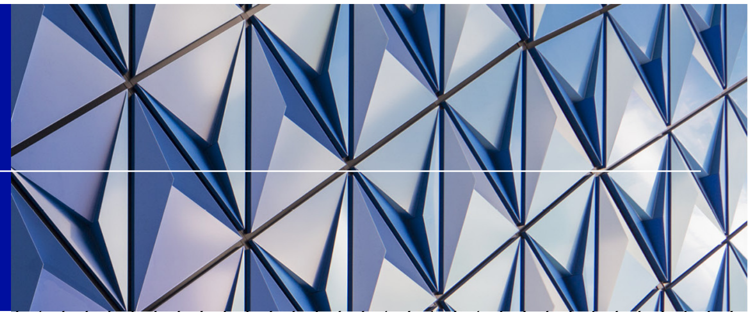


RESEARCH Q4 2020

National Office Market

Sublease Space Increase Drives Rise in Vacancy Rate

The U.S. office market faced challenges in the fourth quarter of 2020 as the COVID-19 pandemic continued to afflict the nation. Absorption was negative for the fourth consecutive quarter as occupancy declined by 32.3 million square feet, a slight improvement compared with the decline of 39.3 million square feet recorded in the third quarter. The vacancy rate closed the quarter at 14.9%, a 200-basis-point increase compared with a year earlier. Approximately 7.8 million square feet of new product delivered during the fourth quarter of 2020, with an additional 97.8 million square feet still under construction. While tenants are still drawn to newer product, it will take time to lease this amount of new inventory. Asking rents have withstood the pandemic better than absorption and vacancy, increasing by 3.3% over the past year. The increase in rents to $30.29/SF was propelled by the delivery of top-quality product and by the determination of asset owners to maintain face rents while yielding on concessions. However, asking rents generally lag market shifts, and net effective rents are under considerable downward pressure. As the country confronts further COVID-19 infections and political turnover, the pace of recovery for the economy and office market will be subject in part to the speed at which the coronavirus vaccines are rolled out.

Demand Declines; Most Markets Lose Occupancy

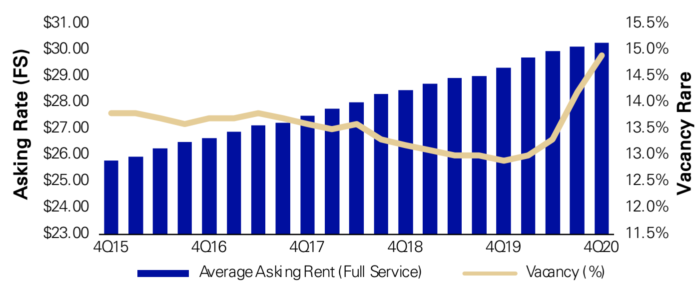
Although fourth quarter absorption slightly improved from the third quarter, annual absorption was -86.4 million square feet in 2020. Over the course of 2020, 51 of 56 markets tracked by Newmark posted negative absorption. The large declines in absorption can be attributed to limited leasing activity and a surge in sublease space, which totaled 154.0 million square feet at the close of the fourth quarter, or 3.1% of inventory. The greatest declines were posted in many of the largest markets, including Manhattan, where annual absorption of negative 20.8 million square feet was the lowest total since 2001. This was driven by record-low leasing activity of just 21.3 million square feet and more than 7.5 million square feet of sublease additions since the start of the pandemic. Northern New Jersey absorption was -5.9 million square feet in 2020. In Texas, Dallas, Houston, and Austin each saw negative absorption of at least 2.0 million square feet. In California, six markets recorded negative absorption of a least 1.0 million square feet, with tenants leaving behind a combined 17.9 million square feet this year. Of the five markets that posted positive absorption in 2020, four were in the bottom half of inventory size and none absorbed more than 1.0 million square feet. These included Raleigh/Durham, Cleveland, Delaware, and Southern New Jersey. The lone exception was Sacramento.

Current Conditions

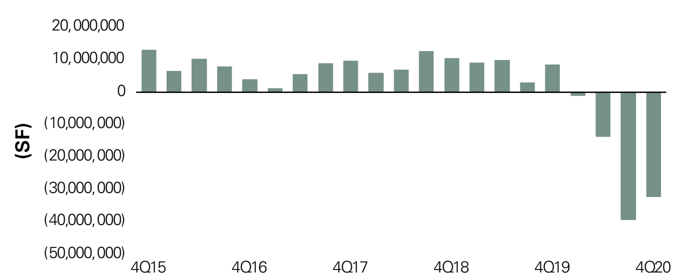
- Annual office absorption totaled -32.3 million square feet during the fourth quarter of 2020 and -86.4 million square feet for all of 2020.
- The vacancy rate increased by 70 basis points quarter-over-quarter to 14.9% as of the end of 2020.
- The average asking rent is $30.29/SF, a year-over-year increase of 3.3% that reflects the delivery of new product. Asset owners are attempting to hold face rents stable but are offering robust concessions, placing downward pressure on effective rents.
- With 7.8 million square feet of deliveries in the fourth quarter, the total amount of new inventory in 2020 totaled 36.0 million square feet.

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



Market Summary

	Current Quarter	Prior Quarter	Prior Year	12-Month Forecast
Total Inventory (SF)	4.9 B	4.9 B	4.9 B	↑
Vacancy Rate	14.9%	14.2%	12.9%	↑
Quarterly Net Absorption (SF)	-32.3 M	-39.3 M	8.5 M	↑
Average Asking Rent/SF (FS)	$30.29	$30.14	$29.33	↓
Under Construction (SF)	97.8 M	98.0 M	97.1 M	↓
Deliveries (SF)	7.8 M	9.5 M	15.0 M	↑

Construction Totals Remain Robust

Despite 7.8 million square feet of deliveries during the fourth quarter, there remains 97.8 million square feet of new product under construction. There are five markets with more than 5.0 million square feet of space currently under construction. These include Manhattan, Seattle, Boston, Washington D.C., and Atlanta. The bulk of the space under construction lies in Midtown Manhattan, specifically the Far West Side. At 66 Hudson Boulevard, a 2.9 million-square-foot development slated for delivery in 2022, Pfizer, Alliance Bernstein, and law firm Debevoise & Plimpton have signed for a combined 1.5 million square feet. In Atlanta, where 5.3 million square feet is under construction, Microsoft has preleased more than 500,000 square feet at the Atlantic Yards development, which spans two buildings. Several developments confronted delays at the start of the pandemic but have resumed work since the lifting of shutdown orders in the second quarter. The temporary delays are unlikely to have significant, long-term effects on construction timelines.

Space under construction at year-end 2020 was 2.0% of existing inventory, a healthy percentage that should bode well for the market's recovery post-COVID-19. The percentage of existing inventory was recorded at above 5.0% in four markets, including Charlotte, Seattle, Nashville, and Raleigh/Durham.

While leasing velocity has stagnated during the pandemic, a flight to quality is expected once market activity returns to pre-COVID-19 levels. New construction should be able to accommodate many of the amenities that tenants are likely to seek in a post-COVID-19 market. As a result, there is the potential for oversupply of older, "commodity" product in the larger markets, with aging Class B and C buildings suffering the most. These properties will be challenged to compete with the new product coming to market, assets that will meet the high standards that tenants may demand in a post-COVID office environment. Of greater urgency is the need for tenants to return to their collaborative office environments. Approximately 24.2% of the office-based workforce had returned to their buildings by mid-December, according to Kastle's key fob swipes data. The pace of the vaccine rollout will significantly influence the pace at which professionals return to their offices—and use mass transit to get there.

Vacancy Increases in Every Market During 2020

The vacancy rate increased by 200 basis points during 2020, to 14.9%. Fifty-four of the 56 markets tracked by Newmark saw vacancy increase from last quarter. The lone exceptions were Kansas City, which saw no change, and Columbia, SC, a market with limited inventory where the vacancy rate slightly declined. Just five markets posted vacancy rates below 10.0%, three of which were in the Southeast U.S.: Orlando, Columbia, and Tampa/St. Petersburg. Fairfield, CT and San Francisco posted the largest quarter-over-quarter jumps in vacancy, at 236 basis points and 210 basis points, respectively. Fairfield joined Oklahoma City, Houston, and Dallas as the only markets with vacancy rates above 20.0%. However, the Texas markets tend to sustain higher vacancy rates even during stronger parts of the cycle due to the availability of land.

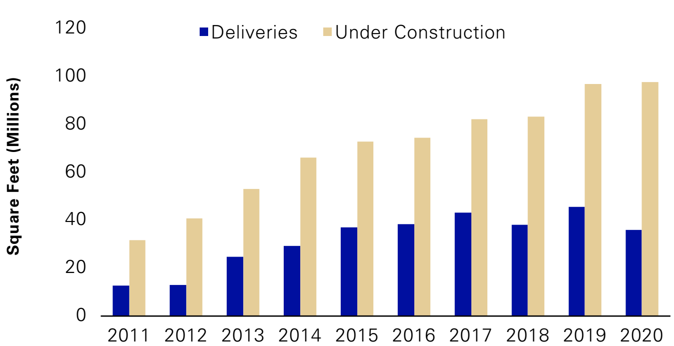
San Francisco recorded the largest increase in vacancy over the past year, up to 12.4% from just 3.2% a year ago. This 920-basis-point jump since the fourth quarter of 2019 more than doubled the second-largest change of 420 basis points that was recorded in Austin. Sublease space in San Francisco has now reached 8.5 million square feet, or 9.9% of total inventory, as tech firms evaluate how efficiently they can work remotely. No market saw vacancy decrease year-over-year, but Las Vegas, Delaware, and Southern New Jersey have been fairly stable, with vacancy rates increasing by no more than 25 basis points.

Average Asking Rent Edges Higher Due to New Product; Effective Rents Under Downward Pressure

The national average asking rent is $30.29/SF gross full service, an increase of 3.3% over the past year. This increase is primarily a result of deliveries arriving at top-of-the-market rates, with 36.0 million square feet of new construction entering service in 2020. Asking rents tend to lag amidst cyclical changes, as asset owners adjust to new market conditions. As such, asking rents remained relatively stable compared to vacancy and absorption. Net effective rents are under considerable downward pressure, with many owners maintaining face rents but electing to use greater work allowances and free rent to facilitate the completion of transactions. There have been declines at the top of the market, but San Francisco, Manhattan, Silicon Valley, Los Angeles, and Seattle remain the top five markets by asking rent in dollar terms.

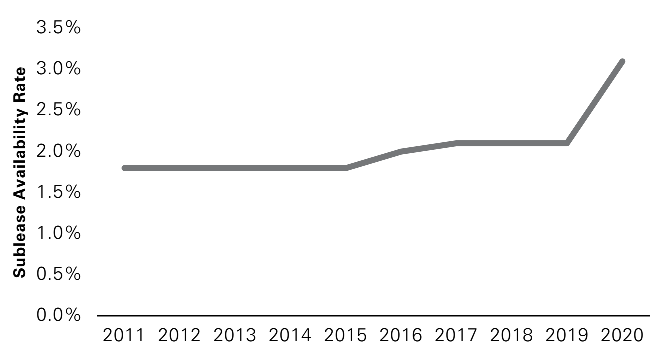
Construction and Deliveries

United States Office Market



Sublease Availability Rate

United States Office Market



Decline in Mobility and Leasing Activity Create Tenant Leverage; Pent-Up Demand May Yield Accelerating Market Activity in 2022–2023

In the fourth quarter, a surge in COVID-19 cases eclipsed the number of cases recorded earlier in the pandemic. As a result, mobility among the general population declined. Public transit figures demonstrate significant declines in ridership over the past few months, with similar changes seen in driving and walking levels. These were recorded after increases over the summer, in the late second quarter and into the third quarter. With fewer people riding public transportation, cities have been placed in a tough financial situation, with many facing significant budget deficits.

Given the low ridership levels on public transit at this time, there has been a correlated decline in leasing activity. Many tenants are content to wait out the pandemic and have their employees work from home. However, leasing velocity is likely to rebound as the pandemic winds down, as many tenants recognize the connection between in-person meetings and a strong corporate culture. "Zoom fatigue" and the importance of face-to-face mentoring as a means of retaining top talent also are considerations.

While the volume of new leases has been limited, short-term renewals have become fairly popular. With tenants postponing long-term commitments for one or two years, we expect to see pent-up demand and a subsequent bump in leasing activity in 2022 and 2023. During the fourth quarter of 2020, expansions and extensions outpaced relocations.

U.S. Office Market Outlook

The national office market continues to struggle in light of the COVID-19 pandemic. Leasing velocity has slowed, and most offices are more than three-quarters empty, with millions of employees working remotely at present. With activity limited and some firms shrinking their footprints by placing sublease space on the market, absorption declined materially in 2020. The average asking rent remained stable, buoyed by the arrival of new product at top-of-the-market rates. Net effective rents are under considerable downward pressure, and concessions are significantly elevated.

A second round of federal stimulus checks that were distributed in recent weeks should help bolster the economy. The incoming Biden administration is also expected to seek additional stimulus checks as well as relief for cities and states, which may aid public transit systems and in turn the office market. The U.S. unemployment rate declined each month from April to November before plateauing in December at 6.7%. Office-using jobs are down just 3.5% over the past year compared to 6.2% for all jobs, indicating how the office-using sector has held up fairly well under difficult circumstances.

After ten months, the pandemic remains a daily presence in the U.S., with thousands of new cases each day. Fortunately, vaccine development provides hope for a return to normalcy during the first half of 2021. That timeline depends upon the efficiency of vaccine distribution to the public. Nevertheless, there will likely be some structural changes both in the office market and the economy. In addition to breakthroughs in therapeutics, schools reopening for in-person learning and renewed comfort with public transit will also influence the national office market's recovery. Ultimately, it is likely that an increase in flexible scheduling will result in a modest decline in long-term net demand for office space, but the many compelling reasons to return to the office mean it will remain an essential part of the work environment for most professional firms. The forced remote work experiment of 2020-2021 has highlighted both the value of technology and the importance of in-person interaction.

The market continues to favor tenants in most cities. With leasing velocity limited and asset owners forced to offer increases in concessions or lower face rents to complete transactions, tenants can lock in long-term deals with terms that may appear quite favorable once the market recovers. Tenants' leverage is likely to last at least into the second half of 2021, with the availability of sublease space still increasing. We expect more balanced conditions to return in 2022.

Notable 4Q 2020 Lease Transactions

Tenant	Building	Market	Type	Square Feet
U.S. Small Business Administration	409 3rd Street Southwest	Washington, DC	Direct Expansion	266,193
Justworks	55 Water Street	Manhattan	Direct Extension	264,938
Little Raymond's Print Shop Inc.	850 North Lake Drive	Dallas/Fort Worth	Direct Expansion	230,400
Centric Brands	350 Fifth Avenue	Manhattan	Direct New	212,154
Skadden, Arps, Slate, Meagher & Flom, LLP	1440 New York Avenue Northwest	Washington, DC	Direct Expansion	199,902

Notable Recent Sales Transactions

Building	Market	Sale Price	Price/SF	Square Feet
410 Tenth Avenue	Manhattan	$952,750,000	$1,742	546,929
1201 2nd Avenue	Seattle	$704,000,000	$1,021	689,500
600 Montgomery Street	San Francisco	$464,435,696	$888	523,000
110 N Carpenter Street	Chicago	$412,500,000	$717	575,018
915 Wilshire Boulevard	Los Angeles	$196,000,000	$521	376,000

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	**4,939,573,365**	**97,824,890**	**-32,337,982**	**-86,406,657**	**14.9%**	**$30.29**
Atlanta	152,441,163	5,283,565	-1,588,573	-103,798	19.1%	$28.84
Austin	68,280,898	1,125,788	-654,463	-2,130,493	15.7%	$36.16
Baltimore	82,373,314	185,000	-128,943	-349,277	13.7%	$24.13
Boston	180,546,763	7,406,390	-1,102,218	-4,021,919	14.0%	$38.91
Broward County, FL	33,837,028	432,560	-213,426	-763,205	13.1%	$31.89
Charleston, SC	14,477,099	29,985	-25,336	-338,604	13.3%	$26.56
Charlotte	50,815,314	4,257,499	-484,559	-432,010	13.9%	$30.91
Chicago	242,144,123	4,653,235	-844,558	-1,678,531	18.4%	$30.32
Cincinnati	37,068,903	0	-316,947	-330,497	19.3%	$19.37
Cleveland	38,999,237	100,000	-406,142	149,545	17.6%	$18.11
Columbia, SC	15,838,398	75,000	89,989	-39,675	9.0%	$18.14
Columbus	58,646,281	0	-114,660	-877,407	11.8%	$19.77
Dallas	267,651,204	1,946,804	-1,050,975	-5,282,053	22.0%	$27.08
Delaware	17,172,662	0	-328,174	113,372	18.7%	$25.48
Denver	100,004,797	1,551,082	-750,439	-1,211,679	16.0%	$28.24
Detroit	78,341,779	840,000	-498,223	-788,939	16.2%	$20.34
Fairfield County, CT	39,722,492	0	-201,940	-699,918	21.1%	$35.81
Fresno	20,055,904	119,243	9,754	-23,724	10.4%	$21.61
Greenville, SC	22,177,085	0	96,113	-438,802	10.2%	$23.05
Houston	243,573,246	4,791,085	-848,945	-4,381,699	23.3%	$30.03
Indianapolis	62,148,864	31,710	-143,668	-941,966	12.6%	$20.28
Inland Empire, CA	28,531,029	30,521	-233,086	-409,873	11.6%	$23.05
Jacksonville	32,146,168	149,000	-334,880	-140,490	14.6%	$20.60
Kansas City	74,023,945	368,000	4,369	-1,507,772	11.6%	$20.82
Las Vegas	39,277,666	509,384	-135,163	-137,457	13.5%	$21.91

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 from Previous Page)

	Total Inventory (SF)	SF Under Construction	SF Absorbed This Quarter	SF Absorbed Year-to-Date	Vacancy Rate	Average Asking Rent (Price/SF)
National	**4,939,573,365**	**97,824,890**	**-32,337,982**	**-86,406,657**	**14.9%**	**$30.29**
Long Island	56,246,876	0	-374,369	-1,461,375	10.6%	$26.66
Los Angeles	204,174,253	4,136,082	-1,363,093	-4,053,267	16.5%	$44.07
Manhattan	461,684,138	14,812,969	-7,653,853	-20,826,798	8.0%	$76.21
Memphis	33,417,016	0	-132,966	-379,423	14.6%	$19.32
Miami	48,700,098	1,780,632	15,464	-385,064	13.8%	$39.94
Milwaukee	36,631,593	619,047	-50,150	-29,883	18.5%	$21.56
Minneapolis	119,457,601	1,192,300	-716,767	-727,679	11.8%	$25.08
Nashville	55,218,378	3,016,793	-602,512	-1,616,304	10.8%	$28.69
New Jersey Northern	168,177,454	427,000	-2,228,716	-5,886,554	18.4%	$29.87
New Jersey Southern	16,799,544	0	-85,304	25,168	15.9%	$20.88
Oakland/East Bay	76,115,784	220,710	-330,963	-1,914,939	13.5%	$39.57
Oklahoma City	15,087,781	153,000	-192,524	-258,235	27.2%	$19.37
Orange County, CA	95,933,552	1,261,555	-598,995	-1,582,741	13.8%	$33.05
Orlando	64,656,231	66,687	-151,831	-257,160	7.1%	$23.84
Palm Beach	25,192,184	650,000	-15,751	-283,058	12.7%	$35.49
Philadelphia	109,272,253	2,190,000	-685,514	-1,286,962	15.1%	$30.36
Phoenix	94,383,609	2,151,287	-322,277	-737,114	17.0%	$26.46
Pittsburgh	56,322,377	963,853	-78,925	-573,064	19.3%	$24.18
Portland	61,892,379	760,827	-643,520	-1,275,377	13.9%	$30.54
Raleigh/Durham	51,030,598	2,776,104	103,054	511,539	11.3%	$27.56
Sacramento	70,635,851	0	-73,903	284,635	10.4%	$24.15
Salt Lake City	70,383,687	3,040,828	-167,150	-276,930	12.4%	$22.91
San Antonio	45,089,281	837,650	-44,035	-510,285	14.2%	$23.69
San Diego	72,123,696	1,904,584	-532,091	-1,384,130	14.2%	$38.29
San Francisco	85,434,712	1,996,968	-1,840,406	-7,865,280	12.4%	$78.50
Seattle	127,950,076	7,908,539	-449,378	-492,522	8.2%	$41.99
Silicon Valley	85,577,736	2,623,811	-1,297,498	-1,081,430	13.3%	$44.44
St. Louis	73,673,777	634,750	-97,691	-212,014	11.4%	$21.11
Tampa/St. Petersburg	61,410,333	899,993	-133,582	-211,905	9.9%	$26.46
Washington, DC	369,459,521	6,913,070	-1,333,620	-3,599,360	16.9%	$41.14
Westchester County, NY	27,145,634	0	-54,023	-1,292,275	19.4%	$28.25

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

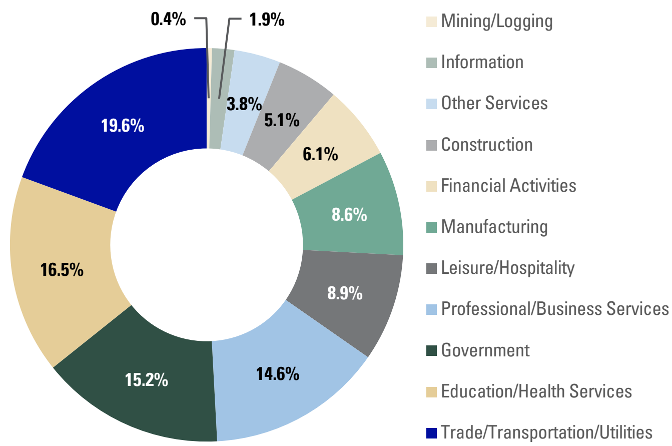
The U.S. unemployment rate has increased 310 basis points from one year ago, closing December 2020 at 6.7%. The rate was unchanged in December after declining for seven straight months since the peak of 14.8% was recorded in April in the immediate aftermath of the pandemic's arrival in the U.S. There have been 74.8 million unemployment claims since March, compared to just 37.1 million during the entirety of the Great Recession from December 2007 to June 2009.

Non-office-using industries have suffered the brunt of the job losses as a result of COVID-19; total non-farm employment is down 6.2% year-over-year while office-using employment is down just 3.5%. The hospitality sector has fared the worst of all industries, down 22.7% from a year earlier, with many hotels forced to cut back on staff with travel and tourism down significantly during the pandemic. Conversely, financial activities, which composes 6.0% of all national employment, has weathered the storm the best, declining by just 0.7% year-over year.

The resurgence of COVID-19 in late 2020 slowed the economic recovery. The recovery is poised to accelerate in 2021, but the rate of acceleration is in large part a function of how effectively the COVID-19 vaccines are distributed.

Employment by Industry

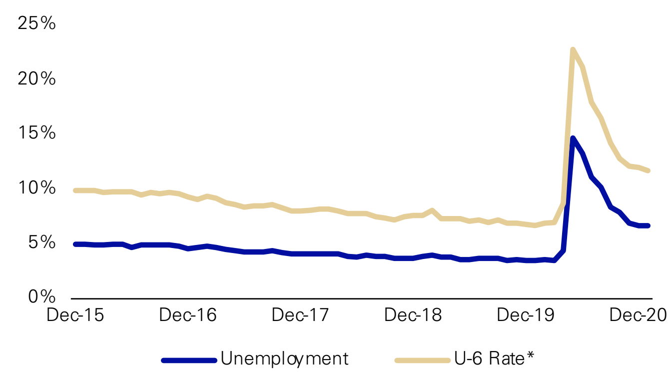
United States, December 2020



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

Unemployment Rate

United States—Seasonally Adjusted

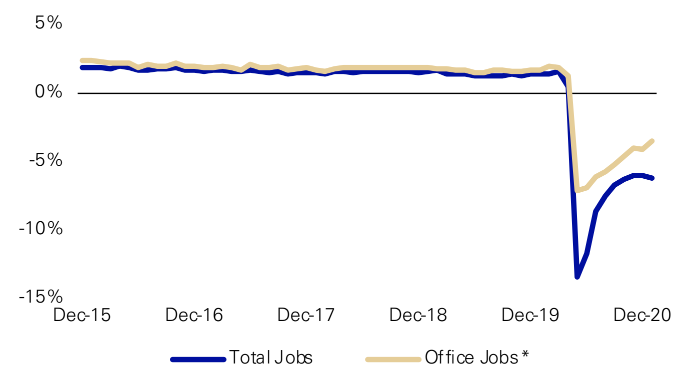


* Includes total unemployed, marginally attached workers, and those working part time for economic reasons

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

Payroll Employment

United States, 12-Month % Change, Seasonally Adjusted

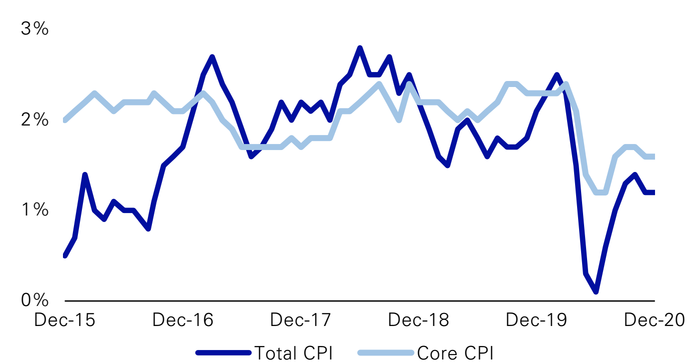


* Includes Professional and Business Services, Information, Financial Activities, Other Services and Government

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

Consumer Price Index (CPI)

United States, 12-Month % Change, Seasonally Adjusted

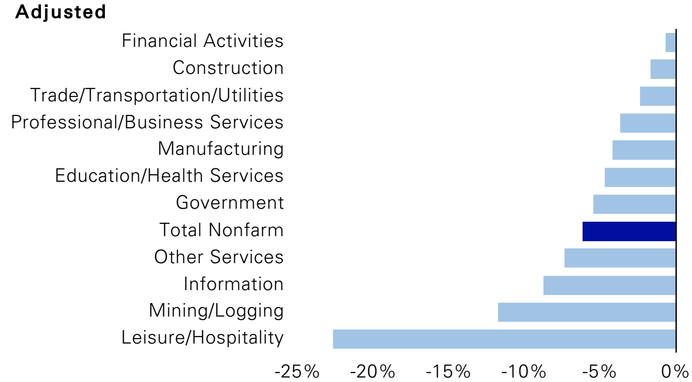


*Excludes food and energy, which can be volatile; 1982–84=100

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

Employment Growth By Industry

U.S., December 2020, 12-Month % Change, Not Seasonally Adjusted



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

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