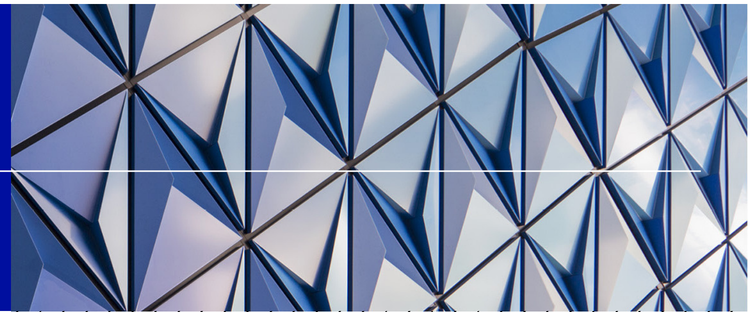


National Office Market

Limited Leasing Volume Does Not Offset Occupancy Losses

The U.S. office market continued to be impacted by the COVID-19 pandemic during the first quarter of 2021. Leasing activity remained limited, as many tenants are still assessing their future needs with regard to headcount, flexible scheduling, and space design. With low leasing volume, absorption was negative for the fifth consecutive quarter, with occupancy declining by 38.4 million square feet. The vacancy rate closed the quarter at 15.8%, a 90-basis-point increase from the prior quarter and a 280-basis-point increase over the past year. More than 10.6 million square feet of new construction delivered during the first quarter; an additional 92.5 million square feet is still under construction with more in the planning stages. While it might be difficult for asset owners to lease this future inventory due to the high amount of space currently available for lease, they do have the advantage of being able to adjust plans for their buildings to adapt to tenants' evolving needs.

Asking rents have continued to increase incrementally since the pandemic began, rising 2.6% over the past year. The increase in average asking rent to $30.51/SF continued to be driven by deliveries, often trophy or high Class A space at top-of-the-market rents. While asking rents, which generally lag market shifts, have been fairly stable, net effective rents have steadily declined with asset owners offering elevated concessions. Although the office market faces continued uncertainty with much of the workforce still operating remotely, the sentiment is beginning to change with improved mobility recorded in major markets.

Quarterly Absorption Remains Negative with Leasing Activity Modest

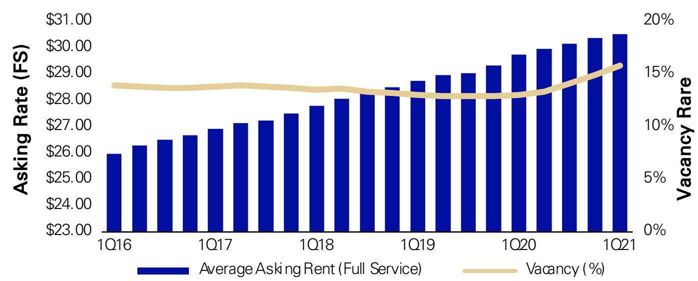
First-quarter absorption was negative for the fifth consecutive quarter, at -38.4 million square feet. Fifty-one of the 56 markets tracked by Newmark recorded negative absorption. The lone exceptions were Tampa/St. Petersburg, Phoenix, Inland Empire, Minneapolis, and Fresno. Occupancy continued to suffer from limited leasing activity and a surge in sublease space, although sublease availability is plateauing or beginning to tick down in some markets. At the close of the quarter, there was 166.5 million square feet of sublease space available, more than 10 million square feet above the fourth-quarter 2020 total. Available sublease space now represents 3.4% of market inventory, up 30 basis points from 3.1% at the end of the fourth quarter of 2020. While some tenants will place additional sublease space on the market as they figure out their re-boarding plans, others will take back previously marketed sublease space that had been offered solely for opportunistic reasons but will instead be reoccupied.

Current Conditions

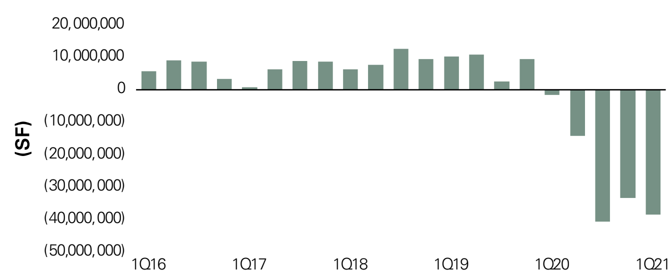
- First-quarter office absorption was -38.4 million square feet; quarterly occupancy loss has hovered in that range since the third quarter of 2020.
- The vacancy rate increased by 90 basis points during the first quarter to 15.8%.
- The average asking rent is $30.51/SF, an annual increase of 2.6%. Deliveries 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.
- First-quarter deliveries added 10.6 million square feet to market inventory. More than 92.5 million square feet remains under construction.

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	15.8%	14.9%	13.0%	↑
Quarterly Net Absorption (SF)	-38.4 M	-33.3 M	-1.5 M	↑
Average Asking Rent/SF (FS)	$30.51	$30.36	$29.73	↓
Under Construction (SF)	92.5 M	92.1 M	101.7 M	↓
Deliveries (SF)	10.6 M	8.6 M	10.0 M	↑

Twelve markets endured occupancy losses of more than one million square feet during the first quarter of 2021, led by Manhattan. Manhattan absorption was -9.7 million square feet. This was a result of just 4.4 million square feet of leasing activity, as well as an increase in sublease space, which now totals 20.9 million square feet. However, the largest U.S. office lease transaction of the quarter occurred in Manhattan: a 720,000-square-foot extension and expansion by Blackstone.

Construction Activity Remains Strong

After more than 10.6 million square feet of deliveries during the first quarter, 92.5 million square feet of space remains under construction. Six markets recorded at least 500,000 square feet of deliveries, including three with at least 1 million square feet — Washington DC, Seattle, and Silicon Valley. The most active markets, with more than 5 million square feet of space currently under construction, are Manhattan, Seattle, Boston, Atlanta, and Washington D.C. Manhattan leads the way with more than 14 million square feet of space under construction, and has 2.1 million square feet of product slated to deliver during the remainder of 2021.

Space still under construction equals just 1.9% of existing inventory, a controlled percentage that was little changed from the prior quarter. Only three markets have construction totals equal to more than 5.0% of the existing inventory — Charlotte, Seattle, and Nashville. Eleven markets currently have no major projects under construction, the largest being Sacramento, Indianapolis, and Columbus. The construction pipeline is both reasonably controlled compared to prior cyclical downturns and also likely too large to facilitate a rapid tightening of the market, given the sluggish demand.

One reason the construction pipeline was active leading into the pandemic is that tenants have been drawn to new, well-amenitized product. That is likely to remain the case as tenants re-board space for a post-pandemic world, although the range of amenities may change. Instead of shared kitchens being a priority, outdoor space and flexible configurations are likely to attract tenant interest. Additionally, service amenities that make tenants' lives easier and draw them into the office – such as dry cleaning drop-off/pick-up services – may find favor. Assets that do not feature strong amenities and flexibility – particularly those that are older and do not offer a range of health/wellness features, including high quality air circulation – may have a more difficult time leasing space.

Vacancy Rates Up in All Markets Since Start of Pandemic

The national vacancy rate increased by 284 basis points in the past year to 15.8%. Annual increases were recorded in every market; first-quarter 2021 increases occurred in all but five of the 56 markets tracked by Newmark. The exceptions were Delaware, Tampa/St. Petersburg, Inland Empire, Cincinnati, and Long Island. Five markets posted vacancy rates above 20.0%. Oklahoma City led the way at 27.6%, followed by Houston, Dallas, Atlanta, and Fairfield County (CT). Despite its high vacancy, Oklahoma City is one of three markets in which vacancy rates have been somewhat stable since the start of the pandemic, increasing by less than 100 basis points. The others are Fresno and Tampa/St. Petersburg. The largest quarter-over-quarter jumps in vacancy, at 250 basis points and 200 basis points, respectively, were recorded in San Francisco and Nashville. San Francisco recorded the largest increase in vacancy over the past year, with a jump of 1,090 basis points. The increase in San Francisco is primarily a result of surging sublease space, which has now reached 9.0 million square feet, or 10.5% of total inventory.

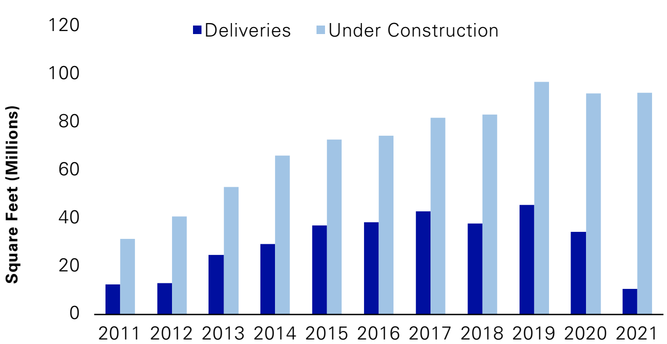
National Average Asking Rent Elevated by New Product; Concessions Push Down Effective Rents

The national average asking rent closed the first quarter at $30.51/SF gross full service, an increase of 2.6% over the past year. The slight quarter-over-quarter asking rent increases continue to be a result of new deliveries, of which there were approximately 10.6 million square feet this quarter. Asking rents have edged up over the past five years as new product has delivered.

San Francisco and Manhattan maintained their positions as the first and second most expensive markets by asking rents, although both markets have seen asking rents decline by more than 9.0% during the past year, as sublease space has taken an outsized toll. Changes in net effective rents have been more evident than in asking rents in most markets, with asset owners providing higher work allowances and more free rent to complete transactions. Tenants have leverage in most U.S. office markets, although there are "star submarkets" that have outperformed. For an analysis of the commonalities across those submarkets, please see the April 2021 issue of Newmark's *Real Insight* series, which can be found at nmrk.com/insights.

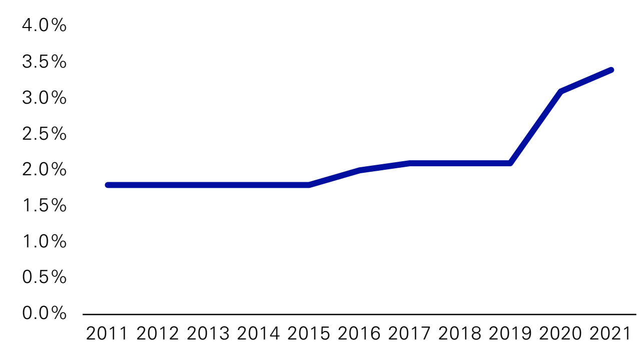
Construction and Deliveries

United States Office Market



Sublease Availability Rate

United States Office Market



Mobility Improves as Vaccinations Provide Hope for Market Recovery

In the first quarter, the country began to see a light at the end of the tunnel, with vaccinations becoming more widespread. Despite tens of thousands of new COVID-19 cases still being recorded each day in the U.S., the infection rate is well below the surge of cases that was afflicting the country during the fall. With lower case levels, increased vaccinations, and several states removing capacity restrictions, mobility among the general population is much improved. The greater mobility is evident in a variety of settings but is particularly noticeable in public transit ridership — the return to transit has been slow but is gaining momentum. While this is also a function of improved weather conditions as we enter the spring months, it also signals improved confidence among the workforce. Greater mobility has also extended to other areas, including foot traffic, driving levels, and flight activity. School and restaurant reopenings have also aided in the recovery. However, despite these improvements, most office-using employees have not yet re-boarded, with approximately three-quarters of that workforce still working remotely. Key fob swipe data indicates a slight improvement from the fourth quarter, but physical office occupancy is not yet close to pre-pandemic levels.

Despite the continued remote work, many companies are strategizing and implementing plans to have workers safely return to the office. These companies run the gamut of industries, ranging from Big Tech firms like Google, which is having workers return to the office in the coming weeks, to big banks like Goldman Sachs, to media companies like Bloomberg. This indicates a discernable change in sentiment from the fourth quarter when there were very few specific reports of how large firms would handle their work environments in a post-pandemic world.

U.S. Office Market Outlook

Despite the improved outlook for the nation in response to COVID-19 following the rollout of vaccines, the national office market outlook remains precarious for many asset owners. Building values have declined by as much as 25% in some major markets, with some office towers sitting empty. Vacancy rates have reached record-highs in certain markets, and leasing activity has been sluggish. While rent collection has been stable for major REITs, smaller asset owners might not be as likely to weather the storm if activity does not soon accelerate. With tenants across the country evaluating their real estate obligations and effectiveness in a remote work setting, the coming years could be difficult for some asset owners.

As evidenced by the record amounts of sublease space, some firms have already made decisions on future occupancy needs and are choosing to downsize their real estate footprint. The office market remains tenant-friendly, with asset owners continuing to offer increased concessions to maintain face rents and entice tenants. If the pandemic subsides over the next few months and most firms have employees return to the office by Labor Day, the outlook for the office market will brighten. As such, tenants might have limited time to act on their current leverage.

For all of the challenges facing asset owners, many tenants are finding compelling reasons to re-board their office space as soon as possible. From Zoom fatigue, to concerns about fading corporate culture, to worries about how to mentor talent in a remote environment, many tenants are seeking to reoccupy their space under lease. More flexible scheduling is likely to be a bigger part of occupiers' programs than it was pre-pandemic, with some employees spending only a small portion of their time working outside the office while others work remotely more often. However, the forced experiment of the past year has revealed for many occupiers the difference between *being able* to function outside the office and *wanting* to function outside the office.

Notable 1Q 2021 Lease Transactions

Tenant	Building	Market	Type	Square Feet
Blackstone Group	Midtown - Manhattan	345 Park Avenue	Direct Extension & Expansion	720,000
Anduril Industries, Inc	Orange County - California	1375 Sunflower Avenue	Direct New	639,206
Amazon	Bellevue CBD - Seattle	788 106th Ave Northeast	Direct New	509,400
State of NJ	Princeton - New Jersey	3444 Quakerbridge Road	Direct Expansion	332,494
Beyond Meat, Inc.	South Bay - Los Angeles	888 Douglas Street	Direct New	281,110

Notable Recent Sales Transactions

Building	Market	Sale Price	Price/SF	Square Feet
Landmark Center - 401 Park/201 Brookline*	Urban Edge South - Boston, MA	$1,573,000,000	$1,060	1,483,261
Uptown Station - 1955 Broadway	Oakland - Lake Merritt - Oakland, CA	$419,000,000	$1,103	380,000
3009 160th Avenue	Landauer - Bellevue, Washington	$169,000,000	$281	601,081
Campus @ Cherry Creek - 4300 Cherry Creek	Southeast - Glendale, Colorado	$95,000,000	$265	357,982
2001 North Beauregard Street	I-395 Corridor - Alexandria, Virginia	$71,690,000	$299	239,945

*Includes space that will be converted to lab use.

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	**4,948,578,489**	**92,516,262**	**-38,352,974**	**-38,352,974**	**15.8%**	**$30.51**
Atlanta	152,706,599	5,808,331	-2,421,871	-2,421,871	21.1%	$28.83
Austin	68,728,364	919,543	-847,077	-847,077	17.4%	$35.66
Baltimore	82,036,039	333,110	-359,250	-359,250	14.2%	$24.49
Boston	179,385,687	6,075,701	-1,190,235	-1,190,235	14.7%	$38.67
Broward County, FL	33,800,194	432,560	-256,543	-256,543	14.0%	$31.98
Charleston, SC	51,371,442	4,321,922	-420,747	-420,747	15.6%	$31.19
Charlotte	14,589,317	29,985	-167,836	-167,836	15.6%	$26.30
Chicago	243,816,668	3,912,544	-1,807,297	-1,807,297	19.7%	$31.03
Cincinnati	36,883,399	0	-141,984	-141,984	19.8%	$19.48
Cleveland	39,022,769	100,000	-118,097	-118,097	18.3%	$18.33
Columbia, SC	15,783,182	75,000	-39,902	-39,902	9.1%	$18.63
Columbus	59,383,466	0	-288,462	-288,462	13.1%	$19.80
Dallas	268,097,009	2,138,804	-2,532,203	-2,532,203	23.1%	$27.26
Delaware	16,695,217	60,000	-48,101	-48,101	18.4%	$25.41
Denver	99,489,487	1,551,082	-1,176,791	-1,176,791	18.7%	$28.63
Detroit	78,337,567	840,000	-321,301	-321,301	16.6%	$20.26
Fairfield County, CT	39,852,686	0	-220,484	-220,484	20.9%	$36.60
Fresno	20,055,904	119,243	9,754	9,754	10.4%	$21.61
Greenville, SC	22,222,345	0	-91,859	-91,859	9.9%	$22.89
Houston	244,798,899	4,275,401	-971,459	-971,459	23.8%	$29.27
Indianapolis	62,024,678	0	-346,846	-346,846	13.2%	$20.47
Inland Empire, CA	28,501,758	51,321	48,377	48,377	11.2%	$22.94
Jacksonville	32,428,063	149,000	-156,772	-156,772	15.5%	$20.77
Kansas City	74,099,331	410,396	-154,476	-154,476	11.9%	$21.02
Las Vegas	38,992,292	856,836	-122,513	-122,513	14.1%	$22.03

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. Inventory in California markets was revised due to a change in data source.

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	**4,948,578,489**	**92,516,262**	**-38,352,974**	**-38,352,974**	**15.8%**	**$30.51**
Long Island	56,567,370	0	-24,541	-24,541	10.6%	$27.14
Los Angeles	207,470,987	4,015,017	-1,170,778	-1,170,778	17.2%	$44.18
Manhattan	462,948,059	14,037,897	-9,677,681	-9,677,681	9.1%	$74.06
Memphis	33,253,447	0	-145,500	-145,500	14.7%	$19.42
Miami	49,023,245	1,528,535	-236,463	-236,463	15.1%	$39.92
Milwaukee	36,764,041	417,000	-104,859	-104,859	19.3%	$19.06
Minneapolis	120,607,857	531,000	11,256	11,256	12.8%	$25.16
Nashville	55,292,183	3,216,793	-1,089,740	-1,089,740	12.8%	$28.67
New Jersey Northern	167,287,035	165,000	-1,497,711	-1,497,711	19.2%	$29.86
New Jersey Southern	16,805,320	0	-235,208	-235,208	17.6%	$20.65
Oakland/Greater East Bay	75,870,733	220,710	-1,281,696	-1,281,696	15.3%	$39.13
Oklahoma City	15,136,223	0	-81,730	-81,730	27.6%	$19.58
Orange County, CA	95,872,095	1,121,317	-698,593	-698,593	14.8%	$32.97
Orlando	64,631,972	45,687	-299,305	-299,305	7.5%	$23.79
Palm Beach	25,332,850	510,000	-57,455	-57,455	13.1%	$36.15
Philadelphia	109,033,725	2,519,922	-269,472	-269,472	15.6%	$30.71
Phoenix	94,754,376	1,960,226	58,320	58,320	17.5%	$26.66
Pittsburgh	56,308,898	903,853	-190,119	-190,119	19.8%	$24.46
Portland	61,767,580	760,827	-903,595	-903,595	15.2%	$30.73
Raleigh/Durham	51,608,779	2,531,445	-34,580	-34,580	12.4%	$27.93
Sacramento	70,585,576	0	-477,201	-477,201	11.1%	$24.22
Salt Lake City	70,924,198	3,040,828	-495,552	-495,552	13.6%	$22.73
San Antonio	45,187,462	672,849	-217,048	-217,048	14.8%	$23.68
San Diego	72,481,045	2,158,439	-477,238	-477,238	15.3%	$38.69
San Francisco	86,368,434	1,040,000	-2,236,424	-2,236,424	14.9%	$77.94
Seattle	128,971,098	8,846,129	-1,004,930	-1,004,930	10.1%	$41.97
Silicon Valley	80,520,124	3,431,548	-425,926	-425,926	12.4%	$59.76
St. Louis	74,214,721	224,585	-410,788	-410,788	12.1%	$21.67
Tampa/St. Petersburg	61,439,765	853,845	239,350	239,350	9.5%	$26.56
Washington, DC	371,285,295	5,302,031	-663,390	-663,390	17.4%	$41.15
Westchester County, NY	27,161,634	0	-110,402	-110,402	20.0%	$28.34

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. Inventory in California markets was revised due to a change in data source.

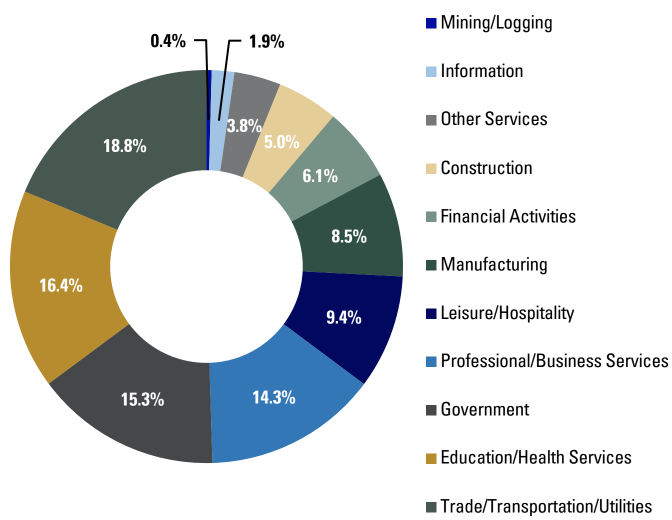
Economic Conditions

The U.S. unemployment rate has been declining, closing March at 6.0% after reaching a recent peak of 14.8% in April 2020, shortly after the arrival of COVID-19. There have been more than 84 million initial unemployment claims since March 2020, compared to just 37.1 million during the entirety of the Great Recession from December 2007 to June 2009. However, the most recent four-week average of 683,000 claims was the lowest over the past year. The recently passed American Rescue Plan allocates funds for small businesses which should accelerate the overall economic recovery.

Non-office using industries have suffered more than office-using sectors throughout the pandemic. The leisure/hospitality sector has particularly struggled, with employment down 14.4% over the past year. By contrast, the financial activities sector has suffered an employment decline of only 0.6% over the past year, and office-using sectors overall are down just 2.5%. 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. Still, as the vaccine rollout accelerates, so will the re-boarding of office space. Executives are seeking to balance scheduling flexibility for employees with building corporate culture and retaining top talent, which is often best accomplished by a return to the office.

Employment by Industry

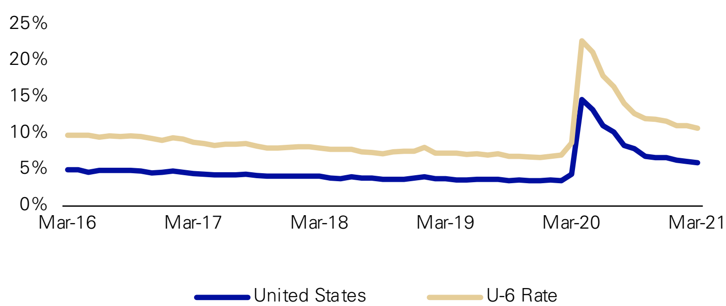
United States, March 2021



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

Unemployment Rate

United States, Seasonally Adjusted

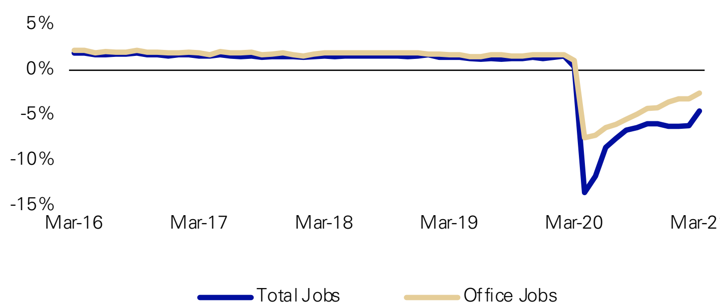


Note: U-6 rate includes total unemployed, marginally attached workers, and those working part time for economic reasons

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

Payroll Employment

United States, 12-Month % Change, Seasonally Adjusted

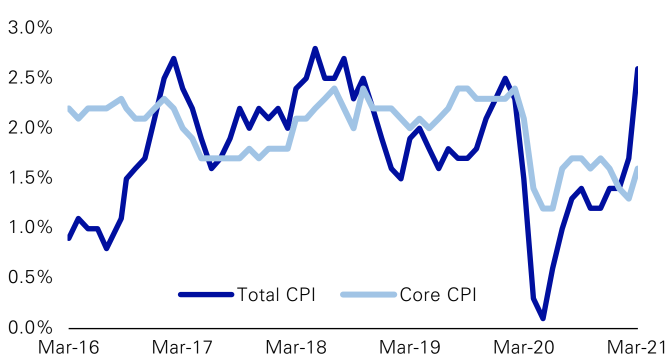


* Includes Professional and Business Services, Information, Financial Activities, Other Services and Government

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

Consumer Price Index (CPI)

United States, 12-Month % Change, Seasonally Adjusted

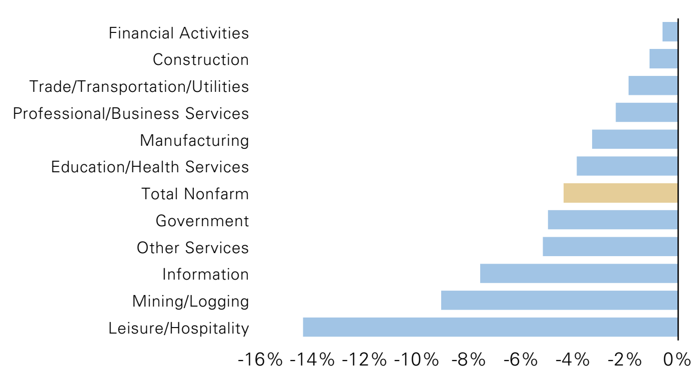


Note: Core CPI excludes food and energy, which can be volatile; 1982–84=100

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

Employment Growth By Industry

U.S., March 2021, 12-Month % Change, Not Seasonally Adjusted



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

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