CommercialEdge

National Office Report

August 2024

Finding the Right Building for Conversion

- As it has become increasingly clear that remote and hybrid work is here to stay, converting vacant offices to housing stock has drawn interest from building owners and policymakers. Conversion projects have remained somewhat niche, but a new proprietary tool from CommercialEdge shows there is a pool of potential conversion targets that is larger than most may suspect.

- The Conversion Feasibility Index (CFI) is a new tool developed by CommercialEdge that uses a weighted scoring system to evaluate building characteristics and determine suitability for conversion. The CFI creates a score for each building using a variety of factors including building age, location, total square footage, building depth, mid-block location, use type, number of stories, floor-plate shape, ceiling height, green-building certifications, walkability and transit accessibility. Building scores are then sorted into three tiers, with a Tier I building being a top candidate for conversion, Tier II possessing strong potential for conversion but possibly requiring some modifications or adjustments, and Tier III being those buildings that will face significant challenges and limitations.

- In all, more than 228.3 million square feet (2.7% of stock) of office space are classified as Tier I and an additional 1.0 billion square feet (12.1%) as Tier II. The majority of conversion candidates are within CBD or urban submarkets, as only 6.0 million square feet of suburban office space are Tier I and 171.1 million are Tier II. Perhaps unsurprisingly, Manhattan has the largest share of its stock rated as candidates, with 16.8% in Tier I and 36.3% in Tier II. No other top market comes close to having as much space rated strongly for conversion, but San Francisco (6.2% Tier I, 19.6% Tier II), Los Angeles (4.4% Tier I, 20.3% Tier II), Chicago (4.1% Tier I, 14.5% Tier II) and Miami (3.7% Tier I, 12.4% Tier II) all have significant amounts of space that could potentially be converted.

- Even though the pool of potential conversions is large, many projects will have a tough time penciling out. Local governments across the country have been ramping up efforts to increase conversions. New York City's Office Conversion Accelerator, which expedites zoning and permitting, has enrolled dozens of buildings so far. Washington, D.C.'s Office-to-Anything Program offers a 15-year tax freeze for eligible projects. Further value destruction could also make more conversions economically feasible. The average sale price of an office is down 40% since 2021, and more than a quarter of all buildings that have sold this year have done so at a discount to their prior sale price.

Listing Rates and Vacancy: Even Strong Texas Markets Face Vacancy Spikes

- The national average full-service equivalent listing rate was $31.67 per square foot in July, according to CommercialEdge, unchanged from the previous month.
- The national vacancy rate was 18.1%, an increase of 100 basis points year-over-year.
- Vacancy rates have been moving upward everywhere since the onset of the pandemic, even in the two Texas markets that weathered the shift to remote and hybrid work better than most, Dallas and Austin. In the past year, Dallas' vacancy rate has shot up by 340 basis points and Austin's has increased by 240. Part of this is due to the impact of new supply. Austin's stock has grown 10.7% since the start of 2021, but Dallas' has increased just 3.8% during that time. For a while, these markets were propped up by strong employment growth in office-using sectors, but that appears to be over, as Dallas has increased just 0.2% year-over year while Austin is down 0.3%.

Listings by Metro

Market	Jul-24 Listing Rates	12 Month Change	Total Vacancy	12 Month Change	Top Listing	Price Per Sq Ft
National	$31.67	-0.1%	18.1%	100 bps		
Miami	$49.79	5.9%	12.0%	-80 bps	701 Brickell	$140.00
Dallas	$28.77	5.2%	21.8%	340 bps	McKinney & Olive	$86.31
Atlanta	$32.02	3.9%	18.4%	-30 bps	1180 Peachtree	$62.50
Tampa	$29.23	3.9%	13.3%	-110 bps	Central, The	$60.00
Philadelphia	$31.48	2.6%	15.3%	260 bps	Two Liberty Place	$53.50
Boston	$47.60	2.4%	12.8%	280 bps	Alexandria Center at Kendall Square–75 Binney St.	$76.58
Manhattan	$71.34	1.9%	16.6%	-90 bps	One Vanderbilt	$252.00
New Jersey	$34.80	1.4%	17.0%	0 bps	Harborside Financial Plaza 10	$53.22
Bay Area	$53.71	0.4%	20.8%	280 bps	245 Lytton Avenue	$147.48
Washington DC	$40.45	0.2%	16.2%	180 bps	500 8th Street NW	$79.58
Detroit	$21.61	0.0%	19.2%	-550 bps	Orchestra Place	$36.14
Denver	$30.58	-0.1%	22.1%	180 bps	200 Clayton Street	$73.00
Austin	$42.14	-0.6%	22.9%	240 bps	Indeed Tower	$84.21
Nashville	$30.01	-0.8%	16.0%	-150 bps	Three Thirty Three	$44.88
Orlando	$24.47	-1.0%	15.6%	20 bps	Wells Fargo Tower	$31.00
Chicago	$27.27	-1.0%	19.1%	-50 bps	Innovation and Research Park	$75.00
Phoenix	$27.45	-1.1%	18.3%	-130 bps	Camelback Collective	$52.50
Houston	$29.82	-2.3%	23.8%	20 bps	Texas Tower	$64.90
Charlotte	$30.77	-2.7%	14.9%	10 bps	Morehead Place	$46.00
Seattle	$36.89	-2.9%	23.2%	260 bps	1208 Eastlake Avenue East	$94.00
Portland	$27.09	-4.1%	17.1%	90 bps	Fox Tower	$43.38
San Francisco	$61.38	-4.2%	25.4%	420 bps	Sand Hill Commons	$204.00
Los Angeles	$40.79	-4.6%	17.0%	210 bps	2000 Avenue of the Stars	$118.20
San Diego	$41.70	-8.0%	18.0%	260 bps	La Jolla Commons–Tower I	$72.60
Twin Cities	$24.91	-8.4%	16.1%	-190 bps	Fifty South Sixth	$36.85

Source: CommercialEdge. Data as of July 2024. Listing rates are full-service or "full-service equivalent" rates for spaces available as of report period. National listing rate is an average of all markets. Prior to July 2024, this report used the top 50 markets for a national average.

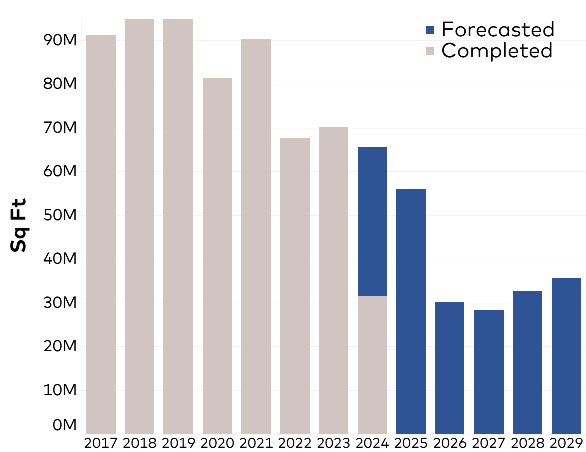
Supply:
Life Science Slowdown Impacts Boston Pipeline

- Nationally, 73.8 million square feet of office space are under construction, according to CommercialEdge, representing 1.1% of stock. Starts have fallen in the past two years, and the under-construction pipeline has shrunk by more than 26 million square feet year-to-date.

- A wave of venture capital funding benefited the life sciences sector coming out of the pandemic, but enthusiasm appears to have waned in recent quarters. The slowdown can be seen in the development of new lab space, which hit historic highs in recent years but has cooled significantly this year. Life sciences accounted for more than a quarter of all starts in 2022 and 2023, but in 2024 has fallen to just 11%.

- The Boston market is by far the largest life science cluster in the nation. As such, it saw the most development activity from the life science boom. Many of these projects are still being built, which is why Boston's pipeline dwarfs that of every other market. This year, however, Boston has seen a mere 320,000 square feet break ground.

National New Supply Forecast



Source: Yardi Matrix. Data as of July 2024.
Data in this chart includes owner-occupied properties.

Supply Pipeline (by metro)

Market	Under Construction	Under Construction % Stock	Plus Planned % Stock
National	73,767,960	1.1%	3.7%
Austin	4,372,748	4.6%	13.0%
Boston	10,991,273	4.4%	10.2%
Miami	2,834,992	3.9%	10.6%
San Diego	3,571,449	3.7%	6.4%
Nashville	2,125,600	3.6%	9.5%
Tampa	2,582,860	3.3%	6.0%
San Francisco	4,720,974	2.9%	10.6%
Dallas	5,074,940	1.8%	11.4%
Charlotte	1,146,657	1.5%	5.9%
Seattle	2,091,207	1.4%	4.8%
Bay Area	2,448,528	1.2%	4.4%
Philadelphia	1,982,424	1.1%	3.0%
Denver	1,669,096	1.0%	3.5%
Orlando	640,619	0.9%	3.0%
Los Angeles	2,653,794	0.9%	3.3%
Atlanta	1,832,803	0.9%	2.5%
New Jersey	1,510,689	0.8%	1.2%
Houston	1,827,117	0.7%	1.9%
Washington DC	2,354,218	0.6%	3.8%
Portland	354,450	0.6%	1.3%
Manhattan	2,772,026	0.6%	2.9%
Detroit	524,000	0.4%	0.9%
Twin Cities	435,666	0.4%	2.0%
Phoenix	524,190	0.4%	2.2%
Chicago	831,144	0.3%	1.3%

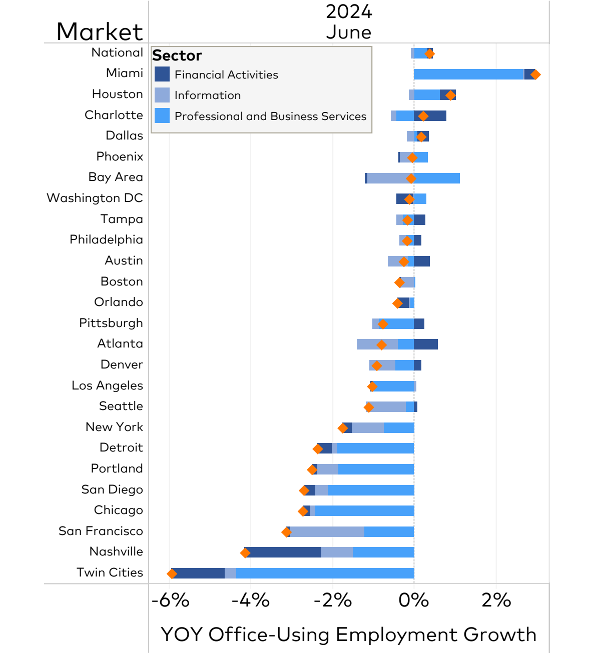
Source: CommercialEdge. Data as of July 2024. Table does not include owner-occupied properties.

Office-Using Jobs:
Office Employment Pain Intensifies

- Office-using sectors of the labor market combined to lose 25,000 workers in the month of July. Most of the losses were concentrated in the information sector, which lost 20,000 jobs in the month. The financial activities sector decreased by 4,000 jobs, and professional and business services shrank by 1,000.

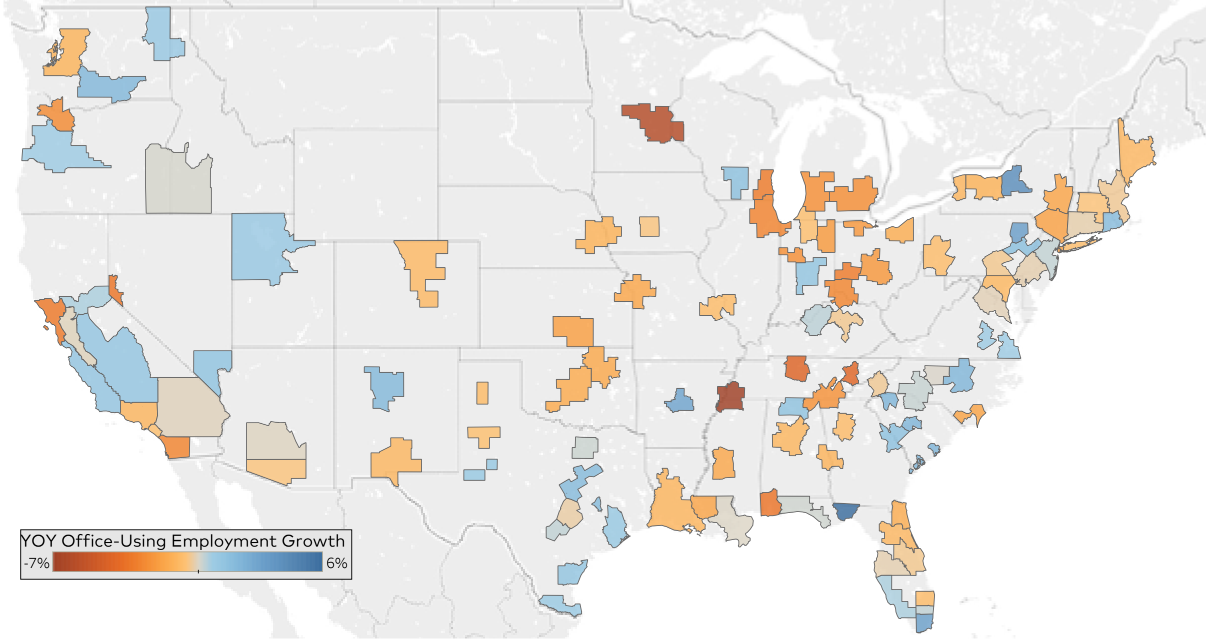
- Metro data, which trails the national release, shows office employment falling in most major markets in June. On a year-over-year basis, only four of the top 25 markets have seen growth in office-using sectors of the labor market. The top market that has lost the most office jobs over the past 12 months is the Twin Cities, which has decreased by 6.0% year-over-year, losing 29,450 jobs. That's followed by Nashville (-4.2%, -13,190 jobs), San Francisco (-3.1%, -17,030 jobs), Chicago (-2.7%, -34,250 jobs) and San Diego (-2.7%, -10,120 jobs). Even markets in Florida and Texas, which grew rapidly a few years ago, now only see minor increases in office-using employment.

Growth by Sector



Sources: Bureau of Labor Statistics and Moody's Analytics

Office-Using Employment Growth



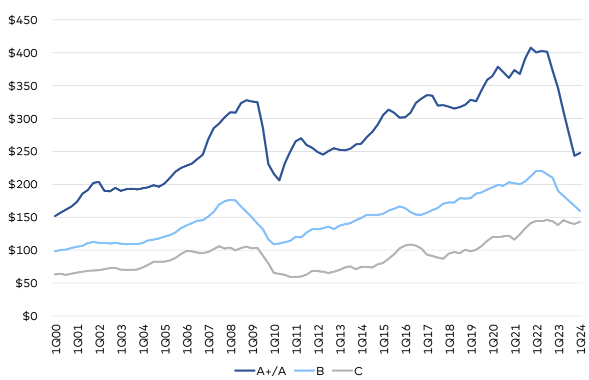
Sources: Bureau of Labor Statistics and Moody's Analytics

Transactions:
Share of Discounted Sales Increases in 2024

- CommercialEdge recorded $17.1 billion in office sales through the end of July, with properties trading at an average of $173 per square foot.

- The share of discounted sales is on the rise, with 28% of all office buildings that have sold this year trading for a lower price than their previous recorded sale. That's up from 18% of all office transactions last year. With more than $200 billion in loans maturing before the end of 2026 and demand for space remaining weak, we expect the share of such sales to continue to increase.

Asset Class (price PSF)



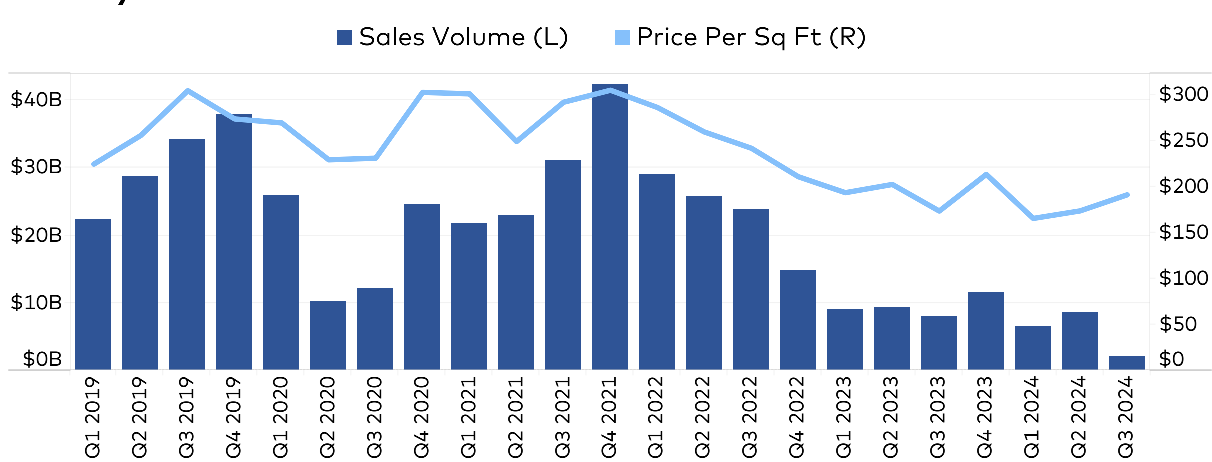
Source: CommercialEdge; 12-month moving average.
Does not include unpublished and portfolio transactions.

Sales Activity

Market	YTD Sales Price PSF	YTD Sales (Mil, as of 07/31)
National	$173	$17,086
Manhattan	$439	$2,035
Washington DC	$228	$1,571
Bay Area	$261	$1,011
Boston	$244	$863
Phoenix	$171	$705
Austin	$432	$699
Los Angeles	$430	$617
Dallas	$116	$584
Chicago	$92	$514
Houston	$103	$482
Atlanta	$146	$478
Miami	$368	$409
Tampa	$146	$392
San Diego	$277	$370
New Jersey	$112	$351
Seattle	$182	$319
Denver	$116	$276
Twin Cities	$134	$271
Philadelphia	$83	$224
San Francisco	$269	$220
Nashville	$205	$195
Orlando	$162	$126
Detroit	$92	$108
Charlotte	$143	$87
Portland	$178	$45

Source: CommercialEdge. Data as of July 2024. Sales data for unpublished and portfolio transactions is estimated using sales comps.

Quarterly Transactions



Source: CommercialEdge. Data as of July 2024.

Definitions

This report covers office buildings 25,000 square feet and above. CommercialEdge subscribers have access to more than 14,000,000 property records and 300,000 listings for a continually growing list of markets.

CommercialEdge collects listing rate and occupancy data using proprietary methods.

- *Listing Rates*—Listing Rates are full-service rates or "full-service equivalent" for spaces that were available as of the report period. CommercialEdge uses aggregated and anonymized expense data to create full-service equivalent rates from triple-net and modified gross listings. Expense data is available to CommercialEdge subscribers. National listing rate is an average of all markets. Prior to July 2024, this report used the top 50 markets for a national average.

- *Vacancy*—The total square feet vacant in a market, including subleases, divided by the total square feet of office space in that market. Owner-occupied buildings are not included in vacancy calculations.

A and A+/Trophy buildings have been combined for reporting purposes.

Stage of the supply pipeline:

- *Planned*—Buildings that are currently in the process of acquiring zoning approval and permits but have not yet begun construction.

- *Under Construction*—Buildings for which construction and excavation has begun.

Supply pipeline figures do not include owner-occupied properties unless otherwise noted.

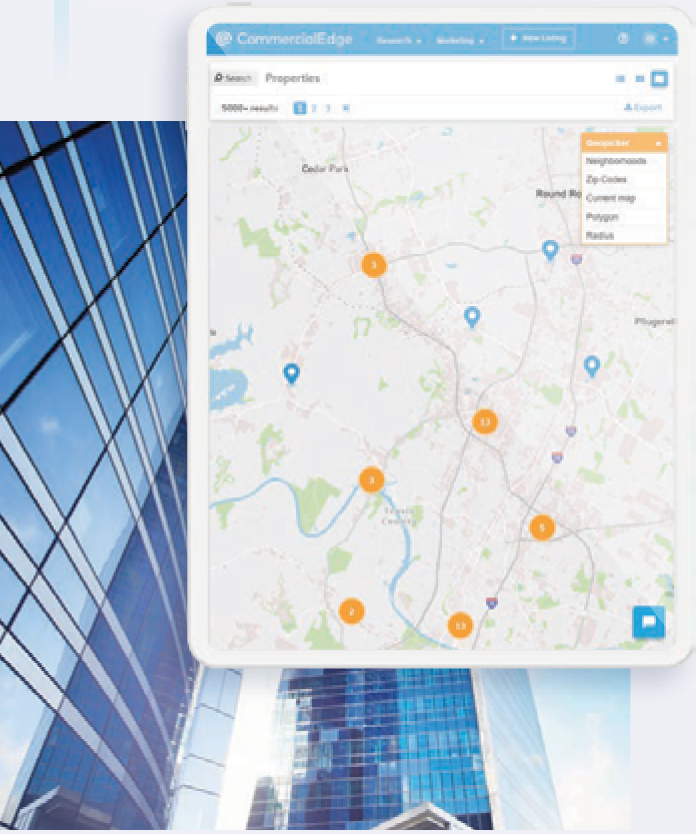
Office-Using Employment is defined by the Bureau of Labor Statistics as including the sectors Information, Financial Activities, and Professional and Business Services. Employment numbers are representative of the Metropolitan Statistical Area and do not necessarily align exactly with CommercialEdge market boundaries.

Sales volume and price-per-square-foot calculations for portfolio transactions or those with unpublished dollar values are estimated using sales comps based on similar sales in the market and submarket, use type, location and asset ratings, sale date and property size.

CommercialEdge

Reliable commercial real estate data, built up over more than a decade of extensive research. Powered by Yardi.

CommercialEdge provides the office segment's most comprehensive market intelligence service and listing management platform, sustaining data-driven decisions.



Key features:

- Continually growing nationwide coverage with 162 markets currently included
- Researched and verified data, powered by a team of 400 experienced property research specialists
- Exhaustive property reports featuring data points such as ownership, leases, sales, debt, taxes and more
- Building and portfolio performance overview with current average rents, vacancy rates and maturing leases
- Extensively researched tenant data with an accuracy rate two to three times higher than the industry average
- Real-time market trends based on actual transactional and leasing data with Yardi Market Insight
- Dedicated tools, including automated competitive building sets, broker tour books and dedicated property webpages
- Access to the CommercialEdge Listing Network — including CommercialCafe, PropertyShark, Point2 and CommercialSearch

Capitalize on comprehensive commercial real estate research
Nationwide property and listing data all in one place, specifically engineered for CRE professionals.

The data presented in this report is provided by CommercialEdge.
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