

Yardi® Matrix

National Office Report

June 2019



U.S. Office Property: Moderate Gains for Office Rents

- U.S. office asking rents increased by 0.4% in May over the previous three-month period, to \$36.33, according to Yardi Matrix. The national vacancy rate remained unchanged at 13.7%. The market continues to produce steady but moderate growth, as strong demand from the bullish job market is counterbalanced to some degree by companies' increasingly selective use of office space.
- Some 173 million square feet, representing an additional 2.9% of stock, is under construction. That seems like a lot, considering that we could be entering the later portion of the economic cycle. However, the pipeline is mostly concentrated in metros that have growing space needs and those where there is strong demand for newer product with the latest technology and amenities.
- Transaction volume continues to run behind last year's pace, with \$28.5 billion of sales closed through May. However, deal flow has picked up since the first quarter, and the drop in the 10-year U.S. Treasury rate to just over 2.0% could boost sales, as the cost of debt is expected to remain low.
- Markets with the biggest short-term growth in average asking rates include Brooklyn (10.0% three-month change), Houston and San Francisco (3.8%), Orlando (3.1%) and the Bay Area (2.7%). On the flip side, markets that have seen average prices drop include Philadelphia (2.3% over three months), Boston (-4.7%) and Seattle (-5.4%). The numbers represent the average asking rent of space available for lease, so they are susceptible to changes as large properties come on and off the market.
- In Houston, for example, same-store rent growth has increased only slightly in recent months. The short-term gains in asking rents are driven by new listings at the Texas Tower in the central business district, which has listings at \$59 per square foot. The 1 million-square-foot, 47-story tower is being built by a Hines and Ivanhoe Cambridge partnership on the site of the former Houston Chronicle building close to the Theater District and Historic District, and is scheduled to open in the spring of 2021. Although Houston's vacancy rate is 20%, the Texas Tower checks the box for tenant demand with retail and restaurant space, a conference center and outdoor green space for exercise. Another new listing in Houston is the 1.4 million-square-foot Williams Tower, a Class A+ building with an asking rate of \$48.86 per square foot.

Lease Rate and Occupancy Trends: Seattle Asking Rents Down While Same-Store Rents Rise

- Nationally, asking rents rose 0.4% over the last three months to \$36.33, while the national occupancy rate remained level at 13.7%.
- Seattle has been the worst-performing market for asking rents over three months, with the average rate down by 5.4%. However, the metro's overall performance is strong, and its 8.5% vacancy rate is among the lowest for major metros in the country. Seattle's office market has seen robust growth in same-store rents, which have increased by \$0.43 per square foot over the last three months.
- Seattle's drop in asking rents has been driven by new occupancies at several buildings, including 188 E. Blaine St., which formerly was known as 1818 Fairview Ave. East. About 80,000 square feet of the newly opened building was leased at \$71 per square foot in the second quarter and is no longer available, reducing the average rate for asking rent in the market. The 198,000-square-foot building, owned by Alexandria Real Estate Equities, is part of a life science and technology campus adjacent to Lake Union.

Listings by Metro

Market	May-19 Listing Rates	3-Month Change	Total Vacancy	Top Listing	Price Per Square Foot
National	\$36.33	0.4%	13.7%		
Brooklyn	\$54.30	10.0%	9.7%	Brooklyn Navy Yard - Dock 72	\$73.00
Houston	\$29.78	3.8%	20.8%	Texas Tower	\$59.90
San Francisco	\$69.43	3.8%	8.1%	Sand Hill Commons	\$150.00
Orlando	\$22.22	3.1%	11.8%	GuideWell Innovation Center	\$34.66
Bay Area	\$47.25	2.7%	15.2%	444 Castro	\$120.67
Charlotte	\$28.03	2.7%	10.5%	RailYard, The	\$42.00
Nashville	\$29.22	2.4%	9.9%	Three Thirty Three	\$43.88
Twin Cities	\$26.55	1.5%	11.9%	Offices at MOA, The	\$41.00
San Diego	\$37.31	1.0%	12.5%	Campus Pointe-Alexandria GradLabs	\$67.58
Austin	\$38.48	0.8%	9.5%	Indeed Tower	\$70.67
Tampa	\$25.82	0.7%	11.7%	MetWest International-MetWest One	\$40.00
Manhattan	\$75.04	0.7%	8.4%	101 Park Avenue	\$200.00
Miami	\$38.28	0.6%	13.6%	1450 Brickell	\$67.00
Denver	\$27.93	0.6%	13.7%	Platte Fifteen	\$52.80
New Jersey	\$32.10	0.6%	20.4%	150 John F. Kennedy Pkwy	\$56.78
Washington DC	\$39.37	0.4%	14.6%	1000 F Street NW	\$83.08
Los Angeles	\$38.19	0.3%	13.4%	9595 Wilshire	\$91.80
Portland	\$28.11	-0.1%	12.7%	Clay Pavilion	\$45.55
Chicago	\$29.80	-0.3%	14.7%	110 North Wacker	\$60.78
Phoenix	\$26.96	-0.3%	17.2%	Hayden Ferry Lakeside I	\$46.50
Dallas	\$27.90	-0.6%	18.7%	Saint Ann Court	\$56.71
Atlanta	\$25.90	-1.1%	16.0%	Three Alliance Center	\$52.98
Philadelphia	\$29.01	-2.3%	13.0%	Three Logan Square	\$56.57
Boston	\$37.63	-4.7%	9.9%	One Federal Street	\$76.00
Seattle	\$36.54	-5.4%	8.5%	188 East Blaine Street	\$71.77

Source: Yardi Matrix. Data as of 6/17/19. Listing rates are full service or "full service equivalent" rates for spaces available as of report period.

Supply: Heavy Pipeline in Nashville

- Some 22.3 million square feet of office space came online through May, with 60% representing CBD (3.3 million) or urban (10.2 million) space. Suburban markets have added 8.8 million square feet through May this year.
- A total of 173.2 million square feet is under construction, which would represent an increase of 2.9% in total space.
- With 20.8 million square feet under construction (representing 4.4% growth of total stock), Manhattan has more than twice as much as any other metro. The deliveries could put a strain on the borough's occupancy rate, but the market has been able to absorb most of the recent new stock without much of a problem. Manhattan's vacancy rate is 8.4%, among the lowest of major metros in the U.S.
- Another metro of note for its heavy construction pipeline is Nashville. The Music City has 5.2 million square feet of space under construction, which will add a robust 10.2% to total stock. The downtown alone has 3.5 million square feet of space under construction, although less than one-third of that is scheduled to come online before the end of 2019. Even so, the development will test Nashville's growth in coming years in a big way. Unlike other metros with big pipelines, it is not known for its office-using employment sectors, although its economy has expanded measurably in the past decade.

Supply Pipeline (by asset class and location)

National Market	Under Construction	Under Construction % Stock	Plus Planned % Stock
A+/A	159,011,987	5.5%	5.9%
B	13,478,641	0.5%	0.5%
C	485,233	0.2%	0.2%
CBD	43,144,058	3.3%	7.0%
Urban	75,150,233	5.9%	14.0%
Suburban	54,871,621	1.6%	6.2%

Source: Yardi Matrix. Data as of 6/17/19

Supply Pipeline (by metro)

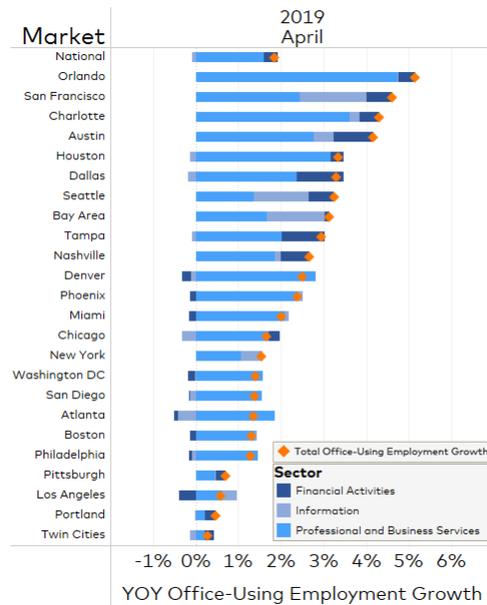
Market	Under Construction	Under Construction % Stock	Plus Planned % Stock
National	173,165,912	2.9%	8.0%
Brooklyn	5,120,610	15.8%	28.3%
Nashville	5,192,394	10.3%	22.4%
Austin	6,559,701	9.6%	30.1%
San Francisco	9,851,256	6.7%	20.4%
Seattle	7,305,836	5.6%	15.2%
Charlotte	3,631,898	5.6%	12.7%
Manhattan	20,771,738	4.4%	5.6%
Boston	9,021,553	4.0%	15.2%
Miami	2,564,650	3.9%	17.3%
Orlando	1,792,392	3.4%	11.9%
Bay Area	6,331,986	3.3%	11.9%
Los Angeles	8,674,417	3.2%	6.8%
San Diego	2,831,222	3.2%	7.5%
Phoenix	3,757,961	3.1%	10.1%
Atlanta	5,845,664	3.1%	14.1%
Chicago	8,172,945	2.8%	8.7%
Washington DC	9,295,598	2.7%	6.3%
Denver	3,636,337	2.4%	8.9%
Tampa	1,280,679	2.1%	7.4%
Portland	1,117,407	2.0%	6.6%
Dallas	5,362,300	2.0%	13.0%
Twin Cities	1,774,648	1.9%	4.2%
Houston	2,966,514	1.3%	3.8%
Philadelphia	1,638,582	1.0%	2.5%
New Jersey	1,134,227	0.7%	4.0%

Source: Yardi Matrix. Data as of 6/17/19

Office-Using Employment: Professional Business Service Growth Stays Strong

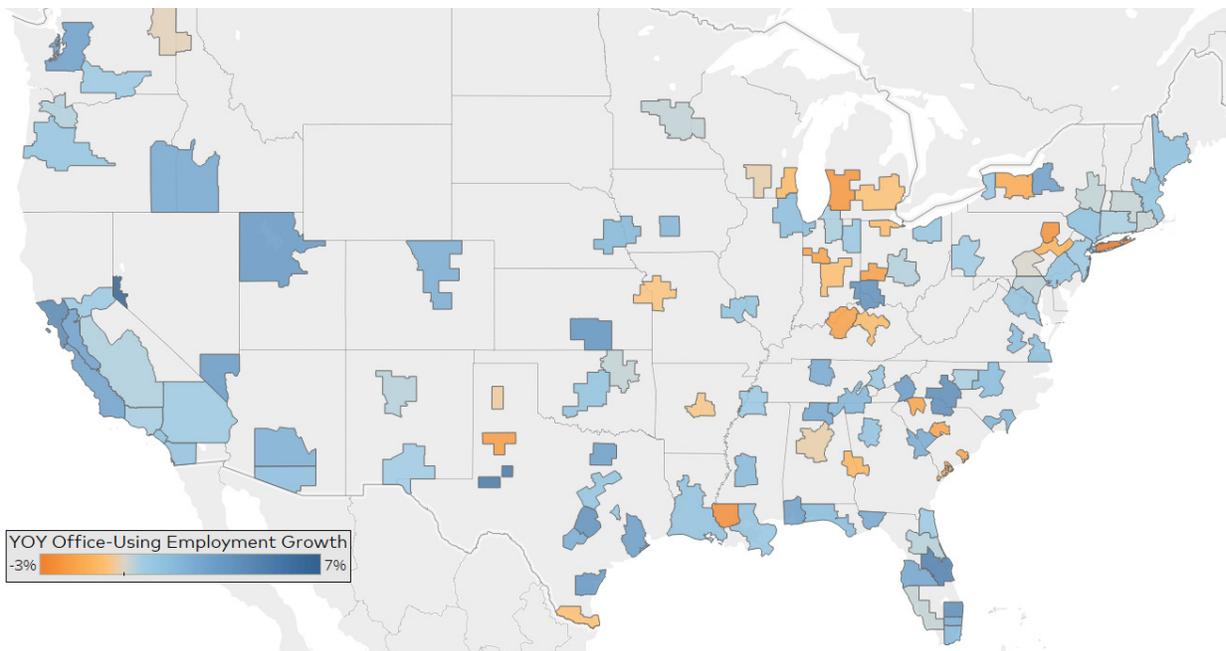
- Amid a slight slowdown in overall job creation, office-using job growth continues to be healthy, increasing by 1.85% year-over-year through May.
- Growth primarily comes from the professional and business services (PBS) sector, which encompasses 1.6% of the increase year-over-year. Finance added 0.3% to jobs, while information slipped slightly at -0.1%.
- Within the PBS segment, job increases were led by computer systems designs and related services (95,600 jobs year-over-year), architectural and engineering services (47,800) and professional and technical services (47,600).
- Increases in PBS employment were led by supercharged markets in the South and West that are attracting a wide range of businesses: Orlando (up 4.7% year-over-year), Charlotte (3.6%), Houston (3.2%), Denver (2.8%) and Austin (2.8%).

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. Due to BLS benchmarking, office-using employment data for the following markets reflect December 2018 values: Boston, Bridgeport-Newhaven, Portland ME, and Worcester-Springfield

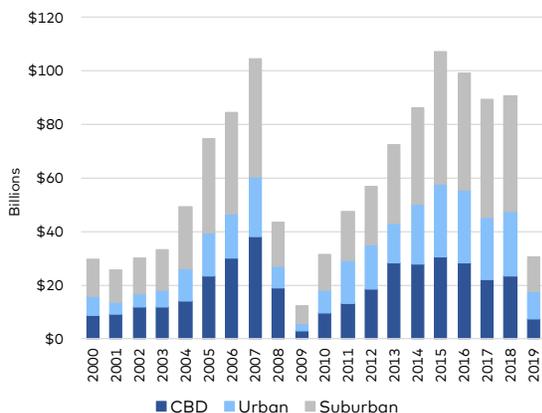
Transactions: Rate Drop Could Spur Activity

- Sales through May totaled \$28.5 billion, weak compared to recent years, but activity could pick up as capital markets begin to settle down.
- The recent and unexpected drop in the 10-year Treasury rate to just over 2.0%—nearly 120 basis points below the level in October 2018 and the lowest since the fall of 2017—could spur some activity. The cost of borrowing is down, and the spread between the risk-free rate and acquisition yields has been restored to the level earlier in the cycle. Meanwhile, institutional capital continues to pour into the industry.

Sales Activity

Market	YTD Sales Price PSF	YTD Sales (Mil, as of 5/31)
National	\$254	\$28,526
Manhattan	\$602	\$3,076
Bay Area	\$478	\$2,805
San Francisco	\$870	\$2,484
Seattle	\$555	\$2,341
Washington DC	\$227	\$1,814
Los Angeles	\$435	\$1,312
Boston	\$271	\$1,175
Atlanta	\$183	\$1,046
Denver	\$174	\$885
Twin Cities	\$185	\$792
Philadelphia	\$207	\$698
Portland	\$327	\$674
New Jersey	\$170	\$659
Dallas	\$220	\$641
Phoenix	\$148	\$637
Nashville	\$224	\$600
Charlotte	\$243	\$573
Chicago	\$90	\$485
Houston	\$189	\$460
San Diego	\$307	\$409
Austin	\$266	\$238
Orlando	\$152	\$214
Miami	\$347	\$213
Tampa	\$125	\$189
Brooklyn	\$402	\$11

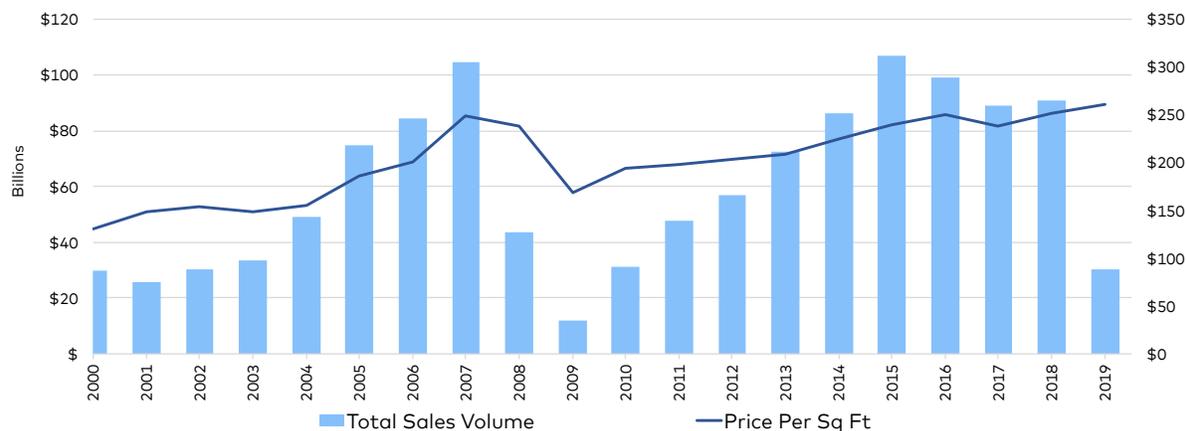
Sales by Location



Source: Yardi Matrix; Data as of 6/17/19

Source: Yardi Matrix. Data as of 6/17/19

Total Sales



Source: Yardi Matrix. Data as of 6/17/19

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.

Contacts

Jeff Adler

Vice President & General
Manager of Yardi Matrix
Jeff.Adler@Yardi.com
(800) 866-1124 x2403

Jack Kern

Director of Research
& Publications
Jack.Kern@Yardi.com
(800) 866-1124 x2444

Paul Fiorilla

Director of Matrix Research
Paul.Fiorilla@Yardi.com
(800) 866-1124 x5764

Chris Nebenzahl

Institutional
Research Manager
Chris.Nebenzahl@Yardi.com
(800) 866-1124 x2200

Peter Kolaczynski

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

Justin Dean

Senior Research Analyst
Justin.Dean@Yardi.com
(800) 866-1124 x2071

DISCLAIMER

Although every effort is made to ensure the accuracy, timeliness and completeness of the information provided in this publication, the information is provided "AS IS" and Yardi Matrix does not guarantee, warrant, represent or undertake that the information provided is correct, accurate, current or complete. Yardi Matrix is not liable for any loss, claim, or demand arising directly or indirectly from any use or reliance upon the information contained herein.

COPYRIGHT NOTICE

This document, publication and/or presentation (collectively, "document") is protected by copyright, trademark and other intellectual property laws. Use of this document is subject to the terms and conditions of Yardi Systems, Inc. dba Yardi Matrix's Terms of Use (<http://www.yardimatrix.com/Terms>) or other agreement including, but not limited to, restrictions on its use, copying, disclosure, distribution and decompilation. No part of this document may be disclosed or reproduced in any form by any means without the prior written authorization of Yardi Systems, Inc. This document may contain proprietary information about software and service processes, algorithms, and data models which is confidential and constitutes trade secrets. This document is intended for utilization solely in connection with Yardi Matrix publications and for no other purpose.

Yardi®, Yardi Systems, Inc., the Yardi Logo, Yardi Matrix, and the names of Yardi products and services are trademarks or registered trademarks of Yardi Systems, Inc. in the United States and may be protected as trademarks in other countries. All other product, service, or company names mentioned in this document are claimed as trademarks and trade names by their respective companies.

© 2019 Yardi Systems, Inc. All Rights Reserved.