



Yardi® Matrix

National Office Report

March 2022



Pandemic Prompts a Flight to Quality

- The pandemic appears to be waning after two years. Governments have let most mandates expire, and bars, restaurants, concert halls and stadiums are filling back up. Yet office buildings remain relatively empty. Some corporate and political leaders are calling for a return to the office. Morgan Stanley CEO James Gorman and New York City Mayor Eric Adams have been vocal supporters. During his State of the Union, President Biden announced federal workers would soon be returning to the office and encouraged Americans to “get back to work and fill our great downtowns again with people.”
- Despite this push, office utilization levels from February 2020 are unlikely to return. Workers are hesitant to spend 40 hours a week in the office after two years of flexibility, and many may look for other jobs that provide remote options if forced to return. Most firms don't want to compel their employees to do so. CBRE's Occupier Sentiment Survey from last year found 87% of large companies surveyed would utilize a hybrid model. With such a model, many firms will look to entice workers into the office as much as possible, leading to increased demand for high-quality space.
- This so-called “flight to quality” is already playing out in some major markets. Despite out-migration of people and businesses from Manhattan, One Vanderbilt—a 1.8 million-square-foot Class A+ tower—is 90% leased after delivering in 2020. Boro Tower in Northern Virginia sits inside a 15-acre mixed-use development that offers an array of amenities and is 80% leased. Investors have taken notice, leading to a growing spread in average sale price between asset classes over the last two years. Class A buildings, on average, cost \$50 more per square foot (15%) in the fourth quarter of 2021 than 2019, while Class B buildings have only increased \$6 per foot (6%) over that time. An example can be found in Atlanta, where last year 725 Ponce sold for \$300.2 million, or an average of \$807 per foot, the highest average price per foot Yardi Matrix has ever logged in the market.
- For Class B and C buildings, the flight to quality will present challenges, but also opportunities. Some lower-quality assets will become prime targets for conversions, especially in markets where land is at a premium. In Orange County, Duke Realty paid \$34 million for an office fully leased to Raytheon, but it plans to demolish the building and develop an industrial property once the lease expires in the summer. Most offices are not suited for industrial conversions, so demolishing office buildings may become a common tactic in markets where developers feel they can leverage a good location.



Listing Rates and Vacancy: New Mixed-Use Development Driving Up Rates in Tampa

- The average full-service equivalent listing rate for office space in February was \$38.62 per square foot, an increase of 1.2% over the same period last year.
- The national vacancy rate was 15.7%, unchanged from the previous month and up 70 basis points over the year.
- Changes in listing rates do not always reflect underlying market conditions. Sometimes, they can represent changes in the composition of a market's stock. One example of this

is Tampa, where rates have increased 6.2% year-over-year. A massive new mixed-use development that began construction in 2018 is starting to come to market, driving up the average listing rate. Water Street Tampa is a \$3.5 billion, 56-acre project set to transform downtown. More than 150,000 square feet of office space at Thousand & One are currently listed at a full-service rate of \$58 per foot, well above the market full-service equivalent of \$29.70. The flight-to-quality trend is good news for Strategic Property Partners, the project's developer.

Listings by Metro

Market	Feb-22 Listing Rate	12-Month Change	Total Vacancy	12-Month Change	Top Listing	Price Per Square Foot
National	\$38.62	1.2%	15.7%	70 bps		
Los Angeles	\$41.62	8.1%	13.3%	-50 bps	100 Wilshire	\$108.00
Bay Area	\$55.79	6.2%	14.8%	-140 bps	260 Homer Ave & 819 Ramona St	\$138.12
Tampa	\$29.70	6.2%	16.2%	200 bps	Water Street Tampa-Thousand & One	\$58.00
Miami	\$43.43	5.8%	13.1%	-270 bps	701 Brickell	\$88.00
Denver	\$30.25	5.5%	16.5%	180 bps	William Building, The	\$59.67
Austin	\$43.70	5.3%	15.4%	30 bps	Indeed Tower	\$76.67
Boston	\$34.81	3.9%	10.5%	-90 bps	Kendall Square at MIT-314 Main Street	\$121.60
Philadelphia	\$29.60	3.6%	14.2%	150 bps	Two Liberty Place	\$53.50
Washington DC	\$42.01	3.6%	16.6%	90 bps	One Freedom Plaza	\$81.83
Orlando	\$22.13	3.5%	16.7%	130 bps	429 @ Crown Point-Building 529, The	\$35.00
Nashville	\$30.90	3.5%	18.9%	180 bps	501 Commerce	\$46.50
Phoenix	\$28.01	3.2%	15.5%	-280 bps	100 Mill	\$50.50
New Jersey	\$33.14	2.9%	17.4%	-50 bps	Liberty Innovation Center	\$70.29
San Diego	\$38.90	2.4%	14.0%	10 bps	2100 Kettner	\$69.00
Dallas	\$28.66	1.6%	17.1%	-190 bps	McKinney & Olive	\$53.26
Portland	\$29.97	1.0%	14.3%	40 bps	Park Avenue West	\$48.69
Atlanta	\$27.64	0.8%	22.3%	350 bps	300 Colony Square	\$52.00
Charlotte	\$29.00	0.5%	15.3%	240 bps	300 South Tryon	\$42.00
Chicago	\$28.12	-1.1%	20.3%	370 bps	300 North LaSalle Drive	\$56.46
Houston	\$30.18	-1.2%	24.8%	130 bps	Texas Tower	\$58.40
Twin Cities	\$26.80	-1.3%	14.5%	-200 bps	Lake Calhoun Center	\$42.93
San Francisco	\$69.18	-1.6%	16.8%	400 bps	Sand Hill Collection-The Quad	\$141.17
Manhattan	\$83.52	-2.6%	13.1%	260 bps	550 Madison Avenue	\$210.00
Seattle	\$35.79	-3.0%	14.9%	190 bps	City Center Bellevue	\$65.50
Brooklyn	\$48.08	-4.9%	17.8%	300 bps	Brooklyn Navy Yard-Dock 72	\$64.00

Source: Yardi Matrix. Data as of February 2022. 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: Manhattan Slowdown on Horizon

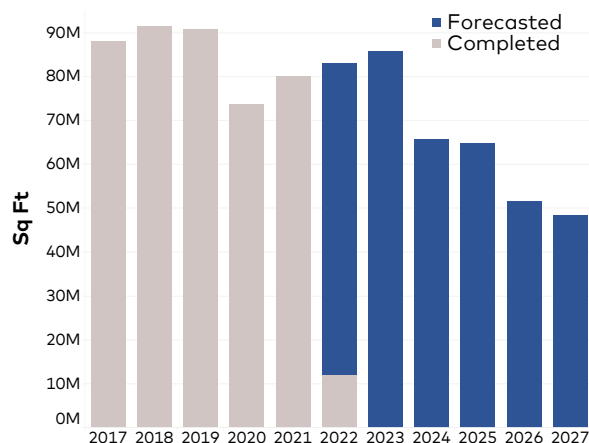
- Currently, 146.6 million square feet of new office space is under construction, representing 2.2% of existing stock.
- New construction has not started at an equivalent rate to deliveries, which has led to the total amount of space under construction decreasing by 10 million square feet in the last six months. As the new-supply pipeline shrinks, the composition of markets with the most new supply is changing, too. Nearly 15% of all starts last year were in either Dallas or Austin, and many other active markets were in the Sun Belt (Miami, Nashville), life science hubs (Bay Area, Boston) or both (Raleigh-Durham). Gateway markets, on the other hand, have experienced a slowdown.
- Manhattan has more than 19 million square feet under construction, 4.0% of current stock, but the market's pipeline won't remain this large for long. Only 2.1 million square feet of office space have been started in Manhattan since the beginning of 2021, signaling that a significant contraction of the market's pipeline is in the cards. By comparison, there were 3.2 million square feet of starts in 2019 and 5.7 million square feet in 2020.

Supply Pipeline (by metro)

Market	Under Construction	Under Construction % Stock	Plus Planned % Stock
National	146,586,570	2.2%	5.9%
Austin	10,118,328	11.6%	26.3%
Nashville	4,583,835	8.0%	15.7%
Miami	5,427,982	7.8%	14.0%
Boston	11,984,947	4.9%	10.7%
Manhattan	19,225,291	4.0%	5.4%
Portland	2,320,285	3.9%	7.3%
Seattle	5,449,103	3.8%	10.4%
Charlotte	2,848,820	3.7%	9.6%
San Diego	3,295,892	3.5%	8.2%
San Francisco	5,253,766	3.3%	5.9%
Brooklyn	1,298,192	3.1%	8.0%
Bay Area	6,248,734	3.1%	13.7%
Orlando	1,346,337	2.4%	5.7%
Tampa	1,536,660	2.3%	5.2%
Dallas	5,615,513	2.0%	6.6%
Atlanta	3,332,431	1.7%	8.4%
Houston	3,706,917	1.5%	2.9%
Philadelphia	2,779,103	1.5%	4.6%
Phoenix	2,014,238	1.5%	8.8%
Los Angeles	4,304,228	1.5%	3.6%
Chicago	4,326,461	1.4%	6.2%
Washington DC	4,142,829	1.1%	5.4%
Denver	1,265,623	0.8%	3.5%
New Jersey	1,501,235	0.8%	2.8%
Twin Cities	102,500	0.1%	1.9%

Source: Yardi Matrix. Data as of February 2022

National New Supply Forecast

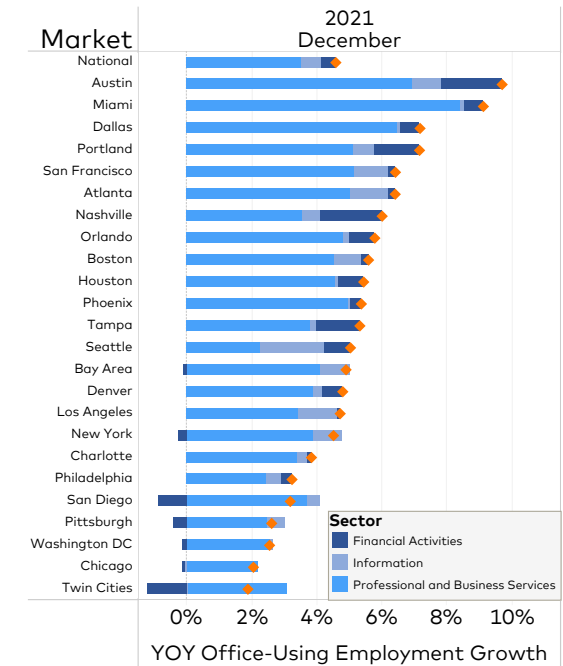


Source: Yardi Matrix. Data as of February 2022
Data in this chart includes owner-occupied properties

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

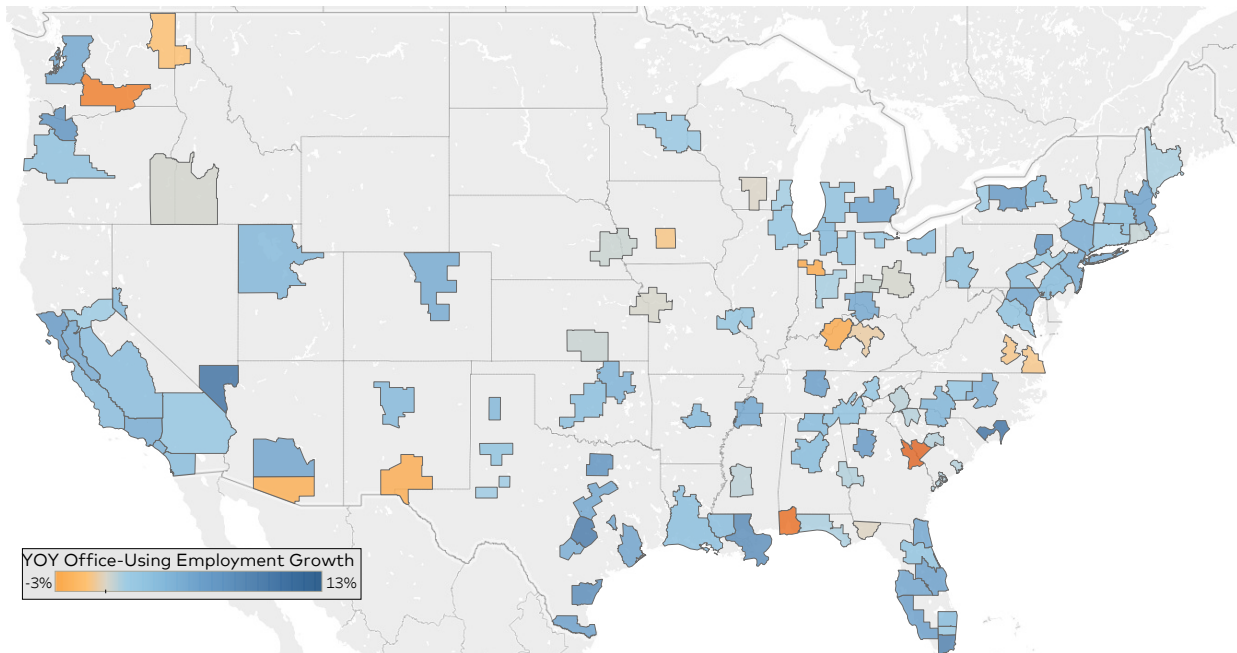
- Employment in office-using sectors increased by 130,000 jobs in February. While the overall labor market still has two million jobs less than it did pre-pandemic, office-using sectors have been some of the strongest performers.
- All three sectors that make up office-using employment have fully recovered from the downturn in early 2020. Two years later, there are 25,000 more information jobs, 50,000 more jobs in financial services and 681,000 more jobs in professional and business services (PBS), a broad sector that includes everything from legal and accounting services to advertising and administrative workers. The PBS and information sectors have been quick to recover from the pandemic, growing between 5% and 6% year-over-year in recent months, while financial jobs have been between 1% and 2%.
- Metro employment data to start the year is delayed due to benchmarking done by the Bureau of Labor Statistics.

Growth by Sector



Sources: Bureau of Labor Statistics and Moody's Analytics

Office-Using Employment Growth

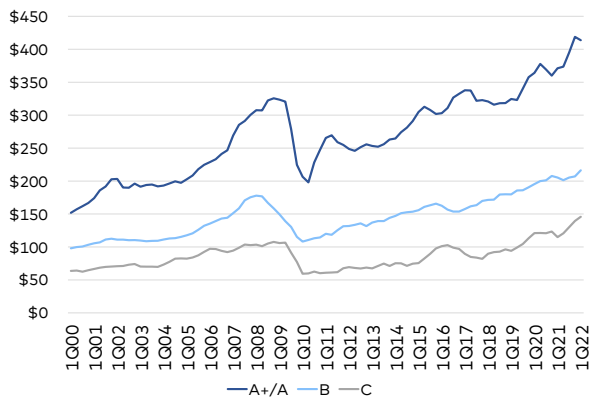


Sources: Bureau of Labor Statistics and Moody's Analytics

Transactions: Life Sciences Drive Bay Area Activity

- There has been nearly \$12 billion in office transactions during the first two months of the year, trading at an average of \$284 per square foot nationally.
- Lab space is driving investor activity in markets with a large life science presence. The Bay Area has seen \$918 million in transactions so far this year. A large part of this year's volume is due to Alexandria Real Estate's \$446 million acquisition of the 292,000-square-foot Stanford Research Park. Alexandria plans to convert the buildings—currently leased but unoccupied—into laboratory space, according to SEC documents filed by the company.

Asset Class (price per sq. ft.)



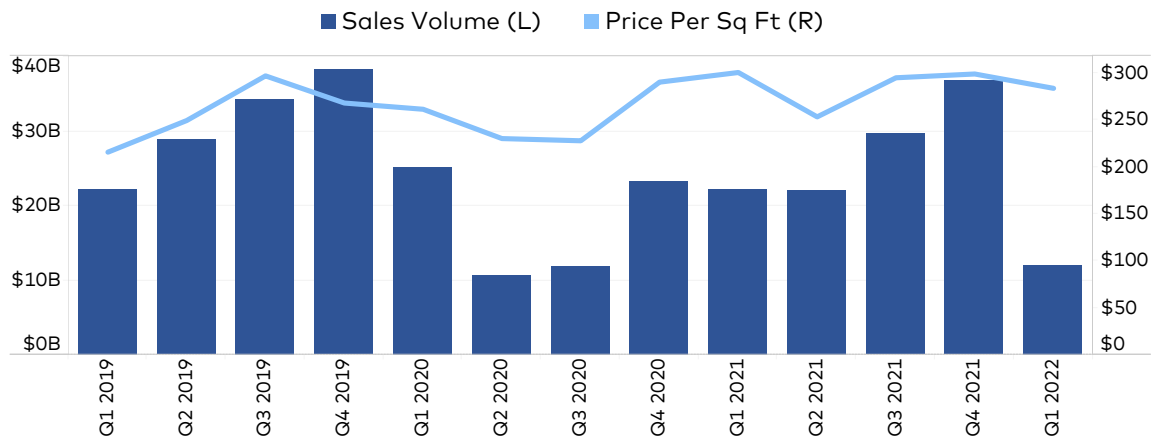
Source: Yardi Matrix; 12-month moving average. Does not include unpublished and portfolio transactions.

Sales Activity

Market	YTD Sales Price PSF	YTD Sales (Mil, as of 2/28)
National	\$284	\$11,962
Atlanta	\$423	\$983
Bay Area	\$591	\$918
Seattle	\$593	\$764
Los Angeles	\$420	\$659
New Jersey	\$395	\$626
Denver	\$350	\$598
San Diego	\$576	\$591
Houston	\$175	\$541
Washington DC	\$315	\$526
Boston	\$234	\$507
Nashville	\$310	\$387
Chicago	\$144	\$320
San Francisco	\$934	\$299
Phoenix	\$228	\$257
Orlando	\$228	\$202
Brooklyn	\$571	\$200
Twin Cities	\$164	\$200
Manhattan	\$1,885	\$197
Dallas	\$137	\$177
Miami	\$275	\$100
Portland	\$192	\$51
Austin	\$253	\$47
Charlotte	\$605	\$36
Tampa	\$223	\$20
Philadelphia	\$109	\$14

Source: Yardi Matrix. Data as of February 2022. Sales data for unpublished and portfolio transactions are estimated using sales comps.

Quarterly Transactions



Source: Yardi Matrix. Data as of February 2022

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.

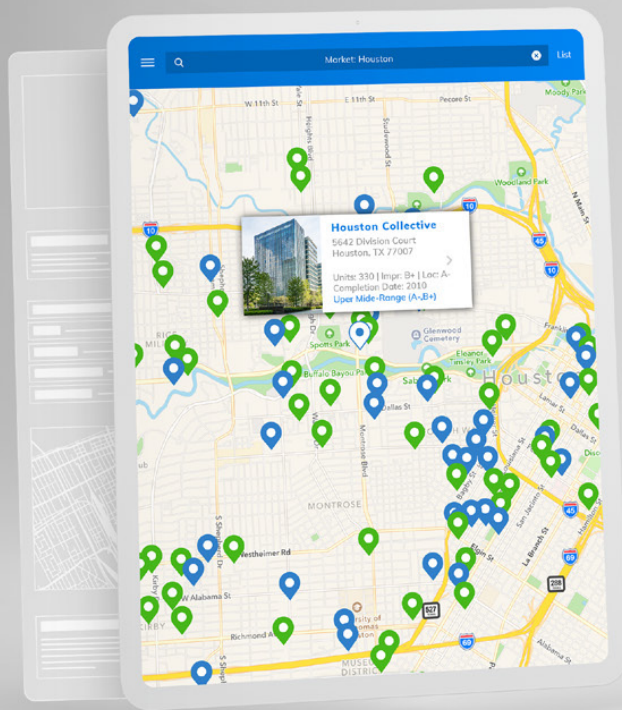
Office-Using Employment is defined by the Bureau of Labor Statistics as including the sectors Information, Financial Activities, and Professional and Business Services. Employment numbers are representative of the Metropolitan Statistical Area and do not necessarily align exactly with Yardi Matrix market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

Sales volume and price-per-square-foot calculations for portfolio transactions or those with unpublished dollar values are estimated using sales comps based on similar sales in the market and submarket, use type, location and asset ratings, sale date and property size.



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