

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

Second Quarter 2020



TRANSWESTERN



U.S. TRENDLINES

5-Year Trend Current Quarter

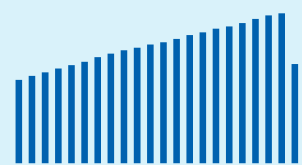
UNEMPLOYMENT RATE



11.1%

Down 360 basis points in June since peak

OFFICE-USING EMPLOYMENT



33.4M

-5.0% annual change (May 2019-2020)

NET ABSORPTION



(14.2) MSF

First quarter negative since Q1 2010

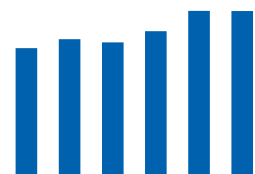
VACANCY



10.1%

50-basis-point rise year over year

UNDER CONSTRUCTION



182.4 MSF

Activity starting to moderate in Q2

ASKING RENT



\$28.57 PSF

7.1% annual growth, above the 5-year average of 3.5%

U.S. HIGHLIGHTS

ECONOMY

- U.S. unemployment rate dropped from a peak of 14.7% in April to 11.1% in June.
- Loss of 20.5 million jobs in April, followed by a gain of 7.3 million jobs in May-June.
- 3.4 million office-using jobs lost in April, with nearly one-third of these jobs recovered in May-June.
- Most office-using jobs recovered were in health practitioner offices, as these businesses temporarily halted non-essential procedures and appointments and have since started to gradually reopen.

OFFICE MARKET

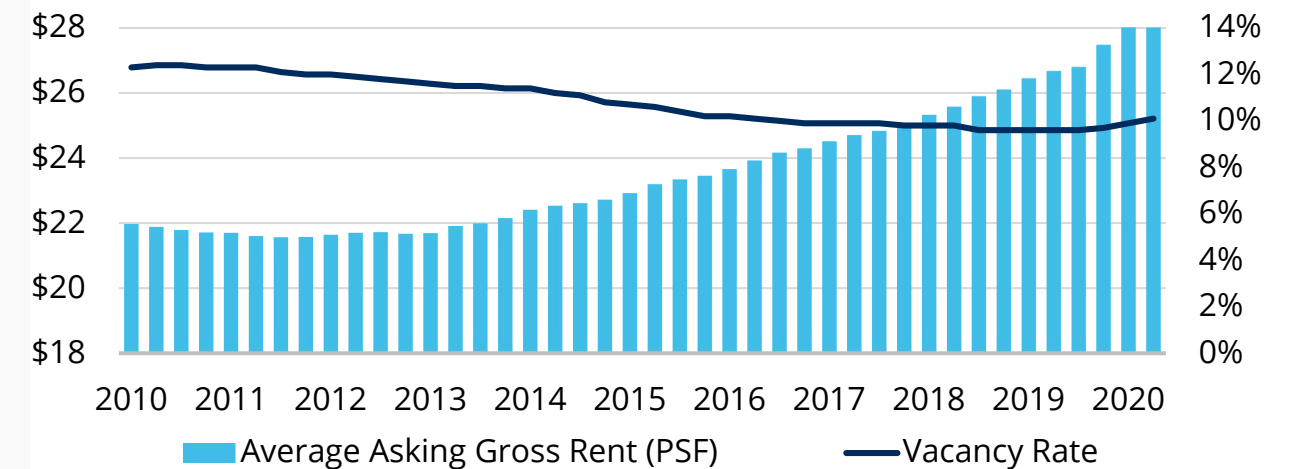
- Leasing slowed considerably as most tenants paused leasing decisions due to COVID-19, pushing the vacancy rate up 20 basis points to 10.1%.
- Net absorption registered negative 14.2 million SF, the first quarter of negative absorption since Q1 2010.
- Construction activity slowed due to constraints from COVID-19. We expect limited groundbreakings over the next 12 months due to weaker demand and oversupply in several markets.
- Although annual asking rental rates are up year over year, this varies by market.

LOOKING AHEAD

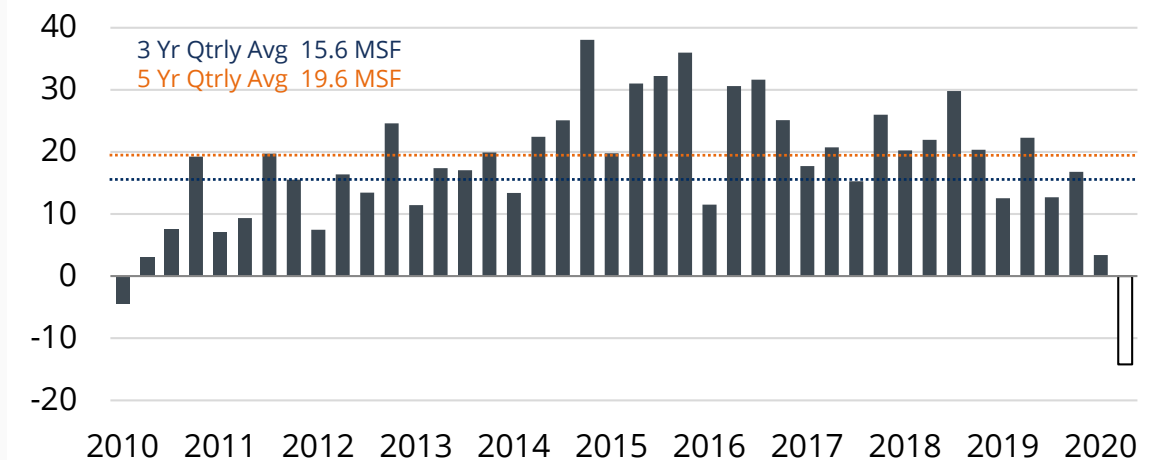
- There is greater uncertainty in the office market, as tenants balance social distancing in the workplace and work-from-home strategies.
- Most tenants will likely pause major lease decisions in the near-term, opting for short-term renewals.
- Suburban office demand could benefit in the current climate, as select tenants look for affordable space in a safely distanced environment.

U.S. HISTORICAL

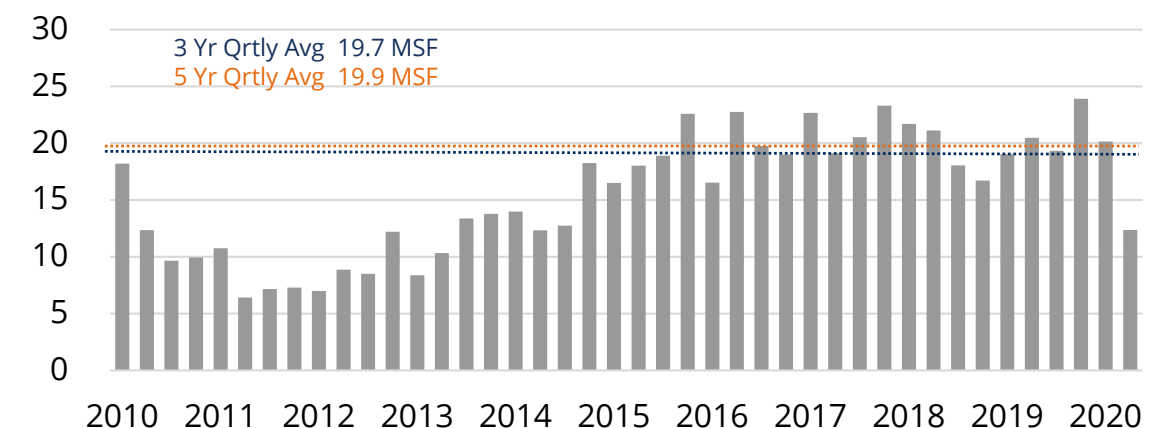
VACANCY VS ASKING RENT



NET ABSORPTION (MILLION SF)

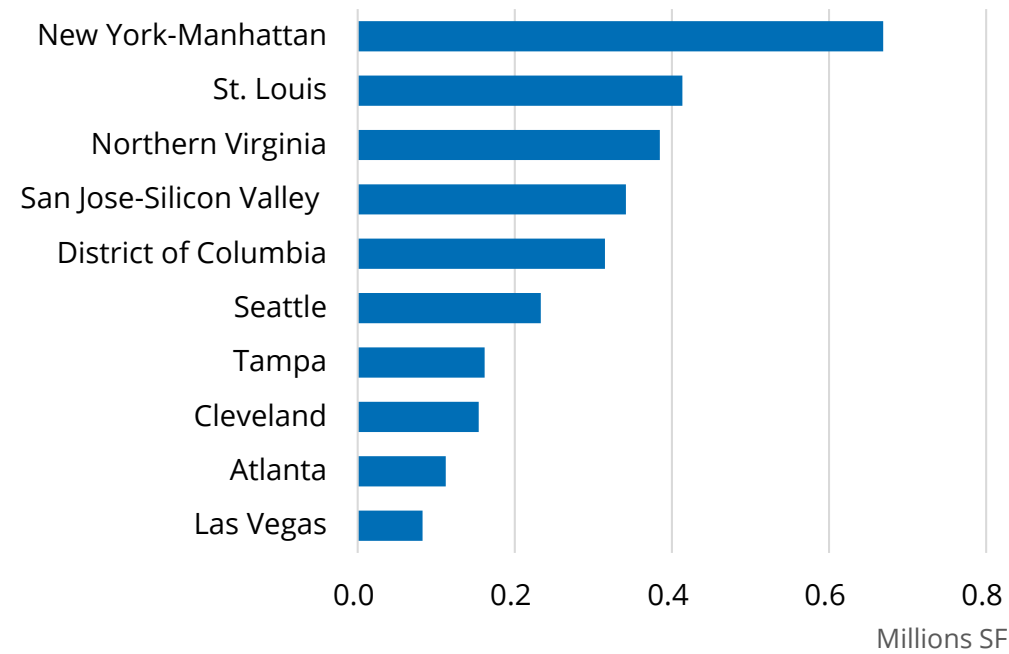


CONSTRUCTION – DELIVERED (MILLION SF)



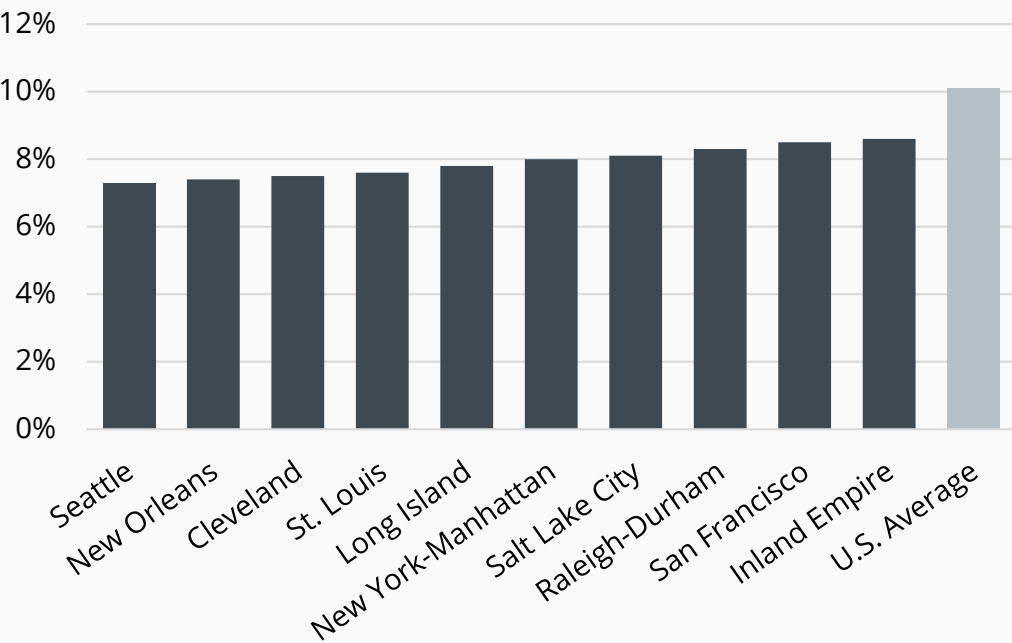
NET ABSORPTION

Q2 2020 Net Absorption



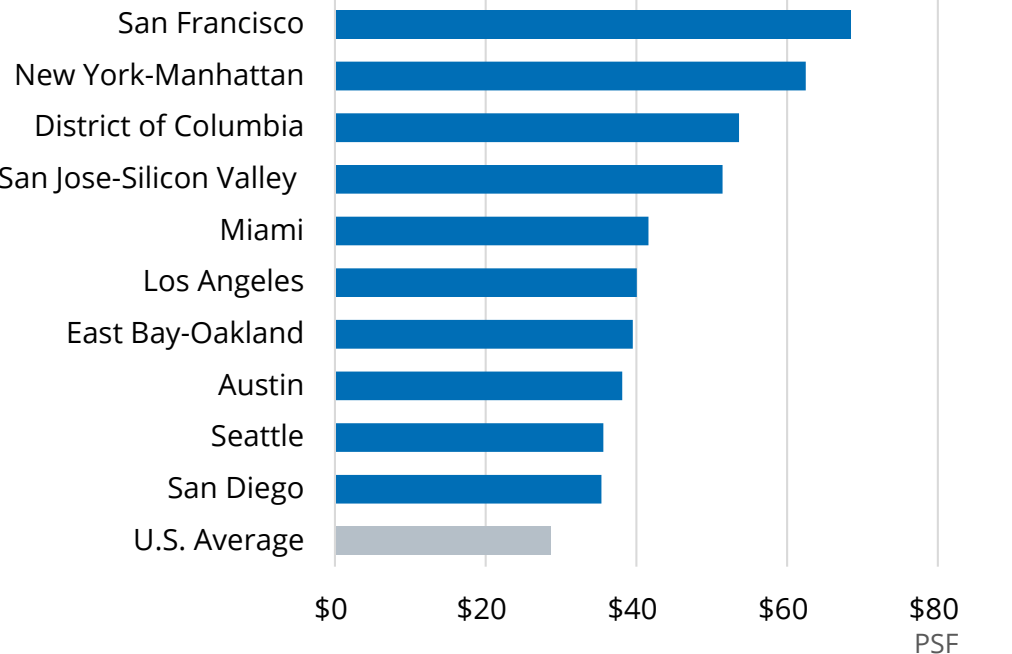
VACANCY/CONSTRUCTION

Q2 2020 Overall Vacancy Rate

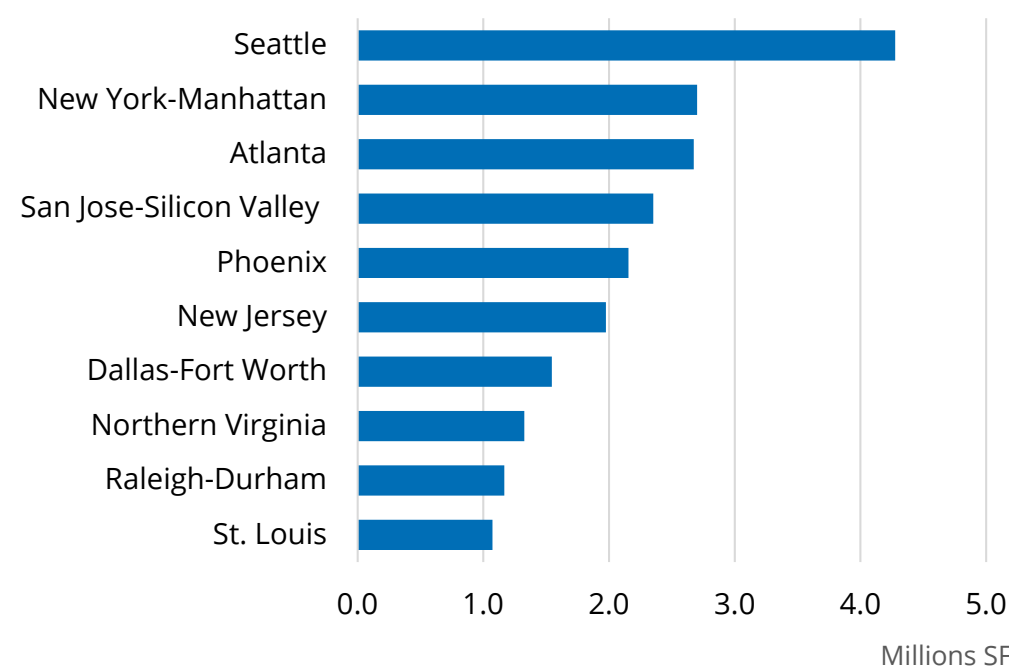


ASKING RENTS

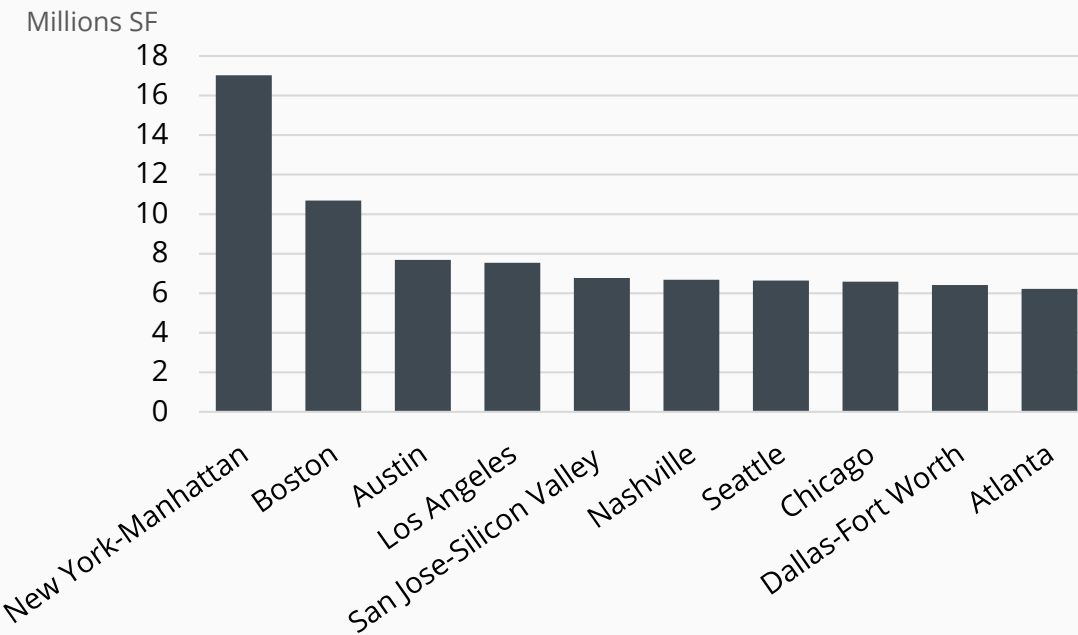
Q2 2020 Asking Rate (Gross)



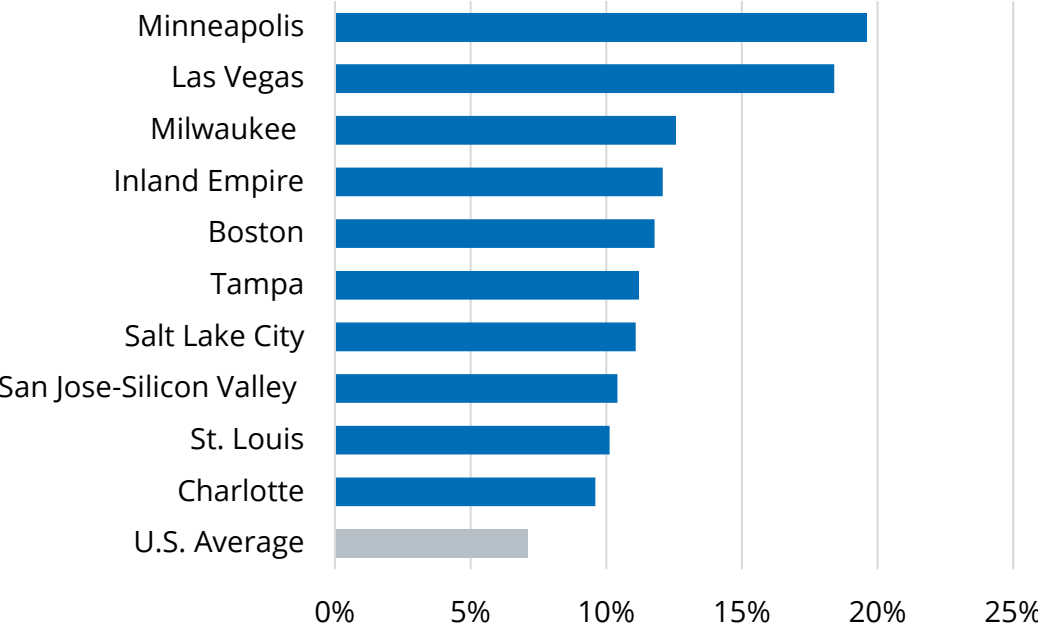
Trailing 4-Qtr Net Absorption



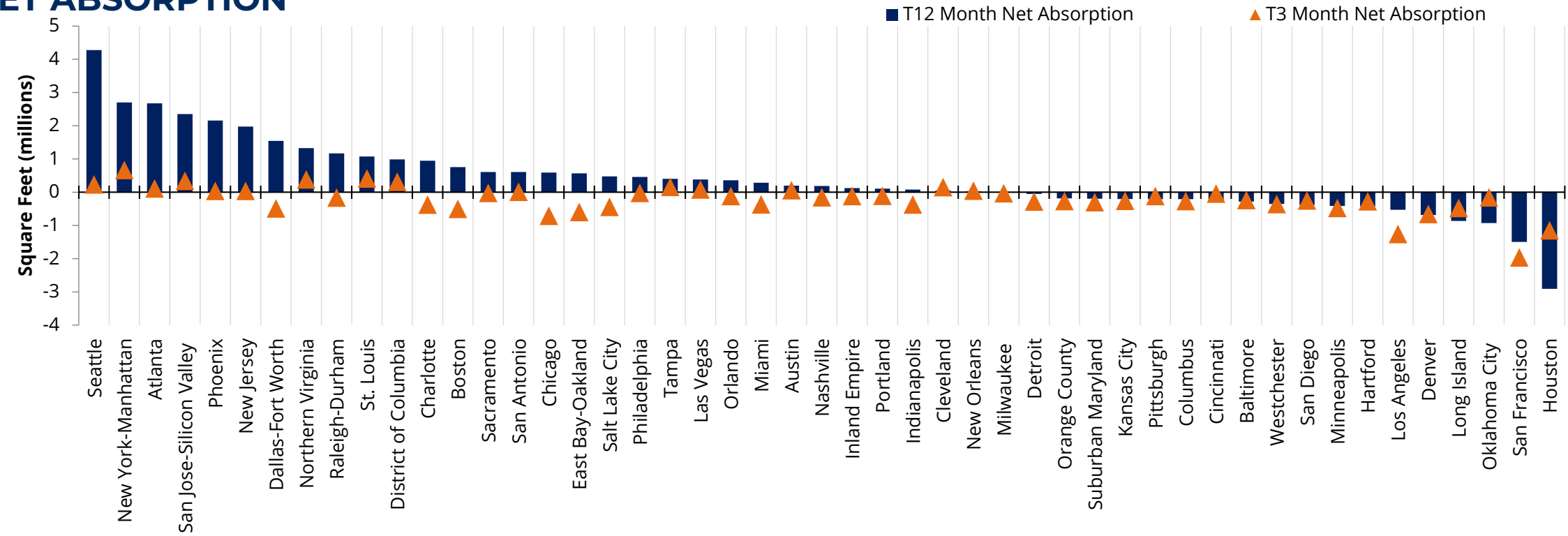
Q2 2020 Under Construction



Year-Over-Year Rent Growth

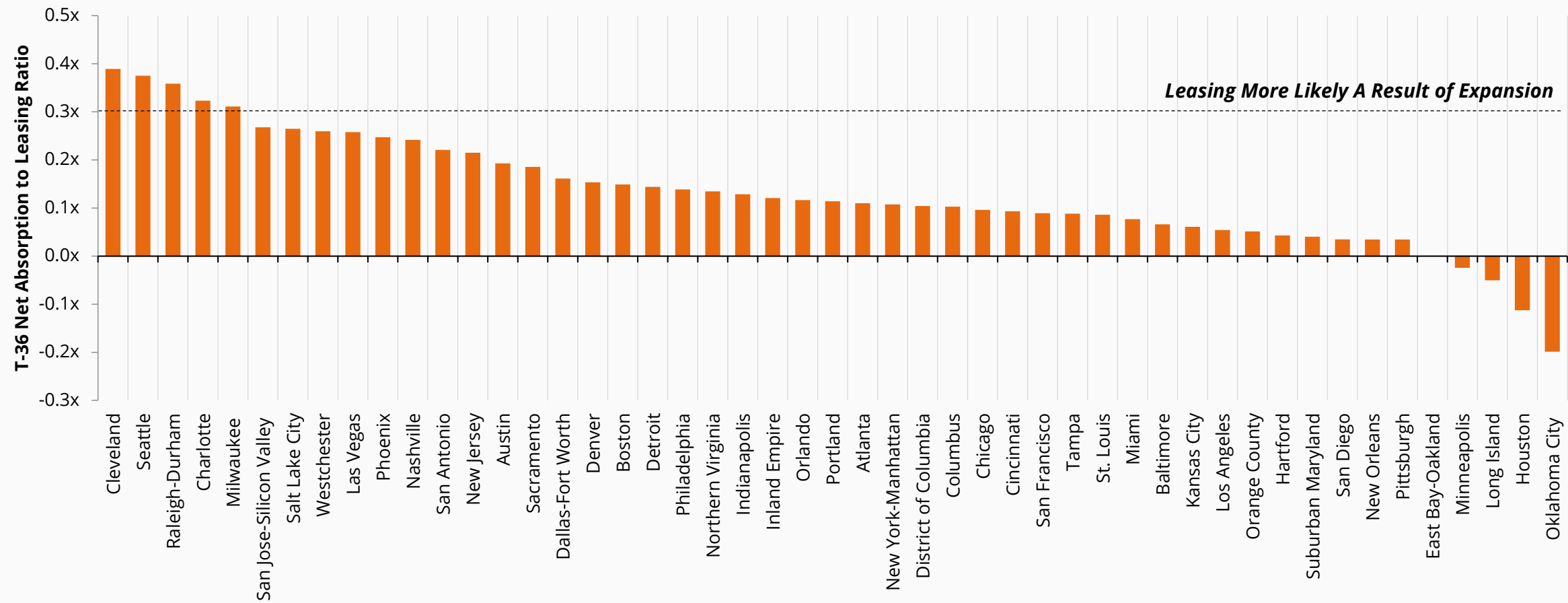


NET ABSORPTION



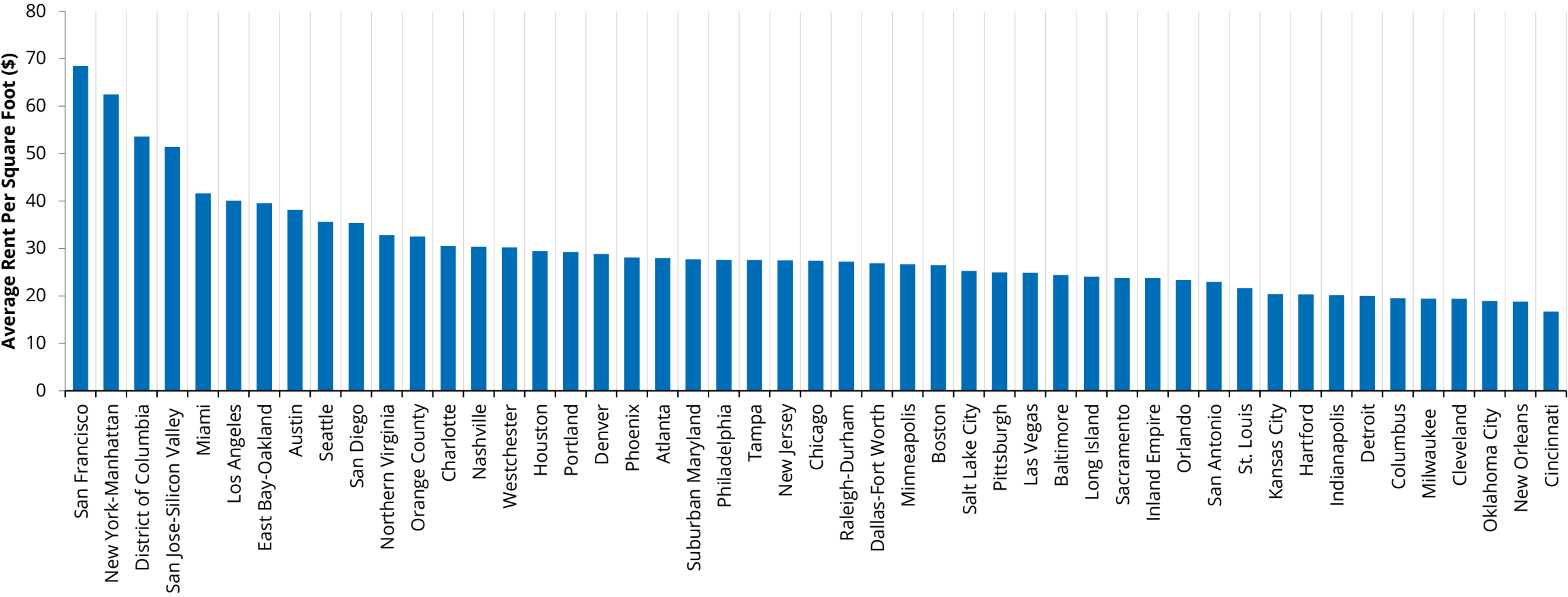
- Over 60% of our tracked markets posted positive net absorption during the 12 months ending June 2020, with Seattle in the lead.
- However, approximately 70% of the markets saw negative net absorption during Q2. Los Angeles, San Francisco and Houston each lost more than 1 million SF.

NET ABSORPTION vs LEASING



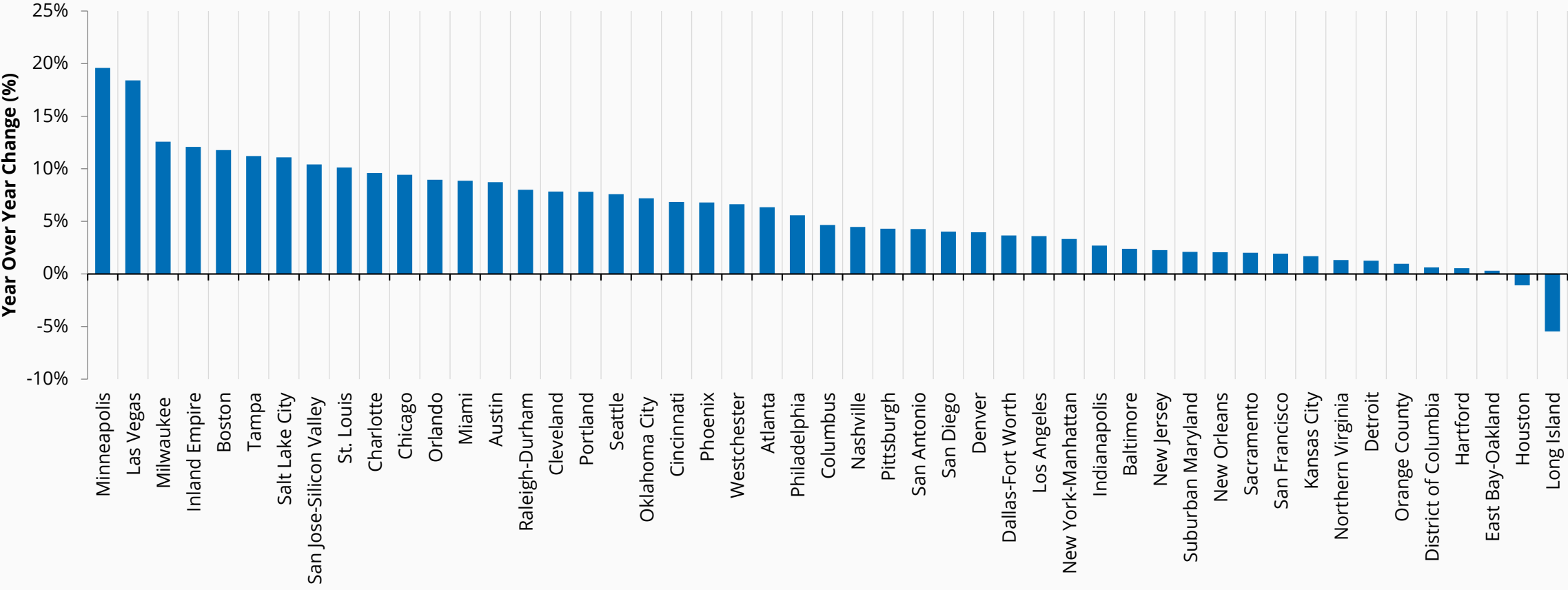
- The accompanying graph analyzes the ratio of net absorption to leasing over the past three years. Markets with a higher ratio may be showing more of a long-term trend towards expansion – with less leasing due to churn and more space occupied.
- Markets that had been trending towards expansion long-term given their relatively high ratio of absorption to leasing activity include Cleveland, Seattle, Raleigh-Durham, Charlotte, and Milwaukee. Given the current downturn, it is undetermined if these trends will continue going forward.

RENTAL RATES



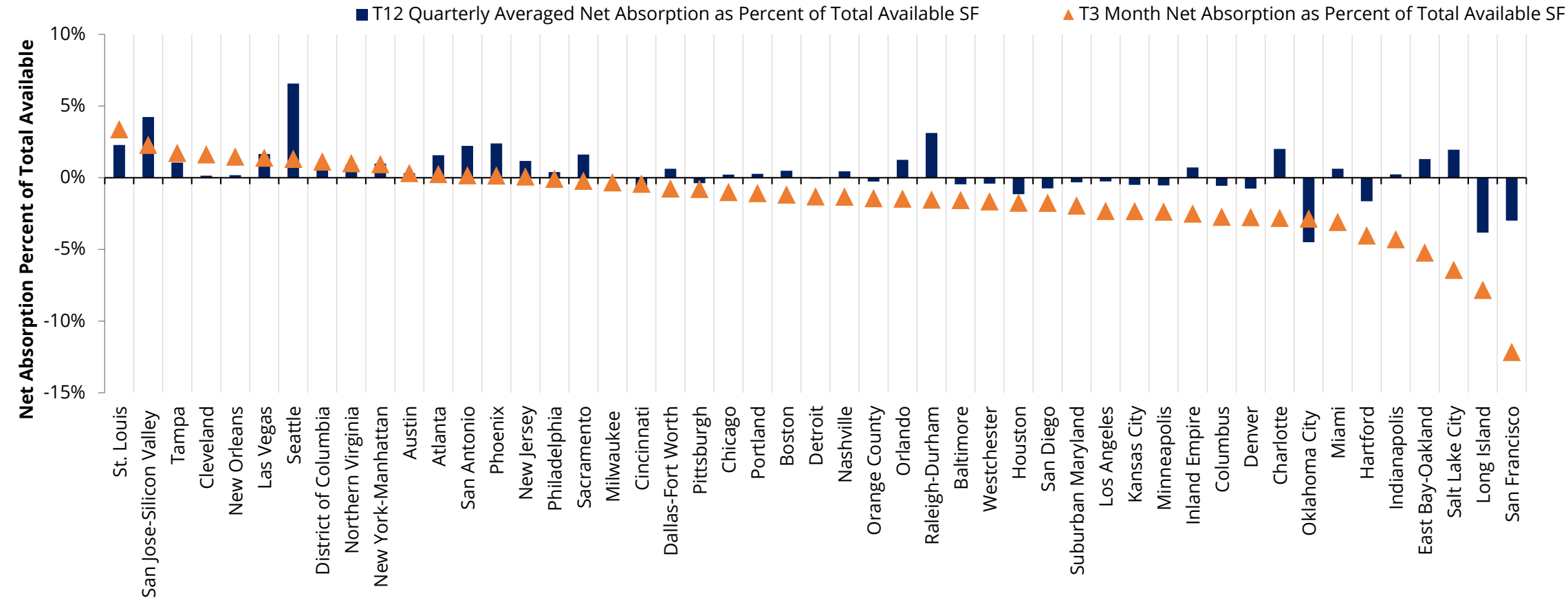
- Differences in rental rates become more exponential between markets on the expensive end of the spectrum.
- The most expensive market (San Francisco) comes in at over 4x the price PSF of the least expensive market (Cincinnati). In fact, San Francisco's rental rates in Q2 2020 were more than double the rate of over 75% of markets tracked. This, along with negative absorption and increased subleasing available may underly its relatively low rental growth over the past year.

RENTAL RATE CHANGE



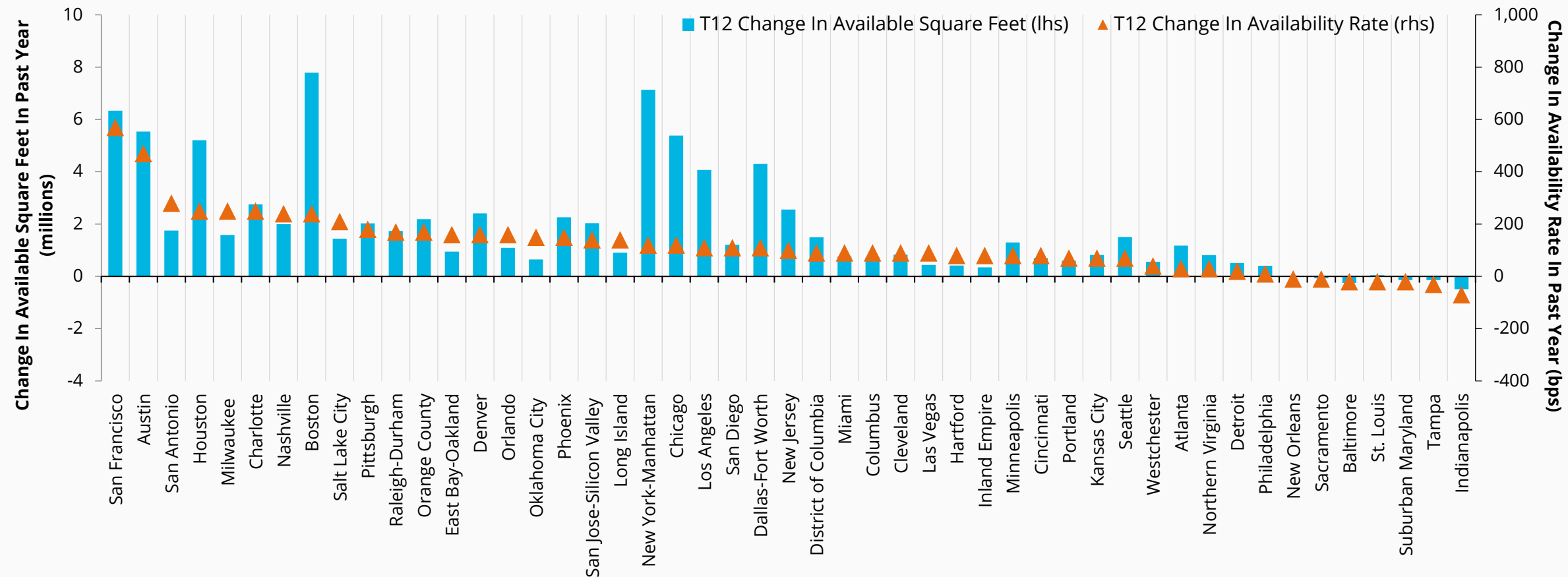
- Highest rental rate growth over the past year was seen mostly in secondary markets, led by Minneapolis and Las Vegas.
- Given the current state of office use and work-from-home policies, leasing activity has been subdued. Lack of demand combined with economic pressure is resulting in shorter lease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

AVAILABILITY & DEMAND MOMENTUM



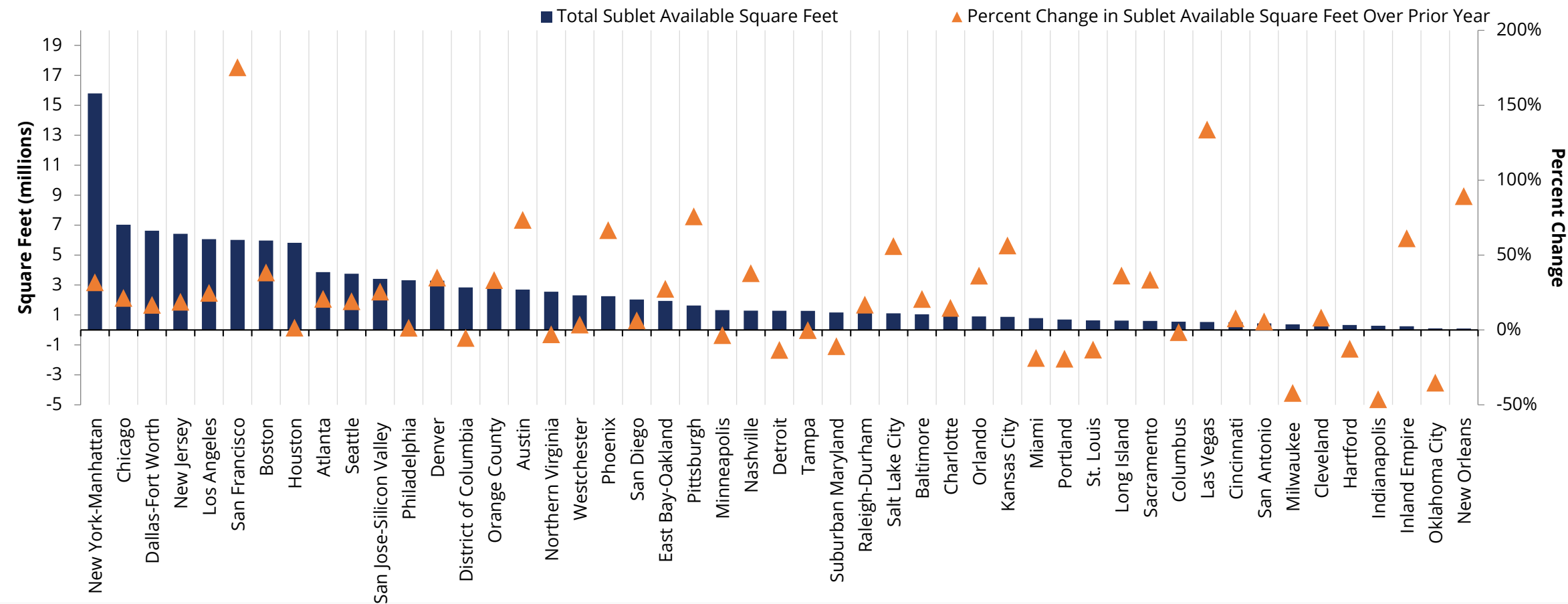
- The accompanying graph compares net absorption to available SF for the most recent quarter, along with the twelve-month rate as a quarterly average. This shows how the most recent quarter compares with the past year.
- Markets in a more favorable position are experiencing relatively strong positive absorption as a percent of available space for both the quarter and the year such as Seattle and San Jose-Silicon Valley.

CHANGE IN AVAILABILITY SF & PERCENT



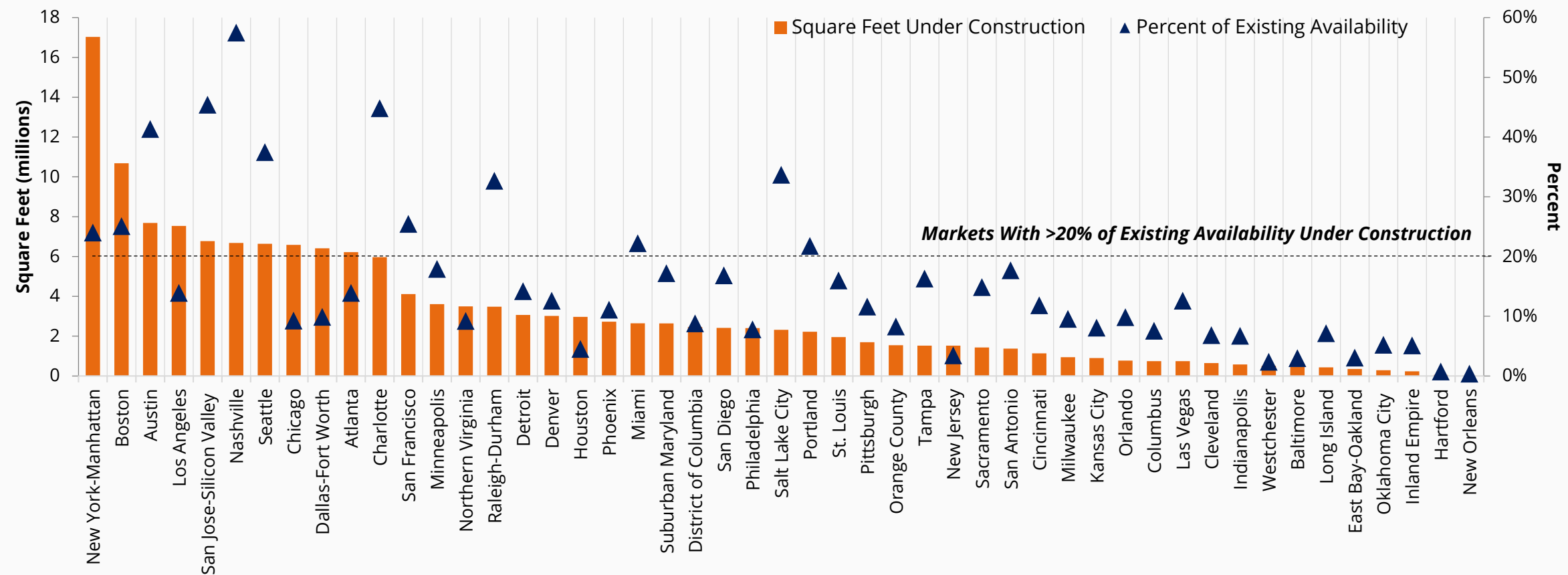
- Nearly 86% of the markets saw an increased availability rate.
- Markets showing a drop in available space are primarily located outside the major office markets, led by Indianapolis, Tampa, St. Louis and Sacramento.

SUBLET AVAILABLE SQUARE FEET



- The accompanying graph shows available sublet space – given its ability to react quickly to changes in demand.
- Over 70% of markets tracked increased sublet available SF over the prior year – a trend that has accelerated since the downturn. San Francisco and Las Vegas 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 PIPELINES vs AVAILABILITY

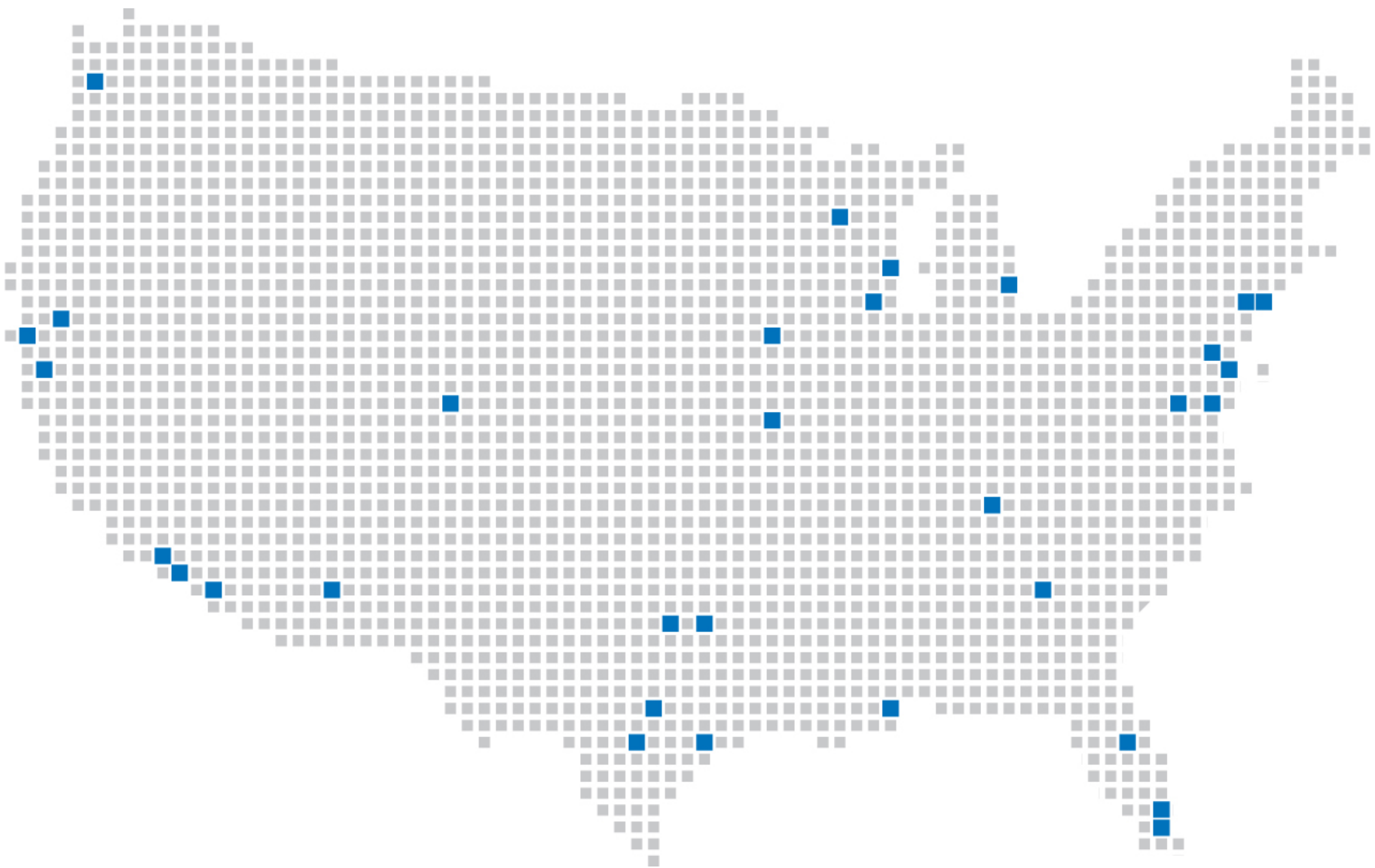


- Under construction percent of existing availability can be a good determinate of future tightening or loosening in a market.
- Markets with particularly high under construction stock relative to available stock include Nashville, San Jose-Silicon Valley, and Charlotte, making them more vulnerable during the downturn.

Market	Inventory SF	Overall Vacancy Rate	Direct Vacancy Rate	Net Absorption	12-Month Net Absorption	Asking Rent Gross	Annual Rent Change	Under Construction
Atlanta	233,891,278	13.9%	13.3%	112,254	2,673,578	\$27.99	6.3%	6,220,731
Austin	102,110,801	10.6%	9.2%	60,318	196,396	\$38.13	8.7%	7,684,440
Baltimore	110,600,439	12.3%	11.8%	(237,231)	(283,698)	\$24.41	2.4%	454,311
Boston	289,566,342	8.7%	7.8%	(500,374)	755,146	\$26.47	11.8%	10,684,943
Charlotte	85,908,667	9.2%	8.3%	(373,178)	946,851	\$30.49	9.6%	5,968,630
Chicago	402,268,710	13.3%	12.5%	(708,604)	591,551	\$27.40	9.4%	6,583,616
Cincinnati	73,283,209	9.8%	9.2%	(40,537)	(282,039)	\$16.70	6.8%	1,138,791
Cleveland	79,557,900	7.5%	7.2%	154,159	51,128	\$19.40	7.8%	646,510
Columbus	76,801,506	9.0%	8.4%	(267,657)	(211,061)	\$19.53	4.7%	743,713
Dallas/Fort Worth	307,043,606	17.5%	16.2%	(489,591)	1,544,496	\$26.87	3.7%	6,411,252
Denver	142,085,976	11.7%	10.5%	(657,349)	(686,912)	\$28.85	4.0%	3,016,213
Detroit	137,907,735	11.3%	10.9%	(281,509)	(53,030)	\$20.03	1.3%	3,066,296
District of Columbia	147,408,112	12.9%	11.7%	314,768	986,230	\$53.62	0.6%	2,456,921
East Bay/Oakland	58,700,357	14.4%	12.6%	(595,028)	566,346	\$39.52	0.3%	351,400
Hartford	48,299,742	10.7%	10.0%	(272,649)	(423,614)	\$20.32	0.5%	49,900
Houston	188,836,188	28.3%	26.7%	(1,147,055)	(2,907,899)	\$29.46	-1.1%	2,970,894
Indianapolis	73,570,854	9.5%	9.2%	(369,423)	80,613	\$20.16	2.7%	580,040
Inland Empire	40,328,141	8.6%	8.2%	(115,171)	121,816	\$23.75	12.1%	235,001
Kansas City	95,215,651	9.1%	8.6%	(259,430)	(205,019)	\$20.41	1.7%	900,635
Las Vegas	38,731,387	12.7%	11.6%	82,580	381,121	\$24.90	18.4%	743,184
Long Island	62,847,416	7.8%	6.9%	(475,382)	(863,583)	\$24.07	-5.5%	435,016
Los Angeles	321,880,678	11.8%	11.0%	(1,256,280)	(527,153)	\$40.07	3.6%	7,535,862
Miami	70,094,344	10.5%	10.0%	(367,632)	283,143	\$41.62	8.9%	2,646,291
Milwaukee	60,069,828	10.2%	9.9%	(31,432)	(5,550)	\$19.43	12.6%	943,047

Market	Inventory SF	Overall Vacancy Rate	Direct Vacancy Rate	Net Absorption	12-Month Net Absorption	Asking Rent Gross	Annual Rent Change	Under Construction
Minneapolis	152,208,607	9.2%	8.8%	(475,285)	(414,840)	\$26.68	19.6%	3,606,965
Nashville	63,491,311	9.1%	8.3%	(153,515)	186,783	\$30.37	4.5%	6,683,631
New Jersey	269,433,076	11.3%	10.2%	38,269	1,975,137	\$27.50	2.3%	1,525,222
New Orleans	34,783,817	7.4%	7.2%	44,347	21,755	\$18.79	2.1%	11,500
New York/Manhattan	537,077,042	8.0%	6.8%	668,911	2,700,404	\$62.49	3.3%	17,029,446
Northern Virginia	187,407,729	15.9%	15.2%	384,628	1,326,525	\$32.81	1.3%	3,495,666
Oklahoma City	38,979,954	11.8%	11.6%	(155,679)	(929,262)	\$18.92	7.2%	285,489
Orange County	121,455,169	10.8%	10.0%	(266,093)	(185,797)	\$32.53	1.0%	1,546,241
Orlando	63,599,759	8.6%	8.2%	(114,595)	358,611	\$23.35	9.0%	772,971
Philadelphia	231,721,829	8.7%	8.2%	(22,745)	460,849	\$27.60	5.6%	2,403,633
Phoenix	132,616,459	13.9%	13.2%	38,729	2,154,510	\$28.11	6.8%	2,727,834
Pittsburgh	104,899,507	9.6%	9.0%	(114,529)	(210,854)	\$24.97	4.3%	1,694,357
Portland	79,393,539	9.6%	9.1%	(109,702)	105,656	\$29.26	7.8%	2,223,351
Raleigh/Durham	80,309,324	8.3%	7.7%	(162,648)	1,167,131	\$27.25	8.0%	3,479,610
Sacramento	69,900,570	10.6%	10.4%	(20,775)	607,616	\$23.78	2.0%	1,430,684
Salt Lake City	59,519,720	8.1%	6.8%	(442,007)	477,184	\$25.26	11.1%	2,317,187
San Antonio	57,705,903	9.3%	8.9%	13,194	607,020	\$22.94	4.3%	1,373,540
San Diego	86,585,907	11.6%	10.5%	(251,201)	(388,905)	\$35.37	4.0%	2,413,493
San Francisco	103,990,936	8.5%	5.7%	(1,962,652)	(1,496,697)	\$68.49	1.9%	4,113,377
San Jose/Silicon Valley	113,904,113	9.8%	8.0%	341,605	2,351,848	\$51.44	10.4%	6,772,691
Seattle	162,519,989	7.3%	6.2%	233,149	4,276,100	\$35.63	7.6%	6,638,478
St. Louis	107,716,430	7.6%	7.3%	413,311	1,073,065	\$21.65	10.1%	1,955,509
Suburban Maryland	85,103,583	14.0%	13.2%	(298,480)	(197,177)	\$27.73	2.1%	2,640,357
Tampa	77,781,308	8.9%	7.7%	161,600	402,433	\$27.58	11.2%	1,526,159
Westchester	132,088,173	11.1%	10.4%	(357,917)	(354,773)	\$30.24	6.6%	515,981

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 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 full-service gross.

FOR MORE INFORMATION

Elizabeth Norton
Sr. Managing Director | Research Services
Elizabeth.Norton@transwestern.com
202 775 7026

Matthew Dolly
Director of Research | New Jersey
Matthew.Dolly@transwestern.com
973 947 9244

Laura Haltom
Manager | Data Analytics
Laura.Haltom@transwestern.com
720 889 4087