3Q24

United States Office Leasing House View

NEWMARK

Market Observations

– **Labor Markets:** Since February 2020, we estimate that new office-using jobs have added 243.2 million SF of office demand, helping to ease the impact of hybrid work on office demand. However, further job growth is necessary for a full recovery in office markets. While office-using job growth is expanding at a steady pace, it has lagged behind overall employment growth since 2023, primarily due to underperformance in the tech sector. Among the top 50 office markets, office-using employment rose in 35 markets over the last six months, with 32 of these markets experiencing accelerated job growth compared to the previous six-month period.

– **Hybrid Work Transition:** Slowing job growth leaves markets more vulnerable to the ongoing demand shift driven by hybrid work. Newmark estimates that 49% of pre-pandemic leases remain unrenewed, including 1.4 billion SF slated for renewal between 2025 and 2027. Additionally, the average lease size has decreased by 13.5% compared to pre-pandemic levels, indicating further potential reductions in overall office demand.

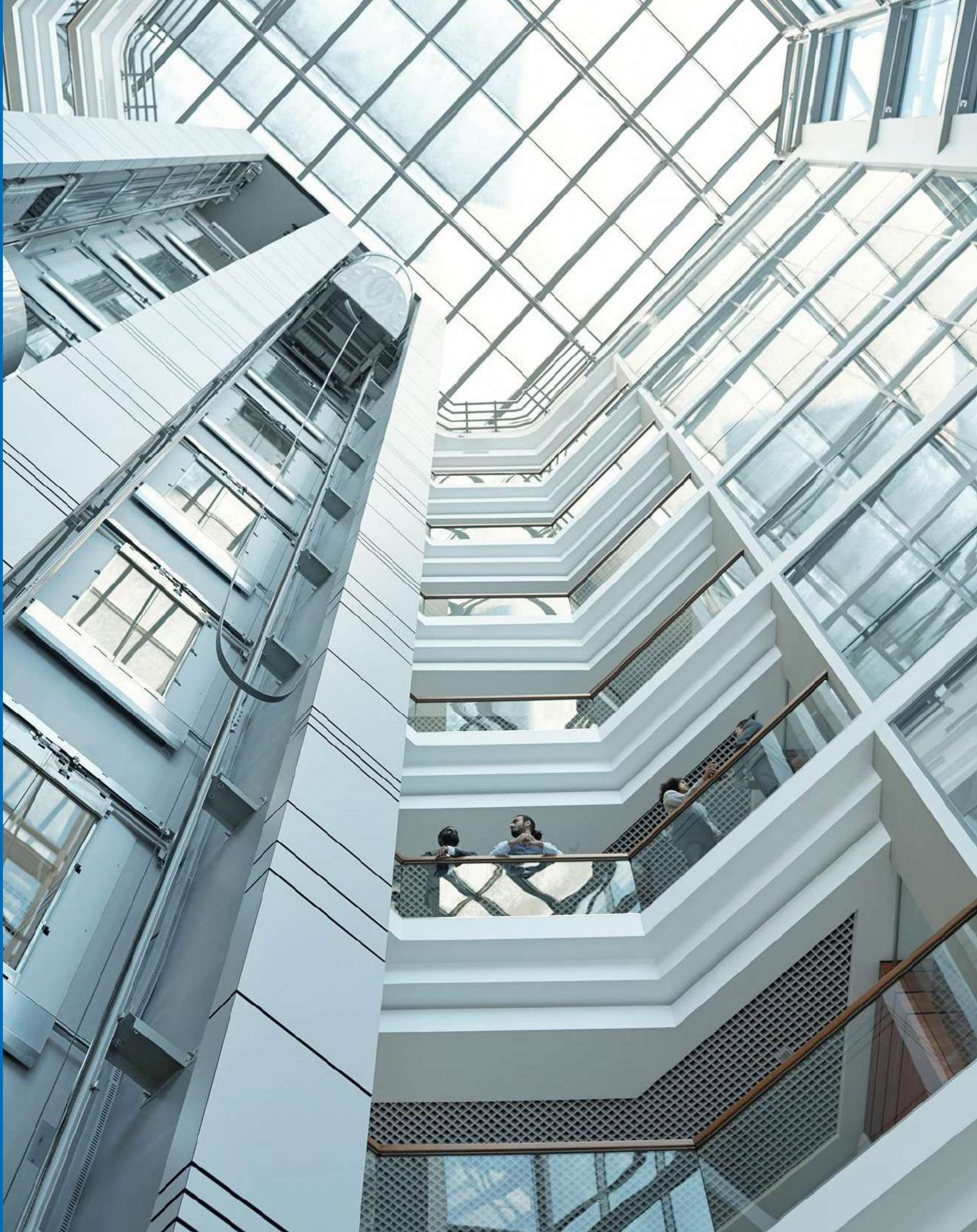
– **National Trends:** Leasing activity increased in most markets in the third quarter of 2024, accelerating nationally to an estimated 1.0% of inventory, up from the prior year's quarterly average of 0.9%. While occupancy levels declined in the third quarter, net absorption improved significantly over the year, reaching negative 3.2 million SF—an improvement of 15.5 million SF since the first quarter of 2024. Despite occupancy declines in most markets, 30 of the 60 markets tracked by Newmark saw net absorption gains compared to the trailing 12-month average. National vacancy rose by 100 basis points to 20.4% year-over-year, reflecting a slowing construction pipeline totaling 38.7 million SF—a decline of more than 19.5 million SF from the third quarter of 2023.

– **Regional Trends:** Net absorption has consistently been strongest in the South. The South Region was, in fact, the only region to record occupancy gains in the third quarter of 2024, driven by notable successes such as a high volume of preleased new construction delivered in Dallas. In contrast, the Central, East, and West regions posted negative net absorption, with the East and West shedding comparable occupancy volumes. With leasing activity on the rise, net absorption is trending upward across regions. Secondary and tertiary markets accounted for nearly all positive net absorption in the third quarter of 2024, with standout gains in Dallas (+1.3 MSF), Northern New Jersey (+612,496 SF), and Columbia, SC (+526,085 SF).

– **Rent Trends:** Asking rents rose 0.8% year-over-year in the third quarter of 2024, with gains led by major markets (+1.6% YoY) and Central markets (+3.2%). However, concessions packages remain well above pre-pandemic levels, pushing effective rents lower. Tenant improvement (TI) allowances now average 65.6% higher than pre-pandemic, based on analysis of leading office markets.

– **Class Conundrum:** Class performance is more nuanced than the prevailing flight-to-quality narrative suggests. In CBD markets, higher-quality office has led performance since the first quarter of 2020. Availability rates for Class A office are on par with Class B, while post-2019 Class A developments show significantly lower availability. Notably, Class B asking rents have seen strong gains since early 2020, while Class A rents have remained relatively stable, and post-2019 construction falls in between. Non-CBD properties have generally outperformed CBD markets. Contrary to common assumptions, Class B suburban properties have maintained consistently lower availability than Class A in both CBD and non-CBD areas. Availability in Class B properties is comparable to that of new CBD construction and significantly lower than new non-CBD construction. Asking rent growth has been robust across non-CBD segments, with Class A properties showing the highest gains. On a rent-per-available-foot basis, CBD post-2019 construction has outperformed all other segments.

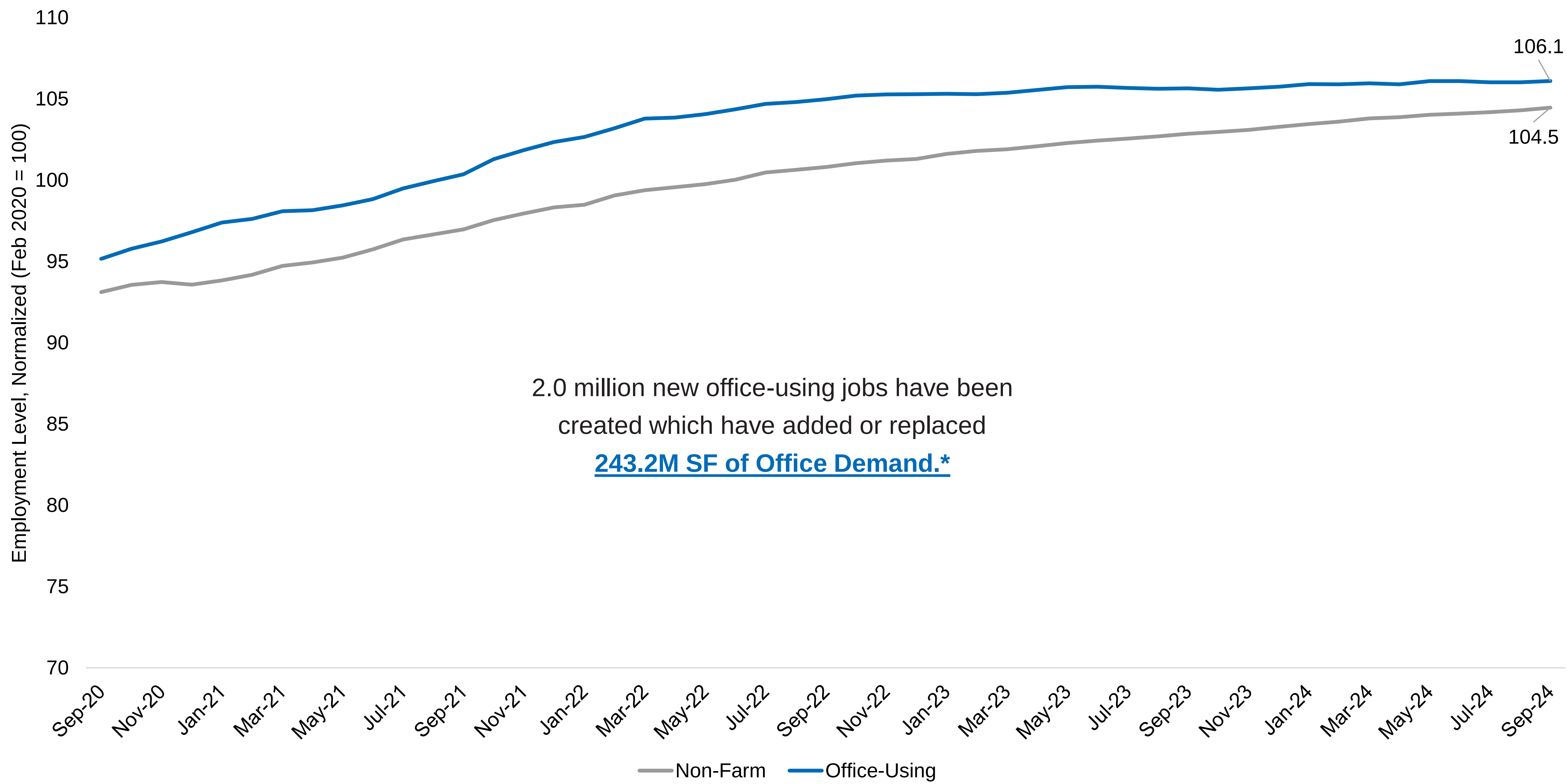
Demand Drivers



Office Employment Outpaces Broader Labor Recovery

National nonfarm employment returned to pre-pandemic levels in June 2022 and has increased by 22.0% since the pandemic low in April 2020. Office-using employment experienced less impact during the pandemic and has shown a steady recovery, now standing 2.0 million jobs above pre-pandemic levels—though growth has plateaued since August 2022. This is significant, as net-new jobs can help offset the negative demand effects from remote work.

Employment Recovery Comparison – Normalized to February 2020

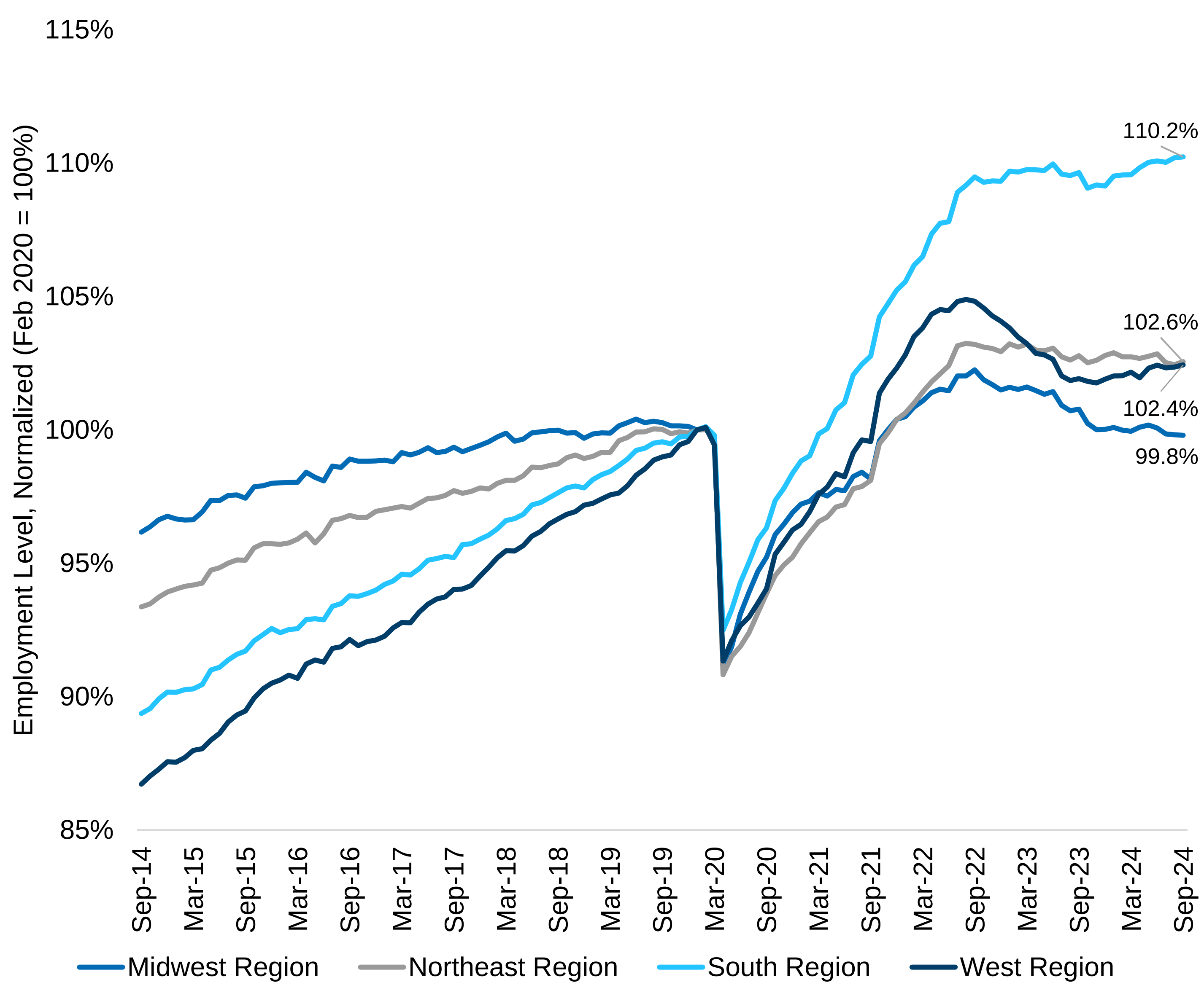


Sources: U.S. Bureau of Labor Statistics, Newmark Research as of 10/15/2024
Seasonally Adjusted
*Assumes estimate of around 120 SF per new office-using job

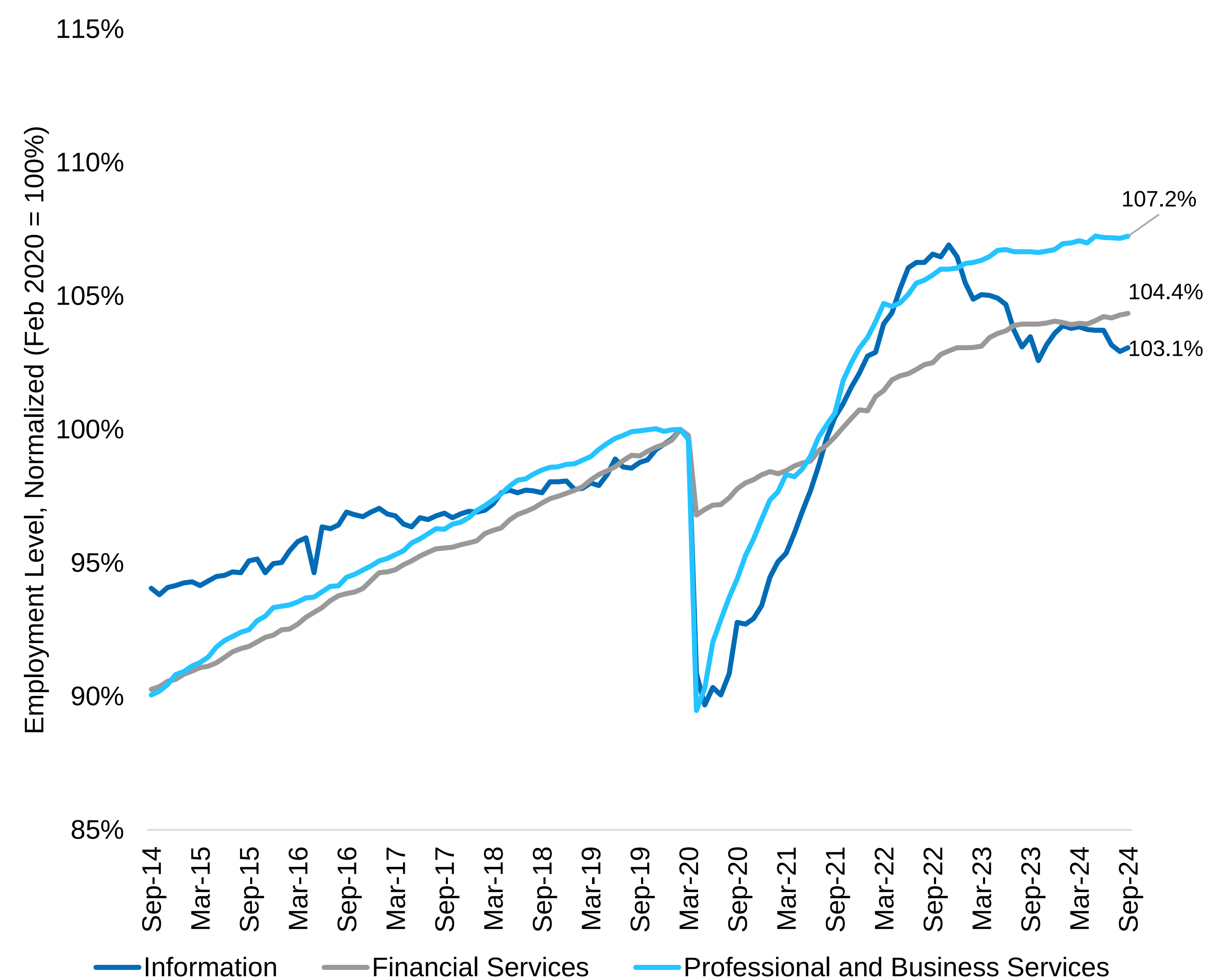
Office-Using Employment is Growing Moderately, Led by Southern Region

Employment across office-using industries now exceeds pre-pandemic levels. The recovery in professional and business services has been especially robust, with employment 7.2% above February 2020 levels. Broad gains across office-using sectors have collectively pushed employment up 6.1% since February 2020. While the information sector (a proxy for technology) saw steep declines from November 2022 to October 2023, it has since returned to growth, despite slight losses in August 2024. The South region has led the post-pandemic office landscape, significantly outpacing all other regions across every industry category.

Employment by Census Region



Employment by Industry

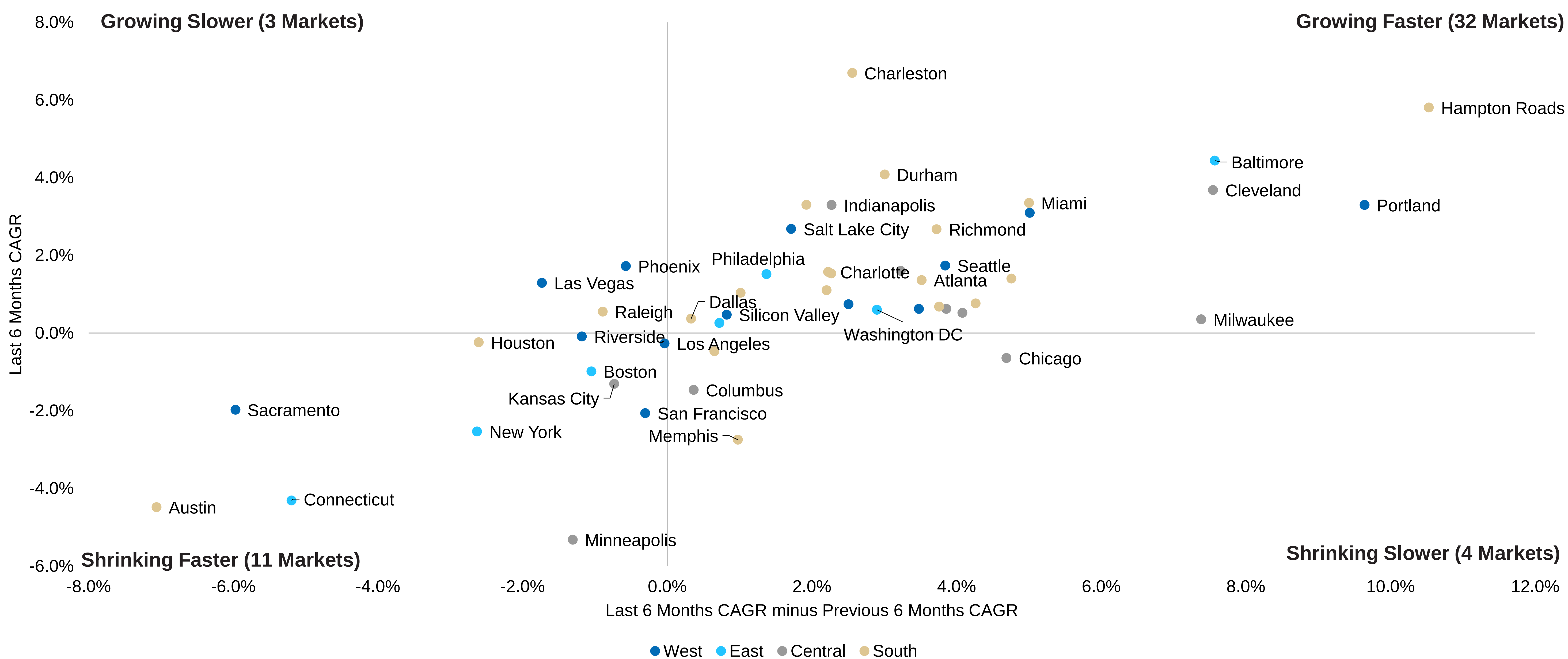


Sources: Moody's Analytics United States Department of Labor, Newmark Research as of 10/22/2024

Though Office-Using Employment Growth Is Accelerating in Most Tracked Markets

Entering the fourth quarter of 2024, the employment landscape has strengthened compared to late 2023: 32 markets experienced accelerated job growth over the previous six months, while 11 markets across the country saw sharper declines.

Last 6 Months CAGR vs. 2023-2024 Acceleration

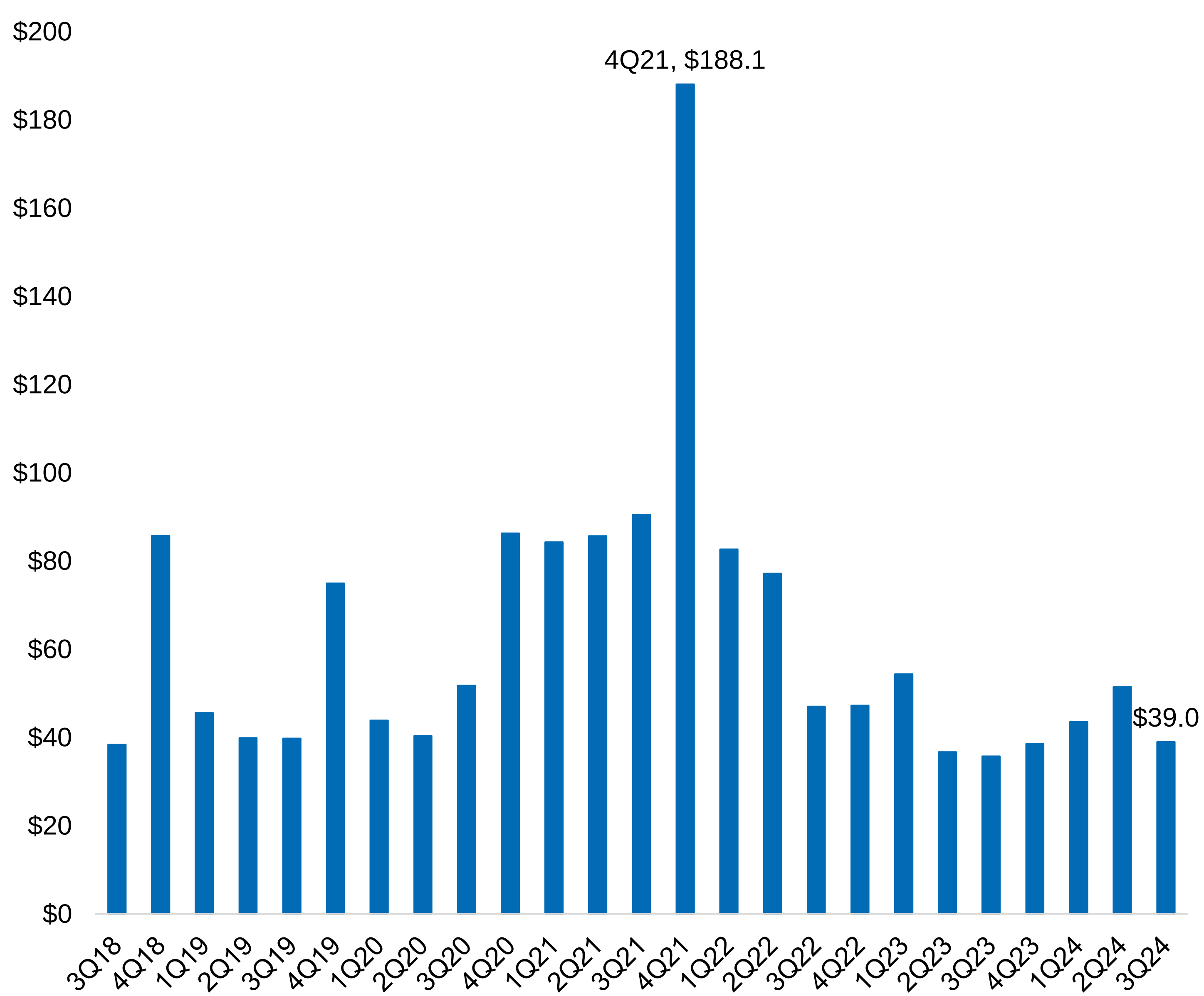


Source: Bureau of Labor Statistics, Newmark Research as of 10/11/2024

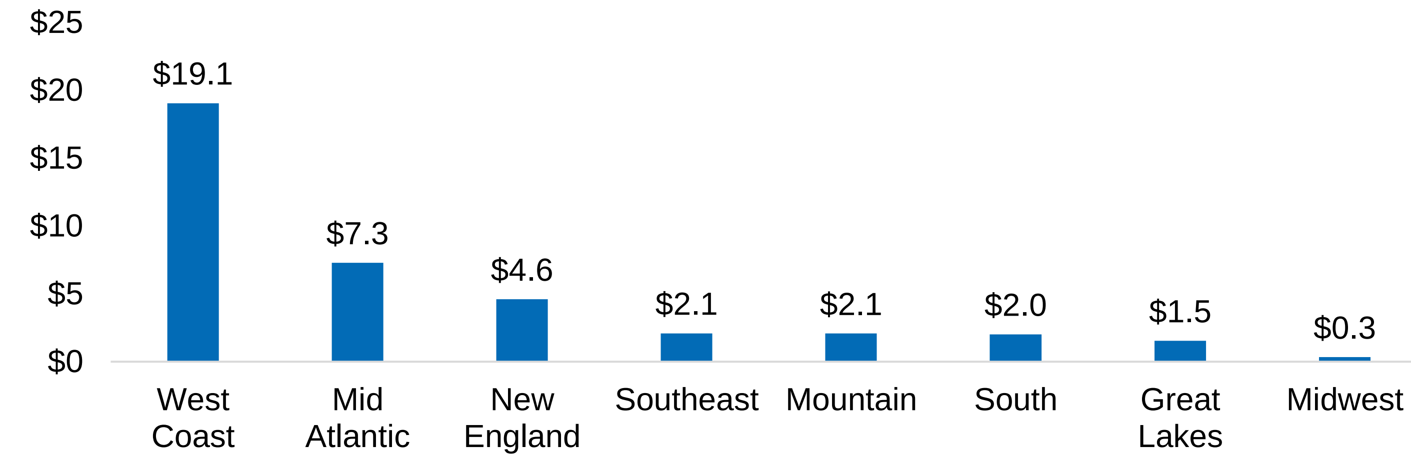
Venture Capital Investment Activity Returns To Pre-Pandemic Level

Venture capital contracted in the third quarter of 2024 as investors remain cautious. Total investments have fallen significantly from the recent peak in 2021, with activity over the past year returning to historical norms. Among tracked industry sectors, information saw the largest annual gains at 26.5%, driven by high-volume transactions in companies focused on artificial intelligence research. This growth builds on momentum from the prior quarter, following eight consecutive quarters of annual declines. While the largest funds are likely to see the most significant drop in activity, substantial dry powder should continue to support investments by smaller funds.

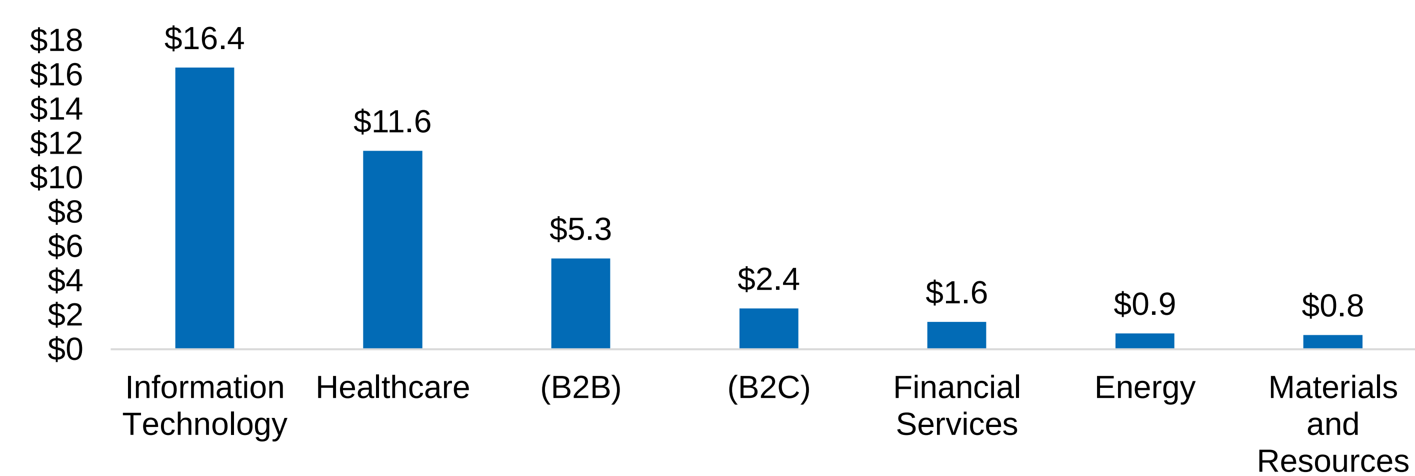
Venture Capital Deal Value ($ billions)



3Q24 VC Funding by Region ($ billions)



3Q24 VC Funding by Industry Sector ($ billions)

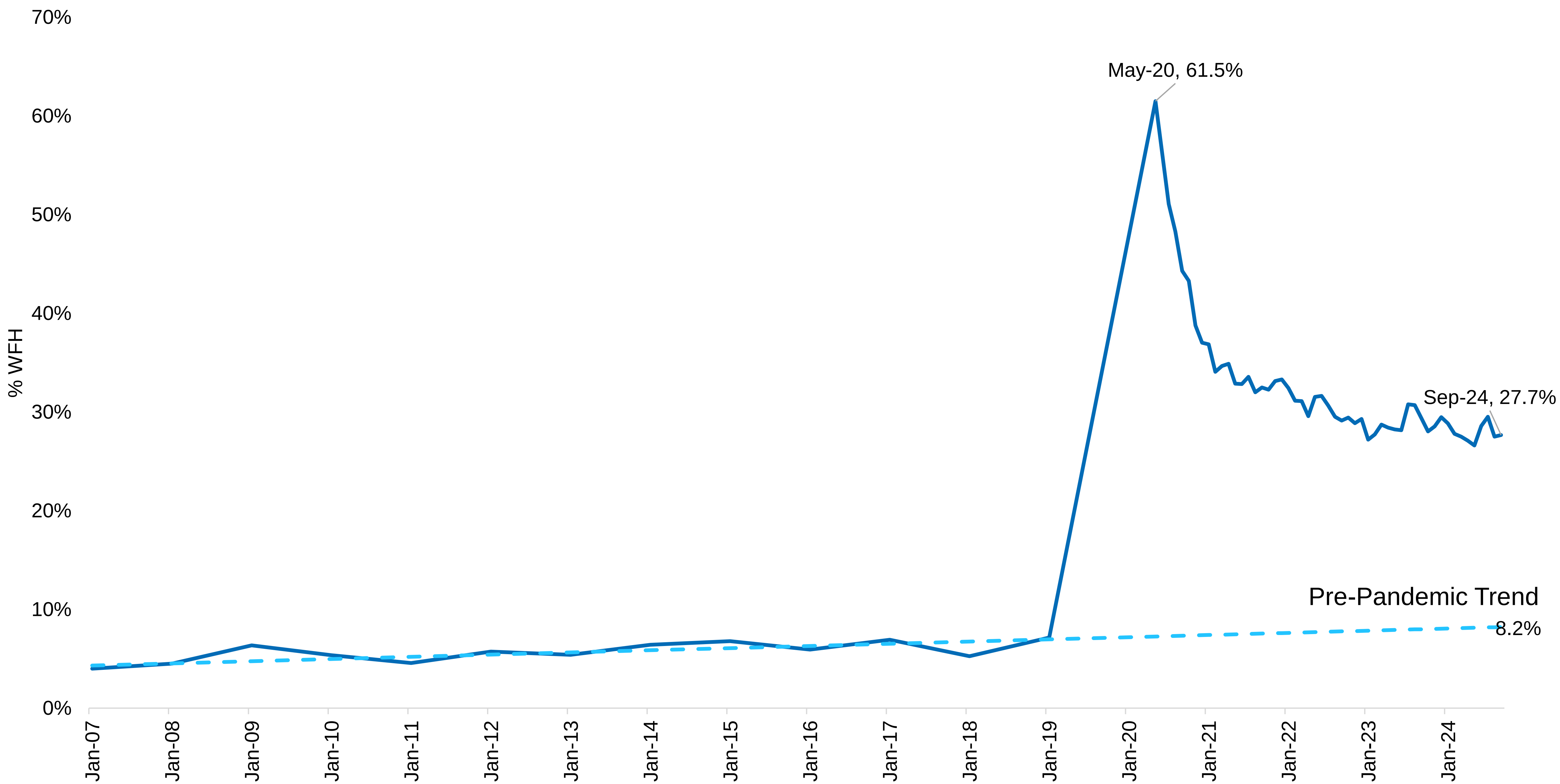


Sources: PitchBook, Newmark Research as of 10/16/2024

The Pandemic Compacted Decades Of WFH Transition Into Three Years

In the two decades leading up to 2020, fully paid work-from-home days averaged 5.2% for all employees. This figure surged in early 2020, peaking at 61.5% in May 2020. Since then, the rate has gradually decreased, standing at 27.7% as of September 2024.

Share of Full Paid Days Worked From Home

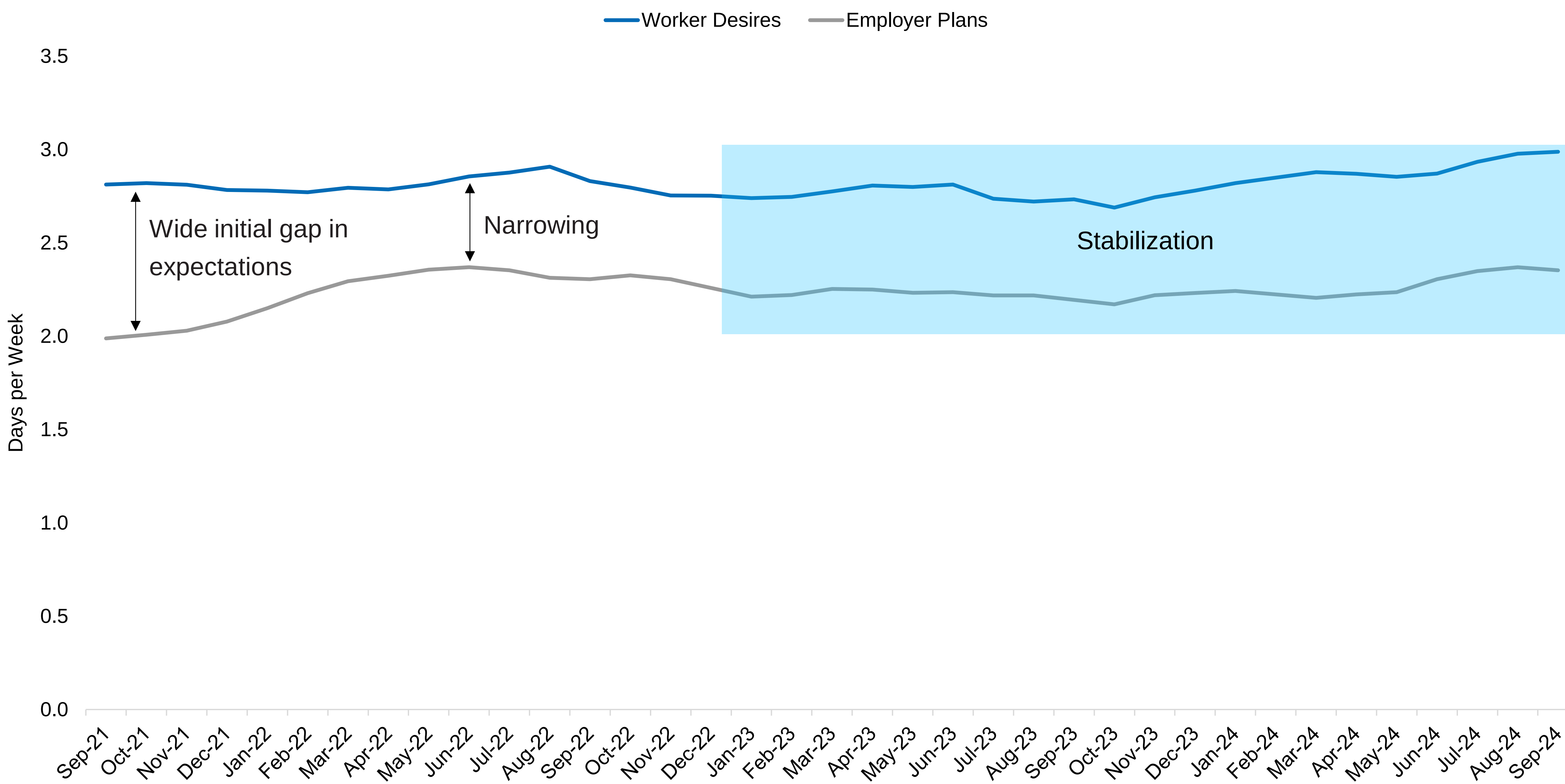


Source: Barrero, Jose Maria, Nicholas Bloom, and Steven J. Davis, 2021. "Why working from home will stick," National Bureau of Economic Research Working Paper 28731.
Newmark Research as of 10/16/2024

Gap between Worker and Employer WFH Expectations Has Mostly Stabilized

A persistent gap remains between the number of days employees would prefer to work from home and current employer policies; however, this gap has been relatively stable since summer 2022. While headlines have speculated that a recession could shift leverage back to employers, the economy has shown resilience, the gap in preferences remains modest, and the unemployment rate for college-educated workers is just 2.3%.

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

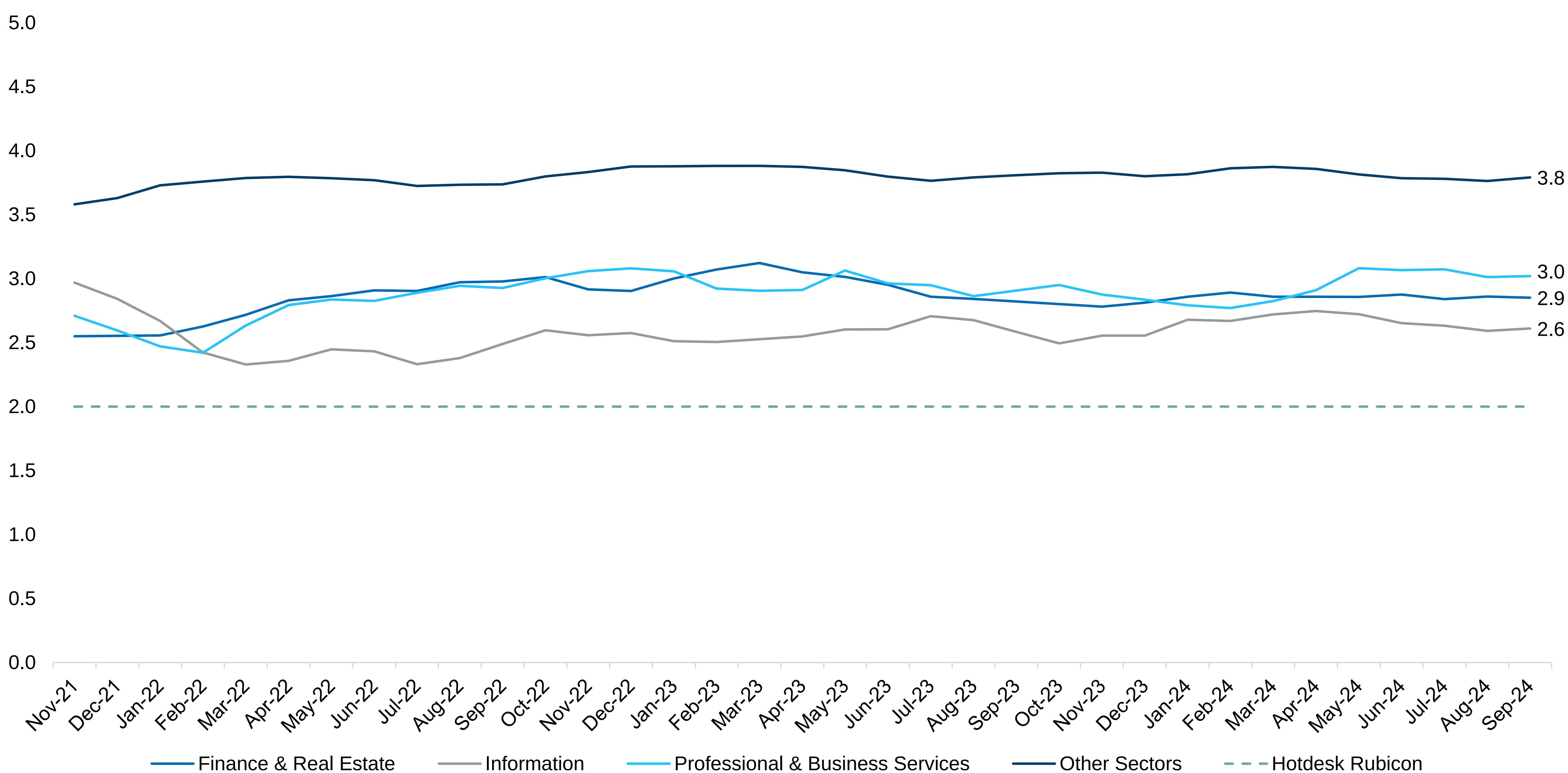


Source: Barrero, Jose Maria, Nicholas Bloom, and Steven J. Davis, 2021. "Why working from home will stick," National Bureau of Economic Research Working Paper 28731.
Newmark Research as of 10/16/2024

Office Workdays Stabilize Above 2.0, Reducing Risk of Major Space Cuts

In recent months, all office-using industries have experienced a slight increase in days spent in the office. Though the change is modest and does not indicate a major shift back to the office, days in the office remain comfortably above two—the threshold that typically favors assigned seating over hoteling.

Estimated Days Worked Onsite*



Assigned seating → similar space needs despite lower average utilization

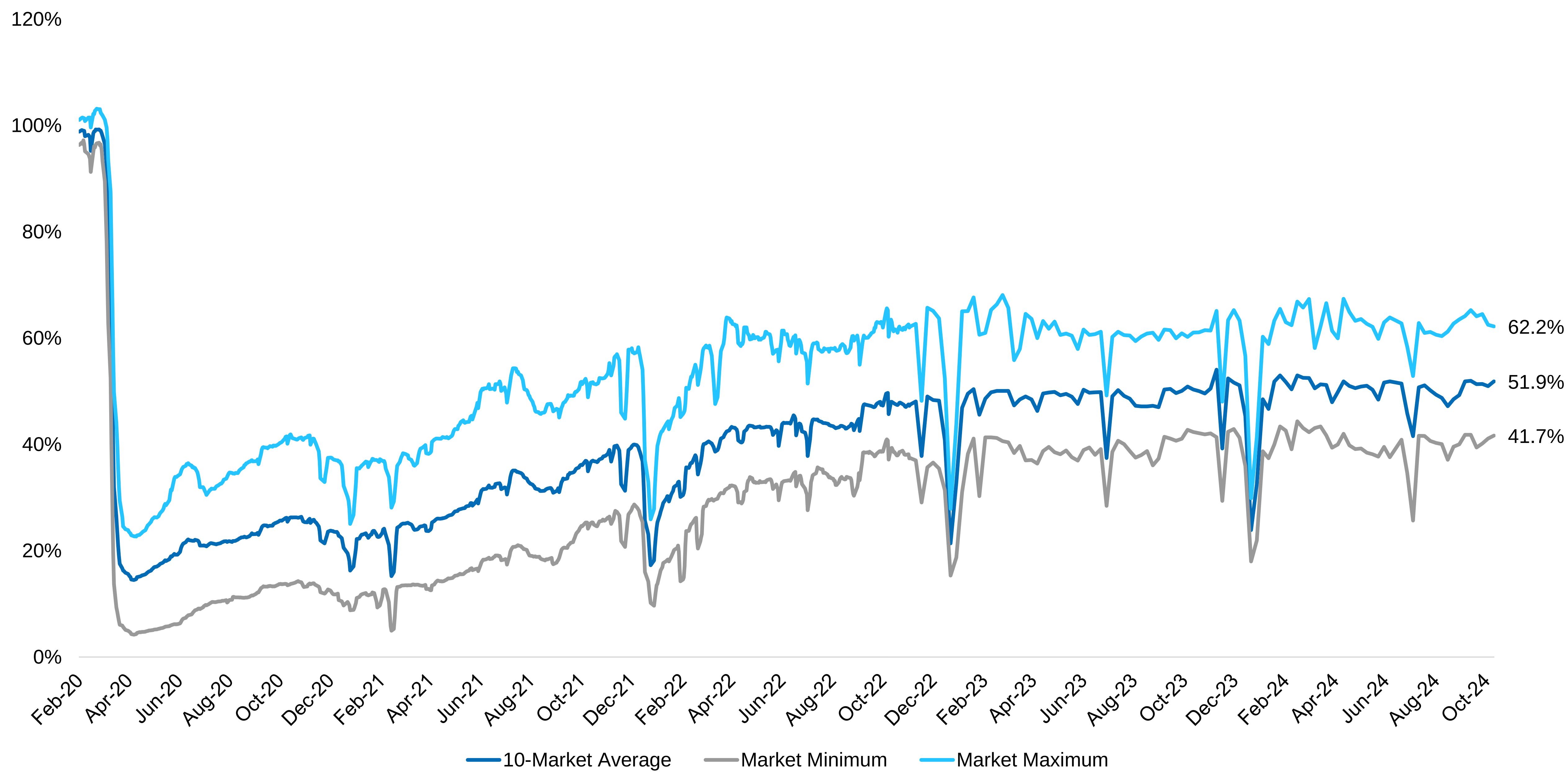
Hotdesking prevalent → significant reductions in space needs

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.
Newmark Research as of 10/17/2024

Return to Office Has Stabilized

Kastle Systems data indicates that office occupancy remained relatively stable through the third quarter of 2024. The 10-market average reached a post-pandemic high of 54.1% in mid-November 2023 before declining slightly, settling at 51.9% as of October 2024. Significant variation in daily office attendance throughout the week suggests peak attendance may have reached as high as 70%, approaching 80% in the markets with the strongest return-to-office trends.

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

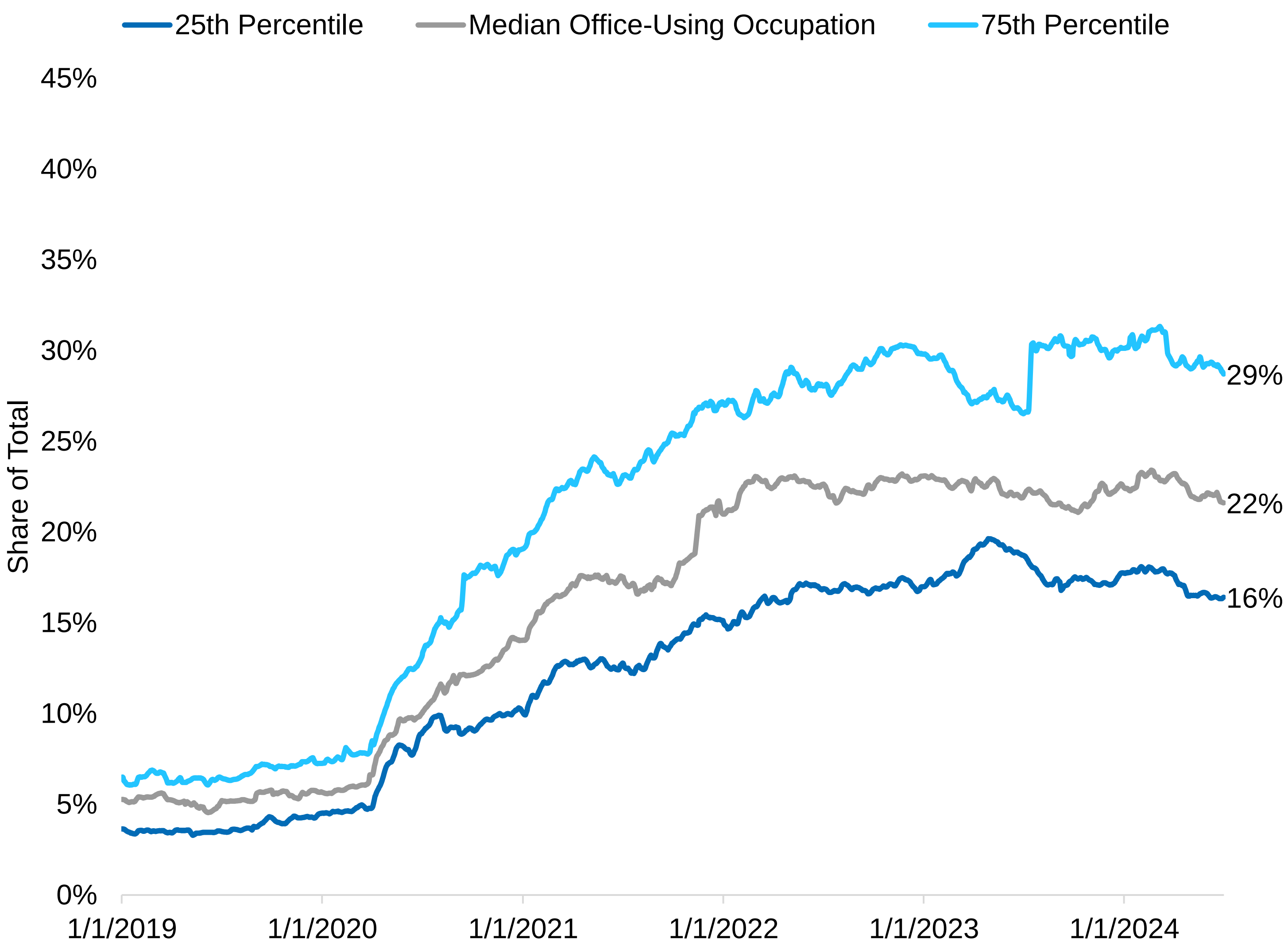


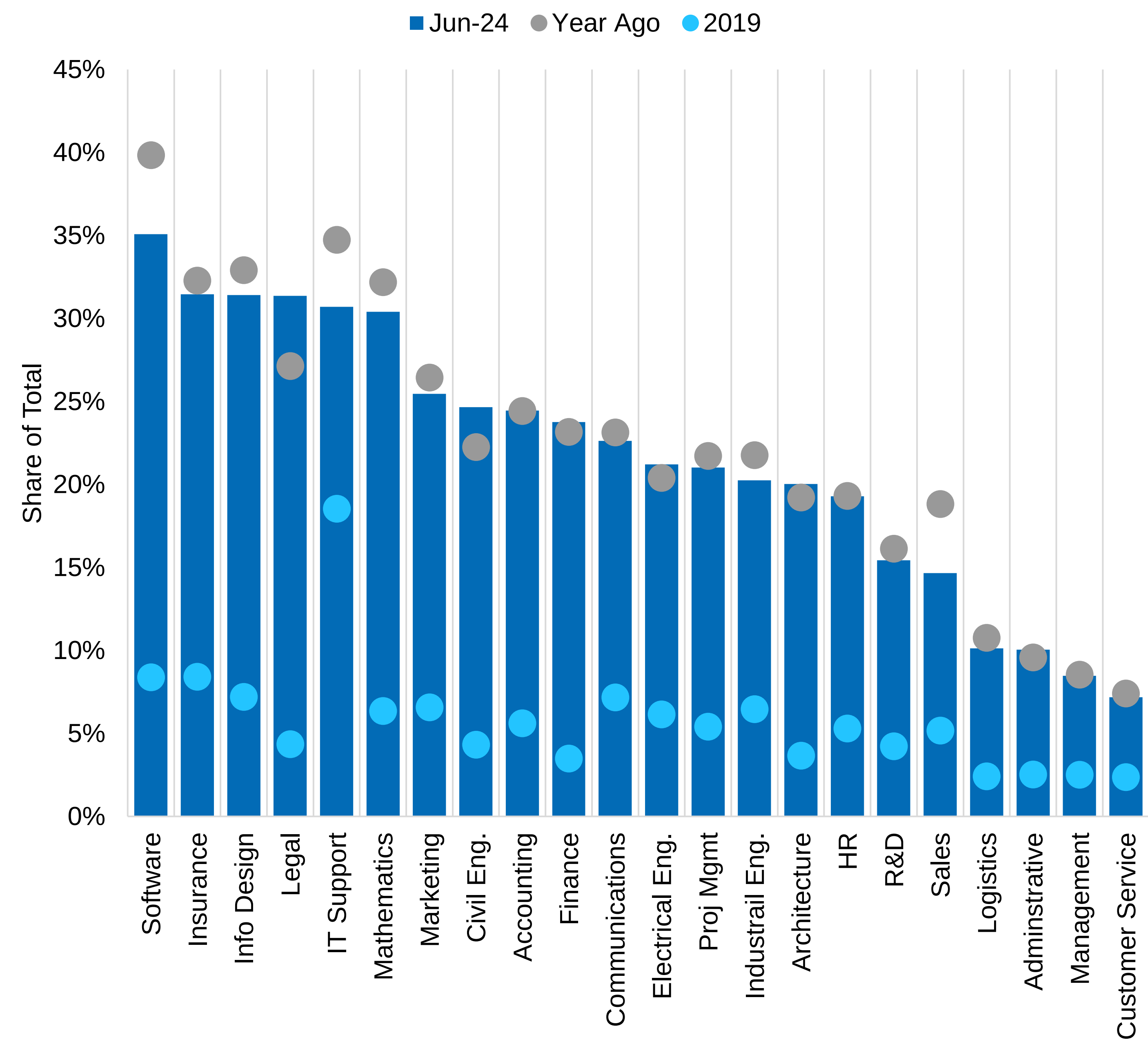
Source: Kastle Systems, Newmark Research as of 10/17/2024

Fully Remote Job Postings Have Stabilized in Office-Using Occupations

The remote share of job postings varies significantly across office-using occupations, from 35% for software development roles to just 7% for customer service positions. For the median occupation, 22% of job postings are fully remote, a figure that has remained largely stable since early 2022. However, over the past year, there have been some notable shifts, with the remote share declining for software development, IT support, and sales roles year-over-year.

Remote Share of Job Postings in Office-Using Occupations



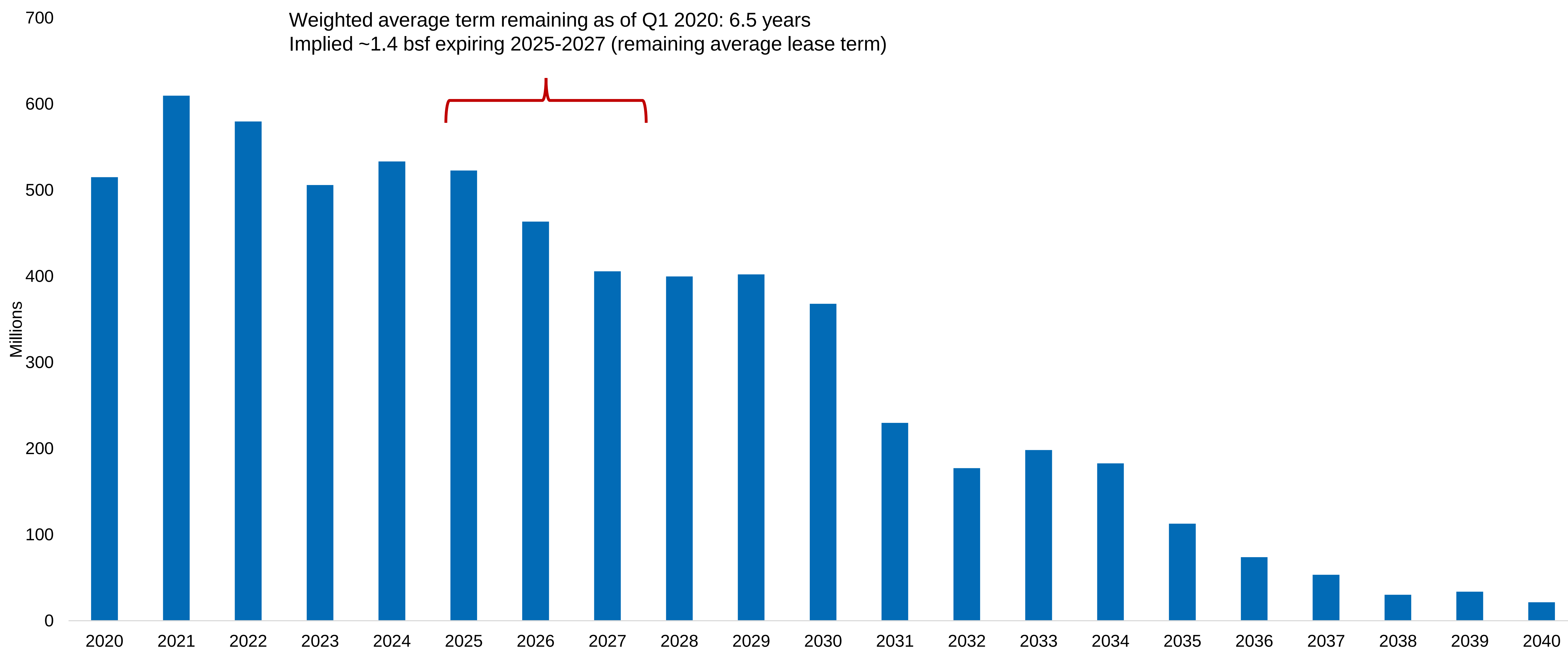


Source: Indeed Hiring Lab, Newmark Research as of 8/2/2024

Tenants Are Less Than Halfway Through Adjusting Space for Hybrid Work

Most pre-pandemic leases have yet to expire*. As of March 2020, national occupied inventory stood at 6.4 billion SF, with an average remaining lease term of 6.5 years. By scaling transaction data to the first quarter of 2020's occupied inventory, it is estimated that 1.4 billion SF is set to expire within the remaining average term length (2025 to 2027), marking the upper limit for tenants to adjust their office footprints.

Implied Square Feet Expiring by Year for 20k+ SF Occupied Inventory as of Q3 2020

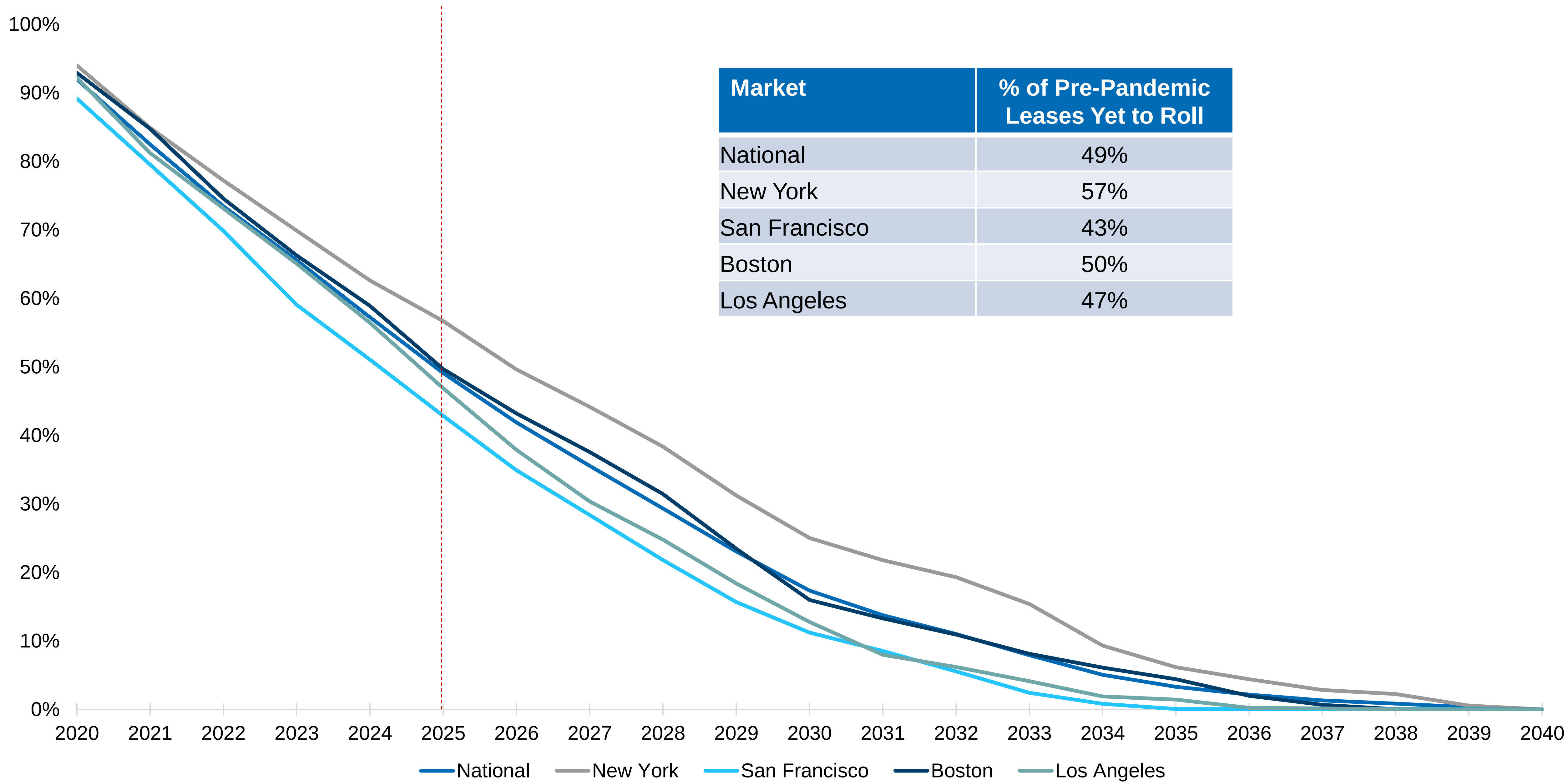


Source: Newmark Research as of 10/18/2024, CoStar
*Based on Newmark Research national transaction data (10,000+ SF leases in place as of March 2020, with leases expiring through 2040, totaling around 1.1 billion SF)

Less Than a Quarter of Pre-Pandemic Leases Have Renewed in Gateway Markets

This analysis centers on leases of 10,000+ SF. In contrast, smaller leases typically have shorter terms.

Share of Pre-Pandemic Leases Yet to Roll*



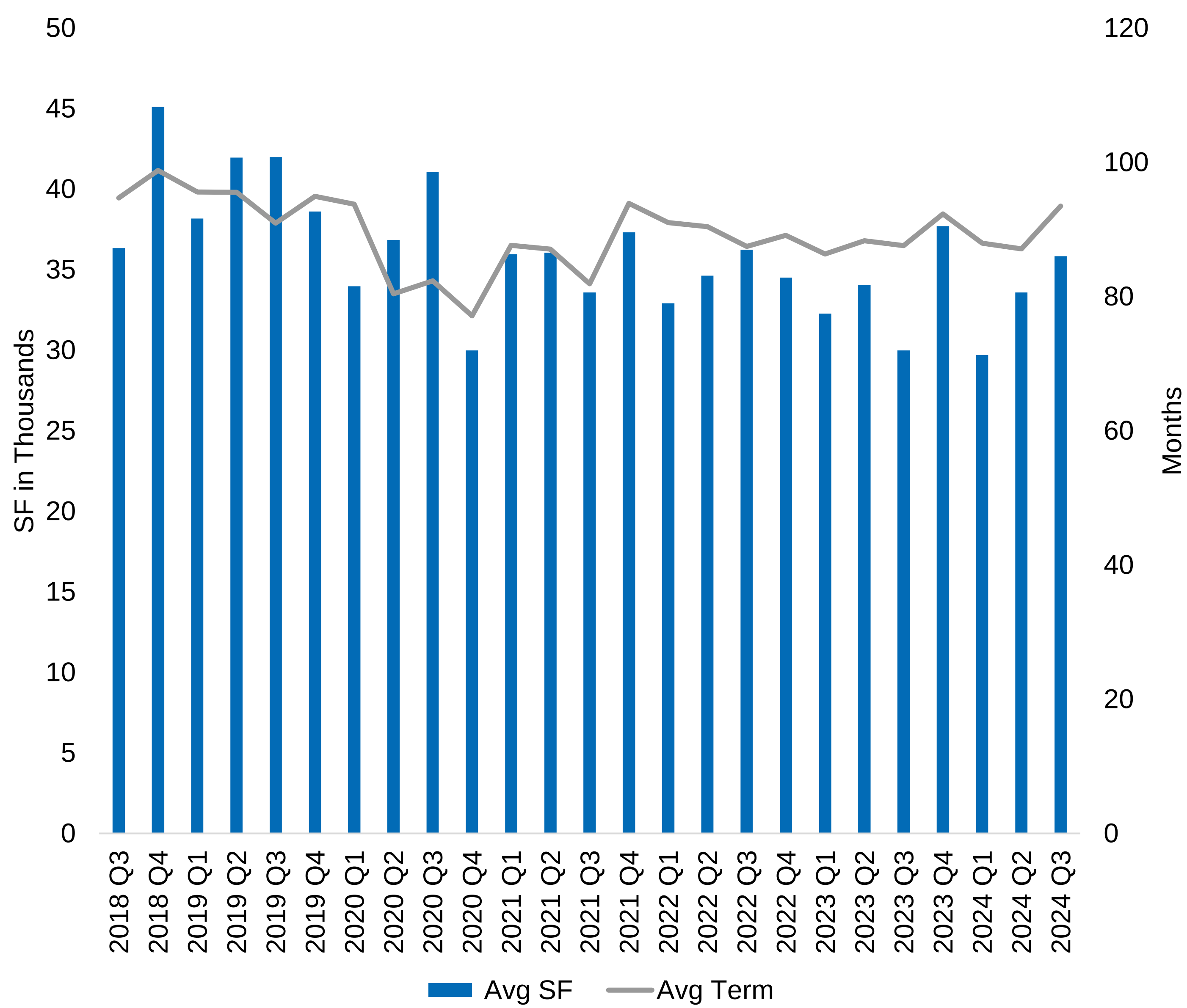
Market	% of Pre-Pandemic Leases Yet to Roll
National	49%
New York	57%
San Francisco	43%
Boston	50%
Los Angeles	47%

Source: Newmark Research as of 10/18/2024, 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)

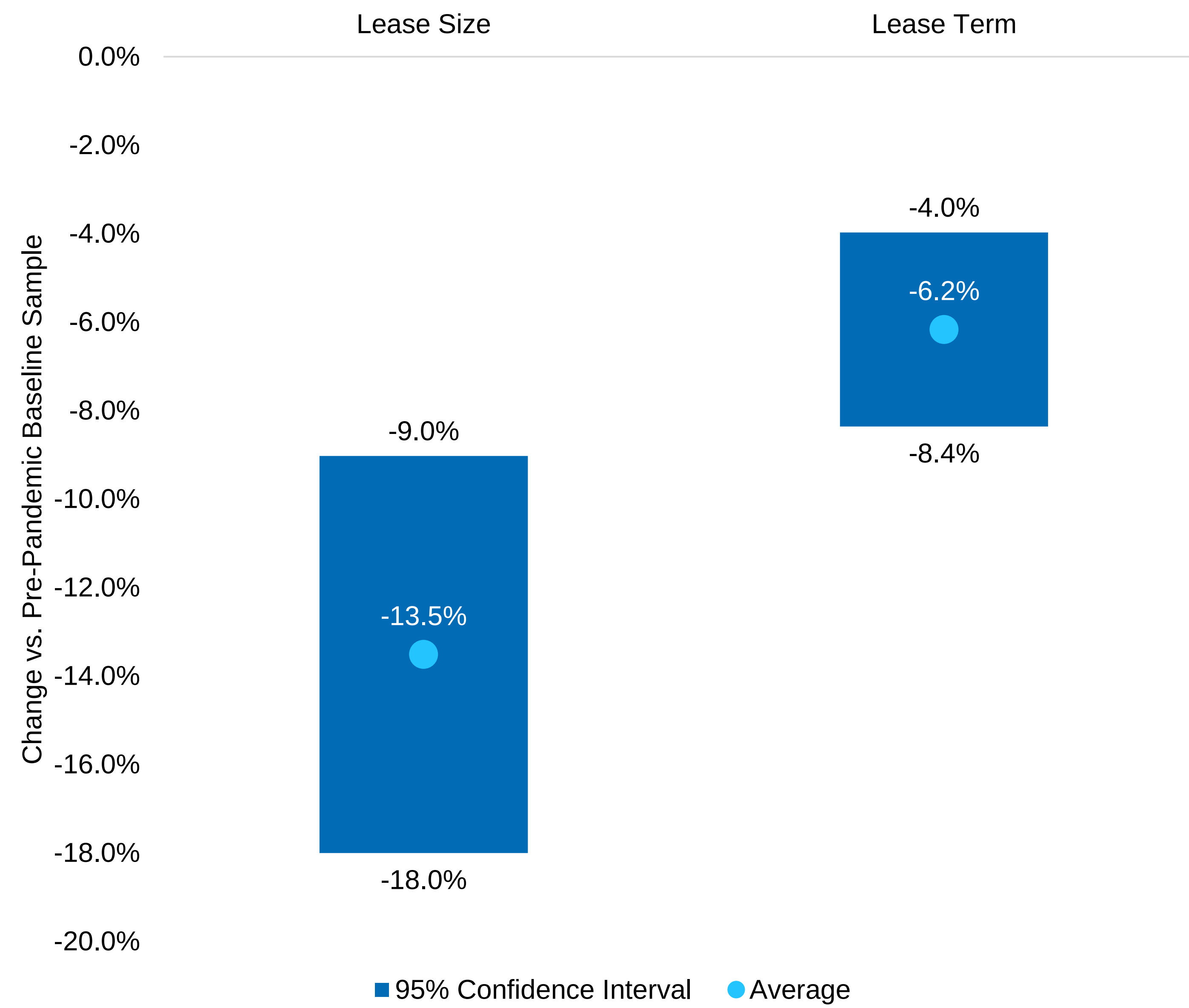
Leases Have Become Smaller (And A Little Shorter)

Pre-pandemic lease renewals would be minor if occupiers were expected to expand their space needs. However, lease size and term analysis suggests otherwise. Since the pre-pandemic period, average lease sizes have dropped 13.5%, and terms have shortened by 6.2%. This shift may not only reflect smaller renewal needs but could indicate greater activity from smaller tenants or market-specific changes. It's unlikely these shifts can be fully explained away.

Office Lease Term and Size over Time



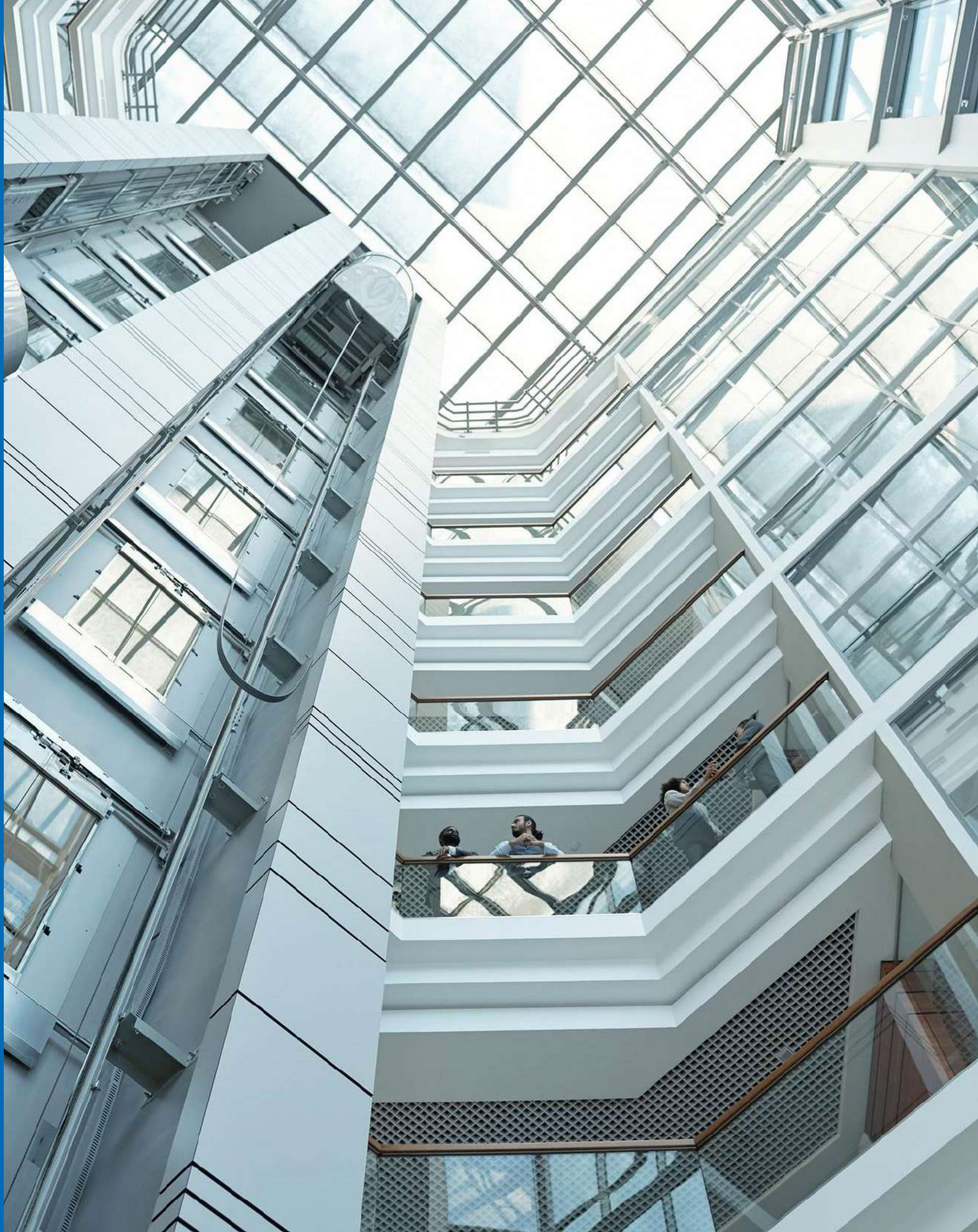
Estimated Change in Lease Attributes: Pre-Pandemic vs. Today*



Source: Newmark Research as of 10/18/2024

*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.

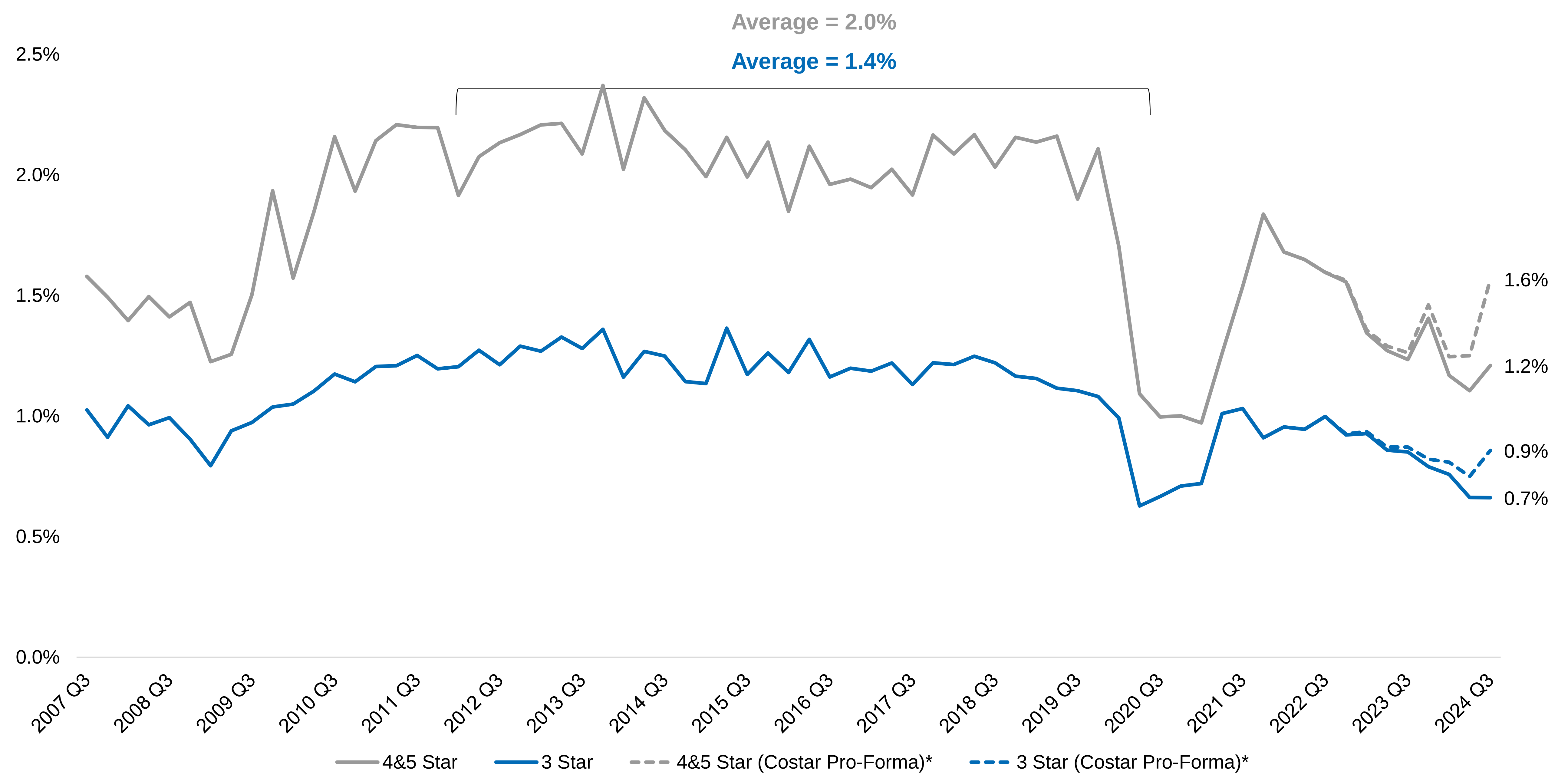
Leasing Market



Office Leasing Accelerated in 3Q24

Higher-quality buildings continued to outperform the overall market, capturing a larger share of leasing activity in the third quarter of 2024. Although four- and five-star buildings represent just 33.6% of inventory, they accounted for 50.3% of leasing activity this quarter, up from the third quarter of 2023.

Leasing Activity as a Share of Inventory

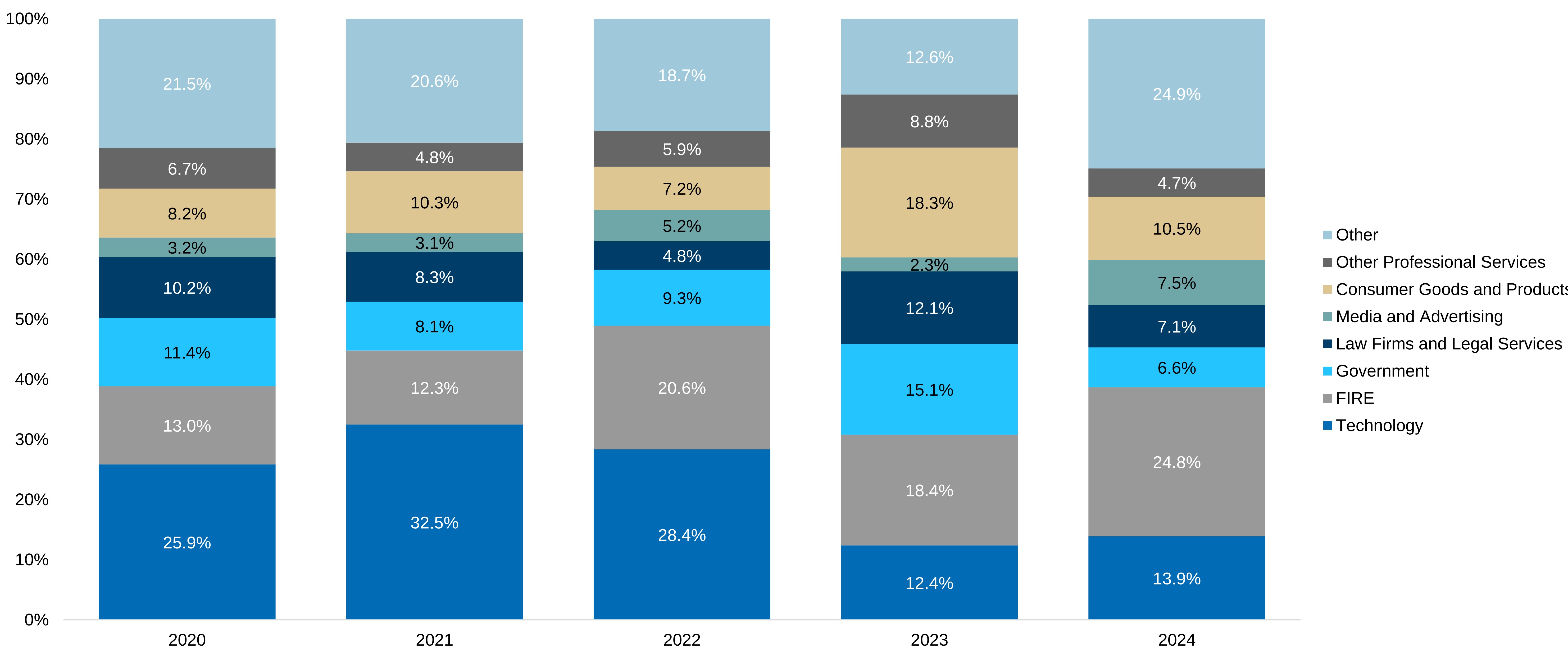


Source: CoStar, Newmark Research as of 10/14/2024
*CoStar pro-forma based on proprietary internal formula that estimates remaining leases not captured based on analysis of historical leasing trends.

FIRE Leasing Expands; Tech Leasing Remains Tepid

Large-block leasing activity rose in the third quarter of 2024 but remains below pre-pandemic averages. Technology sector leasing held steady in 2024, capturing a similar share of total activity as in 2023. The finance, insurance, and real estate (FIRE) sectors, however, recorded a notable increase in leasing share during the first three quarters of 2024.

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

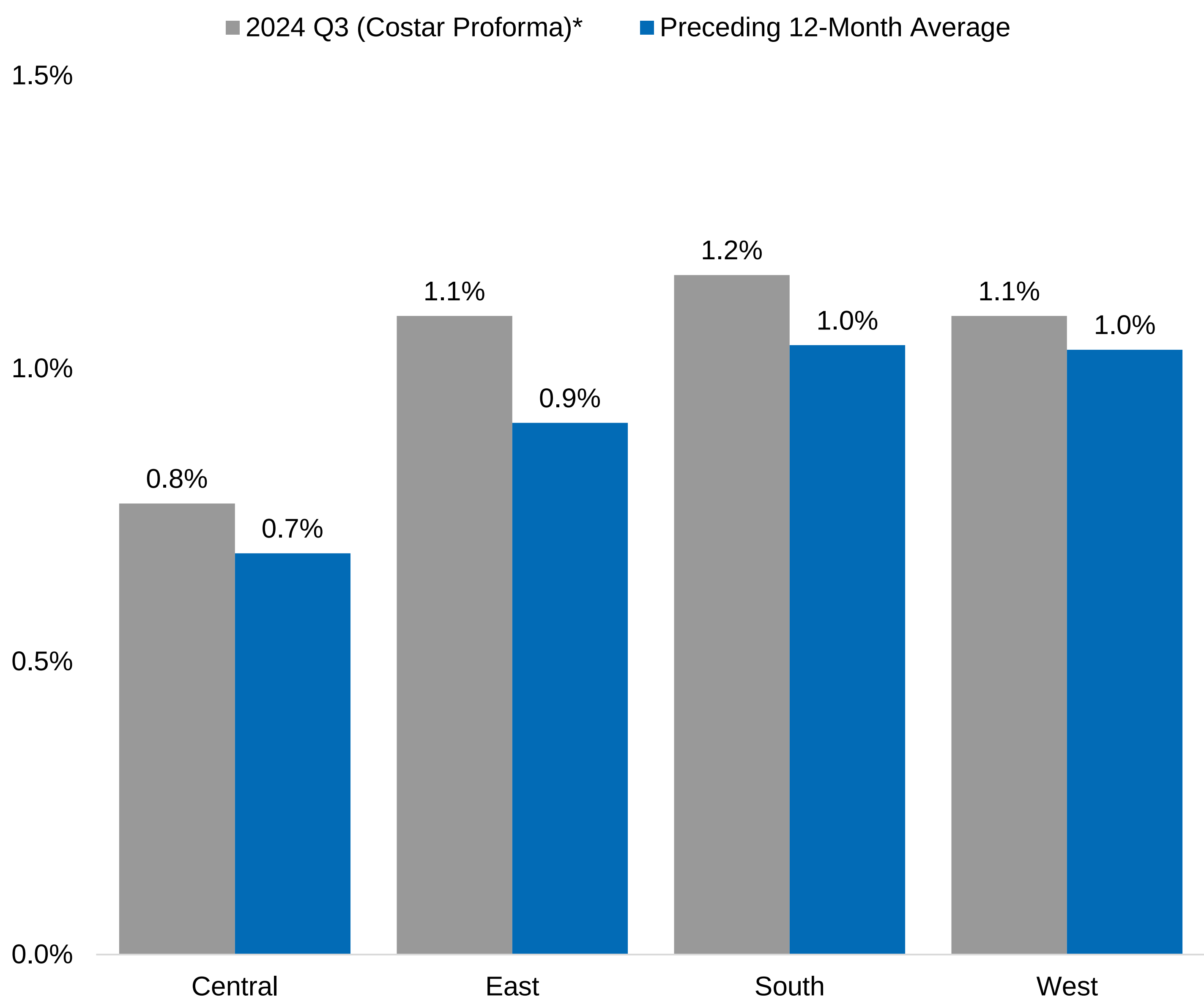


Sources: Newmark Research as of 10/14/2024

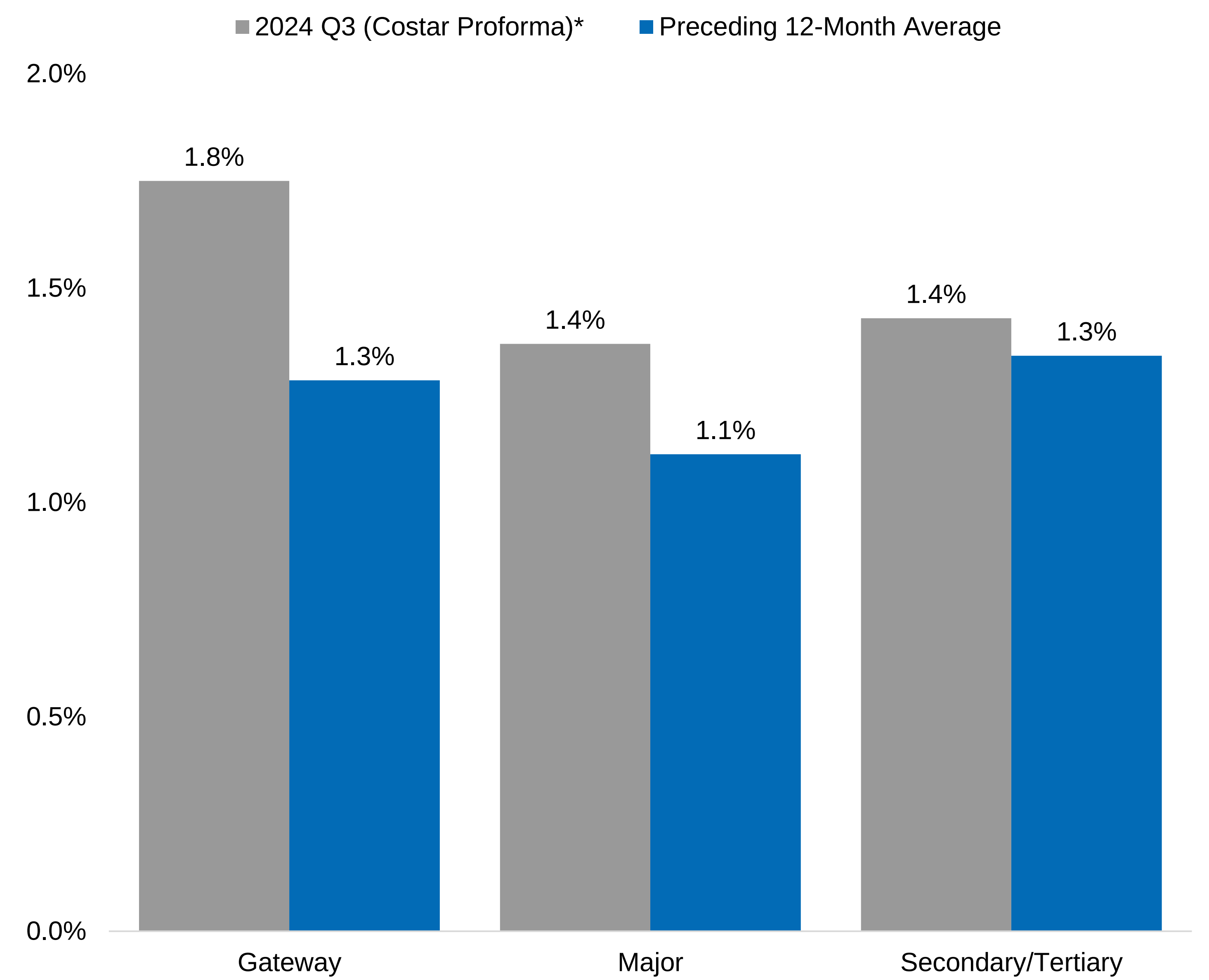
Leasing Activity Improves Across Regions & Market Tiers

Leasing activity increased in the third quarter of 2024 compared to the preceding 12-month average, with gains across all regions and market sizes. Eastern and gateway markets saw particularly strong improvements.

Regional Leasing Activity as a Percent of Inventory



Market Size Leasing Activity as a Percent of Inventory

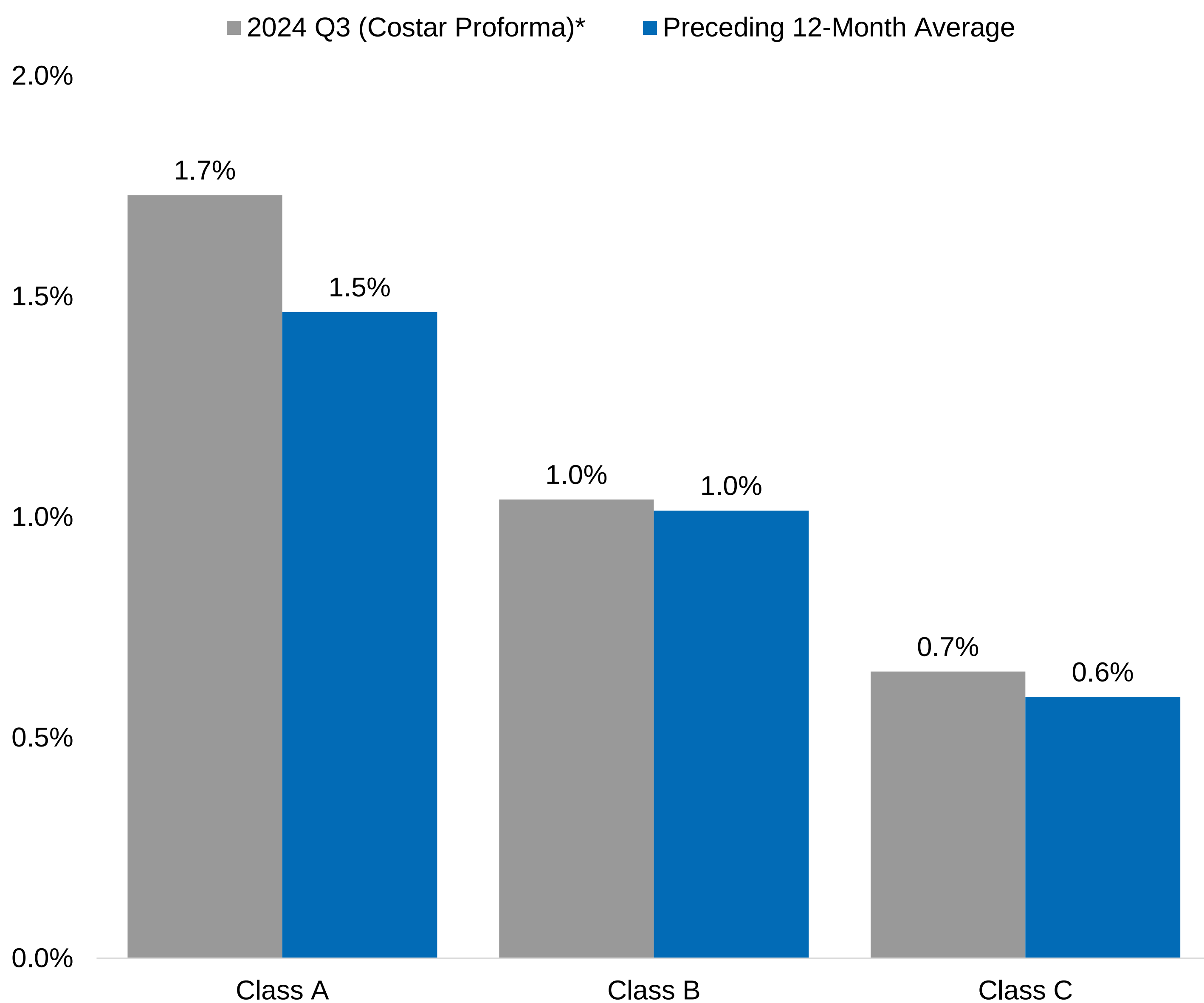


Source: CoStar, Newmark Research as of 10/17/2024
*CoStar pro-forma based on proprietary internal formula that estimates remaining leases not captured based on analysis of historical leasing trends.

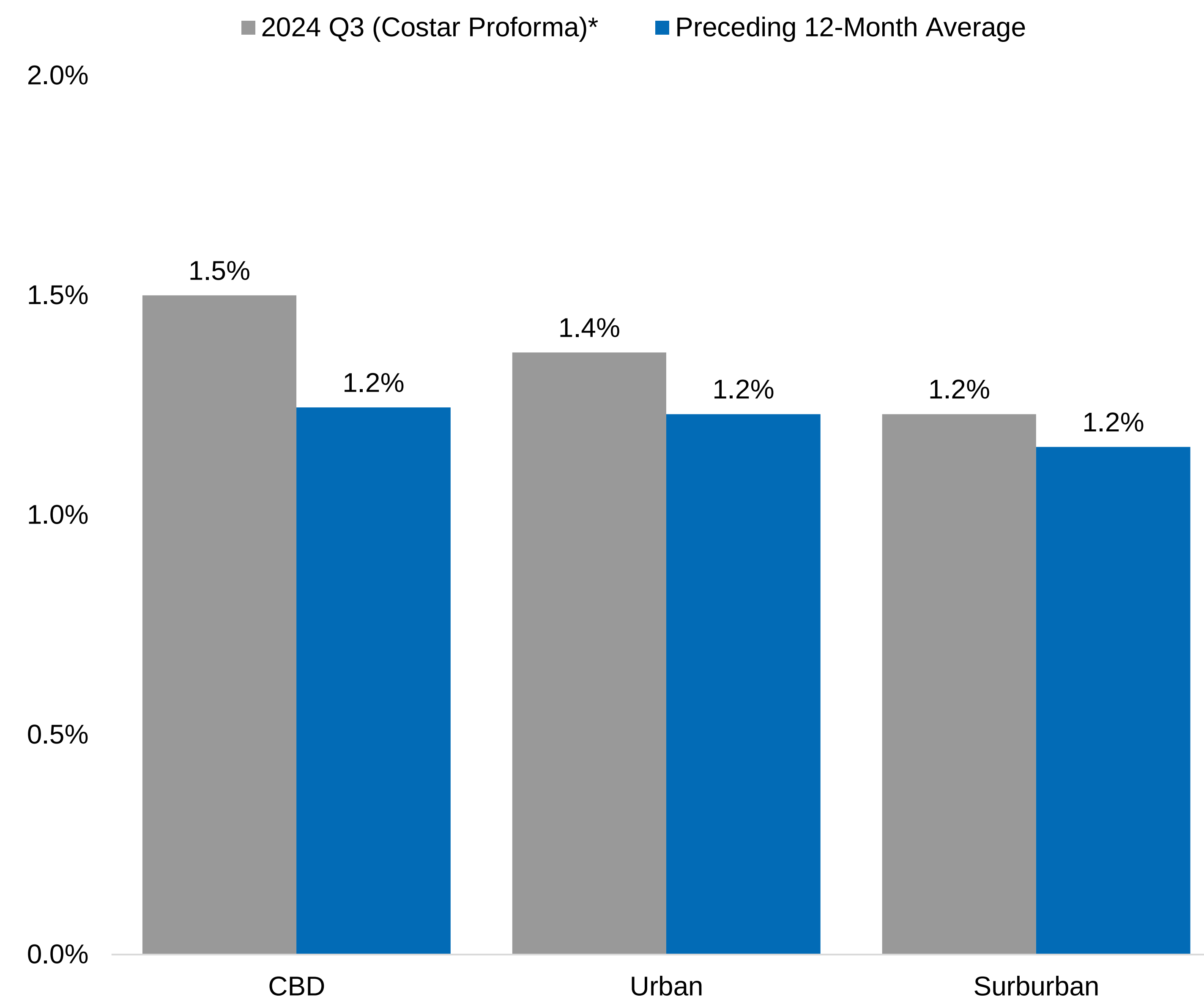
…With Improvements Most Pronounced In Higher Quality, Downtown Buildings

Class A buildings saw the strongest leasing growth in the third quarter of 2024 compared to the prior 12 months, though all building classes and urbanization levels recorded improvements.

Leasing by Class as a Percent of Inventory



Leasing by Urbanization as a Percent of Inventory

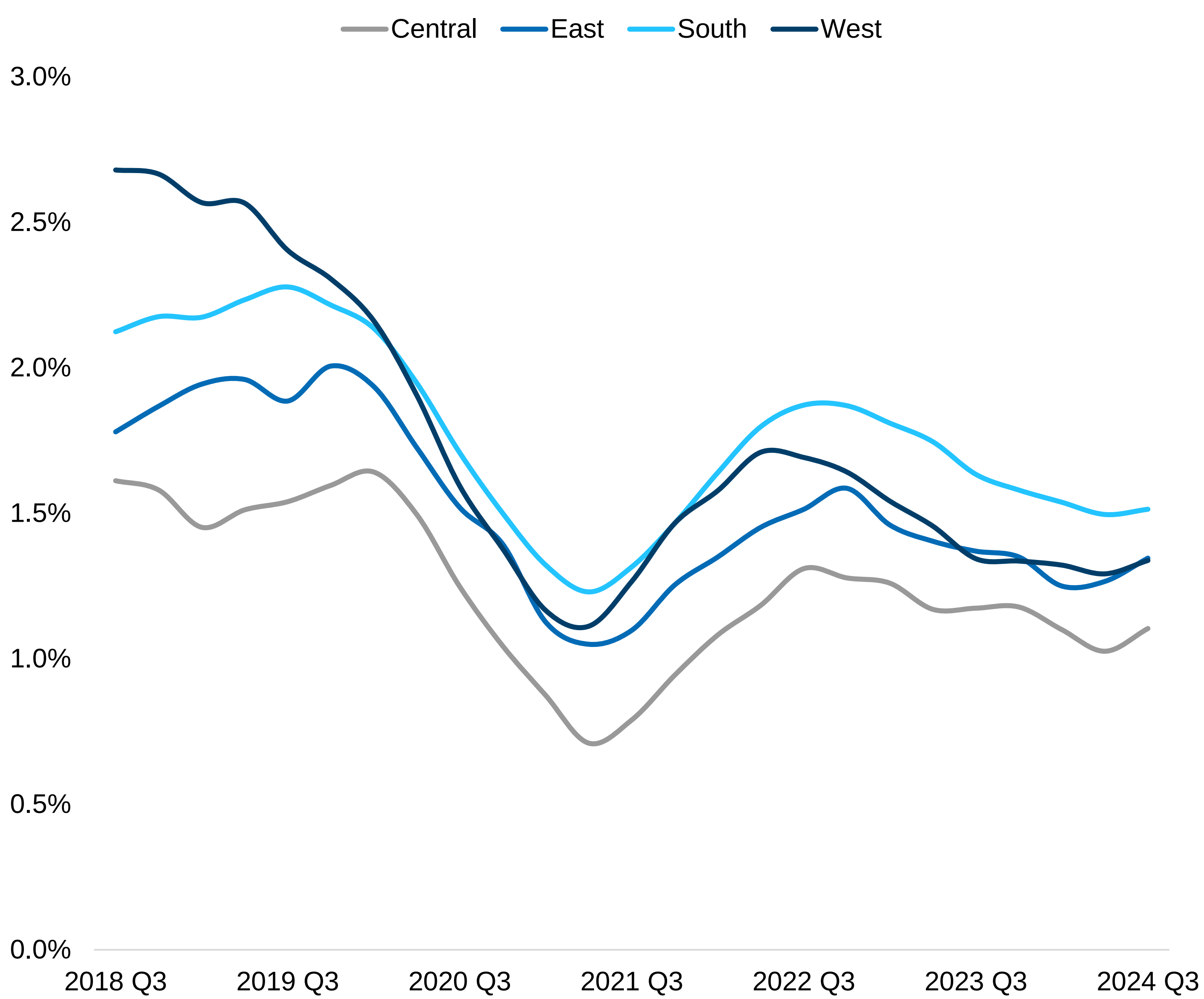


Source: CoStar, Newmark Research as of 10/22/2024
*CoStar pro-forma based on proprietary internal formula that estimates remaining leases not captured based on analysis of historical leasing trends.

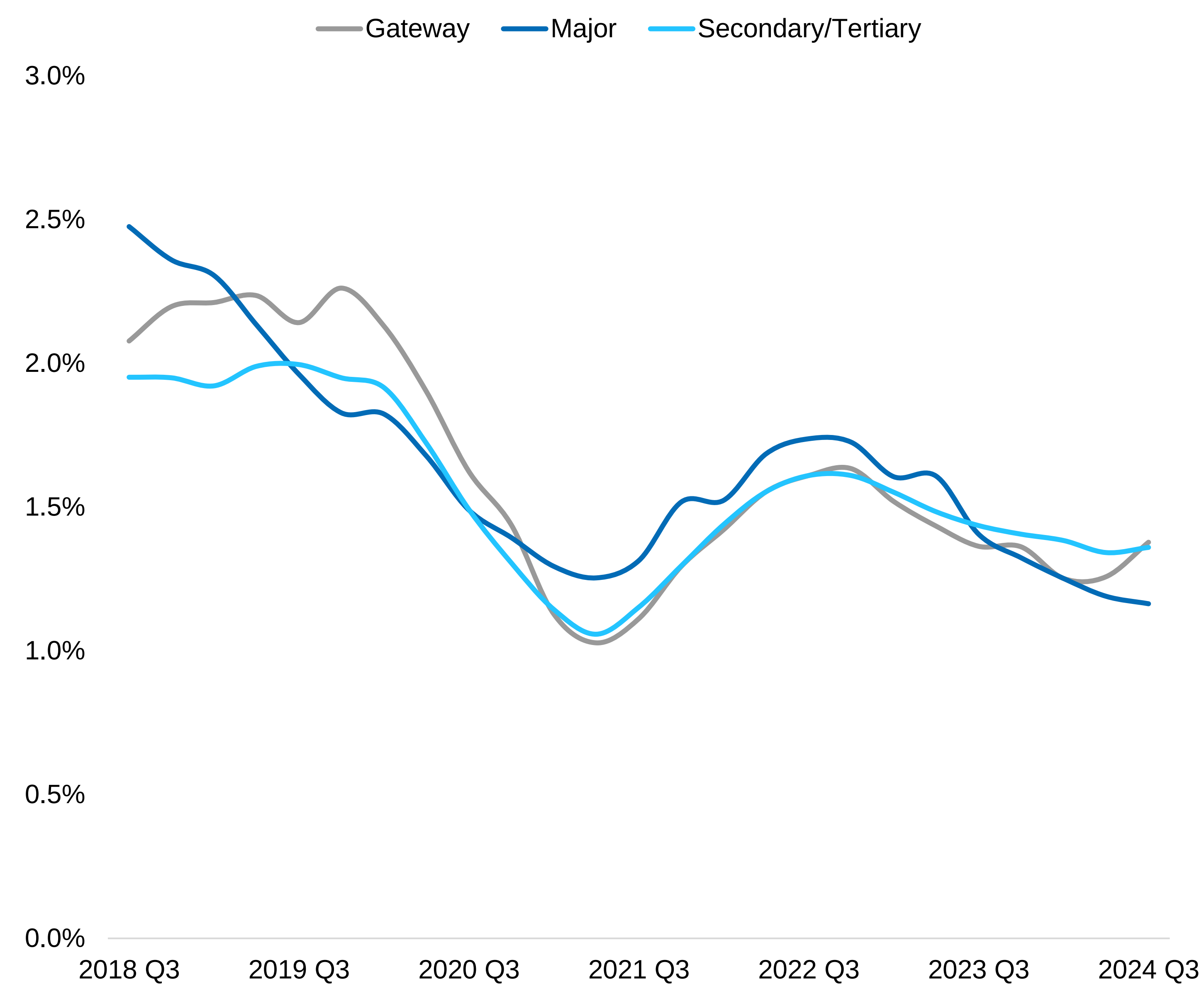
Declining Leasing Trend Reverses In Q3

Although leasing activity has slowed compared to the gains seen in 2022, the outlook has improved following third-quarter 2024 advancements. Southern and secondary/tertiary markets have outperformed, while the Central Region and major markets have lagged. Western, major, and gateway markets have experienced the largest relative declines in activity compared to pre-pandemic levels.

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



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

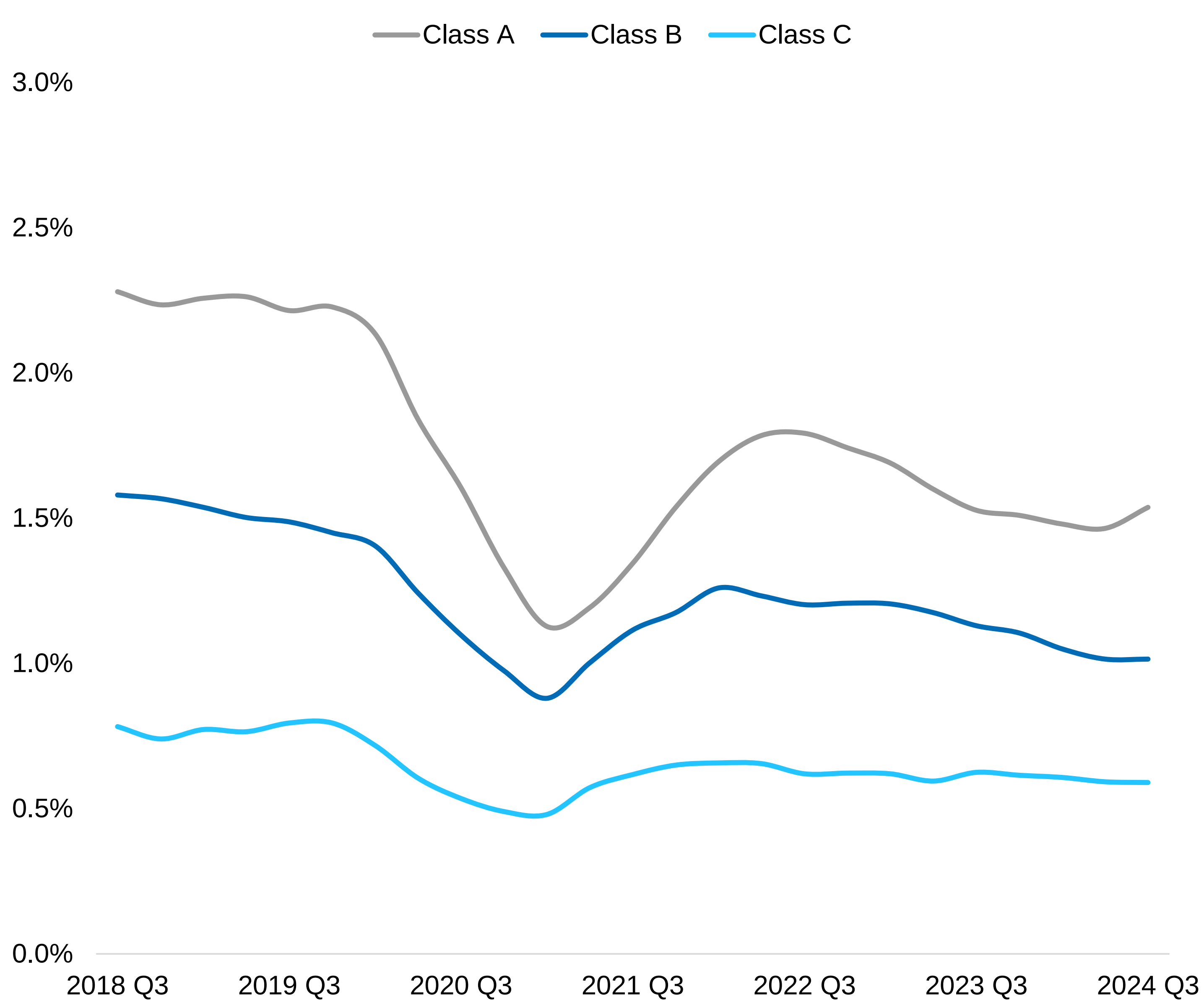


Source: CoStar, Newmark Research as of 10/22/2024
*The fourth quarter of 2022 through the third quarter of 2024 values used in four-quarter trailing calculation use CoStar pro-forma based on proprietary internal formula that estimates remaining leases not captured based on analysis of historical leasing trends.

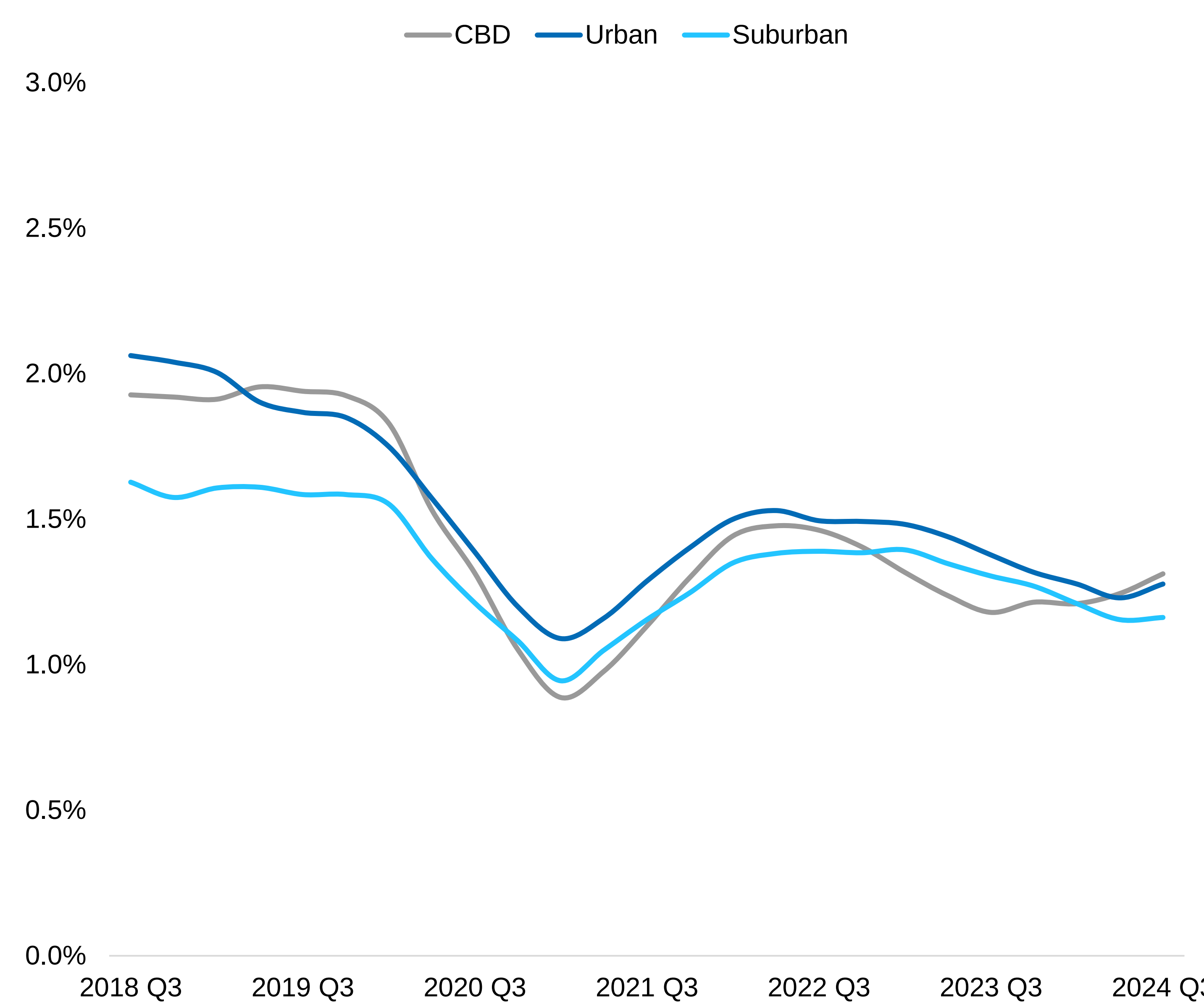
Class A Leasing Outperforms; CBD Markets Rally

Class A buildings have consistently outperformed other grades in leasing activity, with Class A leasing as a percent of inventory trending upward in the third quarter of 2024.

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



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

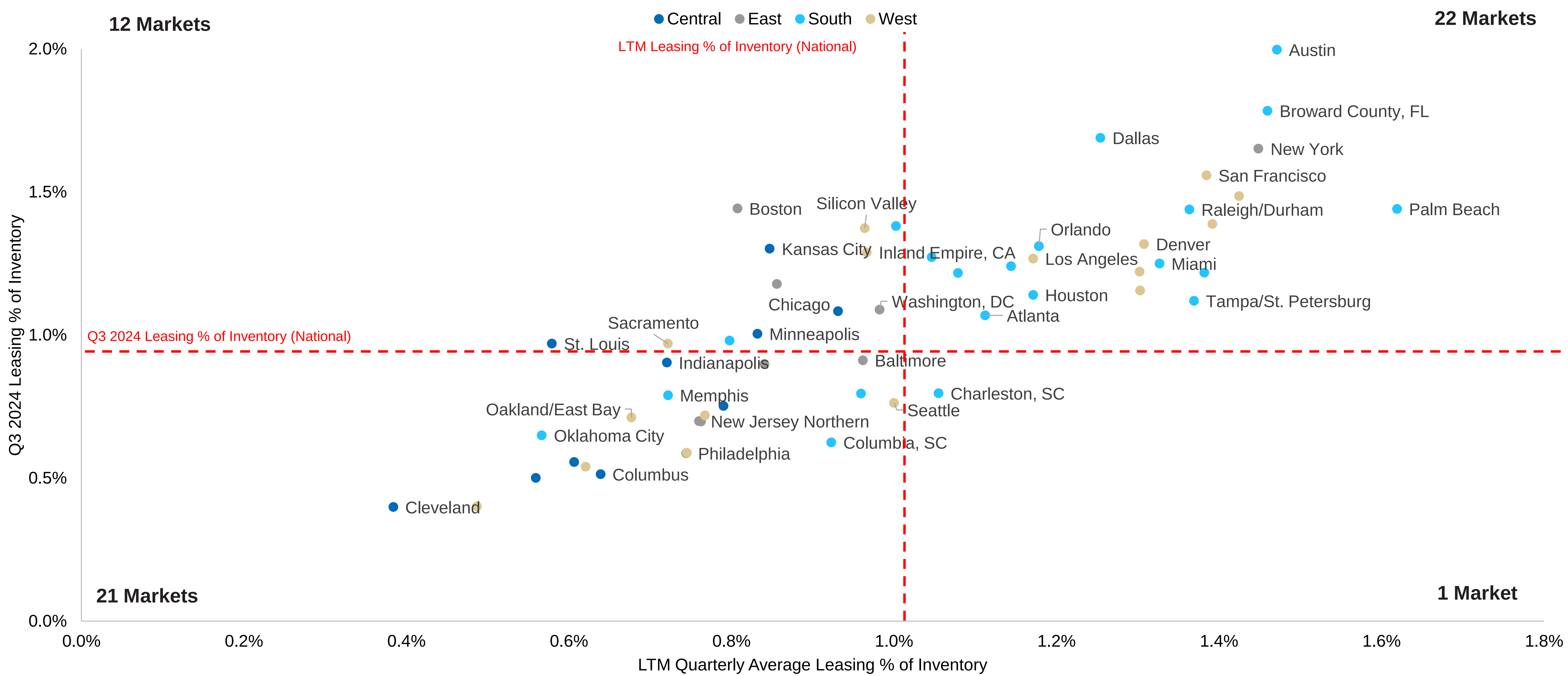


Source: CoStar, Newmark Research as of 10/22/2024
*The fourth quarter of 2022 through the third quarter of 2024 values used in four-quarter trailing calculation use CoStar pro-forma based on proprietary internal formula that estimates remaining leases not captured based on analysis of historical leasing trends.

Southern & Western Markets Outperform National Average in 3Q24

LTM leasing activity in Newmark-tracked markets ranged from 0.4% of inventory in Cleveland to 1.6% in Palm Beach. Overall, 22 markets exceeded both the third-quarter 2024 national average and the LTM quarterly national average. While variations are expected in smaller inventory markets, major gateway markets like Manhattan, Los Angeles, and San Francisco generally ranked in the upper half of this distribution.

LTM Quarterly Average vs 3Q24 Leasing*

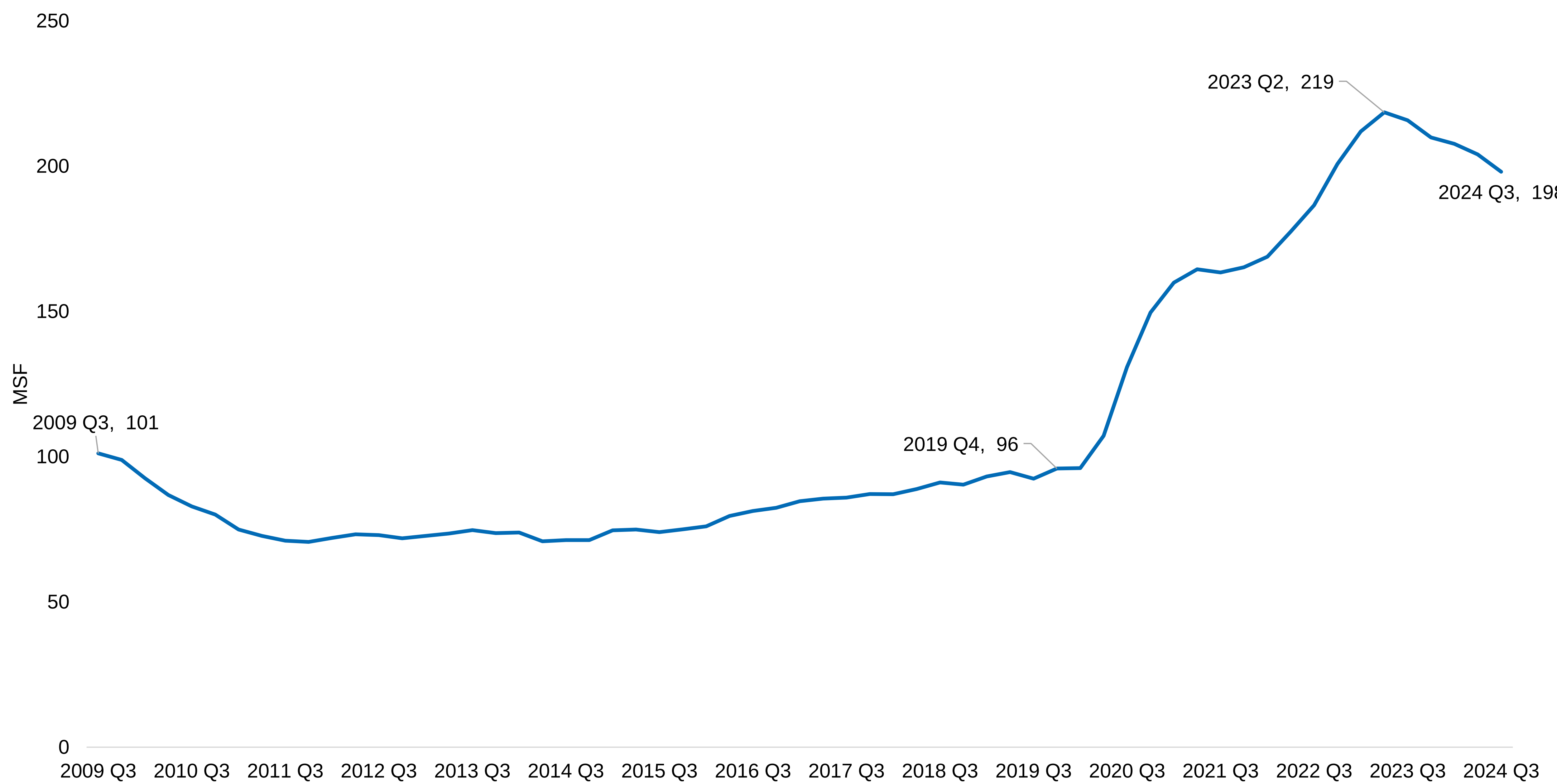


Source: CoStar, Newmark Research as of 10/23/2024
*Calculations use CoStar pro-forma based on proprietary internal formula that estimates remaining leases not captured based on analysis of historical leasing trends.
Note: Westchester County included in New York; San Francisco Peninsula included in San Francisco; Southern New Jersey and Delaware included in Philadelphia.

Sublease Availability Declined In 3Q24

Sublease availability continued to decline in the third quarter of 2024, down 8.2% from the third quarter of 2023. Previously, as vacancy rose, this decline indicated that some sublease spaces were converting to direct listings due to term expirations. However, flat vacancy growth in the third quarter suggests that some of these spaces were absorbed.

National Sublease Availability

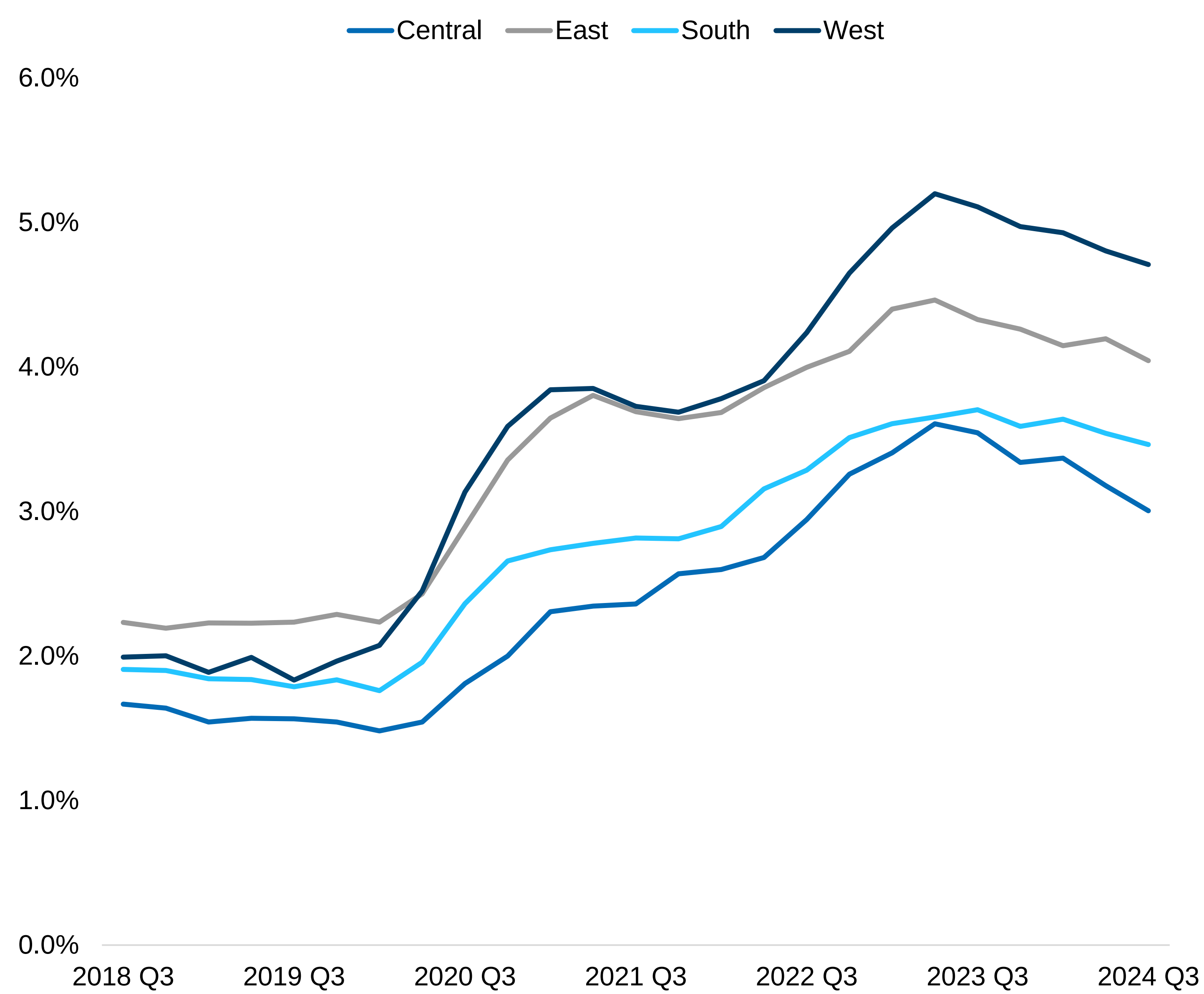


Source: CoStar, Newmark Research as of 10/24/2024

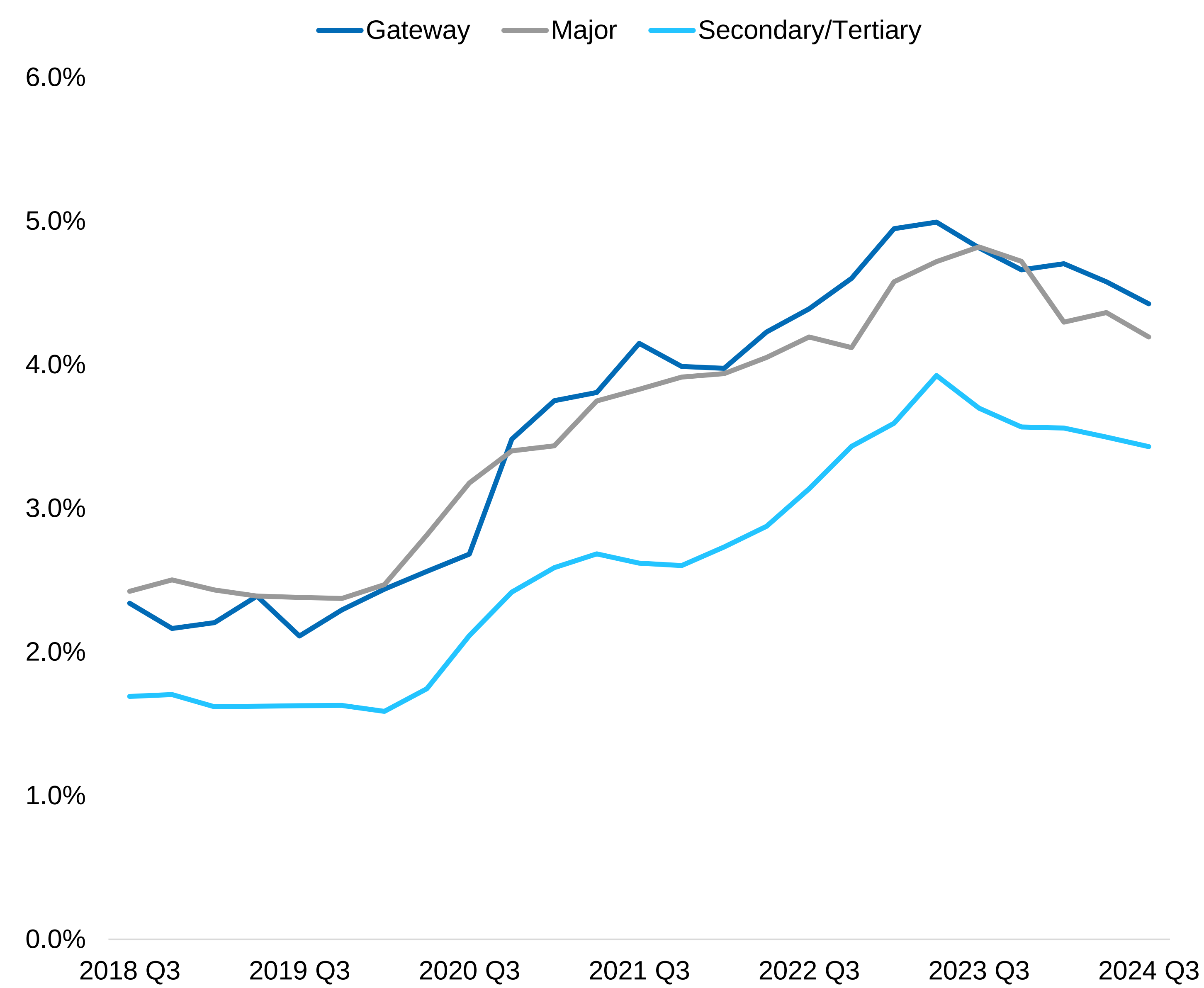
Sublease Availability Declines Across Regions & Market Tiers

Sublease availability remains historically high, particularly in Western and Eastern markets as well as gateway and major markets. While reducing sublease availability is necessary for new market expansion, the immediate signal is mixed, as much of the sublease inventory is converting to direct availability and vacancy.

Regional Sublease Availability Rate



Market Size Sublease Availability Rate

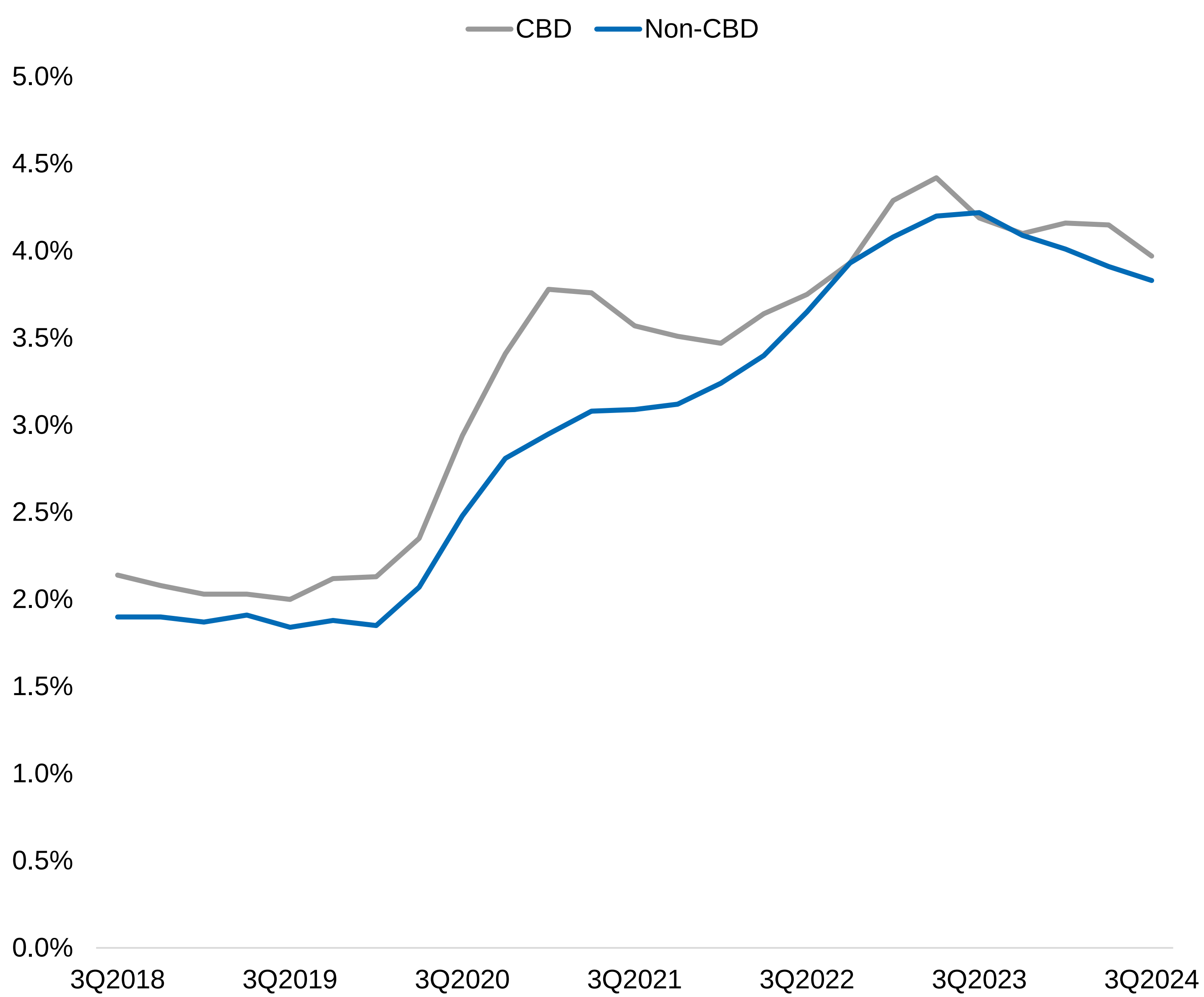


Source: CoStar, Newmark Research as of 10/25/2024

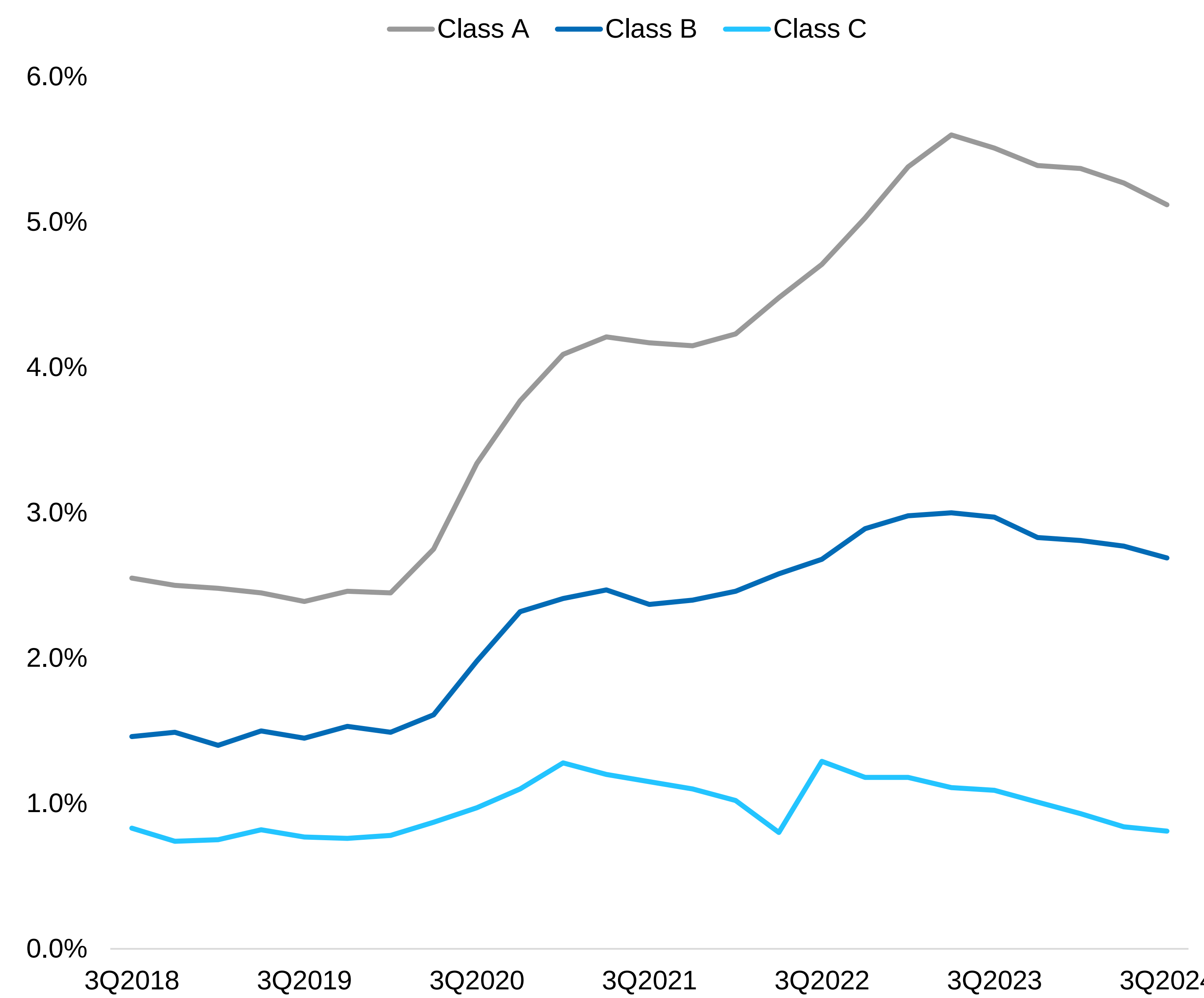
Non-CBD Markets & Lower Tier Product Lead Sublease Decline

Sublease availability is similar between CBD and non-CBD markets, though the gap widens considerably across different building grades.

Sublease Availability Rate by Urbanization



Sublease Availability Rate by Class

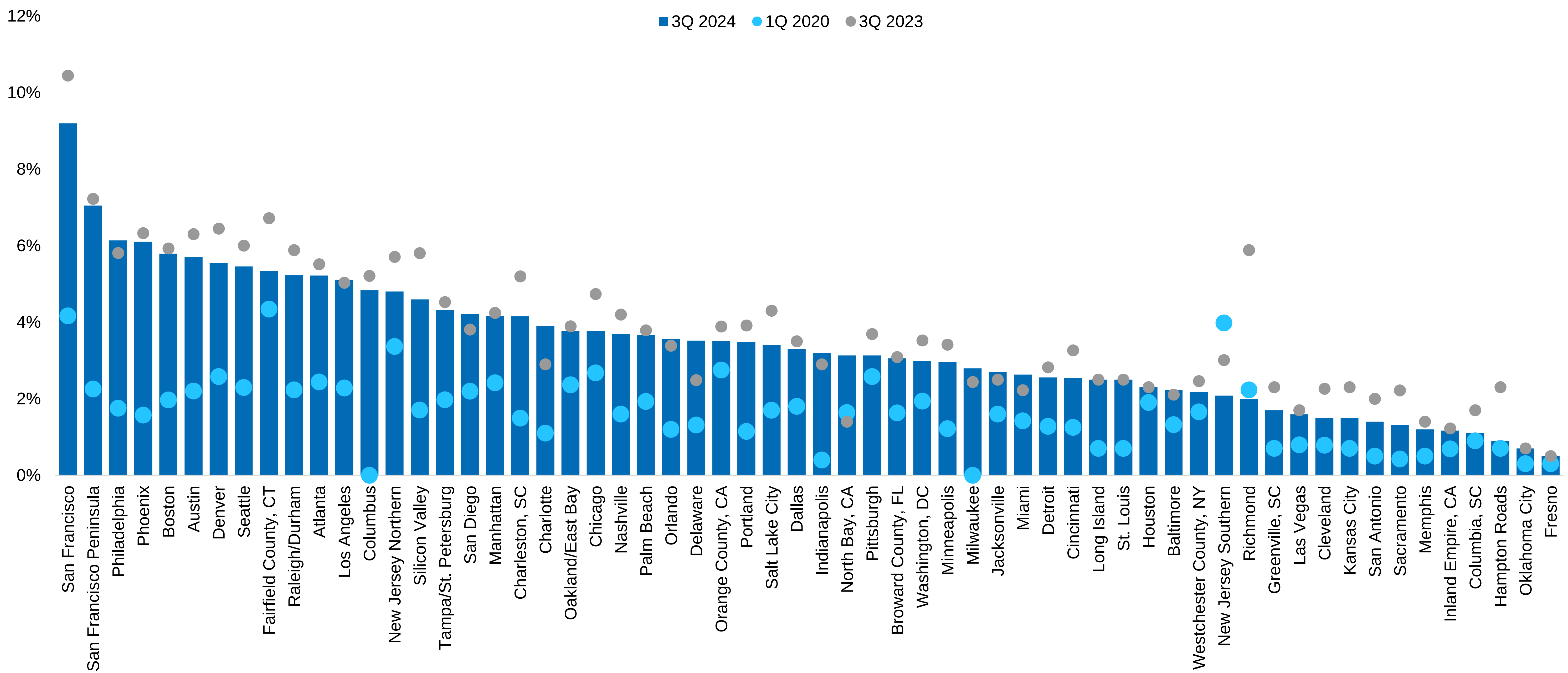


Source: CoStar, Newmark Research as of 10/25/2024

Sublease Availability By Market

Sublease availability remains above pre-pandemic levels in most U.S. markets. Larger markets with particularly high sublease availability include San Francisco, the San Francisco Peninsula, Philadelphia, and Phoenix. Ongoing instability in the tech industry, marked by layoffs over the past year, suggests that these markets could see further increases in sublease availability, potentially softening market fundamentals.

Current Sublease Availability Rate vs. 1Q 2020 & 3Q 2023

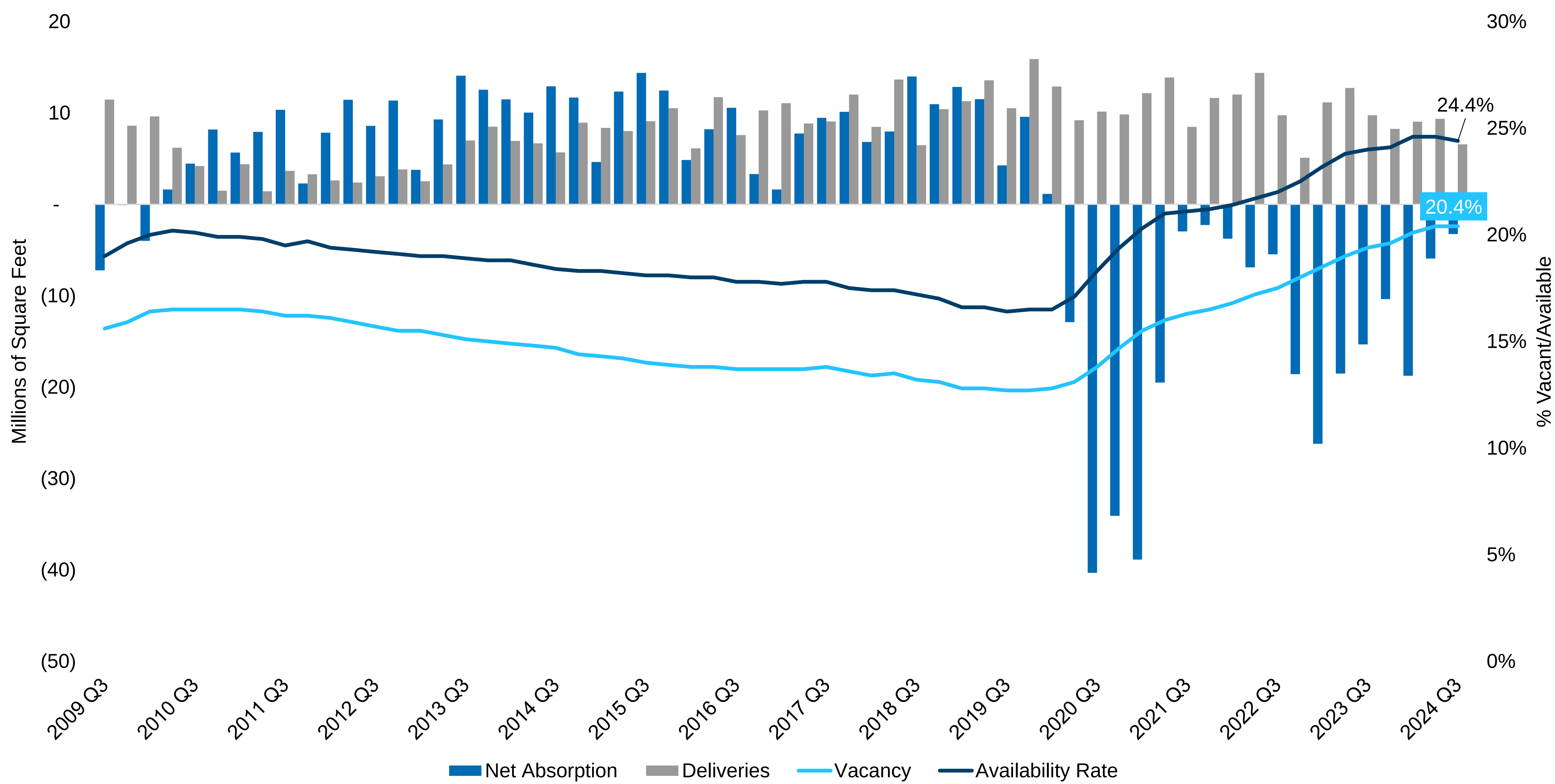


Source: CoStar, Newmark Research as of 10/24/2024

Vacancy Stabilizes Coupled With Improving Giveback Trend

The market has recorded its 18th consecutive quarter of negative net absorption, totaling negative 284.0 million square feet, though significant improvements have occurred since the third quarter of 2020. Notably, 30 out of 60 tracked markets showed quarter-over-quarter improvements in net absorption, with six markets recording gains of over 500,000 square feet.

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

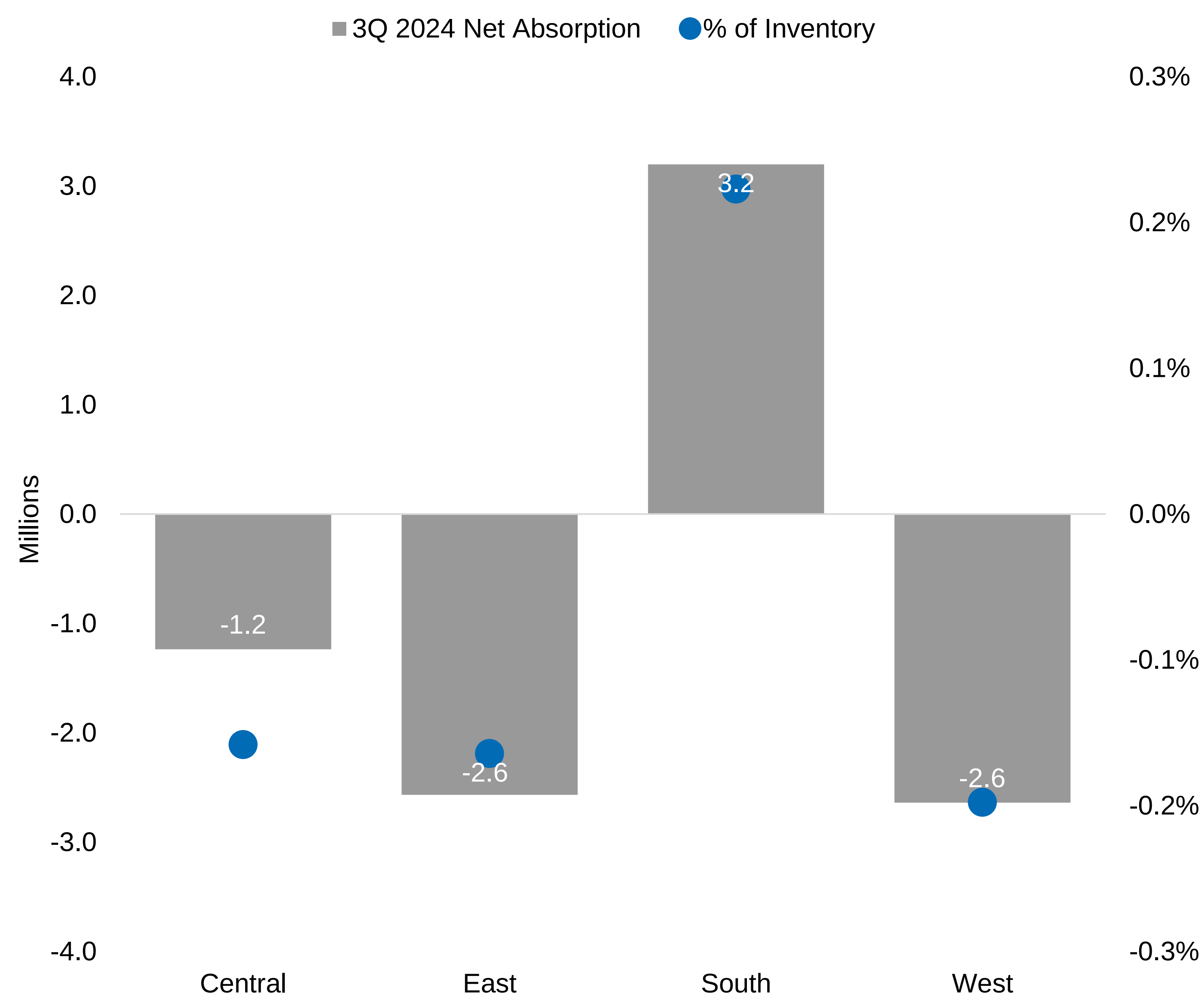


Source: CoStar, Newmark Research as of 10/24/2024

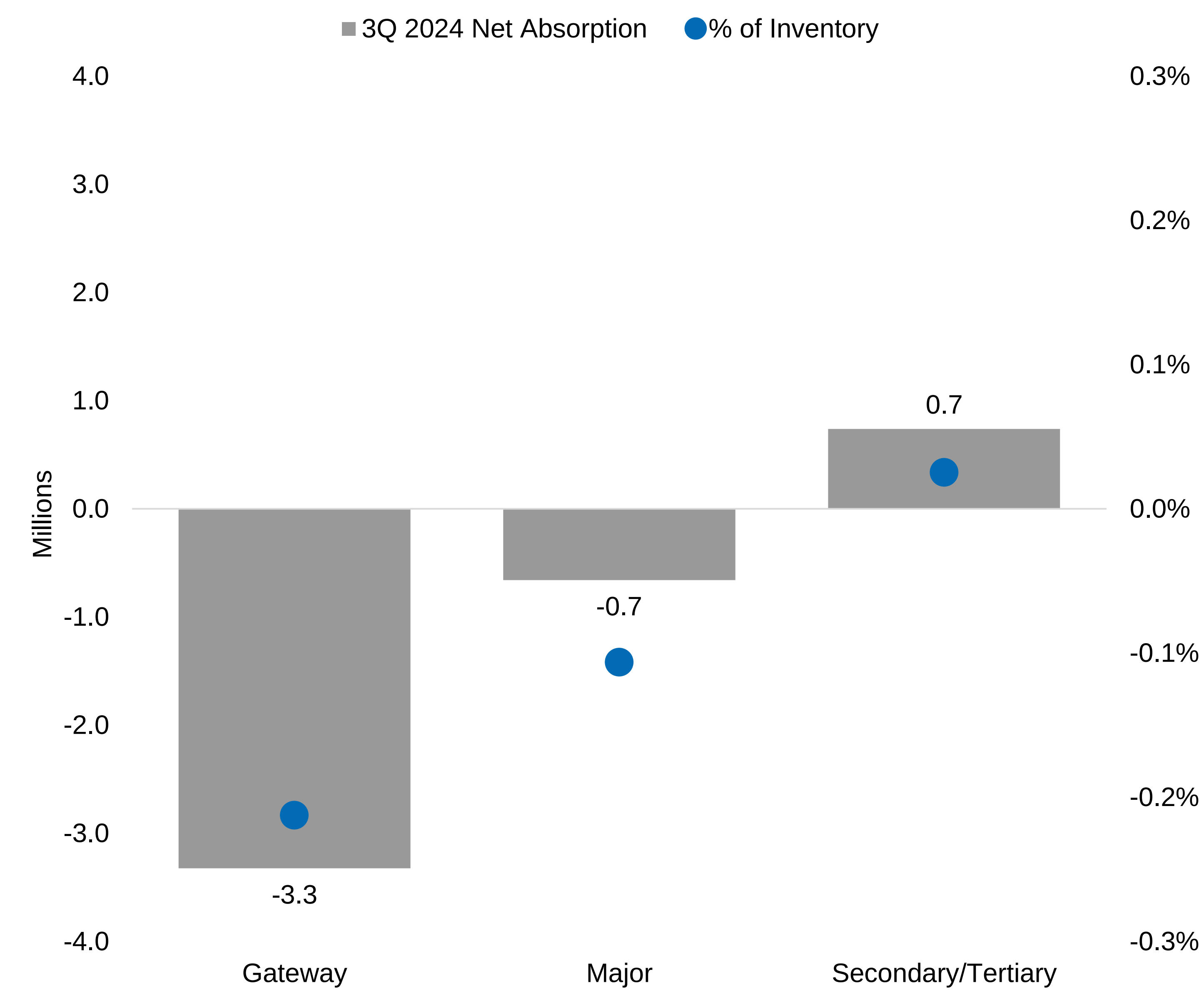
Red-Letter Quarter for Southern, Smaller Markets

National occupancy declined in the third quarter of 2024, driven entirely by losses in major and gateway markets, particularly in the East and West. In contrast, all positive net absorption occurred in Southern and secondary/tertiary markets, with notable gains in Dallas (+1.3 million SF), Northern New Jersey (+612,496 SF), and Columbia, SC (+526,805 SF).

Regional Net Absorption



Market Size Net Absorption

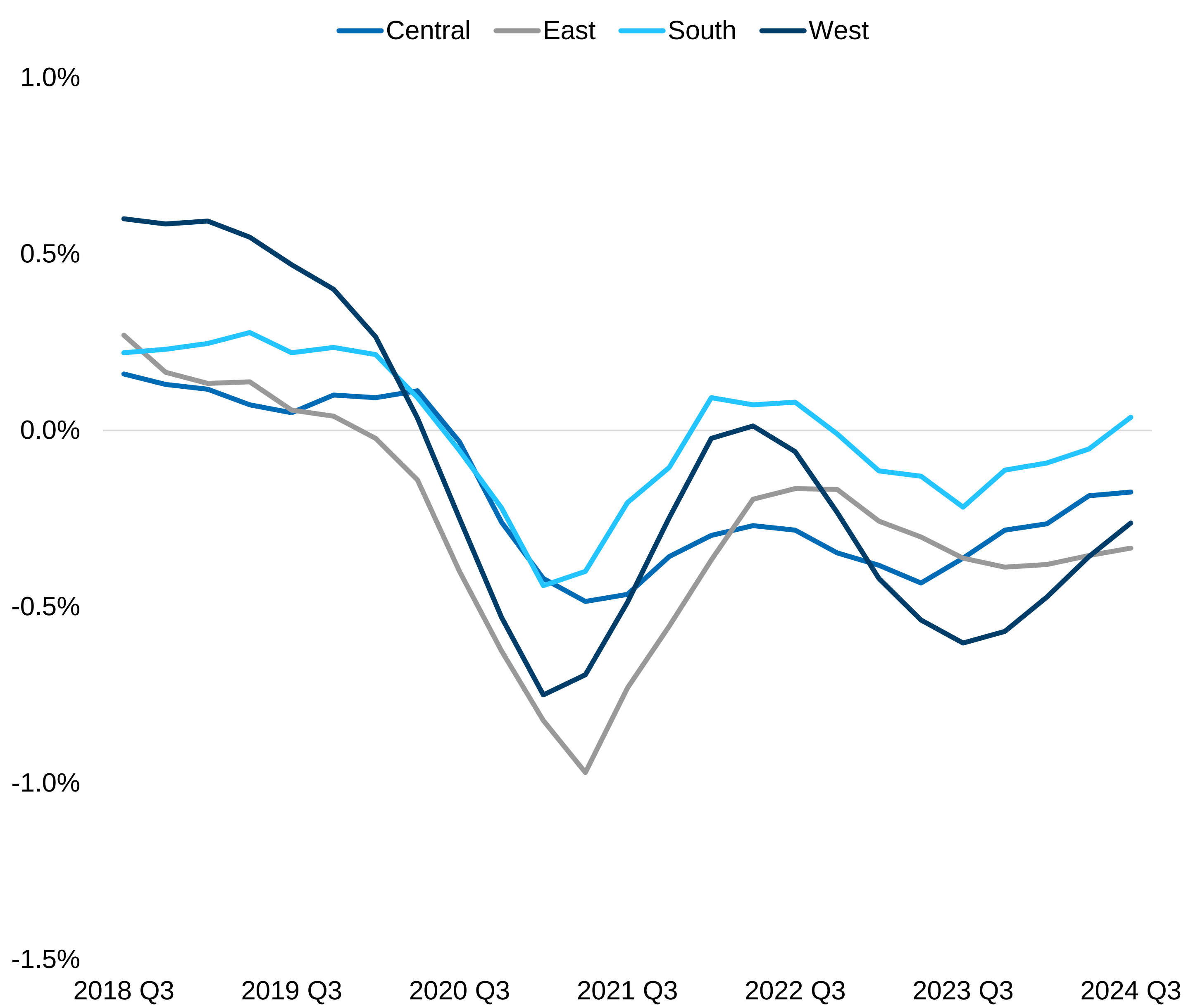


Source: CoStar, Newmark Research as of 10/25/2024

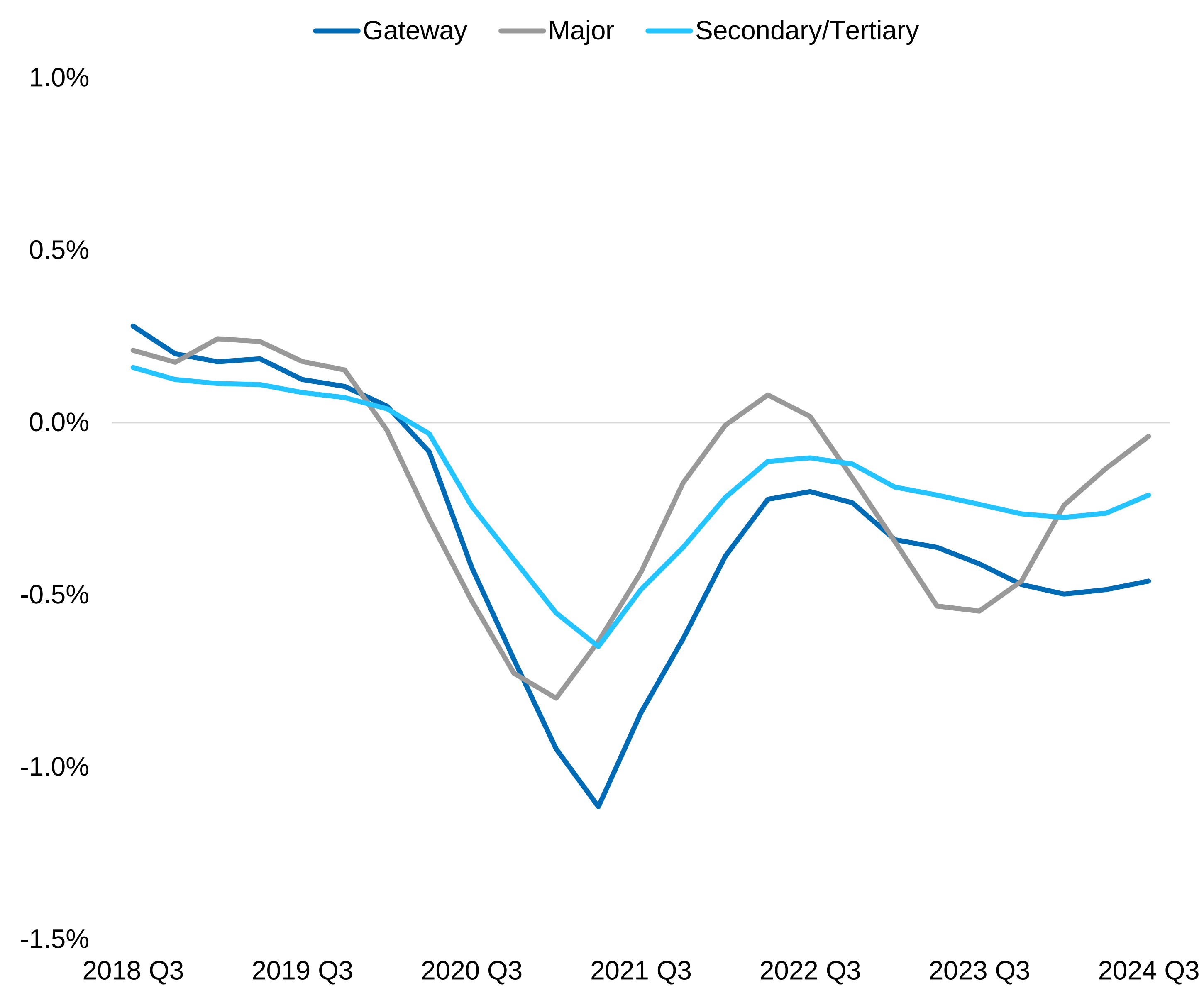
Southern & Non-Gateway Markets Leading Occupancy Recovery

On a trailing four-quarter basis, net absorption remains negative across most regions and market tiers, with the South as the only exception. Nonetheless, there has been a steady trend of improvement across regions and market sizes. While Western markets continue to underperform, they have shown marked improvement in recent quarters, as have major markets.

Regional Net Absorption – 4-Quarter Trailing Average



Market Size Net Absorption – 4-Quarter Trailing Average

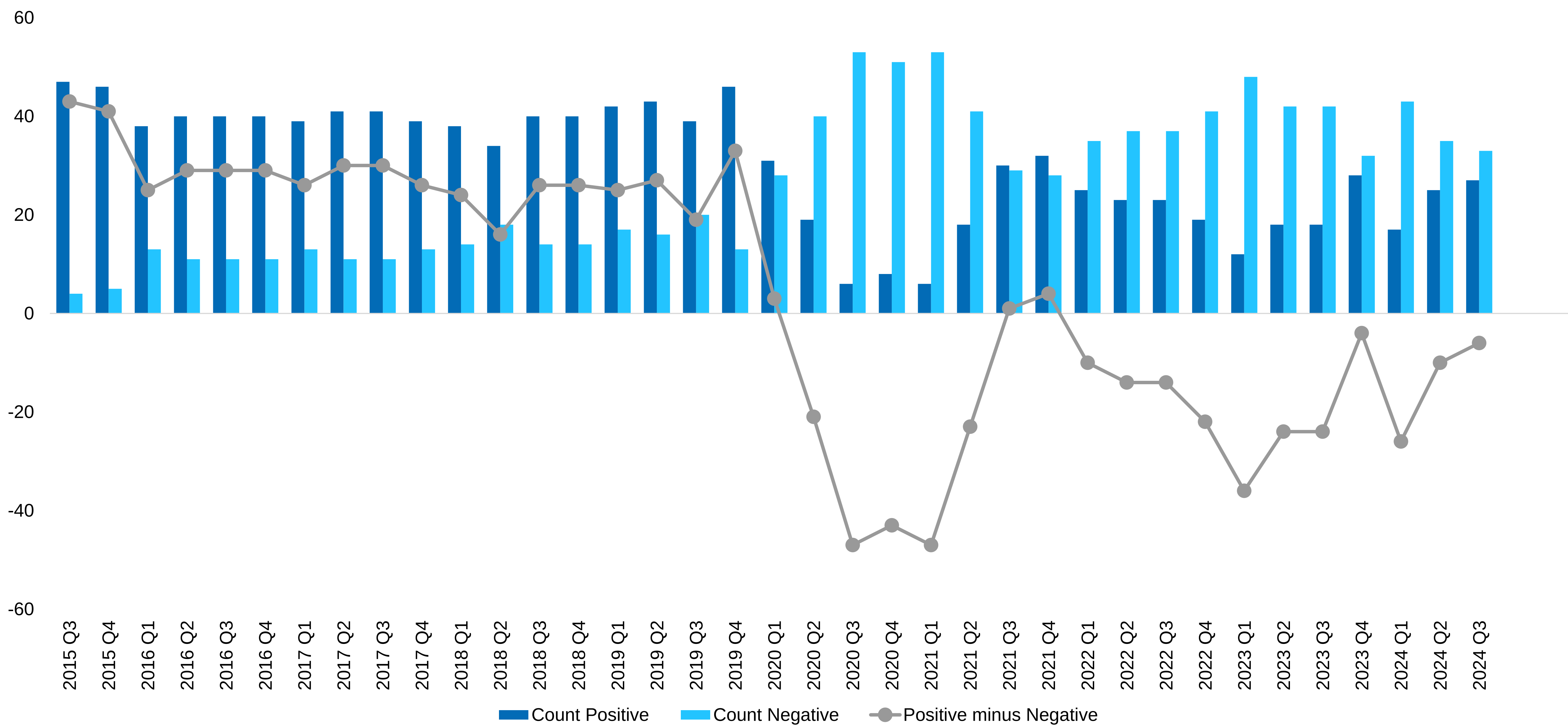


Source: CoStar, Newmark Research as of 10/25/2024

Net Absorption: 11 Consecutive Quarters of Negative Diffusion

In the third quarter of 2024, 27 markets recorded positive net absorption, while 33 recorded negative net absorption, resulting in a diffusion index of negative 6. Since the second quarter of 2020, an average of 40 markets per quarter have recorded negative net absorption, with an average diffusion index of negative 20.3.

Positive vs. Negative Net Absorption Markets

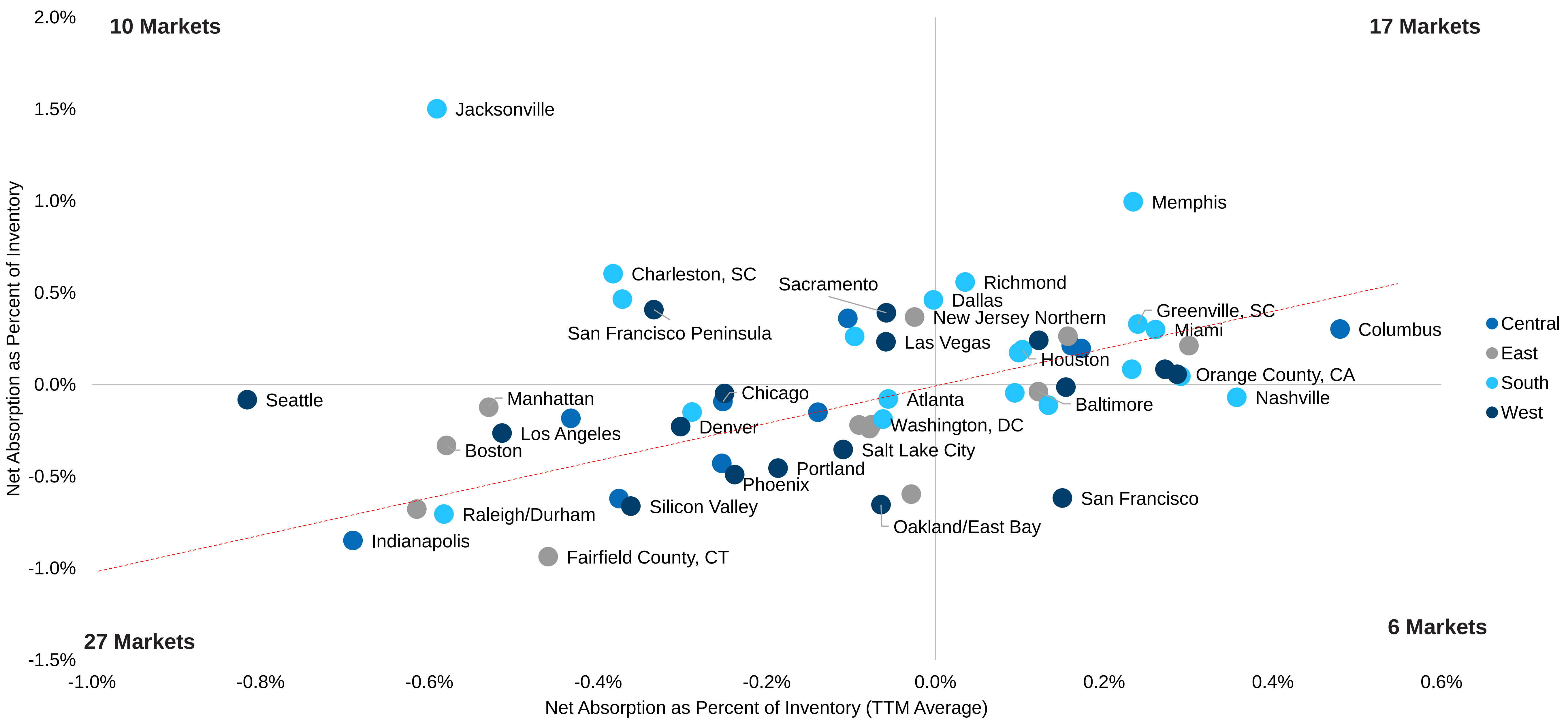


Sources: CoStar, Newmark Research as of 10/25/2024

Net Absorption Improves In 30 of 60 Markets

Despite a national decline in occupancy in the third quarter of 2024, half of the tracked markets saw improvements in net absorption as a percentage of inventory compared to the trailing 12-month average. These gains were geographically diverse and primarily concentrated in secondary markets.

Third Quarter 2024 Net Absorption Comparison

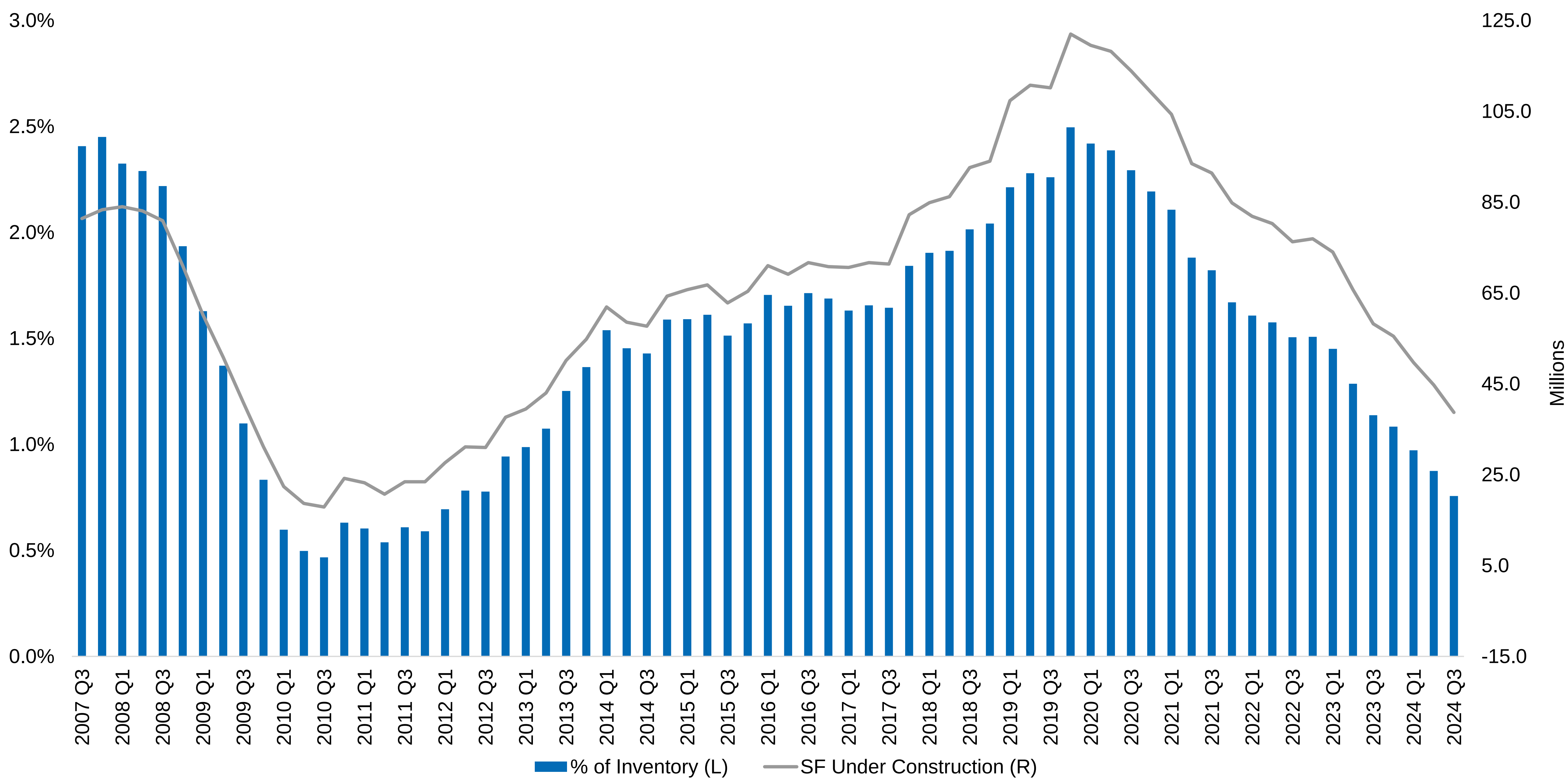


Source: CoStar, Newmark Research as of 10/25/2024

Office Construction Pipeline Continues to Contract

Office space under construction peaked at over 122 million SF in late 2019 but has steadily declined since. Construction activity edged down further in the third quarter of 2024, as pessimism discouraged new groundbreakings. The ongoing contraction in the construction pipeline is expected to help curb vacancy growth, as much of the post-pandemic supply remains unleased.

Under Construction: Percent of Inventory and Total Square Footage

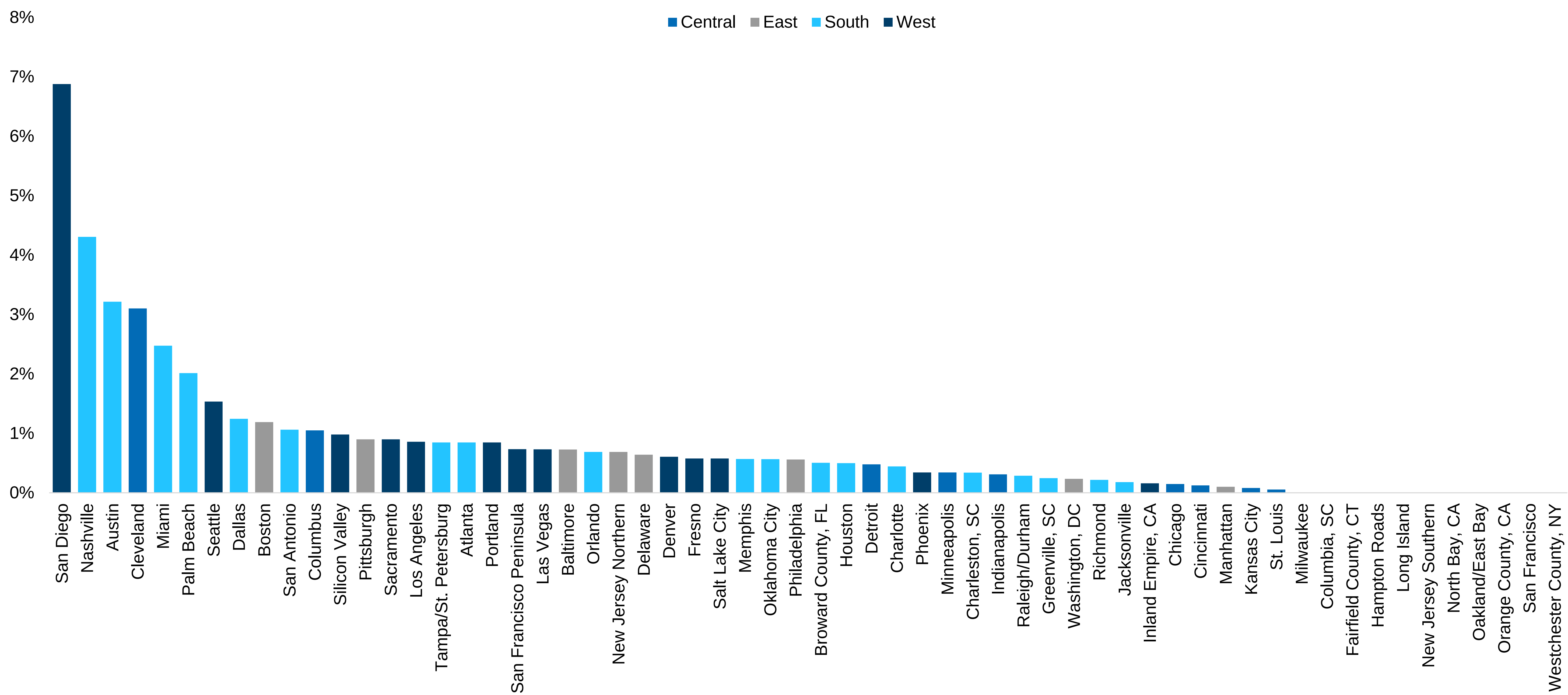


Sources: CoStar, Newmark Research as of 10/25/2024

Percent of Inventory under Construction Highest in Western and Southern Regions

Analyzing supply and demand relative to the percentage of inventory under construction provides insight into which markets are overbuilding or underbuilding. Western and Southern markets lead in this metric, with San Diego's pipeline representing 6.9% of its inventory—the highest in the country. By contrast, Manhattan's under-construction total accounts for only 0.1% of its inventory.

2024 Under Construction as Percent of Inventory

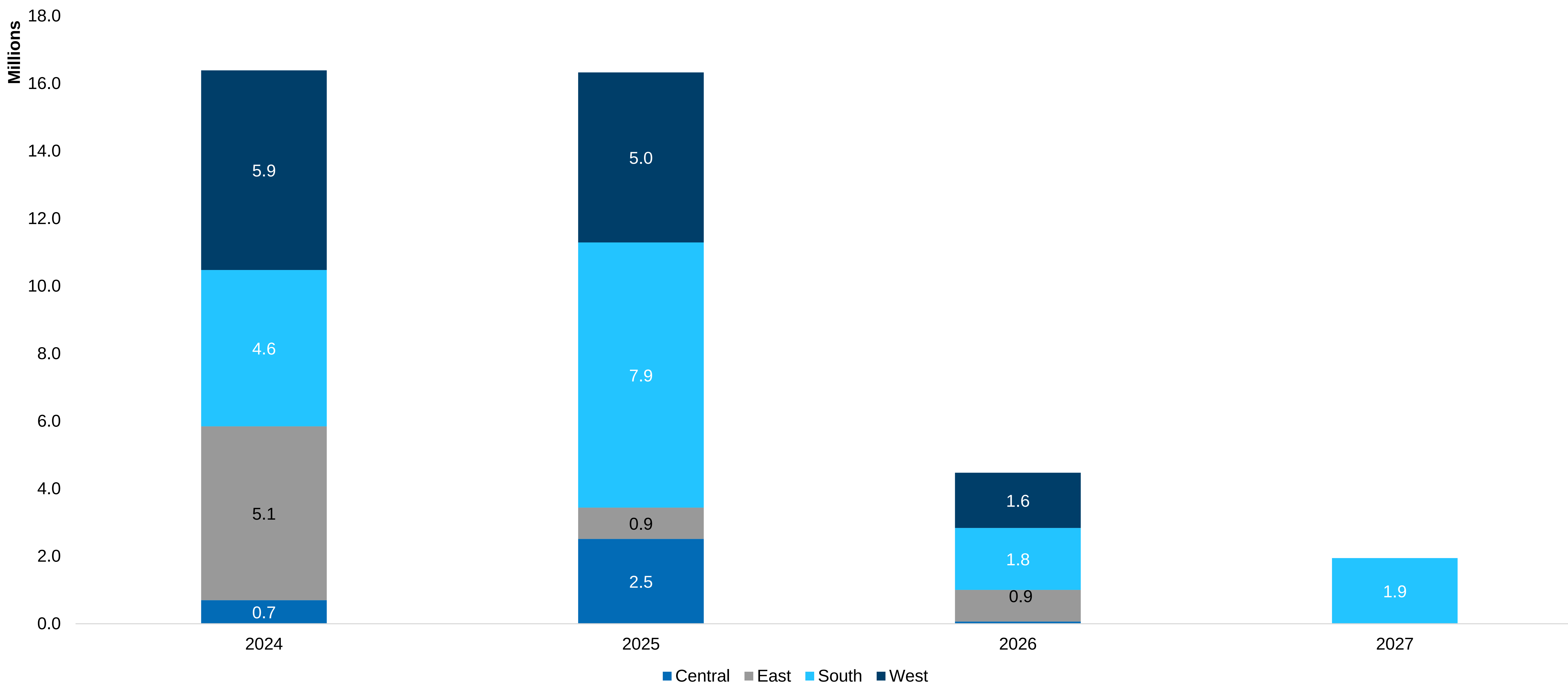


Source: Costar, Newmark Research as of 10/25/2024

Bulk of New Product Will Be Delivered In South

In absolute terms, 41.6% of the under-construction inventory is being built in the South region. Most of this product is slated for delivery by the end of 2025.

Current Under Construction Pipeline by Estimated Delivery Year

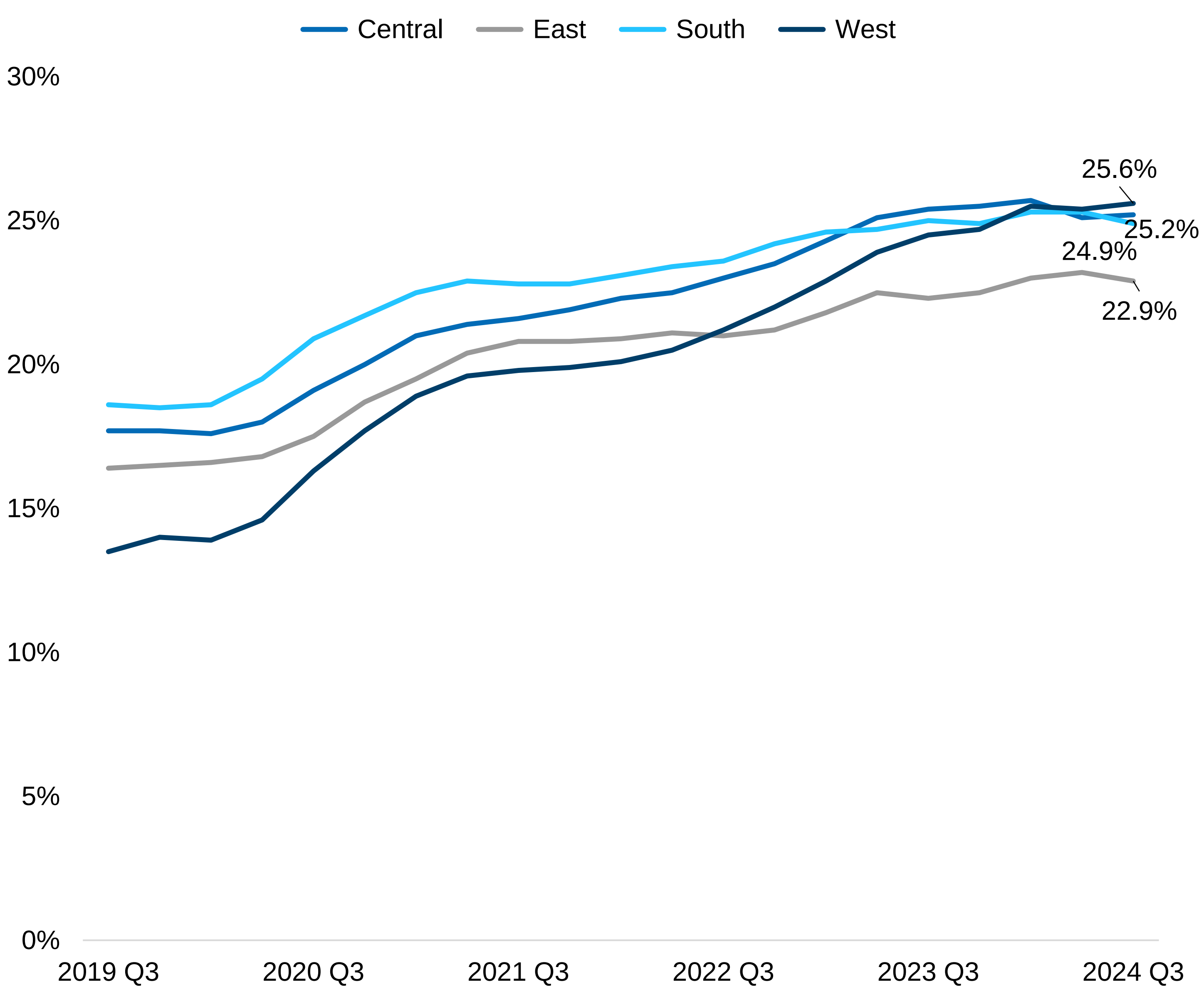


Source: Costar, Newmark Research as of 10/25/2024

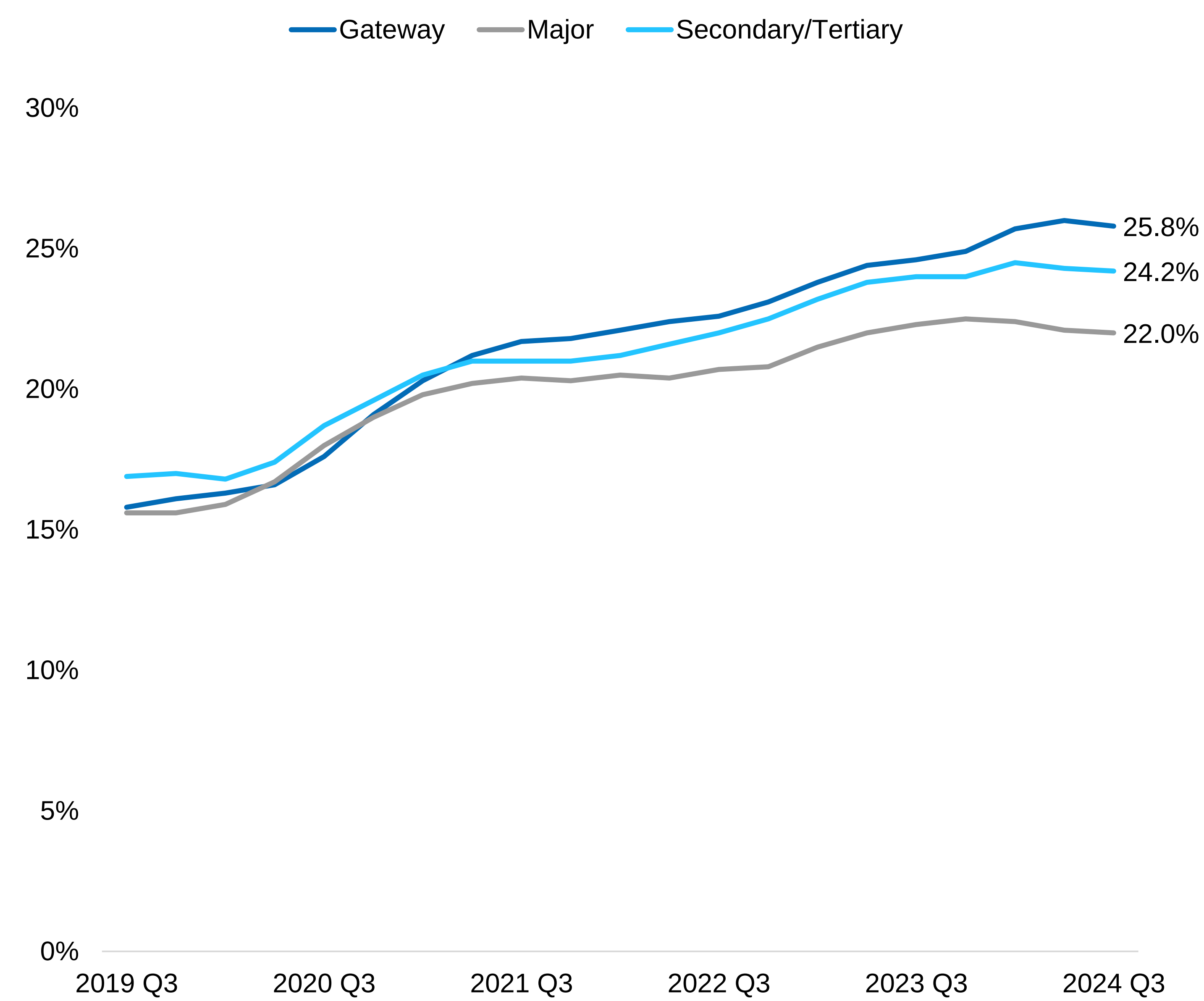
Availability Rates Near Peak

Overall availability declined slightly quarter-over-quarter but rose by 40 basis points year-over-year, remaining notably high in gateway markets. Major markets, especially in the East region, have performed relatively well, though availability, sublease space, and vacancy rates in these areas remain elevated compared to historical levels.

Regional Office Market Availability Rate



Availability Rate Comparison By Market Size

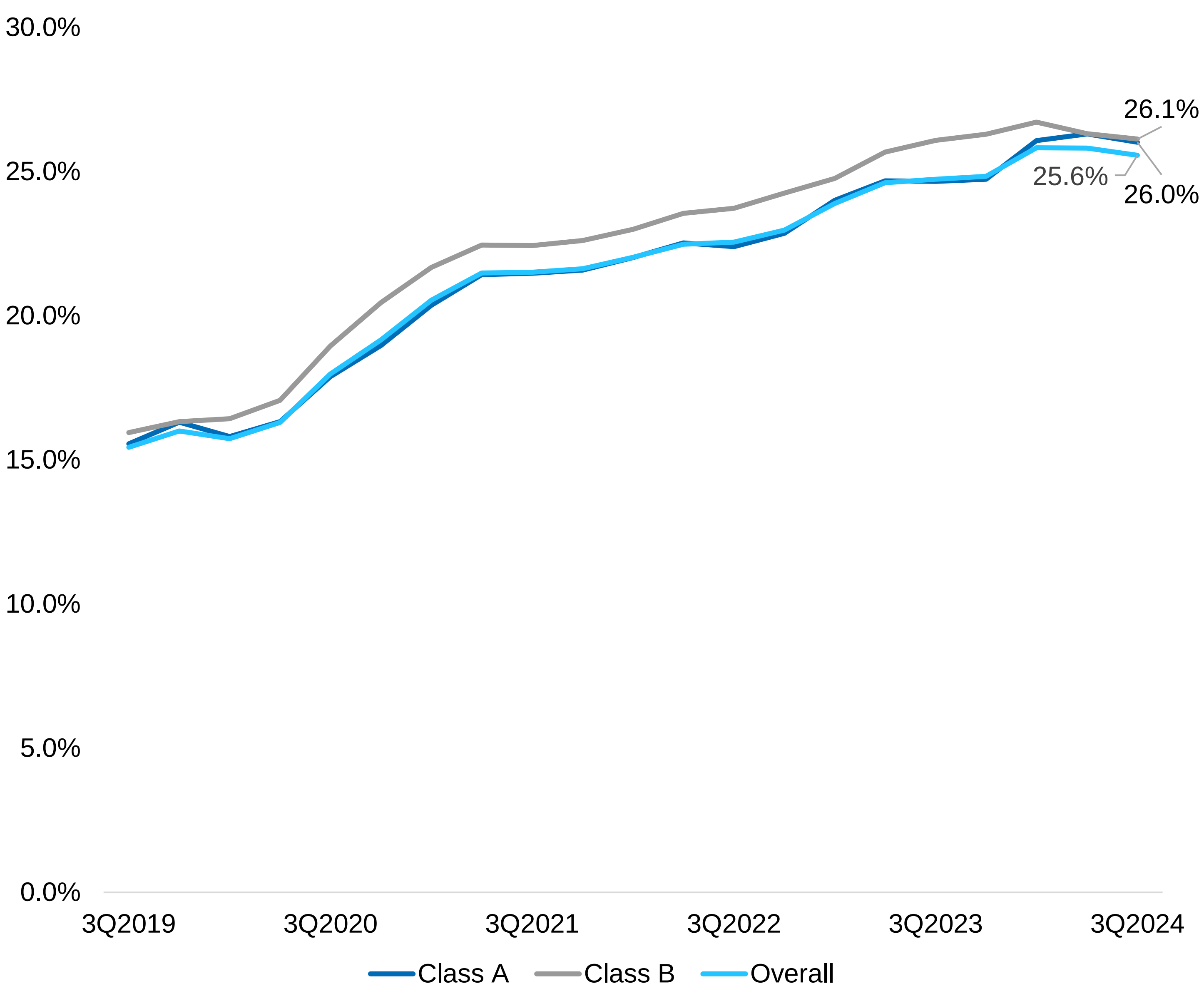


Sources: CoStar, Newmark Research as of 10/28/2024

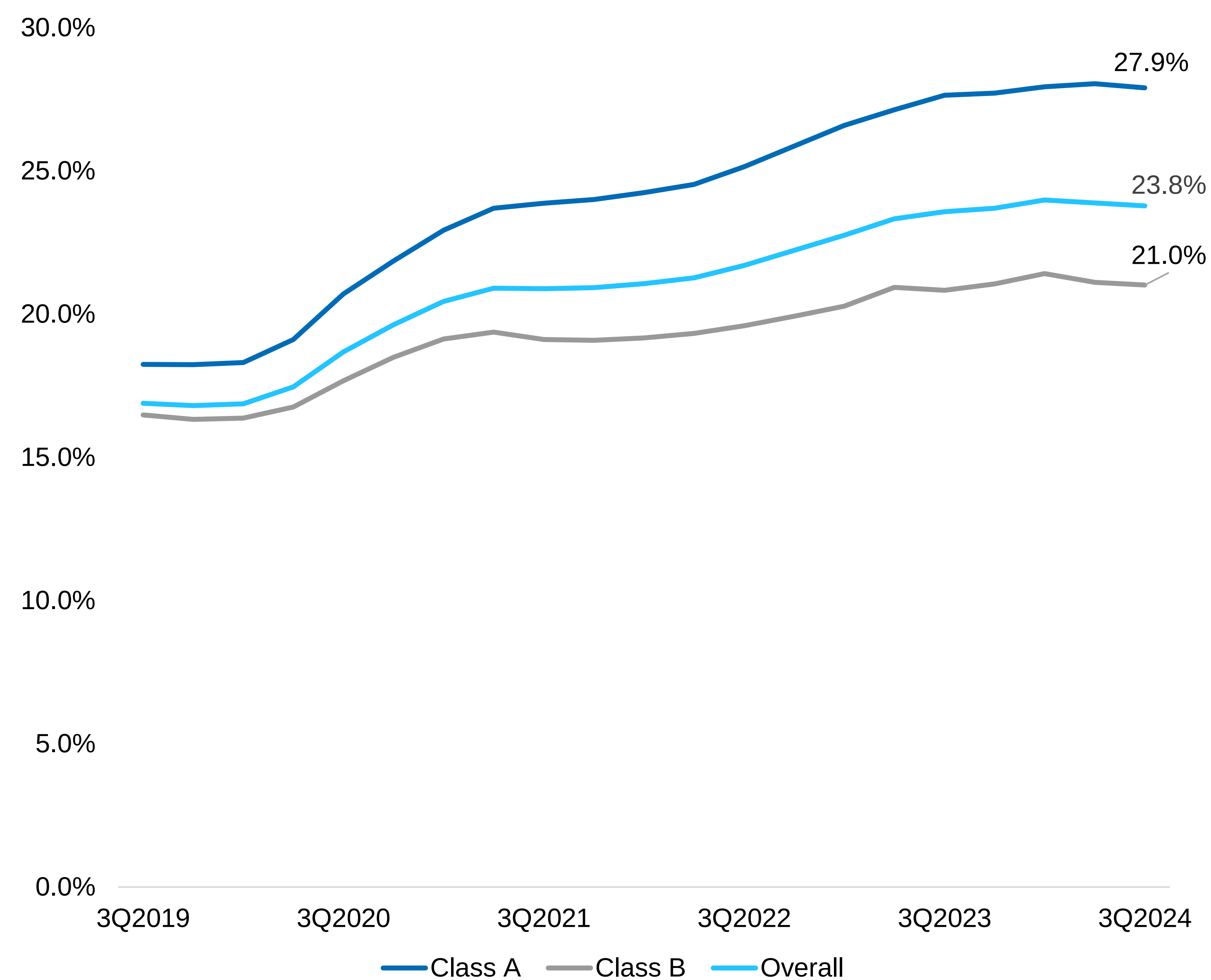
Availability Rates Flatten Across Building Grades

There is a disconnect between the strong preference for high-quality office space by investors and large tenants and overall market data. In CBD markets, Class A availability rates are slightly higher than Class B. However, in non-CBD markets, Class A availability is notably higher than Class B, with the gap widening in recent years. This discrepancy may reflect a growing divide between trophy and commodity Class A buildings or indicate that Class A landlords have prioritized rent levels over competing with Class B properties for occupancy.

Office Market Availability Rate By Class (CBD)



Office Market Availability Rate By Class (Non-CBD)

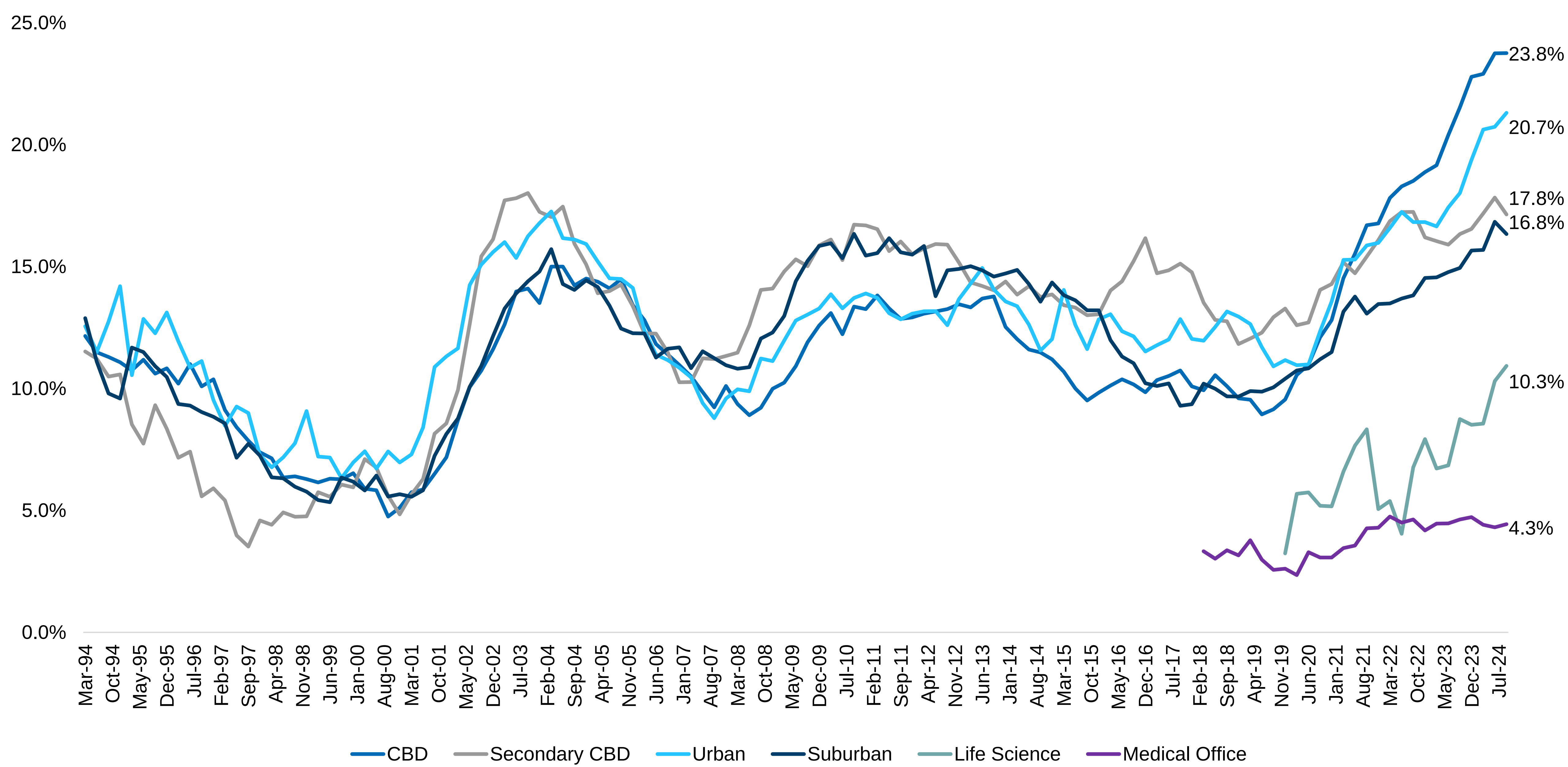


Source: CoStar, Newmark Research as of 10/28/2024

CBD Offices Face Challenges As Suburban & Niche Markets Outperform

CBD office buildings in NCREIF member portfolios currently show the highest availability rates, contrasting with historical trends of shallower downturns and quicker recoveries. Suburban office holdings are also impacted, though to a lesser extent. There is no indication that availability has peaked. Life science and medical office properties maintain the lowest availability rates, though oversupply is beginning to affect life science. This strong performance has persisted even as the property count has tripled.

NCREIF National Property Index Office Availability Rate

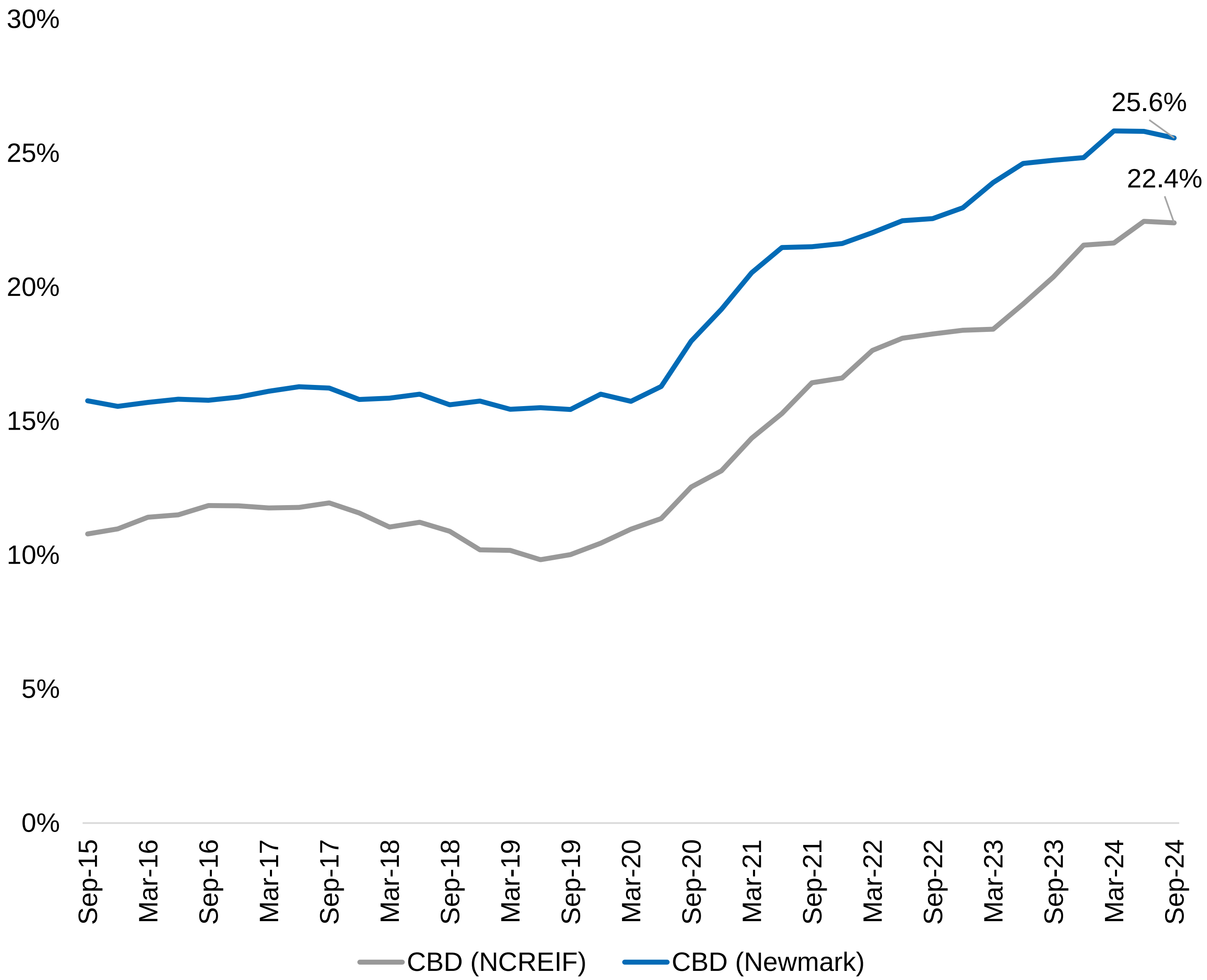


Sources: NCREIF, Newmark Research as of 10/28/2024
*We use the NCREIF National Property Index as a proxy for the national institutional grade office market.

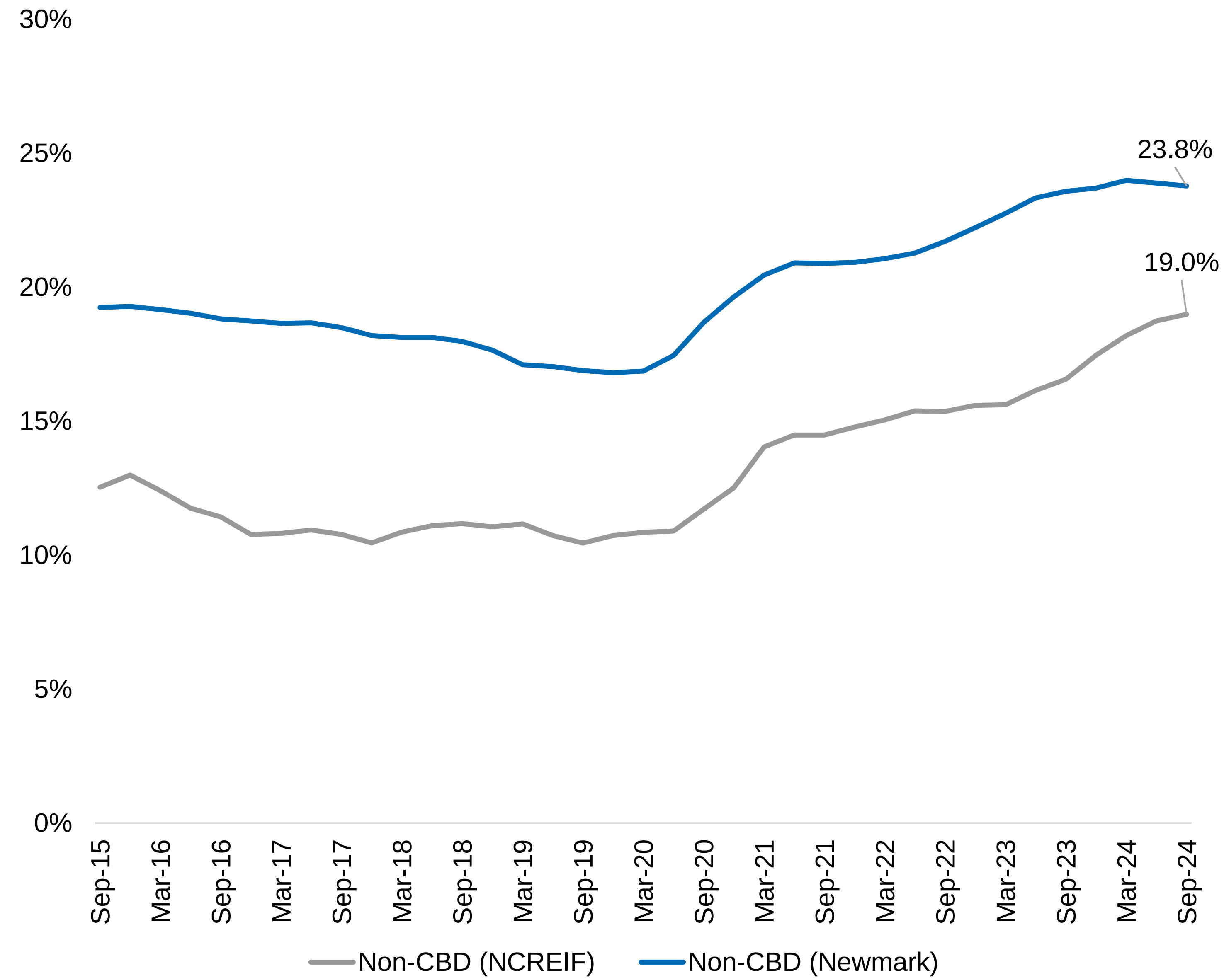
Institutional Core Consistently Beats the Overall Market (With Some Caveats)

Historically, NCREIF member portfolios have outperformed the overall market in occupancy, though occupancy has steadily declined since 2020. The number of buildings tracked by the NCREIF Property Index has also decreased by 17.2% in CBD markets and by 30.0% in non-CBD markets over the past decade.

CBD Office Availability: Total Market vs. Institutional Core



Non-CBD Office Availability: Total Market vs. Institutional Core

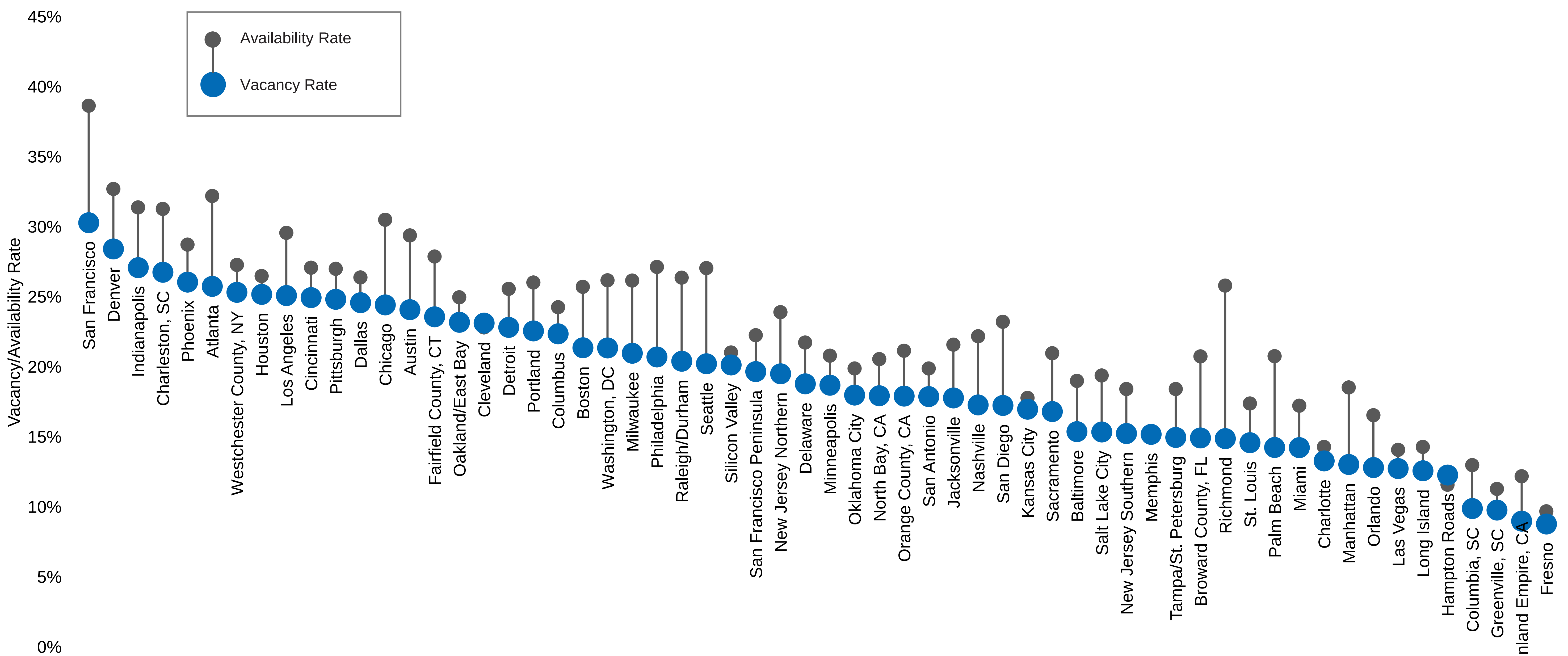


Sources: NCREIF, Newmark Research as of 10/28/2024
*We use the NCREIF National Property Index as a proxy for the national institutional grade office market.

Vacancy & Availability By Market

Both vacancy and availability have trended upward, though the extent of increases varies by market. Generally, the healthiest markets maintain low vacancy and a narrow availability spread. Markets like Seattle, Raleigh/Durham, Richmond, and San Diego show relatively low vacancy, but rising availability is masking underlying weaknesses. In contrast, more challenged markets like San Francisco, Atlanta, and Denver exhibit both high vacancy and high availability.

Vacancy and Availability Rate by Market

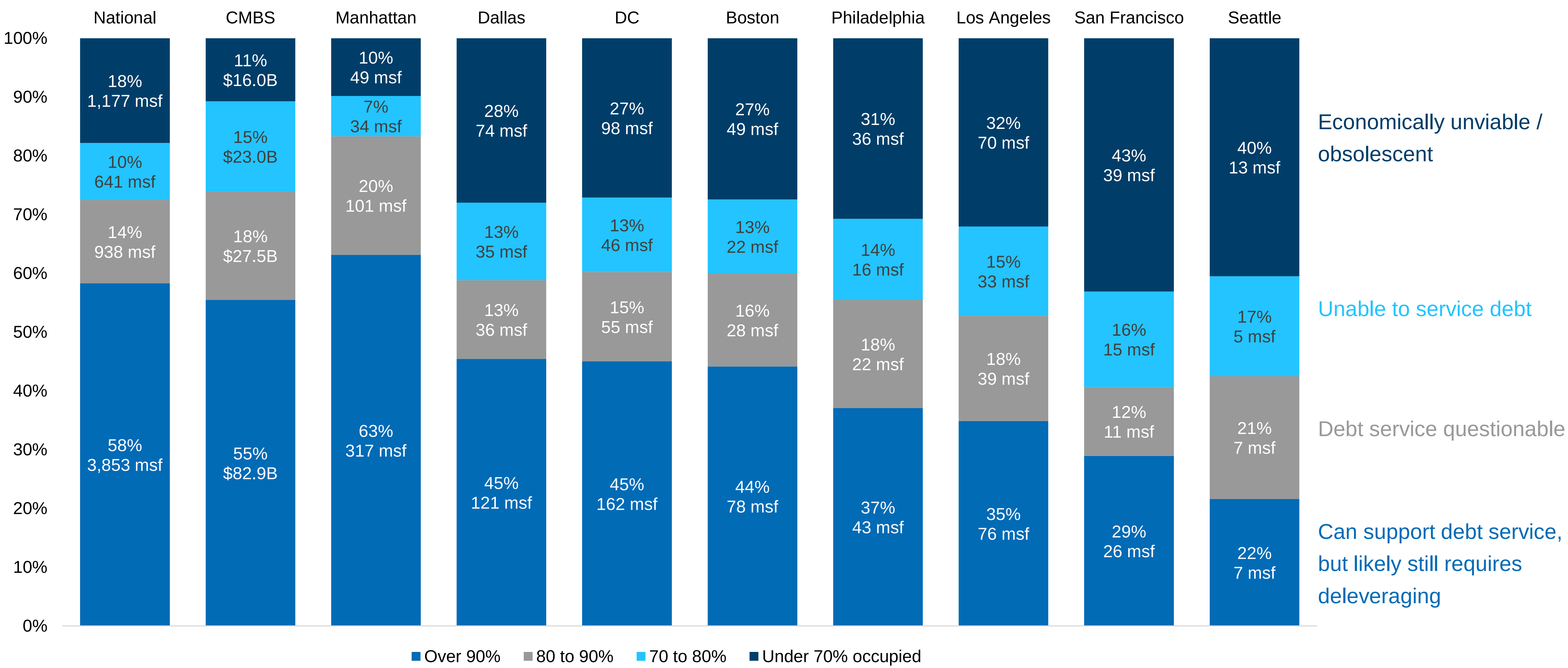


Source: CoStar, Newmark Research as of 10/24/2024

Vacancy Is Not Evenly Distributed Within Markets, Nor Will Impairments Be

A significant portion of the office market is structurally impaired from an occupancy standpoint, with debt issues likely to accelerate declines. Conversely, many offices maintain healthy occupancy levels. While some may still be over-leveraged, they have a clear path to solvency.

Distribution of Office Vacancy

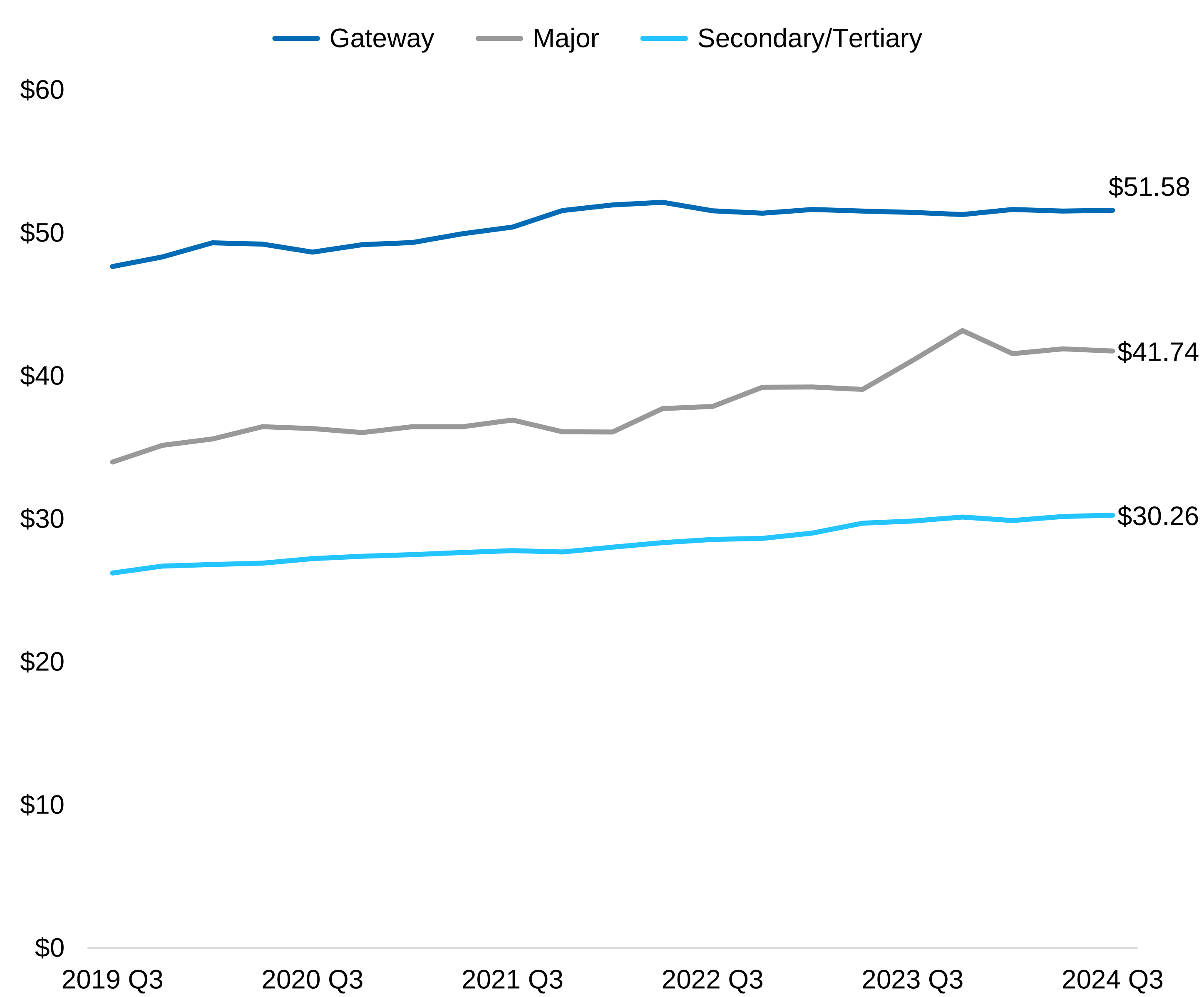


Source: Costar, Newmark Research as of 10/25/2024

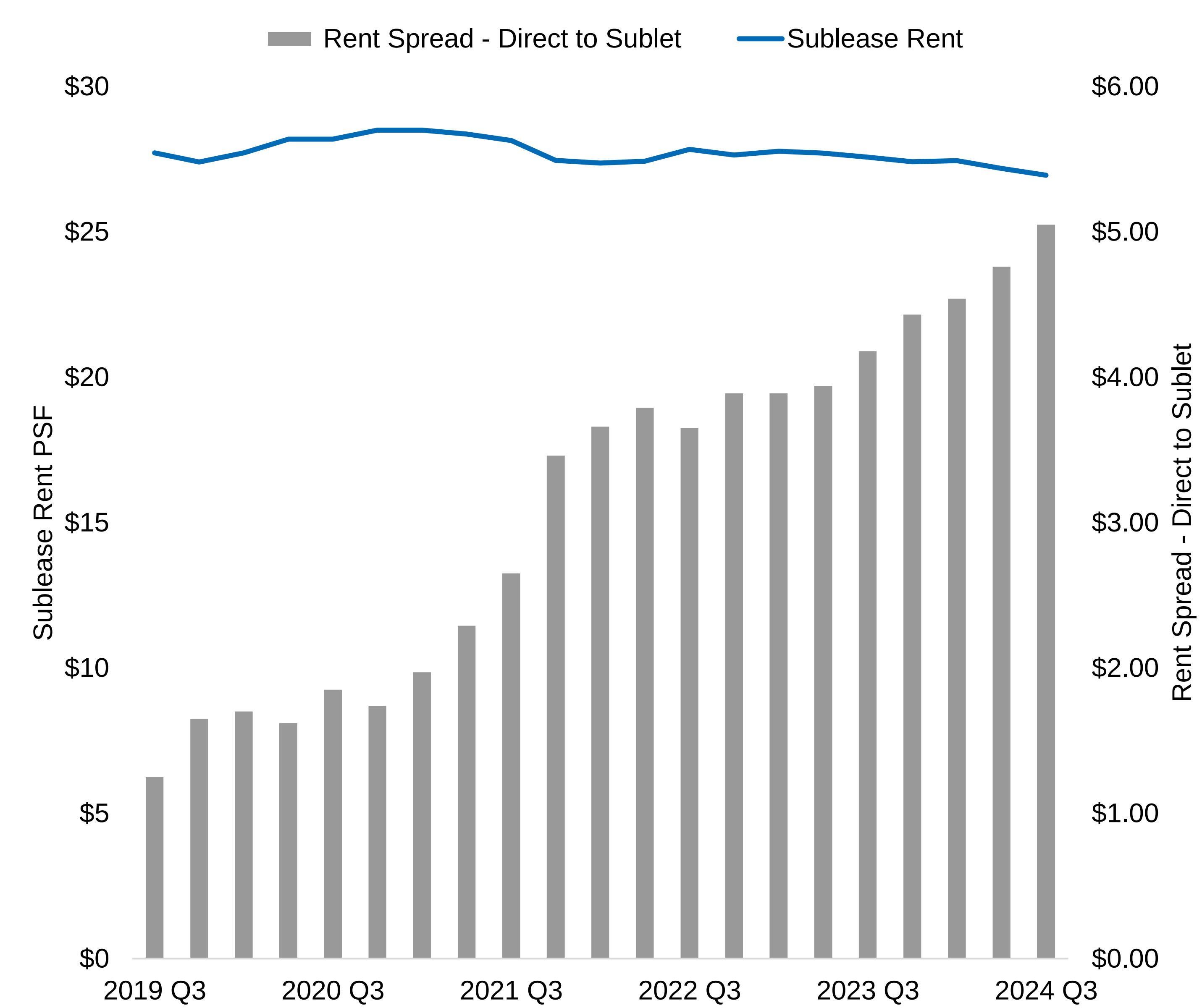
Asking Rents Defy Gravity

In past cycles, asking rents adjusted downward with depressed demand; however, they have largely held firm since the pandemic began. While some rent compression is evident in secondary and tertiary markets, major markets continue to see appreciation. Sublease rents, however, have declined over the past year, reflecting low demand and widening the spread between sublease and direct space to near record highs.

Overall Asking Rents Up 0.8% YoY in 3Q24



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

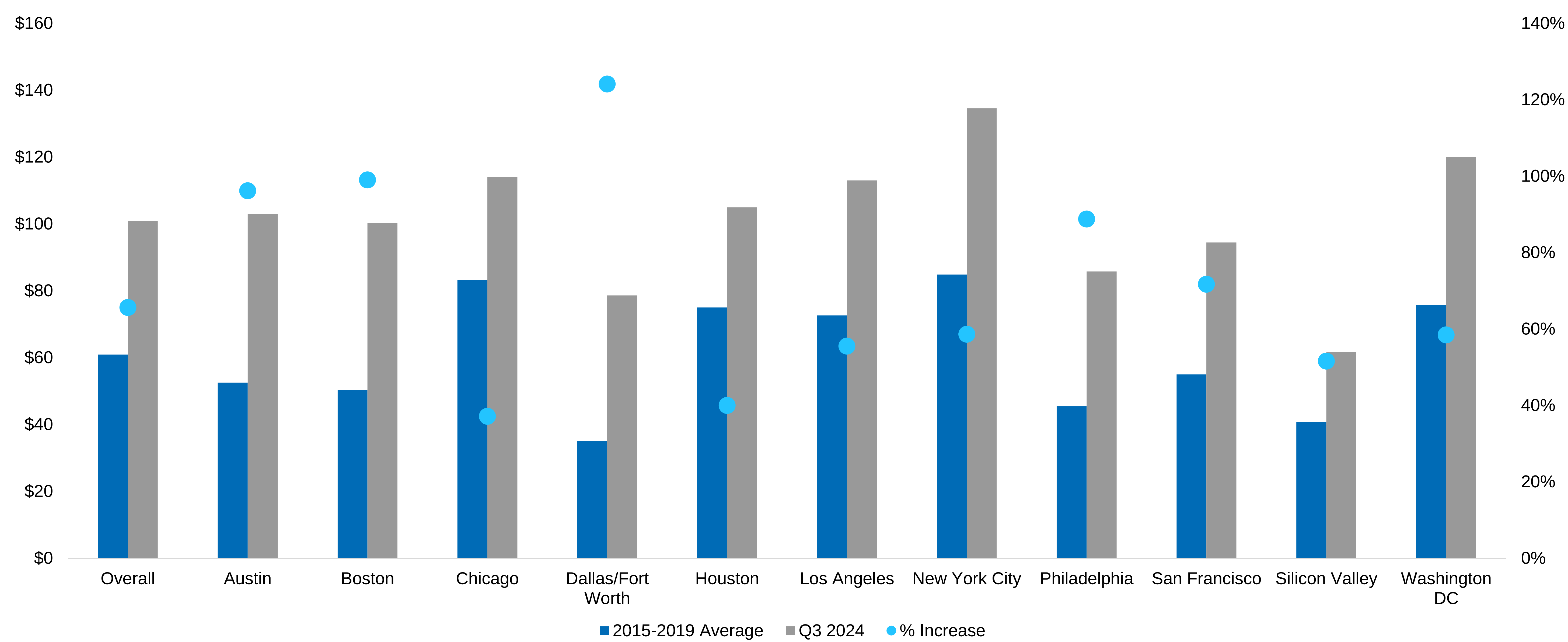


Source: CoStar, Newmark Research as of 10/28/2024

Rising Concessions Have Absorbed Some Market Adjustment

To sustain elevated asking rents, landlords are offering more generous concessions to attract and retain tenants. Tenant improvement allowances have increased by 65.6% compared to the 2015-2019 average, with particularly high levels in New York City and Washington, DC.

Tenant Improvement Comparison Between Pre-Pandemic and Current Period

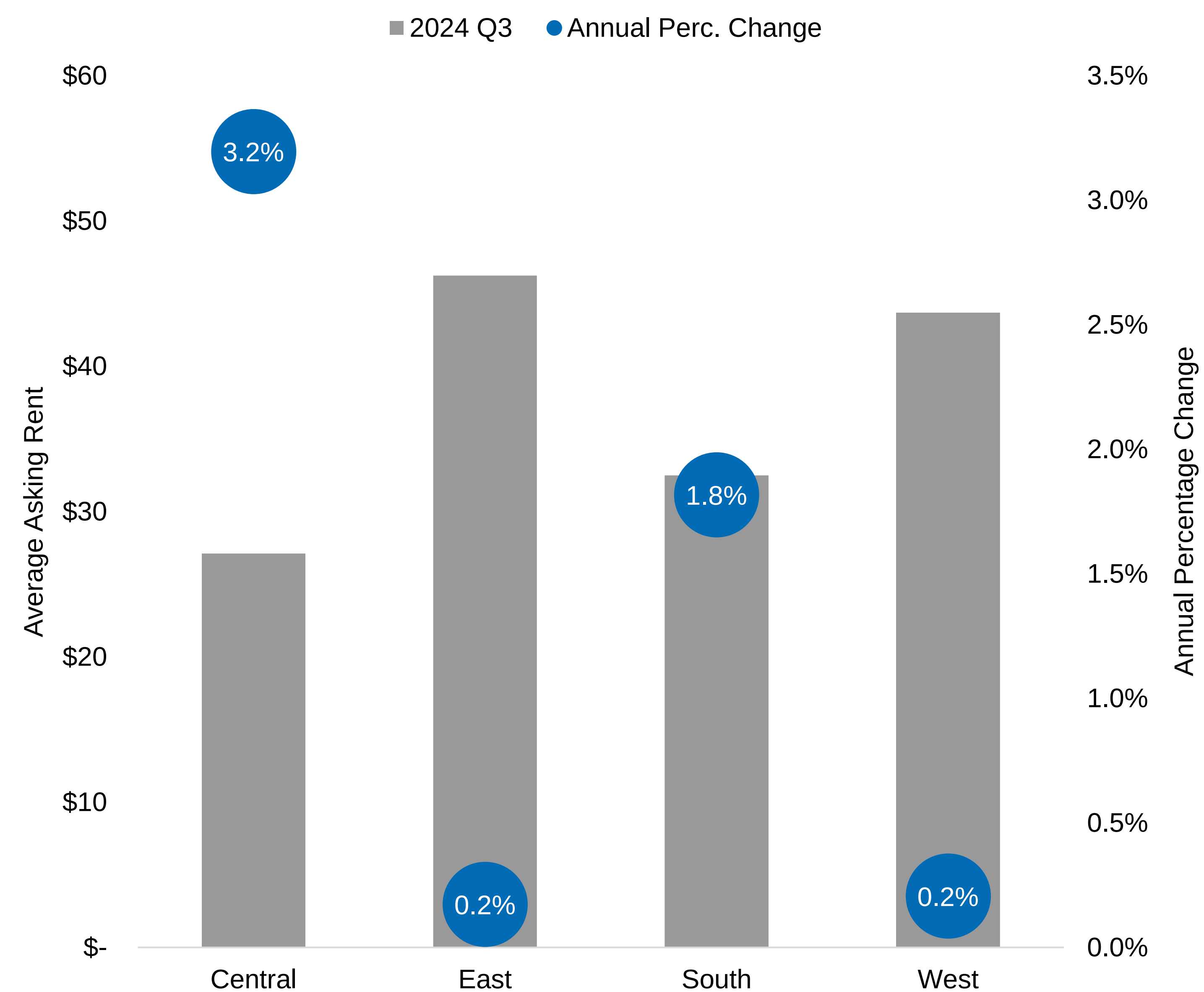


Source: CoStar, Newmark Research as of 10/28/2024

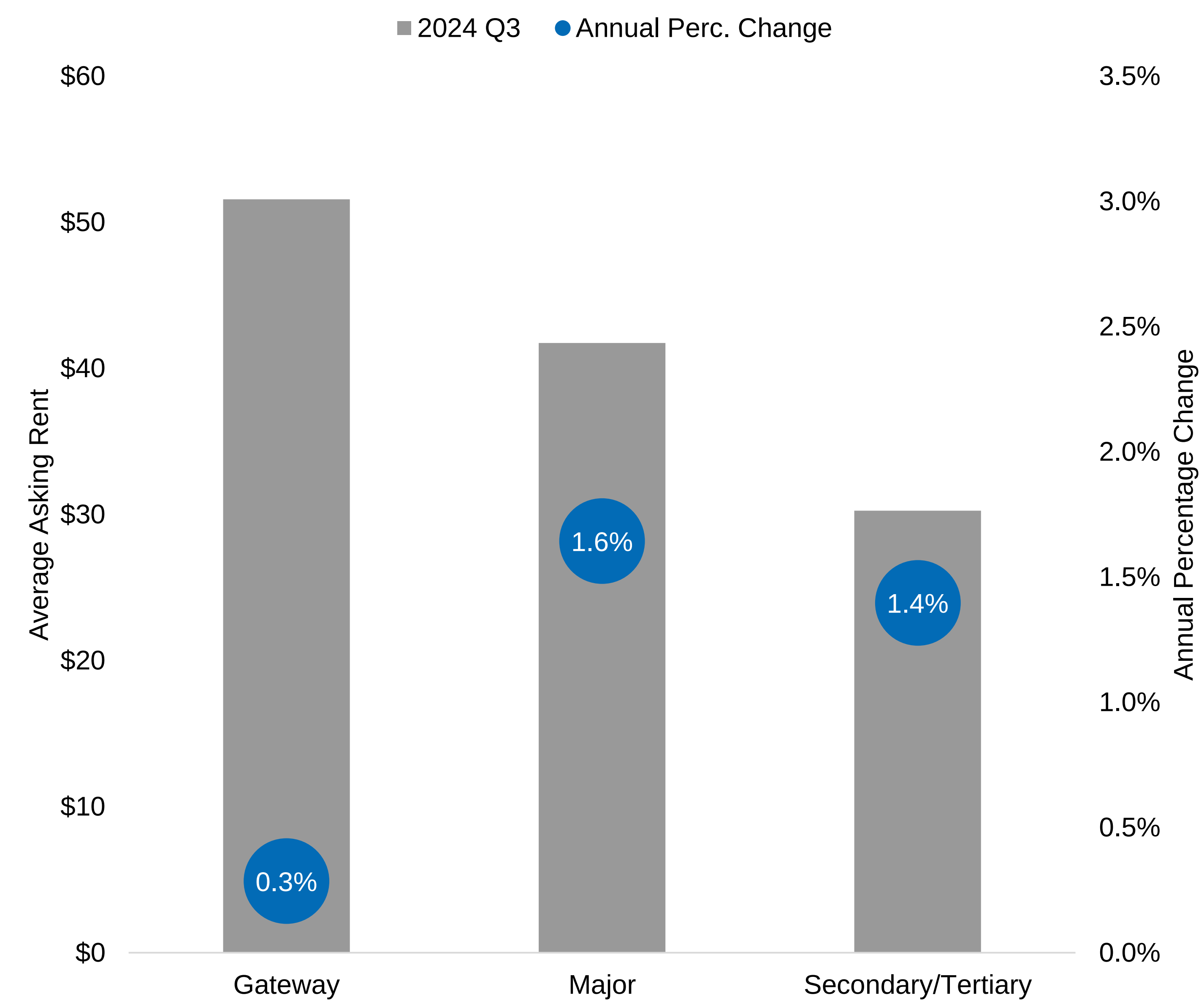
Central & South Regions, Major Markets Lead Rent Growth

Overall asking rents are highest in major coastal markets, including San Francisco, Manhattan, and Silicon Valley. The Central Region saw strong annual rent growth in the third quarter, partly due to smaller markets attracting office demand amid broader challenges. However, effective rents are under pressure, with modest rent compression in some areas.

Asking Rents Growing Fastest in the Central and South Regions



Non-Major Markets Experiencing the Most Rent Growth

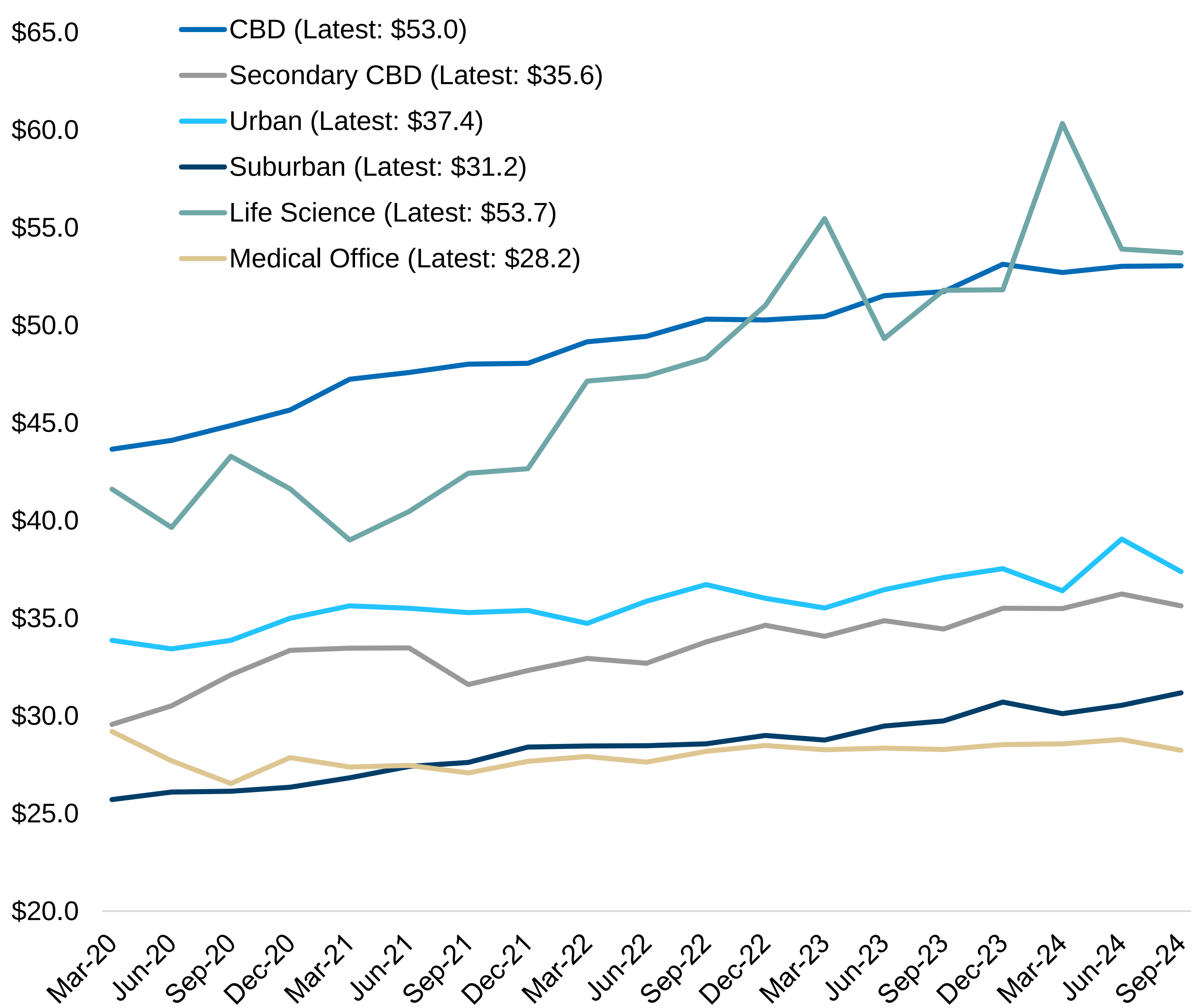


Source: CoStar, Newmark Research as of 10/29/2024

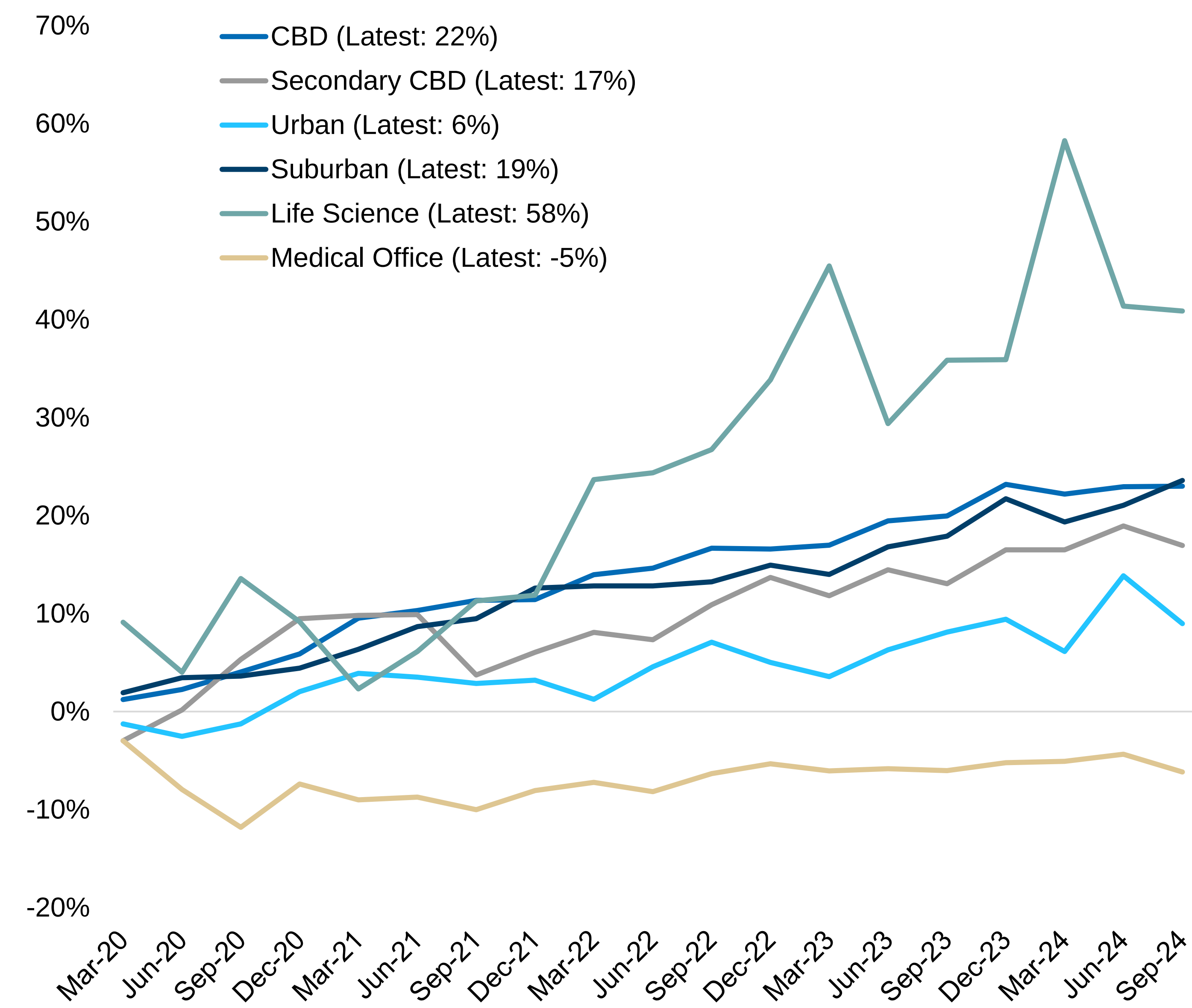
Institutional Core Building Rent Paid Per SF Has Grown Since 1Q 2020

The relatively strong rent performance is surprising amid negative office sentiment. While occupancy has declined, rents on occupied spaces have remained stable or even increased, supported by long-term leases that bolster cash flows. However, this does not fully account for the cash flow impact of declining occupancy.

Rent Paid per Occupied Square Foot



Cumulative Change in Rent Paid per Occupied Square Foot Since 1Q20

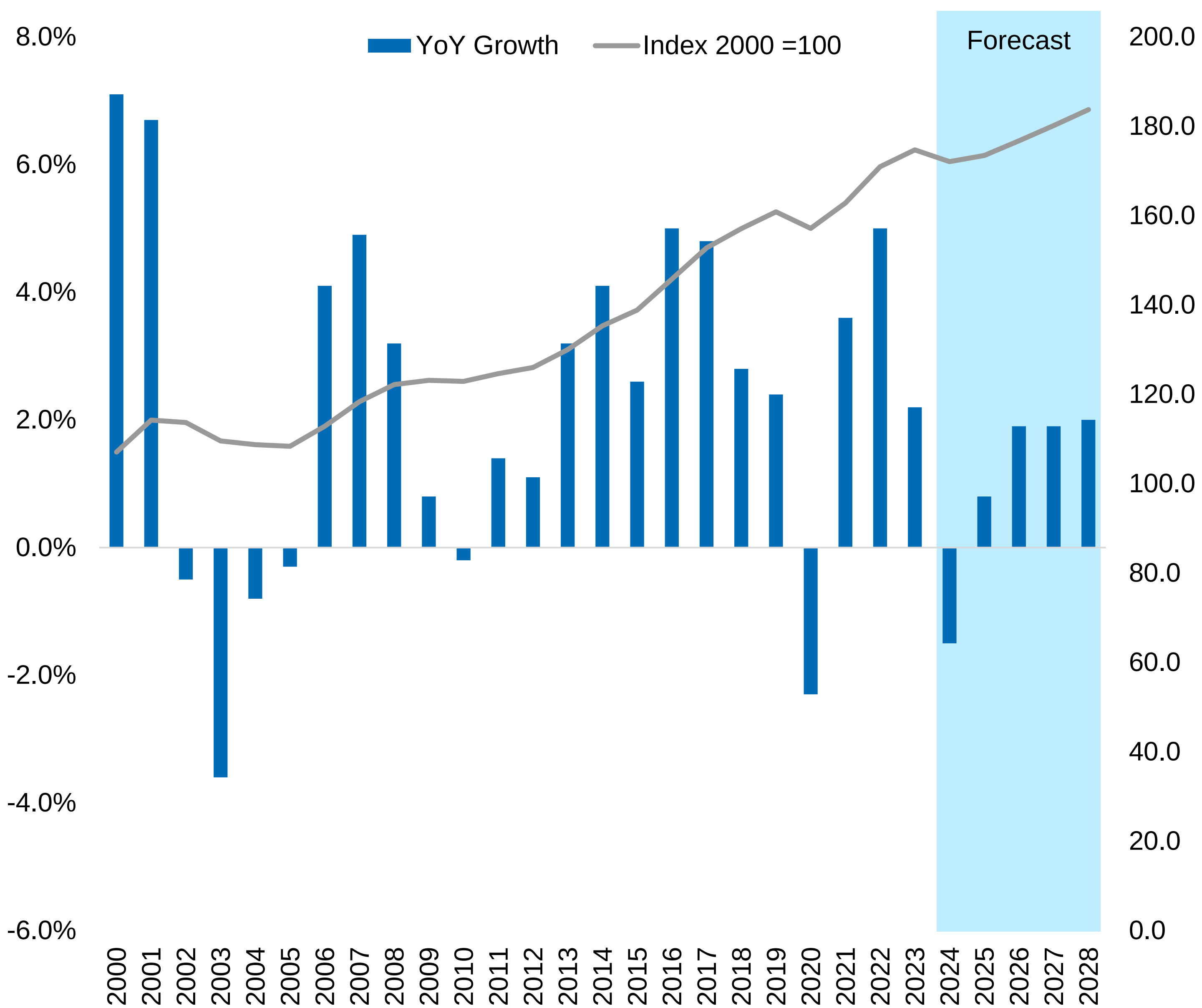


Source: NCREIF, Newmark Research as of 10/29/2024

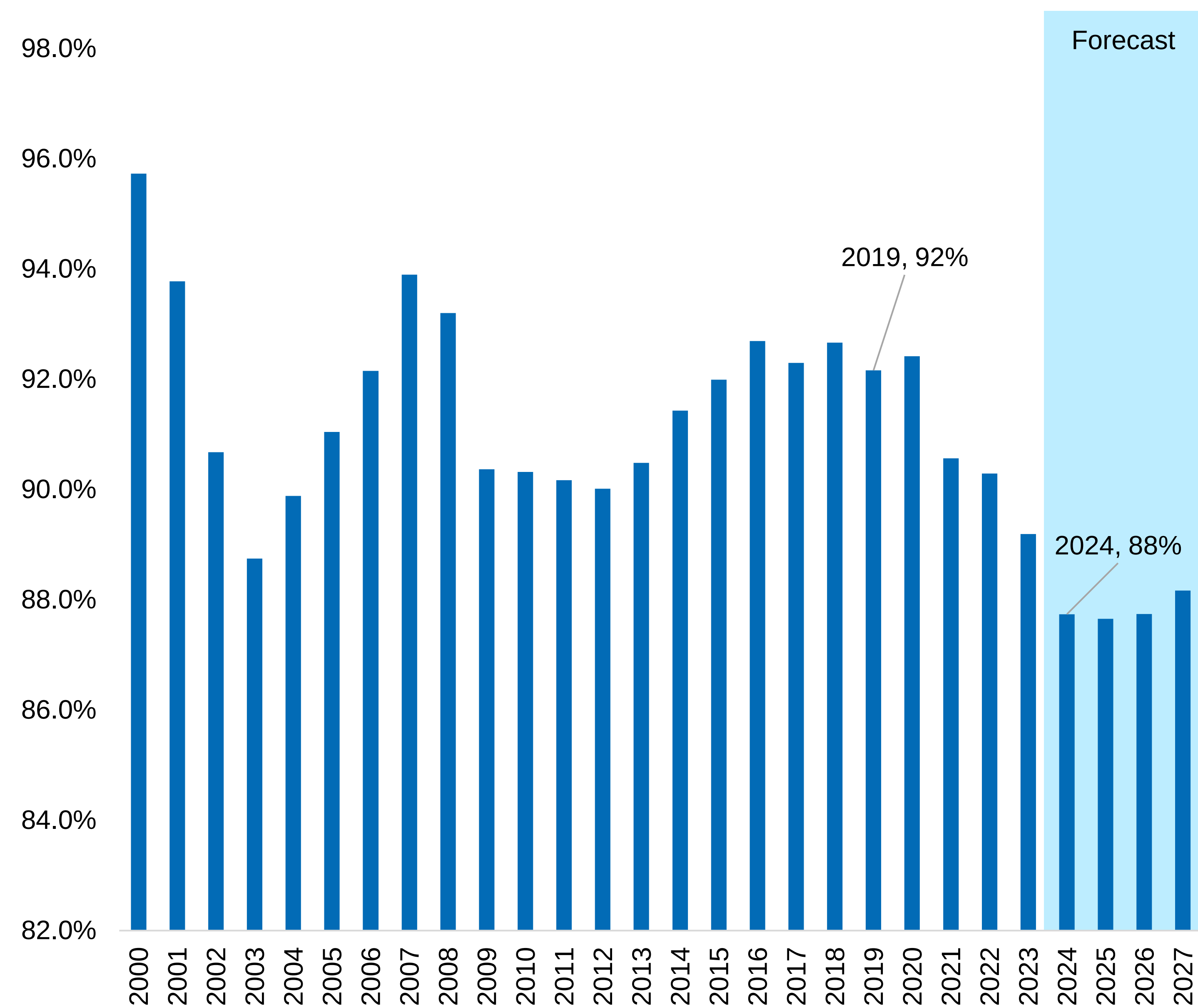
Office REITs Have Outperformed the Overall Market

Office REIT portfolios have felt the impact of deteriorating office fundamentals. Same-store occupancy is expected to bottom at 88%, down from 92% in 2019—a moderate decline compared to the overall office market (from 87.3% to 79.6%). Despite a projected dip in 2024, NOI growth has remained resilient, with stabilization positioning for a return to moderate growth in the coming years.

REIT Same-Store NOI



REIT Same-Store Occupancy

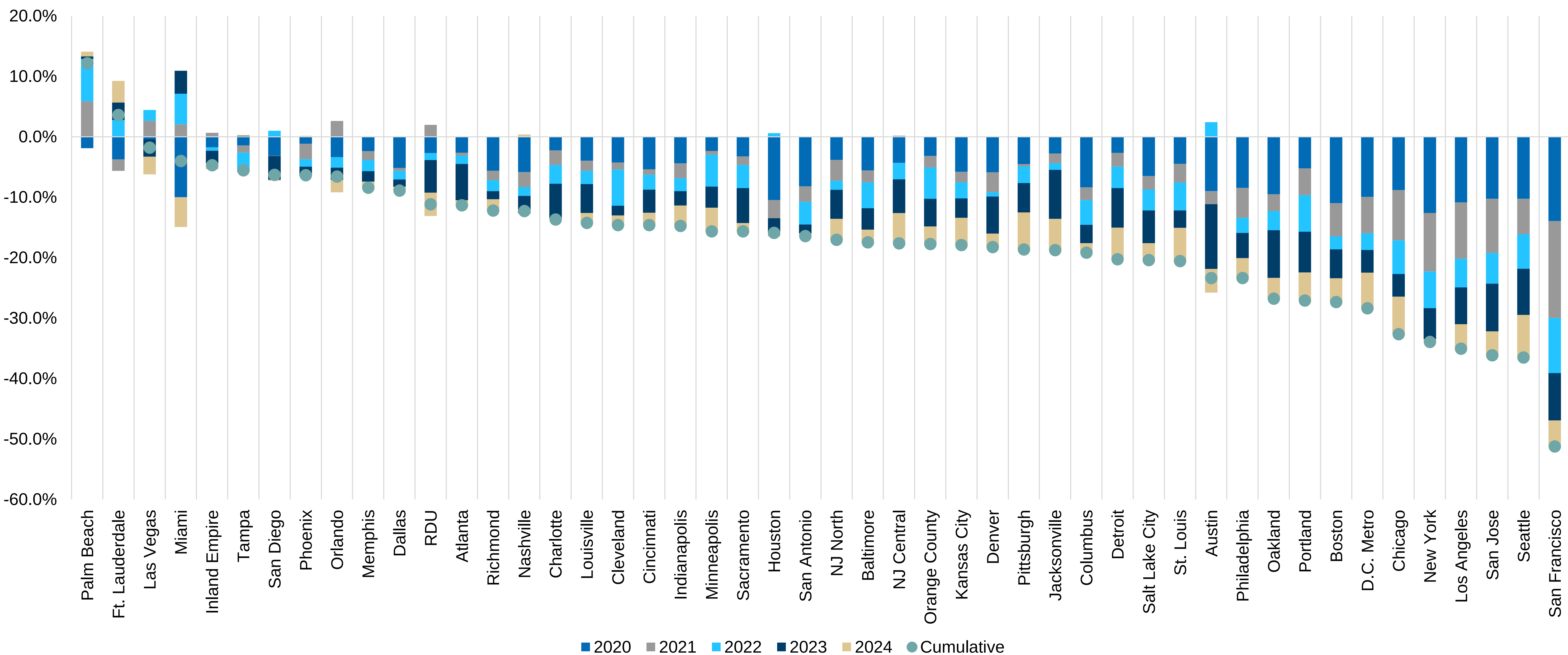


Source: Green Street data as of 10/1/2024, Newmark Research

RevPAF* Contracts Across Markets

Since 2020, Sun Belt markets have seen the strongest performance, particularly in Florida, as well as in San Diego and the Inland Empire. In contrast, San Francisco remains the most impacted market, with other gateway markets—New York, San Jose, Seattle, Los Angeles, Chicago, and DC—also taking substantial hits.

M-RevPAF Growth by Market

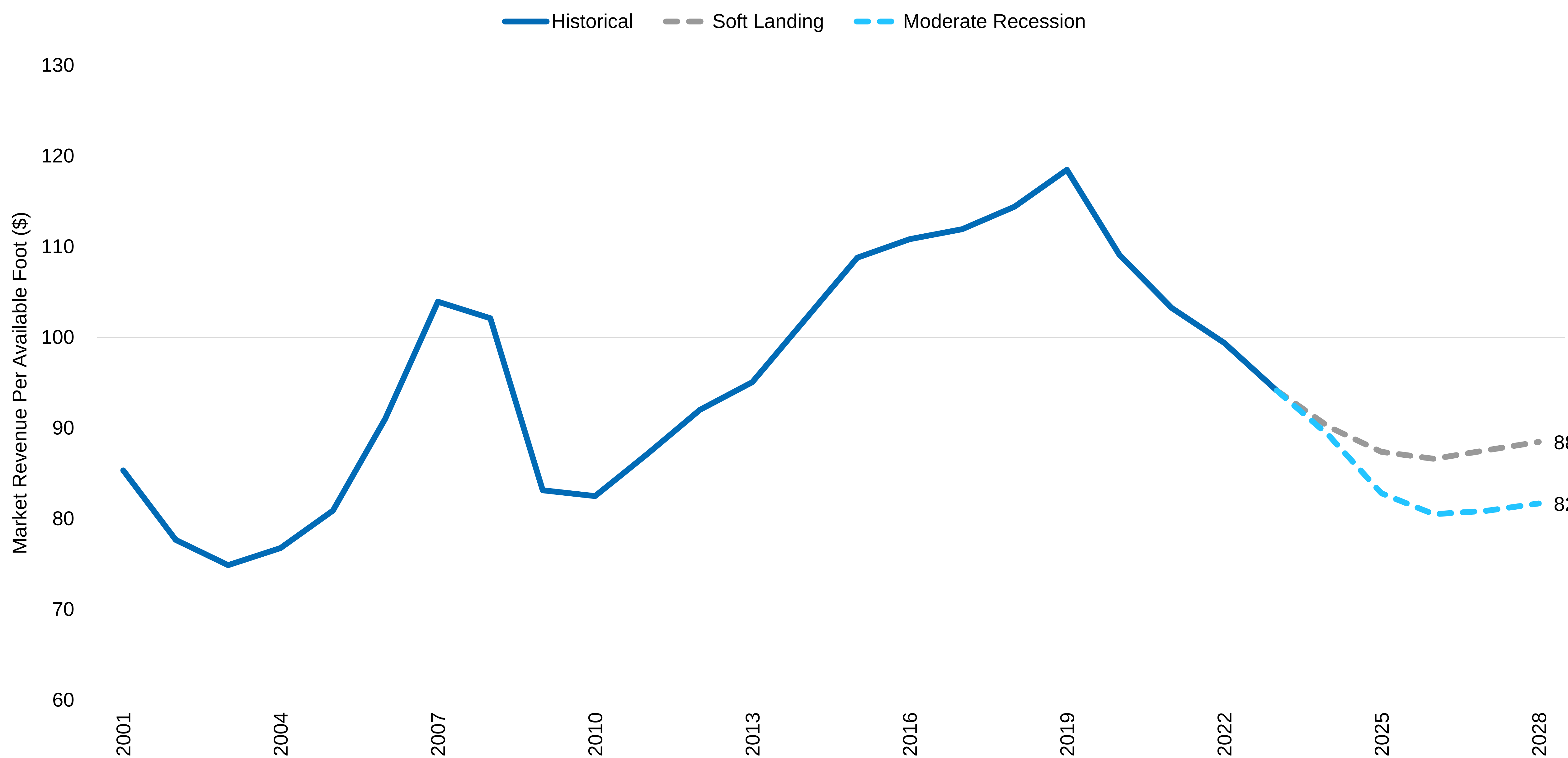


Source: Green Street data as of 10/29/2024, Newmark Research
*Market revenue per available foot combines the impact of changes in effective rents and occupancy to produce a measure of overall leasing market performance.

Broad Market Fundamentals Face Slow Recovery

Market revenue per available foot has been on a downward trend since 2019 and is unlikely to bottom out until late 2025, at the earliest. A recession would deepen the trough and slow the rebound. Even with a soft landing, the office market fundamentals will only gradually improve, reaching previous peak levels through the phased removal of obsolete stock. In contrast, newer, well-located properties have seen markedly different trends and will continue to perform well.

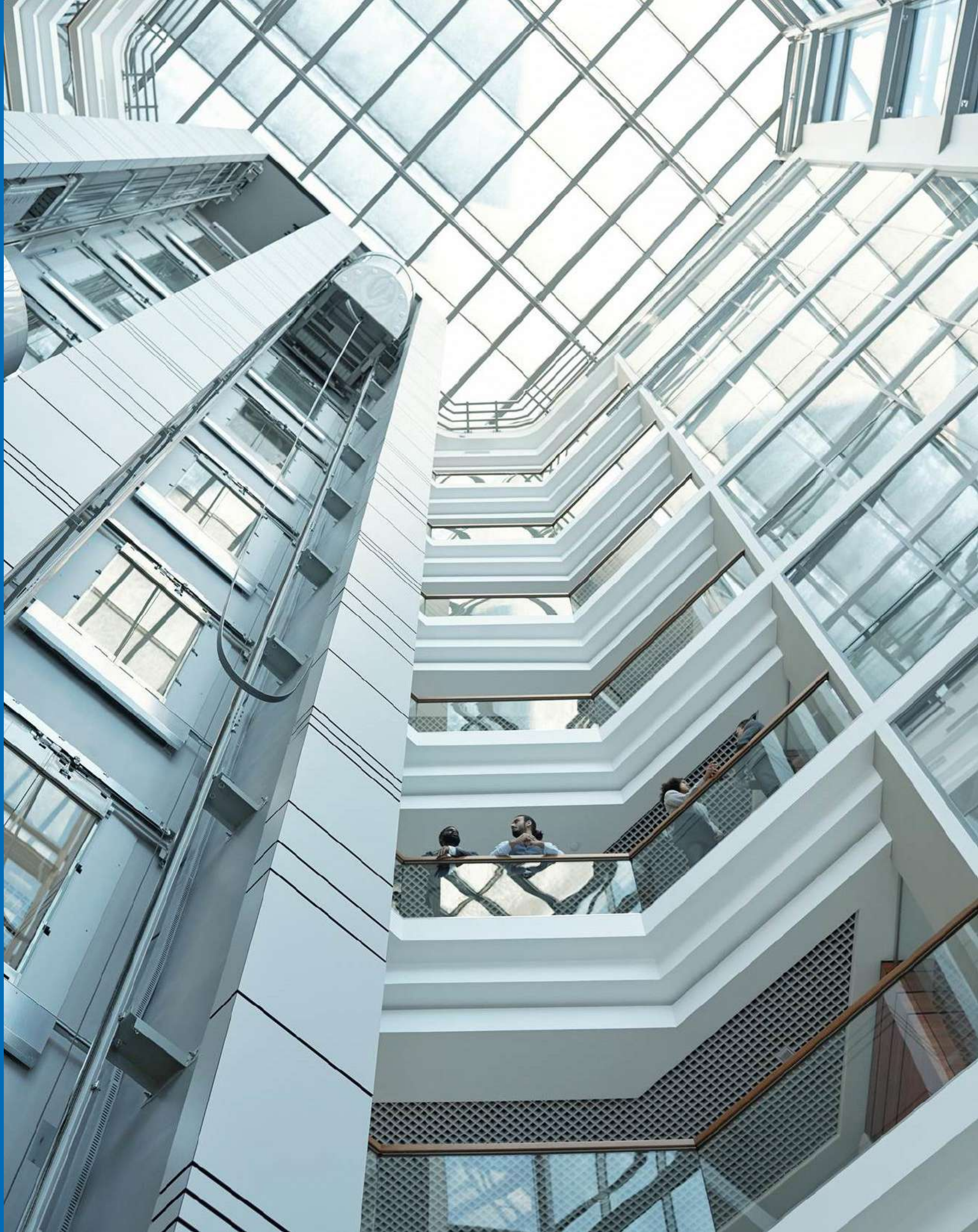
Green Street M-RevPAF (December 2000 = 100)



Sources: Green Street (June 2024), Newmark Research as of 10/29/2024

3Q24 UNITED STATES OFFICE LEASING HOUSE VIEW

Class Conundrum

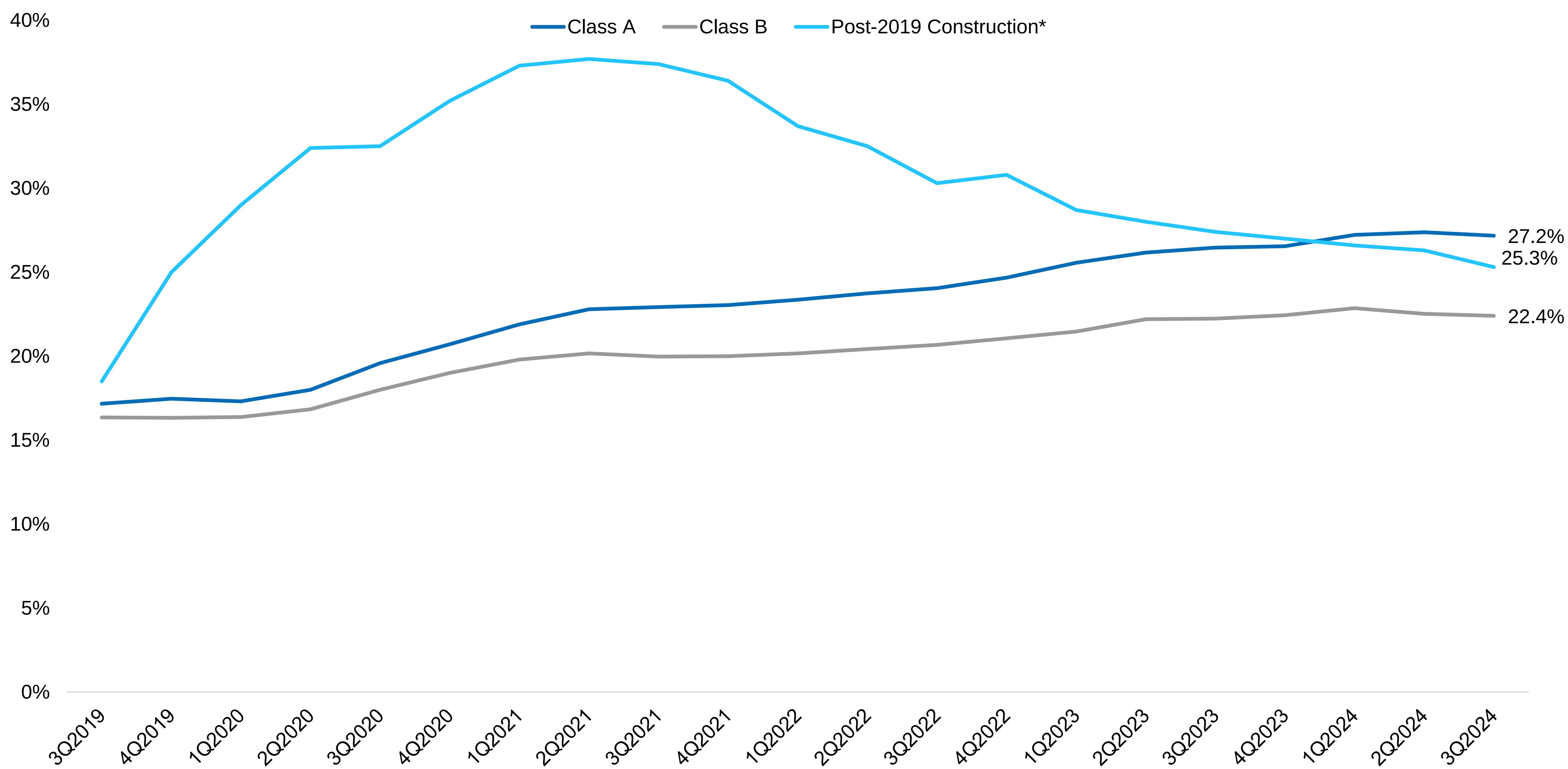


We often hear the office market described as a split between "trophy" and "trauma." While it's true that trophy assets are outperforming, we also see additional nuances and inefficiencies in today's market—notably, the paradoxical resilience of Class B office space compared to commodity Class A properties.

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

Prior to the pandemic, Class A and Class B availability rates were nearly identical, but the gap has widened considerably as Class A office has underperformed. Newly constructed office space initially saw a sharp rise in availability as a wave of new supply met reduced demand. However, this new stock has steadily leased up, resulting in occupancy rates that now outperform existing Class A properties and are approaching the Class B rate.

Office Market Availability Rate By Class

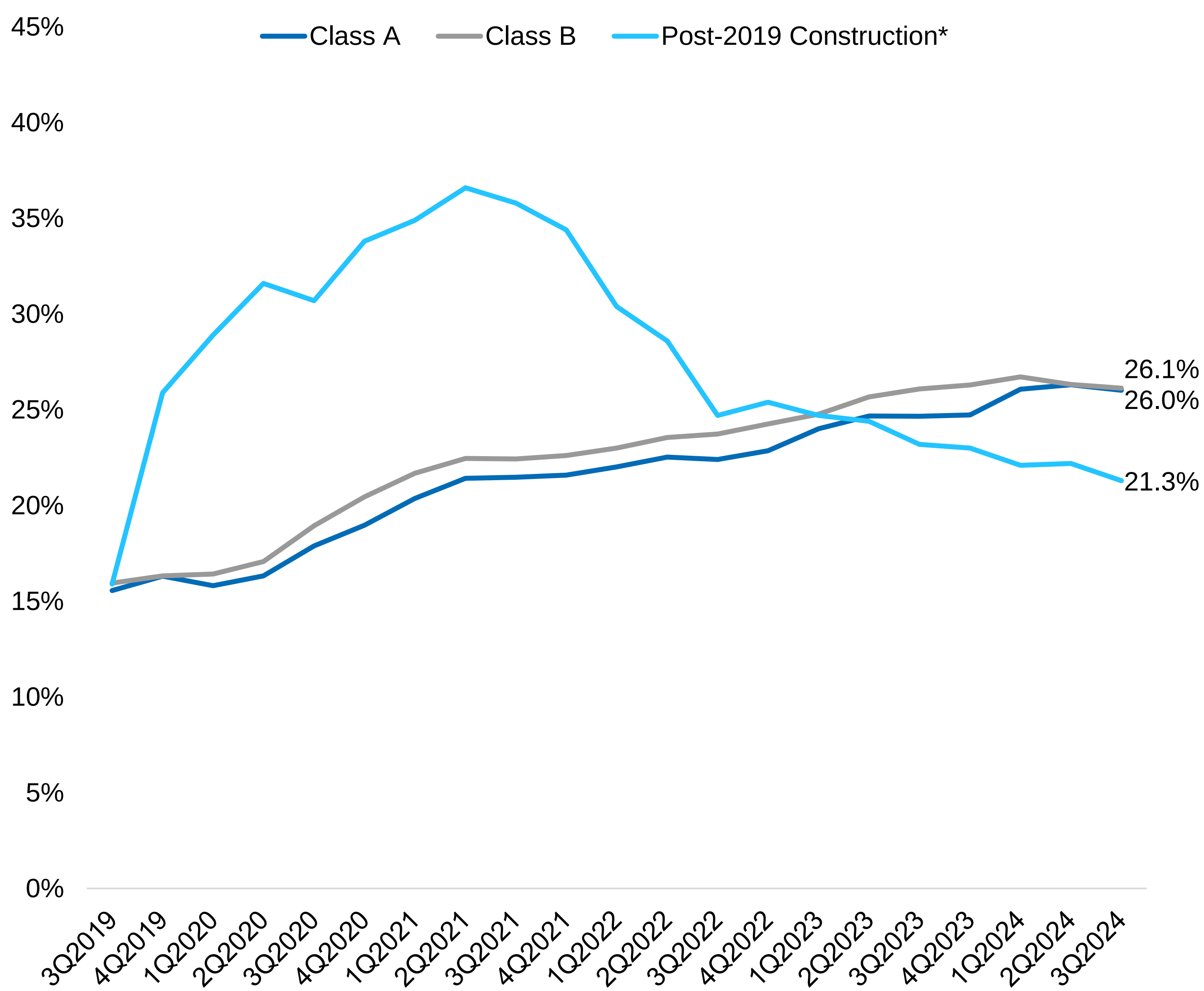


Source: CoStar, Newmark Research as of 10/29/2024
*Office buildings over 20,000 SF. 5-Star CoStar Rating. Excludes owner-occupied.

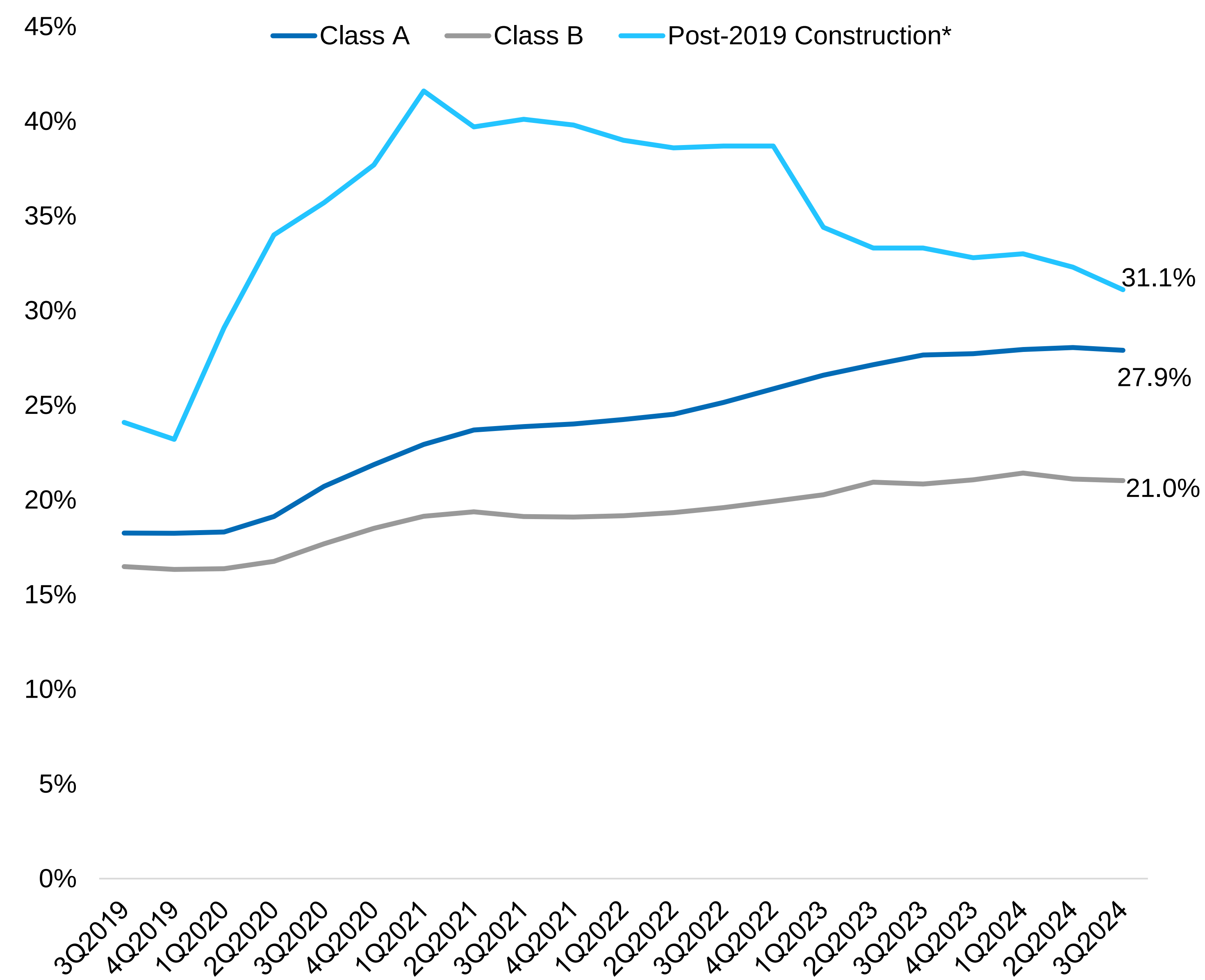
Quality Matters Most In CBD Markets; Value In Suburbs

In CBD markets, availability rates are tightly clustered, with higher-quality spaces consistently outperforming (new construction > Class A > Class B). In contrast, suburban markets display consistently lower availability rates for Class B properties. Suburban new construction has faced challenges in 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

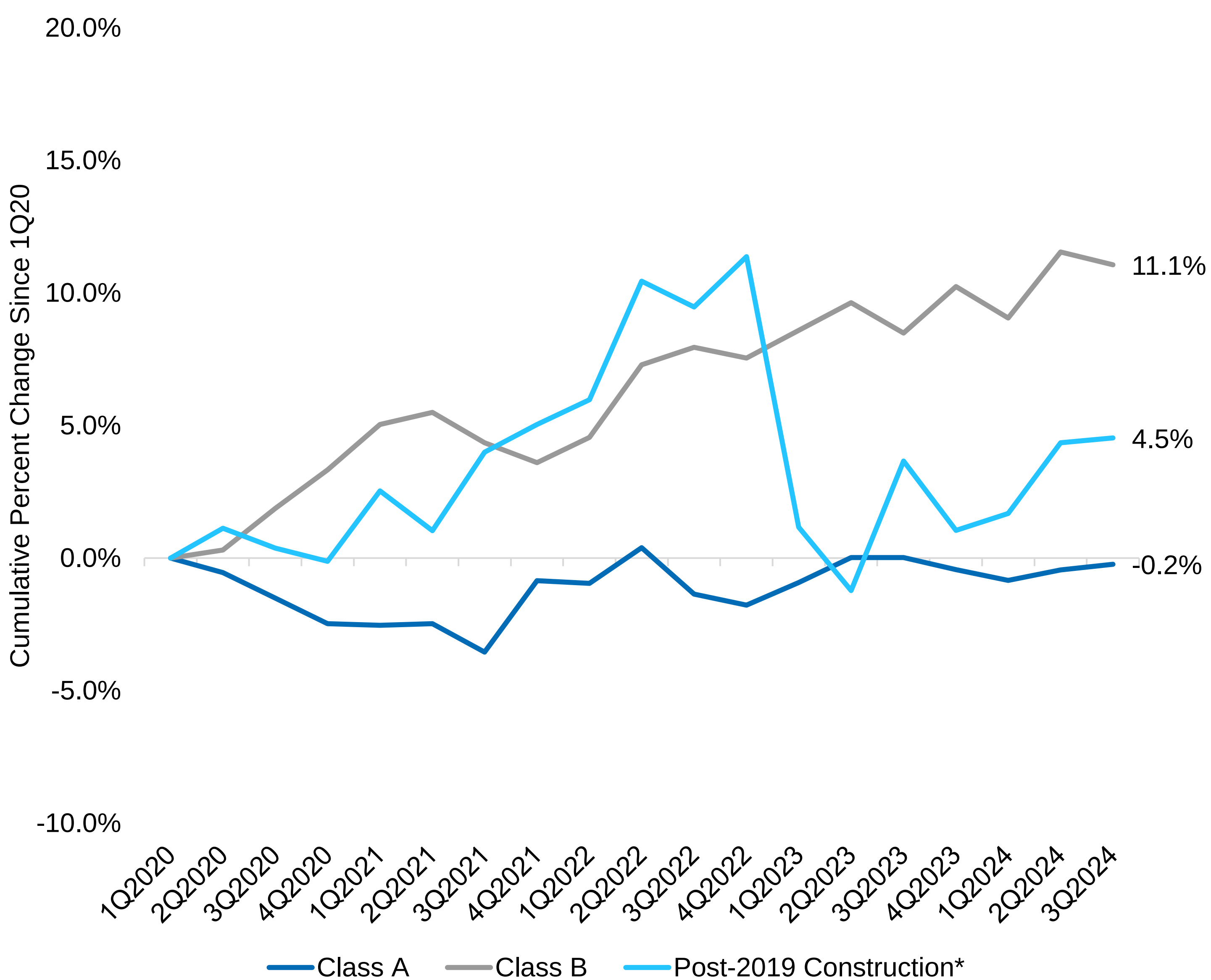


Source: CoStar, Newmark Research as of 10/29/2024
*Office buildings over 20,000 SF. 5-Star CoStar Rating. Excludes owner-occupied.

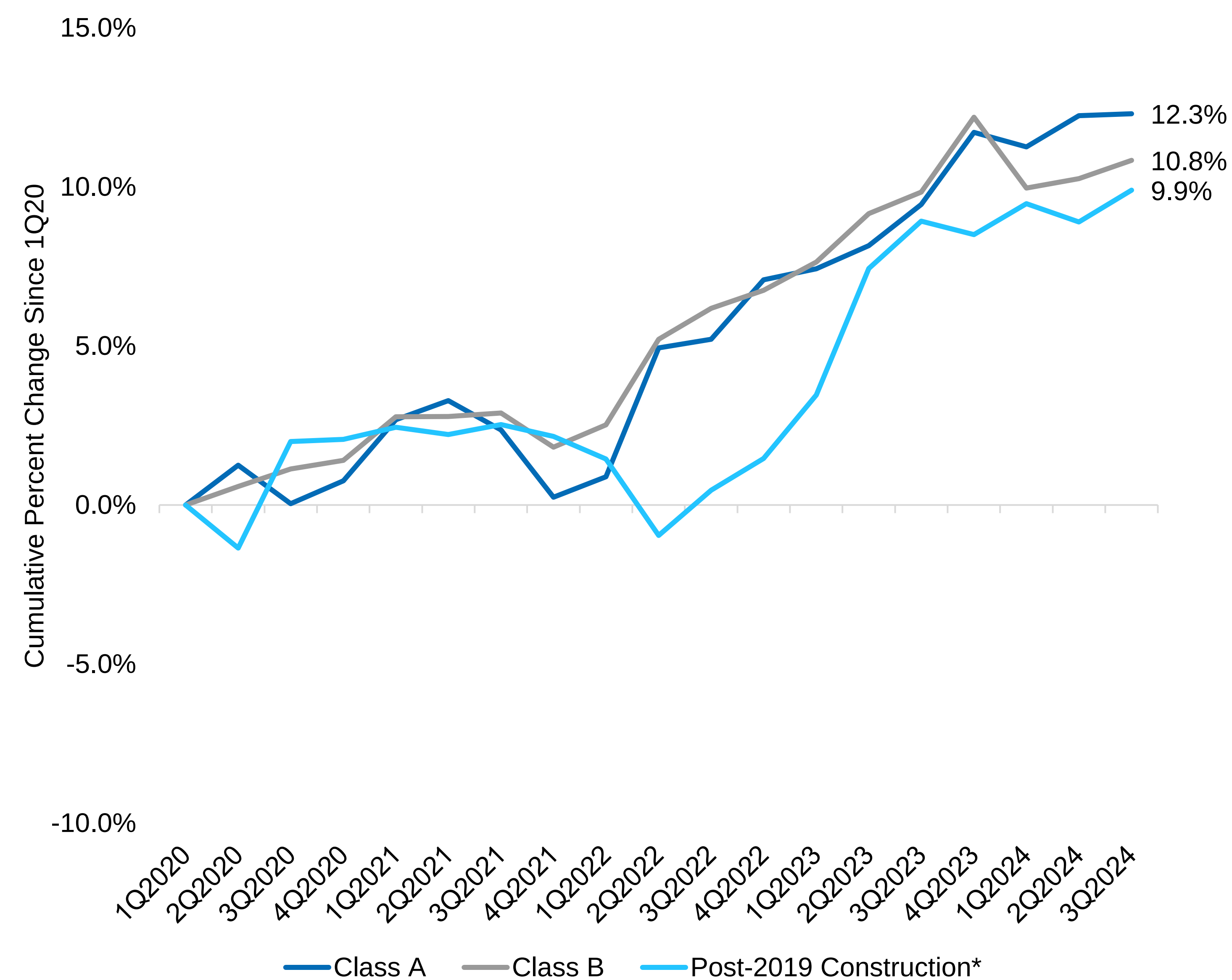
Asking Rent Growth Decoupled From Availability

Since the first quarter of 2020, asking rents have risen across class segments in both CBD and non-CBD markets, except for CBD Class A properties, despite high availability rates. Overall, non-CBD rents have generally outpaced those in CBD markets. Within CBDs, Class B asking rents have seen significant gains since early 2020, while Class A rents have remained relatively flat, with post-2019 construction performance falling in between.

CBD – Overall Gross Rent (Cumulative Percent Change)



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

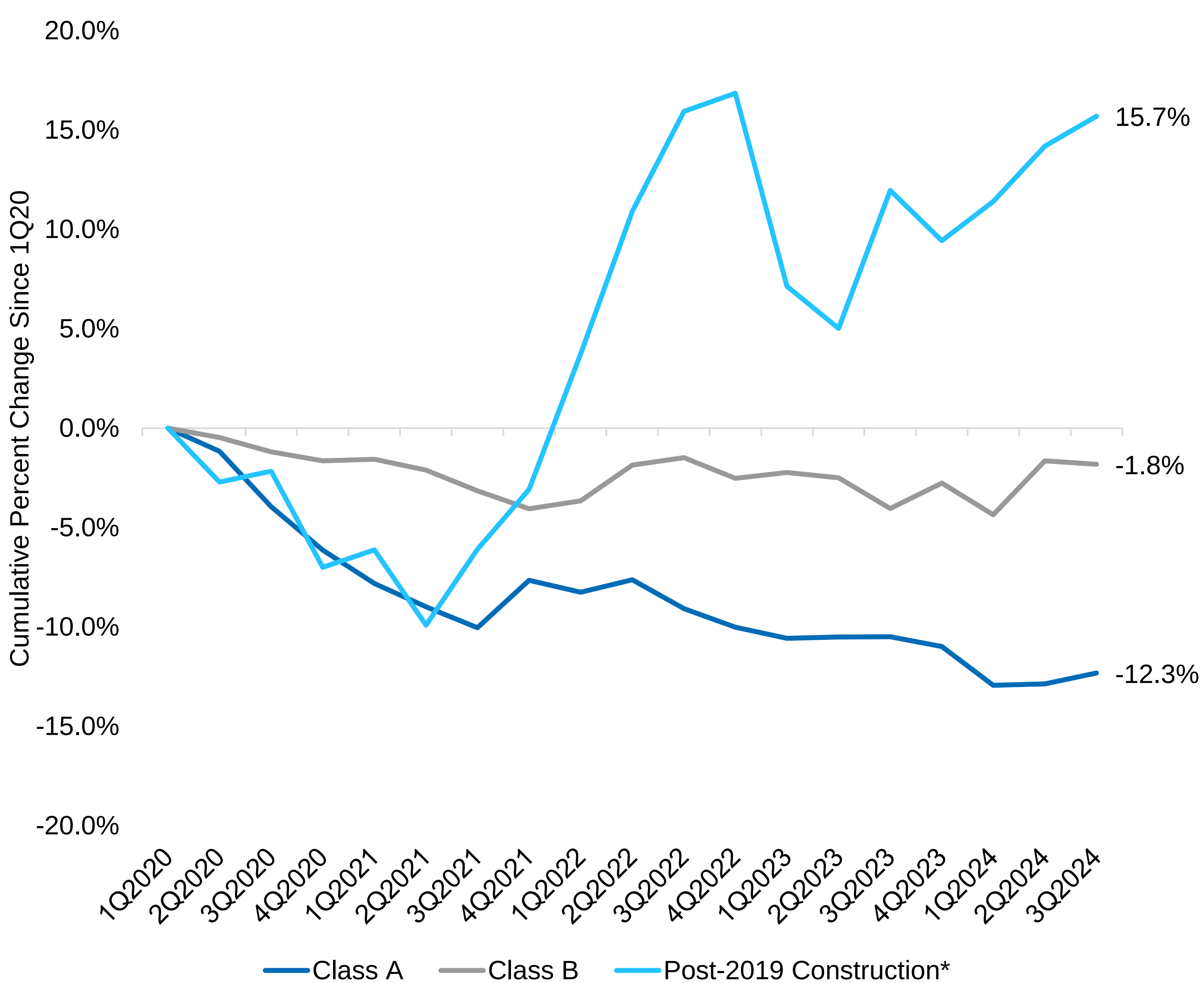


Source: CoStar, Newmark Research as of 10/29/2024
*Office buildings over 20,000 SF. 5-Star CoStar Rating. Excludes owner-occupied.

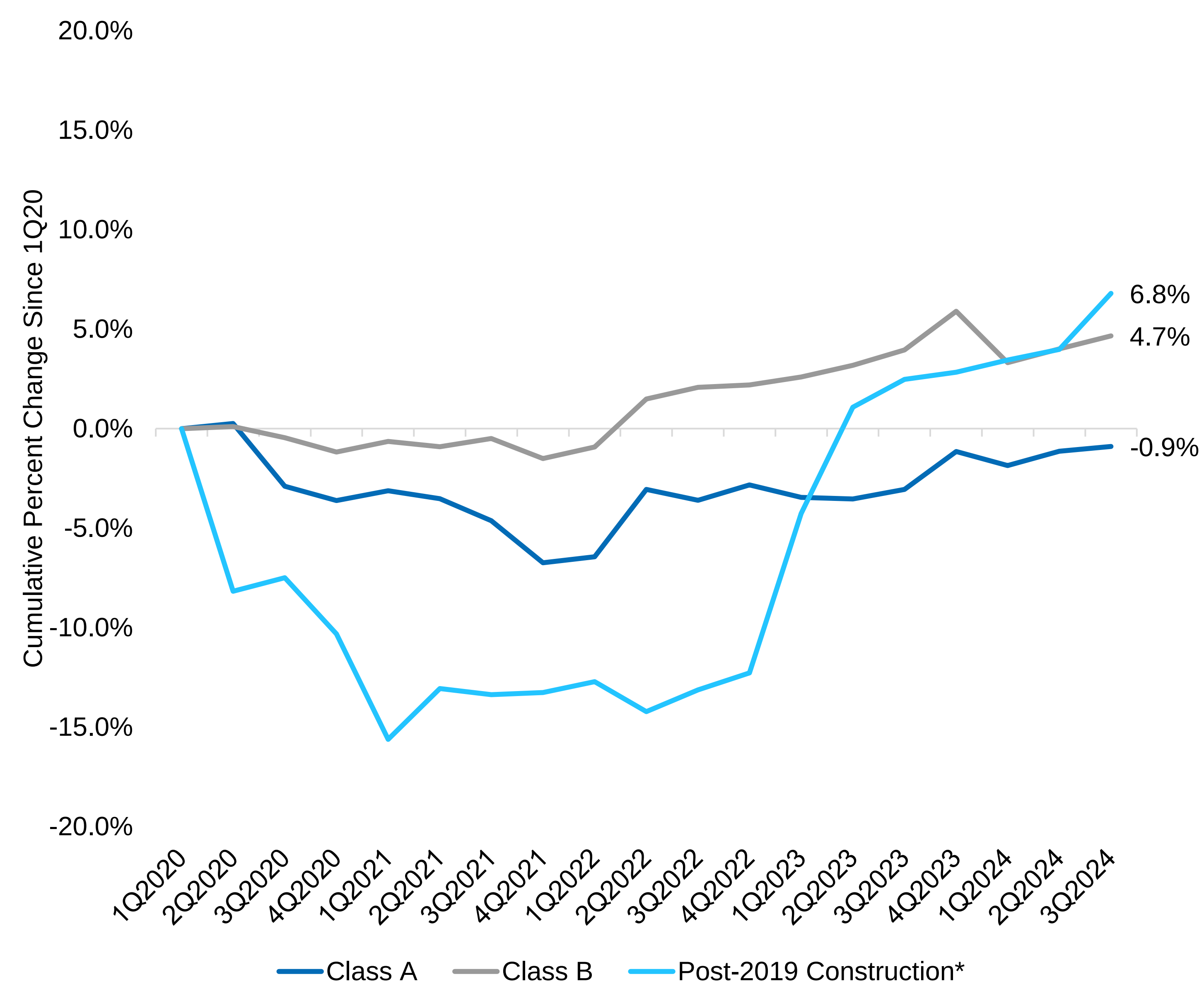
Quality Matters Most In CBD Markets; Value In Suburbs (Part 2)

Rent per available foot (RPAF)**, which reflects changes in both rents and availability, shows that only new construction and Class B non-CBD properties have improved operating performance since the first quarter of 2020. Non-CBD markets have generally outperformed, except for new CBD office, which has successfully leased up, albeit with slower asking rent growth. Class A properties have lagged behind Class B, primarily due to lower occupancy. This trend suggests that Class A owners may benefit from lowering rents to more effectively compete for tenant demand.

CBD – Rent Per Available Foot**



Non-CBD – Rent Per Available Foot**

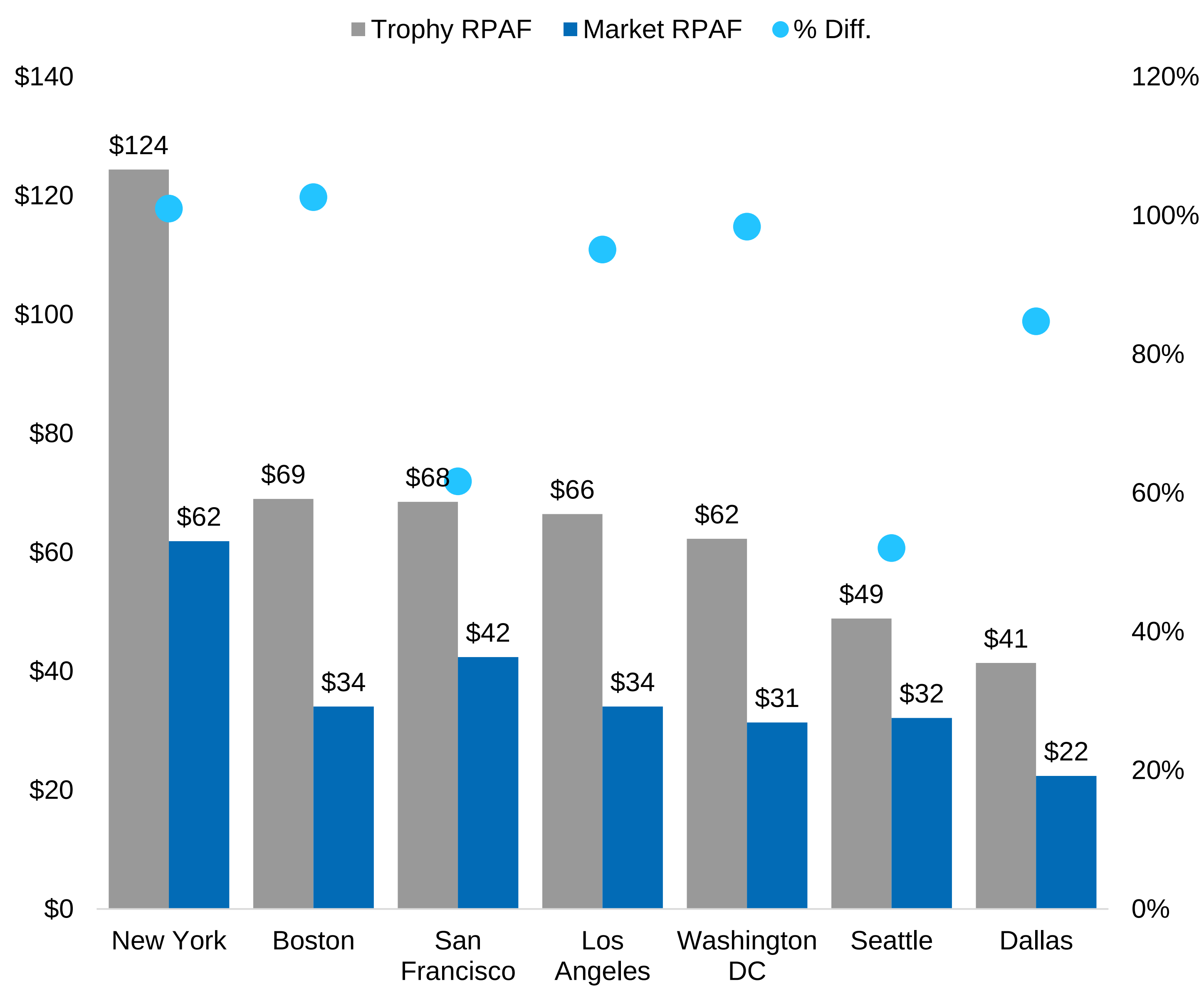


Source: CoStar, Newmark Research asof 10/30/2024
*Office buildings over 20,000 SF. 5-Star CoStar Rating. Excludes owner-occupied.
**Gross Asking Rent x (1-Total Availability Rate)

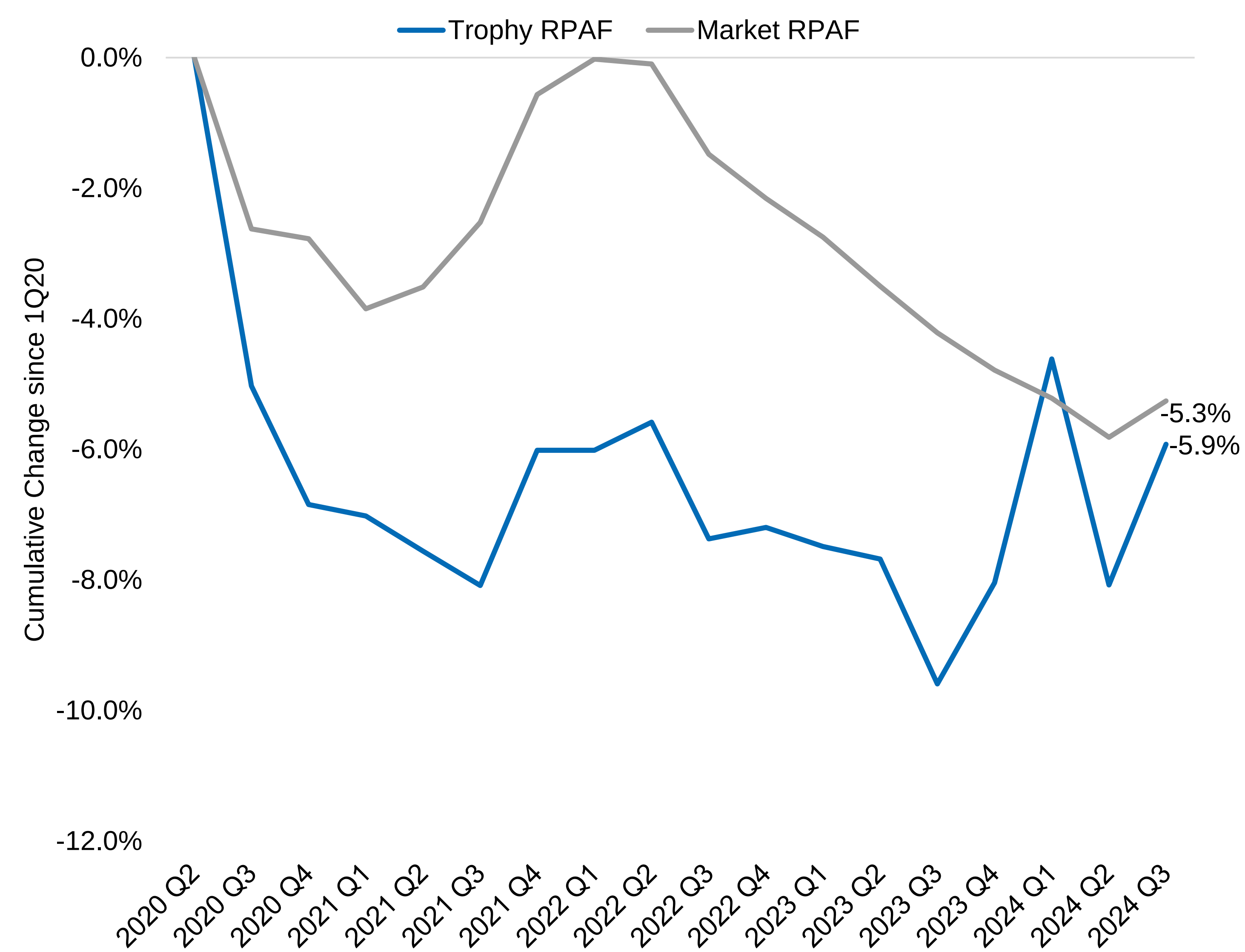
Trophy Cash Flow Premia Are Large, But Trophy Has Not Been Immune

In several major gateway markets, true trophy assets have significantly outperformed from a cash flow perspective. In New York, trophy properties command a 107% premium in rent per available foot (RPAF) over the rest of the market. Across a selection of top office markets, this premium averages 85.1%. However, trophy RPAF has declined by 5.9% since the second quarter of 2020, in line with the broader market. For those prioritizing sequential improvements in operating metrics, trophy status alone has not been sufficient.

Gateway Market Comparison – Rent Per Available Foot**



Trophy versus Market – Rent Per Available Foot**

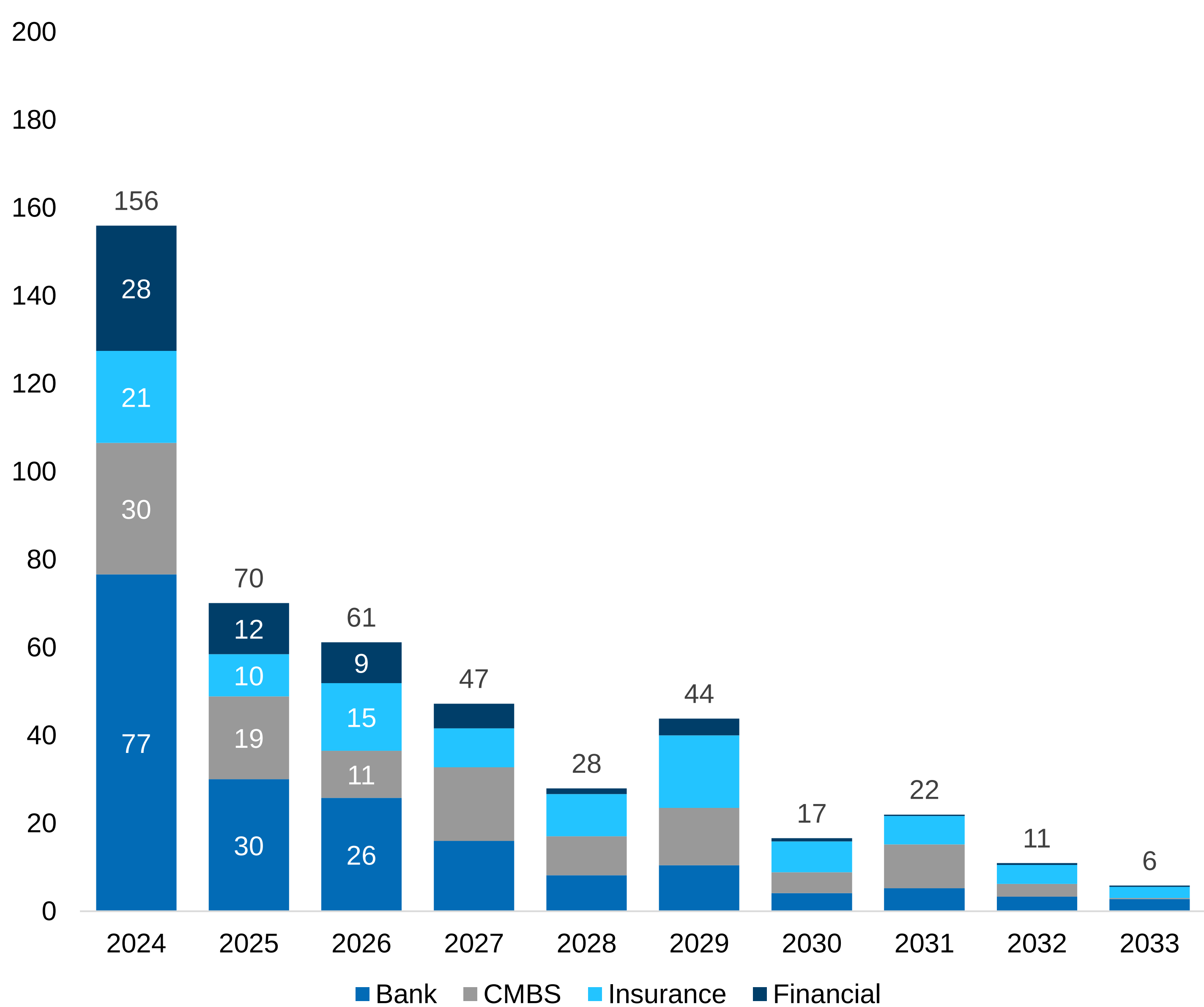


Source: CoStar, Newmark Research as of 10/30/2024
*"Trophy product" in this analysis is defined as fully stabilized buildings, representing around 10% of each market's inventory square footage, capturing the highest gross overall asking rents.
**Gross Asking Rent x (1-Total Availability Rate)

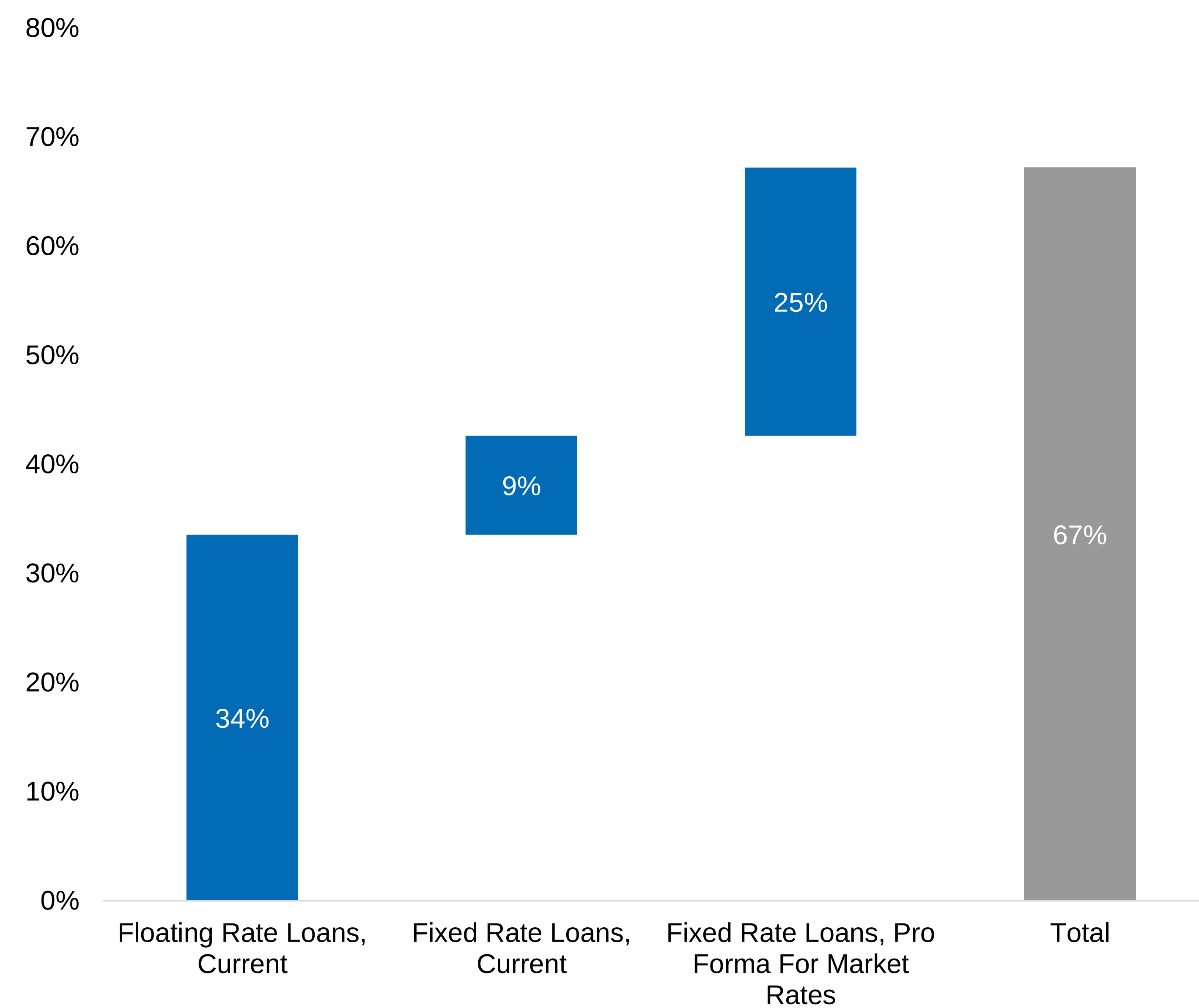
Debt Distress Limits Landlords' Ability to Lower Rents for Higher Occupancy

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%



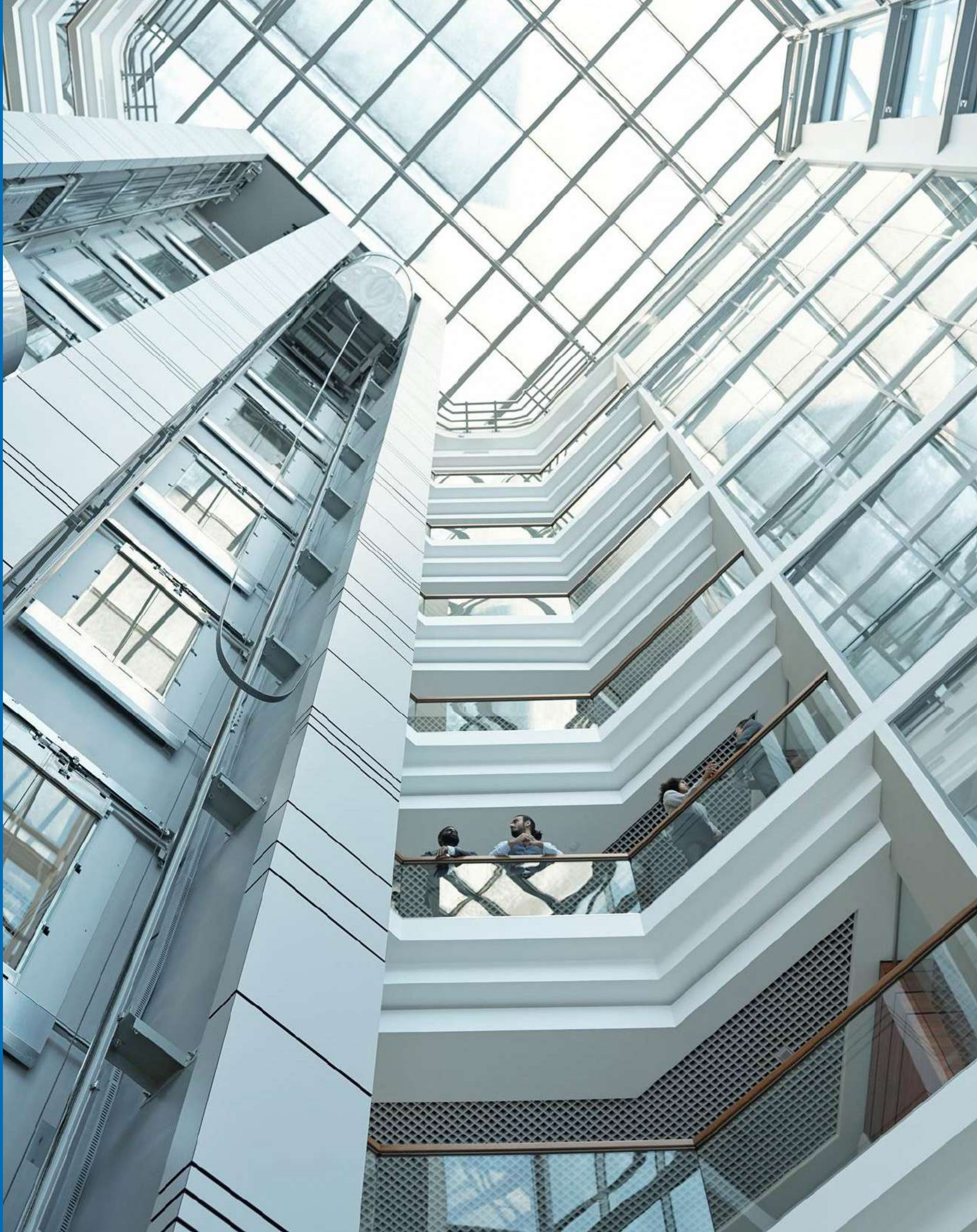
Pre-2026 Securitized Office Maturities with DSCR under 1.25x



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

3Q24 UNITED STATES OFFICE LEASING HOUSE VIEW

Office Market Statistics



National Office Market Statistics

3Q24

Market Statistics – All Classes

	Total Inventory (SF)	Under Construction (SF)	3Q 2024 Net Absorption (SF)	2024 YTD Absorption (SF)	Overall Vacancy Rate	Average Asking Rent (Price/SF)
National	**5,115,516,581**	**38,716,819**	**-3,245,903**	**-27,926,925**	**20.38%**	**$32.00**
Atlanta‡	159,586,254	1,354,337	-125,325	-134,596	25.8%	$32.28
Austin‡	84,144,510	2,705,695	-94,888	201,430	24.10%	$40.97
Baltimore‡	80,580,903	587,985	-30,685	324,174	15.4%	$24.79
Boston^	177,419,222	2,112,808	-588,349	-3,457,662	21.4%	$45.85
Broward County, FL	34,597,703	174,790	-15,671	119,660	14.9%	$37.50
Charlotte‡	56,730,699	252,643	-85,031	-476,418	26.8%	$34.00
Charleston, SC	14,723,625	50,000	89,002	-83,388	13.3%	$31.85
Chicago^	251,622,724	369,000	-232,699	-1,885,342	24.4%	$34.05
Cincinnati‡	34,654,120	43,000	73,459	162,652	25.0%	$20.21
Cleveland‡	39,398,203	1,222,253	77,486	-24,943	23.1%	$19.96
Columbia, SC	16,415,769	0	526,085	575,748	9.9%	$19.45
Columbus‡	41,197,875	432,832	124,735	707,164	22.4%	$22.03
Dallas‡	284,090,363	3,540,268	1,311,979	360,054	24.60%	$30.60
Delaware	15,618,909	100,000	41,122	38,768	18.8%	$27.30
Denver‡	101,797,023	616,529	-232,942	-881,316	28.4%	$32.00
Detroit‡	79,529,138	380,821	-340,689	-702,729	22.8%	$20.63
Fairfield County, CT^	37,519,373	0	-351,740	-650,471	23.6%	$38.55
Fresno	21,917,550	126,843	-3,047	-6,097	8.8%	$22.56
Greenville, SC	23,163,680	57,300	76,452	48,964	9.8%	$24.59
Hampton Roads	28,098,616	0	73,836	158,878	12.3%	$22.37

^ 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

3Q24

Market Statistics – All Classes

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National	**5,115,516,581**	**38,716,819**	**-3,245,903**	**-27,926,925**	**20.38%**	**$32.00**
Houston‡	245,596,400	1,227,029	466,840	-3,571	25.2%	$30.05
Indianapolis‡	34,364,758	106,318	-291,846	-840,967	27.1%	$20.74
Inland Empire, CA^	27,677,651	44,081	23,111	360,211	9.0%	$25.81
Jacksonville‡	33,876,001	61,000	508,805	-109,226	17.8%	$22.87
Kansas City‡	74,165,644	60,100	267,827	41,867	17.0%	$22.44
Las Vegas‡	39,796,497	291,200	92,660	-172,943	12.8%	$27.06
Long Island^	57,074,855	0	-125,614	-35,443	12.6%	$28.50
Los Angeles^	218,936,999	1,882,132	-579,228	-3,208,832	25.1%	$48.37
Manhattan^	457,855,842	468,541	-565,593	-7,429,447	13.0%	$75.97
Memphis‡	35,175,759	200,000	350,348	242,107	15.2%	$19.96
Miami‡	49,309,164	1,220,866	147,892	363,061	14.3%	$55.93
Milwaukee‡	36,310,570	0	-54,602	6,318	21.0%	$20.28
Minneapolis‡	116,689,222	400,000	-724,456	-1,372,778	18.7%	$28.40
Nashville‡	61,790,986	2,661,783	-42,453	356,410	17.3%	$31.16
New Jersey Northern^	166,450,861	1,143,787	612,496	377,084	19.5%	$31.33
New Jersey Southern	15,872,080	0	33,628	82,745	15.3%	$21.90
North Bay, CA	14,679,523	0	-7,057	-25,677	18.0%	$33.36
Oakland/Greater East Bay^	63,547,624	0	-415,557	-813,081	23.21%	$42.89
Oklahoma City	20,288,369	115,000	94,402	80,466	18.0%	$20.02
Orange County, CA^	95,501,407	0	54,269	727,281	17.9%	$34.72

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‡ Secondary Market

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National Office Market Statistics

3Q24

Market Statistics – All Classes

	Total Inventory (SF)	Under Construction (SF)	3Q 2024 Net Absorption (SF)	2024 YTD Absorption (SF)	Overall Vacancy Rate	Average Asking Rent (Price/SF)
National	**5,115,516,581**	**38,716,819**	**-3,245,903**	**-27,926,925**	**20.38%**	**$32.00**
Orlando‡	62,809,591	432,465	52,790	-361,328	12.8%	$25.41
Palm Beach	28,214,278	568,223	-52,873	-111,711	14.3%	$47.76
Philadelphia‡	105,217,185	588,000	-252,526	-982,419	20.7%	$31.31
Phoenix‡	97,317,144	334,022	-477,367	-1,638,233	26.1%	$30.55
Pittsburgh‡	57,673,122	519,000	-391,156	-403,724	24.8%	$26.12
Portland‡	62,039,426	525,000	-282,340	-958,137	22.6%	$30.79
Raleigh/Durham‡	53,578,262	154,666	-377,681	-106,502	20.4%	$30.84
Richmond	32,518,761	71,000	181,789	264	14.9%	$21.34
Sacramento‡	66,120,350	594,000	258,719	-60,180	16.8%	$25.96
Salt Lake City‡	78,053,160	450,101	-276,167	284,987	15.4%	$25.03
San Antonio‡	48,612,118	516,098	84,719	-20,232	17.90%	$23.98
San Diego‡	74,918,155	5,153,710	180,928	141,866	17.3%	$40.74
San Francisco^	90,652,081	0	-559,782	-887,834	30.3%	$69.08
San Francisco Peninsula^	61,977,941	454,499	253,046	-30,326	19.7%	81.75
Seattle‡	136,846,161	2,101,133	-111,928	-1,308,812	20.2%	$44.07
Silicon Valley^	84,164,212	826,741	-557,420	192,319	20.2%	$57.09
St. Louis‡	73,514,508	41,000	-134,891	-612,176	14.6%	$22.96
Tampa/St. Petersburg‡	61,131,519	518,929	27,482	-334,828	15.0%	$29.47
Washington, DC^	366,938,427	859,291	-798,264	-3,392,583	21.4%	$42.53
Westchester County, NY^	25,453,709	0	-151,943	-357,451	25.3%	$28.63

^ Major Market
‡ Secondary Market
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