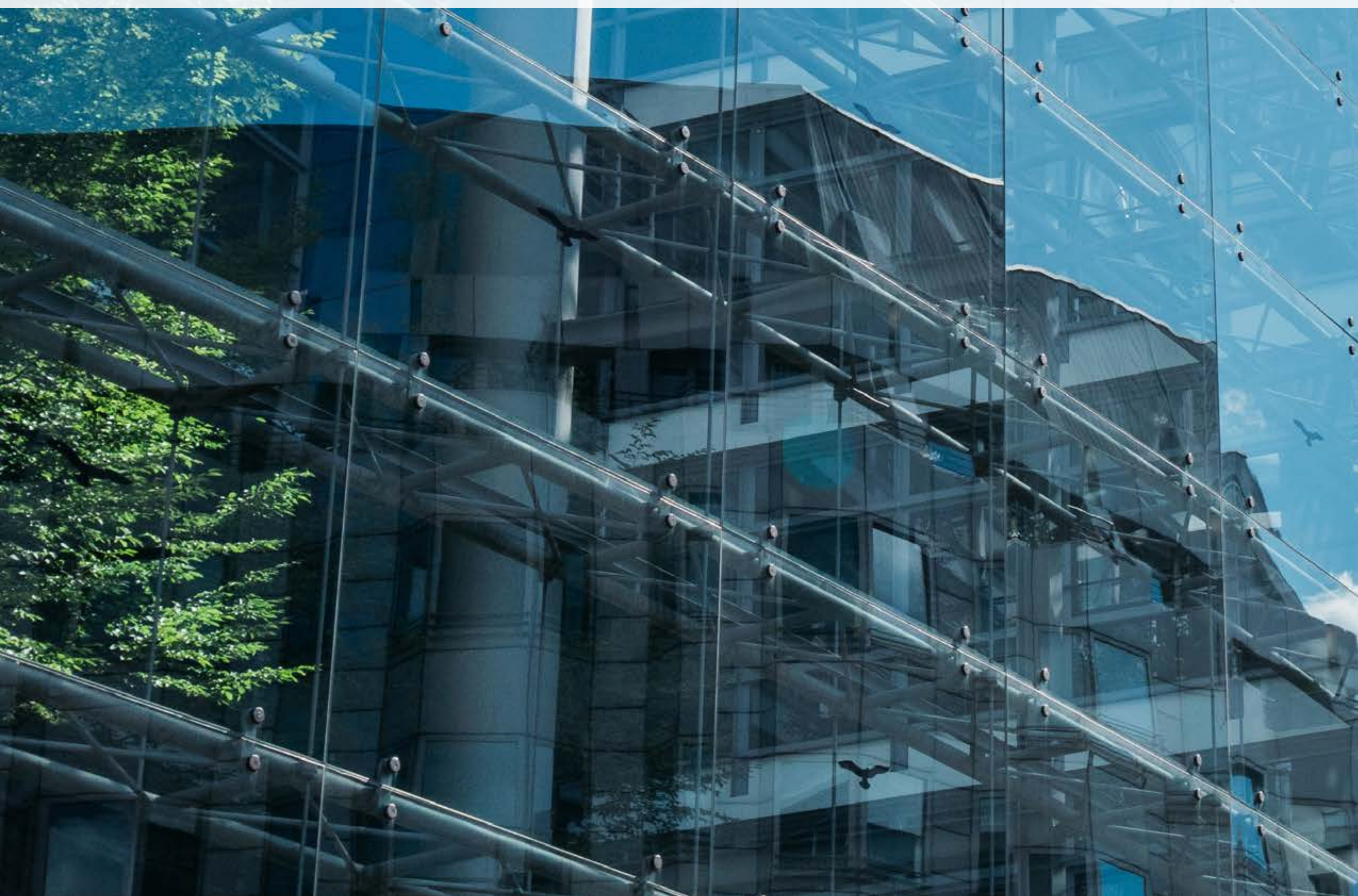
CommercialEdge

National Office Report

October 2023



Mixed-Use Clusters Can Spark Suburbs

- Hybrid and remote work has not only changed how people utilize the office, but where they live as well. Many workers left the city center during the pandemic for the suburbs and some employers are looking to follow.

- Amenities play an important role in worker return-to-office calculations, not only the ones offered inside an office building but those around it. For this reason, firms moving their operations to the suburbs are increasingly looking for offices in vibrant mixed-use locations, often in master-planned communities that are designed as from the ground up live-work-play hubs meant to mimic city centers. Workers, especially younger ones, want walkability and amenities near their offices, even in the suburbs. A CBRE report that examined office buildings hit hardest by the pandemic found that the number of nearby amenities and restaurants was a key determinant in the outcomes of suburban offices following the crisis. The suburban office campus surrounded by a sea of parking lots appears to be on the way out and there is immense opportunity to repurpose these assets into mixed-used clusters that attract shoppers and provide desirable amenities to office workers.

- While office in mixed-used suburban clusters can be attractive to both employees and employers, there are roadblocks that need to be overcome in development. In surveys of employees, commute times have emerged as the biggest factor for the return-to-office. Access to transit will be key for developments in markets with high levels of traffic. Firms with highly dispersed workforces may opt to utilize a hub-and-spoke model, maintaining a centralized "hub" office (typically downsized) while opening small satellite offices in the suburbs for workers who live there. Further, large-scale mixed-use developments will need cooperation and coordination between private developers and public entities, each playing a fundamental role.

- Suburban offices that cannot provide mixed-use destinations for workers may be targeted for conversion, which will differ from the repurposing of urban assets. In city centers, the focus is turning vacant offices into much needed housing. While suburban offices face less logistical hurdles to housing conversion than office towers, a suburban office that isn't amenitized enough to attract workers may not be a ideal location for housing either. We anticipate that, subject to zoning, suburban office conversions may target infill industrial facilities for last mile delivery or data centers.

Listing Rates and Vacancy: Austin Vacancies Spike Despite Positive Drivers

- The national average full-service equivalent listing rate in September was $37.78, according to CommercialEdge, an increase of 0.3% over the year, but down five cents over the month.

- The national vacancy rate in September was 17.8%, an increase of 120 basis points year-over-year.

- The vacancy rate in Austin has increased 360 basis points in the last twelve months, currently sitting at 21.2%. This is despite the market being a magnet for firms and young workers alike, as well as consistently seeing some of the highest office utilization in Kastle's Back to Work Barometer. Part of the spike in vacancies is due to a sustained high level of new deliveries that have entered the market. More than 15 million square feet (16.6% of stock) has delivered in Austin. Further, even though it out performs other markets in office utilization, it is still only at about 60% of pre-COVID levels.

Listings by Metro

Market	Sep-23 Listing Rate	12-Month Change	Total Vacancy	12-Month Change	Top Listing	Price Per Square Foot
National	$37.78	0.3%	17.8%	120 bps		
Boston	$44.88	11.3%	10.3%	150 bps	Kendall Center - 255 Main Street	$126.34
Atlanta	$31.41	5.4%	18.7%	-240 bps	300 Colony Square	$52.00
New Jersey	$34.53	5.0%	17.6%	0 bps	10 Exchange Place	$55.30
Twin Cities	$26.71	4.2%	16.9%	360 bps	Tractor Works Building, The	$40.71
Seattle	$37.87	2.9%	22.3%	500 bps	1208 Eastlake Avenue East	$94.00
Houston	$30.66	2.7%	24.9%	30 bps	Texas Tower	$60.90
Orlando	$24.31	2.6%	16.5%	-50 bps	Heritage Park	$42.00
Denver	$30.85	2.4%	20.7%	120 bps	1144 Fifteenth Street	$63.50
Chicago	$28.11	2.2%	17.9%	-210 bps	300 North LaSalle Drive	$59.46
Phoenix	$27.90	1.3%	18.8%	330 bps	Camelback Collective	$55.00
Philadelphia	$30.93	1.1%	14.0%	-10 bps	Two Liberty Place	$53.50
Austin	$42.26	0.6%	21.2%	360 bps	Indeed Tower	$82.77
Tampa	$28.17	0.3%	15.1%	-170 bps	Water Street Tampa - Thousand & One	$61.50
Bay Area	$53.80	-0.2%	19.9%	370 bps	325 Lytton Avenue	$159.00
Manhattan	$70.05	-0.5%	17.7%	200 bps	550 Madison Avenue	$210.00
San Diego	$43.14	-1.7%	15.1%	30 bps	One La Jolla Center	$70.20
Washington DC	$40.57	-2.1%	16.0%	170 bps	455 Massachusetts Ave NW	$76.00
San Francisco	$65.18	-2.4%	24.2%	450 bps	Sand Hill Collection - The Quad	$195.60
Nashville	$29.99	-2.8%	16.6%	-290 bps	Three Thirty Three	$44.38
Los Angeles	$41.81	-2.9%	16.5%	150 bps	2000 Avenue of the Stars	$118.20
Dallas	$27.28	-4.3%	19.0%	20 bps	17Seventeen McKinney	$67.42
Charlotte	$32.23	-4.7%	16.2%	290 bps	Rotunda Building, The	$46.42
Portland	$28.61	-4.9%	16.6%	0 bps	12th & Morrison	$47.01
Miami	$45.47	-5.9%	13.8%	170 bps	830 Brickell	$180.00
Brooklyn	$45.46	-9.5%	16.7%	-310 bps	200 Kent Avenue	$75.00

Source: CommercialEdge. Data as of September 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.

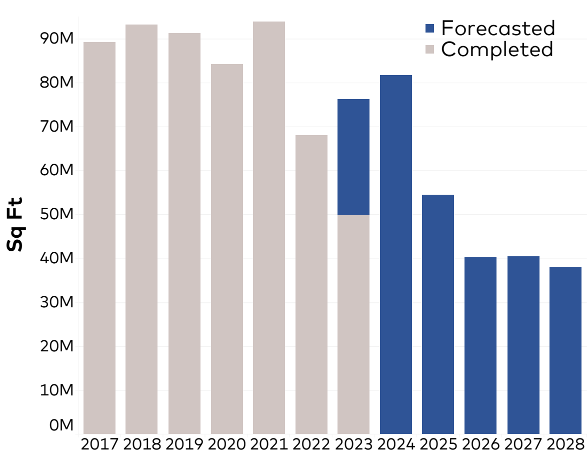
Supply:
Life Sciences Makes Boston Top Pipeline

- Nationally, 106.5 million square feet of space is under construction, representing 1.6% of stock, according to CommercialEdge.

- Office development has slowed in recent years, with demand falling and vacancies rising, but lab space remains desirable due to recent scientific breakthroughs and an aging population. 22% of all office space currently under construction is buildings primarily designated as life sciences.

- Boston, already the largest lab space market in the country, is seeing the most devlopment from this life science wave. More than three-quarters of Boston's new development pipeline is in properties that will primarily be used for life sciences and the market accounts for more than a third of all such space being built nationwide. Despite the life science sector seeing a slowdown of venture capital funding in 2023, financing for new life science project in the Boston market has still been available in 2023. Tishman Speyer acquired a $750 million construction loan over the summer for the development of Harvard Enterprise Research Campus in Allston.

National New Supply Forecast



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

Supply Pipeline (by metro)

Market	Under Construction	Under Construction % Stock	Plus Planned % Stock
National	106,464,001	1.6%	5.0%
Boston	14,484,332	5.8%	11.5%
Seattle	6,905,613	5.0%	13.4%
San Francisco	6,541,099	4.1%	13.8%
Manhattan	6,526,789	1.4%	2.5%
Austin	5,991,705	6.6%	25.6%
San Diego	5,160,642	5.4%	9.1%
Washington DC	4,442,663	1.2%	3.2%
Bay Area	4,014,971	1.9%	8.5%
Dallas	3,697,535	1.3%	9.8%
Chicago	3,425,122	1.1%	4.2%
Houston	3,156,902	1.3%	2.7%
Nashville	3,064,887	5.3%	13.4%
Charlotte	2,979,880	3.8%	9.5%
Atlanta	2,860,252	1.4%	3.7%
Philadelphia	2,614,934	1.4%	4.7%
Los Angeles	2,485,146	0.9%	3.3%
Denver	2,431,066	1.5%	6.0%
Miami	2,388,716	3.3%	11.8%
New Jersey	1,698,898	0.9%	2.2%
Orlando	1,256,748	1.8%	5.6%
Brooklyn	1,122,191	3.1%	5.0%
Phoenix	850,368	0.6%	3.3%
Twin Cities	581,313	0.5%	2.4%
Portland	554,164	1.0%	5.0%
Tampa	445,154	0.6%	3.0%

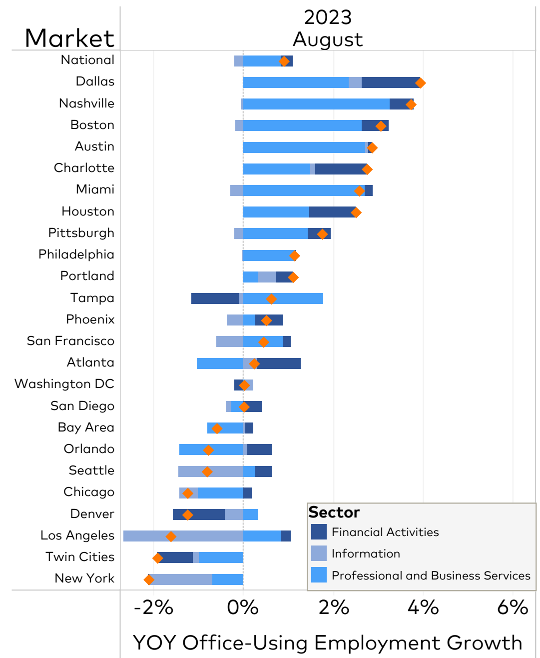
Source: CommercialEdge. Data as of September 2023. Table does not include owner-occupied properties.

Office-Using Employment: Nationwide Slowdown Continues

- Office-using sectors of the labor market added 19,000 jobs in the month of September, according to the Bureau of Labor Statistics. This was the first month since May that the three sectors (Financial Activities, Information, Professional and Business Services) combined to add jobs. From June through August, office-using employment declined by 50,000 jobs. Year-to-date, office using sectors have added 177,000 jobs nationally, a sharp decline from the 959,000 jobs added through September last year and the 1.2 million added through September in 2021.

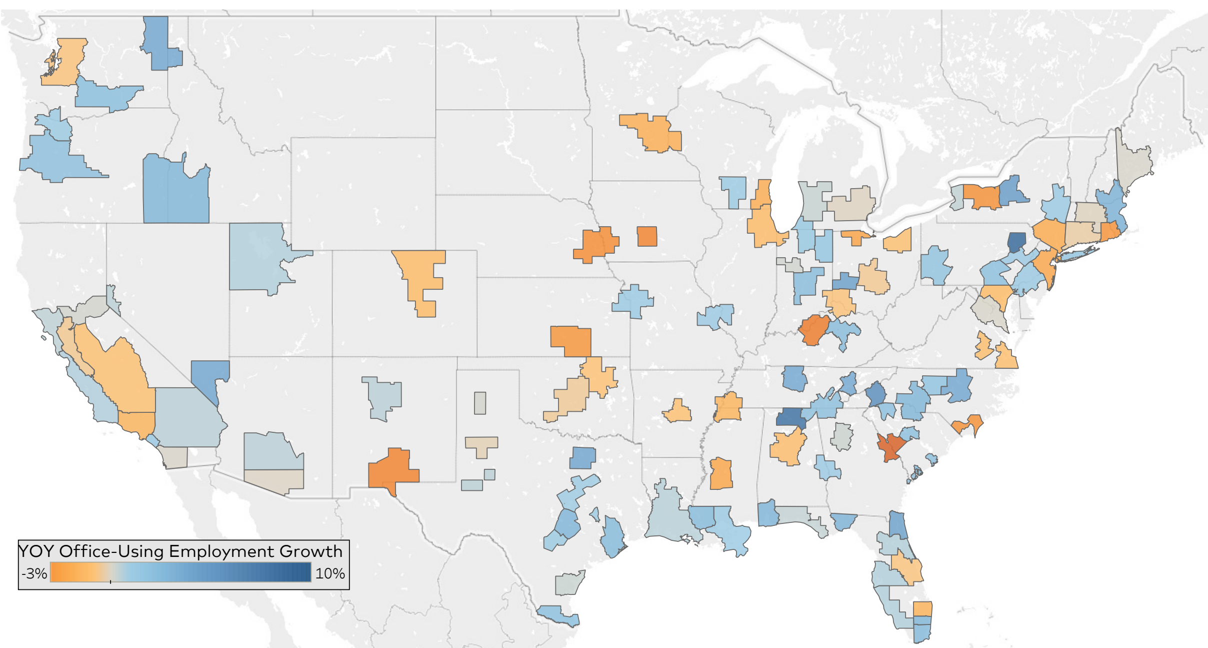
- Metro level data, which trails the national release, shows a widespread slowdown through August, with nearly every market seeing decelerating job growth or outright job losses. Of the 120 markets covered by CommercialEdge, 42 have seen job losses in office-using sectors year-over-year and 43 others have seen growth of less than 2%. This is more bad news for the office sector, which needs new job formation to help cover the loss of demand from remote and hybrid work.

Growth by Sector



Sources: Bureau of Labor Statistics and Moody's Analytics

Office-Using Employment Growth



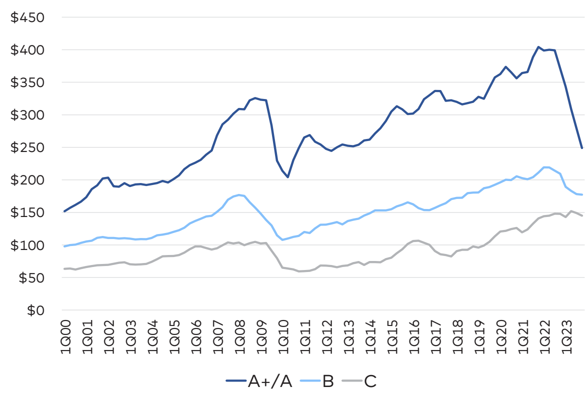
Sources: Bureau of Labor Statistics and Moody's Analytics

Transactions:
Miami Prices Decline Less Than Most Markets

- CommercialEdge recorded $25.0 billion in office sales through the first three quarters of the year, with properties trading at an average of $198 per square foot, down 21% (more than $50 per foot) from 2022.

- Properties have traded at an average of $349 per foot in Miami in 2023—a decline of 10% over last year—led by the $250 million ($602 per foot) purchase of 801 Brickell by Monarch Alternative Capital. Miami has emerged as a corporate relocation magnet since the beginning of the pandemic, and the high-end Brickell submarket has thrived unlike other city center.

Asset Class (price per sq. ft.)



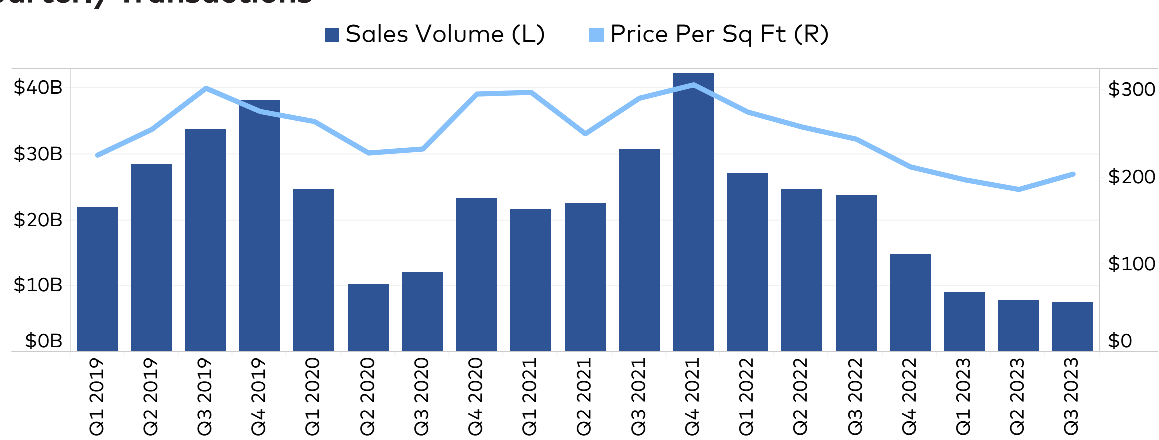
Source: CommercialEdge; 12-month moving average.
Does not include unpublished and portfolio transactions.

Sales Activity

Market	YTD Sales Price PSF	YTD Sales (Mil, as of 9/30)
National	$198	$25,006
Los Angeles	$308	$1,975
Manhattan	$568	$1,650
Boston	$314	$1,354
Washington, D.C.	$230	$1,322
New Jersey	$151	$1,159
Houston	$128	$1,127
Miami	$349	$928
Phoenix	$232	$917
Bay Area	$327	$879
Austin	$425	$863
Denver	$254	$857
Chicago	$110	$830
Dallas–Fort Worth	$185	$628
Philadelphia	$179	$581
Tampa	$155	$572
San Francisco	$321	$571
San Diego	$407	$535
Atlanta	$169	$462
Minneapolis	$223	$430
Charlotte	$161	$179
Portland	$180	$161
Nashville	$248	$161
Seattle	$262	$127
Orlando	$166	$120
Brooklyn	N/A	N/A

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

Quarterly Transactions



Source: CommercialEdge. Data as of September 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.

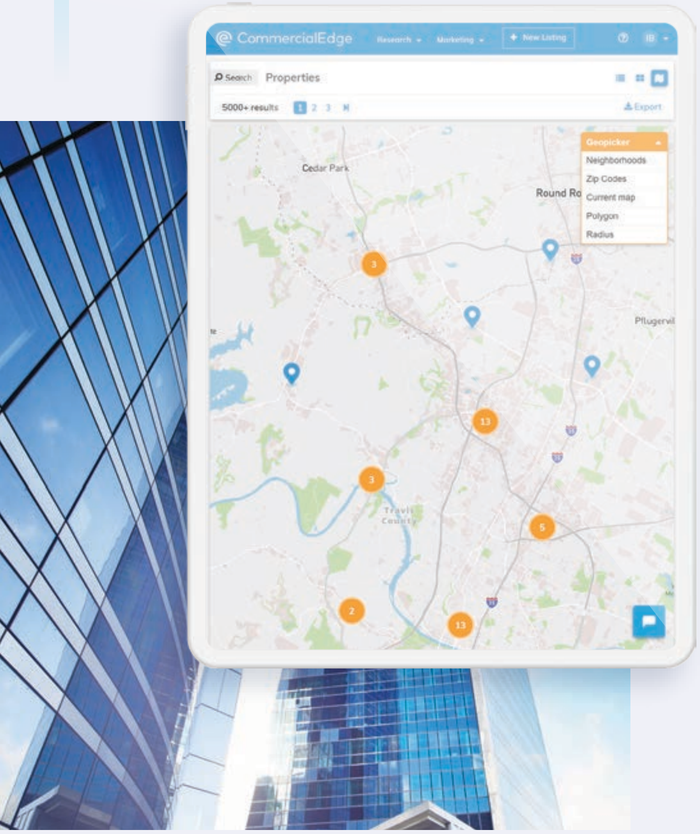
Office-Using Employment is defined by the Bureau of Labor Statistics as including the sectors Information, Financial Activities, and Professional and Business Services. Employment numbers are representative of the Metropolitan Statistical Area and do not necessarily align exactly with CommercialEdge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

Peter Kolaczynski
Manager, Commercial
Peter.Kolaczynski@Yardi.com
(800) 866-1124 x2410

Matt Gleason
Senior Account Executive, Commercial
Matthew.Gleason@Yardi.com
(800) 866-1124 x7763

Doug Ressler
Media Contact
Doug.Ressler@Yardi.com
(800) 866-1124 x2419

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