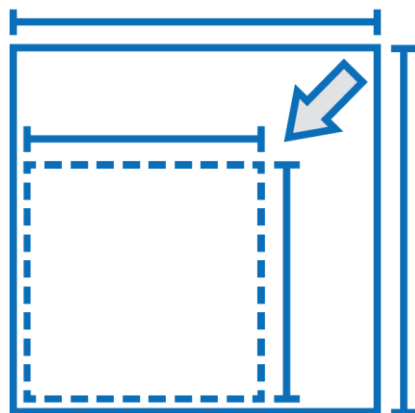


COMMERCIAL REAL ESTATE

U.S. MARKET | Office



THE VIEW FROM HERE

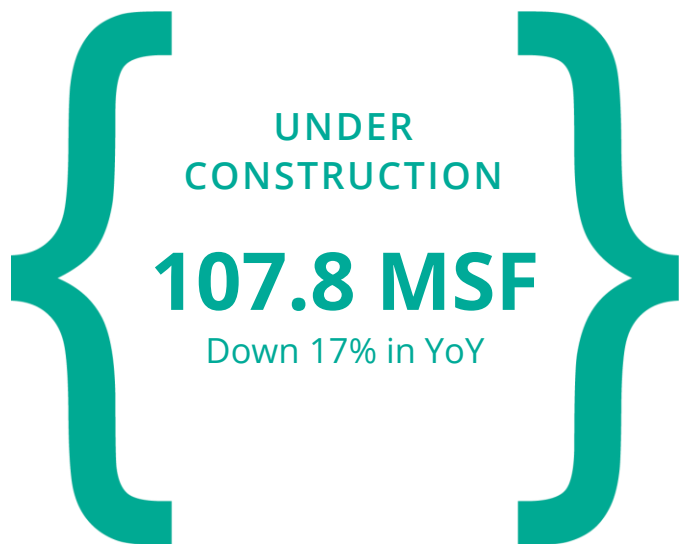
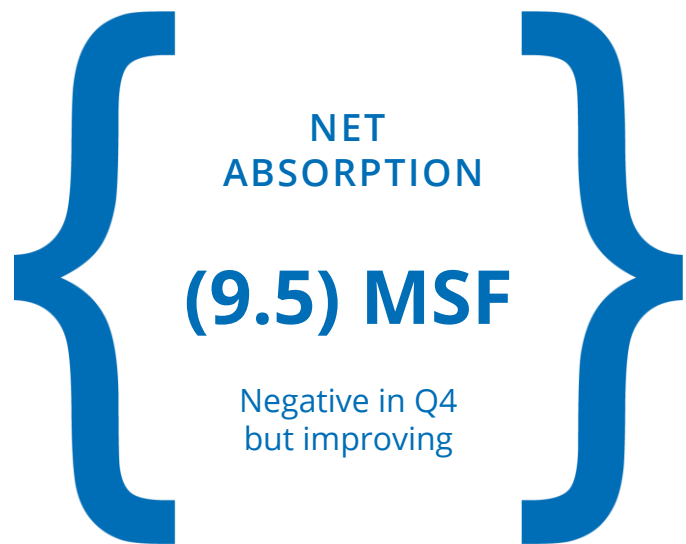
Lenders now go beyond financial analysis, assessing tenants' downsizing/move-out risk at renewals



Hybrid is here to stay, but many corporate leaders still wrestling with expectations



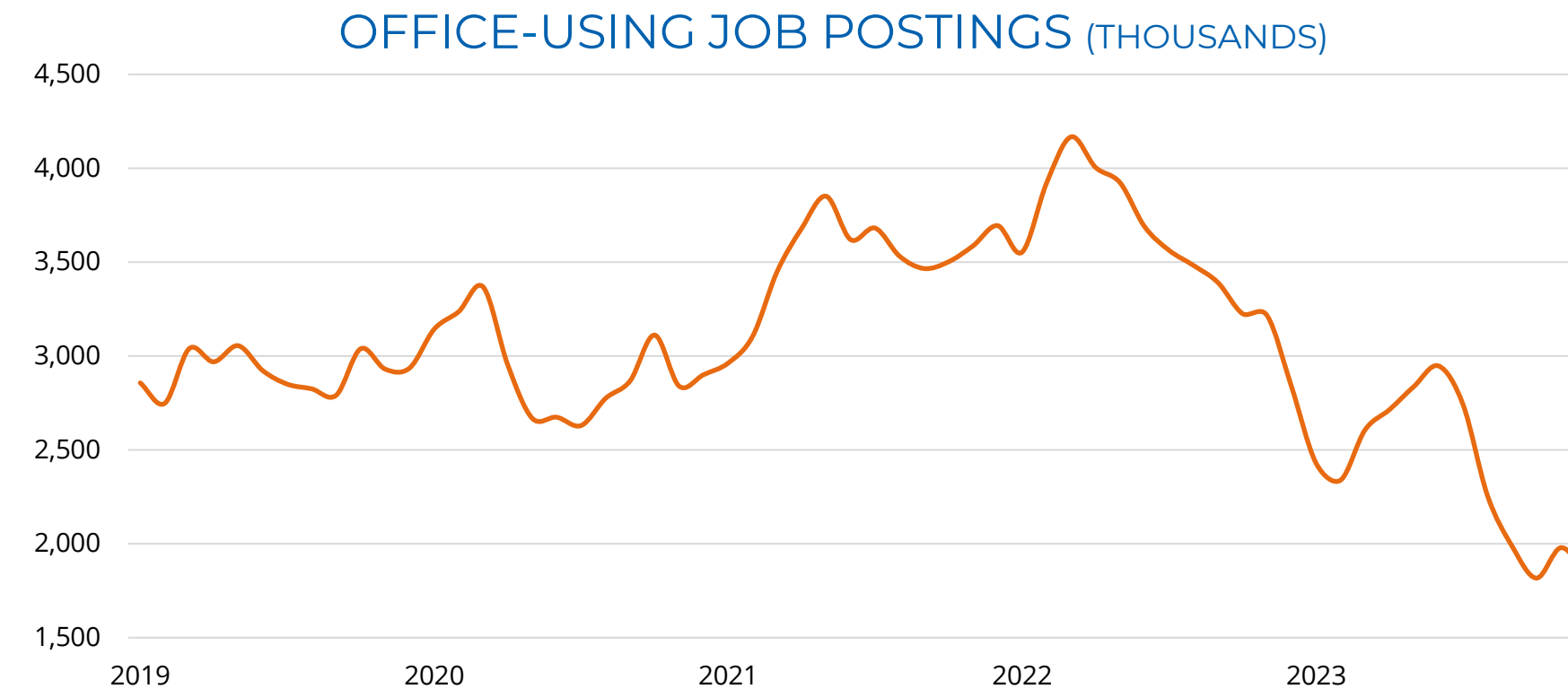
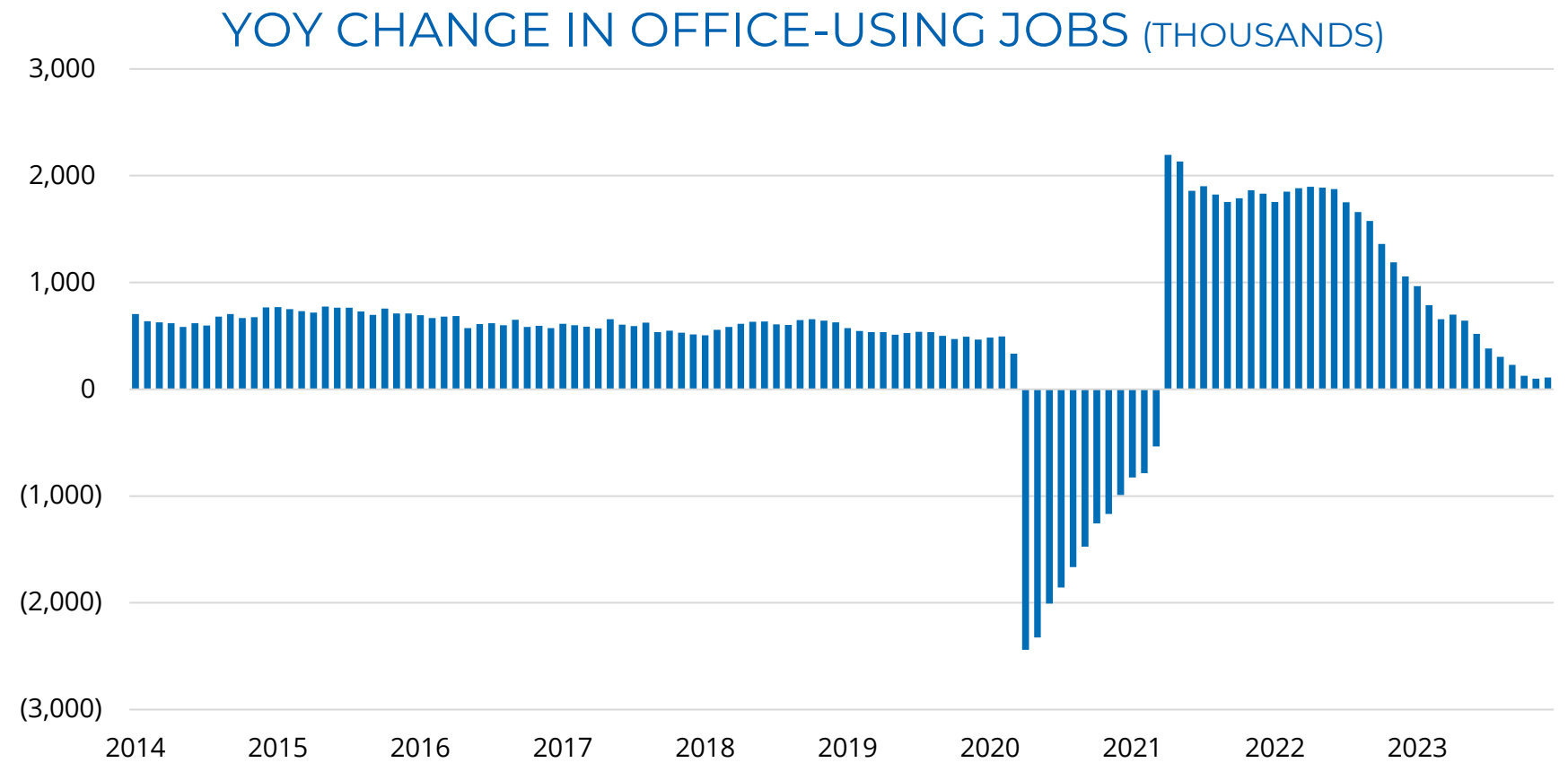
Price discovery will begin when transaction volumes ramp up, likely in late 2024



ECONOMIC HIGHLIGHTS

- 110,000 office-using jobs were added to the economy YoY, which is well off the pre-pandemic average of 629,000. The labor market is in a period of cooling, as elevated interest rates impacted select sectors – most being office-using.
- Employers started reducing headcount during the second half of 2023, with a 95,000 drop in workers, offsetting the healthy gain during the first half.
- During Q4, jobs bounced back for the motion picture industries, given the SAG-AFTRA strike ended. Major cuts were in the employment services (temp help) sector, followed by finance/insurance, and publishing industries.
- Office-using job postings (companies looking to hire) are down 35% YoY, giving employers a slight upper hand on remote work, with only 10% of job postings offering this perk compared to 13% one year ago.
- The economy ended 2023 on solid footing, after recession fears receded against steady hiring due in part to stronger-than-expected consumer spending.
- Entering 2024, recession fears remain in the rear-view mirror, but economists are predicting slower growth over the next 12 months. The WSJ survey of economists forecasts the economy to grow just 1% in 2024 – half of its historical average.
- However, consumer confidence might tell a different story: Confidence soared in January 2024 to the highest level in two years with greater sureness in rising income levels against lower inflation. This suggests continued spending, which buoys the overall economy.

HISTORICAL

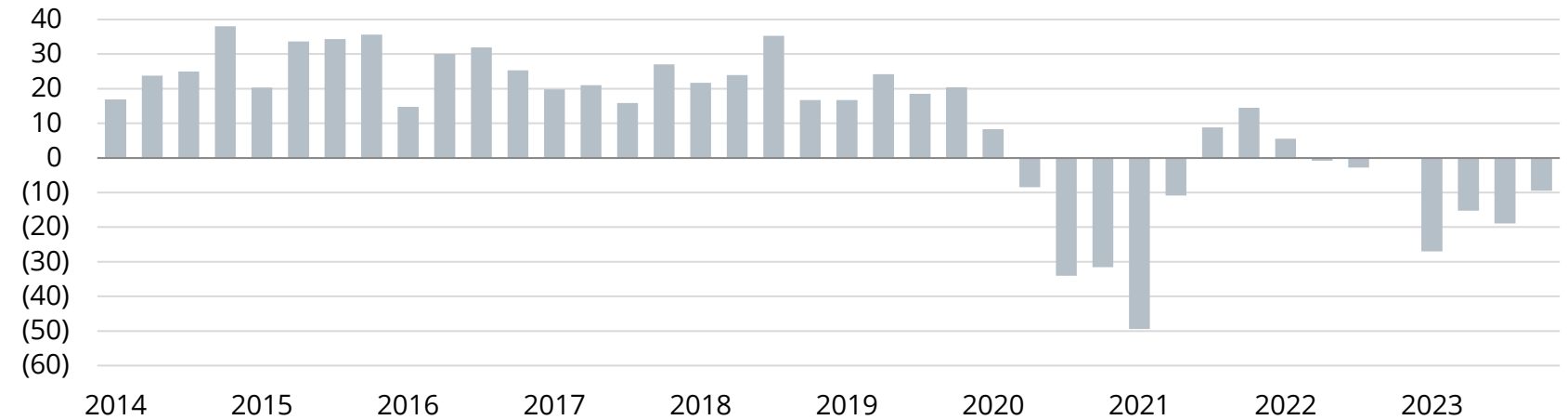


MARKET HIGHLIGHTS

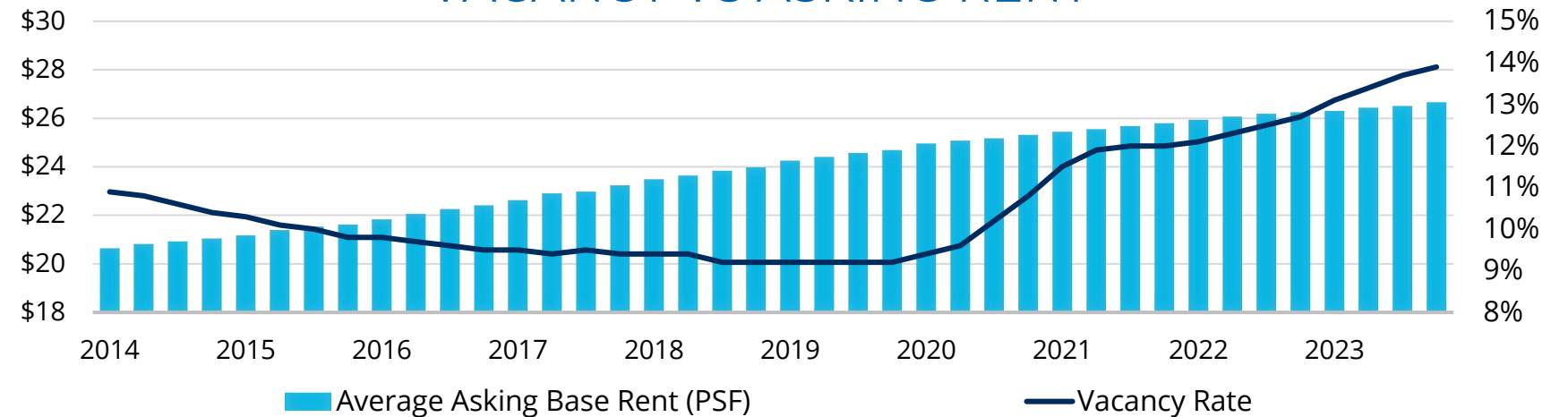
- Net absorption totaled negative 9.5 million SF in Q4, which includes both direct and sublet space. Although this is the seventh straight quarter in the negative, the level is improving compared to earlier quarters in 2023.
- 28 of 51 tracked markets registered positive net absorption, with a mix of large and smaller metros leading during the past three months.
- The overall vacancy rate rose 20 basis points to 13.9% and is up 450 basis points since the start of the pandemic. It will likely take until late 2024 for the vacancy rate to stabilize.
- Asking rents rose 1.6% 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 17.0% 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

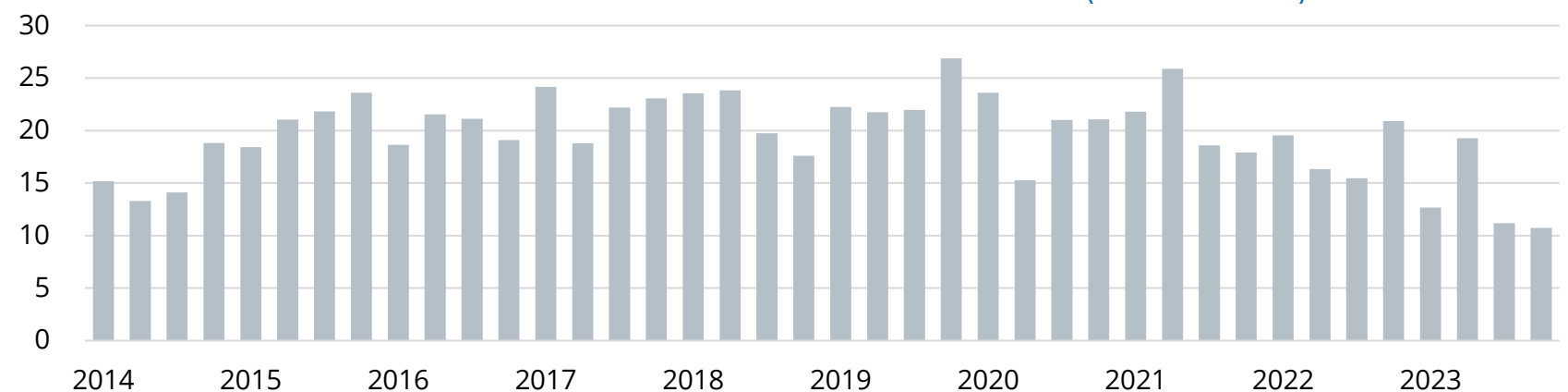
NET ABSORPTION (MILLION SF)



VACANCY VS ASKING RENT

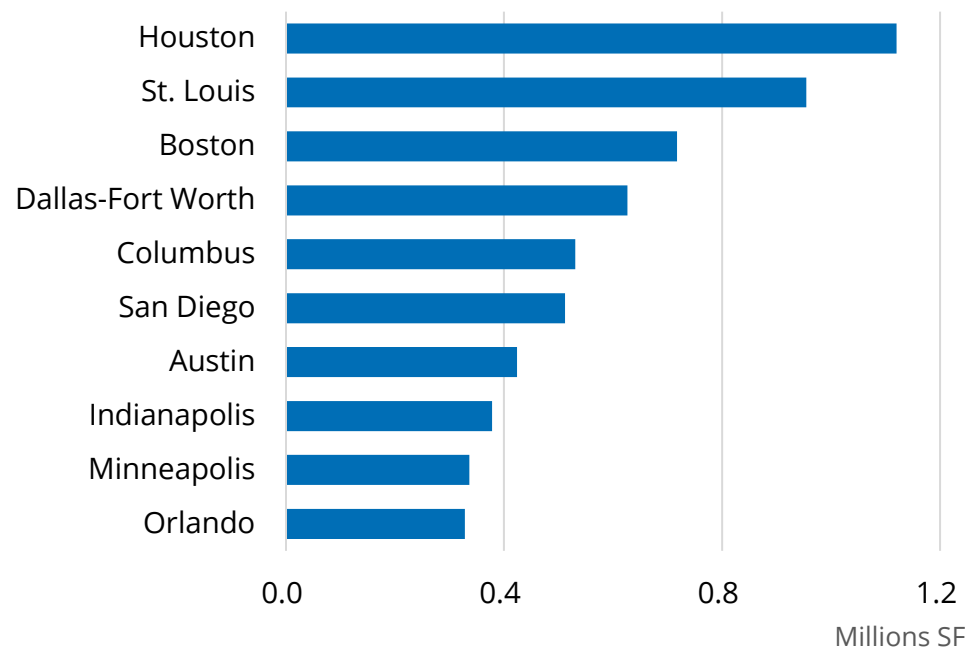


CONSTRUCTION – DELIVERED (MILLION SF)



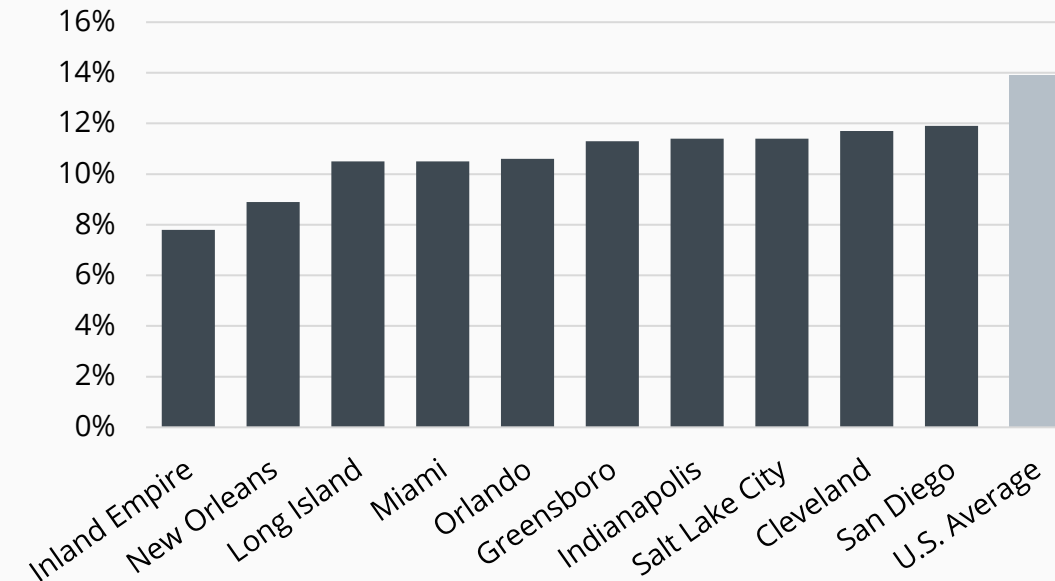
NET ABSORPTION

Q4 2023 Net Absorption



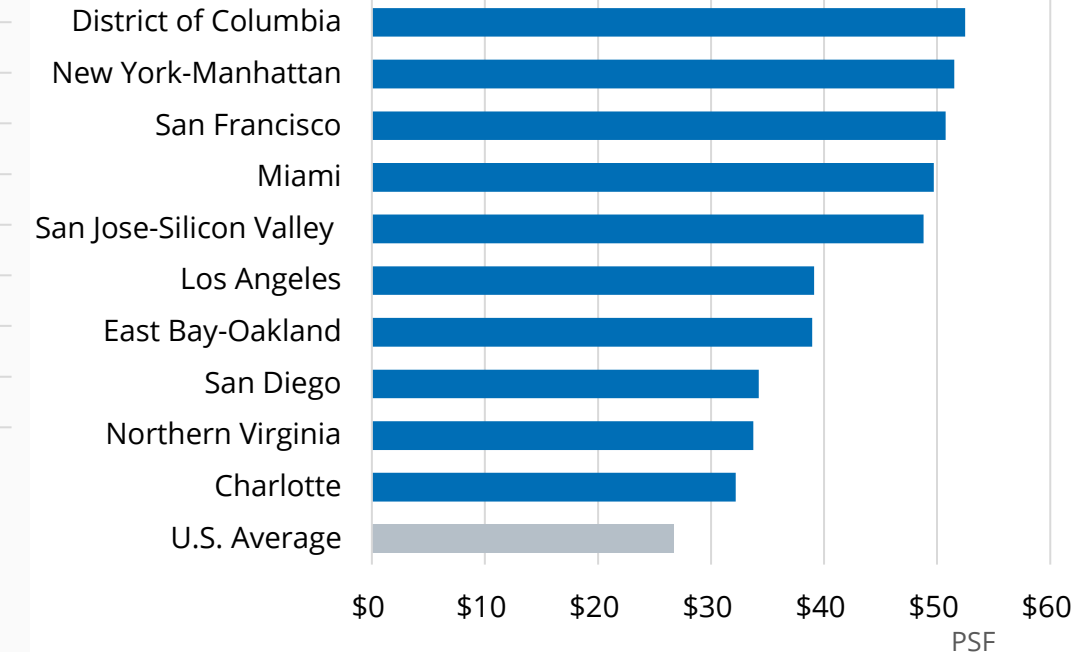
VACANCY/CONSTRUCTION

Q4 2023 Overall Vacancy Rate

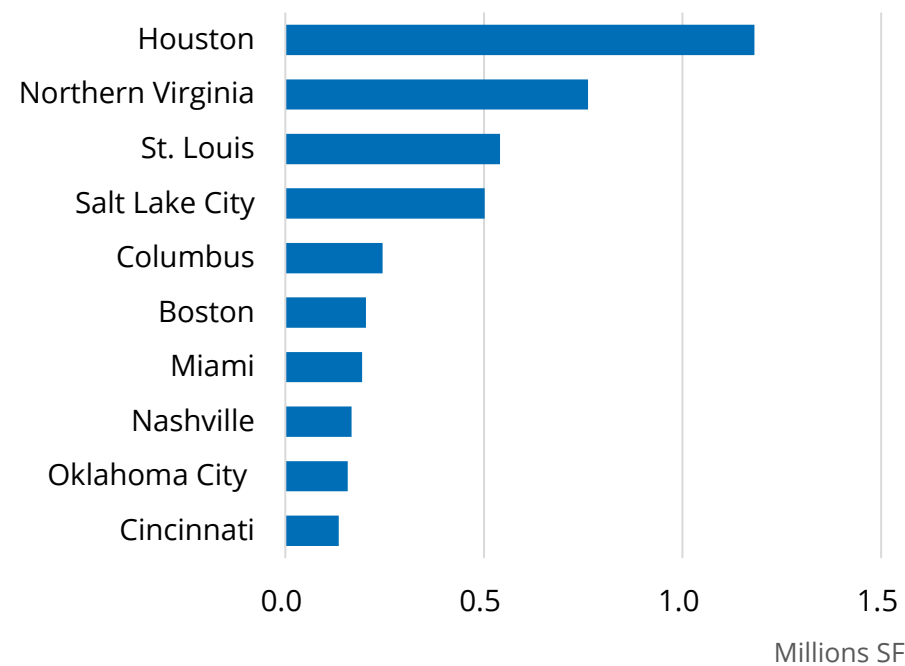


ASKING RENTS

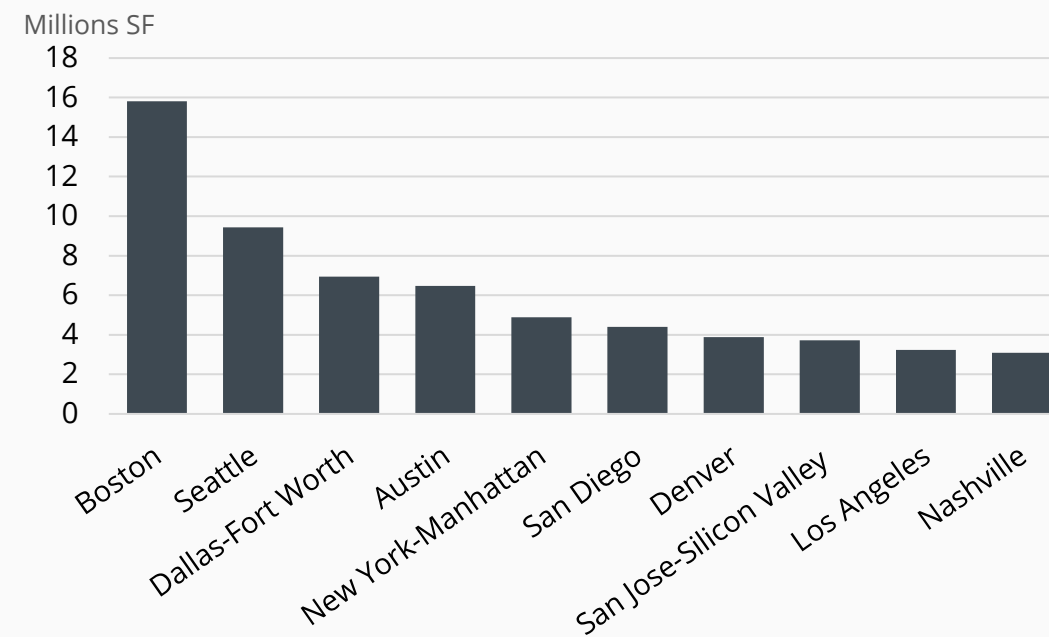
Q4 2023 Asking Rate (Base)



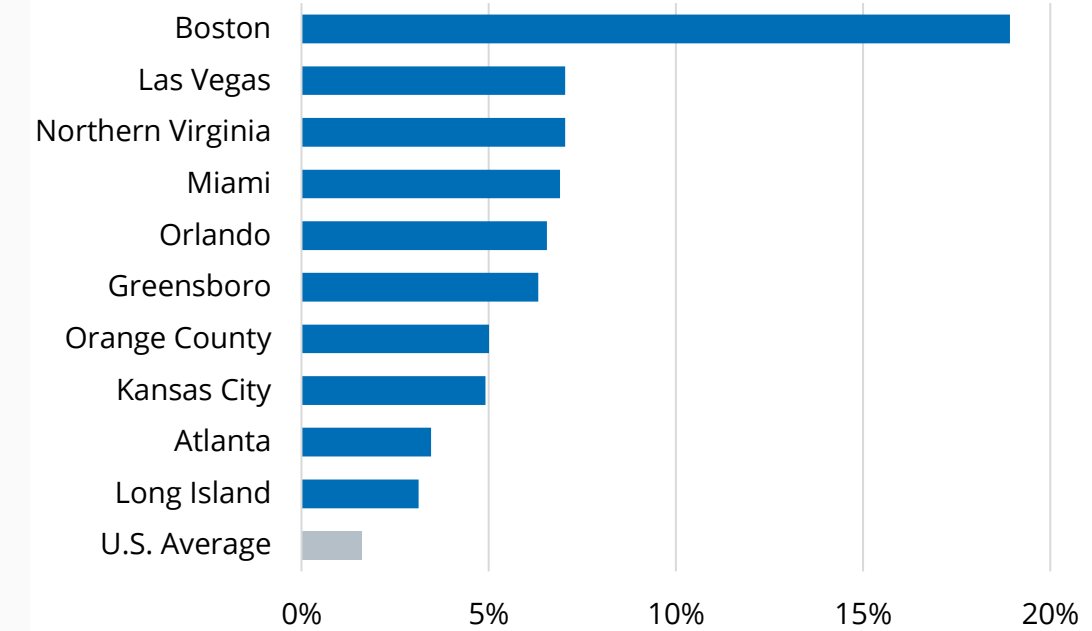
Trailing 4-Qtr Net Absorption



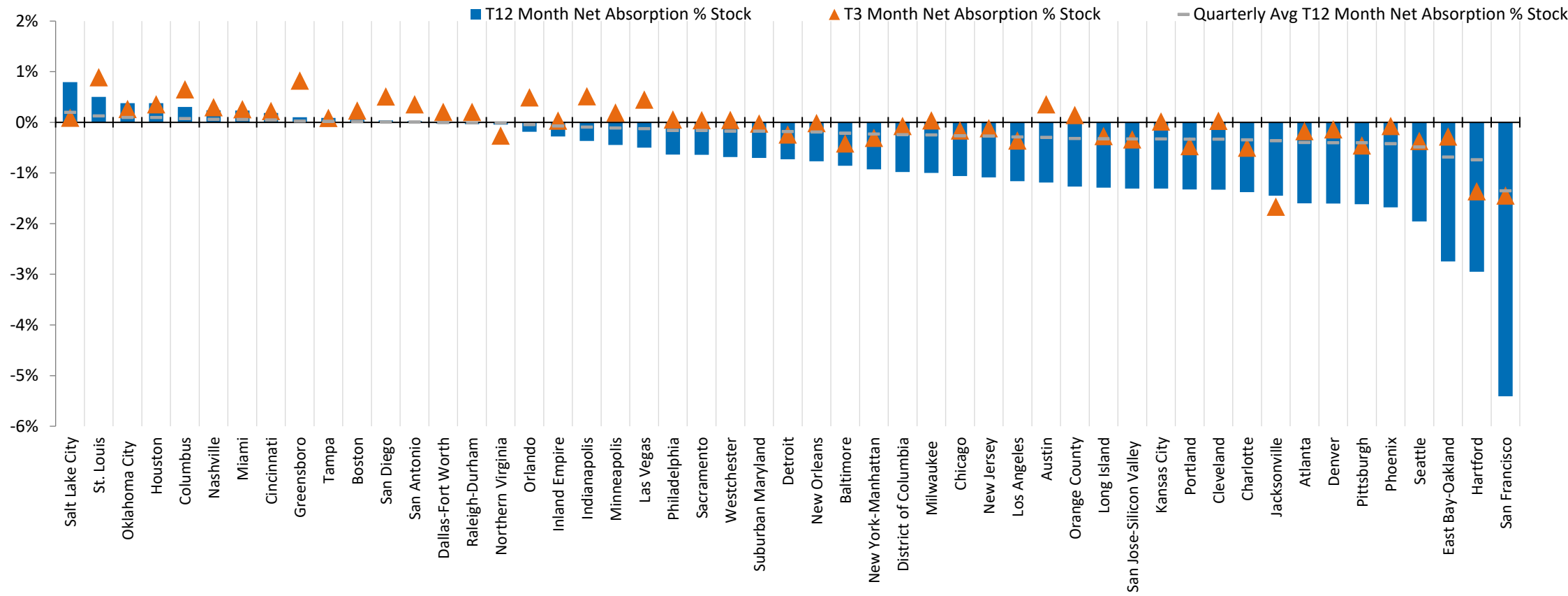
Q4 2023 Under Construction



Year-Over-Year Rent Growth

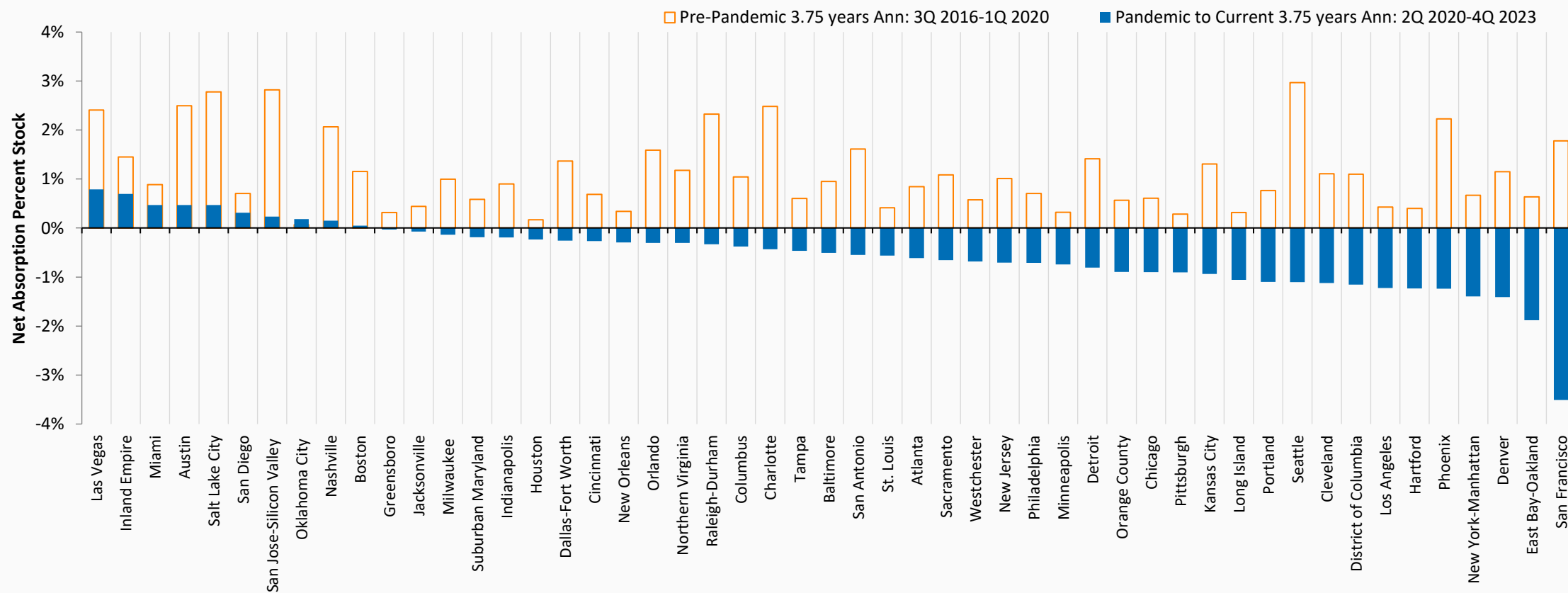


NET ABSORPTION % STOCK



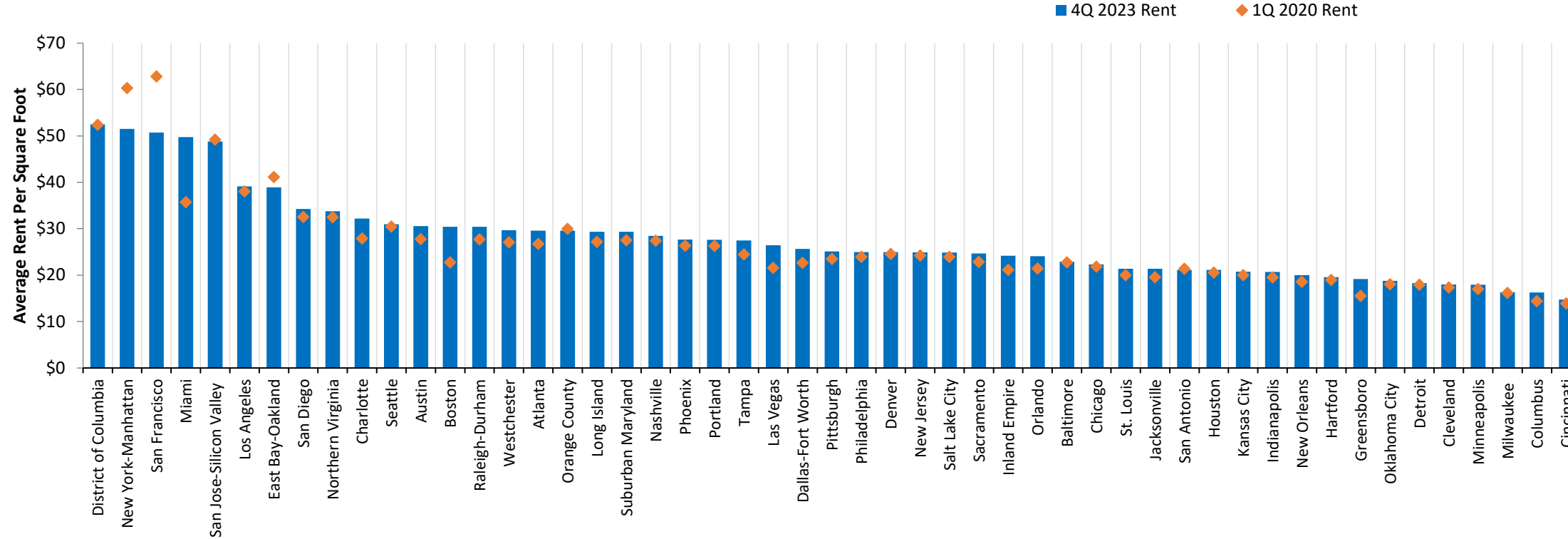
- Demand for office space remains muted, with 25% of tracked markets managing positive net absorption for both the quarter and the trailing 12 months.
- Top markets for trailing 12-month net absorption that also saw positive net absorption for the quarter include Salt Lake City, St. Louis, Oklahoma City, and Houston.
- Demand momentum improved slightly this quarter with 75% 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 3.75 years preceding the start of the pandemic to the 3.75 years since the pandemic began.
- Markets experiencing expansion since the pandemic include Las Vegas, Inland Empire, Miami, Austin, Salt Lake City, San Diego, San Jose-Silicon Valley, Oklahoma City, Nashville, and Boston.
- Of these expansionary markets, only a few also saw positive net absorption over the past year as well, including Miami, Salt Lake City, San Diego, Oklahoma City, Nashville, and Boston.

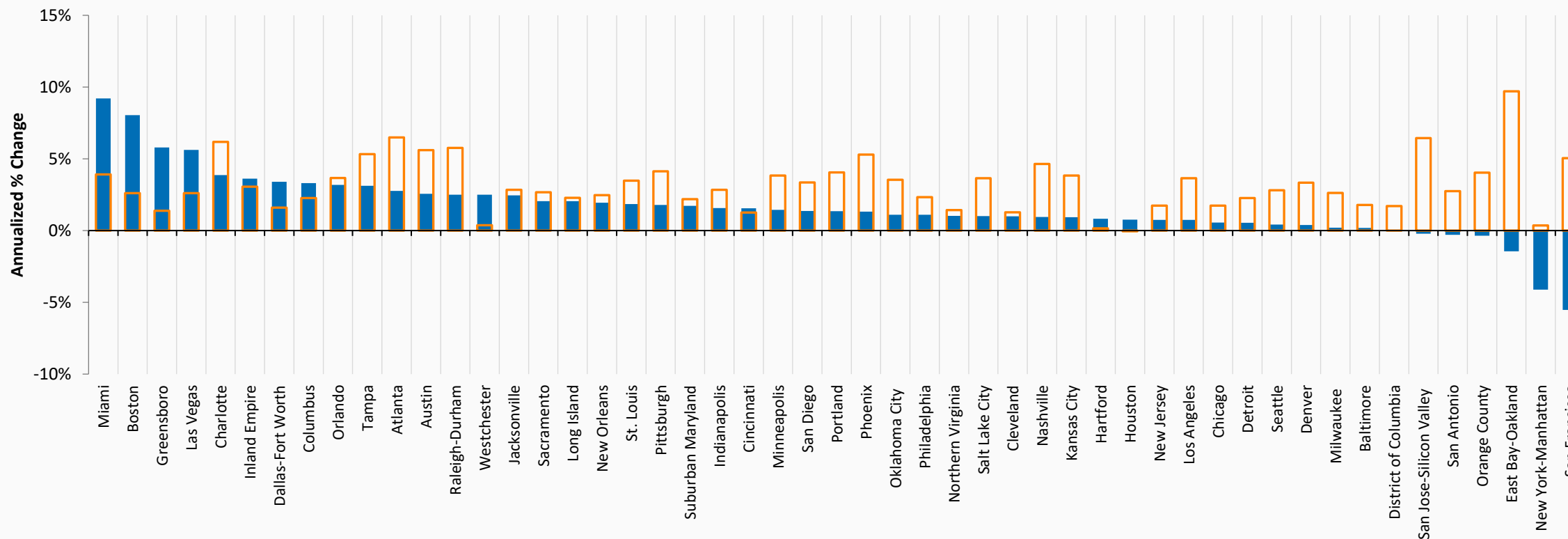
RENTAL RATES (BASE)



- 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 19% and 15%, respectively. These markets' rates now track with the District of Columbia.
- Miami has experienced the reverse, with strong gains in rents of 39% over the same period, driven by demand in the urban core.

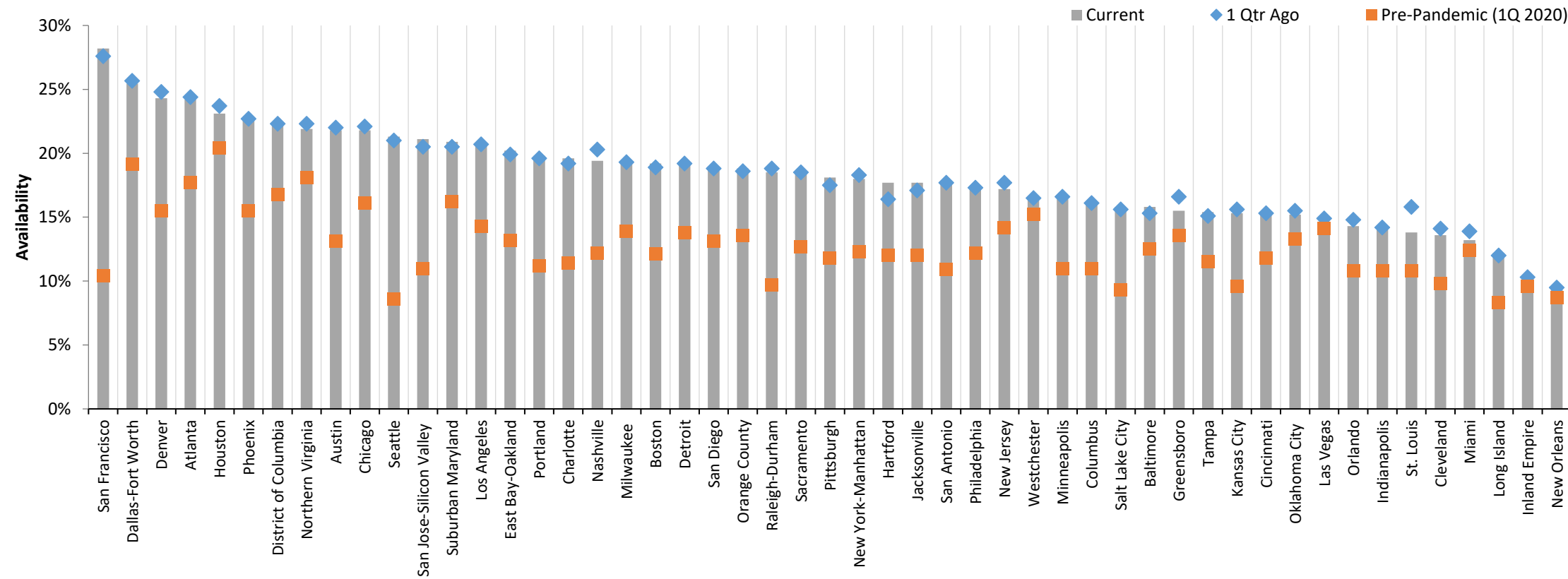
RENTAL RATE CHANGE: PRE-PANDEMIC vs PRE-PANDEMIC to CURRENT

■ Pre-Pandemic to Current 3.75 years Ann: 1Q 2020 - 4Q 2023 ■ Pre-Pandemic 3.75 years Ann: 2Q 2016 - 1Q 2020



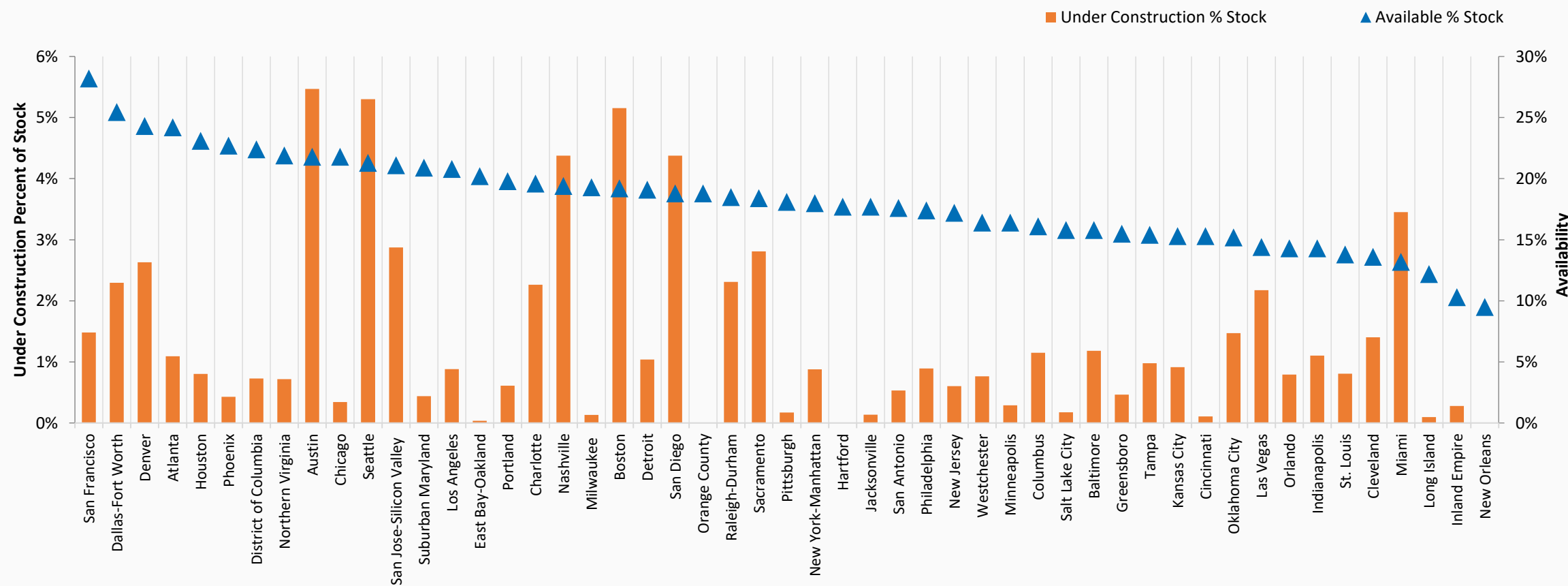
- Demand for space has yet to return to pre-pandemic levels in most markets. Concessions remain high, and leasing muted, obscuring the true cost of rent.
- Some markets have fared relatively better than others:
 - The highest rental rate growth markets since the start of the pandemic are Miami, Boston, Greensboro, Las Vegas, Charlotte, and Inland Empire.
 - Markets experiencing the most relative lift compared to pre-pandemic rental rate growth include Boston, Miami, Greensboro, 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 Las Vegas, Inland Empire, Miami, New Orleans, Westchester, Oklahoma City, and Greensboro.
- 60% of markets stayed constant or saw improvement from the previous quarter, up from 31% last 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, Charlotte, Nashville, Boston, San Diego, Raleigh-Durham, and Sacramento. Future vacancy will depend on how demand matches supply and at what rate this demand absorbs released 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	235,717,070	19.5%	18.0%	(413,848)	(3,768,421)	\$29.58	3.5%	2,575,122
Austin	118,256,760	17.9%	14.9%	423,725	(1,406,947)	\$30.54	-0.8%	6,467,479
Baltimore	119,983,778	14.6%	13.6%	(498,810)	(1,030,140)	\$22.90	-2.3%	1,417,766
Boston	306,958,652	12.7%	10.0%	717,184	203,368	\$30.42	18.9%	15,817,581
Charlotte	98,744,871	16.6%	13.8%	(495,578)	(1,359,746)	\$32.18	0.5%	2,235,250
Chicago	440,761,519	18.4%	17.2%	(703,087)	(4,668,433)	\$22.29	1.7%	1,524,314
Cincinnati	73,422,946	12.2%	11.1%	165,116	134,719	\$14.74	0.5%	80,000
Cleveland	83,486,481	11.7%	11.0%	26,178	(1,108,905)	\$18.00	1.5%	1,171,099
Columbus	81,286,600	13.0%	10.9%	530,911	244,868	\$16.26	3.0%	934,729
Dallas-Fort Worth	301,832,759	21.8%	19.6%	626,477	(74,686)	\$25.67	2.9%	6,932,893
Denver	147,540,803	19.2%	16.4%	(201,085)	(2,365,936)	\$24.94	2.4%	3,884,210
Detroit	136,039,121	13.4%	11.7%	(324,223)	(990,859)	\$18.28	-1.3%	1,412,560
District of Columbia	151,585,076	18.3%	17.3%	(109,445)	(1,483,960)	\$52.48	0.6%	1,107,474
East Bay-Oakland	90,085,618	17.0%	15.0%	(251,824)	(2,473,928)	\$38.94	0.3%	34,905
Greensboro	21,497,958	11.3%	10.5%	176,857	21,339	\$19.16	6.3%	100,000
Hartford	48,681,116	13.7%	12.6%	(662,514)	(1,435,305)	\$19.53	1.5%	0
Houston	312,605,133	20.6%	19.6%	1,120,109	1,181,130	\$21.11	1.1%	2,519,389
Indianapolis	73,602,464	11.4%	10.3%	378,193	(270,607)	\$20.68	-1.8%	812,924
Inland Empire	50,070,841	7.8%	7.5%	17,903	(140,675)	\$24.16	0.8%	140,229
Jacksonville	42,677,804	12.9%	11.3%	(710,307)	(619,180)	\$21.39	0.0%	57,932
Kansas City	96,285,924	13.2%	11.7%	16,079	(1,260,385)	\$20.72	4.9%	882,176
Las Vegas	37,973,615	12.5%	11.2%	170,614	(189,120)	\$26.45	7.0%	825,444
Long Island	62,821,138	10.5%	8.9%	(169,883)	(811,710)	\$29.34	3.1%	60,700
Los Angeles	365,607,220	18.0%	16.0%	(1,312,456)	(4,242,603)	\$39.12	-2.0%	3,227,513
Miami	82,988,354	10.5%	9.9%	215,493	193,081	\$49.72	6.9%	2,866,228

Market	Inventory SF	Overall Vacancy Rate	Direct Vacancy Rate	Net Absorption	12-Month Net Absorption	Asking Rent Base	Annual Rent Change	Under Construction
Milwaukee	59,574,742	12.8%	12.6%	21,644	(594,173)	\$16.28	0.8%	79,681
Minneapolis	172,933,211	12.8%	11.2%	336,343	(772,517)	\$17.94	0.4%	501,731
Nashville	70,566,814	15.1%	12.7%	210,746	166,827	\$28.43	1.6%	3,087,600
New Jersey	317,864,780	13.9%	12.2%	(370,494)	(3,458,812)	\$24.89	0.8%	1,926,276
New Orleans	36,263,929	8.9%	8.4%	(5,088)	(278,746)	\$19.97	2.8%	0
New York-Manhattan	555,520,033	15.7%	13.5%	(1,702,653)	(5,144,998)	\$51.52	-5.8%	4,890,344
Northern Virginia	203,525,247	18.7%	17.5%	(534,180)	761,721	\$33.74	7.0%	1,461,187
Oklahoma City	41,472,139	12.2%	11.9%	108,718	156,873	\$18.77	2.8%	611,050
Orange County	130,049,033	15.1%	13.3%	186,004	(1,650,890)	\$29.56	5.0%	0
Orlando	66,578,681	10.6%	9.3%	327,965	(124,877)	\$24.07	6.6%	529,115
Philadelphia	239,700,788	12.6%	10.7%	131,373	(1,530,454)	\$24.96	1.6%	2,139,055
Phoenix	131,954,970	20.0%	15.3%	(92,065)	(2,214,688)	\$27.67	2.4%	567,023
Pittsburgh	105,246,016	14.1%	12.7%	(478,174)	(1,700,047)	\$25.09	0.6%	180,621
Portland	86,021,971	15.9%	14.0%	(403,081)	(1,139,824)	\$27.62	-0.1%	525,000
Raleigh-Durham	56,290,121	13.4%	10.7%	115,736	(20,519)	\$30.41	-1.2%	1,300,855
Sacramento	77,023,912	14.3%	13.5%	32,245	(493,064)	\$24.64	0.8%	2,163,000
Salt Lake City	63,176,040	11.4%	9.3%	58,801	501,669	\$24.86	-1.5%	112,294
San Antonio	62,301,820	14.3%	13.3%	222,725	16,142	\$21.11	-2.0%	333,022
San Diego	100,644,932	11.9%	10.8%	511,905	36,660	\$34.23	-1.8%	4,404,839
San Francisco	169,094,159	23.4%	18.6%	(2,442,407)	(9,141,509)	\$50.75	-10.2%	2,506,684
San Jose-Silicon Valley	129,229,440	16.7%	12.7%	(435,269)	(1,688,940)	\$48.80	-0.3%	3,715,355
Seattle	177,882,745	16.8%	13.9%	(652,937)	(3,477,562)	\$30.94	1.9%	9,429,655
St. Louis	107,242,719	12.4%	11.1%	954,326	540,431	\$21.39	1.3%	864,900
Suburban Maryland	83,058,628	17.5%	16.5%	(20,943)	(583,363)	\$29.34	2.6%	364,628
Tampa	79,583,917	12.5%	10.0%	68,368	69,333	\$27.47	-1.0%	780,546
Westchester	130,921,984	13.3%	11.8%	60,164	(899,884)	\$29.68	-1.6%	1,000,000



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ABOUT THE TRANSWESTERN COMPANIES

Four 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.).