



State Of The U.S. Office Market

2017 Q1 Review And Forecast

- Overview
- Economy
- Fundamentals
- Capital Markets
- Opportunity Zone
- Most And Least

Deliveries Spike - Absorption & Rent Growth Slows



Summary Of National Office Market Conditions

	2015 (Actual)	2016 (Actual)	2017 (Forecast)	17Q1 (Actual)
Net Absorption	104M SF (7%)	83M SF (-20%)	75M SF (-10%)	10M SF
Vacancy	10.6%	10.2%	10.4%	10.3%
Rent Growth (Y/Y)	5.0%	2.9%	2.0%	2.3%
Deliveries	66M SF (42%)	59M SF (-10%)	98M SF (66%)	19M SF
Under Construction	131M SF	145M SF		143M SF
Sales Volume	\$156B (20%)	\$147B (-6%)		\$27B

Economy

Exports Are Stabilizing

Housing Shortage

Weak Earnings Growth Could Temper Job Creation

Signs Point To Continued Recovery

Americans Are Feeling Richer

Construction Offers Upside In Growth

ISM Rebounding From

Consumption Is Driving Growth

Inflation Remains Subdued

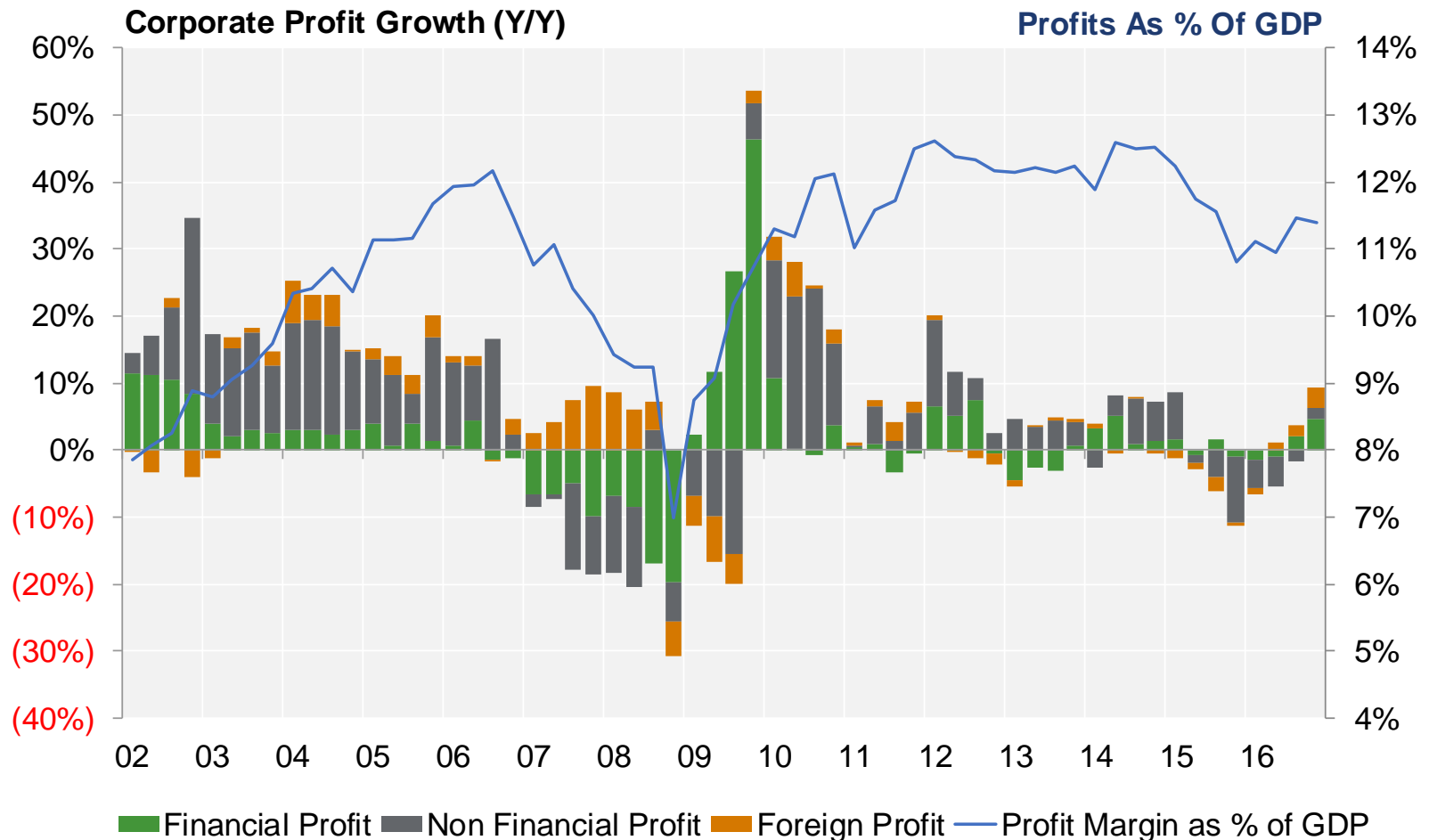
Profits Still Elevated Relative to GDP

Interest Rates Have Ticked Up Since 16Q3 Recovery

Slowing Productivity Growth Could Limit GDP Upside

Growth In Profits Generally Results In More Jobs

Corporate Profit, Sales, Employment Trends



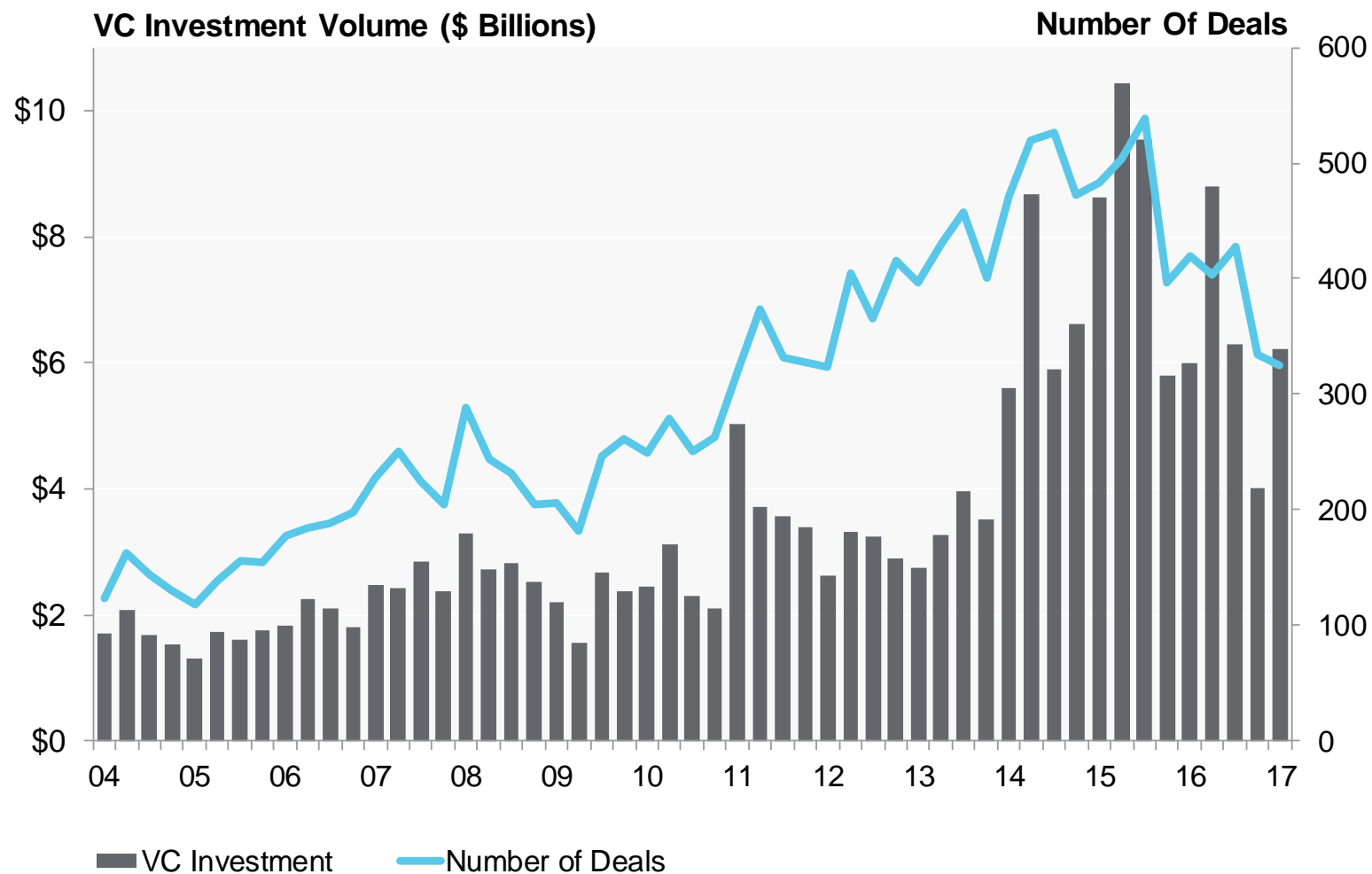
Sources: Moody's Analytics; BEA; Barron's; CoStar Portfolio Strategy

As of April 2017

Less Cash To Fuel Technology Growth



Silicon Valley Venture Capital Investment

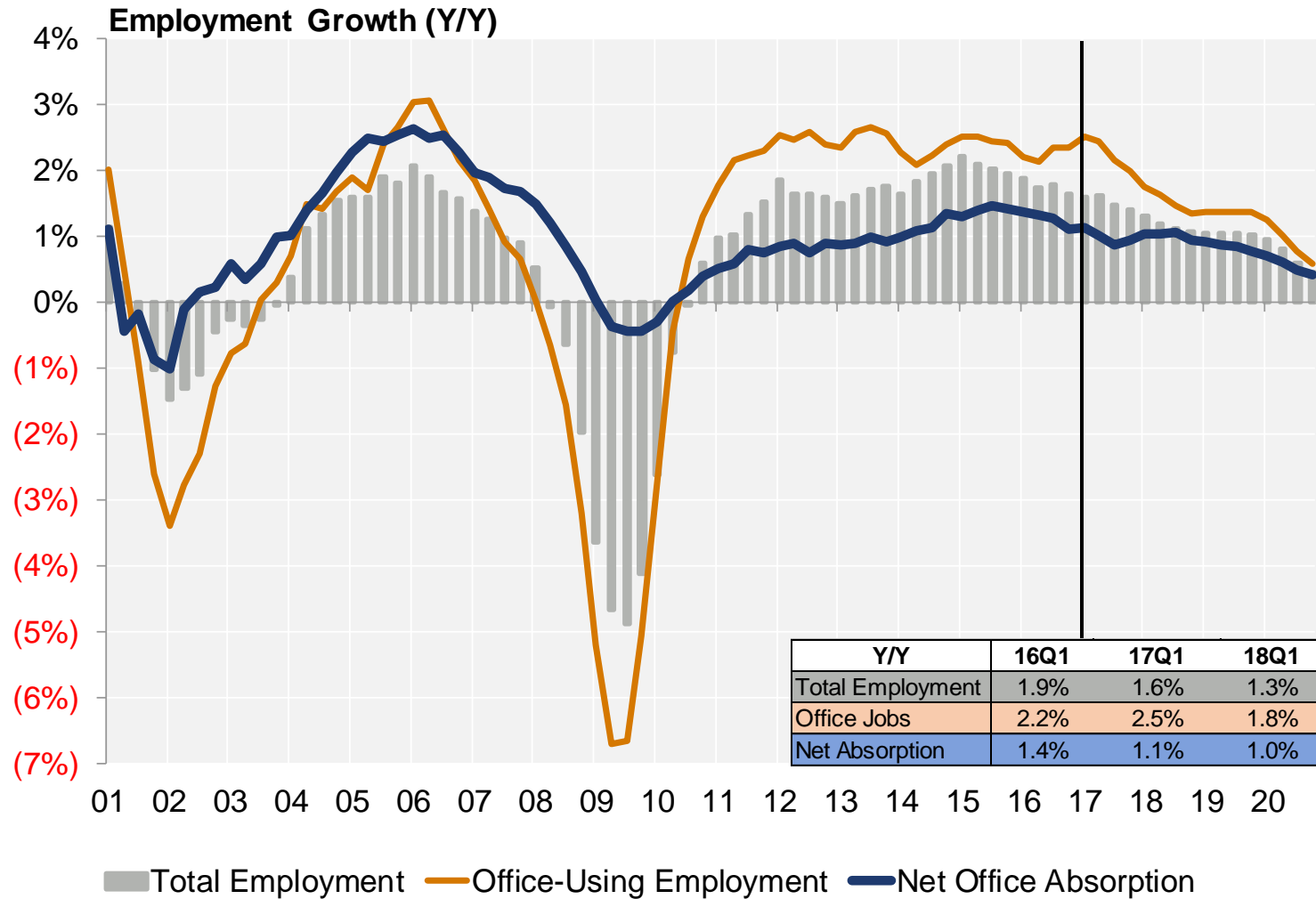


Sources: PWC; CoStar Portfolio Strategy

As of 17Q1

Office-Using Employment Remains Strong

Total And Office-Using Employment Growth (Y/Y)

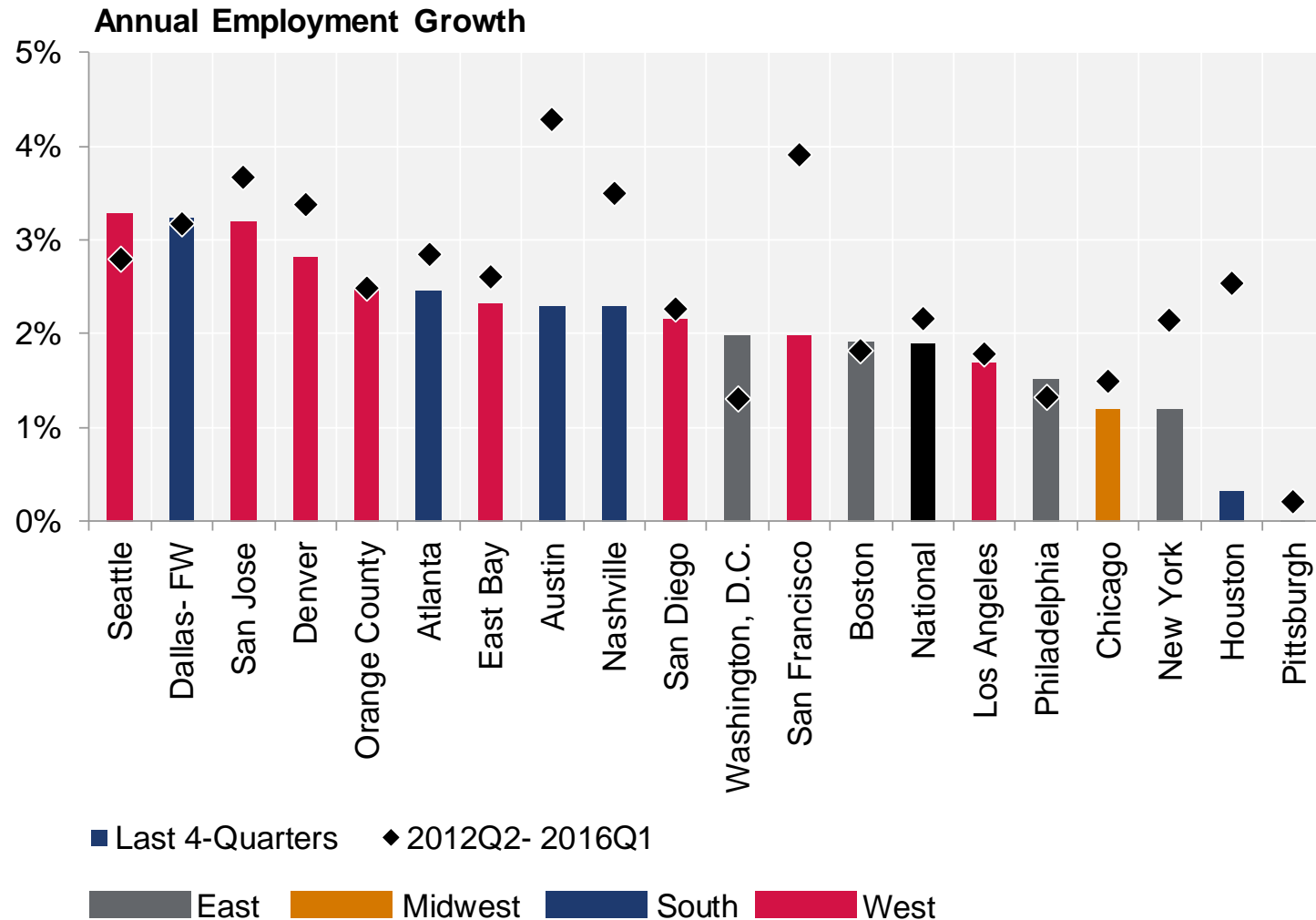


Sources: Moody's Analytics; BLS; CoStar Portfolio Strategy

As of April 2017

Job Growth Slowed In Most Markets

Employment Growth By Metro

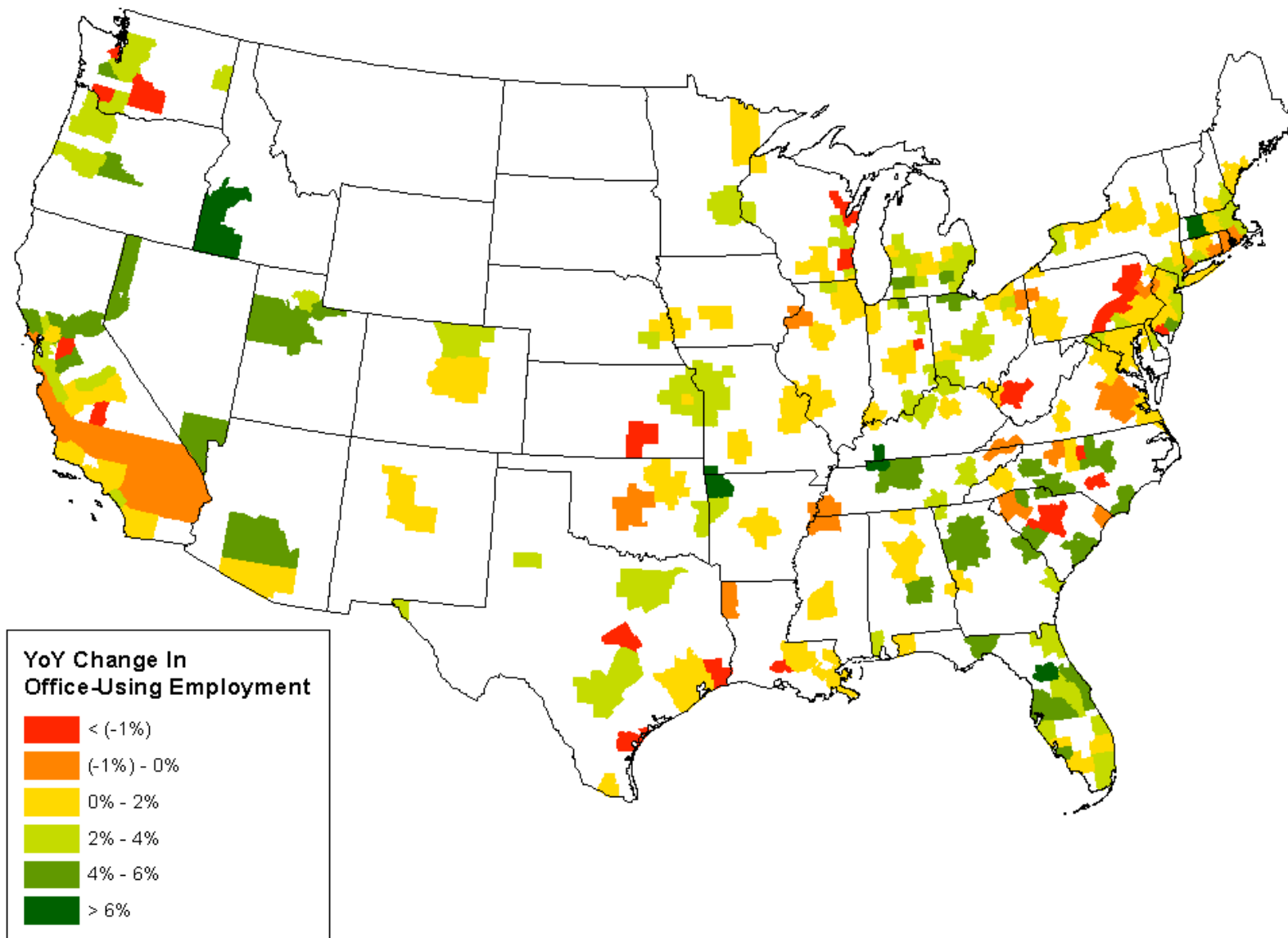


Source: Moody's Analytics; CoStar Group

As of 17Q1

Generally The Job Picture Is Moderating

Office-Using Employment Y/Y Change By Metro

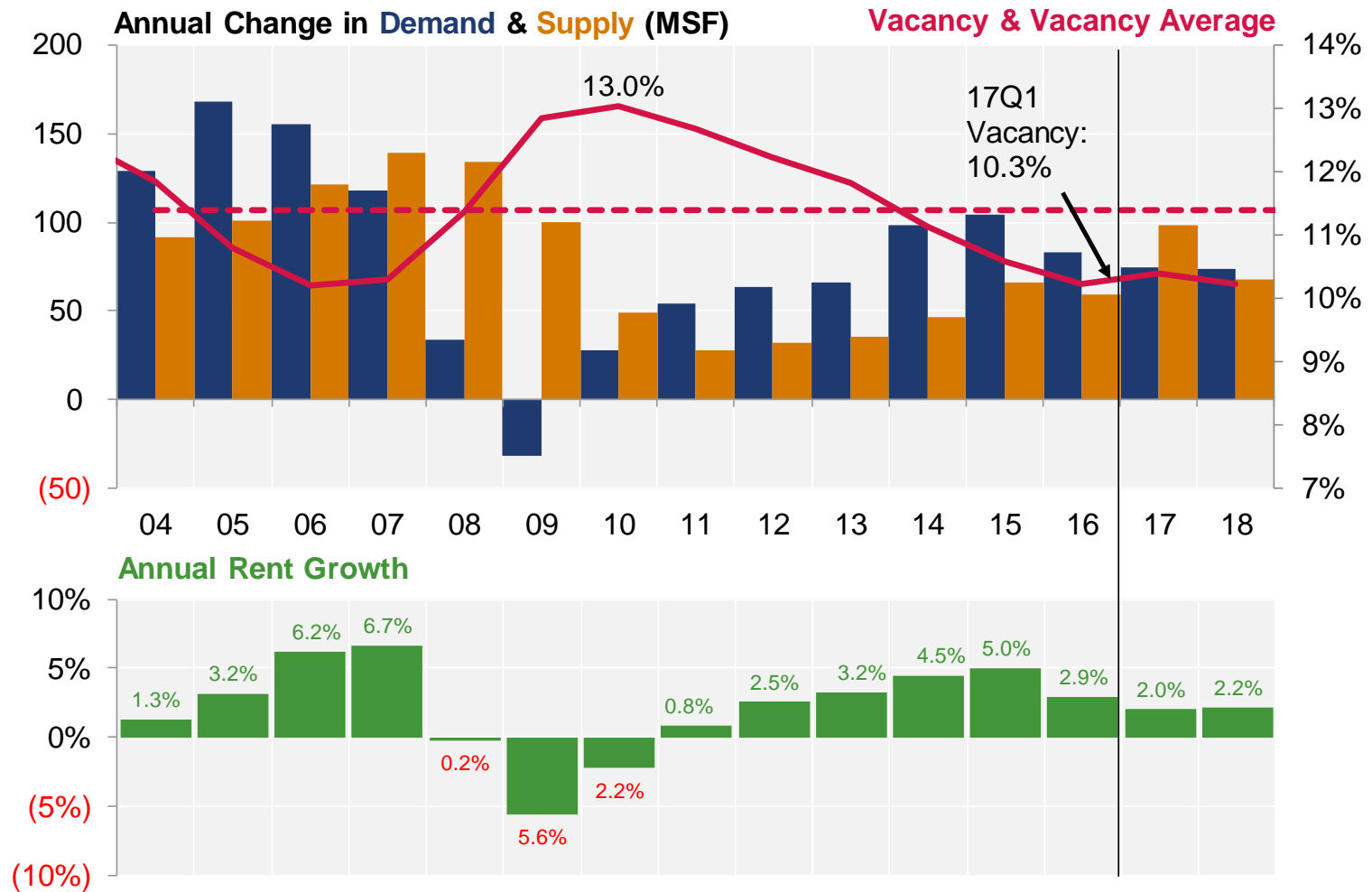


Fundamentals



Supply Increase To Expand Vacancies

National Index Vacancy And Demand, Supply Percentage Changes



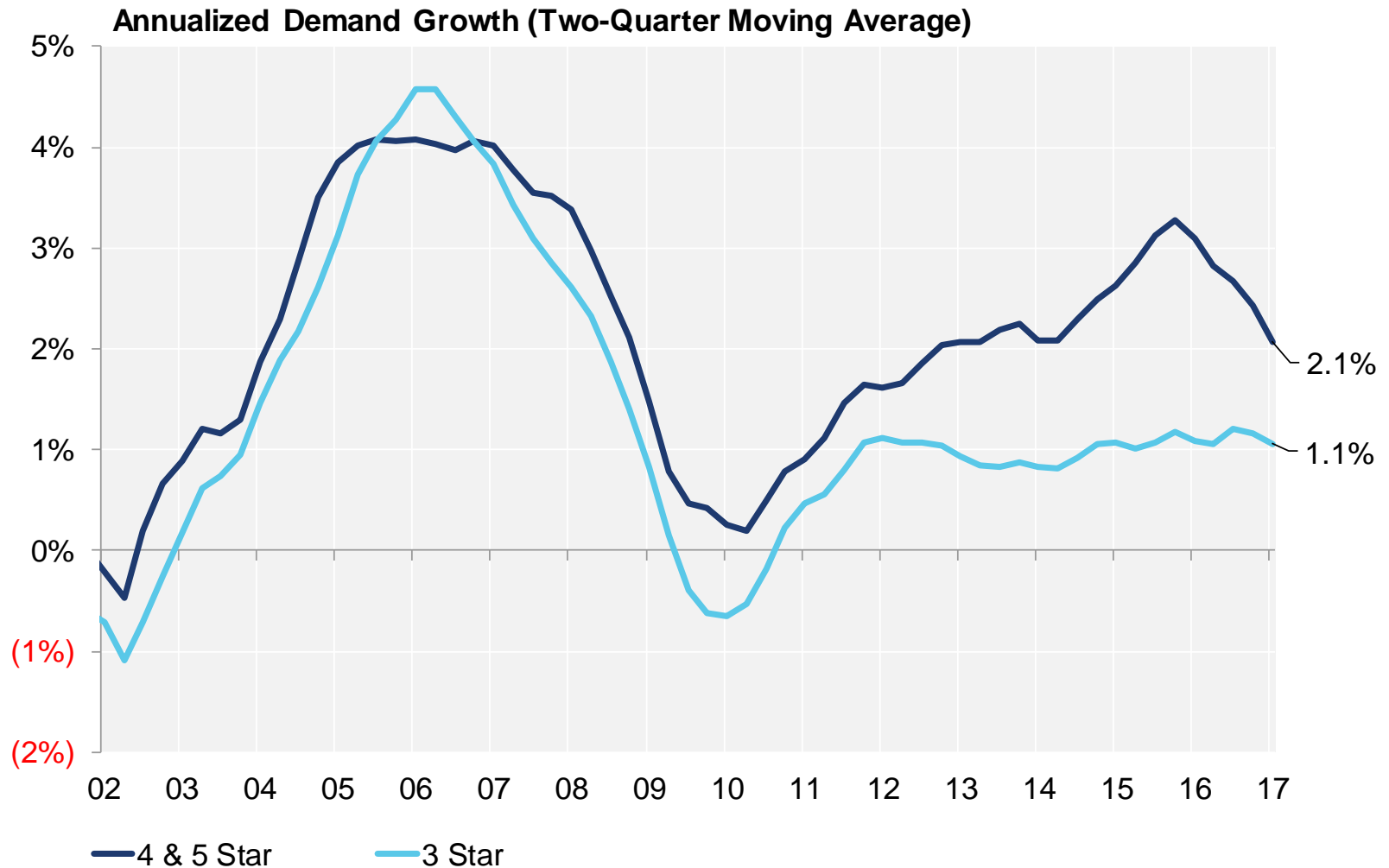
Source: CoStar Portfolio Strategy

As of 17Q1

Top Quality Assets Capture The Most Demand



Net Office Absorption By Building Star Rating



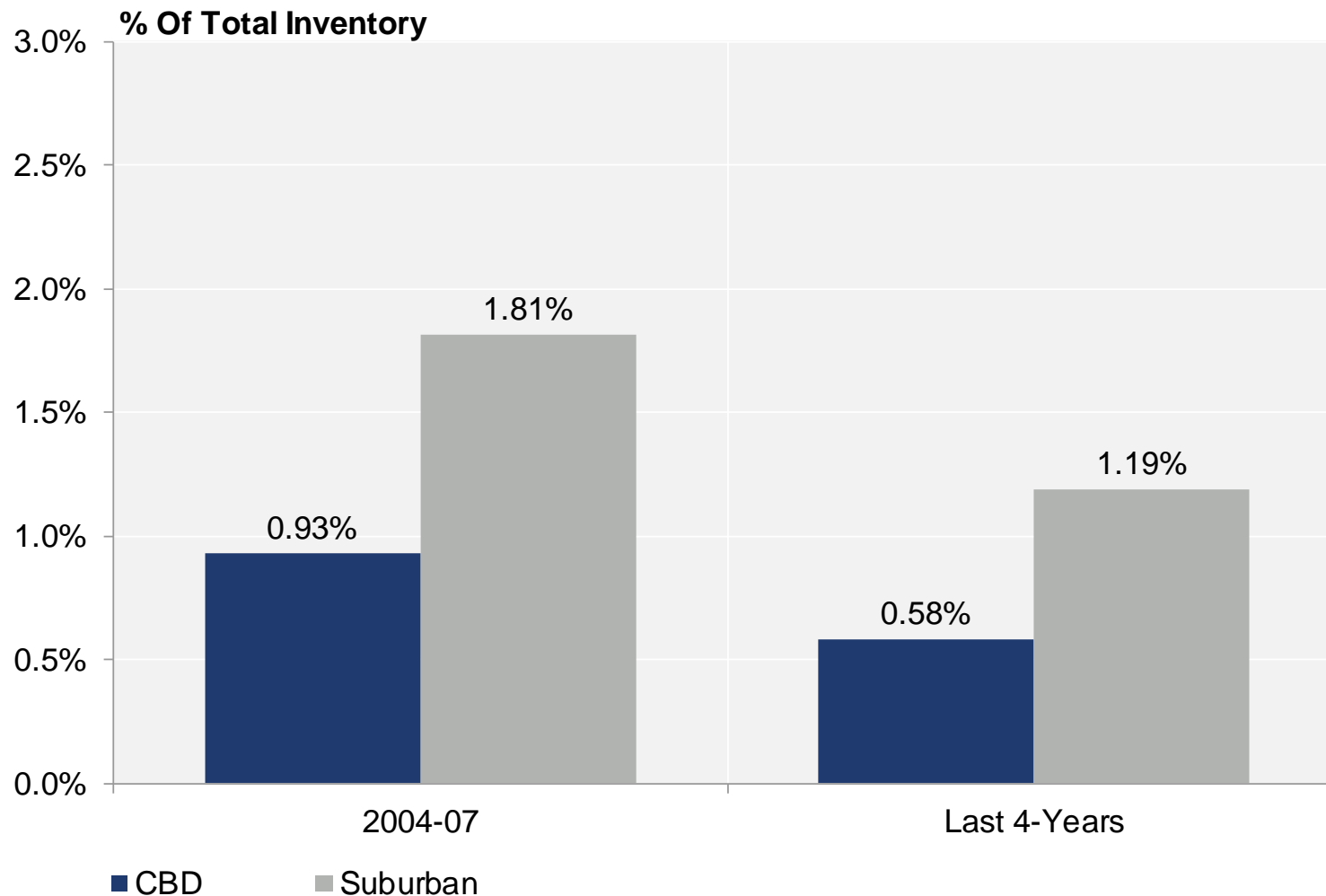
Source: CoStar Portfolio Strategy

As of 17Q1

Suburban Space Sees Greater Absorption Than CBD



Annualized U.S. Office Absorption Growth As % Of Total Inventory



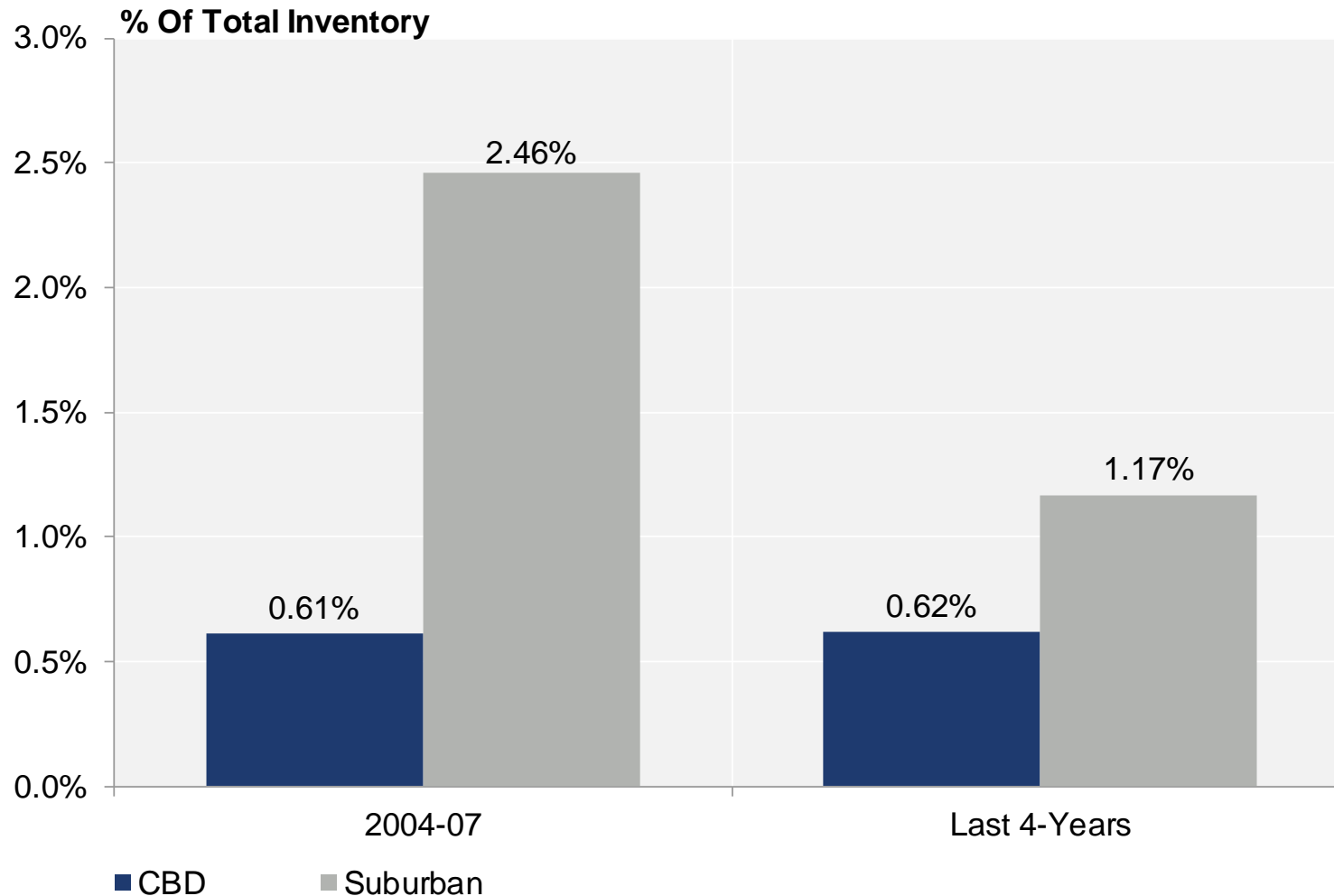
Source: CoStar Portfolio Strategy

As of 17Q1

Suburban Construction Decreased Over Last 4-Years



Annualized U.S. Office Construction Growth As % Of Total Inventory

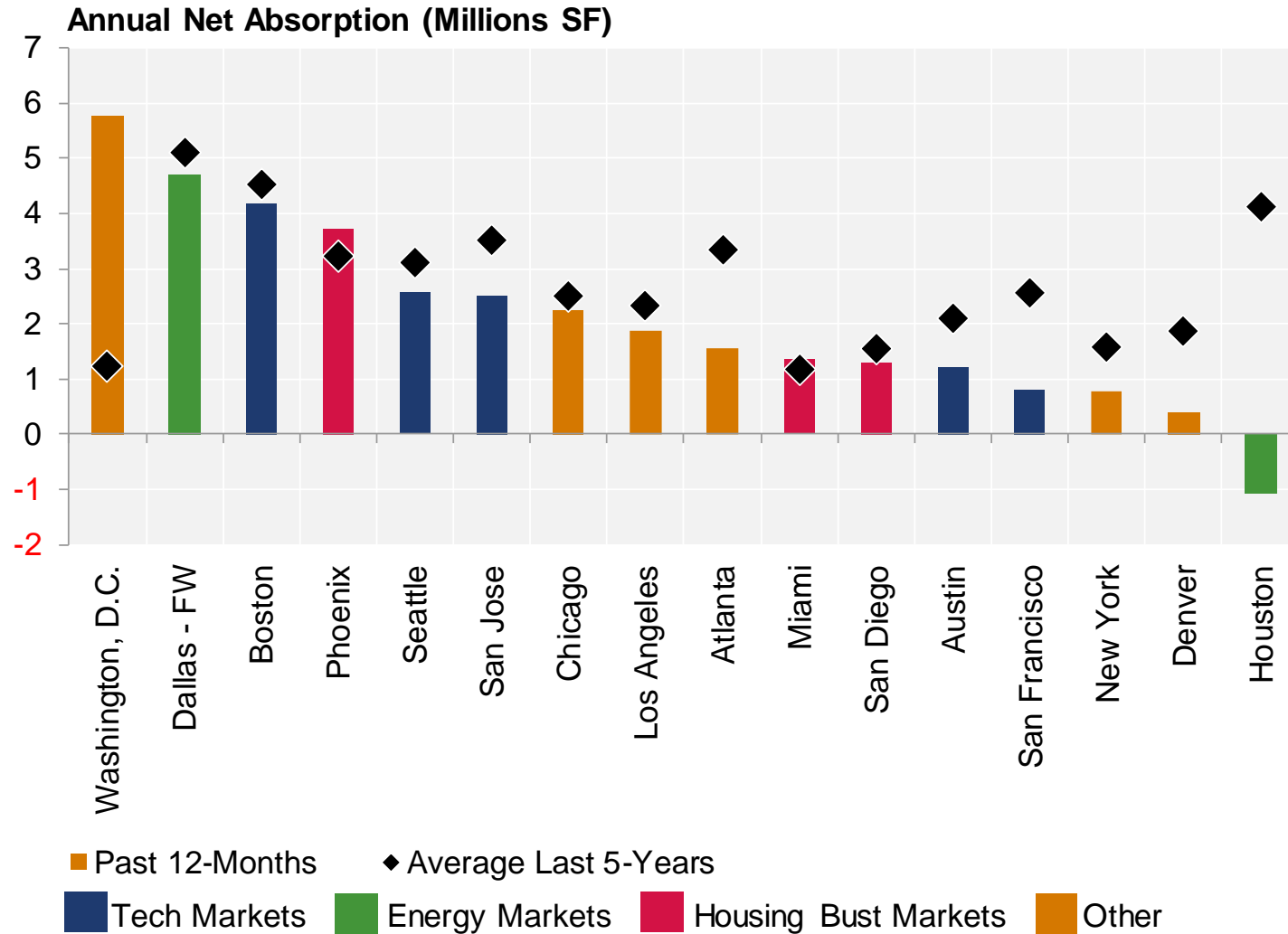


Source: CoStar Portfolio Strategy

As of 17Q1

Most Markets Below 5-Year Average

Annual Net Absorption Last 12-Months And Last 5-Years



Source: CoStar Portfolio Strategy

As of 17Q1

Demand Slowing In A Majority Of Major Markets



Demand Momentum Year-Over-Year

2012	2013	2014	2015	2016	2017
Atlanta Chicago Detroit East Bay Houston Los Angeles Minneapolis Nashville New York Orange County Philadelphia Phoenix San Francisco San Jose Seattle Tampa Boston Dallas - FW Denver Miami Northern NJ Orlando San Diego Washington, D.C.	Atlanta Boston Chicago Dallas - FW Denver East Bay Miami Northern NJ Orange County Phoenix San Diego San Jose Tampa Detroit Houston Los Angeles Minneapolis Nashville New York Orlando Philadelphia San Francisco Seattle Washington, D.C.	Atlanta Boston Dallas - FW Denver Detroit Houston Los Angeles Minneapolis Orlando Philadelphia San Francisco Tampa Washington, D.C. Chicago East Bay Miami Nashville New York Northern NJ Orange County Phoenix San Diego San Jose Seattle	Chicago Dallas - FW Denver Miami Minneapolis Nashville New York Northern NJ Orange County Orlando Philadelphia San Diego San Francisco San Jose Seattle Tampa Atlanta Boston Detroit East Bay Houston Los Angeles Phoenix Washington, D.C.	Atlanta Boston Chicago Denver Detroit East Bay Los Angeles Minneapolis Nashville Northern NJ Orlando Phoenix San Jose Seattle Tampa Dallas - FW Houston Miami New York Orange County Philadelphia San Diego San Francisco Washington, D.C.	Detroit Miami New York Orange County Orlando Philadelphia San Diego Washington, D.C. Atlanta Boston Chicago Dallas - FW Denver East Bay Houston Los Angeles Minneapolis Nashville Northern NJ Phoenix San Francisco San Jose Seattle Tampa

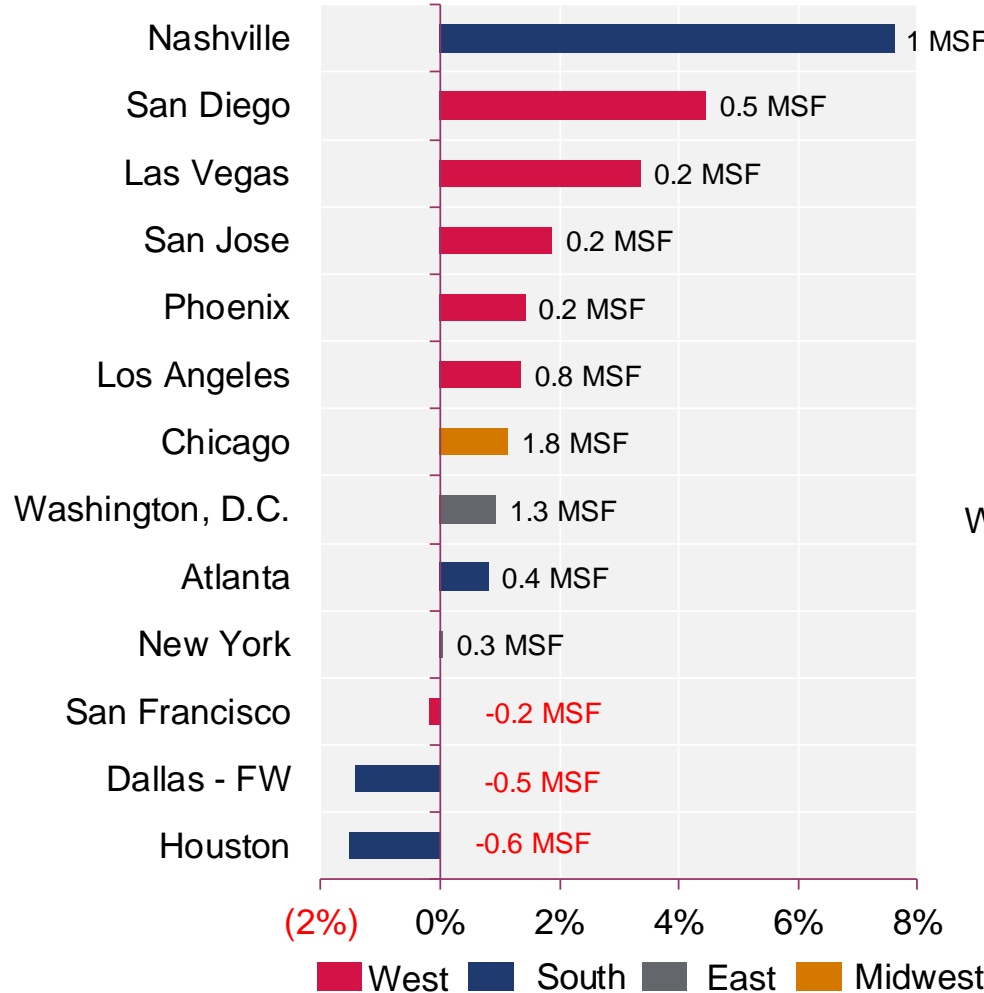
Demand Accelerating Demand Decelerating

Suburban Office Market Demand Shows Strength

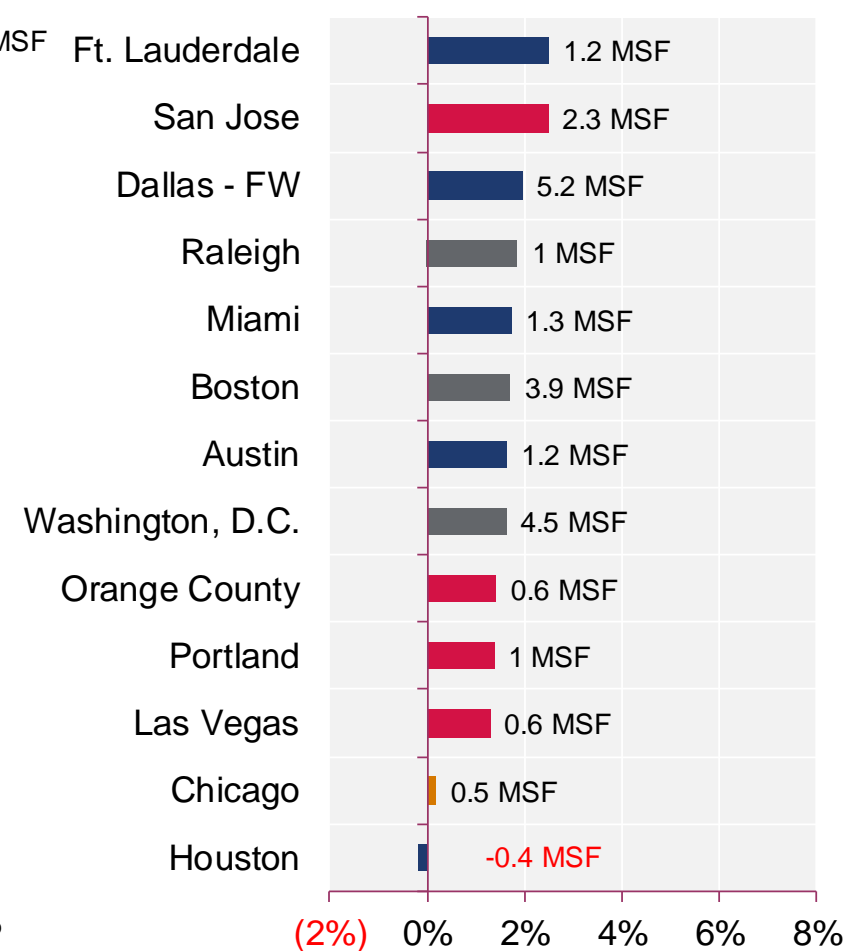


Year Over Year Net Absorption

CBD



Suburban



Source: CoStar Portfolio Strategy

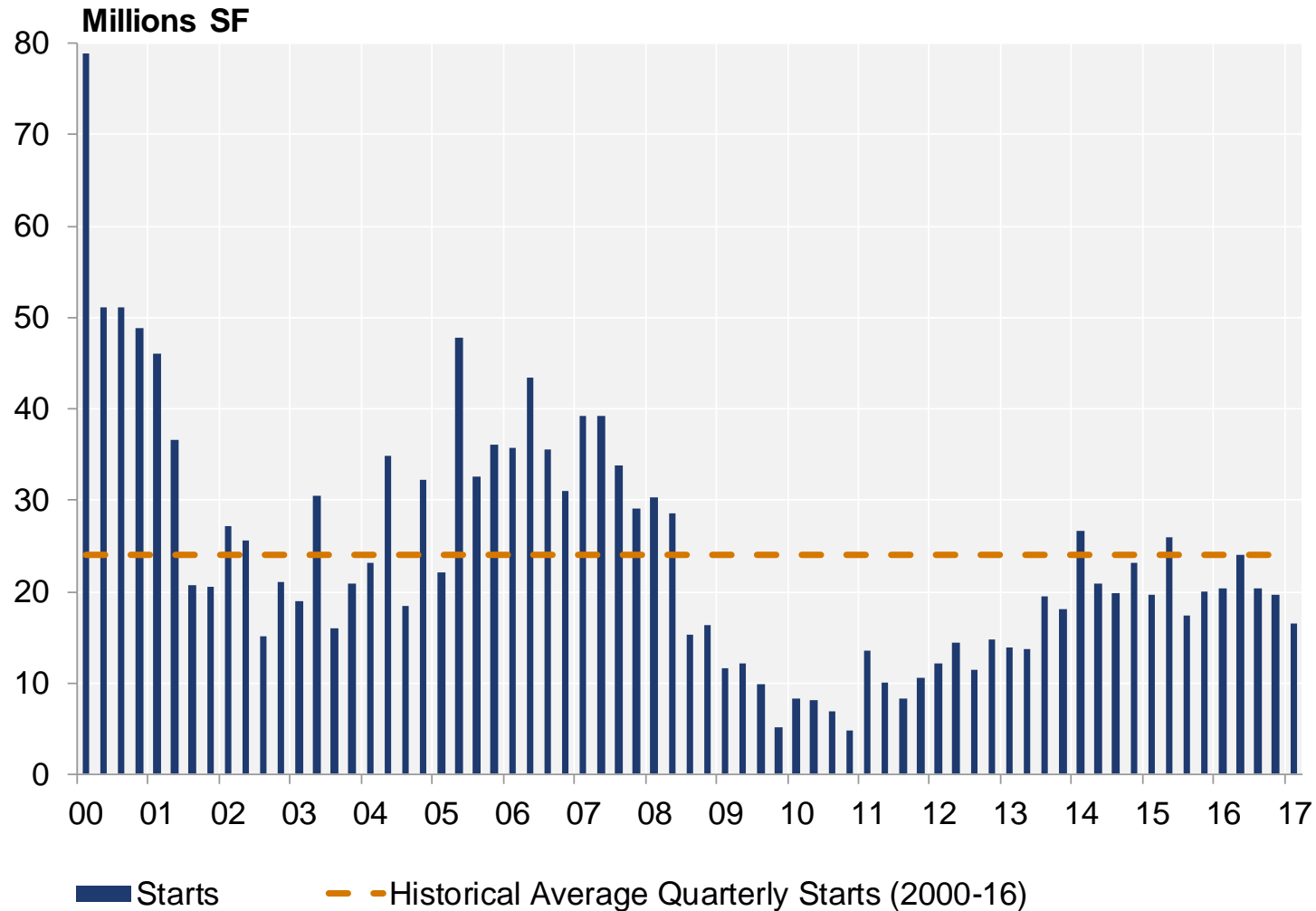
CBDs include metros with greater than 100,000 SF or less than 100,000 SF of net absorption

Suburban include metros with greater than 400,000 SF

As of 17Q1

Office Starts Have Trended Downward Over Time

Quarterly Office Starts For National Index

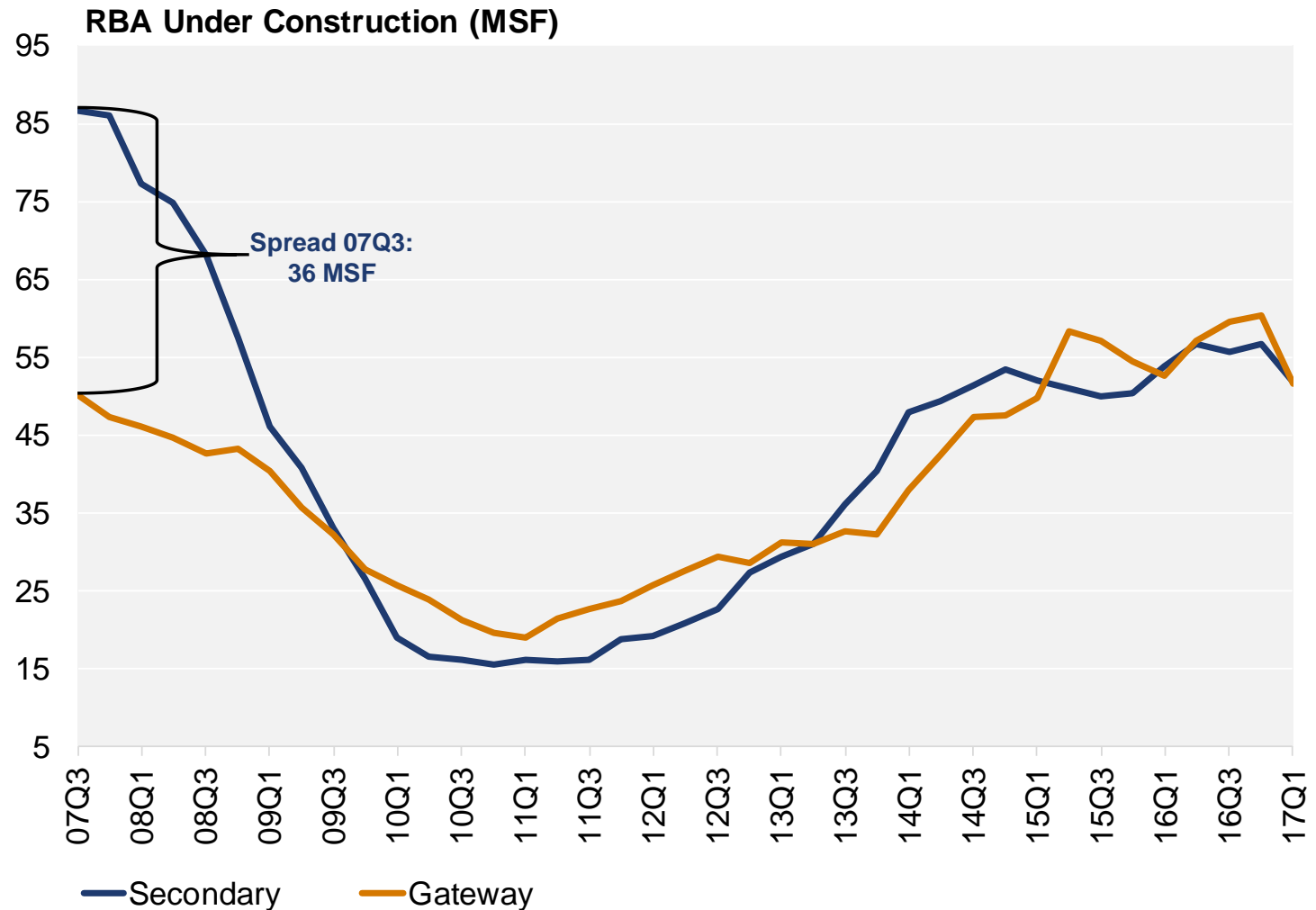


Source: CoStar Portfolio Strategy

As of 17Q1

Secondary Markets Show Supply Constraint

Office Under Construction In Secondary & Gateway Markets



Source: CoStar Portfolio Strategy

As of 17Q1

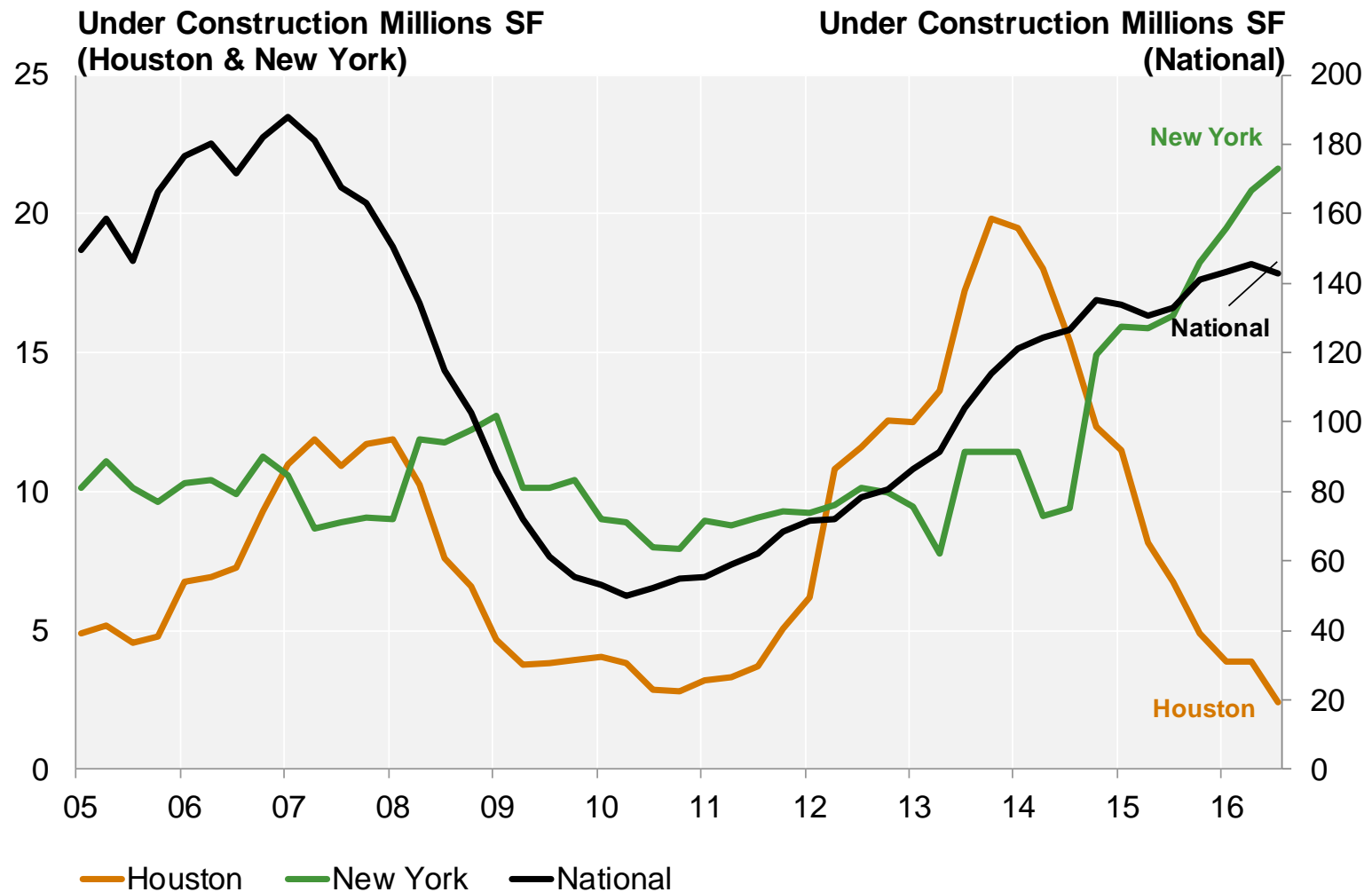
**Gateway Markets: Boston, Los Angeles, New York, San Francisco, San Jose, Seattle, Washington DC

*Secondary Markets: Atlanta, Austin, Charlotte, Chicago, Dallas, Denver, Fort Lauderdale, Houston, Miami, Nashville, Orlando, Orange County, Portland, Philadelphia, Phoenix, San Diego Tampa

New York And Houston Trending In Opposite Directions



Office Square Feet Under Construction



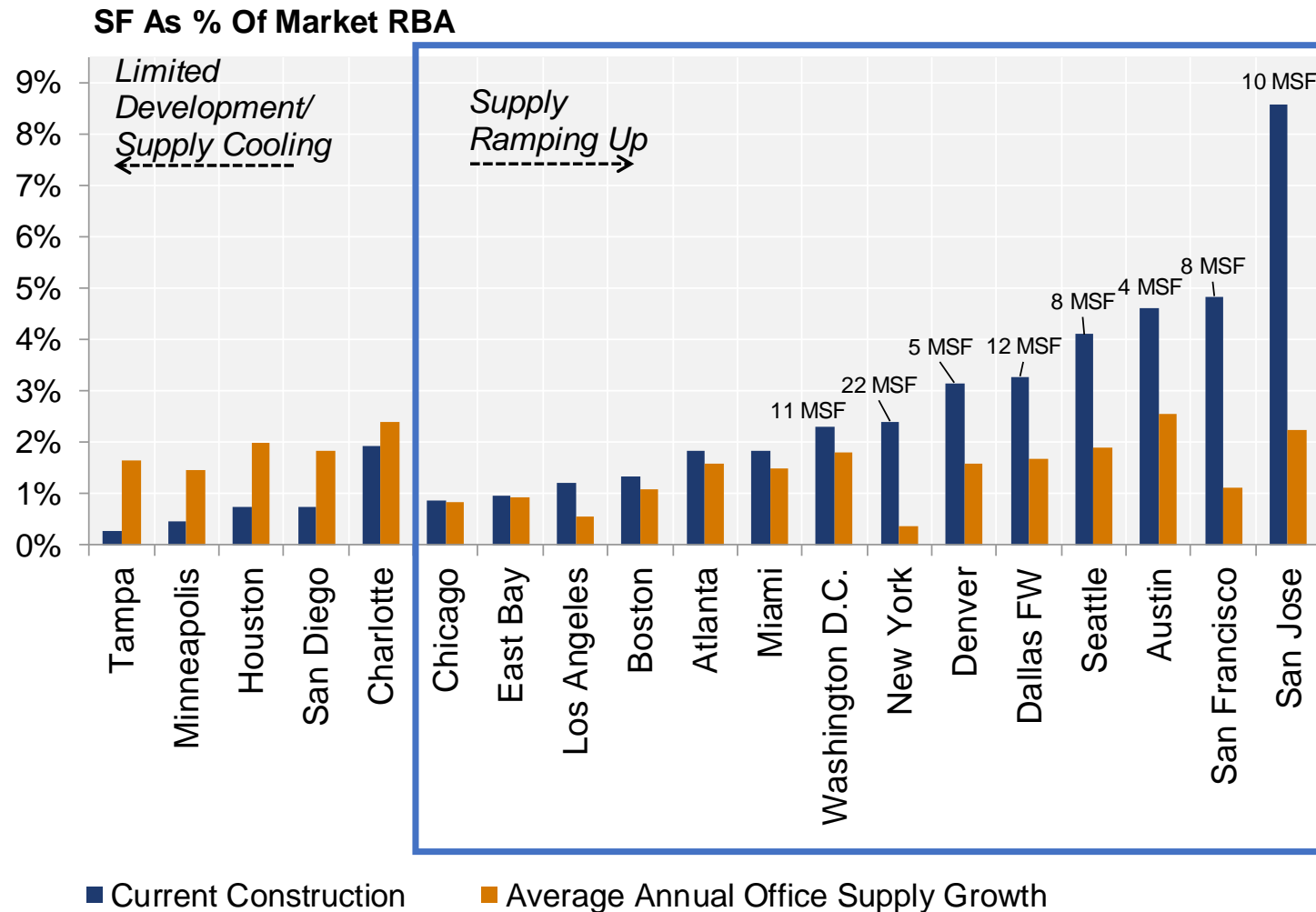
Source: CoStar Portfolio Strategy

As of 17Q1

Most Major Metros Have Above Average Construction



Office Construction Vs. Historical Norms



Source: CoStar Portfolio Strategy

As of 17Q1

New Construction Activity

Select Office Starts - 17Q1



*Frost Tower- 111 W Houston St
CBD*

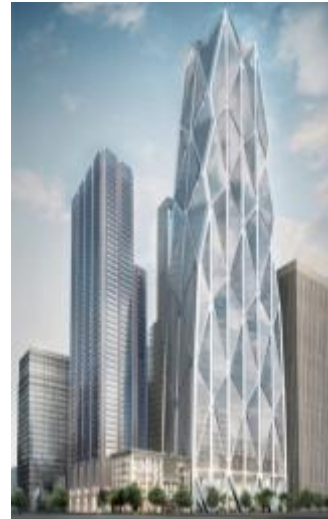
Metro: San Antonio
SF: 462,000

Submarket Vacancy: 9.5%

Leased: 67.5%

Owner: City of San Antonio

Delivery Date: March 2019



*First Street Tower- 50 1st St
South Financial District*

Metro: San Francisco
1,100,000 SF Office
109 Residential Units

Submarket Vacancy: 7.4%

Leased: 23.4%

Owner: Oceanwide Holdings
Co. Ltd.

Delivery Date: November 2021



*Third + Shoal- 607 W 3rd St
CBD*

Metro: Austin
347,534 SF Office

Submarket Vacancy: 7%

Leased: 0.1%

Owner: Cielo Realty Partners

Delivery Date: July 2018



*314 Main St
E Cambridge/Kendal Sq*

Metro: Boston
SF: 425,000

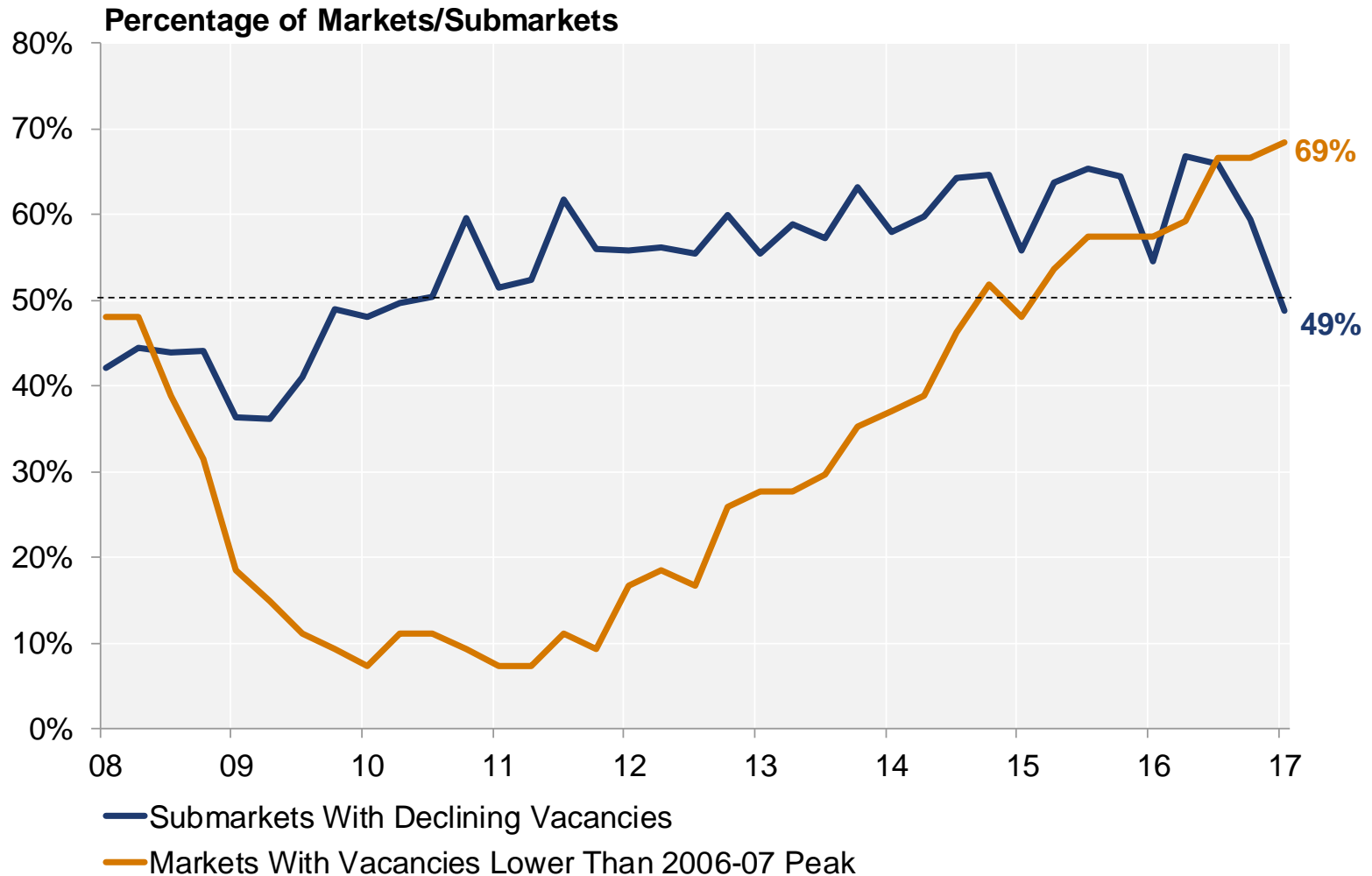
Submarket Vacancy:
8.2%

Leased: 18.8%

Delivery Date: December
2019

Turing Point In Office Occupancy Gains?

Market And Submarket Relative Vacancies



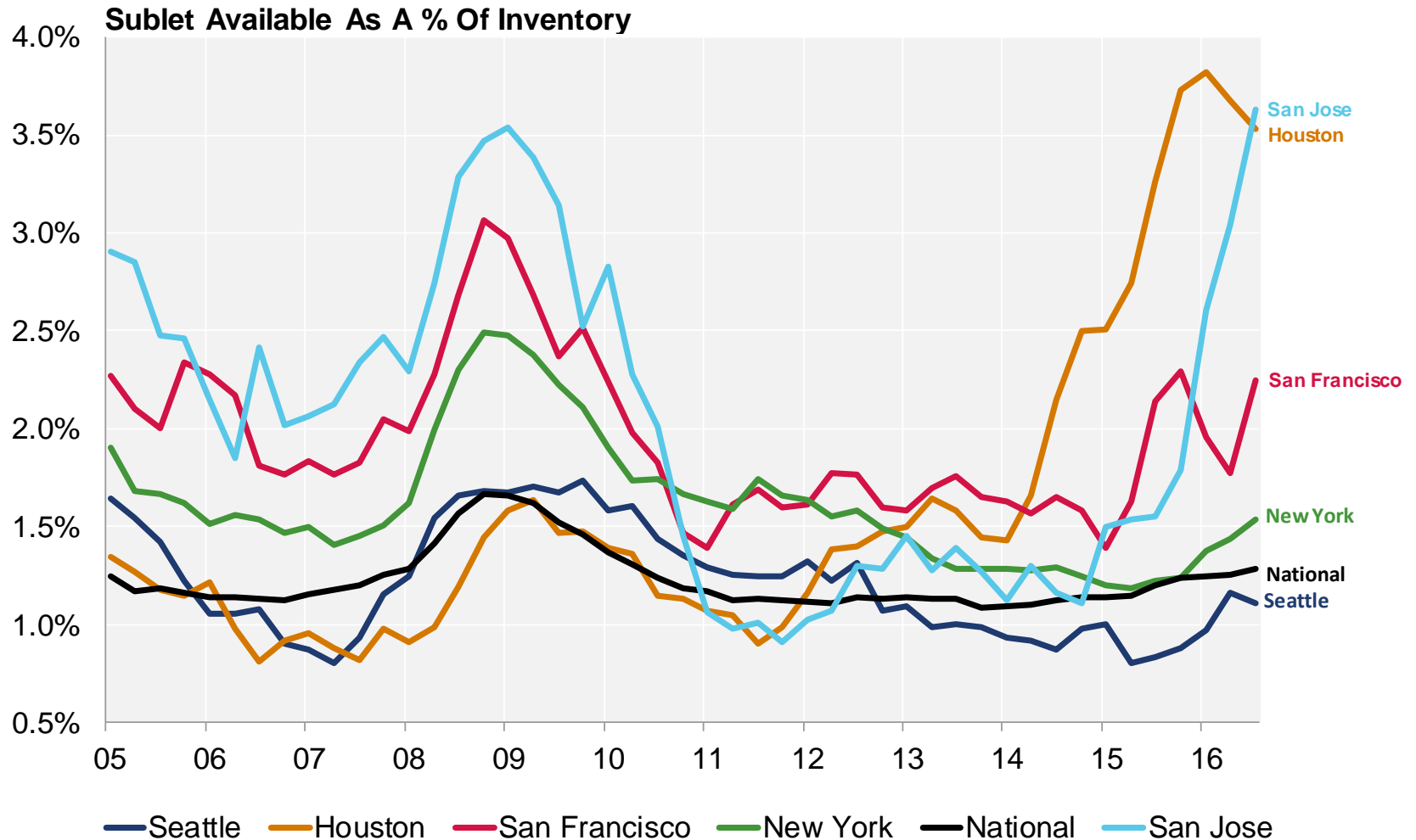
Source: CoStar Portfolio Strategy

As of 17Q1

Sublease Availability May Have Peaked In Houston



Sublet Available SF As A Percent Of Inventory

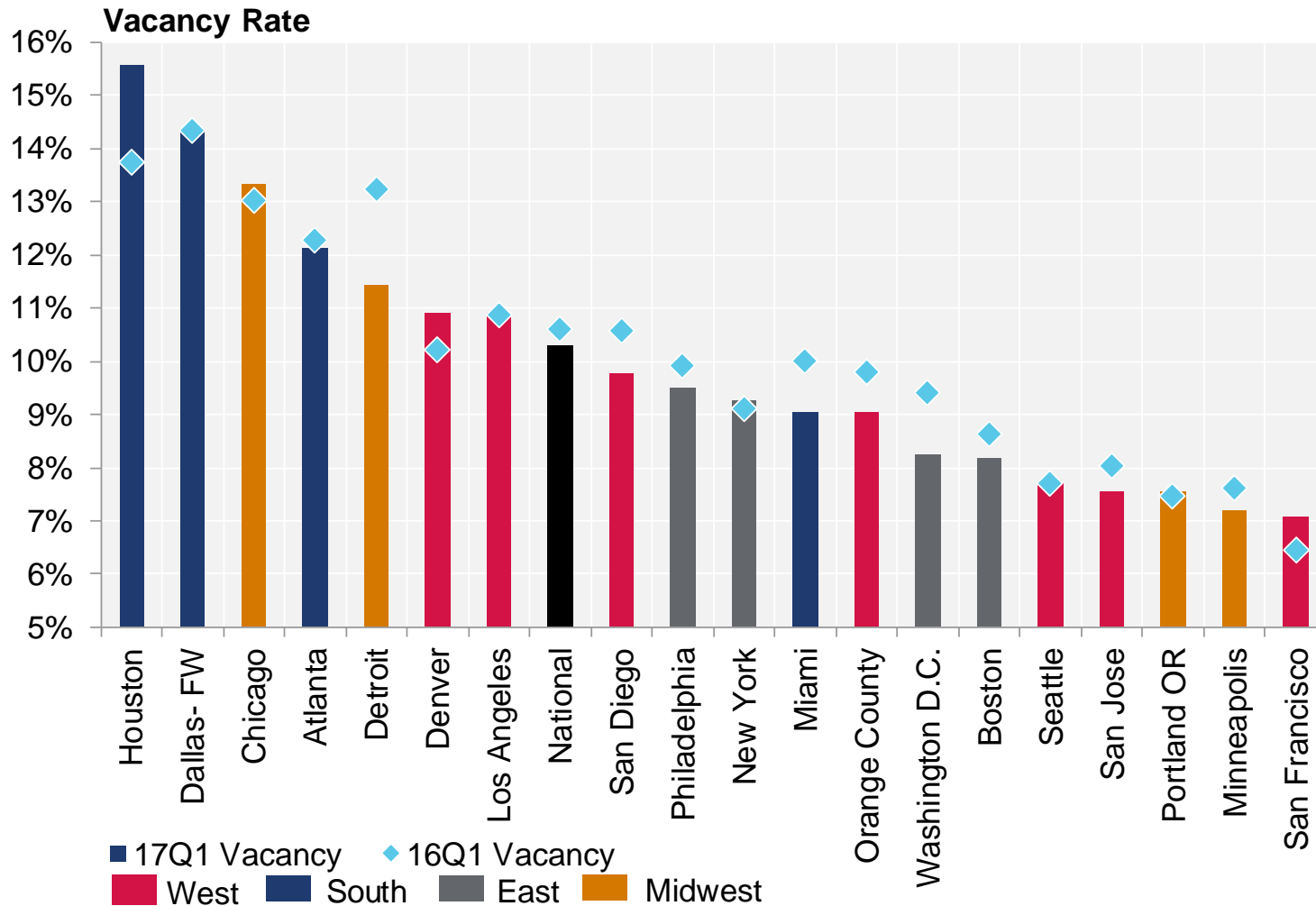


Source: CoStar Portfolio Strategy

As of 17Q1

Vacancies Continue To Increase In Houston

Vacancy Rates For Metros, Current Vs. Last Year

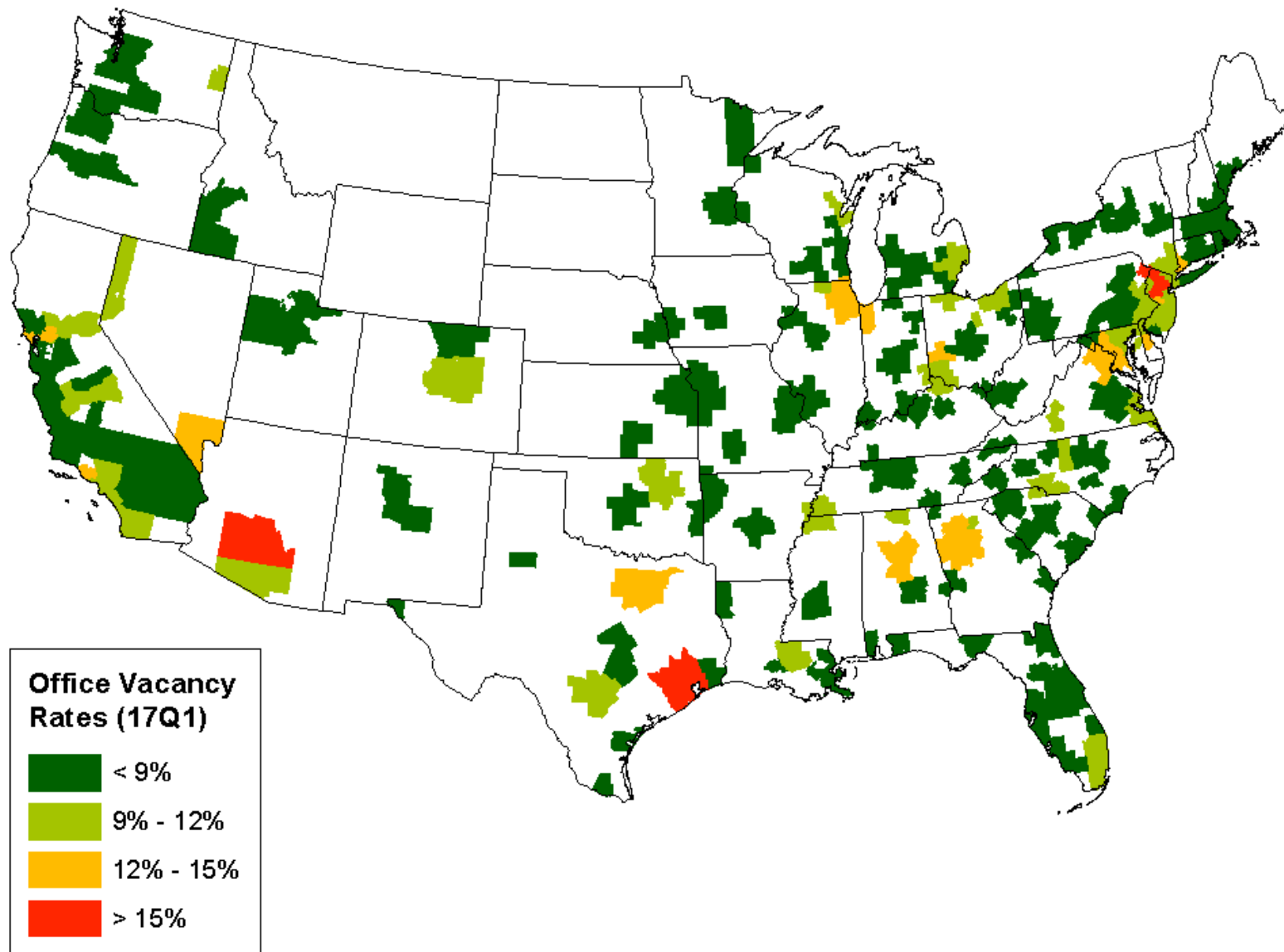


Source: CoStar Portfolio Strategy

As of 17Q1

Many Office Markets Have Sub 9% Vacancy!

Office Vacancy Rates By Metro



Source: CoStar Portfolio Strategy

As of 17Q1

Rent Growth Decelerating In Most Markets



Rent Growth Momentum Year-Over-Year

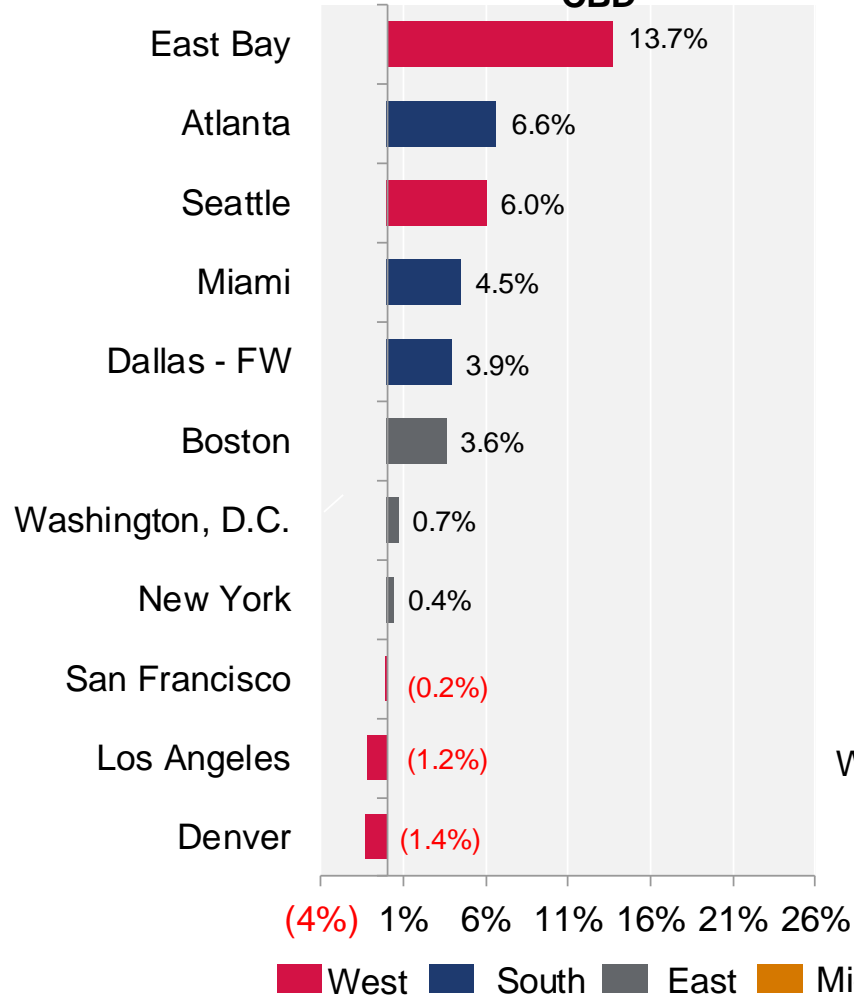
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Rent Growth Accelerating Rent Growth Decelerating

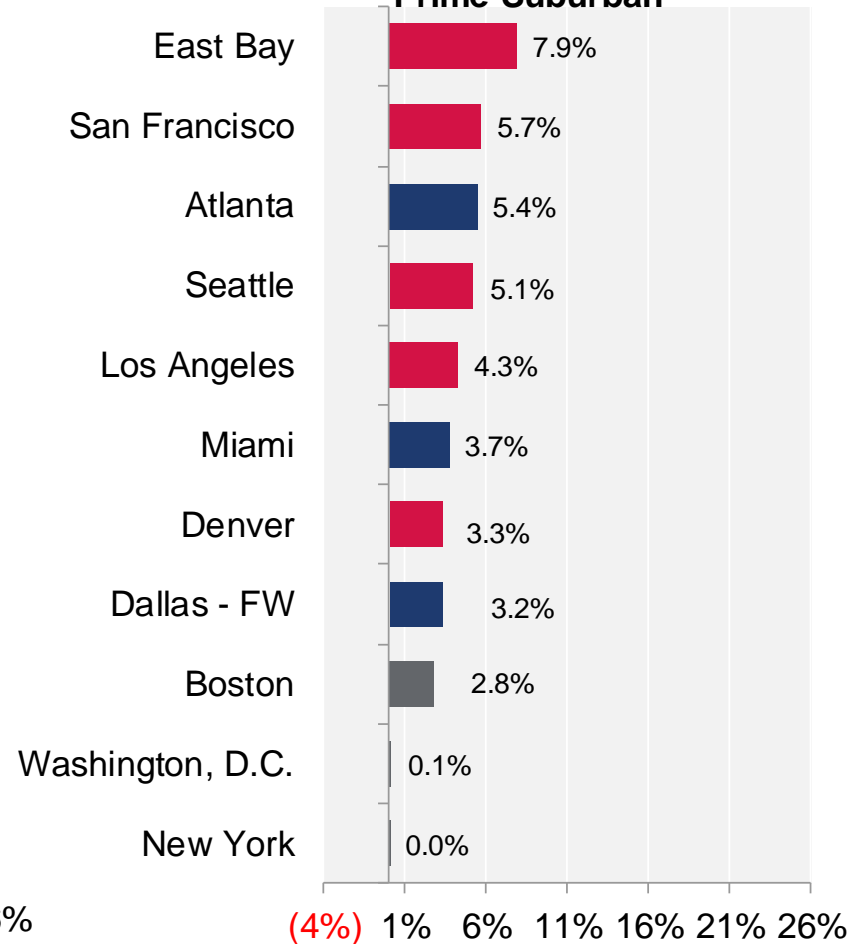
Rent Growth Slowing In CBDs

Rent Growth For Last 12-Months

CBD



Prime Suburban

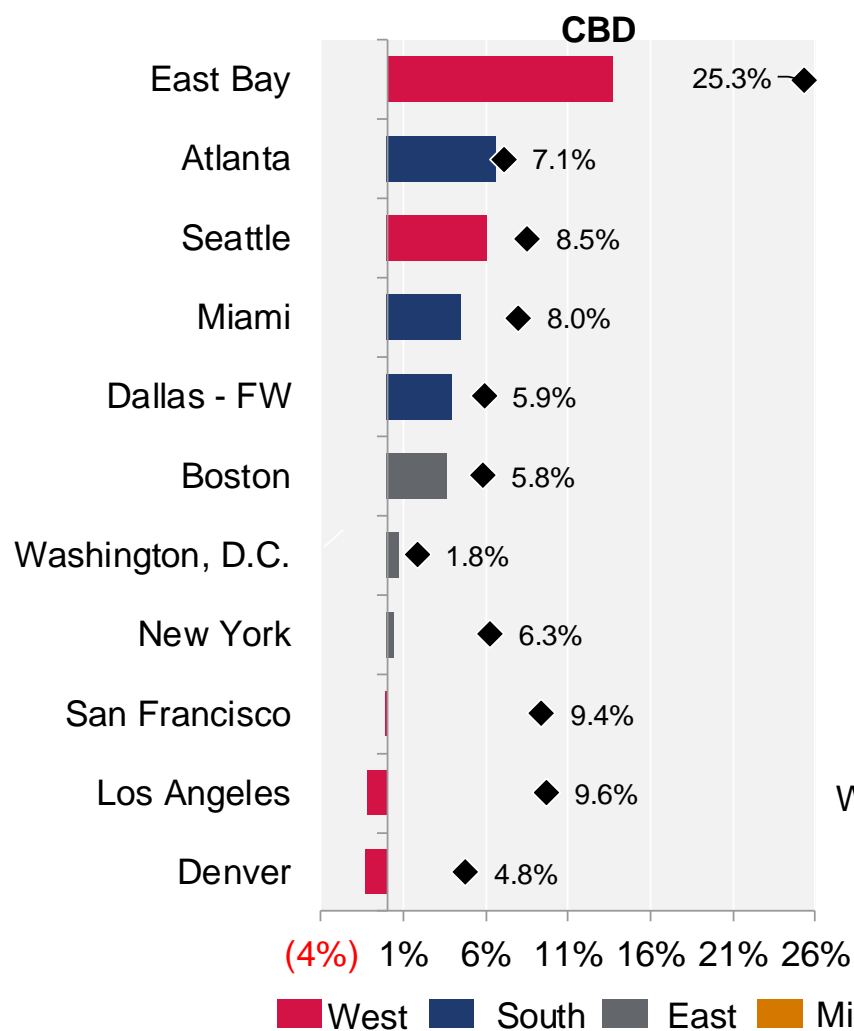


Source: CoStar Portfolio Strategy

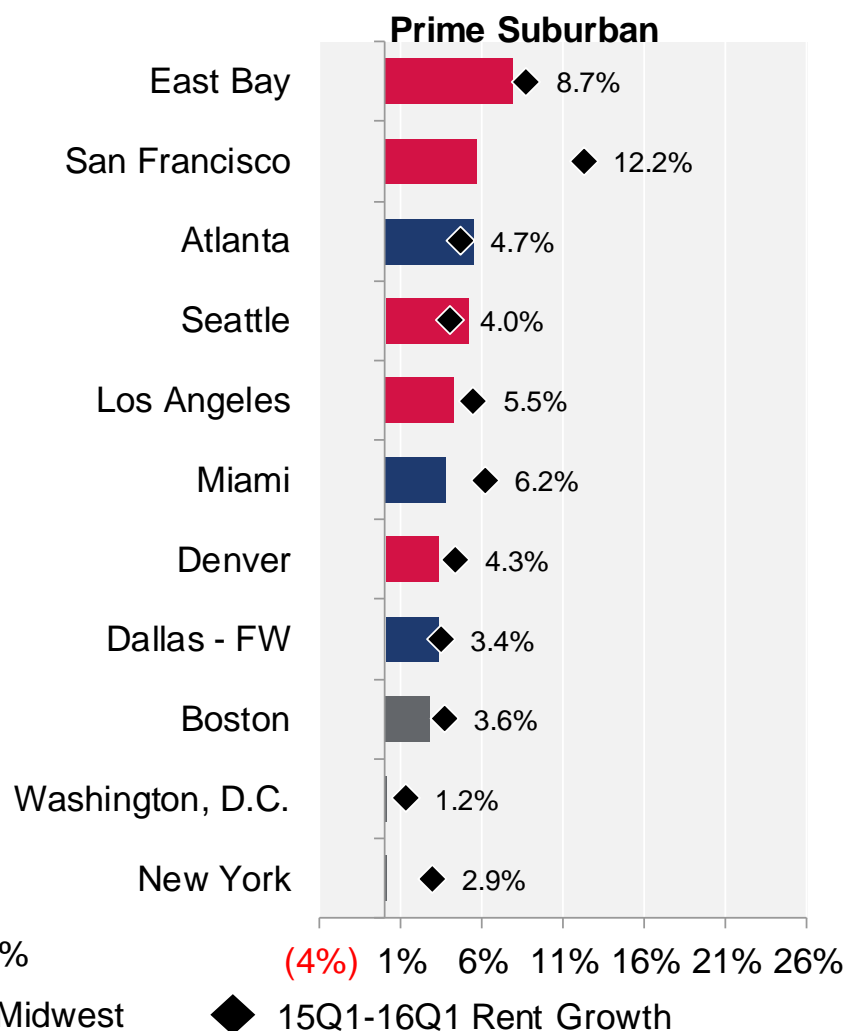
As of 17Q1

Rent Growth Slowing In CBDs

Rent Growth For Last 12-Months Versus Previous 12-Months



Source: CoStar Portfolio Strategy



As of 17Q1

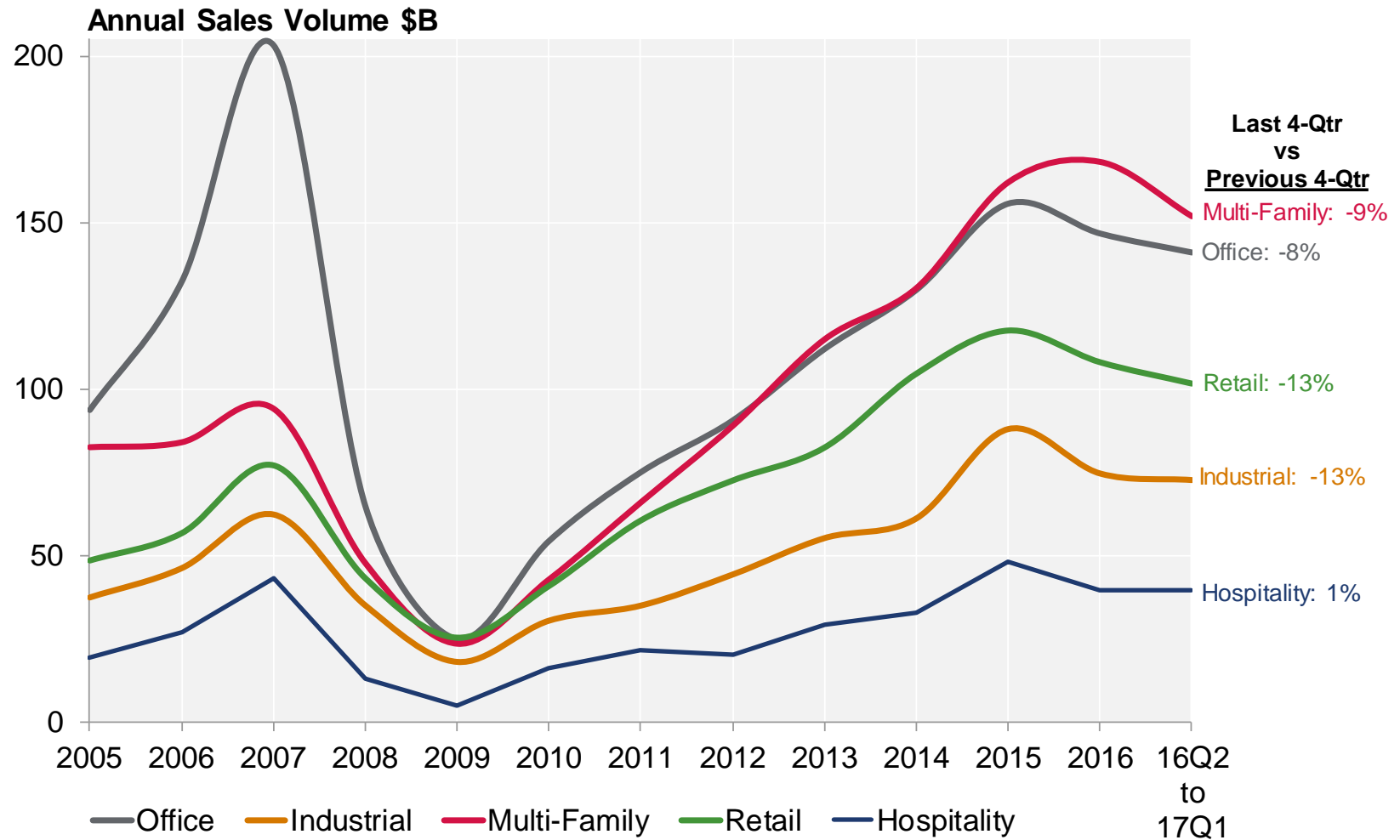
Capital Markets



Sales Volume Slowing



Annual Sales Volume By Property Type



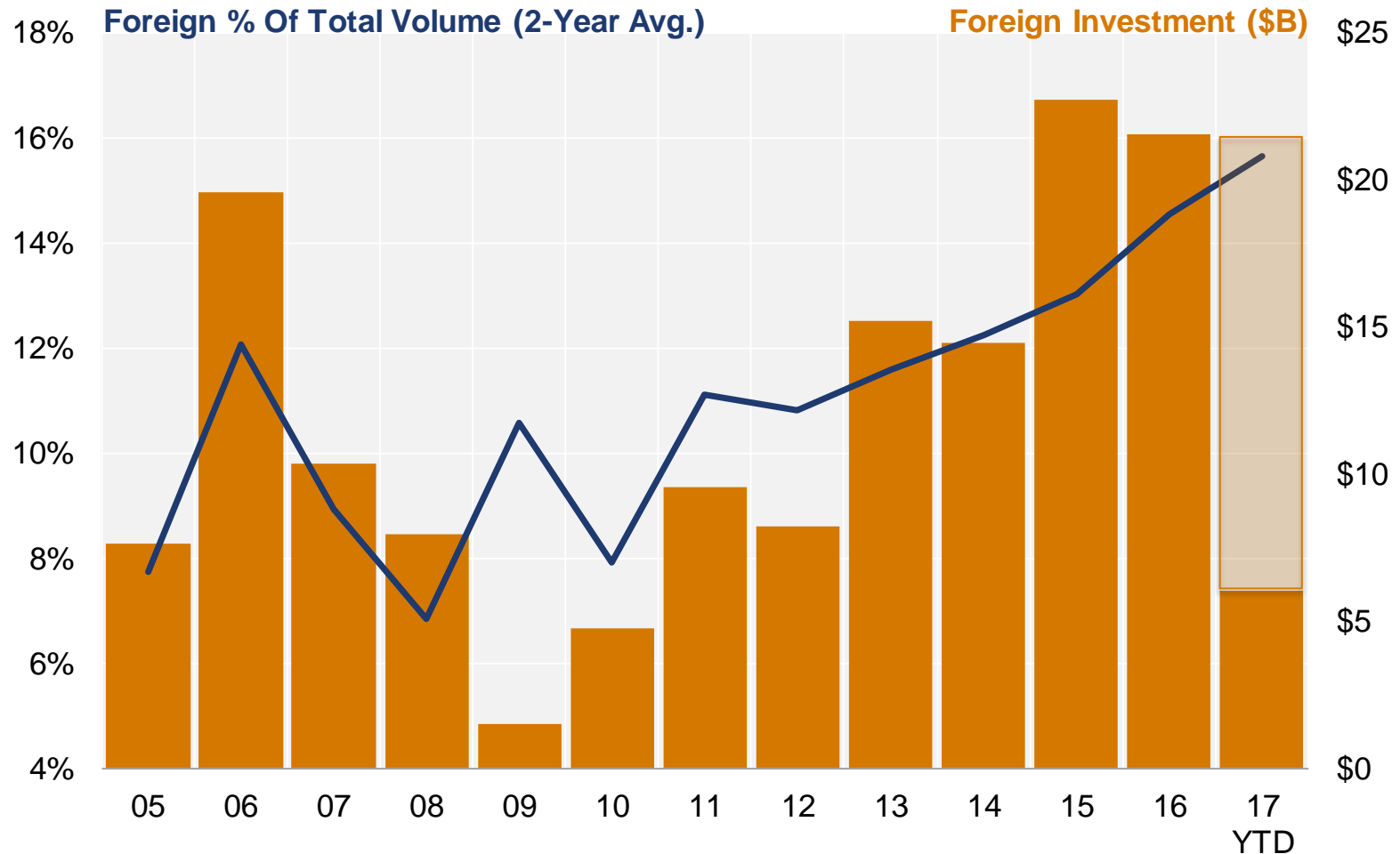
Source: CoStar Portfolio Strategy

As of 17Q1

Share Of Foreign Investment In Office Steadily Increasing



% Of Foreign Investment In Office Over Time



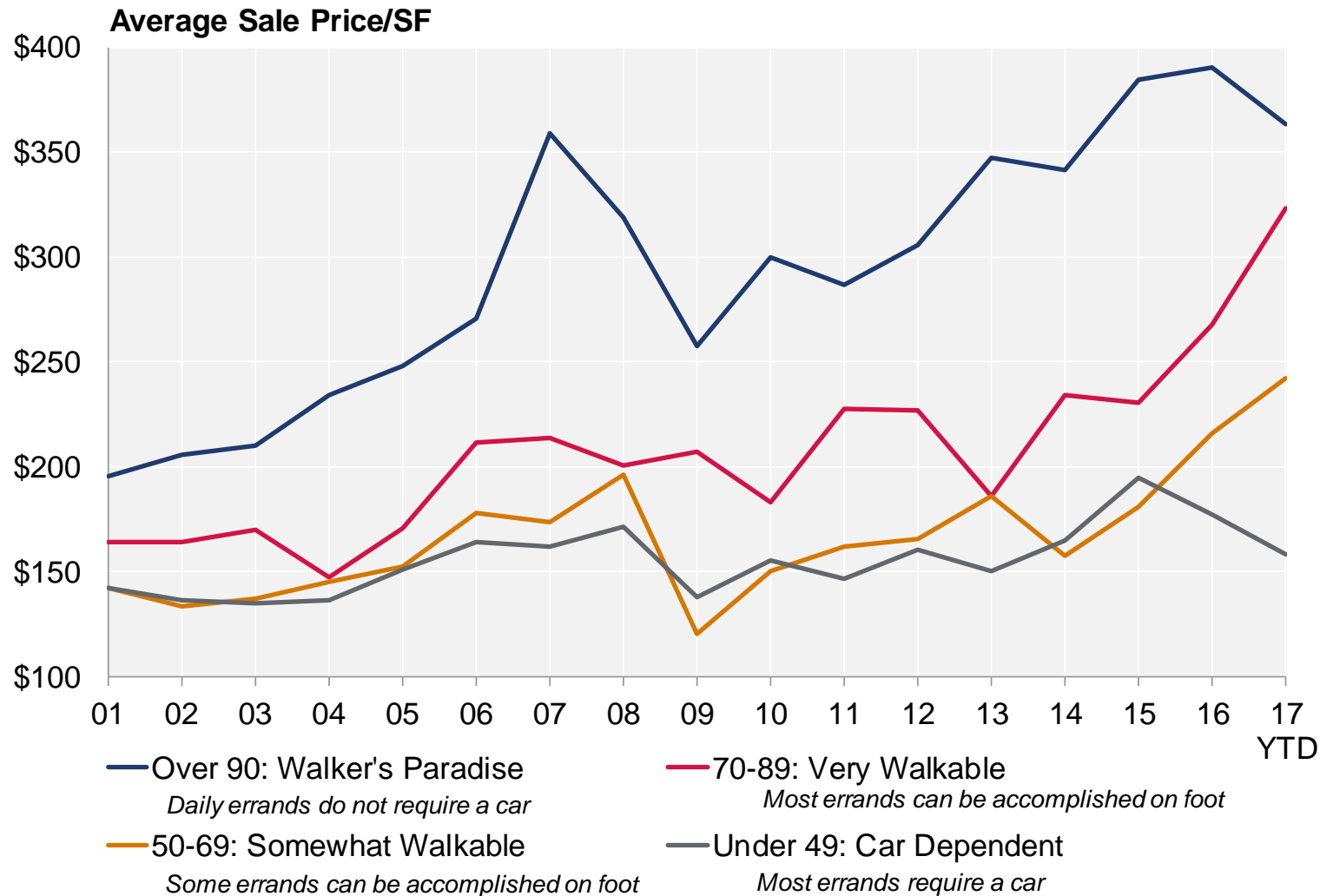
Source: CoStar Portfolio Strategy

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Significant Price/SF Premium For Walkable Buildings



Average Sale Price Per Square Foot By Walk Score



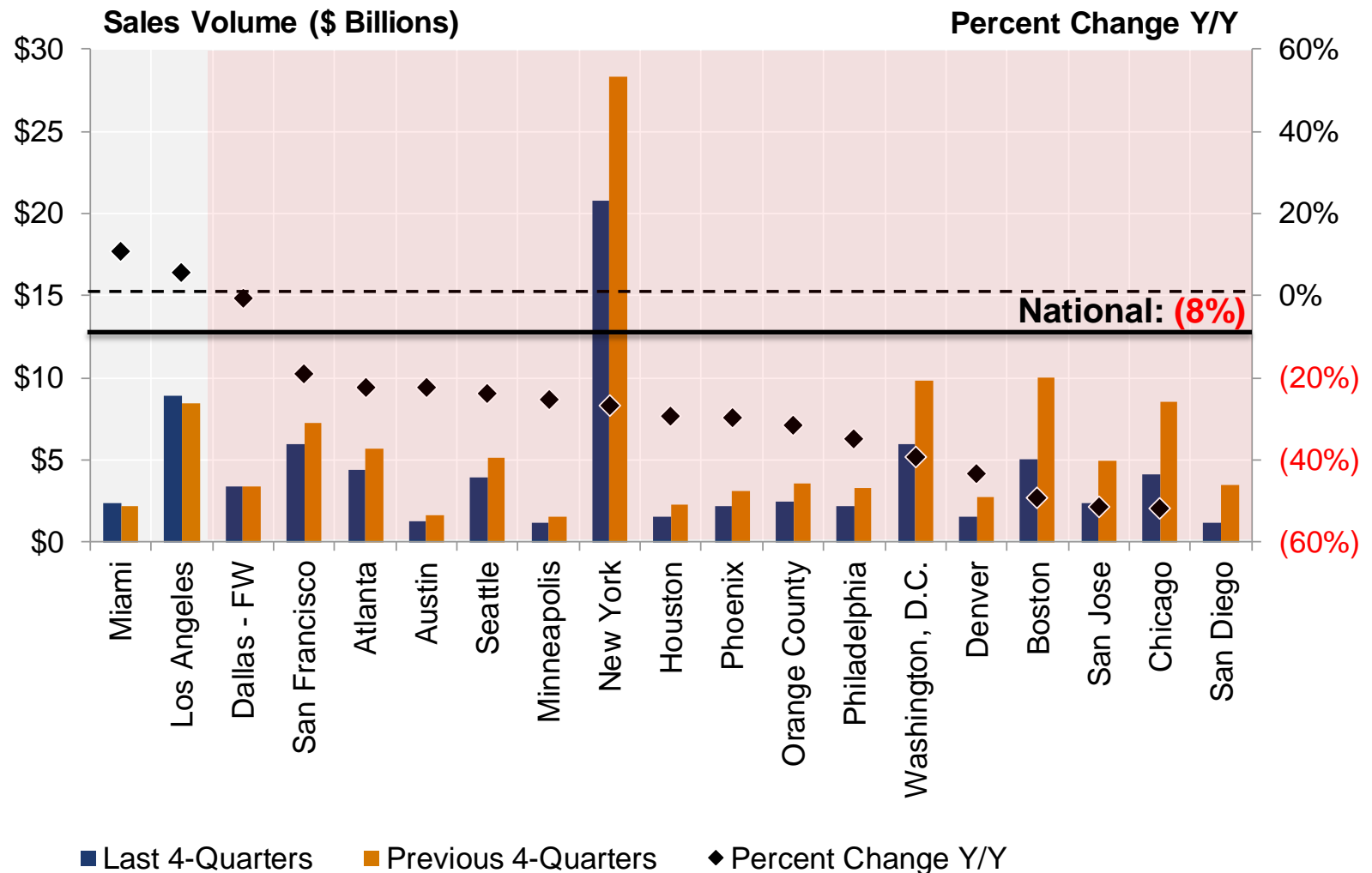
Source: Walk Score; CoStar Portfolio Strategy

Note: Portfolio sales excluded, only sales over \$5 Million

As of 17Q1

Sales Volume Declining In Most Major Markets

Annual Change In Office Sales Volume For Major Metros

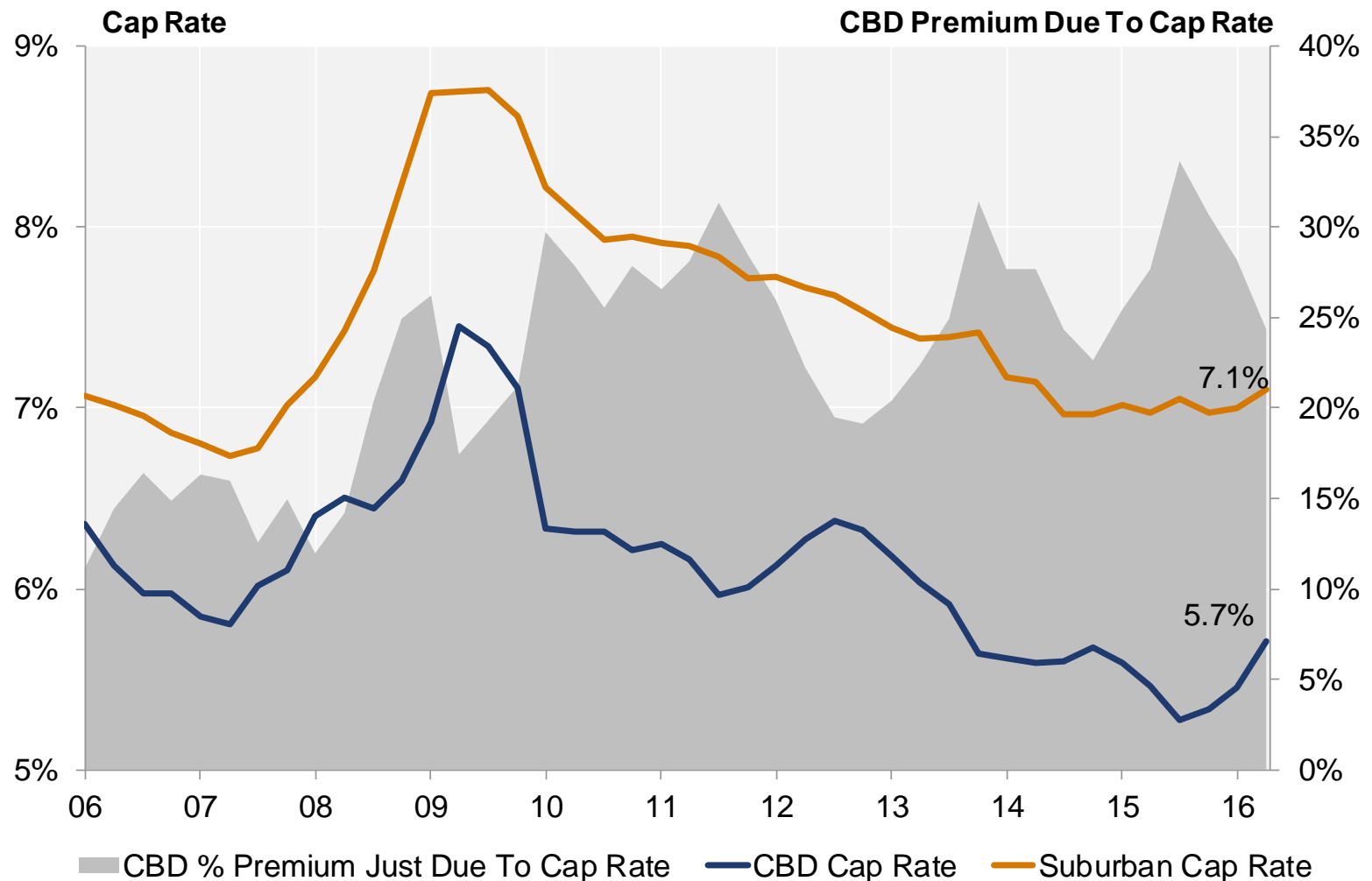


Source: CoStar Portfolio Strategy

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CBD Cap Rates Appear To Be Moving Up

Rolling 4 Quarter Average Office Cap Rate CBD Vs. Suburban



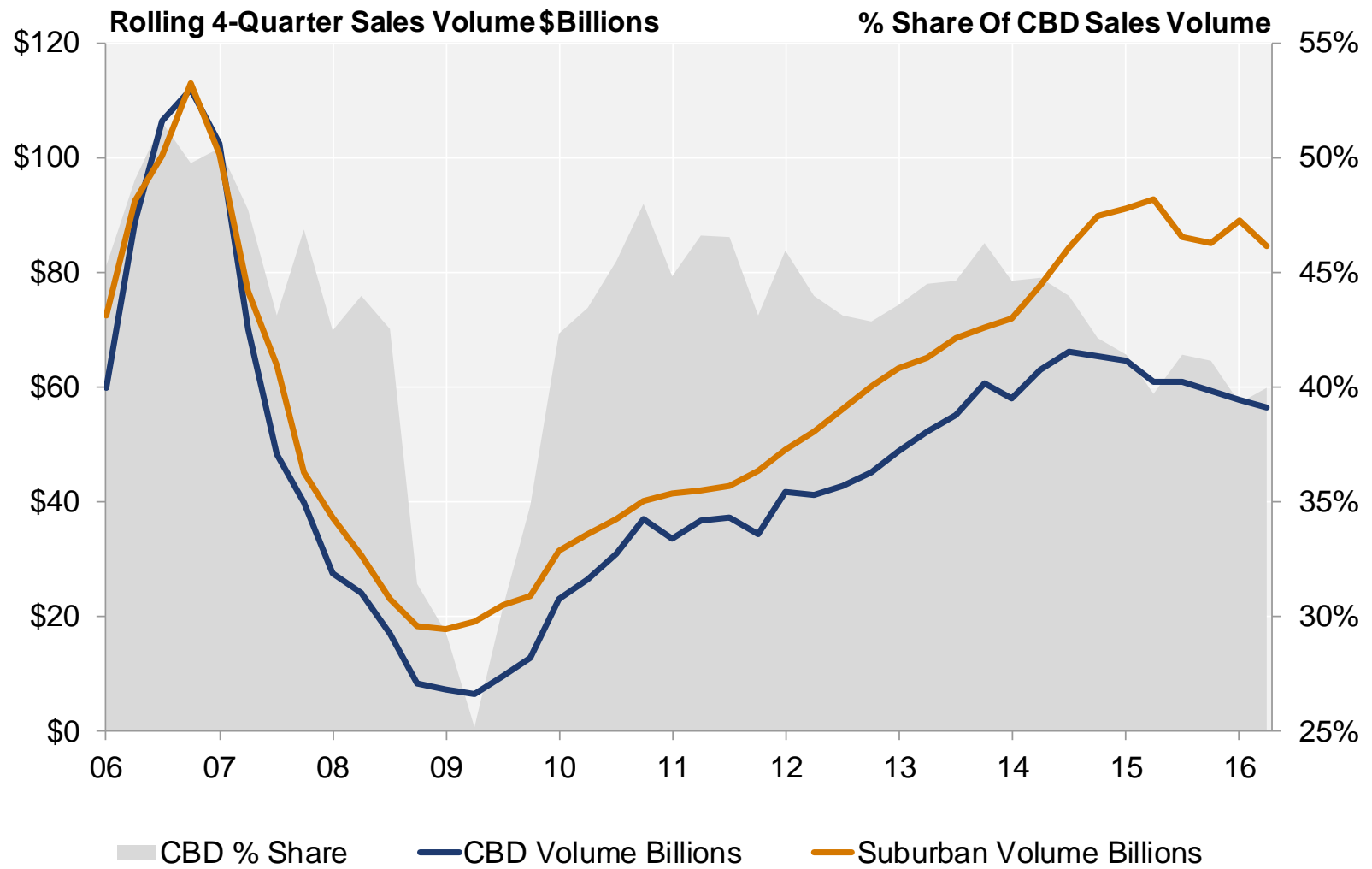
Source: CoStar Portfolio Strategy

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Suburban Office Gaining Favor With Investors



Sales Volume Of CBD And Suburban Office



Source: CoStar Portfolio Strategy

As of 17Q1

High End Of Office Market Shows Liquidity



Top Office Deals of 17Q1

Property Name	Market	Bldg SF (000s)	Sale Price (M)	Price Per SF	Cap Rate	Buyer / Seller
Deutsche Bank	New York	1,625	\$1,040	\$640		GIC Real Estate / Paramount Group, Inc.
75-81 Arlington St (2 Bldgs)	Boston	825	\$673	\$816		Mori Trust Co., Ltd. / Liberty Mutual Group, Inc.
One Vanderbilt	New York	1,733	\$525	\$1,045		Hines & Nat'l Pension Service of Korea / SL Green Realty Corp.
100 Northern Ave	Boston	515	\$447	\$868		PFA Pension & Deutsche / The Fallon Co. & Barings RE Advisors
117 Adams St (4 Bldgs)	New York	770	\$408	\$703		RFR Realty, LLC & Kushner Companies / Invesco, Ltd.
Lafayette Centre (3 Bldgs)	Washington, DC	789	\$404	\$512	5.0%	GIC Real Estate & Korea Investment Corp / Beacon Capital
Pentagon Center (2 Bldgs)	Washington, DC	912	\$380	\$416	6.6%	GIC Real Estate & Korea Investment Corp / Beacon Capital
HBO Building	New York	349	\$370	\$1,060		Brookfield & The Swig Co. / Eugene Hoffman Management
1 Giralda Farms (6 Bldgs)	Northern NJ	1,056	\$368	\$348		Mack-Cali Realty Corporation / RXR Realty
181 Madison	Chicago	953	\$359	\$377	5.9%	HNA Property Holding Group of China / CBRE Global Investors
Charles Schwab Plaza	San Francisco	417	\$293	\$702	3.3%	The Blackstone Group, LP / CIM Commercial Trust Corp.
Crossroads Courtyard Center	San Jose	350	\$291	\$831	5.2%	Tristar Capital / Rockwood Capital, LLC
Pine Street Center	San Francisco	403	\$288	\$714		Rockpoint Group, LLC / Alaska Permanent Fund Corp.
Terrell Place (Condo)	Washington, DC	428	\$275	\$642		GIC Real Estate / Beacon Capital
N Dairy Ashford Rd (3 Bldgs)	Houston	1,187	\$272	\$229	10.2%	Spear Street Capital / Columbia Property Trust



60 Wall St

New York, NY

Paramount Group, Inc./ Morgan Stanley sold the 1.625 Million SF property to GIC Real Estate, for \$1.04 Billion (\$640/SF).



75-81 Arlington St & 10 St. James Ave *Boston, MA*

Liberty Mutual Group, Inc. sold 2 office properties totaling 824,772 SF to Mori Trust Co., Ltd for \$673 Million (\$815.98/SF). Conditions associated with the sale were Sale Leaseback.



RXR Realty – Mack Cali NJ Office Portfolio

New Jersey

RXR Realty sold the 6-property Office portfolio totaling 1.056 million SF to Mack-Cali Realty Corporation for \$368 Million (\$348.47/SF).



181 W Madison St

Chicago, IL

CBRE Global Investors Ltd. sold the 952,559 SF Office property to HNA Property Holding Group of China for \$359 Million (\$376.88/SF). 5.9% Cap Rate



211 Main Street – Charles Schwab Plaza

San Francisco, CA

CIM Commercial Trust Corporation sold the 417,266 SF Office property to The Blackstone Group, LP for \$292.882 Million or \$701.91/SF. 3.34% Cap Rate



CPT/Spear Street Portfolio

Houston, TX

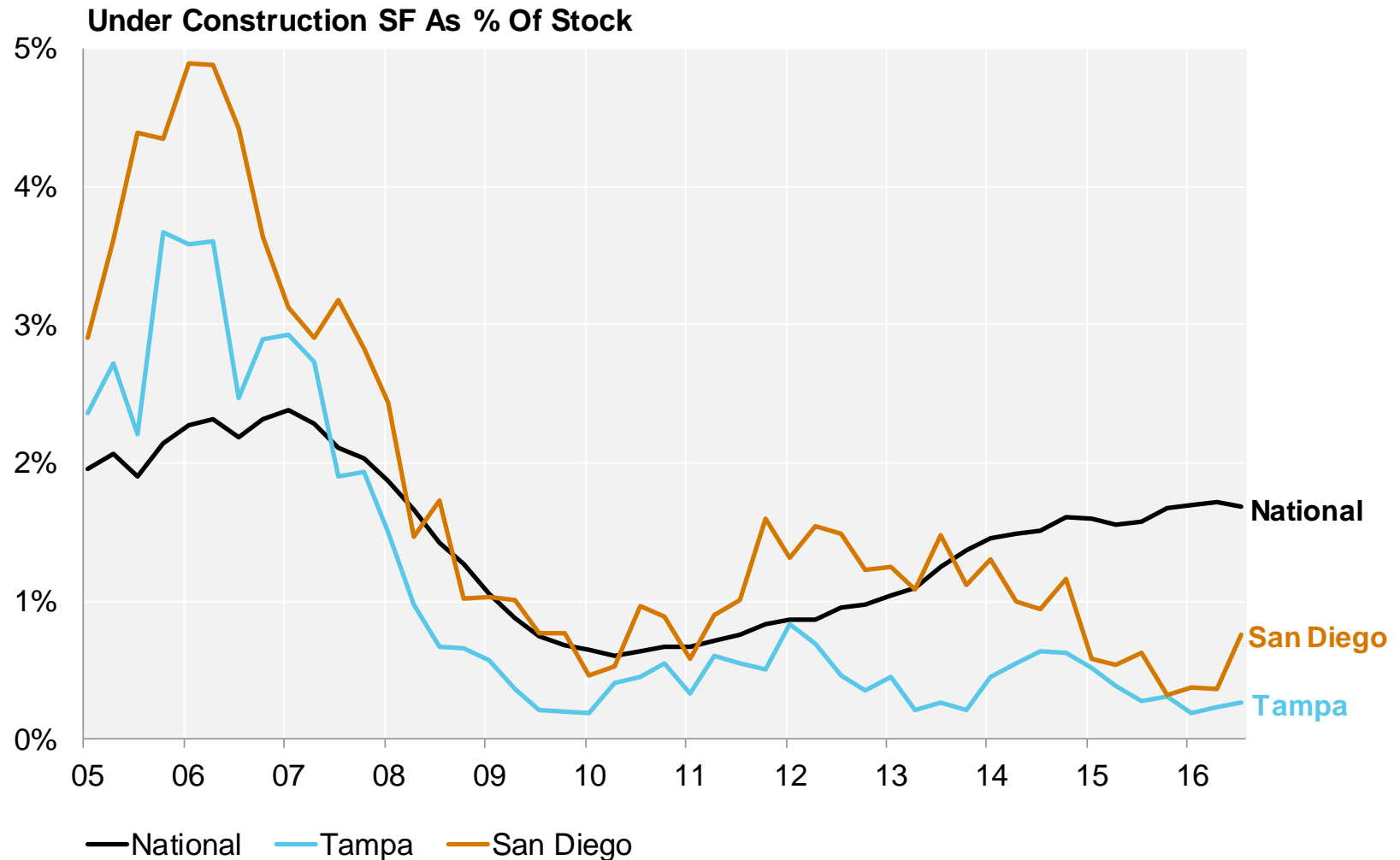
Columbia Property Trust sold the 1.187 Million SF Office portfolio to Spear Street Capital for \$272 Million (\$229.06/SF). 10.2% Cap Rate

Opportunity Zone



Limited Construction In Tampa And San Diego

Office Under Construction Square Feet As A % Of Stock



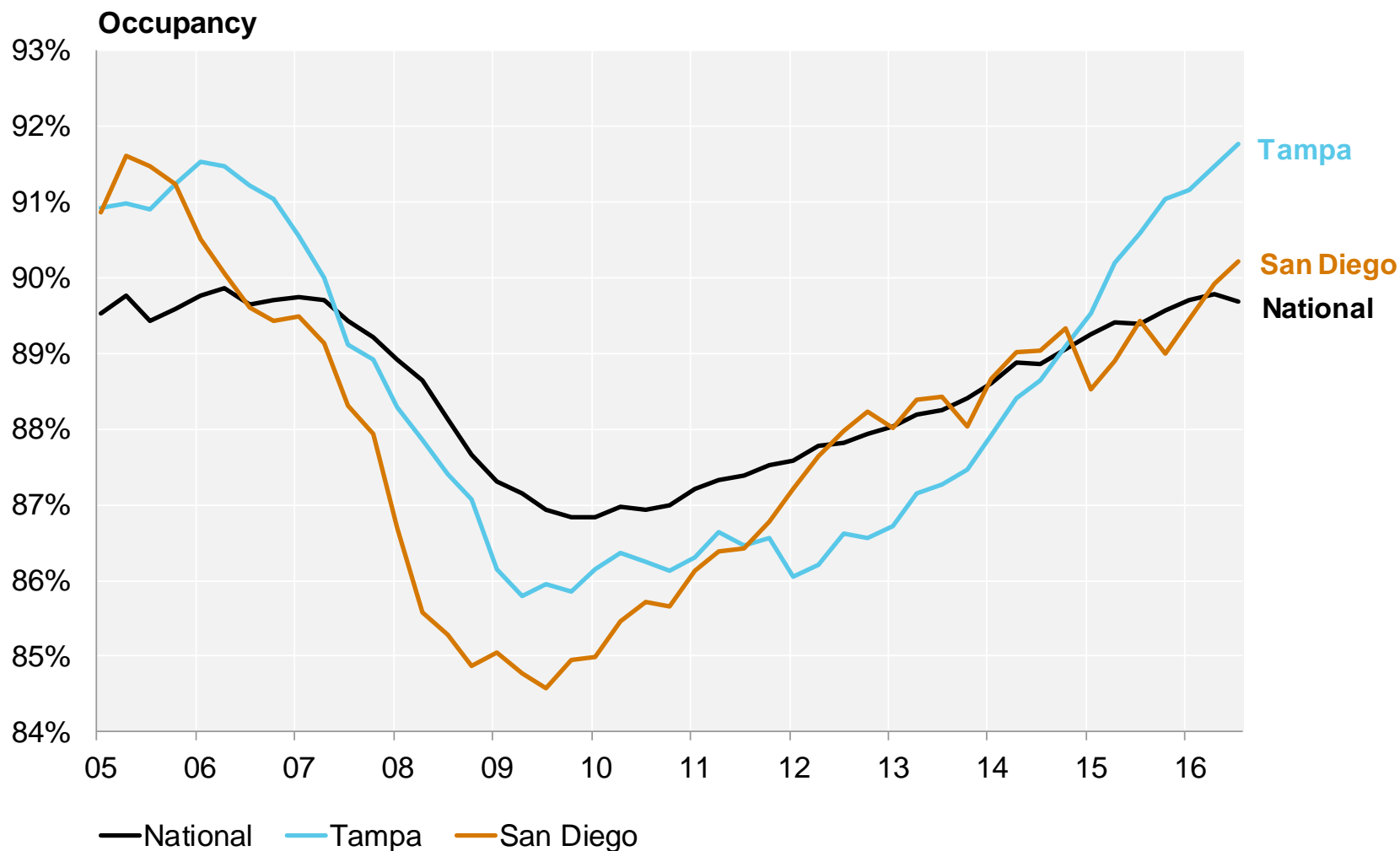
Source: CoStar Portfolio Strategy

As of 17Q1

Occupancies Now Above The National Average



Office Occupancy Rate

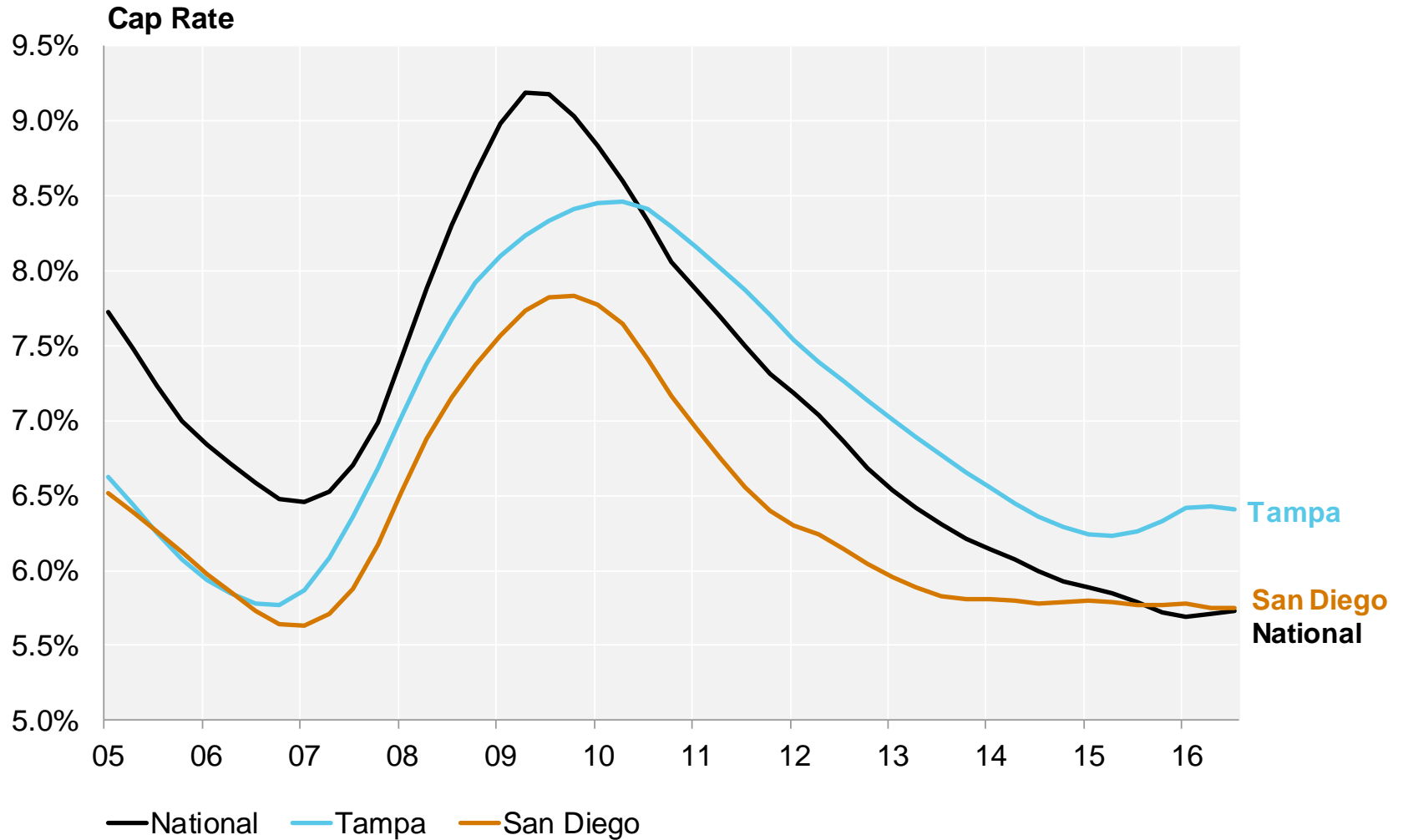


Source: CoStar Portfolio Strategy

As of 17Q1

Higher Yields In Tampa And San Diego

Office Cap Rates



Source: CoStar Portfolio Strategy

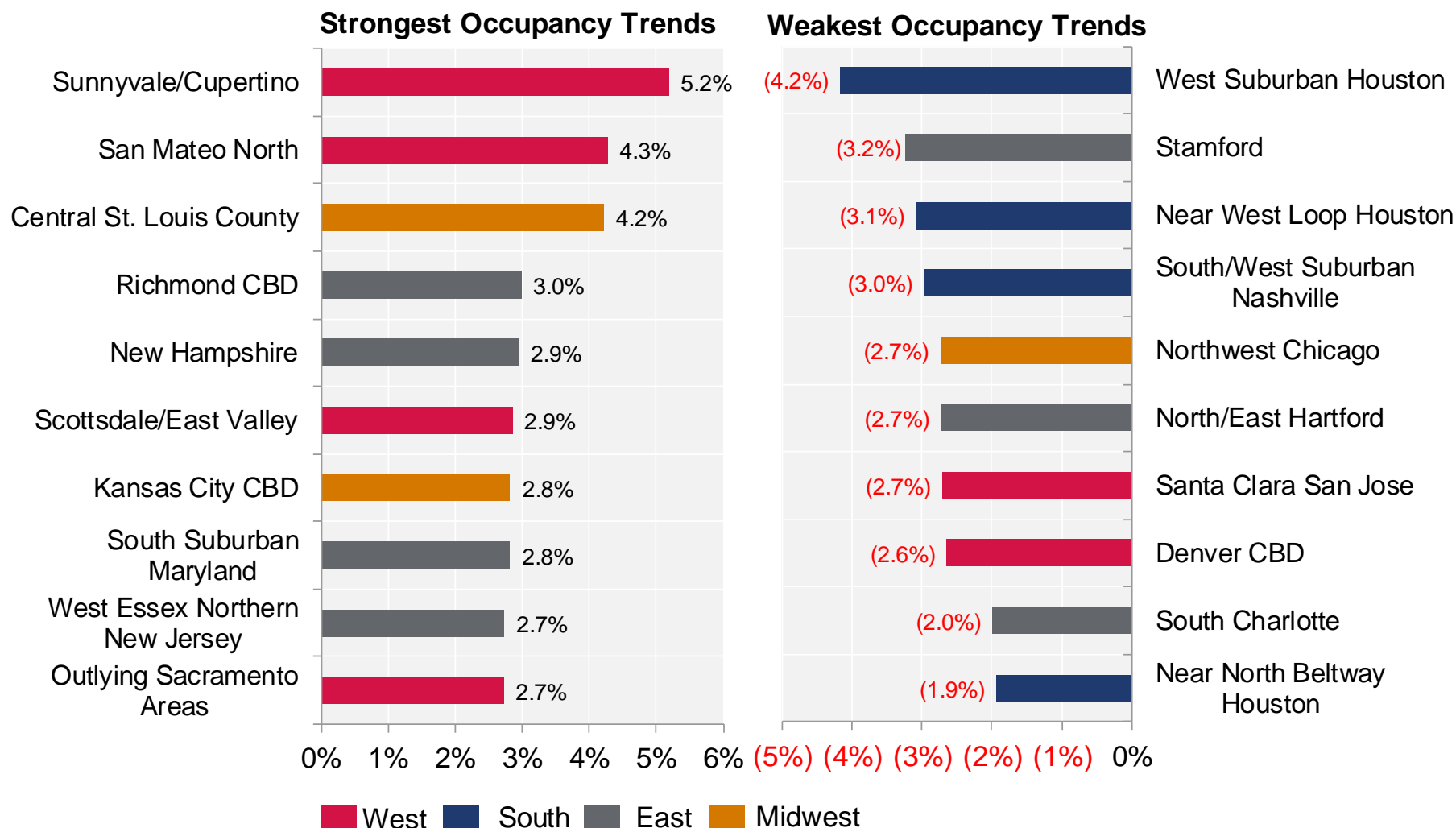
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Most And Least



Occupancy Gains are Strong And Widespread

Change In Office Occupancy (Y/Y)



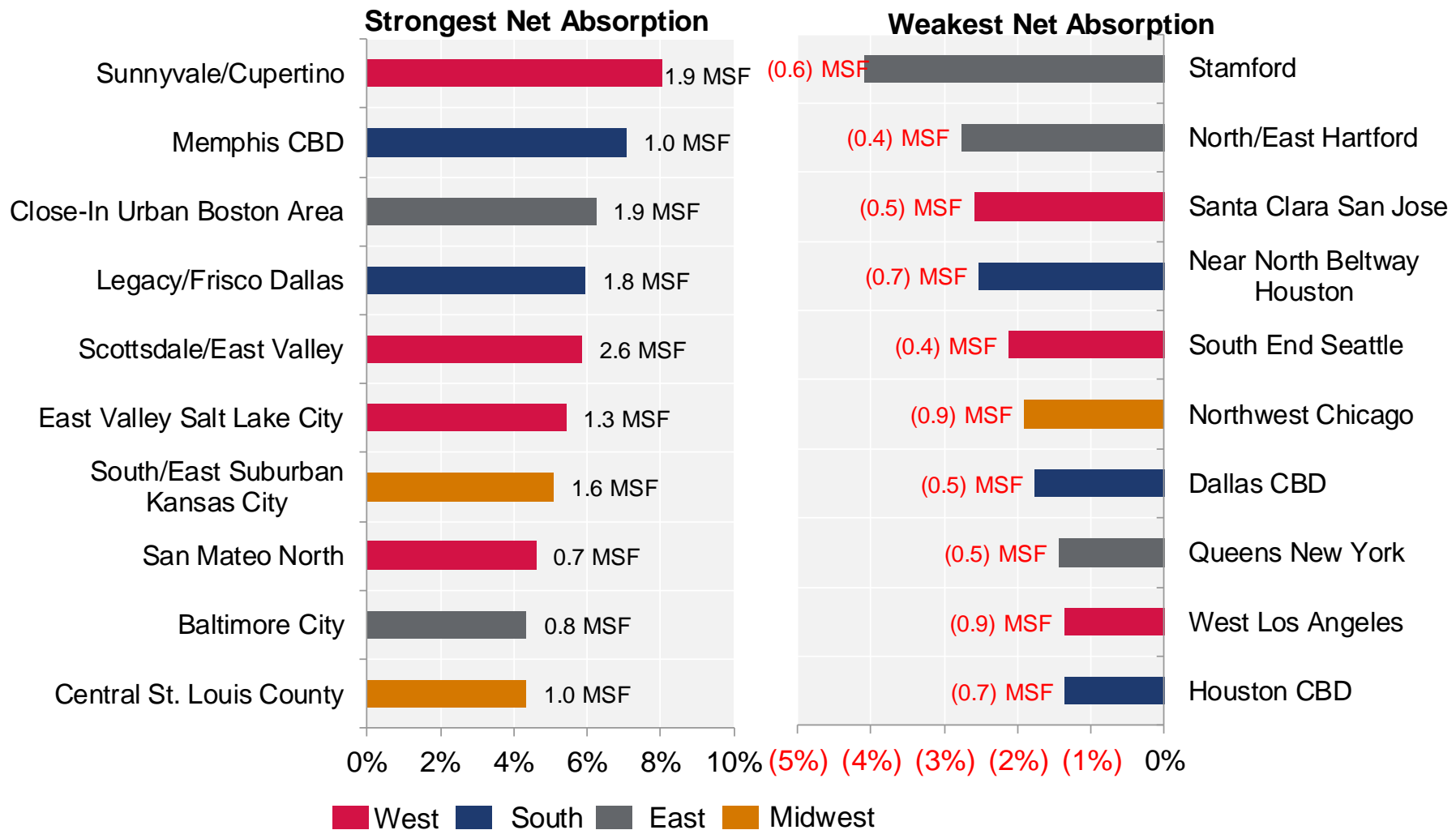
Source: CoStar Portfolio Strategy

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Demand Growth Dominates



Office Net Absorption (Y/Y)

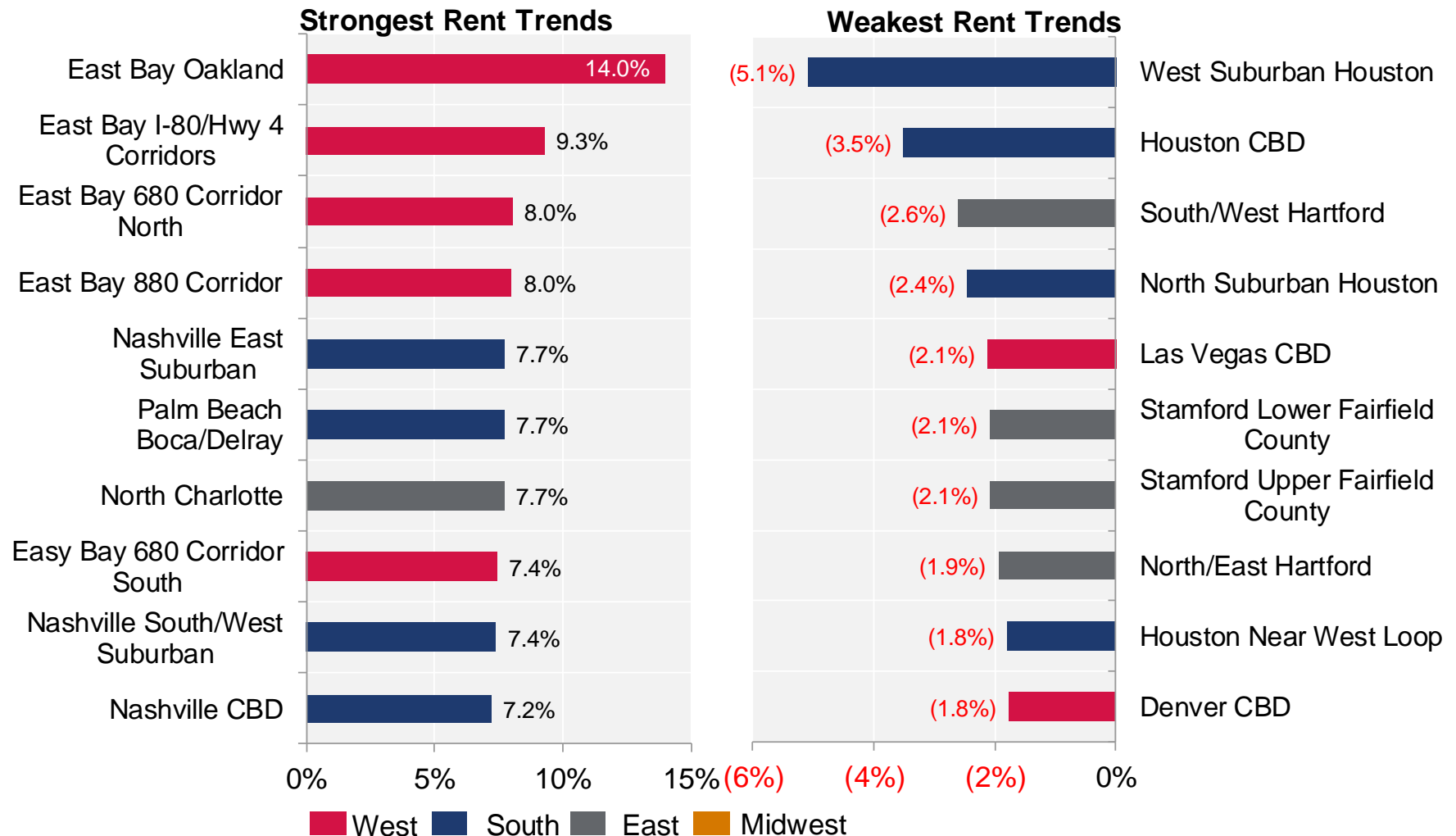


Source: CoStar Portfolio Strategy

As of 17Q1

East Bay & Nashville Dominate Rent Growth

Office Rent Growth (Y/Y)



Source: CoStar Portfolio Strategy

As of 17Q1

Thank You!



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