Yardi® Matrix

National Office Report

August 2019

U.S. Office Property: San Francisco Remains Hot

- Average U.S. office asking rates increased 1.1% year-over-year in July, as the sector's moderate growth continues. Of the top 23 markets surveyed, growth was positive in 16, and five saw listing rates drop by more than a fraction. With office-using jobs growing at 1.7% over the last 12 months nationally, demand for office space remains healthy.

- San Francisco (31.3% year-over-year) and Tampa (22.8%) once again lead metros in average listing rate growth. The two metros were also in the top three for same-store listing rate growth, 11.1% for San Fransisco and 5.6% for Tampa, with Brooklyn (9.1%) coming in second. Job growth nationally has dipped slightly this year to 170,000 per month, but with the technology industry maintaining its luster, San Francisco's office-using employment gains have not slowed at all. The metro added 24,900 new office-using jobs in the 12 months through mid-year, up a whopping 5.0%. Only Dallas, at 34,200, added more office-using jobs during that time. New York added only 9,800 office-using jobs, up 0.5%, and the city's finance industry shrank slightly (-0.4%).

- Nationally, office-using jobs grew at a 1.7% rate year-over-year through July. Most of the growth came from the professional business services segment, led by computer design services. Information jobs were down slightly, led by losses in the telecommunications industry.

- Late-cycle construction remains robust, with 174.0 million square feet of space under construction as of July. That will represent a 2.8% growth in inventory when delivered. Manhattan (24.2 million square feet), Boston (11.5 million) and San Francisco (10.9 million) lead in the amount of space under construction. On a percentage basis, the amount under construction is led by Brooklyn (14.4%), Nashville (9.9%) and Austin (9.4%).

- Volatility in the capital markets have yet to have an impact on demand for office space. The yield of the two-year Treasury bond recently went higher than the yield of the 10-year Treasury; such inversions in the past have signaled a recession in nine to 15 months. Economic growth has been running at an annualized rate of about 2.5%, and fundamentals such as employment and consumer spending remain healthy, so a recession does not appear to be on the immediate horizon.

Lease Rate and Occupancy Trends: New Listings Send San Francisco Rates Skyrocketing

- Nationally, asking rates for listed space rose by 1.1% year-over-year. Vacancy rates are down 70 basis points since the beginning of the year.
- Listing rates rose the most in San Francisco (31.3% year-over-year), Tampa (22.8%) and Brooklyn (11.2%).
- Many of these gains are attributable to new, high-quality listings well above the market average becoming available in the last 12 months. Comparing the growth of same-store properties, San Francisco (11.1%), Brooklyn (9.1%) and Tampa (5.6%) still led all markets, but at a much lower rate of increase.
- New A and A+ listings in San Francisco have pushed the market average remarkably high in the last 12 months. These properties are headlined by First Street Tower of Oceanwide Center, a 1.5 million-square-foot trophy building with an average full-service equivalent listing rate of $113.37 per square foot. A block away, 525 Market Street recently listed 45,000 feet at a full-service equivalent rate of $85 per square foot.

Listings by Metro

Market	July-19 Listing Rates	12-Month Change	Total Vacancy	Top Listing	Price Per Square Foot
National	$36.95	1.1%	13.5%		
San Francisco	$75.43	31.3%	8.1%	Sand Hill Commons	$150.00
Tampa	$30.39	22.8%	11.9%	Sparkman Wharf	$45.50
Brooklyn	$58.26	11.2%	7.8%	Brooklyn Navy Yard–Dock 72	$73.00
Austin	$40.05	8.0%	8.8%	Colorado Tower	$70.73
Manhattan	$79.82	7.5%	8.1%	101 Park Avenue	$200.00
Bay Area	$46.82	7.4%	14.6%	444 Castro	$120.67
Dallas	$28.85	5.6%	18.4%	Saint Ann Court	$56.71
Phoenix	$27.35	3.7%	16.4%	Hayden Ferry Lakeside I	$46.50
Philadelphia	$28.86	3.5%	13.0%	Three Logan Square	$56.57
Miami	$38.59	3.4%	14.0%	701 Brickell	$65.00
Los Angeles	$37.48	2.7%	13.1%	9595 Wilshire	$91.80
Twin Cities	$26.93	1.7%	12.5%	Offices at MOA, The	$41.00
Houston	$28.87	1.4%	21.6%	Campanile South	$54.27
Atlanta	$26.01	1.2%	16.2%	Three Alliance Center	$53.98
Charlotte	$28.13	0.8%	10.4%	RailYard, The	$42.00
New Jersey	$31.53	0.4%	20.8%	Newport–111 Town Square Place	$62.97
San Diego	$37.14	-0.5%	12.2%	One La Jolla Center	$58.20
Denver	$27.96	-0.9%	13.7%	Platte Fifteen	$52.80
Portland	$28.62	-1.2%	12.6%	5 MLK	$48.03
Boston	$35.32	-1.6%	9.8%	One Federal Street	$76.00
Seattle	$36.95	-2.7%	8.2%	188 East Blaine Street	$79.77
Chicago	$29.52	-2.8%	14.7%	110 North Wacker	$60.78
Orlando	$21.61	-4.2%	11.4%	Lake Nona Town Center–Phase II	$36.41
Nashville	$32.07	N/A	10.9%	Three Thirty Three	$43.88
Washington DC	$39.32	N/A	14.7%	1000 F Street NW	$83.08

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

Supply:
Strong Fundamentals Drive Austin's Pipeline

- A total of 33.8 million square feet of office space was delivered in the first seven months of 2019, with new deliveries slightly more concentrated in CBD (6.5 million square feet) and urban (14.0 million square feet) locations than in suburban ones (13.3 million square feet).

- Space currently under construction totals 174.0 million square feet, representing 2.8% of total stock. Most of the properties under construction are in the top 25 metros tracked by Yardi Matrix (137.7 million square feet), representing 79.1% of the national total.

- Austin's strong listing rate growth over the last 12 months (8.0%), a low vacancy rate (8.8%) and high office-using employment growth (4.6%) have fueled demand for office space. Supply has been responsive to those fundamentals, with 6.5 million square feet currently under construction in the Texas capital (9.4% of stock) and another 12.6 million square feet planned.

- Seattle, another market with low vacancy (8.2%) and high office-using employment growth (3.7%), also has a robust pipeline, with 6.9 million square feet under construction and 10.9 million square feet planned. Seattle has delivered 3.5 million square feet since the beginning of 2018.

Supply Pipeline (by asset class and location)

National Market	Under Construction	Under Construction % Stock	Plus Planned % Stock
A+/A	158,682,342	5.4%	6.0%
B	14,350,177	0.5%	0.5%
C	575,033	0.2%	0.2%
CBD	42,232,401	3.2%	6.2%
Urban	75,424,636	5.9%	12.8%
Suburban	56,350,034	1.6%	5.2%

Source: Yardi Matrix. Data as of 7/31/19

Supply Pipeline (by metro)

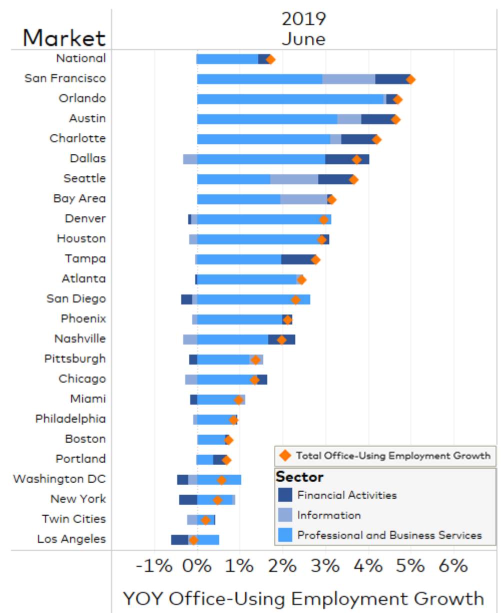
Market	Under Construction	Under Construction % Stock	Plus Planned % Stock
National	174,007,071	2.8%	7.0%
Brooklyn	4,801,093	14.4%	26.0%
Nashville	5,048,151	9.9%	17.5%
Austin	6,476,948	9.4%	27.5%
San Francisco	10,916,063	7.4%	20.4%
Charlotte	3,867,271	5.9%	11.9%
Seattle	6,857,309	5.2%	13.5%
Boston	11,454,698	5.0%	9.6%
Manhattan	21,240,638	4.5%	5.4%
Miami	2,639,985	4.0%	15.5%
Bay Area	7,436,369	3.9%	13.5%
Orlando	1,835,301	3.5%	11.4%
Phoenix	3,926,906	3.2%	10.1%
Washington DC	10,542,539	3.1%	5.5%
Atlanta	5,644,257	3.0%	7.1%
Los Angeles	7,560,366	2.8%	5.5%
Chicago	7,947,963	2.7%	8.1%
Denver	3,846,212	2.5%	5.9%
Tampa	1,473,023	2.4%	7.4%
Portland	1,176,807	2.1%	7.1%
Dallas	5,505,667	2.1%	11.3%
Twin Cities	1,955,231	1.8%	3.8%
San Diego	1,252,130	1.4%	7.2%
Houston	2,838,314	1.2%	3.7%
Philadelphia	1,209,453	0.7%	2.3%
New Jersey	285,527	0.2%	2.6%

Source: Yardi Matrix. Data as of 7/31/19

Office-Using Employment: Tech Markets Strong, Northeast and Midwest Lag Behind

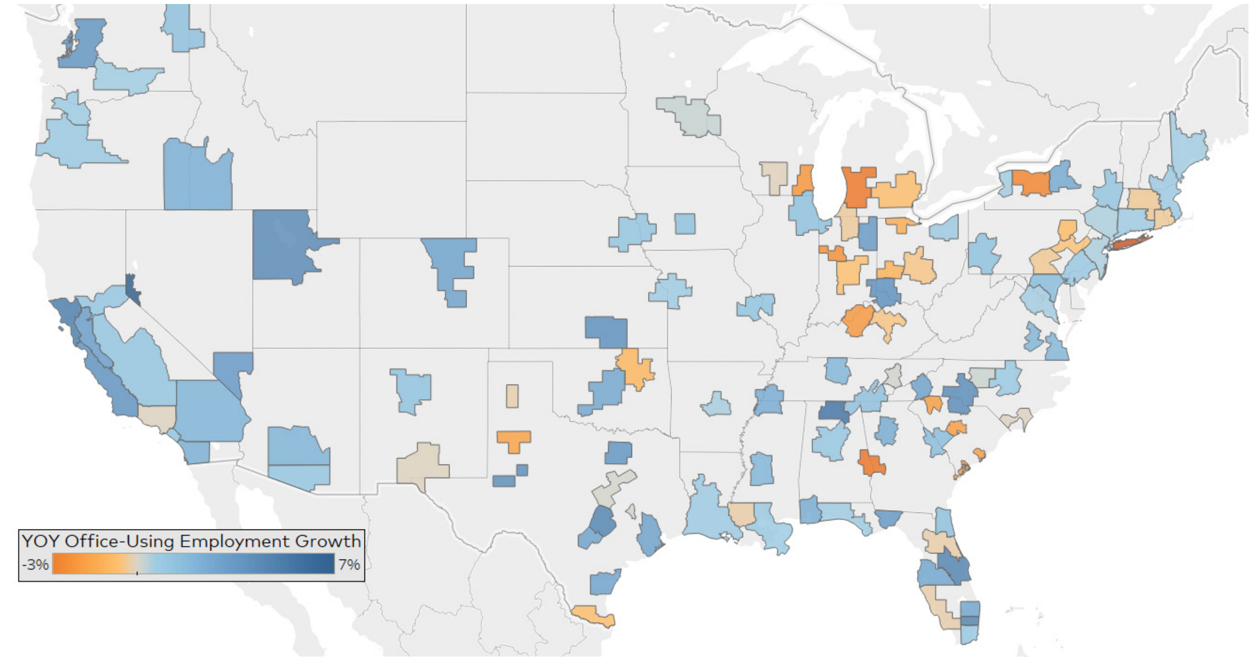
- While worries about the national economy rise, national office-using employment remains solid, with a year-over-year increase of 1.7%.
- Professional and business services (PBS) occupations accounted for most of the growth (1.4%). Information growth was 0% nationally.
- San Francisco (5.0%) leaped into the top spot for office-using employment among major metros. Growth in the three office-using sectors outpaced the overall metro growth of 3.6%. Although it is known for its tech and finance sectors, PBS jobs accounted for nearly 60% of the metro's office-using employment growth.
- Markets in the Northeast and Midwest continued to lag the rest of the country in June. Of the 115 metros tracked by Yardi Matrix, 16 of the bottom 25 for office-using employment growth were in those two regions.

Growth by Sector



Sources: Bureau of Labor Statistics and Moody's Analytics

Office-Using Employment Growth



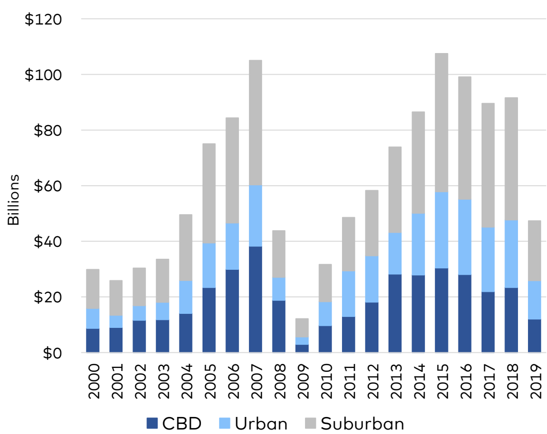
Sources: Bureau of Labor Statistics and Moody's Analytics.

Transactions:
Despite Uncertainty, Deal Flow Continues Upward

- Nationally, office sales totaled $46.5 billion through July. Transaction volume increased during the summer, with 2019 now only slightly off last year's pace. Lower interest rates are expected to fuel sales activity in the second half.

- The recent inversion of the yield curve has caused some uneasiness in the capital markets, but a recession does not appear imminent. The dip in confidence is largely a reaction to political events, especially concerns about the potential for a widening trade war with China.

Sales by Location



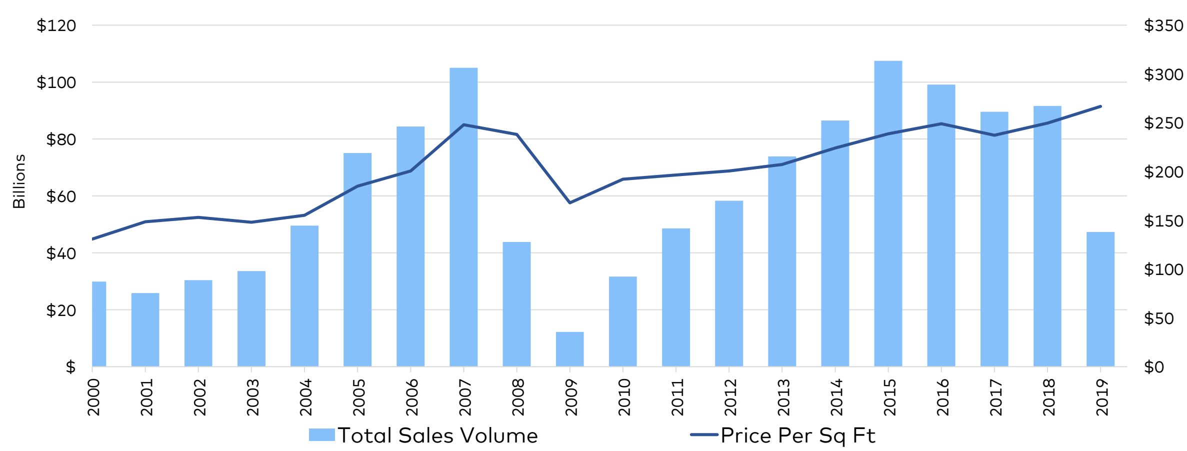
Source: Yardi Matrix; Data as of 7/31/19

Sales Activity

Market	YTD Sales Price PSF	YTD Sales (Mil, as of 7/31)
National	$267	$46,536
Seattle	$527	$4,714
Manhattan	$722	$4,606
Bay Area	$472	$4,395
San Francisco	$801	$3,539
Washington DC	$245	$2,828
Los Angeles	$454	$2,414
Boston	$254	$1,715
San Diego	$428	$1,522
Denver	$185	$1,501
Atlanta	$189	$1,490
Houston	$229	$1,341
Twin Cities	$153	$1,038
New Jersey	$143	$1,003
Phoenix	$159	$955
Dallas	$255	$879
Philadelphia	$203	$873
Charlotte	$230	$855
Portland	$301	$784
Nashville	$227	$765
Chicago	$98	$606
Tampa	$193	$525
Miami	$367	$496
Austin	$310	$470
Orlando	$151	$358
Brooklyn	$378	$67

Source: Yardi Matrix. Data as of 7/31/19

Total Sales



Source: Yardi Matrix. Data as of 7/31/19

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.

Contacts

Jeff Adler
Vice President & General Manager of Yardi Matrix
Jeff.Adler@Yardi.com
(800) 866-1124 x2403

Jack Kern
Director of Research & Publications
Jack.Kern@Yardi.com
(800) 866-1124 x2444

Paul Fiorilla
Director of Matrix Research
Paul.Fiorilla@Yardi.com
(800) 866-1124 x5764

Chris Nebenzahl
Institutional Research Manager
Chris.Nebenzahl@Yardi.com
(800) 866-1124 x2200

Peter Kolaczynski
Manager, Commercial
Peter.Kolaczynski@Yardi.com
(800) 866-1124 x2410

Justin Dean
Senior Research Analyst
Justin.Dean@Yardi.com
(800) 866-1124 x2071

Yardi® Matrix