



CommercialEdge

National Office Report

January 2021



After Tumultuous Year, Murky Future Awaits

- The national average full-service equivalent listing rate fell 24 cents in December from the previous month to \$37.76 per square foot, a decrease of 1.0% year-over-year. The national vacancy rate increased 40 basis points to 14.2%.
- Employment in office-using sectors has largely followed the trend of overall employment during the course of the protracted recovery, with a decent rebound in the summer and early fall before the most recent wave of the virus halted any significant job gains. Office-using employment is down 3.4% year-over-year in December, and metro data, which trails the national release, shows 104 of the 120 markets covered by CommercialEdge have been negative since last November. Austin is the exception, with a remarkable 6.4% increase in office-using employment in the last 12 months.
- Rollout of the COVID-19 vaccine is progressing more slowly than initially hoped, signaling that any return to normalcy won't occur until well into the second half of the year. Even though the vaccine provides optimism that companies can eventually return to the office in large numbers, many firms have spent the last 10 months reevaluating exactly how much office space they need and if they can continue with most workers in a remote setup ad infinitum.
- As the companies continue to reevaluate their office footprints in a post-pandemic world, one trend worth watching is office conversions into multifamily. While nothing has happened on this front as of yet, the concept is picking up momentum. New York Gov. Andrew Cuomo mentioned these conversions in his State of the State Address, saying that vacant commercial buildings should become affordable and supportive housing. Although he listed no specifics, the governor has said that he would "propose legislation to create a five-year period during which property owners may convert office buildings and hotels in New York City to residential use." Housing affordability and availability has been a major problem of late, especially in dense urban locations. If governments can properly align the incentives for office owners to undertake conversions, then this solution could solve two problems at once by giving office owners holding onto vacant space a viable exit while increasing the stock of affordable housing.



Listing Rates: Nashville Sees Increase in Turbulent Year

- The average full-service equivalent listing rate was \$37.76 per square foot, a decrease of 1.0% from December of last year.
- Same-store listing rate growth was highest in Nashville (6.6%), the Bay Area (5.4%) and Austin (5.3%). Same-store rates fell the most in San Diego (-11.7%), Brooklyn (-8.5%) and San Francisco (-7.3%).
- Nashville has seen rate growth in both the standard and same-store metrics despite the health crisis. The Music City has been a

popular destination for young professionals in recent years, and we expect this will continue going forward. Same-store rate growth is higher in Nashville than overall almost entirely due to one property: Capitol View - Life-Way Christian Resources Headquarters in the downtown submarket. The religious publisher is facing financial strain and is looking to lease all 279,770 square feet of its headquarters at a full-service equivalent rate of \$43.81 per square foot. With so many other firms also looking to downsize, finding a tenant for this space may be a tall task.

Listings by Metro

Market	Nov-20 Listing Rate	12-Month Change	Total Vacancy	Top Listing	Price Per Square Foot
National	\$37.76	-1.0%	14.2%		
Bay Area	\$54.21	5.5%	14.3%	525 University Avenue	\$168.02
New Jersey	\$32.84	5.1%	17.0%	Liberty Innovation Center	\$70.29
Nashville	\$30.72	3.7%	16.9%	Broadwest	\$47.22
Austin	\$42.11	3.7%	11.5%	Indeed Tower	\$70.67
Miami	\$42.54	2.8%	15.1%	830 Brickell Plaza	\$73.00
Washington DC	\$41.21	1.9%	15.5%	PNC Place	\$87.29
San Diego	\$38.43	0.7%	14.2%	RaDD - Block 1B, The	\$77.05
Charlotte	\$28.78	1.2%	10.9%	300 South Tryon	\$42.00
Philadelphia	\$29.29	0.7%	12.7%	One Liberty Place	\$51.71
Houston	\$29.52	0.7%	22.1%	Texas Tower	\$58.40
Orlando	\$21.41	0.5%	14.7%	250 Park Avenue South	\$40.00
Los Angeles	\$39.32	0.2%	13.3%	100 Wilshire	\$111.00
Denver	\$28.83	-0.2%	14.3%	William Building, The	\$59.67
Phoenix	\$27.40	0.1%	17.4%	One Hundred Mill	\$50.50
Portland	\$29.66	-0.5%	12.5%	Broadway Tower	\$46.16
Tampa	\$28.65	-0.6%	12.6%	Heights Union - East Building	\$45.00
Twin Cities	\$26.80	-1.2%	13.8%	Offices at MOA, The	\$40.00
Dallas	\$28.50	-1.3%	18.6%	Weir's Plaza	\$63.44
Manhattan	\$82.40	-1.4%	10.3%	550 Madison Avenue	\$210.00
Atlanta	\$27.01	-1.8%	17.8%	300 Colony Square	\$50.00
Seattle	\$36.59	-2.6%	10.9%	Key Center	\$62.91
Chicago	\$27.93	-2.6%	15.5%	PNC Centre at One North Franklin	\$64.30
Boston	\$34.37	-4.1%	10.8%	Two Charles Park	\$95.00
Brooklyn	\$50.45	-8.5%	13.6%	One MetroTech Center	\$65.59
San Francisco	\$64.34	-13.7%	10.9%	2180 Sand Hill Road	\$150.84

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

Supply: Pipeline Still Active in Select Markets Despite Uncertainty

- Nationally, 67.6 million square feet of new office stock was completed in 2020 despite the economic downturn and the stay-at-home orders that forced projects in some markets to halt construction during the second quarter. New deliveries last year were almost evenly split between suburban and CBD/urban submarkets, with the city center delivering slightly more square feet (35.4 million) than the suburbs (32.2 million).
- In all, 164.6 million square feet are currently under construction, with the vast majority (93.4%) being in A+ or A properties.
- Two markets, Charlotte and Austin, are ahead of the pack for new office stock. Charlotte has the highest level of square feet under construction as a percentage of stock (11.5%), with Austin not far behind (10.8%). Remarkably, these two midsize markets combine for almost 10% of all new square footage under construction. Austin and Charlotte share two things in common: They both have high levels of domestic in-migration, and they have benefited from financial firm relocations. While New York City is still the financial capital of the world, financial jobs have been leaving for markets like Charlotte and Austin for years.

Supply Pipeline (by asset class and location)

National Market	Under Construction	Under Construction % Stock	Plus Planned % Stock
A+/A	153,801,267	5.1%	5.4%
B	10,367,526	0.3%	0.4%
C	0	0.0%	0.0%
CBD	34,455,213	2.6%	4.7%
Urban	79,673,695	5.8%	13.1%
Suburban	50,496,885	1.3%	4.1%

Source: CommercialEdge. Data as of December 2020

Supply Pipeline (by metro)

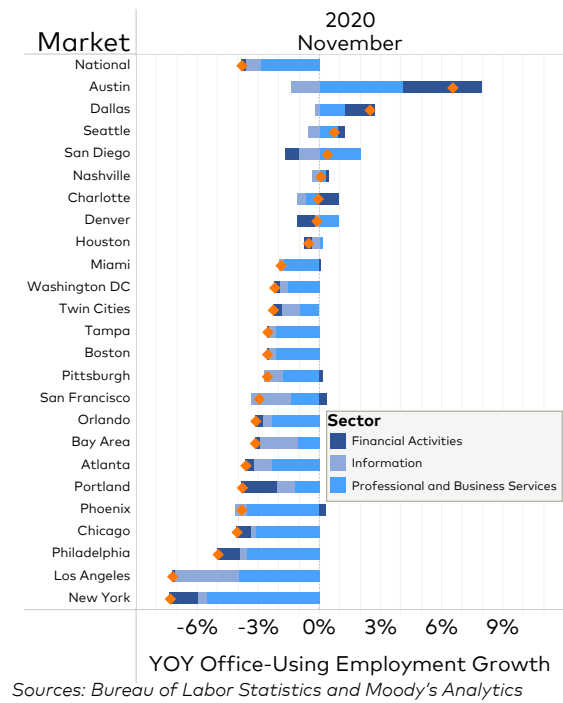
Market	Under Construction	Under Construction % Stock	Plus Planned % Stock
National	164,625,793	2.5%	6.1%
Charlotte	7,852,790	11.5%	16.9%
Austin	8,033,023	10.8%	26.6%
Brooklyn	2,619,620	6.5%	15.4%
Nashville	3,401,241	6.3%	15.1%
Seattle	7,460,155	5.4%	12.0%
San Francisco	8,218,754	5.3%	11.0%
Boston	11,975,121	5.0%	8.1%
Portland	2,506,893	4.2%	8.8%
Manhattan	19,954,261	4.1%	5.1%
San Diego	3,773,383	4.1%	6.4%
Los Angeles	9,162,136	3.2%	6.9%
Miami	1,902,897	2.8%	8.7%
Bay Area	5,588,844	2.7%	9.8%
Atlanta	5,090,538	2.7%	4.9%
Tampa	1,460,879	2.3%	4.8%
Denver	3,002,212	1.9%	6.3%
Houston	4,451,356	1.9%	3.6%
Phoenix	2,357,334	1.8%	7.6%
Twin Cities	2,106,642	1.8%	2.8%
Philadelphia	3,000,109	1.7%	5.0%
Washington DC	6,544,064	1.7%	3.7%
Dallas	4,209,869	1.6%	8.5%
Chicago	4,878,088	1.6%	5.8%
Orlando	501,642	0.9%	10.6%
New Jersey	677,710	0.4%	2.2%

Source: CommercialEdge. Data as of December 2020

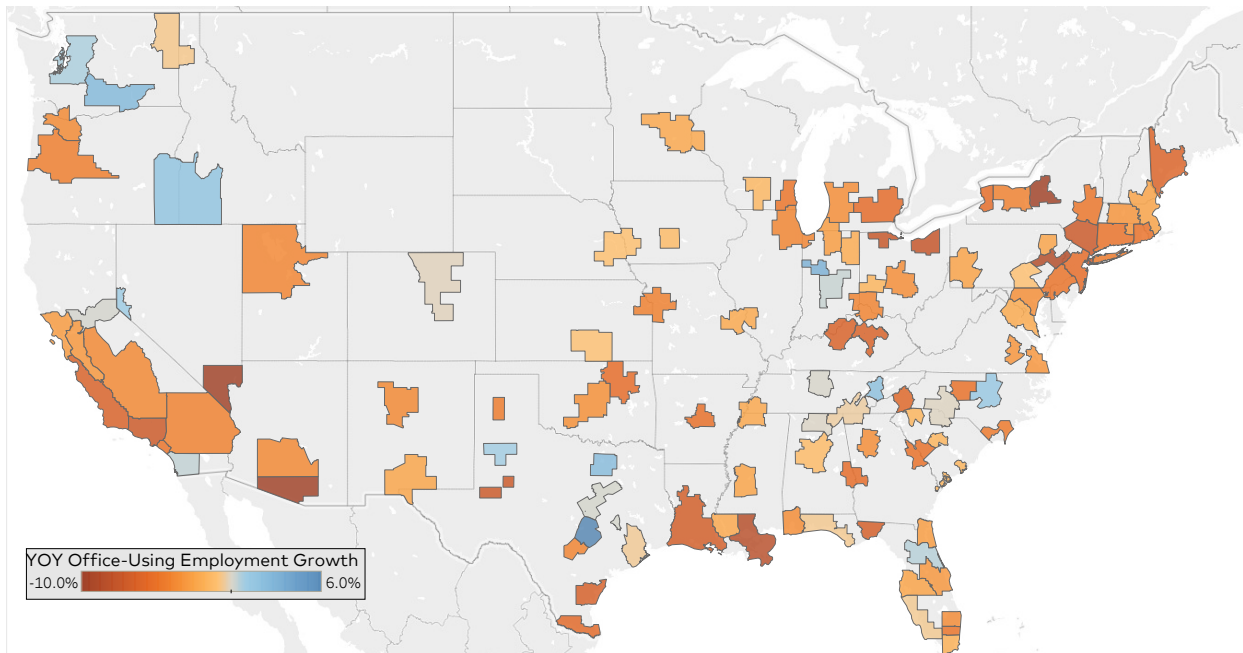
Office-Using Employment: Austin Head and Shoulders Above Nation

- Nationally, employment in office-using sectors decreased by 3.4% year-over-year in December.
- Metro data for November, which trails the national release, shows most markets have improved somewhat in recent months but still paints a picture of a labor market struggling with a long recovery. Of the 120 markets covered by CommercialEdge, 16 have positive growth year-over-year. However, eight of those markets grew at less than 1%, and only five eclipsed 2%.
- Weak job improvement numbers only make Austin's solid growth more striking, as the Texas capital has increased office-using employment by more than 6% year-over-year. Much of the growth is driven by the financial activities sector, even though tech relocations capture most of the attention. While only a quarter of Austin's office jobs are in the financial sector, it is responsible for nearly half of the office-using employment growth since January 2019.

Growth by Sector



Office-Using Employment Growth

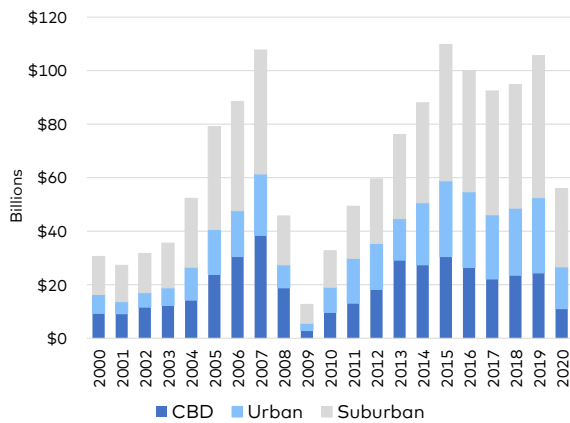


Sources: Bureau of Labor Statistics and Moody's Analytics

Transactions: Sales Volume Drops Sharply But Finishes Year Strong

- Nationally, \$55.9 billion of office transactions were completed last year, only slightly more than half of last year's total volume. Collection of sales data is not instantaneous, so some sales that were completed before the end of the year may trickle in and push last year's figure upward. Nevertheless, it is clear that the health crisis, economic downturn and uncertain future of the office combined to cause the biggest drop in volume since the financial crisis.
- The down year ended on a somewhat positive note, with the fourth quarter (\$15.8 billion) having nearly as much volume as the second and third quarters combined (\$17.9 billion)

Sales by Location



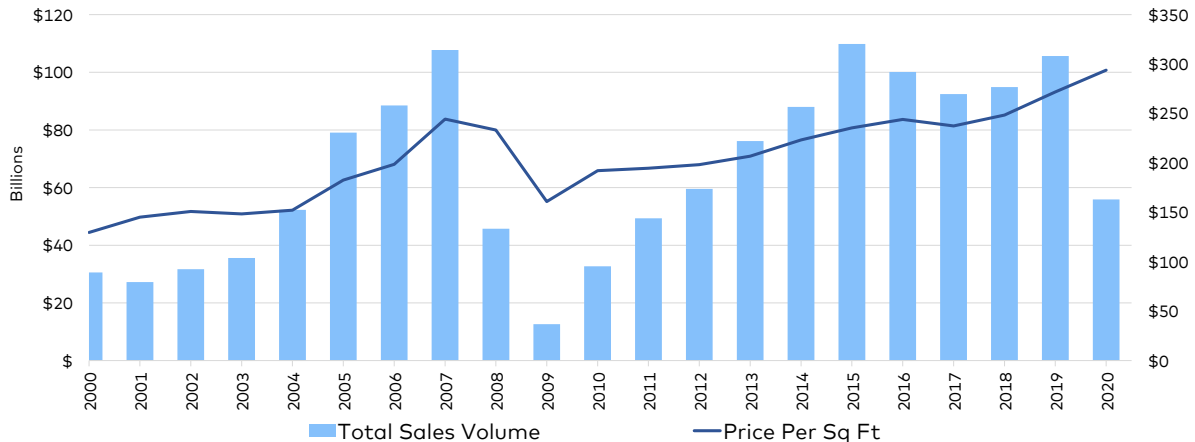
Source: CommercialEdge; Data as of December 2020

Sales Activity

Market	YTD Sales Price PSF	YTD Sales (Mil, as of 12/31)
National	\$294	\$55,907
Boston	\$472	\$5,780
Manhattan	\$845	\$5,266
Bay Area	\$441	\$3,935
San Francisco	\$1,154	\$3,917
Washington DC	\$323	\$3,767
Seattle	\$664	\$3,376
Los Angeles	\$391	\$3,337
New Jersey	\$177	\$2,263
Chicago	\$235	\$1,924
Dallas	\$247	\$1,779
Denver	\$205	\$1,337
Houston	\$288	\$1,315
Portland	\$357	\$981
San Diego	\$376	\$981
Philadelphia	\$169	\$971
Charlotte	\$350	\$927
Phoenix	\$213	\$884
Nashville	\$342	\$803
Atlanta	\$163	\$713
Twin Cities	\$117	\$470
Brooklyn	\$399	\$445
Miami	\$184	\$345
Tampa	\$167	\$269
Orlando	\$149	\$175
Austin	\$292	\$175

Source: CommercialEdge. Data as of December 2020

Total Sales



Source: CommercialEdge. Data as of December 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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