# OFFICE INDEX

## OVERALL OFFICE RETURNS SHOW IMPROVEMENT AS CITIES RE-OPEN

The office sector index posted a 0.99% total return in the first quarter; the third consecutive quarter of positive total returns for office. Income returns in the first quarter were 1.13%, up seven bps over Q4 2020, a positive sign that office tenants continued to meet their rental obligations. “Appreciation” in Q1, 2021 was negative 0.14%, an improvement of 44 bps over Q4, 2020 when office appreciation was negative 0.58%. Despite modestly improving returns over the last three quarters, there remains broad uncertainty about office due to an explosion of sublease space in many high-profile markets, minimal leasing activity, continued negative absorption, and drawn-out decision cycles by users. The remote working phenomenon triggered by the pandemic is causing most office users to re-think both their near and longer term occupancy strategies. As a result, the “crystal ball” for office for the foreseeable future (both user and capital markets dynamics) is as cloudy as ever.

Extensive space givebacks remain a considerable headwind to office sector stability. The amount of vacant sublease space in the U.S. in the first quarter of 2021 swelled to 108 million sq. ft., levels not seen since the early 2000s (2001-2003) in the aftermath of the dot-com bubble burst. Urban nodes are being hit disproportionately hard; 65.7 million sq. ft. (61%) of current sublease vacancy is in urban cores that account for only 46% of total office inventory.[1] One-year total returns for central business district (“CBD”) office (-0.17%) vs. suburban office (3.41%) powerfully reflect this dichotomy. During the quarter total returns for CBD office and suburban office both increased by 56 bps (to 0.61%) and 42 bps (to 1.52%), respectively.

Despite the uncertainties, there is a reason for optimism as progress is made vaccinating Americans while cities and states announce plans to re-open. With more than 55 million people fully vaccinated in the U.S., according to the Center for Disease Control and Prevention (CDC), as of March 31st, more office workers are ready to return.[2] According to JLL’s: U.S. Office Outlook Q1 2021, tour activity significantly increased in both primary and secondary markets during the quarter.[3] Likewise, leasing transactions increased by 7.0%, to 18,947, during the quarter.[4]

The current forecast for office-using jobs, a key driver of office demand, is strong. CBRE Econometric Advisors (CBRE-EA) forecast over 915,000 office-using jobs to be added in 2021.[5] Between January and March, office-using jobs increased by 0.7% or 227,000 jobs pushing office-using employment to 95.7% of peak employment in February 2020.[6]

Ultimately, re-openings and office-using job growth will be vital to getting office supply and demand fundamentals back in line. Office markets with strong positive office-using job growth and fewer restrictions will be in good shape to recover quicker than markets with sluggish job growth, more restrictions, and/or delayed re-openings. However, regardless of job growth and restriction levels, bringing employees back into the office will be a gradual, ongoing process throughout the year as various remote work, in-office, and hybrid models are deployed by companies trying to find the right balance for their stakeholders of efficiency, effectiveness, employee satisfaction, and customer convenience.

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### OFFICE TOTAL RETURNS

| | Total NPI | Total Office | East | Midwest | South | West |
|---|---|---|---|---|---|---|
| 1st Q 2021 | 1.72 | 0.99 | 0.65 | 1.24 | 1.19 | 1.27 |
| 4th Q 2020 | 1.15 | 0.48 | 0.54 | 0.48 | 0.30 | 0.46 |
| One Year | 2.61 | 1.28 | 0.87 | 0.97 | 0.78 | 1.95 |
| Three Years | 4.89 | 4.69 | 3.18 | 3.34 | 5.09 | 6.57 |
| Five Years | 5.81 | 5.28 | 3.88 | 4.07 | 5.45 | 7.09 |
| Ten Years | 8.82 | 8.15 | 6.77 | 6.14 | 8.23 | 10.14 |
| Twenty Years | 8.15 | 7.31 | 7.50 | 5.18 | 6.80 | 7.93 |

### OFFICE INCOME RETURNS

| | Total NPI | Total Office | East | Midwest | South | West |
|---|---|---|---|---|---|---|
| 1st Q 2021 | 1.04 | 1.13 | 1.04 | 1.10 | 1.28 | 1.18 |
| 4th Q 2020 | 1.01 | 1.06 | 1.01 | 1.05 | 1.21 | 1.07 |
| One Year | 4.14 | 4.43 | 4.15 | 4.25 | 5.06 | 4.55 |
| Three Years | 4.40 | 4.45 | 4.15 | 4.52 | 5.15 | 4.54 |
| Five Years | 4.52 | 4.49 | 4.15 | 4.95 | 5.35 | 4.55 |
| Ten Years | 5.01 | 4.91 | 4.60 | 5.67 | 5.69 | 4.90 |
| Twenty Years | 5.93 | 5.94 | 5.77 | 6.51 | 6.48 | 5.84 |

### OFFICE APPRECIATION RETURNS

| | Total NPI | Total Office | East | Midwest | South | West |
|---|---|---|---|---|---|---|
| 1st Q 2021 | 0.67 | -0.14 | -0.39 | 0.14 | -0.09 | 0.09 |
| 4th Q 2020 | 0.14 | -0.58 | -0.47 | -0.58 | -0.91 | -0.61 |
| One Year | -1.48 | -3.05 | -3.18 | -3.19 | -4.13 | -2.51 |
| Three Years | 0.48 | 0.24 | -0.94 | -1.13 | -0.06 | 1.96 |
| Five Years | 1.25 | 0.76 | -0.26 | -0.85 | 0.10 | 2.45 |
| Ten Years | 3.68 | 3.12 | 2.10 | 0.46 | 2.44 | 5.06 |
| Twenty Years | 2.13 | 1.30 | 1.66 | -1.28 | 0.30 | 1.99 |

### OFFICE INDEX—QUARTILE RANGE OF RETURNS