

Yardi® Matrix

National Office Report

September 2019



U.S. Office Property: Orlando Solid Despite Listing Rate Drop

- Average U.S. office asking rates increased 0.1% year-over-year in August to \$36.48. National vacancy rates dropped 10 basis points to 13.4% from the previous month. Demand remains strong for office space, with office-using employment sectors growing 1.7% year-over-year, a touch better than the 1.5% rate of total nonfarm employment growth.
- A total of 40.1 million square feet has been completed year-to-date (YTD), with another 179 million square feet currently under construction. Roughly three quarters of space under construction and the buildings completed this year are in the top 20 markets tracked by Yardi Matrix. New stock is also heavily concentrated on the high end of the market, with 89% of the YTD completions being rated as either A or A+ properties.
- Transaction volume, at \$55.2 billion YTD, maintained its accelerated pace during the summer, and 2019 looks to finish the year somewhere in the ballpark of the \$92.0 billion of 2018. Despite a modest rebound in the 10-year Treasury yield during the last few weeks, rates are still at their lowest levels in more than three years. This should continue to drive sales, as the cost of debt remains cheap.
- Markets with lower-than-average vacancy rates and solid office-using employment growth continue to have the highest rate of year-over-year growth in listing rates. San Francisco (25.2%), Tampa (18.4%) and Nashville (17.1%) all saw large increases over the last 12 months, thanks to solid fundamentals.
- Strong fundamentals don't always lead to high listing rate growth, however, as evidenced by Orlando. Office-using employment sectors have grown at or near 5% year-over-year so far in 2019, and the vacancy rate is well below the national average of 11.6%. Yet listing rates have decreased 5.9% since August of last year. Counterintuitively, Orlando's decrease appears to be due to its strength: In the last month, 30,000 square feet were leased with a full-service equivalent rate of \$34.66 per square foot at GuideWell Innovation Center and 26,825 square feet with a full-service equivalent rate of \$33.41 per square foot, depressing rates. Further, 106,253 square feet priced at \$19.85 per square foot has since become available in the Technology Service Center on the second floor of West Oaks Mall, lowering the market's average listing rate.

Lease Rate and Occupancy Trends: Dog Days of Summer Bring Moderate National Growth

- National listing rates averaged \$36.48 in August, an increase of 0.1% over the last 12 months. The national vacancy rate was 13.4%.
- On a year-over-year basis, asking rates rose most in San Francisco (25.2%), Tampa (18.4%), Nashville (17.1%) and Austin (14.2%). Much of these increases can be attributed to large, expensive spaces entering the market and pushing the overall listing rates upward. For listing rate growth of the same-store subset of properties, San Francisco was still on top but at a more modest rate of 12.4%. Tampa (7.5%) is still somewhat hot, but Nashville (1.1%) and Austin (4.4%) show moderate growth among same-store listing rates.
- The metros with the biggest decrease in listing rates were Orlando (-5.9%) and Chicago (-5.2%). While Chicago has shaky fundamentals, a 15.2% vacancy rate and office-using employment growth of only 0.6%, Orlando is quite the opposite, with an 11.6% vacancy rate and job growth of 4.7% in office-using sectors. Same-store rates also show Chicago (-2.4%) and Orlando (-2.0%) at the bottom.

Listings by Metro

Market	August-19 Listing Rates	12-Month Change	Total Vacancy	Top Listing	Price Per Square Foot
National	\$36.48	0.1%	13.4%		
San Francisco	\$72.48	25.2%	8.0%	2180 Sand Hill Road	\$152.44
Tampa	\$29.65	18.4%	11.2%	Sparkman Wharf	\$45.00
Nashville	\$32.76	17.1%	11.0%	Three Thirty Three	\$43.88
Austin	\$42.48	14.2%	8.7%	Indeed Tower	\$70.67
Brooklyn	\$58.03	11.3%	8.2%	Brooklyn Navy Yard - Dock 72	\$73.00
Bay Area	\$46.62	7.9%	14.7%	444 Castro	\$120.67
Miami	\$38.75	4.3%	13.6%	1450 Brickell	\$67.00
Dallas	\$28.44	4.2%	18.5%	Saint Ann Court	\$56.71
Philadelphia	\$29.08	4.0%	12.8%	Three Logan Square	\$51.57
Phoenix	\$27.27	3.8%	16.6%	Camelback Collective	\$43.50
Houston	\$29.53	3.7%	21.6%	Campanile South	\$54.27
San Diego	\$38.07	3.4%	12.2%	9455 Towne Centre Drive	\$65.72
Los Angeles	\$37.73	2.7%	12.6%	9595 Wilshire	\$91.80
Twin Cities	\$26.84	2.2%	12.6%	Offices at MOA, The	\$41.00
Atlanta	\$26.24	2.1%	16.4%	Three Alliance Center	\$53.98
Charlotte	\$27.99	1.7%	10.5%	RailYard, The	\$42.00
Manhattan	\$75.67	1.5%	7.7%	101 Park Avenue	\$200.00
Portland	\$29.39	1.0%	12.4%	M Financial Plaza	\$45.90
New Jersey	\$31.28	-1.4%	20.7%	Newport-111 Town Square Place	\$62.97
Boston	\$36.35	-1.4%	9.6%	One Federal Street	\$76.00
Denver	\$27.85	-1.7%	13.5%	Platte Fifteen	\$52.80
Seattle	\$36.68	-2.6%	8.5%	188 East Blaine Street	\$79.77
Chicago	\$28.93	-5.2%	15.2%	110 North Wacker	\$60.78
Orlando	\$21.13	-5.9%	11.6%	Lake Nona Town Center-Phase II	\$36.41
Washington DC	\$38.85	N/A	14.6%	1000 F Street NW	\$83.08

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

Supply: Undeterred by Mixed Fundamentals, Boston Adds Space

- A total of 40.1 million square feet of new office space was delivered in the first eight months of the year, with 89% of those properties being graded as A or A+ (35.7 million square feet).
- In all, 179.1 million square feet of office space is currently under construction, representing 2.9% of stock. Including planned buildings, there is a total of 428.0 million square feet of new office space (6.9% of stock) on the horizon.
- Despite an office-using job growth rate of only 0.5% year-over-year, the size of Boston's new-construction pipeline remains solidly above average. With 11.4 million square feet (5.0% of stock), only Manhattan (22.1 million) has more square footage currently being constructed than Boston. Nearly a quarter of the square footage under construction in Boston can be attributed to just two buildings: Winthrop Center (1.6 million) in the CBD and One Congress at Bulfinch Crossing (1 million) in the downtown submarket. Although office-using employment growth has been stagnant recently, one of the lowest vacancy rates in the nation (9.6%) suggests that Boston won't have too much trouble absorbing the new supply when it eventually enters the market.

Supply Pipeline (by asset class and location)

National Market	Under Construction	Under Construction % Stock	Plus Planned % Stock
A+/A	163,019,633	5.6%	6.0%
B	15,263,657	0.5%	0.5%
C	575,033	0.2%	0.2%
CBD	40,876,601	3.1%	5.9%
Urban	82,057,928	6.3%	13.4%
Suburban	56,133,884	1.5%	4.9%

Source: Yardi Matrix. Data as of 8/31/19

Supply Pipeline (by metro)

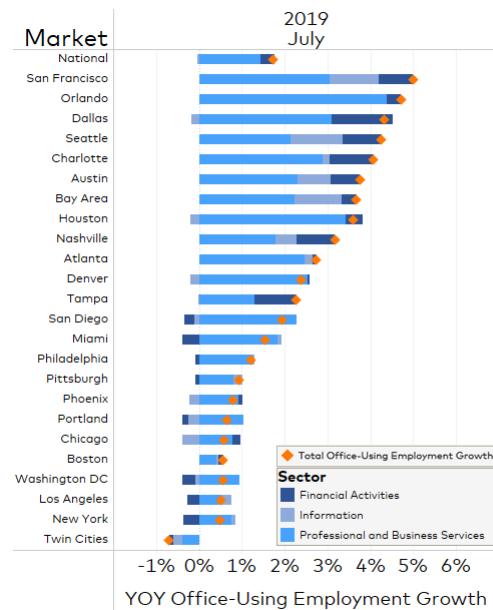
Market	Under Construction	Under Construction % Stock	Plus Planned % Stock
National	179,068,413	2.9%	6.9%
Brooklyn	4,801,093	14.4%	26.0%
Nashville	5,064,151	9.9%	17.0%
Austin	6,776,462	9.8%	27.3%
San Francisco	10,628,623	7.2%	18.7%
Charlotte	4,267,271	6.5%	12.1%
Seattle	7,430,313	5.6%	12.6%
Boston	11,429,694	5.0%	9.0%
Manhattan	22,137,418	4.7%	5.3%
Miami	2,589,485	4.0%	13.1%
Portland	2,184,813	3.9%	8.3%
Orlando	1,790,301	3.4%	11.4%
Phoenix	3,926,906	3.2%	10.1%
Tampa	1,904,023	3.2%	7.5%
Bay Area	5,923,210	3.1%	12.6%
Atlanta	5,645,257	3.0%	7.1%
Los Angeles	8,373,634	3.0%	5.3%
Chicago	8,495,285	2.9%	8.2%
Washington DC	10,209,770	2.7%	5.6%
Dallas	6,591,009	2.5%	10.4%
Denver	3,898,263	2.5%	6.0%
Twin Cities	1,955,231	1.8%	4.1%
San Diego	1,478,262	1.7%	7.8%
Houston	3,129,760	1.4%	6.9%
Philadelphia	2,213,453	1.3%	2.9%
New Jersey	285,527	0.2%	2.6%

Source: Yardi Matrix. Data as of 8/31/19

Office-Using Employment: Information Sector Shows Weakness

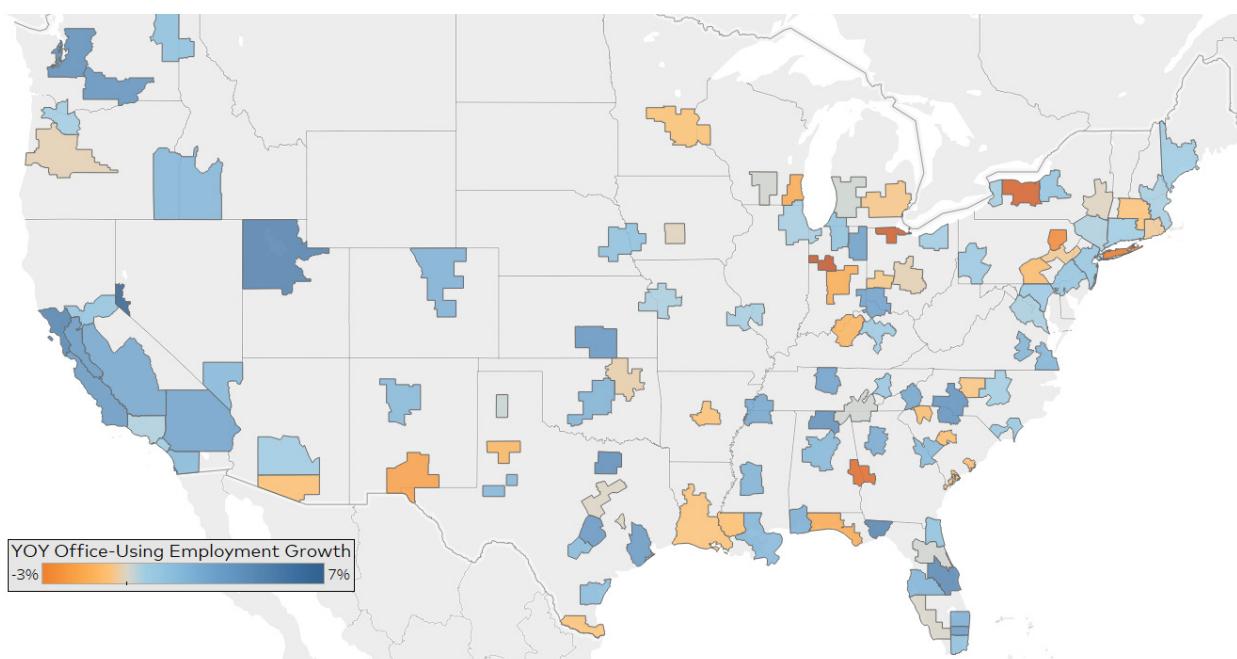
- With a year-over-year growth rate of 1.7%, office-using employment continued to outperform the national labor market, which grew at 1.5%.
- Most of the growth was concentrated in professional and business service (PBS) jobs, for which the bulk of the growth (1.4%) can be attributed. Information jobs growth was slightly negative on a national basis.
- Among the top 25 markets tracked by Yardi Matrix, 10 had fewer information jobs in July of 2019 when measured against a year prior. The biggest loser among these markets was Chicago, which saw the information sector shrink by 4,700 workers since last summer.
- The Twin Cities was the only market to lose employment across all three office-using sectors. Over the previous 12 months, the metro lost a total of 3,700 office-using jobs (-0.7%).

Growth by Sector



Sources: Bureau of Labor Statistics and Moody's Analytics

Office-Using Employment Growth

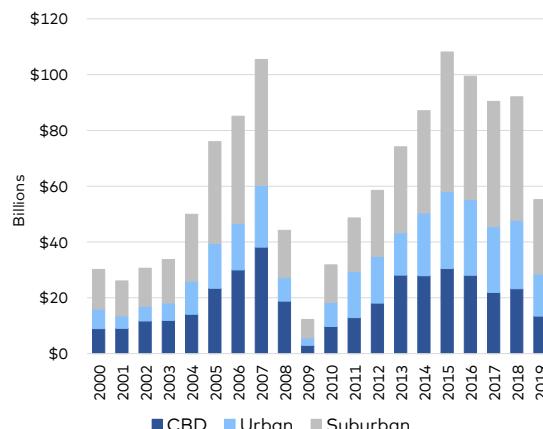


Sources: Bureau of Labor Statistics and Moody's Analytics

Transactions: Increased Activity Continues During Summer

- Office sales through the end of August totaled \$55.2 billion, only slightly behind the total of \$60.7 billion through the same period last year. Sales activity was off to a lackluster start to begin 2019, but perhaps due to lower interest rates, transaction volume hastened during the second quarter, a trend that continued throughout the summer.
- The 10-year Treasury rate rebounded somewhat in recent weeks but still sits well below where it began the year. The spread between acquisition yields and the risk-free rate continues to provide investment opportunities.

Sales by Location



Source: Yardi Matrix; Data as of 8/31/19

Sales Activity

Market	YTD Sales Price PSF	YTD Sales (Mil, as of 8/31)
National	\$264	\$53,355
Bay Area	\$478	\$4,892
Seattle	\$512	\$4,857
Manhattan	\$721	\$4,850
San Francisco	\$788	\$4,071
Washington DC	\$258	\$3,447
Los Angeles	\$447	\$2,688
Atlanta	\$201	\$1,980
Boston	\$234	\$1,917
Denver	\$191	\$1,579
San Diego	\$424	\$1,550
Houston	\$219	\$1,527
New Jersey	\$156	\$1,317
Phoenix	\$175	\$1,269
Twin Cities	\$157	\$1,059
Charlotte	\$229	\$978
Dallas	\$247	\$964
Philadelphia	\$196	\$900
Chicago	\$119	\$890
Portland	\$295	\$882
Nashville	\$228	\$792
Austin	\$328	\$718
Tampa	\$200	\$654
Miami	\$307	\$635
Orlando	\$159	\$435
Brooklyn	\$382	\$91

Source: Yardi Matrix. Data as of 8/31/19

Total Sales



Source: Yardi Matrix. Data as of 8/31/19

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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