Yardi® Matrix

National Office Report

July 2024

Loans Mature Into Rocky Environment

- Office utilization has plateaued, values have fallen, and interest rates remain elevated for new loans and refinancing. Office defaults and delinquencies are rising in 2024, and hundreds of billions in office loans are set to mature over the next few years.

- More than $260 billion of office loans have matured recently or will mature before the end of 2026, according to an analysis of Yardi Matrix data. This accounts for 30% of all office loans and more than 12,000 properties. However, the risk that maturing office loans pose is not distributed equally across markets. Among top markets, Atlanta has the highest concentration, with 48.3% of office loan volume having matured recently or maturing through the end of 2026. That's followed by Denver (41.8%), Nashville (41.7%), Chicago (40.7%) and the Twin Cities (39.2%) as the only top markets that cross a 35% threshold.

- Maturing loans are concentrated in top-rated properties and city centers. While a flight to quality among tenants has been a boon to a smattering of trophy buildings, most continue to struggle. A whopping $164.5 billion in maturing office loans (62.6%) are in urban submarkets, and $187.7 billion (71.4%) are Class A buildings.

- The billions in maturities on the horizon form a precarious path forward for offices, and delinquencies are already rising in the sector. According to Trepp, $1.87 billion of office loans were newly delinquent in June, raising the delinquency rate for the sector to 7.5%. This is up from 4.5% last June and 5.8% at the end of 2023. Lenders and investors have so far been mostly accommodative of owners that are facing large blocks of vacant space. However, the practice of extend and pretend can only continue for so long, and losses for lenders are inevitable.

- Discount purchases have been increasing in 2024, and we expect the frequency of such sales will only continue to rise in coming quarters. However, because most lenders are looking to decrease their exposure to office and debt costs remain elevated, we expect the amount of all-cash sales to increase, as well. Bargain shoppers will be able to bounce, quickly provided that they can offer cash up front, but owners with a strong track record and solid lender relationships will also be able to obtain financing for discounted properties.

Listing Rates and Vacancy: Updating National Rents Calculation

- The national average full-service equivalent listing rate was $31.67 per square foot in June, according to Yardi Matrix, unchanged year-over-year.
- The national vacancy rate was 18.1%, an increase of 100 basis points year-over-year.
- This month, Yardi Matrix is changing the way it reports the national average full-service equivalent listing rate. Previously, only the top 50 markets were included in the national calculation, but starting with this report, all 120 markets will be used. National figures in this and future reports will not be comparable to figures in reports from June 2024 and earlier.
- This change was made to provide a more complete picture of the national office market. Using only the top 50 markets caused the national rate to skew higher than an average that included all markets, because the largest markets also have the highest full-service listing rates.

Listings by Metro

Market	Jun-24 Listing Rates	12 Month Change	Total Vacancy	12 Month Change	Top Listing	Price Per Sq Ft
National	$31.67	0.0%	18.1%	100 bps		
Boston	$47.60	7.4%	12.8%	220 bps	Alexandria Center at Kendall Square–75 Binney	$76.58
Dallas	$28.99	6.7%	21.8%	430 bps	McKinney & Olive	$86.31
Miami	$49.79	6.1%	12.0%	-70 bps	701 Brickell	$140.00
Atlanta	$32.02	4.4%	18.4%	-100 bps	1180 Peachtree	$62.50
Tampa	$29.23	3.1%	13.3%	-150 bps	Central, The	$60.00
Detroit	$22.00	2.2%	19.2%	-550 bps	Orchestra Place	$36.14
Philadelphia	$31.56	2.1%	15.3%	230 bps	Two Liberty Place	$53.50
Chicago	$27.81	1.5%	19.1%	20 bps	Innovation and Research Park	$75.00
Manhattan	$71.34	1.1%	16.6%	-60 bps	One Vanderbilt	$252.00
New Jersey	$34.80	0.8%	17.0%	-40 bps	Harborside Financial Plaza 10	$53.22
Austin	$42.52	0.7%	22.9%	310 bps	Indeed Tower	$84.21
Denver	$30.62	0.0%	22.1%	170 bps	200 Clayton Street	$73.00
Orlando	$24.47	-0.1%	15.6%	-30 bps	Wells Fargo Tower	$31.00
Phoenix	$27.68	-0.2%	18.3%	-60 bps	Camelback Collective	$52.50
Bay Area	$53.28	-0.6%	20.8%	260 bps	245 Lytton Avenue	$147.48
Nashville	$30.01	-0.8%	16.0%	-150 bps	Three Thirty Three	$44.88
Charlotte	$30.39	-1.0%	14.9%	300 bps	Morehead Place	$46.00
Washington DC	$39.78	-1.9%	16.2%	160 bps	500 8th Street NW	$79.58
Houston	$29.68	-2.3%	23.8%	40 bps	Texas Tower	$64.90
Los Angeles	$41.06	-2.7%	17.0%	350 bps	2000 Avenue of the Stars	$118.20
Portland	$27.56	-4.0%	17.1%	130 bps	Fox Tower	$43.38
Seattle	$36.65	-5.3%	23.2%	310 bps	1208 Eastlake Avenue East	$94.00
San Francisco	$60.99	-6.2%	25.4%	430 bps	Sand Hill Commons	$204.00
Twin Cities	$24.93	-8.5%	16.1%	-140 bps	Fifty South Sixth	$36.85
San Diego	$42.05	-10.2%	18.0%	240 bps	La Jolla Commons–Tower I	$72.60

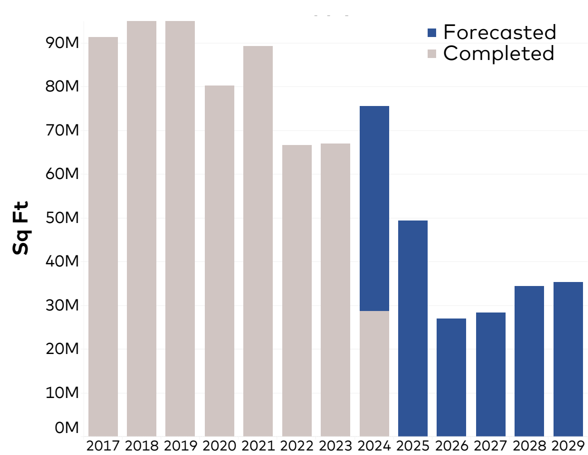
Source: Yardi Matrix. Data as of June 2024. Listing rates are full-service or "full-service equivalent" rates for spaces available as of report period. National listing rate is an average of all markets. Prior to July 2024, this report used the top 50 markets for a national average.

Supply:
Life Science Development Boom Wanes

- Nationally, 76.9 million square feet of office space are under construction, representing 1.1% of stock, according to Yardi Matrix. The pipeline has shrunk substantially this year, with new starts well below replenishment level. Through June, 23.5 million square feet of office stock have been delivered, while only 6.9 million square feet have been started. Demand for office space is unlikely to ever fully recover to prepandemic levels, banks are increasingly unwilling to provide loans for new office builds, and interest rate increases have made the construction loans that are available much more expensive. Developers have all but abandoned the office sector in 2024.

- Following a three-year period of development frenzy, the life science sector is returning to normal. In 2021, life sciences made up roughly 20% of all office starts, and in 2022 and 2023, it accounted for more than a quarter of all office space that broke ground. In 2024, however, life sciences has returned to a level within its historical averages, accounting for just 9.0% of square feet started so far this year.

National New Supply Forecast



Source: Yardi Matrix. Data as of June 2024.
Data in this chart includes owner-occupied properties.

Supply Pipeline (by metro)

Market	Under Construction	Under Construction % Stock	Plus Planned % Stock
National	76,901,509	1.1%	4.0%
Boston	12,496,569	5.0%	10.8%
Dallas	4,957,647	1.8%	12.1%
San Francisco	4,908,974	3.1%	10.8%
Austin	4,331,499	4.6%	14.8%
San Diego	3,858,410	4.0%	6.7%
Miami	2,876,200	4.0%	10.3%
Manhattan	2,775,832	0.6%	2.9%
Los Angeles	2,627,599	0.9%	3.5%
Washington DC	2,522,594	0.7%	4.0%
Seattle	2,479,539	1.7%	6.0%
Bay Area	2,444,768	1.2%	4.7%
Nashville	2,125,600	3.6%	9.7%
Philadelphia	1,982,424	1.1%	3.0%
New Jersey	1,948,689	1.0%	1.4%
Houston	1,875,765	0.8%	1.9%
Atlanta	1,832,803	0.9%	2.5%
Charlotte	1,766,657	2.2%	6.0%
Denver	1,747,432	1.1%	3.6%
Chicago	1,008,707	0.3%	1.6%
Tampa	987,060	1.2%	6.0%
Detroit	524,000	0.4%	0.9%
Orlando	502,619	0.7%	3.8%
Phoenix	464,190	0.3%	2.3%
Twin Cities	435,666	0.4%	2.0%
Portland	354,450	0.6%	1.3%

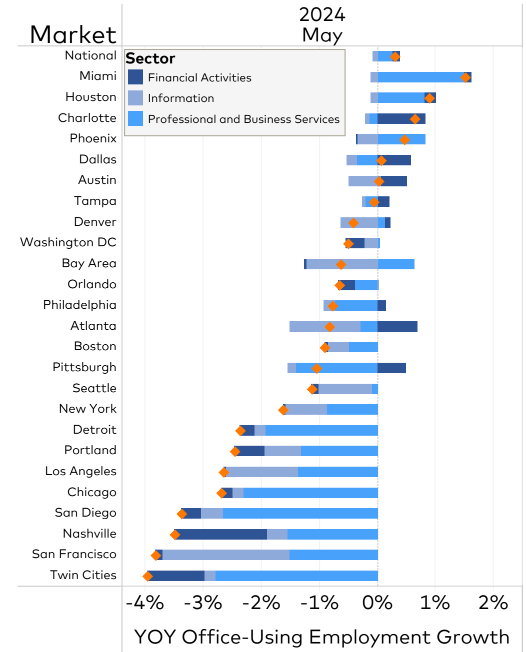
Source: Yardi Matrix. Data as of June 2024. Table does not include owner-occupied properties.

Office-Using Jobs:
Miami Leads a Lackluster Pack

- Office-using sectors of the labor market combined to lose 2,000 jobs in the month of June, according to the Bureau of Labor Statistics. The decline was driven by the professional and business services sector, which lost 17,000 jobs in the month while information added 9,000 jobs and financial activities added 6,000. On a year-over-year basis, office-using sectors have expanded by 94,000 workers, an increase of just 0.3%.

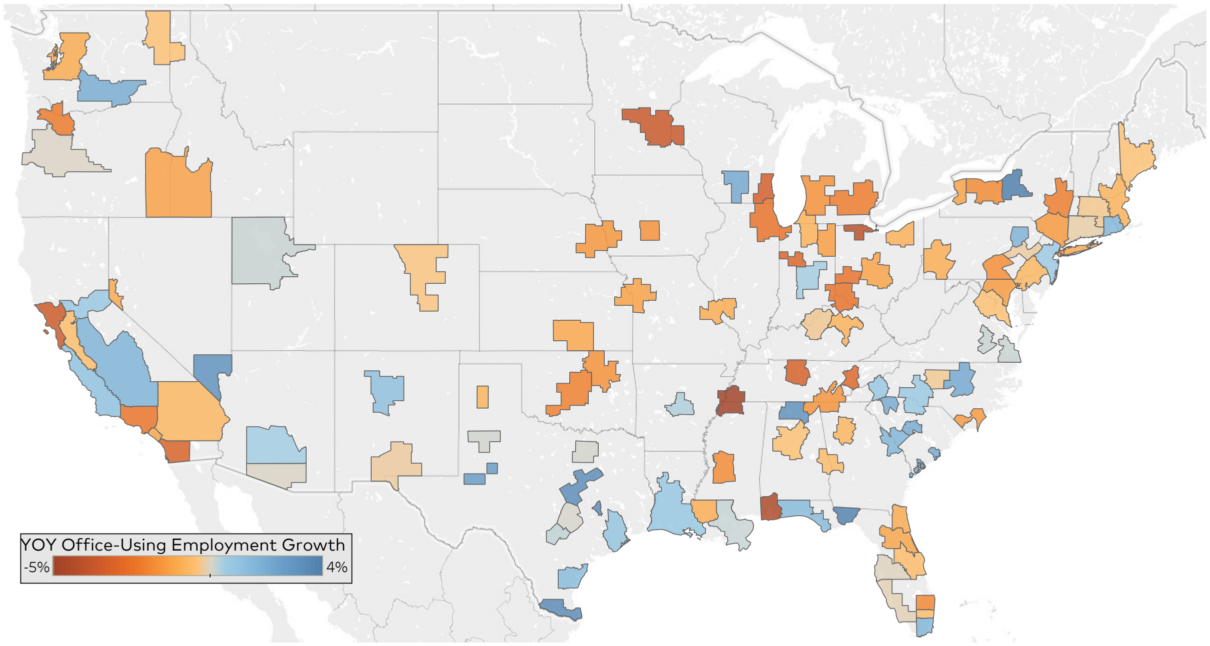
- Metro data, which trails the national release, showed growth turning negative in more metros in May. Of the 120 markets covered by Yardi Matrix, 38 had positive year-over-year growth, and only seven of the top 25 markets have seen expansion of office-using sectors in the past year. Only one of the top markets, Miami, has grown more than 1%. Miami has seen a bevy of relocations from both workers and corporations during this decade. That its growth is so muted illustrates just how lifeless office job growth is at the moment.

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:
Chipmaker Purchase Boosts Bay Area

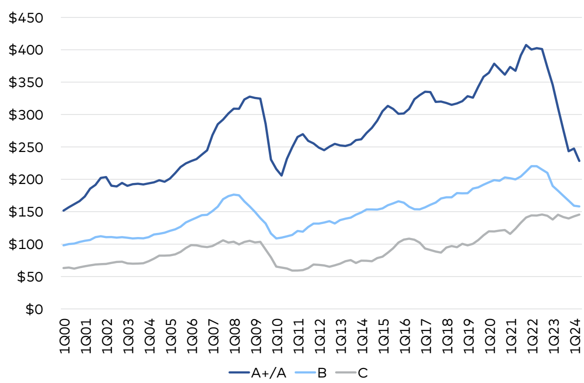
- Yardi Matrix recorded $13.7 billion of sales during the first half of 2024, with properties trading at an average of $172 per foot.
- Amidst the slowdown in the tech sector, the Bay Area has remained one of the most active investment markets for office, with $1 billion in sales so far in 2024. Chipmaker Nvidia has seen its market cap more than double so far in 2024, thanks to the surge of AI investment. The company has used some of this windfall to purchase its headquarters in Santa Clara—which includes office labs, data centers and future development rights—for $374 million.

Sales Activity

Market	YTD Sales Price PSF	YTD Sales (Mil, as of 06/30)
National	$172	$13,725
Manhattan	$588	$1,408
Washington DC	$250	$1,335
Bay Area	$260	$1,005
Boston	$265	$803
Phoenix	$167	$590
Dallas	$127	$510
Houston	$127	$451
Austin	$439	$419
Miami	$368	$400
Tampa	$147	$380
Chicago	$89	$345
San Diego	$274	$336
New Jersey	$107	$329
Atlanta	$140	$321
Seattle	$182	$319
Los Angeles	$362	$287
Twin Cities	$146	$238
Denver	$125	$215
Philadelphia	$94	$188
Nashville	$206	$183
San Francisco	$324	$155
Orlando	$165	$124
Detroit	$98	$94
Charlotte	$115	$55
Portland	$182	$40

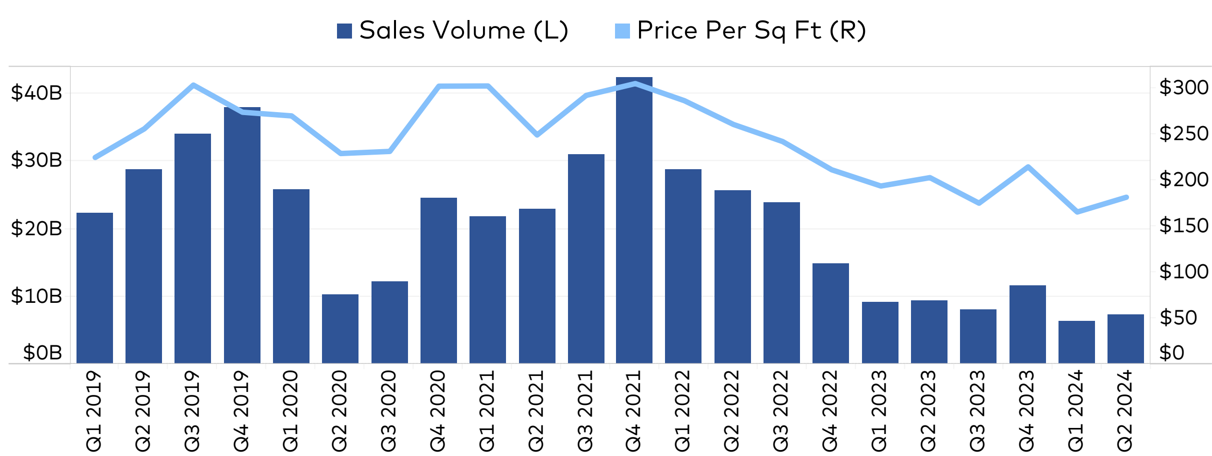
Source: Yardi Matrix. Data as of June 2024. Sales data for unpublished and portfolio transactions is estimated using sales comps.

Asset Class (price PSF)



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

Quarterly Transactions



Source: Yardi Matrix. Data as of June 2024.

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 listing rate is an average of all markets. Prior to July 2024, this report used the top 50 markets for a national average.
- *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.

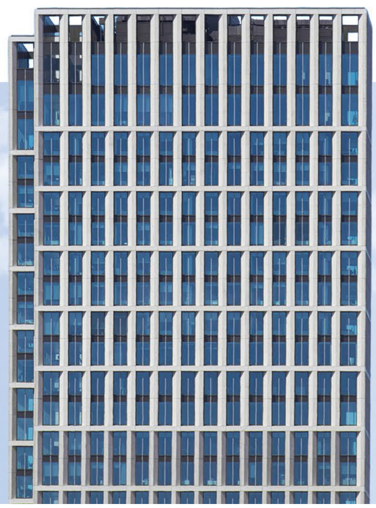
Supply pipeline figures do not include owner-occupied properties unless otherwise noted.

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.

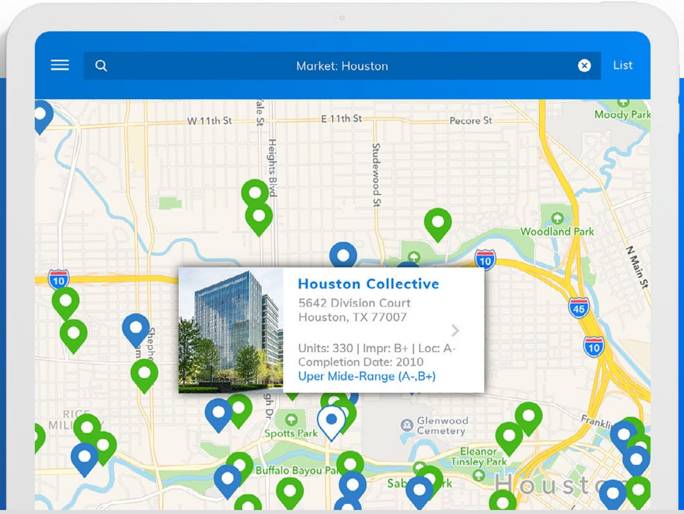
Yardi Matrix

Power your business with the industry's leading data provider



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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