

Yardi® Matrix

National Office Report

October 2019



U.S. Office Property: New Supply Increasingly Urban

- Average U.S. office asking rates increased 1.4% year-over-year in September to \$37.18. National vacancy rates dropped 10 basis points from the previous month, to 13.3%.
- Year-over-year average listing rates were again led by San Francisco (32.0%), Tampa (16.4%) and Austin (12.5%). Much of this growth can be attributed to expensive new listings entering the market and inflating the average. Same-store rates in these metros grew at a slower rate, with Tampa (4.5%) and Austin (2.5%) appearing much more moderate. However, San Francisco has still seen remarkable growth across all measures, as same-store rates grew 17.4% over the last 12 months.
- New deliveries sat at 50.6 million square feet during the first three quarters of the year, putting new supply on pace to finish 2019 somewhere in the ballpark of 2018's 72.7 million square feet. Two major trends in new office supply have become apparent of late. First, new supply is heavily concentrated in just a handful of metros, with more than half (54.6%) of the square feet in the top 10 most active markets and more than three quarters (79.1%) in the top 20. Second, new supply is increasingly concentrated in urban submarkets, a recent occurrence that bucks historic trends. The share of new suburban office buildings as a percentage of the total remains around 43%, where it was in 2018 and a post-recession low by a healthy margin. Before 2018, suburban properties had constituted at least half of new deliveries every year since the Great Financial Crisis. This trend will continue, as only 31.3% of square footage under construction is in suburban submarkets.
- The 1.7% job growth in office-using employment sectors, resulting in 568,000 jobs added in the period between August 2018 and August 2019, continues to beat the growth rate (1.4%) of the overall labor market. This trend has persisted throughout the economic recovery. The national share of office-using employment increased from 20.8% of total employment to 21.8% during this decade.
- Total office transaction activity was down somewhat in the first three quarters of the year compared to 2018. While there was some anticipation that sales would increase in the third quarter due to low interest rates, the third quarter of the year will finish close to the second quarter's \$22.8 billion of sales.

Lease Rate and Occupancy Trends: New Listings Send Austin's Rates Skyrocketing

- National listing rates averaged \$37.18 in September, an increase of 1.4% from the same period a year prior. The national vacancy rate was 13.3%.
- The leaders in same-store listing rate growth were San Francisco (17.4%), the Bay Area (9.1%), Manhattan (5.9%) and Tampa (4.4%).
- The contrast between average rates and same-store is glaring in Austin, where the average listing rate over the last 12 months has increased 12.5% to \$41.42, almost entirely due

to new listings for buildings under construction. Same-store rates in the Texas capital have only increased by 2.5%. Sol at 618 Tillery in East Austin recently listed 187,155 square feet at a full-service equivalent rate of \$61.04 per square foot. In South Austin, Bouldin Creek listed 142,500 square feet with a full-service equivalent rate of \$63.58 per square foot. With 7.4 million square feet currently under construction, expect Austin's average listing rate to continue the upward trend as new high-end spaces are listed above the current market rate.

Listings by Metro

Market	Sept-19 Listing Rate	12-Month Change	Total Vacancy	Top Listing	Price Per Square Foot
National	\$37.18	1.4%	13.3%		
San Francisco	\$75.54	32.0%	7.8%	2180 Sand Hill Road	\$152.44
Tampa	\$29.46	16.4%	11.1%	1001 Water Street	\$55.70
Austin	\$41.42	12.5%	8.2%	Indeed Tower	\$70.67
Bay Area	\$47.40	11.3%	14.8%	444 Castro	\$120.67
Brooklyn	\$57.47	10.2%	10.5%	Brooklyn Navy Yard—Dock 72	\$73.00
Manhattan	\$81.97	8.3%	7.5%	550 Madison Avenue	\$210.00
Dallas	\$28.75	5.2%	18.1%	Saint Ann Court	\$56.71
San Diego	\$38.50	5.1%	12.1%	Molecular and Experimental Medicine Building	\$72.74
Phoenix	\$27.24	4.2%	16.7%	Camelback Collective	\$43.50
Nashville	\$31.27	4.2%	10.4%	Three Thirty Three	\$44.38
Twin Cities	\$27.13	3.7%	12.5%	Offices at MOA, The	\$41.00
Houston	\$29.41	3.7%	21.7%	Campanile South	\$54.23
Miami	\$38.87	2.5%	13.2%	1450 Brickell	\$67.00
Philadelphia	\$28.85	2.5%	13.3%	Three Logan Square	\$51.57
Los Angeles	\$38.12	2.0%	12.5%	9595 Wilshire	\$91.80
Atlanta	\$26.23	1.8%	16.4%	Three Alliance Center	\$53.98
Charlotte	\$28.02	1.7%	10.6%	SouthPark Towers II	\$41.52
Portland	\$29.42	0.6%	12.5%	5 MLK	\$48.03
New Jersey	\$31.64	-1.2%	20.6%	10 Exchange Place	\$57.30
Seattle	\$37.05	-1.6%	8.4%	Atrium, The	\$79.77
Denver	\$27.81	-1.7%	13.2%	Platte Fifteen	\$52.80
Boston	\$35.81	-2.3%	9.5%	One Federal Street	\$76.00
Chicago	\$28.87	-4.9%	14.6%	300 North LaSalle Drive	\$61.39
Orlando	\$21.27	-5.0%	12.0%	Lake Nona Town Center—Phase II	\$36.41
Washington DC	\$38.98	N/A	14.4%	1000 F Street NW	\$83.08

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

Supply: Brooklyn's Pipeline Sizeable Due to Smaller Properties

- Nationally, a total of 50.6 million square feet of office space was delivered during the first three quarters of 2019, with 79.1% of this new construction in just 20 markets. Of these deliveries, 28.6 million square feet (56.5%) have been in urban submarkets.
- A total of 176.3 million square feet are currently under construction nationwide, representing 2.8% of stock. The stock under construction is also heavily concentrated in major markets, with 76.7% being in the top 20.
- With an under-construction-plus-planned pipeline that represents 25% of the existing stock, Brooklyn's rapidly growing office market looks poised to continue at an astonishing rate for the foreseeable future. While many other markets with substantial pipelines are skewed by a few large properties, that is not the case with Brooklyn. Rather, the market is undergoing a broad addition of more moderate-size office buildings. Brooklyn currently has 23 office properties under construction, with the largest being Brooklyn Navy Yard – Dock 72 at 675,000 square feet. The median size for a building under construction in the market is just 124,000 square feet. Contrast that with Manhattan, where the median building under construction is 252,000 square feet.

Supply Pipeline (by asset class and location)

National Market	Under Construction	Under Construction % Stock	Plus Planned % Stock
A+/A	160,318,080	5.5%	6.0%
B	15,165,573	0.5%	0.5%
C	636,303	0.2%	0.2%
CBD	41,483,196	3.2%	6.1%
Urban	81,545,748	6.2%	12.5%
Suburban	53,195,612	1.5%	4.7%

Source: Yardi Matrix. Data as of Sept. 30, 2019

Supply Pipeline (by metro)

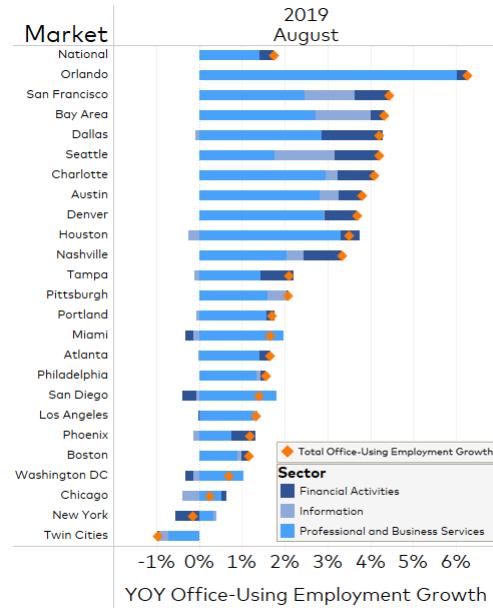
Market	Under Construction	Under Construction % Stock	Plus Planned % Stock
National	176,265,800	2.8%	6.6%
Brooklyn	5,196,712	15.0%	25.0%
Austin	7,393,101	10.6%	30.5%
Nashville	5,112,865	10.0%	17.1%
San Francisco	9,308,849	6.2%	15.8%
Manhattan	23,277,802	4.9%	5.2%
Seattle	6,451,137	4.8%	11.6%
Boston	10,560,073	4.6%	8.8%
Charlotte	2,984,136	4.4%	10.2%
Miami	2,817,269	4.3%	13.0%
Portland	2,124,813	3.7%	7.0%
Bay Area	6,568,053	3.4%	12.7%
Orlando	1,665,301	3.2%	11.7%
Tampa	1,903,023	3.2%	5.5%
Los Angeles	8,645,340	3.1%	5.2%
Atlanta	5,755,757	3.1%	7.2%
Chicago	8,899,623	3.0%	8.1%
Washington DC	10,722,849	2.9%	5.6%
Dallas	6,673,565	2.5%	10.9%
Denver	3,849,381	2.5%	5.6%
Phoenix	2,902,649	2.3%	9.3%
Twin Cities	1,943,549	1.8%	4.1%
San Diego	1,398,762	1.6%	8.5%
Houston	3,142,760	1.4%	3.1%
Philadelphia	2,213,453	1.3%	3.1%
New Jersey	331,262	0.2%	2.5%

Source: Yardi Matrix. Data as of Sept. 30, 2019

Office-Using Employment: Phoenix Office Sector Lags Overall Labor Market

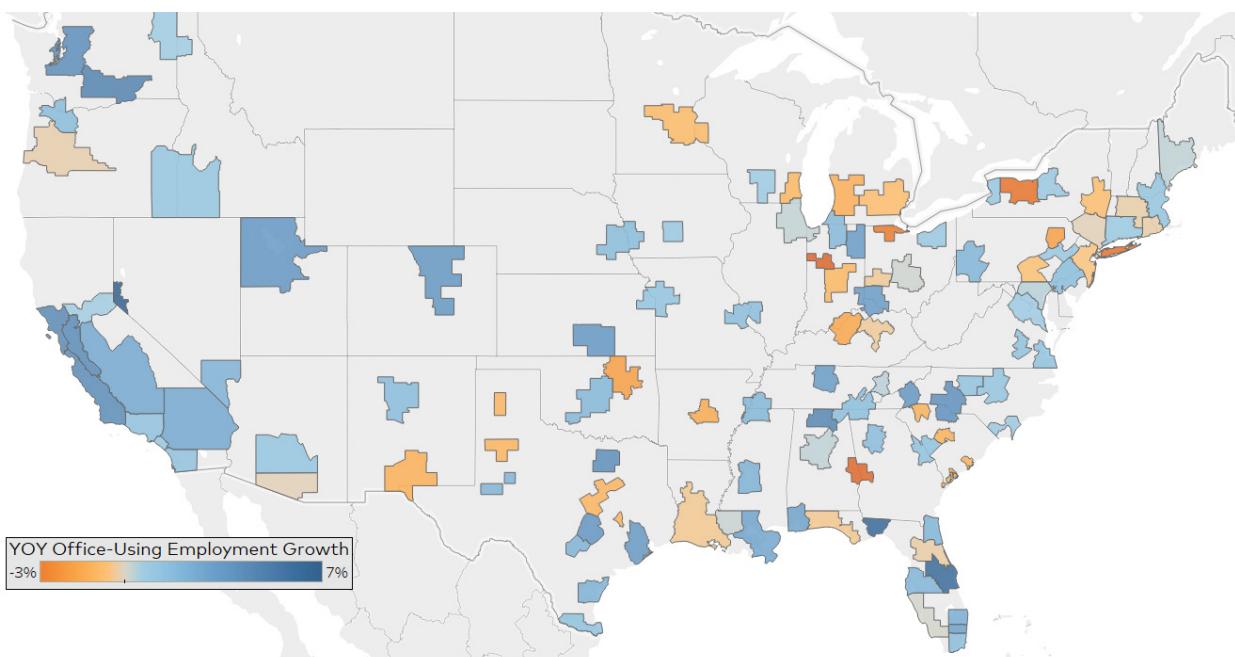
- Office-using employment increased 1.7% year-over-year in August, besting the rate of 1.4% for all employment growth. Most of this growth continues to come from the professional and business services sector, which accounted for 456,000 of the 568,000 office jobs created since August of last year.
- The growth rate of employment in office-using sectors has outperformed the overall labor market every month during the economic recovery.
- One market that does not follow this trend is Phoenix. While office-using employment grew rapidly in the earlier part of the decade, since the beginning of 2016 office-using employment has increased at or below the rate for the city's overall labor market. In August, the total number of workers in Phoenix grew by 2.5% year-over year, compared to a meager 1.2% rate for office-using jobs.

Growth by Sector



Sources: Bureau of Labor Statistics and Moody's Analytics

Office-Using Employment Growth

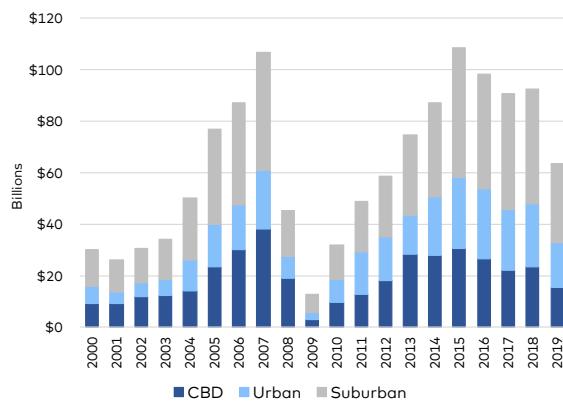


Sources: Bureau of Labor Statistics and Moody's Analytics

Transactions: Total Volume Down But Price Per Square Foot Up

- Office sales through the first three quarters totaled \$63.5 billion, somewhat off the \$67.4 billion mark from the first three quarters of 2018. Nationally, there were slightly more than 2,000 transactions through the end of September—which was down from the 2,320 transactions in the first three quarters of last year.
- On a dollar-per-square-foot basis, office building prices have escalated so far this year, at an average of \$270 per square foot, compared to \$248 in 2018.

Sales by Location



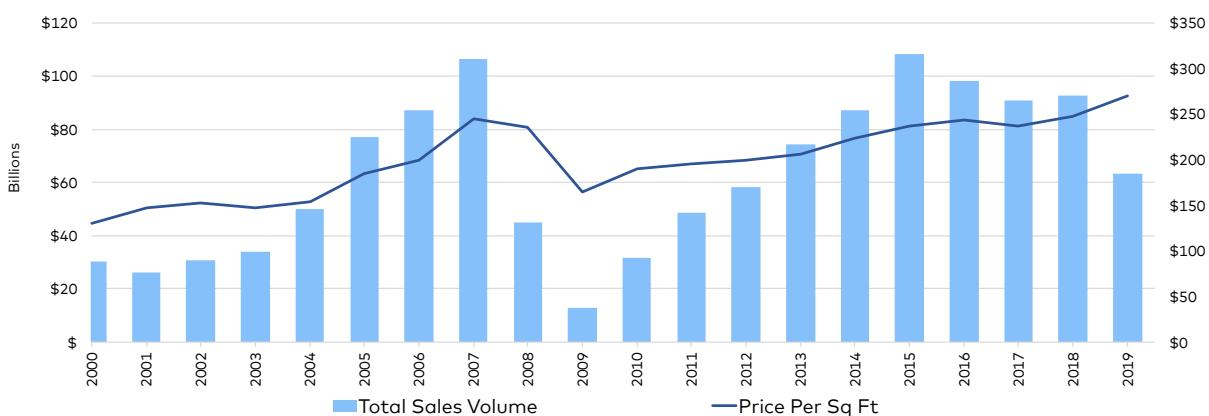
Source: Yardi Matrix; Data as of Sept. 30, 2019

Sales Activity

Market	YTD Sales Price PSF	YTD Sales (Mil, as of 9/30)
National	\$270	\$63,536
Manhattan	\$907	\$6,670
Bay Area	\$481	\$5,598
Seattle	\$507	\$5,304
Washington DC	\$277	\$5,013
San Francisco	\$788	\$4,248
Los Angeles	\$500	\$3,593
Boston	\$240	\$2,218
Atlanta	\$196	\$2,204
Denver	\$204	\$2,202
Houston	\$228	\$1,854
San Diego	\$402	\$1,621
Phoenix	\$173	\$1,445
Philadelphia	\$190	\$1,401
New Jersey	\$157	\$1,349
Chicago	\$134	\$1,155
Twin Cities	\$154	\$1,098
Dallas	\$232	\$1,083
Charlotte	\$220	\$1,009
Portland	\$297	\$882
Nashville	\$226	\$807
Austin	\$317	\$787
Tampa	\$197	\$674
Miami	\$308	\$646
Orlando	\$164	\$500
Brooklyn	\$382	\$91

Source: Yardi Matrix. Data as of Sept. 30, 2019

Total Sales



Source: Yardi Matrix. Data as of Sept. 30, 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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