

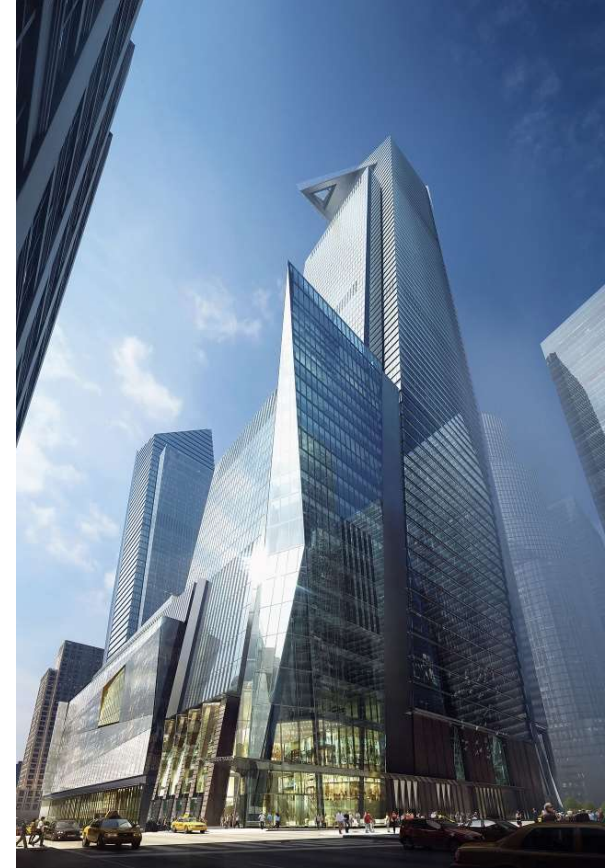
US OFFICE MARKET OVERVIEW

AUGUST
2023

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What Will Become of These Buildings?





Agenda

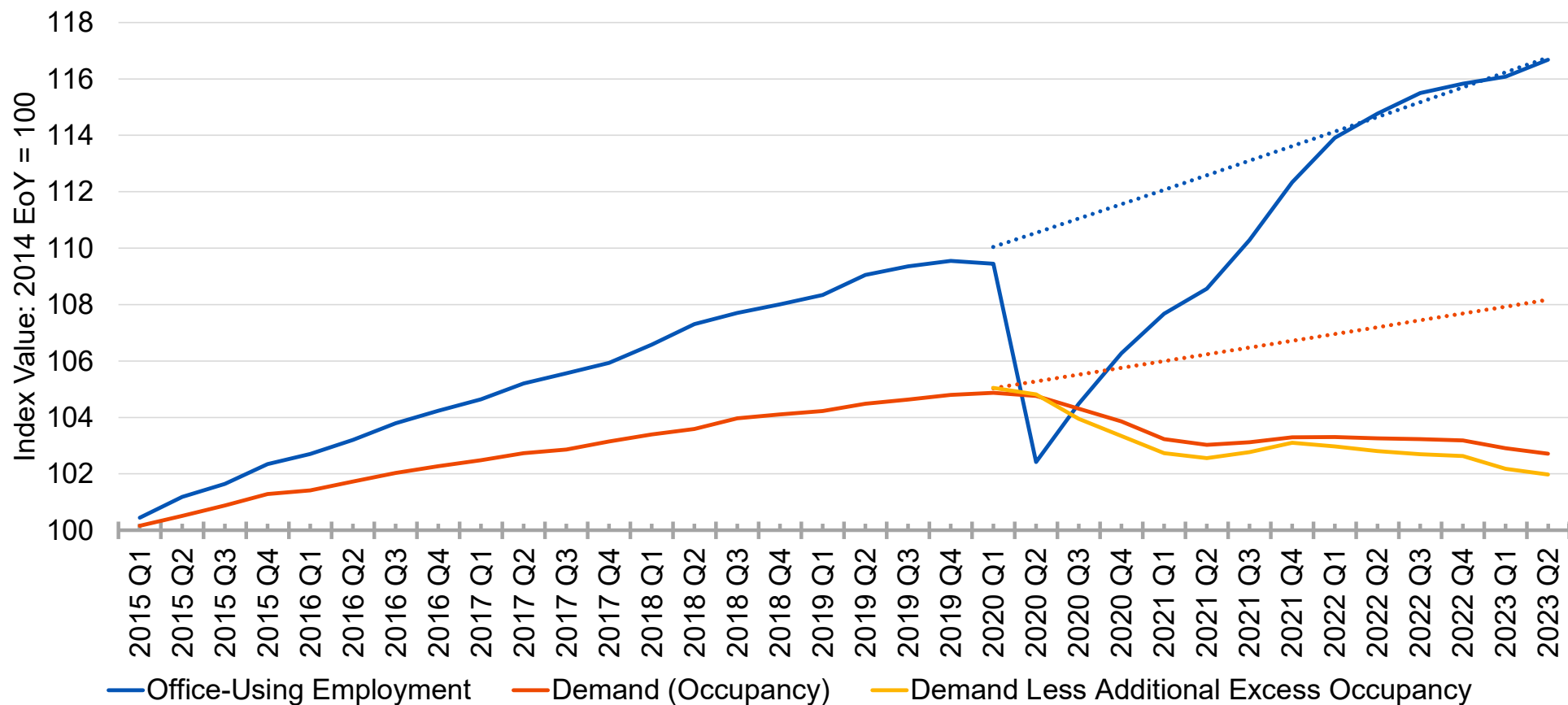
- State of the market
- The negative-sum game
- Capital markets update



State of the Market

- A persistent shift in demand
- Sticky hybrid
- Faltering fundamentals
- Disparate local impacts

Employment and Occupancy Remain Disconnected

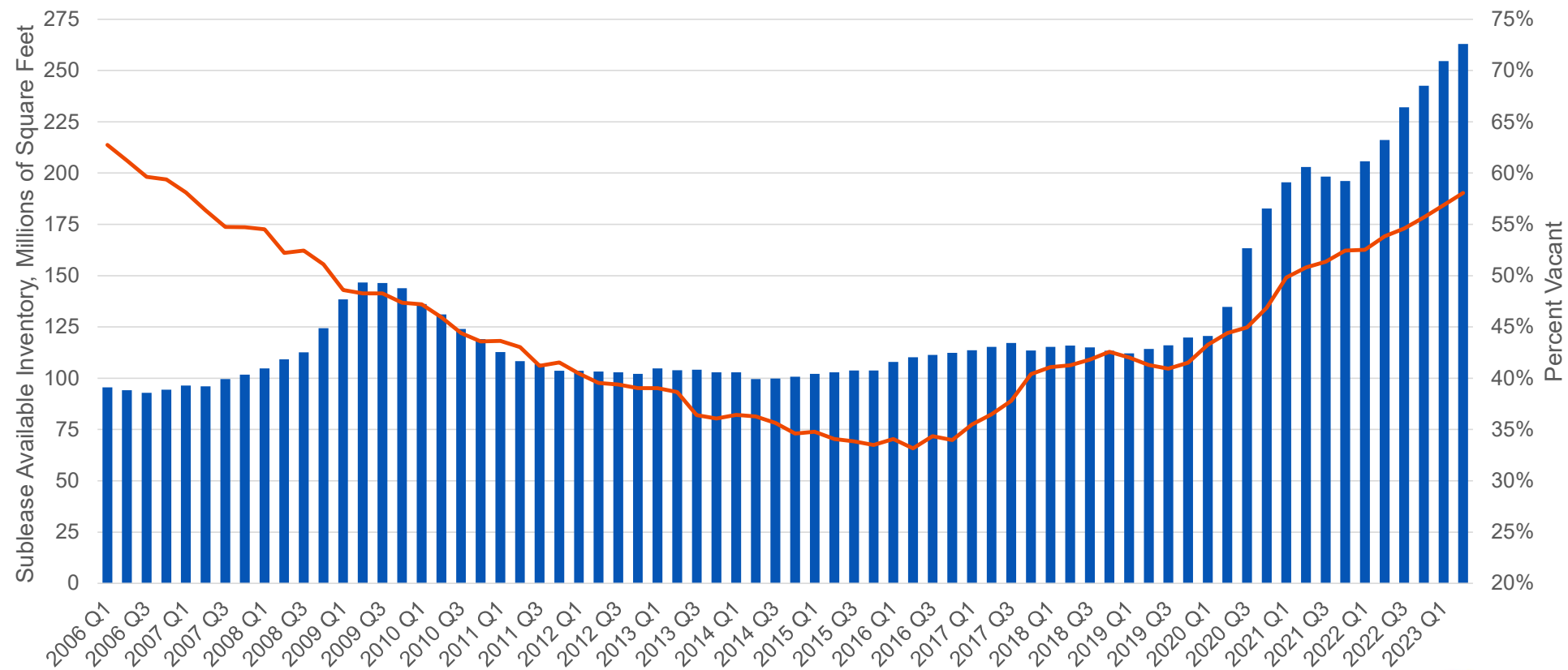


Sources: CoStar, U.S. Bureau of Labor Statistics, June 2023

Note: Seasonally Adjusted employment figures for Information, Financial Activities, and Professional and Business Services macrosectors

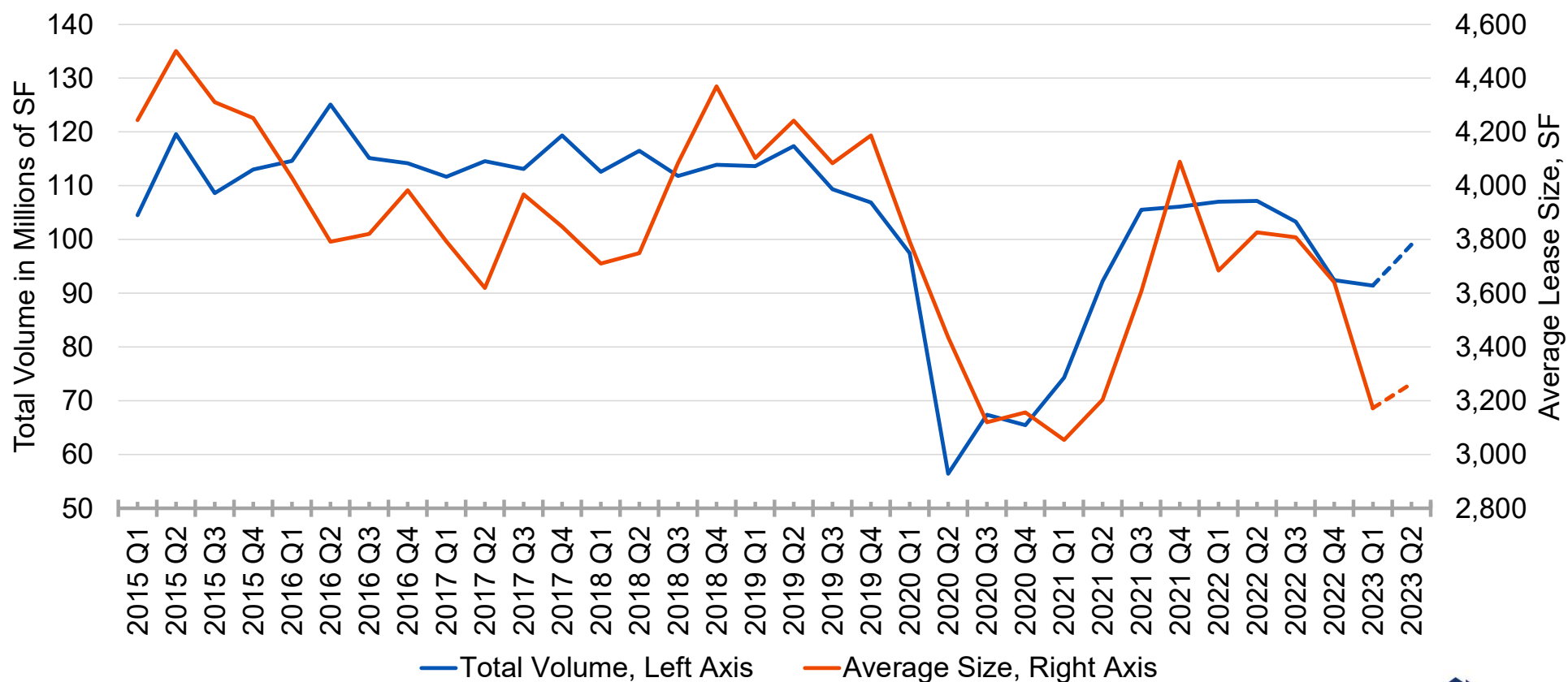
Sublease Availability Is Up 134% Since 2019

Sublease Availability, Total U.S.

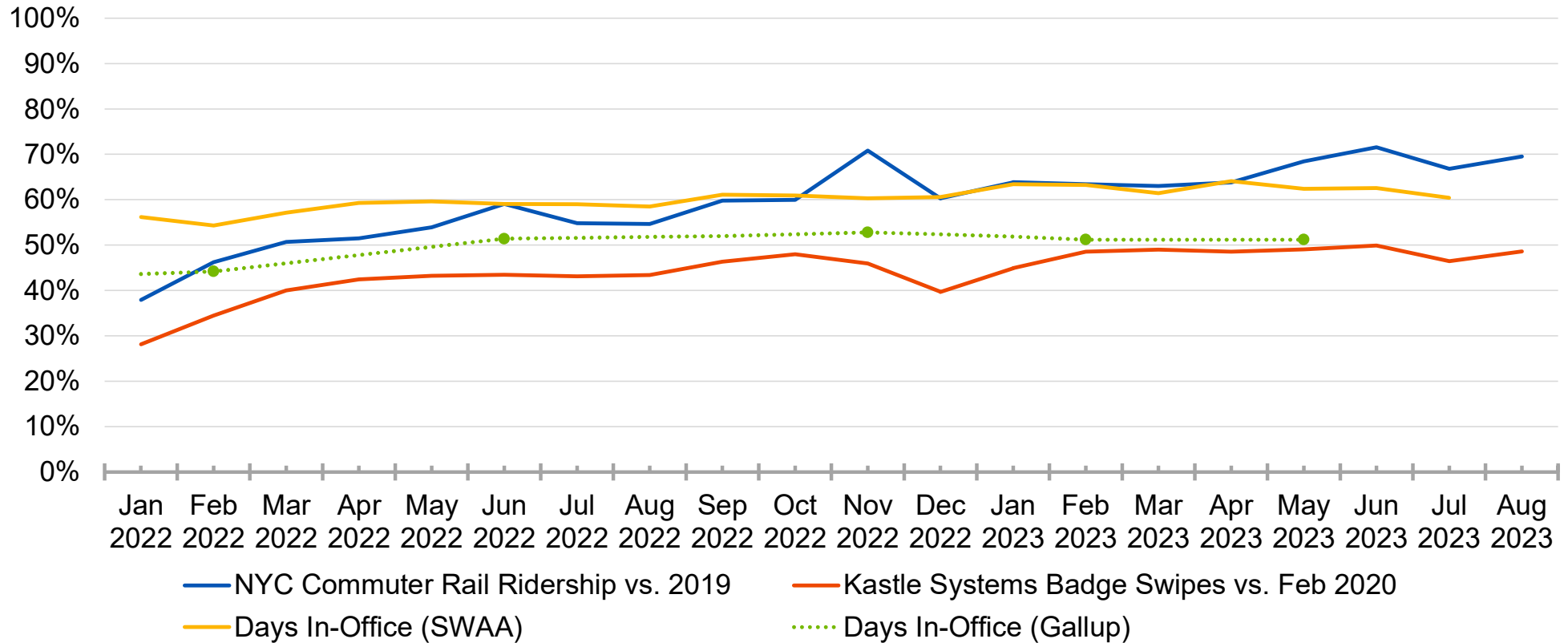


Leasing Remains Muted, with Average Size Near Historic Low

Office Leasing Trends, New Leases



Multiple RTO Indicators Show Hybrid's Stickiness



Sources:

MTA, Monthly Average of Daily Weekday Ridership vs. Comparable Day in 2019 for LIRR and Metro-North

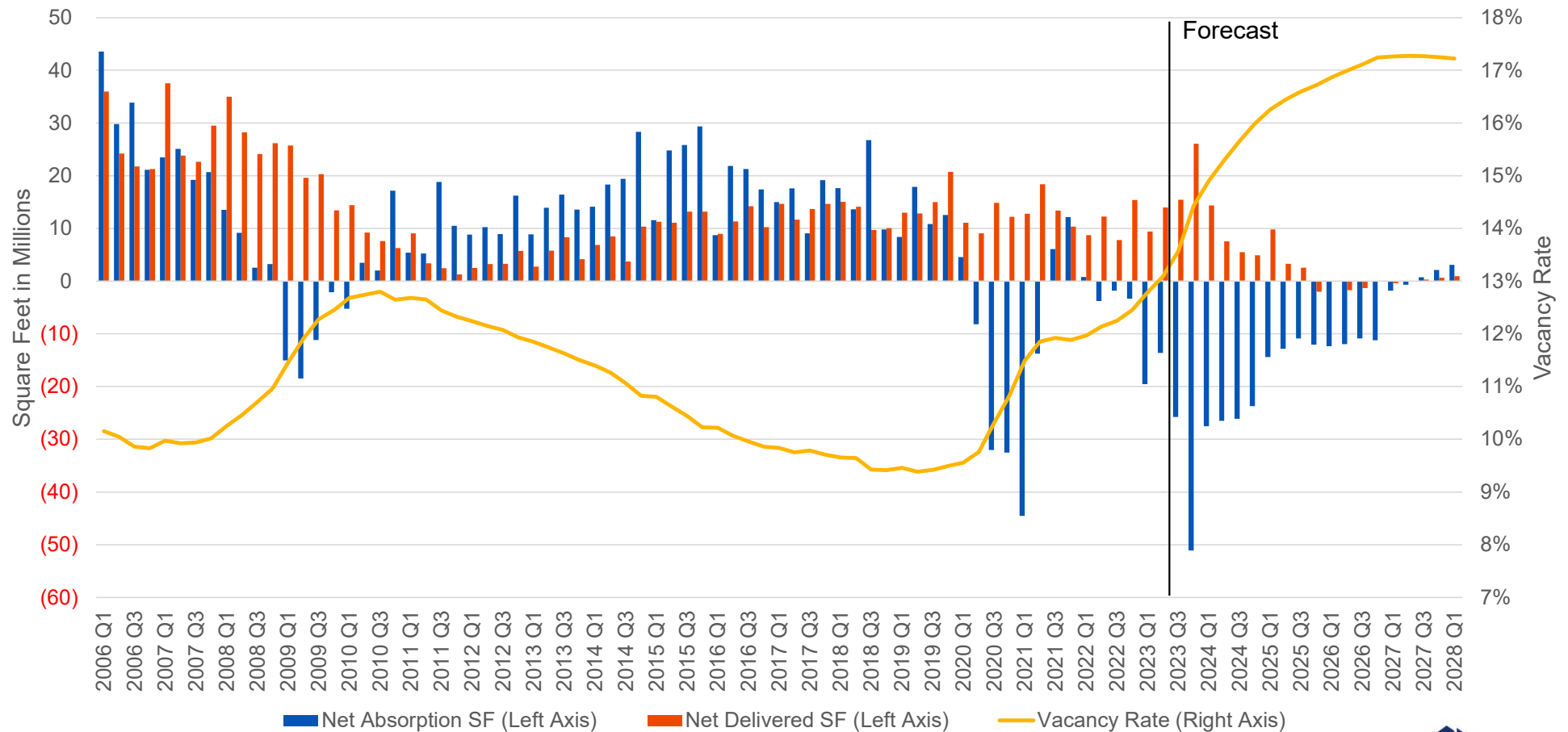
Kastle Systems Back to Work Barometer, Monthly Average of Weekly Data for Average of 10 US Cities

Survey of Working Arrangements and Attitudes, Estimated Based on Workplace Arrangement (Fully Remote=100%, Hybrid=60%, Fully Remote=0%) among Workers Able to Work from Home

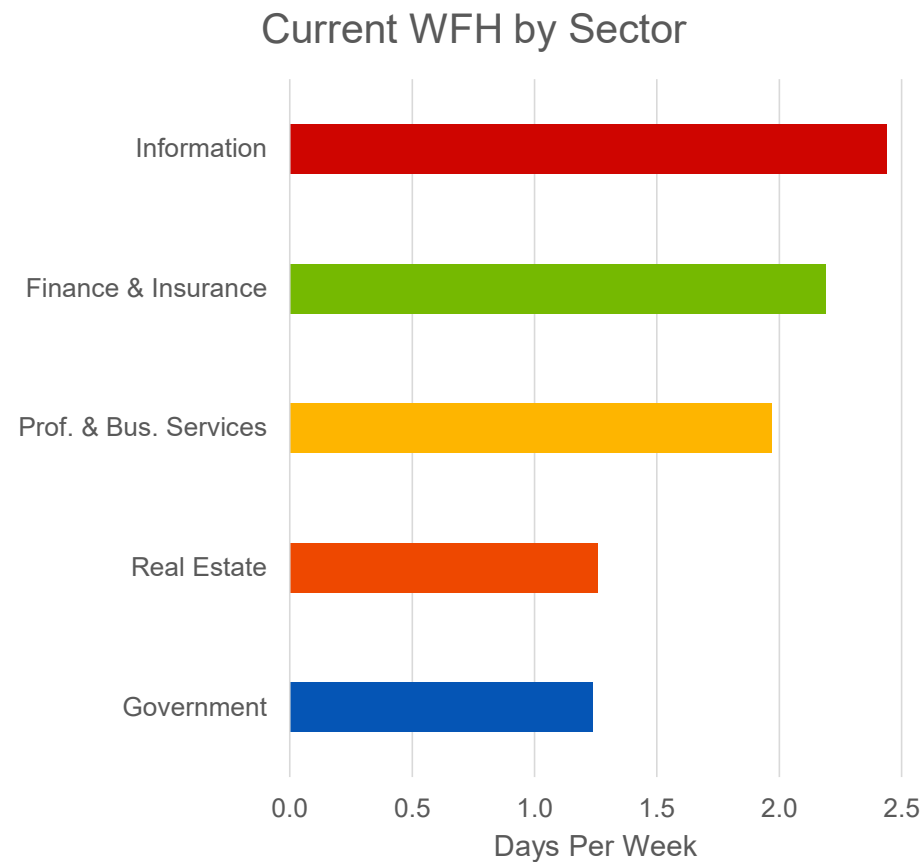
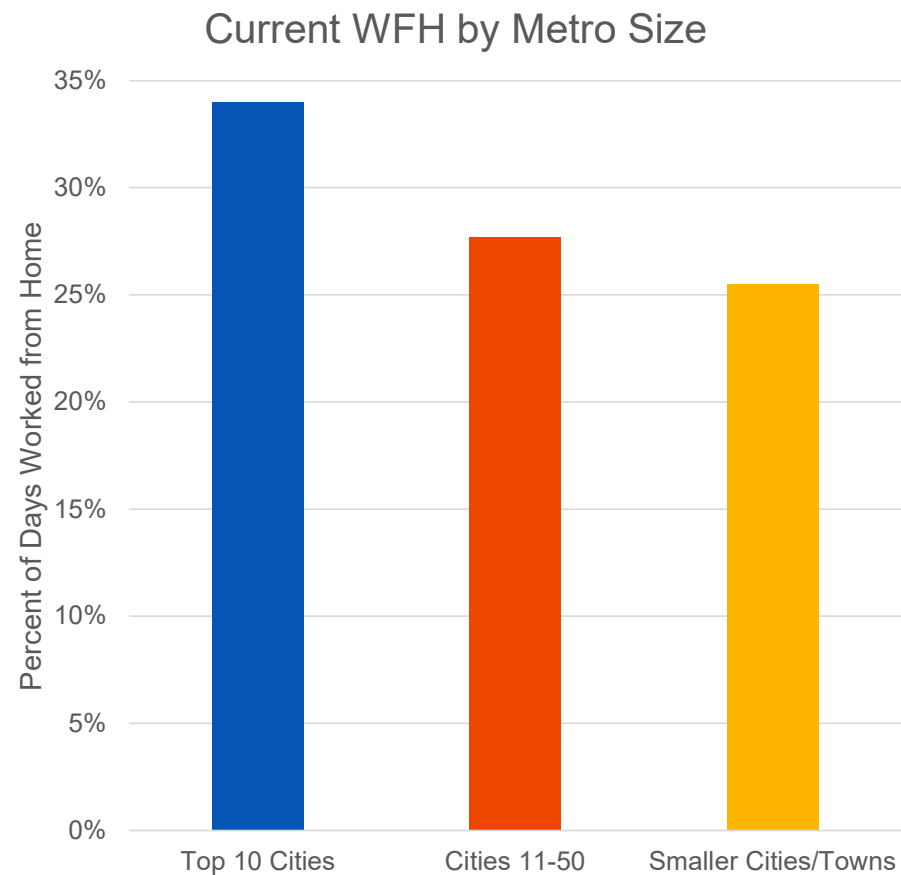
Gallup Hybrid Work Indicator, Estimated Based on Work Location (Exclusively Remote=100%, Hybrid=60%, On-site=0%) among US Employees with Remote-Capable Jobs, Interpolated Where Absent



House View Forecast: Vacancy Exceeds 17% by Late 2026

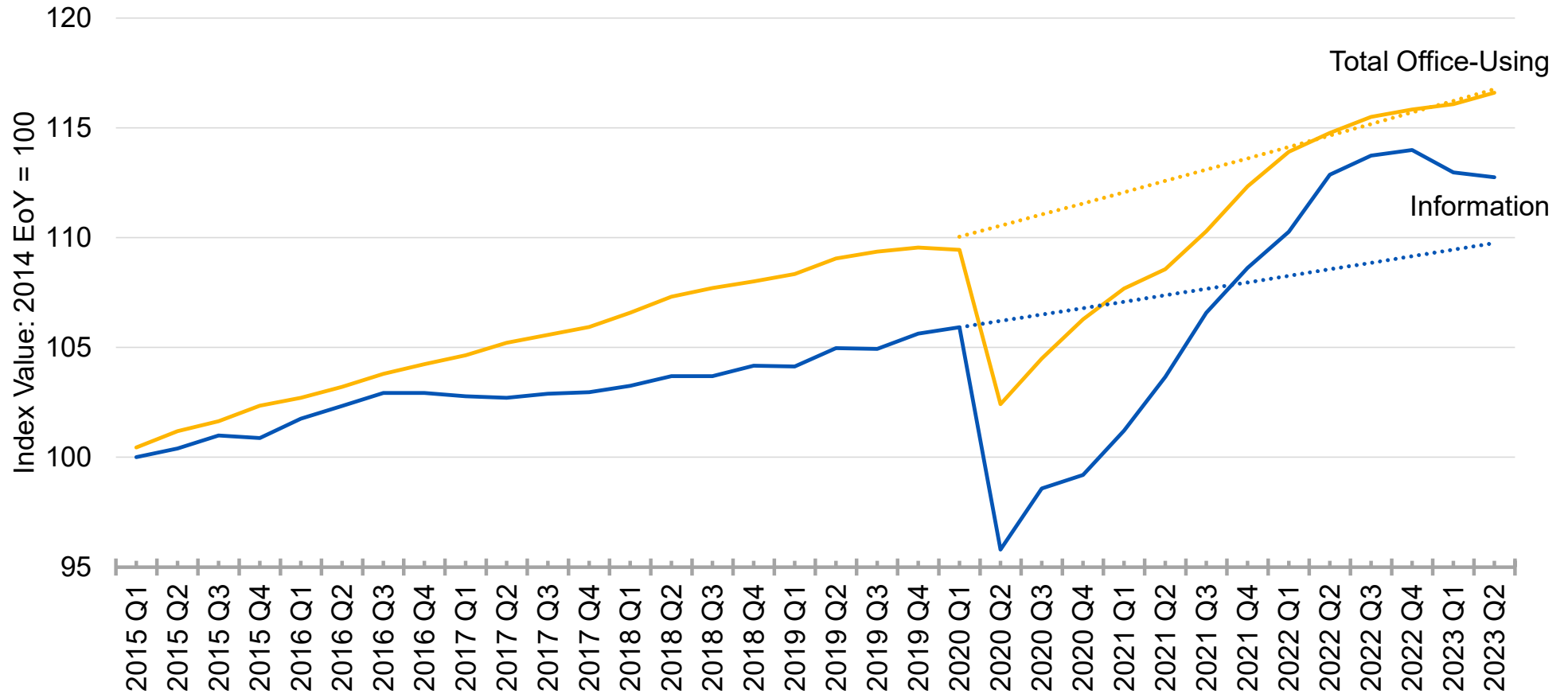


Remote Work Frequency Varies by Metro and Industry



Source: Survey of Working Arrangements and Attitudes (SWAA), August 2023

Information Sector Jobs Are Correcting



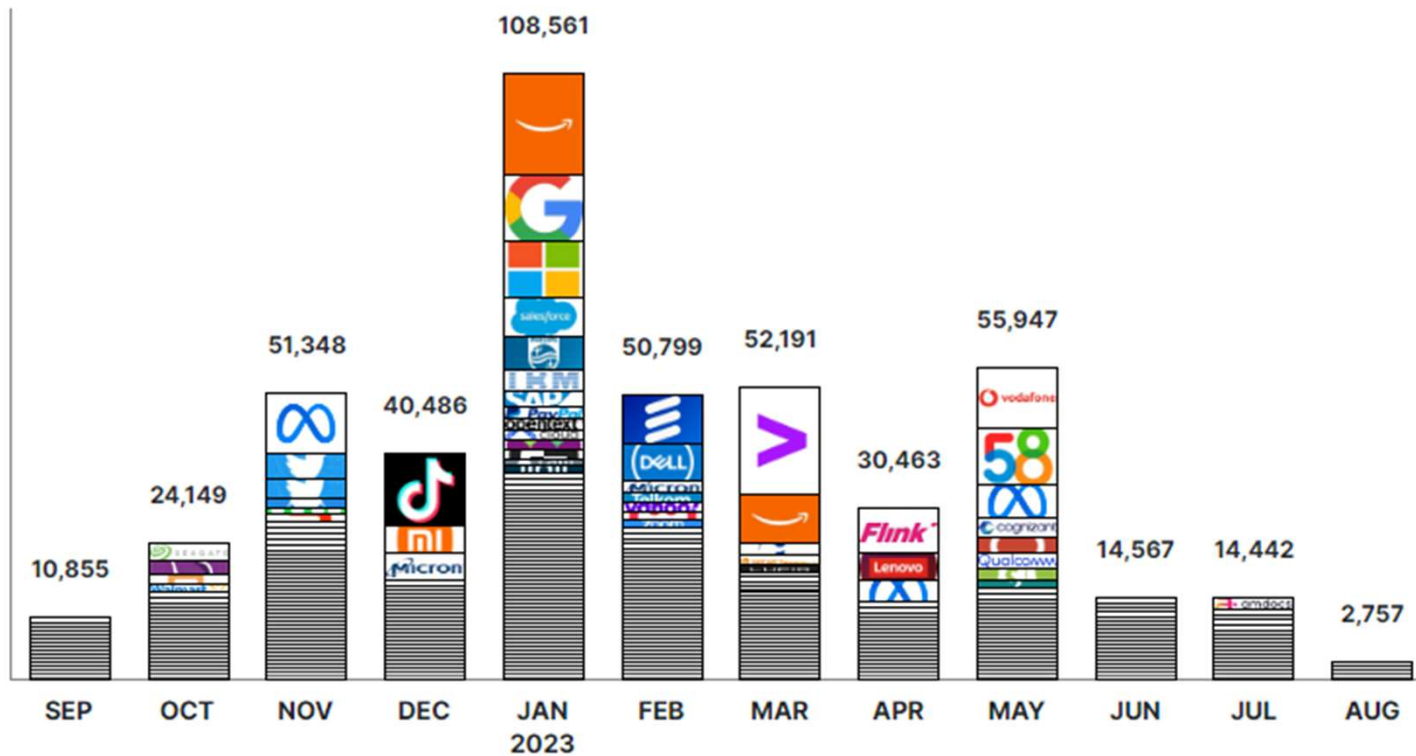
Sources: CoStar, U.S. Bureau of Labor Statistics, June 2023

Note: Seasonally Adjusted employment figures for Information, Financial Activities, and Professional and Business Services macrosectors

Tech Layoffs Have Eased Since May

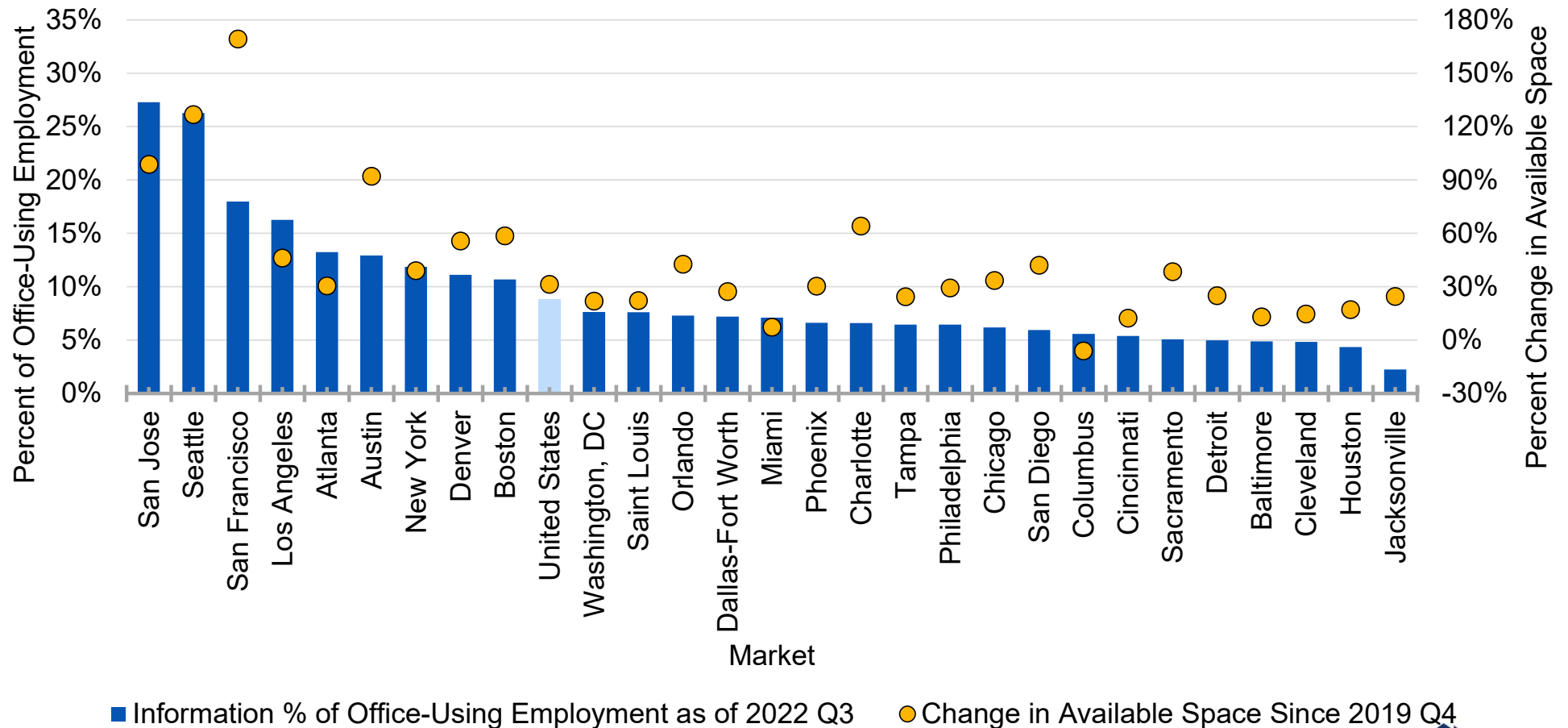
of Tech Employees Let Go

as of August 8, 2023



source: trueup.io/layoffs

Availability Increases Most in Information-Heavy Markets

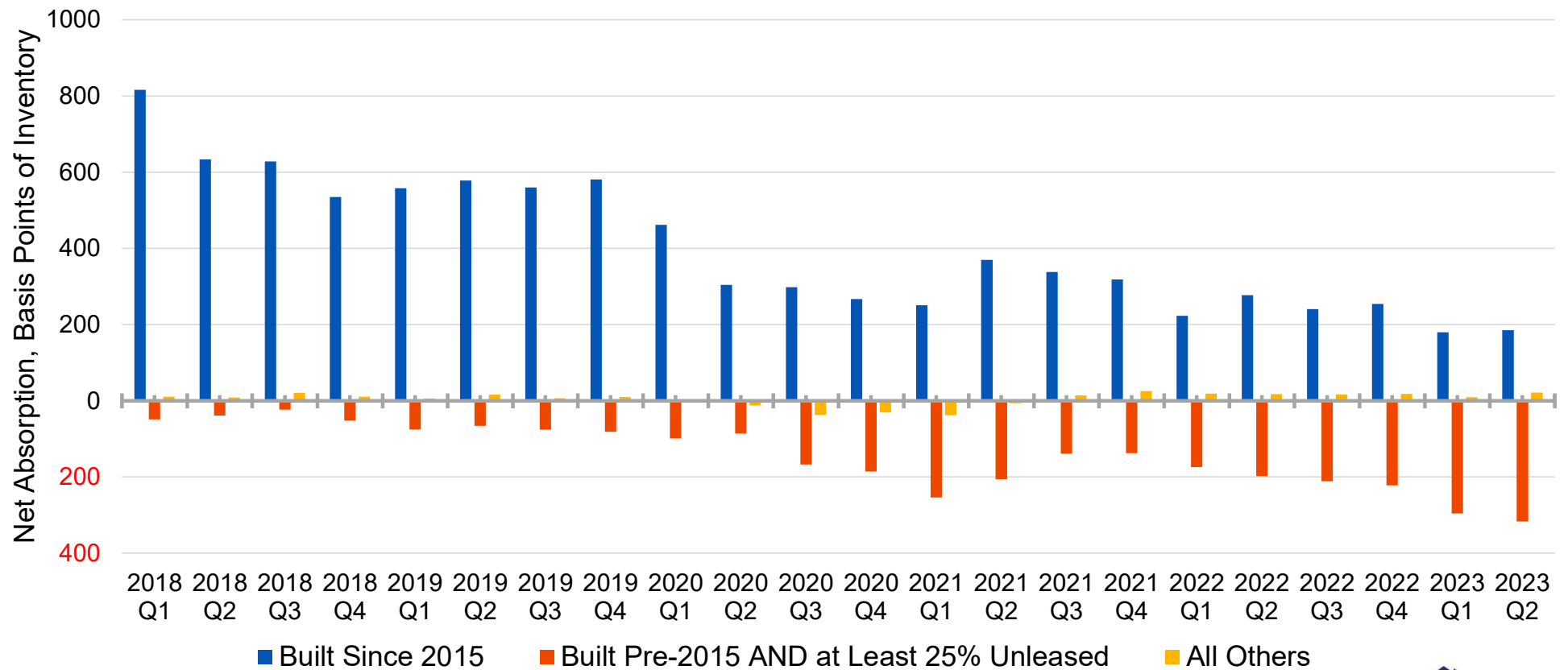


Sources: CoStar, Oxford Economics, U.S. Bureau of Labor Statistics, May 2023

The Negative-Sum Game

- Dimensions of bifurcation
- A toxic combination

Demand is Concentrating in New Buildings While Tenants Flee a Small Number of Older Ones



Office-to-Multifamily Conversion Opportunity Summary

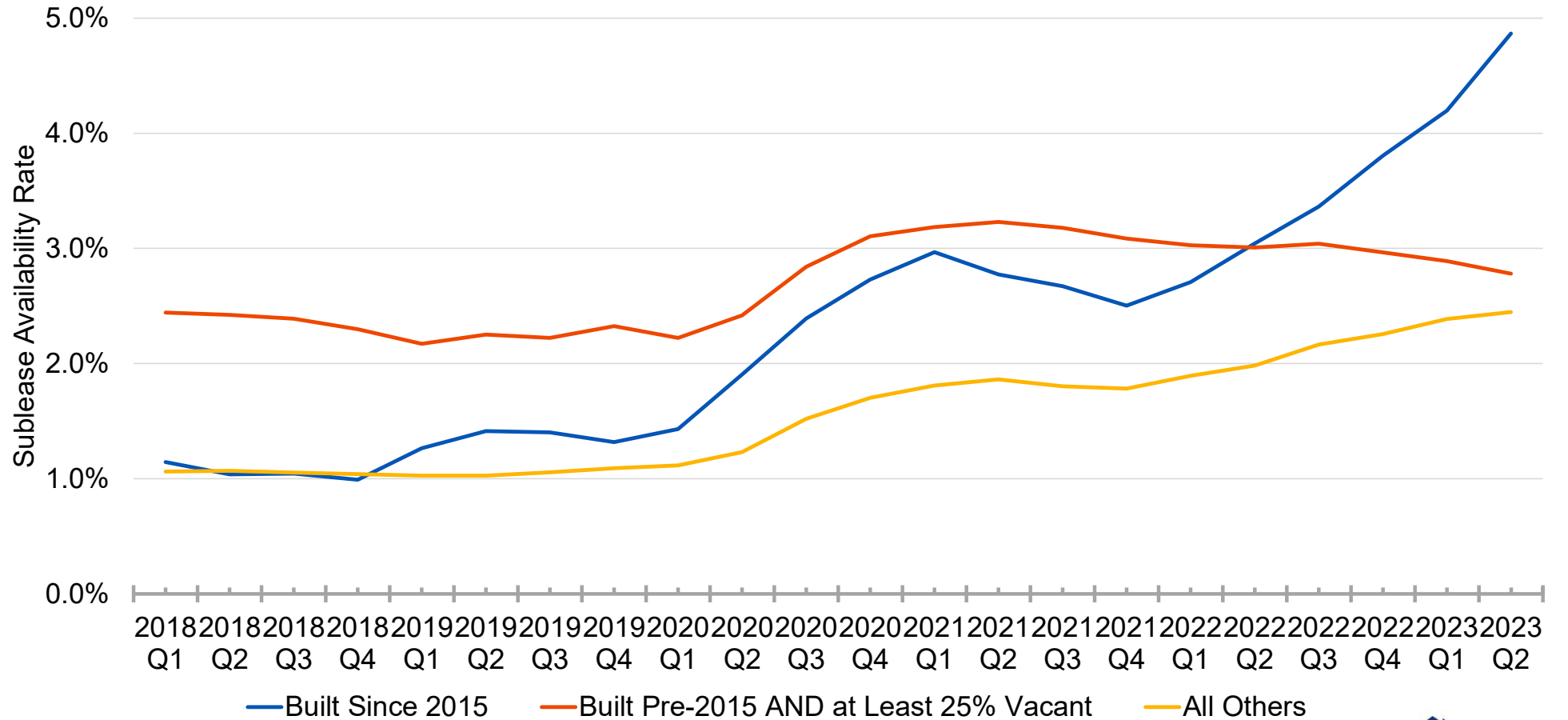
Assumption	More Aggressive Scenario	More Conservative Scenario
Submarket Location	CBD/Urban	
Year of Construction	Before 2015	Before 2000
Current Vacancy	At least 25%	At least 50%
Typical Floor Plate	30,000 square foot maximum	20,000 square foot maximum

Estimated Impact:

<i>Properties</i>	6,878	2,689
<i>Office Square Feet Subtracted</i>	-517 million, or 6.2% of inventory	-79.5 million, or 0.9% of inventory
<i>Multifamily Units Added</i>	+465,300, or 2.5% of inventory	+71,550, or 0.4% of inventory

Source: CoStar, June 2023

Sublease Availability is Increasing Even at Performing Buildings



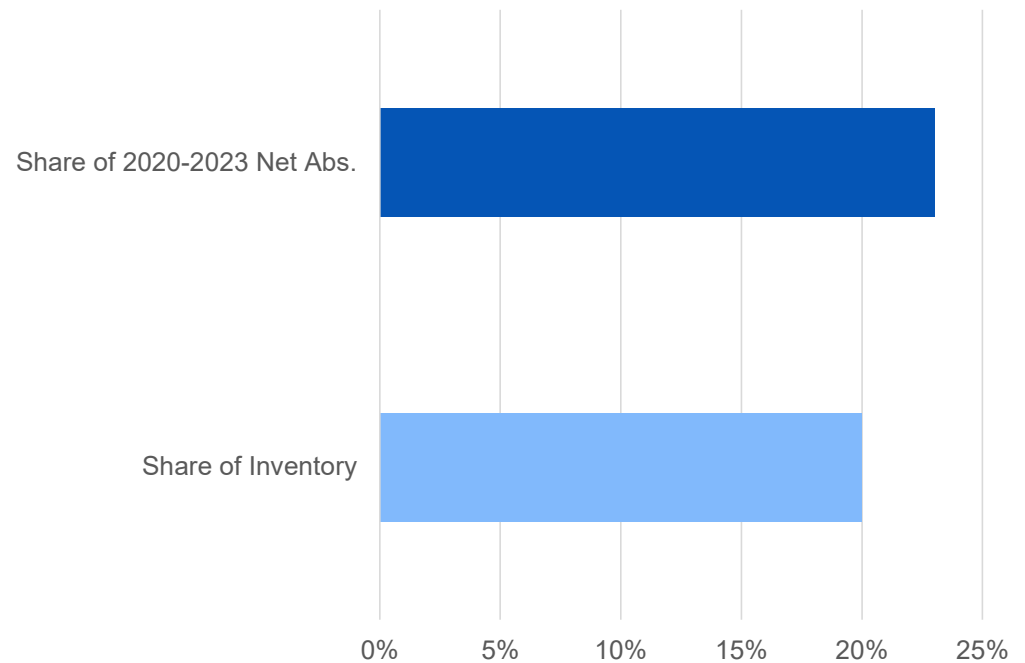
Owner-Occupancy is a Key Part of the Story



6320 Research Rd, Frisco, TX
CORE Construction HQ
43,000 SF, Built 2021

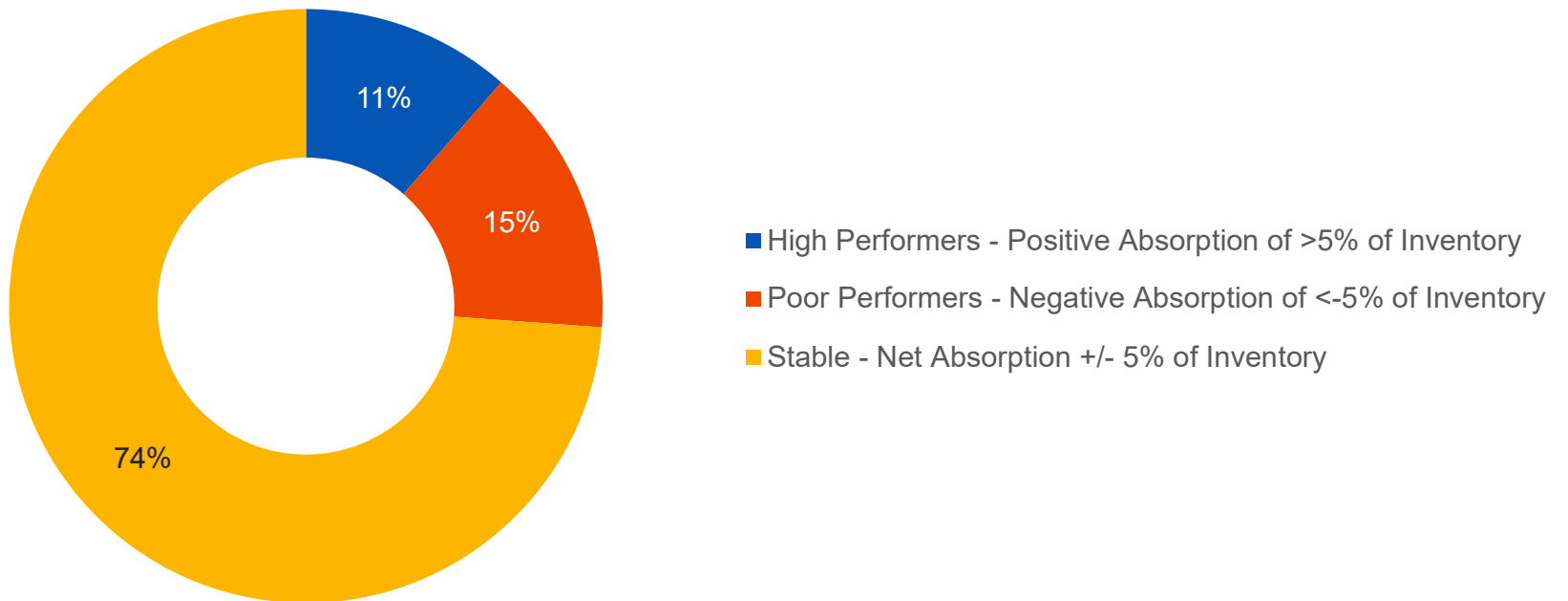
Source: CoStar, May 2023

Owner-Occupied Buildings Delivered Since 2015



The Office Market is a Polarized, Zero-Sum Game

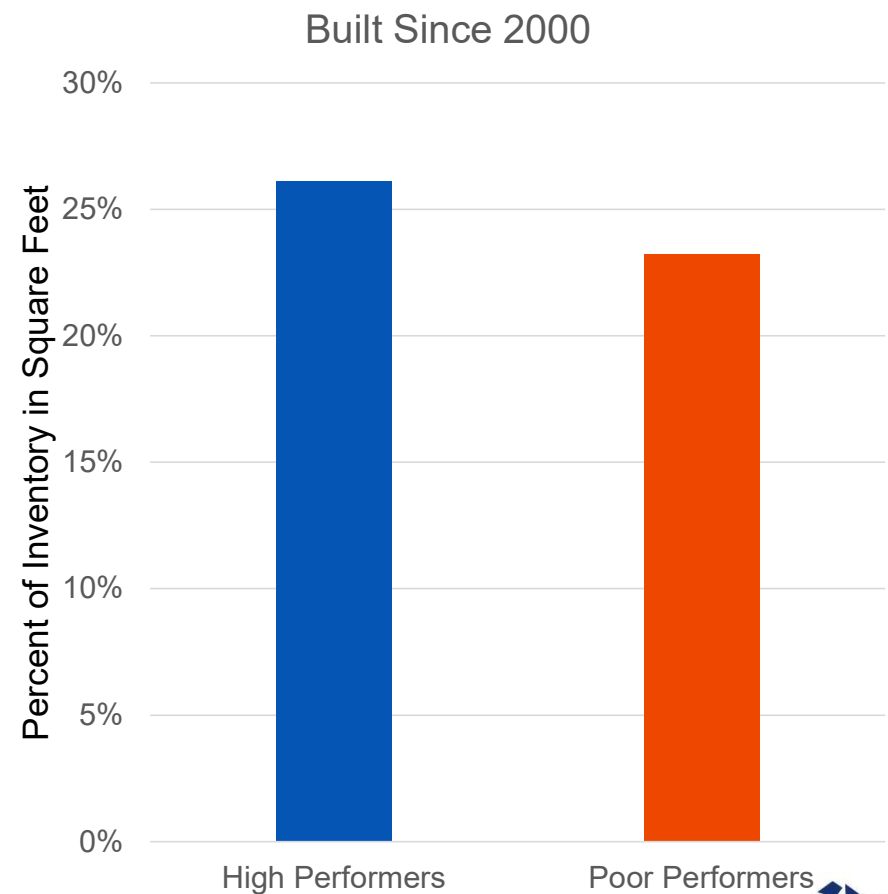
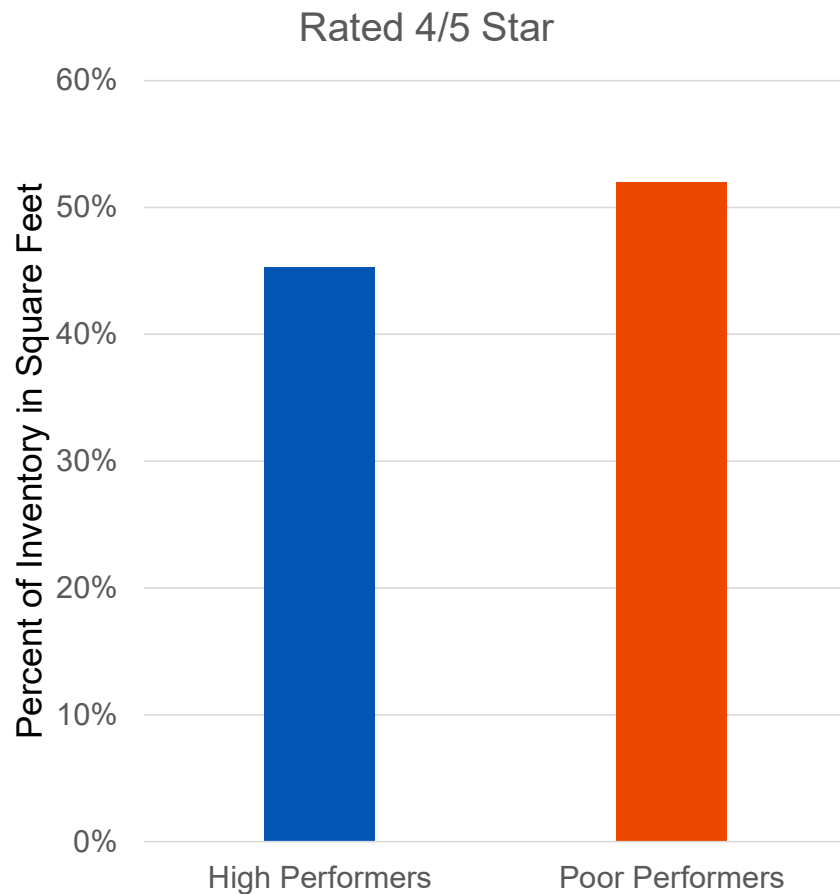
Office Inventory in Square Footage by 12-Month Net Absorption, 2022 Q2 – 2023 Q1



Note: Excludes owner-occupied and medical buildings

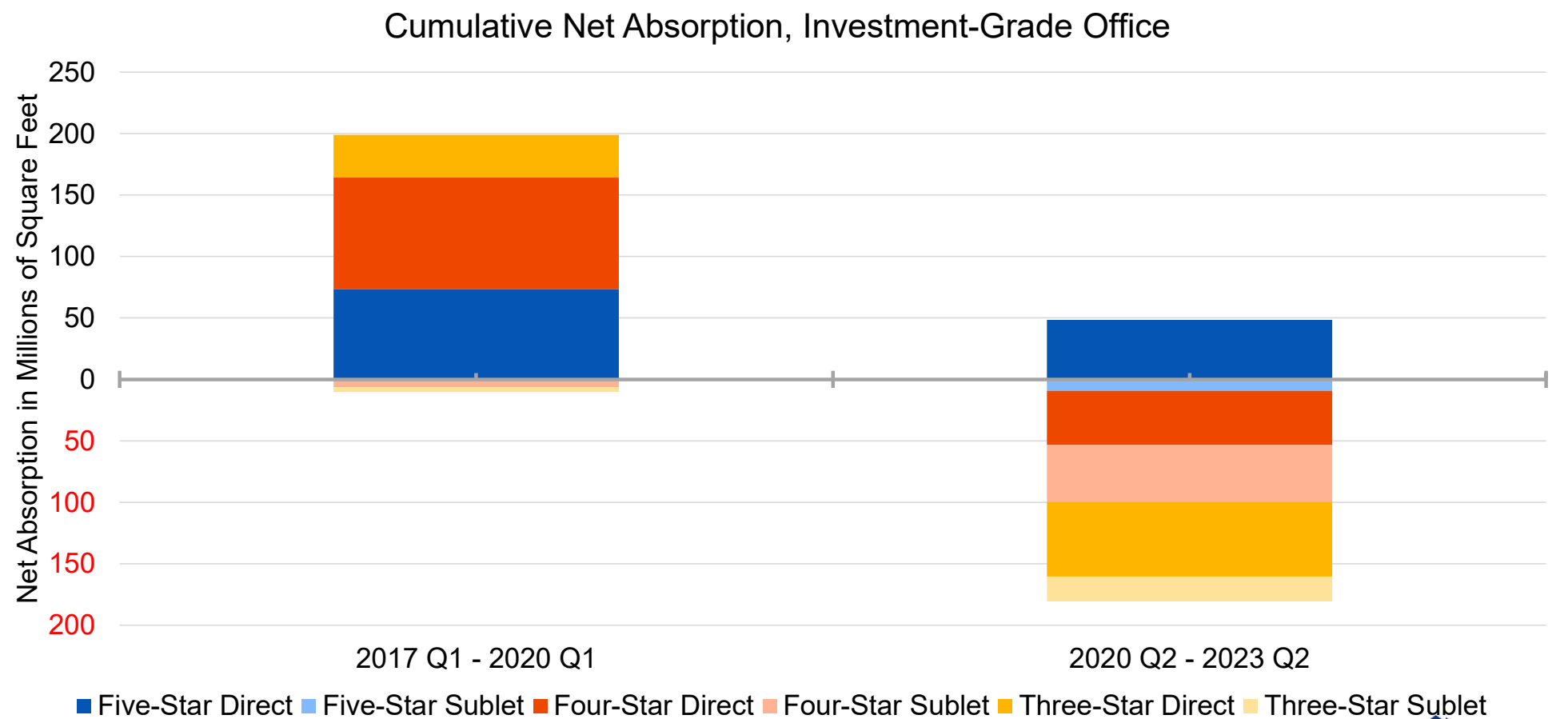
Source: CoStar, May 2023

Vintage Is Better than Star Rating as an Indicator of Performance



Note: Excludes owner-occupied and medical buildings

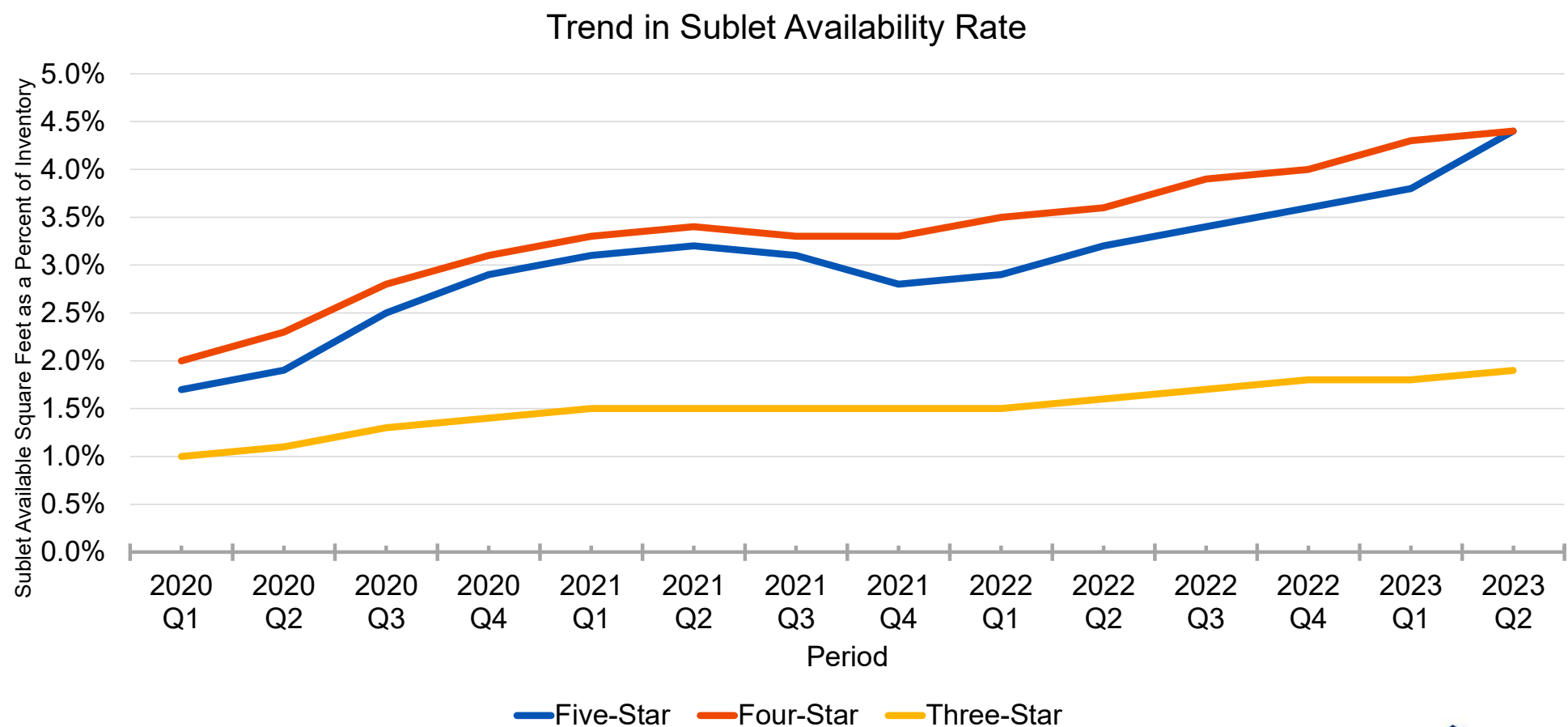
Tenants Have Preferred Direct Five-Star Space Since Pandemic's Onset



Source: CoStar, August 2023



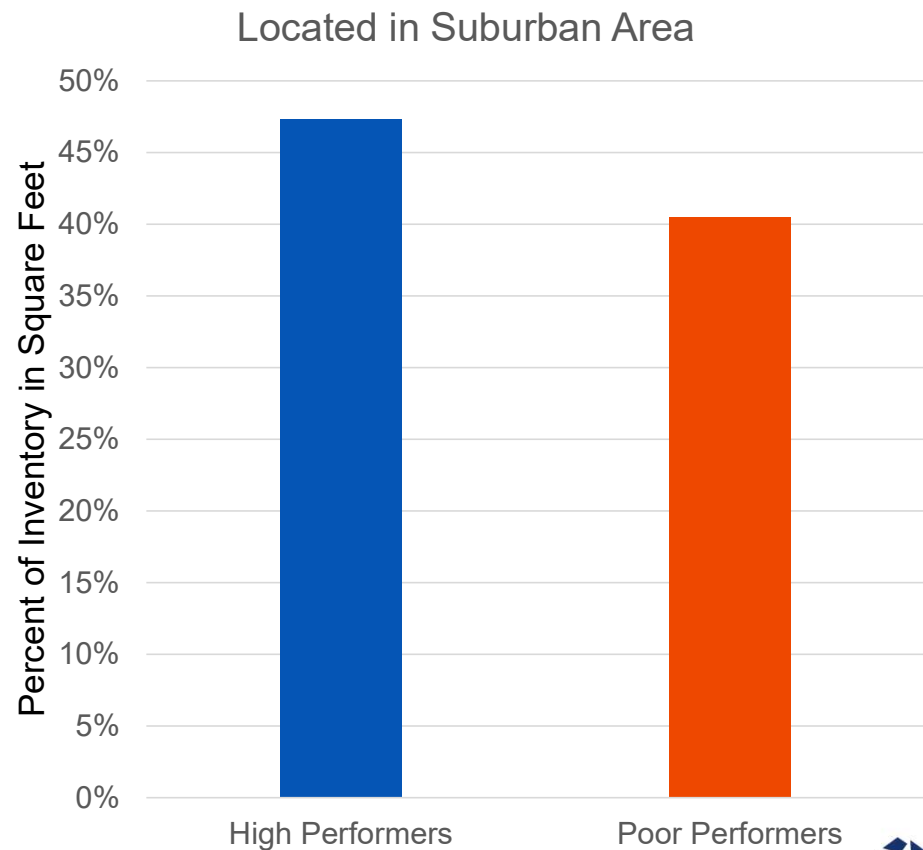
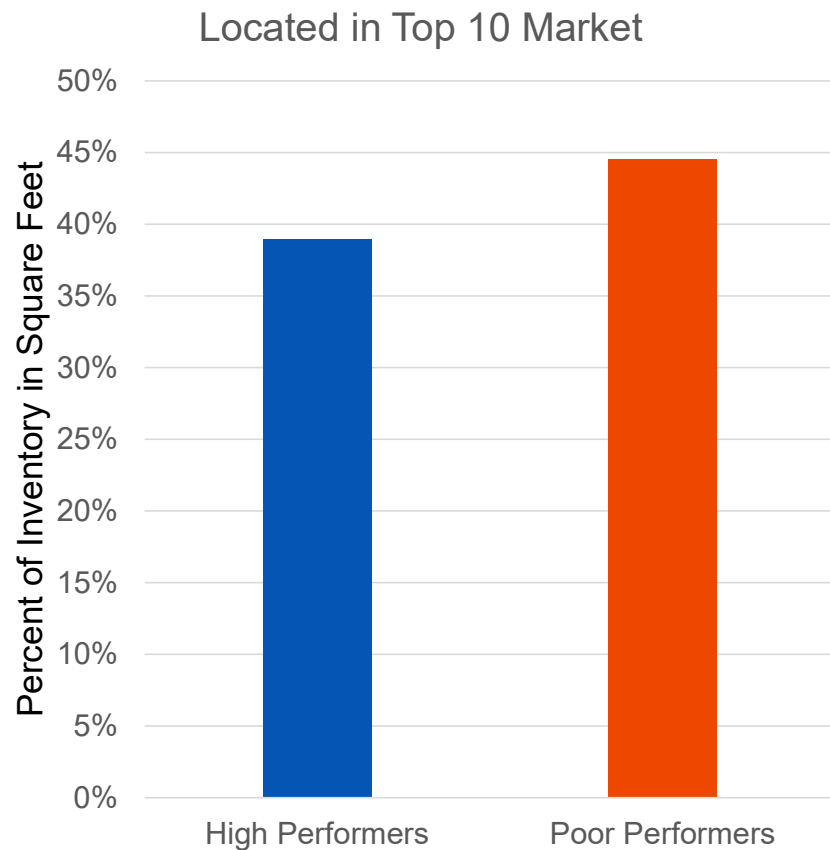
Five-Star Sublet Availability Now Matches Four-Star



Source: CoStar, August 2023

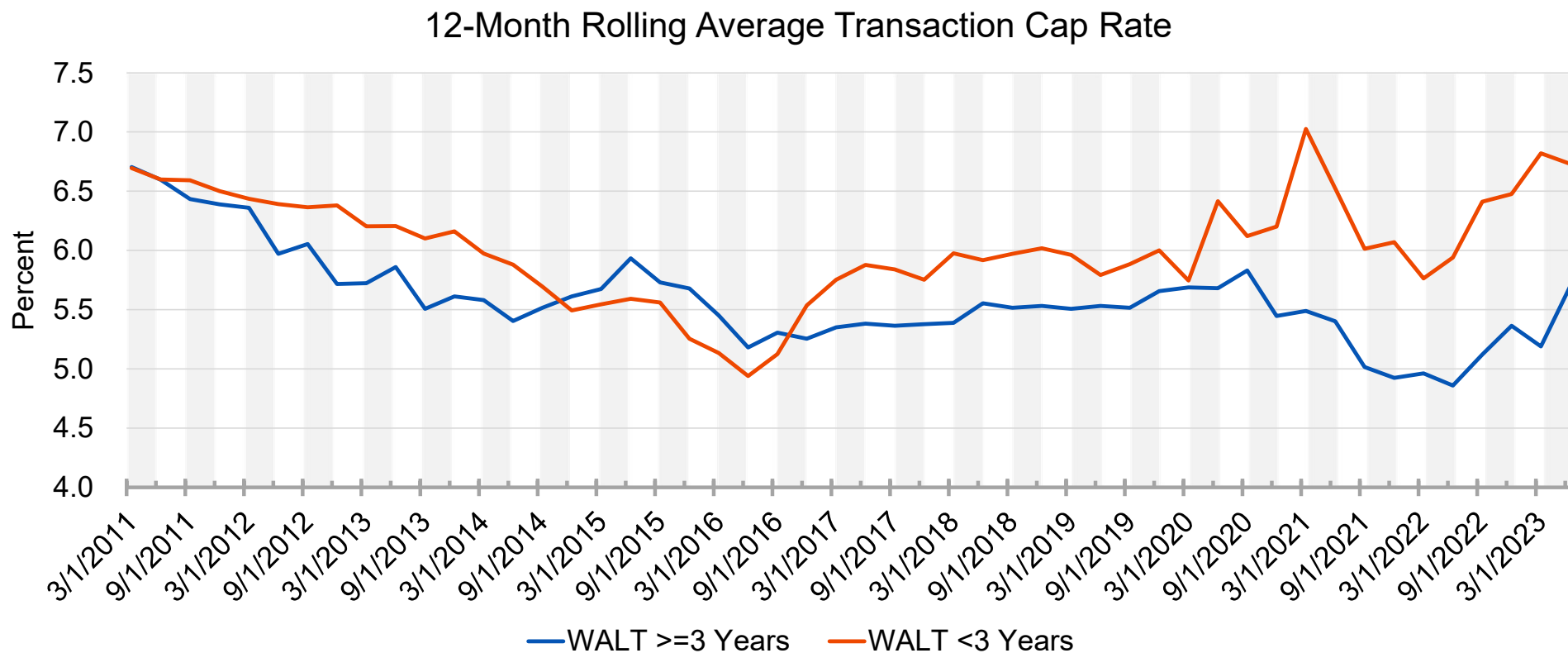


High Performers are Weighted Toward Suburbs and Away from Gateway Markets



Note: Excludes owner-occupied and medical buildings

Investors See Lease Exposure as Increasingly Risky



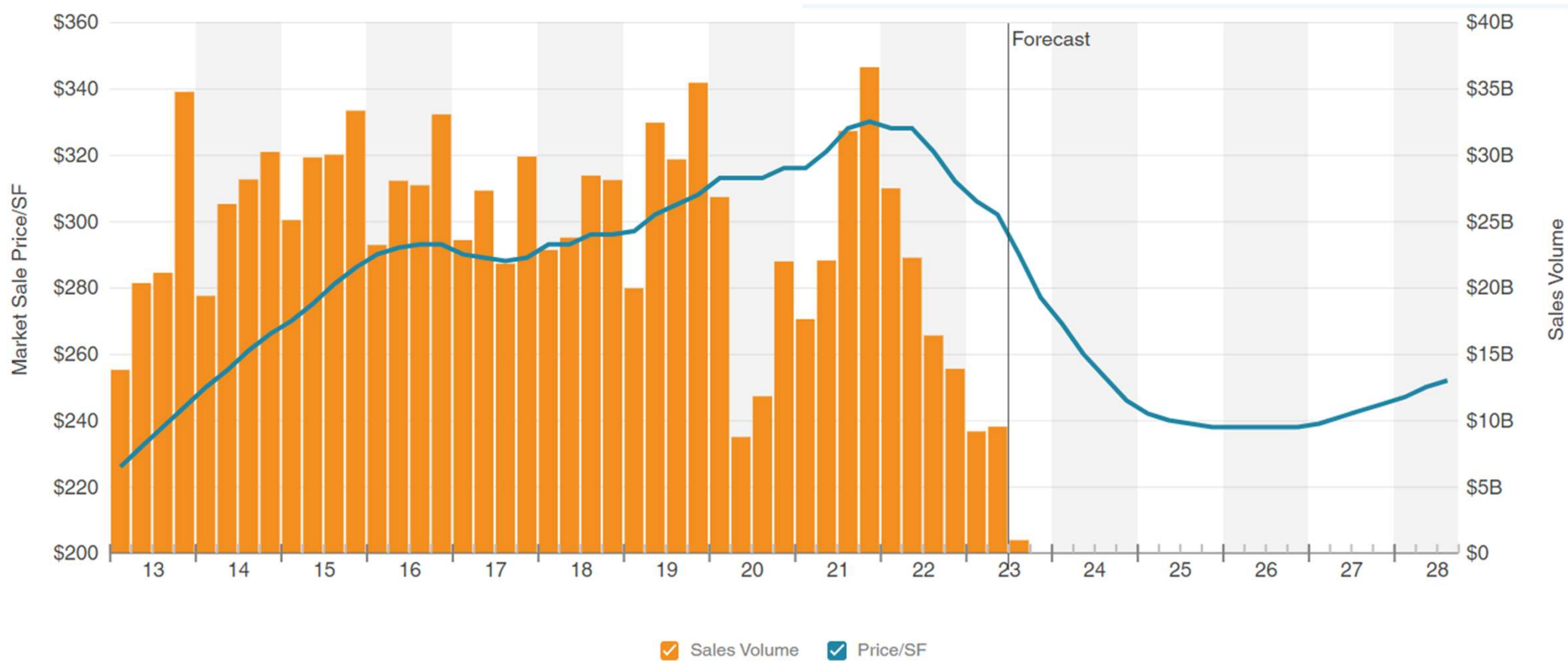
*For Office properties >50k sf, Major 54 markets, only properties where at least 50% of occupied space has lease expiration. Vacancies count as lease term of 0



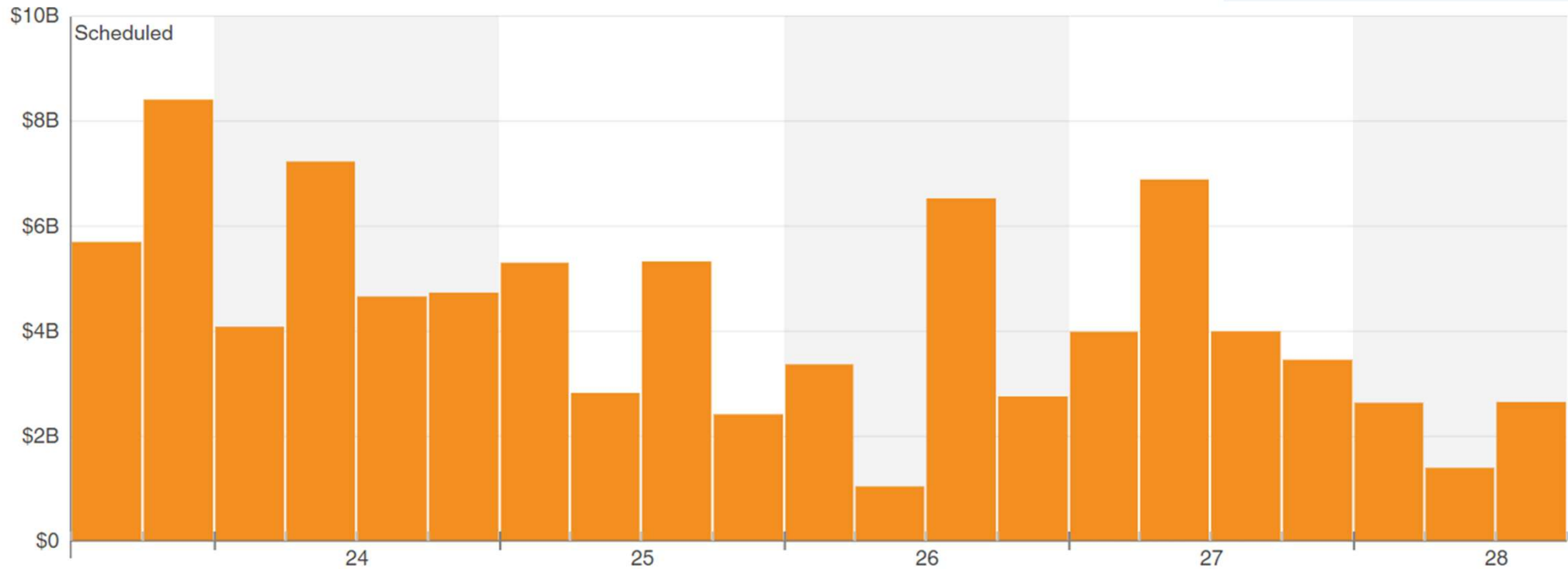
Capital Markets Overview

- An illiquid market
- A looming pricing reset

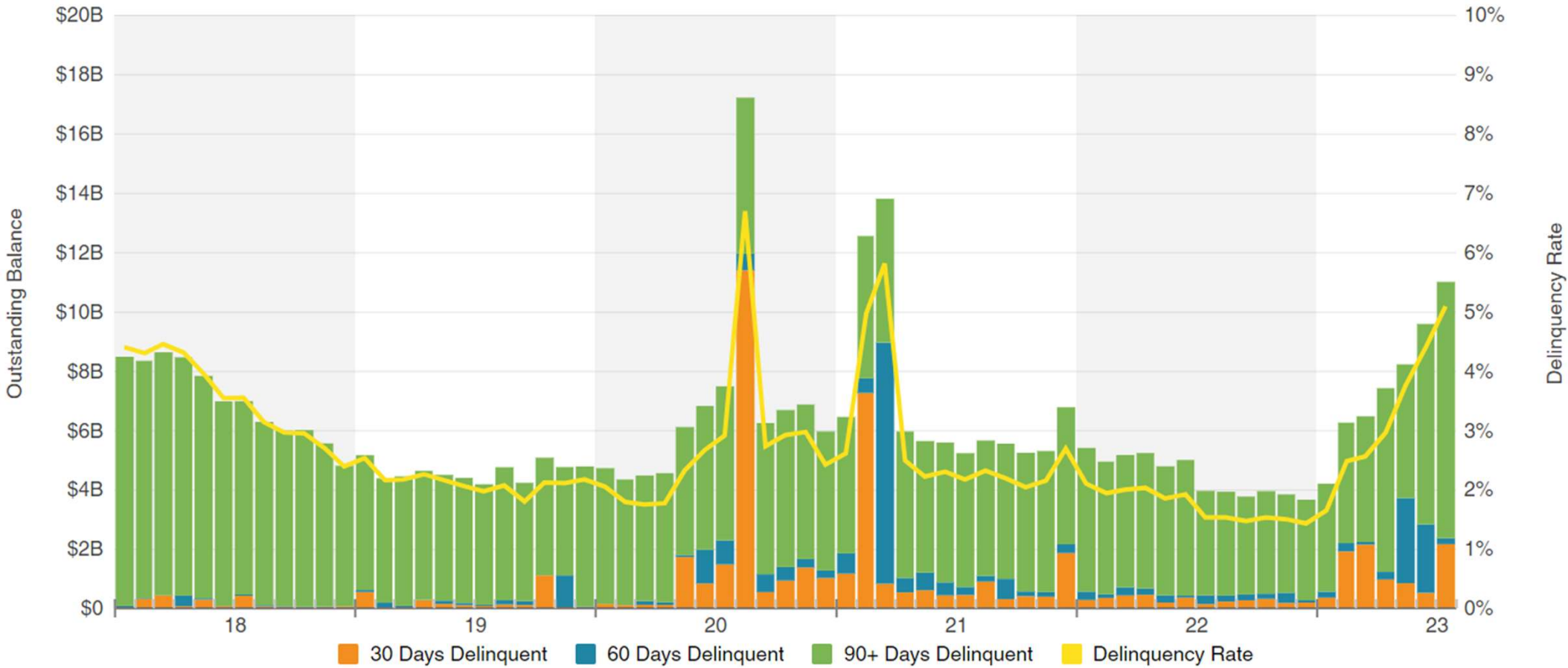
The House View Calls for a ~30% Peak-to-Trough Correction



\$37B in CMBS Maturities Illustrate Risk in 2023 & 2024



Office CMBS Delinquencies are Rising Rapidly



Summary

- The office market is still resetting
- Fundamentals will be pressured for some time to come
- Winners and losers are not always readily apparent
- Low utilization + pending lease rollover = a toxic combination
- A pricing correction is underway and should continue as loans mature



Thank you

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