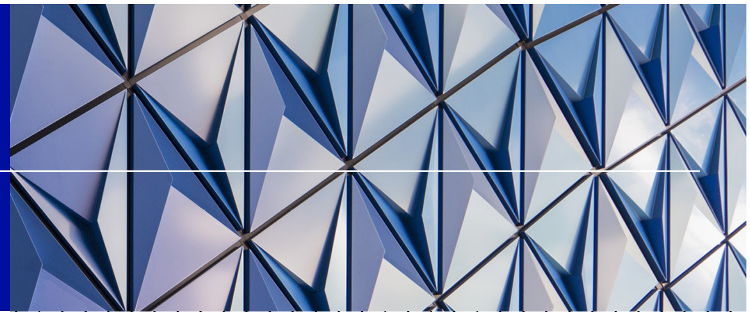
RESEARCH Q2 2021



National Office Market

Slow Leasing and Construction Deliveries Pressure Vacancy While Occupancy Losses Soften

The U.S. office market continued to weather the challenges created by the COVID-19 pandemic in the second quarter of 2021. Significant progress was made with respect to vaccine distribution and the slowing of viral transmission, which has allowed the removal of many business and occupancy restrictions nationwide. Still, office market fundamentals are under pressure. An extended period of low leasing activity has contributed to steady occupancy losses, with net absorption measuring -21.9 million square feet in the second quarter. The vacancy rate recorded 16.4%, a 63-basis-point increase from the prior quarter and a 314-basis-point increase over the past year. More than 11.5 million square feet of new construction delivered during the second quarter. An additional 86.0 million square feet is still under construction, the smallest active pipeline since fourth-quarter 2018.

Asking rents have continued to increase since the pandemic began; however, the growth rate has slowed in each of the last three quarters. Average asking rents rose 2.1% over the past year, reaching $30.43/SF. Rent appreciation has been driven by new deliveries, often with top-of-the-market rents. While asking rents have been stable through the pandemic, net effective rents have steadily declined with asset owners offering elevated concessions to attract and retain tenancy. Although the office market faces continued uncertainty with a large share of the workforce still operating remotely, early re-boarding has begun in most markets. The pace of vaccinations has set the foundation for safe office re-boarding and while hurdles still exist, particularly for the remainder of the summer, most firms are planning their return-to-office in the coming months.

Absorption Remains Negative But Some Markets Record Modest Expansion

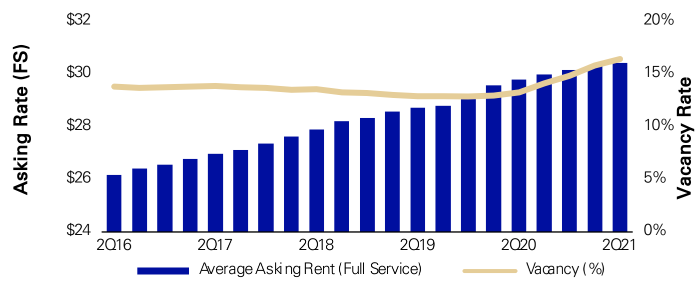
Second-quarter absorption was negative for the sixth consecutive quarter, at -21.9 million square feet; mid-year net absorption was recorded at -63.7 million square feet. While office occupancy continues to contract nationally, some individual markets recorded positive absorption in the second quarter. 18 of the 57 markets tracked by Newmark recorded positive absorption in the second quarter, with Nashville, Charlotte, Milwaukee, and Phoenix recording occupancy over 250,000 square feet. Although second quarter absorption was at its highest level in a year, most office markets recorded occupancy contraction through the first half of 2021. Four markets measured occupancy losses of more than one million square feet in the second quarter, including Manhattan, Washington D.C., San Francisco, and Denver.

Current Conditions

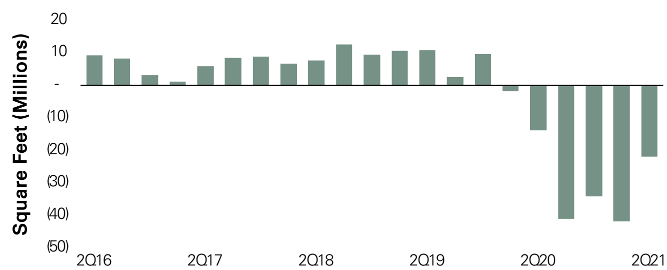
- Second-quarter office absorption was -21.9 million square feet and mid-year net absorption measured -63.7 million square feet. Occupancy losses were less severe in the second-quarter relative to last quarter.
- The vacancy rate increased by 63 basis points on the quarter, reaching 16.4% in second quarter.
- The average asking rent is $30.43/SF, an annual increase of 2.1%. Deliveries of new product are elevating the average asking rent. Asset owners are maintaining face rents while offering robust concessions, which are creating downward pressure on net effective rents.
- Second-quarter deliveries added 11.5 million square feet to market inventory and 86.0 million square feet remains under active construction.

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



Market Summary

	Current Quarter	Prior Quarter	Prior Year	12-Month Forecast
Total Inventory (SF)	5.0 B	5.0 B	4.9 B	↑
Vacancy Rate	16.4%	15.8%	13.3%	↑
Quarterly Net Absorption (SF)	-21.9 M	-41.8 M	-13.8 M	↑
Average Asking Rent/SF (FS)	$30.43	$30.33	$29.79	↓
Under Construction (SF)	86.0 M	91.2 M	102.6 M	↓
Deliveries (SF)	11.5 M	13.6 M	7.6 M	↑

Limited leasing activity and a glut of sublet availabilities have been a weight on office occupancy since the start of the pandemic. While leasing activity remains suppressed in the second quarter, new sublet space listings have slowed, therefore lessening some sublease-induced pressure on absorption. There was 170.5 million square feet of sublease space available at the end of the quarter, equating to 3.4% of inventory. Although this is the highest rate measured since the start of the pandemic, the rate of new sublet additions has slowed substantially over the last six months. While some additional sublet space is likely to be added to the market, firms are actively assessing their return-to-office plans and may look to withdraw their subleases in anticipation of reoccupying their offices in the coming months.

Construction Cycle Slows Behind Strong Deliveries

Construction deliveries totaled 11.5 million square feet in the second quarter, bringing mid-year total deliveries to 25.1 million square feet. This marks the first time since 2009 that six-month deliveries have exceeded 25 million square feet. Seven markets recorded at least 500,000 square feet of new deliveries this quarter, including three markets with at least 1 million square feet - Atlanta, Charlotte, and Denver. Through the mid-year, twelve markets recorded more than 1 million square feet of deliveries. The confluence of a peaking construction cycle and the COVID-19 pandemic have created challenging conditions for many metro areas, particularly those which had already been experiencing rising vacancy and oversupply.

However, the construction pipeline is slowing nationally. At the close of the second quarter, 86.0 million square feet is under construction, down from 102.6 million square feet one year earlier. Many office developers are practicing caution in breaking ground on speculative projects, in part due to market uncertainty, but also due to rising construction costs. The most active markets with more than 5 million square feet of space currently under construction, are Manhattan, Seattle, Boston, Washington D.C., and Houston. Manhattan leads the way with an active construction pipeline of more than 14.5 million square feet. Office space under construction equals just 1.7% of existing inventory nationally, which is down 11 basis points from last quarter. Only two markets have construction pipelines greater than 5.0% of the existing inventory - Seattle and Charlotte. The construction pipeline is reasonably controlled compared to prior cyclical downturns yet is also likely too large to facilitate a rapid tightening of the market, given the sluggish demand.

One reason that the construction pipeline was active leading into the pandemic is that tenants have been drawn to new, well-amenitized product. A desire for quality, particularly as it relates to health, is likely to remain a driver of tenant demand as firms begin to engage in real estate planning in the second half of 2021. In addition to traditional amenities offered prior to the pandemic, such as private conferencing, fitness and outdoor spaces, service amenities aimed at making tenants' lives easier may help to draw employees back to the office, including dry cleaning and daycare services. Assets that do not feature strong amenities and flexibility – particularly those that are older and lack health/wellness features, including high quality air circulation – may have more difficulty leasing.

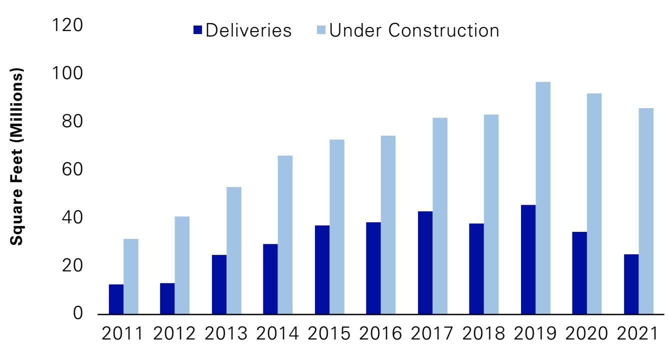
Vacancy Rates Elevated In Major Metros But Tighten Slightly in Some Small Markets

The national vacancy rate increased by 314 basis points in the past year to 16.4%. Annual increases to vacancy were recorded in all 57 markets tracked by Newmark. Since first-quarter 2021, 11 markets have recorded a decrease in vacancy, including Nashville, Milwaukee, Las Vegas, and Memphis. Though some markets measured modest tightening, most markets continued to register rising vacancy resulting from occupancy losses and construction deliveries. Six markets recorded vacancy rates above 20.0%. Oklahoma City led the way at 27.6%, followed by Houston, Dallas, Atlanta, and Fairfield County (CT). The Washington D.C. market holds the largest share of vacant square footage at 67.4 million square feet, followed by Dallas with 63.5 million square feet, and Houston with 59.7 million square feet.

Four markets have registered vacancy increases greater than 500 basis points over the last year. San Francisco leads all markets, recording vacancy growth of 950 basis points since second-quarter 2020, followed by Charlotte, Austin, and Denver. While many factors are contributing to rising vacancy in these markets, the size of the technology industries in markets such as San Francisco, Austin, and Denver could be an added pressure on market fundamentals. Technology firms have generally been very well-suited to adapt to remote working, which was helpful in avoiding job losses during the pandemic, but it has been a challenge for real estate markets. Because of their ability to operate efficiently in a remote setting, tech firms have been active in listing office spaces for sublease. In San Francisco, sublease availability measured 8.2 million square feet, or 9.5% of total inventory, in the second quarter; a large share of which originated from tech sector firms, such as AirBnB and Uber.

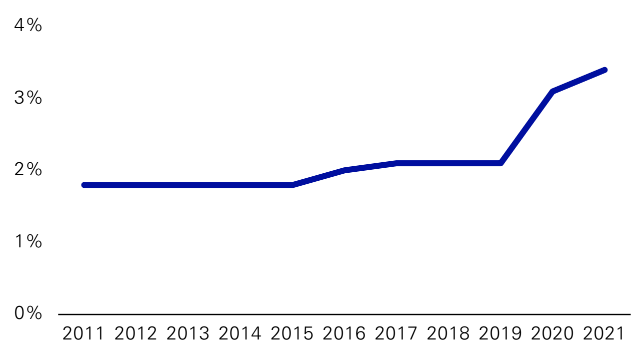
Construction and Deliveries

United States Office Market



Sublease Availability Rate

United States Office Market



Average Asking Rents Inch Up; Concessions Deflate Effective Rents

The national average asking rent closed the second quarter at $30.43/SF gross full service, an increase of 2.1% over the past year. Rents have been on the rise throughout the pandemic; however, the growth rate has diminished over the last three quarters. Rent growth has been supported by the current construction cycle and new deliveries, which have added a robust amount of high-priced space to the market. A slowing construction pipeline and continued external market pressures are likely to soften rent growth in the near term.

San Francisco and Manhattan maintained their positions as the first and second most expensive markets by asking rents. However, both markets have seen asking rents decline by more than 7.7% during the past year, as sublease space has become a larger weight on average rents. Net effective rents have been under significant pressure in most markets, with asset owners providing higher work allowances and more free rent to incentivize leasing activity. Broadly, tenants have leverage in most U.S. office markets and are expected to maintain that edge for at least the next six-months.

Vaccination Distribution Accelerates Re-Boarding

The rapid distribution of COVID-19 vaccines and decreasing infection rates in the second quarter have permitted the removal of pandemic-related business and occupancy restrictions in most markets. As a result of improving health conditions, mobility, public transit ridership, and office utilization rates, more workers are returning to offices in the quarter, though gains are still modest. Some firms, such as Google and Citigroup, have announced required re-boarding in July, however challenges such as the lack of available childcare and the ongoing spread of coronavirus variants, are causing many other firms to delay mandatory reboarding plans. The summer may serve as a litmus test for voluntarily returning employees, while still giving workers the option for fully remote work. Though all firms are crafting their unique return-to-work plans, the bulk of office re-boarding is likely to occur after schools open and into the fall and early winter.

U.S. Office Market Outlook

Despite the improved public health outlook resulting from rapid vaccine distribution efforts, most office markets continued to soften. Accumulating vacancy and oversupply have put a strain on some building owners, particularly those with older assets which lack the amenity packages offered by newer buildings. Sustained low leasing activity over the last 18-months has accelerated competition among landlords, which will continue applying downward pressure on effective rents. Though leasing remains subdued, pent-up demand has been building over the last year. As re-boarding begins in earnest, this pent-up demand is likely to loosen, and some firms will begin to re-engage in real estate planning initiatives. Remote working is expected to be a staple of the future office environment. The extent to which remote working will impact office space needs will depend on a variety of factors; however, more remote work privileges are anticipated to apply some pressure to office space needs. Elevated sublease availability rates indicate that some firms have already made decisions on future occupancy needs and are choosing to downsize their real estate footprint post-pandemic.

The office market remains tenant-friendly, with asset owners continuing to offer increased concessions to maintain face rents and entice tenancy. Given the uncertainty of the last year, greater flexibility is also likely to be required by some tenants who may seek shorter term lengths. The summer will serve as a critical period for office occupiers to assess their re-boarding schedules and office space needs. This will dictate the pace of recovery for commercial real estate markets and the future leverage for landlords.

For all the challenges facing office asset owners, many tenants are finding compelling reasons to re-board their office space as soon as possible, including the loss of corporate culture, mentorship opportunities and talent retention. Public health improvements made in the second quarter have set the foundation for companies to begin reestablishing these in-office corporate initiatives, but ongoing challenges related to the pandemic may delay most firms' re-boarding efforts into the second half of 2021.

Notable 2Q 2021 Lease Transactions

Tenant	Building	Market	Type	Square Feet
Apple	600 N Mary Avenue	Sunnyvale - Northern California	Direct New	701,000
Carvana, LLC	500 E Rio Salado Parkway	Tempe - Phoenix	Sublease	370,322
NYC Dept of Homeless Services, Taxi and Limo. Comm. and the Dept. of Probation	60 Broad Street	Downtown East - Manhattan	Lease Renewal	313,022
NetApp	700 Santana Row	San Jose - Northern California	Direct New	301,019
St. Francis College	181 Livingston Street	Brooklyn - New York	Direct New	255,091

Notable Recent Sales Transactions

Building	Market	Sale Price	Price/SF	Square Feet
1275, 1345, 1375, & 1395 Crossman Avenue	Sunnyvale – Northern California	$365,000,000	$519.80	702,193
2001 Junipero Serra Blvd - Building 1	Daly City – Northern California	$168,600,000	$440.07	383,123
488 Almaden Boulevard	Downtown San Jose – Northern California	$155,000,000	$406.82	381,000
Mountain View Corporate Campus	Aurora - Denver	$97,250,000	$208.22	467,058
12280 NE District Way	Suburban Bellevue - Seattle	$85,000,000	$883.29	96,231

Market Statistics (Continued on Next Page)

	Total Inventory (SF)	SF Under Construction	SF Absorbed This Quarter	SF Absorbed Year-to-Date	Vacancy Rate	Average Asking Rent (Price/SF)
National	**4,963,316,724**	**85,991,717**	**-21,926,776**	**-63,738,079**	**16.4%**	**$30.43**
Atlanta	154,660,635	4,010,953	-163,891	-2,773,568	22.3%	$29.25
Austin	70,417,408	1,858,890	76,818	-362,188	18.1%	$39.82
Baltimore	82,080,271	591,278	-131,795	-482,580	14.4%	$24.65
Boston	178,773,211	5,899,353	-407,119	-1,694,434	15.1%	$39.48
Broward County, FL	34,162,711	286,577	-78,253	-183,272	13.9%	$32.36
Charleston, SC	53,642,109	2,789,355	476,921	-78,857	17.1%	$31.37
Charlotte	14,619,273	29,985	24,612	-174,716	14.3%	$27.07
Chicago	243,961,897	3,610,565	-170,148	-1,945,877	19.9%	$30.90
Cincinnati	36,648,399	150,000	56,110	-57,934	19.8%	$19.51
Cleveland	39,022,769	145,000	-365,916	-502,948	19.3%	$18.15
Columbia, SC	15,966,902	79,000	-337,592	-468,055	11.5%	$19.08
Columbus	59,611,075	0	8,701	-629,522	13.4%	$19.91
Dallas	268,107,927	1,957,915	-992,592	-4,047,263	23.7%	$27.47
Delaware	16,695,217	60,000	31,308	-16,793	18.2%	$25.44
Denver	100,550,136	552,444	-1,018,370	-2,149,907	20.5%	$28.97
Detroit	78,508,237	713,000	-127,690	-427,785	16.8%	$20.35
Fairfield County, CT	39,852,686	0	-250,805	-534,333	21.8%	$36.55
Fresno	20,269,955	28,051	44,752	54,506	10.5%	$21.62
Greenville, SC	21,861,827	486,802	-266,535	-335,914	11.2%	$22.44
Houston	243,657,476	4,573,889	-971,299	-1,935,613	24.5%	$29.16
Indianapolis	62,116,932	0	120,701	-249,165	12.9%	$20.50
Inland Empire, CA	28,488,923	77,721	-17,947	30,430	11.2%	$23.19
Jacksonville	32,207,946	53,000	-386,933	-518,150	16.4%	$20.72
Kansas City	74,272,687	389,396	-398,333	-525,384	12.9%	$21.62
Las Vegas	39,173,274	965,314	227,544	109,231	13.8%	$22.67
Long Island	57,401,134	35,700	-289,595	-372,264	11.2%	$28.21
Los Angeles	208,408,474	4,006,755	-936,039	-2,560,362	18.2%	$43.92
Manhattan	468,007,348	14,489,019	-9,509,927	-19,187,608	9.7%	$73.89

Note: Absorption is the net change in occupied space over a period of time. Data may not match totals in some Newmark metro reports due to different local methodologies. Asking rents are quoted on a full-service basis.

Market Statistics (Continued on Next Page)

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National	**4,963,316,724**	**85,991,717**	**-21,926,776**	**-63,738,079**	**16.4%**	**$30.43**
Memphis	33,235,662	0	71,998	-85,888	14.4%	$19.36
Miami	48,861,476	1,445,632	-144,262	-338,653	15.3%	$40.60
Milwaukee	36,998,757	501,000	382,343	137,254	19.2%	$19.08
Minneapolis	120,756,707	531,000	-296,404	-1,021,839	15.3%	$28.85
Nashville	56,108,147	702,210	809,531	-103,924	12.4%	$28.65
New Jersey Northern	167,277,614	121,000	-537,486	-2,035,197	19.6%	$30.01
New Jersey Southern	16,805,320	0	-101,987	-337,195	18.2%	$18.94
Oakland/Greater East Bay	75,703,570	220,710	-306,062	-1,587,155	15.9%	$39.01
Oklahoma City	15,136,223	0	-81,730	-274,254	27.6%	$19.58
Orange County, CA	96,169,989	1,012,629	-479,166	-1,288,027	15.4%	$33.05
Orlando	64,677,659	0	4,206	-267,917	7.7%	$23.95
Palm Beach	25,332,850	510,000	-49,719	-106,097	13.2%	$37.10
Philadelphia	109,293,725	2,509,922	2,462	-284,612	15.8%	$30.92
Phoenix	95,623,395	1,883,910	329,512	86,471	18.2%	$27.15
Pittsburgh	56,308,898	903,853	-85,114	-315,233	20.0%	$24.41
Portland	61,604,553	756,668	-365,844	-1,269,439	15.6%	$31.04
Raleigh/Durham	52,419,584	1,755,886	48,466	214	13.8%	$28.22
Sacramento	70,549,602	272,000	-286,529	-763,730	11.4%	$24.72
Salt Lake City	71,185,045	3,249,194	-77,546	-524,681	14.0%	$23.12
San Antonio	45,628,801	451,849	85,071	-51,983	14.7%	$23.95
San Diego	72,759,919	1,793,670	127,007	-345,942	15.1%	$38.73
San Francisco	86,369,007	1,040,000	-1,877,396	-4,113,820	17.1%	$77.90
Seattle	129,115,237	9,303,187	-375,364	-1,380,294	10.8%	$42.34
Silicon Valley	78,287,692	3,111,623	-762,782	-1,240,070	13.4%	$55.67
St. Louis	74,235,556	224,585	-157,500	-739,729	12.8%	$21.66
Tampa/St. Petersburg	61,861,610	432,000	-95,925	117,532	10.3%	$27.34
Washington, DC	370,701,653	5,419,227	-1,938,391	-3,432,608	18.2%	$41.63
Westchester County, NY	27,161,634	0	-14,853	-150,938	20.0%	$28.48

Note: Absorption is the net change in occupied space over a period of time. Data may not match totals in some Newmark metro reports due to different local methodologies. Asking rents are quoted on a full-service basis.

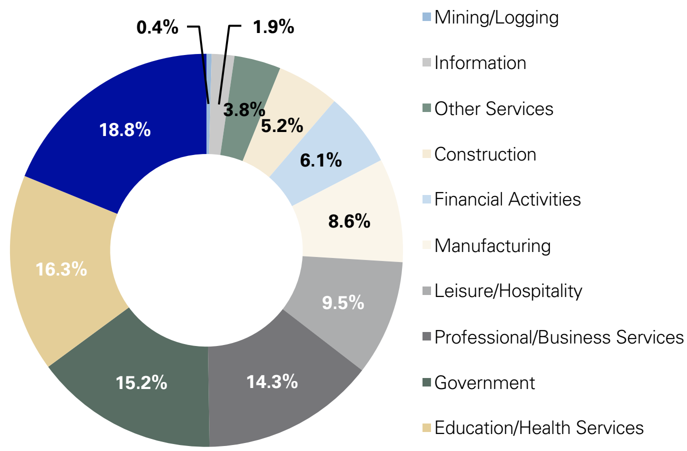
Economic Conditions

The U.S. economy continues to recover from the downturn brought on by the pandemic, with GDP increasing at an annualized rate of 6.4% in the most recently released first-quarter 2021 data. June's 5.9% unemployment rate represents an 890-basis-point decline from the peak of 14.8% in April 2020. Office-using employment sectors experienced fewer job losses in the wake of the pandemic, relative to non-office sectors. The resilience of office-using sectors is due in part to the ability of those workers to operate remotely, which has benefitted the economy but is likely to place downward pressure on net office demand in the period ahead. Over the last year, however, Professional/Business Services – the largest of the office-using sectors – recorded particularly robust job growth of 6.4%. This helped to boost office-using labor recovery to 63.5% of all jobs lost between March and April 2020.

Concerns regarding inflation are growing as the CPI jumped 0.9% in June, which is the largest one-month increase in 13 years. Over the past year, consumer prices were up 5.4%. The rising price of construction materials, will be a strain on both traditional developers and office occupiers looking to build/furnish new office space. The increasing CPI will challenge budgets in the near term, but its origins largely related to supply chain disruptions and are expected to moderate.

Employment by Industry

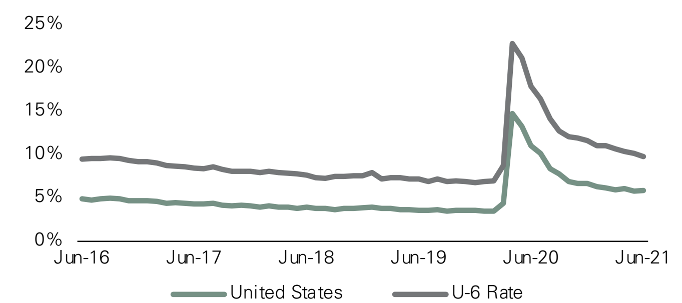
UNITED STATES, 12-MONTH AVERAGE



Source: U.S. Bureau of Labor Statistics, Newmark Research, July 2021

Unemployment Rate

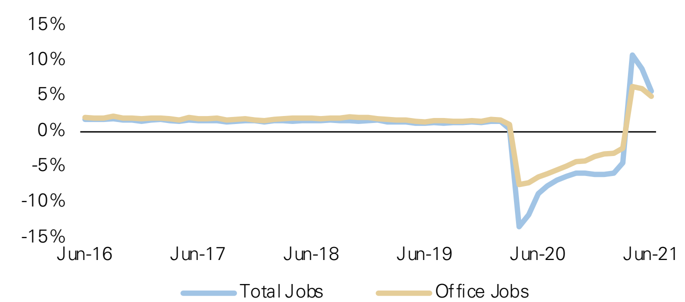
UNITED STATES, SEASONALLY ADJUSTED



Note: U-6 rate includes total unemployed, marginally attached workers, and those working part time for economic reasons
Source: U.S. Bureau of Labor Statistics, Newmark Research, July 2021

Payroll Employment

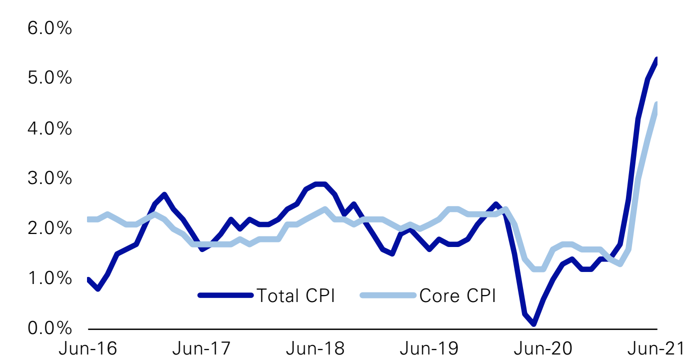
UNITED STATES, 12-MONTH % CHANGE, NOT SEASONALLY ADJUSTED



* Includes Professional and Business Services, Information, Financial Activities, Other Services and Government
Source: U.S. Bureau of Labor Statistics, Newmark Research, July 2021

Consumer Price Index (CPI)

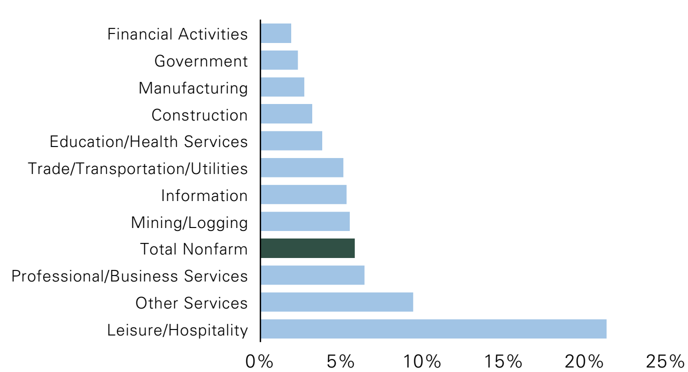
UNITED STATES, 12-MONTH % CHANGE, NOT SEASONALLY ADJUSTED



Note: Core CPI excludes food and energy, which can be volatile; 1982–84=100
Source: U.S. Bureau of Labor Statistics, Newmark Research, July 2021

Employment Growth By Industry

U.S., JUNE 2021, 12-MONTH % CHANGE, NOT SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics, Newmark Research, July 2021

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