



Yardi® Matrix

# National Office Report

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June 2021



## Investors Remain Cautious, Limiting Purchases To Specific, High-Quality Office Product

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- The share of adults fully vaccinated against COVID-19 continues to grow, and the economy is maintaining its pace of recovery following more than a year of lockdowns. The office sector will not disappear, but a monumental shift in use of space is already underway. Many firms are planning a return to the office in either the summer or fall of 2021, with hybrid work scenarios for meetings, training and collaboration likely emerging as the preferred option.
- Due to these factors, many investors seem to be in a holding pattern, waiting out the tail end of the pandemic to see exactly how companies choose to utilize office space going forward. Some buyers are wary of increased vacancies and a workforce that has largely embraced remote work, while sellers are hesitant to offer discounted sale prices when the outlook for office is so unknown. Despite this wait-and-see approach, there is still available capital and investor interest in certain properties.
- So far this year, high-quality assets in urban submarkets (defined as outside the central business district but still within the urban core) are the most attractive to investors. Four such sales have accounted for \$3.8 billion of transactions so far this year, nearly 17% of all sales volume nationwide. They include 401 Park in Boston, which sold for \$1.2 billion; The Exchange on 16th in San Francisco (\$1.1 billion); 410 10th Ave. in Manhattan (\$853 million); and The Crescent in Dallas (\$700 million).
- Lab space is in high demand right now, and with a dearth of availability in purpose-built labs, properties that can be reconfigured for the life sciences sector are highly sought after by investors. Alexandria Real Estate Equities' aforementioned purchase of 401 Park in the Fenway area of Boston was made with the intent of turning the building into a life science hub. Further, The Exchange on 16th in San Francisco also offers space that can be reconfigured for the life sciences industry. After Dropbox listed half of its space in the building for sublease last year, Vir Biotechnology was quick to sign a lease for more than 130,000 square feet.
- Medical office space is also attractive to investors. In fact, it constitutes much of the highest-priced property on a per-square-foot basis. Archway Medical Plaza in Los Angeles traded at \$1,488 per square foot. Newport Harbor Medical Plaza in Orange County sold at \$1,368 per foot.

# Listing Rates and Vacancy: Los Angeles Rates Increase Despite Weak Labor Market

- The national full-service equivalent listing rate increased 0.4% over the previous 12 months, to \$38.36 per square foot.
- Listing rates have been resistant to downward movement despite vacancy rates increasing 240 basis points over the same period. We expect this trend to continue for the foreseeable future, as listing-rate growth reflects the quality of the assets available more than the state of the market. Most of the movement in rates will be under the covers, in the form of concessions and tenant improvements.
- This trend can be seen in Los Angeles, where average rates increased 7.0% over the last year despite one of the weakest labor markets for office-using employment in the country. There are 121,000 fewer office-using jobs in the metro than there were in February 2020, a decrease of 10.4%. Rates are up because of high-value listings entering the market in recent months, foremost at Wilshire Courtyard. Between the East and West buildings of the complex, there are more than 500,000 square feet listed at a full-service price of \$59.40 per square foot.

## Listings by Metro

Market	May-21 Listing Rate	12-Month Change	Total Vacancy	12-Month Change	Top Listing	Price Per Square Foot
National	\$38.36	0.4%	15.6%	240 bps		
Los Angeles	\$41.04	7.0%	13.6%	190 bps	100 Wilshire	\$108.00
Bay Area	\$55.40	5.0%	18.9%	490 bps	525 University	\$150.00
Boston	\$35.13	5.0%	11.9%	200 bps	American Twine Office Park	\$93.00
New Jersey	\$33.32	5.0%	18.9%	-140 bps	Liberty Innovation Center	\$70.29
Philadelphia	\$29.88	4.9%	13.7%	120 bps	Two Liberty Place	\$53.50
Miami	\$43.15	4.6%	14.8%	310 bps	830 Brickell Plaza	\$100.00
Atlanta	\$27.69	3.8%	19.6%	390 bps	300 Colony Square	\$50.00
Denver	\$29.85	4.1%	16.4%	470 bps	William Building, The	\$59.67
Nashville	\$31.46	3.3%	19.4%	830 bps	2525 West End	\$57.79
Washington DC	\$41.65	3.3%	15.8%	120 bps	601 Pennsylvania Avenue NW-North Bldg	\$90.00
Austin	\$43.48	3.3%	16.7%	900 bps	Indeed Tower	\$70.67
Tampa	\$29.03	3.0%	15.3%	390 bps	Heights Union-West Building	\$45.00
San Diego	\$39.29	1.5%	14.2%	290 bps	Torrey Ridge Science Center-Building 1	\$82.01
Phoenix	\$27.80	2.5%	17.9%	60 bps	One Hundred Mill	\$48.50
Orlando	\$21.63	0.9%	15.6%	270 bps	GuideWell Innovation Center	\$34.66
Chicago	\$28.24	0.2%	16.8%	260 bps	Five One Five North State	\$66.02
Dallas	\$28.48	0.0%	18.7%	50 bps	Victory Commons One	\$56.94
Charlotte	\$29.08	-0.6%	12.9%	280 bps	300 South Tryon	\$42.00
Twin Cities	\$26.85	-1.3%	15.8%	420 bps	Offices at MOA, The	\$40.00
Seattle	\$35.28	-2.8%	15.8%	650 bps	City Center Bellevue	\$63.50
Houston	\$29.58	-3.9%	23.6%	220 bps	Texas Tower	\$58.40
Portland	\$29.48	-4.1%	16.0%	350 bps	Park Avenue West	\$48.69
Manhattan	\$82.50	-4.6%	10.4%	240 bps	550 Madison Avenue	\$210.00
San Francisco	\$67.73	-4.8%	13.9%	690 bps	Sand Hill Commons	\$156.00
Brooklyn	\$47.88	-7.8%	15.2%	320 bps	One MetroTech Center	\$65.59

Source: Yardi Matrix. Data as of May 2021. Listing rates are full service or "full service equivalent" rates for spaces available as of report period. National listing rate is an average of the top 50 markets.

# Supply: No Slowing Down Austin's Pipeline

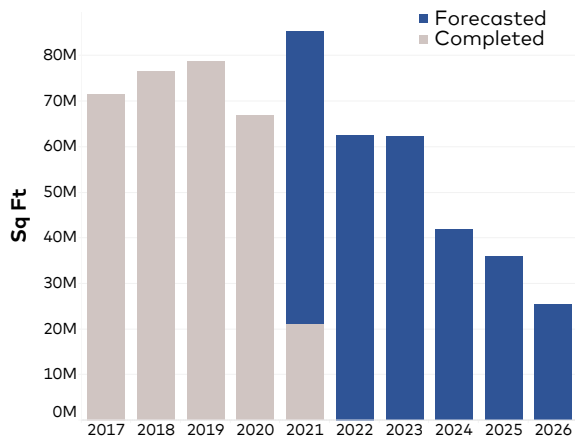
- Nationally, there are 160.7 million square feet of new office space under construction. Most of the new stock is in CBD or urban submarkets, with only 29% of all properties under construction located in the suburbs.
- Although it has increased its stock by more than 10% since the start of 2018, Austin continues to add new supply at a vigorous pace. Despite the recent deliveries, the Texas capital has the largest pipeline in the country on a percent-of-stock basis. The amount of new square feet under construction sits at 10%, and that number balloons to 28% when including planned properties. Remarkably, these figures don't include owner-occupied properties like the 981,000-square-foot Apple Campus under construction on West Palmer Lane.
- Sustained levels of new supply coinciding with a pandemic that shifted many employees to remote work has led to Austin's vacancy rate more than doubling over the past year. Nevertheless, developers do not seem deterred in their enthusiasm for the market. This is due to multiple corporate headquarters relocations and the robust labor market. Office-using employment in Austin has completely recovered from the pandemic, and now includes 11,160 more jobs than there were in February 2020.

## Supply Pipeline (by metro)

Market	Under Construction	Under Construction % Stock	Plus Planned % Stock
National	160,672,415	2.4%	5.9%
Austin	7,556,785	10.0%	28.2%
Brooklyn	3,140,852	8.0%	14.4%
Charlotte	4,394,360	6.0%	11.6%
Boston	13,280,067	5.4%	11.0%
Nashville	3,027,166	5.4%	13.1%
San Francisco	8,044,827	5.1%	8.3%
Seattle	6,854,189	4.8%	10.8%
Portland	2,482,040	4.1%	7.6%
Manhattan	19,253,053	4.0%	5.5%
Miami	2,577,719	3.8%	8.2%
San Diego	3,091,171	3.3%	7.1%
Los Angeles	8,782,895	3.1%	6.5%
Atlanta	5,924,162	3.1%	4.8%
Philadelphia	4,301,209	2.4%	4.6%
Bay Area	4,696,978	2.3%	8.8%
Houston	4,931,686	2.1%	3.7%
Tampa	1,121,660	1.7%	6.4%
Dallas	4,581,173	1.7%	7.8%
Twin Cities	1,827,085	1.5%	2.5%
Washington DC	5,829,131	1.5%	3.5%
Denver	2,379,886	1.5%	4.5%
Chicago	4,522,020	1.4%	6.3%
Orlando	768,524	1.4%	10.6%
Phoenix	1,534,224	1.2%	5.5%
New Jersey	460,387	0.2%	2.1%

Source: Yardi Matrix. Data as of May 2021

## National New Supply Forecast

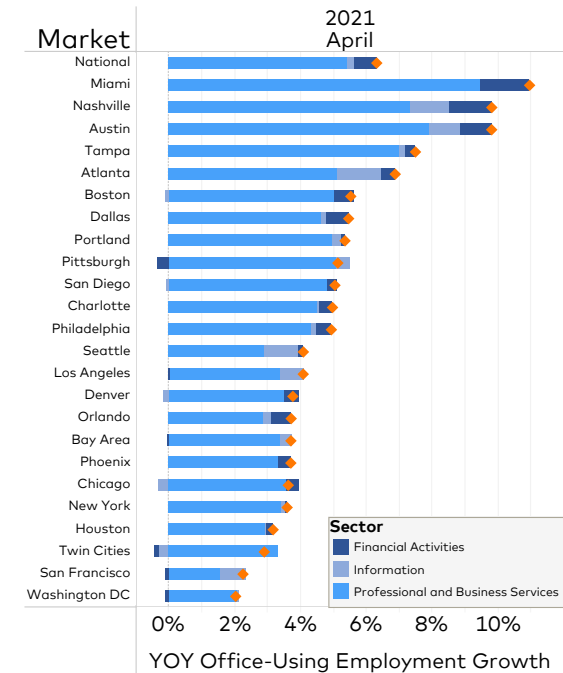


Source: Yardi Matrix. Data as of May 2021

# Office-Using Employment: Recovery Pace Varies Across Markets

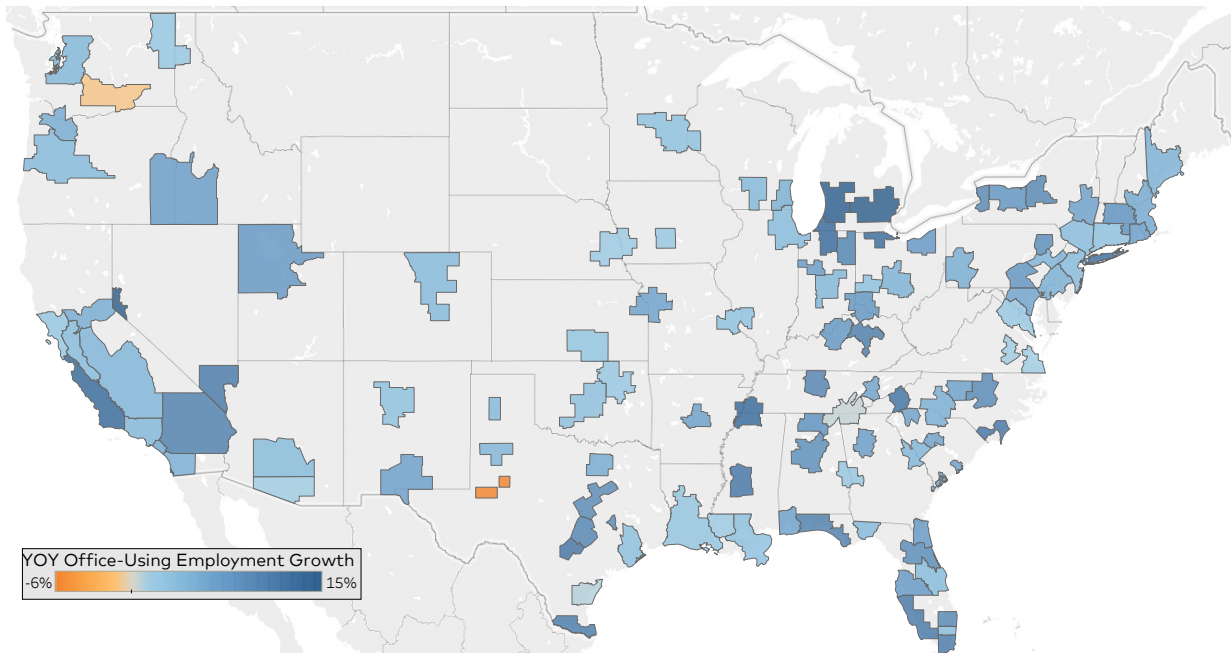
- Nationally, employment in office-using sectors increased 6.3% year-over-year in April.
- Due to the massive drop-off in employment in April 2020, the year-over-year numbers currently appear explosive. However, only a few of the markets have seen their office-using employment sectors fully recover to pre-pandemic levels. Only 19 of the 120 markets covered by Yardi Matrix currently have more employment in office-using sectors than in February 2020. Of those 19, only two are in the top 25 largest markets, Austin and Tampa.
- While the bulk of markets are down at most only 5% percent from pre-pandemic levels, a handful are struggling to recover and may take years to do so. New Orleans (-12.4% from February 2020), Las Vegas (-11.3%) and Los Angeles (-10.4%) have been unable to regain many of the office jobs lost during the second quarter of last year.

## Growth by Sector



Sources: Bureau of Labor Statistics and Moody's Analytics

## Office-Using Employment Growth

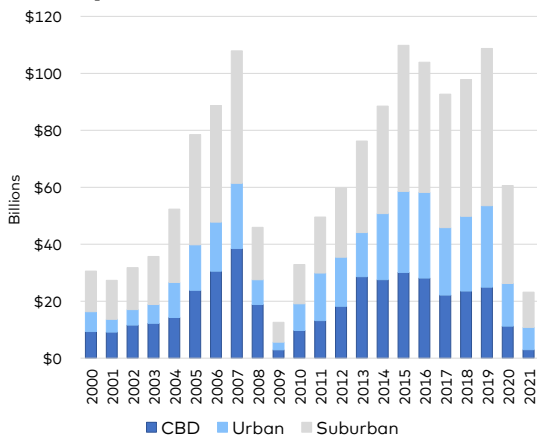


Sources: Bureau of Labor Statistics and Moody's Analytics

# Transactions: Urban Prices Continue to Grow

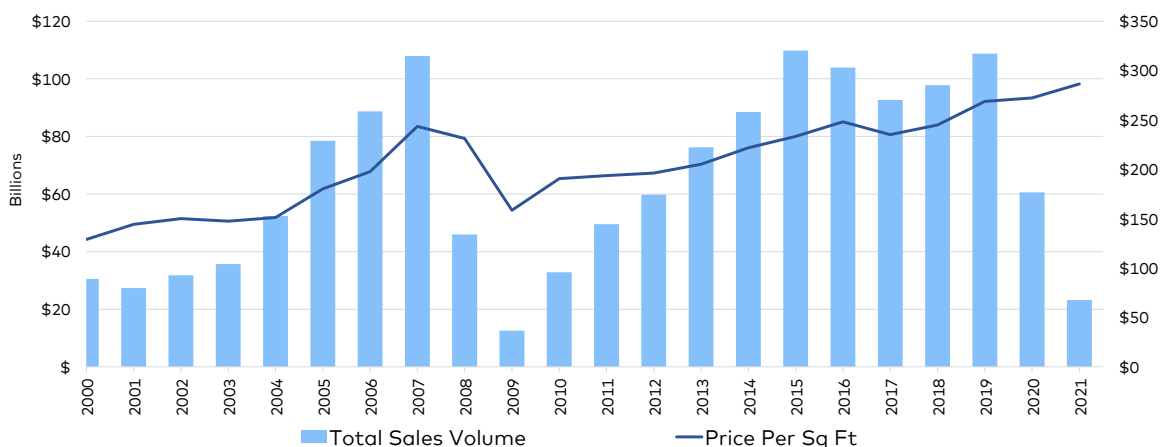
- Nationally there have been \$22.5 billion of office transactions through the first five months of the year. This puts 2021 roughly on pace with last year's total volume of \$60.6 billion.
- Despite uncertainty around the future of offices in the urban core, the price of assets located in the city center has increased in the first few months of the year. The average price per square foot for office buildings in urban or CBD submarkets sits at \$429, a 4.5% increase from 2020. However, the total number of sales in these submarkets is down, as only 151 have occurred this year, compared to an average of roughly 800 per year between 2014 and 2019.

## Sales by Location



Source: Yardi Matrix; Data as of May 2021

## Total Sales



Source: Yardi Matrix. Data as of May 2021

## Sales Activity

Market	YTD Sales Price PSF	YTD Sales (Mil, as of 05/31)
National	\$287	\$22,516
Bay Area	\$573	\$3,361
Boston	\$578	\$2,043
San Francisco	\$707	\$1,704
Seattle	\$433	\$1,334
Manhattan	\$1,024	\$1,248
Dallas	\$276	\$1,221
Los Angeles	\$400	\$951
New Jersey	\$164	\$725
Washington DC	\$263	\$686
Atlanta	\$151	\$641
Miami	\$283	\$580
Denver	\$199	\$558
Phoenix	\$209	\$465
Charlotte	\$327	\$375
Philadelphia	\$171	\$372
Nashville	\$263	\$347
Houston	\$142	\$276
San Diego	\$267	\$199
Chicago	\$112	\$168
Twin Cities	\$173	\$165
Tampa	\$136	\$155
Austin	\$254	\$138
Orlando	\$211	\$124
Portland	\$266	\$34

Source: Yardi Matrix. Data as of May 2021

# Definitions

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This report covers office buildings 50,000 square feet and above. Yardi Matrix subscribers have access to more than 8,000,000 property records and 250,000 listings 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. National average listing rate is for the top 50 markets covered by Yardi Matrix.
- *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.

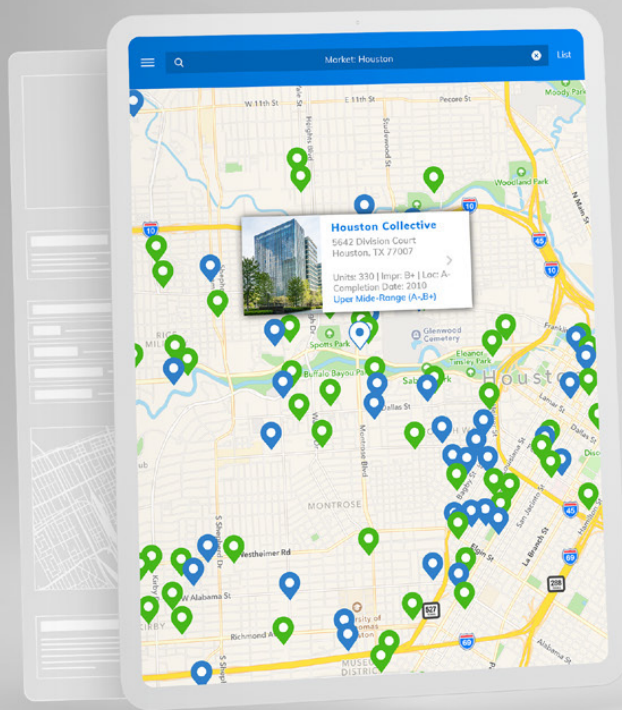
Office-Using Employment is defined by the Bureau of Labor Statistics as including the sectors Information, Financial Activities, and Professional and Business Services. Employment numbers are representative of the Metropolitan Statistical Area and do not necessarily align exactly with Yardi Matrix market 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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