CommercialEdge

National Office Report

August 2023

Life Science Slows but Remains Attractive

- A slowdown in venture capital funding has hit the life sciences sector in 2023, driven by rising interest rates, the collapse of Silicon Valley Bank and general economic uncertainty. Yet life science properties trade at a premium, the supply pipeline is robust and the long-term outlook remains positive.

- Sales activity has cooled across the board in 2023, the life science sector included. After totaling more than $6 billion in 2022, there were just $386.6 million in lab space sales this year through the end of July. However, the properties that have sold have traded at an average of $770 per square foot, nearly four times higher than the $196-per-foot national average for all office buildings.

- In the previous decade, life science comprised less than 5% of all office construction. In the last two years, it has accounted for more than a quarter of starts, with over 23 million square feet of lab space beginning construction since 2022. The life science development boom was in full swing even before that. Since the start of 2021, 16.3 million square feet of new life science facilities have delivered. By comparison, between 2010 and 2020, 23.9 million square feet were completed.

- In the near term, a supply glut may be on the horizon. On top of the space delivered in the last few years, more than 33.5 million square feet of new life science space are under construction, including owner-occupied properties, according to CommercialEdge. Yet any risk of oversupply would be concentrated in just a few markets, as the life science sector remains clustered in select cities, foremost among them Boston, where 12.4 million square feet are under construction. San Francisco (5.6 million) and San Diego (4.5 million) are also established life science markets seeing large amounts of new supply underway. The next largest pipelines are in emerging markets Philadelphia (2.2 million), Houston (1.4 million) and Seattle (1.1 million).

- We expect the life science sector to continue expansion in the future, albeit not at the blistering pace seen in the last few years. Recent breakthroughs in mRNA and CRISPR will drive billions of dollars in investment from both private and public sources. A recent report from Pitchbook and the National Venture Capital Association showed that while the first half of 2023 saw the lowest amount of VC funding since 2019, investment this year will surpass any year before 2018.

Listing Rates and Vacancy: San Francisco Vacancies Spike

- The national average full-service equivalent listing rate in July was $37.89, according to CommercialEdge, an increase of 0.4% over the previous year and seven cents over June.

- The national vacancy rate in July was 17.1%, an increase of 200 basis points year-over-year.

- Vacancies have increased everywhere since the onset of the pandemic, with the biggest jumps in tech markets. San Francisco's vacancy rate grew 370 basis points over the last year and sits at 21.7%. A convergence of factors led to San Francisco's current troubles. COVID-19 hit it early and hard in 2020, leading to strict lockdowns. The market's tech firms were well-suited to permanently embracing remote or hybrid setups, and the tech contraction that started in late 2022 halted business formation and new office demand. Yet the market is used to boom-and-bust cycles. Generative AI could be the next boom that helps the market recover, during the second half of this decade.

Listings by Metro

Market	Jul-23 Listing Rate	12-Month Change	Total Vacancy	12-Month Change	Top Listing	Price Per Square Foot
National	$37.89	0.4%	17.1%	200 bps		
Boston	$46.47	14.3%	10.0%	90 bps	Kendall Center–255 Main Street	$126.34
San Diego	$46.85	9.9%	16.0%	350 bps	2100 Kettner	$69.00
Twin Cities	$27.21	5.6%	17.4%	330 bps	Tractor Works Building, The	$40.71
Orlando	$24.71	5.5%	15.4%	40 bps	Heritage Park	$42.00
Atlanta	$30.81	4.5%	18.7%	-140 bps	300 Colony Square	$52.00
New Jersey	$34.31	3.5%	17.0%	-10 bps	10 Exchange Place	$55.30
Phoenix	$27.74	2.5%	18.9%	500 bps	Camelback Collective	$55.00
Washington DC	$40.36	1.6%	14.8%	80 bps	455 Massachusetts Ave NW	$76.00
Philadelphia	$30.68	1.1%	12.9%	-50 bps	Two Liberty Place	$53.50
Chicago	$27.54	1.1%	19.4%	50 bps	300 North LaSalle Drive	$59.46
Charlotte	$33.93	0.9%	13.9%	70 bps	Rotunda Building, The	$44.42
Denver	$30.60	0.9%	19.9%	290 bps	1144 Fifteenth Street	$63.50
Austin	$42.40	0.6%	20.5%	490 bps	Indeed Tower	$82.34
Houston	$30.54	0.2%	23.2%	30 bps	Texas Tower	$60.90
Seattle	$38.00	-0.2%	20.9%	560 bps	1208 Eastlake Avenue East	$95.00
Miami	$47.00	-0.6%	12.8%	150 bps	830 Brickell	$137.50
Nashville	$30.27	-1.5%	17.5%	-150 bps	Three Thirty Three	$44.38
Los Angeles	$42.75	-1.6%	14.1%	120 bps	100 Wilshire	$108.00
Manhattan	$70.00	-2.1%	17.4%	340 bps	550 Madison Avenue	$210.00
Tampa	$28.13	-2.1%	14.4%	-40 bps	Water Street Tampa–Thousand & One	$59.00
San Francisco	$64.06	-3.7%	21.7%	370 bps	Sand Hill Collection–The Quad	$195.60
Bay Area	$53.53	-4.8%	18.4%	320 bps	325 Lytton Avenue	$160.20
Portland	$28.25	-5.3%	15.9%	170 bps	12th & Morrison	$47.01
Dallas	$27.33	-6.0%	18.1%	20 bps	17Seventeen McKinney	$67.42
Brooklyn	$45.51	-7.1%	11.3%	-520 bps	200 Kent Avenue	$75.00

Source: CommercialEdge. Data as of July 2023. Listing rates are full-service or "full-service equivalent" rates for spaces available as of report period. National listing rate is an average of the top 50 markets.

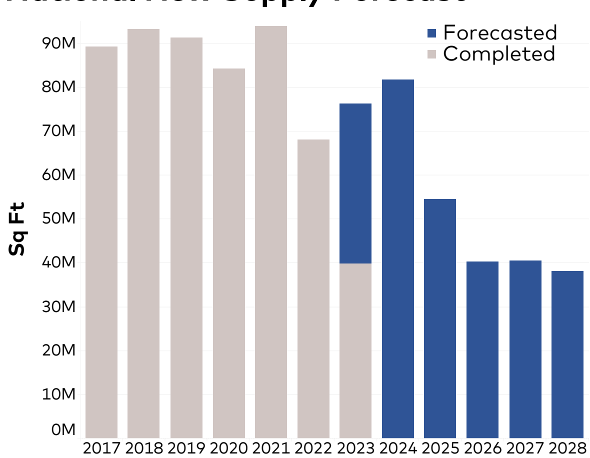
Supply:
New Supply Pipeline Slowing in Nashville

- Nationally, 108.0 million square feet of office space are currently under construction. In 2023 to date, 27.4 million square feet have been delivered.

- New office starts have decelerated quickly in 2023. Higher interest rates and entrenched remote work have combined to slow new office supply even in markets where developers were bullish coming out of the pandemic. Only 16 million square feet of new office space started construction through July, down from 34 million in the same period in 2022.

- Nashville is no exception to the starts slowdown; its once robust pipeline has slowed to a crawl in the past year. Only three projects totaling 509,000 square feet have started construction in the last 12 months, after more than 3.2 million square feet started in the 18 months between the beginning of 2021 and the middle of 2022. There are still many projects in the market under construction, however. On a percentage of stock basis, Nashville has one of the most robust under-construction pipelines in the country, with the amount of new supply being built (3.3 million square feet) representing 5.8% of existing stock.

National New Supply Forecast



Source: Yardi Matrix. Data as of July 2023
Data in this chart includes owner-occupied properties

Supply Pipeline (by metro)

Market	Under Construction	Under Construction % Stock	Plus Planned % Stock
National	107,995,752	1.6%	5.3%
Boston	13,891,814	5.7%	11.3%
Manhattan	7,425,725	1.6%	2.7%
Seattle	6,636,113	4.8%	13.7%
Austin	6,217,412	6.9%	25.4%
San Francisco	5,931,776	3.8%	13.6%
San Diego	5,228,627	5.6%	9.7%
Dallas	4,538,405	1.6%	9.5%
Washington DC	4,485,101	1.2%	3.3%
Bay Area	3,978,529	1.9%	10.9%
Atlanta	3,431,499	1.7%	4.6%
Nashville	3,332,199	5.8%	15.3%
Philadelphia	2,993,854	1.7%	5.1%
Charlotte	2,938,132	3.8%	9.1%
Denver	2,731,883	1.7%	5.3%
Houston	2,664,756	1.1%	3.1%
Chicago	2,325,227	0.8%	4.3%
Miami	2,102,287	2.9%	11.8%
New Jersey	1,858,568	1.0%	2.3%
Phoenix	1,352,852	0.9%	5.4%
Orlando	1,168,656	1.7%	6.2%
Brooklyn	1,083,408	3.0%	5.0%
Los Angeles	1,073,888	0.4%	3.2%
Portland	565,714	1.0%	5.8%
Twin Cities	546,369	0.5%	2.3%
Tampa	445,154	0.6%	3.8%

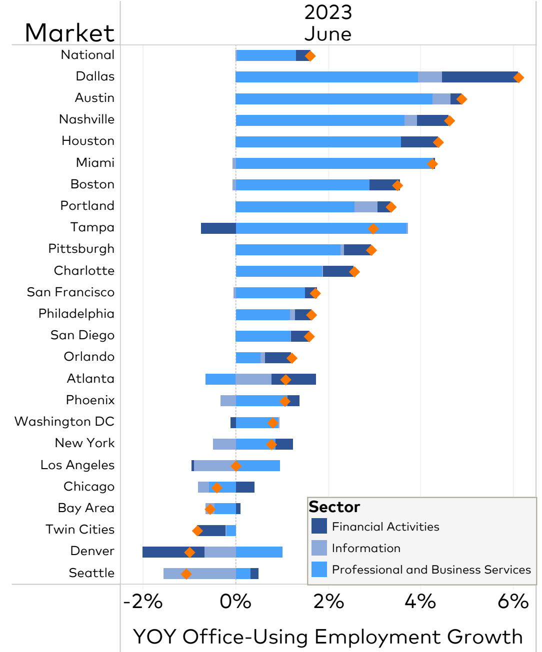
Source: CommercialEdge. Data as of July 2023. Table does not include owner-occupied properties.

Office-Using Employment:
Tech Layoffs Dampen Seattle

- Office-using sectors of the labor market lost 1,000 jobs in the month of July, according to the Bureau of Labor Statistics. This was the first decline in office jobs since April 2020. Financial activities added 20,000 jobs, while professional and business services lost 8,000 and the information sector was reduced by 12,000. The information sector has now lost 46,000 jobs this year. The layoffs that hit the sector last winter have slowed but remain prevalent in 2023.

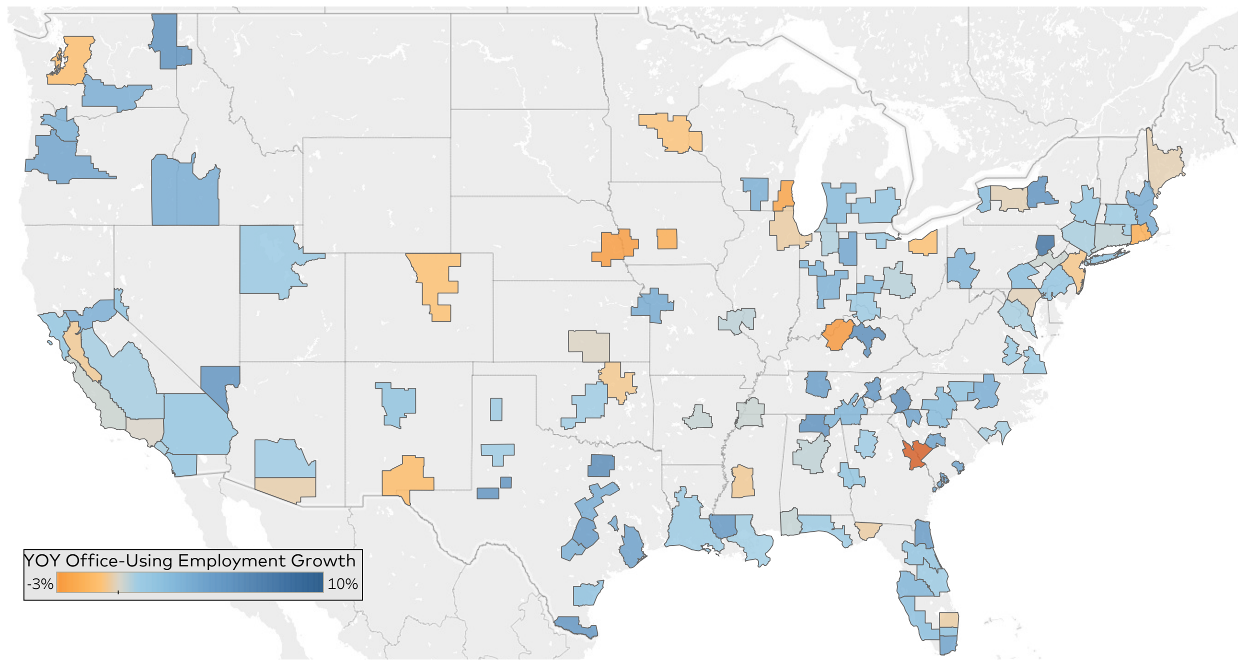
- Tech layoffs have hurt Seattle as much as anywhere, having lost more than 10,000 (-7.0%) information workers in the last year. Amazon, which is headquartered in the city, has laid off 27,000 workers since last November. While not all impacted workers were located in the market, Seattle's labor market took the brunt of the damage. Other tech companies headquartered there have seen large-scale layoffs in the past 12 months. Microsoft laid off 10,000 late last year and then another 1,000 this summer, while Zillow laid off 2,000 in November.

Growth by Sector



Sources: Bureau of Labor Statistics and Moody's Analytics

Office-Using Employment Growth



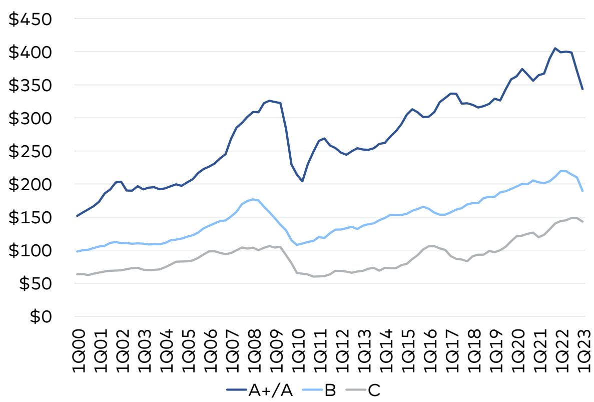
Sources: Bureau of Labor Statistics and Moody's Analytics

Transactions:
Sale Prices Fall in Manhattan

- CommercialEdge recorded $17.5 billion of office transactions through the first seven months of the year, with properties trading at an average of $196 per square foot.

- Manhattan leads the nation in sales volume in 2023, but average sale prices have fallen substantially during the last two years, from $1,172 per foot in 2021 to $582 per foot in 2023. Manhattan's 850 Third Ave. epitomizes the drop in the city's office prices: After purchasing it for $422 million ($688 per foot) in 2019, The Chetrit Group sold the property to HPS Investment Partners, its refinancing lender in 2021, for $266 million ($433 per foot).

Asset Class (price per sq. ft.)



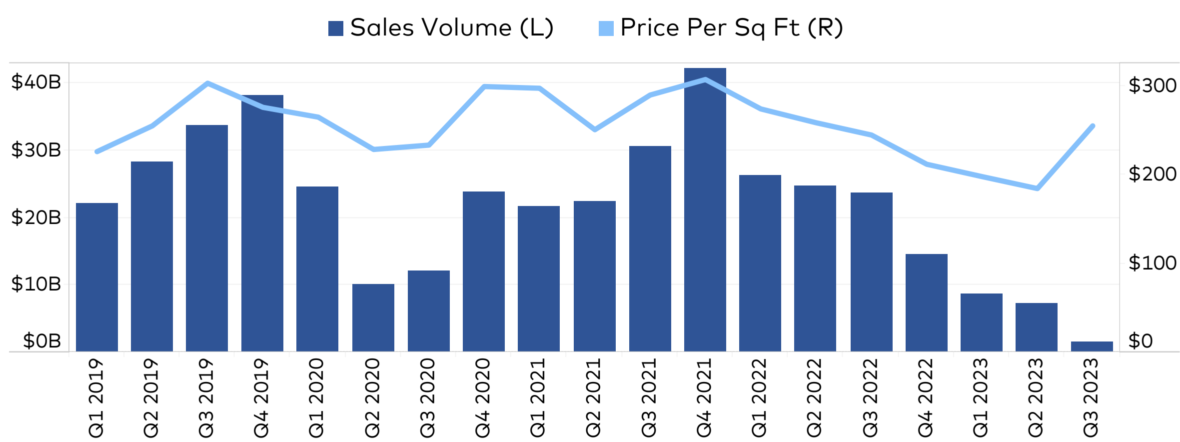
Source: CommercialEdge; 12-month moving average. Does not include unpublished and portfolio transactions.

Sales Activity

Market	YTD Sales Price PSF	YTD Sales (Mil, as of 7/31)
National	$196	$17,535
Manhattan	$582	$1,548
Boston	$323	$1,171
Los Angeles	$231	$1,200
New Jersey	$140	$931
Washington DC	$225	$889
Chicago	$107	$658
Bay Area	$358	$609
San Diego	$398	$482
Phoenix	$213	$587
Tampa	$162	$497
Twin Cities	$232	$425
Austin	$369	$431
San Francisco	$464	$378
Philadelphia	$173	$367
Denver	$193	$371
Houston	$124	$747
Miami	$247	$309
Atlanta	$158	$257
Charlotte	$157	$161
Dallas	$235	$482
Nashville	$265	$112
Portland	$230	$88
Seattle	$290	$73
Orlando	$155	$65
Brooklyn	N/A	N/A

Source: CommercialEdge. Data as of July 2023. Sales data for unpublished and portfolio transactions is estimated using sales comps.

Quarterly Transactions



Source: CommercialEdge. Data as of July 2023

Definitions

This report covers office buildings 25,000 square feet and above. CommercialEdge subscribers have access to more than 14,000,000 property records and 300,000 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. National average listing rate is for the top 50 markets covered by CommercialEdge.

- *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.

Supply pipeline figures do not include owner-occupied properties unless otherwise noted.

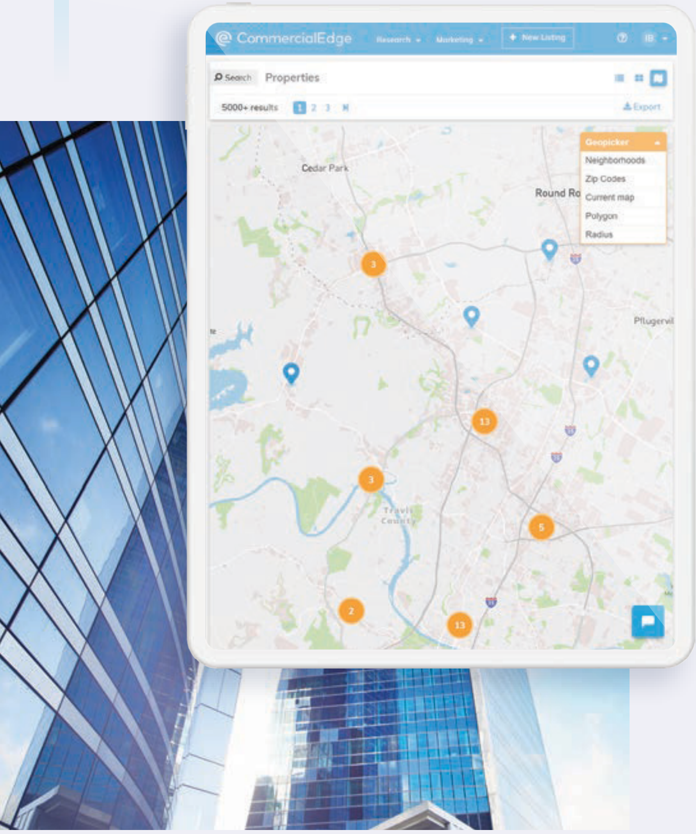
Office-Using Employment is defined by the Bureau of Labor Statistics as including the sectors Information, Financial Activities, and Professional and Business Services. Employment numbers are representative of the Metropolitan Statistical Area and do not necessarily align exactly with CommercialEdge market boundaries.

Sales volume and price-per-square-foot calculations for portfolio transactions or those with unpublished dollar values are estimated using sales comps based on similar sales in the market and submarket, use type, location and asset ratings, sale date and property size.

CommercialEdge

Reliable commercial real estate data, built up over more than a decade of extensive research. Powered by Yardi.

CommercialEdge provides the office segment's most comprehensive market intelligence service and listing management platform, sustaining data-driven decisions.



Key features:

- Continually growing nationwide coverage with 162 markets currently included
- Researched and verified data, powered by a team of 400 experienced property research specialists
- Exhaustive property reports featuring data points such as ownership, leases, sales, debt, taxes and more
- Building and portfolio performance overview with current average rents, vacancy rates and maturing leases
- Extensively researched tenant data with an accuracy rate two to three times higher than the industry average
- Real-time market trends based on actual transactional and leasing data with Yardi Market Insight
- Dedicated tools, including automated competitive building sets, broker tour books and dedicated property webpages
- Access to the CommercialEdge Listing Network — including CommercialCafe, PropertyShark, Point2 and CommercialSearch

Capitalize on comprehensive commercial real estate research
Nationwide property and listing data all in one place, specifically engineered for CRE professionals.

The data presented in this report is provided by CommercialEdge.
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