orlando	\$21.60	0.7%	14.9%	170 bps	250 Park Avenue South	\$40.00
Houston	\$29.52	0.0%	22.5%	60 bps	Texas Tower	\$58.40
Dallas	\$28.66	-0.3%	18.5%	80 bps	Weir's Plaza	\$63.44
Portland	\$29.60	-0.6%	13.8%	160 bps	Lloyd Center Tower	\$48.86
Atlanta	\$26.98	-0.7%	18.6%	240 bps	300 Colony Square	\$50.00
Denver	\$28.64	-1.2%	14.3%	160 bps	Platte Fifteen	\$52.80
Twin Cities	\$26.66	-1.4%	16.5%	440 bps	Offices at MOA, The	\$40.00
Chicago	\$27.99	-2.1%	15.8%	10 bps	PNC Centre at One North Franklin	\$64.30
Seattle	\$35.53	-3.8%	11.8%	360 bps	Key Center	\$62.91
Brooklyn	\$50.48	-4.8%	15.0%	240 bps	One MetroTech Center	\$65.59
Boston	\$35.05	-8.3%	11.1%	100 bps	Two Charles Park	\$95.00
San Francisco	\$64.46	-14.6%	11.8%	410 bps	2180 Sand Hill Road	\$150.84

Source: CommercialEdge. Data as of January 2021. Listing rates are full service or "full service equivalent" rates for spaces available as of report period.

Supply: Most New Stock Concentrated in Handful of Markets

- Nationally, 163.8 million square feet of office stock is currently under construction. The majority of that stock (78.7%) is in submarkets classified as “Commercial Business District” or “Urban” by CommercialEdge.
- Much of the new stock under construction is concentrated in just a handful of markets. More than half of the square footage is in the top 10 most active markets and more than three quarters is in the top 20.
- Many of the markets responsible for a large share of the under-construction pipeline are the usual suspects: gateway markets with hundreds of millions of square feet of existing office stock. Manhattan, Los Angeles and Boston will always account for a large share of the national pipeline. However, a few smaller markets contribute much more than what would be expected. Austin and Charlotte have been office boomtowns recently, and each currently has more than 8 million square feet under construction. Seattle has been rapidly adding office space for years, with more than 12% of all stock in the city delivered in the last five years and another 5.2% of stock under construction. Raleigh-Durham has 4.1 million square feet under construction, representing 6.5% of stock.

Supply Pipeline (by asset class and location)

National Market	Under Construction	Under Construction % Stock	Plus Planned % Stock
A+/A	150,970,866	5.0%	5.3%
B	9,885,490	0.3%	0.4%
C	0	0.0%	0.0%
CBD	34,813,835	2.6%	4.9%
Urban	79,284,568	5.7%	12.3%
Suburban	49,707,249	1.3%	4.0%

Source: CommercialEdge. Data as of January 2021

Supply Pipeline (by metro)

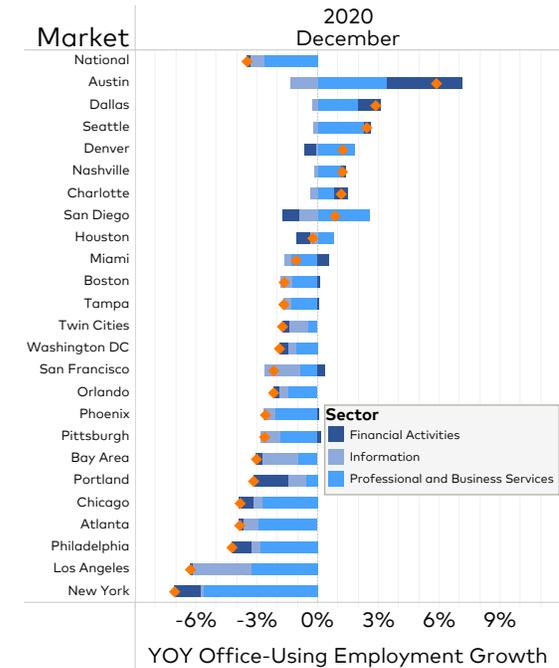
Market	Under Construction	Under Construction % Stock	Plus Planned % Stock
National	163,805,652	2.5%	6.0%
Charlotte	8,294,897	12.1%	16.8%
Austin	8,041,880	10.7%	27.8%
Brooklyn	2,669,632	6.8%	10.8%
Nashville	3,509,841	6.5%	14.4%
Boston	13,372,946	5.5%	8.7%
San Francisco	8,091,662	5.2%	10.2%
Seattle	7,267,587	5.2%	10.4%
San Diego	3,891,291	4.2%	6.3%
Portland	2,481,940	4.1%	7.6%
Manhattan	18,564,162	3.8%	5.0%
Los Angeles	9,162,136	3.2%	6.8%
Miami	1,970,814	2.9%	8.9%
Bay Area	5,890,675	2.9%	11.0%
Atlanta	5,210,538	2.7%	4.9%
Tampa	1,378,000	2.2%	4.5%
Denver	3,081,022	2.0%	6.3%
Houston	4,531,696	1.9%	3.4%
Twin Cities	2,144,112	1.8%	3.1%
Philadelphia	3,024,209	1.7%	5.0%
Phoenix	2,236,972	1.7%	6.1%
Washington DC	6,396,790	1.7%	3.9%
Dallas	4,262,859	1.6%	7.8%
Chicago	4,306,088	1.4%	5.6%
Orlando	501,642	0.9%	10.5%
New Jersey	553,810	0.3%	2.1%

Source: CommercialEdge. Data as of January 2021

Office-Using Employment: This Time Is Different

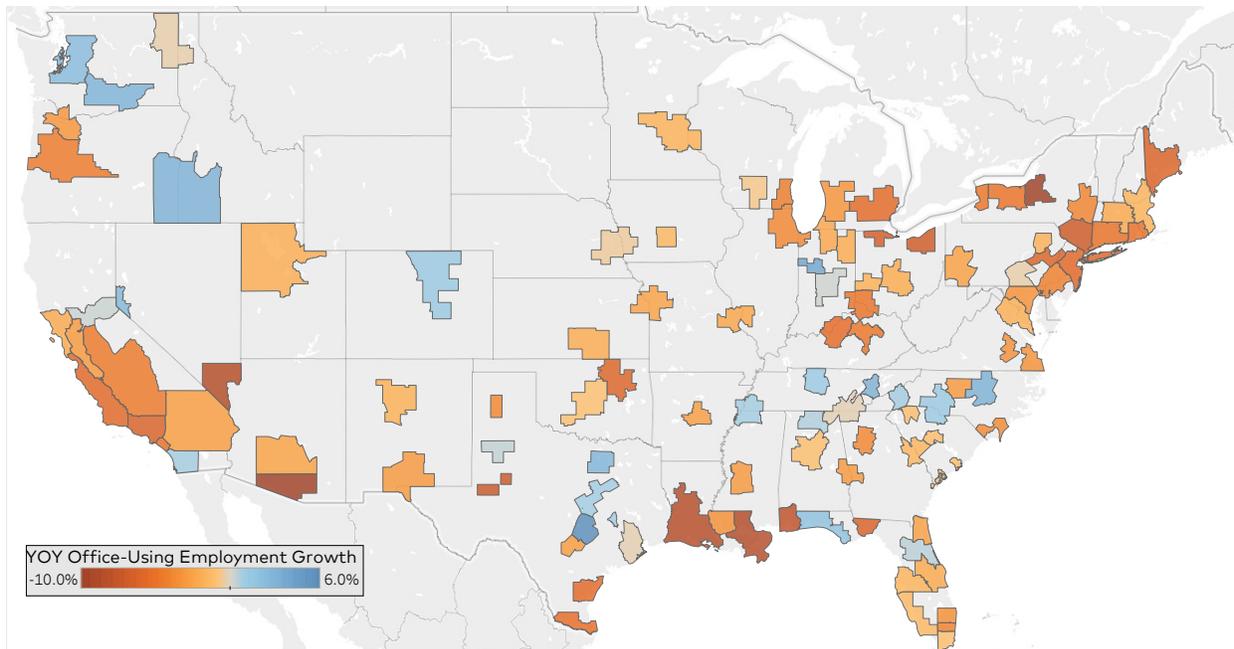
- Nationally, employment in office-using sectors decreased by 3.3% year-over-year in January.
- Metro data for December, which trails the national release, showed 22 of the 120 markets covered by CommercialEdge added jobs in office-using sectors last year. After every market in the country was significantly negative in the second quarter, a quick recovery is encouraging.
- During the Financial Crisis, office-using sectors were among the hardest hit, falling 8.2% between the end of 2007 and October 2009. During that timeframe, overall employment fell 6.0%. It took until November 2013 for office-using employment to reach pre-recession levels. Office-using sectors have fared better than most this recession, falling 8.9% peak-to-trough, compared to 14.7% for the labor market as a whole. Currently, office-using sectors are down 3.5% from pre-COVID levels; they will likely reach pre-recession levels much more quickly than the half decade it took last time.

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: Slow Start to Year Is Nothing New

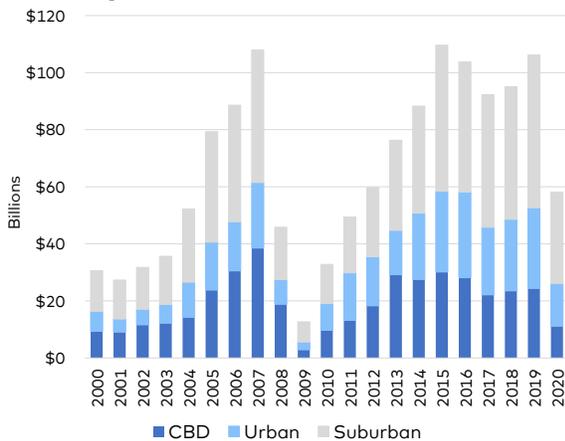
- Nationally, \$3.4 billion of transactions were reported by CommercialEdge during the first month of the year. A lag in collection of all sales data indicates the final number will be larger. Last year at this time, CommercialEdge reported \$5.2 billion in sales.
- The first quarter of the year has typically been the slowest for office transactions, a pattern that only breaks when recessions disrupt the normal business cycle. With a vaccine for the coronavirus being distributed and many eyeing the second half of the year for a return to at least semi-normalcy, it would not come as a shock if this trend returns in 2021.

Sales Activity

Market	YTD Sales Price PSF	YTD Sales (Mil, as of 1/31)
National	\$345	\$3,385
Manhattan	\$1,440	\$1,124
Charlotte	\$555	\$229
Los Angeles	\$829	\$184
Miami	\$154	\$129
Nashville	\$266	\$129
Dallas	\$176	\$126
Bay Area	\$622	\$118
Chicago	\$158	\$104
Phoenix	\$307	\$103
New Jersey	\$149	\$86
Denver	\$301	\$75
Seattle	\$302	\$62
Atlanta	\$38	\$12
Philadelphia	\$136	\$11
Boston	\$58	\$9
Charlotte	\$350	\$927
Phoenix	\$213	\$884
Nashville	\$342	\$803
Atlanta	\$163	\$713
Twin Cities	\$117	\$470
Brooklyn	\$399	\$445
Miami	\$184	\$345
Tampa	\$167	\$269
Orlando	\$149	\$175
Austin	\$292	\$175

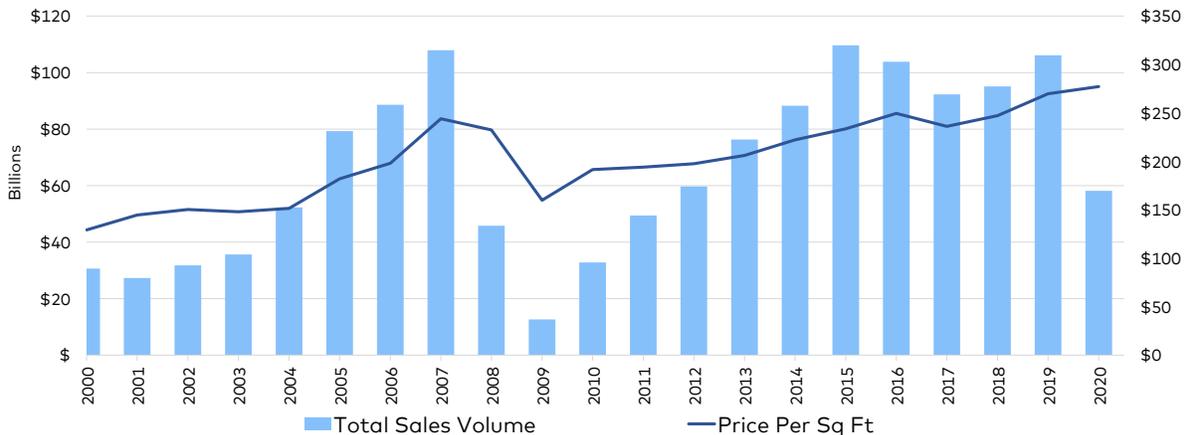
Source: CommercialEdge. Data as of January 2021

Sales by Location



Source: CommercialEdge; Data as of January 2021

Total Sales



Source: CommercialEdge. Data as of January 2021

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.

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