

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

Fourth Quarter 2020



TRANSWESTERN





## U.S. TRENDLINES

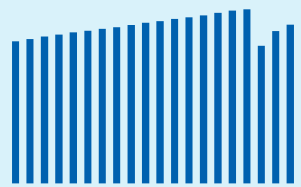
5-Year Trend      Current Quarter

UNEMPLOYMENT RATE **6.7%**



Down 800 basis points in December since peak

OFFICE-USING EMPLOYMENT



**45.4 M**

Down 2.9% (Dec. 2019-2020)

NET ABSORPTION



**(35.7) MSF**

Another quarter of notable negative absorption

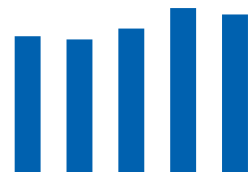
VACANCY



**11.3%**

50-basis-point rise in Q4; 160-basis-point rise y-o-y

UNDER CONSTRUCTION



**177.4 MSF**

Down 2.8% in Q4

ASKING RENT (BASE) **\$25.20 PSF**



2.6% annual growth, below the 5-year average of 3.3%

## U.S. HIGHLIGHTS

### ECONOMY

- The economy shed 140,000 jobs in December, the first contraction since April.
- Office-using jobs, however, added 190,200 as most employees continued to work from home. Of the office-using jobs lost since March, 66% have been recovered.
- Job growth was driven by employment services and tech. Hiring was steady within financial-related industries, while employment in the information sector continued to struggle, a trend that was in motion prior to the pandemic.

### OFFICE MARKET

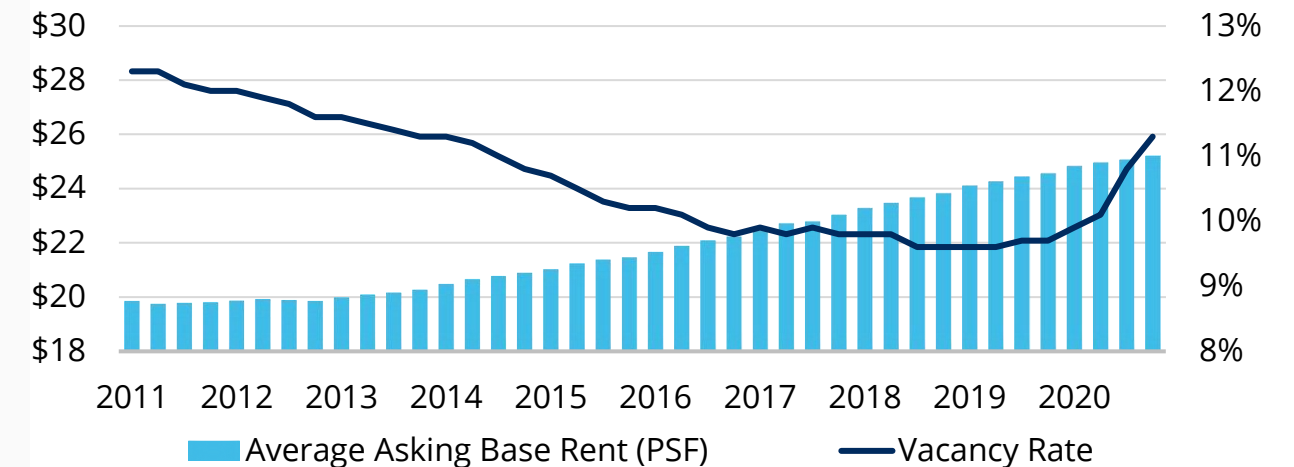
- Tenants continued to delay real estate decisions during the fourth quarter, pushing the vacancy rate up 50 basis points to 11.3% and creating another quarter of notable negative absorption.
- Net absorption registered negative 35.7 million SF, the second most notable downturn on record, following negative 40.1 million SF during the third quarter. Sublease space accounted for negative 14.3 million SF.
- 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

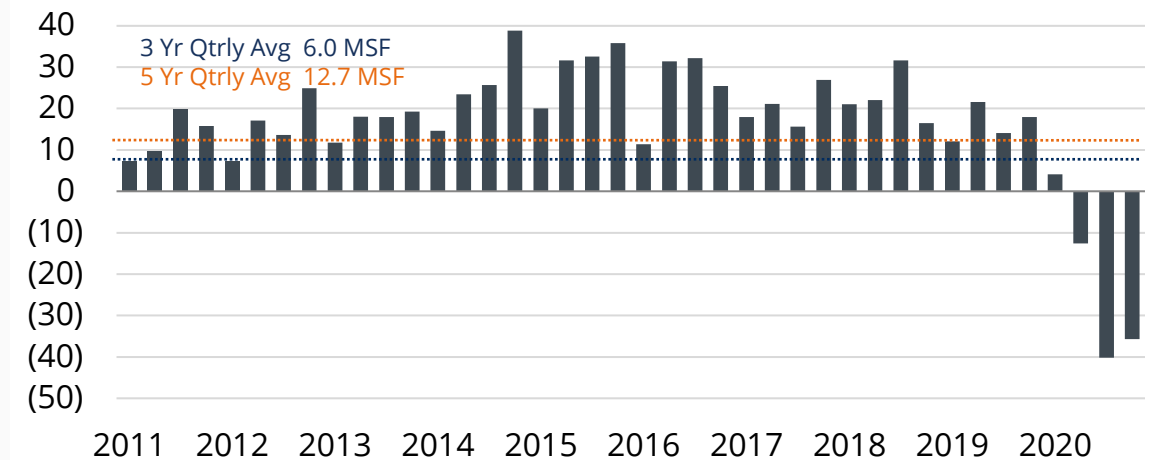
- Tenant tours have increased entering 2021, but most remain hesitant to lease until the vaccine rollout advances.
- With the market in tenant favor, select companies will take advantage of favorable financial terms.
- Work from home is likely extended through most of 2021, as the vaccine rollout is slower than expected.
- Employees are adjusting to telework but miss the interaction and collaboration the office provides. Tenants are likely to offer a hybrid/flexible schedule post-pandemic and rethink space needs.

## U.S. HISTORICAL

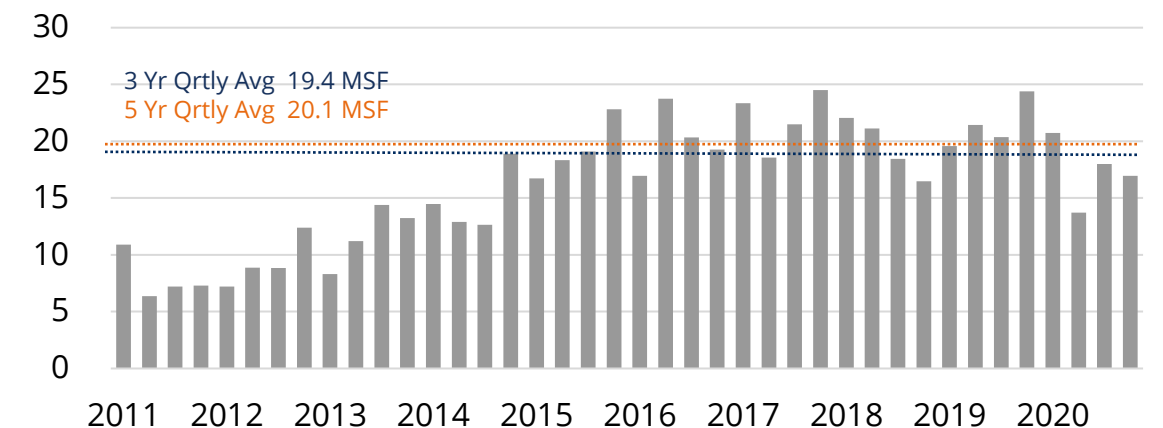
### VACANCY VS ASKING RENT



### NET ABSORPTION (MILLION SF)

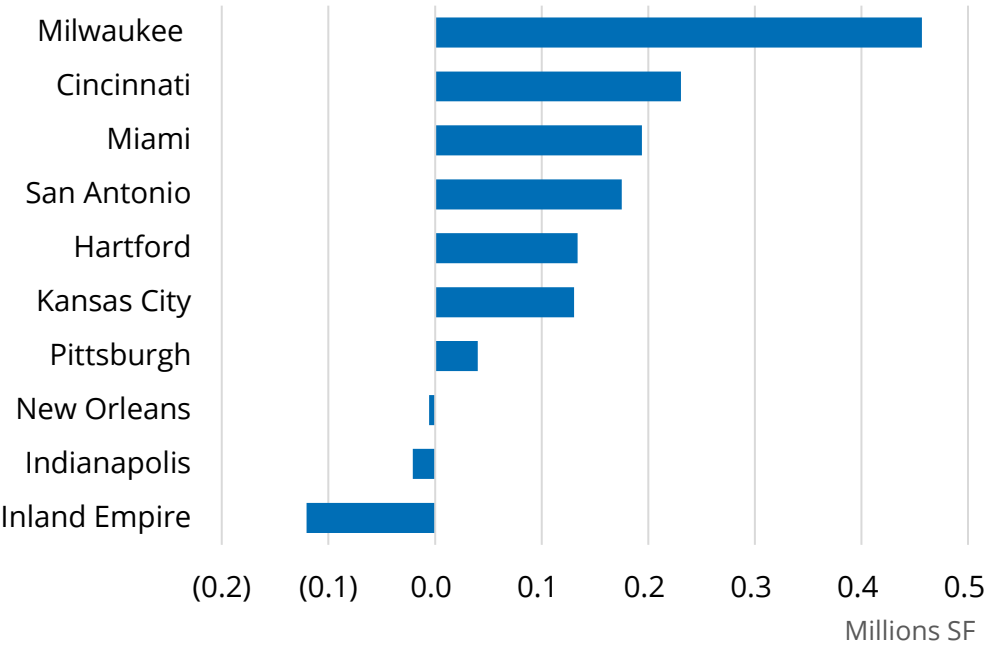


### CONSTRUCTION – DELIVERED (MILLION SF)



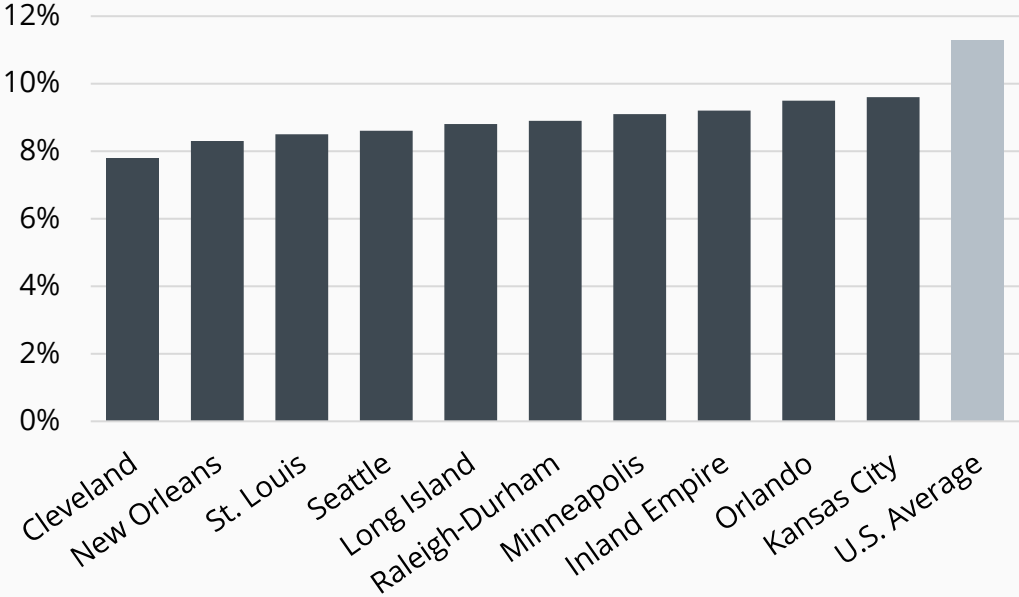
## NET ABSORPTION

### Q4 2020 Net Absorption



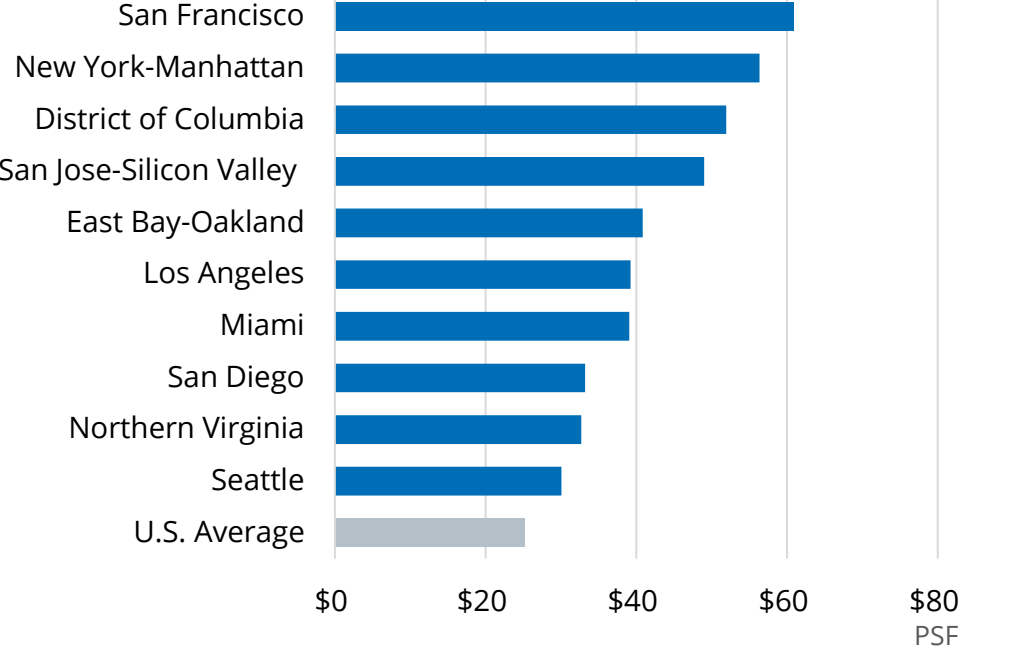
## VACANCY/CONSTRUCTION

### Q4 2020 Overall Vacancy Rate

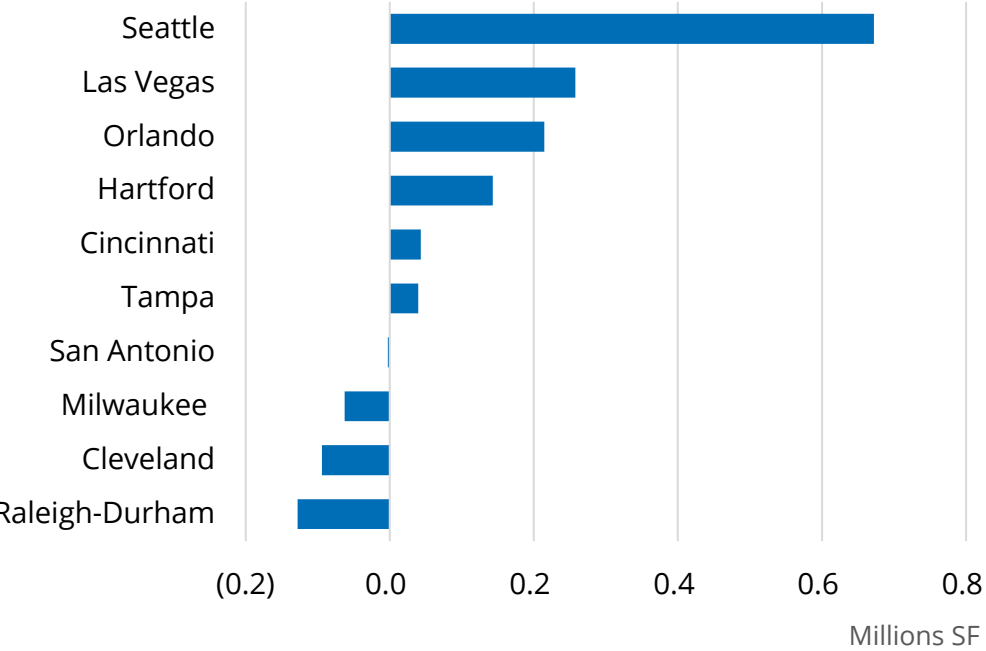


## ASKING RENTS

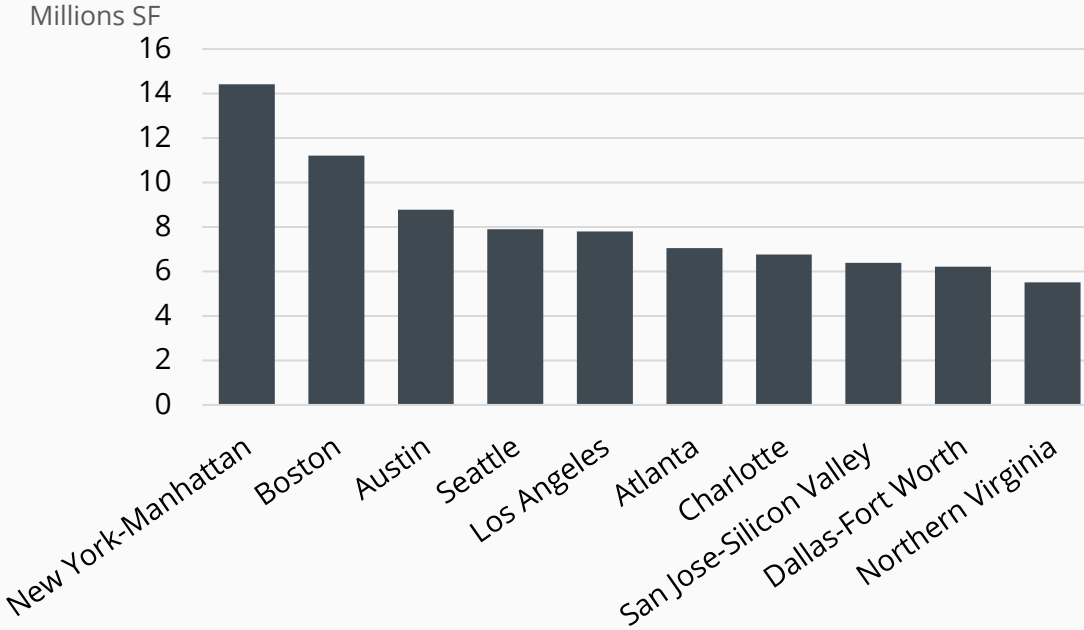
### Q4 2020 Asking Rate (Base)



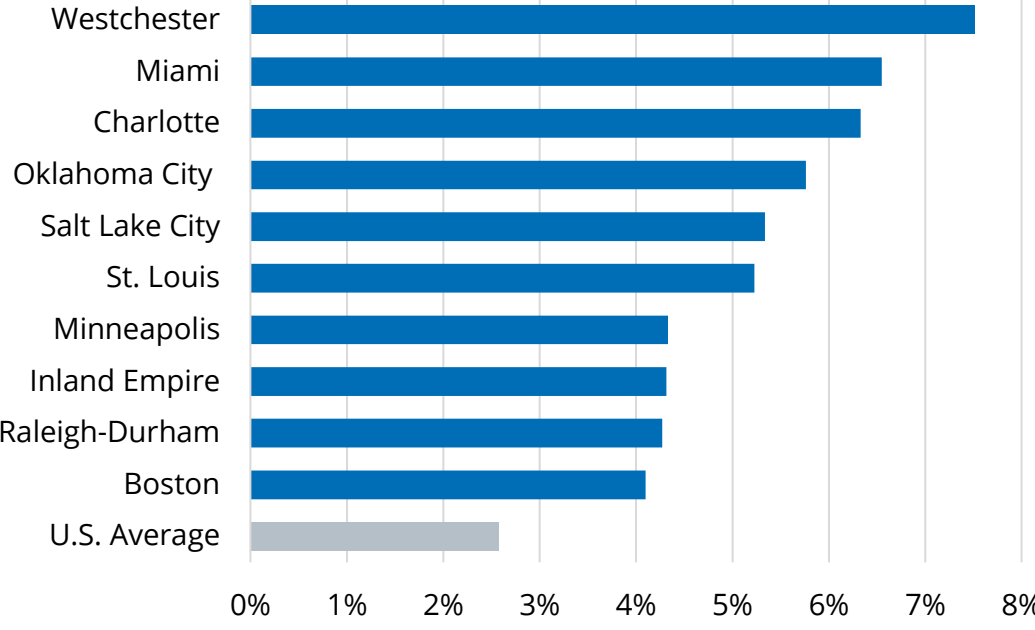
## Trailing 4-Qtr Net Absorption



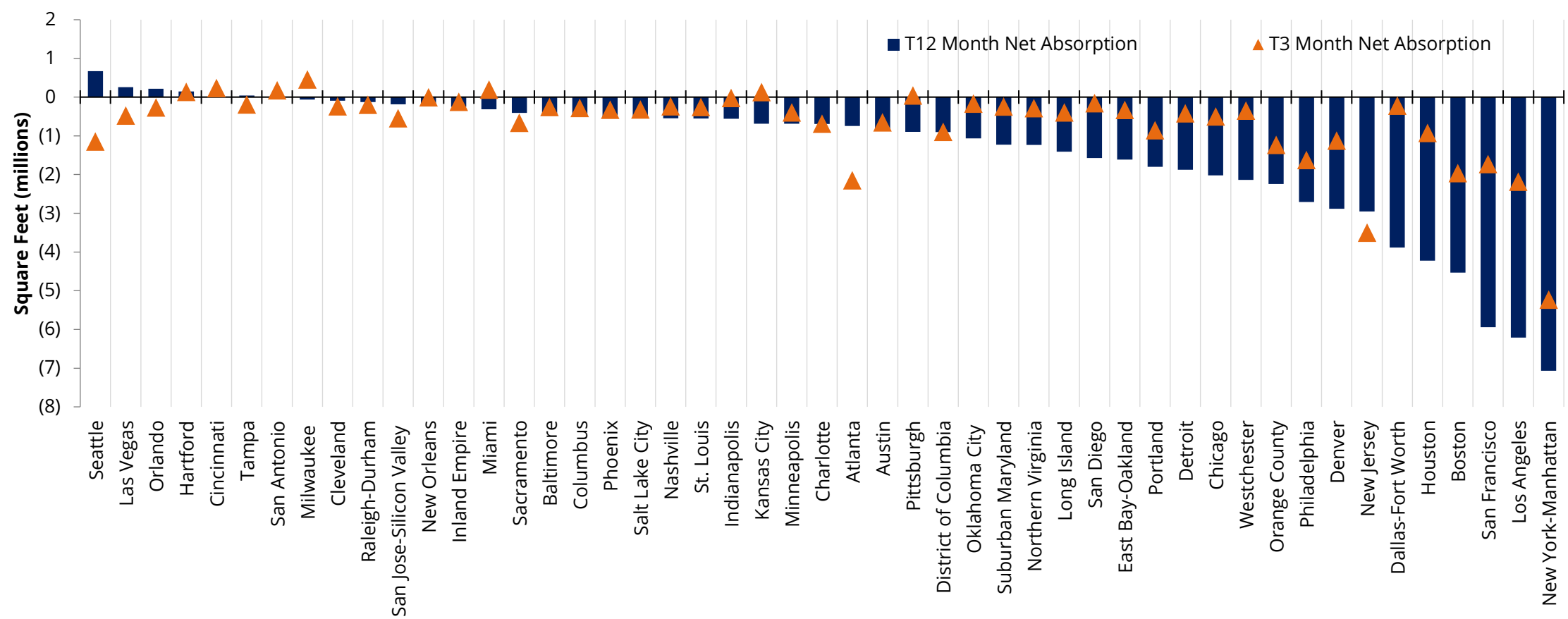
## Q4 2020 Under Construction



## Year-Over-Year Rent Growth

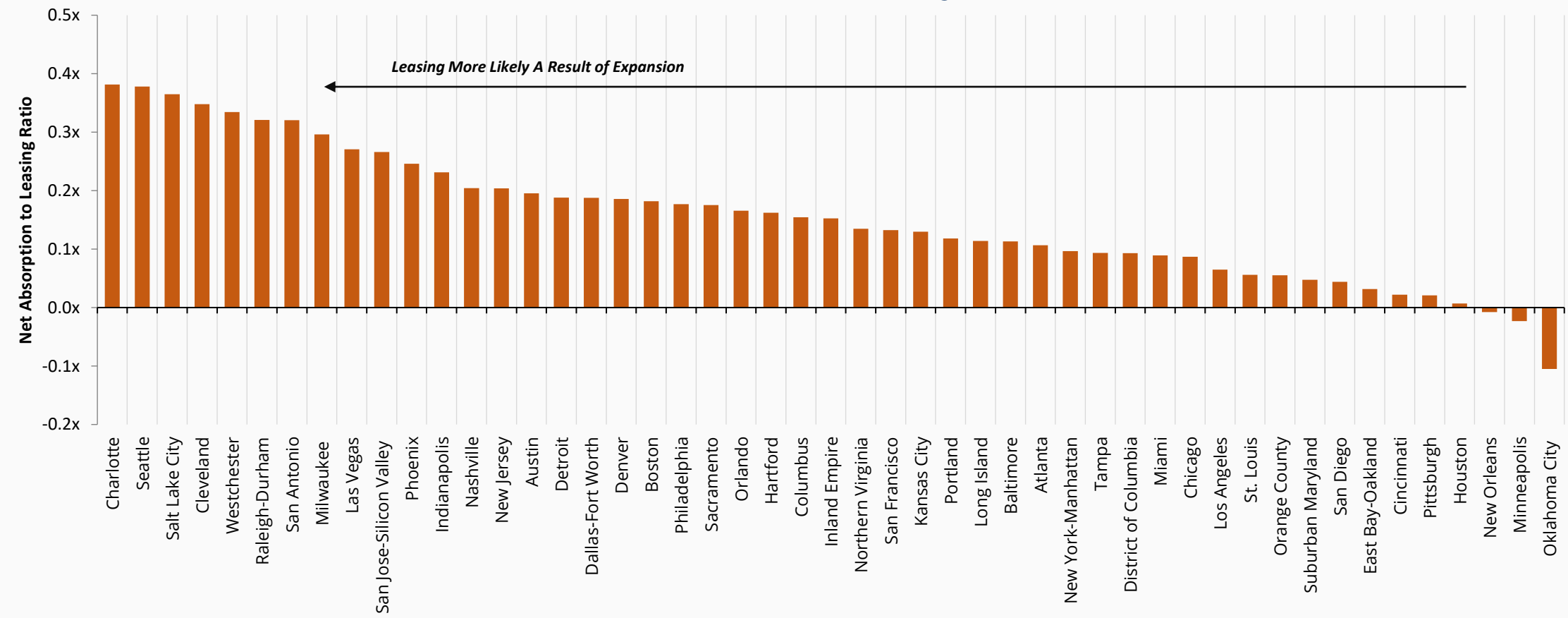


NET ABSORPTION



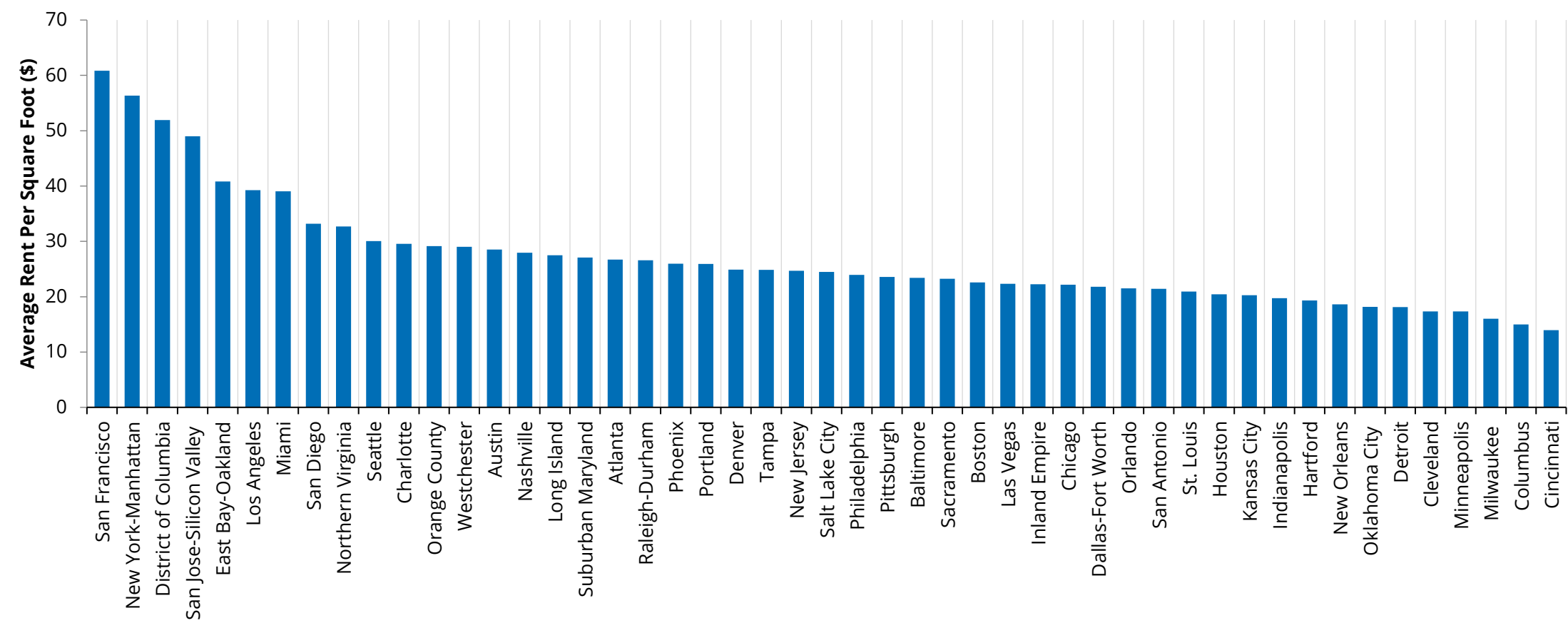
- Only 12% of our tracked markets posted positive net absorption during the 12 months ending December 2020, with Seattle in the lead.
- Only 14% saw positive net absorption during Q4 2020.
- Hartford and Cincinnati are the only markets with positive absorption for both the quarter and year.

NET ABSORPTION vs LEASING – PAST 3 YRS ENDING Q1 2020



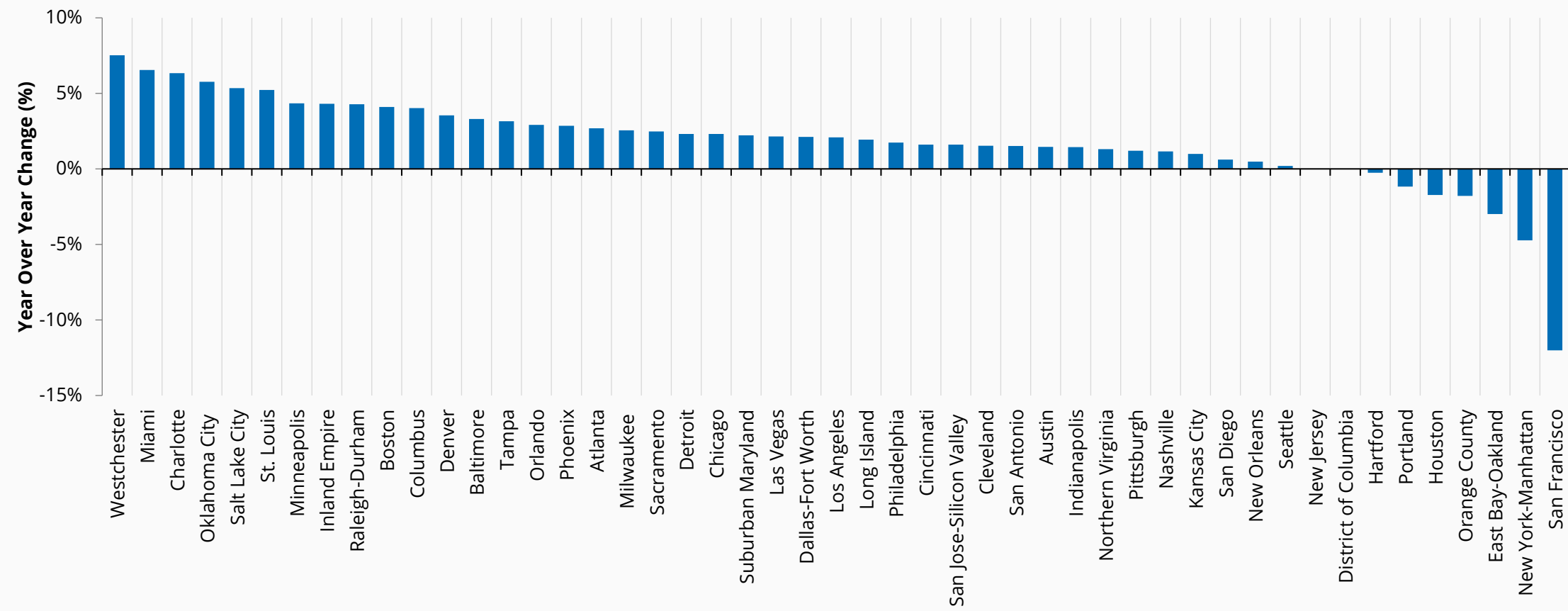
- The accompanying graph shows the ratio of net absorption to leasing over the three years preceding the start of the pandemic. Markets with a higher ratio may have been showing more of a long-term trend toward expansion – with less leasing due to churn and more space occupied. A negative ratio is a sign of contraction.
- Markets that were trending towards expansion long-term given their relatively high ratio of absorption to leasing activity included Charlotte, Seattle, Salt Lake City, and Cleveland. Strong tail winds prior to the pandemic may help these markets during and coming out of the downturn.

RENTAL RATES (BASE)



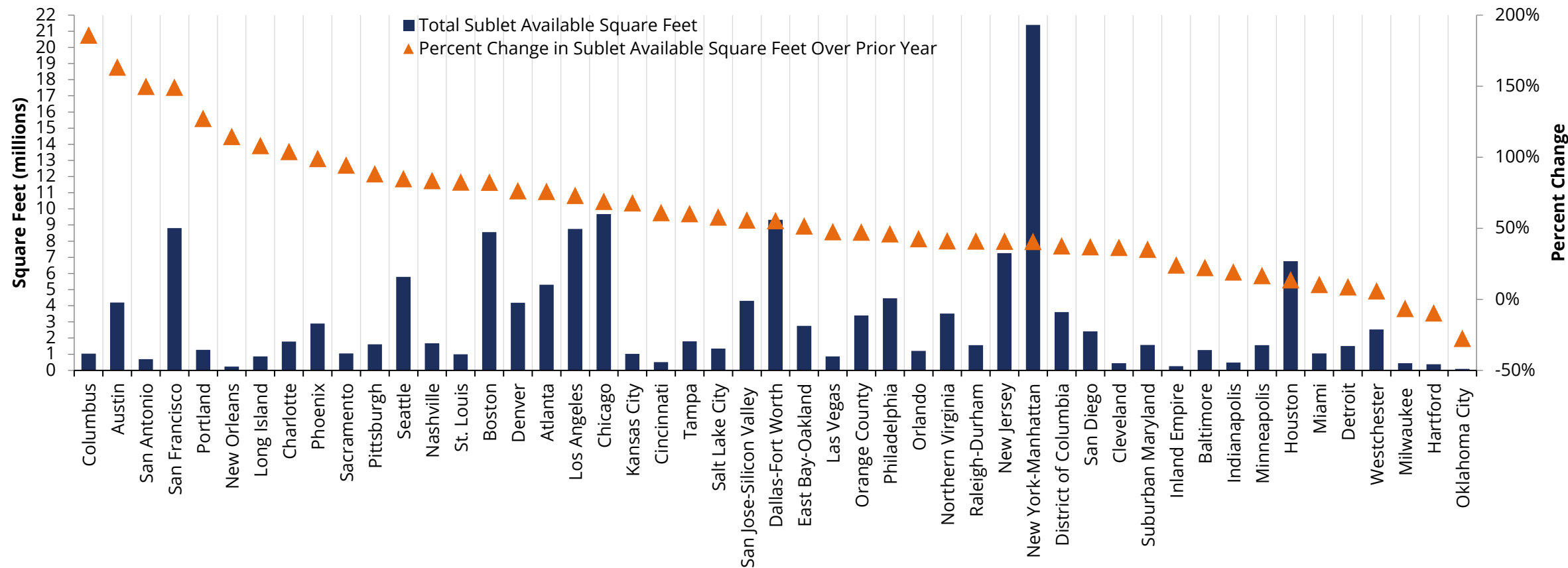
- Differences in rental rates become more exponential between markets on the expensive end of the spectrum.
- Some of these more expensive markets saw among the lowest rental growth over the past year including San Francisco, New York, D.C., and East Bay.
- With the future of office space hotly debated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

RENTAL RATE CHANGE



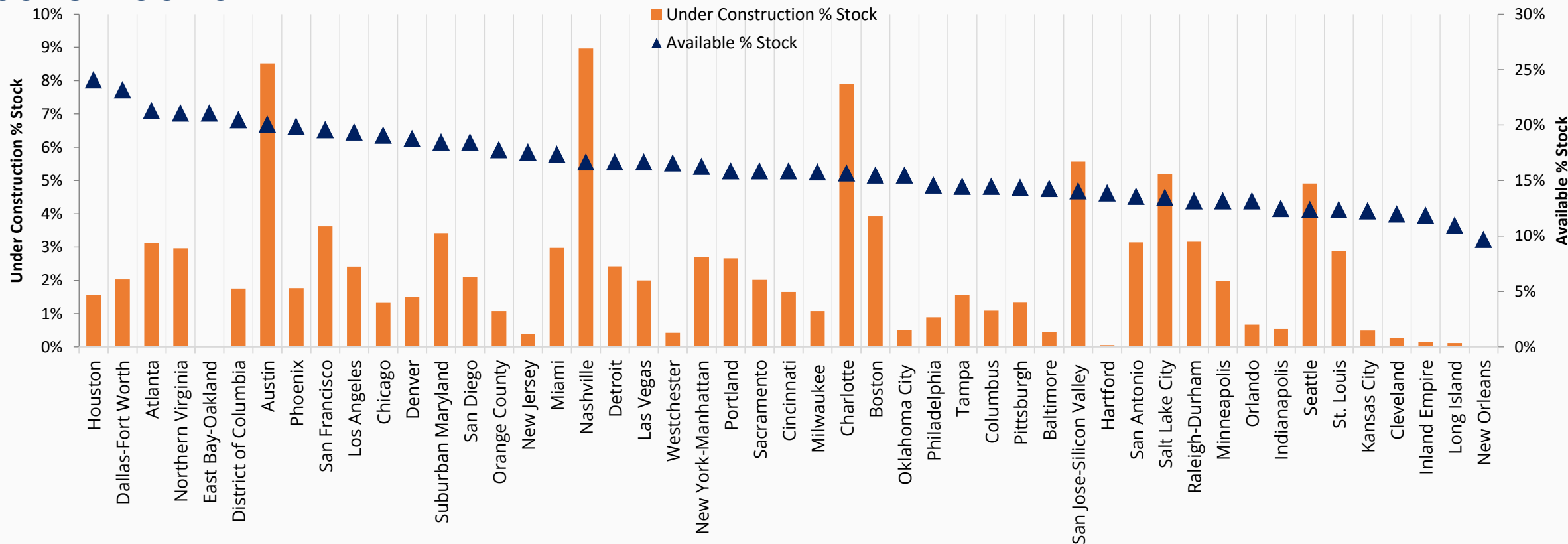
- The highest rental rate growth over the past year was seen in Westchester, Miami, and Charlotte.
- However, given the current state of office use and work-from-home policies, leasing activity has been subdued. Lack of demand combined with economic pressure is resulting in shorter lease terms and increased concessions, putting pressure on effective rental rates.

SUBLEASE AVAILABLE SQUARE FEET



- The accompanying graph shows available sublet space – given its ability to react quickly to changes in demand.
- Over 90% of markets tracked increased sublet available SF over the prior year – a trend since the downturn.
- Columbus, Austin, San Antonio, San Francisco, Portland, New Orleans, Long Island, and Charlotte more than doubled their sublet space available over the past year.

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 the recent strong interest in these markets, future vacancy will depend on how demand matches supply and at what rate this demand absorbs unleased space.

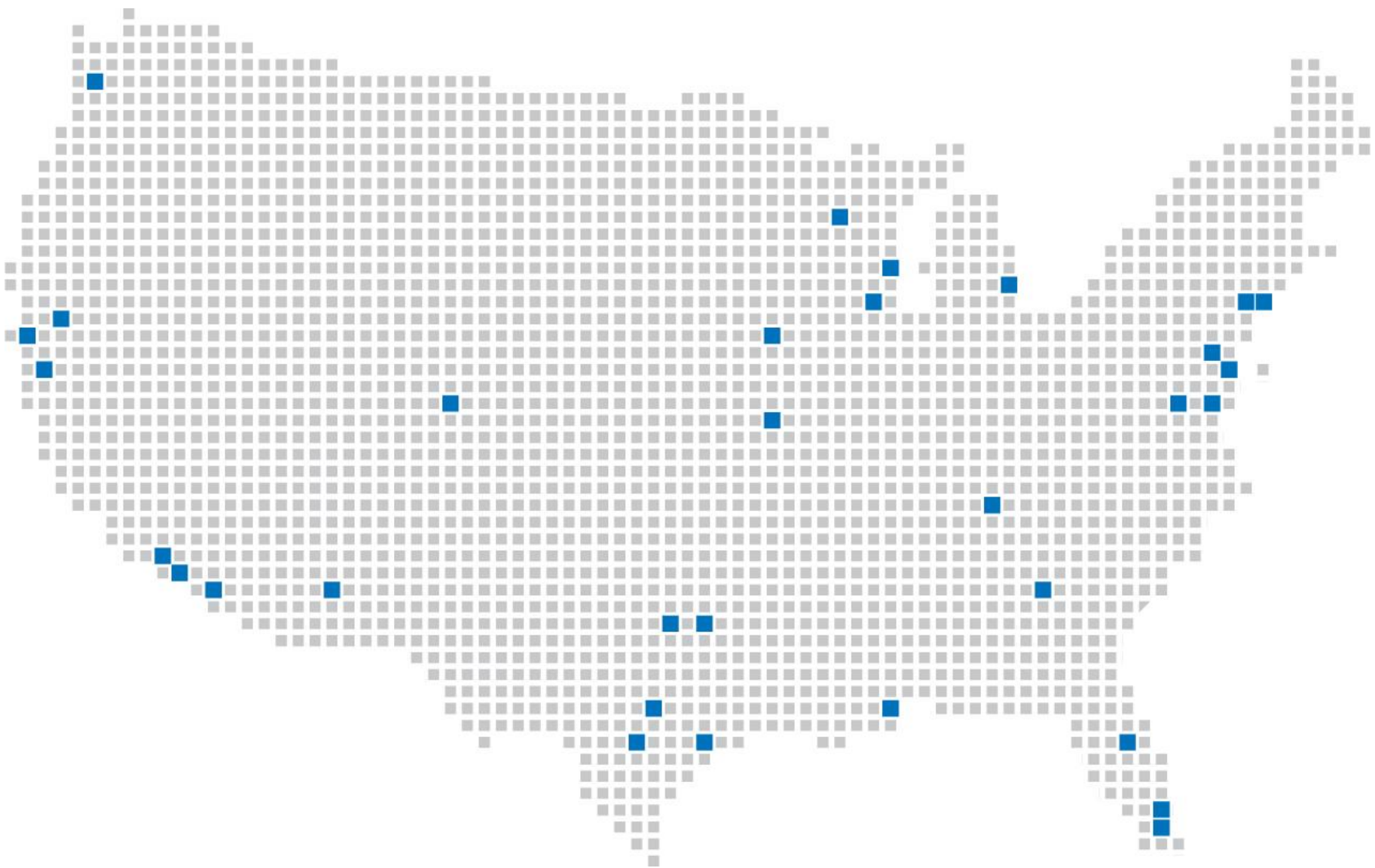


Market	Inventory SF	Overall Vacancy Rate	Direct Vacancy Rate	Net Absorption	12-Month Net Absorption	Asking Rent Base	Annual Rent Change	Under Construction
Atlanta	226,560,140	15.3%	14.4%	(2,147,884)	(745,831)	\$26.71	2.7%	7,053,645
Austin	103,084,347	13.0%	10.9%	(649,943)	(826,262)	\$28.51	1.5%	8,780,026
Baltimore	110,175,639	11.9%	11.2%	(256,836)	(444,055)	\$23.43	3.3%	487,918
Boston	285,412,241	9.8%	8.3%	(1,960,761)	(4,529,821)	\$22.60	4.1%	11,208,182
Charlotte	85,584,338	10.4%	8.7%	(685,150)	(690,924)	\$29.56	6.3%	6,758,315
Chicago	395,731,687	14.1%	13.0%	(501,164)	(2,020,589)	\$22.19	2.3%	5,302,962
Cincinnati	72,442,207	11.6%	11.2%	230,636	43,061	\$13.96	1.6%	1,200,201
Cleveland	77,832,143	7.8%	7.5%	(238,400)	(94,170)	\$17.34	1.5%	207,150
Columbus	77,996,908	9.7%	9.0%	(280,368)	(487,052)	\$14.98	4.0%	847,181
Dallas/Fort Worth	305,915,216	19.0%	17.5%	(221,020)	(3,886,455)	\$21.82	2.1%	6,206,050
Denver	140,813,745	13.6%	12.0%	(1,123,431)	(2,884,980)	\$24.89	3.5%	2,131,878
Detroit	137,343,039	12.2%	11.7%	(421,627)	(1,873,734)	\$18.13	2.3%	3,324,632
District of Columbia	145,696,273	14.2%	12.9%	(899,244)	(904,621)	\$51.94	0.0%	2,558,710
East Bay/Oakland	58,918,454	17.0%	14.2%	(330,661)	(1,616,350)	\$40.83	-3.0%	0
Hartford	48,885,574	10.3%	9.6%	133,843	143,219	\$19.32	-0.3%	24,900
Houston	261,362,250	20.0%	19.0%	(926,233)	(4,220,969)	\$20.46	-1.7%	4,111,293
Indianapolis	71,996,263	10.5%	10.1%	(20,740)	(559,546)	\$19.73	1.4%	388,710
Inland Empire	39,629,955	9.2%	8.9%	(120,520)	(251,722)	\$22.25	4.3%	61,420
Kansas City	94,881,838	9.6%	8.9%	130,384	(685,928)	\$20.29	1.0%	468,902
Las Vegas	38,874,741	14.4%	12.3%	(475,057)	257,563	\$22.33	2.2%	778,184
Long Island	62,571,408	8.8%	7.6%	(397,235)	(1,409,149)	\$27.49	1.9%	72,003
Los Angeles	322,767,467	14.1%	12.9%	(2,182,316)	(6,211,788)	\$39.25	2.1%	7,793,975
Miami	79,661,739	12.6%	12.0%	193,994	(316,052)	\$39.05	6.5%	2,370,322
Milwaukee	58,886,895	10.2%	9.9%	456,572	(62,661)	\$16.04	2.6%	631,308

Market	Inventory SF	Overall Vacancy Rate	Direct Vacancy Rate	Net Absorption	12-Month Net Absorption	Asking Rent Base	Annual Rent Change	Under Construction
Minneapolis	150,012,424	9.1%	8.6%	(396,655)	(690,193)	\$17.34	4.3%	2,993,978
Nashville	59,703,930	10.2%	9.0%	(239,272)	(549,296)	\$27.96	1.2%	5,351,709
New Jersey	269,228,966	12.8%	11.6%	(3,498,096)	(2,955,955)	\$24.68	0.0%	1,035,868
New Orleans	34,378,095	8.3%	7.9%	(5,440)	(235,532)	\$18.62	0.5%	11,500
New York/Manhattan	533,627,284	10.3%	8.5%	(5,233,022)	(7,062,690)	\$56.35	-4.7%	14,420,263
Northern Virginia	185,883,754	16.5%	15.6%	(284,959)	(1,234,362)	\$32.70	1.3%	5,508,363
Oklahoma City	40,139,001	13.5%	13.3%	(167,828)	(1,066,020)	\$18.17	5.8%	205,233
Orange County	120,330,271	12.5%	11.2%	(1,236,803)	(2,244,557)	\$29.14	-1.8%	1,294,136
Orlando	63,555,364	9.5%	8.8%	(266,749)	214,436	\$21.52	2.9%	423,458
Philadelphia	221,645,305	9.8%	9.1%	(1,622,868)	(2,709,546)	\$23.95	1.7%	1,970,433
Phoenix	132,096,985	14.6%	13.8%	(325,704)	(512,407)	\$25.97	2.9%	2,336,274
Pittsburgh	102,816,555	10.3%	9.5%	39,915	(896,995)	\$23.56	1.2%	1,388,834
Portland	79,789,342	12.2%	11.3%	(855,375)	(1,800,389)	\$25.95	-1.2%	2,121,915
Raleigh/Durham	79,654,550	8.9%	7.8%	(198,024)	(128,069)	\$26.61	4.3%	2,517,207
Sacramento	68,838,645	11.6%	10.8%	(666,280)	(409,624)	\$23.24	2.5%	1,389,484
Salt Lake City	59,358,261	9.9%	8.1%	(322,825)	(523,105)	\$24.48	5.3%	3,087,754
San Antonio	58,097,346	9.6%	9.2%	174,978	(2,647)	\$21.42	1.5%	1,823,391
San Diego	86,908,285	13.3%	11.9%	(156,062)	(1,571,228)	\$33.19	0.6%	1,829,601
San Francisco	105,308,796	11.7%	7.8%	(1,728,068)	(5,943,183)	\$60.83	-12.0%	3,819,999
San Jose/Silicon Valley	114,521,583	11.5%	9.3%	(545,405)	(187,401)	\$48.98	1.6%	6,382,766
Seattle	160,916,283	8.6%	6.7%	(1,148,292)	671,987	\$30.07	0.2%	7,897,809
St. Louis	108,347,526	8.5%	8.1%	(258,080)	(556,296)	\$20.93	5.2%	3,120,091
Suburban Maryland	85,583,348	15.1%	14.2%	(246,538)	(1,231,760)	\$27.10	2.2%	2,930,781
Tampa	74,488,669	9.8%	8.8%	(191,766)	39,467	\$24.84	3.2%	1,164,603
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 34 U.S. offices and global alliances with BNP Paribas Real Estate and Devencore. Learn more at [transwestern.com](https://transwestern.com) and @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

**Elizabeth Norton**  
Sr. Managing Director | Research Services  
[Elizabeth.Norton@transwestern.com](mailto:Elizabeth.Norton@transwestern.com)  
202 775 7026

**Matthew Dolly**  
Director of Research | New Jersey  
[Matthew.Dolly@transwestern.com](mailto:Matthew.Dolly@transwestern.com)  
973 947 9244

**Laura Haltom**  
Manager | Data Analytics  
[Laura.Haltom@transwestern.com](mailto:Laura.Haltom@transwestern.com)  
720 889 4087