

COMMERCIAL REAL ESTATE

U.S. MARKET | OFFICE

First Quarter 2020



TRANSWESTERN



U.S. TRENDLINES

5-Year Trend

Current Quarter

UNEMPLOYMENT RATE

4.4%

Up 90 basis points in March due to Covid-19

OFFICE-USING EMPLOYMENT GROWTH

35.5M

0.3% annual growth (Feb 2019-2020)

NET ABSORPTION

3.0 MSF

Lowest quarterly absorption since Q2 2010

VACANCY

10.0%

30-basis-point rise year over year

UNDER CONSTRUCTION

180.3 MSF

Activity jumps 7.8% year over year

ASKING RENT

\$27.13 PSF

3.4% annual growth, just below the 5-year average of 3.5%

U.S. HIGHLIGHTS

The data in this report focuses on the first three months of 2020 and is not reflective of the current state of the market.

BEFORE COVID-19

- Office-using job growth over the past year occurred in the tech, financial services, medical, and business consulting industries.
- Occupiers' appetite for newer, more efficient office buildings was driver of growth.

IMPACT OF COVID-19

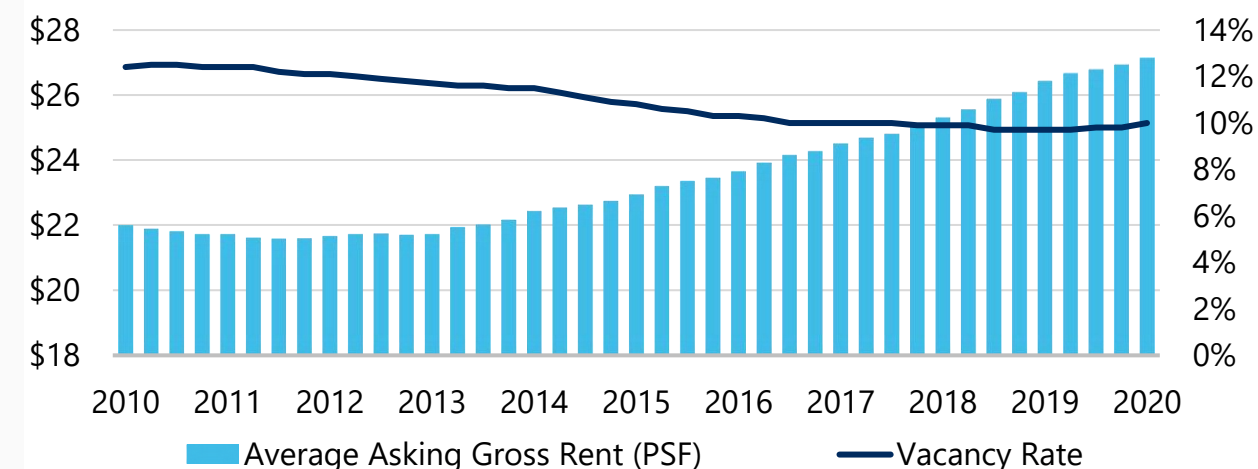
- It is largely presumed that the longest expansion in U.S. history ended in March.
- Leasing slowed during the second half of March 2020 due to the impacts of Covid-19, which caused the vacancy rate to climb 20 basis points during the quarter to 10.0%.
- Net absorption during Q1 2020 weakened to 3.0 million SF and is the lowest quarterly total since Q2 2010.
- Construction activity remains elevated, but with the onset of Covid-19, we expect construction to slow.
- Projects should continue to deliver throughout 2020, as Covid-19 restrictions allow. However, given current market conditions new groundbreakings should decelerate.
- Annual asking rental rates decelerated during Q1 2020 and should decelerate throughout 2020 due to the impacts of Covid-19.

LOOKING FORWARD

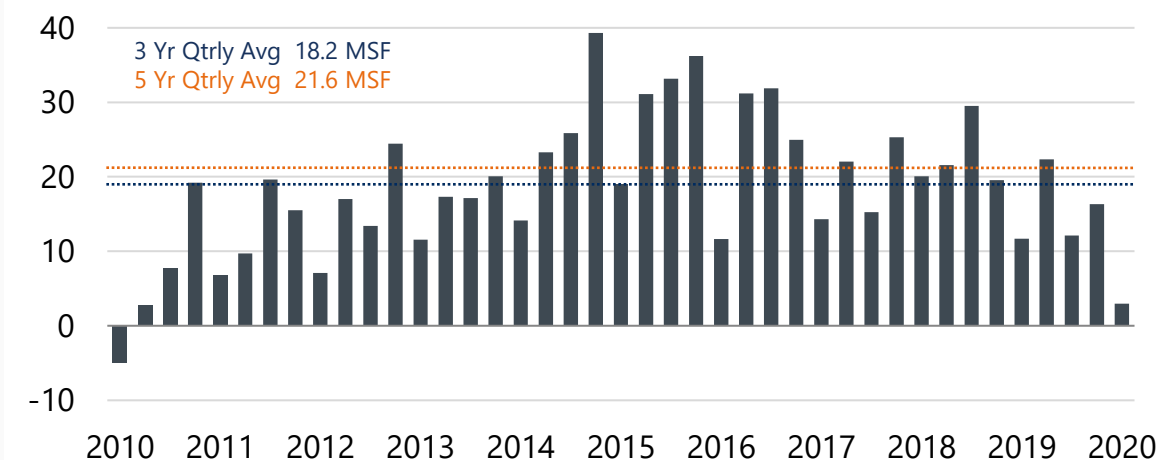
- The economy is expected to decline sharply through Q2 2020.
- A significant majority of economists forecast the economy to resume growth during the third and fourth quarters.
- The impacts of Covid-19 and social distancing could alter the office workplace, but exactly how is yet to be determined.

U.S. HISTORICAL

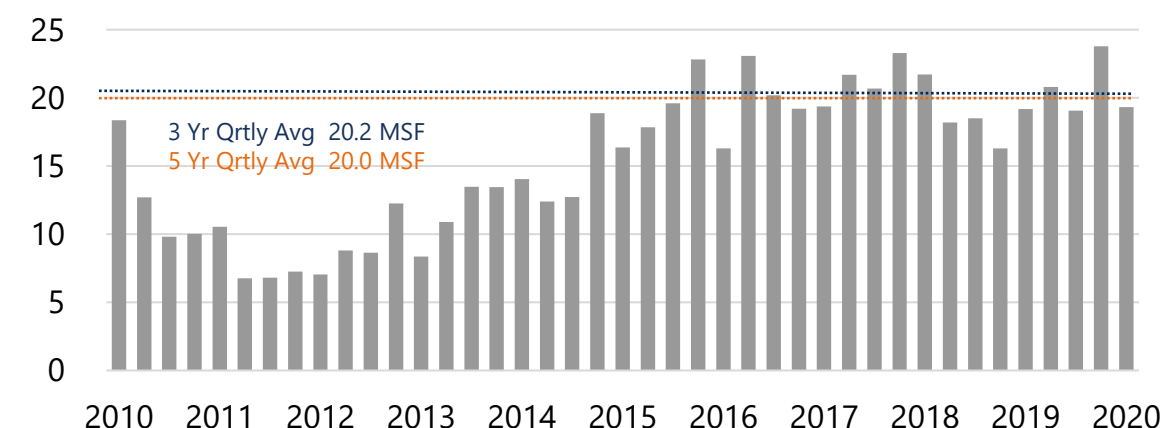
VACANCY VS ASKING RENT



NET ABSORPTION (MILLION SF)

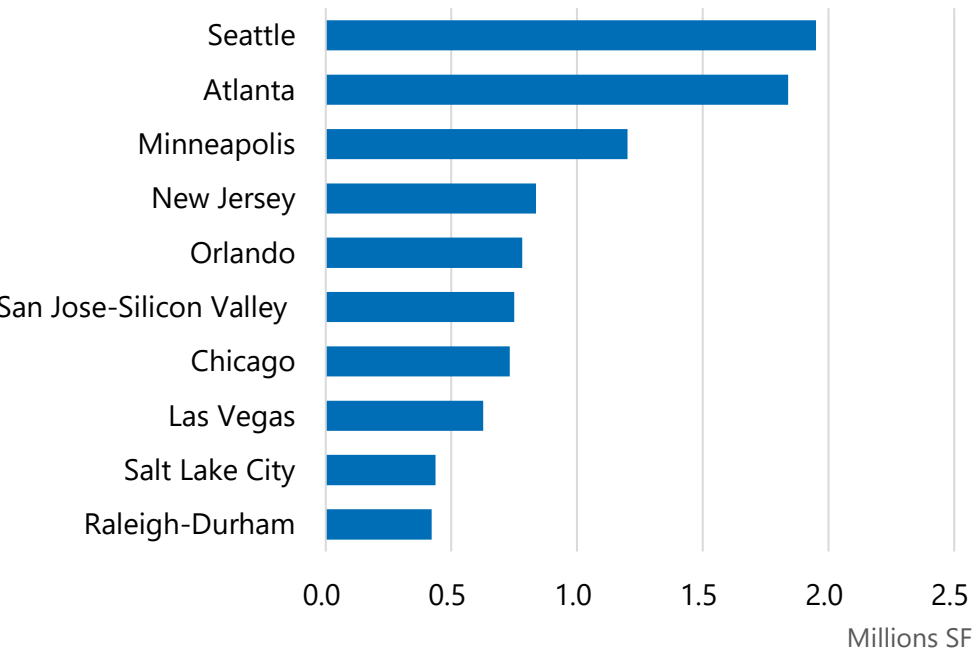


CONSTRUCTION – DELIVERED (MILLION SF)



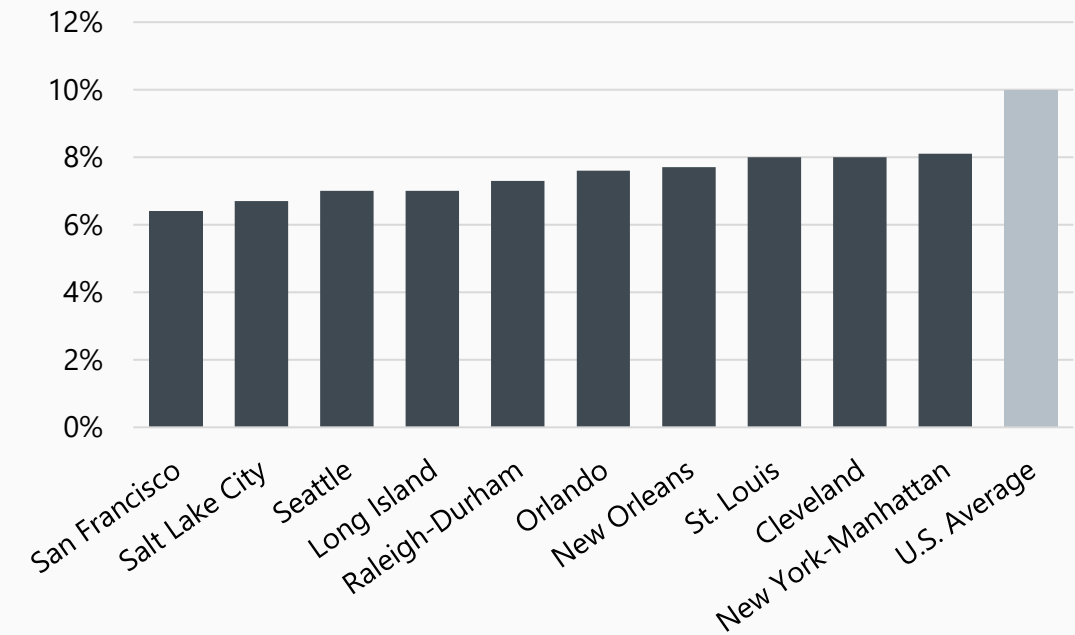
NET ABSORPTION

Q1 2020 Net Absorption



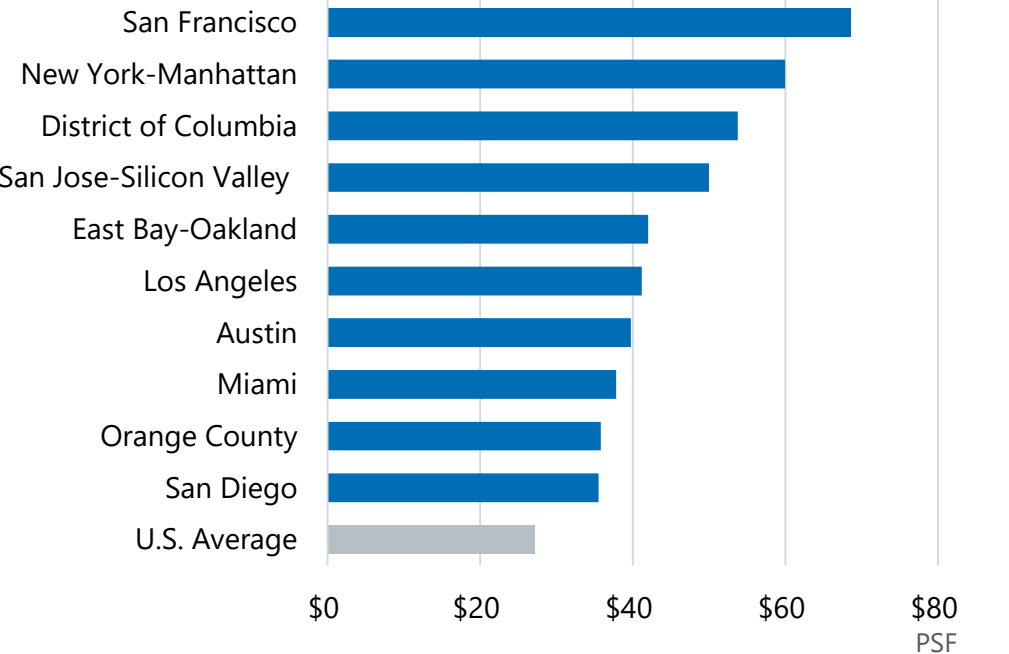
VACANCY/CONSTRUCTION

Q1 2020 Overall Vacancy Rate

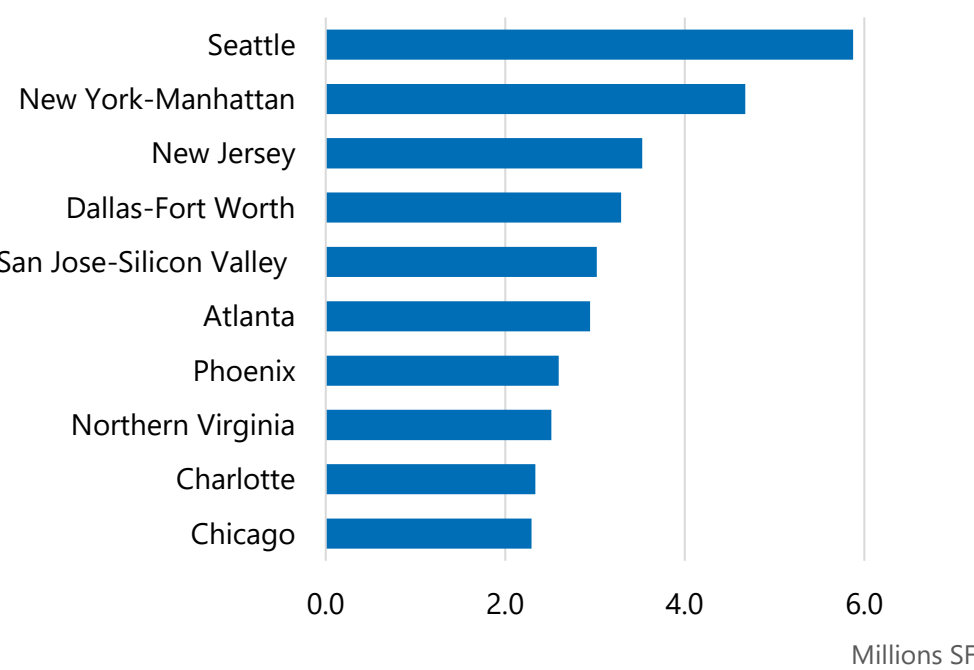


ASKING RENTS

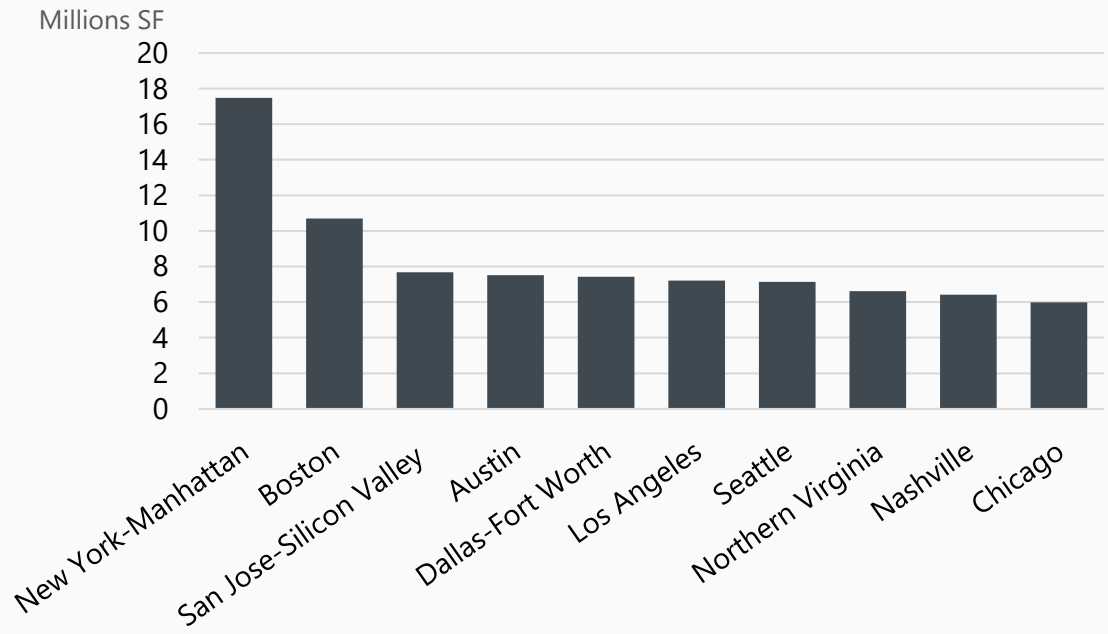
Q1 2020 Asking Rate (Gross)



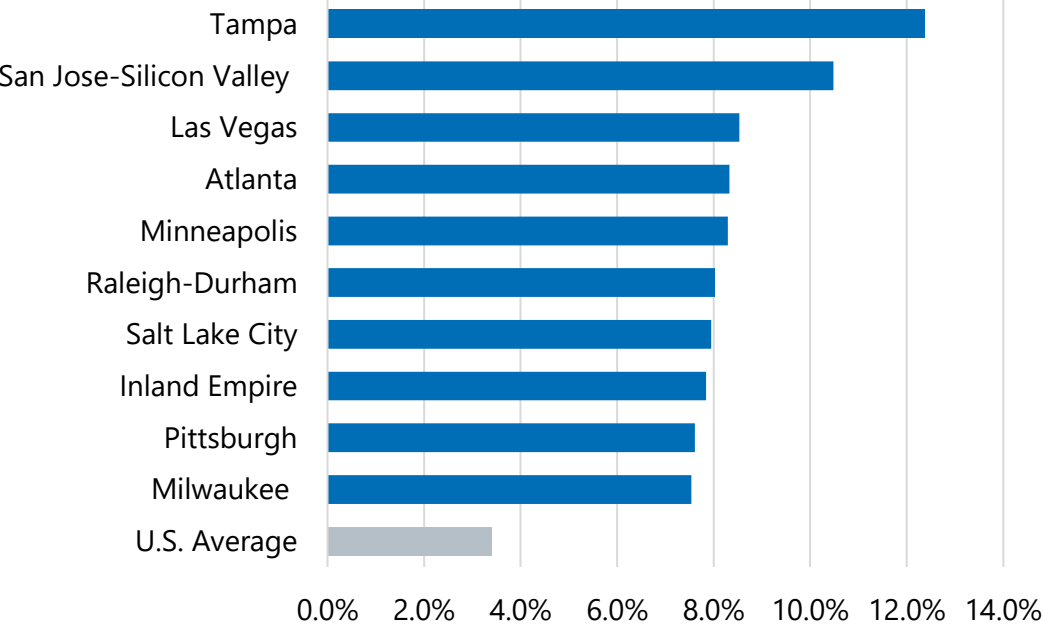
Trailing 4-Qtr Net Absorption



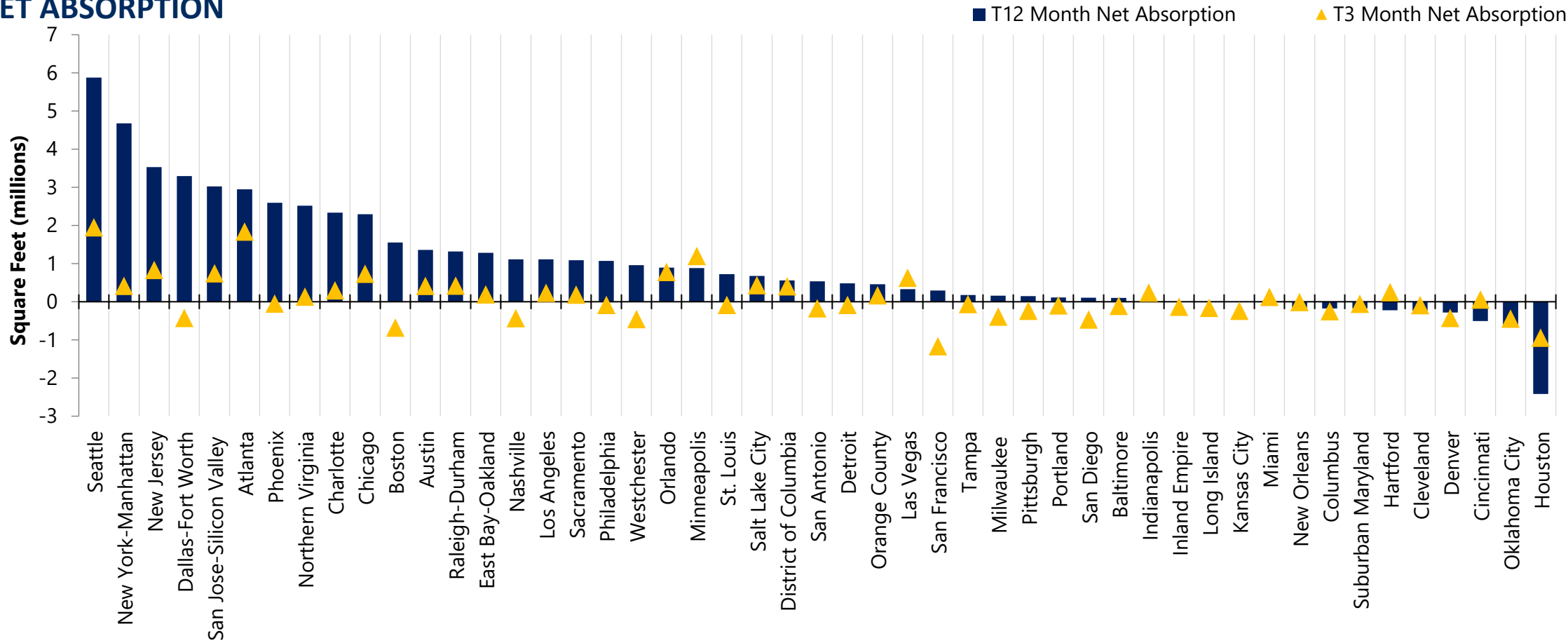
Q1 2020 Under Construction



Year-Over-Year Rent Growth

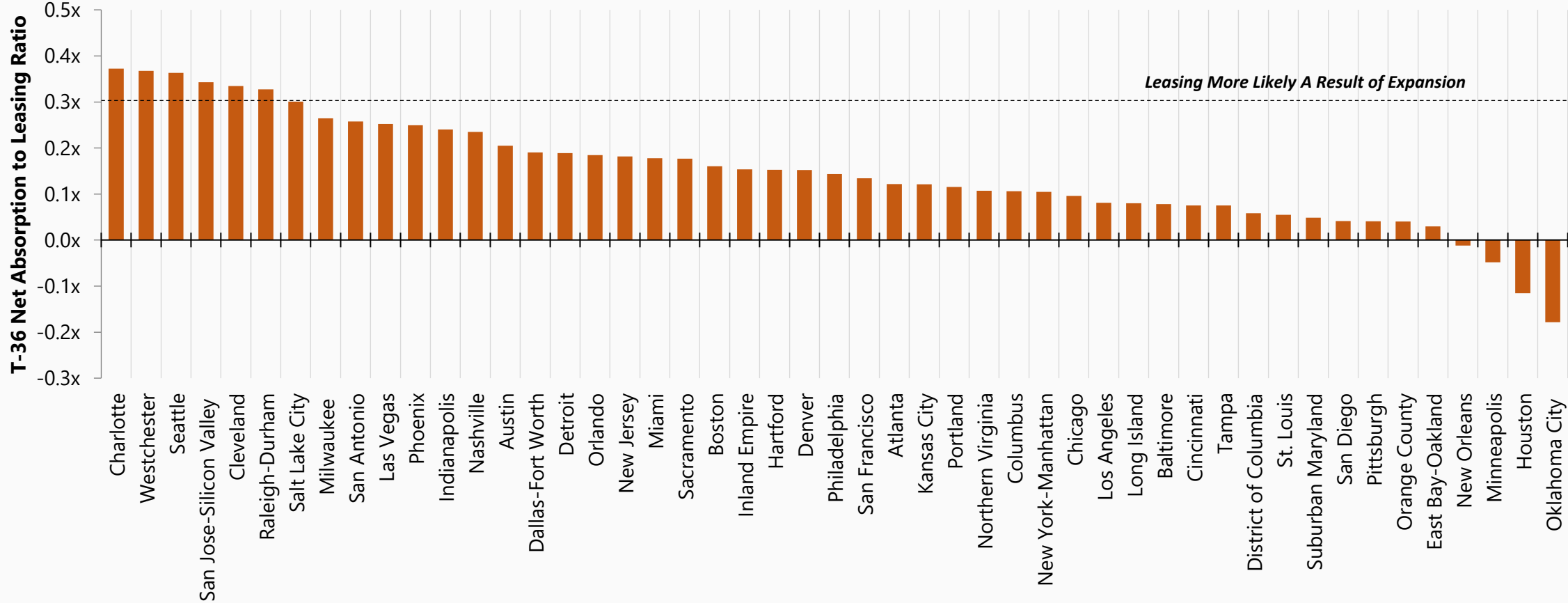


NET ABSORPTION



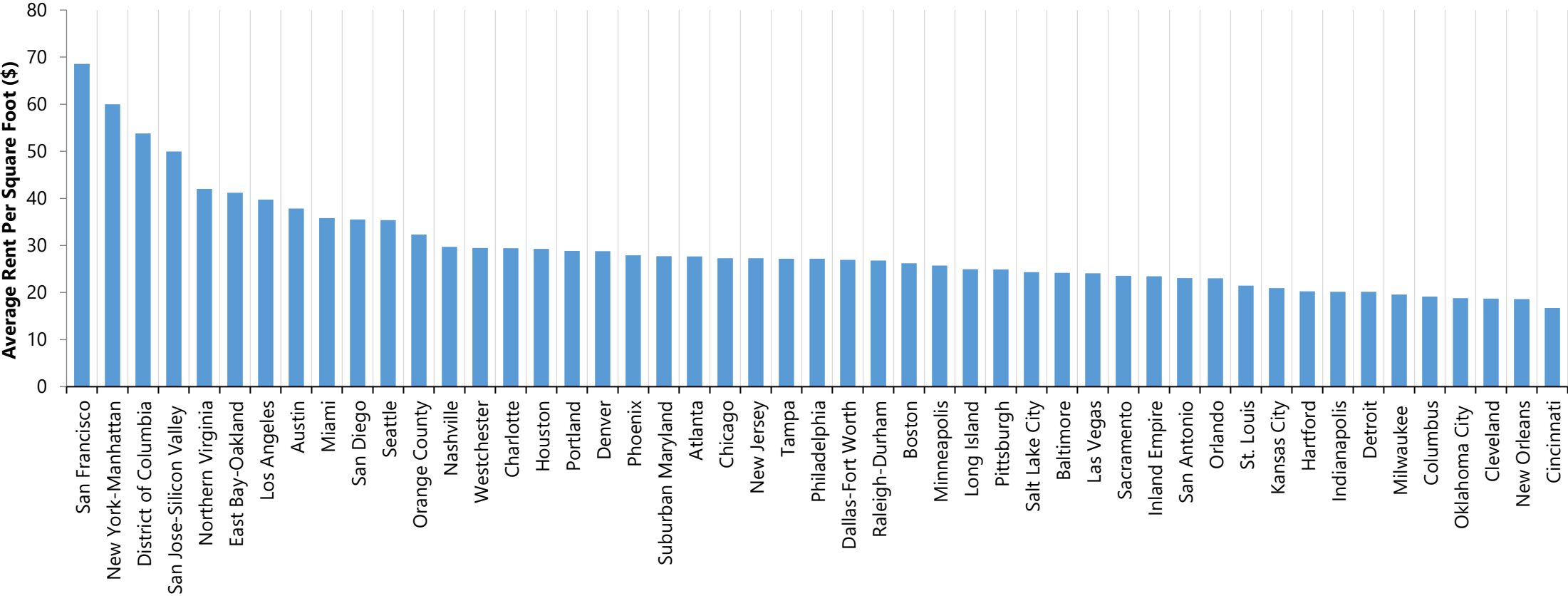
- Positive net absorption was seen in most markets during the 12 months ending March 2020 with Seattle leading for first quarter and the year as well.
- For the quarter, San Francisco had the lowest negative net absorption, experiencing its first negative quarter in 2 and a half years due to relocations across all submarkets. Houston was second-lowest due to expirations on several large blocks along with short-term/swing space expirations.

NET ABSORPTION vs LEASING



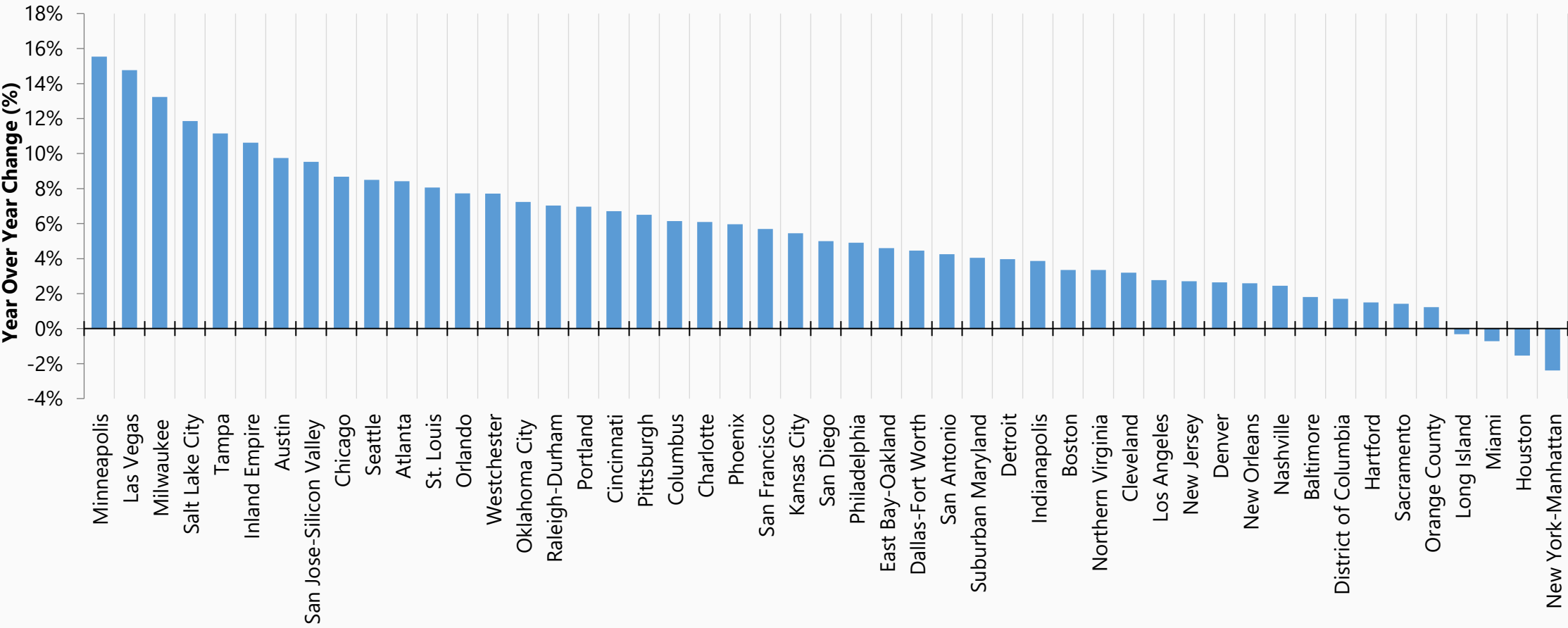
- Here we consider the ratio of net absorption to leasing. Markets with a higher ratio may be more expansionary – with less leasing due to churn and more new space occupied.
- A few markets stand out as expansionary given their relatively high ratio of absorption to leasing activity, including: Charlotte, Westchester, Seattle, San Jose, Cleveland, Raleigh-Durham, and Salt Lake City.

RENTAL RATES



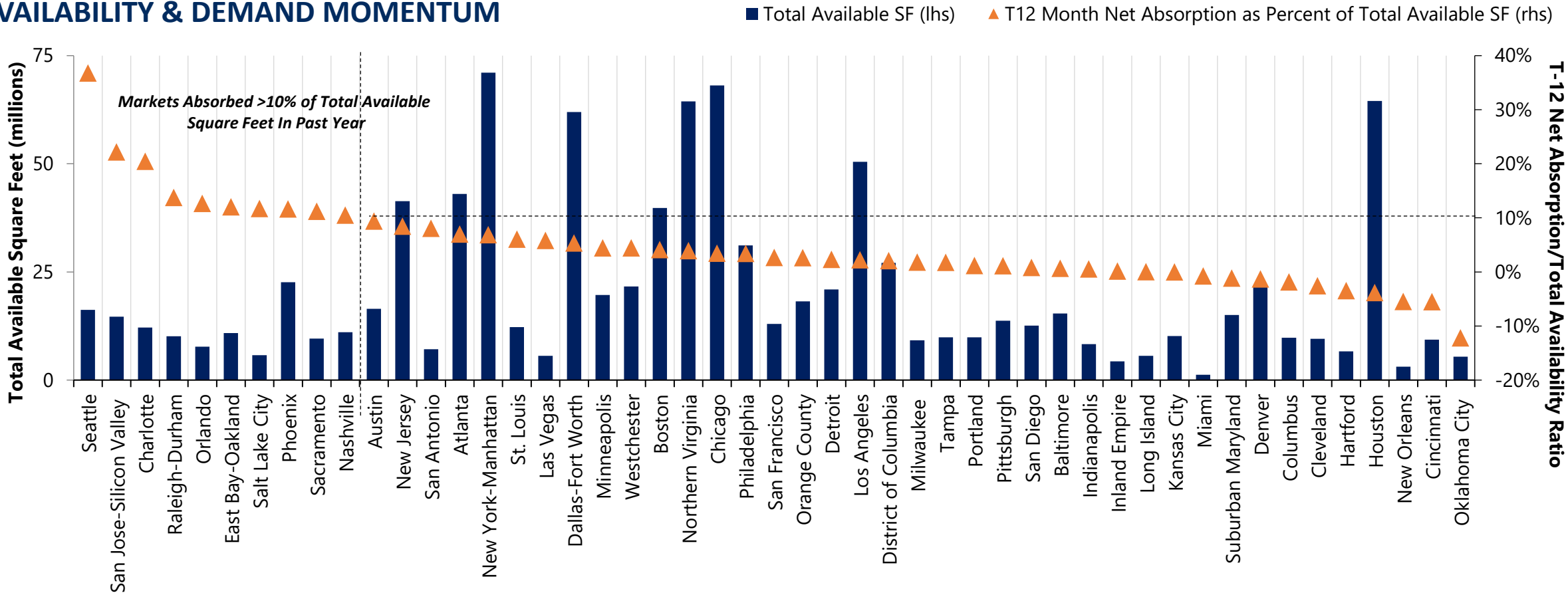
- Differences in rental rates become more exponential between markets on the expensive end of the spectrum.
- The most expensive market (San Francisco) comes in at over 4x the price PSF of the least expensive market (Cincinnati). In fact, San Francisco's rental rates in Q1 2020 were more than double the rate of 75% of markets Transwestern tracks - which ties to the negative absorption seen in the market for the quarter due to relocations. This is part of an overall trend of moving to more affordable markets.

RENTAL RATE CHANGE



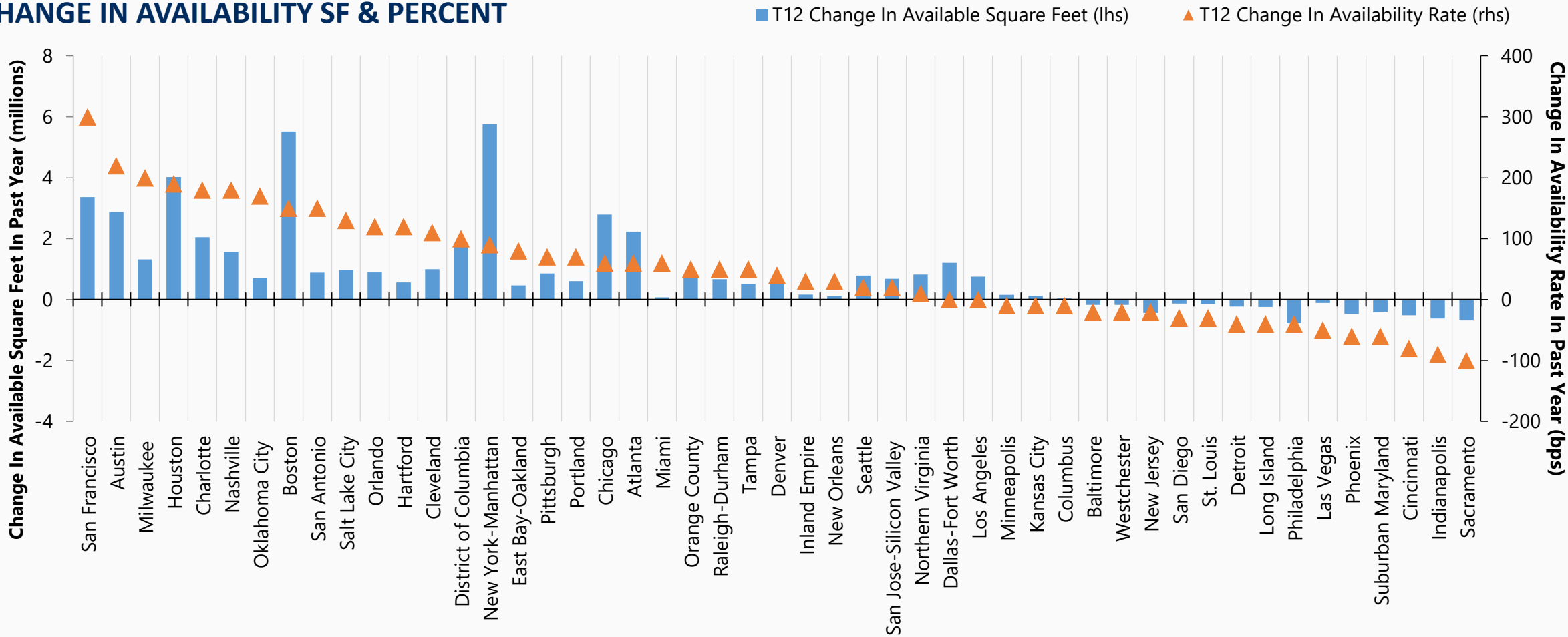
- Highest rental rate growths over the past year were seen mostly in secondary markets, led by Minneapolis and Las Vegas.
- Particularly hot markets, with higher-end rents that still managed outsized rental rate growth over the past year include Austin, San Jose and Seattle.

AVAILABILITY & DEMAND MOMENTUM



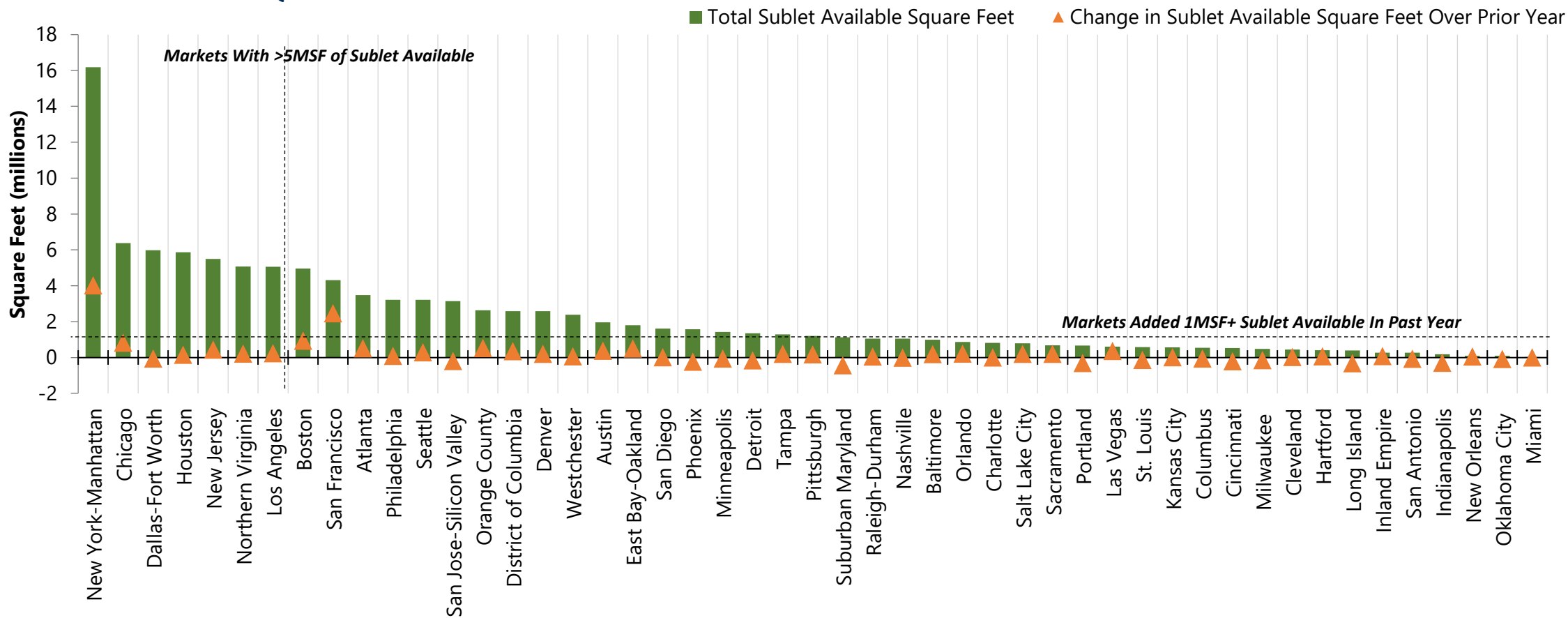
- Here we compare absorption over the past year to the average available SF over the time period. Those markets absorbing a larger percent of available SF may be experiencing an uptick in demand.
- Seattle, for example, absorbed 37% of available SF over the past year, reflecting the strong demand experienced in the market.

CHANGE IN AVAILABILITY SF & PERCENT



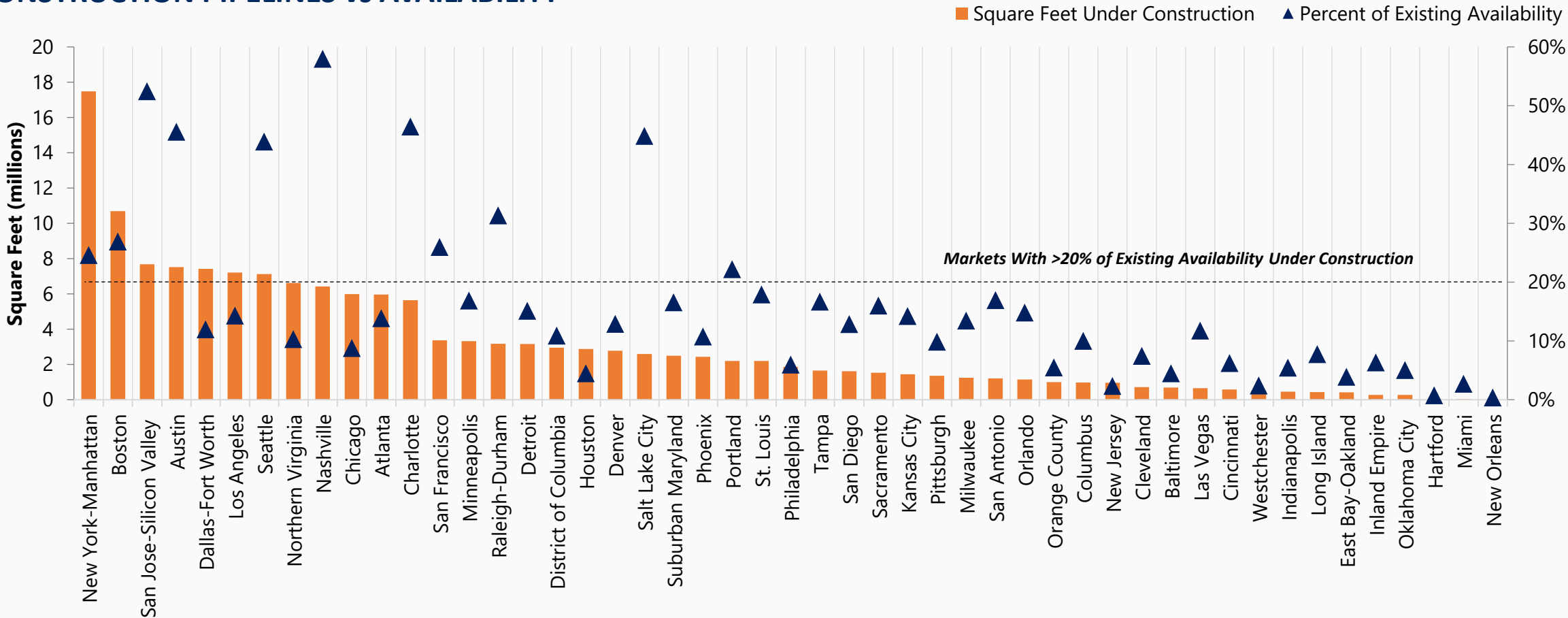
- Around 65% of MSAs saw a positive change in their availability rate.
- Interestingly, Sacramento, which is doing relatively well in absorbing space and has a slightly lower than average availability rate (13.2%), did not experience strong rent growth over the past year, nor does it have one of the higher rental rates among the markets we track.

SUBLET AVAILABLE SQUARE FEET



- Here, we consider available sublet space – given its ability to react quickly to changes in demand.
- While most markets show little activity for sublet square footage change over the past year, two stand out for having added over 2 million SF in sublet space available: New York-Manhattan and San Francisco. However, the stories for these markets diverge when it comes to rent growth, with San Francisco managing average rent growth over the year and New York-Manhattan coming in last place on this metric, with negative growth.

CONSTRUCTION PIPELINES vs AVAILABILITY

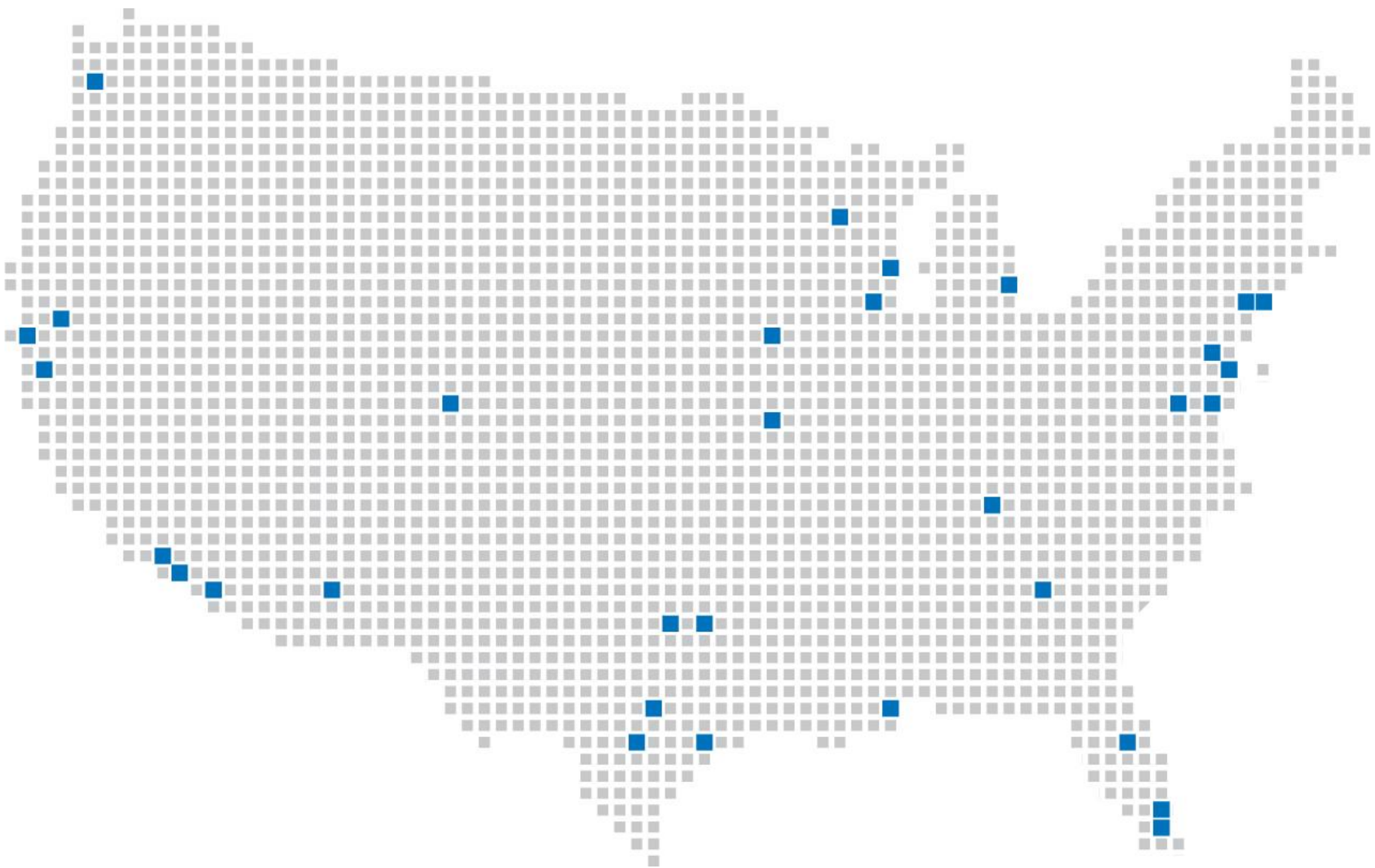


- Under construction percent of existing availability can be a good determinate of future tightening or loosening in a market.
- Construction, in general, looked to be under control going into the economic downturn. The markets with the highest under construction % of availability rates (above 40%) all had strong demand fundamentals to support growth: Nashville, San Jose, Austin, Charlotte, Seattle, and Salt Lake City.
- That said, we now may see loosening in those markets given the current and forecasted decline in new business.

Market	Inventory SF	Overall Vacancy Rate	Direct Vacancy Rate	Net Absorption	12-Month Net Absorption	Asking Rent Gross	Annual Rent Change	Under Construction
Atlanta	229,211,443	13.9%	13.3%	1,840,214	2,944,673	\$27.67	8.3%	5,960,413
Austin	101,196,233	10.3%	9.3%	420,261	1,358,777	\$37.82	6.9%	7,514,919
Baltimore	110,833,177	11.3%	10.7%	(106,886)	102,409	\$24.19	3.0%	690,311
Boston	290,215,067	8.5%	7.7%	(678,908)	1,552,566	\$26.21	3.6%	10,696,444
Charlotte	85,784,974	8.6%	7.9%	299,218	2,334,729	\$29.42	6.8%	5,638,376
Chicago	397,401,478	13.1%	12.4%	732,974	2,293,339	\$27.30	1.7%	5,984,865
Cincinnati	73,952,602	10.2%	9.8%	57,641	(507,721)	\$16.70	4.5%	578,782
Cleveland	79,394,364	8.0%	7.8%	(90,480)	(233,899)	\$18.72	1.4%	712,610
Columbus	76,844,381	9.0%	8.6%	(246,553)	(176,010)	\$19.16	3.8%	977,971
Dallas/Fort Worth	305,901,132	17.1%	16.0%	(422,293)	3,292,799	\$26.95	3.0%	7,420,371
Denver	119,339,236	12.1%	11.1%	(422,927)	(280,158)	\$28.78	3.2%	2,779,845
Detroit	137,527,603	11.0%	10.7%	(84,509)	484,903	\$20.15	3.4%	3,164,296
District of Columbia	146,382,949	13.4%	12.3%	407,916	560,025	\$53.77	1.4%	2,953,194
East Bay/Oakland	58,663,145	13.4%	11.8%	194,583	1,284,809	\$41.17	3.2%	420,625
Hartford	46,199,338	10.7%	9.7%	253,253	(222,075)	\$20.26	1.5%	49,900
Houston	189,737,826	27.6%	25.9%	(941,989)	(2,414,654)	\$29.29	1.2%	2,876,003
Indianapolis	73,753,078	9.0%	8.8%	242,609	48,778	\$20.16	3.5%	453,040
Inland Empire	39,089,970	8.5%	8.1%	(126,953)	5,323	\$23.43	7.8%	274,526
Kansas City	94,539,280	8.3%	7.9%	(236,505)	370	\$20.92	3.9%	1,448,401
Las Vegas	38,632,030	12.8%	11.6%	626,805	328,277	\$24.09	8.5%	655,905
Long Island	62,857,596	7.0%	6.4%	(161,592)	1,159	\$24.98	0.7%	435,013
Los Angeles	321,938,243	11.5%	10.9%	233,512	1,108,710	\$39.74	4.4%	7,212,727
Miami	10,830,243	8.6%	8.5%	126,544	(10,248)	\$35.83	-0.6%	33,177
Milwaukee	59,778,115	9.7%	9.4%	(389,163)	156,216	\$19.59	7.5%	1,239,864

Market	Inventory SF	Overall Vacancy Rate	Direct Vacancy Rate	Net Absorption	12-Month Net Absorption	Asking Rent Gross	Annual Rent Change	Under Construction
Minneapolis	153,918,873	8.8%	8.4%	1,201,108	882,579	\$25.72	8.3%	3,315,127
Nashville	64,472,014	8.2%	7.6%	(428,841)	1,113,742	\$29.72	3.7%	6,421,717
New Jersey	270,298,411	11.4%	10.3%	836,405	3,527,691	\$27.26	1.6%	961,000
New Orleans	34,795,876	7.7%	7.6%	(6,812)	(170,965)	\$18.63	2.6%	11,500
New York/Manhattan	543,185,148	8.1%	6.8%	415,063	4,675,564	\$59.97	-0.5%	17,483,064
Northern Virginia	333,911,611	14.7%	13.9%	135,926	2,514,399	\$42.02	3.1%	6,621,817
Oklahoma City	38,829,860	11.3%	11.1%	(440,430)	(606,954)	\$18.81	6.6%	272,500
Orange County	122,211,409	11.0%	10.1%	167,748	457,675	\$32.34	2.6%	996,241
Orlando	64,312,493	7.6%	7.2%	781,457	895,509	\$23.02	6.4%	1,144,338
Philadelphia	240,560,667	8.9%	8.4%	(84,315)	1,069,106	\$27.17	5.0%	1,857,397
Phoenix	132,511,011	13.9%	13.5%	(46,342)	2,594,952	\$27.90	4.3%	2,430,362
Pittsburgh	105,295,024	9.5%	8.9%	(237,437)	149,052	\$24.90	7.6%	1,350,736
Portland	79,994,689	9.4%	8.8%	(94,585)	111,359	\$28.84	6.2%	2,197,734
Raleigh/Durham	80,069,258	7.3%	6.8%	421,840	1,318,285	\$26.78	8.0%	3,174,853
Sacramento	71,035,412	10.7%	10.3%	187,051	1,089,746	\$23.56	1.5%	1,532,684
Salt Lake City	59,061,650	6.7%	5.9%	436,677	676,048	\$24.33	7.9%	2,585,516
San Antonio	56,641,123	9.3%	9.0%	(168,858)	535,695	\$23.05	5.6%	1,210,162
San Diego	86,707,170	11.3%	10.4%	(462,797)	104,566	\$35.50	4.3%	1,620,777
San Francisco	107,930,809	6.4%	4.7%	(1,165,690)	293,098	\$68.57	7.2%	3,371,595
San Jose/Silicon Valley	115,735,795	9.7%	7.8%	749,803	3,020,460	\$49.98	10.5%	7,684,432
Seattle	162,046,538	7.0%	6.1%	1,950,234	5,874,474	\$35.38	7.0%	7,129,093
St. Louis	107,016,672	8.0%	7.7%	(84,995)	724,360	\$21.46	5.2%	2,192,173
Suburban Maryland	85,097,640	13.7%	12.9%	(51,838)	(176,171)	\$27.74	2.9%	2,488,961
Tampa	79,396,510	9.1%	7.9%	(57,661)	176,008	\$27.20	12.4%	1,647,549
Westchester	131,788,005	11.0%	10.3%	(450,088)	956,094	\$29.45	3.7%	515,981

TRANSWESTERN LOCATIONS



ABOUT TRANSWESTERN

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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 full-service gross.

FOR MORE INFORMATION

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