CommercialEdge

National Office Report

April 2021

Big Tech Eyes a Return to the Office

- Things look more promising for the office sector now than they did last summer. Vaccine rollout has been moving along, with more than a fifth of all adults fully vaccinated. Despite the pause in the Johnson & Johnson vaccine administration, officials expect every adult to be able to receive a vaccine by summer. This will allow firms to plan for a fall return to the office. Another positive for the industry is the results of KPMG's recent CEO Outlook Pulse Survey. In August, 69% of CEOs said they would reduce their office footprint, but by March that number had fallen to only 17% of respondents.

- The reported plans of large tech firms provide some insight into the future. Most have now reopened offices at limited capacity and set target dates for a full return to the office. Some—like Facebook, Twitter, Salesforce and Microsoft—are eying a hybrid model where employees spend part of the week in the office and part working from home. Although Mark Zuckerberg said last year that nearly half of Facebook employees will be remote in the next five to 10 years, the company has signed 1.9 million square feet of leases in Manhattan alone in the last year, between Hudson Yards and The Farley Building, Manhattan's former main post office branch, which is currently under renovation.

- Amazon and Google, however, are looking toward a full-time return to the office. Google announced a September deadline for employees to return, with any employee wanting to work more than 14 days a year remotely needing to apply to do so. Google recently signed a 500,000-square-foot lease at 1105 West Peachtree, a Midtown Atlanta tower currently under construction. Amazon told employees the "plan is to return to an office-centric culture as our baseline" and announced last year it would expand offices in six cities: Denver, Detroit, Dallas, New York, Phoenix and San Diego.

- A tech firm return to the office is good news for the San Francisco and Bay Area markets, which have been battered by the pandemic. Not only have there been high-profile departures to Texas by firms like Oracle and Tesla but the overall vacancy rate has skyrocketed, climbing 660 basis points in the Bay Area and 650 in San Francisco over the last 12 months.

Listing Rates and Vacancy: Vacancy Rates Climb as Pandemic Hits One-Year Mark

- The average full-service equivalent listing rate was $38.67 per square foot in March, an increase of 36 cents from the previous month.

- The slight increase in listing rates notwithstanding, vacancy rates continued to climb in March. National vacancy rates increased 280 basis points over March 2020 and 60 basis points over February 2021.

- Last March, a few markets sported vacancy rates below 8%, but a year later no market has a vacancy rate in the single digits. Two of those markets that previously had low rates, Seattle (which increased from 7.7% to 13.9%) and Austin (from 7.4% to 16.0%), can partly point to new supply as a reason for their increasing vacancies. Coinciding with a pandemic that led many companies to shrink their office footprints, 3.5% of Austin's and 2.8% of Seattle's office stock was delivered in the past 12 months. San Francisco's rates have increased from 6.9% to 13.5%, and together with the Bay Area (from 12.8% to 19.3%) it now sports 19.3 million more square feet of vacant office space than a year ago.

Listings by Metro

Market	Mar-20 Listing Rate	12-Month Change	Total Vacancy	12-Month Change	Top Listing	Price Per Square Foot
National	$38.67	1.4%	15.6%	280 bps		
Bay Area	$57.11	8.6%	19.3%	650 bps	525 University	$150.00
Washington DC	$42.21	6.4%	15.8%	210 bps	PNC Place	$87.29
New Jersey	$33.04	3.9%	18.6%	-200 bps	Liberty Innovation Center	$70.29
Los Angeles	$40.43	3.6%	13.8%	280 bps	100 Wilshire	$108.00
Atlanta	$27.68	3.5%	19.6%	390 bps	300 Colony Square	$50.00
San Diego	$40.58	3.5%	14.0%	240 bps	Torrey Ridge Science Center - Building 1	$82.01
Nashville	$31.34	3.0%	19.0%	790 bps	2525 West End	$52.79
Miami	$42.22	3.0%	15.6%	360 bps	Two Brickell City Centre	$75.00
Phoenix	$27.72	2.5%	18.5%	150 bps	One Hundred Mill	$48.50
Denver	$28.72	1.8%	16.0%	390 bps	William Building, The	$59.67
Austin	$42.40	1.6%	16.0%	860 bps	Indeed Tower	$70.67
Philadelphia	$29.36	1.5%	13.4%	70 bps	One Liberty Place	$51.71
Orlando	$21.32	0.0%	14.9%	370 bps	250 Park Avenue South	$40.00
Manhattan	$85.82	1.2%	10.7%	330 bps	550 Madison Avenue	$210.00
Tampa	$28.35	0.0%	15.1%	450 bps	Heights Union - East Building	$45.00
Portland	$30.17	-0.7%	15.0%	310 bps	Beacon Lake Oswego	$51.78
Dallas	$28.35	-1.3%	19.1%	150 bps	Weir's Plaza	$63.44
Charlotte	$28.94	-1.4%	14.2%	480 bps	300 South Tryon	$42.00
Brooklyn	$50.61	-1.8%	15.8%	430 bps	One MetroTech Center	$65.59
San Francisco	$69.66	-2.4%	13.5%	660 bps	Sand Hill Commons	$156.00
Boston	$33.51	-2.5%	12.0%	240 bps	American Twine Office Park	$93.00
Houston	$29.59	-2.5%	24.0%	340 bps	Texas Tower	$58.40
Seattle	$35.52	-3.0%	13.9%	620 bps	City Center Bellevue	$63.50
Twin Cities	$26.53	-3.0%	16.0%	470 bps	Offices at MOA, The	$40.00
Chicago	$27.59	-4.5%	17.4%	370 bps	PNC Centre at One North Franklin	$62.43

Source: CommercialEdge. Data as of March 2021. Listing rates are full service or "full service equivalent" rates for spaces available as of report period.

Supply:
Urban Cores Still Adding Stock

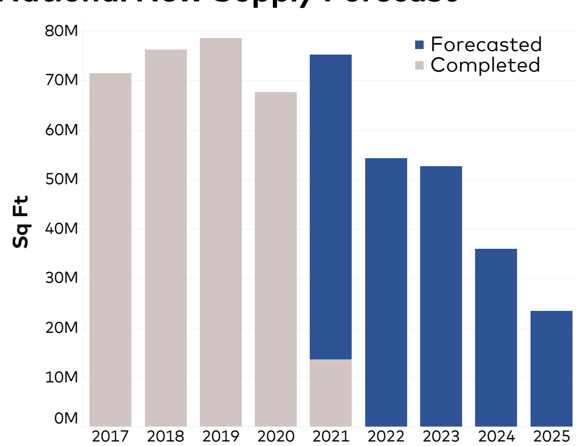
- Nationally, there are 162.6 million square feet of new space under construction, with 70% located in CBD or urban submarkets. While the pandemic has led to speculation of a rebirth of the suburbs, the pre-pandemic trends of new supply being highly concentrated in city centers is still unfolding.

- So far this year, 13.7 million square feet have been delivered, with another 63.6 million forecasted by year-end, according to Yardi Matrix.

- Charlotte continues to have the largest under-construction pipeline in the country based on percent of stock. Nearly half of the new stock under construction is located in either the CBD or Midtown – South End submarkets, and more than half of planned properties still to break ground are also in the urban core. This is a noteworthy shift in a city where nearly two-thirds of existing stock is suburban.

- A similar dynamic is playing out in Austin, where more than 70% of stock under construction is in urban cores, while nearly four-fifths of existing stock is in the suburbs. Unlike Charlotte, however, Austin's planned stock points to future development in the suburbs, with three-quarters of planned space located outside the city center.

National New Supply Forecast



Source: Yardi Matrix. Data as of March 2021

Supply Pipeline (by metro)

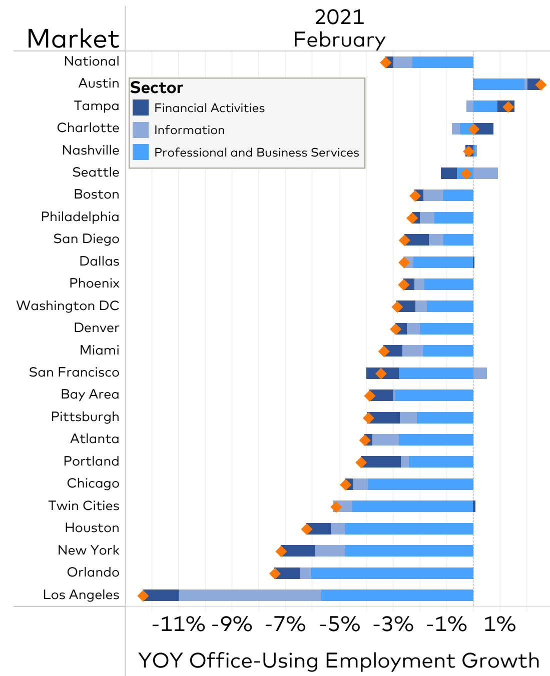
Market	Under Construction	Under Construction % Stock	Plus Planned % Stock
National	162,615,572	2.5%	6.1%
Charlotte	8,010,616	11.2%	15.7%
Austin	7,418,276	9.8%	28.0%
Brooklyn	2,996,347	7.6%	14.0%
San Francisco	8,871,552	5.7%	10.4%
Boston	13,764,113	5.6%	10.4%
Nashville	3,019,168	5.4%	12.8%
Seattle	6,010,650	4.2%	9.7%
Portland	2,481,940	4.1%	7.6%
Manhattan	19,212,826	4.0%	5.5%
San Diego	3,634,235	3.8%	6.6%
Miami	2,173,298	3.2%	9.2%
Los Angeles	8,707,749	3.0%	6.3%
Atlanta	5,672,644	3.0%	4.9%
Philadelphia	4,182,214	2.4%	5.2%
Bay Area	4,501,775	2.2%	10.4%
Houston	4,850,315	2.0%	3.7%
Phoenix	2,472,114	1.9%	5.9%
Denver	2,811,135	1.8%	5.8%
Tampa	1,080,000	1.7%	6.4%
Dallas	4,232,754	1.6%	7.8%
Twin Cities	1,799,709	1.5%	3.4%
Washington DC	5,726,521	1.5%	3.6%
Chicago	4,688,655	1.5%	6.4%
Orlando	758,733	1.4%	9.6%
New Jersey	432,010	0.2%	2.1%

Source: CommercialEdge. Data as of March 2021

Office-Using Employment: Few Markets Able to Add Jobs During Pandemic

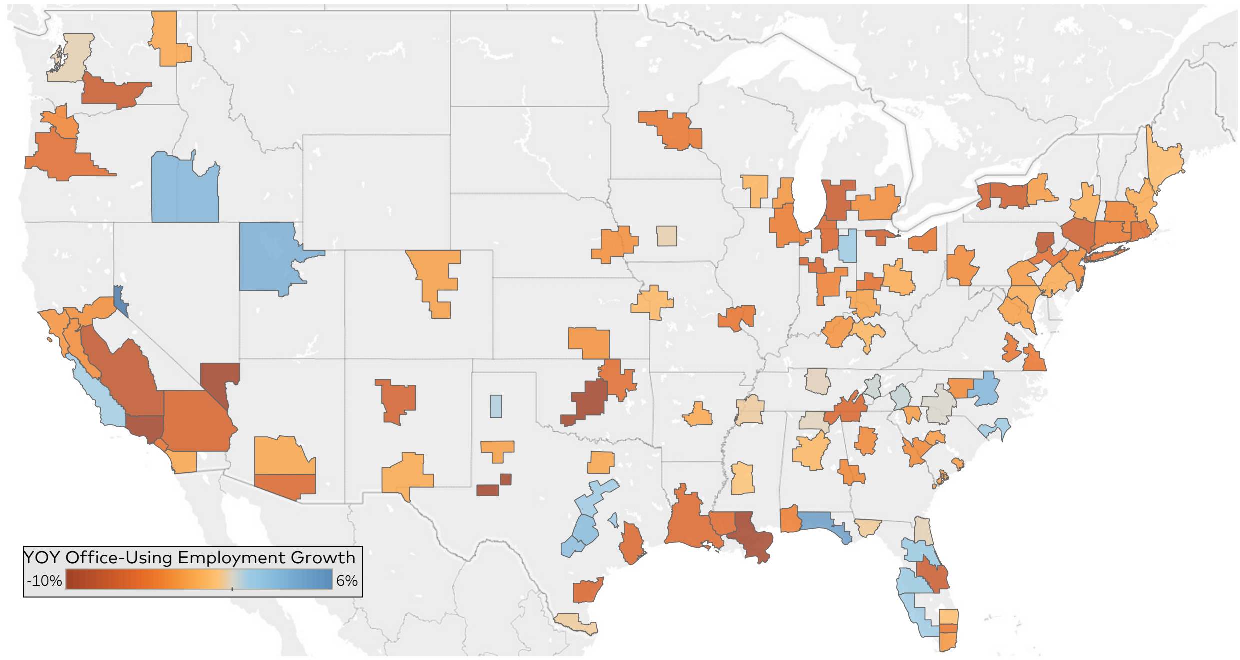
- Nationally, employment in office-using sectors decreased by 2.5% year-over-year in March. Office-using employment continues to outperform the overall labor market, which decreased 4.5% over the same period.
- Metro data for February, which trails the national release, shows only 18 of the 114 markets covered by CommercialEdge and only five of the largest 50 added office-using jobs over the 12-month period.
- Markets that added office-using jobs were led by Salt Lake City (3.5%), Raleigh-Durham (2.9%), Austin (2.5%) and San Antonio (2.4%).
- Although four of the 10 Florida markets covered added office jobs over the last year, Orlando was one of the worst-performing markets in the nation, falling 7.4%. Orlando's economy is highly dependent on tourism, and the downturn brought on by COVID-19 has spilled over into office-using sectors of the labor market.

Growth by Sector



Sources: Bureau of Labor Statistics and Moody's Analytics

Office-Using Employment Growth



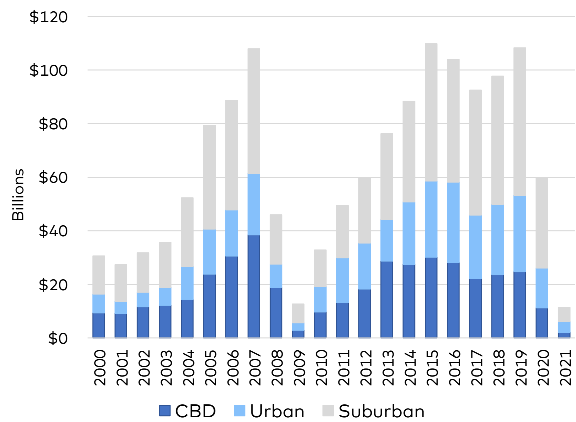
Sources: Bureau of Labor Statistics and Moody's Analytics

Transactions: Year Starts With Low Volume Despite Large Transactions

- The first quarter recorded $10.5 billion of sales. The pandemic and remote work continue to dampen activity. At this point last year, CommercialEdge had logged more than $20 billion in first-quarter sales.

- Three sales accounted for nearly a quarter of all national sales volume in the first quarter: The Exchange on 16th in San Francisco ($1 billion), 410 10th Ave. in Manhattan ($733 million) and The Crescent in Dallas ($700 million). Despite the office sector's uncertain future, investor demand continues for high-quality assets in prime locations.

Sales by Location



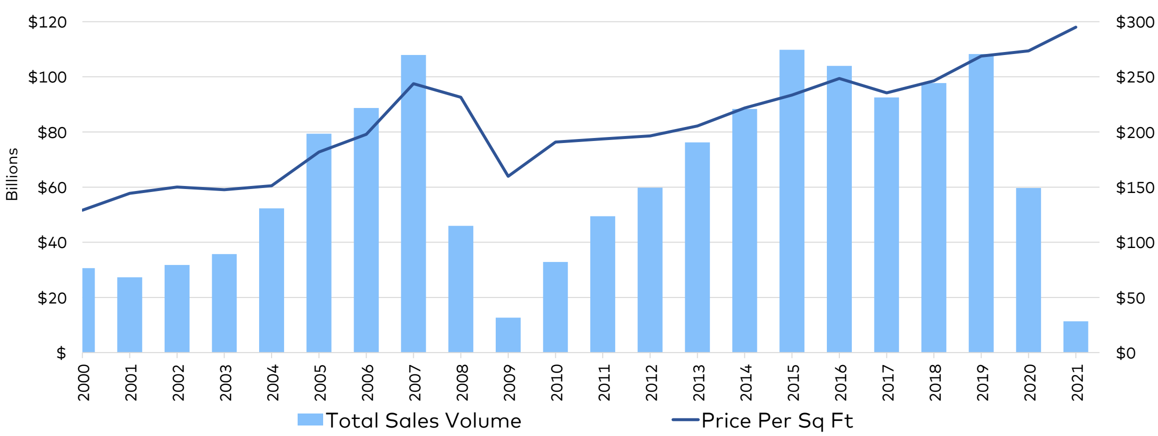
Source: CommercialEdge; Data as of March 2021

Sales Activity

Market	YTD Sales Price PSF	YTD Sales (Mil, as of 03/31)
National	$286	$10,533
San Francisco	$751	$1,256
Dallas	$382	$1,029
Manhattan	$1,287	$1,005
Bay Area	$584	$880
New Jersey	$214	$564
Los Angeles	$420	$523
Denver	$210	$425
Miami	$305	$395
Phoenix	$235	$389
Atlanta	$146	$319
Charlotte	$534	$244
Seattle	$314	$242
Nashville	$250	$179
Houston	$176	$158
Chicago	$127	$149
Boston	$243	$140
Washington DC	$216	$132
Philadelphia	$108	$68
Tampa	$129	$54
Twin Cities	$111	$51
Portland	$129	$3
Orlando	$80	$2

Source: CommercialEdge. Data as of March 2021

Total Sales



Source: CommercialEdge. Data as of March 2021

Definitions

This report covers office buildings 50,000 square feet and above. CommercialEdge subscribers have access to more than 8,000,000 property records and 250,000 listings 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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