

COMMERCIAL REAL ESTATE **U.S. MARKET | OFFICE**

First Quarter 2021

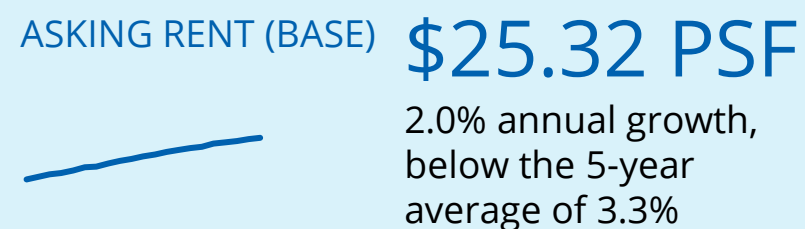
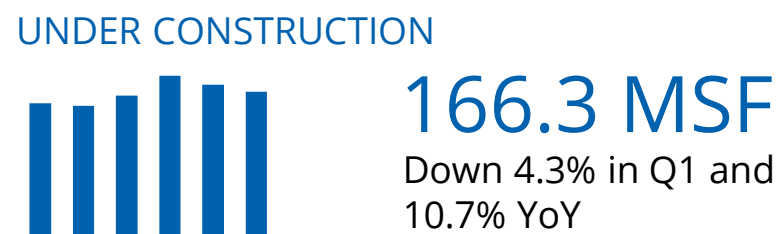
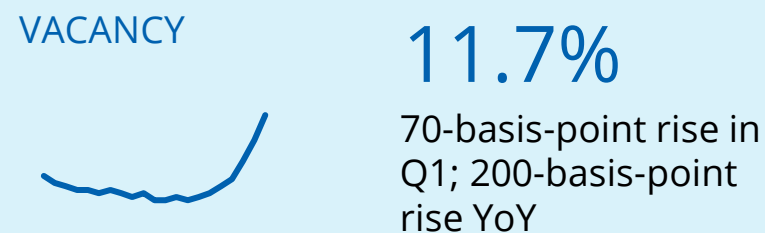
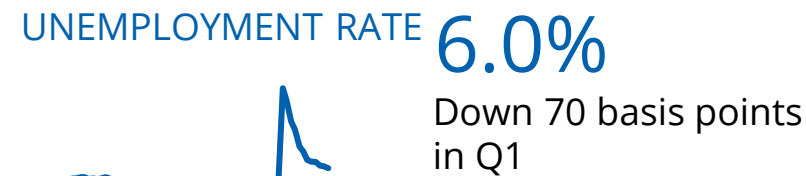


TRANSWESTERN



U.S. TRENDLINES

5-Year Trend Current Quarter



U.S. HIGHLIGHTS

ECONOMY

- Employers added 734,300 jobs during Q1, as the vaccine rolls out nationwide and reopening spurs economic growth.
- Office-using jobs added 343,600 of these positions, accounting for nearly half of the total gain. Of the office-using jobs lost since March 2020, 72% have been recovered.
- Job growth during the quarter was led by employment services and consulting. Through 2025, tech, consulting, and medical should drive job growth.

OFFICE MARKET

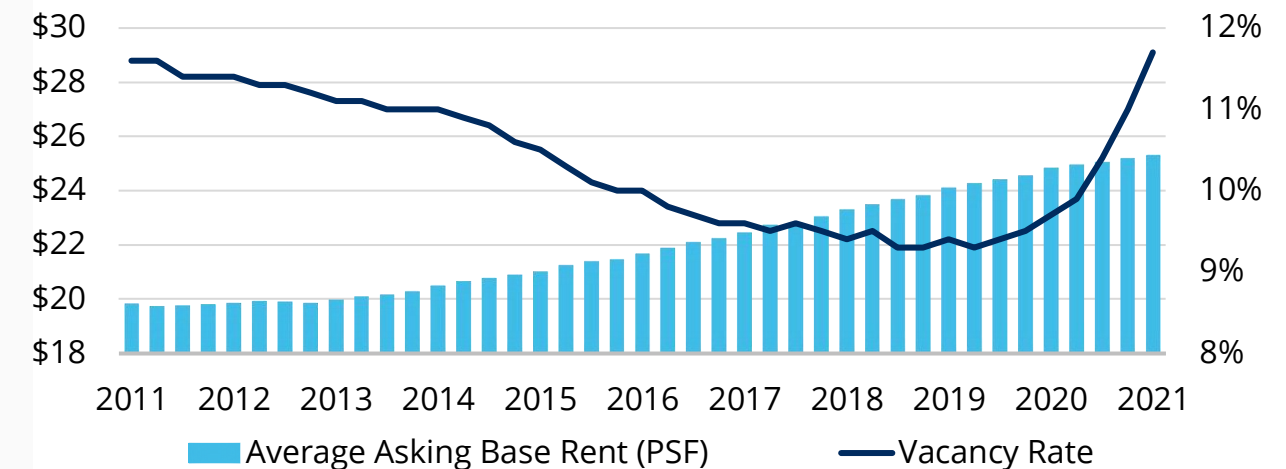
- Tour activity is up in most major markets, but this has yet to translate to notable deal volume. Tenants continue to delay real estate decisions, which pushed the vacancy rate up to 11.7%.
- Net absorption registered a record negative 55.8 million SF, following negative 35.9 million SF during 4Q20. Sublease space accounted for negative 13.8 million SF.
- Annual asking rents are up 2.0% year over year, which is counterintuitive given the current market deterioration.
- Landlords are likely firm on asking rents because the pandemic is expected to be short-lived, and rent can offset generous concession packages. Additionally, new stock entering the market is helping to elevate the average rate.

LOOKING AHEAD

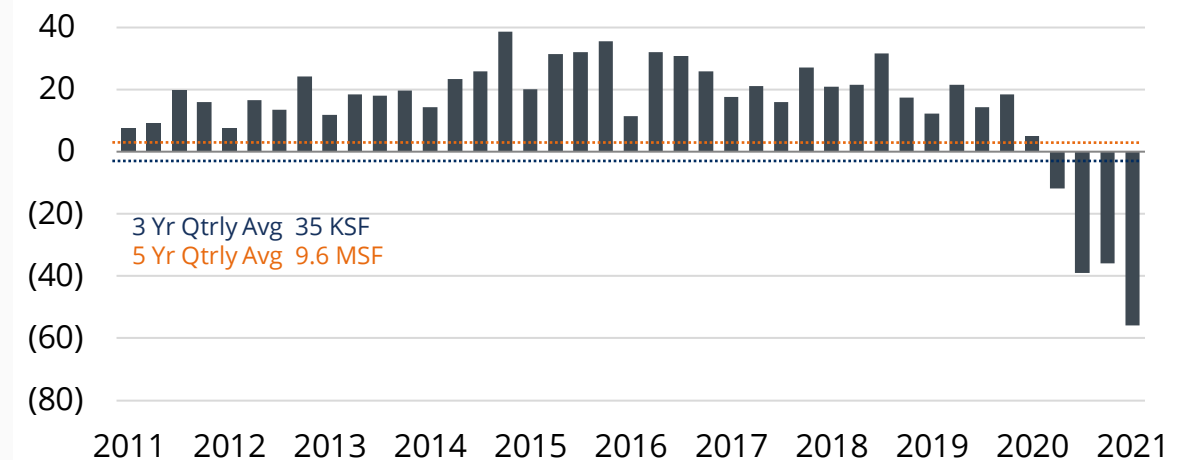
- With tenants delaying decisions over the past several quarters, we expect pent-up demand to emerge later in 2021 as tenants come off the sidelines.
- With the market in tenants' favor, select companies will take advantage of favorable financial terms.
- The impact of work from home post-pandemic is still unclear and how tenants reconfigure workspace is to be determined. The office is not dead but will evolve to meet new challenges.

U.S. HISTORICAL

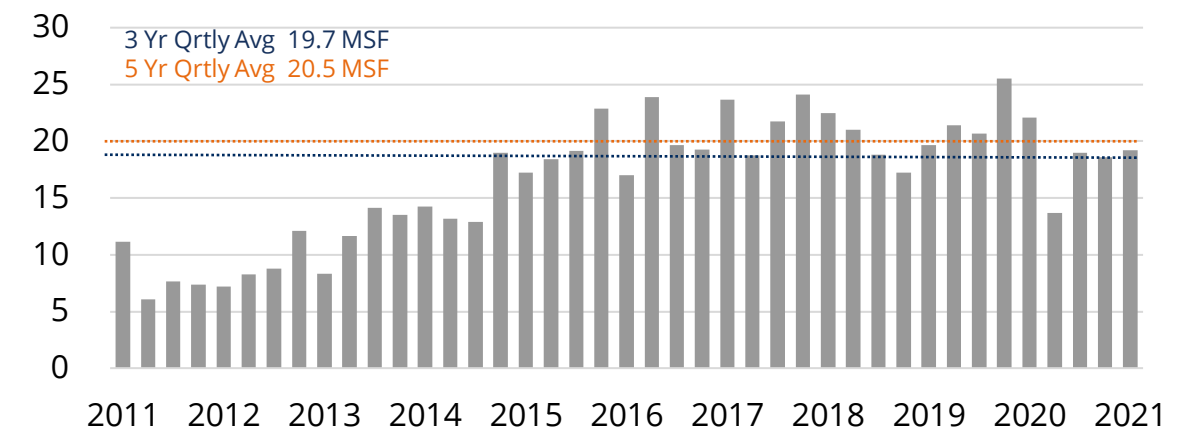
VACANCY VS ASKING RENT



NET ABSORPTION (MILLION SF)

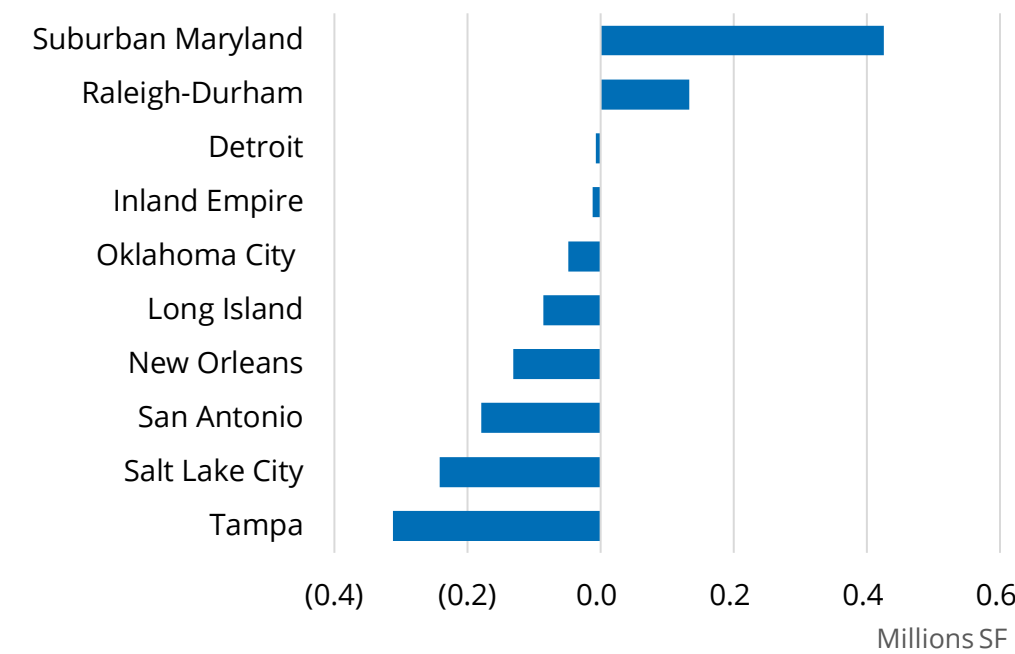


CONSTRUCTION – DELIVERED (MILLION SF)



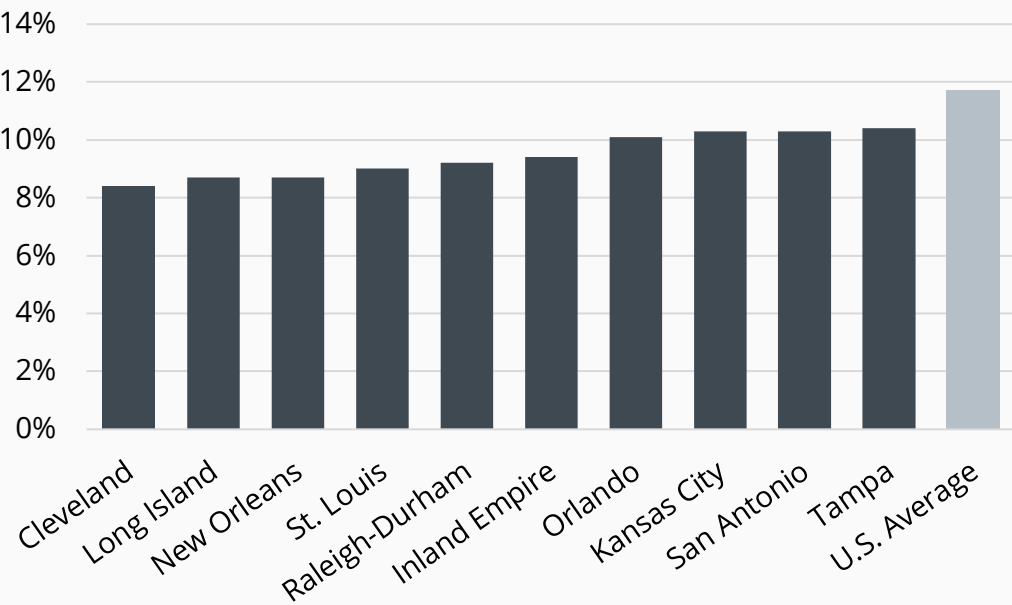
NET ABSORPTION

Q1 2021 Net Absorption



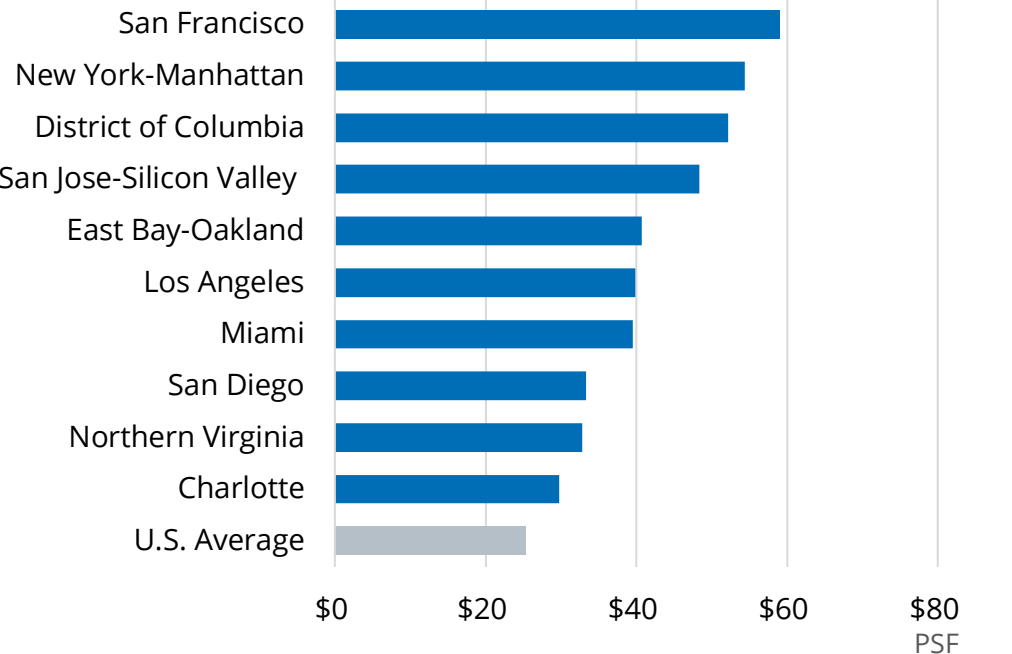
VACANCY/CONSTRUCTION

Q1 2021 Overall Vacancy Rate

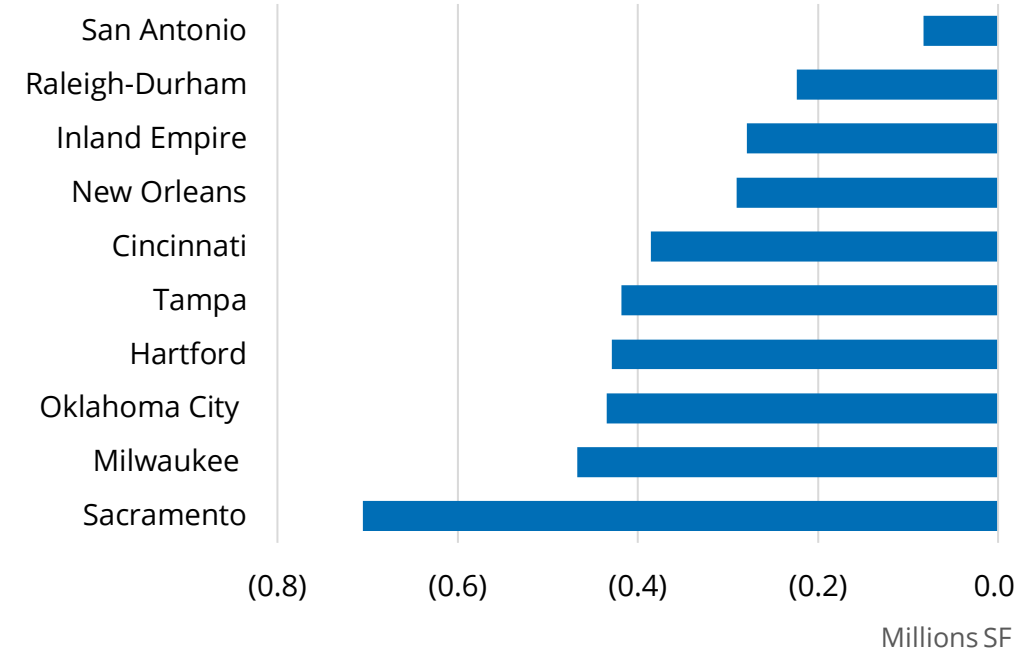


ASKING RENTS

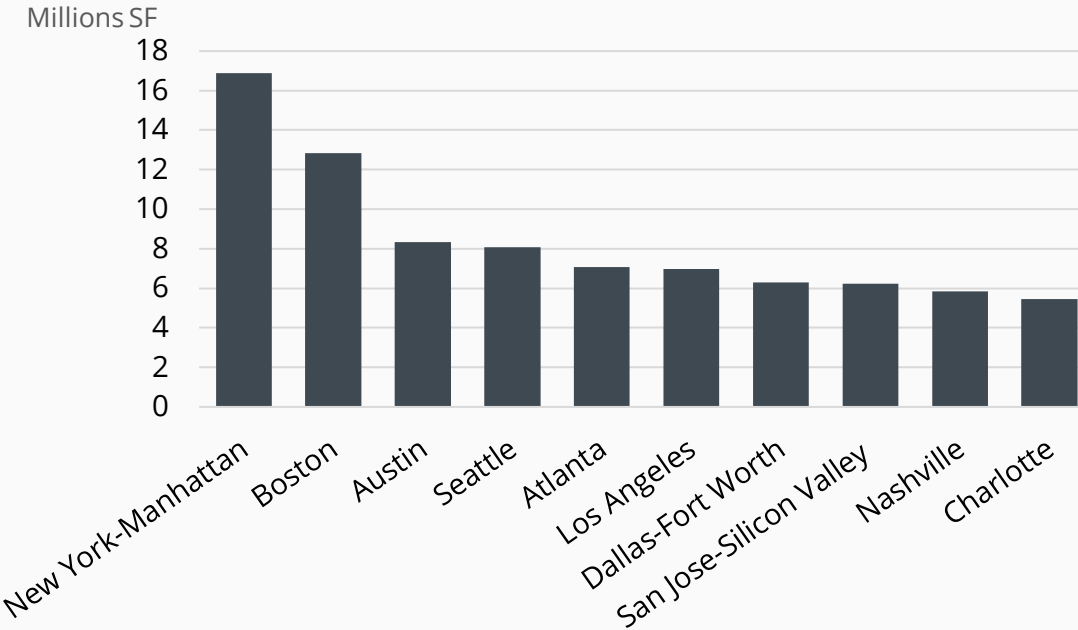
Q1 2021 Asking Rate (Base)



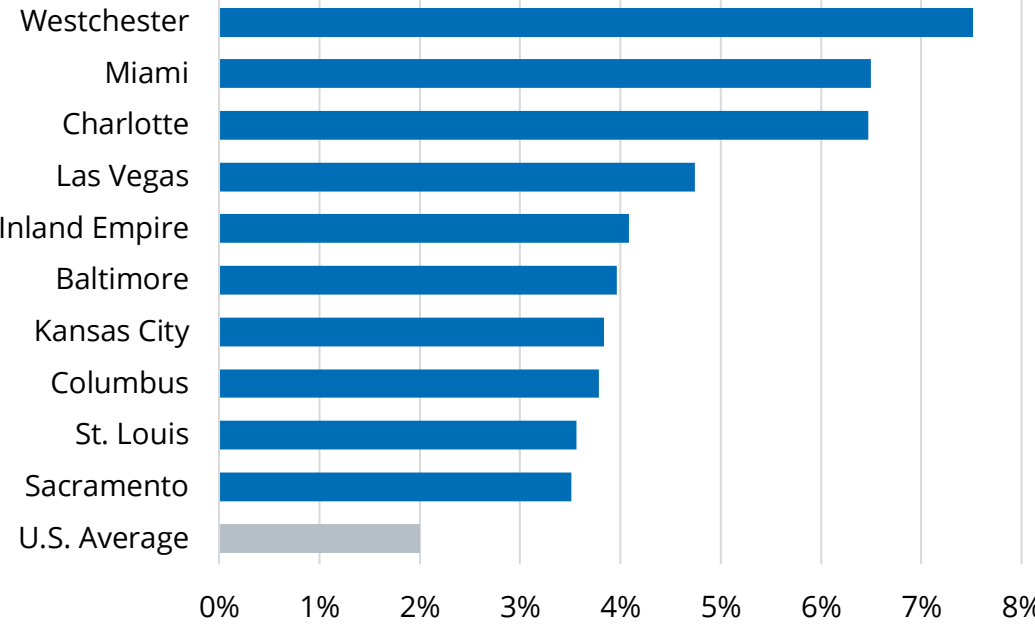
Trailing 4-Qtr Net Absorption



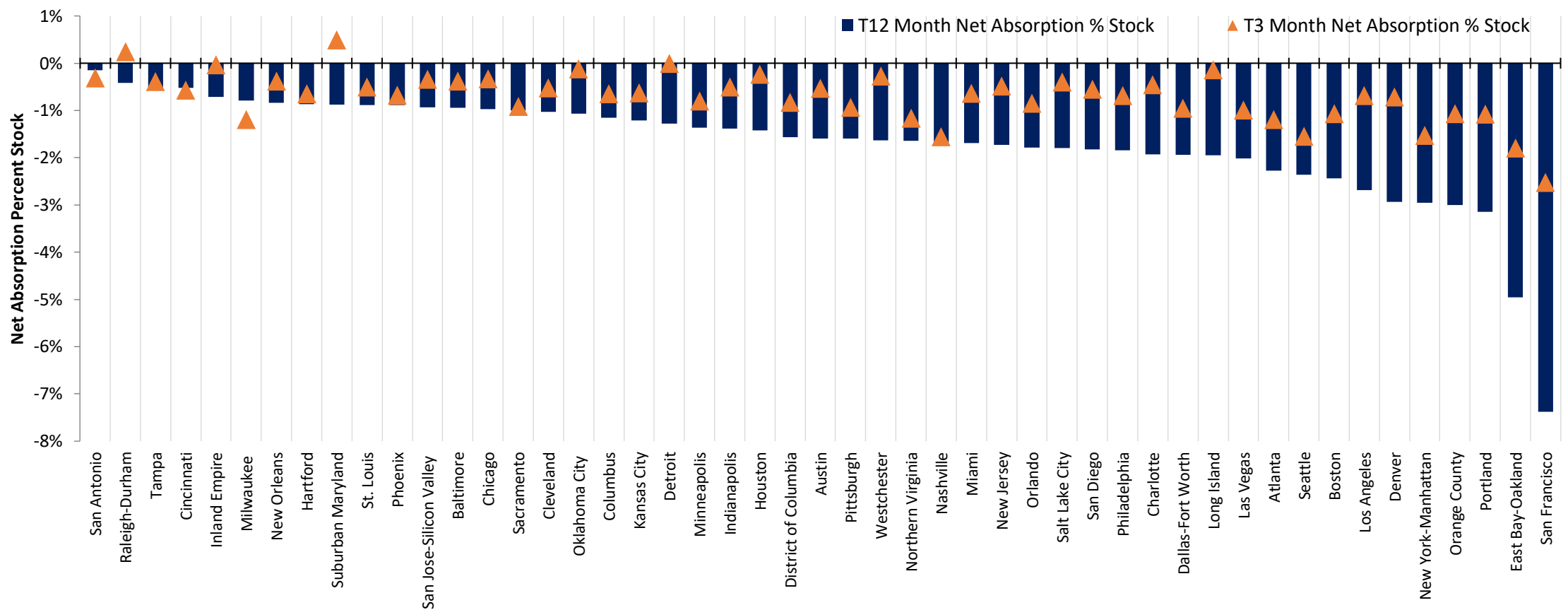
Q1 2021 Under Construction



Year-Over-Year Rent Growth

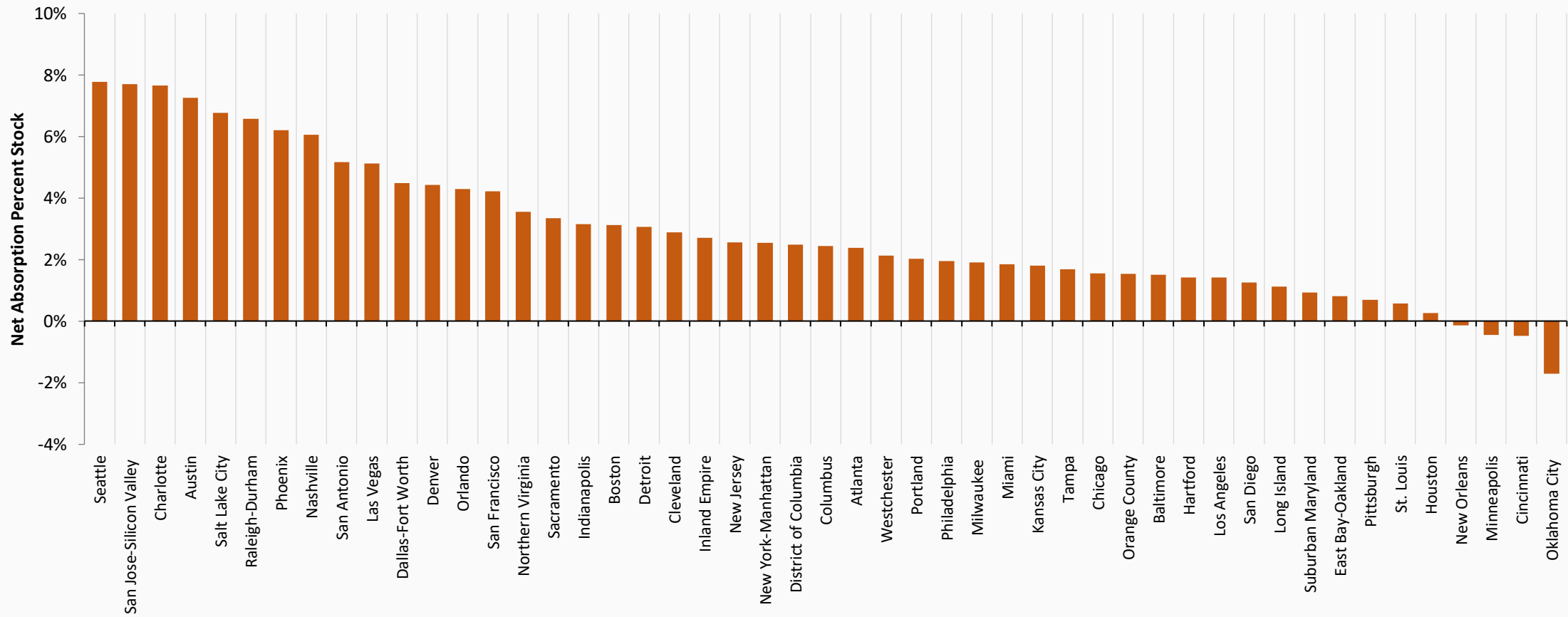


NET ABSORPTION % STOCK



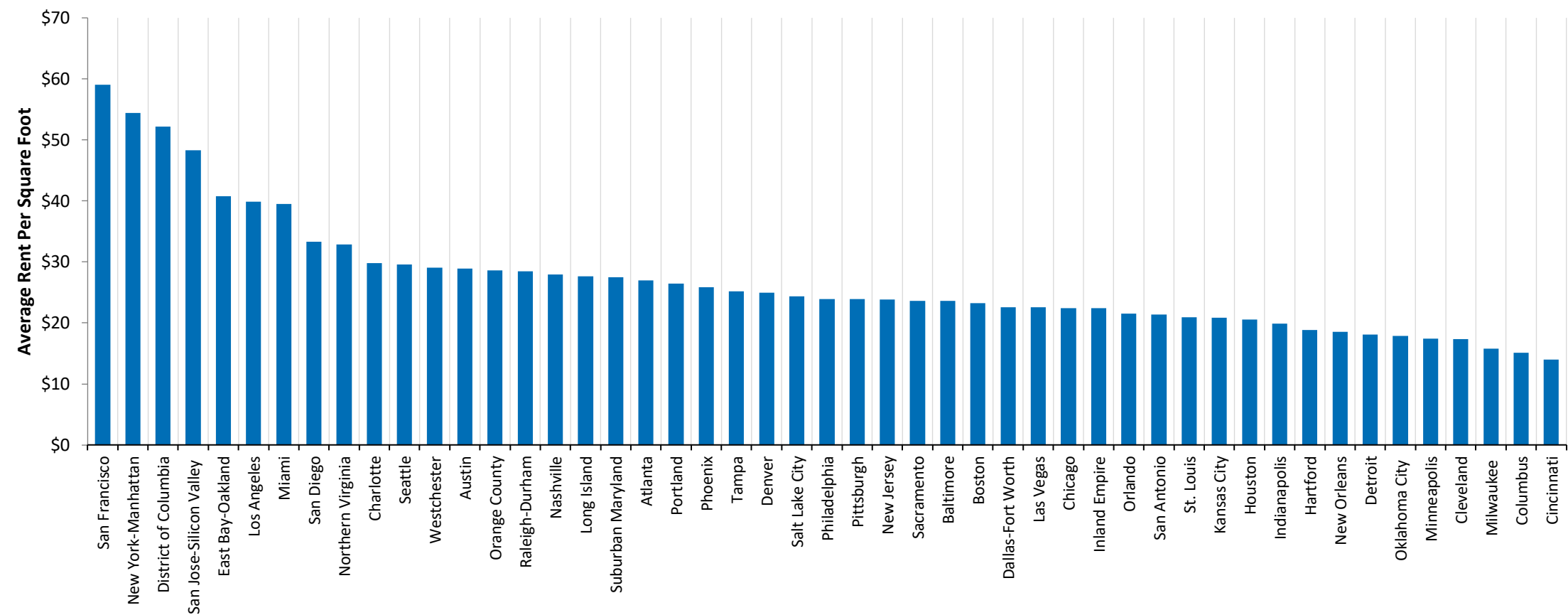
- Net Absorption was negative for all office markets over the past year.
- Two markets managed positive net absorption for the quarter: Raleigh-Durham and Suburban Maryland.
- Many large gateway markets have seen the highest losses, including San Francisco, New York, Los Angeles, Boston and Seattle.

PRE-COVID EXPANSION: 3 YEAR NET ABSORPTION % STOCK



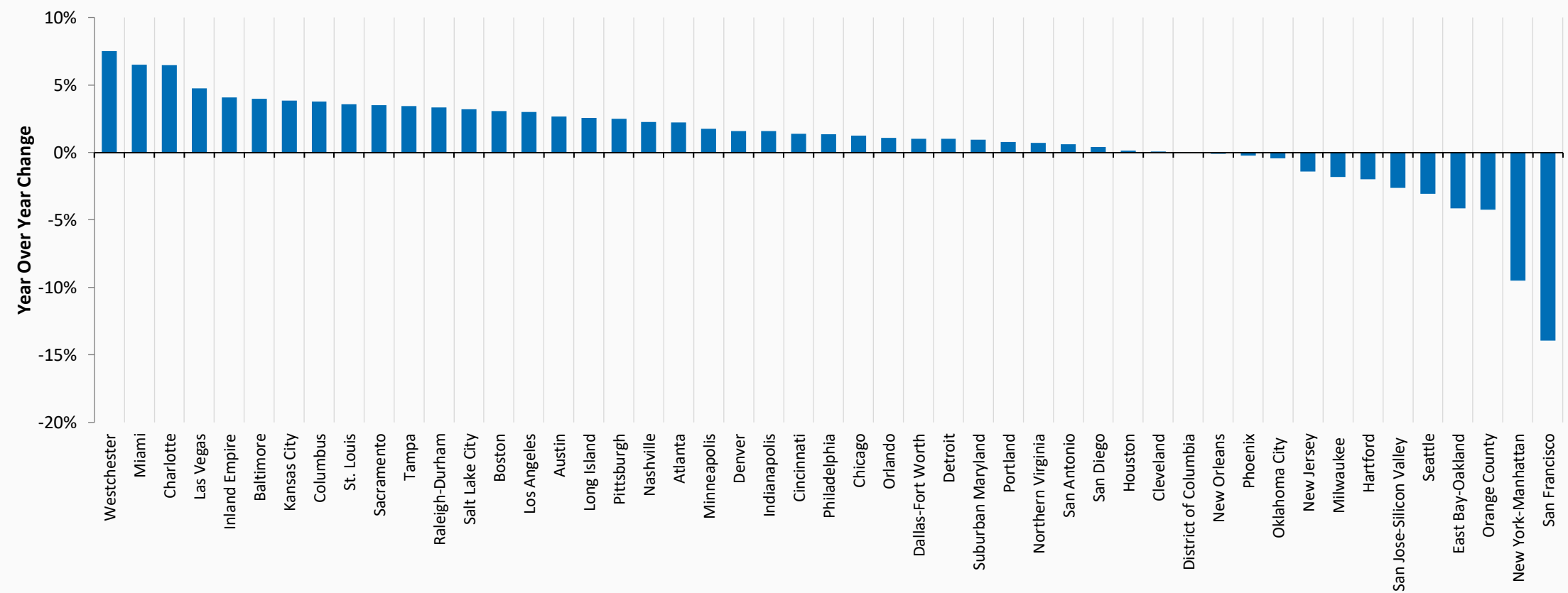
- The graph shows net absorption as a percent of stock for the three years preceding the start of the pandemic (ending 1Q20). A higher percentage indicates that a market is more expansionary. A negative percentage is a sign of contraction.
- Markets that were trending toward expansion long-term before the pandemic included Seattle, San Jose, Charlotte, Austin and Salt Lake City. Strong tailwinds prior to the pandemic may help these markets coming out of the downturn.

RENTAL RATES (BASE)



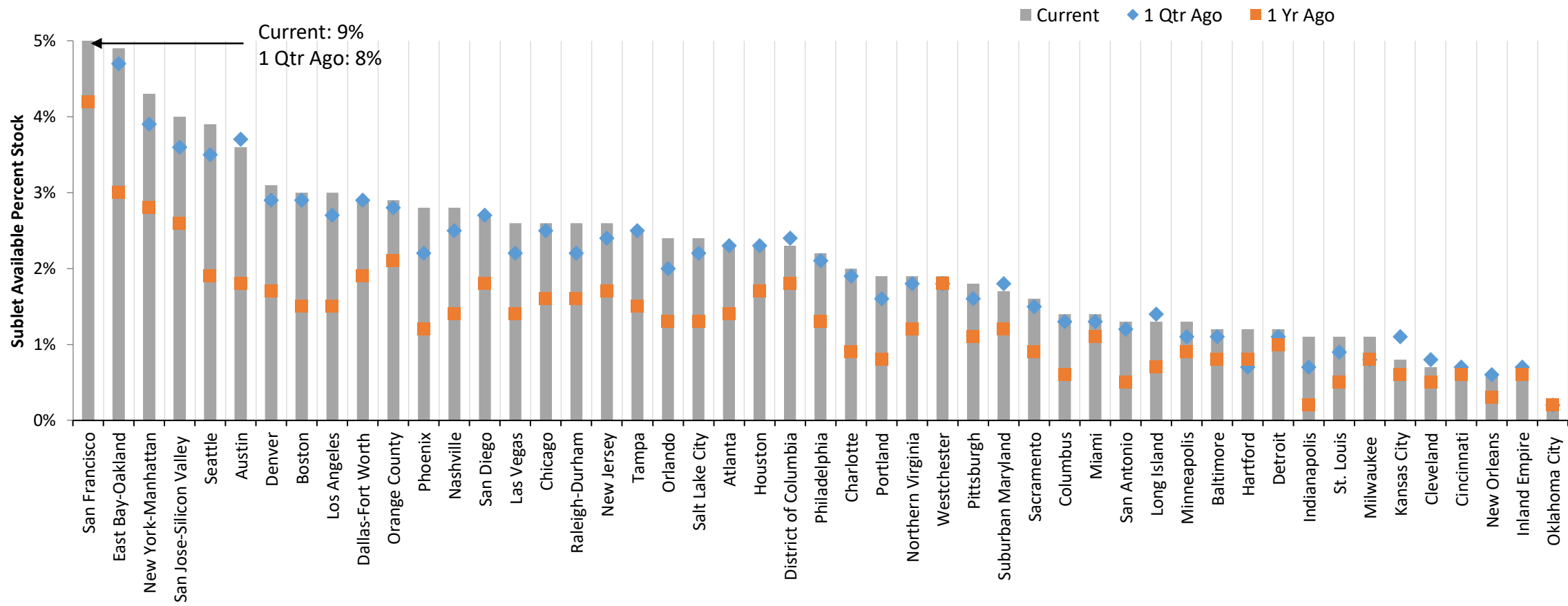
- Differences in rental rates are larger between markets on the expensive end of the spectrum.
- However, this trend has lessened over the past year as some of the more expensive markets saw among the lowest rental growth for the period.
- The gap between the most expensive market (San Francisco) and the median market (Philadelphia) has narrowed from a \$45 PSF difference in 1Q20 to a \$35 PSF difference in 1Q21.

RENTAL RATE CHANGE



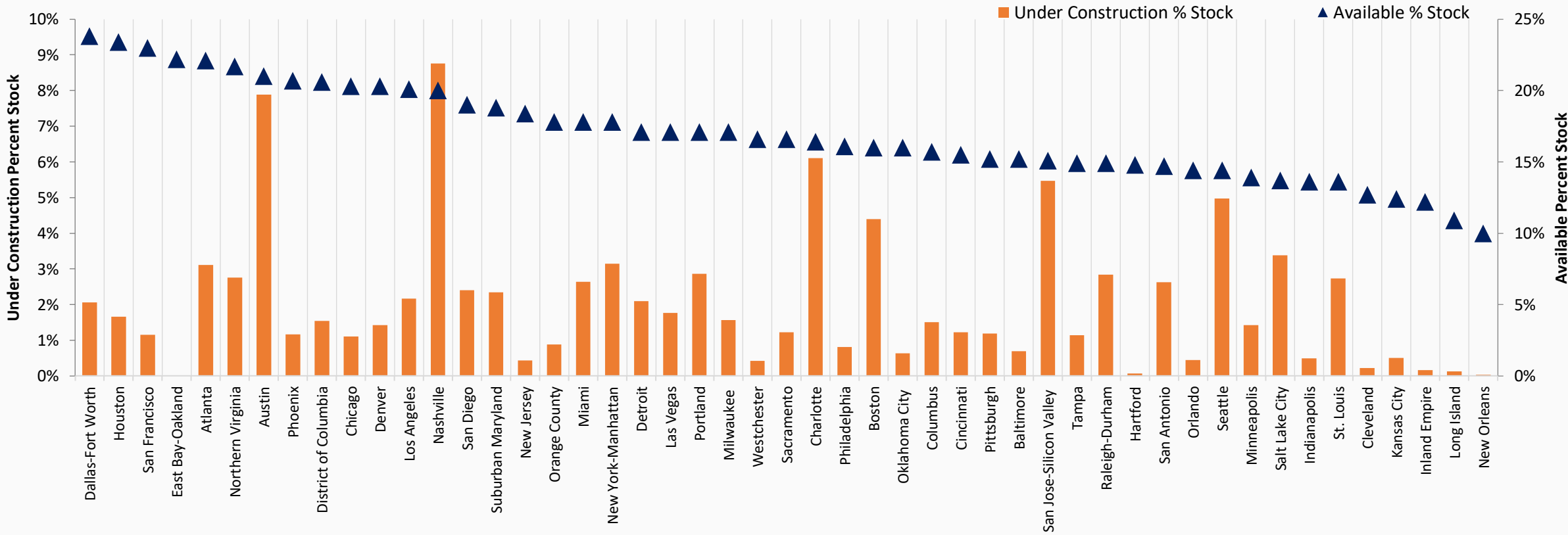
- The highest rental rate growth over the past year was seen in Westchester, Miami, and Charlotte.
- However, given the current state of office use and work-from-home policies, leasing activity has been subdued. Lack of demand combined with economic pressure is resulting in shorter lease terms and increased concessions, putting pressure on effective rental rates.
- Many of the markets that experienced large declines in rental rates also saw the highest sublet available square feet as a percent of stock, including San Francisco, New York and East Bay.

SUBLEASE AVAILABLE SQUARE FEET % STOCK



- The accompanying graph shows available sublet space as a percent of stock – given its ability to react quickly to changes in demand.
- Almost all markets tracked increased sublet available SF over the prior year with nearly 30% of the markets more than doubling their amount. Over 85% experienced an increase in sublet available SF over the past quarter.
- San Francisco stands out with the most sublet available SF as a percent of stock by a wide margin of 9%, up from 8% in the previous quarter.

CONSTRUCTION AND AVAILABILITY

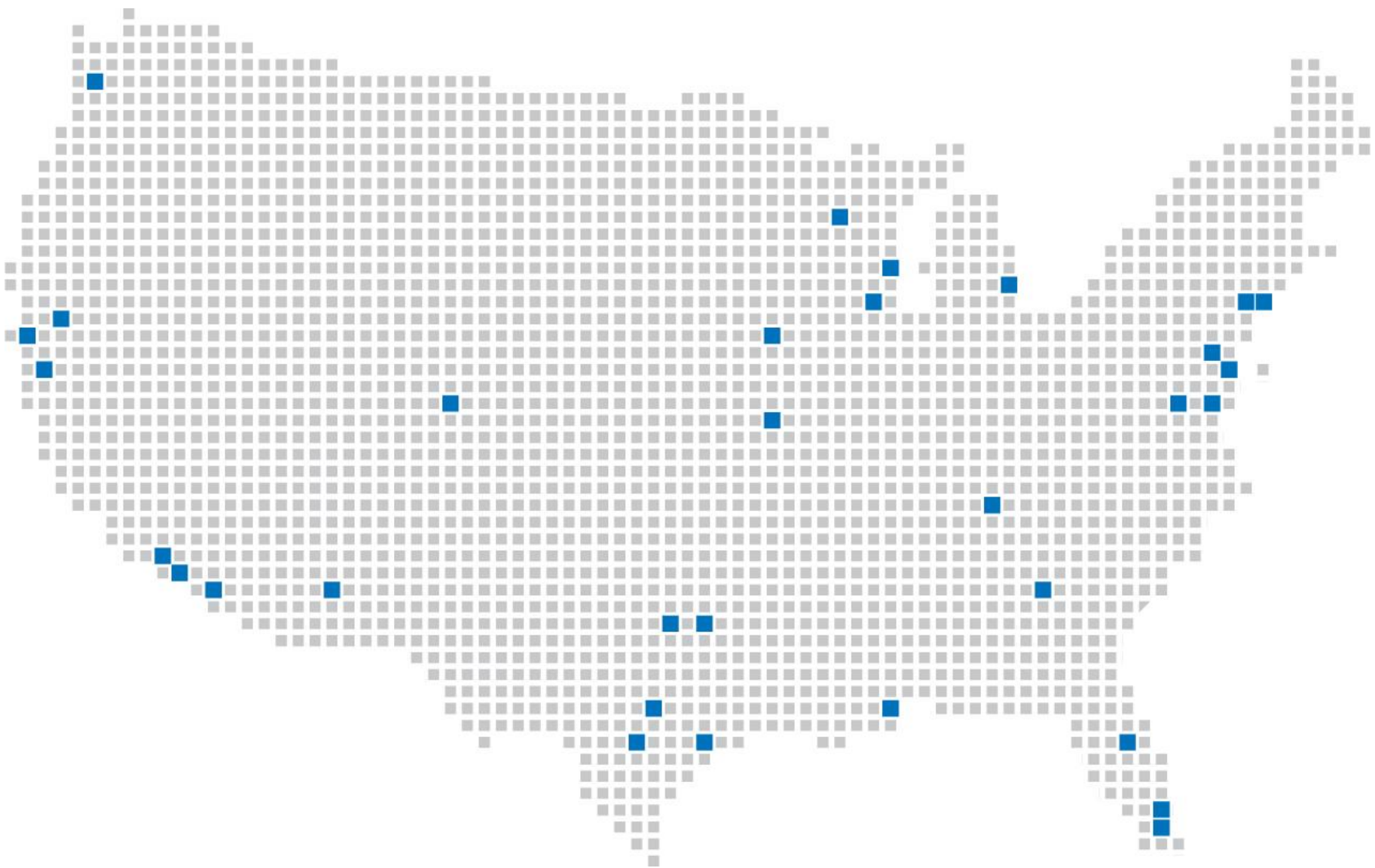


- Under construction percent of stock is indicative of future market expansion. Combined with availability percent of stock, it can also be a potential determinate of loosening or tightening within a market.
- Markets with particularly high under construction stock and high availability as a percent of stock include Austin and Nashville. Given recent strong interest in these markets, future vacancy will depend on how demand matches supply and at what rate this demand absorbs unleased space.

| Market | Inventory SF | Overall Vacancy Rate | Direct Vacancy Rate | Net Absorption | 12-Month Net Absorption | Asking Rent Base | Annual Rent Change | Under Construction |
|----------------------|-----------------|-------------------------|------------------------|-------------------|----------------------------|---------------------|-----------------------|-----------------------|
| Atlanta | 227,042,192 | 16.8% | 15.7% | (2,710,381) | (5,153,122) | \$26.95 | 2.2% | 7,071,984 |
| Austin | 105,486,416 | 14.5% | 12.1% | (559,436) | (1,677,571) | \$28.94 | 2.7% | 8,318,387 |
| Baltimore | 108,760,165 | 12.6% | 12.0% | (413,279) | (1,022,570) | \$23.59 | 4.0% | 752,448 |
| Boston | 291,384,734 | 10.9% | 9.2% | (3,115,674) | (7,108,434) | \$23.22 | 3.1% | 12,821,438 |
| Charlotte | 89,154,332 | 12.5% | 10.5% | (406,688) | (1,718,109) | \$29.79 | 6.5% | 5,447,908 |
| Chicago | 401,514,473 | 14.9% | 13.8% | (1,298,831) | (3,892,374) | \$22.44 | 1.3% | 4,426,141 |
| Cincinnati | 73,762,079 | 12.3% | 11.7% | (416,529) | (385,879) | \$13.98 | 1.4% | 904,260 |
| Cleveland | 80,071,986 | 8.4% | 8.1% | (419,207) | (824,252) | \$17.35 | 0.1% | 175,000 |
| Columbus | 77,687,725 | 10.9% | 10.1% | (501,420) | (898,439) | \$15.09 | 3.8% | 1,170,781 |
| Dallas/Fort Worth | 305,469,163 | 20.1% | 18.5% | (2,896,472) | (5,912,108) | \$22.57 | 1.0% | 6,305,219 |
| Denver | 140,337,292 | 14.5% | 12.6% | (999,497) | (4,114,689) | \$24.98 | 1.6% | 1,993,148 |
| Detroit | 141,450,042 | 12.6% | 12.0% | (7,482) | (1,807,871) | \$18.13 | 1.0% | 2,960,814 |
| District of Columbia | 145,046,805 | 14.9% | 13.7% | (1,195,656) | (2,266,382) | \$52.22 | 0.0% | 2,236,971 |
| East Bay/Oakland | 58,960,231 | 18.8% | 15.5% | (1,060,376) | (2,924,675) | \$40.75 | -4.0% | 0 |
| Hartford | 49,561,249 | 10.7% | 9.6% | (317,827) | (428,617) | \$18.87 | -2.0% | 33,000 |
| Houston | 315,040,343 | 19.5% | 18.4% | (730,581) | (4,483,735) | \$20.56 | 0.1% | 5,242,885 |
| Indianapolis | 72,443,162 | 11.1% | 10.5% | (359,419) | (998,933) | \$19.86 | 1.6% | 357,000 |
| Inland Empire | 39,096,004 | 9.4% | 9.3% | (11,884) | (279,111) | \$22.43 | 4.1% | 61,420 |
| Kansas City | 96,992,420 | 10.3% | 9.7% | (602,551) | (1,177,110) | \$20.83 | 3.8% | 487,902 |
| Las Vegas | 38,439,631 | 15.3% | 12.8% | (378,852) | (774,065) | \$22.54 | 4.7% | 678,000 |
| Long Island | 63,294,610 | 8.7% | 7.7% | (85,855) | (1,235,591) | \$27.61 | 2.6% | 77,678 |
| Los Angeles | 321,595,545 | 15.0% | 13.7% | (2,186,880) | (8,632,831) | \$39.90 | 3.0% | 6,988,136 |
| Miami | 78,587,913 | 13.4% | 12.8% | (498,354) | (1,326,029) | \$39.51 | 6.5% | 2,075,107 |
| Milwaukee | 59,155,844 | 11.5% | 11.3% | (703,356) | (466,959) | \$15.80 | -1.8% | 925,358 |

| Market | Inventory SF | Overall Vacancy Rate | Direct Vacancy Rate | Net Absorption | 12-Month Net Absorption | Asking Rent Base | Annual Rent Change | Under Construction |
|-------------------------|-----------------|-------------------------|------------------------|-------------------|----------------------------|---------------------|-----------------------|-----------------------|
| Minneapolis | 155,614,339 | 10.5% | 9.9% | (1,236,343) | (2,124,346) | \$17.43 | 1.8% | 2,210,114 |
| Nashville | 66,611,338 | 12.7% | 11.0% | (1,037,413) | (1,115,069) | \$27.94 | 2.3% | 5,831,755 |
| New Jersey | 311,790,563 | 13.5% | 12.2% | (1,503,472) | (5,392,999) | \$23.83 | -1.4% | 1,361,314 |
| New Orleans | 34,922,656 | 8.7% | 8.4% | (130,924) | (290,248) | \$18.52 | -0.1% | 11,500 |
| New York/Manhattan | 536,362,221 | 11.9% | 9.9% | (8,179,715) | (15,825,461) | \$54.41 | -9.5% | 16,866,730 |
| Northern Virginia | 185,747,965 | 17.7% | 16.7% | (2,156,199) | (3,041,639) | \$32.86 | 0.7% | 5,115,972 |
| Oklahoma City | 40,871,716 | 13.9% | 13.8% | (48,024) | (434,571) | \$17.85 | -0.4% | 257,045 |
| Orange County | 120,477,249 | 13.8% | 12.2% | (1,282,805) | (3,611,155) | \$28.59 | -4.3% | 1,058,132 |
| Orlando | 66,252,355 | 10.1% | 8.9% | (560,352) | (1,185,086) | \$21.54 | 1.1% | 298,462 |
| Philadelphia | 239,470,375 | 11.0% | 10.1% | (1,633,984) | (4,419,256) | \$23.95 | 1.4% | 1,933,272 |
| Phoenix | 133,098,143 | 15.9% | 14.7% | (898,933) | (1,175,336) | \$25.89 | -0.2% | 1,547,363 |
| Pittsburgh | 106,432,765 | 11.8% | 10.6% | (995,311) | (1,693,912) | \$23.92 | 2.5% | 1,268,265 |
| Portland | 80,354,262 | 13.2% | 12.0% | (860,764) | (2,523,521) | \$26.43 | 0.8% | 2,298,541 |
| Raleigh/Durham | 54,514,235 | 9.2% | 8.1% | 133,224 | (223,586) | \$28.45 | 3.3% | 1,547,119 |
| Sacramento | 70,286,827 | 12.3% | 11.5% | (639,606) | (705,204) | \$23.59 | 3.5% | 861,484 |
| Salt Lake City | 61,097,082 | 10.9% | 9.0% | (241,394) | (1,093,587) | \$24.36 | 3.2% | 2,064,893 |
| San Antonio | 58,444,226 | 10.3% | 9.8% | (178,595) | (83,064) | \$21.41 | 0.6% | 1,533,324 |
| San Diego | 86,624,974 | 13.8% | 12.4% | (478,635) | (1,577,650) | \$33.33 | 0.4% | 2,086,064 |
| San Francisco | 101,088,060 | 14.8% | 9.9% | (2,553,772) | (7,464,200) | \$59.07 | -14.0% | 1,161,319 |
| San Jose/Silicon Valley | 113,818,976 | 12.1% | 9.4% | (383,481) | (1,065,557) | \$48.33 | -2.6% | 6,224,534 |
| Seattle | 162,366,291 | 10.7% | 8.3% | (2,507,456) | (3,831,318) | \$29.59 | -3.0% | 8,075,359 |
| St. Louis | 109,781,147 | 9.0% | 8.6% | (547,499) | (969,243) | \$20.93 | 3.6% | 2,994,841 |
| Suburban Maryland | 85,687,185 | 15.5% | 14.5% | 425,862 | (752,883) | \$27.47 | 1.0% | 2,010,567 |
| Tampa | 80,336,592 | 10.4% | 9.1% | (312,006) | (418,539) | \$25.19 | 3.4% | 912,587 |
| Westchester | 130,971,430 | 12.1% | 10.9% | (350,415) | (2,139,640) | \$29.03 | 7.5% | 553,552 |

TRANSWESTERN LOCATIONS



ABOUT TRANSWESTERN

The privately held Transwestern companies have been delivering a higher level of personalized service and innovative real estate solutions since 1978. An integrated approach formed from fresh ideas drives value for clients across commercial real estate services, development, investment management and opportunistic programs for high-net-worth investors. The firm operates through 33 U.S. offices and global alliances with BNP Paribas Real Estate and Devencore. Learn more at transwestern.com and [@Transwestern](https://twitter.com/Transwestern).

RESEARCH METHODOLOGY

The information in this report is a compilation of single and multi-tenant office properties located in select U.S. metropolitan areas. Medical offices and government-owned buildings are excluded from analysis. All rents are reported as base, which are rents reflected irrespective of service type (Full Service, Plus Electric, etc.).

FOR MORE INFORMATION

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