CommercialEdge

National Office Report

January 2023

2023 Another Year of Transition for Office

- Nearly three years after the COVID-19 pandemic upended the office sector, its future remains unsettled. Even as some firms become more forceful in bringing workers back into the office, many have fully committed to hybrid and remote work policies. This will be another year of uncertainty and change in the office sector as it moves toward a post-pandemic status quo.

- Higher interest rates will hamper the new-supply pipeline and transaction markets in 2023. Some buildings in attractive locations will break ground, but many projects will be paused or altogether canceled. Higher rates will lead to fewer office sales and lower prices for properties that do trade.

- The tenant flight-to-quality trend will persist in 2023. Businesses that want employees in the office more often but do not want to use a heavy-handed approach are looking to high-quality amenitized space to entice workers to go in, embracing smaller footprints in premium locations.

- Office-using employment growth will further decelerate as tech layoffs bleed into 2023 and a potential recession looms. Between January 2021 and July 2022, office sectors added an average of 117,000 jobs a month. In the last five months, they have averaged only 25,000 jobs per month.

- Interest in conversions of office buildings into residential and mixed-used properties will remain high in 2023 but projects may continue to struggle to gain traction. With offices vacant and housing in short supply nationwide, converting offices seems like a logical solution. However, many offices are ill-suited to conversion, and without tax incentives and other financial resources from state and local governments, many projects may not pencil out in a high interest rate environment. Chicago, promising such incentives, solicited bids for conversions of office buildings on the LaSalle Street Corridor, and got nine proposals totaling $1.2 billion for a wide array of uses, from housing to an e-sports gaming arena.

- Demand for coworking will grow in 2023. Even with hybrid and remote work becoming prominent, most firms still want office space for face-to-face collaboration, training and team building. Flex space provides this without the long-term commitment of a traditional office lease. In 2023, demand will lead not only to growth for traditional coworking providers but also to further flex space offerings from brokerages and office owners looking to increase occupancy and cash flow.

Listing Rates and Vacancy: High-Quality Sublease Space Keeps Rates Steady

- The average full-service equivalent listing rate was $38.19 in December, down 0.7% year-over-year but up 16 cents over November.
- The national vacancy rate was 16.5% in December, an increase of 90 basis points over the last 12 months.
- While vacancy rates have risen steadily over the last few years, average listing rates have yet to fall in response. Average rates reflect the quality of space listed as much as they do underlying fundamentals, and plenty of high-quality space has been hitting the market in recent years, not only through direct vacancies but subleases as well. In Seattle, where the sublease vacancy rate is 3.8%, large blocks of space have been listed well above the market average rate. Zillow—which has been hampered by a rapid downturn in the home market and laid off thousands of workers in 2022—recently listed seven of the 12 floors it has leased at the A+ rated Russell Investments Center in the Commercial Business District of Seattle.

Listings by Metro

Market	Dec-22 Listing Rate	12-Month Change	Total Vacancy	12-Month Change	Top Listing	Price Per Square Foot
National	$38.19	-0.7%	16.5%	90 bps		
Charlotte	$34.06	12.9%	13.2%	-140 bps	Rotunda Building, The	$44.42
Orlando	$24.14	9.8%	16.1%	-20 bps	7131 Business Park Lane	$50.79
Seattle	$38.54	9.8%	18.4%	240 bps	1208 Eastlake Avenue East	$89.50
San Diego	$43.59	9.1%	14.2%	10 bps	One La Jolla Center	$69.00
San Francisco	$67.18	7.0%	19.3%	410 bps	Offices at Springline North, The	$178.80
Miami	$47.00	5.6%	11.8%	-70 bps	830 Brickell	$137.50
Philadelphia	$31.30	5.1%	13.7%	-70 bps	Two Liberty Place	$53.50
Atlanta	$30.36	4.3%	20.0%	-170 bps	Star Metals Offices	$58.00
Nashville	$31.42	3.6%	18.0%	30 bps	Three Thirty Three	$43.88
Phoenix	$27.68	2.6%	16.0%	70 bps	Camelback Collective	$52.50
Chicago	$27.79	2.3%	19.5%	60 bps	300 North LaSalle Drive	$59.46
Manhattan	$76.09	1.8%	15.2%	240 bps	550 Madison Avenue	$210.00
Portland	$30.46	1.7%	17.3%	360 bps	M Financial Plaza	$47.40
Washington DC	$41.46	0.8%	13.6%	-300 bps	601 Pennsylvania Avenue NW–North Bldg	$79.00
Bay Area	$55.88	0.8%	17.5%	140 bps	260 Homer Avenue & 819 Ramona St	$137.76
Los Angeles	$42.60	0.4%	14.9%	170 bps	1999 Avenue of the Stars	$96.90
New Jersey	$33.13	-0.5%	17.2%	-30 bps	10 Exchange Place	$55.30
Houston	$29.64	-0.9%	25.8%	140 bps	Texas Tower	$58.40
Twin Cities	$25.81	-0.9%	14.9%	20 bps	10 West End	$41.33
Boston	$37.34	-1.1%	9.0%	-140 bps	Kendall Square at MIT–314 Main Street	$121.60
Dallas	$28.82	-1.5%	18.5%	80 bps	Rosewood Court	$60.43
Denver	$29.87	-2.1%	18.3%	200 bps	1144 Fifteenth Street	$66.08
Tampa	$27.98	-2.7%	16.5%	-40 bps	Water Street Tampa–Thousand & One	$58.00
Austin	$40.99	-5.1%	19.6%	250 bps	Indeed Tower	$80.69
Brooklyn	$42.29	-14.5%	19.1%	170 bps	200 Kent Avenue	$75.00

Source: CommercialEdge. Data as of December 2022. 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.

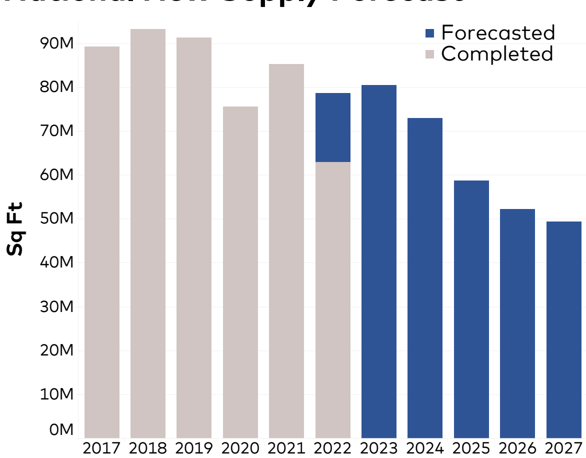
Supply:
Office Starts in Austin Remain High in 2022

- Nationally, 135.3 million square feet of office stock are currently under construction, representing 2.1% of the total.

- An additional 261.3 million square feet are currently in the planning stages of development, representing 4.0% of stock. Due to the rising cost of capital, economic uncertainty and firms permanently reducing their office footprints, we expect that many of the projects in the planned portion of the pipeline will be delayed or outright canceled in 2023.

- While new office development has slowed in recent years, developers still seize opportunities to build high-quality, well-located properties. Austin, which has added 59,000 office jobs since the start of 2021 (18.0% growth) and consistently leads the nation in office utilization metrics, was popular with developers last year. The Texas capital saw 5.7 million square feet of office starts in 2022, 2 million square feet more than 2021. Waterline, a mixed-use tower that will include 700,000 square feet of office space, and The Republic, a 48-story tower that includes ground-floor retail and more than 50,000 square feet of amenities, both broke ground in the second half of 2022.

National New Supply Forecast



Source: Yardi Matrix. Data as of December 2022
Data in this chart includes owner-occupied properties

Supply Pipeline (by metro)

Market	Under Construction	Under Construction % Stock	Plus Planned % Stock
National	135,327,997	2.1%	6.1%
Austin	7,693,822	8.7%	23.7%
Charlotte	4,768,122	6.3%	15.2%
Atlanta	12,435,588	6.3%	9.6%
Nashville	3,078,379	5.4%	14.4%
Boston	12,687,840	5.3%	11.5%
San Diego	4,767,289	5.1%	10.6%
Seattle	5,797,478	4.2%	19.7%
San Francisco	6,453,872	4.2%	10.2%
Brooklyn	1,208,404	3.4%	7.4%
Bay Area	6,503,052	3.3%	16.6%
Miami	2,139,702	3.0%	8.0%
Dallas	7,527,997	2.8%	9.1%
Manhattan	13,043,815	2.8%	5.0%
Orlando	1,457,940	2.6%	6.9%
Denver	2,607,992	1.7%	4.5%
Houston	3,873,569	1.6%	3.0%
Washington DC	5,145,174	1.4%	3.5%
Philadelphia	2,292,756	1.3%	4.5%
Chicago	2,699,779	0.9%	6.2%
Los Angeles	2,418,449	0.9%	3.6%
New Jersey	1,544,900	0.8%	1.9%
Portland	415,714	0.7%	4.7%
Phoenix	844,946	0.6%	4.8%
Tampa	343,773	0.5%	3.1%
Twin Cities	632,500	0.5%	2.3%

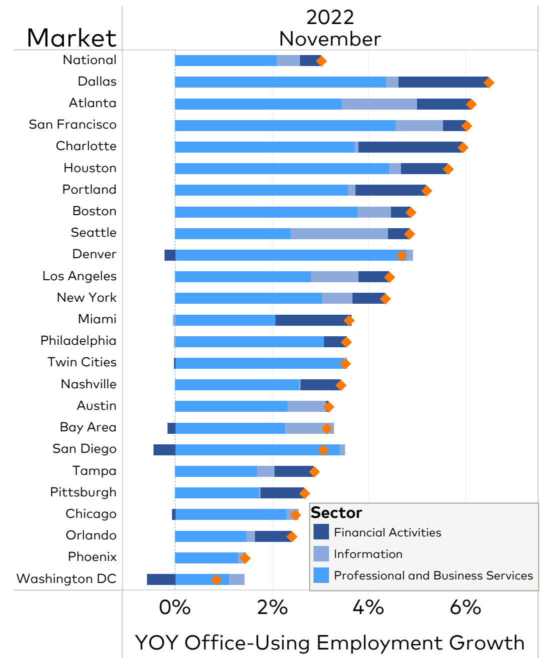
Source: CommercialEdge. Data as of December 2022

Office-Using Employment: Office Jobs Decline in December

- Office-using sectors of the labor market lost 6,000 jobs in December, according to the Bureau of Labor Statistics, only the second monthly decrease since the onset of the pandemic in early 2020. Financial activities gained 5,000 jobs in the month, but information lost 5,000 and professional and business services lost 6,000. Year-over-year growth for office-using sectors has rapidly decelerated in recent months. From April 2021 through September 2022, year-over-year office job growth was higher than 4% every month, but fell to just 2.6% in December. This is an unfortunate development for the office sector, which needs job creation to replace demand that disappeared due to remote and hybrid work.

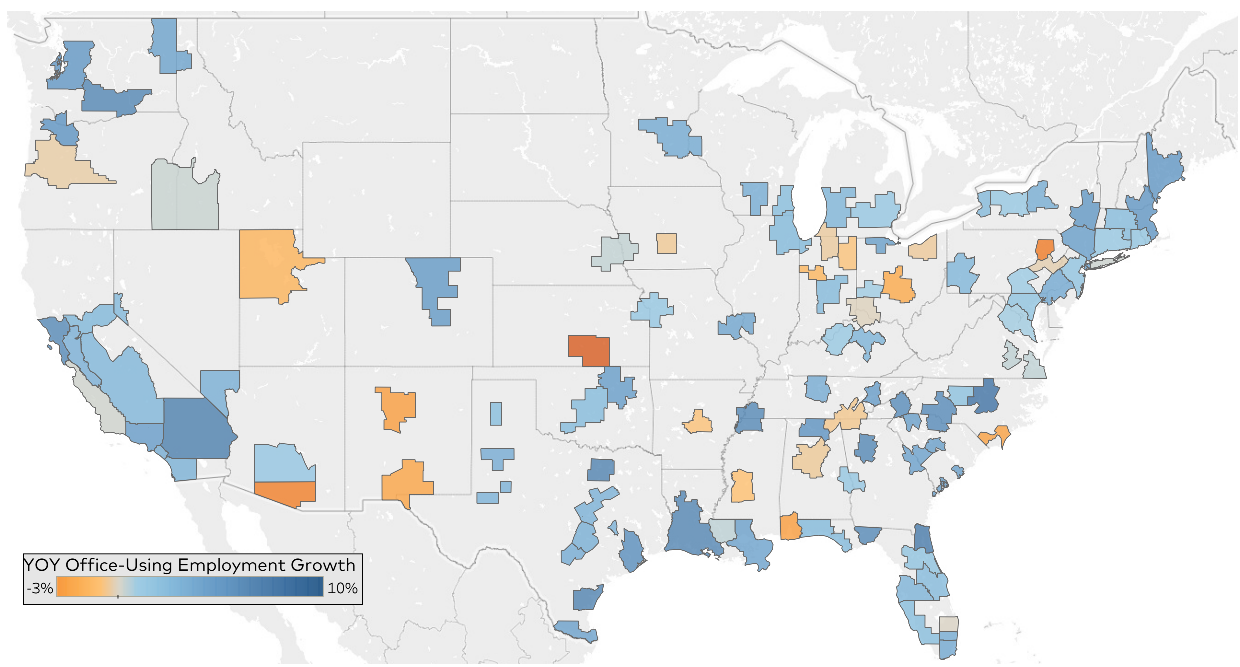
- While the national office jobs picture is murky, some markets—mainly in the Sun Belt—continue to see robust growth in office employment. Metro data for the month of November, which trails the national release, showed strong year-over-year growth in Dallas (6.4%), Atlanta (6.1%), San Francisco (6.0%) and Charlotte (5.9%).

Growth by Sector



Sources: Bureau of Labor Statistics and Moody's Analytics

Office-Using Employment Growth



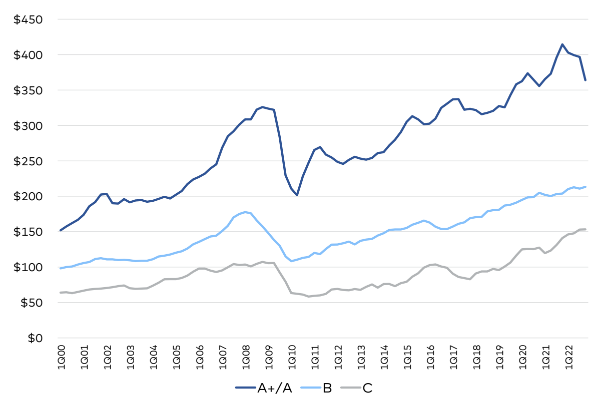
Sources: Bureau of Labor Statistics and Moody's Analytics

Transactions:
Sales Slow in Second Half of 2022

- CommercialEdge has recorded $83.6 billion in office transactions for 2022, at an average of $247 per square foot. A lag in collecting data for all sales means that these numbers are not yet final, but it is certain that last year will finish below 2021, which had more than $116 billion in sales, at an average of $280 per foot.

- We expect that, due to rising interest rates and a potential looming recession, sales will be muted in 2023. Uncertainty will lead to growth in the bid-ask spread, limiting the number of sales until there is more clarity in the economy and interest rates.

Asset Class (price per sq. ft.)



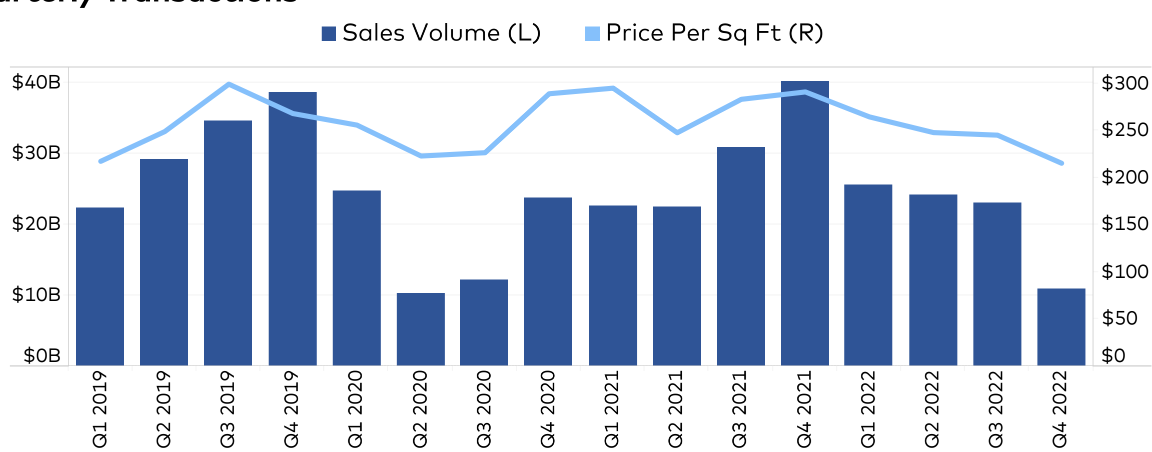
Source: CommercialEdge; 12-month moving average.
Does not include unpublished and portfolio transactions.

Sales Activity

Market	YTD Sales Price PSF	YTD Sales (Mil, as of 12/31)
National	$247	$83,592
Manhattan	$733	$6,014
Boston	$491	$4,713
Dallas	$188	$4,658
Bay Area	$439	$4,584
Washington, D.C.	$263	$4,132
New Jersey	$229	$3,600
Los Angeles	$428	$3,386
Chicago	$187	$3,320
Atlanta	$197	$3,281
Denver	$296	$3,017
Phoenix	$258	$2,824
Seattle	$542	$2,796
San Diego	$427	$2,360
Houston	$132	$2,337
San Francisco	$930	$2,046
Austin	$380	$1,931
Charlotte	$291	$1,669
Twin Cities	$180	$1,581
Miami	$396	$1,390
Nashville	$257	$1,324
Philadelphia	$186	$1,163
Tampa	$256	$847
Brooklyn	$532	$767
Orlando	$176	$667
Portland	$191	$184

Source: CommercialEdge. Data as of December 2022. Sales data for unpublished and portfolio transactions are estimated using sales comps.

Quarterly Transactions



Source: CommercialEdge. Data as of December 2022

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.

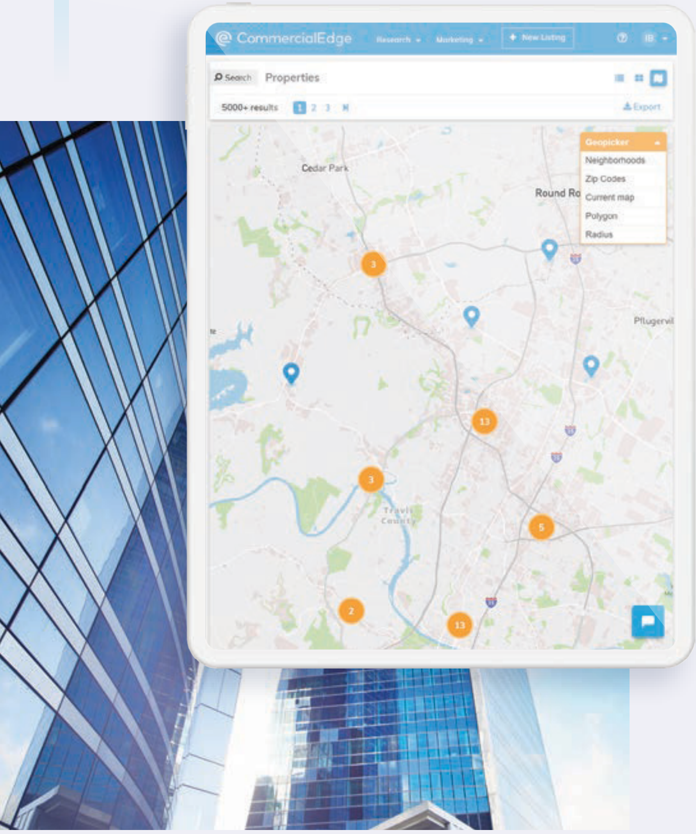
Office-Using Employment is defined by the Bureau of Labor Statistics as including the sectors Information, Financial Activities, and Professional and Business Services. Employment numbers are representative of the Metropolitan Statistical Area and do not necessarily align exactly with CommercialEdge 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.
For recent news, product updates, and additional office and industrial market reports, visit our blog.
To learn more about CommercialEdge, email us at getinfo@commercialedge.com or schedule a demo directly.

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

CommercialEdge