CommercialEdge

National Office Report

July 2022

Conversions a Slow, Niche Trend

- After more than two years of volatility and uncertainty in the office market, the sector's long-term future remains unclear. Hybrid and remote work has depressed demand for office space, and it will take years of new job creation to make up the difference. With housing shortages in markets across the country, many were predicting these circumstances would lead to a deluge of conversions of office stock into multifamily housing.

- Conversions of office buildings to apartments, while appearing to be a two-birds-with-one-stone solution, have proven to be difficult because most such projects are not profitable. Logistical challenges in conversions increase the cost of construction and reduce the rentable space. Large floor plates are the most prominent challenge—apartments need natural light, and deep floor plates limit the number of units a building can support. Some developers work around this by placing amenities in the center of a building, but this is likely a solution only for luxury apartments. Other challenges such as utility requirements and ceiling heights further increase the cost of conversion.

- Conversions that are taking place are mostly to high-end units concentrated in East Coast markets where land for new development is scarce. In Manhattan, Macklowe Properties is converting the iconic One Wall Street from more than 1 million square feet of office space to 566 luxury condos. Silverstein Properties and Metro Loft purchased 55 Broad St. for $180 million with plans to convert the 30-story building into more than 500 units. Washington, D.C., may be the most active conversion market: Post Brothers purchased a 2.5-acre office complex near Dupont Circle for $228 million with plans to convert the two buildings into apartments. Foulger-Pratt purchased 1425 New York Ave., N.W., for $56 million and will convert the 13-story building into 255 units. Yet conversions of office towers to apartments are not solely confined to the Eastern seaboard. In Salt Lake City, Hines purchased the 24-story South Temple Tower with plans to turn it into a 255-unit, high-end multifamily building.

- We expect conversions will continue at their current pace and as a niche for patient, creative developers to deliver luxury apartments. Considering the logistical and financial challenges, office conversions that provide much needed workforce housing likely won't happen on a large scale unless there are deep discounts on distressed properties or until the state and local governments provide substantial incentives for unprofitable projects to pencil out—and neither prospect seems likely in the near term.

Listing Rates and Vacancy: High-Quality Space Drives Up Rates in Boston

- The average full-service equivalent listing rate for office space was $37.58 per square foot in June, falling 2.6% year-over-year.
- The national vacancy rate was 15.2%, down 20 basis points from last month but up 20 bps year-over-year.
- In Boston, top-tier space has been hitting the market in the last year, driving up the average listing rate, which has grown 12.0% year-over-year. Boston has weathered the pandemic relatively well, currently the only large market sporting a vacancy rate under 10 percent. One Congress, an A+ trophy tower under construction in the Downtown submarket, will be delivered fully leased after InterSystems Corp., a medical billing company, announced it will occupy the top 14 floors of the tower. State Street will occupy roughly half a million square feet at the tower, while K&L Gates occupies the remaining space. Boston's position as a life science hub will also continue to drive demand for space. We expect that Boston will continue to outperform other gateway markets.

Listings by Metro

Market	June-22 Listing Rate	12-Month Change	Total Vacancy	12-Month Change	Top Listing	Price Per Square Foot
National	$37.58	-2.6%	15.2%	20 bps		
Charlotte	$33.45	15.6%	14.5%	-50 bps	Rotunda Building, The	$42.92
Boston	$39.31	12.0%	9.6%	-180 bps	Kendall Square at MIT - 314 Main Street	$121.60
Miami	$47.23	8.4%	12.9%	-200 bps	830 Brickell	$150.00
San Diego	$41.60	8.1%	12.8%	-20 bps	Nautilus	$95.46
Atlanta	$29.47	6.0%	20.3%	70 bps	300 Colony Square	$52.00
Orlando	$23.43	6.0%	14.4%	-20 bps	429 @ Crown Point - Building 529, The	$35.00
Seattle	$37.41	3.7%	15.9%	40 bps	City Center Bellevue	$68.00
Bay Area	$56.78	2.8%	15.5%	-130 bps	400 Hamilton Avenue	$149.59
New Jersey	$32.69	2.0%	17.2%	-120 bps	10 Exchange Place	$55.30
San Francisco	$63.63	1.6%	17.4%	260 bps	Offices at Springline North, The	$171.96
Los Angeles	$42.01	1.4%	13.1%	-30 bps	100 Wilshire	$108.00
Dallas	$29.24	1.4%	17.9%	30 bps	Harwood No.10	$60.46
Brooklyn	$48.40	0.5%	16.8%	120 bps	One MetroTech Center	$65.59
Phoenix	$26.96	0.2%	13.9%	-240 bps	100 Mill	$52.00
Houston	$30.52	0.1%	23.8%	190 bps	Texas Tower	$58.40
Philadelphia	$29.09	0.1%	13.1%	120 bps	Two Liberty Place	$53.50
Denver	$30.14	-1.0%	17.3%	100 bps	Block 162	$53.61
Portland	$29.99	-1.6%	14.0%	-70 bps	M Financial Plaza	$45.90
Austin	$42.39	-1.9%	16.1%	120 bps	Indeed Tower	$76.67
Chicago	$27.30	-3.4%	19.5%	320 bps	300 North LaSalle Drive	$59.46
Nashville	$30.27	-4.0%	18.4%	60 bps	Three Thirty Three	$43.88
Twin Cities	$25.83	-4.0%	14.0%	-190 bps	Offices at MOA, The	$40.00
Tampa	$27.95	-4.5%	13.8%	-110 bps	Water Street Tampa - Thousand & One	$58.00
Washington DC	$39.89	-4.8%	14.5%	-120 bps	One Freedom Plaza	$81.83
Manhattan	$72.59	-13.4%	13.9%	320 bps	550 Madison Avenue	$210.00

Source: CommercialEdge. Data as of June 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.

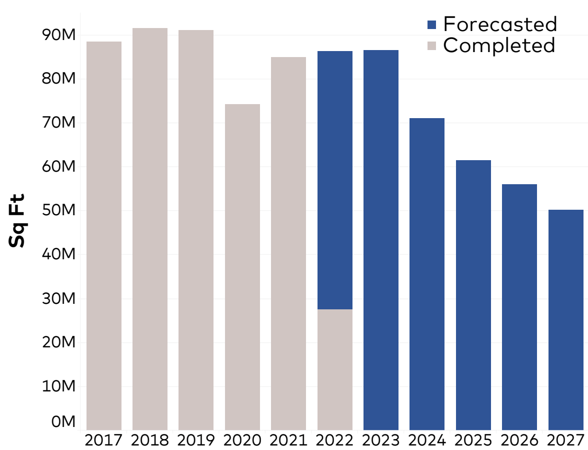
Supply:
New Starts in Life Science and Sun Belt Markets

- Nationally, 151.7 million square feet of new office space are under construction, according to CommercialEdge.

- Despite the uncertainty surrounding the economy and the future of the office, 26.5 million square feet of new office space have broken ground this year. However, this new space is highly concentrated in just a handful of markets, with the top 10 for starts accounting for 17.2 million square feet—nearly two-thirds of the total. Sun Belt markets with significant in-migration have high levels of starts this year, with Texas leading the pack. The top two markets for new office starts in 2022 are Dallas (3.8 million square feet) and Austin (2.7 million). Charlotte (2.0 million) and Phoenix (1.1 million), two other Sun Belt markets with an influx of workers, have accounted for a large share of office starts. Life science markets are also seeing continued developer activity, with elevated levels of new supply starting in the Bay Area (2.3 million), Boston (1.6 million) and San Diego (929,000).

- We expect that with interest rates rising and vacancy rates plateauing, starts will slow in coming months, but financing will be available for the right project in an attractive location.

National New Supply Forecast



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

Supply Pipeline (by metro)

Market	Under Construction	Under Construction % Stock	Plus Planned % Stock
National	151,694,740	2.2%	6.2%
Austin	8,355,187	9.4%	25.8%
Nashville	4,407,535	7.5%	18.0%
Miami	5,647,172	7.4%	12.7%
Boston	12,588,850	5.1%	11.5%
Charlotte	3,839,469	5.0%	14.1%
Seattle	6,954,879	4.8%	12.0%
Manhattan	20,786,792	4.3%	5.9%
Bay Area	7,847,593	3.8%	14.4%
San Diego	3,530,021	3.7%	9.3%
Portland	1,954,285	3.3%	7.9%
Dallas	8,944,702	3.2%	8.1%
Brooklyn	1,185,028	2.8%	7.9%
San Francisco	4,320,095	2.7%	7.1%
Orlando	1,507,338	2.7%	7.9%
Tampa	1,480,000	2.3%	5.3%
Atlanta	4,267,655	2.1%	10.4%
Houston	4,347,613	1.8%	3.0%
Phoenix	2,217,095	1.7%	8.6%
Philadelphia	2,791,829	1.5%	5.1%
Denver	2,261,606	1.4%	3.8%
Washington DC	5,188,039	1.4%	4.1%
Los Angeles	3,022,479	1.0%	3.7%
New Jersey	1,561,411	0.8%	2.5%
Chicago	2,397,201	0.8%	6.0%
Twin Cities	112,650	0.1%	1.8%

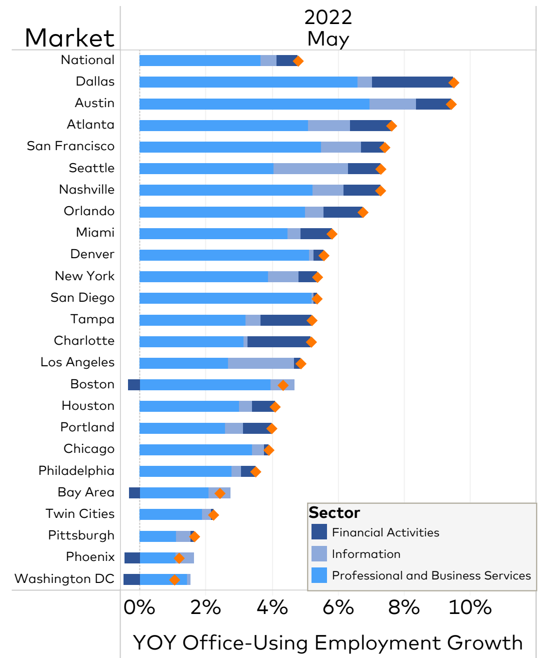
Source: CommercialEdge. Data as of June 2022

Office-Using Employment:
Some Markets Still to Recover From Pandemic

- Office-using sectors of the labor market gained 100,000 jobs in June. Over the past 12 months, the economy has added 1,583,000 office jobs, growing 4.8% year-over-year. Office-using sectors have accounted for more than a quarter of all jobs added in the past year.

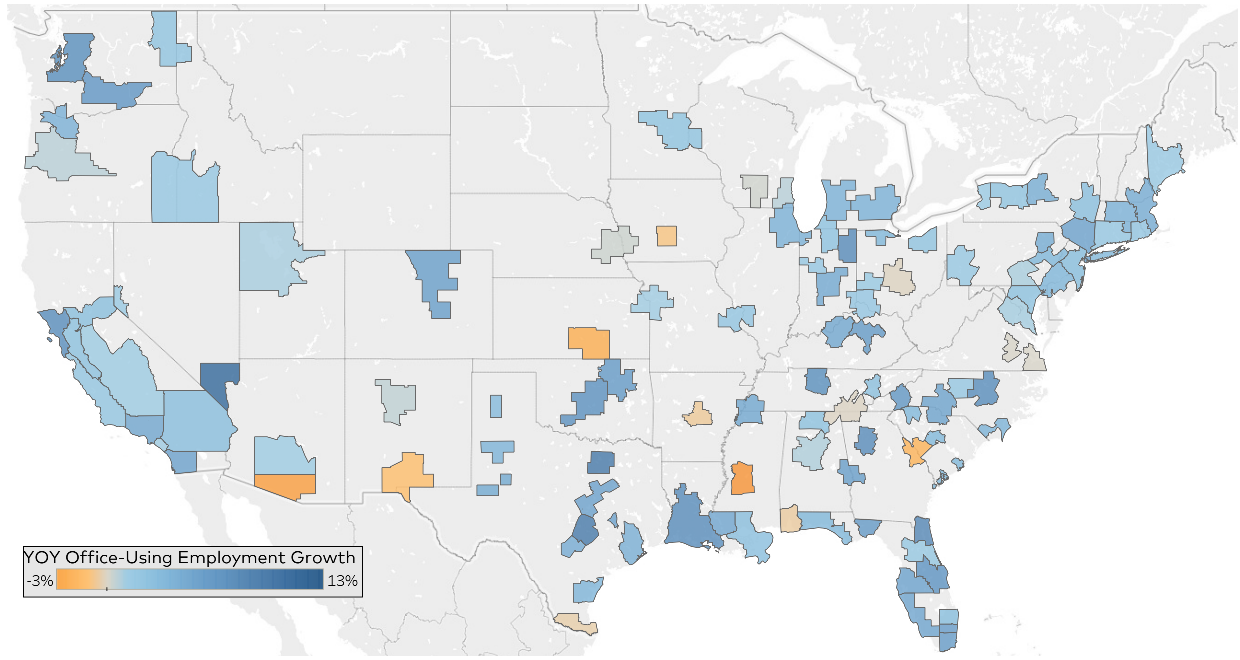
- Metro data for May, which trails the national release, shows gains in office jobs varying greatly between markets. While some have been thriving in the last two years, others have struggled with recovery. On a year-over-year basis, the worst-performing markets were Washington, D.C. (1.0%), Phoenix (1.2%), Pittsburgh (1.6%) and the Twin Cities (2.2%). While the recent growth in Phoenix has been slow, it has long since recovered its pandemic losses and currently has 15,000 more office jobs than it did in early 2020. The same can't be said for the other laggard markets, which along with New York and the Bay Area are among the handful with the unfortunate distinction of having still not fully recovered office jobs lost during the pandemic.

Growth by Sector



Sources: Bureau of Labor Statistics and Moody's Analytics

Office-Using Employment Growth



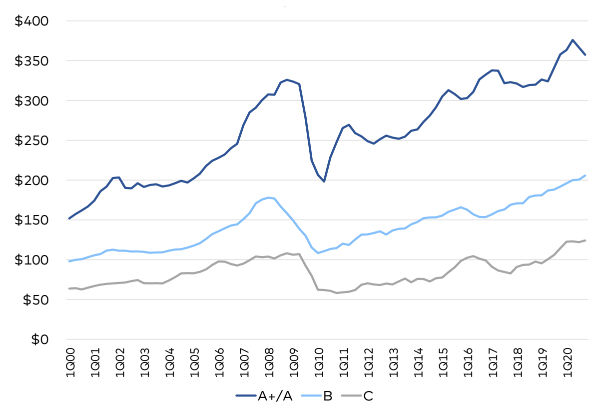
Sources: Bureau of Labor Statistics and Moody's Analytics

Transactions:
Gateway Markets Lose Sales Volume

- Nationally, CommercialEdge logged $43.7 billion of office sales in the first half of the year.

- While gateway markets—New York, Boston, Chicago, Miami, Los Angeles, San Francisco and Washington, D.C.—drive a sizable portion of office sales, the share of sales volume in gateways has fallen from 41.5% in 2018 to 32.0% this year. Non-gateway life science markets like the Bay Area ($2.6 billion in volume this year) and San Diego ($931 million) are seeing investor interest, as are tech markets—both established (Seattle, $2.3 billion) and emerging (Denver, $2.2 billion).

Asset Class (price per sq. ft.)



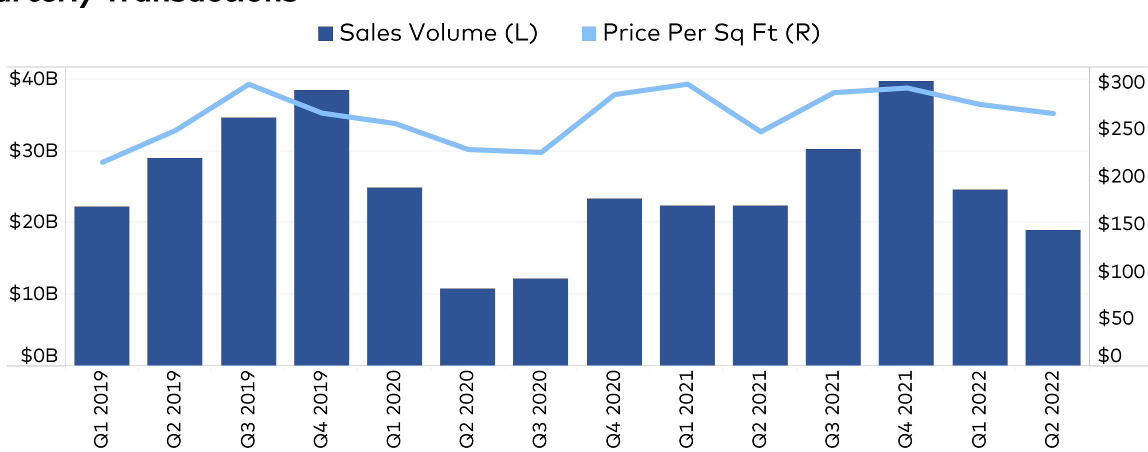
Source: CommercialEdge; 12-month moving average. Does not include unpublished and portfolio transactions.

Sales Activity

Market	YTD Sales Price PSF	YTD Sales (Mil, as of 6/30)
National	$272	$43,707
Manhattan	$880	$2,857
Bay Area	$511	$2,642
Boston	$429	$2,532
Dallas	$182	$2,431
Seattle	$649	$2,339
Los Angeles	$493	$2,306
Denver	$327	$2,180
Washington DC	$300	$1,986
Chicago	$168	$1,769
New Jersey	$281	$1,699
Houston	$190	$1,542
Phoenix	$292	$1,425
Atlanta	$294	$1,167
San Francisco	$920	$1,143
Miami	$356	$995
San Diego	$473	$931
Nashville	$236	$913
Philadelphia	$199	$721
Charlotte	$369	$720
Austin	$313	$555
Brooklyn	$533	$404
Twin Cities	$155	$360
Orlando	$203	$354
Tampa	$226	$319
Portland	$194	$83

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

Quarterly Transactions



Source: CommercialEdge. Data as of June 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.

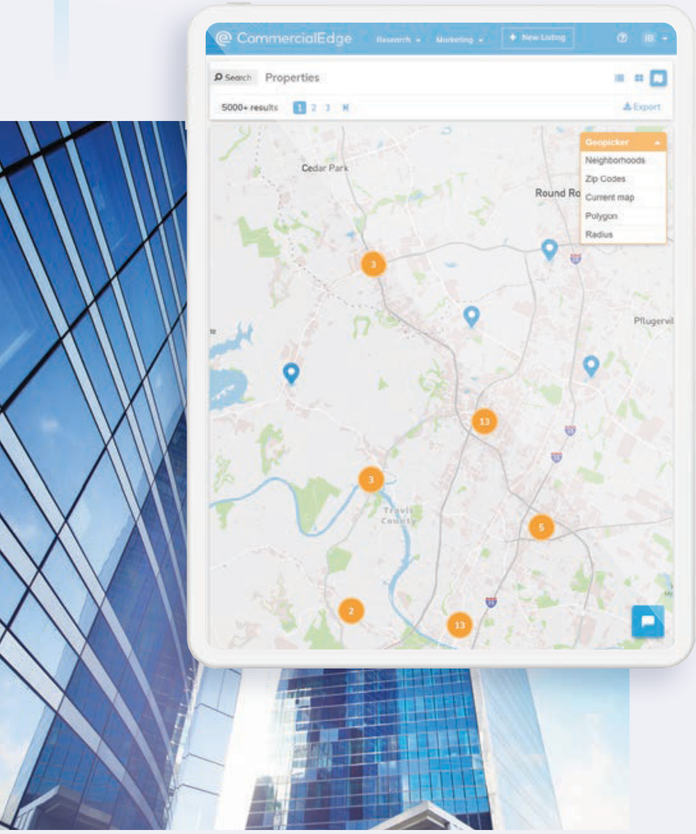
Office-Using Employment is defined by the Bureau of Labor Statistics as including the sectors Information, Financial Activities, and Professional and Business Services. Employment numbers are representative of the Metropolitan Statistical Area and do not necessarily align exactly with CommercialEdge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

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