COMMERCIAL REAL ESTATE

U.S. MARKET | Office

TRANSWESTERN

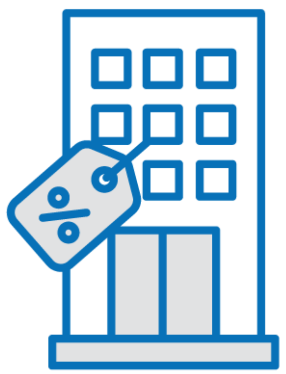
Q3 2024

TRANSWESTERN

Office

Q3
2024

THE VIEW FROM HERE



Sublease absorption is strong as tenants take advantage of discounts

123% jump in number of markets with positive quarterly net absorption

Number of tenants downsizing at renewal is up 109% so far in 2024

NET ABSORPTION

(2.2) MSF

Buoyed by sublease demand

VACANCY RATE

14.2%

70 bps rise in YoY

UNDER CONSTRUCTION

86.3 MSF

Down 23% in YoY

ASKING RENT

$26.91

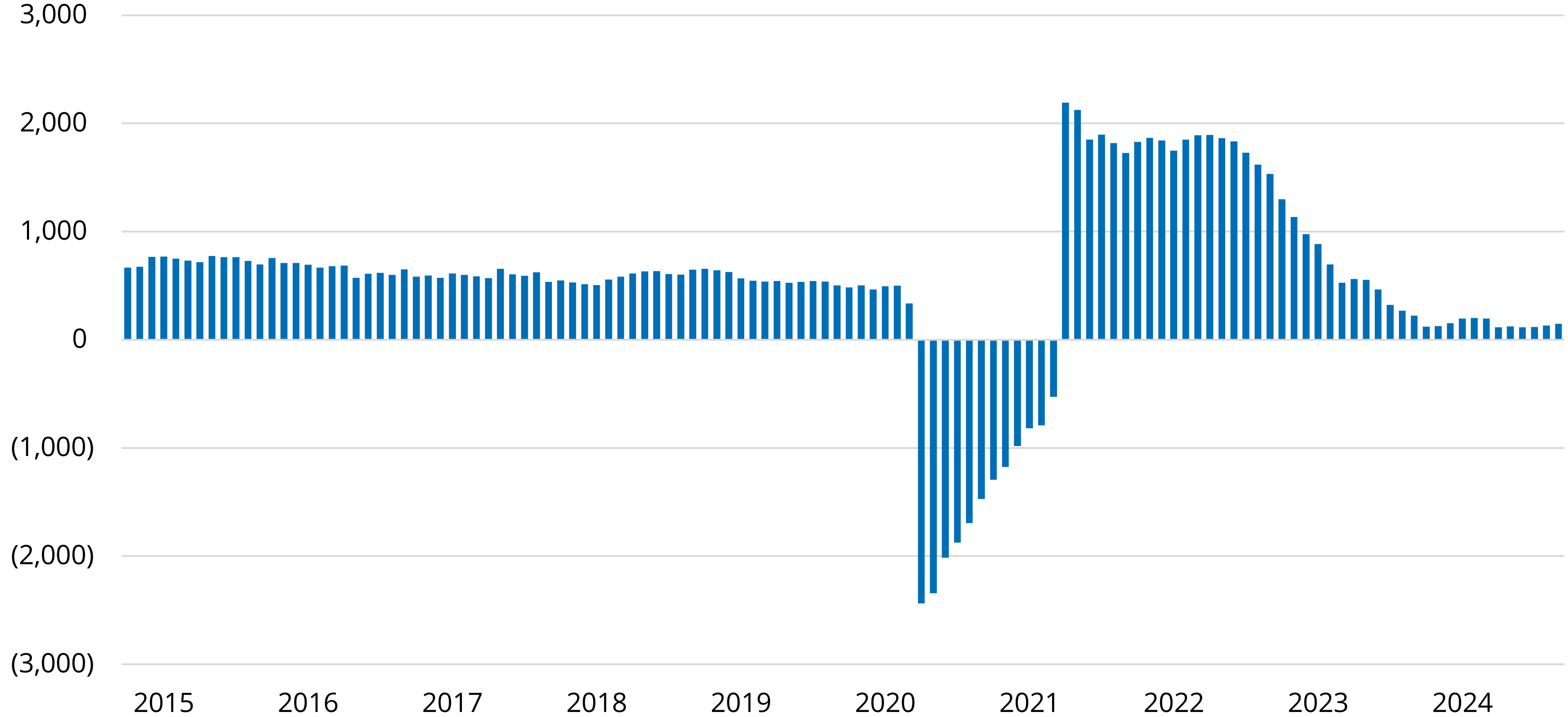
1.5% annual growth, a deceleration

ECONOMIC HIGHLIGHTS

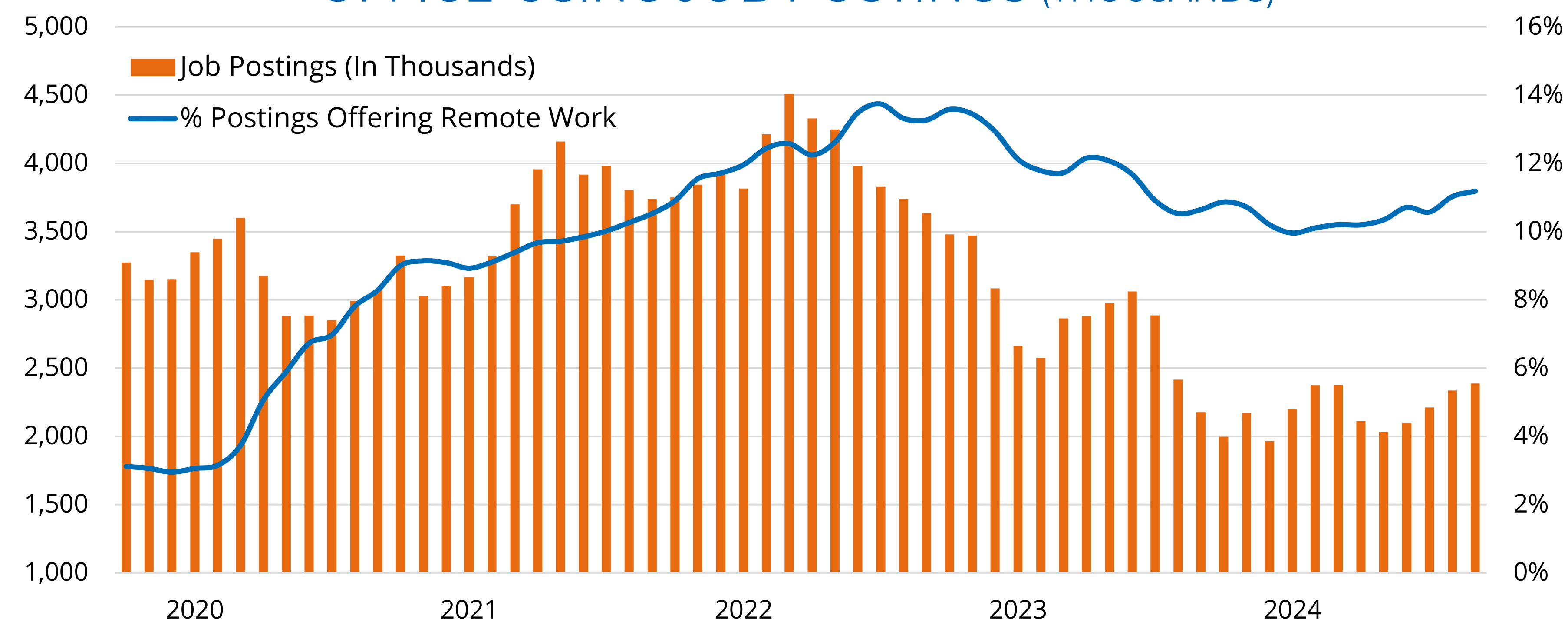
- For the first time since 2020, the Federal Reserve lowered interest rates. The larger-than-anticipated 50 bps cut ended a 14-month period between increases or cuts, the second longest among recent cycles.
- U.S. economy grew 3.0% in Q2 2024, nearly double the rate of Q1 2024. Forecasts for 2024 growth ranged between 2.2% and 2.5%.
- The U.S. unemployment rate moved to its highest level since October 2021, rising to 4.2% as of August 2024, 40 basis points higher than a year ago.
- 149,000 office-using jobs were added to the economy YoY, which is well below the pre-pandemic average of 629,000.
- The tech and financial services industry actively added jobs over the past year. The employment services (temp help) sector has been steadily cutting positions in recent months. This is less likely due to instability, rather, employees are able to land a job.
- Office-using job postings (companies looking to hire) are down 28% from the pre-pandemic average but are up 10% YoY as conditions normalize.
- Following Amazon's total return to the office announcement in September 2024, Fortune 100 companies are starting to move away from hybrid work models and enforcing staff back to the office. While most still maintain hybrid schedules, the number of companies requiring four to five days a week in the office is rising.
- Overall, the economy is slowing, but remains steady as employers are hiring, inflation has slowed, and consumers continue to spend.

HISTORICAL

YOY CHANGE IN OFFICE-USING JOBS (THOUSANDS)



OFFICE-USING JOB POSTINGS (THOUSANDS)



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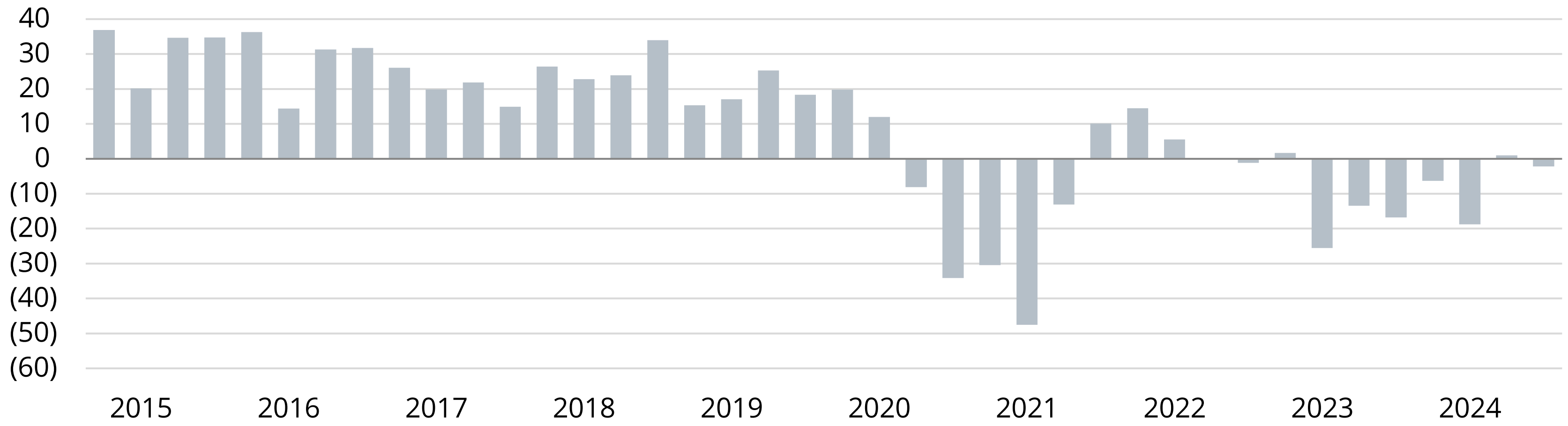
MARKET HIGHLIGHTS

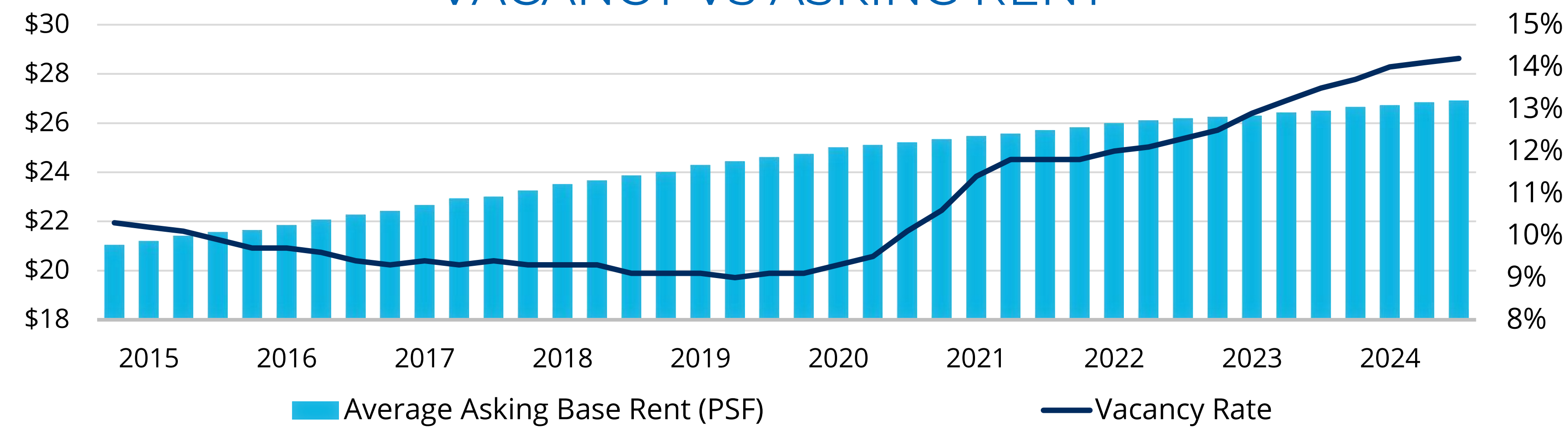
- Net absorption totaled negative 2.2 MSF in Q3, including both direct and sublet space.
- Direct accounted for negative 7.8 MSF due to large one-off moves such as CNN in Atlanta and USPTO in Northern Virginia.
- At positive 5.6 MSF, Q3 2024 marks one of the largest positive quarterly gains in sublease absorption since the aftermath of the dot.com bubble.
- 29 of 51 tracked markets registered positive net absorption, up slightly from 25 markets the quarter prior, and up notably from only 13 markets one year ago.
- The overall vacancy rate at 14.2% rose 10 bps during the quarter and is up 70 bps YoY. This marks the highest level since the late 1980s. It will likely take until early 2025 for the overall vacancy rate to stabilize.
- Landlords have held relatively firm on asking rents, gently increasing rates by 1.5% YoY. Although owners have lured tenants with generous concession packages, we expect this to moderate over the next several quarters due to financial constraints.
- Construction levels have receded and are down 23% YoY and 53% since the peak. Although some markets continue to break ground to capture the flight to quality, 35 of the 51 markets tracked have less than 1% under construction as a % of stock. This compares favorably to only 15 markets during the peak of construction for this cycle.
- Recovery will be long and uneven, as leases roll and tenants right-size on average 20%. Despite this, tenants are leasing space and seeking out opportunities.

HISTORICAL

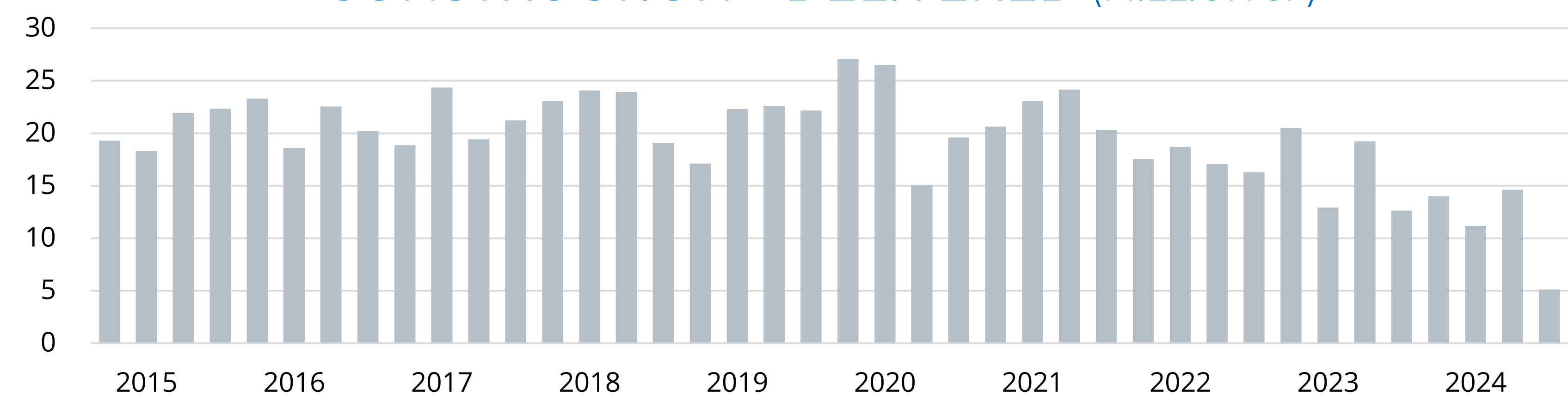
NET ABSORPTION (MILLION SF)



VACANCY VS ASKING RENT



CONSTRUCTION – DELIVERED (MILLION SF)



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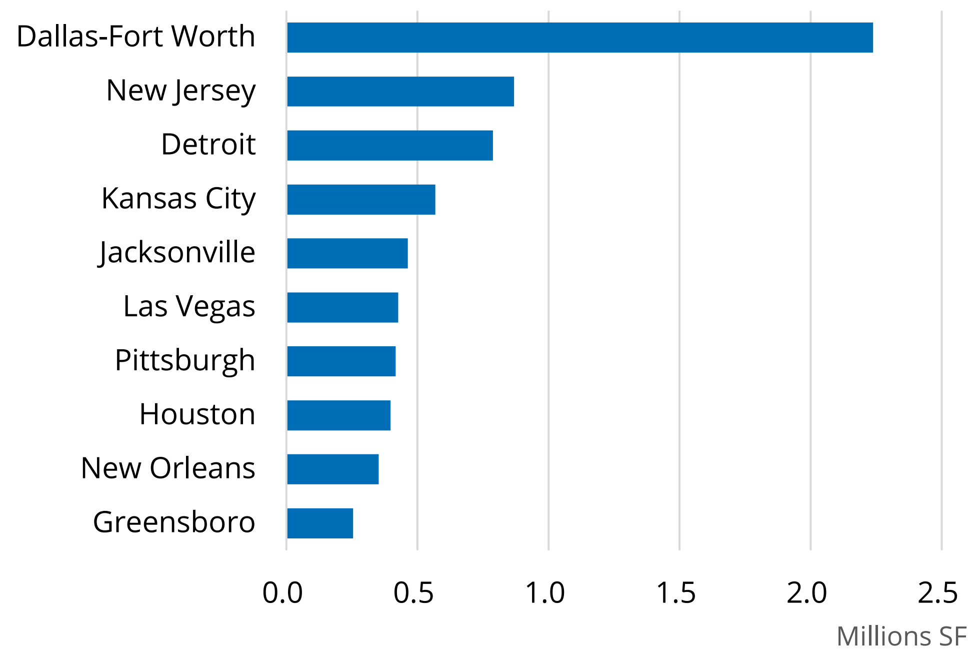
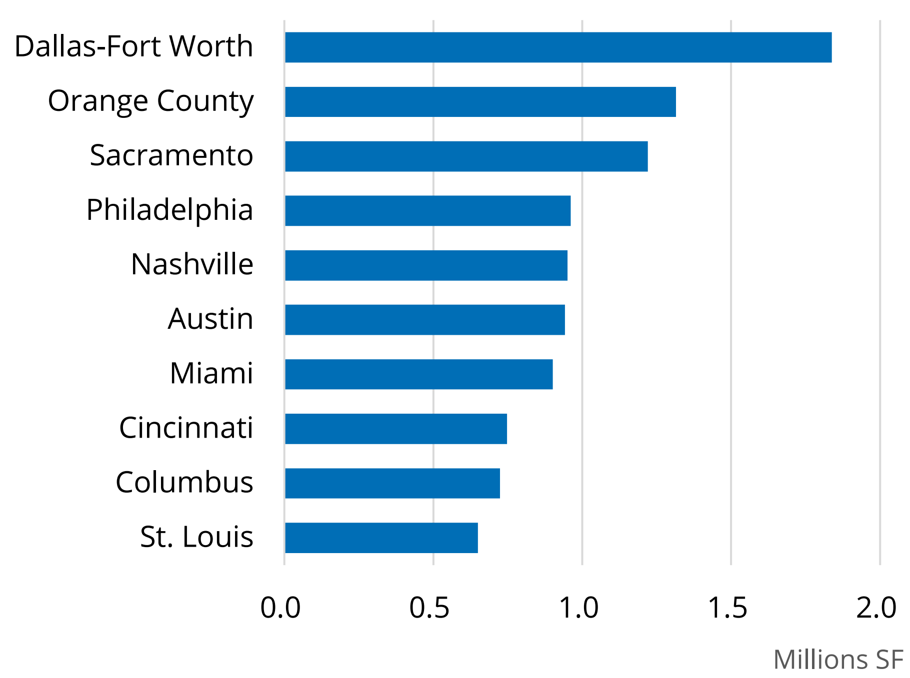
NET ABSORPTION

Q3 2024 Net Absorption

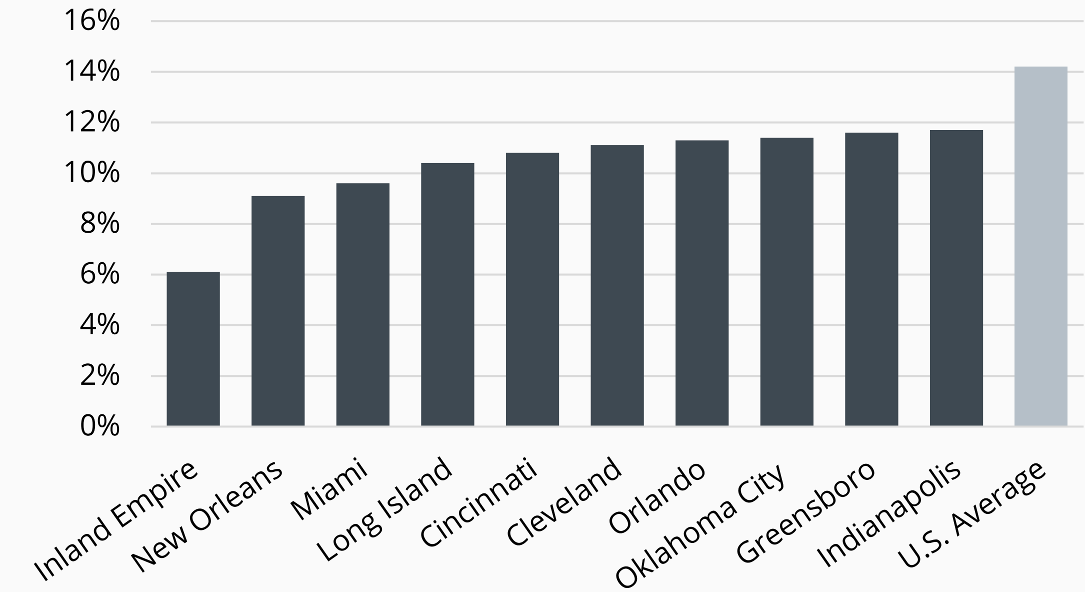


Trailing 4-Qtr Net Absorption

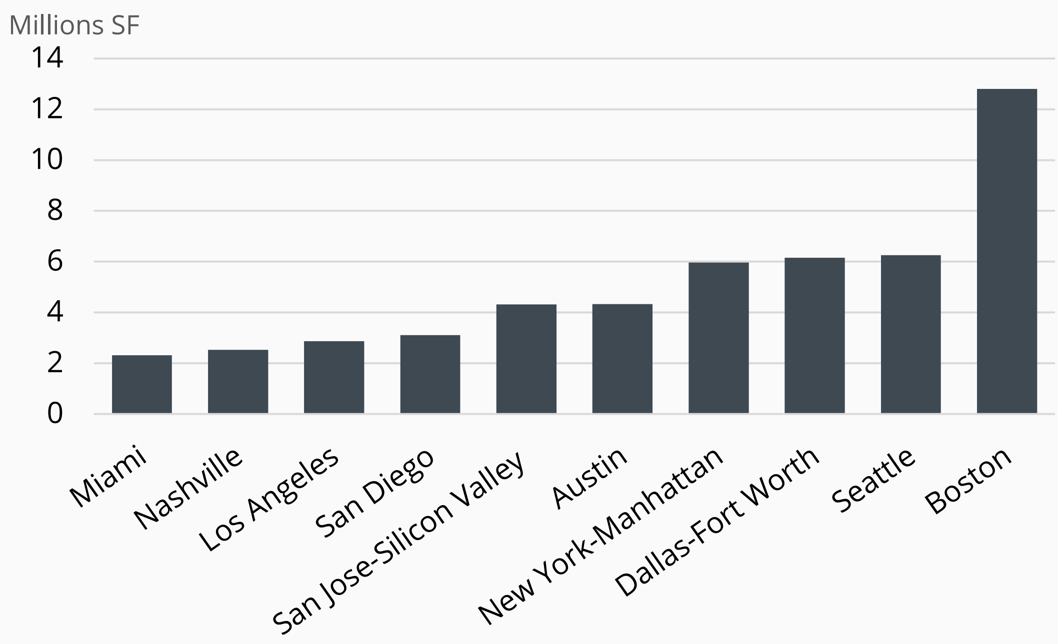


VACANCY/CONSTRUCTION

Q3 2024 Overall Vacancy Rate

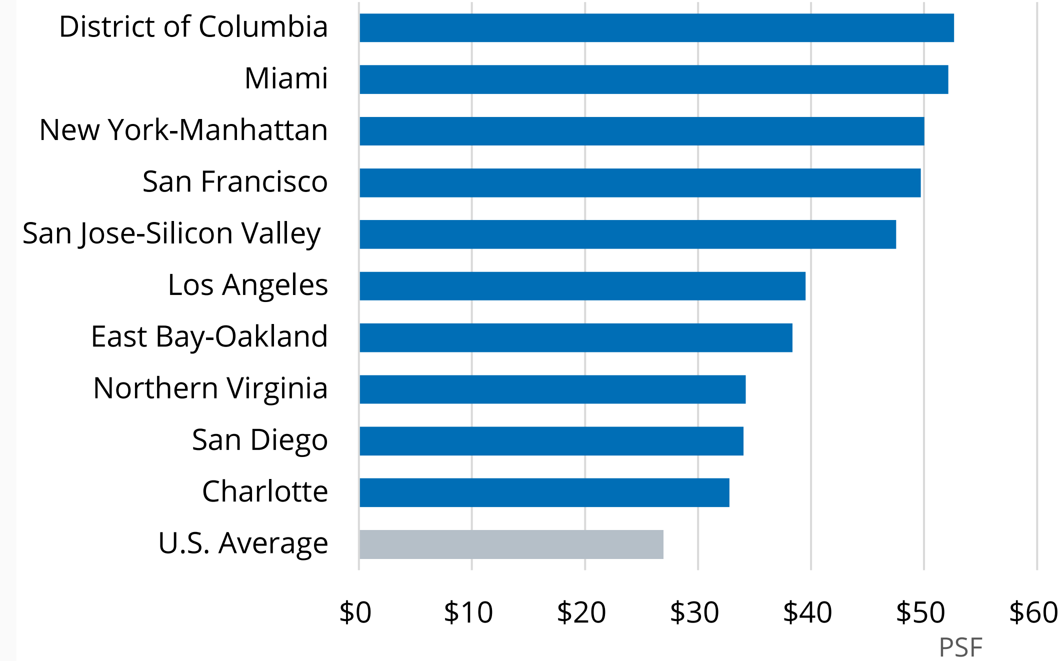


Q3 2024 Under Construction

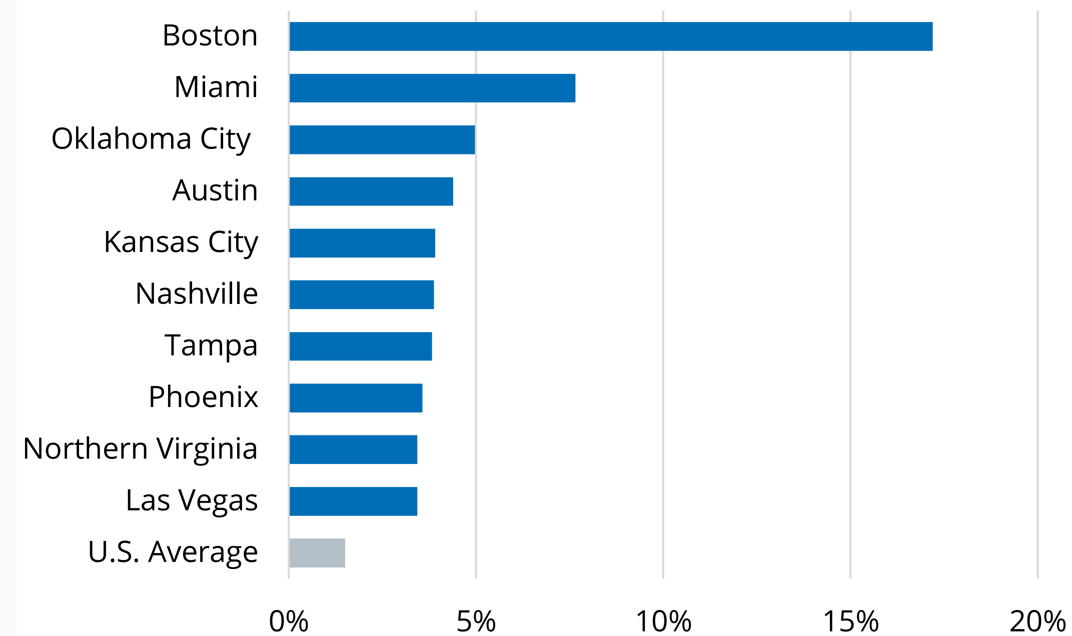


ASKING RENTS

Q3 2024 Asking Rate (Base)



Year-Over-Year Rent Growth



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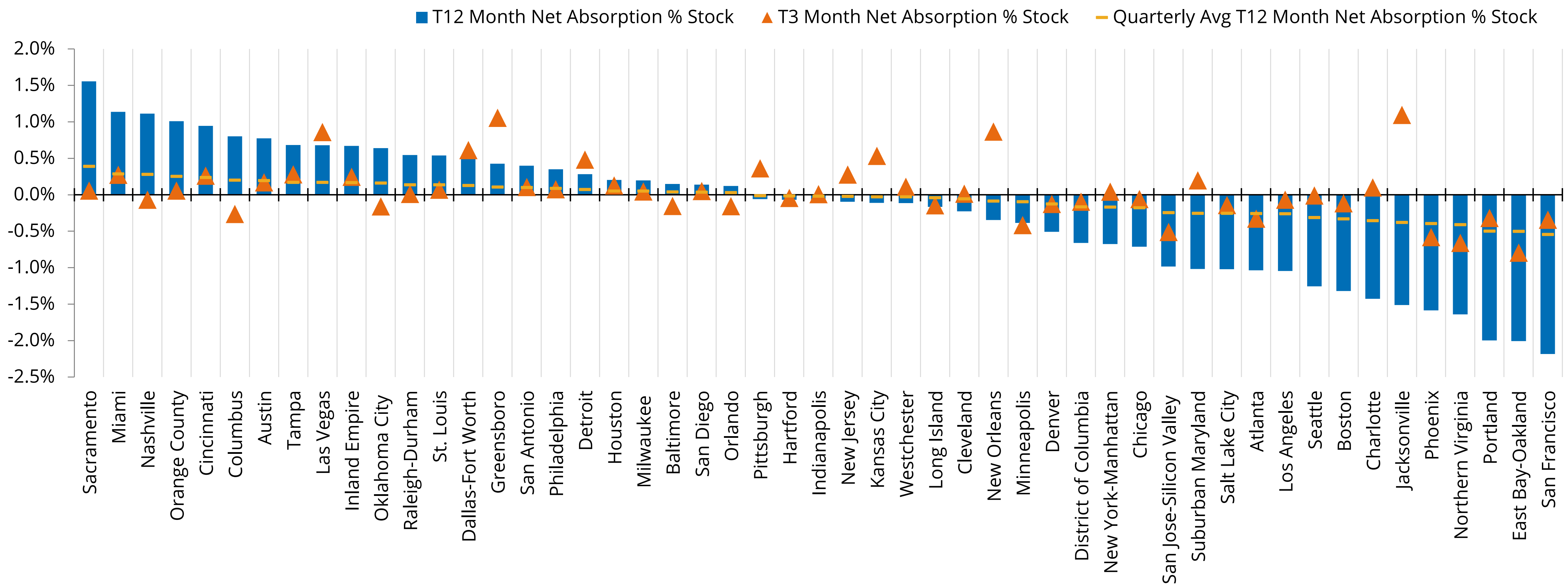
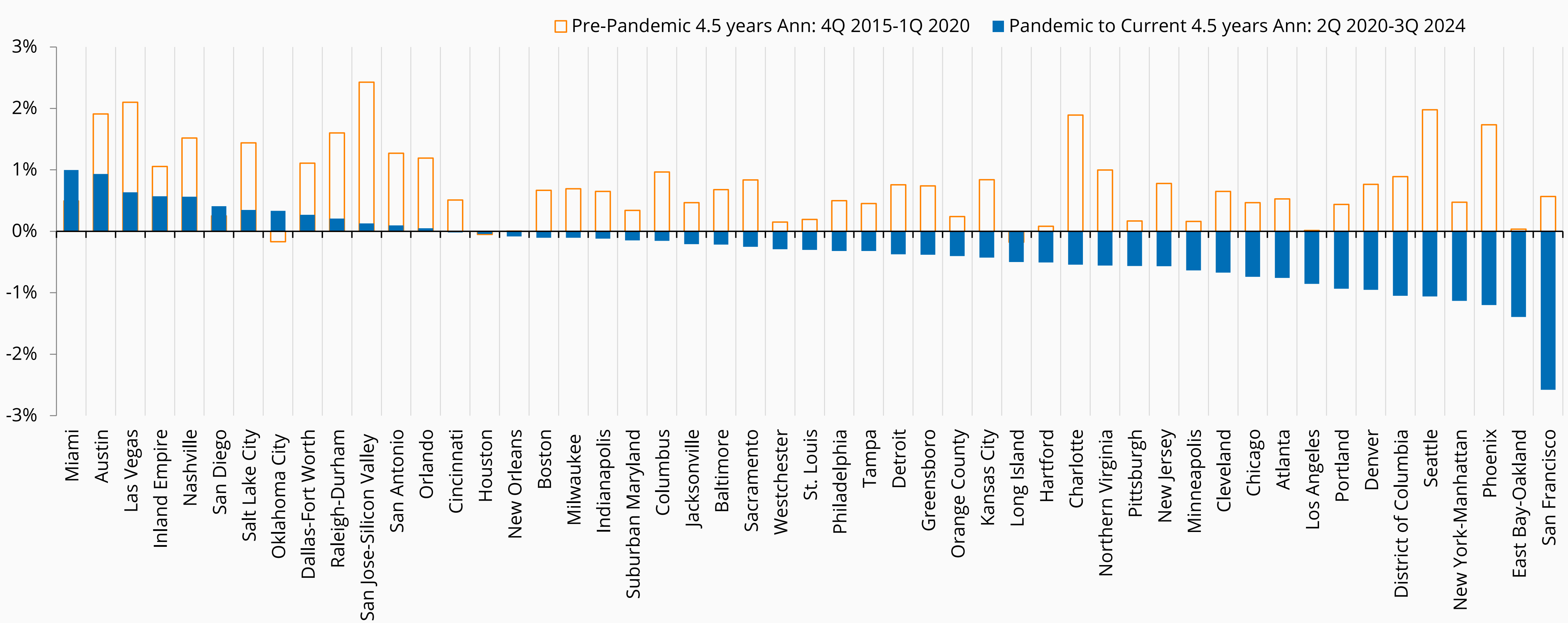
NET ABSORPTION % STOCK



- Demand for office space is somewhat muted, but improving with 57% of tracked markets managing positive net absorption for the quarter and 45% for the trailing 12 months.
- Top markets for trailing 12-month net absorption that also saw positive net absorption for the quarter include Sacramento, Miami, and Orange County, among others.
- 59% of markets' quarterly net absorption improved during Q3 compared to 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 4.5 years preceding the start of the pandemic to the 4.5 years since the pandemic began.
- Top markets experiencing expansion since the pandemic include Miami, Austin, Las Vegas, Inland Empire, and Nashville.
- Of these expansionary markets, a good handful saw positive net absorption over the past year as well, including Oklahoma City, Raleigh-Durham, San Antonio, and Dallas-Fort Worth.

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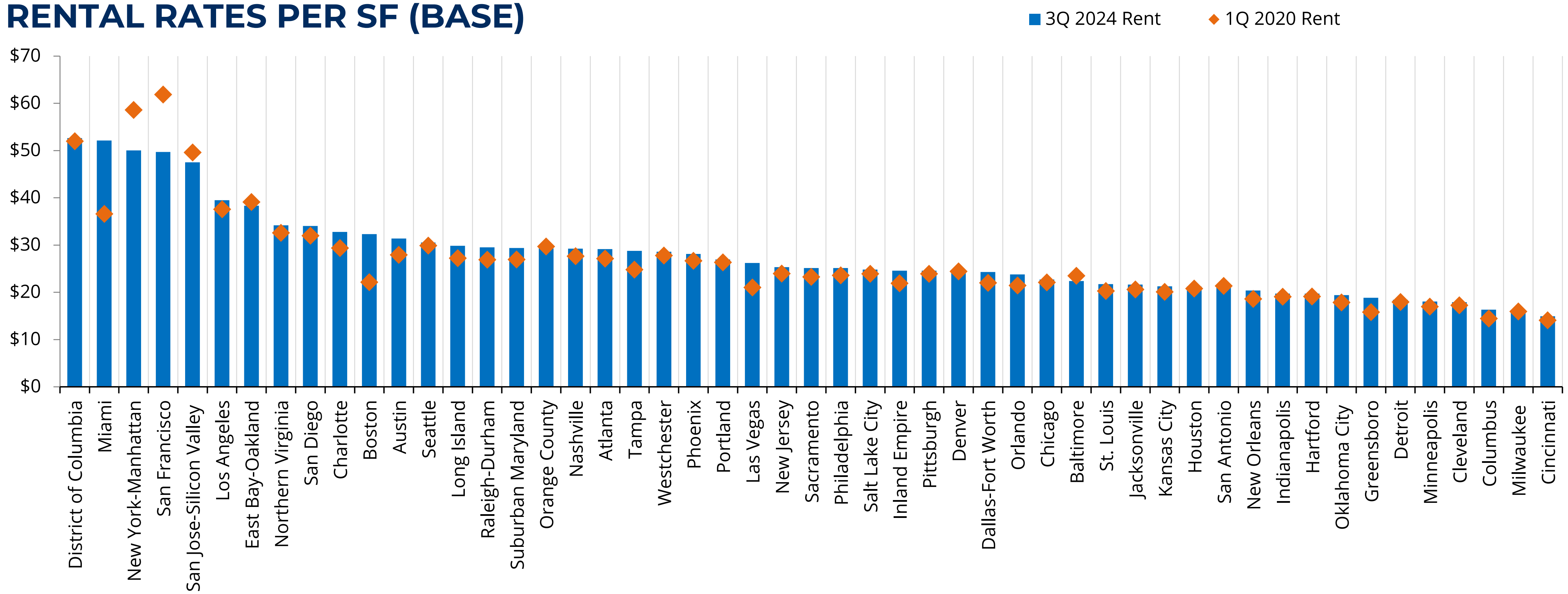
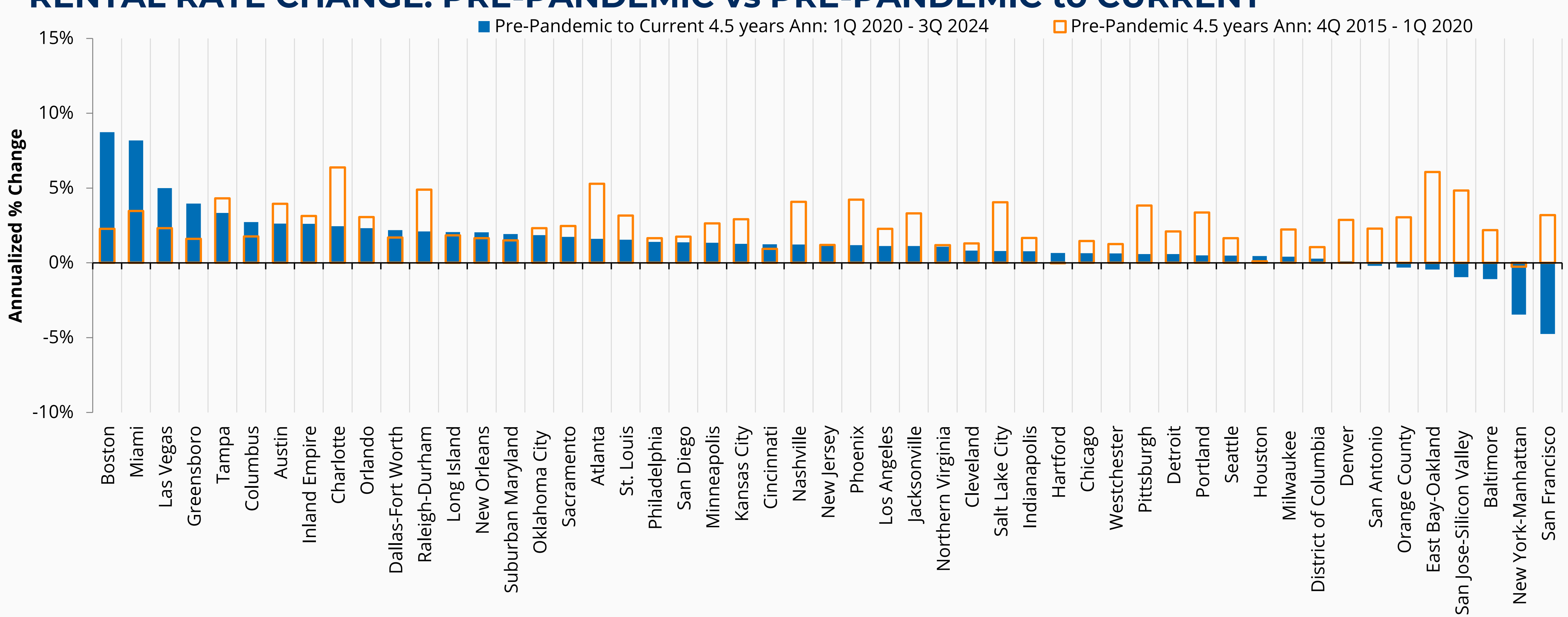
RENTAL RATES PER SF (BASE)



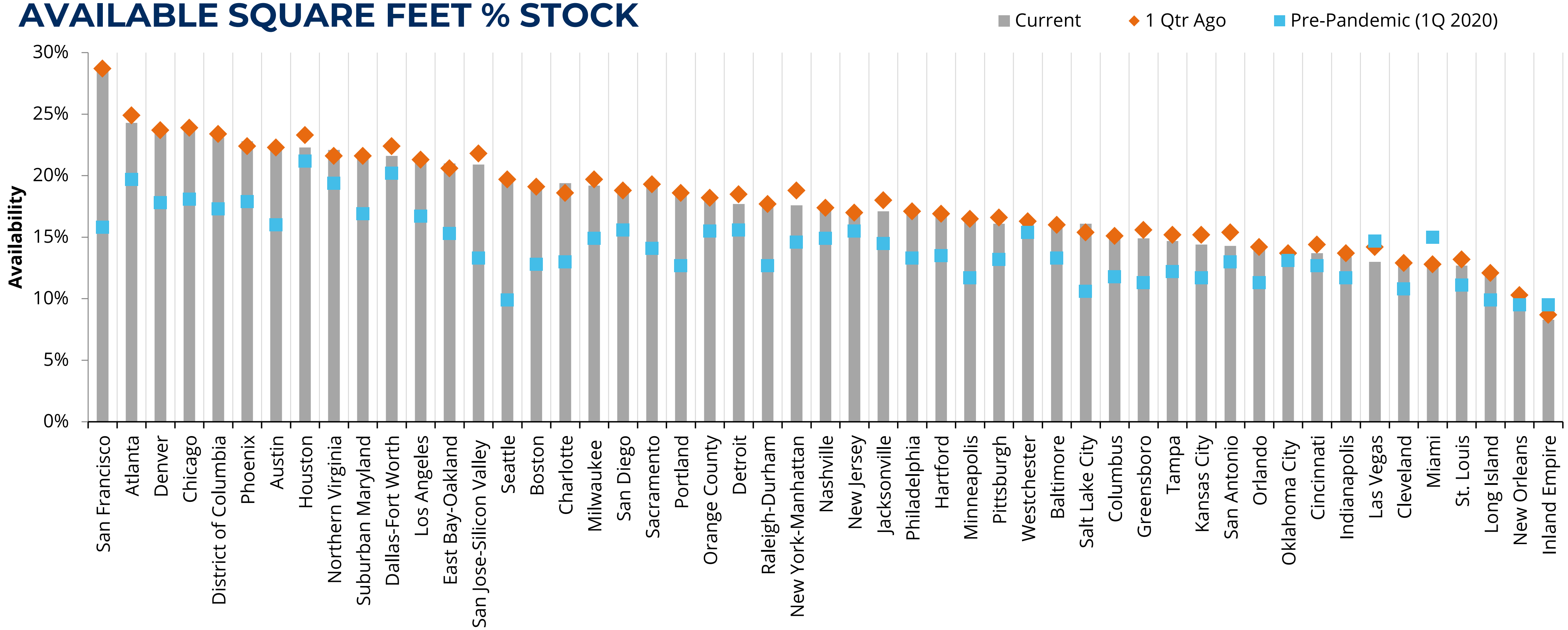
- The largest, densest and most developed markets have historically commanded significantly higher rental rates, yet shifts in the office market have diminished these markets' lead.
- Since the beginning of the pandemic, the two historically most expensive markets, San Francisco and New York, have experienced the largest declines in rental rates at 20% and 15%, respectively. These markets' rates are now outpaced by the District of Columbia and Miami.
- Boston and Miami have experienced the reverse, with strong gains in rents of 42% and 46%, respectively, over the same period.

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



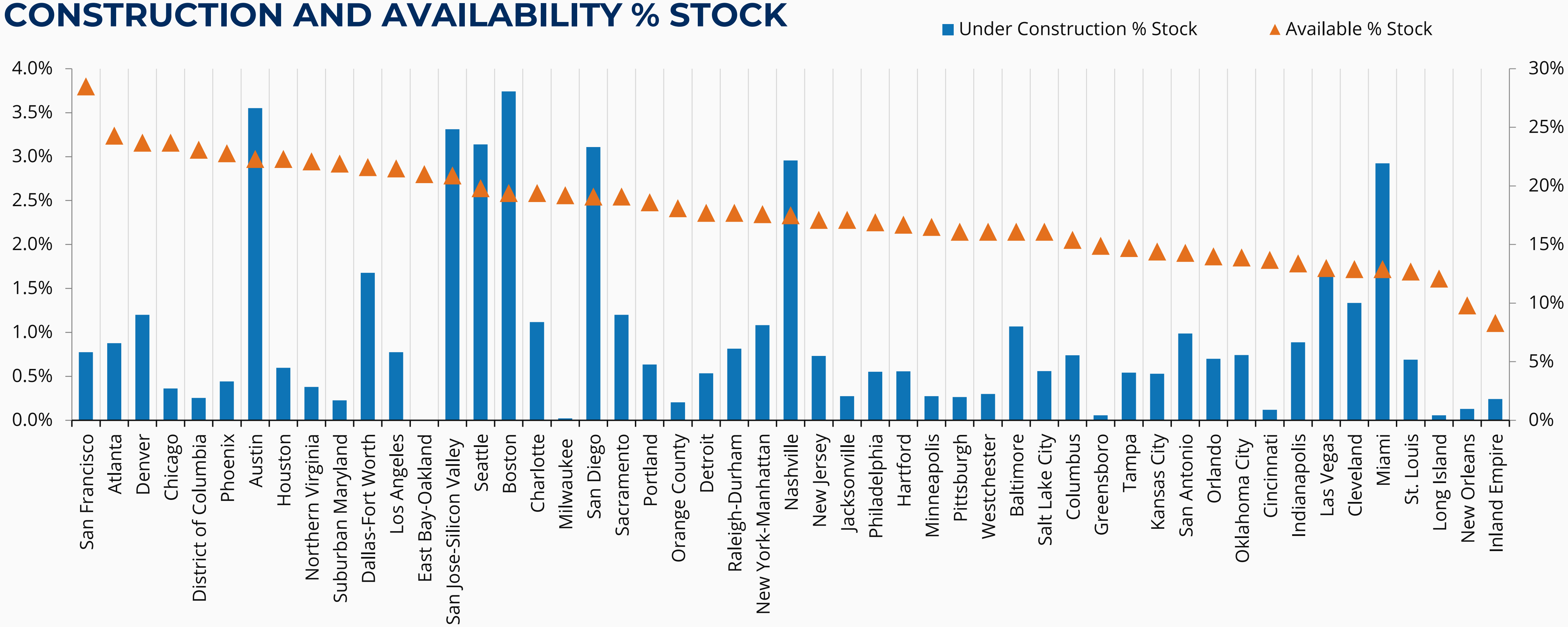
- Demand for space has yet to return to pre-pandemic levels in most markets. Concessions remain high but moderating, and leasing muted, obscuring the true cost of rent.
- Some markets have fared relatively better than others:
  - The highest rental rate growth markets since the start of the pandemic are Boston, Miami, Las Vegas, Greensboro, Tampa, and Columbus.
  - These same markets also experienced the most relative lift compared to pre-pandemic rental rate growth.

AVAILABLE SQUARE FEET % STOCK



- In this graph, the softening of demand is illustrated by heightened availability rates shown in all tracked markets. The availability rate can be a predictor of future market conditions.
- Markets seeing the least rise in availability since the pandemic began include Miami, Las Vegas, Inland Empire, New Orleans, and Westchester.
- 45% of markets stayed constant or saw improvement from the previous quarter.

CONSTRUCTION AND AVAILABILITY % STOCK



- 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, San Jose-Silicon Valley, Seattle, Boston, San Diego, Nashville, and Miami. Future vacancy will depend on how demand matches supply and at what rate this demand absorbs unleased space.

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Market	Inventory SF	Overall Vacancy Rate	Direct Vacancy Rate	Net Absorption	12-Month Net Absorption	Asking Rent Base	Annual Rent Change	Under Construction
Atlanta	234,763,176	21.3%	20.0%	(767,675)	(2,431,362)	$29.16	-0.6%	2,058,905
Austin	121,903,885	18.1%	15.4%	206,547	942,373	$31.38	4.4%	4,328,623
Baltimore	118,963,861	13.8%	13.0%	(183,088)	176,330	$22.39	-2.2%	1,271,384
Boston	342,373,908	14.2%	11.7%	(406,176)	(4,516,237)	$32.31	17.2%	12,807,100
Charlotte	99,055,511	18.5%	16.4%	99,043	(1,412,605)	$32.77	1.6%	1,105,796
Chicago	398,571,806	19.3%	18.4%	(233,265)	(2,846,214)	$22.74	0.4%	1,443,724
Cincinnati	79,179,718	10.8%	9.9%	206,412	747,749	$14.92	1.3%	94,700
Cleveland	95,489,459	11.1%	10.5%	14,489	(216,731)	$17.92	-0.7%	1,275,253
Columbus	90,402,169	12.0%	10.1%	(239,692)	723,414	$16.35	0.1%	668,825
Dallas-Fort Worth	366,465,069	20.1%	18.3%	2,238,676	1,837,914	$24.29	0.6%	6,148,705
Denver	163,477,166	19.0%	16.9%	(208,280)	(831,761)	$24.57	0.5%	1,961,723
Detroit	163,798,734	13.5%	12.2%	788,336	463,119	$18.45	2.0%	876,485
District of Columbia	156,894,996	18.8%	17.8%	(149,681)	(1,038,407)	$52.66	0.6%	400,000
East Bay-Oakland	90,820,487	18.5%	16.1%	(721,431)	(1,822,077)	$38.35	-2.7%	0
Greensboro	24,129,183	11.6%	11.1%	254,401	102,523	$18.86	-1.1%	13,700
Hartford	54,651,808	12.8%	11.8%	(24,289)	(36,878)	$19.72	1.6%	304,892
Houston	315,305,234	20.7%	19.8%	396,748	638,906	$21.23	0.4%	1,886,187
Indianapolis	85,666,156	11.7%	10.7%	6,450	(63,652)	$19.74	-2.1%	760,208
Inland Empire	60,362,419	6.1%	6.0%	149,107	404,372	$24.60	1.6%	145,978
Jacksonville	42,303,445	12.9%	11.4%	462,991	(640,406)	$21.66	0.7%	116,340
Kansas City	106,828,578	13.2%	12.1%	568,406	(119,186)	$21.27	3.9%	564,554
Las Vegas	49,597,614	11.9%	10.9%	426,063	337,110	$26.22	3.4%	812,623
Long Island	77,384,251	10.4%	8.9%	(111,535)	(128,493)	$29.86	2.7%	45,000
Los Angeles	369,563,308	18.6%	16.7%	(250,772)	(3,858,655)	$39.52	1.2%	2,863,692
Miami	79,237,897	9.6%	9.0%	216,813	900,921	$52.15	7.7%	2,317,685

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Market	Inventory SF	Overall Vacancy Rate	Direct Vacancy Rate	Net Absorption	12-Month Net Absorption	Asking Rent Base	Annual Rent Change	Under Construction
Milwaukee	68,002,377	12.8%	12.6%	29,256	135,047	$16.28	0.4%	15,000
Minneapolis	173,410,742	13.2%	12.0%	(720,705)	(670,858)	$18.05	-0.4%	475,600
Nashville	85,302,709	13.8%	11.7%	(59,573)	950,200	$29.23	3.9%	2,522,007
New Jersey	315,434,579	13.7%	12.1%	868,731	(301,735)	$25.32	0.9%	2,307,515
New Orleans	40,630,615	9.1%	8.5%	351,518	(140,514)	$20.40	2.2%	52,348
New York-Manhattan	551,938,100	16.2%	13.7%	227,990	(3,731,618)	$50.03	-4.4%	5,970,335
Northern Virginia	201,989,563	20.3%	19.2%	(1,332,478)	(3,313,622)	$34.21	3.4%	765,000
Oklahoma City	51,984,462	11.4%	11.2%	(83,070)	333,122	$19.41	5.0%	385,804
Orange County	130,371,995	14.4%	12.9%	74,348	1,314,757	$29.29	2.3%	268,054
Orlando	81,362,281	11.3%	9.9%	(129,029)	98,238	$23.81	0.0%	570,023
Philadelphia	275,614,900	12.4%	11.0%	209,021	961,007	$25.13	1.1%	1,519,168
Phoenix	132,021,012	21.1%	17.1%	(768,020)	(2,092,318)	$28.13	3.6%	584,022
Pittsburgh	115,513,775	13.5%	12.5%	416,804	(69,053)	$24.59	0.5%	305,000
Portland	93,827,626	16.4%	15.0%	(299,280)	(1,875,906)	$26.97	-2.3%	594,899
Raleigh-Durham	85,426,410	13.2%	10.9%	10,483	466,368	$29.53	-1.3%	696,882
Sacramento	78,496,092	14.6%	14.0%	44,757	1,220,259	$25.13	1.1%	942,288
Salt Lake City	70,758,135	12.2%	10.4%	(101,256)	(722,271)	$24.82	0.1%	396,707
San Antonio	60,554,596	12.8%	12.1%	63,044	241,441	$21.18	0.1%	598,098
San Diego	100,024,737	13.2%	12.1%	49,818	140,444	$34.03	-0.6%	3,109,035
San Francisco	171,345,170	24.8%	20.4%	(588,494)	(3,744,070)	$49.71	-3.2%	1,326,481
San Jose-Silicon Valley	130,410,938	17.1%	13.4%	(666,783)	(1,282,843)	$47.53	2.0%	4,319,649
Seattle	199,259,771	17.8%	15.3%	(18,686)	(2,504,033)	$30.57	-2.4%	6,253,630
St. Louis	120,742,092	12.1%	11.0%	81,833	650,149	$21.76	-0.9%	832,500
Suburban Maryland	101,505,557	17.7%	16.8%	199,310	(1,033,471)	$29.38	2.9%	231,500
Tampa	79,050,741	12.2%	10.3%	221,686	540,177	$28.79	3.8%	428,929
Westchester	156,945,068	13.5%	12.4%	171,758	(179,614)	$28.61	-2.7%	469,040

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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.

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.).