

COMMERCIAL REAL ESTATE

U.S. MARKET | OFFICE

Second Quarter 2021



TRANSWESTERN



U.S. TRENDLINES

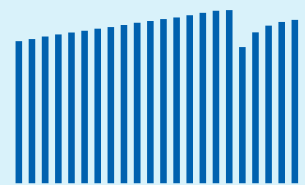
5-Year Trend Current Quarter

UNEMPLOYMENT RATE **5.9%**



Down 10 basis points in Q2

OFFICE-USING EMPLOYMENT



45.9 M

Up 0.5% in Q2

NET ABSORPTION



(22.9) MSF

Quarterly negative absorption ebbing

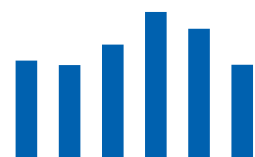
VACANCY



12.6%

50-basis-point rise in Q2; 250-basis-point rise YoY

UNDER CONSTRUCTION



151.7 MSF

Down 6.8% in Q2 and 17.2% YoY

ASKING RENT (BASE) **\$25.39 PSF**



1.9% annual growth, below the 5-year average of 3.3%

U.S. HIGHLIGHTS

ECONOMY

- Employers added 1.6 million jobs during Q2, as economic conditions improve due in part to consumer spending and widespread reopening.
- Office-using jobs added 208,100 of these positions, as most growth was concentrated in the leisure/hospitality sector. Of the office-using jobs lost since March 2020, 77% have been recovered.
- Job growth during the quarter was led by accounting firms, physician offices, real estate companies, and motion picture industries. Through 2025, tech, consulting, and medical should drive job growth.

OFFICE MARKET

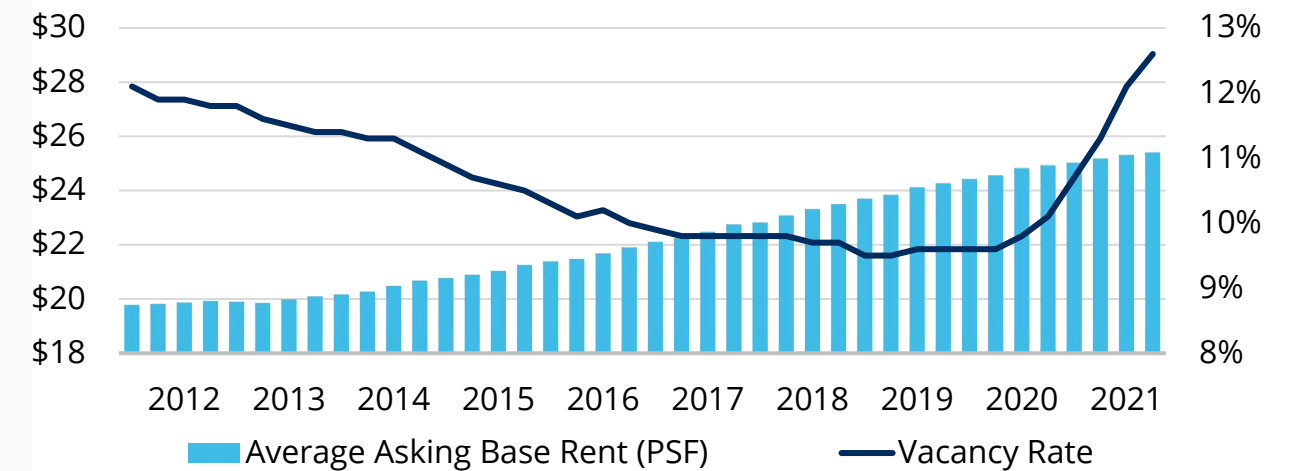
- Signs of stabilization were noticeable during Q2.
- Tour activity is up in most major markets, but not enough to translate to notable deal volume this quarter, pushing the vacancy rate up to 12.6%.
- Net absorption registered negative 22.9 million SF, following a record negative 53.8 million SF during Q1. Sublease space accounted for negative 7.6 million SF.
- Annual asking rents are up 1.9% year over year, which is counterintuitive given the current market conditions.
- Landlords are likely firm on asking rents because office demand is expected to rebound in the second half of the year, and rent can offset generous concession packages. Additionally, new stock entering the market is helping to elevate the average rate.

LOOKING AHEAD

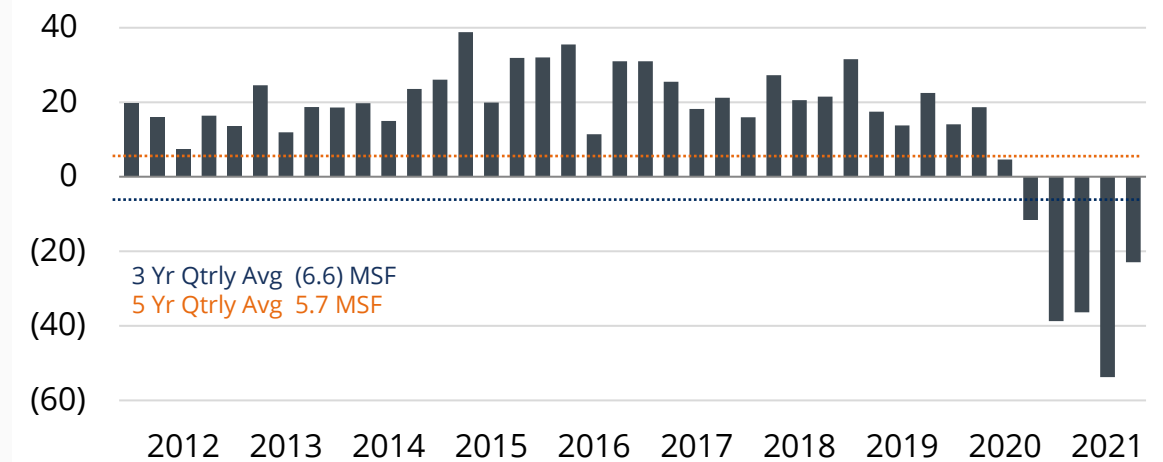
- We expect pent-up demand to emerge starting in Q3 with greater traction in Q4, as tenants come off the sidelines.
- With the market in tenants' favor, select companies will take advantage of favorable financial terms.
- The impact of work from home post-pandemic is still unclear and how tenants reconfigure workspace is to be determined. The office is not dead but will evolve to meet new challenges and work patterns.

U.S. HISTORICAL

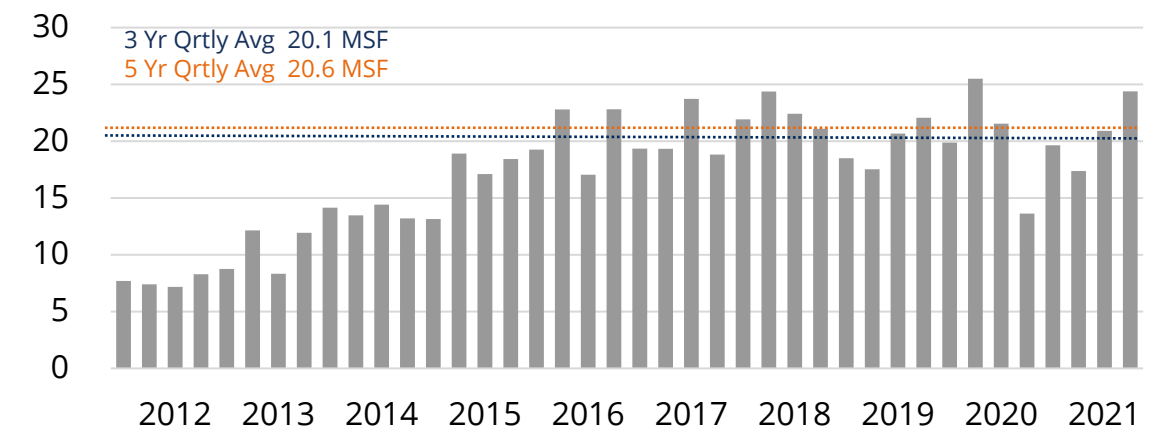
VACANCY VS ASKING RENT



NET ABSORPTION (MILLION SF)

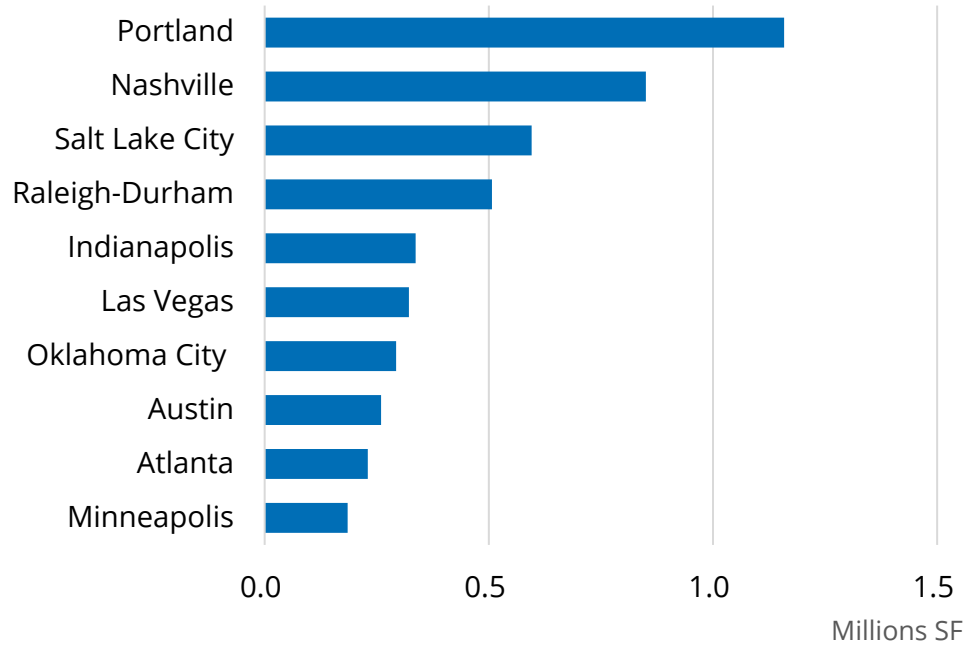


CONSTRUCTION – DELIVERED (MILLION SF)



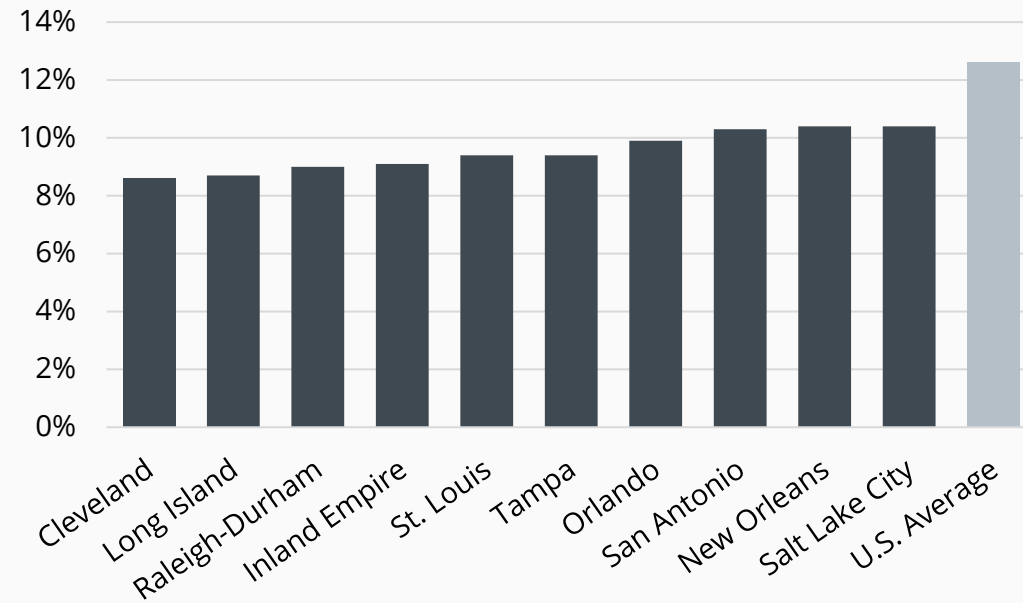
NET ABSORPTION

Q2 2021 Net Absorption



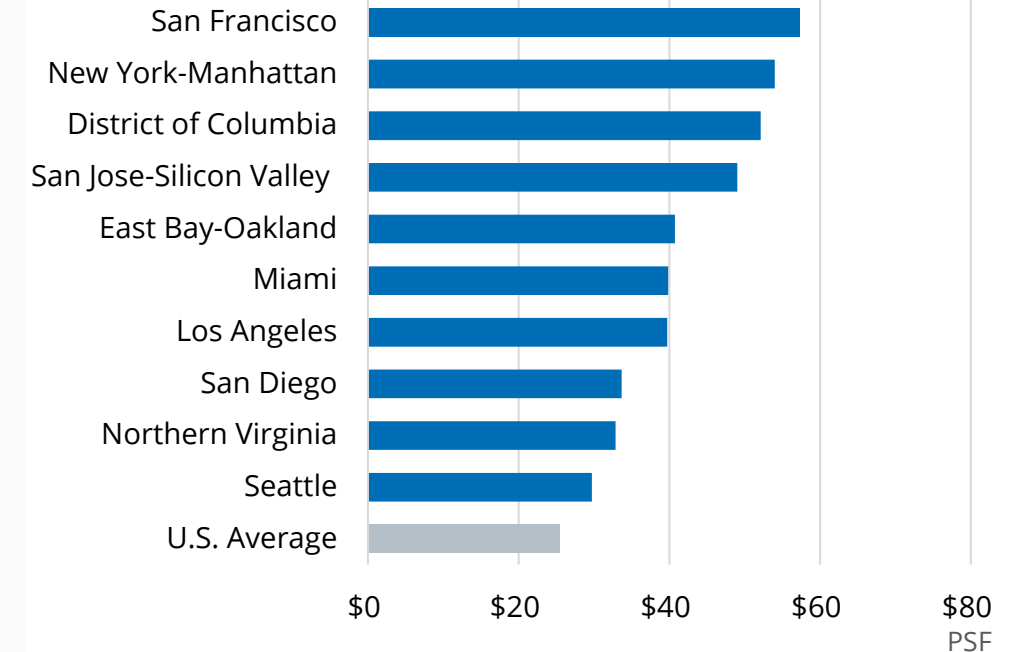
VACANCY/CONSTRUCTION

Q2 2021 Overall Vacancy Rate

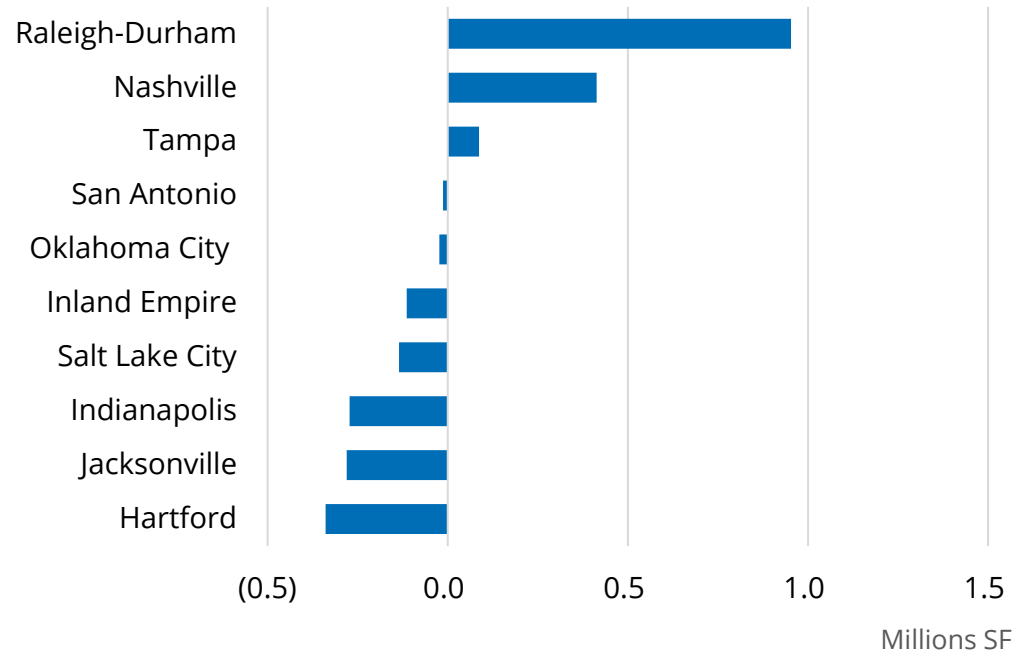


ASKING RENTS

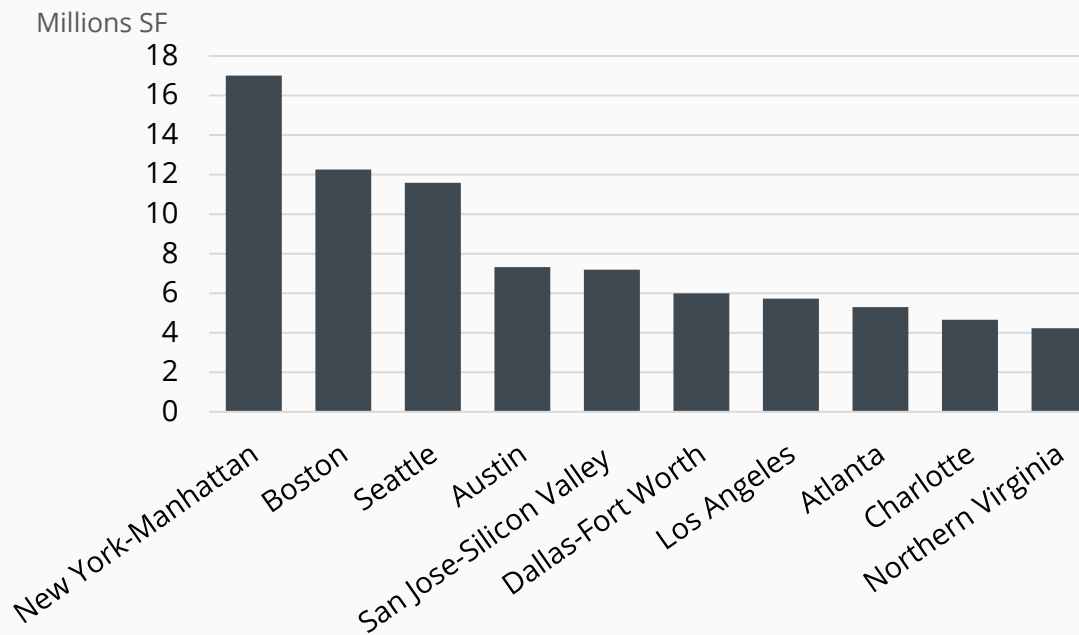
Q2 2021 Asking Rate (Base)



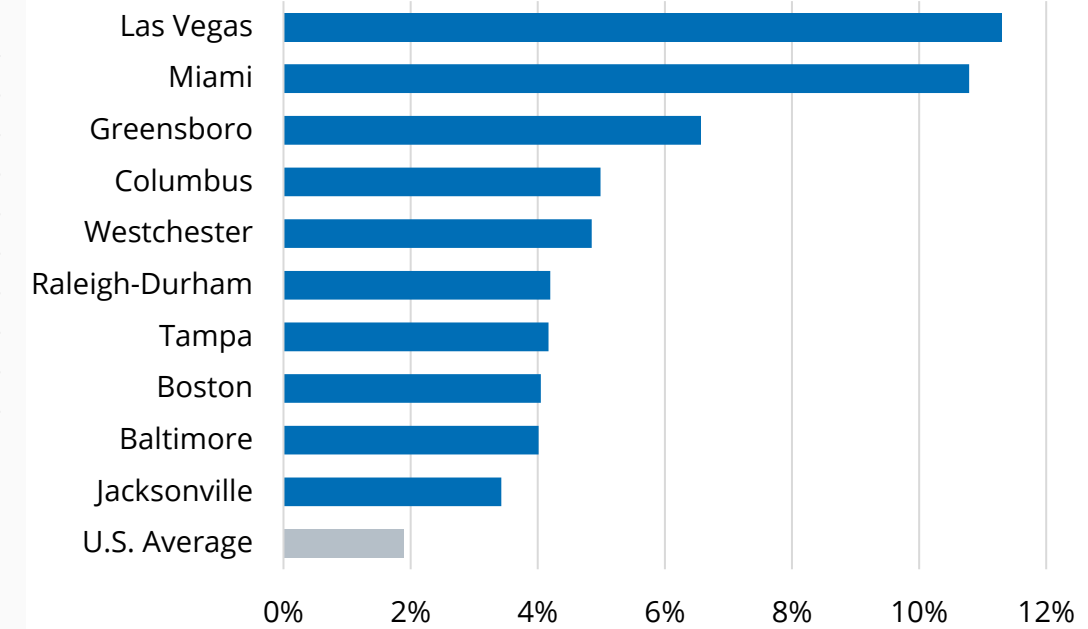
Trailing 4-Qtr Net Absorption



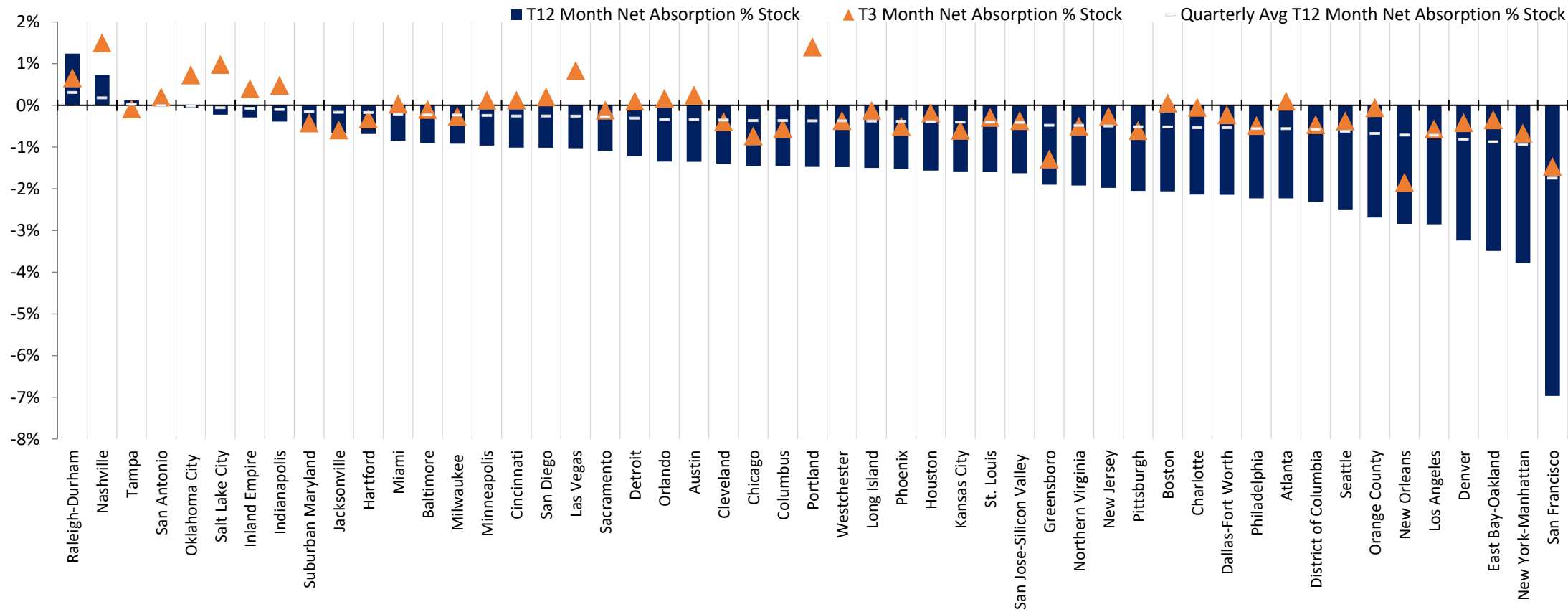
Q2 2021 Under Construction



Year-Over-Year Rent Growth

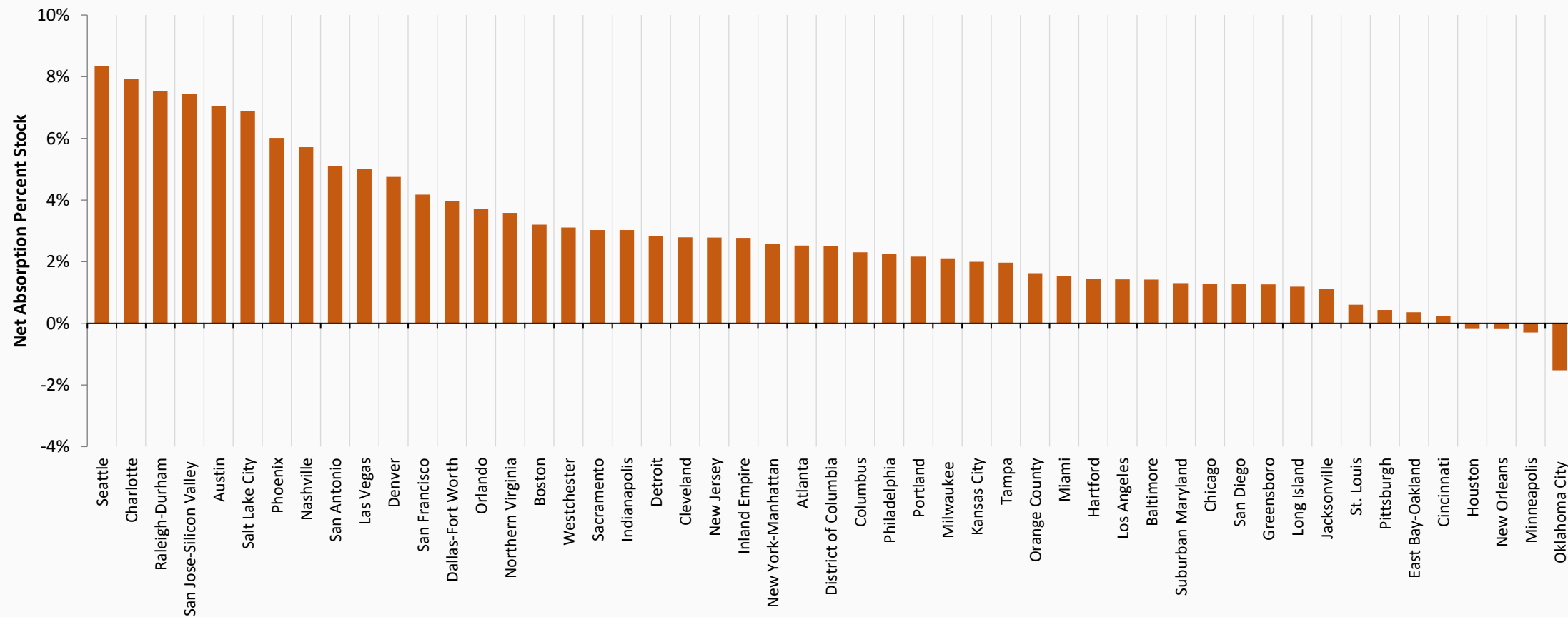


NET ABSORPTION % STOCK



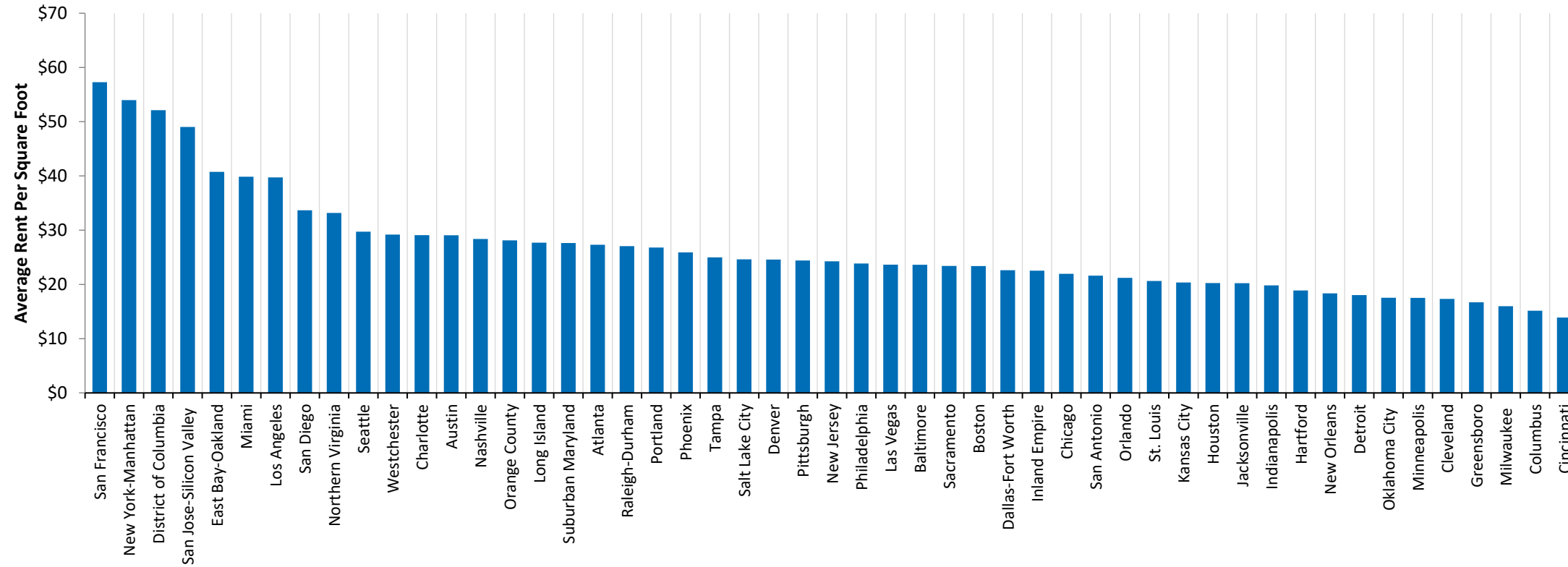
- Net absorption was negative for almost all tracked office markets over the past year. However, three markets did manage positive net absorption over the time period: Raleigh-Durham, Nashville, and Tampa.
- Past quarter net absorption numbers painted a slightly more optimistic picture with 35% of tracked markets positive for the time period.
- Further, many markets showed improvement over the past quarter: 75% experienced net absorption above their average quarterly net absorption over the past year.

PRE-COVID EXPANSION: 3 YEAR NET ABSORPTION % STOCK



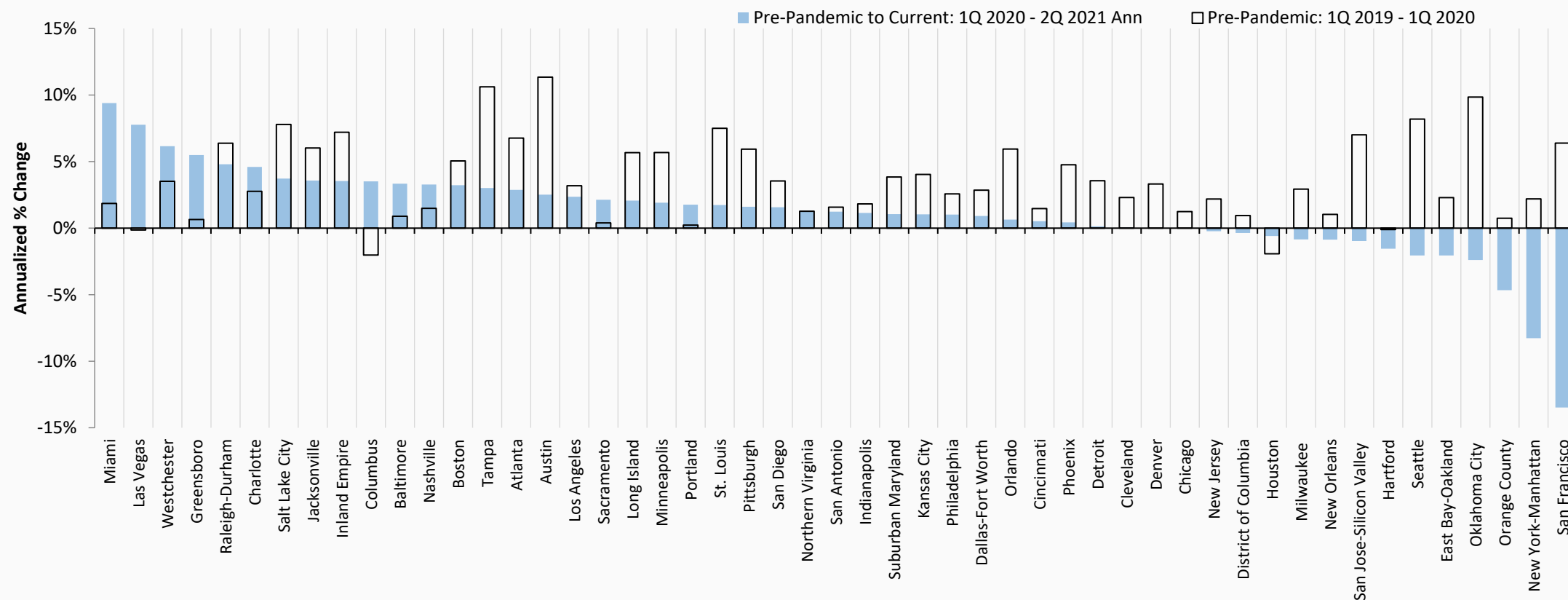
- This graph shows net absorption as a percent of stock for the three years preceding the start of the pandemic (ending 1Q20). A higher percentage indicates that a market is more expansionary. A negative percentage is a sign of contraction.
- Markets that were trending toward strong expansion long-term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

RENTAL RATES (BASE)



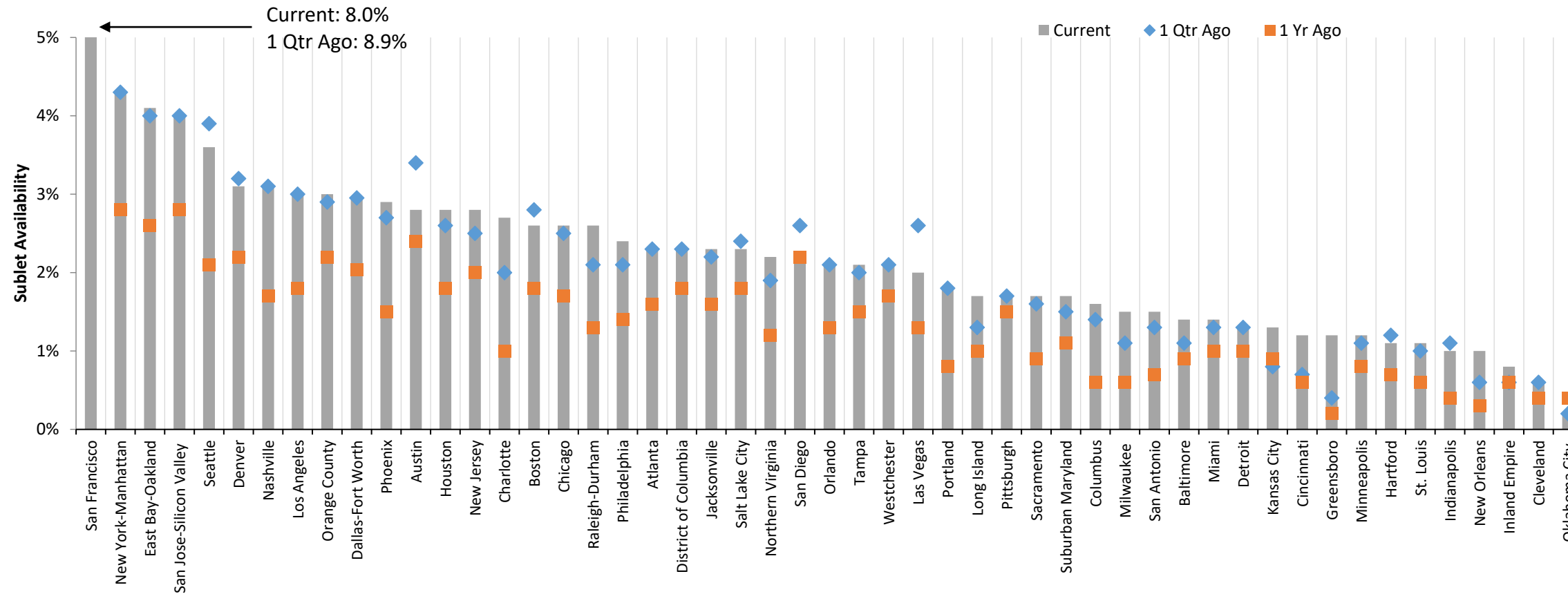
- Differences in rental rates are larger between markets on the expensive end of the spectrum.
- However, this trend has lessened since the beginning of the pandemic as some of the more expensive markets saw among the lowest rental growth for the period.
- Relatively expensive markets that managed to also have moderate asking rent growth since the beginning of the pandemic include Miami, Los Angeles, Westchester, Charlotte, Austin, and Nashville.

RENTAL RATE CHANGE: PRE-PANDEMIC YOY v PRE-PANDEMIC to CURRENT



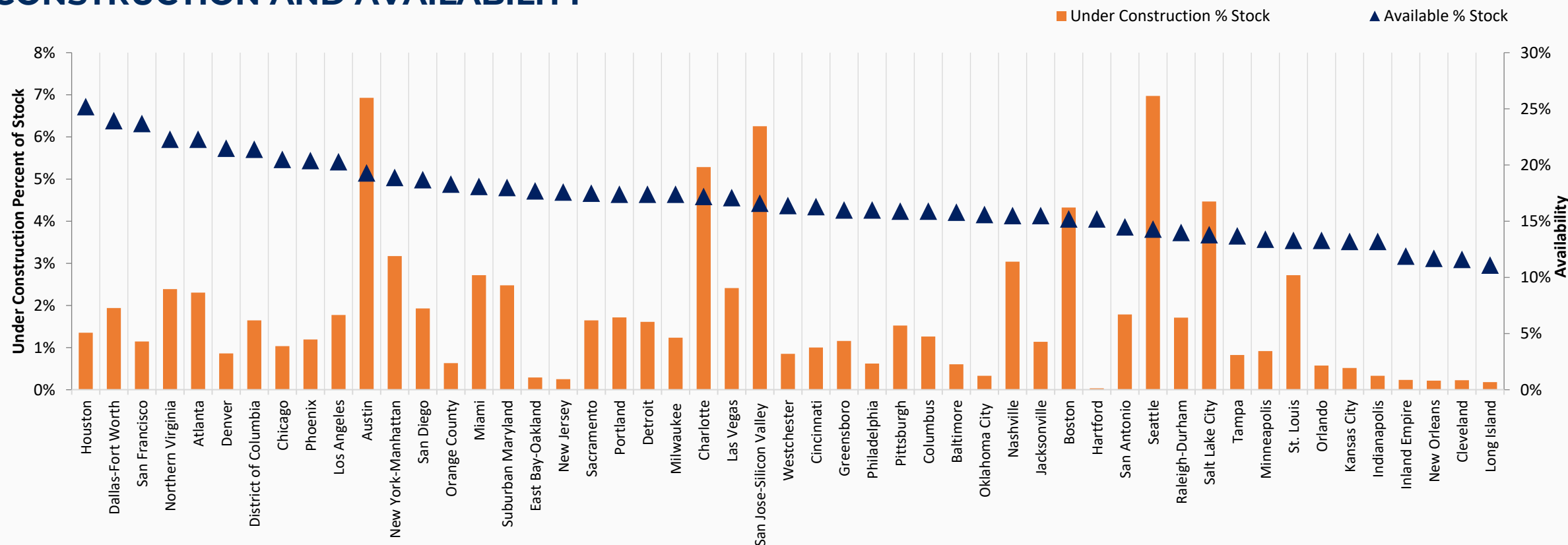
- The highest rental growth rates since the start of the pandemic were in Miami, Las Vegas, and Westchester.
- Compared with pre-pandemic rental rate growth, markets experiencing a relative lift include Las Vegas, Miami, Columbus, Greensboro, Westchester, Baltimore, Charlotte, Nashville, Sacramento, and Portland.
- While the return to the office is underway, demand has yet to return to pre-pandemic levels. Weak tenant interest combined with economic strain is resulting in shorter lease terms and increased concessions, putting pressure on effective rental rates.

SUBLEASE AVAILABLE SQUARE FEET % STOCK



- This graph shows available sublet space as a percent of stock, which can react quickly to changes in demand.
- Almost all markets tracked increased sublet available SF over the prior year, with nearly 20% of the markets more than doubling their amount. Over 50% continued the trend of increasing 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 at 8.0%, down from 8.9% in the previous quarter.

CONSTRUCTION AND AVAILABILITY

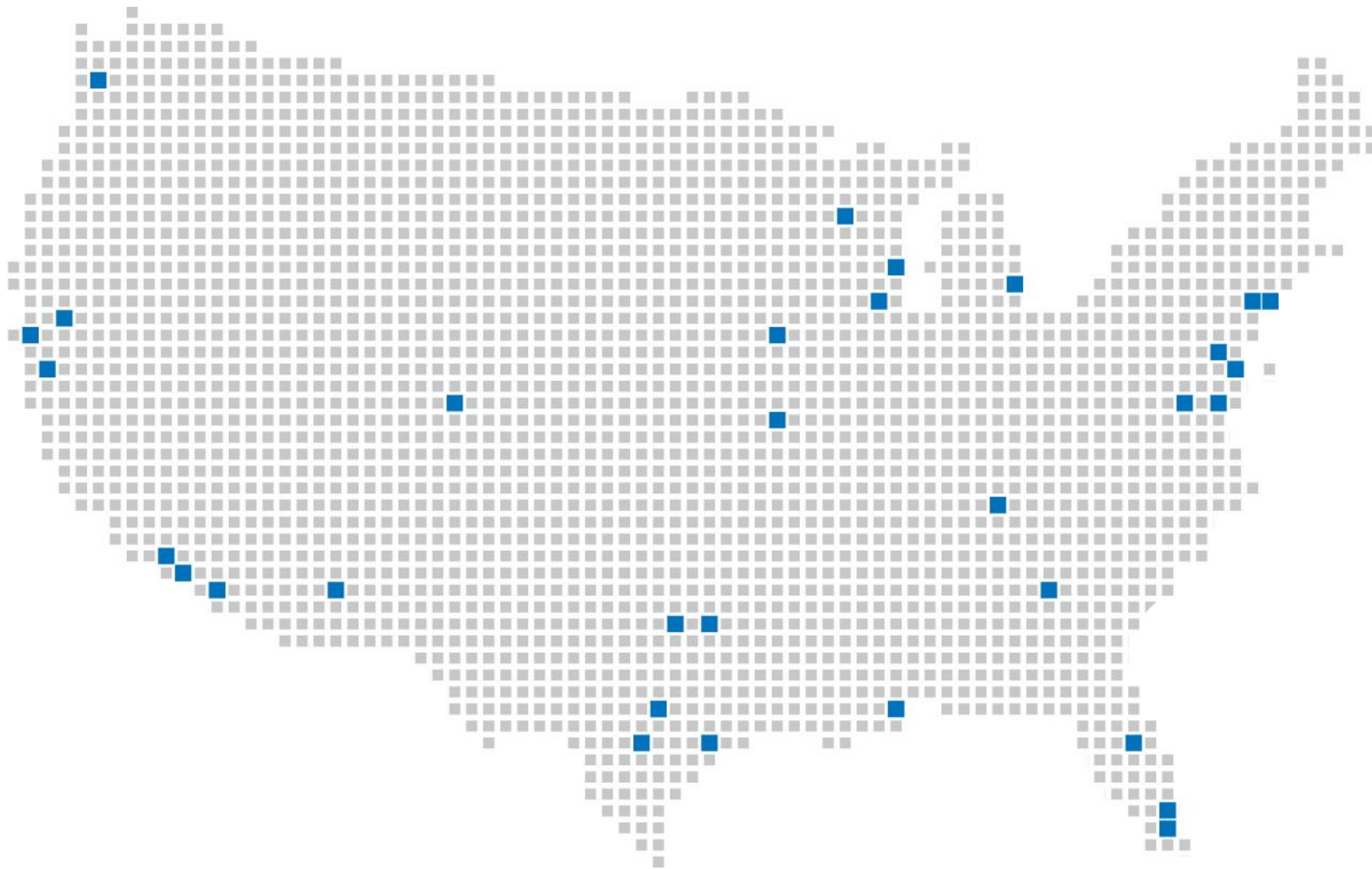


- Under construction percent of stock is indicative of future market expansion. Combined with availability percent of stock, it can also be a potential determinate of loosening or tightening within a market.
- Markets with particularly high under construction stock and high availability as a percent of stock include Austin and Charlotte. Given growing 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	229,623,408	17.4%	16.4%	230,112	(5,123,989)	\$27.31	1.9%	5,294,873
Austin	105,717,451	14.6%	12.3%	259,603	(1,433,071)	\$29.07	1.3%	7,324,153
Baltimore	109,169,090	12.8%	12.2%	(448,178)	(1,088,806)	\$23.59	4.0%	731,048
Boston	283,495,383	10.6%	8.9%	156,429	(5,848,205)	\$23.39	4.0%	12,258,559
Charlotte	88,176,299	13.3%	10.6%	(38,578)	(1,886,673)	\$29.09	1.0%	4,660,463
Chicago	382,719,654	15.6%	14.4%	(2,803,693)	(5,560,532)	\$21.95	-0.9%	3,959,348
Cincinnati	73,926,988	12.3%	11.4%	93,702	(749,506)	\$13.89	1.0%	741,391
Cleveland	77,415,758	8.6%	8.4%	(301,644)	(1,083,452)	\$17.33	-2.3%	175,000
Columbus	77,587,290	11.6%	10.5%	(430,047)	(1,130,776)	\$15.16	5.0%	978,938
Dallas-Fort Worth	309,236,258	19.9%	18.7%	(691,397)	(6,629,542)	\$22.63	2.0%	5,996,078
Denver	139,144,214	16.2%	14.0%	(573,710)	(4,510,266)	\$24.59	-0.2%	1,199,390
Detroit	138,682,013	12.8%	12.0%	144,823	(1,693,817)	\$18.04	-0.6%	2,235,634
District of Columbia	144,849,987	15.4%	14.1%	(665,939)	(3,345,274)	\$52.13	-0.2%	2,382,965
East Bay-Oakland	83,593,937	15.0%	12.5%	(288,025)	(2,917,101)	\$40.75	-4.0%	243,810
Greensboro	19,947,413	13.2%	12.0%	(256,806)	(379,737)	\$16.71	6.6%	230,769
Hartford	49,477,169	11.0%	10.0%	(159,699)	(339,043)	\$18.88	-2.4%	16,200
Houston	259,113,061	21.1%	19.8%	(467,088)	(4,055,580)	\$20.25	-1.4%	3,507,996
Indianapolis	70,121,518	10.6%	10.0%	336,880	(272,522)	\$19.82	2.2%	232,000
Inland Empire	39,203,555	9.1%	8.9%	156,972	(113,949)	\$22.54	3.3%	91,420
Jacksonville	42,428,878	12.5%	10.8%	(248,914)	(280,561)	\$20.23	3.4%	482,231
Kansas City	96,504,859	10.8%	9.9%	(576,952)	(1,543,224)	\$20.36	3.4%	498,094
Las Vegas	38,484,497	14.8%	12.3%	321,896	(395,060)	\$23.64	11.3%	928,343
Long Island	62,604,520	8.7%	7.5%	(77,263)	(940,206)	\$27.70	1.4%	113,378
Los Angeles	323,069,202	15.8%	14.5%	(1,822,645)	(9,218,497)	\$39.73	3.0%	5,728,601
Miami	78,282,406	14.0%	13.3%	24,633	(664,982)	\$39.85	10.8%	2,128,376

Market	Inventory SF	Overall Vacancy Rate	Direct Vacancy Rate	Net Absorption	12-Month Net Absorption	Asking Rent Base	Annual Rent Change	Under Construction
Milwaukee	58,557,242	11.9%	11.6%	(154,046)	(538,155)	\$15.98	-1.6%	723,308
Minneapolis	148,372,117	10.6%	10.1%	184,938	(1,430,724)	\$17.52	2.0%	1,361,333
Nashville	56,718,623	11.3%	9.8%	850,143	413,053	\$28.37	0.7%	1,723,989
New Jersey	314,654,372	13.1%	11.7%	(837,582)	(6,225,639)	\$24.26	-0.5%	789,044
New Orleans	34,513,747	10.4%	9.7%	(637,616)	(980,853)	\$18.35	-1.0%	73,978
New York-Manhattan	536,343,942	12.5%	10.4%	(3,578,877)	(20,281,363)	\$53.98	-9.6%	17,012,951
Northern Virginia	185,407,380	17.5%	16.6%	(2,003,920)	(2,137,630)	\$32.87	0.7%	4,231,972
Oklahoma City	40,068,396	13.2%	13.1%	293,207	(23,448)	\$17.54	-3.4%	132,722
Orange County	120,505,135	13.8%	12.2%	(63,514)	(3,239,716)	\$28.13	-6.5%	760,238
Orlando	62,949,342	9.9%	8.7%	107,472	(848,748)	\$21.22	-0.8%	361,860
Philadelphia	219,109,338	10.9%	9.9%	(1,058,317)	(4,885,934)	\$23.86	2.4%	1,361,270
Phoenix	140,434,188	16.0%	14.5%	(706,729)	(2,144,036)	\$25.90	-0.5%	1,675,046
Pittsburgh	101,776,560	12.1%	11.0%	(613,725)	(2,087,920)	\$24.41	2.5%	1,549,914
Portland	82,551,078	13.6%	12.5%	1,158,633	(1,217,777)	\$26.81	1.4%	1,415,946
Raleigh-Durham	76,789,194	9.0%	8.0%	506,880	953,069	\$27.06	4.2%	1,314,741
Sacramento	68,998,230	12.6%	11.7%	(77,739)	(754,103)	\$23.41	1.7%	1,136,484
Salt Lake City	60,580,633	10.4%	8.7%	595,354	(135,102)	\$24.63	1.5%	2,706,309
San Antonio	58,426,866	10.3%	9.8%	118,105	(13,279)	\$21.61	1.3%	1,043,405
San Diego	86,490,635	14.0%	12.8%	175,761	(878,354)	\$33.67	2.4%	1,667,770
San Francisco	101,471,859	16.2%	11.3%	(1,489,011)	(7,069,271)	\$57.29	-14.6%	1,161,319
San Jose-Silicon Valley	115,021,289	13.5%	10.8%	(419,455)	(1,873,350)	\$49.02	-2.7%	7,192,984
Seattle	166,162,708	11.4%	8.9%	(621,157)	(4,145,301)	\$29.73	-3.6%	11,588,902
St. Louis	108,851,919	9.4%	9.0%	(313,384)	(1,744,756)	\$20.64	2.1%	2,959,082
Suburban Maryland	88,371,083	15.4%	14.5%	(371,382)	(535,355)	\$27.63	2.2%	2,190,927
Tampa	70,801,233	9.4%	8.3%	(56,982)	86,689	\$24.98	4.2%	584,000
Westchester	130,557,603	12.1%	10.9%	(474,063)	(1,936,001)	\$29.20	4.8%	1,110,800

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. Through an integrated, customized approach that begins with good ideas, the firm drives value for clients across commercial real estate services, development, and investment management. Operating from 33 U.S. offices, Transwestern extends its platform capabilities globally through strategic alliance partners whose unique geographic, cultural, and business expertise fuels creative solutions. 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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