Savills Studley Report
National office sector

Q3 2017

SUMMARY

Market Highlights

AVAILABILITY RATES FALL

The national overall availability rate fell from 16.9% to 16.7%. Most markets posted minor changes, but the availability rate in Atlanta dropped by 170 basis points to 17.5%. In contrast, Raleigh/Durham's overall availability rate spiked by 150 basis points to 15.0%.

ASKING RENTS STABLE

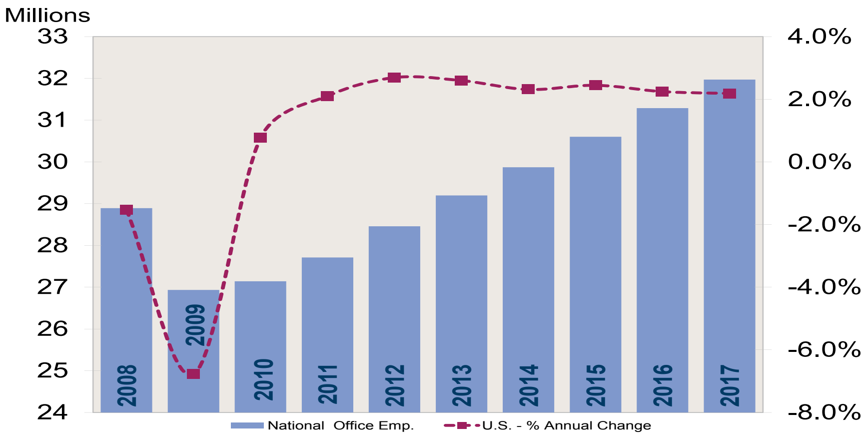
On a quarterly comparison, the national overall asking rent inched up by merely 0.6% to $33.34. Asking rent increased in the majority of markets, with sharper increases in Raleigh/Durham (+3.9% to $24.42) and Suburban Philadelphia (+2.4% to $27.54). In contrast, asking rent in Manhattan fell by 2.2% to $73.21.

TRAILING LEASING SLIDES LOWER

National four-quarter trailing leasing (the sum of activity over the last four quarters) declined slightly quarter-on-quarter to 208.5 msf. Trailing leasing has declined six consecutive quarters.

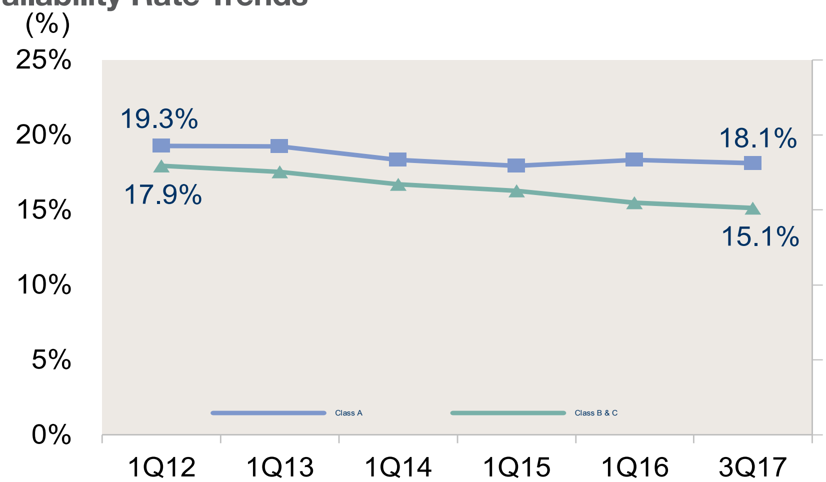
"A cycle characterized by pitched battles for talent is culminating in the biggest site selection contest in recent memory. Politicians, brokers and business leaders are captivated by Amazon's HQ2 RFP. A lot is on the table - 50,000 jobs; a potential multi-billion dollar investment and demand for several million square feet of office space."
Keith DeCoster, Savills Studley Research

Office-Using Employment Trends

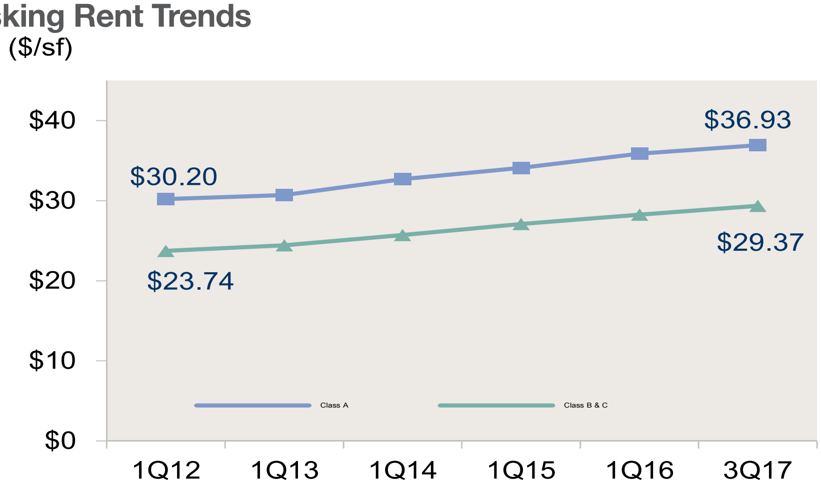


Source: Bureau of Labor Statistics

Availability Rate Trends



Asking Rent Trends



Talent Show

Restraint took many forms in this extended cycle. GDP and wages gained momentum only very recently. Anemic household income growth, coupled with constrained credit and stricter lending guidelines, impeded housing sales. Continued caution among lenders and developers kept new office construction in check. Tenants have also been highly efficient – space densification has become the norm.

Most companies are not holding back in their pursuit of talent, though. The magnitude and intensity of recruiting efforts varies by industry and company. TAMI (tech, advertising, media and information) firms are the most aggressive, but companies in other industries are also very focused on landing highly-skilled employees.

Talent comes first and all else follows. Competition for the most tech savvy employees is the fiercest in the top tech centers - Austin, Boston, the Bay Area of Northern California and Seattle. Amazon has concluded that Seattle's labor pool is nearly tapped out. During 2015 and 2016 Seattle was poaching talent and employers from the Bay Area. Frustrated by spiraling housing and living costs in the Bay Area, tech talent moved to Puget Sound, where their pay went further. Employers followed. The push of Bay area tech firms to Seattle, coupled with continued expansion among local firms such as Zillow hastened Amazon's realization that the market could not support their labor needs indefinitely.

Show and Tell

It is fitting that a cycle characterized by bidding battles for talent is culminating in the biggest site selection contest in recent memory. Cities showcased their workforce, development sites, incentive packages, university system and quality of life. A lot is on the table – Amazon estimates it will hire 50,000 workers, invest several billion dollars and absorb 5.0 to 8.0 msf of commercial space in its second home base.

The stakes are just as high for Amazon. They are in the throes of a global competition for ecommerce leadership against the likes of Alibaba, Flipkart and Rakuten. Of note, Alibaba recently announced a $15-billion investment in a global R&D initiative called Alibaba DAMO Academy, collaborating with major universities in the U.S. and around the globe. Similarly, Amazon highlighted a "world-class university" system as a key requirement in its RFP.

Amazon's path to success has taken it in a lot of directions – along the way they have transformed logistics and distribution. They have arguably become the center of gravity in the American and UK industrial sector and are increasingly encroaching on the retail sector. As Amazon invests billions on multiple fronts (cloud-based web services, artificial intelligence, robotics and autonomous vehicles) they are vying with Oracle, Dell, Apple and Google for the highest-skilled people.

The Road to China

Before Amazon's rise, Walmart was credited with leading the retail revolution. One of its most enduring transformations was the setup of the transnational retail supply chain linking vendors and manufacturers in China to consumers shopping in their superstores across the U.S. By 2002, Walmart had become the top private employer in the U.S., and as of 2016 they remained on top with 2.3 million employees. Similarly, Amazon has a presence in nearly every major metro with thousands of employees. With plans to add 50,000 workers in a single market, Amazon's headcount in the U.S. will soon exceed 400,000 employees, and likely propel them into the top five private employers in the U.S. Amazon's workforce will never rise to meet Walmart'; its deployment of robotics and logistics affords it a much more efficient model. The gap is more likely to narrow as Walmart adopts efficiencies and technology utilized by Amazon and other etailers.

Sprint to the Top

Amazon's dream scenario is an Echo in every home, with users accessing their music service, employing smart home devices and become comfortable with using voice-activated shopping. Amazon's rapid expansion in technologies such as voice-activated purchases is a call to arms for companies hoping to increase their position in so-called "conversational commerce."

Google and Walmart recently formed a pact to start selling hundreds of thousands of items on Google Assistant. Walmart has plans to move ahead with more voice shopping features in 2018. They have some catching up to do. According to Consumer Intelligence Research Partners Amazon's Echo accounted for 74% of the U.S. home voice speaker market, and half of Echo users made a voice-activated purchase.

On the Red Carpet

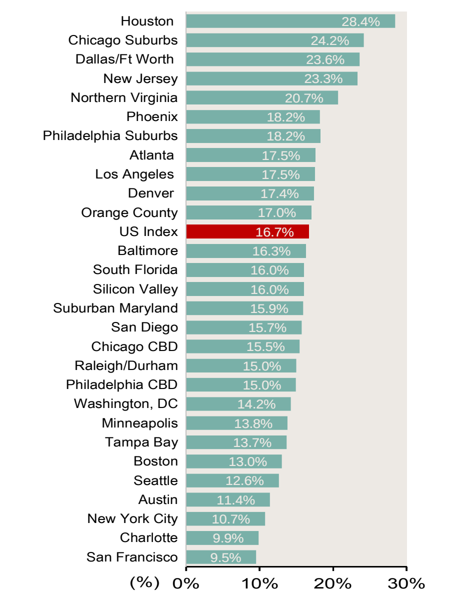
Many of the cities that submitted RFPS have had ample practice touting the merits of their hometown. Metro areas such as Atlanta, Dallas and Charlotte have spent the last few years, rolling out the carpet to prospective employers. Atlanta has had a string of recent success attracting corporations from other markets. The city offers a rare balance of lower-costs and rising skills in select tech niches such as fintech and data storage. Each city has its distinctive pitch, but they share some common elements – most likely highlighted their city's appeal to lure recent college graduates via a live-work-play environment.

Just as cities are trying to outdo one another, owners and developers are engaged in a contest of one-uppance. They too are focused on convincing businesses that their location will give a tenant an edge in recruiting, retaining and energizing employees. Workplace strategy and space design are critical. Shared amenity packages have become a key component in some landlord's differentiation of their property – in some cases it has become part of their identity and brand. Perks have become a bit quirkier including treadmill desks to wired treehouses. In general a lot of effort is being spent on creating a connected, convenient and comfortable setting.

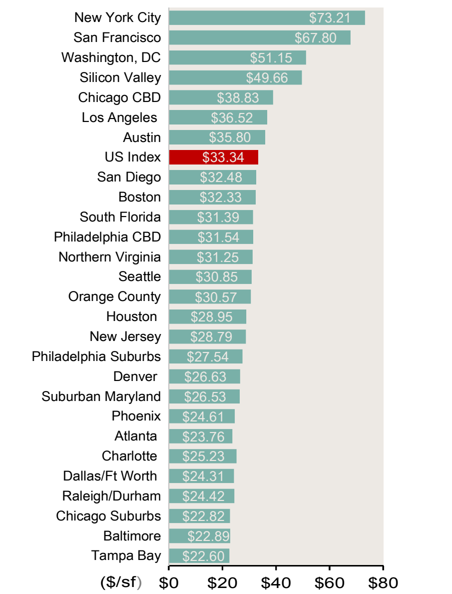
Leave No Employee Behind

These expenditures are a byproduct of the reality that labor shortages are not going away any time soon. The latest Bureau of Labor Statistics Employment Projections for 2016 and 2026 expects the labor participation rate to fall to 61.0% by 2026, down from 67.1 in 2000. Barring a boost in birth rates or relaxed immigration policy, the skills that match those professions most in demand are in short supply. This may be why Alibaba and Amazon are intensifying their presence in schools and universities - best to go straight to the well before they even enter the workforce.

Availability Rate Comparison



Rental Rate Comparison



Major Savills Studley Transactions

Tenant	Sq Feet	Address	Market Area
State Properties Commission	279,594	1800 Century Blvd NE	Atlanta, GA
Stella and Dot LLC	181,190	5820 Opus Dr	Columbus, OH
US General Services Administration	138,608	701 Clay Ave	Waco, TX
EMC Corporation	135,307	164 Jefferson Dr	San Jose, CA
Raytheon Company	125,800	250 S Williams Blvd	Tucson, AZ
District of Columbia Department of General Services	118,720	1015 Half St SE	Washington, DC
Amadeus North America Inc	114,928	3470 NW 82nd Ave	Doral, FL
Amtrak	106,360	10 G St NE	Washington, DC
United HealthCare Services Inc	92,727	2655 Warrenville Rd	Chicago, IL
CareMore Health System Inc	84,376	12900 Park Plaza Dr	Los Angeles,CA

Submarket	Total	Leasing Activity	Available SF			Availability Rate			Asking Rents Per SF		
	SF (1000's)	Last 12 Months	This Quarter	% Change from Last Qtr.	Year Ago	This Quarter	pp Change from Last Qtr. (1)	Year Ago	This Quarter	% Change from Last Qtr.	Year Ago
Atlanta	202,640	7,466	35,550	11.7%	32,934	17.5%	-1.7%	19.9%	$23.76	-2.9%	$23.21
Atlanta - Class A	105,055	4,516	18,767	2.1%	18,266	17.9%	-0.8%	18.5%	$27.31	-0.6%	$26.64
Austin	68,465	5,478	7,812	-6.8%	8,888	11.4%	-0.8%	13.1%	$35.80	0.6%	$31.59
Austin - Class A	30,549	3,557	4,110	-7.5%	4,791	13.5%	-1.1%	15.8%	$40.84	0.5%	$36.33
Baltimore	110,791	4,303	18,042	-5.3%	20,439	16.3%	-0.9%	17.8%	$22.89	0.0%	$22.99
Baltimore - Class A	47,718	2,208	9,654	-8.5%	10,951	20.2%	-1.9%	21.4%	$26.75	-0.4%	$24.20
Boston	287,852	10,888	37,517	0.0%	39,854	13.0%	0.0%	13.9%	$32.33	-0.1%	$31.18
Boston - Class A	136,254	5,578	19,922	-0.4%	20,531	14.6%	-0.1%	15.1%	$40.90	0.1%	$40.86
Charlotte	91,758	4,200	9,040	-5.8%	10,681	9.9%	-0.6%	11.6%	$25.23	0.8%	$20.48
Charlotte - Class A	48,882	1,892	5,807	-7.3%	6,638	11.9%	-0.9%	13.6%	$28.00	0.3%	$23.21
Chicago CBD	145,947	10,015	22,580	-3.8%	22,437	15.5%	-0.6%	15.3%	$38.83	1.3%	$37.92
Chicago - Class A	70,066	5,996	11,217	-1.4%	11,471	16.0%	-0.2%	16.7%	$43.84	0.9%	$42.34
Suburban Chicago	115,809	4,883	28,030	-1.0%	27,307	24.2%	-0.2%	22.9%	$22.82	-0.7%	$23.02
Suburban Chicago - Class A	63,095	3,120	16,125	-2.4%	16,013	25.6%	-0.6%	25.5%	$25.63	-0.6%	$25.90
Dallas/Fort Worth	222,409	13,912	52,487	0.8%	46,053	23.6%	-0.2%	21.9%	$24.31	0.0%	$24.01
Dallas/Fort Worth - Class A	123,373	8,363	30,619	1.3%	26,022	24.8%	0.4%	22.5%	$26.29	0.2%	$25.82
Denver	117,482	8,706	20,417	-0.4%	20,288	17.4%	-0.1%	17.6%	$26.63	0.2%	$25.97
Denver - Class A	51,144	4,549	9,979	-3.7%	9,911	19.5%	-0.8%	20.1%	$29.67	0.0%	$29.36
Houston	187,166	8,527	53,204	1.9%	51,389	28.4%	0.5%	26.6%	$28.95	0.9%	$28.96
Houston - Class A	108,125	4,985	33,663	1.3%	31,313	31.1%	0.4%	30.0%	$33.78	1.4%	$34.06
Los Angeles	211,282	14,124	37,001	0.8%	37,672	17.5%	-0.2%	18.3%	$36.52	-0.1%	$37.89
Los Angeles - Class A	145,209	10,898	25,865	1.8%	26,904	17.8%	0.3%	18.6%	$38.70	-0.7%	$40.46
New Jersey	145,987	8,600	34,050	-1.2%	36,195	23.3%	-0.3%	24.6%	$28.79	0.7%	$27.94
New Jersey - Class A	119,298	7,244	28,752	0.1%	29,721	24.1%	0.0%	24.8%	$29.72	0.8%	$28.94
New York	452,982	29,848	48,656	-3.3%	47,433	10.7%	-0.4%	10.6%	$73.21	-2.2%	$74.92
New York - Class A	220,247	16,778	26,822	-8.2%	26,679	12.2%	-1.1%	12.4%	$81.84	-1.9%	$82.38
Orange County	80,520	7,943	13,688	-2.5%	13,144	17.0%	-0.4%	16.4%	$30.57	0.4%	$30.23
Orange County - Class A	42,470	4,610	8,145	-1.4%	7,607	19.2%	-0.3%	18.0%	$34.31	0.9%	$34.44
Philadelphia CBD	45,606	2,908	6,821	10.3%	6,542	15.0%	1.2%	14.6%	$31.54	1.1%	$30.14
Philadelphia - Class A	29,479	1,972	4,194	10.4%	3,833	14.2%	1.1%	13.2%	$32.40	0.4%	$32.29
Suburban Philadelphia	49,239	3,408	8,972	-2.7%	10,453	18.2%	-0.7%	20.6%	$27.54	2.4%	$25.29
Suburban Philadelphia - Class A	33,462	2,309	5,083	-6.1%	6,443	15.2%	-1.0%	18.3%	$28.59	1.8%	$26.67
Phoenix	120,211	7,961	21,906	-2.4%	23,278	18.2%	-0.4%	19.4%	$24.61	0.3%	$22.55
Phoenix - Class A	42,560	3,226	7,727	-4.7%	8,652	18.2%	-0.9%	20.3%	$28.31	-0.2%	$27.16
Raleigh/Durham	53,581	3,259	8,020	10.9%	7,485	15.0%	1.5%	14.6%	$24.42	3.9%	$22.36
Raleigh/Durham - Class A	33,025	2,497	5,271	16.4%	4,662	16.0%	2.3%	15.1%	$26.76	2.8%	$24.90
San Francisco	79,746	6,964	7,585	-8.5%	7,587	9.5%	-0.9%	9.5%	$67.80	-1.0%	$64.30
San Francisco - Class A	48,468	4,109	4,939	-9.4%	4,935	10.2%	-1.1%	10.2%	$68.50	-0.6%	$66.12
San Diego	65,981	5,571	10,371	2.2%	11,663	15.7%	0.3%	17.7%	$32.48	0.0%	$32.81
San Diego - Class A	29,483	2,228	5,019	2.2%	5,178	17.0%	0.4%	17.6%	$35.53	-0.3%	$37.42
Seattle	119,532	8,428	15,076	-3.3%	16,725	12.6%	-0.5%	14.3%	$30.85	-0.1%	$31.15
Seattle - Class A	58,382	4,840	6,030	-3.9%	7,438	10.3%	-0.6%	13.4%	$39.34	0.3%	$39.53
Silicon Valley	81,135	3,932	12,992	2.0%	11,787	16.0%	0.3%	14.5%	$49.66	-1.3%	$44.17
Silicon Valley - Class A	26,237	1,747	5,507	-0.4%	4,711	21.0%	-0.1%	17.9%	$51.34	0.8%	$43.16
South Florida	112,796	6,488	18,071	1.2%	18,430	16.0%	0.2%	16.3%	$31.39	-0.1%	$30.10
South Florida - Class A	51,718	3,500	8,732	-0.1%	8,497	16.9%	0.0%	16.4%	$35.36	-0.3%	$34.16
Tampa Bay	54,590	3,288	7,461	-7.8%	8,639	13.7%	-1.2%	15.8%	$22.60	0.7%	$21.65
Tampa Bay - Class A	23,825	1,652	2,740	-6.6%	3,079	11.5%	-0.8%	12.9%	$27.44	2.2%	$25.93
Suburban Maryland	83,828	4,500	13,367	-1.9%	14,040	15.9%	-0.3%	16.7%	$26.53	0.6%	$26.29
Suburban Maryland- Class A	43,104	3,511	8,038	0.7%	8,285	18.6%	0.1%	19.2%	$27.80	1.2%	$27.29
Northern Virginia	168,582	9,976	34,906	1.1%	34,601	20.7%	0.2%	20.5%	$31.25	0.2%	$30.84
Northern Virginia - Class A	97,094	7,358	21,628	1.8%	21,365	22.3%	0.4%	22.0%	$33.20	-0.1%	$32.57
Washington, D.C.	130,636	7,173	18,581	5.1%	17,169	14.2%	0.7%	13.2%	$51.15	-0.4%	$51.74
Washington, D.C. - Class A	73,646	4,583	10,024	7.6%	9,460	13.6%	1.0%	12.9%	$55.02	-1.1%	$56.89
Savills Studley Major Markets Total	**3,731,584**	**208,932**	**619,444**	**-0.1%**	**622,225**	**16.7%**	**-0.2%**	**16.9%**	**$33.34**	**0.6%**	**$32.36**
Savills Studley Major Markets - Class A	**1,942,386**	**126,262**	**350,304**	**0.0%**	**350,005**	**18.1%**	**-0.2%**	**18.3%**	**$36.93**	**0.1%**	**$35.87**

Please contact us for further information

Savills Studley
399 Park Avenue
New York, NY 10022
(212) 326-1000

Chairman & CEO
Mitchell S. Steir
msteir@savills-studley.com
(212) 326-1000

Corporate Research Contact
Keith DeCoster
kdecoster@savills-studley.com
(212) 326-1023

(1) Percentage point change for availability rates.
Unless otherwise noted, all rents quoted throughout this report are average asking gross (full service) rents psf.
Statistics are calculated using both direct and sublease information.
Short-term sublet spaces (terms under two years) were excluded.