3Q23

United States Office Market Overview

Market Observations

- **Demand Drivers.** The Federal Reserve's efforts to combat inflation have modestly slowed employment growth, but overall, labor markets remain in expansion and national GDP growth was robust at 4.9% in the third quarter of 2023, a notable increase from 2.1% in the second quarter of 2023. National office-using employment is now 6.3% above December 2019 levels, with the recovery being led by technology, advertising, media and information companies. Accordingly, technology companies drove much of the leasing activity over the last two years; however, in the year to date, technology companies have accounted for just 8.8% of leasing activity, down from 37.0% in 2022.
- **Leasing Fundamentals**. Net absorption continued to contract in the third quarter of 2023, driven most strongly by the West and East. Both major gateway and secondary markets shed a comparable amount of occupancy in the quarter. The South and Sun Belt regions continue to perform well relative to the nation, though occupancy saw further declines in the third quarter of 2023 in these regions. Leasing activity was again sluggish in most markets in the third quarter of 2023, decelerating nationally to an estimated 1.1% of inventory compared with the quarterly average of 1.4% realized between 2011 and 2019. Minimal leasing activity as a percent of inventory was relatively ubiquitous across most regions and market sizes, indicating a slowdown in the momentum that had been gained in the prior two years in some secondary and Sun Belt markets.
- **Segmentation Analysis.** Quality office assets continue to command a disproportionate share of the market's limited activity, with leasing activity in the Class A sector accounting for 49.1% of all leasing in the third quarter of 2023. This has declined from a recent high of 54.6% in the fourth quarter of 2021. Class A vacancy increased 220 basis points year over year, in line with the overall market. However, there is growing segmentation in this top tier with "commodity Class A" (four-star) inventory recording vacancy that was 250 basis points higher than "trophy" (five-star) at the end of the third quarter of 2023. This difference has increased 190 basis points since the end of 2019.
- **Debt Capital Markets.** The office market faces unprecedented challenges over the next 18 to 24 months. Nearly $400 billion in office loans mature between 2023 and 2025. Of these, we estimate that $368 billion would have an LTV of 80% or greater if marked to market. Moreover, we find that 49% of securitized office loans maturing in the same period would have a DSCR of 1.25x or less at prevailing market rates. Borrowers will struggle to refinance existing loans, and legacy debt issues will impede new financing for the sector.
- **Investment Activity.** Office investment activity decelerated once again in the third quarter of 2023. Investment sales were down 64% year over year through the third quarter of 2023, while office loan originations declined 54% year over year. No market segment has been spared from the slowdown in transaction activity, though on the margin tertiary markets, suburban assets, as well as Southwest and Mid-Atlantic markets, have been more resilient.
- **Pricing.** Transaction cap rates increased by 50 basis points quarter over quarter in the third quarter of 2023 amid rising long-term interest rates. Further adjustments are likely, given the continued elevated cost of capital. While cap rates have risen for both Central Business District and Suburban properties, CBD office markets have seen larger adjustments, causing cap rate levels to converge. The increases in cap rates have been catalyzed by the rapid increases in the cost of debt, which have risen from 3.3% in the third quarter of 2021 to 7.0% today in the fixed-rate market. REIT-implied cap rates have been far more reactive and far more honest compared with the illiquid transaction market. Office REITs are trading an implied 9.5% cap rate and are the only sector offering above-average spreads to the cost of debt.
- **Returns.** Office REITs set new lows in October 2023 but have rallied with the broader market recently; nonetheless, they are still down 47% since December 2021, the worst performance of any sector. While the truth of valuation typically lies somewhere between the public and private markets, it seems this time the public markets were closer to the mark. Private markets have only recently begun to capitulate. According to NCREIF, office properties returned negative 13.9% annualized in the third quarter of 2023. CBD office properties underperformed with an annualized quarterly return of negative 18.3% in the third quarter of 2023.

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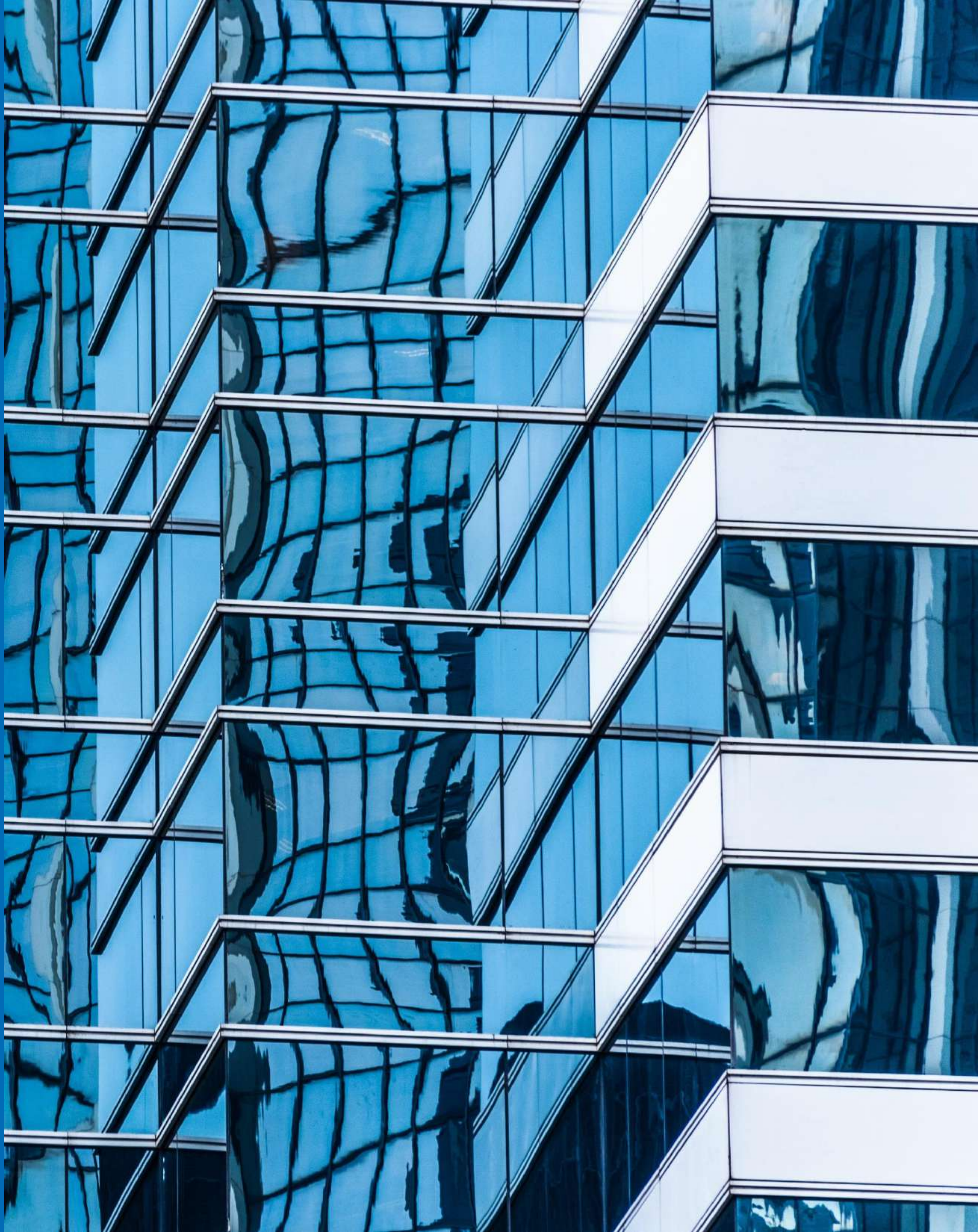
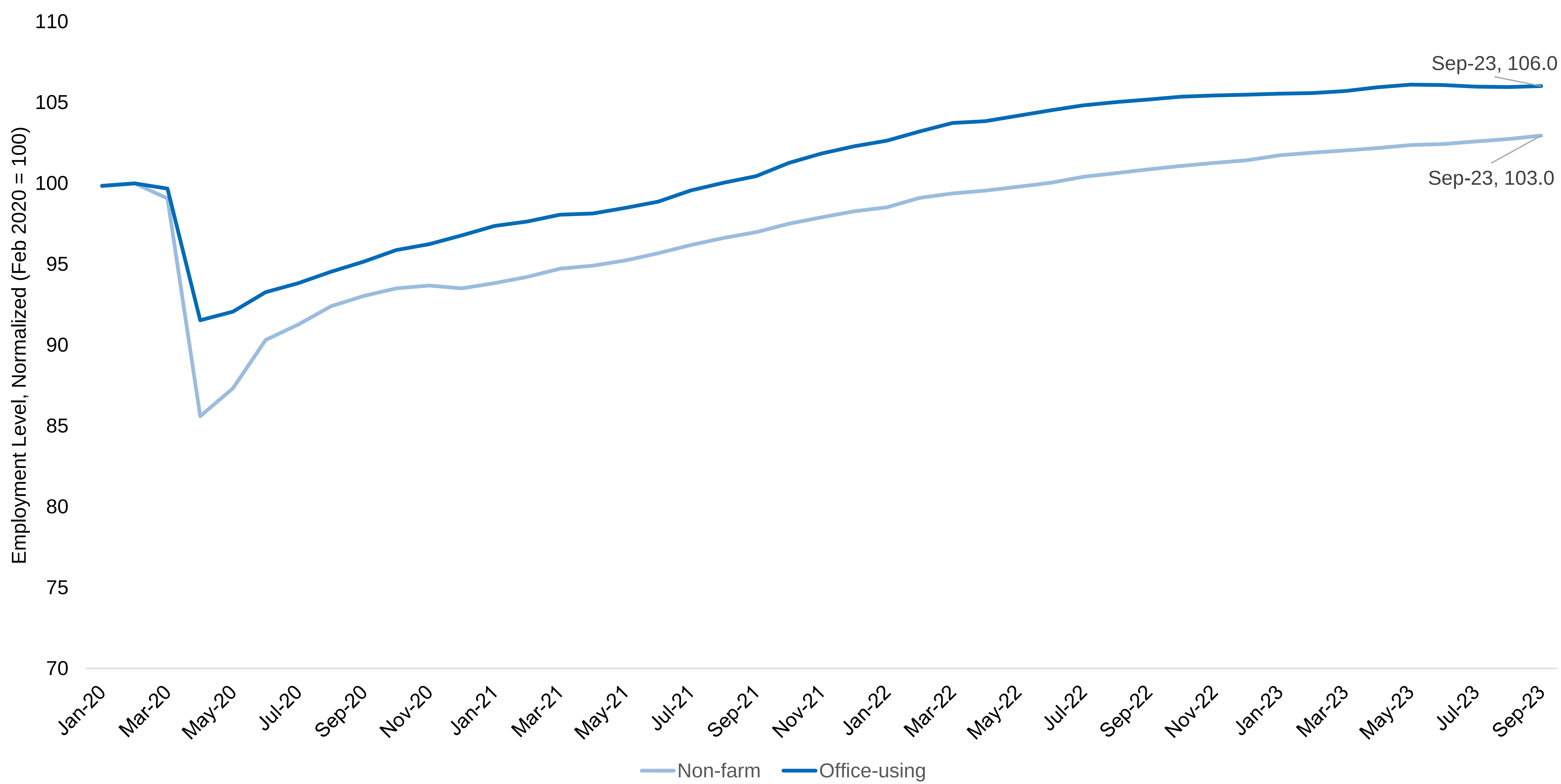
Demand Drivers



Office-Using Employment Has Outpaced the Overall Labor Recovery

National nonfarm employment recovered to pre-pandemic levels in June 2022 and is up 20.3% 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. This is significant because net-new jobs can provide a counterweight to the negative demand effects from remote work. Conservatively assuming 120 feet of office space for each of these workers suggests that *new jobs have added or replaced 239.8 million SF of office demand.*

Employment Recovery Comparison – Normalized to February 2020

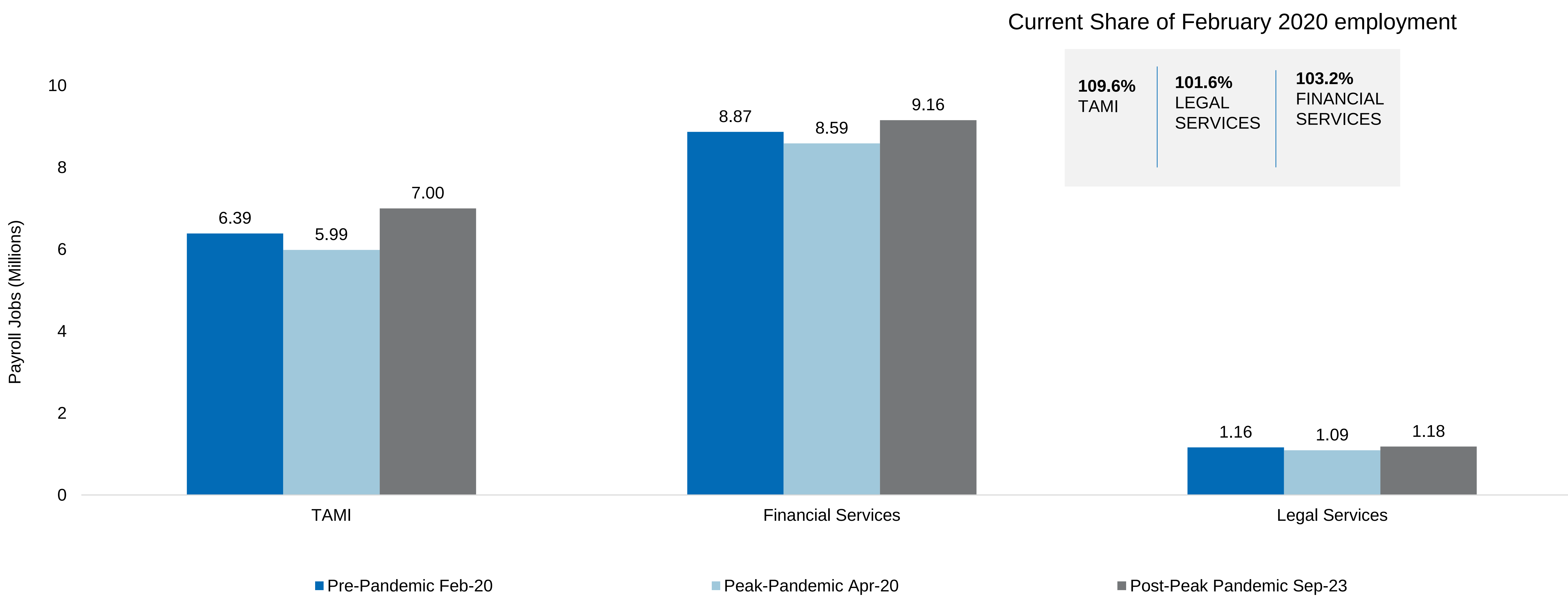


Sources: U.S. Bureau of Labor Statistics, Newmark Research
Seasonally Adjusted

Employment Growth across Office-Using Industries

Employment now exceeds pre-pandemic levels across office-using industries. The recovery in TAMI has been particularly strong, despite significant layoffs in the information sector in 2023, with employment 9.6% above February 2020 levels. Impressive gains have been made across a range of professional and business services, which in the aggregate are up 5.7% from February 2020. Legal services have more than fully recovered as well, but less than these other categories.

Employment by Industry

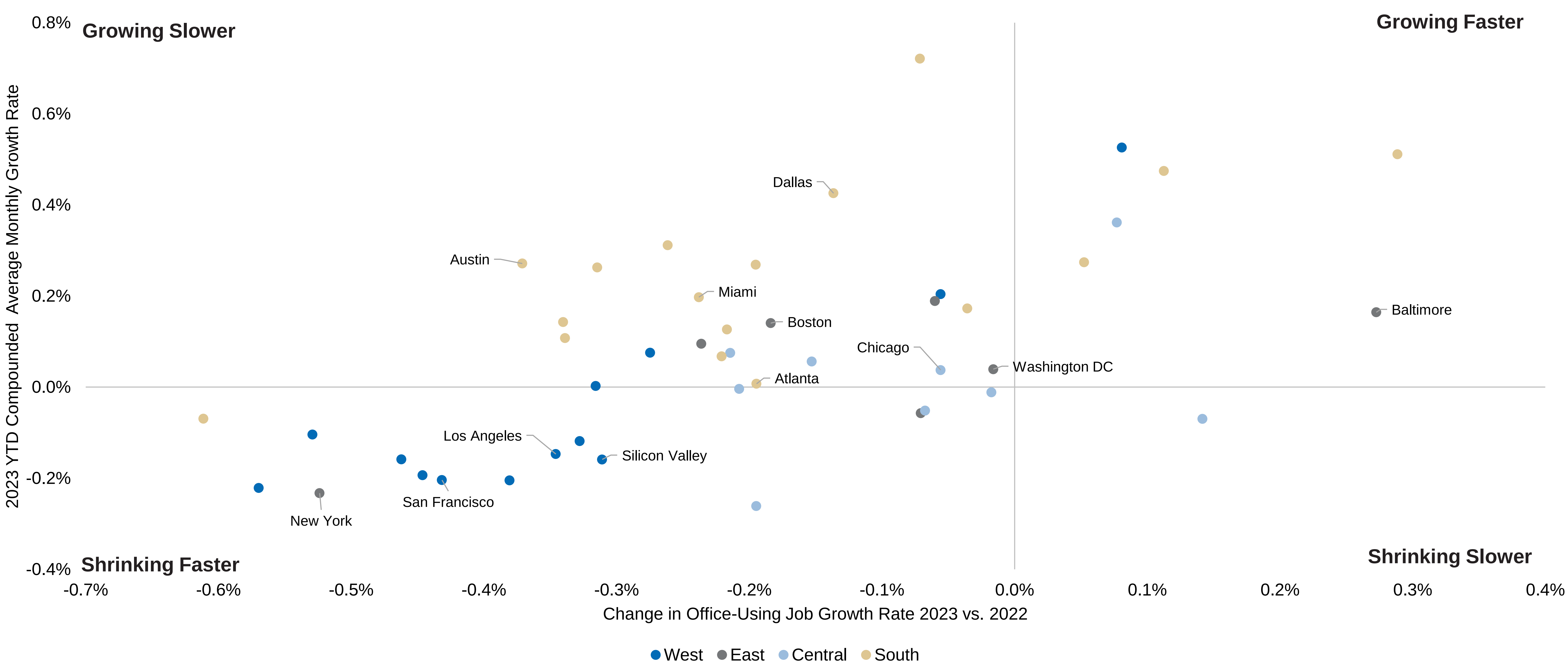


Sources: United States Department of Labor, Newmark Research

Office-Using Employment Growth Decelerating in Most Markets

While most markets have recorded positive office-using employment growth in 2023, nearly all markets saw that trajectory decelerate compared with 2022, with only a handful of notable exceptions.

2023 Compounded Average Monthly Office-Using Employment Growth vs. 2022 – 2023 Acceleration

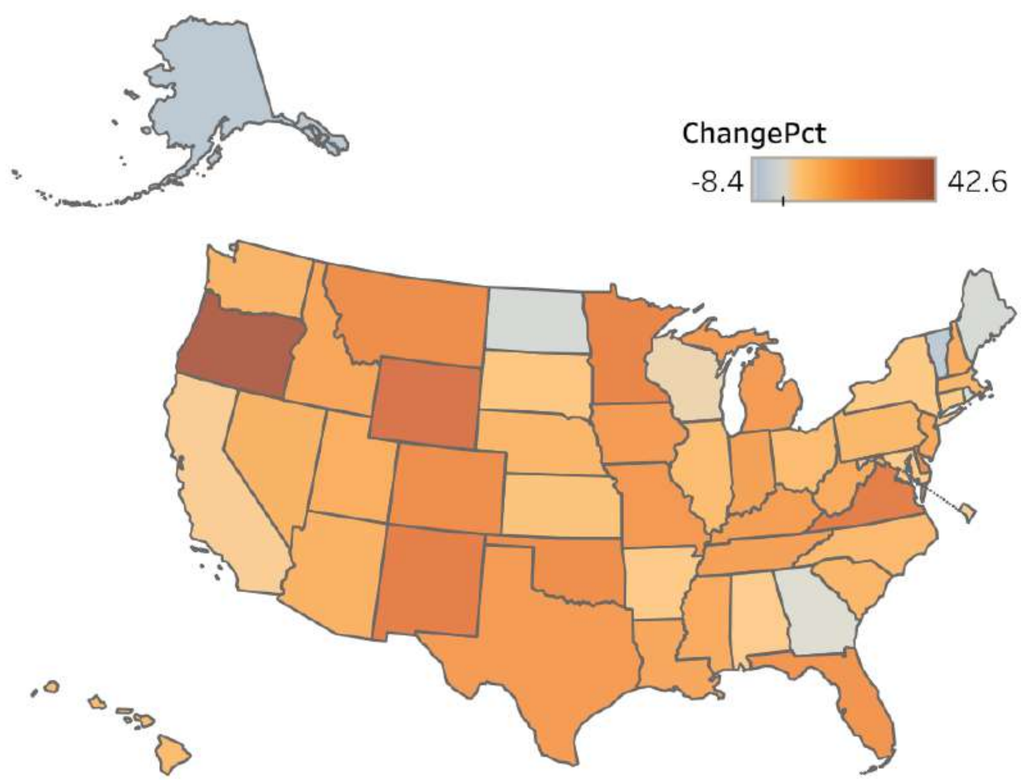


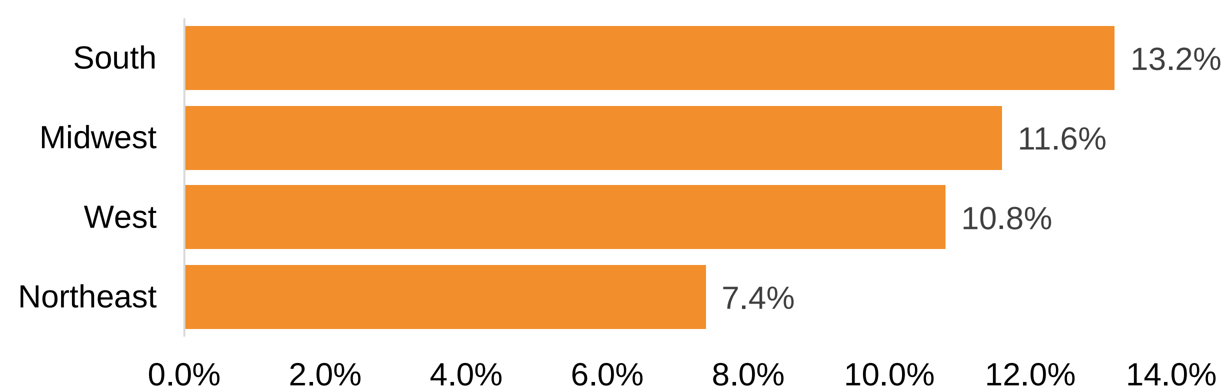
Source: Bureau of Labor Statistics, Newmark Research

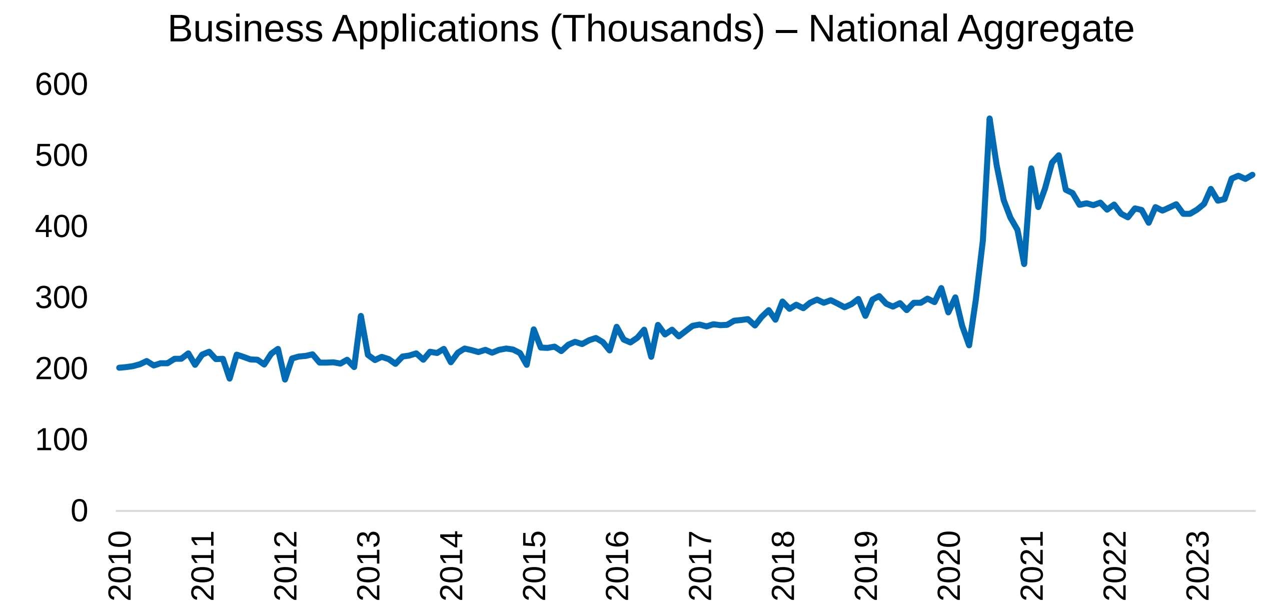
New Business Formation Maintains Momentum

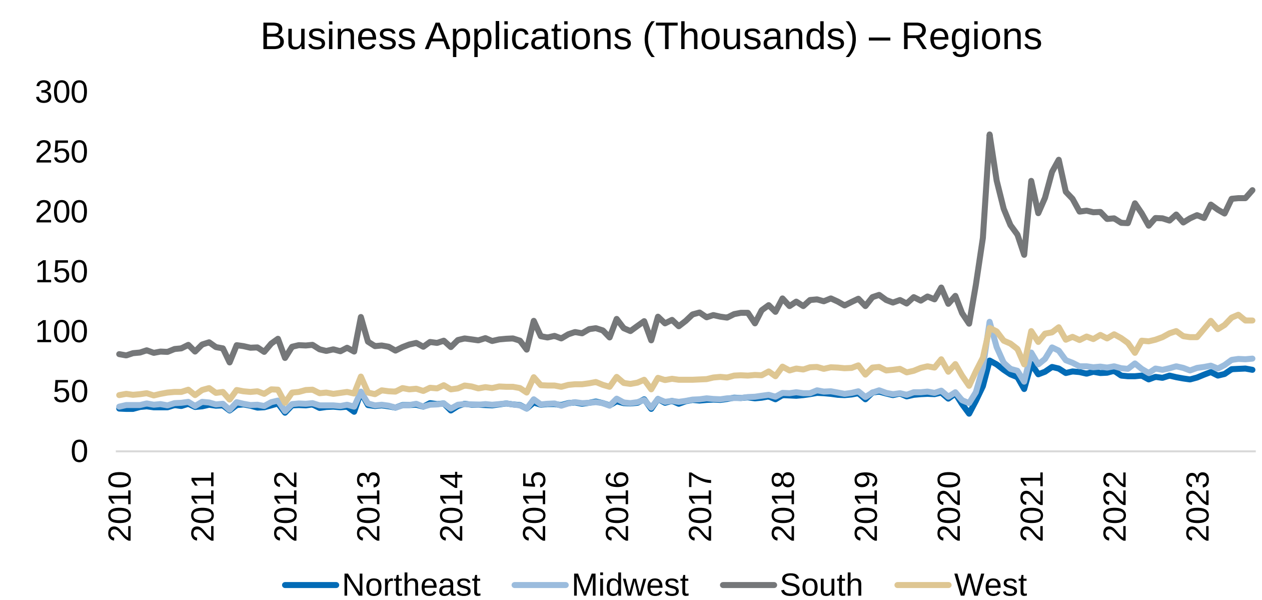
Business formation accelerated healthily in September 2023; 472,961 new business applications were filed, which is up 11.5% from September 2022. This acceleration was realized in every US region, with the West region realizing a 13.2% increase from this time last year. Overall business creation remains notably higher than pre-pandemic levels in all geographic regions.

Business Applications: Change from September 2022 to September 2023 (Seasonally Adjusted)







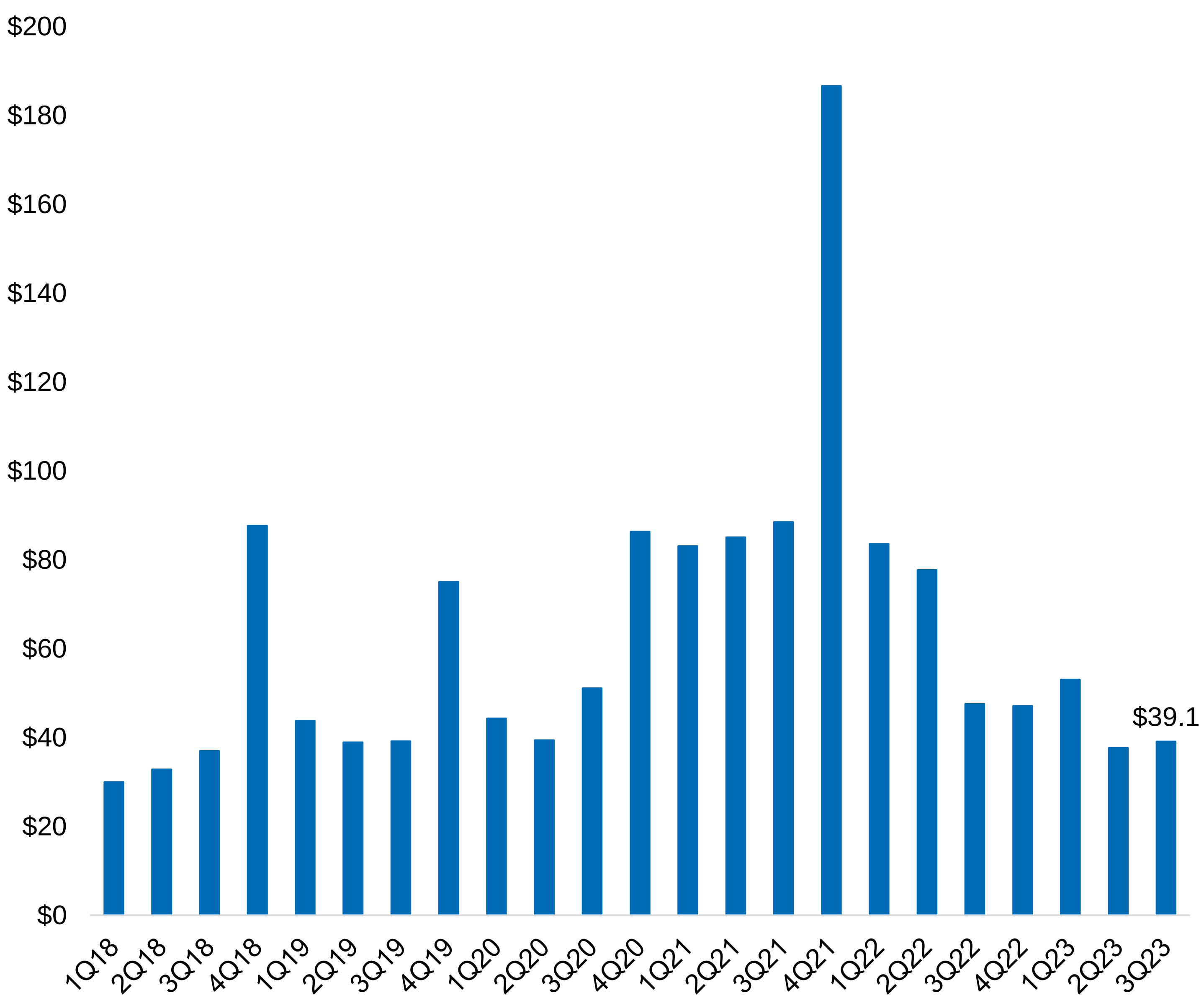


Source: United States Census Bureau, Newmark Research

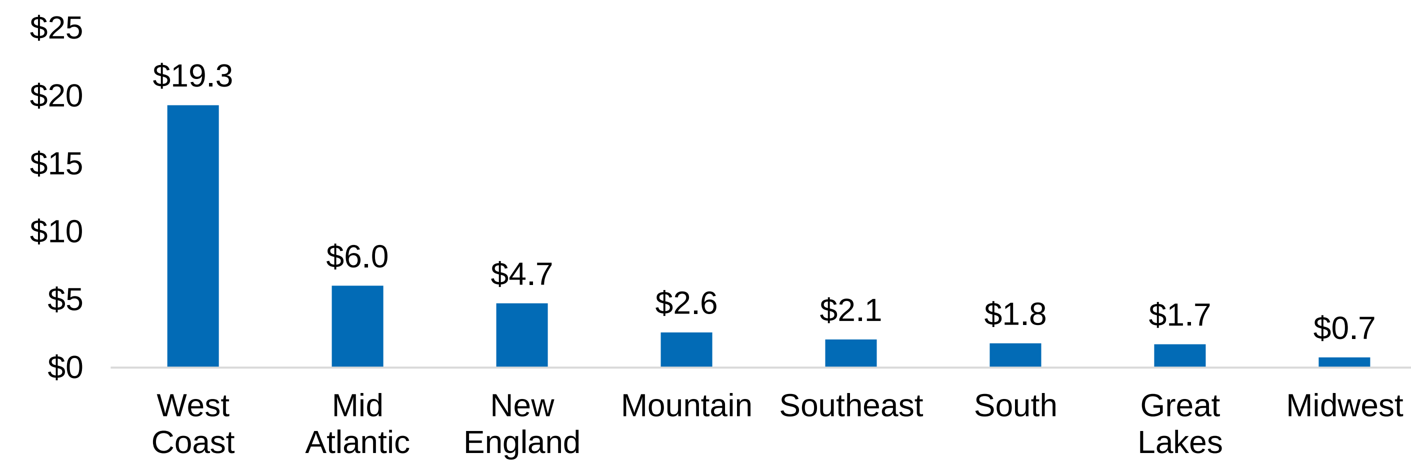
Venture Capital Investment Activity Has Returned to Pre-Pandemic Level

Overall venture capital investment was relatively flat in the third quarter of 2023 as investors remain cautious. Although total investments are down significantly from the cycle's recent peak in 2021, activity in the past year is elevated from a historical perspective. Investment activity trended up in the B2B, financial services, and material sciences sectors, while all other categories realizing annual declines, with the energy sector declining 50.3%. 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.

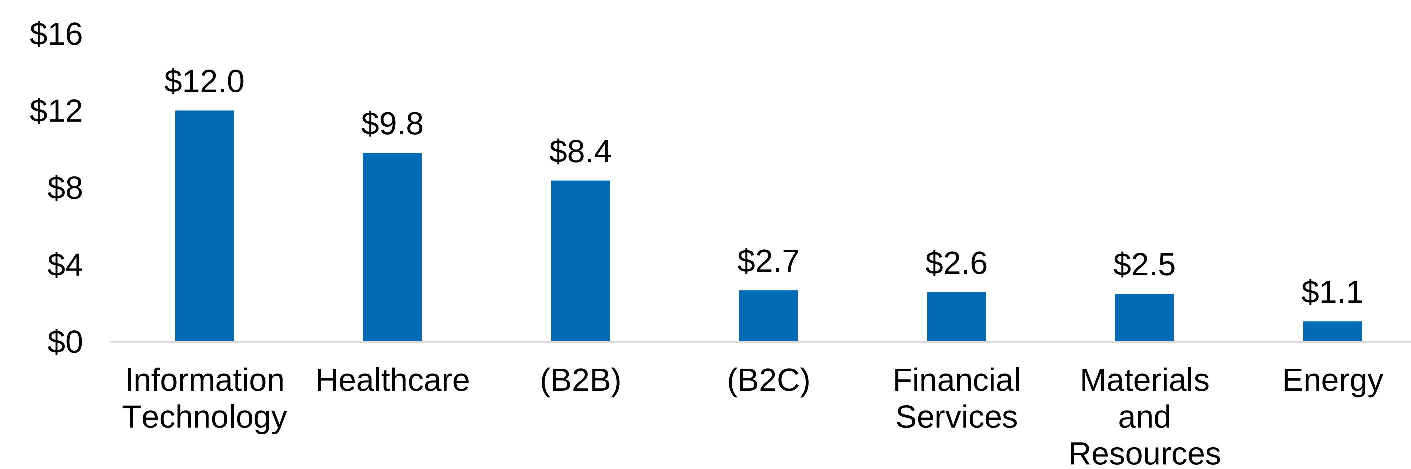
Venture Capital Deal Value ($ billions)



3Q23 VC Funding by Region ($ billions)



3Q23 VC Funding by Industry Sector ($ billions)

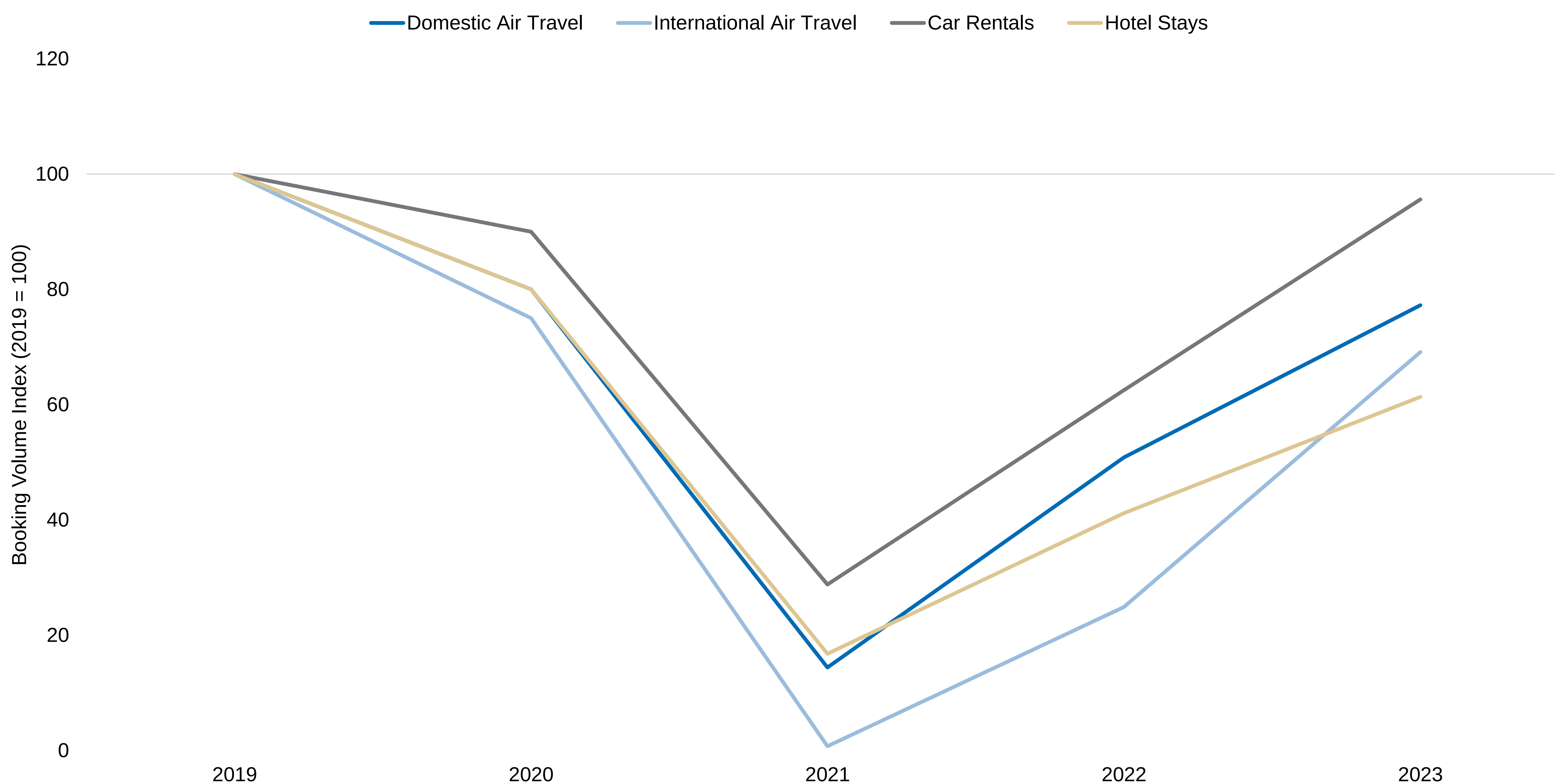


Sources: PitchBook, Newmark Research

Business Travel Recovering Well in 2023

Business travel continued accelerating in the first quarter of 2023, with very few health restrictions left in place restricting the return of in-person business meetings, conventions and tradeshows both in the United States and abroad. The return of business gatherings is an encouraging indicator for the utility of office space in the period ahead. According to data from Emburse, a global leader in spend optimization for businesses, booking volume for car rentals travel has increased dramatically and has nearly recovered to pre-pandemic levels.

Booking Volume Indexed to 2019 Baseline

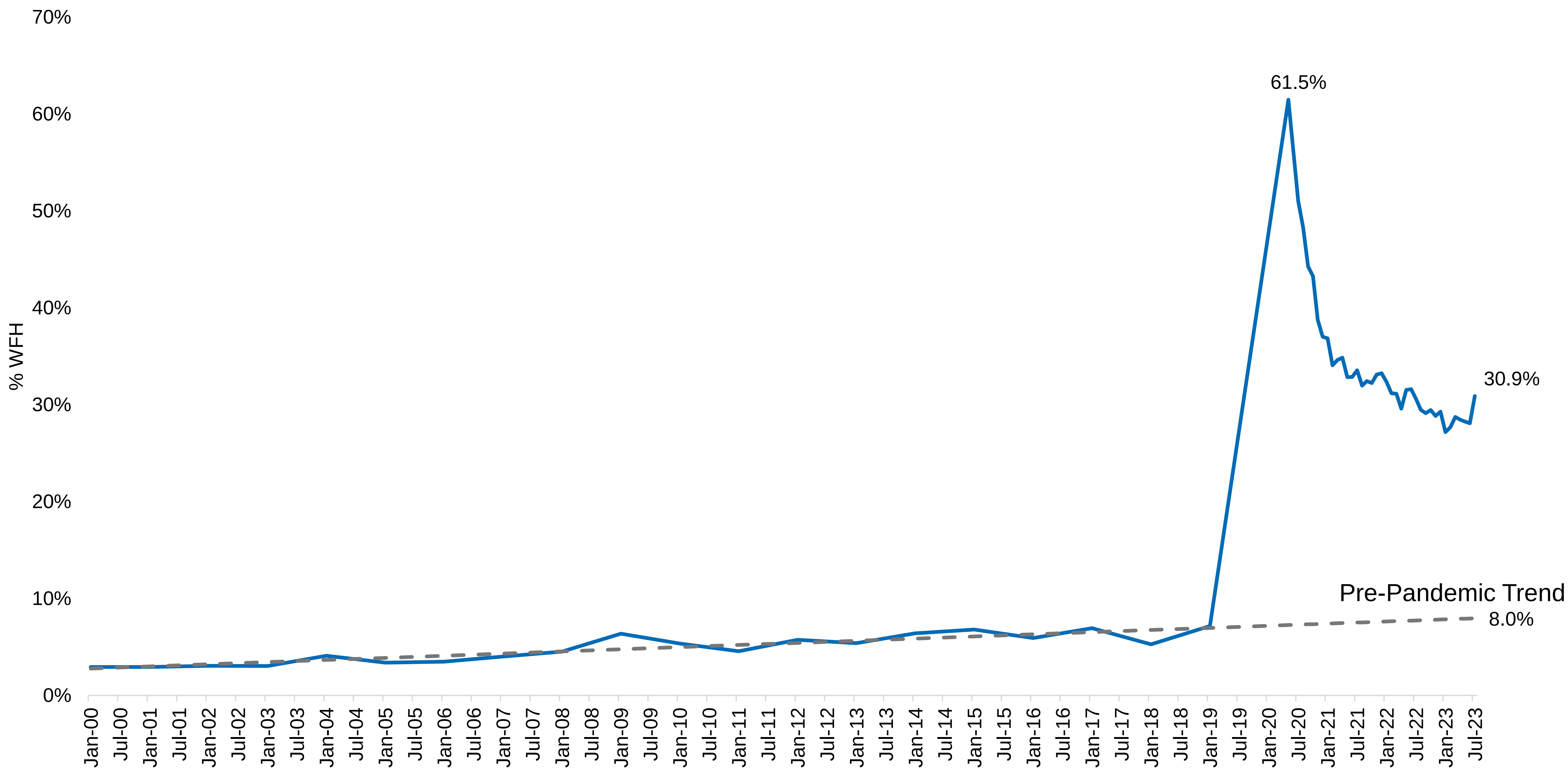


Source: Emburse Travel Trends, Newmark Research

The Pandemic Compacted Decades of WFH Transition into 3 Years

In the two decades prior to 2020, the full paid days worked 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 30.9% as of July 2023.

Share of Full Paid Days Worked From Home

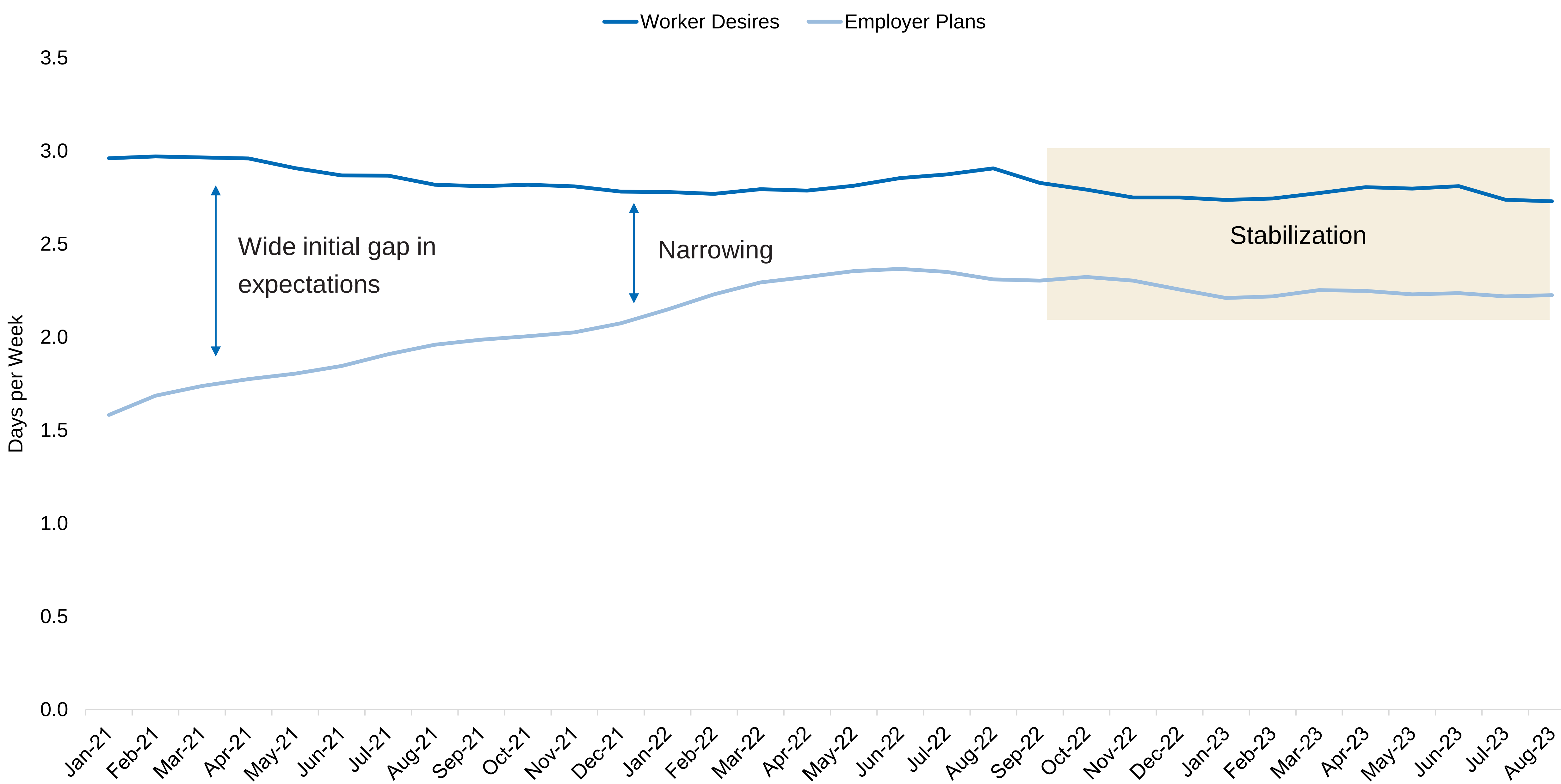


Source: Barrero, Jose Maria, Nicholas Bloom, and Steven J. Davis, 2021. "Why working from home will stick," National Bureau of Economic Research Working Paper 28731.

Gap between Worker and Employer WFH Expectations Has 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 mostly stable since the summer of 2022. Over the last year, 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 1) the economy is proving more resilient, 2) the gap in desires is narrow and 3) college-educated unemployment is 2.0%.

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

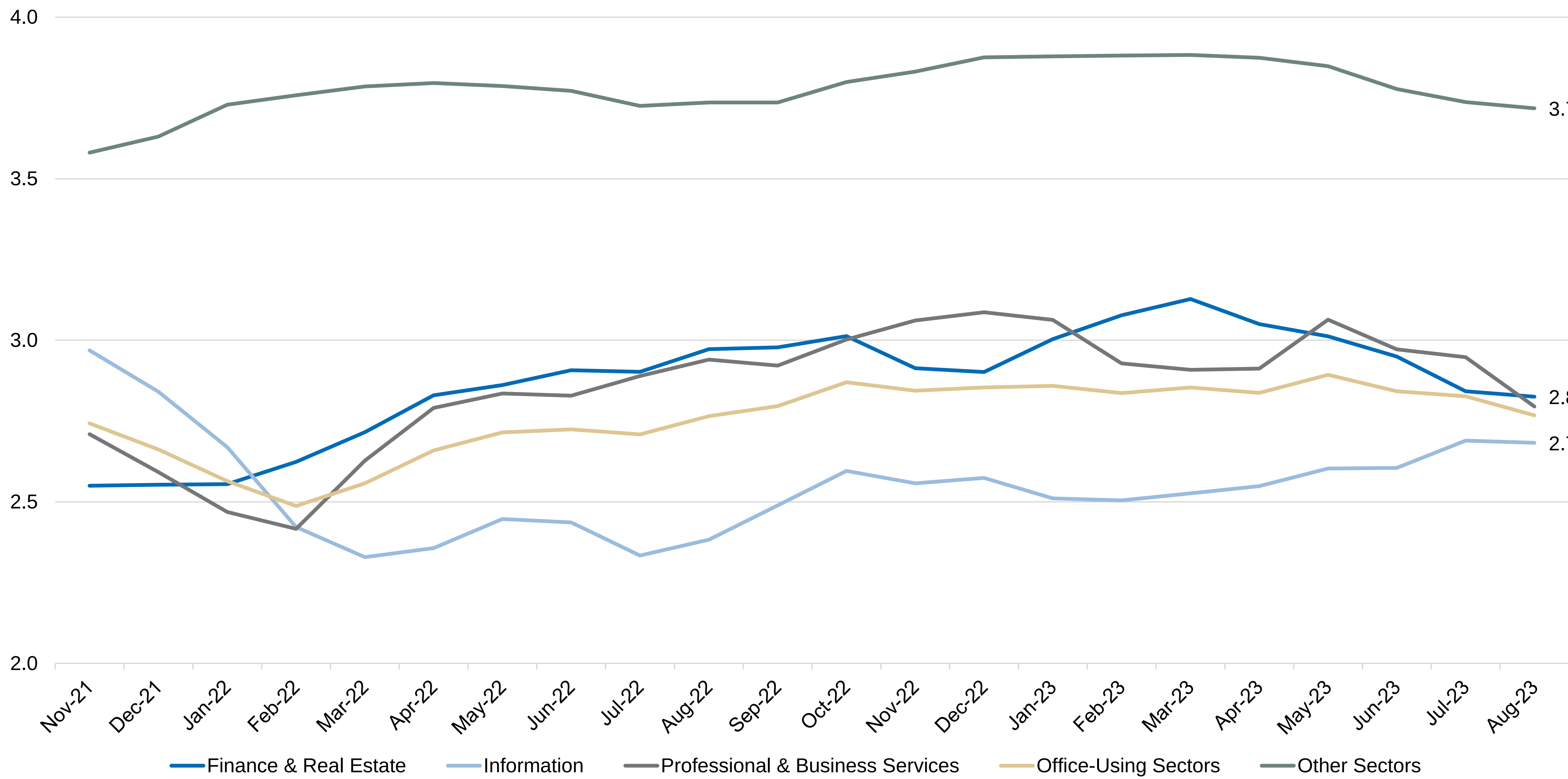


Source: Barrero, Jose Maria, Nicholas Bloom, and Steven J. Davis, 2021. "Why working from home will stick," National Bureau of Economic Research Working Paper 28731.

Days Worked in the Office Have Broadly Stabilized in Office-using Sectors

In recent months, FIRE days in the office have declined marginally, while information (including technology) have risen. 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 from Office*

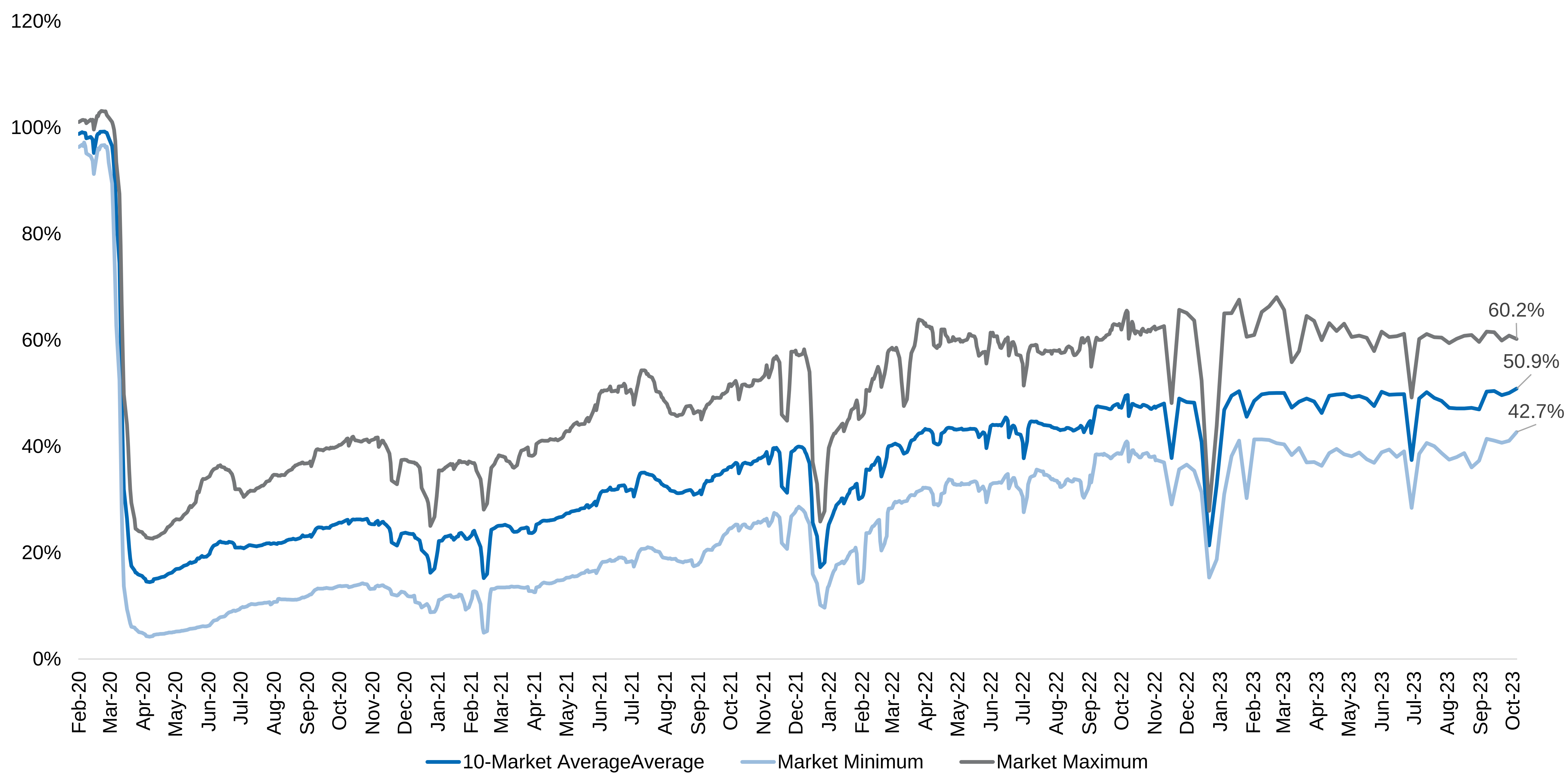


Source: Barrero, Jose Maria, Nicholas Bloom, and Steven J. Davis, 2021. "Why working from home will stick," National Bureau of Economic Research Working Paper 28731. as of 10/31/2023
*The SWAA survey data reports on the share of respondents that worked fully onsite, hybrid and fully remote, respectively. 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' office utilization has increased marginally so far in 2023. The 10-market average stands at 50.9% as of October 2023, the highest occupancy levels seen since pre-pandemic. 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. Regardless, there continues to be volatility in the context of the subtle upward march.

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

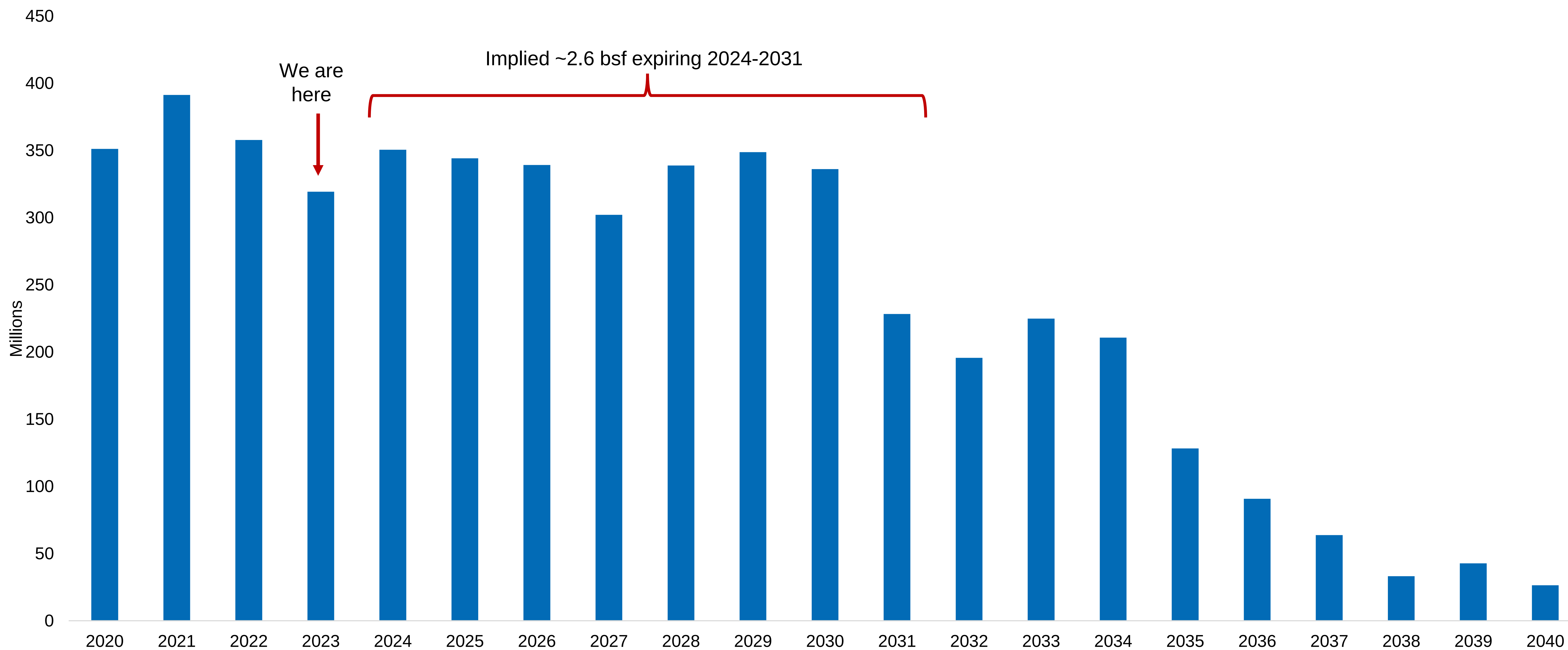


Source: Kastle Systems, Newmark Research

Tenants Are Still in Early Innings of Space Adjustments

Most large-block space* leased pre-pandemic is yet to expire. As of March 2020, the national occupied inventory totaled 5.0 billion SF. The average term of deals in place in this size segment as of March 2020 is 11.4 years. Scaling known transaction data to the first quarter of 2020 occupied inventory implies there is 2.6 billion SF set to expire during the remaining average term length (2024 to 2031), which is the upper limit for the estimate to which tenants have reformed their office footprints.

Implied Square Feet Expiring by Year for 50k+ SF Occupied Inventory as of Q1 2020

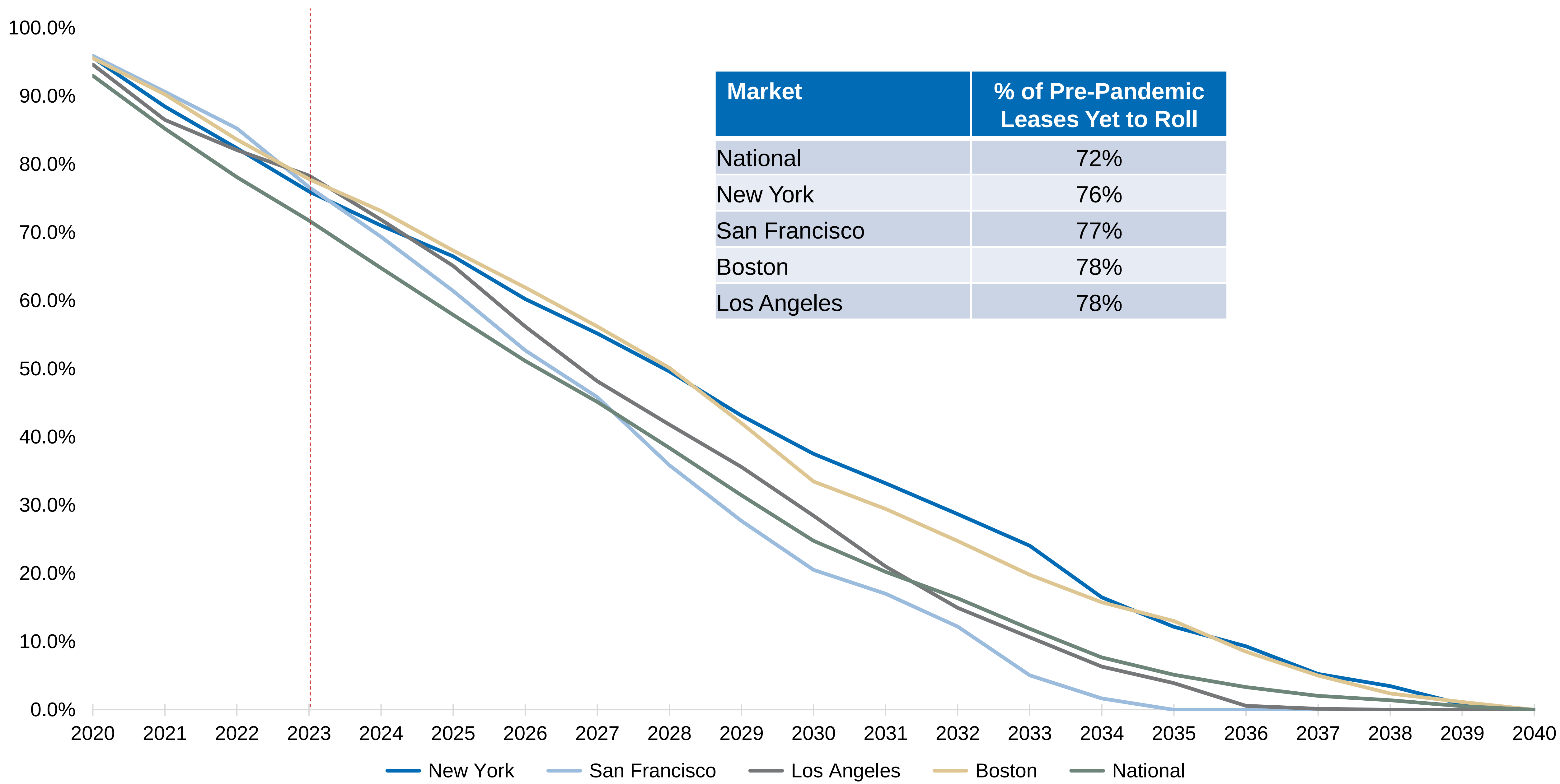


Source: Newmark Research, CoStar
*Based on Newmark Research national transaction data (50k+ SF leases in-place as of March 2020, totaling ~668 msf)

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

This analysis focused on larger leases. Smaller leases tend to have shorter term lengths in comparison.

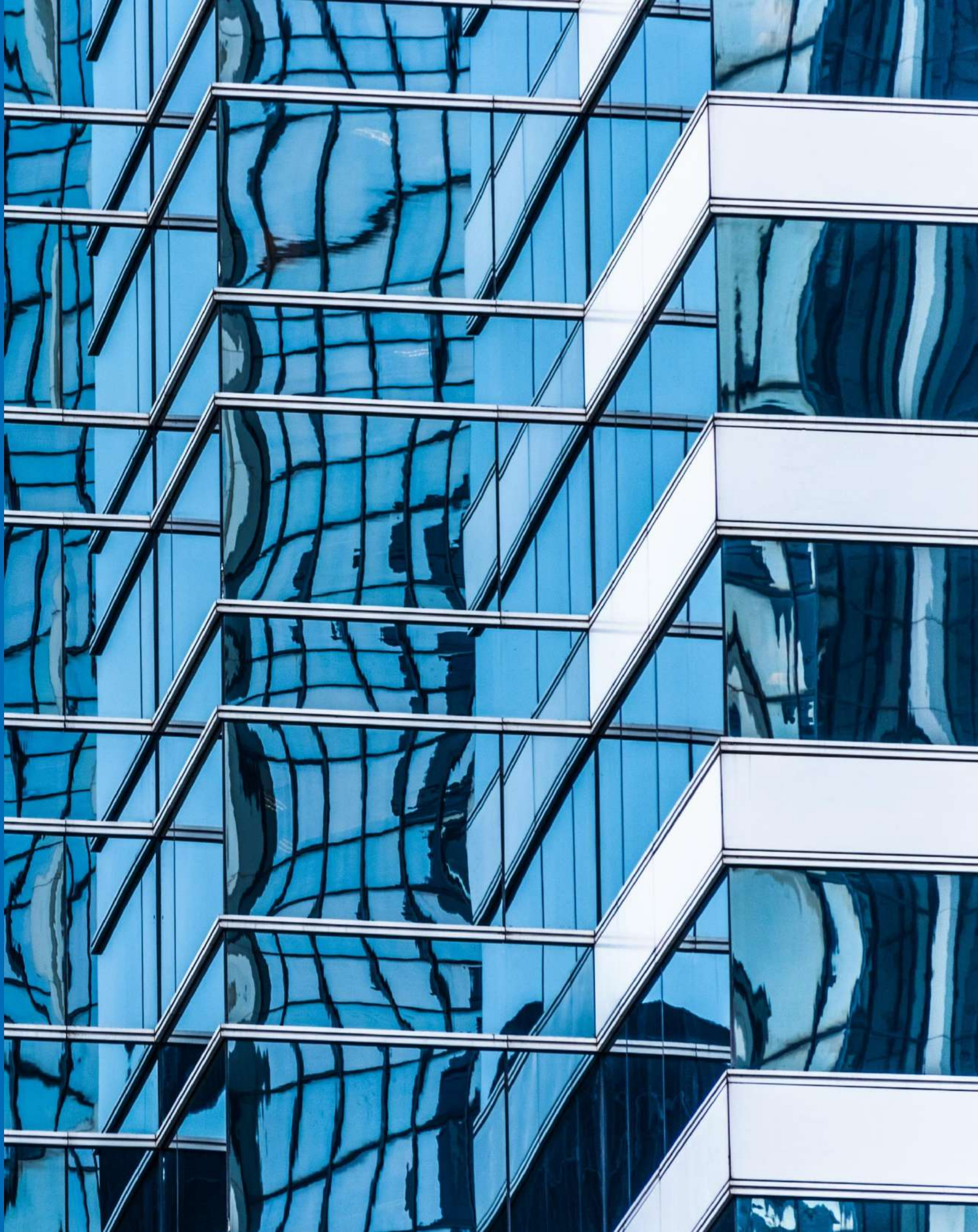
Share of Pre-Pandemic Leases Yet to Roll*



Market	% of Pre-Pandemic Leases Yet to Roll
National	72%
New York	76%
San Francisco	77%
Boston	78%
Los Angeles	78%

Source: Newmark Research
*Based on leases in-place as of March 2020 that were 50,000 square feet or greater

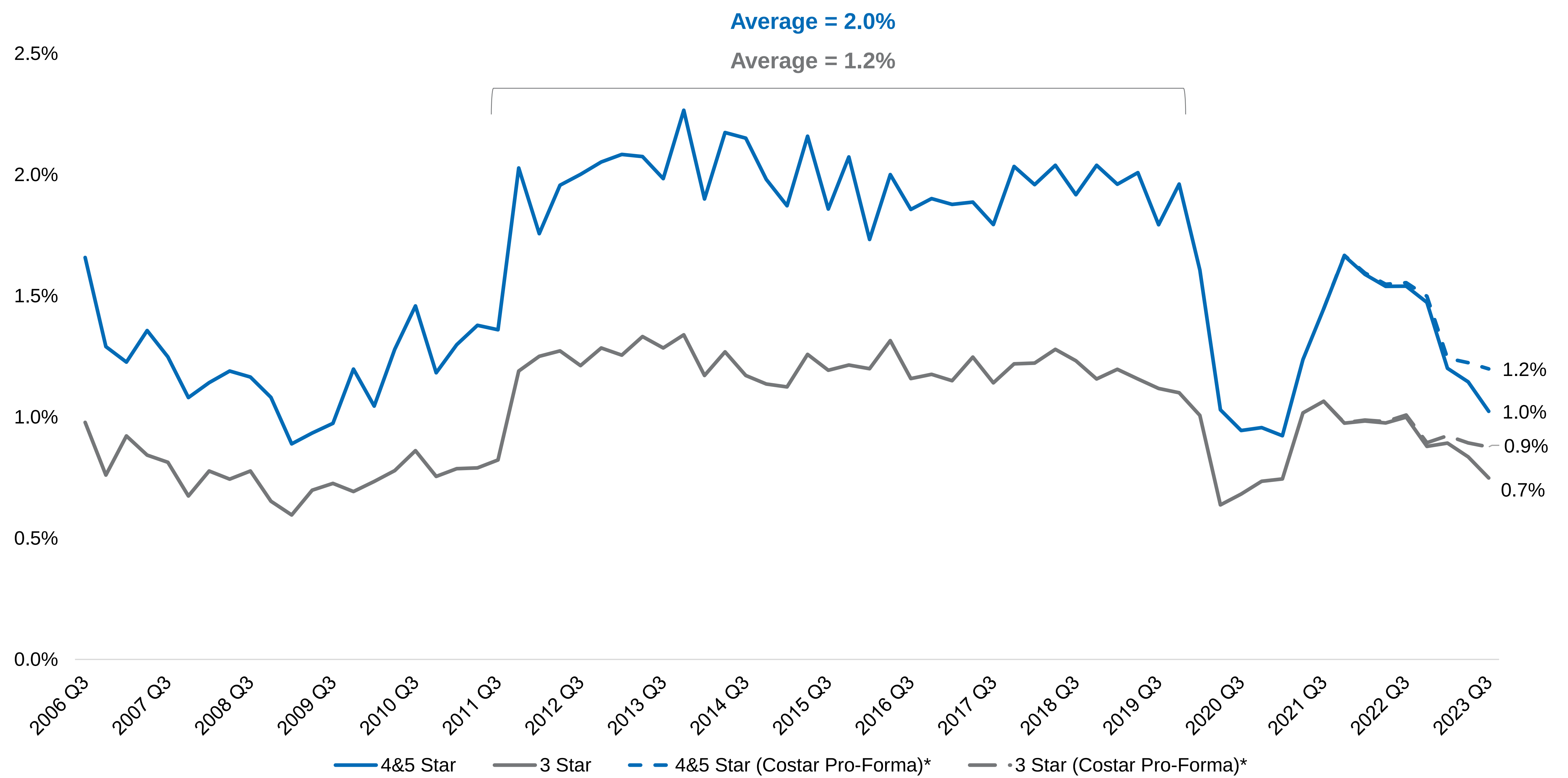
Leasing Market



Office Leasing Inches Down In 3Q23

Higher-quality buildings continued to outpace the overall market and drove a larger share of leasing activity in the third quarter of 2023. Although four- and five-star buildings only account for 38.5% of inventory, these assets captured 48.9% of leasing activity in the third quarter of 2023, a downward trend from the third quarter of 2022.

Leasing Activity as a Share of Inventory

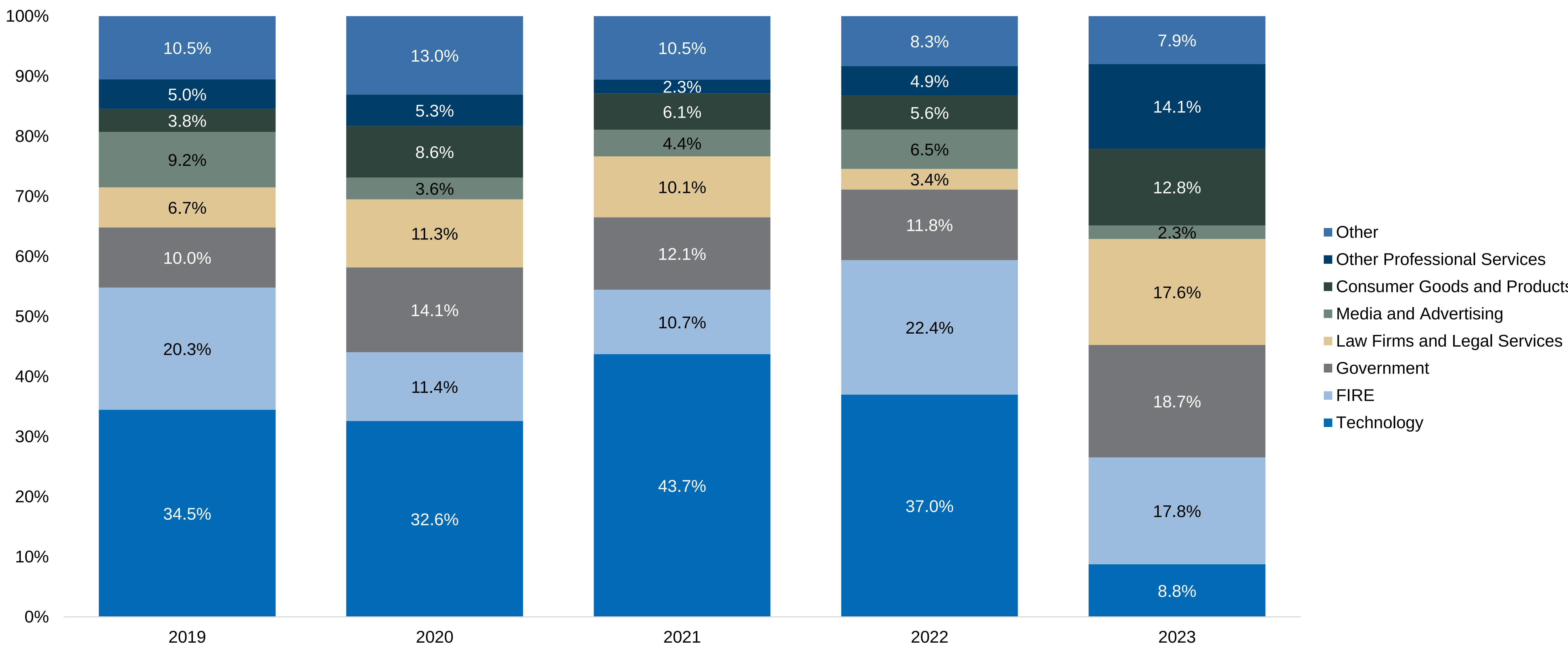


Source: CoStar, Newmark Research
*CoStar pro-forma based on proprietary internal calculation that estimates remaining leases not captured based on analysis of historical leasing trends.

Technology Sector Leasing Has Collapsed Year-to-Date

Leasing activity growth slowed nationwide in the third quarter of 2023 as economic pressures led firms to again delay real estate planning initiatives. This was particularly true in the technology industry. Law firms and legal services have seen a notable increase in their share of leasing activity among large-block users in 2023.

Percentage of Total SF Leases Among Leases Greater than 100,000 SF

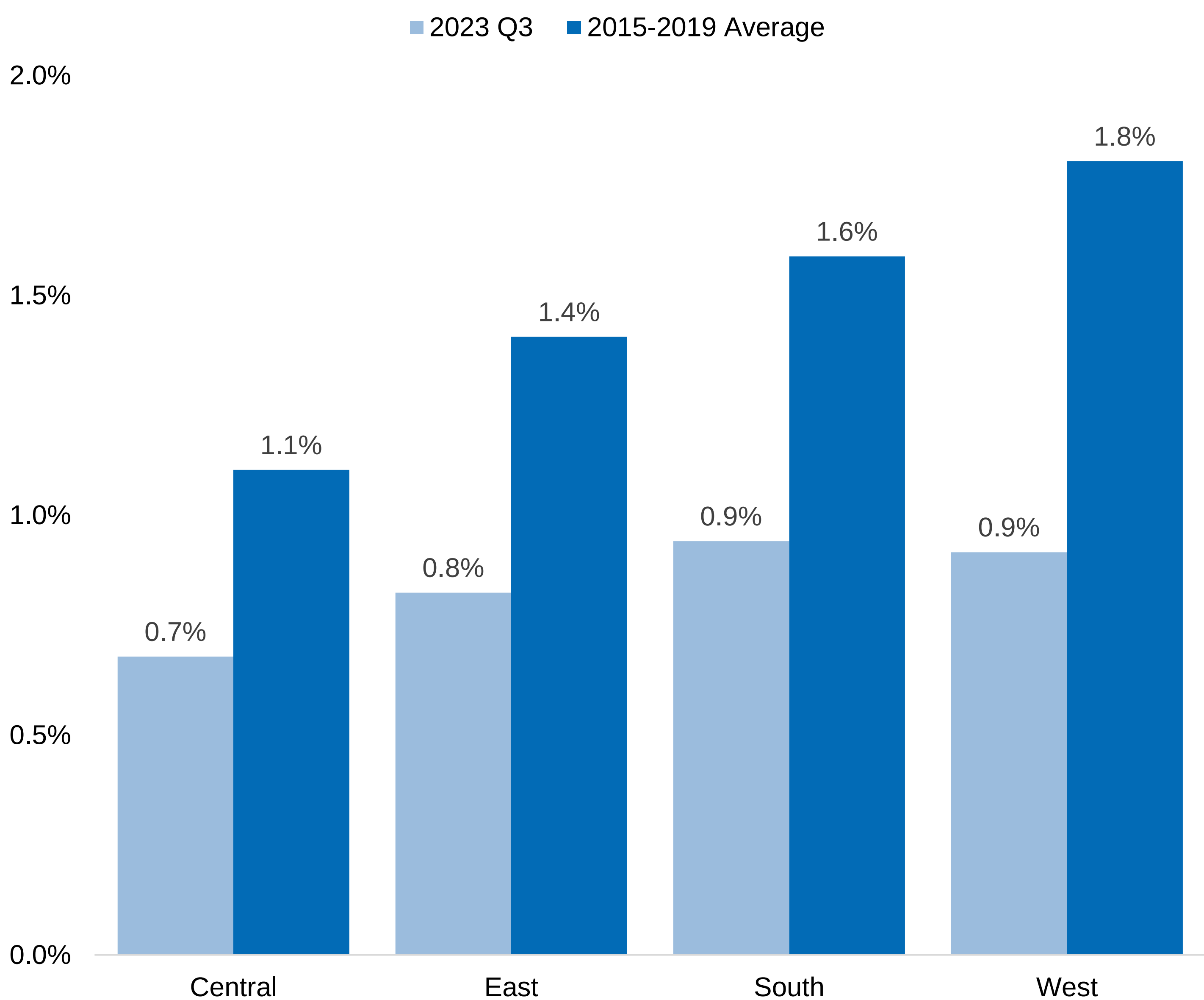


Sources: Newmark Research

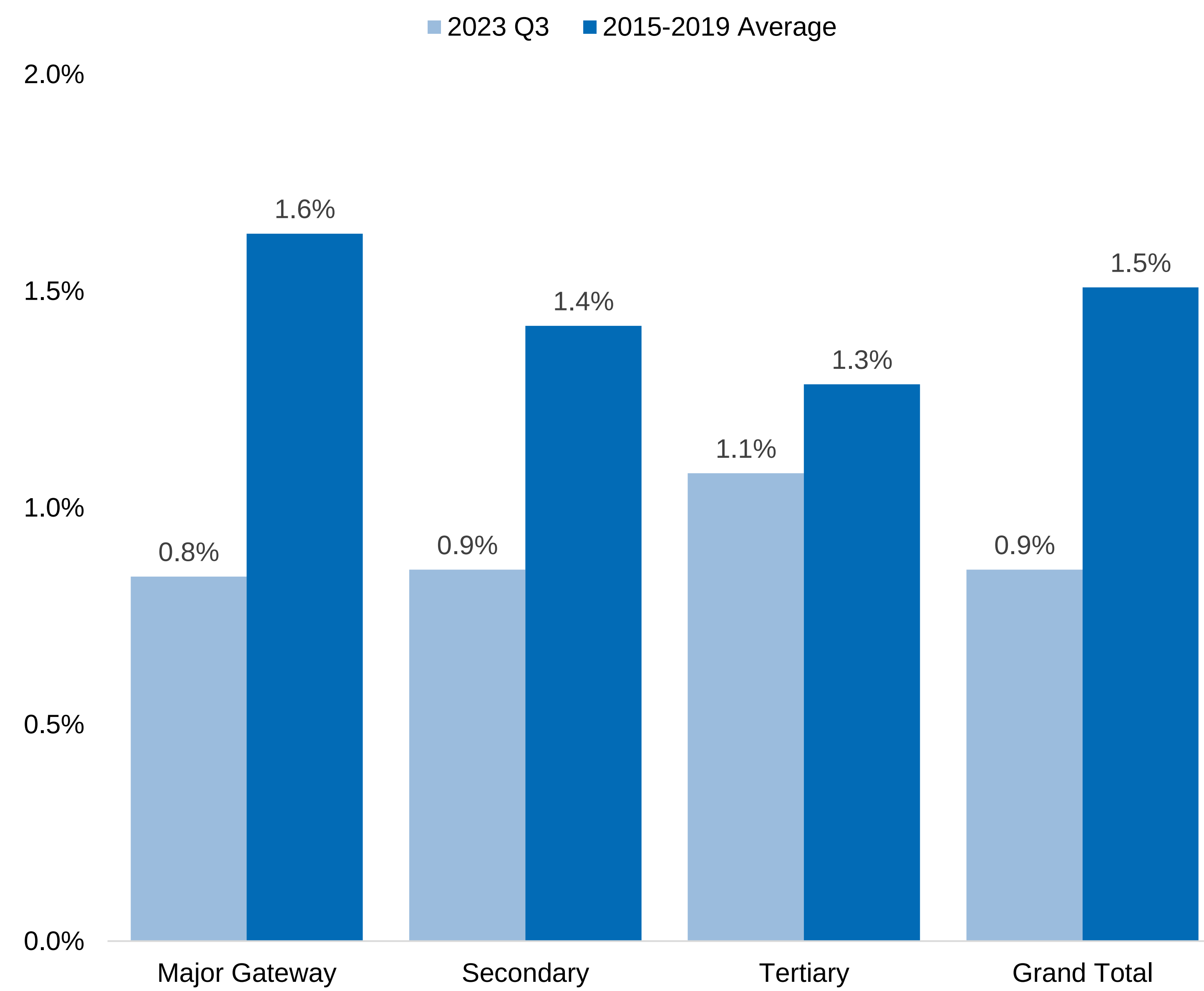
Leasing Activity Lags Pre-Pandemic Baseline

Leasing activity was again sluggish in most markets in the third quarter of 2023. 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 third quarter of 2023, leasing activity as a percent of inventory was relatively even across most regions and market sizes, with tertiary markets being a notable exception.

Regional Leasing Activity as a Percent of Inventory



Market Size Leasing Activity as a Percent of Inventory

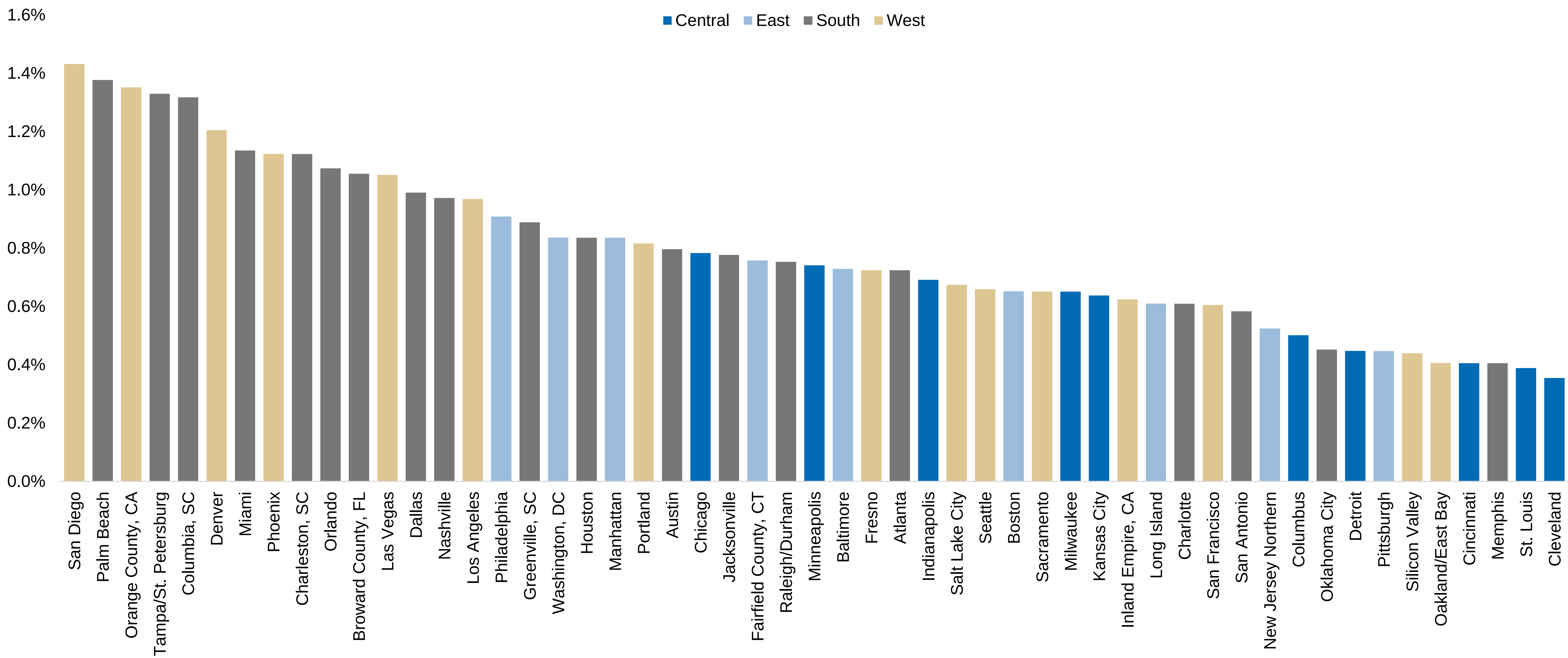


Source: CoStar, Newmark Research

Southern and Western Markets Have Greatest Leasing Activity in 3Q23

Quarterly leasing activity by Newmark-tracked markets ranges from 0.4% of inventory in Cleveland to 1.4% in San Diego. Variations are anticipated among smaller inventory markets, but it should be noted that major gateway markets, including Washington DC, Manhattan and Los Angeles, are largely in the upper half of this distribution.

2023 Q3 Leasing Activity as a Percent of Inventory

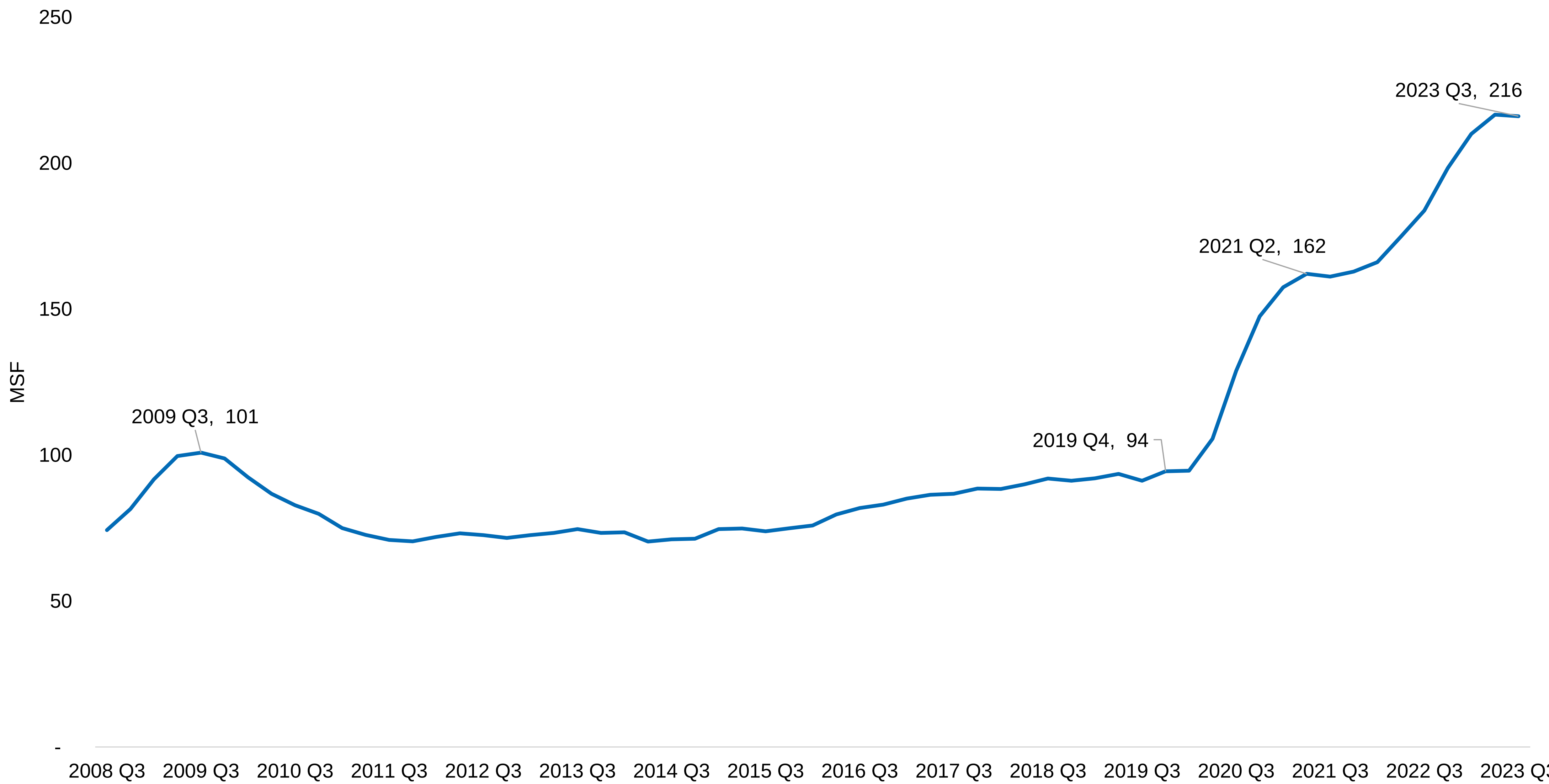


Source: CoStar, Newmark Research

Sublease Availability High but Stable in 3Q23

Sublease availability plateaued in the third quarter of 2023, having slightly declined 0.24% from the second quarter of 2023. National square footage available for sublet is currently near an all-time high, totaling 216.1 million SF.

National Sublease Availability

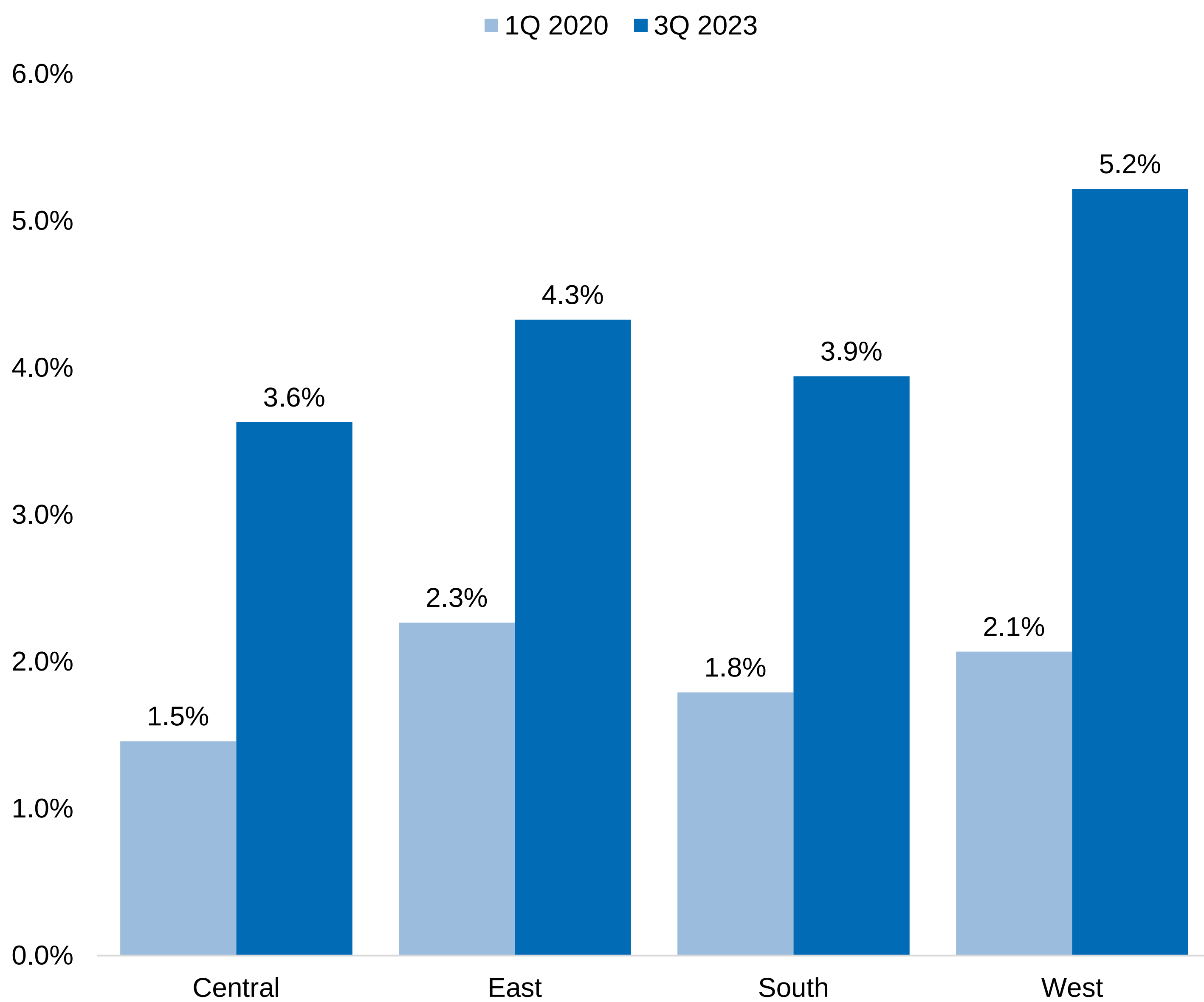


Source: CoStar, Newmark Research

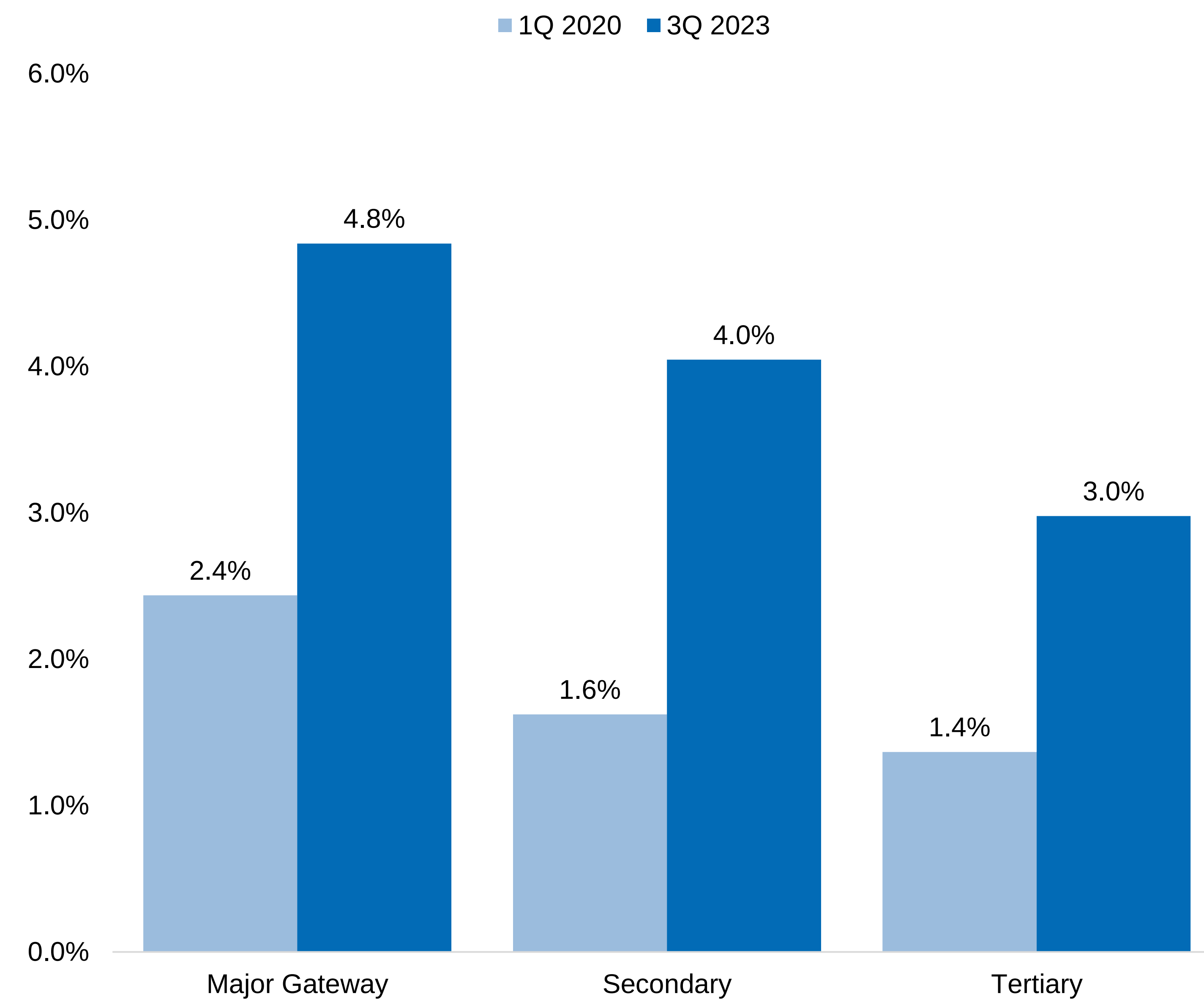
Sublease Availability Significantly Elevated above Pre-Pandemic Baseline

While sublease availability growth paused in the third quarter of 2023, it remains elevated from a historical perspective. Sublease availability is highest in Western Region markets, notably San Francisco, as well as major gateway markets more generally.

Regional Sublease Availability Rate



Market Size Sublease Availability Rate

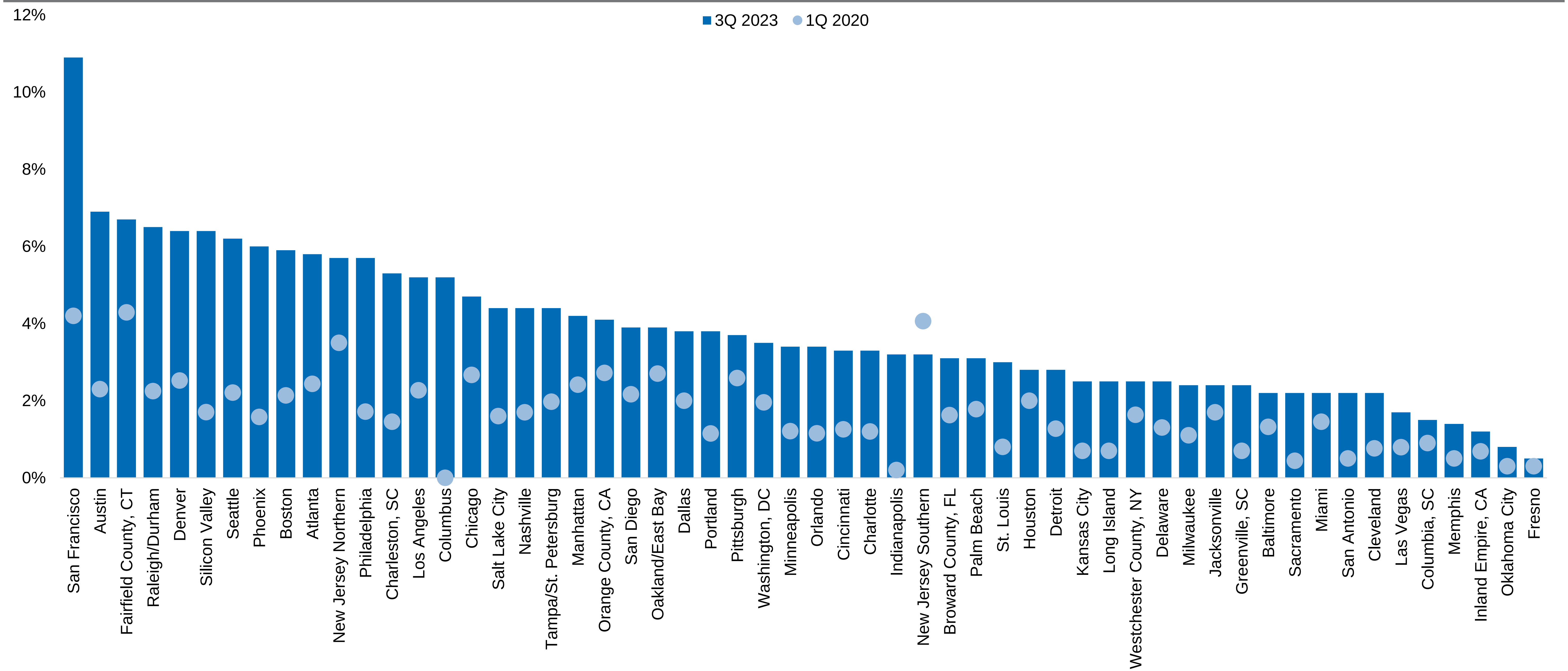


Source: CoStar, Newmark Research

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, Austin, Fairfield County, Raleigh/Durham and Denver. Instability in the tech industry, evidenced by layoffs over the course of the year, indicates that these markets could experience greater increases in sublease availability, further softening fundamentals.

Sublease Availability Rate

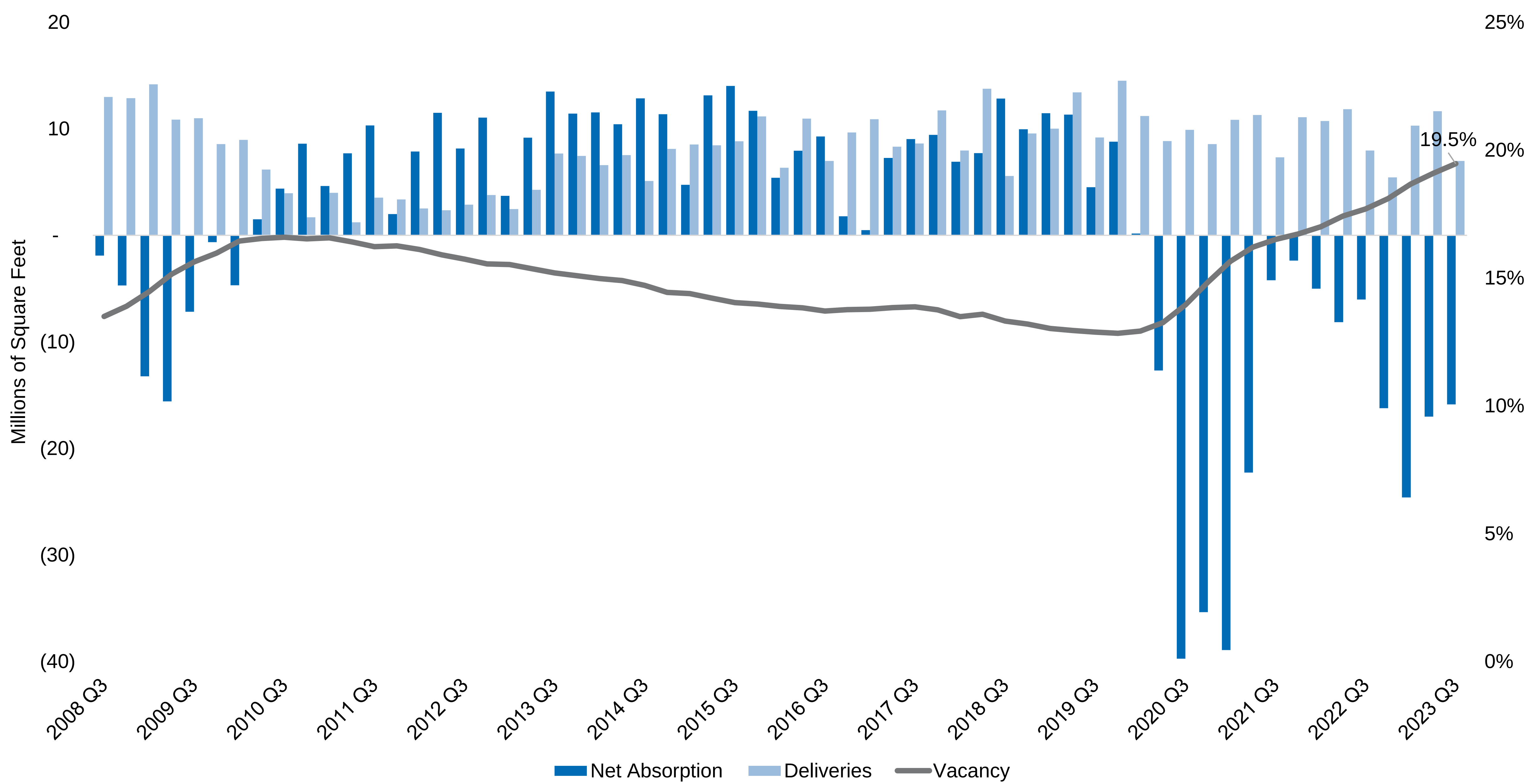


Source: CoStar, Newmark Research

Continued Vacancy Growth Driven by Greater Occupancy Losses

Net absorption, though negative, decelerated slightly in the third quarter of 2023, resulting in space givebacks totaling negative 15.9 million SF. Since the first quarter of 2020, net absorption has totaled over negative 249 million SF, significantly worse than either the Great Recession (negative 51.6 million SF) or dot-com (negative 75.7 million SF) market downturns. Despite consistent delivery of new product, the noteworthy reduction in demand has driven vacancy to its highest levels in the cycle, reaching 19.5%.

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

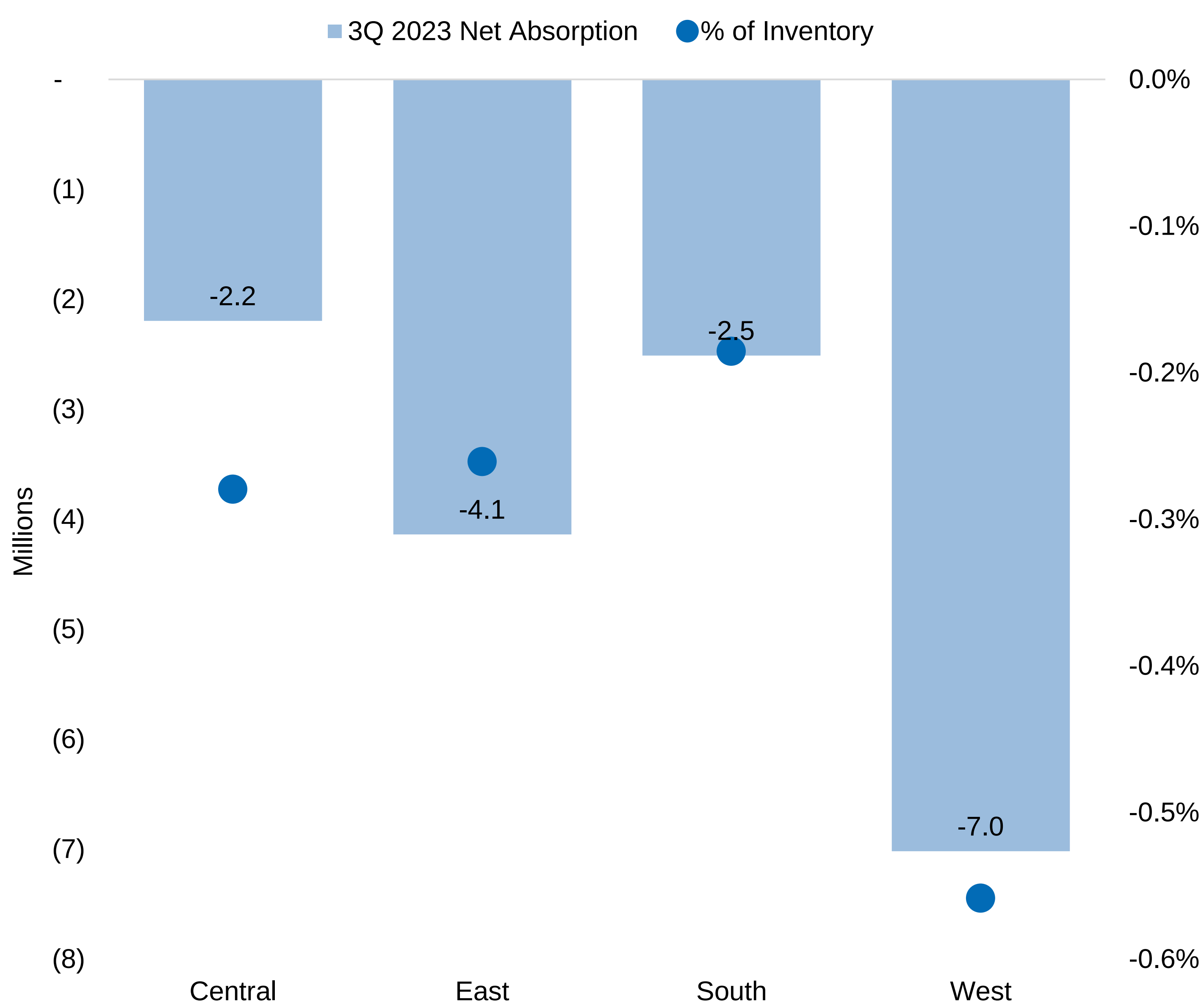


Source: CoStar, Newmark Research

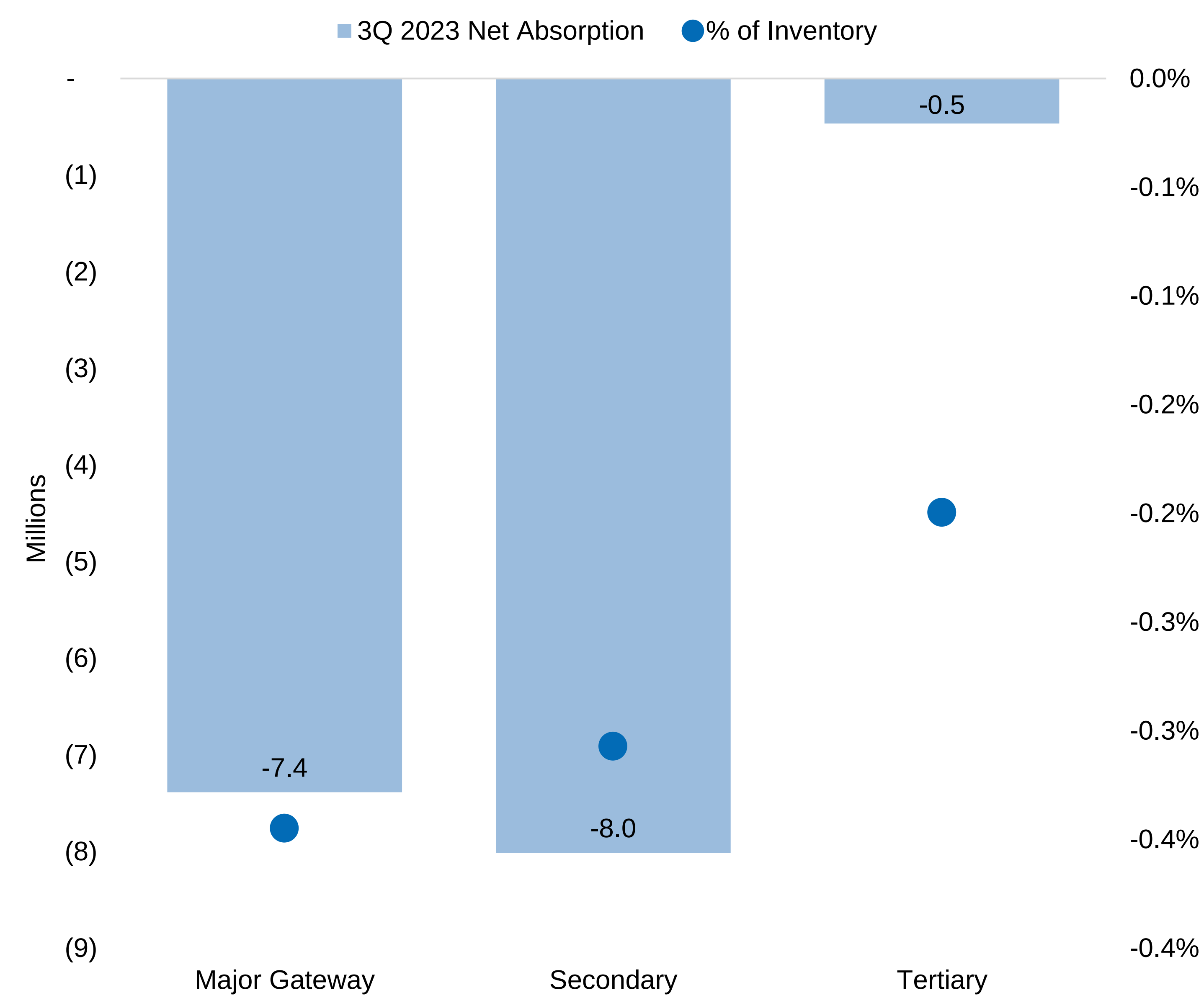
Net Absorption Contracted in 3Q23 across Region and Market Tiers

Occupancy losses continued to mount in the third quarter of 2023, driven most strongly by the Western region, where losses in the third quarter of 2023 amounted to negative 7.0 million SF. Both major gateway and secondary markets shed a comparable amount of occupancy in the quarter. The South and Sun Belt continue to perform well relative to the nation, though there were occupancy losses in the third quarter of 2023 within this region as well.

Regional Net Absorption



Market Size Net Absorption

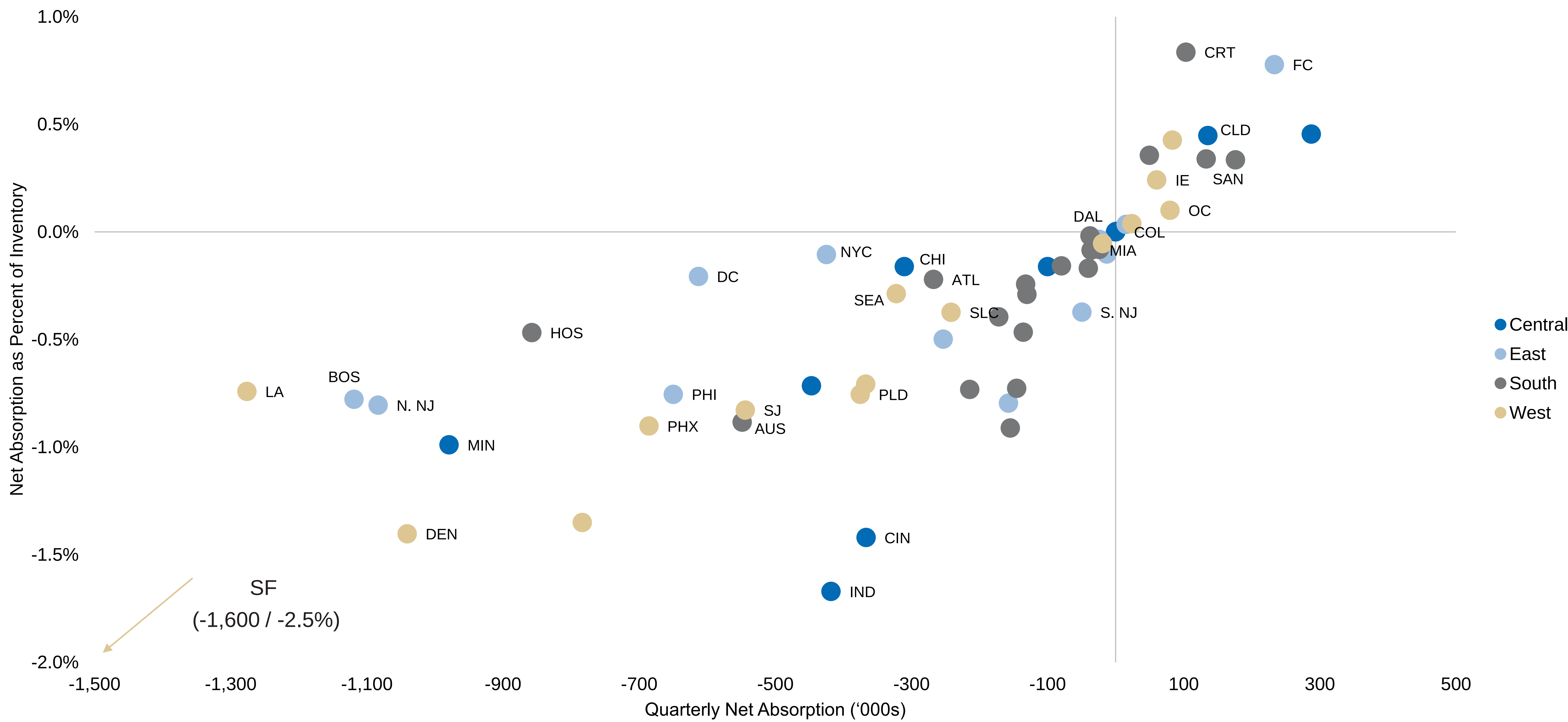


Source: CoStar, Newmark Research

Occupied Space Contracted in 42 out of 56 Markets in 3Q23

Net absorption in the third quarter of 2023 was notably negative, driven by significant losses in a variety of large and midsized markets. Few markets recorded positive absorption in the quarter, and sizeable losses elsewhere offset what few success stories there were. Losses were distributed geographically, with notable declines recorded in San Francisco, Los Angeles, Boston, Northern New Jersey and Denver.

Third Quarter 2023 Net Absorption Comparison

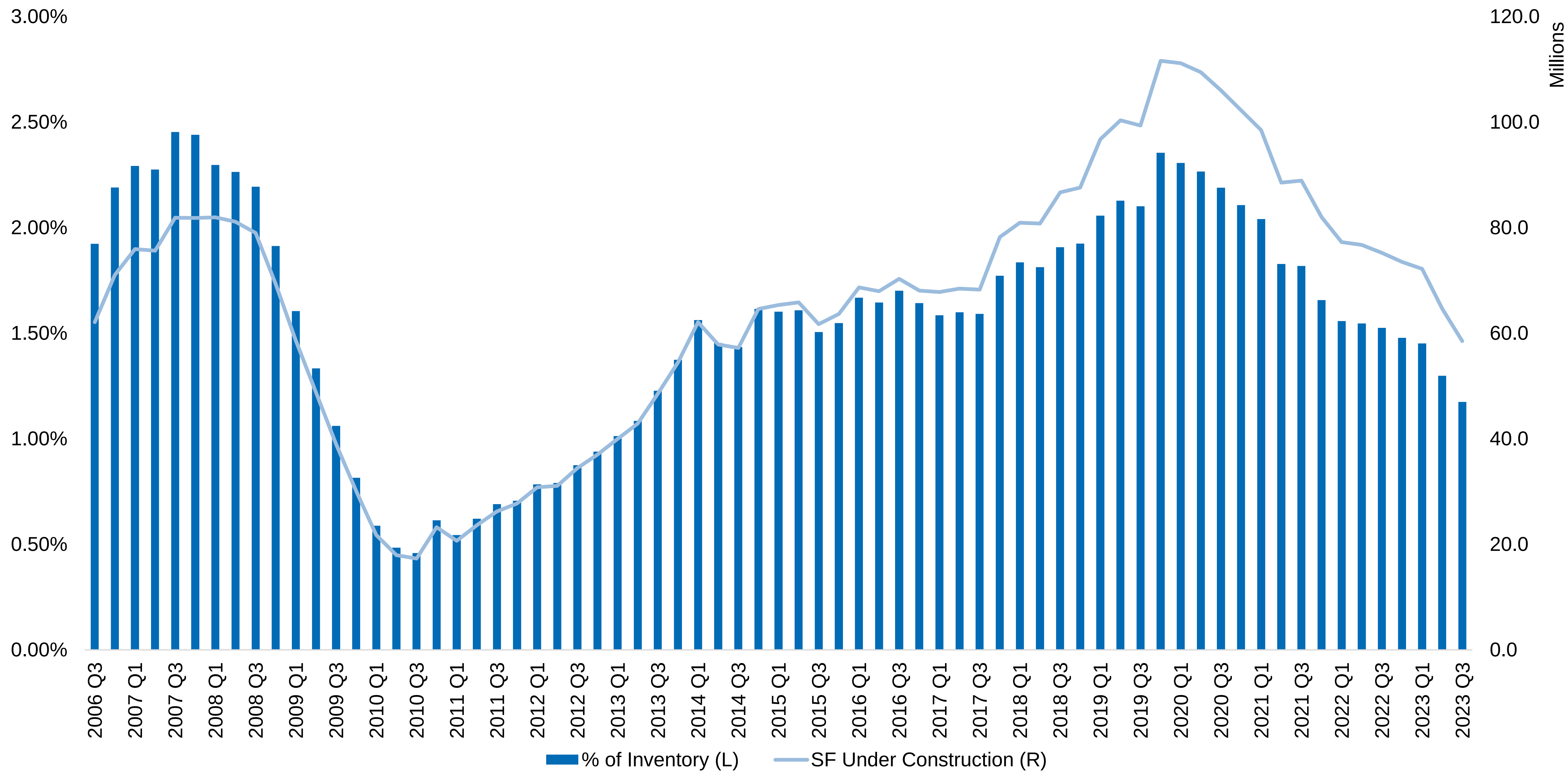


Source: CoStar, Newmark Research

Office Construction Pipeline Contracts at Measured Pace

Office space under construction peaked in late 2019 at nearly 112 million SF but has slowed as the pandemic influenced office demand in the years since. Construction activity inched down in the third quarter of 2023 as pessimism among some discouraged new groundbreaking activity. The pipeline is expected to at best remain stable in the near term due to decreased overall demand for office space and increased economic uncertainty.

Under Construction: Percent of Inventory and Total Square Footage

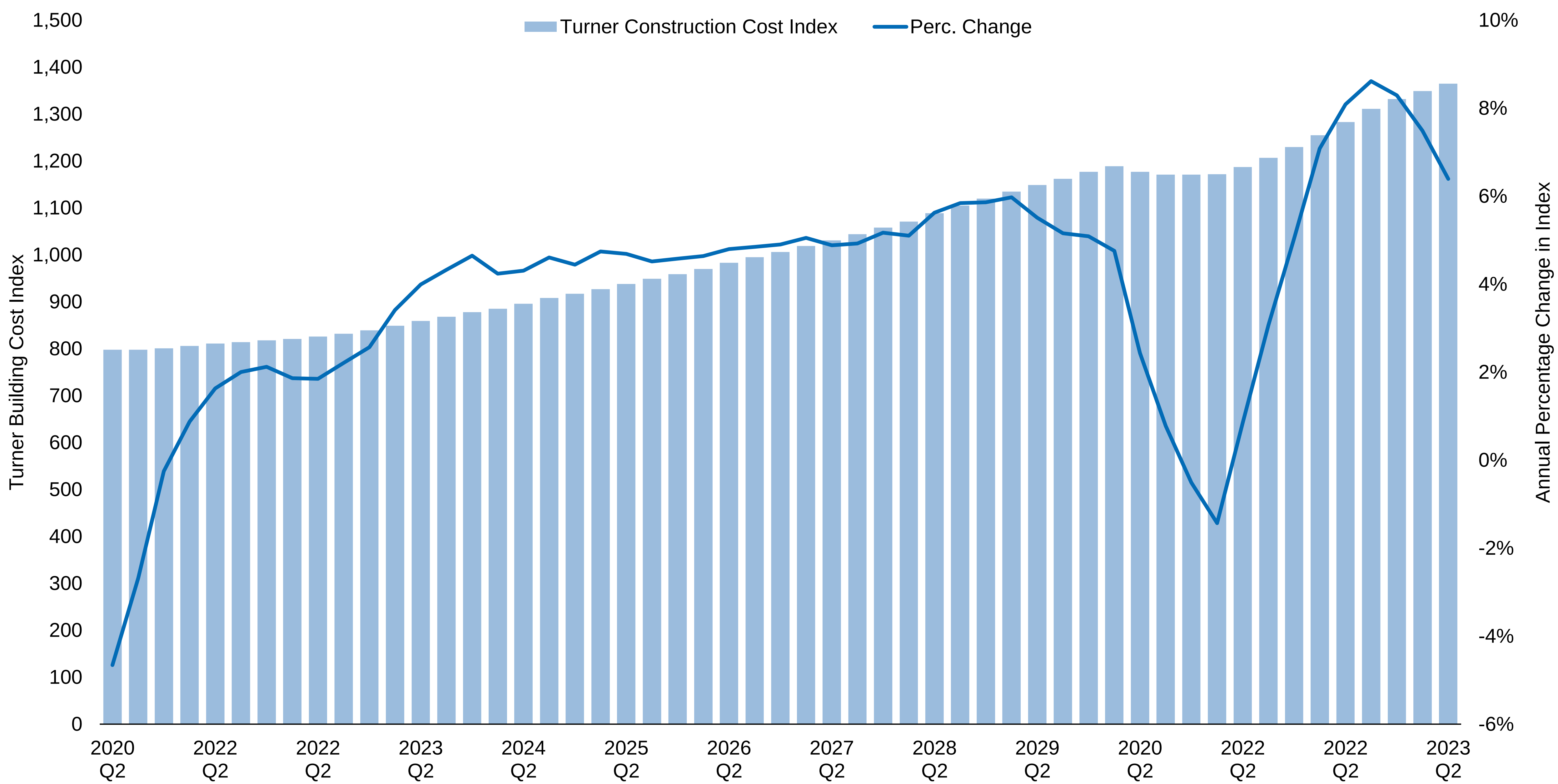


Sources: CoStar, Newmark Research

Office Construction Costs Increase in 2023

Inflationary pressures continued softening in the second quarter of 2023, but construction pricing continued to rise unabated. Construction pricing generally increased from 4.0% to 5.0% through much of the mid-2010s. While the annual growth rate of the Turner Building Cost Index slid down in the second quarter of 2023, it remains high at nearly 6.5%.

Turner Building Cost Index

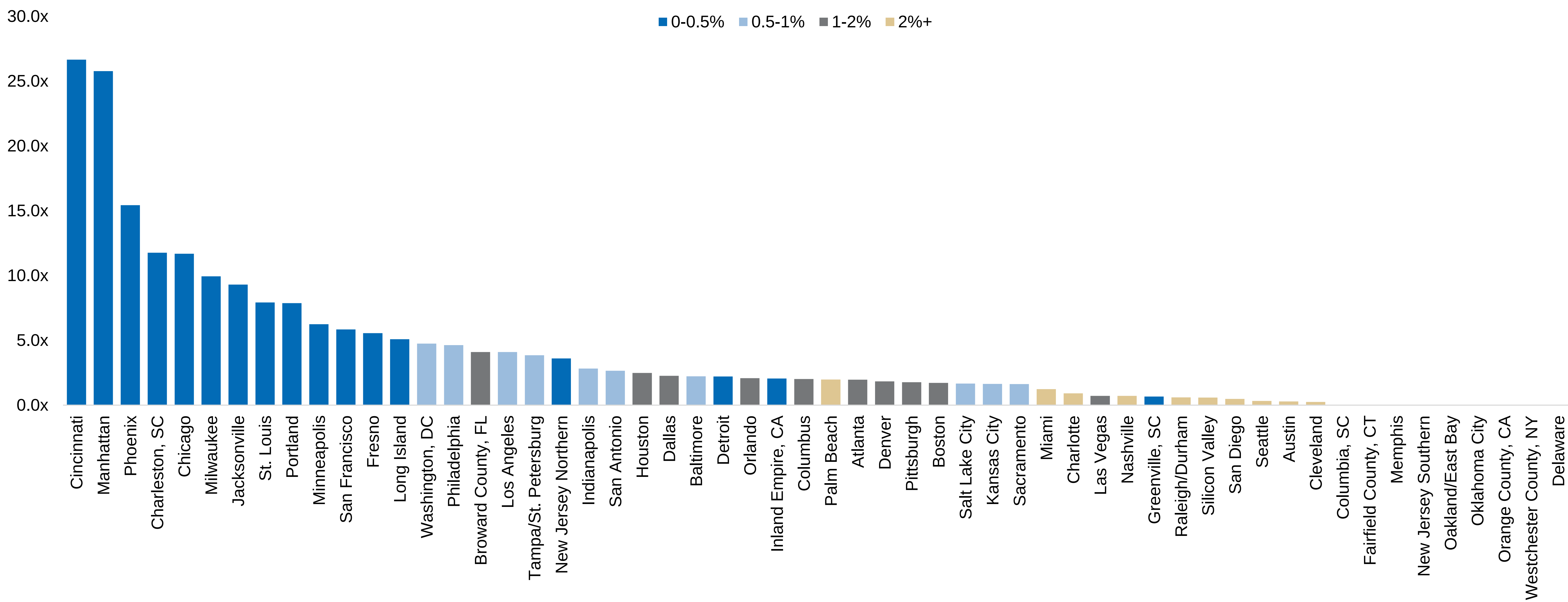


Source: Turner Construction, Newmark Research

Low Construction Pipelines May Help Moderate Supply and Demand Imbalances

The national construction cycle is slowing from its peak reached in late 2019. Although most markets have seen a slowdown in construction activity, some developers are optimistic about long-term demand for high-quality space. Demand for high-quality office space is a relative bright spot in the market, but some metro areas may still be overbuilding. Among markets with the largest total construction pipelines, including Seattle, Austin and San Diego, relative Class A leasing is low, posing challenges for potential vacancy and availability growth. Conversely, markets such as Cincinnati, Manhattan and Phoenix have modest construction pipelines and may be better positioned to achieve more balanced supply and demand.

2023 Class A Leasing Activity as a Percentage of Construction Pipeline, by Under Construction % of Inventory Segment

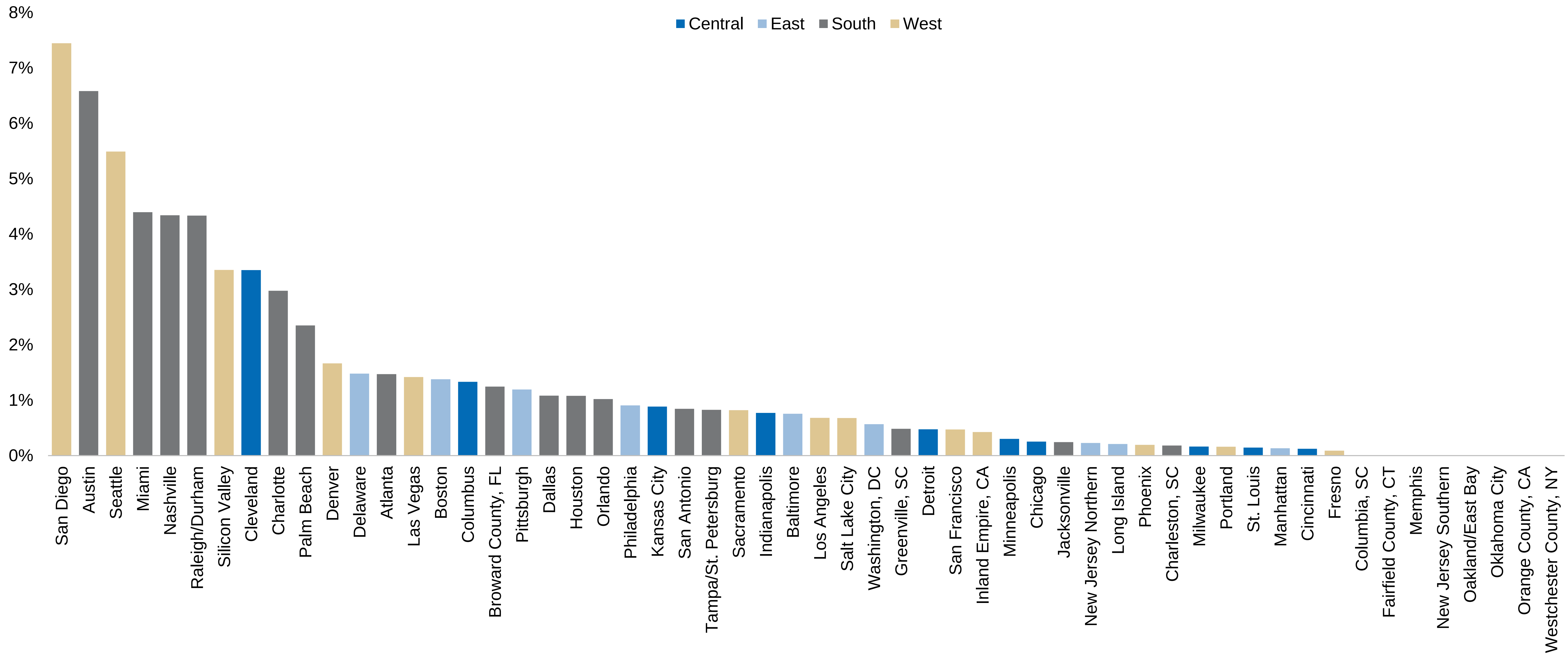


Source: Costar, Newmark Research

Percent of Inventory Under Construction Highest in West Coast and Sun Belt Markets

Comparing supply and demand with the percentage of inventory currently under construction gives a clearer picture of which markets are overbuilding and underbuilding. West Coast and Sun Belt markets lead the country in this metric, with San Diego’s pipeline representing 7.4% of its inventory, the highest in the country. Referencing the previous slide, this gives a clear indicator that excess office supply will be hitting the market there. In comparison, Cincinnati's under-construction total represents only 0.1% of its inventory, despite leasing activity eclipsing that pipeline by over 2500%, suggesting the market is underbuilding.

2023 Under Construction as Percent of Inventory

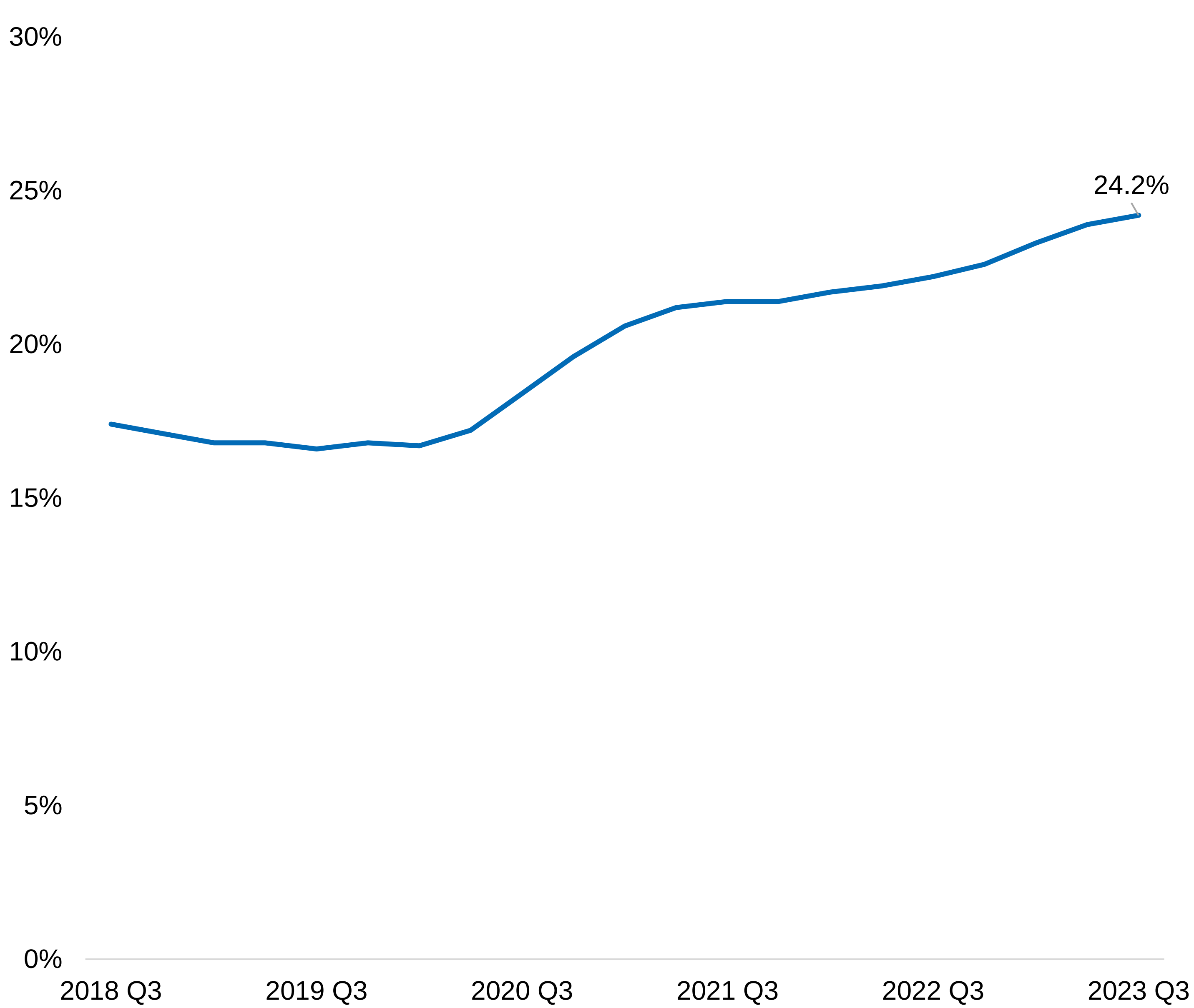


Source: Costar, Newmark Research

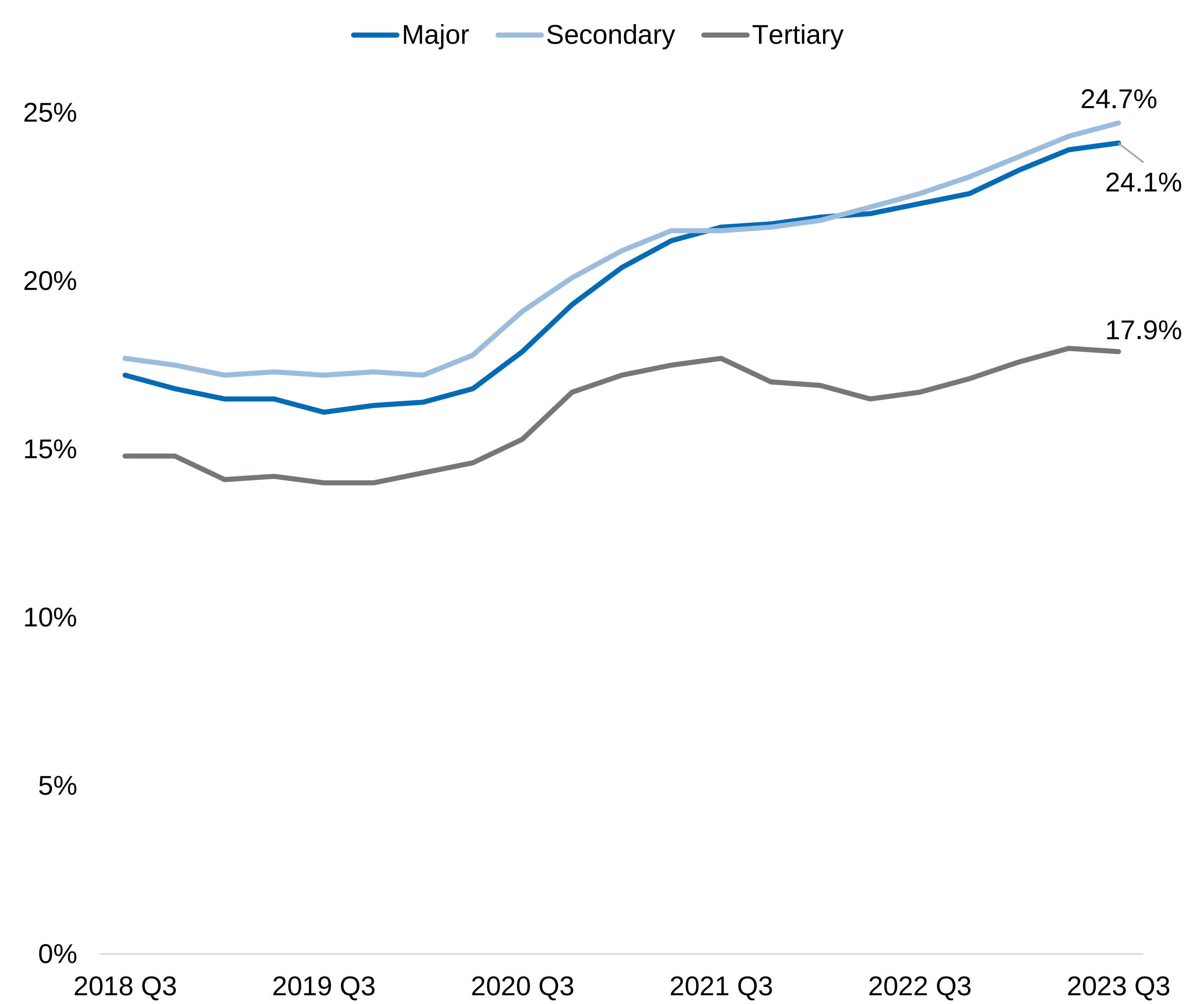
Availability Rates Have Not Yet Peaked

With the vacancy rise, overall availability rose as well in the third quarter of 2023 and is notable elevated in major and secondary markets. Prior to the fourth quarter of 2022, tertiary 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

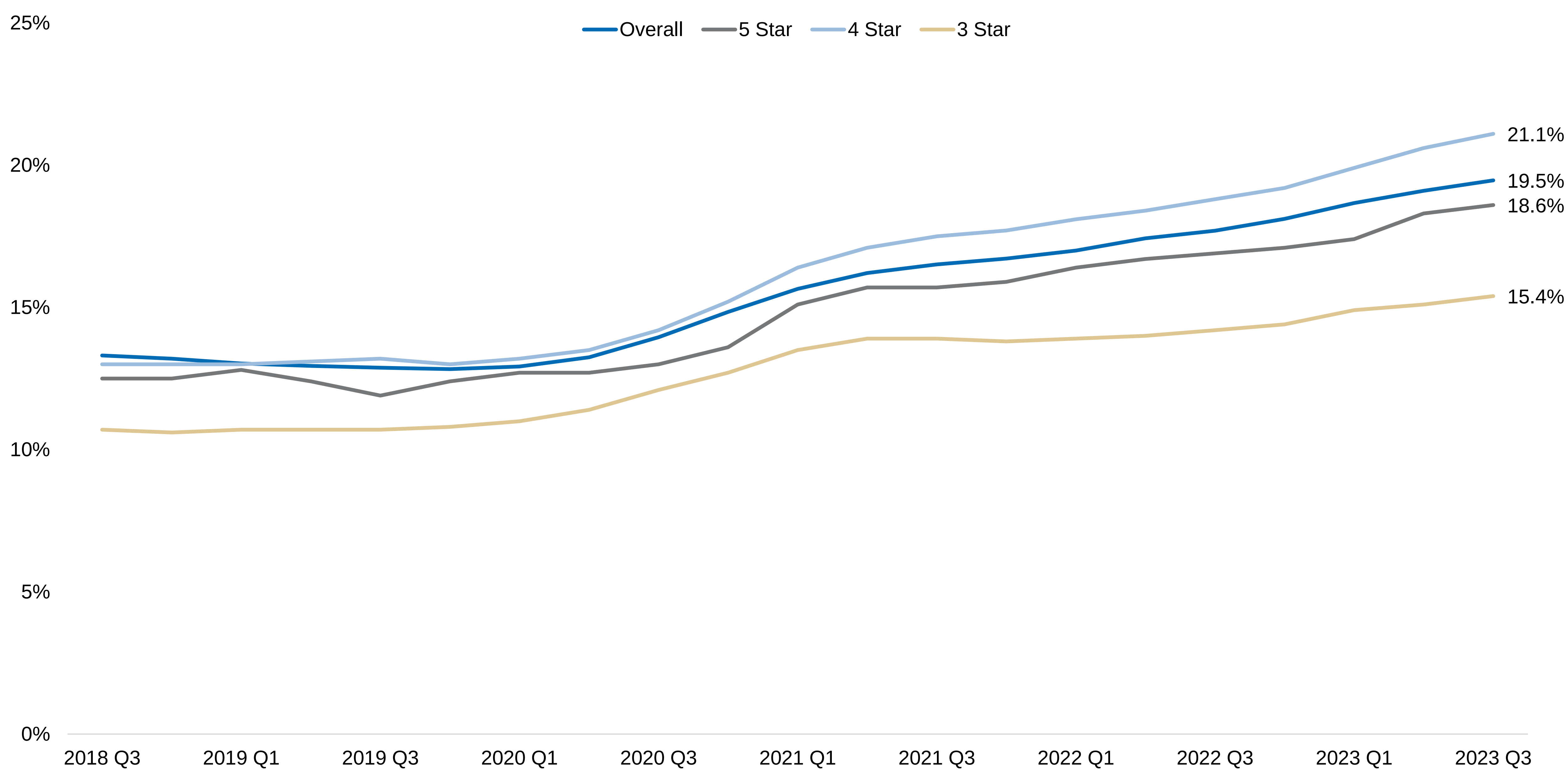


Sources: CoStar, Newmark Research

Continued Occupancy Losses and Slow but Steady Deliveries Drive Vacancy

Vacancy rates rose most notably in the quarters immediately following the onset of the pandemic but continue to marginally grow as overall demand for office space remains soft. Commodity-grade Class A space is generally the most oversupplied segment of the market.

National Office Market Vacancy Rate By Class

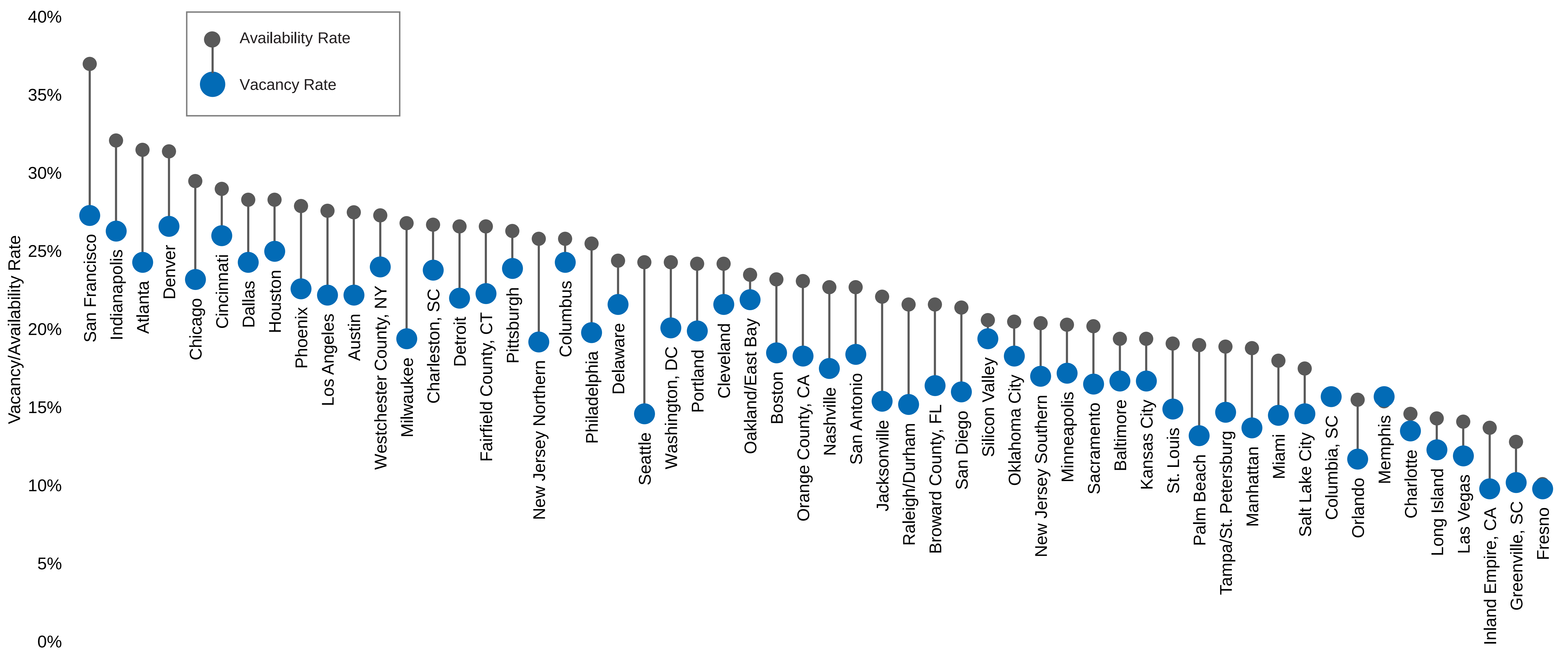


Source: CoStar, Newmark Research

Vacancy and Availability by Market

Both vacancy and availability have largely been trending up over the last two years, 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, Jacksonville and Raleigh/Durham exhibit relatively low vacancy, availability is increasing and masking some weaknesses. Conversely, challenged markets like San Francisco, Indianapolis, Atlanta and Denver exhibit both high vacancy and availability.

Vacancy and Availability Rate by Market

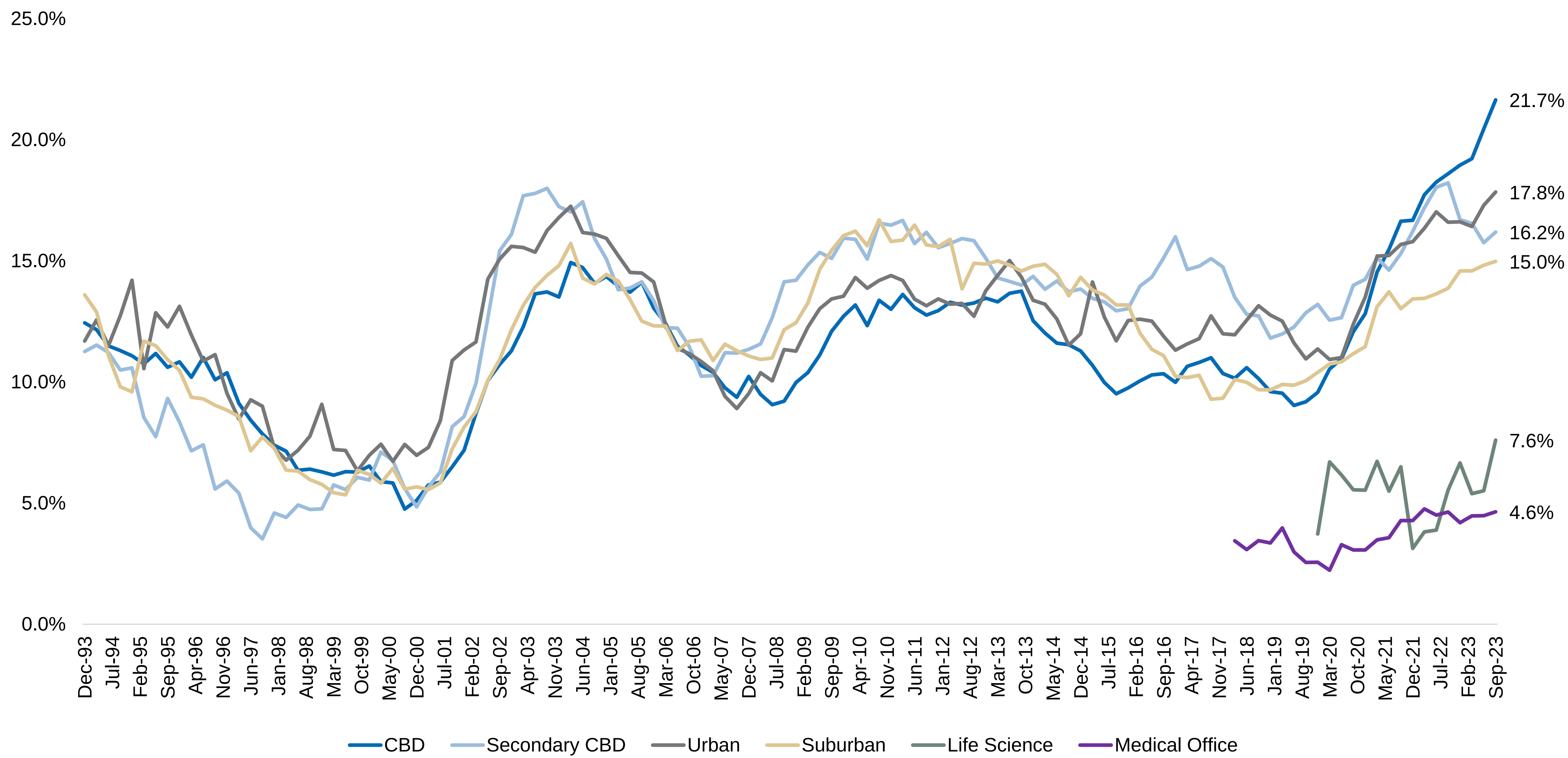


Source: CoStar, Newmark Research

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 in which CBD offices experienced shallower downturns and quicker recoveries. Suburban office holdings have been impacted as well, but to a lesser extent. While availability continues to increase, Suburban office rates are still below the Great Recession highs. NCREIF member holdings of life science and medical office are comparatively small, but they are well-occupied.

NCREIF National Property Index Office Availability Rate

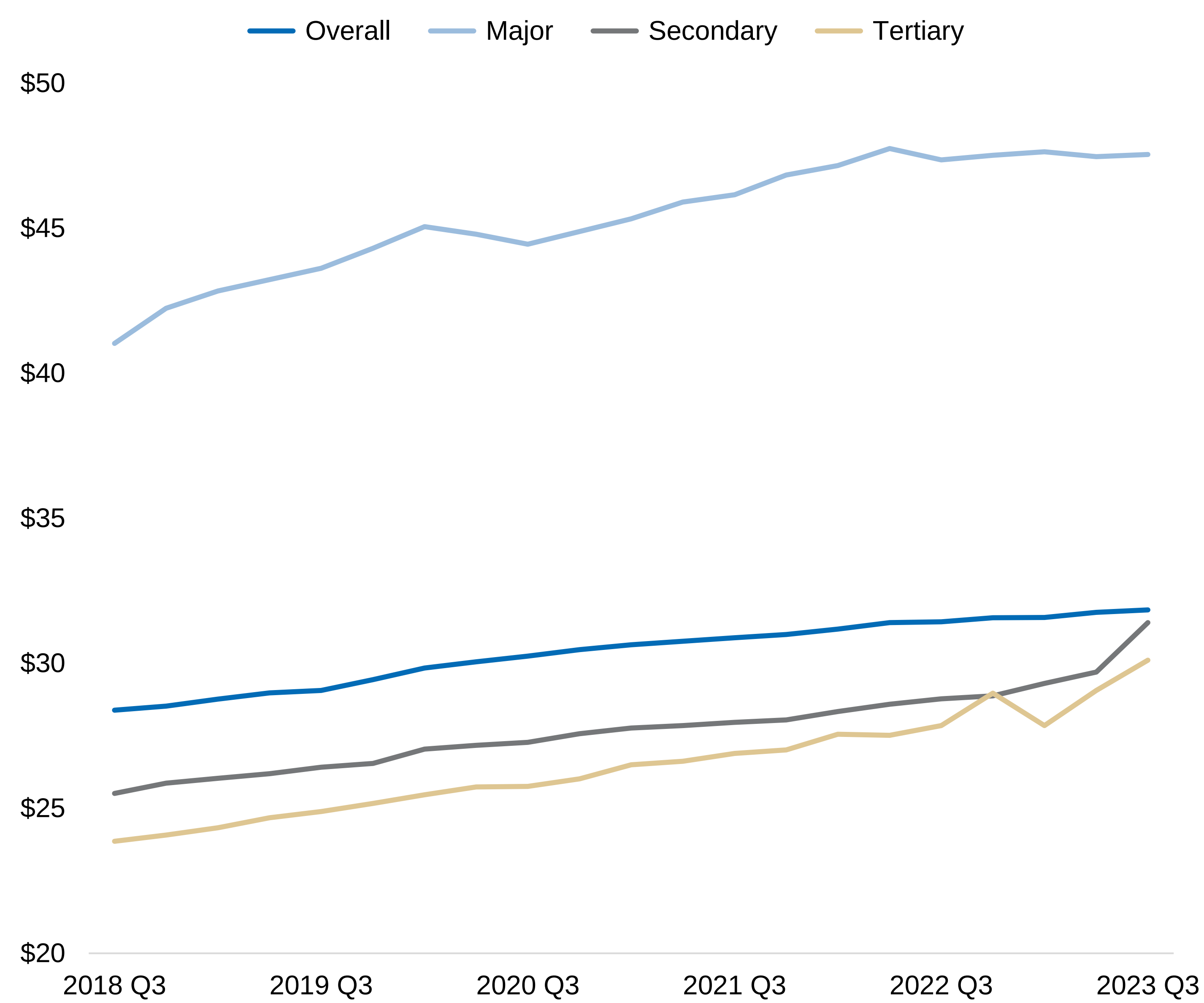


Sources: NCREIF, Newmark Research as of 11/15/2023
*We use the NCREIF National Property Index as a proxy for the national institutional grade office market.

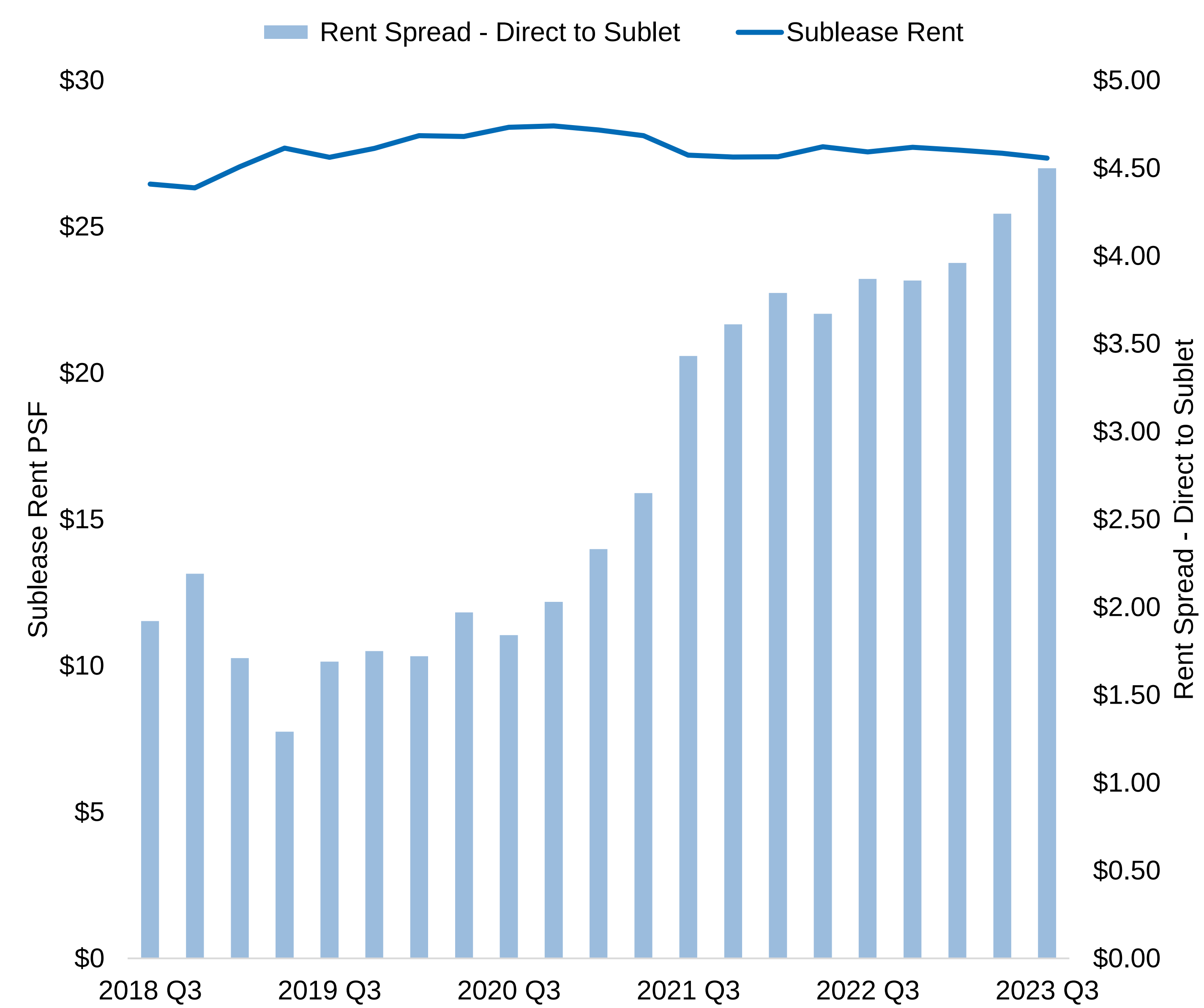
Asking Rents March On

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 major markets, but secondary and tertiary markets continue to appreciate. Sublease rents have been holding relatively flat for much of the last three years, 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 1.3% YoY in Q3, Led by Major Markets



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

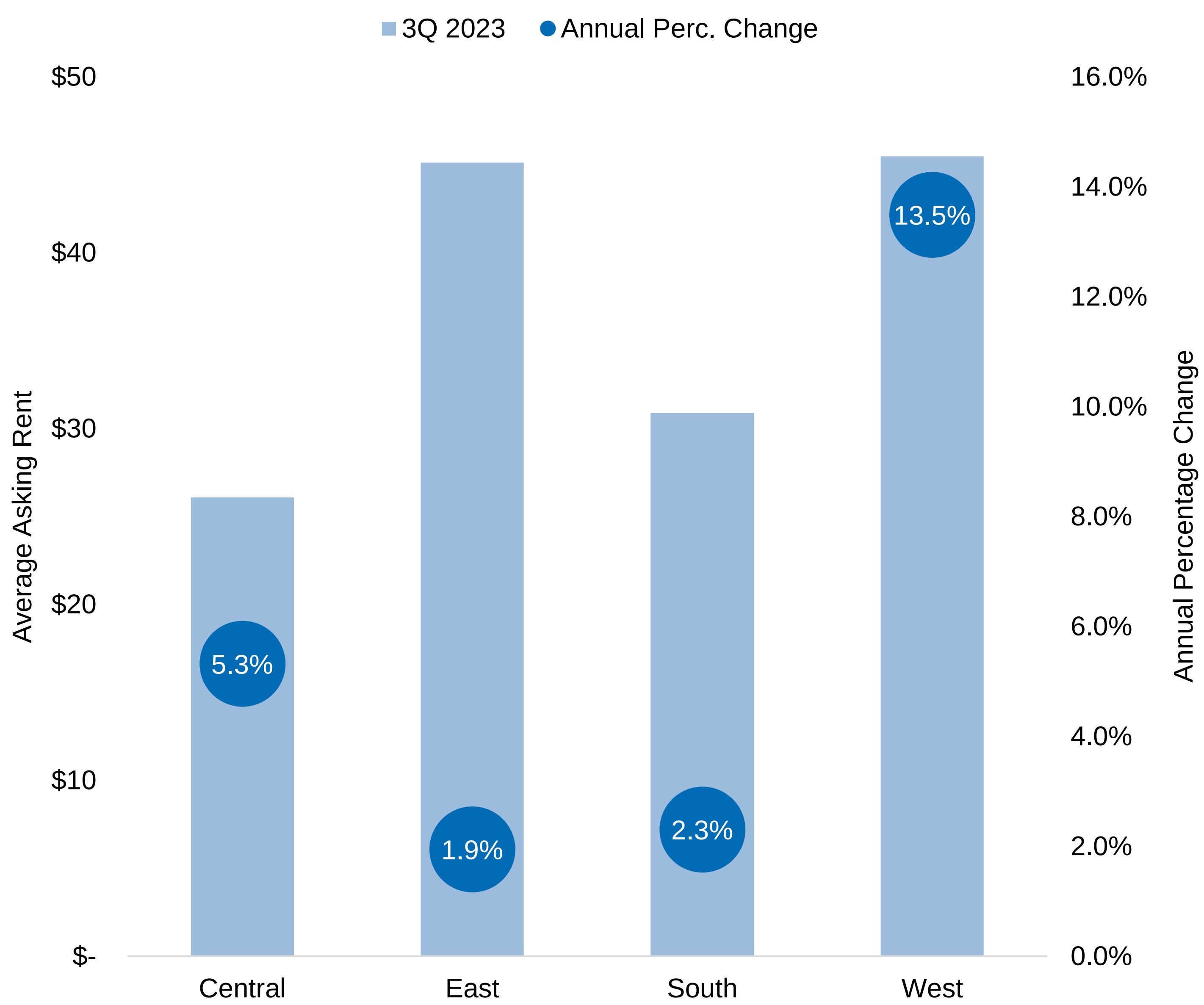


Source: CoStar, Newmark Research

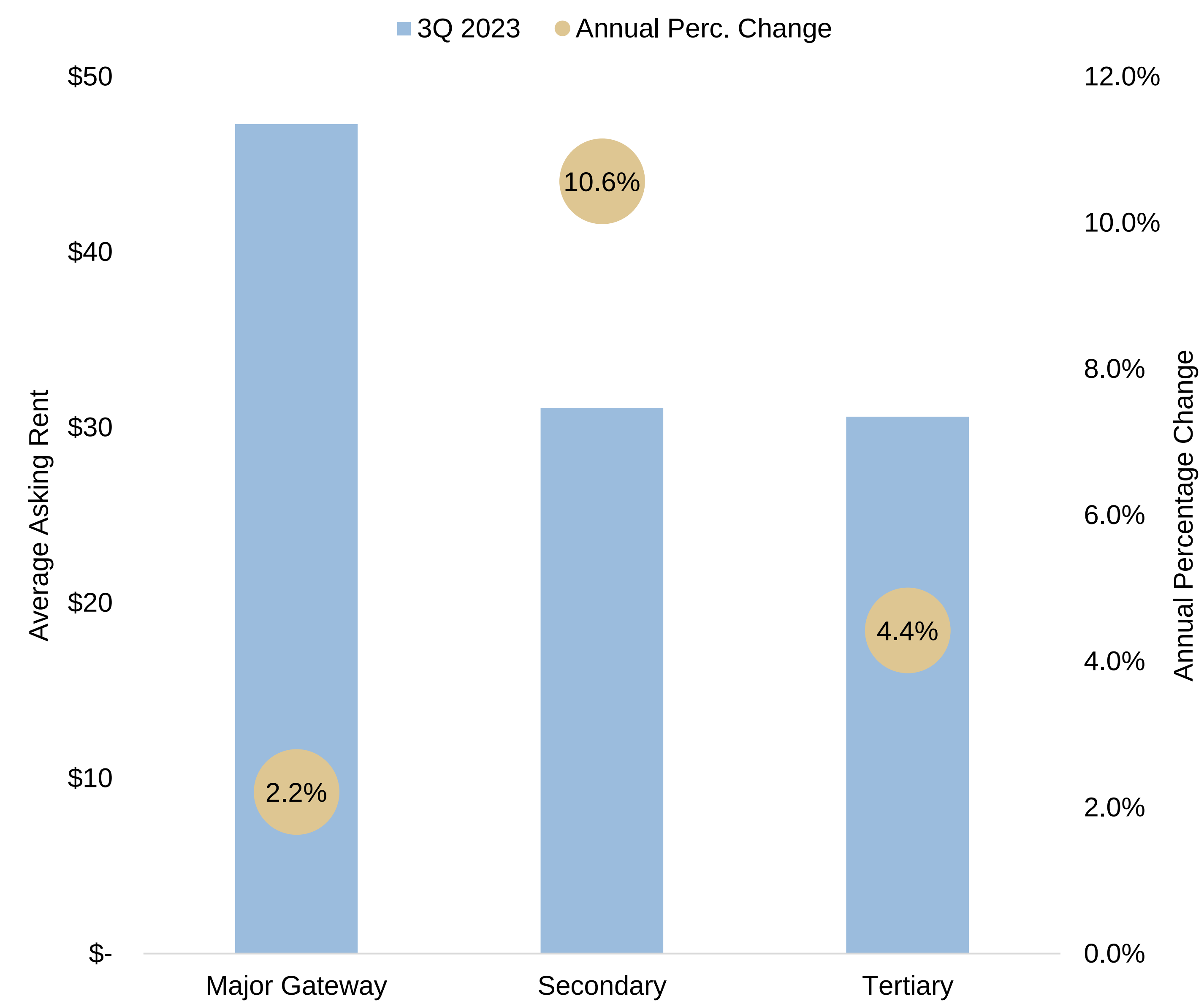
Central, West Regions and Non-Major Markets Leading in Rent Growth

Overall asking rents are most elevated in major coastal Eastern and Western markets, including San Francisco, Manhattan and Silicon Valley. The West Coast continues to experience the most aggressive rent appreciation among the four key regions, driven partly by inventory expansion and the success of secondary 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

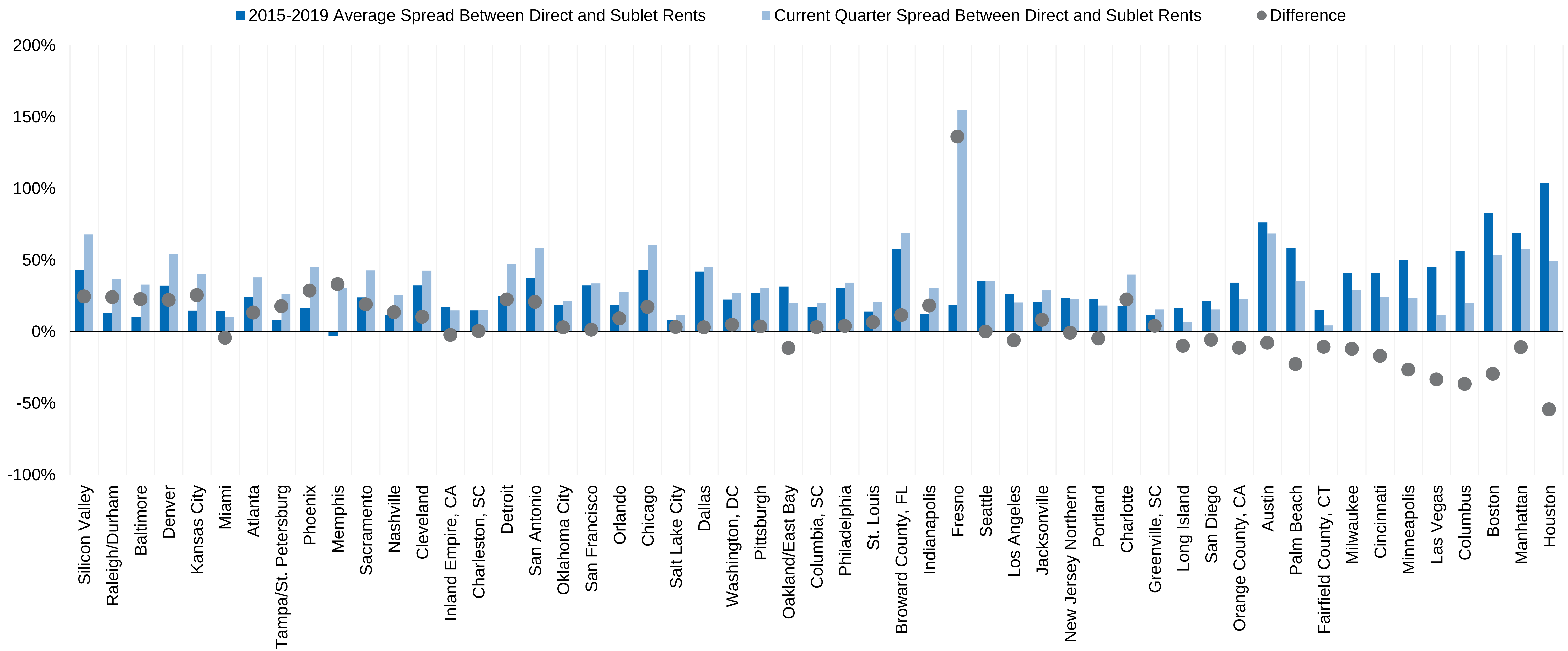


Source: CoStar, Newmark Research

Spread Between Sublet and Direct Rents Rising in Most Markets

The spread between average direct and sublet asking rents has been on the rise nationally, but variations exist within markets. In most cases, this rising spread has been perpetuated by steadily increasing asking rents and stability in sublet rates.

Direct-to-Sublet Rent Spread Comparison Between Pre-Pandemic and Current Period

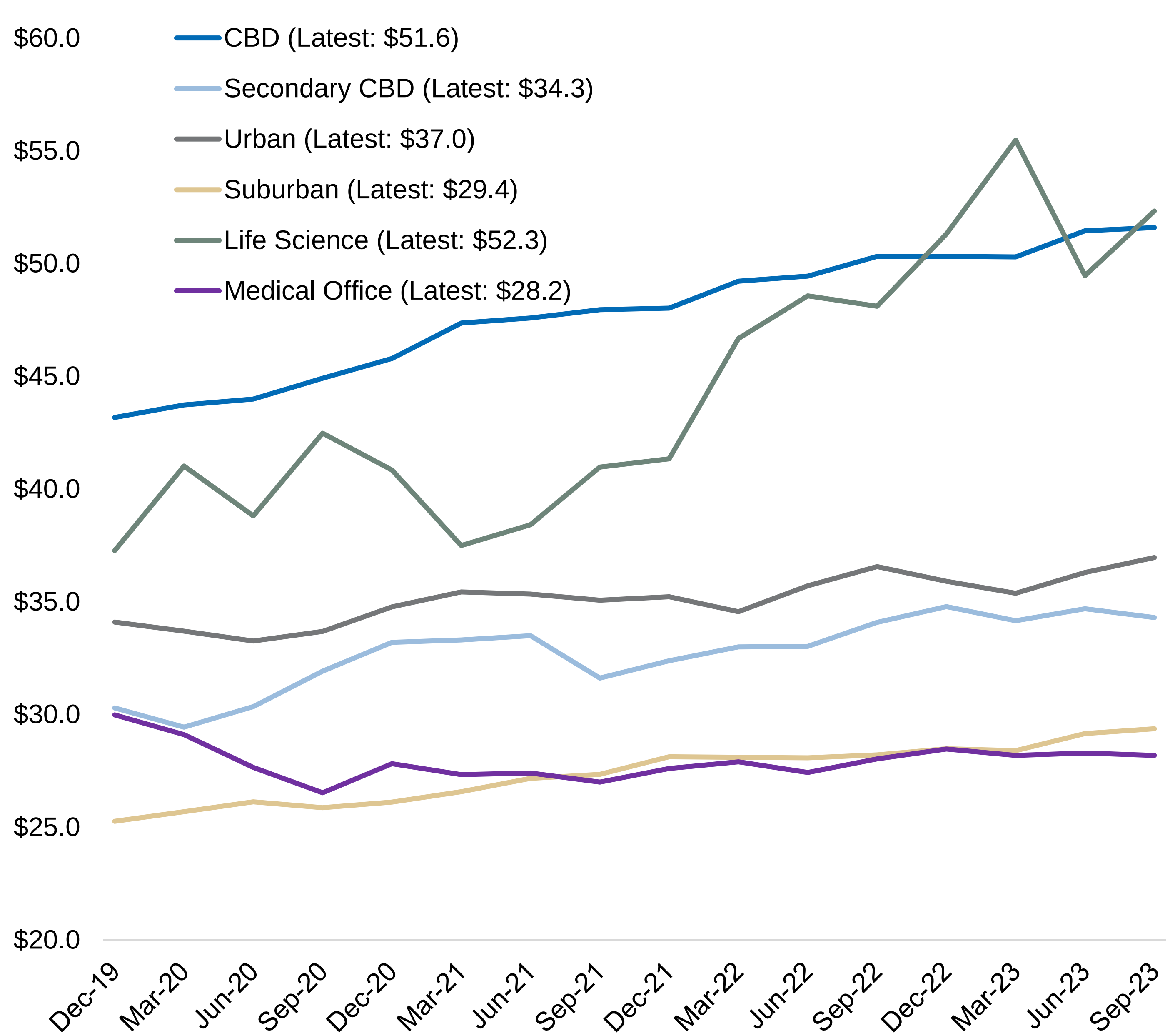


Source: CoStar, Newmark Research

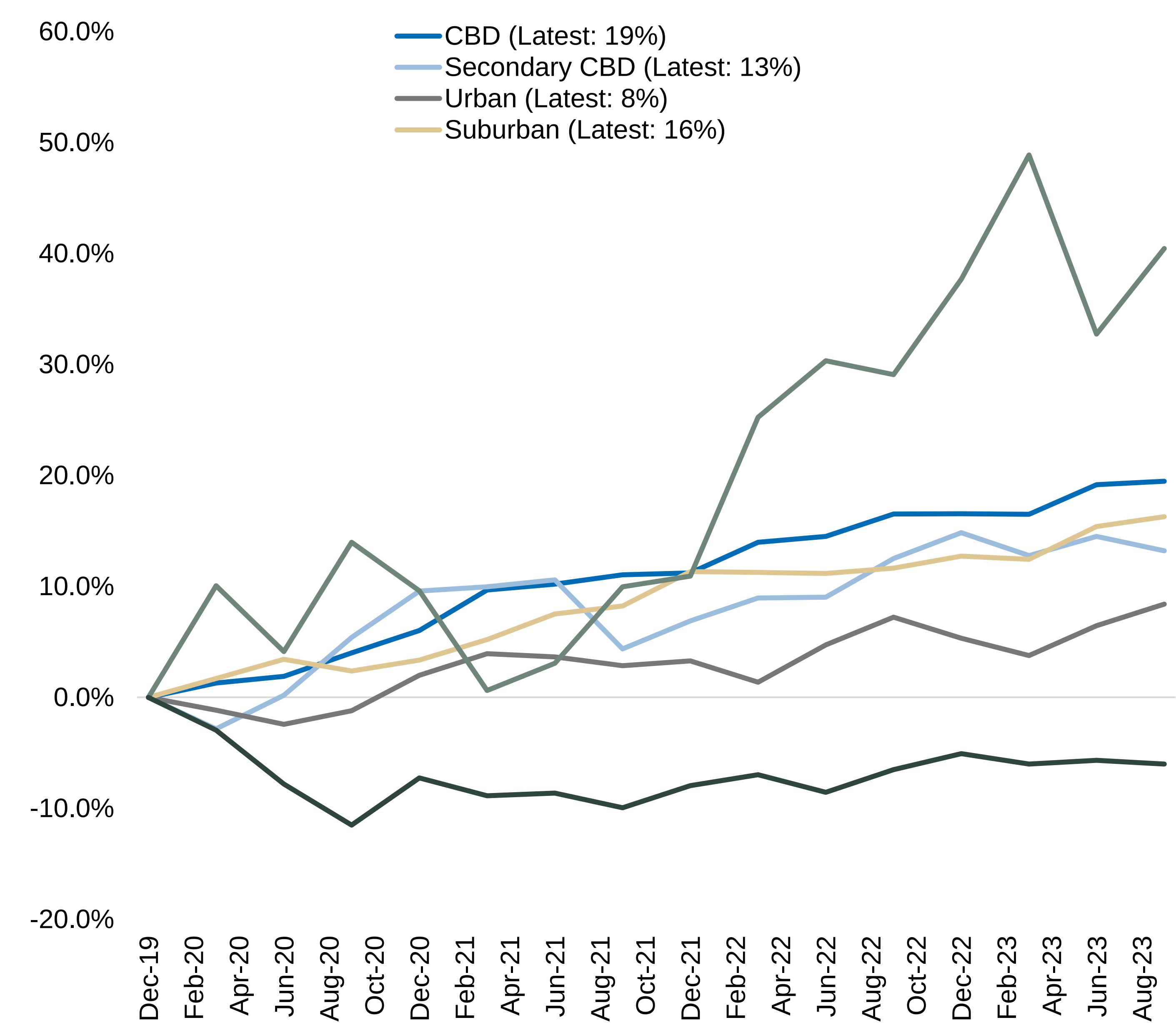
Institutional Core Building Rent per SF Has Broadly Grown Since 4Q19

The rosy picture is surprising, given negative office sentiment. What this shows is that while office occupancy has certainly fallen, rents on occupied space have either been increasing or stable.

Rent Paid per Occupied Square Foot



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

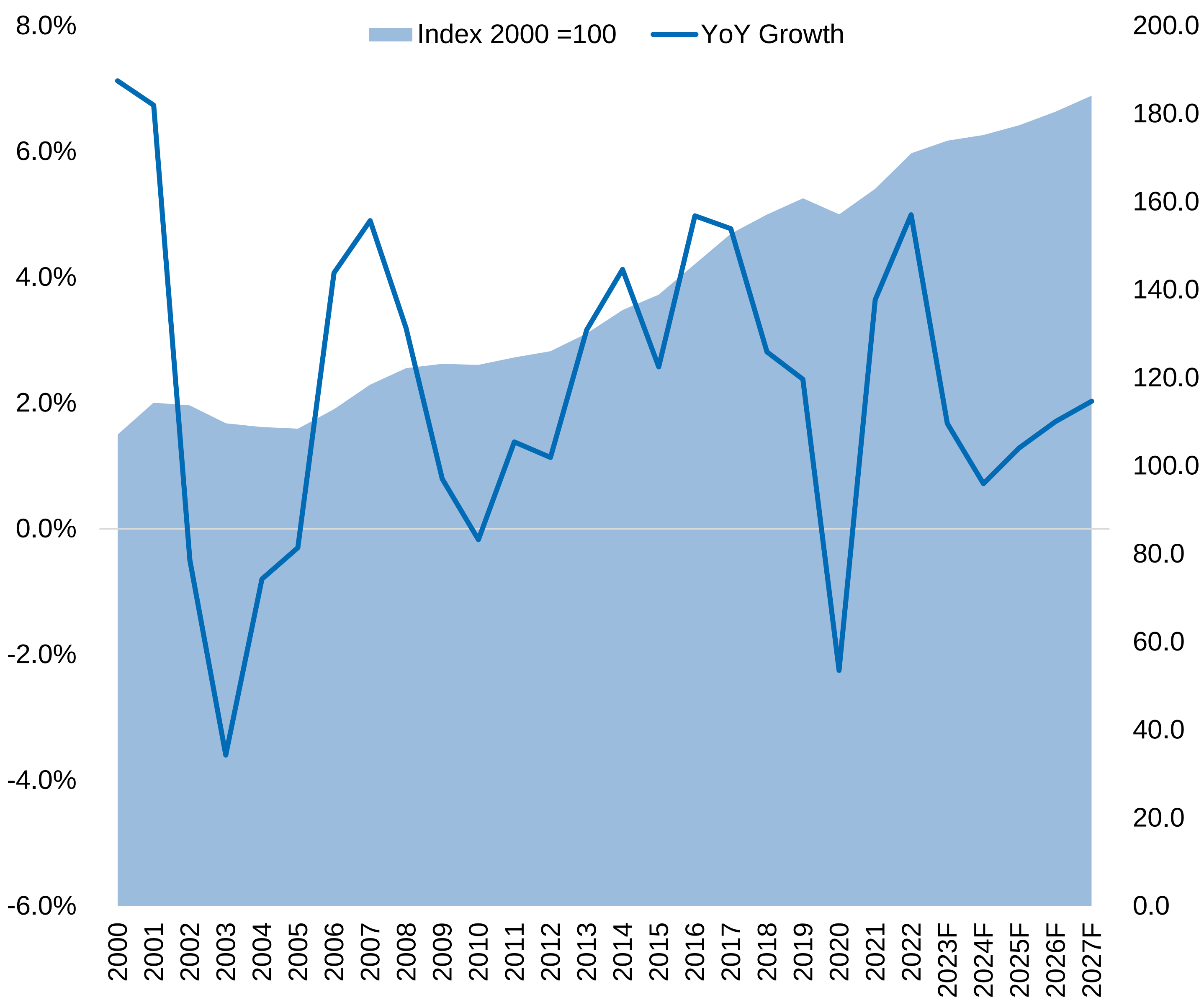


Source: NCREIF, Newmark Research as of 11/15/2023

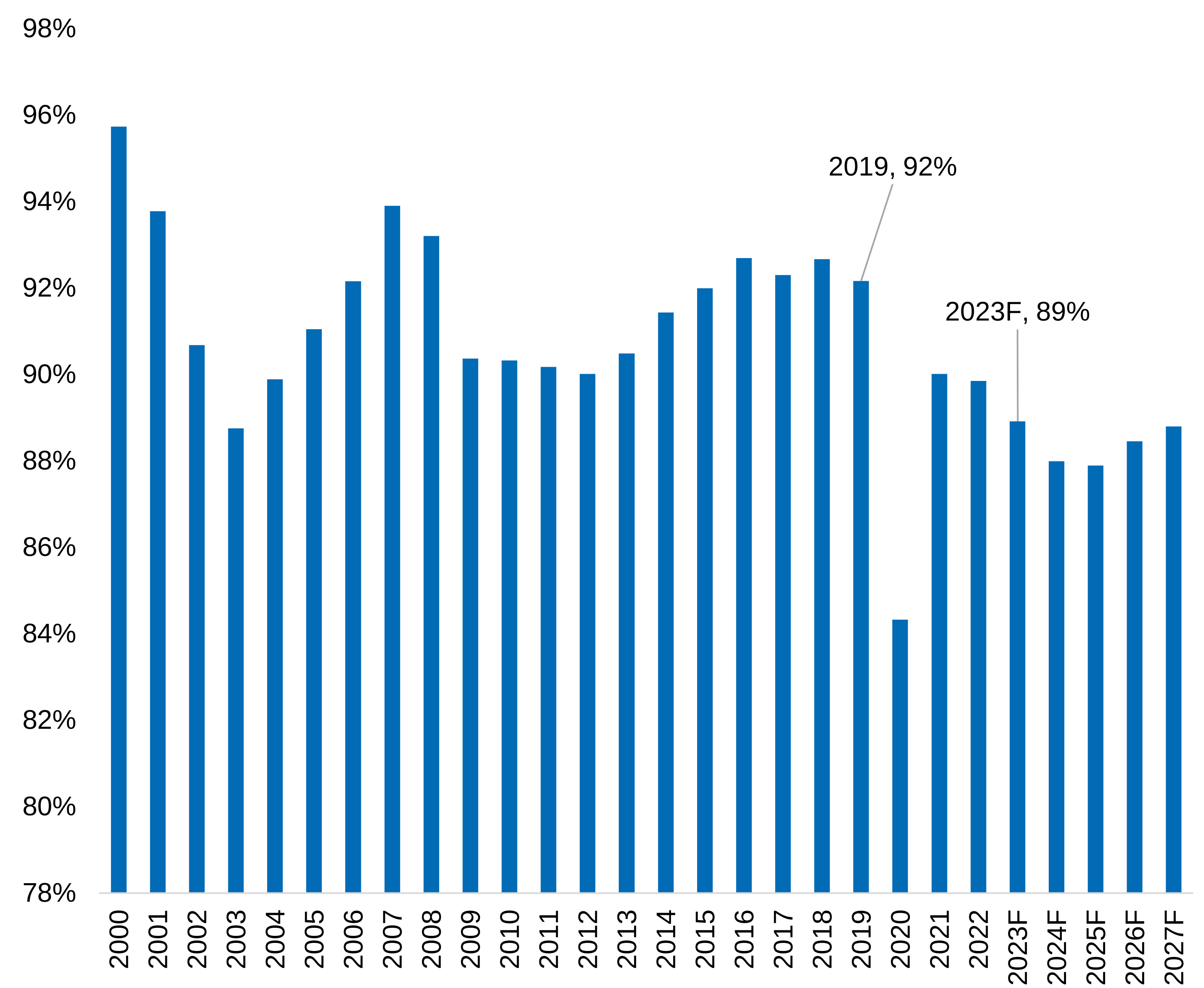
Office REITs Also Show Better than Expected Cashflow Trends

Despite the significant deterioration in overall leasing market conditions, office REITs have continued to grow their same-store NOI. Partly, this reflects disposition of underperforming assets, but this still means that the pruned portfolios are performing. Occupancies are at their lowest levels since at least 2000, but they appear to have stabilized.

REIT Same-Store NOI



REIT Same-Store Occupancy Stabilizing

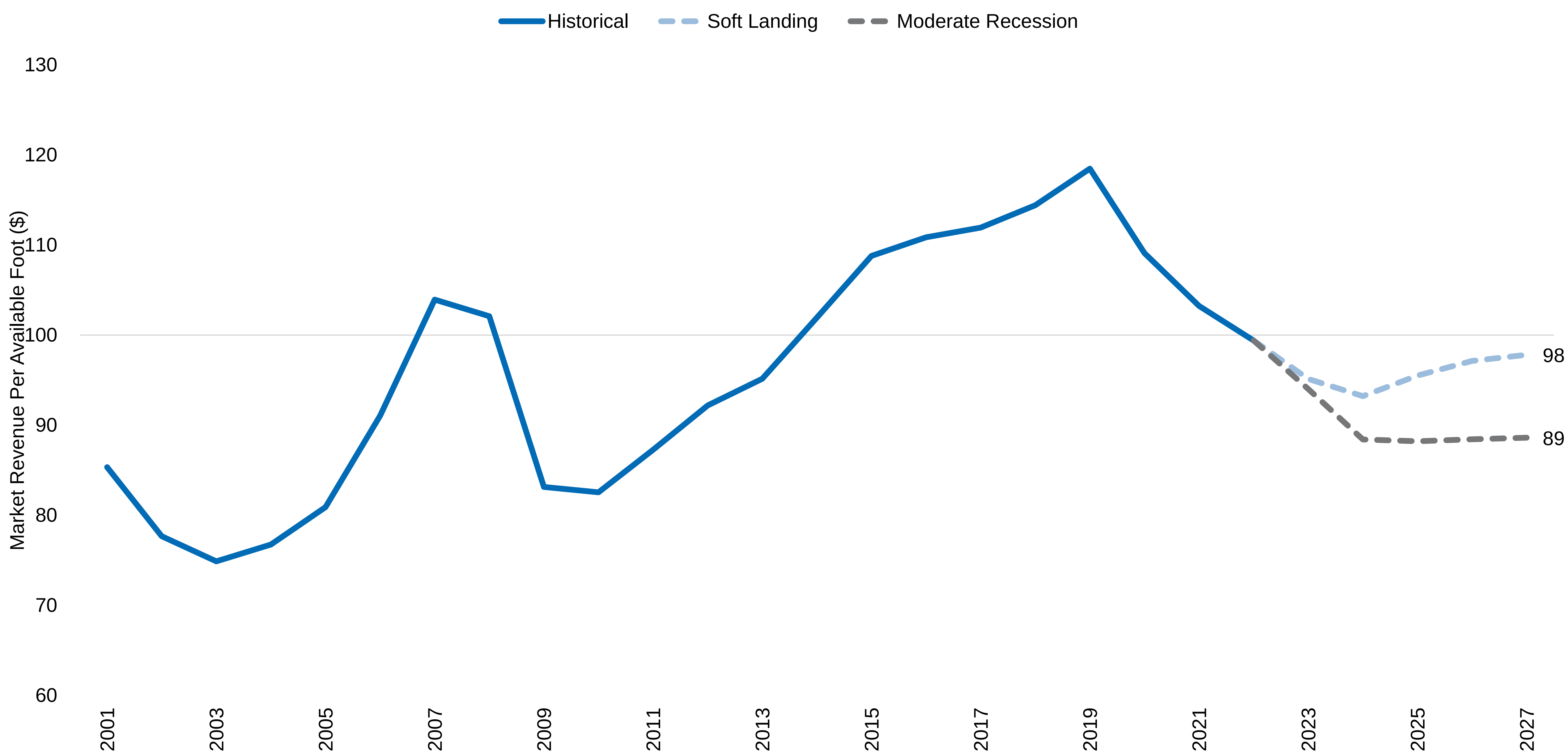


Source: Green Street data as of 11/16/2023, Newmark Research

Broad Market Fundamentals Face a Slow Recovery

Market revenue per available foot has been trending downward since 2019, and it is not expected to bottom until the end of 2024 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 with improve slowly and will 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)

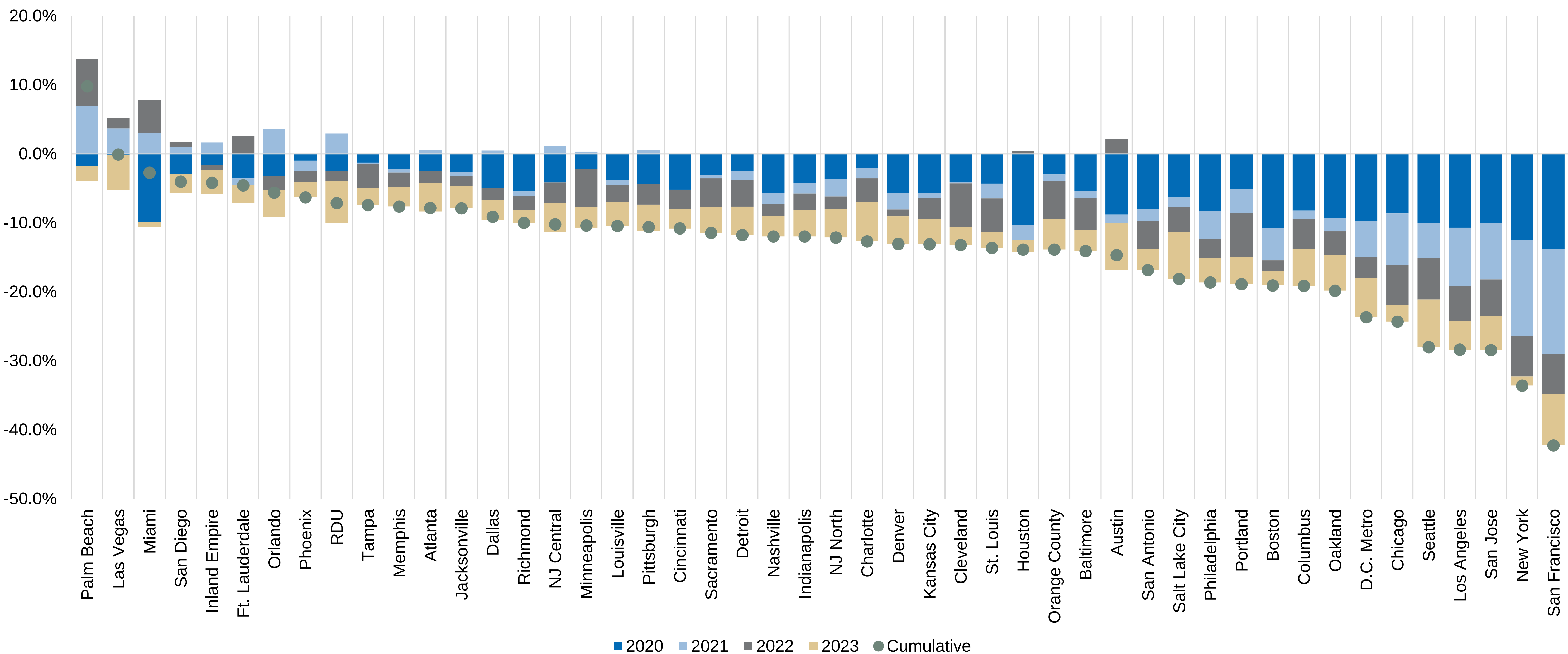


Sources: Green Street, Newmark Research as of 11/16/2023

RevPAF* Forecasted to Contract across Markets in 2023

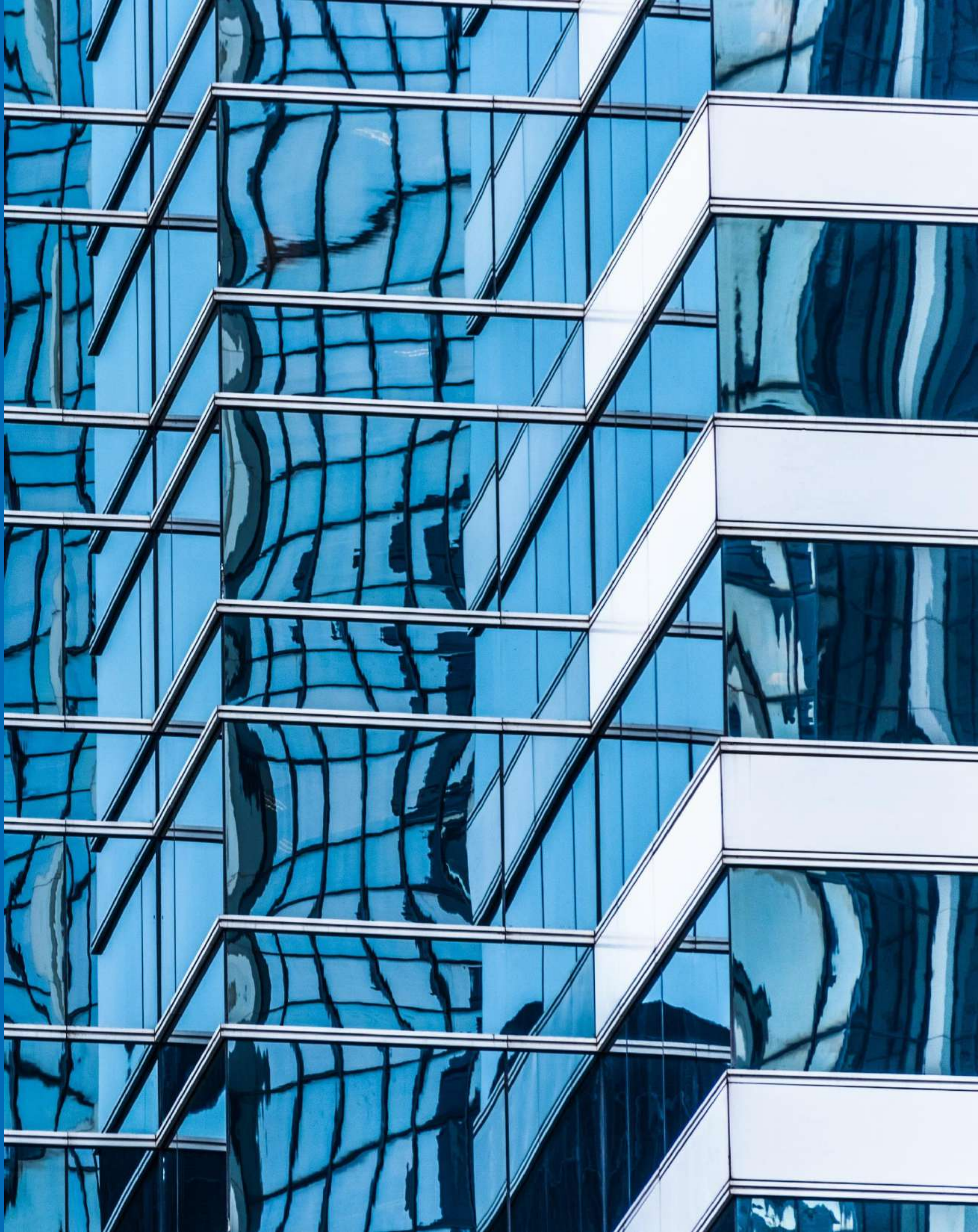
The larger picture, however, shows that Sun Belt markets have outperformed since 2020, notably Florida markets, as well as San Diego and the Inland Empire. By far, the worst-performing market has been San Francisco, but other gateway markets have also been hard hit, including New York, San Jose, Los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

M-RevPAF Growth by Market



Source: Green Street data as of 11/16/2023, 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.

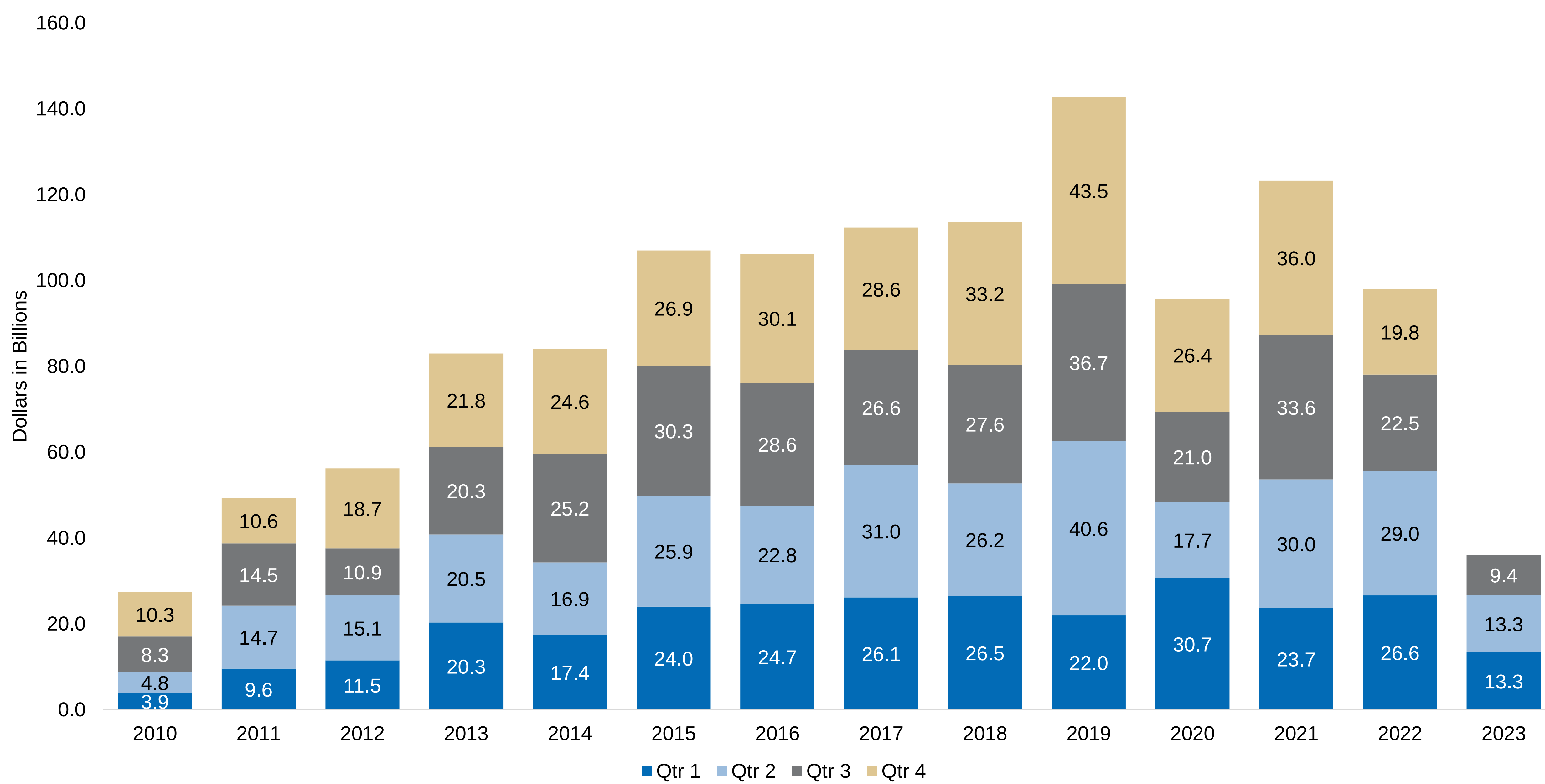
Debt Capital Markets



Office Debt Originations Down 54% Year over Year in First Three Quarters of 2023

While figures are preliminary, revisions would only confirm the sharp deceleration in lending activity in the office sector. Office origination volumes were the lowest since 2010. Both Suburban and CBD office buildings experienced similar declines year to date; however, CBD office originations are down 72% versus to the 2017 to 2019 average compared with negative 45% for Suburban office.

Office Debt Origination Volume*

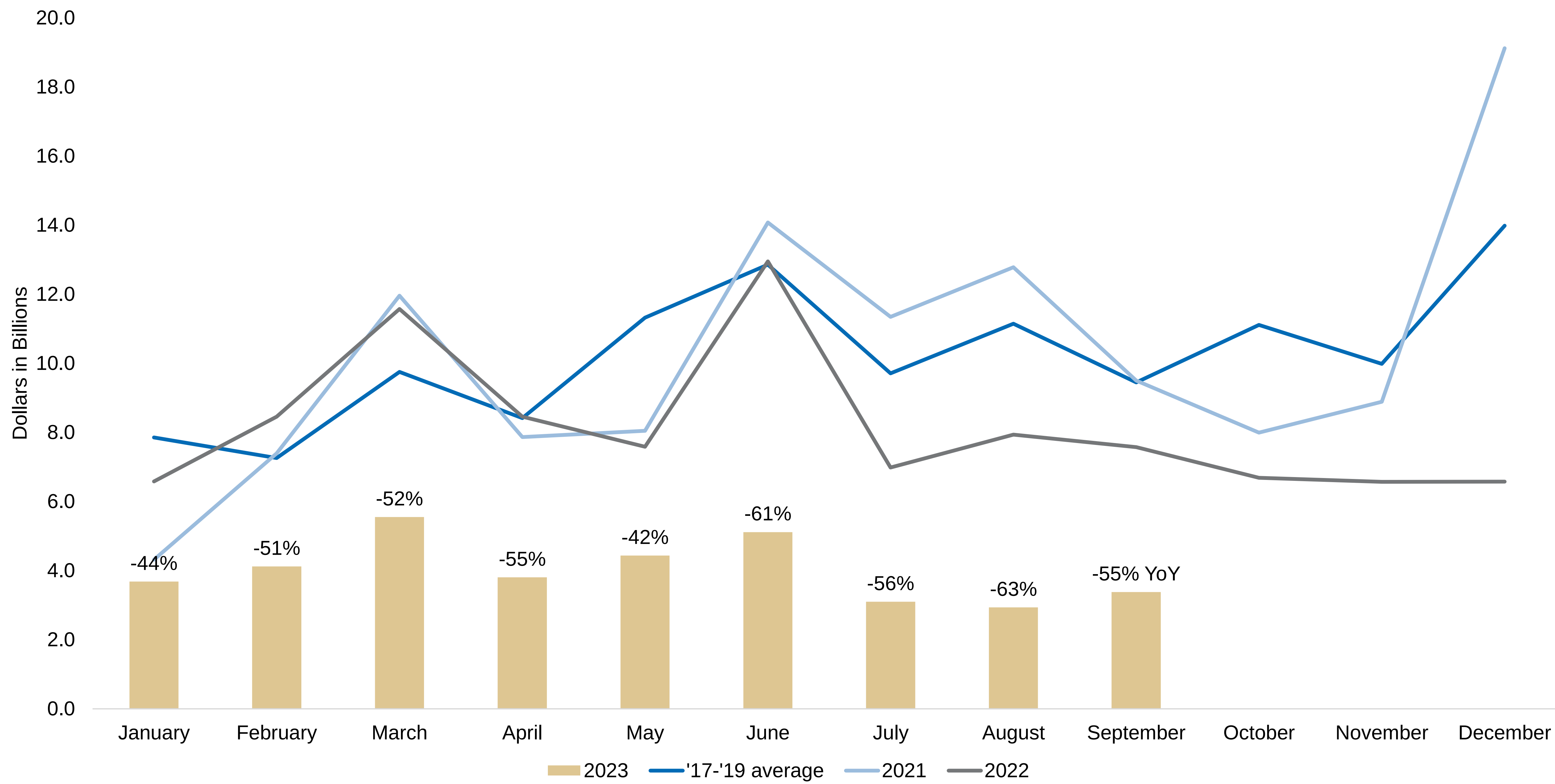


Source: RCA, Newmark Research as of 10/24/2023
* Excludes construction finance. Data is based preliminary loan sums, which are subject to future revision – potentially significant.

Monthly Originations Consistently Weak; Materially below Historical Levels

Office originations departed from the 2017 to 2019 average trend in July of 2022 and continuously weakened since then. September volume is likely to be revised upwards modestly but will remain below the June level.

Monthly Office Debt Originations Volume*



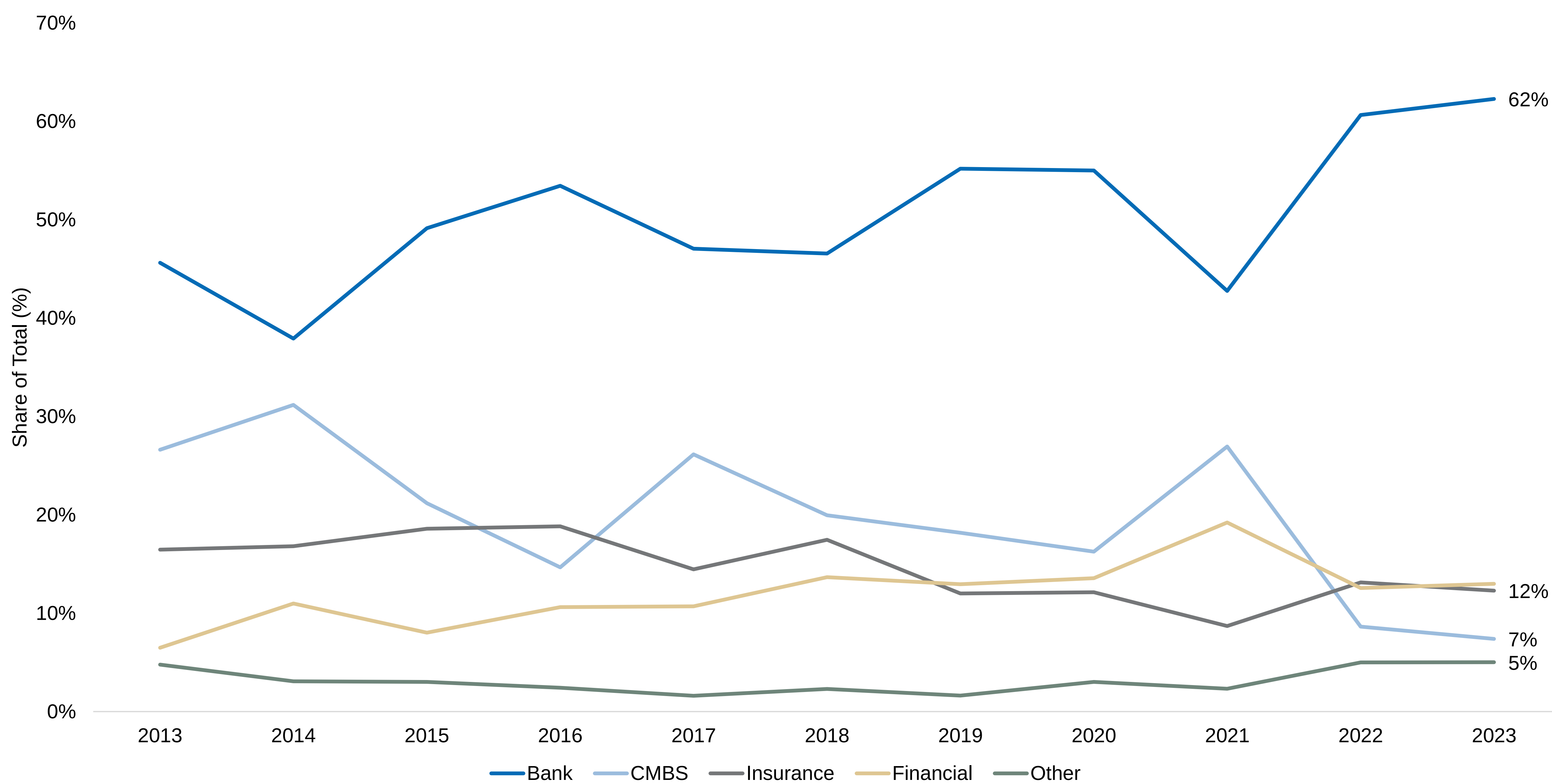
Source: RCA, Newmark Research as of 10/24/2023

* Excludes construction finance. Data is based preliminary loan sums, which are subject to future revision – potentially significant.

Office Borrowers Heavily Dependent on Bank Finance

Banks continued to dominate office property finance in the first three quarters of 2023. Securitized debt finance by contrast has fallen sharply from its recent peak in 2021 amid a depressed issuance market. Other lenders, mostly private, increased their shares sharply year to date. Insurance and debt fund lending have been stable on a share basis.

Origination Share by Lender Group

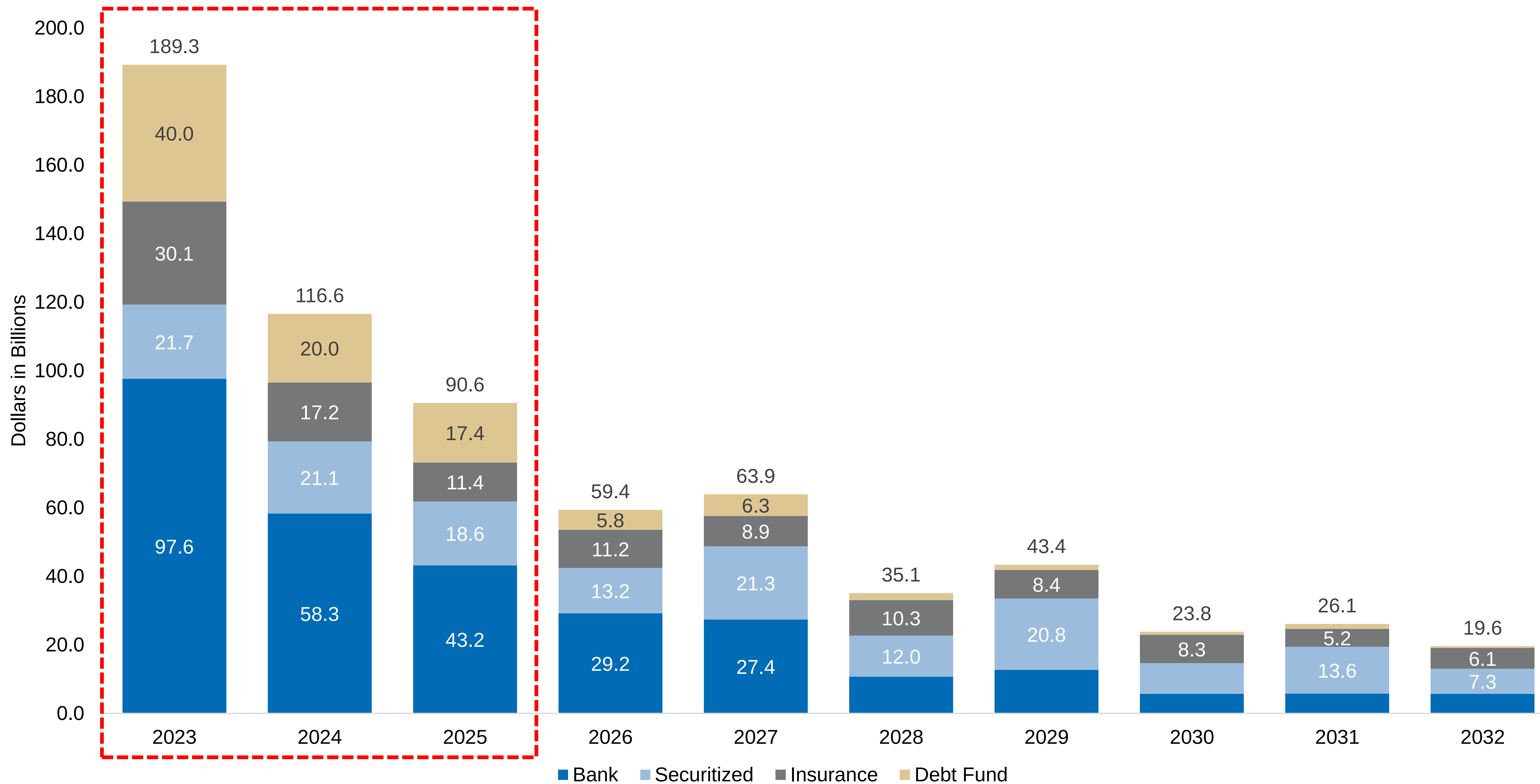


Source: RCA, Newmark Research as of 10/24/2023
* Excludes construction finance. Data is based preliminary loan sums, which are subject to future revision – potentially significant.

$397 Billion in Office Loans Mature Between 2023 and 2025

Bank loans make up just over half of near-term loan maturities at a time when banks are likely to be in a structurally unfavorable moment to absorb them. Debt funds maturities are also elevated in the 2023 to 2025 period, much of it transitional or bridge debt and therefore higher risk.

Office Loan Maturities by Lender Group

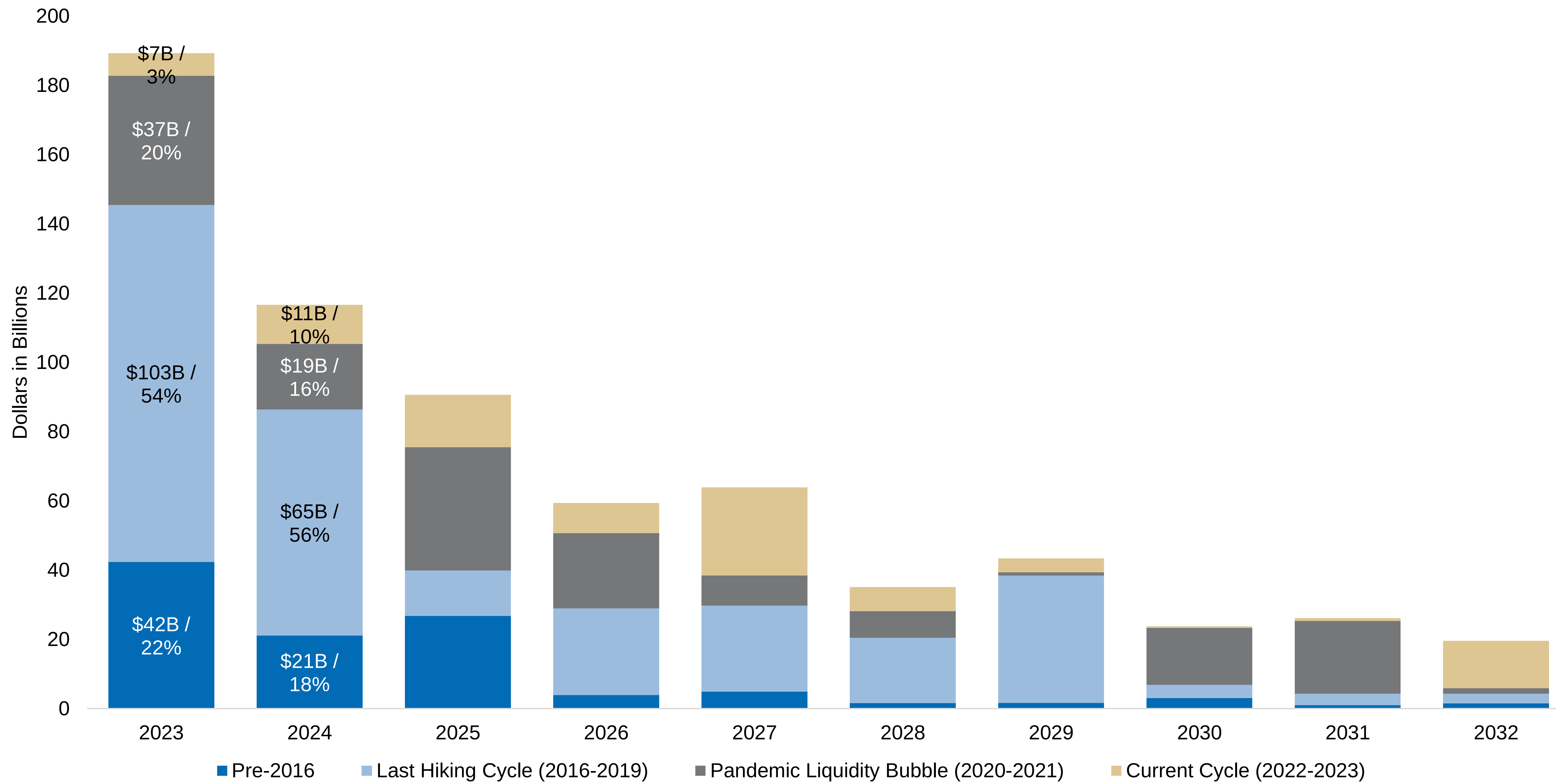


Source: MBA, Trepp, RCA, Newmark Research as of 10/24/2023

Most Maturing Office Loans Were Originated Pre-Pandemic

The good news is that a relatively small proportion of maturing office loans were issued at rock-bottom interest rates in contrast to industrial and multifamily, for example. The bad news is that most of the loans were issued when office valuations were significantly higher than they are today.

Office Loan Maturities by Origination Period

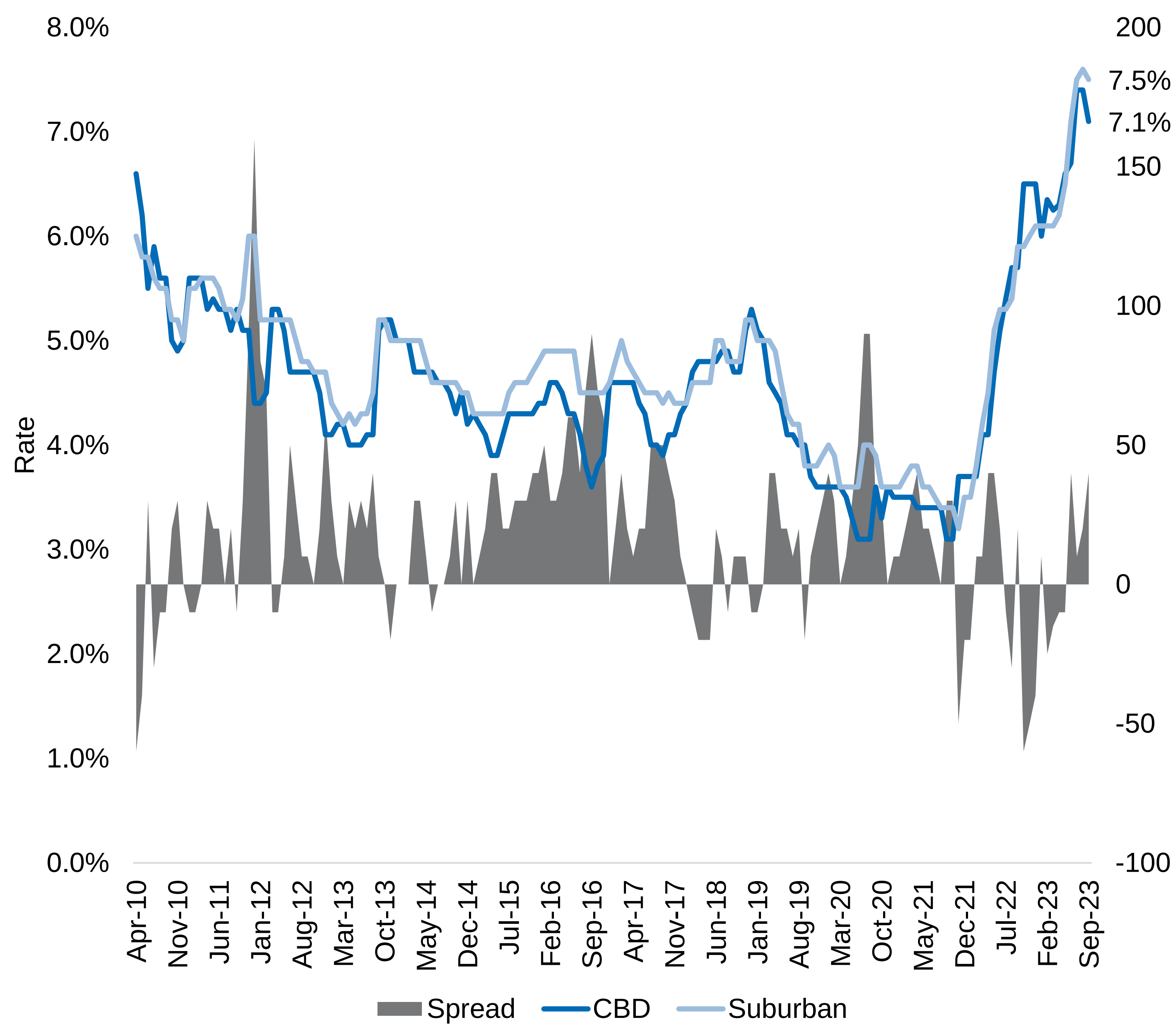


Source: MBA, Trepp, RCA, Newmark Research as of 10/24/2023

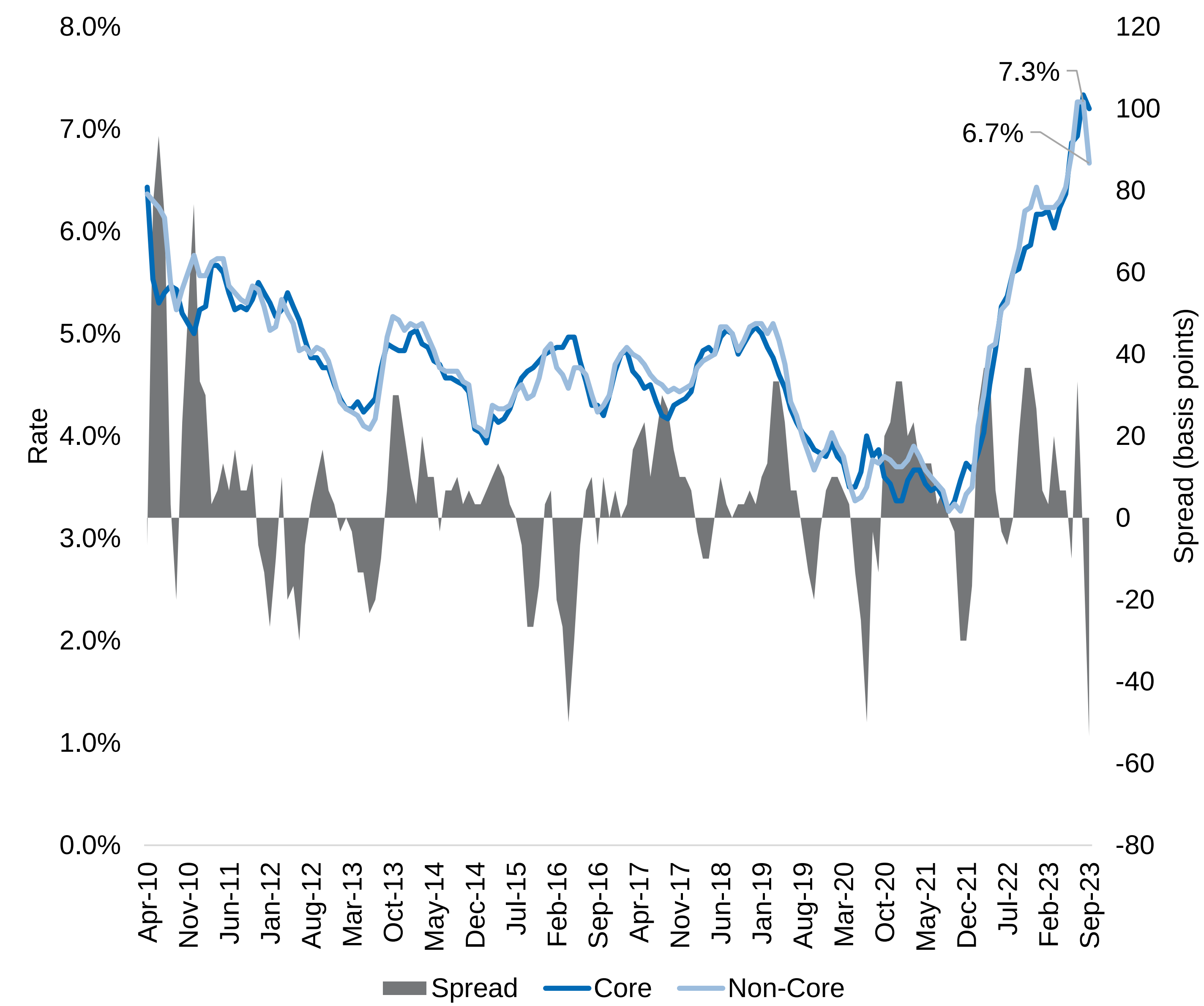
Debt Costs Have Risen Sharply across Office Market Segments

Data points were exceedingly thin in the third quarter of 2023. It is hard to believe that the cost of debt decreased from the second quarter of 2023 to the third quarter of 2023 in any holistic sense. The overall message remains that the cost of office fixed rate financing in now in the high sixes and sevens.

Fixed Rate Financing Cost: CBD vs. Suburban



Fixed Rate Financing Cost: Core vs. Non-Core

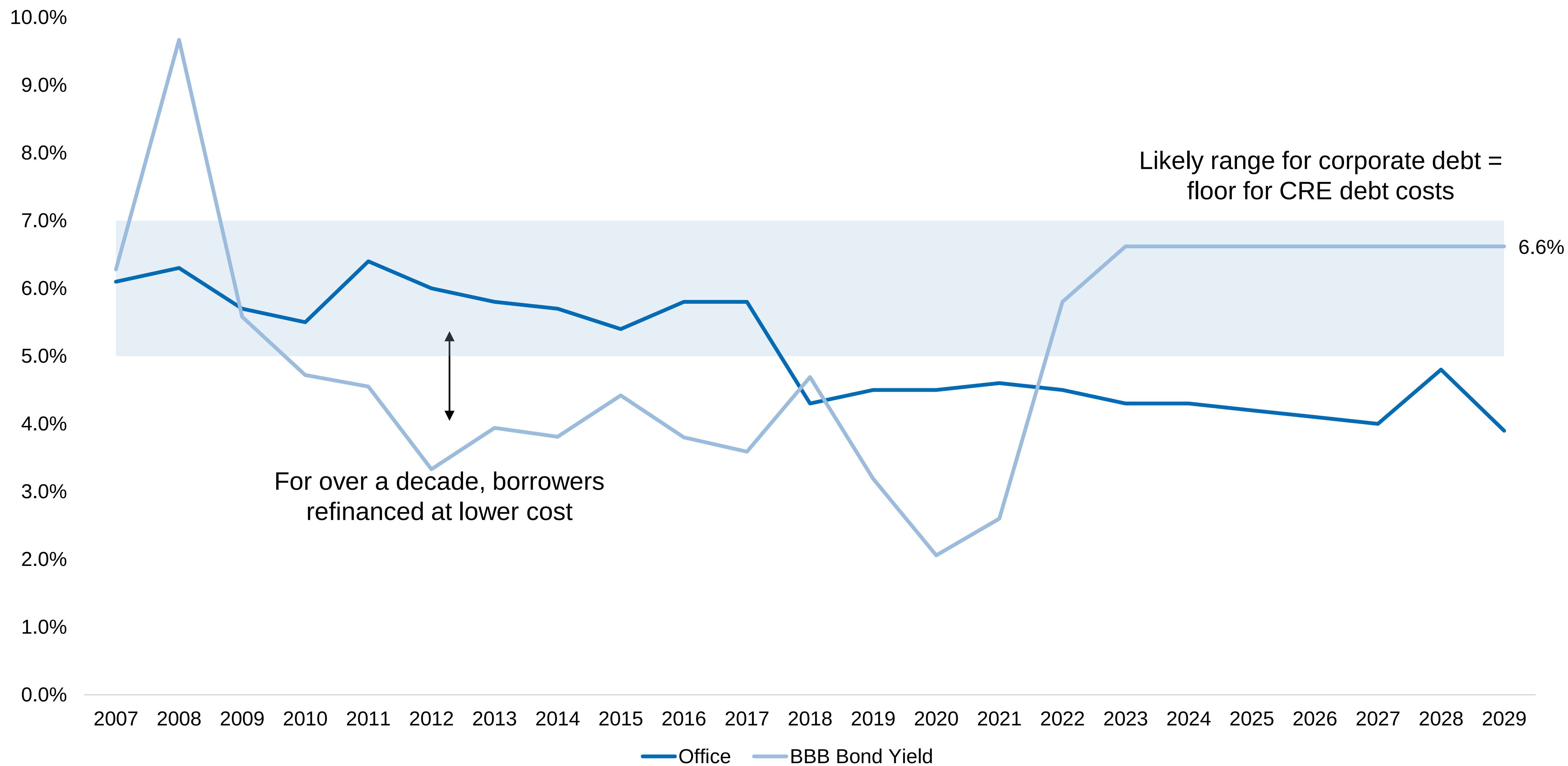


Source: RCA, Newmark Research as of 11/11/2023
Note: Excludes construction financing

Maturing Loans Face Significantly Higher Costs, Driving Payment Stress

Following the recent surge in long-term rates, corporate bonds yields are now at the top of our estimated range, while spreads are still close to long-term averages. CRE debt costs will be driven higher still. Maturing fixed-rate CRE debt faces a much higher burden on refinance. In some cases, organic deleveraging will have made it possible for higher interest expenses to be absorbed, but where values have been stable or declining, sponsors will need to inject equity or else face the prospect of default.

Weighted Average Interest Rate on Maturing Debt vs. Prevailing Bond Yields

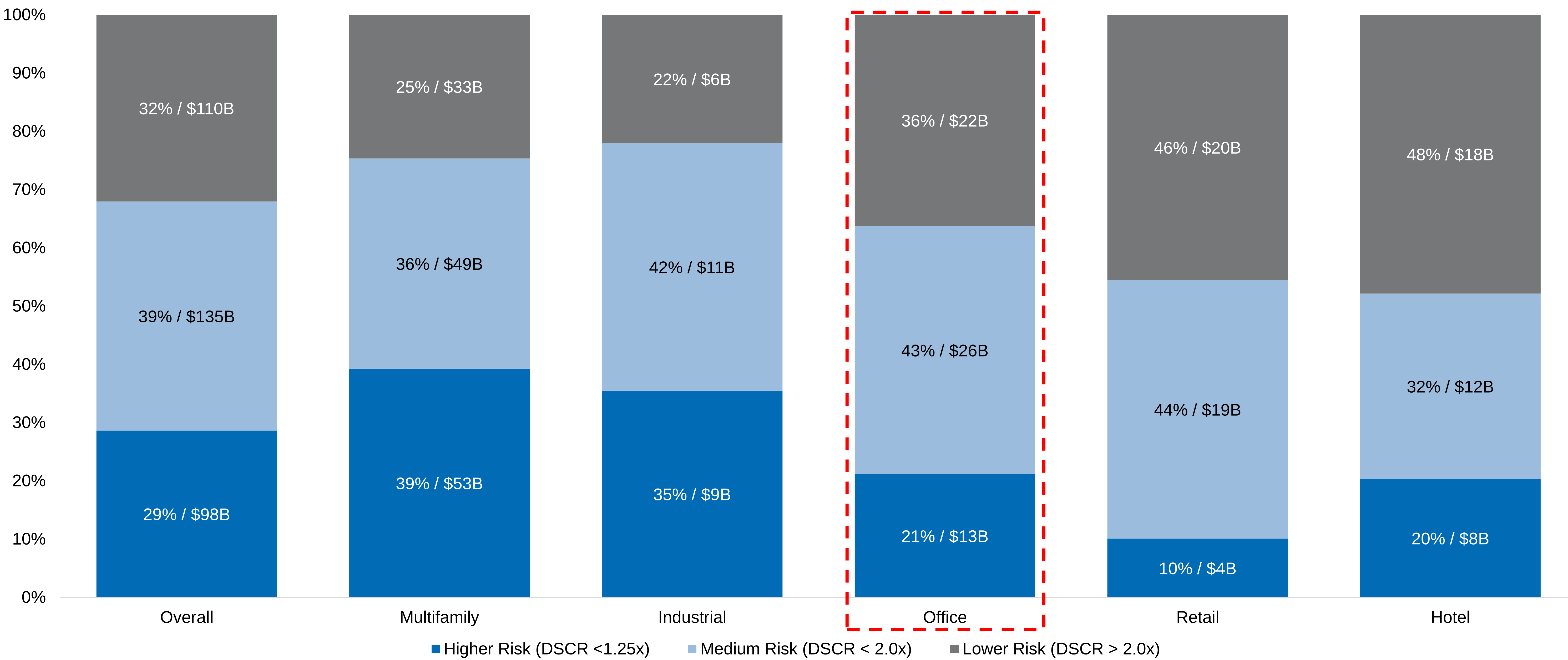


Source: RCA, ICE Data Indices, Newmark Research as of 10/24/2023

Some Loans Will Be Able to Absorb Higher Interest Costs; Many Will Not

Even property types with strong operating fundamentals could face challenges covering new, higher interest costs. Floating rate loans on transitional product, a significant portion originated by debt funds and securitized in CRE CLO, are particularly fraught. This is largely responsible for the high portion of at-risk loans in the multifamily and industrial sectors. The securitized markets are not an isolated problem; banks engaged in a great deal of this newly risky lending. New bank regs give them a pass on underwater loans but not DSCRs.

DSCR Profile of Securitized CRE Debt Maturing between 2023 and 2025

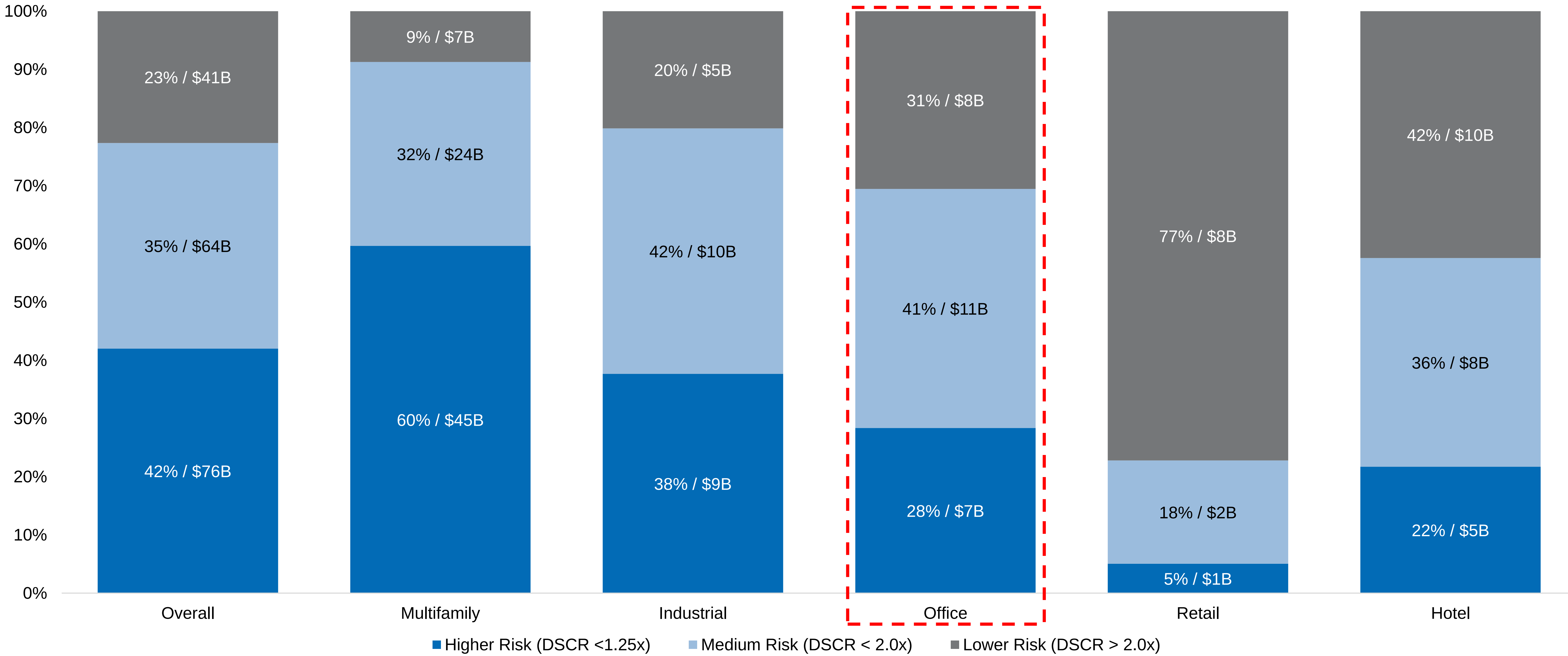


Source: Trepp, Newmark Research as of 10/26/2023

Floating Rate Loans Are an Even Better Indicator of Potential Distress

Floating rate loans are more prevalent in CRE CLO and SASB product, helping to explain their outsized role in driving DSCR risk in upcoming maturities.

DSCR Profile of Securitized CRE Debt Maturing between 2023 and 2025: Floating Rate Loans Only

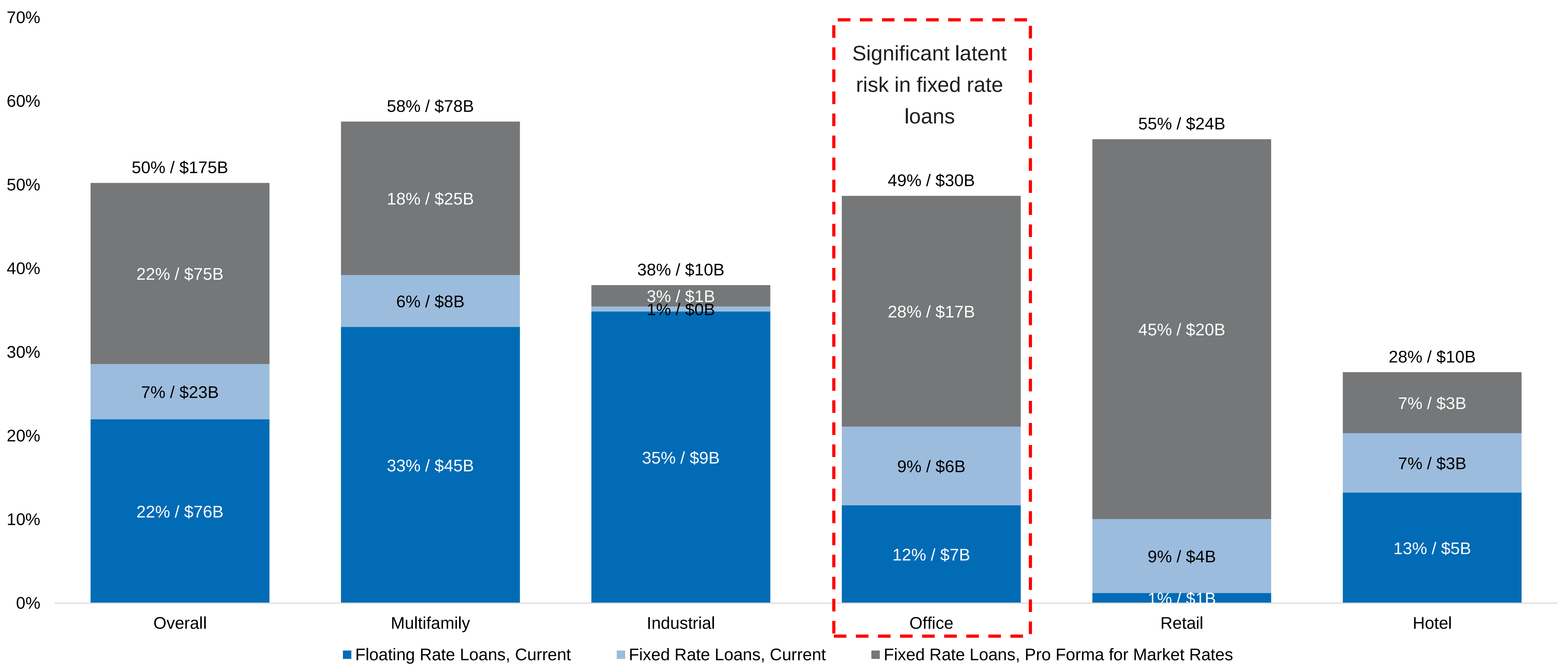


Source: Trepp, Newmark Research as of 10/26/2023

Debt Service Risk Will Rise Dramatically as Fixed Rate Loans Face Market Rates

At in-place rates, fixed rate loans are comparatively unexposed to immediate payment risk. As these loans mature, they will face market rates, which have risen dramatically. This will be a major impediment to refinancing these loans, particularly as banks have been given much less flexibility in dealing with loans that are unable to pay market rates as opposed to loans that exceed LTV covenants or are even underwater. While this analysis focuses on securitized debt, it has serious implications for the broader landscape.

Share of Securitized Loans Maturing between 2023 and 2025 with a DSCR under 1.25x ("High Risk")

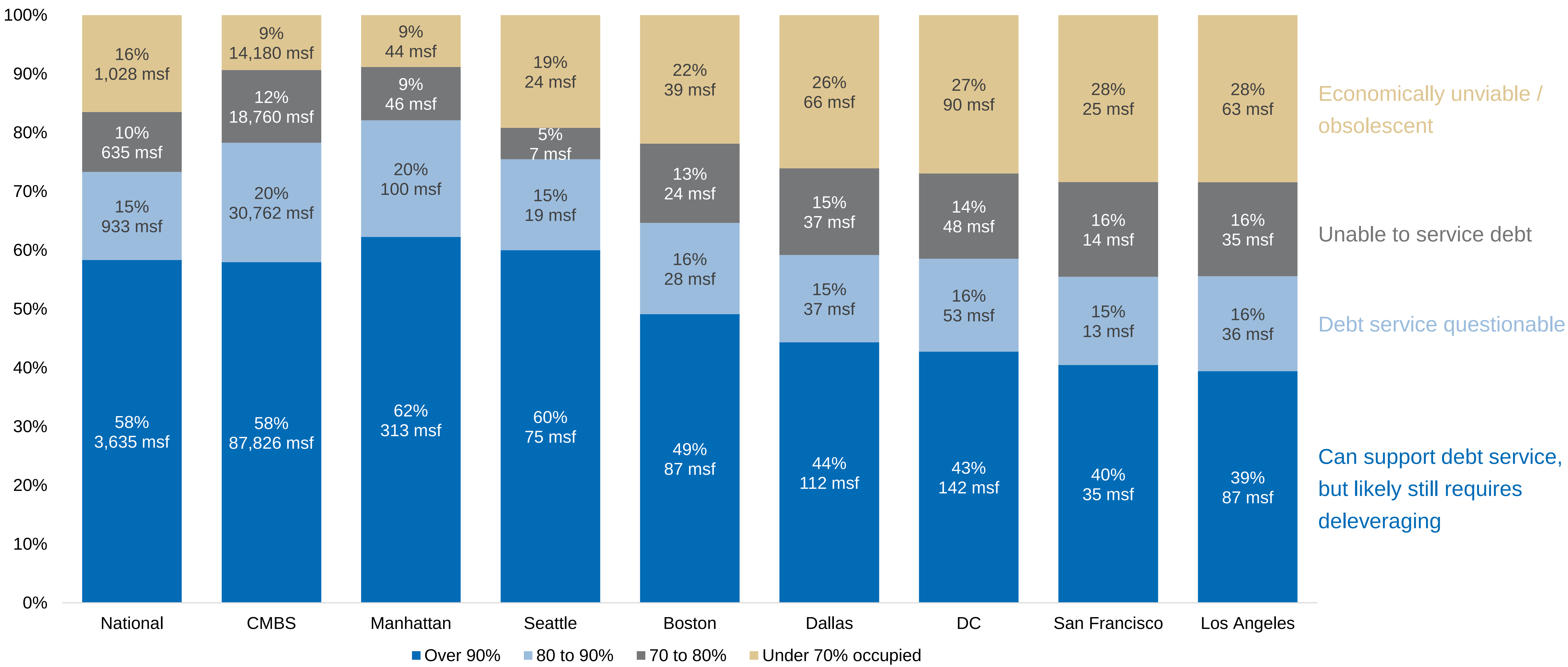


Source: Trepp, Green Street, Newmark Research as of 10/26/2023
Note: to estimate the impact of market rates. We analyzed representative samples of 2023 to 20-25 maturities for each property type. We calculated a pro forma DSCR by comparing the current loan rate with the current market rate. For the current market rate, we used Greeen Street's Agency benchmark rate for multifamily and their conventional secured benchmark for all other property types. These rates were 6.1% and 6.9%, respectively.

Structural Health and Impairment in the Office Sector

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

Distribution of Office Vacancy

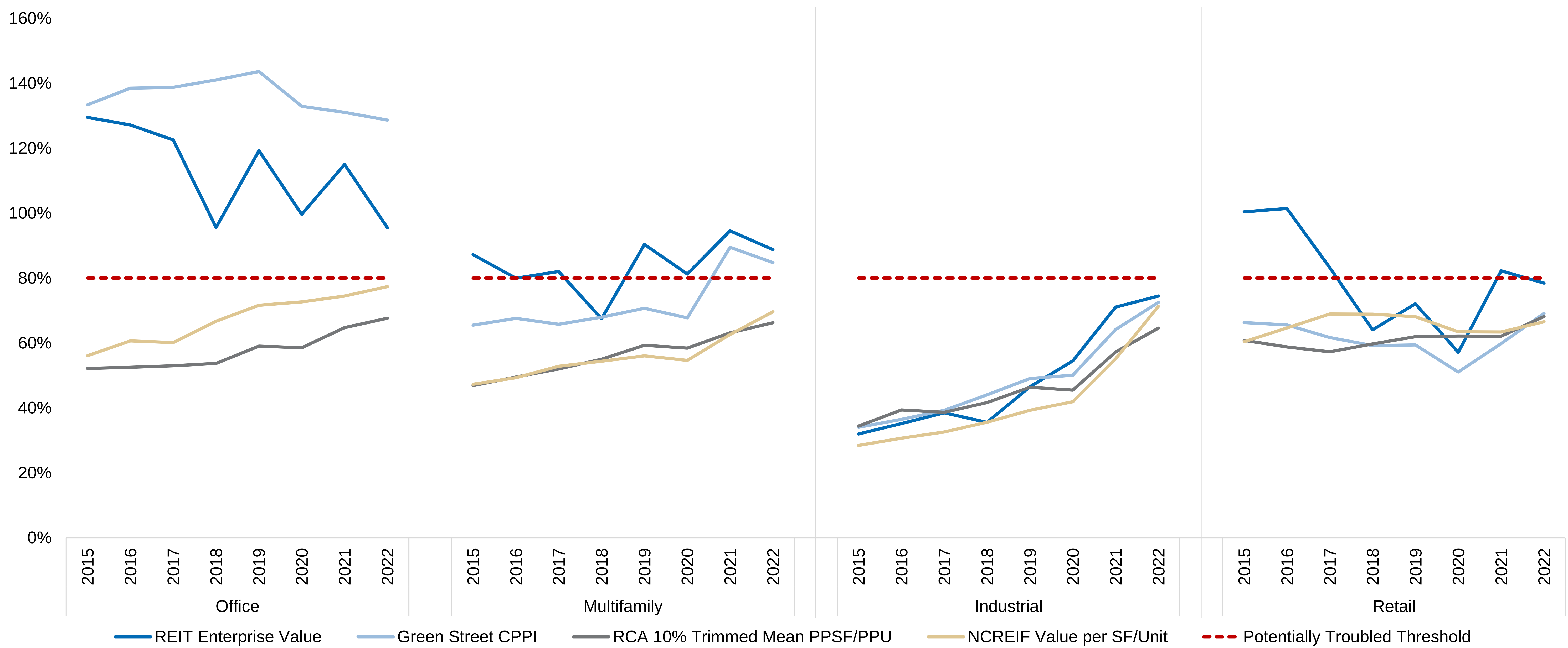


Source: Costar, Newmark Research as of 11/17/2023

Declining Values Expose Office Sector to Distress

Public market benchmarks and those adjacent (Green Street CPPI) in general show greater recent declines in value and higher resulting mark-to-market LTVs; however, the discrepancy is narrow, except for office and multifamily. We believe the public market benchmarks are more credible in this instance. It is worth noting that, with the exception of the RCA transaction-based series, all of these measures are biased towards higher-quality, institutional properties. As such, this likely represents a best-case scenario.

Average Mark-to-Market* Loan-to-Value Ratio by Year Debt Originated

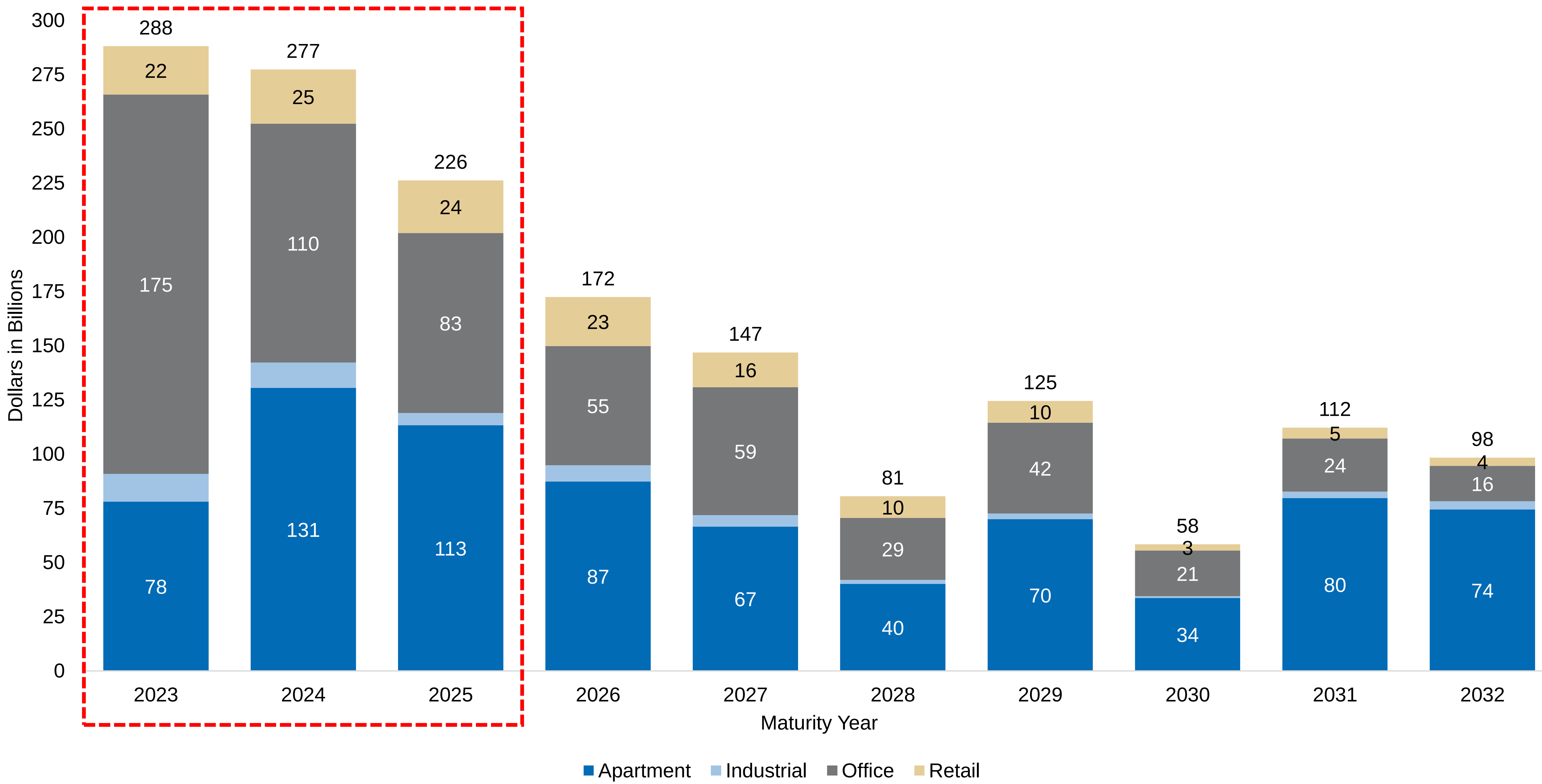


Source: RCA, Green Street, NCREIF Newmark Research as of 11/7/2023
*We take the average loan-to-value ratio of loans originated in each respective year based on an analysis of RCA data, then we mark the value of the assets to market using the various proposed benchmarks.

$1.6 Trillion of Outstanding CRE Debt is Potentially Troubled, $614 Billion of It Office

Combining our analysis of mark-to-market LTVs with the structure of debt maturities, we estimate the volume of debt that currently is potentially troubled.* Office and multifamily loans constitute most potentially troubled loans, particularly in the 2023 to 2025 period. The high office volume results from most loans being underwater. The distribution of LTV ratios for multifamily are more favorable overall, but the greater size of the multifamily market and the concentration of lending during the recent liquidity bubble drive high nominal exposure.

Potentially Troubled Loans by Maturity Year*

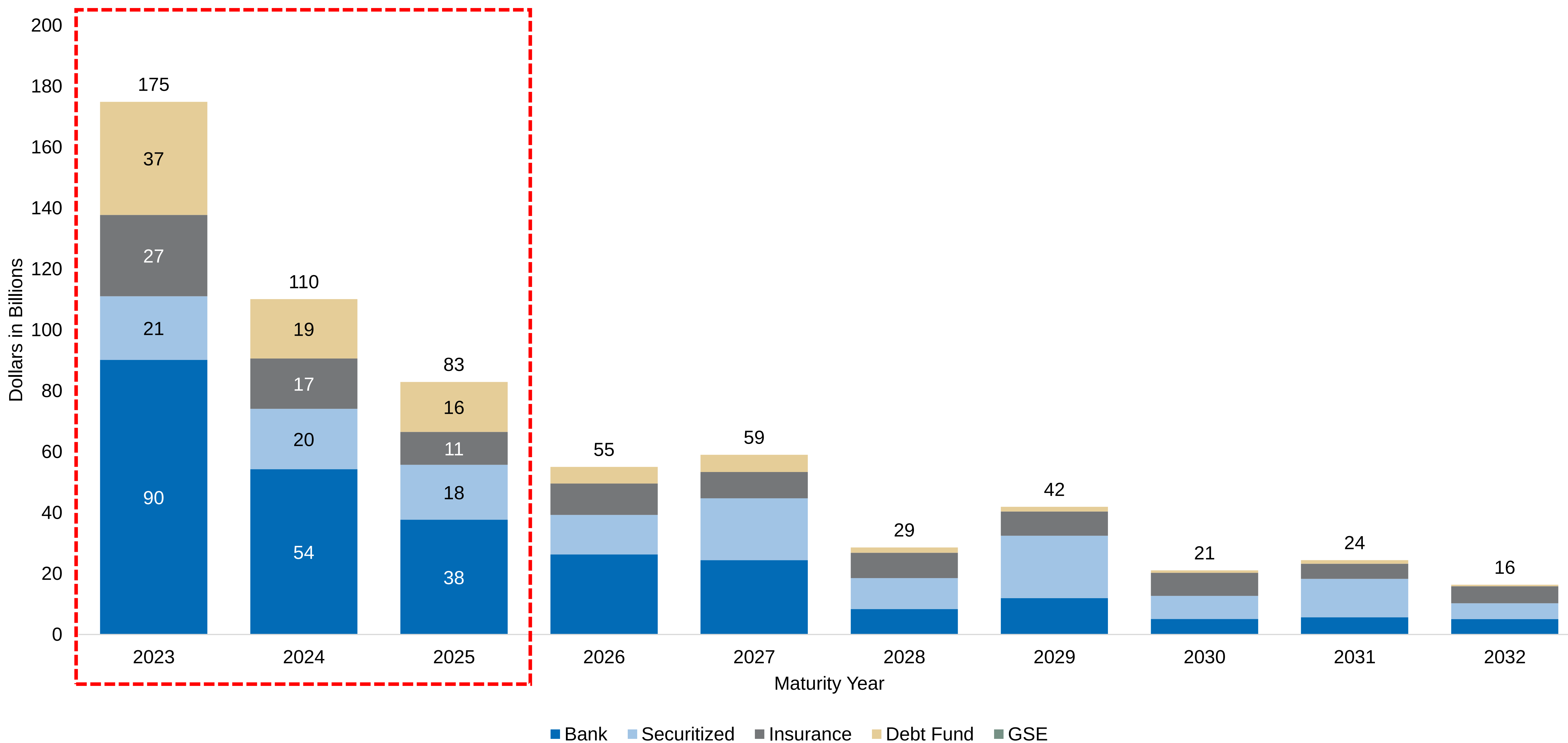


Source: Green Street, NCREIF, RCA, Trepp, MBA, Newmark Research as of 11/7/2023
*Loans with an estimated senior debt LTV of 80% or greater are potentially troubled. The loans are marked-to-market using an average of cumulative changes in the Dow Jones REIT sector price indices, REIT sector enterprise value indices and Green Street sector CPPI.

Potential Office Distress Spread across Capital Sources

While banks are most exposed to potentially distressed debt maturities in dollar terms, their exposure is comparable to their share of all maturing loans. The same is true for all other lending categories. This is a bit surprising, but it arises because the senior loans analyzed had similar LTV distributions across lender groups, and the analysis used a common value adjustment for all lending groups; however, there are systematic differences in collateral quality. Accordingly, debt funds are probably understated, while insurance is overestimated.

Potentially Troubled Office Loans by Maturity Year*

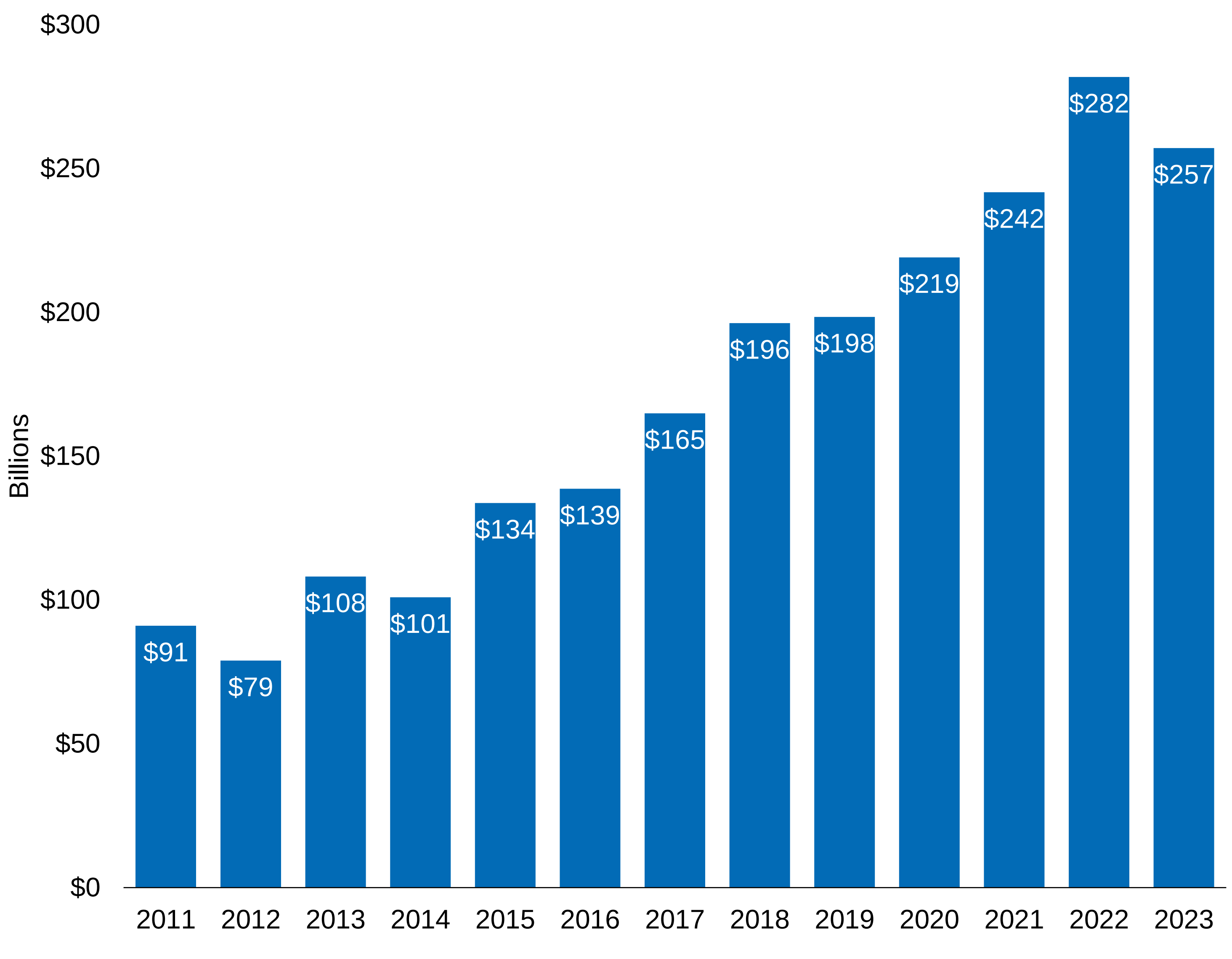


Source: Green Street, NCREIF, RCA, Trepp, MBA, Newmark Research as of 10/24/2023
*Loans with an estimated senior debt LTV of 80% or greater are potentially troubled. The loans are marked-to-market using an average of cumulative changes in the Dow Jones REIT sector price indices, REIT sector enterprise value indices and Green Street sector CPPI.

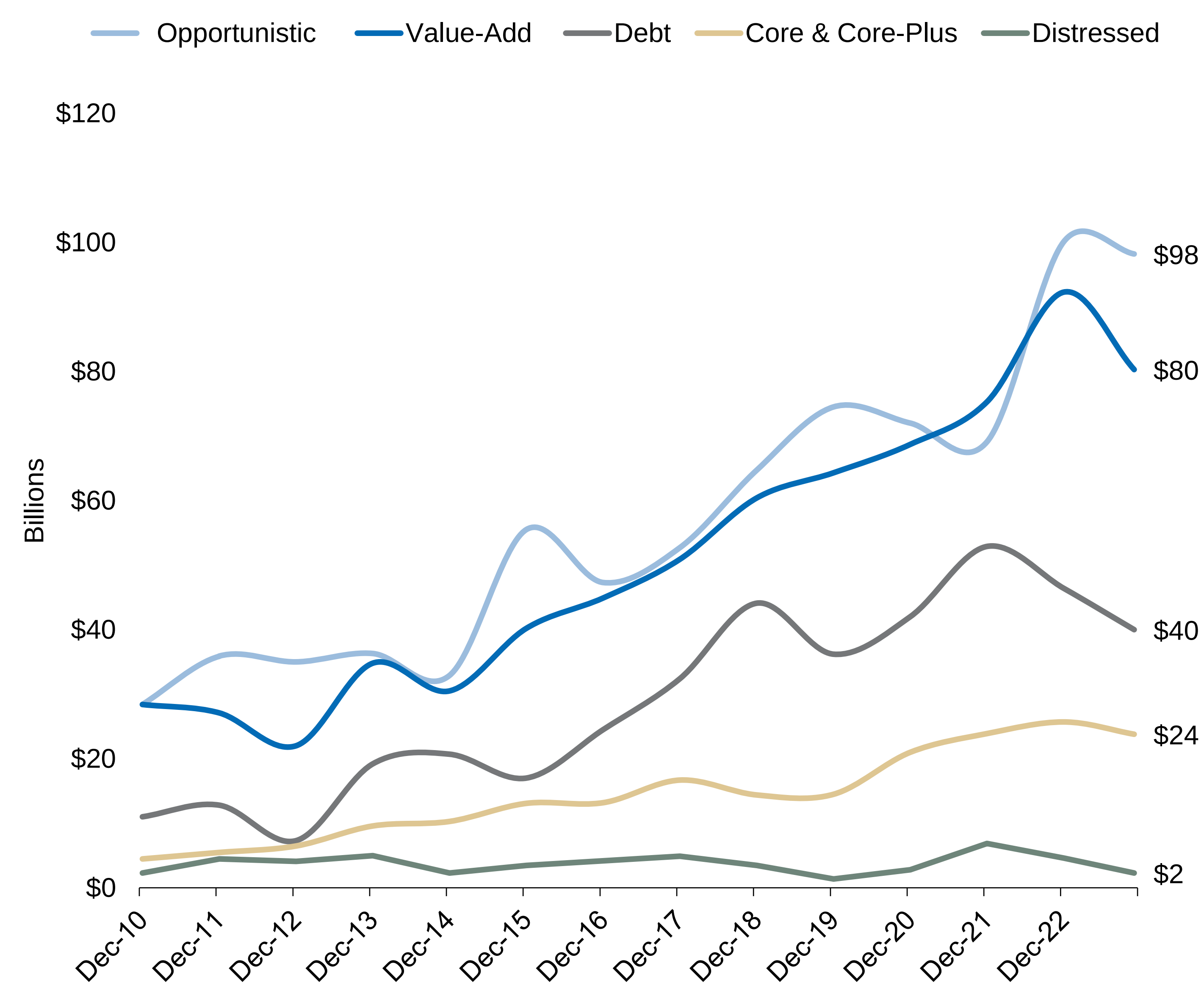
Private Equity Dry Powder Has Declined, But Still Elevated Overall

Dry powder at closed-end funds has declined 9% since the start of the year. This is mostly due to revisions to previous estimates, rather than negative developments in the third quarter of 2023. The revised picture shows that debt fund dry powder continues to moderate, while both value-add and opportunistic funds continue to have above-trend levels of dry powder, despite a sharp decline for the former since year-end 2022.

Dry Powder – Closed-End Funds



Dry Powder by Strategy*

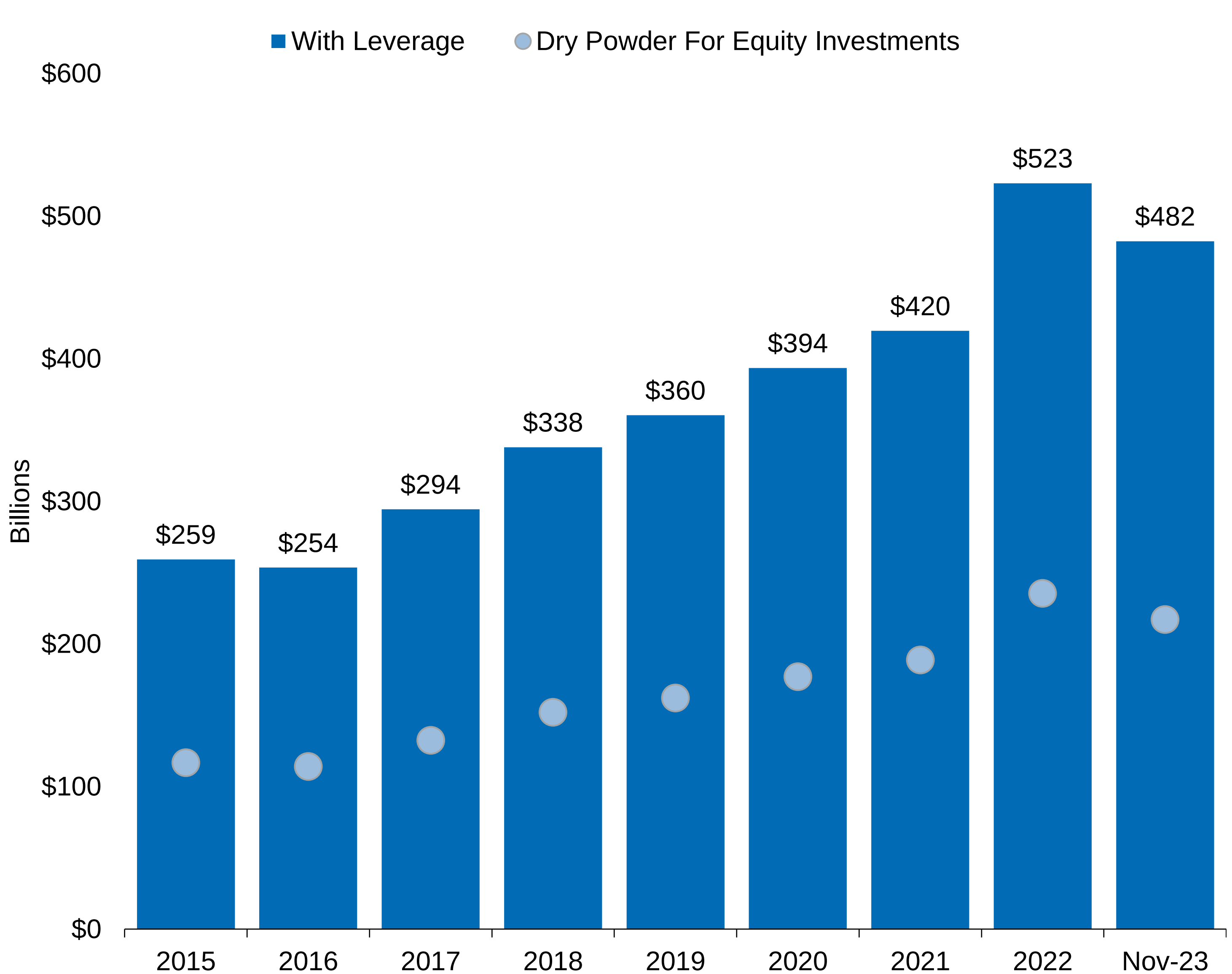


Source: Newmark Research, Preqin as of 11/8/2023
*Not shown: Fund of funds, co-investments, and secondaries strategies

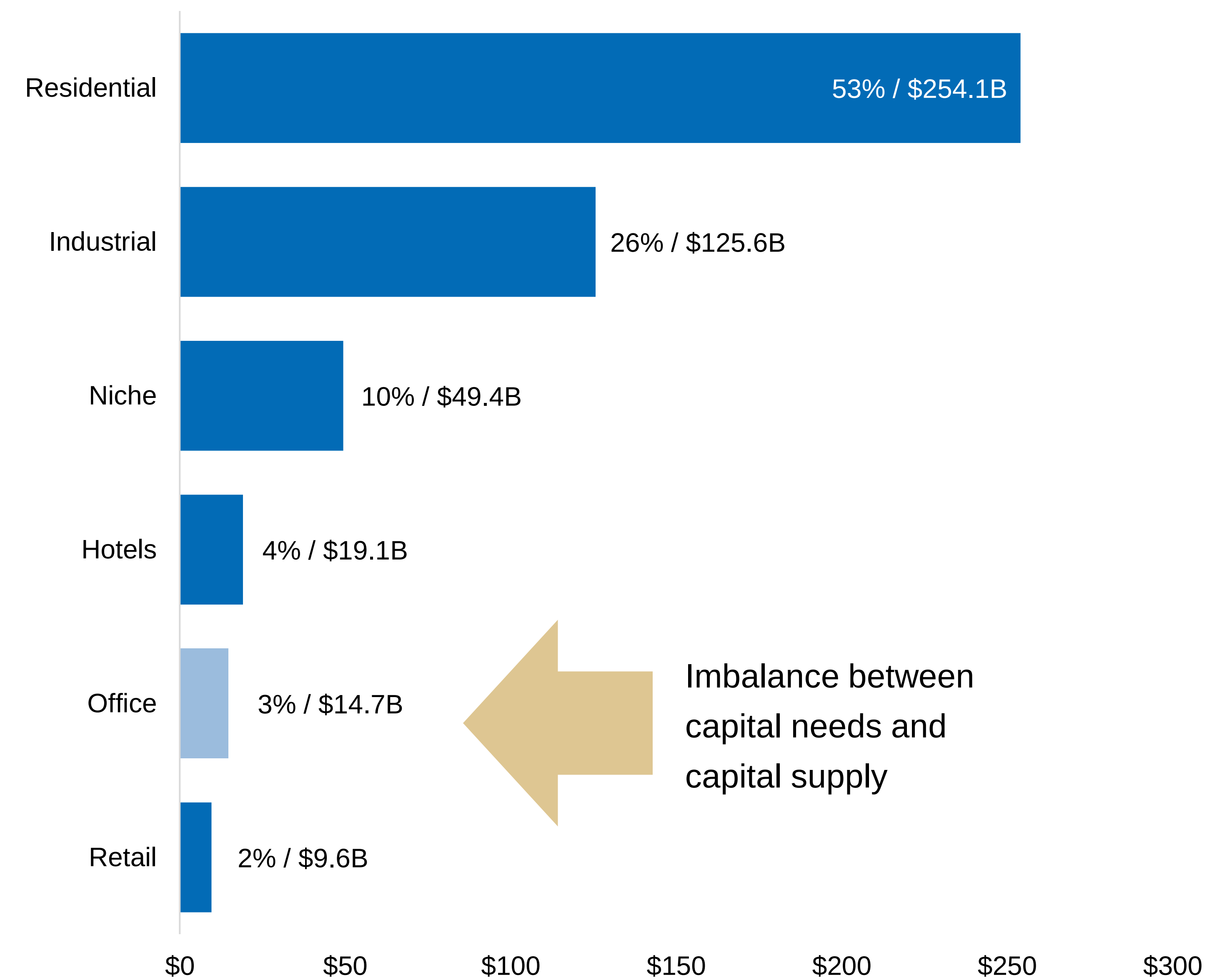
Little of the Dry Powder Appears to be Targeting Office

The $217 billion in dry powder raised for equity investments, not including dry powder raised for debt strategies, equates to a leveraged purchasing power of $482 billion, using a 55% loan-to-value ratio. We estimate that over half of this capital is targeted at multifamily assets, with most of the remainder focused on industrial assets. The capital targeting office and retail assets is quite small by comparison, which could ultimately represent a contrarian opportunity.

Dry Powder at 55% Leverage

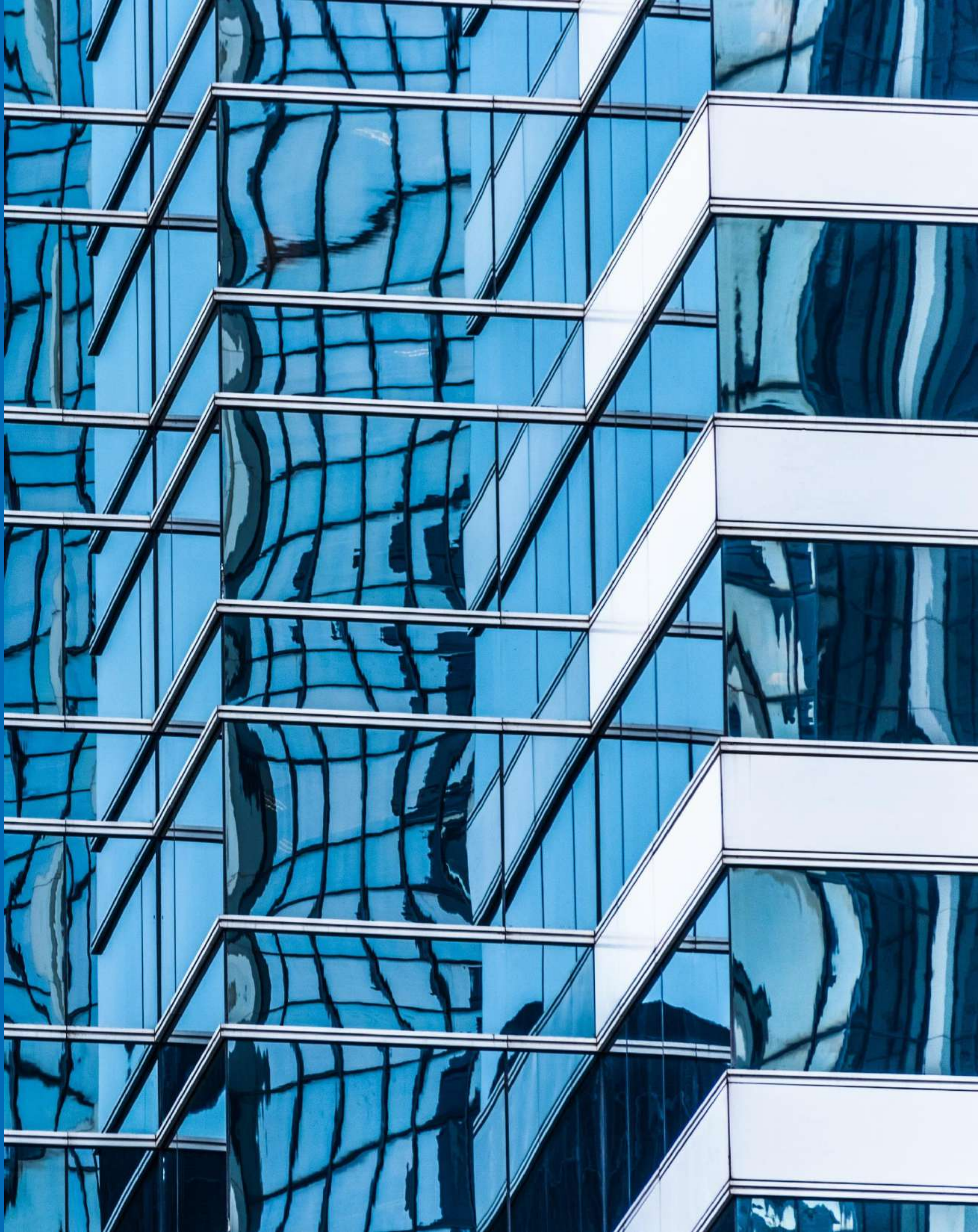


Leveraged Dry Powder By Property Type*



Source: Newmark Research, Preqin as of 11/8/2023
*We looked at the percent called by vintage year and applied this to the total amount fundraised in each year to calculate the amount of uncalled capital (i.e. dry powder), broken out by main property type. Roughly half the dry powder was at diversified funds. This was allocated to the various property types in proportion to their share of total dry powder, excluding diversified funds. Finally, we grossed up the dry powder assuming 55% leverage would be used.

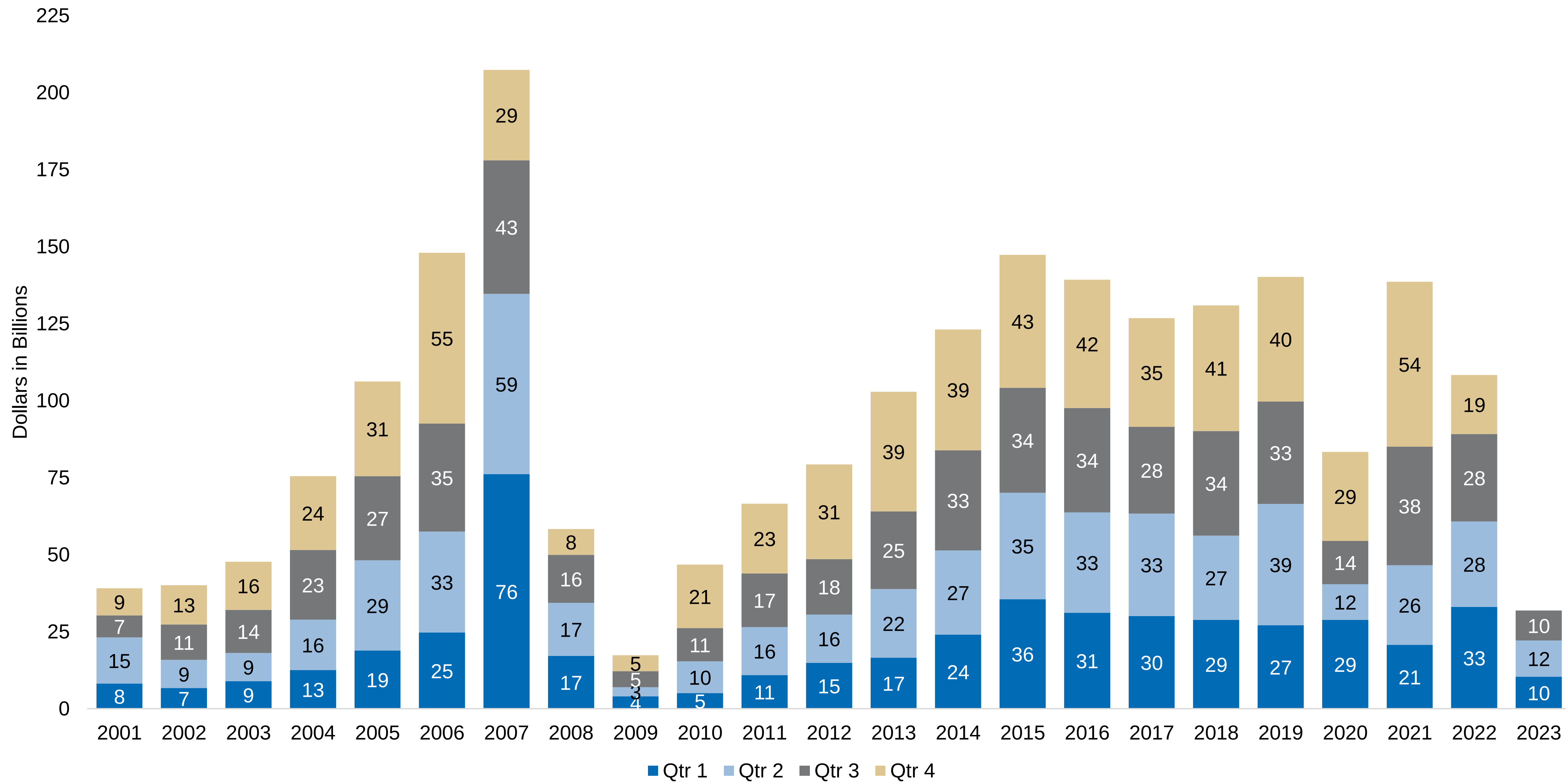
Investment Sales



Office Investment Sales Volumes Down 64% Year over Year in Year through Q323

The last time office sales were this tepid was 2010. Sales were particularly weak in the third quarter of 2023, the worst third quarter since 2009.

Office Investment Sales Volume

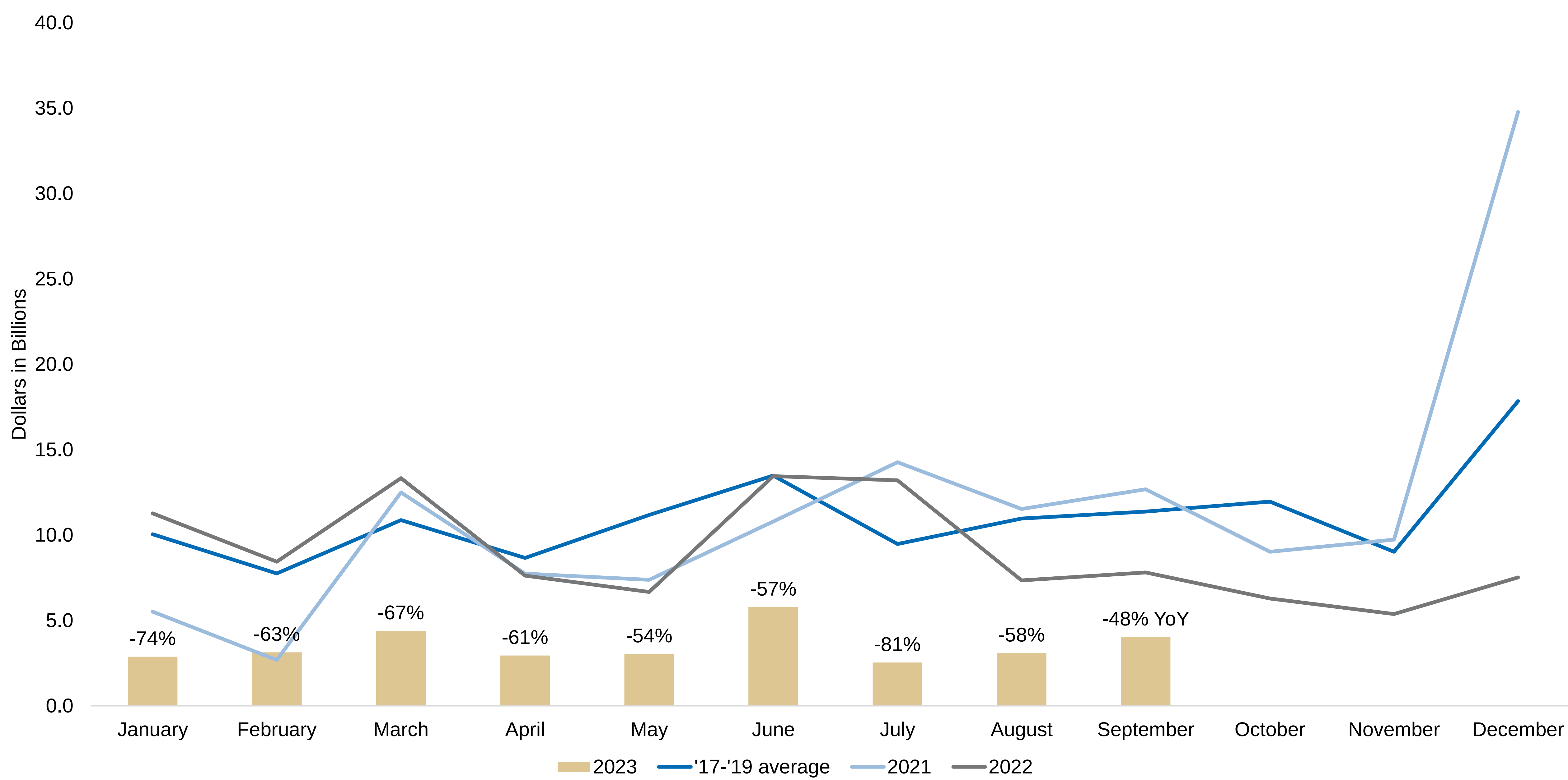


Source: Newmark Research, Real Capital Analytics as of 11/11/2023

Transaction Velocity Remains Pallid, Little Indication of Year-End Resurgence

Both suburban and CBD office sales have been similarly impacted, down 67% and 63% respectively in the first three quarters of 2023 compared with the same period of 2022. CBD office sales (negative 76%) have declined somewhat more than suburban office sales (negative 59%) compared with the 2017 to 2019 period.

Office Investment Sales Volume

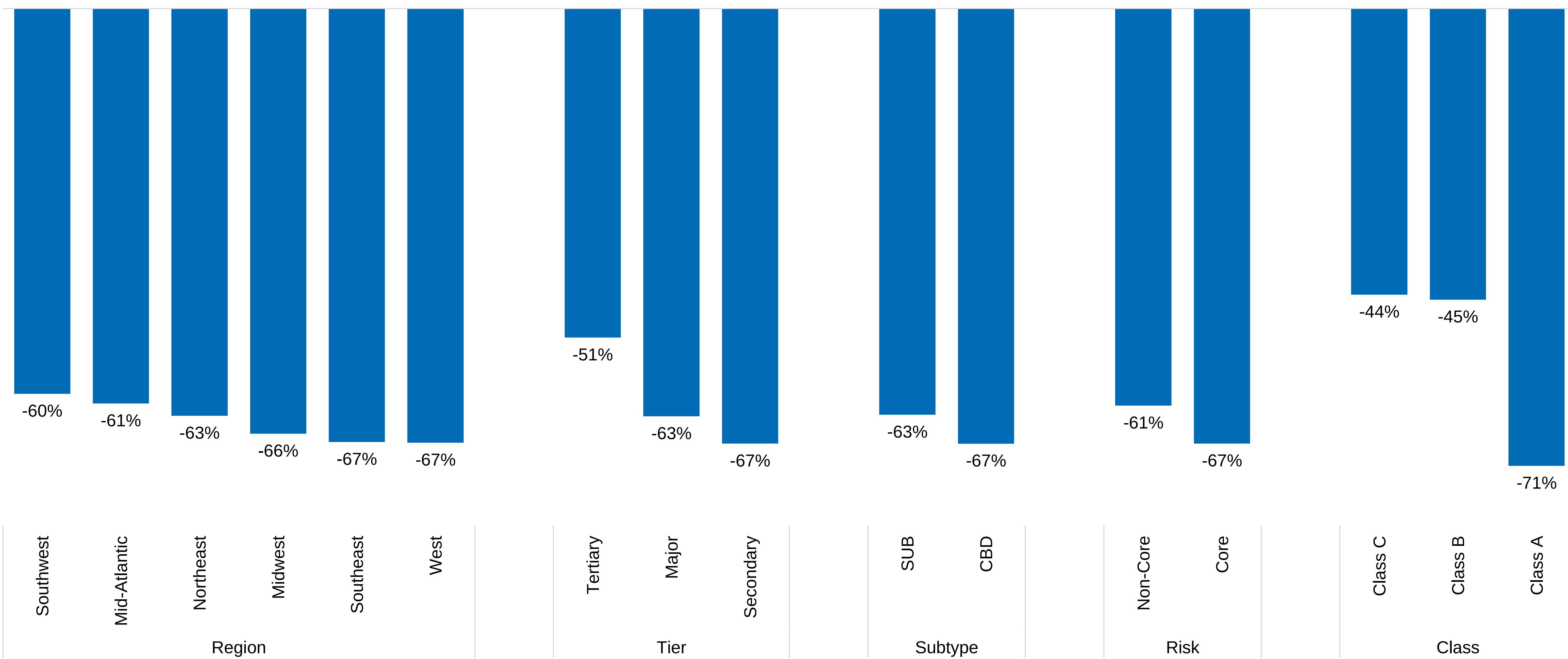


Source: Newmark Research, Real Capital Analytics as of 11/11/2023

Broad-Based Decline in Volumes in First Three Quarters of 2023

Office sales declined in the first three quarters of 2023 across every major dimension: region, market tier, subtype, risk profile and class. Southwestern and Mid-Atlantic outperformed on the slimmest margin, while the Western underperformed. Major markets outperformed secondary markets, but both underperformed tertiary markets. Curiously, Core and Class A office sales appear to have declined more sharply than their counterparts. Indeed, the Class A share of sales set a record low of 38% in the first three quarters of 2023.

Office Investment Sales: First Three Quarters of 2023

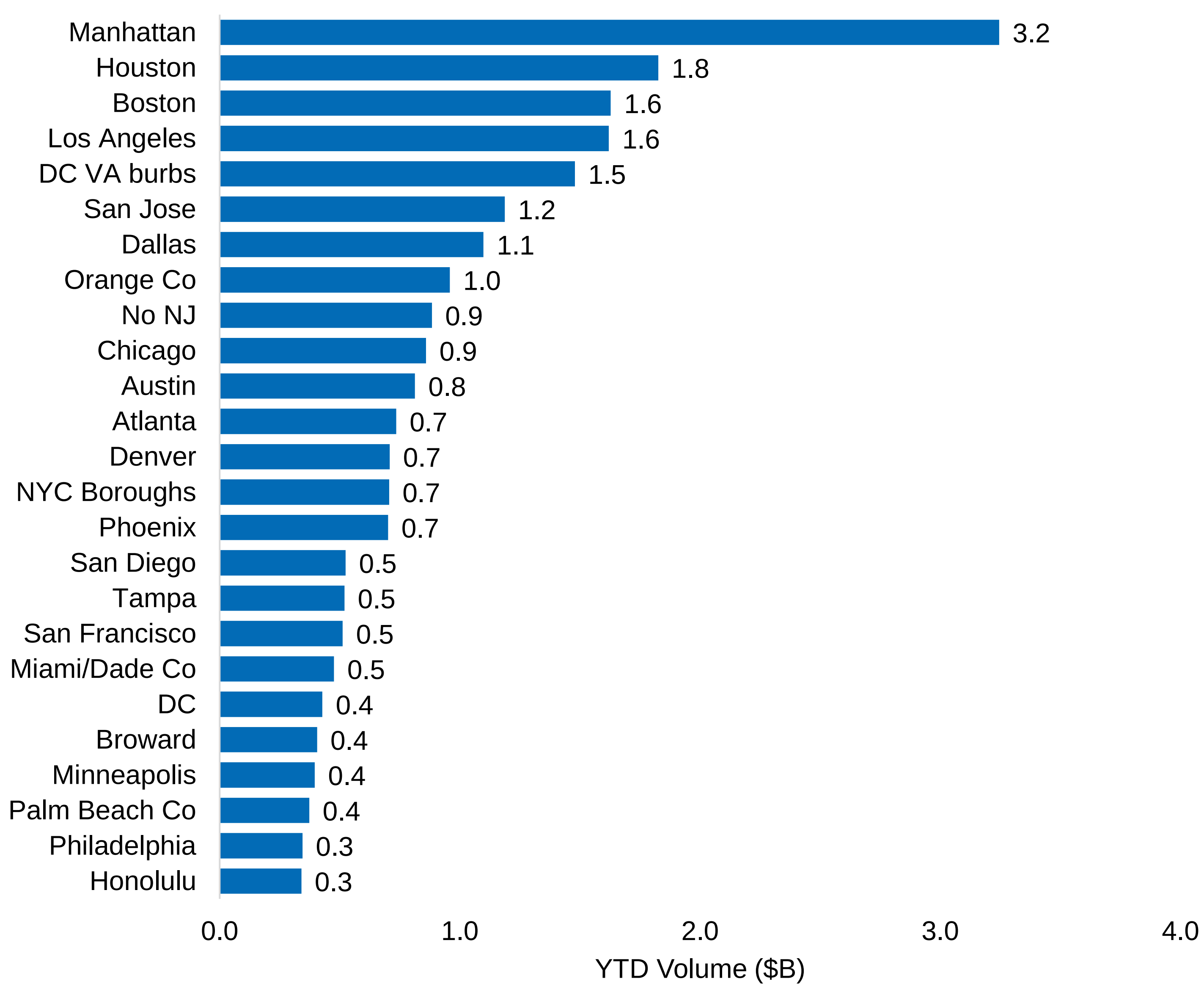


Source: Newmark Research, Real Capital Analytics as of 7/24/2023

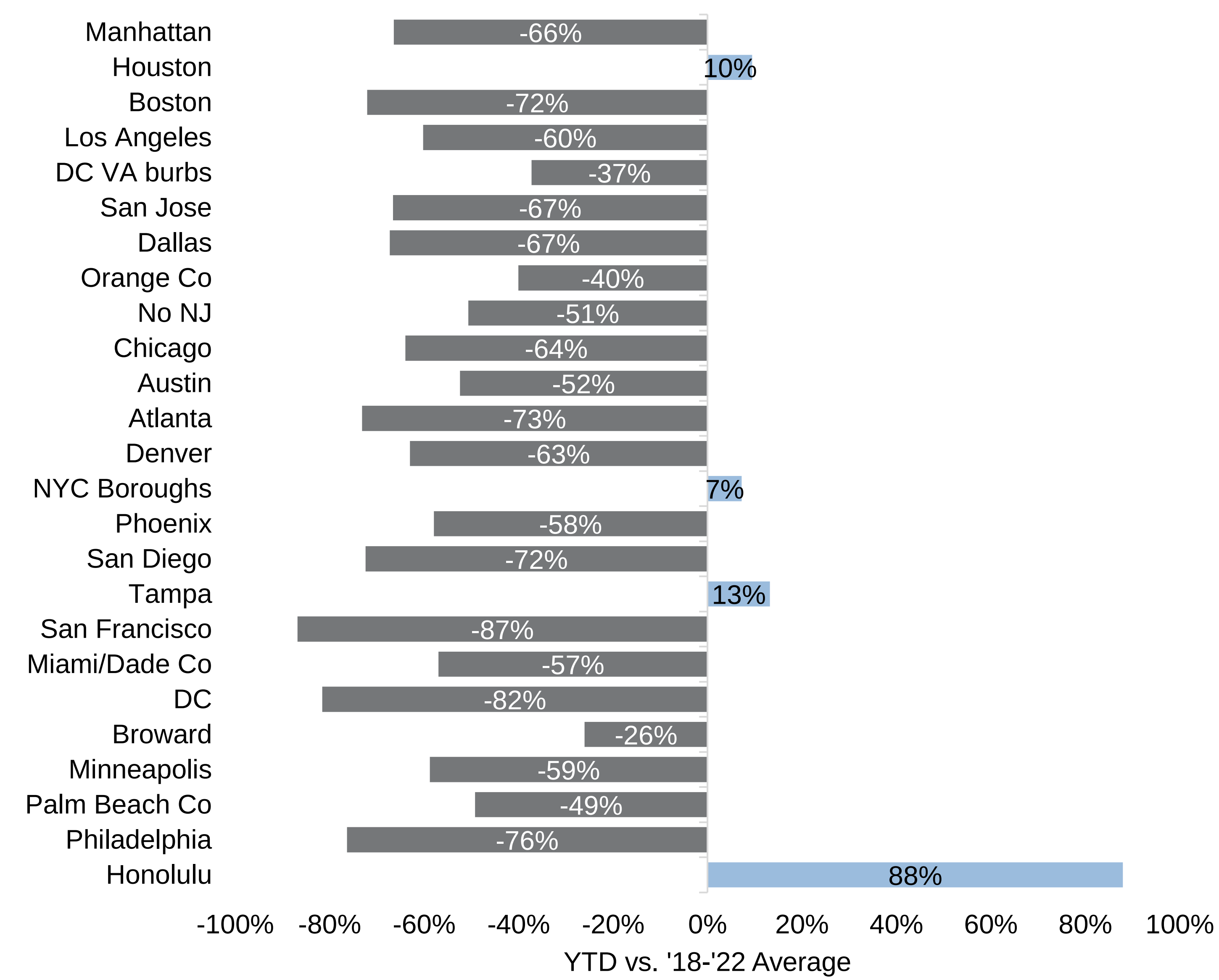
Volumes up versus Five-Year Average in 4 out of 25 Top Markets in the Year to Date

Manhattan remains the most liquid market. Markets adjacent to gateway markets, such as NYC Boroughs, DCVA suburbs, Broward County and Orange County, outperformed on the margin. Tampa, Honolulu and Houston office sales are clear positive outliers in the first three quarters of 2023.

Top 25 Office Markets by Year-to-Date Investment Sales Volume

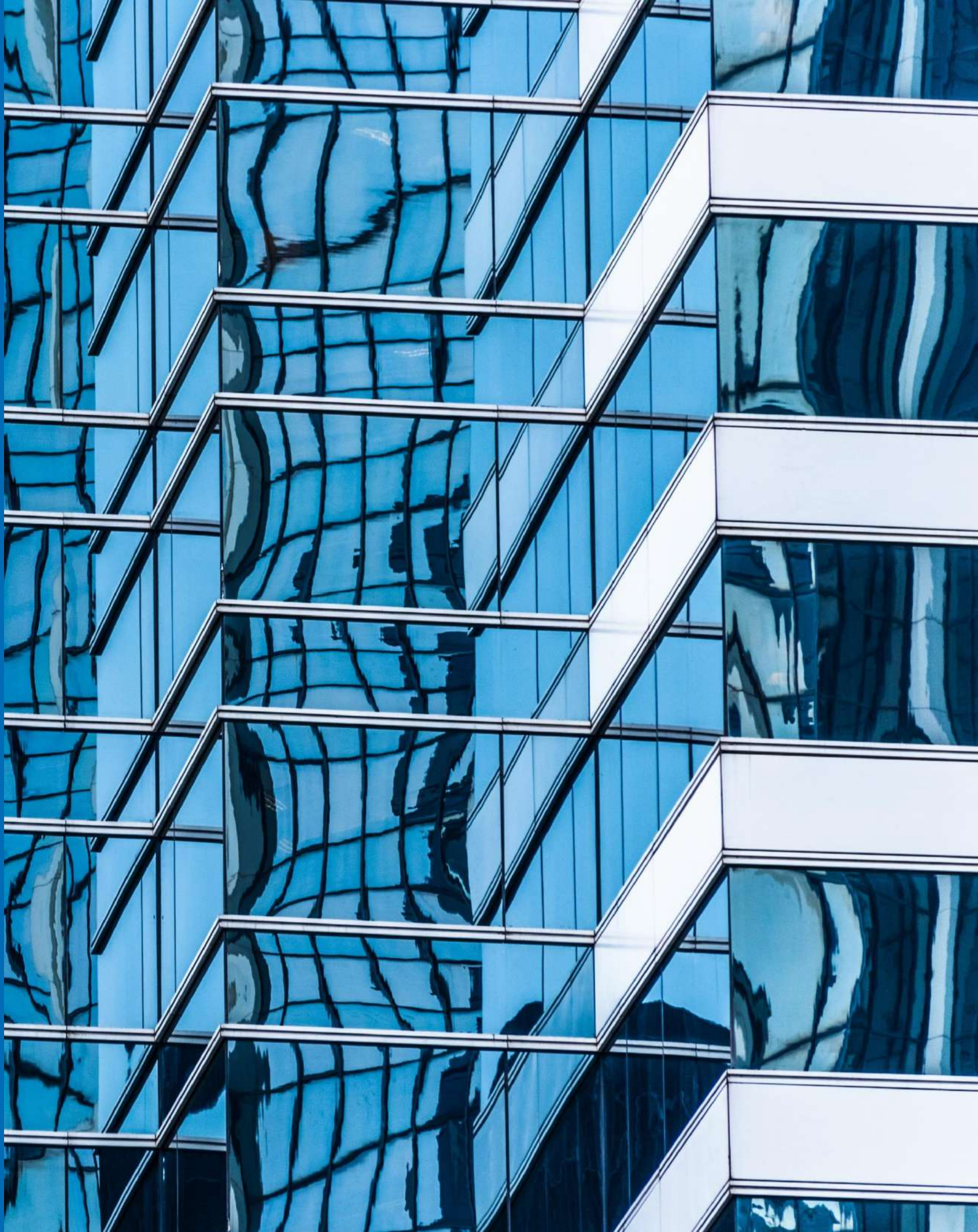


YTD 2023 vs. 5-year Average Office Sales Volume



Source: Newmark Research, Real Capital Analytics as of 11/11/2023

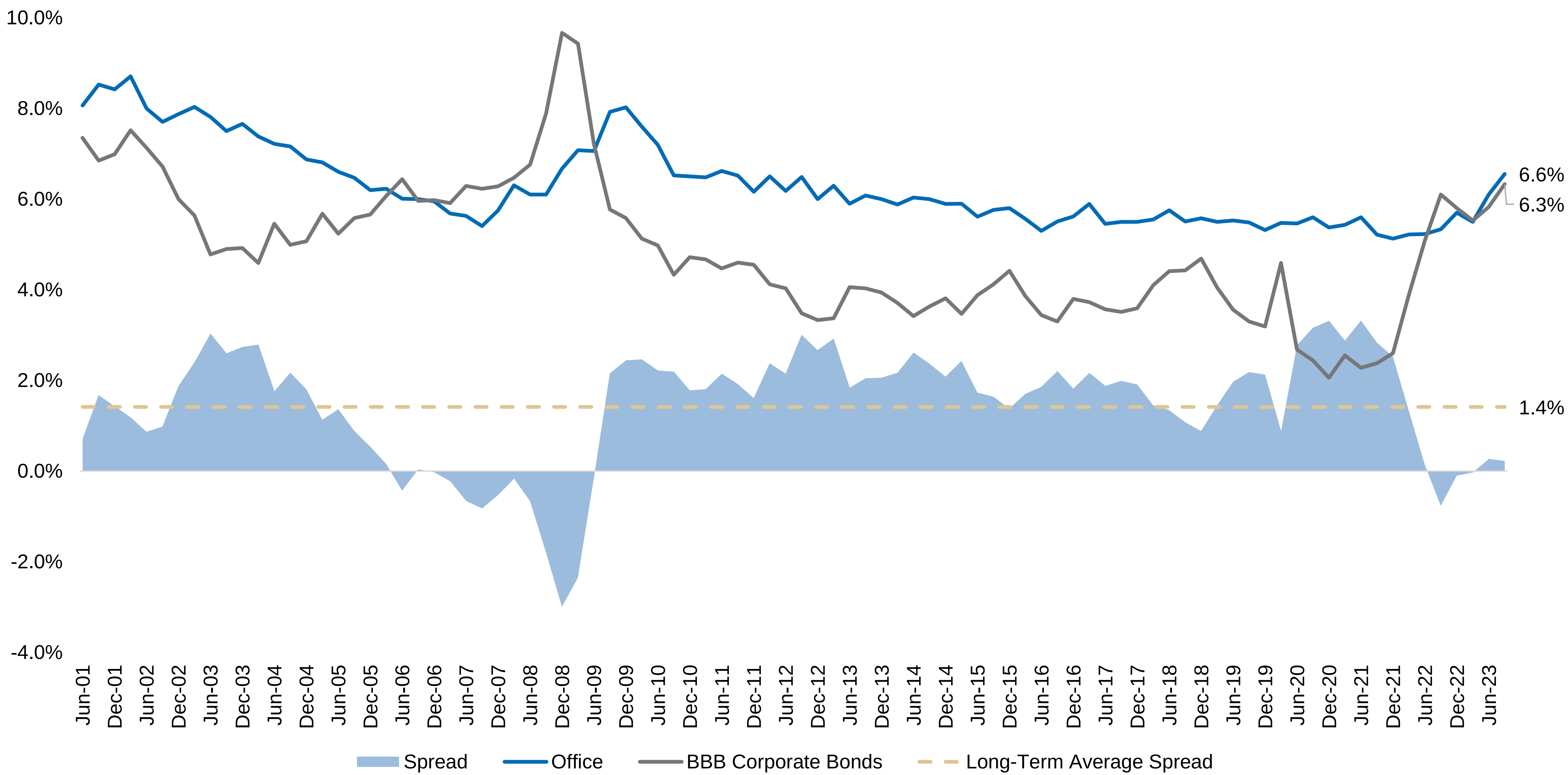
Pricing and Returns



Cost of Capital Suggests Cap Rates Will Go (Much) Higher

The top quartile of offices traded at a cap rate of 6.6% in the third quarter of 2023. The overall average was necessarily higher. In the fourth quarter of 2021, prior to the rise in interest rates, top quartile offices traded at a 5.1% cap rate for a cumulative increase of 1.5%. At the time, a 5.1% cap rate represented a historically wide spread of 2.5% over BBB corporate credit. That spread has since withered to just 0.2% versus a long-term average spread of 1.4%. This is not an equilibrium.

Top Quartile Transaction Cap Rate*

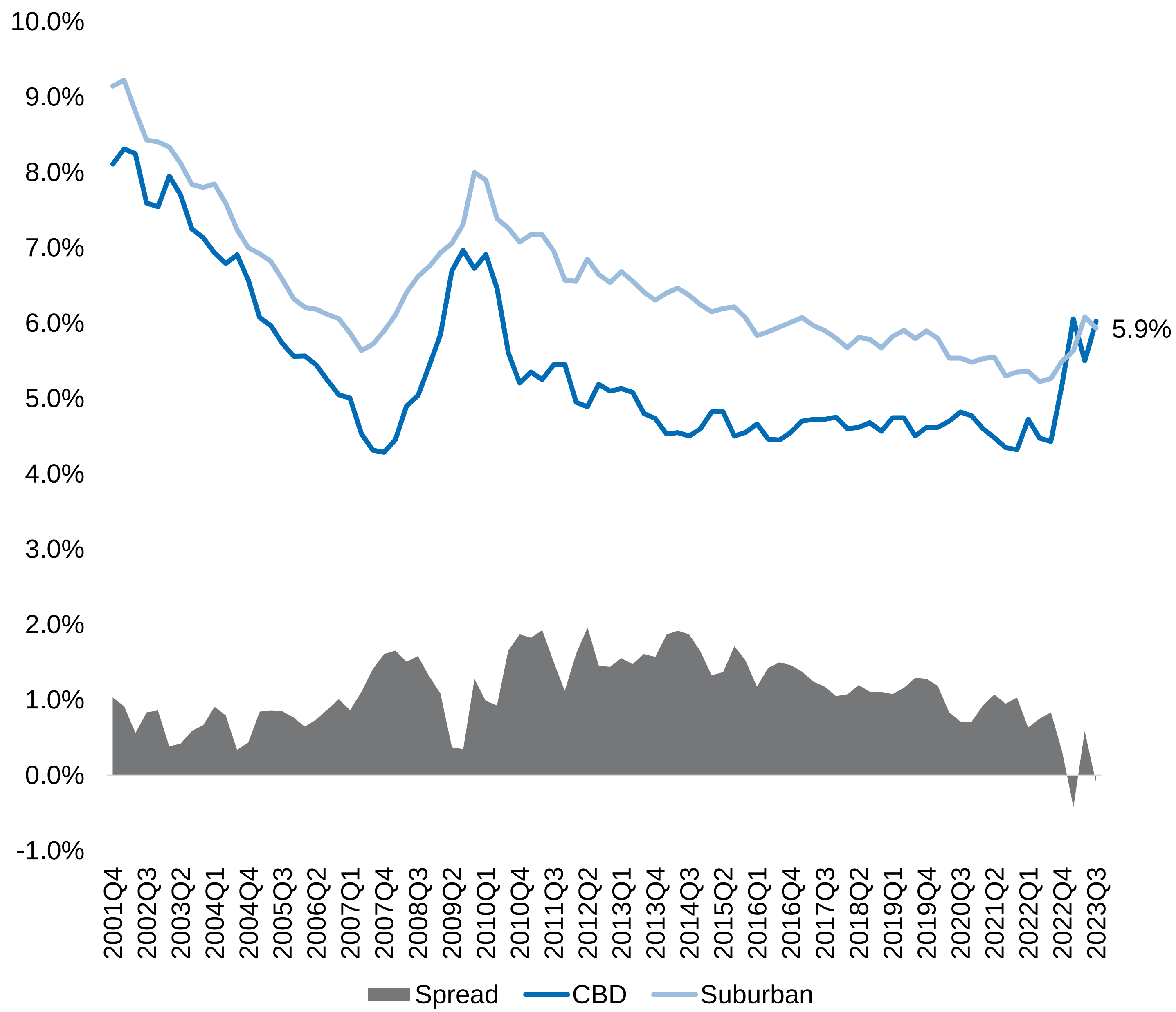


Source: Real Capital Analytics, Federal Reserve Bank of St. Louis, Moody's as of 11/21/2023
*Quarterly

CBD and Suburban Cap Rates Converging; Major Market Yields Rising Sharply

Transaction cap rates for CBD and Suburban office have converged over the last several quarters. While the trend fits with the recent outperformance of Suburban office fundamentals, it is still important to interpret the transaction data with caution, given the sorry state of liquidity. The same is true when looking at cap rates by tier where secondary markets have declined, while major and tertiary markets yields have risen sharply. It is likely the case that CBD office and major markets were simply first to reflect changes affecting all segments.

Rolling 2Q Top Quartile Office Cap Rates

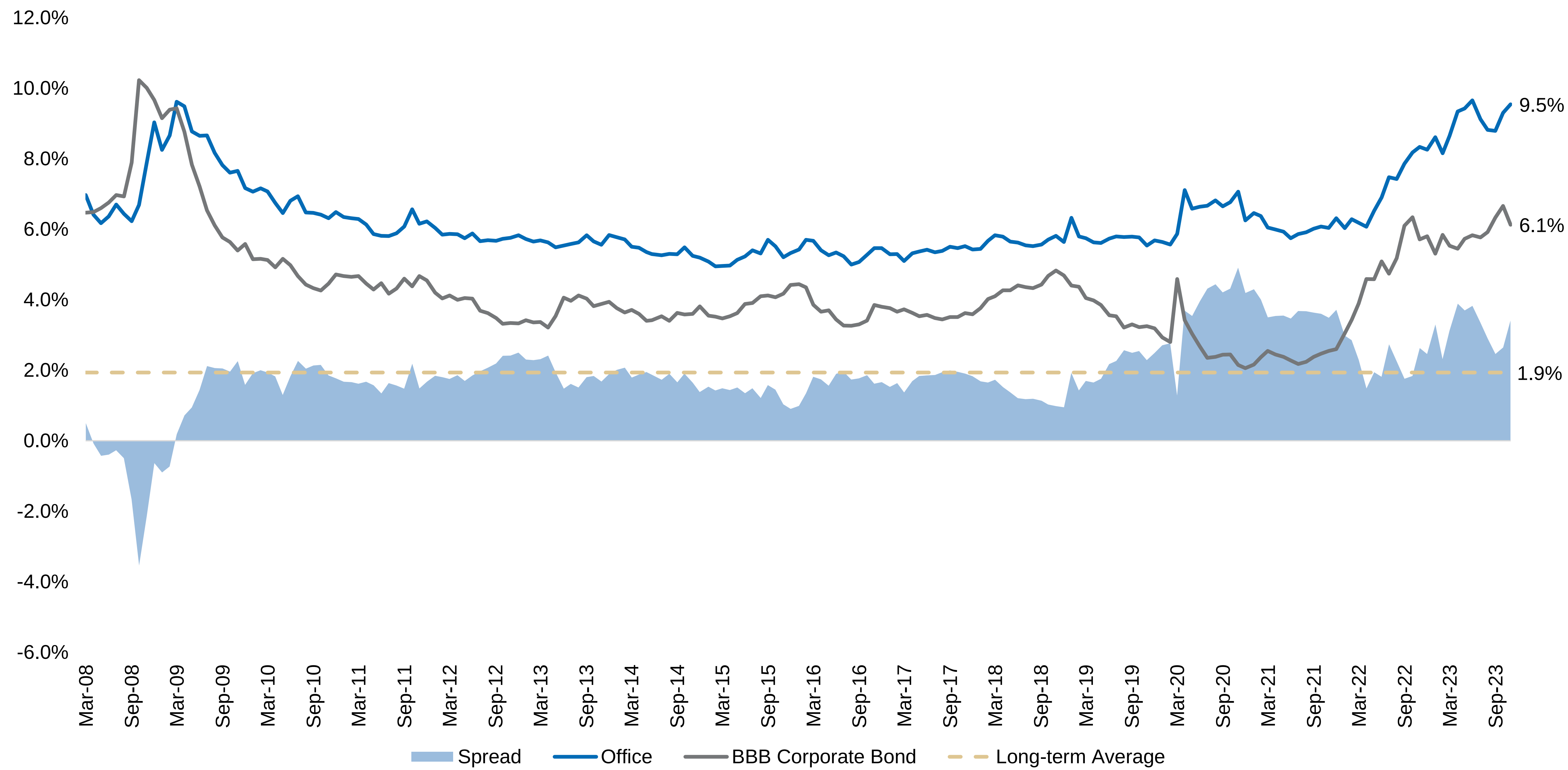


Source: RCA, Newmark Research as of 11/21/2023

Public Market Pricing Has Been Much More Responsive to Changing Conditions

REIT-implied cap rates rose to 9.5% in November of 2023, up from 6.3% in December 2021 before the start of the current hiking cycle. Recently, implied cap rates have slightly lagged the corporate bond market with the result that spreads have now widened to 3.4%, well above the 1.9% long-term average. This spread is likely to contract on the margin, while remaining historically wide. Indeed, investors should demand above-average risk compensation for investing in office today and for the foreseeable future. In this context, note that a) office financing costs have gapped wider than BBB bonds and b) REIT office holdings are significantly higher quality than the overall market.

REIT-Implied Nominal Cap Rate

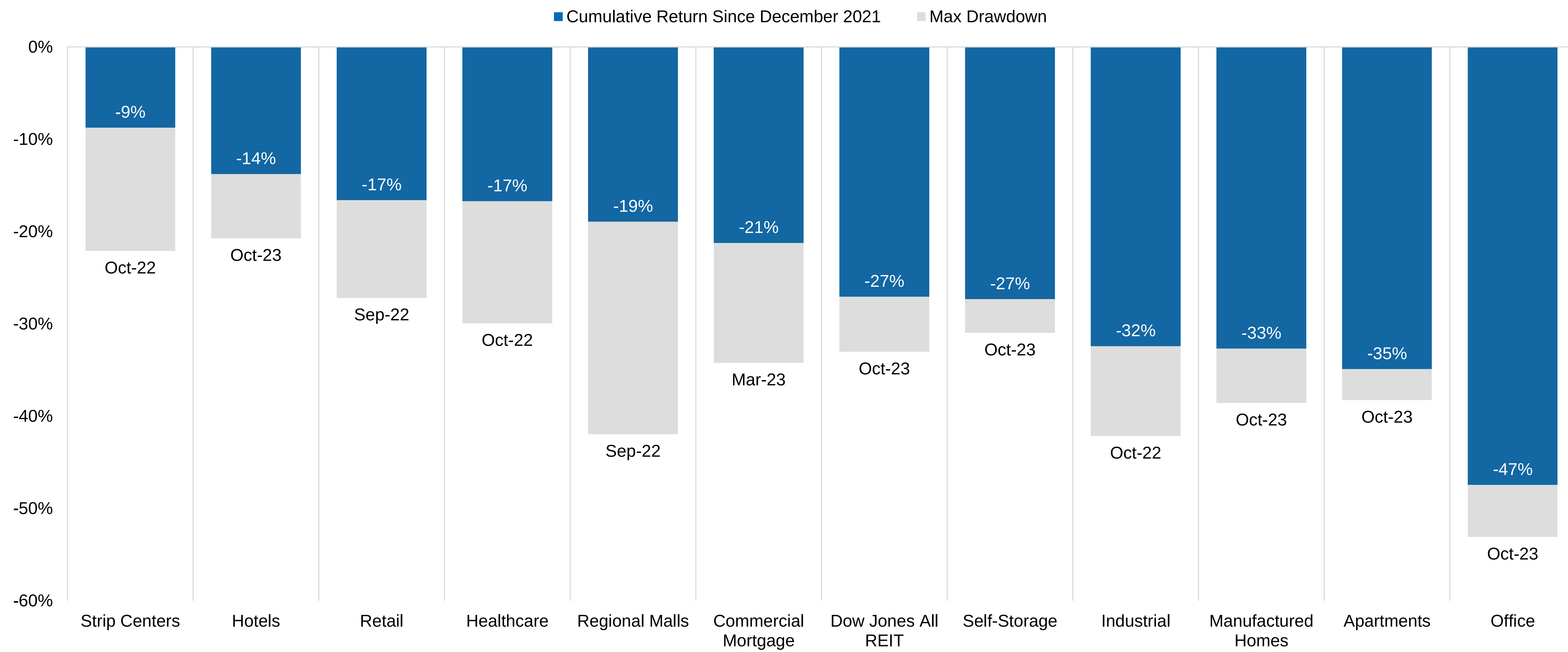


Source: Green Street, ICE BAML, Newmark Research as of 11/21/2023

Office REITs off the Bottoms, but Still Down 47% Since December 2021

REITs rebounded in the first half of 2023 but stumbled again in the third quarter of 2023 as most sectors set or retest post-2021 lows. On net, REITs have returned negative 2.7% in the year to date, led by healthcare (+6.6%), commercial mortgage REITs (+4.7%) and hotels (+1.9%). Office and apartment REITs are both the worst-performing sectors cumulatively but also set new record lows in October.

Dow Jones REIT Index Total Returns

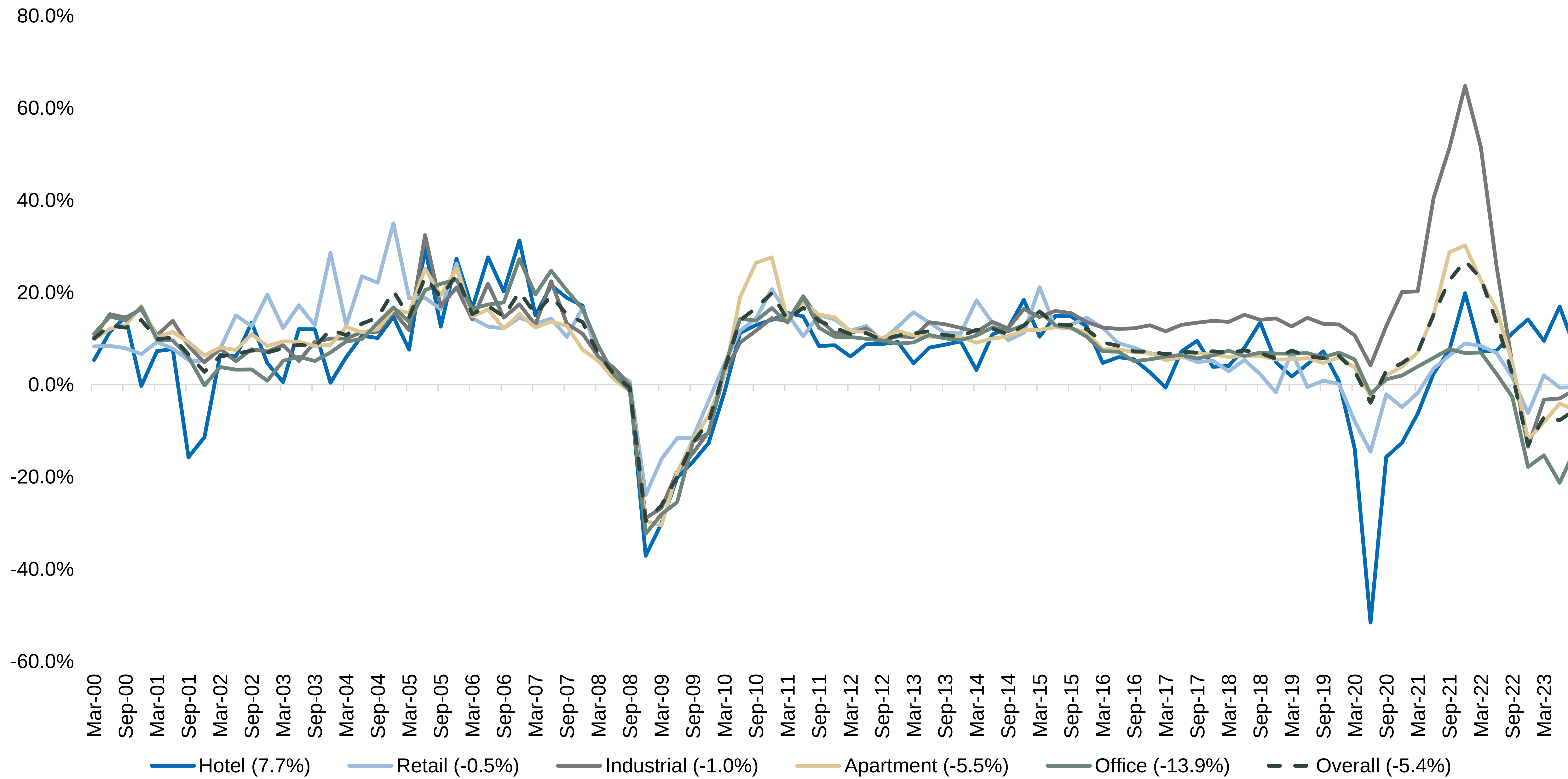


Source: Dow Jones, Moody's, Newmark Research as of 11/8/2023

Private Market Core Properties Returned Negative 5.4% Annualized in 3Q23

All major property types, with the notable exception of hotels, generated negative returns in the third quarter of 2023. Office continues to be a clear outlier to the downside as returns continued to decelerate and seem to be on a path to match the depths of the GFC. Apartment and industrial returns were negative, though far more modestly. Retail decelerated into negative territory but continues to outperform. Keep in mind that appraisal-based returns are especially unreliable in illiquid periods like the current one.

NCREIF National Property Index Quarterly Annualized Total Return

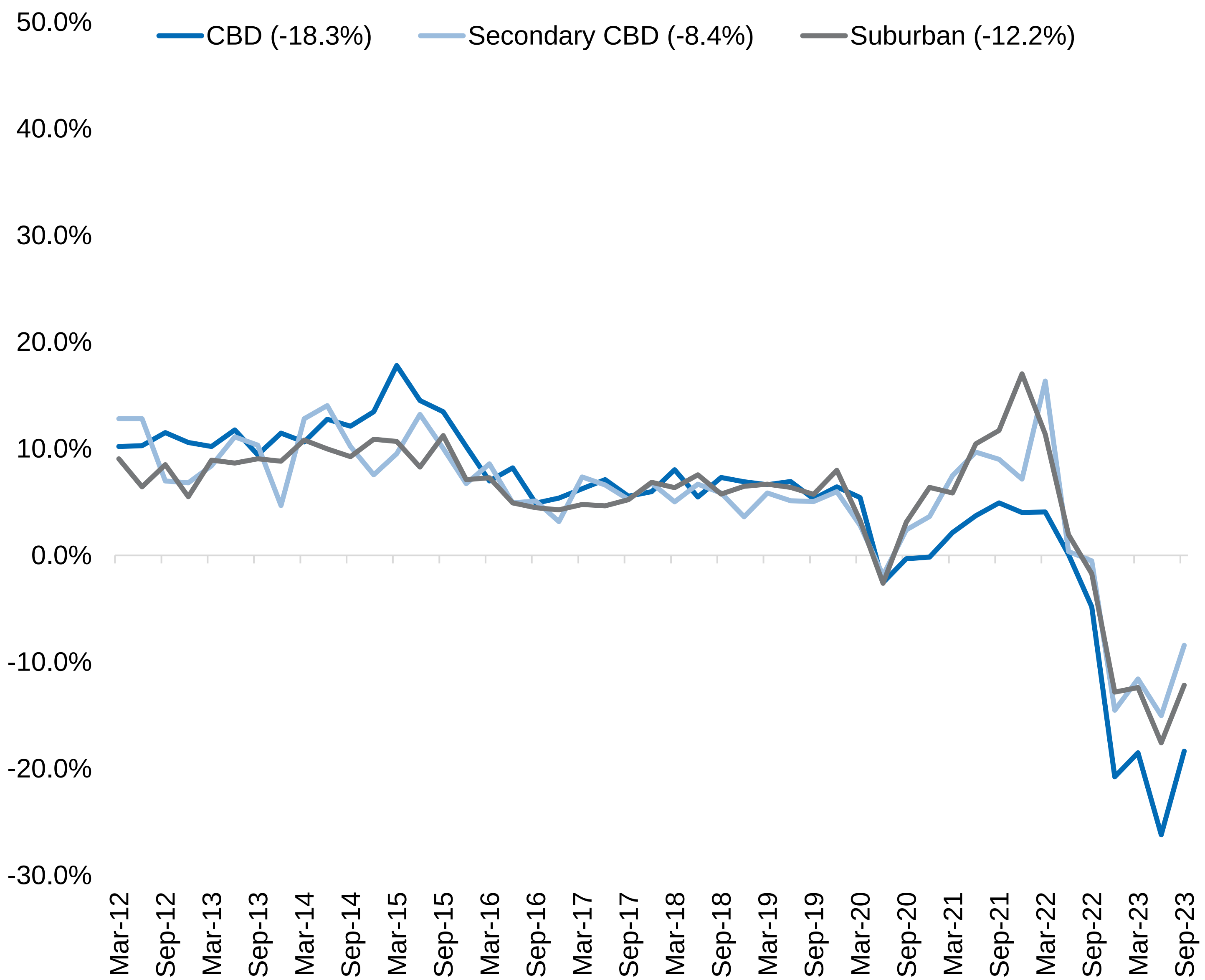


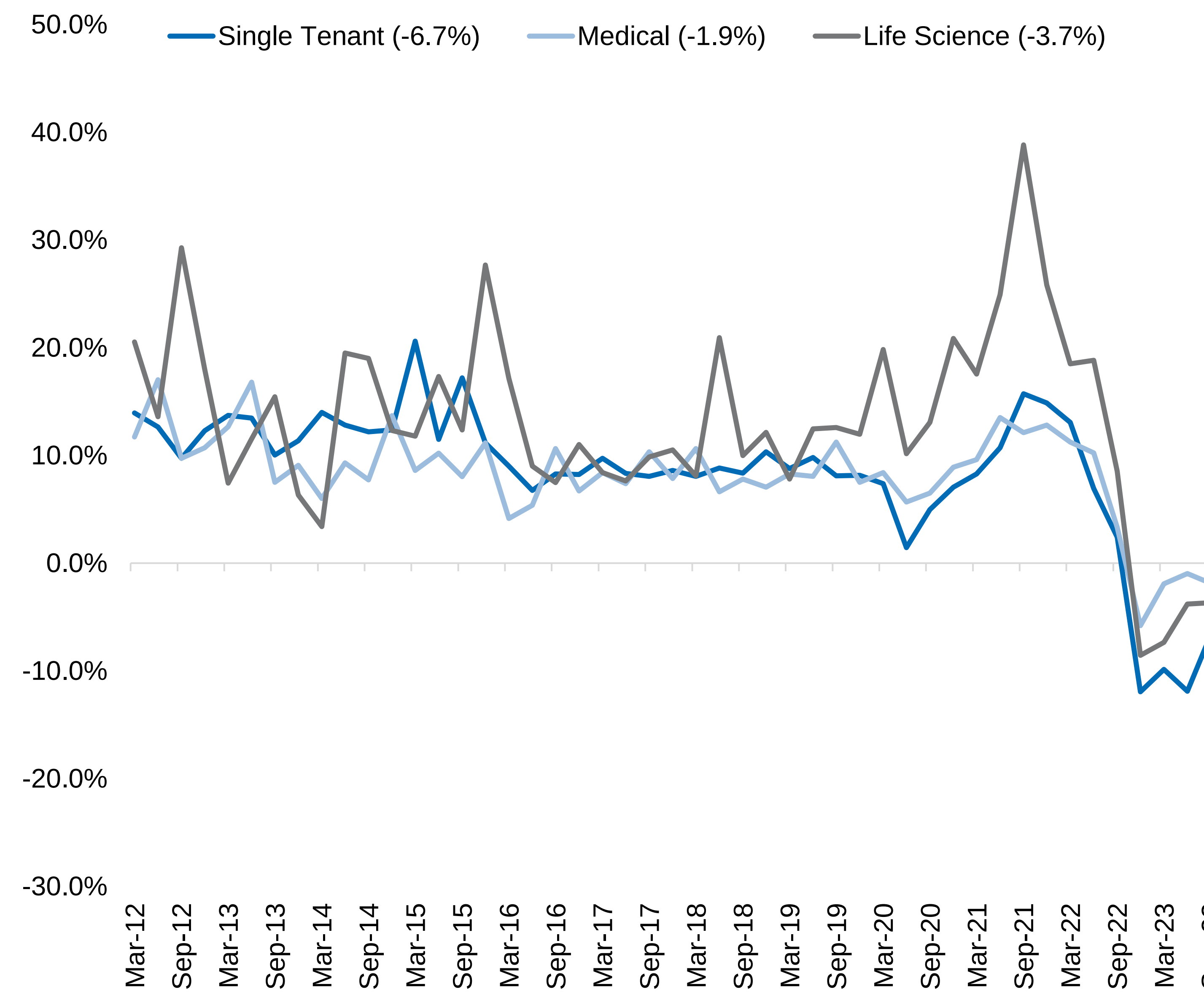
Source: NCREIF, Newmark Research as of 11/8/2023

NCREIF Office Returns Deeply Negative, but Niche Sectors Outperforming

Office values are rapidly contracting according to NCREIF in what is, if anything, a belated acknowledgement of the reality on the ground. CBD office buildings generated an annualized total return of negative 18.3% in the third quarter of 2023, while secondary CBD properties and suburban office buildings performed modestly better. In contrast, single-tenant office and, even more so, medical office and life science have been far more resilient, though returns are still negative.

NCREIF Quarterly Annualized Total Return



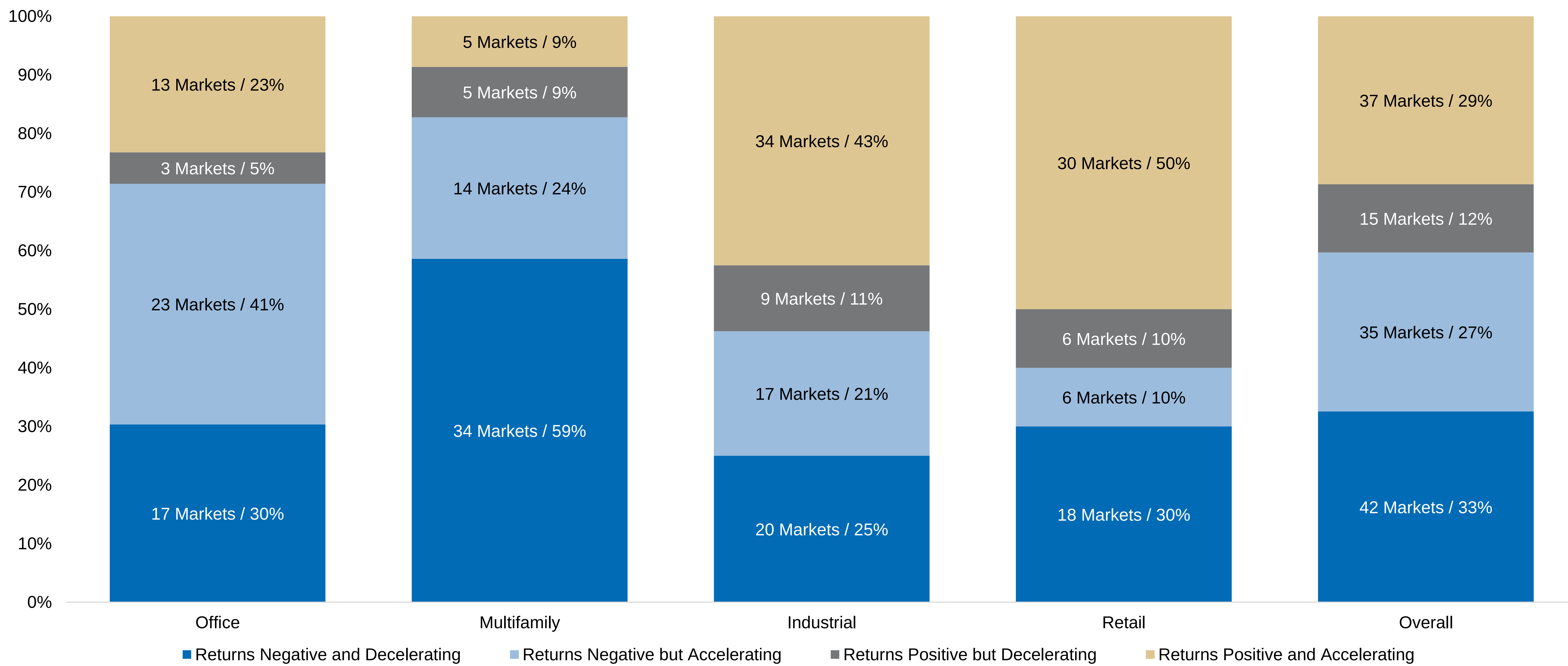


Source: NCREIF, Newmark Research as of 11/21/2023

NCREIF Returns Negative in 71% Of Office Markets in 3Q23, Improving from 2Q23

Returns were negative across large majorities of office and multifamily metro markets, continuing the pattern from last quarter. Last quarter, most negative return office markets were decelerating, while the converse was true for negative return multifamily markets. In the third quarter of 2023, this is reversed. Industrial and retail property returns were positive in most markets in the third quarter of 2023 and, among these, mostly accelerating. The share of positive/accelerating increased for both sectors but most pronouncedly for retail, going from 26% in the second quarter of 2023 to 50% in the third quarter of 2023.

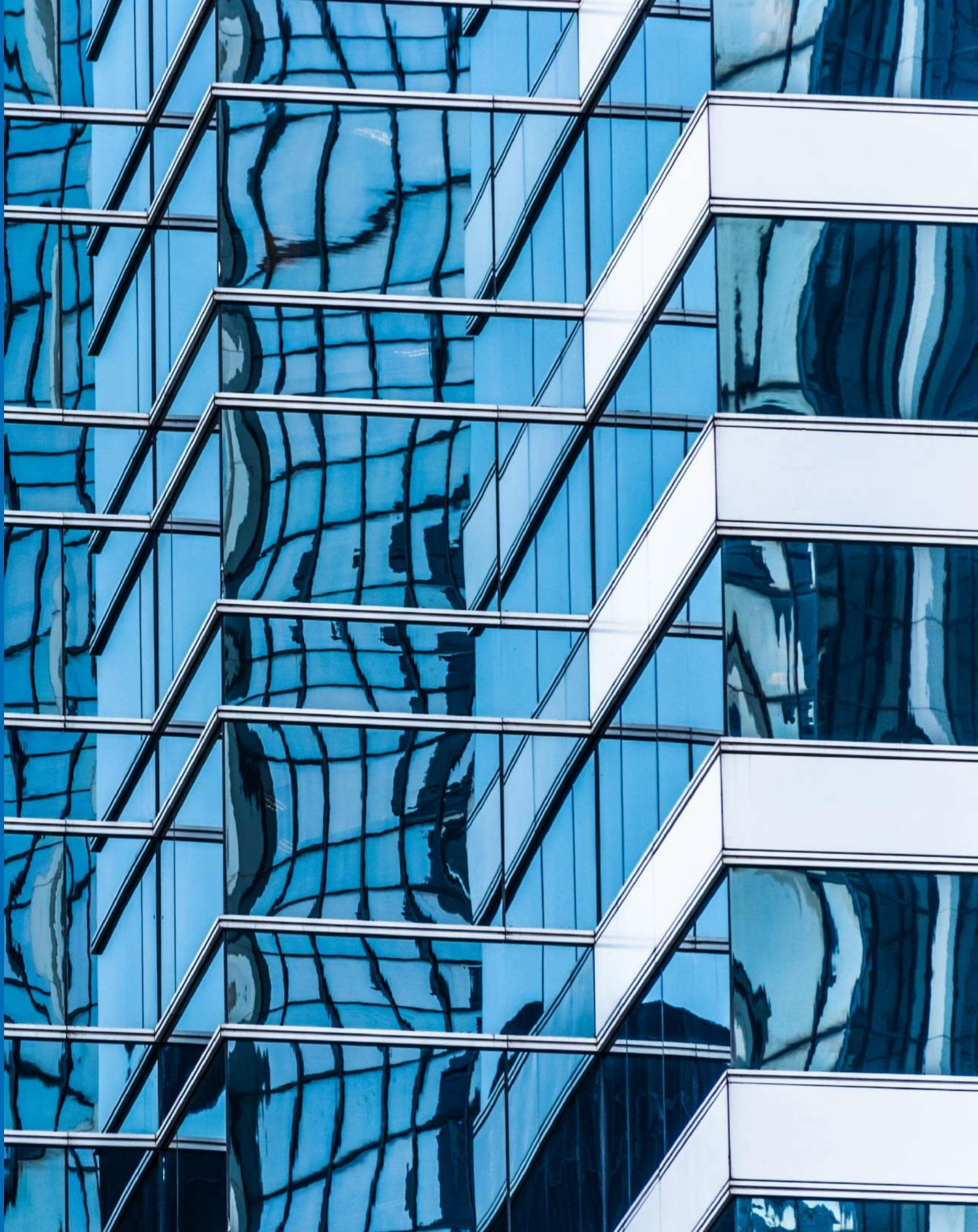
Breakdown of NCREIF CBSA Total Returns: 3Q 2023



Source: NCREIF, Newmark Research as of 11/8/2023

3Q23 US OFFICE MARKET OVERVIEW

Office Market Statistics



National Office Market Statistics

3Q23

Market Statistics – All Classes

	Total Inventory (SF)	Under Construction (SF)	3Q 2023 Net Absorption (SF)	YTD 2023 Absorption (SF)	Overall Vacancy Rate	Average Asking Rent (Price/SF)
National	**4,982,896,422**	**58,506,159**	**-15,865,479**	**-57,491,072**	**19.5%**	**$31.84**
Atlanta‡	159,995,708	2,352,902	-267,471	-412,855	24.3%	$31.54
Austin‡	79,725,310	5,247,474	-548,437	-2,255,047	22.2%	$40.96
Baltimore‡	82,935,245	626,195	-23,926	-24,482	16.7%	$24.59
Boston^	176,515,852	2,432,000	-1,118,864	-3,426,548	18.5%	$44.78
Broward County, FL	34,904,999	434,399	-23,789	-21,016	16.4%	$37.05
Charleston, SC	14,285,056	26,000	103,345	-5,989	13.5%	$31.08
Charlotte‡	57,045,991	1,697,477	-171,442	-868,965	23.8%	$33.51
Chicago^	251,654,316	637,874	-310,499	-1,757,822	23.2%	$32.37
Cincinnati‡	34,852,524	43,000	-366,555	-385,014	26.0%	$20.82
Cleveland‡	38,682,691	1,295,000	135,707	-410,349	21.6%	$19.07
Columbia, SC	16,538,672	0	49,653	-487,940	15.7%	$19.55
Columbus‡	41,702,567	555,054	47	-204,302	24.3%	$21.49
Dallas‡	272,412,666	2,946,082	-37,570	-1,867,720	24.30%	$29.49
Delaware	16,073,112	237,835	-12,903	-276,249	21.6%	$26.01
Denver‡	101,097,525	1,683,972	-1,040,666	-2,131,509	26.6%	$65.22
Detroit‡	80,150,291	380,821	-446,816	-2,053,558	22.0%	$20.38
Fairfield County, CT^	38,605,499	0	233,321	398,128	22.3%	$38.01
Fresno	21,724,591	19,241	83,629	84,077	9.8%	$27.56
Greenville, SC	22,259,547	107,300	-145,211	-136,717	10.2%	$23.66

^ 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

3Q23

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Houston‡	244,294,585	2,634,872	-857,605	-679,819	25.00%	$30.24
Indianapolis‡	33,918,234	261,334	-417,915	-1,457,251	26.3%	$21.22
Inland Empire, CA^	27,739,347	118,000	60,533	-101,767	9.8%	$25.37
Jacksonville‡	34,394,343	83,800	-135,671	81,324	15.4%	$22.20
Kansas City‡	74,394,138	657,210	-99,958	-577,802	16.7%	$21.80
Las Vegas‡	39,719,071	563,262	-18,953	-23,610	11.9%	$26.03
Long Island^	57,902,655	120,700	-253,129	-460,113	12.3%	$29.55
Los Angeles^	221,351,333	1,506,238	-1,276,129	-2,673,715	22.2%	$47.23
Manhattan^	469,472,002	617,617	-424,871	-6,265,522	13.7%	$74.76
Memphis‡	34,694,911	0	-214,123	-63,888	15.7%	$19.46
Miami‡	49,866,506	2,191,611	-35,989	454,826	14.5%	$50.46
Milwaukee‡	36,533,371	60,000	600	-143,476	19.4%	$20.86
Minneapolis‡	119,553,979	359,729	-979,222	-1,697,788	17.2%	$28.74
Nashville‡	61,018,840	2,647,299	-79,407	-420,702	17.5%	$29.93
New Jersey Northern^	166,607,305	379,350	-1,083,368	-4,109,963	19.2%	$31.22
New Jersey Southern	16,006,817	0	-49,527	-160,238	17.0%	$21.54
Oakland/Greater East Bay^	66,475,758	0	-367,063	-955,347	21.9%	$39.73
Oklahoma City	20,780,385	0	-154,746	-263,174	18.3%	$19.11
Orange County, CA^	97,148,326	0	79,994	-1,204,194	18.3%	$33.90

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National Office Market Statistics

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Orlando‡	61,667,840	628,712	-132,189	-581,141	11.7%	$25.27
Palm Beach	27,317,178	642,000	-39,971	-410,727	13.2%	$44.84
Philadelphia‡	107,337,136	971,921	-649,808	-1,967,952	19.8%	$31.49
Phoenix‡	98,133,608	190,000	-685,441	-1,154,114	22.6%	$29.05
Pittsburgh‡	57,762,535	690,000	15,588	-950,083	23.9%	$26.05
Portland‡	62,032,703	100,000	-375,109	-893,818	19.9%	$31.95
Raleigh/Durham‡	53,347,759	2,312,130	-130,208	-917,868	15.2%	$29.80
Sacramento‡	69,473,340	569,000	-783,471	-1,843,402	16.5%	$25.65
Salt Lake City‡	75,780,118	513,393	-241,620	-312,638	14.6%	$25.30
San Antonio‡	48,059,042	405,987	133,167	-76,506	18.40%	$24.27
San Diego‡	73,436,475	5,468,187	23,795	-772,352	16.0%	$40.25
San Francisco^	89,392,475	420,000	-1,612,978	-4,773,848	27.3%	$72.74
Seattle‡	131,504,596	7,220,000	-322,085	-2,675,522	14.6%	$45.08
Silicon Valley^	81,569,198	2,734,064	-543,893	-1,381,137	19.5%	$55.77
St. Louis‡	74,242,668	107,000	287,673	54,811	14.9%	$22.82
Tampa/St. Petersburg‡	61,673,727	508,941	176,241	181,610	14.7%	$27.60
Washington, DC^	371,105,870	2,101,176	-612,794	-1,739,832	20.1%	$42.14
Westchester County, NY^	26,026,086	0	-157,380	-310,457	24.0%	$28.56

^ Major Market
‡ Secondary Market
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For more information:

David Bitner
Executive Managing Director
Global Head of Research
david.bitner@nmrk.com

Jonathan Mazur
Executive Managing Director
National Research
jonathan.mazur@nmrk.com

Keith Reichert
Director
Western Research
keith.reichert@nmrk.com

New York Headquarters
125 Park Avenue
New York, NY 10017
t 212-372-2000

nmrk.com

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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