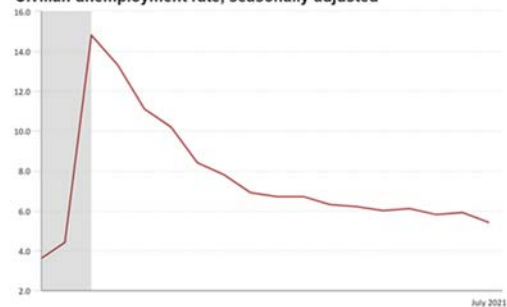


US Gateway Cities Class A Office Sales Volume & Buying Trends – July 2021

COVID-19 surfaced in the United States in Mid-March 2020. Federal, state, and local governments responded by issuing strict stay-at-home orders and closing nonessential business. Trends in investment sales, vacancy rates, rent collection rates, and unemployment underscore the crippling effects of COVID-19 on American consumers and businesses alike. The US Daily New Case table below highlights the progression of daily case counts relative to legislation imposed by state and local governments. As of Summer 2021, societal conditions surrounding the COVID-19 Pandemic have undoubtedly improved. Vaccines are now available to all individuals aged 12 or older in most states. Although hospitalizations and new cases were on the decline, the Delta Variant is causing new case counts to rise again. As a result, some states are tightening restrictions. Also, the FDA has approved the Pfizer vaccine for people aged 16 and older. Whereas social conditions continue to improve, markets are still being affected by COVID-19. As the calendar turns toward Fall, investors will be looking for sustainable trends in transaction volume and pricing that have yet to occur.

With COVID-19 still on the forefront, fundamentals in many major markets have been greatly altered. This publication analyzes sales trends in terms of number of transactions and dollar volume for class A office properties in each major gateway city's market.

Civilian unemployment rate, seasonally adjusted



Source: US Bureau of Labor Statistics

United States

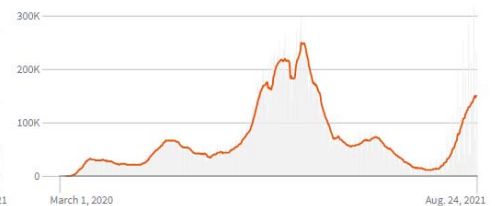
Vaccine doses given

7-day avg: 860,114
60.9% at least one dose



New cases

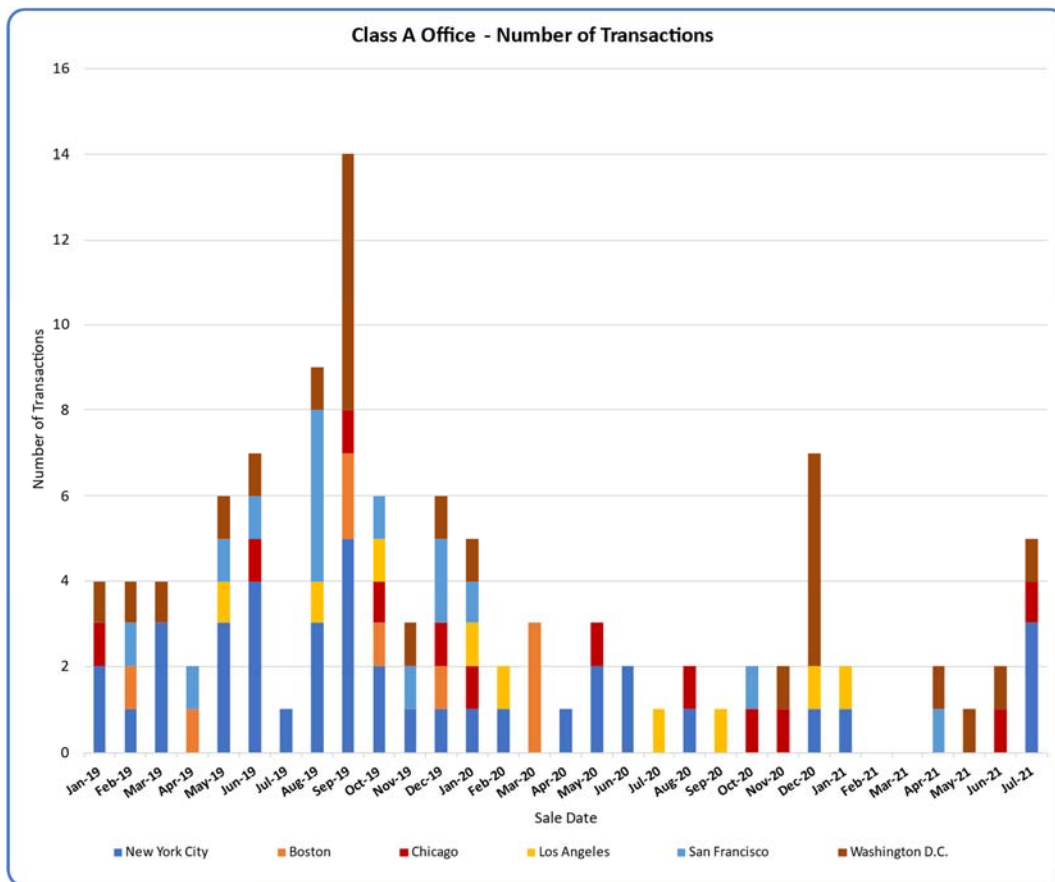
7-day avg: 150,883



Source: Reuters

Number of Sales Transactions

- Parameters: All class A Office building sales, segmented by gateway city: **New York City, Boston, Chicago, Los Angeles, San Francisco, Washington D.C.**
- Somewhat inconsistent transaction volume from January 2019 to March 2020.
- April 2020- initial COVID shockwaves grip market, number of transactions plummets.
- Slight uptick in transaction volume from May 2020 to August 2020 coincides with lower case counts.
- September 2020 – November 2020- experienced a relatively consistent trend in number of transactions.
- December 2020- 7 total transactions- the largest number of transactions to take place in 2020.
- January 2021- 2 total transactions – approximately 71% decline from the prior month.
- February/March 2021 - zero transactions – the lowest number of transactions over the given study period.
- April 2021 – 2 total transactions taking place in Washington D.C. and San Francisco.
- May 2021 – one transaction taking place in Washington D.C. for the second consecutive month.
- June 2021 – two transactions occurring in Chicago and Washington D.C.
- July 2021 – New York City represented the largest share of total transactions for the first time this year.
- The Gateway Cities Office Market continues to underperform levels from prior years.



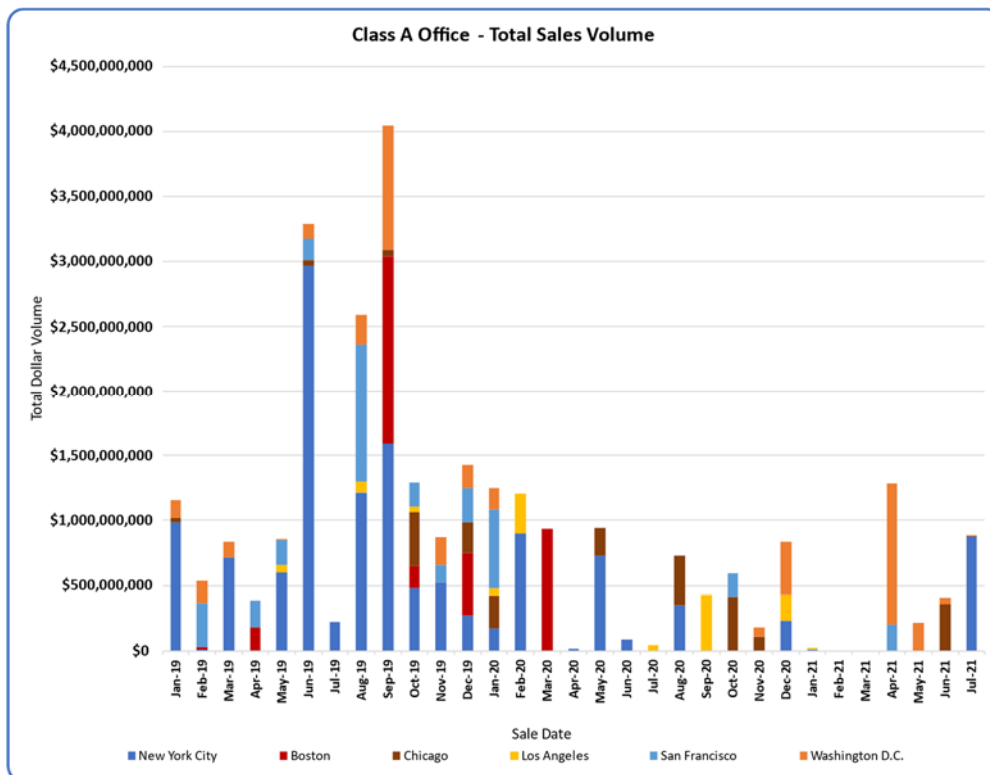
We tracked the number of monthly Class A office building sales recorded, segmented by each gateway city. Over the study period there have been a total of 109 transactions. New York City has experienced the most transactions, accounting for approximately 35.8% of the total number of transactions across all cities. Notably, New York represented the lion’s share of the total number of transactions for the first time in 2021. Washington D.C. is the second highest in number of transactions, reflecting a 22.9% stake within the market and San Francisco comes in third with 13.8%.

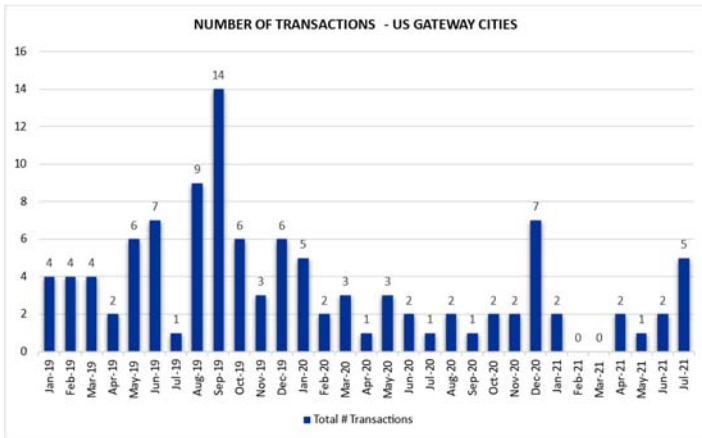
Dollar Volume of Sales Transactions

In 2019, the average monthly sales volume was approximately \$1.5 billion. Comparatively, the average monthly sales volume in 2020 was roughly \$602 million, reflecting a decrease of approximately 58.7%. In 2021 through July, the monthly average declined 33.3% from the 2020 average. Thus far in 2021, the negative trend in dollar volume continues. We tracked the dollar volume of monthly sales by tranche as seen below.

Total Dollar Volume - Class A Office Gateway Cities			
YEAR	2019	2020	2021 (July)
Min	\$225,000,000	\$12,500,000	\$0
Max	\$4,048,352,975	\$1,246,419,413	\$1,281,750,000
Average	\$1,459,491,731	\$602,413,431	\$401,587,113
% Difference	-	-58.7%	-33.3%

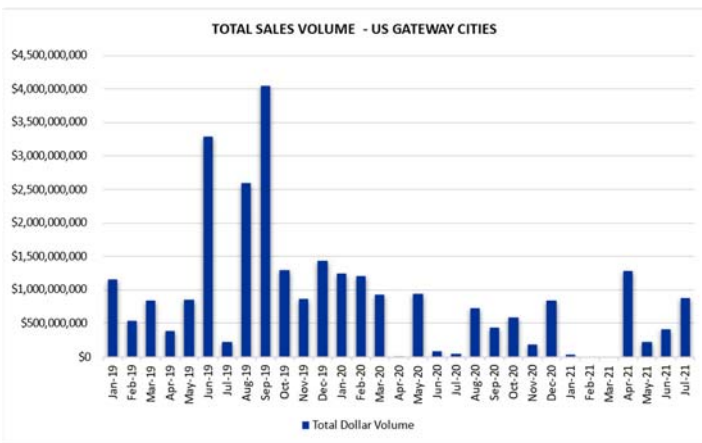
- Average sales volume from January 2019 to March 2020 was \$1,393,228,012.
- Average sales volume from April 2020 to June 2021 was \$385,064,707.
- The largest increase in dollar volume for 2020 was 7,437.6% from April to May.
- The largest decrease in dollar volume for 2020 was 98.7% from March to April.
- Boston has seen no sales activity for the last 15-months of the study period.
- New York City is responsible for approximately 45.3% of the total dollar volume over the study period.
- December 2020 dollar volume significantly increased from the prior month, reflecting a 362.6% increase in total dollar volume.
- January 2021 reflected a significant decrease of approximately 97% in total dollar volume, as shown in the graphic below.
- February/March 2021 – two consecutive months over the given study period with no activity in any of the Gateway Cities.
- April 2021 – Ended the streak of no activity and experienced one of the highest dollar volumes over the past 15 months.
- May, June, and July have all contributed to an upward trend in sales volume with July seeing the second highest volume this year.
- The Gateway Cities Office Market continues to underperform levels from prior years.





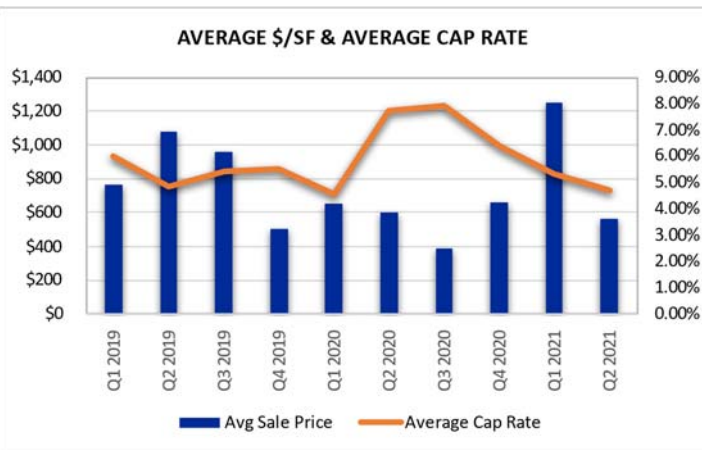
SALES (2019-2021): Volume

The Class A Office Market in Gateway Cities is typically a barometer of performance for the commercial real estate sector. However, over the study period dating back to January 2019, there has been a scarce number of transactions. Pre-COVID figures fared better than post-COVID figures, but the number of transactions has remained modest, and in recent months non-existent. July 2021 saw the highest number of transactions since December 2020, which is an encouraging sign for the sector.



Dollar Volume of Sales

In 2019 there were a few months reflective of high dollar volume, occurring in June, August, and September. Since then, sales volume has declined, particularly post-COVID. While there were no sales in February and March of 2021, sales volume was nearly \$1.3 Billion in April. However, May 2021 experienced a significant drop in sales dollar volume reflecting approximately \$215 million in sales, while June 2021 increased 89.2% from the prior month. July 2021 experienced a recovery reflecting the second highest sales volume thus far in 2021.



Quarterly Trend of Average Dollar Per Square Foot and Average Cap Rate

The onset of the pandemic negatively impacted sales prices on a dollar per square foot basis and drove cap rates up. 2020 saw a rebound in average dollar per square foot and a gradual decline in rates. 2021 began with the highest dollar per square foot pricing over the given period and a cap rate that was closer to the historical average. As of Q2 2021, average sales price had dropped significantly while cap rates also trended downward, coming in just below 5% for the first time since Q1 2020. This could signal a return in investor confidence going forward as they try to position themselves for a post-COVID environment.

SOURCE: CoStar and Marshall & Stevens



Patrick T. Craig, MAI, MRICS
Executive Managing Director
Real Estate Valuation Practice
212.897.9481
ptcraig@marshall-stevens.com



Catherine Gu
Senior Director
Real Estate Valuation Practice
646.438.7602
cgu@marshall-stevens.com



Mike Gies
Analyst
Real Estate Valuation Practice
609.613.2468
mgies@marshall-stevens.com