4Q24

United States Office Leasing House View

NEWMARK

Market Observations

- **Labor Markets:** Since February 2020, new office-using jobs have generated an estimated 246.1 million SF of office demand, partially offsetting the impact of hybrid work on overall demand. However, sustained job growth is crucial for a full recovery in office markets. While office-using employment continues to expand, it has lagged behind overall employment growth since 2023, largely due to underperformance in the tech sector. Among the top 50 office markets, 19 recorded increases in office-using employment over the past six months, with 16 of these markets showing faster job growth compared to the previous six-month period.

- **Hybrid Work Transition:** Slower job growth heightens the vulnerability of office markets to demand shifts driven by hybrid work. Newmark estimates that 49% of pre-pandemic leases remain unrenewed, including 1.4 billion SF scheduled for renewal between 2025 and 2027. Additionally, the average lease size has contracted by 11.0% compared to pre-pandemic levels, indicating potential further reductions in office demand. However, Newmark's tenants in the market data suggest that 80% of tenants are not planning to reduce their footprints upon their upcoming lease expiry. Accordingly, the outlook is at once less dire but also suggests a slow pace of recovery.

- **National Trends**: After 18 consecutive quarters of net losses, national office occupancy posted a +5.3 million SF improvement in the fourth quarter of 2024, with 37 of 60 tracked markets experiencing quarter-over-quarter gains in net absorption. Leasing activity increased in approximately half of the tracked markets, with national leasing accelerating to 1.1% of inventory, up slightly from the prior year's quarterly average of 1.0%. National vacancy held relatively steady quarter-over-quarter but increased 80 basis points year-over-year to 20.3%. The construction pipeline contracted to 33.7 million SF—down more than 21.8 million SF from the fourth quarter of 2023. The trophy segment of the market is set to become tighter and tighter, which should support rent growth first in trophy and then potentially in the next tier of building quality and location.

- **Regional Trends**: The East and West regions led the occupancy gains in the fourth quarter of 2024, with standout improvements in New York City (+1.8 MSF), Washington, D.C. (+1.6 MSF), and Silicon Valley (+796,787 SF). Conversely, the Central and South regions recorded a combined net loss of 1.1 MSF during the quarter. With leasing activity on the rise—particularly within higher-tier properties—net absorption trends are improving across most regions and market sizes. The South region accounts for 40% of the under-construction inventory, with much of this product slated for completion by the end of 2025.

- **Rent Trends:** Asking rents rose 0.8% year-over-year in the fourth quarter of 2024, with notable gains in major markets (+2.4% YoY) and Central markets (+1.9%). However, elevated concessions continue to weigh on effective rents. Tenant improvement (TI) allowances now average 66.7% higher than pre-pandemic levels across leading office markets. One interpretation of flat nominal rents is that a portion of the market adjustment has been achieve via inflation. PPI-deflated office rents are down 5.3% since 4Q18.

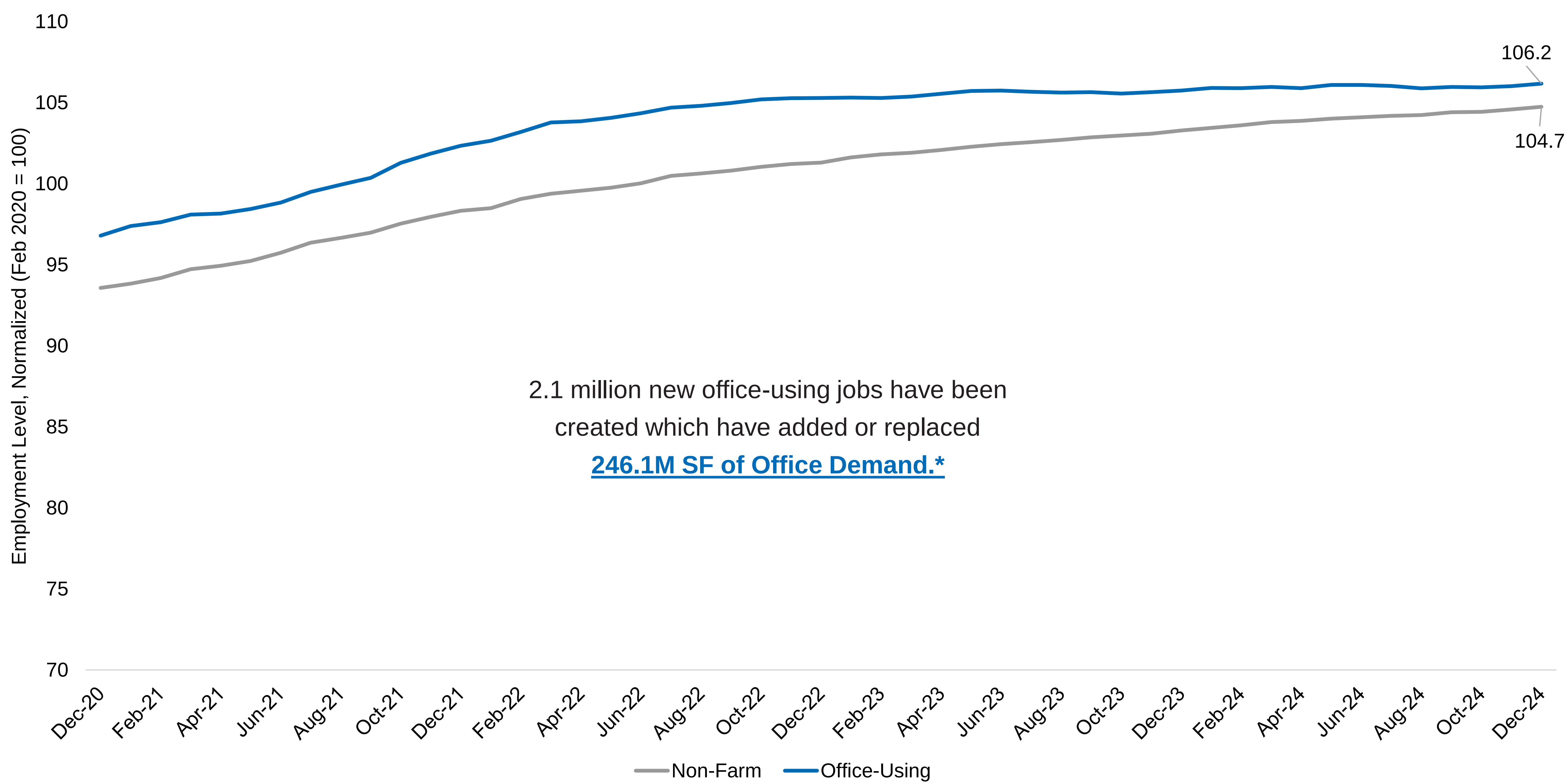
- **Class Conundrum:** Class performance remains more complex than the commonly cited flight-to-quality narrative suggests. In CBD markets, higher-quality office product has driven performance since the first quarter of 2020. Availability rates for Class A offices align closely with those of Class B, though post-2019 Class A developments have significantly lower availability. Class B asking rents have shown notable growth since early 2020, while Class A rents have stayed relatively stable, with post-2019 construction rents falling in between. Outside CBDs, non-CBD properties have generally outperformed their CBD counterparts. Surprisingly, Class B suburban properties have maintained lower availability than Class A properties in both CBD and non-CBD areas. Availability rates for Class B properties are on par with new CBD construction and significantly lower than new non-CBD construction. Non-CBD segments have experienced robust asking rent growth, with Class A properties leading gains. On a rent-per-available-foot basis, CBD post-2019 construction continues to outperform all other segments.

Demand Drivers

Office Employment Outpaces Broader Labor Recovery

National nonfarm employment returned to pre-pandemic levels in June 2022 and has grown by 22.3% since the pandemic low in April 2020. Office-using employment experienced less disruption during the pandemic and has steadily recovered, currently standing 2.1 million jobs above pre-pandemic levels—though growth has plateaued since August 2022. This is significant, as net-new jobs can help offset the negative demand effects of remote work.

Employment Recovery Comparison – Normalized to February 2020

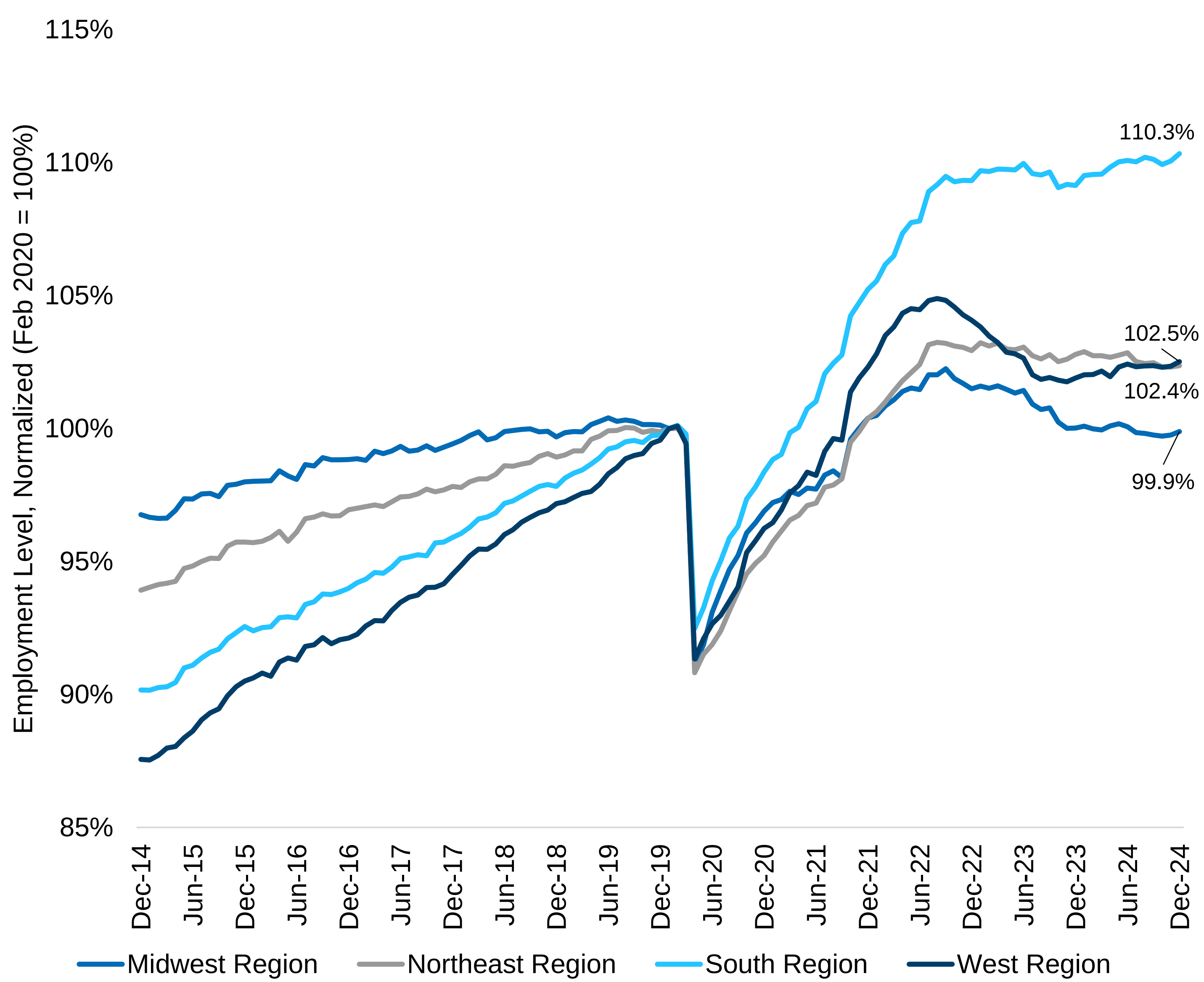


Sources: U.S. Bureau of Labor Statistics, Newmark Research as of 1/21/2025
Seasonally Adjusted
*Assumes estimate of around 120 SF per new office-using job

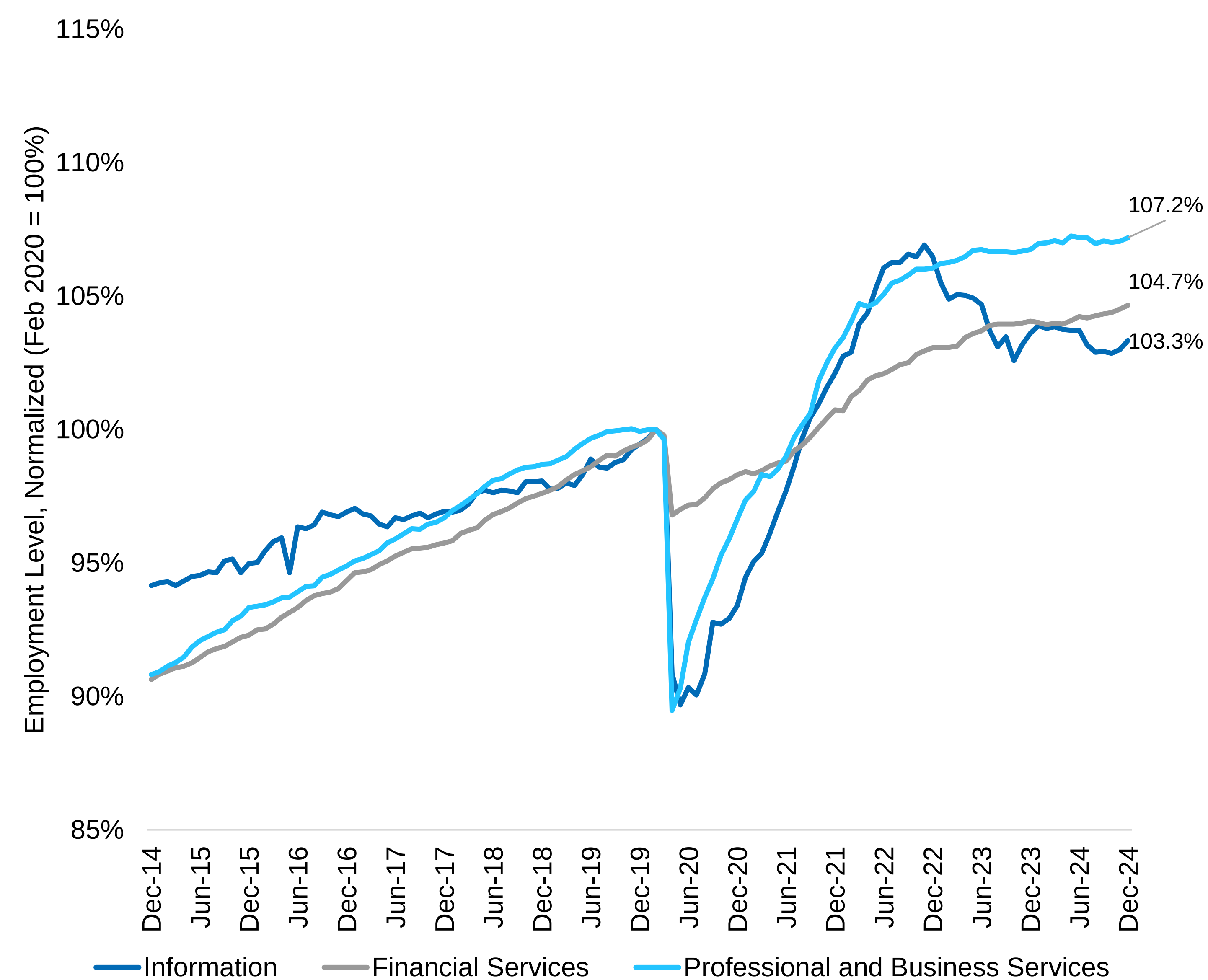
Office-Using Employment Growing Moderately, Led by Southern Region

Employment across office-using industries has surpassed pre-pandemic levels. The recovery in professional and business services has been particularly strong, with employment 7.2% higher than February 2020 levels. Broad gains across office-using sectors have collectively driven a 6.2% increase in employment since February 2020. Although the information sector (a proxy for technology) experienced steep declines from November 2022 to October 2023, it has since returned to growth, despite minor losses in August 2024. The South region has led the post-pandemic office recovery, significantly outpacing all other regions across every industry category.

Employment by Census Region



Employment by Industry

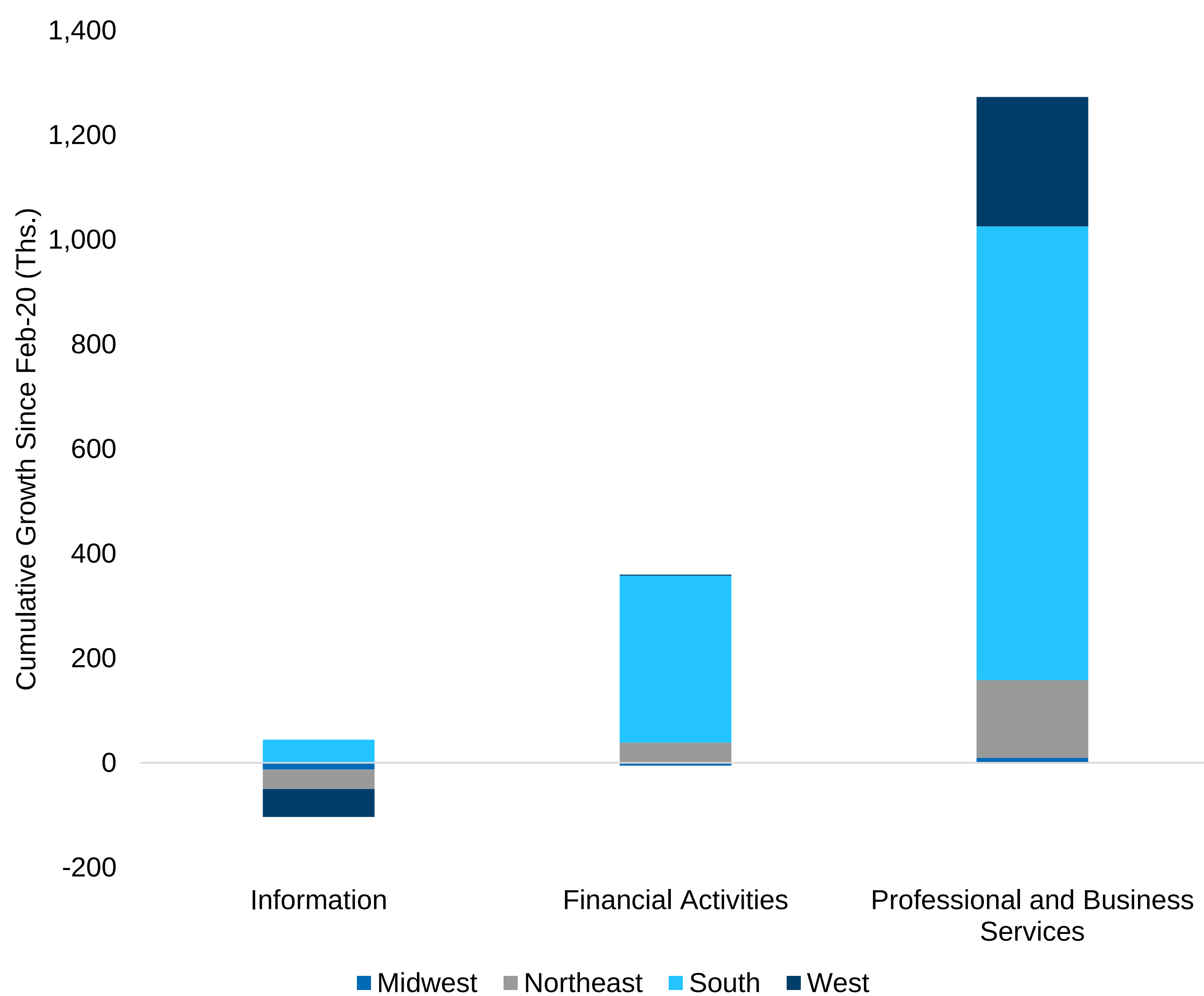


Sources: Moody's Analytics United States Department of Labor, Newmark Research as of 1/30/2025

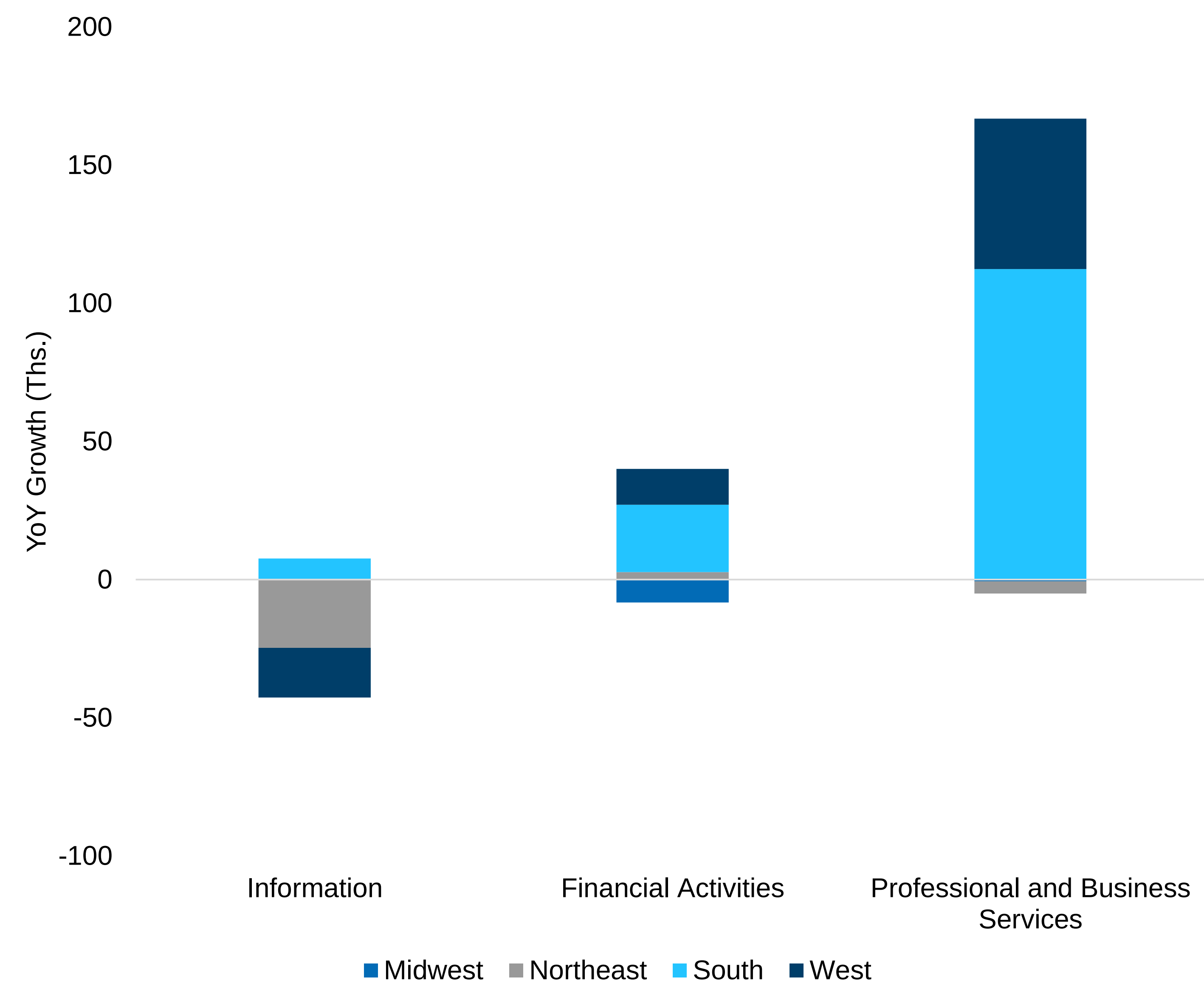
Professional & Business Services Lead Job Creation

Professional and business services have recorded the strongest employment gains, with 162,000 jobs added in these sectors over the past 12 months and nearly 1.3 million jobs added since February 2020—outpacing the combined total of other office-using industries. The South region has been the primary driver of this growth and recovery.

Cumulative Employment Growth Since February 2020



YoY Net Employment Growth

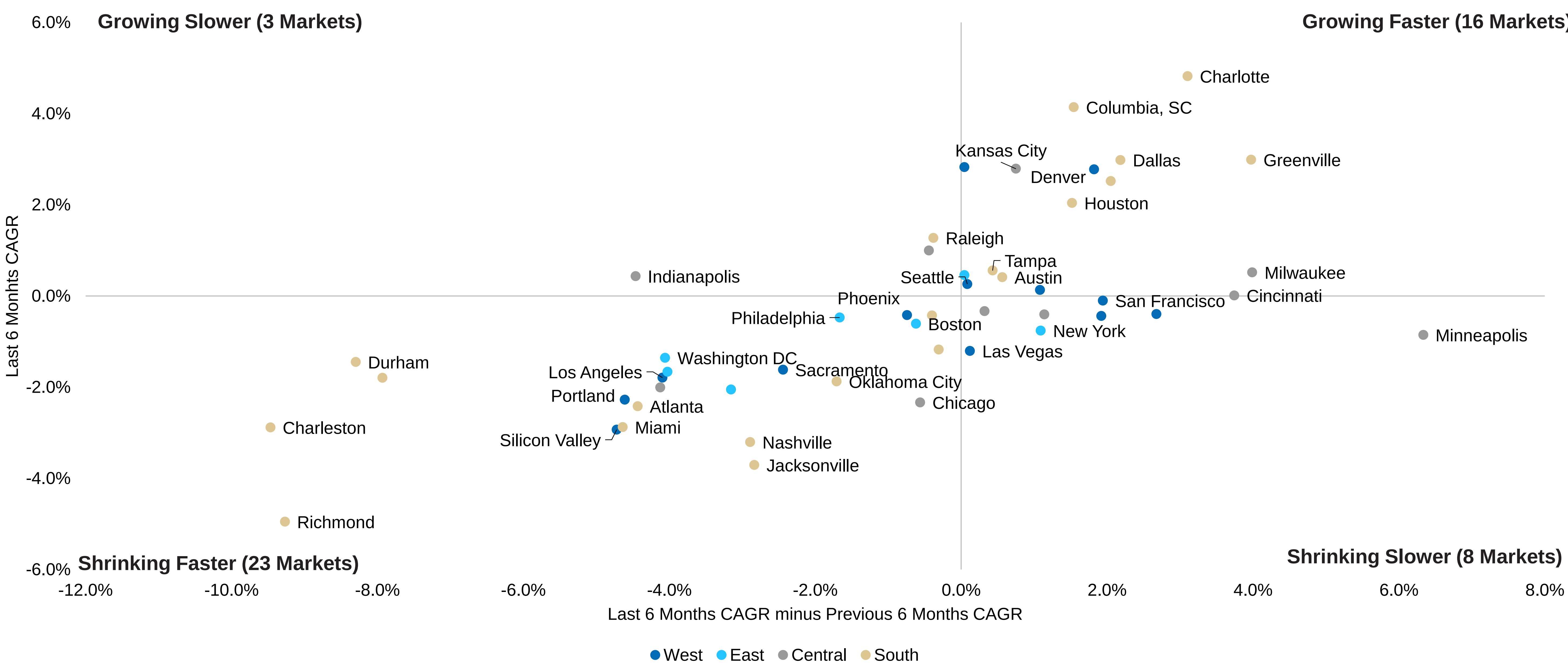


Sources: Moody's Analytics United States Department of Labor, Newmark Research as of 2/5/2025

Office-Using Employment Growth Decelerating In Most Markets

The employment situation entering the first quarter of 2025 has weakened compared to early 2024: 16 markets experienced accelerated job growth over the previous six-month period, while 23 markets, distributed fairly evenly across the country, recorded steeper negative growth.

Last 6 Months CAGR vs. 1H-2H2024 Acceleration

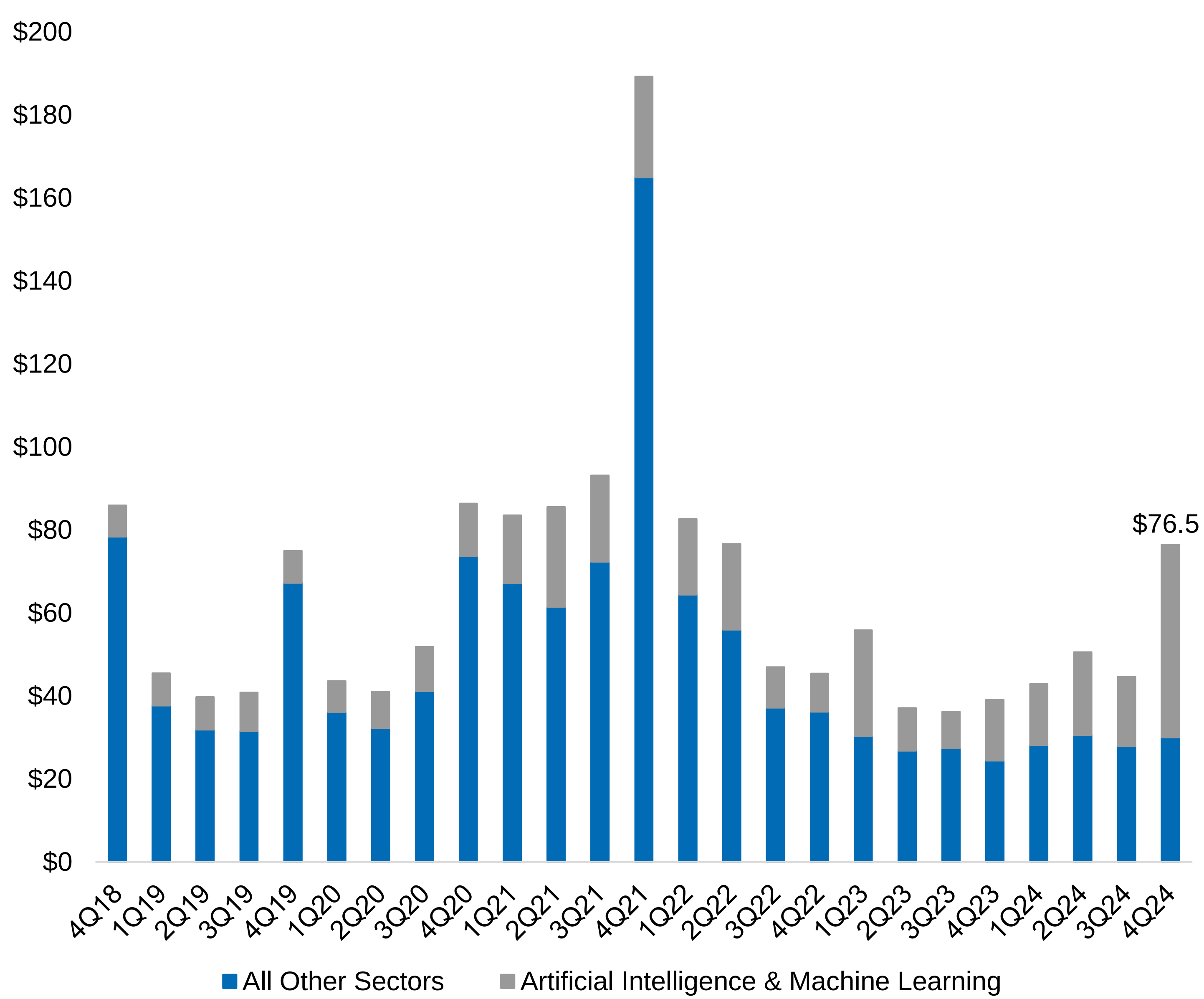


Source: Bureau of Labor Statistics, Newmark Research as of 1/9/2025

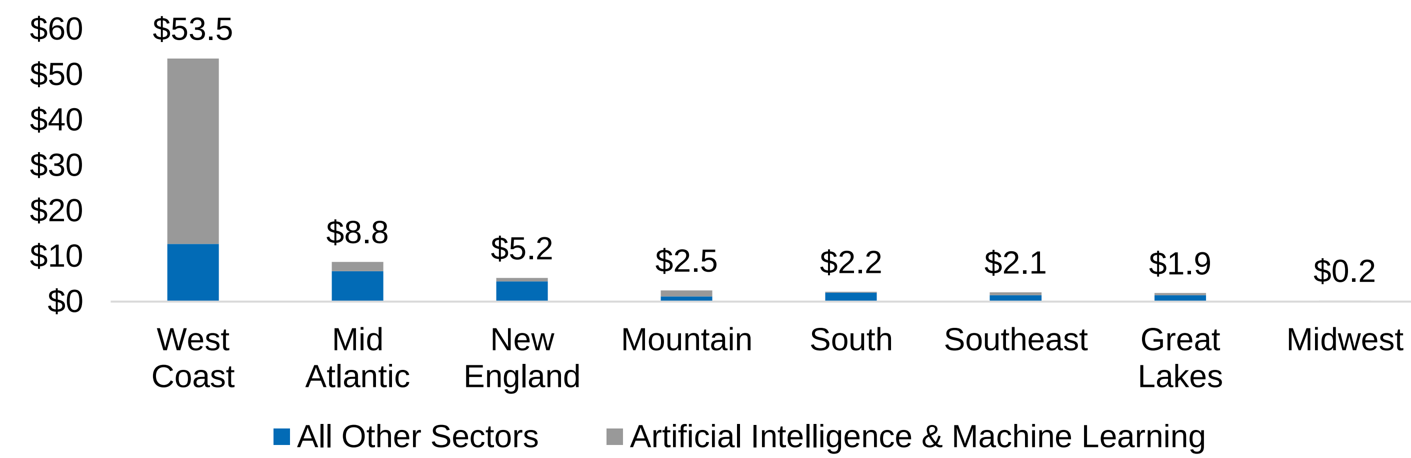
AI Financing Dominates Venture Capital Activity

Venture capital funding broadly expanded in the fourth quarter, driven by activity in the artificial intelligence and machine learning industry vertical*. Companies in this segment accounted for 60.7% of all financing during the quarter, primarily concentrated in the West Coast region, particularly the San Francisco Bay Area. While the largest funds are expected to face the most significant drop in activity, substantial dry powder should continue to support investments by smaller funds.

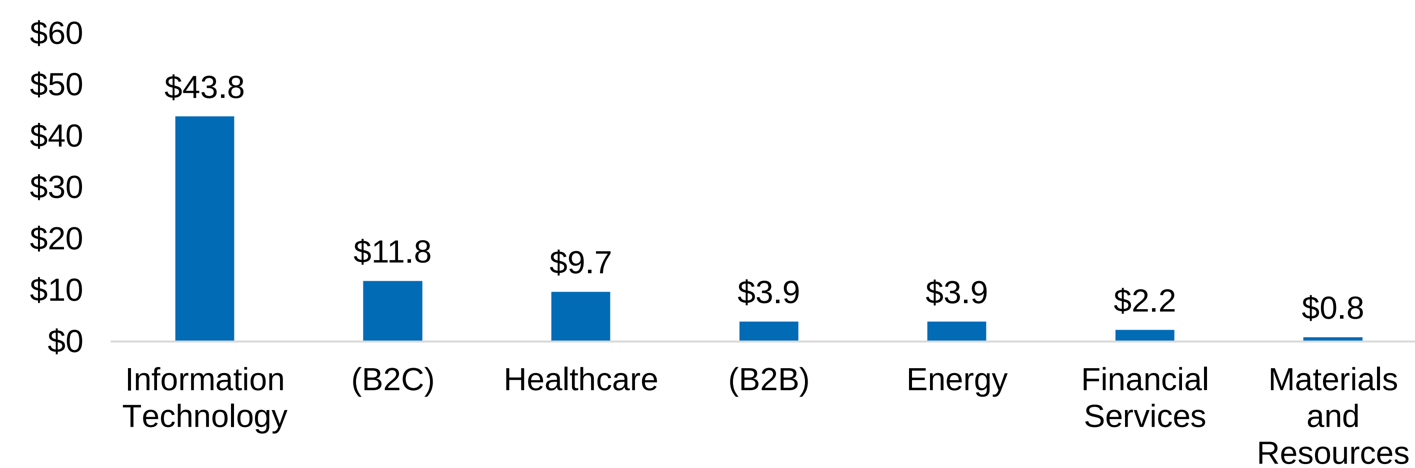
Venture Capital Deal Value ($ billions)



4Q24 VC Funding by Region ($ billions)



4Q24 VC Funding by Industry Sector ($ billions)

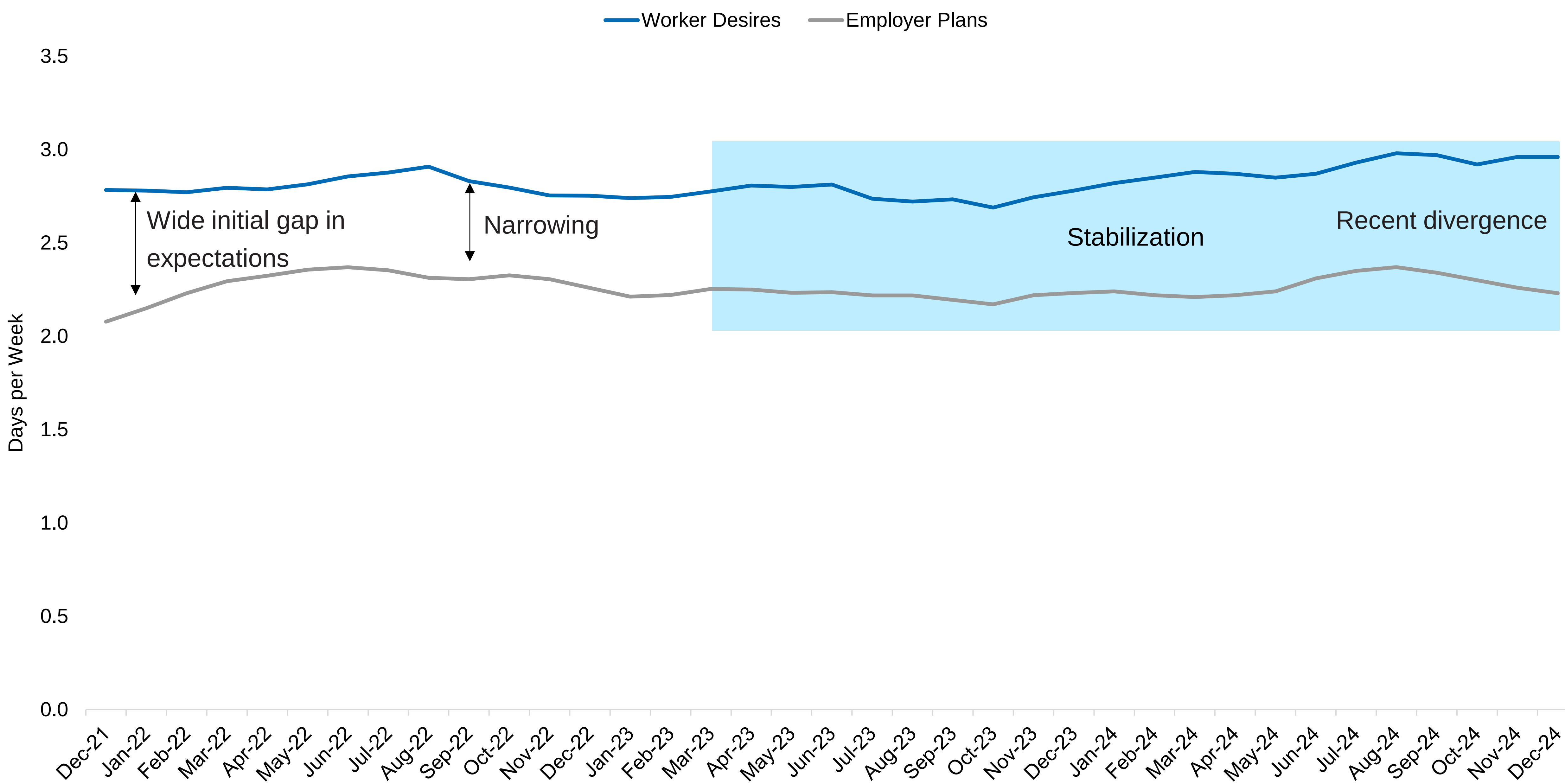


Sources: PitchBook, Newmark Research as of 1/21/2025
*Pitchbook defines an "industry vertical" as: "*An industry vertical is a specific element of a company which isn't accurately captured by industry focus. Verticals are created for common investment focus areas that include companies that exist across multiple industries.*"

Worker and Employer WFH Plans Have Has Diverged

A persistent gap remains between the number of days employees prefer to work from home and current employer policies, with the gap expanding slightly in recent months. While some headlines speculate that a recession could shift leverage back to employers, the economy has remained resilient. The gap in preferences is modest, and the unemployment rate for college-educated workers stands at just 2.4%.

Average Days per Week Working From Home After the Pandemic Ends: Workers Able to Work From Home

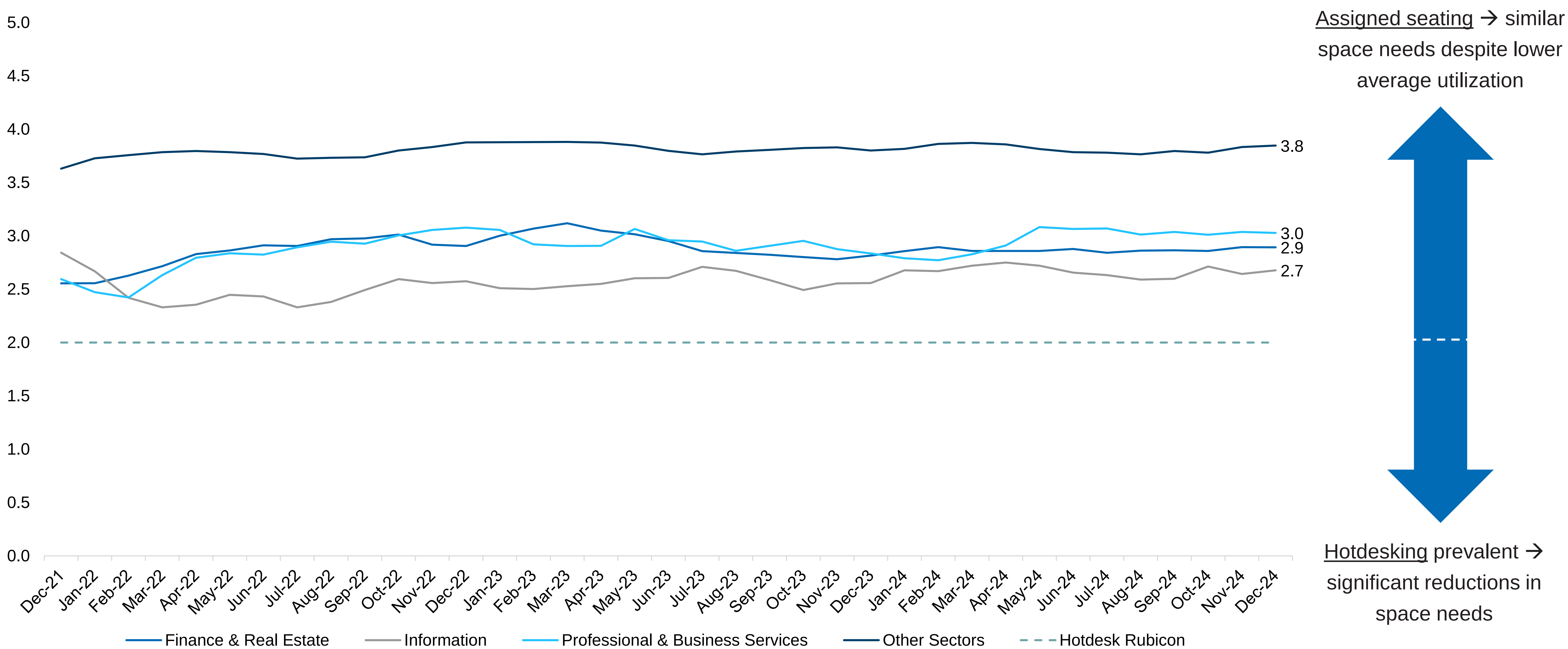


Source: Barrero, Jose Maria, Nicholas Bloom, and Steven J. Davis, 2021. "Why working from home will stick," National Bureau of Economic Research Working Paper 28731.
Newmark Research as of 1/21/2025

Office Workdays Stabilize Above 2.0; Reduced Risk Of Major Cuts

In recent months, all office-using industries have seen a slight increase in days spent in the office. Although the change is modest and does not suggest a major shift back to the office, days in the office remain comfortably above two—the threshold typically favoring assigned seating over hoteling.

Estimated Days Worked Onsite*

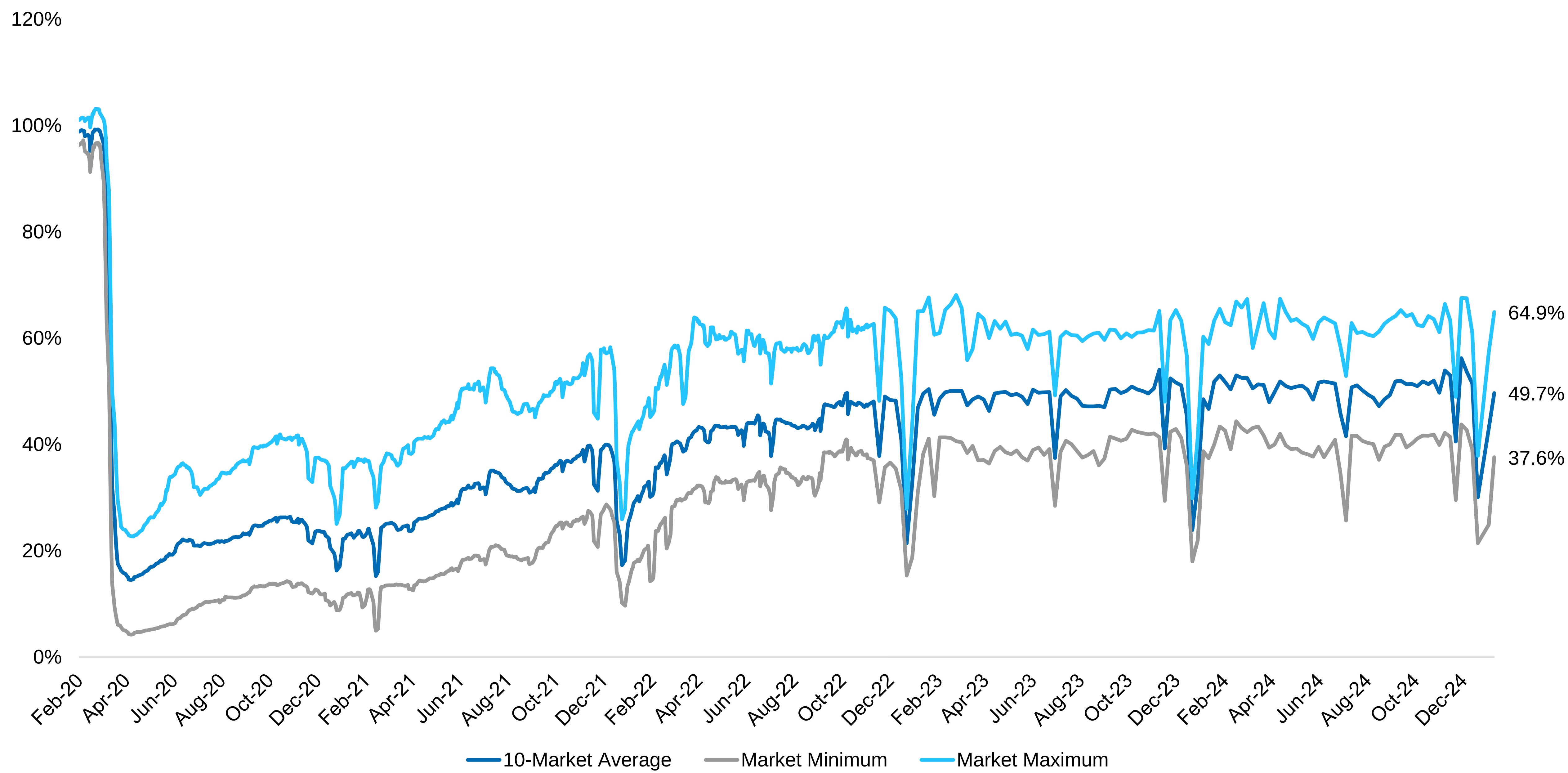


Source: Barrero, Jose Maria, Nicholas Bloom, and Steven J. Davis, 2021. "Why working from home will stick," National Bureau of Economic Research Working Paper 28731.
*The SWAA survey data reports on the share of respondents that worked fully onsite, hybrid and fully remote, respectively. We estimate days worked onsite by assuming fully onsite, hybrid and fully remote refer to 5, 2.5 and 0 days worked onsite, respectively. Sector scores (e.g. office-using) are calculated as a simple average of the constituent industries.
Newmark Research as of 1/21/2025

Return To Office Has Stabilized

Kastle Systems data shows that office occupancy remained relatively stable throughout the fourth quarter of 2024, excluding the brief but expected drop during the holiday season. The 10-market average hit a post-pandemic high of 54.1% in mid-November 2023 before slightly declining, settling at 49.7% as of January 2025. Significant variation in daily office attendance indicates peak attendance may have reached as high as 70%, with some markets approaching 80% in areas with the strongest return-to-office trends.

Kastle Systems Daily Office Physical Occupancy Index – 5-Day Trailing Average (Baseline = February 2020)

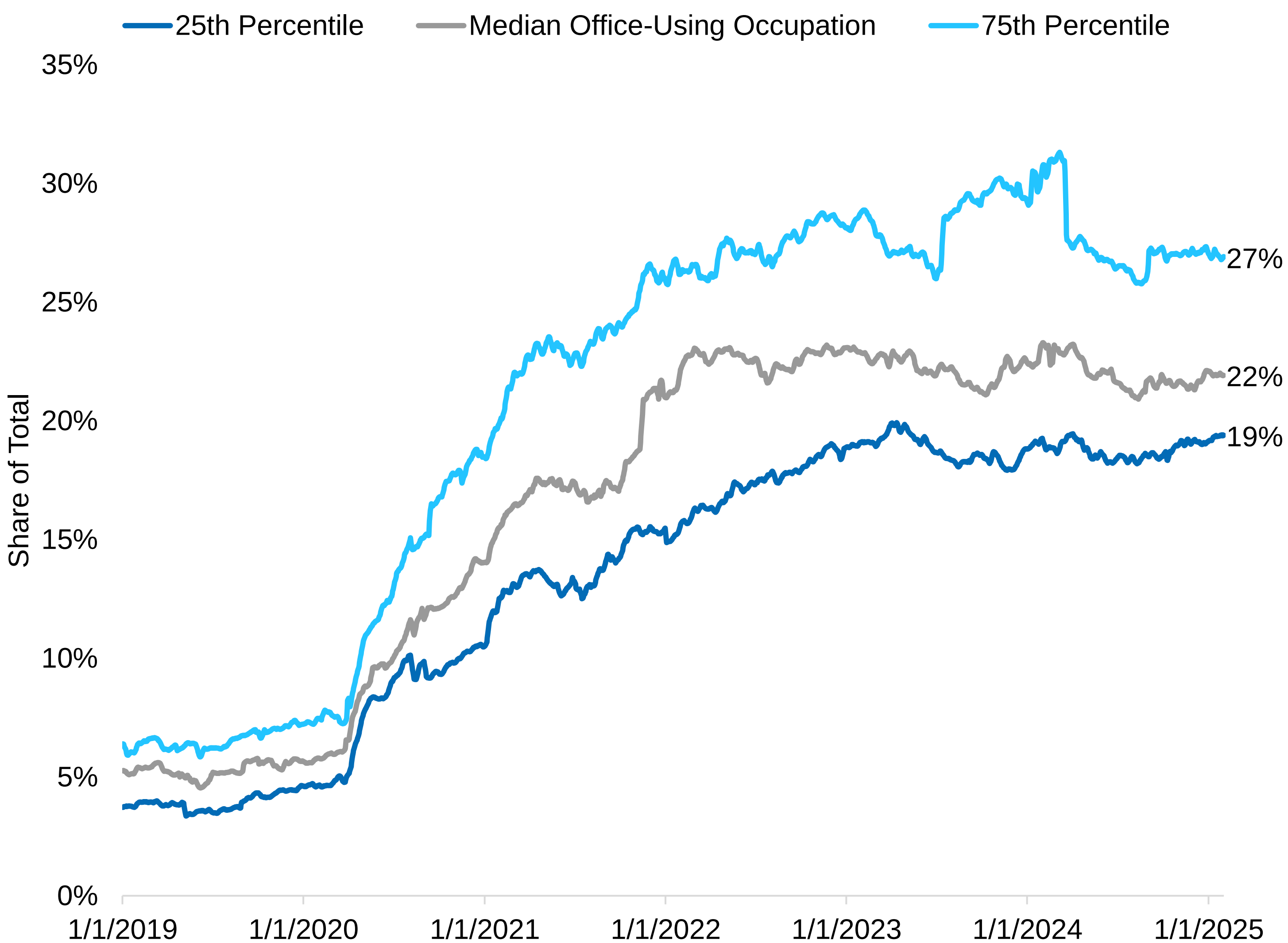


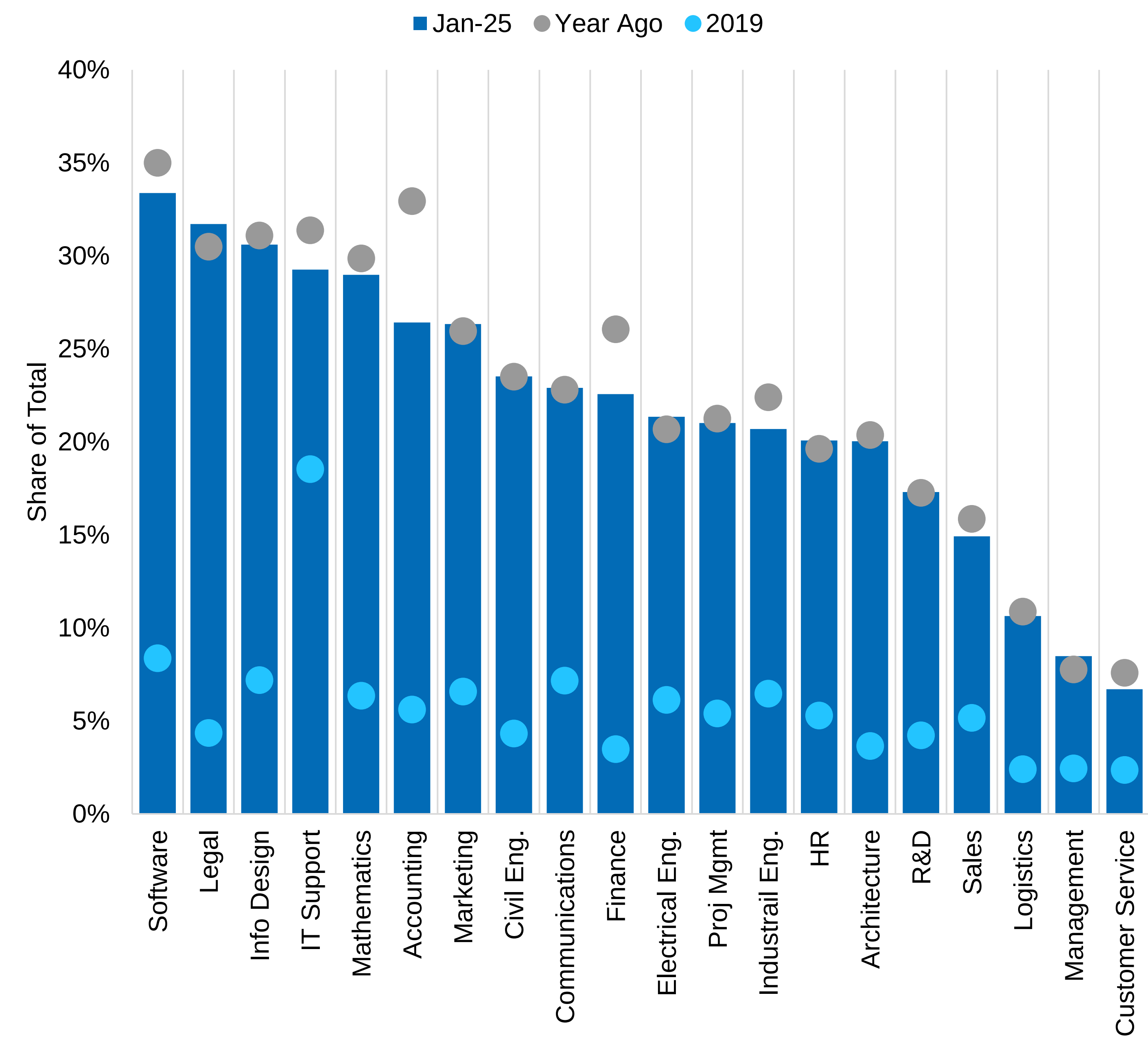
Source: Kastle Systems, Newmark Research as of 1/21/2025

Fully Remote Job Postings In Office-Using Occupations Have Stabilized

The remote share of job postings varies widely across office-using occupations, ranging from 33% for software development roles to just 7% for customer service positions. For the median occupation, 22% of job postings are fully remote, a figure that has remained largely stable since early 2022. However, notable shifts have occurred over the past year, with the remote share declining year-over-year for software development, accounting, and finance roles.

Remote Share of Job Postings in Office-Using Occupations



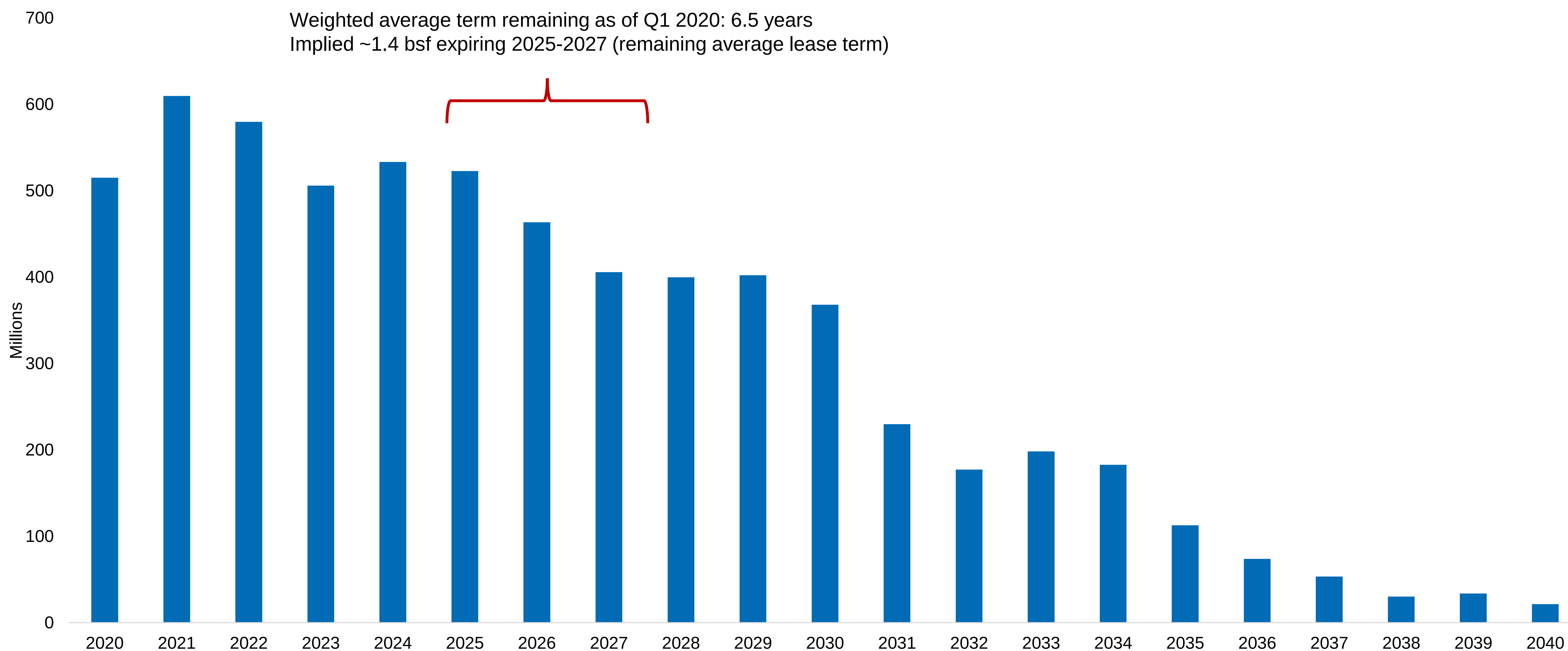


Source: Indeed Hiring Lab, Newmark Research as of 2/7/2025

Tenants Less Than Halfway Through Adapting Space For Hybrid Work

Most pre-pandemic leases have yet to expire*. As of March 2020, national occupied inventory totaled 6.4 billion SF, with an average remaining lease term of 6.5 years. By scaling transaction data to the first quarter of 2020's occupied inventory, it is estimated that 1.4 billion SF is set to expire within the remaining average term length (2025 to 2027), representing the upper limit for tenants to reassess and adjust their office footprints.

Implied Square Feet Expiring by Year for 20k+ SF Occupied Inventory as of Q1 2020

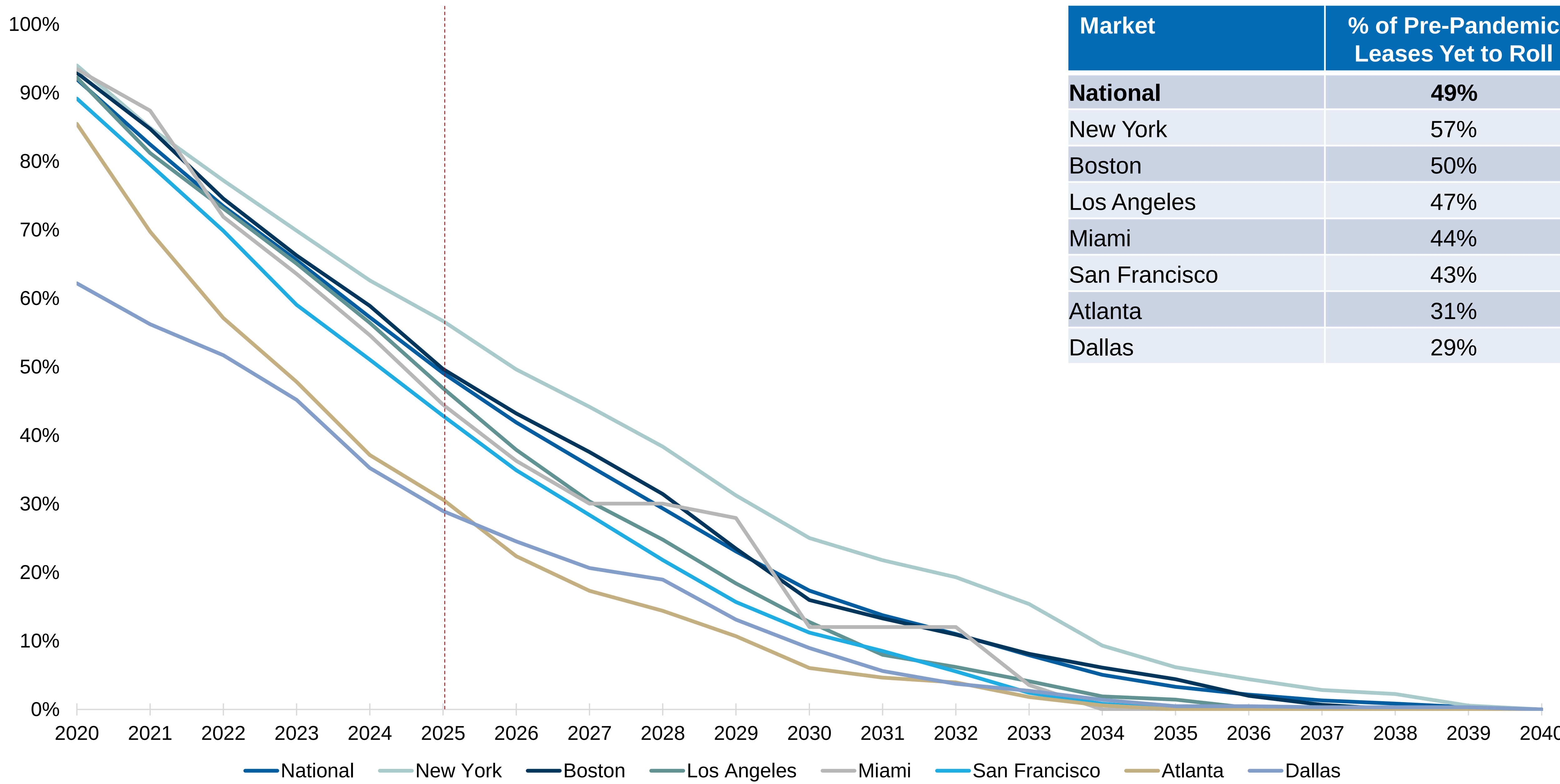


Source: Newmark Research as of 1/21/2025, CoStar
*Based on Newmark Research national transaction data (10,000+ SF leases in place as of March 2020, with leases expiring through 2040, totaling around 1.1 billion SF)

Less Than Quarter Of Pre-Pandemic Leases Have Renewed in Gateway Markets

This analysis centers on leases of 10,000+ SF. In contrast, smaller leases typically have shorter terms.

Share of Pre-Pandemic Leases Yet to Roll*



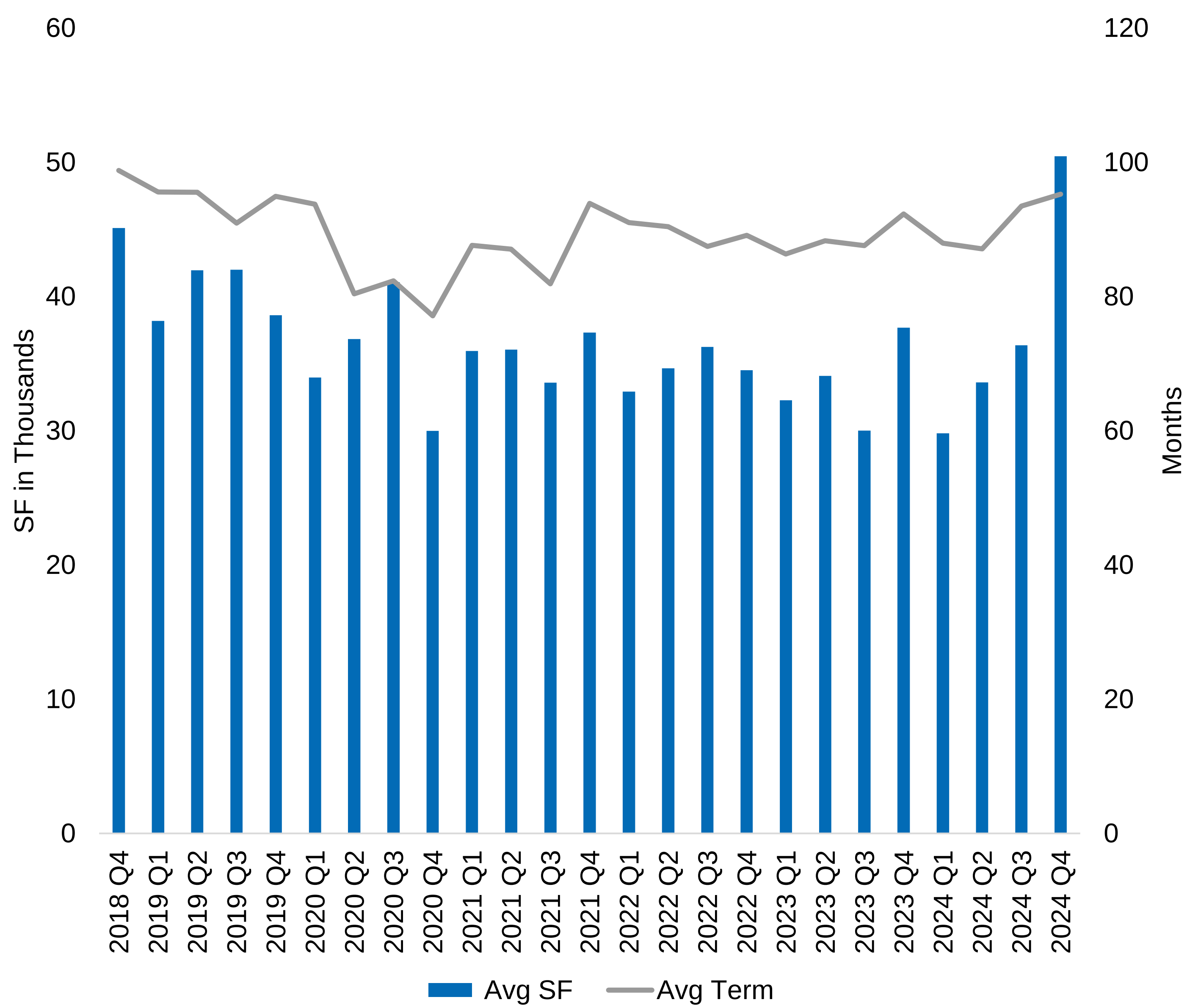
Market	% of Pre-Pandemic Leases Yet to Roll
National	**49%**
New York	57%
Boston	50%
Los Angeles	47%
Miami	44%
San Francisco	43%
Atlanta	31%
Dallas	29%

Source: Newmark Research as of 1/21/2025, CoStar
*Based on Newmark Research national transaction data (10k+ SF leases in-place as of March 2020, with leases expiring through 2040, totaling ~1.1 bsf)

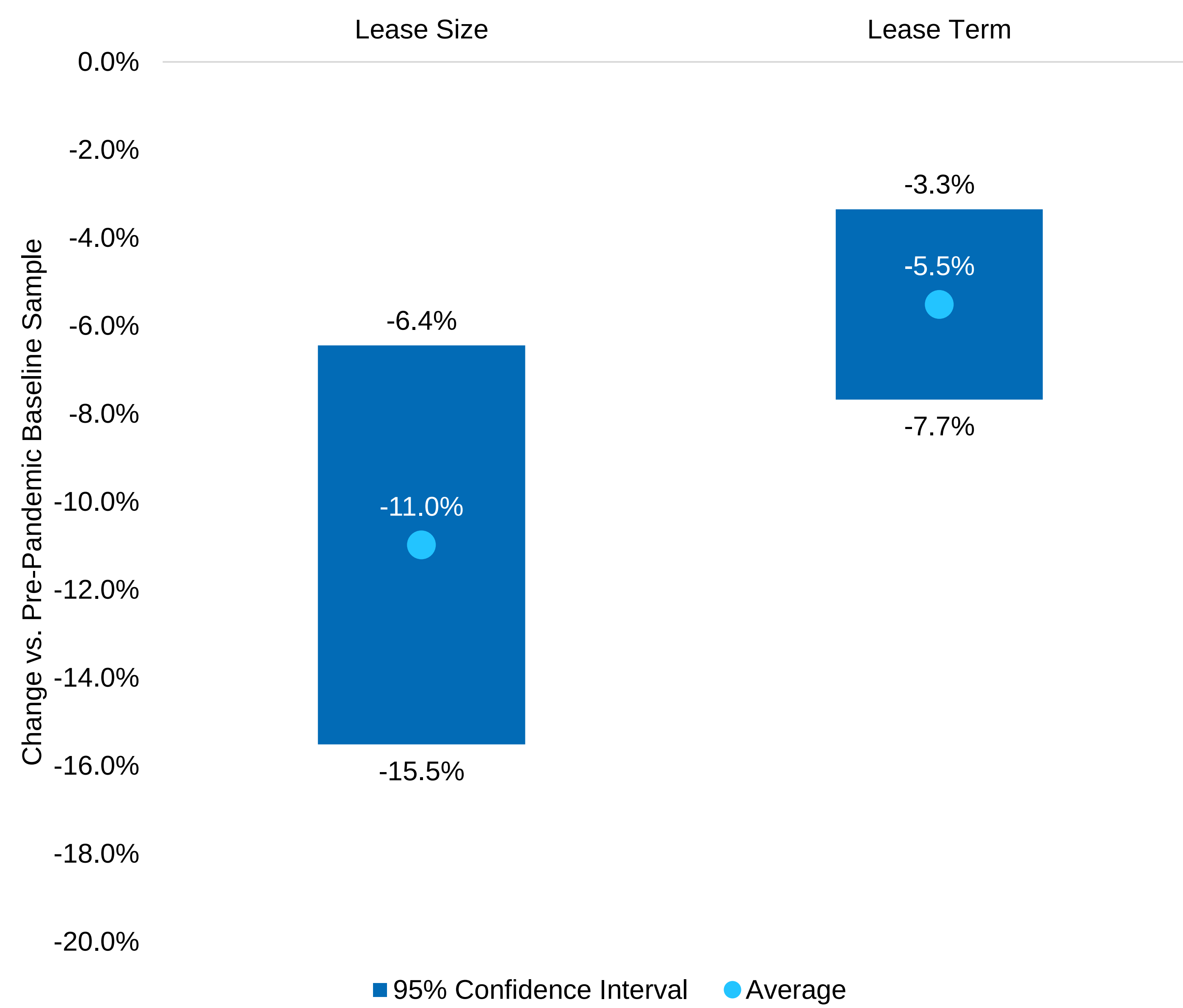
Leases Have Become Smaller (And A Little Shorter)

Pre-pandemic lease renewals would typically be minor if occupiers were expected to expand their space needs. However, lease size and term data suggest a different trend. Since the pre-pandemic period, average lease sizes have declined by 11.0%, and terms have shortened by 5.5%. This shift likely reflects not only smaller renewal needs but also increased activity from smaller tenants or market-specific dynamics. These changes are significant and unlikely to be fully explained by temporary factors.

Office Lease Term and Size over Time



Estimated Change in Lease Attributes: Pre-Pandemic vs. Today*

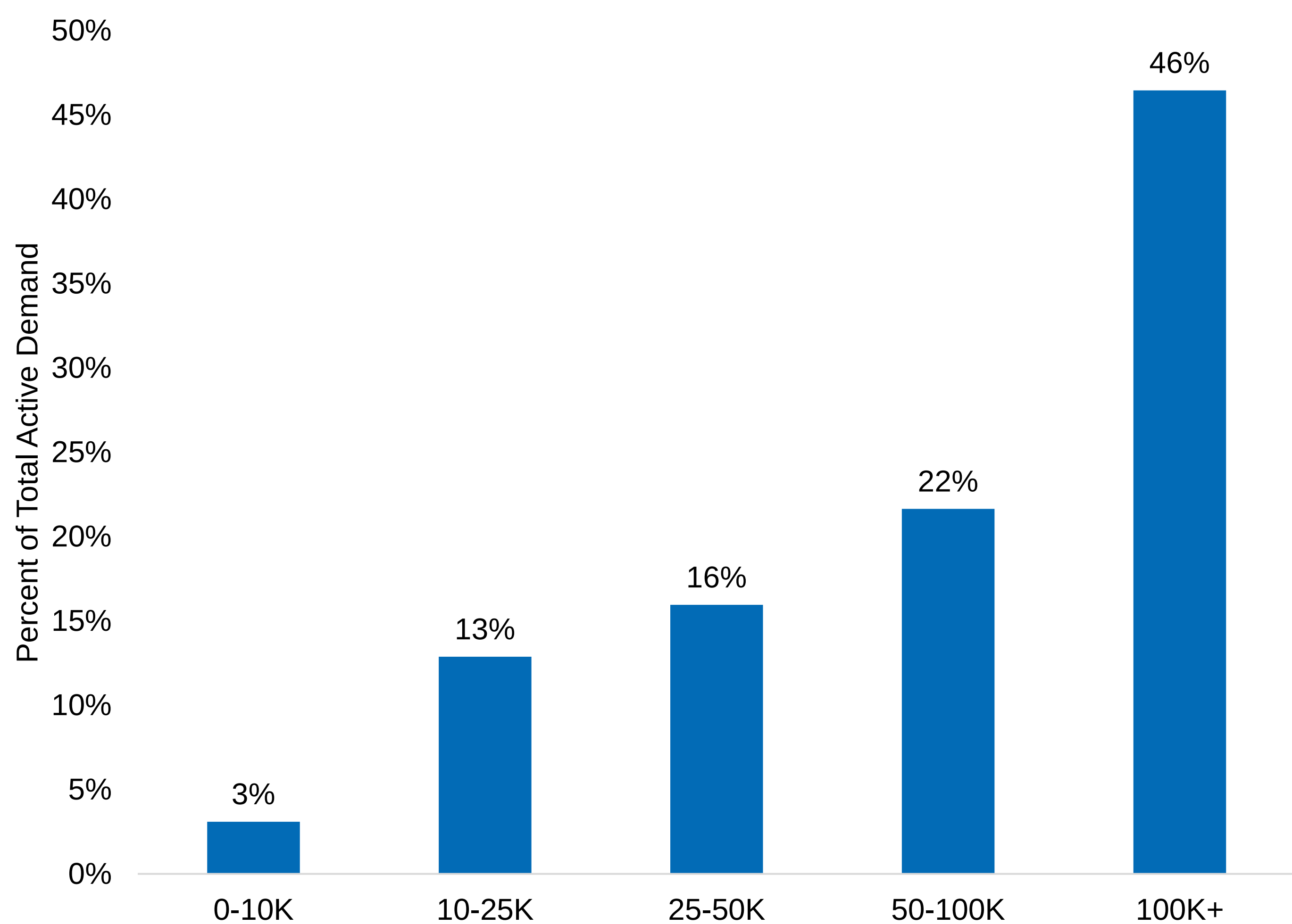


Source: Newmark Research as of 1/21/2025
*Based on difference in means analysis using lease comps executed during the 2018 to 2020 period as compared with the 2022 to 2024 period. The intervening period was excluded from the analysis as a transitional period and less reliable as an indicator of future market dynamics.

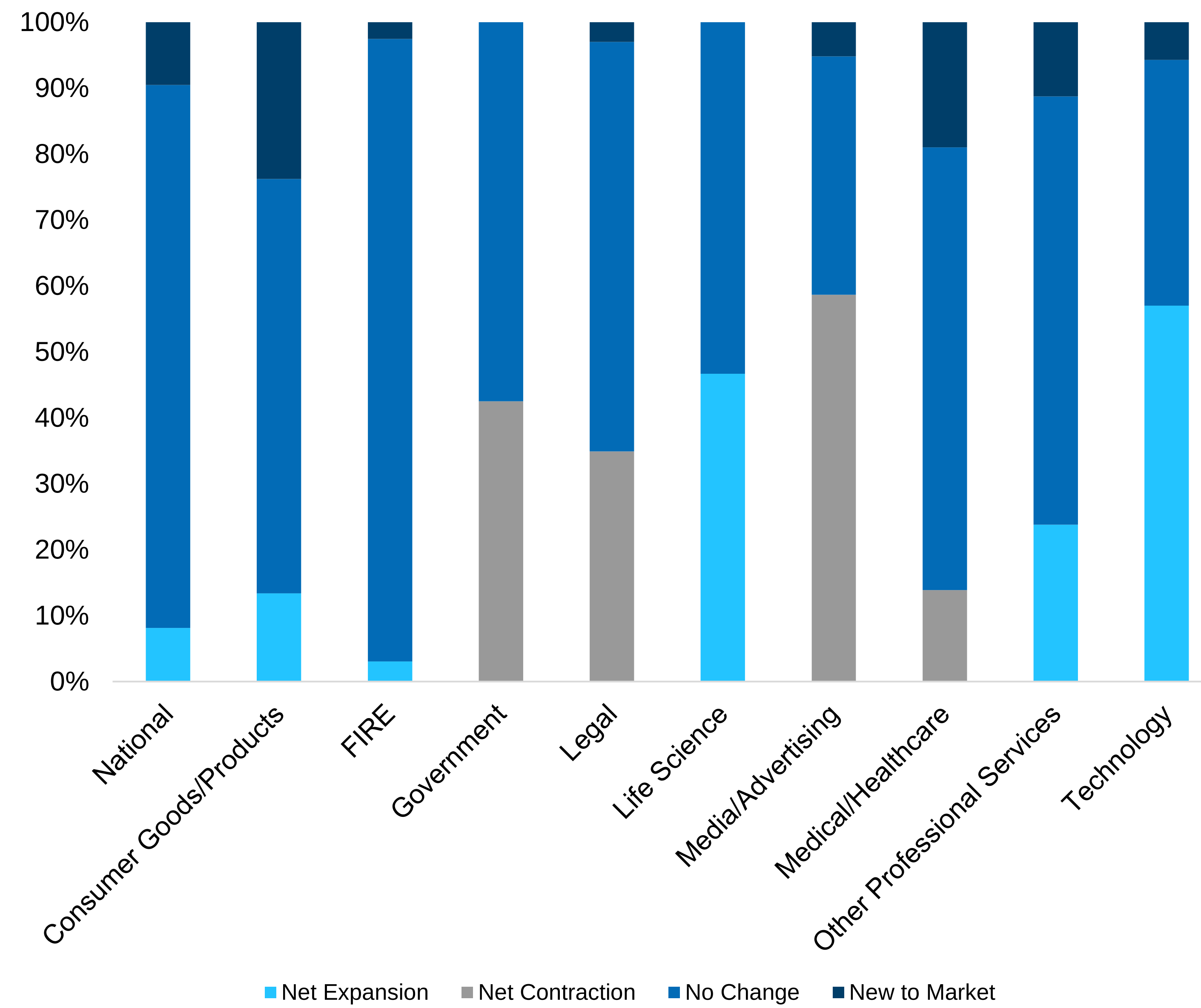
National Office Tenants: A Demand Snapshot

Newmark is currently tracking 106.8 million SF of active tenant demand nationally, with nearly half of this volume attributed to tenants seeking at least 100,000 SF of space. Of this demand, 82.3% represents tenants not seeking to expand their existing footprint, while the net volume of tenants aiming to expand totals 8.1%. Space needs vary widely by industry—most technology tenants are seeking to expand, whereas most media and advertising tenants are looking to contract their current footprint.

Requirement by Size Segment (SF)



Change in Space Needs vs Current Lease Size



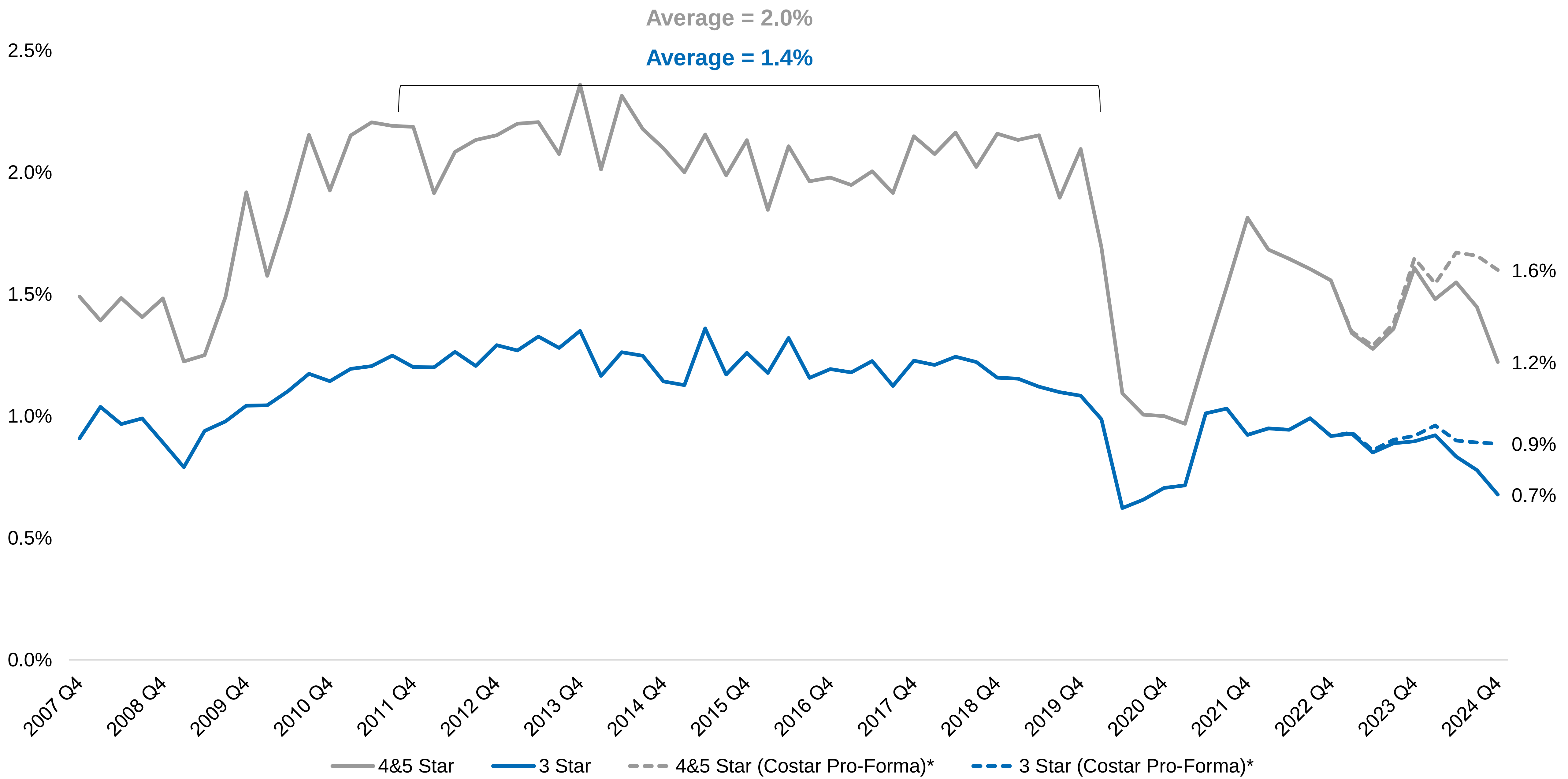
Source: Newmark Research as of 1/15/2025

Leasing Market

Estimated Office Leasing Stable in 4Q24; Settling into New Steady State (?)

Higher-quality buildings continued to outperform the overall market, driving a larger share of leasing activity in the fourth quarter of 2024. Despite representing just 33.7% of total inventory, four- and five-star buildings accounted for 50.6% of leasing activity during the quarter.

Leasing Activity as a Share of Inventory

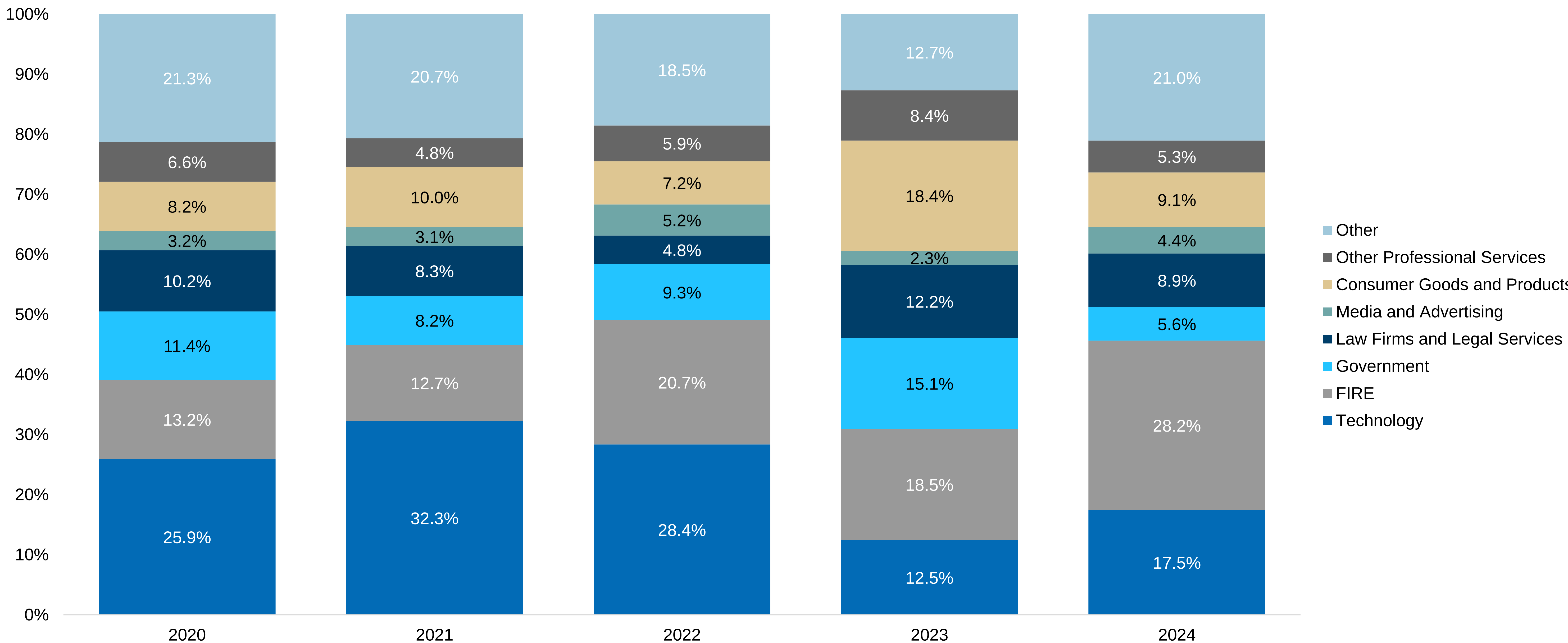


Source: CoStar, Newmark Research as of 1/21/2025
*CoStar pro-forma based on proprietary internal formula that estimates remaining leases not captured based on analysis of historical leasing trends.

FIRE Leasing Expands; Tech Leasing Accelerates in Q4

Large-block leasing activity increased in the fourth quarter of 2024 but remains below pre-pandemic averages. Leasing within the technology sector also rose during the fourth quarter, though it continues to trail its historical average. In contrast, the finance, insurance, and real estate (FIRE) sectors saw a significant boost in leasing activity throughout 2024.

Percentage of Total SF Leases Among Leases Greater than 50,000 SF

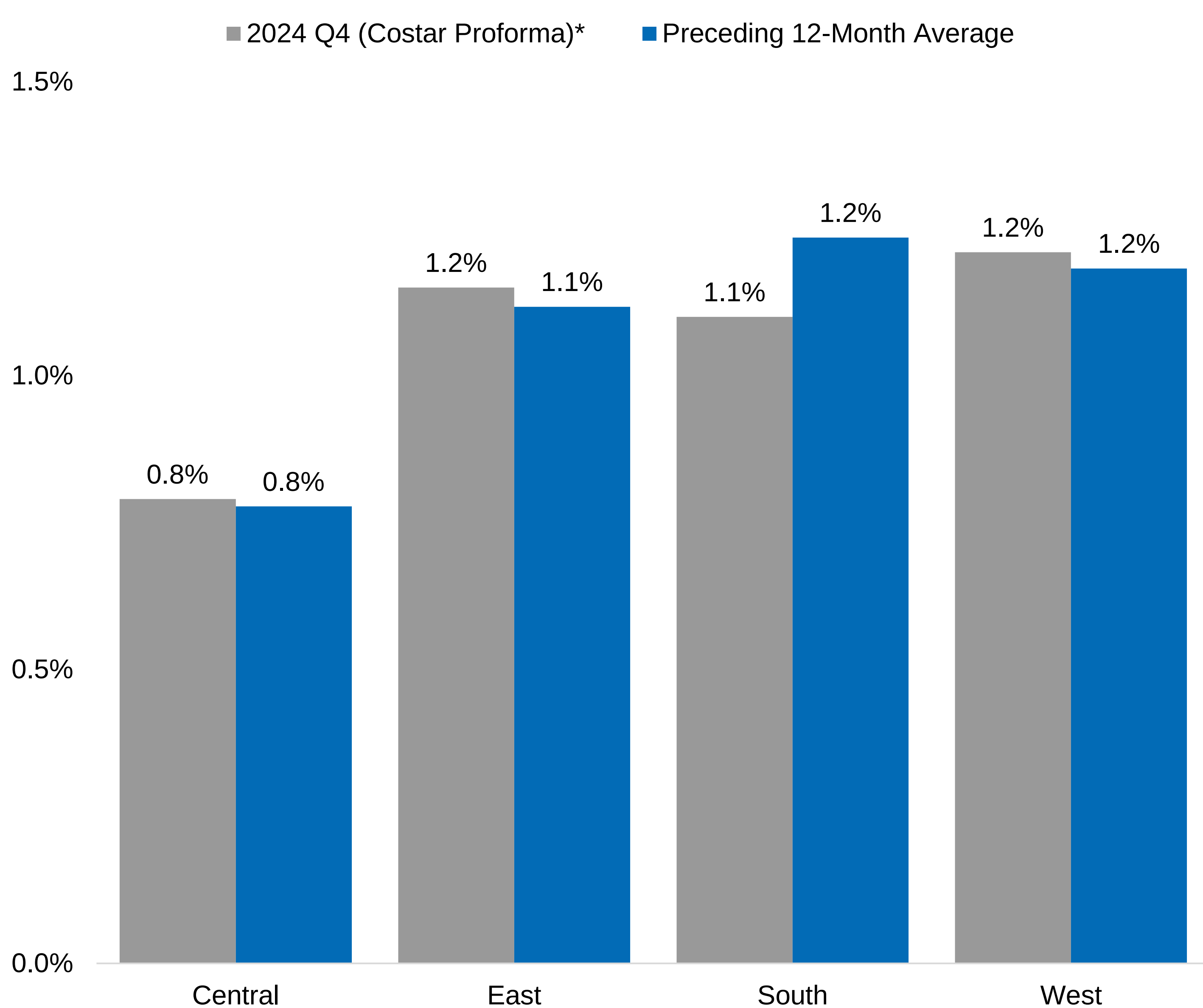


Sources: Newmark Research as of 1/21/2025

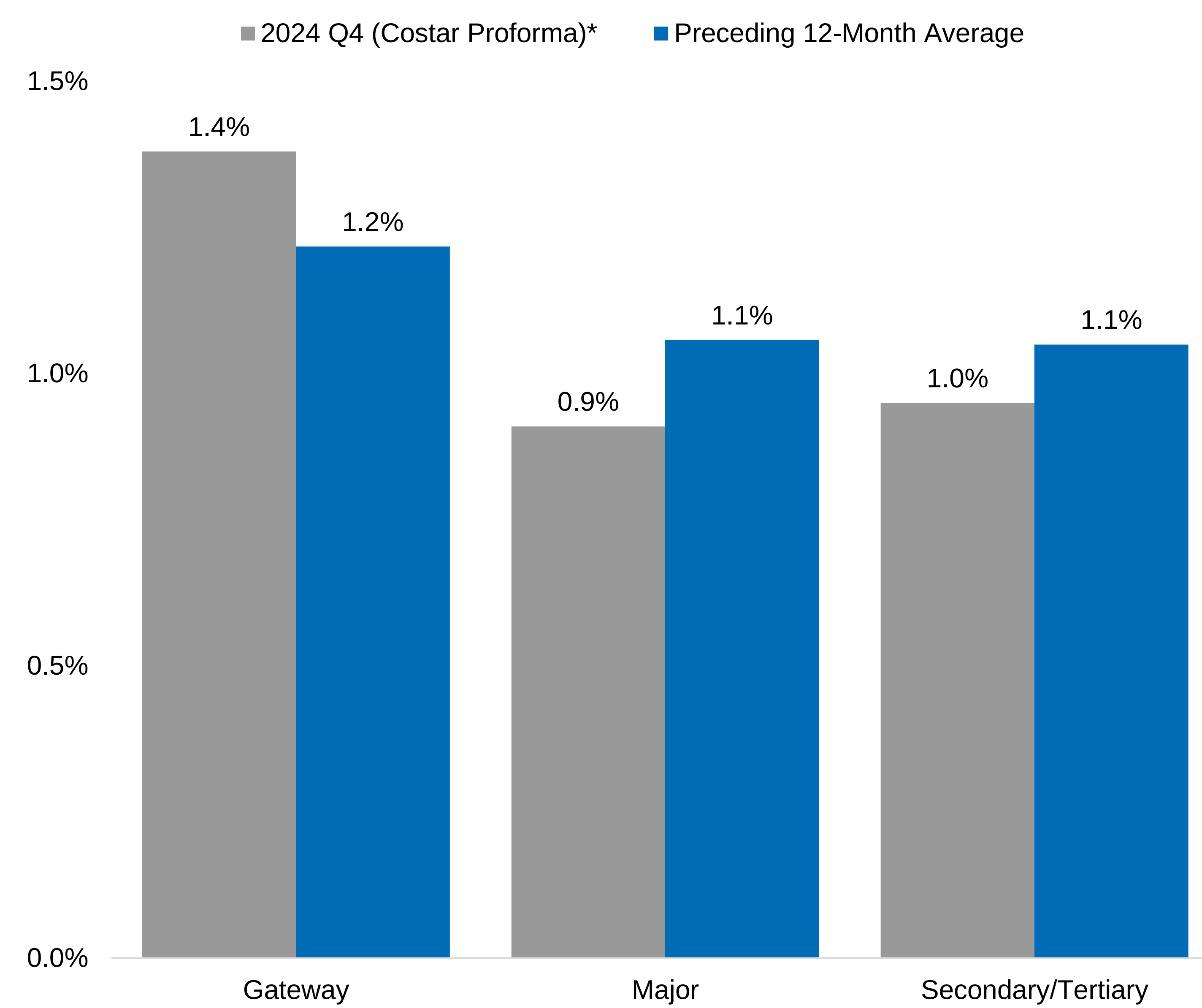
Leasing Activity Stable Across Regions & Market Tiers

Leasing activity was relatively stable compared to the preceding 12-month average, though notable gains were recorded in gateway markets.

Regional Leasing Activity as a Percent of Inventory



Market Size Leasing Activity as a Percent of Inventory

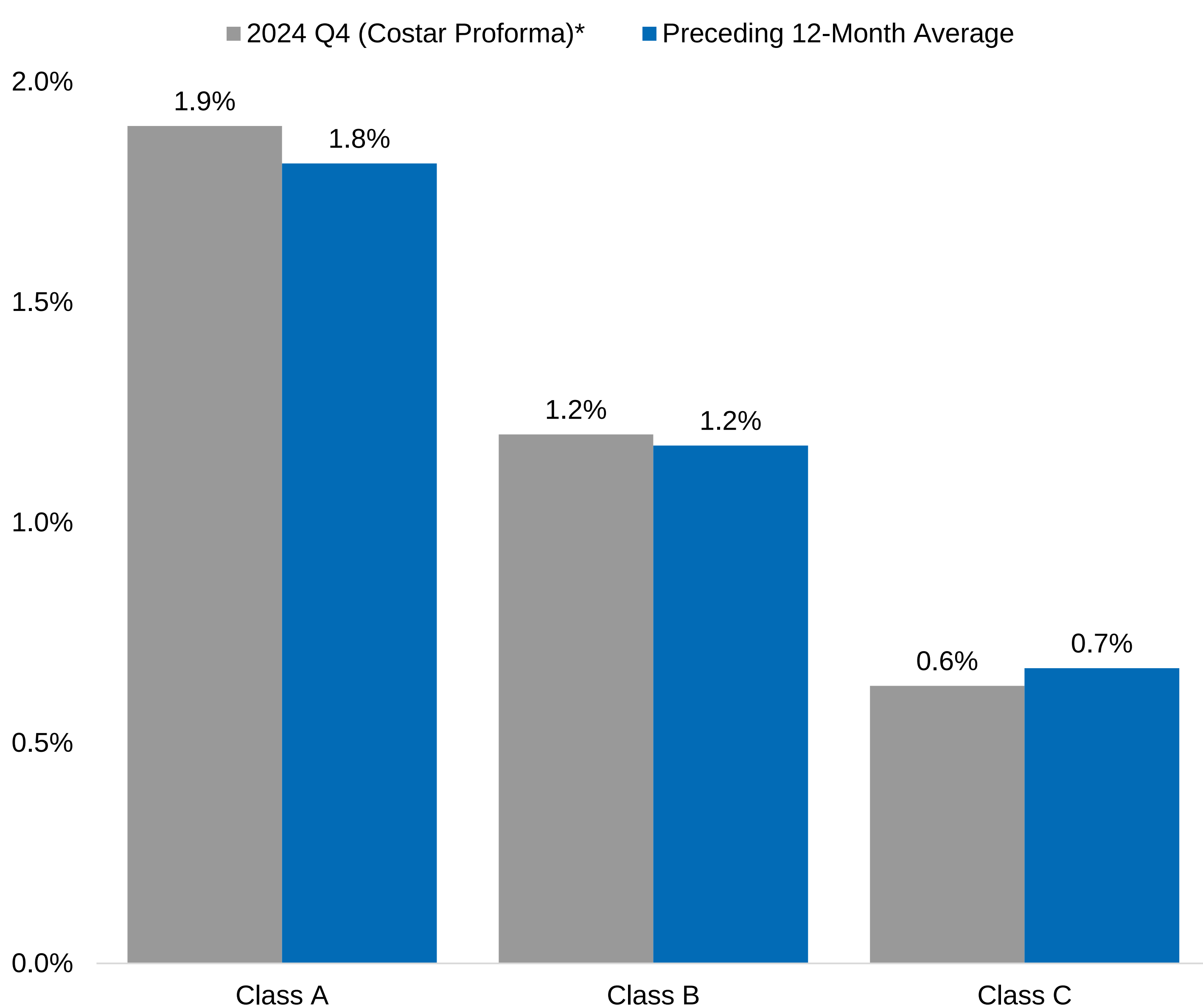


Source: CoStar, Newmark Research as of 1/21/2025
*CoStar pro-forma based on proprietary internal formula that estimates remaining leases not captured based on analysis of historical leasing trends.

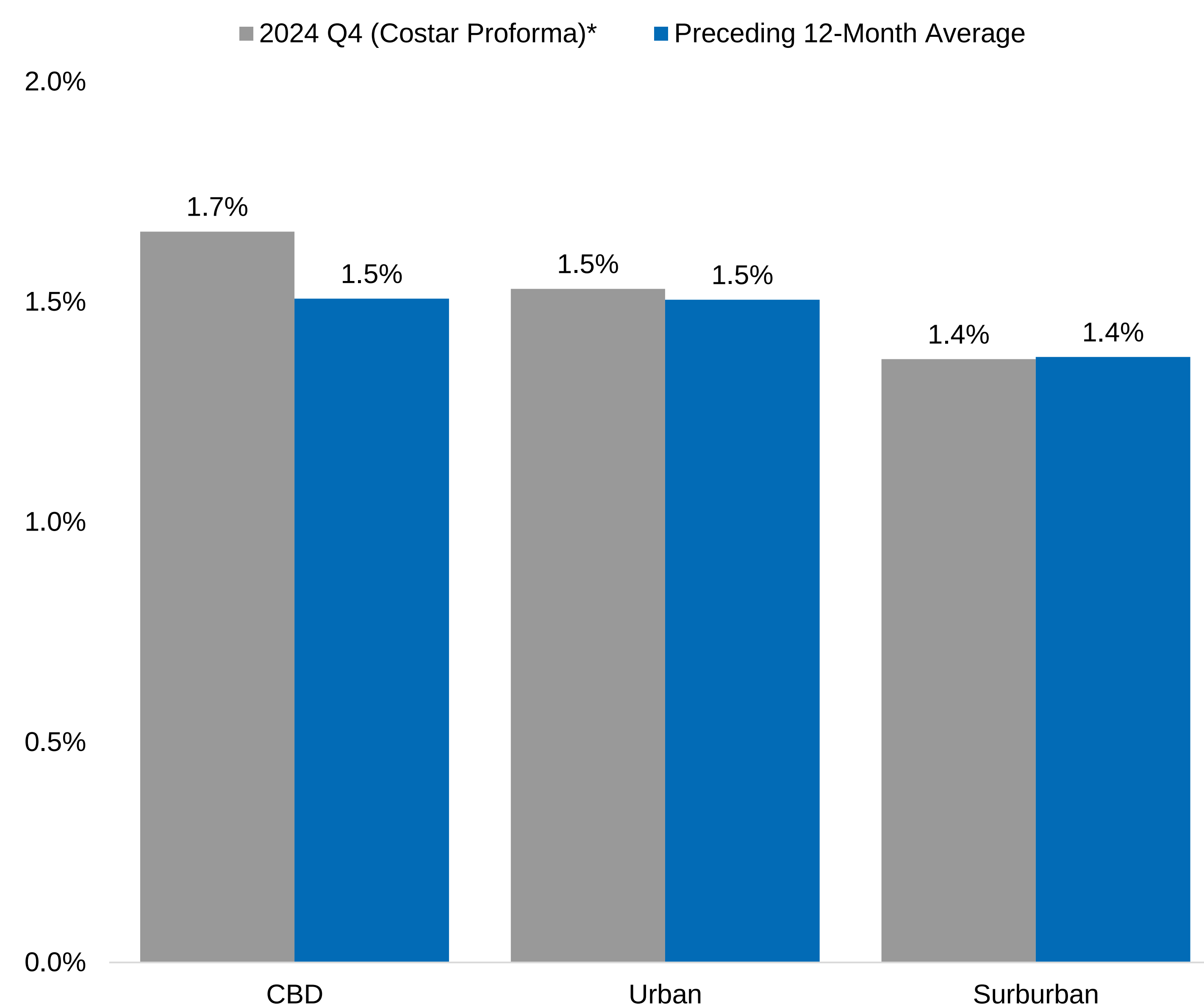
…With Improvements More Pronounced In Higher Quality, Downtown Buildings

Class A buildings, especially in CBD markets, saw the strongest leasing growth in the fourth quarter of 2024 compared to the prior 12 months.

Leasing by Class as a Percent of Inventory



Leasing by Urbanization as a Percent of Inventory



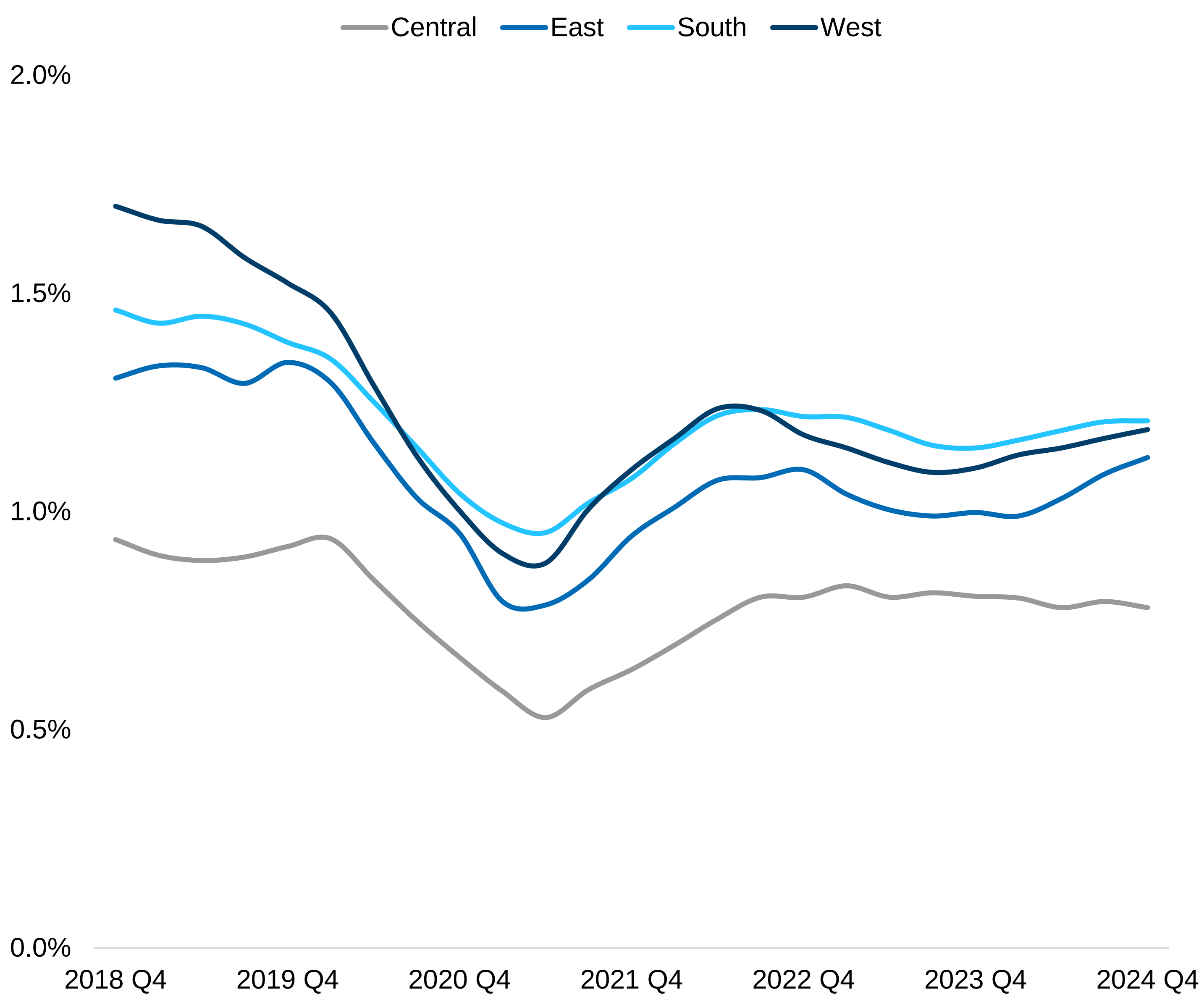
Source: CoStar, Newmark Research as of 1/22/2025

*CoStar pro-forma based on proprietary internal formula that estimates remaining leases not captured based on analysis of historical leasing trends.

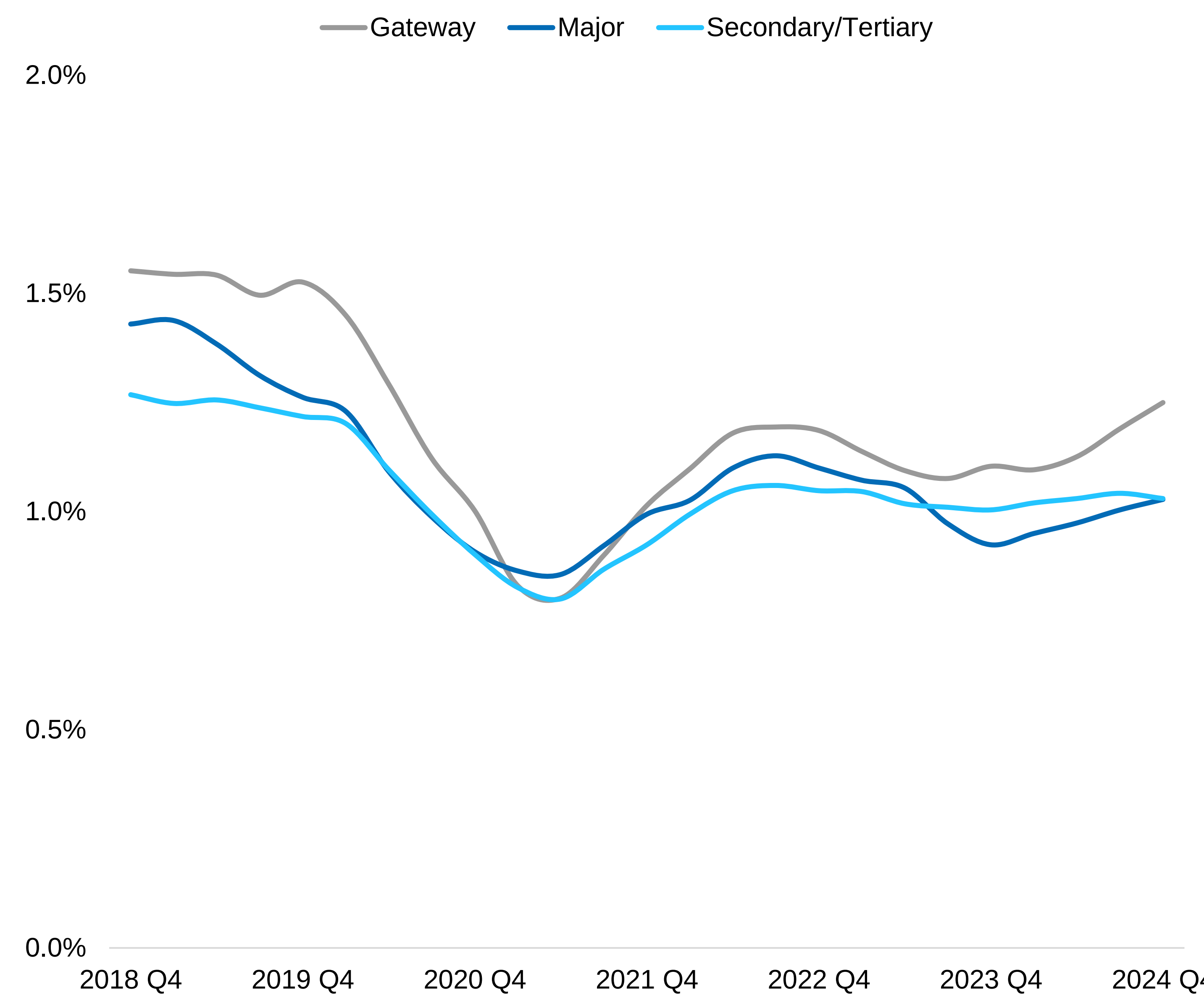
Gateway Markets Lead Improving Leasing Trend In Q4

Although leasing activity has slowed compared to the gains seen in 2022, the outlook has improved following advancements in the fourth quarter of 2024 . Southern and gateway markets have outperformed, while the Central Region and major markets have lagged. Western, major, and gateway markets have experienced the most significant relative declines in activity compared to pre-pandemic levels. The recent uptick in gateway market leasing has been primarily driven by New York City, which accounted for 38% of total 2024 gateway market leasing volume.

Regional Leasing Activity as a Percent of Inventory (4-Quarter Trailing)*



Market Size Leasing Activity as a Percent of Inventory (4-Quarter Trailing)*

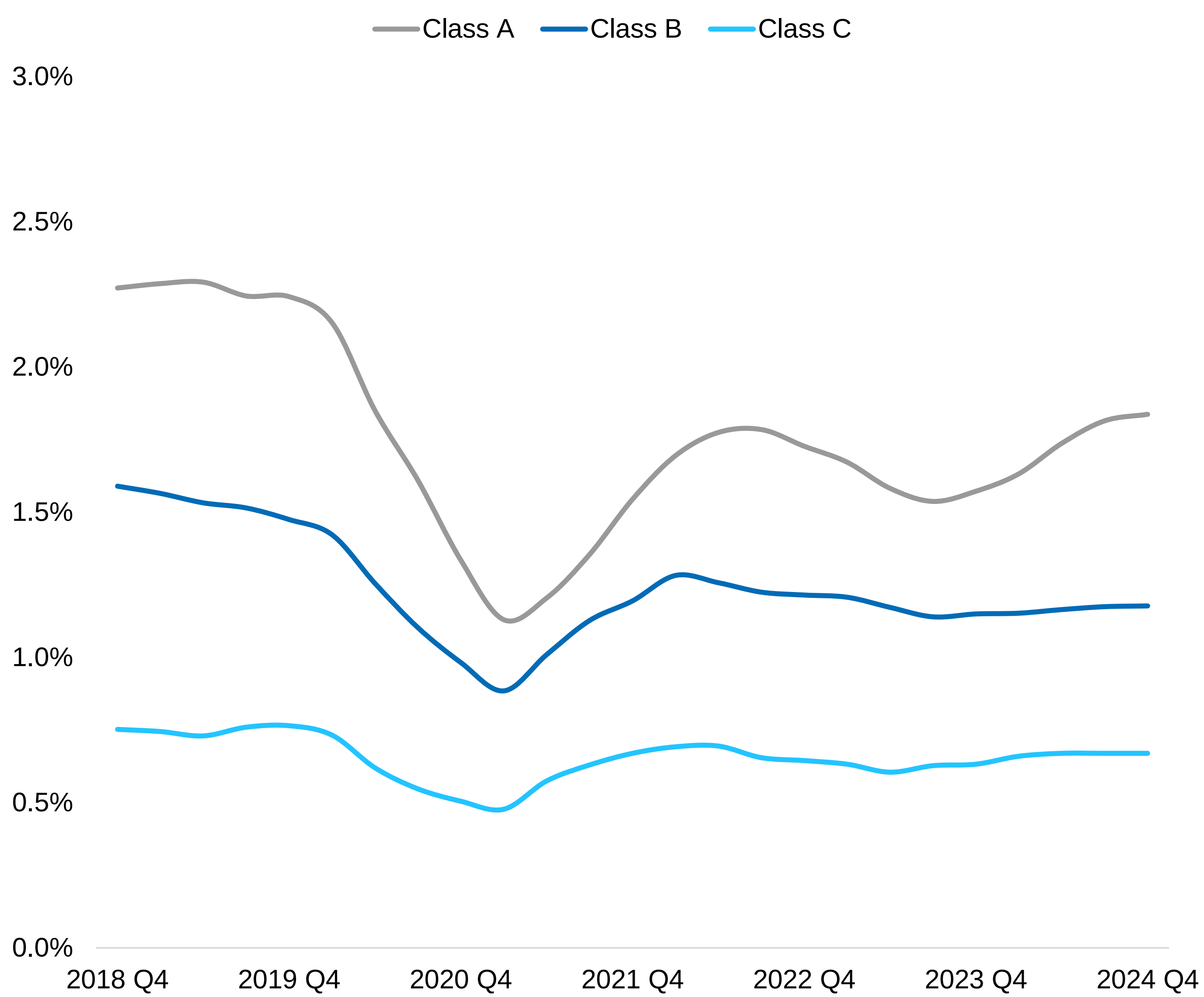


Source: CoStar, Newmark Research as of 1/22/2025
*The first quarter of 2023 through the fourth quarter of 2024 values used in four-quarter trailing calculation use CoStar pro-forma based on proprietary internal formula that estimates remaining leases not captured based on analysis of historical leasing trends.

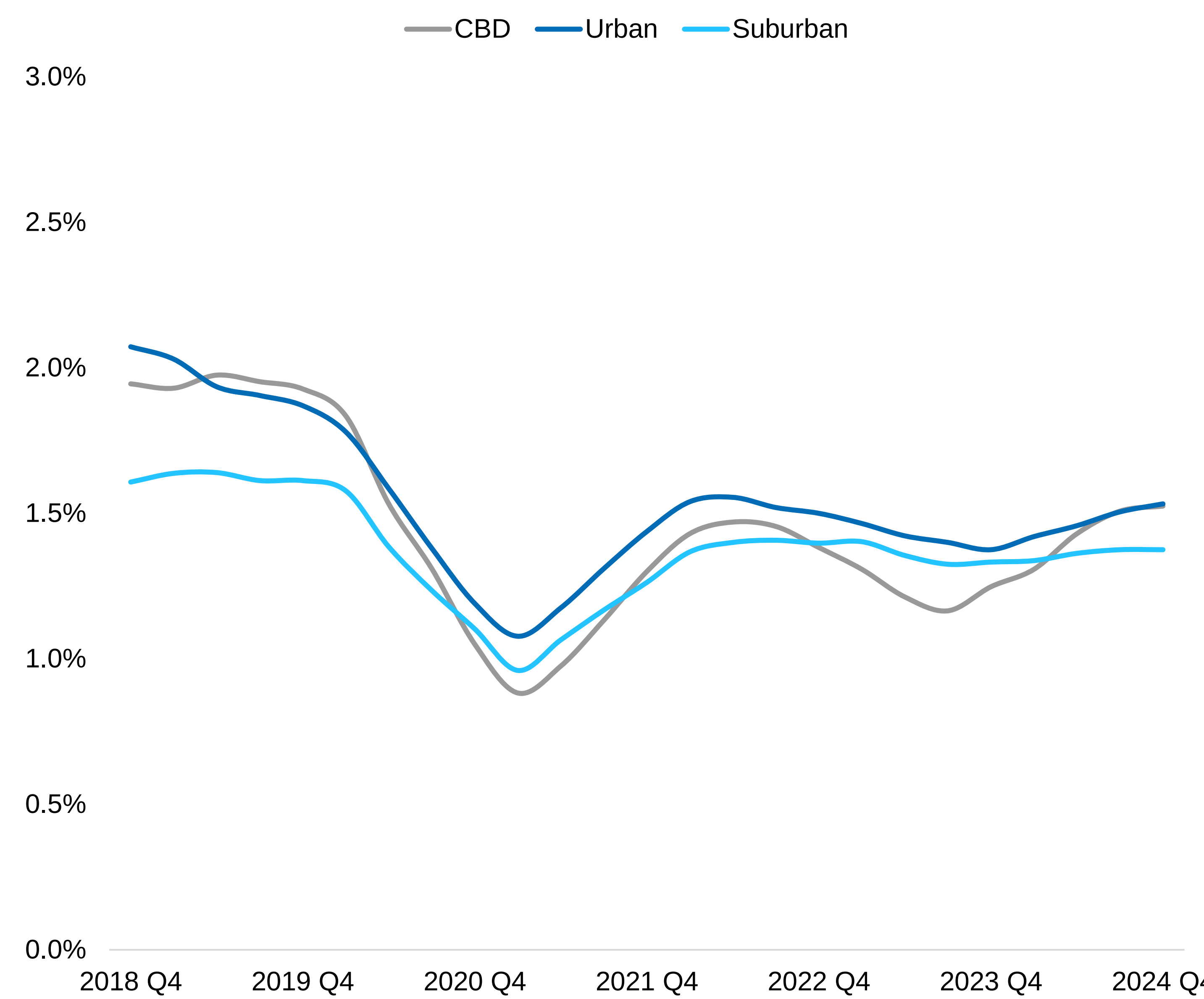
Class A Leasing Outperforms; CBD & Urban Markets Rally

Class A buildings have consistently outperformed other grades in leasing activity, with Class A leasing as a percentage of inventory continuing to trend upward in the fourth quarter of 2024.

Leasing Activity by Class as a Percent of Inventory (4-Quarter Trailing)*



Leasing by Urbanization as a Percent of Inventory (4-Quarter Trailing)*

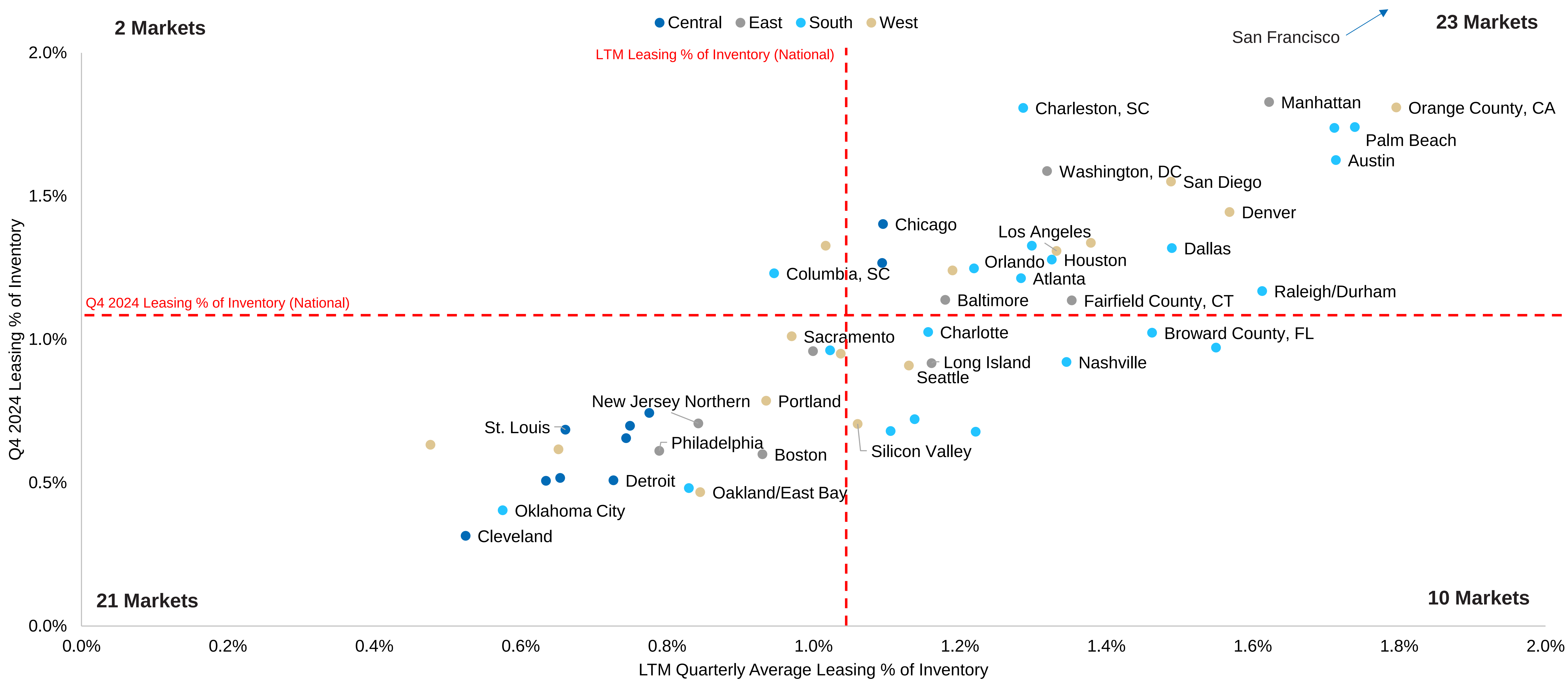


Source: CoStar, Newmark Research as of 1/22/2025
*The first quarter of 2023 through the fourth quarter of 2024 values used in four-quarter trailing calculation use CoStar pro-forma based on proprietary internal formula that estimates remaining leases not captured based on analysis of historical leasing trends.

Southern & Western Markets Outperform National Average in 4Q24

LTM leasing activity in Newmark-tracked markets ranged from 0.5% of inventory in Fresno to 1.9% in San Francisco. Overall, 23 markets surpassed both the fourth-quarter 2024 national average and the LTM quarterly national average. While variations are expected in smaller inventory markets, major gateway markets such as Manhattan, Los Angeles, and Chicago generally ranked in the upper half of this distribution.

LTM Quarterly Average vs 4Q24 Leasing*

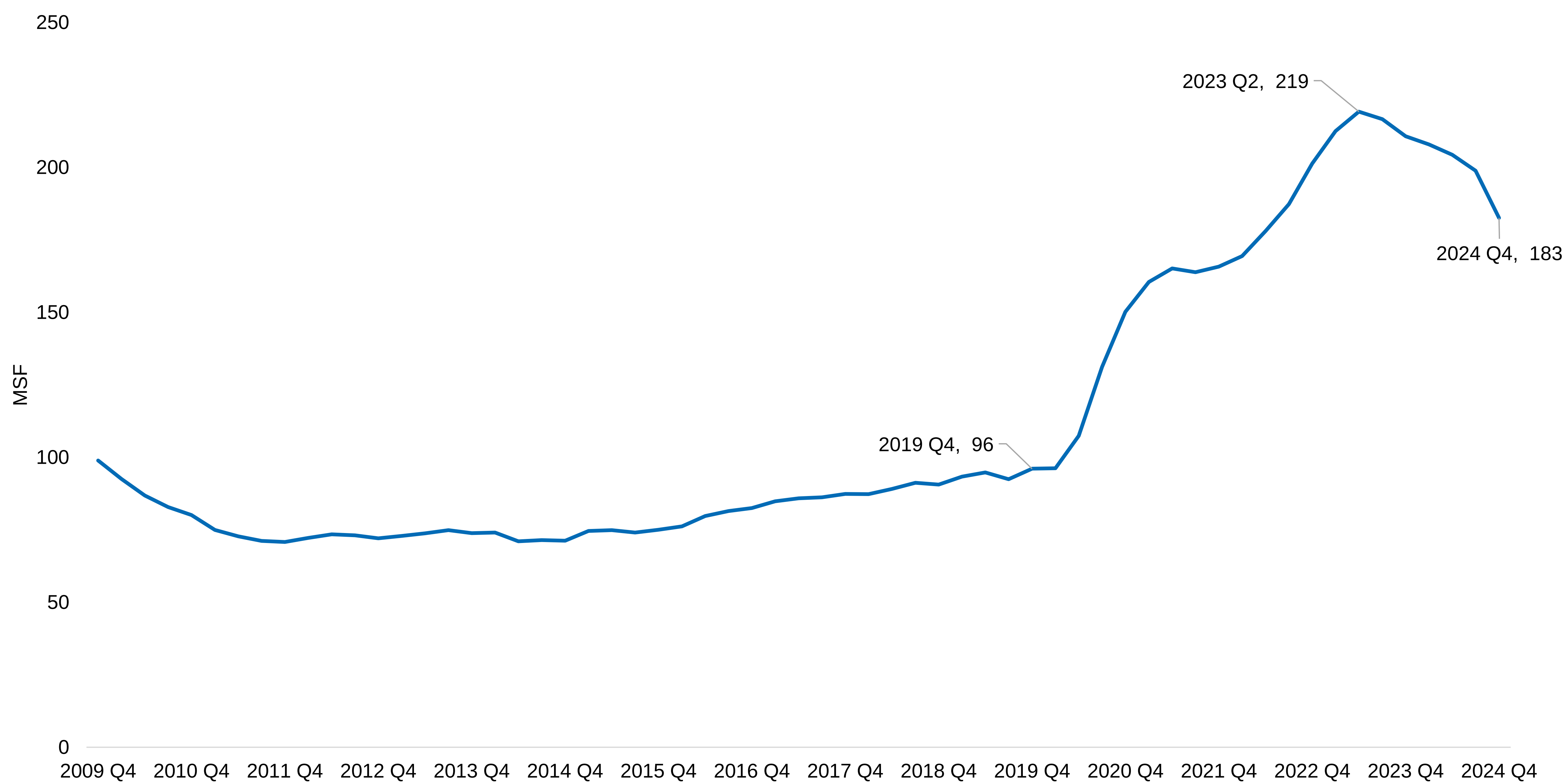


Source: CoStar, Newmark Research as of 1/22/2025
*Calculations use CoStar pro-forma based on proprietary internal formula that estimates remaining leases not captured based on analysis of historical leasing trends.
Note: Westchester County included in New York; San Francisco Peninsula included in San Francisco; Southern New Jersey and Delaware included in Philadelphia.

Sublease Availability Declined In 4Q24

Sublease availability continued to decline in the fourth quarter of 2024, down 13.4% from the fourth quarter of 2023. Previously, as vacancy rates increased, this decline reflected sublease spaces converting to direct listings due to term expirations. However, flat vacancy growth in the fourth quarter suggests that some of these spaces were absorbed.

National Sublease Availability

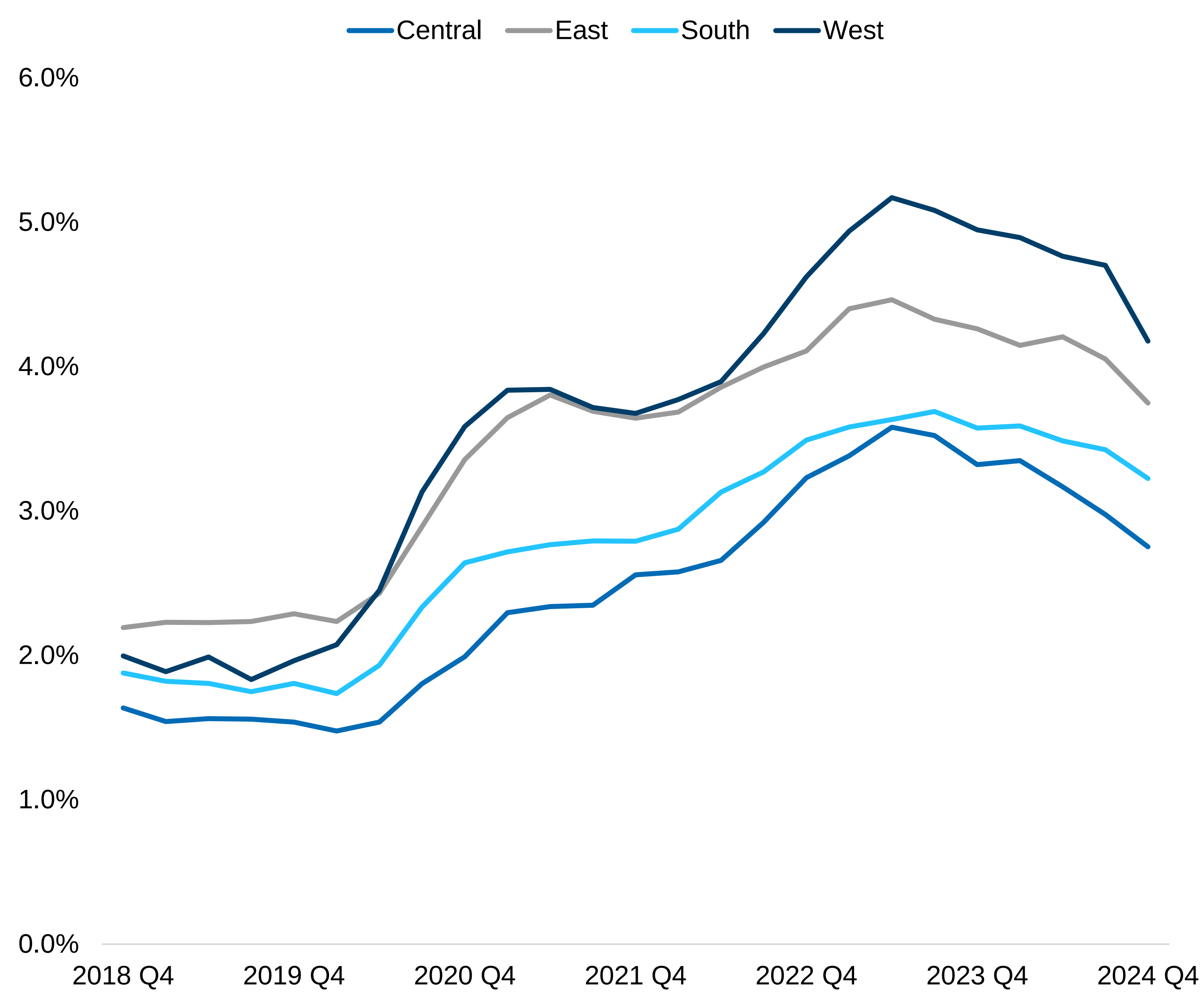


Source: CoStar, Newmark Research as of 1/22/2025

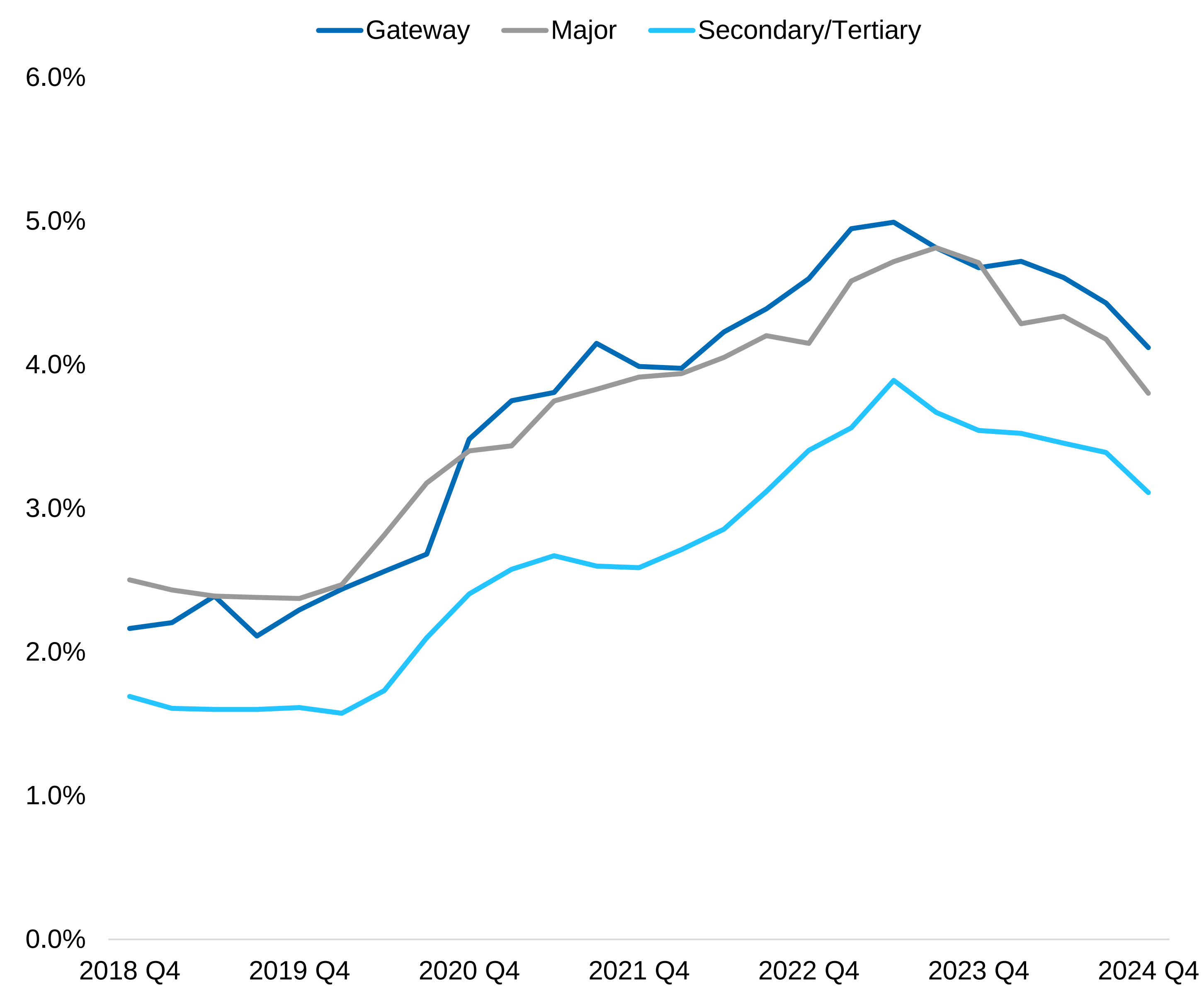
Sublease Availability Declines Across Regions & Market Tiers

Sublease availability remains historically high, especially in Western and Eastern markets, as well as in gateway and major markets. While reducing sublease availability is essential for new market expansion, the immediate outlook is mixed, with much of the sublease inventory transitioning to direct availability and vacancy.

Regional Sublease Availability Rate



Market Size Sublease Availability Rate

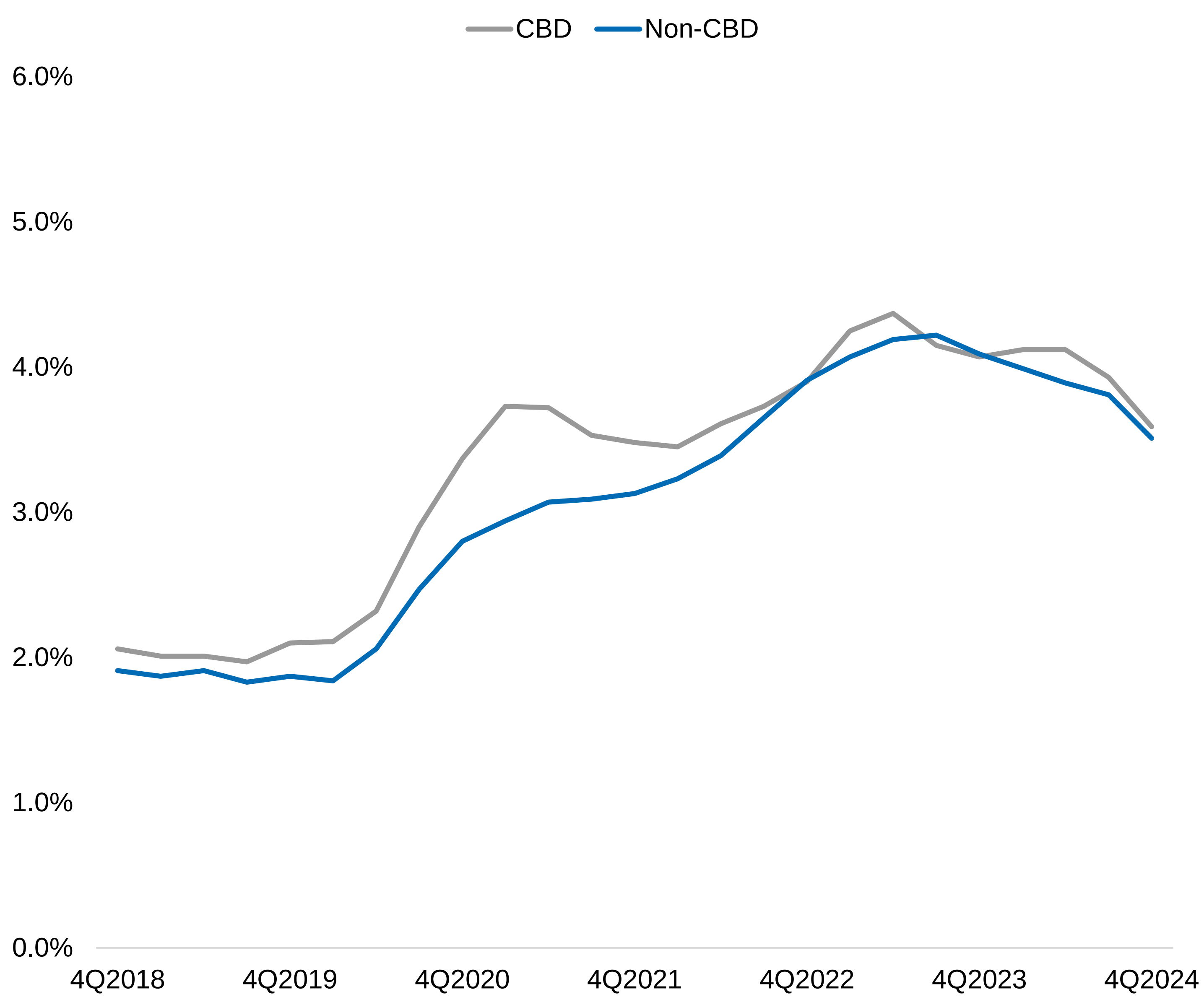


Source: CoStar, Newmark Research as of 1/22/2025

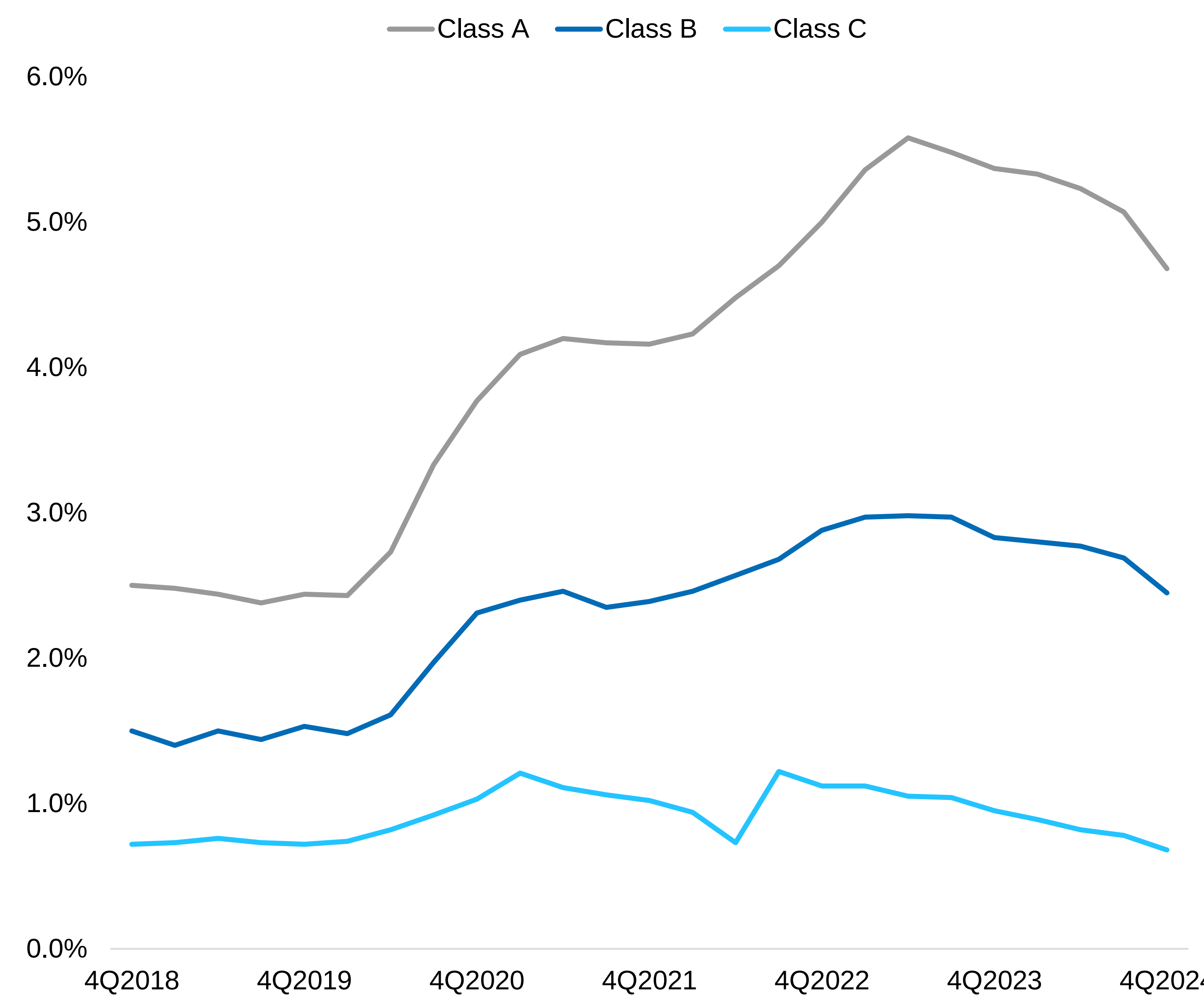
Non-CBD Markets & Lower Tier Product Lead Sublease Decline

Sublease availability is relatively similar between CBD and non-CBD markets, though the disparity widens significantly across different building grades.

Sublease Availability Rate by Urbanization



Sublease Availability Rate by Class

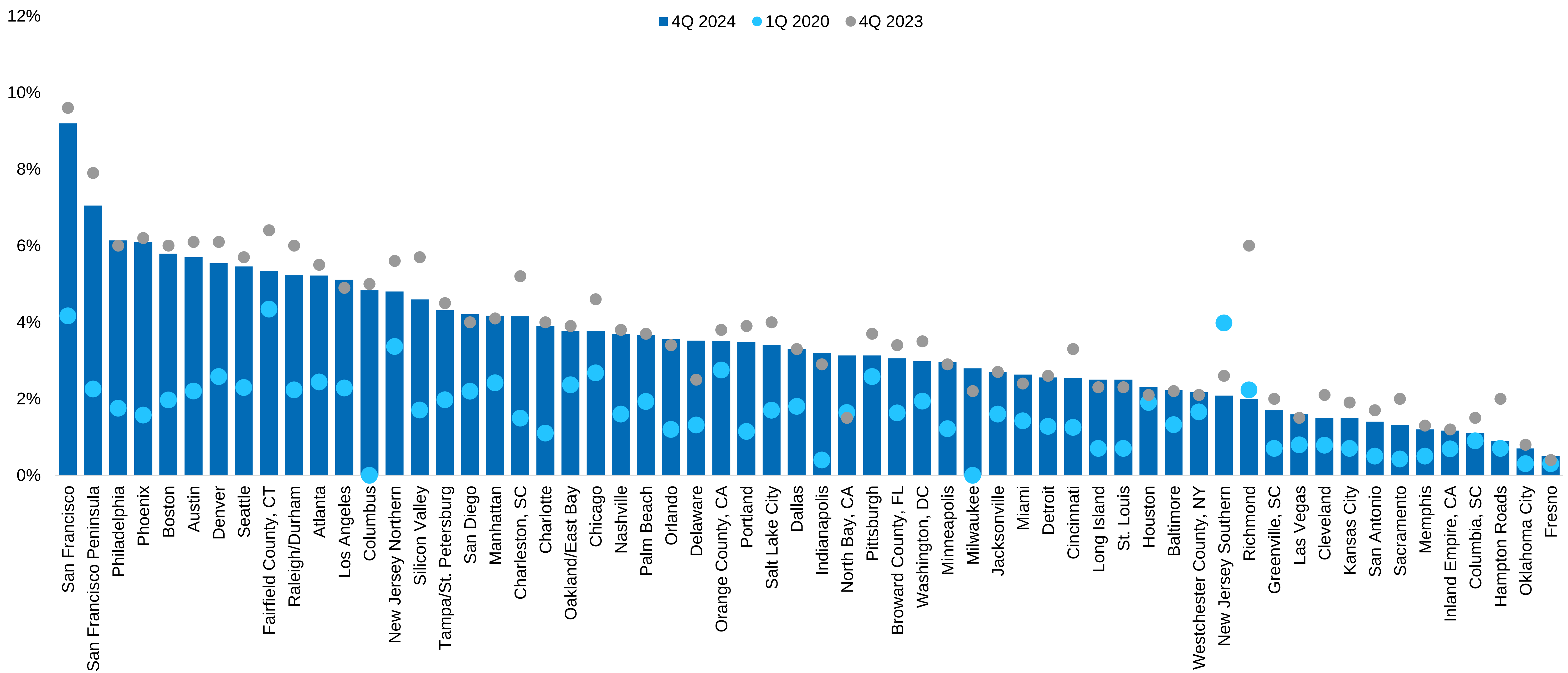


Source: CoStar, Newmark Research as of 1/22/2025

Sublease Availability By Market

Sublease availability remains above pre-pandemic levels in most U.S. markets, with larger markets like San Francisco, the San Francisco Peninsula, Philadelphia, and Phoenix experiencing particularly high levels . Optimistic signals in the tech sector, highlighted by a surge in VC funding, suggest that these markets could see reductions in sublease availability, potentially strengthening market fundamentals.

Current Sublease Availability Rate vs. 1Q 2020 & 4Q 2023

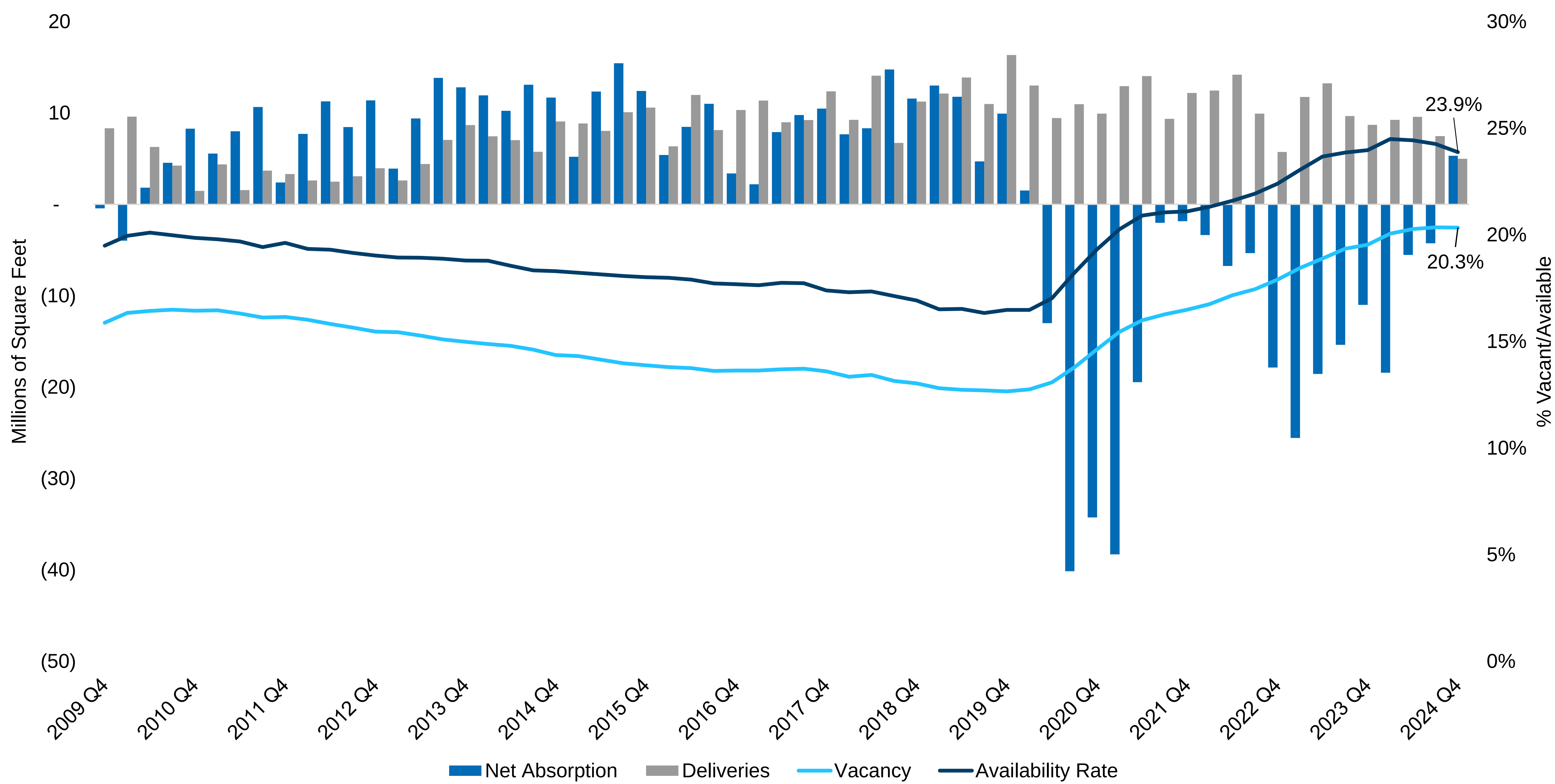


Source: CoStar, Newmark Research as of 1/23/2025

Occupancy Increases After 18 Consecutive Quarters Of Net Losses

Occupancy increased by 5.3 million square feet in the fourth quarter of 2024, following 18 consecutive quarters of negative net absorption totaling negative 281.1 million square feet. Notably, 37 of 60 tracked markets recorded quarter-over-quarter improvements in net absorption, with eight markets achieving gains exceeding 500,000 square feet.

Supply and Demand: Net Absorption, New Construction Deliveries, and Vacancy

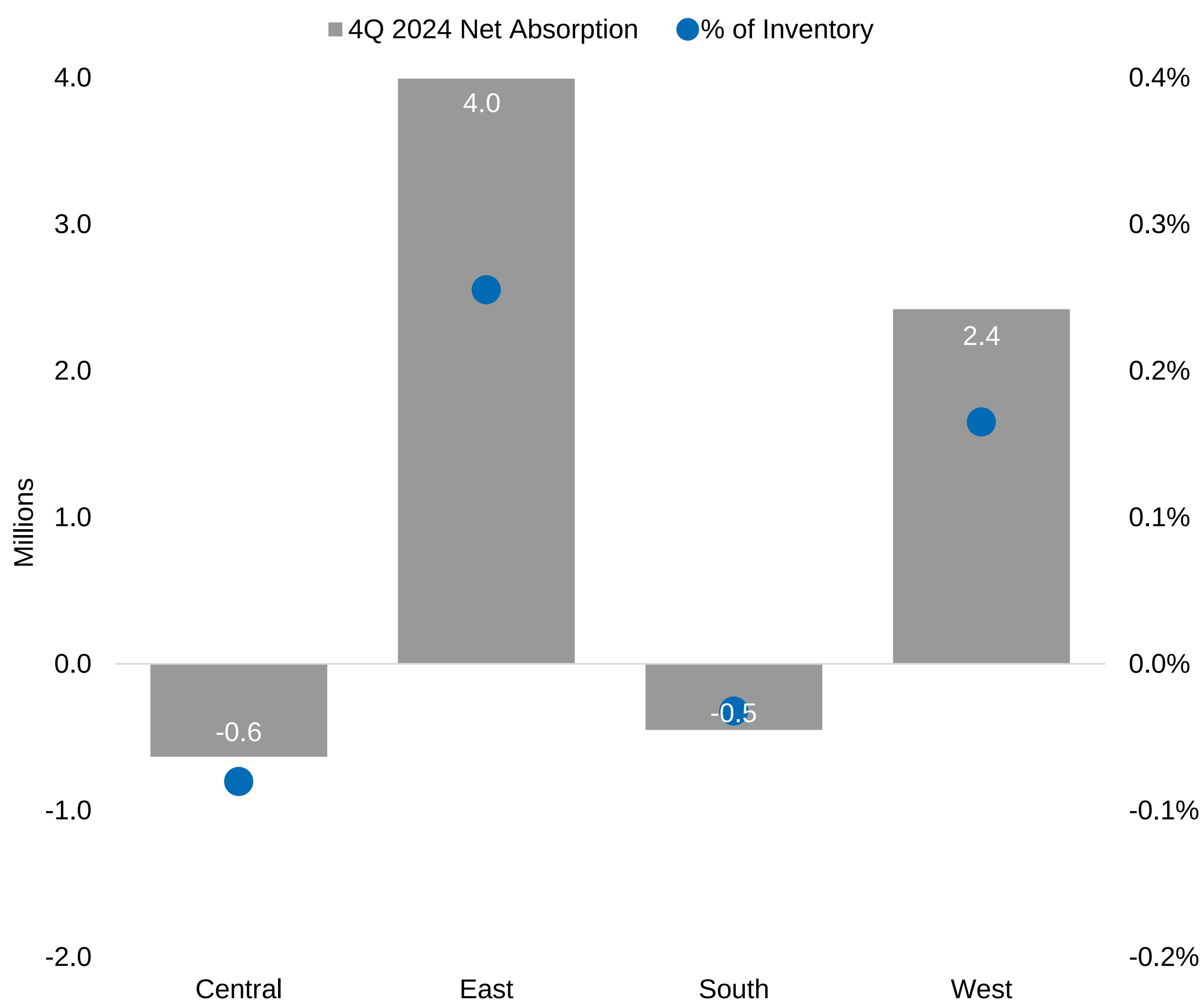


Source: CoStar, Newmark Research as of 1/23/2025

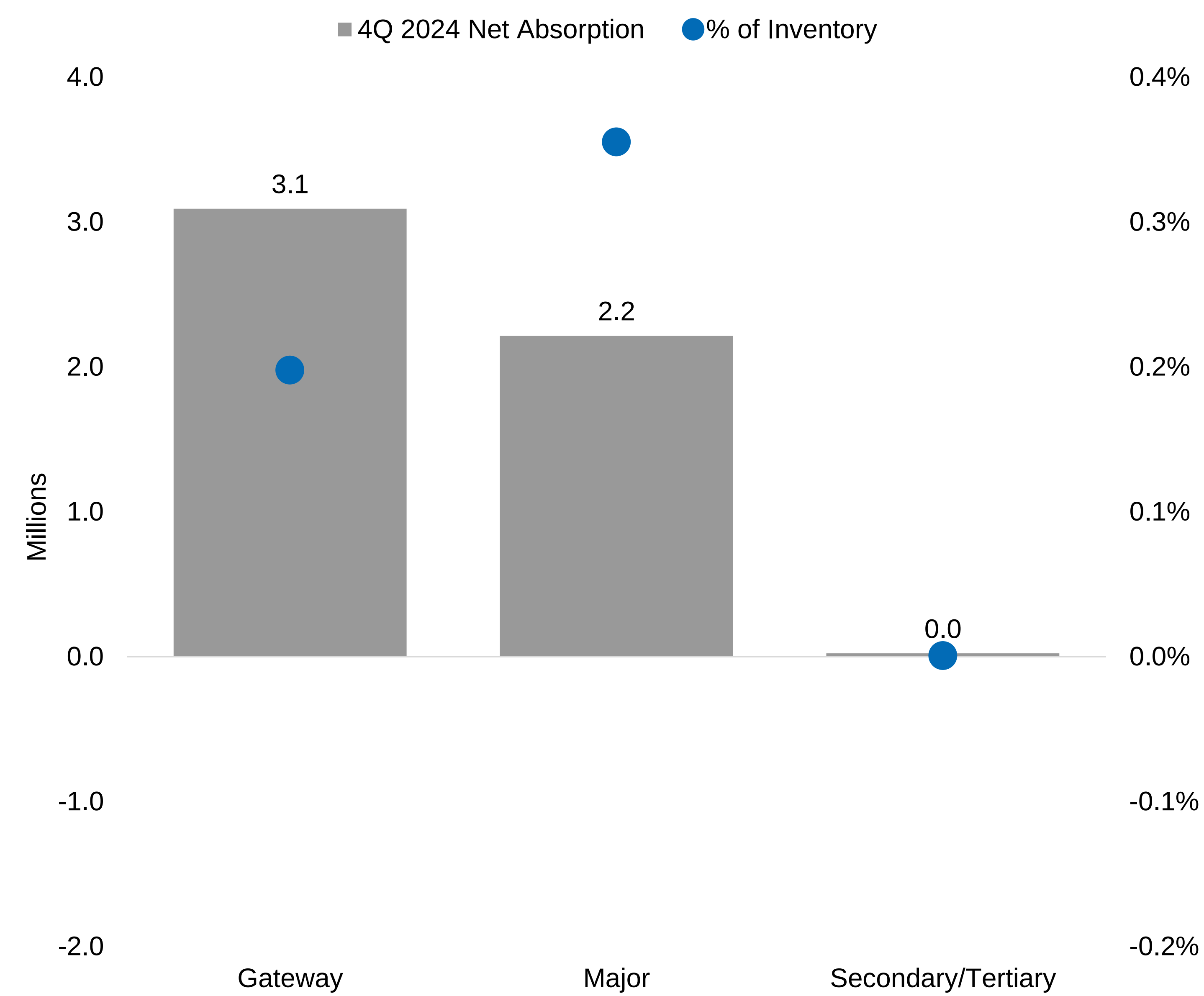
Fourth Quarter Rally Led by Larger Coastal Markets

National occupancy rose in the fourth quarter of 2024, driven primarily by gains in gateway markets across the East and West regions. Notable increases included Manhattan (+1.8 million SF), Washington, D.C. (+1.6 million SF), and Silicon Valley (+796,787 SF).

Regional Net Absorption



Market Size Net Absorption

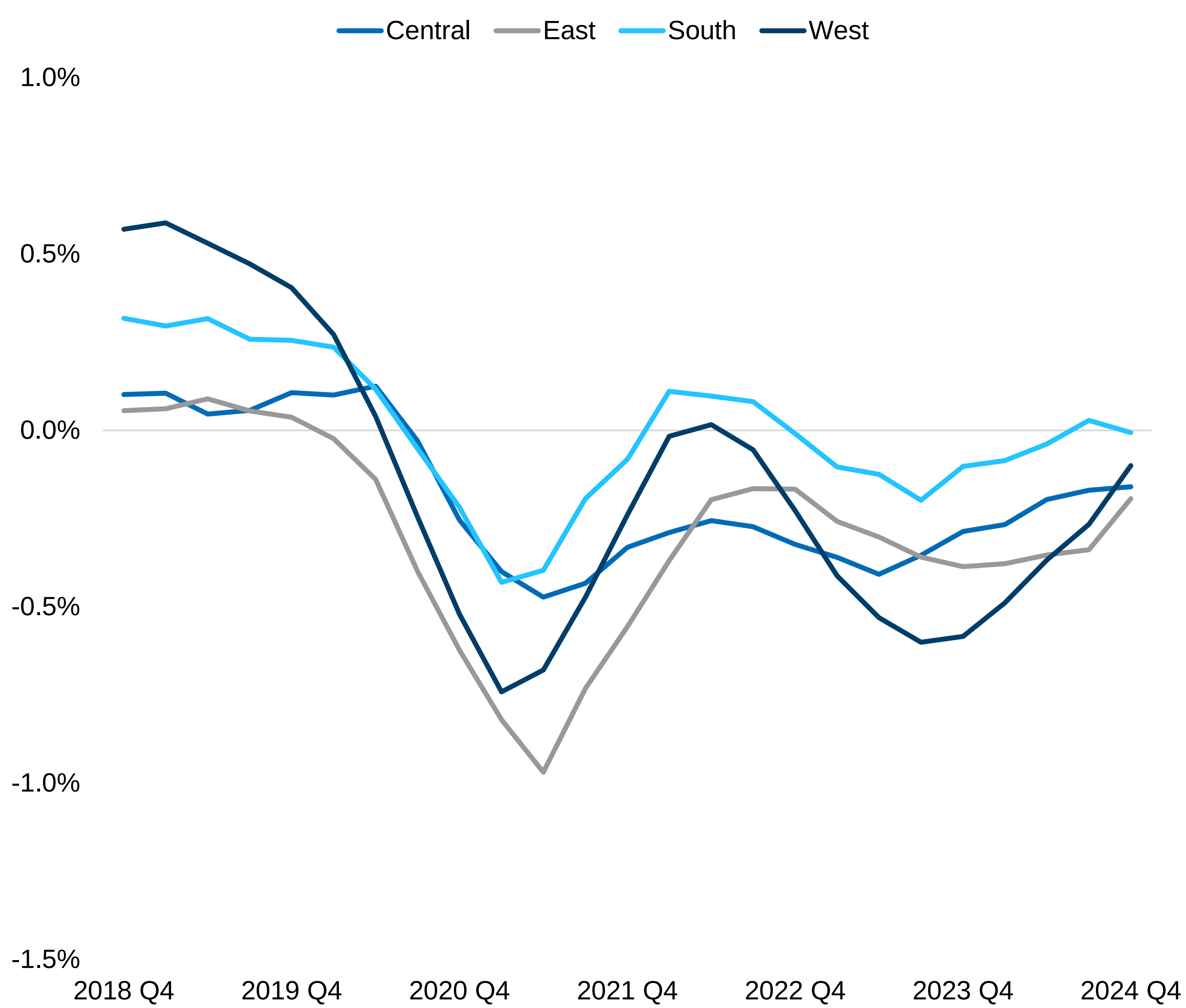


Source: CoStar, Newmark Research as of 1/23/2025

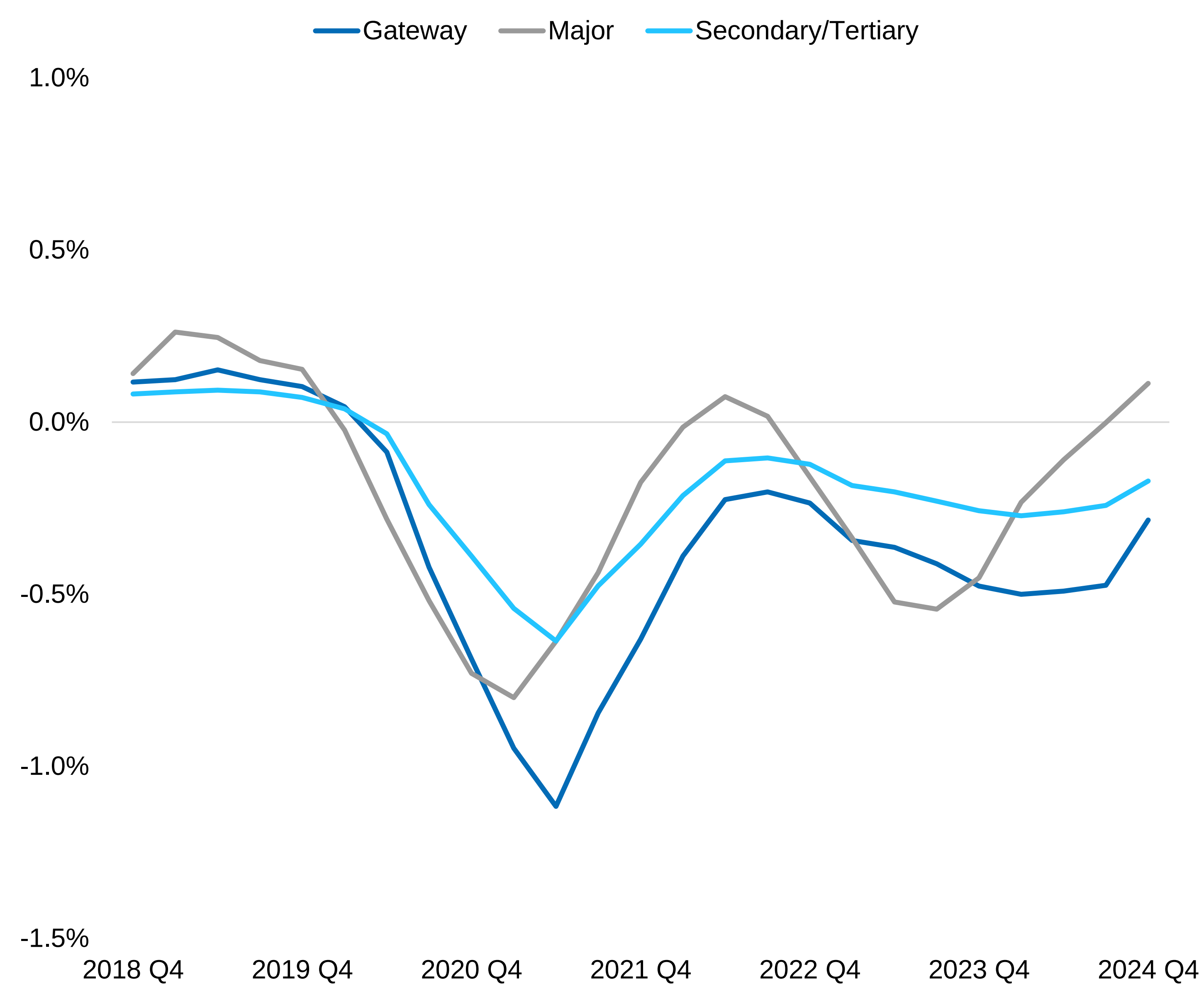
Major Markets Leading Occupancy Recovery

On a trailing four-quarter basis, net absorption remains negative across most regions and market tiers, with major markets being a notable exception. However, a steady trend of improvement is evident across regions and market sizes. While Western markets continue to underperform relative to pre-pandemic averages, they have shown significant progress in recent quarters, along with gateway markets.

Regional Net Absorption – 4-Quarter Trailing Average



Market Size Net Absorption – 4-Quarter Trailing Average

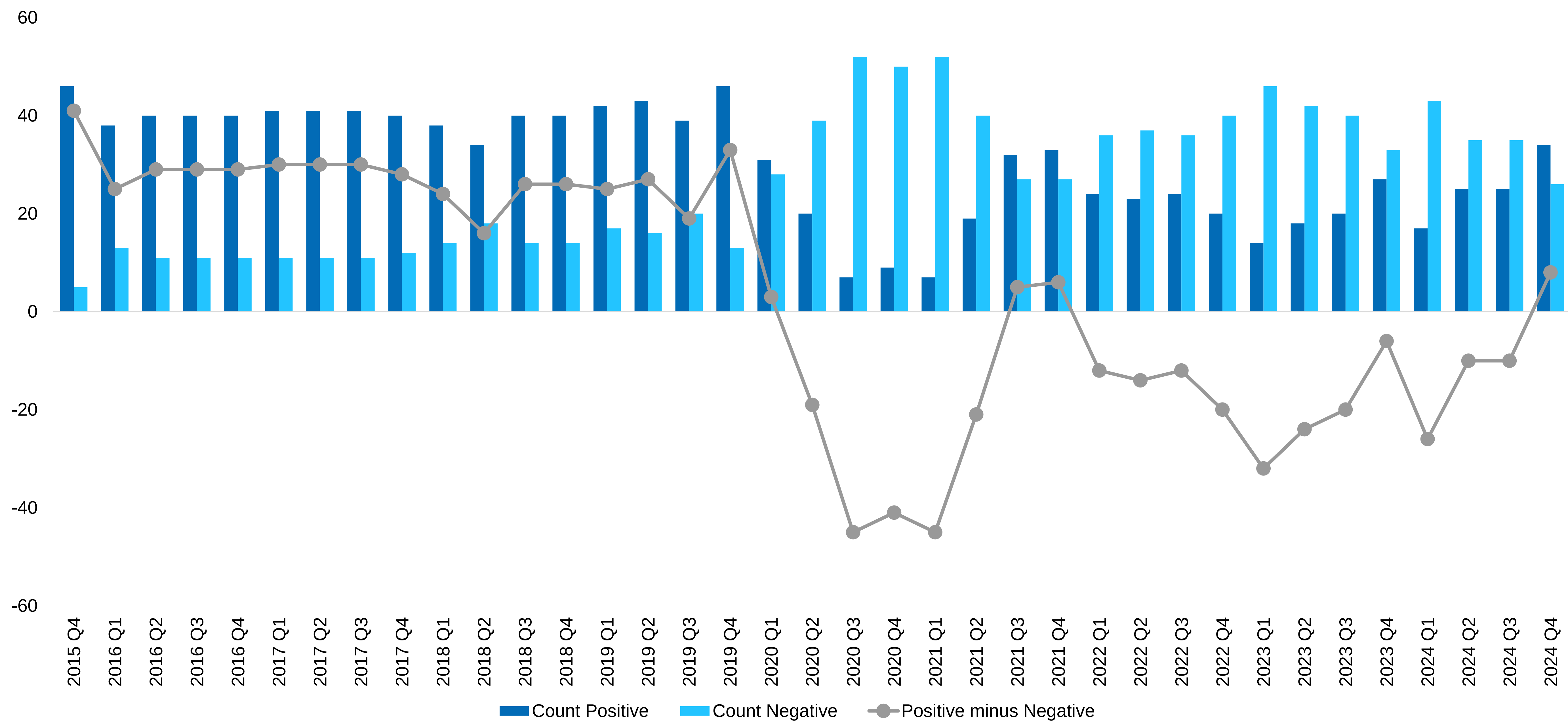


Source: CoStar, Newmark Research as of 1/23/2025

Net Absorption: Majority of Markets Capture Occupancy Growth in Fourth Quarter

In the fourth quarter of 2024, 34 markets posted positive net absorption, while 26 recorded negative net absorption, resulting in a diffusion index of 8—the first quarter of positive diffusion after 11 consecutive quarters of losses.

Positive vs. Negative Net Absorption Markets

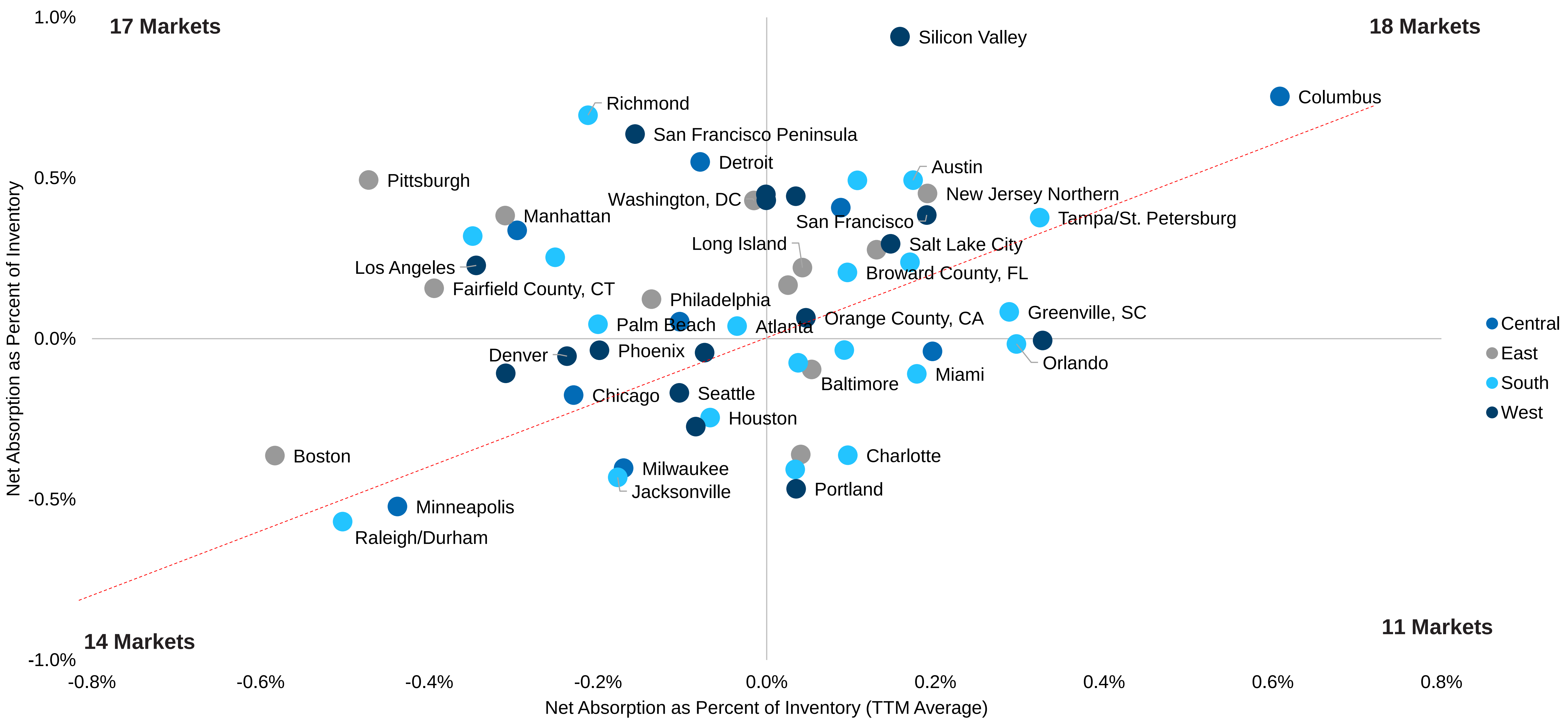


Sources: CoStar, Newmark Research as of 1/23/2025

Net Absorption Improves In 39 of 60 Markets

Alongside the national increase in occupancy during the fourth quarter of 2024, most tracked markets experienced improvements in net absorption as a percentage of inventory compared to the trailing 12-month average. These gains were geographically diverse, with a primary concentration in secondary markets.

Fourth Quarter 2024 Net Absorption Comparison

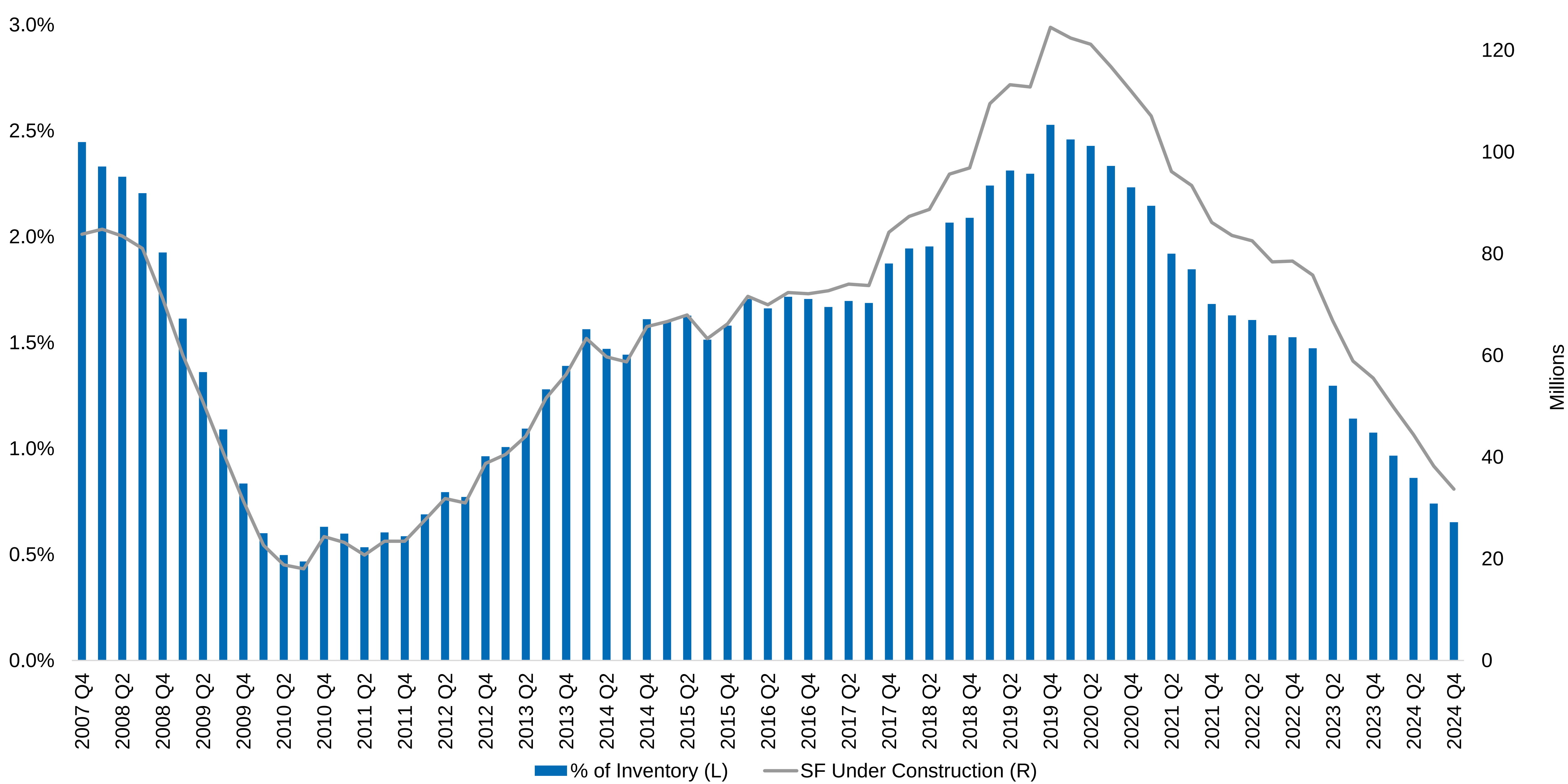


Source: CoStar, Newmark Research as of 1/23/2025

Office Construction Pipeline Continues To Contract

Office space under construction peaked at nearly 125 million SF in late 2019 but has steadily declined since. Construction activity decreased further in the fourth quarter of 2024 as developers adjusted pipelines to reflect recent shifts in demand. The continued contraction in the construction pipeline is expected to help limit vacancy growth, as a significant portion of post-pandemic supply remains unleased.

Under Construction: Percent of Inventory and Total Square Footage

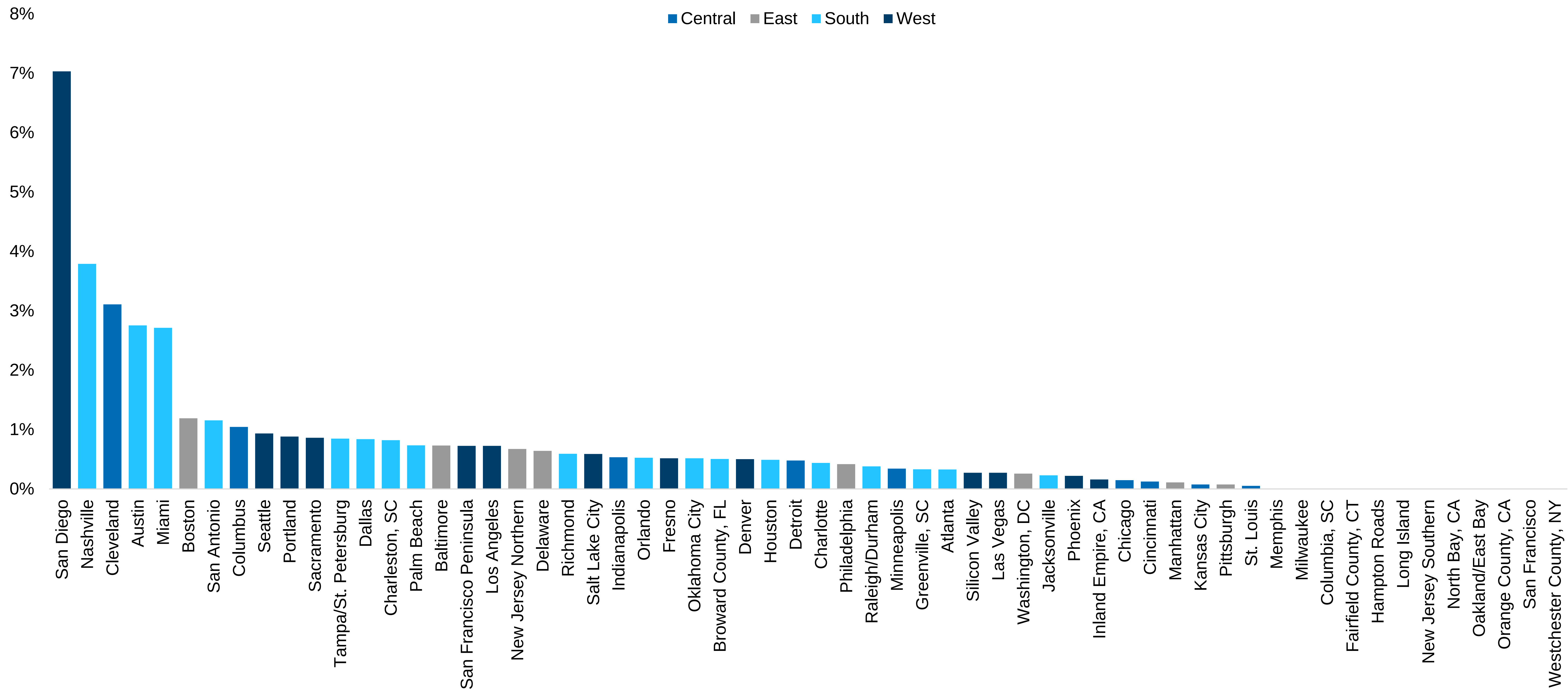


Sources: CoStar, Newmark Research as of 1/23/2025

Percent Of Inventory Under Construction Highest in Western and Southern Regions

Analyzing supply and demand through the percentage of inventory under construction reveals key insights into market balance. Western and Southern markets lead this metric, with San Diego's pipeline representing 7.0% of its inventory—the highest in the country. In contrast, Manhattan's under-construction volume accounts for just 0.1% of its inventory.

2024 Under Construction as Percent of Inventory

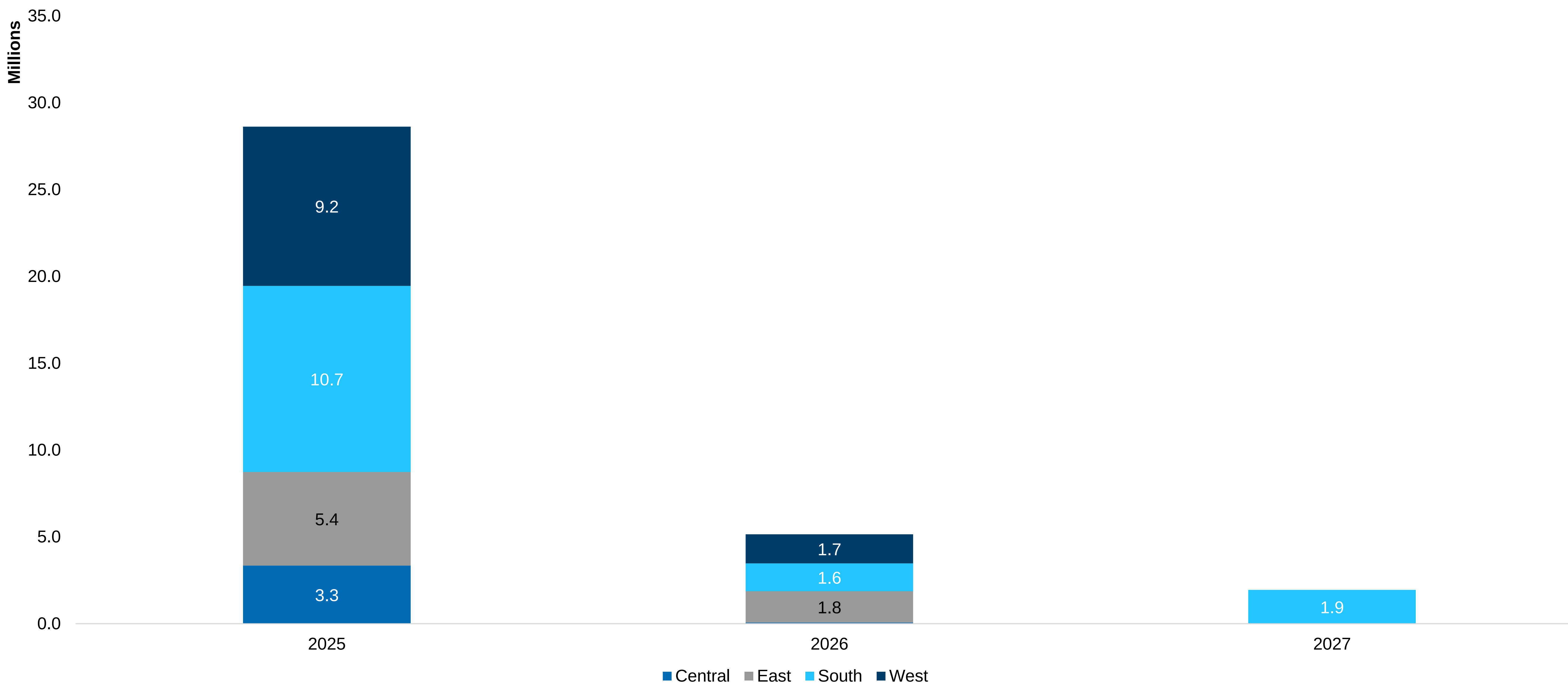


Source: Costar, Newmark Research as of 1/23/2025

Bulk of New Product Will Be Delivered In South

In absolute terms, 40.0% of the under-construction inventory is being built in the South region. Most of this product is slated for delivery by the end of 2025.

Current Under Construction Pipeline by Estimated Delivery Year

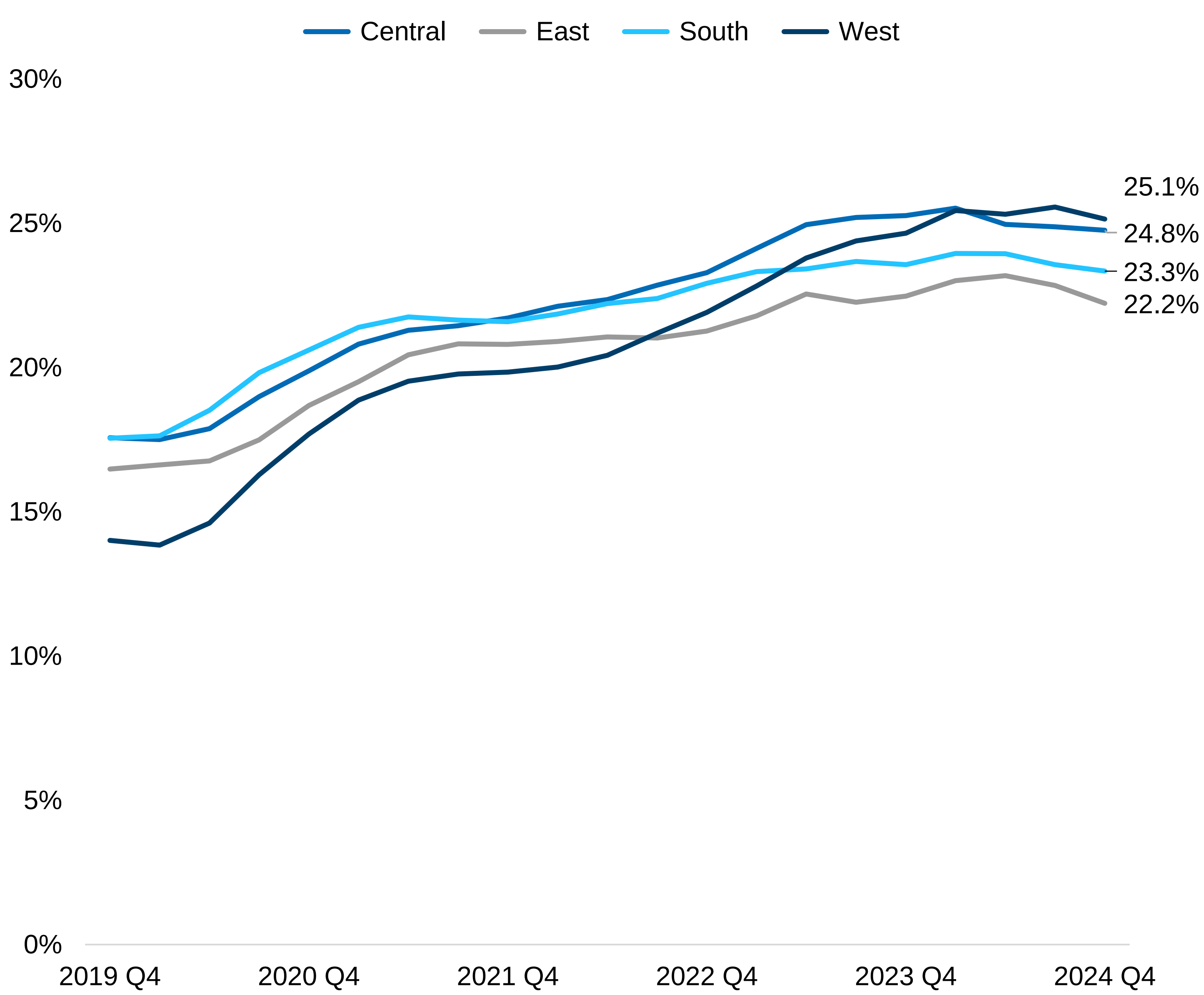


Source: Costar, Newmark Research as of 1/23/2025

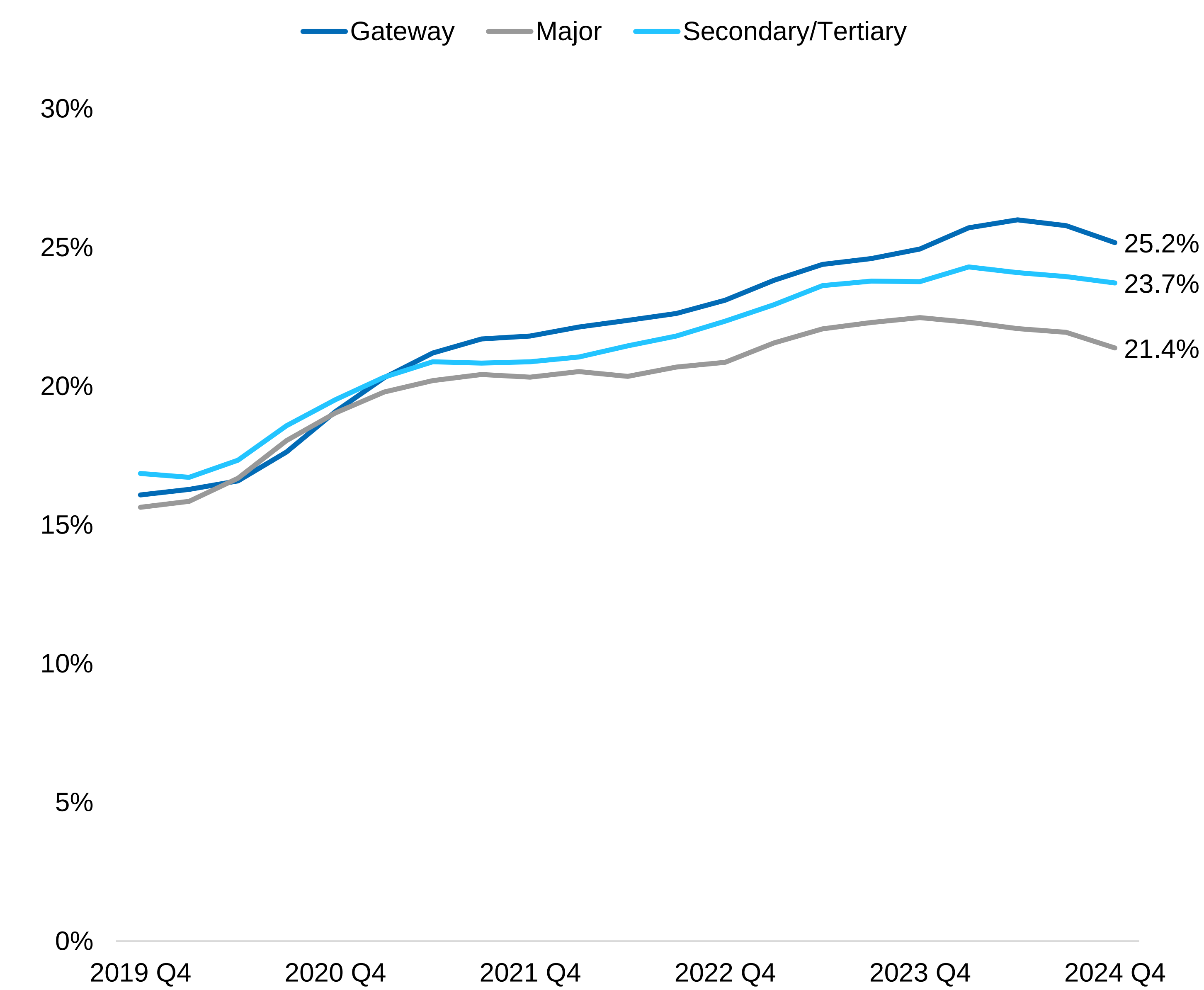
Availability Rates Trend Down After Recent Peak

Overall availability declined slightly quarter-over-quarter and is down 10 basis points year-over-year but remains elevated compared to historical levels. Major markets, particularly in the East region, have performed relatively well, though availability, sublease space, and vacancy rates in these areas continue to exceed historical norms.

Regional Office Market Availability Rate



Availability Rate Comparison By Market Size

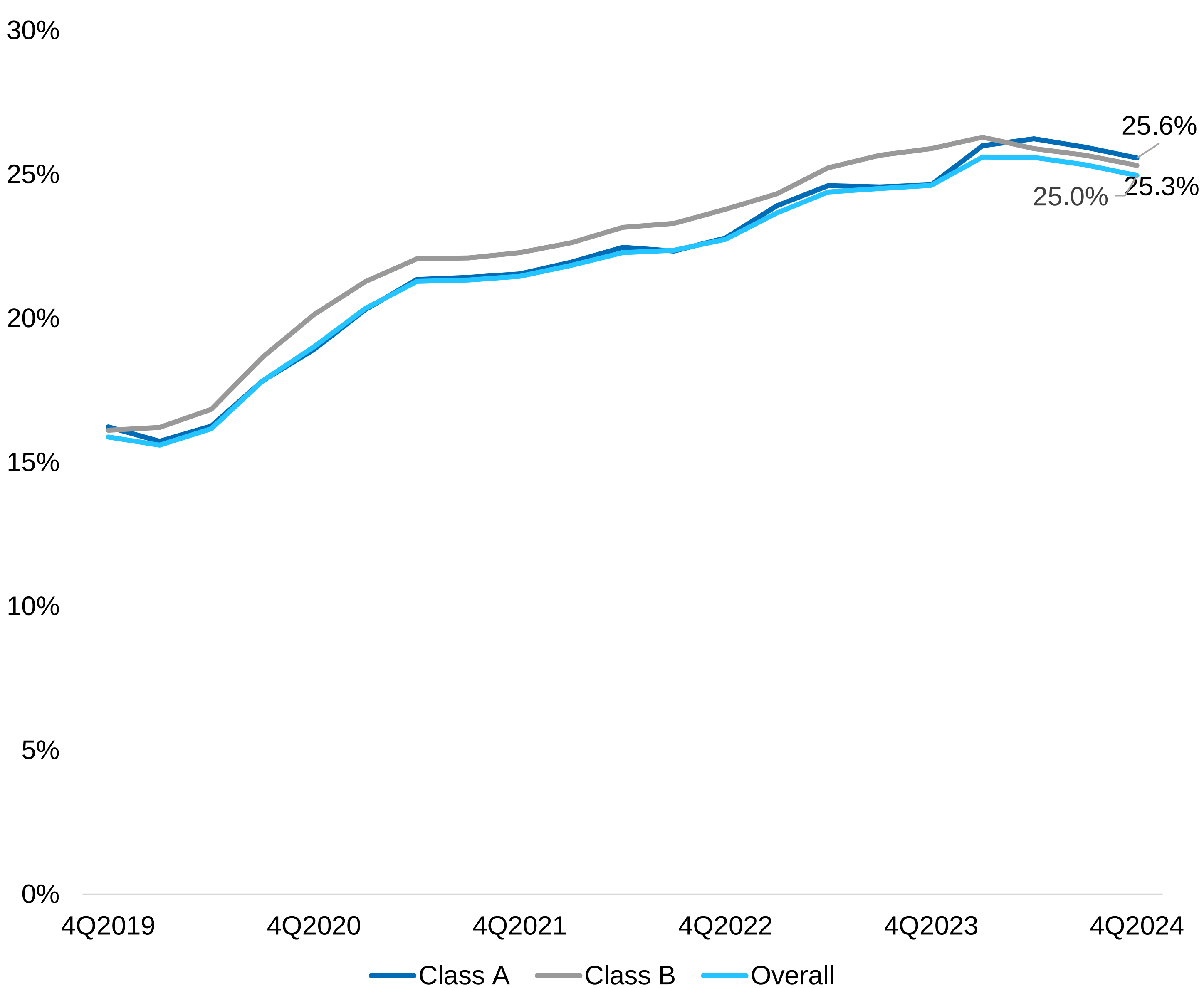


Sources: CoStar, Newmark Research as of 1/23/2025

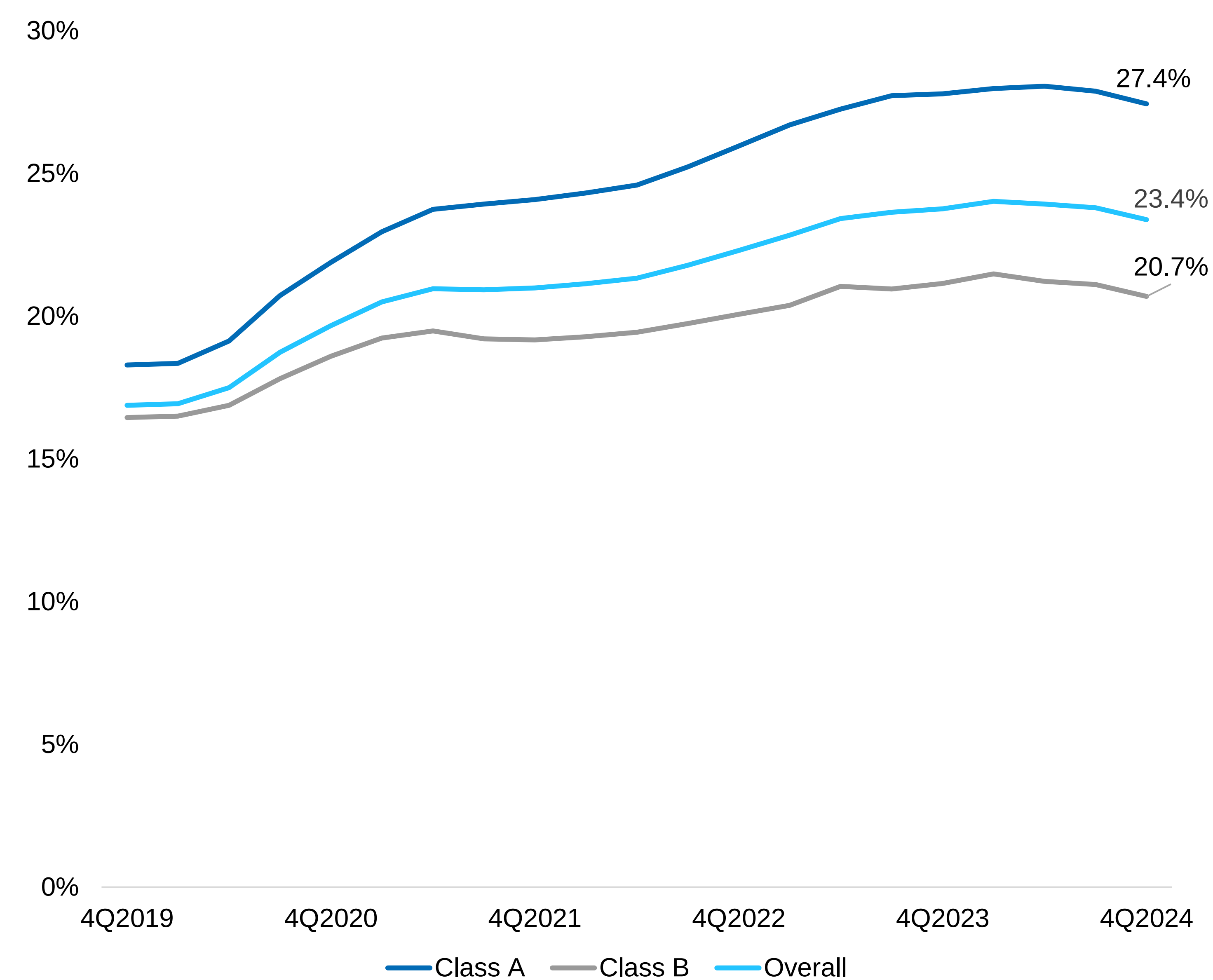
Availability Rates Contract Across Building Grades & Urbanization Levels

A disconnect exists between the strong preference for high-quality office space and overall market data. In CBD markets, Class A availability rates slightly exceed Class B, while in non-CBD markets, the gap is wider and growing. This may reflect a divide between trophy and commodity Class A buildings or suggest that Class A landlords prioritize rent levels over competing with Class B for occupancy.

Office Market Availability Rate By Class (CBD)



Office Market Availability Rate By Class (Non-CBD)

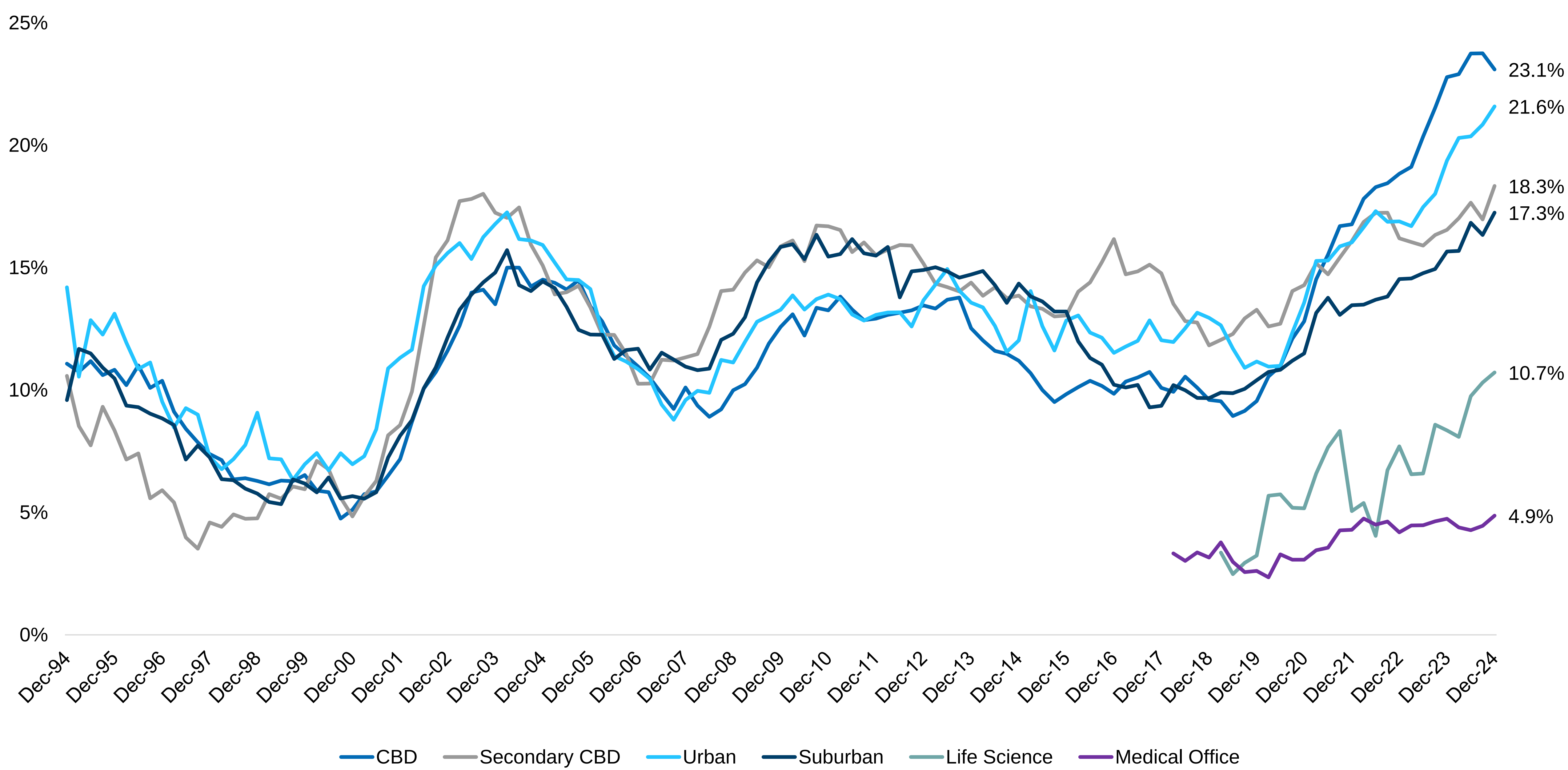


Source: CoStar, Newmark Research as of 1/23/2025

CBD Offices Face Challenges As Suburban & Niche Markets Outperform

CBD office buildings in NCREIF member portfolios currently have the highest availability rates, a shift from historical trends of milder downturns and faster recoveries. Suburban office holdings are also affected but to a lesser extent. There is no sign that availability has peaked. Life science and medical office properties maintain the lowest availability rates, though oversupply is beginning to impact life science. This strong performance has endured even as the property count has tripled.

NCREIF National Property Index Office Availability Rate

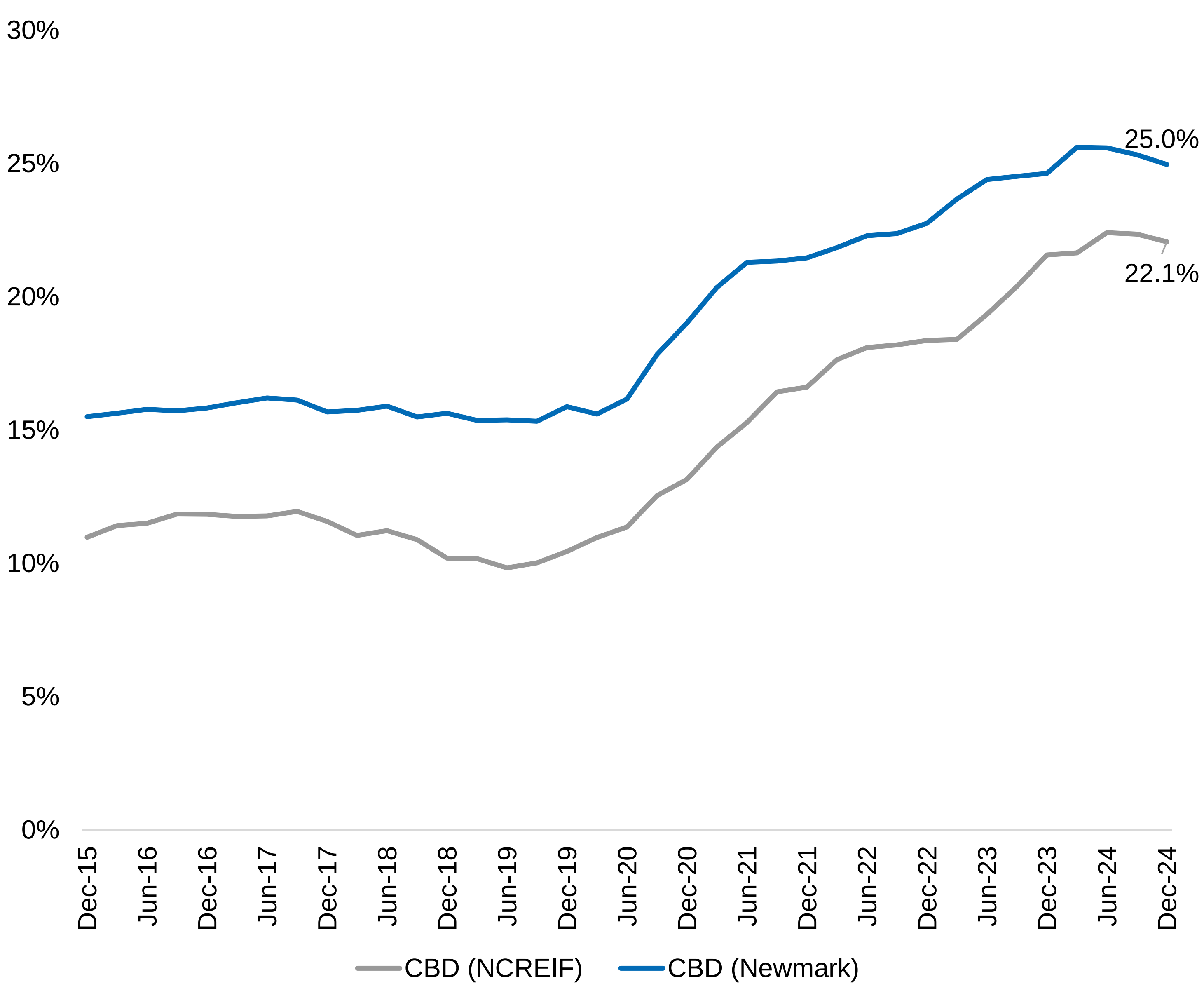


Sources: NCREIF, Newmark Research as of 1/27/2025
*We use the NCREIF National Property Index as a proxy for the national institutional grade office market.

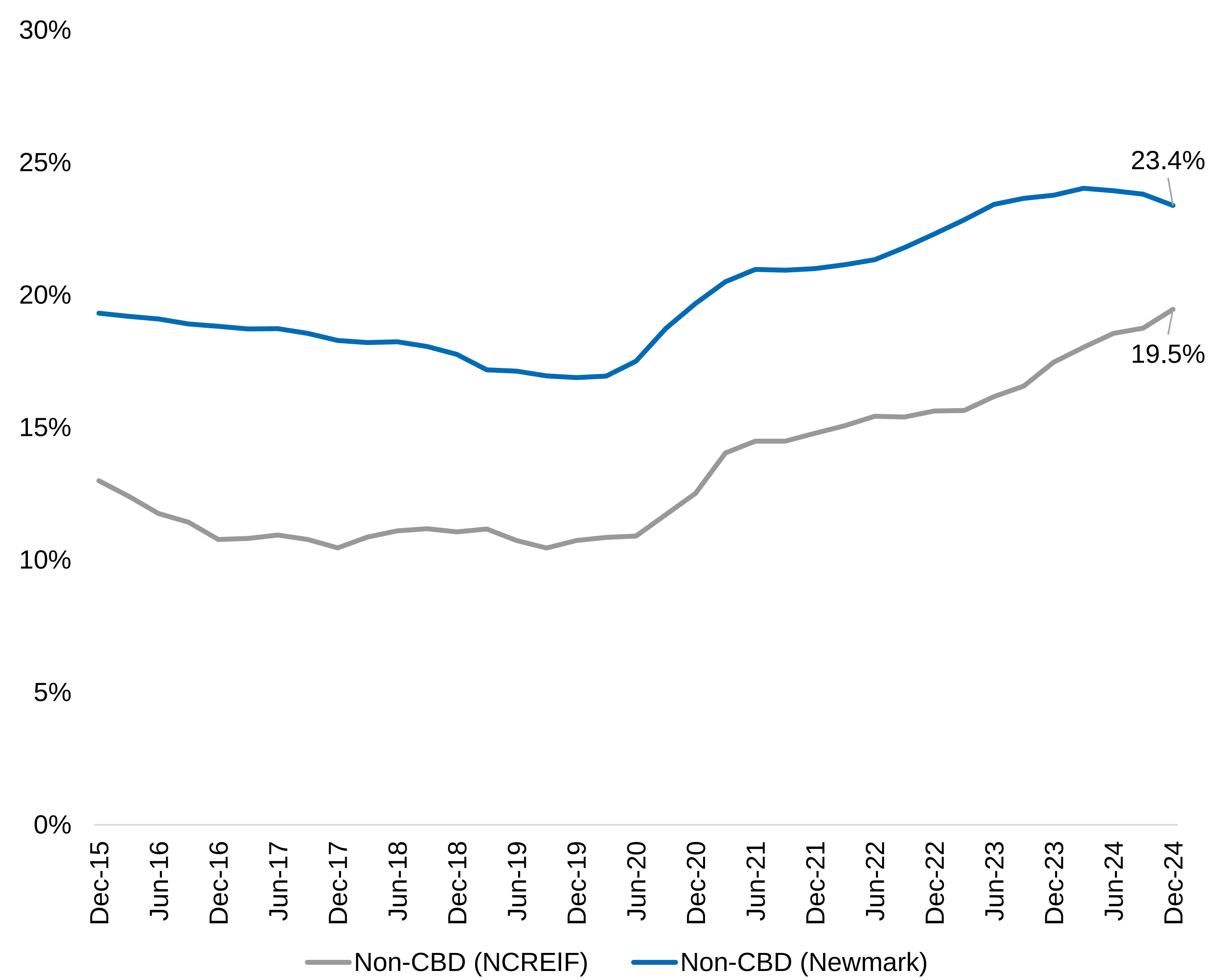
Institutional Core Consistently Beats Overall Market (With Caveats)

Historically, NCREIF member portfolios have outperformed the overall market in occupancy, though levels have steadily declined since 2020. Over the past decade, the number of buildings tracked by the NCREIF Property Index has dropped by 21.8% in CBD markets and 35.8% in non-CBD markets.

CBD Office Availability: Total Market vs. Institutional Core



Non-CBD Office Availability: Total Market vs. Institutional Core

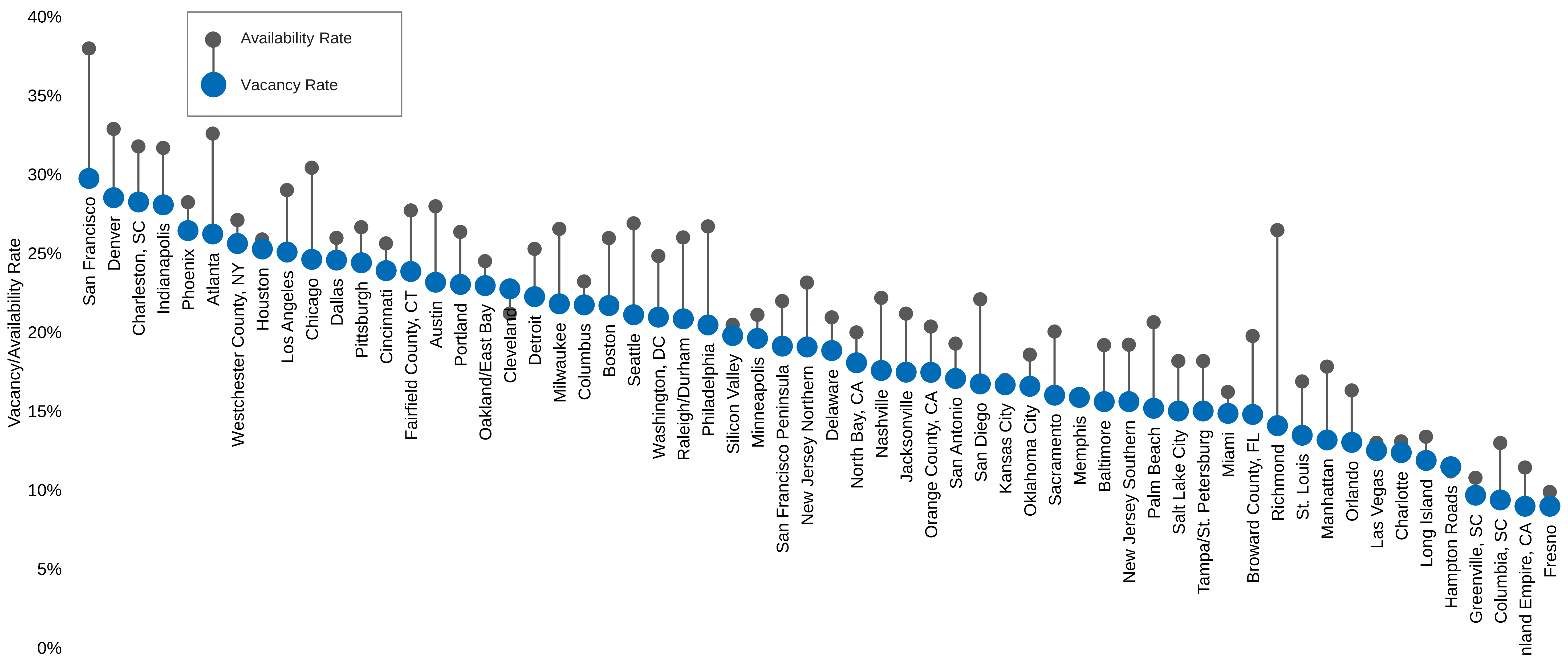


Sources: NCREIF, Newmark Research as of 1/27/2025
*We use the NCREIF National Property Index as a proxy for the national institutional grade office market.

Vacancy & Availability By Market

Both vacancy and availability have been trending upward, with the extent of increases varying by market. Healthier markets typically feature low vacancy and a narrow availability spread. Markets such as Seattle, Raleigh/Durham, Richmond, and San Diego maintain relatively low vacancy, though rising availability reveals underlying weaknesses. Meanwhile, more challenged markets like San Francisco, Atlanta, and Denver face both high vacancy and high availability.

Vacancy and Availability Rate by Market

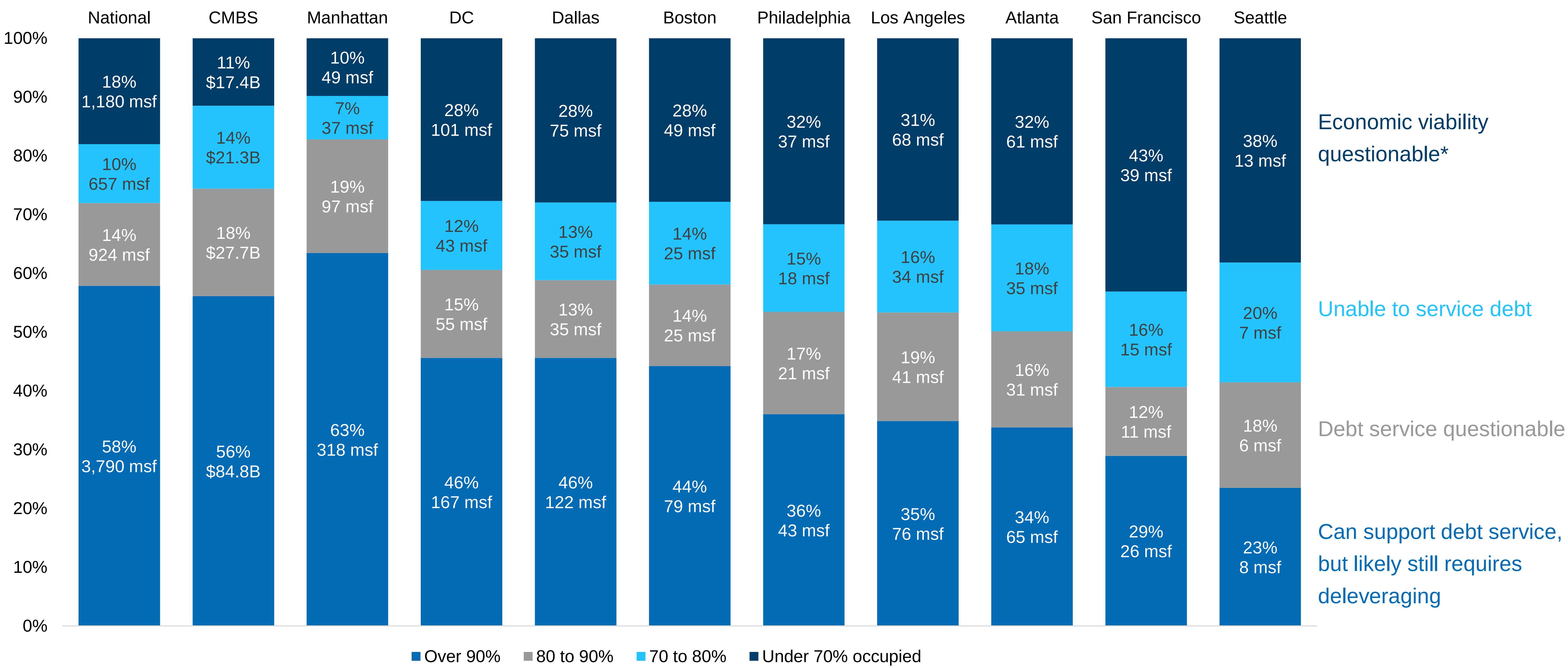


Source: CoStar, Newmark Research as of 1/23/2025

Vacancy Is Not Evenly Distributed Within Markets, Nor Will Impairments Be

A significant portion of the office market faces structural occupancy challenges, with debt issues expected to accelerate declines. Conversely, many offices maintain healthy occupancy levels. While some of these may be over-leveraged, they have a clear path to solvency.

Distribution of Office Vacancy

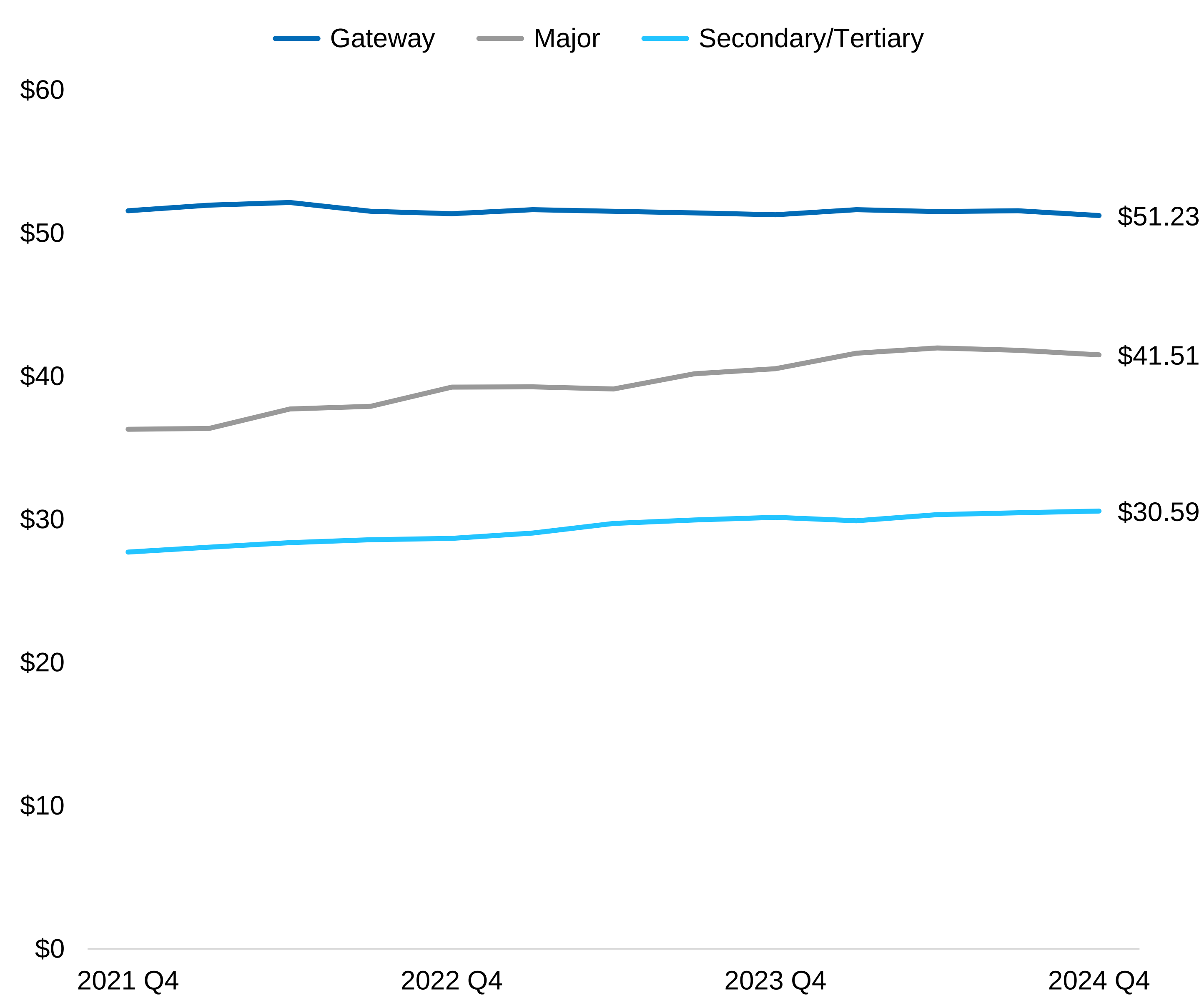


Source: Costar, Newmark Research as of 1/23/2025
*Would require repositioning, sale of the asset, or substantial transactions.

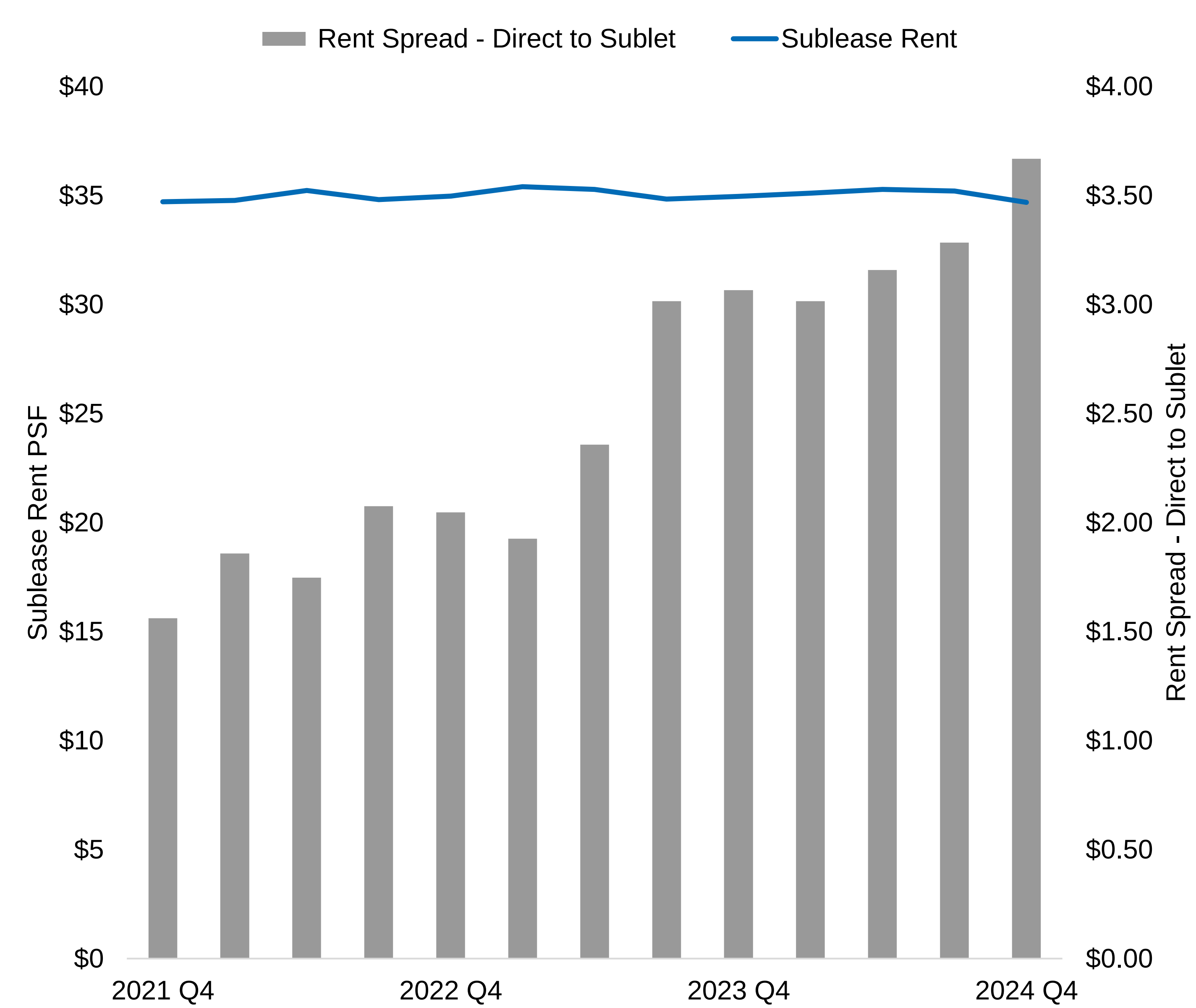
Asking Rents Defy Gravity (Though Stable)

In past cycles, asking rents declined with weakened demand, but they have largely held steady since the pandemic. Sublease rents, however, fell slightly over the past year, widening the spread between sublease and direct space rents to near record highs.

Overall Asking Rents Up 0.8% YoY in 4Q24



Sublet Rents Stabilized; Rent Spread Relative to Direct Rates Near All-Time High

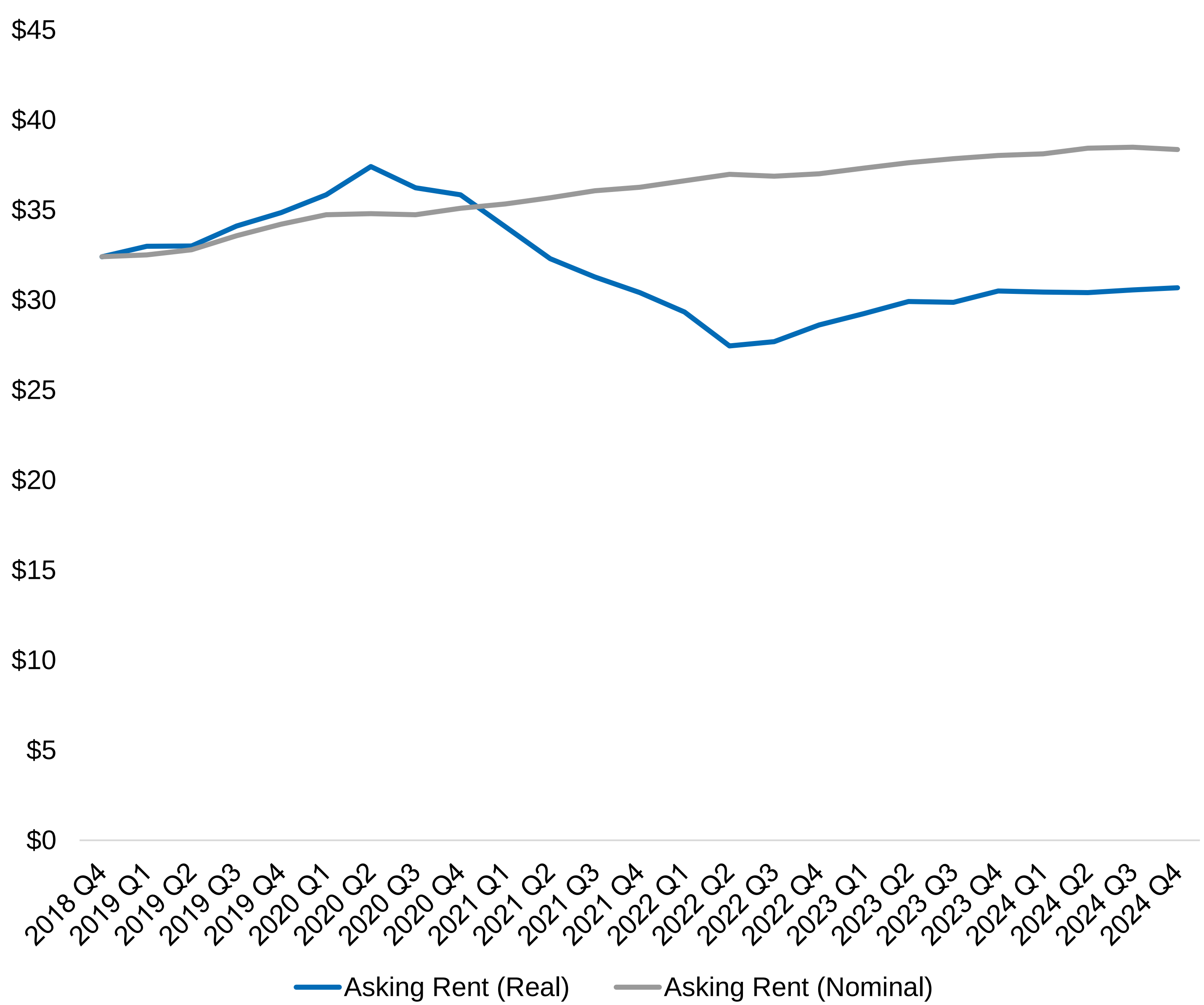


Source: CoStar, Newmark Research as of 1/23/2025

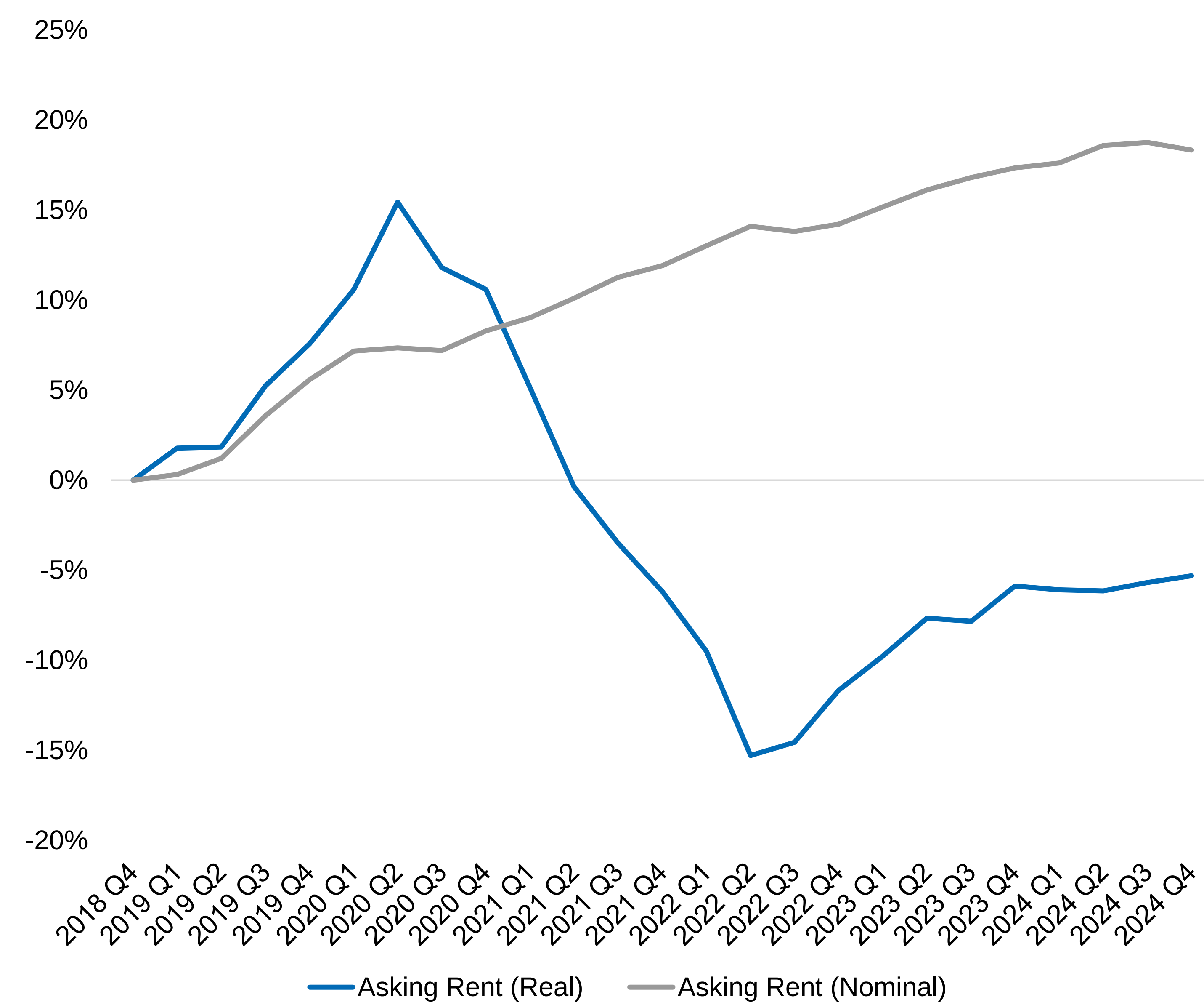
…But Real Rents Have Borne the Brunt of Inflation

A more nuanced rent picture emerges when factoring in the producer price index, which has risen nearly 25.0% since the fourth quarter of 2018. This has created a significant spread between nominal rents and real rents adjusted for inflation, suggesting that inflation has effectively reduced rents relative to the cost of other goods and services consumed by office-using businesses.

Nominal Rent Level vs. Real Rent Level



Nominal Rent vs. Real Rent: Cumulative Change Since 4Q18

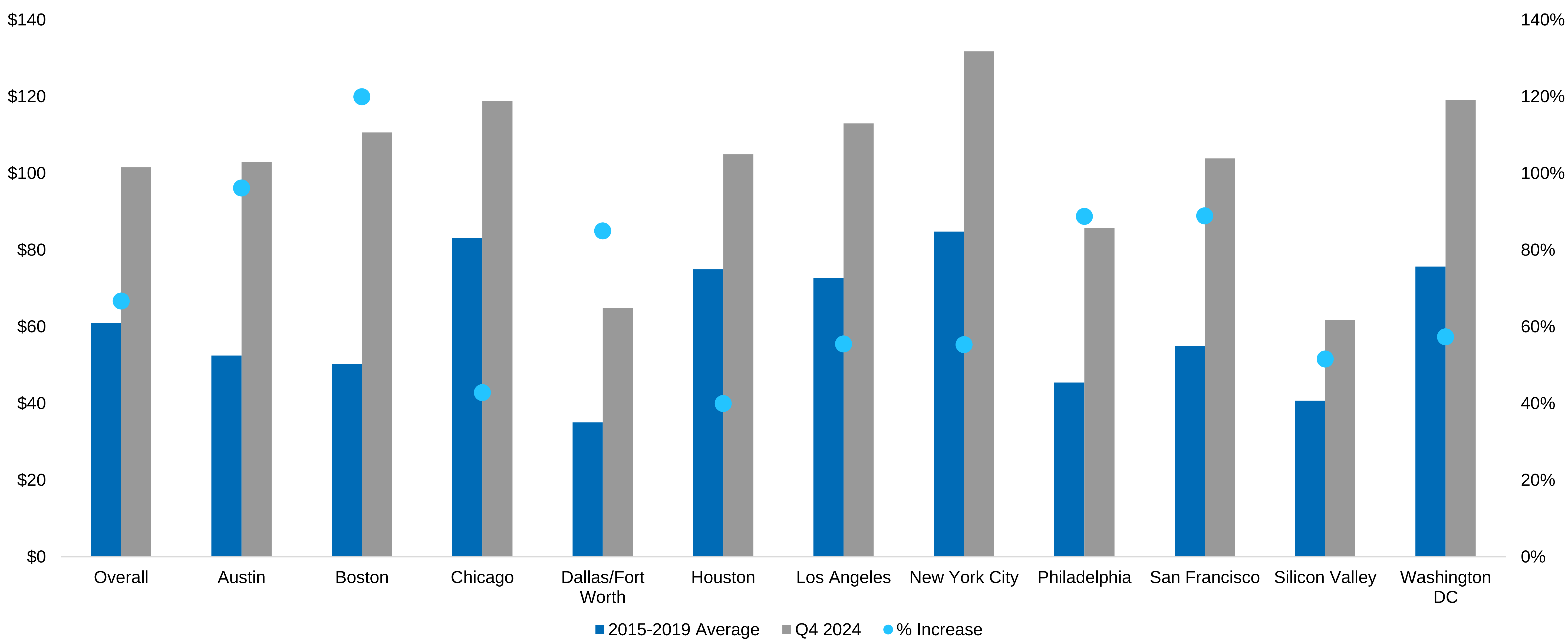


Source: CoStar, Newmark Research as of 2/6/2025
Note: Nominal rents are deflated by Producer Price Index: All Commodities (PPIACO) indexed to Q4 2018 to produce real rent data.

Rising Concessions Have Absorbed Some Market Adjustment

To maintain elevated asking rents, landlords are offering larger concessions to attract and retain tenants. Tenant improvement allowances have risen 65.6% above the 2015-2019 average, with especially high levels in markets like New York City and Washington, DC.

Tenant Improvement Comparison Between Pre-Pandemic and Current Period

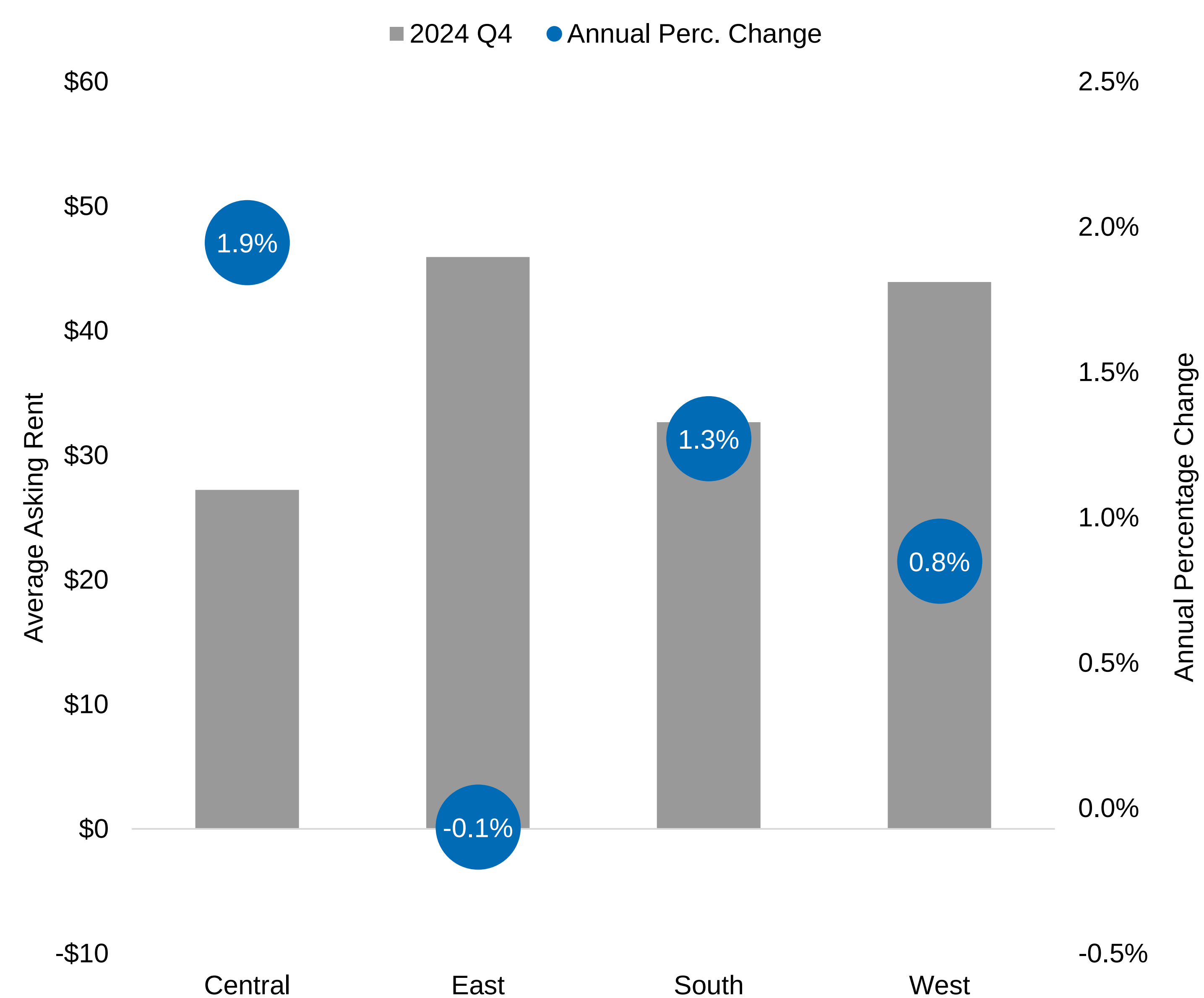


Source: CoStar, Newmark Research as of 1/28/2025

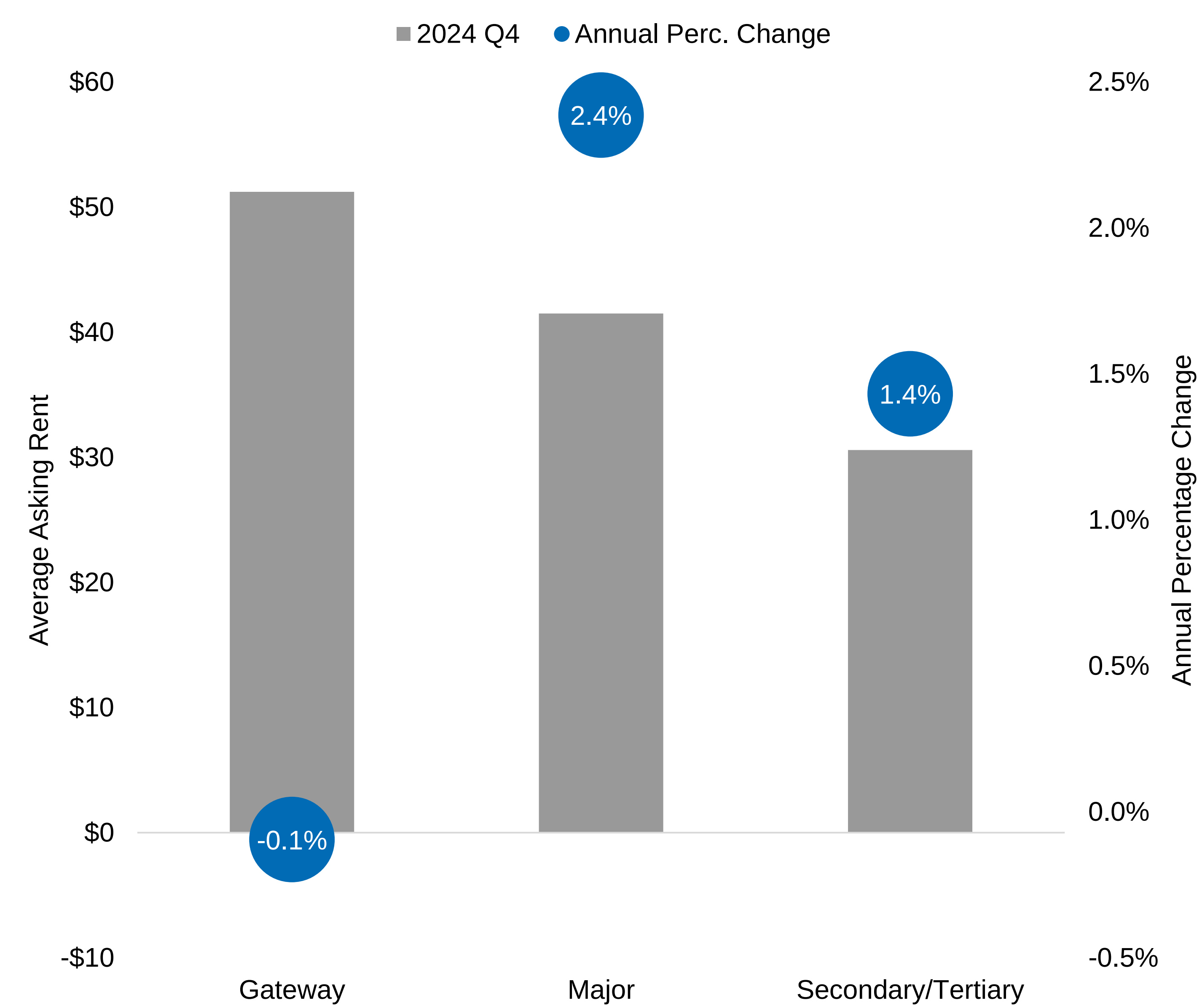
Central & South Regions, Major Markets Lead Rent Growth

Overall asking rents remain highest in major coastal markets such as San Francisco, Manhattan, and Silicon Valley. The Central Region posted strong annual rent growth in the fourth quarter, driven by smaller markets attracting office demand despite broader challenges. However, effective rents face pressure, with modest compression in some areas.

Asking Rents Growing Fastest in the Central and South Regions



Major Non-Gateway Markets Experiencing the Most Rent Growth

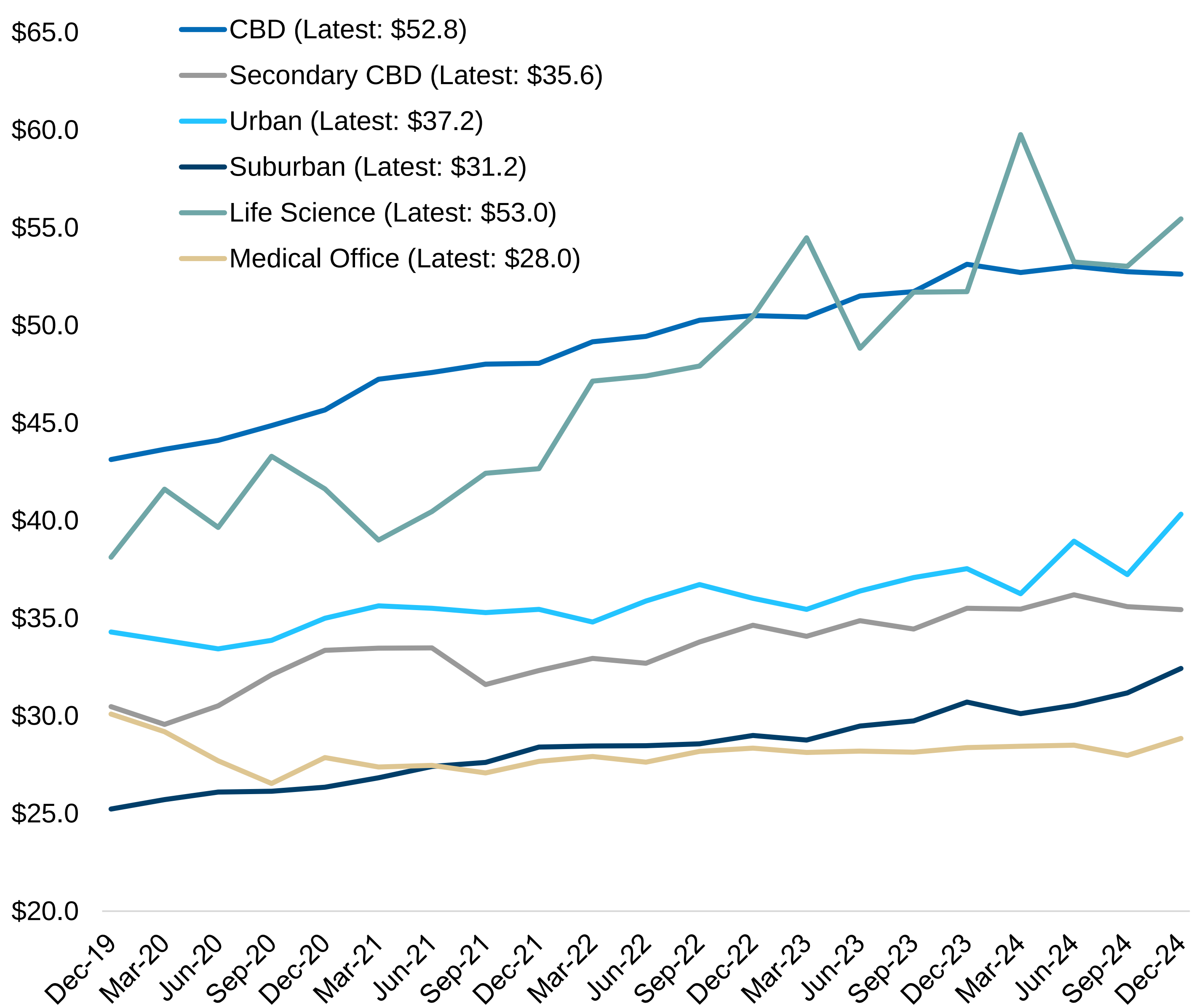


Source: CoStar, Newmark Research as of 1/04/2025

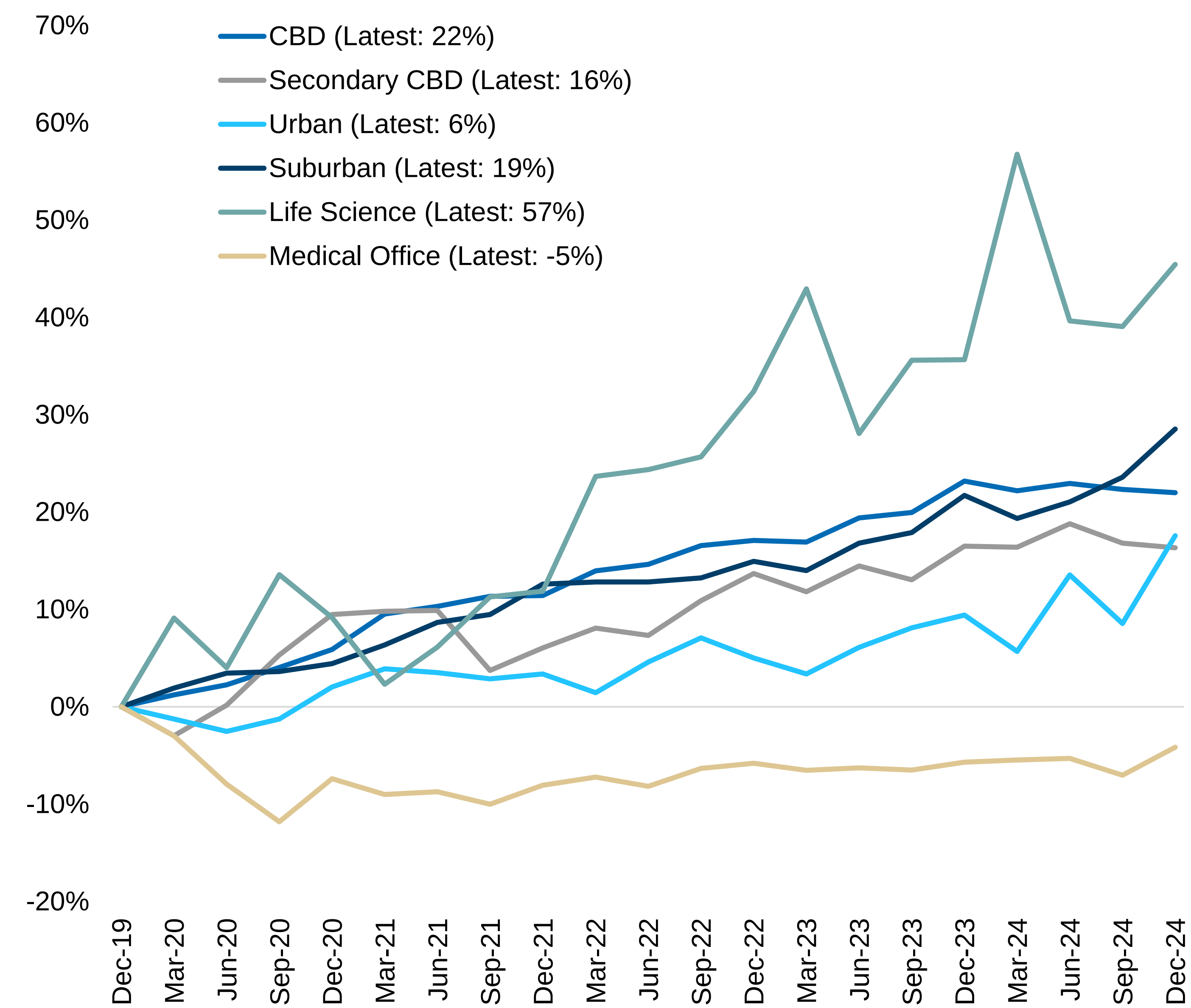
Institutional Core Building Rent Per SF Has Grown Since 4Q 2019

The relatively strong rent performance is surprising given negative office sentiment. Despite declining occupancy, rents on occupied spaces have remained stable or risen, driven by long-term leases that support cash flows. However, this stability does not fully offset the cash flow impact of falling occupancy.

Rent Paid per Occupied Square Foot



Cumulative Change in Rent Paid per Occupied Square Foot Since 4Q19

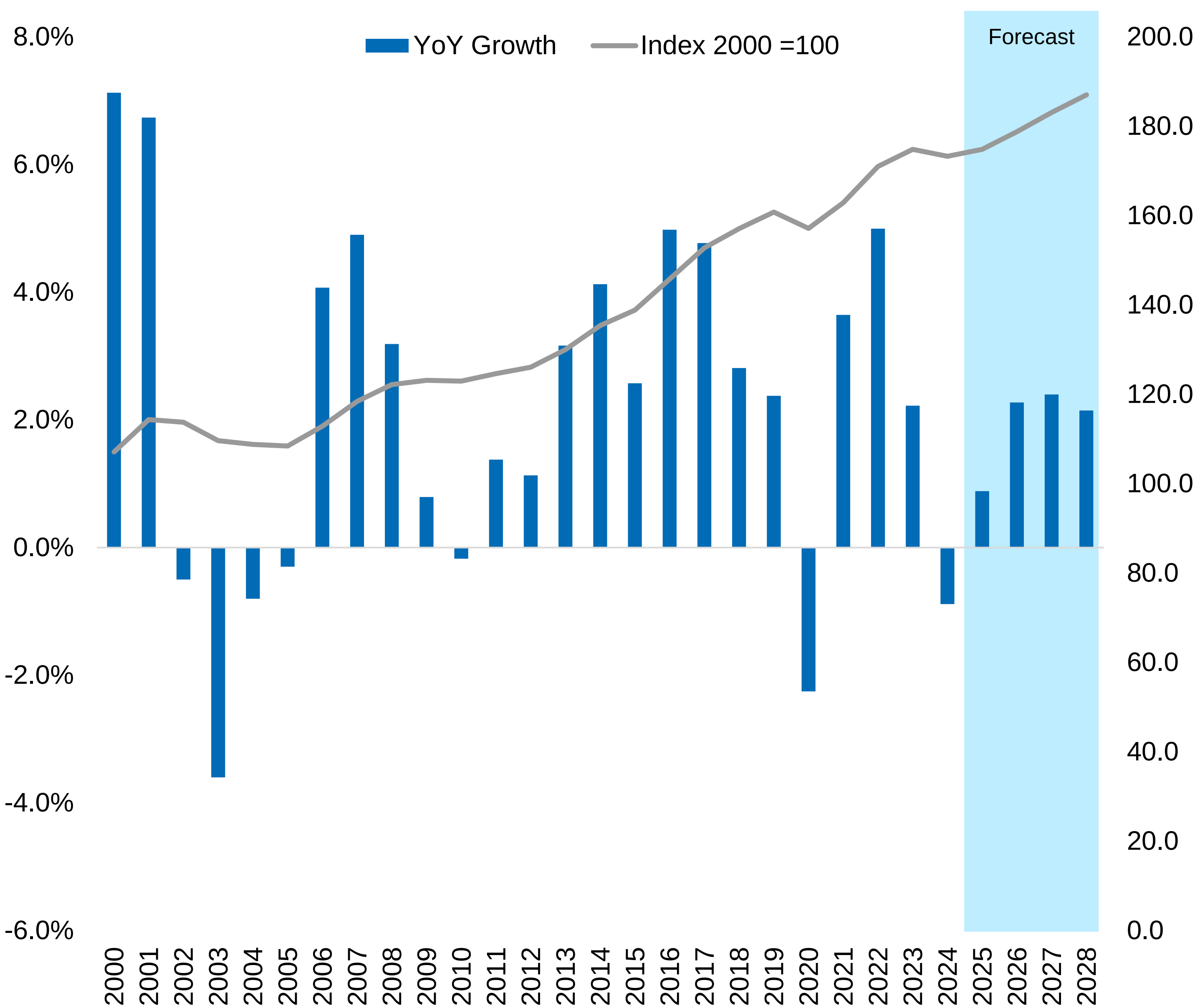


Source: NCREIF, Newmark Research as of 1/27/2024

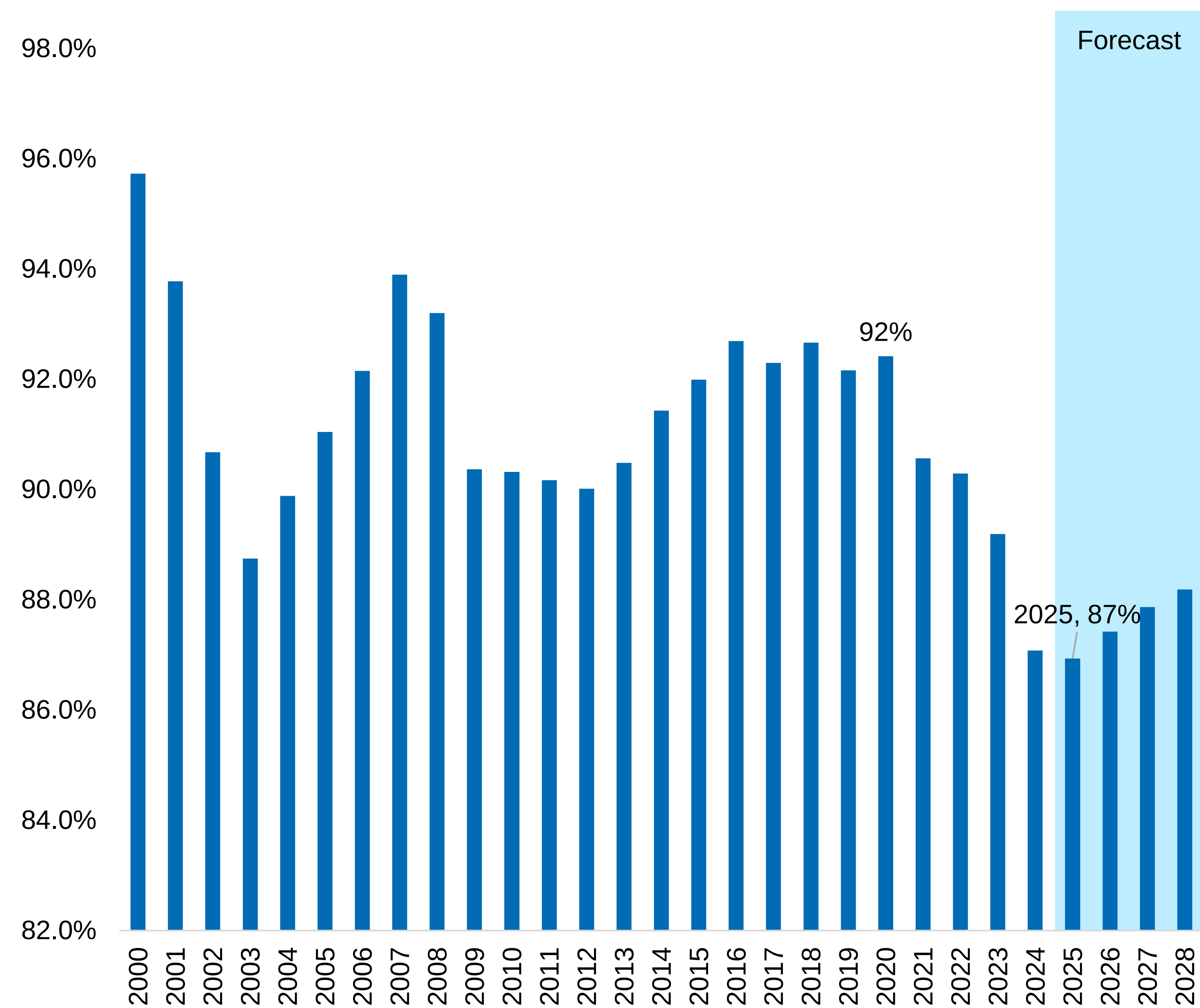
Office REITs Have Outperformed the Overall Market

Office REIT portfolios have been affected by weakening office fundamentals. Same-store occupancy is expected to bottom at 87%, down from 92% in early 2020—a moderate decline compared to the broader market's drop from 86.9% to 81.8%. Despite a projected dip in 2024, NOI growth has shown resilience, with stabilization setting the stage for moderate growth in the coming years.

REIT Same-Store NOI



REIT Same-Store Occupancy

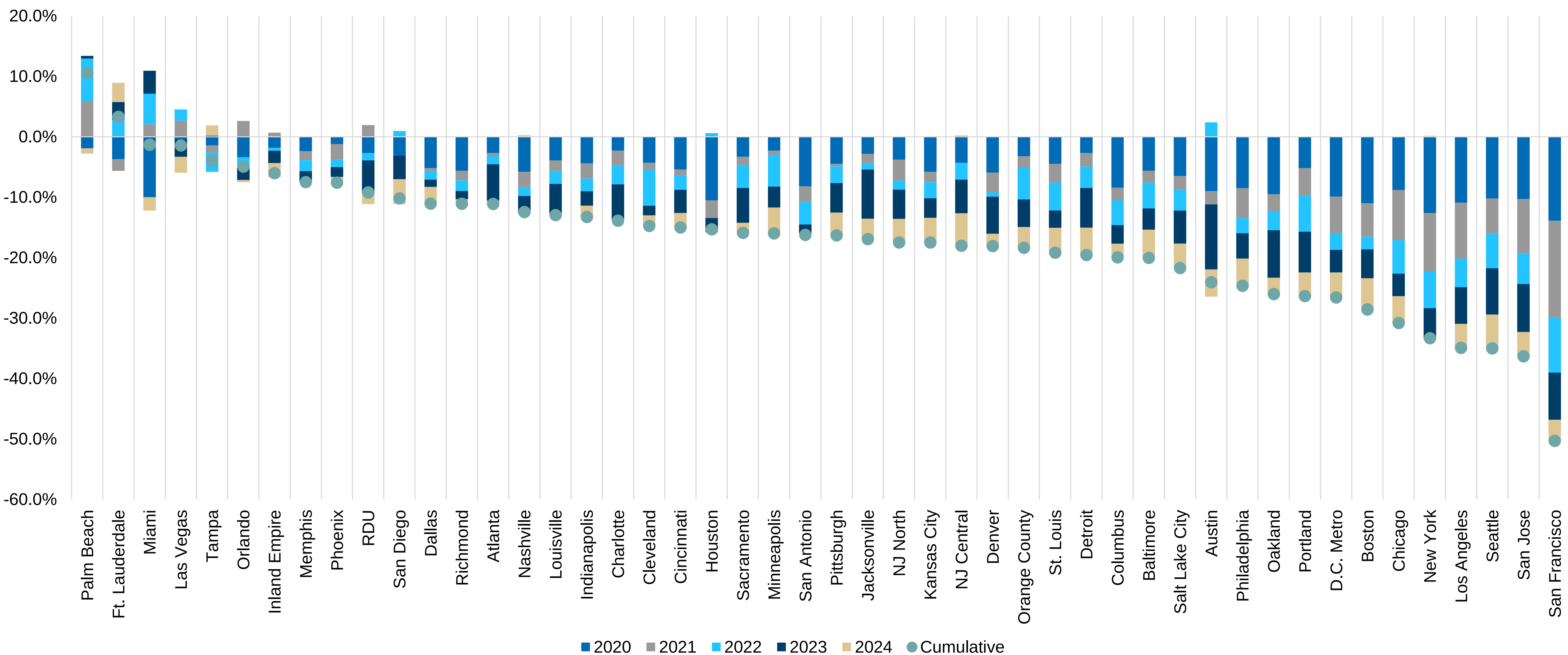


Source: Green Street data as of 1//1/2025, Newmark Research

RevPAF* Continued To Contract In Most Markets, But Pace Has Slowed

Since 2020, Sun Belt markets have outperformed, with strong results in Florida, the Inland Empire, and Memphis. In contrast, San Francisco remains the most impacted market, with other gateway markets—New York, San Jose, Seattle, Los Angeles, Chicago, and DC—also experiencing significant declines.

M-RevPAF Growth by Market

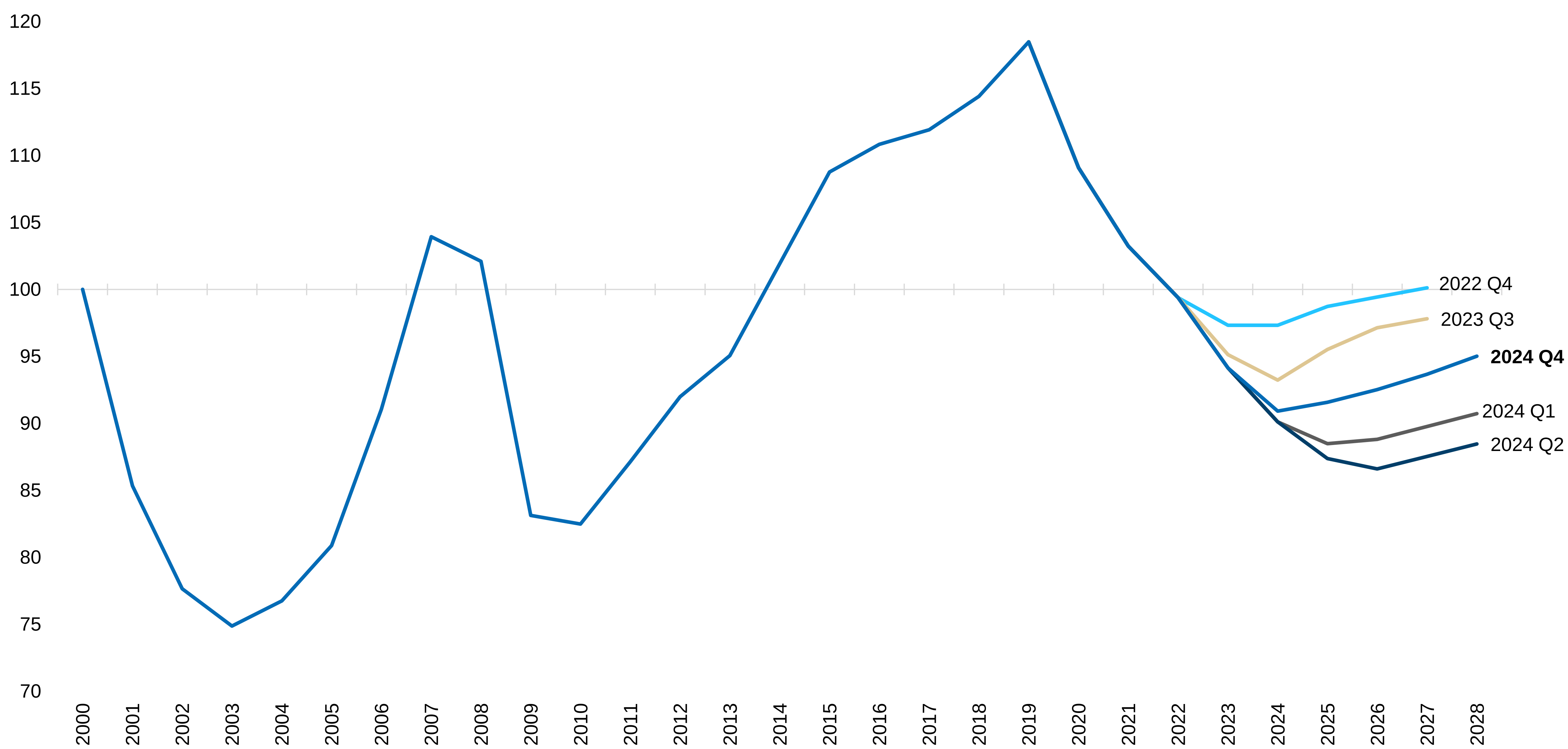


Source: Green Street data as of 1/27/2025, Newmark Research
*Market revenue per available foot combines the impact of changes in effective rents and occupancy to produce a measure of overall leasing market performance.

Forecasts Improved In Q4

The improving economic outlook has positively influenced the office forecast in the fourth quarter of 2024. Following several quarters of downward revisions, Green Street now projects the office market to bottom in 2024.

Green Street M-RevPAF Forecast Revisions (December 2000 = 100)



Sources: Green Street, Newmark Research as of 1/14/2025

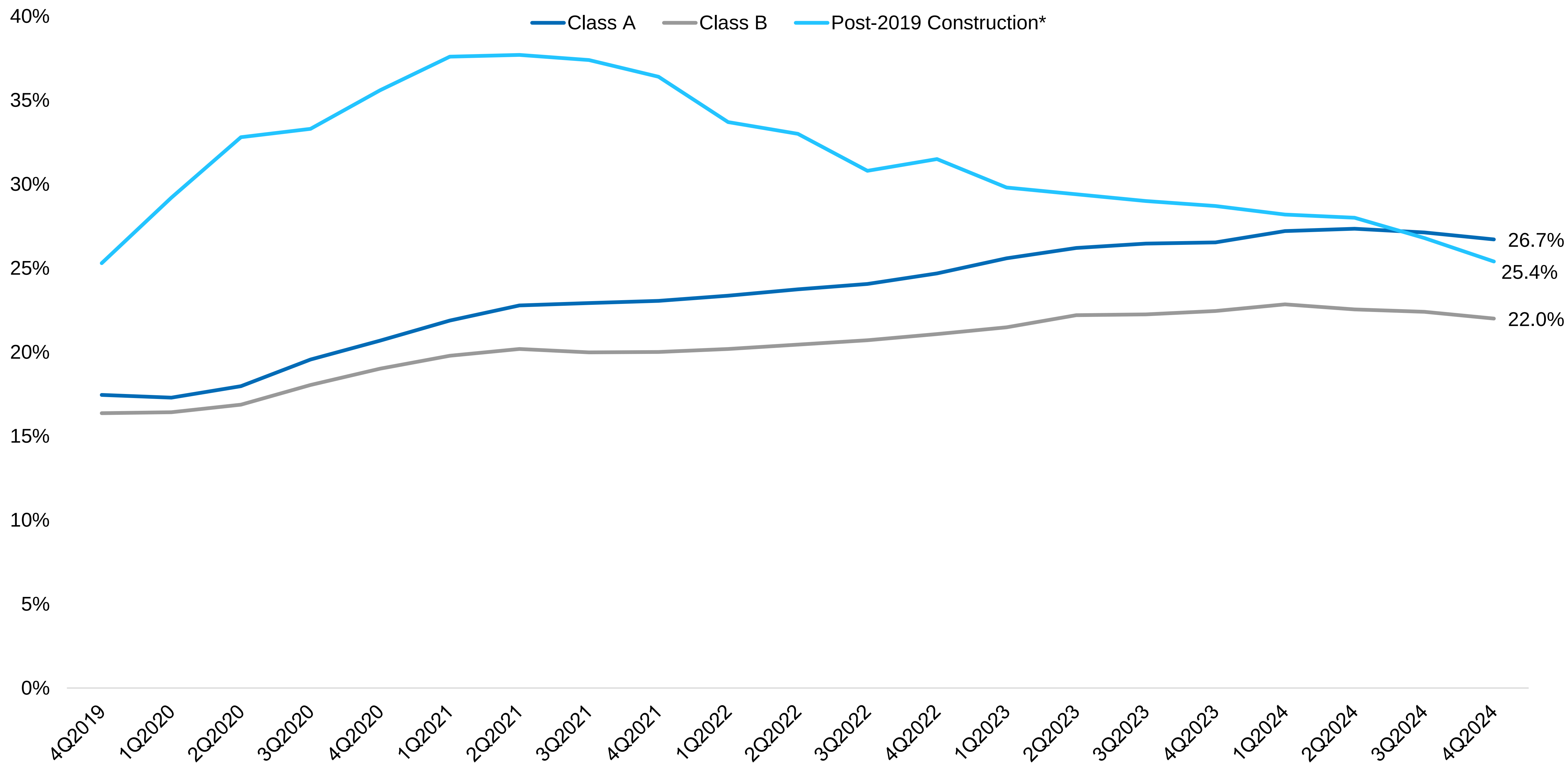
Class Conundrum

We often hear the office market described as a split between “trophy” and “trauma.” While it’s true that trophy assets are outperforming, we also see additional nuances and inefficiencies in today’s market—notably, the paradoxical resilience of Class B office space compared to commodity Class A properties.

Class B Beats Class A, But New Product Will Soon Beat Both

Before the pandemic, Class A and Class B availability rates were nearly identical, but the gap has since widened as Class A office has underperformed. Newly constructed office space initially experienced a surge in availability as new supply outpaced demand. However, steady leasing has improved occupancy rates, with new stock now outperforming existing Class A properties and nearing Class B levels.

Office Market Availability Rate By Class

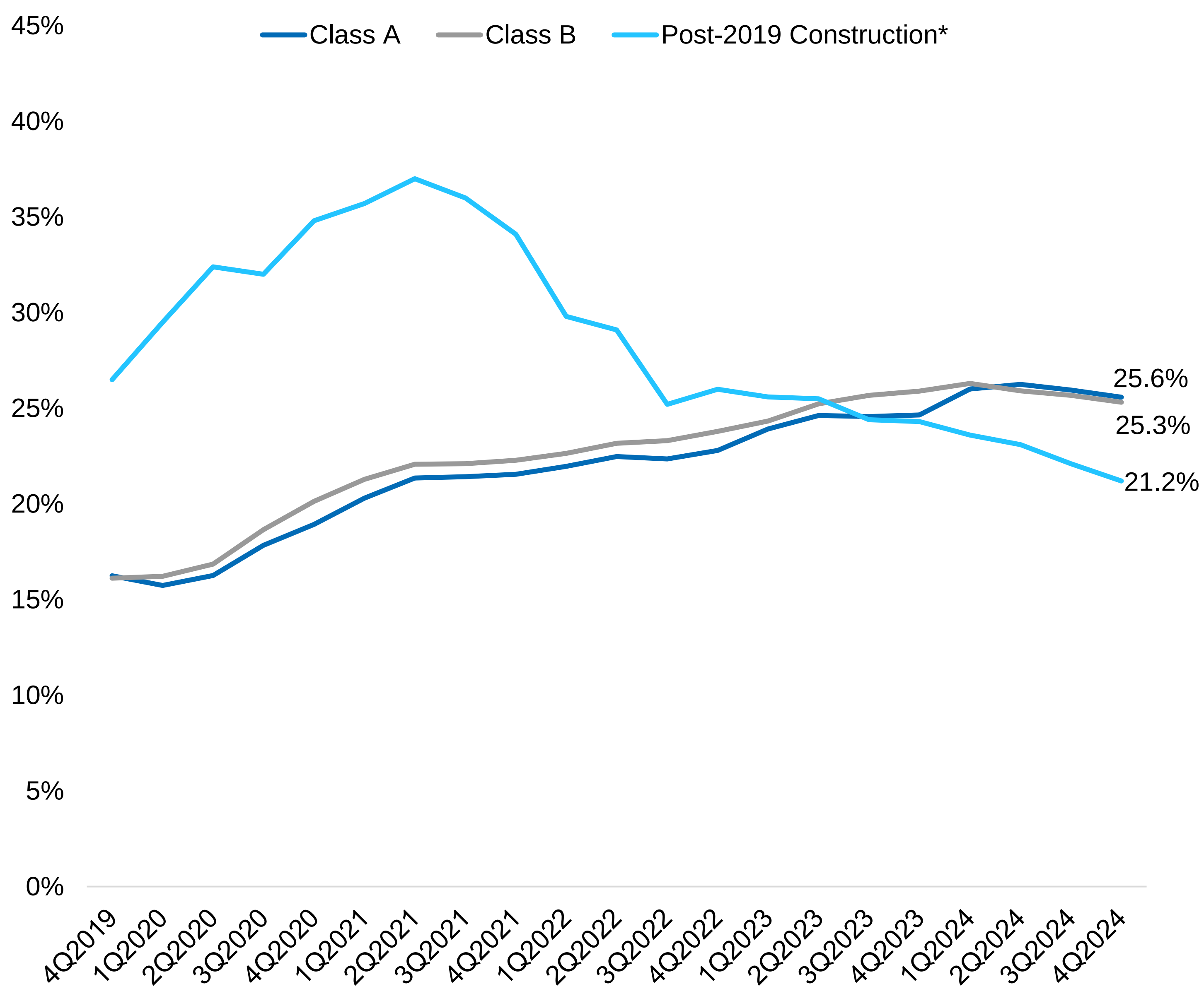


Source: CoStar, Newmark Research as of 1/24/2025
*Office buildings over 20,000 SF. 5-Star CoStar Rating. Excludes owner-occupied.

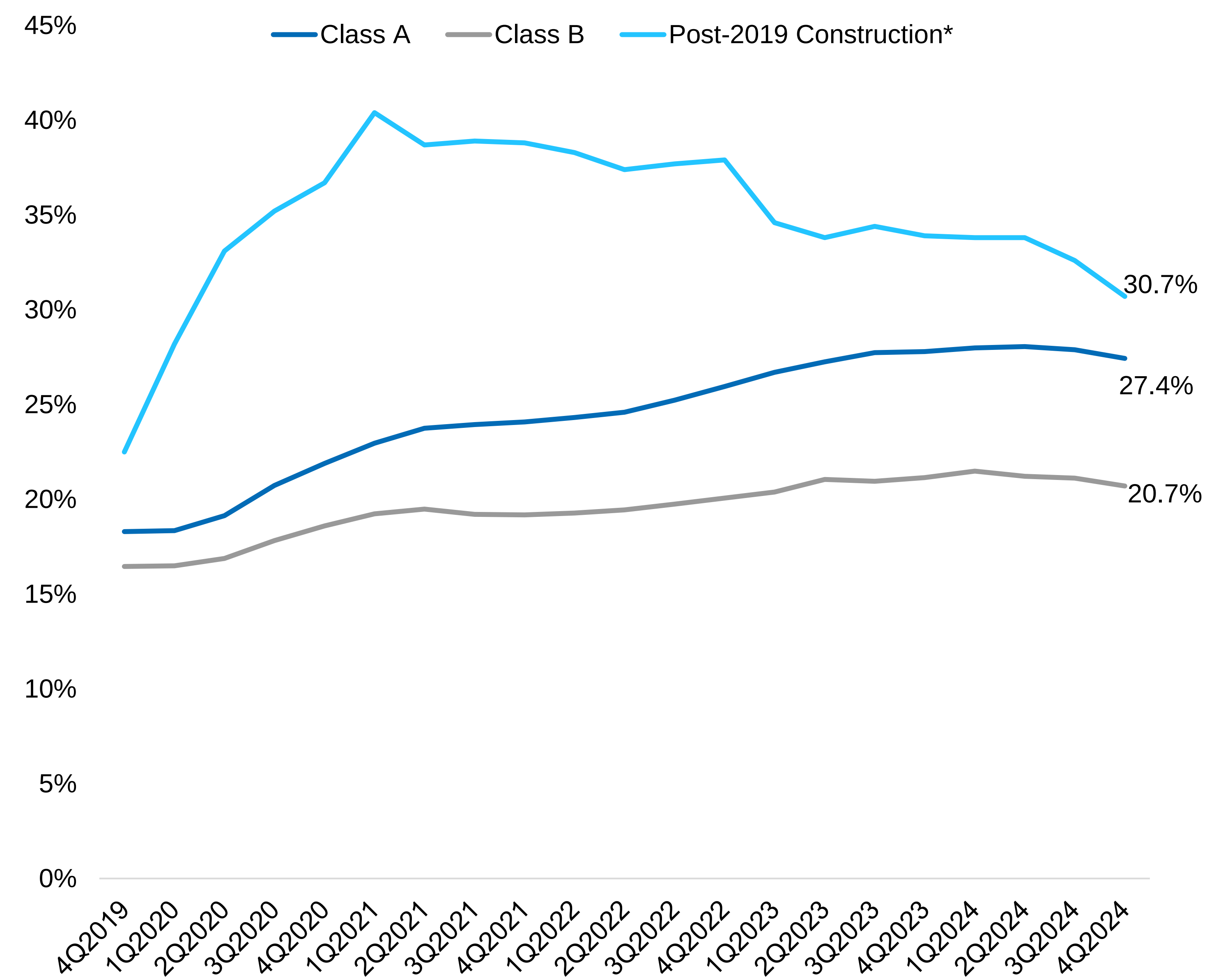
Quality Matters Most In CBD Markets; Value In Suburbs

In CBD markets, availability rates are closely clustered, with higher-quality spaces consistently leading performance(new construction > Class A > Class B). In suburban markets, Class B properties maintain consistently lower availability rates. Suburban new construction has faced lease-up challenges but has shown progress since late 2022.

CBD – Availability Rate by Class and Building Age



Non-CBD – Availability Rate by Class and Building Age

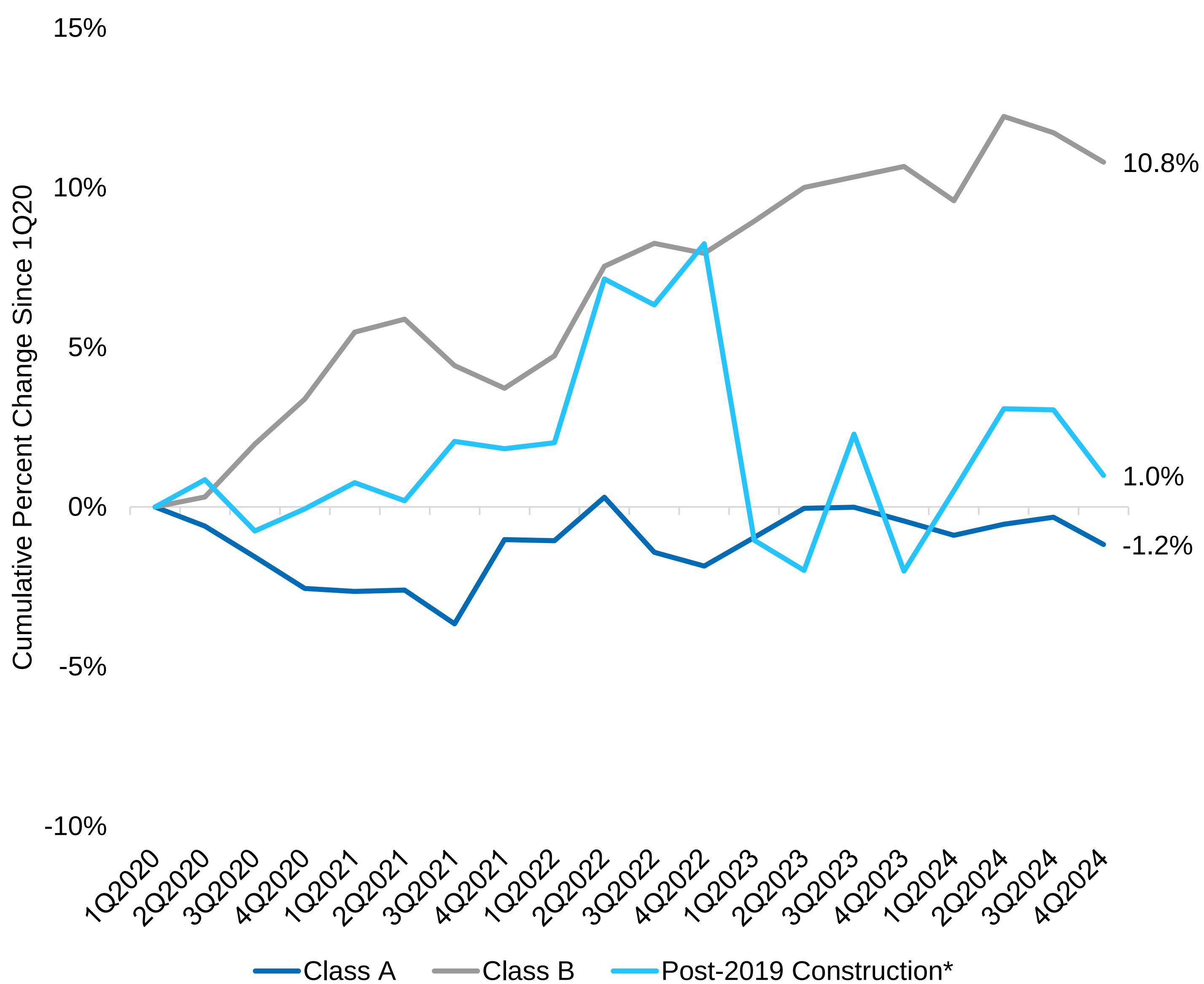


Source: CoStar, Newmark Research as of 1/24/2025
*Office buildings over 20,000 SF. 5-Star CoStar Rating. Excludes owner-occupied.

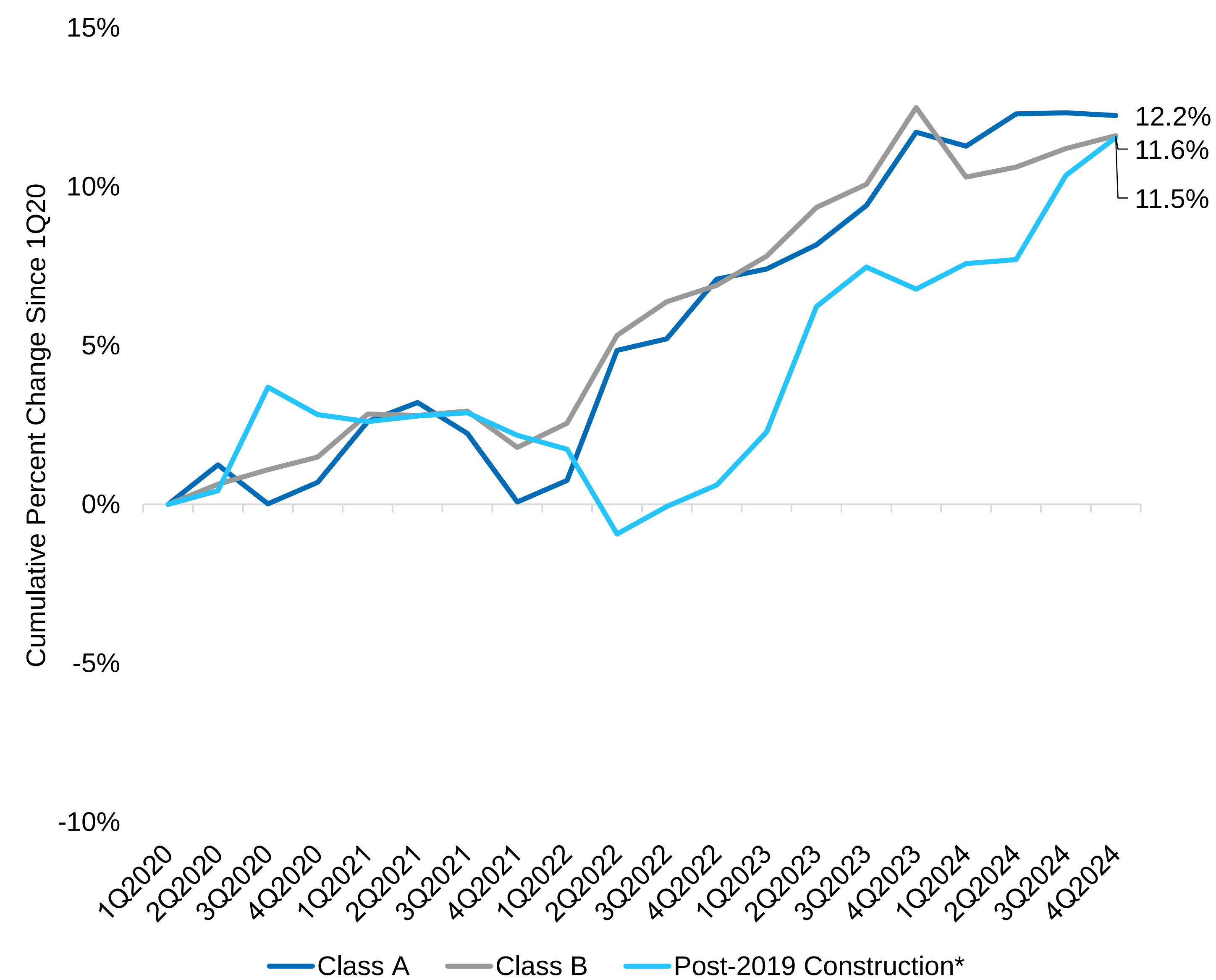
Asking Rent Growth Decoupled From Availability

Since the first quarter of 2020, asking rents have increased across class segments in both CBD and non-CBD markets, except for CBD Class A properties, despite high availability rates. Overall, non-CBD rents have generally outpaced those in CBD markets. Within CBDs, Class B asking rents have posted significant gains, while Class A rents have remained relatively flat, with post-2019 construction performance landing in between.

CBD – Overall Gross Rent (Cumulative Percent Change)



Non-CBD – Overall Gross Rent (Cumulative Percent Change)

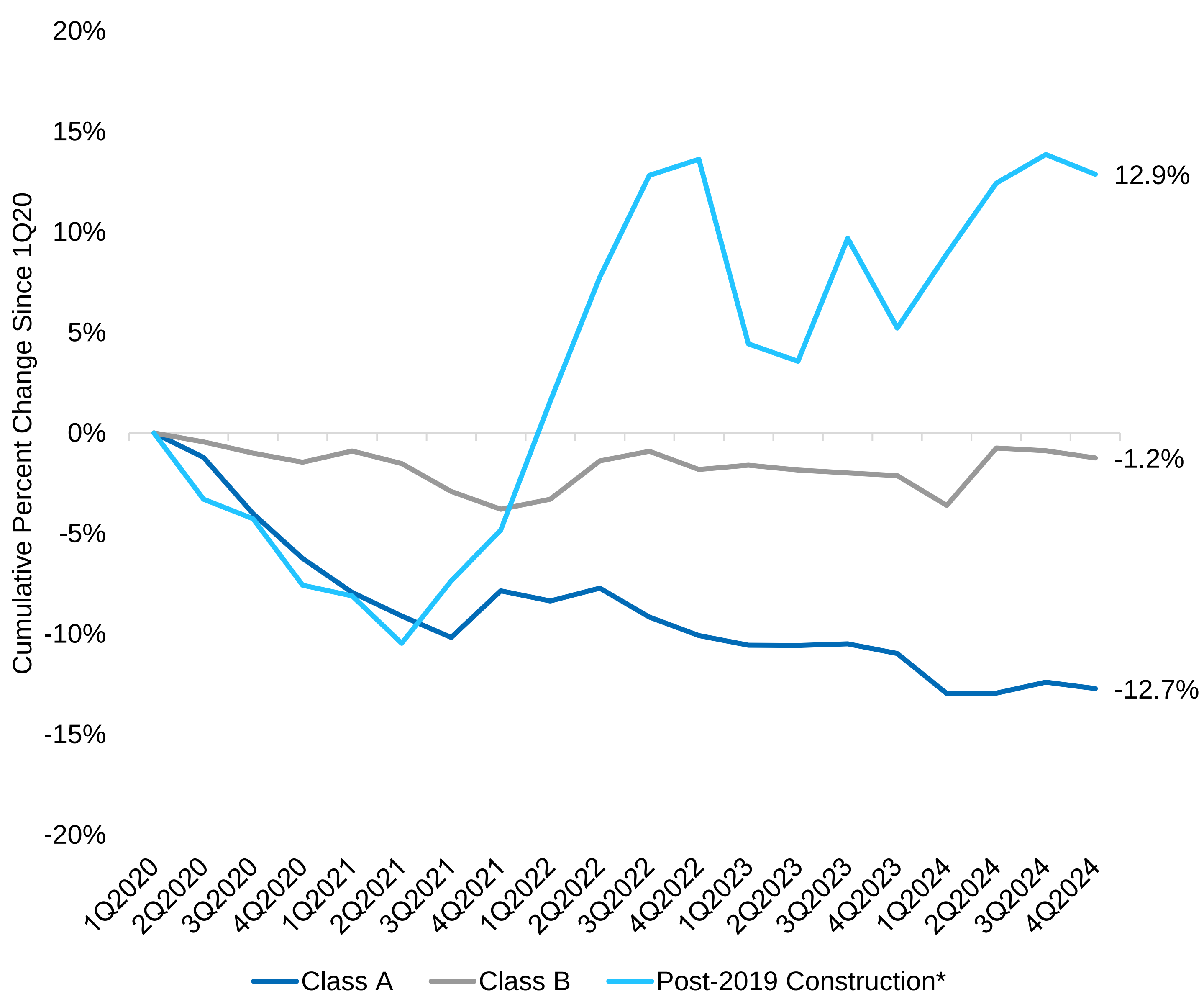


Source: CoStar, Newmark Research as of 1/27/2025
*Office buildings over 20,000 SF. 5-Star CoStar Rating. Excludes owner-occupied.

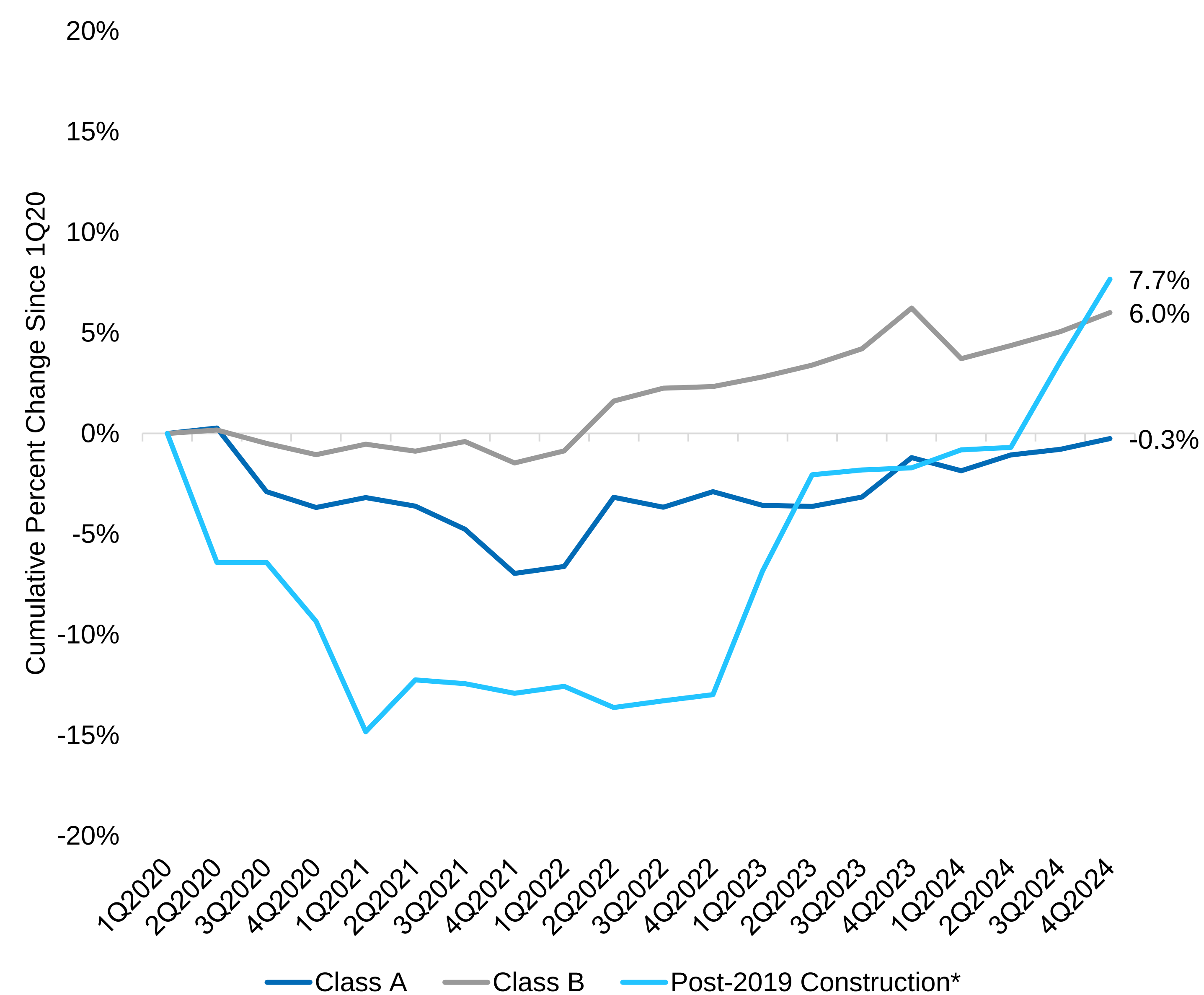
Quality Matters Most In CBD Markets; Value In Suburbs (Part 2)

Rent per available foot (RPAF)**, which accounts for changes in both rents and availability, indicates that only new construction and Class B non-CBD properties have improved operating performance since the first quarter of 2020. Non-CBD markets have generally outperformed, except for new CBD office, which has successfully leased up but with slower asking rent growth. Class A properties have lagged behind Class B, largely due to lower occupancy, suggesting that Class A owners may need to lower rents to better compete for tenant demand.

CBD – Rent Per Available Foot**



Non-CBD – Rent Per Available Foot**

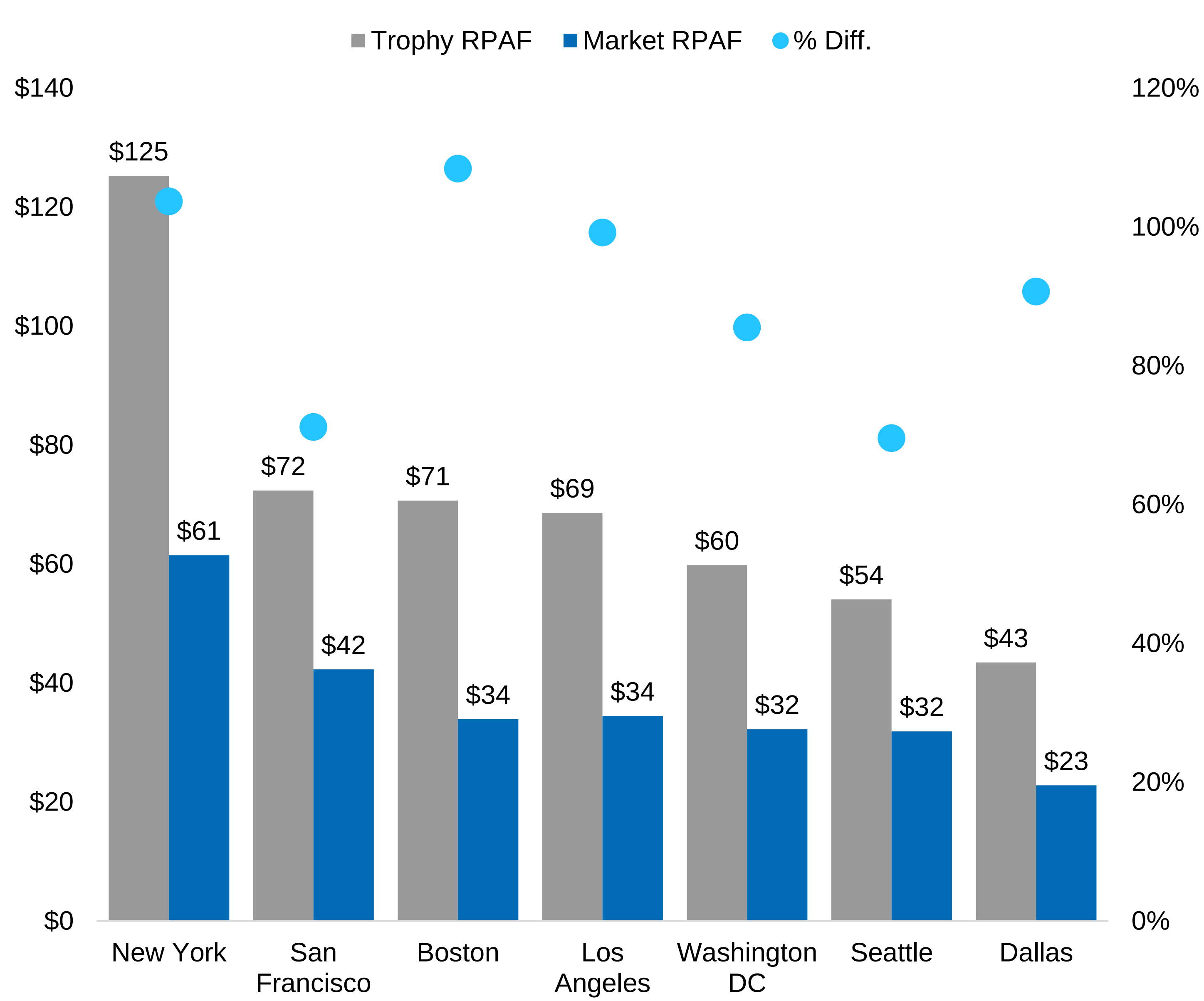


Source: CoStar, Newmark Research as of 1/27/2025
*Office buildings over 20,000 SF. 5-Star CoStar Rating. Excludes owner-occupied.
**Gross Asking Rent x (1-Total Availability Rate)

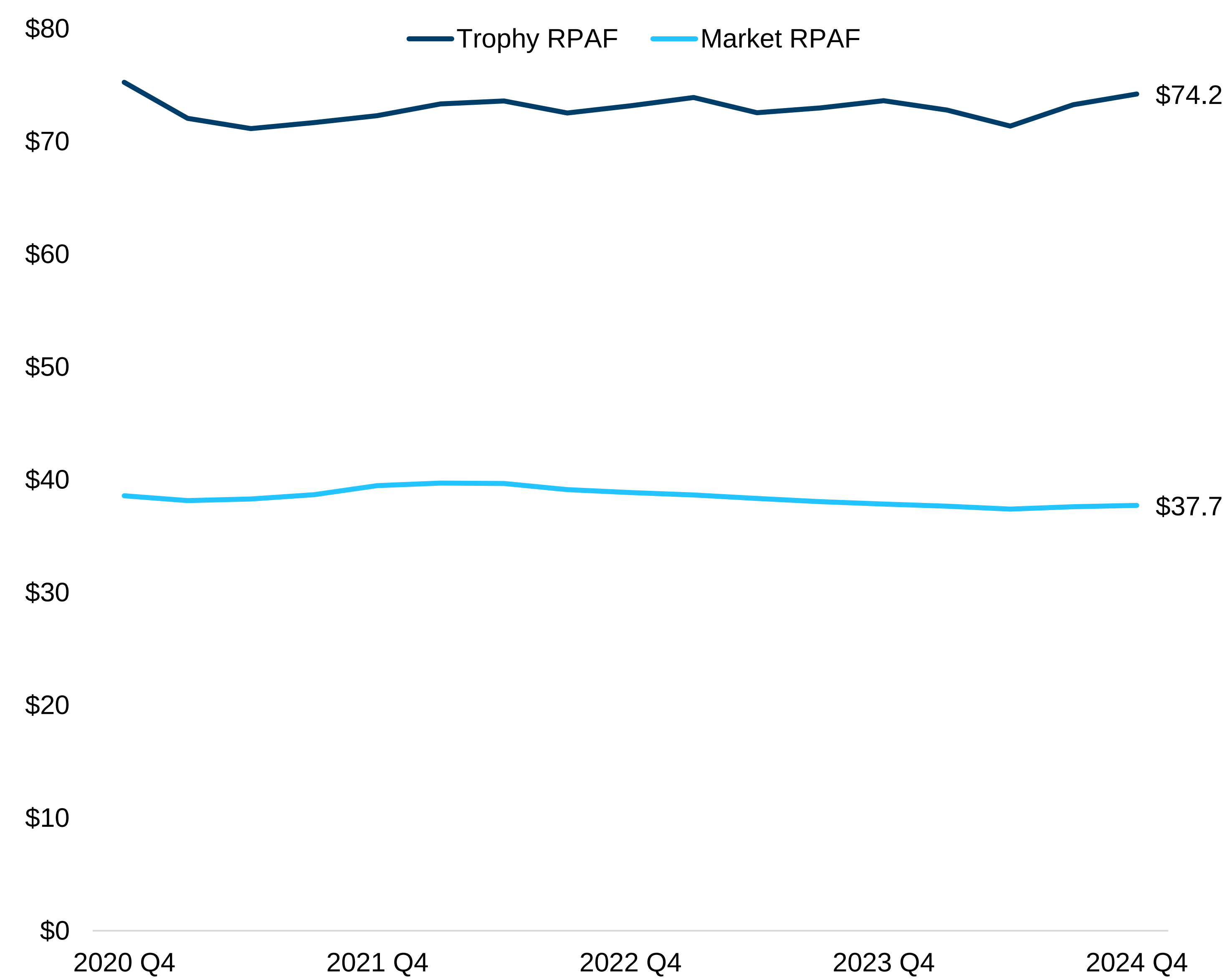
Trophy Cash Flow Premia Are Large, But Not Immune

In several key gateway markets, true trophy product* has significantly outperformed in terms of cash flow. In New York, trophy product commands a 103.7% premium in market rent per available foot (RPAF) compared to the broader market, with an average premium of 89.7% across major gateway markets. However, trophy RPAF has declined by 1.4% since 4Q20 in select markets. Trophy performance is accelerating as leasing activity strengthens amid rapidly diminishing new supply .

Gateway Market Comparison – Rent Per Available Foot**



Trophy versus Market – Rent Per Available Foot**

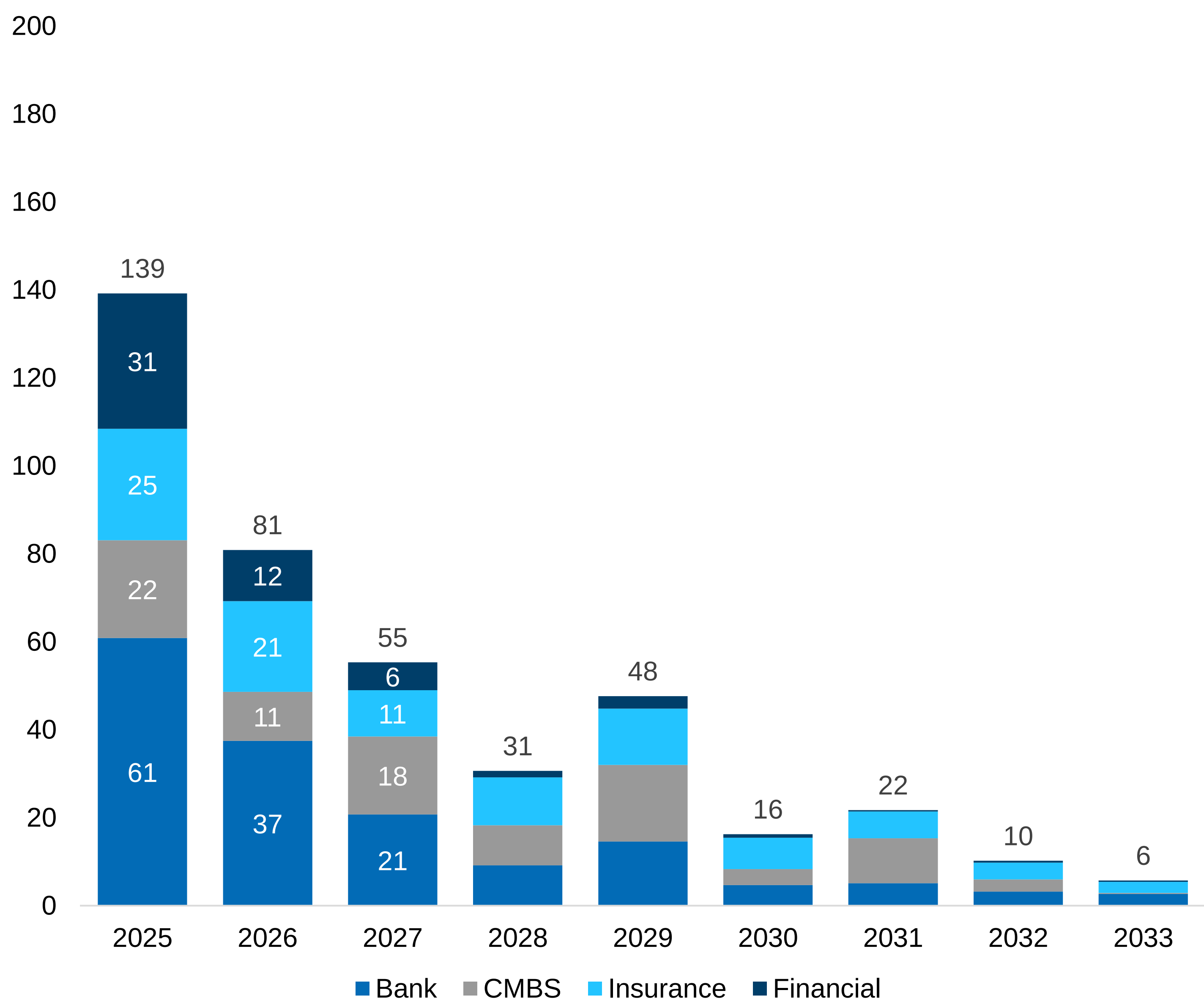


Source: CoStar, Newmark Research as of 1/27/2025
*"Trophy product" in this analysis is defined as fully stabilized buildings, representing around 10% of each market's inventory square footage, capturing the highest gross overall asking rents.
**Gross Asking Rent x (1-Total Availability Rate)

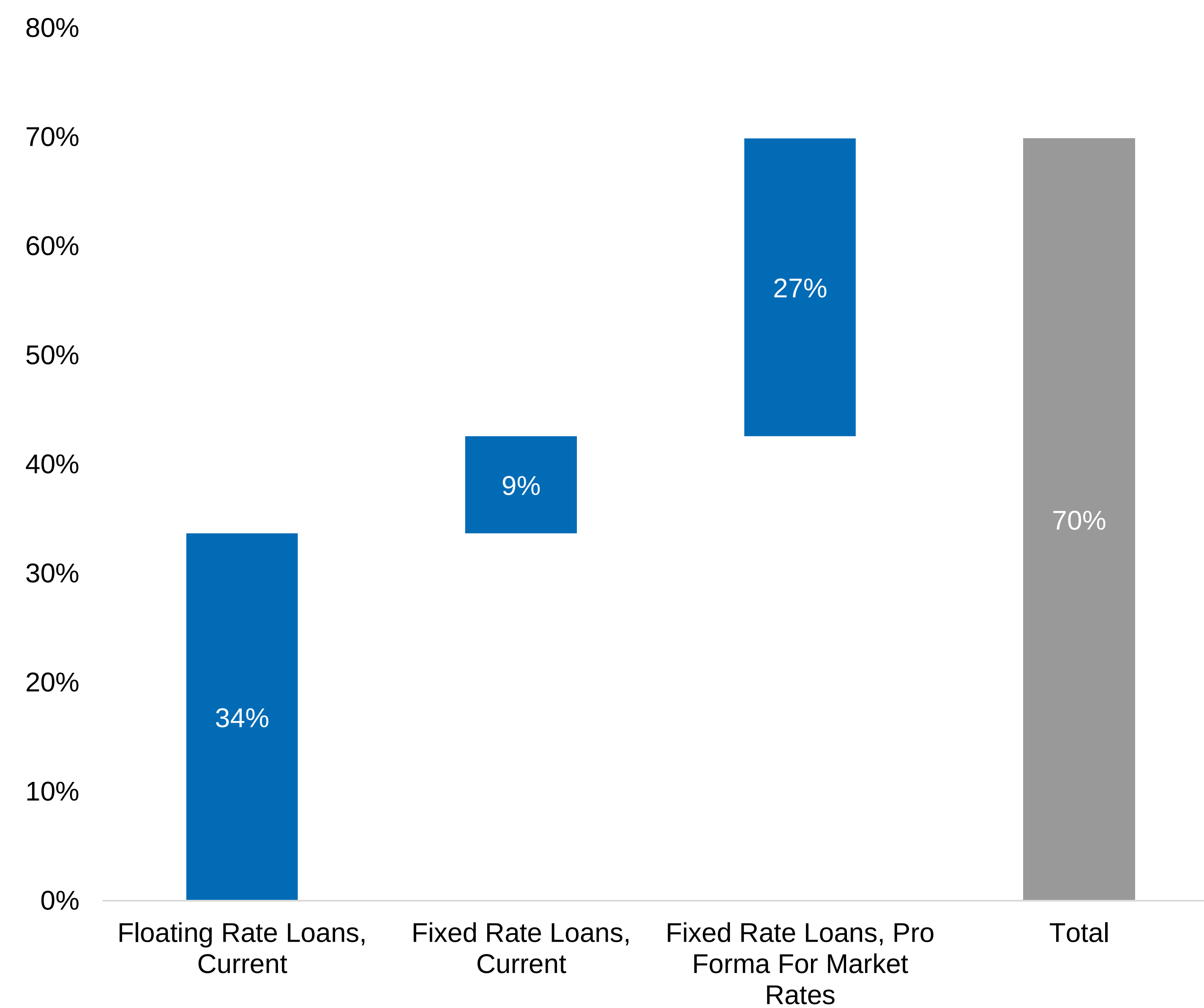
Debt Distress Limits Landlords' Ability To Lower Rents For Higher Occupancy

The outperformance of trophy assets is expected, given their limited share of the overall building stock. However, the resilience of Class B offices, despite high availability in commodity Class A properties, is less straightforward. Class A owners should, in theory, adjust rents to attract tenants and boost cash flow. Debt constraints offer part of the explanation—lowering rents would reduce valuations and potentially accelerate defaults . Additionally, large incentive packages limit cashflows, which would otherwise benefit owners.

Potentially Troubled Office Loans: Market LTV over 80%



Pre-2026 Securitized Office Maturities with DSCR under 1.25x



Source: Trepp, Green Street, RCA, MBA, Newmark Research as of 1/27/2025
Note: This should represent a lower bound of troubled loan extensions, as the current model assumes extended loans are as troubled as loans originally maturing in a given year, whereas extended loans are more likely to be troubled.

4Q24 UNITED STATES OFFICE LEASING HOUSE VIEW

Office Market Statistics

National Office Market Statistics

4Q24

Market Statistics – All Classes

	Total Inventory (SF)	Under Construction (SF)	4Q 2024 Net Absorption (SF)	2024 Net Absorption (SF)	Overall Vacancy Rate	Average Asking Rent (Price/SF)
National	**5,161,883,428**	**33,705,262**	**5,326,920**	**-22,888,447**	**20.3%**	**$38.36**
Atlanta‡	159,568,157	522,000	62,785	-223,109	26.2%	$32.98
Austin‡	89,436,274	2,463,417	441,144	618,888	23.2%	$41.09
Baltimore‡	80,492,403	587,985	-77,108	171,813	15.6%	$24.90
Boston^	177,438,988	2,112,808	-645,542	-4,135,938	21.7%	$45.81
Broward County, FL	34,597,703	174,790	71,356	132,429	14.8%	$37.70
Charlotte‡	56,705,557	247,977	-205,691	-784,171	28.3%	$33.99
Charleston, SC	15,347,694	126,000	49,035	59,006	12.4%	$32.73
Chicago^	251,622,724	369,000	-441,432	-2,302,774	24.6%	$33.85
Cincinnati‡	34,548,875	43,000	-13,704	273,049	23.9%	$21.52
Cleveland‡	39,321,101	1,222,253	160,328	138,705	22.8%	$19.96
Columbia, SC	17,582,291	0	-165,351	233,580	9.4%	$19.86
Columbus‡	41,249,529	431,178	310,931	1,002,158	21.8%	$22.04
Dallas‡	285,869,611	2,394,783	-214,494	425,022	24.6%	$30.87
Delaware	15,618,909	100,000	43,292	82,060	18.9%	$26.99
Denver‡	101,814,015	510,049	-55,314	-961,869	28.6%	$35.61
Detroit‡	79,531,628	380,821	437,595	-250,637	22.3%	$20.80
Fairfield County, CT^	37,519,373	0	58,825	-591,646	23.9%	$37.41
Fresno	23,152,263	119,643	-63,390	-77,818	9.0%	$21.71
Greenville, SC	25,411,375	83,766	21,157	109,316	9.7%	$24.58
Hampton Roads	28,433,782	0	140,064	292,207	11.5%	$22.28

^ 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.

National Office Market Statistics

4Q24

Market Statistics – All Classes

	Total Inventory (SF)	Under Construction (SF)	4Q 2024 Net Absorption (SF)	2024 Net Absorption (SF)	Overall Vacancy Rate	Average Asking Rent (Price/SF)
National	**5,161,883,428**	**33,705,262**	**5,326,920**	**-22,888,447**	**20.3%**	**$38.36**
Houston‡	252,547,029	1,235,174	-620,758	-676,751	25.3%	$29.92
Indianapolis‡	33,947,233	181,318	-636,841	-1,260,021	28.1%	$21.27
Inland Empire, CA^	27,677,859	44,081	-1,476	362,228	9.0%	$25.83
Jacksonville‡	35,295,662	80,500	-152,269	-249,309	17.5%	$22.80
Kansas City‡	78,347,901	60,100	41,729	-323,575	16.7%	$22.73
Las Vegas‡	39,900,097	108,564	171,948	-995	12.5%	$27.18
Long Island^	60,139,306	0	133,007	97,564	11.9%	$28.44
Los Angeles^	219,377,327	1,590,386	499,987	-3,016,642	25.1%	$48.52
Manhattan^	457,912,114	506,163	1,755,466	-5,696,339	13.2%	$74.83
Memphis‡	36,493,713	0	-148,542	49,037	15.9%	$19.60
Miami‡	49,381,496	1,340,645	-54,107	350,433	14.9%	$57.51
Milwaukee‡	36,306,136	0	-146,291	-246,240	21.8%	$20.24
Minneapolis‡	116,996,848	400,000	-610,861	-2,048,980	19.6%	$28.74
Nashville‡	64,881,521	2,460,283	-22,953	238,062	17.6%	$31.26
New Jersey Northern^	166,333,747	1,118,787	752,262	1,269,035	19.1%	$31.52
New Jersey Southern	15,872,080	0	-57,155	25,590	15.6%	$22.04
North Bay, CA	14,679,523	0	-15,819	-43,182	18.1%	$33.13
Oakland/Greater East Bay^	63,467,322	0	-27,686	-635,913	23.0%	$42.16
Oklahoma City	22,294,778	115,000	56,466	41,414	16.6%	$20.06
Orange County, CA^	95,537,407	0	62,373	1,132,285	17.5%	$34.75

^ 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.

National Office Market Statistics

4Q24

Market Statistics – All Classes

	Total Inventory (SF)	Under Construction (SF)	4Q 2024 Net Absorption (SF)	2024 Net Absorption (SF)	Overall Vacancy Rate	Average Asking Rent (Price/SF)
National	**5,161,883,428**	**33,705,262**	**5,326,920**	**-22,888,447**	**20.3%**	**$38.36**
Orlando‡	62,643,084	328,465	-10,226	-500,590	13.1%	$25.68
Palm Beach	28,572,501	210,000	12,893	-153,463	15.2%	$49.99
Philadelphia‡	104,822,213	438,000	128,709	-831,648	20.5%	$31.34
Phoenix‡	97,503,247	214,800	-35,244	-1,839,358	26.5%	$30.85
Pittsburgh‡	57,780,913	44,000	285,392	80,760	24.4%	$26.07
Portland‡	62,039,426	547,000	-289,662	-1,247,799	23.1%	$30.91
Raleigh/Durham‡	53,347,032	203,381	-303,840	-450,632	20.9%	$30.63
Richmond	33,957,984	201,000	236,251	73,226	14.1%	$21.24
Sacramento‡	66,027,593	569,000	292,596	387,813	16.0%	$26.10
Salt Lake City‡	79,152,778	466,368	233,893	552,592	15.0%	$25.30
San Antonio‡	52,305,008	604,098	124,368	-2,161	17.1%	$24.11
San Diego‡	74,938,796	5,269,471	336,407	564,870	16.8%	$41.39
San Francisco^	90,671,701	0	349,196	-375,513	29.8%	$68.17
San Francisco Peninsula^	62,336,196	452,618	397,154	393,114	19.1%	80.74
Seattle‡	137,661,253	1,286,041	-231,993	-1,619,195	21.1%	$43.61
Silicon Valley^	84,760,222	231,579	796,787	1,090,587	19.8%	$56.29
St. Louis‡	78,313,992	41,000	264,183	-48,150	13.5%	$22.71
Tampa/St. Petersburg‡	61,314,461	518,929	230,913	61,806	15.0%	$29.72
Washington, DC^	365,629,968	949,041	1,573,716	-2,287,688	21.0%	$42.90
Westchester County, NY^	25,453,709	0	42,461	-314,990	25.7%	$28.43

^ 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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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/insights.

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