CommercialEdge

National Office Report

March 2021

Vacancy Rates Rise Across Country

- The national average full-service equivalent listing rate was $38.31 per square foot in February, virtually unchanged from the previous month (-$.01) and a decrease of 0.6% from February of last year. The national average vacancy rate was 15.0%, an increase of 40 basis points (bps) over the previous month and 160 bps over the last year. Vacancy increased the most in CBD submarkets (250 bps), as urban cores are at odds with the concept of social distancing.

- Austin has seen the largest increase in vacancy rate over the past 12 months, jumping from 7.8% in February of last year to 15.1%, which at first comes as a surprise. Austin by far had the strongest growth in office-using sectors of the labor market last year, with an increase of almost 6% despite the economic turmoil. Further, the Texas capital has landed high-profile corporate relocations like Oracle and Tesla. Yet Austin has a high concentration of tech firms that were able to seamlessly transition to remote work and one of the most active construction pipelines in the country, with 4.6% of stock delivered since the start of 2020. Compounding the issue is the fact that many firms are looking to sublease, with Austin's sublease vacancy rate increasing from 1.5% to 3.6% over the last year.

- Nationally, new supply that was already under construction has continued to be delivered during the pandemic, but absorption will be tough in the near term. Because of this, new supply is forecasted to drop steeply in the coming years, according to Yardi Matrix. This year's deliveries are forecasted at 75.3 million square feet, on par with previous years, followed by decreasing supply through 2025.

- Physical space will have value in the post-COVID world, but the type of space and its location will be more important than ever. A case in point is the recent $1.1 billion sale of The Exchange on 16th in San Francisco, a 750,000-square-foot building sold at a $1,440 per-square-foot average. It ranks as one of the most expensive deals by square foot ever tracked by CommercialEdge. Yet despite the economic contraction and companies leaving San Francisco, this property remains attractive. The building, located a short walk from Mission Bay, is LEED Platinum certified and able to be configured as lab space. Dropbox signed a 15-year lease to base its corporate headquarters there, then recently adopted a permanent remote work strategy, placing half of the building for sublease. However, Vir Biotechnology has already taken more than a third of that space.

Listing Rates and Vacancy: Vacancy Rates Continue to Climb

- The national vacancy rate was 15.0% in February, a 160 bps increase over the last 12 months. Due to the long-term nature of office leases, a massive shock like the coronavirus pandemic will take a long time to work its way into vacancy rates, an effect we are now seeing, a year after the initial shutdowns.

- Vacancy rates have increased the most year-over-year in Austin (720 bps), San Francisco (480 bps) and Seattle (450 bps).

- These three markets share a few things in common: They all are tech hubs with a high concentration of firms that had the ability to seamlessly transition to remote work. They all saw elevated levels of new supply during the second half of the last decade, as supply struggled to keep up with demand for office space. They all had vacancy rates in the single digits before the pandemic. As it stands now, Seattle and Austin are poised to recover more quickly than San Francisco due to more affordable lease rates and gains in office-using sectors of employment last year.

Listings by Metro

Market	Feb-21 Listing Rate	12-Month Change	Total Vacancy	12-Month Change	Top Listing	Price Per Square Foot
National	$38.31	-0.6%	15.0%	160 bps		
Nashville	$31.06	5.7%	17.1%	440 bps	Broadwest	$47.22
Washington DC	$41.87	4.8%	15.7%	180 bps	PNC Place	$87.29
Bay Area	$54.33	4.5%	16.2%	290 bps	525 University Avenue	$149.42
New Jersey	$32.86	4.3%	17.9%	-420 bps	Liberty Innovation Center	$70.29
Miami	$42.60	3.8%	15.8%	270 bps	Two Brickell City Centre	$75.00
Los Angeles	$40.22	2.2%	13.8%	180 bps	100 Wilshire	$111.00
Charlotte	$29.06	0.9%	12.9%	240 bps	Piedmont Town Center - Building 2	$42.00
Atlanta	$27.54	1.4%	18.8%	290 bps	300 Colony Square	$50.00
San Diego	$39.44	0.8%	13.9%	250 bps	Torrey Ridge Science Center - Building 1	$74.21
Phoenix	$27.46	0.7%	18.3%	-10 bps	One Hundred Mill	$48.50
Manhattan	$85.17	0.2%	10.5%	280 bps	550 Madison Avenue	$210.00
Tampa	$28.38	0.1%	14.2%	250 bps	Heights Union - East Building	$45.00
Orlando	$21.47	-0.7%	15.4%	380 bps	250 Park Avenue South	$40.00
Philadelphia	$29.20	-0.3%	12.7%	-40 bps	Two Liberty Place	$53.50
Houston	$29.47	-1.5%	23.5%	220 bps	Texas Tower	$58.40
Austin	$42.43	-1.6%	15.1%	720 bps	Indeed Tower	$70.67
Denver	$28.77	-2.0%	14.7%	160 bps	William Building, The	$59.67
Portland	$29.71	-2.2%	13.9%	170 bps	M Financial Plaza	$45.90
Dallas	$28.06	-2.3%	19.0%	150 bps	Weir's Plaza	$63.44
Twin Cities	$26.50	-2.8%	16.5%	450 bps	Offices at MOA, The	$40.00
Chicago	$28.04	-3.2%	16.6%	230 bps	PNC Centre at One North Franklin	$62.43
Seattle	$35.34	-6.3%	13.0%	480 bps	Key Center	$62.91
Brooklyn	$50.48	-6.6%	14.8%	120 bps	One MetroTech Center	$65.59
Boston	$34.64	-8.9%	11.4%	150 bps	Two Charles Park	$95.00
San Francisco	$64.30	-14.9%	12.8%	550 bps	Sand Hill Commons	$156.00

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

Supply:
New Stock to Fall Sharply in Coming Years

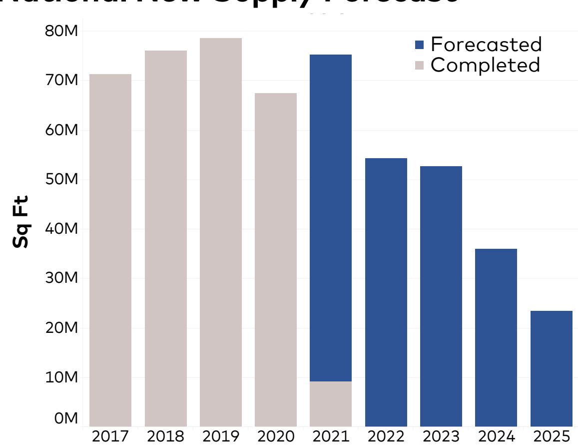
- Nationally, 9.2 million square feet have been delivered so far this year, with a near even split between new stock in the suburbs and that in CBD or urban locations.

- A total of 163.2 million square feet is currently under construction, with another 235.5 million in the planning stages.

- New supply is forecasted to experience a precipitous decline over the next few years, according to Yardi Matrix. A total of 59.4 million square feet is forecasted to be delivered in 2024 and 2025. This is similar to what happened after the financial crisis. Stock that was already underway when the recession began continued to deliver into early 2010, and the trough didn't occur until 2011 and 2012.

- New stock already under construction when the pandemic began will be completed, and developers will continue to be bullish on a handful of markets with strong long-term appeal, like Austin, Charlotte and Nashville. However, in all likelihood, most places will have a dearth of new stock over the next few years, which could be quite helpful for an office industry currently dealing with escalating vacancy rates in most markets.

National New Supply Forecast



Source: Yardi Matrix. Data as of February 2021

Supply Pipeline (by metro)

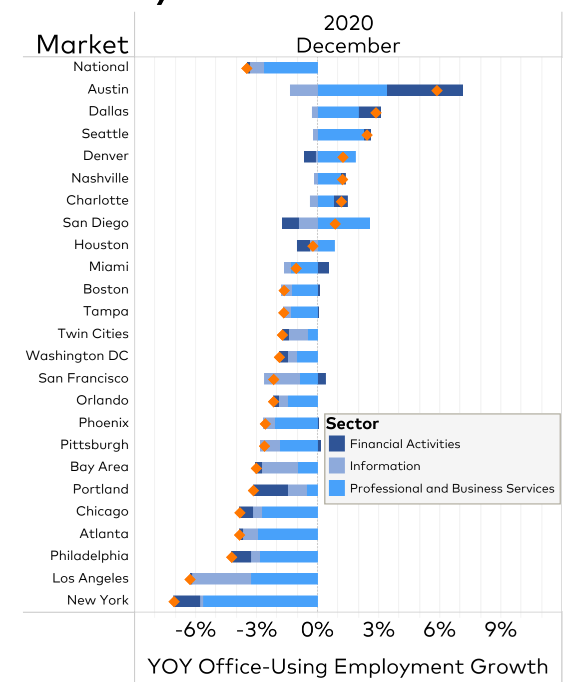
Market	Under Construction	Under Construction % Stock	Plus Planned % Stock
National	163,177,758	2.5%	6.0%
Charlotte	8,045,857	11.3%	16.0%
Austin	7,787,074	10.4%	28.8%
Brooklyn	2,633,011	6.7%	11.2%
Nashville	3,673,841	6.7%	13.5%
Boston	13,752,562	5.6%	9.6%
San Francisco	7,918,083	5.1%	9.9%
Portland	2,481,940	4.1%	7.6%
San Diego	3,821,933	4.1%	6.4%
Seattle	5,695,469	4.0%	9.3%
Manhattan	18,904,000	3.9%	5.1%
Los Angeles	8,960,781	3.1%	6.7%
Miami	2,038,298	3.0%	9.0%
Atlanta	5,210,538	2.7%	4.9%
Bay Area	5,492,449	2.7%	10.2%
Philadelphia	4,051,209	2.3%	5.0%
Houston	4,944,716	2.1%	3.7%
Denver	3,094,962	2.0%	6.2%
Phoenix	2,390,624	1.8%	6.2%
Dallas	4,617,963	1.7%	7.8%
Tampa	1,080,000	1.7%	4.3%
Washington DC	6,396,790	1.7%	3.9%
Twin Cities	1,799,888	1.5%	2.7%
Chicago	4,652,088	1.5%	6.1%
Orlando	458,733	0.8%	10.3%
New Jersey	432,010	0.2%	2.1%

Source: CommercialEdge. Data as of February 2021

Office-Using Employment: Recovery in Office Sectors Slows

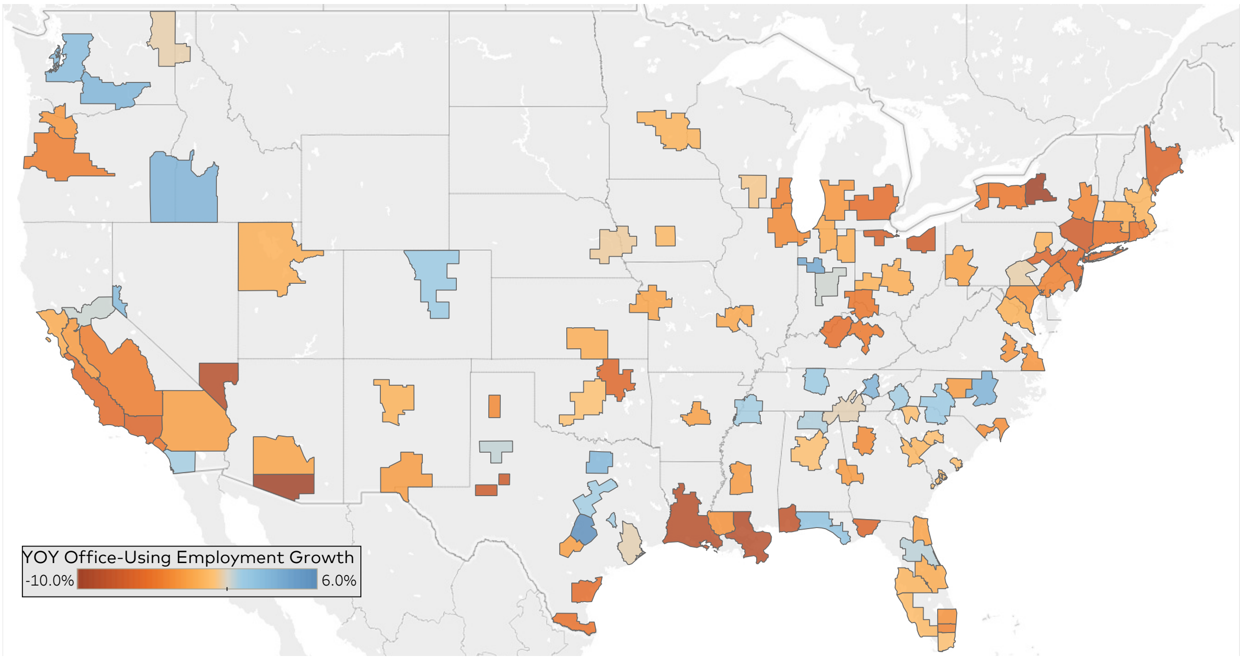
- Nationally, employment in office-using sectors decreased 3.4% year-over-year, and the recovery for office jobs appears to have flat-lined. Only 151,000 jobs were added in the office-using sectors during the first two months of the year, after averaging 209,000 per month between May and December.
- Due to annual benchmarking by the Bureau of Labor Statistics, metro employment data for January is not yet available.
- We are only a few months away from coronavirus vaccines being available to everyone in the workforce, and businesses are now starting to look toward formalized return-to-office plans. Firms will have to consider the preferences of their employees, who will have been working remotely for more than a year. Surveys repeatedly show the majority of workers have no desire to return to the office five days a week. Yet many are eager to return at least part time, burnt out on so much remote work.

Growth by Sector



Sources: Bureau of Labor Statistics and Moody's Analytics

Office-Using Employment Growth



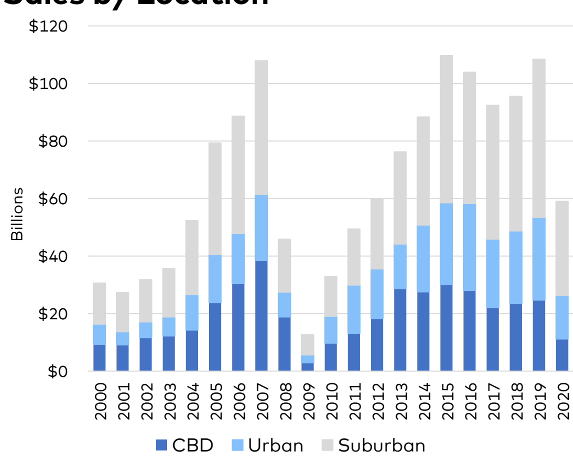
Sources: Bureau of Labor Statistics and Moody's Analytics

Transactions:
Low Volume to Begin Year

- The first two months of the year saw $5.5 billion of transactions completed. While a lag in collecting all sales information means the true number is higher, this is a slower start to the year than we have seen previously. At this point last year we reported $11.7 billion in sales.

- As winter recedes and the majority of the population gets vaccinated over the spring and summer, we expect transaction activity to pick up. By the fall, not only will there be a clearer picture of how firms plan to utilize office space in a post pandemic world but logistical hurdles such as in-person tours and appraisals will be easier to clear.

Sales by Location



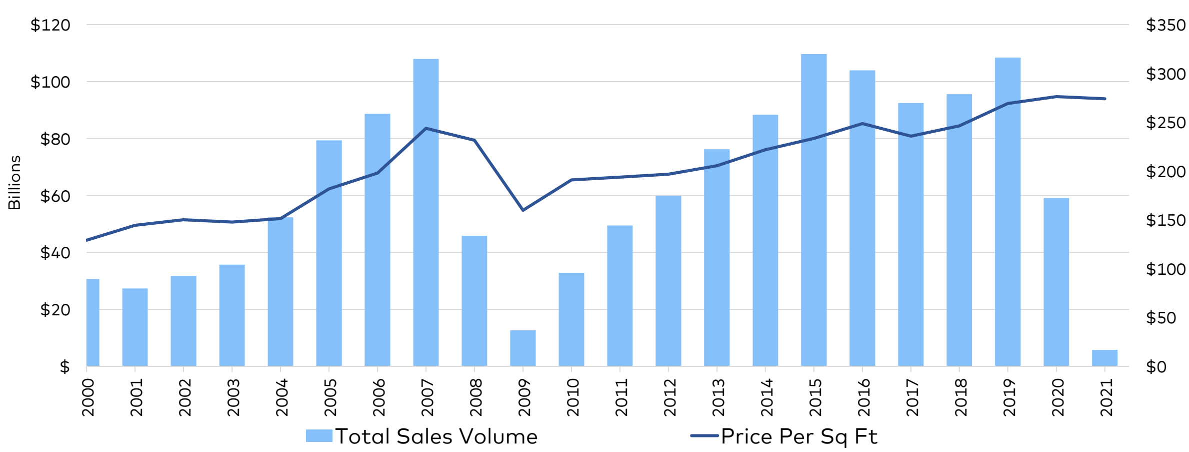
Source: CommercialEdge. Data as of February 2021

Sales Activity

Market	YTD Sales Price PSF	YTD Sales (Mil, as of 2/28)
National	$257	$5,492
Manhattan	$1,440	$1,124
Denver	$224	$361
Los Angeles	$497	$300
Bay Area	$513	$268
Atlanta	$143	$260
Dallas	$235	$235
Charlotte	$555	$229
New Jersey	$197	$210
Phoenix	$208	$198
Nashville	$250	$179
Chicago	$140	$145
Miami	$154	$129
Houston	$422	$94
Washington DC	$300	$79
Seattle	$296	$73
Twin Cities	$128	$36
Tampa	$147	$35
San Francisco	$39	$28
Boston	$68	$15
Philadelphia	$117	$13
Portland	$129	$3
Orlando	$80	$2

Source: CommercialEdge. Data as of February 2021

Total Sales



Source: CommercialEdge. Data as of February 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.

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

CommercialEdge