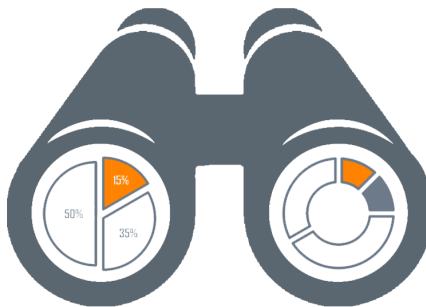


COMMERCIAL REAL ESTATE

U.S. MARKET | Office



THE VIEW FROM HERE



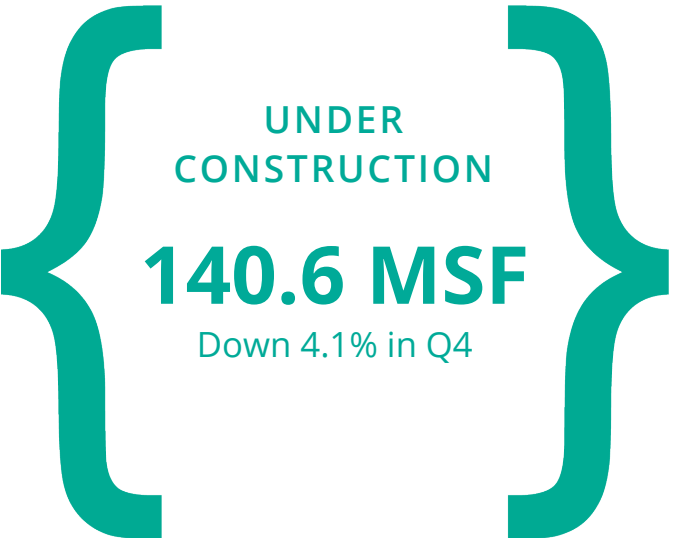
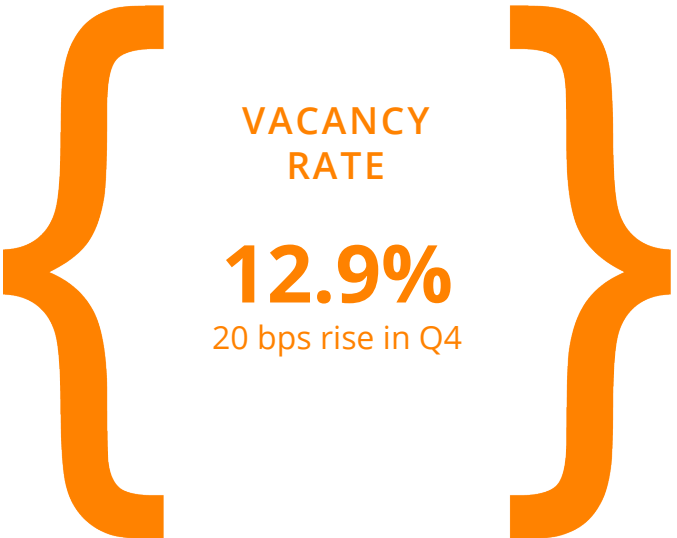
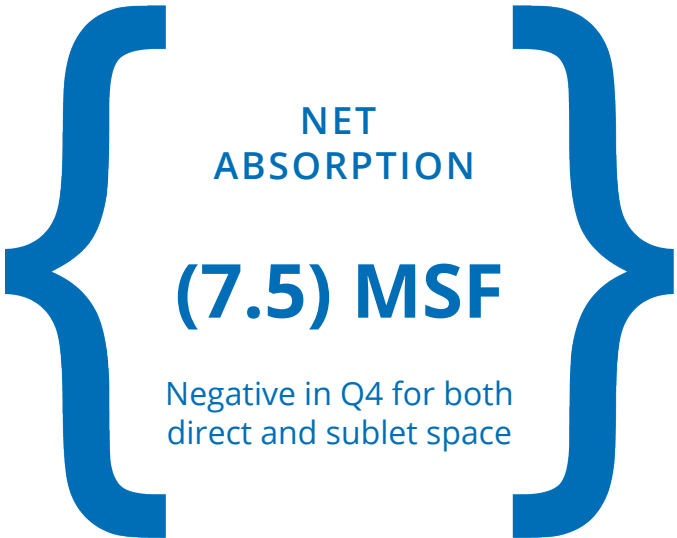

Landlords fight to remain competitive, but stress in the debt stack will likely recalibrate concession expectations



Economic headwinds could soon give employers more leverage regarding return-to-office policies



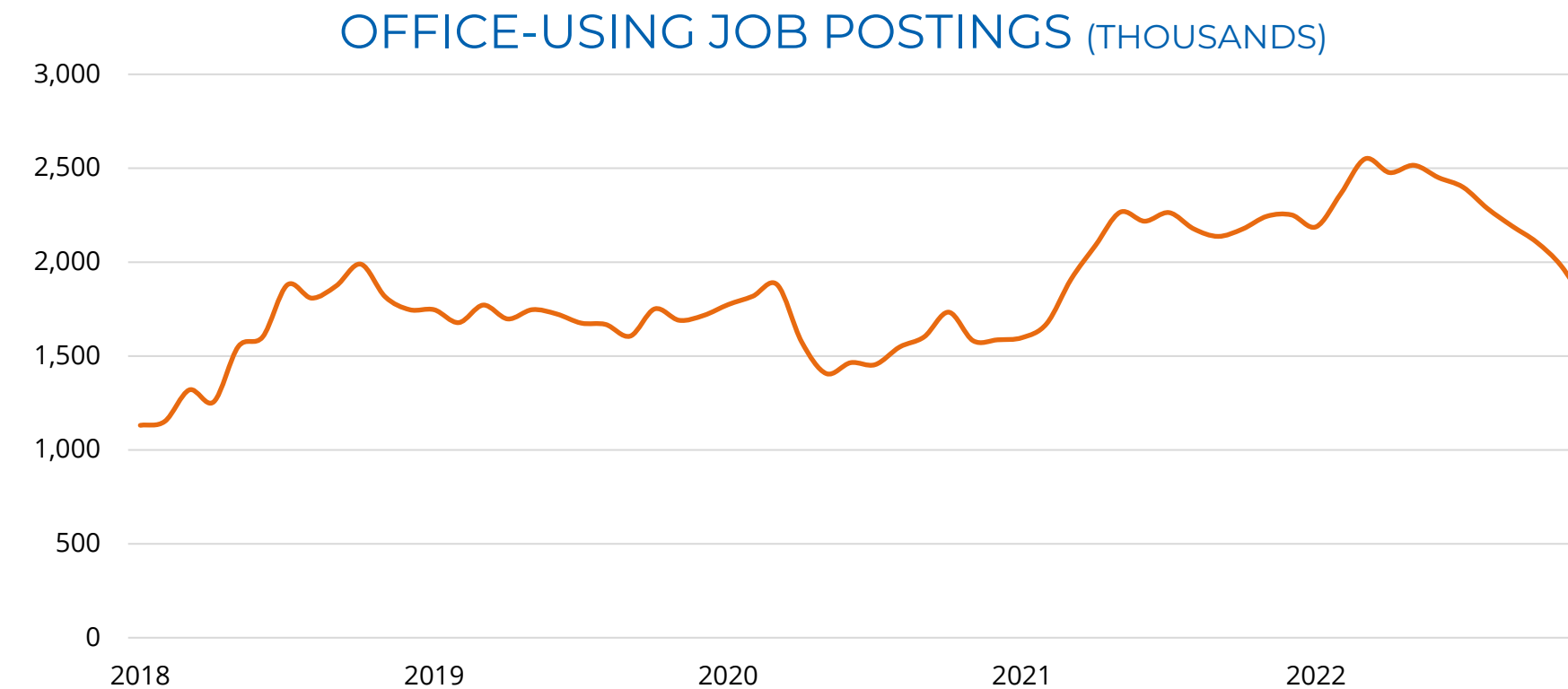
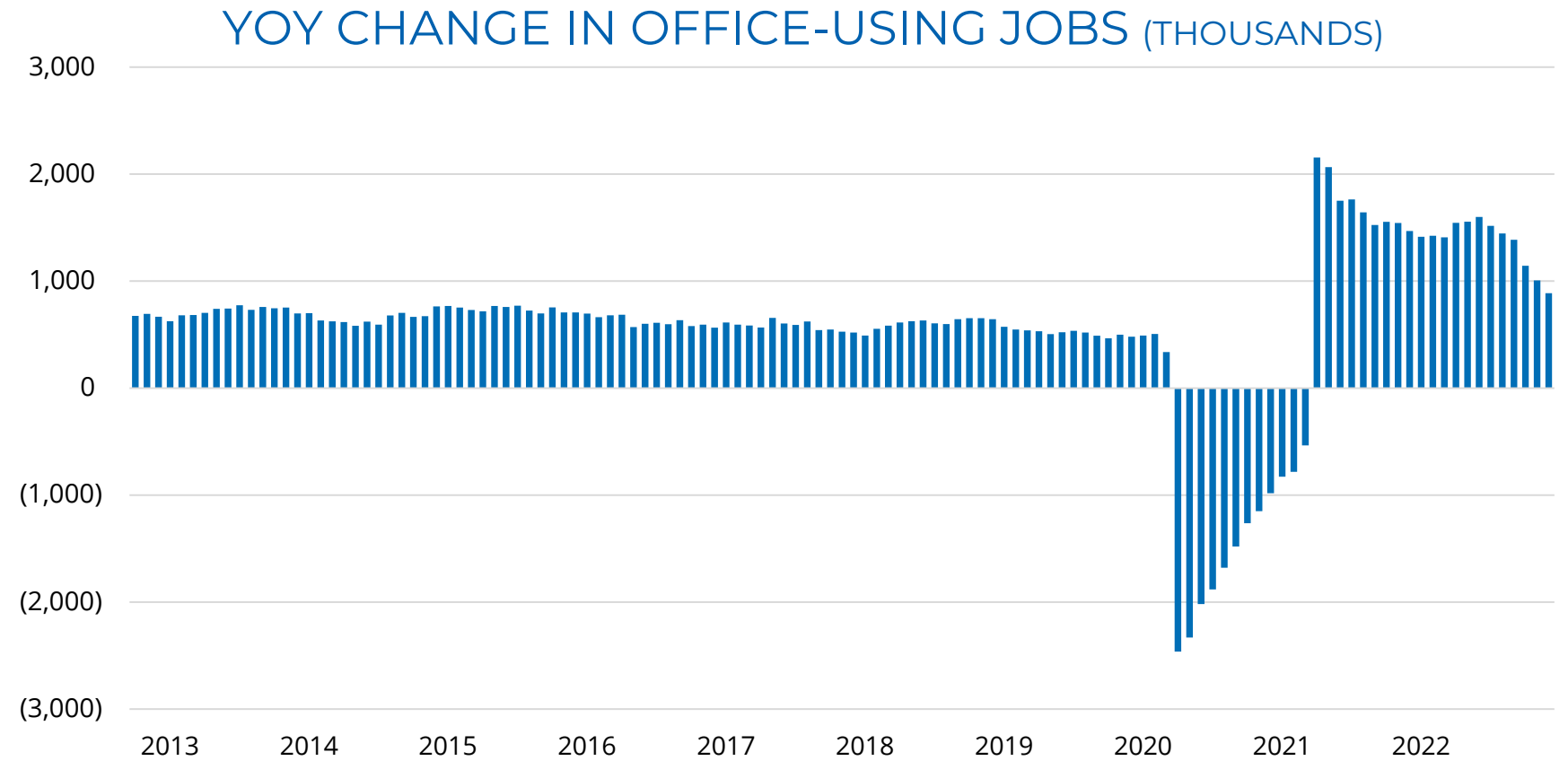
In uncertain environment, building health and experiential amenities proving to boost attractiveness of assets



ECONOMIC HIGHLIGHTS

- Office-using employment grew at a healthy pace year-over-year, just above pre-pandemic levels. However, growth is decelerating as the economic climate has softened over the past several months.
- Employers added 81,700 new office-using jobs during Q4, a sharp reduction compared to the revised 264,600 jobs during Q3.
- During the quarter, jobs were cut in employment and business services as companies looked to control administrative spending.
- Hiring grew at a healthy rate for accounting services and business consulting, followed by more moderate growth in advertising.
- Office-using job postings decelerated at a steeper rate during Q4 as companies pulled back on hiring.
- The impact was greatest within the tech sector, with big tech firms such as Meta, Microsoft, and Google reducing headcount in the face of high inflation and recession fears.
- Although total job postings are slightly above pre-pandemic levels, we expect future deceleration given growing concern about the economy, which likely will translate to reduced demand for office space.

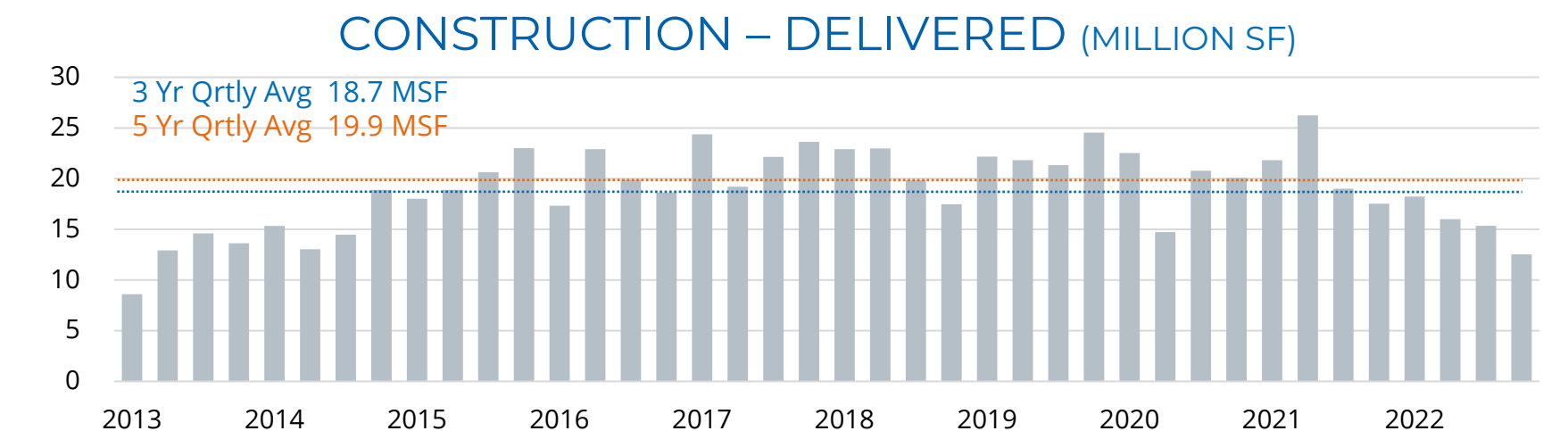
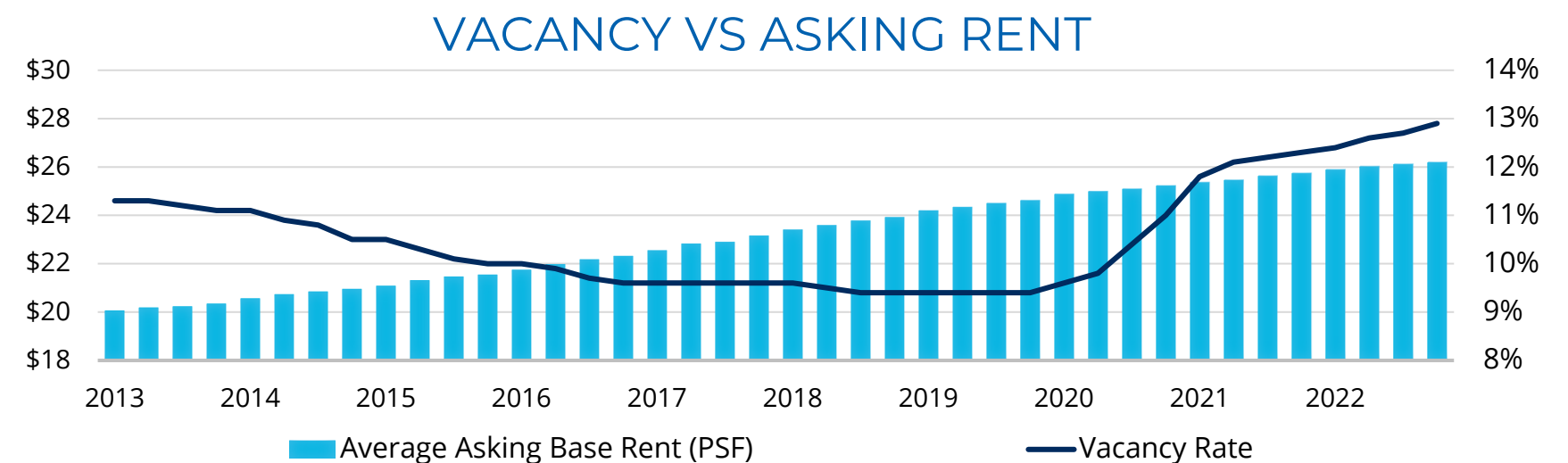
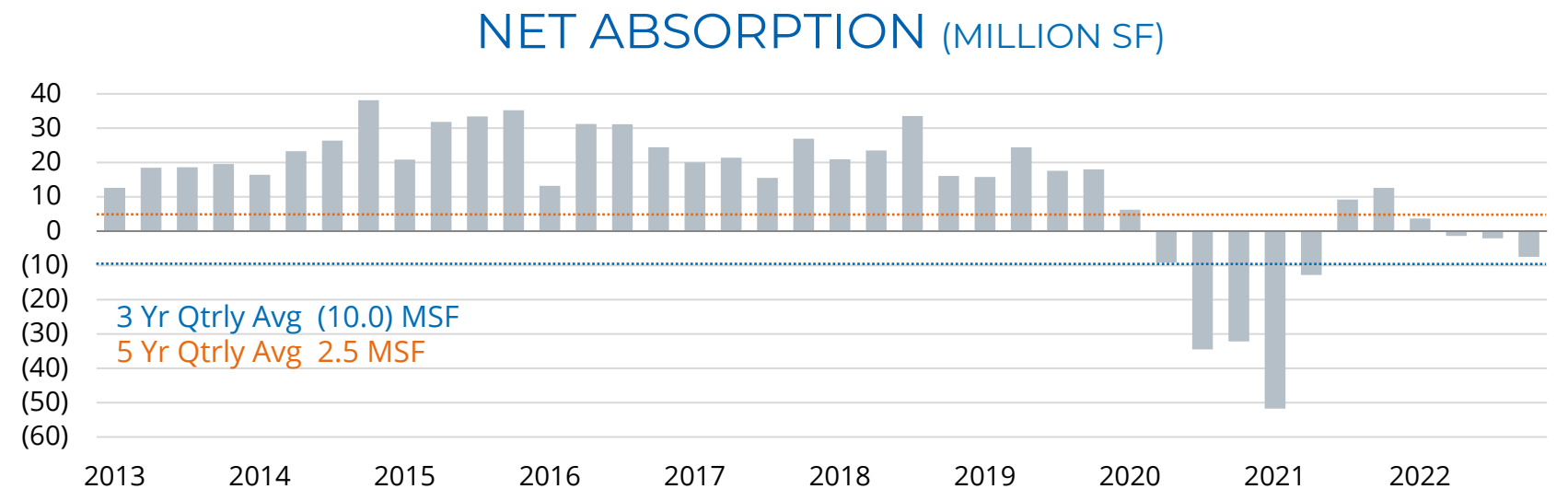
HISTORICAL



MARKET HIGHLIGHTS

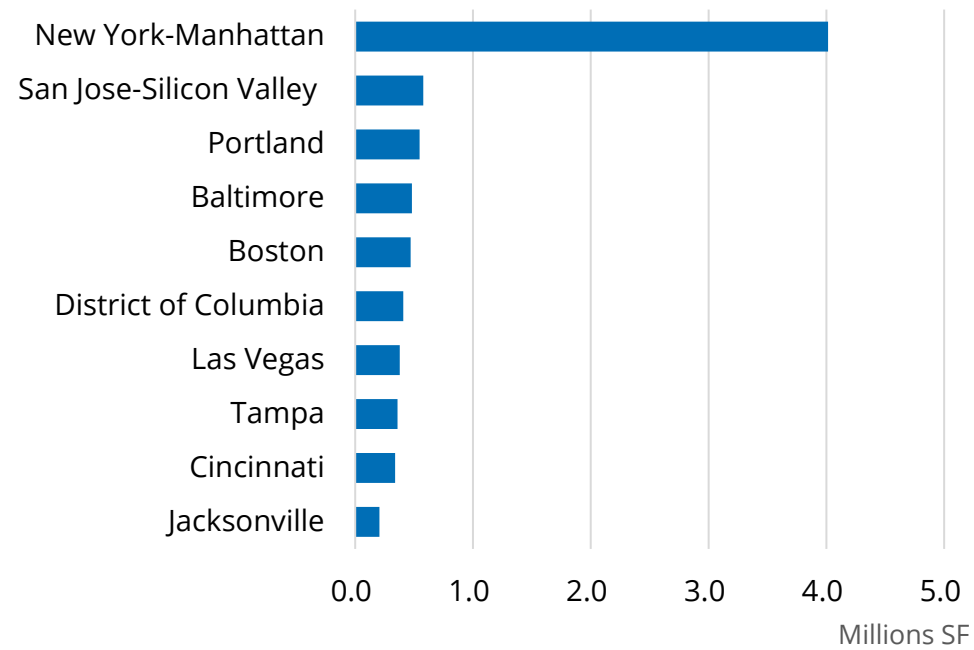
- Office market fundamentals softened with negative 7.5 MSF in net absorption during Q4, which accounts for both direct and sublet space.
- After five quarters of positive absorption, direct absorption soured with negative 480,000 SF during the period, as leasing activity could not keep pace with tenants contracting space.
- 21 of 51 tracked markets registered positive net absorption, led mostly by smaller markets. The exception was New York with robust absorption driven by the pre-leased deliveries at Hudson Yards.
- The overall vacancy rate rose 20 basis points to 12.9% and is up 330 basis points since the start of the pandemic.
- Asking rents rose 1.7% YoY, as new construction coming online elevated the overall average.
- Despite this rise, effective rents are under pressure as landlords offer above-average concessions in most major markets. Concessions could soon face pressure, as select over-leveraged and ill-leased landlords encounter challenges as loans come due.
- Although tenants are reducing space by upwards of 30%, most companies believe a physical office space is needed. However, many up for renewal are befuddled regarding how to reduce space for remote work while also preparing for future expansion needs.
- Declining construction levels should help balance supply/demand fundamentals in time. However, recovery will take several quarters given the sizable oversupply, and weakness in the sublet market will remain challenging.

HISTORICAL



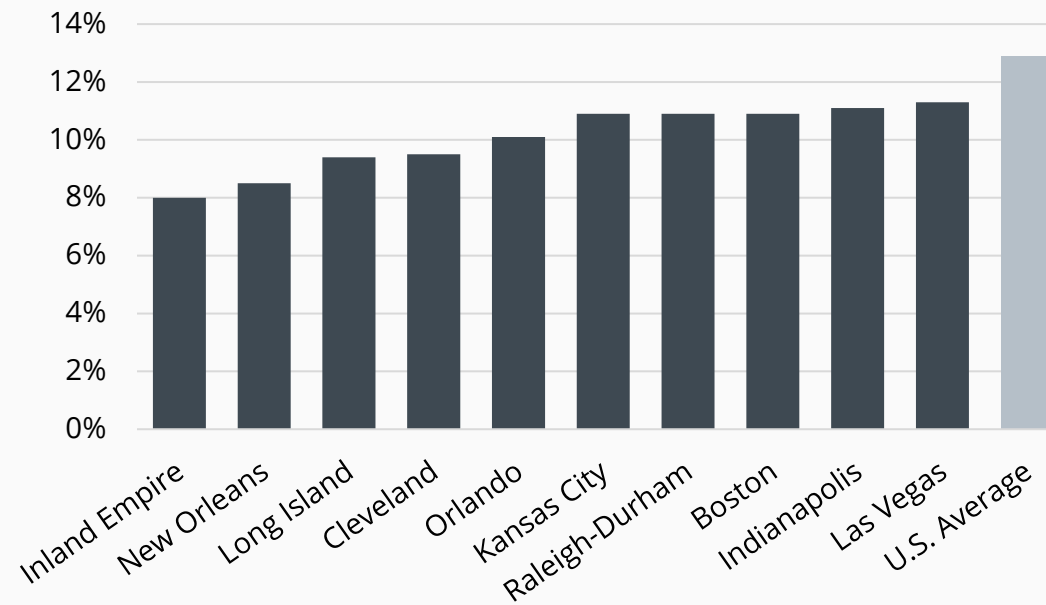
NET ABSORPTION

Q4 2022 Net Absorption



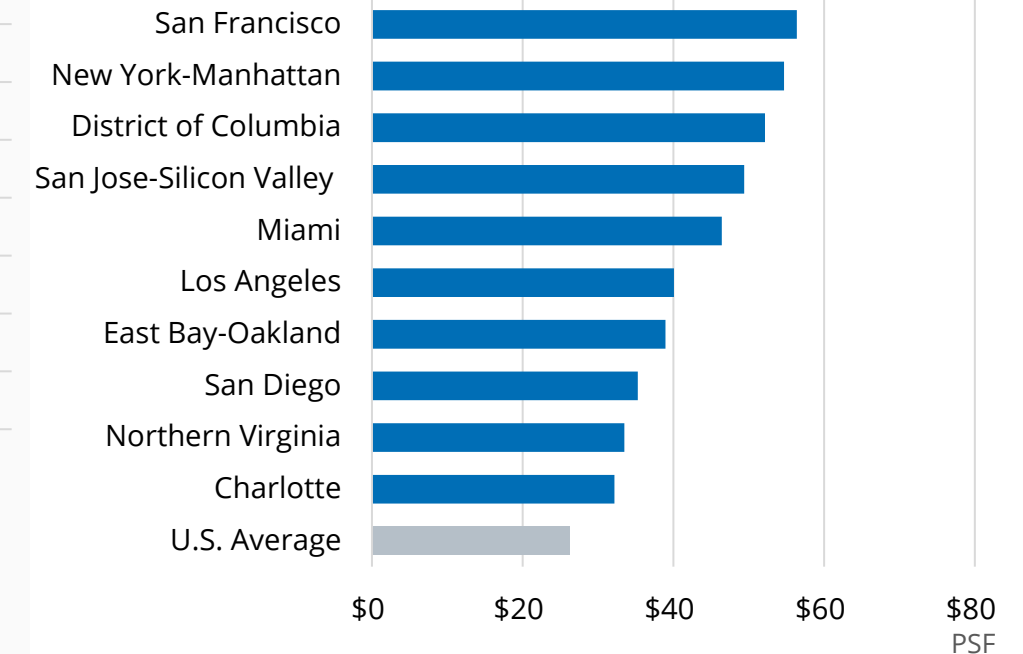
VACANCY/CONSTRUCTION

Q4 2022 Overall Vacancy Rate

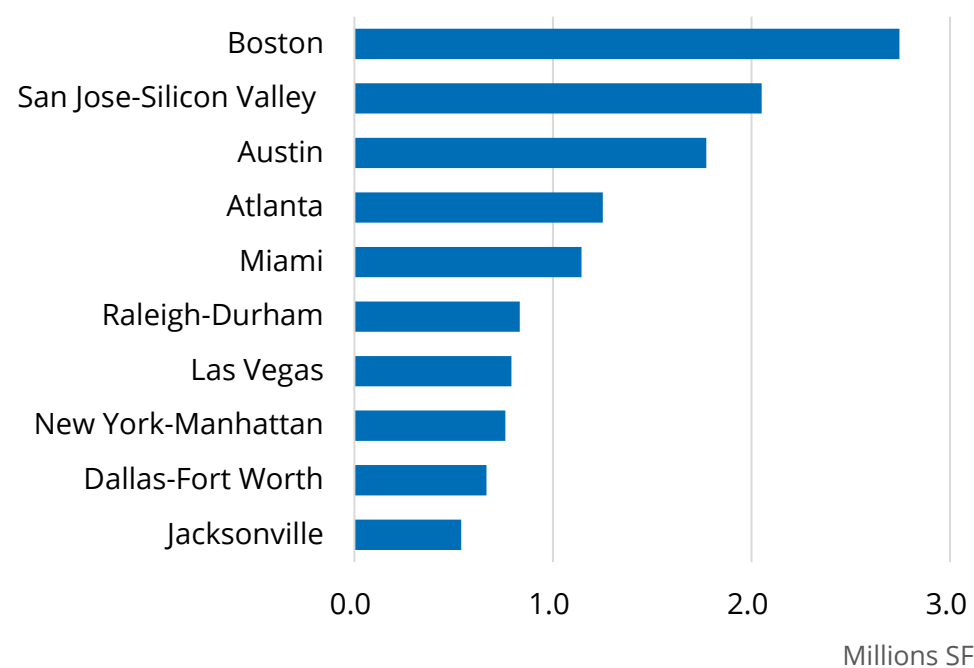


ASKING RENTS

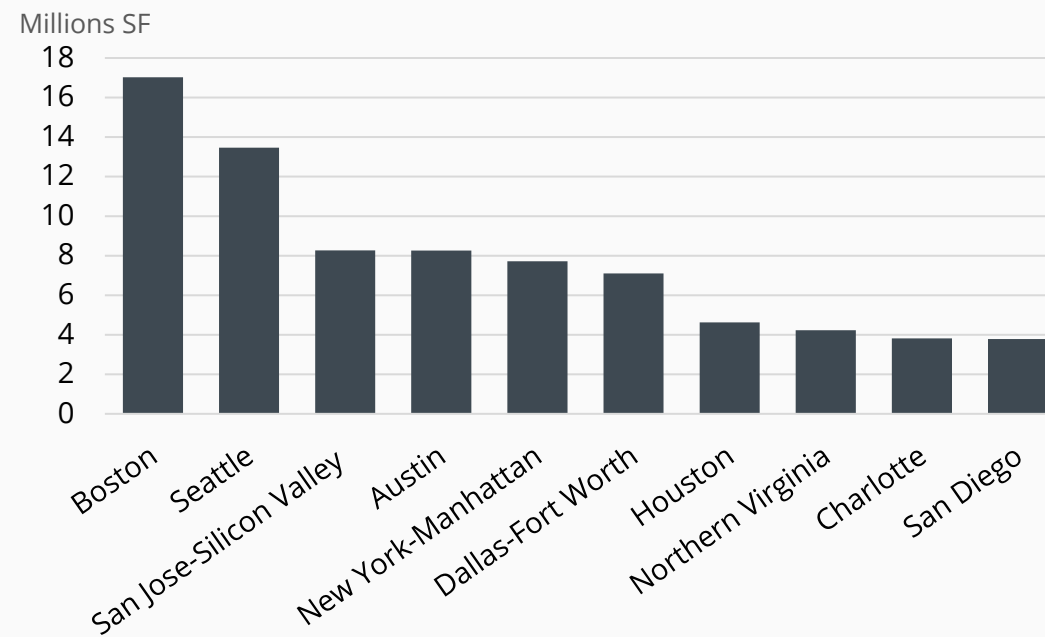
Q4 2022 Asking Rate (Base)



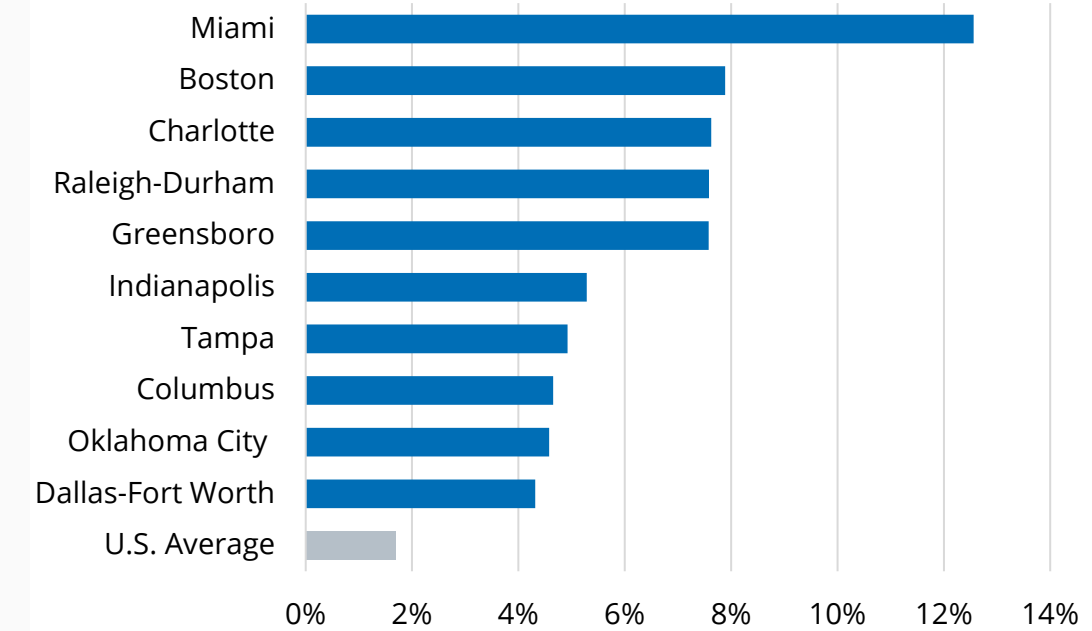
Trailing 4-Qtr Net Absorption



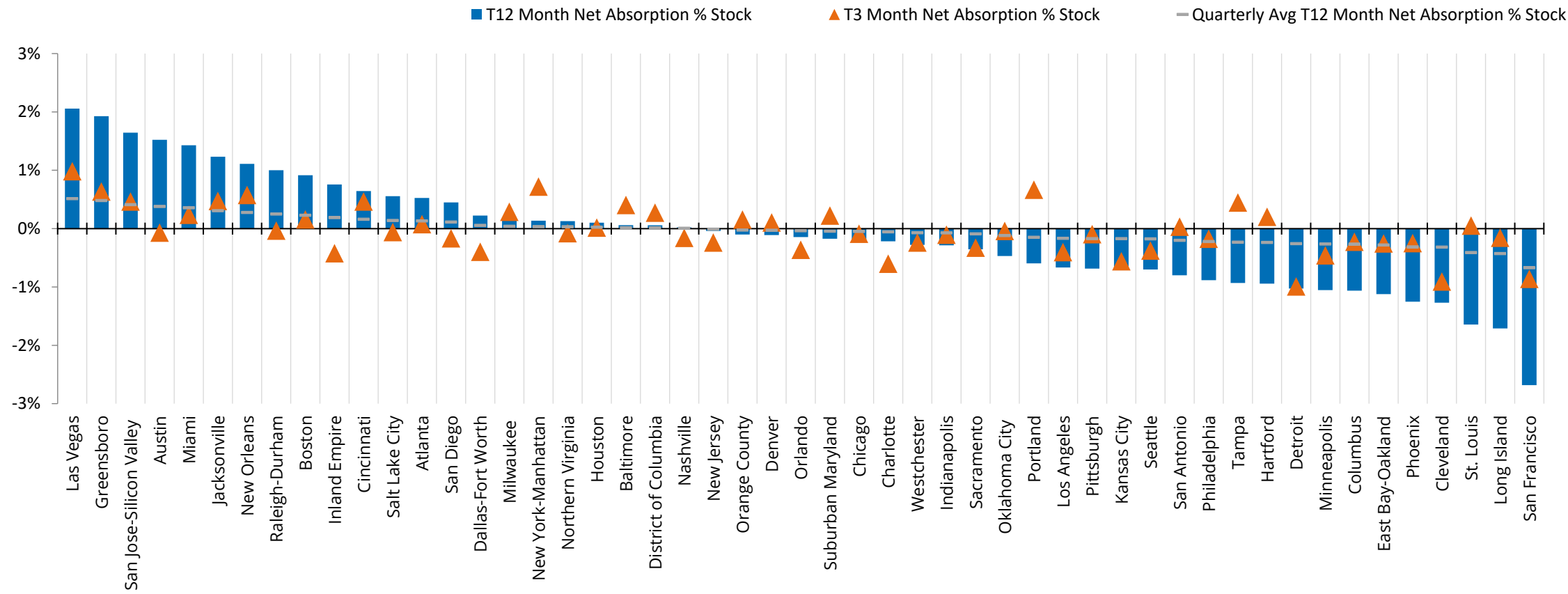
Q4 2022 Under Construction



Year-Over-Year Rent Growth

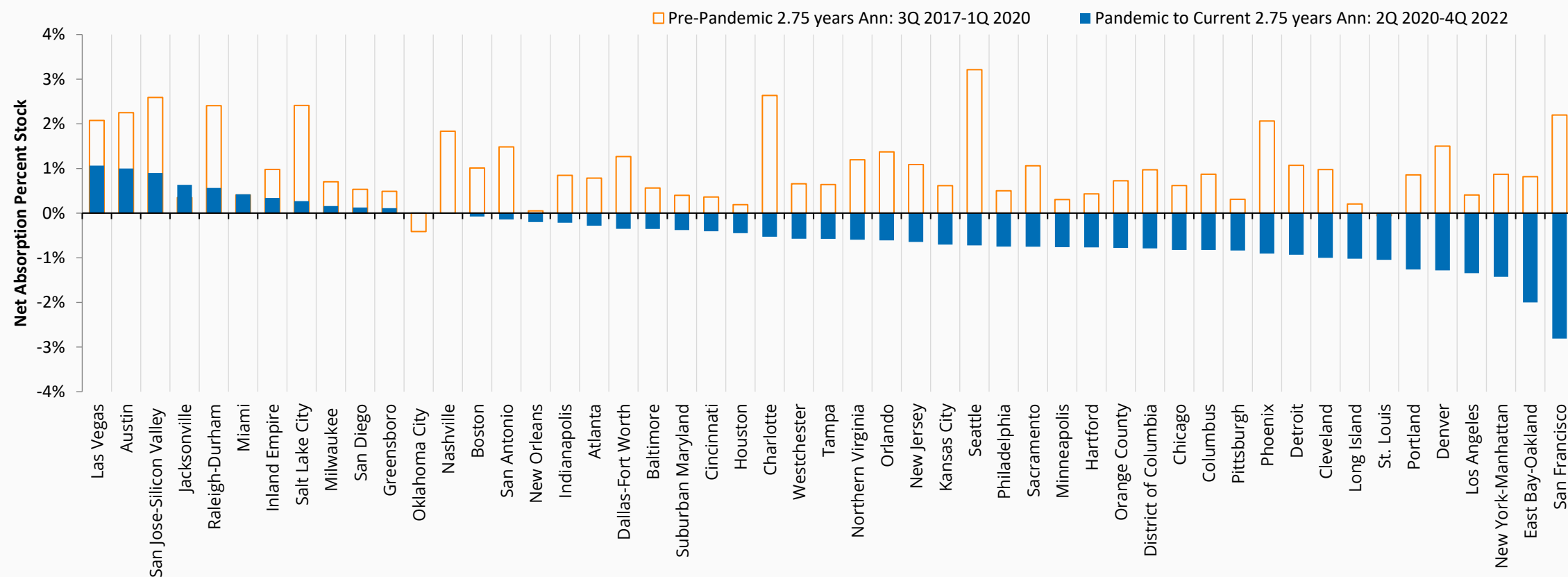


NET ABSORPTION % STOCK



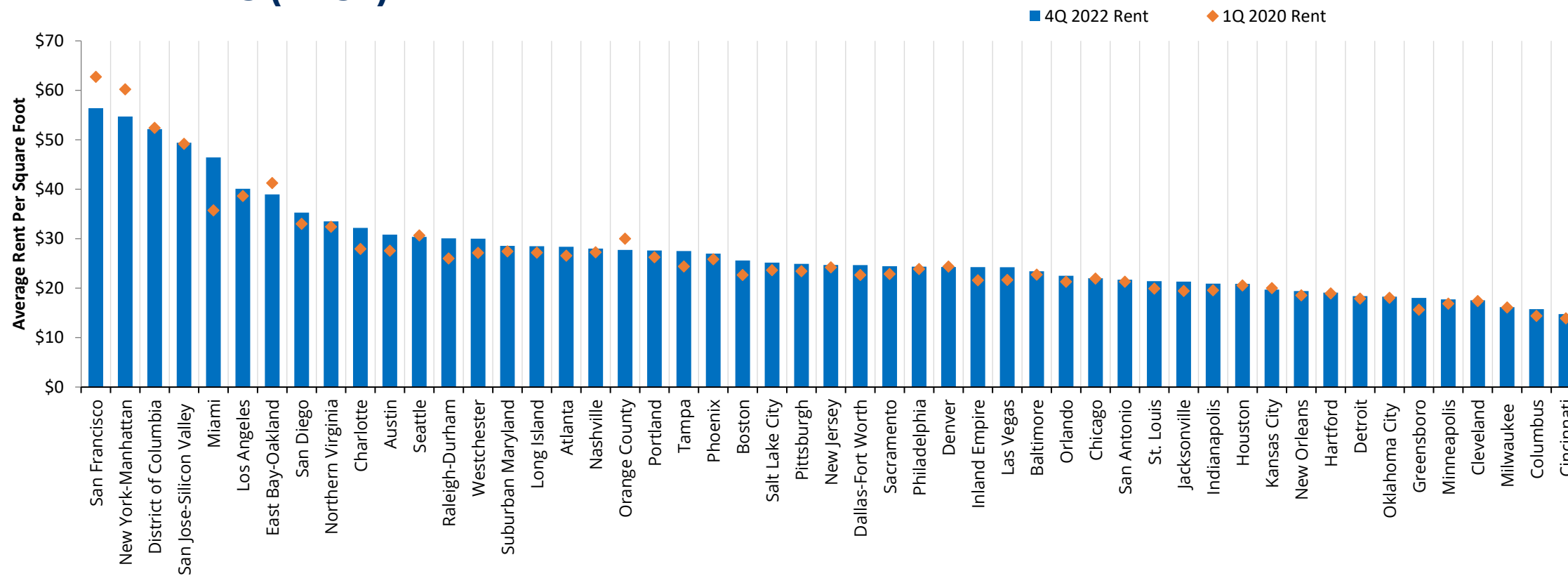
- Demand for office space remains muted with only 27% of markets managing positive net absorption for both the quarter and the trailing 12-months.
- Top markets for trailing 12-month net absorption that also saw positive net absorption for the quarter include Las Vegas, Greensboro, and San Jose-Silicon Valley.
- Demand for office continues to soften with only 49% of markets' quarterly net absorption beating their trailing 12-month quarterly average net absorption.

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



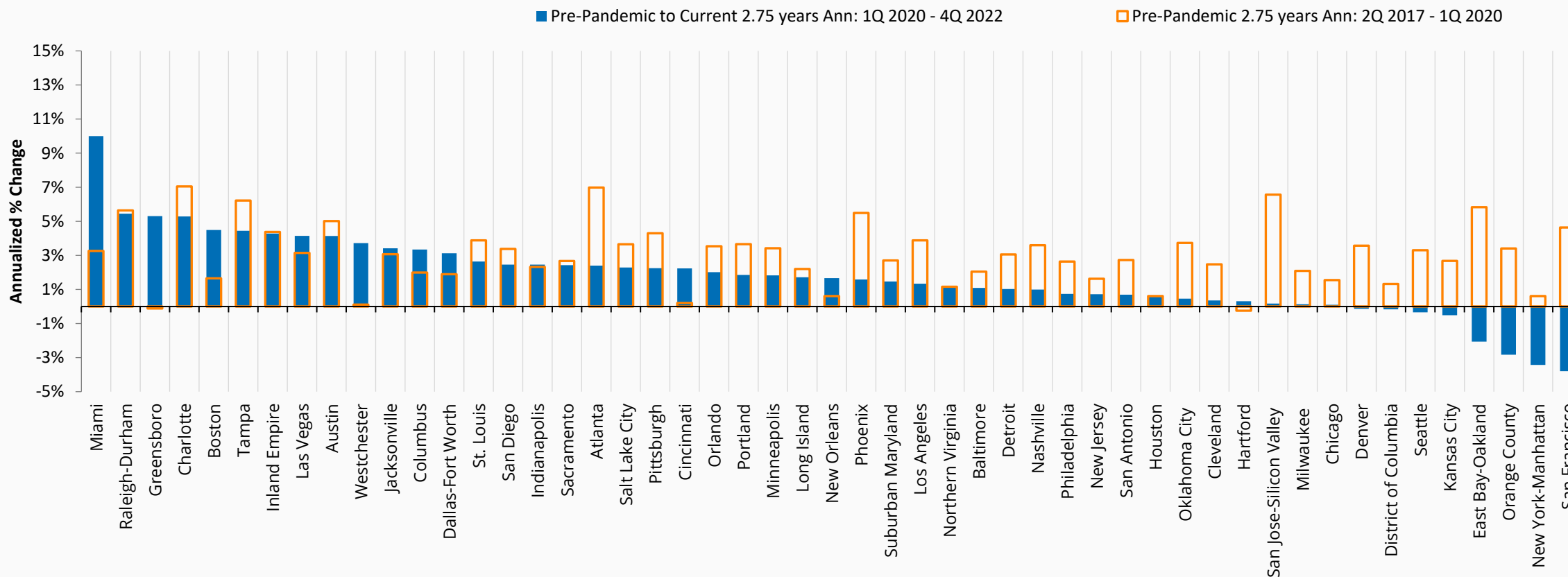
- This graph compares net absorption as a percent of stock annualized for the 2.75 years preceding the start of the pandemic to the 2.75 years since the pandemic began.
- Markets experiencing an expansionary trend before the pandemic that have also managed positive growth since Q2 2020 may be in the best position. Top markets include Las Vegas, Austin, San Jose-Silicon Valley, Jacksonville, and Raleigh-Durham.

RENTAL RATES (BASE)



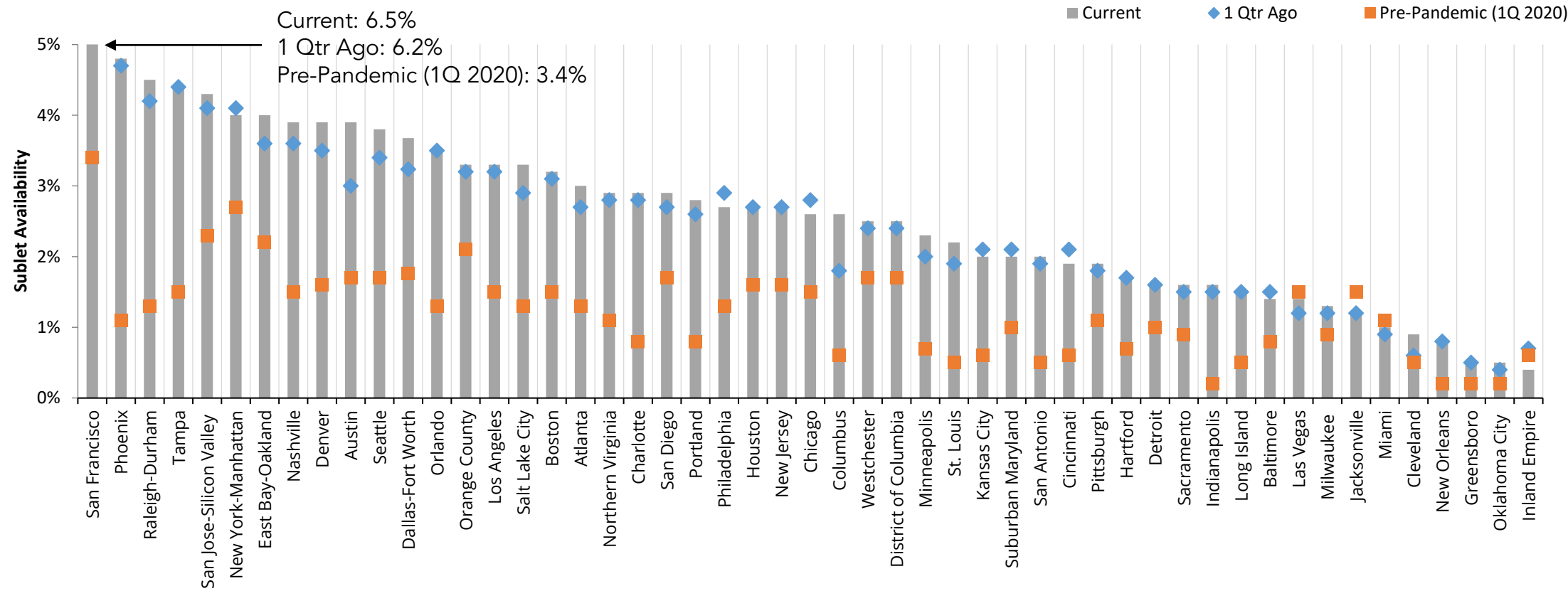
- The largest, densest, and most developed markets have historically commanded significantly higher rental rates, yet pandemic-related trends have diminished these markets' lead.
- Since the beginning of the pandemic, the two most expensive markets, San Francisco and New York, have experienced the largest declines in rental rates at 10% and 9%, respectively. Orange County closely follows with an 8% decline.
- Miami has experienced the reverse with a strong gain in rents, up 30%, driven by demand in the urban core.

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



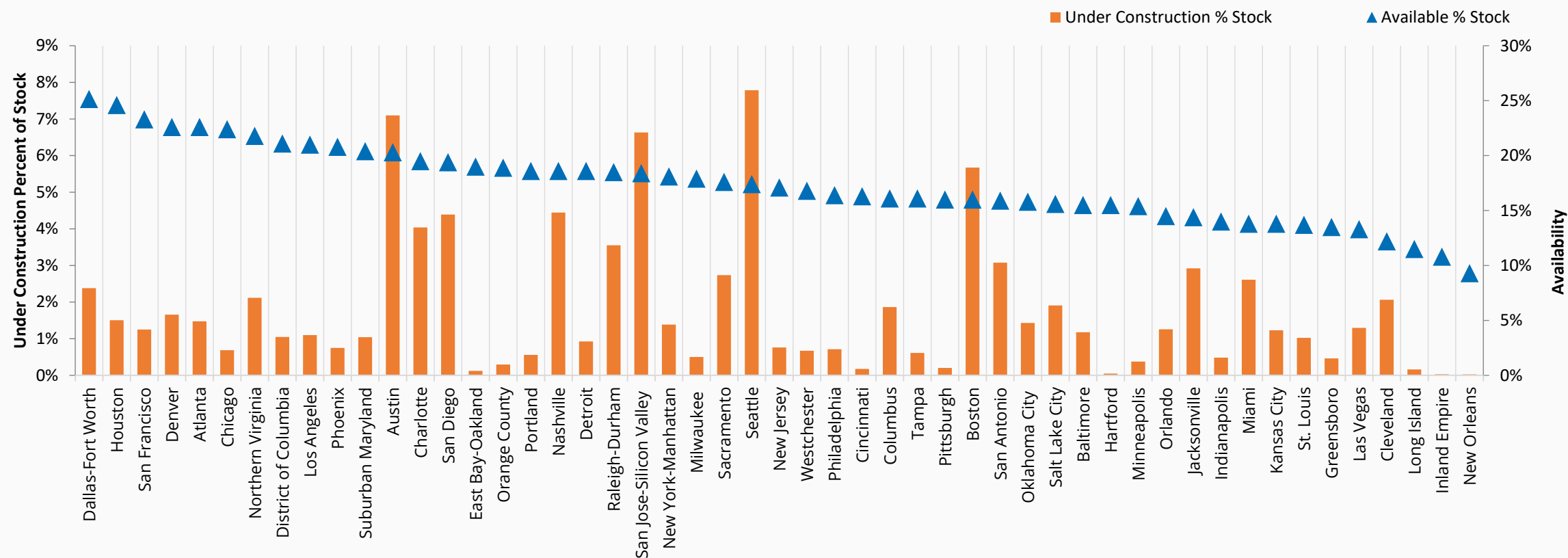
- While the return to office is underway, demand for space has yet to return to pre-pandemic levels in most markets, keeping concessions high and putting pressure on effective rental rates.
- However, some markets have fared relatively better than others:
 - The highest rental rate growth markets since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

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 Q4, only 35% 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, Jacksonville, Las Vegas, and the Inland Empire.

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 and high availability as a percent of stock include Austin, Charlotte, San Diego, Nashville, Raleigh-Durham, San Jose-Silicon Valley, and Seattle. 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	238,329,130	17.5%	16.5%	181,627	1,250,723	\$28.36	2.5%	3,517,131
Austin	116,389,311	15.2%	12.5%	(80,183)	1,772,646	\$30.82	3.4%	8,258,959
Baltimore	119,098,593	13.6%	12.6%	482,106	70,605	\$23.42	-1.3%	1,402,317
Boston	300,141,840	10.9%	8.9%	470,542	2,744,321	\$25.58	7.9%	17,026,404
Charlotte	94,543,075	15.1%	12.4%	(568,337)	(206,079)	\$32.18	7.6%	3,817,598
Chicago	404,397,842	17.7%	16.4%	(355,083)	(777,646)	\$22.00	0.7%	2,771,954
Cincinnati	73,112,637	12.6%	11.5%	339,772	470,143	\$14.76	4.3%	129,122
Cleveland	79,955,402	9.5%	8.8%	(724,733)	(1,015,303)	\$17.55	-0.3%	1,650,510
Columbus	80,158,520	13.0%	10.7%	(180,766)	(851,826)	\$15.74	4.7%	1,493,850
Dallas-Fort Worth	298,228,156	21.0%	18.8%	(1,186,120)	665,629	\$24.65	4.3%	7,100,512
Denver	157,765,234	16.7%	14.2%	167,562	(175,664)	\$24.27	0.4%	2,615,633
Detroit	136,651,276	14.2%	13.0%	(1,353,439)	(1,403,430)	\$18.39	1.8%	1,265,037
District of Columbia	149,657,549	16.3%	14.9%	408,194	86,211	\$52.16	-0.4%	1,568,189
East Bay-Oakland	89,287,733	15.7%	13.2%	(225,734)	(1,002,846)	\$38.95	-2.2%	110,145
Greensboro	21,617,832	11.5%	11.2%	137,484	416,711	\$18.03	7.6%	100,000
Hartford	47,983,828	11.4%	10.3%	96,858	(452,127)	\$19.10	2.5%	22,587
Houston	306,958,325	20.7%	19.5%	53,994	310,073	\$20.86	1.0%	4,624,499
Indianapolis	73,711,090	11.1%	10.2%	(77,059)	(210,667)	\$20.92	5.3%	356,925
Inland Empire	38,383,008	8.0%	7.8%	(162,032)	290,228	\$24.24	3.6%	11,148
Jacksonville	43,701,203	11.5%	10.4%	206,827	538,332	\$21.31	3.6%	1,276,900
Kansas City	97,011,421	10.9%	9.5%	(542,418)	(665,618)	\$19.71	0.8%	1,194,027
Las Vegas	38,465,128	11.3%	10.0%	378,291	791,274	\$24.23	0.4%	498,794
Long Island	63,487,547	9.4%	8.3%	(98,996)	(1,085,922)	\$28.47	2.0%	102,127
Los Angeles	326,238,570	17.2%	15.5%	(1,311,112)	(2,175,833)	\$40.08	-0.3%	3,590,196
Miami	80,066,896	11.4%	10.9%	190,207	1,144,250	\$46.42	12.6%	2,090,429

Market	Inventory SF	Overall Vacancy Rate	Direct Vacancy Rate	Net Absorption	12-Month Net Absorption	Asking Rent Base	Annual Rent Change	Under Construction
Milwaukee	58,411,736	11.8%	11.5%	168,739	95,226	\$16.15	1.4%	293,773
Minneapolis	171,403,647	12.5%	10.9%	(783,508)	(1,805,817)	\$17.72	-0.2%	644,098
Nashville	69,948,254	14.7%	11.9%	(110,939)	14,298	\$27.99	-0.4%	3,109,236
New Jersey	317,161,571	13.1%	11.6%	(755,325)	(128,389)	\$24.69	1.4%	2,415,054
New Orleans	35,429,597	8.5%	8.0%	204,166	393,098	\$19.41	4.3%	10,000
New York-Manhattan	556,822,050	13.8%	11.4%	4,013,835	760,446	\$54.69	-0.5%	7,721,890
Northern Virginia	199,793,715	18.1%	16.9%	(154,019)	220	\$33.50	0.4%	4,232,311
Oklahoma City	41,385,504	12.8%	12.6%	(16,215)	(194,104)	\$18.27	4.6%	591,561
Orange County	118,615,438	13.9%	12.2%	182,826	(120,571)	\$27.72	-2.9%	351,087
Orlando	66,965,727	10.1%	8.8%	(243,080)	(96,386)	\$22.49	0.2%	842,140
Philadelphia	237,052,549	11.9%	10.4%	(411,635)	(2,093,720)	\$24.35	-0.2%	1,690,523
Phoenix	141,820,240	17.5%	14.0%	(352,593)	(1,776,442)	\$26.98	2.8%	1,064,800
Pittsburgh	106,263,107	13.2%	11.9%	(100,804)	(728,547)	\$24.92	3.2%	216,000
Portland	82,032,911	15.1%	13.3%	546,859	(488,393)	\$27.61	1.1%	457,649
Raleigh-Durham	83,203,218	10.9%	8.9%	(27,661)	832,571	\$30.07	7.6%	2,955,891
Sacramento	77,242,576	13.7%	12.8%	(252,509)	(274,763)	\$24.43	2.2%	2,114,000
Salt Lake City	63,488,280	12.0%	10.0%	(37,837)	353,185	\$25.16	2.6%	1,211,467
San Antonio	59,697,774	11.5%	9.9%	18,985	(477,260)	\$21.71	-1.2%	1,837,165
San Diego	86,182,713	12.8%	11.3%	(142,248)	387,784	\$35.28	2.8%	3,784,904
San Francisco	168,101,144	17.9%	14.0%	(1,446,171)	(4,510,475)	\$56.39	-2.1%	2,102,033
San Jose-Silicon Valley	124,701,722	13.0%	10.5%	578,665	2,051,071	\$49.41	-0.8%	8,270,895
Seattle	172,967,740	12.6%	10.5%	(650,629)	(1,211,754)	\$30.37	1.2%	13,466,515
St. Louis	106,499,546	12.2%	10.7%	54,899	(1,750,307)	\$21.40	2.5%	1,091,747
Suburban Maryland	84,412,477	17.1%	16.0%	188,125	(146,659)	\$28.55	2.0%	879,224
Tampa	80,225,405	12.1%	9.5%	359,149	(747,592)	\$27.49	4.9%	492,012
Westchester	133,106,874	12.8%	11.2%	(317,042)	(371,621)	\$30.00	1.3%	893,778



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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.).