2Q24

United States Office Leasing House View

NEWMARK

Market Observations

- **Labor Markets:** We estimate that new office-using jobs have added 240.5 million SF of office demand since February 2020, helping to soften the blow of the hybrid work office demand shock. More jobs are needed for office markets to recover. Office-using job growth is expanding at a moderate pace and has been underperforming overall employment growth since 2023. Information (tech) employment has been the primary source of weakness. Across the top 50 office markets, office-using employment expanded in 27 markets and accelerated in 36 markets in the last six months.

- **Hybrid Work Transition:** Slowing job growth leaves markets more exposed to the ongoing demand adjustment to hybrid work. Newmark estimates that 57% of pre-pandemic leases have yet to come up for renewal, including 1.9 billion SF of renewals in the 2024-to-2027 period. Average lease size has declined by 13.4% compared with pre-pandemic, suggesting further reductions in overall office demand.

- **National Trends:** Leasing activity remained sluggish in most markets in the second quarter of 2024, decelerating nationally to an estimated 0.8% of inventory, compared with the quarterly average of 1.4% realized between 2012 and 2019. Occupancy levels continued to post losses in the second quarter of 2024; however, net absorption improved quarter-over-quarter to negative 6.0 million SF from negative 18.7 million SF from the first quarter of 2024. Though most markets recorded occupancy declines, 33 out of 60 markets tracked by Newmark saw improvements to net absorption compared with the trailing 12-month average. National vacancy rose just 10 bps to 20.3% in response to a decelerating construction pipeline, which totaled 43.2 million SF, a decline of nearly 6.0 million SF from the first quarter of 2024.

- **Regional Trends:** All regions posted occupancy declines in the second quarter of 2024, led by the East Region, where occupancy declined by negative 4.0 million SF. While leasing activity has broadly continued to slow, net absorption is on an upward trend across regions. Net absorption has been consistently strongest (though still negative) in the South. Gateway markets shed most space in the second quarter of 2024, led by New York, Los Angeles, and Washington DC. Smaller, secondary markets captured nearly all positive net absorption in second quarter of 2024—highlights include Columbus (+710,000 SF), Nashville (+703,000 SF), and Baltimore (+613,000 SF).

- **Rent Trends:** Asking rents increased 0.8% year-over-year in the second quarter of 2024, led by major markets (+6.1% YoY) and western markets (+2.8%). Concessions packages remain significantly higher than they were pre-pandemic pushing down effective rents. TI allowances are 63.2% higher than they were pre-pandemic on average, based on an analysis of leading office markets.

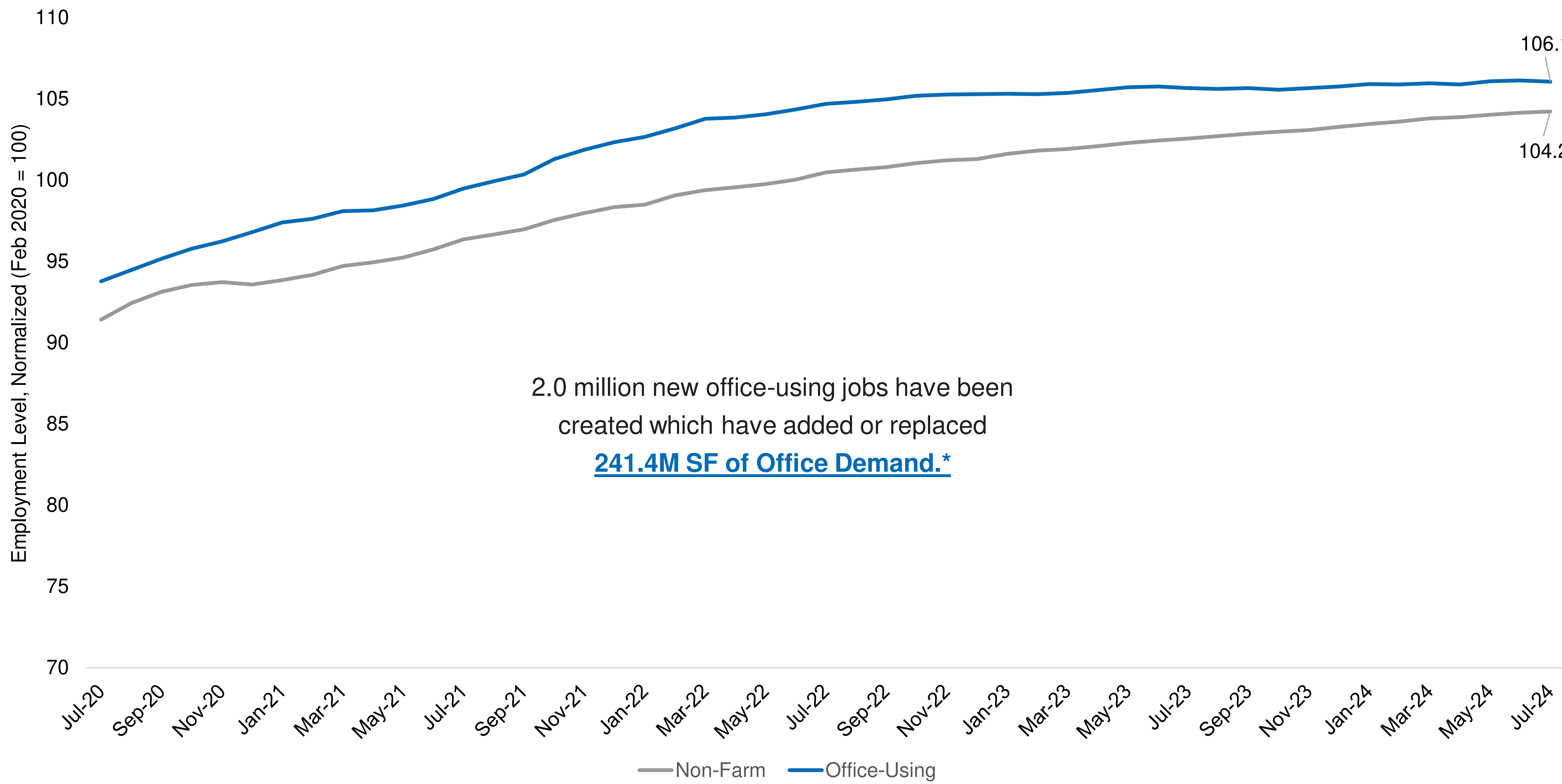
- **Class Conundrum:** Class performance is more nuanced than the dominant flight-to-quality narrative suggests. In CBD markets, higher quality office has outperformed since the first quarter of 2020. Class A office has modestly lower availability rates compared with Class B, while post-2019 Class A construction has materially lower availability. Asking rent growth, meanwhile, has been comparable for Class A and B, and new construction has in fact underperformed. On a combined basis, new construction has handily beat both Class A and B product, though this is partly due to much of the new product being in lease-up. Non-CBD property fundamentals have broadly outperformed CBD markets. Contrary to common belief, Class B suburban product has consistently had lower availability than Class A product in either CBD or non-CBD markets. Class B product has similar availability as CBD new construction, which is materially lower than Non-CBD new construction. Asking rent growth has been robust across non-CBD market segments with the strongest growth in Class A properties. On a rent per available foot basis, non-CBD Class B buildings have outperformed all other segments except for CBD new construction.

Demand Drivers

Office-Using Employment Has Outpaced the Overall Labor Recovery

National nonfarm employment recovered to pre-pandemic levels in June 2022 and is up 21.7% from the pandemic low in April 2020. Office-using employment was less impacted during the pandemic and has maintained a consistent pace of recovery, measuring 2.0 million jobs above pre-pandemic levels—though growth has flattened since August 2022. This is significant because net-new jobs can provide a counterweight to the negative demand effects from remote work.

Employment Recovery Comparison – Normalized to February 2020

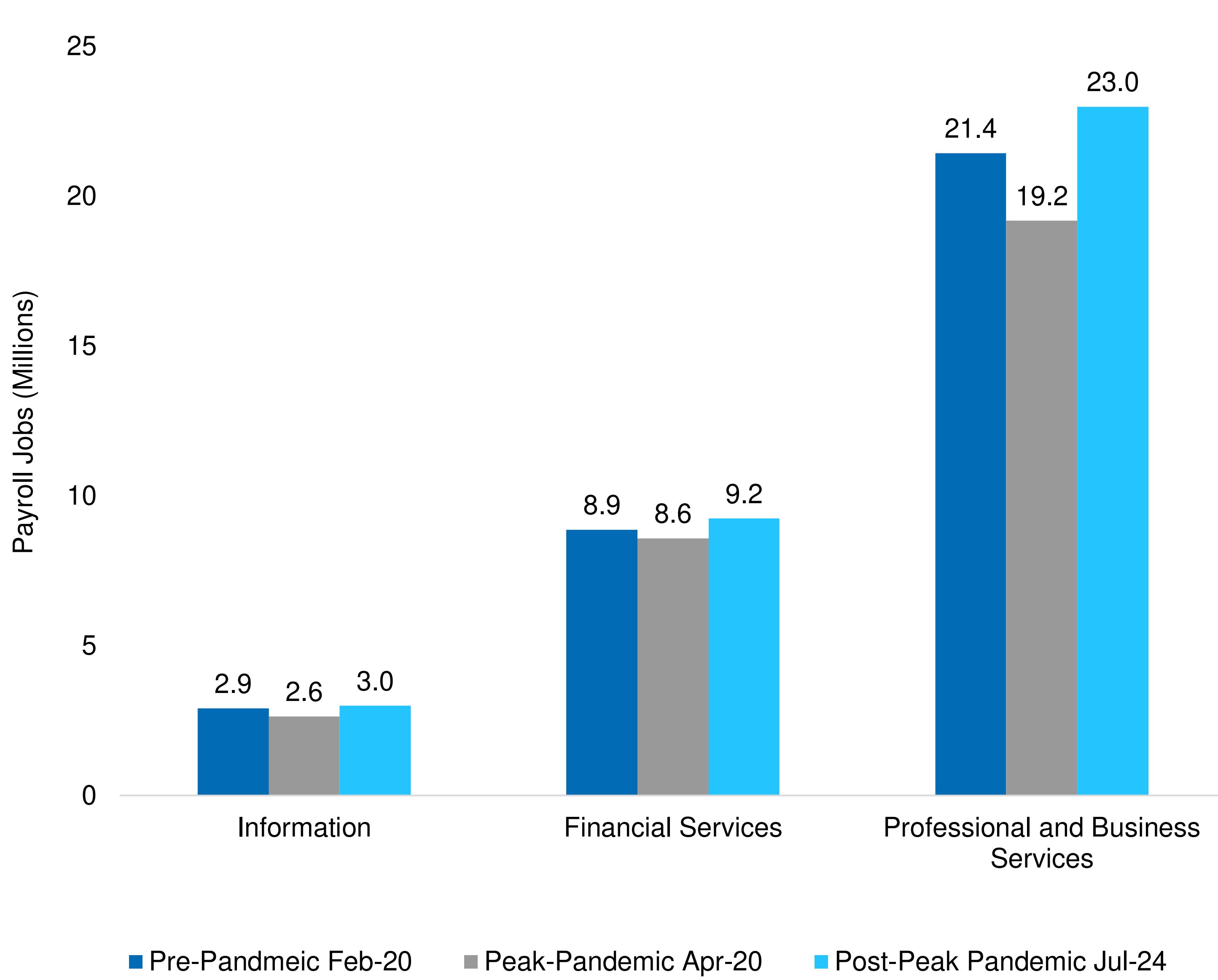


Sources: U.S. Bureau of Labor Statistics, Newmark Research
Seasonally Adjusted
*Assumes estimate of around 120 SF per new office-using job

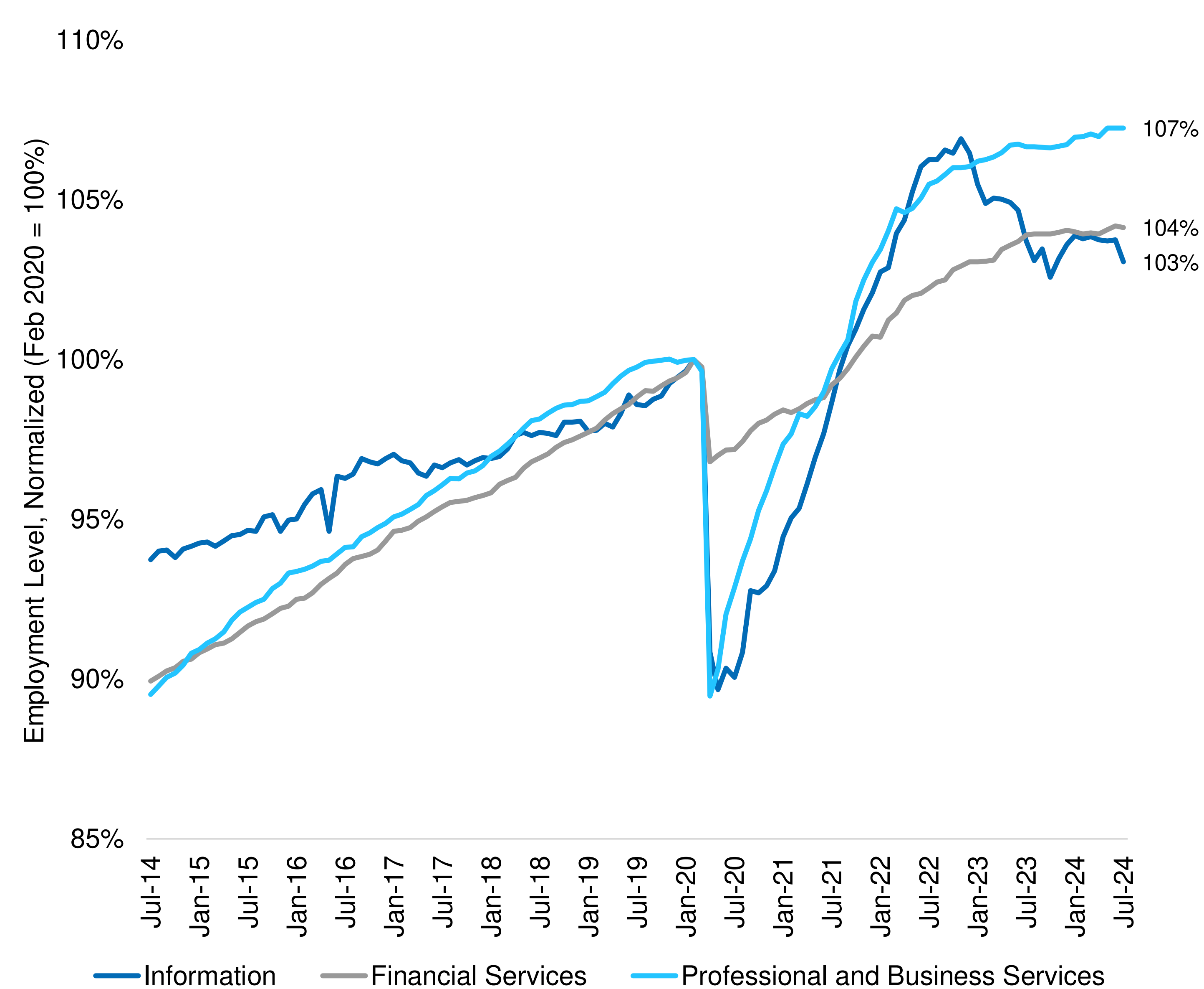
Office-Using Employment is Growing Moderately

Employment now exceeds pre-pandemic levels across office-using industries. The recovery in professional and business services has been particularly strong, with employment up 7.3% above February 2020 levels. Impressive gains have been made across a range of office-using industries, which in the aggregate are up 6.1% from February 2020. Information sector (a proxy for technology) employment fell sharply between Nov-2022 and Oct-2023 but has since returned to growth, though marginal losses were recorded in July 2024.

Employment by Industry



Employment by Industry (Historical)

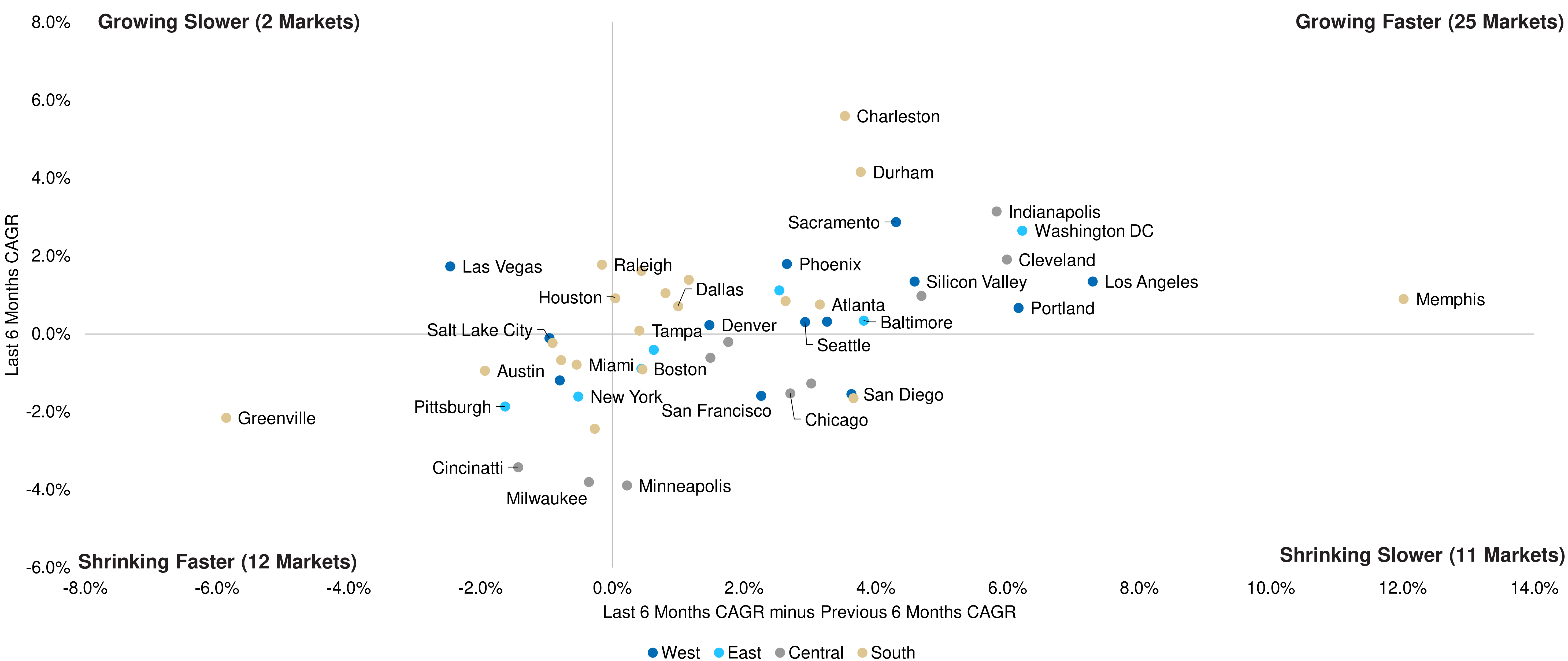


Sources: United States Department of Labor, Newmark Research

Though Office-Using Employment Growth Is Accelerating in Half of Tracked Markets

The employment situation in the first half of 2024 has improved from second half of 2023: 25 markets saw job growth accelerate from the prior six-month period, while 12 markets, particularly in the Central and South Regions, recorded steeper negative growth.

Last 6 Months CAGR vs. 2023-2024 Acceleration

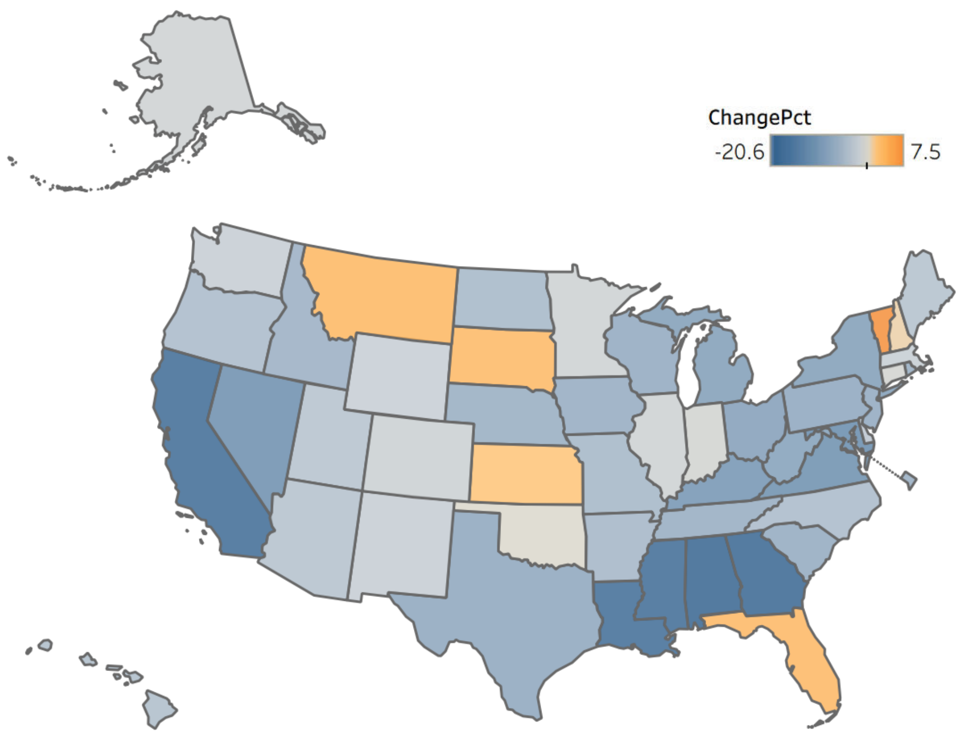


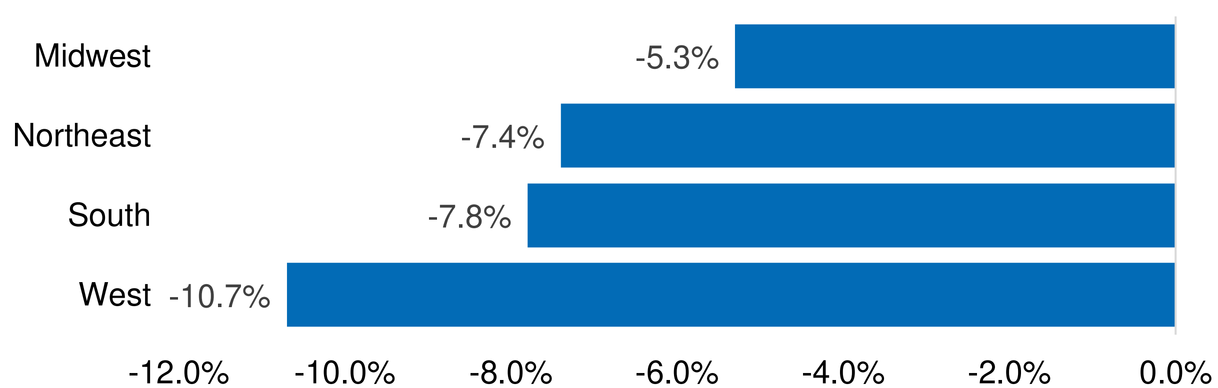
Source: Bureau of Labor Statistics, Newmark Research

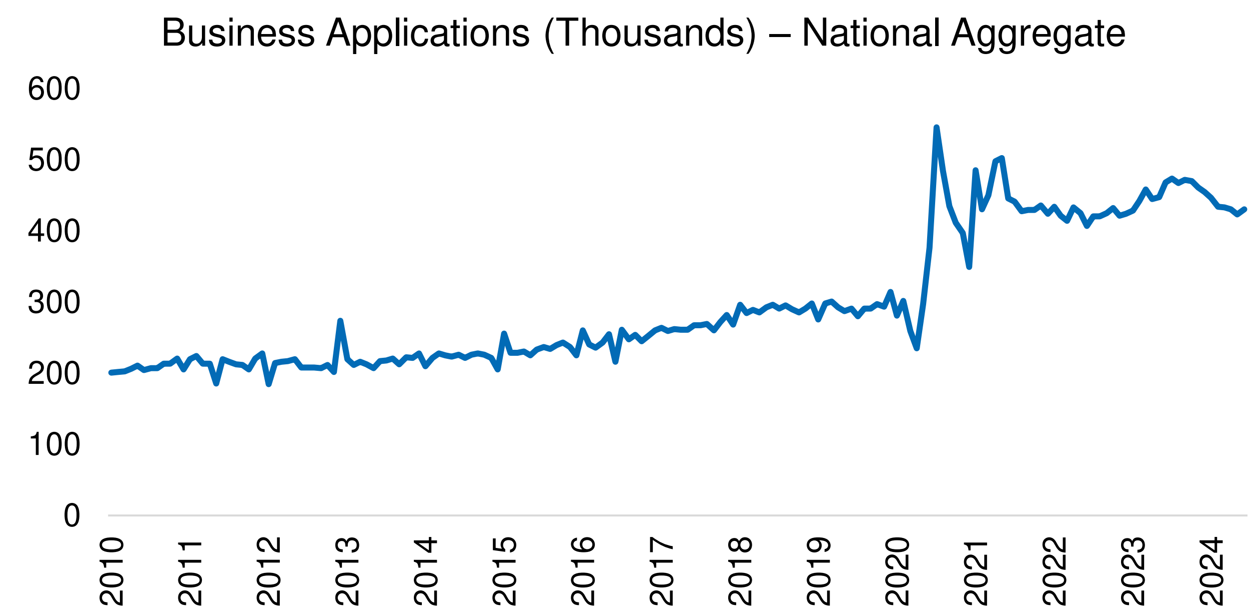
New Business Formation Down Year over Year but Still above Pre-Pandemic Levels

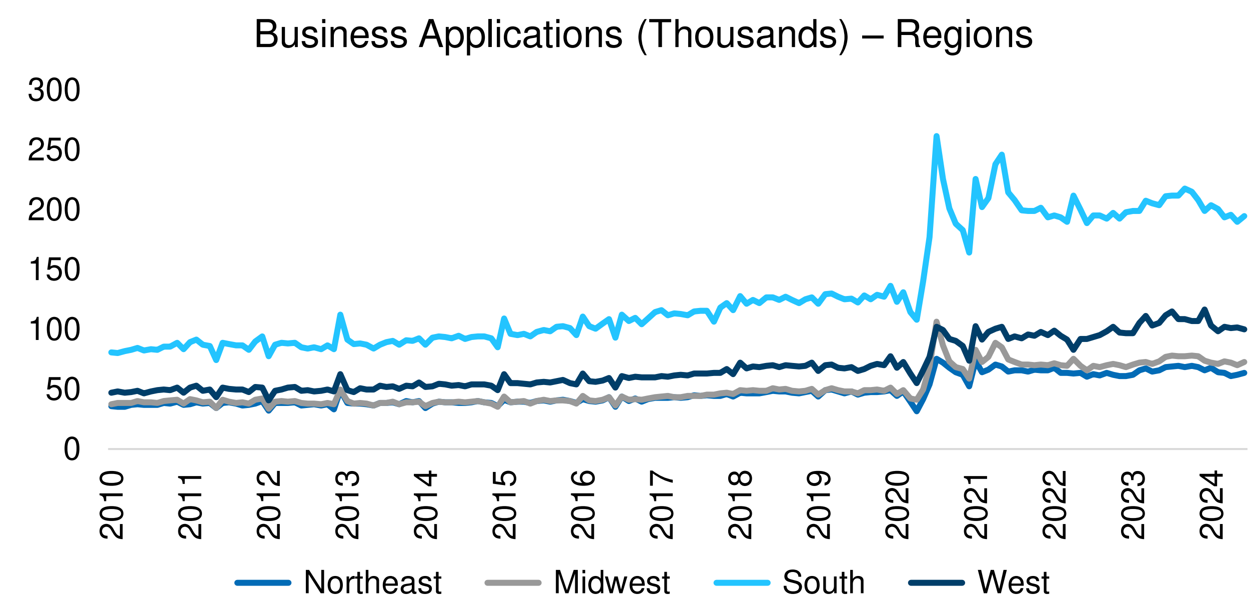
Business formation decelerated in June 2024; 431,246 new business applications were filed, which is down 8.0% from June 2023. This decline was realized across all national regions, with the West Region leading the decline, down 10.7% YoY. Overall business creation remains notably higher than pre-pandemic levels.

Business Applications: Change from June 2023 to June 2024 (Seasonally Adjusted)







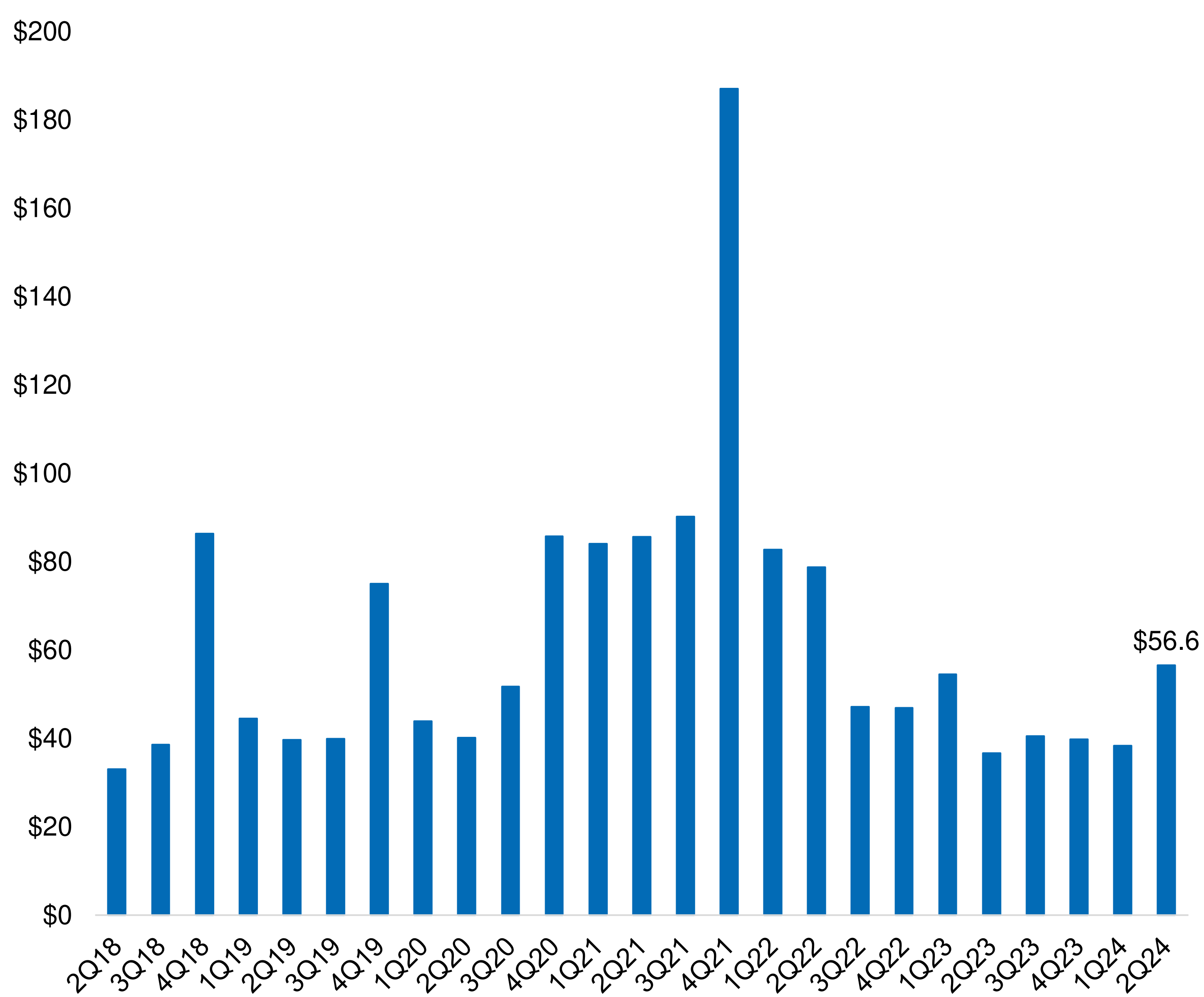


Source: United States Census Bureau, Newmark Research

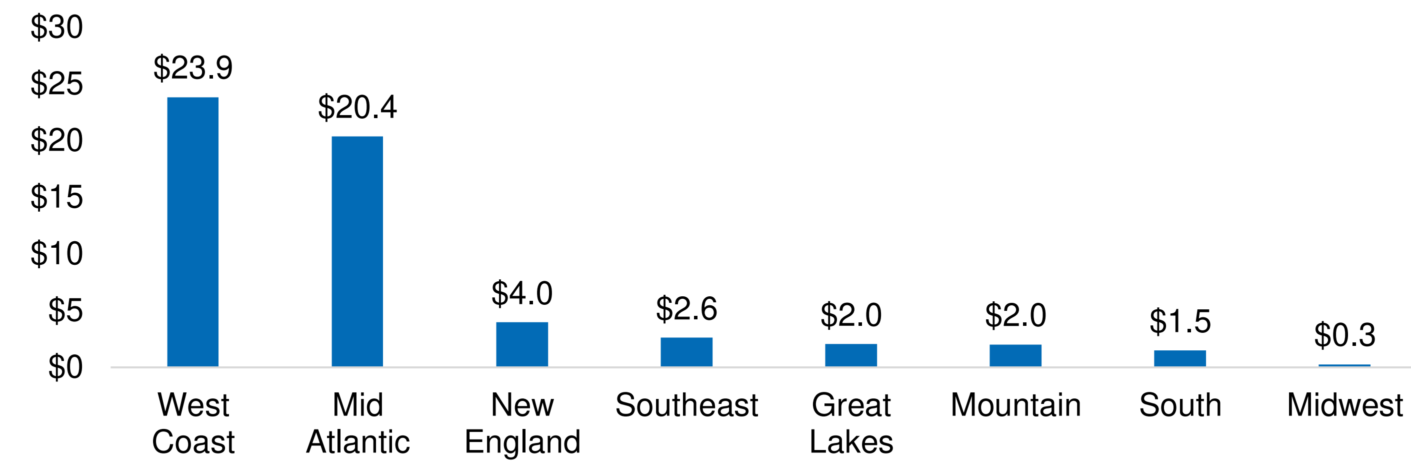
Venture Capital Investment Activity Has Returned to Pre-Pandemic Level

Overall venture capital expanded in the second quarter of 2024 as investors remain cautiously optimistic. Total investments are down significantly from the cycle's recent peak in 2021, and activity in the past year has returned to a historical equilibrium. Across the range of tracked industry sectors, information realized the greatest annual gains, to the tune of 111.8%. Investment in this sector was led by several high-volume transactions in companies focusing on artificial intelligence research and represents a significant turnaround after eight consecutive quarters of annual declines. The market's largest funds are likely to experience the greatest contraction in activity, but high levels of dry powder should continue to support investment activity among smaller funds.

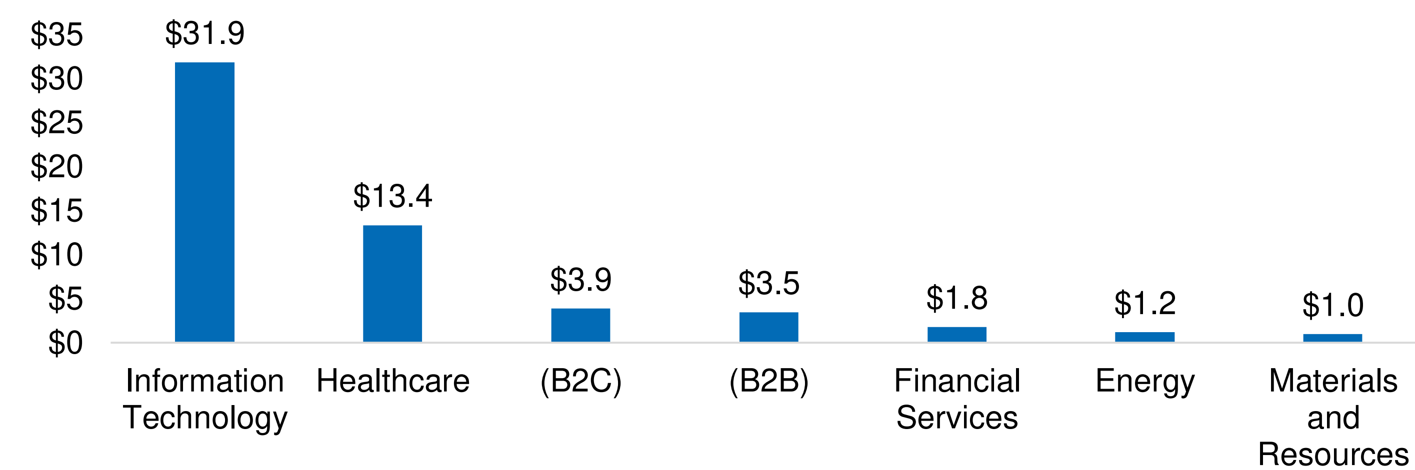
Venture Capital Deal Value ($ billions)



2Q24 VC Funding by Region ($ billions)



2Q24 VC Funding by Industry Sector ($ billions)

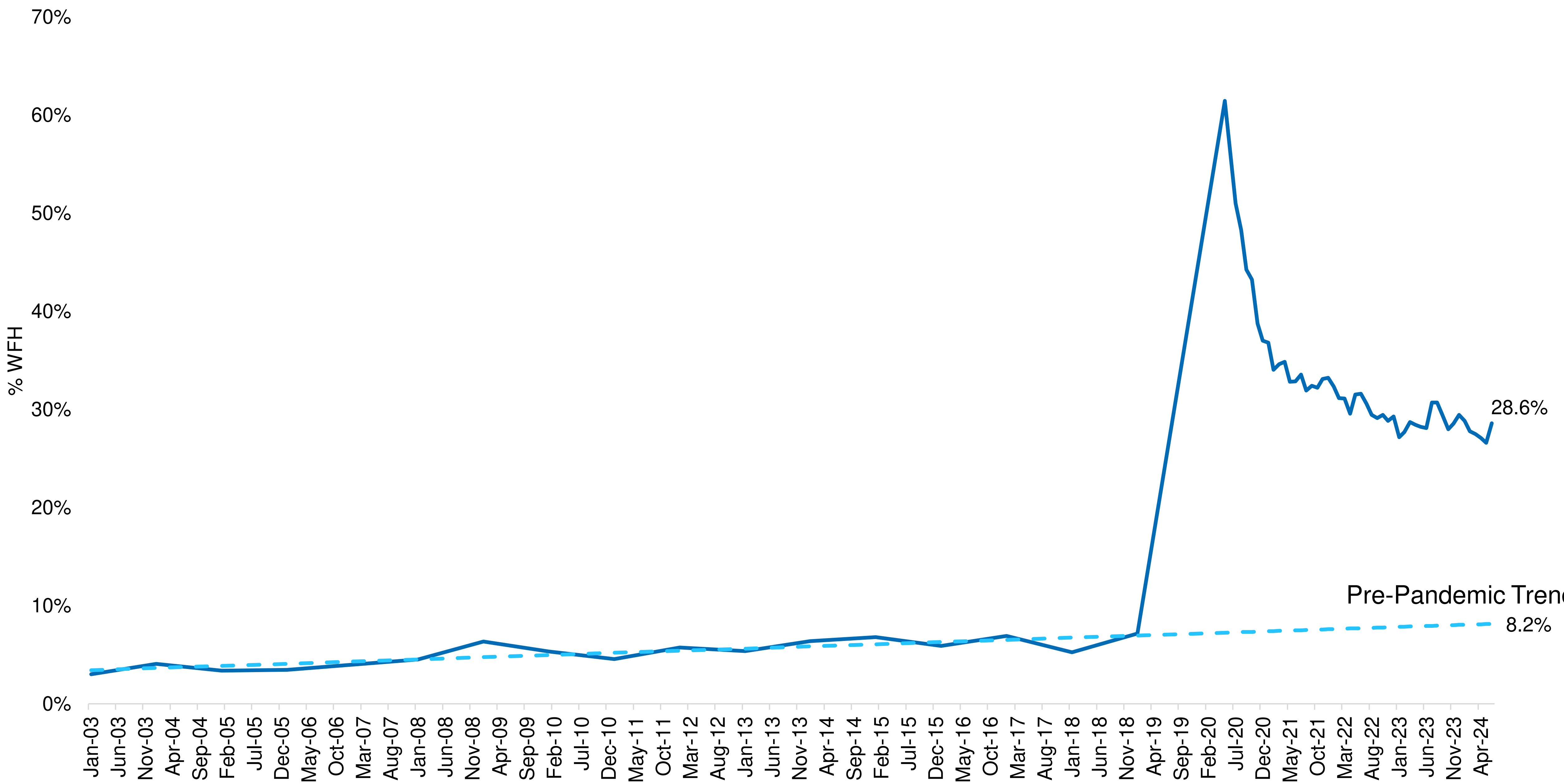


Sources: PitchBook, Newmark Research

The Pandemic Compacted Decades of WFH Transition Into Three Years

In the two decades prior to 2020, the full paid days worked from home by all employees averaged 5.2%. This metric grew significantly in the first quarter of 2020, reaching a maximum of 61.5% in May of 2020. Since then, this metric has declined at a decelerating pace and stands at 28.6% as of June 2024.

Share of Full Paid Days Worked From Home

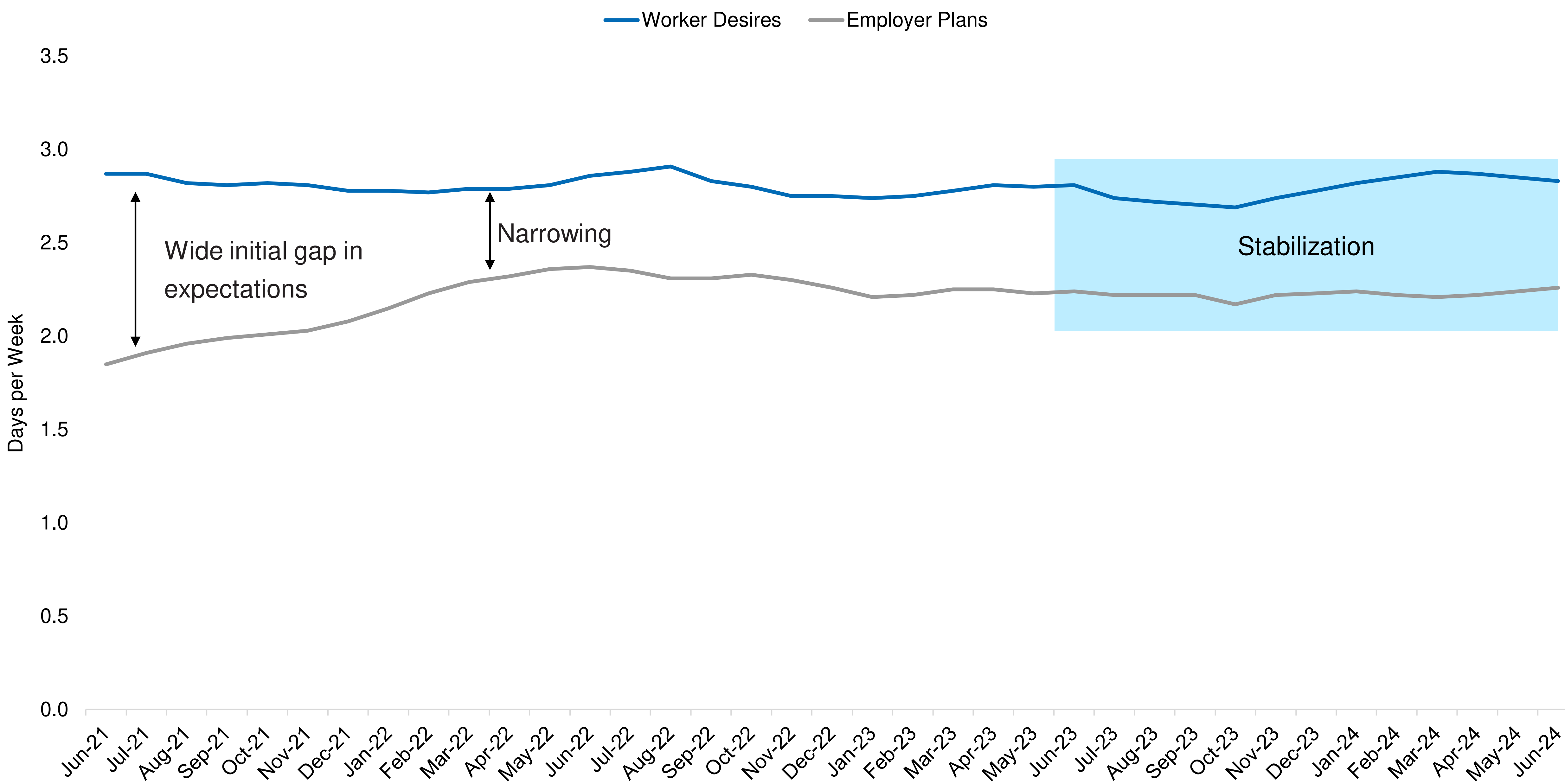


Source: Barrero, Jose Maria, Nicholas Bloom, and Steven J. Davis, 2021. "Why working from home will stick," National Bureau of Economic Research Working Paper 28731.

Gap between Worker and Employer WFH Expectations Has Mostly Stabilized

There is a persistent gap between the number of days workers would like to be able to work from home and employer policies; however, that gap has been fairly stable since the summer of 2022. Over the past few years, there have been many headlines speculating that a recession would enable employers to have their way. It is logical that a weaker labor market would give employers more leverage, but the economy is proving more resilient, the gap in desires is narrow and college-educated unemployment is 2.5%.

Average Days per Week Working From Home After the Pandemic Ends: Workers Able to Work From Home

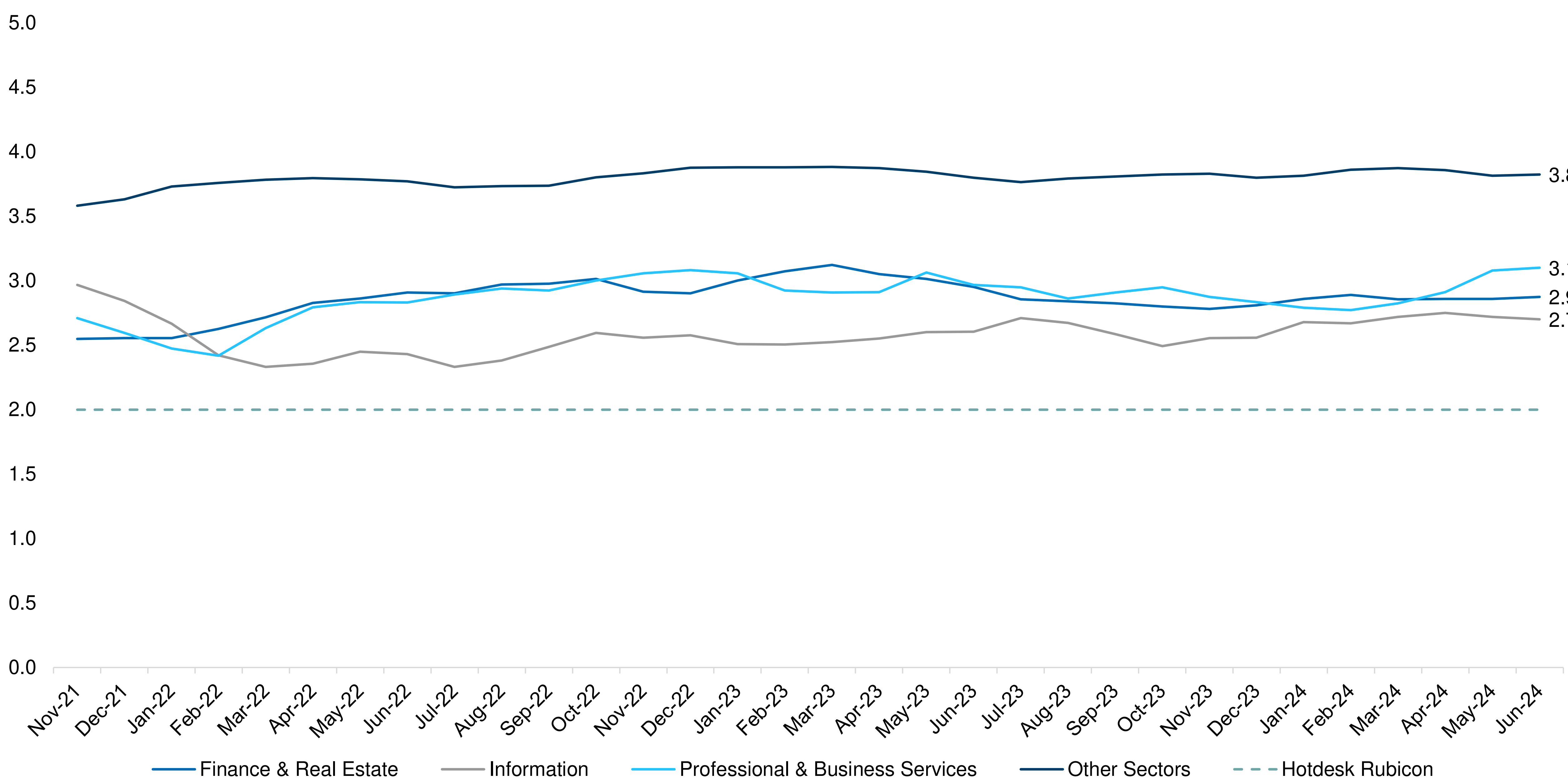


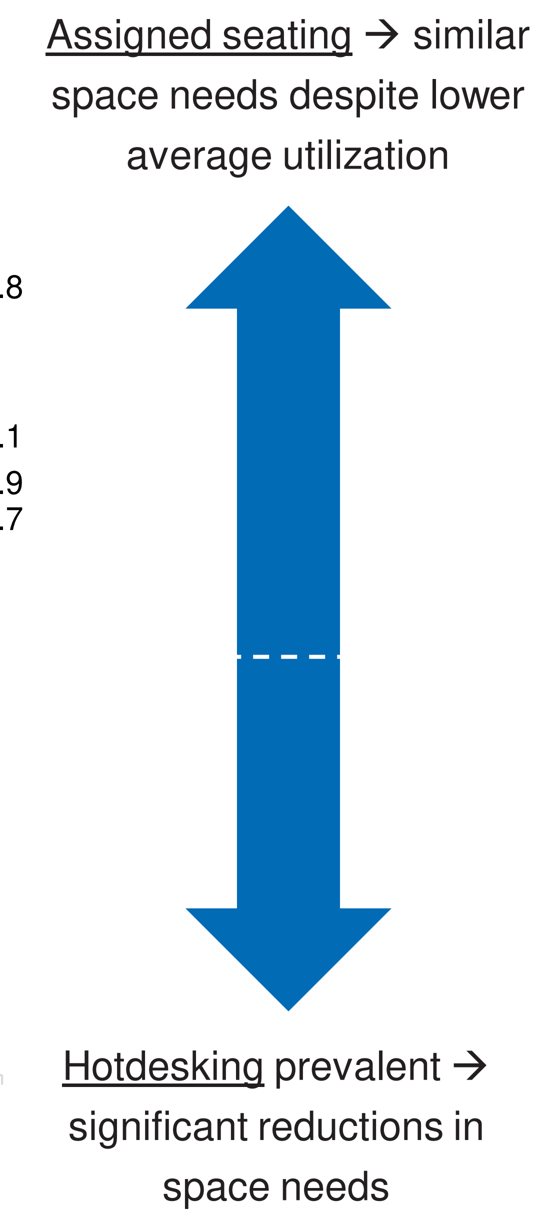
Source: Barrero, Jose Maria, Nicholas Bloom, and Steven J. Davis, 2021. "Why working from home will stick," National Bureau of Economic Research Working Paper 28731.

Office Workdays Have Stabilized above 2.0, Reducing Risk of Large Space Reductions

In recent months, all office-using industries have seen days in office increase marginally. The changes are modest. While the data does not support a significant shift towards the office, days are comfortably above two, which is the dividing line between assigned and hotel seating plan optimality.

Estimated Days Worked Onsite*



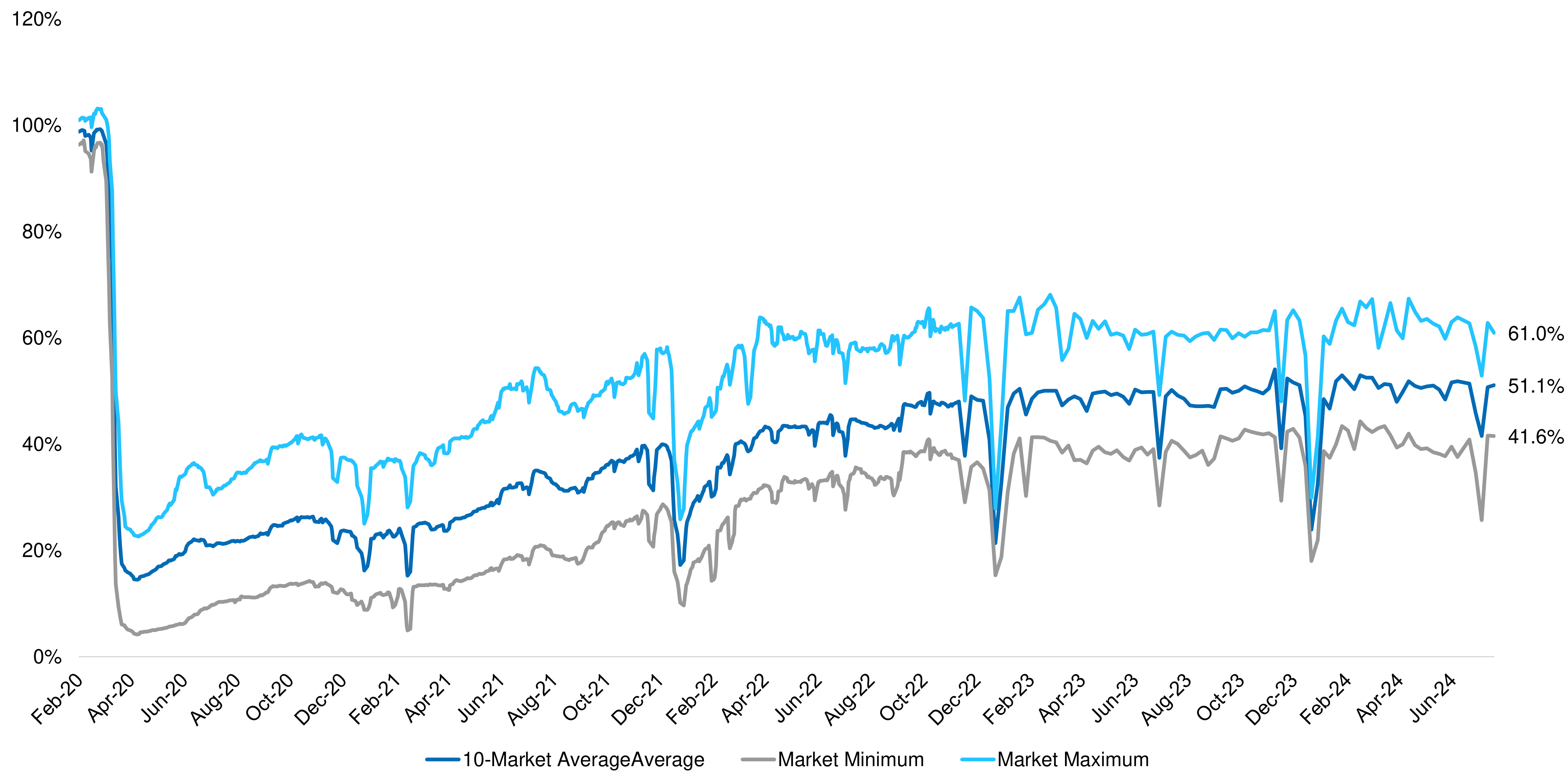


Source: Barrero, Jose Maria, Nicholas Bloom, and Steven J. Davis, 2021. "Why working from home will stick," National Bureau of Economic Research Working Paper 28731.
*The SWAA survey data reports on the share of respondents that worked fully onsite, hybrid and fully remote, respectively. We estimate days worked onsite by assuming fully onsite, hybrid and fully remote refer to 5, 2.5 and 0 days worked onsite, respectively. Sector scores (e.g. office-using) are calculated as a simple average of the constituent industries.

Return to Office Has Stabilized

Kastle Systems' data shows office was relatively stable in the second quarter of 2024. The 10-market average reached 54.1% in mid-November of 2023, the highest occupancy levels seen since pre-pandemic, before sliding down again. The 10-market average stood at 51.1% as of July 2024. There continues to be significant variation in daily office attendance during a given week, suggesting that peak office attendance may have been as high as 70% and pushing 80% in the markets with the most robust return to office.

Kastle Systems Daily Office Physical Occupancy Index – 5-Day Trailing Average (Baseline = February 2020)

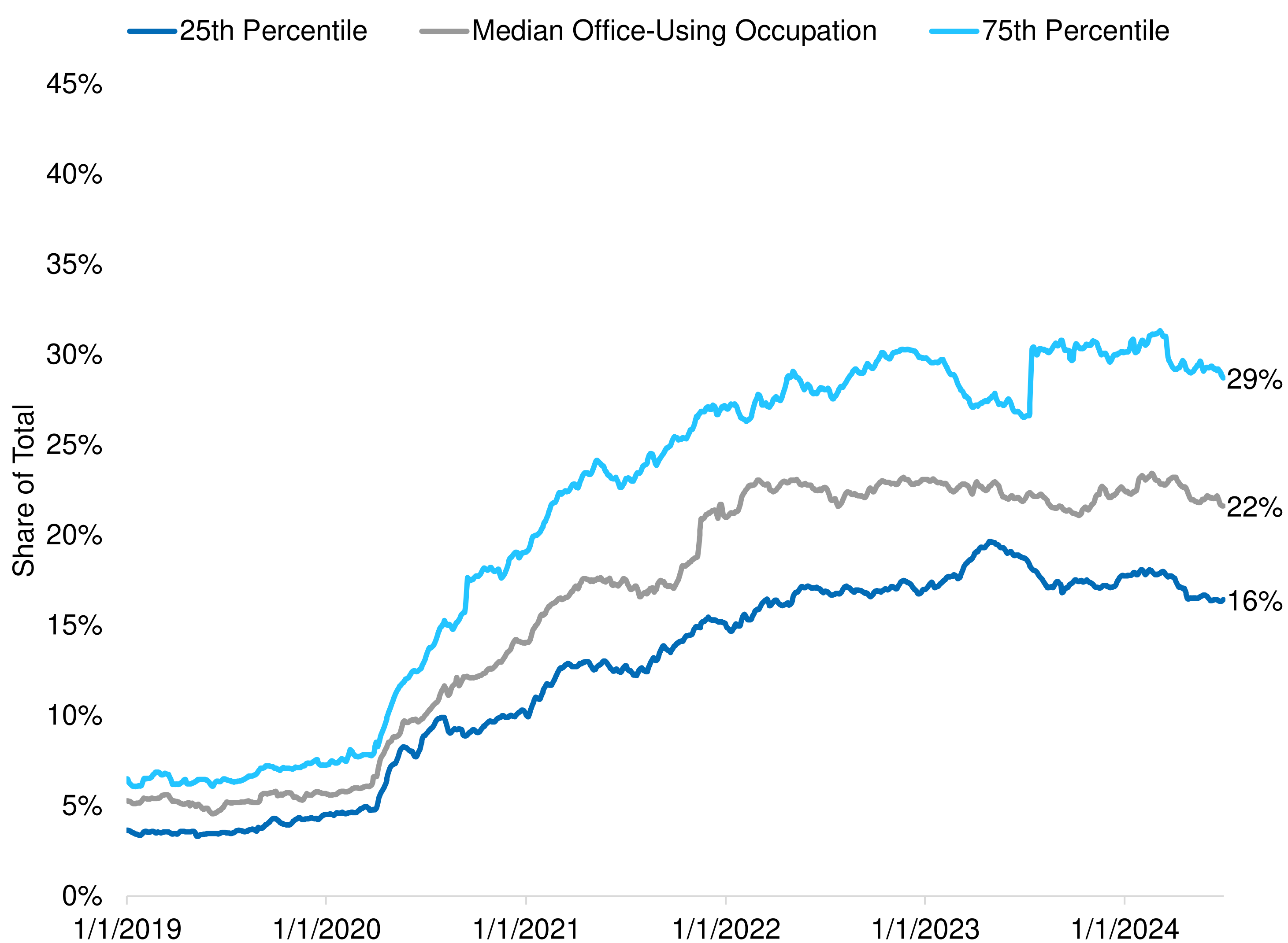


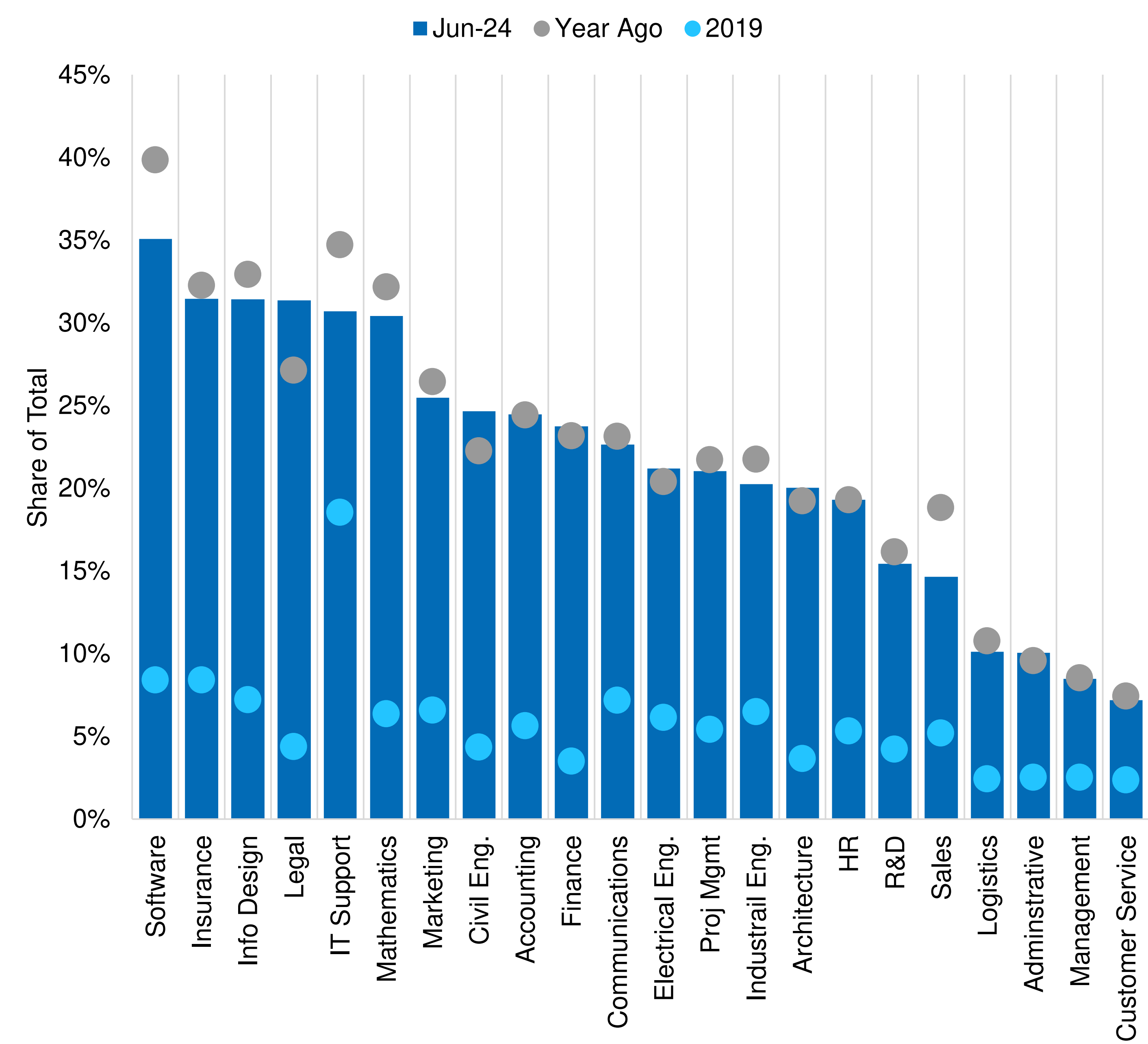
Source: Kastle Systems, Newmark Research

Fully Remote Job Postings Have Stabilized in Office-Using Occupations

There is significant variation in the remote share of job posting across office-using occupations, ranging from 35% of software development roles to just 7% customer service roles. For the median occupation, 22% of job postings are fully remote, and this has been largely stable since early 2022. That said, in the last year, there have been a few notable shifts. The remote share has declined noticeably for software development positions, IT support and sales roles year-over-year.

Remote Share of Job Postings in Office-Using Occupations



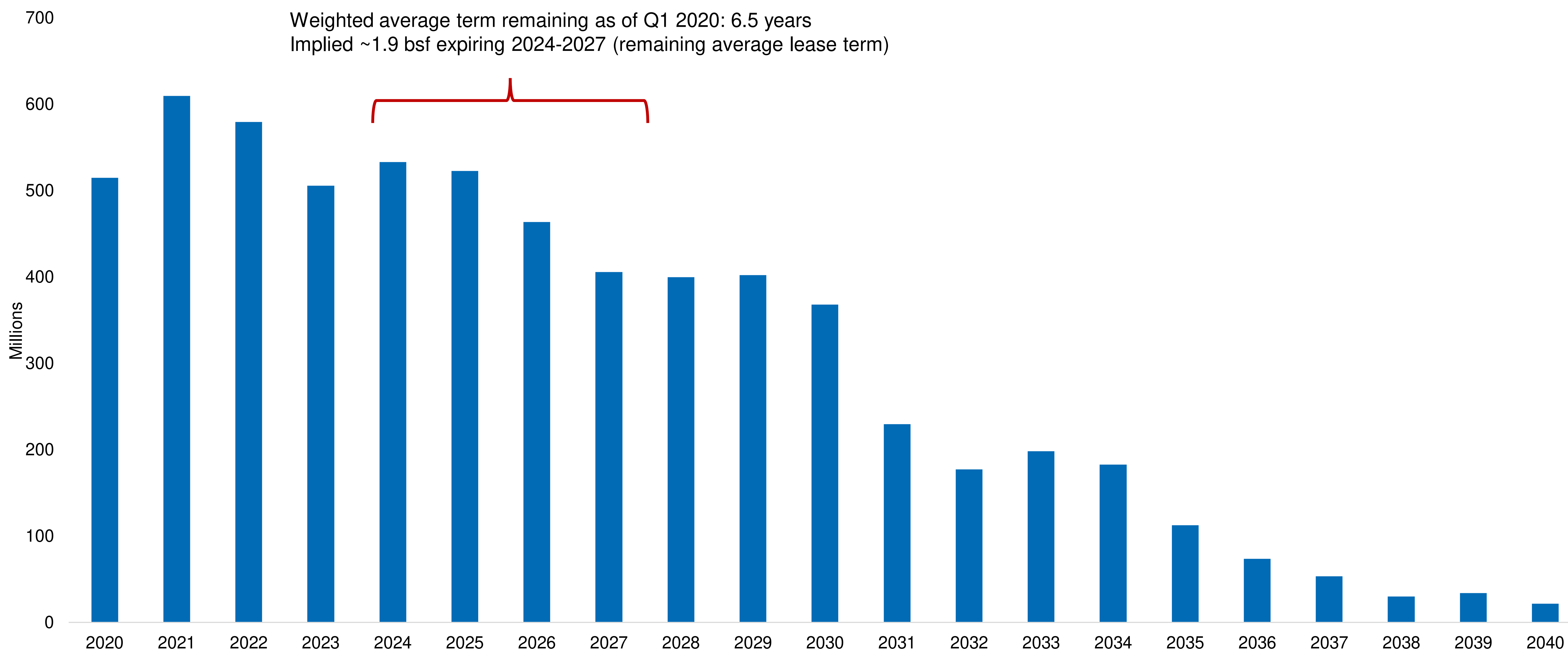


Source: Indeed Hiring Lab, Newmark Research as of 8/2/2024

Tenants Are Less than Halfway through Adjusting Space to Hybrid Working Patterns

Most space* leased pre-pandemic is yet to expire. As of March 2020, the national occupied inventory totaled 6.4 billion SF. The average term remaining of deals in place in this size segment as of March 2020 is 6.5 years. Scaling known transaction data to the first quarter of 2020's occupied inventory implies there is 1.9 billion SF set to expire during the remaining average term length (2024 to 2027), which is the upper limit for the estimate to which tenants have reformed their office footprints.

Implied Square Feet Expiring by Year for 20k+ SF Occupied Inventory as of Q2 2020



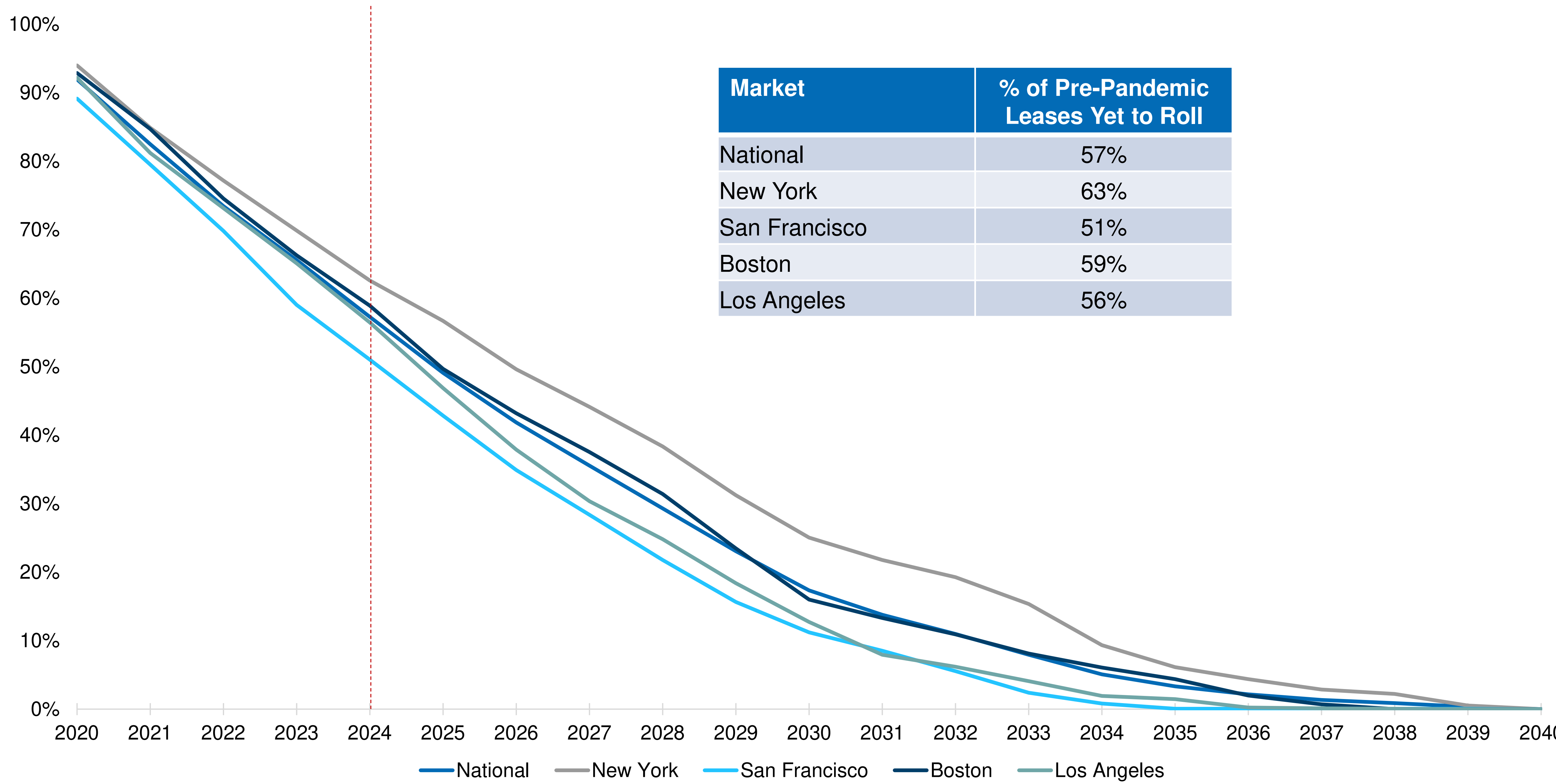
Source: Newmark Research, CoStar

*Based on Newmark Research national transaction data (10,000+ SF leases in place as of March 2020, with leases expiring through 2040, totaling around 1.1 billion SF)

Less than a Quarter of Pre-Pandemic Leases Have Rolled in Gateway Markets

This analysis focused on 10,000+ SF leases. Smaller leases tend to have shorter term lengths in comparison.

Share of Pre-Pandemic Leases Yet to Roll*



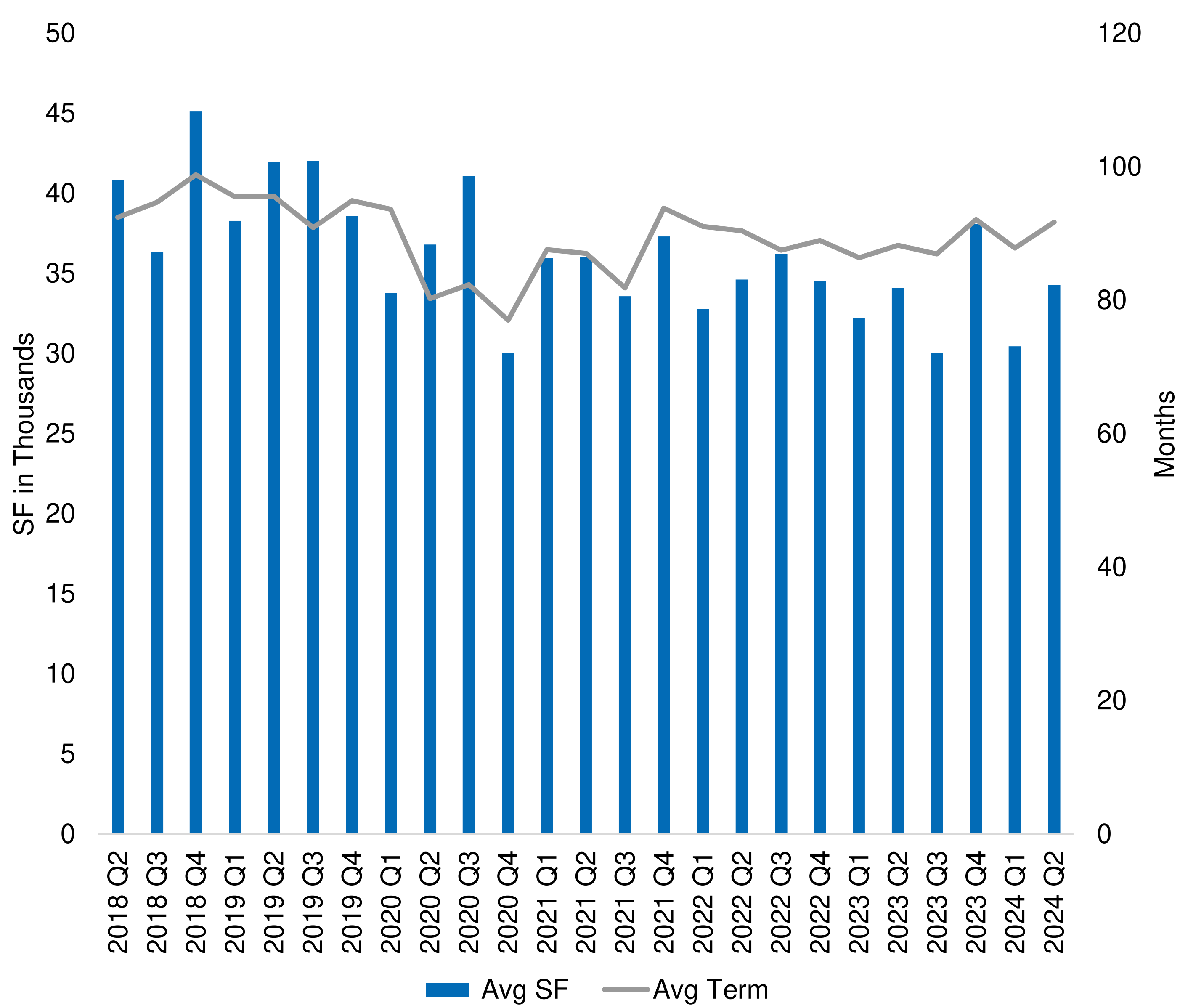
Market	% of Pre-Pandemic Leases Yet to Roll
National	57%
New York	63%
San Francisco	51%
Boston	59%
Los Angeles	56%

Source: Newmark Research, CoStar
*Based on Newmark Research national transaction data (10k+ SF leases in-place as of March 2020, with leases expiring through 2040, totaling ~1.1 bsf)

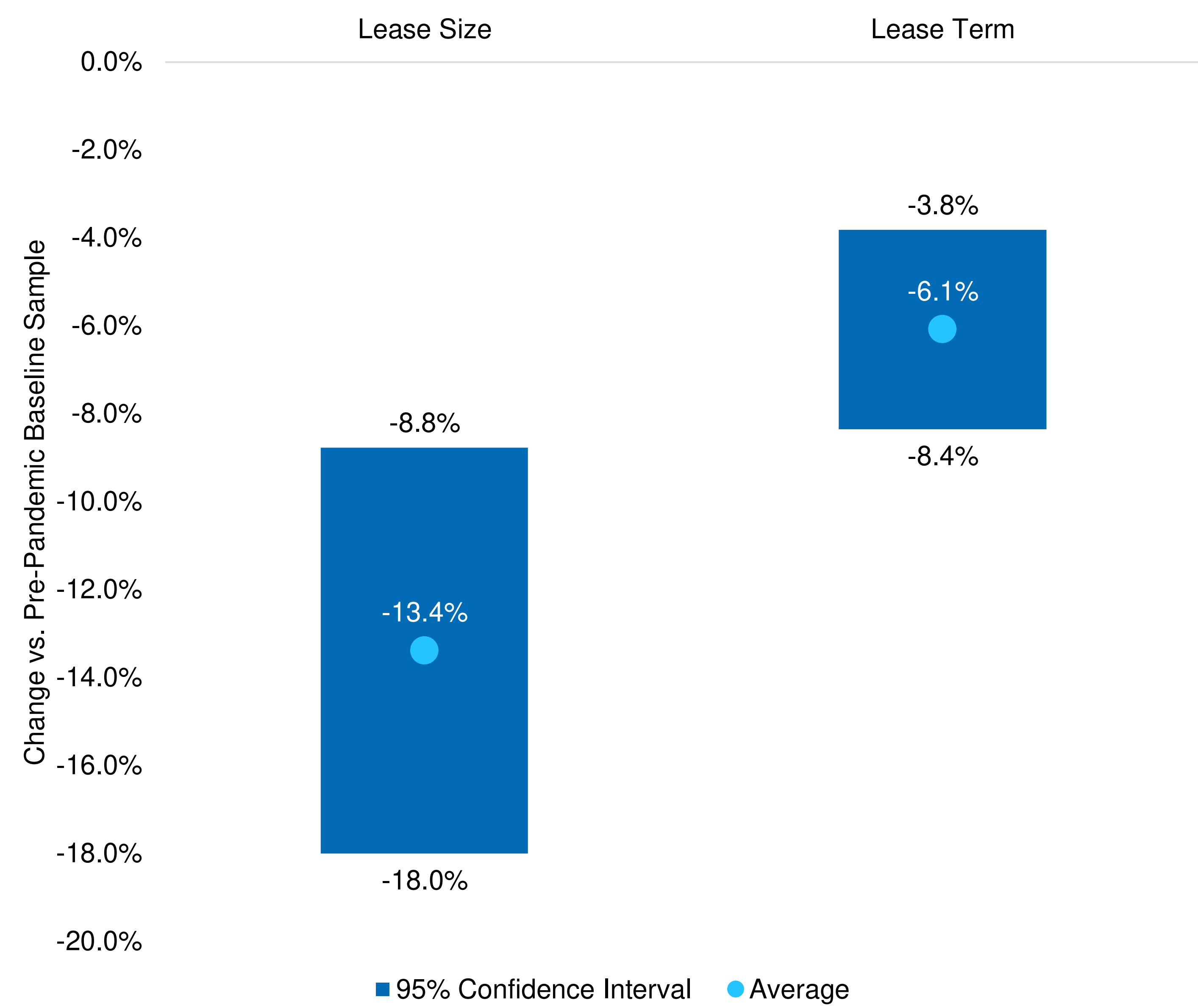
Leases Have Become Smaller and (A Little) Shorter

Pre-pandemic lease renewals are innocuous if occupiers are expected to grow their requirements. Analysis of overall lease sizes and terms suggests otherwise. Indeed, compared to the pre-pandemic period, leases sizes have declined by 13.4% on average, while lease terms have been shortened by 6.1%. This isn't necessarily due to smaller requirements on renewal; it could be due to a general shift in activity towards smaller tenants or shifts across markets. It's unlikely that all the change can be explained away.

Office Lease Term and Size over Time



Estimated Change in Lease Attributes: Pre-Pandemic vs. Today*



Source: Newmark Research

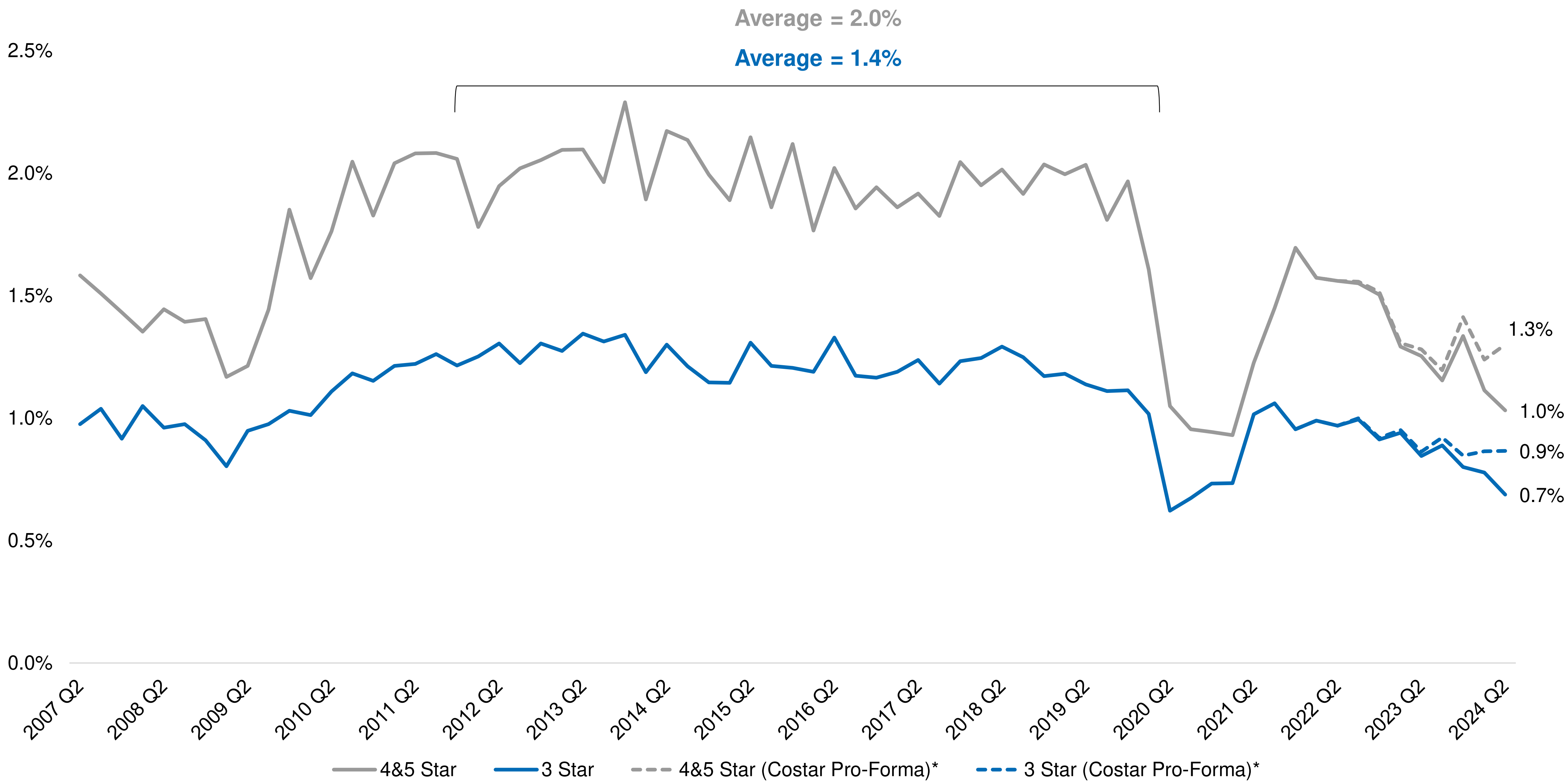
*Based on difference in means analysis using lease comps executed during the 2018 to 2020 period as compared with the 2022 to 2024 period. The intervening period was excluded from the analysis as a transitional period and less reliable as an indicator of future market dynamics.

Leasing Market

Office Leasing Lukewarm in 2Q24, Though Signs of Stabilization

Higher-quality buildings continued to outpace the overall market and drove a disproportionate share of leasing activity in the second quarter of 2024. Although four- and five-star buildings only account for 37.4% of inventory, these assets captured 49.7% of leasing activity in the second quarter of 2024.

Leasing Activity as a Share of Inventory



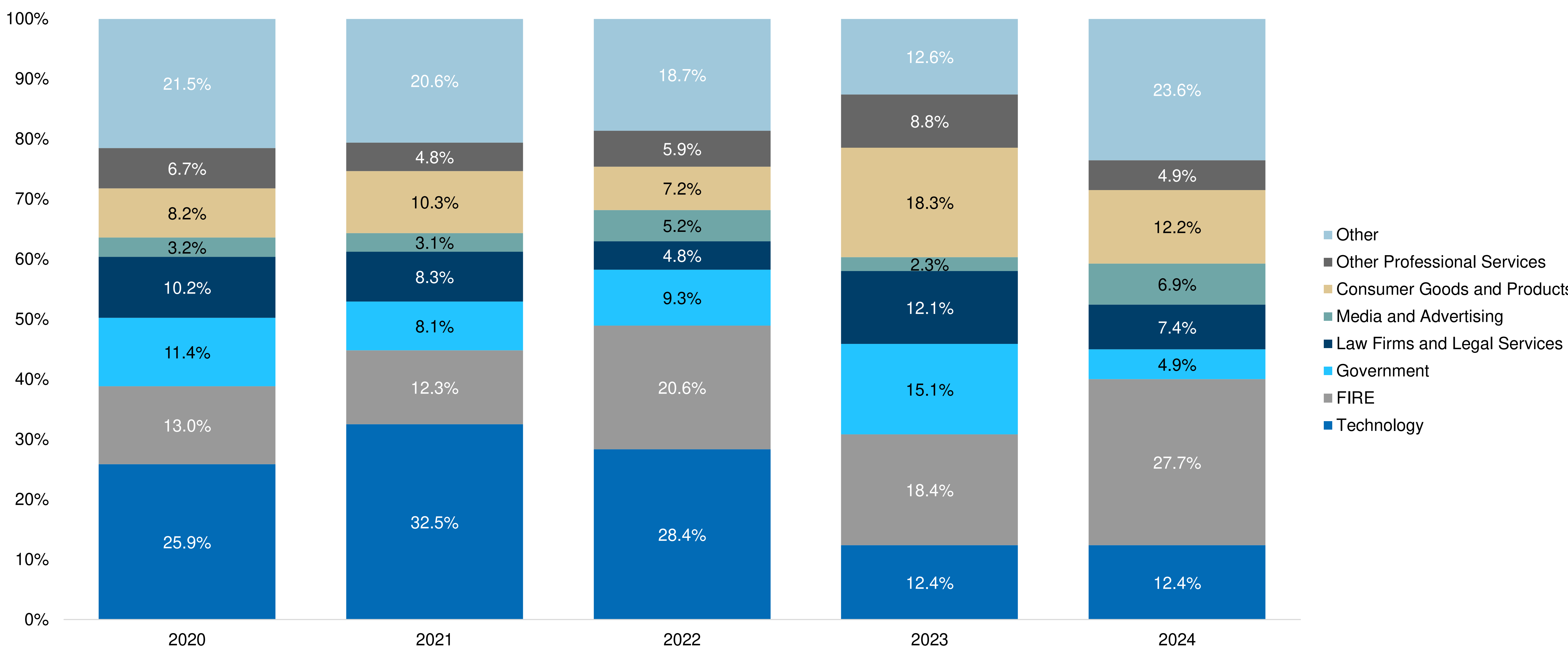
Source: CoStar, Newmark Research as of 7/19/2024

*CoStar pro-forma based on proprietary internal formula that estimates remaining leases not captured based on analysis of historical leasing trends.

FIRE Leasing Expands; Tech Leasing Remains Tepid

Large-block leasing activity remained stagnant in the first half of 2024 as firms continue to delay real estate planning initiatives due to economic uncertainty. Leasing in the technology sector in 2024 captured a similar share of total leasing activity as in 2023. Industries in the finance, insurance, and real estate (FIRE) sectors saw a notable uptick in leasing share in the first half of 2024.

Percentage of Total SF Leases Among Leases Greater than 50,000 SF

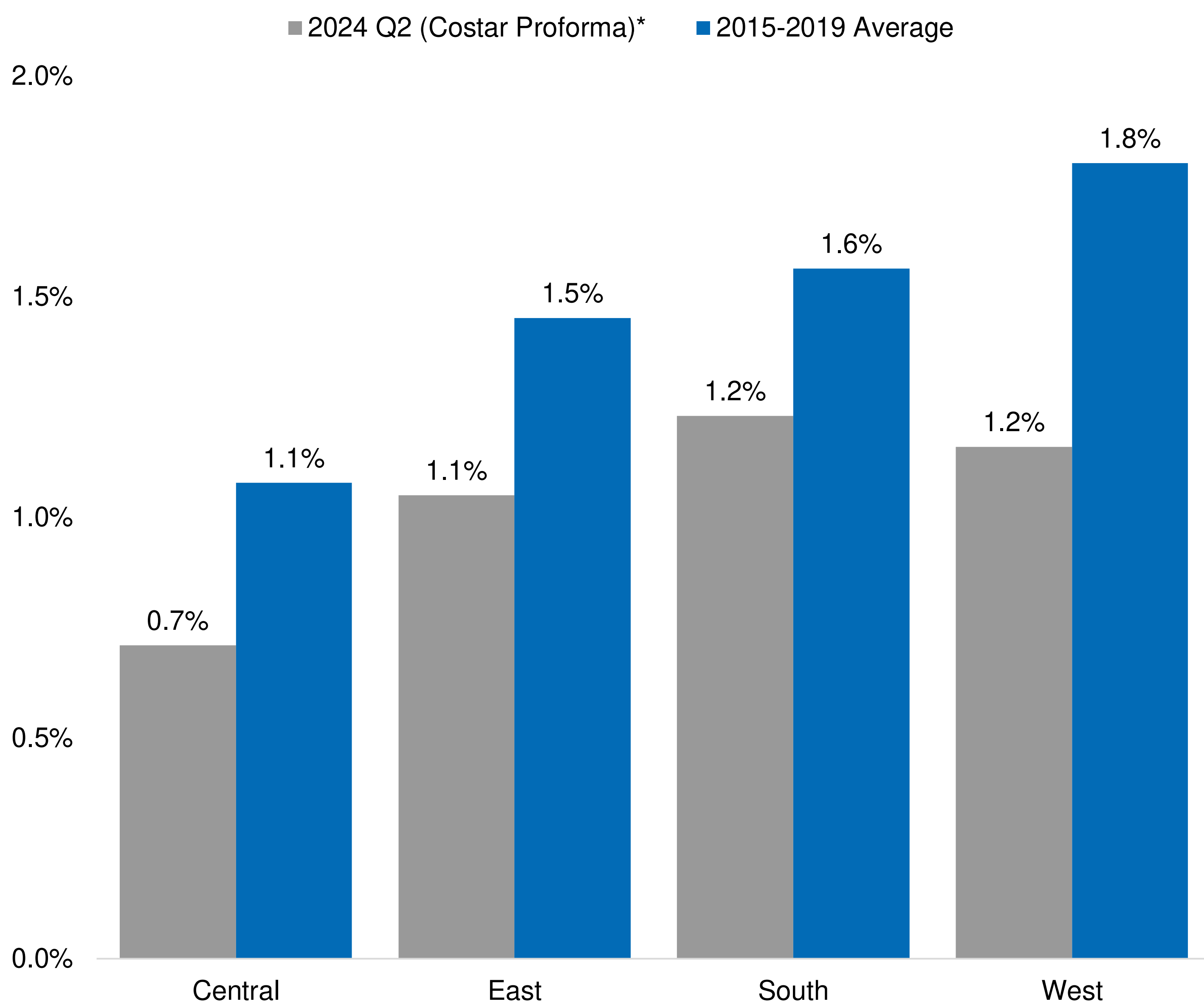


Sources: Newmark Research

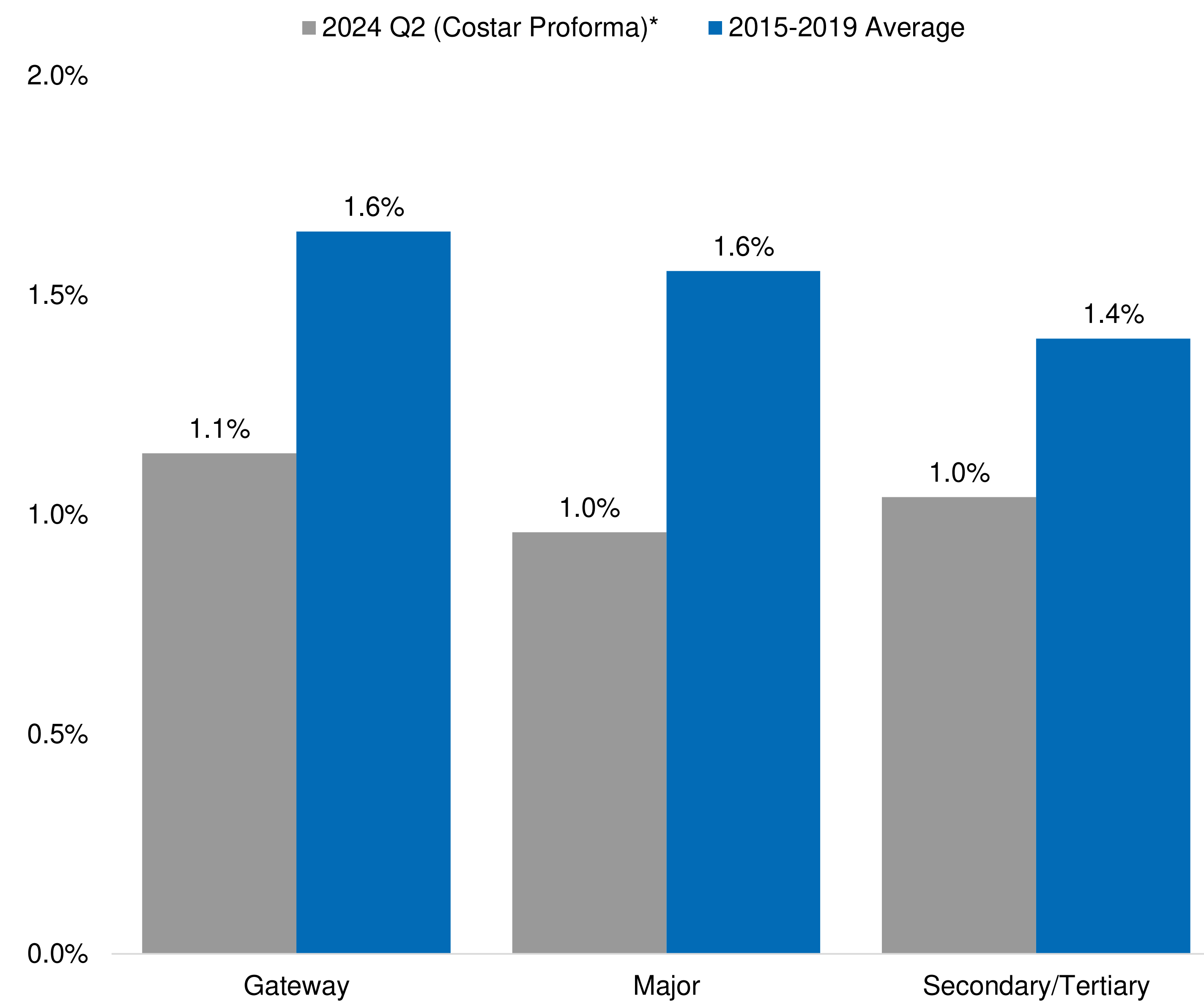
Leasing Activity Relatively Even across Regions and Market Tiers

Leasing activity was again sluggish in most markets in the second quarter of 2024. Leasing momentum had been more varied prior to the onset of the pandemic, with Western and major gateway markets commanding a large share of leasing relative to inventory. In the second quarter of 2024, leasing activity as a percent of inventory was relatively even across most regions and market sizes, except the Central Region, which continued to underperform.

Regional Leasing Activity as a Percent of Inventory



Market Size Leasing Activity as a Percent of Inventory

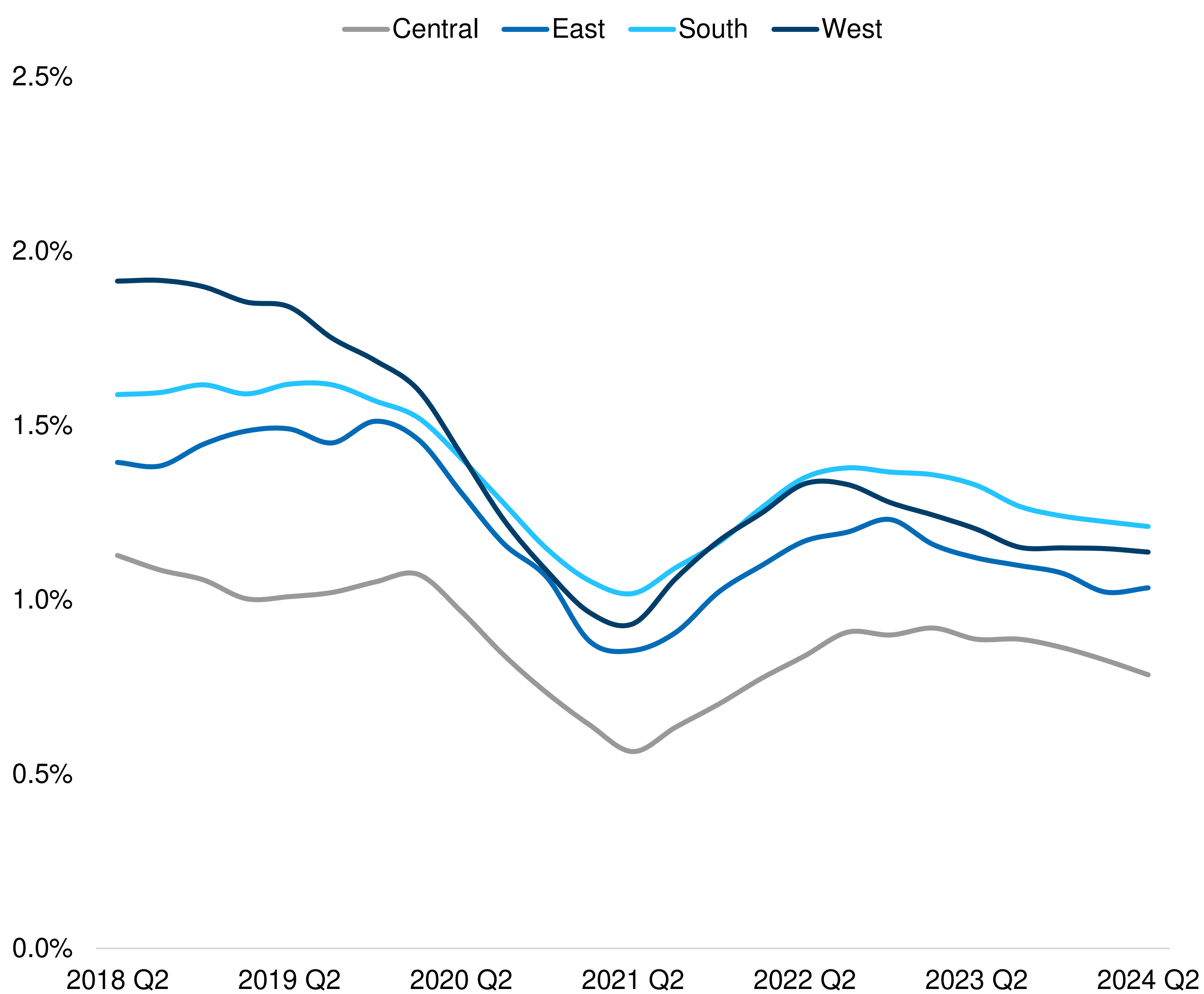


Source: CoStar, Newmark Research as of 7/19/2024
*CoStar pro-forma based on proprietary internal formula that estimates remaining leases not captured based on analysis of historical leasing trends.

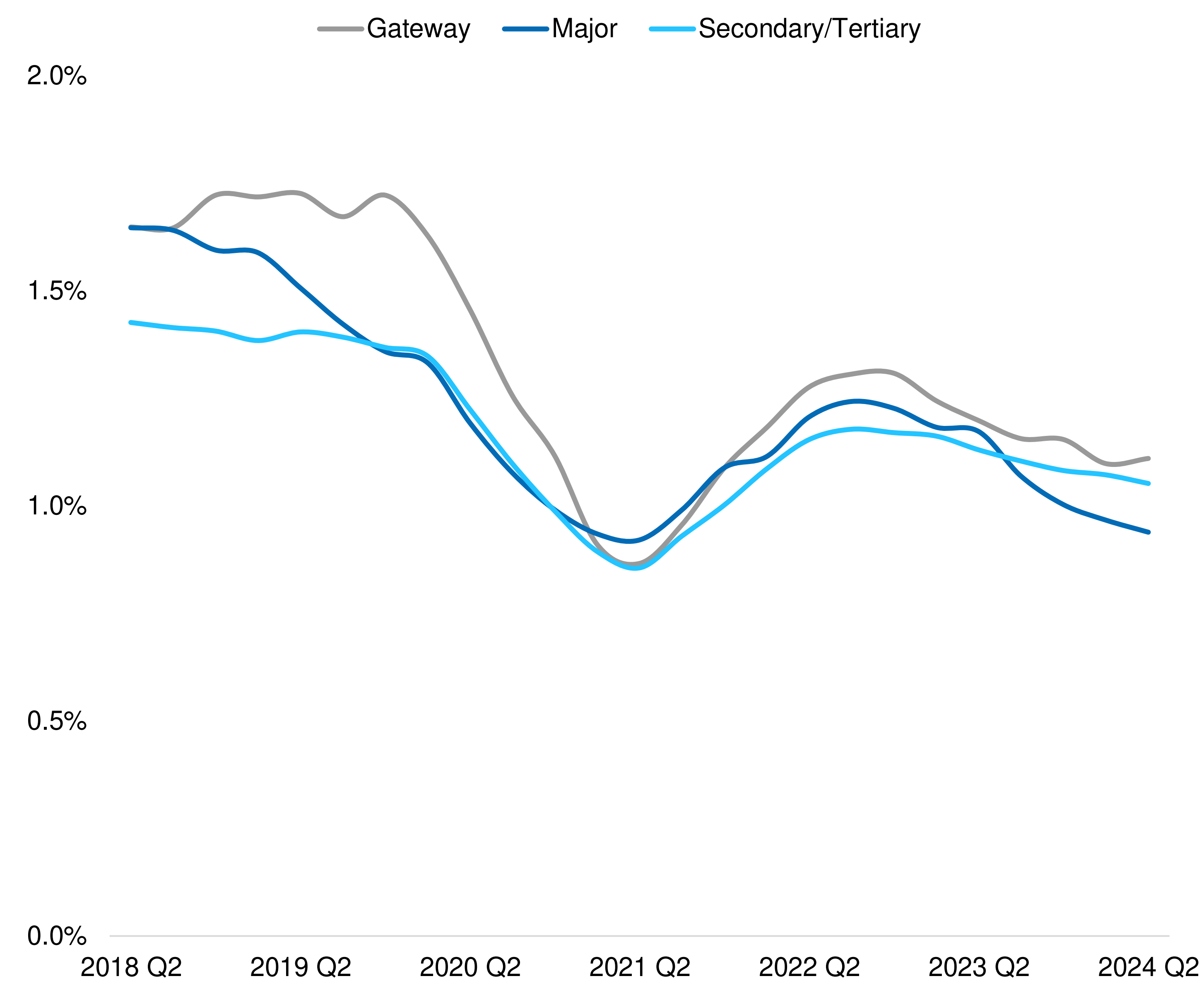
Leasing Activity Has Continued to Trend Downwards in Recent Quarters

Most regions and market sizes have seen a slowdown in leasing activity compared with gains in 2022. Southern and gateway markets have outperformed, while Central Region and major markets (excluding their gateway component) have underperformed. Western, major and gateway markets have seen the largest relative decline in activity compared with pre-pandemic.

Regional Leasing Activity as a Percent of Inventory (4-Quarter Trailing)*



Market Size Leasing Activity as a Percent of Inventory (4-Quarter Trailing)*

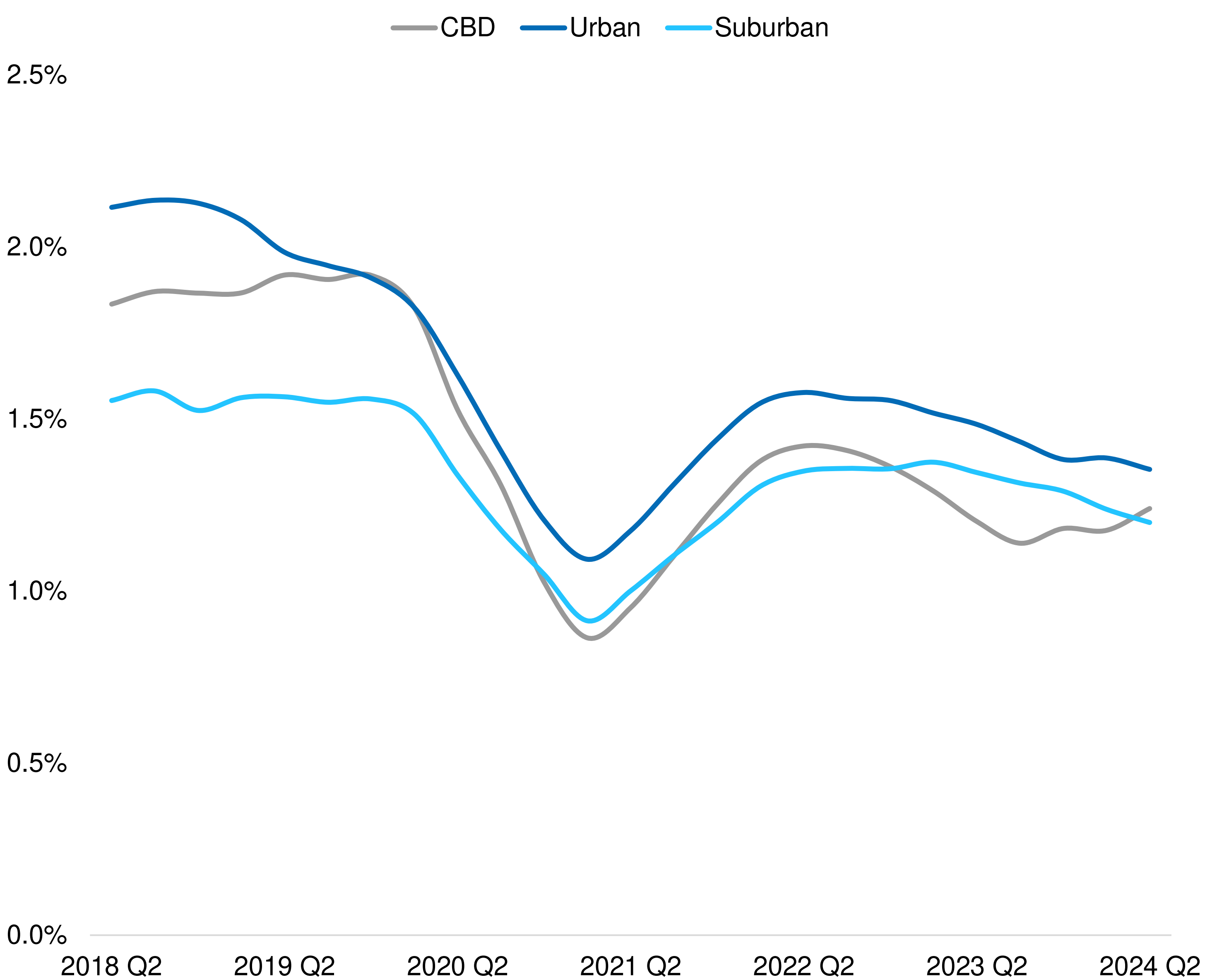


Source: CoStar, Newmark Research as of 7/19/2024
*The fourth quarter of 2021 through the second quarter of 2024 values used in four-quarter trailing calculation use CoStar pro-forma based on proprietary internal formula that estimates remaining leases not captured based on analysis of historical leasing trends.

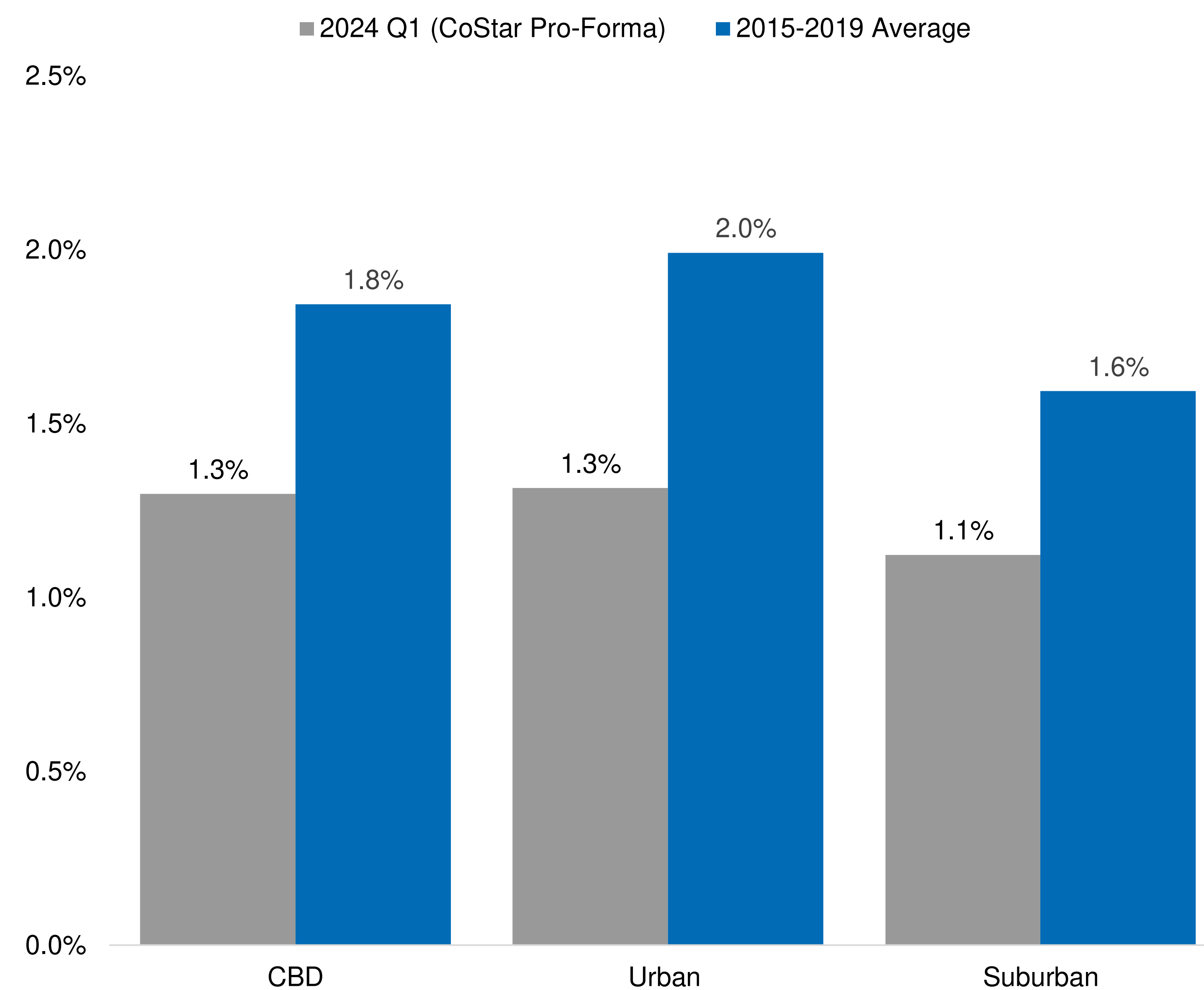
Leasing Activity Strongest in Urban Submarkets; CBD Leasing Is Accelerating

Leasing activity as a percent of inventory in CBD markets saw the greatest relative decline during the peak of the pandemic, bottoming out at 0.86% in the fourth quarter of 2020. All urbanization levels realized some marginal recovery in 2022 before declining again due to lingering economic uncertainty. CBD, urban, and suburban markets experienced similar leasing activity in the second quarter of 2024. CBD leasing velocity has been increasing in recent quarters and is now outpacing the suburbs.

Urbanization Level Leasing as a Percent of Inventory (4-Quarter Trailing)*



Urbanization Level Leasing Activity as a Percent of Inventory

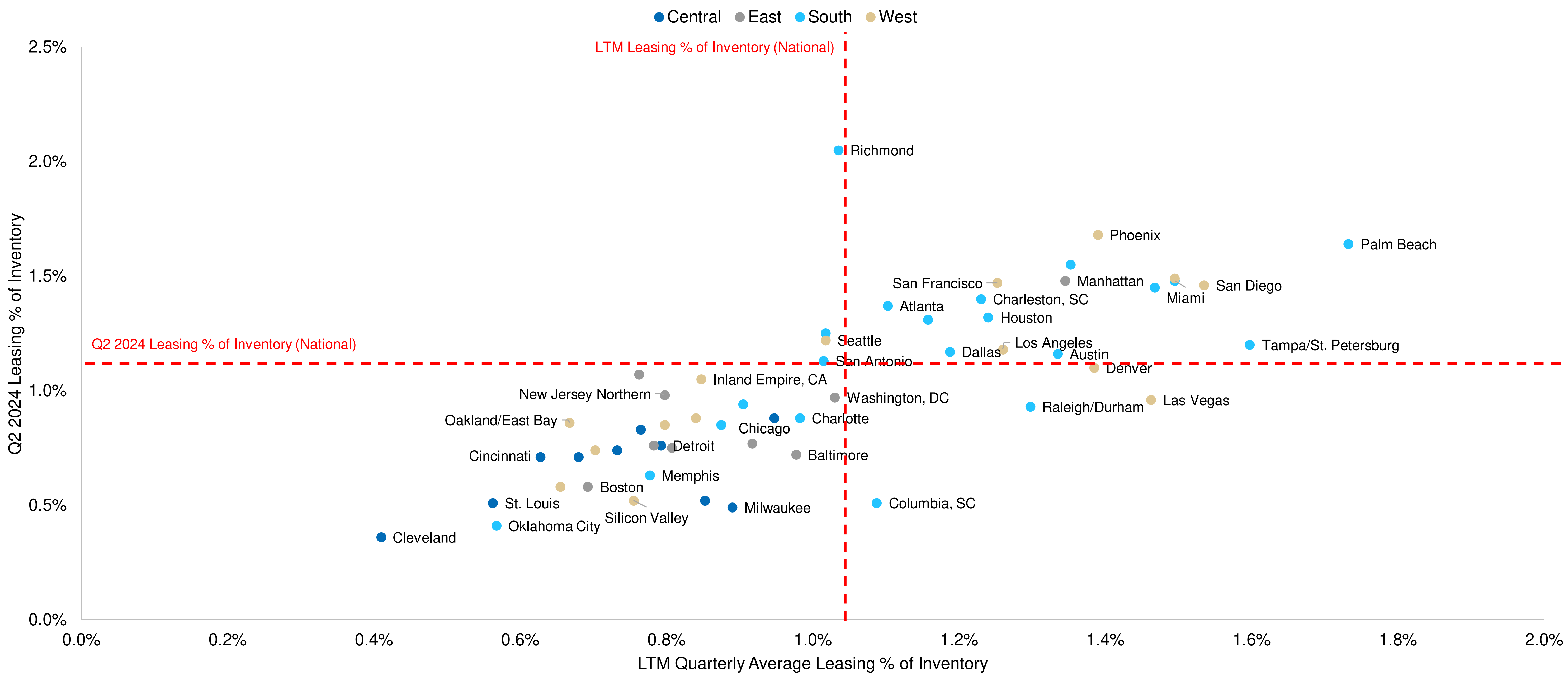


Source: CoStar
*The third quarter of 2022 through the second quarter of 2024 values used in four-quarter trailing calculation and the first quarter of 2024 comparison by urbanization level use CoStar pro-forma based on proprietary internal formula that estimates remaining leases not captured based on analysis of historical leasing trends.

Southern and Western Markets Outperformed the National Average in 2Q24

LTM leasing activity by Newmark-tracked markets ranges from 0.4% of inventory in Cleveland to 1.7% in Palm Beach. Variations are anticipated among smaller inventory markets, but it should be noted that major gateway markets, including Manhattan, Los Angeles and San Francisco, are largely in the upper half of this distribution.

LTM Quarterly Average vs 2024 Q2 Leasing*

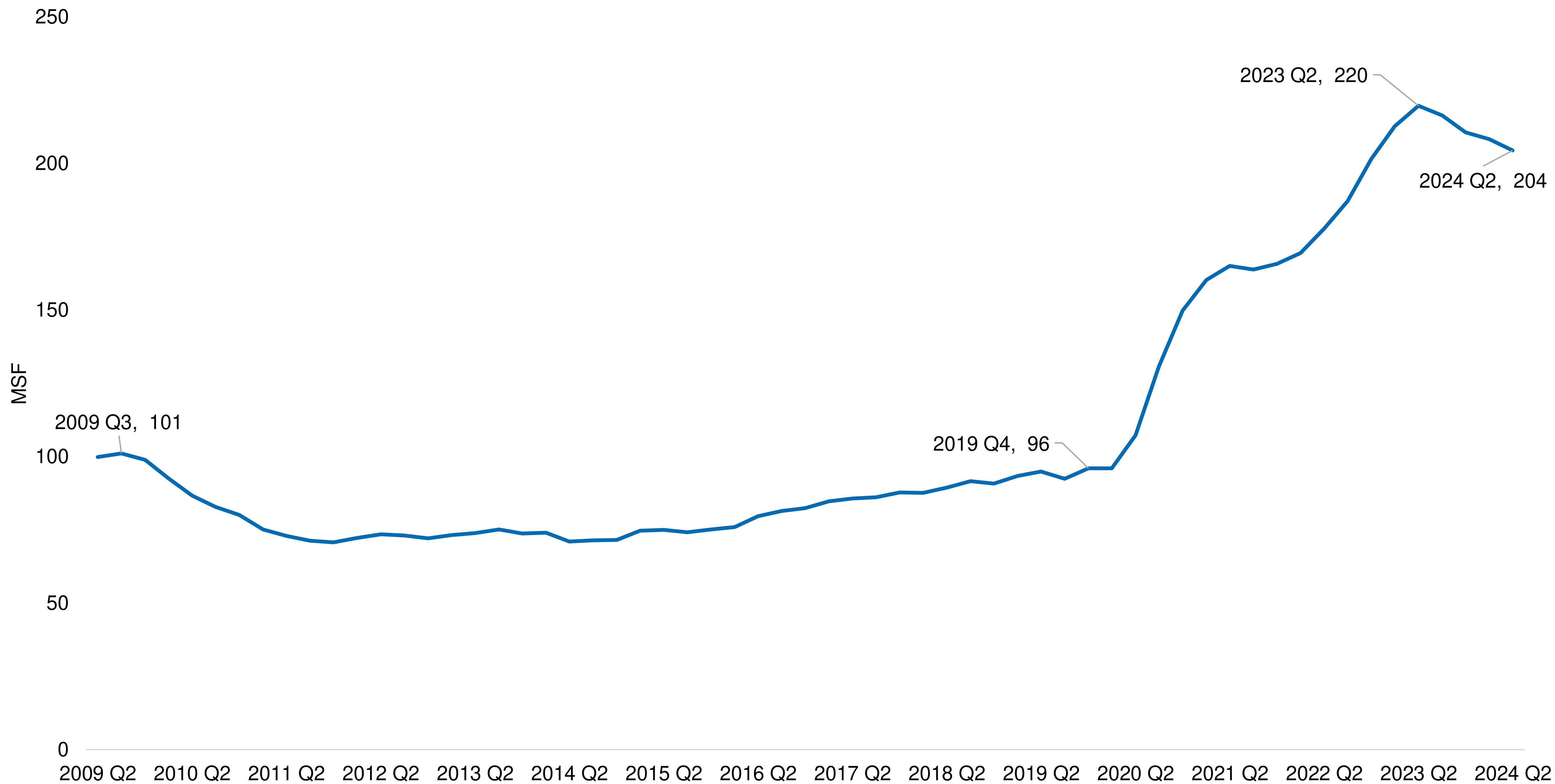


Source: CoStar, Newmark Research
*Calculations use CoStar pro-forma based on proprietary internal formula that estimates remaining leases not captured based on analysis of historical leasing trends.

Sublease Availability Continued to Decline in 2Q24

Sublease availability continued to slide in the second quarter of 2024, having declined 6.9% from the second quarter of 2023. Despite the recent decline, the continuing rise in overall vacancy implies that a portion of the sublease spaces taken off the market are due to term expiration and are now being listed on a direct basis.

National Sublease Availability

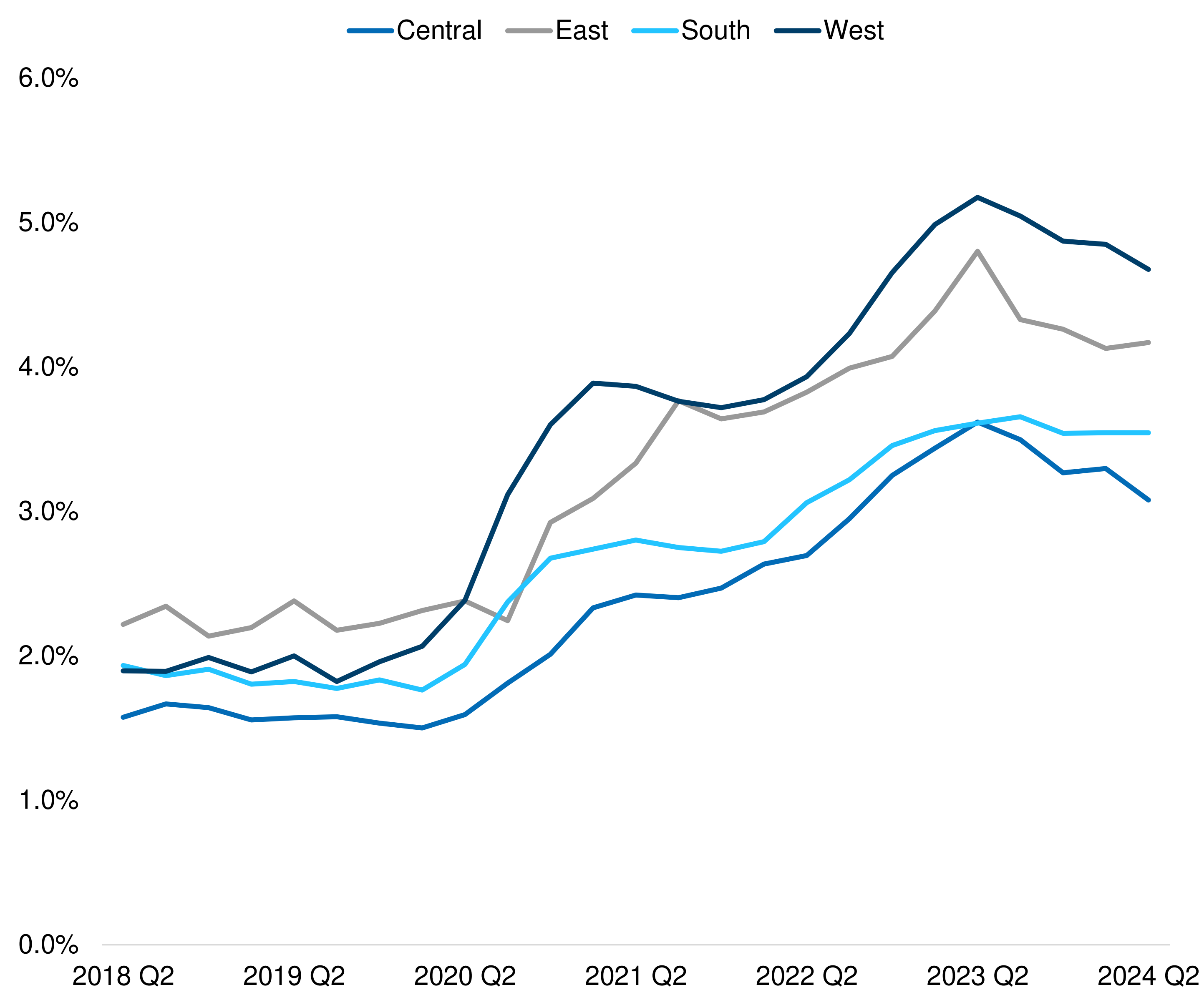


Source: CoStar, Newmark Research

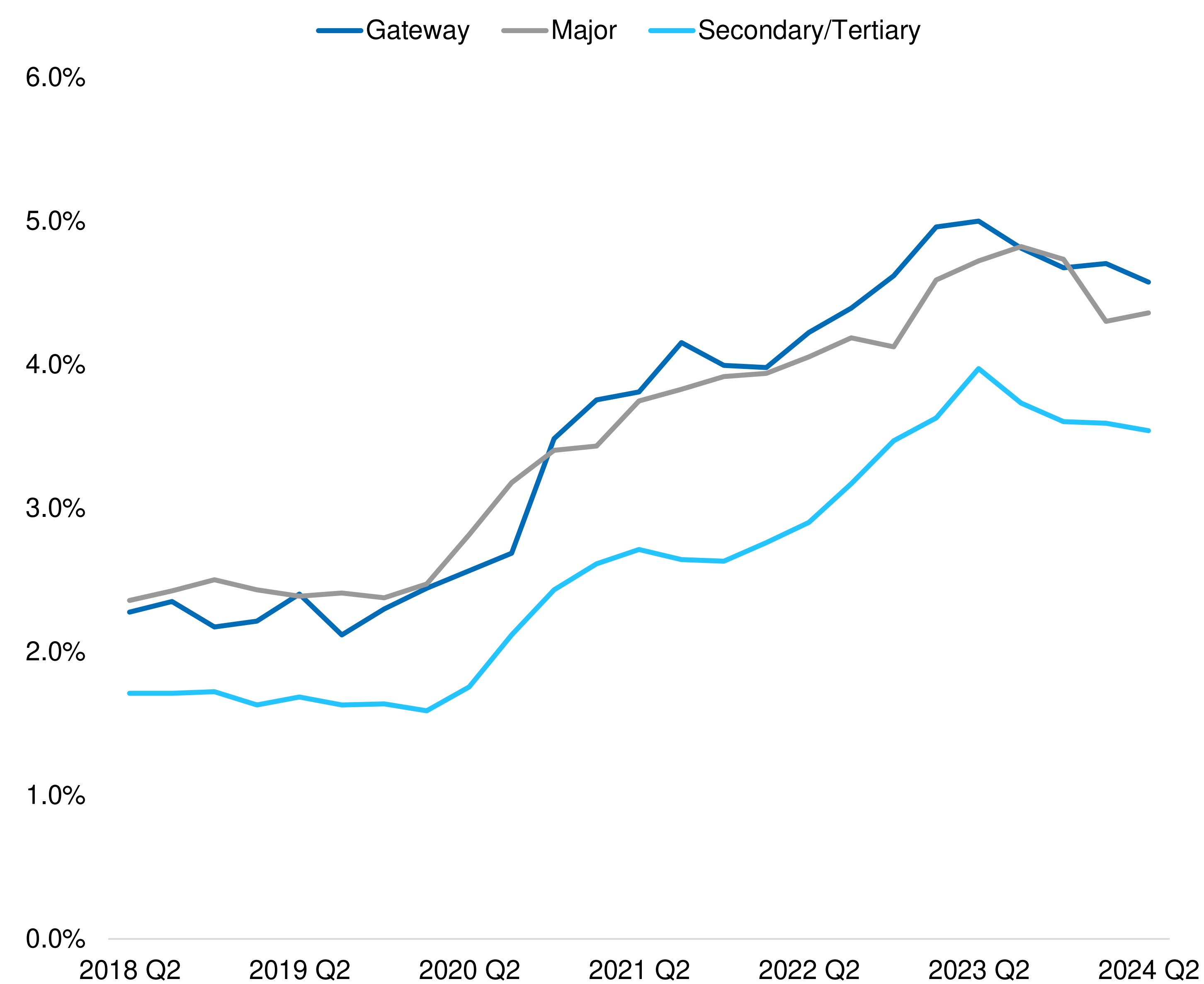
Sublease Availability Declining across Regions, Market Tiers

Sublease availability remains historically elevated, particularly in Western and Eastern markets and gateway and major markets. While reducing sublease availability is a condition for the formation of a new market expansion, the immediate signal is ambiguous as much of the sublet availability converts to direct availability (and vacancy).

Regional Sublease Availability Rate



Market Size Sublease Availability Rate

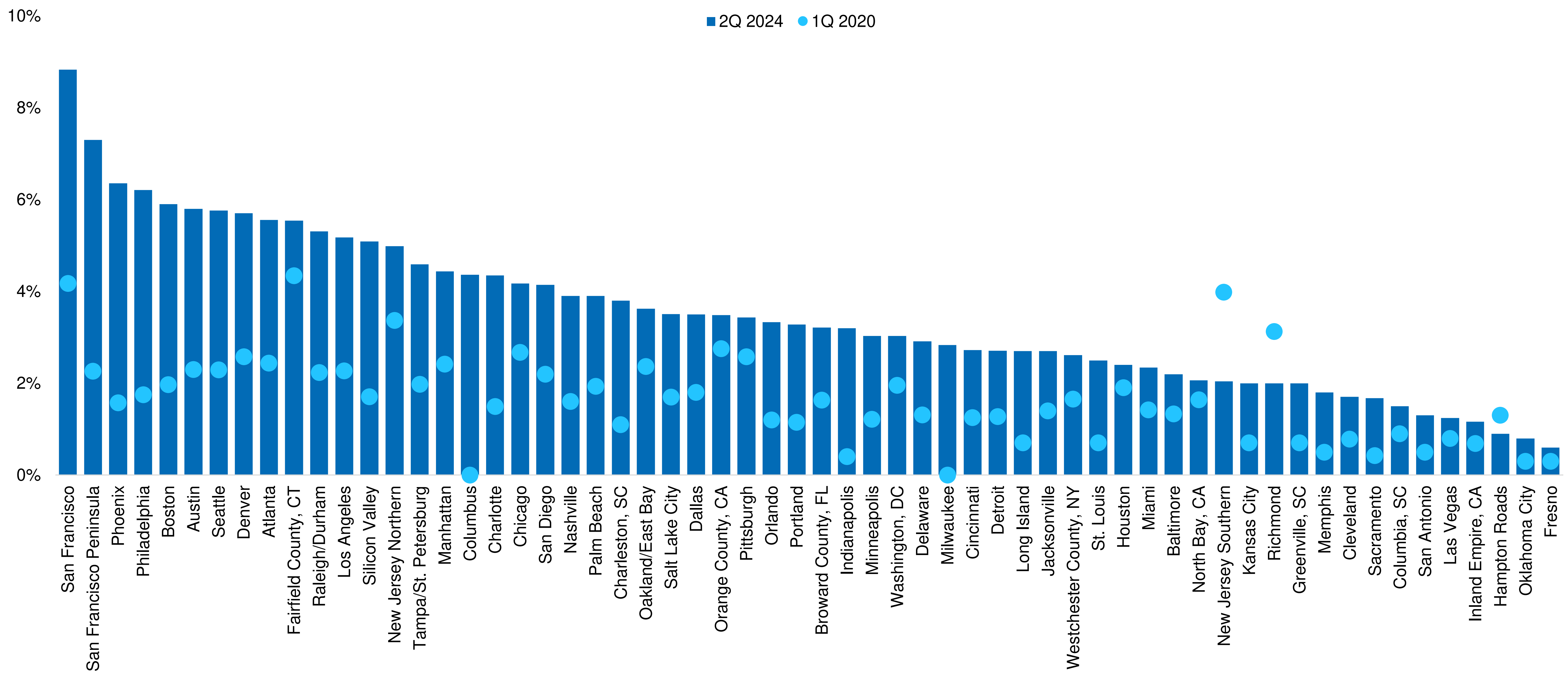


Source: CoStar, Newmark Research

Sublease Availability by Market

Sublease availability remains elevated above pre-pandemic baseline levels in most U.S. markets. Larger markets exhibiting particularly challenging sublease environments include San Francisco, San Francisco Peninsula, Phoenix, and Boston. Instability in the tech industry, evidenced by layoffs over the course of the last 12 months, indicates that these markets could experience greater increases in sublease availability, further softening fundamentals.

Current Sublease Availability Rate vs. 1Q 2020

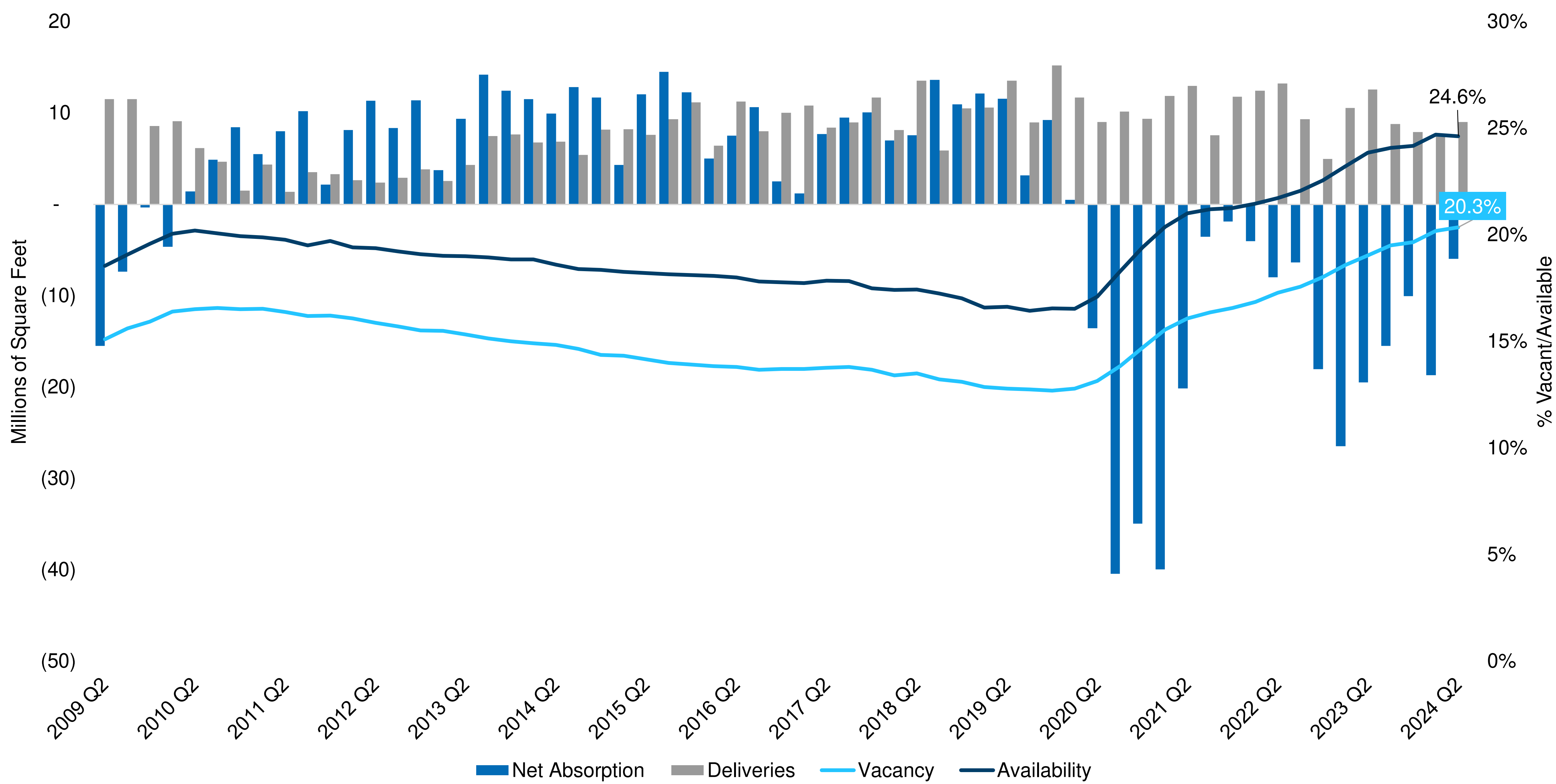


Source: CoStar, Newmark Research

Net Absorption Returned to Recovery Trend in 2Q24

After four quarters of improving (though negative) net absorption, losses accelerated in the first quarter of 2024, totaling negative 18.7 million SF. Net absorption corrected course to the prior trend in the second quarter of 2024, totaling negative 6.0 million SF. Several markets saw QoQ occupancy losses decelerate by over 1.0 million SF, including Manhattan, Boston, Houston, and Nashville. Negative demand combined with moderate deliveries drove vacancy 10bps higher in the second quarter of 2024 to 20.3%. Overall office availability, however, fell 10bps to 24.6%.

Supply and Demand: Net Absorption, New Construction Deliveries, and Vacancy

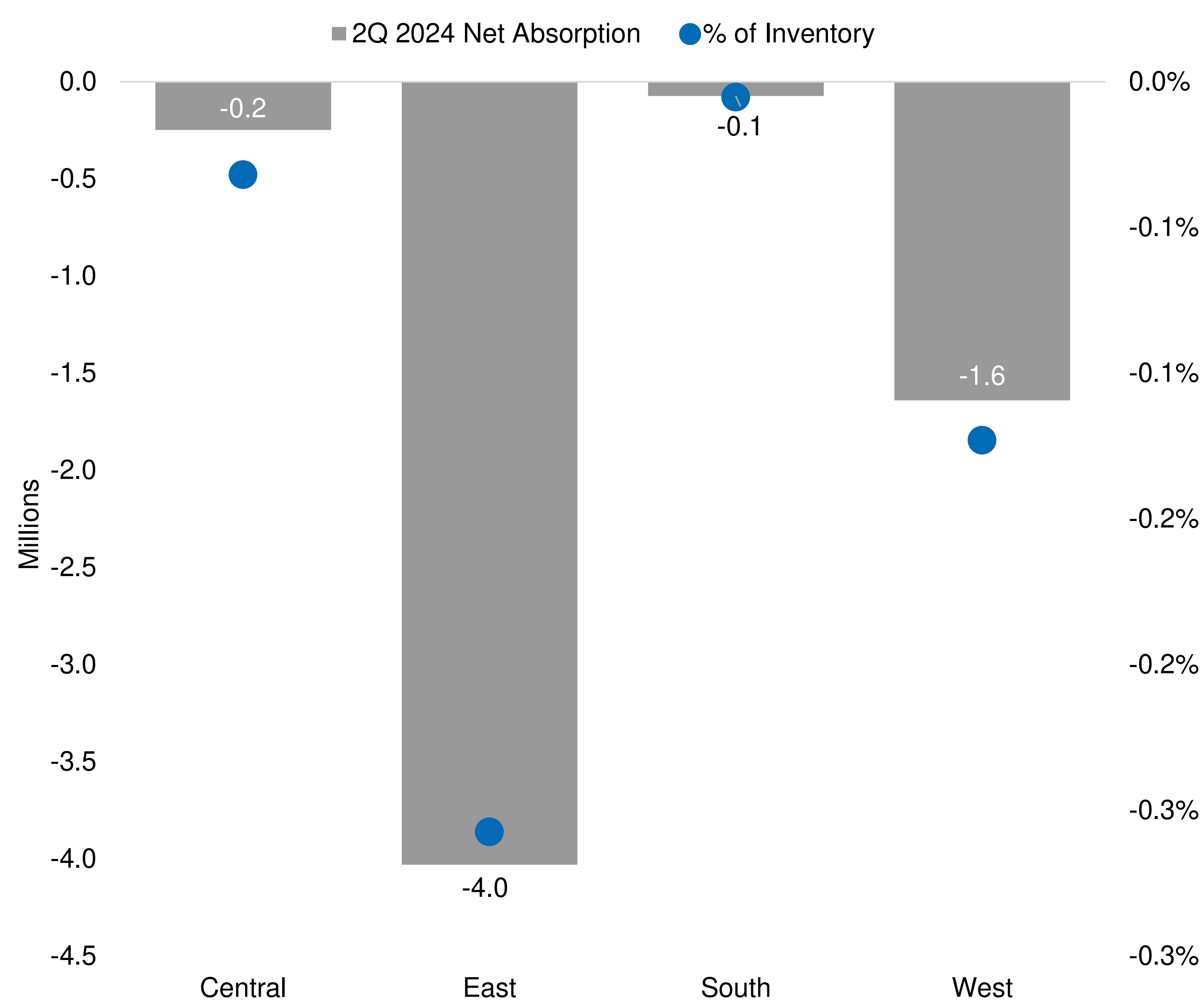


Source: CoStar, Newmark Research

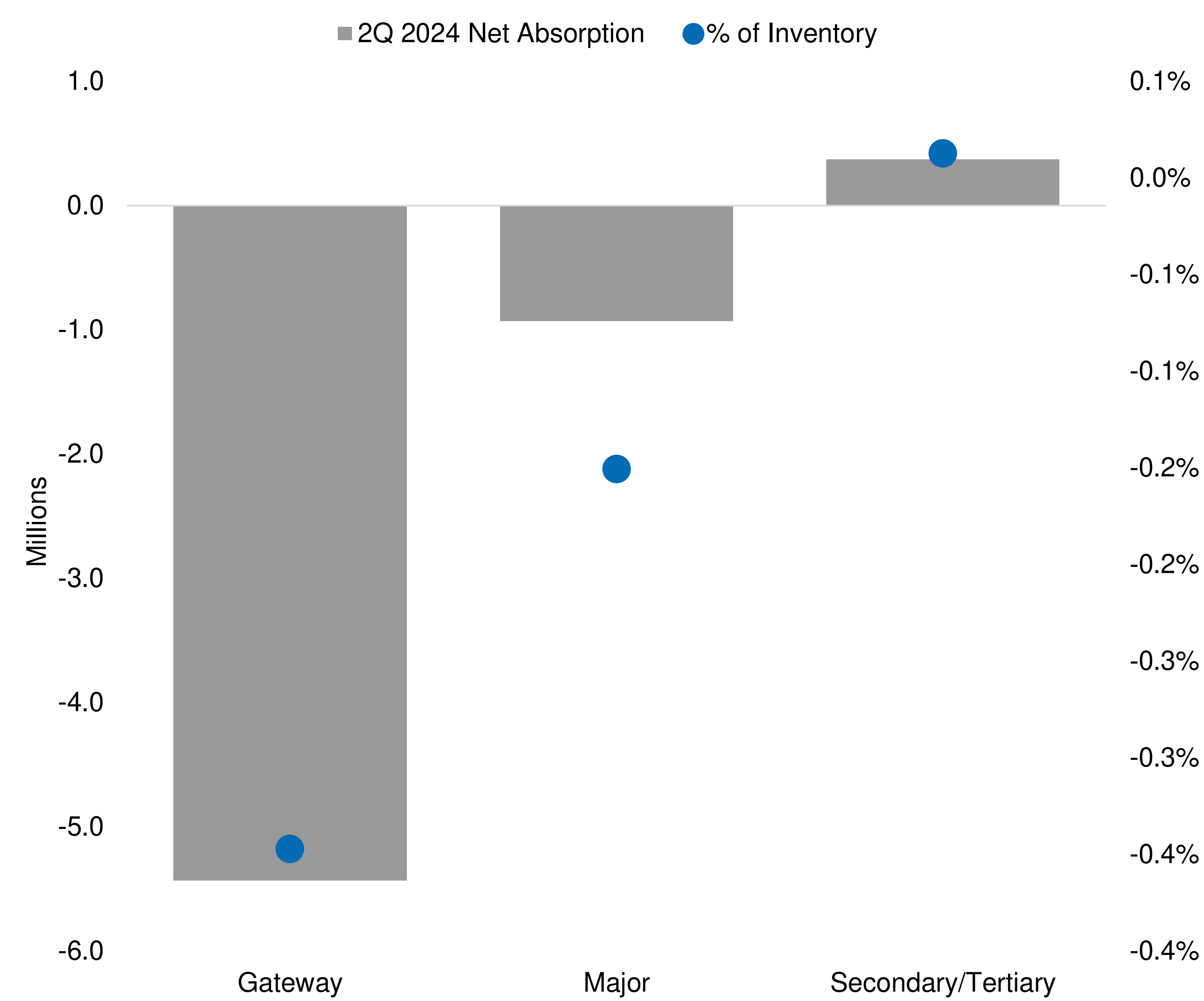
Occupancy Losses in 2Q24 Concentrated in Eastern, Gateway Markets

Occupancy declined nationally in the second quarter of 2024, driven entirely by losses in major and gateway markets, particularly in the East and West. Smaller, secondary markets accounted for nearly all positive net absorption in the second quarter of 2024; of particular note were Columbus (+710,000 SF), Nashville (+703,000 SF), and Baltimore (+613,000 SF).

Regional Net Absorption



Market Size Net Absorption

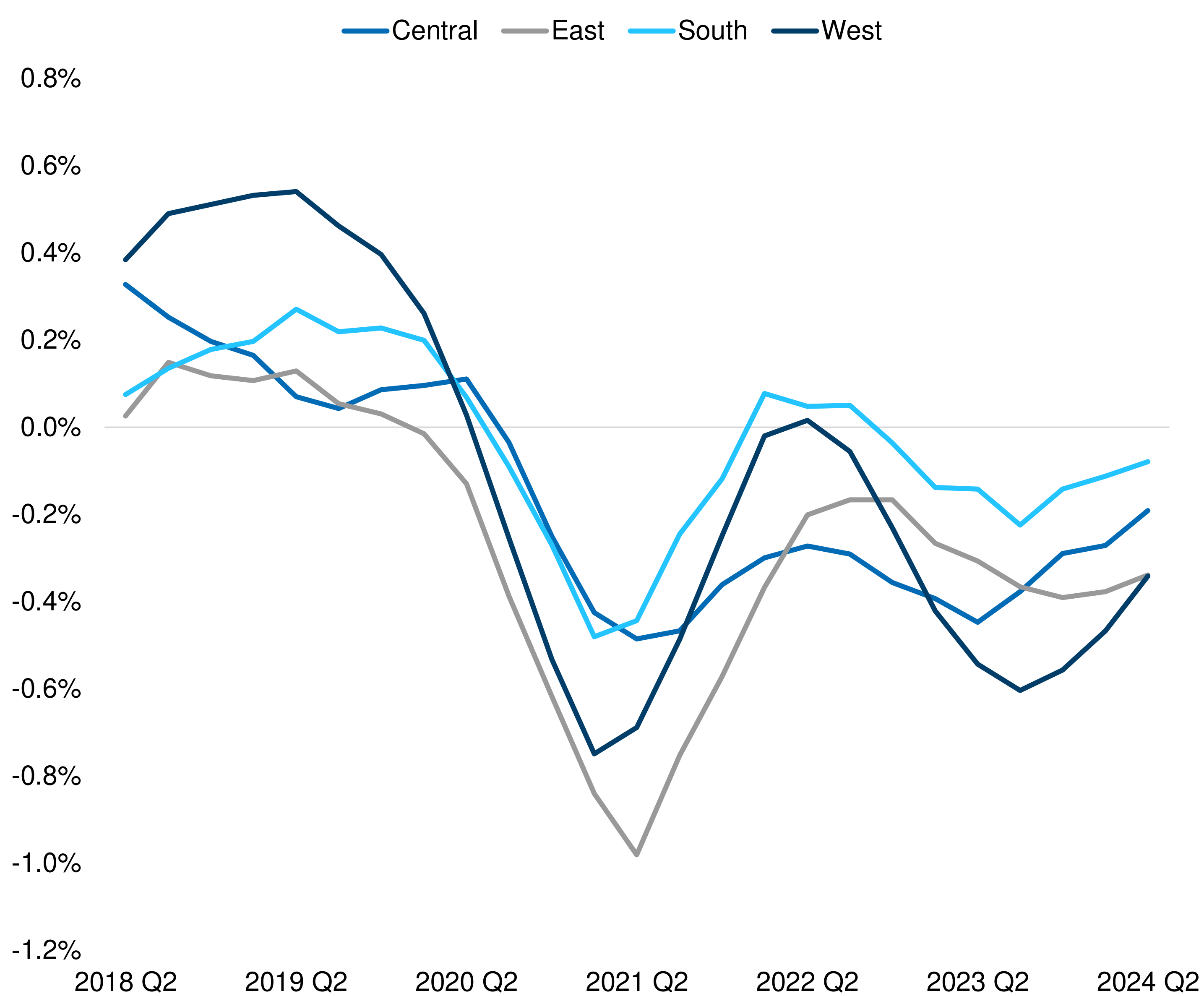


Source: CoStar, Newmark Research

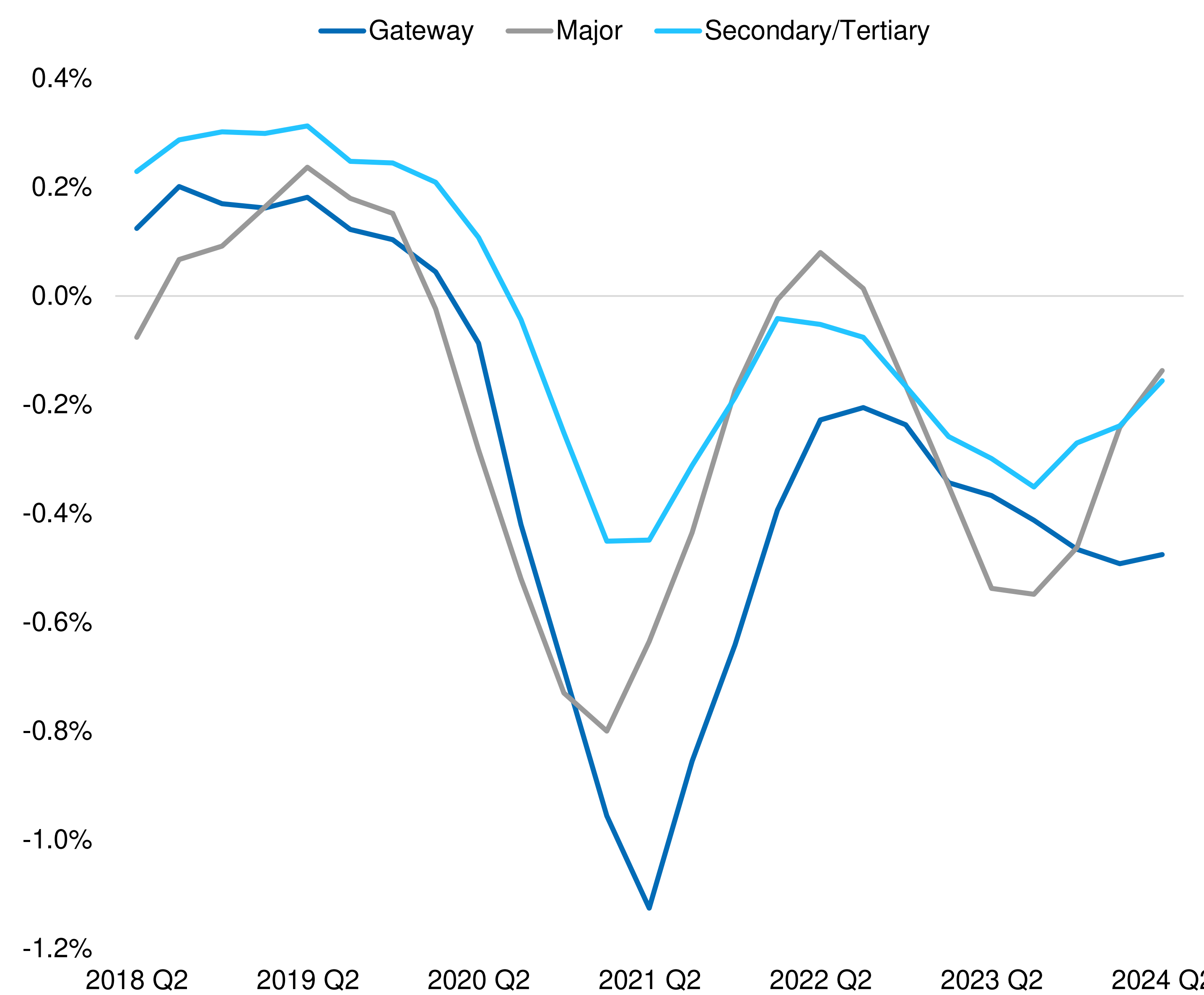
Southern and Non-Gateway Markets Leading Occupancy Recovery

On a trailing four-quarter basis, net absorption remains negative across market regions and tiers. However, there has been consistent trend improvement except for gateway markets. While Western markets have underperformed, they have improved markedly in recent quarters. Major markets are running even with secondary markets but with greater acceleration.

Regional Net Absorption – 4-Quarter Trailing Average



Market Size Net Absorption – 4-Quarter Trailing Average

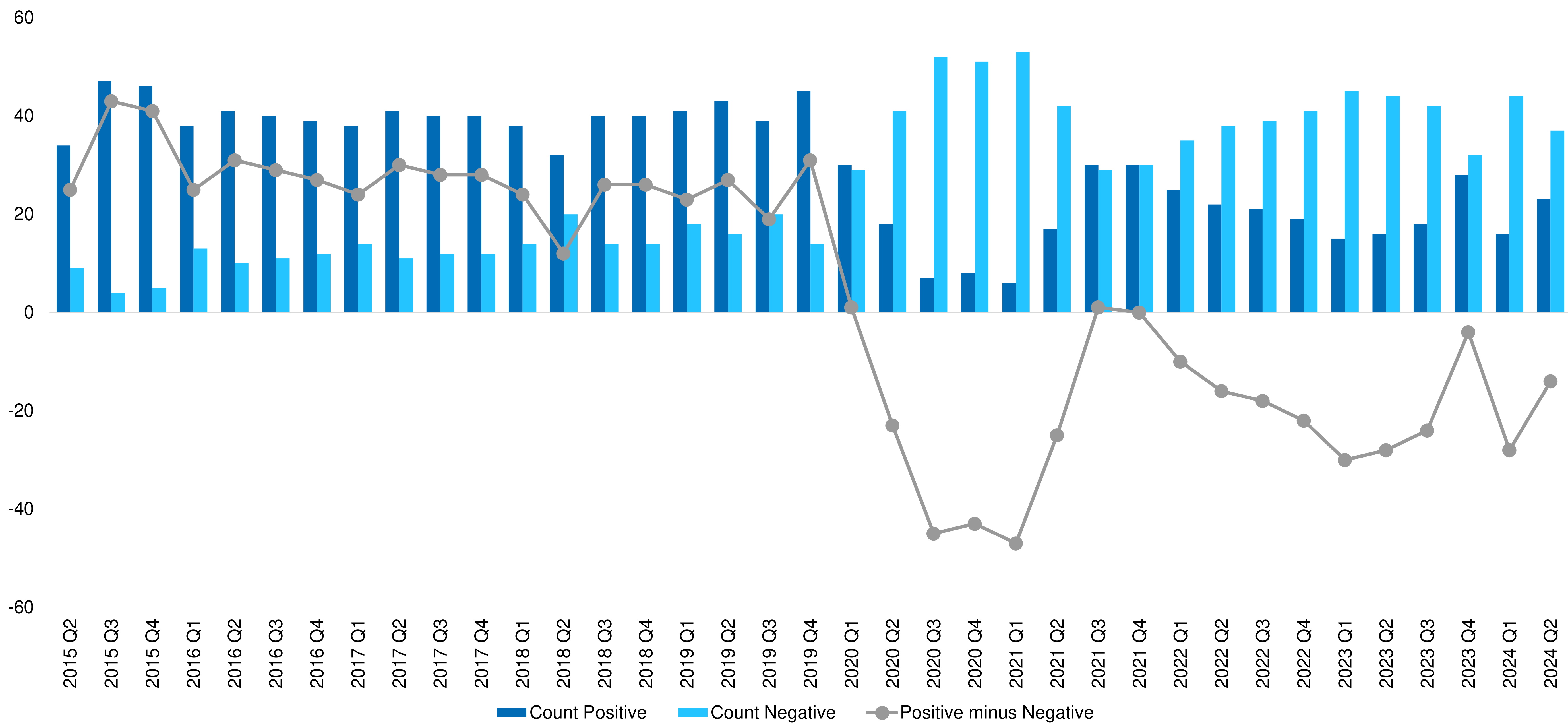


Source: CoStar, Newmark Research

Net Absorption: 10 Consecutive Quarters of Negative Diffusion

23 markets recorded positive net absorption in the second quarter of 2024, while 37 recorded negative net absorption, yielding a diffusion index of negative 14. Since the second quarter of 2020, an average of 41 markets have recorded quarterly negative net absorption, with an average diffusion index of negative 22.1.

Positive vs. Negative Net Absorption Markets

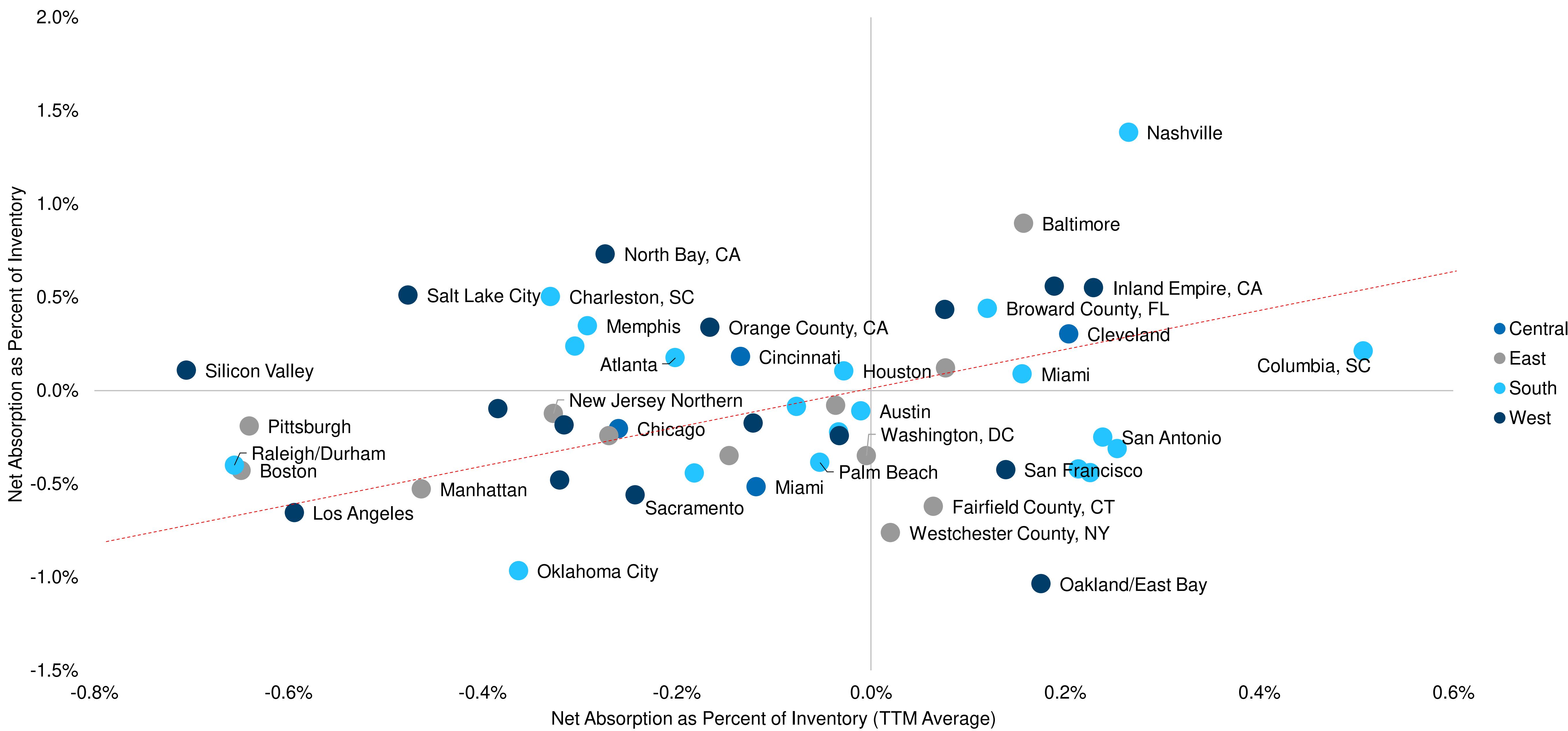


Sources: CoStar, Newmark Research

Net Absorption Improves in 33 of 60 Markets in 2Q24

Despite occupancy declining in the second quarter of 2024, most markets saw improvements to net absorption as a percentage of inventory compared to the trailing 12-month average. These markets were spread fairly evenly geographically and were primarily secondary markets.

Second Quarter 2024 Net Absorption Comparison

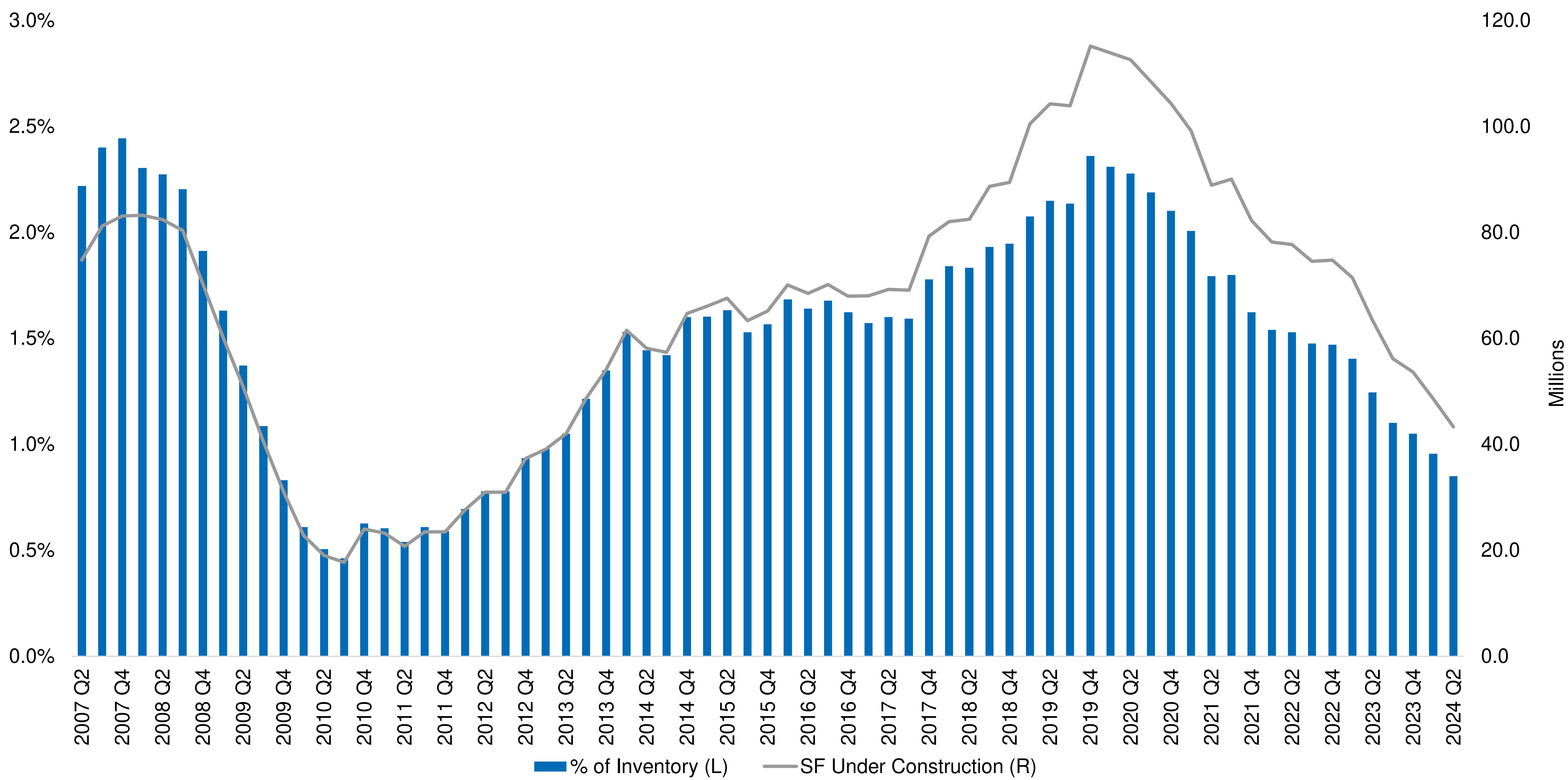


Source: CoStar, Newmark Research

Office Construction Pipeline Continues to Contract

Office space under construction peaked in late 2019 at over 115 million SF but has since slowed inexorably. Construction activity inched down in the second quarter of 2024 as pessimism among some discouraged new groundbreaking activity. The pipeline's continuing contraction will help curb the market's overall vacancy rise, as much of the product delivered since the onset of the pandemic has remained unleased.

Under Construction: Percent of Inventory and Total Square Footage

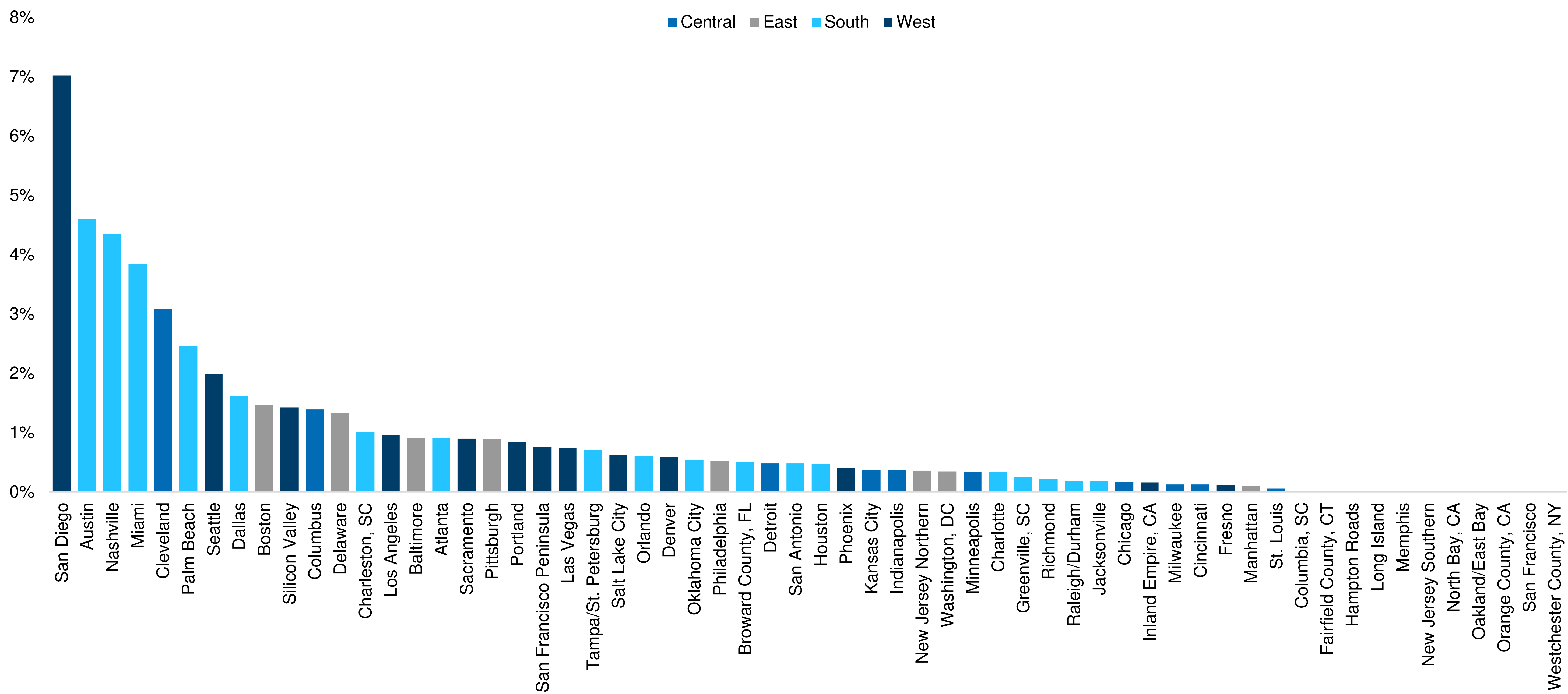


Sources: CoStar, Newmark Research

Percent of Inventory under Construction Highest in Western and Southern Regions

Comparing supply and demand with the percentage of inventory currently under construction gives a clearer picture of which markets are overbuilding and underbuilding. Western and Southern markets lead the country in this metric, with San Diego's pipeline representing 7.0% of its inventory, the highest in the country. In comparison, Manhattan's under-construction total represents only 0.1% of its inventory.

2024 Under Construction as Percent of Inventory

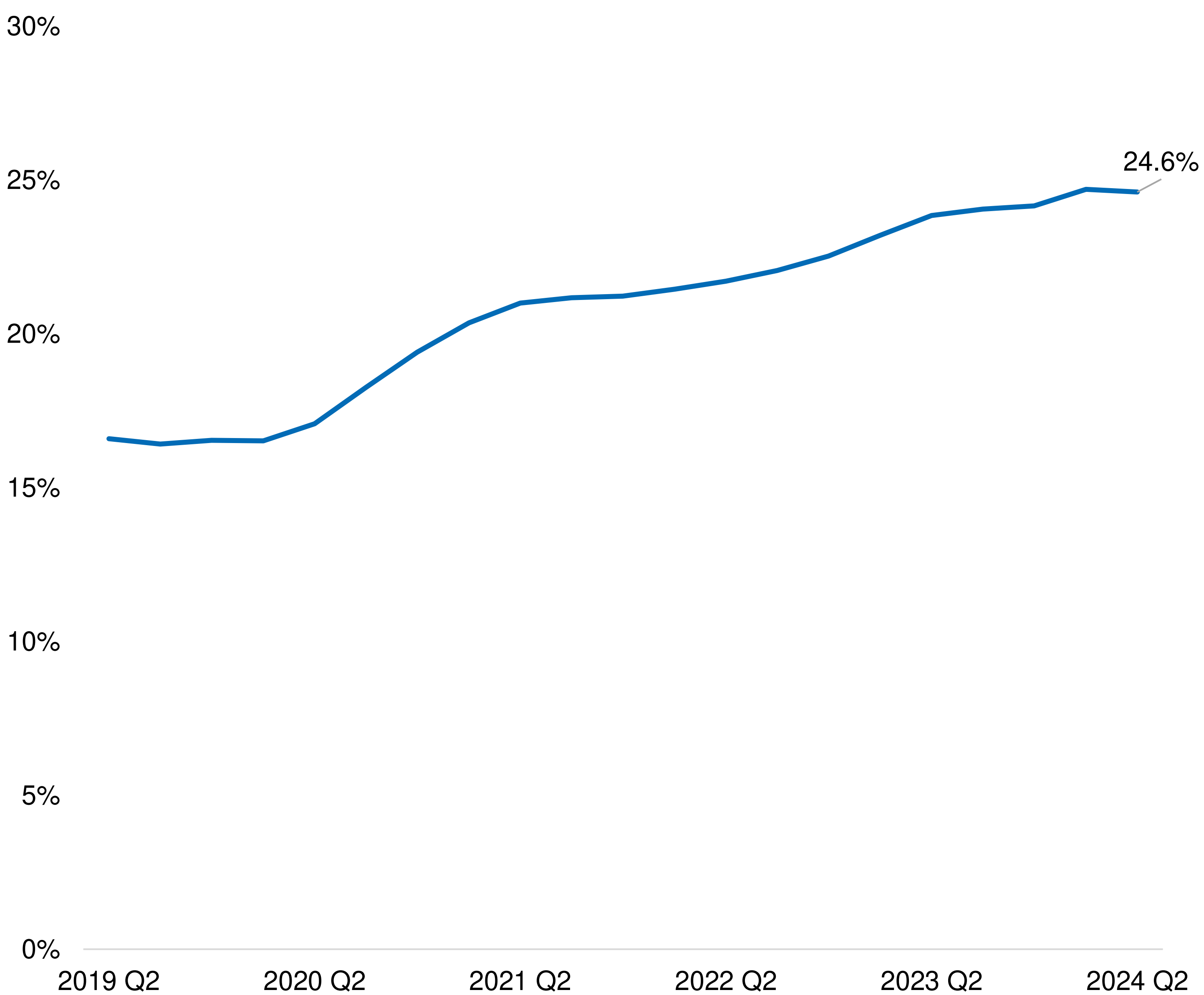


Source: Costar, Newmark Research

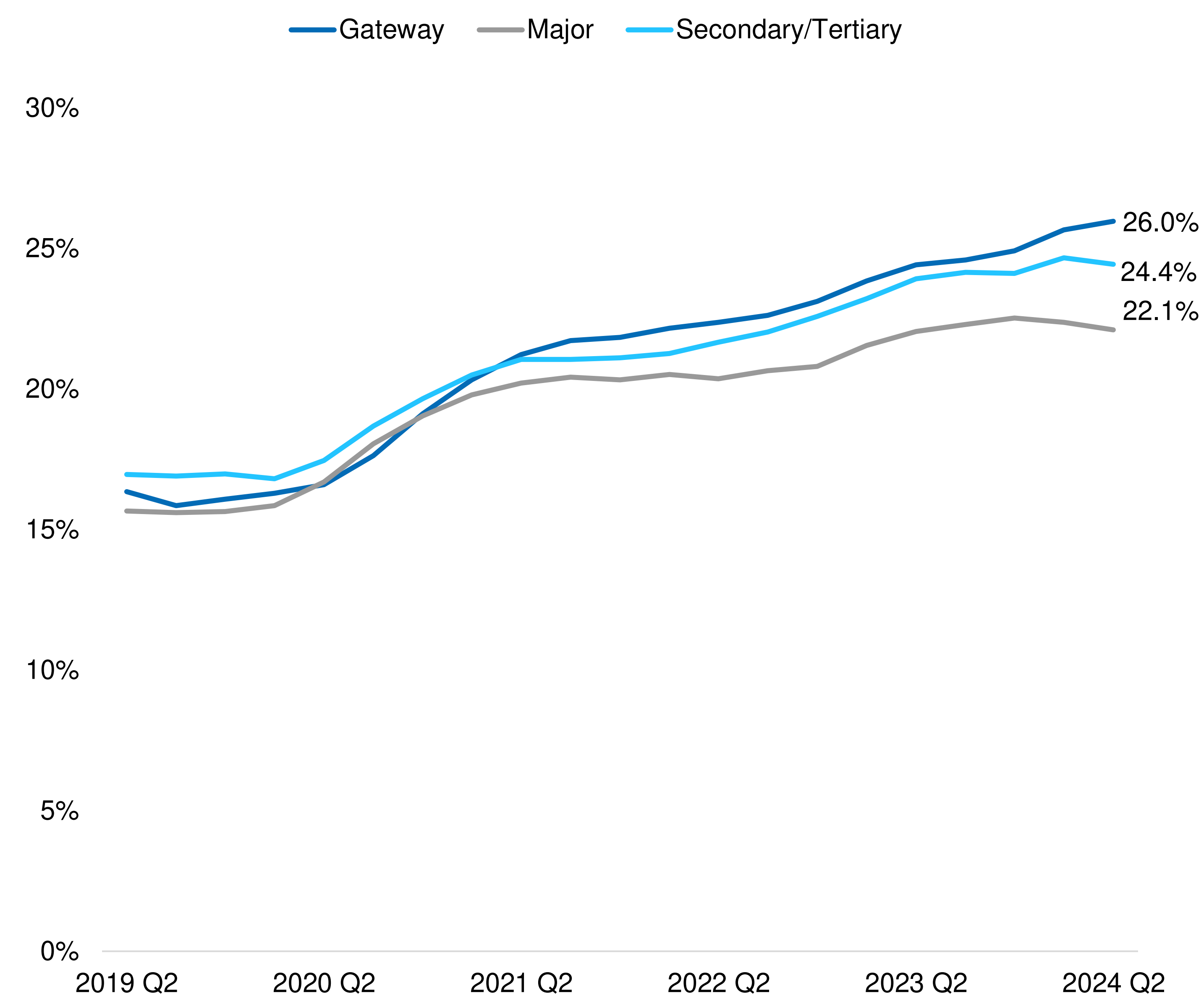
Availability Rates Have Not Yet Peaked

Overall availability declined slightly quarter-over-quarter, though it increased 75 basis points year-over-year, and is notably elevated in gateway and secondary markets. Prior to the second quarter of 2022, major markets had recorded stabilizing availability levels, but renewed uncertainty has driven up availability rates alongside other fundamentals, including sublease space and vacancy.

National Office Market Availability Rate



Availability Rate Comparison By Market Size

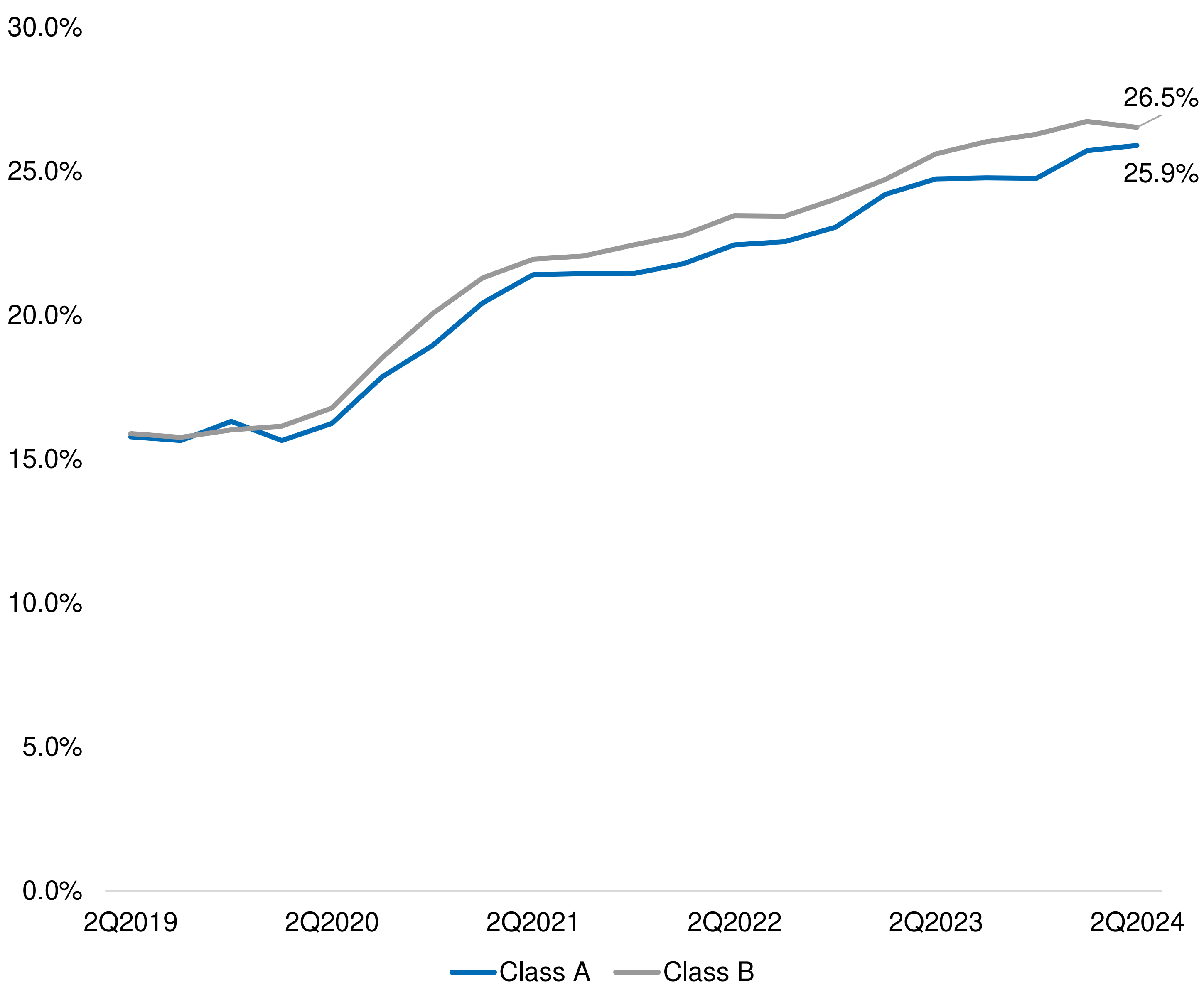


Sources: CoStar, Newmark Research

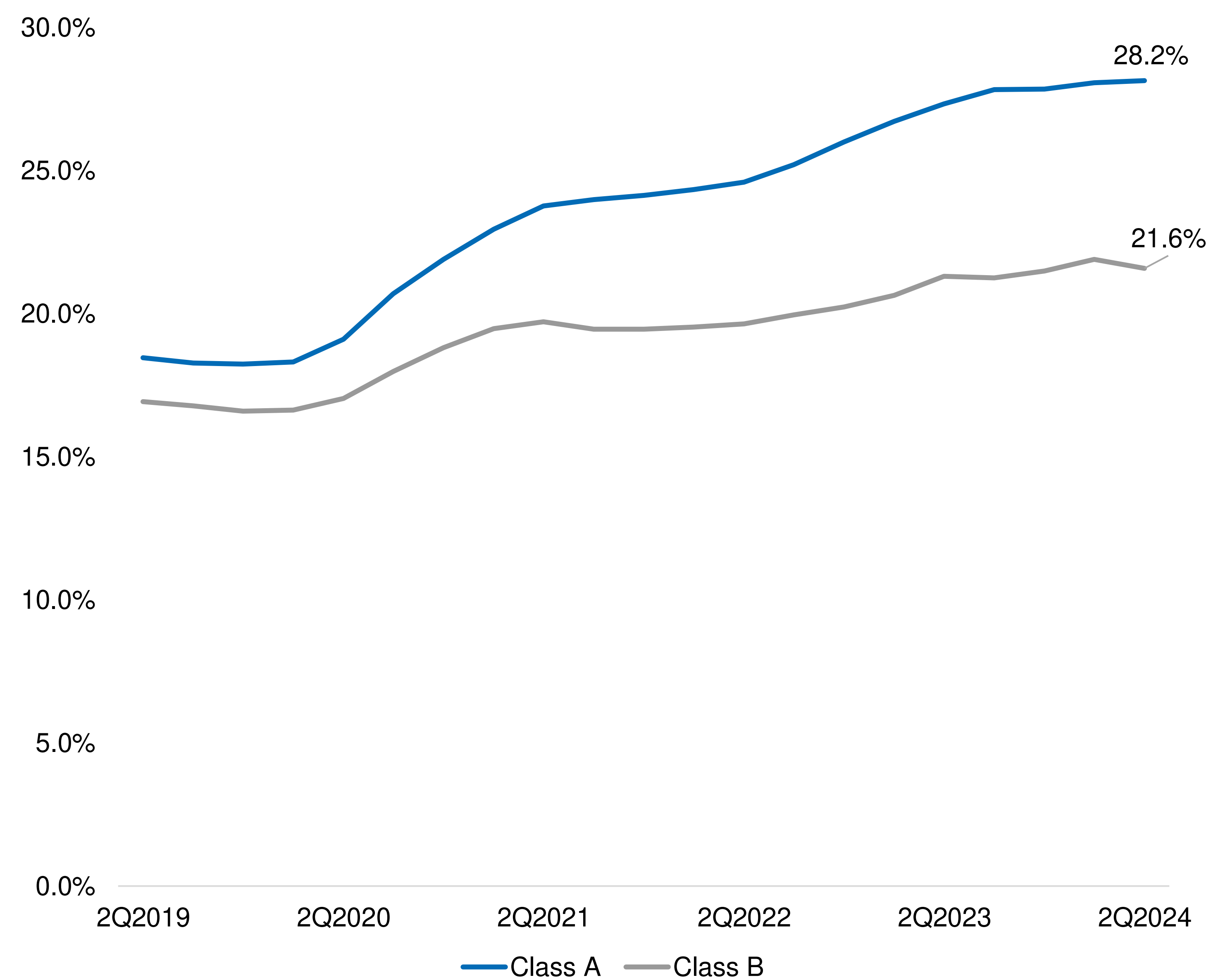
Availability Rates Continue to Rise across Building Grades

There is a disconnect between the well-attested preference for high-quality office space by investors and large tenants and overall market data. In CBD markets, availability rates are marginally higher in Class B buildings compared with Class A. In non-CBD markets, however, Class A availability is significantly higher compared with Class B, and the gap has widened in recent years. One potential explanation for this discrepancy is a growing disconnect between trophy and commodity Class A buildings. Another explanation is that Class A landlords have been prioritizing rent levels over competing with Class B buildings for occupancy.

Office Market Availability Rate By Class (CBD)



Office Market Availability Rate By Class (Non-CBD)

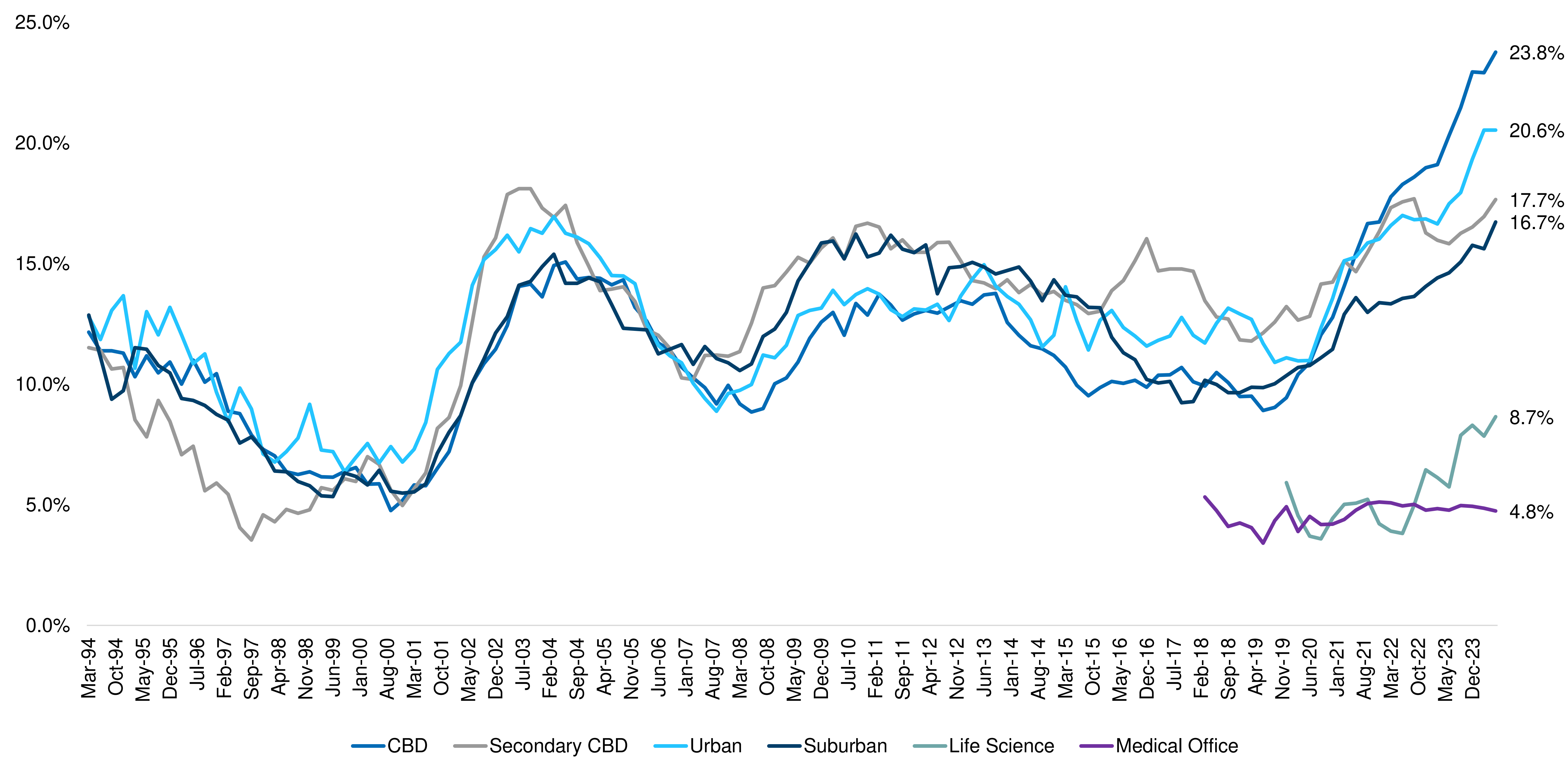


Source: CoStar, Newmark Research

CBD Office Most Impacted While Suburban Office and Niche Categories Outperform

CBD office buildings in NCREIF member portfolios have the highest availability rates. This contrasts with historical experience, where CBD offices experienced shallower downturns and quicker recoveries. Suburban office holdings have been impacted as well, but to a lesser extent. There is no evidence of availability peaking. Life science and medical office product have consistently had the lowest availability rates, though oversupply is now weighing on life science. This outperformance has persisted even as property count tripled.

NCREIF National Property Index Office Availability Rate

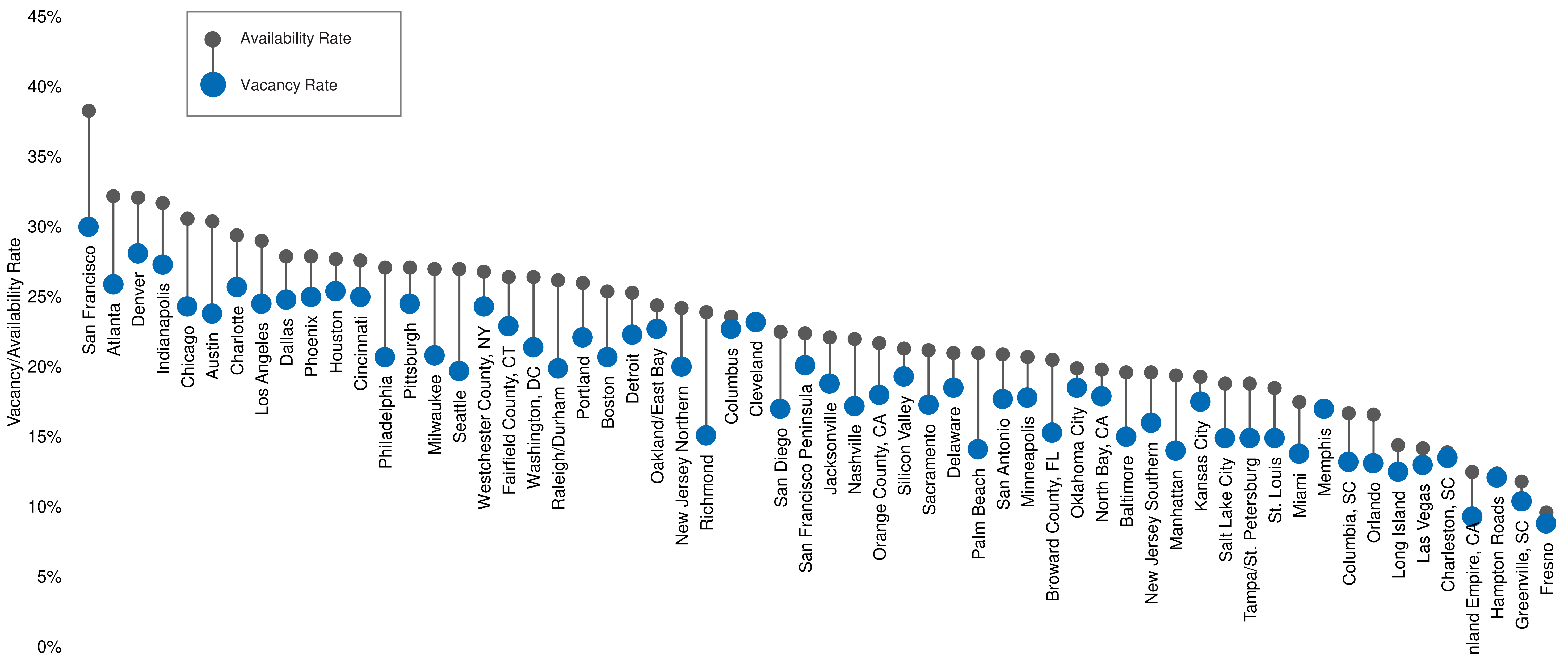


Sources: NCREIF, Newmark Research as of 8/6/2024
*We use the NCREIF National Property Index as a proxy for the national institutional grade office market.

Vacancy and Availability by Market

Both vacancy and availability have largely been trending up, but the degree to which markets have experienced these increases has varied. Generally, the healthiest and most stable markets are those with low vacancy and a narrow spread of availability. Although markets like Seattle, Raleigh/Durham, Richmond, and San Diego exhibit relatively low vacancy, availability is increasing and masking some weaknesses. Conversely, challenged markets like San Francisco, Atlanta, and Denver exhibit both high vacancy and availability.

Vacancy and Availability Rate by Market

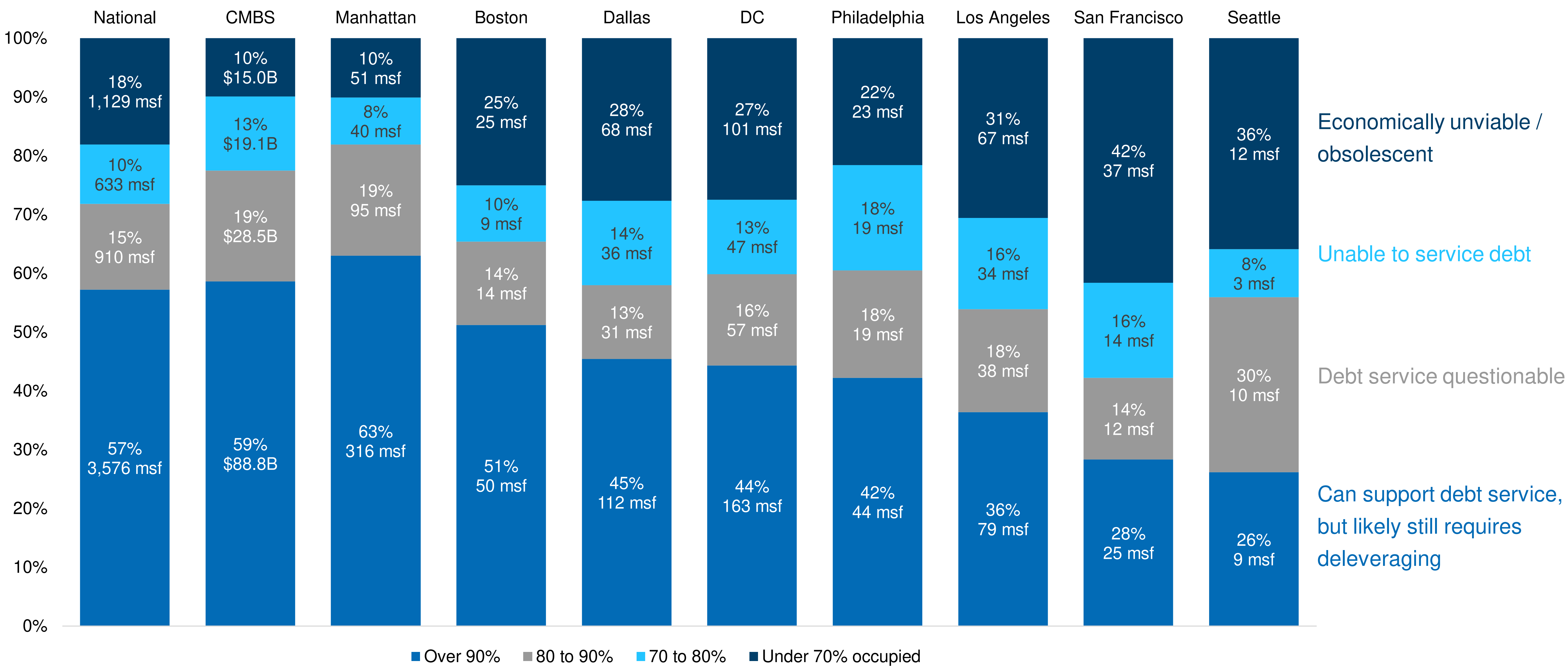


Source: CoStar, Newmark Research

Vacancy Is Not Evenly Distributed within Markets, nor Will Be Impairments

Significant portions of the office market are structurally impaired purely from an occupancy perspective. Debt issues will accelerate their demise. On the other hand, many offices have healthy occupancy profiles. While they may still be over-levered, there is a clear fundamental path to solvency.

Distribution of Office Vacancy

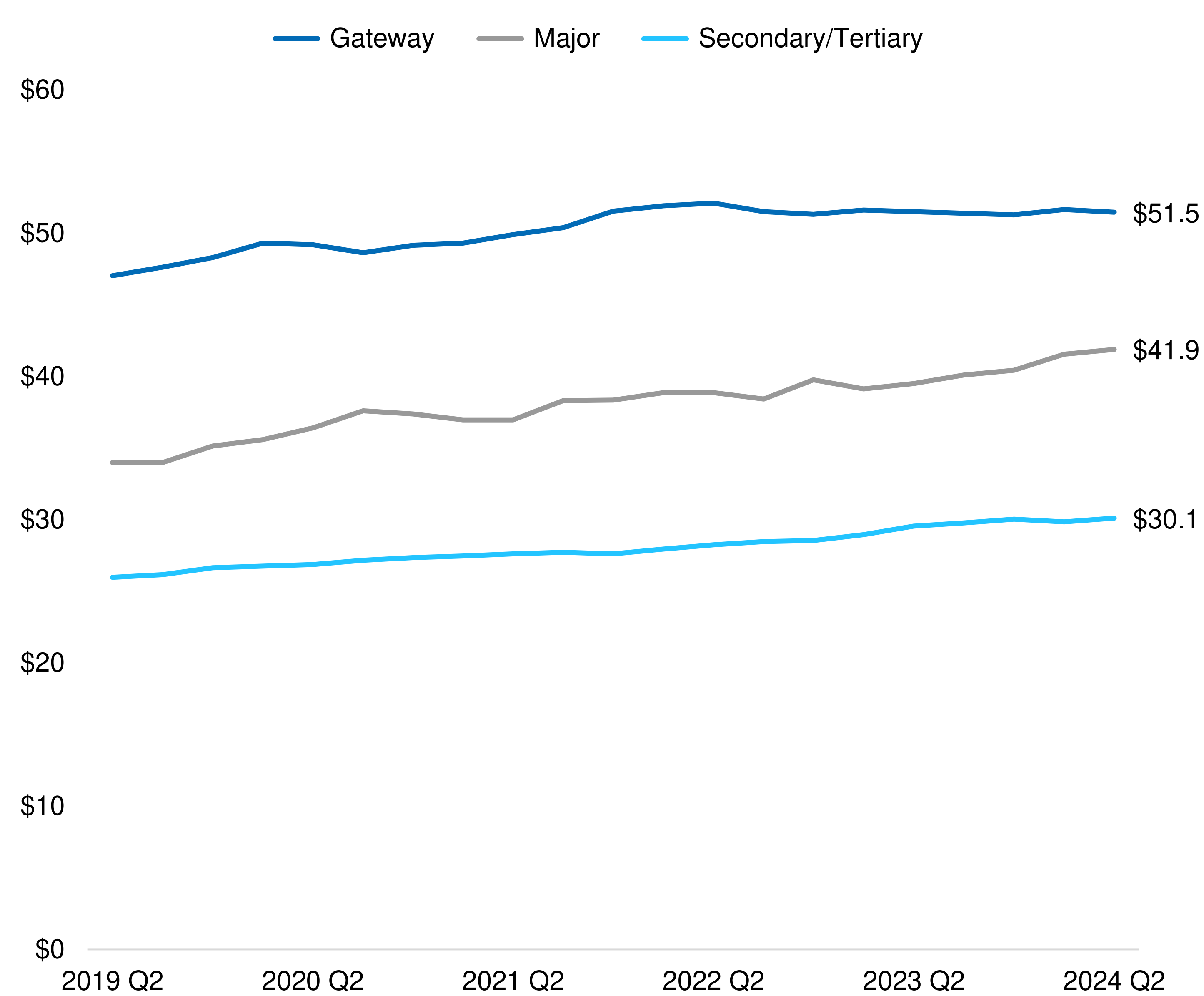


Source: Costar, Newmark Research as of 7/19/2024

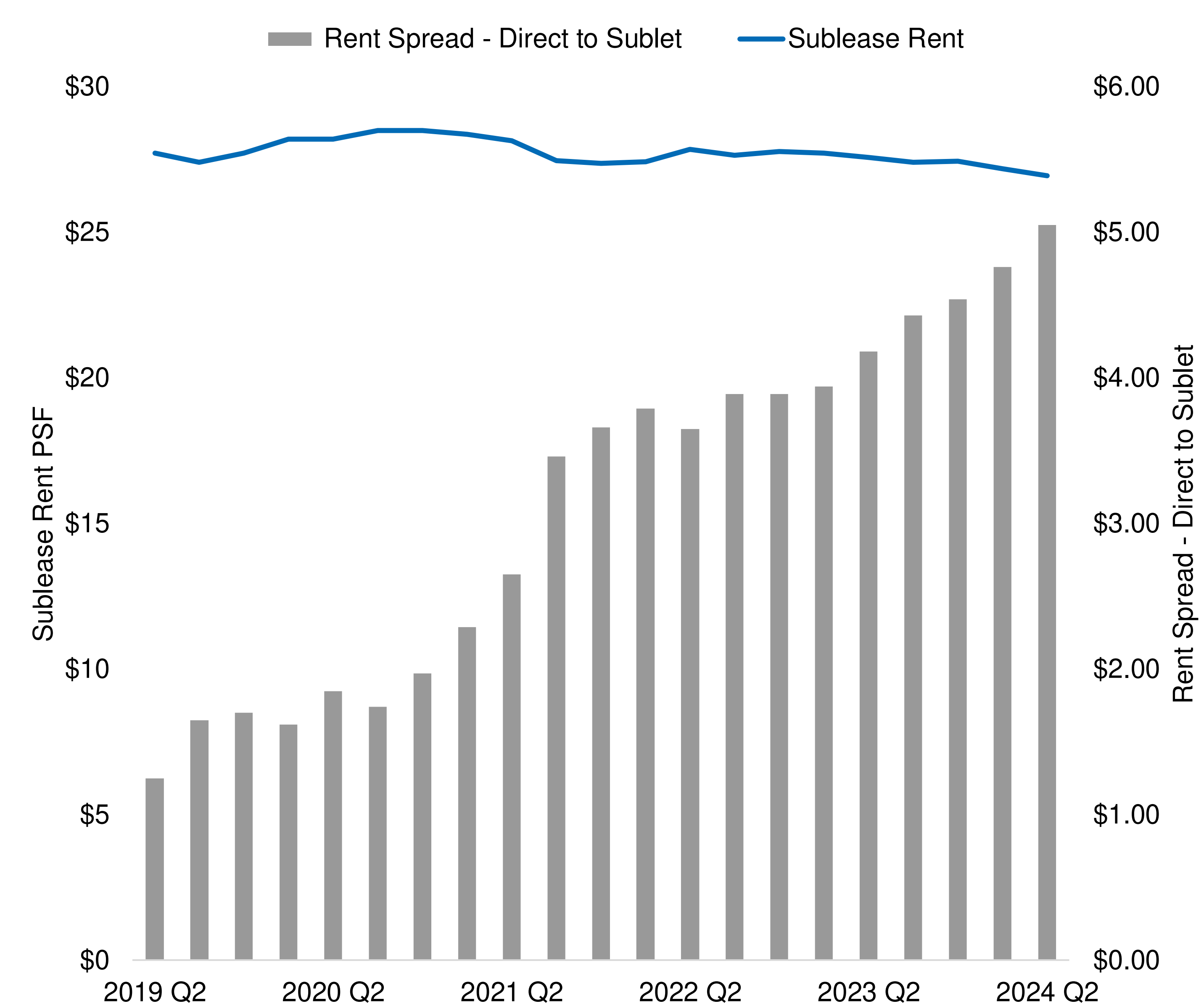
Asking Rents Defy Gravity

In past cycles, asking rents have adjusted downward to account for depressed demand; however, asking rents have largely held value since the onset of the pandemic. Some rent compression is being experienced among secondary and tertiary markets, but major markets continue to appreciate. Sublease rents have begun declining in the past year, which more visibly exhibits the impact of low demand. As a result, the spread between sublease space and direct space has widened to near all-time highs.

Overall Asking Rents Up 0.8% YoY in 2Q24



Sublet Rents Stabilized; Rent Spread Relative to Direct Rates Near All-Time High

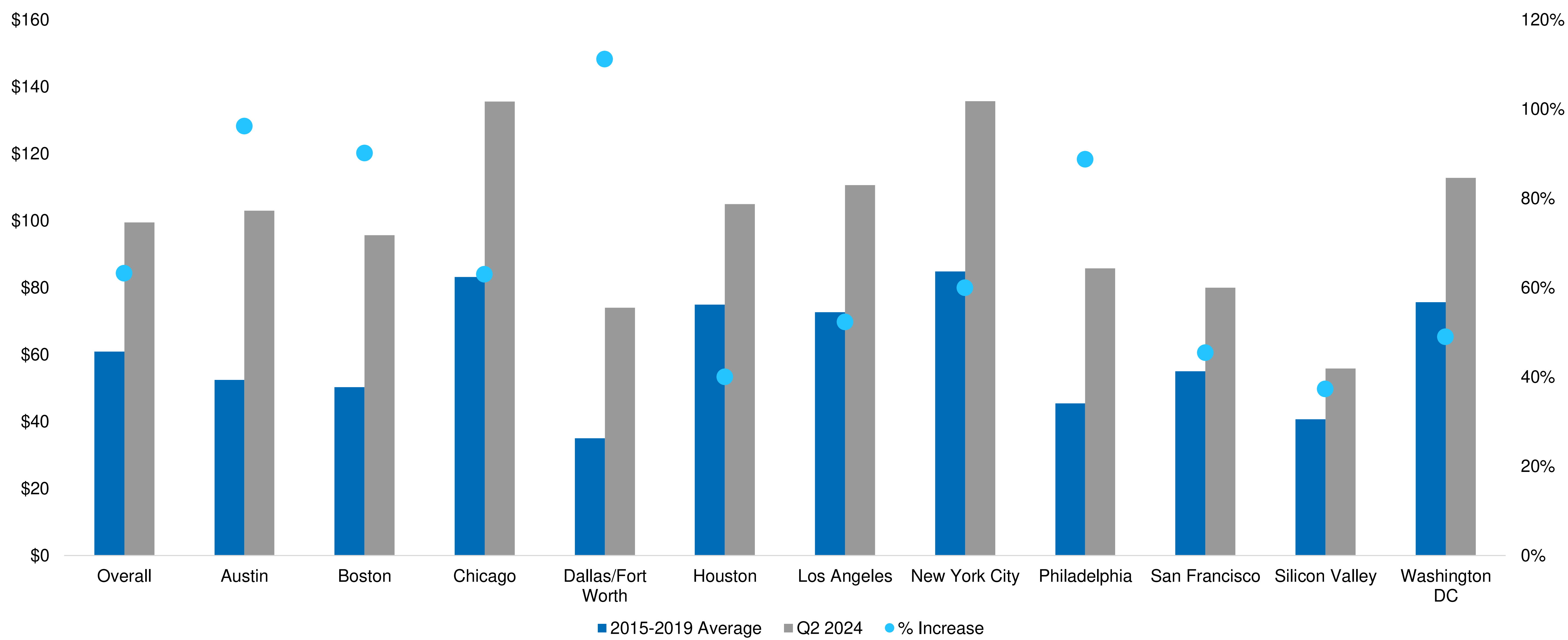


Source: CoStar, Newmark Research

Rising Concessions Have Absorbed Some of the Market Adjustment

To support these elevated asking rents, landlords have begun to offer more generous concessions to attract new tenants and retain existing ones. Tenant improvement allowances have risen 63.2% compared to the 2015-to-2019 average and are notably elevated in Chicago and New York City.

Tenant Improvement Comparison Between Pre-Pandemic and Current Period

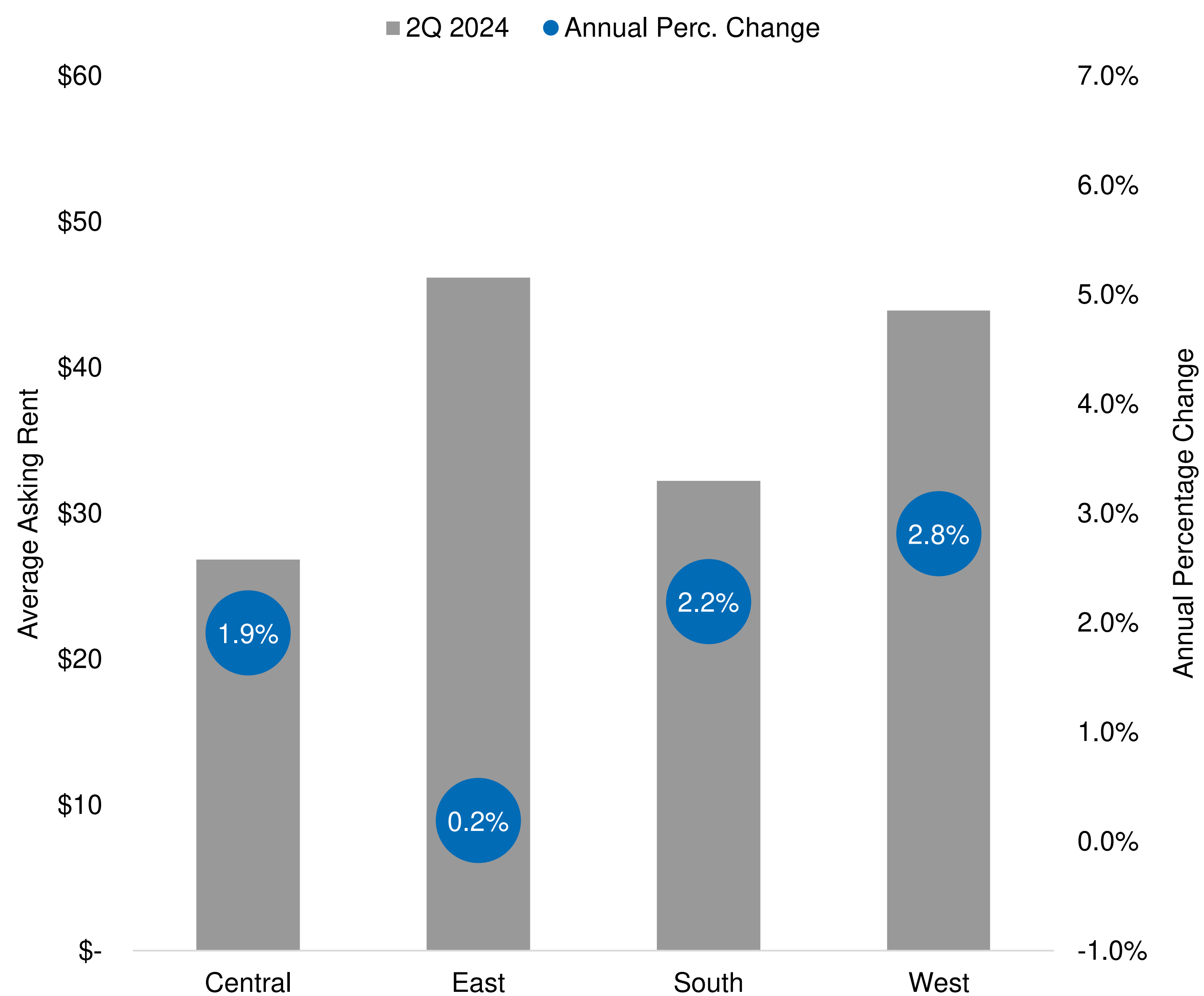


Source: CoStar, Newmark Research as of 7/19/2019

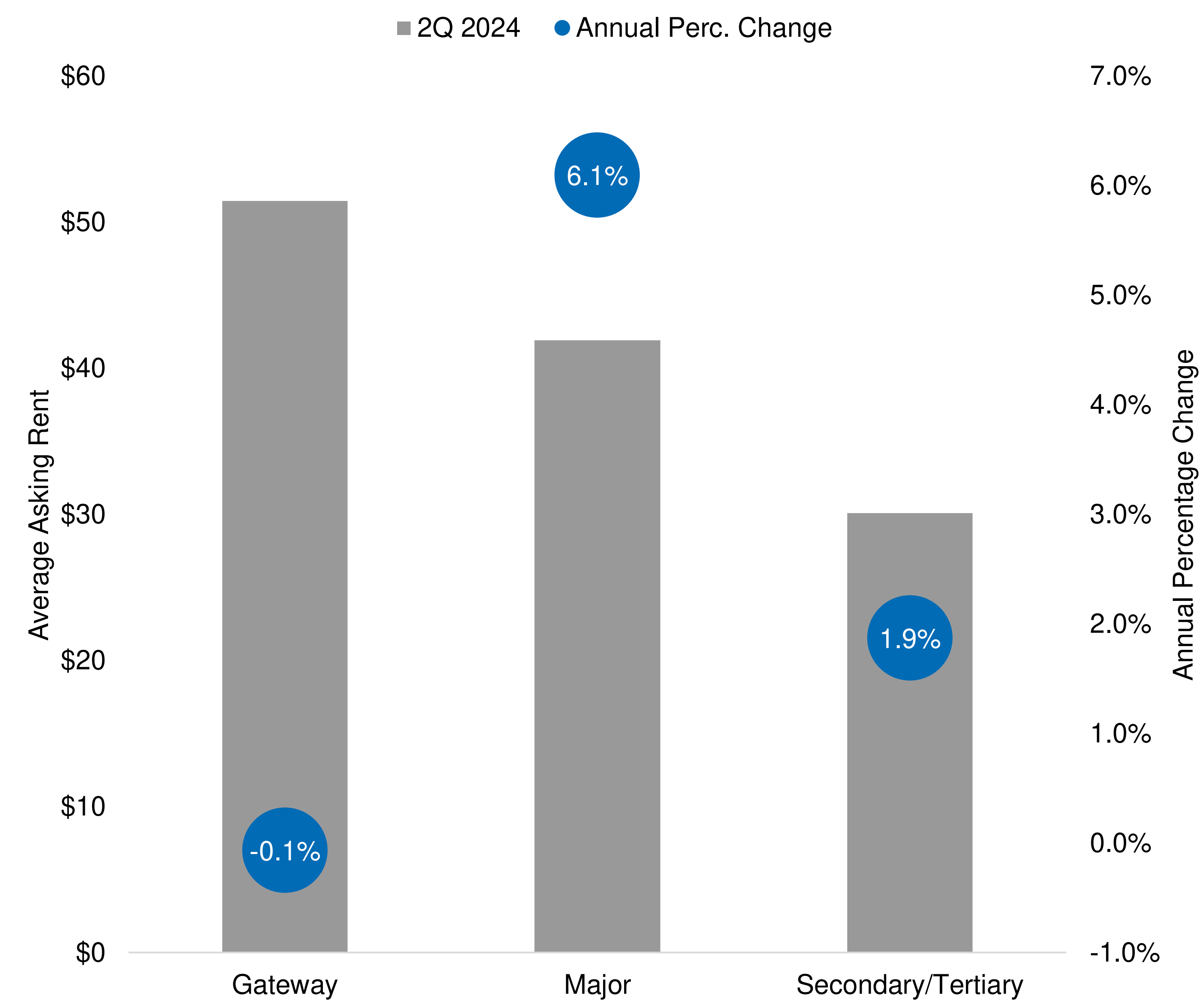
Southern and Western Regions and Major Markets Leading in Rent Growth

Overall asking rents are most elevated in major coastal Eastern and Western markets, including San Francisco, Manhattan and Silicon Valley. The West Region continues to experience aggressive rent appreciation, driven partly by inventory expansion and the success of major markets in attracting office demand in an otherwise challenging time. Effective rents are under downward pressure and modest rent compression is being felt in some markets.

Asking Rents Growing Fastest in the Central and West Regions



Non-Major Markets Experiencing the Most Rent Growth

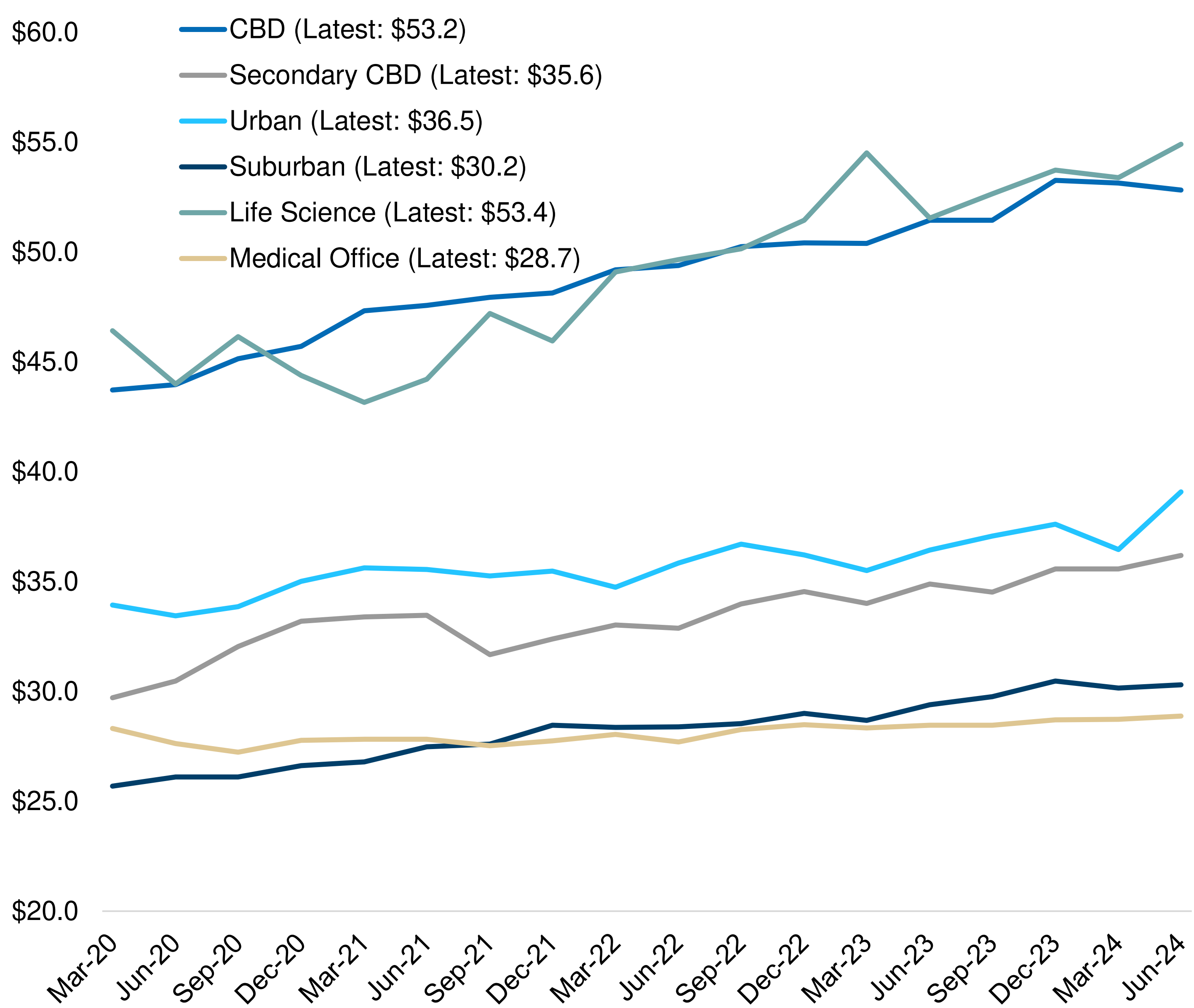


Source: CoStar, Newmark Research

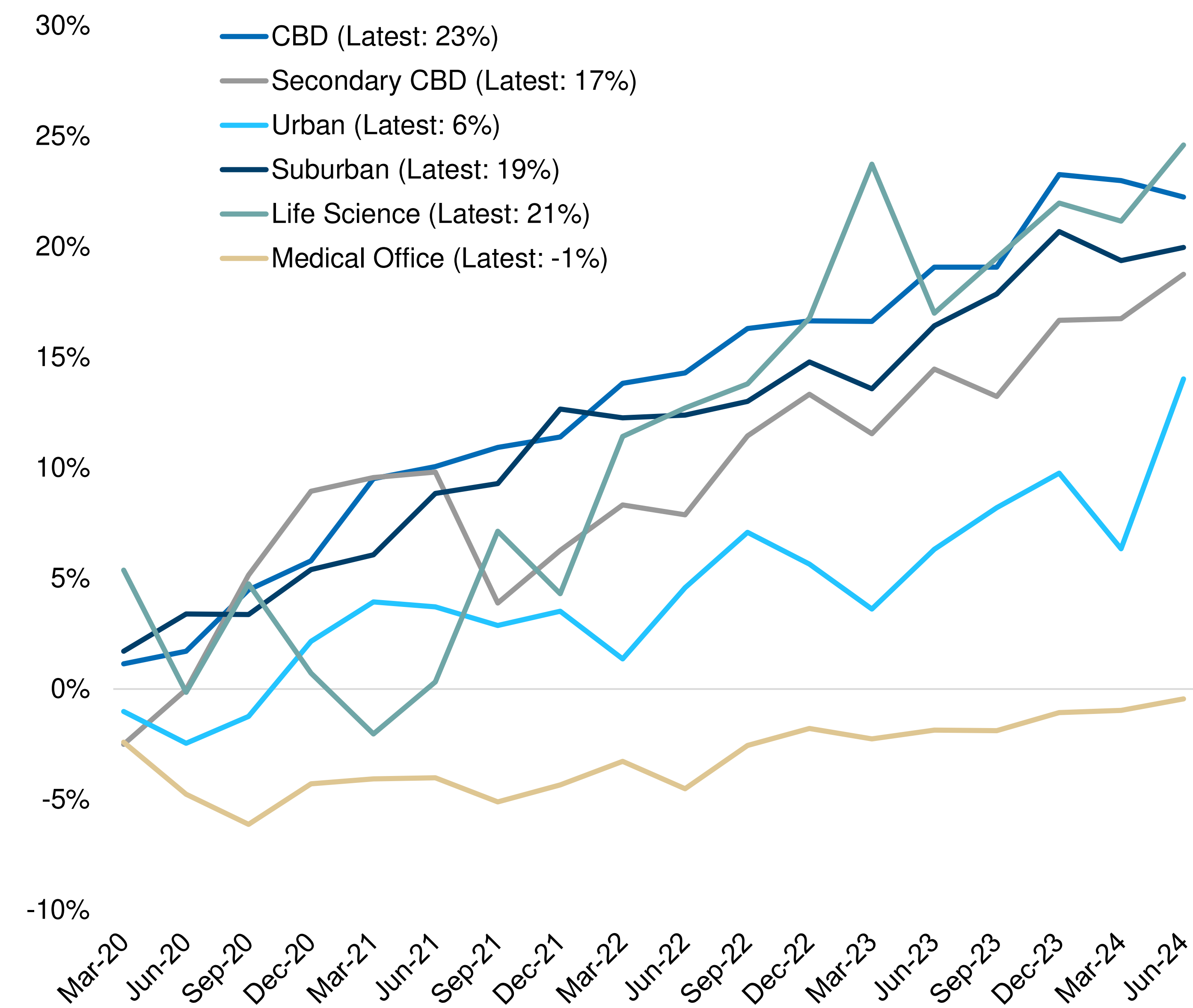
Institutional Core Building Rent Paid per SF Has Broadly Grown since 4Q19

The rosy picture is surprising, given negative office sentiment. What this shows is that while office occupancy has certainly fallen, rent paid on occupied space has either been increasing or stable. This reflects the benefits of long-term leases in supporting cashflows, but this does not take into account the overall cashflow impacts of declining occupancy.

Rent Paid per Occupied Square Foot



Cumulative Change in Rent Paid per Occupied Square Foot Since 4Q19

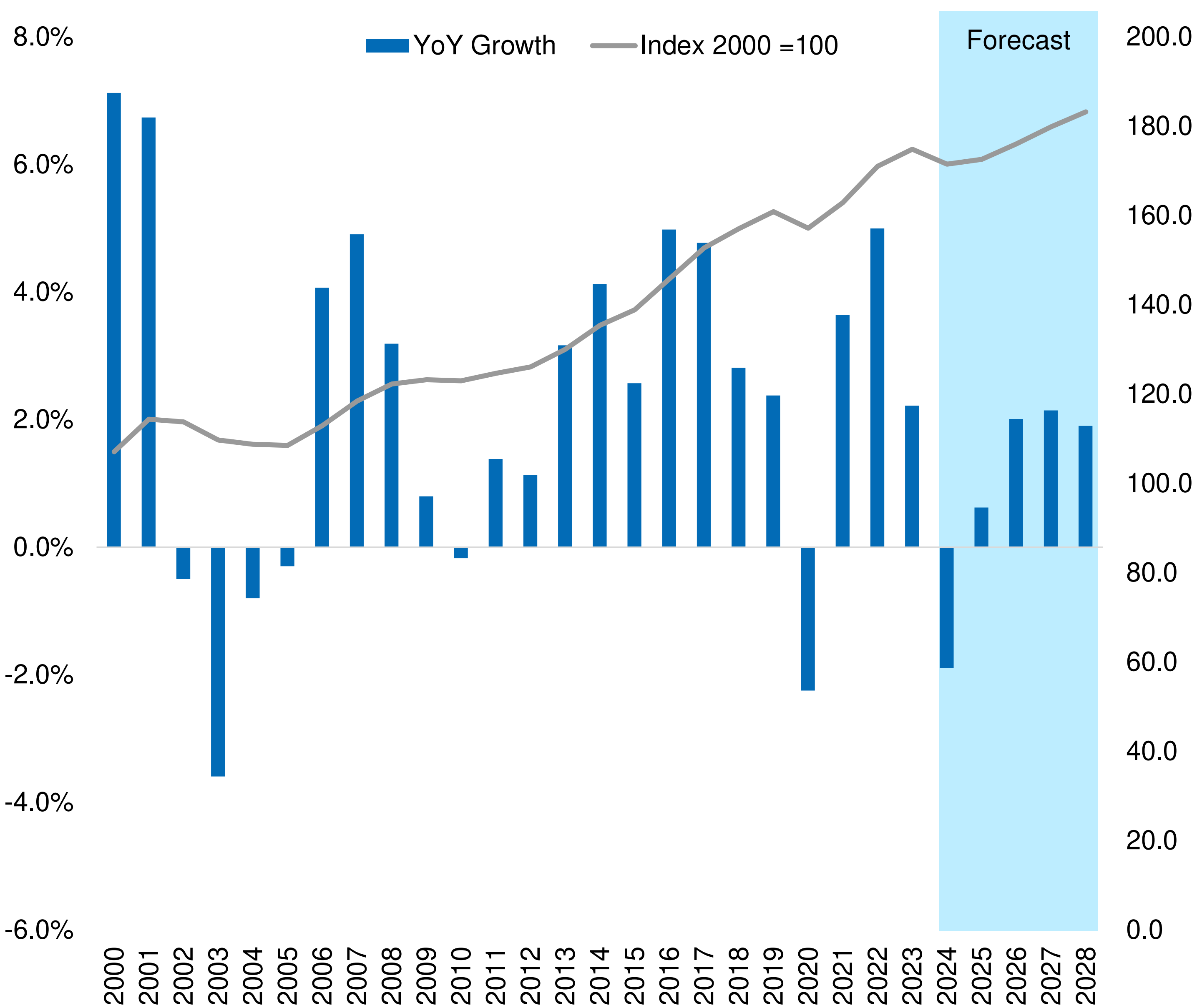


Source: NCREIF, Newmark Research as of 8/6/2024

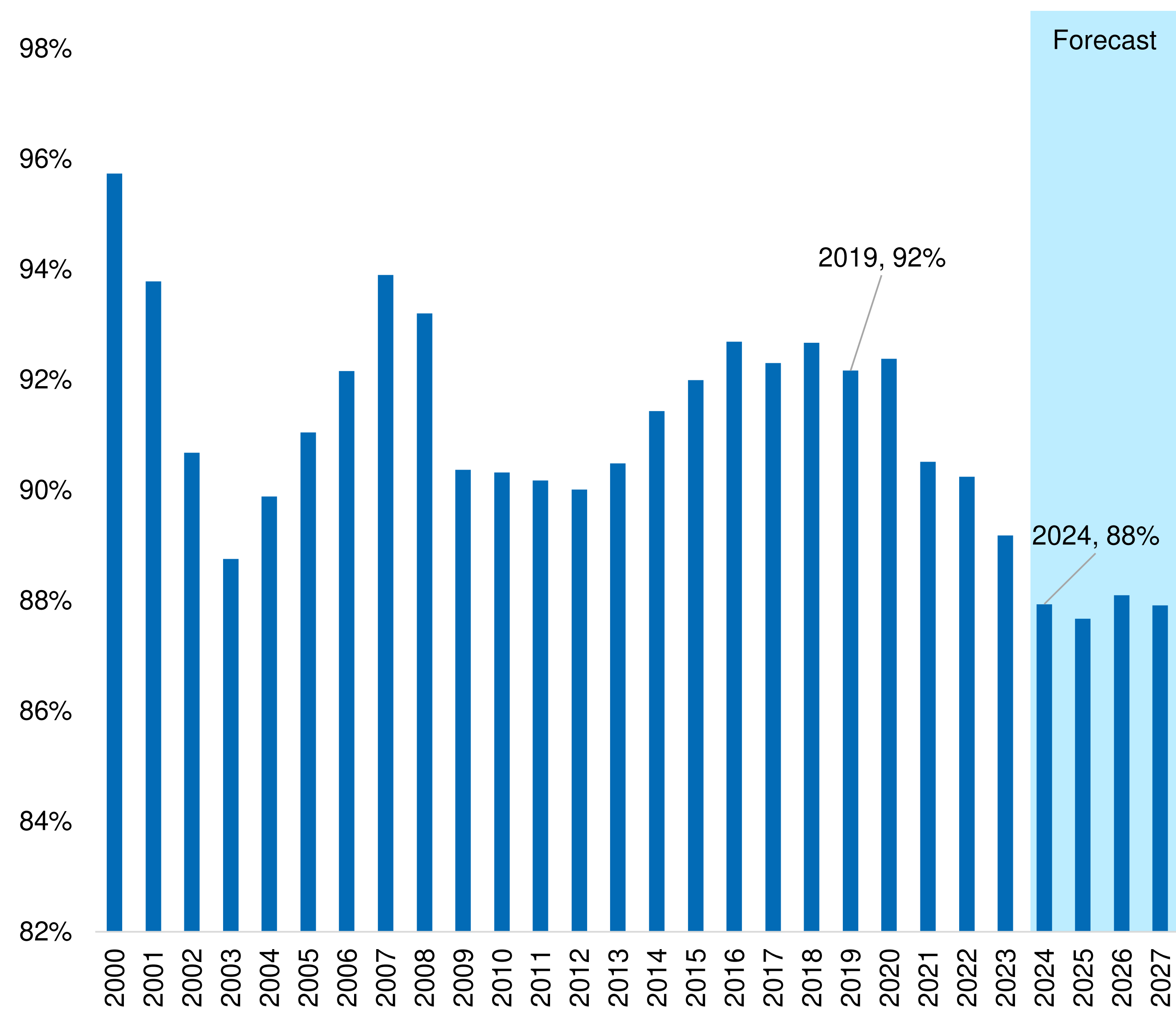
Office REITs Have Outperformed the Overall Market

Office REIT portfolios have not been unimpacted by deteriorating office fundamentals. Same-store occupancy is projected to bottom at 88%, down from 92% in 2019, a moderate decline compared with the overall office market (87.3%→79.6%). NOI growth has been remarkably resilient, despite a projected decline in 2024. As vacancy stabilized, the stage is set for a return to moderate NOI growth in the coming years.

REIT Same-Store NOI



REIT Same-Store Occupancy

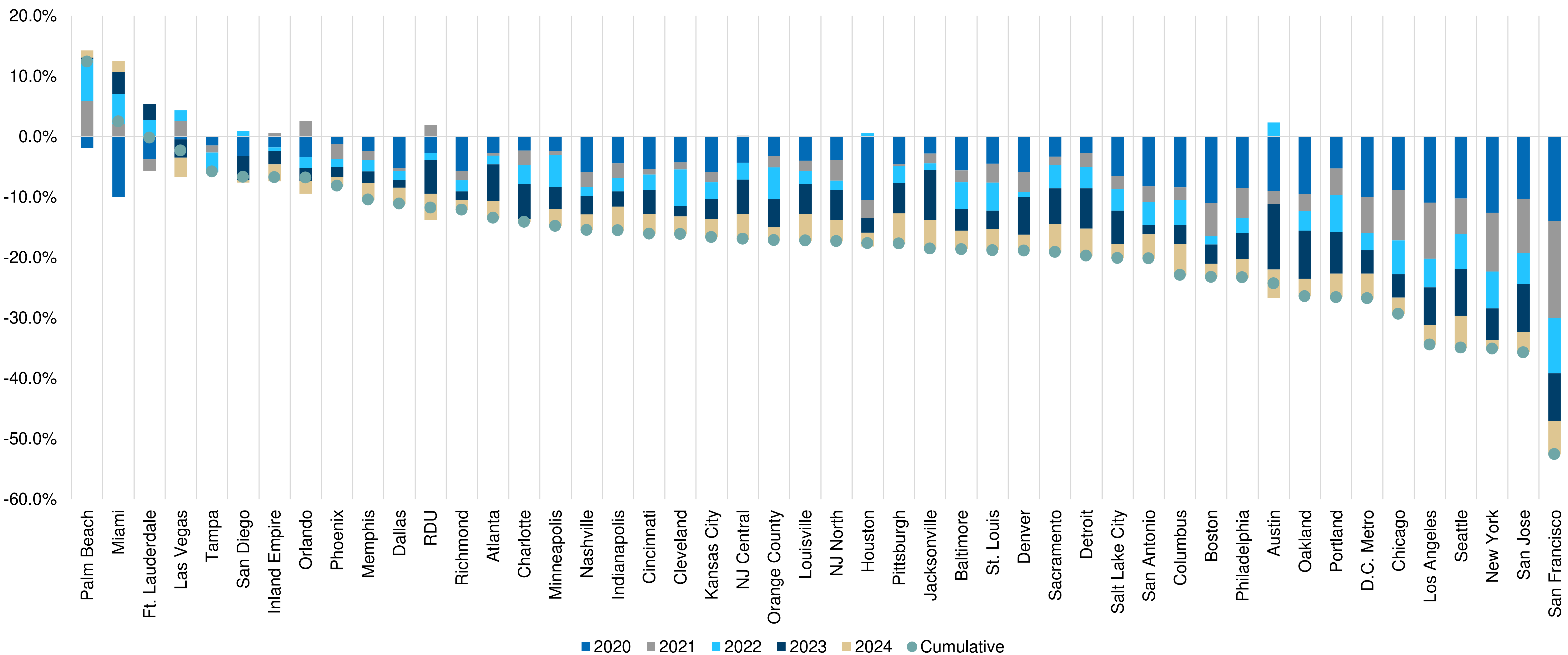


Source: Green Street data as of 8/6/2024, Newmark Research

RevPAF* Contracts across Markets in 2024

The larger picture shows that Sun Belt markets have outperformed since 2020, notably Florida markets, as well as San Diego and the Inland Empire. By far, the worst-performing market has been San Francisco, but other gateway markets have also been hard hit, including New York, San Jose, Seattle, Los Angeles, Chicago and DC.

M-RevPAF Growth by Market



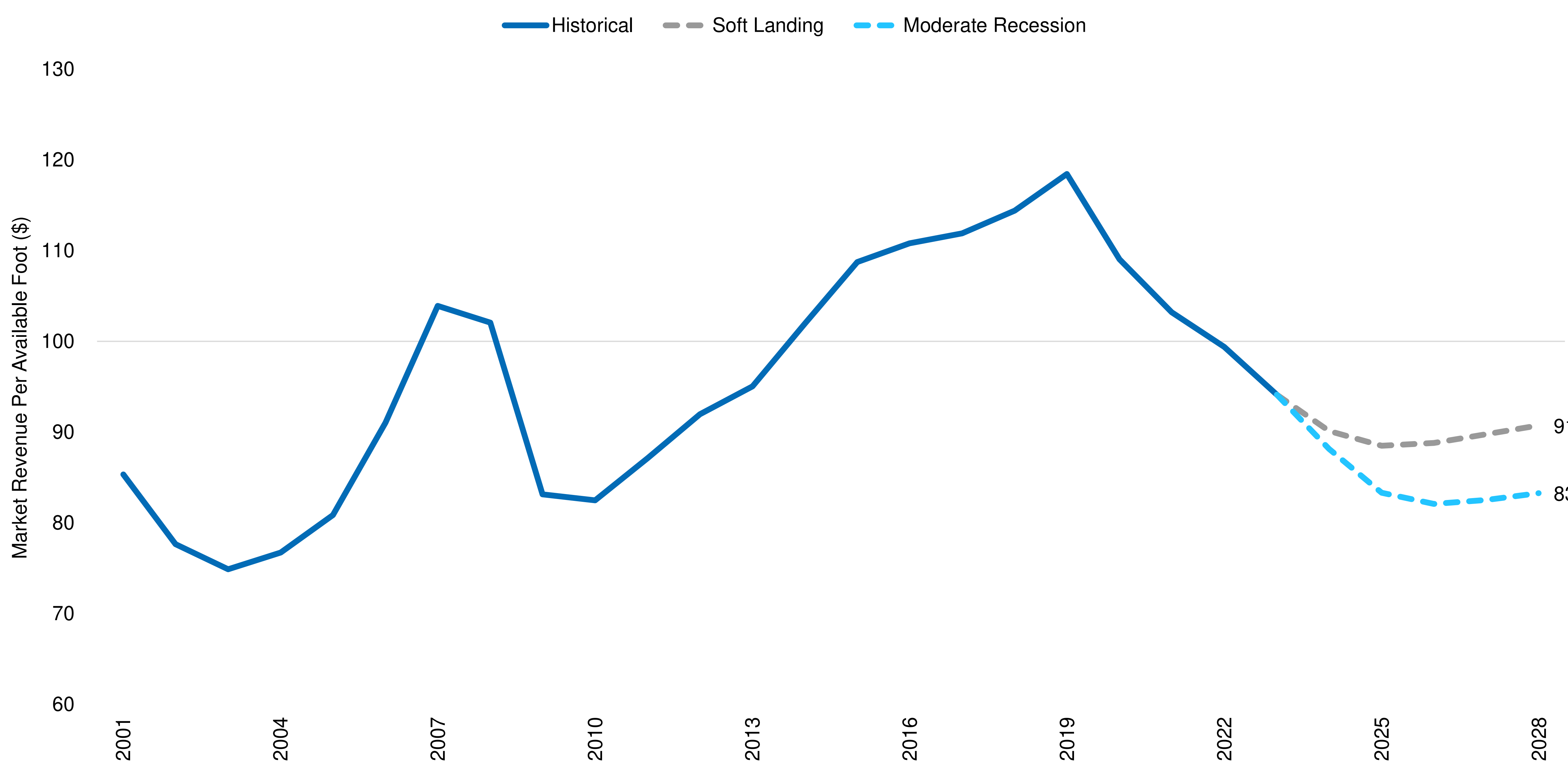
Source: Green Street data as of 7/30/2024, Newmark Research

*Market revenue per available foot combines the impact of changes in effective rents and occupancy to produce a measure of overall leasing market performance.

Broad Market Fundamentals Face a Slow Recovery

Market revenue per available foot has been trending downward since 2019, and it is not expected to hit bottom until the end of 2025 at the earliest. A recession would result in a deeper trough and a slower rebound. Even in the event of a soft landing, the office market fundamentals will improve slowly and only return to the previous peak through a process of eliminating large quantities of obsolescent stock. Newer, well-located properties have had a very different experience and will continue to do so.

Green Street M-RevPAF (December 2000 = 100)



Sources: Green Street, Newmark Research as of 7/30/2024

2Q24 UNITED STATES OFFICE LEASING HOUSE VIEW

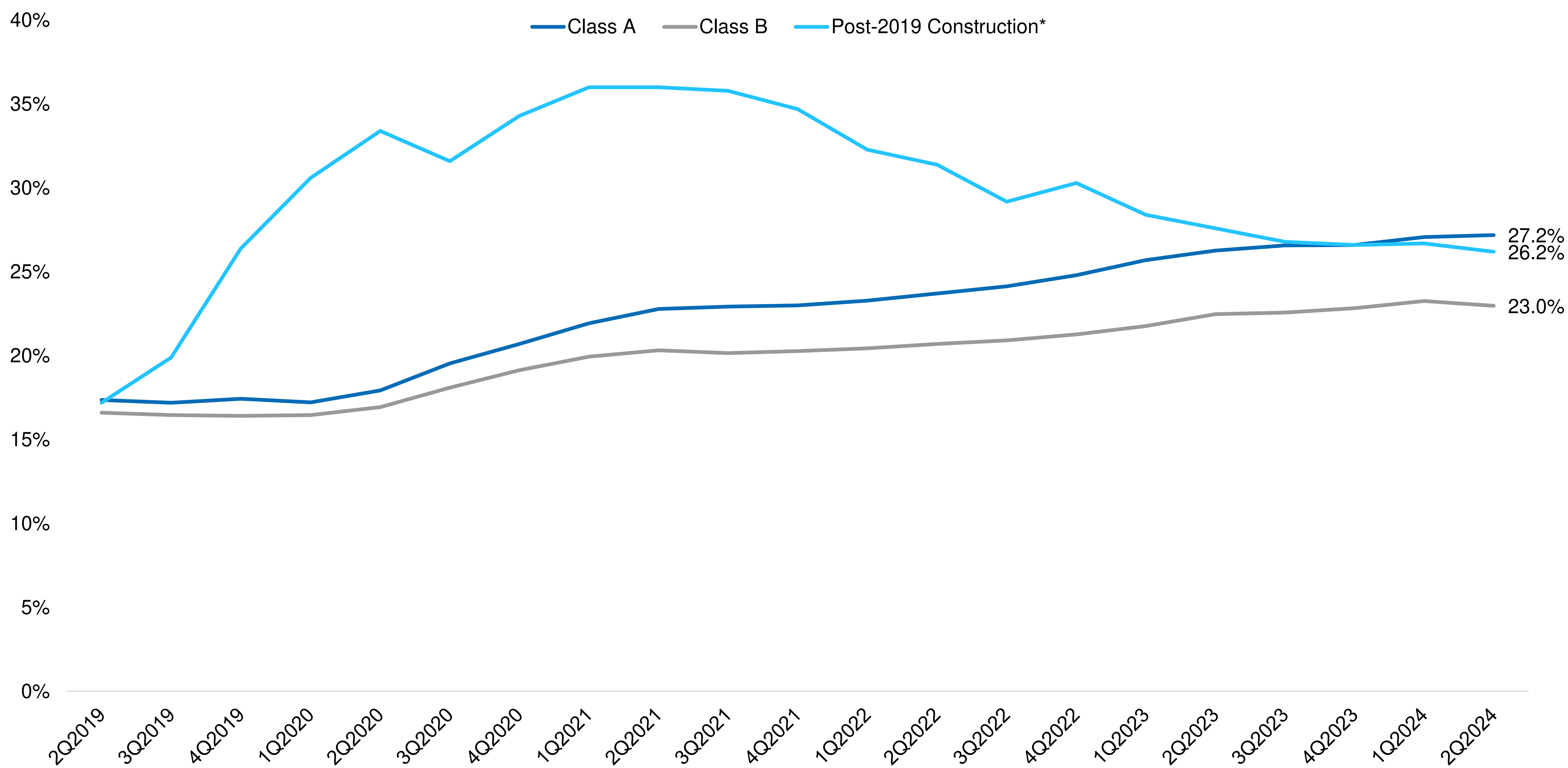
Class Conundrum

We often hear that the office market presents a dichotomy between “trophy” and “trauma.” We find that though true trophy outperformance exists, there remain other nuances and inefficiencies in the market today, namely the paradoxical solidity of Class B office relative to commodity Class A product.

Class B Beats Class A, But New Product Will Soon Beat Both

Class A and Class B availability rates were roughly the same prior to the pandemic, but since then, the gap has widened significantly as Class A office has underperformed. Focusing on newly constructed office, availability rates first increased dramatically as a wave of new office supply coincided with reduced demand conditions. However, this new product has steadily leased up with the result that the new product occupancy rate is now outperforming Class A overall and are on track to outperform Class B product.

Office Market Availability Rate By Class

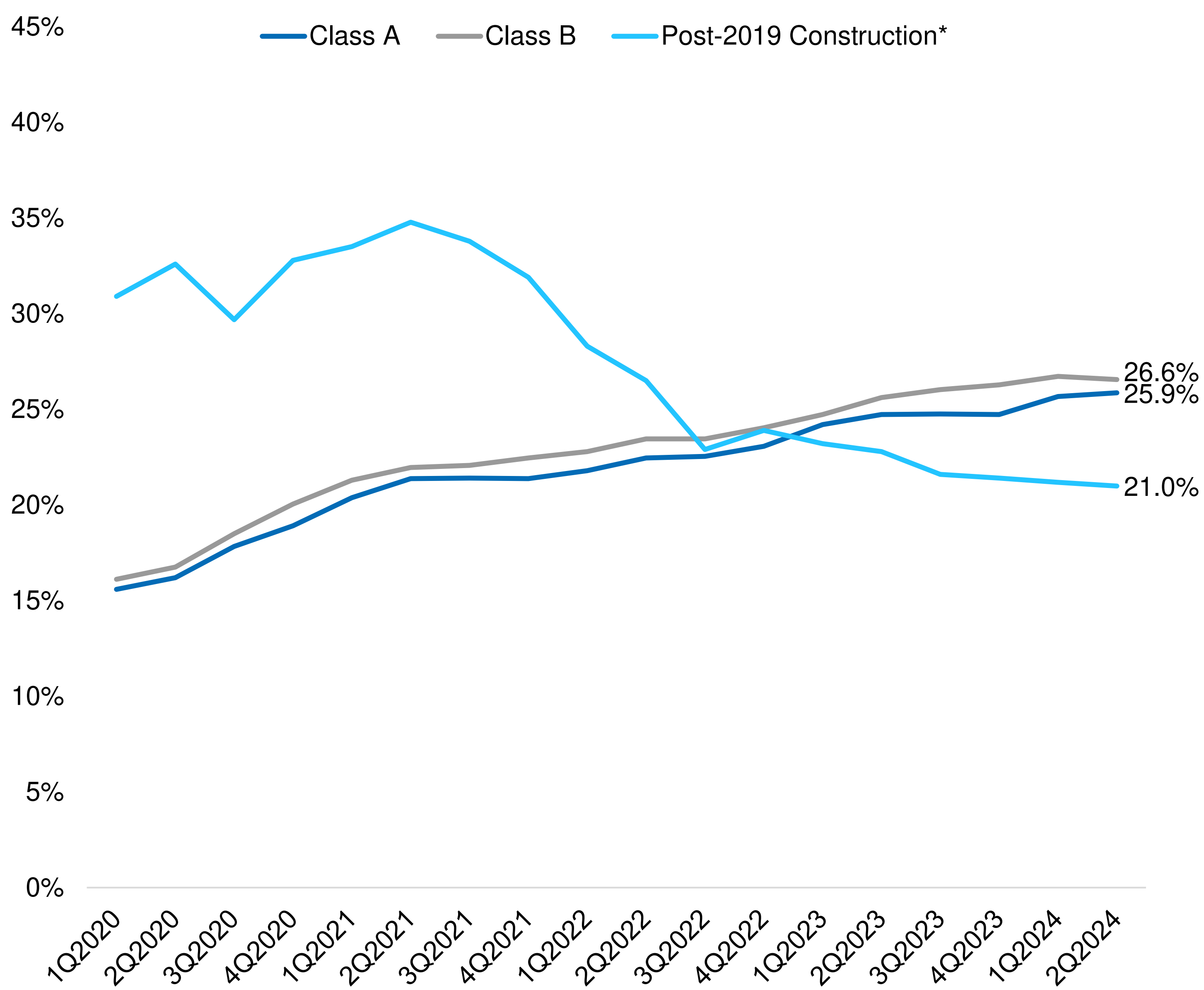


Source: CoStar, Newmark Research
*Office buildings over 20,000 SF. 5-Star CoStar Rating. Excludes owner-occupied.

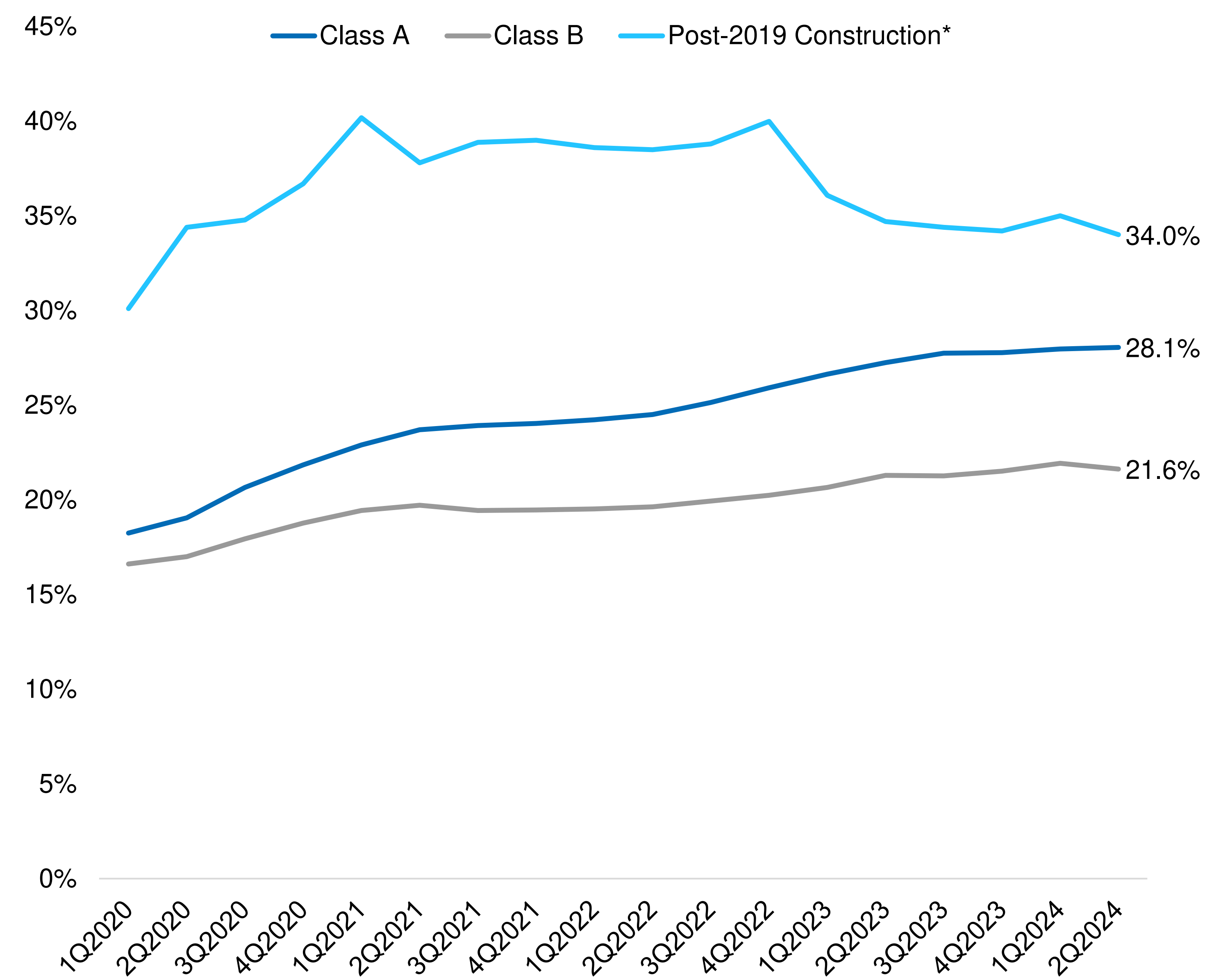
Quality Matters Most in CBD Markets; Value in the Suburbs

Availability rates are tightly clustered in CBD markets, but in these markets, there is consistent outperformance for higher quality (new construction > Class A > Class B). Suburban markets, by contrast, show consistently lower availability rates for Class B properties. Suburban new construction has struggled with lease-up, though progress has been made since late 2022.

CBD – Availability Rate by Class and Building Age



Non-CBD – Availability Rate by Class and Building Age

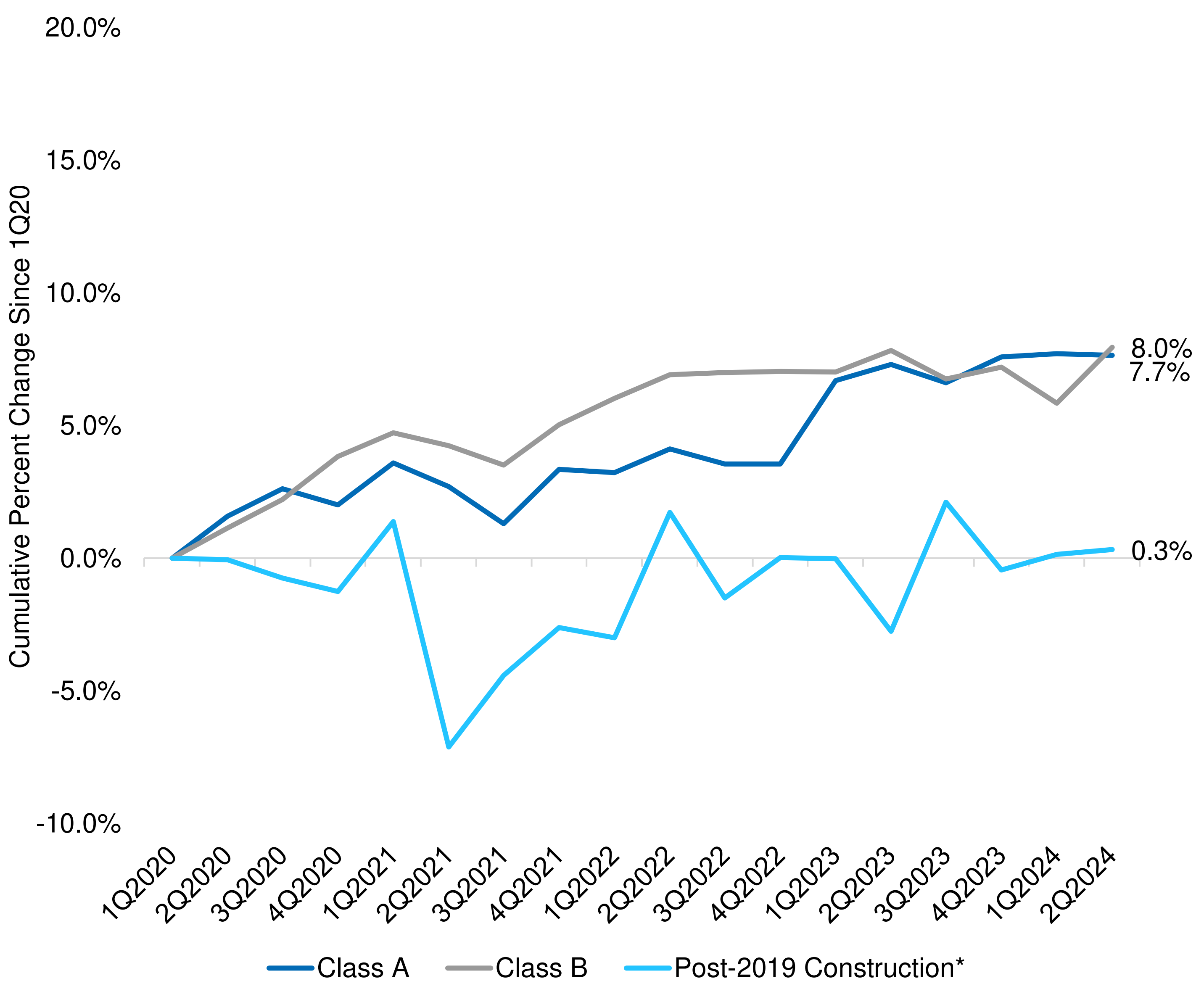


Source: CoStar, Newmark Research
*Office buildings over 20,000 SF. 5-Star CoStar Rating. Excludes owner-occupied.

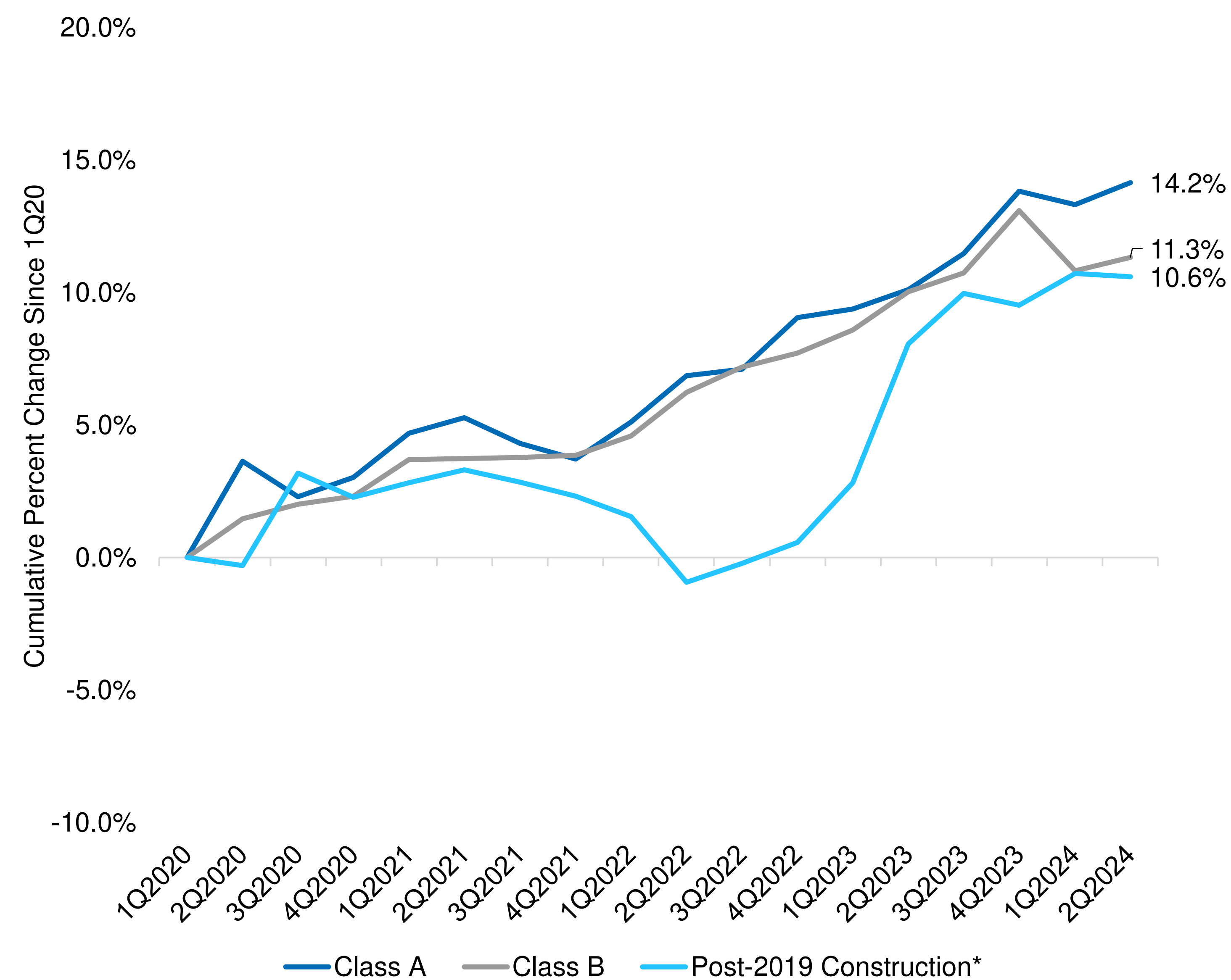
Asking Rent Growth Has Been Disconnected from Availability

Asking rents have grown across class segments since the first quarter of 2020 in both CBD and non-CBD markets, despite high availability rates. Non-CBD rents have outpaced CBD for all market segments. In CBD markets, Class A and Class B rents have grown similarly while in non-CBD markets, Class A properties have modestly outperformed, particularly recently. New construction rents appear to have underperformed in both CBD and non-CBD markets. However, since late 2022, non-CBD new construction rents have grown faster than Class A or Class B.

CBD – Overall Gross Rent (Cumulative Percent Change)



Non-CBD – Overall Gross Rent (Cumulative Percent Change)

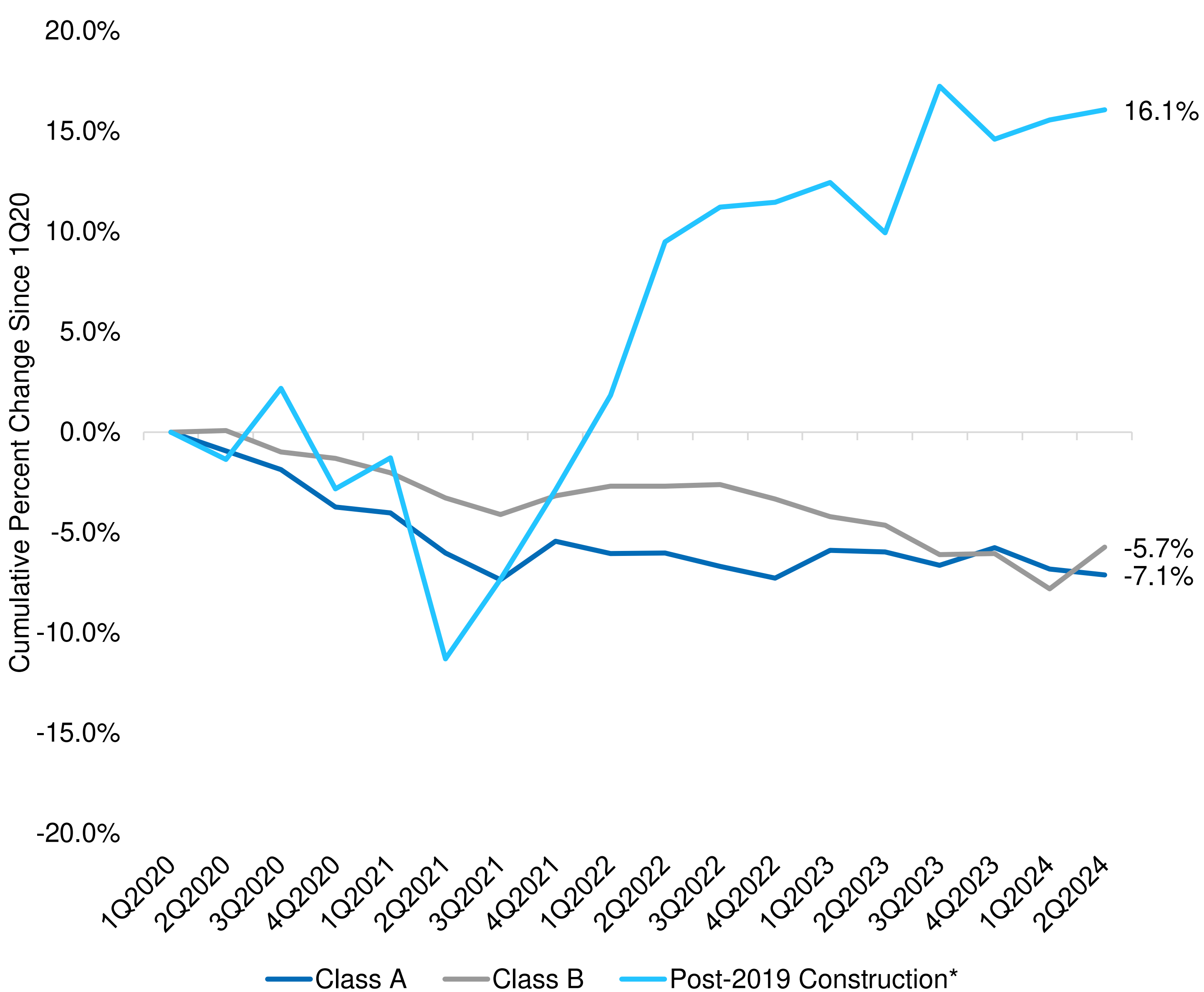


Source: CoStar, Newmark Research
*Office buildings over 20,000 SF. 5-Star CoStar Rating. Excludes owner-occupied.

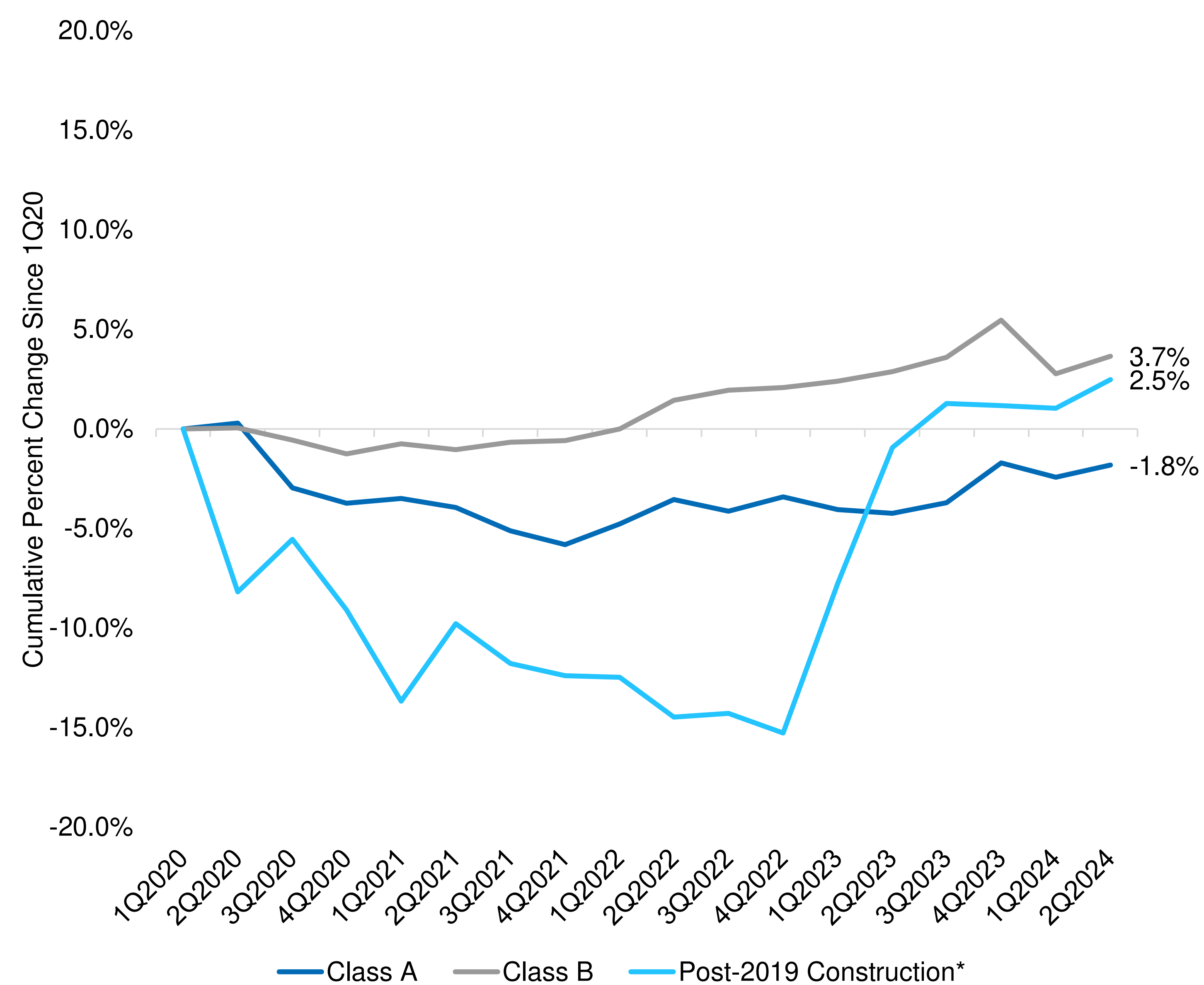
Quality Matters Most in CBD Markets; Value in the Suburbs (Part 2)

Rent per available foot (RPAF)** accounts for both changes in rents and availability. On this basis, only new construction and Class B non-CBD properties have improved operating performance since the first quarter of 2020. Performance has been stronger in non-CBD markets, except for new CBD office product, which has successfully leased up at the cost of flat asking rent growth. Class A product has underperformed Class B product, mostly because of lower occupancy. <u>This suggests that Class A owners would do well to consider lowering rents to better compete for tenant demand.</u>

CBD – Rent Per Available Foot**



Non-CBD – Rent Per Available Foot**

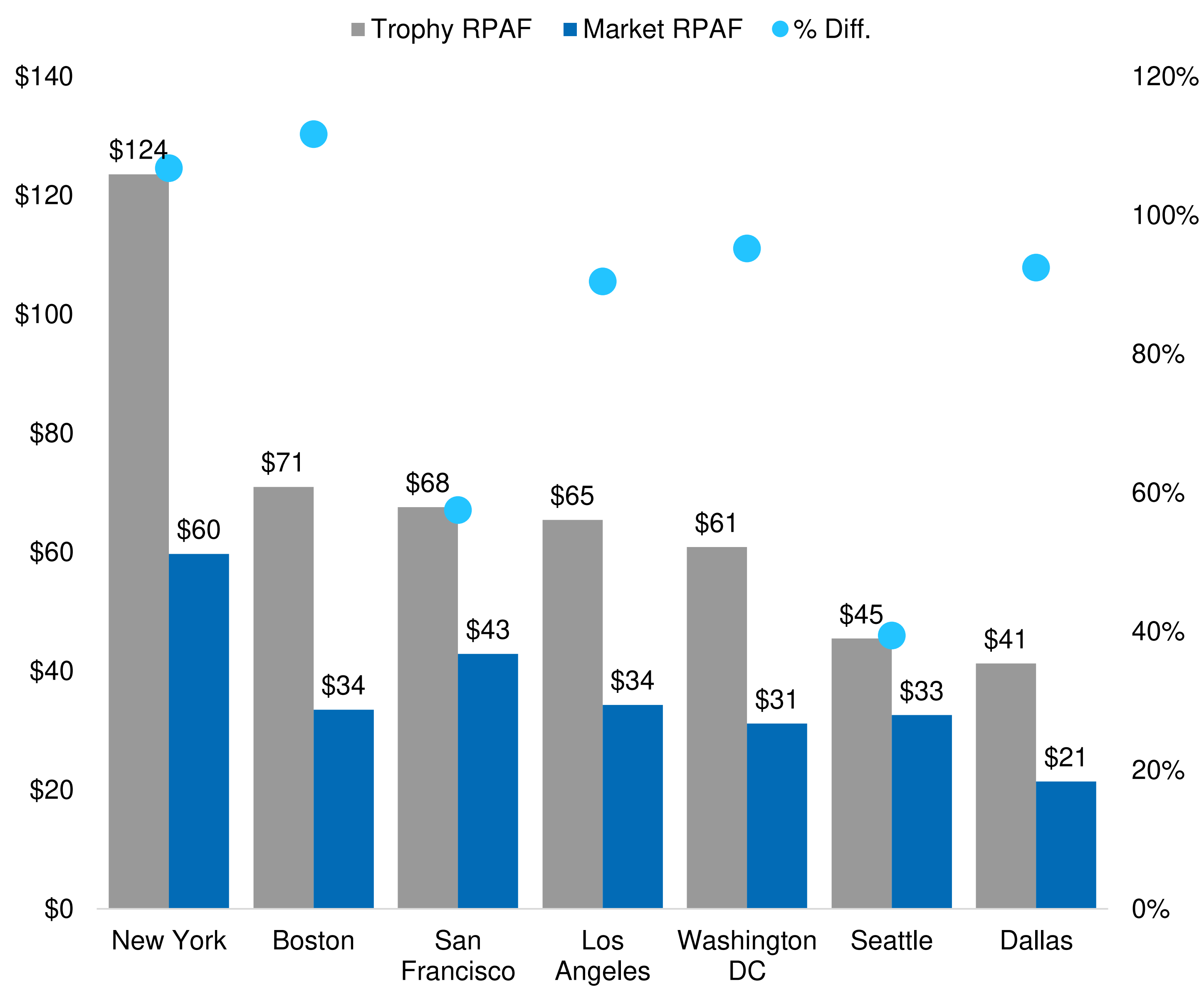


Source: CoStar, Newmark Research
*Office buildings over 20,000 SF. 5-Star CoStar Rating. Excludes owner-occupied.
**Gross Asking Rent x (1-Total Availability Rate)

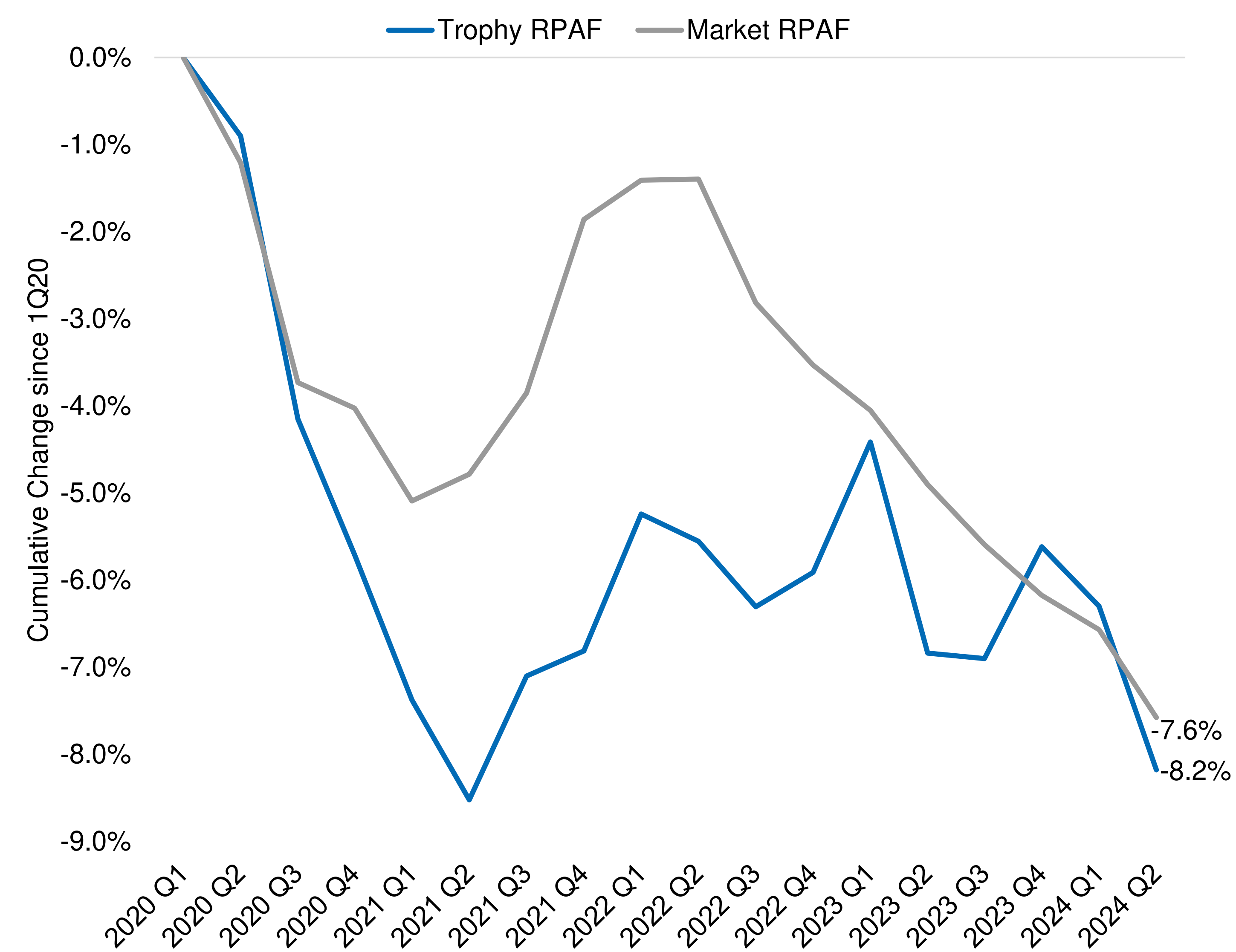
Trophy Cash Flow Premia Are Large, but Trophy Has Not Been Immune

In several key gateway markets, true trophy product* has significantly outperformed from a cashflow perspective. In New York, trophy product commands a 107% premium in rent per available foot (RPAF) compared with the rest of the market. This premium averages 85% looking across a selection of top office markets. Even so, trophy RPAF has declined 8.2% since the first quarter of 2020 in our select market set in-line with the overall market. For those focusing on sequential improvement in operating metrics, trophy alone has not been enough.

Gateway Market Comparison – Rent Per Available Foot**



Trophy versus Market – Rent Per Available Foot**

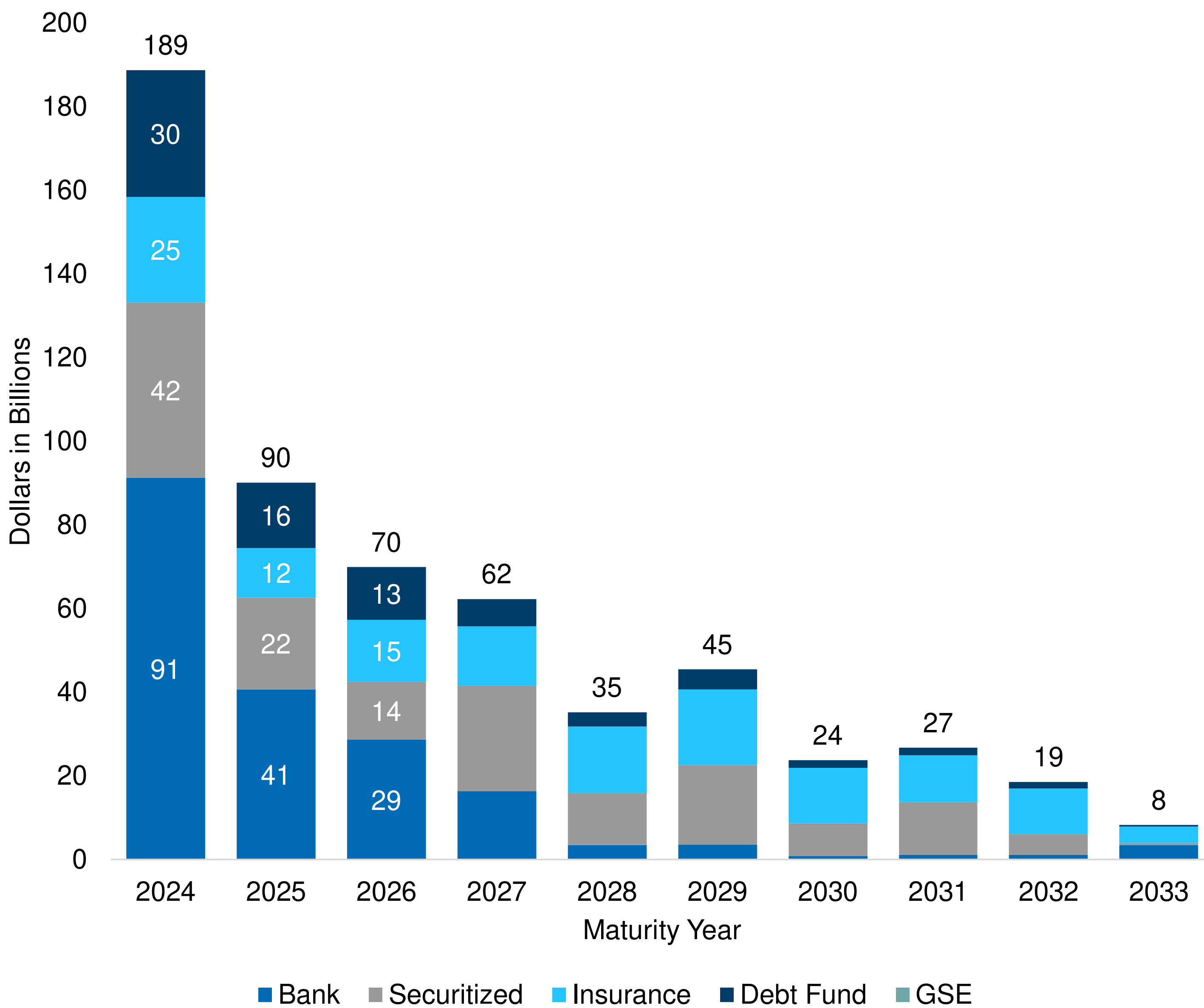


Source: CoStar, Newmark Research
*"Trophy product" in this analysis is defined as fully stabilized buildings, representing around 10% of each market's inventory square footage, capturing the highest gross overall asking rents.
**Gross Asking Rent x (1-Total Availability Rate)

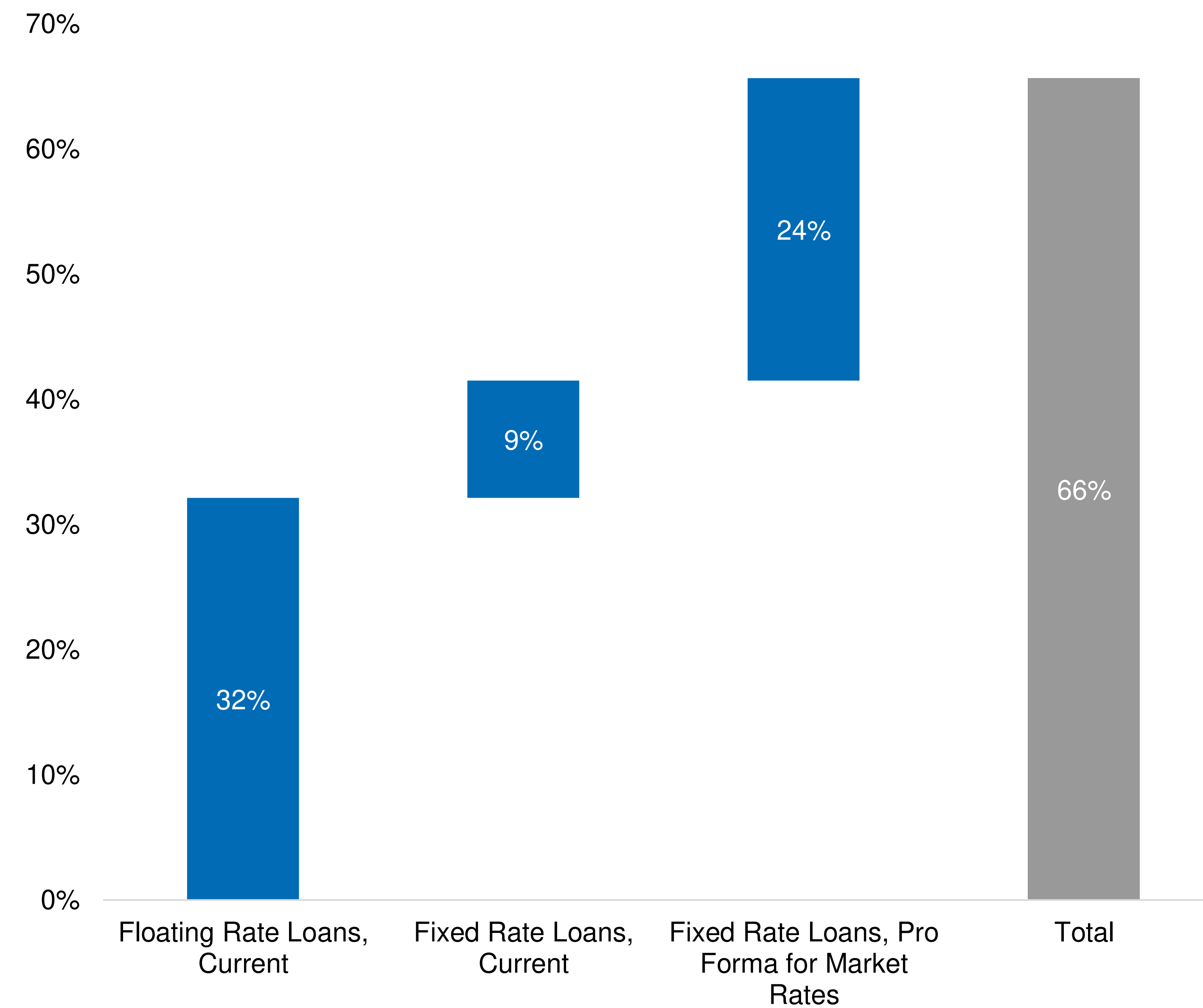
Debt Distress Constrains Landlords' Ability to Reduce Rents to Drive Occupancy

The outperformance of trophy assets is fairly intuitive, particularly as it remains a small share of the overall building stock. It is harder to explain how Class B offices are retaining tenants in a world with high commodity Class A availability. Owners of Class A assets should be able to augment rents to attract tenants and drive cashflows. Debt constraints provide one answer: Lowering rents would trigger lower valuations, accelerating default. Additionally, large incentive packages reduce cashflows, which are otherwise captured by owners.

Potentially Troubled Office Loans: Market LTV over 80%



Pre-2026 Securitized Office Maturities with DSCR under 1.25x



Source: Trepp, Green Street, RCA, MBA, Newmark Research as of 8/6/2024

2Q24 UNITED STATES OFFICE LEASING HOUSE VIEW

Office Market Statistics

National Office Market Statistics

2Q24

Market Statistics – All Classes

	Total Inventory (SF)	Under Construction (SF)	2Q 2024 Net Absorption (SF)	2024 YTD Absorption (SF)	Overall Vacancy Rate	Average Asking Rent (Price/SF)
National	**5,095,388,181**	**43,272,940**	**-5,994,934**	**-24,729,397**	**20.3%**	**$32.00**
Atlanta‡	159,639,645	1,454,337	207,922	-247,270	25.9%	$32.14
Austin‡	82,637,556	3,801,656	-69,172	209,634	23.80%	$40.34
Baltimore‡	80,540,458	735,012	612,796	545,581	15.0%	$24.78
Boston^	177,445,724	2,587,808	-602,011	-2,537,986	20.7%	$44.96
Broward County, FL	34,691,583	174,790	129,523	84,163	15.3%	$38.08
Charlotte‡	55,767,778	560,880	-183,343	-326,961	25.7%	$34.40
Charleston, SC	14,643,108	50,000	63,764	-101,729	13.5%	$31.76
Chicago^	251,396,907	414,546	-388,490	-1,652,643	24.3%	$33.64
Cincinnati‡	34,851,422	43,000	47,372	89,193	25.0%	$18.45
Cleveland‡	39,650,203	1,222,253	92,328	-99,139	23.2%	$19.95
Columbia, SC	16,133,538	0	29,567	68,766	13.2%	$19.48
Columbus‡	41,197,875	572,149	710,544	584,583	22.7%	$21.92
Dallas‡	267,359,533	4,308,727	-172,782	-794,759	24.80%	$29.95
Delaware	15,512,211	206,698	15,321	-7,038	18.5%	$25.69
Denver‡	101,908,804	599,612	-70,728	-550,963	28.1%	$32.59
Detroit‡	79,479,700	380,821	-60,133	-328,086	22.3%	$20.67
Fairfield County, CT^	37,519,373	0	-179,674	-220,957	22.9%	$38.71
Fresno	21,897,308	25,682	111,710	30,130	8.8%	$21.97
Greenville, SC	23,176,018	57,300	-87,218	-27,247	10.4%	$24.25
Hampton Roads	29,093,780	0	60,727	90,898	12.1%	$22.63

^ Major Market
‡ Secondary Market
Note: Absorption is the net change in occupied space over a period of time. Data may not match totals in some Newmark metro reports due to different local methodologies. Asking rents are quoted on a full-service basis.

National Office Market Statistics

2Q24

Market Statistics – All Classes

	Total Inventory (SF)	Under Construction (SF)	2Q 2024 Net Absorption (SF)	2024 YTD Absorption (SF)	Overall Vacancy Rate	Average Asking Rent (Price/SF)
National	**5,095,388,181**	**43,272,940**	**-5,994,934**	**-24,729,397**	**20.3%**	**$32.00**
Houston‡	243,630,937	1,153,404	191,882	-749,924	25.40%	$30.00
Indianapolis‡	34,443,457	127,452	-266,511	-743,155	27.3%	$20.68
Inland Empire, CA^	27,662,470	44,081	138,168	294,350	9.3%	$25.88
Jacksonville‡	34,278,492	61,000	-90,118	-577,381	18.8%	$22.78
Kansas City‡	73,878,816	273,950	229,041	-332,140	17.5%	$22.37
Las Vegas‡	39,796,497	291,200	-60,293	-253,465	13.0%	$27.00
Long Island^	56,370,477	0	-172,158	90,171	12.5%	$29.21
Los Angeles^	218,304,456	2,097,806	-1,077,840	-2,216,832	24.5%	$48.40
Manhattan^	459,033,397	460,145	-2,085,760	-6,853,408	14.0%	$75.14
Memphis‡	34,164,492	0	98,385	-104,708	17.0%	$19.63
Miami‡	49,091,974	1,885,166	37,353	203,614	13.8%	$55.95
Milwaukee‡	36,288,747	45,823	166,246	60,920	20.8%	$20.12
Minneapolis‡	116,986,101	400,000	-496,134	-653,667	17.8%	$28.71
Nashville‡	61,375,750	2,670,422	703,421	392,026	17.2%	$31.55
New Jersey Northern^	166,560,560	597,147	-164,934	-235,412	20.0%	$31.30
New Jersey Southern	15,872,080	0	-10,635	-33,021	16.0%	$22.07
North Bay, CA	14,679,523	0	88,236	-20,605	17.9%	$32.78
Oakland/Greater East Bay^	63,435,604	0	-508,240	-554,680	22.70%	$42.84
Oklahoma City	21,283,074	115,000	-167,539	-3,630	18.5%	$20.10
Orange County, CA^	95,578,169	0	265,662	714,119	18.0%	$34.46

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‡ Secondary Market
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National Office Market Statistics

2Q24

Market Statistics – All Classes

	Total Inventory (SF)	Under Construction (SF)	2Q 2024 Net Absorption (SF)	2024 YTD Absorption (SF)	Overall Vacancy Rate	Average Asking Rent (Price/SF)
National	**5,095,388,181**	**43,272,940**	**-5,994,934**	**-24,729,397**	**20.3%**	**$32.00**
Orlando‡	62,932,440	381,578	-240,600	-281,099	13.1%	$25.04
Palm Beach	27,789,278	683,223	-91,974	-80,810	14.1%	$48.22
Philadelphia‡	105,111,620	543,565	-201,944	-681,999	20.7%	$31.16
Phoenix‡	97,417,554	393,578	-134,456	-763,441	25.0%	$30.40
Pittsburgh‡	58,096,130	519,000	-83,338	-12,568	24.5%	$26.04
Portland‡	62,039,426	525,000	-117,252	-675,797	22.1%	$30.57
Raleigh/Durham‡	53,758,747	102,500	-172,225	-39,817	19.9%	$30.69
Richmond	32,211,054	71,000	-60,580	-150,655	15.1%	$21.28
Sacramento‡	66,256,530	594,000	-306,581	-301,287	17.3%	$25.80
Salt Lake City‡	77,371,095	477,017	336,788	549,904	14.9%	$25.35
San Antonio‡	48,270,610	230,000	-99,019	-176,500	17.70%	$23.74
San Diego‡	74,442,890	5,226,868	267,944	-94,864	17.0%	$40.66
San Francisco^	90,579,039	0	-268,964	-1,053,882	30.0%	$69.55
San Francisco Peninsula^	61,974,091	466,547	-237,548	-253,038	20.1%	82.54
Seattle‡	136,072,486	2,694,133	-140,394	-1,133,180	19.7%	$44.62
Silicon Valley^	84,000,920	1,198,103	73,698	753,597	19.3%	$57.81
St. Louis‡	74,345,246	41,000	-283,619	-471,798	14.9%	$22.80
Tampa/St. Petersburg‡	61,009,777	428,929	-161,406	-383,059	14.9%	$28.99
Washington, DC^	368,997,942	1,279,032	-1,012,973	-2,471,044	21.4%	$42.35
Westchester County, NY^	25,453,709	0	-146,746	-239,402	24.3%	$28.72

^ Major Market
‡ Secondary Market
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Newmark 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. Newmark Research Reports are available at nmrk.com/insights.

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