Yardi® Matrix

National Office Report

July 2019

U.S. Office Property: Rates Rise Moderately in First Half of 2019

- Average U.S. asking rents for office space increased 1.7% over the six-month period ending in June, to $36.44. National vacancy rates fell 20 basis points from the previous month, to 13.5%. Demand for office space remains strong, as office-using employment sectors grew 1.7% year-over-year, slightly above the 1.5% rate for all employment.

- With 26.5 million square feet delivered year-to-date and an additional 174.7 million square feet under construction, the supply pipeline shows no sign of slowing down. Half of all space under construction is in the top six gateway markets and three growing tech markets: Seattle, the Bay Area and Austin.

- Transaction volume accelerated in the second quarter, with $38.8 billion of sales completed through June. If the momentum continues, activity would be on track to finish near last year's total volume of $91.1 billion. The decline of the 10-year Treasury yield, which has hovered in the low-2.0% range since the beginning of June, should continue to act as a catalyst for transactions.

- San Francisco (18.8%), Brooklyn (11.2%) and the Bay Area (10.0%) led the nation in overall year-to-date asking rate growth. On the other end of the spectrum, nine of the top 25 markets tracked by Yardi Matrix have seen average asking rates decline over the six-month period, led by Boston (-3.6%), Seattle (-2.6%), Chicago (-1.8%) and Miami (-1.6%). The average listing rate is representative of asking rents in spaces available for lease, and rates fluctuate based on new supply and space becoming occupied. This fluctuation can be seen in Boston, where the average lease rate dropped 3.2% during the past six months due to absorption of Class A space. For example, 27,000 square feet of space was leased for $98 a month at the recently completed 399 Binney St. Newer listings have a lower asking rate, averaging under $40 per square foot.

- Demand is robust for higher-quality spaces with more amenities and heftier price tags. Boston's same-store performance—the measurement of the average asking rate for the same properties with listings in both December and June—is slightly positive, at 0.7%, painting a brighter picture for a market whose strong fundamentals have helped keep its vacancy rate at 9.6%, well below the national rate of 13.5%.

Lease Rate and Occupancy Trends: New Supply Drives Rates Up in Tampa

- Nationally, asking rates for listed space rose by 1.7% year-to-date. National vacancy rates are down 70 basis points for the same period.

- Six-month lease rate growth was strong in San Francisco (18.8%), Brooklyn (11.2%) and the Bay Area (10.0%). The jump in average lease rates in these markets can be attributed to the effect of new supply, wherein large spaces above the previous market average are listed and push up the market's average listing rate.

- Tampa's same-store rate growth is strong, as space listings were on average 50 cents higher in June than in December. Overall, non-same store average listing rates increased 5.3% to $26.76 over the first half of the year. The metro's six-month performance was fueled by new listings of high-quality spaces, including the Class A Sparkman Wharf property, a building under construction that has 180,000 square feet listed at $45.50 per square foot. Likewise, all 176,000 square feet at the Laser Spine Institute is being listed at $42.41. The average price of new listings in Tampa is slightly above that for recent occupancies.

Listings by Metro

Market	June-19 Listing Rates	6-Month Change	Total Vacancy	Top Listing	Price Per Square Foot
National	$36.44	1.7%	13.5%		
San Francisco	$70.35	18.8%	8.0%	Sand Hill Commons	$150.00
Brooklyn	$55.12	11.2%	6.7%	Brooklyn Navy Yard–Dock 72	$73.00
Bay Area	$47.48	10.0%	14.3%	444 Castro	$120.67
Austin	$39.63	5.4%	9.0%	Colorado Tower	$70.73
Tampa	$26.76	5.3%	11.8%	Sparkman Wharf	$45.50
Nashville	$31.89	4.6%	9.3%	Three Thirty Three	$43.88
Charlotte	$27.90	3.1%	10.1%	The RailYard	$42.00
Houston	$29.14	3.0%	21.7%	Campanile South	$54.27
Twin Cities	$26.79	2.2%	12.2%	The Offices at MOA	$41.00
Phoenix	$27.02	1.8%	16.7%	Hayden Ferry Lakeside I	$46.50
Washington DC	$39.46	1.7%	14.6%	1000 F St., N.W.	$83.08
Portland	$28.85	1.6%	12.5%	5 MLK	$48.03
Dallas	$28.14	1.5%	18.4%	Saint Ann Court	$56.71
Philadelphia	$29.00	1.0%	12.9%	Three Logan Square	$56.57
New Jersey	$31.66	0.2%	20.7%	Newport–111 Town Square Place	$62.97
Orlando	$21.92	0.1%	11.8%	GuideWell Innovation Center	$34.66
Manhattan	$75.66	-0.1%	7.9%	101 Park Ave.	$200.00
Atlanta	$25.81	-0.5%	16.5%	Three Alliance Center	$52.98
Denver	$28.14	-0.5%	14.2%	Platte Fifteen	$52.80
Los Angeles	$37.66	-0.6%	13.4%	9595 Wilshire	$91.80
San Diego	$37.26	-0.7%	12.5%	Campus Pointe–Alexandria GradLabs	$67.58
Miami	$37.64	-1.6%	13.4%	701 Brickell	$65.00
Chicago	$29.50	-1.8%	14.7%	110 N. Wacker	$60.78
Seattle	$36.95	-2.6%	8.4%	188 E. Blaine St.	$71.77
Boston	$37.16	-3.2%	9.6%	One Federal St.	$76.00

Source: Yardi Matrix. Data as of June 2019. Listing rates are full service or "full service equivalent" rates for spaces available as of report.period.

Supply:
Healthy Pipeline in Charlotte

- The first half of 2019 saw 26.5 million square feet of office space completed, with more than 90% being A or A+ properties (24.1 million square feet).

- Solid job growth (4.0% in office-using employment sectors), favorable demographics and a vacancy rate well below the national average (10.1%) have spurred development activity in Charlotte, where 4.3 million square feet, representing 6.5% of stock, is under construction. Adding in planned projects nearly doubles the pipeline to 12.5% of stock.

- Space currently under construction totals 174.7 million square feet, representing 2.9% of total stock; between 60 million and 70 million square feet will likely deliver over the next two to three years. While it may appear to be a massive pipeline, this level of new supply is modest compared to annual pre-recession completions, which averaged 114.4 million square feet of new office space from 2000 to 2008.

- San Francisco continues to add office space at a vigorous pace, with 10.5 million square feet currently underway (7.2% of stock). With strong job creation in office-using sectors and an 8.0% vacancy rate, the new supply should be absorbed without too much difficulty.

Supply Pipeline (by asset class and location)

National Market	Under Construction	Under Construction % Stock	Plus Planned % Stock
A+/A	159,950,775	5.5%	5.9%
B	13,467,079	0.5%	0.5%
C	575,033	0.2%	0.2%
CBD	42,141,931	3.2%	6.9%
Urban	76,245,210	6.0%	13.4%
Suburban	56,310,878	1.6%	5.6%

Source: Yardi Matrix. Data as of 7/19/19

Supply Pipeline (by metro)

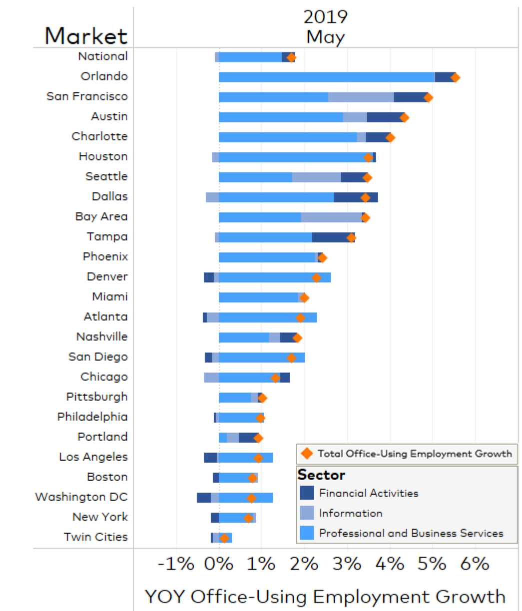
Market	Under Construction	Under Construction % Stock	Plus Planned % Stock
National	174,698,019	2.9%	7.5%
Brooklyn	5,001,093	15.3%	27.7%
Nashville	5,078,341	10.0%	18.1%
Austin	6,380,764	9.3%	27.6%
San Francisco	10,522,178	7.2%	20.8%
Charlotte	4,251,308	6.5%	12.5%
Seattle	7,415,822	5.7%	14.3%
Manhattan	21,719,682	4.6%	5.8%
Miami	2,678,779	4.1%	16.0%
Boston	8,963,054	3.9%	14.0%
Bay Area	6,618,438	3.4%	12.9%
Orlando	1,792,392	3.4%	10.9%
Los Angeles	8,689,726	3.2%	6.1%
Phoenix	3,827,961	3.1%	9.4%
San Diego	2,777,932	3.1%	7.4%
Atlanta	5,570,402	3.0%	12.1%
Washington DC	9,408,782	2.8%	5.4%
Chicago	8,047,945	2.7%	8.9%
Denver	3,780,565	2.5%	6.0%
Tampa	1,469,519	2.4%	7.4%
Dallas	5,667,814	2.2%	12.5%
Portland	1,117,407	2.0%	7.0%
Twin Cities	1,832,231	1.7%	3.7%
Houston	2,819,514	1.2%	3.7%
Philadelphia	1,817,874	1.1%	2.6%
New Jersey	681,527	0.4%	2.5%

Source: Yardi Matrix. Data as of 7/19/19

Office-Using Employment: South and West Remain Strong

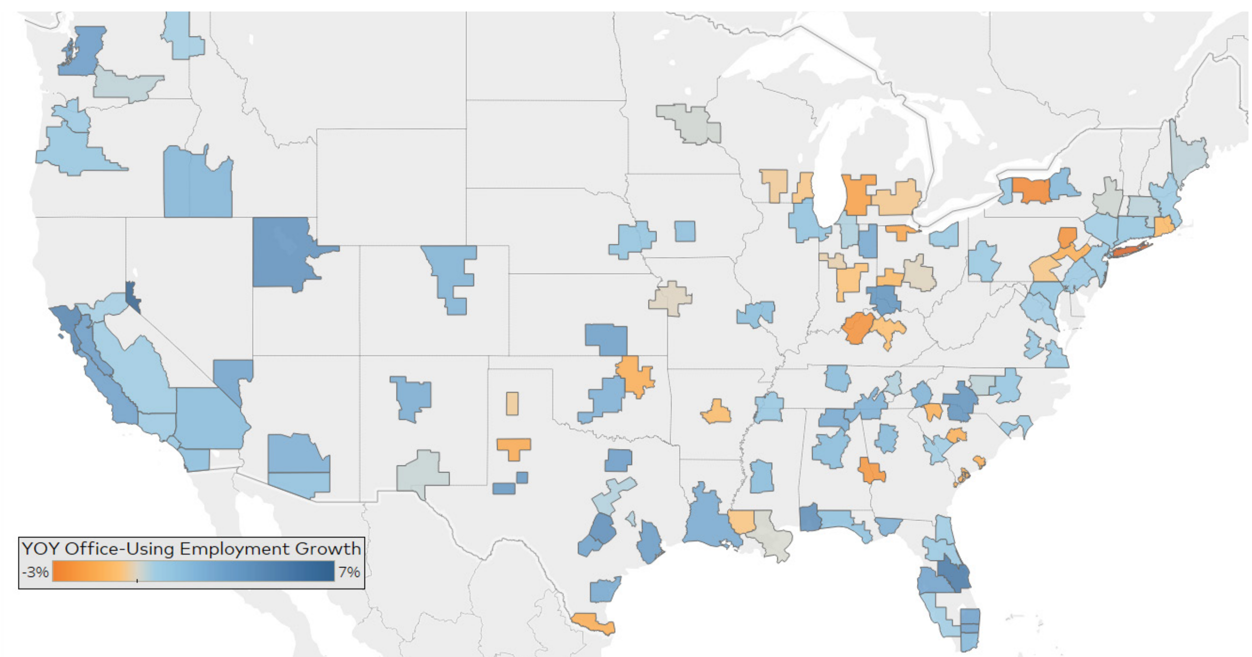
- As the national labor market tightens and job growth slows, national office-using employment remains healthy, with a year-over-year increase of 1.7%.
- Orlando once again led all major metros in office-using employment growth, with the bulk of its 5.5% year-over-year increase concentrated in professional and business services. Long thought of as a tourism-dependent economy, Orlando continues to defy this paradigm with rapid office-using growth. All told, office-using employment in Orlando outperformed the overall metro job growth rate of 3.6%.
- Markets in the Southern and Western United States maintained their lead in office-using employment growth in May. While a minor portion of most markets, the information sector fuels growth in tech markets like San Francisco (4.9%), Seattle (3.5%) and the Bay Area (3.4%).

Growth by Sector



Sources: Bureau of Labor Statistics and Moody's Analytics

Office-Using Employment Growth



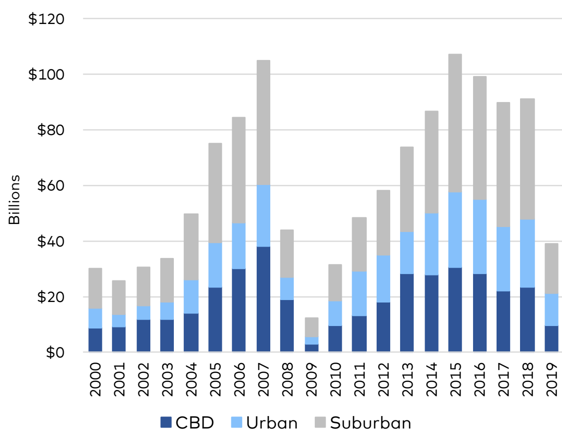
Sources: Bureau of Labor Statistics and Moody's Analytics. Due to BLS benchmarking, office-using employment data for the following markets reflect December 2018 values: Boston, Bridgeport-New Haven, Portland ME, and Worcester-Springfield.

Transactions:
Activity Heats Up in the Second Quarter

- After a sluggish start to 2019, transaction activity escalated in the second quarter. Nationally, office sales totaled $38.8 billion through June. Increased transaction volume will need to continue for the rest of the year to match 2018's total of $91.1 billion.

- Interest rates have declined since late 2018, and after tightening significantly in the second half of last year, the spread between acquisition yields and the 10-year Treasury has widened. The cost of borrowing may have decreased enough to make some deals pencil as borrowers lock in low rates.

Sales by Location



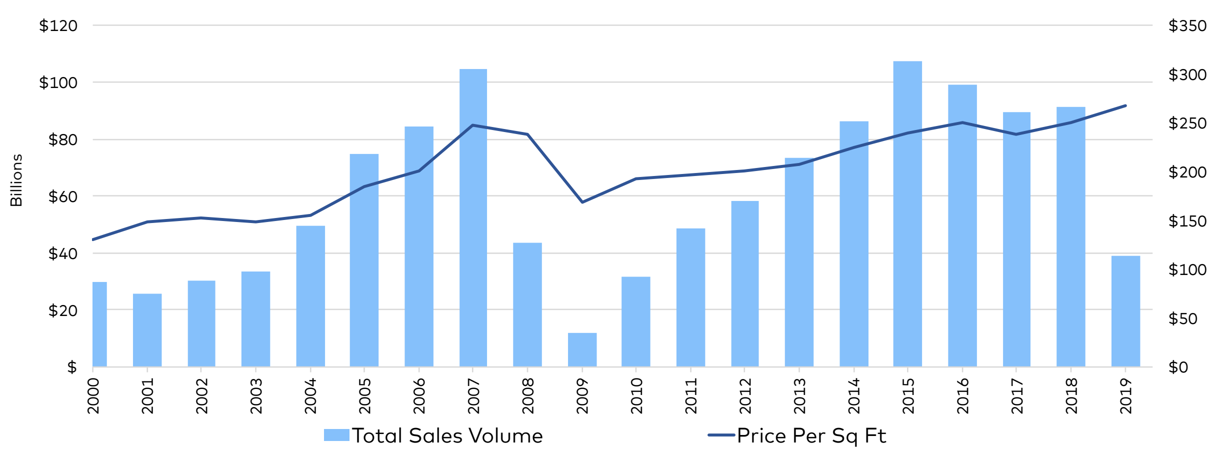
Source: Yardi Matrix; Data as of 7/19/19

Sales Activity

Market	YTD Sales Price PSF	YTD Sales (Mil, as of 6/30)
National	$261	$36,347
Manhattan	$670	$3,767
Bay Area	$463	$3,733
San Francisco	$815	$3,379
Seattle	$501	$3,101
Washington DC	$231	$2,044
Los Angeles	$442	$1,644
Boston	$275	$1,377
Denver	$188	$1,285
Atlanta	$181	$1,229
San Diego	$395	$1,102
Twin Cities	$162	$891
Phoenix	$156	$842
New Jersey	$140	$828
Philadelphia	$204	$760
Charlotte	$243	$747
Portland	$317	$722
Nashville	$229	$703
Dallas	$224	$621
Chicago	$91	$511
Houston	$182	$509
Orlando	$152	$340
Miami	$354	$331
Austin	$231	$258
Tampa	$139	$250
Brooklyn	$378	$67

Source: Yardi Matrix. Data as of 7/19/19

Total Sales



Source: Yardi Matrix. Data as of 7/19/19

Definitions

This report covers office buildings 50,000 square feet and above. Yardi® Matrix subscribers have access to 25,000-square-foot and larger buildings 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.

- *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 do not always include portfolio transactions or those with unpublished dollar values.

To learn more about Yardi® Matrix and subscribing, please visit www.yardimatrix.com or call Ron Brock, Jr., at 480-663-1149 x2404.

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