CommercialEdge

National Office Report

May 2021

Sublease Space Weighs on Office Market

- Vacancy rates have risen in nearly every market over the last year, and even doubled in places. Some of this can be explained by the economic turmoil surrounding the pandemic, some is due to firms letting leases expire while staff works from home, and in other markets a glut of ill-timed new supply has sent vacancy rates skyrocketing. But a big factor is that nearly every market has seen large spikes in the amount of sublease space available.

- Among the top 30 markets covered by CommercialEdge, 20 saw total available sublease space more than double. The largest increases were in Sacramento (420% increase), Boston (379%) and Raleigh Durham (361%). And while only seven of the top 30 markets had sublease rates above 1% before COVID-19, today 20 of them have more than 1% of all space listed for sublease and seven are north of 2%. The highest sublease rates are in San Francisco (4.4%), the Bay Area (3.7%) and Seattle (3.7%).

- Some notable companies and spaces have entered the sublease market of late. JP Morgan listed 700,000 square feet at 4 New York Plaza, Experian is listing 177,500 square feet in the Chicago suburbs, and Salesforce is listing parts of its San Francisco offices at 350 Mission St.

- The impact of sublease space can be seen in Denver. Newmont Mining Co. relocated its headquarters months before the pandemic's arrival, signing a lease for the sixth through 10th floors of 6900 Layton. During the pandemic, Newmont reevaluated its needs and listed two of the floors for sublease. DCP Midstream, a gas and oil firm, has agreed to take the ninth and 10th floors at the start of 2022, vacating 170,000 square feet at Republic Plaza in the CBD. Now, two of the Fortune 500 firms headquartered in the Denver market will occupy roughly half the space they did previously.

- With firms reducing space and eyeing hybrid work models, demand for office space will have to be buoyed by job creation. While office-using jobs have performed better than the labor market as a whole during the pandemic, these sectors lost jobs in April for the first time since the pandemic began last year. According to the Bureau of Labor Statistics, professional and business services, the largest of the office-using sectors, lost 79,000 jobs, while the information and financial activities sectors had slight gains. We think it most probably a blip, but if not, the implication is disconcerting.

Listing Rates and Vacancy: Flat Rates Despite Vacancy Increase

- The average full-service equivalent listing rate was $38.32 per square foot, up 0.2% from April 2020 but down 35 cents from March.

- Unlike other real estate asset classes, average listing rates for office space are influenced more by the quality of the assets being put on the market than by underlying fundamentals. This is why a market's average listing rate can increase even while the vacancy rate grows. Austin has seen vacancies more than double in the last 12 months due to a plethora of new supply and downward pressure on demand from COVID-19. However, new supply is usually listed well above the market average. One such example is Indeed Tower, currently under construction and listing 262,000 square feet at an average full-service equivalent rate of $67.60 per square foot.

- As we exit the pandemic, many owners will be hesitant to lower rates and will instead offer concessions to entice tenants, making the true listing rates more opaque. We expect concessions to remain prevalent in the market for the foreseeable future.

Listings by Metro

Market	Apr-21 Listing Rate	12-Month Change	Total Vacancy	12-Month Change	Top Listing	Price Per Square Foot
National	$38.32	0.2%	16.0%	290 bps		
Los Angeles	$40.65	6.5%	14.0%	260 bps	100 Wilshire	$108.00
Washington DC	$42.22	4.8%	15.8%	150 bps	PNC Place	$87.29
Boston	$34.42	4.1%	12.2%	230 bps	American Twine Office Park	$93.00
Miami	$42.94	4.0%	15.5%	370 bps	830 Brickell Plaza	$80.00
Bay Area	$54.68	4.0%	19.2%	550 bps	525 University	$150.00
Austin	$43.54	4.0%	17.1%	970 bps	Indeed Tower	$70.67
New Jersey	$33.07	3.6%	20.0%	-80 bps	Liberty Innovation Center	$70.29
Atlanta	$27.72	3.8%	20.0%	440 bps	300 Colony Square	$50.00
Phoenix	$27.79	3.6%	18.7%	140 bps	One Hundred Mill	$48.50
Philadelphia	$29.78	3.5%	14.1%	140 bps	Two Liberty Place	$53.50
San Diego	$40.10	3.4%	14.6%	300 bps	Torrey Ridge Science Center–Building 1	$82.01
Nashville	$31.35	3.3%	19.7%	910 bps	Pinnacle at Symphony Place, The	$44.00
Tampa	$28.64	-0.2%	15.3%	400 bps	Heights Union–East Building	$45.00
Denver	$29.16	2.3%	16.0%	400 bps	William Building, The	$59.67
Orlando	$21.27	-0.7%	16.1%	340 bps	250 Park Avenue South	$40.00
Dallas	$28.24	-1.1%	19.2%	190 bps	Weir's Plaza	$63.44
Charlotte	$28.90	-1.5%	15.2%	570 bps	300 South Tryon	$42.00
Portland	$29.76	-1.8%	15.3%	290 bps	Park Avenue West	$48.69
Twin Cities	$26.83	-2.2%	15.8%	460 bps	Offices at MOA, The	$40.00
Chicago	$27.83	-2.4%	17.9%	380 bps	Five One Five North State	$66.02
Seattle	$35.47	-3.0%	14.7%	630 bps	City Center Bellevue	$63.50
Houston	$29.68	-4.0%	23.9%	230 bps	Texas Tower	$58.40
Manhattan	$82.69	-4.1%	11.3%	340 bps	550 Madison Avenue	$210.00
San Francisco	$68.23	-5.1%	14.1%	720 bps	Rosewood Sand Hill Office Complex	$148.65
Brooklyn	$48.94	-6.1%	15.3%	330 bps	One MetroTech Center	$65.59

Source: CommercialEdge. Data as of April 2021. Listing rates are full service or "full service equivalent" rates for spaces available as of report period. National list rate is an average of the top 50 markets.

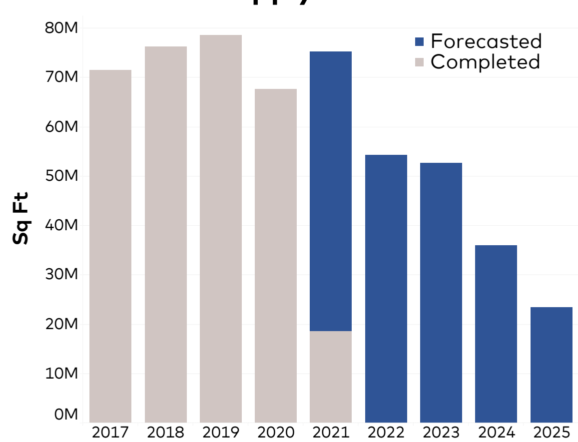
Supply:
Will Planned Stock Fail to Materialize?

- Nationally, there are 161.9 million square feet of new office stock under construction. Of that, 47.4 million square feet (29.3%) is located in suburban submarkets.

- The vast majority of new stock under construction is concentrated in the largest markets, with 128.2 million square feet (79.2%) located in the top 25 markets covered by CommercialEdge and more than half of all new supply in only nine of those markets.

- We expect that despite 236.8 million square feet being in the planning stage, there will be an extended period before these projects begin to materialize. Yardi Matrix forecasts that the stock currently under construction will continue to be delivered over the next few years but will be followed by a tapering of new supply as the market adjusts to firms' new demand preferences, catalyzed by the pandemic. Between now and the end of 2023, 191.5 million square feet of new supply is likely to be delivered nationally, and then only 61.2 million square feet will be delivered between 2024 and 2025. The effects of the pandemic will take five to seven years to fully play out, leaving developers to delay or cancel projects while waiting to see their impact.

National New Supply Forecast



Source: Yardi Matrix. Data as of April 2021

Supply Pipeline (by metro)

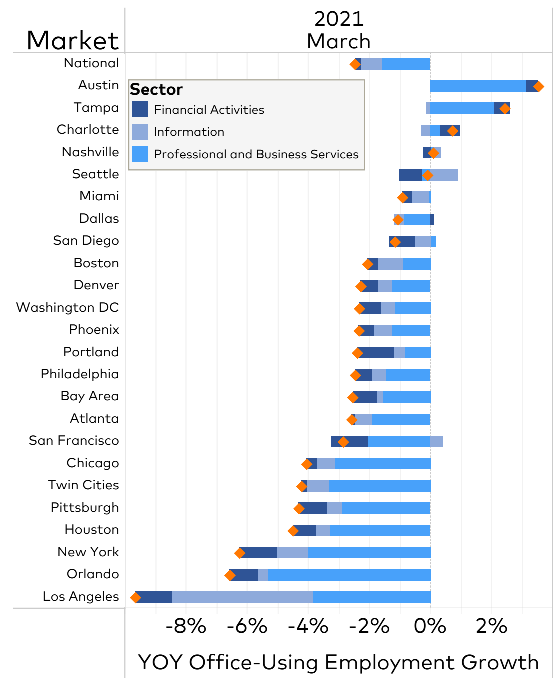
Market	Under Construction	Under Construction % Stock	Plus Planned % Stock
National	161,893,838	2.5%	6.0%
Charlotte	7,656,730	10.7%	16.5%
Austin	7,350,918	9.7%	27.4%
Brooklyn	3,140,852	8.0%	14.4%
Boston	13,558,478	5.5%	11.3%
Nashville	3,000,834	5.4%	14.0%
San Francisco	8,057,995	5.2%	9.6%
Seattle	6,486,104	4.6%	10.5%
Portland	2,482,040	4.1%	7.6%
Manhattan	19,562,053	4.1%	5.6%
Miami	2,445,704	3.6%	8.1%
San Diego	3,037,813	3.2%	6.8%
Los Angeles	8,613,903	3.0%	6.3%
Atlanta	5,672,655	2.9%	4.9%
Philadelphia	4,305,209	2.4%	5.0%
Bay Area	4,776,631	2.3%	9.1%
Houston	4,887,367	2.0%	3.7%
Dallas	4,726,472	1.7%	8.0%
Tampa	1,080,000	1.7%	6.4%
Twin Cities	1,826,609	1.5%	3.4%
Washington DC	5,829,131	1.5%	3.4%
Denver	2,266,498	1.4%	5.3%
Chicago	4,522,020	1.4%	6.4%
Orlando	768,524	1.4%	10.3%
Phoenix	1,654,224	1.3%	5.7%
New Jersey	496,912	0.3%	2.1%

Source: CommercialEdge. Data as of April 2021

Office-Using Employment: Southeastern Markets Add Office Jobs

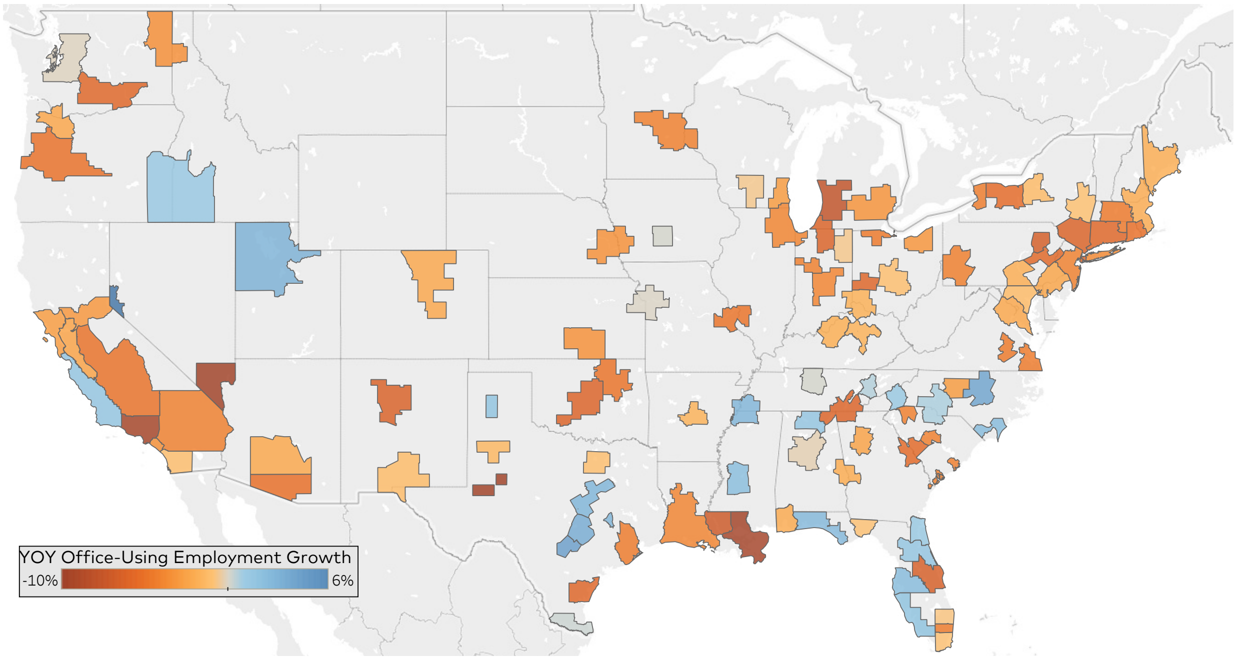
- Office-using sectors of the economy were up 6.3% year-over-year in April, which would typically be fantastic. However, April of last year was the trough of the economic downturn brought on by the COVID-19 pandemic. There are still 1,038,000 fewer (-3.1%) office jobs than the pre-pandemic levels of February 2020.
- Metro data for March, which trails the national release, shows only 24 of the 120 markets covered by CommercialEdge added office-using jobs in the last year.
- Of the 24 markets that added office jobs over the year, 20 were in Texas or the Southeast, with the remainder in Western markets like Boise, Salt Lake City, Reno and California's Central Coast.
- Southeastern markets will be poised to recover from the pandemic more quickly than other metros, although there are still pockets of concern, like New Orleans (-9.1%), Orlando (-6.6%) and Chattanooga (-6.1%).

Growth by Sector



Sources: Bureau of Labor Statistics and Moody's Analytics

Office-Using Employment Growth



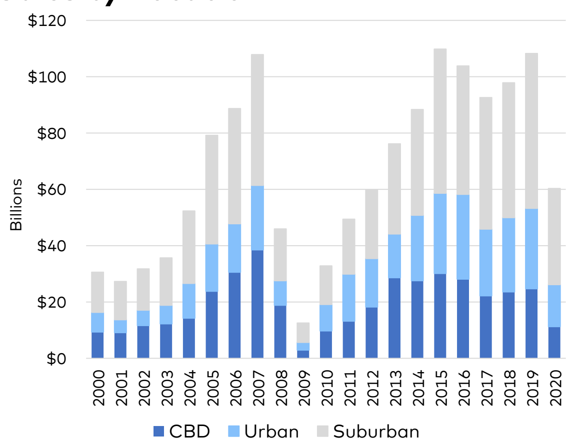
Sources: Bureau of Labor Statistics and Moody's Analytics

Transactions:
Activity Stalls Due to Uncertain Future

- A third of the way into the year, office transaction activity continues its sharp decline from pre-pandemic levels. With the future of office work up in the air, only 520 transactions totaling $17.8 billion have been completed nationally. Between 2014 and 2019, the annual average was more than 3,500 transactions and $100 billion in total volume.

- Although sales activity is low, the price of the assets that have traded is at an all-time high, averaging $304 per square foot. This signals that there is investor appetite for the right deals, and potential sellers have yet to reduce their asking prices.

Sales by Location



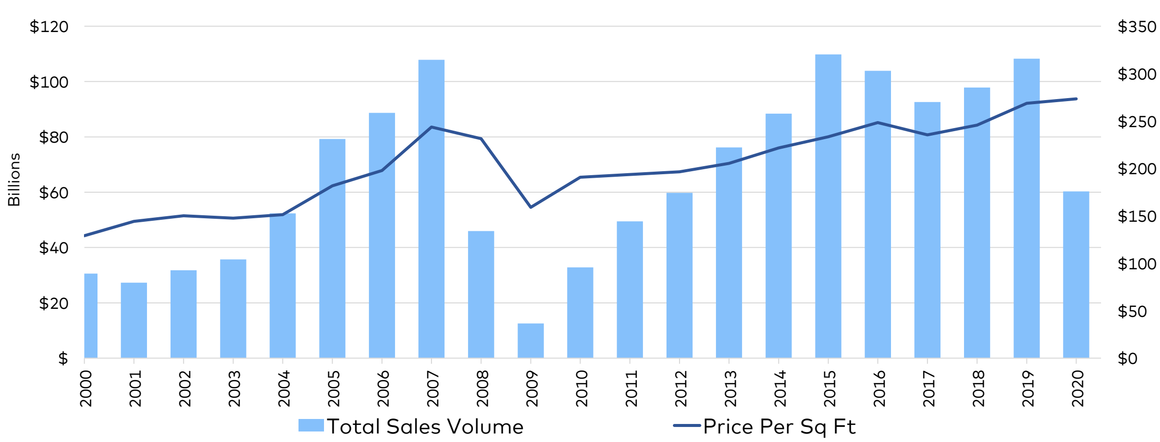
Source: CommercialEdge; Data as of April 2021

Sales Activity

Market	YTD Sales Price PSF	YTD Sales (Mil, as of 04/31)
National	$304	$17,835
Bay Area	$666	$2,880
San Francisco	$1,302	$2,605
Seattle	$434	$1,300
Dallas	$270	$1,269
Manhattan	$1,289	$1,007
Los Angeles	$394	$739
New Jersey	$171	$626
Atlanta	$148	$479
Denver	$205	$476
Miami	$310	$474
Phoenix	$211	$453
Washington DC	$271	$450
Boston	$218	$368
Philadelphia	$187	$356
Charlotte	$478	$257
Houston	$168	$236
Nashville	$222	$200
Chicago	$125	$142
San Diego	$325	$98
Tampa	$136	$93
Twin Cities	$101	$78
Orlando	$182	$45
Portland	$266	$34
Austin	$195	$7

Source: CommercialEdge. Data as of April 2021

Total Sales



Source: CommercialEdge. Data as of April 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. 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 do not always include portfolio transactions or those with unpublished dollar values.

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