Yardi Matrix

National Office Report

September 2023

Return-to-Office Push Not Over Yet

- While remote and hybrid work have become entrenched and office utilization remains at a fraction of prepandemic levels, the return-to-office push has continued in 2023. With the health crisis officially declared over in May and three years of experience with remote work, many large firms are mandating employees return to the office this year.

- After saying last year that the company had no plans to mandate employees returning to the office, Amazon CEO Andy Jassy reversed course in May, announcing an in-office policy of three days a week. Black Rock and Disney are mandating four days a week in office. Google, which announced a three-days-per-week policy last year, told employees that attendance will be a metric in performance reviews. Meta is beginning to mandate three days a week in the office this month and is no longer mentioning hybrid work in job listings. One of the most impactful return-to-office mandates could soon arrive from the federal government. The White House is pushing to bring government workers back into the office this fall, with Chief of Staff Jeff Zients writing to cabinet officials that "this is a priority of the President—and I am looking to each of you to aggressively execute this shift in September and October." Any federal government return-to-office mandate has the potential to boost the Washington, D.C., market, which consistently sees below-average office utilization in Kastle's Back to Work Barometer.

- Office workers remain resistant to returning to the office for a variety of reasons, but commute times are perhaps the biggest drawback. Many people are simply unwilling to give up that extra time they have become accustomed to each day. A higher unemployment rate would potentially give firms leverage in return-to-office conversations, but ultimately remote work is here to stay.

- Open-office floor plans that dominated the pre-COVID workplace landscape are out of line with the current needs of office workers and are particularly ill suited for Zoom meetings, which are not going away. Organizations will need to adapt workspaces to the post-pandemic world if they want to entice workers to go in. Amenities may help, but designing workspaces to be a place where people feel they can be productive will be equally important. Since teams concentrate meetings on in-office days, a variety of different-size meeting rooms will be necessary. Offices will also need an increased amount of enclosed rooms for focus time or privacy for video calls.

Listing Rates and Vacancy: Manhattan Struggles but Leases Provide Hope

- The national average full-service equivalent listing rate in August was $37.83, according to Yardi Matrix, a decrease of 2.2% over the year and six cents over the month.

- The national vacancy rate in August was 17.5%, an increase of 260 basis points year-over-year.

- The Manhattan outlook remains gloomy, with the vacancy rate increasing 330 basis points in the last year and more than doubling since the onset of the pandemic. Recent newsworthy renewals and lease signings have provided slivers of hope for the beleaguered market. Davis Polk signed a 700,000-square-foot, 25-year lease extension at 450 Lexington Ave., including an additional 30,000 square feet of space. Amazon renewed a 210,000-square-foot lease at 1440 Broadway and signed a new one for 90,000 square feet at 75 Rockefeller Plaza. While tech firms Meta and Spotify have reduced space, Datadog and Indeed have expanded.

Listings by Metro

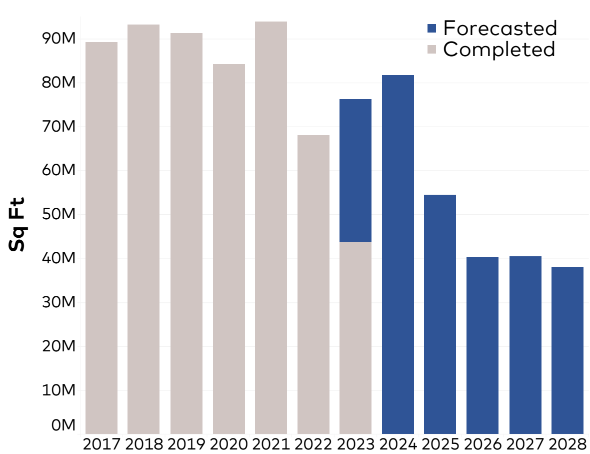
Market	Aug-23 Listing Rate	12-Month Change	Total Vacancy	12-Month Change	Top Listing	Price Per Square Foot
National	$37.83	-2.2%	17.5%	260 bps		
Boston	$46.13	13.7%	10.6%	260 bps	Kendall Center–255 Main Street	$126.34
Twin Cities	$26.62	4.7%	15.9%	380 bps	Tractor Works Building, The	$40.71
Bay Area	$55.91	4.1%	19.2%	380 bps	325 Lytton Avenue	$159.00
New Jersey	$34.36	3.5%	17.1%	70 bps	10 Exchange Place	$55.30
Orlando	$24.31	3.3%	16.6%	150 bps	Heritage Park	$42.00
Chicago	$28.18	3.1%	17.8%	-40 bps	300 North LaSalle Drive	$59.46
Atlanta	$31.01	2.9%	18.7%	-70 bps	300 Colony Square	$52.00
Houston	$30.57	2.7%	25.3%	130 bps	Texas Tower	$60.90
Seattle	$37.96	2.6%	22.0%	590 bps	1208 Eastlake Avenue East	$94.00
Austin	$42.85	2.0%	21.2%	450 bps	Indeed Tower	$82.77
Phoenix	$27.81	1.9%	18.8%	480 bps	Camelback Collective	$55.00
Denver	$30.73	1.8%	20.8%	380 bps	1144 Fifteenth Street	$63.50
Philadelphia	$30.76	0.6%	14.2%	130 bps	Two Liberty Place	$53.50
San Diego	$43.85	0.5%	16.0%	320 bps	One La Jolla Center	$70.20
Washington DC	$40.38	-0.3%	15.3%	120 bps	455 Massachusetts Ave NW	$76.00
Tampa	$28.13	-0.8%	14.4%	-100 bps	Water Street Tampa–Thousand & One	$61.50
San Francisco	$65.45	-1.6%	23.2%	510 bps	Sand Hill Collection–The Quad	$195.60
Manhattan	$69.58	-1.9%	17.3%	330 bps	550 Madison Avenue	$210.00
Nashville	$29.95	-2.9%	16.2%	-260 bps	Three Thirty Three	$44.38
Los Angeles	$42.00	-3.0%	15.7%	310 bps	2000 Avenue of the Stars	$118.20
Charlotte	$32.57	-3.3%	15.5%	230 bps	Rotunda Building, The	$44.42
Miami	$46.14	-3.5%	11.6%	0 bps	830 Brickell	$137.50
Dallas	$27.39	-5.6%	18.5%	80 bps	17Seventeen McKinney	$67.42
Portland	$28.07	-6.3%	15.9%	290 bps	12th & Morrison	$47.01
Brooklyn	$45.97	-6.8%	16.4%	-10 bps	200 Kent Avenue	$75.00

Source: Yardi Matrix. Data as of August 2023. 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:
Seattle Pipeline Remains Large

- Nationally, 108.4 million square feet of office space are currently under construction.
- The pipeline can represent past years' trends more than current demand. Roughly 40% of stock under construction today was started in 2020 or 2021, likely with planning phases that predated the pandemic.
- Seattle's new development pipeline reflects this trend, with 7.2 million square feet (5.2% of stock) under construction but only 266,000 square feet of starts in 2023. The market's standing as a tech hub, once a boon to the office sector, now provides numerous challenges. Not only has the tech sector been the most receptive to remote and hybrid work but the slowdown that began in the sector at the end of last year hit Seattle as hard as anywhere. Amazon, Microsoft and Zillow are just a few of the firms headquartered in the market that have announced major layoffs in the last 12 months. Despite layoffs, the market may benefit from Amazon's return-to-office push, evidenced by the company's commitment to occupy space at two downtown Bellevue properties, 555 Tower and West Main.

National New Supply Forecast



Source: Yardi Matrix. Data as of August 2023
Data in this chart includes owner-occupied properties

Supply Pipeline (by metro)

Market	Under Construction	Under Construction % Stock	Plus Planned % Stock
National	108,410,876	1.6%	5.3%
Boston	13,967,014	5.7%	11.3%
Seattle	7,165,613	5.2%	13.1%
San Francisco	6,741,332	4.3%	13.9%
Manhattan	6,526,789	1.4%	2.5%
Austin	6,063,723	6.7%	25.7%
San Diego	5,160,239	5.5%	9.4%
Washington DC	4,268,233	1.1%	3.4%
Dallas	4,037,460	1.5%	10.1%
Bay Area	3,860,326	1.9%	9.5%
Atlanta	3,318,355	1.7%	4.5%
Charlotte	3,040,880	3.9%	9.2%
Nashville	2,996,972	5.2%	14.9%
Philadelphia	2,995,544	1.7%	5.1%
Houston	2,852,289	1.2%	3.1%
Denver	2,727,883	1.7%	5.6%
Chicago	2,404,355	0.8%	4.3%
Miami	2,277,668	3.2%	10.8%
Los Angeles	2,247,398	0.8%	3.2%
New Jersey	1,818,898	0.9%	2.4%
Orlando	1,298,292	1.9%	6.4%
Brooklyn	1,162,428	3.2%	5.2%
Phoenix	880,368	0.6%	5.1%
Portland	554,164	1.0%	5.7%
Twin Cities	546,369	0.5%	2.3%
Tampa	445,154	0.6%	3.8%

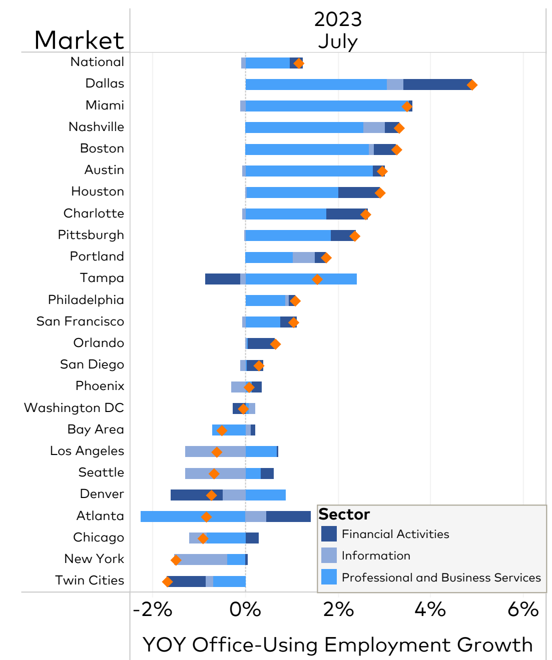
Source: Yardi Matrix. Data as of August 2023. Table does not include owner-occupied properties.

Office-Using Employment: Robust Growth in Dallas

- Office-using sectors of the labor market added 8,000 jobs in the month of August, the first month since April that the three sectors combined added workers.

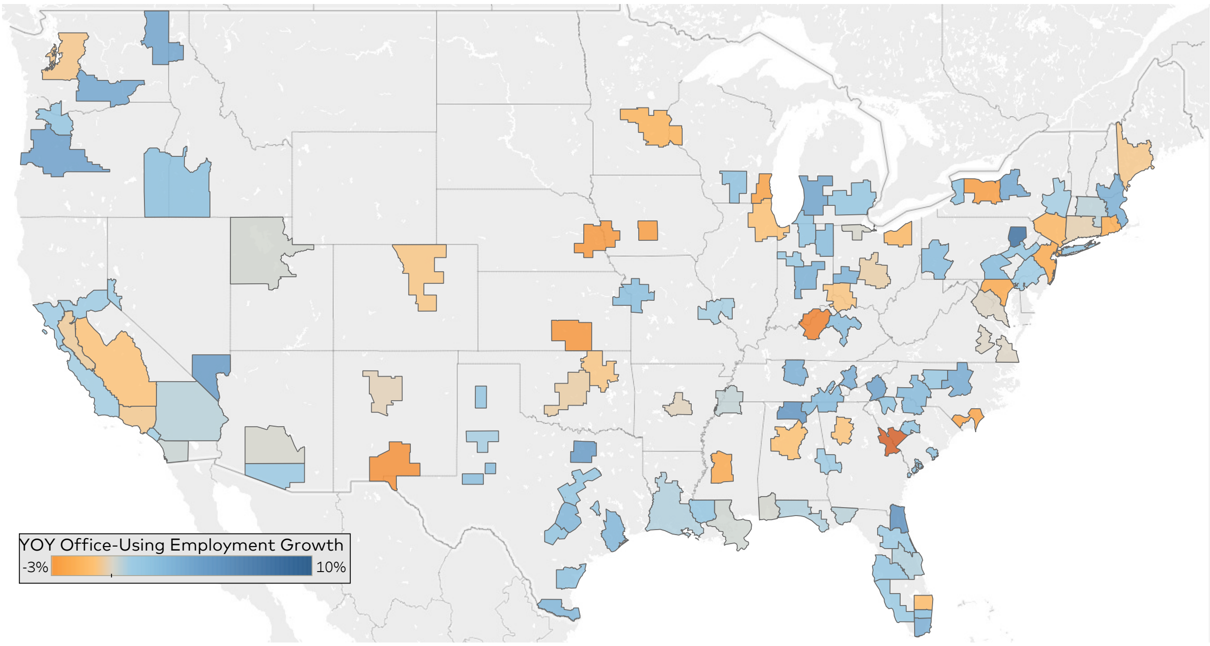
- Dallas has led the nation in office-using employment growth for most of 2023. Dallas has been no lower than third among top markets covered by Yardi Matrix for year-over-year growth every month and has lapped the field in absolute job gains. July data, which trails the national release, showed office-using sectors in Dallas growing 4.9% year-over-year, according to the Bureau of Labor Statistics. Moreover, Dallas has added nearly 60,000 office jobs in the last 12 months, double the amount added in second-place Boston (29,400), and has accounted for 15% of all office jobs added during that timeframe nationwide. While most of the growth has been in the professional and business service sector (37,600 jobs added in the last 12 months), financial activities (18,100) and information (4,200) have seen solid gains, as well.

Growth by Sector



Sources: Bureau of Labor Statistics and Moody's Analytics

Office-Using Employment Growth



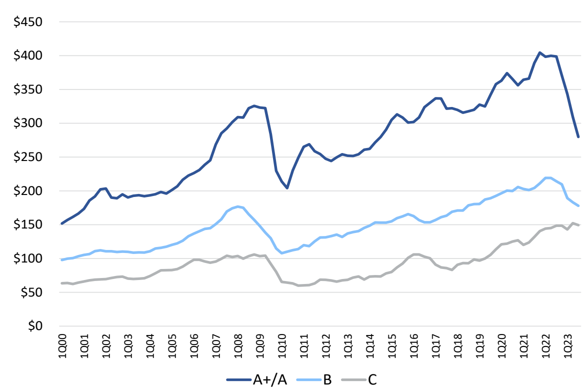
Sources: Bureau of Labor Statistics and Moody's Analytics

Transactions:
Prices Fall for Top Properties

- Yardi Matrix recorded $20.5 billion in office sales through the end of August, with properties trading at an average of $193 per square foot.

- Sale prices have fallen precipitously for the highest-quality properties. Buildings rated as either A+ or A traded for $361 per square foot in 2022 but only $233 per foot this year, a decrease of 35%. This decline is sharper than even the drop in prices for A+/A buildings that was seen between 2008 and 2009. By comparison, the average sale price of a Class B property has fallen just 9% this year.

Asset Class (price per sq. ft.)



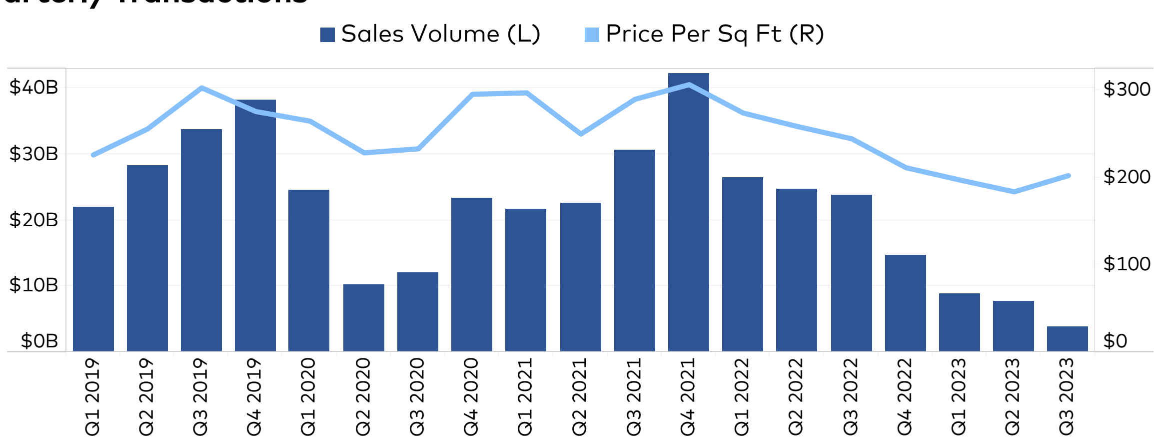
Source: Yardi Matrix; 12-month moving average.
Does not include unpublished and portfolio transactions.

Sales Activity

Market	YTD Sales Price PSF	YTD Sales (Mil, as of 8/31)
National	$193	$20,482
Atlanta	$163	$311
Austin	$379	$527
Bay Area	$356	$682
Boston	$323	$1,300
Charlotte	$161	$179
Chicago	$106	$686
Dallas	$209	$505
Denver	$229	$703
Houston	$123	$865
Los Angeles	$231	$1,208
Manhattan	$586	$1,596
Miami	$251	$408
Minneapolis	$223	$430
Nashville	$248	$161
New Jersey	$148	$1,015
Orlando	$146	$80
Philadelphia	$179	$565
Phoenix	$227	$770
Portland	$184	$107
San Diego	$408	$525
San Francisco	$373	$505
Seattle	$278	$93
Tampa	$164	$536
Washington, D.C.	$206	$940
Brooklyn	N/A	N/A

Source: Yardi Matrix. Data as of August 2023. Sales data for unpublished and portfolio transactions is estimated using sales comps.

Quarterly Transactions



Source: Yardi Matrix. Data as of August 2023

Definitions

This report covers office buildings 25,000 square feet and above. Yardi Matrix subscribers have access to more than 14,000,000 property records and 300,000 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.

Supply pipeline figures do not include owner-occupied properties unless otherwise noted.

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.

Yardi Matrix

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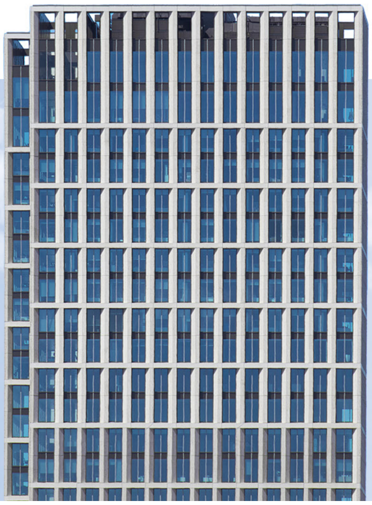
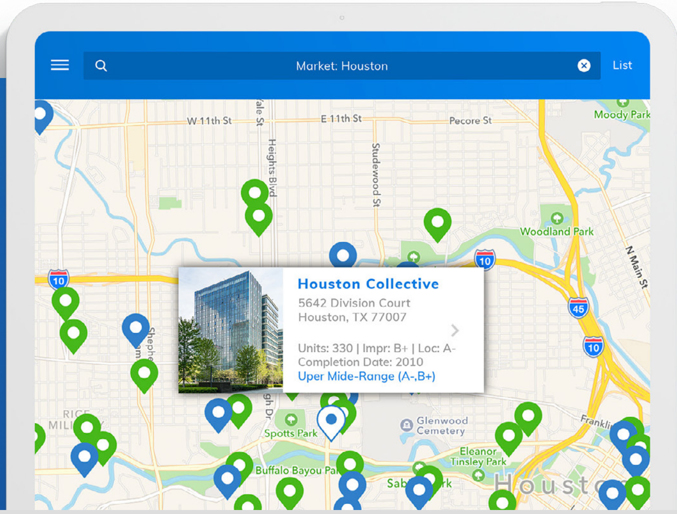


OFFICE KEY FEATURES

- Active in 118 markets across the U.S. covering over 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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