



Yardi® Matrix

National Office Report

November 2023



Conversions Continue to Face Uphill Battle

- The potential for vacant office stock to become new housing has been a hot topic since early in the pandemic, when it first became clear that the relationship between the office and the worker would be forever altered. While conversions are now occurring in nearly every market, there is still a long way to go before they make a significant impact in the broader office and housing markets.
- These days, you don't need to look far to find an office being converted into housing. In Manhattan, the famed Flatiron building, which has been vacant since before the pandemic, will be converted into 40 luxury condos. Other major metros like Boston, Dallas, Washington, D.C., and Los Angeles have seen high levels of conversion activity, but conversions are underway in smaller metros, as well. In Charlotte, Duke Energy sold an 800,000-square-foot tower to MRP Realty, which will convert it into 450 apartments. In Milwaukee, developers purchased the struggling 100 East, a 35-story tower in downtown, with plans to convert it into 350 apartments.
- Many of the problems that have so far forestalled conversions remain prevalent. The large floor plates found in office towers present logistical challenges. The submarkets with the highest office vacancies are typically in CBDs, which lack access to necessities like grocery stores. Even a building perfectly suited for a conversion requires significant capital, meaning that interest rate increases and tight capital markets further limit the pool of opportunities. Unless the office sector sees unprecedented loss of value, conversions will require public support to thrive. The public sector can provide financing and incentives to help projects pencil out, and can also work with developers to smooth out issues like zoning and landmark preservation, a challenge for older properties such as the Flatiron Building.
- The White House made headlines recently by announcing a plan to help spur office conversions. While it is encouraging to see the highest levels of the federal government acknowledge the hurdles these projects face, the plan still comes up short on game-changing support from the public sector. The plan makes financing and other assistance available through a variety of sources—20 different programs across six agencies—but comes with no net new funding. There is potential for some programs to make a significant impact, like those offered by the Department of Transportation focused on transit-oriented development, but for now it is unclear how much impact the plan will have. Yardi Matrix will monitor the effect the plan has on conversions going forward.



Listing Rates and Vacancy: Charlotte Vacancies Rise

- The national average full-service equivalent listing rate in October was \$37.77, according to Yardi Matrix, a decrease of 0.4% over the year and down one cent over the previous month.
- The national vacancy rate was 17.8%, an increase of 150 basis points year-over-year.
- Despite an influx of both people and corporations in recent years, Charlotte's office market has struggled like many others. Over

the last 12 months, the full-service equivalent listing rate has fallen 6.7%, while the market's vacancy rate has increased 320 basis points. Even the market's standing as a financial center can't mitigate the damage. Wells Fargo is set to leave the eponymous One Wells Fargo and Two Wells Fargo buildings and consolidate its footprint into the aptly named Three Wells Fargo. One Wells Fargo went into receivership last month amid struggles to fill the tower following the financial firm's exit.

Listings by Metro

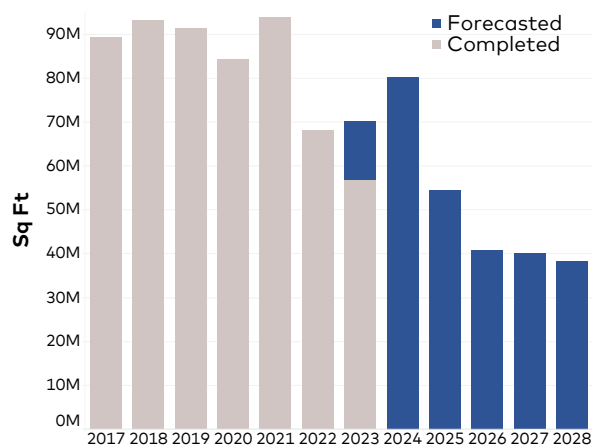
Market	Oct-23 Listing Rate	12-Month Change	Total Vacancy	12-Month Change	Top Listing	Price Per Square Foot
National	\$37.77	-0.4%	17.8%	150 bps		
Boston	\$45.61	13.4%	10.3%	130 bps	Kendall Center-255 Main Street	\$126.34
New Jersey	\$34.60	4.4%	17.5%	10 bps	10 Exchange Place	\$55.30
Twin Cities	\$26.71	4.2%	17.2%	410 bps	Tractor Works Building, The	\$40.71
Atlanta	\$31.20	3.8%	17.0%	-400 bps	300 Colony Square	\$52.00
Philadelphia	\$31.77	3.3%	13.8%	-40 bps	Two Liberty Place	\$53.50
Houston	\$30.69	3.1%	25.0%	-20 bps	Texas Tower	\$60.90
Denver	\$30.70	2.3%	21.9%	350 bps	1144 Fifteenth Street	\$63.50
Chicago	\$27.84	1.0%	17.2%	-250 bps	CME Center	\$50.30
Seattle	\$37.55	1.0%	21.8%	400 bps	1208 Eastlake Avenue East	\$94.00
Phoenix	\$27.68	0.9%	17.8%	250 bps	Camelback Collective	\$55.00
Detroit	\$21.50	0.5%	27.8%	690 bps	One Campus Martius	\$39.13
Austin	\$41.88	0.3%	20.5%	230 bps	Indeed Tower	\$83.77
Orlando	\$23.65	-0.1%	16.5%	-30 bps	Heritage Park	\$42.00
Tampa	\$28.27	-0.4%	14.2%	-300 bps	Water Street Tampa-Thousand & One	\$61.50
Washington DC	\$40.65	-1.8%	15.7%	140 bps	455 Massachusetts Ave NW	\$76.00
Los Angeles	\$41.84	-2.0%	16.0%	130 bps	2000 Avenue of the Stars	\$118.20
Nashville	\$30.29	-2.1%	16.1%	-260 bps	Three Thirty Three	\$44.38
Bay Area	\$54.01	-2.9%	18.9%	290 bps	325 Lytton Avenue	\$159.00
San Diego	\$42.47	-3.3%	18.2%	360 bps	One La Jolla Center	\$70.20
Dallas	\$27.57	-3.7%	19.5%	100 bps	17Seventeen McKinney	\$67.42
Manhattan	\$70.71	-5.4%	17.4%	280 bps	550 Madison Avenue	\$210.00
San Francisco	\$63.08	-5.5%	22.6%	310 bps	Sand Hill Collection-The Quad	\$195.60
Charlotte	\$31.80	-6.7%	15.7%	320 bps	Rotunda Building, The	\$46.42
Portland	\$27.62	-7.7%	16.4%	-110 bps	12th & Morrison	\$47.01
Miami	\$44.83	-8.0%	14.5%	180 bps	830 Brickell	\$180.00

Source: Yardi Matrix. Data as of October 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: Office Projects Canceled or Paused in 2023

- Nationally, 98.7 million square feet of space are under construction, representing 1.5% of stock, according to Yardi Matrix.
- Office demand has continued its sharp decline in 2023, and as a result new development has slowed. Just 30.8 million square feet of new office space have started construction in 2023, putting the year on track to end with slightly more than half of the amount of starts seen in each of the two previous years.
- Office projects are now being delayed or canceled, with the Bay Area seeing the most recent halting of development. Google and Lendlease agreed to cancel the \$15 billion development of four master-planned districts in Mountain View. This is not the only high-profile cancellation announced this year. Related Cos. changed its plans for an office tower along the shore of Lady Bird Lake in Austin to instead be developed as housing. Vornado paused plans to build additional office towers around Penn Station, and New York Gov. Kathy Hochul decoupled the train station's rebuild from the plan to develop those buildings.

National New Supply Forecast



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

Supply Pipeline (by metro)

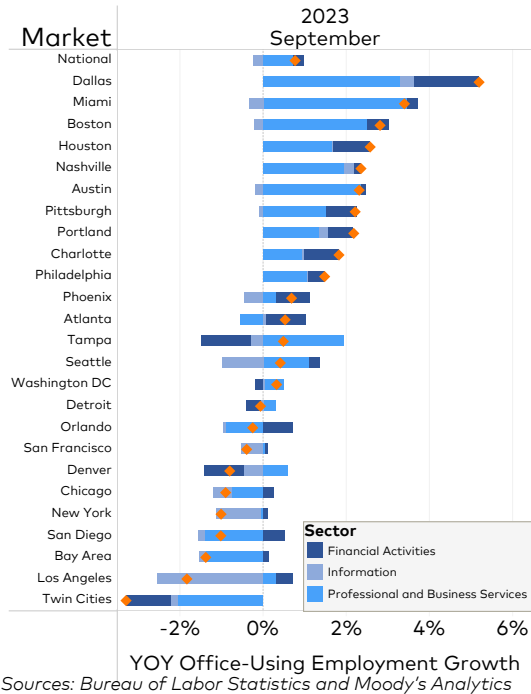
Market	Under Construction	Under Construction % Stock	Plus Planned % Stock
National	98,705,309	1.5%	4.8%
Boston	13,726,937	5.5%	10.8%
Seattle	6,580,613	4.7%	13.0%
San Francisco	6,043,889	3.8%	12.1%
Austin	5,737,323	6.2%	25.0%
San Diego	5,159,858	5.4%	9.8%
Manhattan	4,946,070	1.1%	2.4%
Washington DC	3,948,012	1.0%	3.3%
Bay Area	3,906,971	1.9%	8.7%
Philadelphia	3,319,934	1.8%	4.9%
Nashville	3,064,887	5.3%	13.4%
Dallas	3,006,058	1.1%	8.7%
Charlotte	2,946,102	3.7%	9.5%
Atlanta	2,799,341	1.4%	3.6%
Miami	2,751,716	3.8%	12.6%
Houston	2,678,380	1.1%	2.4%
Denver	2,492,680	1.5%	6.0%
Los Angeles	2,161,975	0.8%	3.4%
New Jersey	1,695,898	0.9%	2.4%
Chicago	1,429,463	0.5%	3.3%
Orlando	906,748	1.3%	4.6%
Portland	554,164	1.0%	2.6%
Twin Cities	537,444	0.4%	2.9%
Detroit	524,000	0.4%	1.0%
Phoenix	503,721	0.3%	3.2%
Tampa	421,154	0.5%	3.8%

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

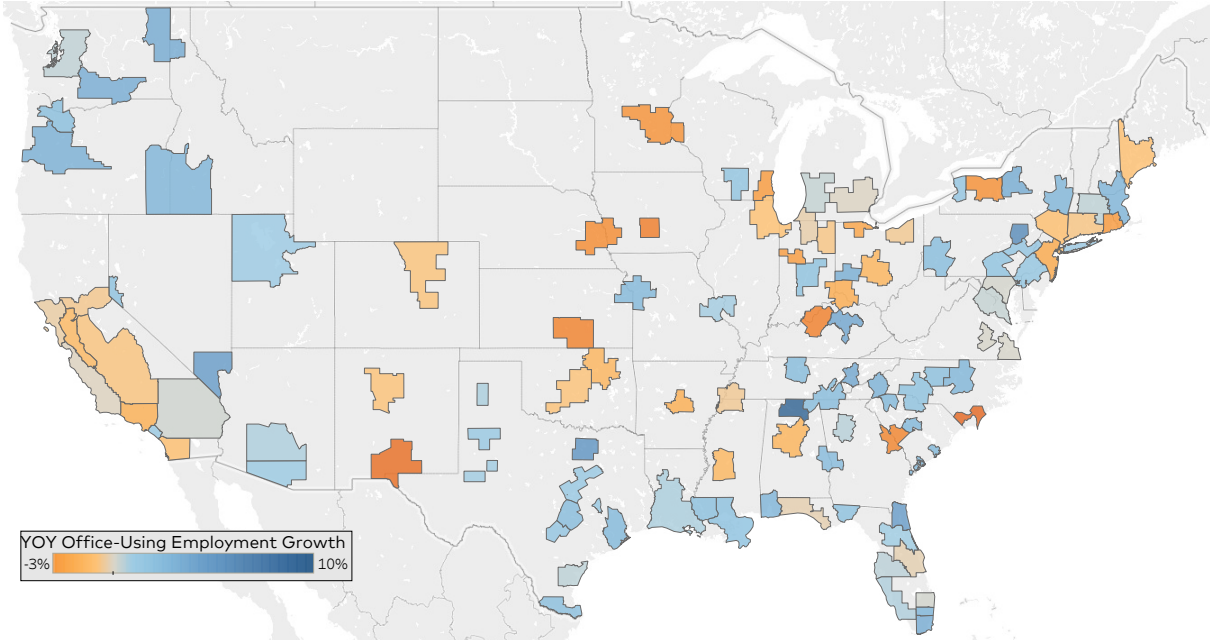
Office-Using Jobs: San Francisco Employment Slips

- Office-using sectors of the labor market added 4,000 jobs in the month of October, according to the Bureau of Labor Statistics, increasing 0.6% year-over-year. The professional and business services sector added 15,000 jobs in the month, while information lost 9,000 and financial activities lost 2,000.
- Metro-level data, which trails the national release, shows more than a third of the markets covered by Yardi Matrix losing office jobs over the past year. San Francisco has decreased 0.4% year-over-year, with tech layoffs driving most of the losses. Google, Meta, Salesforce, Cisco, Uber and Twitter all laid off thousands of workers in the past year, with many of those jobs concentrated in San Francisco and the nearby Bay Area. While reporting suggests that artificial intelligence is breathing life back into San Francisco's beleaguered office market, employment gains have yet to show up in numbers from the BLS. In September, the information sector had its lowest levels of employment so far this year.

Growth by Sector



Office-Using Employment Growth



Sources: Bureau of Labor Statistics and Moody's Analytics

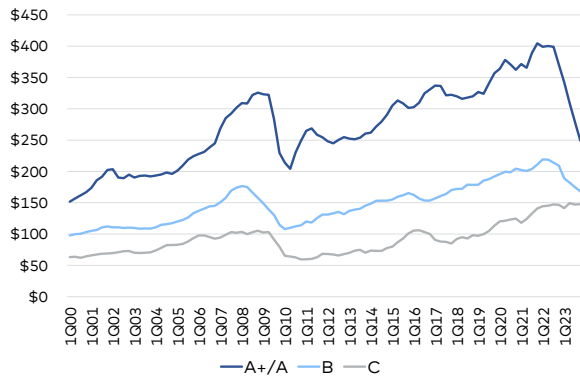
Transactions: Life Science Sales Drive Boston

- Yardi Matrix recorded \$27.9 billion of office sales through the end of October, with properties trading at an average of \$196 per square foot.
- Investment in office has fallen in 2023, but the appetite for lab space remains. In Boston, the nation's life science capital, much of the sales volume this year has been lab space. The market's biggest purchase this year was CS Capital Management's acquisition of the CenterPoint life science campus in Waltham, Mass., for \$578 million, an average of \$1,000 per square foot for the three buildings.

Sales Activity

Market	YTD Sales Price PSF	YTD Sales (Mil, as of 10/31)
National	\$196	\$27,898
Los Angeles	\$274	\$1,867
Dallas-Fort Worth	\$230	\$1,782
Manhattan	\$580	\$1,710
Boston	\$313	\$1,480
Washington, D.C.	\$217	\$1,428
New Jersey	\$150	\$1,186
Houston	\$130	\$1,171
Bay Area	\$343	\$1,016
Miami	\$356	\$954
Austin	\$413	\$938
Phoenix	\$205	\$923
Denver	\$252	\$869
Chicago	\$95	\$858
San Francisco	\$336	\$643
Tampa	\$156	\$593
Minneapolis	\$215	\$556
San Diego	\$407	\$535
Philadelphia	\$146	\$472
Atlanta	\$168	\$465
Detroit	\$135	\$283
Seattle	\$274	\$188
Charlotte	\$156	\$184
Portland	\$194	\$182
Nashville	\$248	\$161
Orlando	\$166	\$124

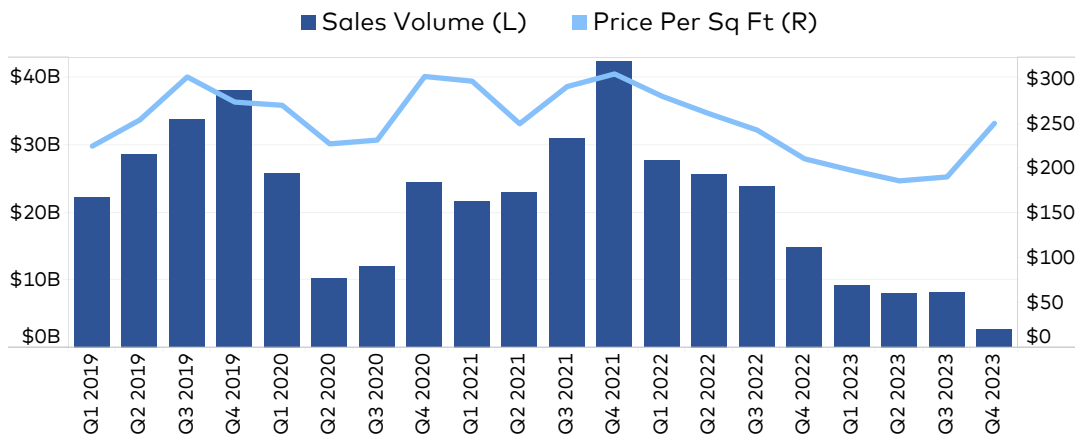
Asset Class (price per sq. ft.)



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

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

Quarterly Transactions



Source: Yardi Matrix. Data as of October 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.

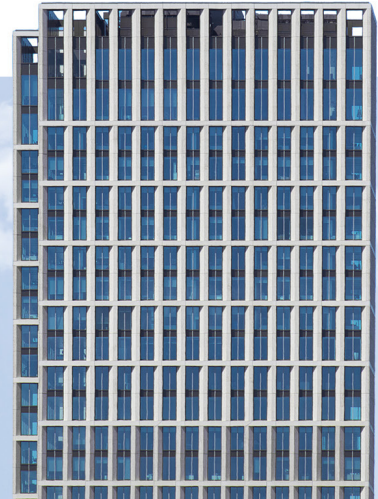
Office-Using Employment is defined by the Bureau of Labor Statistics as including the sectors Information, Financial Activities, and Professional and Business Services. Employment numbers are representative of the Metropolitan Statistical Area and do not necessarily align exactly with Yardi Matrix market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



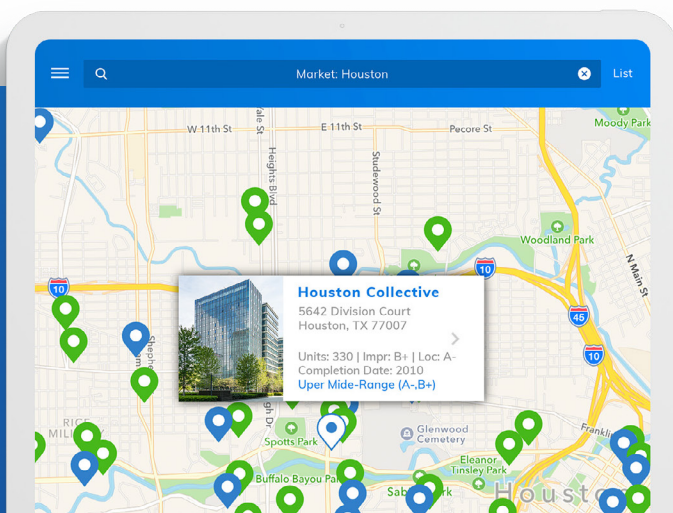
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OFFICE KEY FEATURES

- 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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