COMMERCIAL REAL ESTATE

U.S. MARKET | Office

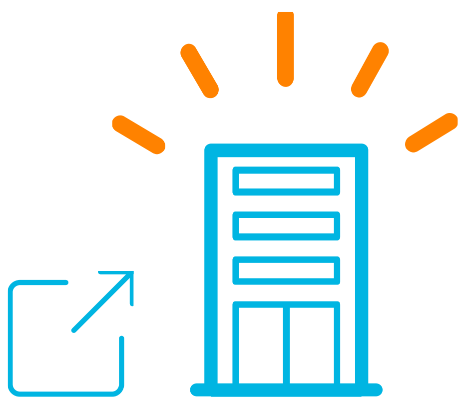
TRANSWESTERN

Q2 2022

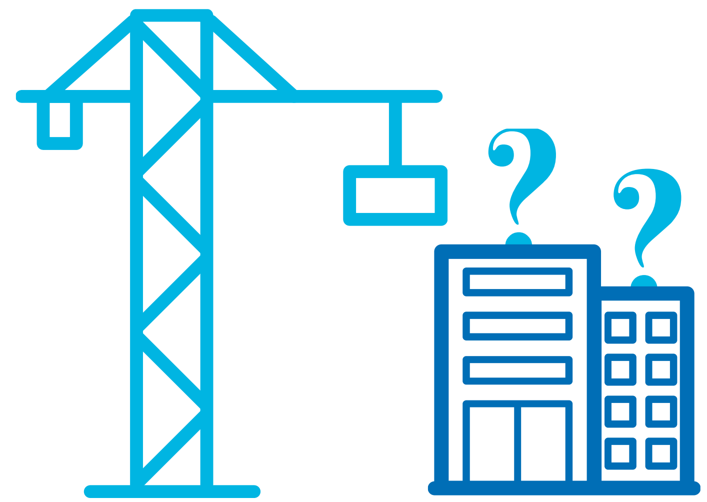
TRANSWESTERN

THE VIEW FROM HERE

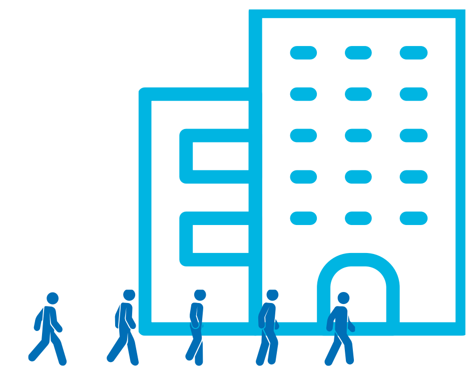
Q2
2022



Clear flight to quality
with majority of new leasing activity occurring in newer buildings



Construction levels easing, taking some pressure off a sector still facing headwinds



Pockets of improvement
found in strong growth of office-using jobs, increased tour activity

NET ABSORPTION
(7.3) MSF
Absorption weak in Q2 due to sublease market

VACANCY RATE
12.7%
20 bps rise in Q2

UNDER CONSTRUCTION
145.1 MSF
Down 1.0% in Q2

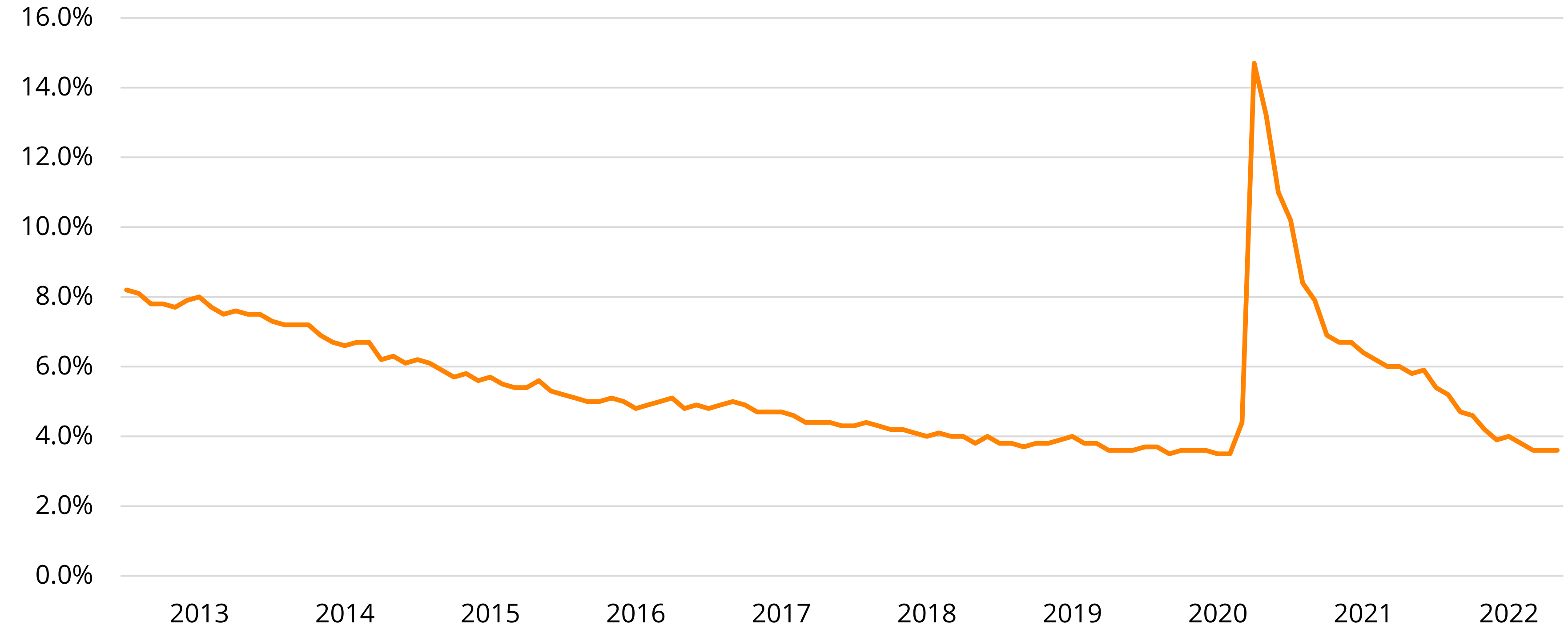
ASKING RENT
$25.98
2.1% annual growth

ECONOMIC HIGHLIGHTS

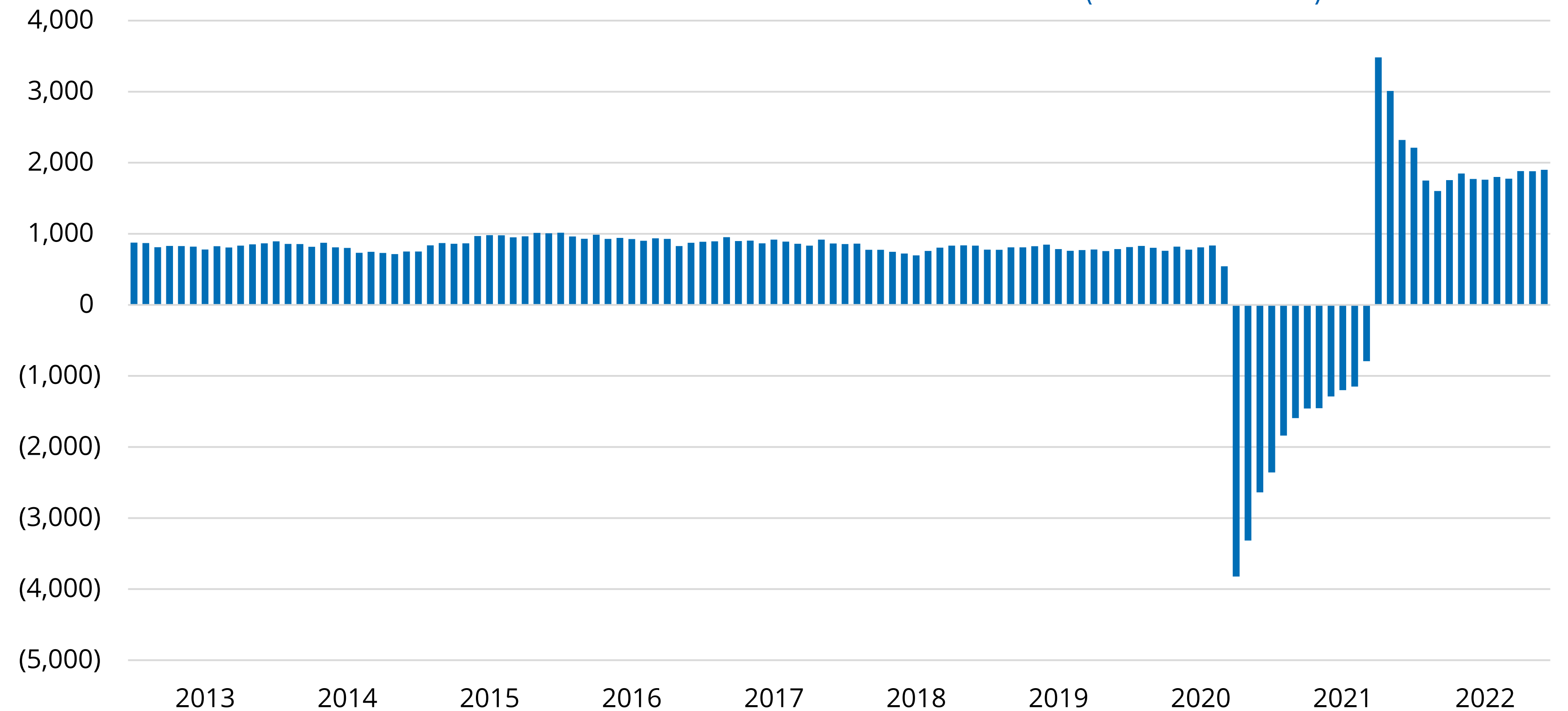
- The U.S. unemployment rate averaged 3.6% during the quarter, the lowest level since the start of the pandemic.
- Total employment is closing in on pre-pandemic levels and is currently 98% recovered. Private-sector employment has fully recovered and is now expanding, while the government, specifically state/local, has struggled to right-size.
- Office-using jobs have fully recovered, adding 373,500 new positions during Q2, which accounted for 30% of the 1.2 million total jobs added during the past three months.
- Job growth during the quarter was led by tech, accounting, and finance/insurance firms.
- Despite low consumer confidence, high inflation and overall recessionary fears, companies continue to demand workers. Office-using job postings are up 36.5% year over year.
- After robust hiring, rising tech layoffs are sparking concern and growth in this sector is projected to slow. Through 2026, we expect job growth to be primarily driven by nonprofits, consulting, and administrative support.

HISTORICAL

UNEMPLOYMENT RATE



CHANGE IN OFFICE-USING JOBS (THOUSANDS)

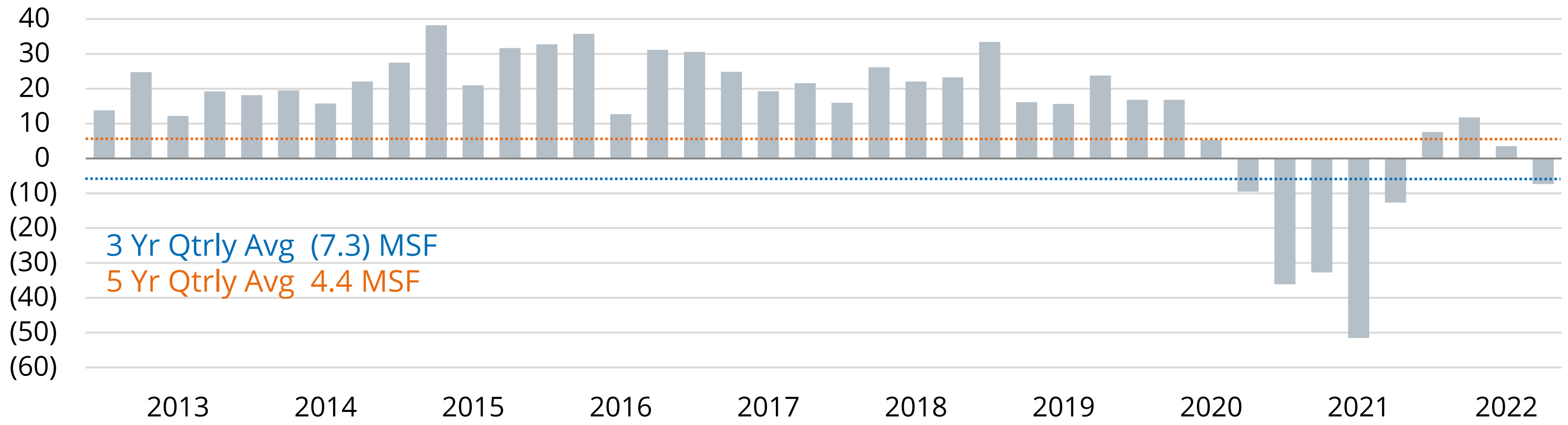


MARKET HIGHLIGHTS

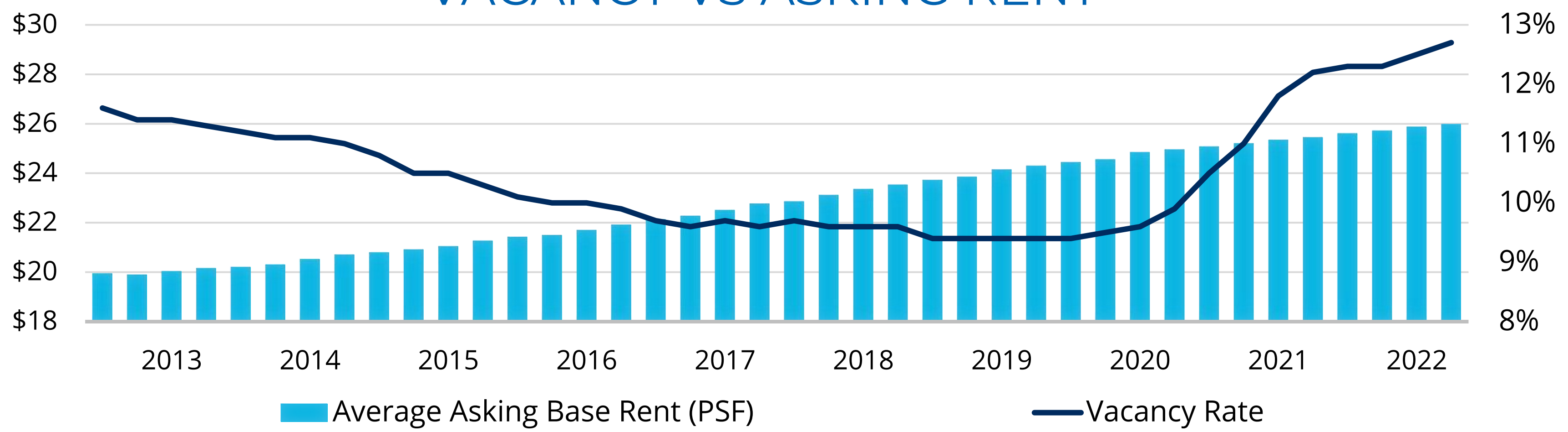
- Office market fundamentals softened with negative 7.3 MSF in net absorption during Q2.
- The sublet market was strained with the entirety of the negative absorption during the past three months, while direct space was slightly positive.
- Quality of space remains a top priority of tenants, as newer office product outperformed.
- 18 of 51 tracked markets registered positive net absorption, led mostly by smaller markets.
- Vacancy rose 20 basis points to 12.7%, as weakness in the sublet market challenged the overall rate.
- The sublease vacancy rate climbed to 1.3% during Q2, surpassing the 1.0% average during the pandemic.
- Annual asking rents rose 2.1% YoY. Landlords increased rent for direct space by 2.6% but discounted sublet rent by 3.5% over the year.
- To compete, landlords continue to offer above-average concessions in most major markets.
- Construction levels are easing; if kept in check, this will help supply/demand fundamentals recover in time.
- Rising tour activity and employers encouraging, if not enforcing, workers to return to the office should translate into future demand. However, weakness in the sublet market could offset this gain.

HISTORICAL

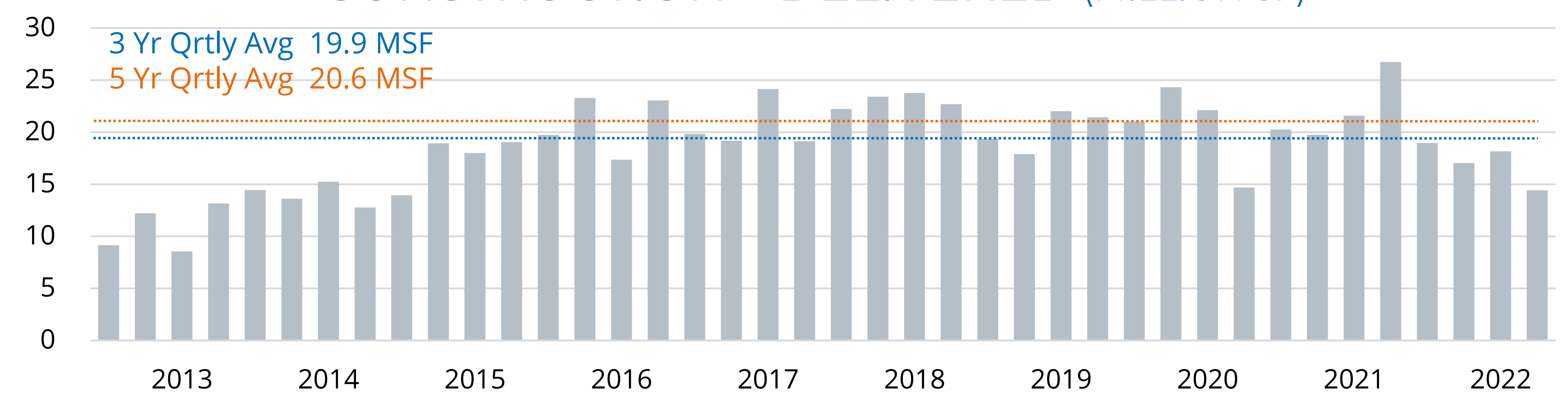
NET ABSORPTION (MILLION SF)



VACANCY VS ASKING RENT

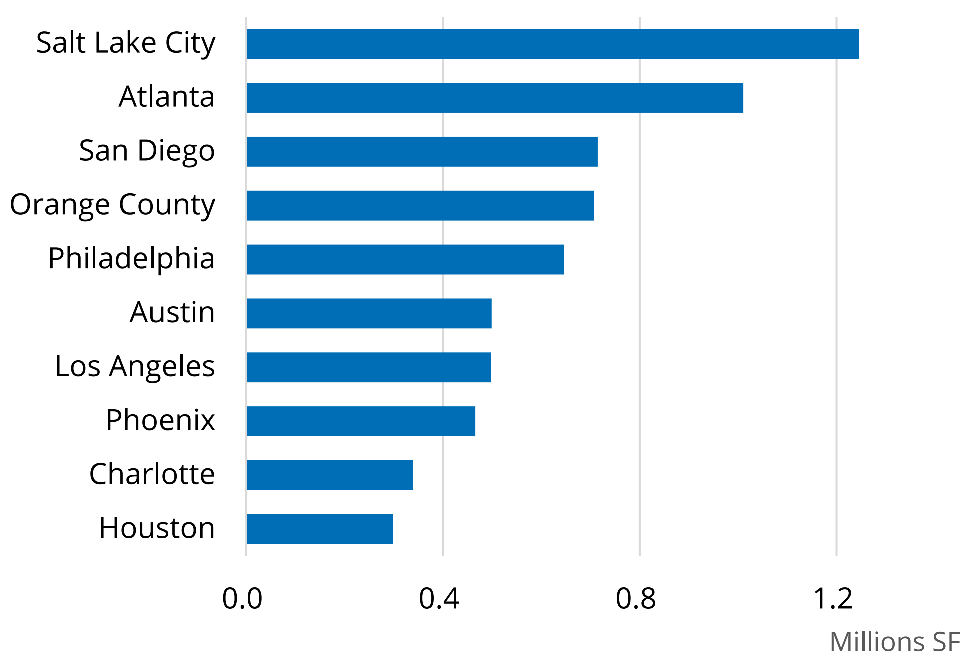


CONSTRUCTION – DELIVERED (MILLION SF)

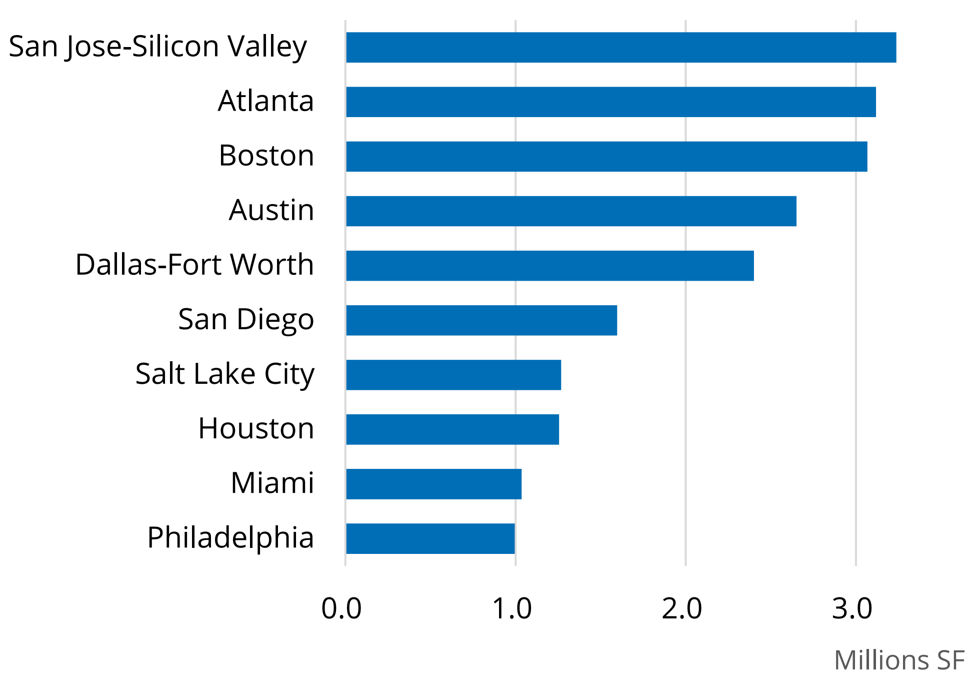


NET ABSORPTION

Q2 2022 Net Absorption

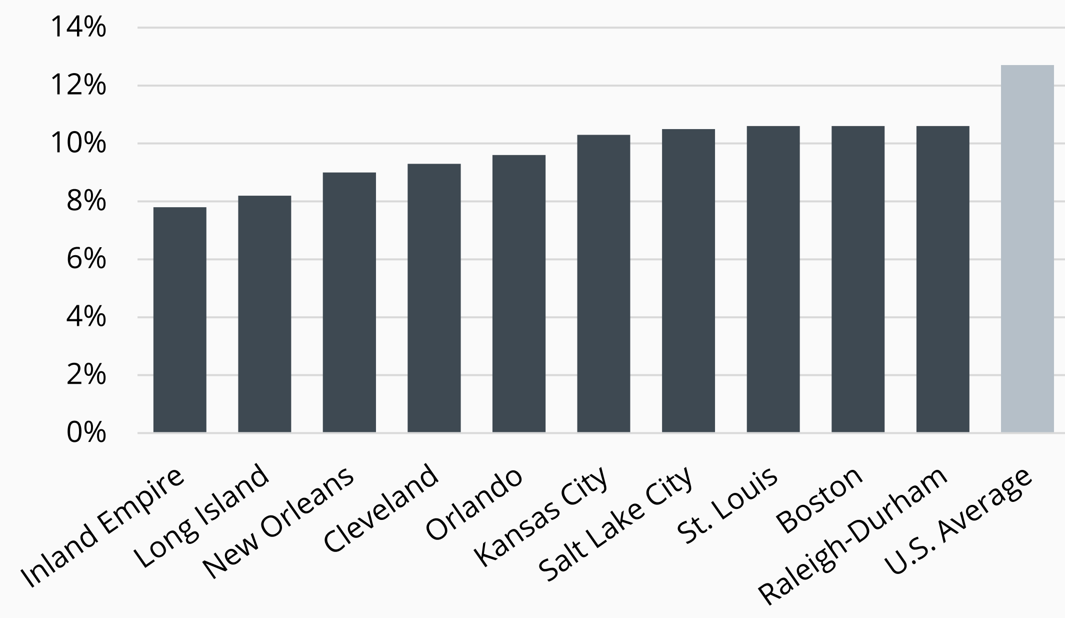


Trailing 4-Qtr Net Absorption

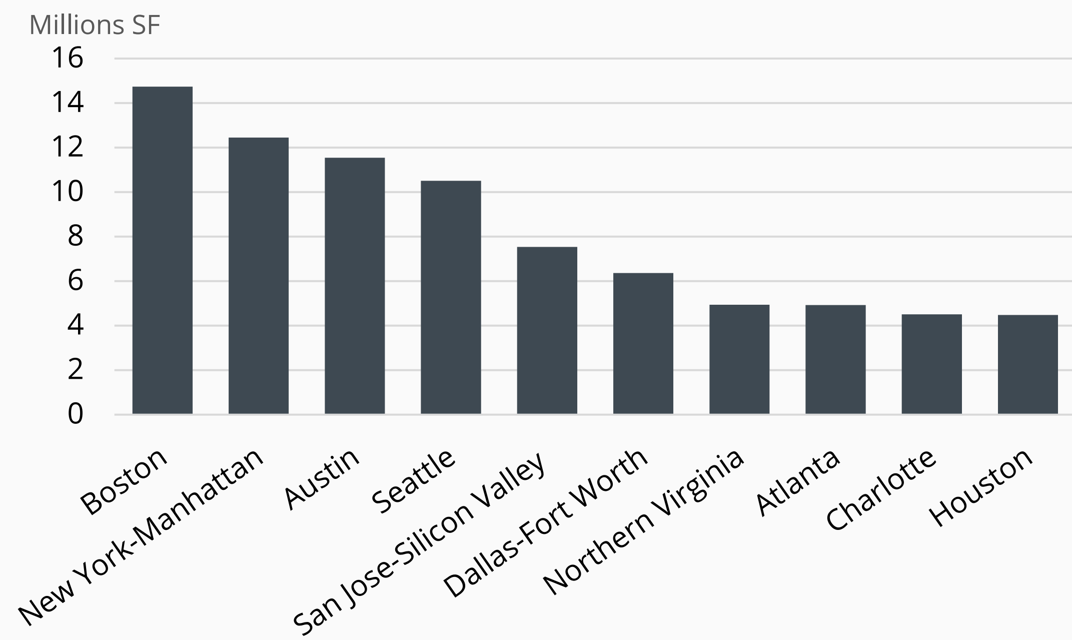


VACANCY/CONSTRUCTION

Q2 2022 Overall Vacancy Rate

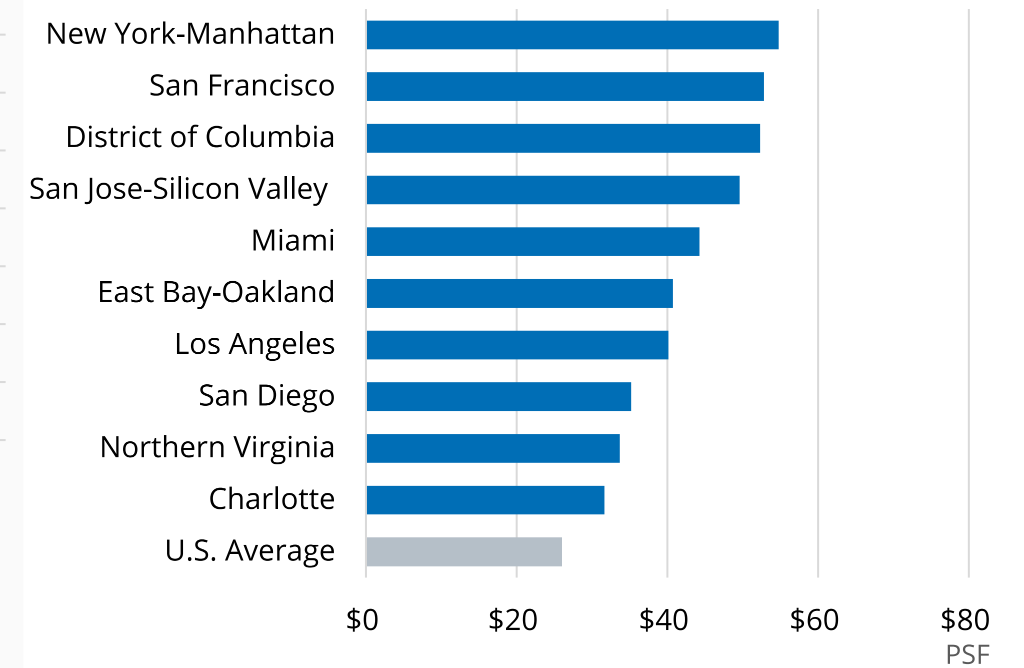


Q2 2022 Under Construction

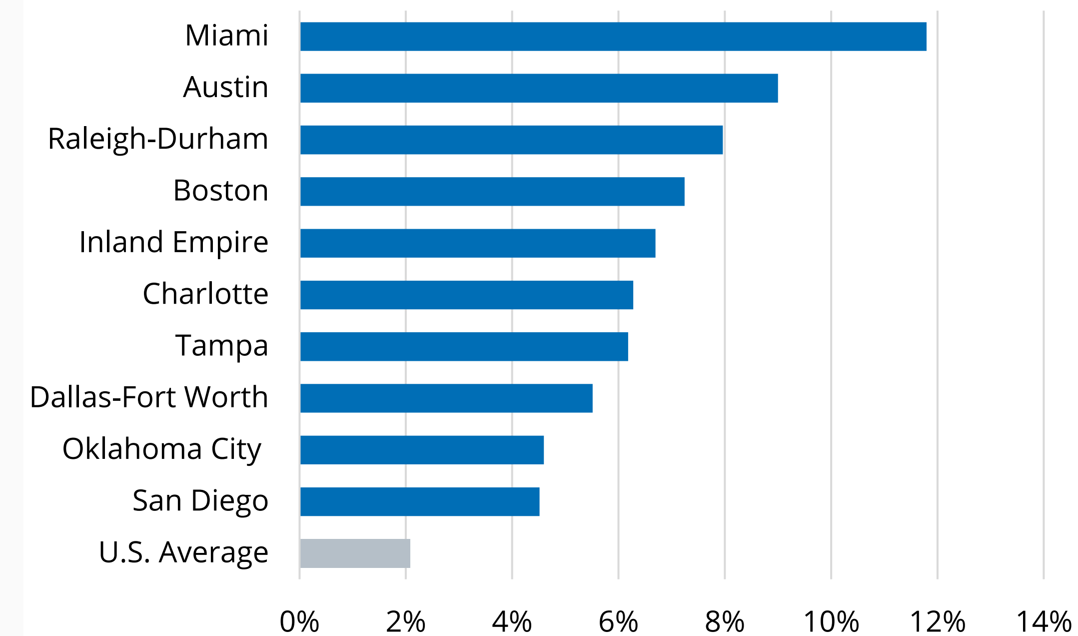


ASKING RENTS

Q2 2022 Asking Rate (Base)



Year-Over-Year Rent Growth



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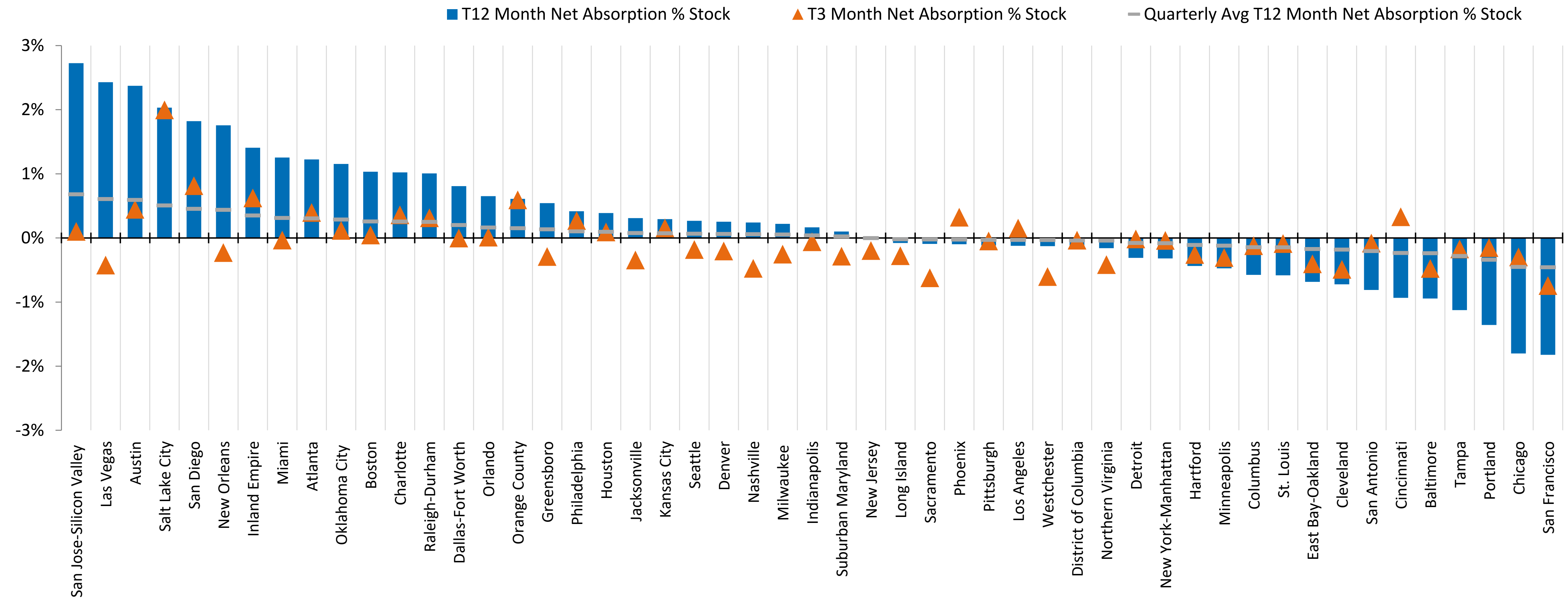
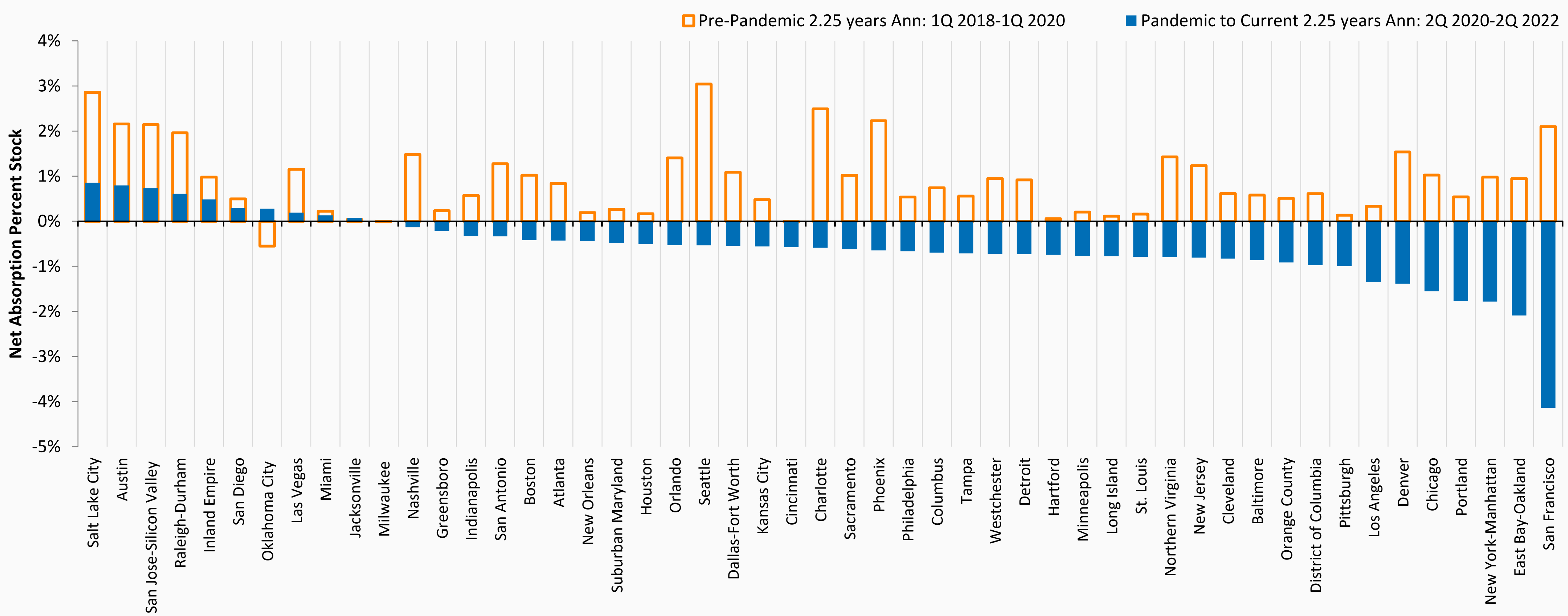
NET ABSORPTION % STOCK



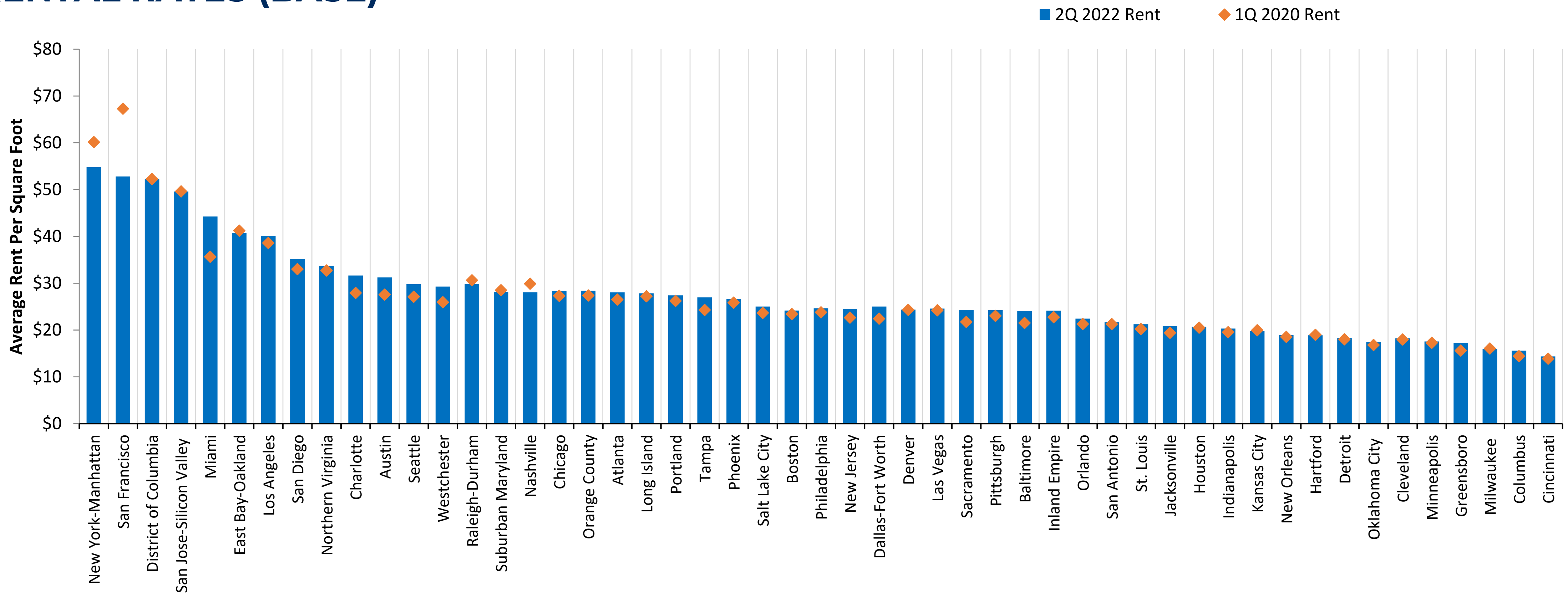
- Just over half of tracked markets managed positive net absorption over the past 12 months, led by San Jose-Silicon Valley, Las Vegas, Austin, and Salt Lake City.
- Approximately 35% of tracked office markets posted positive net absorption for Q2.
- Demand for office softened with only 41% of markets' quarterly net absorption beating their trailing 12-month quarterly average net absorption.

NET ABSORPTION % STOCK: PRE-PANDEMIC vs PANDEMIC to CURRENT



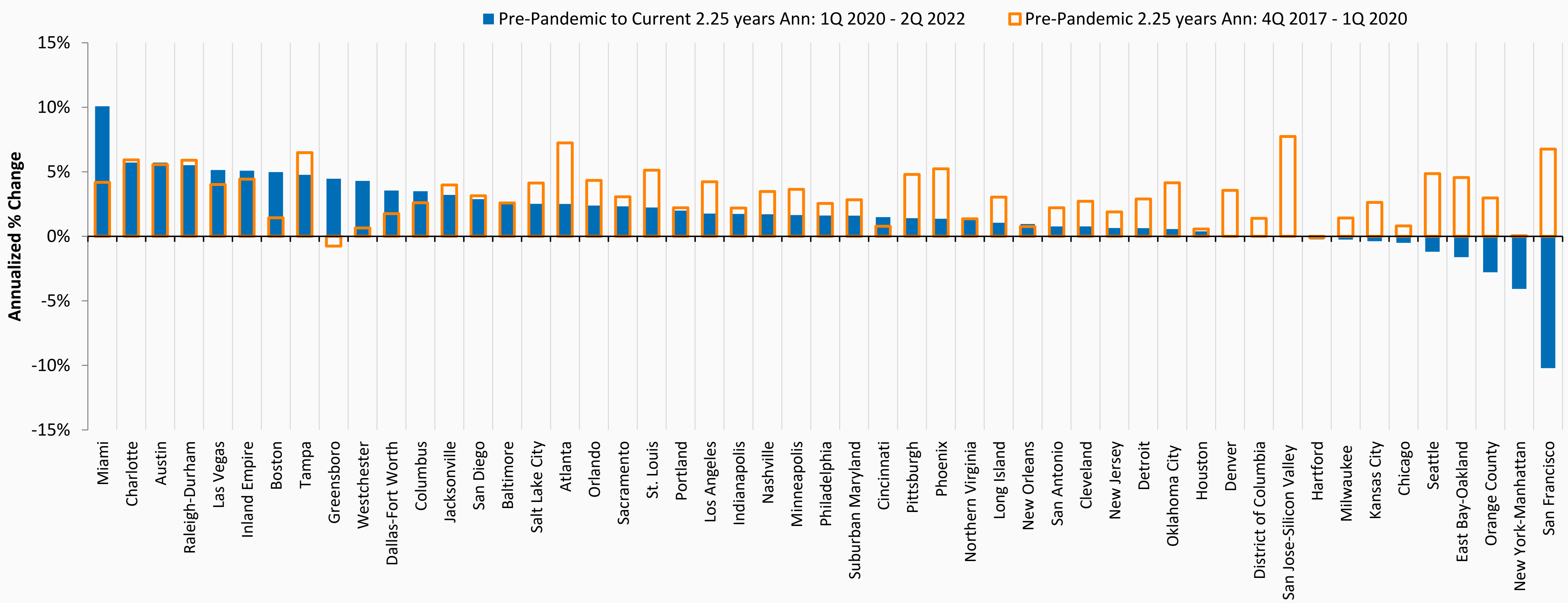
- This graph compares net absorption as a percent of stock annualized for the two and a quarter years preceding the start of the pandemic to the two and a quarter years since the pandemic began.
- Markets experiencing an expansionary trend before the pandemic that have also managed positive growth since the start of the pandemic may be in the best position. This includes Salt Lake City, Austin, and San Jose-Silicon Valley.

RENTAL RATES (BASE)



- The largest, densest and most developed markets have historically commanded significantly higher rental rates, yet pandemic-related trends have diminished these markets' lead.
- Since the beginning of the pandemic, the two most expensive markets, San Francisco and New York, have experienced the largest declines in rental rates at -22% and -9%, respectively.

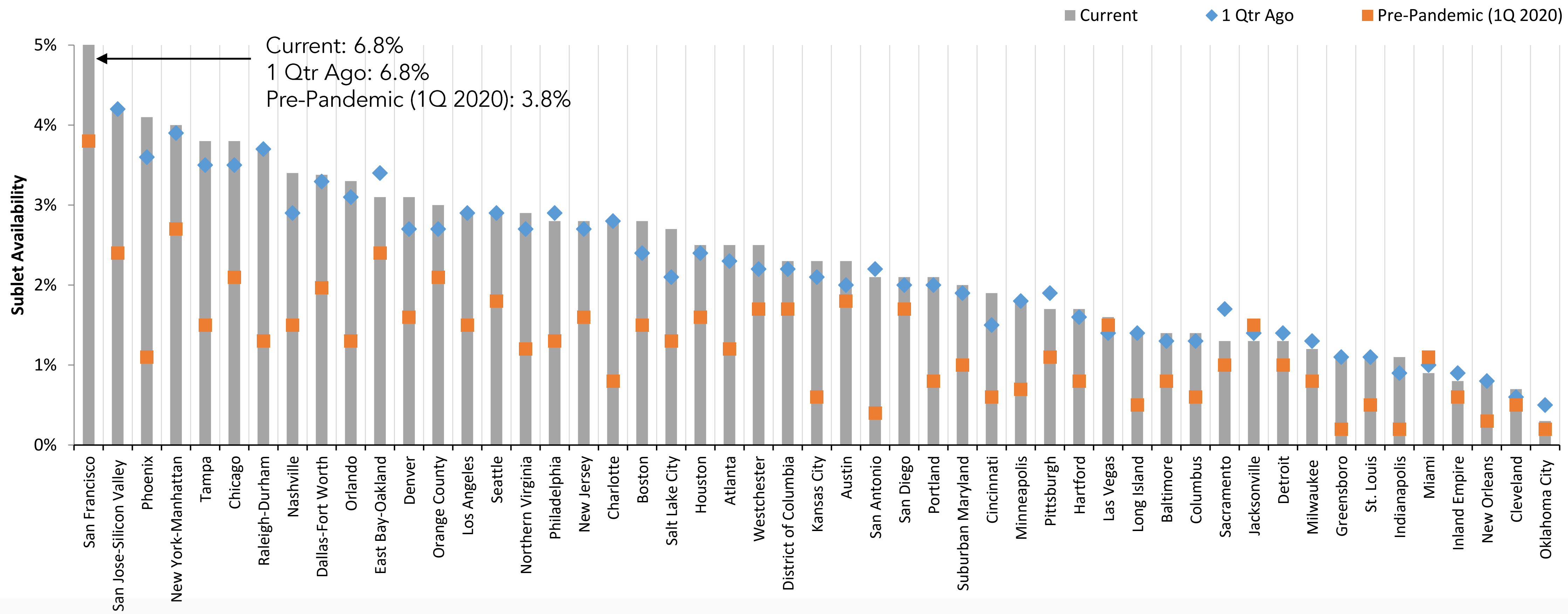
RENTAL RATE CHANGE: PRE-PANDEMIC vs PRE-PANDEMIC to CURRENT



- While the return to office is underway, demand for space has yet to return to pre-pandemic levels in most markets, keeping concessions high and putting pressure on effective rental rates.
- However, some markets have fared relatively better than others:
    - The highest rental rate growth markets since the start of the pandemic are Miami, Charlotte, and Austin.
    - Markets experiencing the most relative lift compared with pre-pandemic rental rate growth include Miami, Greensboro, Westchester, and Boston.

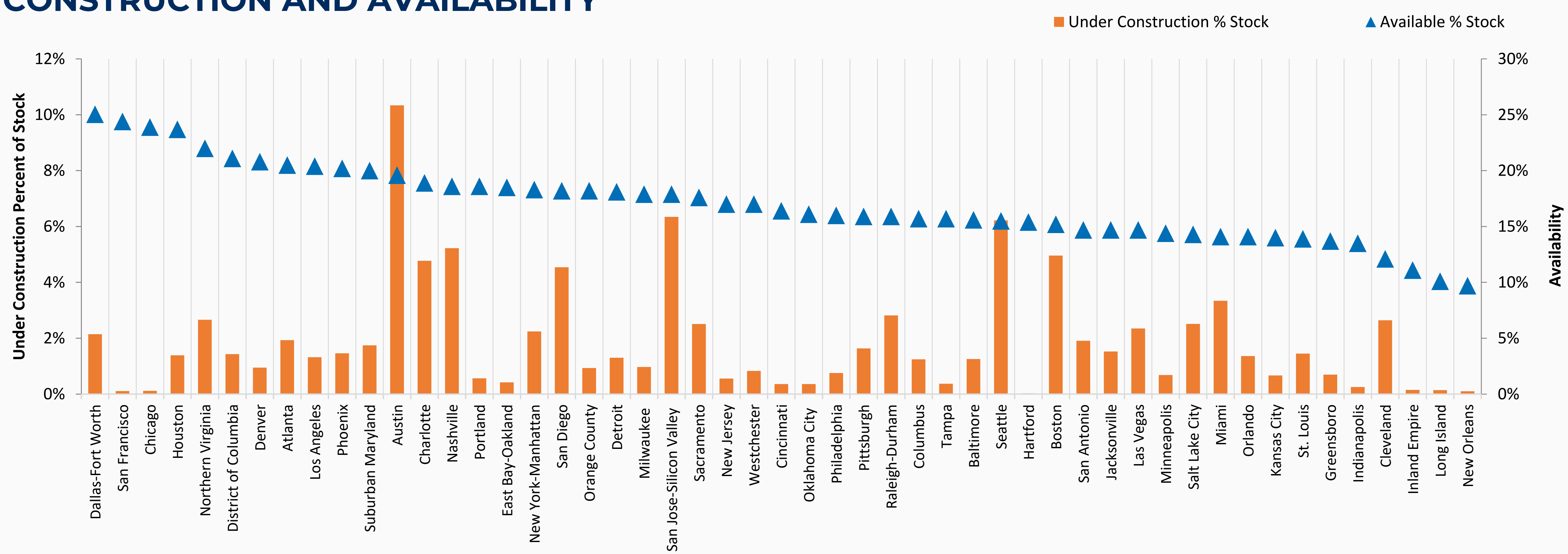
TRANSWESTERN

SUBLEASE AVAILABLE SQUARE FEET % STOCK



- This graph shows available sublet space as a percent of stock, which can react quickly to changes in demand.
- In Q2, only 43% of markets stayed constant or saw improvement from the previous quarter, mirroring the overall softening demand for the quarter.
- Sublet available SF remains elevated above pre-pandemic levels for all tracked markets excluding Miami and Jacksonville.

CONSTRUCTION AND AVAILABILITY



- Under construction percent of stock is indicative of future market expansion. Combined with availability percent of stock, it can also be a potential determinate of softening or tightening within a market.
- Markets with particularly high under construction stock and high availability as a percent of stock include Austin, San Jose-Silicon Valley, Nashville, Charlotte, and San Diego. Future vacancy will depend on how demand matches supply, and at what rate this demand absorbs unleased space.

Market	Inventory SF	Overall Vacancy Rate	Direct Vacancy Rate	Net Absorption	12-Month Net Absorption	Asking Rent Base	Annual Rent Change	Under Construction
Atlanta	254,587,428	16.3%	15.3%	1,010,436	3,117,309	$28.04	2.4%	4,921,328
Austin	111,695,345	13.8%	11.9%	499,107	2,650,510	$31.24	9.0%	11,547,557
Baltimore	107,707,099	14.5%	13.6%	(512,435)	(1,017,132)	$24.15	2.0%	1,352,464
Boston	297,073,597	10.6%	8.9%	136,049	3,067,055	$25.02	7.2%	14,736,991
Charlotte	94,394,616	14.6%	12.0%	339,599	965,405	$31.65	6.3%	4,507,025
Chicago	169,394,951	19.2%	17.2%	(502,205)	(3,052,221)	$28.20	-0.8%	200,000
Cincinnati	73,867,727	13.3%	12.3%	243,565	(689,852)	$14.36	3.3%	265,022
Cleveland	80,991,536	9.3%	9.0%	(396,654)	(585,739)	$17.56	2.5%	2,141,386
Columbus	79,869,610	11.7%	10.7%	(97,110)	(459,297)	$15.58	4.2%	994,719
Dallas-Fort Worth	296,779,120	20.8%	19.0%	(4,222)	2,399,995	$24.50	5.5%	6,361,720
Denver	157,717,247	16.1%	14.0%	(321,623)	398,828	$24.36	0.0%	1,498,162
Detroit	140,674,247	13.3%	12.4%	(22,562)	(435,916)	$18.28	0.7%	1,831,446
District of Columbia	149,145,731	16.1%	15.0%	(52,800)	(232,752)	$52.32	0.6%	2,131,569
East Bay-Oakland	83,145,846	15.6%	13.5%	(335,929)	(569,531)	$40.75	-4.0%	347,855
Greensboro	21,515,410	12.2%	11.0%	(62,243)	116,610	$17.22	3.5%	149,900
Hartford	48,565,741	11.1%	10.1%	(124,944)	(212,029)	$18.87	1.1%	12,587
Houston	322,888,253	20.1%	18.8%	298,745	1,255,354	$20.70	1.4%	4,479,193
Indianapolis	73,814,708	11.3%	10.6%	(43,783)	121,670	$20.31	2.3%	187,512
Inland Empire	38,865,756	7.8%	7.5%	242,645	546,831	$24.06	6.7%	57,842
Jacksonville	42,908,753	11.8%	10.7%	(147,536)	132,613	$20.84	1.9%	653,927
Kansas City	97,482,395	10.3%	9.0%	152,275	286,183	$19.78	-2.9%	651,907
Las Vegas	37,871,856	12.8%	11.4%	(160,214)	919,907	$24.31	2.7%	890,442
Long Island	63,678,161	8.2%	7.1%	(176,451)	(50,535)	$27.86	0.7%	91,378
Los Angeles	326,415,814	16.3%	14.8%	497,432	(398,501)	$40.14	0.9%	4,306,343
Miami	82,653,176	11.6%	11.1%	(27,071)	1,035,982	$44.26	11.8%	2,761,001

Market	Inventory SF	Overall Vacancy Rate	Direct Vacancy Rate	Net Absorption	12-Month Net Absorption	Asking Rent Base	Annual Rent Change	Under Construction
Milwaukee	59,074,364	11.8%	11.5%	(149,331)	129,269	$15.96	-0.1%	573,362
Minneapolis	172,646,177	11.9%	10.8%	(526,984)	(818,601)	$17.43	-0.7%	1,180,436
Nashville	70,116,780	14.0%	11.4%	(332,798)	168,263	$28.37	0.6%	3,664,550
New Jersey	316,079,391	13.2%	11.7%	(623,067)	(16,919)	$24.58	2.3%	1,756,221
New Orleans	35,352,985	9.0%	8.5%	(80,638)	620,658	$18.93	3.3%	35,519
New York-Manhattan	555,415,998	13.4%	11.2%	(217,398)	(1,778,581)	$54.78	1.4%	12,452,934
Northern Virginia	185,389,010	18.4%	17.2%	(772,878)	(1,256,844)	$33.69	2.7%	4,935,698
Oklahoma City	41,320,961	12.4%	12.1%	48,782	477,021	$18.21	4.6%	148,561
Orange County	119,163,102	13.3%	11.7%	706,742	726,377	$28.06	-0.5%	1,111,192
Orlando	66,775,884	9.6%	8.4%	8,273	435,570	$22.45	4.2%	910,195
Philadelphia	238,892,280	11.2%	10.0%	645,858	994,998	$24.65	1.8%	1,804,580
Phoenix	144,281,843	16.4%	13.9%	465,805	(890,816)	$26.64	3.3%	1,450,536
Pittsburgh	106,341,914	12.5%	11.5%	(51,098)	(124,243)	$24.16	-0.7%	1,737,886
Portland	83,174,108	15.5%	14.0%	(125,066)	(1,129,408)	$27.41	2.3%	469,584
Raleigh-Durham	83,659,598	10.6%	9.2%	263,434	842,538	$29.29	8.0%	2,356,877
Sacramento	72,145,979	13.5%	12.7%	(448,997)	(67,000)	$24.24	2.4%	1,810,000
Salt Lake City	62,406,776	10.5%	8.8%	1,245,838	1,268,228	$25.02	2.1%	1,567,765
San Antonio	59,992,606	11.3%	9.9%	(48,426)	(486,823)	$21.65	0.1%	1,144,315
San Diego	87,646,236	12.6%	11.7%	714,547	1,596,486	$35.19	4.5%	3,981,855
San Francisco	118,664,581	17.8%	14.0%	(880,503)	(2,163,266)	$52.82	-7.2%	126,782
San Jose-Silicon Valley	118,794,118	13.7%	10.9%	120,135	3,237,070	$49.59	0.9%	7,540,098
Seattle	169,004,716	12.0%	10.1%	(306,023)	452,223	$29.82	0.3%	10,510,132
St. Louis	108,953,327	10.6%	10.0%	(95,222)	(634,380)	$21.25	2.7%	1,579,747
Suburban Maryland	83,874,487	16.5%	15.5%	(238,295)	84,249	$28.38	2.2%	1,464,196
Tampa	80,161,938	12.2%	9.6%	(137,678)	(901,961)	$26.97	6.2%	298,229
Westchester	132,965,205	12.5%	11.1%	(801,373)	(170,489)	$29.80	2.6%	1,101,850

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ABOUT TRANSWESTERN

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RESEARCH METHODOLOGY

The information in this report is a compilation of single and multi-tenant office properties located in select U.S. metropolitan areas. Medical offices and government-owned buildings are excluded from analysis. All rents are reported as base, which are rents reflected irrespective of service type (Full Service, Plus Electric, etc.).