Yardi® Matrix

National Office Report

February 2020

U.S. Office Property: Rate Growth Flat to Begin New Year

- National listing rates were flat on a year-over-year basis, with the average full-service equivalent rate of $37.85 unchanged from January of 2019. The national vacancy rate increased 40 basis points from December to 13.8%.

- Year-over-year full-service equivalent listing rates grew the most in Manhattan (12.7%), Austin (9.9%) and Tampa (9.3%). Rates decreased in a handful of markets, including Boston (-6.0%), Chicago (-5.7%) and Seattle (-3.0%). Of the bottom markets, only Seattle had positive growth on a same-store basis, with an increase of 1.5%. Boston (-4.3%) and Chicago (-2.9%) showed rate decreases across both metrics.

- The year got off to a fast start for new supply, with 9.1 million square feet of office space delivered in January. There is currently another 145.9 million square feet under construction nationally. The stock under construction is overwhelmingly concentrated in Class A and A+ properties (132 million square feet) and in CBD and urban submarkets (102.1 million square feet).

- Employment in office-using sectors grew by 1.7% nationally, continuing to outpace overall employment growth for the country. Seattle had the highest growth rate among the 25 largest metros, at 5.2% year-over-year, highlighted by an additional 10,000 jobs in the information sector. This is particularly impressive considering there was only a net of 28,000 information jobs added in the U.S. last year.

- Transaction activity was slow at the beginning of the year, with only $5.2 billion closed during the first month. This could be due in part to the fact that transactions are not always immediately visible, so there can be a lag in gathering sales. Yet it is perhaps also due to the flurry of activity that occurred at the close of 2019; the fourth quarter saw $31.6 billion in sales, with $14.2 billion in December alone. Subdued transaction volume in the early part of the year is a trend we have observed before, so there is not yet cause for concern.

Lease Rate and Occupancy Trends: New Class A Property Pushes Miami's Rate Upward

- National listing rates averaged $37.85 in December, with no increase over the same period a year prior. The national vacancy rate was 13.8%.
- The markets leading the country in same-store rate growth were Manhattan (13.4%), San Francisco (8.5%) and Tampa (8.4%), all of which also fared well in overall listing rate growth.
- Miami, on the other hand, performed well in full-service equivalent listing rate growth at 7.6% but saw its same-store rate barely budge, with an increase of only 0.1% for properties that were online a year prior. Much of this discrepancy is attributable to the recent listing of 545wyn, which currently offers 325,000 square feet at an average full-service equivalent of $57.41 per square foot. With three additional Class A buildings totaling 1 million square feet currently under construction in the Miami North submarket, Miami's average listing rates could continue to rise.

Listings by Metro

Market	Jan-20 Listing Rate	12-Month Change	Total Vacancy	Top Listing	Price Per Square Foot
National	$37.85	0.0%	13.8%		
Manhattan	$84.46	12.7%	8.0%	One Manhattan West	$140.00
Austin	$42.04	9.9%	8.3%	100 Congress	$76.83
Tampa	$29.91	9.3%	11.6%	1001 Water Street	$55.70
Brooklyn	$56.28	8.6%	12.6%	Brooklyn Navy Yard–Dock 72	$73.00
Bay Area	$49.16	8.3%	13.6%	525 University Avenue	$149.20
Miami	$41.68	7.6%	13.3%	830 Brickell Plaza	$73.00
San Francisco	$71.26	6.7%	7.7%	2180 Sand Hill Road	$150.84
Atlanta	$27.46	6.3%	16.2%	3344 Peachtree	$49.19
San Diego	$37.99	3.4%	11.5%	Molecular and Experimental Medicine Building	$72.74
Charlotte	$28.29	3.2%	10.7%	SouthPark Towers I	$41.52
Los Angeles	$39.14	3.2%	12.5%	1999 Avenue of the Stars	$93.00
Twin Cities	$26.70	2.7%	12.1%	10 West End	$37.83
Portland	$29.68	2.6%	12.2%	Broadway Tower	$46.16
Denver	$28.36	1.7%	12.7%	William Building, The	$59.67
Houston	$29.45	0.9%	21.9%	Campanile South	$54.29
Washington DC	$39.08	0.4%	15.6%	900 Sixteenth Street	$81.52
Orlando	$21.61	0.3%	13.2%	Lake Nona Town Center–Phase II	$36.41
Nashville	$29.90	0.3%	11.6%	Peabody Plaza at Rolling Mill Hill	$50.81
Phoenix	$27.06	0.1%	18.5%	Watermark– Phase I, The	$45.00
Dallas	$27.71	-0.4%	17.7%	Weir's Plaza	$63.44
Philadelphia	$28.62	-1.6%	13.2%	Two Liberty Place	$51.50
New Jersey	$31.03	-2.2%	21.4%	Newport–111 Town Square Place	$62.97
Seattle	$37.14	-3.0%	8.2%	Atrium, The	$79.77
Chicago	$28.35	-5.7%	15.7%	300 North LaSalle Drive	$61.46
Boston	$37.17	-6.0%	10.1%	Fiduciary Trust Building	$70.30

Source: Yardi Matrix. Data as of January 2020. Listing rates are full service or "full service equivalent" rates for spaces available as of report period.

Supply:
Charlotte Adds Space in City Center, Follows National Trend

- January saw delivery of 9.1 million square feet of new office space, nearly two-thirds of it (5.7 million square feet) in CBD or urban submarkets.

- Central location of new development is not a blip but rather a trend that began in 2018 and that we anticipate continuing for the foreseeable future. Nationally, 145.9 million square feet of office space is under construction, with 70% (102.1 million) of that in locations classified as CBD or urban. This is a remarkable shift from the historic trend. From 2000 through 2017, 1.1 billion of the 1.6 billion square feet delivered was in suburban properties.

- Charlotte exemplifies this shift toward the city center. Between 2011 and 2016, 94% of the 3.5 million square feet delivered were in the suburbs. In 2017, when two CBD towers were delivered totaling slightly more than 1 million square feet, suburban markets accounted for slightly less than half of deliveries. Just one 66,000-square-foot building was delivered in the city center in 2018, but inner-city office deliveries made a big comeback in 2019, when 2 million of the 2.6 million square feet delivered was in CBD or urban locales. And 79% (2.9 million) of the 3.6 million square feet currently under construction is situated similarly, guaranteeing the shift to the city center is far from over.

Supply Pipeline (by asset class and location)

National Market	Under Construction	Under Construction % Stock	Plus Planned % Stock
A+/A	132,040,750	4.4%	4.7%
B	13,165,821	0.4%	0.5%
C	581,953	0.2%	0.2%
CBD	40,311,537	3.1%	3.8%
Urban	61,805,728	4.7%	6.4%
Suburban	43,778,795	1.2%	1.6%

Source: Yardi Matrix. Data as of Jan. 31, 2020

Supply Pipeline (by metro)

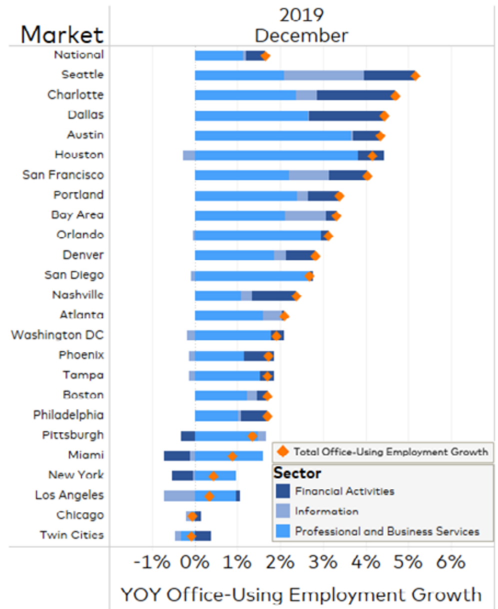
Market	Under Construction	Under Construction % Stock	Plus Planned % Stock
National	145,896,060	2.3%	3.1%
Austin	7,797,029	11.1%	14.1%
Brooklyn	3,556,974	9.8%	11.3%
Nashville	3,857,640	7.3%	11.8%
Charlotte	3,679,899	5.5%	7.3%
Seattle	6,967,048	5.2%	6.2%
San Francisco	7,490,656	5.0%	6.0%
Boston	10,083,437	4.3%	5.4%
Manhattan	18,407,368	3.9%	4.3%
Los Angeles	8,537,975	3.1%	3.3%
Bay Area	6,156,485	3.1%	5.5%
Tampa	1,759,148	2.9%	3.4%
Miami	1,826,962	2.8%	3.6%
Atlanta	4,593,866	2.5%	2.8%
Chicago	6,778,834	2.2%	2.7%
Dallas	5,589,708	2.1%	3.2%
Twin Cities	2,234,218	1.9%	2.4%
Washington DC	7,250,690	1.9%	2.6%
Portland	1,076,315	1.9%	3.0%
Houston	3,647,356	1.6%	2.4%
Denver	2,133,908	1.4%	2.4%
Philadelphia	2,313,330	1.4%	1.7%
Orlando	709,625	1.3%	2.5%
San Diego	1,112,005	1.2%	1.7%
Phoenix	1,375,517	1.1%	2.1%
New Jersey	161,800	0.1%	0.2%

Source: Yardi Matrix. Data as of Jan. 31, 2020

Office-Using Employment:
Dallas Leads Nation in Total Office Employment Added

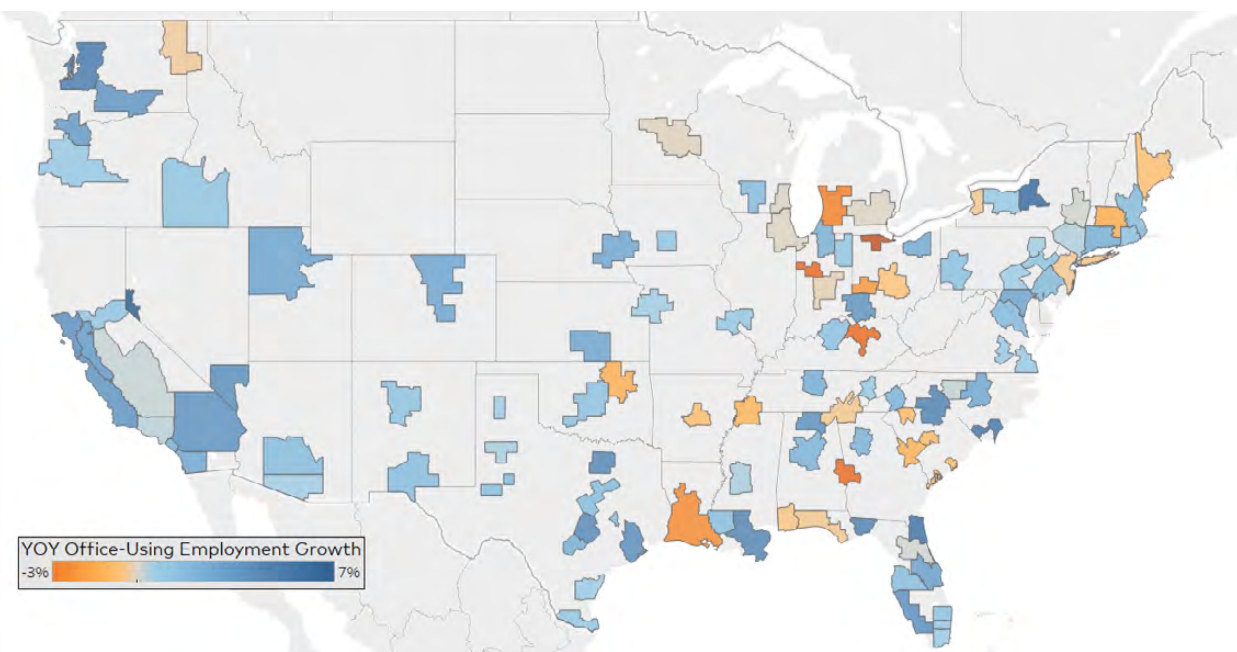
- Nationally, office-using employment sectors grew at a rate of 1.7% year-over-year for the 12 months ending in December 2019.
- Nearly all of the 539,000 office-using jobs added in 2019 were in the professional and business services or financial activities sectors. Information, which includes the high-profile tech employment sector, accounted for a net gain of just 28,000 jobs over the year.
- Due to a lack of tech employment, Dallas can sometimes be overlooked as a major factor in the growth of office-using employment. In fact, Dallas added far more jobs in office-using employment sectors than any other metro in 2019, with an increase of 44,890 jobs. This far outpaced second-place Houston, which saw 28,900 office-using jobs added. Remarkably, Dallas added 18,000 financial activity jobs last year, accounting for one-eighth of the sector's national growth.

Growth by Sector



Sources: Bureau of Labor Statistics and Moody's Analytics

Office-Using Employment Growth



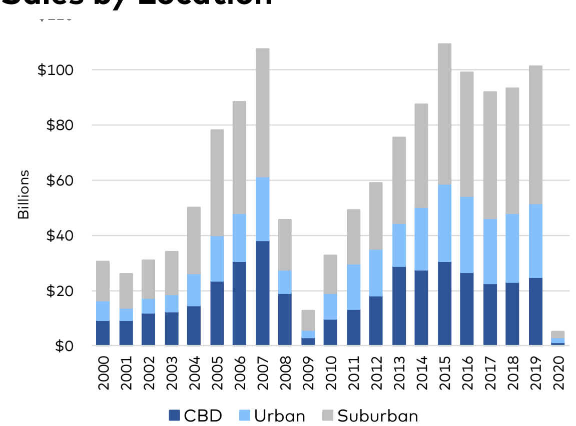
Sources: Bureau of Labor Statistics and Moody's Analytics

Transactions: Transaction Volume Subdued to Start 2020

- Transactions began the year somewhat slowly, with only $5.2 billion in deals during January. This doesn't necessarily mean that activity will cool down in 2020. We observed the same trend at the beginning of last year, only for 2019 to finish with $101.1 billion in sales, the highest mark since 2015.

- Recent reports of foreign investors selling U.S. commercial real estate assets could have a large impact on the office market in 2020. We will monitor this trend closely going forward.

Sales by Location



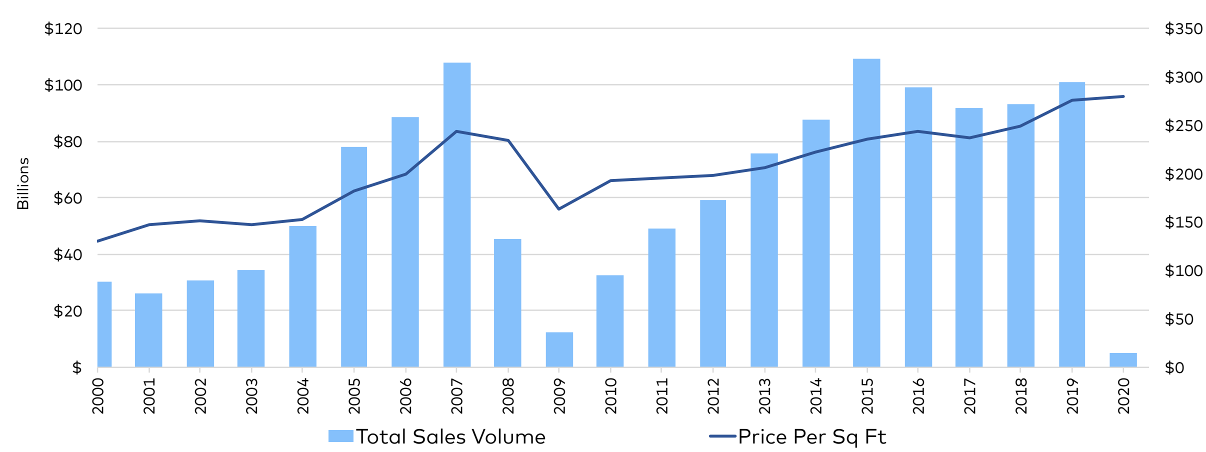
Source: Yardi Matrix; Data as of Jan. 31, 2020

Sales Activity

Market	YTD Sales Price PSF	YTD Sales (Mil, as of 1/31)
National	$280	$5,215
Manhattan	$515	$999
New Jersey	$270	$857
Boston	$512	$754
Washington DC	$361	$511
Austin	$370	$258
San Francisco	$743	$154
Atlanta	$204	$125
San Diego	$445	$109
Denver	$135	$75
Los Angeles	$1,024	$74
Phoenix	$130	$72
Portland	$273	$53
Bay Area	$213	$48
Miami	$199	$46
Dallas	$382	$43
Twin Cities	$238	$40
Houston	$160	$38
Philadelphia	$63	$28
Nashville	$205	$22
Orlando	$109	$10
Tampa	$128	$3
Chicago	$0	$0
Seattle	$0	$0
Charlotte	$0	$0
Brooklyn	$0	$0

Source: Yardi Matrix. Data as of Jan. 31, 2020

Total Sales



Source: Yardi Matrix. Data as of Jan. 31, 2020

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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