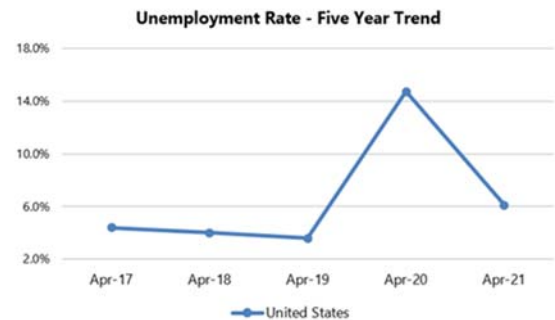


US Gateway Cities Class A Office Sales Volume & Buying Trends – May 2021

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 United States Daily New Case table below highlights the progression of daily case counts. As of Q2 2021, societal conditions surrounding the COVID-19 Pandemic have undoubtedly improved. Vaccines are now available to all individuals aged 16 or older, and hospitalizations and number of new cases continue to decrease. Many Governors are loosening occupancy restrictions pertaining to indoor and outdoor gatherings and business capacity limits. Many businesses can now operate at full capacity. Whereas social conditions continue to improve, markets are still being affected by COVID-19. As the calendar turns toward summer and restrictions continue to be lifted, investors will be looking for sustainable trends in transaction volume and pricing that have yet to occur.

With COVID 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.

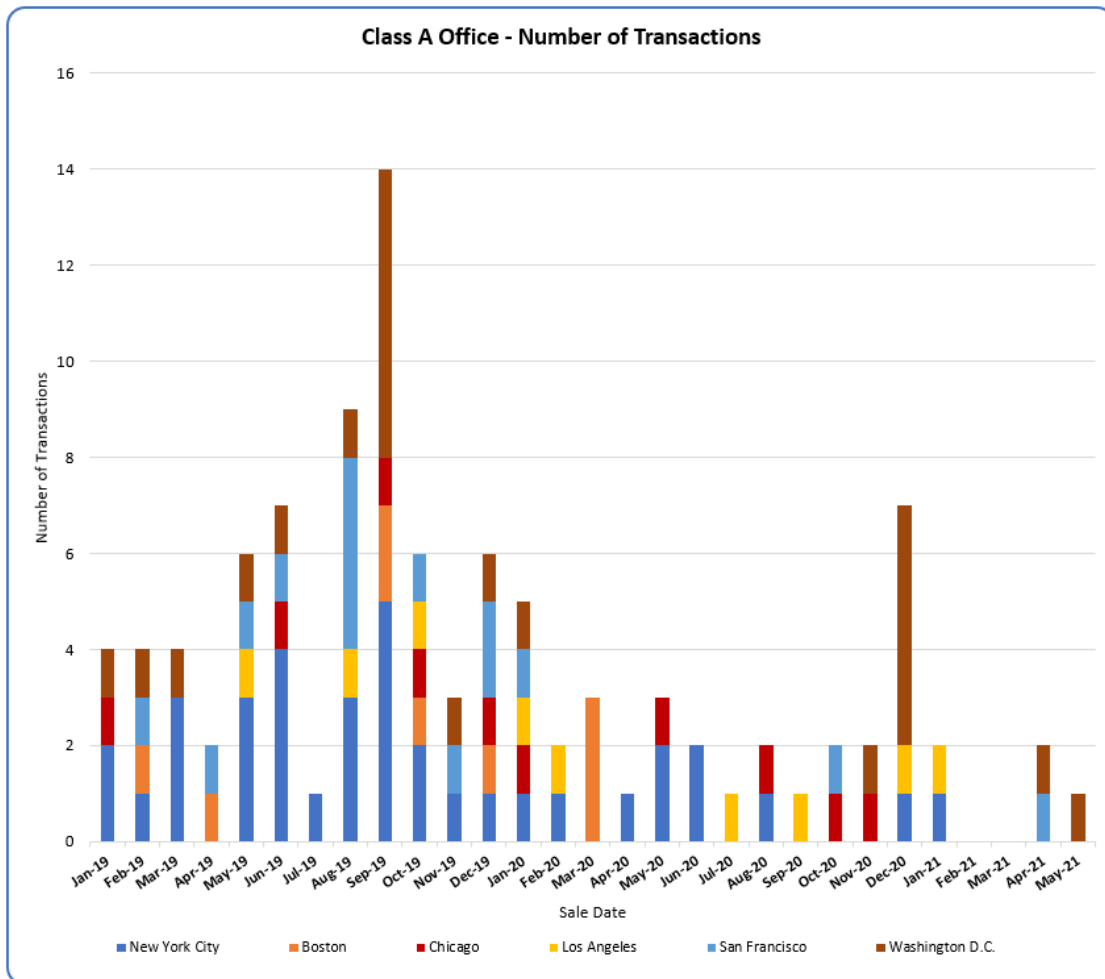


New cases
7-day avg: **55,460**



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.
- The Gateway Cities Office Market continues to underperform levels from prior years.



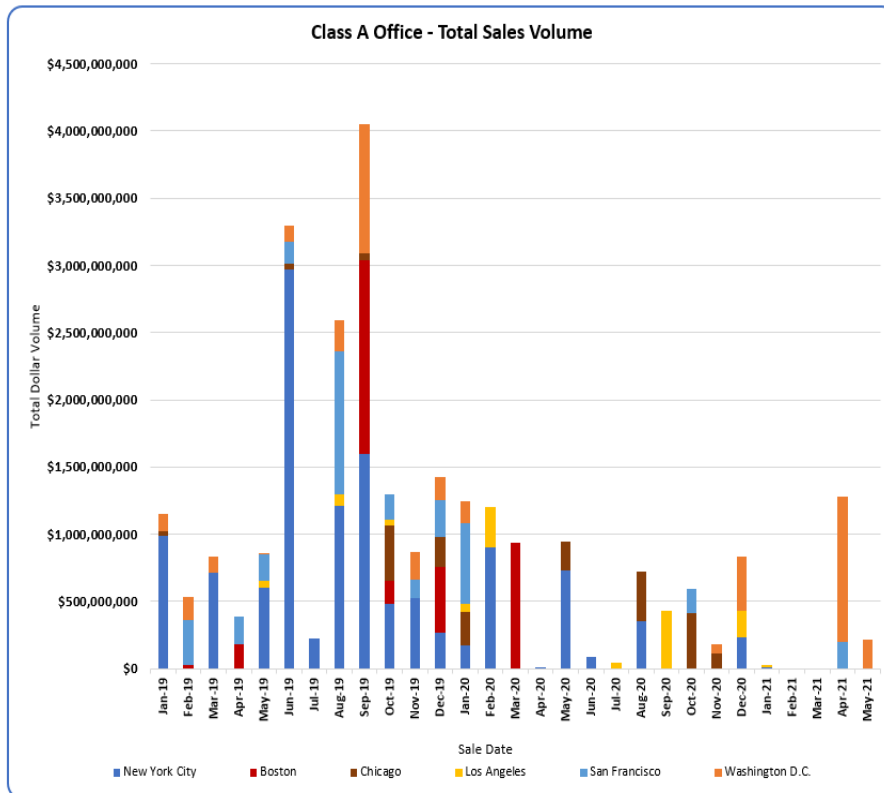
We tracked the number of monthly Class A office building sales recorded, segmented by each gateway city. Over the prior 2-year period as of May 2021, there have been a total of 102 transactions. New York City has experienced the most transactions, accounting for approximately 35.3% of the total number of transactions across all cities. Washington D.C. is the second highest in number of transactions, reflecting a 22.5% stake within the market.

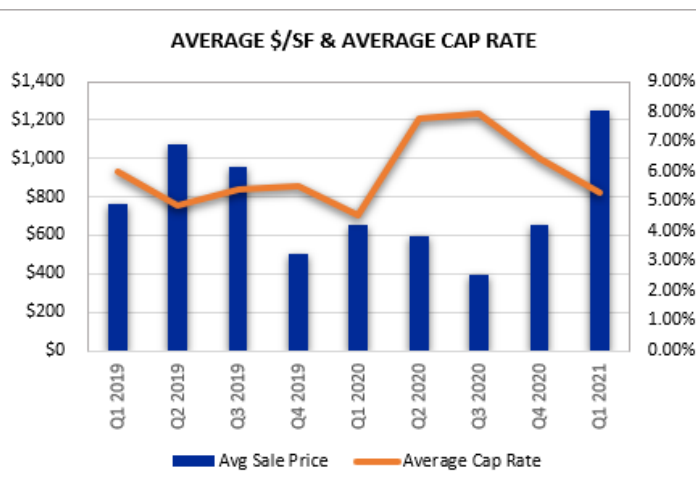
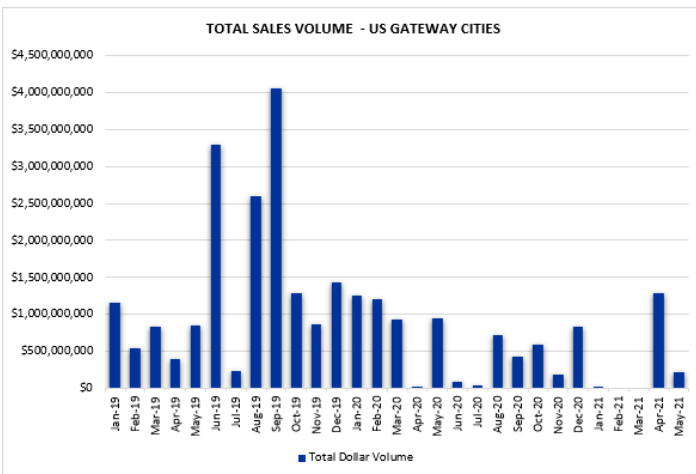
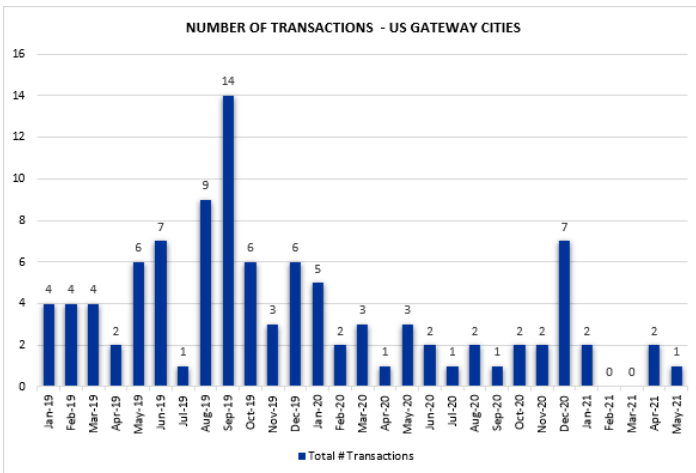
Dollar Volume of Sales Transactions

In 2019, the average monthly sales volume was approximately \$1.4 billion. Comparatively, the average monthly sales volume in 2020 was roughly \$602 million, reflecting a decrease of approximately 58.7%. In 2021 through May, the monthly average declined 49.4 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 (May)
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	\$304,687,578
% Difference	-	-58.7%	-49.4%

- Average sales volume from January 2019 to March 2020 was \$1,393,228,012.
- Average sales volume from April 2020 to May 2021 was \$383,419,975.
- 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 11-months of the study period.
- New York City is responsible for approximately 48.8% 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.
- 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 have not been an abundance of transactions. Pre-COVID figures were better than Post-COVID figures, but the number of transactions has been modest, and in recent months non-existent.

Dollar Volume of Sales

In 2019 there were a few good months in terms of dollar volume, occurring in June, August, and September. Since then, volume has declined, particularly Post-COVID. While there were no sales in February and March of 2021, there was positive news in April 2021, when volume was nearly \$1.3 Billion. However, May 2021 followed up dropping significantly in dollar volume reflecting approximately \$215 million in sales.

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

We studied pricing and cap rate trends quarterly through Q1 2021. Through the end of 2020 the Gateway Cities Office Market remained soft with pricing well below previous highs, and with cap rates showing improvement. From Q2 2019 to Q4 2019, the average \$/SF trended downward while the average cap rate increased. Q4 2019 experienced its largest decline in \$/SF dropping more than \$400 per square foot. The largest increase in cap rate occurred in Q2 2020 increasing to 7.75%. Q4 2020 experienced an increase in average \$/SF and a decrease in average cap rate reflecting a 5.90% cap rate. Q1 2021 experienced a spike in average \$/SF reflecting a \$1,250 average and a sharp decline in average cap rate reflecting a 5.3% cap rate. This is based on only one transaction, so it likely not a trendsetter.

SOURCE: CoStar and Marshall & Stevens



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