4Q23

United States Office Leasing House View

NEWMARK

Market Observations

- **Demand Drivers:** The Federal Reserve's efforts to combat inflation have modestly slowed employment growth, but overall, labor markets remain in expansion. National GDP growth was robust at 3.3% in the fourth quarter of 2023, a decline from 4.9% in the third quarter of 2023. National office-using employment is now 6.4% 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 2023, technology companies accounted for just 10.1% of leasing activity, down from 36.9% in 2022.

- **Labor Market:** National nonfarm employment recovered to pre-pandemic levels in June 2022 and is up 20.9% 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 1.9 million jobs above pre-pandemic levels.

- **Leasing Fundamentals:** Net absorption continued to post losses in the fourth quarter of 2023, driven most strongly by the West and East. Leasing activity was again sluggish in most markets in the fourth quarter of 2023, decelerating nationally to an estimated 0.8% of inventory, compared to the quarterly average of 1.4% realized between 2011 and 2019.

- **Regional Fundamentals:** The South Region recorded minor occupancy growth in the fourth quarter of 2023, the first region to realize positive net absorption since the third quarter of 2022. Gains here were driven by strong performance in the Houston market, where net absorption totaled positive 1.5 million SF during the quarter. Despite this, occupancy declined overall in the South over the course of 2023. Minimal leasing activity as a percent of inventory was relatively ubiquitous across most regions, indicating a slowdown in the momentum that had been gained in the prior two years in some secondary and Sun Belt markets.

- **Market Size Comparison:** Gateway markets shed the majority of space in the fourth quarter of 2023; over the course of the year, losses in major gateway and secondary markets were comparable. Tertiary markets outperformed other categories, recording minor positive net absorption in the fourth quarter of 2023. Occupancy ultimately declined over the course of the year, aligning with trends seen in other markets.

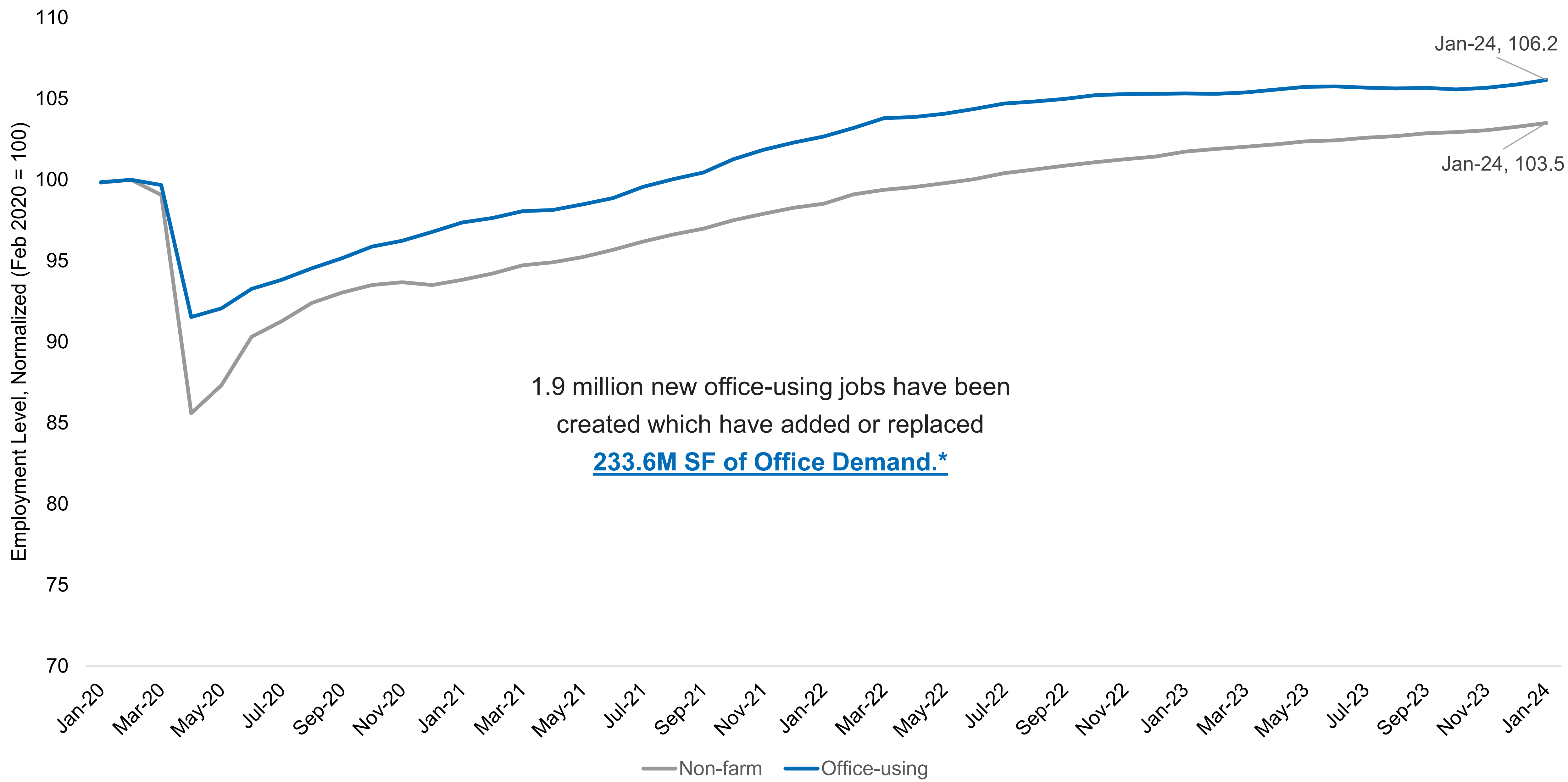
- **Segmentation Analysis:** Quality office assets continue to command a disproportionate share of the market's limited activity, with leasing activity in the Class A sector accounting for 53.1% of all leasing in the fourth quarter of 2023. This has declined from a recent high of 54.6% in the fourth quarter of 2021. Class A vacancy increased 220 basis points year over year, in line with the overall market. There is growing segmentation in this top tier with commodity Class A (four-star) inventory recording vacancy that was 180 basis points higher than trophy (five-star) at the end of the fourth quarter of 2023. This difference has increased 110 basis points since the end of 2019.

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 20.9% 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 1.9 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.

Employment Recovery Comparison – Normalized to February 2020

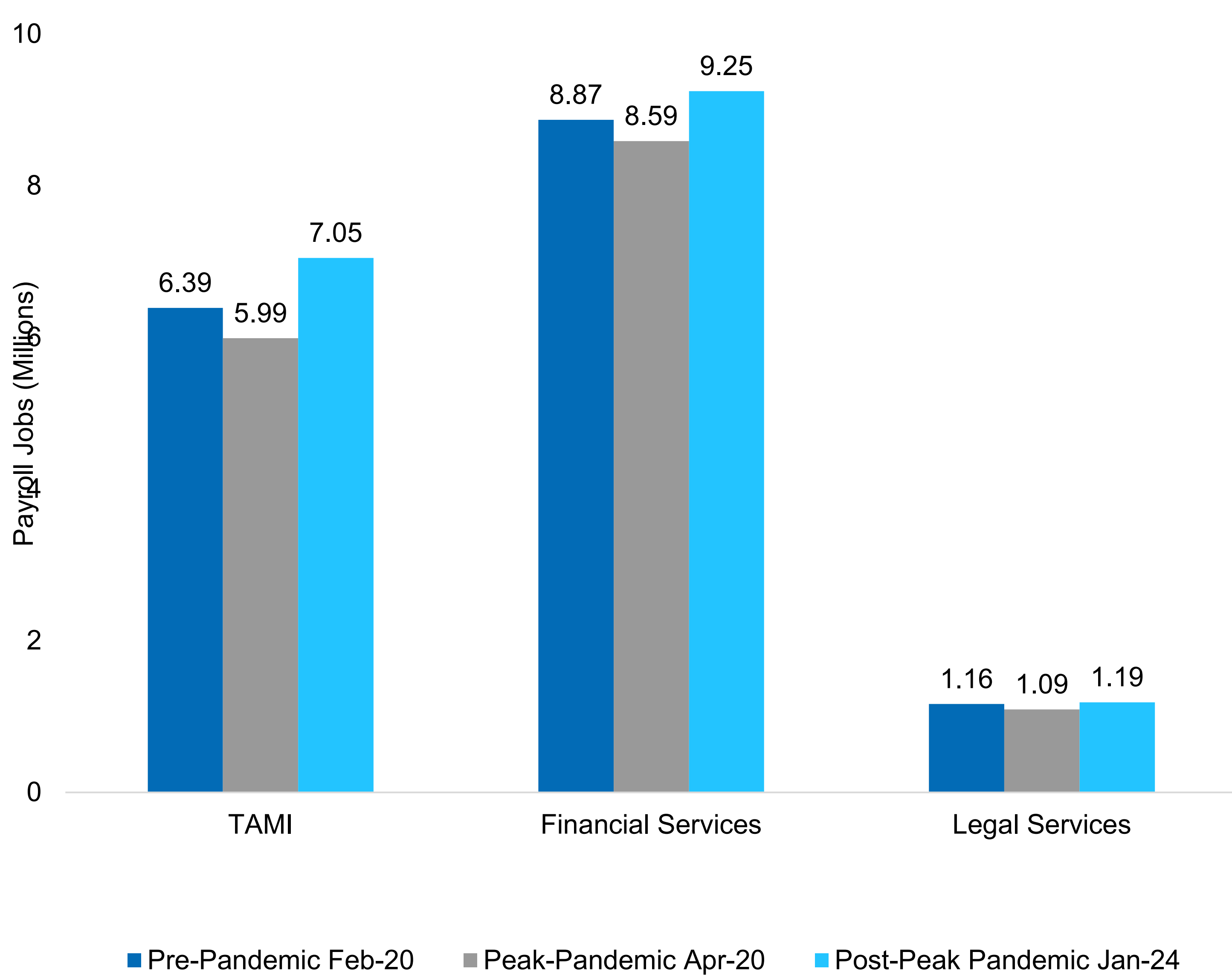


Sources: U.S. Bureau of Labor Statistics, Newmark Research
Seasonally Adjusted

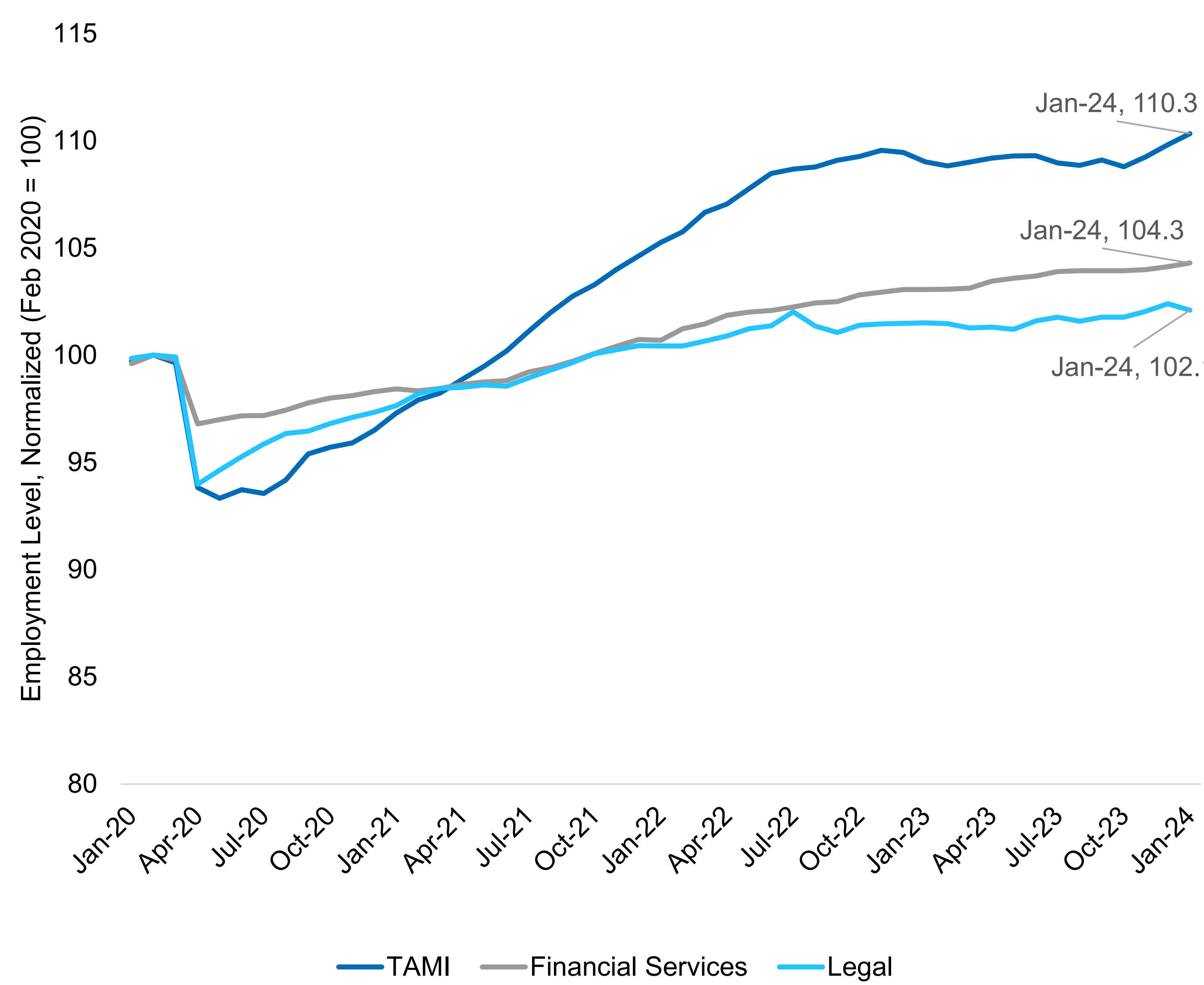
Employment Growth Across Office-Using Industries

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 10.3% above February 2020 levels. Impressive gains have been made across a range of professional and business services, which in the aggregate are up 7.0% from February 2020. Legal services have more than fully recovered as well, but less than these other categories.

Employment by Industry



Employment by Industry (Historical)



Sources: United States Department of Labor, Newmark Research

Office-Using Employment Growth Decelerating in Most Markets

Employment has been mostly tempered after a red-letter 2022. Several markets saw positive job growth decelerate from the prior year, while several key gateway markets in the East and West saw steeper negative growth in 2023 than the prior year. There were just three markets that saw elevated growth from the prior year: Las Vegas, Raleigh and Baltimore.

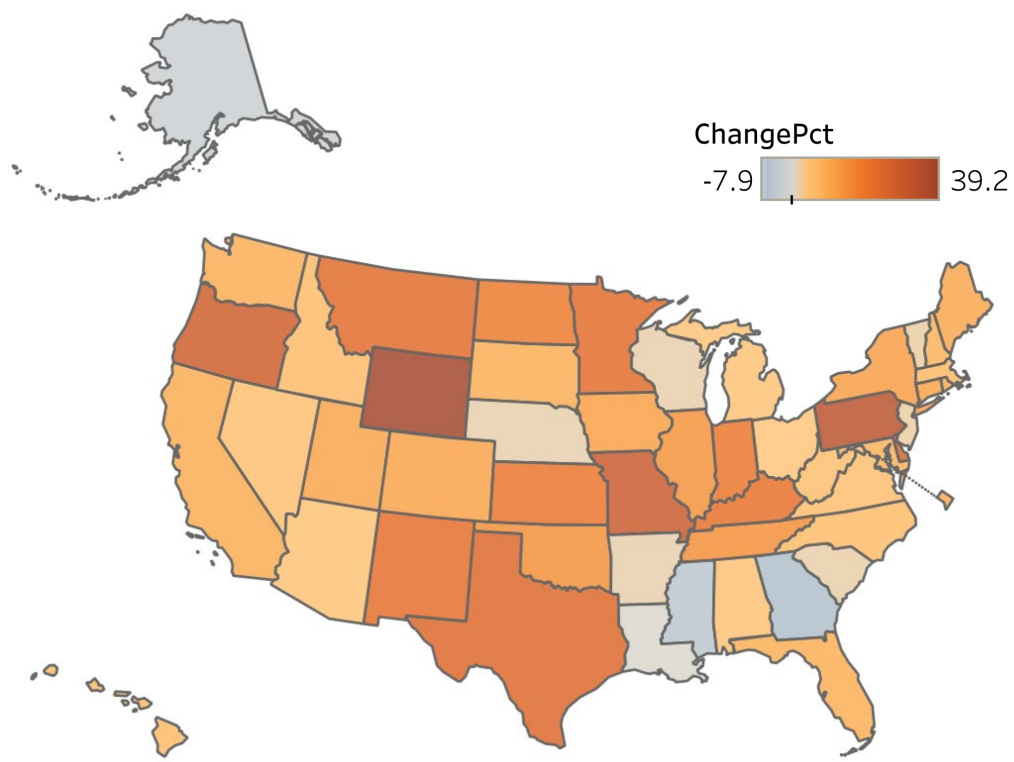
2023 Compounded Average Monthly Office-Using Employment Growth vs. 2022 – 2023 Acceleration

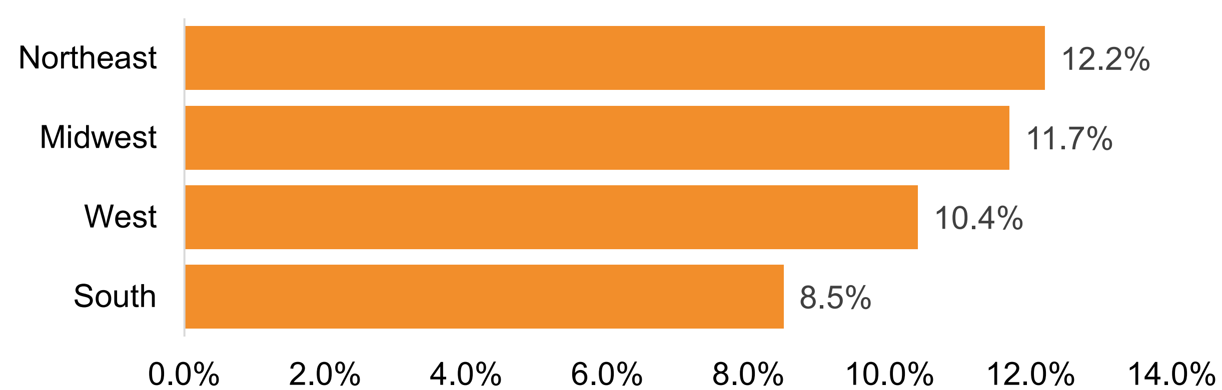
Source: Bureau of Labor Statistics, Newmark Research

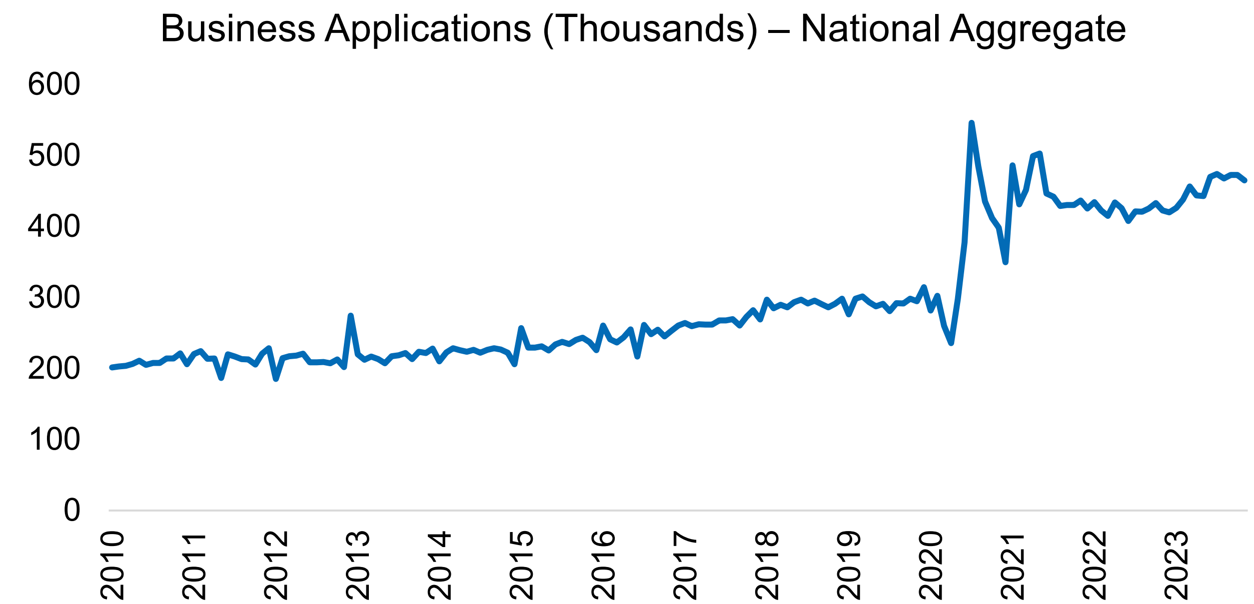
New Business Formation Maintains Momentum

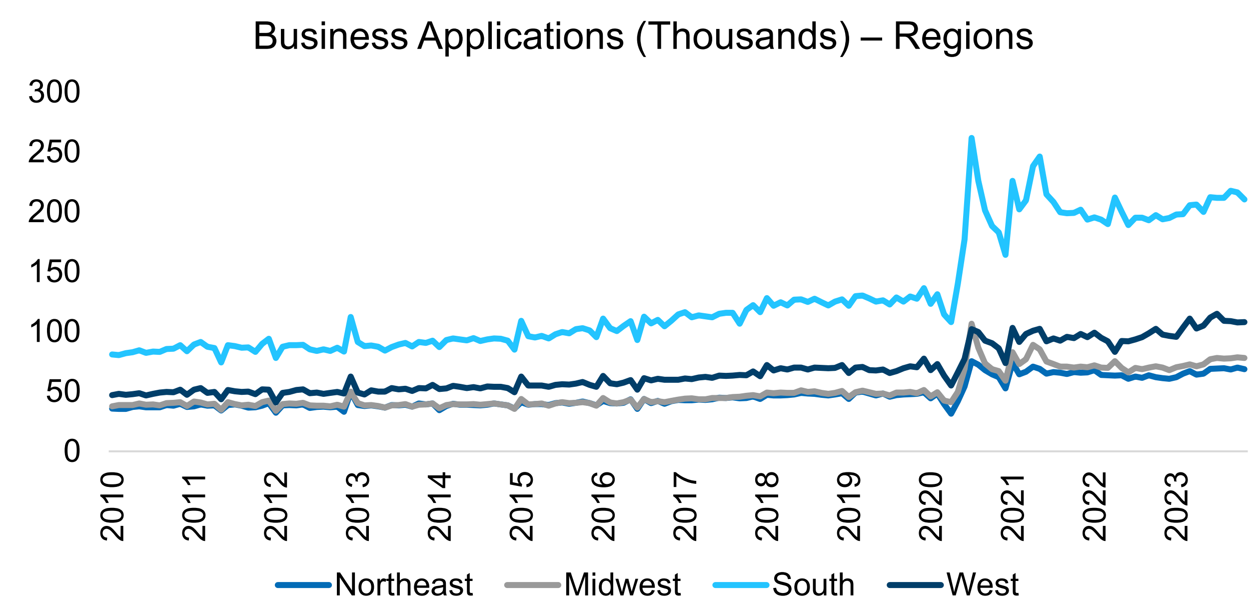
Business formation accelerated healthily in November 2023; 464,838 new business applications were filed, which is up 10.0% from September 2022. This acceleration was realized in every US region, with the Northeast Region realizing a 12.2% increase from this time last year. Overall business creation remains notably higher than pre-pandemic levels in all geographic regions.

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







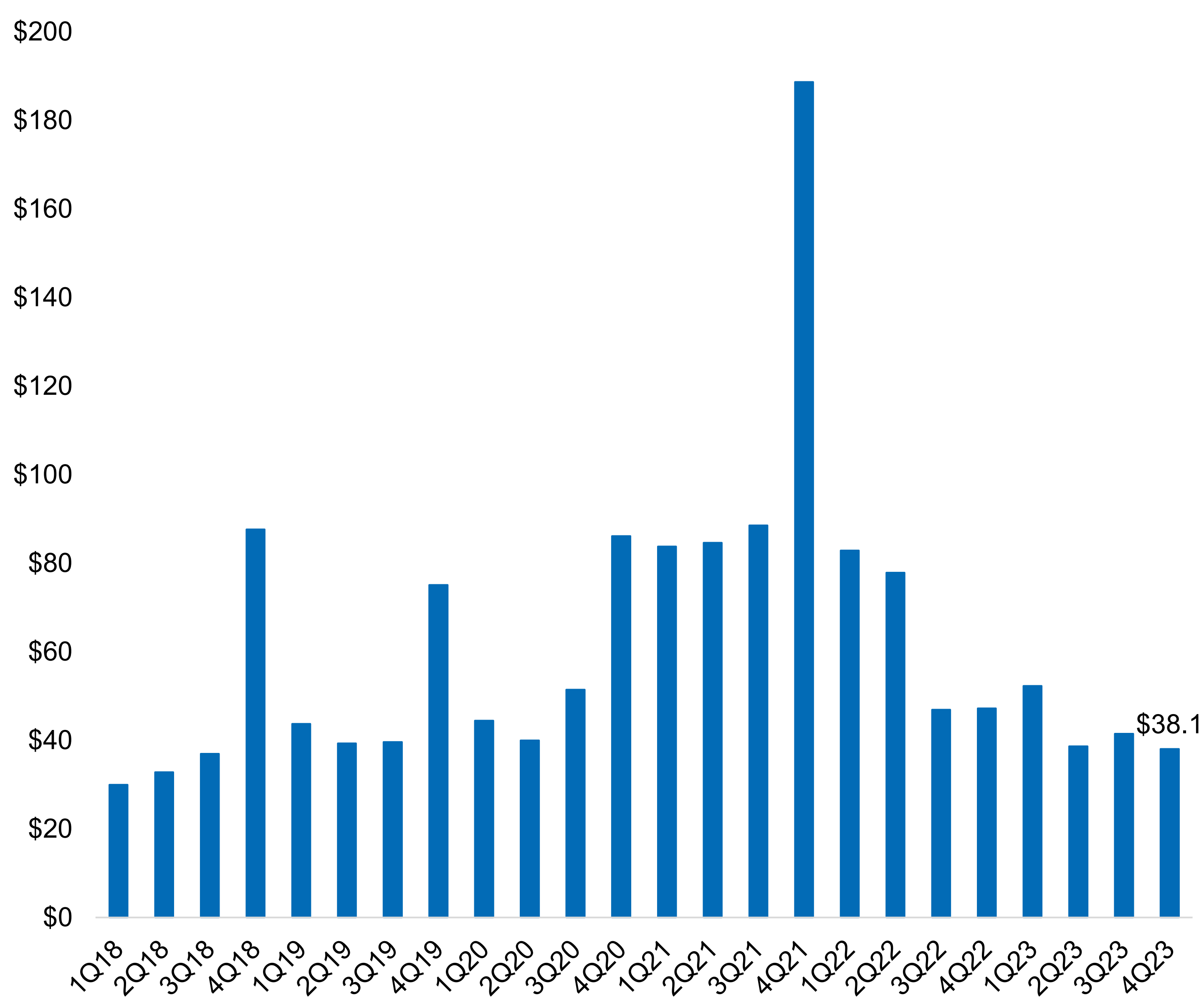


Source: United States Census Bureau, Newmark Research

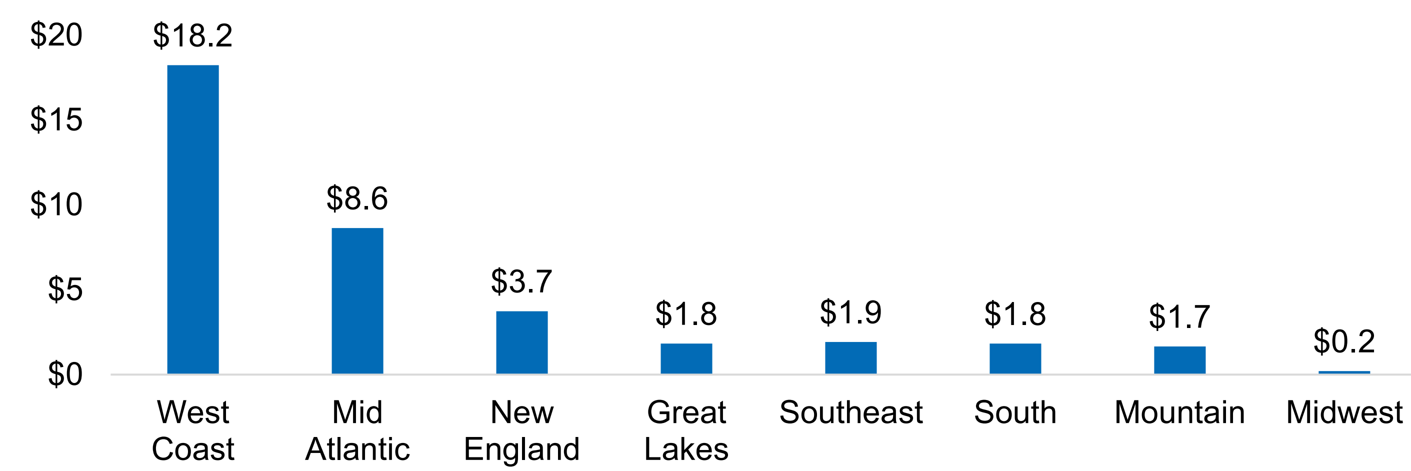
Venture Capital Investment Activity Has Returned to Pre-Pandemic Level

Overall venture capital contracted in the fourth 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 solely in the financial services sector, while all other categories realized annual declines, with the materials and resources sector declining 76.8%. 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.

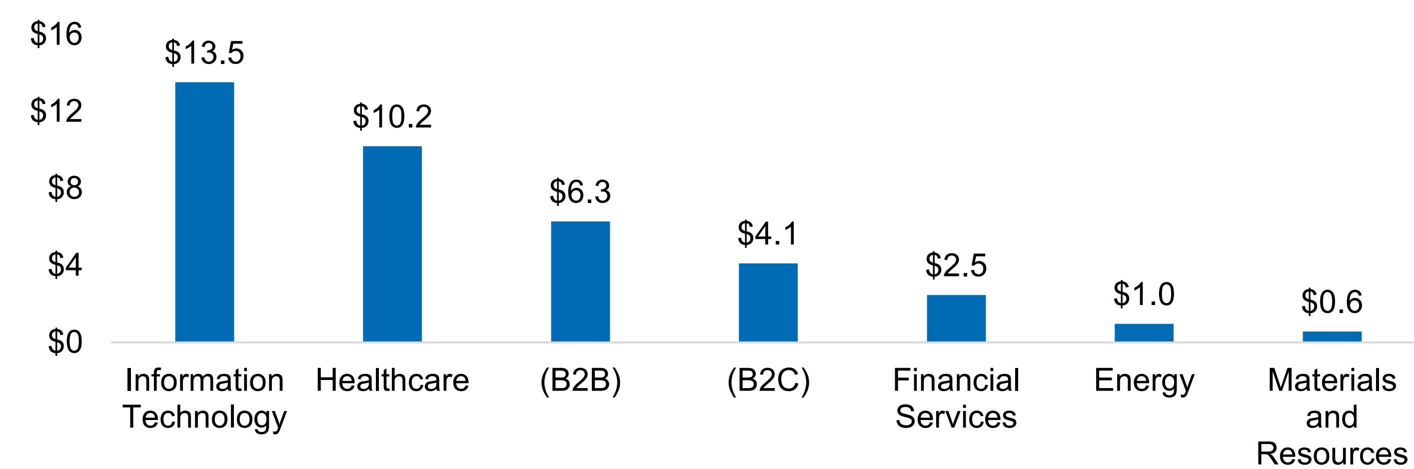
Venture Capital Deal Value ($ billions)



4Q23 VC Funding by Region ($ billions)



4Q23 VC Funding by Industry Sector ($ billions)

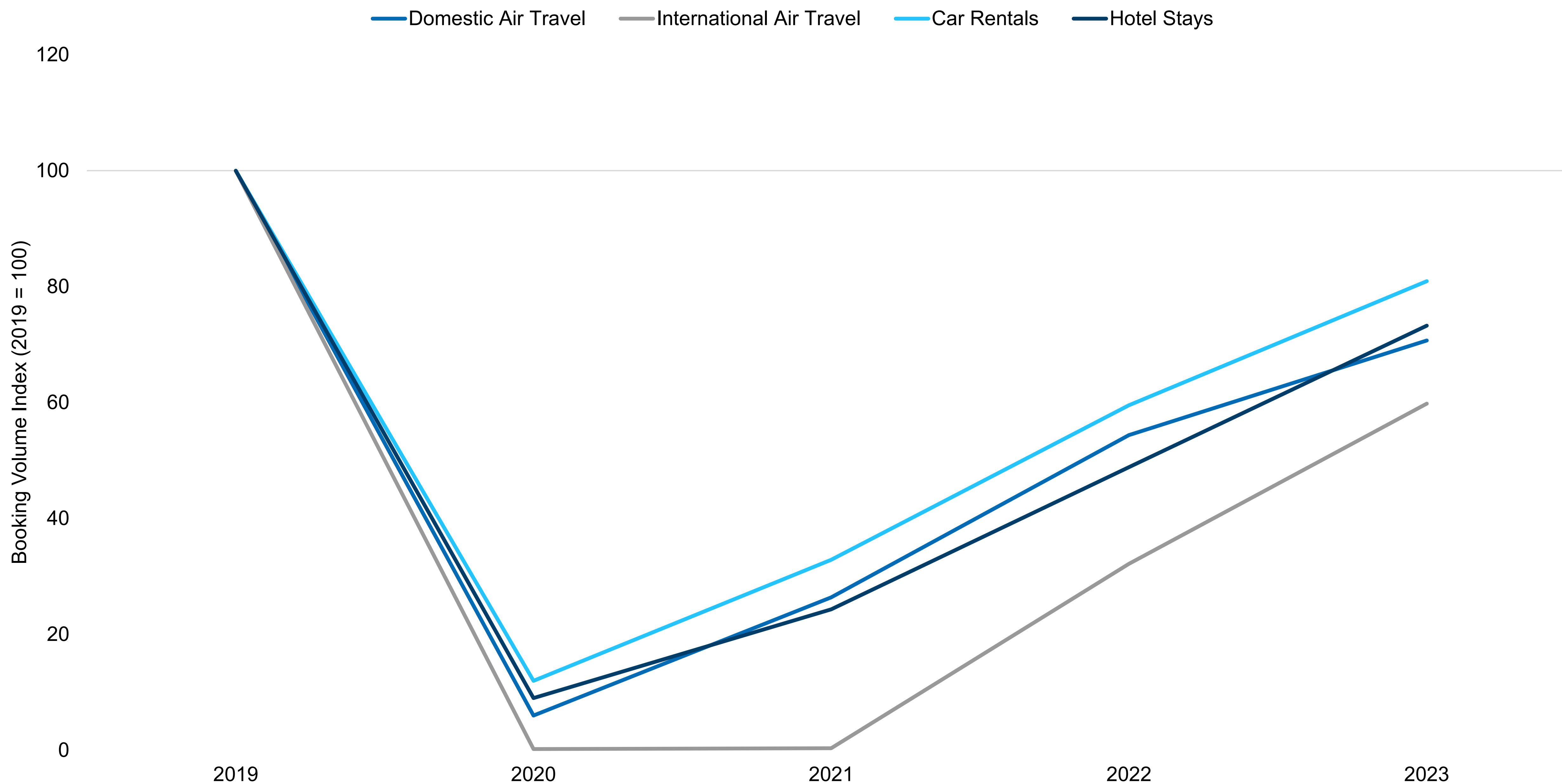


Sources: PitchBook, Newmark Research

Business Travel Recovering Well in 2023

Business travel continued accelerating in the second 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 rental travel has increased dramatically and has nearly recovered to pre-pandemic levels.

Booking Volume Indexed to 2019 Baseline

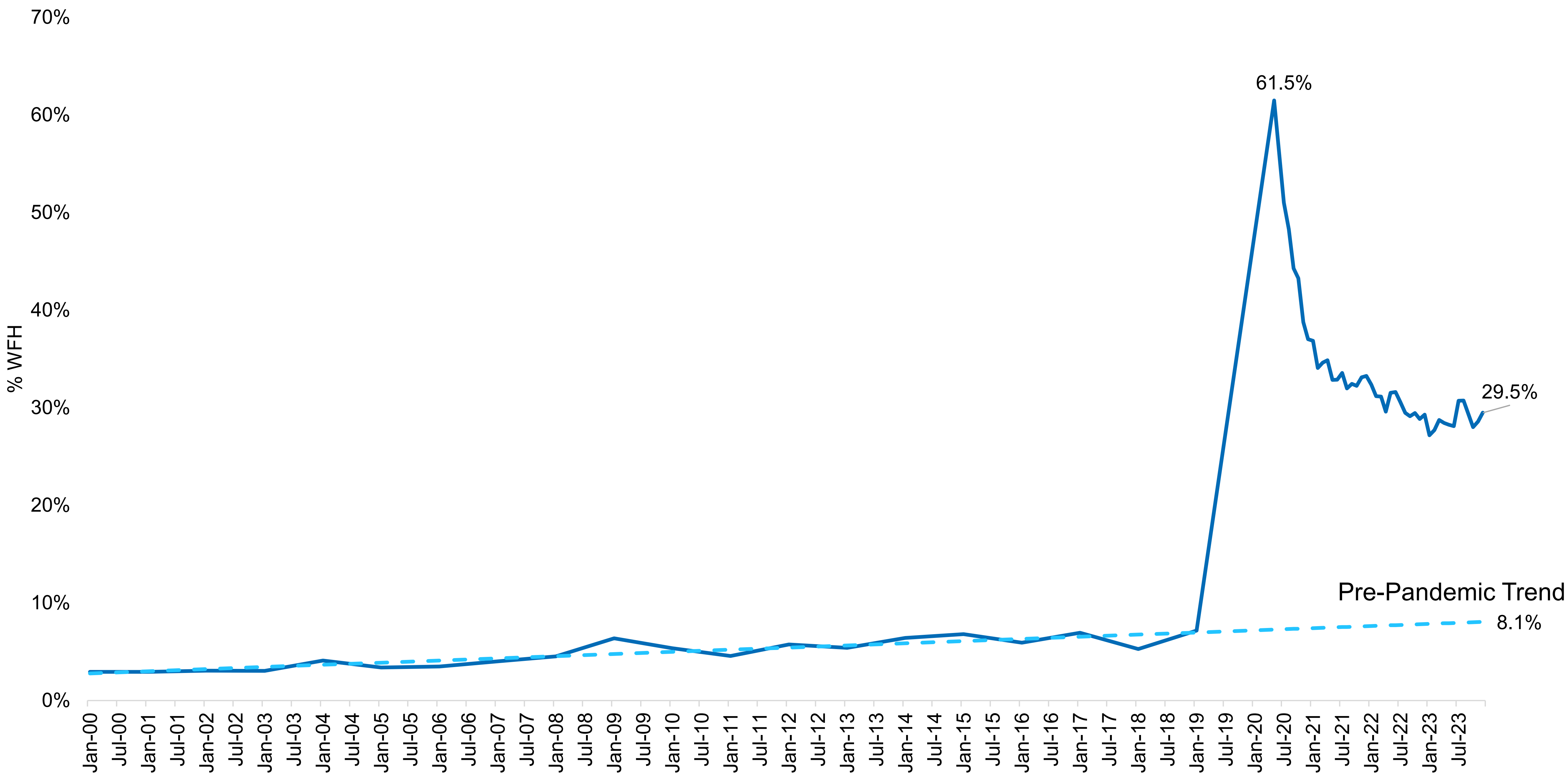


Source: Emburse Travel Trends, Newmark Research

The Pandemic Compacted Decades of WFH Transition into 3 Years

In the two decades prior to 2020, the full paid days worked from home by all employees averaged 5.2%. This metric grew significantly in the first quarter of 2020, reaching a maximum of 61.5% in May of 2020. Since then, this metric has declined at a decelerating pace and stands at 29.5% as of December 2023.

Share of Full Paid Days Worked From Home

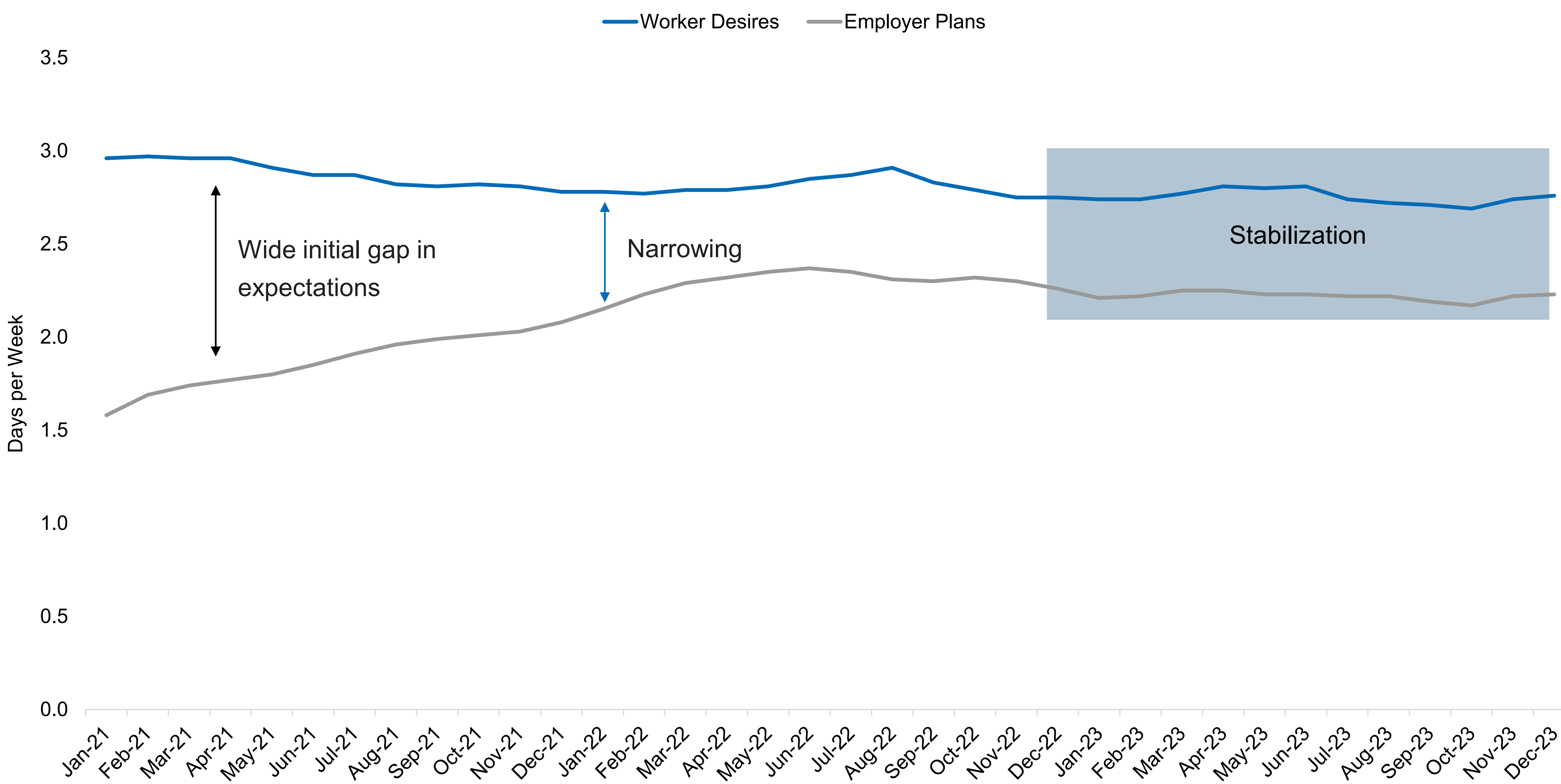


Source: Barrero, Jose Maria, Nicholas Bloom, and Steven J. Davis, 2021. "Why working from home will stick," National Bureau of Economic Research Working Paper 28731.

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 the economy is proving more resilient, the gap in desires is narrow and college-educated unemployment is 2.6%.

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

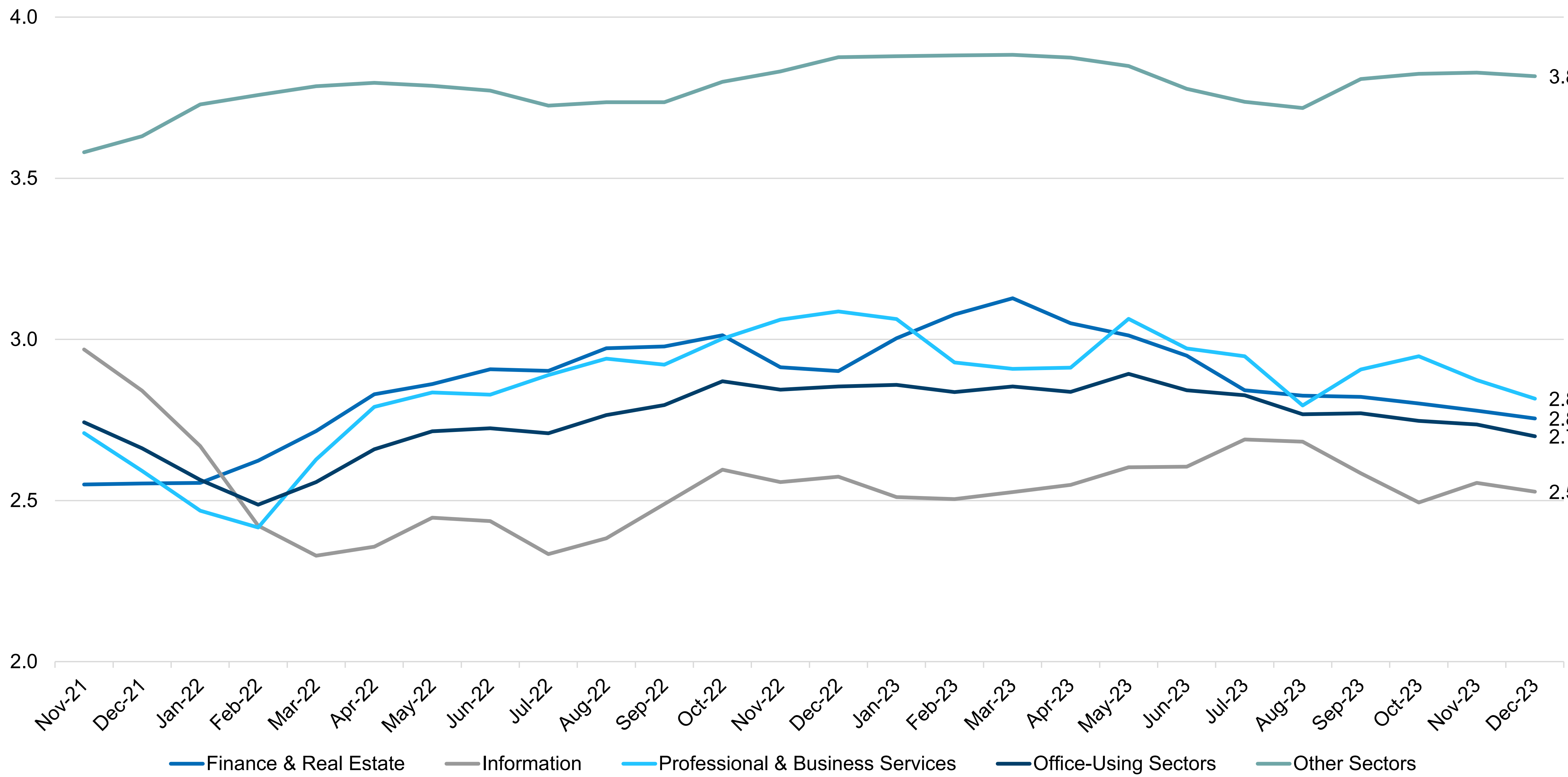


Source: Barrero, Jose Maria, Nicholas Bloom, and Steven J. Davis, 2021. "Why working from home will stick," National Bureau of Economic Research Working Paper 28731.

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

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

Estimated Days Worked from Office*

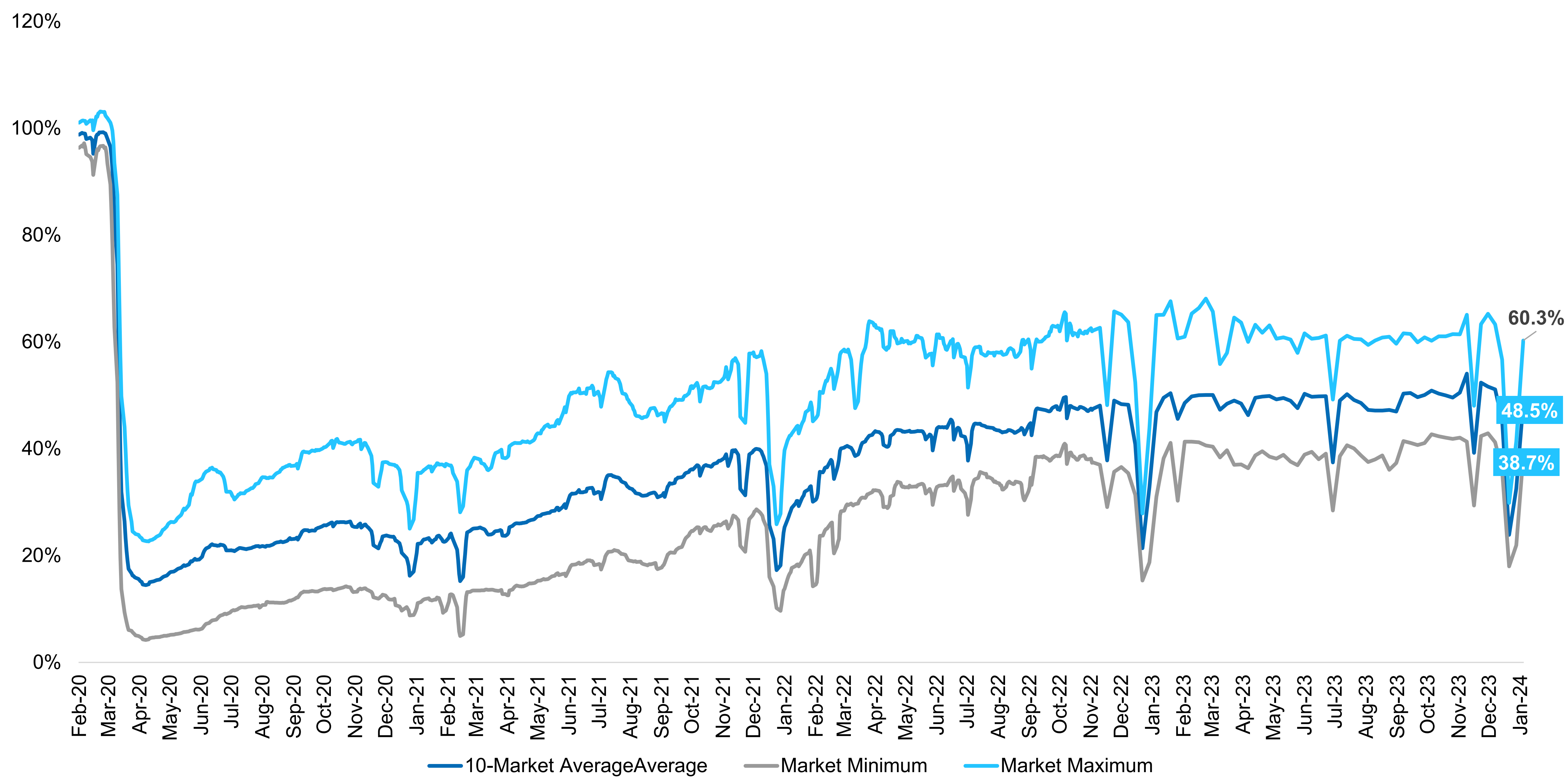


Source: Barrero, Jose Maria, Nicholas Bloom, and Steven J. Davis, 2021. "Why working from home will stick," National Bureau of Economic Research Working Paper 28731. as of 1/25/2024
*The SWAA survey data reports on the share of respondents that worked fully onsite, hybrid and fully remote, respectively. We estimate days worked onsite by assuming fully onsite, hybrid and fully remote refer to 5, 2.5 and 0 days worked onsite, respectively. Sector scores (e.g. office-using) are calculated as a simple average of the constituent industries.

Return to Office Has Stabilized

Kastle Systems data shows' office utilization increased marginally over the course of 2023. The 10-market average reached 54.1% in mid-November, the highest occupancy levels seen since pre-pandemic, before sliding down again, as expected due to the holiday season. The 10-market average stood at 48.5% as of January 2024. There continues to be significant variation in daily office attendance during a given week, suggesting that peak office attendance may have been as high as 70% and pushing 80% in the markets with the most robust return to office.

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

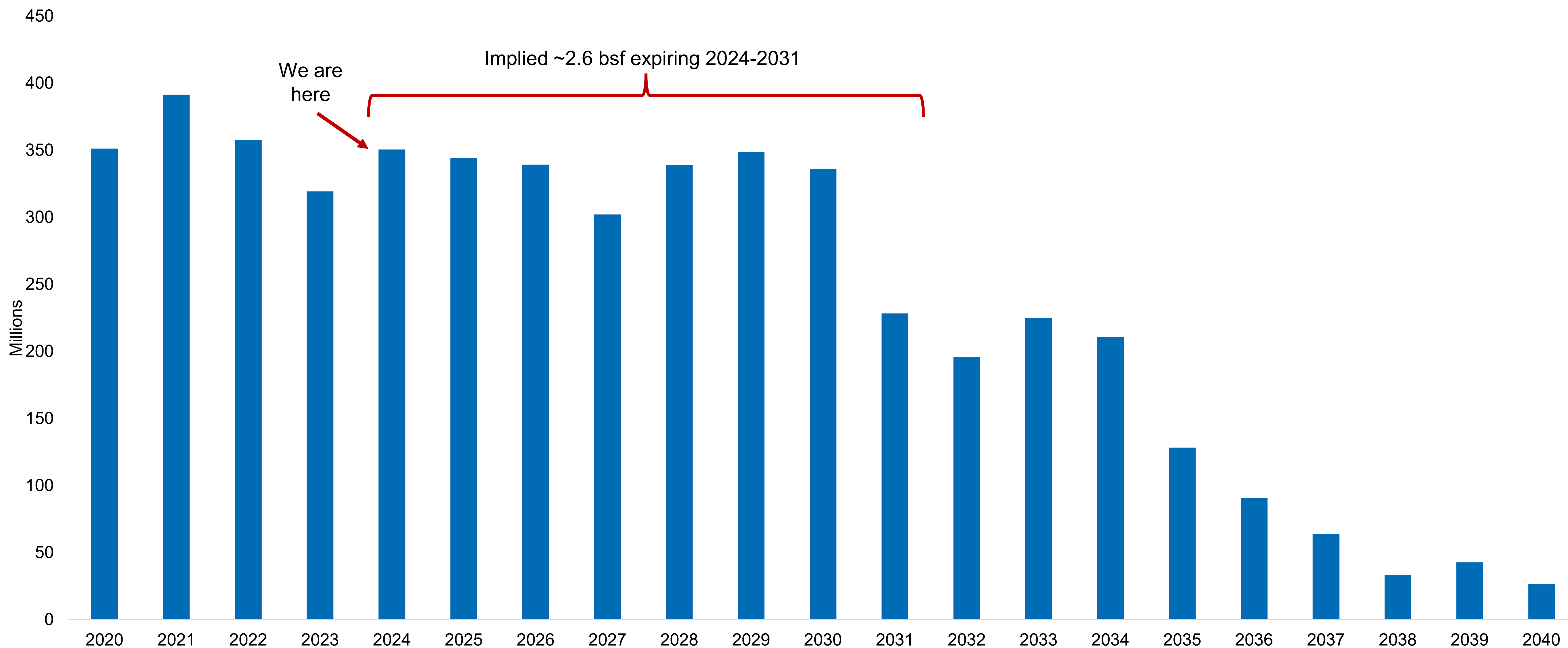


Source: Kastle Systems, Newmark Research

Tenants Are Still in Early Stages 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

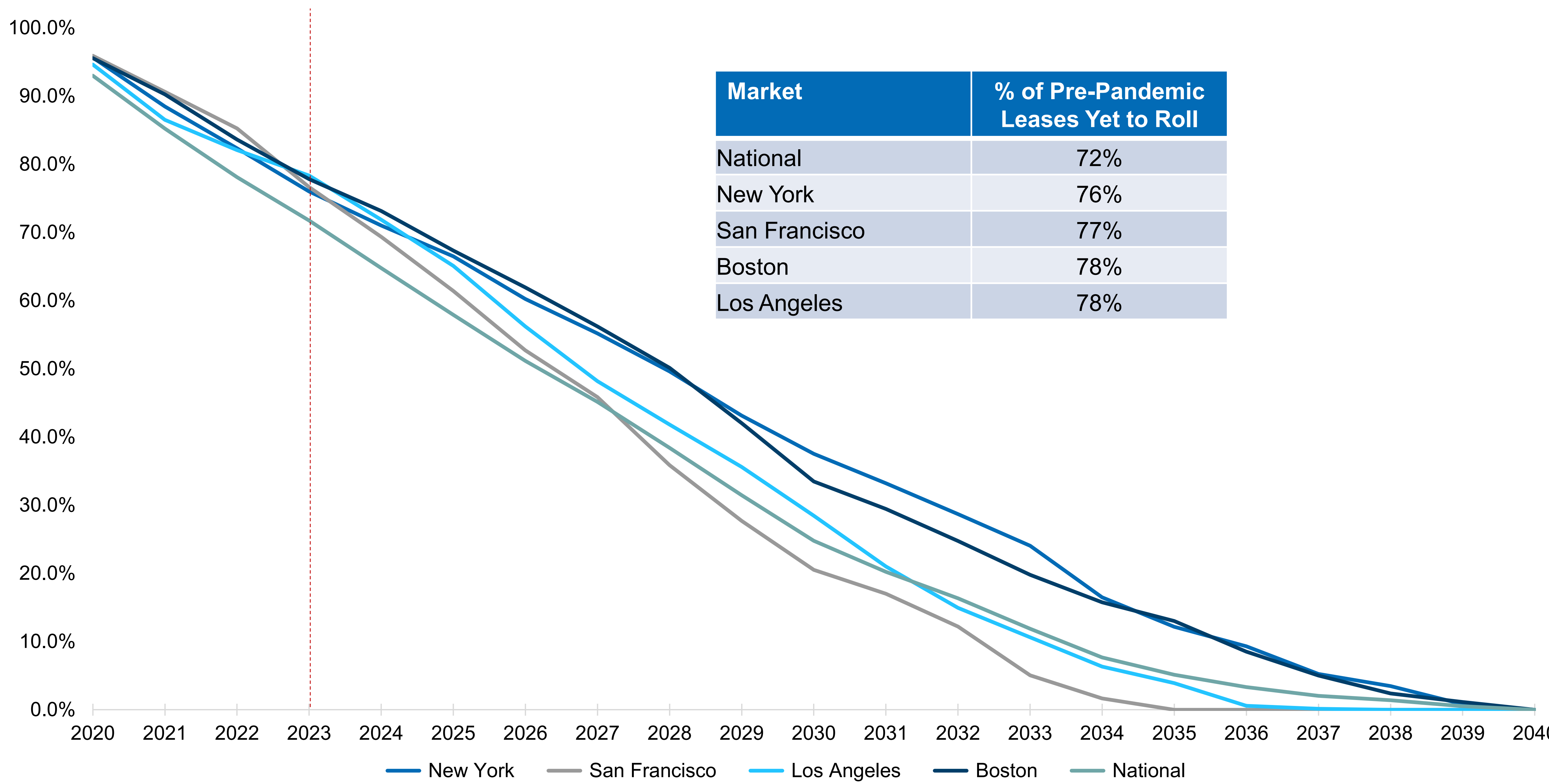


Source: Newmark Research, CoStar
*Based on Newmark Research national transaction data (50k+ SF leases in-place as of March 2020, totaling ~668 msf)

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%

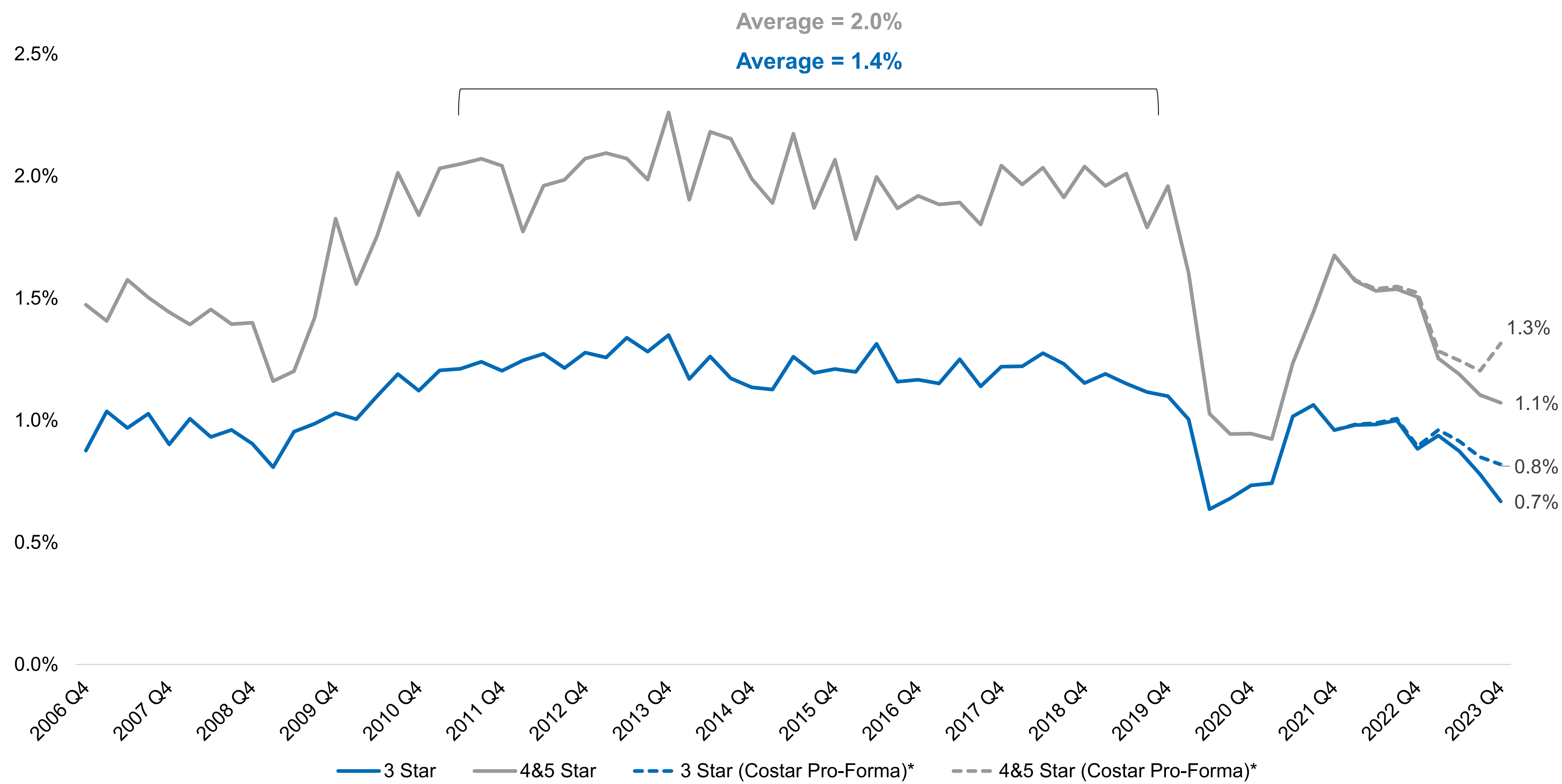
Source: Newmark Research
*Based on leases in-place as of March 2020 that were 50,000 square feet or greater

Leasing Market

Office Leasing Inches Down In 4Q23

Higher-quality buildings continued to outpace the overall market and drove a larger share of leasing activity in the fourth quarter of 2023. Although four- and five-star buildings only account for 38.7% of inventory, these assets captured 53.1% of leasing activity in the fourth quarter of 2023, a downward trend from the fourth quarter of 2022.

Leasing Activity as a Share of Inventory

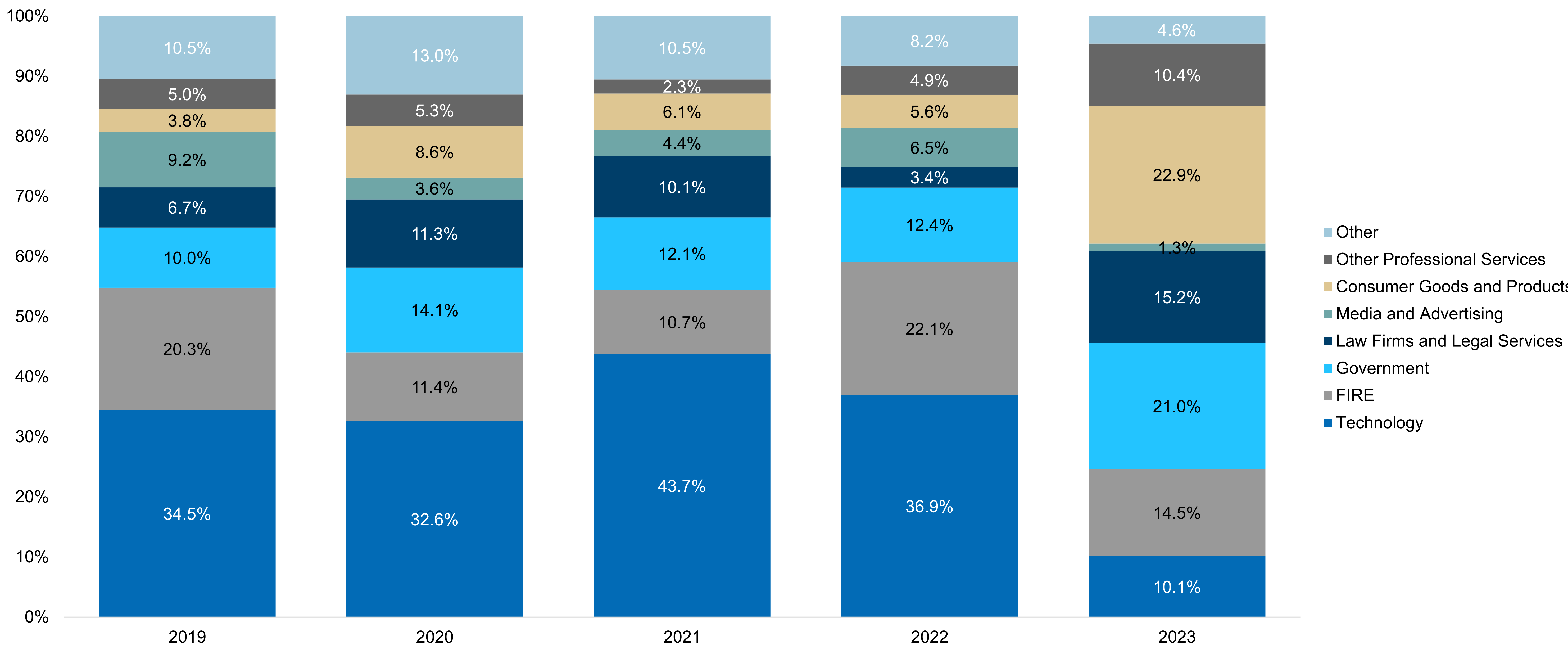


Source: CoStar, Newmark Research as of 1/16/2024
*CoStar pro-forma based on proprietary internal calculation that estimates remaining leases not captured based on analysis of historical leasing trends.

Technology Sector Leasing Has Collapsed Year-to-Date

Leasing activity growth slowed nationwide in the fourth quarter of 2023 as economic pressures led firms to again delay real estate planning initiatives. This was particularly true in the technology industry. Consumer goods and products 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

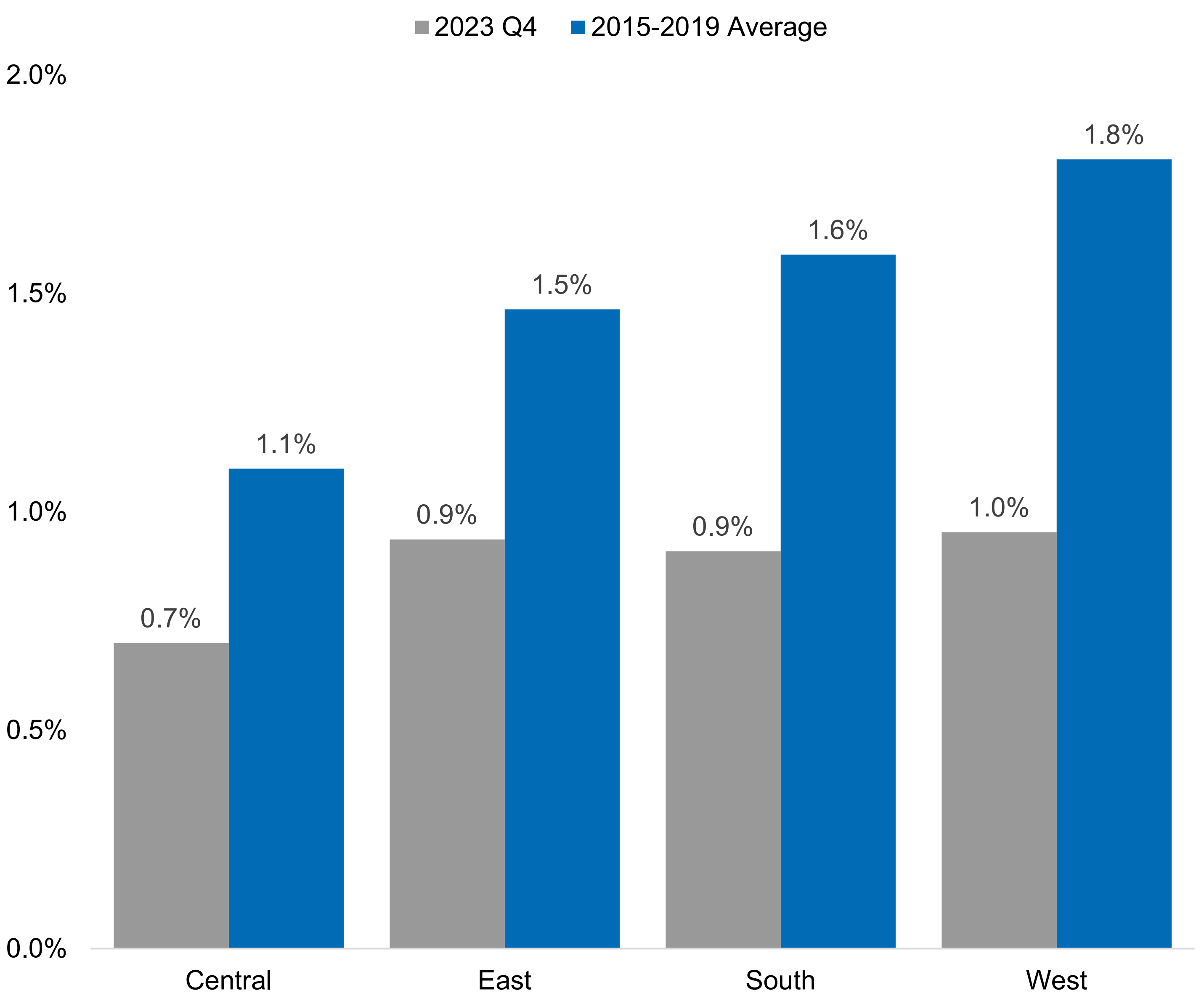


Sources: Newmark Research

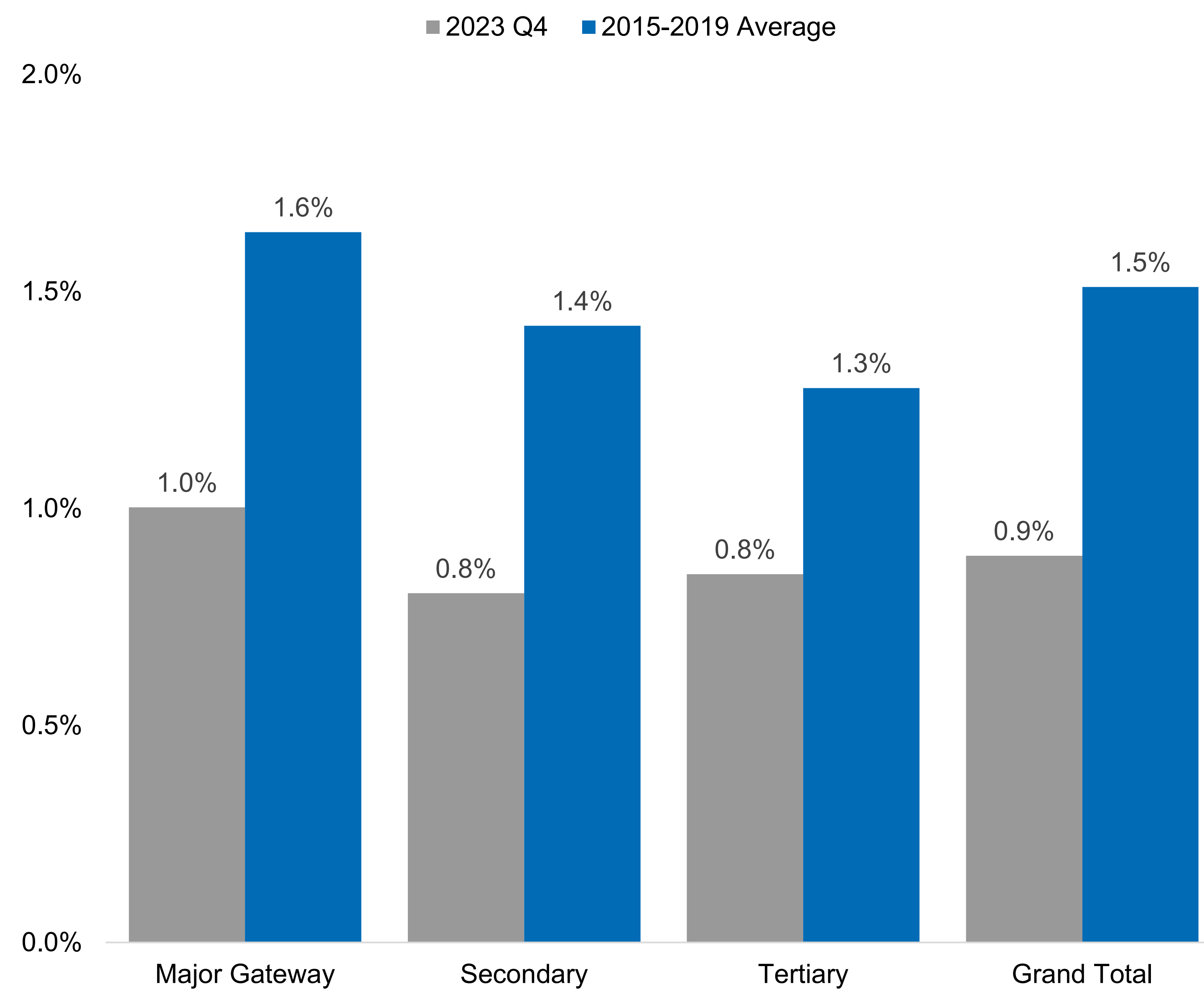
Leasing Activity Lags Pre-Pandemic Baseline

Leasing activity was again sluggish in most markets in the fourth 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 fourth quarter of 2023, leasing activity as a percent of inventory was relatively even across most regions and market sizes.

Regional Leasing Activity as a Percent of Inventory



Market Size Leasing Activity as a Percent of Inventory

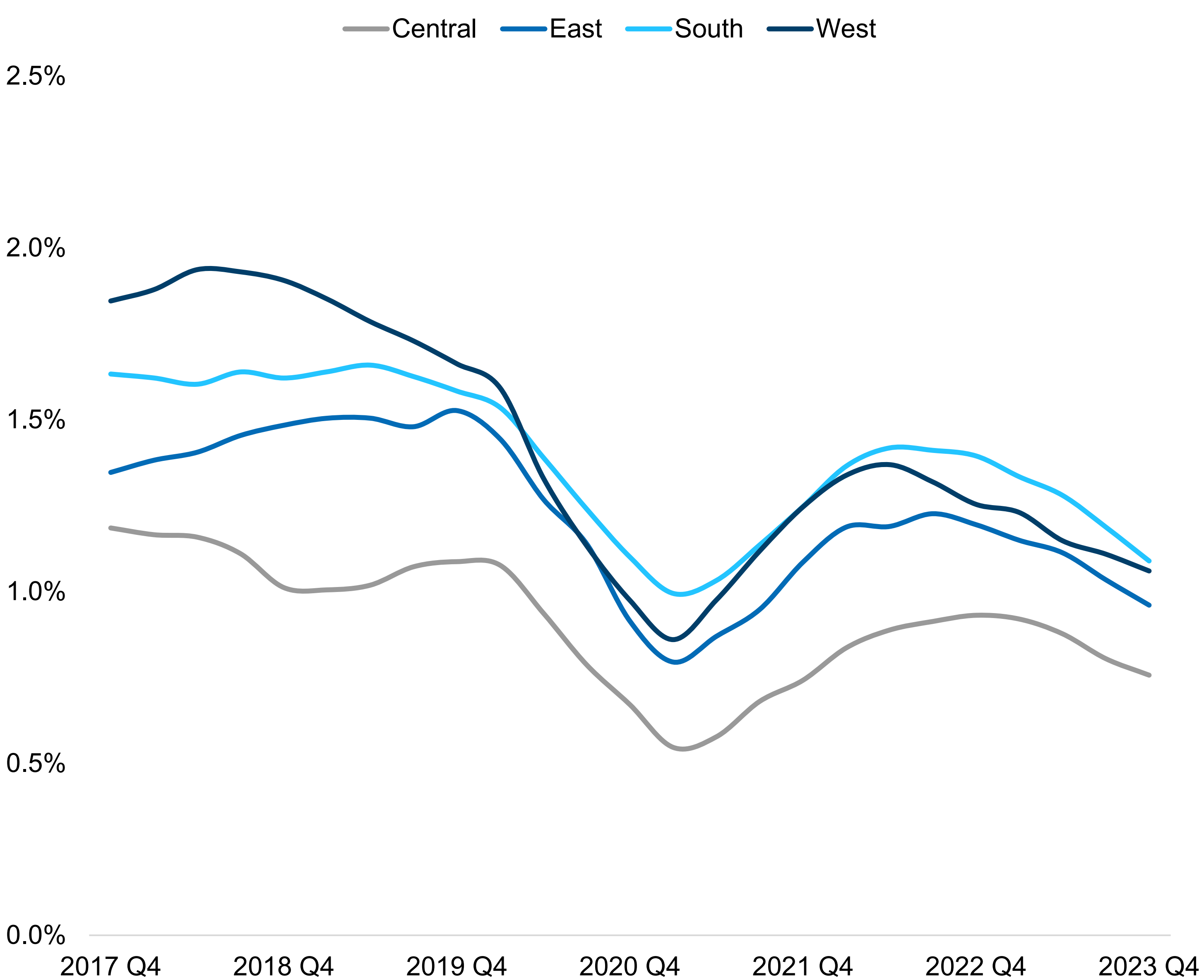


Source: CoStar, Newmark Research

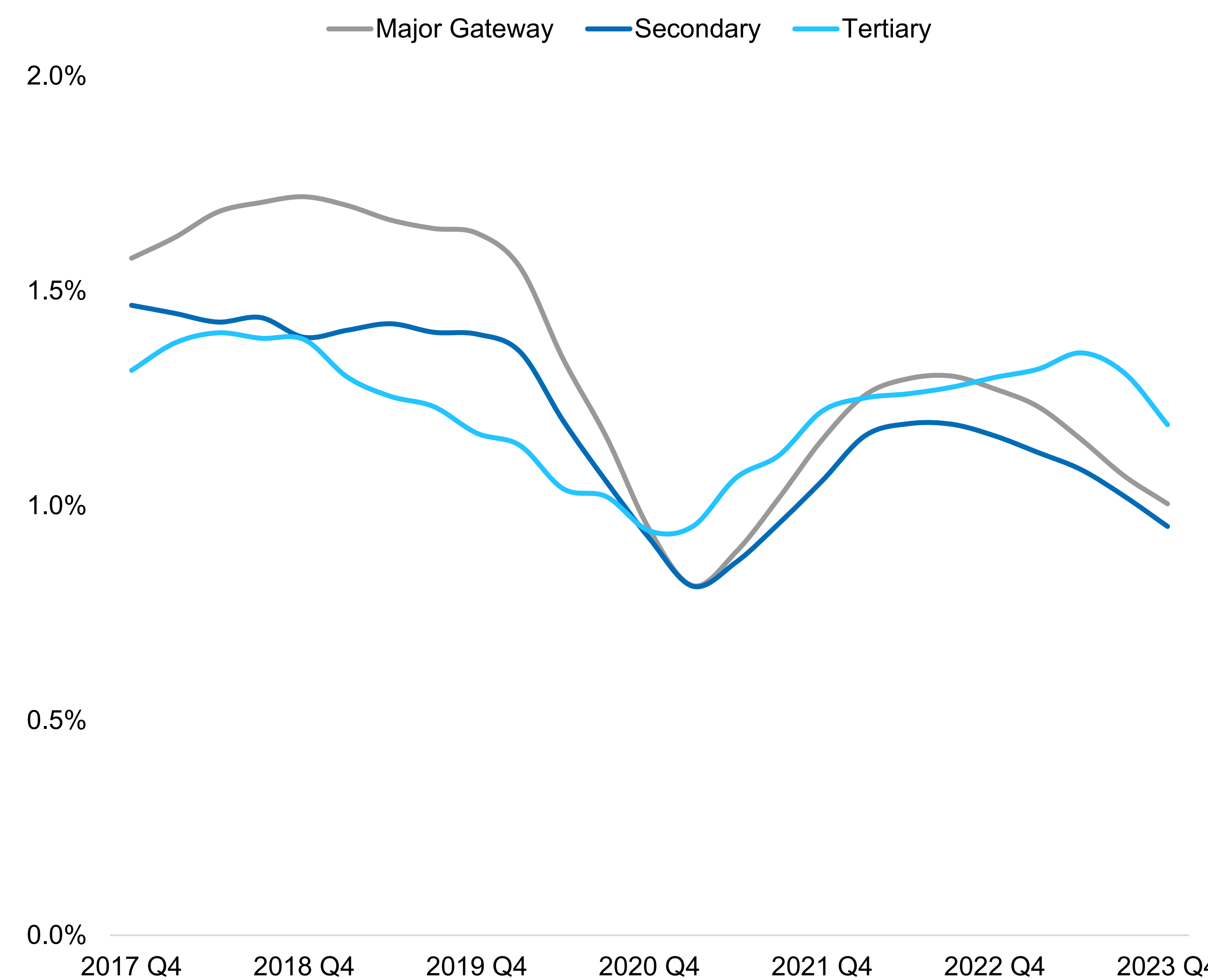
Leasing Activity: Historical Perspective

Most regions and market sizes have seen a slowdown in leasing activity compared to gains in 2022, with tertiary markets being a notable exception.

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



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

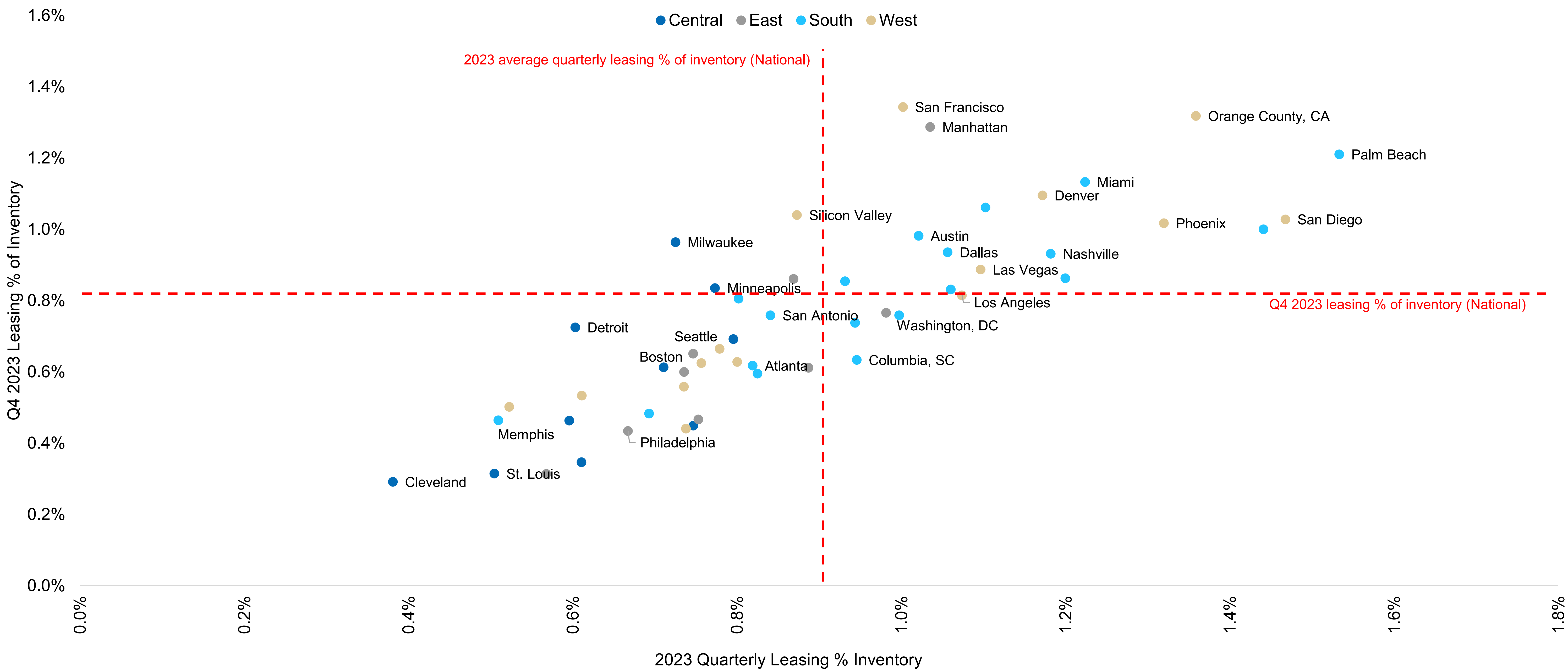


Source: CoStar, Newmark Research

Southern and Western Regions Outperformed the National Average in 2023

Annual average quarterly leasing activity by Newmark-tracked markets ranges from 0.4% of the annual average inventory in Cleveland to 1.5% 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 Average Quarterly vs 2023 Q4 Leasing

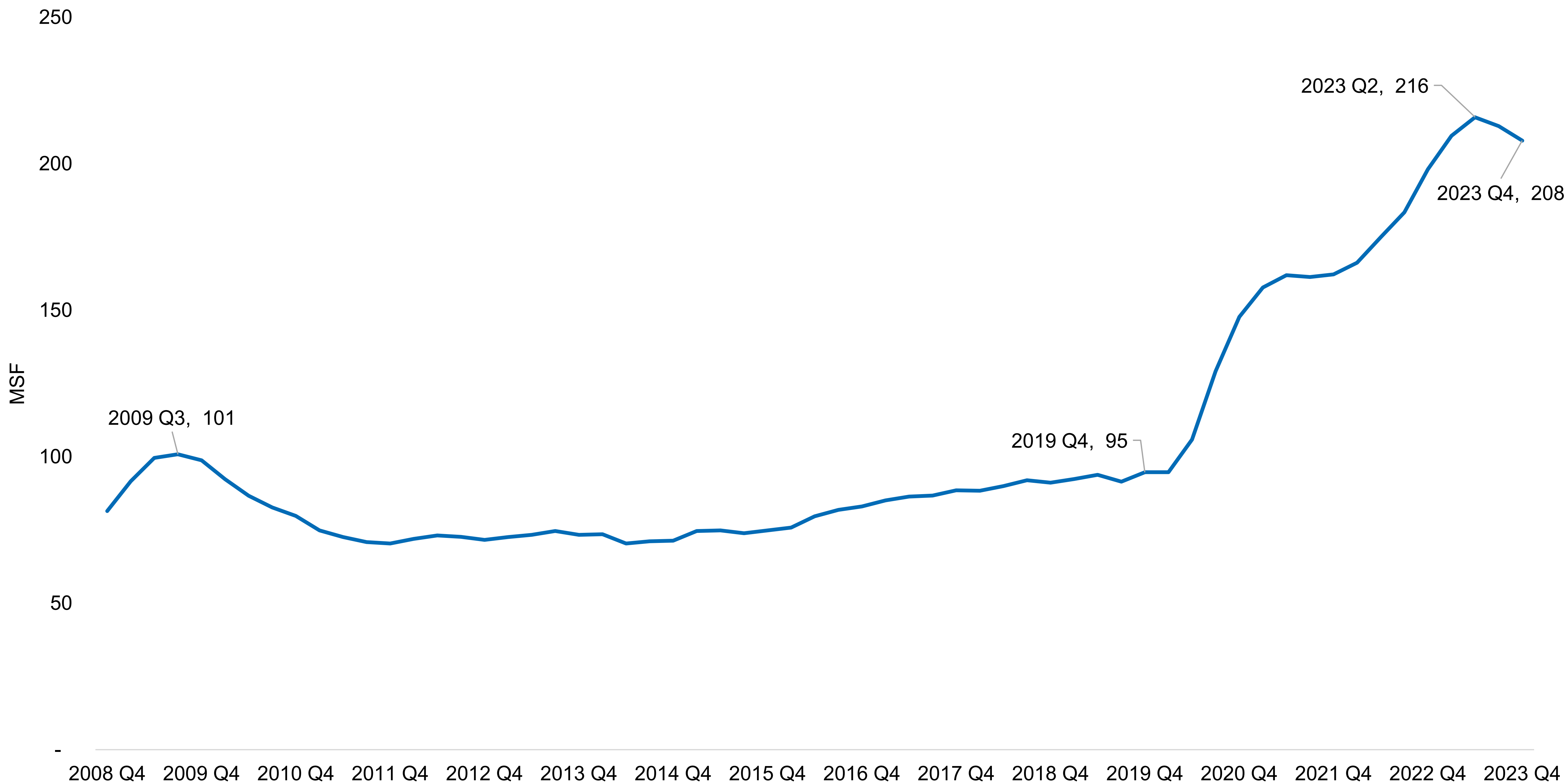


Source: CoStar, Newmark Research

Sublease Availability High but Stable in 4Q23

Sublease availability dipped down in the fourth quarter of 2023, having declined 3.7% from the second quarter of 2023. National square footage available for sublet is currently near an all-time high, totaling 207.9 million SF.

National Sublease Availability

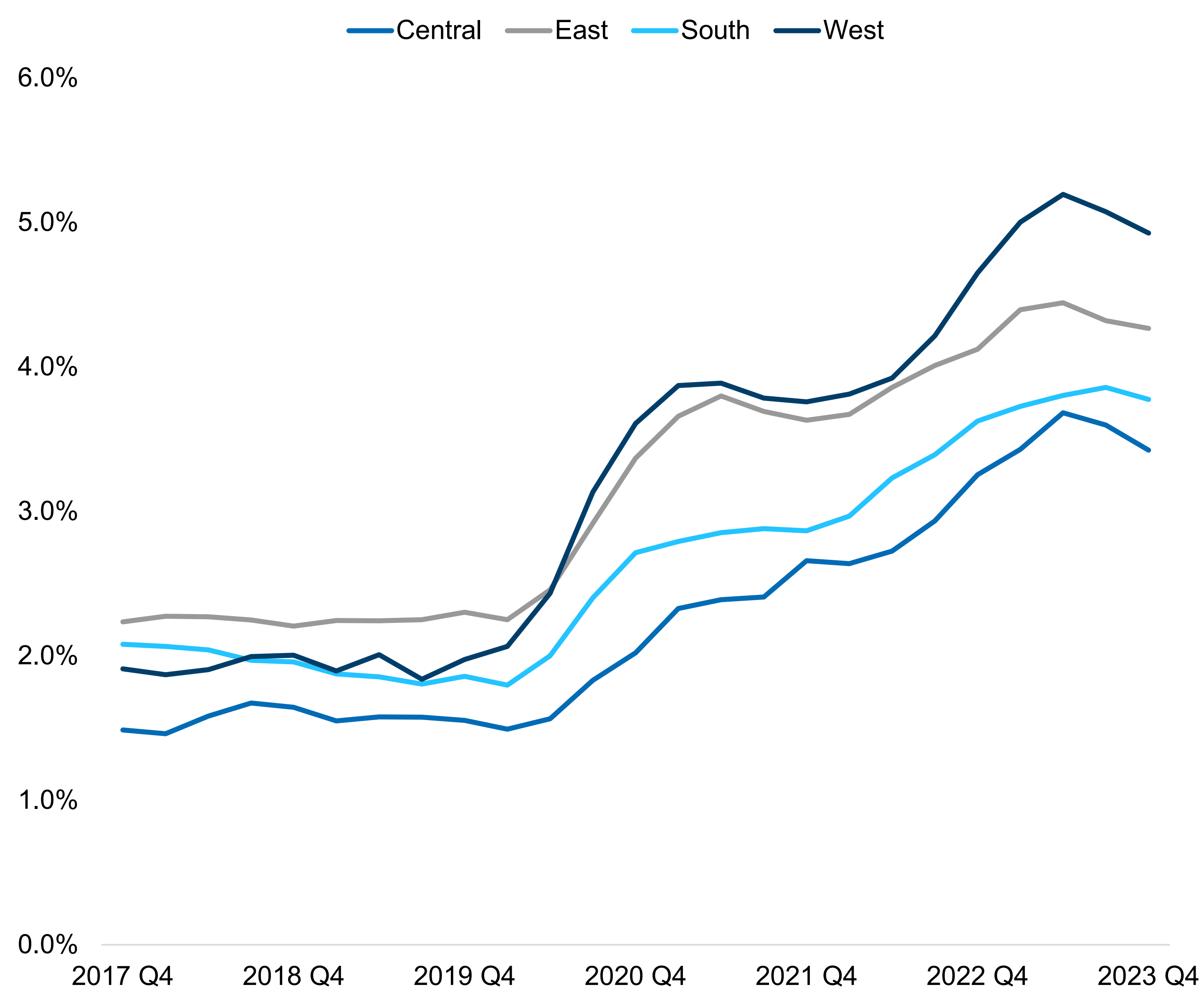


Source: CoStar, Newmark Research

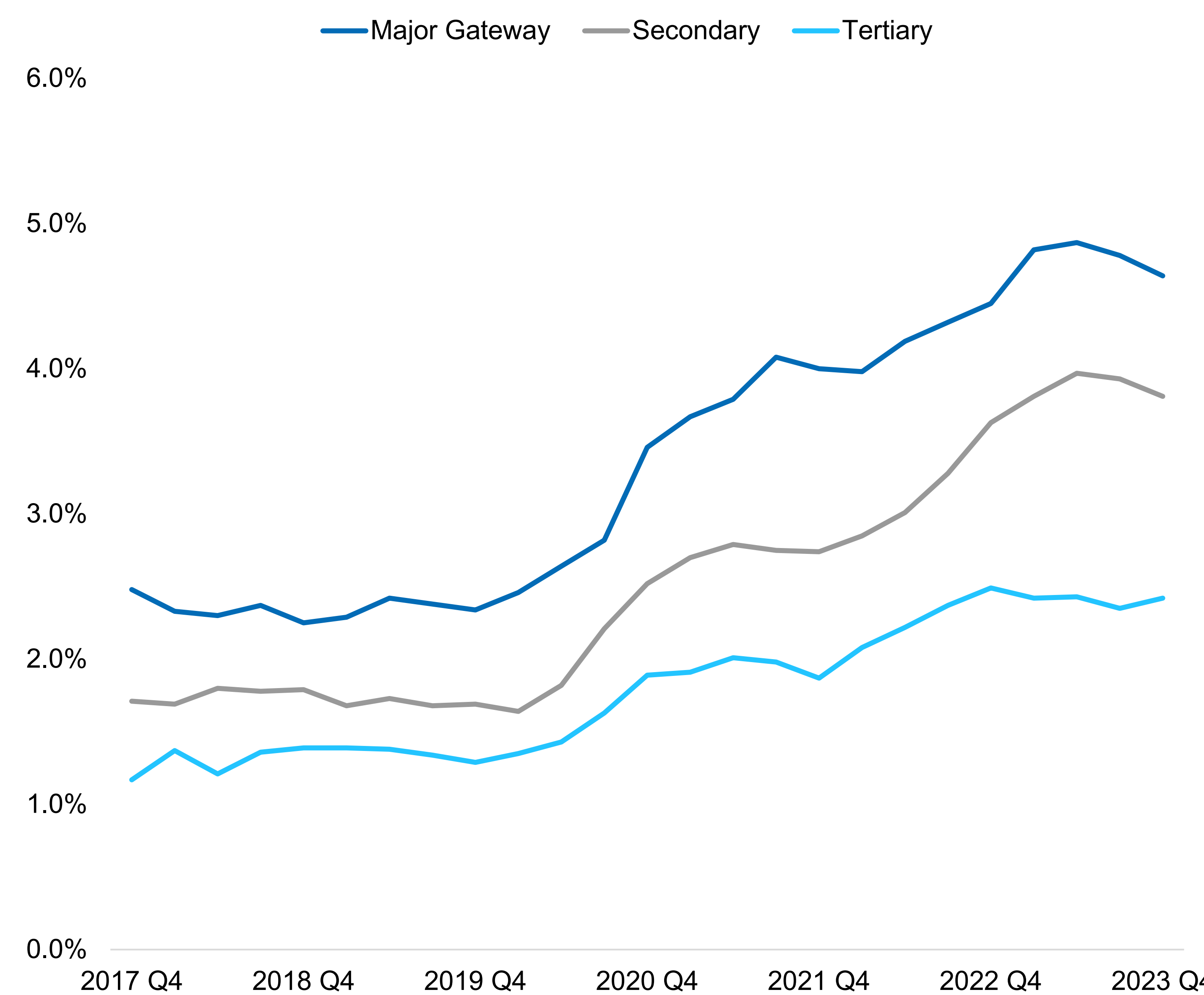
Sublease Availability Significantly Elevated Above Pre-Pandemic Baseline

While sublease availability declined in the fourth 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

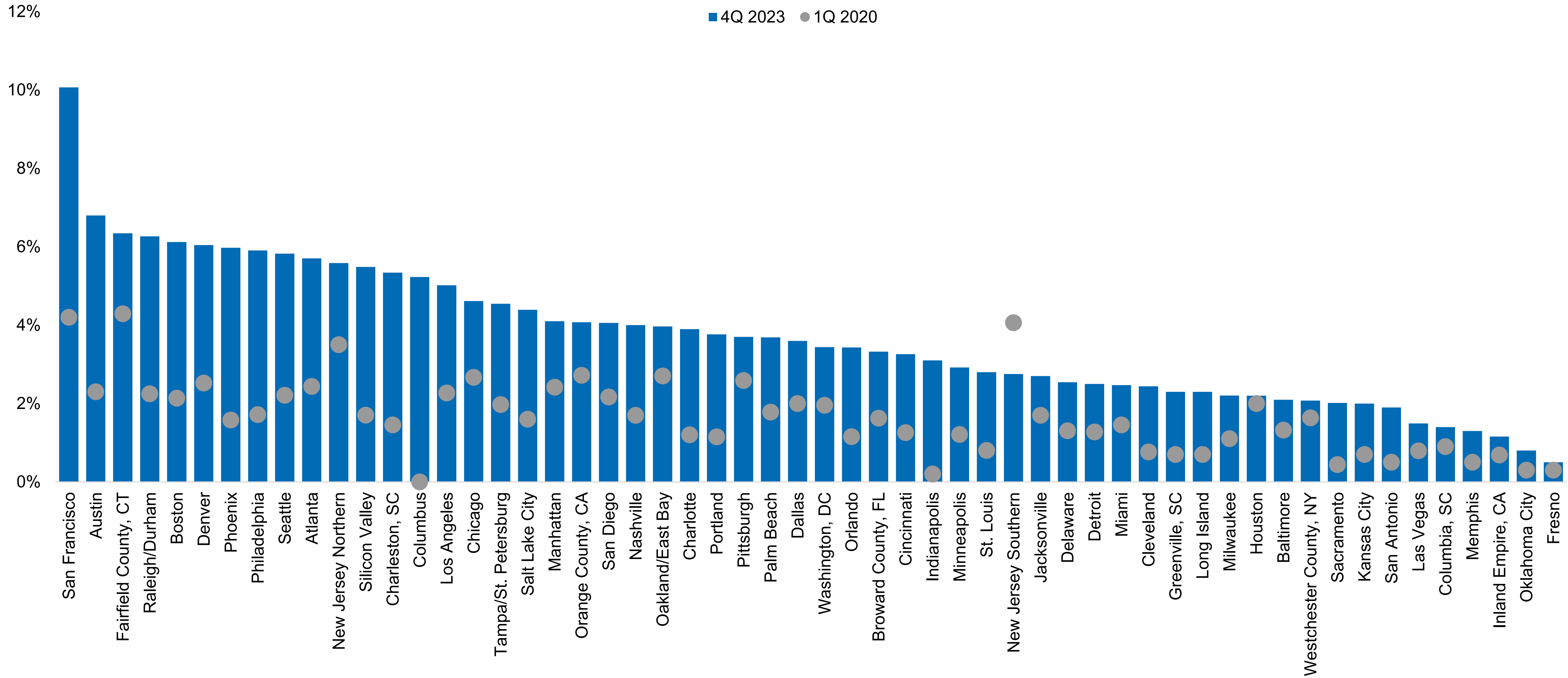


Source: CoStar, Newmark Research

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 Boston. 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.

Current Sublease Availability Rate vs. Q1 2020

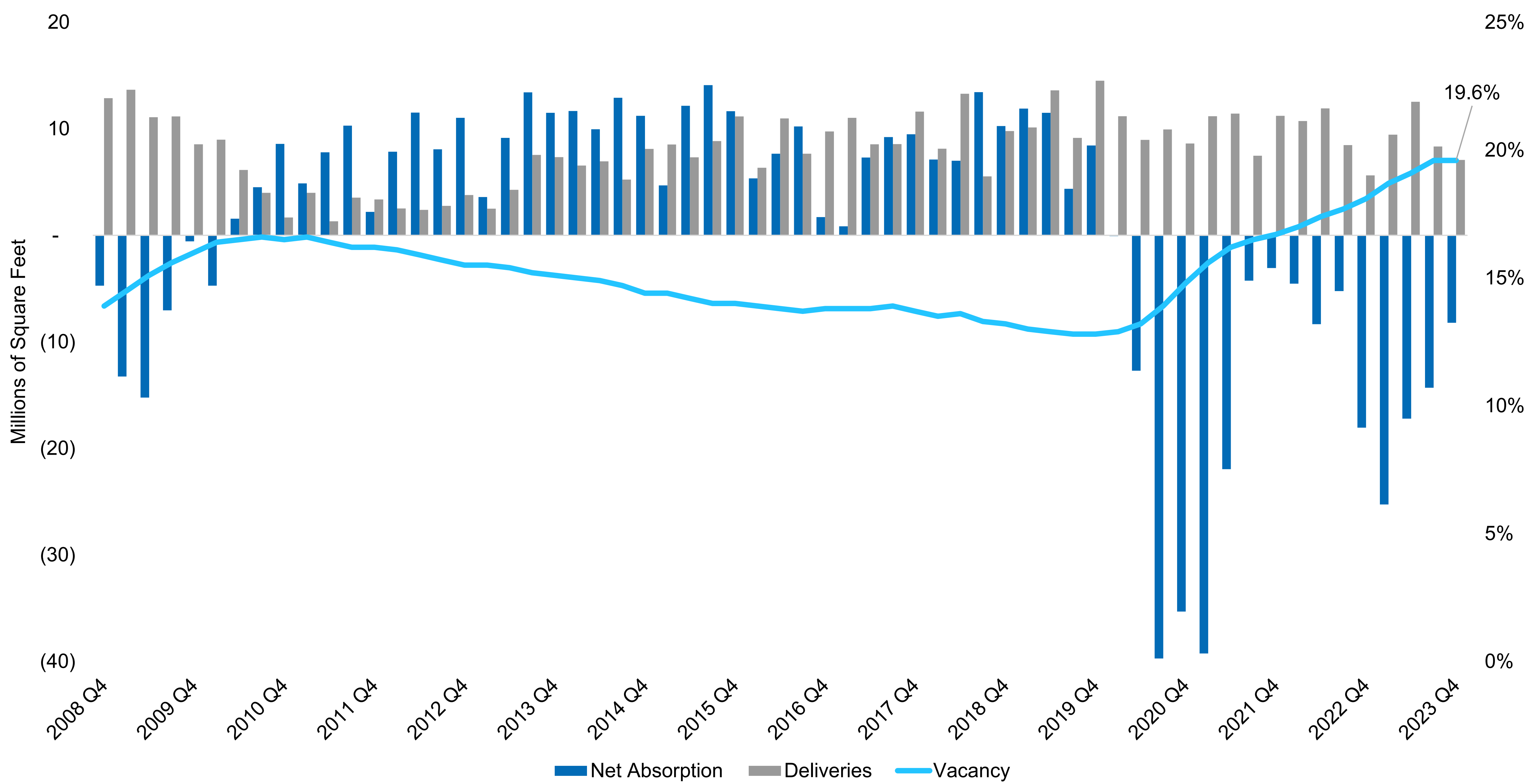


Source: CoStar, Newmark Research

Net Absorption Remained Negative, but Losses have Declined for Three Quarters

Net absorption, though negative, improved on the margin in the fourth quarter of 2023, resulting in space givebacks totaling negative 8.2 million SF. Since the first quarter of 2020, net absorption has totaled over negative 257.4 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 19.6%.

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

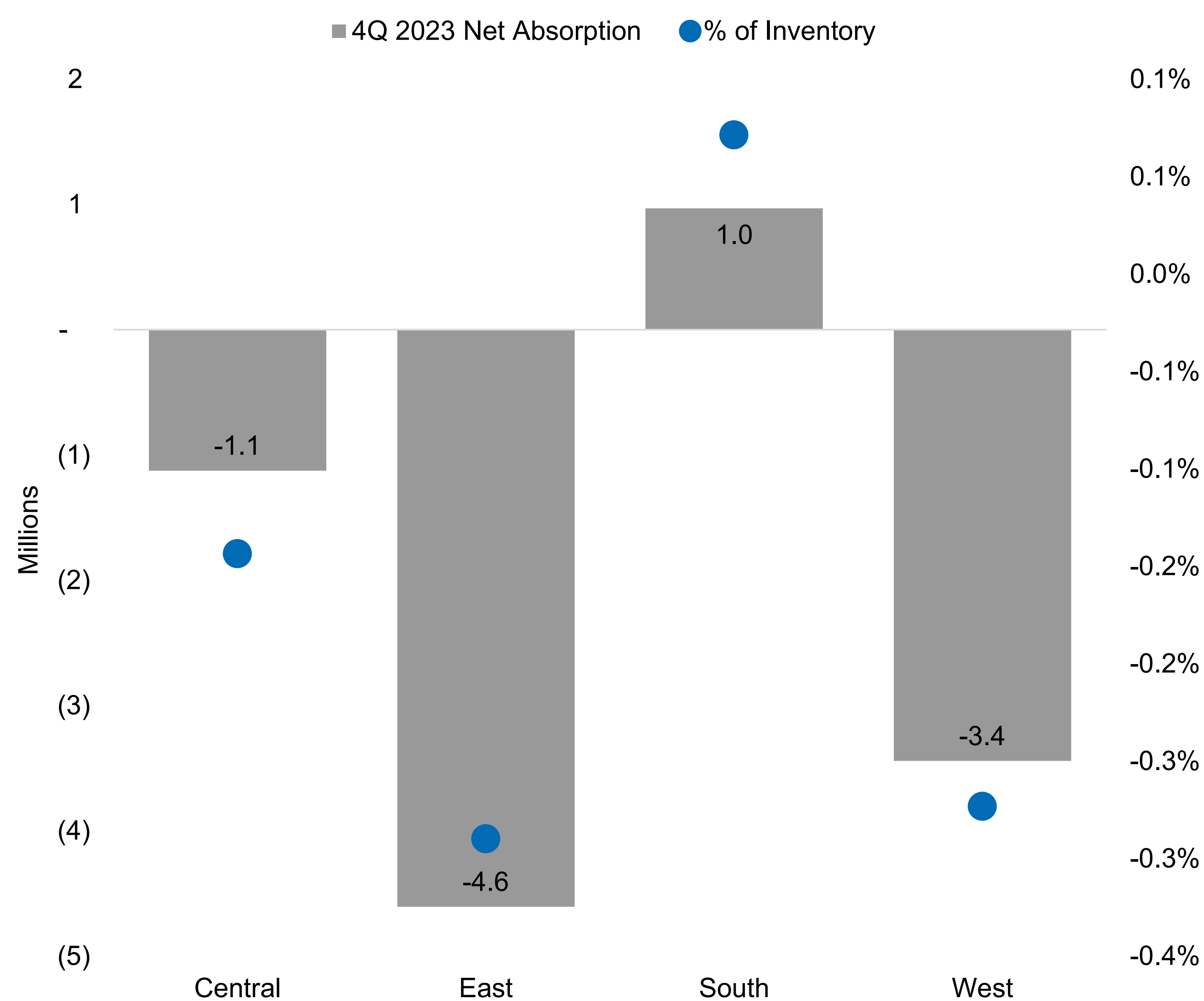


Source: CoStar, Newmark Research

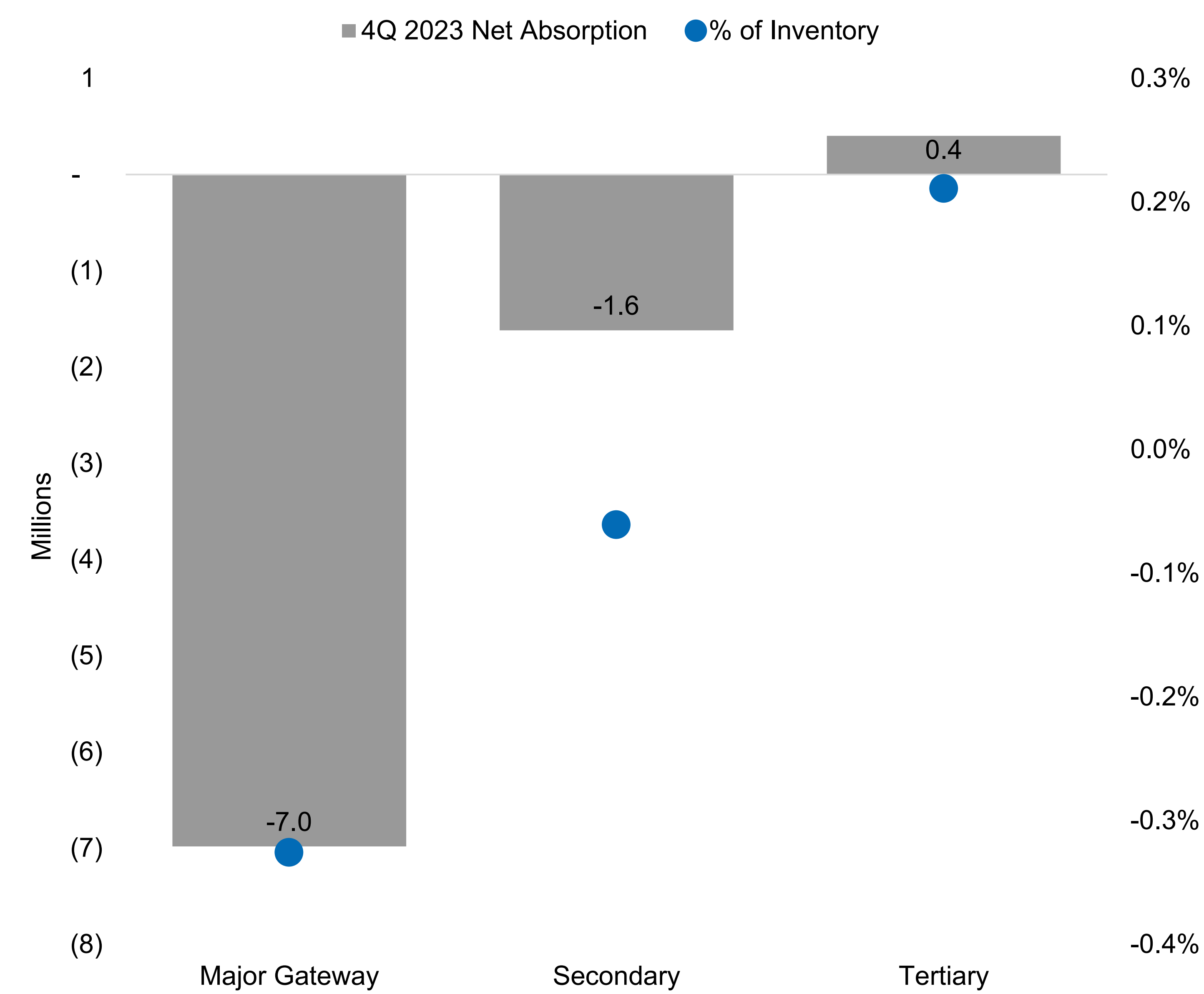
Net Absorption Contracted in 4Q23 in Larger Regions and Market Tiers

Occupancy losses continued to mount in the fourth quarter of 2023, driven most strongly by the Eastern Region, where losses in the fourth quarter of 2023 amounted to negative 4.6 million SF. Losses in major gateway markets amounted to negative 7.0 million SF. Southern markets saw notably positive occupancy growth in the fourth quarter; this was driven by strong gains in the Houston market, where net absorption totaled positive 1.5 million SF.

Regional Net Absorption



Market Size Net Absorption

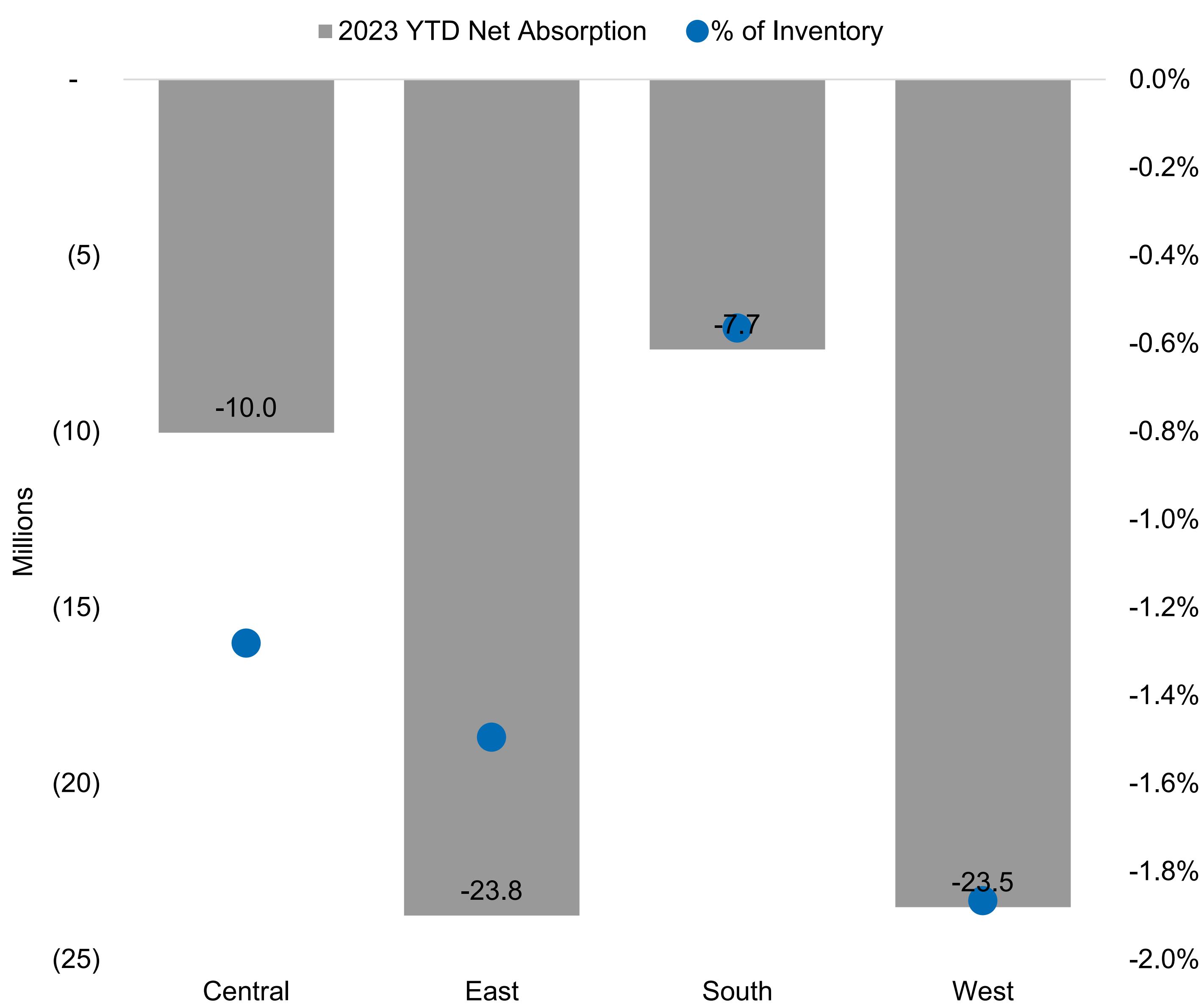


Source: CoStar, Newmark Research

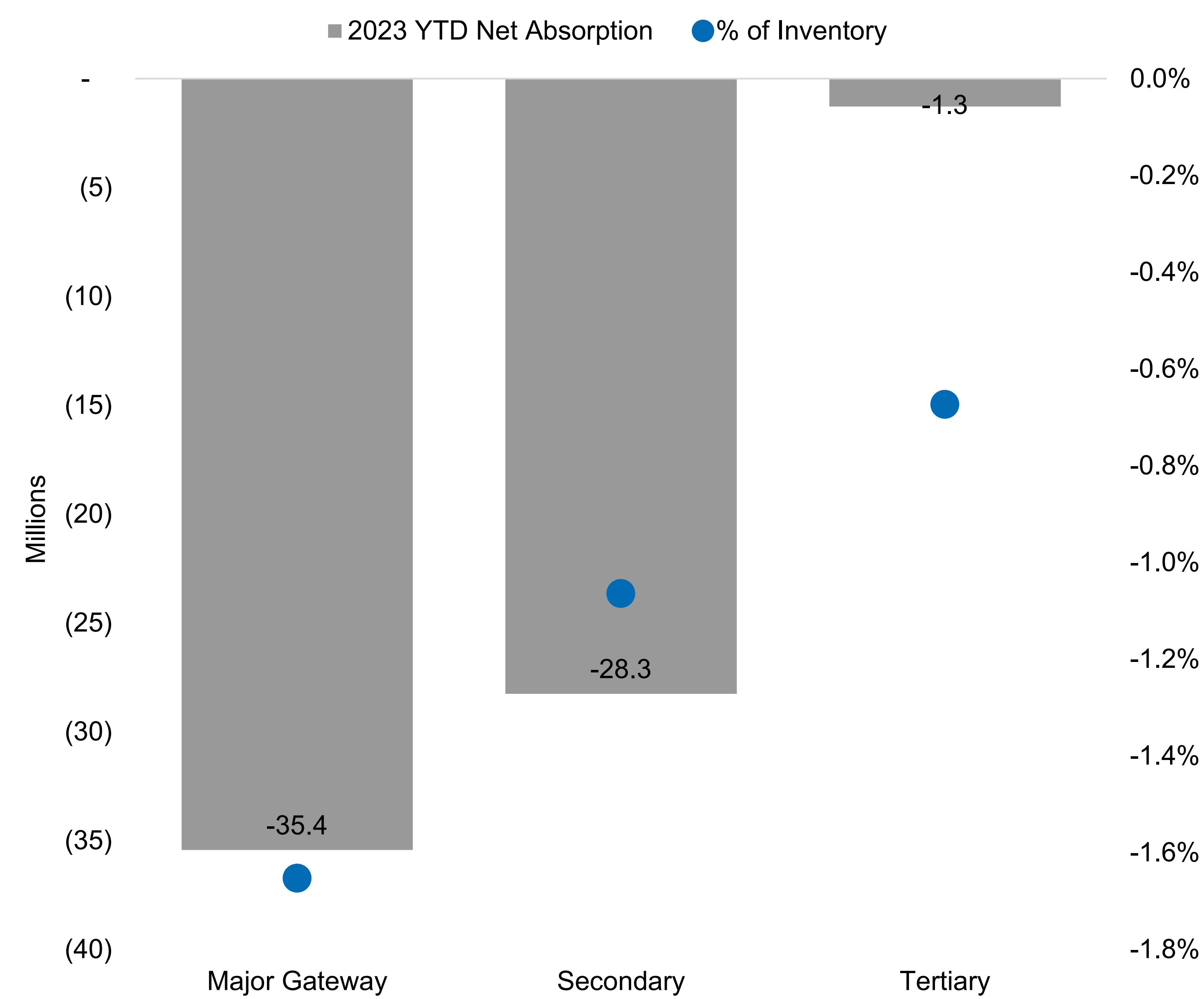
Occupied Space Declined Across Regions and Market Tiers in 2023

Annual net absorption in 2023 was strongly negative across regions and market tiers, with Eastern and Western markets shedding comparable amounts of occupancy over the course of the year. Net absorption totaled nearly negative 65.0 million SF in 2023.

Regional Net Absorption



Market Size Net Absorption

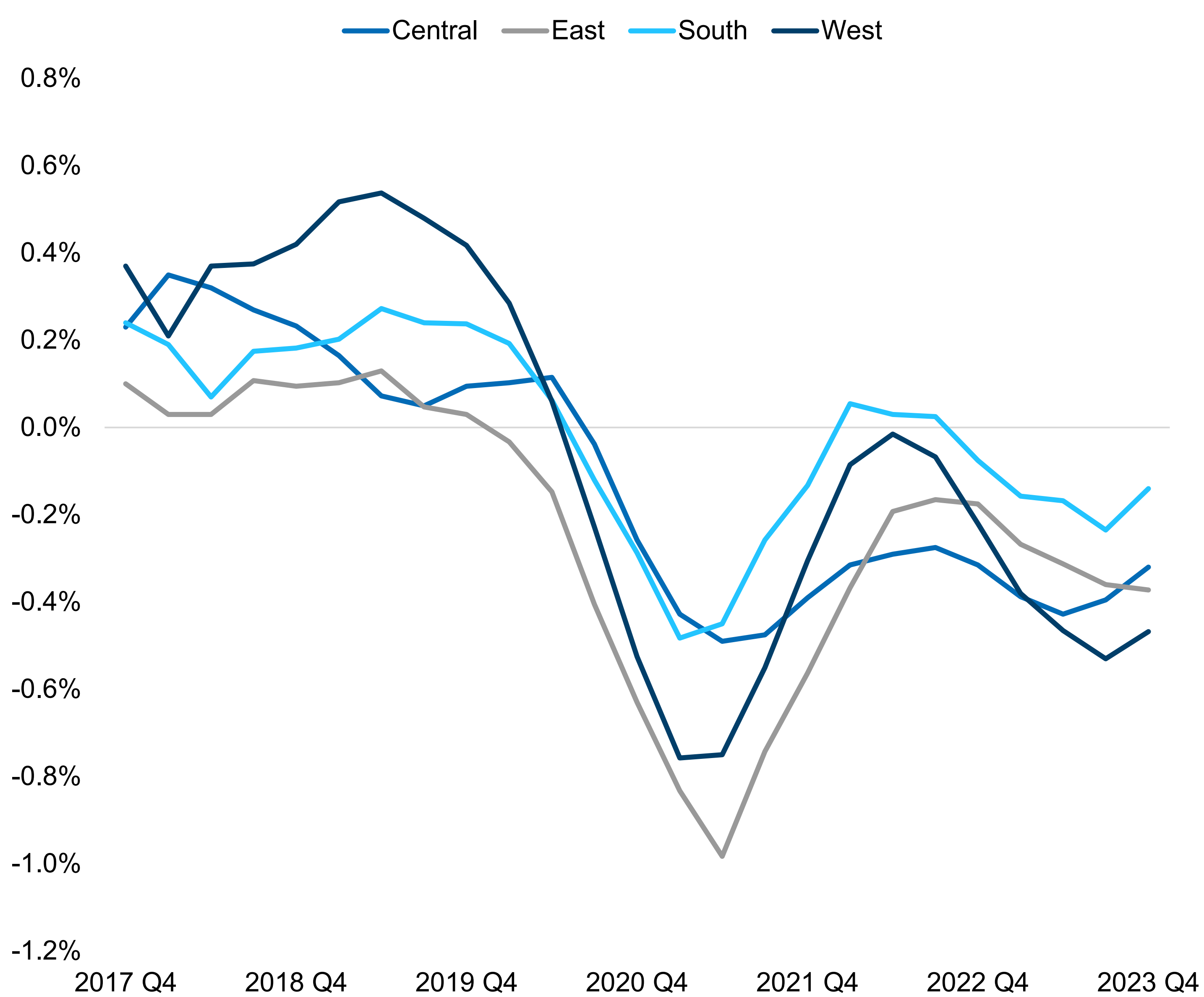


Source: CoStar, Newmark Research

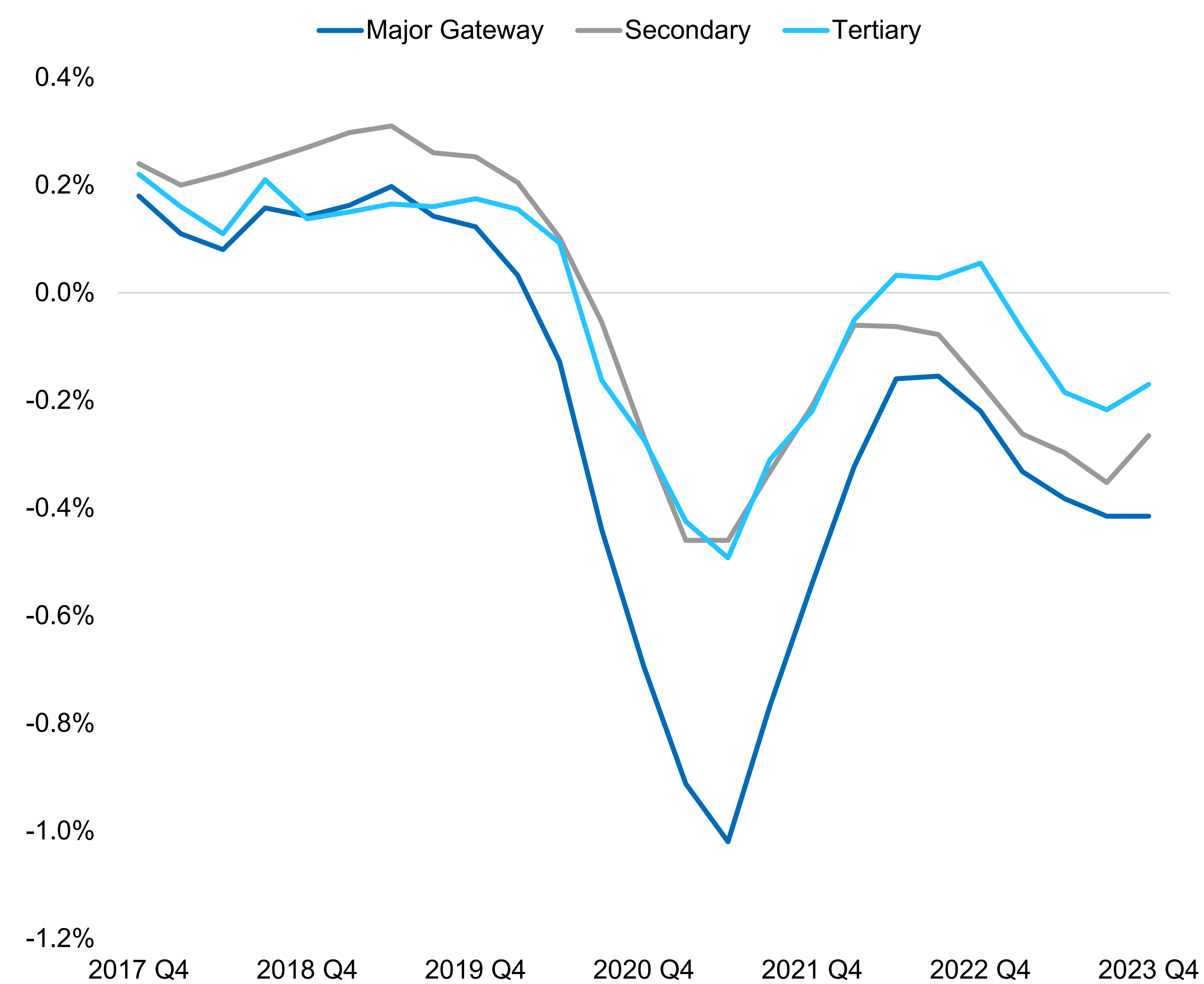
Southern and Tertiary Markets Lead Occupancy Recovery

Despite the volume of givebacks in the fourth quarter of 2023, occupancy decline is improving after elevated losses in 2020. Southern and tertiary markets have consistently outpaced other regions and market sizes across the country.

Regional Net Absorption – 4-Quarter Trailing Average



Market Size Net Absorption – 4-Quarter Trailing Average



Source: CoStar, Newmark Research

Occupied Space Expanded in 26 out of 56 Markets in 4Q23

Net absorption in the fourth quarter of 2023 was notably negative, driven by losses in a variety of large and midsized markets. Only a handful of major 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 Manhattan, Washington DC, San Francisco, Los Angeles, and Boston.

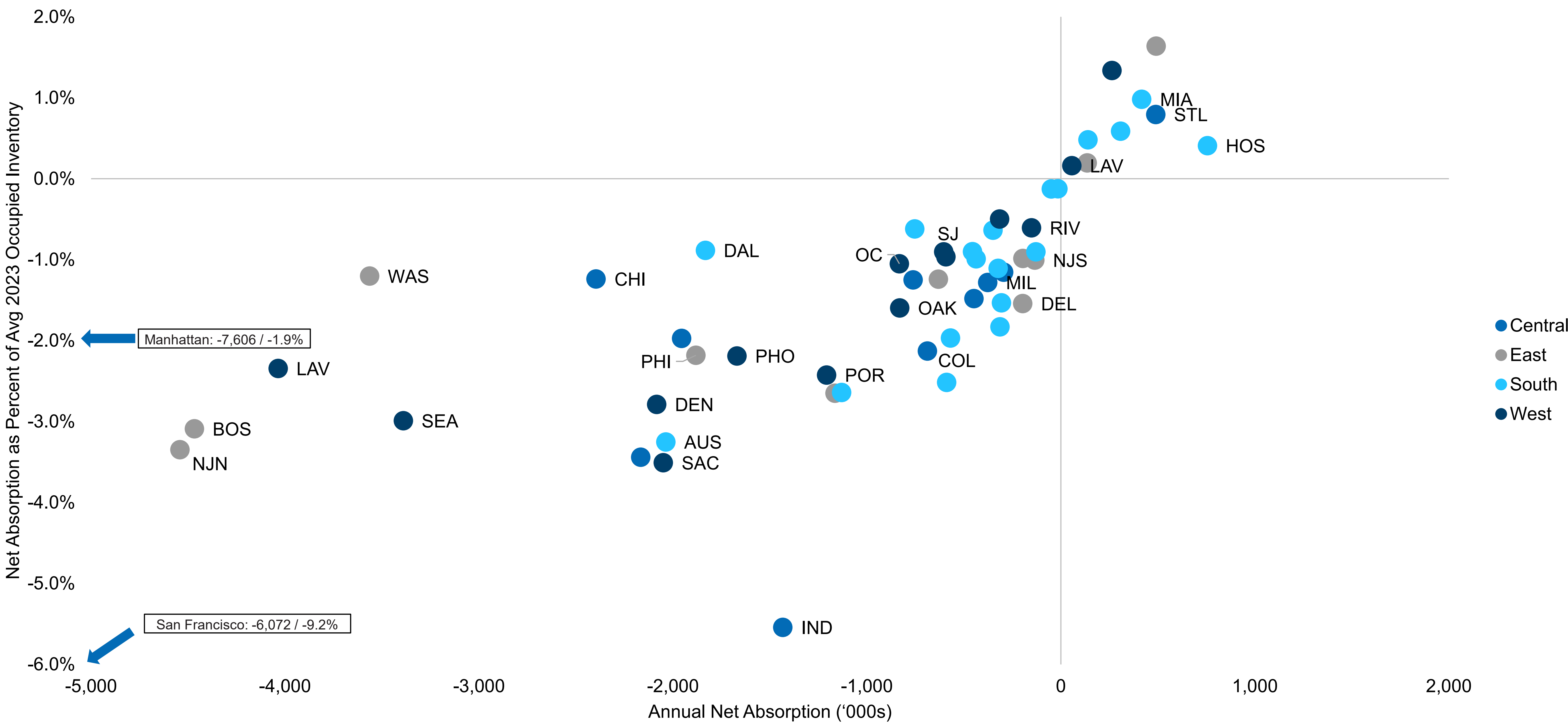
Fourth Quarter 2023 Net Absorption Comparison

Source: CoStar, Newmark Research

Occupied Space Contracted in 47 out of 56 Markets in 2023

From an annual perspective, net absorption was notably negative, amounting to 65.0 million SF over the course of 2023. In Manhattan, occupancy declined by negative 7.6 million SF, the largest volume decline across all national markets. On the West Coast, San Francisco saw occupancy decline by negative 9.2% of its average 2023 inventory, the largest percentage decline across all national markets.

2023 Annual Net Absorption Comparison

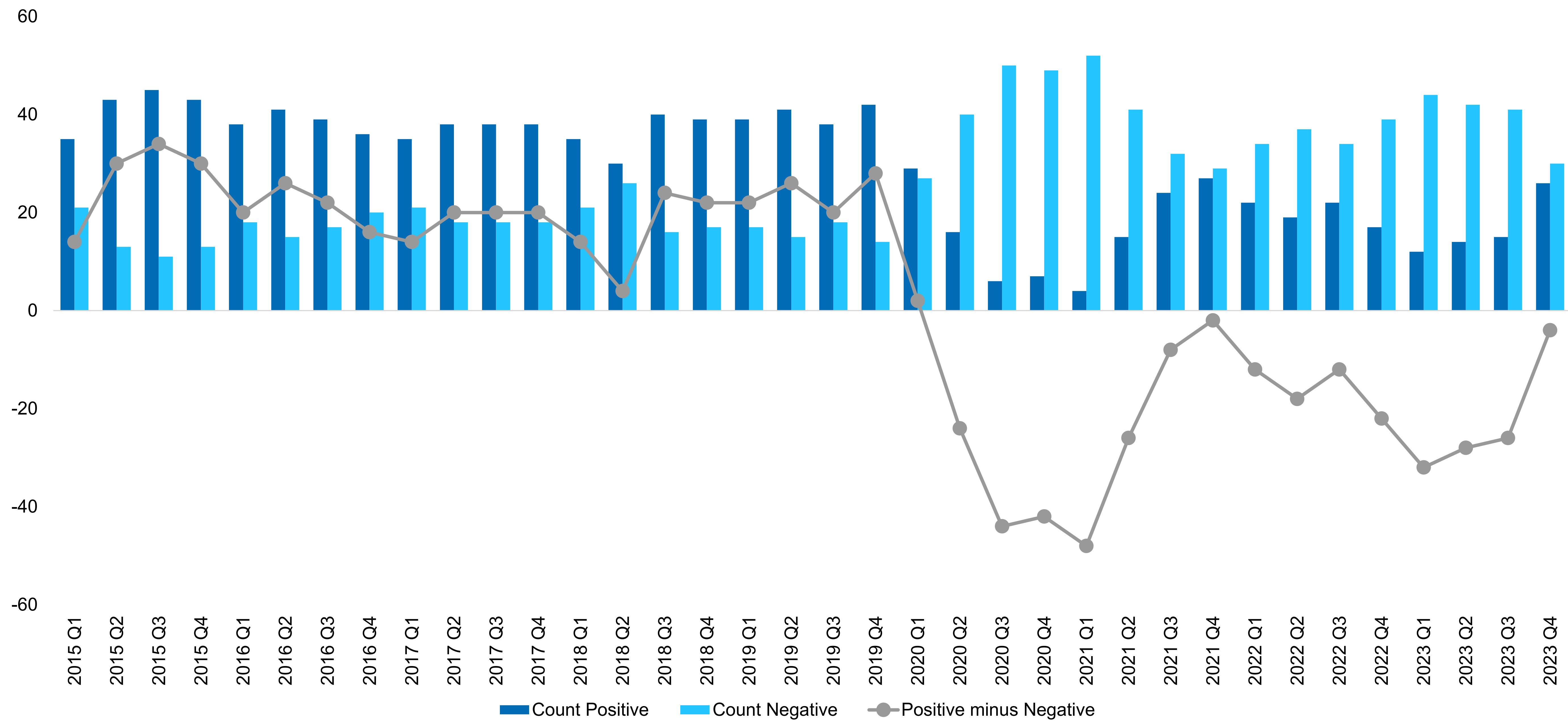


Source: CoStar, Newmark Research

Net Absorption: 15 Consecutive Quarters of Negative Diffusion

26 markets recorded positive net absorption in the fourth quarter of 2023 while 30 recorded negative net absorption, giving a diffusion index of negative 4.0 for the fourth quarter of 2023. Since the second quarter of 2020, an average of 40 markets have recorded quarterly negative net absorption, with an average diffusion index of negative 23.2.

Positive vs. Negative Net Absorption Markets

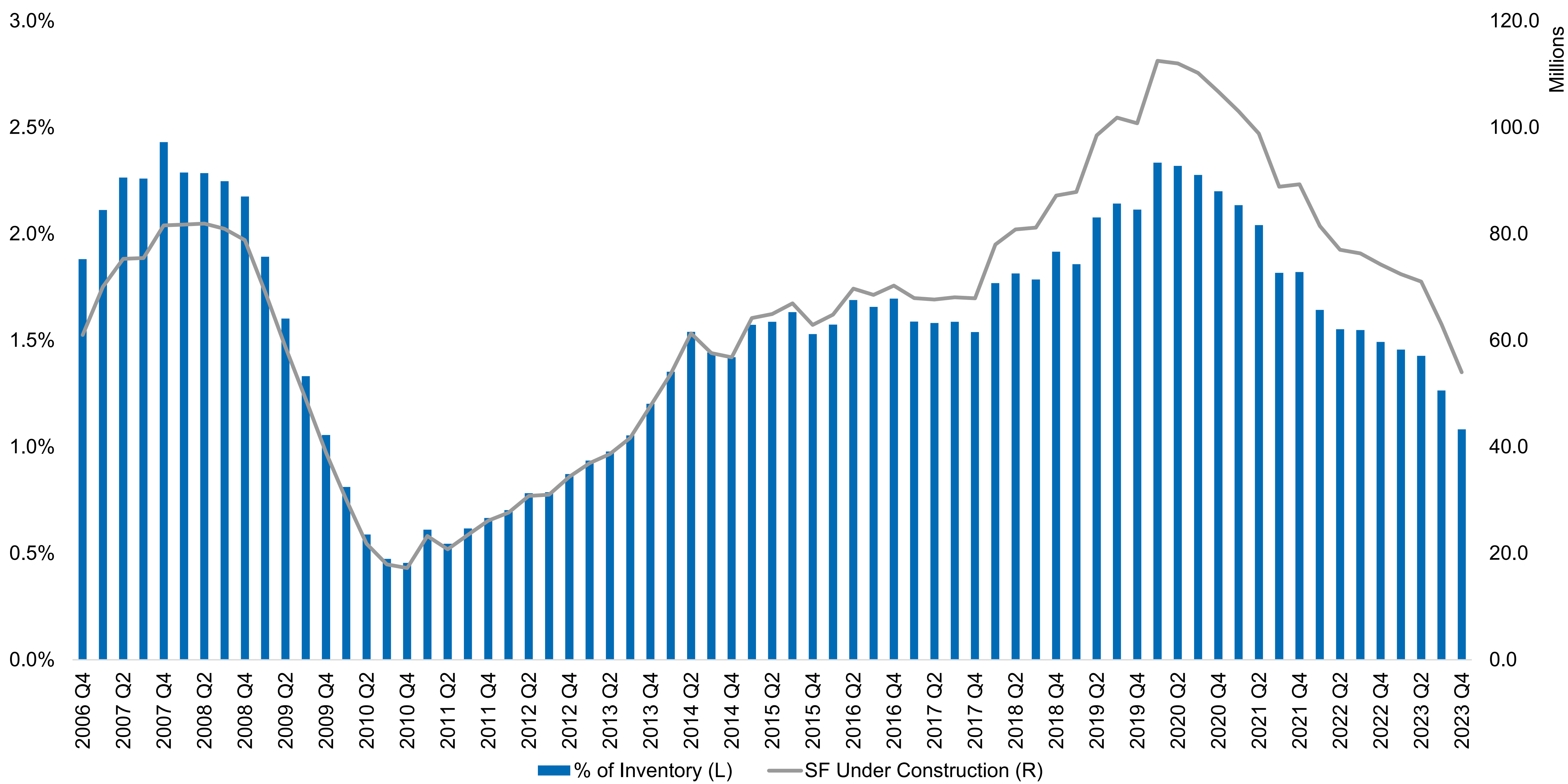


Sources: CoStar, Newmark Research

Office Construction Pipeline Contracts at Measured Pace

Office space under construction peaked in early 2020 at nearly 112 million SF but has slowed as the pandemic influenced office demand in the years since. Construction activity inched down in the fourth 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

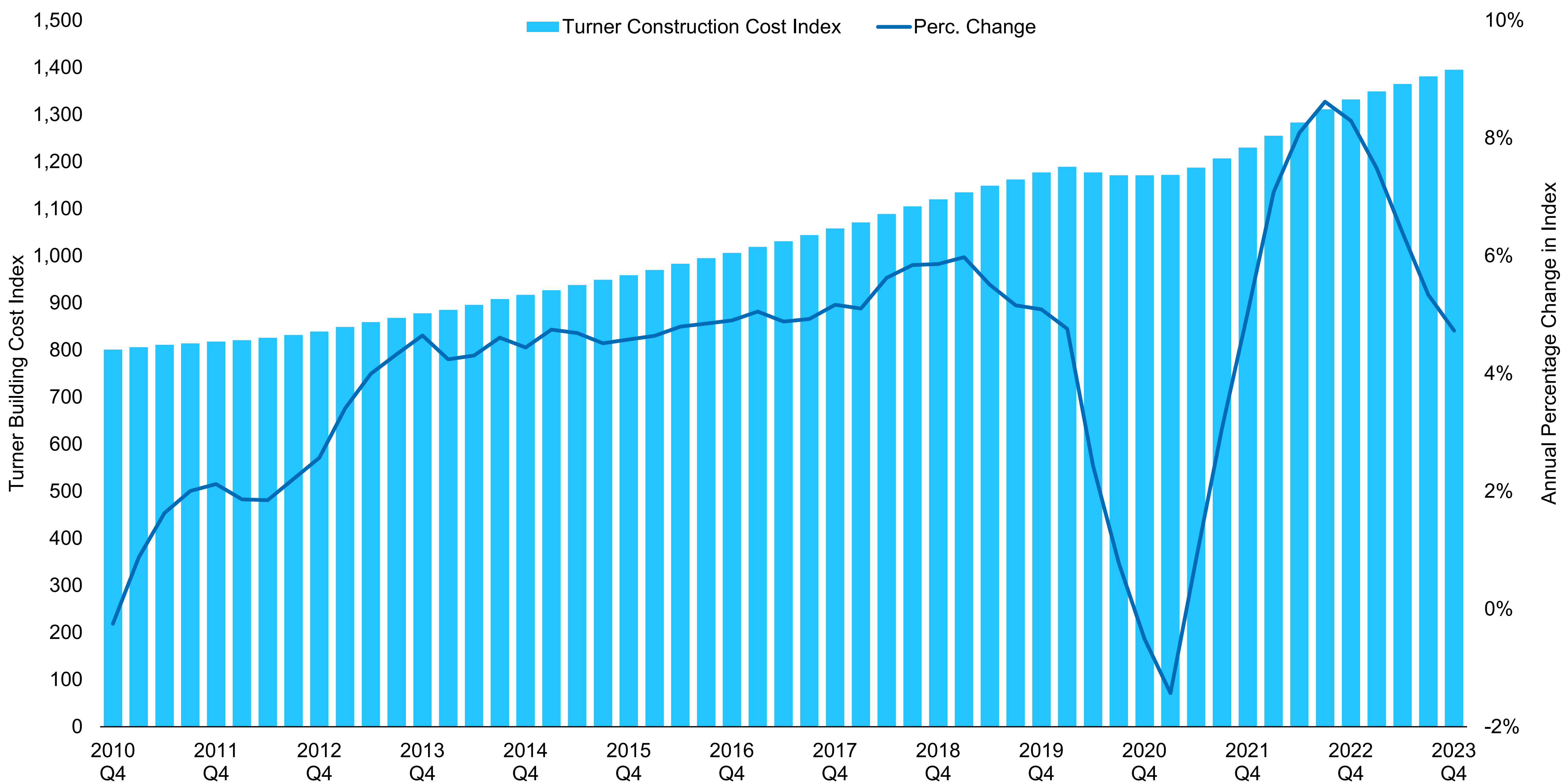


Sources: CoStar, Newmark Research

Office Construction Cost Growth Decelerated in 2023

Inflationary pressures continued softening in 2023, and construction pricing appeared to respond in the fourth quarter of 2023. 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 fourth quarter of 2023, it remains high at nearly 4.7%.

Turner Building Cost Index

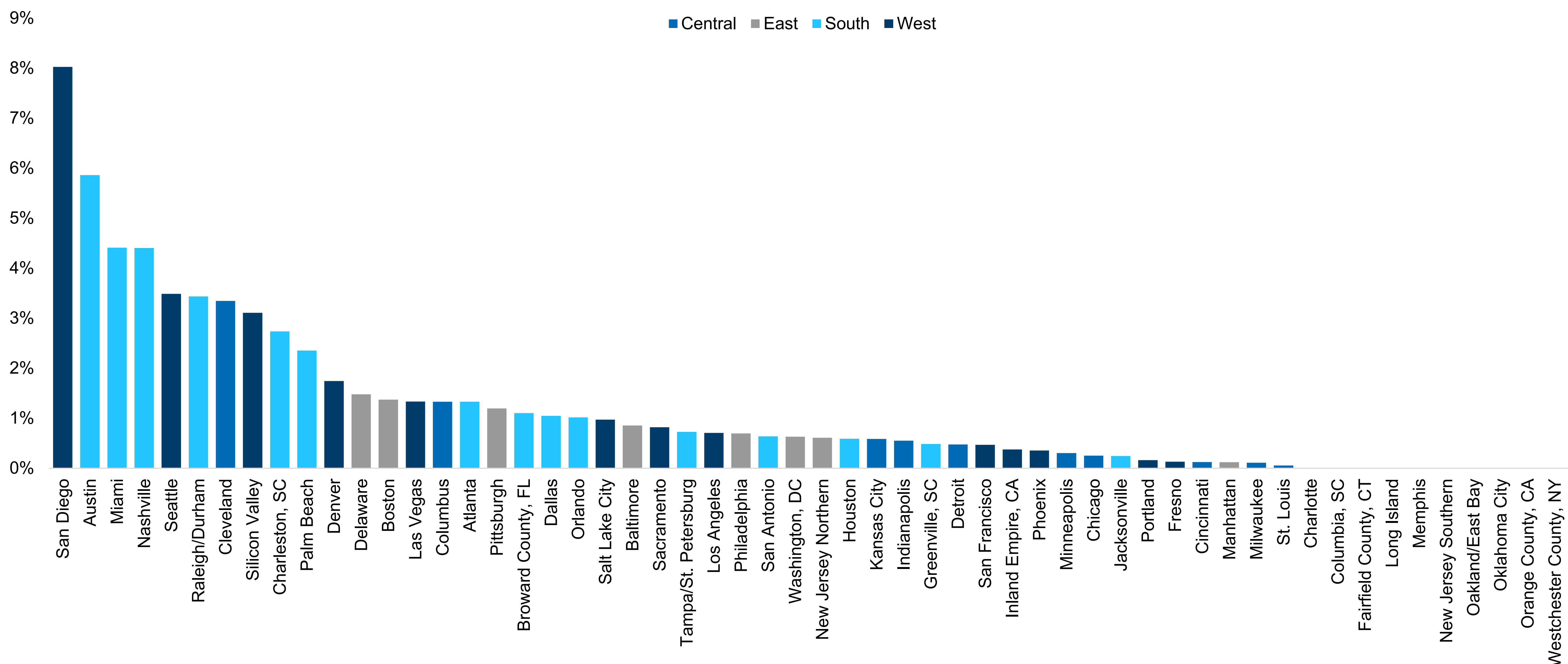


Source: Turner Construction, Newmark Research

Percent of Inventory Under Construction Highest in Western and Southern Regions

Comparing supply and demand with the percentage of inventory currently under construction gives a clearer picture of which markets are overbuilding and underbuilding. Western and Southern markets lead the country in this metric, with San Diego's pipeline representing 8.0% 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, Manhattan's under-construction total represents only 0.1% of its inventory, despite leasing activity eclipsing that pipeline by over 4,000%, suggesting the market is underbuilding.

2023 Under Construction as Percent of Inventory

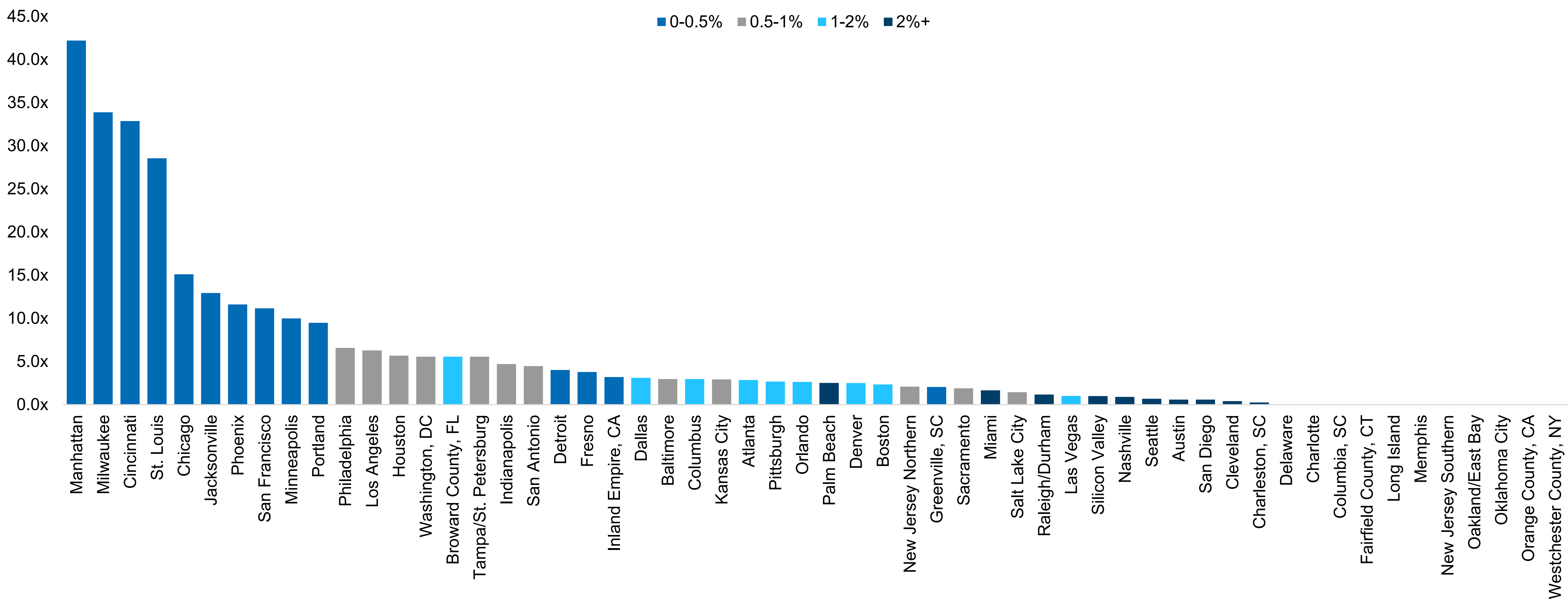


Source: Costar, Newmark Research

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 Manhattan, Milwaukee, and Cincinnati 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

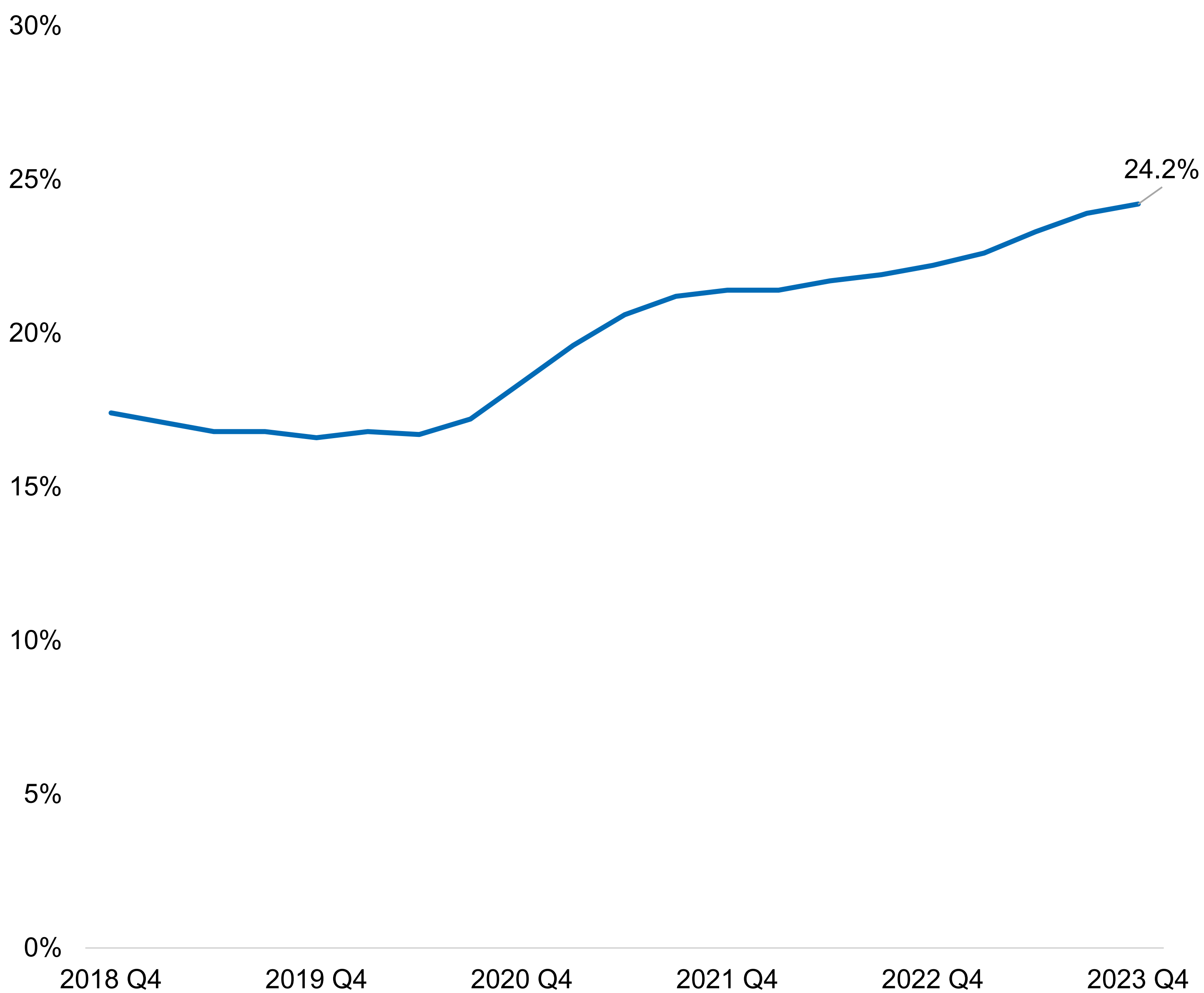


Source: Costar, Newmark Research

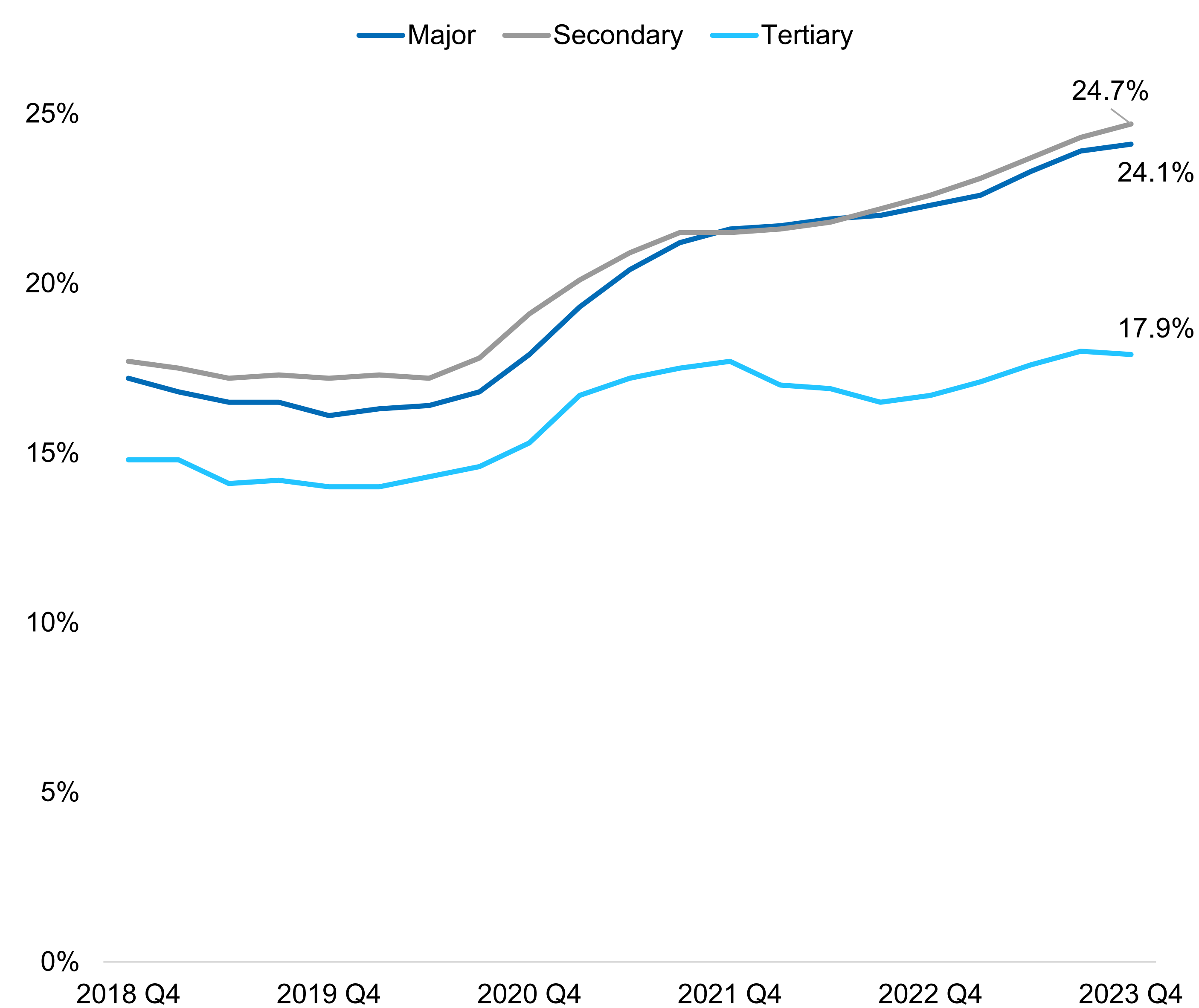
Availability Rates Have Not Yet Peaked

With the vacancy rise, overall availability rose as well in the fourth quarter of 2023 and is notably 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

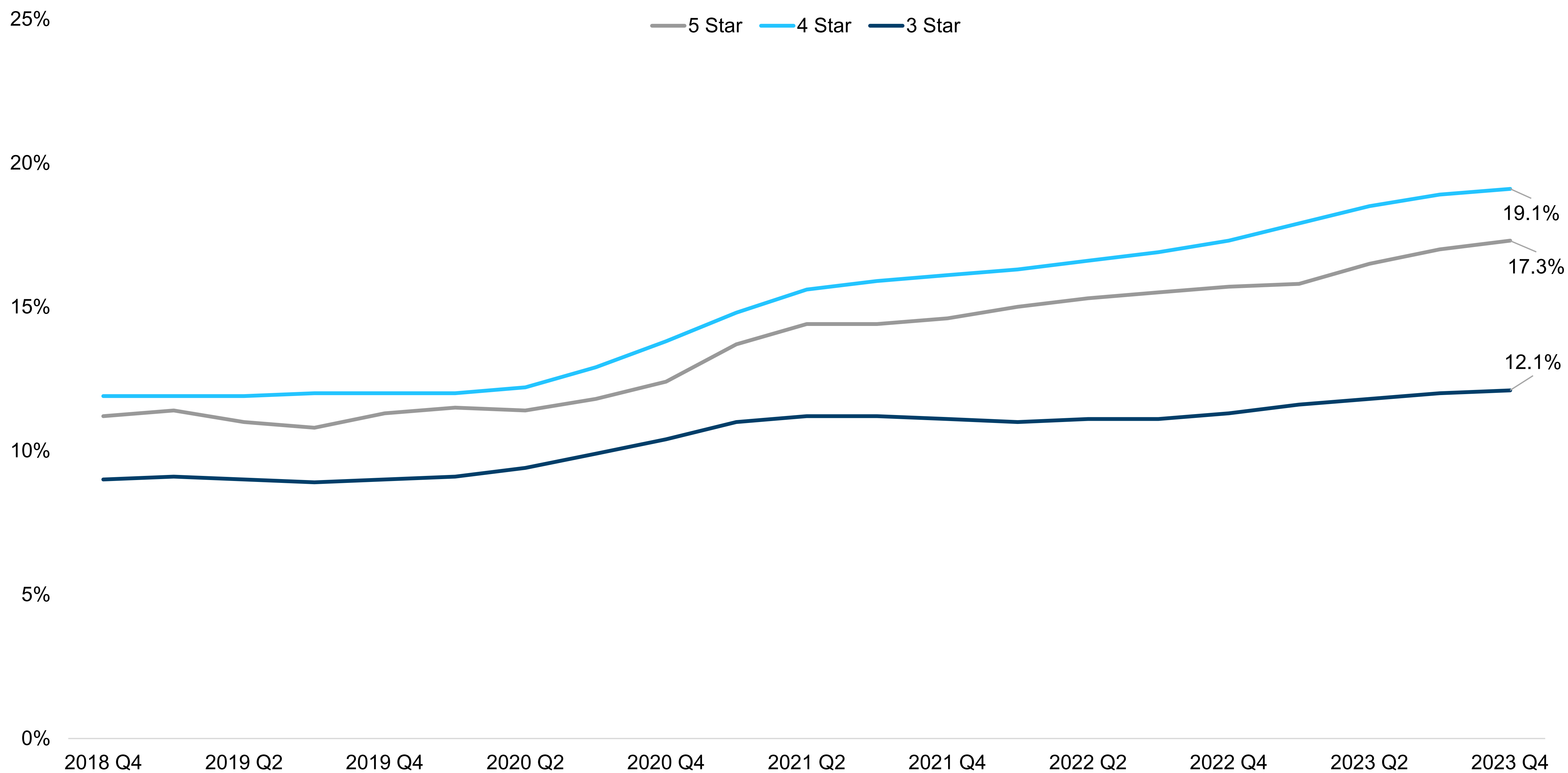


Sources: CoStar, Newmark Research

Vacancy Rates Continue to Rise Across Building Grades

There is a disconnect between the well-attested preference for high-quality office space by investors and large tenants and data. CoStar is just one example that shows middle-tier outperforming upper-tier product on an occupancy basis. Partly, this seems to be due to a large performance gap between trophy office – the top 5% to 10% of a market – and commodity Class A, proxied here by 4- and 5-star properties. Class A owners arguably have yet to capitulate on rents to a sufficient degree to siphon demand from lower-quality buildings.

Costar Office Market Vacancy Rate By Class

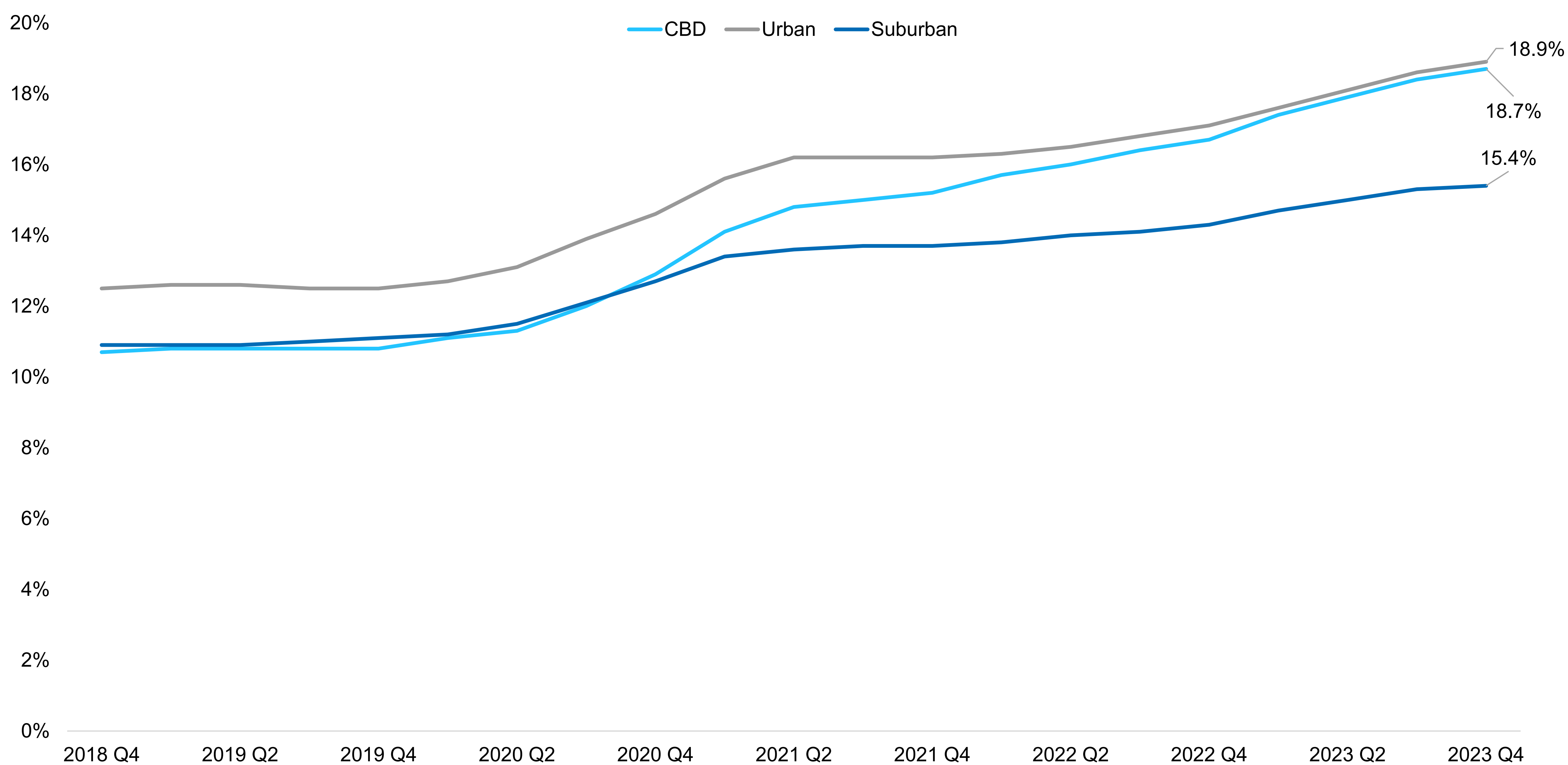


Source: CoStar, Newmark Research

Urban and CBD Vacancy Remains Notably Elevated

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. Since mid-2020, there has been a distinct bifurcation between CBD and Urban office vacancy, where demand is softer, and Suburban office vacancy.

Costar Office Market Vacancy Rate By Urbanization Level

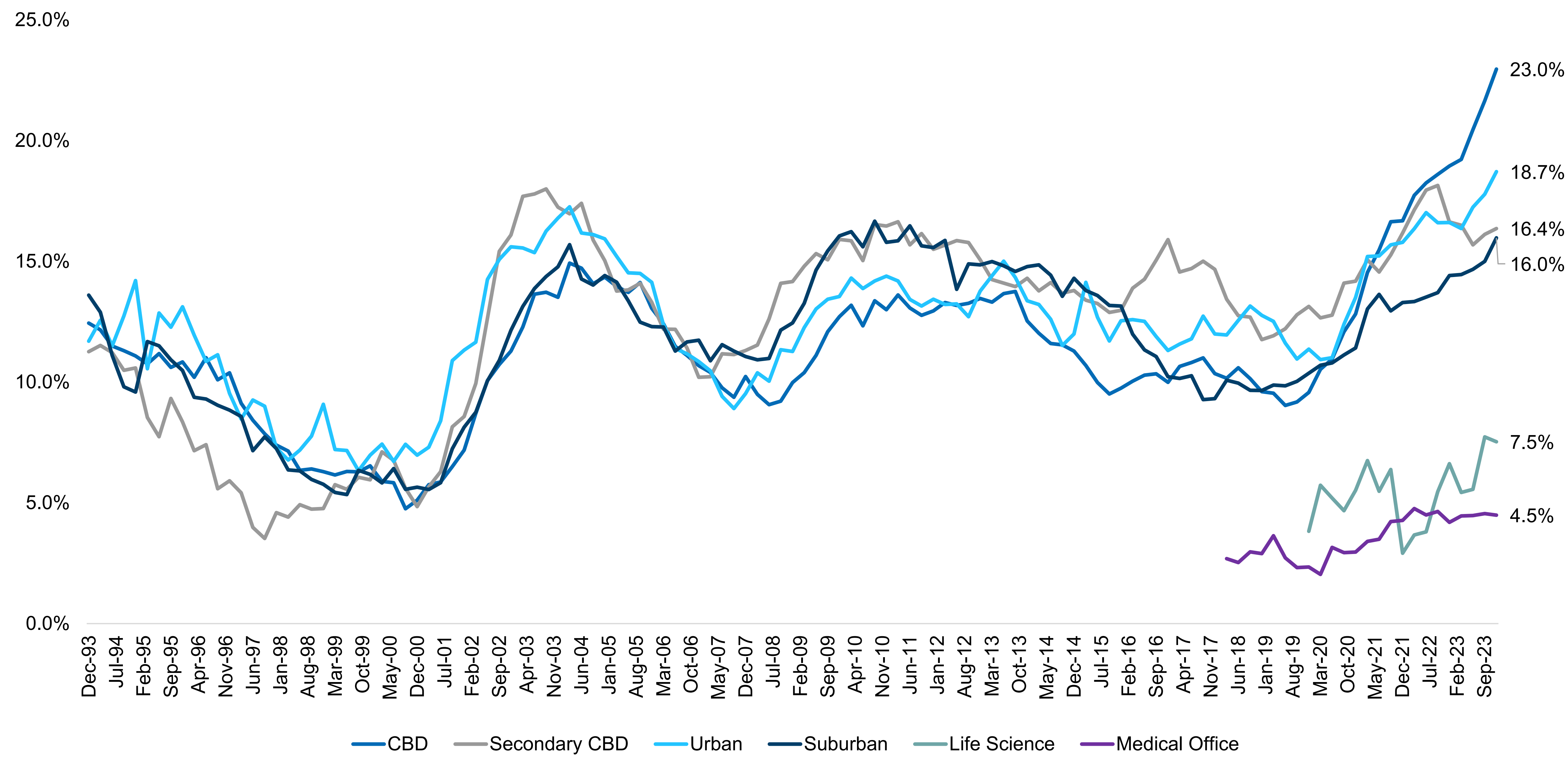


Source: CoStar, Newmark Research

CBD Office Most Impacted While Suburban Office and Niche Categories Outperform

CBD office buildings in NCREIF member portfolios have the highest availability rates. This contrasts with historical experience, where CBD offices experienced shallower downturns and quicker recoveries. Suburban office holdings have been impacted as well, but to a lesser extent. 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

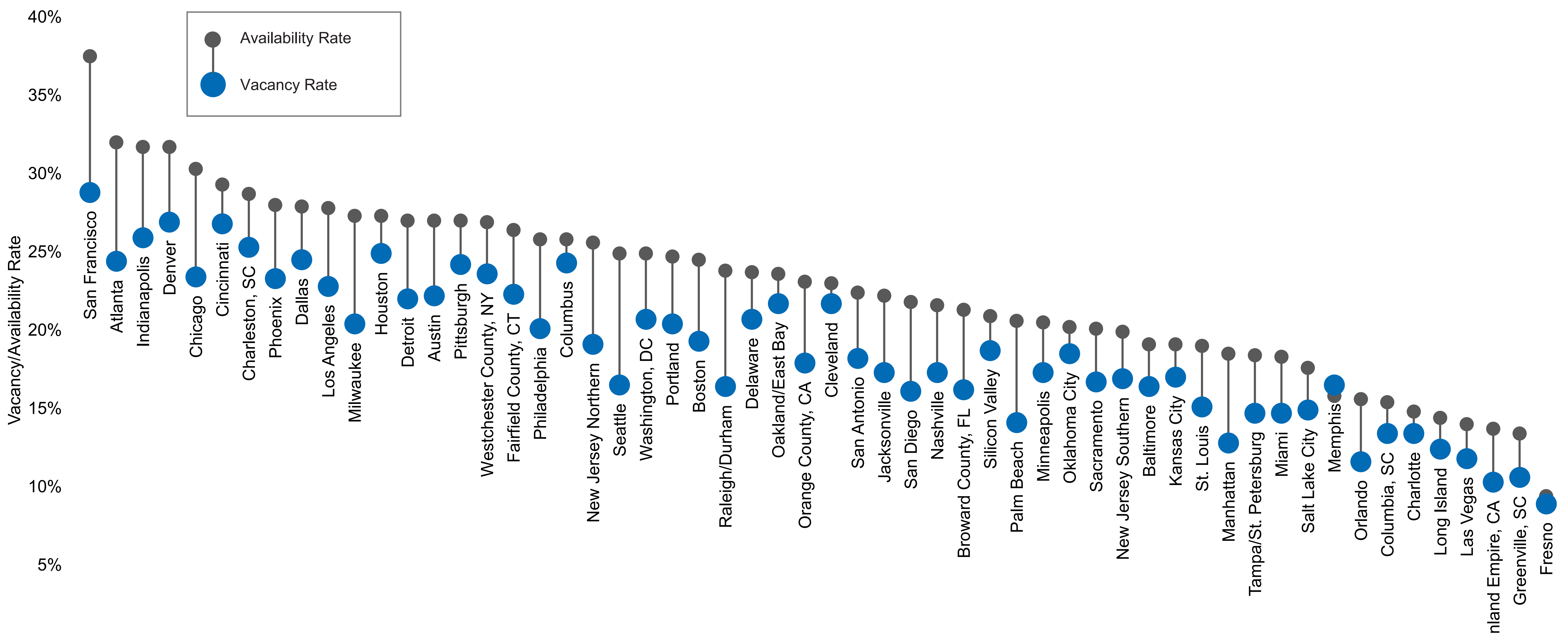


Sources: NCREIF, Newmark Research as of 2/12/2024
*We use the NCREIF National Property Index as a proxy for the national institutional grade office market.

Vacancy and Availability by Market

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

Vacancy and Availability Rate by Market

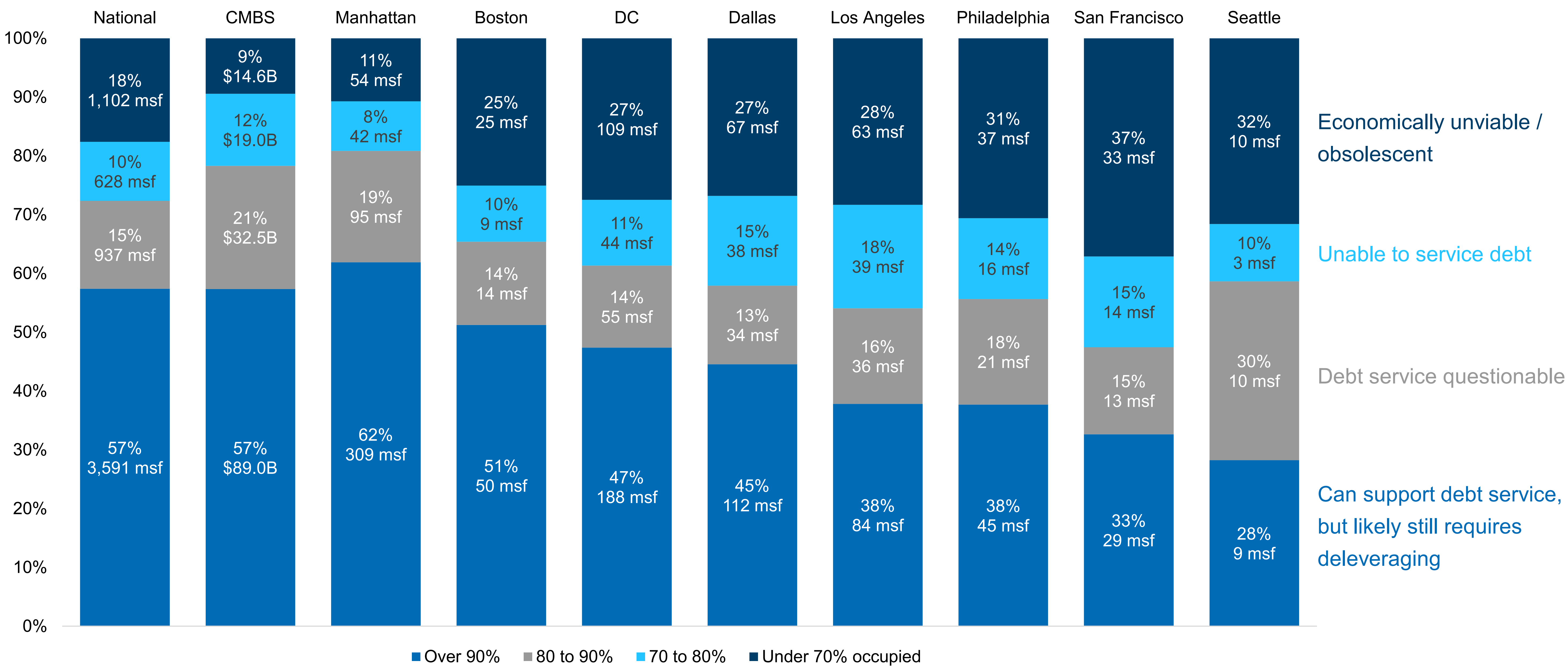


Source: CoStar, Newmark Research

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

Significant portions of the office market are structurally impaired purely from an occupancy perspective. Debt issues will accelerate their demise. On the other hand, 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

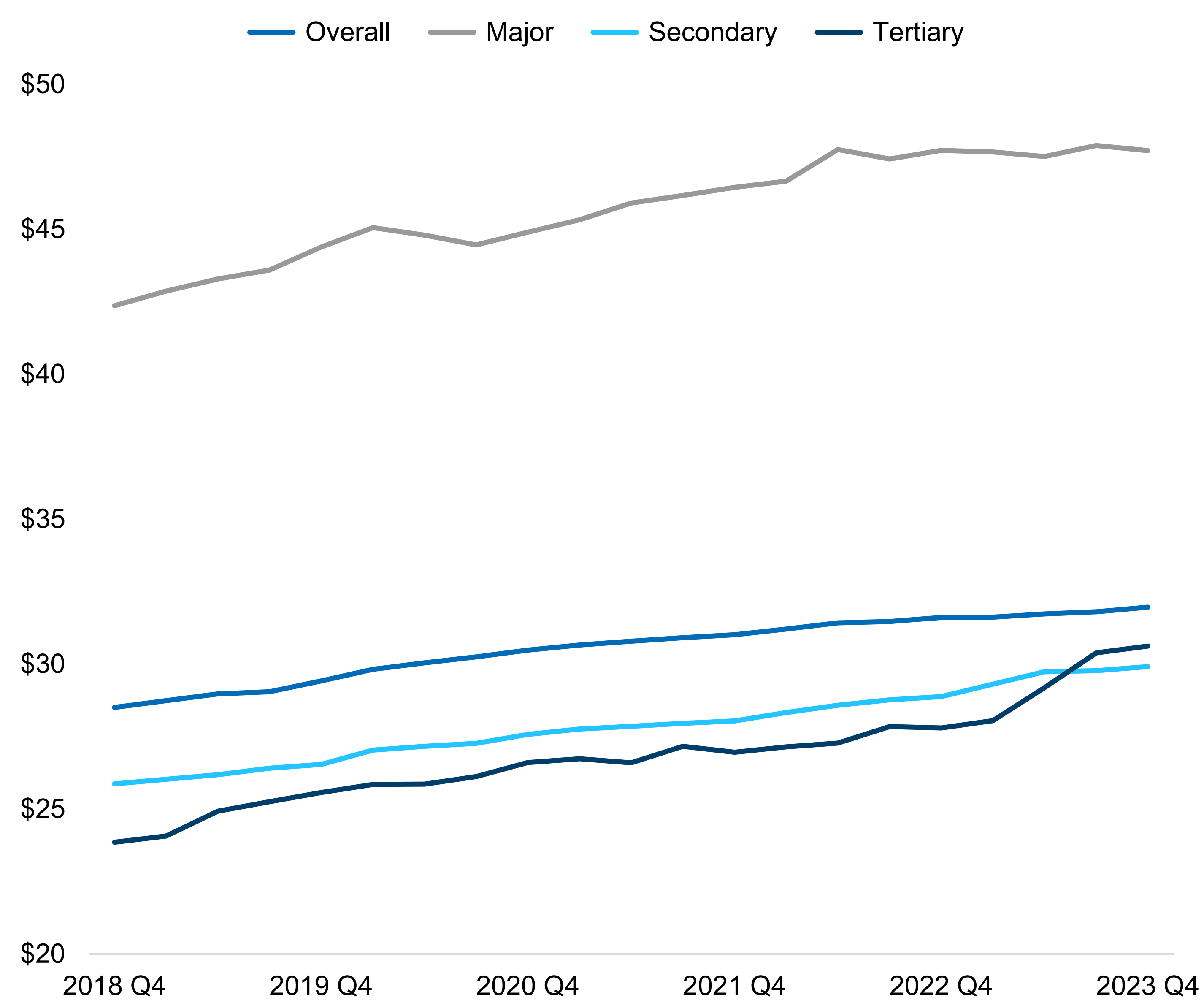


Source: Costar, Newmark Research as of 2/12/2024

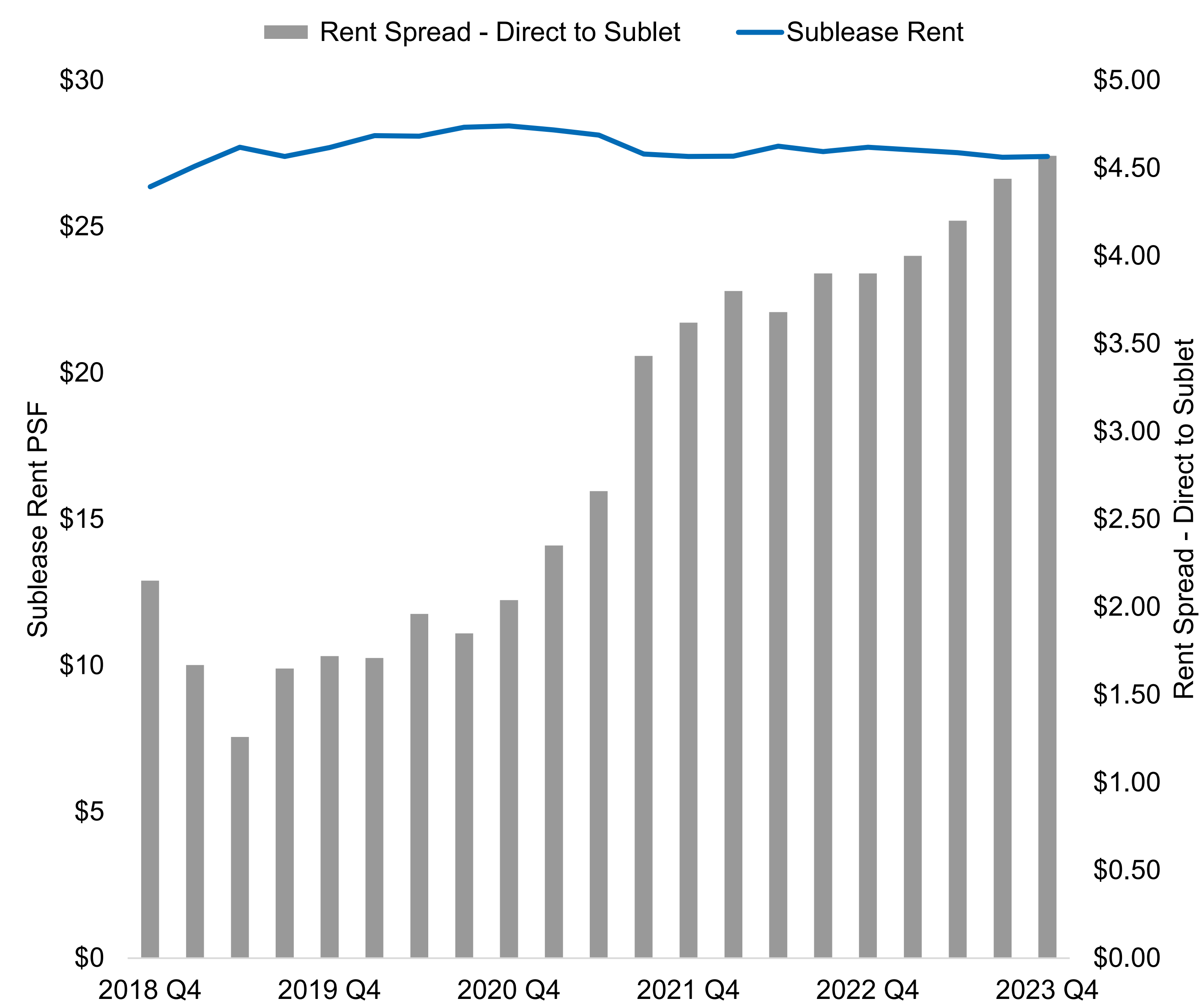
Asking Rents March On

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 1.1% YoY in Q4



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

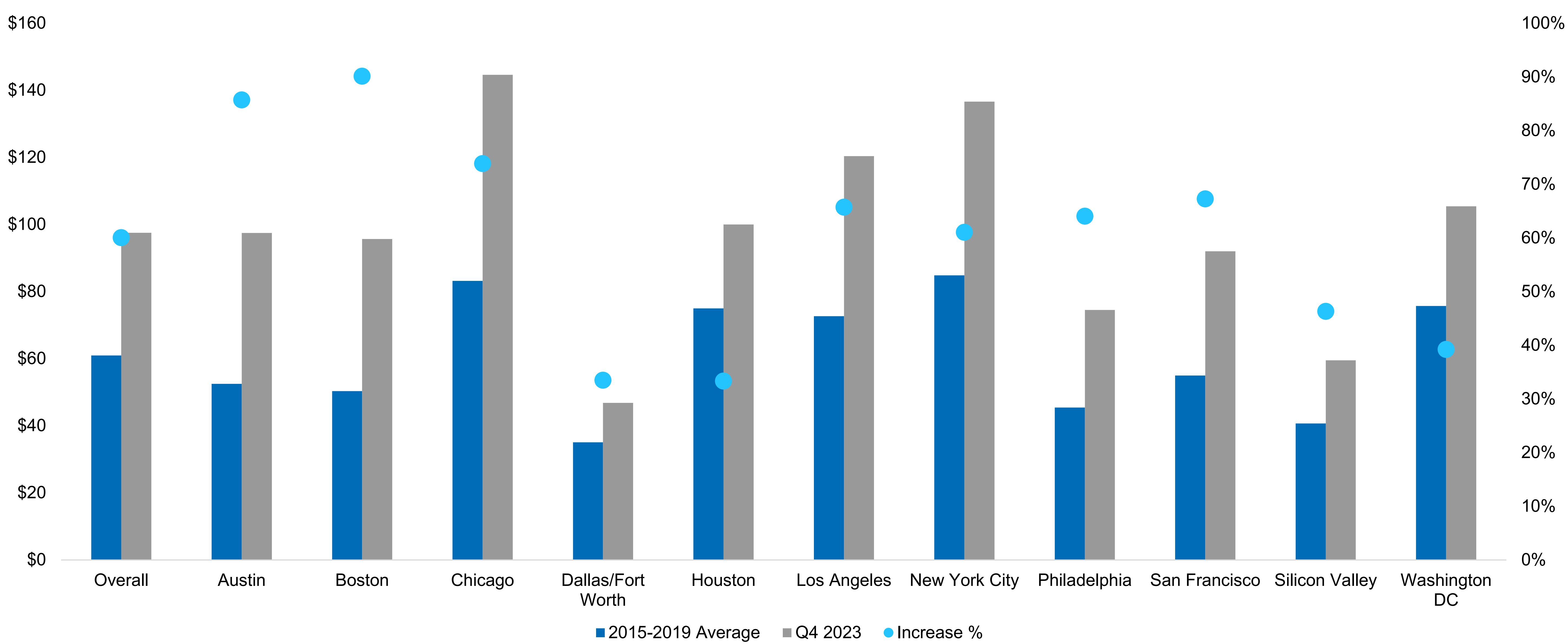


Source: CoStar, Newmark Research

Improvement Allowances Rising in Most Gateway Markets

To support these elevated asking rents, landlords have begun to offer more generous concessions to attract new tenants and retain existing ones. Tenant improvement allowances have risen 61% compared to the 2015-2019 average and are notably elevated in Chicago, Los Angeles, and New York.

Tenant Improvement Comparison Between Pre-Pandemic and Current Period

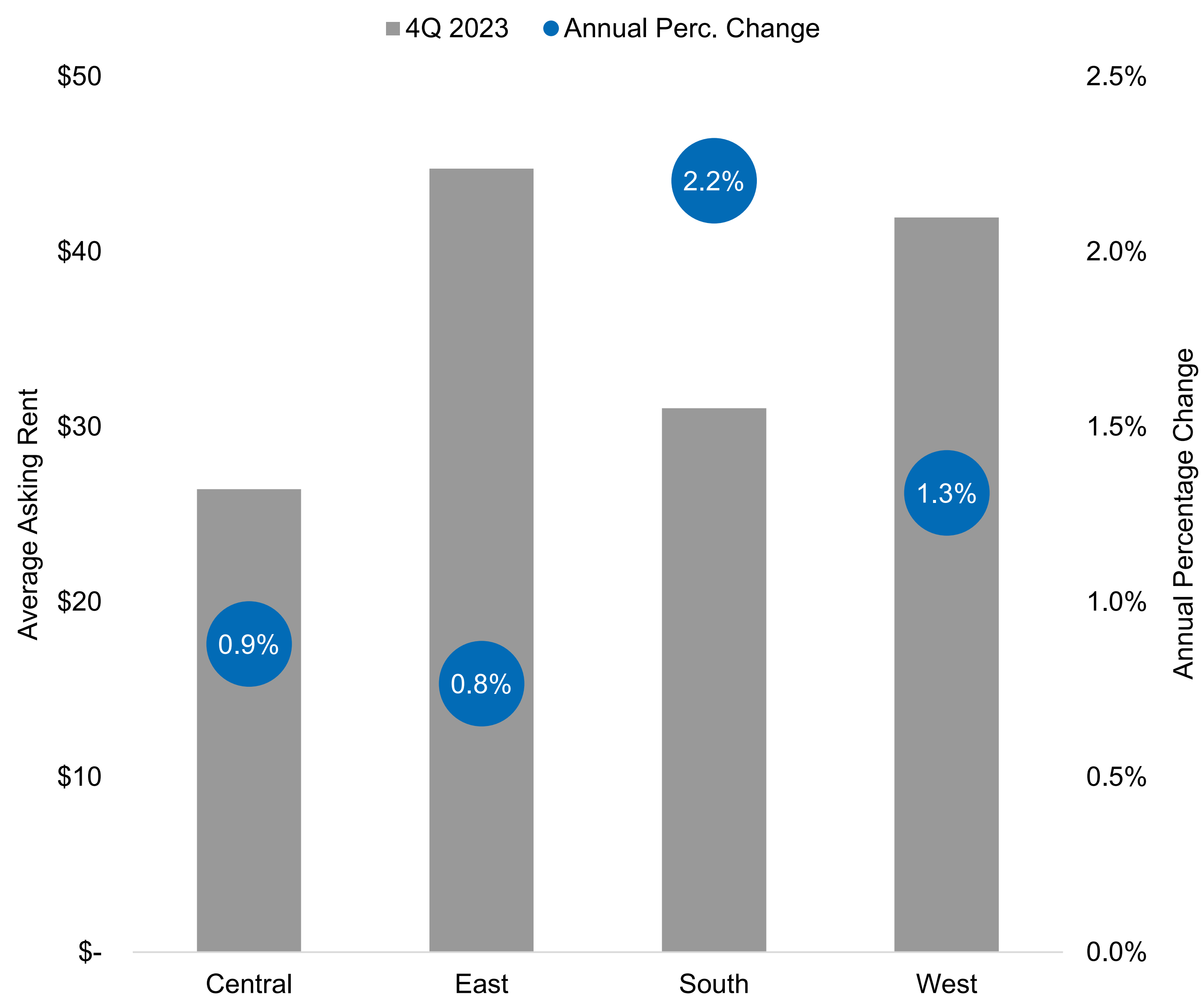


Source: CoStar, Newmark Research

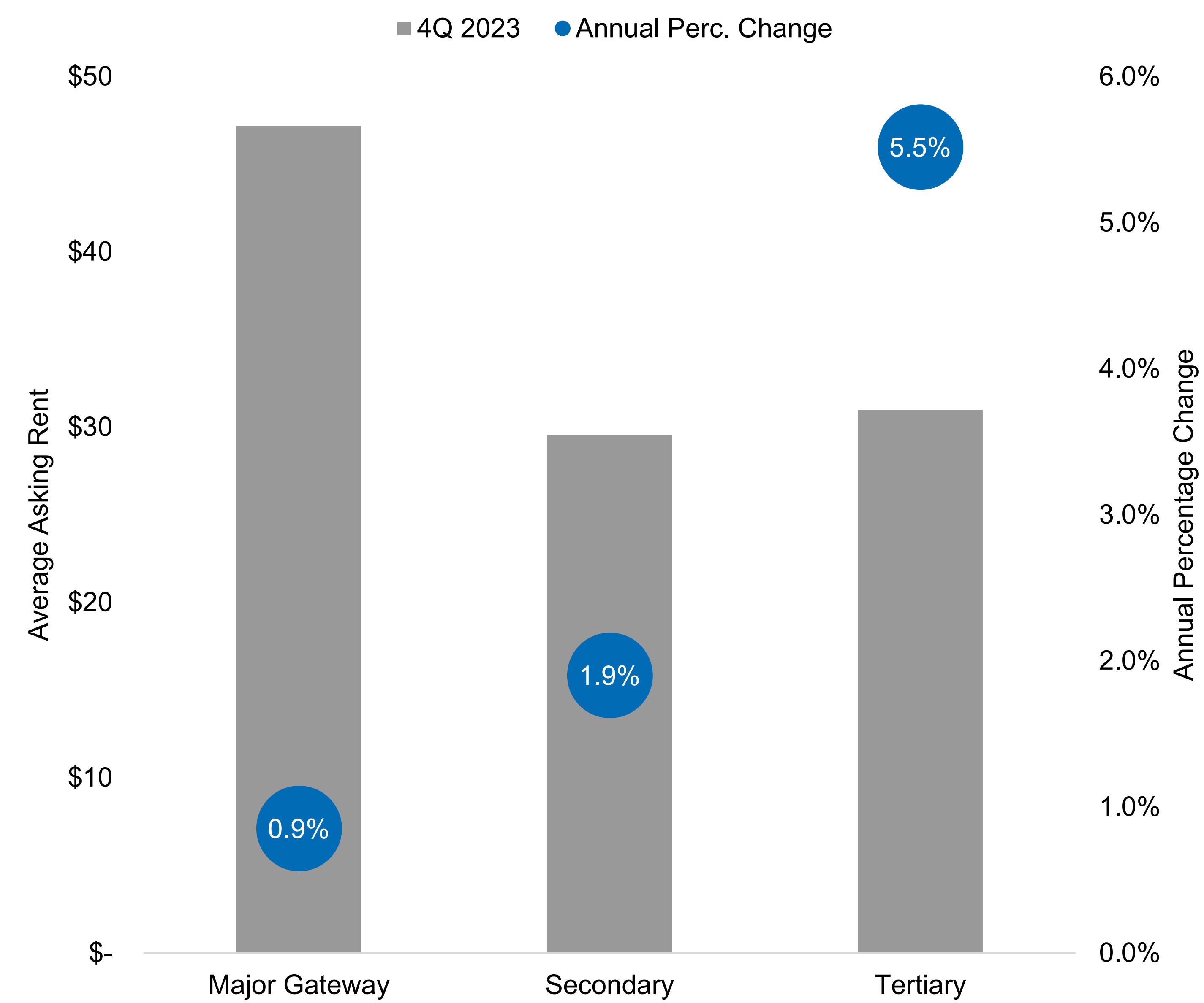
Southern and Western Regions and Non-Major Markets Leading in Rent Growth

Overall asking rents are most elevated in major coastal Eastern and Western markets, including San Francisco, Manhattan and Silicon Valley. The South and West Coast continue to experience aggressive rent appreciation, 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

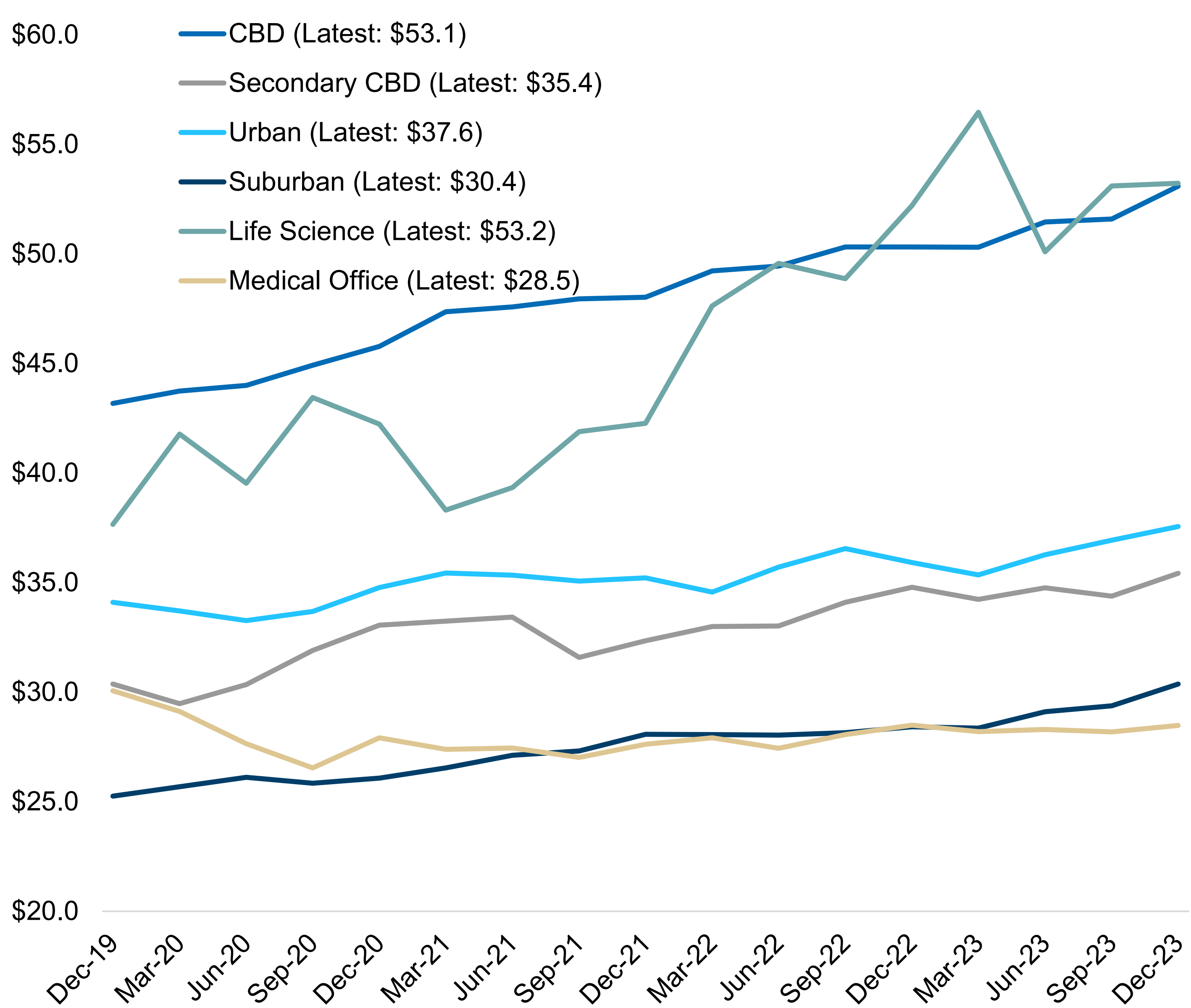


Source: CoStar, Newmark Research

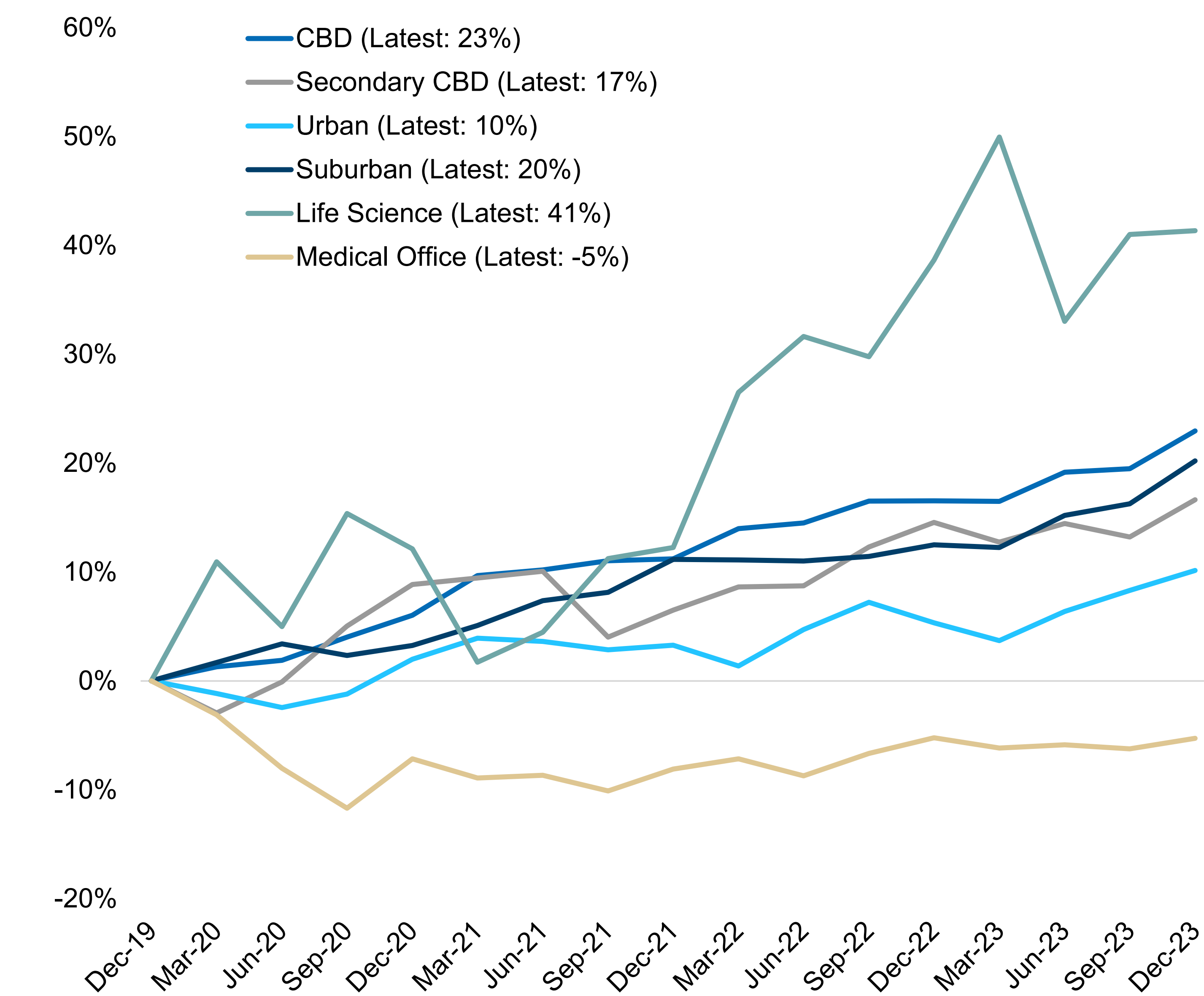
Institutional Core Building Rent Paid per SF Has Broadly Grown Since 4Q19

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

Rent Paid per Occupied Square Foot



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

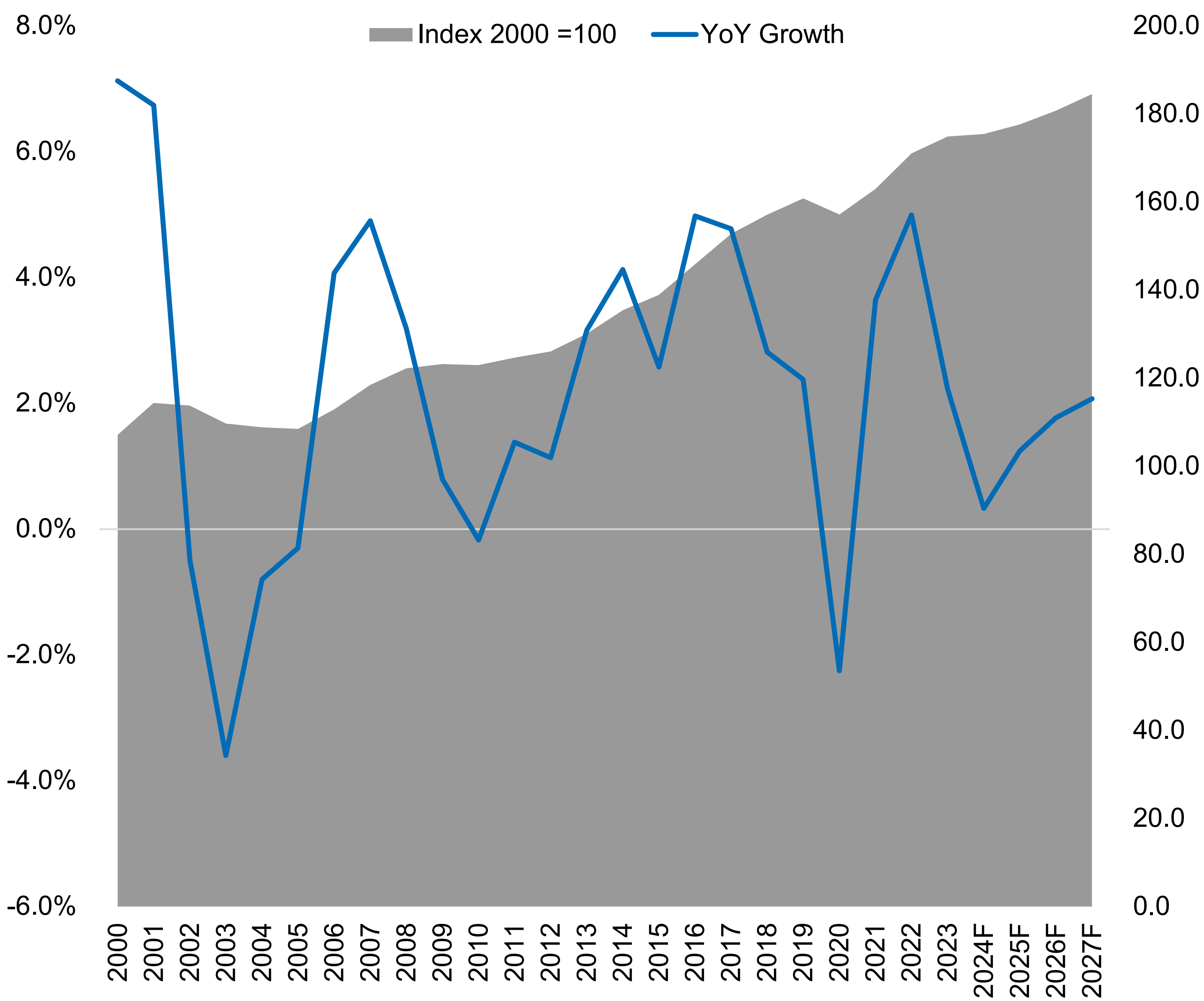


Source: NCREIF, Newmark Research as of 2/12/2024

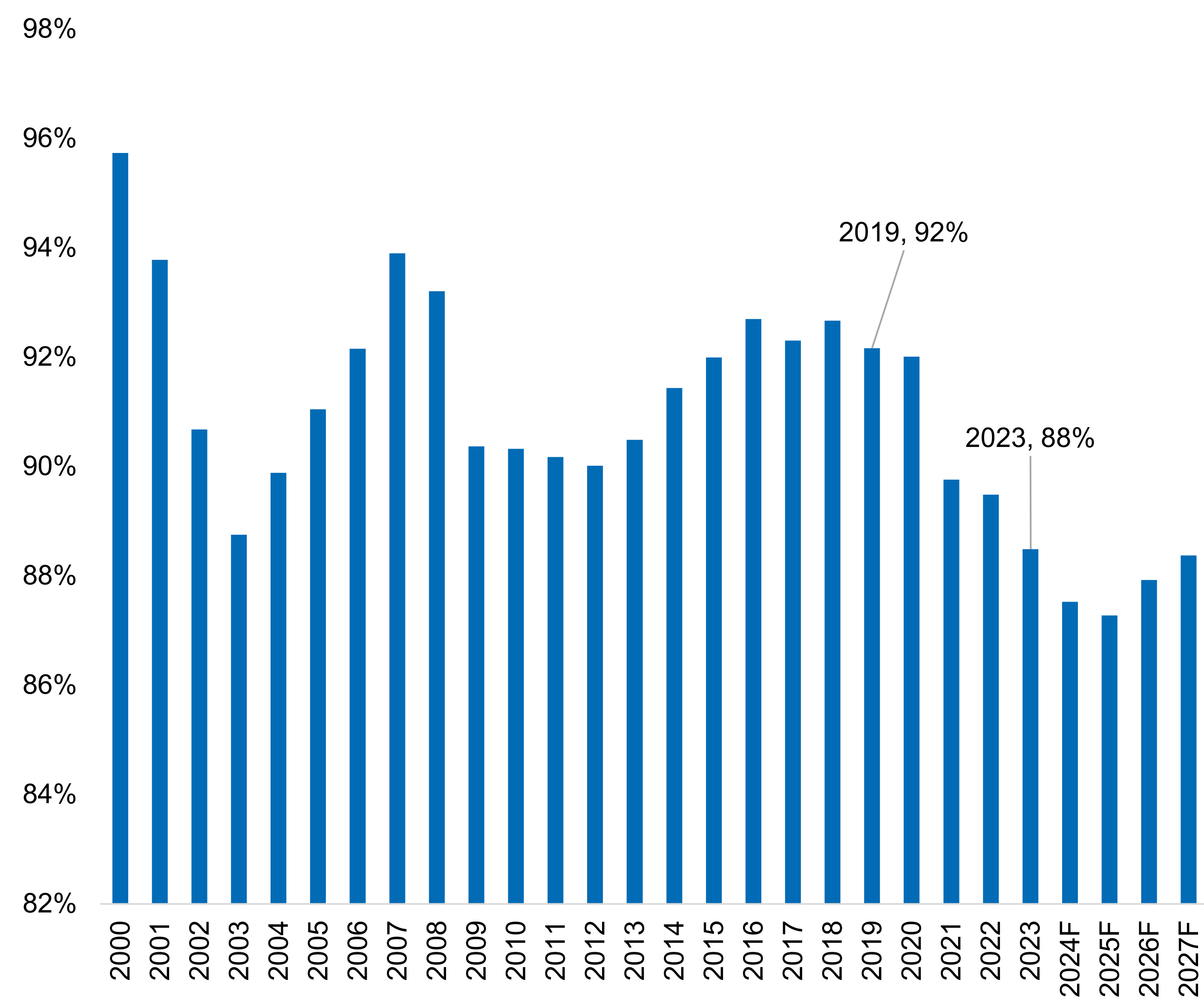
Office REITs Also Show Better than Expected Cashflow Trends

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 projections suggest they could bottom soon.

REIT Same-Store NOI



REIT Same-Store Occupancy Stabilizing

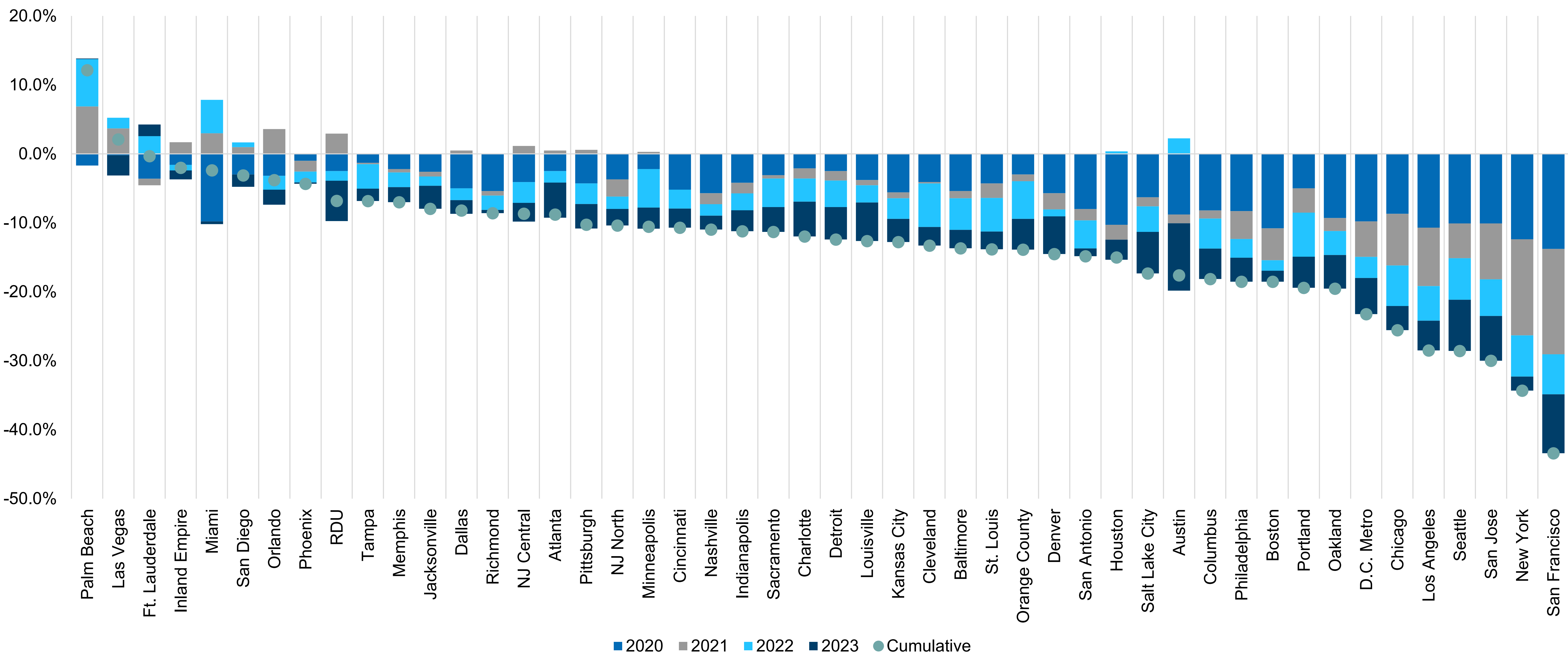


Source: Green Street data as of 2/12/2024, Newmark Research

RevPAF* Contracts 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, Seattle, Los Angeles, Chicago and DC.

M-RevPAF Growth by Market

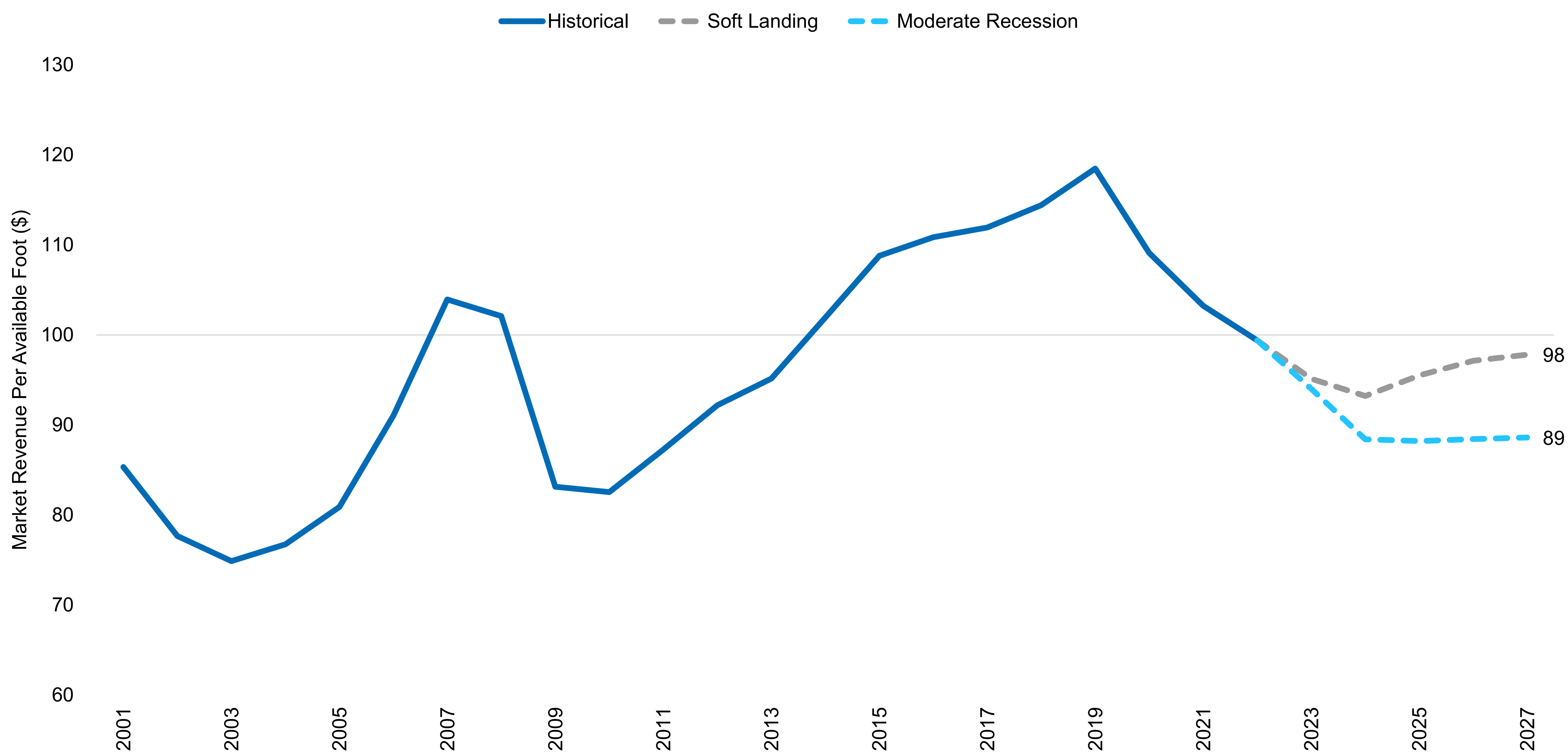


Source: Green Street data as of 1/25/2024, Newmark Research
*Market revenue per available foot combines the impact of changes in effective rents and occupancy to produce a measure of overall leasing market performance.

Broad Market Fundamentals Face a Slow Recovery

Market revenue per available foot has been trending downward since 2019, and it is not expected to hit bottom until the end of 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 will improve slowly and only return to the previous peak through a process of eliminating large quantities of obsolescent stock. Newer, well-located properties have had a very different experience and will continue to do so.

Green Street M-RevPAF (December 2000 = 100)



Sources: Green Street, Newmark Research as of 2/12/2024

4Q23 US OFFICE MARKET OVERVIEW

Office Market Statistics

National Office Market Statistics

4Q23

Market Statistics – All Classes

	Total Inventory (SF)	Under Construction (SF)	4Q 2023 Net Absorption (SF)	2023 Absorption (SF)	Overall Vacancy Rate	Average Asking Rent (Price/SF)
National	**4,988,690,848**	**53,983,057**	**-8,202,409**	**-64,975,158**	**19.6%**	**$31.97**
Atlanta‡	160,222,292	2,131,649	106,816	-753,304	24.4%	$31.79
Austin‡	80,198,925	4,702,570	249,616	-2,036,942	22.2%	$41.12
Baltimore‡	82,834,515	707,781	352,813	136,091	16.4%	$24.98
Boston^	177,067,287	2,432,000	-697,709	-4,467,638	19.3%	$44.98
Broward County, FL	34,892,786	384,790	60,150	139,951	16.2%	$37.43
Charleston, SC	57,171,326	1,564,551	-391,729	-1,130,813	25.3%	$33.38
Charlotte‡	14,218,496	0	-70,981	-15,466	13.4%	$31.11
Chicago^	251,704,574	637,874	-638,563	-2,396,385	23.4%	$33.29
Cincinnati‡	34,850,564	43,000	61,537	-294,886	26.8%	$20.17
Cleveland‡	38,682,691	1,295,000	-32,476	-448,210	21.7%	$19.65
Columbia, SC	16,721,001	0	253,629	-128,725	13.4%	$19.77
Columbus‡	41,702,567	555,054	47	-688,573	24.3%	$21.49
Dallas‡	273,676,296	2,872,148	-152,523	-1,832,435	24.5%	$29.66
Delaware	16,079,783	237,835	52,929	-196,257	20.7%	$26.12
Denver‡	101,147,556	1,765,598	-358,015	-2,084,089	26.9%	$32.23
Detroit‡	80,125,187	380,821	-124,276	-2,166,342	22.0%	$20.54
Fairfield County, CT^	38,605,499	0	105,763	490,854	22.3%	$38.28
Fresno	21,817,466	28,482	135,132	263,516	8.9%	$26.68
Greenville, SC	22,107,569	107,300	-135,525	-306,171	10.6%	$23.61

^ 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

4Q23

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National	**4,988,690,848**	**53,983,057**	**-8,202,409**	**-64,975,158**	**19.6%**	**$31.97**
Houston‡	247,279,343	1,457,304	1,529,225	755,739	24.9%	$30.42
Indianapolis‡	34,449,605	189,782	-110,647	-1,433,652	25.9%	$21.00
Inland Empire, CA^	27,665,726	104,081	-37,816	-151,185	10.3%	$25.97
Jacksonville‡	34,278,657	83,800	-650,813	-568,625	17.3%	$22.27
Kansas City‡	73,342,065	429,370	-129,831	-761,727	17.0%	$22.10
Las Vegas‡	39,751,971	530,362	80,032	56,422	11.8%	$26.17
Long Island^	57,946,885	0	-171,061	-631,174	12.4%	$30.30
Los Angeles^	221,094,667	1,563,001	-871,894	-4,034,877	22.8%	$47.91
Manhattan^	470,647,737	569,617	-2,364,695	-7,605,815	12.8%	$74.14
Memphis‡	34,732,713	0	-182,614	-323,677	16.5%	$19.62
Miami‡	49,678,550	2,191,611	33,850	416,784	14.7%	$51.71
Milwaukee‡	36,481,120	40,288	-206,215	-376,875	20.4%	$20.84
Minneapolis‡	118,541,996	359,729	(405,963)	(1,955,830)	17.3%	$28.81
Nashville‡	61,021,044	2,688,579	-100,265	-455,710	17.3%	$29.57
New Jersey Northern^	167,232,586	1,021,147	-646,364	-4,541,548	19.1%	31.36
New Jersey Southern	16,006,817	0	16,274	-134,701	16.9%	$21.84
Oakland/Greater East Bay^	66,537,975	0	89,688	-831,184	21.7%	$40.73
Oklahoma City	20,920,755	0	64,230	-313,855	18.5%	$19.23
Orange County, CA^	96,533,173	0	94,210	-832,319	17.9%	$34.36

^ 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

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National	**4,988,690,848**	**53,983,057**	**-8,202,409**	**-64,975,158**	**19.6%**	**$31.97**
Orlando‡	61,903,180	628,712	89,772	-349,942	11.6%	$25.32
Palm Beach	27,285,178	642,000	24,766	-588,802	14.1%	$48.17
Philadelphia‡	107,295,942	745,476	158,335	(1,881,920)	20.1%	$31.39
Phoenix‡	98,289,050	348,578	-515,666	-1,669,780	23.3%	$30.12
Pittsburgh‡	57,726,535	690,000	-164,924	-1,164,451	24.2%	$26.14
Portland‡	62,032,703	100,000	-275,145	-1,207,516	20.4%	$32.23
Raleigh/Durham‡	50,917,881	1,749,394	-17,374	-436,893	16.4%	$29.98
Sacramento‡	69,368,514	569,000	-211,022	-2,049,841	16.7%	$25.86
Salt Lake City‡	76,018,884	739,215	-110,293	-316,241	14.9%	$25.00
San Antonio‡	48,177,957	306,722	148,272	-49,435	18.20%	$23.35
San Diego‡	73,253,744	5,879,932	66,194	-592,435	16.1%	$40.63
San Francisco^	89,392,475	420,000	-1,349,470	-6,072,124	28.8%	$70.29
Seattle‡	134,728,992	4,700,247	-929,111	-3,389,917	16.5%	$44.73
Silicon Valley^	82,236,836	2,554,993	750,895	-604,095	18.7%	$58.68
St. Louis‡	73,017,632	41,000	462,425	489,462	15.1%	$22.67
Tampa/St. Petersburg‡	61,636,596	448,941	110,852	307,995	14.7%	$28.53
Washington, DC^	371,412,898	2,343,723	-1,348,069	-3,563,686	20.7%	$42.74
Westchester County, NY^	26,026,086	0	101,188	-195,904	23.6%	$28.70

^ 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.

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