



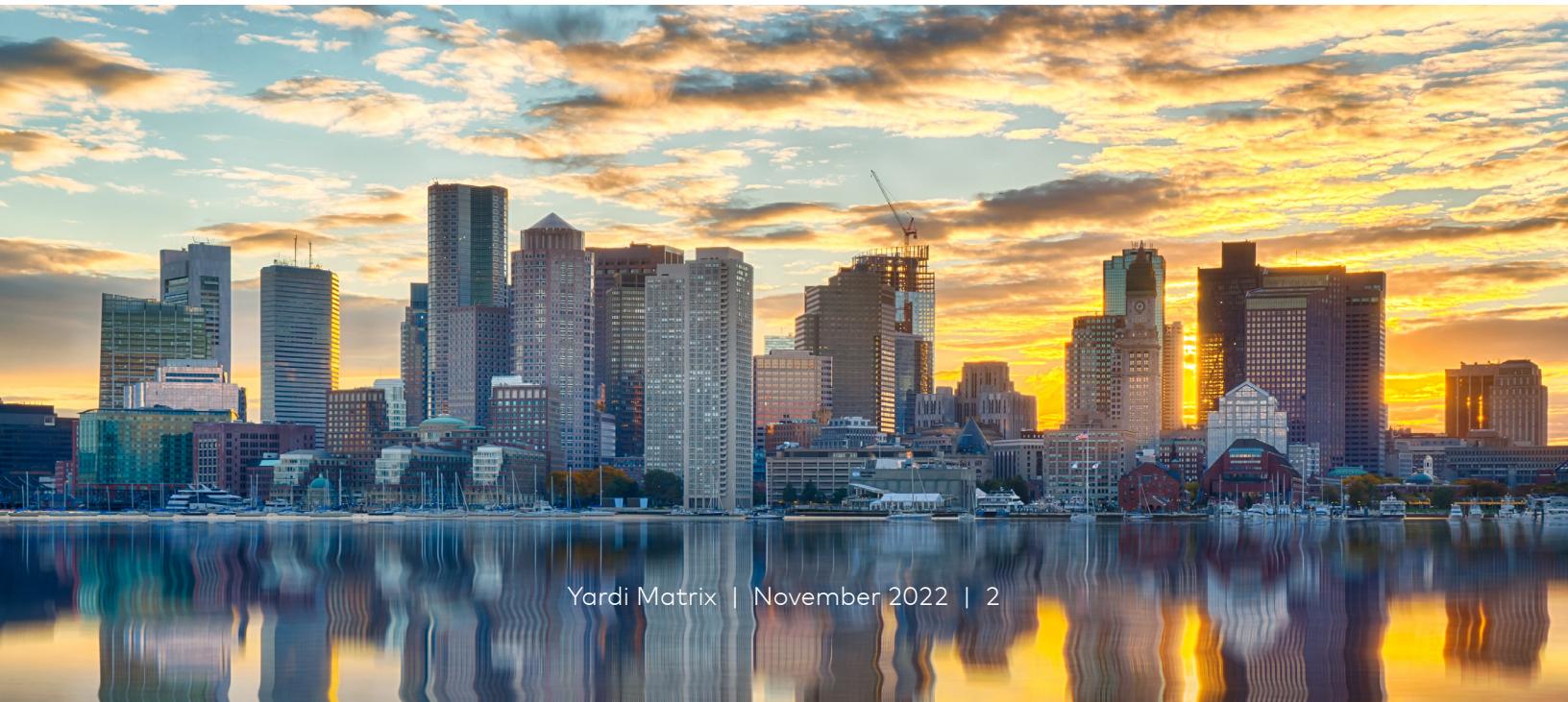
National Office Report

November 2022



Rate Increases Another Challenge for Office

- In an effort to combat inflation levels not seen in nearly 40 years, the Federal Reserve has raised interest rates 375 basis points since March. For an office market already facing the headwinds of remote work and corporate downsizing, rate increases have added another challenge that will hinder the new-supply pipeline and transaction deal flow.
- On top of volatility in material costs and labor shortages, increasing debt costs make deals for new office supply increasingly difficult to pencil out. Build-to-suit or pre-leased properties will still get financing, but not much else. We expect some office projects to be paused or canceled in 2023 as the market adjusts to the new conditions. Some developers may even look at alternative uses for plots of land they are developing. Last month, CIM Group submitted paperwork to build a 46-story apartment property in downtown Oakland where it had previously planned to construct an office tower.
- Lenders are becoming more selective given market conditions, and when they do originate loans for commercial real estate, the multifamily and industrial sectors are preferred over office. Buyers are now looking for discounted prices, but so far sellers are hesitant to reduce them. The bid-ask spread on office properties will likely grow in coming months and deal flow could slow to a trickle. For investors that have recently reached the end of their hold period, it is an especially tricky time. While some may be tempted to hold and reassess until rates decrease, that may take a few years, and owners may be holding onto properties with worse lease situations than they have today.
- Some of these challenges may ease when inflation cools and rate hikes taper off. Right now, investors, developers and debt markets are unsure how far the Fed will go with rate increases and when a recession may hit. Once rates stabilize, deal flow and loans for new construction may increase as investors and developers have more certainty about debt costs. However, by that point the federal funds rate may be higher than it has been in two decades. Combined with the other challenges impacting the office sector since the onset of the pandemic, we expect that deals may only get done for well-positioned, high-quality assets. Additionally, we expect an increase in office space in mixed-use properties as a means to diversify income streams and reduce risk.



Listing Rates and Vacancy: Vacancy Rates Climb in 2022

- The average full-service equivalent listing rate was \$37.94 in October, down 0.1% year-over-year.
- The national vacancy rate was 16.3% in the month, an increase of 150 basis points over November of last year.
- Many firms have embraced remote and hybrid work in the wake of the pandemic, which has led to a widespread reduction of office footprints. This has caused vacancy rates to rise in nearly every market since the

start of the pandemic, and the trend has not slowed in 2022. Over the last 12 months, the vacancy rate has increased in 86 of the 120 markets covered by Yardi Matrix—including 22 of the top 25. Among those top 25 markets, the biggest increase in the vacancy rate since November 2021 has been in Portland (400 bps) and San Francisco (390 bps). The only top markets that have seen vacancy rates fall in the past 12 months are Boston (-170 bps), Charlotte (-120 bps) and Washington, D.C. (-80 bps).

Listings by Metro

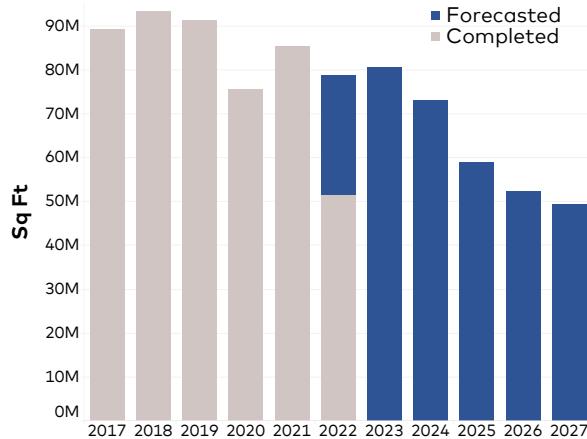
Market	Oct-22 Listing Rate	12-Month Change	Total Vacancy	12-Month Change	Top Listing	Price Per Square Foot
National	\$37.94	-0.1%	16.3%	150 bps		
Charlotte	\$34.09	15.9%	12.5%	-120 bps	300 South Tryon	\$44.00
San Diego	\$43.91	12.7%	14.5%	120 bps	One La Jolla Center	\$69.00
Boston	\$40.20	12.2%	8.9%	-170 bps	Kendall Square at MIT–314 Main Street	\$121.60
Miami	\$48.71	11.6%	12.7%	140 bps	830 Brickell	\$150.00
Orlando	\$23.67	7.4%	16.8%	70 bps	Celebration Medical Center	\$42.40
San Francisco	\$66.75	6.0%	19.5%	390 bps	Offices at Springline North, The	\$178.80
Seattle	\$37.18	4.8%	17.9%	190 bps	1208 Eastlake Avenue East	\$89.50
Philadelphia	\$30.76	3.5%	14.2%	200 bps	One Logan Square	\$50.07
Atlanta	\$30.05	2.5%	21.1%	130 bps	Star Metals Offices	\$58.00
Los Angeles	\$42.70	1.9%	14.6%	190 bps	100 Wilshire	\$108.00
Phoenix	\$27.44	1.8%	15.3%	130 bps	Camelback Collective	\$52.50
Washington DC	\$41.40	1.0%	14.3%	-80 bps	One Freedom Plaza	\$81.83
New Jersey	\$33.15	0.9%	17.4%	110 bps	10 Exchange Place	\$55.30
Nashville	\$30.93	0.2%	18.7%	70 bps	Three Thirty Three	\$43.88
Bay Area	\$55.64	0.0%	16.0%	30 bps	260 Homer Ave & 819 Ramona St	\$138.12
Chicago	\$27.55	-0.1%	19.7%	120 bps	300 North LaSalle Drive	\$59.46
Houston	\$29.76	-0.7%	25.2%	130 bps	Texas Tower	\$58.40
Denver	\$30.02	-0.9%	18.5%	200 bps	1144 Fifteenth Street	\$62.08
Dallas	\$28.62	-1.2%	18.5%	140 bps	17Seventeen McKinney	\$58.42
Portland	\$29.94	-1.3%	17.5%	400 bps	M Financial Plaza	\$46.40
Manhattan	\$74.75	-3.2%	14.6%	350 bps	550 Madison Avenue	\$210.00
Twin Cities	\$25.62	-3.3%	13.2%	0 bps	10 West End	\$41.33
Tampa	\$28.39	-3.4%	17.2%	60 bps	Water Street Tampa–Thousand & One	\$58.00
Austin	\$41.76	-4.0%	18.2%	100 bps	Indeed Tower	\$76.67
Brooklyn	\$44.10	-9.7%	19.4%	380 bps	200 Kent Avenue	\$75.00

Source: Yardi Matrix. Data as of October 2022. Listing rates are full service or “full service equivalent” rates for spaces available as of report period. National listing rate is an average of the top 50 markets.

Supply: Charlotte Adds Space, As Firms Seek Headquarters

- Nationally, 135.5 million square feet of office supply are under construction, according to Yardi Matrix.
- While the pandemic damped new-supply levels for office, new property starts continued over the last two-and-a-half years. Most office buildings that were underway when COVID-19 hit have since delivered, with more than 80% of the stock that is currently being built starting construction after April 2020.
- Driven by heavy migration into the region over the last few years, Southeastern markets have been among the most active when it comes to new office development. A prime example is Charlotte, where 3.5 million square feet of office supply (4.7% of stock) have begun development in 2022 alone. The market has the highest full-service equivalent rent growth of the top 25 markets and is one of the few that has seen vacancy rates fall over the past 12 months. This is not to say that Charlotte doesn't face challenges. Over the summer, health-care services provider Centene backed out of plans to move into a new campus in the University submarket, citing a shift to remote work as the cause. Some firms are still moving forward with headquarters plans in Charlotte, like the 1 million-square-foot Duke Energy Plaza that is slated to deliver this winter.

National New Supply Forecast



Source: Yardi Matrix. Data as of October 2022

Data in this chart includes owner-occupied properties

Supply Pipeline (by metro)

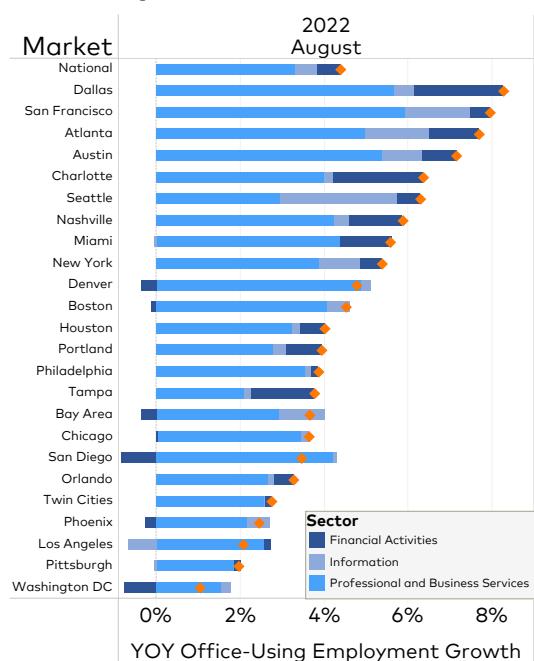
Market	Under Construction	Under Construction % Stock	Plus Planned % Stock
National	135,524,179	2.1%	6.1%
Austin	7,144,773	8.1%	23.0%
Charlotte	5,544,101	7.4%	16.0%
Nashville	3,159,713	5.6%	14.5%
Boston	11,820,028	5.0%	11.5%
San Diego	4,318,170	4.7%	10.1%
San Francisco	6,865,058	4.5%	10.2%
Seattle	6,165,664	4.5%	18.8%
Manhattan	18,778,388	4.1%	5.8%
Brooklyn	1,457,500	4.1%	8.3%
Bay Area	6,583,668	3.3%	16.5%
Dallas	7,505,976	2.8%	9.1%
Miami	1,930,702	2.7%	8.2%
Orlando	1,449,290	2.6%	6.7%
Atlanta	4,250,099	2.2%	9.9%
Denver	2,468,680	1.6%	4.2%
Houston	3,612,961	1.5%	2.7%
Philadelphia	2,426,610	1.4%	4.9%
Washington DC	4,835,795	1.3%	3.8%
Chicago	3,028,173	1.0%	6.1%
New Jersey	1,503,900	0.8%	1.9%
Los Angeles	2,091,418	0.7%	3.4%
Portland	415,714	0.7%	6.7%
Phoenix	747,365	0.6%	5.2%
Twin Cities	569,500	0.5%	2.2%
Tampa	343,773	0.5%	2.4%

Source: Yardi Matrix. Data as of October 2022

Office-Using Employment: Finance Wage Growth Lags Other Sectors

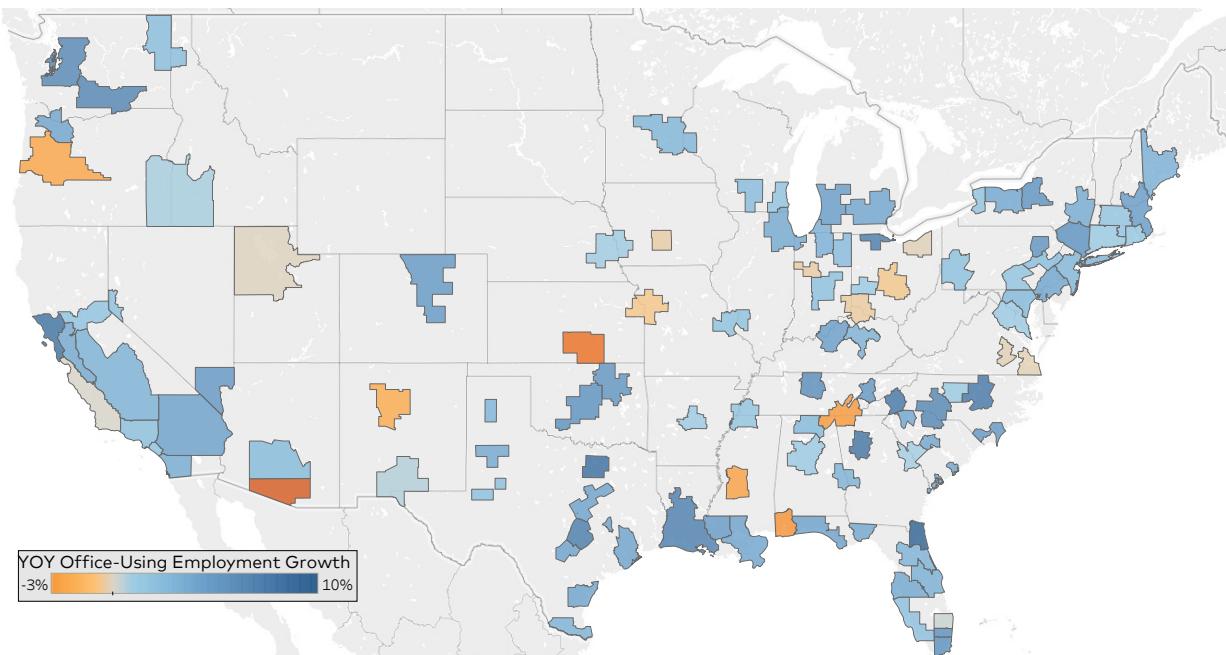
- Office-using sectors of the labor market added 46,000 jobs in October, increasing 3.6% over the last 12 months, according to the Bureau of Labor Statistics. Year-to-date, office-using sectors have added a total of 910,000 jobs.
- After increasing rapidly in the first half of 2021—peaking at 7.8% year-over-year in March—wage growth in the financial activities sector has withered in the last 18 months. In October, the average wage in the financial activities sector grew just 3.8% year-over-year. This is below the wage growth in the overall labor market (4.7%) and two other office-using sectors, with the information sector increasing 6.4% and professional and business services growing 5.0%. Wage growth is likely to continue across all sectors in the near term because, despite recent gains, inflation-adjusted wages have fallen this year, with the consumer price index sitting above 8.0% for many months. A tight labor market will necessitate further increases if employers wish to attract and retain talent.

Growth by Sector



Sources: Bureau of Labor Statistics and Moody's Analytics

Office-Using Employment Growth



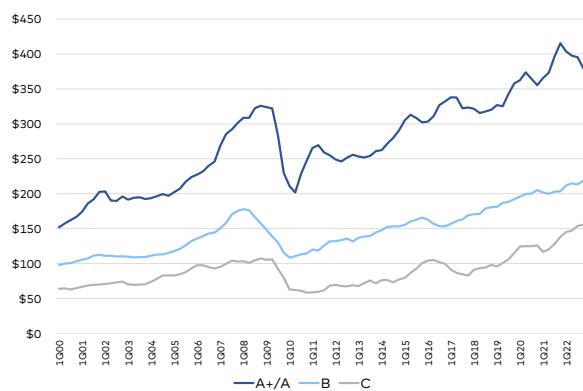
Sources: Bureau of Labor Statistics and Moody's Analytics

Transactions: Life Science Propels Boston Sales

■ Yardi Matrix has recorded \$76.3 billion of transactions this year.

■ Boston has been the third most active market this year by sales volume, largely driven by life sciences. The two largest transactions in the market were in Kendall Square, both with life science elements. Alexandria sold 70% of its stake in 100 Binney, a recapitalization that valued the building—with tenants like Meta and Bristol Myers Squibb alongside biotech firms—at more than \$1 billion. Down the street, Biogen sold its property at 300 Binney for \$603 million to Boston Properties in a sale-leaseback.

Asset Class (price per sq. ft.)



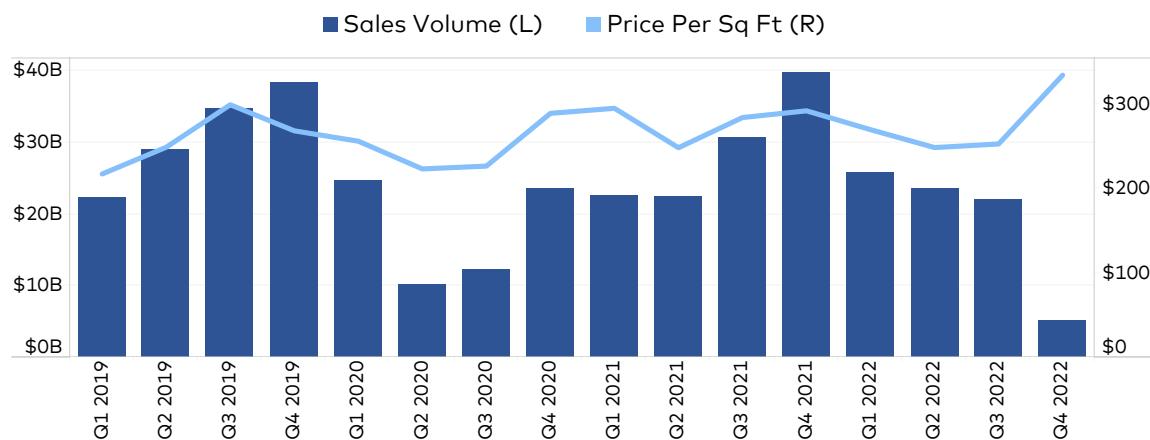
Source: Yardi Matrix; 12-month moving average.
Does not include unpublished and portfolio transactions.

Sales Activity

Market	YTD Sales Price PSF	YTD Sales (Mil, as of 10/31)
National	\$261	\$76,340
Manhattan	\$845	\$5,565
Bay Area	\$442	\$4,183
Boston	\$479	\$4,177
New Jersey	\$302	\$4,129
Washington DC	\$292	\$4,109
Dallas	\$192	\$3,945
Atlanta	\$237	\$3,452
Los Angeles	\$426	\$3,099
Denver	\$314	\$3,028
Chicago	\$198	\$2,881
Seattle	\$573	\$2,688
Houston	\$160	\$2,462
Phoenix	\$270	\$2,235
San Diego	\$441	\$1,985
San Francisco	\$940	\$1,980
Austin	\$387	\$1,917
Charlotte	\$322	\$1,387
Miami	\$390	\$1,272
Nashville	\$248	\$1,159
Philadelphia	\$190	\$1,104
Twin Cities	\$123	\$840
Tampa	\$266	\$769
Brooklyn	\$532	\$767
Orlando	\$177	\$581
Portland	\$191	\$176

Source: Yardi Matrix. Data as of October 2022. Sales data for unpublished and portfolio transactions are estimated using sales comps.

Quarterly Transactions



Source: Yardi Matrix. Data as of October 2022

Definitions

This report covers office buildings 25,000 square feet and above. Yardi Matrix subscribers have access to more than 14,000,000 property records and 300,000 listings 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. National average listing rate is for the top 50 markets covered by Yardi Matrix.
- *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 for portfolio transactions or those with unpublished dollar values are estimated using sales comps based on similar sales in the market and submarket, use type, location and asset ratings, sale date and property size.



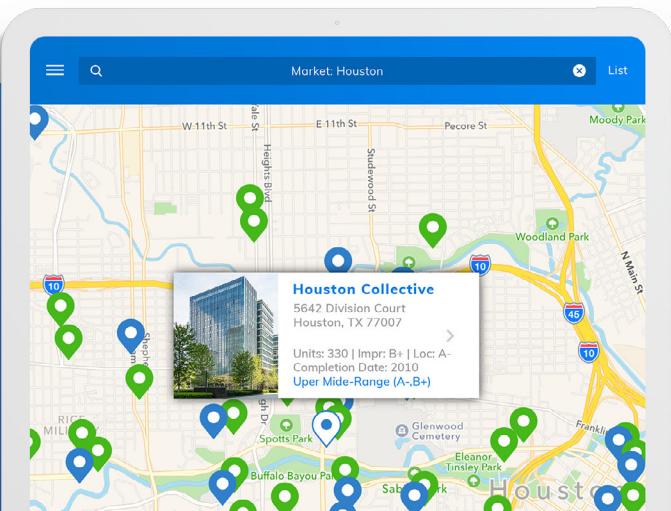
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OFFICE KEY FEATURES

- Active in 115 markets across the U.S. covering 70,000 properties
- Find acquisition prospects based on in-place loans, maturity dates, lenders and originators
- Pierce the LLC with true ownership and contact info at the asset and portfolio level
- Gain new supply pipeline information at the asset, competitive set and market level
- Benchmark performance to similar assets



Yardi Matrix Office delivers detailed property-level information, allowing you to analyze current market conditions at the micro and macro level.

YARDI

(800) 866-1144

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Contact
us



Contacts

Peter Kolaczynski

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

Rob McCartney

Sales Manager, Matrix
Rob.McCartney@Yardi.com
(800) 866-1124 x2412

Doug Ressler

Media Contact
Doug.Ressler@Yardi.com
(800) 866-1124 x2419

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