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DALLAS  
SEATTLE  
LOS ANGELES  
BOSTON  
NEW YORK



2020  
GATEWAY  
OFFICE  
**CAPITAL  
MARKETS  
REPORT**

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# 2020 GATEWAY OFFICE CAPITAL MARKETS REPORT

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# Key Takeaways

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## MACRO CAPITAL Trends

- » Gateway office markets continue to attract high levels of institutional capital, recording more than \$80 billion in investment volume in 2019—nearly 60% of all office volume in the United States.
- » The major gateways outperformed their non-gateway peers in terms of overall investment sales volume growth, recording a 5.4% year-over-year increase in 2019, compared with a 2.2% increase in non-gateway volume.
- » As yields continue to compress in multifamily and industrial sectors—a trend that will likely continue throughout 2020—some investors have pivoted back toward office in search of better risk-adjusted returns.
- » Various suburban office markets, within the larger gateway metros—such as San Jose, Cambridge, and Arlington—have undergone sizable growth in the current cycle, with the delivery of top-quality product attracting record amounts of institutional capital.
- » Specialty asset types—such as R&D space with dry and wet lab components—are attracting an increasing amount of institutional investment, both due to the long-term growth prospects of the life sciences and technology industries, as well as a limited amount of new supply.
- » International groups continue to allocate the most capital to core and core-plus gateway office product, with groups from Canada, Germany and the Middle East responsible for the most activity in 2019 from international investors.



## DEBT MARKET Themes

- » With low benchmark interest rates and increased competition among lenders, debt remains historically inexpensive at a point in time where liquidity and transaction volume are at a near-cycle high.
- » Of the \$154.5 billion in office financing activity in 2019, more than 64% occurred in the gateway markets, led by the national banks such as Wells Fargo and funds such as Blackstone.



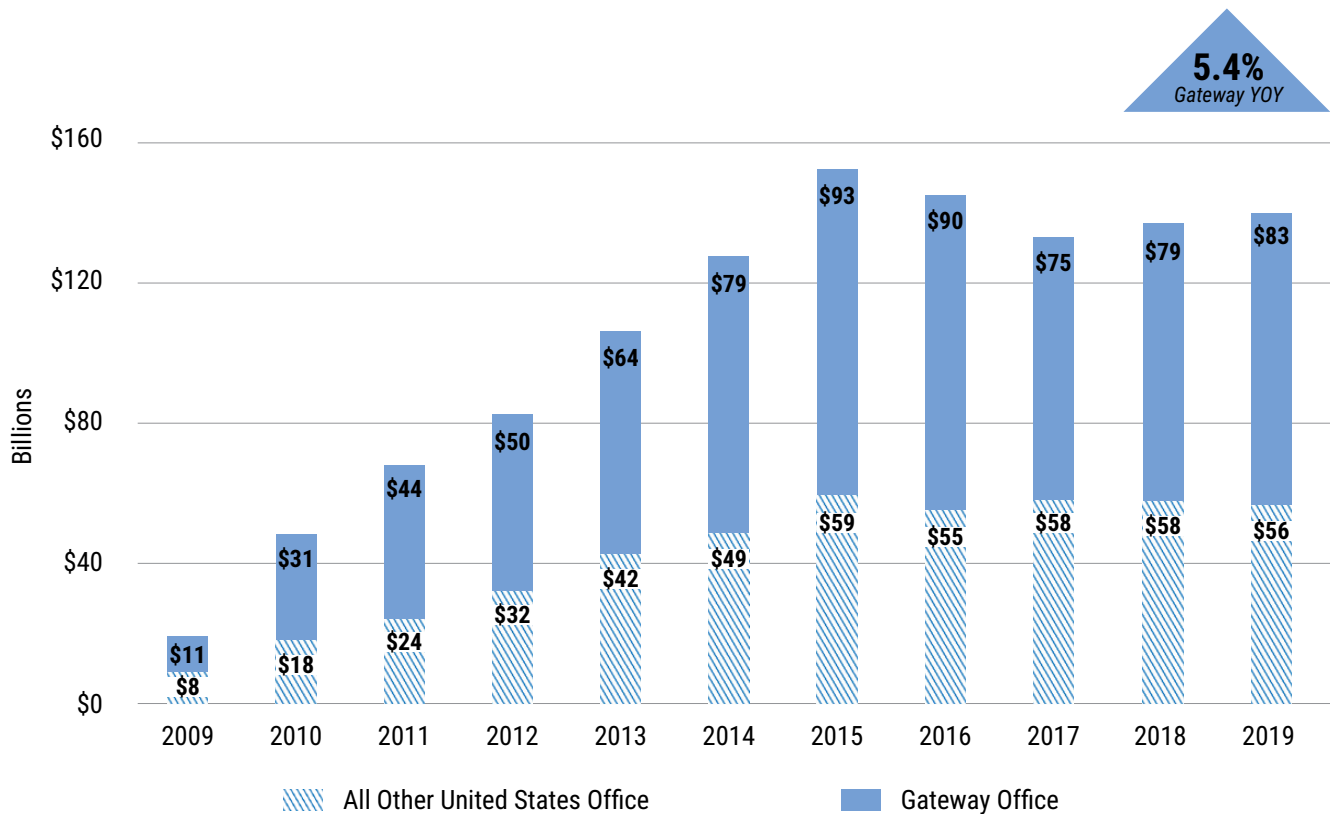
## GATEWAY MARKET Analysis

- » The significant appetite for office space from technology firms has been a persistent theme across all gateway metros and has led to the transformation of markets such as Midtown South in Manhattan, the Seaport District in Boston, Pioneer Square in Seattle and Culver City in Los Angeles.
- » Seattle was the recipient of the second most capital in the country after Manhattan in 2019, aided by a strong construction pipeline that has delivered a record amount of Class A product to market, and fueled by strong leasing and demographic trends.
- » Boston's CBD remains one of the most liquid office markets in the country, but institutional investors have also increasingly targeted suburban product on Boston's Urban Edge, in markets such as Watertown and Waltham.
- » Institutional investors allocated far more capital to Dallas in 2019 compared with the last cycle peak in 2007 and have been swayed by its large supply of newer-build Class A product, a strong job market and the ability to attract corporate hubs and headquarters.

# VOLUME BY MARKET

- While total office volume increased by a modest 2.2% to \$139.7 billion in 2019, gateway office volume increased by more than 5% to \$83.3 billion, aided by investor demand for gateway CBD product as well as suburban and specialty product in emerging markets located further outside the urban cores.
- New York City continues to be the largest office market in the country, representing nearly 15% of overall office volume and over a quarter of gateway volume; \$250M+ deals make up the largest concentration of deal volume, as demand for trophy product remains strong.
- In markets with a significant supply of suburban office product, such as Dallas, Denver and Los Angeles, smaller deal sizes (\$25M to \$100M) made up the greatest share of volume, averaging about 41% of volume.
- In Dallas and Seattle, 2000s vintage product continues to drive the bulk of investment volume, accounting for the largest share of volume in both markets—60% and 46% respectively.
- Seattle in particular, has recorded high levels of office construction to meet unprecedented tenant demand, with an estimated 5.6 million square feet expected to be completed in 2020.
- Older, pre-1950s product makes up the largest share of investment volume in the more-established and supply-constrained gateway markets like Boston and New York City, where renovations and redevelopments are more common than new construction.

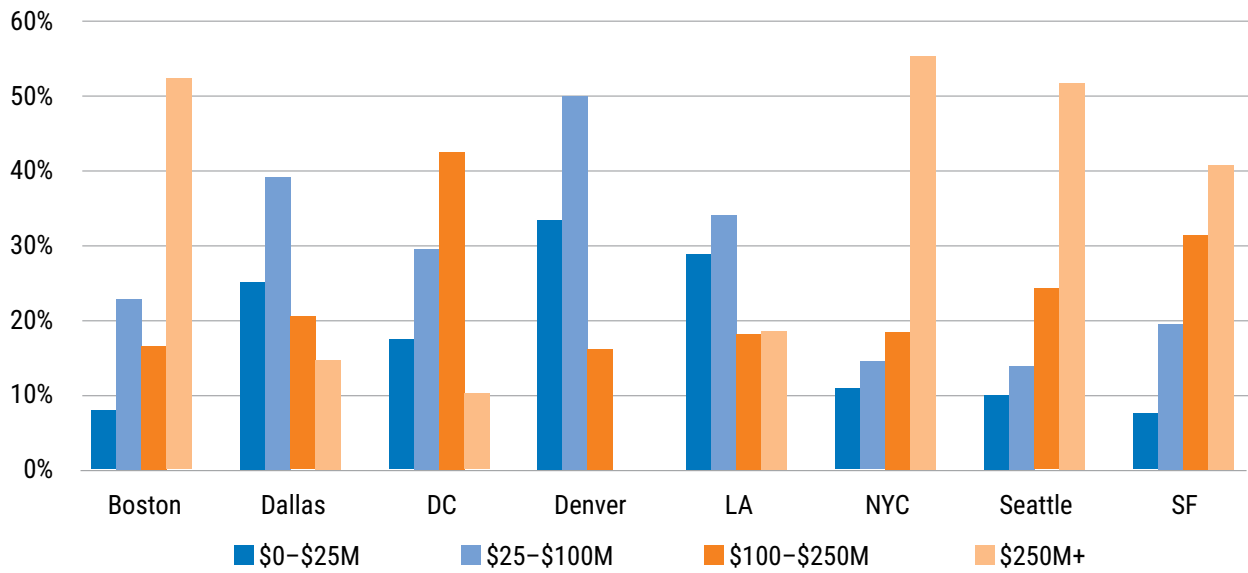
## TOTAL OFFICE VOLUME VS. GATEWAY OFFICE VOLUME



Source: Real Capital Analytics.

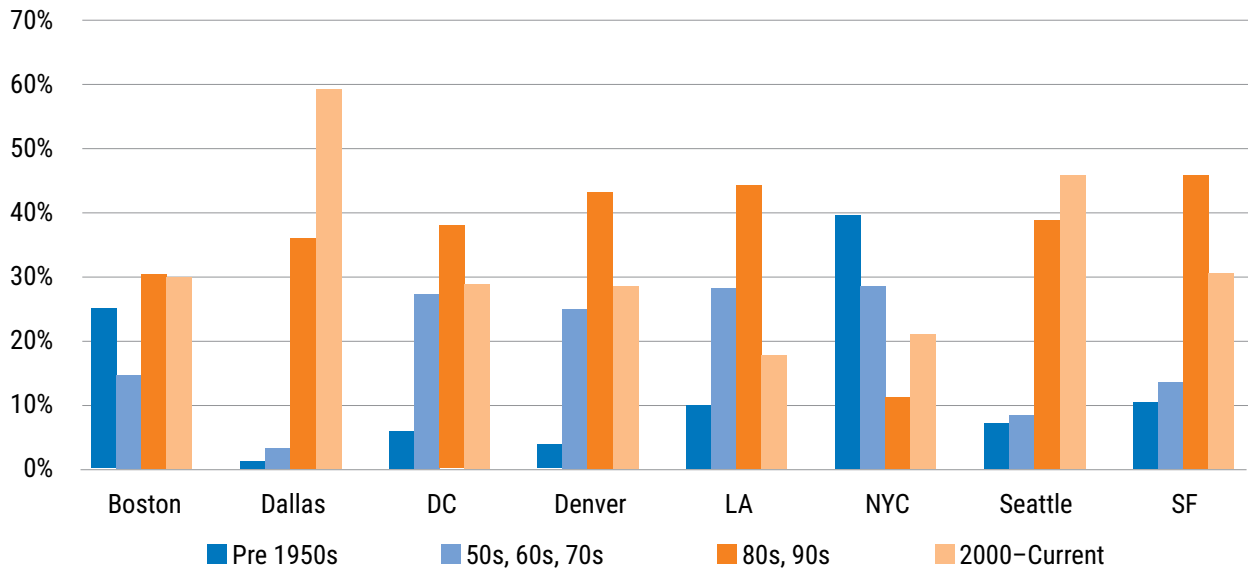


## PERCENTAGE OF VOLUME | DEAL SIZE



Source: Real Capital Analytics.

## PERCENTAGE OF VOLUME | YEAR BUILT



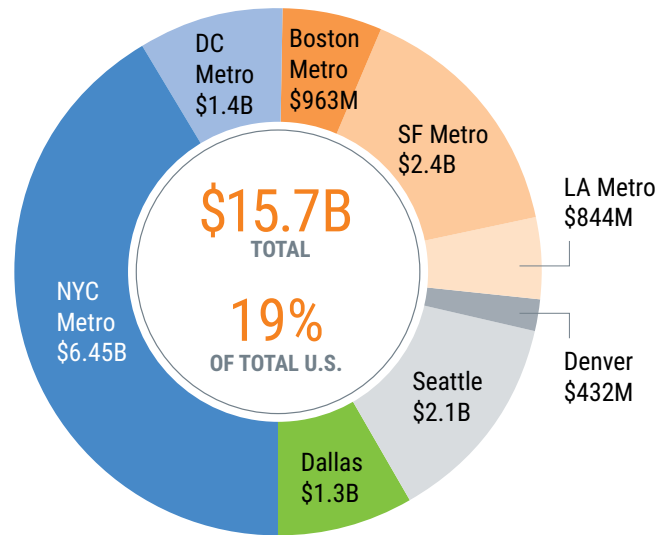
Source: Real Capital Analytics.



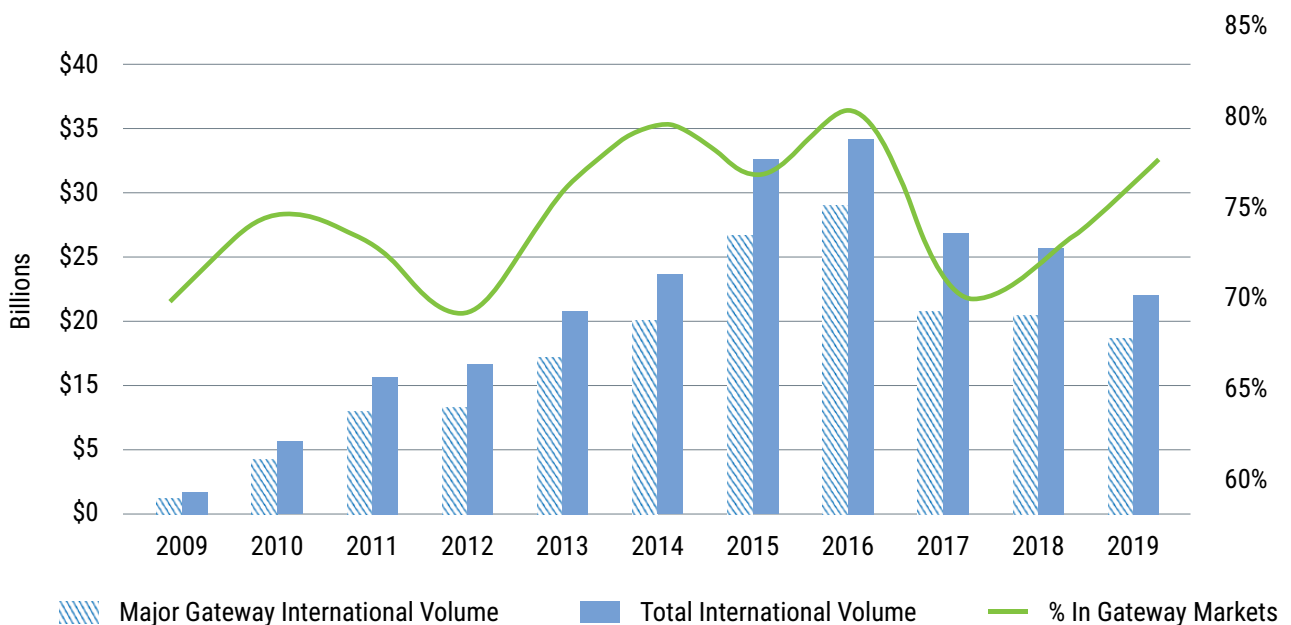
# INTERNATIONAL CAPITAL INVESTMENT

- International office volume in the gateway markets declined by 12.1% to \$15.7 billion in 2019. Activity for all property types was more acutely impacted, declining by 47.3% year-over-year on lower entity-level activity.
- Nearly 80% of international office investment volume was allocated to the eight gateway markets in 2019, reinforcing the preferences of international groups, which prioritize core and core-plus office product in established markets.
- Canadian groups remain the largest historical source of capital for gateway office product, with groups such as Brookfield, CPP Investment Board, CDPQ and OMERS collectively spending nearly \$15 billion in the past five years.

## 2019 INTERNATIONAL VOLUME

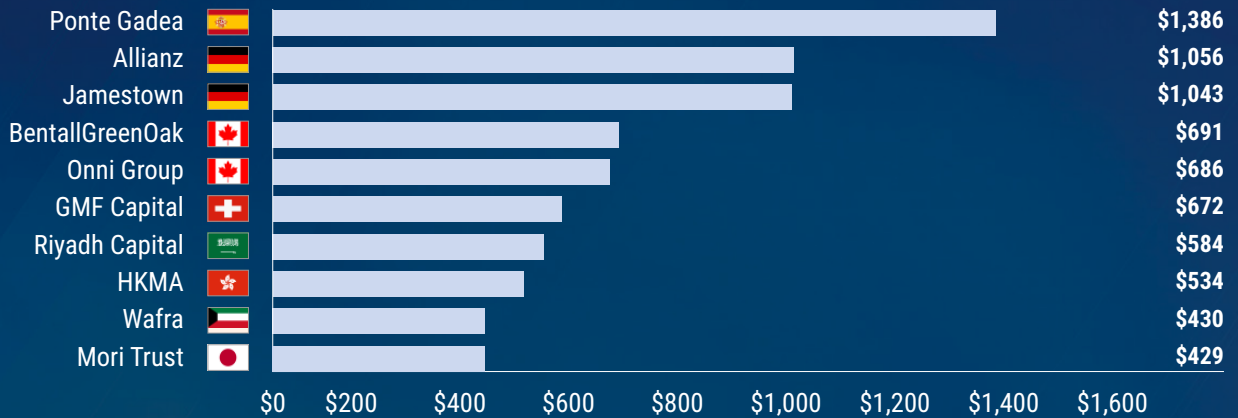


## INTERNATIONAL VOLUME



Source: Real Capital Analytics.

## 2019 VOLUME BY GROUP | DOLLARS IN MILLIONS



## 10-YEAR VOLUME BY GROUP | DOLLARS IN MILLIONS



Source: Real Capital Analytics.



**ALEX FOSHAY**

Vice Chairman, Divisional Head  
of International Capital Markets

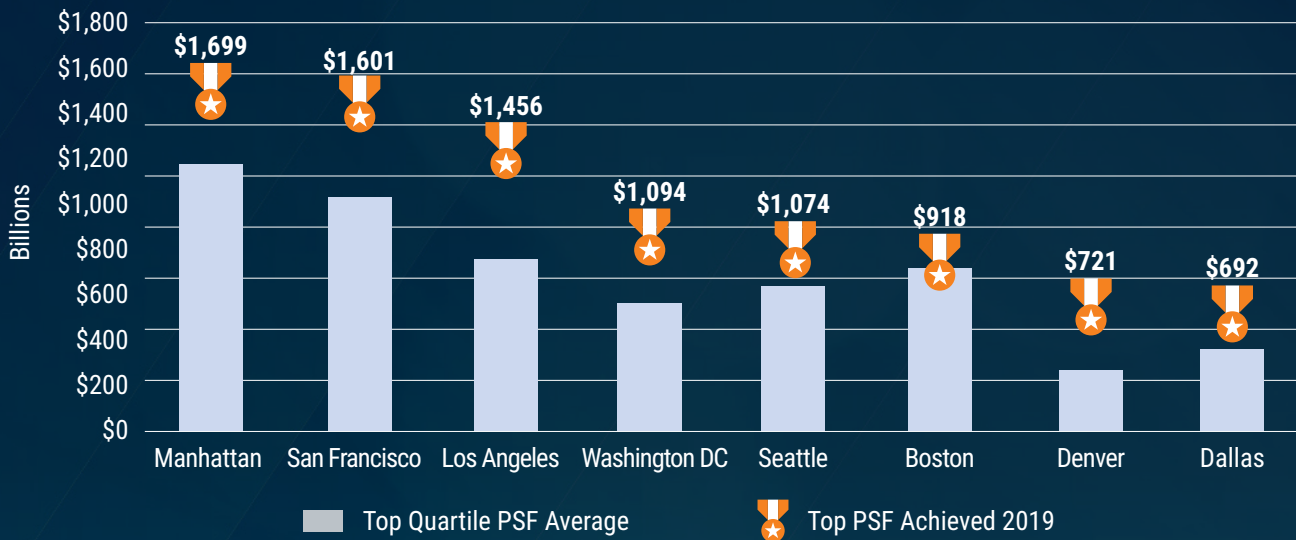
"While the \$49 billion total invested by off-shore groups in 2019 is down 47% from 2018, that decline was not reflected in international investment into the office sector in the U.S. gateway markets, which came off by a relatively modest 12%. Furthermore, while Canadian and Singaporean institutions pulled back on massive platform level investment in the U.S., the total invested into individual assets by overseas groups actually increased \$1.8 billion from 2018 to 2019.

With hedging costs relative to the U.S. Dollar falling, negative yielding government bonds in Germany, continued deflationary economic threats in Japan and the attractive returns offered by U.S. commercial real estate relative to other gateway markets globally; we expect to see a significant increase in off-shore investment into the U.S. in 2020. European pension funds and Korean institutions, the two most impacted groups by elevated hedging costs over the last 24 months, will lead that trend. Canadian pension funds, Singaporean REITs and Japanese institutions will continue to be major contributors and Middle Eastern investment from sovereign funds and high net worth individuals/syndicating groups will continue to build on their 50% increase posted in 2019."

# INSTITUTIONAL-QUALITY ASSETS

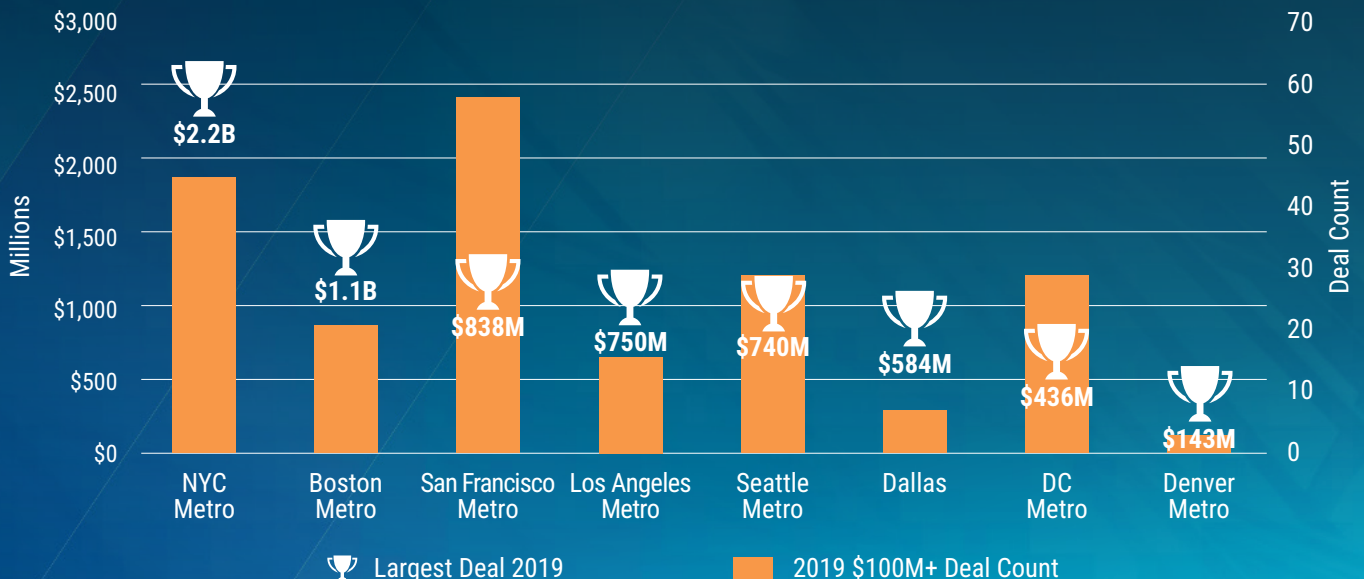
- Top quality office product in both New York City and San Francisco averaged over \$1,000 PSF, as tech-driven Midtown South product and San Francisco's supply-constrained downtown market remain at cycle highs for pricing.
- While Denver office trails the top gateway markets in terms of average pricing, the newly built Financial House in the fast-accelerating Cherry Creek submarket surpassed \$700 PSF in 2019, demonstrating the high demand for top new-build product in the market.
- San Francisco had the highest amount of \$100M+ transactions in 2019 at 58, split evenly between Downtown San Francisco and the booming San Jose/Silicon Valley markets.

## INSTITUTIONAL-QUALITY ASSETS



\*\$25M+ Transactions.

## \$100M+ DEALS



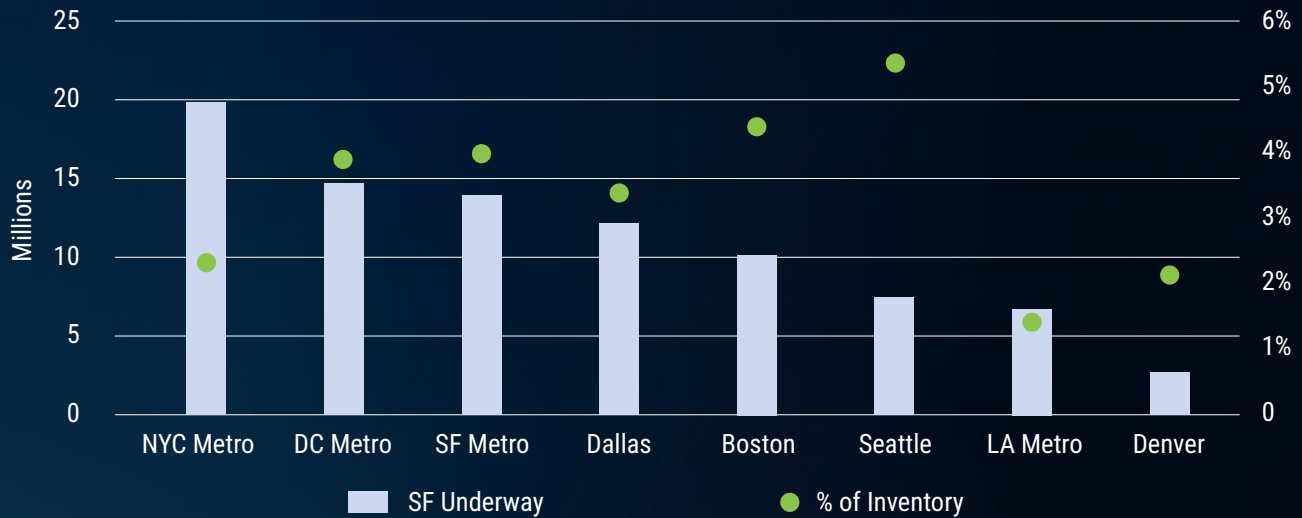
Source: Real Capital Analytics.



# CONSTRUCTION ACTIVITY

- Seattle leads the gateway markets in terms of inventory growth, with an estimated 5.6 million square feet of Class A product expected to be delivered in 2020. However, tenant demand remains at a record high, with headline developments like Binary Towers in Bellevue, already fully leased to tenants such as Amazon.
- New York City has the largest amount of construction activity, totaling nearly 20 million square feet, which includes some of the most high-profile developments in the country, such as the Spiral and One Manhattan West located in Hudson Yards.

## NEW CONSTRUCTION ACTIVITY



Source: Real Capital Analytics.

## SELECT MAJOR CONSTRUCTION PROJECTS



**HUDSON YARDS**  
New York, NY



**AMAZON CAMPUS**  
Arlington, VA



**THE STAR**  
Frisco, TX



**BINARY TOWERS**  
Bellevue, WA



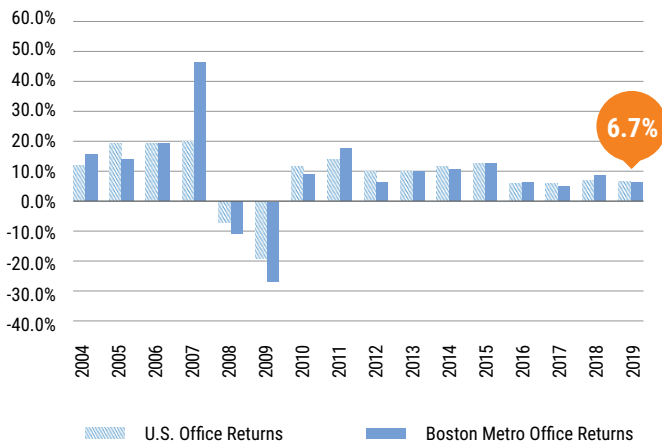
**ALEXANDRIA LIFE SCIENCES**  
Boston, MA

Source: Amazon Campus—JBG Smith, Project website, NKF Research, April 2019; Binary Tower—buildingbellevue.bellevuewa.gov; Alexandria Life Sciences—Boston Planning and Development Agency website, <http://www.bostonplans.org/projects/development-projects/15-necco-street>

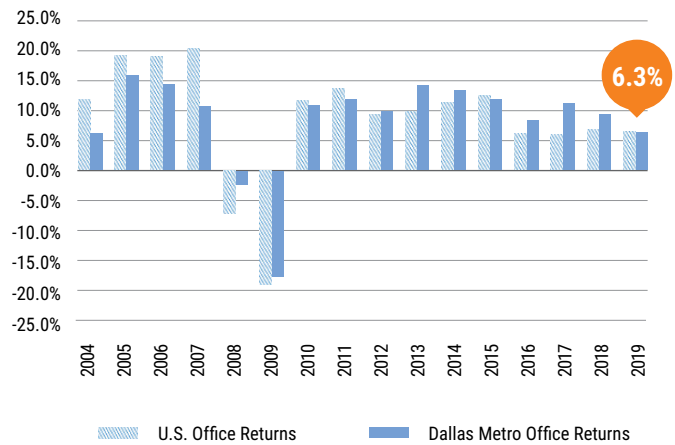
# TOTAL RETURNS BY METRO

- The largest metro markets prove they are the first to recover from market corrections. New York City, Washington DC, and San Francisco outperformed the general office market by over 6.5% in 2010, with New York City beating the general market by more than 10%.
- The West Coast gateways—Seattle, San Francisco and Los Angeles—experienced the highest average total returns of the gateway markets, and have all benefited from higher allocations from institutional investors.

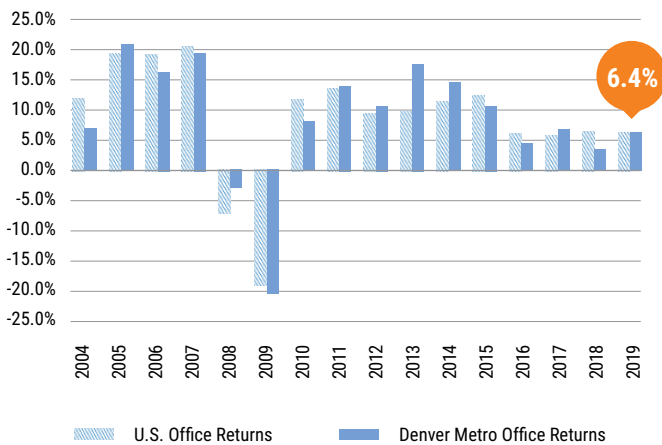
## BOSTON VS. OVERALL U.S. OFFICE TOTAL RETURNS



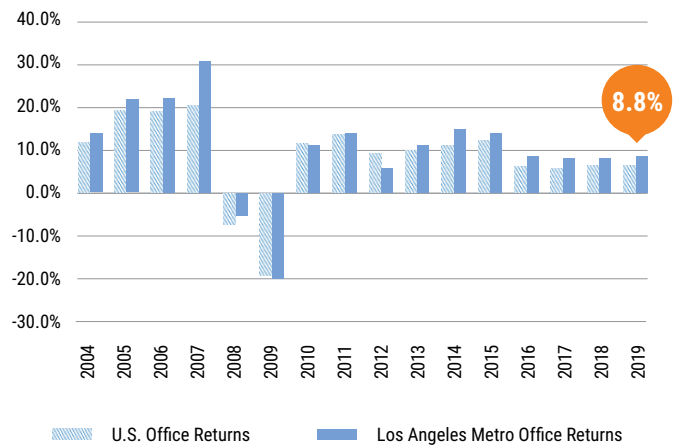
## DALLAS VS. OVERALL U.S. OFFICE TOTAL RETURNS



## DENVER VS. OVERALL U.S. OFFICE TOTAL RETURNS



## LOS ANGELES VS. OVERALL U.S. OFFICE TOTAL RETURNS

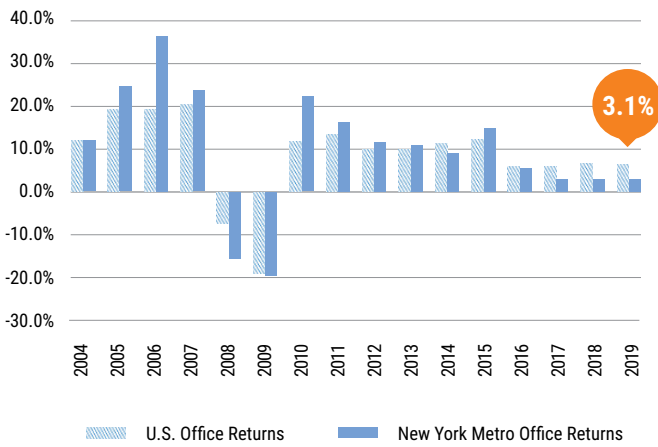


Source: NCREIF.

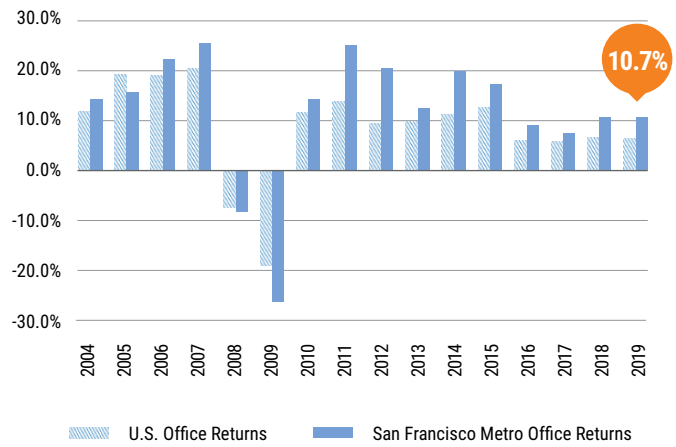


- While Dallas office total returns lagged behind the rest of the country in the last cycle, average annual total returns in the current cycle were 10.8%—significantly higher than the national average—supported by high levels of population and employment growth as well as a wave of new development.
- San Francisco recorded the highest office total returns of all the gateways in 2019 at 10.7%, as the supply constrained CBD has witnessed unprecedented levels of rental growth and as the tech-dominated Silicon Valley markets continue to attract record amounts of institutional capital.

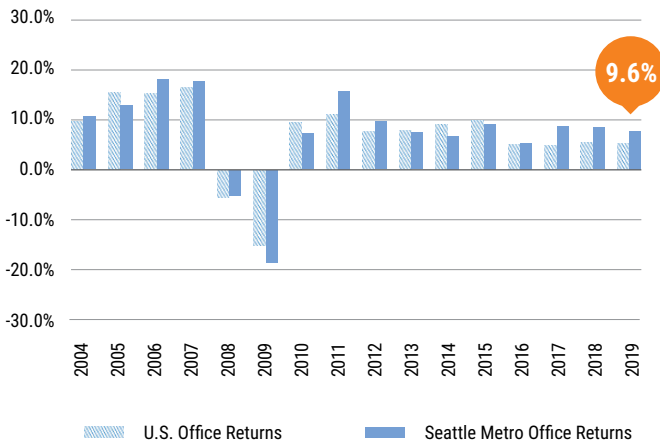
## NEW YORK CITY VS. OVERALL U.S. OFFICE TOTAL RETURNS



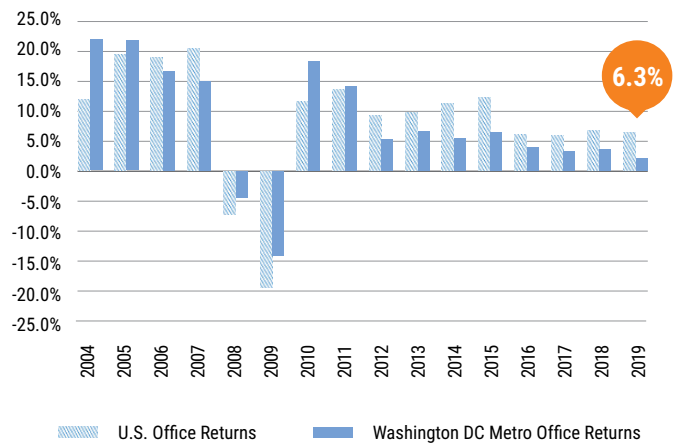
## SAN FRANCISCO VS. OVERALL U.S. OFFICE TOTAL RETURNS



## SEATTLE VS. OVERALL U.S. OFFICE TOTAL RETURNS



## WASHINGTON DC VS. OVERALL U.S. OFFICE TOTAL RETURNS



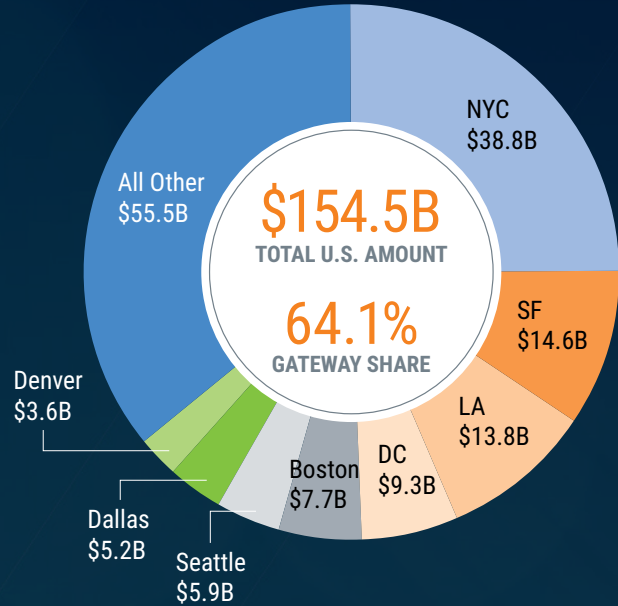
Source: NCREIF.



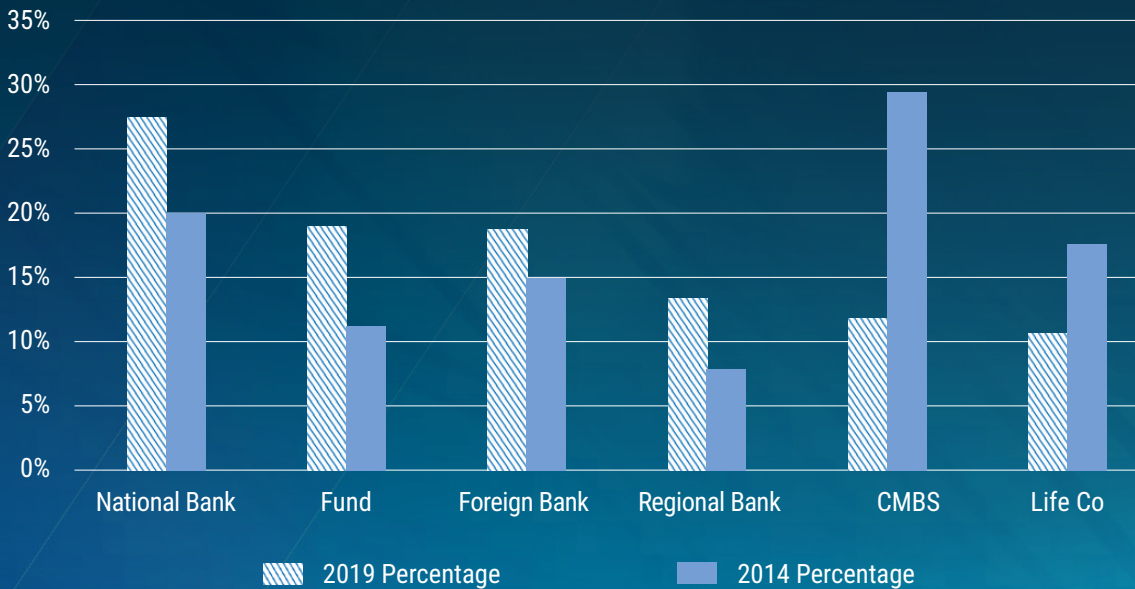
# FINANCING

- Lending in the gateway markets was led by national banks, such as Wells Fargo, Bank of America and JP Morgan, which collectively originated more than \$20 billion in 2019.
- Debt funds have been the fastest growing segment in the debt markets, increasing in market share from just more than 10% in 2014 to 20% in 2019.
- Unrestrained by the same lending requirements as banks, debt funds have been able to fill a niche in the debt markets and cater to a wider range of risk appetite from investors.

## TOTAL FINANCING ACTIVITY



## LENDER COMPOSITION | GATEWAY OFFICE 2019 VS. 2014

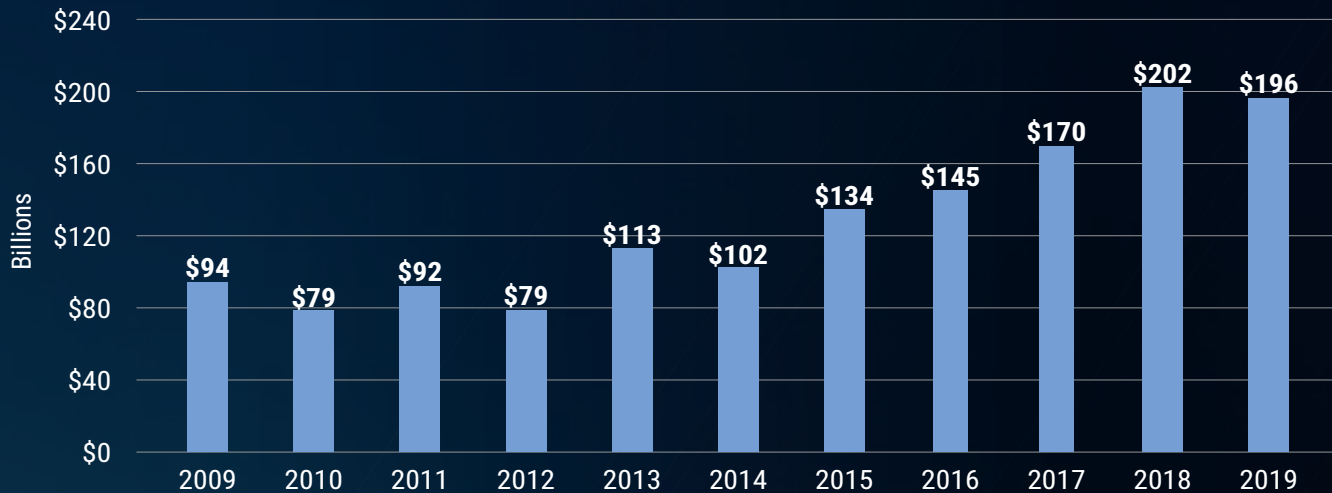


Source: Real Capital Analytics.

# DRY POWDER TRENDS

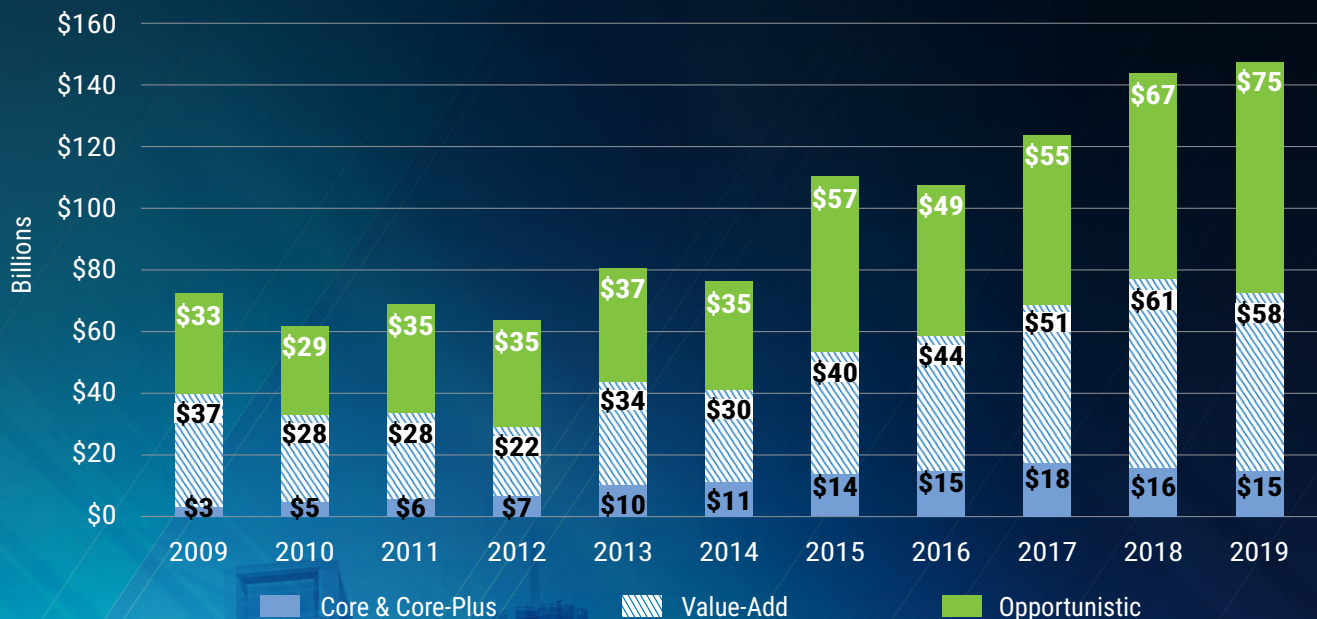
- A record amount of fundraising activity in the current cycle has led to high levels of dry powder, which reached \$196 billion in 2019 representing a 92% increase from just five years ago.
- While the overwhelming majority of dry powder has been raised for value-add and opportunistic strategies, core and core-plus funds are still active and being managed by some of the largest institutional investors.

## DRY POWDER CLOSED-END FUNDS | NORTH AMERICA



Source: Preqin.

## DRY POWDER CLOSED-END FUNDS | BY STRATEGY\*



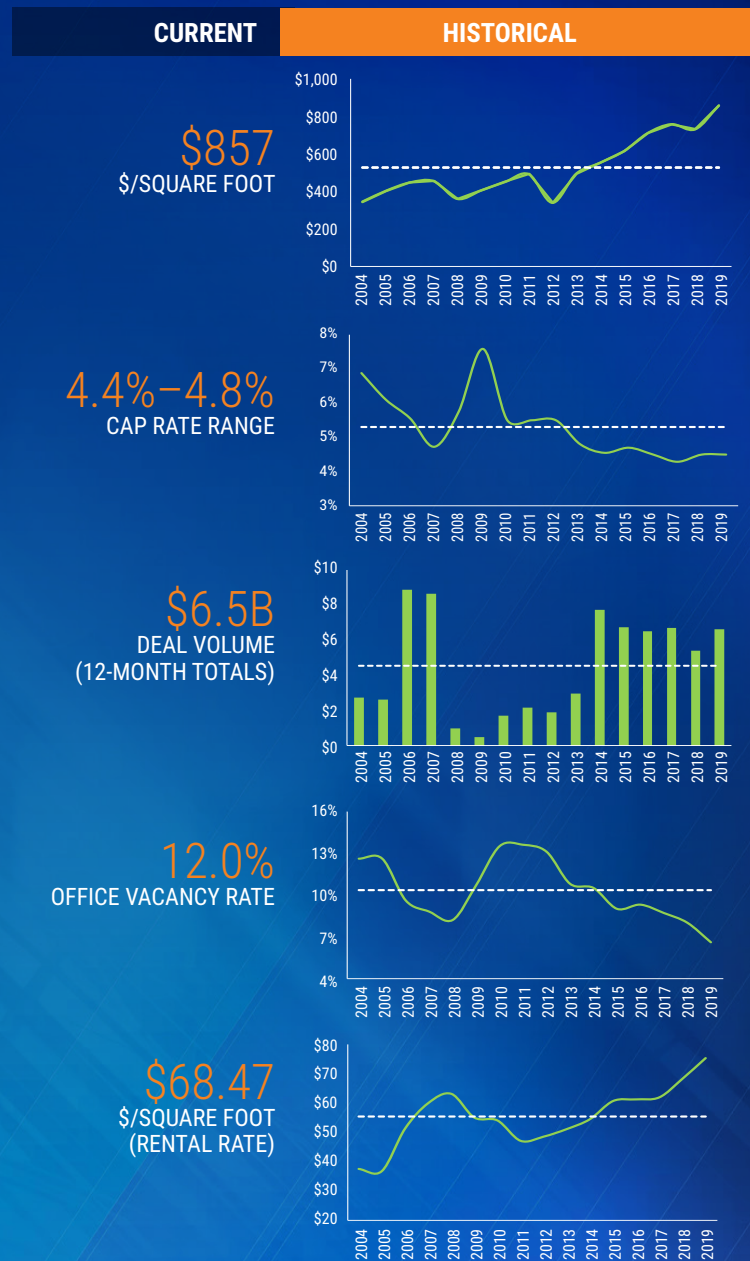
\*Debt and Distressed not included.  
Source: Preqin.

# BOSTON MARKET SNAPSHOT

## KEY MARKET THEMES

- Sales volume in downtown Boston and the Seaport District increased 22.9% year-over-year to \$6.5 billion, reflecting the continued demand from institutional investors for large, core office product.
- High commitment rates in new construction and strong activity among existing buildings is fueling a spike in rental rates, which have increased by 10.4% year-over-year.
- Boston has benefited from record demand for life sciences product; \$2.6 billion in lab product traded in 2019, as Cambridge remains the most established life science cluster in the nation.
- The vacancy rate for life science office product in Cambridge hovers around 1.5% with class A average rents hitting \$83.29 PSF in 2019, one of the highest rental rates in the country.
- Pricing for top quality office product in downtown Boston increased 17.4% to \$857 PSF in 2019, while cap rates remained stable at 4.5%.

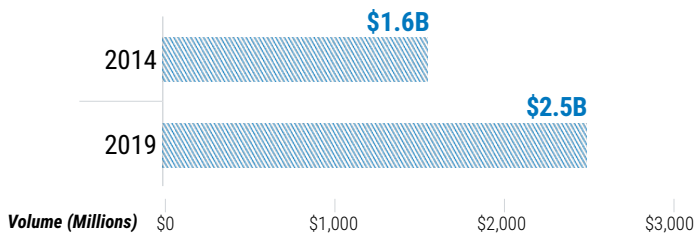
## MARKET METRICS



TOP MARKET TRANSACTIONS	BUYER	SELLER	PRICE
Osborn Triangle	Harrison Street Real Estate, The Bulfinch Cos.	MITIMCo	\$1.12B
100 Summer Street	Rockpoint Group	The Blackstone Group, EQ Office	\$806.0M
75-125 Binney Street	Clarion Partners	Alexandria Real Estate Equities	\$730.0M
75 State Street	DivcoWest, Rockpoint Group	Brookfield, AustralianSuper, Principal	\$635.0M
The Arsenal on the Charles	Alexandria Real Estate Equities	Athenahealth	\$525.5M

# BOSTON EMERGING MARKETS

## CAMBRIDGE

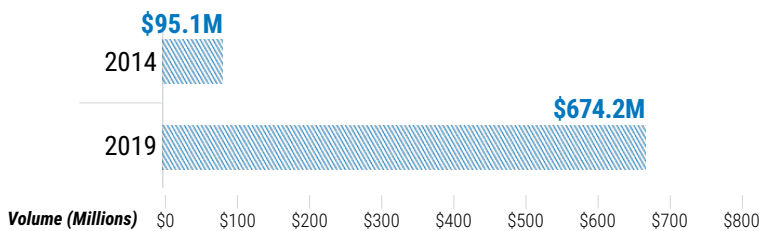


▲ 55.6%  
5-YR VOLUME GROWTH

5.22%  
CAP RATE  
5-YR AVERAGE

▲ 122.5%  
5-YR PSF GROWTH

## URBAN EDGE (Watertown, Somerville, Allston, Charlestown, Medford)

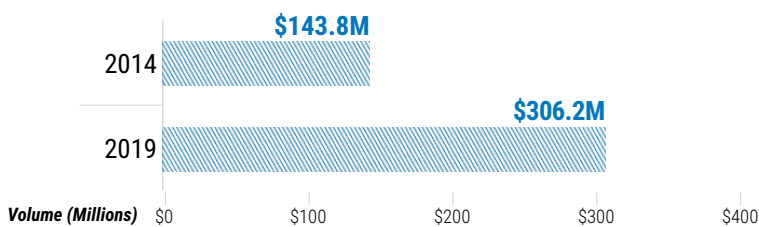


▲ 608.9%  
5-YR VOLUME GROWTH

5.96%  
CAP RATE  
5-YR AVERAGE

▲ 129.1%  
5-YR PSF GROWTH

## BURLINGTON



▲ 112.9%  
5-YR VOLUME GROWTH

6.54%  
CAP RATE  
5-YR AVERAGE

▲ 16.3%  
5-YR PSF GROWTH



**ROBERT GRIFFIN**

Co-Head, U.S. Capital Markets

*"Boston's major strengths include a diversified tenant base and extremely strong leasing fundamentals, as well as tons of inward migration from large tenants attracted by the metropolitan area's talent pool. Additionally, the city was recently recognized by ULI, AFIRE and Brookings Institute as a top gateway market for current investment and long-term prospects; the synergistic mix of office, life science, tech, education and financial services makes Boston a truly secular growth opportunity. The development pipeline could be a challenge to growth, though it's unclear how much of this proposed space will actually materialize; there is a potential shortage of acquisition opportunities in 2020, especially in the urban cores of Boston and Cambridge."*

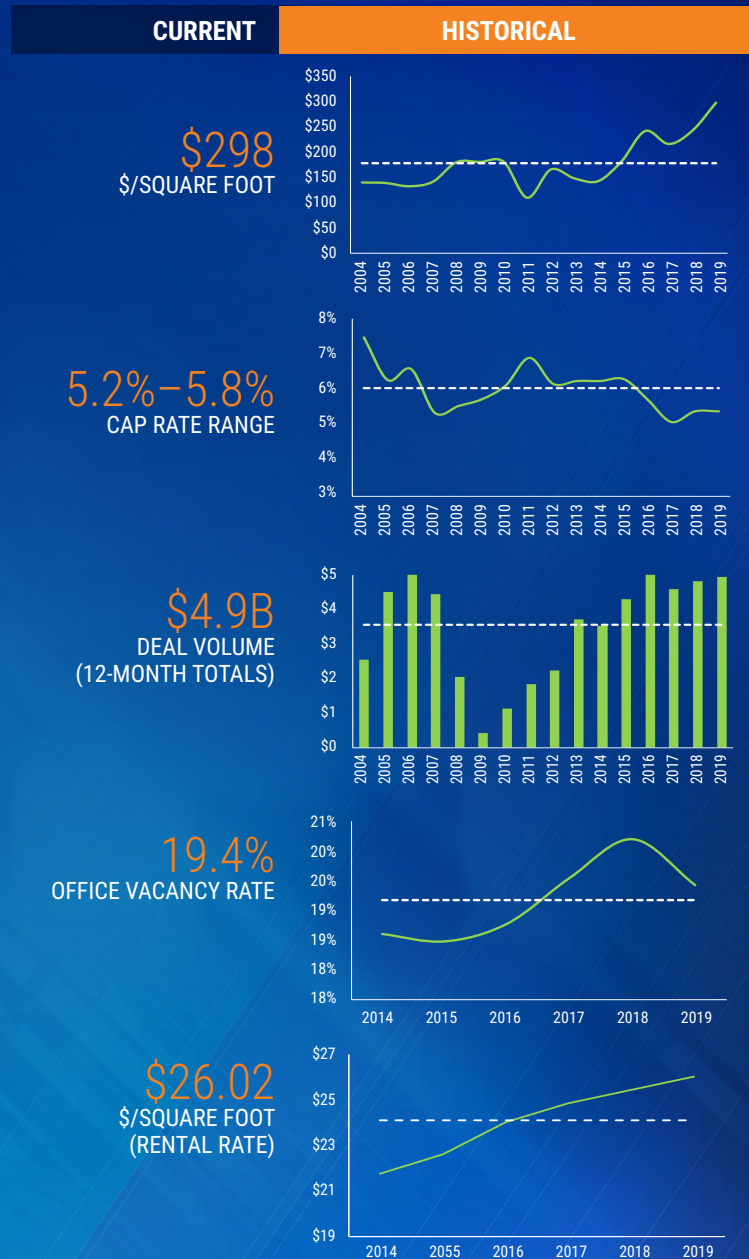
*The Urban Edge features some of the highest growth micro-markets in the Boston metro, which include markets such as Somerville, Allston, Watertown, Charlestown, Medford as well as the Burlington market on Route 128."*

# DALLAS MARKET SNAPSHOT

## KEY MARKET THEMES

- The size of the Dallas investment sales market has increased substantially in the current cycle, with volume hitting \$4.9 billion in 2019, an increase of more than 40% compared with five years ago. 2020 is expected to see continued high transaction volume with nearly \$1 billion closed in the first 45 days.
- Average pricing also remains at a historic high, increasing by 22.9% year-over-year to \$298 PSF in 2019, while best-in-class office product attracted pricing of more than \$700 PSF.
- Corporate relocations and expansions continue to drive leasing fundamentals, aided by state incentives that lower the cost of doing business and a highly-skilled workforce.
- Average rental rates for office product increased by 20% over the past five years, reaching \$26.02 PSF in 2019.
- An estimated 12.2 million square feet of office space is currently under construction in the Dallas metro area, which will drive investment volume in the future.

## MARKET METRICS

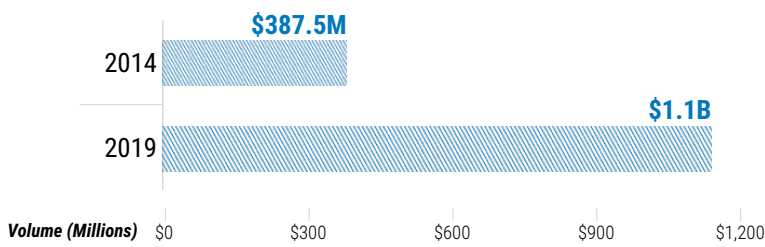


TOP MARKET TRANSACTIONS	BUYER	SELLER	PRICE
Pioneer Natural Resources HQ	Riyad Capital, PRP, GMF	KDC, Verizon, Pioneer	\$584.2M
One AT&T Plaza	Hana Financial Group, KDB Life	Woods Cap Mgmt, Dundon Capital	\$252.0M
KPMG Plaza	Masaveu Corporation SA	Civitas Capital Group, Hanwha	\$238.3M
1900 Pearl	STRS Ohio	Lincoln Property Co, Goldman Sachs	\$181.1M
Premier Place	Glenstar, Cadre	CBRE Global Investors	\$143.1M



# DALLAS EMERGING MARKETS

## IRVING

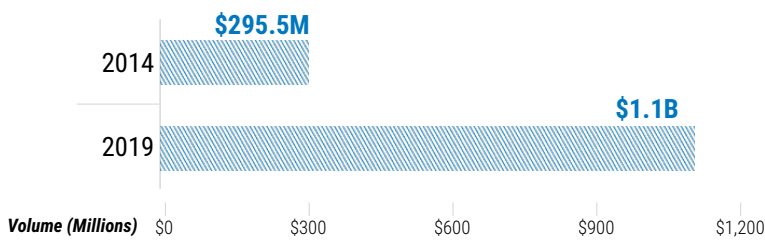


▲ 195.5%  
5-YR VOLUME GROWTH

7.50%  
CAP RATE  
5-YR AVERAGE

▲ 27.7%  
5-YR PSF GROWTH

## PLANO/FRISCO

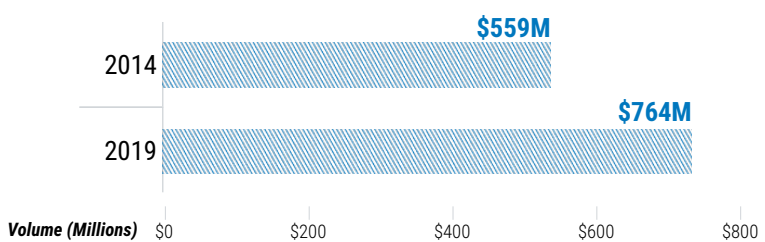


▲ 283.7%  
5-YR VOLUME GROWTH

6.46%  
CAP RATE  
5-YR AVERAGE

▲ 51.9%  
5-YR PSF GROWTH

## UPTOWN/TURTLE CREEK



▲ 36.7%  
5-YR VOLUME GROWTH

6.10%  
CAP RATE  
5-YR AVERAGE

▲ 69.0%  
5-YR PSF GROWTH



**CHRIS MURPHY**  
Vice Chairman



**ROBERT HILL**  
Vice Chairman



**GARY CARR**  
Vice Chairman



**JOHN ALVARADO**  
Vice Chairman

"Dallas/Fort Worth has been and will continue to be a city of high growth, both in jobs and population. The MSA has added more than 1 million jobs since the recession and the trailing 12-month figures (120,000 new jobs/3.2% YoY growth) rank it #1 for percentage growth amongst the 12 largest MSAs in the United States. The growth in jobs has resulted in a tighter labor pool, contributing to rising construction costs for developers looking to keep pace with the demand for commercial real estate. However, given the pro-business climate and lack of a state income tax, there do not appear to be any signs of that growth abating.

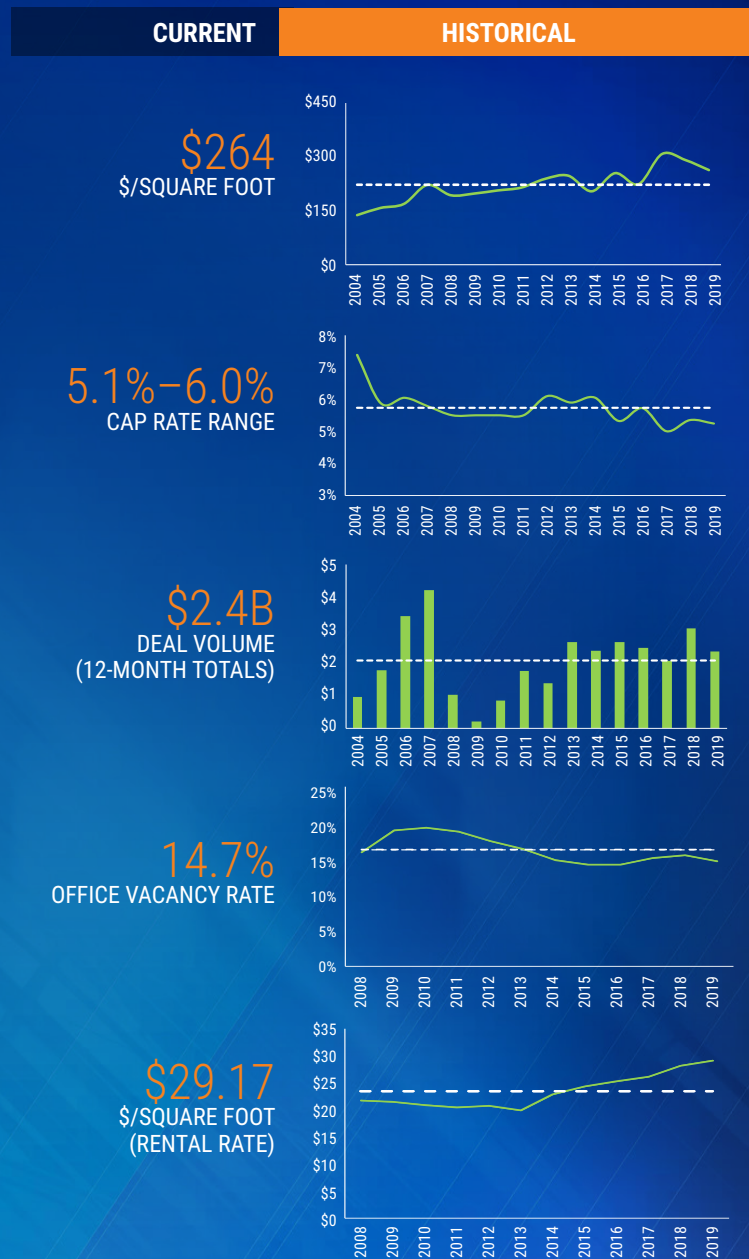
The urban core and urban-suburban nodes will continue to be the winners in the pursuit of tenancy and capital. The Uptown/Turtle Creek market is the chosen destination of Dallas' pre-eminent FIRE tenants, but edge urban pockets including Deep Ellum and the Design District are seeing demand from highly sought after TAMI tenants. Just last year, Uber announced the opening of a 3,000 employee hub in Deep Ellum which will be the company's largest office presence outside of San Francisco. Sterling Bay and Hines have also begun construction on creative office assets in the same micro-market. Urban-Suburban nodes like Legacy, which provide access to a few of the main reasons why Dallas has seen such robust in-migration and corporate relocations—highly educated workforce, good public school systems and affordability—have seen tremendous growth from large Fortune 500 corporations."

# DENVER MARKET SNAPSHOT

## KEY MARKET THEMES

- Denver investment volume moderated in 2019 to \$2.4 billion, however various institutional and international groups continue to be active, such as Goldman Sachs, Nuveen and BentallGreenOak.
- The city has experienced a boom in demand for office product in the current cycle, as major technology companies have increasingly established satellite and even headquarters in the city.
- Tech tenants seeking an urban location and large floorplates have helped the RiNo market attract institutional capital for developer take-outs.
- Office development remains muted, due to stricter zoning and local government regulation, and only 2.6 million square feet are under construction in the entire Denver metro area.
- Average office rental rates increased by 3.4% to \$29.17 in 2019, while vacancy decreased by 80 bps to 14.7%.
- Pricing for top-quality product remains high, with new product consistently achieving more than \$700 PSF.

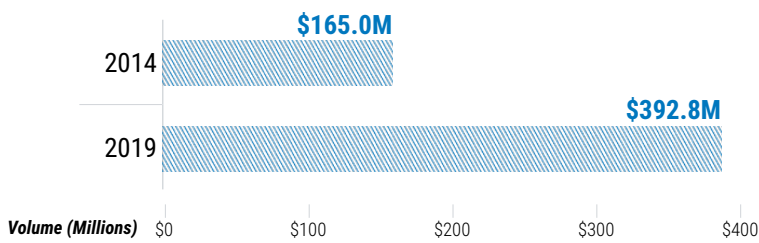
## MARKET METRICS



TOP MARKET TRANSACTIONS	BUYER	SELLER	PRICE
Civic Center Plaza	Rising Realty Partners, BentallGreenOak	Beacon Capital Partners	\$143.0M
410 17th Street	Rialto Capital, SteelWave	CDPQ	\$127.3M
Colorado State Bank Building	Nuveen	LBA Realty	\$110.9M
Mile High Center	Beacon Capital Partners	Artis REIT	\$78.1M
One Union Station North Wing	Lincoln Property, Oregon PERS	GLL RE Partners	\$76.0M

# DENVER EMERGING MARKETS

## BOULDER

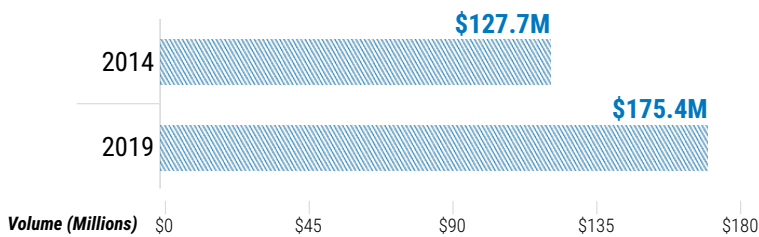


▲ 138.1%  
5-YR VOLUME GROWTH

6.91%  
CAP RATE  
5-YR AVERAGE

▲ 129.9%  
5-YR PSF GROWTH

## COLORADO SPRINGS

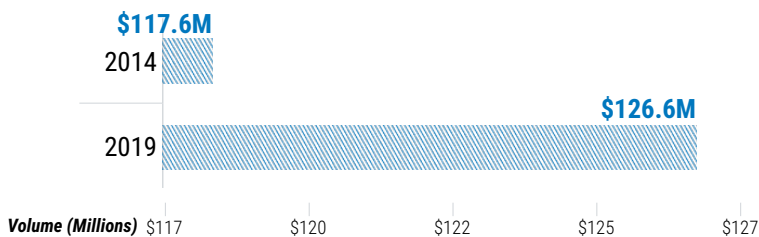


▲ 37.3%  
5-YR VOLUME GROWTH

7.96%  
CAP RATE  
5-YR AVERAGE

▲ 35.2%  
5-YR PSF GROWTH

## GREENWOOD VILLAGE



▲ 7.7%  
5-YR VOLUME GROWTH

6.64%  
CAP RATE  
5-YR AVERAGE

▲ 59.3%  
5-YR PSF GROWTH



**JOHN JUGL**  
Vice Chairman

"Just as core investors have started to take a late cycle, risk-averse approach to investing, others have decided to allocate more capital to a strategy that entails taking on additional risk. Private capital fundraising volumes have been the highest for value-add and opportunistic strategies; however, the increased appetite for value-add is not necessarily a sign that investors are ignoring the rising risk. Instead, it is a response to the late-cycle market where cap rate compression is slowing with investors looking at the income-generating potential of assets to maintain yields and generate returns.

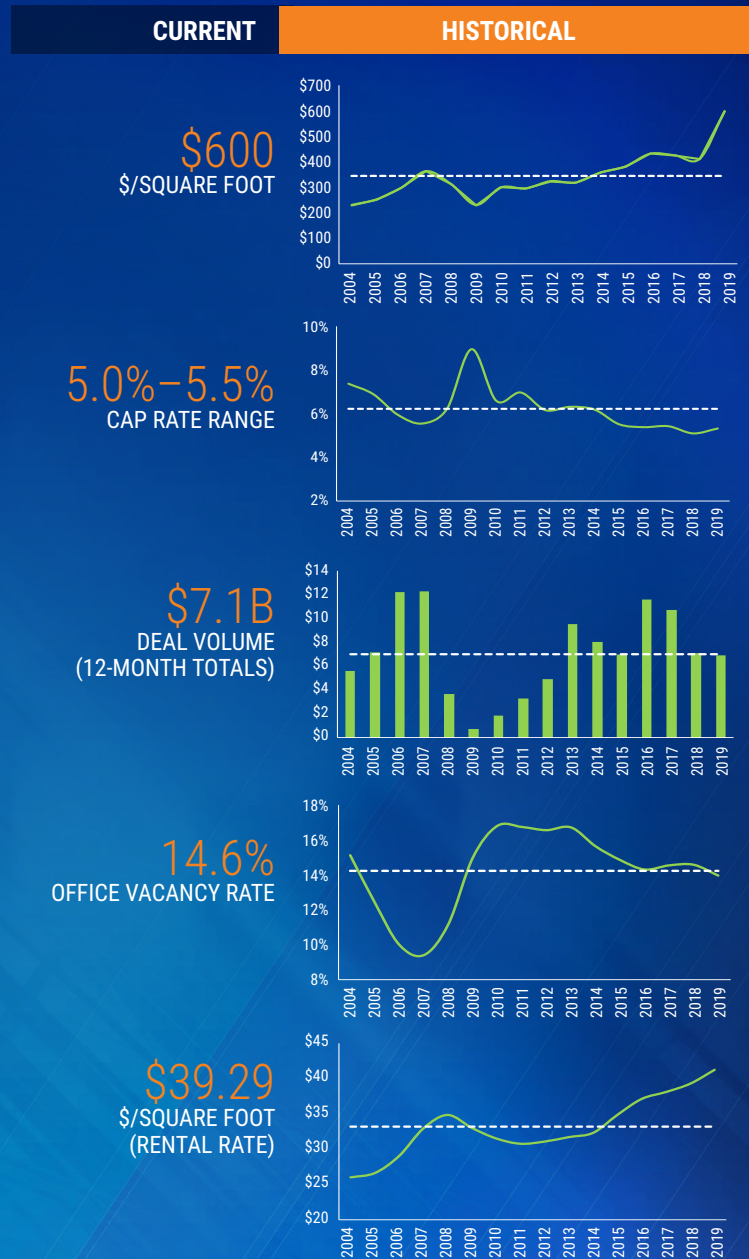
From a risk adjusted returns standpoint, core investors are finding additional yield in the very best suburban Denver buildings while value-add investors are particularly interested in CBD opportunities. Both Boulder and Cherry Creek have firmly entrenched themselves as core locations that compete with Denver's CBD on both a returns and investment basis standpoint. The expectation is for institutional capital to migrate to suburban markets that have historically not seen a lot of activity including West Denver and US 36 corridor."

# LOS ANGELES MARKET SNAPSHOT

## KEY MARKET THEMES

- Late-cycle capital has continued to gravitate toward western markets, with Los Angeles recording nearly \$7 billion in investment volume in 2019.
- Average prices for institutional quality office product increased by more than 45% in 2019 to \$600 PSF, aided by various high-profile trades, such as CBS Television City and Wilshire Courtyard.
- Major institutional investors, such as Rockpoint, Starwood and Square Mile, have allocated capital to core product in Los Angeles, where there is still high potential for growth.
- Large tech and media companies, such as Amazon, Netflix and HBO, continue to drive office absorption, particularly in submarkets in West Los Angeles.
- The Tri-Cities—Burbank, Pasadena and Glendale—have attracted record amounts of investor demand in the current cycle, recording PSF growth of more than 65% in the past five years, bolstered by expanding creative/media tenants such as Disney.

## MARKET METRICS

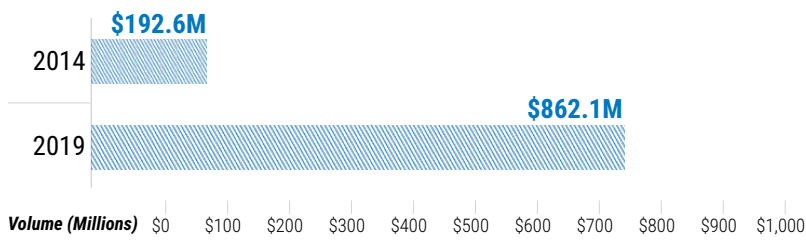


## TOP MARKET TRANSACTIONS

	BUYER	SELLER	PRICE
CBS Television City	Hackman Capital, Square Mile	CBS Broadcasting Inc	\$750.0M
Wilshire Courtyard	Onni Group	Tishman Speyer	\$630.0M
Lantana North Campus	Lawrence Investments	Artisan Realty Advisors	\$321.2M
Lantana South Campus	Starwood Capital	Artisan Realty Advisors	\$215.0M
Ford Factory	Access Industries	Shorenstein	\$195.0M

# LOS ANGELES EMERGING MARKETS

## SANTA MONICA

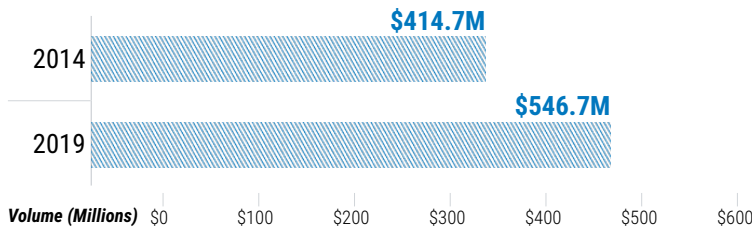


▲ 347.7%  
5-YR VOLUME GROWTH

4.44%  
CAP RATE  
5-YR AVERAGE

▲ 152.2%  
5-YR PSF GROWTH

## EL SEGUNDO

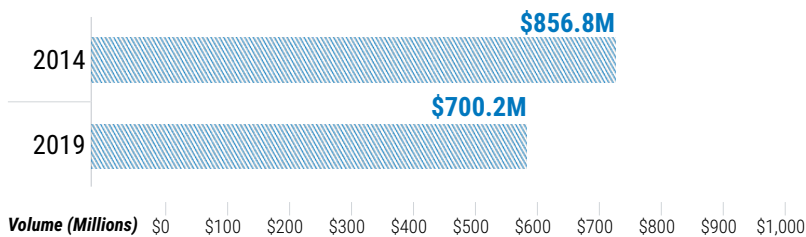


▲ 31.8%  
5-YR VOLUME GROWTH

5.92%  
CAP RATE  
5-YR AVERAGE

▲ 76.7%  
5-YR PSF GROWTH

## TRI-CITIES



▼ -18.3%  
5-YR VOLUME GROWTH

5.14%  
CAP RATE  
5-YR AVERAGE

▲ 65.7%  
5-YR PSF GROWTH



**KEVIN SHANNON**  
Co-Head, U.S. Capital Markets

*“The Los Angeles office market continues to impress with healthy fundamentals driving absorption and rent growth especially in the West Los Angeles submarket. West Los Angeles remains the most under allocated and coveted gateway office market nationally for institutional investors. The challenge is finding office product given that over half of the West LA office stock is controlled by long term owners and there are significant barriers to entry. The Tri-Cities submarkets of Burbank and Glendale are also in high demand and Downtown Los Angeles remains by far the best basis CBD of the gateway markets nationally. The “wall of capital” is mostly for value-add strategies which are increasing scarce as most space in the best submarkets is leased.*

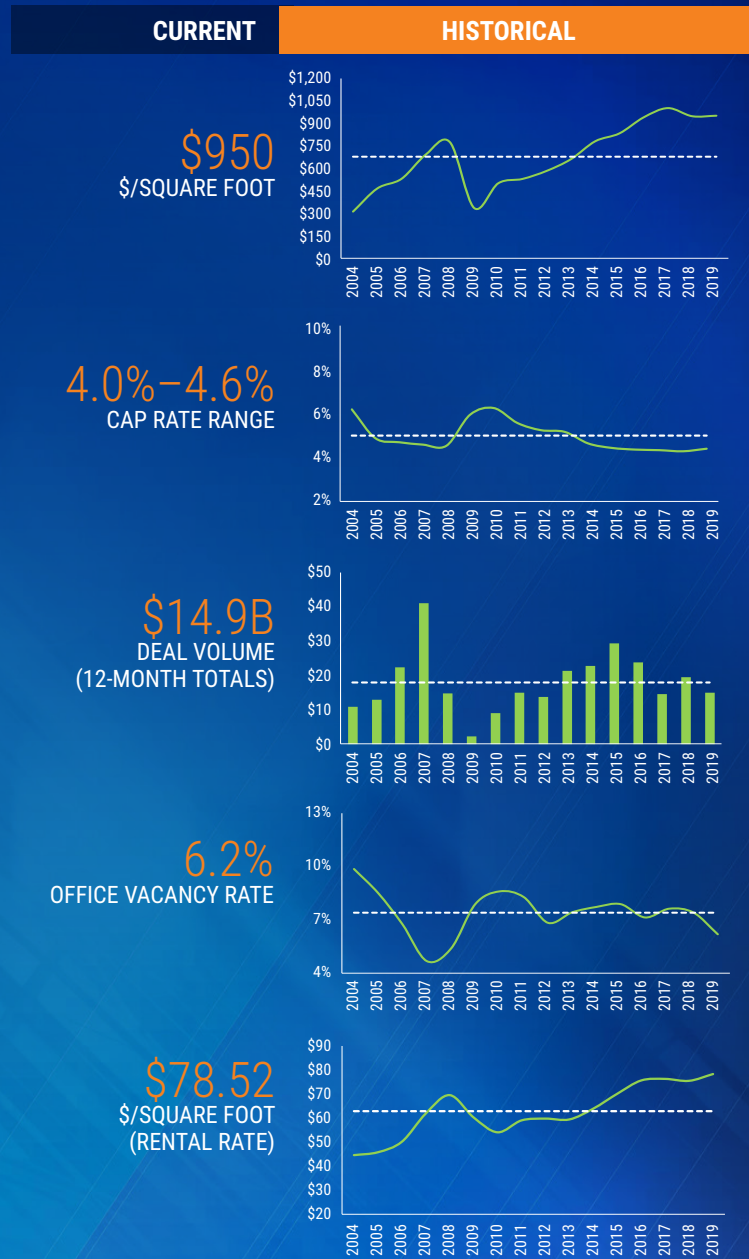
*Culver City, Playa Vista, Century City, El Segundo and Burbank are among the hottest submarkets currently. The markets that “techtainment” tenants are attracted—which are primarily in West Los Angeles and Burbank—are exhibiting the strongest rent growth and are also currently lacking big block space. Los Angeles has historically not been a prelease market but that has changed this cycle. The FANG tenants especially will pay up for the coolest campus environments in these submarkets.”*

# NEW YORK CITY MARKET SNAPSHOT

## KEY MARKET THEMES

- Manhattan remains the largest office market in the country, averaging \$20.4 billion in investment sales annually over the past five years.
- Average prices of institutional quality office buildings remain close to cycle highs, at \$950 PSF, boosted by Midtown South, where trades averaged more than \$1100 PSF in 2019.
- The New York City office leasing market is accelerating in pockets, particularly in tech-centric submarkets of Midtown South, such as Chelsea, Meatpacking and Flatiron/ Union Square.
- Average Manhattan office rents hit \$78.52 PSF in 2019, and the number of buildings signing triple digit rents increased to a record 62, as “flight to quality” persists.
- The overall Brooklyn office market has accelerated in the current cycle, with increased leasing activity pushing pricing for investment sales to \$704 PSF on average in 2019.

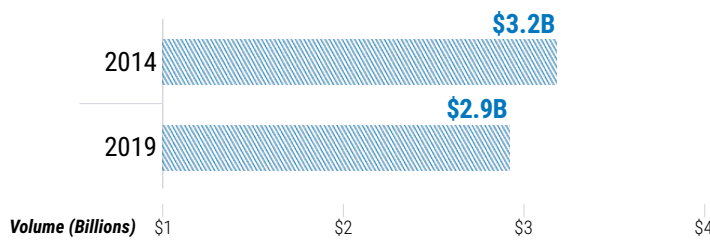
## MARKET METRICS



TOP MARKET TRANSACTIONS	BUYER	SELLER	PRICE
30 Hudson Yards	Allianz, Related	WarnerMedia	\$2.2B
Coca-Cola Building	SHVO, Bigili, Deutsche Finance	Nightingale, Wafra	\$946.0M
Milk Studios	Alphabet Inc	Jamestown	\$594.5M
One Dag Hammarskjold Plaza	Rockpoint Group	Ruben Companies	\$575.0M
237 Park Avenue	David Werner RE	RXR, Walton Street	\$500.0M

# NEW YORK CITY EMERGING MARKETS

## MIDTOWN SOUTH

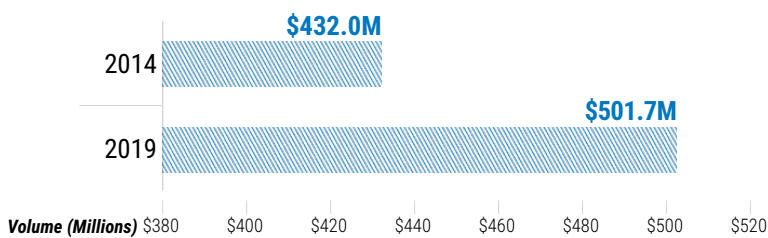


▼ -9.7%  
5-YR VOLUME GROWTH

4.26%  
CAP RATE  
5-YR AVERAGE

▲ 12.1%  
5-YR PSF GROWTH

## LONG ISLAND CITY

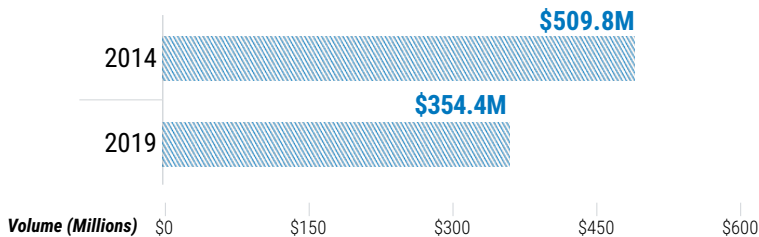


▲ 16.1%  
5-YR VOLUME GROWTH

6.21%  
CAP RATE  
5-YR AVERAGE

▲ 3.7%  
5-YR PSF GROWTH

## BROOKLYN



▼ -30.5%  
5-YR VOLUME GROWTH

6.23%  
CAP RATE  
5-YR AVERAGE

▲ 21.3%  
5-YR PSF GROWTH



**BRETT SIEGEL**  
Vice Chairman, Co-Head,  
NY Capital Markets



**EVAN LAYNE**  
Vice Chairman, Co-Head,  
NY Capital Markets

"The NYC market has witnessed back to back record years in terms of leasing velocity. Technology companies continue to expand within NYC, further diversifying the overall economy. The growth and momentum in the leasing market has assuaged concerns over the amount of new supply coming online—most of it preleased—however leasing concessions have continued to escalate, making it more expensive for landlords to secure tenants. Prime areas of Midtown South (Union Square/Flatiron/Meatpacking) remain very strong given demand from the technology sector.

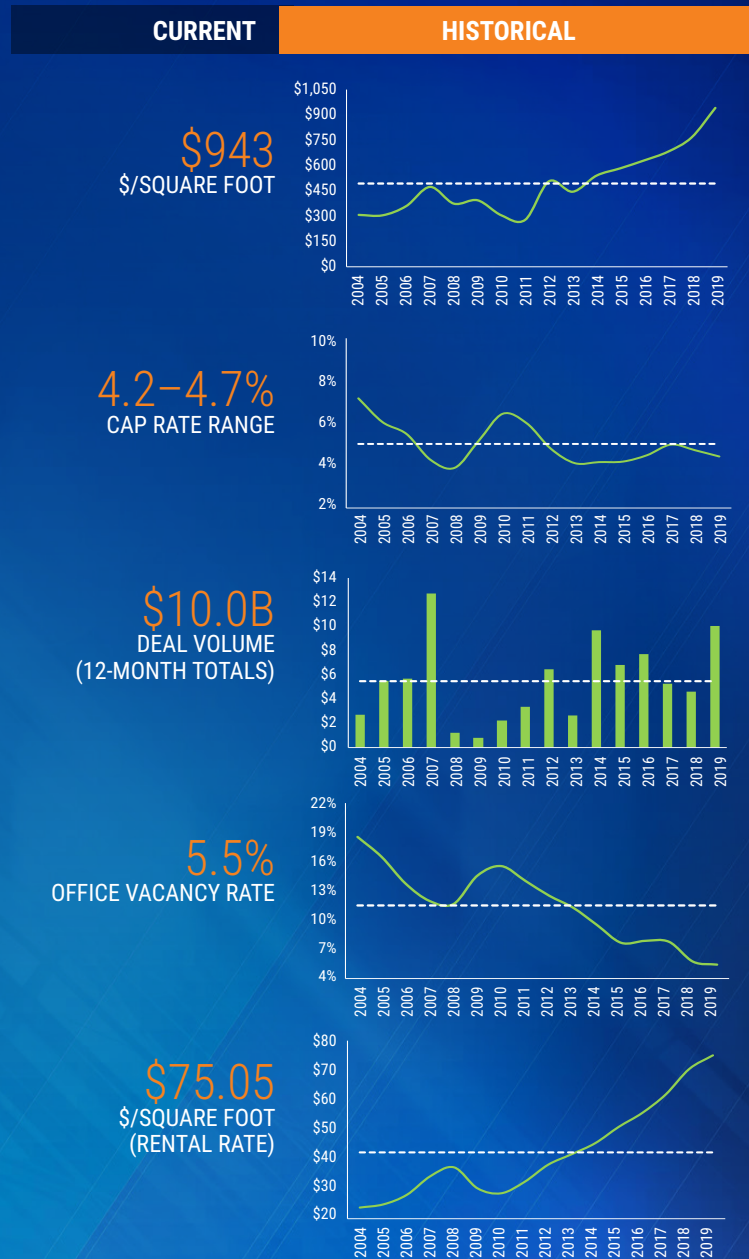
Tenants are very focused on transit-oriented, modernized properties. As such, there is significant investor demand for older vintage properties in transit-adjacent areas that allow for redevelopment. The rental spread between new construction and older vintage property continues to widen, creating a unique opportunity for fully redeveloped/modernized product that can provide the feel of new construction at a fraction of the cost. Areas such as Grand Central/Bryant Park, Lower Manhattan and Penn Plaza are poised for growth given their proximity to transit and stock of older vintage property prime for redevelopment."

# SAN FRANCISCO MARKET SNAPSHOT

## KEY MARKET THEMES

- Office sales volume in the core San Francisco CBD surged by more than 100% year-over-year to \$10.0 billion, a record for the current cycle.
- Behind the surge were more than 25 \$100M+ office trades downtown, acquired by an array of institutional and international investors, such as Boston Properties, Beacon Capital Partners and HKMA.
- Pricing also increased substantially, rising 23% year-over-year to \$943 PSF, or just \$7 PSF short of average Manhattan product in 2019.
- Office market leasing is being driven by large tenants: for tenants requiring 75,000 SF or greater, there is more than 4.0 million square feet of demand for top, Class A product, even as availabilities to meet that demand are only approaching 2.9 million square feet through 2020.
- Office rental rates increased by more than 65% since 2014, representing the strongest growth of any city in the gateway markets, while vacancy rates dropped below 6% overall, and below 4% for Class A product.
- Cap rates for core product in San Francisco ticked downward to 4.4%, on average, as market fundamentals remain strong—fueled by strong tenant demand and limited Class A availabilities.

## MARKET METRICS

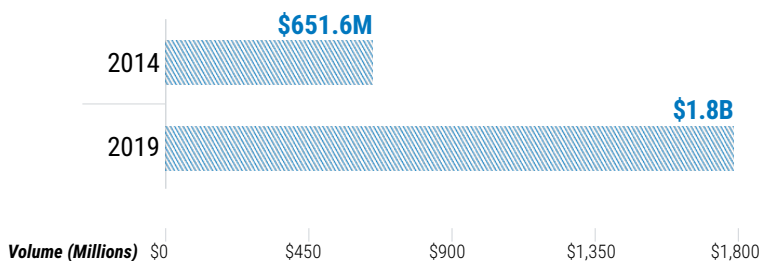


TOP MARKET TRANSACTIONS	BUYER	SELLER	PRICE
Levis Plaza	Jamestown	Gerson Bakar, Interland	\$826.0M
Market Center	Paramount Group	Blackstone	\$722.0M
Zynga HQ	Beacon Capital Partners	Zynga Inc	\$698.0M
Park Tower at Transbay	HKMA, Hines	John Buck Co, Golub	\$533.6M
KPMG Building	Paramount Group	Nuveen	\$404.2M



# SAN FRANCISCO EMERGING MARKETS

## SUNNYVALE

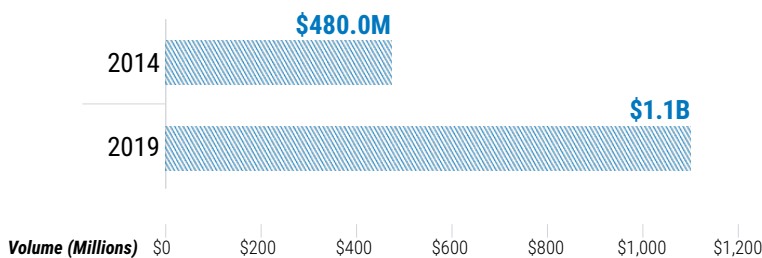


▲ 131.9%  
5-YR VOLUME GROWTH

5.67%  
CAP RATE  
5-YR AVERAGE

▲ 131.9%  
5-YR PSF GROWTH

## OAKLAND

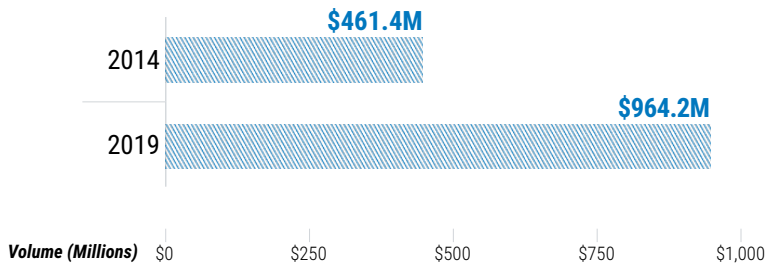


▲ 132.6%  
5-YR VOLUME GROWTH

5.05%  
CAP RATE  
5-YR AVERAGE

▲ 179.8%  
5-YR PSF GROWTH

## SAN MATEO



▲ 109.0%  
5-YR VOLUME GROWTH

6.03%  
CAP RATE  
5-YR AVERAGE

▲ 41.8%  
5-YR PSF GROWTH



**STEVEN GOLUBCHIK**  
Vice Chairman

"San Francisco is on fire with 4x the amount of demand to supply for large block space, making it the most supply-constrained gateway market. Proposition E, which will be featured on the upcoming primary ballot in March, would effectively eliminate any future office development potential and force the new wave of development to push seven to nine years out. If passed, this law could go into effect even as all major FANG tenants are continuing to grow and absorb space across the valley, adding further upward pressure on pricing and rental rates.

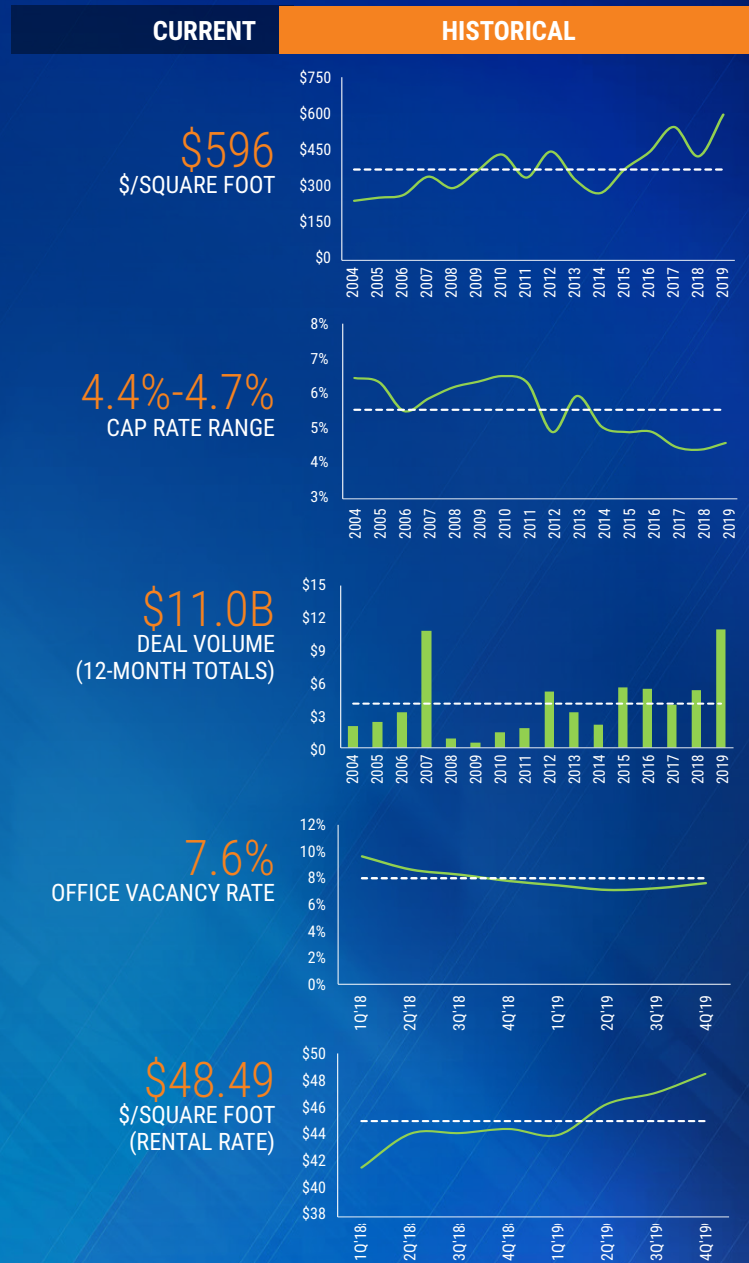
East Bay markets—such as Oakland and Walnut Creek—have already benefited tremendously from the rapid rise in costs in San Francisco and have witnessed a significant inflow of large block tenants. Institutional investors have noticed this trend and have begun allocating more capital to these quickly developing markets outside the main urban core of San Francisco."

# SEATTLE MARKET SNAPSHOT

## KEY MARKET THEMES

- Seattle continued to solidify its status as a primary gateway market in 2019, becoming the second largest office market in the country, with sales volume increasing by 106% to \$11 billion fueled by transactions in both Seattle and Bellevue.
- Seattle's leasing market, which has recorded 26 consecutive quarters of positive absorption and has witnessed class A rental rates increase by 9.1% year-over-year, continues to strengthen.
- Downtown Seattle has witnessed a record amount of new development, with approximately 6 million square feet currently under construction, which promises to attract a greater amount of institutional investment.
- Downtown Seattle was not only the market to benefit from unprecedented investor demand; Bellevue attracted a record \$3.2 billion from institutional groups such as KKR, Invesco and Beacon, and markets such as Kirkland and Redmond are also quickly expanding.

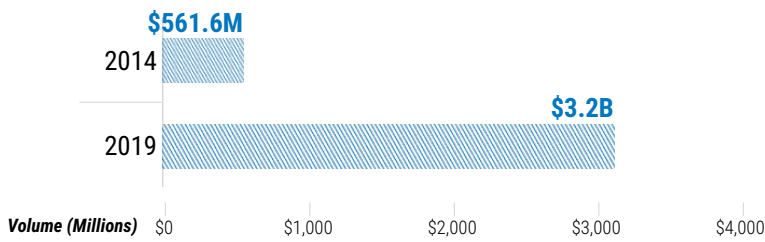
## MARKET METRICS



TOP MARKET TRANSACTIONS	BUYER	SELLER	PRICE
Troy Block	Ponte Gadea	USAA, Touchstone	\$739.9M
US Bank Centre	Blackstone	CDPQ, ADIA, BentallGreenOak	\$612.0M
Bravern 1 & 2	Invesco Real Estate	AFL-CIO, Principal Financial	\$607.4M
Wells Fargo Center	Blackstone	CDPQ	\$557.5M
800 Fifth	Blackstone	Hines	\$539.6M

# SEATTLE EMERGING MARKETS

## BELLEVUE

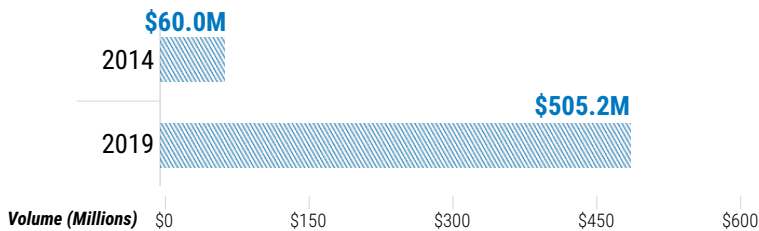


▲ 472.8%  
5-YR VOLUME GROWTH

5.93%  
CAP RATE  
5-YR AVERAGE

▲ 101.1%  
5-YR PSF GROWTH

## KIRKLAND

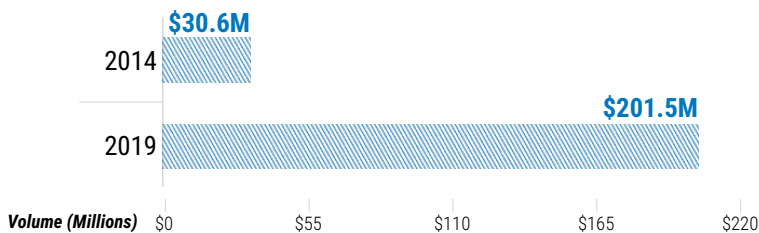


▲ 741.6%  
5-YR VOLUME GROWTH

5.64%  
CAP RATE  
5-YR AVERAGE

▲ 43.3%  
5-YR PSF GROWTH

## REDMOND



▲ 558.1%  
5-YR VOLUME GROWTH

5.79%  
CAP RATE  
5-YR AVERAGE

▲ 139.5%  
5-YR PSF GROWTH



**NICK KUCHA**  
Vice Chairman



**KEVIN SHANNON**  
Co-Head, U.S. Capital Markets

*"The Seattle market has experienced unprecedented leasing velocity and rent growth due to the expansions from major tenants like Amazon, Facebook and Google—Seattle has been accepted as a core Gateway market and is on everyone's acquisition list, resulting in deeper buyer pools. The main challenge is that Seattle is fundamentally a supply-constrained market, and therefore tenants are looking for alternative submarkets out of Seattle like Bellevue.*

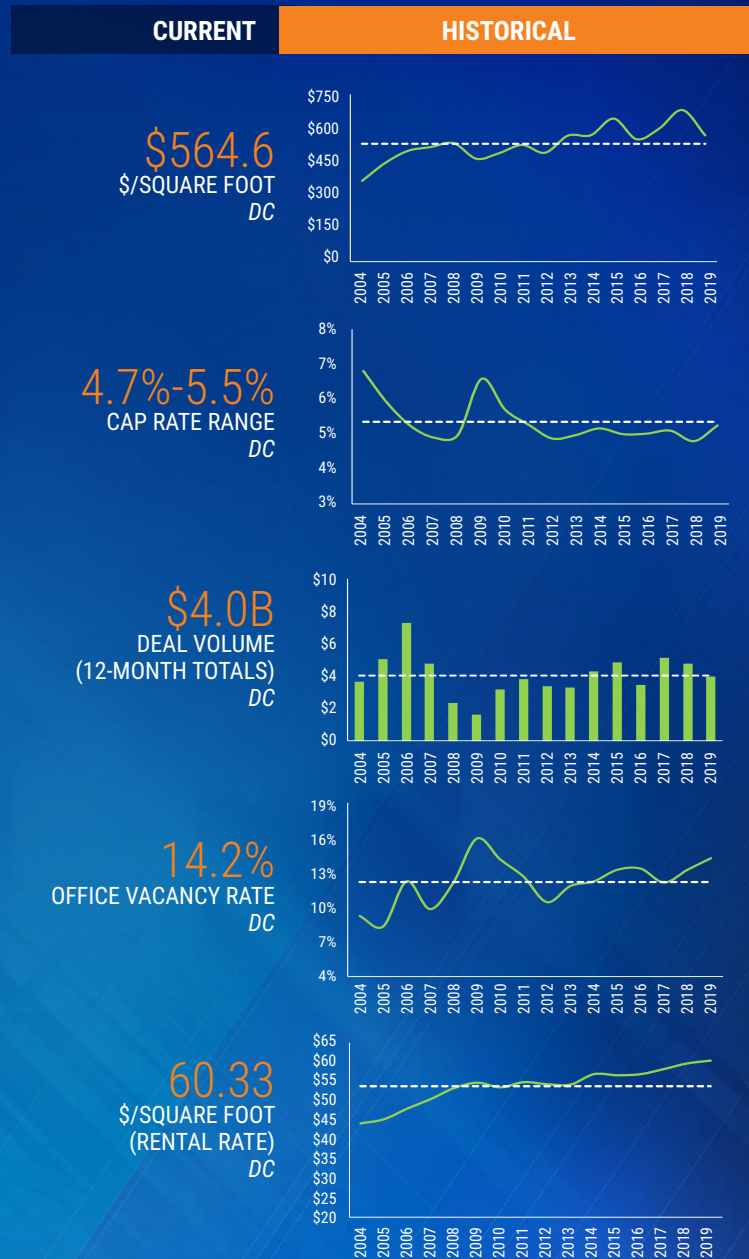
*Leasing momentum has dramatically exploded in the Bellevue CBD. Amazon's new focus on downtown Bellevue as its HQ2 is spurring a new wave of corporate, institutional and civic investment because of the growth narrative in Bellevue. Vacancy rates are at an all-time low across the region and there has been significant upward pressure on rents throughout the Eastside since 2016. Given that there are minimal available blocks of contiguous space, and most of the office development pipeline is already pre-leased, market rents will continue to run. Ultimately, this leasing story is causing both foreign and domestic core groups to underwrite more aggressively to get capital placed."*

# WASHINGTON DC METRO MARKET SNAPSHOT

## KEY MARKET THEMES

- Office transaction volume in the core downtown market remained at the long-term average of \$4 billion.
- The arrival of Amazon's HQ2 in Northern Virginia will provide further strength to the office markets there, as tenants are expected to absorb an estimated 3.2 million square feet, while only 1.5 million square feet are expected to be delivered by 2021.
- The arrival of the Silver Metrorail Line connecting Dulles Airport to Washington DC and the zoning changes around the new rail stations allowing for the creation of dense urban mixed-use nodes in the suburbs will continue the rapid evolution of the affected Northern Virginia suburbs such as Tysons, Reston and Herndon.
- Top quality, new-build product in downtown DC commands high pricing, such as 1711 Rhode Island Avenue, which traded for more than \$1000 PSF in 2019.
- Single credit, long-term lease product in the suburbs continues to draw interest from global investors with the Freddie Mac-leased Centerstone property in Tysons selling for \$530 PSF and a low-5% cap rate.
- Average PSF in the region moderated in 2019 to \$565, but still remains above the long-term average.

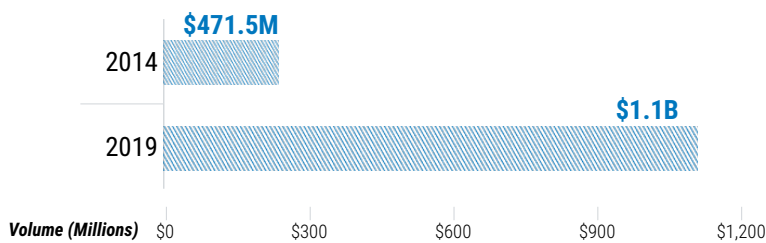
## MARKET METRICS



TOP MARKET TRANSACTIONS	BUYER	SELLER	PRICE
1625 Eye Street Northwest	Westbrook Partners	Brookfield AM, HSBC	\$259.0M
815 Connecticut	Ponte Gadea	Blackstone	\$231.3M
Terrell Place (condo)	GIC, KIC	Beacon Capital Partners	\$212.5M
Union Square Complex	USAA Real Estate, NRP	CIM Group	\$212.0M
McPherson Building	Northwestern Mutual	ADIA	\$209.1M

# WASHINGTON DC EMERGING MARKETS

## ARLINGTON

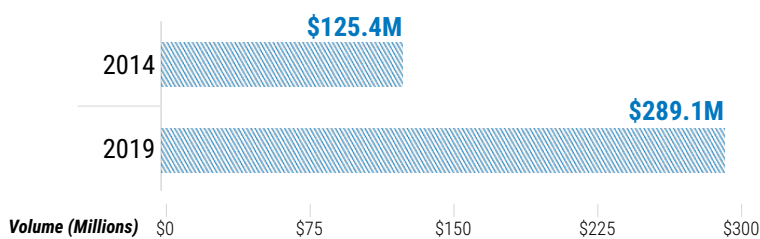


▲ 138.4%  
5-YR VOLUME GROWTH

7.50%  
CAP RATE  
5-YR AVERAGE

▼ -13.1%  
5-YR PSF GROWTH

## TYSONS

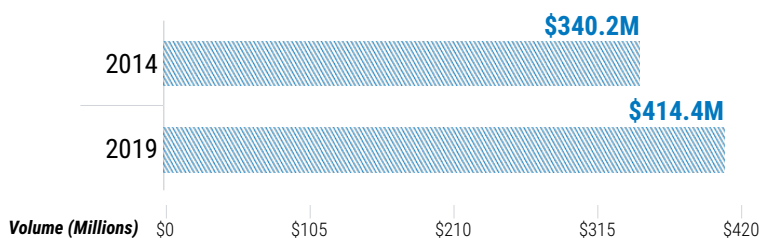


▲ 130.6%  
5-YR VOLUME GROWTH

6.06%  
CAP RATE  
5-YR AVERAGE

▲ 24.1%  
5-YR PSF GROWTH

## ALEXANDRIA



▲ 21.8%  
5-YR VOLUME GROWTH

7.11%  
CAP RATE  
5-YR AVERAGE

▲ 33.0%  
5-YR PSF GROWTH



**JAMES CASSIDY**  
Executive Managing Director



**JUD RYAN**  
Executive Managing Director

"The strengths of the Washington DC market are attributable to its sheer scale and diversity. As always, the market benefits from the presence of the federal government and gets far more federal procurement dollars than any region. The arrival of Amazon's HQ2, the proliferation of cloud computing in our western suburbs and the evolution of defense contractors into technology companies serving a wide variety of clients promises that this positive trend will continue.

The challenges include job growth and absorption metrics that have lagged most other gateway cities coupled with an oversupply of office space in downtown Washington DC. Lagging demand has been exacerbated by the trend of densification, particularly in the legal sector—one of the District's largest industries.

We see 2020 as the year of Northern Virginia's rise with the number of investment opportunities outpacing both downtown DC and the Maryland suburbs. We expect National Landing, Alexandria, Shirlington and Rosslyn to benefit from HQ2's arrival as well as Virginia Tech's new, \$1 billion Innovation Campus. We also expect Tysons and Reston Herndon to benefit from the arrival of the Silver Line and a robust demand picture coupled with limited supply. The defense contractor value-focused submarkets such as Merrifield, Fairfax, and Chantilly also stand to benefit due to rising rents in inner markets coupled with the growth in the defense and contracting space. In Maryland, Bethesda continues to grow and surprise in terms of demand and rents achieved. The upcoming delivery of the Purple (transit) Line is an additional driver in this submarket."

# KEY NKF INVESTMENT SALES CONTACTS

SEATTLE

**NICK KUCHA**  
*Vice Chairman*

**KEVIN SHANNON**  
*Co-Head, U.S. Capital Markets*

**KEN WHITE**  
*Executive Managing Director*

DENVER

**JOHN JUGL**  
*Vice Chairman*

**PAUL DONAHUE**  
*Associate*

SAN FRANCISCO

**STEVE GOLUBCHIK**  
*Vice Chairman*

**EDMUND NAJERA**  
*Executive Managing Director  
(Silicon Valley)*

LOS ANGELES

**KEVIN SHANNON**  
*Co-Head, U.S. Capital Markets*

**ROB HANNAN**  
*Executive Managing Director*

**LAURA STUMM**  
*Senior Managing Director*

DALLAS

**ROBERT J. HILL**  
*Vice Chairman*

**JOHN ALVARADO**  
*Vice Chairman*

**GARY CARR**  
*Vice Chairman*

**CHRIS MURPHY**  
*Vice Chairman*

BOSTON

**ROBERT GRIFFIN**  
*Co-Head, U.S. Capital Markets*

**EDWARD MAHER**  
*Vice Chairman*

**MATTHEW PULLEN**  
*Executive Managing Director*

NEW YORK CITY

**BRETT SIEGEL**  
*Vice Chairman*  
*Co-Head, NY Capital Markets*

**EVAN LAYNE**  
*Vice Chairman*  
*Co-Head, NY Capital Markets*

**WILLIAM LEE**  
*Senior Managing Director*

WASHINGTON DC

**JAMES CASSIDY**  
*Executive Managing Director*

**JUD RYAN**  
*Executive Managing Director*

**NEWMARK KNIGHT FRANK LEADERSHIP**

**BARRY GOSIN**  
Chief Executive Officer

**JAMES D. KUHN**  
President, Head of Investor Services

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# SIGNIFICANT NKF INVESTMENT SALES

PACIFIC NORTHWEST



**BRAVERN OFFICE COMMONS**  
Bellevue, WA  
749,694 SF



**ARBOR BLOCKS EAST/WEST**  
Seattle, WA  
388,072 SF



**AMAZON AT APOLLO**  
Seattle, WA  
317,804 SF

N. CALIFORNIA



**TREAT TOWERS**  
Walnut Creek, CA  
378,748 SF



**350 RHODE ISLAND**  
San Francisco, CA  
124,980 SF



**HQ @ FIRST**  
San Jose, CA  
603,666 SF

S. CALIFORNIA



**BRENTWOOD GATEWAY**  
Los Angeles, CA  
104,716 SF



**C3**  
Culver City, CA  
282,951 SF



**CROWN CABOT  
FINANCIAL CENTER**  
Laguna Niguel, CA  
175,438 SF



**101 CONTINENTAL BOULEVARD**  
El Segundo, CA  
333,017 SF



**5901 WEST CENTURY BOULEVARD**  
Los Angeles, CA  
306,228 SF



**THE ACADEMY TOWER**  
North Hollywood, CA  
183,574 SF





BOSTON



**100 SUMMER STREET**  
Boston, MA  
1,109,885 SF



**75 STATE STREET**  
Boston, MA  
840,929 SF



**75-125 BINNEY STREET**  
Cambridge, MA  
388,271 SF



**TEN POST OFFICE SQUARE**  
Boston, MA  
451,948 SF



**22 BOSTON WHARF ROAD**  
Boston, MA  
123,875 SF



**OSBORN TRIANGLE**  
Cambridge, MA  
676,947 SF



**35 CAMBRIDGEPARK DRIVE**  
Boston, MA  
224,305 SF

NEW YORK CITY



**111 WALL STREET**  
New York, NY  
1,130,426 SF



**434 BROADWAY**  
New York, NY  
66,017 SF



**114 WEST 41ST STREET**  
New York, NY  
349,274 SF



**101 UNIVERSITY BOULEVARD**  
Denver, CO  
50,418 SF

DENVER

DC METRO



**MCPHERSON BUILDING**  
Washington DC  
255,968 SF



**WATERGATE BUILDING**  
Washington DC  
215,200 SF



**PRESIDENTIAL TOWER**  
Washington DC  
348,000 SF



**1900 GRANT STREET**  
Denver, CO  
136,118 SF



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**NEW YORK CITY  
HEADQUARTERS**

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**Daniel Littman**

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# 2020 GATEWAY OFFICE CAPITAL MARKETS REPORT

**NORTH AMERICA**

Canada  
United States

**LATIN AMERICA**

Argentina  
Brazil  
Chile  
Colombia  
Costa Rica  
Mexico  
Peru  
Puerto Rico

**EUROPE**

Austria  
Belgium  
Czech Republic  
France  
Germany  
Ireland  
Italy  
Netherlands  
Poland  
Portugal  
Romania  
Russia  
Spain  
Switzerland  
United Kingdom

**ASIA-PACIFIC**

Australia  
Cambodia  
China  
India  
Indonesia  
Japan  
Malaysia  
New Zealand  
Philippines  
Singapore  
South Korea  
Taiwan  
Thailand

**AFRICA**

Botswana  
Kenya  
Malawi  
Nigeria  
South Africa  
Tanzania  
Uganda  
Zambia  
Zimbabwe

**MIDDLE EAST**

Saudi Arabia United  
Arab Emirates

Newmark Knight Frank (NKF) has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents.

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