



Yardi® Matrix

National Office Report

June 2022



Office Sector Faces Myriad Challenges

- More than two years after the start of the COVID-19 pandemic, the future of the office is still murky. While vaccines and treatments have moved the disease from pandemic to endemic, many workers and firms have become accustomed to remote and hybrid work setups. A Pew Research survey earlier this year revealed that 60% of office workers with jobs that can be done from home say that given a choice, they would work from home most or all of the time. Kastle Systems, an office security company that has published weekly data on office entry swipes of badges, has noted that occupancy rates have plateaued at 43% for nearly two months, suggesting that level may be the new normal.
- The ongoing nature of the disease as well as employee pushback against some corporate announcements has led to a year of stop-and-start return-to-office plans. Tech giants like Google, Amazon and Apple have announced and altered return-to-office policies multiple times over the past year but seem set to adopt permanent hybrid work strategies. Many other companies, aware of a historically tight labor market, are taking a similar tack and resisting issuing forceful demands when trying to bring workers back. Starbucks CEO Howard Schultz has publicly pleaded with his office workers to return to the office but has stopped short of mandating them to do so. Not all companies are using a light touch, however. In a much publicized recent email, Tesla CEO Elon Musk demanded that office staff return to the office or leave the company, and followed up with a tweet that said people who think the office is antiquated should “pretend to work somewhere else.”
- Beyond a preference for working from home, a new challenge in enticing workers back into the office has emerged: inflation. Inflation is at levels not seen in 40 years, and the national average price of a gallon of gas recently hit \$5 for the first time ever. Not only will getting to the office be more expensive than ever for workers but so will ancillary expenses such as coffee and lunch. Employees that are required to return to the office will need to feel like the time and money spent on a trip is worthwhile.
- While inflation is having a micro impact on employees' RTO decision, it is having a macro effect on the transaction market. In the near term, deal flow may increase as investors look to lock in today's interest rates due to strong indications that the Federal Reserve will raise rates multiple times in the next year. However, inflation and anticipated rate hikes represent another headwind in a market full of uncertainty, which could depress investor enthusiasm.



Listing Rates and Vacancy: Vacancies Fall in Select Markets

- The average full-service equivalent listing rate for office space was \$37.56 in May, down 2.1% year-over-year but up 19 cents from April.
- The national vacancy rate was 15.4%, unchanged from May last year but down 30 basis points (bps) from last month.
- Every market has had increasing vacancy rates since the start of the pandemic, but many have seen rates fall during the past year. Generally, markets with decreasing

vacancies over the past year fall into one of two buckets: The first is markets with a high concentration of life science jobs, such as Boston (down 210 bps year-over-year), the Bay Area (-210 bps), New Jersey (-120 bps) and San Diego (-60 bps). The second is Sun Belt markets with high levels of in-migration of both people and firms. Phoenix (-310 bps), Miami (-280 bps) and Austin (-90 bps) fit this profile. The falling vacancy rate in Austin is especially noteworthy because the market has increased stock by 3.4% over the period.

Listings by Metro

Market	May-22 Listing Rate	12-Month Change	Total Vacancy	12-Month Change	Top Listing	Price Per Square Foot
National	\$37.56	-2.1%	15.4%	0 bps		
Charlotte	\$33.08	14.3%	14.7%	210 bps	Rotunda Building, The	\$42.92
Boston	\$39.02	9.8%	9.7%	-210 bps	Kendall Square at MIT-314 Main Street	\$121.60
Miami	\$47.08	8.8%	13.1%	-280 bps	830 Brickell	\$150.00
Atlanta	\$29.50	6.2%	20.0%	20 bps	300 Colony Square	\$52.00
Phoenix	\$28.49	6.2%	13.9%	-310 bps	100 Mill	\$52.00
Orlando	\$23.11	4.5%	15.1%	0 bps	429 @ Crown Point-Building 529, The	\$35.00
San Diego	\$40.78	3.9%	12.5%	-60 bps	2100 Kettner	\$69.00
Houston	\$31.14	3.7%	24.6%	190 bps	Texas Tower	\$58.40
New Jersey	\$33.21	3.6%	18.0%	-120 bps	10 Exchange Place	\$55.30
Brooklyn	\$49.74	3.3%	17.3%	170 bps	One MetroTech Center	\$65.59
Austin	\$44.52	2.3%	15.6%	-90 bps	Indeed Tower	\$76.67
Dallas	\$29.17	2.2%	18.0%	20 bps	Harwood No.10	\$60.46
Bay Area	\$56.52	1.6%	15.3%	-210 bps	400 Hamilton Avenue	\$149.59
Denver	\$30.31	1.3%	17.3%	50 bps	1144 Fifteenth Street	\$54.66
Seattle	\$36.35	0.6%	15.6%	70 bps	City Center Bellevue	\$68.00
Los Angeles	\$41.66	0.2%	13.0%	20 bps	100 Wilshire	\$108.00
Chicago	\$27.33	-3.5%	19.5%	310 bps	300 North LaSalle Drive	\$59.46
Nashville	\$30.63	-3.6%	18.0%	-110 bps	Three Thirty Three	\$43.88
Philadelphia	\$28.68	-4.5%	12.6%	-90 bps	Two Liberty Place	\$53.50
Twin Cities	\$25.56	-4.5%	13.4%	-280 bps	Offices at MOA, The	\$40.00
Tampa	\$27.80	-4.5%	14.6%	-150 bps	Water Street Tampa-Thousand & One	\$58.00
Washington DC	\$39.94	-5.1%	14.8%	-140 bps	Liberty Place	\$82.51
Portland	\$27.61	-7.5%	11.9%	-350 bps	Fox Tower	\$43.38
San Francisco	\$62.57	-9.3%	17.2%	330 bps	Offices at Springline North, The	\$159.96
Manhattan	\$72.93	-12.3%	14.1%	330 bps	550 Madison Avenue	\$210.00

Source: Yardi Matrix. Data as of May 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: Nashville Adds New Product

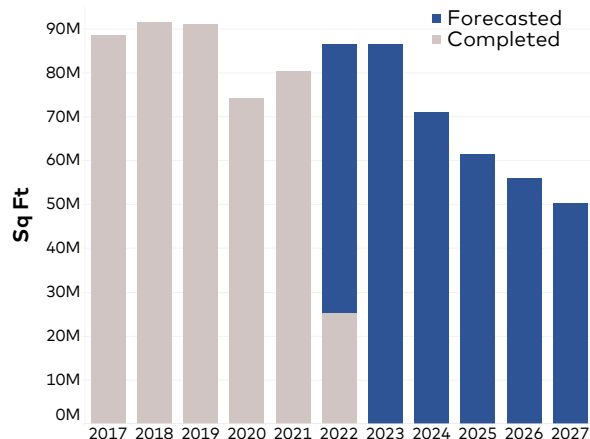
- Nationally, there are 151.2 million square feet of new office supply under construction. Of that, 20% is located in Central Business Districts (29.9 million square feet).
- Although the pandemic depressed demand for office space, pipelines in some markets have not slowed over the past two years. Sun Belt markets in particular have not seen developer enthusiasm slow despite the adoption of remote and hybrid work policies by many firms.
- Nashville is one such market, with 5.1 million square feet (8.8% of stock) currently under construction. Large pipelines in some markets can be explained by office towers that began development before the pandemic and have yet to deliver. That is not the case in Nashville, where more than 3.3 million square feet have been started since the beginning of 2021. The vast majority of new supply underway in Nashville is in the downtown submarket, which currently has more than 3.4 million square feet underway. The largest driver of demand for new office space in the submarket is Amazon, which has opened one tower at Nashville Yards, with another scheduled to deliver this year. The e-commerce giant has filled 3,000 of the 5,000 office jobs planned in the metro.

Supply Pipeline (by metro)

Market	Under Construction	Under Construction % Stock	Plus Planned % Stock
National	151,173,124	2.2%	6.1%
Austin	8,801,972	10.0%	25.9%
Nashville	5,090,121	8.8%	16.2%
Miami	5,630,894	7.4%	12.8%
Boston	12,312,162	5.0%	11.3%
Seattle	6,215,868	4.3%	10.9%
Manhattan	20,585,521	4.2%	5.8%
Portland	2,320,285	3.9%	7.3%
Bay Area	7,847,593	3.8%	14.1%
San Diego	3,521,771	3.7%	8.6%
Charlotte	2,727,828	3.6%	13.0%
San Francisco	5,303,500	3.3%	7.1%
Dallas	8,824,232	3.2%	8.0%
Brooklyn	1,185,028	2.8%	7.9%
Orlando	1,542,338	2.7%	8.2%
Tampa	1,480,000	2.2%	5.2%
Atlanta	3,961,224	2.0%	11.3%
Houston	4,293,113	1.8%	2.9%
Philadelphia	2,791,829	1.5%	5.2%
Phoenix	1,772,095	1.3%	8.7%
Denver	2,046,606	1.3%	3.5%
Washington DC	4,763,209	1.2%	3.8%
Los Angeles	3,022,479	1.0%	3.7%
Chicago	2,350,001	0.7%	6.0%
New Jersey	1,189,630	0.6%	2.1%
Twin Cities	112,650	0.1%	1.8%

Source: Yardi Matrix. Data as of May 2022

National New Supply Forecast

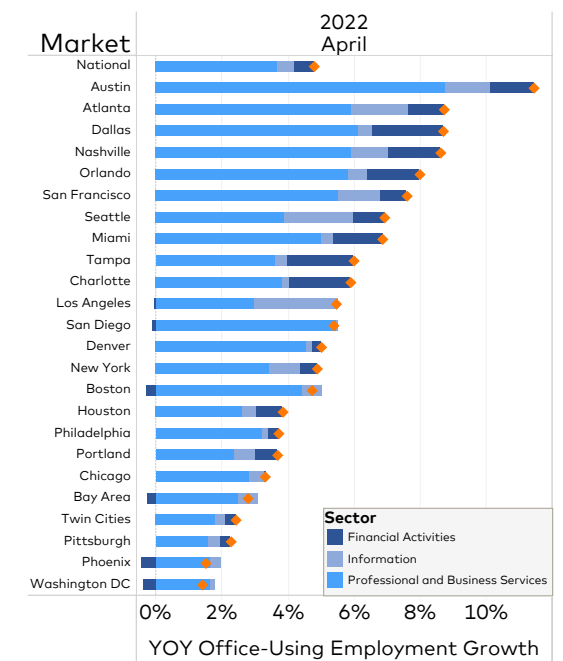


Source: Yardi Matrix. Data as of May 2022
Data in this chart includes owner-occupied properties

Office-Using Employment: Labor Market Tight, But Not Every City Sees Gains

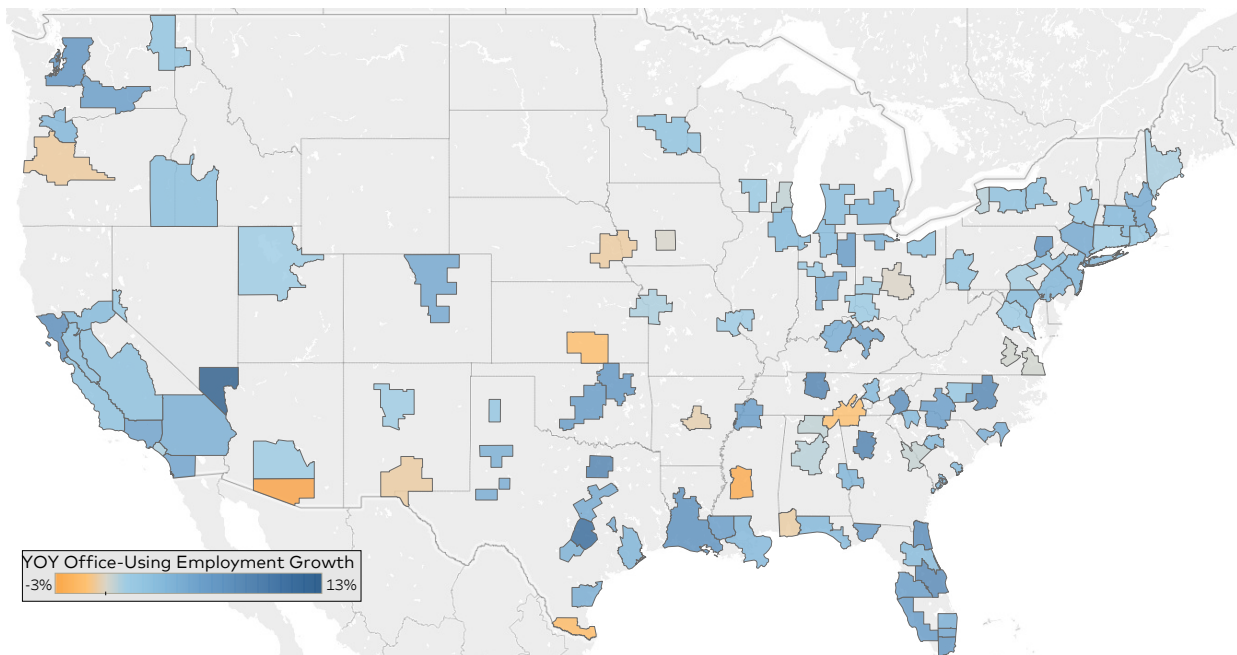
- Office-using sectors of the labor market gained 99,000 jobs in May, adding 532,000 jobs year-to-date. The labor market is historically tight, and office-using sectors of the economy are no exception. According to the Bureau of Labor Statistics' Job Openings and Labor Turnover Survey, there are more than 2.1 million job openings in the professional and business services sector alone, with an additional 534,000 openings in the finance sector and 244,000 in information.
- Despite a plethora of openings, metro employment for April—which trails the national release—continues to show office job growth diverging widely between markets. Forty-four of the 120 markets covered by Yardi Matrix still have lower levels of office-using employment than they did in February 2020. Millions of openings in these sectors during the same time that many markets struggle to make meaningful gains suggests that some—though not all—of the tightness can be explained by geographic mismatch between jobs and workers.

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

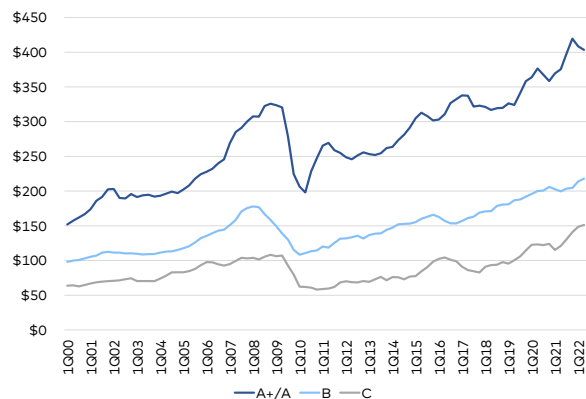
Transactions: Flight to Quality Drives Sales

- Nationally, Yardi Matrix has recorded \$35.3 billion of transactions so far this year.
- While transaction volume could slow in the next few quarters due to rising rates, capital continues to be available for the right properties. Madison Centre in Seattle—a 37-floor, LEED Gold-certified, A+ trophy tower in the CBD—was recently purchased by Boston Properties for \$730 million, or an average of \$968 per square foot. That was the largest sale of a multi-tenant building this year and signals Boston Properties' belief that tenants are engaged in a flight to quality.

Sales Activity

Market	YTD Sales Price PSF	YTD Sales (Mil, as of 5/31)
National	\$274	\$35,260
Seattle	\$659	\$2,170
Manhattan	\$967	\$2,146
Los Angeles	\$485	\$1,917
Boston	\$375	\$1,898
Dallas	\$180	\$1,805
Denver	\$353	\$1,779
New Jersey	\$290	\$1,562
Chicago	\$172	\$1,542
Houston	\$191	\$1,517
Bay Area	\$456	\$1,462
Washington DC	\$278	\$1,448
Phoenix	\$283	\$1,146
Atlanta	\$280	\$1,050
San Francisco	\$931	\$1,014
San Diego	\$473	\$931
Nashville	\$234	\$866
Charlotte	\$405	\$615
Philadelphia	\$279	\$610
Miami	\$325	\$490
Austin	\$287	\$417
Orlando	\$203	\$354
Brooklyn	\$537	\$337
Twin Cities	\$179	\$328
Tampa	\$218	\$228
Portland	\$194	\$83

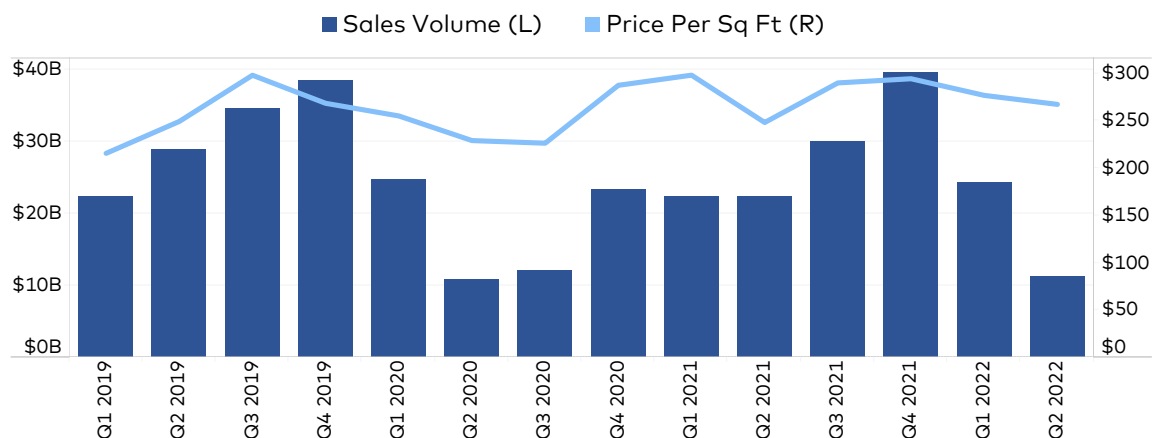
Asset Class (price per sq. ft.)



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

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

Quarterly Transactions



Source: Yardi Matrix. Data as of May 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.

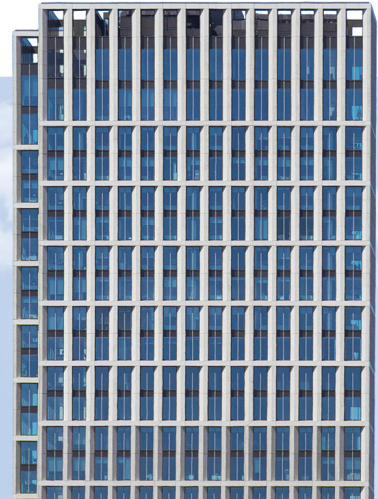
Office-Using Employment is defined by the Bureau of Labor Statistics as including the sectors Information, Financial Activities, and Professional and Business Services. Employment numbers are representative of the Metropolitan Statistical Area and do not necessarily align exactly with Yardi Matrix market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



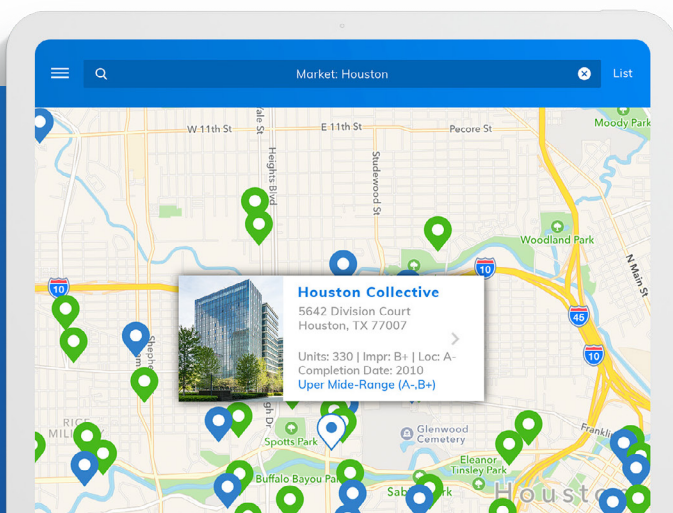
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OFFICE KEY FEATURES

- Active in 115 markets across the U.S. covering 70,000 properties
- Find acquisition prospects based on in-place loans, maturity dates, lenders and originators
- Pierce the LLC with true ownership and contact info at the asset and portfolio level
- Gain new supply pipeline information at the asset, competitive set and market level
- Benchmark performance to similar assets



Yardi Matrix Office delivers detailed property-level information, allowing you to analyze current market conditions at the micro and macro level.



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