



CommercialEdge

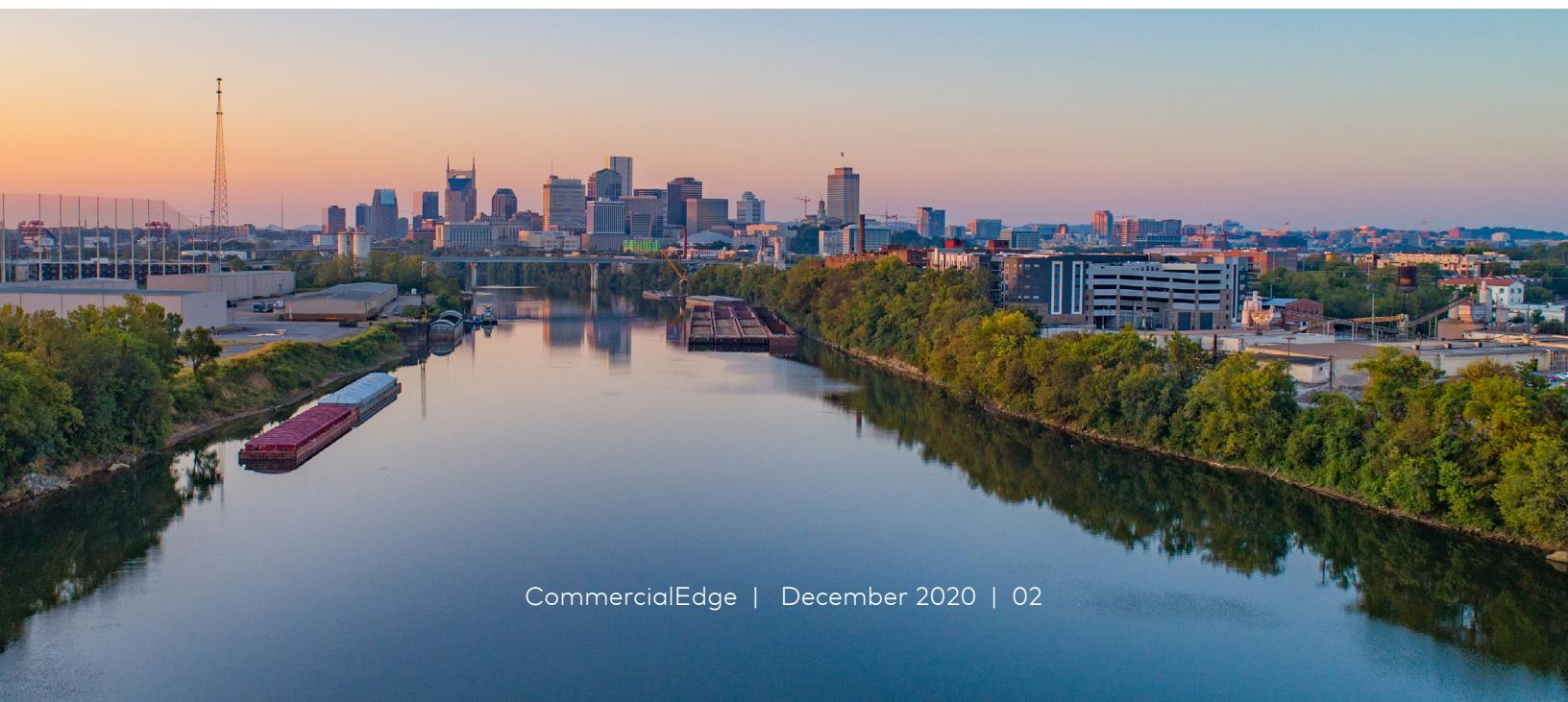
National Office Report

December 2020



Vaccine Offers Hope But Uncertainty Still Looms

- The national average full-service equivalent listing rate fell 11 cents in November from the previous month to \$38.00 per square foot. The national vacancy rate increased 40 basis points to 13.8%.
- With vaccines for the novel coronavirus starting to roll out and up to 95% effective, the office industry should feel better about its long-term prospects. However, there are still concerns that will make the road bumpy over the next couple of years. The economy has been battered by the virus and will not immediately rebound to its pre-COVID trajectory once the majority of Americans have been vaccinated. Further, there is a question as to how many Americans will take a vaccine, with less than two-thirds of poll respondents saying they will get vaccinated. Many questions will need to be answered in coming months: Can and will employers require their workers to be vaccinated before returning to work? How will liability be handled if vaccine acceptance isn't widespread? How does this influence decision makers determining when, or if, their firms will return to the office?
- Many in the commercial office sector expect that the COVID-19 pandemic will reverse the decade-plus-long trend of densification and urbanization, leading to a rebirth of the suburban office. While it may be a long time before we know exactly how the coronavirus shifted the preferences of the modern worker, there were signs the suburbs were primed for a comeback before this year. Millennials are aging, with the oldest turning 40 soon, and many are forming families that will have different needs than the live-work-play balance developers previously targeted. Autonomous vehicles and remote work software were existential threats to the city center before the pandemic, and the health crisis may accelerate these trends, raising further questions about future demand for office space. One hint that this shift back to the suburbs was already underway before COVID can be found in Austin, the hottest market for new development. While 79% of Austin's office stock is suburban, only 33% of square feet under construction are in the suburbs. As with many cities, the urban core and commercial business district saw large-scale revitalization in the last decade, a trend that is still playing out, with new buildings and construction cranes dotting the skyline. Despite the concentration of properties under construction in the urban center, the vast majority of Austin's planned stock (77%) is in suburban submarkets, and most of these properties were being planned before developers started fretting that the pandemic would permanently alter attitudes toward dense urban locations.



Listing Rates: Downtown San Diego's New Construction

- The average full-service equivalent listing rate was \$38.00 per square foot, a decrease of 0.8% from November of last year.
- Same-store listing rate growth was highest in the Bay Area (8.2%), Austin (7.3%) and Nashville (6.4%). Same-store rates decreased the most in Boston (-11.4%), San Francisco (-7.4%) and San Diego (-6.4%).
- Despite the drop in same-store rates, average full-service equivalent listing rates in San Diego increased 5.2% year-over-year, due to build-

ings currently under construction in downtown. 2100 Kettner in the Little Italy neighborhood is listing 190,000 square feet at an average full-service rate of \$69.00 per square foot. Nearby, The RaDD-Block 1B is listing 1.2 million square feet at a full-service equivalent rate of \$77.05 per square foot. At a time when the suburbs are receiving renewed interest, absorbing this much space in downtown could be very problematic for the building owners. On the bright side, downtown San Diego offers gorgeous views of the harbor that may be enough to reel tenants in.

Listings by Metro

Market	Nov-20 Listing Rate	12-Month Change	Total Vacancy	Top Listing	Price Per Square Foot
National	\$38.00	-0.8%	13.8%		
Bay Area	\$54.76	7.7%	13.8%	525 University Avenue	\$168.02
San Diego	\$40.27	5.2%	13.8%	RaDD-Block 1B, The	\$77.05
Austin	\$42.42	3.8%	11.3%	Indeed Tower	\$70.67
New Jersey	\$32.76	3.2%	16.8%	Liberty Innovation Center	\$70.29
Washington DC	\$41.27	2.9%	14.8%	PNC Place	\$87.29
Orlando	\$21.44	2.5%	14.4%	250 Park Avenue South	\$40.00
Miami	\$42.46	1.3%	13.7%	830 Brickell Plaza	\$73.00
Nashville	\$31.69	1.3%	15.0%	Broadwest	\$50.72
Houston	\$29.80	1.1%	22.0%	Texas Tower	\$58.40
Charlotte	\$28.76	0.9%	9.7%	300 South Tryon	\$42.00
Los Angeles	\$38.93	0.8%	13.0%	100 Wilshire	\$111.00
Philadelphia	\$29.29	0.7%	12.7%	One Liberty Place	\$51.71
Phoenix	\$27.31	-0.1%	17.2%	One Hundred Mill	\$50.50
Manhattan	\$85.65	-0.1%	9.9%	550 Madison Avenue	\$210.00
Atlanta	\$26.97	-0.4%	17.7%	300 Colony Square	\$50.00
Denver	\$28.61	-1.3%	14.1%	William Building, The	\$59.67
Portland	\$28.88	-1.8%	12.4%	Broadway Tower	\$46.16
Chicago	\$28.15	-2.6%	15.3%	PNC Centre at One North Franklin	\$64.30
Twin Cities	\$26.90	-2.7%	11.3%	Offices at MOA, The	\$40.00
Seattle	\$35.99	-3.2%	10.2%	Key Center	\$62.91
Dallas	\$27.70	-3.5%	18.3%	Weir's Plaza	\$63.44
Brooklyn	\$51.01	-4.7%	13.3%	One MetroTech Center	\$65.59
Boston	\$33.75	-8.8%	10.6%	Two Charles Park	\$95.00
Tampa	\$27.89	-9.6%	11.5%	Heights Union-East Building	\$45.00
San Francisco	\$64.80	-12.6%	10.7%	2180 Sand Hill Road	\$150.84

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

Supply: Developers Bullish on Austin Despite the Pandemic

- Nationally, 62.8 million square feet of new office supply have been delivered this year.
- CommercialEdge changed the way it reports properties in the supply pipeline this month. While this report will continue to exclude owner-occupied buildings from supply statistics, previous versions also omitted buildings in the pipeline where the dominant tenant mix was unknown. Going forward, the ratio of square footage in completed owner-occupied buildings will be applied to unknown properties. This raises the total square footage of buildings under construction by 37 million but has the largest impact on the planned portion of the pipeline.
- This change in methodology illustrates Austin's attractiveness to developers, as the total amount of square footage either under construction or in the planning stages represents 27.5% of current stock. It is easy to see why Austin is so alluring to developers. Despite the pandemic, the year-over-year growth in office-using employment sectors was 4.3% in October, far ahead of other major markets. Additionally, Austin has seen some high-profile corporate relocations recently, most notably Tesla and Oracle, which look to take advantage of a favorable tax environment.

Supply Pipeline (by asset class and location)

National Market	Under Construction	Under Construction % Stock	Plus Planned % Stock
A+/A	153,686,526	5.1%	5.5%
B	11,266,690	0.4%	0.4%
C	0	0.0%	0.0%
CBD	36,419,624	2.8%	4.9%
Urban	79,478,305	5.9%	13.1%
Suburban	50,445,037	1.3%	4.4%

Source: CommercialEdge. Data as of November 2020

Supply Pipeline (by metro)

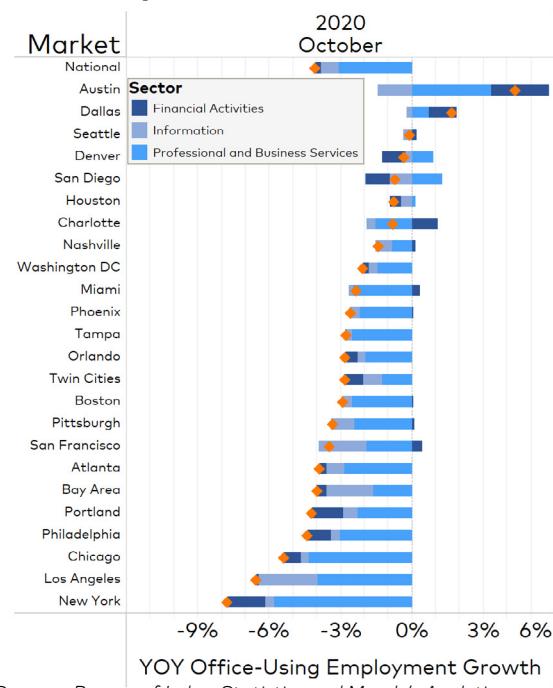
Market	Under Construction	Under Construction % Stock	Plus Planned % Stock
National	166,342,966	2.6%	6.3%
Austin	8,062,025	10.8%	27.5%
Charlotte	5,453,505	8.0%	17.4%
Brooklyn	2,951,925	7.4%	13.8%
Nashville	3,890,270	7.2%	17.2%
Seattle	7,937,840	5.8%	12.8%
San Francisco	8,380,040	5.4%	11.3%
Boston	11,220,720	4.7%	7.7%
Portland	2,506,893	4.3%	8.9%
San Diego	3,905,472	4.3%	6.5%
Manhattan	19,544,729	4.1%	5.3%
Los Angeles	9,392,649	3.3%	6.7%
Bay Area	6,099,888	3.0%	9.7%
Atlanta	5,011,375	2.7%	4.8%
Miami	1,758,467	2.6%	8.5%
Houston	5,564,091	2.4%	3.9%
Tampa	1,460,879	2.3%	5.0%
Denver	3,294,132	2.1%	6.2%
Phoenix	2,709,735	2.1%	9.7%
Washington DC	7,701,829	2.0%	4.1%
Dallas	4,976,869	1.9%	9.1%
Chicago	5,521,443	1.8%	6.3%
Twin Cities	2,030,934	1.7%	3.0%
Philadelphia	2,757,147	1.6%	4.9%
Orlando	465,224	0.8%	10.5%
New Jersey	547,580	0.3%	2.1%

Source: CommercialEdge. Data as of November 2020

Office-Using Employment: Gateway Markets Slow to Recover

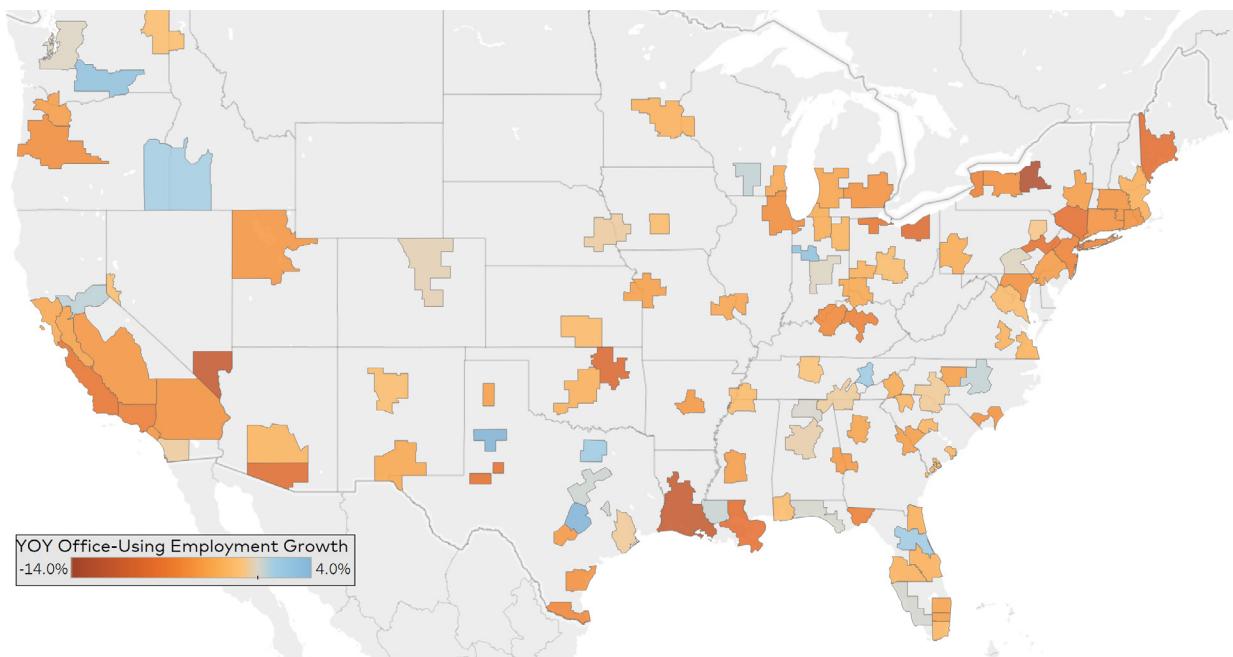
- Nationally, employment in office-using sectors decreased by 4.0% year-over-year in November as the recovery stalled due to cases of COVID-19 rising to unprecedented levels.
- Metro data for October, which trails the national release, saw a handful of markets fully recovered from the initial downturn. While all metros suffered high levels of employment loss in the second quarter, 16 of the 120 markets covered by CommercialEdge have positive year-over-year growth in office-using sectors.
- Office-using employment has taken a larger hit in gateway markets than the rest of the country during the COVID-19 pandemic. Of the top 25 markets covered by CommercialEdge, the three with the most job losses since October of last year were all gateways: New York (-7.8%) Los Angeles (-6.6%) and Chicago (-5.4%). Overall, office-using employment in gateway markets is down 5.3% year-over-year, compared to a 3.0% drop in all other markets.

Growth by Sector



Sources: Bureau of Labor Statistics and Moody's Analytics

Office-Using Employment Growth

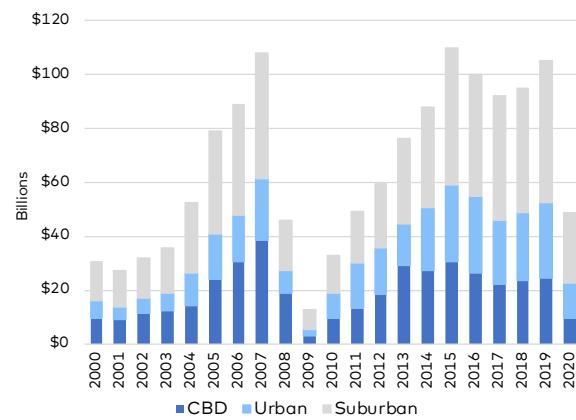


Sources: Bureau of Labor Statistics and Moody's Analytics

Transactions: Boston's Volume Due to Early-Year Sales

- National transaction volume was \$47.3 billion after 11 months, and sales are on pace to finish with roughly half of last year's total volume.
- Some markets, such as Boston, come close to reaching last year's volume, but this is mostly due to activity in the early part of the year. After accumulating \$5.8 billion of transactions in 2019, Boston has the largest sales volume in the nation this year, with \$4.5 billion of sales through the end of November. However, the two largest transactions of 2020, totaling a combined \$1.4 billion, were in process before the pandemic and finalized in early spring.

Sales by Location



Source: CommercialEdge; Data as of November 2020

Sales Activity

Market	YTD Sales Price PSF	YTD Sales (Mil, as of 11/31)
National	\$283	\$47,301
Boston	\$443	\$4,487
Manhattan	\$771	\$4,314
San Francisco	\$1,157	\$3,697
Washington DC	\$312	\$3,315
Bay Area	\$425	\$3,251
Los Angeles	\$380	\$2,925
New Jersey	\$188	\$1,981
Chicago	\$248	\$1,891
Seattle	\$637	\$1,637
Dallas	\$262	\$1,629
Houston	\$309	\$1,261
Denver	\$204	\$1,127
San Diego	\$376	\$981
Philadelphia	\$172	\$930
Nashville	\$344	\$779
Charlotte	\$319	\$719
Atlanta	\$168	\$672
Portland	\$261	\$640
Phoenix	\$180	\$618
Brooklyn	\$399	\$445
Twin Cities	\$125	\$444
Miami	\$183	\$333
Tampa	\$178	\$237
Orlando	\$149	\$175
Austin	\$292	\$175

Source: CommercialEdge. Data as of November 2020

Total Sales



Source: CommercialEdge. Data as of November 2020

Definitions

This report covers office buildings 50,000 square feet and above. CommercialEdge subscribers have access to 25,000-square-foot and larger buildings for a continually growing list of markets.

CommercialEdge 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. CommercialEdge uses aggregated and anonymized expense data to create full-service equivalent rates from triple-net and modified gross listings. Expense data is available to CommercialEdge 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 CommercialEdge market boundaries.

Sales volume and price-per-square-foot calculations do not always include portfolio transactions or those with unpublished dollar values.

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