



CommercialEdge

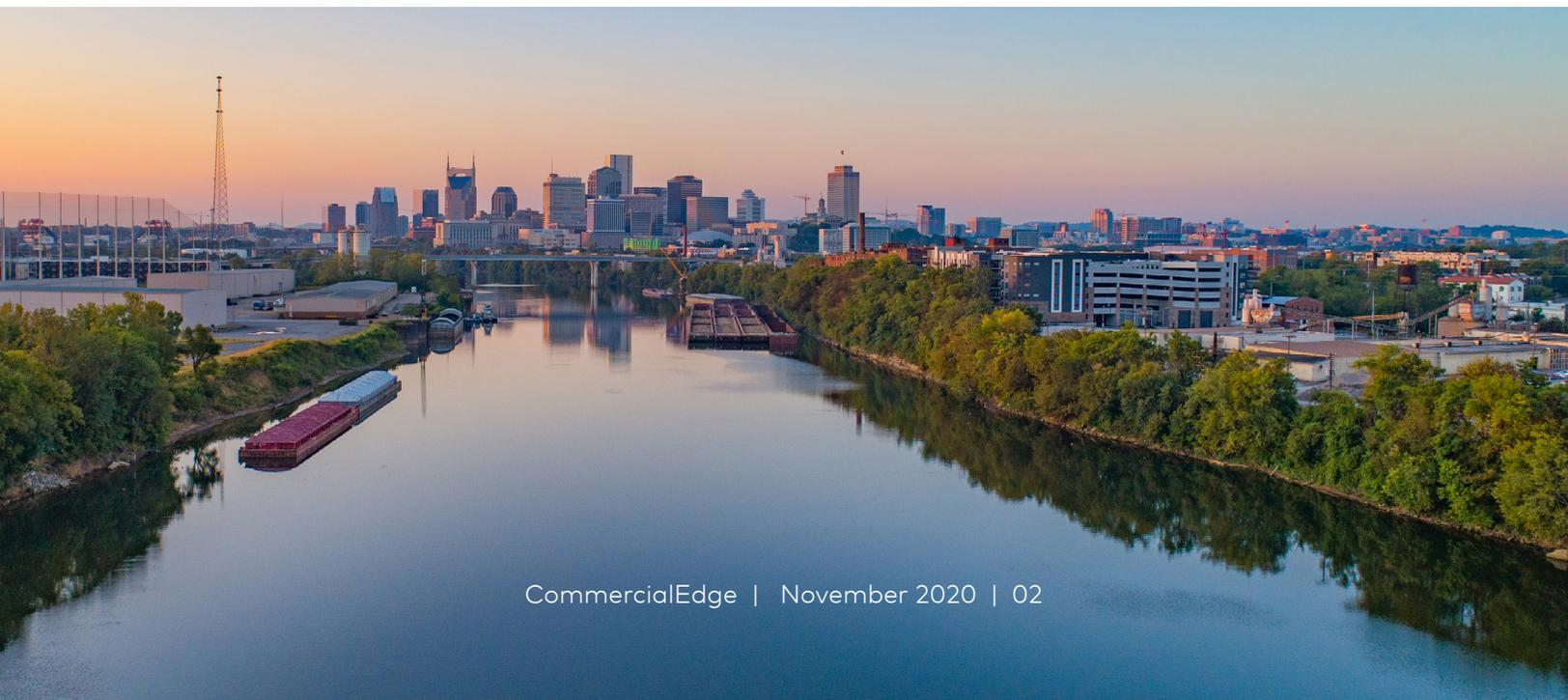
National Office Report

November 2020



Available Sublease Space Spikes During Pandemic

- The national average full-service equivalent listing rate fell 25 cents in October from the previous month, to \$38.11. However, rates increased 0.6% from the same period last year. The national vacancy rate decreased 20 basis points month-over-month to 13.4%. Listing rates appear to be sticky relative to demand as owners wait out the pandemic instead of lowering rates to attract potential tenants that currently may not even exist.
- We are beginning to witness a spike in sublease availability across the country. In April 2020, the top 30 markets had a total of 50.8 million square feet of sublease space available. Over the past seven months, that number has increased 41.7% to 72.0 million. Sublease space has more than doubled in San Francisco (from 2.3 million to 5.1 million square feet) and Boston (0.8 million to 1.7 million). Currently, 3.5% of all space in San Francisco is available as a sublease. In the Bay Area, the sublease vacancy rate is even higher, at 3.8%. Austin and Dallas, currently the only two major markets with positive office-using employment growth year-over-year, have also seen available sublease space increase significantly since April.
- Positive news regarding the efficacy of a vaccine for COVID-19 should be reason for optimism in the office sector as it comes to grips with how this crisis will alter the utilization of office space in the future. While there are reasons to believe that the traditional model of 40 hours across five days a week at an office building will not return, it is also reasonable to think that companies will want to retain some office space for the social aspects of work that have diminished throughout the pandemic. Team and culture building are nearly impossible to do remotely, and once normalcy returns there will be a long, gradual reassessment of how much space companies need and how best to utilize it. An increased emphasis on experiences and the ability to adapt quickly to changing preferences will define much of the next decade of the office industry. In that manner, the challenges facing the office industry are not dissimilar to the challenges faced by retail in the last decade.
- Employment in sectors classified as office-using could also provide a ray of optimism in a sea of uncertainty. Office-using sectors, down 4.1% year-over-year, have continued to fare better than the labor market as a whole, down 6.1% year-over-year.



Listing Rates: Denver Holds Steady Despite Sublease Growth

- The average full-service equivalent listing rate was \$38.11 per square foot in October, an increase of 0.6% from last year.
- Same-store listing rate growth was highest in the Bay Area (8.1%), Austin (6.2%) and Nashville (6.0%). Same-store rates decreased the most in Boston (-6.9%), San Francisco (-5.6%) and Seattle (-4.5%).
- Average full-service listing rates have essentially been flat in Denver over the last 12 months (-0.2%), but same-store rates have

increased a modest 2.5%. Driving this increase is Palazzo Verdi, listing 200,000 square feet at a full-service equivalent rate of \$42.57 per square foot. The space recently became available, after Newmont Mining Co. left for the newly completed 6900 Layton at the nearby Bellevue Station. Only a few months after taking over multiple floors at the new location, Newmont is looking to sublease multiple floors and decrease its overall office footprint as the company embraces remote work. The role of sublease space in the office market will only continue to increase for the foreseeable future.

Listings by Metro

| Market | Oct-20 Listing Rate | 12-Month Change | Total Vacancy | Top Listing | Price Per Square Foot |
|---------------|---------------------|-----------------|---------------|---|-----------------------|
| National | \$38.11 | 0.6% | 13.4% | | |
| Bay Area | \$54.89 | 8.3% | 12.6% | 525 University Avenue | \$168.02 |
| Miami | \$42.36 | 6.4% | 13.0% | 830 Brickell Plaza | \$73.00 |
| San Diego | \$41.90 | 5.5% | 13.6% | RaDD-Block 3A, The | \$77.05 |
| Austin | \$42.63 | 5.0% | 11.0% | Indeed Tower | \$70.67 |
| New Jersey | \$32.88 | 4.4% | 17.4% | Liberty Innovation Center | \$70.29 |
| Manhattan | \$86.28 | 2.4% | 9.1% | 550 Madison Avenue | \$210.00 |
| Orlando | \$21.45 | 1.3% | 12.7% | 250 Park Avenue South | \$40.00 |
| Los Angeles | \$39.20 | 1.1% | 12.7% | 100 Wilshire | \$111.00 |
| Houston | \$29.67 | 0.9% | 21.2% | Texas Tower | \$58.40 |
| Charlotte | \$28.74 | 0.4% | 9.7% | 300 South Tryon | \$42.00 |
| Denver | \$28.73 | -0.2% | 13.4% | William Building, The | \$59.67 |
| Philadelphia | \$29.06 | -0.5% | 12.5% | One Liberty Place | \$51.71 |
| Washington DC | \$40.12 | -0.5% | 14.6% | 601 Pennsylvania Avenue NW-North Building | \$90.00 |
| Twin Cities | \$27.05 | -0.6% | 11.4% | Offices at MOA, The | \$40.00 |
| Atlanta | \$26.94 | -0.9% | 16.9% | 300 Colony Square | \$50.00 |
| Nashville | \$32.05 | -0.9% | 12.5% | Broadwest | \$50.72 |
| Phoenix | \$27.37 | -1.0% | 16.7% | One Hundred Mill | \$50.50 |
| Portland | \$29.37 | -1.6% | 12.2% | Broadway Tower | \$46.16 |
| Chicago | \$28.08 | -1.9% | 14.0% | PNC Centre at One North Franklin | \$64.30 |
| Brooklyn | \$50.91 | -2.9% | 14.0% | One MetroTech Center | \$65.59 |
| Dallas | \$27.80 | -3.4% | 17.4% | Weir's Plaza | \$63.44 |
| Seattle | \$35.79 | -4.6% | 9.5% | U.S. Bank Centre | \$66.39 |
| Boston | \$34.84 | -4.7% | 10.4% | Two Charles Park | \$95.00 |
| Tampa | \$27.88 | -13.6% | 12.0% | Heights Union-West Building | \$45.00 |
| San Francisco | \$65.87 | -14.7% | 10.4% | 2180 Sand Hill Road | \$150.84 |

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

Supply: San Francisco May Struggle to Absorb New Stock

- Nationally, 54.6 million square feet have been completed in 2020.
- Properties that were under construction when COVID-19 forced initial lockdowns are delivering, but little stock is being added to replenish the pipeline. The total under construction has decreased by 17.4 million square feet (-12.4%) since the start of the year.
- San Francisco may soon be oversupplied. There are currently 6.5 million square feet, representing 4.2% of total stock, under construction, after inventory increased more than 10% in the last five years. The office boom was largely fueled by a more than doubling in information sector employment from 2013 through the start of 2020 and was responsible for a third of all office-using employment growth over that span, a much larger share than the national average. Currently, overall office-using employment is down 3.6% year-over-year, with nearly half of the losses coming in the information sector. This is perhaps why sublease availability has increased more in San Francisco than in any other market. Combine these factors with some of the most expensive leases in the country and tech firms' embrace of remote work, and absorption of new supply becomes a challenge.

Supply Pipeline (by asset class and location)

| National Market | Under Construction | Under Construction % Stock | Plus Planned % Stock |
|-----------------|--------------------|----------------------------|----------------------|
| A+/A | 119,468,528 | 4.0% | 4.1% |
| B | 9,056,226 | 0.3% | 0.3% |
| C | 0 | 0.0% | 0.0% |
| CBD | 33,472,413 | 2.5% | 3.1% |
| Urban | 59,505,248 | 4.4% | 6.5% |
| Suburban | 35,661,363 | 0.9% | 1.5% |

Source: CommercialEdge. Data as of October 2020

Supply Pipeline (by metro)

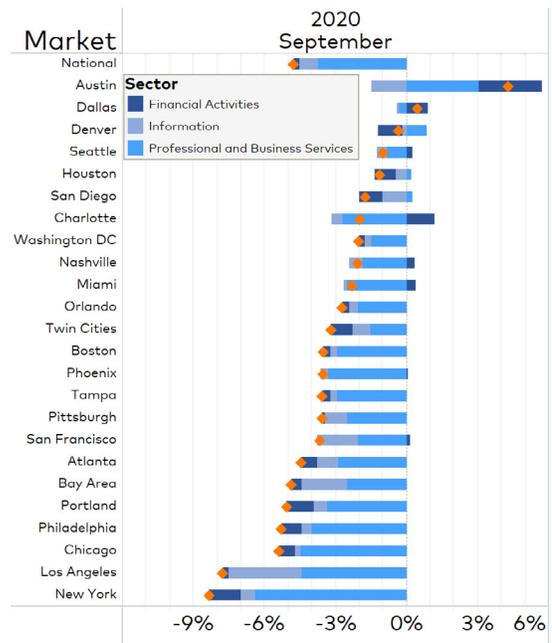
| Market | Under Construction | Under Construction % Stock | Plus Planned % Stock |
|---------------|--------------------|----------------------------|----------------------|
| National | 128,639,024 | 2.0% | 2.9% |
| Austin | 7,272,598 | 9.8% | 14.8% |
| Nashville | 4,096,360 | 7.7% | 8.9% |
| Charlotte | 4,432,250 | 6.5% | 9.1% |
| Brooklyn | 1,854,312 | 4.6% | 5.4% |
| San Francisco | 6,506,696 | 4.2% | 6.2% |
| Boston | 9,626,550 | 4.0% | 4.7% |
| Manhattan | 16,849,597 | 3.5% | 3.8% |
| Seattle | 4,488,083 | 3.3% | 4.2% |
| Los Angeles | 7,600,282 | 2.7% | 2.9% |
| Bay Area | 5,367,210 | 2.6% | 4.6% |
| Atlanta | 4,508,106 | 2.4% | 2.8% |
| Chicago | 6,731,202 | 2.2% | 4.8% |
| Miami | 1,347,261 | 2.0% | 3.0% |
| Tampa | 1,245,432 | 2.0% | 2.5% |
| Phoenix | 2,507,505 | 1.9% | 2.4% |
| Houston | 4,342,933 | 1.8% | 2.7% |
| Dallas | 4,240,812 | 1.6% | 3.3% |
| Denver | 2,461,920 | 1.6% | 2.6% |
| Portland | 917,229 | 1.6% | 1.6% |
| Philadelphia | 2,557,160 | 1.5% | 1.7% |
| Washington DC | 5,414,115 | 1.4% | 1.7% |
| San Diego | 1,041,350 | 1.1% | 1.5% |
| Twin Cities | 1,140,643 | 1.0% | 1.3% |
| Orlando | 419,618 | 0.8% | 2.0% |
| New Jersey | 121,800 | 0.1% | 0.3% |

Source: CommercialEdge. Data as of October 2020

Office-Using Employment: Seattle Shows Resiliency

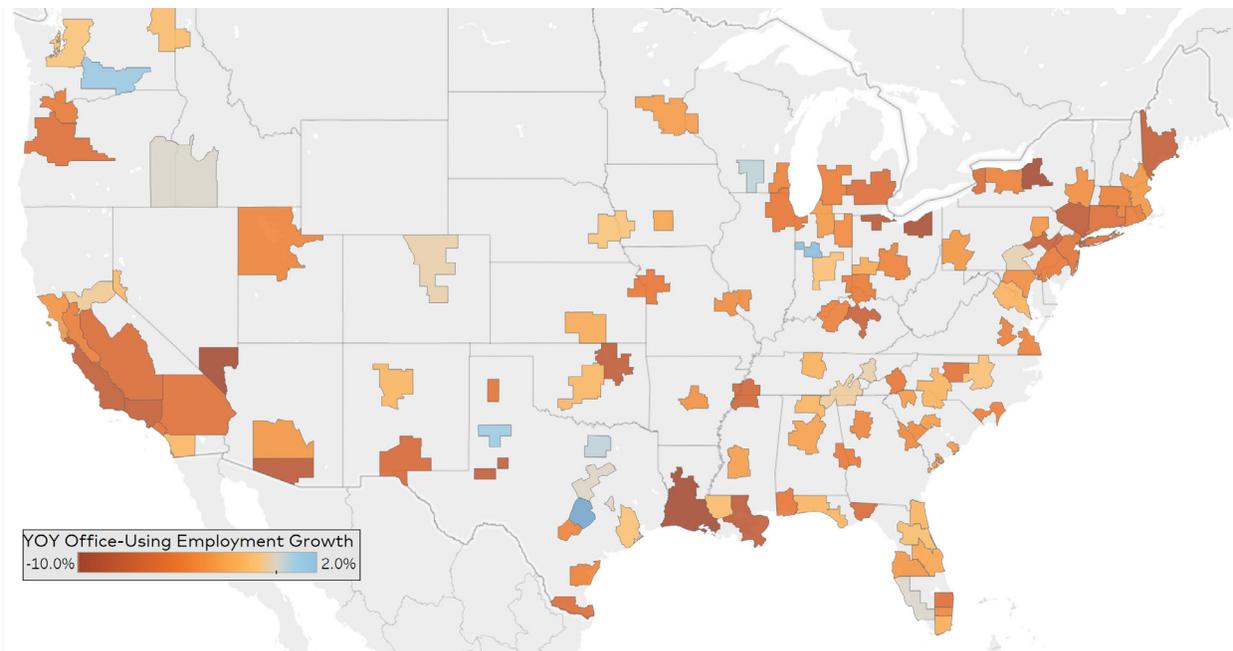
- Nationally, employment in office-using sectors decreased by 4.1% year-over-year in October.
- Metro employment data for September, which trails the national release, reveals only six of the 120 markets covered by CommercialEdge have positive year-over-year growth for office-using sectors. However, in nearly every market, office-using job sectors are performing better than the labor market as a whole.
- Office-using employment is faring better in Seattle than in most other metros covered by CommercialEdge. The Emerald City stands out because most of the markets that have seen the fewest losses are in Sun Belt states where the government used a light touch with shutdowns—and Seattle has fared better than Houston, Charlotte and Nashville. Seattle has nearly recovered all of the office-using employment lost this year; it is down just 5,600 jobs (1.0%) year-over-year.

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

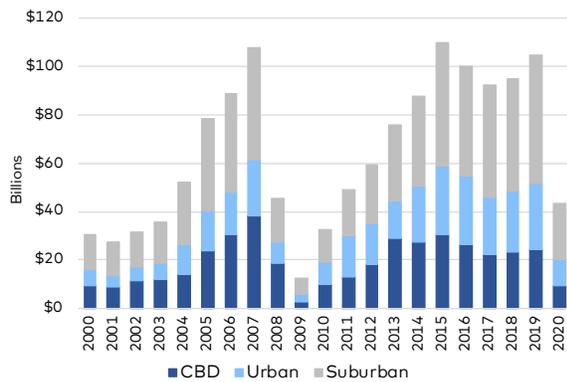
Transactions: Volume Down, Average Sale Price Up

- National transaction volume sat at \$43.6 billion through the first 10 months of the year. The average price per square foot for completed transactions is up 3.6% from 2019.
- Transaction volume slowed greatly this year as the country has dealt with the pandemic. The bid/ask spread for potential deals is expected to remain large and put a great deal of downward pressure on transaction volume until a vaccine is widely available and more is known about how firms will utilize office space and how permanent remote work will be among white-collar sectors coming out of this crisis.

Sales Activity

| Market | YTD Sales Price PSF | YTD Sales (Mil, as of 10/31) |
|---------------|---------------------|------------------------------|
| National | \$283 | \$43,609 |
| Manhattan | \$771 | \$4,314 |
| Boston | \$437 | \$4,149 |
| Washington DC | \$316 | \$3,213 |
| San Francisco | \$1,129 | \$3,071 |
| Bay Area | \$431 | \$3,011 |
| Los Angeles | \$365 | \$2,740 |
| New Jersey | \$190 | \$1,848 |
| Dallas | \$264 | \$1,605 |
| Chicago | \$246 | \$1,582 |
| Seattle | \$676 | \$1,517 |
| Denver | \$210 | \$1,110 |
| Houston | \$354 | \$1,003 |
| San Diego | \$376 | \$982 |
| Philadelphia | \$172 | \$928 |
| Charlotte | \$319 | \$719 |
| Portland | \$261 | \$641 |
| Phoenix | \$182 | \$596 |
| Atlanta | \$159 | \$571 |
| Nashville | \$342 | \$537 |
| Brooklyn | \$399 | \$446 |
| Twin Cities | \$123 | \$424 |
| Miami | \$183 | \$333 |
| Tampa | \$168 | \$178 |
| Austin | \$292 | \$176 |
| Orlando | \$142 | \$156 |

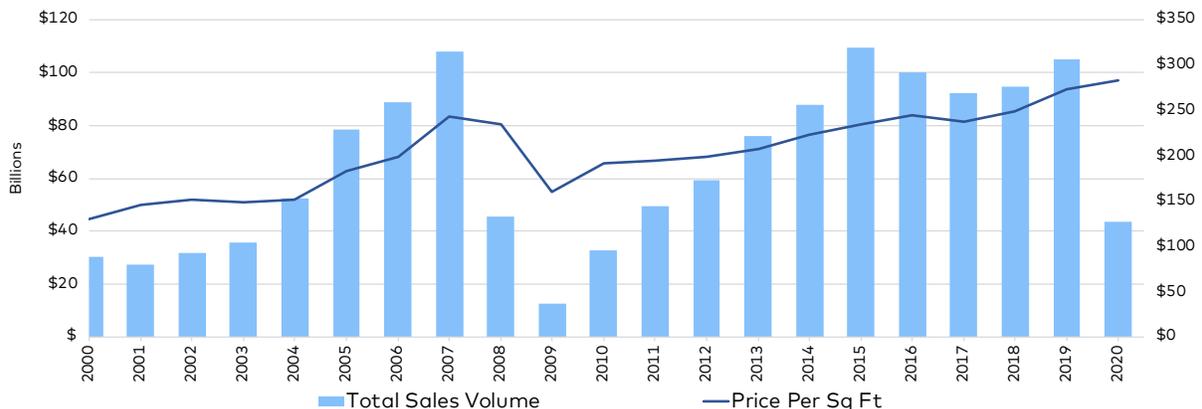
Sales by Location



Source: CommercialEdge; Data as of October 2020

Source: CommercialEdge. Data as of October 2020

Total Sales



Source: CommercialEdge. Data as of October 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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