

Yardi® Matrix

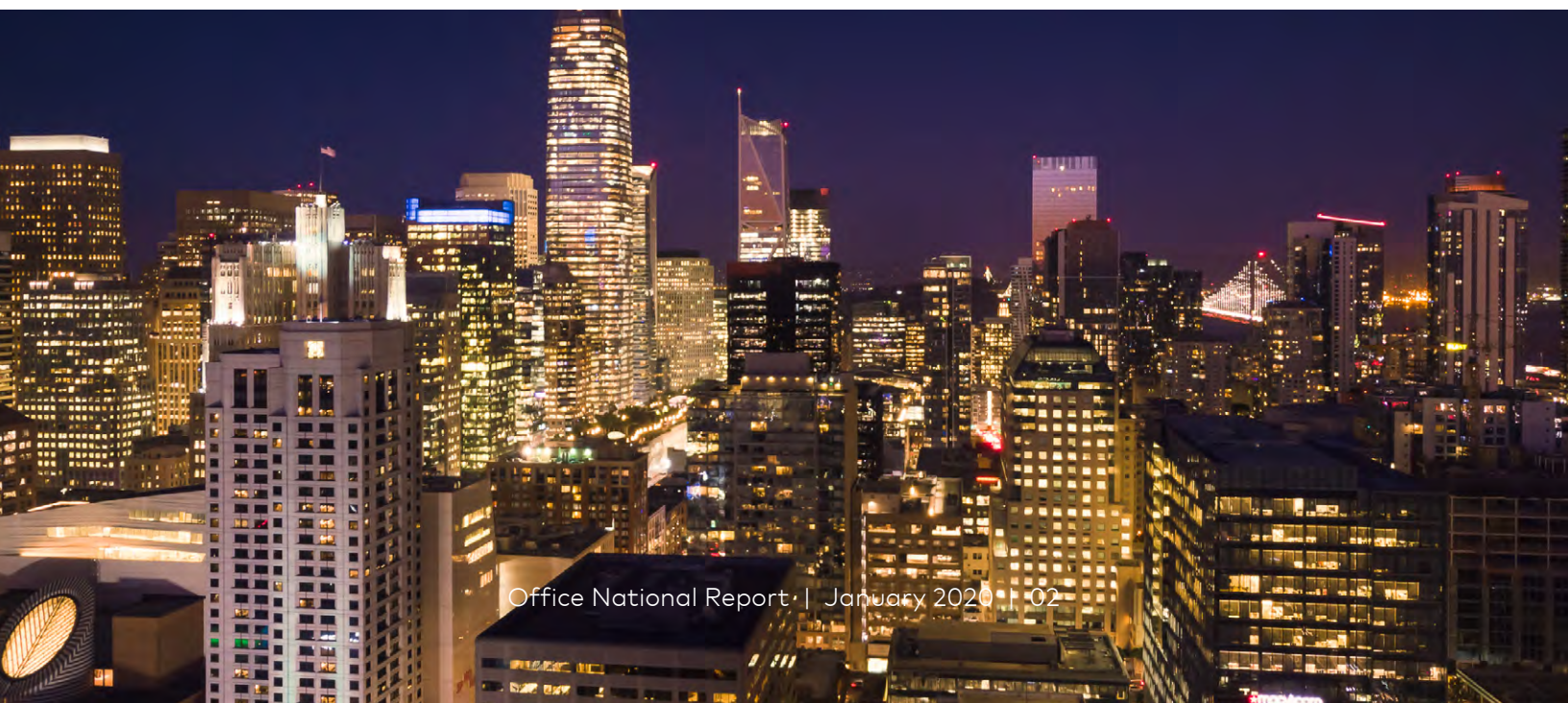
National Office Report

January 2020



U.S. Office Property: The Shifting Landscape of Finance Jobs

- The average U.S. office asking rate increased 0.5% year-over-year in December to \$37.73. The average national vacancy rate decreased 20 basis points from November to 13.4%.
- Demand for office space remains strong, as office-using employment increased 1.7% year-over-year. The majority of office-using jobs are classified as professional and business services, while tech jobs in the information sector receive an abundance of coverage in the press. Because of this, job growth in the financial activities sector can sometimes get overlooked, yet the sector accounts for more than a quarter of all office-using jobs added each year. Currently, the geography of financial activity job growth is surprising. As of November 2019, the markets that gained the most financial activity jobs were Dallas (15,400 jobs added since November 2018), Denver (6,300) and Charlotte (5,400). While many of these are certainly newly created jobs, some of this growth may be due to corporate relocations out of New York, which has lost 6,300 financial activity jobs over the last year as it rotates into an R&D and tech hub. While Manhattan is not in danger of losing its title of Financial Capital of the World, finance is becoming less important to its office market.
- Manhattan was the second-highest growth market for full-service equivalent rates in November, increasing 11.1% year-over-year. The other top markets based on growth were San Francisco (15.2%) and the Bay Area (9.5%). The markets that led same-store growth rates were Manhattan (12.6%), San Francisco (5.9%) and Brooklyn (5.5%).
- Last year saw 74.8 million square feet of office space completed, a slight increase of 1.5 million over 2018. Currently there are 147 million square feet of new space under construction. Of note, Phoenix added the fourth most space in the year (3.9 million square feet) and Dallas was seventh (3.5 million). The rest of the top 10 were gateway or tech markets.
- Transaction activity closed out the year at \$96.7 billion, remaining in the range of \$90 billion to \$100 billion of annual sales that occurred each year since 2016. However, the total square feet sold last year was much lower than the other years in that time period. The result is that price per square foot for transactions in 2019 increased by \$30.05, or 12.1%



Lease Rate and Occupancy Trends: Manhattan Listing Rates Take Off in Second Half of 2019

- National listing rates averaged \$37.73 in December, an increase of 0.5% from the same period a year prior. The national vacancy rate was 13.4%.
- Same-store listing rates grew by 3.5% nationally, led by Manhattan (12.6%), San Francisco (5.9%) and Brooklyn (5.5%). Same-store rates decreased in a few markets, with the biggest decreases in Chicago (-4.6%), Boston (-2.8%) and Orlando (-2.1%).
- Despite weak growth for office-using employ-

ment sectors and an additional 5.7 million square feet of space added last year, Manhattan average listing rates continued to climb in the second half of 2019. While the financial activities sector has lost jobs over the last year, the tech and R&D sector has come in to pick up the slack. Google, Amazon and Facebook have taken large, high-profile leases in recent months. The property that had the largest impact on average listing rates is Hudson Research Center, a 100,000-square-foot R&D space that is leasing for a full-service equivalent rate of \$125.45 per square foot.

Listings by Metro

Market	Dec-19 Listing Rate	12-Month Change	Total Vacancy	Top Listing	Price Per Square Foot
National	\$37.73	0.5%	13.4%		
San Francisco	\$69.27	15.2%	8.2%	2180 Sand Hill Road	\$152.44
Manhattan	\$85.41	11.1%	7.4%	550 Madison Avenue	\$210.00
Bay Area	\$47.77	9.5%	13.6%	444 Castro	\$120.67
Miami	\$41.68	8.9%	11.7%	830 Brickell Plaza	\$73.00
Brooklyn	\$56.41	8.7%	10.5%	Brooklyn Navy Yard–Dock 72	\$73.00
Tampa	\$29.59	7.4%	11.2%	1001 Water Street	\$55.70
Atlanta	\$27.69	6.5%	16.2%	Three Alliance Center	\$53.98
Austin	\$40.24	4.6%	8.7%	100 Congress	\$76.83
Charlotte	\$28.20	3.6%	10.7%	Hearst Tower	\$41.00
Houston	\$29.46	3.3%	21.4%	Campanile South	\$54.29
San Diego	\$38.50	3.2%	11.9%	Molecular and Experimental Medicine Building	\$72.74
Los Angeles	\$39.19	2.8%	12.4%	1999 Avenue of the Stars	\$93.00
Phoenix	\$27.17	2.7%	18.5%	Watermark–Phase I, The	\$45.00
Twin Cities	\$26.87	2.6%	11.9%	Offices at MOA, The	\$41.00
Portland	\$29.50	2.2%	11.5%	Broadway Tower	\$46.16
Philadelphia	\$29.08	1.2%	13.2%	Three Logan Square	\$51.57
Washington DC	\$39.20	1.1%	14.3%	900 Sixteenth Street	\$81.52
Dallas	\$28.11	0.9%	17.6%	Weir's Plaza	\$63.44
Nashville	\$30.01	-0.6%	11.0%	Peabody Plaza at Rolling Mill Hill	\$50.81
Denver	\$28.05	-0.8%	12.4%	William Building, The	\$59.67
Orlando	\$21.48	-0.9%	12.2%	Lake Nona Town Center - Phase II	\$36.41
New Jersey	\$31.44	-1.5%	20.8%	Newport–111 Town Square Place	\$62.97
Seattle	\$37.53	-1.8%	8.1%	Atrium, The	\$79.77
Chicago	\$27.95	-7.1%	15.5%	300 North LaSalle Drive	\$61.46
Boston	\$34.42	-9.6%	9.5%	301 Binney Street	\$78.78

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

Supply: Austin Shows No Signs of Slowing Down

- A total of 74.8 million square feet was delivered in 2019, slightly edging out the 73.3 million delivered in 2018. Nearly all of this new supply (90.6%) was classified as A or A+.
- Another 147 million square feet is currently under construction nationwide, and much like recent deliveries, the stock under construction is heavily concentrated on the upper end, with 133.4 million square feet in the A and A+ asset classes.
- On a percent of stock basis, Austin is the most active construction market in the country. Many of the other highly active office construction markets are currently playing catch-up due to a dearth of supply earlier in the economic recovery, but the Texas capital has already added 12 million square feet since the beginning of 2014, a 20.7% increase in total office supply. Remarkably, these figures exclude owner-occupied buildings. When accounting for those properties, Austin's total space under construction balloons to 11.7 million square feet. The most high profile such property is Apple's 133-acre campus, with roughly 3 million square feet of office space. Firms continue to come in and build their own spaces, signaling Austin's high demand for office space is not being met despite the 10.7% under construction as a percent of stock, a national high mark.

Supply Pipeline (by asset class and location)

National Market	Under Construction	Under Construction % Stock	Plus Planned % Stock
A+/A	133,471,218	4.5%	4.8%
B	12,658,315	0.4%	0.4%
C	581,953	0.2%	0.2%
CBD	39,112,321	3.0%	3.8%
Urban	62,074,852	4.7%	6.4%
Suburban	45,848,416	1.2%	1.7%

Source: Yardi Matrix. Data as of Dec. 31, 2019

Supply Pipeline (by metro)

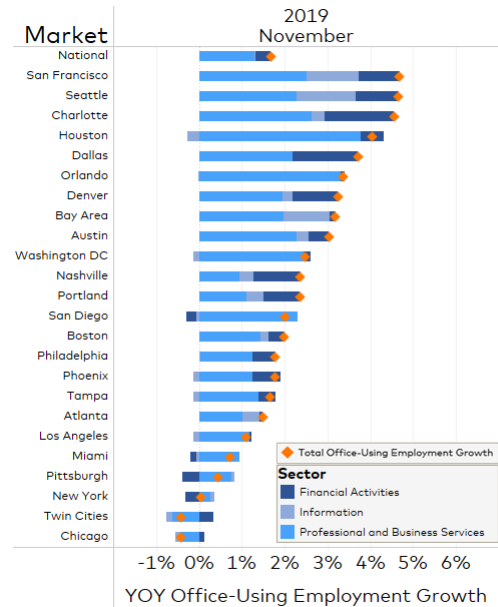
Market	Under Construction	Under Construction % Stock	Plus Planned % Stock
National	147,035,589	2.3%	3.1%
Austin	7,474,502	10.7%	13.8%
Brooklyn	3,038,108	8.5%	10.0%
Nashville	4,212,958	8.1%	12.3%
Charlotte	3,596,519	5.3%	7.4%
Seattle	6,950,385	5.2%	6.2%
San Francisco	7,605,515	5.0%	6.1%
Boston	9,866,810	4.2%	5.2%
Manhattan	18,319,715	3.8%	4.2%
Bay Area	6,575,608	3.3%	5.7%
Los Angeles	8,264,917	3.0%	3.2%
Tampa	1,759,148	2.9%	3.5%
Miami	1,812,738	2.7%	3.6%
Atlanta	4,513,496	2.4%	3.1%
Washington DC	8,063,876	2.2%	2.8%
Dallas	5,593,945	2.1%	3.2%
Twin Cities	2,234,218	1.9%	2.4%
Portland	1,076,315	1.9%	3.1%
Chicago	5,376,371	1.8%	3.2%
Denver	2,252,316	1.5%	2.5%
Philadelphia	2,313,330	1.4%	1.7%
Houston	3,082,541	1.3%	2.0%
San Diego	1,210,287	1.3%	1.8%
Orlando	652,625	1.2%	2.4%
Phoenix	1,375,396	1.1%	1.9%
New Jersey	196,535	0.1%	0.2%

Source: Yardi Matrix. Data as of Dec. 31, 2019

Office-Using Employment: Charlotte's Financial Sector Thrives

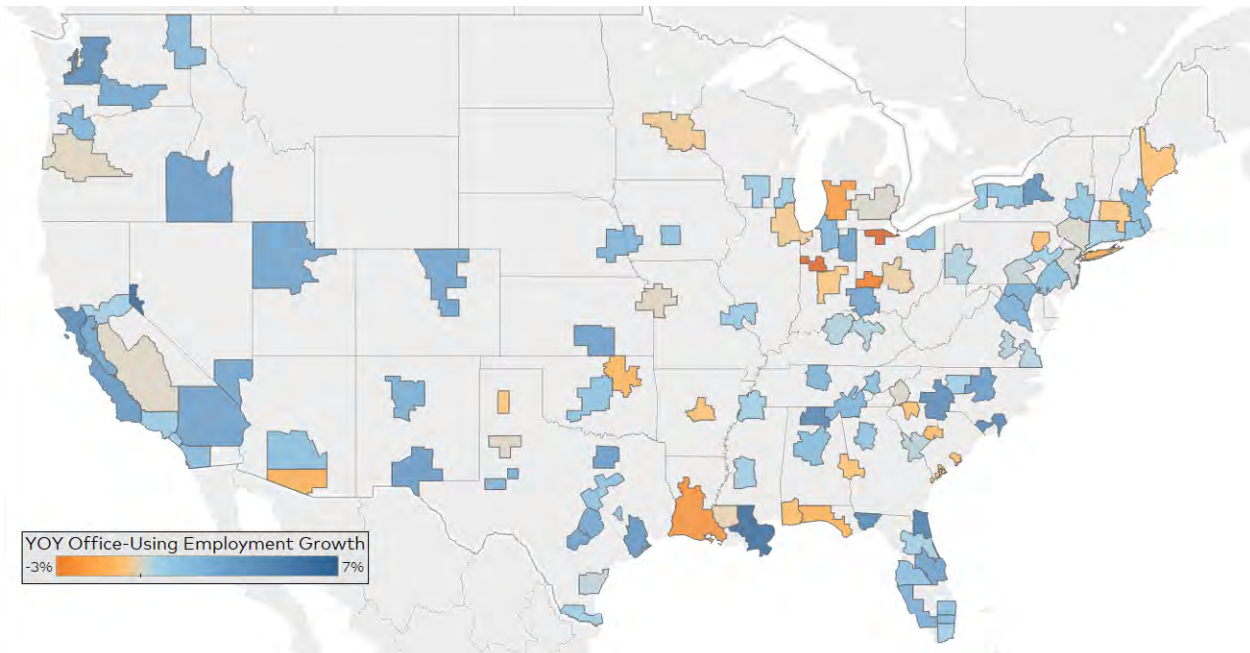
- National office-using employment had a year-over-year growth rate of 1.7%.
- Financial activities account for more than a quarter of office-using employment added each year and play an outsized role in secondary cities like Dallas, Denver and Charlotte.
- Charlotte's stature as a financial center has grown substantially in the years since the Great Recession, with Wells Fargo and Bank of America now being two of the five largest employers in the city. Jobs classified as financial activities have a year-over-year growth rate of 5.6% and make up a third of all office-using jobs added. Over the decade, Charlotte gained 28,200 jobs in the financial activities sector. By comparison, the New York-Jersey City-White Plains metro division added 48,000 jobs in the sector over the same time period despite having a labor force that is nearly six times as large.

Growth by Sector



Sources: Bureau of Labor Statistics and Moody's Analytics

Office-Using Employment Growth

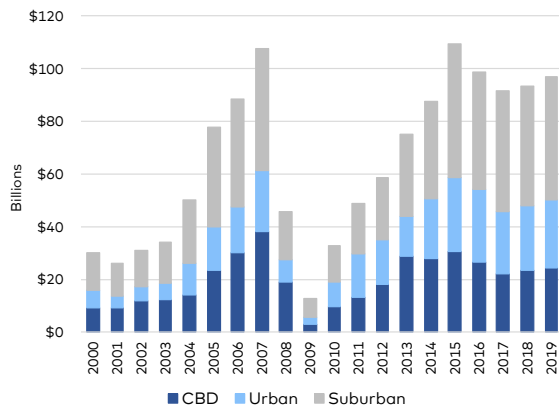


Sources: Bureau of Labor Statistics and Moody's Analytics

Transactions: Volume Stays Constant, While Total Square Feet Drops

- Total sales volume finished 2019 slightly above 2018, with \$96.7 billion of completed sales. Typically, some sales that were completed before year-end will become visible over the course of January. Nevertheless, it appears as though transactions will finish somewhere in the \$90 billion to \$100 billion range of the 2016-2018 time period.
- While total dollar volume has changed little over the last four years, the total square feet sold has fallen each year, leading to a spike in the price per square foot of transactions to an average of \$279.

Sales by Location



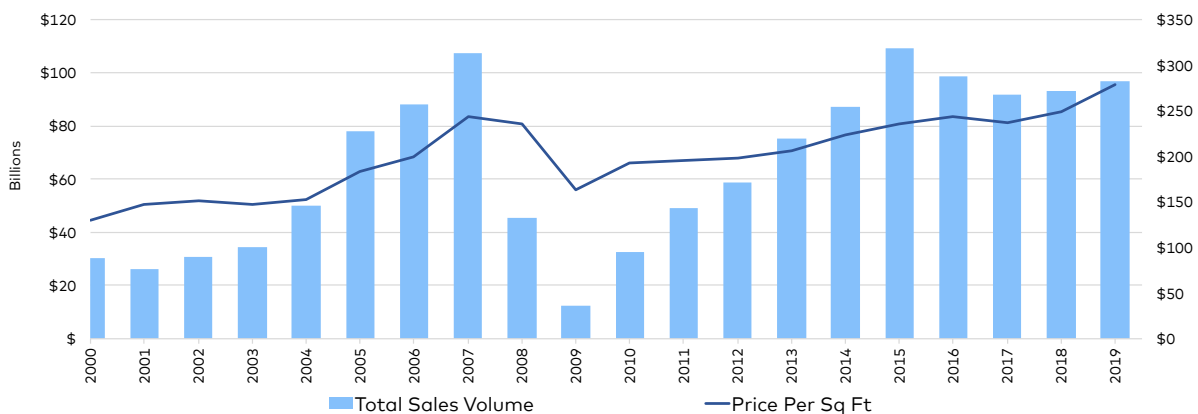
Source: Yardi Matrix; Data as of Dec. 31, 2019

Sales Activity

Market	YTD Sales Price PSF	YTD Sales (Mil, as of 12/31)
National	\$279	\$96,713
Manhattan	\$849	\$9,903
Seattle	\$544	\$9,459
Bay Area	\$506	\$7,853
Washington DC	\$264	\$7,548
San Francisco	\$749	\$5,998
Boston	\$374	\$5,533
Los Angeles	\$445	\$4,534
Denver	\$206	\$2,922
Dallas	\$268	\$2,763
Atlanta	\$183	\$2,664
Houston	\$245	\$2,433
Phoenix	\$188	\$2,336
Chicago	\$162	\$2,182
Charlotte	\$279	\$1,992
San Diego	\$380	\$1,889
New Jersey	\$147	\$1,800
Philadelphia	\$185	\$1,797
Twin Cities	\$158	\$1,516
Austin	\$375	\$1,231
Nashville	\$216	\$1,193
Portland	\$301	\$1,064
Miami	\$310	\$1,035
Tampa	\$187	\$915
Orlando	\$166	\$606
Brooklyn	\$379	\$80

Source: Yardi Matrix. Data as of Dec. 31, 2019

Total Sales



Source: Yardi Matrix. Data as of Dec. 31, 2019

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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