

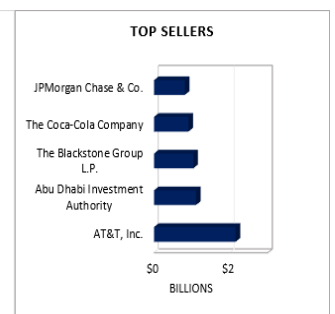
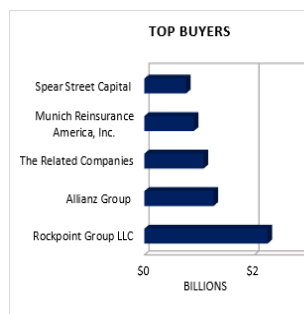
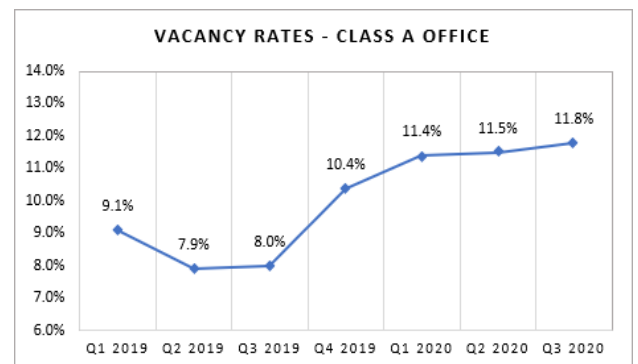
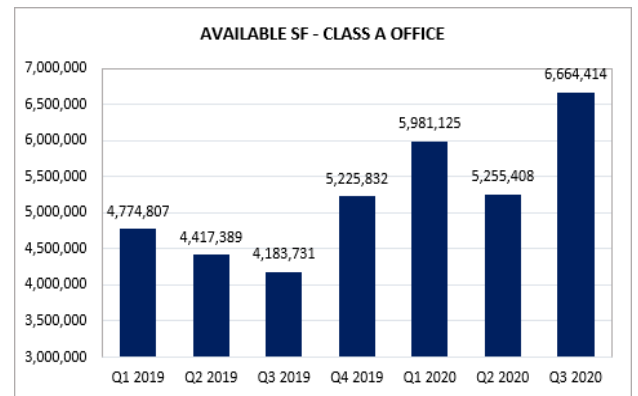
US Gateway Cities Class A Office Sales Volume and Buying Trends – October 2020

In this publication we present our findings on the Class A Office Market in the following gateway cities: **New York, Boston, Chicago, Los Angeles, San Francisco, and Washington D.C.** These cities are home to regional and international corporations and serve as headquarters locations for many Fortune 500 companies. These gateway cities also typically contain several demand generators proximate to Class A and trophy office buildings, further increasing their appeal to investors. The parameters for this search include investment sales of Class A office buildings in the six gateway cities within the US over a 22-month period, from January 2019 to October 2020. We analyzed each city to compare number of transactions and dollar volume over the given study period.

As illustrated in the graphic to the right, available square footage of Class A office space has fluctuated over the given study period. Q3 2020 has reached the highest level of availability with over 6 million square feet available. This reflects an increase by more than a million square feet from the prior quarter.

Due to the current Pandemic, vacancy rates have been on a steady increase as illustrated. The current quarter reflects a vacancy rate of 11.8%, which is the highest vacancy rate observed over the past seven quarters.

The top buyers and sellers within this market are presented on the right. The Rockpoint Group LLC. is the top buyer of this asset type, accounting for more than \$2 billion. The top seller is AT&T, Inc. which accounted for over \$2 billion in sales. With only two transactions occurring in October, Normandie Properties was the top buyer while Sterling Bay was the top seller. Furthermore, Allianz Group ranks as the second largest buyer over the 22-month period ending October 2020.

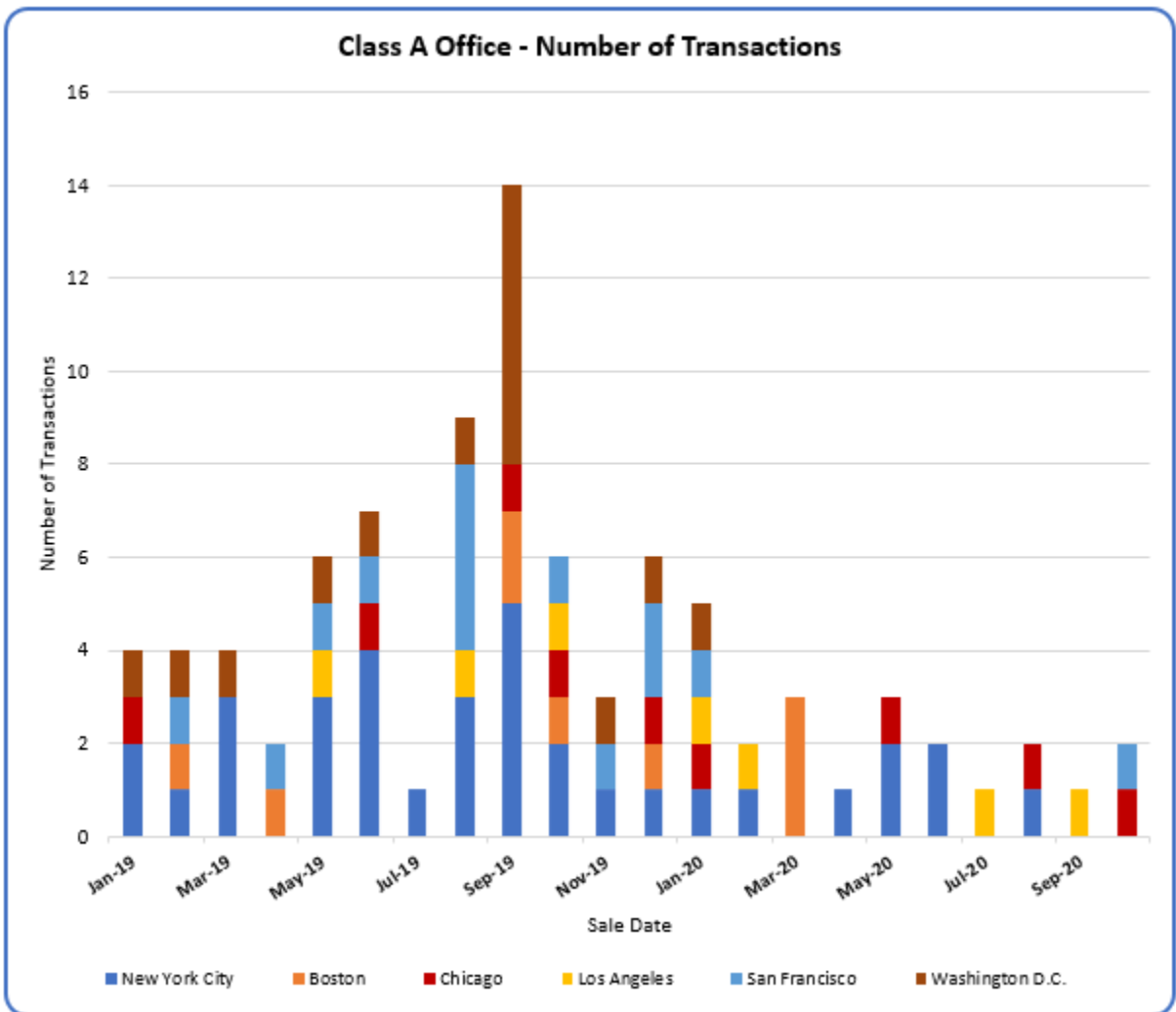


Number of Sales Transactions

We tracked the number of monthly Class A office building sales recorded, segmented by each gateway city. Over the prior 22-month period as of October 2020, there have been a total of 88 transactions. New York City has experienced the most transactions, accounting for approximately 38.6% of the total number of transactions across all cities.

Historical Transaction Volume - Class A Office																								
Number of Transactions	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Total	% of Total
New York City	2	1	3	0	3	4	1	3	5	2	1	1	1	1	0	1	2	2	0	1	0	0	34	38.6%
Boston	0	1	0	1	0	0	0	0	2	1	0	1	0	0	3	0	0	0	0	0	0	0	9	10.2%
Chicago	1	0	0	0	0	1	0	0	1	1	0	1	1	0	0	0	1	0	0	1	0	1	9	10.2%
Los Angeles	0	0	0	0	1	0	0	1	0	1	0	0	1	1	0	0	0	0	1	0	1	0	7	8.0%
San Francisco	0	1	0	1	1	1	0	4	0	1	1	2	1	0	0	0	0	0	0	0	0	1	14	15.9%
Washington D.C.	1	1	1	0	1	1	0	1	6	0	1	1	1	0	0	0	0	0	0	0	0	0	15	17.0%
Total # Transactions	4	4	4	2	6	7	1	9	14	6	3	6	5	2	3	1	3	2	1	2	1	2	88	100.0%
% Change from Prior Month	-	0.0%	0.0%	-50.0%	200.0%	16.7%	-85.7%	800.0%	55.6%	-57.1%	-50.0%	100.0%	-16.7%	-60.0%	50.0%	-66.7%	200.0%	-33.3%	-50.0%	100.0%	-50.0%	100.0%	-	-

In terms of number of transactions, the largest number of monthly transactions occurred in September 2019, with 14 sales, reflecting an increase of 56% from the prior month. During this month, Washington D.C. had the highest sales volume at six transactions and New York City had the second highest sales volume at 5 transactions. The figures are portrayed graphically below. In October 2020, the market experienced two transaction throughout all gateway cities, which occurred in Chicago and San Francisco. As illustrated below, the number of transactions has been fluctuating downward due to the COVID-19 pandemic and its impact on the Gateway City Office Market.



Dollar Volume of Sales Transactions

Over the 22-month period, New York City is responsible for approximately 49.9% of the total dollar volume of class A office buildings across the six cities. Dollar volume in San Francisco is approximately 14% of total dollar volume with Boston following close behind reflecting 13.6% of total dollar volume. Washington DC, Chicago and LA lag far behind from the top three cities in total dollar volume. The below table shows the dollar volume broken down by each city over the 22-month period.

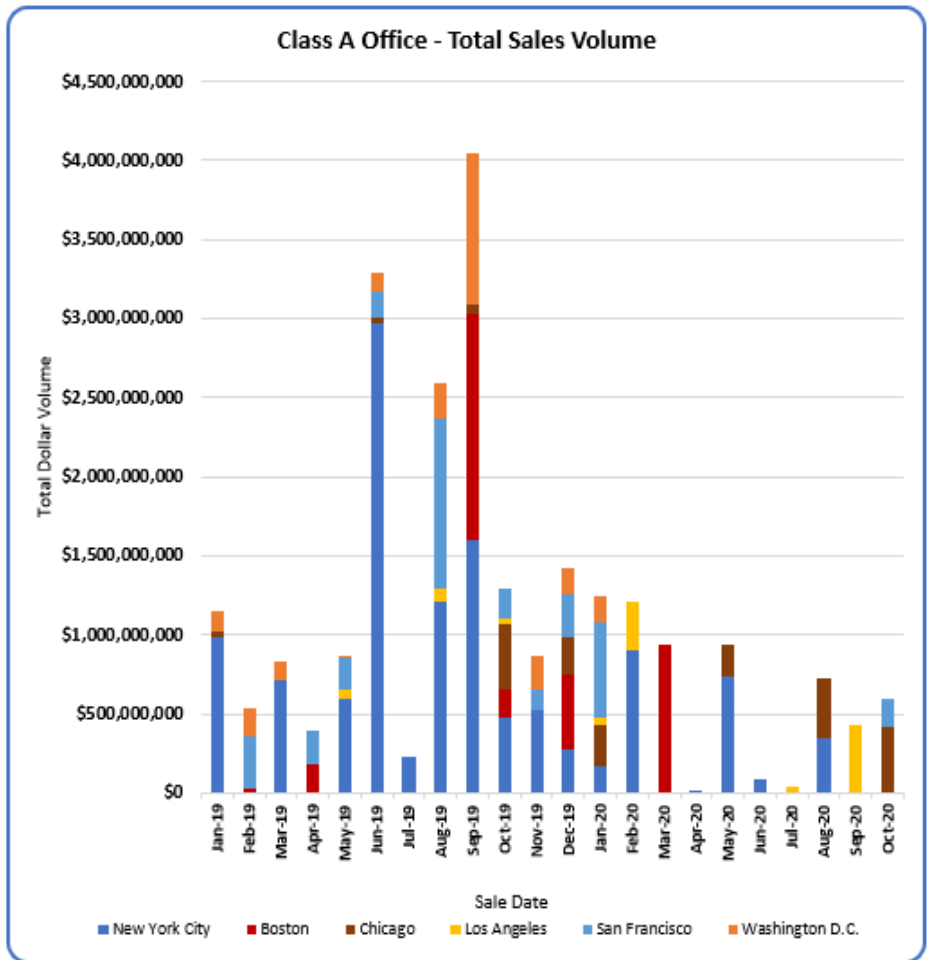
Historical Transaction Volume - Class A Office (in Millions)																								
Dollar Volume of Transaction	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Total	% of Total
New York City	\$987.8	\$5.9	\$717.7	\$0.0	\$600.0	\$2,968.6	\$225.0	\$1,211.8	\$1,595.0	\$481.5	\$525.0	\$271.3	\$175.0	\$900.0	\$0.0	\$12.5	\$732.2	\$84.0	\$0.0	\$350.0	\$0.0	\$0.0	\$11,843.2	49.9%
Boston	\$0.0	\$21.8	\$0.0	\$178.2	\$0.0	\$0.0	\$0.0	\$0.0	\$1,441.0	\$168.3	\$0.0	\$482.0	\$0.0	\$0.0	\$934.3	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$3,225.6	13.6%
Chicago	\$31.1	\$0.0	\$0.0	\$0.0	\$0.0	\$41.6	\$0.0	\$0.0	\$50.3	\$412.0	\$0.0	\$230.0	\$250.0	\$0.0	\$0.0	\$0.0	\$210.0	\$0.0	\$0.0	\$376.0	\$0.0	\$412.5	\$2,013.5	8.5%
Los Angeles	\$0.0	\$0.0	\$0.0	\$0.0	\$58.0	\$0.0	\$0.0	\$85.0	\$0.0	\$45.0	\$0.0	\$0.0	\$54.3	\$303.8	\$0.0	\$0.0	\$0.0	\$0.0	\$43.3	\$0.0	\$430.0	\$0.0	\$1,019.4	4.3%
San Francisco	\$0.0	\$335.5	\$0.0	\$210.9	\$191.5	\$162.5	\$0.0	\$1,065.6	\$0.0	\$186.2	\$134.3	\$269.6	\$604.2	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$180.0	\$3,340.2	14.1%
Washington D.C.	\$135.3	\$170.0	\$116.6	\$0.0	\$6.0	\$119.0	\$0.0	\$231.3	\$962.0	\$0.0	\$209.1	\$174.9	\$163.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$2,287.1	9.6%
Total Dollar Volume	\$1,154.2	\$533.2	\$834.3	\$389.1	\$855.5	\$3,291.6	\$225.0	\$2,593.6	\$4,048.4	\$1,293.0	\$868.4	\$1,427.8	\$1,246.4	\$1,203.8	\$934.3	\$12.5	\$942.2	\$84.0	\$43.3	\$726.0	\$430.0	\$592.5	\$23,729.0	100.0%
% Change from Prior Month		-53.8%	56.5%	-53.4%	119.9%	284.8%	-93.2%	1052.7%	56.1%	-68.1%	-32.8%	64.4%	-12.7%	-3.4%	-22.4%	-98.7%	7437.6%	-91.1%	-48.5%	1576.7%	-40.8%	37.8%	-	-

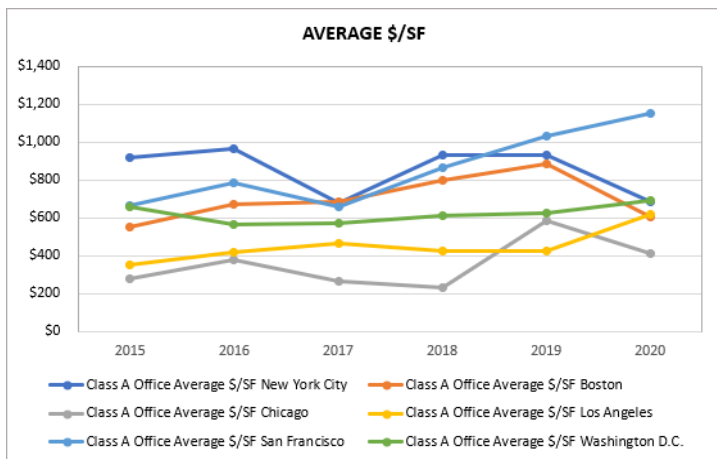
Over the study period, the city with the highest transaction volume is New York City, which comprises roughly \$11.9 billion of total dollar volume. Boston and San Francisco were similar, with dollar volume over roughly \$3.3 billion apiece. As anticipated, in April of 2020 the total sales volume across all cities dropped to \$12.5 million. May saw an increase in volume, up to \$942 million; however, June figures reflected a decrease of 91%, down to \$84 million and July experienced another decline of approximately 49%. August 2020 had one of the highest percent increases over the given study period, with sale volume of \$726 million. However, September experienced a decline of 40.8% to \$430 million while October experienced a 37.8% increase to \$592.5 million. This fluctuating trend in dollar volume indicates investors are still cautious. Comparing October 2020 to October 2019, dollar volume was significantly higher in 2019 at \$1.293 billion, versus October 2019 at \$0.6 billion.

Total Dollar Volume - Class A Office	
Jan-19	\$1,154,154,370
Feb-19	\$533,185,000
Mar-19	\$834,250,000
Apr-19	\$389,100,000
May-19	\$855,500,000
Jun-19	\$3,291,645,388
Jul-19	\$225,000,000
Aug-19	\$2,593,613,035
Sep-19	\$4,048,352,975
Oct-19	\$1,293,000,000
Nov-19	\$868,350,000
Dec-19	\$1,427,750,000
Jan-20	\$1,246,419,413
Feb-20	\$1,203,800,000
Mar-20	\$934,300,000
Apr-20	\$12,500,000
May-20	\$942,200,000
Jun-20	\$84,046,763
Jul-20	\$43,300,000
Aug-20	\$726,000,000
Sep-20	\$430,000,000
Oct-20	\$592,500,000
Min	\$12,500,000
Max	\$4,048,352,975
2019 Ave	\$1,459,491,731
2020 Ave	\$621,506,618

As detailed above and to the right, since the advent of COVID-19 in Mid-March 2020, investors have remained hesitant, which is illustrated clearly for April, June, and July.

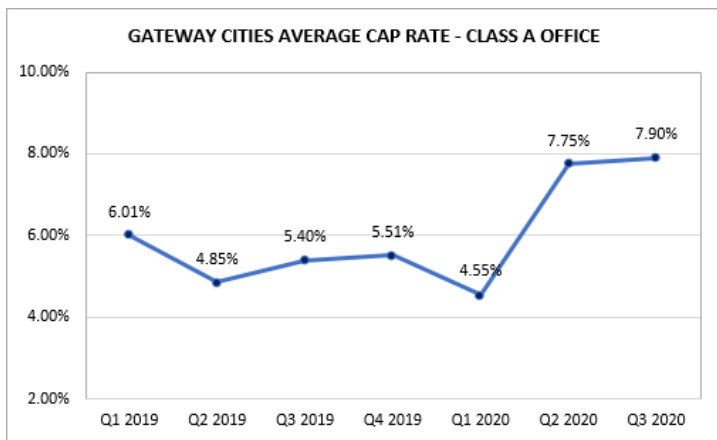
The two sales that occurred in October 2020 reflect total dollar volume of \$592.5 million, which is an increase of approximately 38% from the prior month.





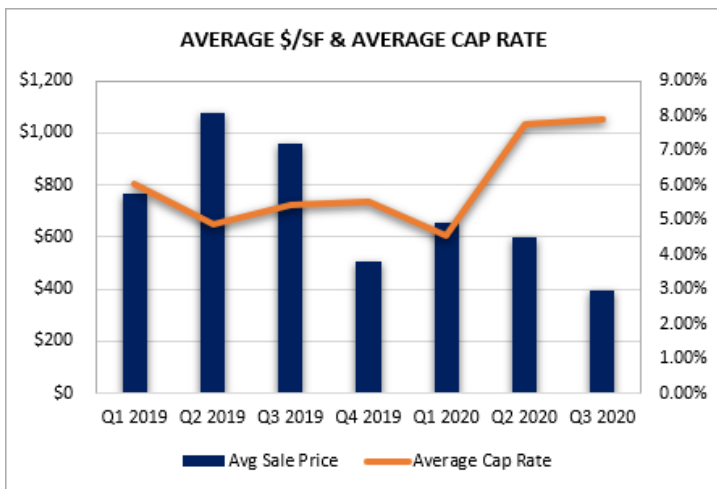
Average Yearly Price per Square Foot

The graphic on the left analyzes a five-year trend of dollar per square foot pricing broken down by each city. All six cities experienced fluctuations in pricing over the past five years. The prices varied from \$233 per square foot (Chicago 2018) to \$1,156 per square foot (San Francisco 2020). Pricing has varied in 2020, with three of the cities experiencing a decline in dollar per square foot (Chicago, Boston, New York City) and three cities experiencing an increase (San Francisco, Los Angeles, Washington D.C.).



Average Quarterly Cap Rate

With a lack of data on a monthly basis, we analyzed the cap rate trend on a quarterly basis across the six cities. Cap rates have fluctuated from Q1 2019 to Q3 2020. As illustrated, the average cap rate varied from 4.55% to 7.9% over the study period. However, the average cap rate saw a notable increase from Q1 2020 to Q2 2020 (4.55% to 7.75%) and continued this trend into Q3 2020 increasing to a 7.9% cap rate.



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

As exhibited in the graphic on the left, since Q2 2019 the average price per square foot has been declining, while the average cap rate has been increasing. This is due to COVID-19, which descended on the US Market in Mid-March 2020. Clearly, the Gateway City Office Market has responded with declining prices per square foot and increasing cap rates. The lockdowns, particularly in transit-oriented cities, has called into question how corporate tenants will react to the new normal. As office users continue to analyze options, investors appear to be reacting in a very cautious manner. The recent uptick in COVID-19 cases across the United States will likely have a dampening effect for office investment.

Market participants are eager to see how the winter months will play out as it relates to COVID-19 in combination with more rigid lockdown measures.

SOURCE: CoStar and Marshall & Stevens



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