

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

Third Quarter 2020



TRANSWESTERN





## U.S. TRENDLINES

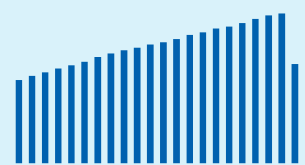
5-Year Trend      Current Quarter

UNEMPLOYMENT RATE **7.9%**



Down 680 basis points in September since peak

OFFICE-USING EMPLOYMENT



**35.2 M**

-3.9% annual change (Aug. 2019-2020)

NET ABSORPTION



**(40.7) MSF**

Notable downturn on record, amplified by sublease space

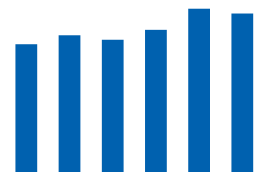
VACANCY



**10.8%**

60 basis-point rise in Q3; 110 basis-point rise y-o-y

UNDER CONSTRUCTION



**177.4 MSF**

Down 3.5% in Q3

ASKING RENT (BASE) **\$25.11 PSF**



2.6% annual growth, below the 5-year average of 3.5%

## U.S. HIGHLIGHTS

### ECONOMY

- The U.S. unemployment rate improved to 7.9% in September, though growth decelerated and nearly 700,000 left the labor force.
- Expansion slowed in September, with 611,000 jobs added. Office-using jobs accounted for 165,600 of this total.
- Only 37% of the office-using jobs have been recovered since COVID-19 hit, as stronger hiring in financial activities has offset lagging growth in sectors such as legal services and advertising.

### OFFICE MARKET

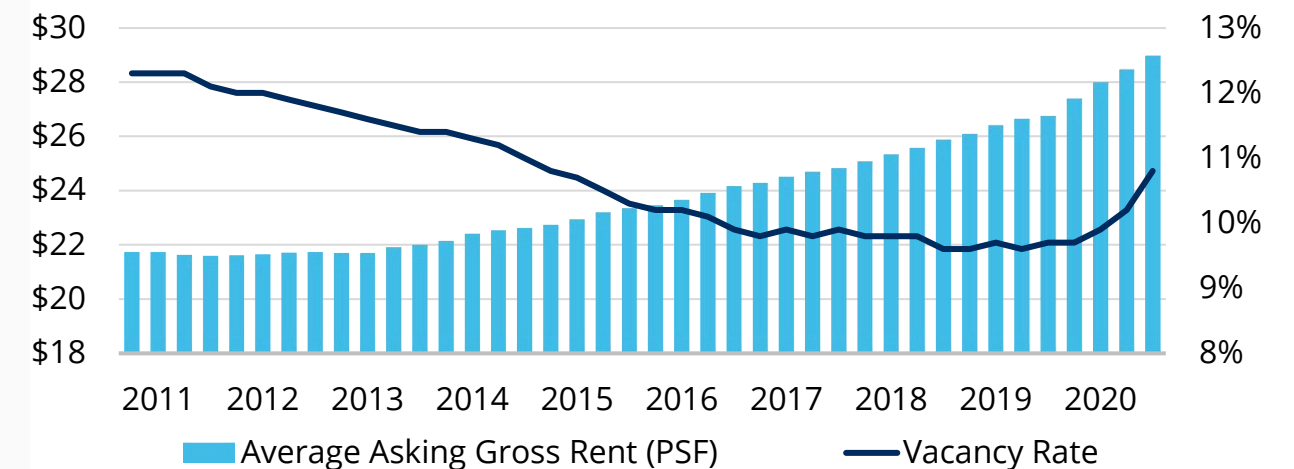
- Tenants vacating space for new construction, coupled with limited leasing to backfill this and other second-generation space pushed the vacancy rate up 60 basis-points to 10.8%.
- Net absorption registered negative 40.7 million SF, the most notable downturn on record. Sublease space accounted for negative 13.6 million SF.
- Despite market uncertainty, tech, finance/insurance, and healthcare remain active in the market, leasing new/relet deals since the pandemic hit.
- Annual asking rents are up 2.6% year over year, but below the 5-year average. Landlords continue to push asking rents to offset generous concession packages, in turn putting downward pressure on effective rents.

### LOOKING AHEAD

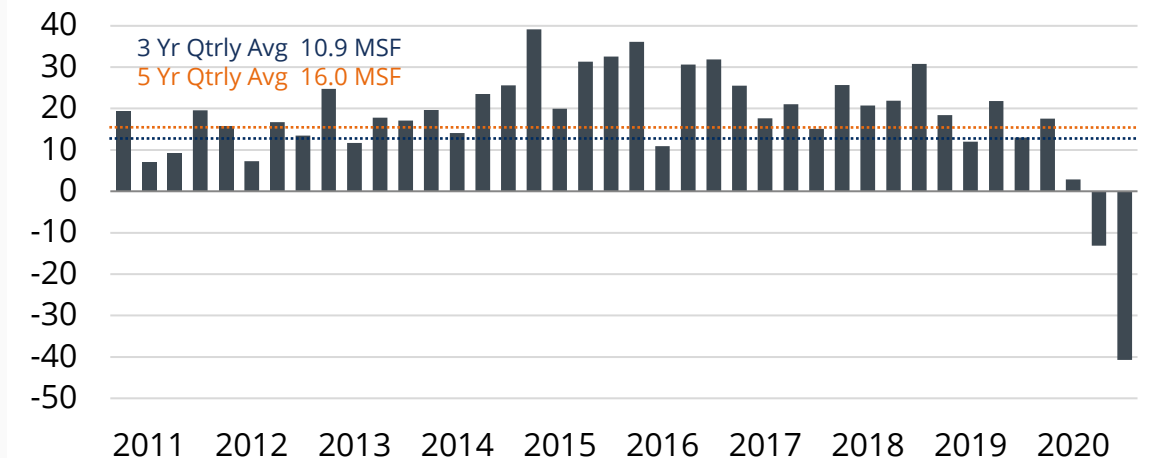
- Tenants will remain cautious and pause major lease decisions in the near-term until a clear path with COVID is known.
- With the market in tenant favor, select companies will take advantage of favorable financial terms.
- June 2021 is the new January 2021 for extending work from home for most tenants.
- Productivity loss and lack of collaboration remain a top concern of CEOs and will push a return to the office in time.

## U.S. HISTORICAL

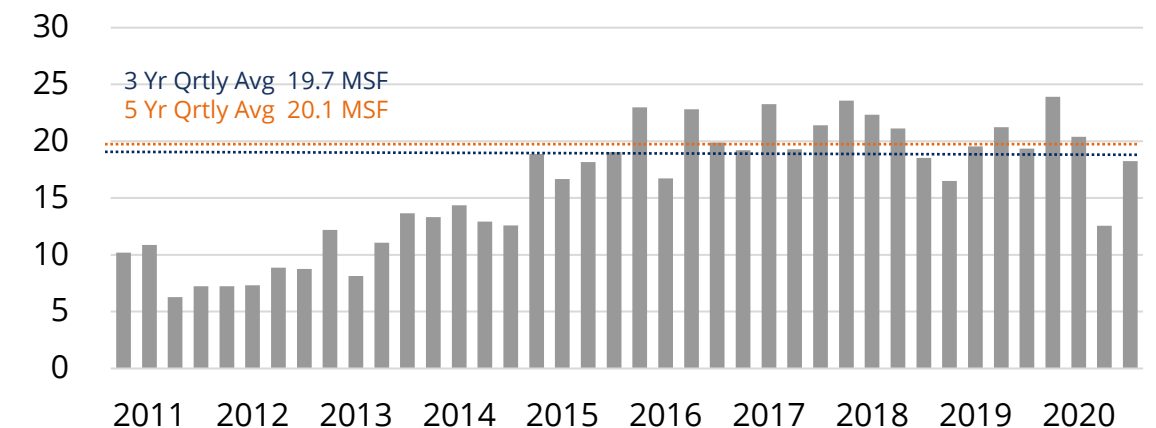
### VACANCY VS ASKING RENT



### NET ABSORPTION (MILLION SF)

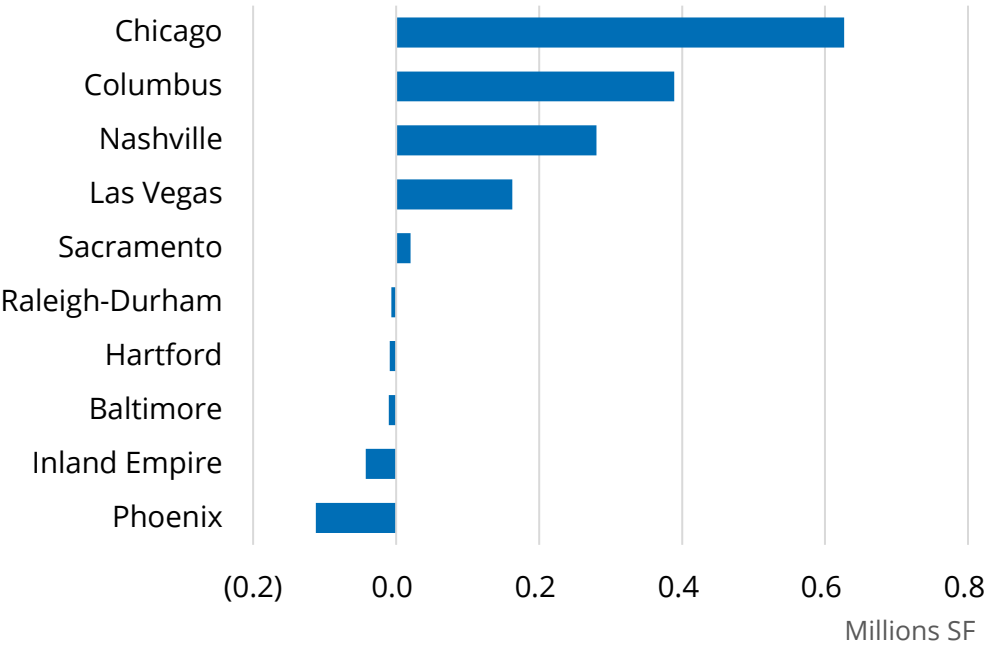


### CONSTRUCTION – DELIVERED (MILLION SF)



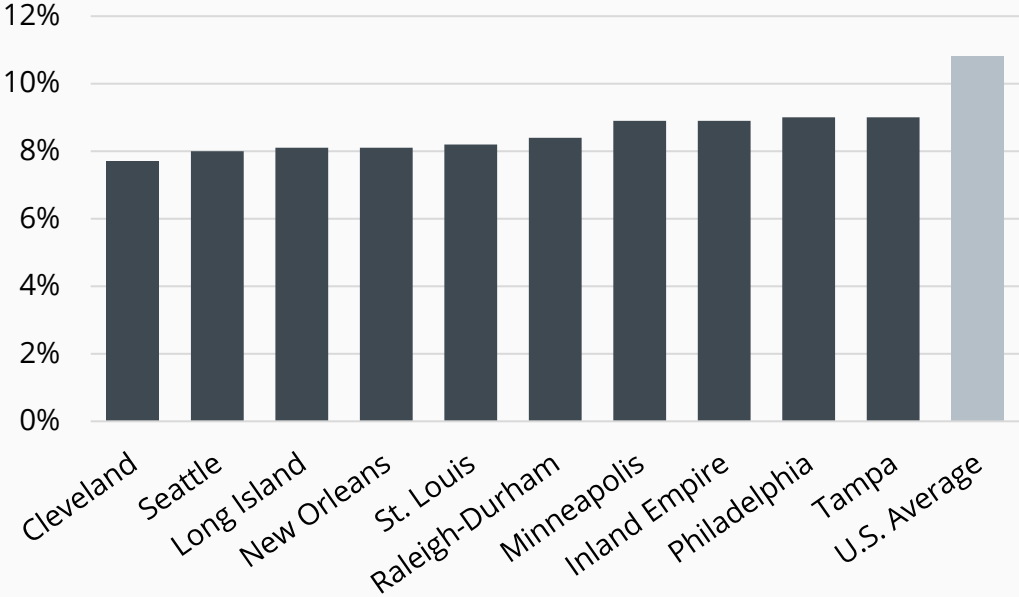
## NET ABSORPTION

### Q3 2020 Net Absorption



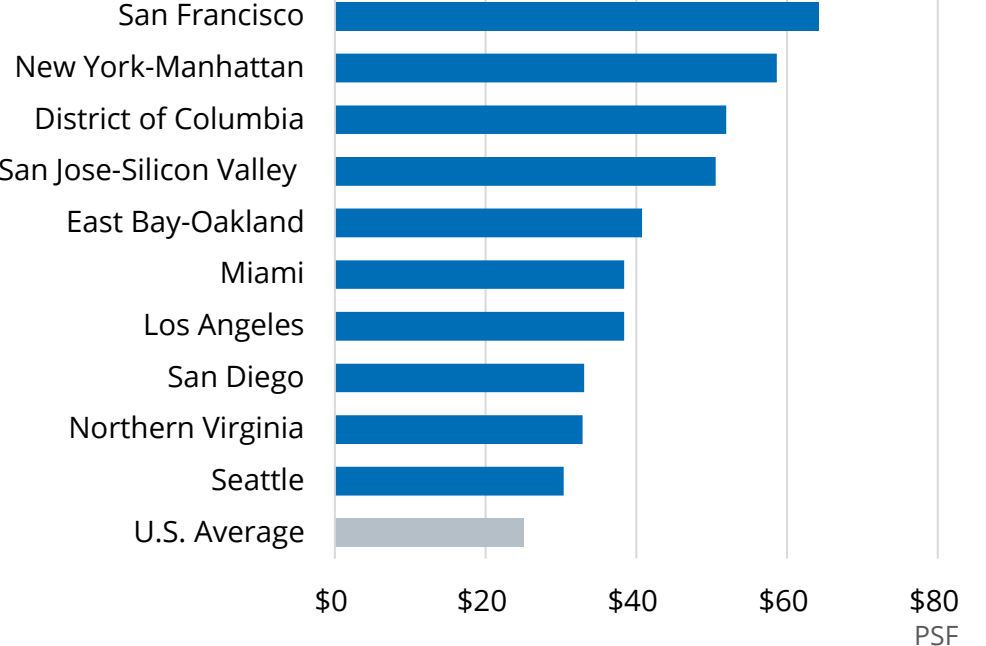
## VACANCY/CONSTRUCTION

### Q3 2020 Overall Vacancy Rate

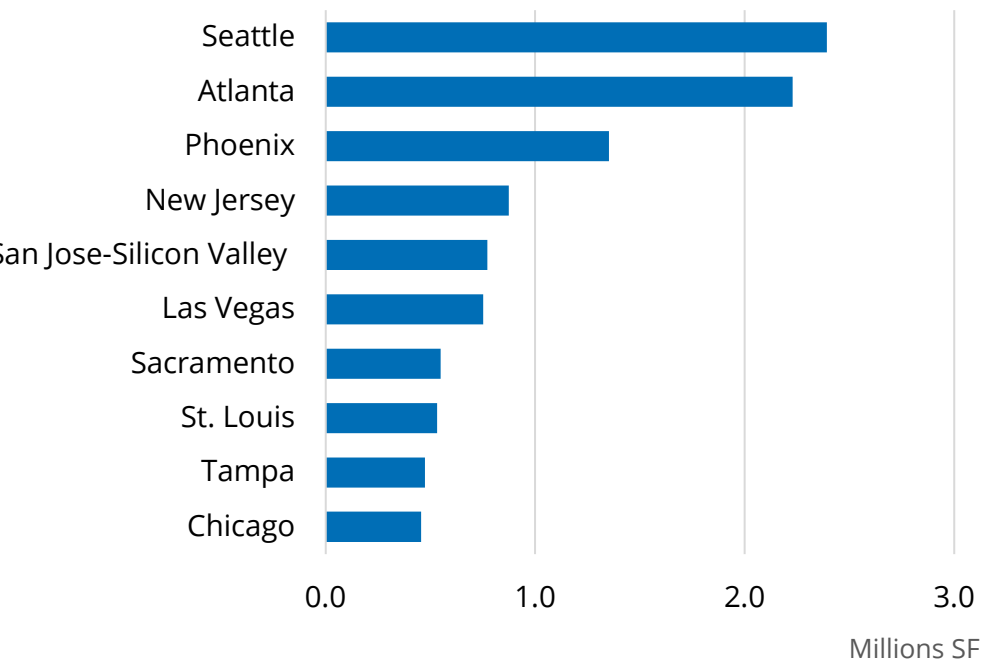


## ASKING RENTS

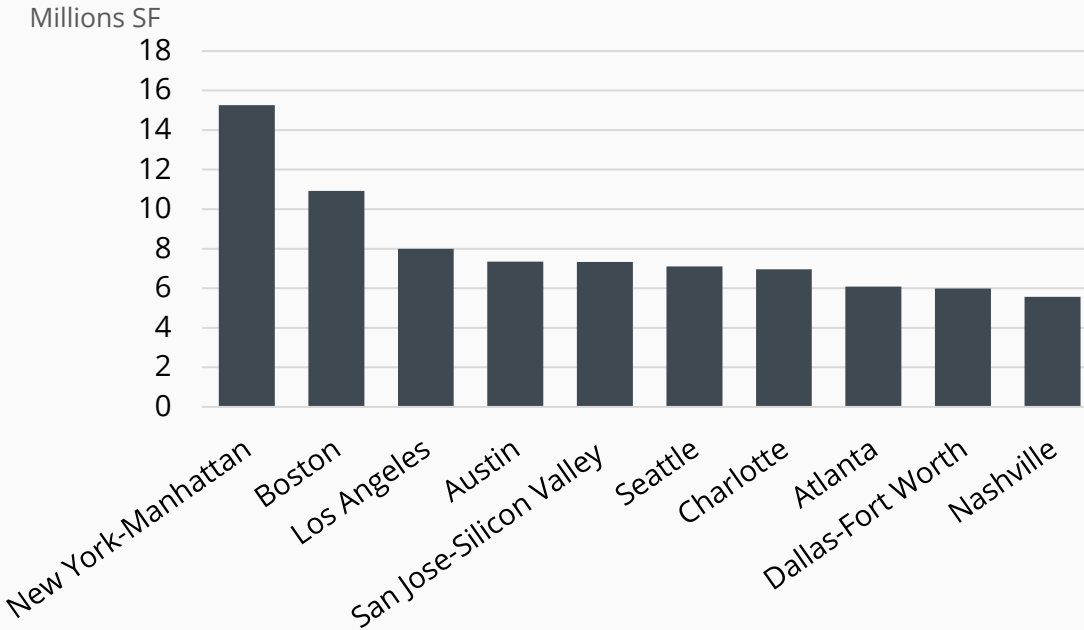
### Q3 2020 Asking Rate (Base)



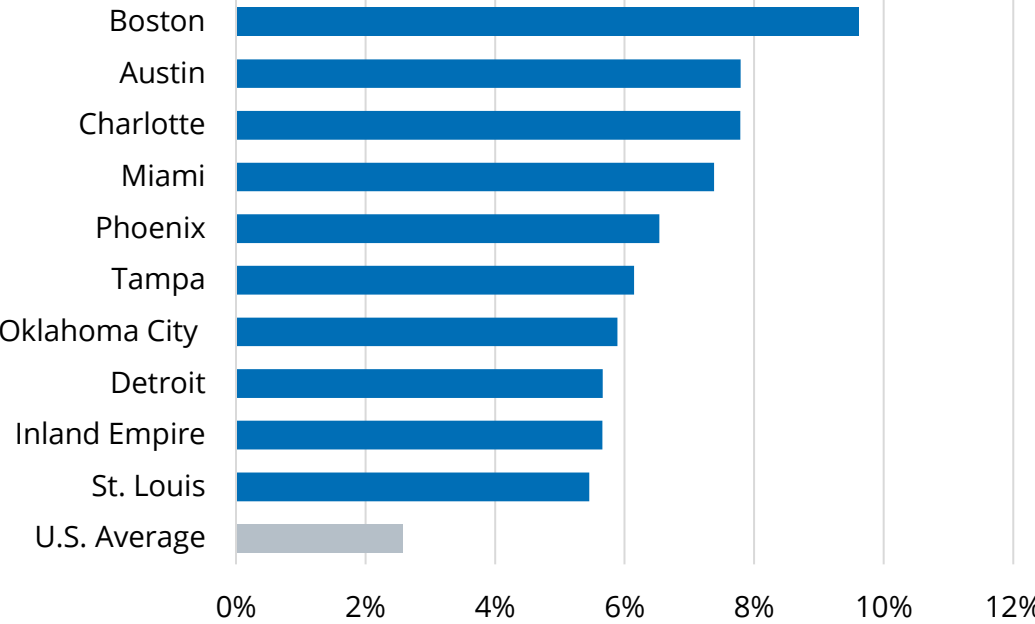
## Trailing 4-Qtr Net Absorption



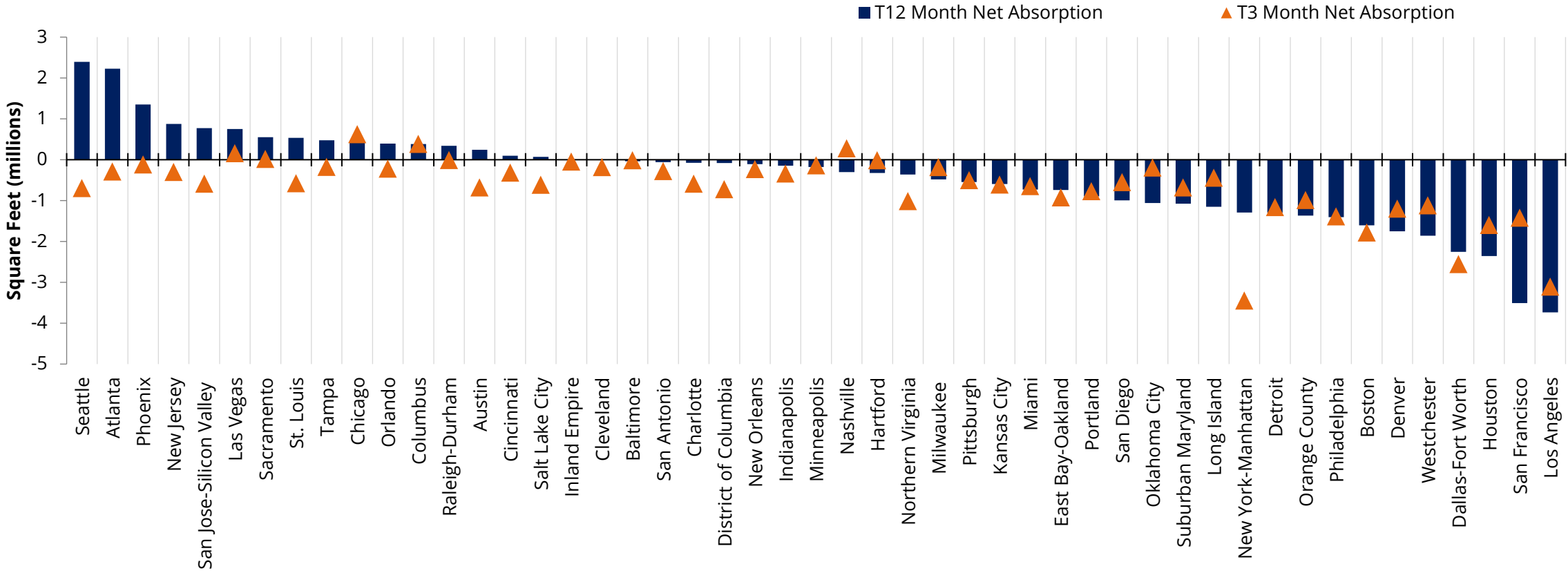
## Q3 2020 Under Construction



## Year-Over-Year Rent Growth

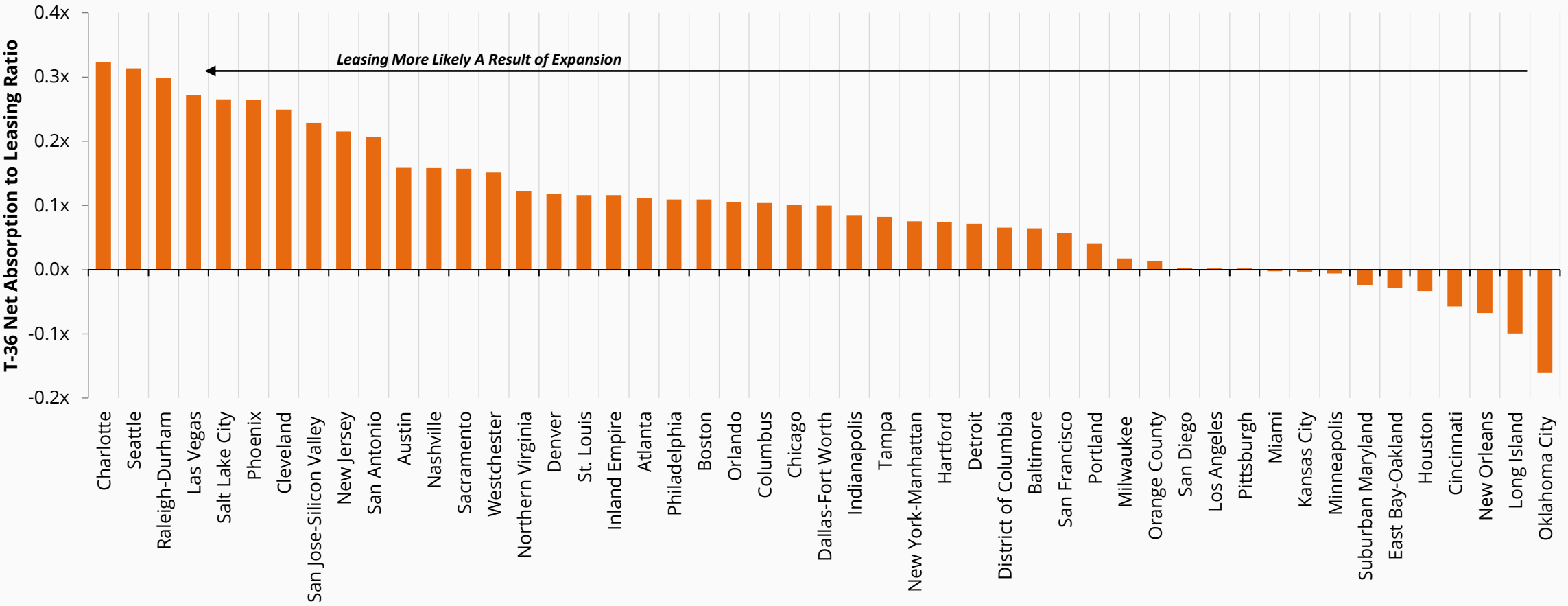


NET ABSORPTION



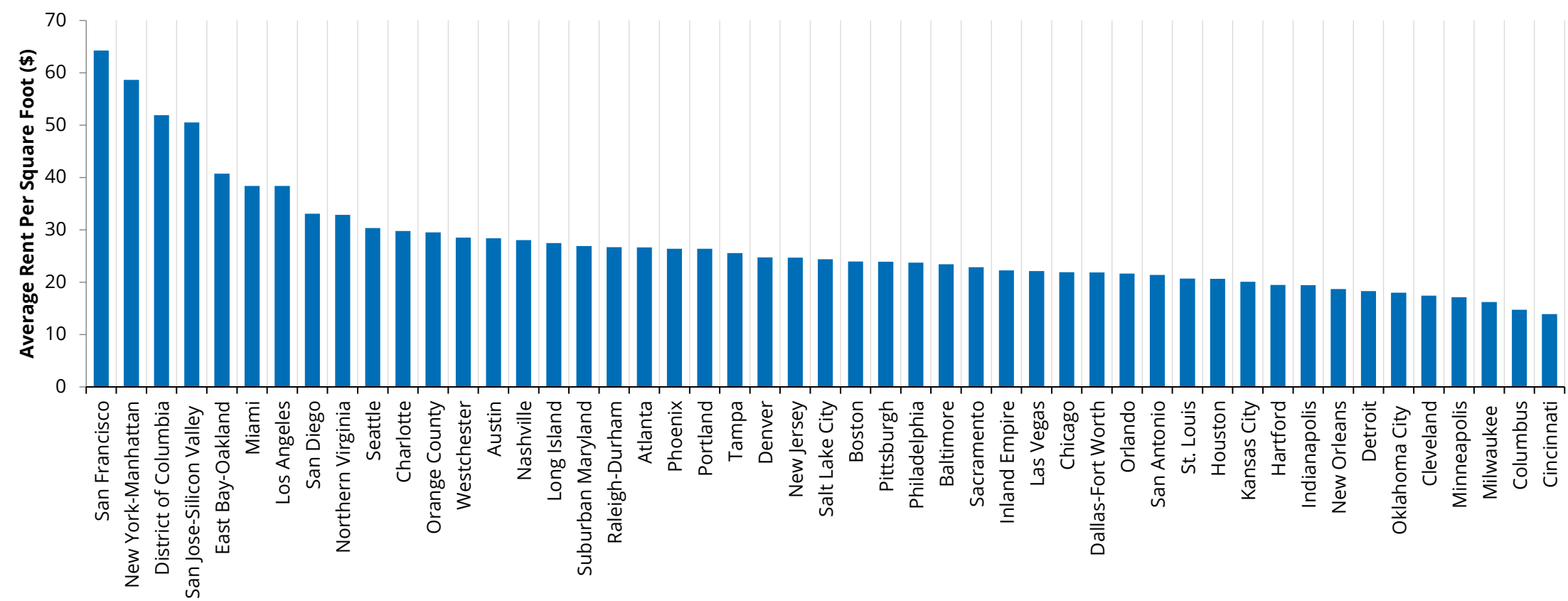
- Only 33% of our tracked markets posted positive net absorption during the 12 months ending September 2020, with Seattle in the lead.
- However, even fewer (around 10%) of the markets saw positive net absorption during Q3.
- Las Vegas, Sacramento, Chicago, and Columbus are the only markets with positive absorption for both the quarter and year.

NET ABSORPTION vs LEASING



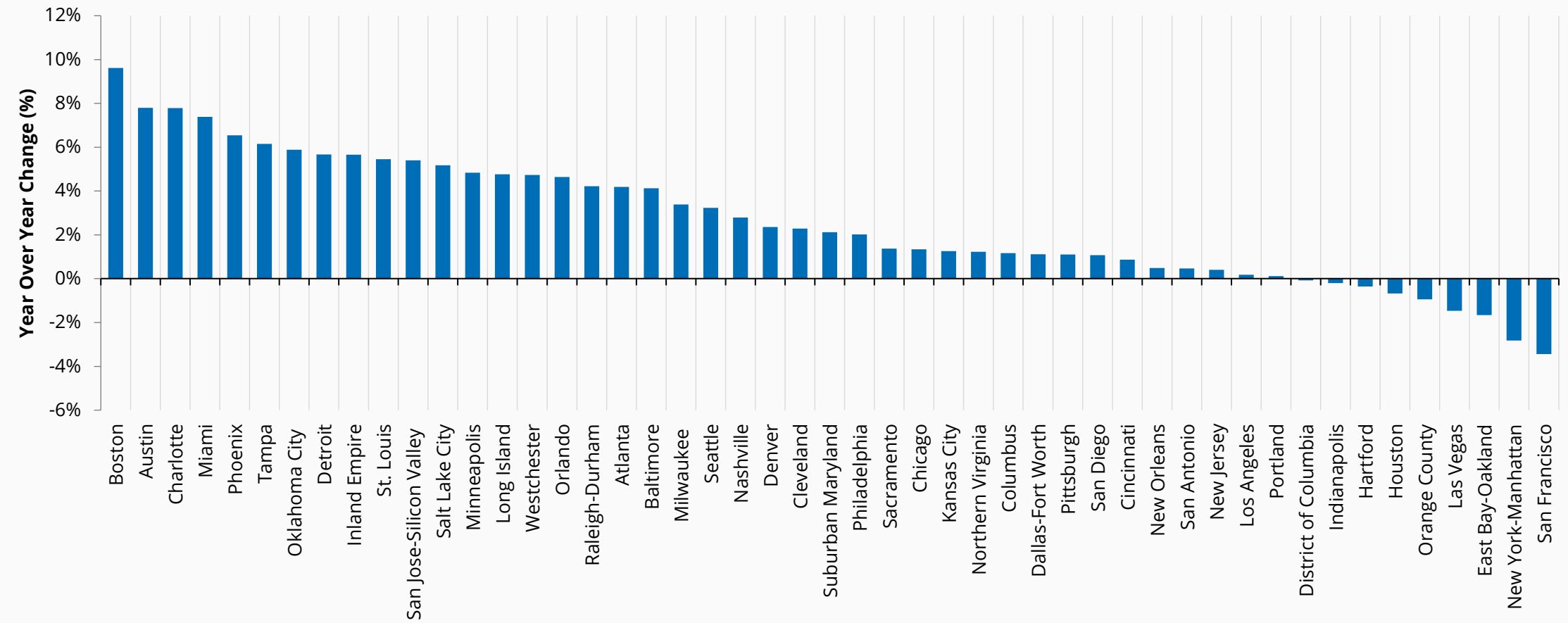
- The accompanying graph analyzes the ratio of net absorption to leasing over the past three years. Markets with a higher ratio may be showing more of a long-term trend towards expansion – with less leasing due to churn and more space occupied. A negative ratio is a sign of contraction.
- Markets that had been trending towards expansion long-term given their relatively high ratio of absorption to leasing activity include Charlotte, Seattle, Raleigh-Durham, and Las Vegas. Strong tail winds prior to the pandemic may help these markets during and coming out of the downturn.

RENTAL RATES (BASE)



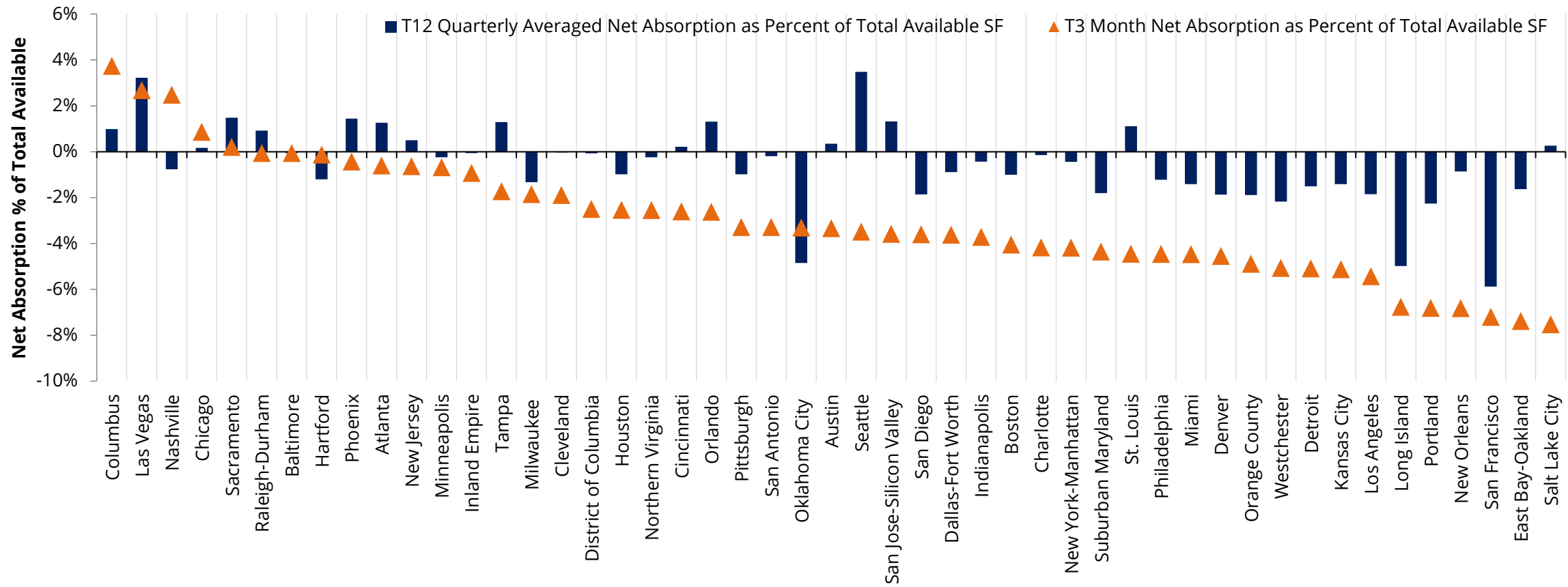
- Differences in rental rates become more exponential between markets on the expensive end of the spectrum.
- Some of these more expensive markets saw among the lowest rental growth over the past year including San Francisco, New York, DC, Los Angeles, and East Bay.
- With the future of office space hotly debated along with a general pause on office space decisions, these larger and more expensive markets have seen a swifter decline.

RENTAL RATE CHANGE



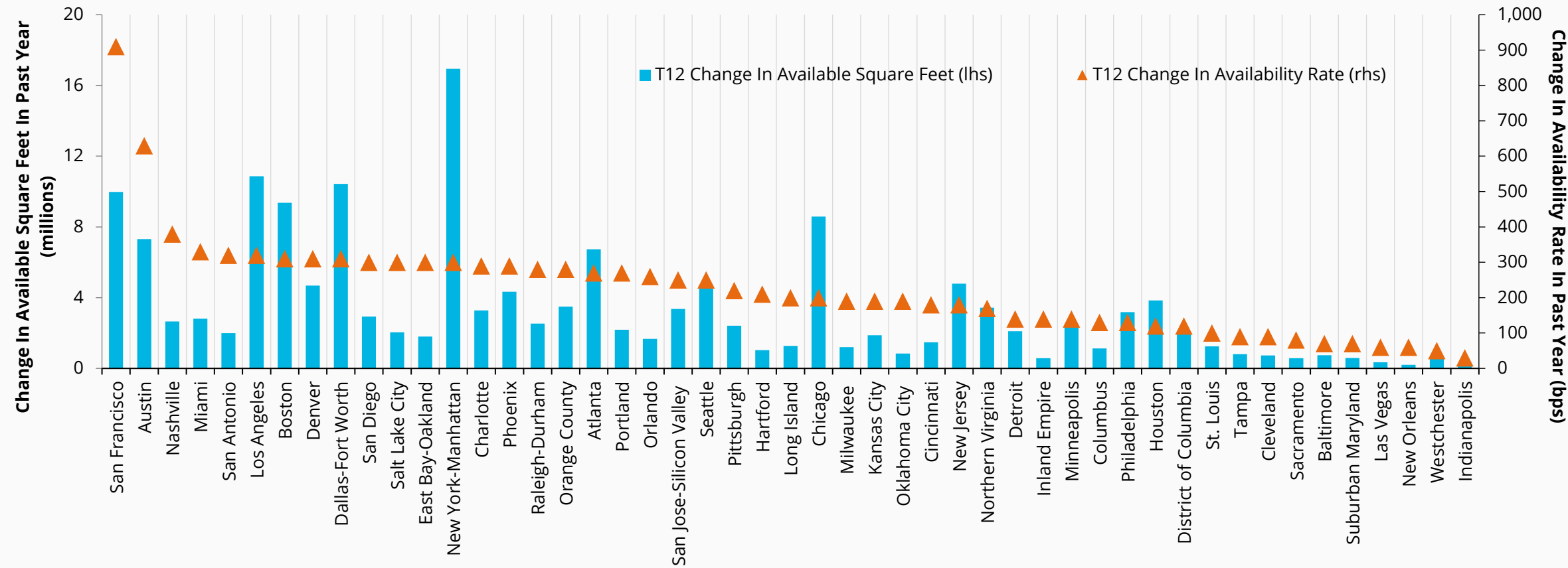
- Highest rental rate growth over the past year was seen mostly in secondary markets, except for Boston.
- Given the current state of office use and work-from-home policies, leasing activity has been subdued. Lack of demand combined with economic pressure is resulting in shorter lease terms and increased concessions, putting pressure on effective rental rates.

AVAILABILITY & DEMAND MOMENTUM



- The accompanying graph compares net absorption to available SF for the most recent quarter, along with the twelve-month rate as a quarterly average. This shows how the most recent quarter compares with the past year.
- With most markets experiencing negative absorption for the quarter and year, a few markets seeing particularly large drops in demand include San Francisco, Long Island, and Oklahoma City.

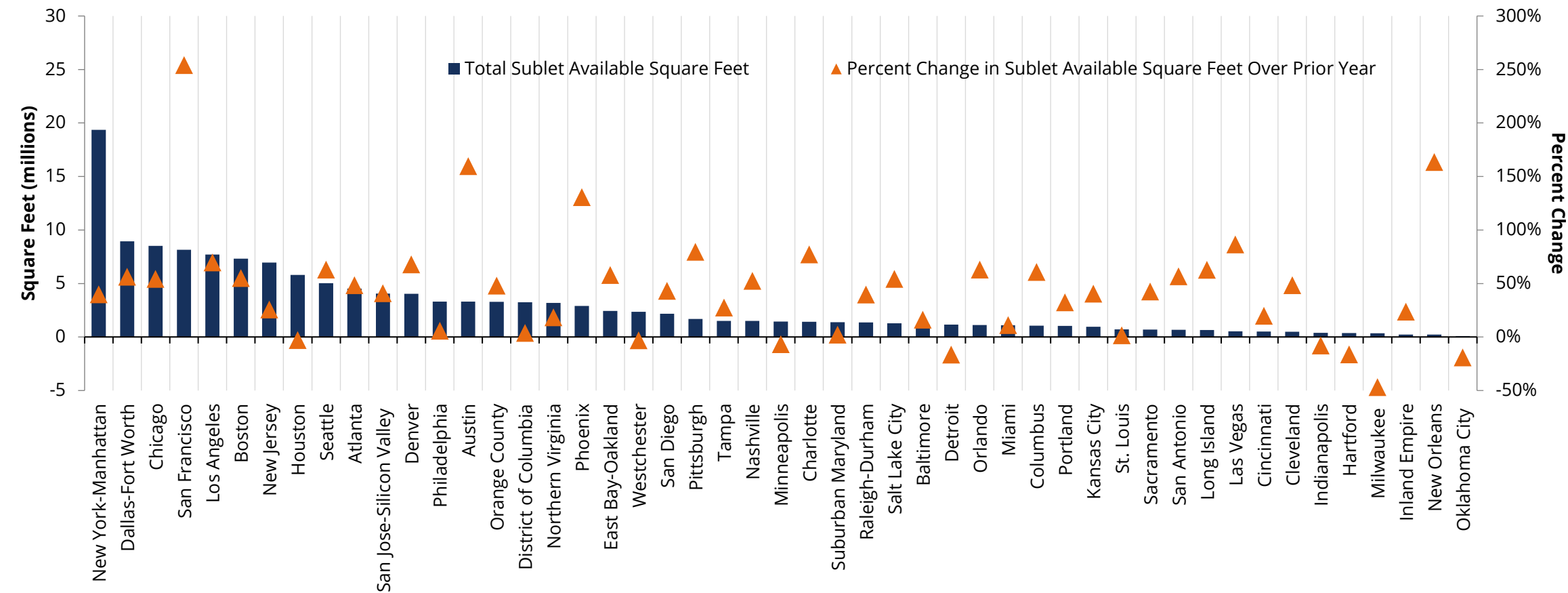
CHANGE IN AVAILABILITY SF & PERCENT



- All markets saw loosening demand over the past year with increased availability rates.
- Markets seeing the largest increases in availability include San Francisco, Austin, and Nashville.

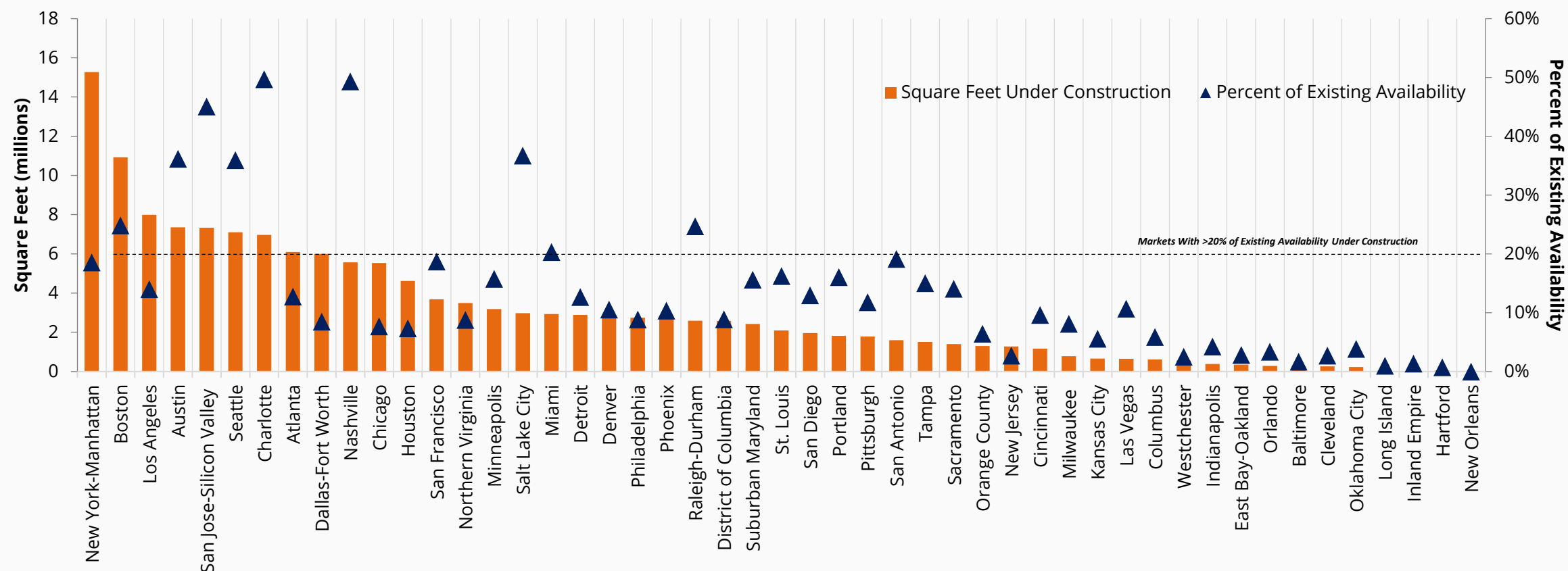


SUBLEASE AVAILABLE SQUARE FEET



- The accompanying graph shows available sublet space – given its ability to react quickly to changes in demand.
- Over 80% of markets tracked increased sublet available SF over the prior year – a trend since the downturn. San Francisco, Austin, Phoenix, and New Orleans over doubled their sublet space available.
- This metric is likely to be more telling in subsequent quarters as more price discovery occurs and markets continue with phased reopening.

CONSTRUCTION PIPELINE vs AVAILABILITY



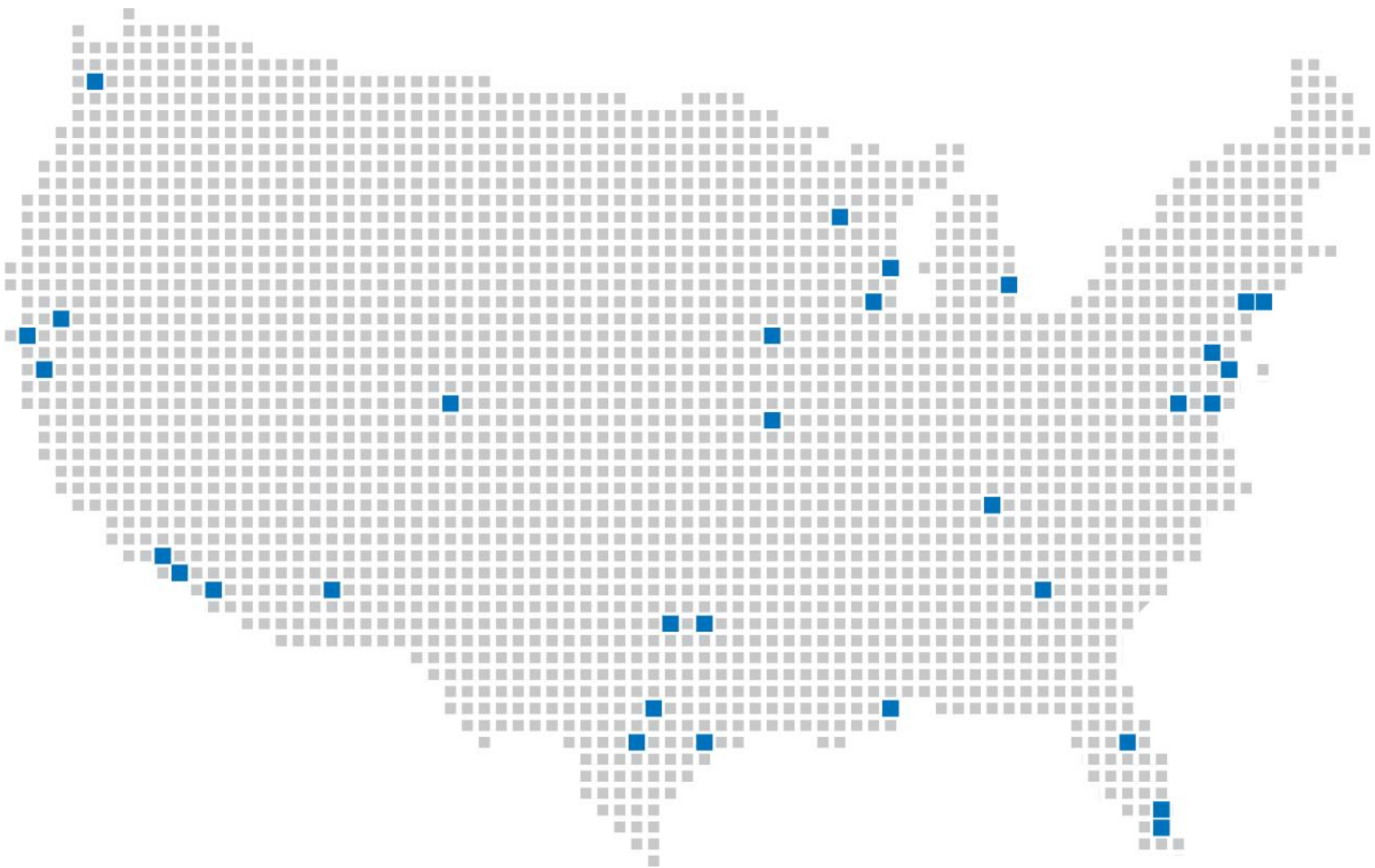
- Under construction percent of existing availability can be a good determinate of future expansion in a market.
- Markets with particularly high under construction stock relative to available stock include Nashville, San Jose-Silicon Valley, and Charlotte.

Market	Inventory SF	Overall Vacancy Rate	Direct Vacancy Rate	Net Absorption	12-Month Net Absorption	Asking Rent Base	Annual Rent Change	Under Construction
Atlanta	232,541,420	14.2%	13.6%	(289,308)	2,228,931	\$26.63	4.2%	6,090,773
Austin	102,913,205	11.9%	10.3%	(678,673)	242,924	\$28.36	7.8%	7,348,261
Baltimore	110,193,550	12.0%	11.4%	(10,271)	(37,891)	\$23.44	4.1%	263,000
Boston	284,882,434	9.1%	7.9%	(1,781,573)	(1,606,832)	\$23.94	9.6%	10,922,153
Charlotte	86,132,287	9.5%	8.2%	(585,025)	(73,880)	\$29.76	7.8%	6,961,832
Chicago	395,234,079	13.4%	12.5%	626,554	455,104	\$21.91	1.3%	5,532,867
Cincinnati	73,482,276	11.9%	11.5%	(314,460)	94,621	\$13.90	0.9%	1,159,669
Cleveland	79,011,557	7.7%	7.3%	(178,373)	(13,299)	\$17.41	2.3%	256,150
Columbus	77,459,336	9.1%	8.3%	389,098	385,611	\$14.71	1.2%	611,403
Dallas/Fort Worth	307,855,620	18.6%	17.1%	(2,552,488)	(2,254,060)	\$21.86	1.1%	5,989,928
Denver	142,504,851	12.6%	11.0%	(1,195,193)	(1,754,051)	\$24.75	2.4%	2,770,940
Detroit	137,792,234	12.0%	11.6%	(1,159,939)	(1,296,347)	\$18.28	5.7%	2,885,939
District of Columbia	145,663,139	13.8%	12.5%	(721,916)	(82,990)	\$51.91	-0.1%	2,570,260
East Bay/Oakland	58,552,323	16.0%	13.5%	(918,076)	(739,385)	\$40.74	-1.7%	351,400
Hartford	48,976,962	10.6%	10.0%	(9,066)	(325,908)	\$19.46	-0.4%	49,900
Houston	268,072,610	19.2%	18.1%	(1,595,838)	(2,358,722)	\$20.64	-0.7%	4,614,682
Indianapolis	73,520,600	10.2%	9.8%	(336,862)	(146,752)	\$19.41	-0.2%	385,180
Inland Empire	40,617,697	8.9%	8.7%	(42,428)	(9,608)	\$22.23	5.7%	61,420
Kansas City	94,431,570	9.6%	9.0%	(603,746)	(594,097)	\$20.09	1.3%	657,697
Las Vegas	38,953,068	12.9%	11.8%	162,719	752,644	\$22.13	-1.5%	648,184
Long Island	62,622,879	8.1%	7.2%	(437,034)	(1,150,695)	\$27.47	4.8%	62,003
Los Angeles	313,077,613	12.7%	11.7%	(3,102,709)	(3,735,763)	\$38.40	0.2%	7,995,736
Miami	79,803,013	11.9%	11.4%	(645,344)	(729,415)	\$38.40	7.4%	2,932,123
Milwaukee	59,167,148	10.5%	10.3%	(177,719)	(483,971)	\$16.20	3.4%	776,081



Market	Inventory SF	Overall Vacancy Rate	Direct Vacancy Rate	Net Absorption	12-Month Net Absorption	Asking Rent Base	Annual Rent Change	Under Construction
Minneapolis	150,592,115	8.9%	8.4%	(137,074)	(179,566)	\$17.11	4.8%	3,182,157
Nashville	61,437,118	9.8%	8.9%	280,088	(304,291)	\$28.03	2.8%	5,561,468
New Jersey	269,742,190	11.6%	10.5%	(297,583)	873,765	\$24.70	0.4%	1,273,548
New Orleans	34,668,447	8.1%	7.9%	(228,554)	(106,715)	\$18.69	0.5%	0
New York/Manhattan	532,657,130	9.3%	7.8%	(3,444,100)	(1,293,239)	\$58.62	-2.8%	15,265,957
Northern Virginia	187,037,855	16.4%	15.5%	(1,012,018)	(365,250)	\$32.87	1.2%	3,495,666
Oklahoma City	39,692,068	12.8%	12.6%	(190,492)	(1,061,845)	\$17.98	5.9%	221,837
Orange County	120,886,565	11.6%	10.4%	(984,468)	(1,370,283)	\$29.49	-0.9%	1,294,136
Orlando	63,729,624	9.1%	8.5%	(215,896)	392,884	\$21.63	4.6%	276,768
Philadelphia	225,072,748	9.0%	8.6%	(1,385,124)	(1,407,920)	\$23.74	2.0%	2,741,633
Phoenix	133,031,844	14.2%	13.4%	(112,486)	1,351,696	\$26.40	6.5%	2,700,987
Pittsburgh	104,847,234	10.2%	9.5%	(496,626)	(546,598)	\$23.89	1.1%	1,784,363
Portland	79,387,028	11.0%	10.4%	(768,192)	(895,927)	\$26.39	0.1%	1,810,721
Raleigh/Durham	79,640,972	8.4%	7.7%	(6,465)	341,826	\$26.70	4.2%	2,584,721
Sacramento	67,542,188	10.7%	10.4%	20,201	548,897	\$22.86	1.4%	1,394,484
Salt Lake City	59,689,975	9.1%	7.3%	(609,890)	67,916	\$24.40	5.2%	2,976,468
San Antonio	57,867,500	9.9%	9.2%	(273,647)	(58,505)	\$21.36	0.5%	1,592,485
San Diego	86,230,480	12.8%	11.7%	(544,225)	(995,670)	\$33.07	1.1%	1,958,004
San Francisco	105,121,196	10.1%	6.7%	(1,415,561)	(3,512,084)	\$64.25	-3.4%	3,674,999
San Jose/Silicon Valley	113,732,154	10.2%	8.2%	(582,899)	772,578	\$50.52	5.4%	7,330,166
Seattle	162,641,629	8.0%	6.5%	(689,702)	2,393,157	\$30.34	3.2%	7,102,908
St. Louis	107,740,970	8.2%	7.9%	(572,177)	532,939	\$20.68	5.5%	2,085,006
Suburban Maryland	85,586,455	15.0%	14.0%	(673,981)	(1,078,345)	\$26.91	2.1%	2,417,081
Tampa	76,235,656	9.0%	8.0%	(173,656)	473,412	\$25.55	6.1%	1,509,603
Westchester	131,651,566	12.1%	11.1%	(1,116,459)	(1,861,904)	\$28.52	4.7%	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 34 U.S. offices and global alliances with BNP Paribas Real Estate and Devencore. Learn more at [transwestern.com](https://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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