



Yardi[®] Matrix

National Office Report

July 2020



Changing Demand: COVID-19's Impact on Office Space

- Average full-service equivalent listing rates rose 14 cents from May to \$38.39. Southeastern markets including Tampa, Nashville, Miami and Atlanta had the highest absolute rate growth year-over-year.
- Office-using employment increased by 347,000 in June. However, total employment in office-using sectors is still down by 2.4 million from the peak in February. And while metro employment data, which trails the national release by a month, showed office-using employment sectors achieving small gains in May over the previous month in two-thirds of the markets covered by Yardi Matrix, only one of 120 markets experienced year-over-year growth for office jobs. With cases of the coronavirus spiking in many states, it is uncertain whether the job gains will continue through the summer. Many businesses are undergoing hiring freezes, so gains in the near term will be more reliant on the ending of furloughs than on rehires. Going forward, office-using employment may be a less reliable indicator of office market performance as firms hire more remote employees.
- In all, 26.1 million square feet of new office space was delivered during the first half of the year, with a nearly equal split between suburban offices and those in CBD and urban locations. While COVID-19 has many wondering if the suburbs will become more attractive than dense urban locations, only 29% of buildings currently under construction are in the suburbs.
- Coworking will almost certainly look different post-pandemic. WeWork, the largest coworking operator, has announced multiple location closings and lease terminations in recent weeks. While WeWork had issues of leadership and overexpansion before the pandemic, the overall industry faces an uphill climb when COVID-19 finally subsides. On top of the challenges that all offices have to address in reopening, coworking spaces will need to go the extra mile to make members feel safe in a shared environment. Communal spaces, a central selling point of many coworking operators, become a hindrance in a post-coronavirus world. However, there is optimism that coworking spaces will see increased demand during the months coming out of the pandemic. Some smaller firms have let office leases expire as they adapt to long-term remote work situations. Whenever the country begins to return to a sense of normalcy, many of these companies may look to coworking to bridge the gap between working from home and finding a new permanent space.



Listing Rates: New York's Tale of Two Cities

- Average full-service equivalent listing rates were \$38.29 per square foot in June, up 14 cents from the previous month and down 10 basis points year-over-year. As of yet, listing rates have been unresponsive to the economic downturn.
- Same-store listing rate growth was highest in Manhattan (12.7%), Seattle (11.9%) and Tampa (11.6%). Same-store rates were the lowest in Brooklyn (-18.8%), San Francisco (-5.9%) and Orlando (-4.0%).
- The contrast between listing rates in Brooklyn and Manhattan is striking. These two markets illustrate the different ways the listing rate can change. Brooklyn's rate has fallen due to an increase in cheaper spaces coming on the market in the past year. Manhattan has seen its average full-service equivalent listing rate spike, mostly due to one building. 550 Madison, the historic building that completed renovations late last year, has 750,000 square feet of space available at an average full-service equivalent rate of \$157 per square foot, with the top floors at \$210 per square foot.

Listings by Metro

Market	Jun-20 Listing Rate	12-Month Change	Total Vacancy	Top Listing	Price Per Square Foot
National	\$38.29	-0.1%	14.7%		
Tampa	\$29.52	22.1%	12.9%	1001 Water Street	\$55.70
Nashville	\$32.10	20.8%	13.7%	Peabody Plaza at Rolling Mill Hill	\$50.81
Miami	\$42.92	13.9%	14.5%	830 Brickell Plaza	\$73.00
Atlanta	\$27.76	10.5%	18.1%	Three Alliance Center	\$54.98
Manhattan	\$86.63	9.9%	9.1%	550 Madison Avenue	\$210.00
Bay Area	\$50.91	7.0%	16.0%	525 University Avenue	\$149.42
New Jersey	\$33.02	6.3%	23.9%	Newport Tower	\$57.80
San Diego	\$39.40	6.3%	17.0%	Molecular and Experimental Medicine Building	\$74.54
Los Angeles	\$39.68	5.9%	12.5%	100 Wilshire	\$111.00
Houston	\$30.72	3.5%	23.3%	Texas Tower	\$58.40
Denver	\$29.47	3.0%	13.6%	The William Building	\$59.67
Austin	\$42.01	2.7%	9.3%	Indeed Tower	\$70.67
Charlotte	\$28.99	2.4%	11.1%	300 South Tryon	\$42.00
San Francisco	\$67.16	1.9%	9.5%	2180 Sand Hill Road	\$150.84
Portland	\$30.31	1.5%	13.7%	5 MLK	\$48.03
Philadelphia	\$28.72	0.3%	13.6%	One Liberty Place	\$51.71
Twin Cities	\$26.95	0.3%	14.9%	10 West End	\$37.83
Seattle	\$37.77	0.1%	9.0%	U.S. Bank Centre	\$66.39
Washington DC	\$40.39	-0.2%	17.1%	One Freedom Plaza	\$81.83
Chicago	\$28.81	-0.5%	15.4%	300 North LaSalle Drive	\$59.46
Phoenix	\$26.71	-1.0%	21.9%	The Watermark-Phase I	\$45.00
Dallas	\$27.69	-1.1%	19.5%	Weir's Plaza	\$63.44
Orlando	\$21.44	-3.1%	14.0%	GuideWell Innovation Center	\$34.66
Boston	\$33.94	-8.7%	11.0%	Seaport Towers	\$80.05
Brooklyn	\$51.28	-13.9%	18.7%	One MetroTech Center	\$65.59

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

Supply: Austin's Pipeline Grows Amidst Pandemic

- The first half of the year saw 26.1 million square feet of office space completed, of which 22.7 million square feet (87.1%) was Class A or A+.
- Despite some state lockdowns that included construction this spring, deliveries are looking much as they did at this point last year. In July 2019, Yardi Matrix reported 26.5 million square feet of new stock. The lag in collecting data means that some first half deliveries are not yet in the data set. The year could still finish in the ballpark of 2019's 76.0 million, pandemic notwithstanding.
- Austin is the only city with a significant increase in pipeline size this year. In January, the Texas capital had 2.2 million square feet of new space planned; that has since ballooned to 4.1 million square feet. And that's on top of the 8.2 million square feet currently under construction. The total pipeline represents 16.8% of existing inventory. This suggests that despite the pandemic and the subsequent economic downturn, developers still believe in Austin's long-term attractiveness as an office destination for both workers and firms.

Supply Pipeline (by asset class and location)

National Market	Under Construction	Under Construction % Stock	Plus Planned % Stock
A+/A	133,356,228	4.5%	4.7%
B	12,261,124	0.4%	0.4%
C	763,163	0.2%	0.2%
CBD	39,220,163	3.0%	3.7%
Urban	64,307,899	4.8%	6.9%
Suburban	42,852,453	1.1%	1.6%

Source: Yardi Matrix. Data as of June 2020

Supply Pipeline (by metro)

Market	Under Construction	Under Construction % Stock	Plus Planned % Stock
National	146,380,515	2.3%	3.2%
Austin	8,155,781	11.2%	16.8%
Nashville	4,596,944	8.7%	11.2%
Charlotte	4,163,341	6.2%	9.1%
Brooklyn	2,294,046	6.0%	7.4%
San Francisco	7,844,103	5.2%	7.4%
Seattle	6,377,049	4.7%	5.7%
Boston	9,414,765	4.0%	4.9%
Manhattan	17,843,404	3.7%	4.4%
Miami	2,280,982	3.4%	4.4%
Bay Area	6,575,864	3.3%	5.9%
Chicago	9,705,753	3.2%	3.8%
Los Angeles	8,321,052	2.9%	3.2%
Atlanta	4,587,224	2.4%	2.5%
Denver	3,397,354	2.2%	3.2%
Tampa	1,395,504	2.2%	2.8%
Washington DC	8,163,308	2.2%	2.9%
San Diego	1,868,005	2.1%	2.4%
Houston	4,399,293	1.9%	2.6%
Dallas	4,807,246	1.8%	3.1%
Portland	1,059,254	1.8%	1.8%
Phoenix	1,988,414	1.6%	2.3%
Philadelphia	2,295,452	1.3%	1.8%
Twin Cities	1,243,008	1.1%	1.7%
Orlando	545,118	1.0%	2.2%
New Jersey	161,800	0.1%	0.3%

Source: Yardi Matrix. Data as of June 2020

Office-Using Employment: Small Rebound in May; Second Wave to Come?

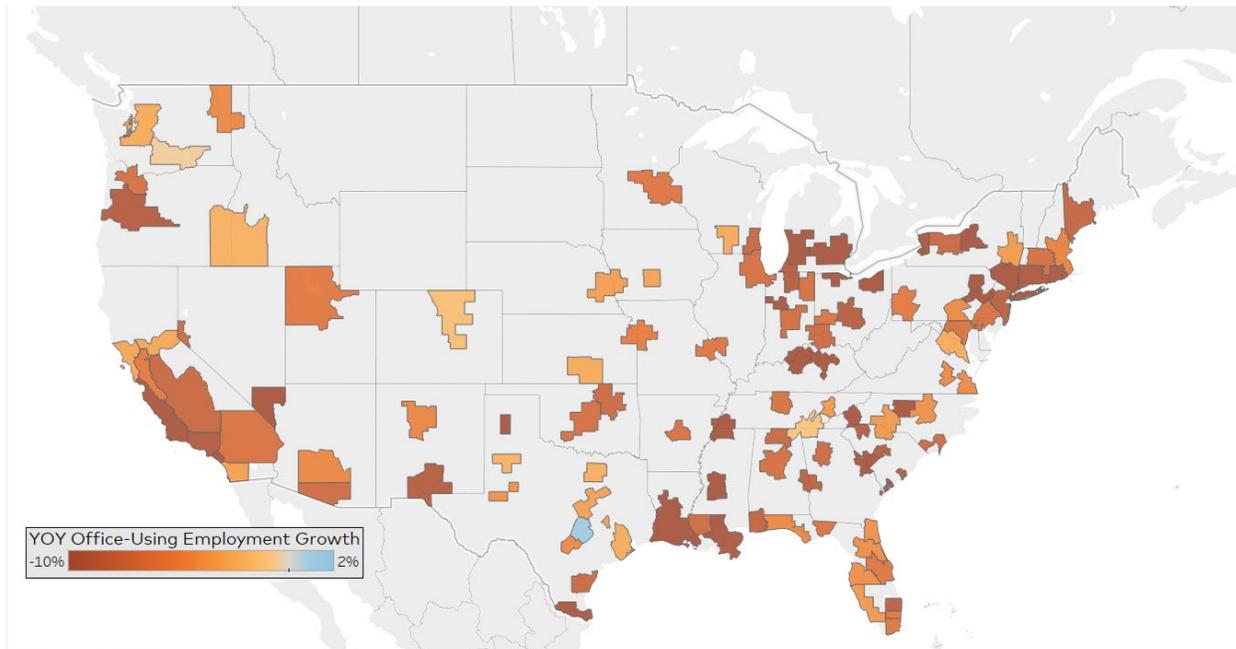
- Metro employment numbers for May showed office-using sectors in most markets experiencing a slight rebound from April as lockdowns ended. Of the 120 markets covered by Yardi Matrix, 80 saw a month-over-month increase in office-using employment.
- Only one market, Austin, saw growth in office-using employment on a year-over-year basis. However, the survey conducted by the Bureau of Labor Statistics represents the second week of the month. Currently, Texas is reporting new COVID-19 cases at a rate nearly 10 times higher than early May.
- In fact, much of the country is reporting coronavirus cases at substantially higher levels than when the lockdowns went into place. While leaders wary of economic damage may resist another round of shutdowns, the coronavirus may end up causing a second wave of layoffs and business closings.

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

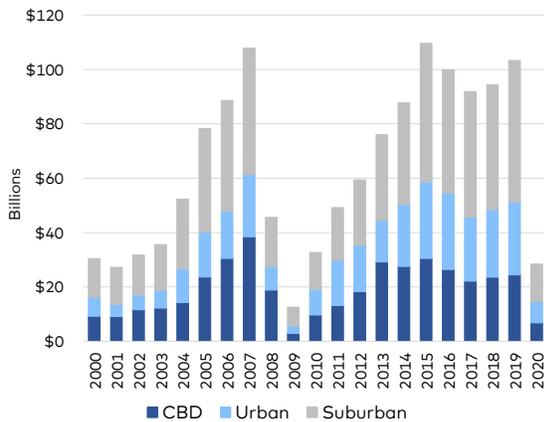
Transactions: Sales Volume Slows but Prices Yet to Fall

- Sales totaling \$28.4 billion have so far been recorded for the first half of the year, with more than three-quarters of all transactions (\$22 billion) in the first quarter, before COVID-19 took hold in the U.S. Second quarter volume has still to reflect the lag in collecting sales data, but at this point last year Yardi Matrix had logged \$12.7 billion for the second quarter.
- Despite the drop-off in total volume, the trend of increasing prices that began two years ago has continued into 2020. Office properties have sold at an average of \$290 per square foot this year, an increase of \$17 over 2019.

Sales Activity

Market	YTD Sales Price PSF	YTD Sales (Mil, as of 6/30)
National	\$290	\$28,413
Manhattan	\$776	\$3,447
Boston	\$453	\$3,021
Washington DC	\$312	\$2,493
Bay Area	\$390	\$1,696
Los Angeles	\$423	\$1,663
New Jersey	\$213	\$1,380
San Francisco	\$1,221	\$1,268
Dallas	\$292	\$1,250
Houston	\$400	\$934
Denver	\$208	\$864
Philadelphia	\$181	\$696
San Diego	\$374	\$687
Charlotte	\$340	\$673
Chicago	\$198	\$637
Seattle	\$529	\$551
Nashville	\$418	\$441
Austin	\$368	\$409
Atlanta	\$168	\$368
Phoenix	\$168	\$354
Portland	\$278	\$332
Twin Cities	\$117	\$293
Brooklyn	\$643	\$286
Orlando	\$172	\$93
Tampa	\$124	\$78
Miami	\$190	\$72

Sales by Location



Source: Yardi Matrix; Data as of June 2020

Source: Yardi Matrix. Data as of June 2020

Total Sales



Source: Yardi Matrix. Data as of June 2020

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.

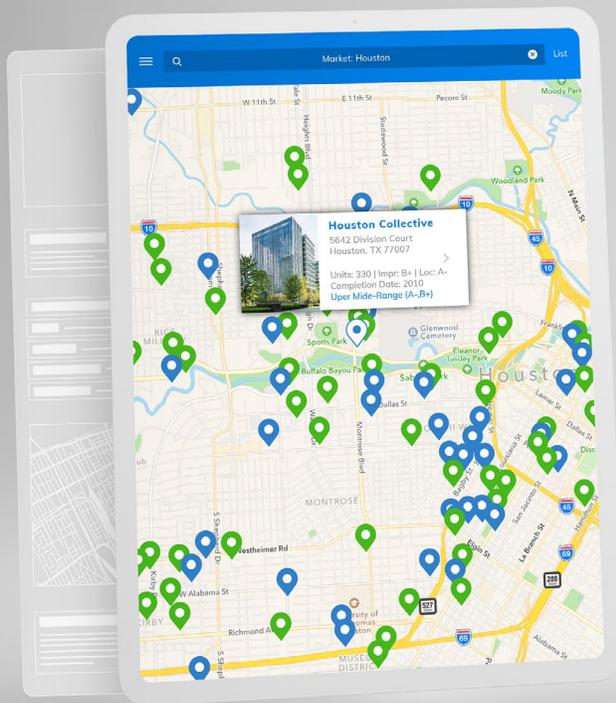
Sales volume and price-per-square-foot calculations do not always include portfolio transactions or those with unpublished dollar values.

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