VTS

VTS Office Demand Index (VODI).

MONTHLY REPORT: MARCH 2021

KEY TAKEAWAYS FROM THIS REPORT:

- Stronger-than-expected growth in the VTS Office Demand Index over February signals the beginning of a true recovery as confidence builds that the worst is behind us
- All markets saw growth in demand in February with New York City, Seattle and Washington, D.C. growing the fastest over the last month
- San Francisco, Los Angeles and Seattle remain closest to achieving pre-crisis levels, but pace could be slowing
- Though impacted by COVID-19 to a similar degree, demand for office space in Los Angeles and Boston differs dramatically
- New York and Washington, D.C. pick up the pace over February
- Full recovery of any office leasing market could depend on successfully meeting the public health challenge - how to make shared spaces safe for public health

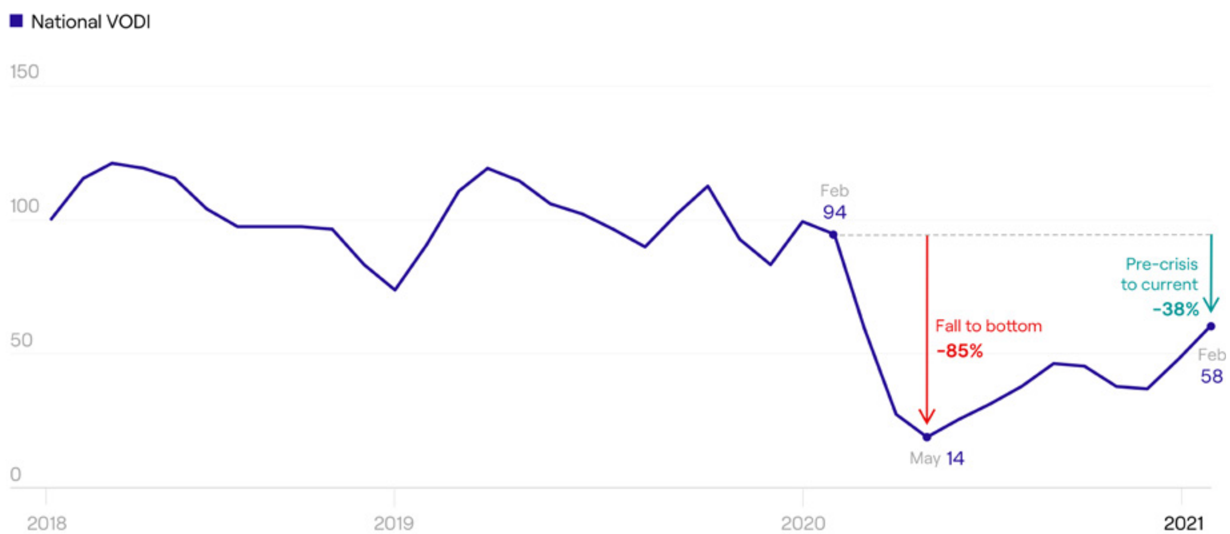
The National VODI Results

One year after the start of the pandemic, national demand for office space is only down by roughly a third

One year after the start of the pandemic, confidence that the worst is indeed behind us is finally starting to solidify. After topping 3,200 pandemic related deaths per day in early January and then dropping rapidly, experts forecast a national summer maximum of less than 1,200 COVID-19 deaths per day even in a worse case scenario fueled by relaxed public health policies. The most likely scenario has national COVID-19 deaths per day below 75 by July. Ongoing vaccinations, naturally acquired immunity, and the coming spring and summer weather provide a significant breather to imagine a world post-crisis. While some experts are still worried we won't reach sufficient herd immunity by next winter, it's an achievable milestone. And tenants of companies that utilize office space are starting to formulate those longer term plans.

Shocked by the implications of the global pandemic and frozen by uncertainty, national office demand activity plummeted over 85 percent from February to May in early 2020. After the initial shock, demand appeared to vacillate around 60 percent from those pre-crisis normals over the later half of 2020. After outpacing seasonal norms over the past three months, the VODI is just 38 percent from those pre-crisis levels one year ago.

VTS Office Demand Index (VODI)

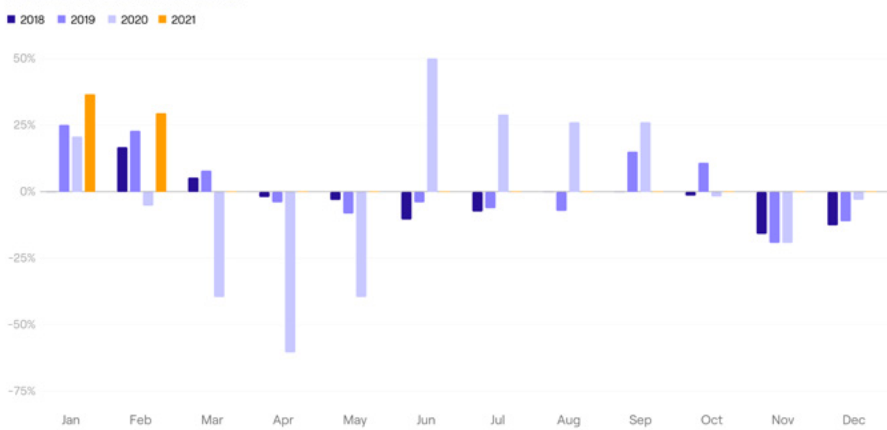


Demand for office space trends up in February, exceeding expectations from seasonality and providing hope for recovery

Nationally, new demand for office space in core markets trended upward in February increasing by 13 VODI points from January to 58. The VODI's rise in February still represents a somewhat smaller absolute burst in tours and toured space than in pre-crisis times. However, February is the third month in a row to outpace seasonal norms in relative terms. The February growth rate, a seasonally strong 29 percent, compounds a seasonally strong January growth (36%[1]) and a more mild decline in December (only -3%). For comparison, these months averaged 20, 23 and -12 percent during the two year pre-crisis record.

After such strong growth, over half of the demand lost from pre-crisis to a trough in May was recovered by the end of February. It will take several more months of exceptional growth to climb back to a full recovery nationally, but the strength of recent VODI growth, in combination with vaccination milestones and increasingly optimistic expert forecasts over the progress of the pandemic itself, could be signaling true progress.

VODI Month-Over-Month Trends



[1]January VODI levels have been restated upwards due to on-going data ingestion including tours logged after the fact by building brokers. Other sources of restatement originate in our smoothing process, which must account for the next and unobserved month's value. By forecasting the next month's value using only seasonality and no assumptions about recovery trends, our numbers are inherently conservative and restatements should always be to the upside.

As confidence in vaccines and mild weather continues to build, the industry continues to speculate what the new normal for US office space will be and with it, the future health and livability of downtowns currently in crisis. Many landlords, urbanites, and downtown advocates hope for a similar presence of employment and the daily social and economic activity it generates in downtown businesses.

Market by Market

February 2021 marks the first month since October 2020 that all core office markets covered by the VODI saw an increase in demand for office space

After a tumultuous year, the relative health of office leasing demand varies widely across the nation's gateway markets. The West Coast markets of Los Angeles, San Francisco and Seattle have pulled within an arm's length of pre-crisis levels. The California markets, however, are no longer the fastest-growing, as New York City (up 23 VODI points to 77) and Washington, D.C. (up 17 VODI points to 71) - two of the worst-performing markets in Q4 2020 - pick up the pace and potential tenants begin to more credibly explore new, future options.

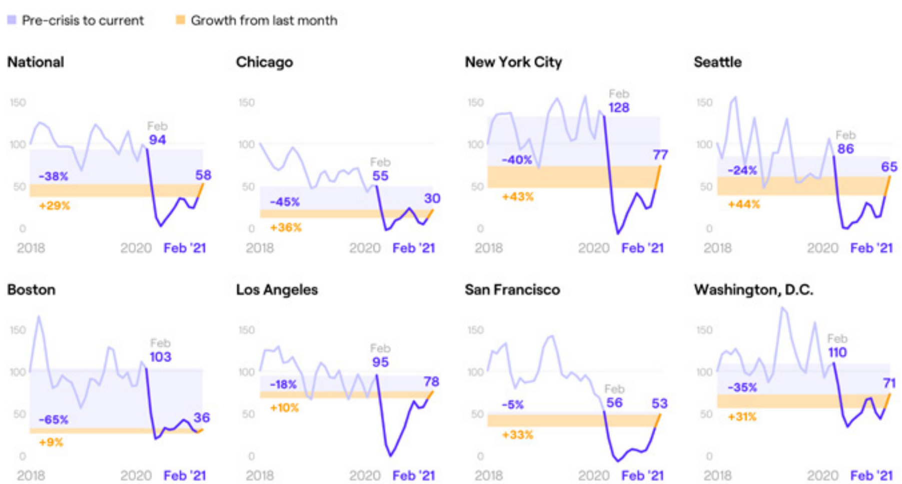
Demand Plummet, Pre-Crisis to Trough

Market	Feb '20	Trough	% of Fall to Bottom
1. Washington, DC	110	30	-72.7%
2. Boston	103	26	-74.8%
3. Chicago	55	9	-83.6%
4. Seattle	86	10	-88.4%
5. Los Angeles	95	11	-88.4%
6. New York City	128	7	-94.5%
7. San Francisco	56	3	-94.6%

Percent of Drop Recovered, Trough to Current

Market	Trough	Current	% of Fall Recovered
1. San Francisco	3	53	94.3%
2. Los Angeles	11	78	79.8%
3. Seattle	10	65	72.4%
4. New York City	7	77	57.9%
5. Washington, DC	30	71	51.3%
6. Chicago	9	30	45.7%
7. Boston	26	36	13.0%

VTS Office Demand Index by Market



San Francisco has rebounded by 95 percent

After experiencing the lowest bottom of all markets with virtually no office tenant demand in mid-2020, the San Francisco VODI saw strong growth over each of the last three months, increasing 38 VODI points from 15 in November to 53 in February - only three index points (5%) from pre-crisis February 2020 levels (56). As of February 2021, almost all (94%) of the demand lost in the early pandemic days has been recovered in San Francisco, the highest of all gateway markets.

But while San Francisco's recent and sustained recovery in office demand is great news for this leasing season, for owners in the market, real recovery might take even longer given that market demand was down markedly in the months leading up to the pandemic. Inhibited by eroding availability and affordability, demand slowed for much of 2019. By January 2020, San Francisco VODI was down by over 40 percent from the previous year. The next several months will clarify if San Francisco's early recovery represents certain advantages, early actions, or landlord investments in tackling the public health crisis. Such moves could reverse those downward pre-crisis trends and return San Francisco to its previous popularity. With the volatility of a time dominated by uncertainty however, early recovery could simply be the timing of luck and other metros may catch-up.

Los Angeles, in contrast, entered the pandemic roughly stable at a VODI level of 95 and experienced the highest incidence of COVID-19 cases across our covered markets. As of the end of February, the cumulative number of COVID-19 cases in the Los Angeles metro reached almost 11 percent per capita. These features make the rapid recovery to pre-crisis all the more impressive and potentially indicative of sustained expansion in Los Angeles-centric industries, such as content creation, or Los Angeles office space in general - perhaps due to a mild climate enabling open air public health solutions. Los Angeles office demand in February rose 7 index points (+10%) from January and has now recovered 80 percent of the demand lost after the pandemic hit in March 2020. Overtaken by San Francisco, Los Angeles still leads Seattle as the second closest to pre-crisis levels with only 18 percent from February 2020, but moving at less than half the pace, Los Angeles may not hold onto its lead for long.

VODI vs. COVID-19 Cases per Capita

New York City office demand sets pace in February 2021. Seattle sees the second-biggest jump in demand for office space with Washington D.C. coming in third

New York City office demand experienced the strongest monthly gains of any metro for the first time since July 2020 with a 23 point rise over February (a whopping 43% increase) to 77 VODI points. Including strong January growth, demand for office space in New York City jumped 120 percent since the new year and is now only down 40 percent from pre-pandemic levels seen one year ago.

While growing at a faster clip, the still relatively soft demand in New York City continues to provide an opportunity for space in the most iconic of buildings. Though the pace of growth is slowing somewhat, the flight to quality in office demand is still significant with Trophy and Class A taking up 76 percent of all toured space in February, up from 60 percent pre-crisis.

After one of the biggest falls during the early days of the pandemic – New York City office demand fell 95 percent from hot market conditions in February 2020 to the pandemic trough in May – the New York market has a big hole to climb out of and so remains behind West Coast markets in terms of recovery to pre-crisis levels.

After solid growth in early 2021, Seattle office leasing demand is down only 24 percent from the pre-crisis levels one year ago. Although one of the most volatile markets, even pre-crisis, relatively strong summer growth was followed by one of the more significant seasonal declines over Q4. More recently, Seattle's office demand is back on pace – posting the strongest January (+22 index points) and second strongest February (+20 index points) of any market covered behind New York City.

While the new demand in February 2021 includes smaller tenants, the interest from some larger employers increased the average requirement size over both January and February. The average requirement size in Seattle topped 17.6k square feet in February, significantly larger than January and February 2020.

With the election and transfers of federal power in the rear-view mirror, Washington, D.C. experienced modest gains over February with a 17 point rise to 71 - a pace exceeded only by the New York City and Seattle markets. The January and February gains helped to reverse their severe slide in office demand over Q4 - a fall from 66 to 40 from October to December – likely caused by uncertainty introduced from the uneasy transfer of power after the election. Still solidly in the middle of the pack in its progress back to normalcy, Washington, D.C. office demand in February is only 35 percent below pre-crisis levels.

Month to Month Growth – West Coast

Month to Month Growth – East Coast

Boston and Chicago continue to lag behind all other core markets on their march to recovery

The first to hit bottom, Boston and Chicago were also the first to begin climbing back out. Benefited by a relatively mild initial demand shock (losing only 75 percent of demand activity from February to April 2020) and solid recovery up until October 2020, Boston outperformed early in the pandemic but has since lagged materially. Only gaining 3 index points over February after losing 3 in January, Boston office demand index remains 65 percent from pre-crisis levels.

Unlike other markets, several large tenants engaged the market during the early months of the pandemic, supporting demand to an extent. These large tenants have been absent from the Boston office leasing market over the past several months, whereas we are seeing larger tenant requirements drive demand in many other markets.

Similar to Boston, Chicago was originally the stage of one of the more impressive recoveries in mid-2020, but a significant slump from September 2020 through the end of the year weighed heavily on demand and has yet to be fully reversed. Having reached an index value of 32 by September 2020, Chicago VODI – currently at only 30, stands 45 percent below pre-crisis levels.

The gap in recovery between Boston and Chicago and other markets is now significant. Because labor market conditions are not as extremely distinguished, it's not unlikely that these delayed markets could soon see their own renewed and aggressive growth off the bottom.

Methodology

VTS is the leading provider of leasing, marketing, and asset management software for commercial real estate landlords, with market share in excess of 65% for office buildings in every major market. The VTS platform captures, aggregates, and anonymizes supply and demand data across all office asset classes and age segments. Due to VTS' market share and the multiple spaces considered by tenants in a given search, VTS sees 99% of all newly created tenant "requirements." With this unprecedented view, VTS has developed a new index, the VTS Office Demand Index, to be published monthly, to provide landlords, brokers, tenants, and the business community with visibility into a previously opaque segment of the market – real-time tenant demand in the US office leasing market.

The VODI reflects the total square feet toured by tenants in a given month relative to the total property square feet tracked in VTS' expansive network of leasing, marketing, and asset management software. to control for new construction and VTS' own market expansion.

The reported index is a smoothed but not seasonally adjusted view of this demand ratio. The smoothing procedure is a symmetric 3-month moving average where the concurrent month's value is weighed twice as heavily as either of the adjacent months to better surface overall trends without losing the month-to-month variability of interest to market analysts during this time. To compute the most recent month, VTS projects the relative demand ratio forward by one month using the seasonality inherent in the raw national series before smoothing.

To enhance comparability across regions, VODI is reported as an indexed value from the base month, January 2018.

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