



Yardi® Matrix

National Office Report

September 2021



Life Sciences Demand Grows

- Life sciences is the one subsector of office that has not struggled in the last 18 months. On the contrary, the life sciences industry has grown more rapidly during the pandemic than it had beforehand.
- The groundbreaking implementation of mRNA technology in COVID-19 vaccines has opened the door to treatments for a wide range of ailments, from HIV to cancer to heart disease. This has led to a wave of capital, both public and private equity, looking to invest in life sciences firms. A recent report from Cushman & Wakefield estimated that \$70 billion was invested in life sciences companies in 2020, a 93% increase over the previous high, set in 2018, and it projected that record will be exceeded again in 2021.
- Life sciences firms are highly concentrated in a handful of markets: Boston, San Francisco, the Bay Area and San Diego host nearly half of all lab space based on square footage nationwide. Boston alone accounts for a quarter of national lab space, thanks to the presence of universities like the Massachusetts Institute of Technology and Harvard University that provide not only opportunities for research partnerships but a large pool of qualified graduates annually. Developers are rushing to add space in the market, with 7.2 million square feet of new lab space under construction and an additional 11.6 million square feet in the planning or prospective stages. These figures don't include planned conversions such as 401 Park, a property purchased for \$1.2 billion earlier this year by Alexandria Real Estate Equities, which announced plans to build out the property as a life sciences hub.
- The rapid rise in demand for these properties is spurring development in markets not thought of as life sciences hubs. The markets with the majority of lab space also have some of the highest office rents and costs of living, and as the industry continues to grow, firms may look to move into highly educated secondary markets in search of qualified employees and cheaper leases. Some markets are already moving to develop life sciences hubs around campuses and medical facilities. In Pittsburgh, a Ford Motor plant built in 1915 will be repurposed as a life sciences facility called The Assembly; Wexford Science & Technology is working closely with the University of Pittsburgh on the \$330 million project. The Texas Medical Center in Houston is looking to launch the world's largest life sciences campus, with the 950,000-square-foot first phase recently beginning construction in what is planned to be more than 6 million square feet of mixed-use development.



Listing Rates and Vacancy: High-Quality Listings Lead to Rate Increases in Denver

- The average national full-service equivalent listing rate for all office space was \$38.62 per square foot in August, unchanged from July and a 1.2% increase year-over-year. The national vacancy rate was 15.4%, a decrease of 10 basis points (bps) from July but up 210 bps over August 2020.
- Same-store listing rate growth was highest in Nashville (8.9%), Los Angeles and Boston (6.4% each). Same-store rates fell the most in Manhattan (-4.9%) and Brooklyn (-4.8%).
- Average listing rates often reflect the quality of assets being offered in the market rather than underlying fundamentals. A case in point is Denver, where rates have increased 5.5% over the last year despite vacancies increasing 600 bps over the period. Rates have been driven upwards by new, high-quality assets. Foremost among these is Block 162, an A+ rated 30-floor tower in the CBD. Currently listing more than 500,000 square feet at a triple-net rate of \$36 per foot, which is a full-service equivalent rate of more than \$50, this property has pushed up the average rate in the market.

Listings by Metro

Market	Jul-21 Listing Rate	12-Month Change	Total Vacancy	12-Month Change	Top Listing	Price Per Square Foot
National	\$38.62	1.2%	15.4%	210 bps		
Los Angeles	\$41.62	8.1%	13.5%	150 bps	100 Wilshire	\$108.00
Bay Area	\$55.79	6.2%	18.0%	420 bps	245 Lytton Avenue	\$133.79
Tampa	\$29.70	6.2%	15.3%	370 bps	Sparkman Wharf	\$46.50
Miami	\$43.43	5.8%	14.2%	180 bps	830 Brickell Plaza	\$90.00
Denver	\$30.25	5.5%	17.2%	600 bps	The William Building	\$59.67
Austin	\$43.70	5.3%	15.9%	590 bps	Indeed Tower	\$74.67
Boston	\$34.81	3.9%	11.6%	140 bps	Central Plaza	\$82.00
Philadelphia	\$29.60	3.6%	12.3%	0 bps	One Liberty Place	\$51.71
Washington DC	\$42.01	3.6%	15.8%	70 bps	Republic Square I	\$91.84
Orlando	\$22.13	3.5%	15.2%	290 bps	GuideWell Innovation Center	\$34.66
Nashville	\$30.90	3.5%	17.8%	750 bps	The Pinnacle at Symphony Place	\$44.00
Phoenix	\$28.01	3.2%	17.2%	-30 bps	100 Mill	\$48.50
New Jersey	\$33.14	2.9%	18.9%	-40 bps	Liberty Innovation Center	\$70.29
San Diego	\$38.90	2.4%	14.8%	190 bps	2100 Kettner	\$69.00
Dallas	\$28.66	1.6%	18.9%	60 bps	Victory Commons One	\$58.94
Portland	\$29.97	1.0%	13.1%	80 bps	Park Avenue West	\$48.69
Atlanta	\$27.64	0.8%	19.7%	250 bps	300 Colony Square	\$50.00
Charlotte	\$29.00	0.5%	15.3%	460 bps	300 South Tryon	\$42.00
Chicago	\$28.12	-1.1%	16.9%	240 bps	Five One Five North State	\$66.02
Houston	\$30.18	-1.2%	22.7%	90 bps	Texas Tower	\$58.40
Twin Cities	\$26.80	-1.3%	15.3%	450 bps	The Offices at MOA	\$40.00
San Francisco	\$69.18	-1.6%	15.4%	670 bps	Sand Hill Collection-The Quad	\$141.17
Manhattan	\$83.52	-2.6%	10.8%	240 bps	550 Madison Avenue	\$210.00
Seattle	\$35.79	-3.0%	15.7%	680 bps	City Center Bellevue	\$63.50
Brooklyn	\$48.08	-4.9%	15.3%	190 bps	One MetroTech Center	\$65.59

Source: Yardi Matrix. Data as of August 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: Pandemic Fails to Slow Austin Pipeline

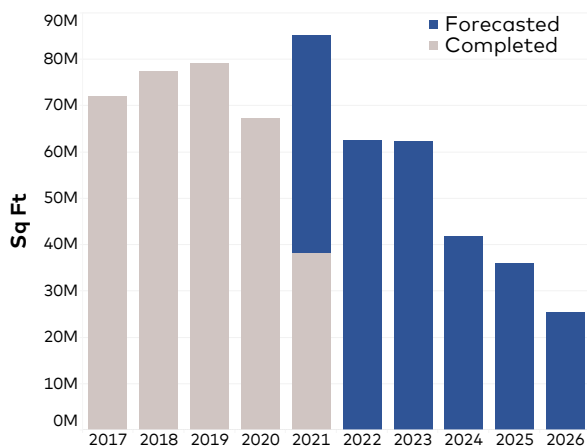
- Nationally, 38.2 million square feet of new office supply has been completed this year. The vast majority, 35.4 million square feet, has been properties rated as either A or A+.
- The new-supply pipeline is shrinking, with the total square footage of new office space under construction falling steadily throughout the year. Starts have been lower than deliveries in almost every market.
- One market that bucks this trend is Austin, where 3.4 million square feet of new office stock has begun construction this year, accounting for more than 10% of national starts. Despite vacancy rates rising 590 basis points over the last 12 months and 9.6 million square feet (11.2% of stock) delivering since the start of 2018, developers remain bullish on the market. Office-using job growth in Austin leads the nation—the metro sports 21,000 more office jobs (a 6.7% increase) than it did before the pandemic—and high-profile corporate relocations such as Tesla and Oracle have strengthened the city's standing as a tech hub. With an additional 13.9 million square feet currently in the planning stages, Austin should continue to add new stock at a robust pace for the foreseeable future.

Supply Pipeline (by metro)

Market	Under Construction	Under Construction % Stock	Plus Planned % Stock
National	156,732,140	2.4%	6.0%
Austin	8,553,235	9.9%	26.0%
Nashville	3,184,192	5.7%	16.7%
Charlotte	3,937,324	5.3%	12.6%
Boston	12,864,489	5.2%	10.2%
Brooklyn	2,009,010	5.0%	9.9%
Seattle	6,753,050	4.7%	11.1%
San Francisco	7,036,137	4.5%	8.0%
Manhattan	20,658,209	4.3%	6.0%
Portland	2,482,040	4.1%	7.2%
Miami	2,757,643	4.0%	7.6%
San Diego	2,931,893	3.1%	7.3%
Los Angeles	7,938,347	2.8%	5.3%
Atlanta	4,959,800	2.6%	4.3%
Bay Area	4,855,483	2.4%	12.8%
Houston	5,226,554	2.2%	3.2%
Philadelphia	3,532,087	2.0%	5.1%
Dallas	5,396,935	2.0%	9.4%
Washington DC	5,945,401	1.6%	3.5%
Phoenix	1,989,869	1.5%	8.6%
Orlando	686,500	1.2%	7.1%
Chicago	3,855,128	1.2%	6.3%
Tampa	548,660	0.8%	5.6%
Twin Cities	742,147	0.6%	2.1%
Denver	855,969	0.5%	3.5%
New Jersey	606,017	0.3%	2.0%

Source: Yardi Matrix. Data as of August 2021

National New Supply Forecast

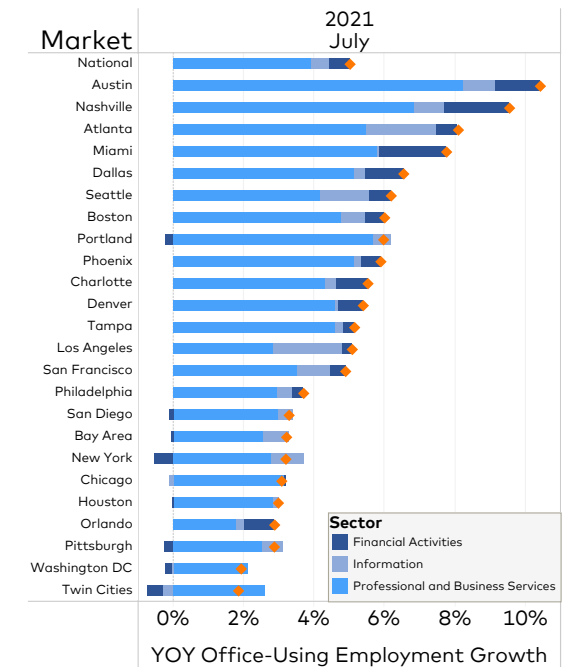


Source: Yardi Matrix. Data as of August 2021

Office-Using Employment: New York, Los Angeles Struggle Most in Recovery

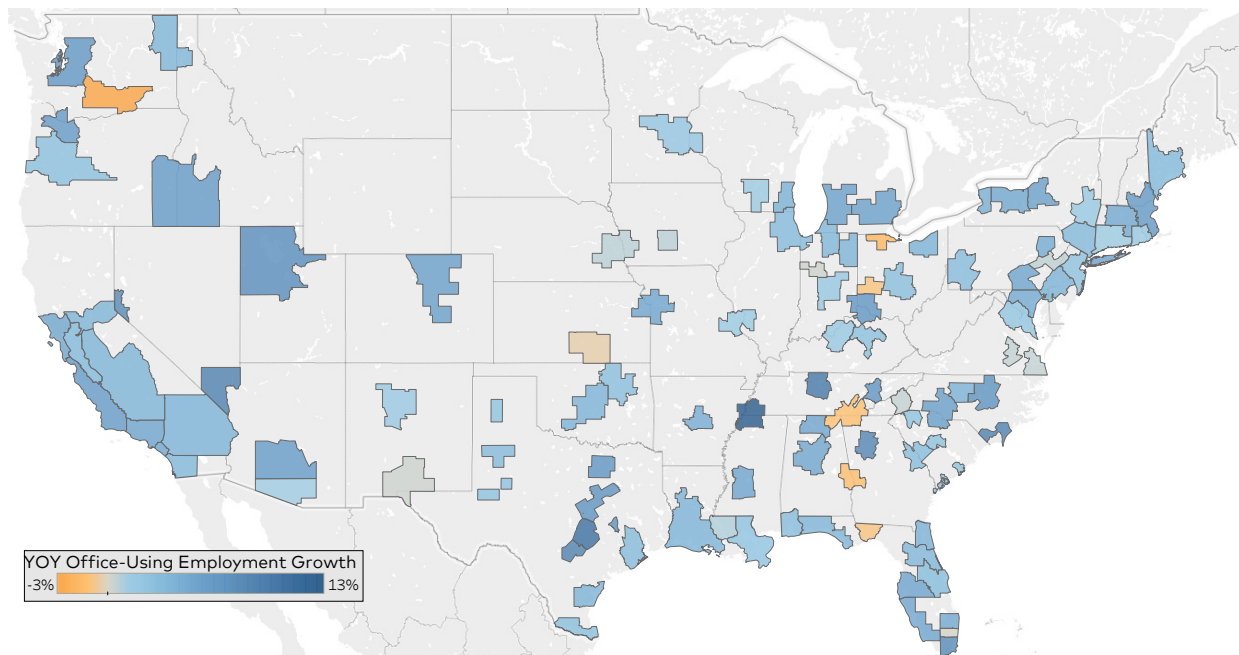
- Nationally, employment in office-using sectors of the labor market added 107,000 new jobs in the month of August, growing 4.5% year-over-year. There are still 647,000 fewer office-using jobs than before COVID-19 jostled the country.
- Metro employment for July, which trails the national release, paints an uneven recovery across the country. Eleven of the top 50 markets have fully recovered to February 2020 levels, with Austin, Salt Lake City and Raleigh-Durham seeing the largest gains over pre-pandemic figures.
- On the other end of the spectrum, New York and Los Angeles are still far below the total number of office jobs they had before COVID-19 ground the country to a halt. Los Angeles has 108,000 fewer office jobs than it did in February 2020 (a decrease of 9.2%) and New York has 157,000 fewer (a decrease of 7.3%). The pace of recovery in these markets does little to provide optimism. Los Angeles has only 28,000 more office jobs than the end of 2020 and New York, 14,000.

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: Sales Activity Continues to Pick Up Steam

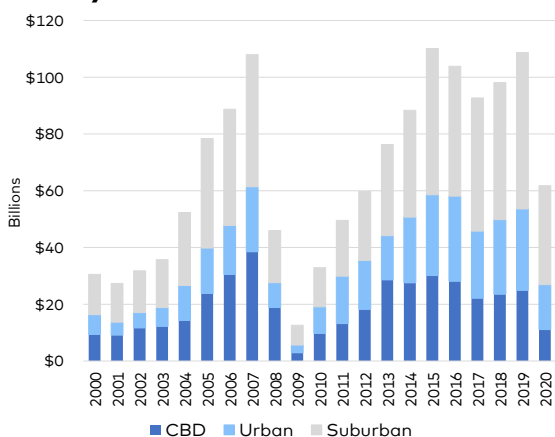
- Nationally, \$45 billion in office transactions were completed during the first eight months of 2021. Although some investors remain apprehensive about the sector, sales activity has been on the upswing this year.
- Last year, a total of \$19.7 billion in office transactions occurred in the second and third quarters combined. This year, with a month left in the third quarter, the second and third quarters have already combined for \$29.9 billion of sales. The fourth quarter is almost always the busiest for sales activity, so sales volume should comfortably surpass the \$61.8 billion figure from 2020.

Sales Activity

Market	YTD Sales Price PSF	YTD Sales (Mil, as of 08/31)
National	\$287	\$44,954
Bay Area	\$584	\$6,215
Boston	\$516	\$4,012
Manhattan	\$1,192	\$2,401
San Francisco	\$717	\$2,186
Seattle	\$445	\$2,002
Atlanta	\$217	\$1,847
Dallas	\$241	\$1,817
Miami	\$304	\$1,588
Washington DC	\$272	\$1,472
Los Angeles	\$364	\$1,447
Denver	\$212	\$1,431
New Jersey	\$170	\$1,317
San Diego	\$392	\$1,253
Austin	\$491	\$1,215
Chicago	\$224	\$914
Phoenix	\$197	\$882
Philadelphia	\$180	\$876
Charlotte	\$281	\$818
Nashville	\$258	\$570
Houston	\$147	\$468
Twin Cities	\$169	\$447
Tampa	\$152	\$312
Brooklyn	\$661	\$189
Orlando	\$194	\$137
Portland	\$246	\$108

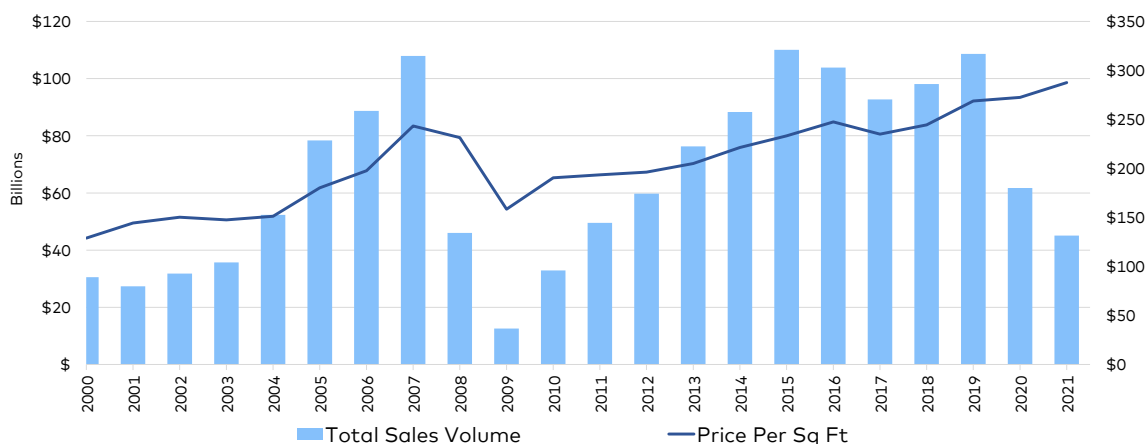
Source: Yardi Matrix. Data as of August 2021

Sales by Location



Source: Yardi Matrix; Data as of August 2021

Total Sales



Source: Yardi Matrix. Data as of August 2021

Definitions

This report covers office buildings 25,000 square feet and above. Yardi Matrix subscribers have access to more than 10,500,000 property records and 325,000 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.

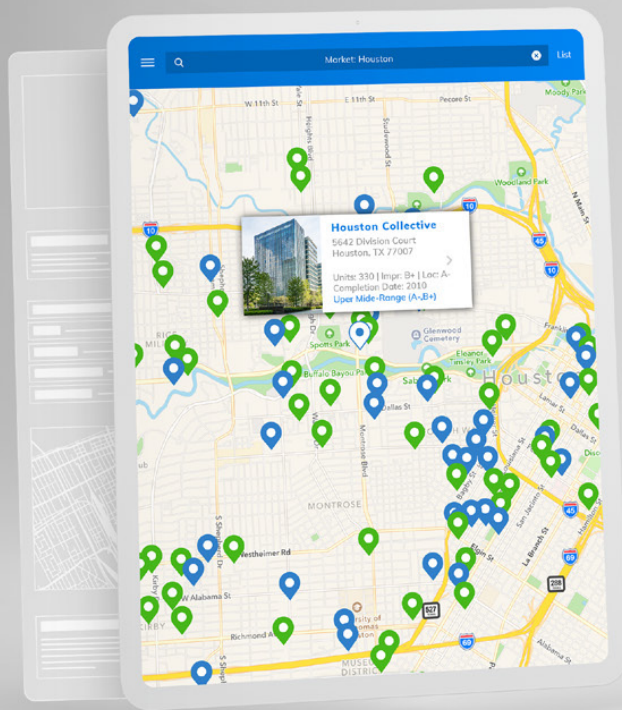
Office-Using Employment is defined by the Bureau of Labor Statistics as including the sectors Information, Financial Activities, and Professional and Business Services. Employment numbers are representative of the Metropolitan Statistical Area and do not necessarily align exactly with Yardi Matrix market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