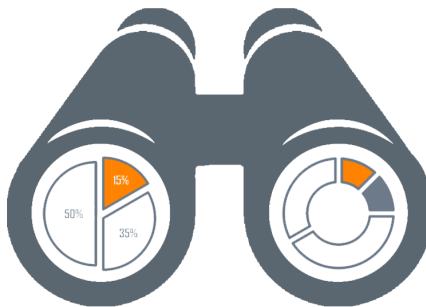


COMMERCIAL REAL ESTATE

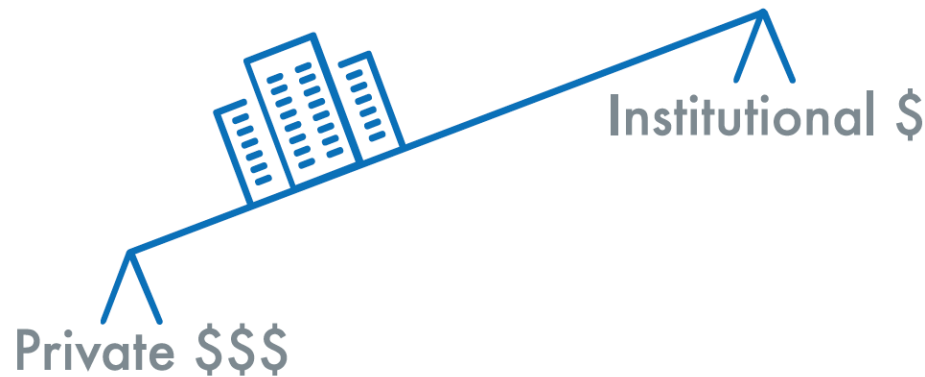
U.S. MARKET | Office



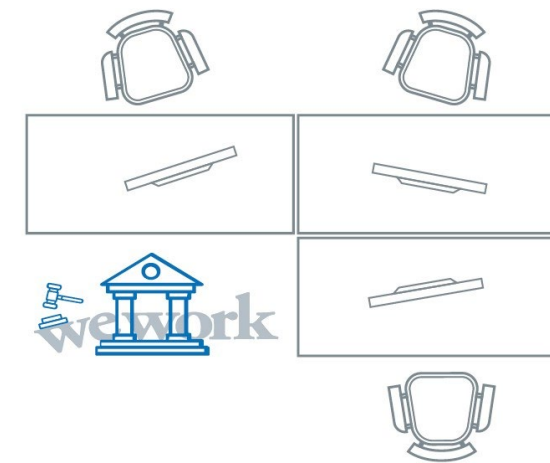
THE VIEW FROM HERE



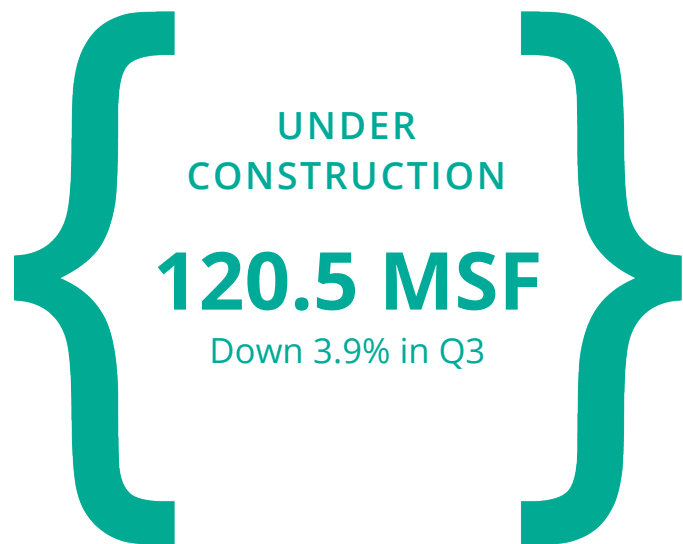
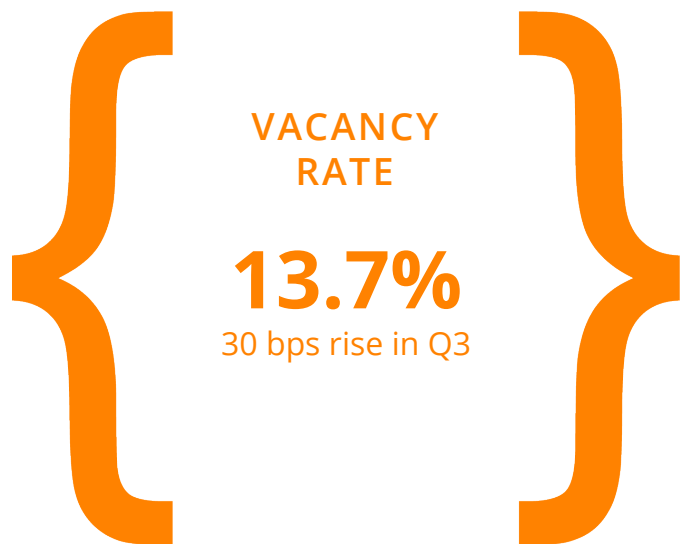
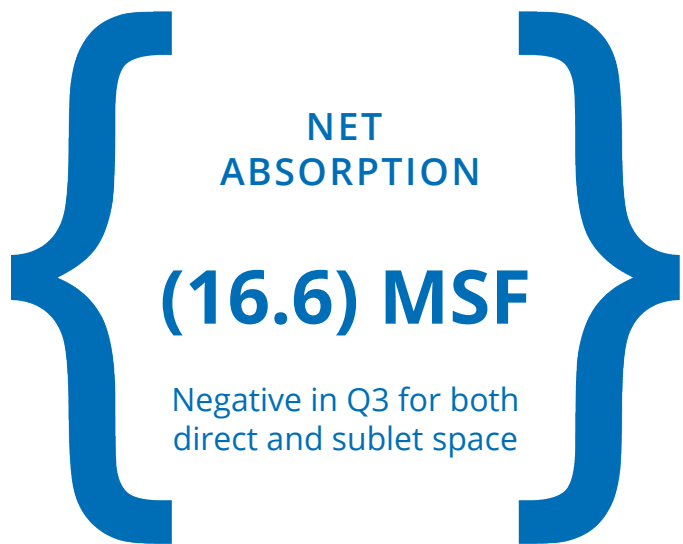

Higher interest rates, coupled with a wave of loan maturities and modified debt, are likely to lead to increased delinquencies.



Heightened risk in office is pushing out institutional capital, opening the door for private equity to enter at reset pricing.



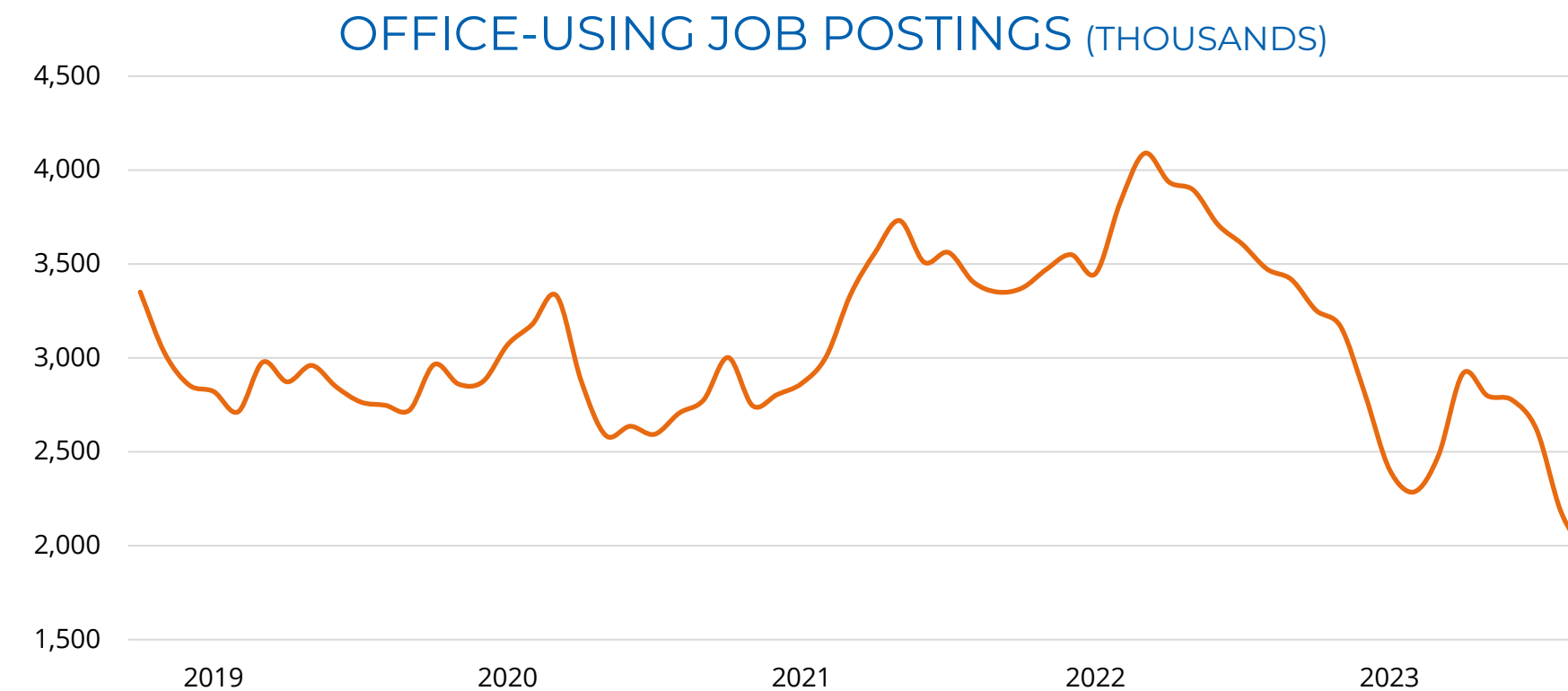
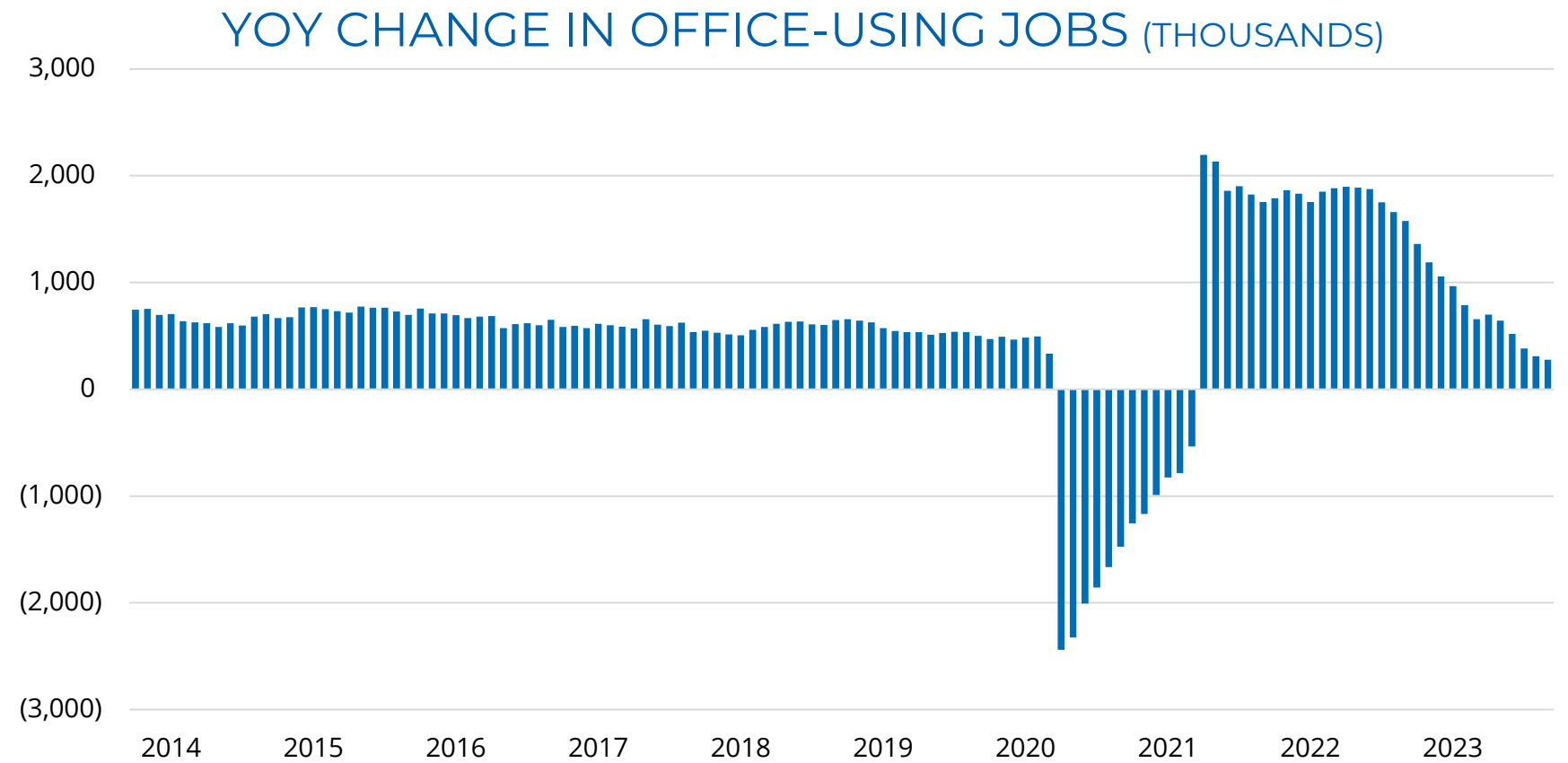
Though WeWork has filed Chapter 11, co-working remains a viable service for users who value flexibility.



ECONOMIC HIGHLIGHTS

- 276,000 office-using jobs were added to the economy YoY. Growth has decelerated below the pre-pandemic average of 629,000 as companies slow hiring.
- Isolating to the most recent quarter, employers cut 20,000 office-using jobs during Q3, a reversal compared to a revised 144,000 during Q2.
- During the quarter, jobs were cut in the employment services and motion picture industries, with the latter stemming from the recent SAG-AFTRA strike.
- Hiring grew at a healthy rate for insurance, business consulting and tech, but not enough to right-size.
- Office-using job postings (companies looking to hire) are down 42% YoY, giving employers a slight upper hand on remote work, with only 11% of job postings offering this perk compared to 13% one year ago.
- Inflation, at 3.7%, remains above the 2.0% Fed target. The Fed could raise the rate again in 2023, which would challenge the already stressed office market.
- Data collected under the WARN Act, which mandates companies to give advance notice to employees about pending layoffs, shows an increase in the number of notices. Most current and potential layoffs are within the tech and information sector.
- Mounting layoffs and economic uncertainty will likely pause or slow hiring efforts, ultimately translating to reduced demand for office space through 2024.

HISTORICAL

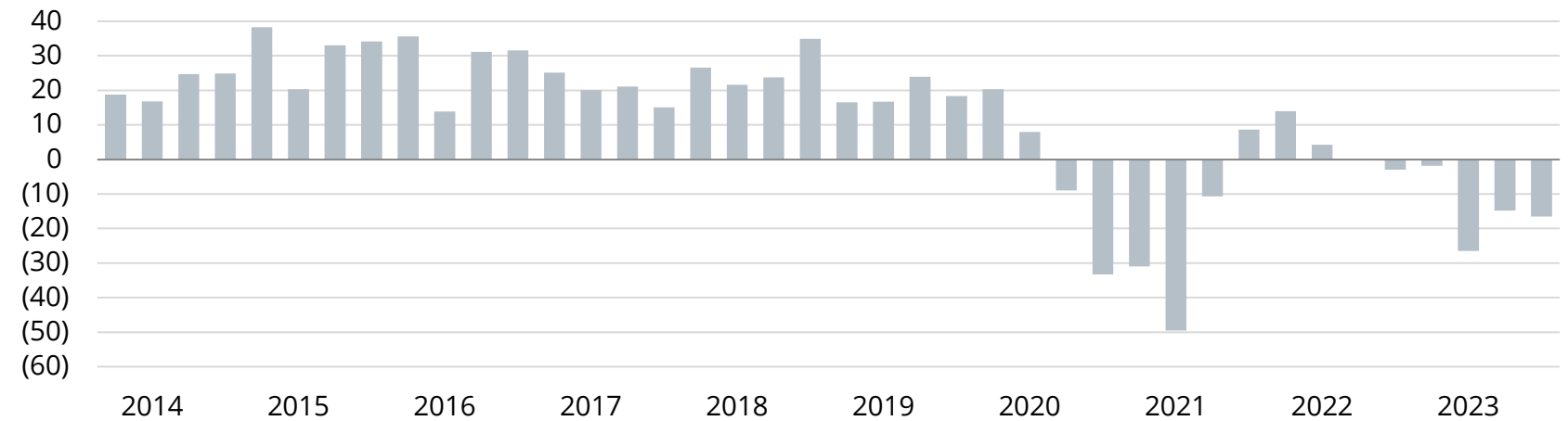


MARKET HIGHLIGHTS

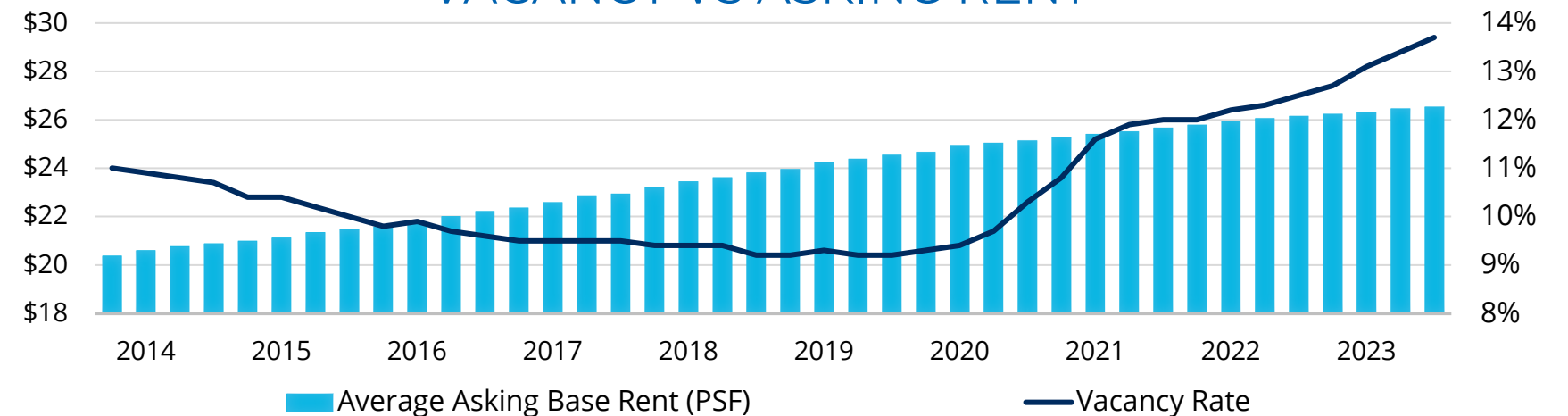
- The office market soured with negative 16.6 MSF of net absorption in Q3, which accounts for both direct and sublet space.
- Only 13 of 51 tracked markets registered positive net absorption, led mostly by smaller metros.
- The overall vacancy rate rose 30 basis points to 13.7% and is up 430 basis points since the start of the pandemic. It will likely take until 2024 for the vacancy rate to stabilize. Flight to quality has tightened the rate for newer product, with buildings built in the last 10 years at 10.2%.
- Asking rents rose 1.5% YoY, a deceleration compared to the average growth rate of 3.2% pre-COVID.
- Asking rents continue to rise as landlords offer above-average concessions in most major markets, which puts downward pressure on the effective rent.
- Although lowered construction levels (down 14.7% YoY) will provide limited options for tenants looking to upgrade, this could help backfill second-generation, Class A space.
- Demolitions and conversions of obsolete office stock should help alleviate some of the vacancy pressure, but this is not a silver bullet solution to recovery.
- Recovery will be long and uneven, as leases roll and tenants right size on average 20%. Tenants in the market are looking for greater flexibility and collaborative spaces in buildings with superior technology, while individual workstations are being reduced. Landlords should consider spec suites and shared conferencing facilities with a lounge or cafe.

HISTORICAL

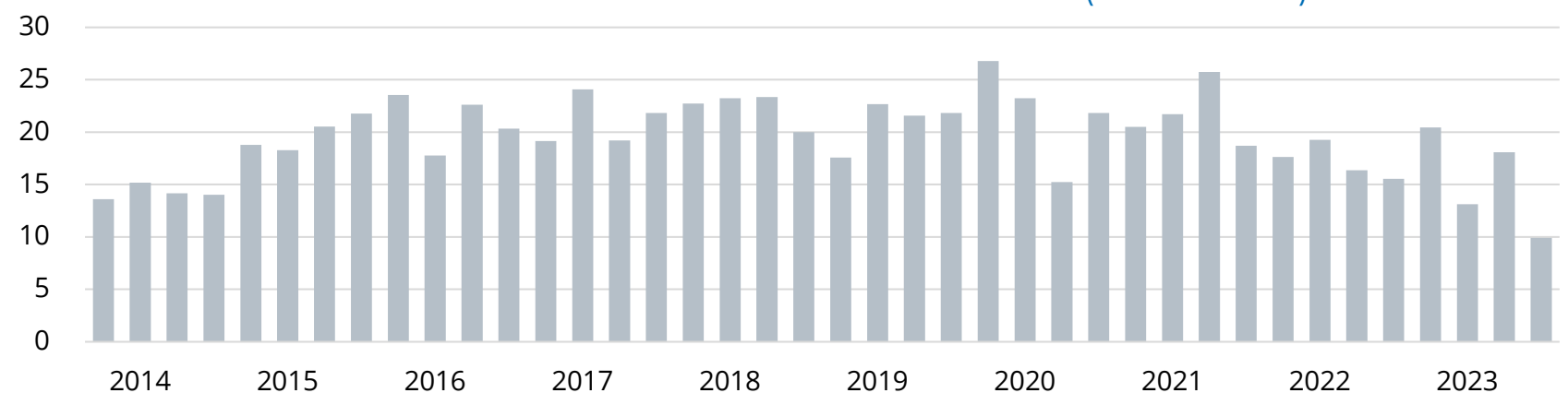
NET ABSORPTION (MILLION SF)



VACANCY VS ASKING RENT

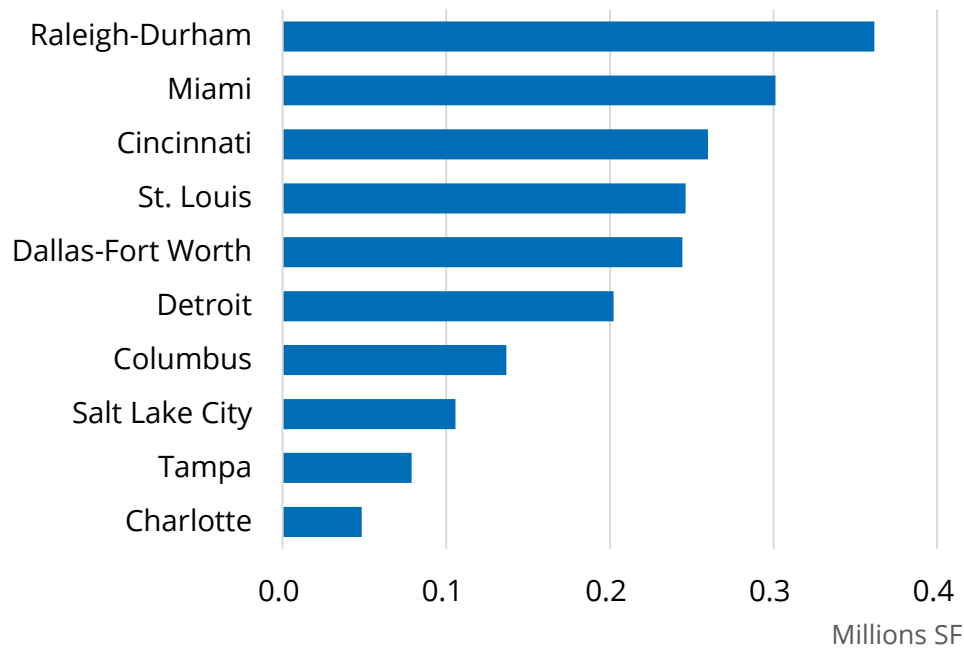


CONSTRUCTION – DELIVERED (MILLION SF)



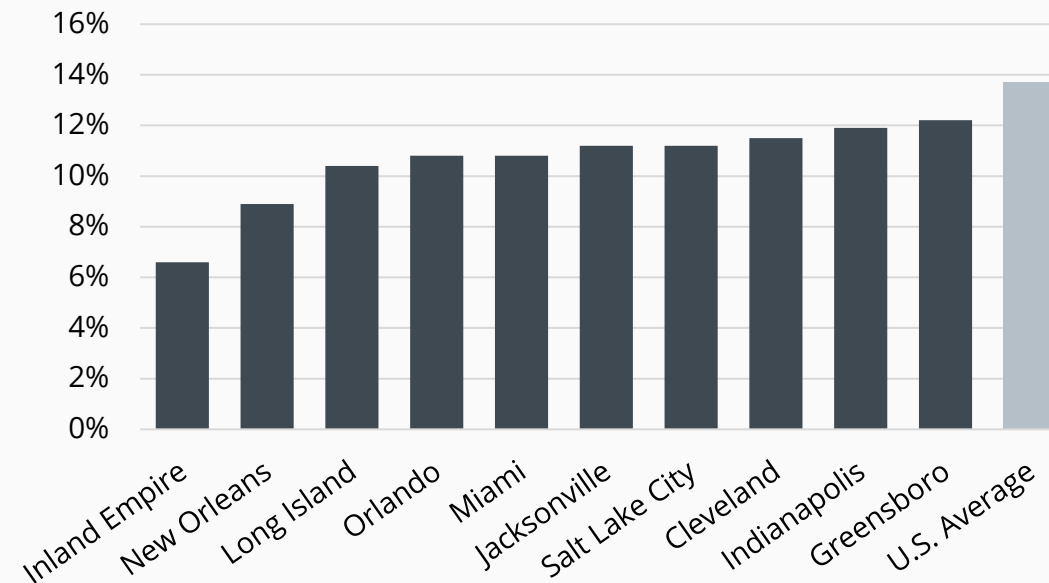
NET ABSORPTION

Q3 2023 Net Absorption



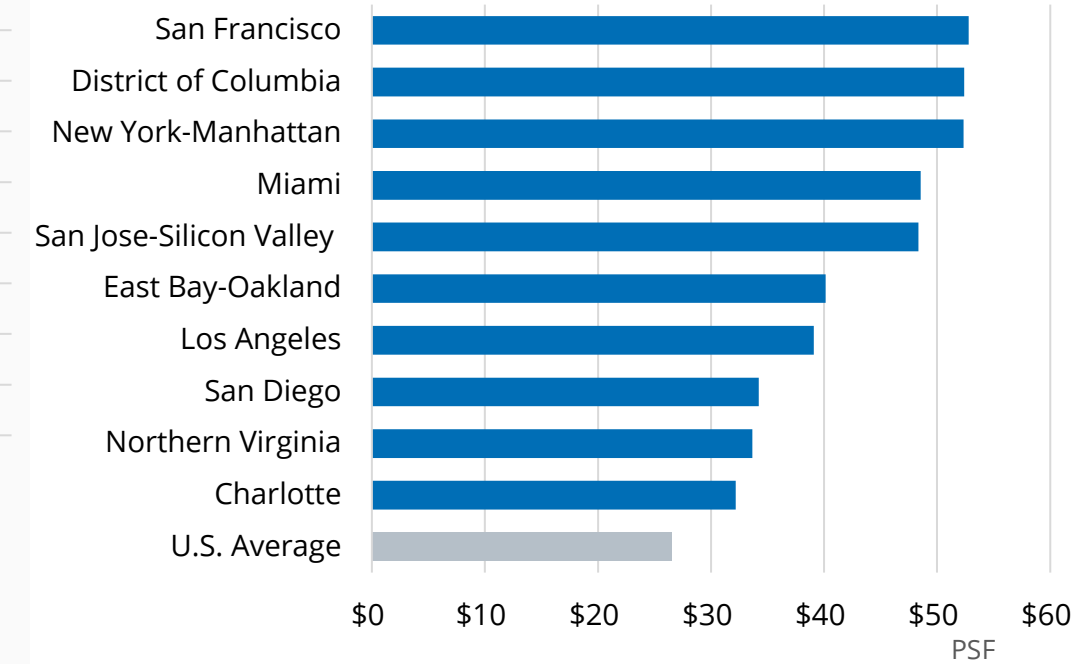
VACANCY/CONSTRUCTION

Q3 2023 Overall Vacancy Rate

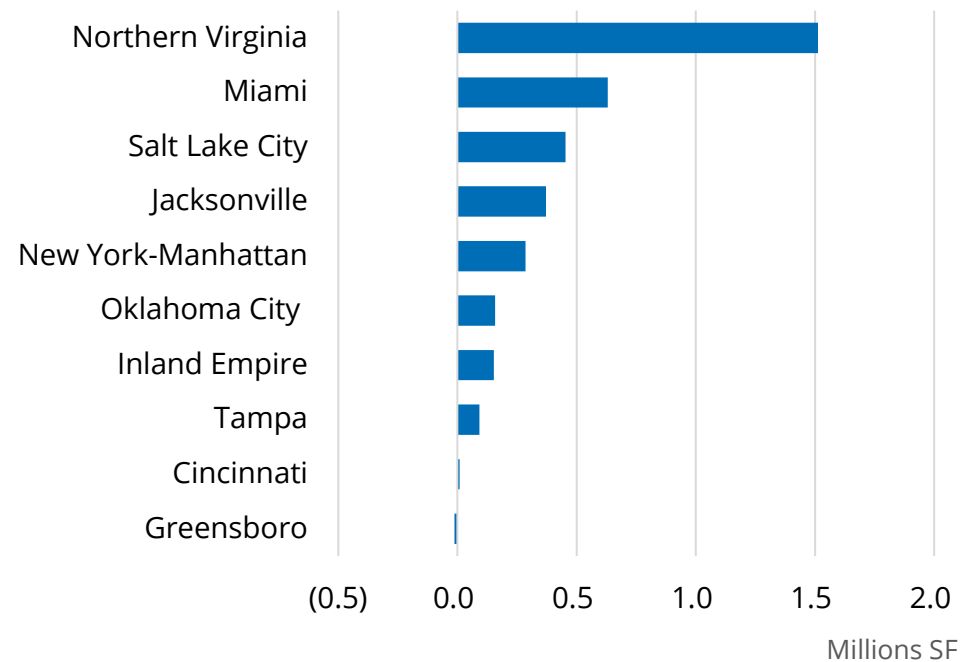


ASKING RENTS

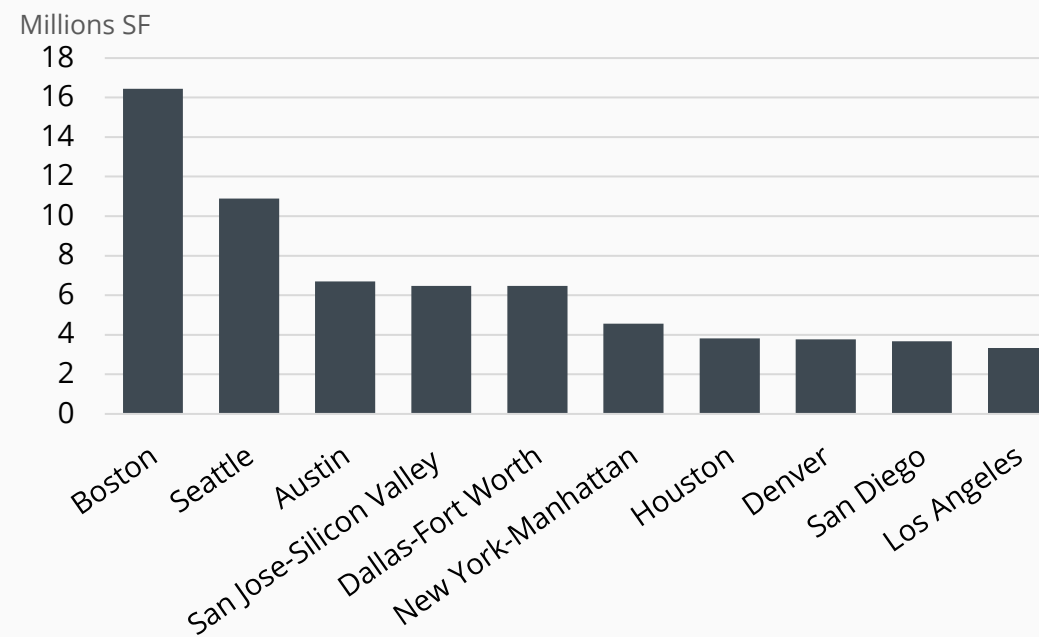
Q3 2023 Asking Rate (Base)



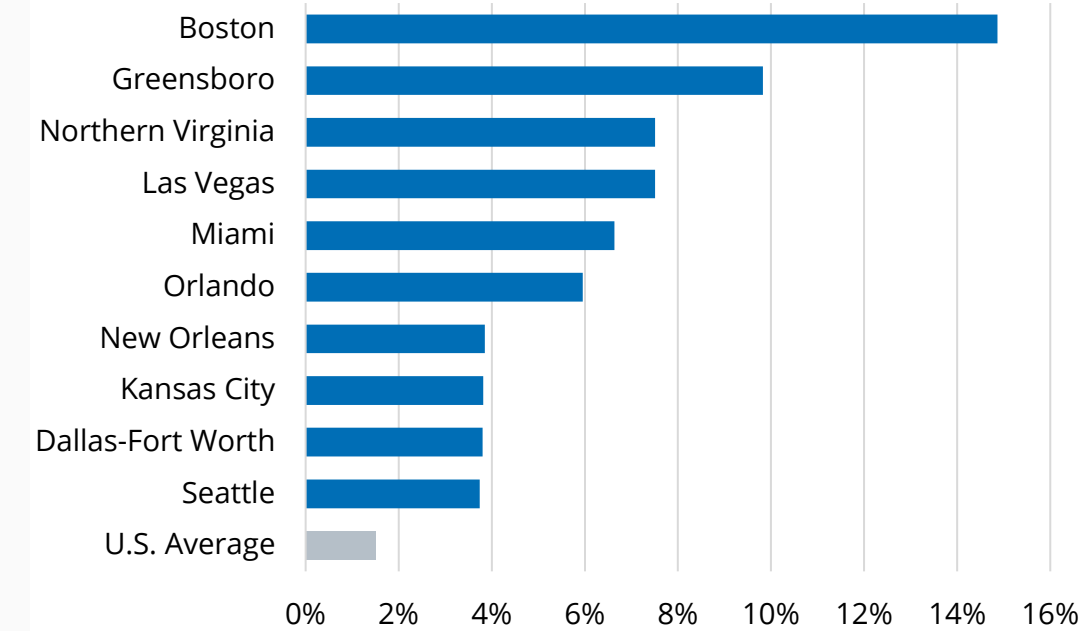
Trailing 4-Qtr Net Absorption



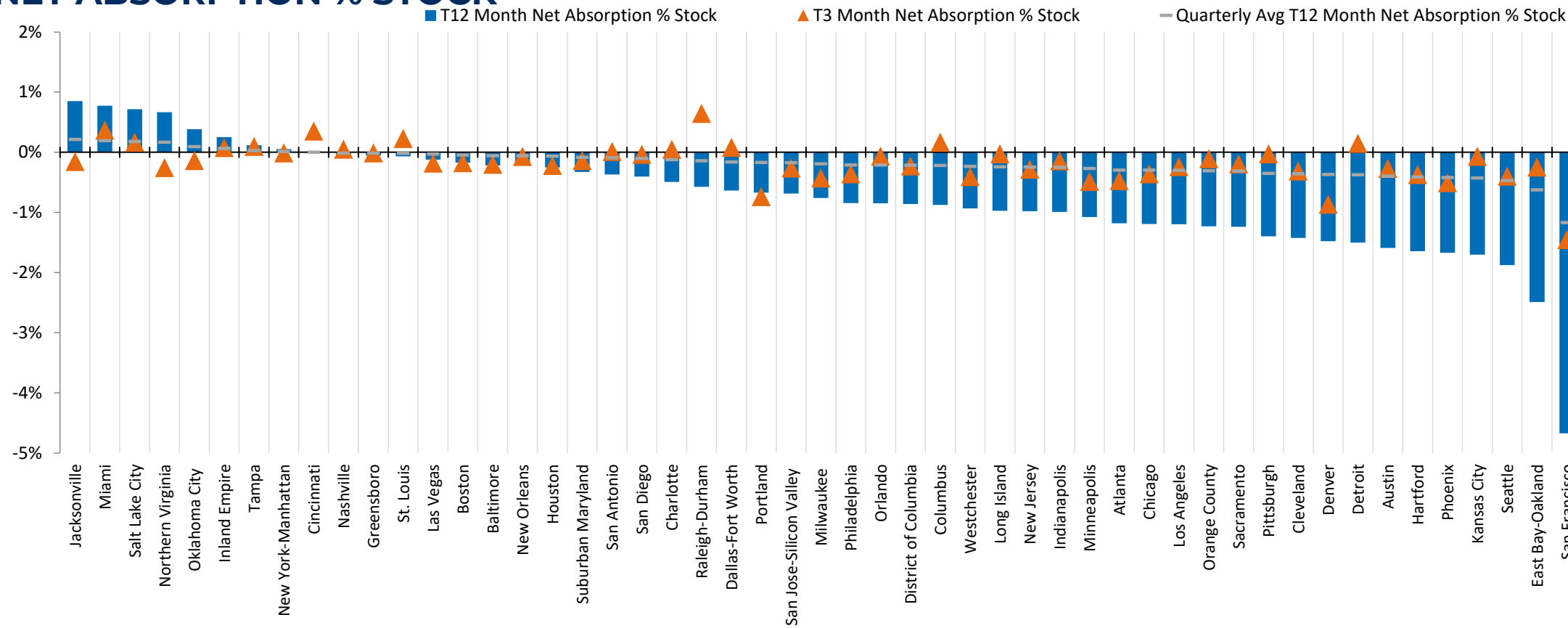
Q3 2023 Under Construction



Year-Over-Year Rent Growth

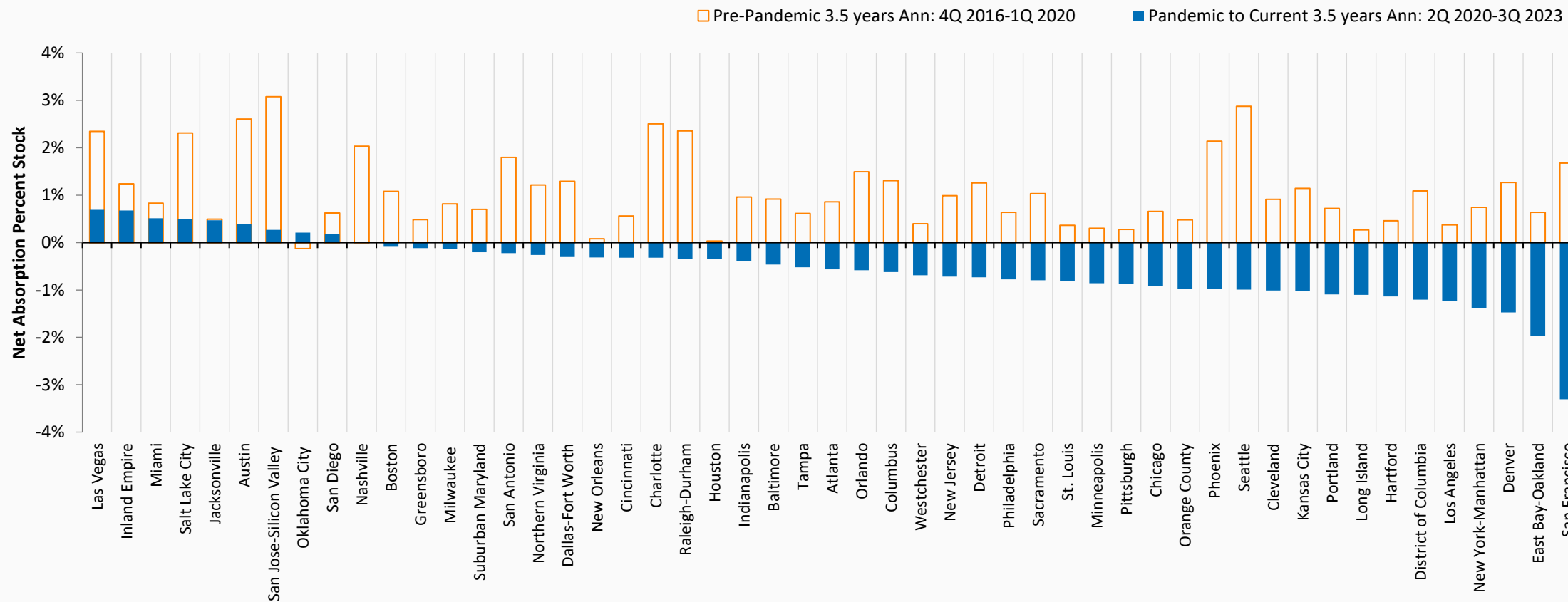


NET ABSORPTION % STOCK



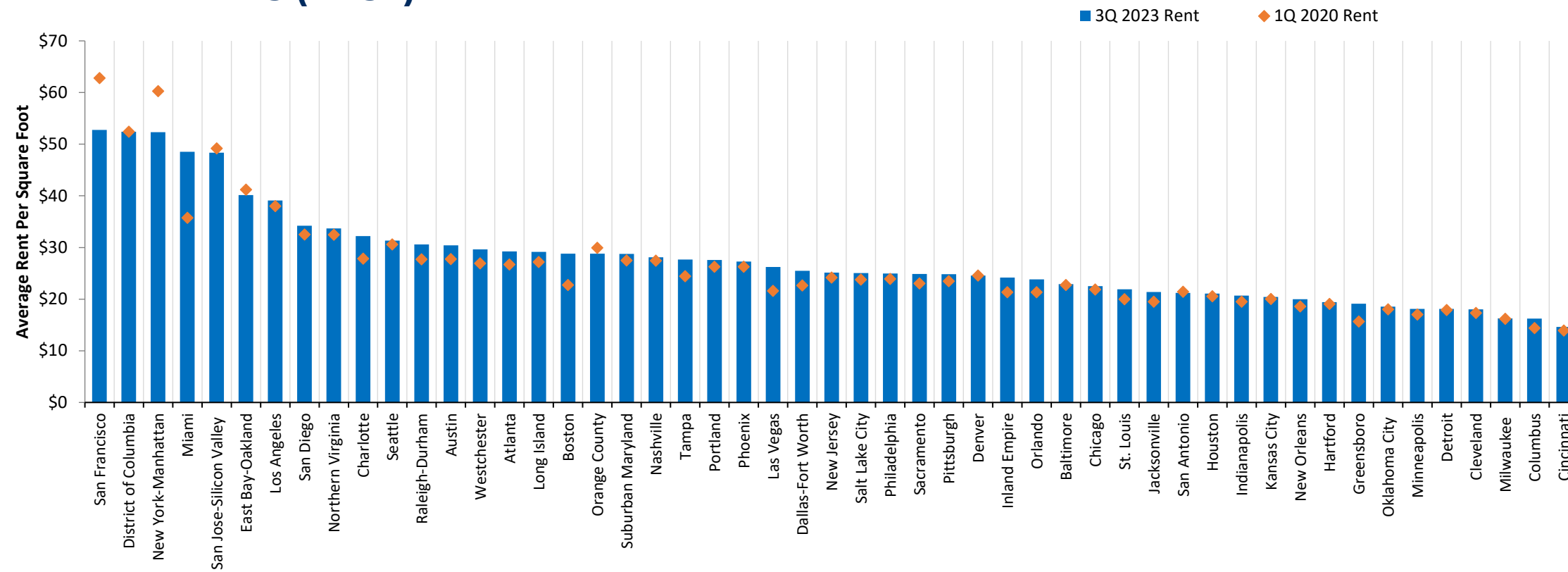
- Demand for office space remains muted, with less than 10% of tracked markets managing positive net absorption for both the quarter and the trailing 12 months.
- Top markets for trailing 12-month net absorption that also saw positive net absorption for the quarter include Miami, Salt Lake City, Inland Empire and Tampa.
- Demand momentum remains somewhat flat, with around half of the markets' quarterly net absorption beating their trailing 12-month quarterly average net absorption.

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



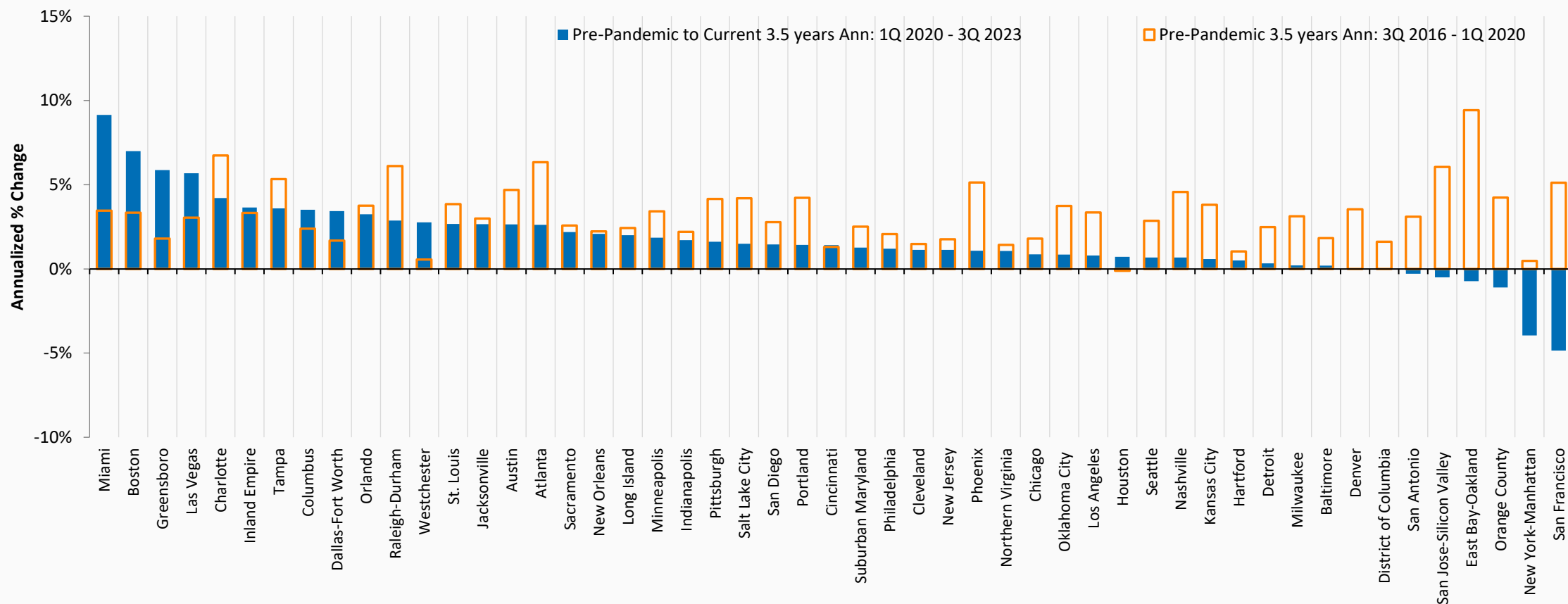
- This graph compares net absorption as a percent of stock annualized for the 3.5 years preceding the start of the pandemic to the 3.5 years since the pandemic began.
- Markets experiencing expansion since the pandemic include Las Vegas, Inland Empire, Miami, Salt Lake City, Jacksonville, Austin, San Jose-Silicon Valley, Oklahoma City and San Diego.
- Of these expansionary markets, only a few also saw positive net absorption over the past year as well, including Inland Empire, Miami, Salt Lake City, Jacksonville and Oklahoma City.

RENTAL RATES (BASE)



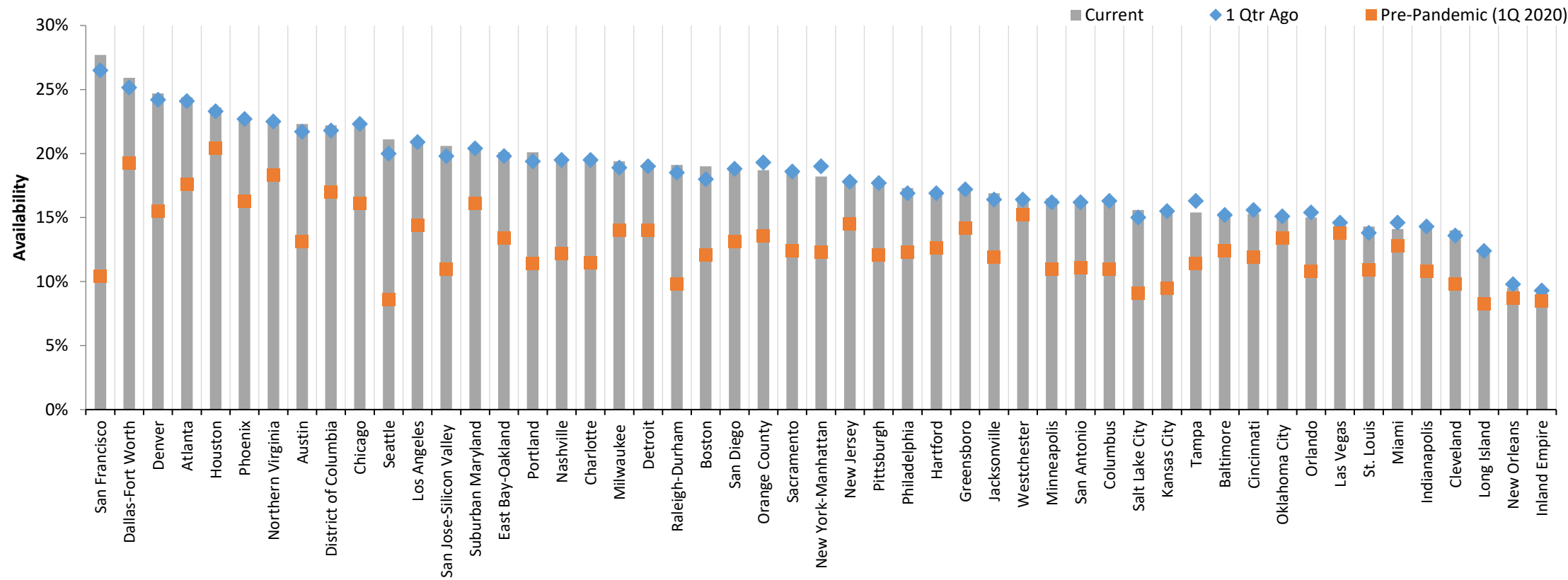
- The largest, densest and most developed markets have historically commanded significantly higher rental rates, yet pandemic-related trends have diminished these markets' lead.
- Since the beginning of the pandemic, the two historically most expensive markets, San Francisco and New York, have experienced the largest declines in rental rates at 16% and 13%, respectively. These markets' rates now track with the District of Columbia.
- Miami has experienced the reverse, with strong gains in rents of 36% over the same period, driven by demand in the urban core.

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



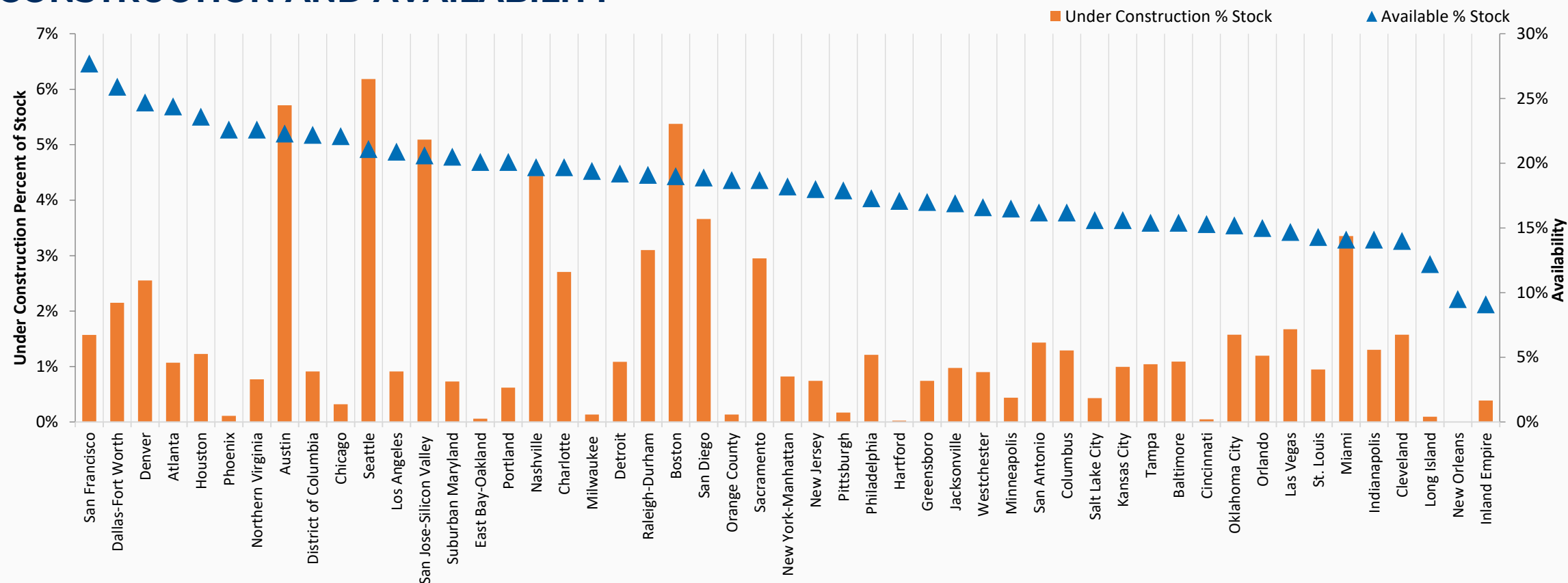
- Demand for space has yet to return to pre-pandemic levels in most markets. Concessions remain high, and leasing muted, obscuring the true cost of rent.
- Some markets have fared relatively better than others:
 - The highest rental rate growth markets since the start of the pandemic are Miami, Boston, Greensboro, Las Vegas, Charlotte and Inland Empire.
 - Markets experiencing the most relative lift compared to pre-pandemic rental rate growth include Miami, Greensboro, Boston, Las Vegas, Westchester, Dallas-Fort Worth and Columbus.

AVAILABLE SQUARE FEET % STOCK



- In this graph, the softening of demand is illustrated by heightened availability rates shown in all tracked markets.
- Markets seeing the least rise in availability since the pandemic began include Inland Empire, New Orleans, Las Vegas, Miami, Westchester and Oklahoma City.
- Only 31% of markets stayed constant or saw improvement from the previous quarter.

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 determinant of softening or tightening within a market.
- Markets with particularly high under construction and high availability as a percent of stock include Austin, Seattle, San Jose-Silicon Valley, Nashville, Charlotte, Raleigh-Durham, Boston, San Diego and Sacramento. 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	235,441,968	19.2%	17.9%	(1,107,760)	(2,776,965)	\$29.22	2.6%	2,519,156
Austin	117,249,124	17.9%	14.5%	(316,447)	(1,861,240)	\$30.42	0.9%	6,697,391
Baltimore	120,590,873	14.2%	13.1%	(239,780)	(263,919)	\$22.90	-3.0%	1,312,915
Boston	305,981,728	12.7%	9.9%	(522,002)	(529,408)	\$28.82	14.9%	16,449,342
Charlotte	98,006,092	16.0%	13.2%	48,409	(482,557)	\$32.19	1.0%	2,653,522
Chicago	446,009,064	18.3%	17.1%	(1,591,637)	(5,307,678)	\$22.51	2.3%	1,430,301
Cincinnati	73,642,158	12.3%	11.3%	259,843	8,380	\$14.62	0.8%	35,000
Cleveland	83,907,883	11.5%	10.7%	(261,843)	(1,193,912)	\$18.03	1.3%	1,321,099
Columbus	81,042,035	13.6%	11.1%	136,772	(708,947)	\$16.23	2.9%	1,044,805
Dallas-Fort Worth	300,566,576	21.9%	19.5%	244,232	(1,908,619)	\$25.50	3.8%	6,463,983
Denver	147,713,030	19.0%	16.2%	(1,275,719)	(2,180,873)	\$24.58	0.6%	3,772,439
Detroit	137,045,326	13.2%	11.6%	202,143	(2,054,297)	\$18.10	-2.1%	1,488,796
District of Columbia	151,349,666	18.2%	17.1%	(342,728)	(1,301,194)	\$52.40	0.5%	1,379,630
East Bay-Oakland	90,574,252	17.0%	14.8%	(222,802)	(2,255,513)	\$40.15	2.3%	53,730
Greensboro	21,498,129	12.2%	11.6%	(1,931)	(12,377)	\$19.11	9.8%	160,000
Hartford	48,650,022	13.0%	12.2%	(178,620)	(799,639)	\$19.40	1.6%	12,587
Houston	310,629,162	20.5%	19.4%	(681,103)	(784,424)	\$21.06	1.0%	3,810,580
Indianapolis	73,783,734	11.9%	10.5%	(105,201)	(730,446)	\$20.67	-2.3%	959,731
Inland Empire	60,239,627	6.6%	6.3%	47,005	151,885	\$24.18	1.3%	233,552
Jacksonville	43,612,468	11.2%	9.8%	(66,808)	371,535	\$21.39	1.3%	425,407
Kansas City	96,752,958	13.2%	11.5%	(65,649)	(1,647,905)	\$20.42	3.8%	962,803
Las Vegas	38,790,820	12.7%	11.4%	(69,568)	(47,164)	\$26.21	7.5%	649,362
Long Island	62,945,978	10.4%	8.7%	(15,136)	(611,590)	\$29.14	2.3%	60,700
Los Angeles	365,683,044	17.7%	15.6%	(864,780)	(4,372,773)	\$39.10	-1.7%	3,333,722
Miami	81,567,139	10.8%	10.2%	301,198	630,069	\$48.55	6.6%	2,733,636

Market	Inventory SF	Overall Vacancy Rate	Direct Vacancy Rate	Net Absorption	12-Month Net Absorption	Asking Rent Base	Annual Rent Change	Under Construction
Milwaukee	59,195,082	12.9%	12.7%	(253,805)	(450,252)	\$16.28	0.9%	79,681
Minneapolis	172,189,776	12.8%	11.1%	(837,697)	(1,854,509)	\$18.12	3.3%	758,728
Nashville	69,956,937	15.4%	12.8%	35,569	(38,669)	\$28.08	-0.7%	3,105,740
New Jersey	316,706,644	13.9%	12.2%	(884,510)	(3,095,428)	\$25.15	2.0%	2,353,432
New Orleans	36,102,541	8.9%	8.4%	(24,067)	(80,927)	\$19.97	3.8%	0
New York-Manhattan	556,916,181	15.2%	13.0%	(64,926)	285,187	\$52.33	-4.5%	4,563,576
Northern Virginia	201,765,080	18.6%	17.4%	(507,781)	1,512,451	\$33.67	7.5%	1,551,828
Oklahoma City	41,280,014	12.2%	12.0%	(56,141)	158,277	\$18.54	2.4%	649,830
Orange County	130,029,943	15.3%	13.3%	(138,404)	(1,601,046)	\$28.81	0.8%	177,000
Orlando	66,069,605	10.8%	9.2%	(43,378)	(561,057)	\$23.84	6.0%	790,269
Philadelphia	238,697,967	12.6%	10.8%	(855,187)	(2,017,996)	\$24.95	1.9%	2,892,587
Phoenix	135,350,370	19.8%	15.3%	(683,210)	(3,233,514)	\$27.28	2.1%	150,000
Pittsburgh	104,952,093	14.0%	12.6%	(28,358)	(1,466,257)	\$24.82	-0.1%	180,621
Portland	84,440,307	15.8%	13.8%	(620,026)	(564,718)	\$27.59	-0.3%	525,000
Raleigh-Durham	56,095,415	13.0%	10.0%	361,640	(320,895)	\$30.59	0.2%	1,740,478
Sacramento	71,546,607	14.4%	13.5%	(135,685)	(886,752)	\$24.86	0.9%	2,110,000
Salt Lake City	63,377,032	11.2%	8.9%	105,559	453,261	\$25.03	-0.7%	273,136
San Antonio	60,374,612	13.0%	11.8%	7,451	(223,697)	\$21.20	2.4%	864,992
San Diego	100,505,901	12.3%	11.1%	(34,121)	(406,576)	\$34.21	-1.3%	3,678,318
San Francisco	168,529,315	21.9%	17.1%	(2,446,426)	(7,873,472)	\$52.78	-8.1%	2,645,066
San Jose-Silicon Valley	127,002,160	15.1%	11.5%	(331,021)	(872,583)	\$48.34	-2.1%	6,467,362
Seattle	176,104,833	15.6%	12.4%	(698,763)	(3,302,187)	\$31.34	3.7%	10,893,641
St. Louis	107,244,898	13.1%	11.8%	246,178	(74,413)	\$21.89	2.8%	1,014,900
Suburban Maryland	83,088,189	17.3%	16.2%	(114,504)	(272,106)	\$28.74	0.0%	606,128
Tampa	79,339,539	12.4%	9.8%	78,820	92,697	\$27.65	1.5%	825,546
Westchester	131,990,219	13.3%	11.7%	(532,415)	(1,233,759)	\$29.62	-0.9%	1,188,778



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ABOUT THE TRANSWESTERN COMPANIES

Five dynamic, integrated companies make up the Transwestern enterprise, giving us the perspective to think broadly, deeply and creatively about commercial real estate. Clients and investors rely on us for expertise that spans institutional and opportunistic investment, development, hospitality, and brokerage and asset services. Our award-winning, collaborative culture empowers team members with resources and independence to work across boundaries in pursuit of innovative solutions, reinforcing a reputation for service excellence that translates to measurable results. Through offices nationwide and alliance partners around the globe, we positively impact the built environment and our communities while fostering a work climate that champions career vitality for all. Learn more at transwestern.com and [@Transwestern](https://twitter.com/Transwestern).

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.).