IPA | INSTITUTIONAL PROPERTY ADVISORS

# 2020 OFFICE

*Investment Forecast*

## TO OUR VALUED CLIENTS

The steady momentum of the office sector appears to be primed to hit a tipping point in 2020 as the sector enters its 11th consecutive year of moderate positive absorption. Space utilization, design, and planning has been in a transformation this cycle, with many organizations leveraging telecommute technologies and adopting smaller footprints with higher staff density. Unlike past cycles, office space demand did not surge, but absorption has gradually driven vacancy rates lower across the nation. Total occupied space now stands 13 percent above the pre-recession peak with average vacancy rates nearly in alignment with 2007 levels. Solid rent gains over the growth cycle have advanced the average asking rent 19 percent higher than the prior peak, and construction levels remain moderate compared with past expansions. Investors are keying in on the positive momentum in the sector and the comparatively favorable yields offered by office assets. This should spark increased office sales velocity and competition for assets in 2020.

Some macroeconomic headwinds, including the labor shortage, geopolitical risks and financial market volatility, could weigh on the pace of office sector growth, but favorable dynamics largely outweigh these potential restraints. Office-using job creation has held strong through the cycle and current forecasts point to continued growth. Important drivers such as corporate profits and small-business optimism also suggest consistent future office space demand in 2020. Core downtown locations remain in demand, but the aging millennials entering their early 30s are beginning to transition with major life milestones such as marriage and family formation. These shifts are spurring demand for suburban workplaces, particularly in areas connected by mass transit that offer walkable amenities. These changes are widening the spectrum of office assets with a strengthening performance outlook. Many investors have begun to seek these properties as demand for space in suburban offices has increased substantively.

Evolving market trends and elevated liquidity are creating new opportunities for sellers and buyers alike, resulting in an opportune time for investors to reevaluate their investment strategies and portfolio composition. Considering the evolving office investment landscape, investors must carefully define their plans for the next several years, pruning assets that no longer align with their longer-term outlook and adding assets that do. We hope this report provides useful insights to help you refine your strategies and navigate the emerging landscape. As you recalibrate and adapt to the emerging trends, our investment professionals look forward to assisting you in meeting your goals.

Sincerely,

**ALAN PONTIUS**

Senior Vice President/Director
Office & Industrial Properties Group

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Research Services Division

## National Perspective



## Market Overviews



## Canada



## Client Services



*Developed by Marcus & Millichap Research Services. Additional contributions were made by Marcus & Millichap investment brokerage professionals nationwide.*

## National Office Market Index (NOMI)

- Stronghold tech markets hold several spots at the top of the Index. San Francisco (#1) swaps places with last year's leader Seattle-Tacoma (#2) while San Jose (#3) holds onto the third rung.
- Companies moving to be closer to available skilled labor pools or to lower costs are finding secondary markets attractive. Orlando (#14) and Sacramento (#22) make the biggest hikes this year, each vaulting six rungs. Riverside-San Bernardino (#21) and Kansas City (#28) follow, each ascending five positions as strong office employment gains amid single-digit vacancy boost rent growth.

## National Economy

- Employment growth remains strong as 1.5 million positions will be added to the workforce this year. Gains will be fewer than in 2019 but sufficient to keep the unemployment rate from rising from a nearly 50-year low in the mid-3 percent range.
- Business sentiment is favorable entering 2020 due to the strong economic expansion. Small-business confidence rebounded late last year due to healthy consumer spending and remains at a historically elevated level.
- A tight recruiting environment is encouraging companies to become more flexible with employee locations, often opening satellite offices in smaller cities to capture a larger workforce.

## National Office Overview

- Space demand aligns with economic growth, generating a nine-year run of declining vacancy, even as office inventory made steady gains during the same span. Limited available floor plates will push the national average asking rent higher and embolden the construction of new properties during this year.
- Companies increasingly factor office amenities into their recruiting and retention strategies to compete for a limited number of workers. Tech and creative firms seek footprints with an abundance of features, open floor plans and urban locations when considering relocation or lease renewal decisions.
- Office deliveries during 2020 will rise to the highest level since 2009. Construction is concentrated within 12 markets, which account for 60 percent of the new inventory. Speculative office space is focused in Boston, Chicago, Dallas/Fort Worth, Los Angeles, New York City and San Jose.

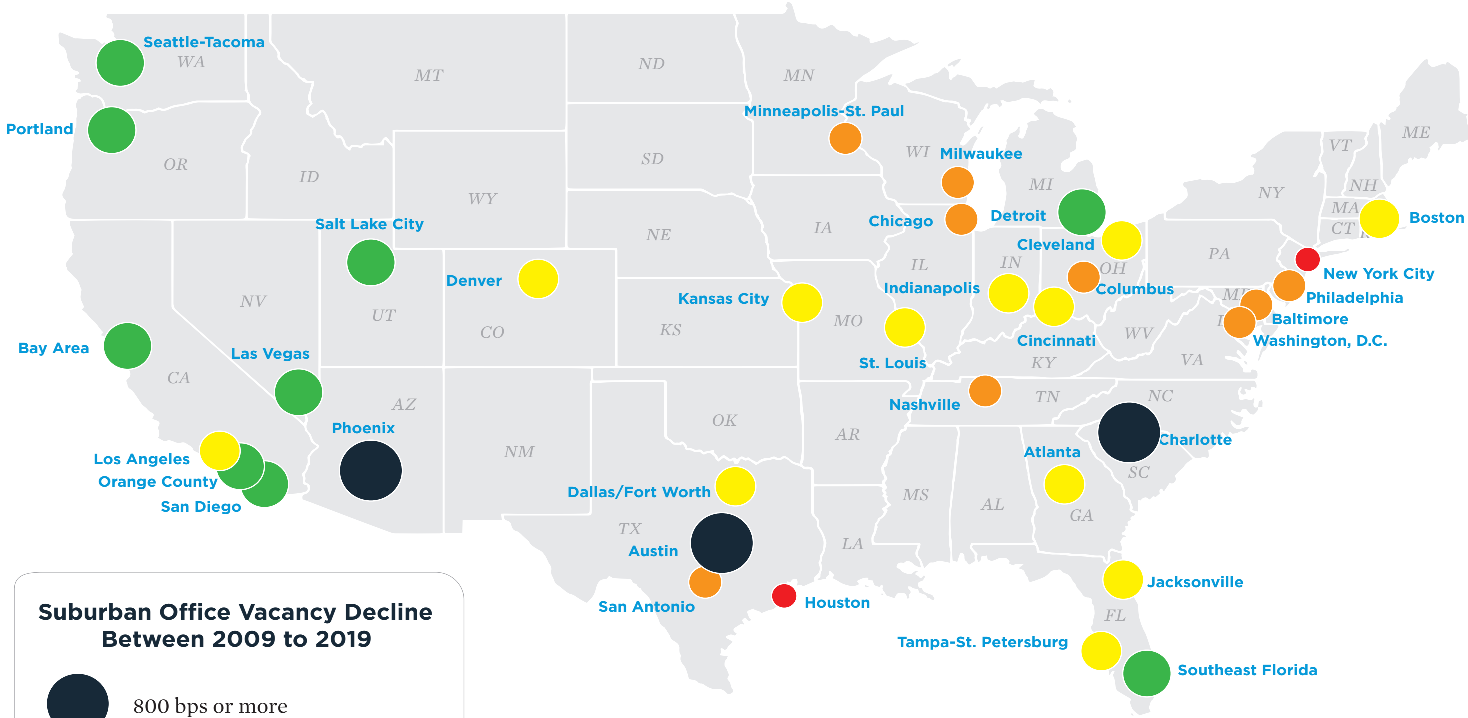
## Capital Markets

- The Fed reiterates expectations of growth in 2020 with few changes to policy, but Chairman Jerome Powell emphasized that the committee will change course if conditions warrant.
- Although underwriting standards are tightening for certain segments of the market, debt financing remains readily available for office investments. Local, regional and national banks, life insurance companies and private capital sources remain active.
- Lower interest rates may spur greater foreign investment into U.S. office assets following a slight pullback in 2019. Buyers from Europe, Canada and Asia continue to pursue stabilized properties in large gateway markets as well as in rapidly growing secondary metros.

## Investment Outlook

- The sector has been late to emerge as an attractive investment opportunity as buyers are taking a calculated approach, though a backdrop of robust underlying fundamentals preserve a consistent level of transactions.
- Investors are compelled by opportunities in markets with an outsized tech presence, such as Austin, San Francisco and San Jose. Rapidly growing markets in the Sunbelt, including Charlotte, Phoenix and Tampa-St. Petersburg, also draw buyers due to their strong job and population gains along with greater diversification across office users.
- Properties in primary markets recorded an average initial yield in the upper-6 percent band, while properties in secondary markets traded 50 basis points higher. Tertiary markets have an average cap rate in the high-7 percent range.

## Suburban Office Space Demand Drives Falling Vacancy Rates




**Suburban Office Vacancy Decline Between 2009 to 2019**

- 800 bps or more
- 500 bps to 800 bps
- 350 bps to 500 bps
- 0 bps to 350 bps
- Vacancy increase

## CBD vs. Suburban Trends

| Year | CBD Vacancy | Suburban Vacancy | Spread |
|---|---|---|---|
| 2009 | 14.90% | 16.80% | 190 bps |
| 2019 | 12.70% | 13.40% | 70 bps |
| Change | -220 bps | -340 bps | -120 bps |

| Top 10 Markets For Suburban Office Space Growth (2009-2019) | 10-Year Suburban Inventory Growth (Square Footage) | Suburban Vacancy Basis Point Change |
|---|---|---|
| Dallas/Fort Worth | 47,644,000 | -360 |
| Houston | 37,773,000 | 360 |
| San Jose | 26,625,000 | -870 |
| Washington, D.C. | 20,525,000 | -50 |
| Salt Lake City | 17,918,000 | -630 |
| Phoenix | 16,384,000 | -820 |
| Austin | 13,868,000 | -800 |
| Baltimore | 12,637,000 | -330 |
| New York City | 12,620,000 | 60 |
| Philadelphia | 11,880,000 | -130 |

## Suburban Office Highlights

- Over the past decade, suburban office vacancy tightened in all but a few metros more aggressively than downtown areas.
- Markets with robust job and population growth led the nation in office demand outside the urban core. Austin, Charlotte and Phoenix posted the sharpest declines in vacancy during the past decade.
- The decrease in energy production cooled suburban office demand in markets heavily dependent on the sectors including Houston and San Antonio.
- Robust demand by tech firms bolstered occupancy outside the downtown cores in Austin, San Francisco and San Jose.
- In 2020, lower rents, shifting demographics and better parking are some of the factors that will draw companies to office space outside of the urban core.

## U.S. Office Market Index

### Tech Stalwarts Continue to Dominate Top of Index; Smaller Markets Gaining Favor

**Two technology-employment-driven metros switch places at top of Index.** Strong demand for space by expanding tech firms delivers few changes in the Index's top 10 slots. San Francisco (#1) swaps places with last year's leader Seattle-Tacoma (#2) while San Jose (#3) holds onto the third rung. Robust demand for space in each of these markets keeps vacancy in the single digits, providing outsized rent gains. Oakland/East Bay (#4) jumps three rungs as spillover demand from San Francisco and San Jose tightens vacancy and boosts rent growth. An expanding tech presence elevates Salt Lake City (#5) four notches, while deliveries rise above net absorption in Raleigh (#6), lowering it one place in the Index. Austin (#7) slips one rung and Charlotte (#8) holds onto last year's position. Portland (#9) advances two spots and is the only newcomer in the top 10. Boston (#10) rounds out the top of the Index.

**Smaller markets make big leaps in the NOMI.** Companies moving to be closer to available skilled labor pools or to lower costs are finding secondary markets attractive. Orlando (#14) and Sacramento (#22) make the biggest hikes this year, each vaulting six rungs. Orlando has led the nation in employment gains in recent years, a trend that will continue in 2020, dropping the metro's vacancy to a cyclical low. Median asking rent in Sacramento is roughly a third of nearby San Francisco, offering reduced expenses for cost-conscience companies. Riverside-San Bernardino (#21) and Kansas City (#28) follow, each ascending five positions as strong office employment gains amid single-digit vacancy boost rent growth. In contrast, Boston (#10) and Houston (#44) register the greatest declines, each falling six spots. Houston has the highest vacancy rate in the U.S., and a slower leasing pace in Boston amid a rise in deliveries during 2020 will elevate vacancy. New Haven-Fairfield County (#46) holds on to the last place in the NOMI as tepid demand for space stifles rent growth.

## Index Methodology

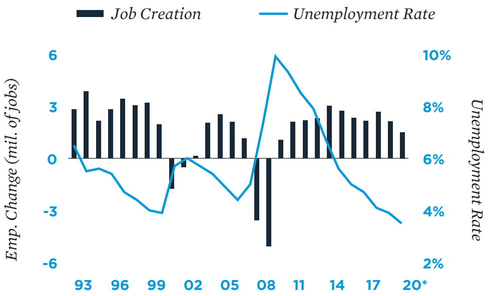
The NOMI ranks 46 major markets on a collection of 12-month, forward-looking economic indicators and supply-and-demand variables. Markets are ranked based on their cumulative weighted-average scores for various indicators, including projected office-using job growth, vacancy, construction, and rents. Weighing both the forecasts and incremental change over the next year, the Index is designed to show relative supply-and-demand conditions at the market level.

Users of the Index are cautioned to keep several important points in mind. First, the NOMI is not designed to predict the performance of individual investments. A carefully chosen property in a bottom-ranked market could easily outperform a poor choice in a higher-ranked market. Second, the NOMI is a snapshot of a one-year horizon. A market encountering difficulties in the near term may provide excellent long-term prospects, and vice versa. Third, a market's ranking may fall from one year to the next even if its fundamentals are improving. The NOMI is an ordinal Index, and differences in rankings should be carefully interpreted. A top-ranked market is not necessarily twice as good as the second-ranked market, nor is it 10 times better than the 10th-ranked market.

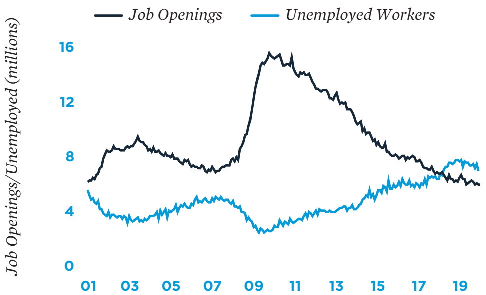
| Market Name | Rank 2020 | Rank 2019[1] | '19-'20 Change |
|---|---|---|---|
| San Francisco | 1 | 2 | ↑ 1 |
| Seattle-Tacoma | 2 | 1 | ↓ -1 |
| San Jose | 3 | 3 | ■ 0 |
| Oakland/East Bay | 4 | 7 | ↑ 3 |
| Salt Lake City | 5 | 9 | ↑ 4 |
| Raleigh | 6 | 5 | ↓ -1 |
| Austin | 7 | 6 | ↓ -1 |
| Charlotte | 8 | 8 | ■ 0 |
| Portland | 9 | 11 | ↑ 2 |
| Boston | 10 | 4 | ↓ -6 |
| Minneapolis-St. Paul | 11 | 12 | ↑ 1 |
| San Diego | 12 | 13 | ↑ 1 |
| Tampa-St. Petersburg | 13 | 16 | ↑ 3 |
| Orlando | 14 | 20 | ↑ 6 |
| New York City | 15 | 10 | ↓ -5 |
| Phoenix | 16 | 17 | ↑ 1 |
| Nashville | 17 | 14 | ↓ -3 |
| Dallas/Fort Worth | 18 | 21 | ↑ 3 |
| Denver | 19 | 15 | ↓ -4 |
| Atlanta | 20 | 19 | ↓ -1 |
| Riverside-San Bernardino | 21 | 26 | ↑ 5 |
| Sacramento | 22 | 28 | ↑ 6 |
| Orange County | 23 | 18 | ↓ -5 |
| Columbus | 24 | 27 | ↑ 3 |
| Washington, D.C. | 25 | 24 | ↓ -1 |
| Miami-Dade | 26 | 22 | ↓ -4 |
| Los Angeles | 27 | 23 | ↓ -4 |
| Kansas City | 28 | 33 | ↑ 5 |
| Philadelphia | 29 | 31 | ↑ 2 |
| Fort Lauderdale | 30 | 25 | ↓ -5 |
| Cincinnati | 31 | 35 | ↑ 4 |
| West Palm Beach | 32 | 30 | ↓ -2 |
| Indianapolis | 33 | 29 | ↓ -4 |
| San Antonio | 34 | 32 | ↓ -2 |
| Las Vegas | 35 | 37 | ↑ 2 |
| Louisville | 36 | 36 | ■ 0 |
| Chicago | 37 | 34 | ↓ -3 |
| Pittsburgh | 38 | 41 | ↓ 3 |
| St. Louis | 39 | 40 | ↑ 1 |
| Cleveland | 40 | 44 | ↑ 4 |
| Northern New Jersey | 41 | 43 | ↑ 2 |
| Baltimore | 42 | 39 | ↓ -3 |
| Detroit | 43 | 45 | ↑ 2 |
| Houston | 44 | 38 | ↓ -6 |
| Milwaukee | 45 | 42 | ↓ -3 |
| New Haven-Fairfield County | 46 | 46 | ■ 0 |

*[1] See National Office Market Index Note on page 62.*

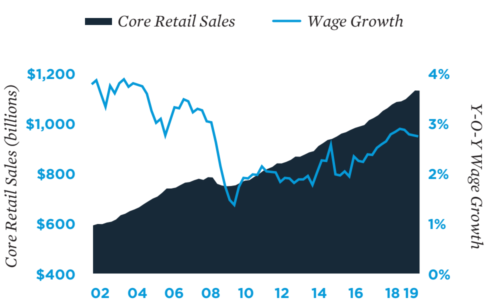
Employment vs. Unemployment



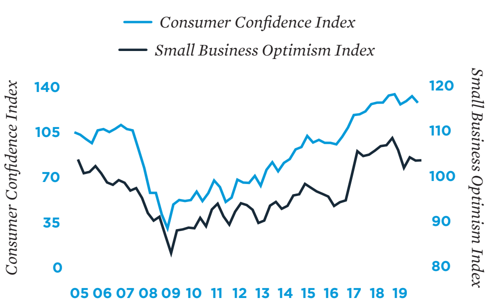

Job Openings vs. Job Seekers




Core Retail Sales vs. Wage Growth




Optimism Bolstered by Consumer Sentiment




* Forecast

## Tight Labor Market Tempers Employment Growth; Business Confidence Remains High

**Companies invigorate recruiting efforts as labor shortage hinders job creation.** The labor market will play a prominent role in defining economic growth in 2020. Job creation remains strong, but a national unemployment rate hovering near a 50-year low in the mid-3 percent range will weigh on hiring. About 1.5 million positions will be added to the workforce this year, fewer than in 2019 but sufficient to keep the unemployment rate from rising. Organizations are facing difficulty finding qualified workers, exemplified by the 20 percent surplus in job openings relative to job seekers that is adding upward pressure to wage growth. To boost their competitive offerings, companies are expanding benefits and adding amenities to job sites in addition to improving pay. The number of positions operating out of offices is expected to rise by 1.2 percent this year, a faster pace than for the general workforce, as businesses continue to invest into staffing.

**Positive outlook could face potential challenges.** In conjunction with continued economic expansion, business sentiment is favorable entering 2020. On the back of strong consumer spending, small-business confidence rebounded late last year and remains at a historically elevated level. Corporate profits also improved in 2019, although the pace of capital expenditure growth slowed, suggesting companies are being deliberate in how they manage their investment in expansion. This behavior reflects the reality that while the current economic outlook is positive, possible headwinds cloud the horizon. International trade relations appear to have stabilized for the near term but could be disrupted with little notice. Furthermore, the tariffs put into place over the past two years could still push prices on consumer goods higher and weigh on future consumption. Economic globalization heightens the chance of foreign uncertainty disrupting the current expansion. The most substantive aspect of the economy, individual consumption, should nevertheless stay strong in 2020 with all-time high levels of household wealth and low interest rates encouraging discretionary spending.

## 2020 National Economic Outlook

- **Multigenerational workforce complicates office landscape.** Longer lifespans are delaying the retirement age at the same time that the leading edge of Generation Z is entering the workforce. The employment base will soon span four generations, each with their own expectations for a workplace. Employers and office property managers will all have to negotiate between younger employees' preferences for flexibility and collaboration with more established methods of communicating and occupying space. How companies manage this balance will change office dynamics in the future.
- **Population shift drives real estate needs in southern, western cities.** Companies grappling with a tight recruiting environment are becoming more flexible with employee locations, often opening satellite offices in smaller cities to tap new workers. New corporate investment in mid-size and small markets in the Southwest and Sunbelt will bolster local demand for office space. Demand drivers in more northern primary metros remain sound, but the pace of growth has tapered.
- **Job surplus curbs hiring at offices.** Hiring for positions that traditionally use offices, as with overall job creation, is abating in 2020 due to an ongoing labor shortage. There were 800,000 more available office positions than potential hires in late 2019. The competitive recruiting climate could boost office space demand, but alternative staffing models could impact absorption. Companies are embracing remote working more often, lessening their space requirements, while short-term office rentals such as coworking firms have proliferated, testing new forms of office demand.

## Office Space Important in Tight Recruiting Climate; Pace Of Development Accelerating but Market in Balance

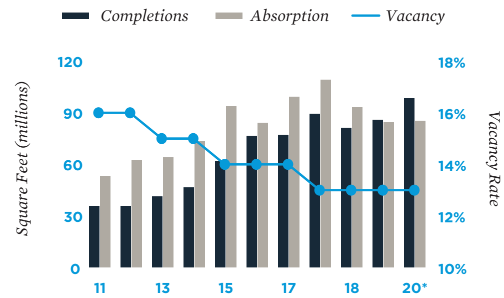
**Vacancy hovers at cyclical low.** Demand for office space continues to align with economic growth, producing a nine-year run of annual vacancy improvement, even as office inventory made steady gains during the same span. Nearly 6.6 million office-using jobs have been added during this period, contributing to the unemployment rate dropping to a 50-year low. As the labor market tightened, companies increasingly factored office amenities into their recruiting and retention strategies. Tech and creative firms in particular are seeking space with an abundance of amenities, open floor concepts and urban environments when making relocation or lease renewal decisions. Buildings near transit access in walkable neighborhoods close to restaurants and bars are desired, whether in a metro downtown or in an employment hub in a suburban area. Robust demand for office space throughout the U.S. has tightened vacancy to a cyclical low 13.0 percent and the rate is expected to hover there this year. Entering 2020, limited available floor plates will drive the national average asking rent higher and the embolden the development of additional properties.

**Upswing in speculative construction.** With vacancy comparatively tight, office deliveries during 2020 will rise to the highest level since 2009. Construction is concentrated within 12 markets, which account for 60 percent of the new inventory. Metros with a large tech base will dominate completions this year, led by New York City, San Jose, Seattle-Tacoma and Washington, D.C. Tech expansion has also had an influence in smaller markets, including some just emerging as new tech hubs, like Austin, Charlotte, Nashville, Raleigh and Salt Lake City. These rank among the metros with the largest inventory growth in this business cycle as many tech firms expand into areas with a large pool of skilled professionals. Demand for new office space, especially in walkable urban locales, has prompted speculative development nationwide. Approximately one-fifth of this year's new supply is speculative office space, with the largest percentage of square footage underway in Boston, Chicago, Dallas/Fort Worth, Los Angeles, New York City and San Jose.

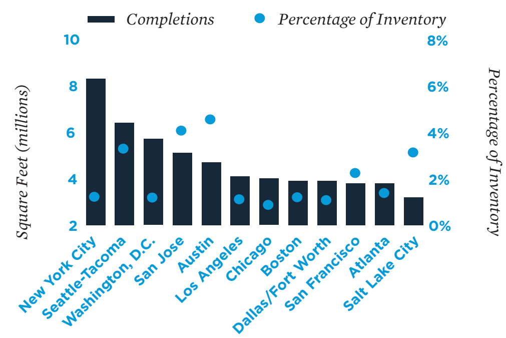
## 2020 National Office Outlook

- **Downtowns and suburbs receive speculative inventory.** Within the nation's 46 major markets approximately 20 million square feet of speculative space is under construction, 63 percent of which is in primary markets. Metros with the largest portion of speculative construction located outside the central business district are dominated by fast-growing Sunbelt markets in Arizona, California, North Carolina and Texas. In contrast, speculative construction in urban cores is concentrated in the largest cities including Chicago, NYC's Manhattan borough and uprising tech markets Atlanta, Boston and Nashville. Often the speculative buildings outside the CBDs are in mixed-use redevelopments as more suburban employment hubs try to foster walkable urban neighborhoods with amenities to attract tech and creative firms and their workers.
- **Use of PropTech proliferates**. Information technology, artificial intelligence and the Internet of Things (IOT) are providing tools that can be used to gather information, track building systems and keep in contact with tenants. Owners who incorporate smart technology may be able to improve tenant relations, increase operational efficiency and reduce operating expenses.
- **Demand for coworking space survives.** Coworking companies are expected to increase square footage this year, albeit at a reduced pace since the change of leadership at WeWork. More local and regional firms will continue to expand as the added amenities and flexibility of lease terms cater to changes in the working environment.

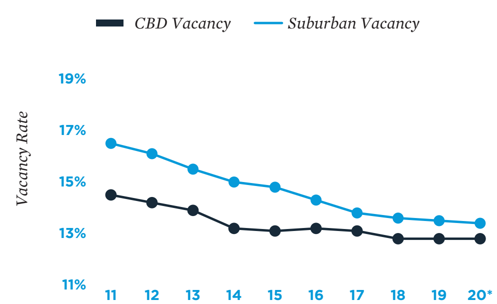
**Office Supply and Demand**



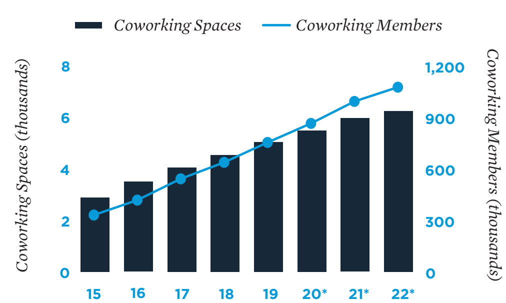

**60% of 2020 Office Construction**




**Vacancy by Location**




**Coworking on the Rise in the U.S.**

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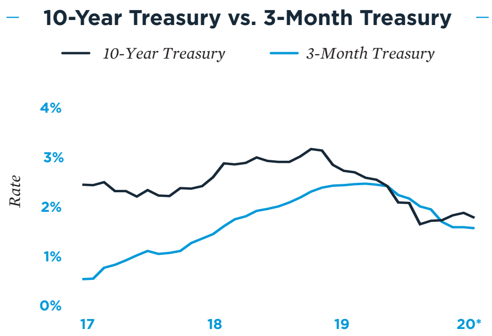
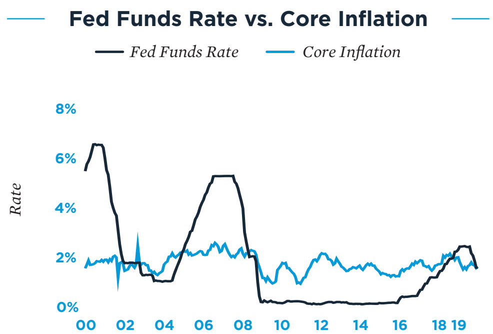
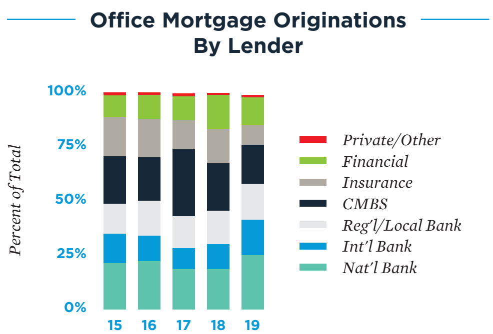
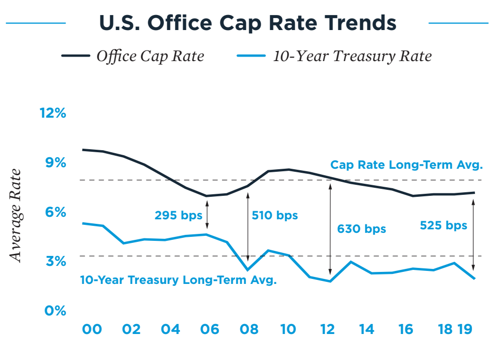



* Through Jan. 31

## Fed Committed to Sustaining Growth; Low Interest Rates Bolster Investor Activity

**Fed reiterates expectations of growth in 2020.** The Federal Reserve will balance a whirlwind of economic and geopolitical forces this year as it sets policies to sustain domestic growth. In 2019, it cut the overnight rate by 25 basis points three times in an effort to offset recessionary risk. Based on policy statements in early 2020, few changes are expected this year, but Chairman Jerome Powell has reemphasized that the committee will continue to monitor conditions as they develop and set policy accordingly. The Fed's approach will factor in numerous international dynamics. Trade relations with China appear to have stabilized for now, but the situation could change with short notice. Existing tariffs may yet drag on consumption, possibly to the extent that the Fed could consider cutting the overnight rate to breathe more life into the economy. Geopolitical turbulence from the 2020 presidential election, the Brexit, and the Middle East could also spark a response from the Fed if it perceives a risk to the economy.

**Lending conditions tighten modestly amid abundant liquidity.** Debt financing remains readily available for office investments, but underwriting standards are tightening for certain segments of the market. Local, regional and national banks; life insurance companies; and private capital sources remain active lenders on high-quality assets in core locations. Underwriters are applying more conservative standards to suburban properties, with loan-to-value ratios in the 60 percent to 65 percent range, compared with 70-75 percent for Class A or B-plus buildings in central business districts. Individual financing terms will vary based on the quality of the asset, its performance metrics and location, as well as the strength of the borrower. The credit quality of the tenants is also important, with caution rising as the current economic growth cycle extends. Liquidity remains for construction lending as well, with less strict terms available to preferred borrowers with proven financial track records and favorable pre-leasing parameters. Loan-to-cost ratios on these types of arrangements can range up to 65 percent with rare exception.

## 2020 Capital Markets Outlook

- **Lower interest rates support investment from other countries.** Falling U.S. interest rates may spur greater foreign investment into U.S. office assets following a slight pullback in 2019. The lower borrowing rates have reduced hedging costs for investors in many countries, while office cap rates have only slightly shifted. Buyers from Europe, Canada and Asia continue to pursue stabilized properties in large gateway markets as well as in rapidly growing secondary metros, particularly those in the South and Southwest.
- **Fed to closely monitor inflation.** The Fed's preferred inflation measure — Core PCE — remained in the mid-1 to high-1 percent range for much of 2019, below the committee's 2 percent target, as the economy sustained moderate growth. Allowing the measure to run hotter or colder than the target is not seen as an immediate risk in the coming months, although prolonged spans either above or below 2 percent may influence the Fed to make policy changes.
- **Yield spreads favor investors.** Investors continue to prefer the strong levered yields of office properties as the 10-year Treasury remains below 2 percent. The nationwide average office cap rate sits in the low-7 percent range, delivering a low-500-basis point premium above the 10-year note, among the widest spreads of the past decade.

## Capital Pouring Into Tech and Sunbelt Markets as Healthy Office Space Demand Sustains Investor Interest

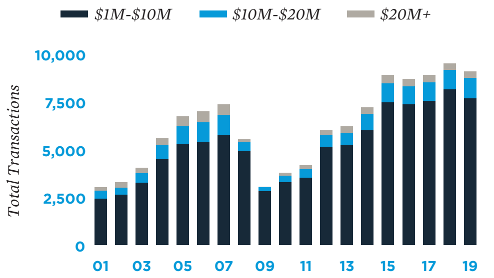
**Durable growth outlook and steady office performance gains sustain sector.** Office market fundamentals strengthened over the past year against a backdrop of robust underlying demand, preserving a consistent level of transactions. The sector has been late to emerge as an attractive investment opportunity as buyers are taking a calculated approach, weighing rising valuations and strong leasing against the possibility of retrenchment in job growth and slowing rent gains. Capital flowed into coastal tech markets and Sunbelt metros at increased levels for their exceptional space demand characteristics and elevated revenue growth, while investors were challenged with locating assets that met acquisition criteria in gateway markets. A high inventory of aging stock in metros such as Chicago, Washington, D.C., and Los Angeles face robust competition with new and modern buildings, lifting the risk of tenant defections. Moving into 2020, capital expenditures will again be a top consideration when evaluating an asset as the flight to quality among office users emphasizes the need to renovate older buildings to remain competitive.

**Investors compelled by opportunities in the Sunbelt and coastal tech markets.** Leasing momentum in recent years has been powered by the nation's rapidly growing technology industry, bolstering property metrics across many major markets including Austin, San Francisco, San Jose and Seattle. A healthy outlook encouraged investors to deploy more capital in these metros, pushing deal flow for these markets in 2019 above the previous three-year average. As a result of elevated competition and high prices commanded in the more tech dominant markets, these metros are also characterized as having some of the lowest initial yields nationwide. In addition, investors are favoring rapidly growing markets in the Sunbelt, including Charlotte, Phoenix and Tampa-St. Petersburg for their strong job and population gains along with greater diversification across office users. Supply growth in these markets has been more restrained this cycle as the share of office space underway remains less than 2 percent of current inventory, encouraging investors to consider value-add opportunities while facing fewer threats from new construction.

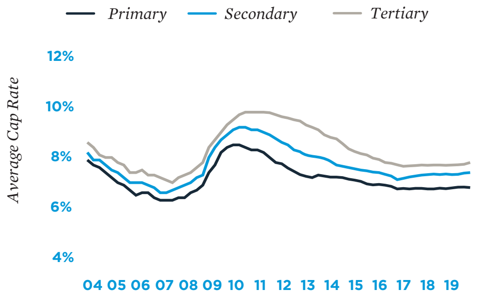
## 2020 Investment Outlook

- **Employers and investors focusing on lively suburbs.** Suburban markets showcased their ability to attract developers and corporate tenants last year, drawn to areas with nearby transit access that can create the live-work-play lifestyle. Rejuvenated downtown corridors have been re-energized, beckoning millennials, restaurants and other retailers, and motivating investors to increase acquisitions. Assets that are highly walkable and in proximity to housing, transit and other amenities will be highly sought after.
- **Tenant demand for modern and highly amenitized offices encourages greater capital expenditures.** To retain tenants, landlords are taking on renovations of aging stock, though as rent growth begins to slow in some markets, the rising costs of capital expenditures will need to be carefully weighed against future revenue potential.
- **Yield profile highlights opportunities in secondary and tertiary metros.** The average cap rate drifted 10 basis points higher in 2019 to rest at 7.1 percent. Properties in primary markets recorded an average initial yield in the upper-6 percent band, while properties in secondary markets traded 50 basis points higher. Even greater yields can be captured in tertiary markets, where the average cap rate falls in the upper-7 percent territory, illustrating the remaining value outside of major markets. To mitigate the inherent risks of tertiary markets, buyers are targeting metros with a strong tech presence.

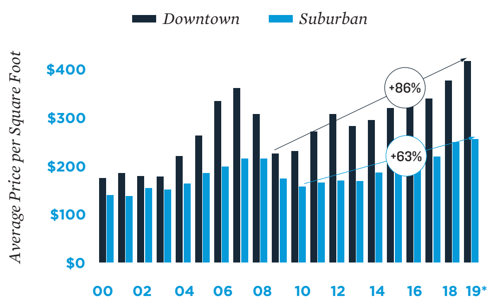
### Office Transactions By Price Category



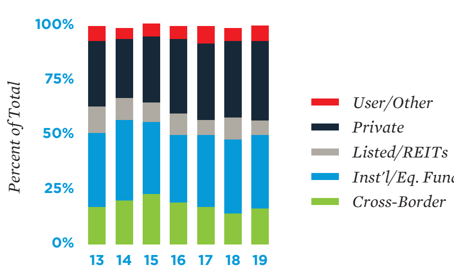

### Cap Rate Trends by Market




### U.S. Office Price Trends

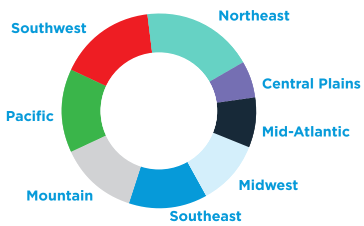



### Office Buyer Composition



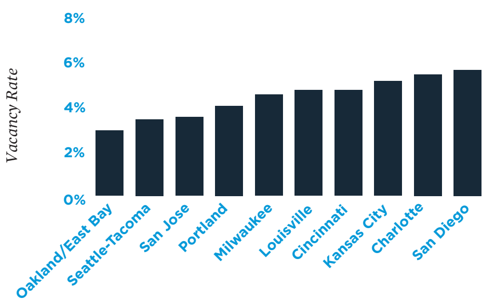

* Preliminary Estimate

2019 MOB Completions By U.S. Region

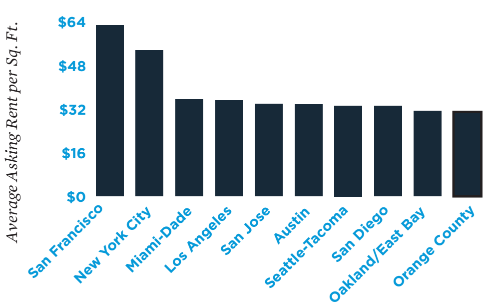



*Regional shares based on estimated U.S. total of 10.6 million square feet.*

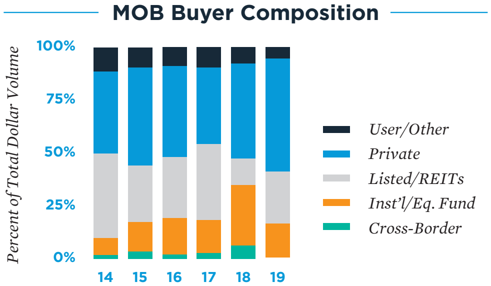
2019 Lowest Vacancy by Metro




2019 Highest Asking Rent by Metro




MOB Buyer Composition




*Based on trans. of $2.5M+ (excludes entity-level and partial-interest sales)*

*Sources: CoStar Group, Inc.; Real Capital Analytics*

## Aging Population and Increased Insurance Drive Healthcare Demand

**Key demand drivers bolster medical office outlook.** The convergence of three factors — aging baby boomers, expanded medical insurance coverage and new treatment options — will drive medical office space demand. With 10,000 baby boomers celebrating their 65th birthday each day, demand for medical services will rise. People between the age of 65 and 74 require three times as many healthcare visits as people younger than 45. In addition, the aging population has increased the share of the population insured by Medicare by 400 basis points over the past 10 years to 15 percent, so a greater portion of this segment of the population has medical insurance. Another driver of expanded healthcare has been the extended economic growth cycle. Elevated business confidence has encouraged many companies to expand beyond the 50-employee threshold that triggers mandatory health insurance. The ultra-low unemployment rate has also impacted healthcare coverage as competition for employees has led to improved benefits packages, driving the inclusion of higher caliber employer-sponsored health insurance. As a result, the number of uninsured Americans dipped below the 10 percent threshold recently, increasing demand for health services.

**Patient care and cost underscore tenant demand for off-campus medical office buildings.** Another factor driving medical office demand has been a structural shift in patient services, particularly ambulatory care, away from hospitals and into medical office buildings. Moving these services out of hospitals significantly reduces the cost of care and makes the medical services more convenient for patients. The sectors that predominately use medical office building space, including physician and clinical services, dental services, and other professional services, collectively account for 27 percent of healthcare spending. The cost of hospital care, which accounts for 33 percent of healthcare expenditures, is growing faster than outside services, encouraging more providers to shift into healthcare footprints.

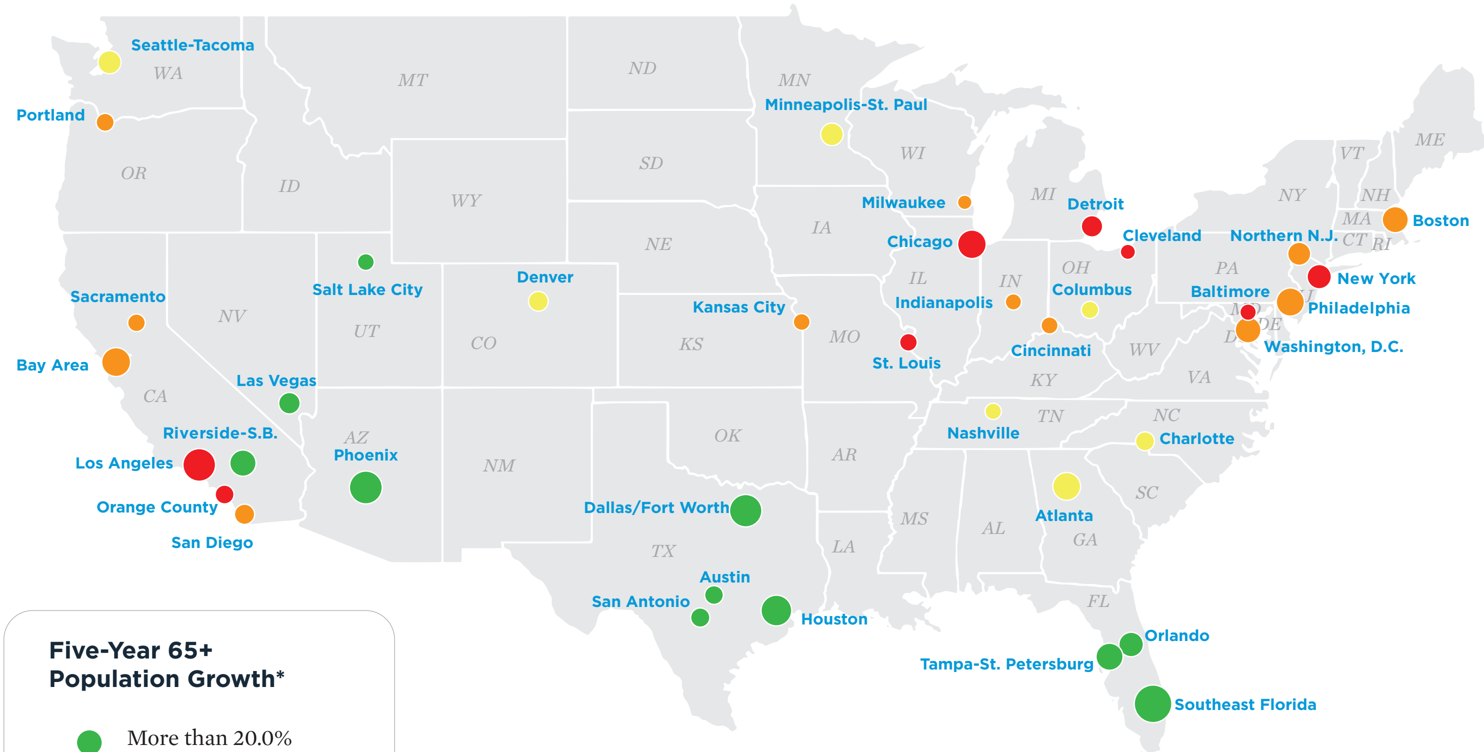
## Investment Trends

**Private investors drive demand for off-campus assets.** Having been identified as a recession-resistant investment, medical offices are attracting increased interest from a broad range of investors. Though there are many nuances to these assets, including on-campus versus off-campus dynamics and risks of obsolescence, the number of medical office properties that traded hands in 2019 was more than double the count at the peak of the last cycle in 2008.

**Annual average for first-year yields on off-campus properties trades stabilized.** Over the last four years, cap rates appear to have reached an equilibrium, moving little compared with the steep 200-basis-point decline from 2010 to 2016. REITs and institutional investors constituted 69 percent of the acquisitions over $20 million with cap rates averaging in the low-6 percent area. Private investors dominated the sub-$20 million segment last year, acquiring over 70 percent of the properties sold in this price tranche with an average cap rate in the 7 percent range.

**Off-campus location considerations.** A major consideration for assets in this segment is the risk of obsolescence, particularly considering the increased consolidation in the healthcare industry. Investors targeting off-campus assets need to consider whether the asset is well located and has the proper infrastructure to service modern medical needs.

## Demand for Healthcare to Rise Significantly Across the Sunbelt




**Five-Year 65+ Population Growth***

- More than 20.0%
- 17.5% to 20.0%
- 15.0% to 17.5%
- Less than 15.0%

**Bubble size represents absolute growth.*

In the Sunbelt, a popular retirement destination, the population of those age 65-plus will grow more than 20 percent in several large cities over the next five years, generating significant demand for healthcare providers and medical office buildings.

*Sources: Marcus & Millichap Research Services; Moody's Analytics; Economy.com*

## 2020 Medical Office Building Forecast

**8** million square feet

### Construction:

Builders are easing the pace of development this year as construction costs weigh on project selection. Off-campus construction will follow rooftops into growing neighborhoods in the Sunbelt and in the Northeast, where demographics are favorable. Following eight years of inventory growth above 10 million, supply additions fall to 8 million square feet in 2020. Last year, builders expanded stock by 10.6 million.

**20** basis point decrease

### Vacancy:

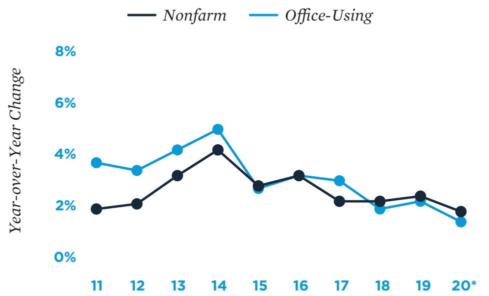
Healthy demand from physicians and clinical-services providers supports positive absorption of 8.7 million square feet this year. Nationwide vacancy contracts 20 basis points to 8.6 percent. The rate is near the cyclical low of 8.4 percent realized at the end of 2017 and 2018.

**2.6%** increase

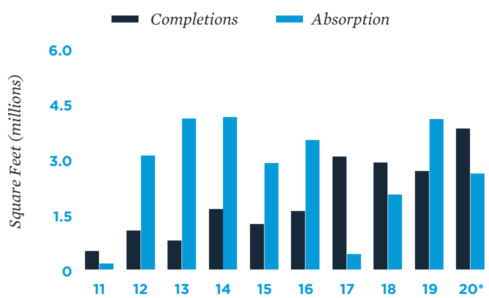
### Asking Rent:

The asking rent for available space should gain traction this year as vacancy tightens and competition from new footprints dwindles. After averaging just 1.8 percent growth over the past five years, the average rent climbs to $24.25 per square foot by year end.

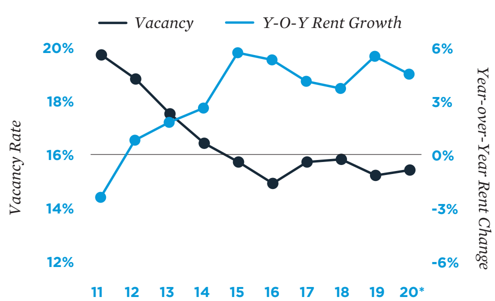
## Employment Trends



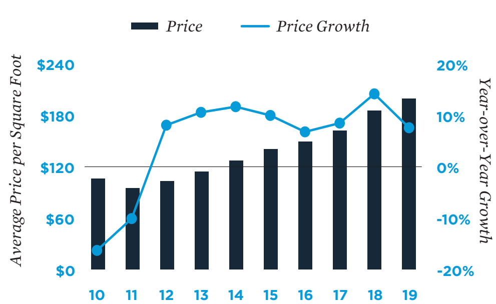

## Office Supply and Demand




## Vacancy and Rent Trends




## Sales Trends




*Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

# SunTrust Park Stimulating Demand in Cumberland; Elevated Appreciation Fueled by Competitive Buyer Pool

**Cumberland drawing corporate interest as The Battery development takes shape.** Office-using employment gains exceed 10,000 personnel for the 11th consecutive year in 2020, powered by the multitude of corporate relocations and the growing technology scene. Consistent with the national trend, companies are moving from the central business district to the suburbs to capitalize on new worker pools and lower rent. The opening of the new Atlanta Braves baseball stadium, SunTrust Park, in 2017 has also been luring firms to Cumberland. Surrounding the stadium, the mixed-use development called The Battery has improved the walkability of the area and provided a centerpiece for future corporate relocation. This year, 330,000 square feet of office space will be added to The Battery, roughly two-thirds of which is pre-leased by Thyssenkrupp for a new North American headquarters. As a whole, the metro will receive a cycle-high 3.8 million square feet of space this year, roughly one-quarter of which is being built on a speculative basis. As some of these projects may take longer to lease given the large influx of new supply, the vacancy rate will move up in 2020.

**Mid-tier assets in northern suburbs catching buyers' eyes.** The average cap rate is holding in the low-7 percent clip, and competition between local and out-of-state capital sources facilitated sizable appreciation over the past year. Out-of-state buyers, particularly from New York and California, are often targeting larger assets in Midtown carrying first-year returns in the 7 percent range on average. Local investors pursuing smaller assets are looking outside of the perimeter to suburbs including Norcross and Roswell. Here, buyers favor Class B properties that do not require major improvements yet appeal to tenants seeking mid-tier quality suburban offices. Medical offices in far north suburbs such as Johns Creek are also high on investors' wish lists; buyers there are finding first-year returns as high as 8 percent.

## 2020 Market Forecast

**NOMI Rank** 20, down 1 place — Vacancy climbs amid an increase in deliveries and slower absorption, lowering Atlanta in this year's Index.

**Employment** up 1.7% — Organizations will add 48,000 personnel in 2020, falling just shy of the 2.3 percent advance logged in the previous year.

**Construction** 3.8 million sq. ft. — Elevated deliveries equating to 2.9 million square feet annually over the trailing three years will be exceeded in 2020. This will be the largest influx of office space since 2008.

**Vacancy** up 20 bps — Following a 60-basis-point ease in 2019, vacancy will tick back up to 15.4 percent this year. Arrivals of large speculative projects will dictate the rise of unoccupied space.

**Rent** up 4.5% — The average asking rent will maintain positive growth momentum in 2020 and move up to $26.71 per square foot.

**Investment** — Class B assets in Lawrenceville and other far northeast suburbs are attracting investors. Leasing momentum in this area is bolstered by service providers such as real estate and insurance.

## Top-Tier Office Space Prioritized by Both Tenants and Investors; Expanding Supply Bears on Tight Market

**Exhaustive pipeline to create some headwinds for well-performing market.** Completions will increase total inventory by 4.8 percent this year, the highest margin in the nation. The pipeline will bring an annual delivery volume exceeding 4 million square feet for the first time since 2015, when 4.2 million square feet was finalized. In that year absorption maintained pace at 4.3 million square feet, and in the years following lease-up has remained in line with deliveries. Strong demand drivers buoyed by the flourishing technology sector bode well for another strong year of absorption in 2020. Although, tenants relocating to newly built, larger footprints may weigh on vacancy until the smaller spaces they leave behind are backfilled. Amazon pre-leased 250,000 square feet being added to The Domain, and Google signed a 150,000-square-foot lease at the Plaza Saltillo project due for completion later this year. Corporations are targeting the highest-quality space, to boost their appeal to skilled workers amid a historically tight labor market.

**Newly built assets catching buyers' eyes.** Record-level appreciation over the course of this cycle now slots Austin near the top nationally in terms of average price per square foot, behind only a handful of distinguished coastal markets. The average cap rate has held in the mid-6 percent range as investors are strategically targeting growth areas outside of the CBD. Out-of-state investors, particularly from East Coast markets, are eying newly built properties near The Domain in north Austin. Technology companies have been frequently relocating here, boosting demand, while first-year returns remain higher than those found in most coastal tech hubs. A bevvy of investors are looking southwest of the core, in the vicinity of Oak Hill. This has been a popular region for corporations to relocate in search of lower rent than is found downtown. Buyers targeting medical offices have concentrated in on Cedar Park, where a handful of assets traded hands over the past few months for prices less than $5 million and initial yields in the mid-6 percent range.

### 2020 Market Forecast

**NOMI Rank** 7, down 1 place — Vacancy rises amid a larger deposit of inventory, moving Austin down in the 2020 NOMI.

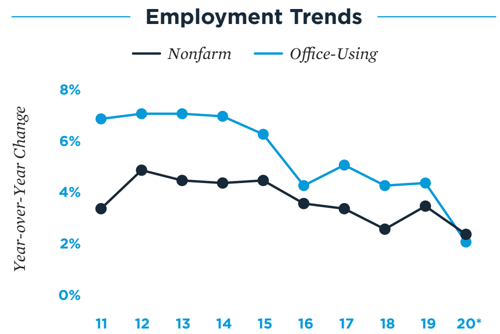
**Employment** up 2.3% — Employers will create roughly 25,250 positions this year, a moderation from the 36,600 roles added in 2019.

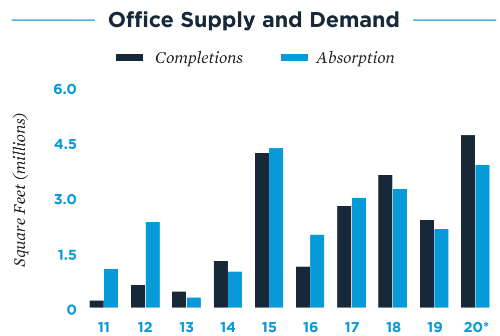
**Construction** 4.7 million sq. ft. — In 2020, nearly 2.3 million more square feet will be finalized than in the previous year. Of the 4.7 million square feet added, 12 percent will be medical office space.

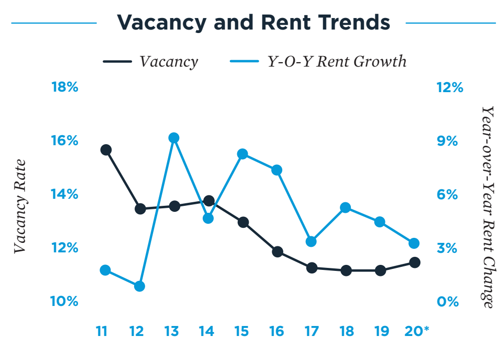
**Vacancy** up 30 bps — After vacancy held firm at a cycle low of 11.1 percent last year, record-level construction activity will push vacancy back up to 11.4 percent in 2020.

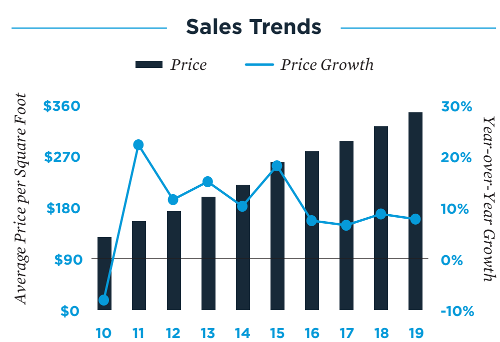
**Rent** up 3.2% — The pace of growth retreats from the 4.4 percent advance in 2019 as the average asking rent reaches $37.34 per square foot.

**Investment** — Suburbs northwest and southwest of the core are a focal point for private investors. Class C assets priced under $10 million can be found carrying initial yields as high as 7 percent.



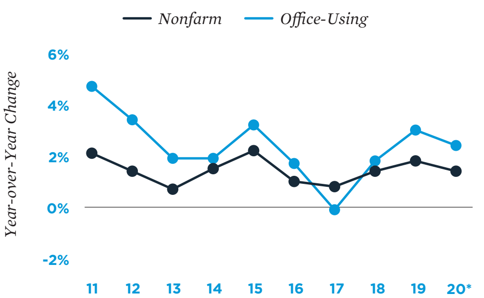



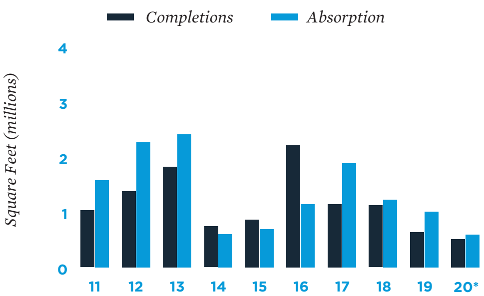

* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

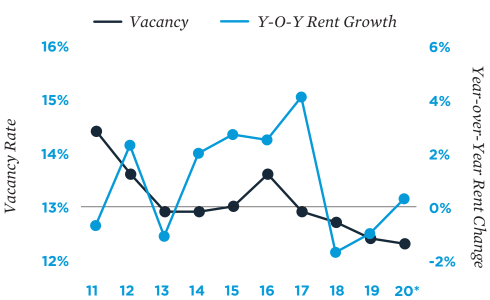
## Employment Trends




## Office Supply and Demand




## Vacancy and Rent Trends




## Sales Trends


*Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

# Vacancy, Asking Rent Adjust Marginally; Suburban Office Hubs Propel Employment Growth and Deal Flow

**Existing floor plans benefit from reduction in office development.** Spanning the past three years, Baltimore represented a locale of stable office fundamentals, bolstered by its sizable medical sector and expanding tech industry. During the 36-month stretch, metro vacancy hovered in the mid-12 percent to low-13 percent range thanks largely to increased demand for Class B and C space. In 2020, renewals and new leases inked at these properties, spurred by the addition of more than 8,000 traditional office positions, will continue to support a level of absorption that translates to stable vacancy. A subdued volume of construction will also support sturdy demand for existing floor plans as deliveries fall to a cycle low, highlighted by Wills Wharf, a 233,000-square-foot property in Harbor Point. Minimal construction activity coupled with a nominal shift in office availability is not expected to significantly impact asking rents, with the metro's rate holding roughly $9 per square foot below the national average.

**Pronounced asking rent growth in suburbs catches buyers' attention.** Entering this year, Class B and C vacancy sat at a cycle low while asset values trailed the previous cycle's peak pricing by 14 percent, suggesting room for upside exists in Baltimore. Sales activity in suburban office hubs will continue to dictate overall deal flow, with investors accepting high-6 percent minimum returns outside the core. Buyer demand remains strong along Interstates 83 and 95 in Baltimore County, aided by a recent decline in local vacancy coupled with above-average rent gains. Here, opportunities to deploy $5 million to $10 million per transaction are most frequent, with high-7 percent to 9 percent cap rates common. Similar first-year yields are obtainable along Route 1, where higher asking rents and sub-$150 per square foot pricing pique investors' interest. Core-focused buyers eye Midtown Baltimore, where smaller Class C properties near major medical centers are available for less than $100 per square foot.

## 2020 Market Forecast

**NOMI Rank** 42, down 3 places — Baltimore falters in this year's Index despite positive net absorption and a decline in completions.

**Employment** up 1.4% — Organizations expand staffs by 20,300 positions in 2020. Traditional office-using employers grow payrolls 2.4 percent with the addition of 8,300 jobs.

**Construction** 512,000 sq. ft. — Development is subdued for a second consecutive year, with supply additions upping the metro's office stock by 0.4 percent.

**Vacancy** down 10 bps — On net absorption of nearly 600,000 square feet of space, metro vacancy dips to 12.3 percent in 2020, comparable to the 30-basis-point drop registered last year.

**Rent** up 0.3% — The average asking rent rises nominally this year to $23.13 per square foot. Spanning the prior two years, the metro's average rate declined by 2.7 percent.

**Investment** — Canton, Fells Point and other eastern Baltimore neighborhoods continue to attract buyers seeking sub-$2 million, Class C listings in areas of locally tight vacancy.

# Tech Firms Boost Demand in Core Boston Office Districts; Suburban Yields Draw Investors

**New office leases in core locations elevating Boston's position as a tech hub.** Approximately 20 tech companies have announced plans to expand in the market this year, targeting the Financial District, Back Bay, Cambridge, and Seaport District. Recently penned leases include a 180,000-square-foot commitment in Cambridge from Google, and 160,000-square-foot deal by Klaviyo in the Financial District, both set to occupy the space in 2020. Additionally, tech company Philips will be relocating from the Essex suburb to Cambridge, where it will occupy 243,000 square feet. These companies entering and expanding in the core will support an increase in space demand this year. However, developers have responded to rising demand and will deliver the largest amount of new supply in over a decade, which will ultimately lift vacancy for the second consecutive year. Weakness may be pronounced in Dorchester, Roxbury and the Financial District, where pre-leasing is trending below the market average. Nonetheless, the influx of available space will not impact marketed rents for available space this year, which will outpace last year's growth.

**Suburban areas entice investors with elevated first-year returns.** Investors seeking Class B/C properties have transitioned their search from Boston's central business district to the outer suburbs. Limited listings and compressing cap rates in the Financial District and Cambridge have dropped Class B/C sales velocity well below suburban deal flow. Owners in the suburbs neighboring the CBD and farther north past Interstate 95 are receiving more competitive bids from buyers, lifting year-over-year sales of suburban Class B/C buildings by more than 10 percent last year. Assets north of the Interstate 495 corridor between Chelmsford and Haverhill have first-year yields in the mid-7 percent range, significantly higher than returns available in core locations. Overall, average cap rates across the market are in the low-6 percent range.

## 2020 Market Forecast

**NOMI Rank** 10, down 6 places — Delivery increase aids an uptick in vacancy, dropping Boston, but the metro remains near the top of the 2020 NOMI.

**Employment** up 1.0% — Building on last year's 40,100-job addition, employers will hire 28,000 workers to in 2020.

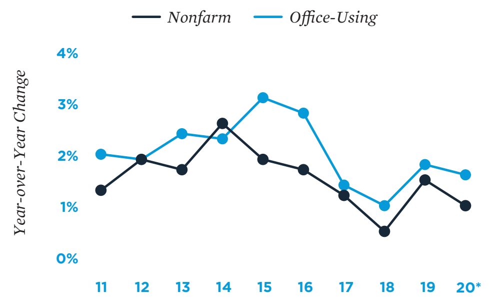
**Construction** 3.9 million sq. ft. — Development sets a new expansionary high watermark this year as inventory grows 1.2 percent. In 2019, builders brought 1.9 million square feet to the market.

**Vacancy** up 20 bps — Supply growth outpaces space demand for the second consecutive year, lifting the average rate to 12.1 percent.

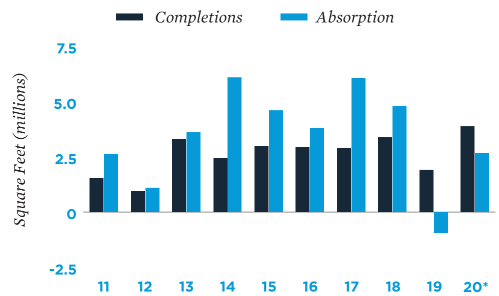
**Rent** up 3.2% — Asking rent growth accelerates from 2.1 percent recorded in 2019. By year end, the average asking rent will climb to $34.33 per square foot.

**Investment** — Investors scour the market for the few value-add plays available in the suburbs. Class B properties with a significant vacancy component garner attention.

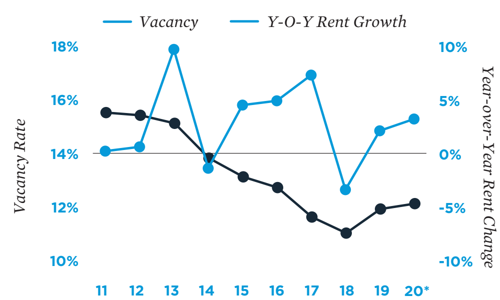
### Employment Trends



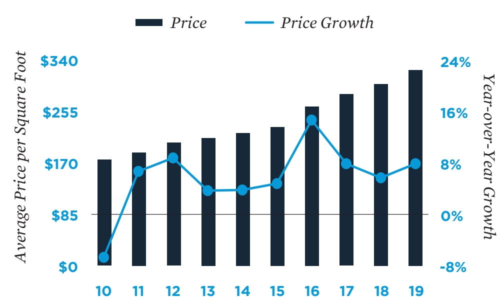

### Office Supply and Demand




### Vacancy and Rent Trends




### Sales Trends




* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

## Company Expansions Redrawing Skyline; Rent Growth Potential Motivates Investors

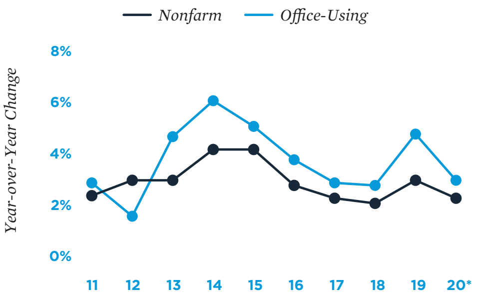
**Charlotte's growing corporate presence bolsters office demand.** The metro's status as the second largest financial hub in the nation is drawing banking and fintech firms. Truist Financial, the renamed company from the BB&T/SunTrust merger, is moving its headquarters to Charlotte and Ally Financial is expanding its footprint. The firm will move into the underway Ally Charlotte Center next year. This 26-story tower and Duke Energy's 40-story headquarters are the largest of six buildings due in the core between 2020 and 2022. Although downtown will dominate construction activity during that time, a growing number of businesses are moving into the city's burgeoning South End neighborhood to attract young professionals and be closer to transit options including light rail access. LendingTree is one company that will be shifting its staff from Ballantyne to the new Vantage South End development. To accommodate these firms, builders have more than 1 million square feet of office space underway in the neighborhood with almost half due in 2020. Metrowide, fundamentals will improve this year, although multiple buildings beginning leasing efforts and companies moving out of older space into new offices may push vacancy up and restrain rent growth in select areas.

**Strong fundamentals capture investor interest.** Over the past two years, the metro has produced some of the most robust rent gains in the nation, drawing a wider range of buyers. Institutions are targeting newer Class A assets with more than 100,000 square feet. In 2019, these often traded above $400 per square foot at an average cap rate in the 5 percent span. Buyers interested in value-add potential have been finding opportunities near the airport in Southwest Charlotte where one of the highest vacancy rates in the metro is found. Leasing activity, especially by logistics firms, has lowered vacancy 440 basis points since 2016, boosting rents 28 percent during the same period. Older buildings in the submarket typically sell below the metro average of $231 per square foot.

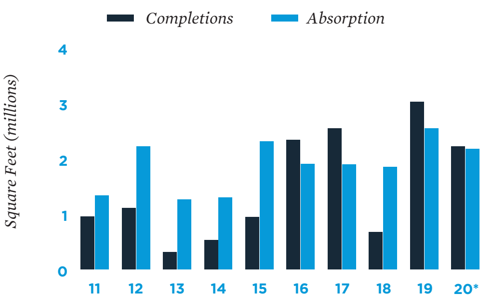
### 2020 Market Forecast

| | |
|---|---|
| **NOMI Rank** 8, no change | Positive absorption of office space tightens vacancy and boosts rents, keeping Charlotte in the top 10 in this year's Index. |
| **Employment** up 2.2% | Employers will create 28,000 jobs during 2020, including 10,000 office-using positions. This year's pace of hiring will be more than twice the national level. |
| **Construction** 2.2 million sq. ft. | Deliveries will retreat from the 3.0 million square feet completed in 2019. This year's total includes 300,000 square feet of medical offices. |
| **Vacancy** down 20 bps | After a 20-basis-point rise last year, vacancy dips to 10.5 percent in 2020 as absorption climbs above completions. |
| **Rent** up 6.0% | Demand for offices boosts the average asking rent to $29.19 per square foot in 2020, following a 7.1 percent surge last year. |
| **Investment** | Medical office assets are also attracting more buyers to the metro. During 2019, buildings in the $1 million to $10 million price tranche traded at an average of $287 per square foot. |

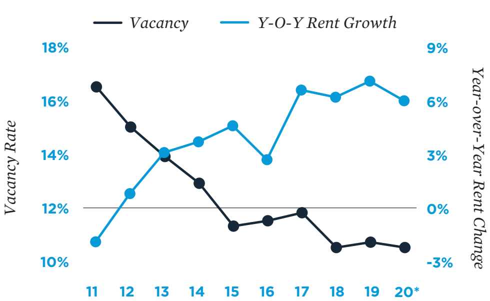
#### Employment Trends




#### Office Supply and Demand




#### Vacancy and Rent Trends




#### Sales Trends


*Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

# Office Investors Shift to Stabilized Mid-Tier Properties in Chicago Amid Elevated Construction

**Class A Chicago office market shines while Class B/C assets search for footing.** Vacancy increases moving down the quality scale as demand for office space is focused on top-tier properties in the city core. Last year, 12 of the 16 largest leases were in the West Loop. In fact, the sole renewal among the dozen large leases in the area included a 50,000-square-foot expansion as United Airlines committed to 816,000 square feet in the Willis Tower. Smaller footprints in the area also remain attractive, which has pushed pre-leasing to 70 percent, much stronger than the market average of 40 percent. Outside of the West Loop, speculative development will weigh on overall vacancy this year as construction levels remain near the cyclical high, curbing backfill opportunities in Class B/C buildings. Several announced expansions should aid in absorption in the coming years, however, as Google, Amazon and Facebook begin expanding headcounts.

**Investors undeterred by negative absorption in Class B sector.** Deal flow for mid-tier properties increased as a percentage of total transactions last year, a trend that should continue in the upcoming months. However, investors are drawn to stabilized Class B properties with tenants secured under multiyear leases rather than value-add acquisitions. The average size of mid-tier deals decreases as investors position their portfolios defensively. Average cap rates for Class B properties are in the high-7 percent range, which attracts out-of-state capital, though the spread between core and suburban assets can be noteworthy. At the lower end of the spectrum, Class C buyers remain active, particularly in areas where mid-tier properties also transact. Average first-year returns for these deals are above 8 percent, proving investors with an elevated risk tolerance significant potential upside. Class A properties in major office-using districts transact at an average cap rate in the mid-7 percent area.

## 2020 Market Forecast

**NOMI Rank**
37, down 3 places
Inventory increase lifts vacancy in the metro, moving Chicago down in the 2020 NOMI.

**Employment**
up 0.6%
Job growth slows for the third consecutive year as 30,500 positions are generated. Office-using employment advances 0.7 percent, or by 8,300 jobs.

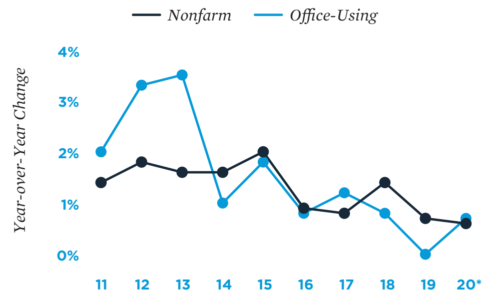
**Construction**
4.0 million sq. ft.
Developers bring 4 million square feet online this year, increasing existing stock by 0.9 percent. Last year, 4.8 million square feet was delivered in the metro.

**Vacancy**
up 20 bps
Vacancy rises to 15.9 percent in 2020 as the market takes time to absorb new space. Last year, vacancy fell 20 basis points.

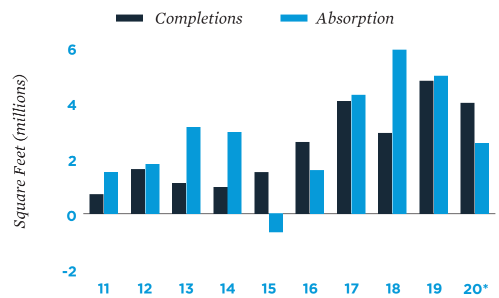
**Rent**
up 3.4%
The average asking rent climbs to $27.09 per square foot by year end, largely attributable to new stock.

**Investment**
Risk aversion will permeate through much of the office investment market this year, providing an opening for buyers with a tenant-in-tow or owner/users to acquire discounted Class B and C properties.

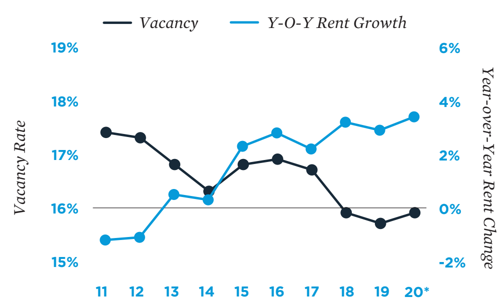
### Employment Trends




### Office Supply and Demand




### Vacancy and Rent Trends

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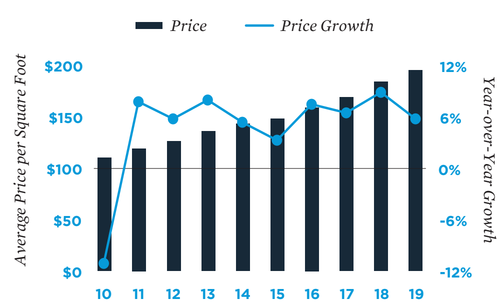
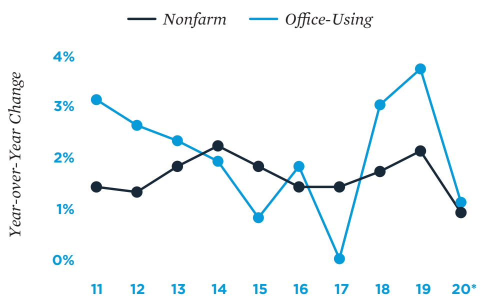


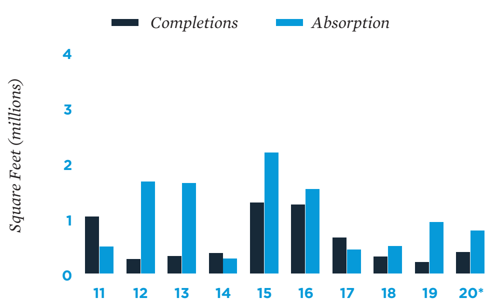

* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

## Employment Trends




## Office Supply and Demand

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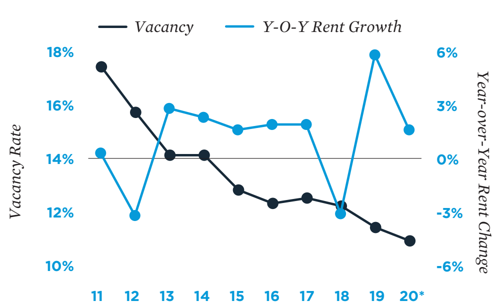



## Sales Trends


*Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

# Research Industry Spurs Resurgence of Office Construction in Metro Suburbs

**Expanding healthcare services and education industries encourage office development.** Tenant demand for suburban Class B/C space outpaces supply, positioning suburban office vacancy in the low-13 percent band, 100 basis points below last year's vacancy rate. As demand permeates outside of downtown, new construction is focused near major employment centers, such as the city's research campuses and hospitals. In the suburb of Evendale, near the GE Aviation headquarters and learning center, the initial 100,000 square feet of AeroHub Innovation District will be delivered this year. The campus will bring together researchers, engineers, and advanced manufacturing businesses. Slightly southeast, in the suburb of Madisonville, 268,000 square feet of the 350,000-square-foot Madison Square development will be delivered in the spring. Medpace, a clinical research firm, initiated the commercial growth of the area, advancing the medical research industry. Its initiative to expand healthcare education, along with AeroHub's plan to educate the millennial workforce on advanced manufacturing and technology, will notably elevate the appeal of office space in the metro's suburbs this year, boosting the metro's overall average asking rent over $17.00 per square foot.

**Low entry costs promote Class B investment in northern suburbs of Cincinnati.** Vacancy continues to contract outside of downtown as the lower rent appeals to businesses in this area, and the location is near a plethora of amenities and attractive household demographics. Investors target aged assets along Interstate 71 spanning from downtown to Sycamore, where buildings can be acquired for up to 10 percent less than the market's average price of $110 per square foot. Marketwide, yields are in the high-7 to mid-8 percent range, slightly above the national average cap rate in the mid-7 percent area. Northern Kentucky also remains an attractive investment market as the area's average cap rate is in the low-9 percent range.

## 2020 Market Forecast

| | |
|---|---|
| **NOMI Rank** 31, up 4 places | Vacancy descent and positive absorption push Cincinnati up in the Index. |
| **Employment** up 0.9% | Hiring will ease to less than half the amount of positions generated last year as 10,000 workers are added to the metro. Nearly a third of job gains will be office-using positions. |
| **Construction** 381,000 sq. ft. | Completions will rise to nearly double last year's amount of deliveries. This is the largest level of completions since 2017. |
| **Vacancy** down 50 bps | Strong leasing activity across the metro will result in a contraction of vacancy to 10.9 percent in 2020. Last year, vacancy declined 80 basis points. |
| **Rent** up 1.6% | Following a 5.8 percent lift in 2019, the average asking rent will rise to $17.40 per square foot this year. |
| **Investment** | Listings for downtown office assets are met with multiple bids as Class B inventory is traded at an average sales price in the $2 million to $6 million price tranche. |

## Demand Exceeds Supply for Fourth Consecutive Year; Buyers Compete for Class B Assets South of Downtown

**Education and healthcare sectors remain significant economic driver for employers expanding downtown.** Cleveland Clinic and University Hospitals have been a major component in office demand growth throughout the metro as they expand to areas such as University Circle and Tremont. Small tenants gravitate toward these major employers, particularly independent medical-office-space users. As significant Class A office projects await financing, leasing for traditional office tenants has softened. Fox Sports, for example, plans to expand into 46,000 square feet at the proposed 400,000-square-foot Nucleus Class A office development. Pre-leasing has also begun for the proposed 455,000-square-foot Centennial office building downtown, scheduled for delivery in 2022. Competition for space and limited arrivals will result in tighter conditions downtown as businesses congregate near the city's burgeoning amenities. Vacancy will dip closer to 11 percent and the average asking rent will rise at a pace that exceeds the previous 10-year average annual growth rate.

**Strong deal flow for Class B assets south of downtown.** Mid-tier properties have been a prime target for investors throughout previous years; however, the asset category has taken an exceptional leap in deal volume within the past year, transacting 20 percent more frequently. The increase in sales has been focused southwest of the central business district toward Middleburg Heights, Parma, and Garfield Heights. Class B inventory is being sold in the $3 million to $10 million price tranche here for cap rates in the mid-8 percent area, slightly above the market's average return. Medical office sales also make up a decent sum of Class B trades, selling for more than $50 per square foot below the national average. First-year returns for these deals are in the mid-8 to 10 percent range. As gains reach above Cleveland's average sales price, many transactions are being completed by out-of-state investors seeking inventory at a lower price than in their home markets.

### 2020 Market Forecast

**NOMI Rank** 40, up 4 places — Vacancy falls as office space demand grows, elevating the metro in the 2020 NOMI.

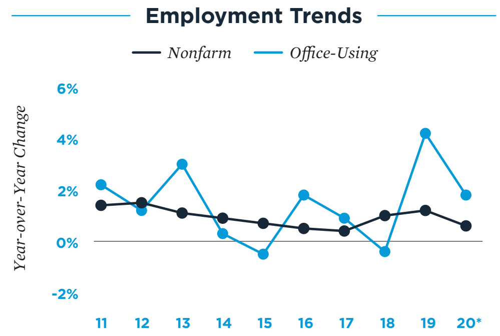
**Employment** up 0.6% — Hiring slows to 6,500 positions, down from 13,200 jobs added to the metro in 2019. Over half of job gains are office-using roles.

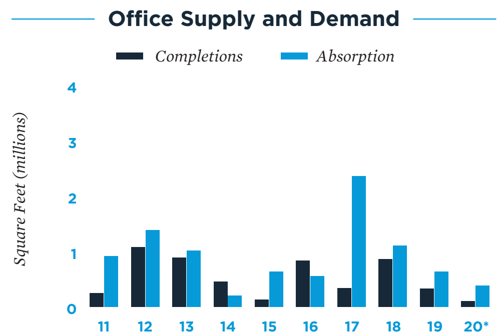
**Construction** 100,000 sq. ft. — Delivery volume will contract to less than 50 percent of the total space finalized in 2019.

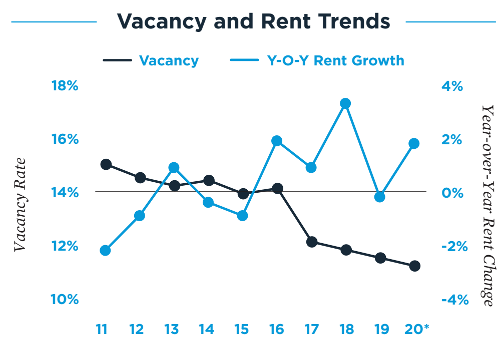
**Vacancy** down 30 bps — Demand outpaces deliveries, contracting vacancy to 11.2 percent by the end of 2020. Last year, office vacancy tightened 30 basis points.

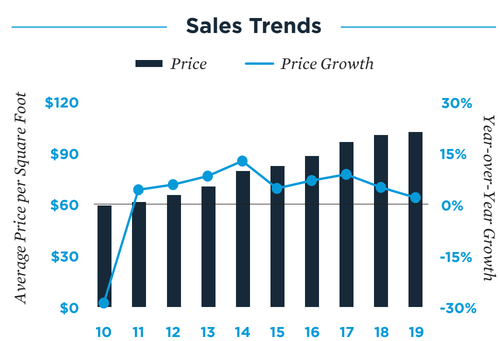
**Rent** up 1.8% — Following a slight decrease in 2019, the average asking rent will rise to $18.31 per square foot this year.

**Investment** — Investors remain interested in mid-tier assets near the city core where first-year returns are above the metro average in the low-8 percent area. Medical office buildings near major healthcare employers attract multiple bids.



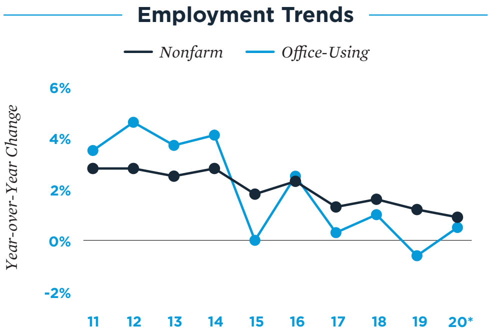



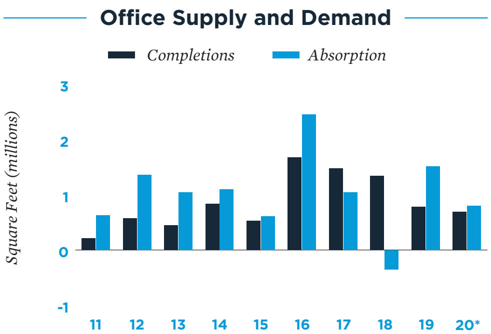



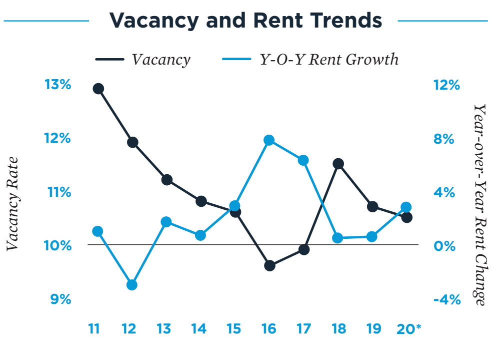

* Forecast

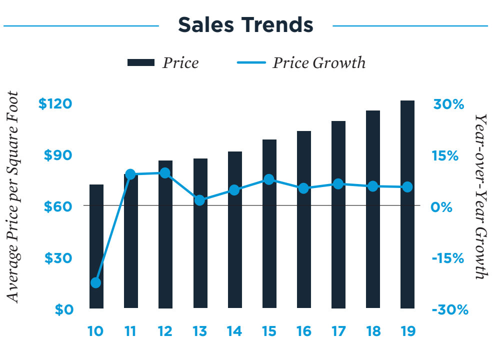
Sources: CoStar Group, Inc.; Real Capital Analytics

## Columbus Sustains Elevated Demand; Suburban Value-Add Investments Draw Attention




*Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

**Tightening market conditions spark speculative development.** Leasing activity continues to rise throughout Columbus as professional and business services firms expand. Space demand in the northern suburbs, in particular, is encouraging new construction. More than half of the nearly 700,000 square feet scheduled for delivery this year will come online in the area. Northeast of downtown toward the Interstate 270 loop, one of the largest projects underway is the Easton Phase III development, which will contain over 250,000 square feet of office space within three separate buildings. Furthermore, in the northwest suburb of Dublin, the construction of Bridge Park will add approximately 100,000 square feet to the market. Although more than 50 percent of this space is available entering the year, healthy demand growth will be sufficient to support a vacancy decline for the second consecutive year.

**Columbus remains one of the most affordable metros for office acquisitions.** Although the average sales price is the most expensive among the Ohio major metros, Columbus enters the year with the third-lowest sales price on a per square-foot basis among the 46 U.S. markets reviewed in this book. As a result, value-add opportunities have moved to the forefront of investors' wish lists, supporting a recent 30 percent rise in velocity for Class B/C assets. Low entry prices provide investors an opportunity to reposition the property or offer affordable rents to fill dark space. Western and northern Columbus report a large number of transactions in which this strategy is deployed, largely due to pricing more than 15 percent below the marketwide average. Average cap rates in the area range from 8.5 percent to 9.5 percent, depending on sale conditions. Overall, the average cap rate for Columbus office assets has settled near 8 percent over the past several years.

### 2020 Market Forecast

**NOMI Rank** 24, up 3 places — Positive absorption of office space drops vacancy, lifting Columbus in the Index.

**Employment** up 0.9% — Employers will add 10,500 workers this year, slightly less than the number of employees hired in 2019.

**Construction** 690,000 sq. ft. — Completions will decline for the fourth consecutive year. Builders finalized 783,000 square feet last year.

**Vacancy** down 20 bps — Strong leasing momentum will result in additional contraction in vacancy this year to 10.5 percent, building on last year's 80-basis-point drop.

**Rent** up 2.8% — Average asking rent gains will more than double last year's rate of growth, lifting to $19.59 per square foot.

**Investment** — Attractive yields in the mid-8 percent band bring buyers east of Columbus to developed suburbs stretching along I-270 near Whitehall and Reynoldsburg.

## Job Creation Expected to Digest Supply Overhang As Developers Ease Pace of Construction

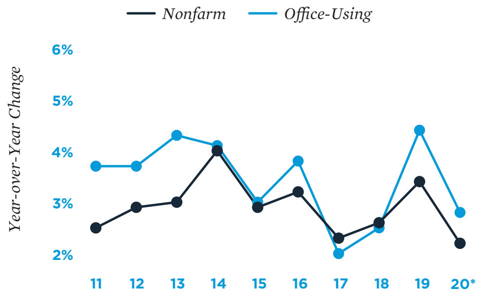
**Texas' reputation for scale is exemplified in the Metroplex's office market.** Dallas/Fort Worth added the most jobs in the country last year, a performance anticipated to be duplicated again in 2020. Office-using payroll growth has been particularly impressive, expanding by more than 4 percent. Unemployment, meanwhile, begins the year in the mid-3 percent range, representing the lowest level in nearly 20 years. Despite favorable demand-side momentum, vacancy remains stubbornly in the high teens as builders move in lockstep with expanding employers. That trend should begin to fade this year as supply additions fall to the lowest level in five years. Nonetheless, several quarters of strong demand and weakening construction will be necessary before rent gains eclipse 3 percent. As expected, much of the space under construction is speculative and pre-leasing is hovering near 40 percent for office properties scheduled for delivery in 2020. Following this year, however, greater relief from supply-side pressure should emerge as space commitments increase and the construction pipeline abates.

**Buyers targeting smaller assets to achieve investment targets.** Deal flow dipped last year as investors remained focused on a consistent set of conditions when considering deals. At the top of their wish list are well-located Class B properties with a significant vacancy factor. That trend has been persistent for the past two years and should continue into 2020. To achieve that end, investors are scouring the metro and finding smaller properties. Across all property classes, the average size of transactions has dipped 25 percent in the last 12 months, indicative of buyers' willingness to accept less square footage in return for properties near major thoroughfares that can be renovated and retenanted at better lease terms. The office districts north of Dallas and Fort Worth's city centers, along with the Mid-Cities, have consistently shown the highest investor demand.

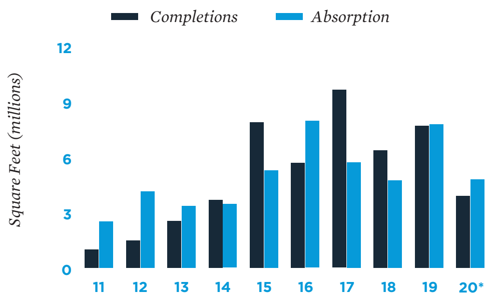
### 2020 Market Forecast

| | |
|---|---|
| **NOMI Rank** 18, up 3 places | Demand for office space contracts vacancy, elevating Dallas/Fort Worth in the 2020 NOMI. |
| **Employment** up 2.2% | Approximately 85,000 new jobs are expected to be created this year, including 30,000 office-using positions. |
| **Construction** 3.9 million sq. ft. | Builders are on pace to expand inventory by 1.1 percent in 2020, down from 2.2 percent growth in 2019. |
| **Vacancy** down 50 bps | Vacancy tightens to 17.9 percent this year, surpassing the 40-basis-point decline in 2019. |
| **Rent** up 2.9% | Speculative office construction limits rent gains as the average asking rent inches up 2.9 percent in Dallas/Fort Worth to $26.83 per square foot. |
| **Investment** | Value-add opportunities will encourage investors to broaden their search areas to find assets with a vacancy component. Overall, the average cap rate enters the year close to 7 percent. |

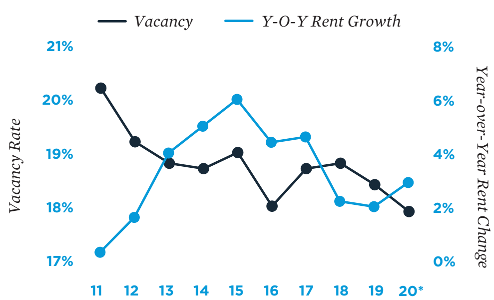
### Employment Trends



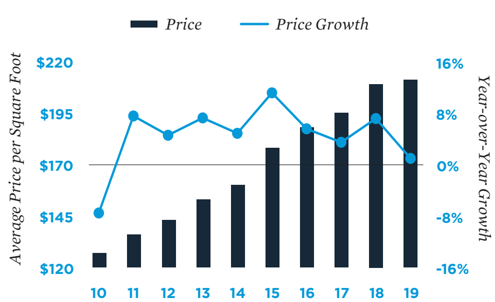

### Office Supply and Demand




### Vacancy and Rent Trends




### Sales Trends




* Forecast

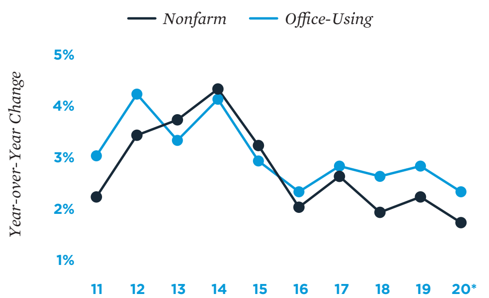
Sources: CoStar Group, Inc.; Real Capital Analytics

## Light-Rail Expansion Highlights Office and Investor Demand in the Mile-High City

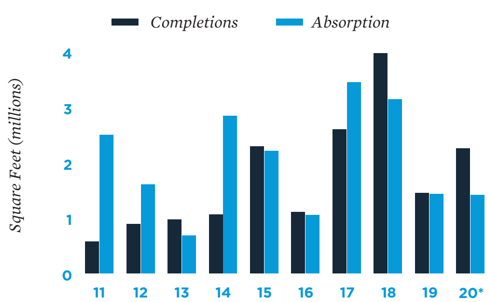
**Denver's office market remarkably resilient with conditions healthy.** Developers have remained disciplined when considering new projects over the past few years. Even speculative office space is largely focused in the major office districts of LoDo, the CBD and near the Denver Technology Center. FasTracks, the nation's largest transit expansion plan, is attracting both speculative projects and office-using tenants seeking locations near new stations. Transit-oriented developments account for a significant share of development, and more than a dozen new stations are underway, providing ample opportunities for new projects. However, uncertainty following WeWork's failed initial public offering could bring space in the city's core back onto the market. The coworking firm, which is the metro's largest holder of office space, recently saw a developer back away from an impending lease. Nonetheless, the overall office market has a solid foundation and bright outlook.

**Mid-tier properties that can be repositioned dominate sales activity.** Class B assets are aggressively targeted as investors seek buildings that can be upgraded to attract technology firms. A prevailing and ongoing strategy among investors is to capture demand at current or future stops along the metro's transit lines. As light-rail construction timelines shorten, prices for these properties climb and cap rates compress. The average cap rate at the beginning of this year was in the mid-6 percent range, the lowest in the past two decades. Class C properties garner plenty of attention, accounting for approximately 25 percent of deals and trading at first-year returns near 7 percent. Midtown and West Denver properties with a sizable vacancy component draw the most attention from buyers. Institutions and capital migrating from the coasts, meanwhile, are focused on Class A properties in the CBD, LoDo and Denver Technology Center.

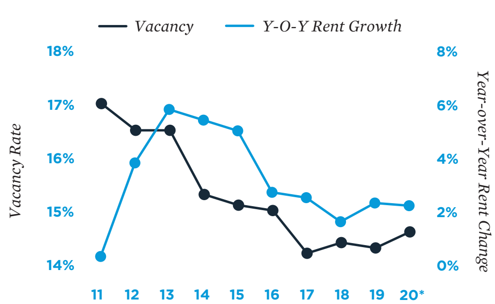
### Employment Trends




### Office Supply and Demand




### Vacancy and Rent Trends




### Sales Trends


*Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

### 2020 Market Forecast

**NOMI Rank** 19, down 4 places — Denver descends in this year's Index as a rise in completions lends to a vacancy increase.

**Employment** up 1.7% — The pace of employment growth declines modestly this year as 26,300 jobs are created. Office-using sectors are poised to expand 2.3 percent as 10,300 spots are created.

**Construction** 2.3 million sq. ft. — Developers pick up the pace in 2020 as inventory expands 1.4 percent. Entering the year, pre-leasing hovers near 50 percent.

**Vacancy** up 30 bps — Vacancy ticks up to 14.6 percent this year, erasing the 10-basis-point decline posted in 2019.

**Rent** up 2.2% — By year end, the average asking rent reaches $27.36 per square foot. Last year, asking rent inched up 2.3 percent.

**Investment** — Investors focus on transit-oriented developments near future stops along FasTracks or Class C properties with potential to retenant at higher market rents.

## Detroit Vacancy Stable Near 12-Year Low, Sparking Increased Development

**Vacancy is hovering near the 12-year low.** Strengthening demand for office space amid a lack of speculative construction and the conversion of vacant office buildings into alternative uses is holding vacancy tight. Although deliveries will climb in 2020, heavy pre-leasing will lessen the impact on vacancy and push rent higher. The expansion of One Campus Martius is the largest building due in the market this year. The 310,000-square-foot addition to the former Compuware building in Detroit is already fully leased. Deliveries will remain heightened as Ford's Michigan Central Station, Hudson's Tower and a new headquarters for TCF Financial are finalized. These developments and newly renovated buildings will add more than 2 million square feet to inventory over the next few years. Meanwhile, rapidly rising rents in downtown Detroit have some tenants searching for less expensive space outside the core. This is generating office demand in the New Center and Midtown neighborhoods of Detroit. Suburban vacancy has also tightened considerably from the cyclical peak. The suburbs are scheduled to receive 400,000 square feet of office space in 2020. One significant project is the 140,000-square-foot Henry Ford Health System outpatient building in Royal Oak.

**Brighter economic outlook draws new investors.** Detroit's broadening renaissance will bolster the office market this year, led by expansion in the automotive technology segment. As auto companies and their suppliers fill space, investors are taking notice. Many buyers are attracted to highly vacant buildings in the suburbs for their value-add potential. Properties that can be quickly upgraded and retenanted at market rate rent are most desired. Vacancy above the metro average has more buyers searching in Southfield, where over the past year many buildings traded below the market average of $128 per square foot. Marketwide, investors are drawn by cap rates that average in the low-8 percent range, well above yields available in most other major metros.

### 2020 Market Forecast

**NOMI Rank** 43, up 2 places — Vacancy hovering near the cyclical low provides steady rent growth, moving Detroit up in the 2020 NOMI.

**Employment** up 0.04% — After losing 500 positions last year, employers will add 750 jobs in 2020, including 250 office-using positions.

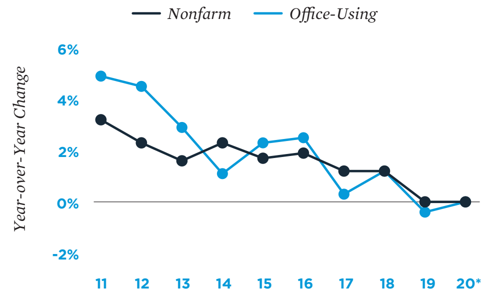
**Construction** 1.2 million sq. ft. — Deliveries nearly double last year's 550,000 square feet, reaching the highest level since 2007. The city of Detroit will receive about half of the new space in 2020.

**Vacancy** up 20 bps — Supply will rise above demand, inching vacancy up to 15.3 percent in 2020. The rate, however, is down 260 basis points since 2015.

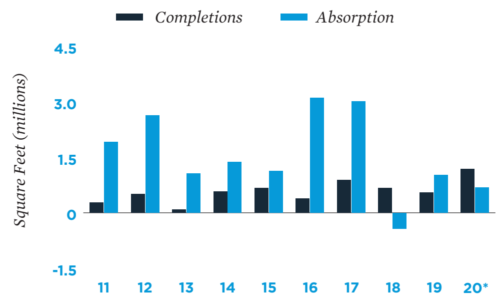
**Rent** up 3.2% — After rent jumped 4.3 percent during 2019, the average asking rent ends 2020 at $21.10 per square foot. Roughly 34 percent below the national level.

**Investment** — Class B medical office assets throughout the metro remain a prime target of buyers at first-year returns that are typically in the 6 to 7 percent range.

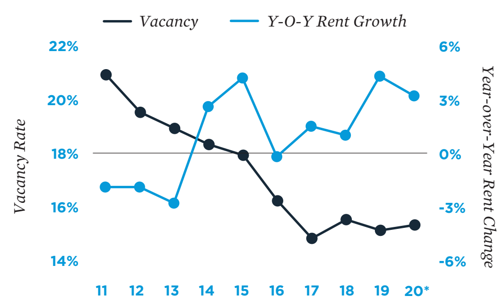
### Employment Trends



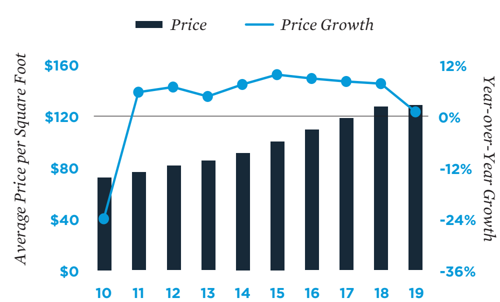

### Office Supply and Demand




### Vacancy and Rent Trends

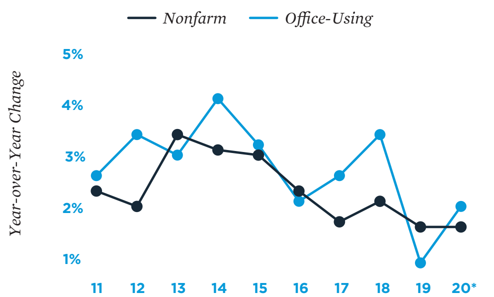



### Sales Trends

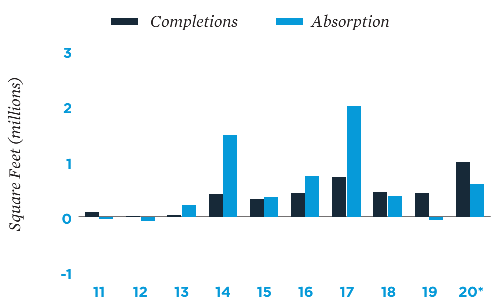



* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

### Employment Trends




### Office Supply and Demand

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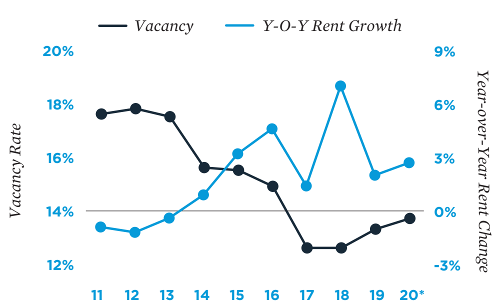



### Sales Trends


**Forecast*

*Sources: CoStar Group, Inc.; Real Capital Analytics*

## New Supply Hampers Broward County Top-Tier Office Fundamentals; Class B/C Shines

**Construction cycle sets new high watermark, weighing on Class A fundamentals.** Developers more than double the pace of supply growth this year, applying upward pressure to vacancy in the top tier. Pre-leasing stands at less than 50 percent, and Class A vacancy rests well above 15 percent entering 2020, which will test the market's ability to attract and retain tenants in the near term. Competition for tenants also comes from nearby South Florida markets Miami and Palm Beach, where top-tier vacancy is elevated. Nonetheless, the long-term outlook remains bright in Broward County. Spirit Airlines, for example, recently announced a $250 million headquarters in Dania Beach that will house 1,200 employees, while Sunshine State Health committed to nearly 150,000 square feet in Plantation during the second half of last year. In the Class B/C sector, vacancy is closer to the 12 percent range. Only Cypress Creek faces a significant supply overhang entering the year.

**Investors remarkably consistent in Broward County.** Buyers are targeting mid-tier office buildings with a modest vacancy component near 30 percent in an effort to create additional value after acquisition. Core locations and Plantation are top investor targets, though well-priced assets in nearly every area of the county generate interest among local investors. Class A and Class C deals, meanwhile, are exhibiting divergent trends. Institutions are ramping up top-tier acquisitions in Broward County in an effort to balance their portfolios with higher-cap-rate metros after binging on gateway market offerings. First-year returns for these deals can be 50 to 100 basis points higher than nearby Miami. Class C sales velocity, meanwhile, has slowed over the past couple of years, particularly in suburban areas. Buyer demand for Class C listings in core locations remains sturdy.

### 2020 Market Forecast

**NOMI Rank** 30, down 5 places — Increase in inventory lends to a surge in vacancy, pushing Fort Lauderdale down in the Index.

**Employment** up 1.6% — Payrolls expand by 14,000 positions in 2020, up modestly from the 13,700 spots generated last year. Office-using employment grows 2 percent as 4,800 jobs are created.

**Construction** 980,000 sq. ft. — Developers more than double the pace of construction, lifting countywide stock by 1.6 percent.

**Vacancy** up 40 bps — New construction lifts vacancy to 13.7 percent. Last year, vacancy climbed 70 basis points.

**Rent** up 2.7% — Average asking rent ticks up $29.74 per square foot this year, advancing faster than the 2.0 percent increase in 2019.

**Investment** — Mid-tier properties with a vacancy factor attract local investors, while core Class C listings also generate substantial interest. Out-of-state capital in search of Class A properties with favorable cap rates remains active.

# Consolidation Among Energy Firms Leaves Large Blocks Of Available Space in Houston's Major Office Districts

**Supply overhang resulting in elevated competition for tenants.** Houston developers have expanded office stock by 9 percent over the past five years, significantly outpacing the 3 percent demand growth recorded over the same period. That trend will persist into this year, keeping vacancy above the 20 percent threshold. As a result, rent growth will remain relatively muted as operators leverage significant concessions to attract firms seeking space in the market. Although elevated vacancy persists, most of the dark space is located in major office districts that could turn around in short order if accelerated hiring encourages more leasing activity, particularly in the energy sector. Among the seven largest submarkets, six have vacancy well above 20 percent entering the year. Global tensions in oil-producing regions could buoy energy prices in 2020, though the long-term outlook remains steady. Medical office, on the other hand, continues to shine in the metro, supported by demand around the Texas Medical Center, northern suburbs and west Houston.

**Investors undaunted by short-term weakness in office fundamentals.** Deal flow should stay brisk across the metro, particularly for Class B offerings. Buyers are scouring the market for mid-tier properties that are roughly 50 percent vacant. In fact, the average vacancy for these deals has climbed for each of the past three years, while Class A and Class C averages have held relatively steady. Investors' willingness to acquire value-add properties highlights their confidence in the long-term outlook in the local office market. Listings in The Woodlands and Energy Corridor attract the greatest interest among mid-tier buyers with an average cap rate in the low-7 percent range entering the year. These two regions also account for approximately 40 percent of Class A deals. In the Class C sector repositioning plays move to the center stage this year. Attractively priced properties near downtown are primed for investors willing to make capital improvements.

## 2020 Market Forecast

**NOMI Rank** 44, down 6 places — Rising vacancy and an uptick in deliveries this year move Houston down in the NOMI.

**Employment** up 2.0% — Employers will add 63,200 jobs in 2020, less than the 90,000 posted in 2019. Office-using payrolls expand 2.7 percent as 19,500 spots are created.

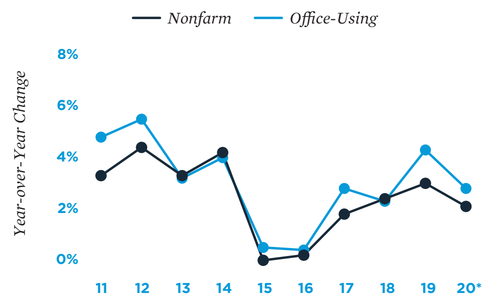
**Construction** 2.6 million sq. ft. — The metro will see 2.6 million square feet delivered in 2020, approximately 500,000 more feet than was completed in 2019.

**Vacancy** up 20 bps — Vacancy will build off the 70-basis-point increase in 2019, rising to 21.1 percent in 2020.

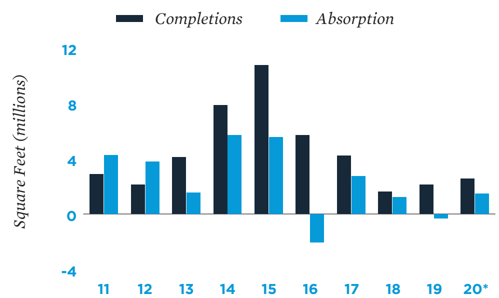
**Rent** up 0.8% — Average asking rent in Houston will ascend slightly to $29.54 per square foot in 2020.

**Investment** — Overall, the average cap rate in Houston finished last year in the low-7 percent range, up modestly from one year earlier. Buyers and sellers will monitor interest rates closely as the cost of capital increasingly becomes a motivator.

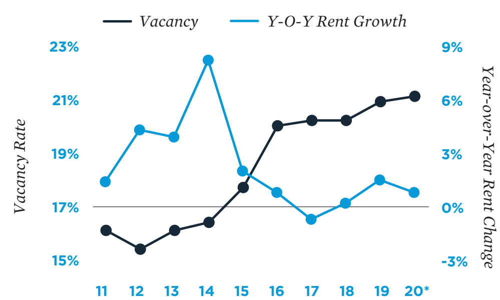
### Employment Trends




### Office Supply and Demand




### Vacancy and Rent Trends

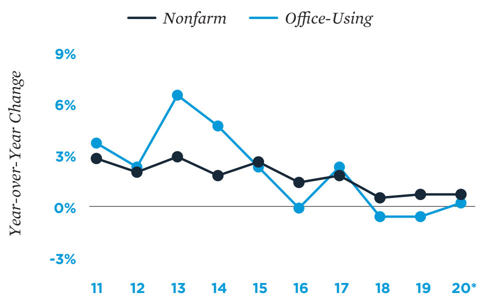



### Sales Trends

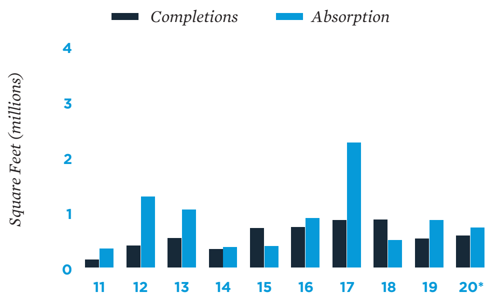

* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

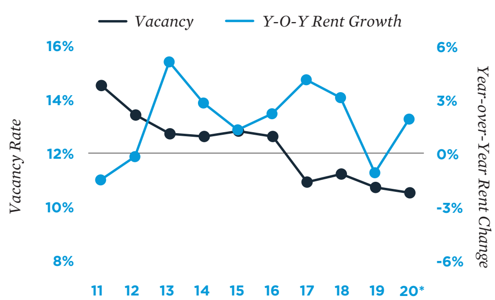
## Employment Trends




## Office Supply and Demand




## Vacancy and Rent Trends




## Sales Trends


*Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

# Subdued Development Preserves Low Vacancy; Investors Follow Tech to the Suburbs

**Strong pre-leasing and technology expansion maintain tight conditions.** Robust demand for office space will be met with limited deliveries this year, pushing vacancy downward. Less than 600,000 square feet of inventory is scheduled to be finalized in 2020, representing a steep decline from the peak just two years ago. Of the projects coming online, over 75 percent of the space is pre-leased. The initial phase of Infosys' 125,000-square-foot campus is the largest development slated for 2020. Future phases will add an additional 675,000 square feet, with the company planning to employ 3,000 workers upon finalization. This project should be a catalyst for more construction in the airport area in the future. Infosys' commitment to Indianapolis portrays the broader trend of technology corporations steadily moving into the market and expanding. This will create a tailwind in office absorption going forward. Tenants are often seeking strategically located spaces that give them a competitive advantage in hiring skilled labor amid record-low unemployment. Suburbs north of the core with convenient access to Interstate-465 are garnering their attention and should outperform over the long term.

**Suburban assets appeal to local and out-of-state investors.** The vacancy rate has consistently dropped, remaining 200 basis points below the national average for the majority of this cycle. As a result, investor sentiment remains high, and aggressive bidding resulted in noteworthy appreciation over the past year. Buyers are targeting Class C assets near the airport for value-add opportunities, anticipating elevated demand as the Infosys development brings more attention to the area. Out-of-state buyers favor high-quality suburban assets north of the core, such as Keystone and Fishers. Buyers seeking medical office assets are active in southern suburbs, particularly Greenwood and Beech Grove. Several trades materialized here toward the end of 2019, providing initial returns in the mid-6 to low-7 percent range.

## 2020 Market Forecast

**NOMI Rank**
33, down 4 places

Indianapolis drops slightly in this year's Index as rent growth is subdued despite tightening conditions.

**Employment**
up 0.7%

The rate of growth matches the previous year as employers add 7,500 positions in 2020.

**Construction**
568,000 sq. ft.

Deliveries surpass last year's total by 48,000 square feet yet fall below the cycle average. Roughly one-third of the developments underway are in Fishers.

**Vacancy**
down 20 bps

Demand for office space remains robust amid a construction decline, supporting a drop in vacancy to 10.5 percent. This will be the lowest year-end rate of the current cycle.

**Rent**
up 1.9%

The 1.1 percent drop registered in 2019 is overturned as the average asking rent moves up to $19.16 per square foot this year.

**Investment**

Carmel and Fishers remain at the top of investor wish lists. Steep pricing and aggressive bidding could encourage some buyers to target value-add plays elsewhere.

# Employer Expansions Bolster Office Outlook; Suburban Employment Hubs Attract Mix of Buyers

**Space availability shifts nominally for a third consecutive year.** Vacancy in Kansas City reached a cycle-low rate during the latter portion of last year, placing the market on solid footing entering 2020. While overall job creation will moderate during the next 12 months, the number of office positions will rise, accounting for 30 percent of total employment growth. Cerner highlights the list of expanding organizations as the healthcare software company opens the third and fourth phases of its new $4.5 billion campus this year. These two completions, located off Interstate 435 in South Kansas City, account for more than half of the 1.4 million square feet of space slated for finalization during 2020. In Downtown Kansas City, the recent arrival of two USDA departments and a possible new headquarters for investment firm Waddell & Reed signal future employment gains in the core. Staff expansion by some of the metro's largest tenants suggest smaller firms that support these companies will also grow staffs, requiring some firms to seek larger footprints in the market. Solid demand for available space coupled with strong pre-leasing allow the metro's vacancy to compress for a 10th straight year, dropping the rate 380 basis points below the national year-end average.

**Investors seek higher-quality assets at nationally discounted pricing.** Entering this year, Class A vacancy was at a historically low level, a condition that should attract more out-of-market buyers to the metro. Those seeking concentrations of upper-tier assets target listings along College Boulevard in Johnson County, where larger Class A buildings routinely trade for $10 million to $20 million. These properties, typically located in Overland Park and Lenexa, provide buyers with low-6 percent minimum returns. Investors seeking assets with upside potential focus on Downtown Kansas City and Midtown while tight vacancy in the core persists. Here, Class B and C buildings, some with high availability or expiring leases, can net investors 8 percent to 9 percent-plus first-year yields.

## 2020 Market Forecast

**NOMI Rank** 28, up 5 places — Office demand leads to vacancy falling in the metro, elevating Kansas City in the NOMI.

**Employment** up 0.9% — Organizations will add 10,000 positions in 2020 as job growth moderates following the creation of 16,100 slots last year.

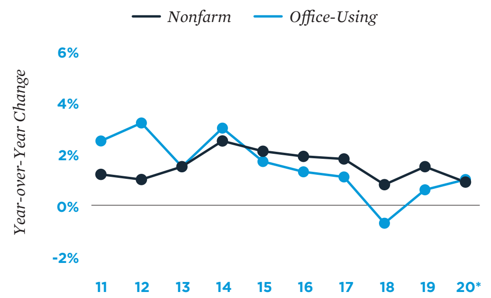
**Construction** 1.4 million sq. ft. — Annual delivery volume exceeds 1 million square feet for the first time in three years, driven by the completion of five projects that each comprise more than 100,000 square feet of space.

**Vacancy** down 30 bps — Demand surpasses construction this year, lowering vacancy to 9.2 percent on net absorption of more than 1.7 million square feet. In 2019, a decrease of 50 basis points was noted.

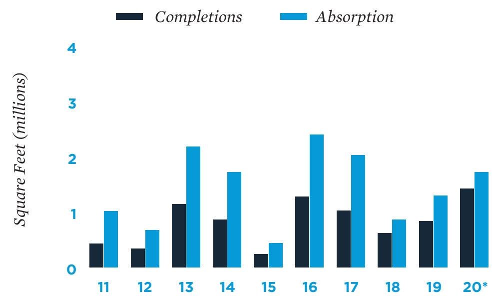
**Rent** up 3.4% — After rising 3.4 percent last year, the average asking rent climbs at a steady pace in 2020, reaching $20.88 per square foot.

**Investment** — Investors targeting suburban assets in Missouri maintain a focus on southern Jackson County, namely Lee's Summit, where smaller properties near Highway 50 have recently traded for less than $2 million.

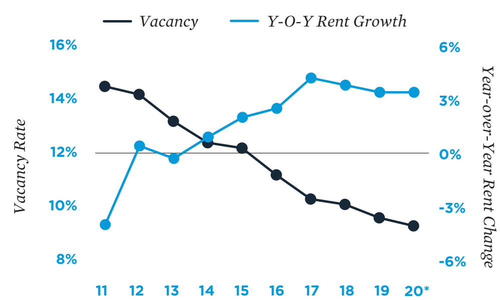
### Employment Trends



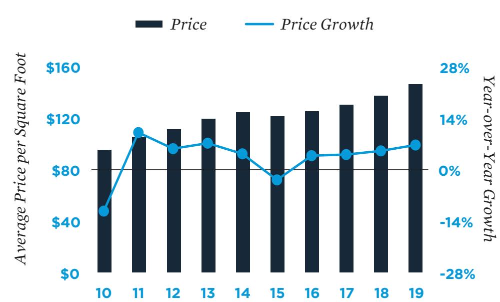

### Office Supply and Demand




### Vacancy and Rent Trends




### Sales Trends




* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

## Tight Vacancy Across All Property Tiers Supports Rent Recovery; Regionally High Returns Diversify Buyer Pool

**Solid office demand outpaces development pipeline.** Las Vegas' economy remains tied to tourism, yet hiring velocity among office users has been strong recently, paralleling a span of robust in-migration as companies relocate to Nevada for a more favorable tax treatment. During the past four years, the number of positions added by traditional office-using companies accounted for more than one-fourth of total job creation, with financial services and healthcare-related firms leading the way. This organizational growth bolstered demand for office space, supporting a 48-month stretch of stout absorption that lowered vacancy by nearly 500 basis points. Entering 2020, cycle-low vacancy and rebounding asking rents warrant new construction, yet development activity remains subdued, with less than 300,000 square feet set to be finalized this year. As companies continue to relocate here, consistent space demand will be recorded, driving a rate of absorption that outpaces supply additions. Vacancy will reach a new low for this cycle and the average asking rent will recover at an improved pace for a second straight year.

**Out-of-state buyers maintain significant presence, target upper-tier assets.** Tight vacancy, steady in-migration and an average cap rate that exceeds all major West Coast and Mountain metros has more out-of-state investors pursuing Las Vegas listings. Heightened investor interest is bolstering asset values, yet the metro remains a locale of regionally discounted pricing entering this year. Class B assets remain available throughout west Las Vegas and northwest suburbs along Highway 95 for less than $200 per square foot. Here, and in Henderson, traditional properties and medical office buildings are appealing due to local population growth and the availability of mid-6 to low-8 percent returns. In downtown Las Vegas, employment growth has sparked buyer demand for Class A properties and mixed-use assets. Dependent on vintage and location, cap rates can reach the 7 percent range, with pricing often below $300 per square foot.

### 2020 Market Forecast

**NOMI Rank** 35, up 2 places — Las Vegas bumps up in this year's NOMI as absorption contracts vacancy, leading to heightened rent growth.

**Employment** up 2.5% — Organizations expand by 26,100 positions this year, exceeding the number of jobs created in 2019.

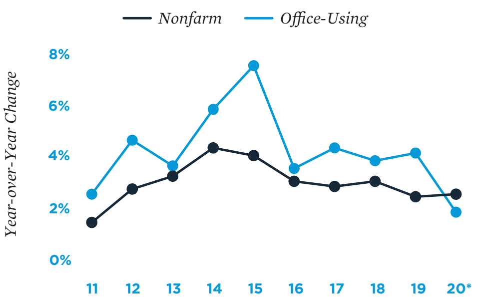
**Construction** 270,000 sq. ft. — Delivery volume is slightly higher than last year, with 2020 additions increasing the metro's office stock by 0.5 percent.

**Vacancy** down 50 bps — On net absorption of 500,000 square feet of space, Las Vegas' vacancy rate compresses to 13.1 percent.

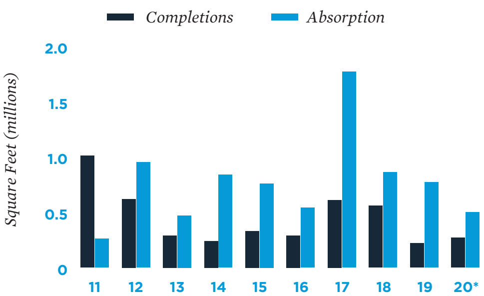
**Rent** up 4.8% — The average asking rent elevates at a historically strong pace, yet the average year-end rate of $22.05 per square foot trails the previous cycle's peak by 13 percent.

**Investment** — Tightening conditions in downtown Las Vegas and minimum returns in the mid-6 percent range entice private investors seeking Class C assets with upside potential.

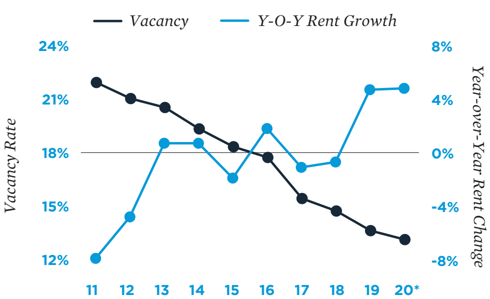
### Employment Trends




### Office Supply and Demand




### Vacancy and Rent Trends




### Sales Trends


*Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

## Growing Office Users Preserve Tenant Demand As Wave of Supply Begins This Year

**Metro vacancy aligns with national average.** Amid a tight labor market, Los Angeles' collection of media, entertainment, tech and aerospace firms continued to expand last year, with many companies occupying additional or larger floor plans. These organizations' actions boosted absorption, reducing the metro's vacancy to a cycle-low level. Limited availability coupled with record asking rents prompted an uptick in construction, with developers slated to finalize more than 4 million square feet of office space in 2020, the third largest total among major U.S. metros. Downtown Los Angeles, West Los Angeles and Mid-Wilshire will each welcome more than 1 million square feet this year, likely placing short-term pressure on local vacancy rates despite encouraging pre-leasing. Outside these submarkets, tenant demand will outpace development, allowing county vacancy to withstand the influx of new supply and remain constrained.

**Opportunities abound for private investors seeking upgradeable properties.** Tight vacancy throughout most of Los Angeles County coupled with sizable clusters of office space throughout the metro will equate to widespread deal flow and a diverse buyer pool this year. Renowned for its concentration of tech firms and metro-leading asking rents, West Los Angeles remains a primary target for investors seeking sub-$10 million Class B and C properties. Culver City has emerged as a top area for investors within the region. Here, pricing above $1,000 per square foot is not uncommon, with minimum returns hovering in the high-3 percent range. In-state buyers seeking centralized assets or those in areas of population growth comb Tri-Cities and San Fernando Valley, where smaller buildings are available at 5 percent to low-6 percent returns. Similar to these locales, Mid-Wilshire is home to numerous sub-$3 million listings; however, pricing below $500 per square foot is rare due to its proximity to Downtown Los Angeles and Silicon Beach.

### 2020 Market Forecast

**NOMI Rank**
27, down 4 places

An increase in inventory will push vacancy higher, moving Los Angeles down in the 2020 Index.

**Employment**
up 1.4%

Los Angeles' workforce expands by 64,400 individuals in 2020, after employers added 66,500 positions last year.

**Construction**
4.1 million sq. ft.

Delivery volume will rise by nearly 2 million square feet on a year-over-year basis, upping the metro's office stock by 1.1 percent.

**Vacancy**
up 10 bps

Office vacancy inches up to 13.1 percent on net absorption of 3 million square feet of space. In 2019, a reduction of 50 basis points was recorded.

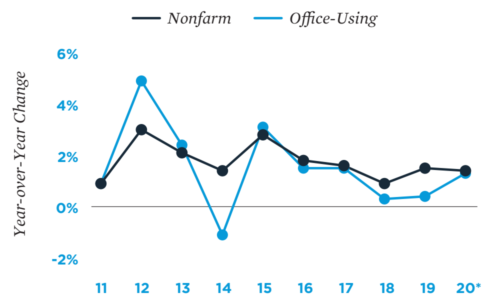
**Rent**
up 3.6%

The metro's average asking rent climbs at a rate comparable to last year, climbing to $41.22 per square foot.

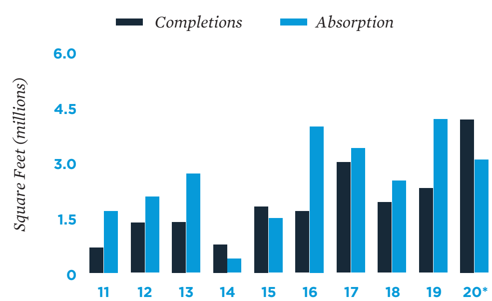
**Investment**

The rapid growth of Los Angeles' education and health services sector heightens investor demand for medical office properties in Tri-Cities, South Bay and San Gabriel Valley. These areas possess inventories of Class C buildings available at low-4 percent to high-5 percent cap rates.

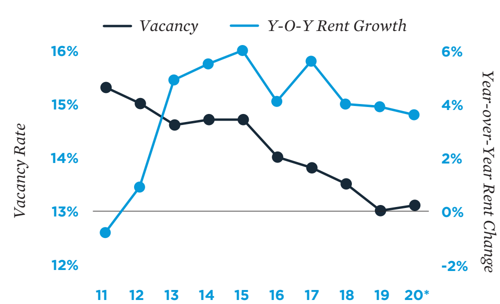
**Employment Trends**



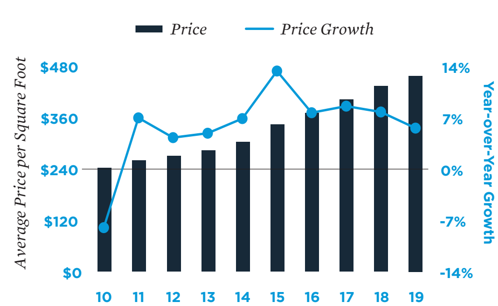

**Office Supply and Demand**




**Vacancy and Rent Trends**



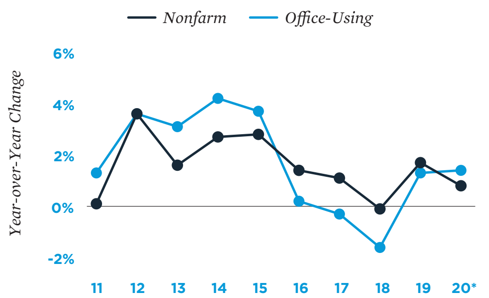

**Sales Trends**



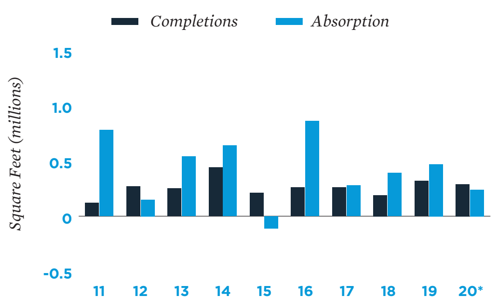

* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

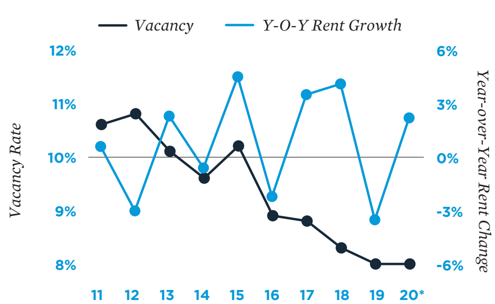
## Employment Trends




## Office Supply and Demand




## Vacancy and Rent Trends




## Sales Trends


*Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

# Tenants Adhere to Metro Cost Efficiencies, Advancing Materialization of Lifestyle-Rich Office Communities

**Louisville delivers second tightest vacancy rate in the nation.** Suburban space has been a major component of office demand with trade, transportation, and logistics businesses moving into cost-effective locations to grow future operations. UPS, for example, recently announced a $750 million expansion beginning in 2020 to grow air express shipping performance and make additions to the firm's operational offices and training centers. Leasing activity is robust near areas such as UPS' corporate location in the eastern suburbs, where tenants with logistics synergies can flourish. All of the 286,000 square feet of development slated for delivery this year will also be concentrated in these areas. The largest project is a 140,000-square-foot speculative building, Two Olympia Park Plaza, comprising approximately half of this year's construction. Despite speculative projects, landlords are confident in the substantial absorption of space with leasing activity expected to stay in close balance with supply in 2020, positioning vacancy in the 8 percent range for the fifth consecutive year.

**Value-add opportunities ripple from urban core to outlying districts.** As tenant demand grows in the suburbs for Class B and Class C space, local buyers are seeking aged assets that can be purchased in the $70 to $100 per square foot range with cap rates in the low-8 to low-9 percent band. Out-of-state investors are also taking the opportunity to deploy capital into the metro in an effort to capture higher returns than available in home markets, though higher-priced, stable properties top their list. These trades are occurring in the $4 million to $11 million price tranche, with returns between 5.0 and 8.5 percent.

## 2020 Market Forecast

**NOMI Rank** 36, no change — Positive absorption and one of the lowest vacancy rates in the nation hold the metro steady in the Index.

**Employment** up 0.8% — Building on a 11,200-job gain in 2019, hiring will advance by 5,400 workers this year. Office-using employers contribute nearly 2,000 positions in 2020.

**Construction** 286,000 sq. ft. — Building will slow this year, remaining in line with new space demand. Last year 317,000 square feet was added.

**Vacancy** no change — Vacancy will remain stable at 8.0 percent this year, following a 30-basis-point decline in 2019.

**Rent** up 2.2% — Following a decline in rent in 2019, the average asking rent will rise to $17.54 per square foot.

**Investment** — Evolving entertainment landscape downtown adds value to investments in urban core as buyers purse value-add assets in this area at a sharp discount.

## Stabilized Properties Attract Investors in Top Tiers; Value-Add Buyers Search for Class C Deals

**Development outpaces new demand in the Miami office market.** Construction more than quadruples the 2019 level as several projects that broke ground over the past few years top off. Although pre-leasing hovers around the 50 percent threshold, a sizable amount of the uncommitted space has delivery dates well beyond this year. Only one-third of the space in the five largest projects is scheduled for delivery this year, providing developers an extended timeline to fill upcoming space. The market's largest development, a 57-story skyscraper, will add 650,000 square feet in Brickell in early 2022. While supply is applying upward pressure to vacancy, demand struggles to keep pace. Office-using employment growth dips below the long-term average this year as employers struggle to find qualified workers in a low-unemployment environment while major expansions have been sparse. As a result, smaller leases will chip away at available vacant space, paving the way for a potential reversal in the supply-demand balance during 2021.

**Investors focusing on Miami office properties.** Class B office assets consisting of approximately 20,000 square feet are the sweet spot for investors, though activity persists up and down the quality scale. The average cap rate for mid-tier properties is in the low-6 to mid-6 percent range, relatively consistent with the previous three years. Cap rates are leveling and could stay near their current range barring a significant interest rate change. At the top of the market, institutional activity has softened in recent quarters. Large, stabilized assets typically transfer ownership at first-year returns below 6 percent. In the Class C sector, value-add deals garner plenty of attention. Small, low-occupancy assets are pursued by owner-users or investors with a tenant in tow. Average vacancy for Class C deals more than doubled between 2017 and 2019, indicative of the confidence buyers have in the long-term prospects for these buildings or locations.

### 2020 Market Forecast

**NOMI Rank**
26, down 4 places
Miami falters in this year's NOMI with a surge in completions and falling absorption pushing vacancy upward.

**Employment**
up 1.8%
Employers add 22,500 jobs this year, down from 26,700 in 2019. Office-using employment advances 1.6 percent, outpacing 0.9 percent growth last year.

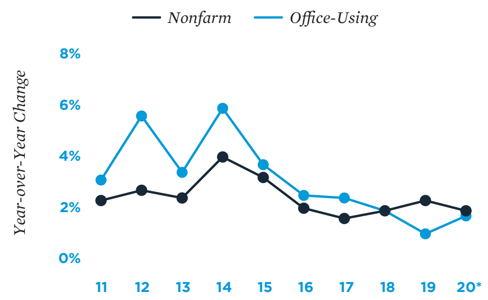
**Construction**
1.5 million sq. ft.
Developers are poised to bring more than 1.5 million square feet online in 2020, more than four times the 360,000 square feet completed in 2019.

**Vacancy**
up 40 bps
New supply outpaces demand, lifting vacancy to 12.4 percent. Last year, vacancy compressed 30 basis points.

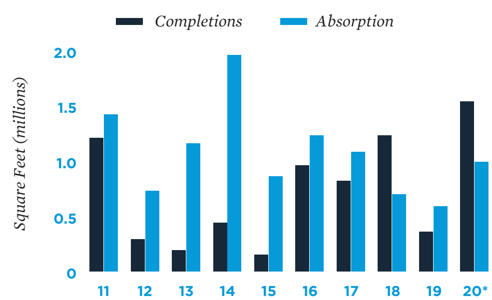
**Rent**
up 2.1%
Overall rent growth lingers near the inflation rate as the average asking rent climbs to $35.65 per square foot by year end.

**Investment**
Investors mostly target small Class B properties with stabilized rent rosters this year. Class C assets with an attractive price point also generate attention from owner-users.

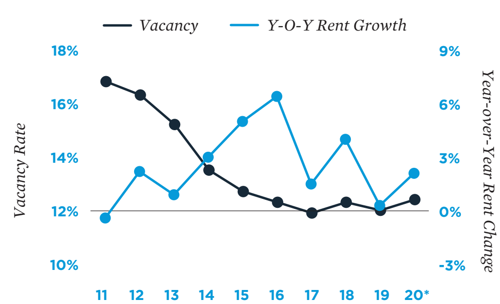
### Employment Trends



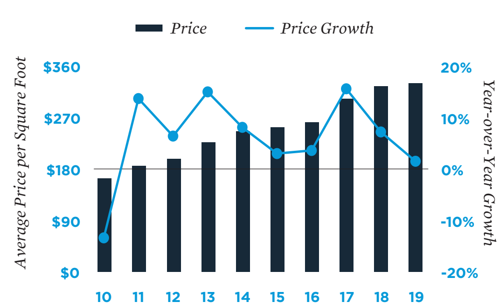

### Office Supply and Demand




### Vacancy and Rent Trends




### Sales Trends




* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

## Initial Returns Above the National Average; Rising Vacancy Presents Short-Term Headwind

**Downtown consolidation leaves behind unoccupied suburban spaces.** Firms are placing a high priority on leasing office space in areas with an educated labor pool. This has brought a wave of tenants downtown east of the river, where access to the lakefront, Historic Third Ward and Riverwalk District provide the live-work-play environment that attracts young professionals. Here, the 163,000-square-foot Huron Building is underway, and law firm Husch Blackwell has pre-leased two-thirds of the space. Additionally, the BMO Tower will open nearby in early 2020 with a significant amount of pre-leased space. BMO Harris Bank will occupy 124,000 square feet of the tower as it consolidates multiple offices throughout the metro. As companies move into these newly built properties downtown, they are leaving behind smaller spaces in suburbs that need to be backfilled. Although leasing activity by financial institutions with an established market presence remains steady, the lack of new firms relocating to Milwaukee will create some headwinds. At the same time, roughly 856,000 square feet will be delivered this year, the largest volume since 2017, placing upward pressure on vacancy.

**High cap rate environment luring investors.** First-year returns averaged in the mid-8 percent range over the past 12 months, placing Milwaukee at one of the highest cap rates among major markets. The potential for elevated yields coupled with attractive entry costs have local and regional buyers scouring suburbs to the west and northwest of the core for value-add Class C assets. Once improved, these buildings will appeal to tenants seeking higher-quality office space at more affordable rent than found downtown. Out-of-state investors, particularly from the West Coast, will capitalize on downtown assets carrying higher yields than in their home markets. They will also target newly built medical office assets in suburbs west of the core. The strong healthcare presence in this area linked to the numerous medical colleges will fuel demand for medical office space.

### 2020 Market Forecast

**NOMI Rank** 45, down 3 places — Milwaukee's large supply pipeline contributes to a rise in vacancy this year, driving the metro down in the Index.

**Employment** up 1.1% — Organizations add roughly 9,800 employees to payrolls in 2020. Last year, 10,400 jobs were added.

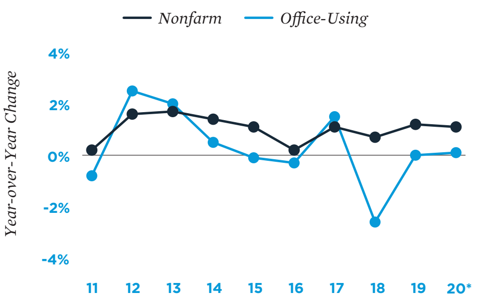
**Construction** 860,000 sq. ft. — Several large projects downtown bring total completions to more than triple the 281,000 square feet introduced in 2019.

**Vacancy** up 70 bps — A sizable supply pipeline and several move-outs leaving suburban space unoccupied facilitate a rise in vacancy to 14.3 percent this year.

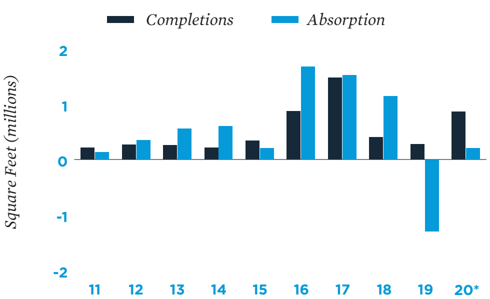
**Rent** up 2.1% — Tenants' preference toward higher-quality space being met by new development will push the average asking rent to $18.16 per square foot by year end.

**Investment** — Class C buildings northwest of the core and farther south in Racine will be targeted for value-add opportunities. Those seeking more stabilized assets will concentrate on major office-using districts in the core, where vacancy is tight.

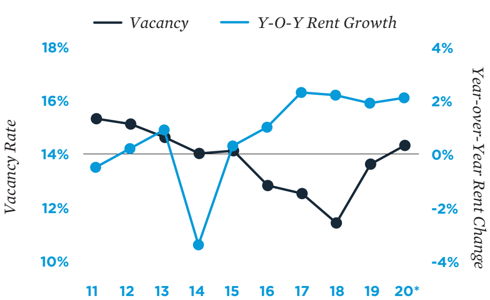
### Employment Trends




### Office Supply and Demand




### Vacancy and Rent Trends




### Sales Trends


*Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

## Minneapolis Remains Focus of Construction; More Investors Heading to Suburbs

**Developers are concentrating on the major office hubs.** Downtown Minneapolis dominates this year's deliveries, led by a building for the city of Minneapolis and a headquarters for Thrivent Financial. Thrivent's former tower will house Hennepin County workers and both the city and county will be vacating leased space, potentially raising vacancy in some buildings later this year. Minneapolis also has the largest project underway in the metro. The mixed-use RBC Gateway will provide 531,000 square feet of office space, a hotel and street-level retail. The tower is scheduled to open next year and is already roughly 90 percent leased. Class A vacancy holding in the 10 percent range metrowide is spurring speculative construction. The most significant of these developments is 10 West End in the I-394 Corridor. The 343,000-square-foot project will be finalized in 2021. In recent years, new inventory has been focused on the downtown cores and along the Interstate 494 and 394 corridors, resulting in single-digit vacancy in most suburban submarkets. This trend will continue into 2020 as less than 250,000 square feet is completed outside the dominant office hubs, and more than half of this space is medical office.

**Suburban assets gaining favor.** Increased tenant demand for less expensive suburban office space as well as lower entry costs and the potential for higher returns are drawing more investors outside the downtown cores. The heavily trafficked I-494 corridor as well as the growing employment base in Dakota County are two areas in particular that are receiving buyer attention. Metrowide, additional competition for available listings contributed to the average price rising 5.2 percent over the past four quarters as cap rates held steady in the low-7 percent span, more than 200 basis points above large coastal office markets. Medical office assets throughout the metro also garner investor interest as the aging population requires more medical services. Cap rates for these properties are typically in the mid-6 to mid-7 percent range.

### 2020 Market Forecast

**NOMI Rank** 11, up 1 place — Tightening vacancy and an uptick in the average asking rent rate will shift Minneapolis up in this year's NOMI.

**Employment** up 0.6% — A lack of available workers will continue to hamper employment gains as 11,800 jobs are added this year, including 3,000 office-using positions.

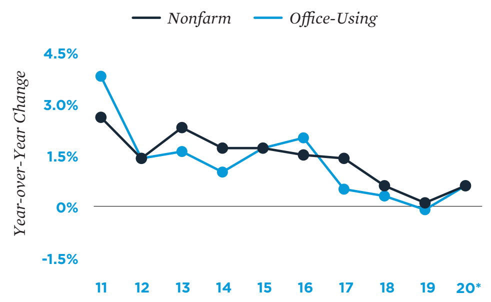
**Construction** 1.2 million sq. ft. — Completions during 2020 fall well below the previous five-year average of 1.5 million square feet. Roughly 108,000 square feet of medical offices will be delivered this year.

**Vacancy** down 10 bps — After falling 20 basis points last year, a restrained delivery pace contributes to vacancy ending 2020 at 11 percent.

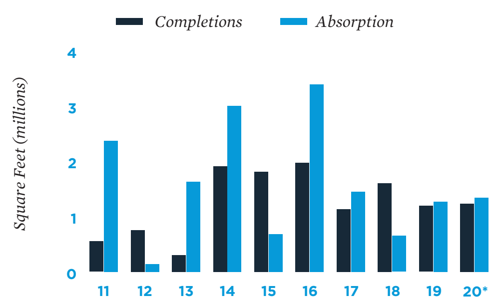
**Rent** up 3.4% — The average asking rent rises to $23.59 per square foot this year, improving on last year's 3.1 percent advance.

**Investment** — Tight vacancy coupled with a lack of new office inventory in most suburban submarkets can provide investors with steady cash-flow opportunities.

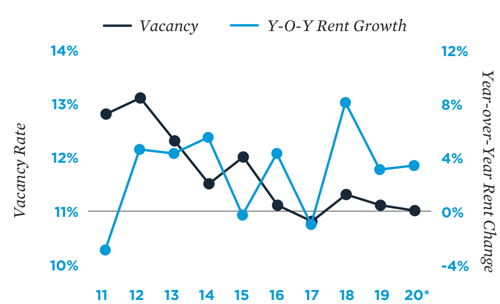
**Employment Trends**



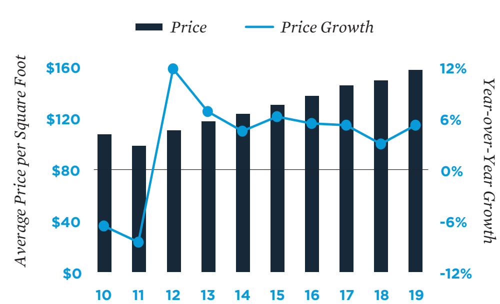

**Office Supply and Demand**




**Vacancy and Rent Trends**




**Sales Trends**

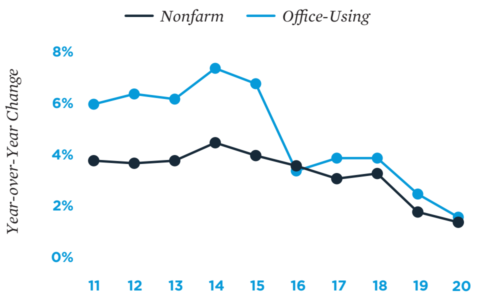



* Forecast

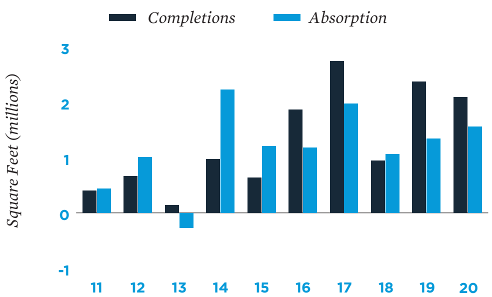
Sources: CoStar Group, Inc.; Real Capital Analytics

## Speculative Construction Exceeds Rising Demand; Investors Focus on Value-Add Deals Downtown

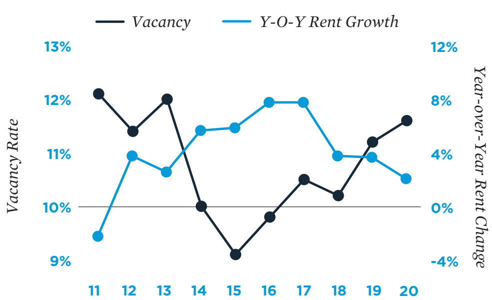
### Employment Trends




### Office Supply and Demand




### Vacancy and Rent Trends




### Sales Trends


**Forecast*

*Sources: CoStar Group, Inc.; Real Capital Analytics*

**Supply gains temporarily lift vacancy.** Robust company expansion and relocation continue to Nashville this year as the market's skilled workforce continues to grow. In 2020, Alliance Bernstein will move from its current location in New York City into a 200,000-square-foot space at the Fifth and Broadway development in the central business district. Additionally, Amazon is moving into a 750,000-square-foot space in the spring of 2021 at Nashville Yards. Collectively, the firms will bring approximately 6,000 jobs to the area, advancing the future growth of the metro's economy and drawing additional employers to the metro. As prominent business service industries such as these promote the viability of Nashville, an increase in speculative construction is taking place to meet future demand. For the second consecutive year, development surpasses 2 million square feet. The large influx of space will ultimately lead to a temporary rise in the metro's average vacancy rate to the mid-11 percent area, although the rate of increase will slow relative to 2019.

**Lifestyle communities raise investor attention.** As the entertainment and retail scene advances throughout the city center, the desirability of being near these amenities lifts sales prices and investor demand. Buyers are seeking to revamp aged inventory in the central business district for a future sale or long-term hold. Class B/C assets here sell for between $200-300 per square foot, though some properties can change hands for more than $400 per square foot under the right circumstances. High-end office demand is also spreading outside of the city center near growing suburbs south of downtown that contain amenity-rich shopping center developments. Near Cool Springs, for example, buyers are pursing product for above the metro's overall average price per square foot of $275. Marketwide, average first-year returns are in the high-6 percent range, down 20 basis points year over year.

### 2020 Market Forecast

**NOMI Rank** 17, down 3 places — Supply gains expand vacancy, resulting in Nashville moving down in this year's ranking.

**Employment** up 1.3% — Hiring will ease slightly from the 17,500 employees added last year as employers create 13,600 new positions.

**Construction** 2.1 million sq. ft. — Development will dip slightly from last year's 2.4 million square feet of new construction.

**Vacancy** up 40 bps — Following a 100-basis-point increase last year, a heavy construction delivery schedule will result in a small uptick in vacancy to 11.6 percent this year.

**Rent** up 2.1% — The average asking rent will moderate from the 3.8 percent growth rate posted in the past two consecutive years as the rate rises to $28.51 per square foot.

**Investment** — Class B/C assets south of downtown, toward Brentwood and Franklin, remain attractive for investors, as stock can be acquired here significantly below the metro average.

## Construction Activity Rises With Charter Expansion; Sales Prices Continue to Climb Across Both Counties

**A marquee delivery comes to Fairfield County; rents rise in New Haven County.** Stamford's Harbor Point, the mixed-use redevelopment of former industrial land, will welcome the first of two buildings to be occupied by Charter Communications this year. The 500,000-square-foot complex will serve as the cable company's new headquarters and aid in the firm's plans to double its local workforce. The sizable completion also raises the region's 2020 delivery total to over 620,000 square feet, marking the second most active year for construction so far this cycle. Multiple other Fairfield County openings are contrary to the trend of the past 10 years of more space being finalized in New Haven County. Despite the recent influx of arrivals, overall inventory in New Haven County remains well below that of Fairfield County, helping keep vacancy about 400 basis points tighter in the former county. Comparatively lower rents are also encouraging demand. The average asking rate in Fairfield County has receded from the 2017 cycle peak but is still 50 percent higher than the New Haven average, which is reporting stronger growth.

**Buyer competition sustains trend of sale price appreciation.** The high level of investment interest in southern Connecticut offices is exemplified by the region's average sale price, which has increased by more than 5 percent annually since 2016. In that span, transaction activity has shifted more toward New Haven County, so that both counties in the region reported a similar number of trades in 2019. Buyers competed for limited listings most often in the cities of Stamford and New Haven, although assets in suburban settings also changed hands. Less competition from new supply and comparatively stronger property fundamentals may be prompting a greater interest in Class B assets. Buyers seeking lower entry costs can find opportunities for this class of property at sales prices under $100 per square foot and first-year returns in the mid-7 to high-8 percent range. Marketwide, the average cap rate has hovered in the low-7 percent band since 2015.

### 2020 Market Forecast

**NOMI Rank**
46, no change

The metro's high vacancy and slow pace of rent gains keep New Haven at spot 46 in the NOMI.

**Employment**
up 0.3%

About 800 traditionally office-based roles will come to the market in 2020, supporting the creation of 2,600 total jobs.

**Construction**
630,000 sq. ft.

The development pipeline, outside of the Charter Headquarters, contracts this year compared with 2019, as a series of sub-100,000-square-foot buildings will open in Fairfield County.

**Vacancy**
down 10 bps

As the market's largest 2020 completion is already fully preleased, the most substantial construction pipeline in five years will not keep vacancy from dropping to 17.8 percent.

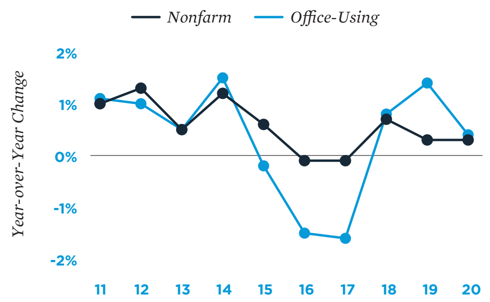
**Rent**
up 0.7%

The average asking rent will inch up to $29.12 per square foot in 2020 after a 0.6 percent increase was recorded in 2019.

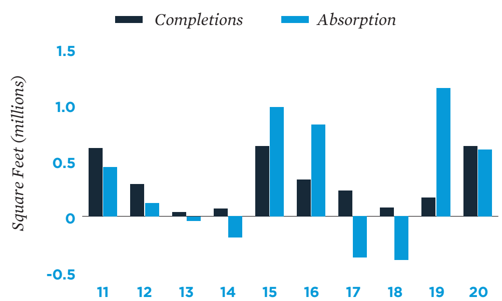
**Investment**

Entry costs a fraction of those in New York City and cap rates up to 300 basis points higher continue to encourage investment from buyers in that metro into southern Connecticut.

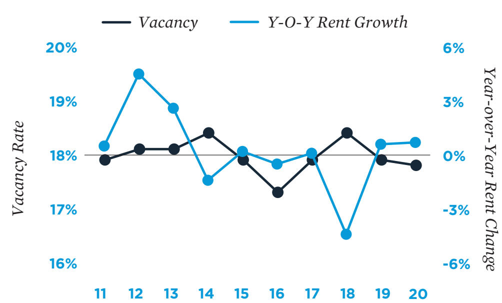
**Employment Trends**



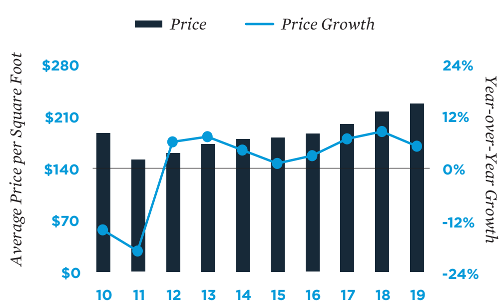

**Office Supply and Demand**




**Vacancy and Rent Trends**



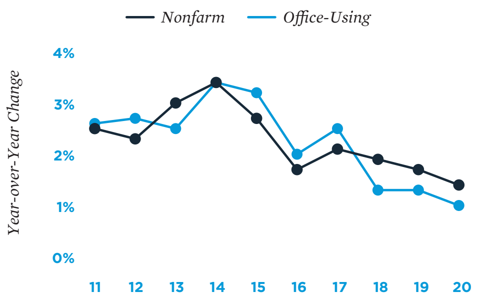

**Sales Trends**



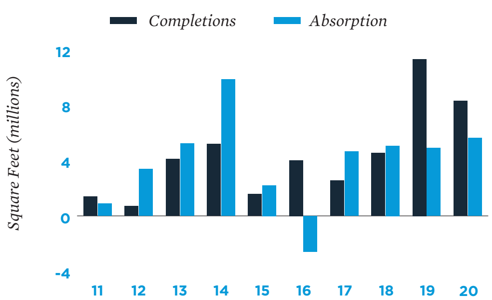

* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

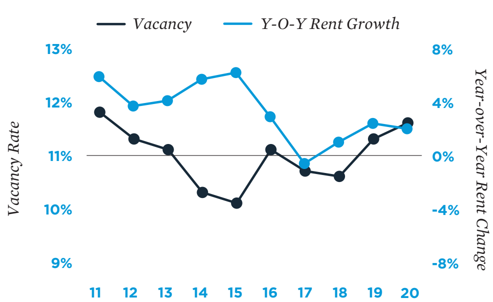
## Employment Trends




## Office Supply and Demand




## Vacancy and Rent Trends




## Sales Trends


**Forecast*

*Sources: CoStar Group, Inc.; Real Capital Analytics*

# Big Tech Claim Prime Real Estate in Hudson Yards, Open Opportunities for Investors Across the Market

**Hudson Yards claims prominent tenants as construction shifts east.** Several major technology firms committed to occupying new office space in the metro within the next couple of years. Facebook led the charge with 1.5 million square feet across three buildings around Hudson Yards, while Google leased 1.3 million square feet just south in Hudson Square. Amazon will occupy 335,000 square feet in the general vicinity, a smaller footprint compared to the once-proposed Long Island City HQ2. These substantive leases are markers of success for the Hudson Yards development, which has added more than 4 million square feet of office space to Manhattan so far, most of it already claimed. Multiple new towers are also on the way for after 2020. The largest delivery this year is farther east, though, at 1 Vanderbilt Ave. The luxury skyscraper connects directly to Grand Central Station, with estimated rents above $130 per square foot. Altogether, about 8 million square feet of office space will open in New York, the second most active office development year this cycle. The elevated supply growth is moderately weighing on operations as the city's vacancy rate extends above 11 percent.

**Employer diversification encouraging sales activity.** Transaction velocity continues to moderate from 2015's peak level, but strong interest from local, regional, and foreign investors portends an active 2020. The most trades last year still occurred in Manhattan, focused around Grand Central and near Hudson Yards. Smaller companies that are moving in to support the larger tech firms bode well for Class B/C-plus space nearby. There is also ongoing sales activity in the other boroughs, particularly in Brooklyn where cap rates are comparatively higher. Across the market, the average first-year return has compressed into the mid-4 percent range, its lowest level since before 2000. Buyers seeking yields above 6 percent have found opportunities in Westchester County, especially along Interstate 287.

## 2020 Market Forecast

**NOMI Rank** 15, down 5 places — Heavy supply levels outpacing demand will raise the average vacancy rate in 2020, pushing New York down in the Index.

**Employment** up 1.4% — Expanding payrolls in the education, healthcare and professional services sectors underscore job growth of 65,000 positions this year, about 14,000 of which will be based in offices.

**Construction** 8.3 million sq. ft. — Development tapers from 2019's cycle high 11.3 million square feet, with construction largely occurring in Manhattan.

**Vacancy** up 30 bps — Two years of elevated construction will tick vacancy up to 11.6 percent this year following a 70-basis-point rise in 2019.

**Rent** up 2.0% — The average asking rent will advance to $63.25 per square foot, underscored by strong appreciation in parts of Manhattan, Brooklyn and Queens.

**Investment** — As a new decade begins, the focal point of Manhattan sales activity may shift from Hudson Yards to Grand Central, hinted by trophy construction and planned infrastructure improvements.

## Regional Cost Advantages Drive Both Office Tenant and Investor Demand in Northern New Jersey

**Corporations recommit to region, keeping vacancy near record lows.** The Northern New Jersey office market will benefit this year from the retention of several major employers who renewed sizable leases in 2019, including Pershing and Samsung, as well as from prominent new tenants. LG Electronics' new 360,000-square-foot North American headquarters will open near the George Washington Bridge later this year, eventually housing 1,000 employees. Other notable construction projects arriving in 2020 include Building 100 at Kearny Point as well as the 205,000-square-foot Muhlenberg Medical Arts Complex in Union County. Overall, while construction is picking up slightly this year, office development in the region has been modest over the past decade, growing at half the national pace. As a result, vacancy will remain well below the cycle peak of 18.6 percent from 2013. Availability is even tighter for Class B/C space, about half the rate of Class A floor plans, reflecting the demand for affordable office space near one of the globe's most prominent business centers in New York City.

**Investor demand in established office hubs fuels price gains.** Transaction velocity in 2019 moderated, down slightly from peak activity levels in 2016 and 2017. Sales prices nevertheless appreciated at an above-average pace, indicating strong competition for office assets. The greatest number of trades took place in Bergen and Morris counties, concentrated near points of access to Manhattan such as the George Washington Bridge as well as suburban population centers including Parsippany and Morristown. Local buyers largely target Class B and C properties, which are outperforming Class A facilities in occupancy. Regional investors are also entering the market, motivated by yield. Cap rates for recent trades have averaged around 7 percent, down 20 basis points from the year before but well above first-year returns in adjacent New York City or other major East Coast metros. These offer comparatively lower entry costs as well.

### 2020 Market Forecast

**NOMI Rank** 41, up 2 places — Robust demand will contract the metro's vacancy and raise rent, lifting Northern New Jersey slightly in 2020's NOMI.

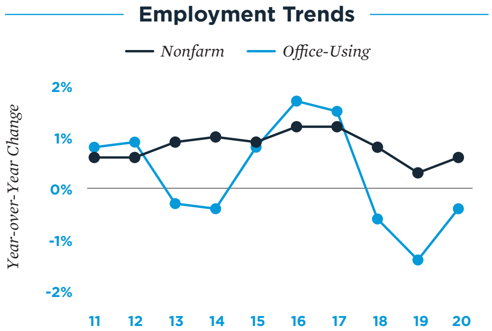
**Employment** up 0.6% — Employers will create 12,400 jobs in 2020, above last year's total, while about 2,000 office-based roles will leave the market due to contractions in the financial activities and other sectors.

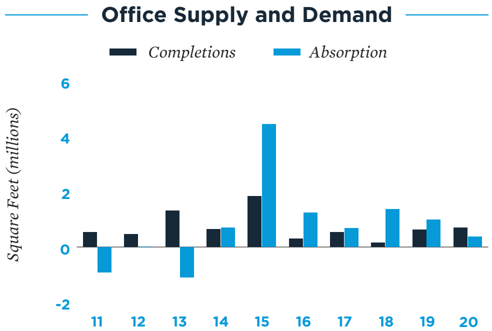
**Construction** 700,000 sq. ft. — Developers will add about 66,000 more square feet than was completed in 2019, below some previous years in the cycle.

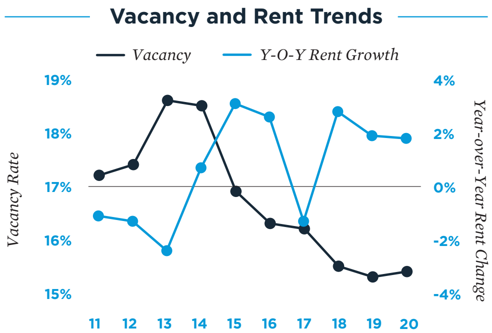
**Vacancy** up 10 bps — After a 20-basis-point decline last year, the vacancy rate in 2020 will inch up to 15.4 percent. Tight availability persists in several areas, including Union County at under 10 percent.

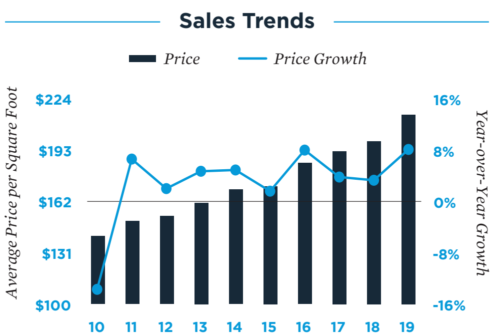
**Rent** up 1.8% — The average asking rent will advance to $28.22 per square foot this year, following a 1.9 percent rate of appreciation in 2019.

**Investment** — A prominent pharmaceutical presence supports ongoing demand for medical office assets, which change hands at tighter yields than the 6 to 7 percent band of traditional offices.



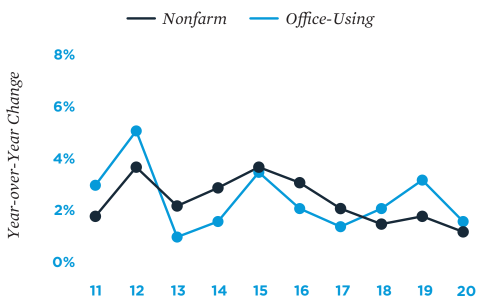




* Forecast

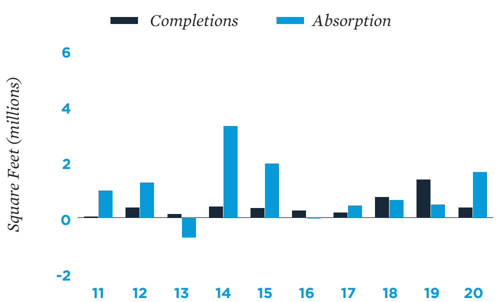
Sources: CoStar Group, Inc.; Real Capital Analytics

## Spillover Demand Driving Rent Growth and Promoting Myriad of Investment Strategies in the East Bay

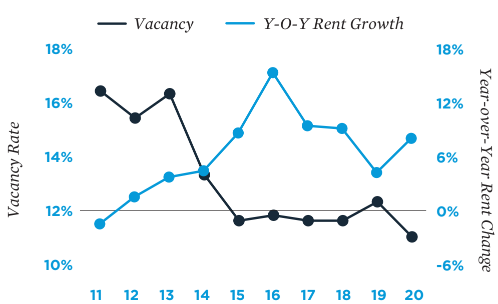
**Employment Trends**



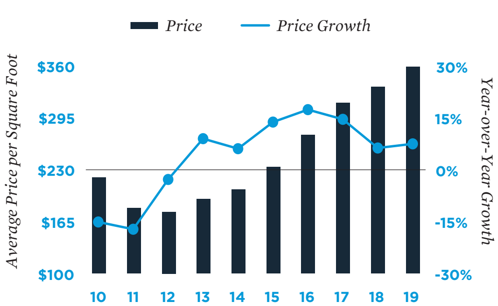

**Office Supply and Demand**




**Vacancy and Rent Trends**




**Sales Trends**




**Forecast*

*Sources: CoStar Group, Inc.; Real Capital Analytics*

**Oakland/East Bay office properties realize outsized benefits during mature economic cycles.** In addition to a fairly robust local office foundation, the East Bay has long served as a destination for spillover demand in the Bay Area. That trend will persist this year after both San Francisco and San Jose record cyclical-low vacancy, encouraging tenants with rollover leases to explore more affordable options while remaining within arm's length of their high-profile clients. Office-users seeking larger footprints may also defect to the East Bay in the coming months. The average rent for available floor plans with at least 200,000 square feet is 33 percent lower than across the Bay Bridge, potentially nudging tenants facing sticker shock as leases expire. Blue Shield, for instance, opened a new headquarters in Oakland after spending the previous 80 years in San Francisco. Payment processor Square, meanwhile, recently moved into 356,000 square feet of space in Oakland's Uptown Station, though the firm retained its San Francisco offices as well.

**Office listings near major thoroughfares attract several bids.** Although activity has dipped each of the past two years, office buyers remain lively in the East Bay. Properties near Interstates 680 and 880 are particularly appealing to investors, including those migrating capital from San Francisco, the South Bay and out of state. Assets with a sizable vacancy component are becoming scarcer, forcing buyers seeking to expand their presence in the East Bay to reconsider their long-term motivation. Repositioning plays have gained in popularity in recent quarters due to a relatively thin pipeline and belief that upgrading office space to attract technology companies will still leave a generous discount relative to nearby markets. Another strategy is to position local office properties as an alternative to high-cost space sought by tech firms. More traditional office users that lack the deep cash reserves of tech firms feel the pinch of high rents and may be easier to poach to the East Bay.

### 2020 Market Forecast

**NOMI Rank**
4, up 3 places
Significant demand and an increase in the average asking rent result in the Oakland/East Bay advancing in the NOMI.

**Employment**
up 1.1%
Office-using sectors will contribute 4,300 spots this year, representing a 1.5 percent gain. Total employment grows by 13,300 positions in 2020.

**Construction**
350,000 sq. ft.
Nearly all of the 350,000 square feet slated for delivery this year has an inked leasing commitment. Last year, 1.4 million square feet was completed.

**Vacancy**
down 130 bps
Vacancy plunges to 11 percent as demand migrates to the East Bay and new supply has a nominal impact on available space.

**Rent**
up 8.0%
The average office asking rent soars to $43.22 per square foot in 2020, significantly outpacing the 4.2 percent rise last year.

**Investment**
Cycle-low vacancy in the nearby Bay Area markets opens several opportunities for local investors as cost-conscious tech firms and rent-squeezed traditional office users migrate into available dark space.

## Limited Supply Additions Hold Office Vacancy Lower; Orange County Offers Investors Diverse Options

**Lull in development coincides with uptick in office positions.** Home to many Fortune 500 companies and a collection of smaller tech, financial service and life science firms, Orange County witnessed the completion of 4.4 million square feet of space over the past three years. The amount of space leased outpaced supply for the first time last year since 2015. In 2020, the number of office positions added will surpass 4,000 amid overall subdued employment growth, helping to place the metro's office market on firm footing. Expanding companies in need of additional or larger floor plans will be forced to comb the metro's stock of existing office space, as supply additions are nonexistent this year aside from the conversion of the former *Los Angeles Times* newsroom off Interstate 405. With a diverse group of firms slated to expand, stable office demand should persist in 2020, equating to a minimal adjustment in vacancy.

**Metro records even distribution of deal flow.** A span of stable office fundamentals has maintained investor demand for Orange County assets, with buyers that operate in multiple real estate sectors attracted to returns that notably exceed those available with other investment options. The robust bidding competition for office properties of varying quality should persist throughout the metro moving forward while vacancy holds at a cycle low and strong leasing occurs. Centrally located innovation hubs adjacent to John Wayne International Airport are targeted by institutional and private buyers, with pricing below $300 per square foot hard to find in Irvine and Costa Mesa. Those seeking below-average pricing pursue listings just north in Anaheim, where Class B and C properties trade at high-5 percent to mid-7 percent cap rates. Lower price points are also available in Huntington Beach, where an inventory of mid-size and larger Class B assets exists. Elsewhere along Highway 1, smaller buildings account for the majority of deal flow, with property values below $400 per square foot being rare.

### 2020 Market Forecast

**NOMI Rank**
23, down 5 places

Ease in supply and demand lift vacancy and slow rent advancement, placing Orange County down in the 2020 ranking.

**Employment**
up 0.8%

Metro employers add 13,900 workers to payrolls in 2020, of which one-third will be in traditional office-using sectors. Last year, organizations created 23,000 jobs.

**Construction**
414,000 sq. ft.

The Press in Costa Mesa accounts for all the space delivered this year. In 2019, roughly 1.4 million square feet was finalized.

**Vacancy**
up 10 bps

Availability adjusts nominally for a fifth straight year, yet the metro's 13.3 percent vacancy rate ranks highest among Southern California metros.

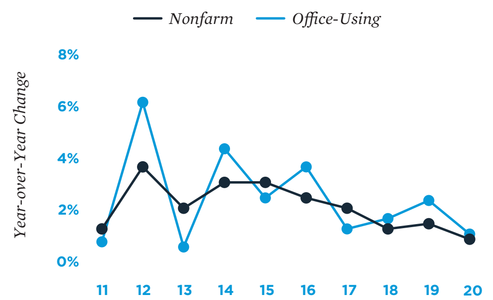
**Rent**
up 2.6%

The average asking rent climbs to $34.10 per square foot as the annual rate of growth nearly matches the 2.7 percent gain recorded last year.

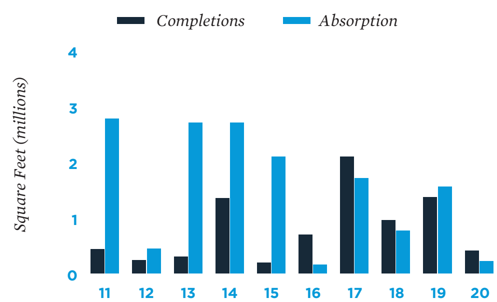
**Investment**

Buyers that renovate or retenant higher-quality assets of older vintages target Santa Ana. Here, sub-$250 per square foot pricing and below-average rent exist, signaling room for upside.

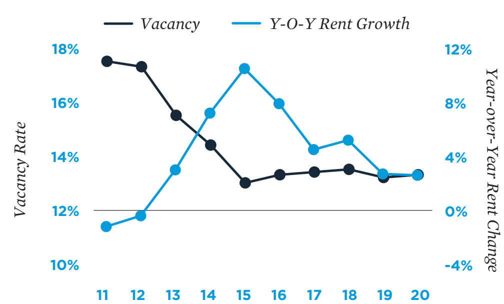
**Employment Trends**



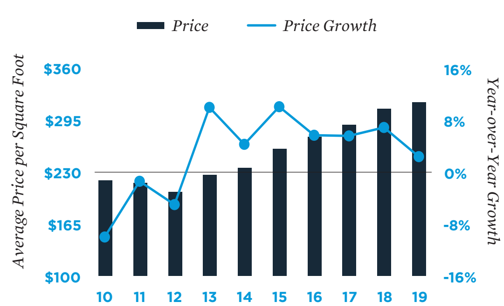

**Office Supply and Demand**




**Vacancy and Rent Trends**



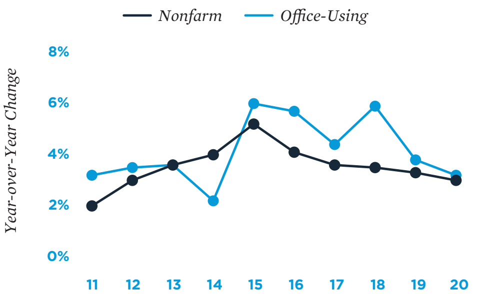

**Sales Trends**



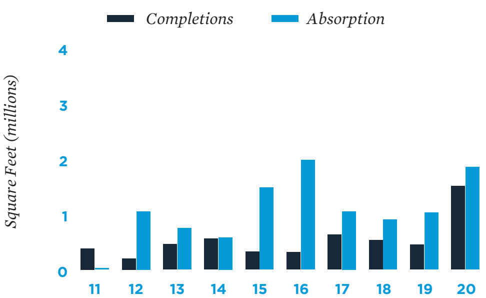

* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

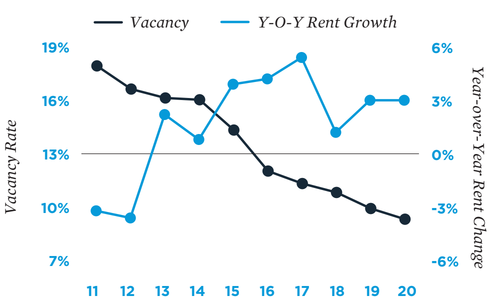
## Employment Trends



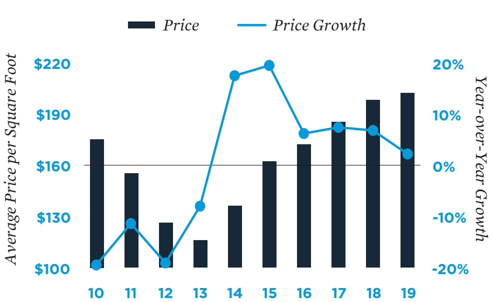

## Office Supply and Demand




## Vacancy and Rent Trends




## Sales Trends




**Forecast*

*Sources: CoStar Group, Inc.; Real Capital Analytics*

# Available Space Sparse; Expanding Development Pipeline Contains More Speculative Projects

**Robust economic and employment gains bolster office demand.** Orlando's vacancy rate rests at the cyclical low and is among the tightest in the nation as companies moving to and expanding in the market are depleting available office space. Inventory additions in 2020 will reach the highest level in 10 years and include more speculative space. The increase should benefit prospective tenants who have found it challenging to locate large floor plates. Two of the biggest projects underway, KPMG's Training and Development Facility in Lake Nona and the SunTrust Plaza at Church Street Station in downtown Orlando, were originally expected in 2019, but deliveries were delayed into 2020. SunTrust's 28-story tower will debut in the second quarter with nearly all of the 220,000 square feet pre-leased. In addition, a sizable portion of the space being vacated by the financial firm in the SunTrust Center is already being backfilled. Demand is not only heightened for Class A inventory, but throughout the metro, new residential development is generating the need for small offices for professionals who service the growing population. Increased leasing has reduced Class B/C vacancy into the single digits in most submarkets and is pushing rent higher.

**Vibrant demand drivers capture investor attention.** Orlando's economy is firing on all cylinders as job and population growth are among the strongest in the nation and tourism rates are setting records. These healthy conditions are attracting a wider range of buyers to the metro, including a larger institutional presence. Investors are also coming from larger Florida markets, lured by lower entry costs and the potential for higher yields. Cap rates averaging in mid-7 percent bracket are at least 80 basis points above these metros. The added competition for a limited supply of listings has constrained deal flow and contributed to the average price rising to a new high. Buyers remain most active near large employment hubs along Interstate 4, particularly Maitland Center.

## 2020 Market Forecast

**NOMI Rank**
14, up 6 places — The metro's robust economic climate contracts vacancy, lifting Orlando a few spots in the Index.

**Employment**
up 2.9% — Orlando remains one of the nation's top job creators as 40,000 workers are added to payrolls in 2020. During this time, office-using employment will jump 3.1 percent.

**Construction**
1.5 million sq. ft. — Deliveries more than triple last year's 450,000 square feet as the construction pipeline continues to expand. This year's total includes roughly 135,000 square feet of medical office space.

**Vacancy**
down 60 bps — Strong leasing moves net absorption above new inventory, dropping vacancy to 9.3 percent in 2020, the lowest level of the cycle.

**Rent**
up 3.0% — Matching last year's 3.0 percent advance, the average asking rent ends 2020 at $23.66 per square foot.

**Investment** — Demand for office space near the SunRail rail line is increasing, boosting development around stations and attracting investors to properties along the route.

# Tenants Search Outward for Large Footprints; Investors Seeking Deals in High-Vacancy Suburbs

**Strong pre-leasing, constrained core development keep vacancy on downward trend.** Fundamentals are sturdy in Philadelphia heading into the new decade. In 2020, delivery volume will fall below 1.5 million square feet, just two years after peaking at nearly double that volume in 2018. Of the space coming to market, over 85 percent is pre-leased, and economic drivers are on solid footing with healthcare and life science firms rapidly expanding and absorbing office space. This will support a drop in the vacancy rate to a cycle-low level in 2020. The majority of this year's deliverables will be in the suburbs, with Conshohocken receiving nearly two-thirds of the total space. The largest building under construction here is the 427,000-square-foot Sora West project, which is fully pre-leased. Amerisource Bergen Corporation will anchor the building and take on 93 percent of the rentable space to house its new headquarters. Less than one mile away, the 260,000-square-foot Seven Tower Bridge development is in the final stages. Financial firm Hamilton Lane has pre-leased roughly half of the building's rentable space. Organizations pursuing larger footprints will continue to spill out into suburbs as availability in Center City and University City remains tight, with little relief coming in the pipeline.

**Investors seek suburban assets for spillover demand, find mid-tier assets with potential to outperform.** The average cap rate is nearing the mid-8 percent range after trending upward every year since 2016. Buyers favoring lower-entry-cost suburban assets over CBD spaces and their preference toward low- to mid-quality space with value-add potential skewed this average. In Blue Bell, Class B assets traded twice as often in 2019 as in the previous year. Risk-taking investors focused here as the region's vacancy rate is hovering 400 basis points above the metro average, making entry-costs obtainable at an average of $80 per square foot. Similarly, Class B assets in Mount Laurel are frequently trading for under $10 million, as the vacancy rate hovers near 18 percent for the locale.

## 2020 Market Forecast

**NOMI Rank**
29, up 2 places

A notable contraction in vacancy for the second consecutive year moves Philadelphia up in the 2020 NOMI.

**Employment**
up 0.7%

Organizations will create 20,000 roles in 2020 after adding 23,200 jobs last year. Nearly 40 percent of the positions are expected to be office-using.

**Construction**
1.4 million sq. ft.

Development activity will slow down, as the pipeline contains roughly 400,000 square feet less space than last year.

**Vacancy**
down 30 bps

The wane in development in concordance with noteworthy pre-leasing activity allows vacancy to drop to 12.8 percent. In 2019, a 70-basis-point ease was logged.

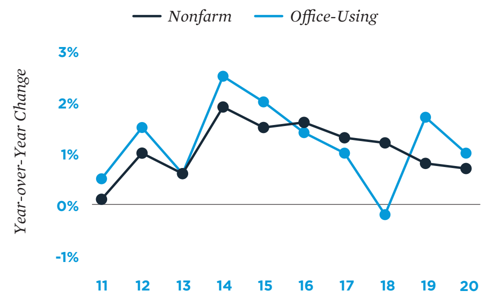
**Rent**
up 2.7%

Rental gains nearly match the previous year's 2.8 percent hike, as the average asking rent moves up to $26.73 per square foot.

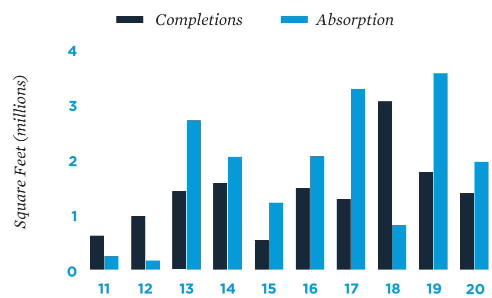
**Investment**

Suburbs along major thoroughfares north of the core will be at the forefront for investors. Properties near urban amenities such as dining and shopping will command aggressive offers.

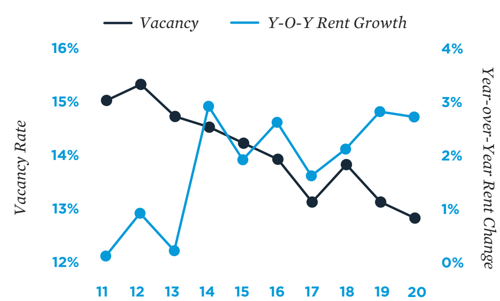
### Employment Trends



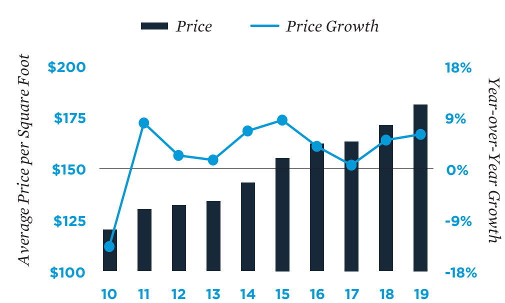

### Office Supply and Demand




### Vacancy and Rent Trends



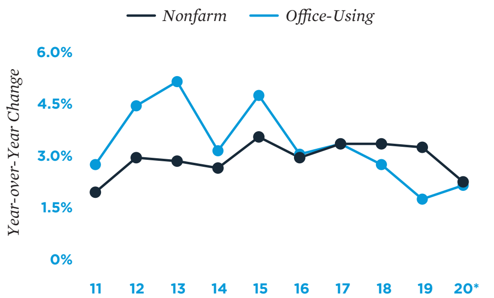

### Sales Trends



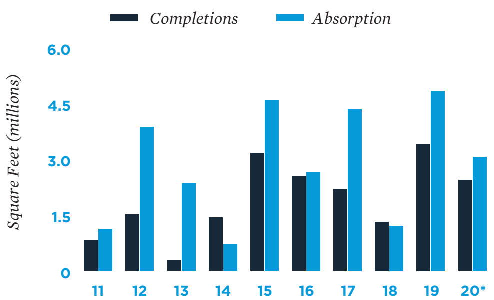

* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

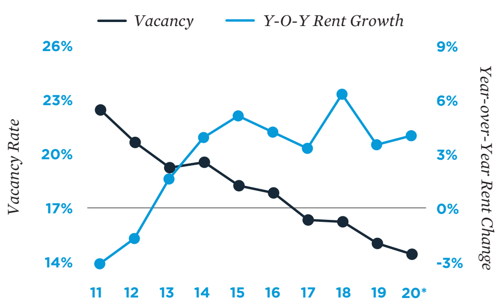
## Employment Trends




## Office Supply and Demand




## Vacancy and Rent Trends




## Sales Trends


*Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

# Corporations Take Down Larger Phoenix Footprints Favored by Many Expanding Companies

**Tenant move-ins and development showcase growth in Valley office market.** Phoenix's young population continues to grow and fill newly created jobs in the metro. An attractive business climate entices several companies to expand operations near talent pools that align with their needs. DoorDash, for example, will move from its existing 52,000-square-foot property in Phoenix to a 345,000-square-foot office in Tempe, headlining interest in the East Valley suburbs of Chandler, Mesa, Scottsdale and Tempe. Developers, meanwhile, are targeting Tempe and Scottsdale, where large mixed-use properties are coming out of the ground. The Watermark in Tempe, for instance, will open to additional tenants this year, adding 265,000 square feet of office space to the metro. In west Phoenix, medical office buildings constitute the majority of office buildings under construction, leveraging the proximity to retirement communities and rapidly growing suburbs. Strong absorption will outpace office construction in 2020, lowering metrowide vacancy to a cyclical low.

**Investors target assets proximate to new developments and transit hubs.** While property values have increased substantially in the metro, cap rates in the region have held steady in the low-7 percent range. Growth areas with a tech influence like Tempe and some properties near U.S. 60 in the East Valley attract investors searching for repositioning options. Moving north, deals in the Scottsdale Airpark account for a large portion of volume in the northeast Valley. Cap rates in the airpark trend 30 basis points lower than the metrowide average due to buyer demand but have reached as high as 8 percent on larger multi-tenant properties of older vintage. In Midtown Phoenix, properties with a significant vacancy component are favored by private developers seeking renovation opportunities. Assets along East Camelback Road, home to many of the metro's financial and real estate firms, can trade with cap rates in the 7 percent range, sometimes pushing down into the 5 percent area, influenced by competitive bidding.

## 2020 Market Forecast

**NOMI Rank** 16, up 1 place — Phoenix's vigorous demand levels and a boost in the average asking rent will bring the metro up in rank this year.

**Employment** up 2.2% — Employment will grow by 48,500 employees in 2020, with a greater percentage of new office-using workers than 2019. The unemployment rate rests at a near-cycle low of 4.1 percent.

**Construction** 2.4 million sq. ft. — New construction in 2020 will fall to two-thirds the rate of supply growth recorded in 2019.

**Vacancy** down 60 bps — Continuing a five-year descent, vacancy will reach 14.4 percent in 2020, dropping 450 basis points over the past half decade.

**Rent** up 4.0% — The asking rent climbs at a pace slightly lower than the five-year average, ending this year at $27.10 per square foot.

**Investment** — Medical office buildings in the East Valley and northwest Phoenix have garnered investor attention, with cap rates 20 basis points lower than the metrowide office average of 7 percent.

## Industry Advancements in Innovation Engineer
## A Gateway for Value-Add Opportunities Downtown

**Research and development firms drive expansion throughout core.** The professional and business services field continues to support hiring in Pittsburgh. Recently, medical equipment research and manufacturing company Philips announced it is relocating from northwest of the city center to Pittsburgh's downtown Strip District. The firm will be moving into one of the metro's newest office developments, the Bakery Office Three building. Philips chose this area for expansion to be near thriving tech innovators and research firms. Collectively, the company will relocate 1,700 workers to the new property. South of the Strip District, the Oakland area is also making room for medical and technology firms with the completion of the 160,000-square-foot Riviera in the Pittsburgh Technology Center. The area draws leading engineering and tech companies seeking to be near major employers that serve as their clients. Cost-conscious firms are also drawn to the area to avoid higher rents than those in the greater downtown area.

**Value-add opportunities spanning downtown to South Pittsburgh.** Class B/C transaction velocity continues to comprise a bulk of deals in the metro, with nearly 90 percent of last year's deals being finalized within this category and a majority of the sales occurring in the urban core. Downtown, the aged building stock trades in the $100 to $130 per square foot range, with returns from the mid-7 percent to mid-9 percent area. Healthcare sales comprise nearly 30 percent of overall Class B/C sales, with a majority of these deals occurring southwest of the central business district toward Canonsburg/Hendersonville, and southeast of downtown near Greensburg. These buildings are selling for around $200 per square foot, approximately 40 percent above the metro average medical office rent rate of $114. Returns here range slightly above the metro medical-office average yield in the mid-7 to low-9 percent band.

### 2020 Market Forecast

**NOMI Rank** 38, up 3 places — Healthy demand resulting in a contraction of vacancy below the 12 percent mark boosts Pittsburgh in the NOMI ranking.

**Employment** up 0.2% — Hiring will increase from last year as 2,000 workers are added to the metro this year. Last year employment did not change.

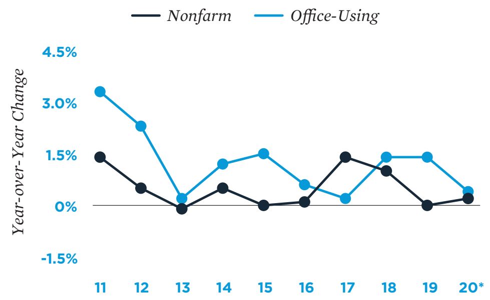
**Construction** 1.2 million sq. ft. — Completions will increase significantly from last year's 842,000 square feet of deliveries, rising to over 1 million square feet.

**Vacancy** down 40 bps — The average vacancy rate will decline to 11.2 percent. In 2019, a 40-basis-point increase in the rate was noted.

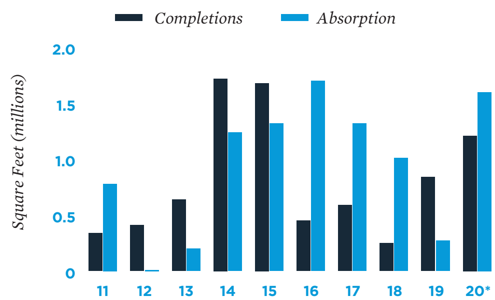
**Rent** up 1.5% — Following a modest rental increase in 2019, rising occupancy will lift the average asking rent to $22.38 per square foot.

**Investment** — Office listings near the urban core draw value-add buyers pursuing assets for sales prices nearly 20 percent below the metro average transaction value.

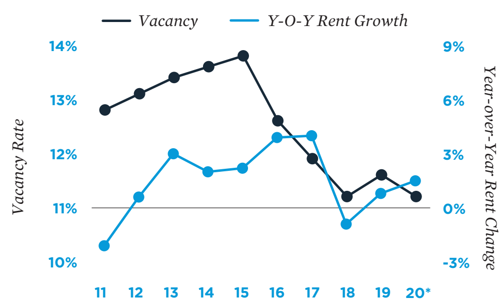
### Employment Trends



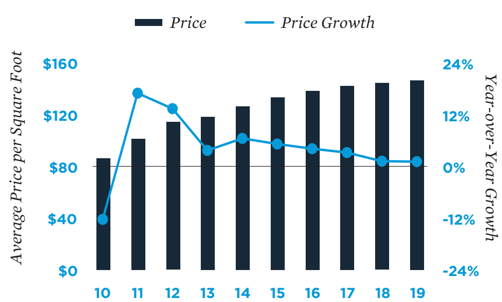

### Office Supply and Demand




### Vacancy and Rent Trends




### Sales Trends




* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

# Portland Office Market Offers Mix of Traditional Stability and Tech-Fueled Growth

**Divergent trends between suburban and CBD office space define the 2020 outlook.** Portland suburban office market is emblematic of slower moving, traditional office space. Vacancy is well below 8 percent, supporting much healthier rent growth than found in the CBD. Nonetheless, leasing activity tends to move at a slower pace as tenants have shorter time horizons and occupy significantly smaller footprints. The average rent for suburban space is approximately 30 percent lower than those in the CBD, providing tenants facing sticker shock at lease renewals an alternative to core assets. In fact, the average rent in the CBD soared 42 percent since 2012, when many expiring leases were inked. The metro's core office market is akin to some of the white-hot tech office districts in other West Coast markets. Creative space draws high-profile tenants, including Google and Amazon, though ancillary and supportive firms have been slow to backfill smaller footprints, keeping vacancy elevated and rent growth stable.

**Investment market offers variety of strategies due to disparity between core and suburban office trends.** Local investors are the primary buyers of suburban assets due to their ability to navigate the traditional office landscape and their connections to tenants. Furthermore, out-of-state buyers searching for a dynamic, tech-driven office market hesitate when completing due diligence on suburban offerings. The average rent, for example, has advanced approximately 32 percent since 2012, well below the pace of gains in the CBD. Institutional capital tends to migrate into creative space in the city's core office districts. Although a supply overhang in the core could take nearly a year to dissipate, the presence of these investors is unlikely to diminish in the near term due to the market's traditional strength. The average cap rate entering the year is near 6 percent, with a 50- to 100-basis-point swing between suburban and core locations.

## 2020 Market Forecast

**NOMI Rank**
9, up 2 places

Portland edges up in the NOMI as balanced supply and demand levels contract vacancy below 10 percent and rent advances.

**Employment**
up 1.2%

After generating 22,300 jobs last year, employers are expected to create 15,100 positions in 2020. Office-using employment ticks up 2.8 percent, or by 3,100 jobs.

**Construction**
2.0 million sq. ft.

Developers contribute 2.0 million square feet of office space to existing stock this year, up from approximately 100,000 square feet in 2019. Pre-leasing stands at nearly 75 percent.

**Vacancy**
down 20 bps

Vacancy tightens to 9.7 percent by year end, matching the 20-basis-point decline in the rate recorded last year.

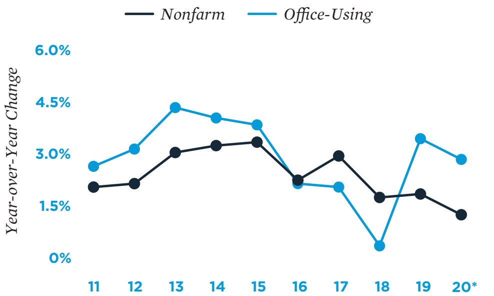
**Rent**
up 3.2%

Rent growth accelerates from 1.5 percent in 2019. The average asking rent reaches $28.10 per square foot in 2020.

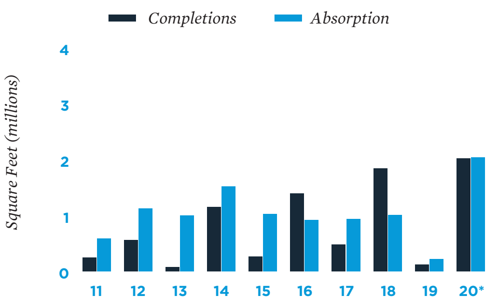
**Investment**

Investors seeking stabilized properties will target Class B assets in suburban office districts near major thoroughfares while institutional capital awaits top-tier listings in the city's core.

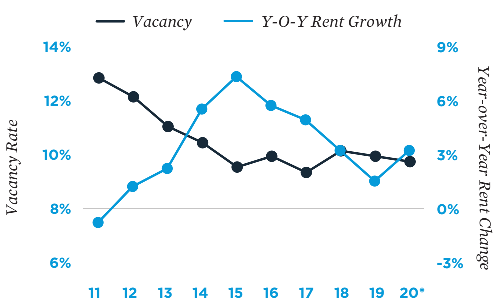
### Employment Trends



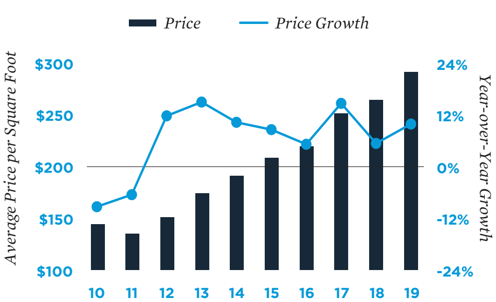

### Office Supply and Demand




### Vacancy and Rent Trends




### Sales Trends




*Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

## Corporate Expansion Delivers Robust Demand Drivers; Investors Prioritize Assets in North Raleigh

**Office construction and strong tenant mix reinforce Raleigh-Durham.** A lower cost of living and corporate synergy potential make the area a destination for a variety of global firms. Last year, companies such as MetLife, Credit Suisse, and Rho renewed their commitment to the metro by building new headquarters or office buildings. In 2020, Advanced Auto Parts, Xerox, and LabCorp will occupy a combined 400,000 square feet in the metro, bolstering prospects for both developers and future tenants. The healthy position of Raleigh's office market has led developers to create speculative office concepts such as the Stitch, a 250,000-square-foot creative space, and 1101 Shiloh Glenn, a shopping center conversion into 140,000 square feet of trophy office space. Nevertheless, pre-leased properties make up the majority of new construction in the metro, specifically in areas along Interstate 440 and in West Wake County. This year's construction total will surpass last year's 1.8 million square feet of new office space, bumping up vacancy.

**Transactions trend lower while investors target value-add opportunities.** Although overall transactions in Raleigh have stepped back, some assets like Class B/C properties in the $1 million to $10 million range and Class A assets over $10 million continue to have consistent or accelerating deal flow. Acquisitions of larger Class B/C buildings priced above $10 million have retreated, partially due to fewer listings, which is weighing on overall velocity. In the absence of these deals, investors have focused on value-add opportunities in Orange and Wake counties, with first-year yields in the mid-7 to high-7 percent range. Local private buyers purchased the majority of Class B/C assets over the past year in the North Raleigh region, proximate to new high-end developments. Out-of-state investors, meanwhile, acquired a majority of the available Class A properties in the region, which traded at average cap rates in the mid-6 percent range. Marketwide, first-year returns hover near 7 percent entering the year.

### 2020 Market Forecast

**NOMI Rank** 6, down 1 place — A slight uptick in vacancy and slower pace of rent increase will push Raleigh down in the 2020 Index.

**Employment** up 2.2% — Job growth will temper slightly as 21,400 jobs are added to the metro in 2020, lower than the 26,800 positions added in 2019.

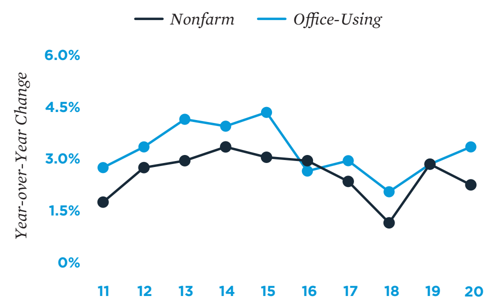
**Construction** 2.0 million sq. ft. — Deliveries in 2020 will grow by approximately 150,000 more square feet than 2019 completions.

**Vacancy** up 10 bps — Vacancy will tick up in 2020, rising to 9.3 percent following a 100-basis-point decline in 2019. Vacancies have dropped 360 basis points over the past five years.

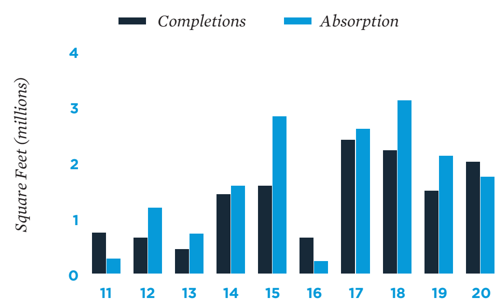
**Rent** up 4.3% — Healthy demand and new construction support an increase in the average asking rent to $25.97 per square foot, at a higher pace compared with 2019's gain of 2.7 percent.

**Investment** — Although Class A trophy space continues to attract interest from investors, value-add opportunities are present with rising rents supporting upward pressure on values in the metro.

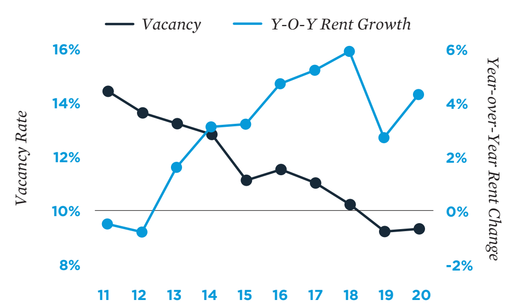
#### Employment Trends



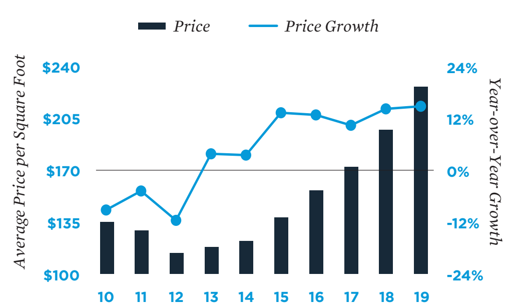

#### Office Supply and Demand




#### Vacancy and Rent Trends



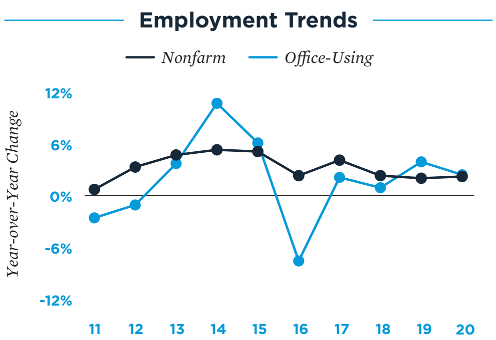

#### Sales Trends

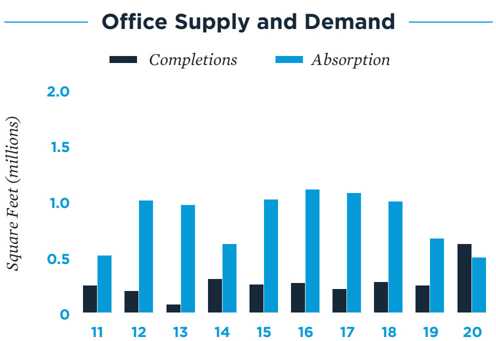


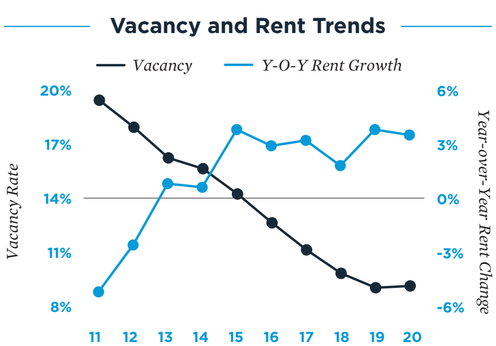

* Forecast

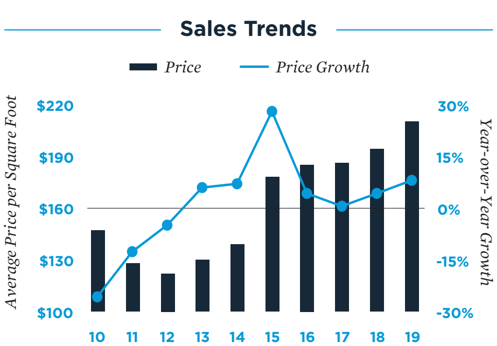
Sources: CoStar Group, Inc.; Real Capital Analytics

# Health and E-Commerce Expansions Support Office Demand; Buyers Target Central and Outlying Locations




**Forecast*

*Sources: CoStar Group, Inc.; Real Capital Analytics*

**Vacancy tight as expanding firms align with limited construction.** A growing base of older residents and a strong rate of household formation have increased demand for health services in the Inland Empire over the past four years, influencing medical providers and insurers to bolster their local office presence. At the same time, firms that support the region's e-commerce and logistics industries also expanded, aiding overall leasing velocity. The resulting decline in metro vacancy was accompanied by limited office construction, highlighted by minimal speculative development. This year, three projects, two of which are build-to-suit, account for most of the space finalized. The lack of newly built, available floor plans coupled with the creation of 5,000 traditional office positions support steady demand for space in 2020, holding vacancy below 10 percent for a third consecutive year.

**Distribution of deal flow signals widespread investor demand.** Repositioning mid- and lower-tier properties in Riverside-San Bernardino via tenant improvements is an attractive investment option for Southern California-based buyers. The metro's extended span of limited development and cycle-low vacancy maintain investor competition for these older office spaces, heightening property values. Buyers seeking midsize and larger buildings priced below the Southern California average pursue listings in San Bernardino and adjacent western cities. Farther west, locales off Interstate 10 and Highway 60, near Ontario International Airport, attract investors seeking proximity to logistics hubs. Cities in Coachella Valley and outlying portions of San Bernardino County also generate robust buyer interest, as these areas boast a stock of smaller listings available for $1 million to $3 million. Throughout the region, minimum returns will hold in the low-6 percent range this year, with maximum yields reaching the 9 percent band.

## 2020 Market Forecast

**NOMI Rank** 21, up 5 places — The escalating average asking rent and a vacancy rate far below the nation's average raise the metro's rank.

**Employment** up 2.2% — Organizations add 34,300 positions in 2020, equating to a rate of employment growth comparable to the prior two years.

**Construction** 609,000 sq. ft. — Delivery volume rises by nearly 400,000 square feet on a year-over-year basis, with a pair of medical office projects accounting for 60 percent of the space finalized in 2020.

**Vacancy** up 10 bps — Metro vacancy inches up to 9.1 percent this year on absorption of nearly 500,000 square feet. The nominal increase follows a 10-year span of vacancy compression.

**Rent** up 3.5% — The asking rent climbs to $23.31 per square foot in 2020 as the pace of rate growth exceeds the prior five-year average.

**Investment** — Home to an inventory of Class B assets and an expanding local populace, Temecula and other southern cities in Riverside County lure buyers seeking medical and traditional office buildings at regionally average pricing.

# Vacancy Reaches Cycle-Low Rate; Extended Rent Growth Momentum Encourages Investment

**Solid demand persists amid dearth of construction.** Spanning the past four years, Sacramento's employment base expanded by approximately 90,000 jobs, 20 percent of which were traditional office positions. Expansions and relocations by private and corporate users during this stretch translated to strong office leasing velocity. The resulting absorption of 4.5 million square feet of space coincided with steady rent growth, elevating the metro's average asking rate nearly 12 percent. With vacancy at a cycle-low level entering this year and historically above-average rent gains occurring, speculative construction seems warranted, yet a lack of this development persists. Instead, the completion of Centene's 68-acre campus in Natomas comprises nearly all the space set to be finalized in 2020. A consistent pace of office-using job creation is slated for this year, suggesting companies will need additional or larger floor plans to support larger staffs. With the stock of available space unchanged by construction activity, existing floor plans in core Sacramento and office-heavy suburbs remain in high demand, slashing metro vacancy below 11 percent.

**Regionally discounted pricing and solid fundamentals drive investor competition.** High occupancy is translating to healthy rent growth in the metro, generating buyer demand for listings in areas of employment growth. Properties in these locales with upcoming lease expirations or renovation potential present investors with opportunities to achieve notable NOI growth in a relatively short time frame. Home to concentrations of government, tech and medical firms, Rancho Cordova and Roseville represent top targets for Class B transactions. Here, 1031-exchange buyers are active, targeting 6 percent to 8 percent returns. In core Sacramento, 6 percent to low-7 percent cap rates are prevalent, with pricing in Midtown typically ranging from $200 to $300 per square foot. Investors seeking a larger inventory of higher-tier listings target downtown Sacramento, where pricing can exceed $300 per square foot.

## 2020 Market Forecast

**NOMI Rank** 22, up 6 places — Sacramento will be in the top third of the nation's metros leading rent gains, resulting in the market moving up in the NOMI.

**Employment** up 1.1% — Organizations bolster staffs by 11,000 positions in 2020, with office-using job creation accounting for 30 percent of total employment growth.

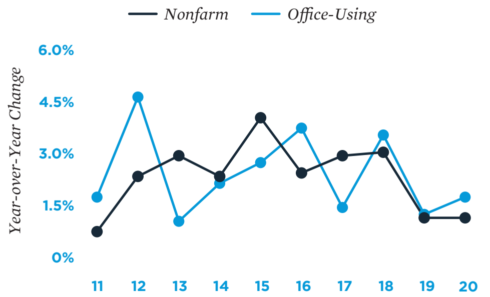
**Construction** 603,000 sq. ft. — Aside from Centene's new campus in Natomas, three smaller properties are finalized in Davis this year. In 2019, supply additions totaled 500,000 square feet.

**Vacancy** down 50 bps — On absorption of 1 million square feet of office space, metro vacancy falls to 10.8 percent in 2020.

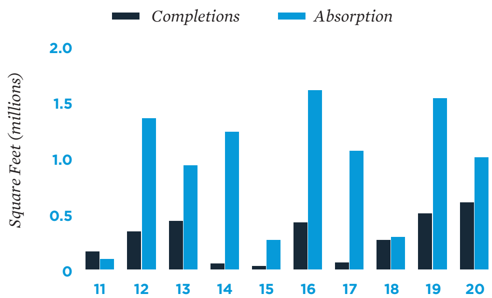
**Rent** up 3.8% — Positive rent growth is noted for a seventh consecutive year, elevating the average asking rent to $25.04 per square foot.

**Investment** — Bay Area-based buyers seeking notably higher yields than those available in their home market will continue to stoke competition for Class B/C assets, lifting asset values and driving deal flow. In 2019, trades involving these properties accounted for nearly $1.5 billion in sales volume.

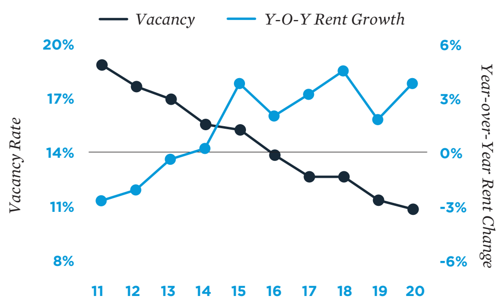
### Employment Trends



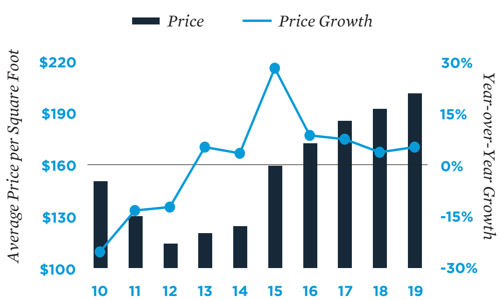

### Office Supply and Demand




### Vacancy and Rent Trends



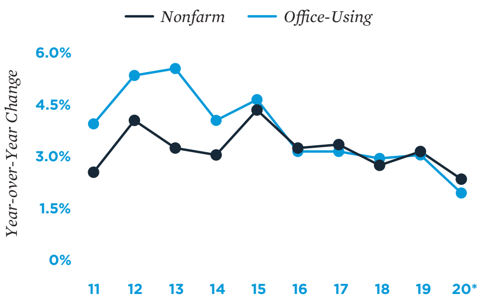

### Sales Trends



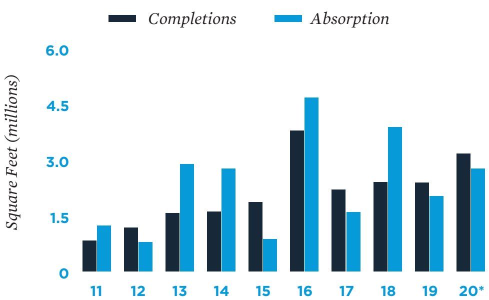

* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

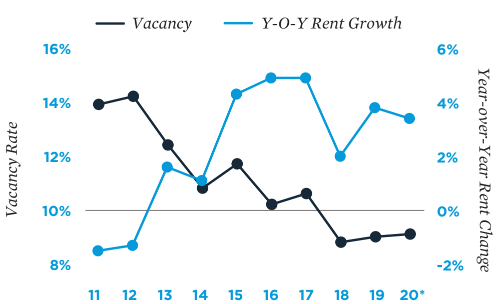
### Employment Trends




### Office Supply and Demand




### Vacancy and Rent Trends

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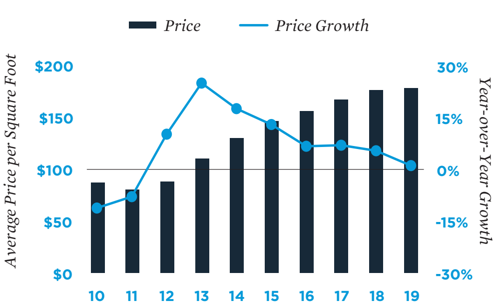



*Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

## Absorption Aligns With Construction Volume; Influx of Out-of-State Investors Drives Pricing

**Employment growth continues to warrant sizable supply additions.** Home to a well-educated workforce and a regionally lower cost of doing business, the Wasatch Front remains a focal point for expanding corporations. Many of these growing firms concentrate on tech, finance or professional services, which heightened demand for available office space and newly built properties. As a result, the metro vacancy compressed 270 basis points during the four-year span amid the completion of nearly 11 million square feet of space. In 2020, a steady flow of project deliveries is once again lined up, as more than 3 million square feet is finalized, driven by supply additions in Draper and South Jordan. While construction activity remains elevated this year, most of what is slated for completion is well leased. The lack of available, newly developed space coupled with steady hiring velocity by office-using firms will fuel demand for existing floor plans in 2020, translating to a slight adjustment in vacancy for a second consecutive year.

**Unwavering tenant demand attracts range of investors, further diversifying the local buyer pool.** Salt Lake City represents a distinct office market where company expansions are widespread, yet property values are below most western U.S. metros. These conditions are influencing more private equity and institutional buyers from Mountain and West Coast areas to pursue assets in this market. These investors are most active in Sandy, Draper and other South Valley cities, where pricing for larger Class A properties and well-located Class B offices can exceed $250 per square foot with minimum returns in the high-5 percent band. While private investors are also active in these locales, those seeking returns in the mid-6 to 8-percent-plus range focus on Salt Lake City's CBD and the eastern portions of the Central Valley. Here smaller Class B and C assets are available for less than $3 million.

### 2020 Market Forecast

**NOMI Rank** 5, up 4 places — Salt Lake City will be in the top five of the NOMI as the metro's average asking rent soars and vacancy contracts moderately.

**Employment** up 2.3% — Hiring by traditional office-using firms and hospitality-related organizations support the addition of 30,200 positions this year. In 2019, metro employers grew staffs by 38,900 jobs.

**Construction** 3.2 million sq. ft. — Delivery volume in 2020 reaches a four-year high, increasing the metro's office stock by 3.2 percent.

**Vacancy** up 10 bps — On net absorption of nearly 2.8 million square feet of office space, vacancy reaches 9.1 percent this year. In 2019, an increase of 20 basis points was registered.

**Rent** up 3.4% — A steady pace of rate growth allows the metro's average asking rent to reach $22.72 per square foot in 2020.

**Investment** — Strong population growth continues to heighten demand for healthcare services. In response, investors comb Sandy and Salt Lake City neighborhoods for Class B medical office properties, most of which trade at below-average pricing.

# Influx of New Supply Weighs on Market Fundamentals; Investor Sentiment Remains High as Rent Climbs

**Sizable speculative construction drives rising vacancy.** Development will surpass 1 million square feet of new space for the second consecutive year. This jump in supply includes roughly 425,000 square feet of speculative space, which will test market fundamentals and ultimately lift vacancy again in 2020. One of the largest speculative developments is The Soto, a 140,000-square-foot project located in the CBD. Both developers and tenants have shown renewed interest in the core recently, highlighted by the completion of the Frost Tower, the first high-rise office space delivered downtown in over 30 years. Additionally, Credit Human will be moving into a 210,000-square-foot space nearby in the Pearl District. Although the metrowide vacancy rate will inch up this year, it will remain more than 100 basis points below the national level. Tight conditions are powered by companies choosing San Antonio to house back-office operations and call centers. These tenants are drawn by the affordability of space relative to other Texas markets and the sizable labor pool. Competition among these firms will sustain the upward trajectory of the average rent in 2020.

**Buyers find attractive yields in northern suburbs.** Rent gains above the national average and vacancy well below the national rate will keep investor sentiment high in 2020. Stabilized assets are top of mind for investors, and aggressive bidding is powering noteworthy appreciation. Out-of-state buyers are often targeting Class A and B complexes in the northwest Interstate 10 corridor or far north suburbs such as Stone Oak. Here, first-year returns for high-quality office spaces have been in the mid-6 to mid-7 percent area. Medical offices are also appealing to a wide-range of private investors. They are homing in on northern suburbs near the state Highway 1604 loop, where a handful of properties priced under $10 million with cap rates near 8 percent have traded recently.

## 2020 Market Forecast

**NOMI Rank**
34, down 2 places

A rise in San Antonio's vacancy rate amid heightened deliveries lowers the metro in the 2020 NOMI.

**Employment**
up 2.5%

Employment gains will fall shy of the 3.1 percent increase logged in 2019 yet remain well above the national rate.

**Construction**
1.3 million sq. ft.

For the third time in just four years deliveries will surpass 1 million square feet, as the 2020 total exceeds last year's stock additions by nearly 200,000 square feet.

**Vacancy**
up 10 bps

Vacancy will move up to 11.7 percent this year as speculative space takes time to be absorbed. Last year, the vacancy rate rose 60 basis points.

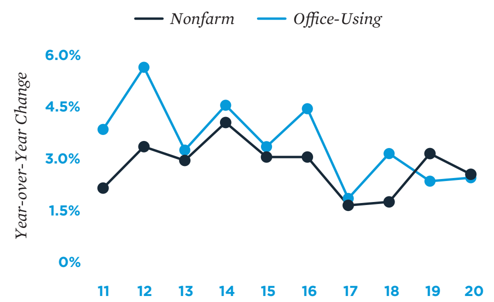
**Rent**
up 2.6%

The pace of growth ticks up from the 2.5 percent average annual gain logged over the trailing five years. The average asking rent will be $22.82 by the end of 2020.

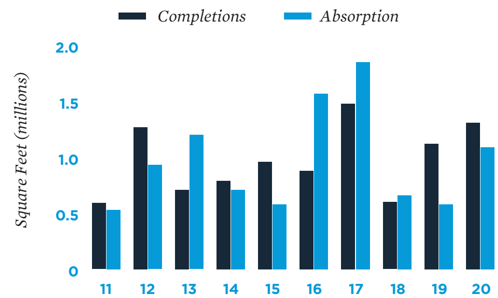
**Investment**

Value-add opportunities in suburbs along the I-10 corridor will entice private investors. Class C assets here often trade at a discount to lower-tier offices in other major Texas metros.

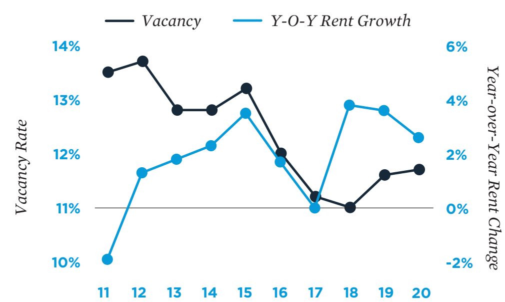
### Employment Trends



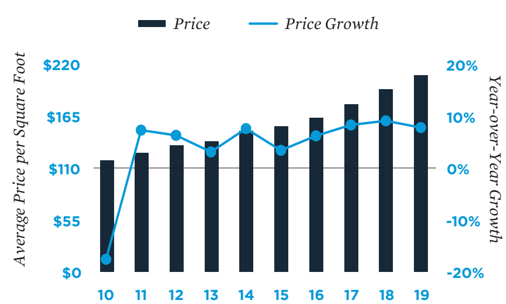

### Office Supply and Demand




### Vacancy and Rent Trends



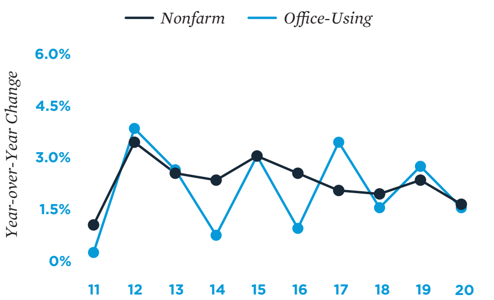

### Sales Trends



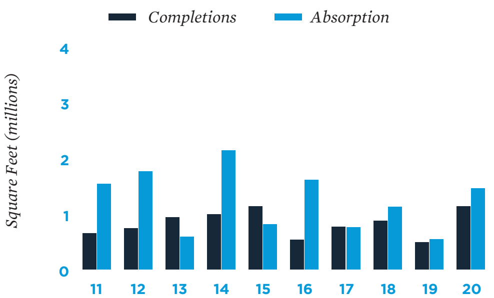

* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

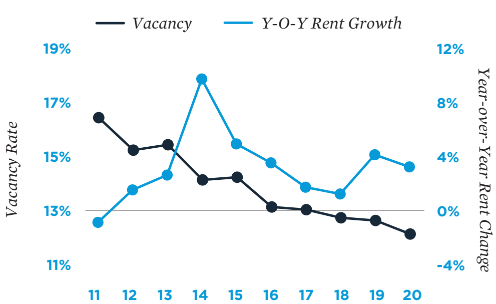
## Employment Trends




## Office Supply and Demand




## Vacancy and Rent Trends




## Sales Trends


**Forecast*

*Sources: CoStar Group, Inc.; Real Capital Analytics*

# Office-User Expansions Trigger Rise in Absorption; New Construction Falls Short of Demand

**Vacancy dips below pre-recession levels.** Home to a sizable life science presence and a collection of defense and tech-related companies, San Diego hosts a diverse tenant base that has supported solid demand for office space this cycle. The metro enters 2020 following a year of solid leasing velocity that reduced vacancy to a cycle-low level. Since peaking at 18.7 percent in 2009, vacancy rates have declined steadily, reinforcing the market's appeal to businesses. Despite strong demand, speculative development is restrained as most of more than 1 million square feet slated for delivery this year is pre-leased. A U.S. Navy headquarters in downtown San Diego and Cubic's facility in Kearny Mesa highlight the list of upcoming completions. Additionally, Apple has inked leases for three properties near La Jolla, one of which will be completed this year. A lack of additions of new space coupled with traditional office-user growth will further reduce the volume of available floor plans. As vacancy falls to the low-12 percent band, asking rents climb at a healthy rate, pushing the metro's average roughly $3 per square foot above the prior cyclical high.

**Buyers focus on extended runway for office assets.** The metro's varied tenant mix coupled with compressing vacancy and improving rent growth continue to attract a mix of capital, equating to widespread deal flow. Sorrento Mesa and Kearny Mesa are top spots for buyers seeking mid- to top-tier properties in life science and defense contractor hubs. In both locales, opportunities to deploy $10 million to $20 million-plus remain frequent, as do minimum returns in the 4 percent range. North along Interstate 5, Carlsbad is another target for Class B deals; however, most assets are smaller, warranting investments of $1 million to $5 million. Active local buyers pursue Class C buildings in neighborhoods adjacent to downtown San Diego and Balboa Park, where cap rates typically fall in the 5 to 6 percent range and pricing above $400 per square is common.

## 2020 Market Forecast

**NOMI Rank**
12, up 1 place

Robust demand contracts San Diego's vacancy near 12 percent and heightens rent, lifting the metro's ranking.

**Employment**
up 1.6%

San Diego employers add 24,500 positions in 2020 after creating an average of 30,300 jobs during the prior three years.

**Construction**
1.1 million sq. ft.

Delivery volume in 2020 surpasses the 1 million-square-foot mark for the first time in five years, with supply additions increasing the metro's office inventory by 1.1 percent.

**Vacancy**
down 50 bps

Metro vacancy compresses for a fifth straight year, falling to 12.1 percent on net absorption of nearly 1.5 million square feet. In 2019, a decline of 10 basis points was recorded.

**Rent**
up 3.2%

The average asking rent climbs to $34.74 per square foot, besting the prior three-year average annual increase of 2.3 percent.

**Investment**

Private investors seeking the highest yields available target El Cajon and La Mesa, where smaller Class C assets routinely provide 8 percent-plus first-year returns. In both East County locales, pricing well below the metro's average remains.

## Large, Contiguous Blocks of Space Remain in High Demand; Low Supply Supporting New Construction

**Awash with capital, tech firms target premier office space in San Francisco.** Despite rent doubling over the past decade, technology companies appear unfettered when leasing premium office space in the metro, a trend that will persist this year. Pinterest, Google and Asana committed to large blocks of space in the past 12 months, while Facebook committed to all 800,000 square feet at Burlingame Point when the campus comes online around midyear. A lack of large blocks of available space encourages tenants to ink new leases months ahead of availability, which has pushed pre-leasing to nearly 70 percent across the metro. More than half of the unleased space under construction is in the First Street Tower. Currently the largest project underway, the 1.25 million-square-foot development finishes in 2023. Smaller, traditional office users are feeling the pressure from the heated market. Year-over-year rent gains in the Class B/C sector accelerated to more than 7 percent due to tight vacancy.

**Institutional investors dominate local office market.** The average cap rate compressed to 5 percent last year, the lowest level of the current cycle. However, fewer Class C deals were among the mix of properties that transacted, indicating that first-year returns have shown resistance to further compression. Buyer demand is strong across all property types, though few Class C properties are moving as owners enjoy robust rent growth amid healthy vacancy. That trend could reverse course this year as investors searching for repositioning plays make aggressive bids. Additionally, some owners may take advantage of current pricing to upgrade or enlarge their portfolios through a 1031 exchange. The average cap rate in San Francisco is approximately 200 basis points lower than the national average. Institutional capital is drawn to Class A properties, where sales doubled in the past 12 months. Nonetheless, a single buyer accounted for nearly the entire increase in top-tier transactions last year.

### 2020 Market Forecast

**NOMI Rank** 1, up 1 place — San Francisco's rent surge and extremely low vacancy place the metro at the top of the Index.

**Employment** up 2.5% — Employers increase payrolls by 30,000 positions in 2020. Approximately 12,000 new spots will be in traditional office-using sectors. Last year, the employment base grew by 2.6 percent.

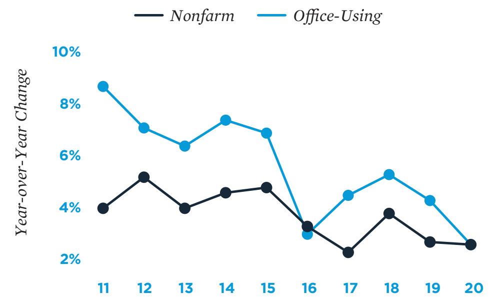
**Construction** 3.8 million sq. ft. — Development remains near the cyclical peak, though strong pre-leasing should limit any impact on fundamentals arising from new stock.

**Vacancy** down 60 bps — Vacancy dips to 8.1 percent this year. Last year, vacancy increased 60 basis points.

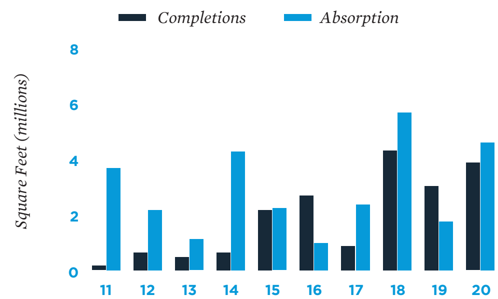
**Rent** up 7.1% — The average asking rent builds on last year's robust gain of 10.7 percent. By year-end 2020, the average rent is projected to reach $73.43 per square foot.

**Investment** — Despite highly favorable asking prices, available inventory will determine deal flow this year. Owners of smaller properties will consider taking advantage of demand and move capital out of the market.

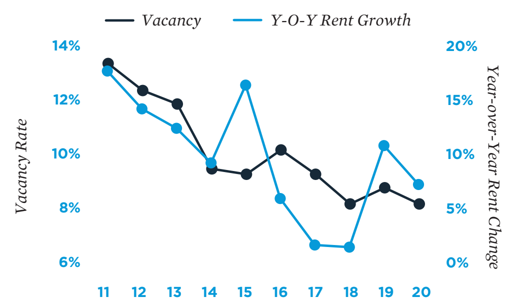
#### Employment Trends



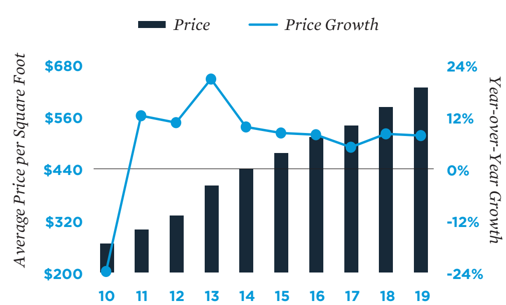

#### Office Supply and Demand




#### Vacancy and Rent Trends




#### Sales Trends

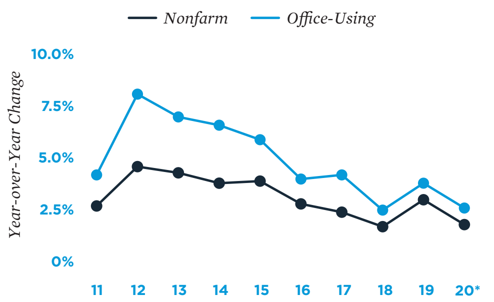



* Forecast

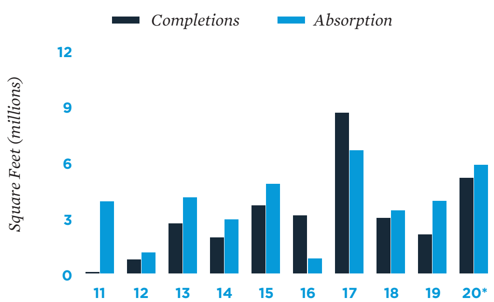
Sources: CoStar Group, Inc.; Real Capital Analytics

## Owner-User Developments Lead Wave of Deliveries; Vacancy Tightening as Tech Firms Expand

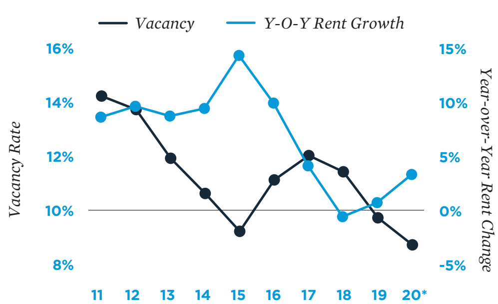
### Employment Trends



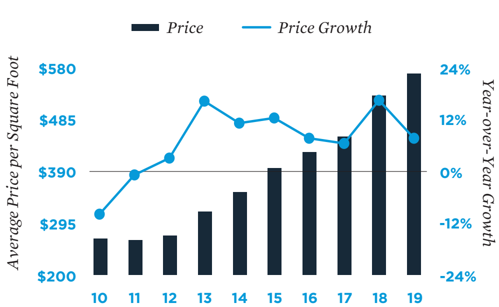

### Office Supply and Demand




### Vacancy and Rent Trends




### Sales Trends




**Forecast*

*Sources: CoStar Group, Inc.; Real Capital Analytics*

**Silicon Valley overcomes construction surge as vacancy returns to cyclical low.** The surge in development in 2017 pushed office vacancy over 13 percent, but strong demand supported a 230-basis-point drop in available space over the past two years and further tightening is anticipated in 2020. On the face, the sheer volume of office space underway is sufficient to raise concerns of a potential supply overhang in the coming year. However, the largest projects tend to be owner-user buildings, including two Google properties that account for approximately 25 percent of the space underway. Adobe and LinkedIn also spearhead large developments, which is generating pre-leasing levels close to 80 percent. On the demand side, tech firms remain committed to the area despite elevated costs for labor and real estate. Most of the large tech companies have sizable cash reserves, providing a healthy backbone for the market during this mature economic cycle.

**Lower-tier assets draw investor attention.** Since 2018, the average cap rate has remained stable at 5.1 percent, though prices have jumped significantly due to rapidly improving net operating income. While the market appears homogeneous, modest trends emerge below the surface. Buyers are acquiring 50 percent larger Class C assets than two years ago as leasing concerns have abated in the wake of the latest round of speculative construction. Furthermore, the average vacancy in newly acquired properties has declined in both the Class B and C segments. Although some of the decrease can be attributed to the limited availability of value-add deals, other factors contribute to the change. Namely, investors are more bullish on the future of the market and eagerly purchase properties with below-market rents that can be repositioned as existing leases expire. Much of the demand for Class C space will be derived from firms that support the tech giants.

### 2020 Market Forecast

**NOMI Rank**
3, no change
Strong demand tightening vacancy keeps San Jose at third place in the NOMI.

**Employment**
up 1.7%
Nearly half of the 20,000 new jobs anticipated for this year are in office-using sectors, which will expand 2.5 percent.

**Construction**
5.1 million sq. ft.
Builders will lift inventory 4.2 percent this year, though strong pre-leasing minimizes the potential impact of supply additions.

**Vacancy**
down 100 bps
Vacancy retreats to 8.7 percent by year end, surpassing a previous cyclical low from the end of 2015.

**Rent**
up 3.3%
The average asking rent regains some traction and reaches $53.73 per square foot in 2020. Last year, the asking rent improved 0.7 percent in the South Bay.

**Investment**
Most of the upside potential in the market may lie with properties that have tenant rosters secured under medium-term leases. Operators with impending rollovers have proved to be reluctant sellers due to improving fundamentals.

## Tech Giants Absorbing Large Blocks of Space, Muting Impact of Elevated Construction

**Tight vacancy persists as tech demand remains robust.** Construction remains elevated, surpassing the pace of additions from the previous cyclical peak in 2015 and 2016. Currently, underway stock represents more than 4 percent of existing inventory, which may eventually test structural demand for office space. Near-term pressure is limited as pre-leasing approaches 80 percent and several large leases continue to be signed. Last year, 14 leases were inked for more than 100,000 square feet each, amounting to 2.8 million square feet of space. Apple, Amazon and Facebook are among the prominent firms swallowing large blocks of available space. Microsoft is also expanding its Redmond Campus to make room for an additional 8,000 employees in the next few years. Sufficient demand for Class A space is encouraging some traditional office users into lower-tier properties. As such, scarcity may emerge for Class B/C space in the metro during this economic cycle.

**Investors expanding portfolios in the market.** Institutional capital raised its presence in the market last year, lifting Class A sales velocity by more than 50 percent. Not only did more sales transact, the average size of top-tier properties climbed by approximately 60 percent as institutions and large tech companies banked on the positive long-term prospects in the market. First-year returns for stabilized Class A properties average close to 5 percent. At the other end of the spectrum, private, local buyers elevated sales velocity for Class C assets. Listings near downtown and the Northend generate multiple bids, as investors eye value-add opportunities. Average vacancy for Class C deals was elevated in 2019, a trend that's likely to continue into this year. Buyer interest in mid-tier properties is shifting away from value-add toward more stabilized properties. A lack of assets with a significant vacancy factor and elevated prices in the top-tier are contributing to this evolution in investor interest.

### 2020 Market Forecast

**NOMI Rank** 2, down 1 place — A decline in employment growth and a vacancy rate hovering near 8 percent push Seattle down one place in the ranking.

**Employment** up 2.3% — After adding 64,100 jobs during 2019, employers are generating 50,000 new spots this year. Office-using employment grows 3.2 percent, or by 17,500 positions.

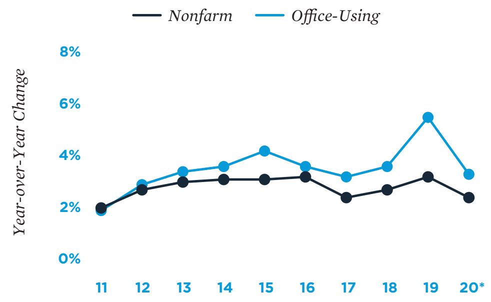
**Construction** 6.4 million sq. ft. — Developers expand stock 3.4 percent this year, up from the 2.1 percent growth in 2019 when 3.8 million square feet was constructed in the metro.

**Vacancy** down 30 bps — Vacancy tightens to 7.7 percent in 2020, near the lowest level of the current cycle. Last year, the rate rose 40 basis points.

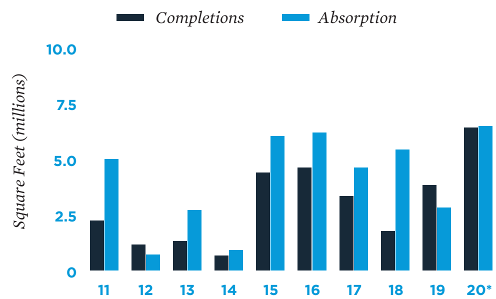
**Rent** up 6.5% — The average asking rent soars to $40.19 per square foot in 2020, building on the 8.4 percent gain in 2019.

**Investment** — Investors move down the quality scale in an attempt to find value-add opportunities while stabilized Class A and Class B properties draw out-of-state capital.

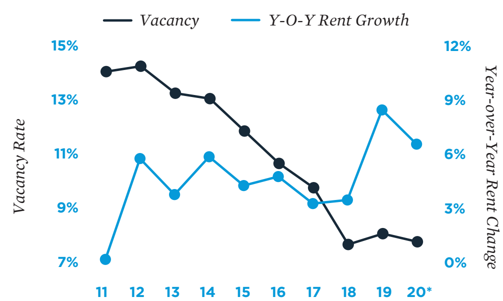
#### Employment Trends




#### Office Supply and Demand



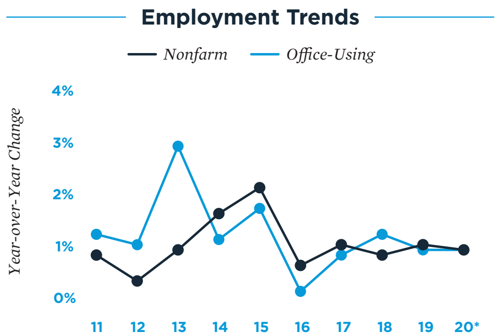

#### Vacancy and Rent Trends

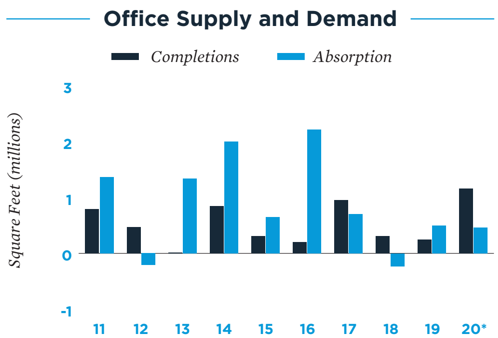


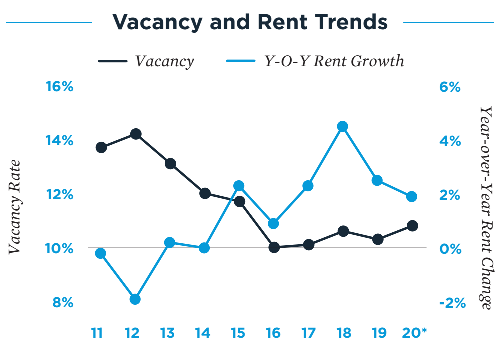

#### Sales Trends

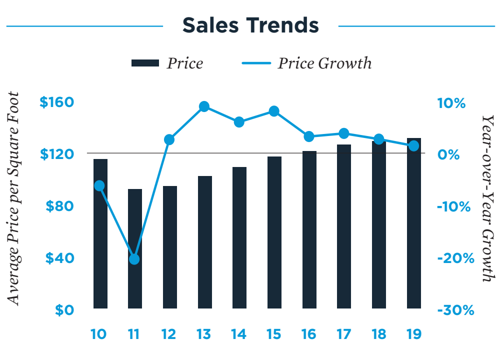

* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics




*Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

## Vacancy Holds Below Long-Term Average Amid Trio of Larger Deliveries; Deal Flow Strongest in Suburbs

**Dual industries propel office demand.** Employment growth in St. Louis is expected to remain consistent during 2020, differing the market from other Midwest metros that will experience a moderation in hiring velocity this year. The strength of St. Louis' healthcare and tech sectors will support the steady pace of job creation, equating to a stable uptick in higher-paying jobs. Centene will lead the way, expanding staffs as it occupies most of a 660,000-square-foot development in Clayton. Mobile payment-processing company Square also plays a role, expanding its local workforce by up to 900 workers after relocating operations to the former *St. Louis Post-Dispatch* building. Medical and tech-related firms seeking newly built space proximate to downtown are likely to pursue floor plans at Armory District and City Foundry, two redevelopments of historical industrial sites. Leasing activity by firms within these sectors allows for a second consecutive year of positive absorption. Still, the metro's vacancy rises moderately in 2020, holding in the 10 percent range, with availability in the Class B/C segment notably below this average.

**Higher-quality assets lure buyers to suburban markets.** While asset values trail the previous cyclical peak and the metro's average cap rate hovers in the mid-8 percent range, private buyers will continue to pursue acquisitions. Outlying and closer-in western suburbs remain a primary target for investors seeking upper-tier buildings. Home to an AgTech innovation district, Creve Coeur and nearby Chesterfield offer buyers opportunities to acquire Class A and B properties at pricing that exceeds $150 per square foot. Closer to the core, Clayton represents an additional locale for Class B listings, with Brentwood offering local investors an inventory of Class C assets for less than $2 million. In the CBD, sub-$100 per square foot pricing and 8 percent returns are prevalent for smaller Class B and C assets, some of which are loft/creative space or redevelopment plays.

### 2020 Market Forecast

**NOMI Rank**
39, up 1 place
St. Louis' average asking rent will steadily increase, raising the metro's place slightly in the Index.

**Employment**
up 0.9%
Metro employers expand payrolls by 13,000 positions in 2020, a slight moderation in hiring velocity following the addition of 14,300 jobs last year.

**Construction**
1.2 million sq. ft.
Supply additions exceed the 1 million-square-foot mark for the first time since 2009.

**Vacancy**
up 50 bps
On absorption of 460,000 square feet of space, vacancy climbs to 10.8 percent. In 2019, a drop of 30 basis points was recorded.

**Rent**
up 1.9%
The average asking rent elevates to $20.29 per square foot, yet the pace of rate growth trails the prior three-year average of 3.1 percent.

**Investment**
A recent span of strong absorption has reduced vacancy in St. Charles County to a historically low level, allowing for above-average rent growth. These market conditions attract investors seeking Class B and C properties with upside potential.

## Tight Vacancy Prompts Construction Pipeline Expansion; New Inventory Draws Additional Buyers

**Skilled labor force, favorable tax rate and quality of life luring businesses.** Employers moving to and expanding in Tampa Bay have created a healthy demand for office space amid a restrained delivery schedule over the past 10 years. As a result, vacancy is resting near the cyclical low, encouraging a boost in construction. During 2020, inventory additions will maintain last year's heightened pace and approximately 70 percent of the space is already pre-leased, lessening the impact on vacancy. Nonetheless, multiple buildings entering lease-up at once may temporarily nudge vacancy up and suppress rent growth in some submarkets. Heights Union is the largest development due in 2020. The project in downtown Tampa encompasses two buildings, each at 150,000 square feet with AxoGen and WeWork as major tenants. Speculative construction is also on the rise with nearly 900,000 square feet underway. The majority of space is in the prominent downtown Tampa and Westshore neighborhoods and is expected to be delivered in 2021.

**Robust economy and elevated yield potential attract Tampa-St. Petersburg investors.** Higher cap rates at lower entry costs than larger Florida markets are keeping a wide range of buyers focused on the metro. A surge in transactions over the past 24 months have dwindled the supply of available properties, which may slow buying activity in 2020. Institutional investors are especially active in the Westshore and downtown Tampa neighborhoods, as well as near the Carillon office park in St. Petersburg. Many are targeting Class A buildings at cap rates that typically start in the 5 percent range. Buyers searching for higher returns can find average first-year yields above 7 percent for older multi-tenant Class B/C buildings with less than 40,000 square feet throughout the metro. Vacancy for these classes rests in the single digits in the majority of submarkets and over the past 12 months these assets traded at an average of $110 per square foot.

### 2020 Market Forecast

**NOMI Rank** 13, up 3 places — Average asking rent growth remains one of highest rates in the nation, lifting Tampa-St. Petersburg in the ranking.

**Employment** up 2.3% — Employment growth climbs from last year's 2.2 percent gain as 32,100 workers are added to payrolls in 2020.

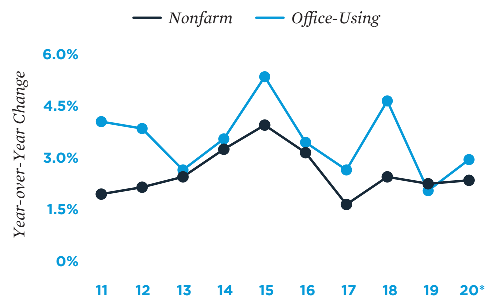
**Construction** 900,000 sq. ft. — Matching the finalization of 900,000 square feet last year, completions maintain the highest level since 2009. The city of Tampa will receive nearly 500,000 square feet.

**Vacancy** down 30 bps — Absorption outpaces deliveries in 2020, tightening vacancy to 10.2 percent, the lowest level of the cycle.

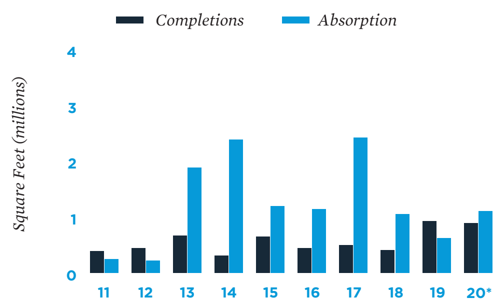
**Rent** up 4.6% — A lack of existing available space and new speculative buildings will drive the average asking rent to $25.26 per square foot at year end, building on last year's 4.8 percent climb.

**Investment** — Medical office assets will remain the focus of many investors. During the past 12 months, buyers in the $1 million to $10 million price tranche paid an average of $218 per square foot.

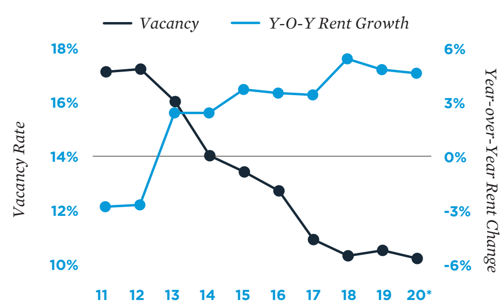
**Employment Trends**



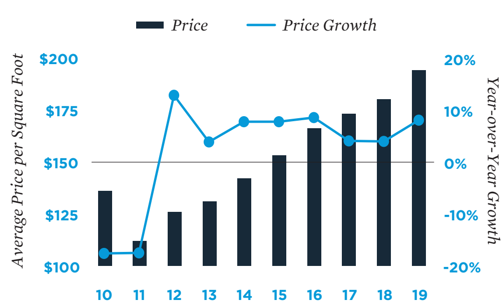

**Office Supply and Demand**




**Vacancy and Rent Trends**




**Sales Trends**

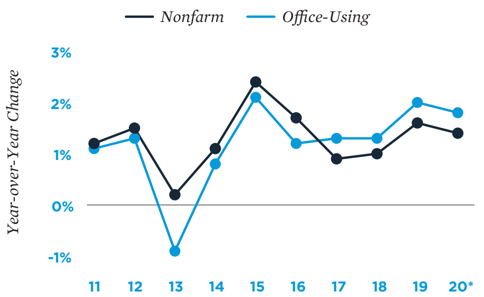



* Forecast

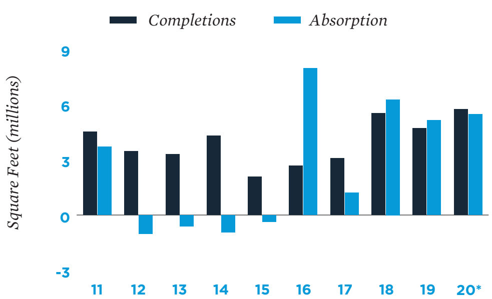
Sources: CoStar Group, Inc.; Real Capital Analytics

# Technology Sector Driving New Leasing; Vacancy Falls To Multiyear Low Despite Increased Construction

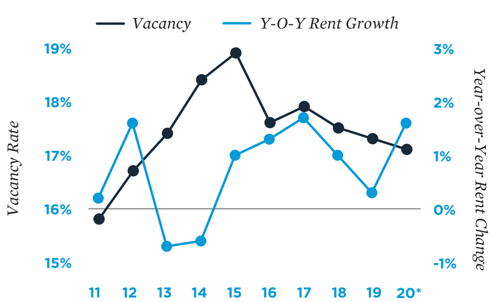
### Employment Trends




### Office Supply and Demand




### Vacancy and Rent Trends




### Sales Trends


**Forecast*

*Sources: CoStar Group, Inc.; Real Capital Analytics*

**Diversifying economy supports office leasing, pushing vacancy closer to cycle low.** Washington, D.C.'s economy has long been centered around the federal government, but that focus is beginning to shift. More public agencies are scaling back on space and consolidating offices, while new private organizations are entering the metro, including technology companies such as Amazon. The e-commerce giant is building a campus in National Landing while its Web Services division is expanding its presence in the Dulles Corridor. Consultancies, law firms, and government contractors are also prominent office lessors, supporting an overall improvement in absorption activity this year compared with 2019. The added demand will help tighten the metrowide vacancy rate to 17.1 percent, its lowest level since 2012, despite the largest annual construction pipeline since 2009. More than 2 million square feet will open within the District and in Northern Virginia, especially in Capitol Hill, Reston and along State Route 28.

**Growing employment hubs entice new transactions.** Multiple well-established sources of office tenant demand continue to foster investment into the property type. A growing technology presence in Crystal and Pentagon cities as well as the planned Virginia Tech satellite campus in Potomac Yard are likely fueling increases in sales velocity in nearby Alexandria. A plethora of government agencies and professional service firms seeking the highest-quality space encourage institutions targeting trophy assets to look in the core District neighborhoods surrounding the National Mall and Capitol. Cap rates on these trades often fall below 6 percent, with sales prices sometimes exceeding $1,000 per square foot. Investors looking for higher first-year returns or lower entry costs have found opportunities in suburban Maryland. Overall, 2019 was one of the more active years in this business cycle for office transactions, and sentiment continues to be positive for 2020.

## 2020 Market Forecast

**NOMI Rank** 25, down 1 place — D. C.'s average vacancy rate remains one of the top five highest in the nation, lowering the metro in the NOMI.

**Employment** up 1.4% — Employers will add about 47,100 jobs this year, about 18,300 of which will be in traditionally office-using roles.

**Construction** 5.7 million sq. ft. — Approximately 1 million more square feet will be delivered in 2020 than completed last year, surpassing total openings from 2018 to mark a new cycle-high level of arrivals.

**Vacancy** down 20 bps — Vacancy will decline for the third consecutive year to 17.1 percent in 2020, bolstered by triple-digit vacancy contractions in parts of suburban Virginia and Maryland.

**Rent** up 1.6% — The average asking rent will advance to $38.61 per square foot following a tepid 0.3 percent growth rate in 2019.

**Investment** — Foreign investment in office assets continues to represent a notable portion of overall trading activity. Buyers from Switzerland and Singapore stepped up their acquisitions in 2019.

## Investors Turn to Palm Beach County as a Safe Haven for Long-Term Office Acquisitions

**Steady improvement marks West Palm Beach office market.** Vacancy resumes its descent following a pause last year. After developers largely bypassed Palm Beach County during this cycle, supply additions are beginning to inch higher. The pace of deliveries increases again this year after reaching the highest level in a decade in 2019. Nonetheless, a supply overhang is not anticipated due to well-spaced completions and sufficient leasing activity. Office space demand will climb 1.4 percent in 2020, outpacing construction by 50 basis points. Although pre-leasing falls short of 50 percent for underway properties, the two largest projects are not scheduled for delivery until 2021 and account for more than half of the uncommitted space. Several smaller leases signed by a wide variety of companies in the county are pulling occupancy higher. The diverse economic base and steady population growth are translating into improvement in office fundamentals, particularly for Class B/C owners.

**Stabilized assets attract investors with long-term hold strategies.** Buyers are targeting Class B properties with secure tenant rosters in an effort to park capital through the end of the current economic expansion and ride through a future downturn. These trades account for most of the investment activity in the county, and average vacancy at properties in these deals is nearly half the level than in deals involving Class A and C assets. Boca Raton, North Palm Beach and West Palm Beach represent more than half of Class B deals with cap rates in the mid-6 percent range. Local investors and owner/users remain active with Class C properties, targeting assets that have value-add potential. Most of these are relatively small and located in Delray Beach and West Palm Beach. At the top of the market, a handful of properties change hands each year, though deal flow is hampered by the lack of new construction.

### 2020 Market Forecast

**NOMI Rank** 32, down 2 places — A slowdown in employment growth and vacancy rate near 13 percent push the metro down slightly in the NOMI.

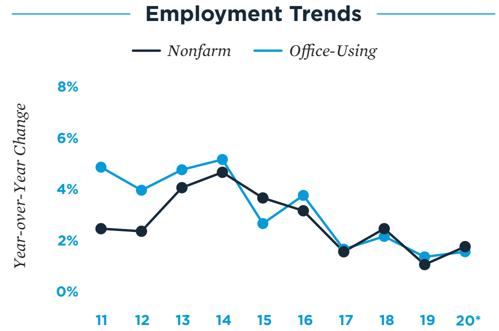
**Employment** up 1.7% — Payrolls expand by 10,800 positions this year, eclipsing the 6,100 spots created last year. Office-using employment gains 2,600 positions, or 1.5 percent.

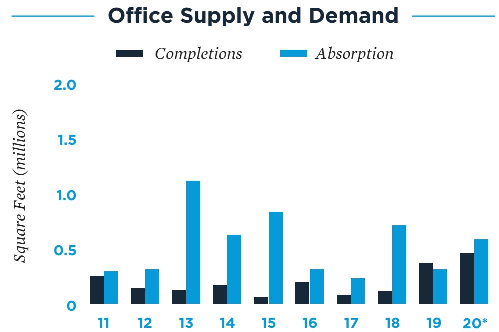
**Construction** 460,000 sq. ft. — Construction increases again this year as developers ramp up activity in the county. Last year, 370,000 square feet was delivered in the market.

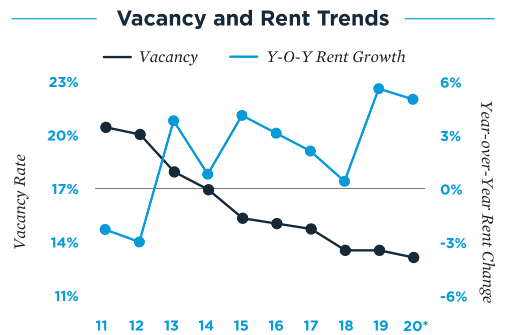
**Vacancy** down 40 bps — Average vacancy resumes a downward trajectory, falling to 13.1 percent by year end. Last year, the rate was flat.

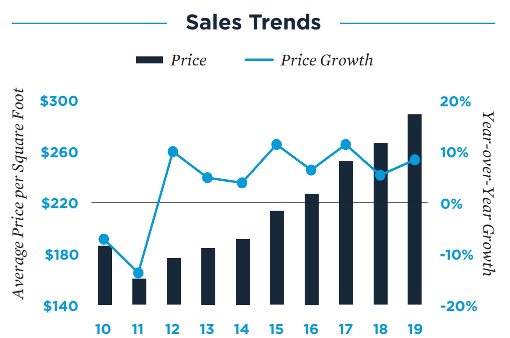
**Rent** up 5.0% — Rent growth is above average in the county. After a 5.6 percent rise in 2019, the average asking rent will climb to $32.00 per square feet.

**Investment** — The county's aging demographics attracts medical office users and investors, particularly in the North Palm Beach and West Palm Beach areas.



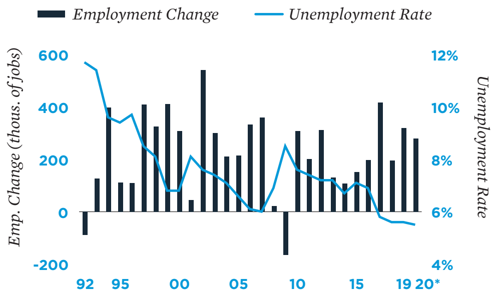



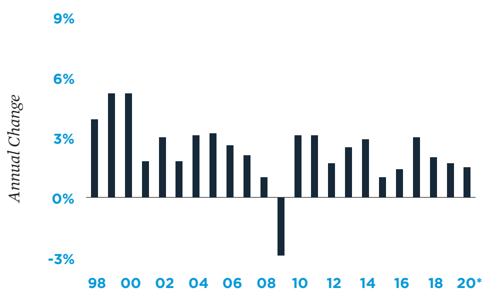

* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

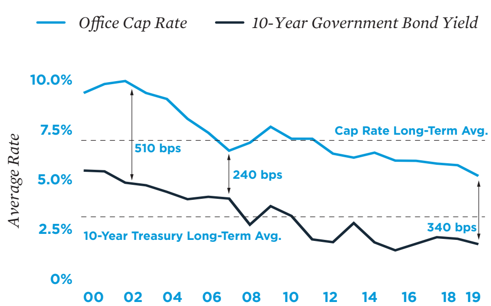
Employment vs. Unemployment



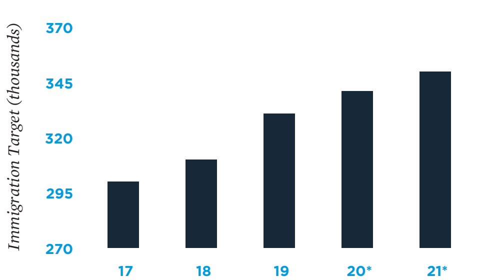

GDP Change




Canadian Office Cap Rate Trends




Canada Lifts Immigration Target




** Forecast*

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## Low Unemployment and Robust Immigration to Underpin Canada's Extended Economic Growth

**Healthy labour market powers economy through 2020.** Canada's immigration-backed population surge continues to reinforce employment growth, bolstering housing demand and extending the current economic expansion. The nation recorded a resurgence in job growth last year with employers adding approximately 320,000 workers to company payrolls, even as the unemployment rate hovers near its lowest reading in more than 40 years. A tight labour market has lifted competition for qualified talent, creating more churn in the workforce and pressuring average hourly wages to breach the 3 percent level at the end of last year, rising above the trend line. A more open immigration policy in contrast with the United States will remain a major source of economic growth this year, motivating international companies and emerging tech firms to expand their presence across the country.

**Bank of Canada holds upbeat outlook of global and domestic economy.** A strong job market, a pickup in business investment and evidence of a stabilizing global economy led the Bank of Canada to hold its key interest rate at 1.75 percent last year. The Canadian economy remains resilient heading into 2020 after bucking the trend of Central Banks cutting rates in 2019, leaving the nation with the highest overnight rate among advanced economies. With core inflation at target in the 2 percent range, implying the economy is operating at capacity, there remains little evidence the Bank of Canada will cut rates in the near term. While economic headwinds do remain present, upside potential comes in the form of the new North American trade deal that is poised for ratification this year.

## 2020 Canadian Economic Outlook

**Canada's economy largely insulated from ongoing trade challenges.** While the trade war has given rise to uncertainty, tariffs in place are primarily focused on the manufacturing sector, leaving the roughly 80 percent of Canada's economy that is services based untouched. The IT services sector has been the nation's leading growth sector in exports, expanding by more than 7 percent on an annual basis. As the CUSMA nears approval this year, the new trade deal could provide a cushion to extend economic growth as uncertainties ease and a rise in business investment is more likely.

**Hunger for yield bolsters the dollar.** Global investors' appetite for yield has boosted the purchase of Canadian bonds, compressing the risk-free rate and strengthening the loonie. The 10-year government bond yield rested at roughly 1.6 percent late last year, widening the spread between the average office cap rate to 350 basis points. The Canadian dollar has been relatively stable in contrast with the U.S. dollar, though against other currencies there has been greater strength and appreciation, which could weigh on exports. Should this dynamic materialize over the course of the year, a downside risk of inflation not reaching its 2 percent target may emerge.

**Rising immigration fuels economic expansion.** Canada has lifted its immigration targets from 300,000 to 340,000 over the next several years, driving employment growth as the nation faced more than 400,000 job vacancies at the onset of 2020. Tech firms including Microsoft, Google and Amazon are moving to boost hiring and retention efforts across the nation, stoking greater wage gains as companies are in competition for talent.

## A Global Competitor for Expanding Tech and Innovation Industries, Canada Captures Office Investors' Attention

**Deep pool of tech talent supports firms to expand Canadian operations.** Rapid growth of Canada's digital economy over the past decade cements the nation's standing as a global innovator in the tech industry, driving demand for skilled talent and powering the office sector through 2020. A simpler visa system in contrast with the United States, top-tier universities with vast STEM programs coupled with government subsidies have opened the door for many tech firms to extensively grow their Canadian workforce. Major tech titans are drawn to markets such as Montreal for its prominence as global hub for artificial intelligence research and Vancouver with its dominance in digital media, among other markets. Firms including Amazon, Google and Microsoft have signed on for new office space across the country with plans to add thousands of in-demand digital roles this year, contributing to tight operations and a healthy outlook for office properties.

**Much-needed wave of supply coming this year.** Firms are being met with a lack of suitable space on the market as they work to grow their office footprint, cutting net absorption last year nearly in half compared with the prior period. With roughly 6.7 million square feet absorbed in 2019, the national vacancy rate fell 50 basis points to an exceptionally tight 6.2 percent at the end of 2019. Vacancy is anticipated to remain unchanged this year as developers are set to create more supply than they have in three years with the completion of nearly 8.9 million square feet. Inventory growth will be headlined by Toronto, where more than 5 million square feet will open this year, followed by 2.5 million square feet in Vancouver.

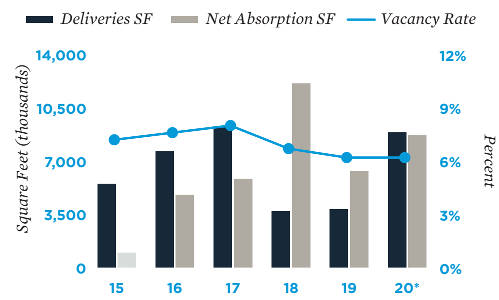
## 2020 Canadian Office Outlook

**Growing sentiment beyond the urban core boosts liquidity in the suburbs.** Private investors are finding more opportunities in suburban areas, drawn by strong first-year yields, entry-level pricing and potential remaining upside. With operations exceptionally tight across many markets, more companies are eyeing suburban offices for their lower costs and ability to attract and retain talent. Institutional buyers are migrating more capital to suburban markets as well, preferring properties that offer access to mass transit and walkability.

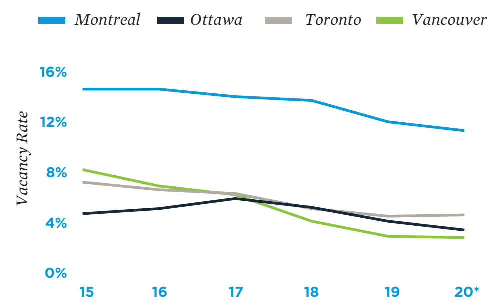
**Tight availability boosts pre-leasing activity.** Amazon inked the largest lease in the country last year when they signed on for all 1.13 million square feet of the Post redevelopment site in Vancouver, highlighting the tech industry's progression. Beyond other major leases signed by tech firms, banks and telecommunication companies drove office demand in 2019 as well, often choosing to pre-lease at new developments in order to secure a larger space in a modern building. Firms in expansion mode challenged with finding updated offices with amenities and sizable contiguous space will find relief in the approximately 20 million square feet working its way through the pipeline.

**Elevated confidence sustains transaction velocity.** Investor perceptions were carried higher by strong employment trends and robust property fundamentals, contributing to healthy sales activity and deal volume climbing past $8.3 billion last year. Rapid appreciation in some of the major markets coupled with a healthy appetite for properties that met acquisition criteria led to a 60-basis-point reduction to the average cap rate nationally, falling to the low-5 percent band. With initial yields tightening in the most popular markets, buyers will widen their search parameters to secondary and tertiary markets, including Ottawa and Edmonton.

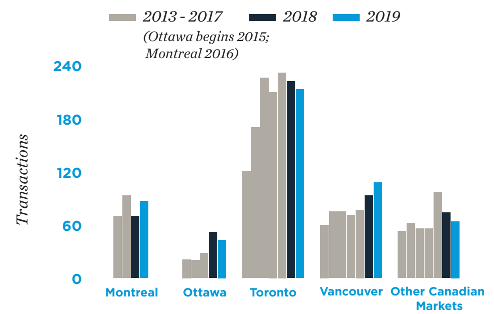
### Office Supply and Demand



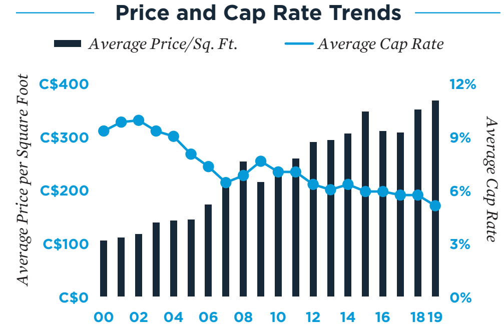

### Vacancy by Metro




### Canadian Office Transactions




### Price and Cap Rate Trends




* Forecast

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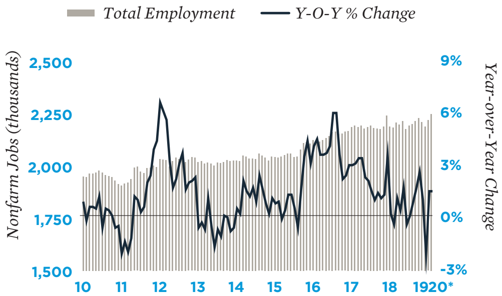
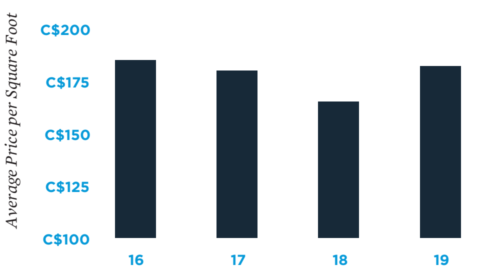
## Greater Montreal Area

### Employment Trends




### Sales Trends




## Technology Firms Underpin Market Demand; Innovative Spaces Sought by Tenants and Investors

**Burgeoning tech sector driving office demand in Canada's second-largest economy.** Montreal will have another strong year of leasing in 2020 as global corporations move in and expand within the market. The diminishing availability of space downtown is dispersing tenants into neighborhoods along transit lines. This outward movement has been a catalyst in transforming Mile-Ex from an industrial district into a bustling technology corridor. A plethora of firms including Facebook, Samsung and Google have established artificial intelligence labs here over the past few years. As the area is now saturated with a talented labor pool and creative workspaces, demand will be elevated for office space in Mile-Ex going forward. As a whole, Montreal's vacancy rate will drop 80 basis points to 11.1 percent in 2020, ending the year 350 basis points below the rate posted in 2016.

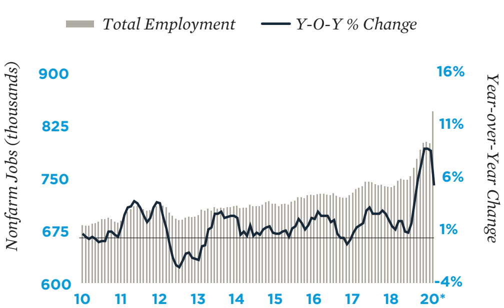
### 2020 Market Forecast

**Rent Growth** up 2.2% — The average rental rate will move up to C$29.25 per square foot in 2020, building on the 2.4 percent gain recorded in the previous year.

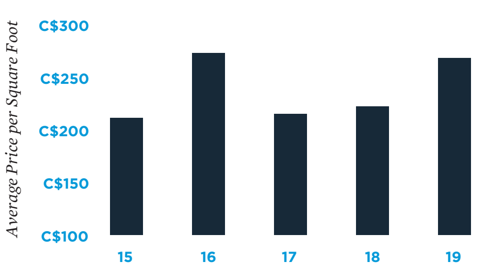
**Investment** — At relatively obtainable entry costs, Class C assets can be renovated and modernized to appeal to technology-based tenants. Private investors look to Ahuntsic-Cartierville for value-add.

## Greater Ottawa Area

### Employment Trends




### Sales Trends




* Forecast

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## Sparse Construction and Strong Leasing Limit Available Space; Rent Growth Lagging

**Technology, government and coworking firms filling inventory.** Deliveries will more than double last year's meager pace as 166,100 square feet is scheduled for completion in 2020. The largest building is a 100,000-square-foot research and development facility for Ford Motor Co. in Kanata that is expected to house 300 workers. Additional leasing activity by businesses that include tech firm Satcom Direct, coworking company Spaces and various government agencies will result in the vacancy rate falling to the lowest level since the beginning of 2015. Inventory gains will remain restrained as builders have less than 200,000 square feet slated for delivery next year. Limited completions will hold vacancy tight in the quarters ahead, although tenants moving out of older space into new offices will inhibit larger asking rent advances this year.

### 2020 Market Forecast

**Rent Growth** down 0.6% — A modest inventory gain amid strong leasing tightens vacancy 70 basis points to a five-year low of 3.4 percent in 2020. Older space available for lease will result in the average asking rent rising 0.8 percent to C$31.36 per square foot at year end.

**Investment** — The completion of the Confederation light-rail line in the third quarter of 2019 will keep investors interested in properties within walking distance of stations along the route.

## Myriad of Office Skyscrapers Forthcoming; Low Availability Downtown Boosting Suburban Demand

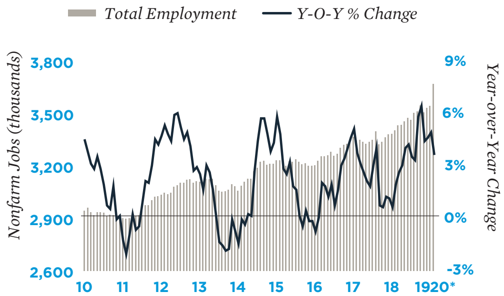
**Tight conditions persist amid record-level deliveries.** A healthy construction pipeline will bring much-needed space to the market in 2020. Roughly 5.4 million square feet will be completed, surpassing last year's total by nearly 4.2 million square feet. Despite the sizable incoming supply, vacancy will rise in moderation as the majority of large-scale projects are build-to-suit. Additionally, speculative space has leased up quickly in downtown Toronto as expanding financial and technology firms pursue newly built top-tier office space. Startups and incubators collaborating with these companies are boosting Class B and C leasing activity. With overall downtown vacancy near 2-percent, many of these mid-size tenants are searching outward. To the north, Vaughan and Markham are in high demand, and competition for limited suitable space is elevating rental gains.

### 2020 Market Forecast

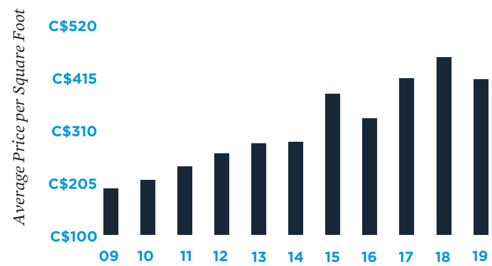
**Rent Growth** up 3.3% — The average rent reaches C$40.83 per square foot in 2020. Rental gains have exceeded 3 percent every year since 2016.

**Investment** — Urbanized suburbs along major thoroughfares have investment appeal as tenants move out of the core. Investors often look southwest to Mississauga and Oakville, where initial returns average 50 to 100 basis points above downtown Toronto assets.

Employment Trends




Sales Trends






## New Development on Tap for North America's Tightest Office Market, Sustaining Investor Sentiment

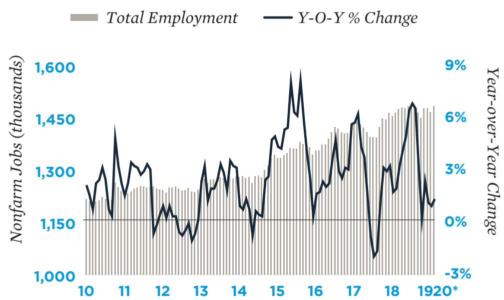
**Office space rapidly shrinking as tech firms expand operations in Vancouver.** Healthy job gains and a maturing tech ecosystem have Vancouver's office sector firing on all cylinders moving into the next decade. With government backing to become a Digital Technology Supercluster and minimal supply gains this cycle, the metro's vacancy rate has been cut by nearly two-thirds in just four years. Firms including Amazon have made sizable commitments to the GVA, signing on for all 1.13 million square feet at the Post redevelopment opening in 2023. Apple has leased a large swath of space across the street at 400 W. Georgia, a 24-story tower set for completion this year that has also inked deals from Deloitte and coworking firm Spaces. Developers are underway on 5.5 million square feet as they work to meet demand, the highest level in more than five years.

### 2020 Market Forecast

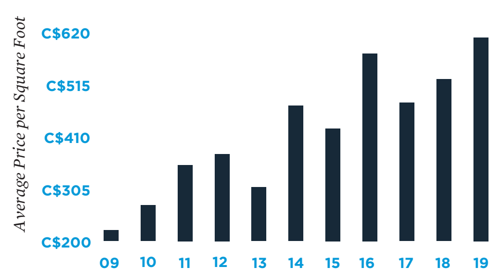
**Rent Growth** up 1.4% — Budding demand amid tight market conditions lift the average asking rent to C$44.83 per square foot. Last year a 3.1 percent growth rate was recorded.

**Investment** — A competitive bidding environment and elevated pricing encourage private buyers to look beyond the core to smaller suburban office complexes.

Employment Trends




Sales Trends




* Forecast

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*1 National Office Market Index Note: Employment and office data forecasts for 2020 are based on the most up-to-date information available as of January 2020 and are subject to change.*

*2 Statistical Summary Note: Metro-level employment, vacancy and asking rent are year-end figures and are based on the most up-to-date information available as of January 2020. Asking rent is based on the full-service marketed rental rate. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at $1,000,000 and greater unless otherwise noted. Forecasts for employment and office data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guaranty, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.*

*Sources: Marcus & Millichap Research Services; Altus Group; American Council of Life Insurers; Bank of Canada; Blue Chip Economic Indicators; Bureau of Economic Analysis; Canada Statistics; Commercial Mortgage Alert; CoStar Group, Inc.; Emergent Research GCUC; Irving Levin Associates; Moody's Analytics; Federal Reserve; Real Capital Analytics; RealNet; Standard & Poor's; Statistics Canada; PNC Healthcare; The Conference Board; Trepp; TWR/Dodge Pipeline; U.S. Bureau of Labor Statistics; U.S. Census Bureau; U.S. Department of Health and Human Services; U.S. Securities and Exchange Commission; U.S. Treasury Department.*

## Institutional Property Advisors Overview

Institutional Property Advisors is a boutique brokerage platform dedicated to serving the needs of institutional and major private investors.

- A distinct national network of institutionally qualified, senior-level advisors
- Relationships between our agents and clients managed to the preference of the client
- Acquisition opportunities, information and market research delivered through a state-of-the-art marketing and communications platform
- Access to the largest pool of private and institutional capital sources in the industry facilitated through an extensive national database
- Capital markets services provided by senior advisors with IPA Capital Markets

## Our Mission

At Institutional Property Advisors, our mission is to develop a long-term advisory relationship with major private and institutional investors to help them maximize total returns and meet their broader objectives.

2020 U.S. Office Investment Forecast

| Market Name | Employment Growth[2] | | | | Completions (000s of Sq. Ft.) | | | | Net Absorption (000s of Sq. Ft.) | | | | Vacancy Rate | | | | Asking Rent per Sq. Ft. | | | | Average Price Per Sq. Ft. | | | Market Name |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020* | 2017 | 2018 | 2019 | 2020* | 2017 | 2018 | 2019 | 2020* | 2017 | 2018 | 2019 | 2020* | 2017 | 2018 | 2019 | 2020* | 2017 | 2018 | 2019 | |
| Atlanta | 2.9% | 1.8% | 2.1% | 1.3% | 3,000 | 2,900 | 2,700 | 3,800 | 410 | 2,000 | 4,100 | 2,600 | 15.7% | 15.8% | 15.2% | 15.4% | $23.36 | $24.22 | $25.56 | $26.71 | $162 | $185 | $199 | Atlanta |
| Austin | 5.0% | 4.2% | 4.3% | 2.0% | 2,700 | 3,600 | 2,400 | 4,700 | 3,000 | 3,200 | 2,100 | 3,900 | 11.2% | 11.1% | 11.1% | 11.4% | $32.93 | $34.64 | $36.18 | $37.34 | $296 | $321 | $346 | Austin |
| Baltimore | -0.1% | 1.8% | 3.0% | 2.4% | 1,100 | 1,100 | 640 | 510 | 1,900 | 1,200 | 1,000 | 590 | 12.9% | 12.7% | 12.4% | 12.3% | $23.71 | $23.30 | $23.06 | $23.13 | $151 | $160 | $162 | Baltimore |
| Boston | 1.4% | 1.0% | 1.8% | 1.6% | 2,900 | 3,400 | 1,900 | 3,900 | 6,100 | 4,800 | -950 | 2,700 | 11.6% | 11.0% | 11.9% | 12.1% | $33.75 | $32.60 | $33.27 | $34.33 | $283 | $300 | $323 | Boston |
| Charlotte | 2.8% | 2.7% | 4.7% | 2.9% | 2,500 | 670 | 3,000 | 2,200 | 1,900 | 1,800 | 2,500 | 2,200 | 11.8% | 10.5% | 10.7% | 10.5% | $24.21 | $25.72 | $27.55 | $29.19 | $201 | $219 | $239 | Charlotte |
| Chicago | 1.2% | 0.8% | 0.0% | 0.7% | 4,000 | 2,900 | 4,800 | 4,000 | 4,300 | 5,900 | 5,000 | 2,500 | 16.7% | 15.9% | 15.7% | 15.9% | $24.67 | $25.46 | $26.20 | $27.09 | $169 | $184 | $195 | Chicago |
| Cincinnati | 0.0% | 3.0% | 3.7% | 1.1% | 650 | 300 | 200 | 380 | 430 | 490 | 930 | 770 | 12.5% | 12.2% | 11.4% | 10.9% | $16.70 | $16.19 | $17.13 | $17.40 | $108 | $111 | $109 | Cincinnati |
| Cleveland | 0.9% | -0.4% | 4.2% | 1.8% | 340 | 860 | 330 | 100 | 2,400 | 1,100 | 640 | 380 | 12.1% | 11.8% | 11.5% | 11.2% | $17.46 | $18.03 | $17.99 | $18.31 | $96 | $100 | $102 | Cleveland |
| Columbus | 0.3% | 1.0% | -0.6% | 0.5% | 1,500 | 1,300 | 780 | 690 | 1,000 | -350 | 1,500 | 800 | 9.9% | 11.5% | 10.7% | 10.5% | $18.84 | $18.94 | $19.06 | $19.59 | $109 | $115 | $121 | Columbus |
| Dallas/Fort Worth | 2.0% | 2.5% | 4.4% | 2.8% | 9,600 | 6,400 | 7,700 | 3,900 | 5,700 | 4,700 | 7,800 | 4,800 | 18.7% | 18.8% | 18.4% | 17.9% | $25.01 | $25.57 | $26.07 | $26.83 | $195 | $209 | $211 | Dallas/Fort Worth |
| Denver | 2.8% | 2.6% | 2.8% | 2.3% | 2,600 | 4,000 | 1,500 | 2,300 | 3,400 | 3,100 | 1,400 | 1,400 | 14.2% | 14.4% | 14.3% | 14.6% | $25.76 | $26.17 | $26.77 | $27.36 | $187 | $209 | $219 | Denver |
| Detroit | 0.3% | 1.2% | -0.4% | 0.0% | 890 | 670 | 550 | 1,200 | 3,000 | -430 | 1,000 | 690 | 14.8% | 15.5% | 15.1% | 15.3% | $19.40 | $19.60 | $20.45 | $21.10 | $118 | $127 | $128 | Detroit |
| Fort Lauderdale | 2.6% | 3.4% | 0.9% | 2.0% | 710 | 440 | 430 | 980 | 2,000 | 370 | -48 | 580 | 12.6% | 12.6% | 13.3% | 13.7% | $26.53 | $28.39 | $28.96 | $29.74 | $216 | $221 | $242 | Fort Lauderdale |
| Houston | 2.7% | 2.2% | 4.2% | 2.7% | 4,200 | 1,600 | 2,100 | 2,600 | 2,700 | 1,200 | -320 | 1,500 | 20.2% | 20.2% | 20.9% | 21.1% | $28.81 | $28.88 | $29.31 | $29.54 | $183 | $194 | $192 | Houston |
| Indianapolis | 2.3% | -0.6% | -0.6% | 0.2% | 850 | 860 | 520 | 570 | 2,300 | 490 | 850 | 720 | 10.9% | 11.2% | 10.7% | 10.5% | $18.90 | $19.49 | $19.27 | $19.64 | $129 | $136 | $149 | Indianapolis |
| Kansas City | 1.1% | -0.7% | 0.6% | 1.0% | 1,000 | 620 | 840 | 1,400 | 2,000 | 860 | 1,300 | 1,700 | 10.2% | 10.0% | 9.5% | 9.2% | $18.81 | $19.53 | $20.19 | $20.88 | $130 | $137 | $146 | Kansas City |
| Las Vegas | 4.3% | 3.8% | 4.1% | 1.8% | 610 | 560 | 220 | 270 | 1,800 | 860 | 770 | 500 | 15.4% | 14.7% | 13.6% | 13.1% | $20.24 | $20.09 | $21.04 | $22.05 | $181 | $192 | $210 | Las Vegas |
| Los Angeles | 1.5% | 0.3% | 0.4% | 1.3% | 3,000 | 1,900 | 2,300 | 4,100 | 3,400 | 2,500 | 4,200 | 3,100 | 13.8% | 13.5% | 13.0% | 13.1% | $36.84 | $38.31 | $39.79 | $41.22 | $402 | $433 | $457 | Los Angeles |
| Louisville | -0.3% | -1.6% | 1.3% | 1.4% | 260 | 190 | 320 | 290 | 280 | 390 | 470 | 240 | 8.8% | 8.3% | 8.0% | 8.0% | $17.08 | $17.78 | $17.16 | $17.54 | $138 | $146 | $151 | Louisville |
| Miami-Dade | 2.3% | 1.8% | 0.9% | 1.6% | 820 | 1,200 | 360 | 1,500 | 1,100 | 700 | 590 | 990 | 11.9% | 12.3% | 12.0% | 12.4% | $33.49 | $34.83 | $34.92 | $35.65 | $302 | $324 | $329 | Miami-Dade |
| Milwaukee | 1.5% | -2.6% | 0.0% | 0.1% | 1,500 | 400 | 280 | 860 | 1,500 | 1,100 | -1,300 | 200 | 12.5% | 11.4% | 13.6% | 14.3% | $17.09 | $17.46 | $17.79 | $18.16 | $138 | $148 | $149 | Milwaukee |
| Minneapolis-St. Paul | 0.5% | 0.3% | -0.1% | 0.6% | 1,100 | 1,600 | 1,200 | 1,200 | 1,500 | 650 | 1,300 | 1,300 | 10.8% | 11.3% | 11.1% | 11.0% | $20.47 | $22.13 | $22.81 | $23.59 | $145 | $149 | $157 | Minneapolis-St. Paul |
| Nashville | 3.8% | 3.8% | 2.4% | 1.5% | 2,700 | 940 | 2,400 | 2,100 | 2,000 | 1,100 | 1,300 | 1,600 | 10.5% | 10.2% | 11.2% | 11.6% | $25.95 | $26.93 | $27.92 | $28.51 | $225 | $249 | $275 | Nashville |
| New Haven-Fairfield County | -1.6% | 0.8% | 1.4% | 0.4% | 230 | 77 | 670 | 630 | -370 | -390 | 990 | 620 | 17.9% | 18.4% | 17.9% | 17.8% | $30.06 | $28.75 | $28.92 | $29.12 | $199 | $216 | $227 | New Haven-Fairfield County |
| New York City | 2.5% | 1.3% | 1.3% | 1.0% | 2,600 | 4,500 | 11,300 | 8,300 | 4,700 | 5,100 | 4,900 | 5,600 | 10.7% | 10.6% | 11.3% | 11.6% | $60.00 | $60.58 | $62.01 | $63.25 | $608 | $611 | $612 | New York City |
| Northern New Jersey | 1.5% | -0.6% | -1.4% | -0.4% | 540 | 150 | 630 | 700 | 680 | 1,400 | 980 | 370 | 16.2% | 15.5% | 15.3% | 15.4% | $26.44 | $27.19 | $27.72 | $28.22 | $192 | $198 | $214 | Northern New Jersey |
| Oakland/East Bay | 1.3% | 2.0% | 3.1% | 1.5% | 170 | 730 | 1,400 | 350 | 430 | 620 | 460 | 1,600 | 11.6% | 11.6% | 12.3% | 11.0% | $35.21 | $38.42 | $40.02 | $43.22 | $313 | $333 | $358 | Oakland/East Bay |
| Orange County | 1.2% | 1.6% | 2.3% | 1.0% | 2,100 | 950 | 1,400 | 410 | 1,700 | 770 | 1,600 | 220 | 13.4% | 13.5% | 13.2% | 13.3% | $30.78 | $32.37 | $33.24 | $34.10 | $289 | $309 | $317 | Orange County |
| Orlando | 4.3% | 5.8% | 3.7% | 3.1% | 630 | 530 | 450 | 1,500 | 1,000 | 900 | 1,000 | 1,800 | 11.3% | 10.8% | 9.9% | 9.3% | $22.03 | $22.30 | $22.97 | $23.66 | $185 | $198 | $202 | Orlando |
| Philadelphia | 1.0% | -0.2% | 1.7% | 1.0% | 1,300 | 3,000 | 1,800 | 1,400 | 3,300 | 800 | 3,500 | 1,900 | 13.1% | 13.8% | 13.1% | 12.8% | $24.80 | $25.33 | $26.03 | $26.73 | $163 | $171 | $181 | Philadelphia |
| Phoenix | 3.3% | 2.7% | 1.7% | 2.1% | 2,200 | 1,300 | 3,400 | 2,400 | 4,300 | 1,200 | 4,800 | 3,100 | 16.3% | 16.2% | 15.0% | 14.4% | $23.68 | $25.18 | $26.06 | $27.10 | $183 | $204 | $214 | Phoenix |
| Pittsburgh | 0.2% | 1.4% | 1.4% | 0.4% | 590 | 250 | 840 | 1,200 | 1,300 | 1,000 | 270 | 1,600 | 11.9% | 11.2% | 11.6% | 11.2% | $22.08 | $21.88 | $22.05 | $22.38 | $142 | $144 | $146 | Pittsburgh |
| Portland | 2.0% | 0.3% | 3.4% | 2.8% | 480 | 1,800 | 120 | 2,000 | 940 | 1,000 | 220 | 2,000 | 9.3% | 10.1% | 9.9% | 9.7% | $25.98 | $26.82 | $27.23 | $28.10 | $251 | $264 | $291 | Portland |
| Raleigh | 2.9% | 2.0% | 2.8% | 3.3% | 2,400 | 2,200 | 1,800 | 2,000 | 2,600 | 2,700 | 2,600 | 1,700 | 11.0% | 10.2% | 9.2% | 9.3% | $22.90 | $24.25 | $24.90 | $25.97 | $172 | $197 | $226 | Raleigh |
| Riverside-San Bernardino | 2.1% | 0.9% | 3.9% | 2.4% | 210 | 270 | 240 | 610 | 1,100 | 990 | 660 | 490 | 11.1% | 9.8% | 9.0% | 9.1% | $21.30 | $21.69 | $22.52 | $23.31 | $186 | $194 | $210 | Riverside-San Bernardino |
| Sacramento | 1.4% | 3.5% | 1.2% | 1.7% | 60 | 260 | 500 | 600 | 1,100 | 290 | 1,500 | 1,000 | 12.6% | 12.6% | 11.3% | 10.8% | $22.66 | $23.69 | $24.12 | $25.04 | $185 | $192 | $201 | Sacramento |
| Salt Lake City | 3.1% | 2.9% | 3.0% | 1.9% | 2,200 | 2,400 | 2,400 | 3,200 | 1,600 | 3,900 | 2,000 | 2,800 | 10.6% | 8.8% | 9.0% | 9.1% | $20.75 | $21.17 | $21.97 | $22.72 | $167 | $176 | $178 | Salt Lake City |
| San Antonio | 1.8% | 3.1% | 2.3% | 2.4% | 1,500 | 600 | 1,100 | 1,300 | 1,900 | 660 | 580 | 1,100 | 11.2% | 11.0% | 11.6% | 11.7% | $20.68 | $21.47 | $22.24 | $22.82 | $177 | $193 | $208 | San Antonio |
| San Diego | 3.4% | 1.5% | 2.7% | 1.5% | 770 | 870 | 490 | 1,100 | 760 | 1,100 | 540 | 1,500 | 13.0% | 12.7% | 12.6% | 12.1% | $31.94 | $32.32 | $33.66 | $34.74 | $298 | $314 | $328 | San Diego |
| San Francisco | 4.4% | 5.2% | 4.2% | 2.5% | 870 | 4,300 | 3,000 | 3,800 | 2,400 | 5,600 | 1,700 | 4,600 | 9.2% | 8.1% | 8.7% | 8.1% | $61.16 | $61.95 | $68.56 | $73.43 | $539 | $582 | $627 | San Francisco |
| San Jose | 4.1% | 2.4% | 3.7% | 2.5% | 8,600 | 3,000 | 2,100 | 5,100 | 6,600 | 3,400 | 3,900 | 5,800 | 12.0% | 11.4% | 9.7% | 8.7% | $51.96 | $51.66 | $52.01 | $53.73 | $453 | $528 | $568 | San Jose |
| Seattle-Tacoma | 3.1% | 3.5% | 5.4% | 3.2% | 3,300 | 1,800 | 3,800 | 6,400 | 4,600 | 5,400 | 2,800 | 6,500 | 9.7% | 7.6% | 8.0% | 7.7% | $33.67 | $34.83 | $37.74 | $40.19 | $327 | $345 | $373 | Seattle-Tacoma |
| St. Louis | 0.8% | 1.2% | 0.9% | 0.9% | 950 | 310 | 250 | 1,200 | 700 | -230 | 500 | 460 | 10.1% | 10.6% | 10.3% | 10.8% | $18.59 | $19.43 | $19.91 | $20.29 | $126 | $129 | $131 | St. Louis |
| Tampa-St. Petersburg | 2.6% | 4.6% | 2.0% | 2.9% | 500 | 410 | 930 | 890 | 2,400 | 1,000 | 620 | 1,100 | 10.9% | 10.3% | 10.5% | 10.2% | $21.87 | $23.05 | $24.15 | $25.26 | $173 | $180 | $194 | Tampa-St. Petersburg |
| Washington, D.C. | 1.3% | 1.3% | 2.0% | 1.8% | 3,100 | 5,500 | 4,700 | 5,700 | 1,200 | 6,300 | 5,100 | 5,500 | 17.9% | 17.5% | 17.3% | 17.1% | $37.51 | $37.90 | $38.00 | $38.61 | $291 | $305 | $308 | Washington, D.C. |
| West Palm Beach | 1.6% | 2.1% | 1.3% | 1.5% | 77 | 110 | 370 | 460 | 230 | 710 | 310 | 580 | 14.7% | 13.5% | 13.5% | 13.1% | $28.76 | $28.87 | $30.48 | $32.00 | $252 | $266 | $288 | West Palm Beach |
| United States | 1.7% | 2.0% | 1.7% | 1.2% | 89,000 | 80,900 | 85,700 | 98,000 | 108,700 | 92,900 | 84,200 | 85,000 | 13.4% | 13.1% | 13.0% | 13.0% | $29.73 | $30.34 | $31.21 | $31.96 | $241 | $257 | $276 | United States |

* *Forecast* [2] *See Statistical Summary Note on Page 62.*

* *Forecast* [2] *See Statistical Summary Note on Page 62.*

# CONNECTING THE RIGHT INVESTORS WITH THE RIGHT OPPORTUNITIES

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