National Office Market

Fundamentals Improve from Prior Quarter; Economic Headwinds Trim Growth

The United States office market continued to soften through the third quarter of 2022, weighed down by growing economic headwinds and continued caution among occupiers to undertake long-term, growth-focused office commitments. Despite these challenges, in-office occupancy has risen to a post-pandemic high in September. Recent consistency of public health conditions has encouraged greater return-to-office momentum, which may serve as a catalyst for firms to reengage in real estate planning initiatives or offset some tenant downsizing plans. Still, macroeconomic factors are likely to provide a larger weight in steering overall activity in the near term, resulting in persistent soft market conditions in the period ahead.

Net absorption measured negative 4.4 million square feet (msf) in the third quarter of 2022, bringing year-to-date net absorption to negative 16.2 msf. Occupancy losses were similar in both major gateway and secondary markets, measuring quarterly net absorption of negative 2.2 msf and negative 2.0 msf, respectively. Tertiary markets, which represent only 3.8% of the nation's total inventory, measured negative 0.1 msf of net absorption. The national vacancy rate increased by 114 basis points (bps) over the last year to 17.6%. Rising vacancy is a symptom of low demand, illustrated by persistent negative net absorption, and high supply, evidenced by an elevated construction pipeline. Market bifurcation exists, however. High quality assets continue to attract disproportionate demand, which may be encouraging new development enthusiasm even as the overall market continues to weaken. Top quality assets are best positioned to attract demand and are exhibiting relatively tighter fundamentals.

Current Conditions

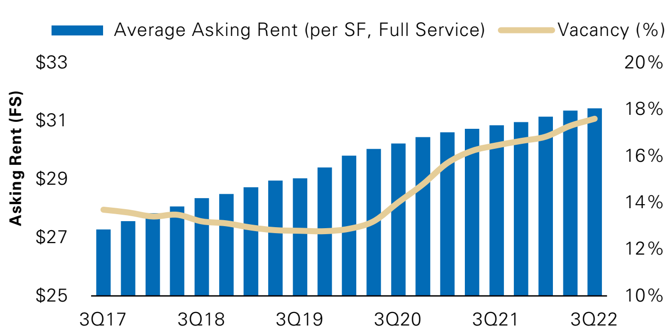
- Occupancy losses continued in the third quarter of 2022. Net absorption, at negative 4.4 million square feet, was less severe than the second quarter of 2022 but nonetheless brought year-to-date net absorption to negative 16.2 million square feet.
- Third-quarter deliveries added 7.8 million square feet to market inventory and the national construction pipeline rose slightly to 79.7 million square feet.
- Vacancy increased by 114 basis points year-over-year (YoY), reaching 17.6% in the third quarter.
- Asking rents increased by 1.9% YoY to $31.43/SF in the third quarter. Asking rents continue to marginally appreciate but effective rents are under downward pressure in many markets.

Market Summary

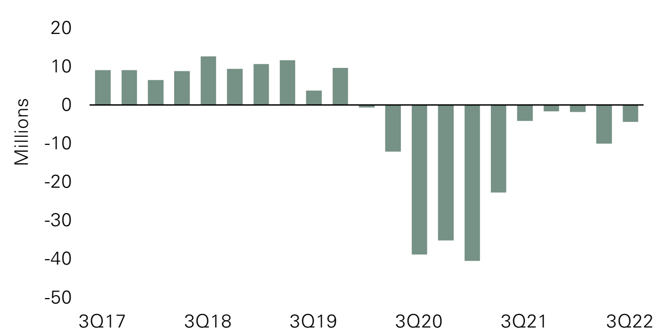
	Current Quarter	Prior Quarter	Year Ago Period	24-Month Forecast
Total Inventory (SF)	5.0 B	5.0 B	5.0 B	↑
Vacancy Rate	17.6%	17.3%	16.4%	↑
Quarterly Net Absorption (SF)	-4.4 M	-10.0 M	-4.1 M	↑
Average Asking Rent/SF	$31.43	$31.35	$30.85	↑
Under Construction (SF)	79.7 M	76.5 M	87.0 M	↓
Quarterly Deliveries (SF)	7.8 M	12.0 M	7.3 M	↓

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



NEWMARK

Asking rents continue to appreciate at a modest but steady pace. Average asking rents increased by 1.9% over the past year, reaching $31.43/SF. Net effective rents have been under consistent downward pressure, due to generous concession packages in most major markets aimed at attracting and retaining tenancy.

Major and Secondary Market Demand Aligned, Fundamentals Remain Challenged

For much of the pandemic, major gateway markets have recorded an outsized share of occupancy losses relative to faster growing secondary markets. While net demand remains negative on balance, the pace of occupancy losses in the nation's largest metros has moderated in 2022 and is now in-line with secondary markets. The reduced influence of occupancy contraction in major markets is encouraging for urban office demand. As a percentage of total inventory, net absorption in major markets measured negative 0.10%, which is only slightly lower than secondary markets, which measured negative 0.08%. Although secondary markets resisted occupancy losses relatively well from 2020 to 2021, when equalized for inventory, demand in major gateway markets is modestly improving and aligning with historically higher-demand secondary markets.

Although Boston, a major gateway market, recorded the most negative net absorption of the quarter, among the eight markets to measure at least 0.5 msf of negative net absorption, five were secondary markets, including Sale Lake City, St. Louis, and Denver. Still, many smaller markets, particularly in the Sun Belt, boast strong long-term occupancy growth. The ten markets with the highest positive year-to-date net absorption features seven markets in the South, including Austin, Raleigh/Durham and Charlotte.

Vacancy remains elevated across most markets, measuring 17.1% in major gateway markets and 18.3% and 13.4% in secondary and tertiary markets, respectively. Vacancy rates in major markets have benefited from a declining construction pipeline, which averaged about 32 msf prior to the pandemic, but have fallen to 27.0 msf in the third quarter of 2022. Flight to quality is a significant demand driver in the modern office market, which is encouraging development activity, particularly in secondary markets which may be underserved with respect to high quality office options. In the third quarter of 2022, only five markets recorded a construction pipeline in excess of 3% of inventory, including Austin, Seattle and San Diego.

Overall asking rents have continued to modestly increase over the last year. Challenging market conditions have applied pressure on direct rent growth, but many landlords are electing to maintain face rents and offer concessions to reduce effective rents. Average sublease rents decreased marginally from the prior quarter to $27.65/SF. Sublet rents fell by about one dollar in 2020 and have held effectively net-neutral since early 2021.

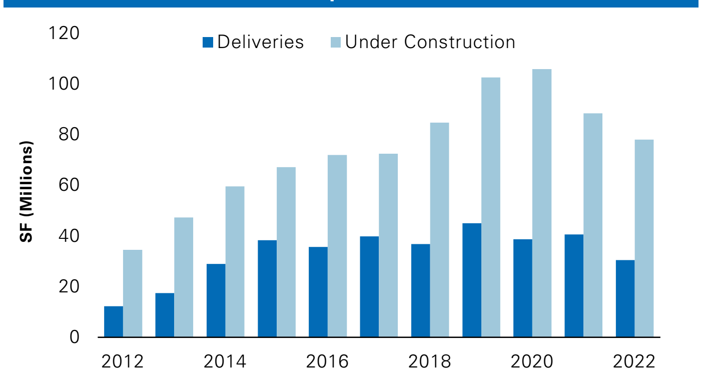
United States Office Market Outlook

Overall office market fundamentals continued to soften in the third quarter of 2022, as macroeconomic headwinds apply new pressures. Although overall fundamentals remain challenged, certain sectors are outperforming the market. High-quality office assets are commanding much of the leasing activity nationwide, as flight to quality drives demand to top-of-market and highly-amenitized buildings. Geographically, secondary markets in the Sun Belt are exhibiting the greatest occupancy expansion thus far in 2022. Coincidentally, new construction activity has been particularly strong in these markets, supporting rapid expansion of high-quality office inventory. The varying rates of recovery over the last year have highlighted the idiosyncratic differences among U.S. office markets and elevated the need for a market-specific perspective when evaluating recovery.

Pent-up demand is expected to loosen with time, but leasing activity is anticipated to remain below the pre-pandemic average through the end of the year. For many tenants engaging in real estate planning, remote work arrangements are likely to negatively impact the firms' real estate needs, on balance. This downsizing trend is evidenced by the sublease availability, which increased by 11.3 msf from the prior quarter, despite rebounding momentum of in-office occupancy and stabilizing of public health conditions.

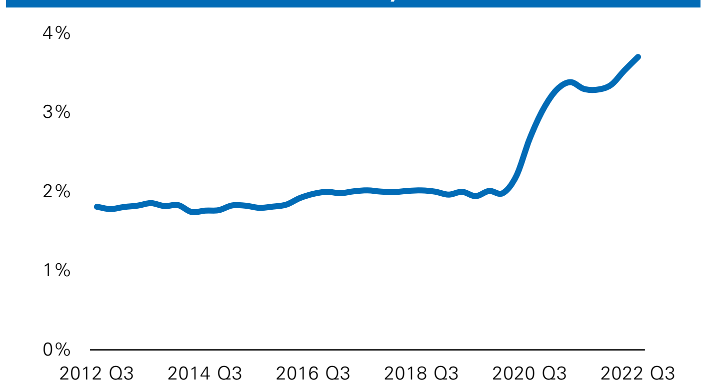
Emerging macroeconomic headwinds are likely to suppress office market growth. Inflation remains elevated, albeit stable, and further interest rate increases are anticipated. Office investment markets have been reactionary to the steeper cost of debt, resulting in limited appetite for multi-tenanted office assets. Additionally, concerns of declining consumer confidence are causing some firms to prepare for recessionary pressures. Labor markets remain expansionary, which is helping to stave off more fervent recessionary fears. Leading labor market indicators suggest a slowing in the fourth quarter of 2022, which would negatively influence office demand while potentially preparing the way for more accommodative monetary policy.

National Construction Pipeline and Deliveries



Note: 2022 data is year-to-date through the second quarter

National Sublease Availability Rate



Notable 3Q 2022 Lease Transactions

Tenant	Building	Market	Type	Square Feet
ByteDance	1199 Coleman Avenue	San Jose Silicon Valley	Sublease	657,934
ByteDance, the parent company of TikTok, will occupy 657,934 square feet of sublease space, formerly occupied by Verizon. This exceptionally large sublease has independently caused Silicon Valley's overall sublease availability rate to decrease 83 basis points to 3.0%.				
Nityo Infotech	1675 Broadway	Midtown New York	Sublease	546,147
Nityo Infotech signed a nearly ten-year sublease across twenty one floors at 1675 Broadway. The 546,147 square-food sublease was formerly occupied by Publis Group, which relocated to 375 Hudson Street. Availability at 1675 Broadway measures 1.7%, its lowest rate in ten years.				
KPMG	2 Manhattan West	Midtown New York	New Lease	456,000
KPMG will relocate it's US headquarters to 2 Manhattan West, signing a 450,000 square-foot lease at the Far West Side development. KPMG will be consolidating offices at 345 Park Avenue, 560 Lexington Avenue, and 1350 Avenue of the Americas and decreasing its overall footprint by 40%.				
Frontier Communications	810 Orange Street	New Haven Connecticut	Sale-Leaseback	399,994
Frontier Communications sold their headquarters for a cash infusion and subsequently negotiated a new 20-year lease for the facility. The telecommunications company, which faced recent financial headwinds, will retain its pre-sale footprint and does not anticipate downsizing.				
EOG Resources Inc.	1111 Bagby Street	Downtown Houston	Renewal	374,000
EOG Resources Inc., an oil and gas firm, renewed its lease at Heritage Plaza (1111 Bagby Street) and expanded its footprint by 46,715 square feet. EOG Resures will now occupy 374,000 square feet in the building, where it has been a tenant since 2007.				

Notable 3Q 2022 Sales Transactions

Building	Market	Sale Price	Price/SF	Square Feet
601 Massachusetts Avenue, NW	Downtown DC Washington	$531,000,000	$1,108.83	478,882
Mori Trust acquired 601 Massachusetts Avenue, NW for $531.0 million, marking the region's largest transaction of 2022. 601 Massachusetts Avenue, NW, which is anchored by Arnold & Porter, is a top-of-market office asset and boasts over ten years of WALT.				
1180 Peachtree Street NE	Midtown Atlanta	$472,000,000	$683.07	691,000
1180 Peachtree Street NE was acquired by Piedmont Office Realty Trust, one of the nation's largest publicly-traded owners of Class A office assets. Notable tenants include Bain & Company, Roark Capital, Cushman & Wakefield, and Brookfield. The building was about 95% occupied at closing.				
Rancho Vista Corporate Center 16399 W Bernardo Drive	Rancho Bernardo San Diego	$445,000,000	$544.68	817,000
Apple purchased the Rancho Vista Corporate Center, an 8-building office and R&D campus, from Swift Realty Partners for $445.0 million. Swift had purchased the property in 2016 for $69.0 million through a sale-leaseback with HP and began significant renovations, which completed in 2020.				
The Webb @ LBJ 11830 Webb Chapel Road	West LBJ Freeway Dallas	$205,000,000	$560.65	365,647
The Webb @ LBJ sold to Evoque Data Center Solutions from Digital Realty Trust, Inc. for $205.0 million. The property is a 365,647 square foot mixed-use data center and at the time of the sale was 91.8% leased. Evoque Data Center Solutions occupies 140,654 square feet in the building.				
Legacy Union SIX50 650 S Tryon Street	Downtown Charlotte	$203,000,000	$548.29	370,240
Built in 2020, SIX50 is the third office building at Legacy Union to transact since November 2019. Legacy Union is a project adjacent to the Bank of America Stadium and houses the headquarters of Honeywell and Bank of America. SIX50 is a multi-tenant building, which was 79% leased closing.				

Market Statistics—All Classes (Continued on Next Page)

	Total Inventory (SF)	Under Construction (SF)	3Q 2022 Absorption (SF)	YTD 2022 Absorption (SF)	Overall Vacancy Rate	Average Asking Rent (Price/SF)
National	**5,015,557,443**	**79,718,495**	**-4,350,119**	**-16,210,224**	**17.6%**	**$31.43**
Atlanta‡	157,160,250	2,340,430	306,627	802,140	23.1%	$30.85
Austin‡	78,836,559	7,965,417	434,932	1,157,398	18.0%	$41.27
Baltimore‡	82,879,165	1,237,660	141,869	-544,887	15.9%	$25.11
Boston^	172,665,258	4,536,233	-1,472,899	-1,291,656	14.9%	$44.32
Broward County, FL	34,288,407	493,983	197,552	-168,671	14.0%	$34.30
Charleston, SC	55,855,396	1,894,748	346,897	834,638	18.6%	$33.43
Charlotte‡	13,917,624	29,985	-164,732	-114,822	13.1%	$31.04
Chicago^	249,807,576	1,586,687	-494,559	-1,342,668	21.8%	$32.92
Cincinnati‡	34,495,134	100,000	74,496	-373,874	26.0%	$20.35
Cleveland‡	37,978,970	226,900	-130,105	-37,521	18.5%	$18.58
Columbia, SC	16,549,344	0	-84,850	72,569	13.2%	$19.42
Columbus‡	43,930,875	936,309	-508,192	-270,090	18.0%	$21.43
Dallas‡	269,884,380	1,502,443	1,239,043	635,688	23.3%	$28.81
Delaware	16,551,293	52,000	-61,496	-153,349	18.9%	$26.11
Denver‡	101,563,124	1,750,861	-796,755	-1,134,297	23.1%	$30.65
Detroit‡	80,092,568	263,000	-526,142	-825,647	19.1%	$20.39
Fairfield County, CT^	39,563,340	0	-241,273	-481,008	22.0%	$37.03
Fresno	21,665,578	0	-42,734	-2,369	10.4%	$23.99
Greenville, SC	22,567,875	226,795	106,832	437,064	9.1%	$22.40
Houston‡	241,274,330	3,181,775	6,743	814,746	25.2%	$29.89
Indianapolis‡	62,228,312	158,162	54,931	-301,179	13.6%	$21.30
Inland Empire, CA^	28,163,618	123,000	77,756	255,820	10.5%	$24.74
Jacksonville‡	32,678,554	118,315	-184,583	-408,922	16.2%	$21.85
Kansas City‡	74,274,207	839,887	63,376	-485,933	14.3%	$21.30
Las Vegas‡	39,297,926	1,182,155	208,314	531,618	11.5%	$24.55
Long Island^	57,624,720	35,700	-372,794	-754,013	10.8%	$27.99
Los Angeles^	218,734,844	2,260,899	-1,968	-604,485	20.0%	$44.63
Manhattan^	473,449,941	11,094,642	2,537,812	-1,205,157	11.8%	$74.66

^ Major Market
‡ Secondary Market

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.

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Memphis‡	34,084,608	68,177	204,340	71,987	16.5%	$19.87
Miami‡	49,464,733	2,208,268	-83,807	219,268	15.0%	$47.10
Milwaukee‡	36,624,380	131,194	-39,303	-230,178	20.1%	$19.06
Minneapolis‡	121,042,407	359,729	-343,676	-412,107	15.3%	$24.35
Nashville‡	59,480,622	2,633,754	471,788	-488,479	15.2%	$29.68
New Jersey Northern^	165,871,719	240,350	-286,744	246,172	19.9%	$30.25
New Jersey Southern	16,805,320	0	193,377	339,185	15.3%	$18.82
Oakland/Greater East Bay^	75,092,087	110,145	334,391	-424,283	16.9%	$39.97
Oklahoma City	21,195,958	0	-199,940	-100,569	16.7%	$18.46
Orange County, CA^	96,046,894	1,082,436	11,384	-51,554	16.0%	$33.50
Orlando‡	65,141,090	869,538	-495,535	-1,645,465	10.0%	$24.78
Palm Beach	25,602,273	527,000	-54,252	153,629	11.7%	$38.90
Philadelphia‡	110,273,325	1,156,000	542,645	294,219	17.2%	$30.82
Phoenix‡	96,912,689	754,346	397,885	-172,627	19.8%	$27.93
Pittsburgh‡	57,444,565	926,000	-20,462	-71,301	22.0%	$25.78
Portland‡	61,760,064	289,851	-259,829	-876,137	17.9%	$31.59
Raleigh/Durham‡	53,771,104	1,156,429	112,552	898,687	13.7%	$29.68
Sacramento‡	69,493,282	278,300	-464,803	-1,522,042	14.0%	$25.32
Salt Lake City‡	74,247,356	1,118,048	-1,317,807	67,457	14.5%	$25.26
San Antonio‡	47,373,579	685,264	-70,981	-1,012,134	16.5%	$24.13
San Diego‡	72,919,591	4,050,061	262,692	805,299	14.4%	$39.94
San Francisco^	88,522,165	710,000	-603,414	-1,939,266	19.1%	$74.73
Seattle‡	130,821,992	10,098,205	-235,183	222,939	11.2%	$46.14
Silicon Valley^	90,349,742	2,754,043	-1,186,294	637,051	15.1%	$59.64
St. Louis‡	75,258,628	815,000	-1,141,052	-2,095,337	16.1%	$23.02
Tampa/St. Petersburg‡	62,296,266	173,000	-298,319	-2,541,112	14.5%	$27.78
Washington, DC^	373,527,900	2,385,371	-394,615	-1,283,420	19.7%	$42.09
Westchester County, NY^	26,153,936	0	-99,255	-341,239	22.0%	$28.59

^ Major Market
‡ Secondary Market

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.

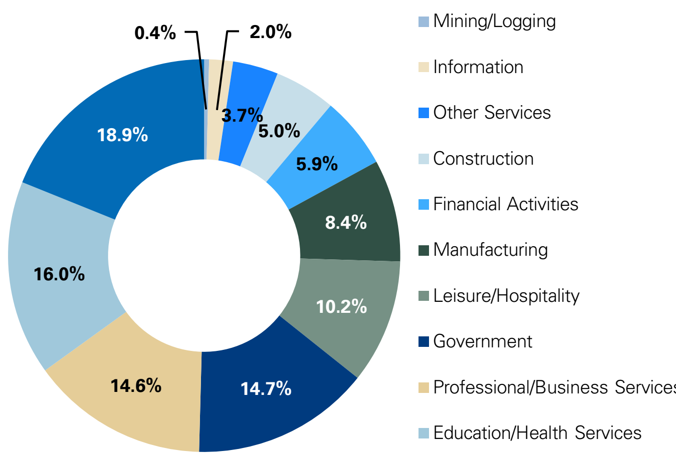
Economic Conditions

National labor markets continued to grow in the third quarter of 2022; however, the pace has slowed. Total nonfarm employment grew by 3.9% over the last year, and office-using employment increased by 4.2% over the last year. Although labor growth is steady, economic uncertainty and recessionary fears persist and are applying pressure. Late-summer job openings data from the Labor Department are foreshadowing a cooling in labor demand, which may materialize in slowing payroll employment growth in the coming quarters. Despite labor gains, labor force participation has been effectively unchanged in the third quarter of 2022 and the overall unemployment rate is static at 3.5% at the close of the third quarter of 2022.

Annual inflation, as measured by the Consumer Price Index (CPI), is elevated but stable through September 2022. Total CPI measured 8.2% in September 2022, and core CPI rose to 6.7%. Moderation in overall CPI can be attributed to falling gasoline prices, but the increasing cost of housing and medical care have influenced the rise of core CPI in the third quarter of 2022. Given elevated inflation, it is anticipated that the Federal Reserve will continue to increase interest rates to curb rising prices, at least through the end of 2022. The rising cost of capital has been a challenge for real estate investment markets; however, instability in other investment markets may steer investors to historically inflation-resistant vehicles, like real estate.

Employment by Industry

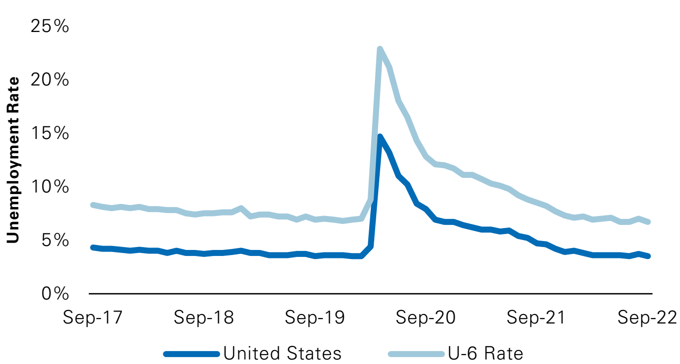
UNITED STATES, 12-MONTH AVERAGE



Source: U.S. Bureau of Labor Statistics, Newmark Research, October 2022

Unemployment Rate

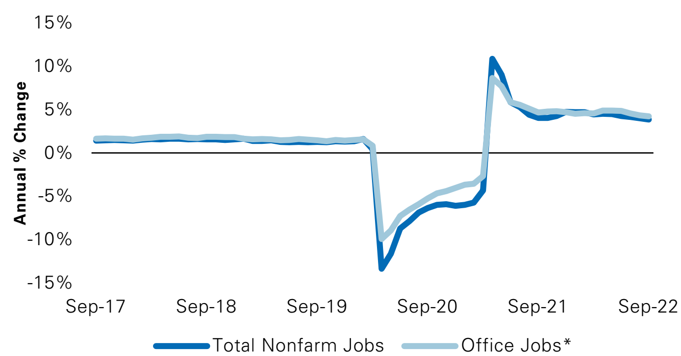
UNITED STATES, SEASONALLY ADJUSTED



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, October 2022

Payroll Employment

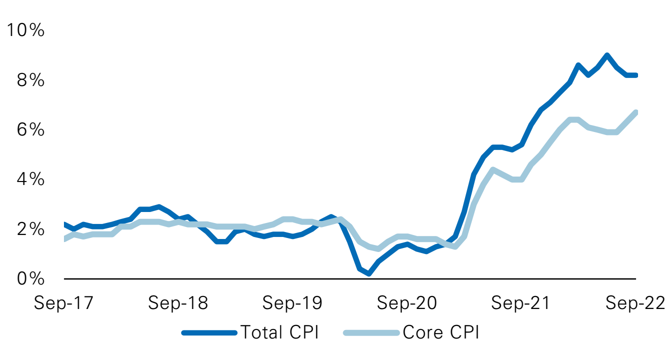
UNITED STATES, 12-MONTH % CHANGE, SEASONALLY ADJUSTED



* Includes Professional/Business Services, Information, Financial Activities, Other Services and Government
Source: U.S. Bureau of Labor Statistics, Newmark Research, October 2022

Consumer Price Index (CPI)

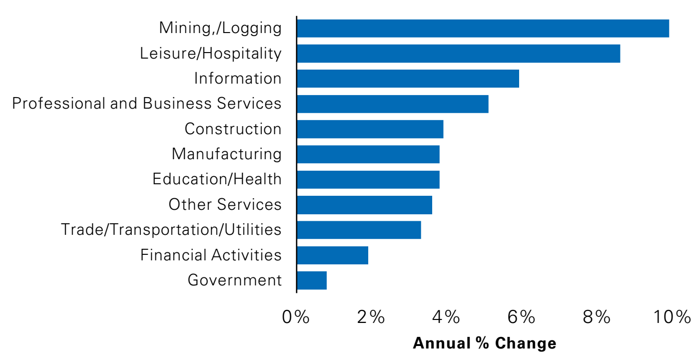
UNITED STATES, 12-MONTH % CHANGE, SEASONALLY ADJUSTED



Note: Core CPI excludes food and energy; Base period = 1982-1982
Source: U.S. Bureau of Labor Statistics, Newmark Research, October 2022

Employment Growth By Industry

U.S., SEPT 2022, 12-MONTH % CHANGE, SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics, Newmark Research, October 2022

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Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Research Reports are available at nmrk.com/research.