



Yardi® Matrix

National Office Report

October 2021



Big Tech Commits to the Office

- Workers across the country were supposed to be returning to the office this fall, but the late summer surge of COVID cases driven by the highly contagious Delta variant put those plans on hold.
- However, there are reasons to be optimistic that we are in the waning stages of the pandemic. Case levels have been falling in recent weeks, mandates have increased vaccination rates in many areas of the country, and a promising oral antiviral medication from Merck that lessens COVID symptoms could be on the cusp of emergency FDA approval. These factors could move the coronavirus from pandemic to endemic—this would certainly still be a cause for concern, but the virus would circulate at low enough levels for a full return to normal without concern for overwhelming hospital systems. For the office industry, this means that many firms' return-to-office plans may come to fruition in the new year, and we will finally have a picture of what post-pandemic office utilization might look like.
- While there has been plenty of uncertainty around the extent to which remote work will continue in the post-pandemic world, tech giants have signaled that offices will play a role in their future through the purchase, construction and leasing of office space. Google recently announced it would be exercising its option to purchase St. John's Station in Hudson Yards, a \$2.1 billion acquisition of a building that will anchor Google's Hudson Yards Campus. Amazon has been moving forward with construction of its second headquarters in Northern Virginia, estimated to cost \$2.5 billion and accommodate 25,000 employees. Across the country, Apple has paid \$450 million for a trio of buildings to expand its office footprint in Cupertino, Calif. This is only a few months after signing a lease to occupy 700,000 square feet at Pathline Park in Sunnyvale. Last year, Facebook purchased the brand-new REI headquarters in Bellevue's Spring District after the outdoor retailer decided to move to remote work. This summer, Facebook expanded its presence in the district by signing leases at Block 5 and Block 6, two properties totaling 700,000 square feet that are scheduled to deliver in 2023.
- Large purchases of office assets may not be entirely motivated by Big Tech's commitment to offices. Many companies—especially large, profitable tech firms—have been hoarding cash reserves throughout the pandemic. With interest rates near historic lows, purchasing commercial real estate is one of the few avenues for these firms to spend cash that is sitting around. Nonetheless, on balance these moves should be seen as a bet by these tech giants on the future of the physical office.



Listing Rates and Vacancy: New Supply Leads to Steeper Vacancy Rate Growth

- The average national full-service equivalent listing rate was \$38.62 per foot in September, up 1.2% year-over-year but 10 cents lower than August.
- The national vacancy rate decreased 50 basis points (bps) over the month to 14.9% but is still up 130 bps year-over-year.
- Most market-level vacancy rates follow a similar trend—down slightly over recent months but up significantly compared to last year. Vacancy rates have grown the most in markets that ex-

perienced a recent supply boom. A glut of new supply in the years preceding the pandemic has sent rates upward in Austin (510 bps vacancy rate increase over the last 12 months, 15.0% of stock delivered since 2017), San Francisco (510 bps, 11.2%), Nashville (490 bps, 15.4%) and Seattle (590 bps, 11.0%). These office markets may rebound quickly, however, because office-using employment has been fast to recover there. Of the four, only San Francisco has not reached February 2020 levels of office jobs, but currently is only 1.2% below that mark.

Listings by Metro

Market	Sep-21 Listing Rate	12-Month Change	Total Vacancy	12-Month Change	Top Listing	Price Per Square Foot
National	\$38.62	1.2%	14.9%	130 bps		
Los Angeles	\$41.62	8.1%	13.0%	50 bps	100 Wilshire	\$108.00
Bay Area	\$55.79	6.2%	16.3%	250 bps	245 Lytton Avenue	\$133.79
Tampa	\$29.70	6.2%	15.6%	310 bps	Sparkman Wharf	\$46.50
Miami	\$43.43	5.8%	13.6%	100 bps	701 Brickell	\$88.00
Denver	\$30.25	5.5%	16.5%	360 bps	The William Building	\$59.67
Austin	\$43.70	5.3%	15.7%	510 bps	Indeed Tower	\$72.67
Boston	\$34.81	3.9%	11.7%	160 bps	Central Plaza	\$82.00
Philadelphia	\$29.60	3.6%	12.0%	-60 bps	One Liberty Place	\$51.71
Washington DC	\$42.01	3.6%	14.7%	-40 bps	Executive Tower	\$83.79
Orlando	\$22.13	3.5%	15.3%	280 bps	GuideWell Innovation Center	\$34.66
Nashville	\$30.90	3.5%	17.2%	490 bps	The Pinnacle at Symphony Place	\$44.00
Phoenix	\$28.01	3.2%	16.0%	-150 bps	100 Mill	\$48.50
New Jersey	\$33.14	2.9%	18.7%	40 bps	Newport Tower	\$56.80
San Diego	\$38.90	2.4%	13.3%	-100 bps	2100 Kettner	\$69.00
Dallas	\$28.66	1.6%	18.2%	-70 bps	The Union Dallas	\$56.37
Portland	\$29.97	1.0%	13.7%	120 bps	Park Avenue West	\$48.69
Atlanta	\$27.64	0.8%	19.9%	240 bps	300 Colony Square	\$50.00
Charlotte	\$29.00	0.5%	14.6%	370 bps	300 South Tryon	\$42.00
Chicago	\$28.12	-1.1%	16.9%	270 bps	Five One Five North State	\$66.02
Houston	\$30.18	-1.2%	21.7%	-30 bps	Texas Tower	\$58.40
Twin Cities	\$26.80	-1.3%	14.5%	190 bps	The Offices at MOA	\$40.00
San Francisco	\$69.18	-1.6%	15.0%	520 bps	Sand Hill Collection—The Quad	\$141.17
Manhattan	\$83.52	-2.6%	10.8%	200 bps	550 Madison Avenue	\$210.00
Seattle	\$35.79	-3.0%	15.5%	590 bps	City Center Bellevue	\$63.50
Brooklyn	\$48.08	-4.9%	14.9%	100 bps	One MetroTech Center	\$65.59

Source: Yardi Matrix. Data as of September 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: Denver's New Supply Pipeline Dries Up

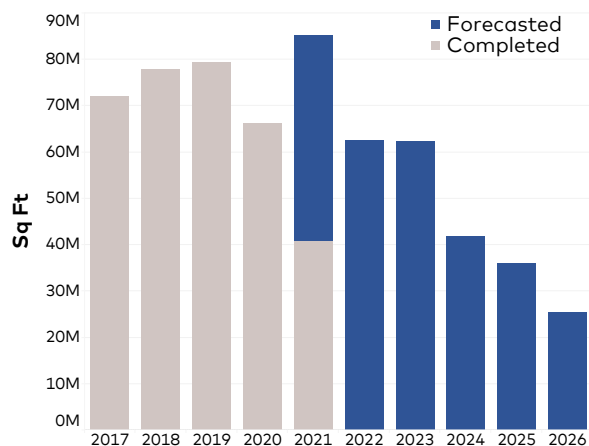
- Nationally, 158.2 million square feet of new office stock is currently under construction, 70 percent of it in submarkets designated as Commercial Business District (CBD) or Urban. The extended time horizon for a new office building means that the under-construction pipeline still represents pre-pandemic trends. The pipeline had become increasingly urban over the years preceding the pandemic, and much new stock that began construction in those years will continue to deliver into 2023.
- The national pipeline has shrunk over the course of the pandemic, and with only 36.2 million square feet of new starts this year, this trend is anticipated to continue. By comparison, there were 87.2 million square feet of new office starts in 2019.
- Since the beginning of 2017, 11.7 million square feet have been delivered in the Mile High City, representing 7.3% of stock. Of that, 2.7 million square feet have delivered this year, driven by large properties completed in the CBD and LoDo submarkets. Now, however, the market's office boom appears to be over with, as less than a million square feet is currently under construction, representing just 0.6% of stock.

Supply Pipeline (by metro)

Market	Under Construction	Under Construction % Stock	Plus Planned % Stock
National	158,201,565	2.4%	6.0%
Austin	8,695,556	10.0%	26.4%
Nashville	3,071,083	5.4%	14.6%
Boston	13,352,639	5.4%	10.3%
Brooklyn	2,009,010	5.0%	9.9%
Charlotte	3,542,739	4.8%	12.0%
Seattle	6,752,922	4.7%	11.3%
Manhattan	20,751,633	4.3%	6.0%
Miami	2,948,952	4.3%	7.6%
San Francisco	6,476,873	4.1%	6.9%
Portland	2,424,285	4.0%	7.5%
San Diego	2,851,898	3.0%	7.2%
Los Angeles	7,926,247	2.8%	5.3%
Bay Area	5,185,959	2.5%	12.9%
Houston	5,750,654	2.4%	3.8%
Atlanta	4,264,800	2.2%	4.0%
Philadelphia	3,532,203	2.0%	5.1%
Dallas	5,396,935	2.0%	9.1%
Orlando	986,020	1.8%	7.0%
Washington DC	5,945,401	1.6%	5.4%
Twin Cities	1,854,647	1.6%	2.7%
Phoenix	2,003,869	1.5%	8.5%
Chicago	4,091,128	1.3%	6.4%
Tampa	548,660	0.8%	5.6%
Denver	932,701	0.6%	3.4%
New Jersey	606,017	0.3%	2.2%

Source: Yardi Matrix. Data as of September 2021

National New Supply Forecast

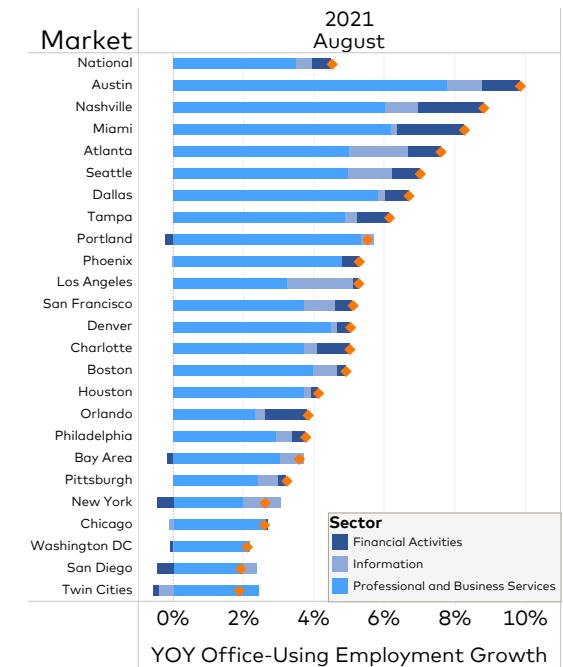


Source: Yardi Matrix. Data as of September 2021

Office-Using Employment: Office-Using Sectors Outperform Overall Labor Market

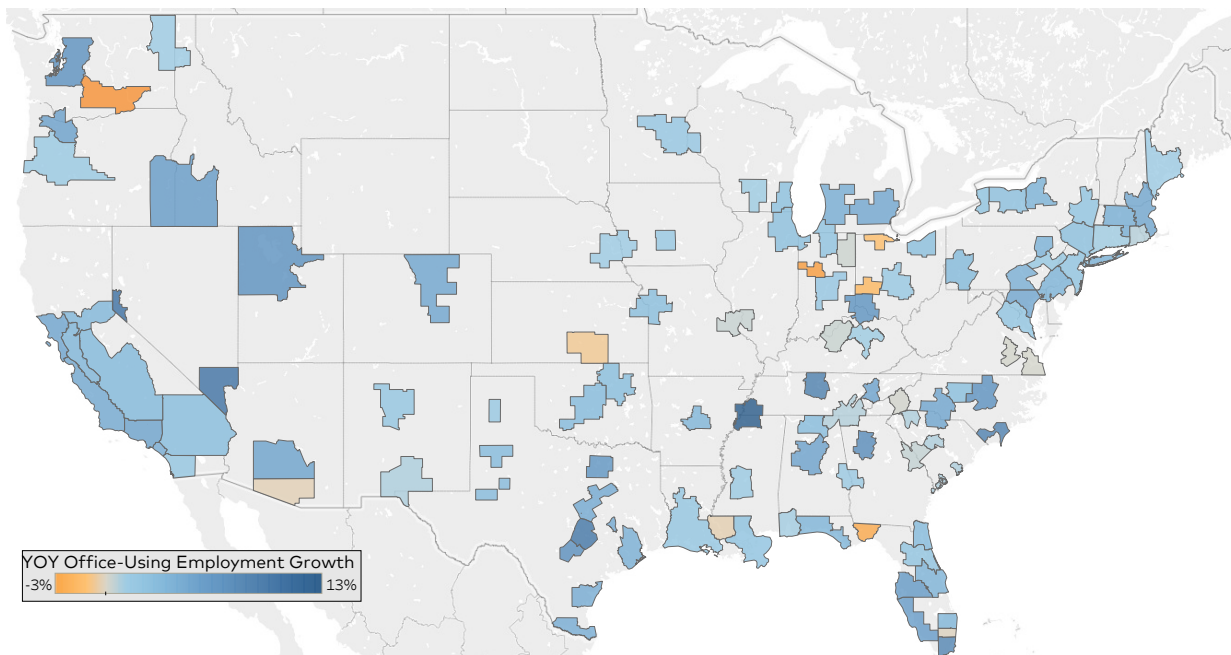
- Despite a weak jobs report for September, with only 194,000 jobs added nationally, office-using sectors of the economy added 94,000 positions in the month and grew 4.2% year-over-year. Office-using sectors account for around 22% of the total labor market but comprised nearly half of the job growth last month.
- Despite September's solid gains for office-using sectors, office jobs have yet to fully recover to pre-pandemic levels of employment. More than half a million office jobs will need to be added to equal the number of office jobs in February 2020.
- Metro employment for August, which trails the national release, shows an uneven recovery across the country. Of the 50 largest markets covered by Yardi Matrix, 12 have surpassed February 2020 levels, while others are likely years away from regaining all office jobs lost in the early stages of the pandemic. Austin (with 7.2% more than February 2020) continues to have the most office job growth over pre-pandemic levels.

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

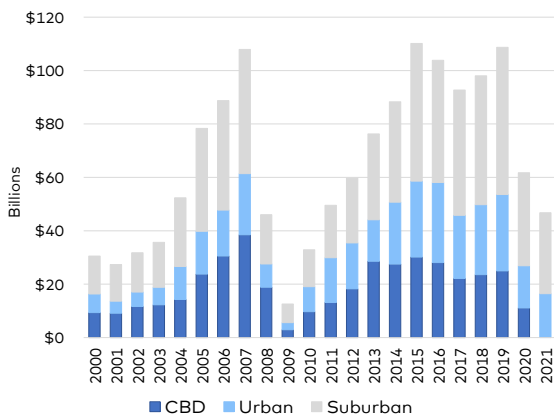
Transactions: 2021 Sees More Sales Volume Than 2020

- Through the first three quarters of the year, national office transaction volume sat at \$53.3 billion. This year is on pace to surpass the \$61.8 billion of sales in 2020 but fall short of pre-pandemic levels from the latter part of the last decade.
- Some markets have more than doubled last year's sales volume, with the fourth quarter—typically the busiest for transactions—still to come. Atlanta sales volume was \$928.3 million in 2020 but \$1.9 billion through the first nine months of 2021. The priciest sale this year was 725 Ponce, which sold for \$300.2 million and a market record of \$807 per square foot.

Sales Activity

Market	YTD Sales Price PSF	YTD Sales (Mil, as of 09/30)
National	\$295	\$53,321
Bay Area	\$593	\$7,082
Boston	\$471	\$4,640
Seattle	\$564	\$3,805
San Francisco	\$681	\$3,314
Manhattan	\$1,192	\$2,401
Los Angeles	\$378	\$2,163
Dallas	\$235	\$2,046
Denver	\$243	\$1,976
Atlanta	\$216	\$1,943
Washington DC	\$282	\$1,924
Miami	\$300	\$1,662
Austin	\$496	\$1,382
New Jersey	\$170	\$1,358
San Diego	\$392	\$1,253
Philadelphia	\$172	\$1,025
Chicago	\$204	\$965
Phoenix	\$204	\$960
Charlotte	\$285	\$929
Nashville	\$258	\$570
Houston	\$142	\$499
Twin Cities	\$160	\$468
Tampa	\$148	\$345
Brooklyn	\$661	\$189
Orlando	\$194	\$137
Portland	\$246	\$108

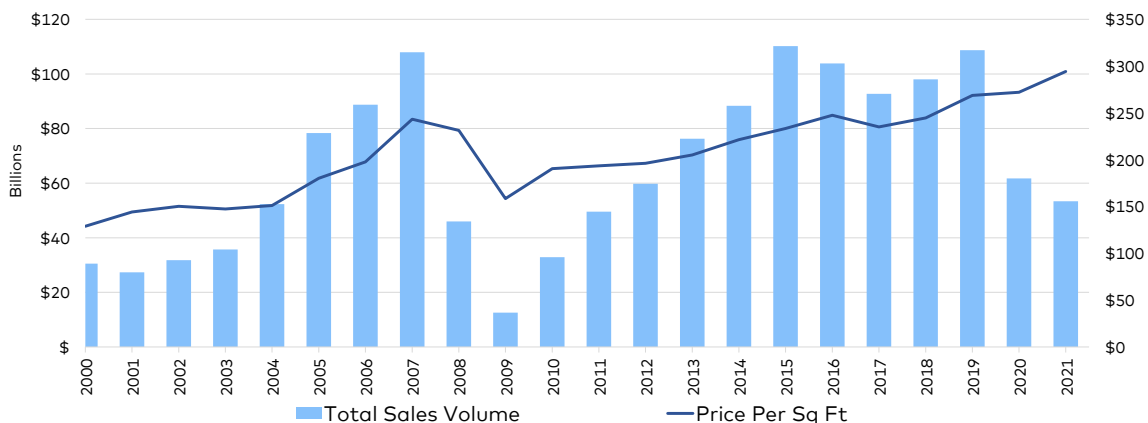
Sales by Location



Source: Yardi Matrix; Data as of September 2021

Source: Yardi Matrix. Data as of September 2021

Total Sales



Source: Yardi Matrix. Data as of September 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.

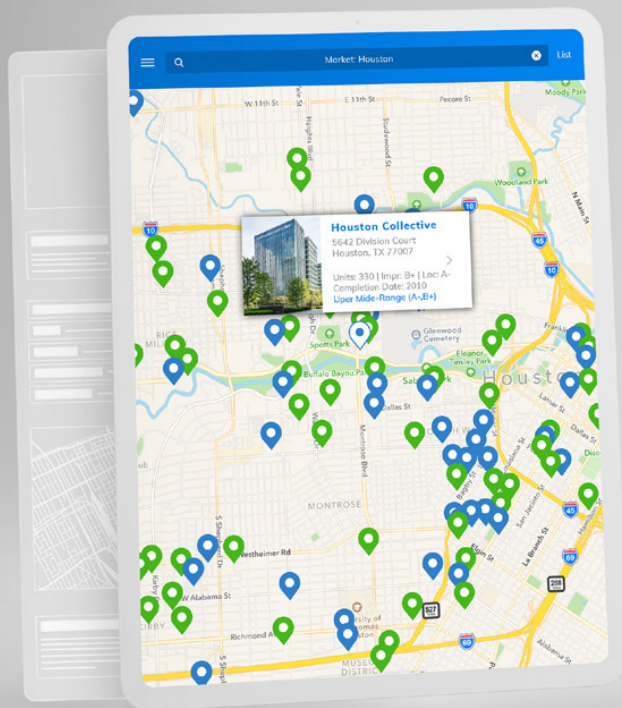
Office-Using Employment is defined by the Bureau of Labor Statistics as including the sectors Information, Financial Activities, and Professional and Business Services. Employment numbers are representative of the Metropolitan Statistical Area and do not necessarily align exactly with Yardi Matrix market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