National Office Report

January 2022

Return to Office Delayed Again

- In the summer of 2021, there was widespread optimism that employees could return to the office in the fall. Vaccines were being rolled out—with exceptional efficacy against breakthrough infections of the original COVID strain—case counts were falling and a return to normal seemed to be just around the corner. The delta variant threw a wrench in these plans, and the third wave of the virus caused many companies that had planned a return around Labor Day to delay into the new year. Now, the omicron variant has delayed these plans yet again. New daily case counts are at an all-time high and breakthrough infections are common, causing uncertainty for many companies' return-to-work plans.

- Wall Street banks and investment firms were more aggressive than almost any other industry with their return-to-office policies last year. However, as a wave of cases has torn through New York City, these firms have pumped the brakes. Citigroup, Bank of America and JPMorgan Chase have all reportedly told employees to work from home until the omicron wave subsides. Even Goldman Sachs, perhaps the most zealous Wall Street firm in wanting workers to be in the office, has told employees to work from home for two weeks beginning Jan. 2. To get employees back in the office, Goldman will require booster shots and regular testing. Beyond finance, a slew of companies have delayed return-to-office target dates. Uber, CNN, Meta, Ford and Chevron are just a few of the big-name companies that have delayed early 2022 plans.

- In the wake of yet another delay, many firms are now pushing back full-scale return-to-office plans indefinitely. Two tech giants—Apple and Google parent company Alphabet—are not announcing any plans for a return to the office as they wait out the latest wave of infections. Microsoft had already indefinitely delayed its return to office amidst the delta-driven wave in late summer. Lyft has announced that employees can work from home until at least the start of 2023.

- What has become clear is that when a return to office does finally happen, office utilization will look much different than it did two years ago. Some firms worry that after nearly two years of remote work, being too forceful with return directives could cause employees to quit. CBRE's Workforce Sentiment Survey revealed that 85% of workers would like to be remote at least two to three days a week, and firms seem likely to accommodate them for the most part. The Occupier Sentiment Survey showed 87% of firms will adopt a hybrid work program of some kind.

Listing Rates and Vacancy: New Listings Drive Up Average Rates in Boston

- The average full-service equivalent listing rate for office space was $38.44 per foot in December, an increase of 1.8% year-over-year.
- The national vacancy rate was 15.5% in December, an increase of 130 basis points over the last year. While most markets experienced spikes over the course of 2021, generally vacancy rates plateaued in the second half of the year.
- The average listing rate for a market can often be affected by the quality of space available rather than the underlying market fundamentals. Boston has seen rates increase by 11.6% year-over-year, with most of that due to Class A space in the CBD that is well above the market average listed this year. At 53 State St., 159,777 square feet are available at an average full-service equivalent rate of $50.15 per foot. Next door, 75 State St. listed 78,502 square feet at a full-service rate of $68.50 per foot. One Federal added 21,879 square feet of space at an average full-service rate of $75.37 per foot in 2021.

Listings by Metro

Market	Dec-21 Listing Rate	12-Month Change	Total Vacancy	12-Month Change	Top Listing	Price Per Square Foot
National	$38.44	1.8%	15.5%	130 bps		
Boston	$38.37	11.6%	10.3%	-50 bps	245 First Street	$86.00
San Diego	$42.73	11.2%	14.1%	-10 bps	2100 Kettner	$69.00
Phoenix	$30.01	9.5%	15.3%	-210 bps	100 Mill	$48.50
Atlanta	$29.21	8.1%	21.5%	370 bps	300 Colony Square	$52.00
Tampa	$30.90	7.9%	16.9%	430 bps	Water Street Tampa–Thousand & One	$58.00
Denver	$30.75	6.7%	16.3%	200 bps	1144 Fifteenth Street	$54.66
Miami	$45.27	6.4%	12.5%	-260 bps	701 Brickell	$88.00
Los Angeles	$42.33	6.0%	13.2%	-10 bps	100 Wilshire	$108.00
Orlando	$22.68	5.9%	16.0%	130 bps	GuideWell Innovation Center	$34.66
Charlotte	$30.38	5.6%	14.6%	370 bps	300 South Tryon	$42.00
Bay Area	$57.15	5.4%	16.1%	180 bps	260 Homer Ave & 819 Ramona St	$138.12
Dallas	$30.03	5.4%	17.6%	-100 bps	Victory Commons One	$58.94
New Jersey	$34.51	5.1%	17.4%	40 bps	Liberty Innovation Center	$88.29
Austin	$43.61	3.6%	17.0%	550 bps	Indeed Tower	$74.67
Houston	$30.27	2.5%	24.3%	220 bps	Texas Tower	$58.40
Philadelphia	$29.78	1.7%	14.3%	160 bps	Two Liberty Place	$53.50
Washington DC	$41.78	1.4%	16.5%	100 bps	Executive Tower	$83.79
Chicago	$28.19	0.9%	18.8%	330 bps	300 North LaSalle Drive	$56.46
Nashville	$30.54	-0.6%	17.7%	80 bps	Pinnacle at Symphony Place, The	$44.00
Portland	$29.47	-0.6%	13.7%	120 bps	Park Avenue West	$48.69
Twin Cities	$26.52	-1.0%	14.6%	80 bps	Lake Calhoun Center	$42.93
Brooklyn	$49.88	-1.1%	17.4%	380 bps	Brooklyn Navy Yard–Dock 72	$64.00
San Francisco	$63.46	-1.4%	15.1%	420 bps	Sand Hill Collection–The Quad	$141.17
Seattle	$35.67	-2.5%	16.1%	520 bps	City Center Bellevue	$65.50
Manhattan	$76.45	-7.2%	12.8%	250 bps	550 Madison Avenue	$210.00

Source: Yardi Matrix. Data as of December 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.

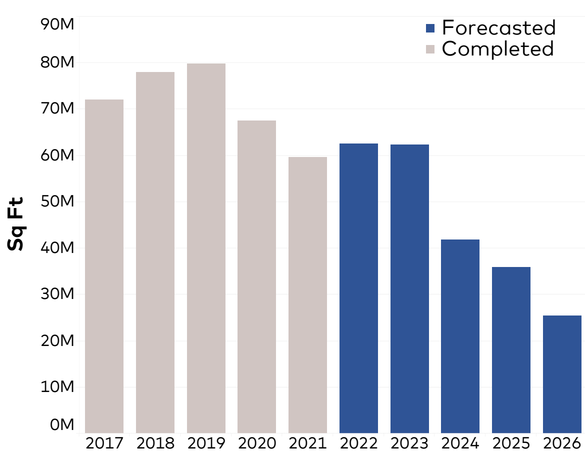
Supply:
Office Buildings Start Construction Despite Uncertainty

- Currently, 156.6 million square feet of office space is under construction, according to Yardi Matrix. Nearly half (48.6%) of the under-construction pipeline is in urban submarkets—defined as within the city center but not located in the central business district (CBD). Of the office space under construction, 30.3% is in suburban submarkets, with the remaining 21.1% in CBDs.

- The under-construction pipeline is currently representative of prepandemic trends, with new development concentrated in urban and CBD submarkets. Yet the planned portion of the pipeline hints that new office development may shift back to the suburbs in coming years. At the beginning of 2020, 35% of the planned pipeline was in the suburbs, but by the end of 2021 that share jumped to 48%.

- Despite the uncertainty around the future of the office building, there were 56.3 million square feet of new office space started in 2021, but more than half of all starts were in just 10 markets. Austin led the country for office starts with 4.4 million square feet of new space, followed by Dallas (3.8 million), the Bay Area (3.8 million) and Miami (3.4 million).

National New Supply Forecast



Source: Yardi Matrix. Data as of December 2021

Supply Pipeline (by metro)

Market	Under Construction	Under Construction % Stock	Plus Planned % Stock
National	156,612,657	2.3%	5.9%
Austin	9,280,392	10.6%	26.9%
Nashville	4,583,835	8.0%	15.3%
Brooklyn	2,130,733	5.2%	9.1%
Miami	3,555,312	5.1%	10.0%
Boston	12,570,669	5.1%	10.1%
Seattle	6,891,203	4.8%	11.0%
San Diego	4,007,376	4.2%	8.5%
Manhattan	19,276,105	4.0%	5.4%
San Francisco	6,116,881	3.9%	6.7%
Portland	2,320,285	3.8%	7.2%
Bay Area	7,061,895	3.4%	13.8%
Charlotte	2,215,426	2.9%	9.5%
Tampa	1,536,660	2.4%	6.0%
Los Angeles	6,719,215	2.3%	4.1%
Houston	5,045,339	2.1%	3.4%
Atlanta	4,012,416	2.0%	3.7%
Orlando	1,067,420	1.9%	6.0%
Dallas	5,141,611	1.9%	7.5%
Phoenix	2,247,429	1.7%	9.0%
Washington DC	6,316,984	1.7%	5.9%
Philadelphia	2,779,103	1.5%	4.5%
Chicago	4,425,098	1.4%	6.2%
Denver	1,259,923	0.8%	3.5%
Twin Cities	689,181	0.6%	2.4%
New Jersey	994,635	0.5%	2.7%

Source: Yardi Matrix. Data as of December 2021

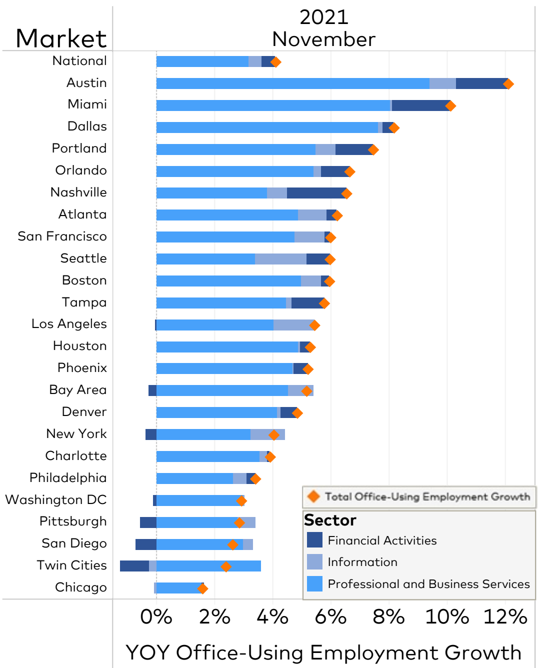
Office-Using Employment: Southern California Struggles to Recover

- Office-using sectors of the labor market added 51,000 jobs in December, up 3.6% year-over-year. There are 110,000 fewer office jobs than the prepandemic peak in February 2020.

- Although office-using employment is nearing a full recovery nationally, the recovery has been uneven across the country. Only 32 of the 120 markets covered by Yardi Matrix—and 19 of the top 50 markets—have more office jobs now than in February 2020.

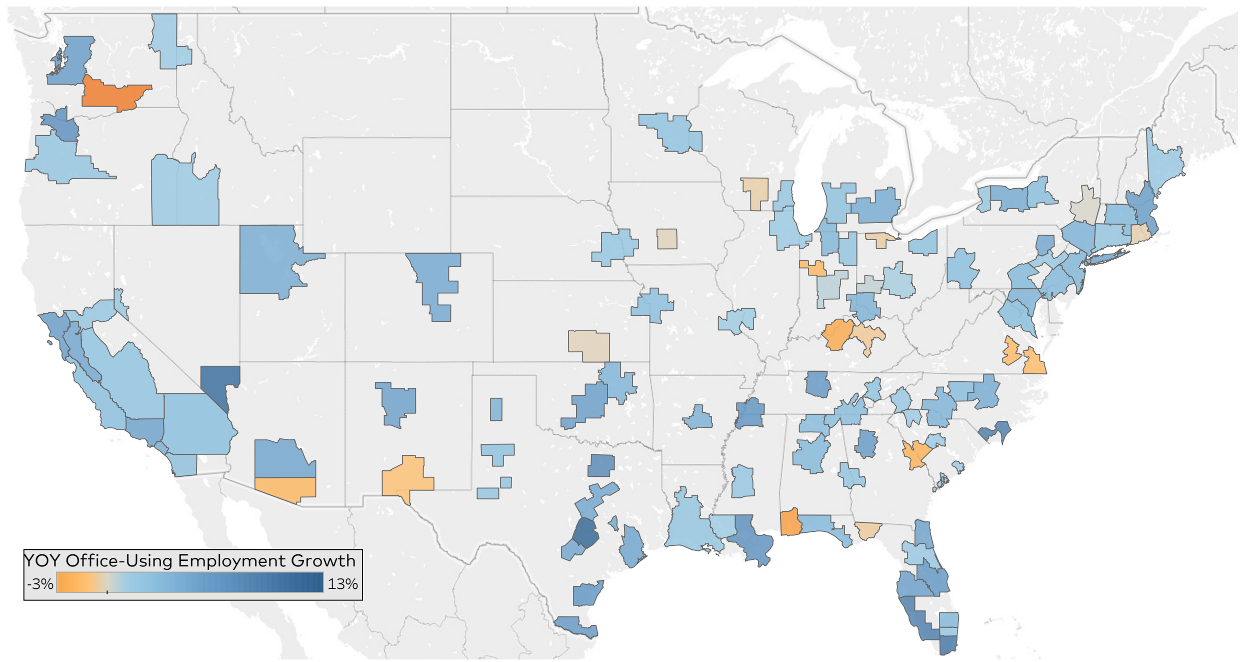
- Of the 50 largest markets, Los Angeles is the furthest away from a full recovery, with 7.5% fewer jobs in office-using sectors than prepandemic. Los Angeles isn't the only Southern California market struggling to regain lost office jobs—none of the markets in the region have fully recovered the losses experienced in the spring of 2020. The Inland Empire has 5.4% fewer jobs in the three office-using sectors than it did prepandemic, with Orange County and San Diego at 2.9% and 2.6% lower, respectively.

Growth by Sector



Sources: Bureau of Labor Statistics and Moody's Analytics

Office-Using Employment Growth

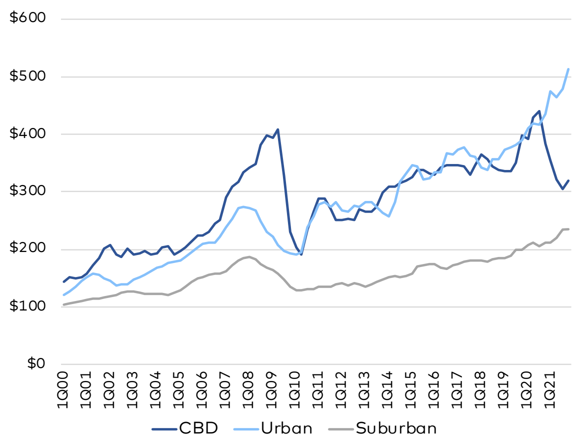


Sources: Bureau of Labor Statistics and Moody's Analytics

Transactions:
CBD Prices Lag in 2021

- Following the Great Financial Crisis, prices for office properties in submarkets classified as central business district (CBD) and urban closely tracked each other, but the pandemic changed this trend. The average sale price of office properties in urban submarkets—defined as within the city center but outside of the CBD—has continued to grow at roughly the same rate it did over the previous decade, while CBD prices have fallen since the start of the pandemic. In 2021, the average sale price of a CBD building was $323 per foot, 19% lower than 2019 and the lowest mark since 2014. Meanwhile, urban prices increased 28% over the last two years.

Location (price per sq. ft.)



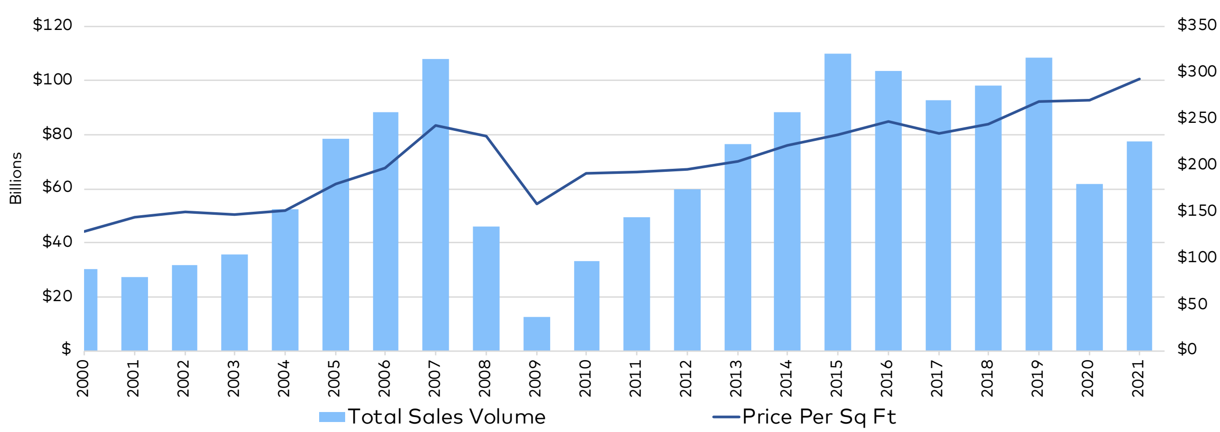
Source: Yardi Matrix; 12-month moving average

Sales Activity

Market	YTD Sales Price PSF	YTD Sales (Mil, as of 12/31)
National	$293	$77,502
Bay Area	$516	$8,069
Manhattan	$1,253	$6,945
Boston	$404	$5,305
Seattle	$572	$4,868
San Francisco	$656	$3,887
Los Angeles	$426	$3,429
Washington DC	$287	$3,281
Atlanta	$216	$2,859
Dallas	$245	$2,647
Denver	$237	$2,636
Phoenix	$236	$2,305
New Jersey	$169	$1,983
Austin	$441	$1,943
San Diego	$455	$1,869
Miami	$295	$1,743
Charlotte	$358	$1,634
Philadelphia	$177	$1,275
Chicago	$184	$1,273
Houston	$172	$993
Twin Cities	$153	$741
Tampa	$177	$702
Nashville	$259	$695
Orlando	$159	$381
Portland	$226	$205
Brooklyn	$661	$189

Source: Yardi Matrix. Data as of December 2021

Total Sales



Source: Yardi Matrix. Data as of December 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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