3Q23

United States Office Market Overview

Market Observations

- **Demand Drivers.** The Federal Reserve's efforts to combat inflation have modestly slowed employment growth, but overall, labor markets remain in expansion and national GDP growth was robust at 5.2% in the third quarter of 2023, a notable increase from 2.1% in the second quarter of 2023. National office-using employment is now 6.3% above December 2019 levels, with the recovery being led by technology, advertising, media and information companies. Accordingly, technology companies drove much of the leasing activity over the last two years; however, in the year to date, technology companies have accounted for just 8.8% of leasing activity, down from 37.0% in 2022.
- **Leasing Fundamentals**. Net absorption continued to contract in the third quarter of 2023, driven most strongly by the West and East. Both major gateway and secondary markets shed a comparable amount of occupancy in the quarter. The South and Sun Belt regions continue to perform well relative to the nation, though occupancy saw further declines in the third quarter of 2023 in these regions. Leasing activity was again sluggish in most markets in the third quarter of 2023, decelerating nationally to an estimated 1.1% of inventory compared with the quarterly average of 1.4% realized between 2011 and 2019. Minimal leasing activity as a percent of inventory was relatively ubiquitous across most regions and market sizes, indicating a slowdown in the momentum that had been gained in the prior two years in some secondary and Sun Belt markets.
- **Segmentation Analysis.** Quality office assets continue to command a disproportionate share of the market's limited activity, with leasing activity in the Class A sector accounting for 49.1% of all leasing in the third quarter of 2023. This has declined from a recent high of 54.6% in the fourth quarter of 2021. Class A vacancy increased 220 basis points year over year, in line with the overall market. However, there is growing segmentation in this top tier with "commodity Class A" (four-star) inventory recording vacancy that was 250 basis points higher than "trophy" (five-star) at the end of the third quarter of 2023. This difference has increased 190 basis points since the end of 2019.
- **Debt Capital Markets.** The office market faces unprecedented challenges over the next 18 to 24 months. Nearly $400 billion in office loans mature between 2023 and 2025. Of these, we estimate that $368 billion would have an LTV of 80% or greater if marked to market. Moreover, we find that 49% of securitized office loans maturing in the same period would have a DSCR of 1.25x or less at prevailing market rates. Borrowers will struggle to refinance existing loans, and legacy debt issues will impede new financing for the sector.
- **Investment Activity.** Office investment activity decelerated once again in the third quarter of 2023. Investment sales were down 64% year over year through the third quarter of 2023, while office loan originations declined 54% year over year. No market segment has been spared from the slowdown in transaction activity, though on the margin tertiary markets, suburban assets, as well as Southwest and Mid-Atlantic markets, have been more resilient.
- **Pricing.** Transaction cap rates increased by 50 basis points quarter over quarter in the third quarter of 2023 amid rising long-term interest rates. Further adjustments are likely, given the continued elevated cost of capital. While cap rates have risen for both Central Business District and Suburban properties, CBD office markets have seen larger adjustments, causing cap rate levels to converge. The increases in cap rates have been catalyzed by the rapid increases in the cost of debt, which have risen from 3.3% in the third quarter of 2021 to 7.0% today in the fixed-rate market. REIT-implied cap rates have been far more reactive and far more honest compared with the illiquid transaction market. Office REITs are trading an implied 9.5% cap rate and are the only sector offering above-average spreads to the cost of debt.
- **Returns.** Office REITs set new lows in October 2023 but have rallied with the broader market recently; nonetheless, they are still down 47% since December 2021, the worst performance of any sector. While the truth of valuation typically lies somewhere between the public and private markets, it seems this time the public markets were closer to the mark. Private markets have only recently begun to capitulate. According to NCREIF, office properties returned negative 13.9% annualized in the third quarter of 2023. CBD office properties underperformed with an annualized quarterly return of negative 18.3% in the third quarter of 2023.

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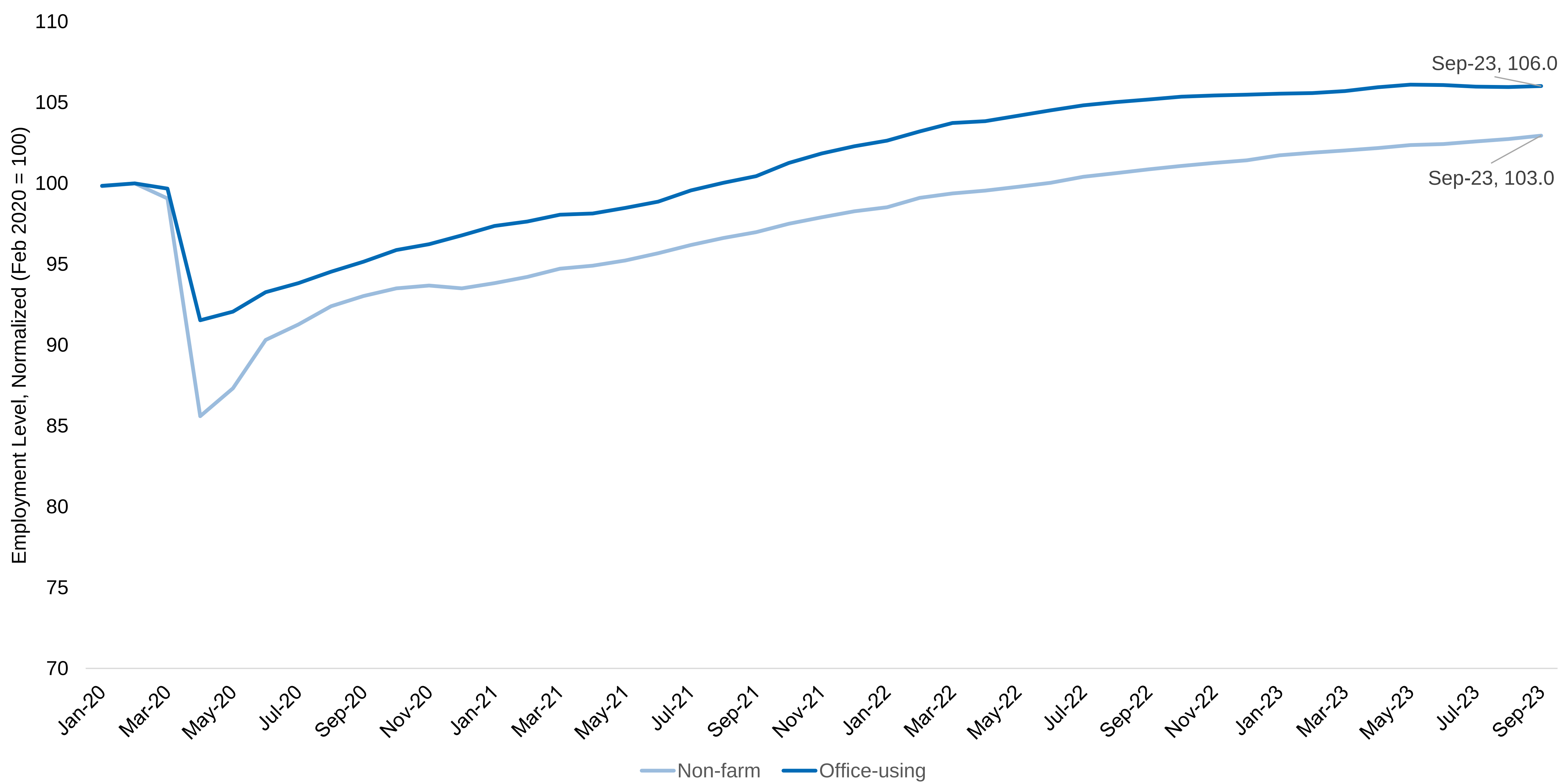
Demand Drivers

Office-Using Employment Has Outpaced the Overall Labor Recovery

National nonfarm employment recovered to pre-pandemic levels in June 2022 and is up 20.3% from the pandemic low in April 2020. Office-using employment was less impacted during the pandemic and has maintained a consistent pace of recovery, measuring 2.0 million jobs above pre-pandemic levels. This is significant because net-new jobs can provide a counterweight to the negative demand effects from remote work. Conservatively assuming 120 feet of office space for each of these workers suggests that *new jobs have added or replaced 239.8 million SF of office demand.*

Employment Recovery Comparison – Normalized to February 2020

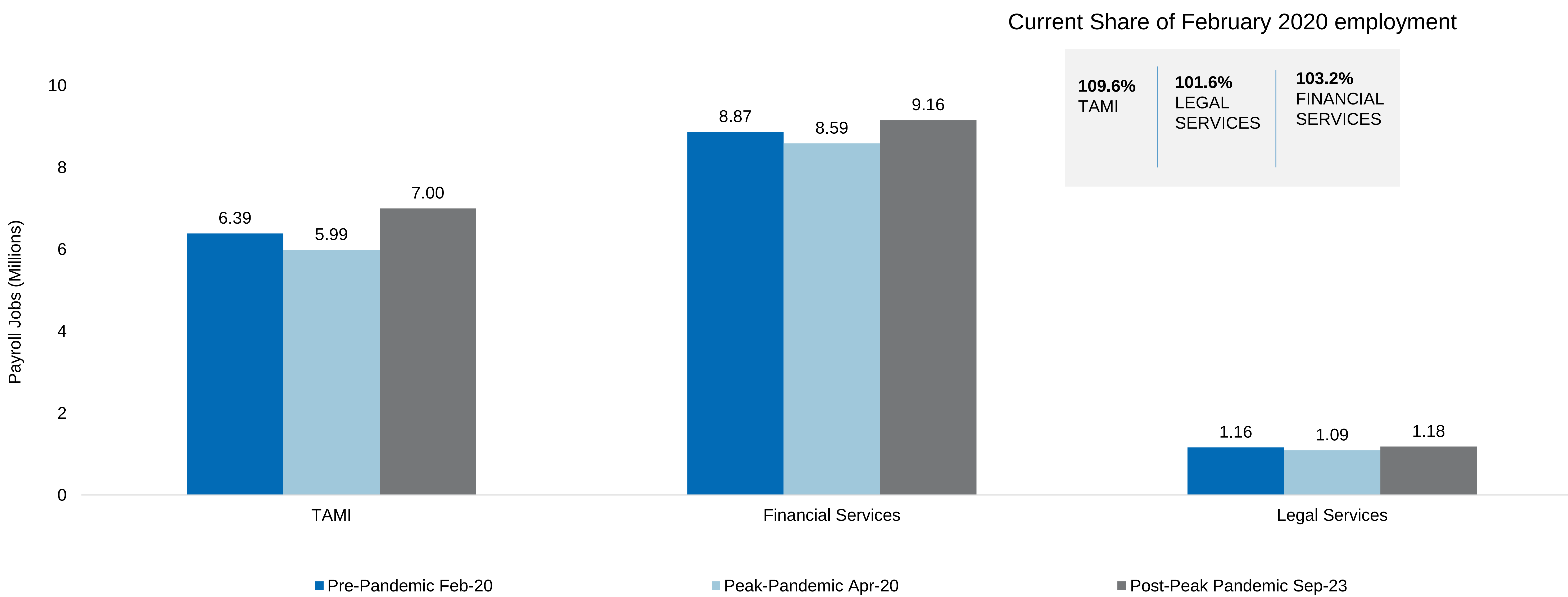


Sources: U.S. Bureau of Labor Statistics, Newmark Research
Seasonally Adjusted

Employment Growth across Office-Using Industries

Employment now exceeds pre-pandemic levels across office-using industries. The recovery in TAMI has been particularly strong, despite significant layoffs in the information sector in 2023, with employment 9.6% above February 2020 levels. Impressive gains have been made across a range of professional and business services, which in the aggregate are up 5.7% from February 2020. Legal services have more than fully recovered as well, but less than these other categories.

Employment by Industry

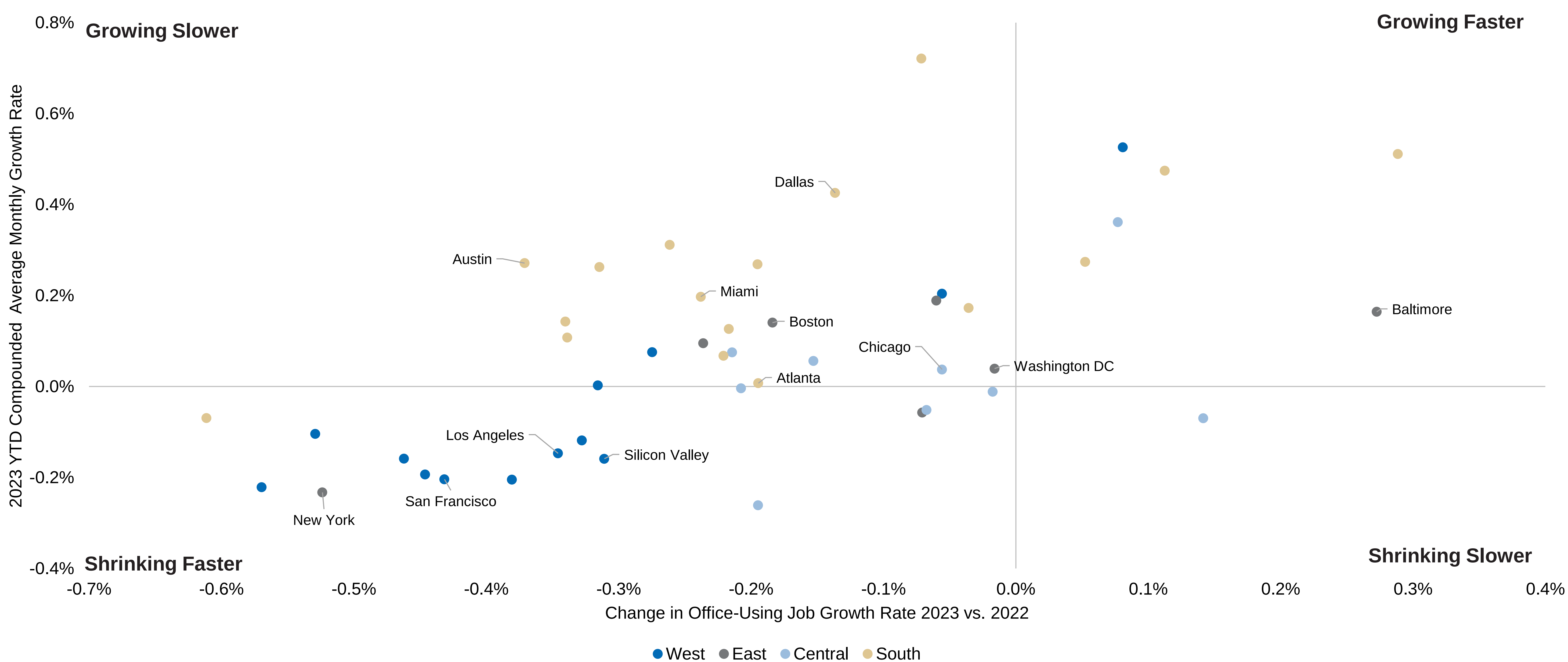


Sources: United States Department of Labor, Newmark Research

Office-Using Employment Growth Decelerating in Most Markets

While most markets have recorded positive office-using employment growth in 2023, nearly all markets saw that trajectory decelerate compared with 2022, with only a handful of notable exceptions.

2023 Compounded Average Monthly Office-Using Employment Growth vs. 2022 – 2023 Acceleration

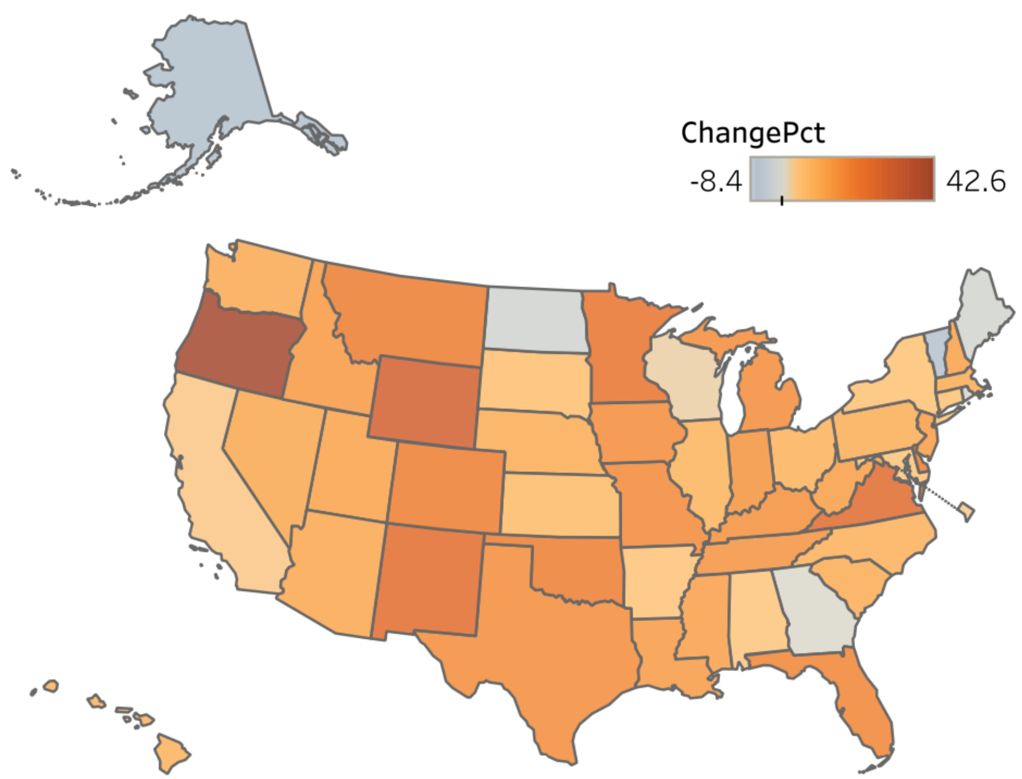


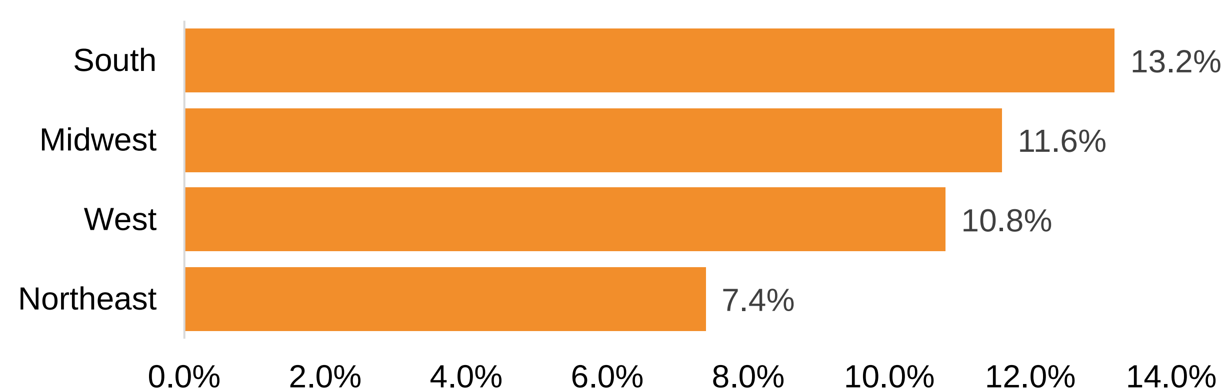
Source: Bureau of Labor Statistics, Newmark Research

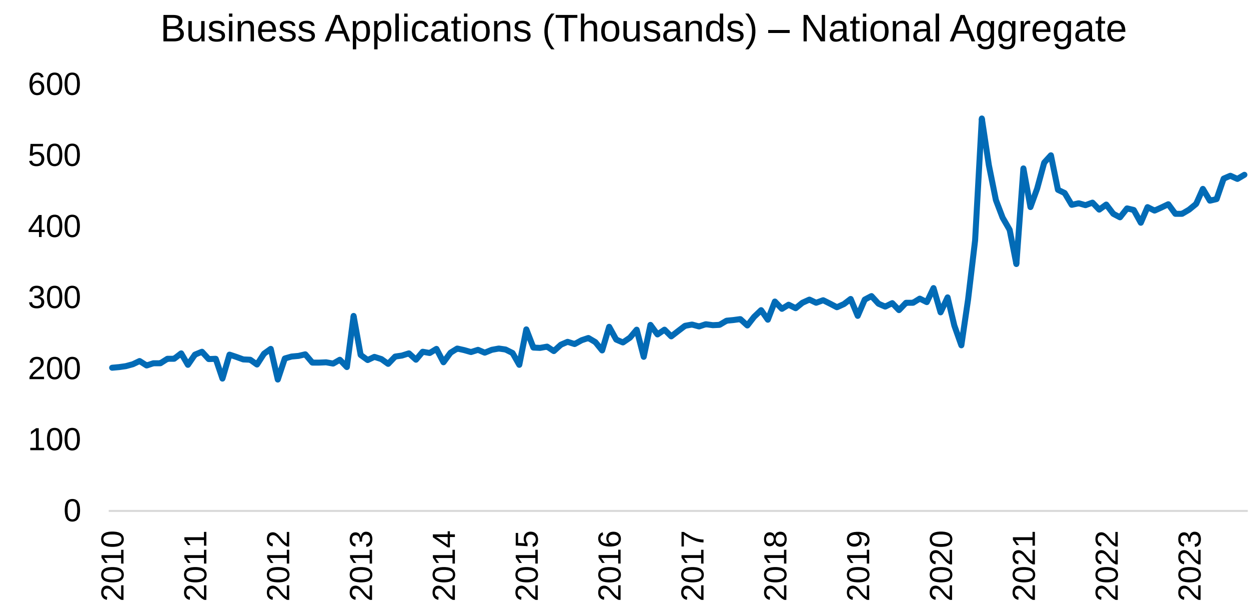
New Business Formation Maintains Momentum

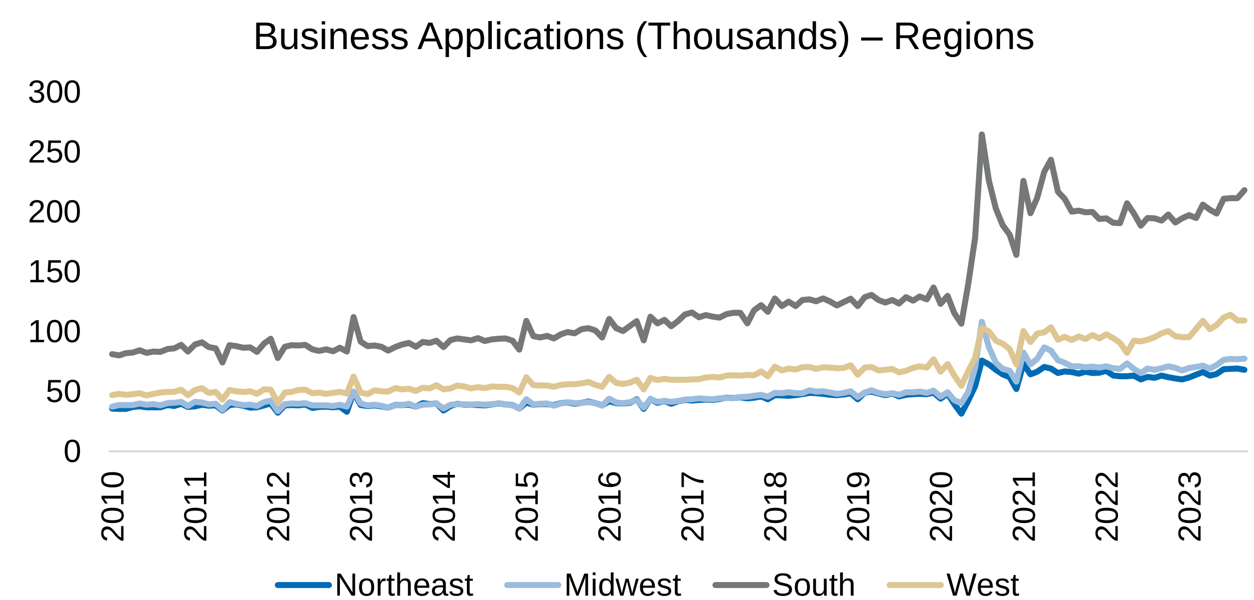
Business formation accelerated healthily in September 2023; 472,961 new business applications were filed, which is up 11.5% from September 2022. This acceleration was realized in every US region, with the West region realizing a 13.2% increase from this time last year. Overall business creation remains notably higher than pre-pandemic levels in all geographic regions.

Business Applications: Change from September 2022 to September 2023 (Seasonally Adjusted)







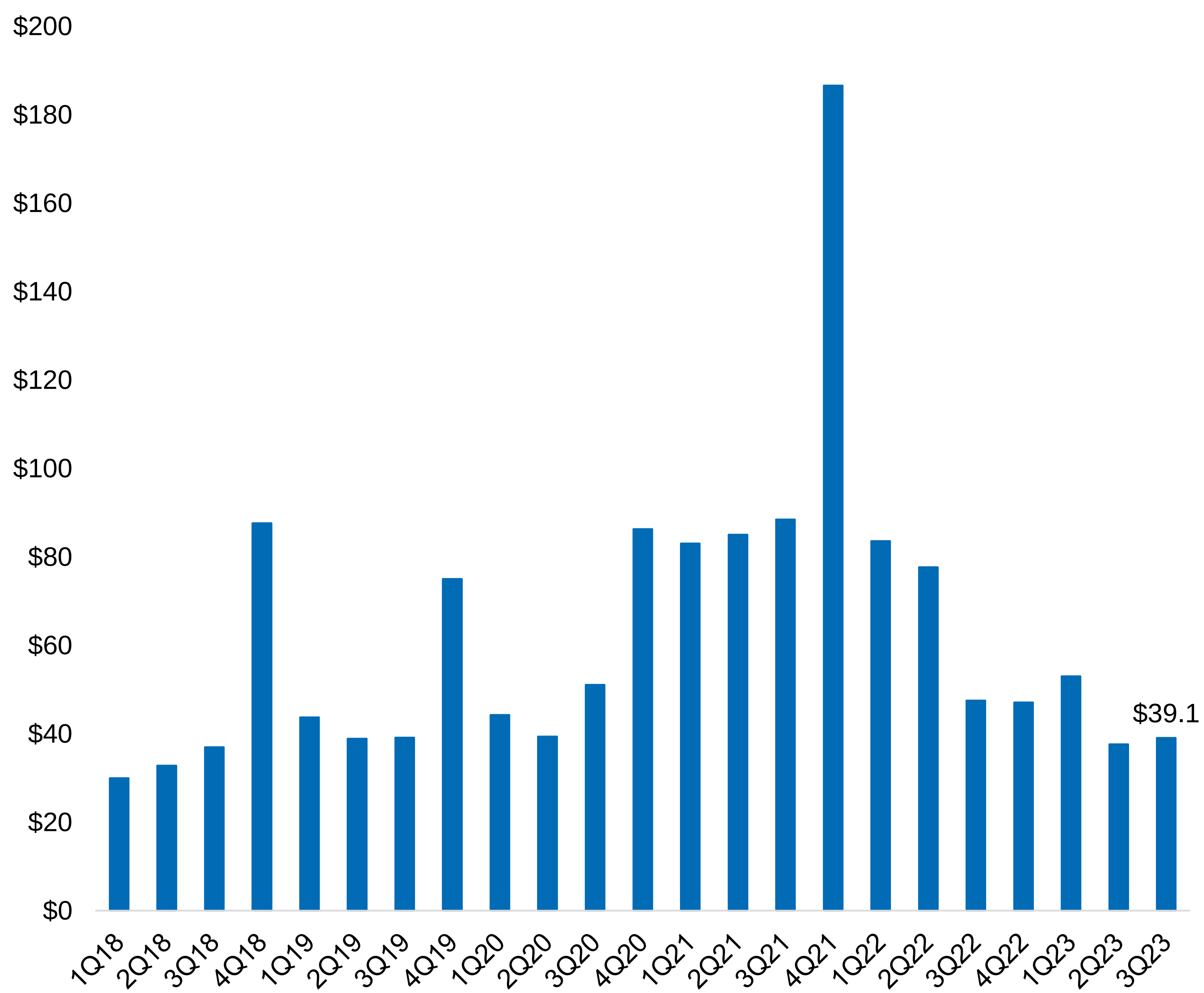


Source: United States Census Bureau, Newmark Research

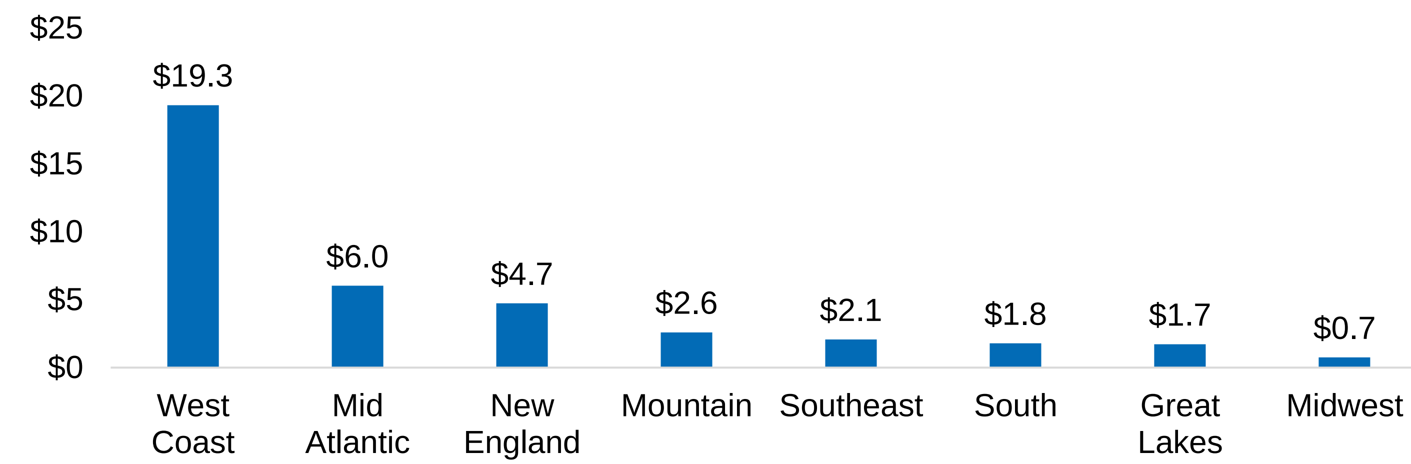
Venture Capital Investment Activity Has Returned to Pre-Pandemic Level

Overall venture capital investment was relatively flat in the third quarter of 2023 as investors remain cautious. Although total investments are down significantly from the cycle's recent peak in 2021, activity in the past year is elevated from a historical perspective. Investment activity trended up in the B2B, financial services, and material sciences sectors, while all other categories realizing annual declines, with the energy sector declining 50.3%. The market's largest funds are likely to experience the greatest contraction in activity, but high levels of dry powder should continue to support investment activity among smaller funds.

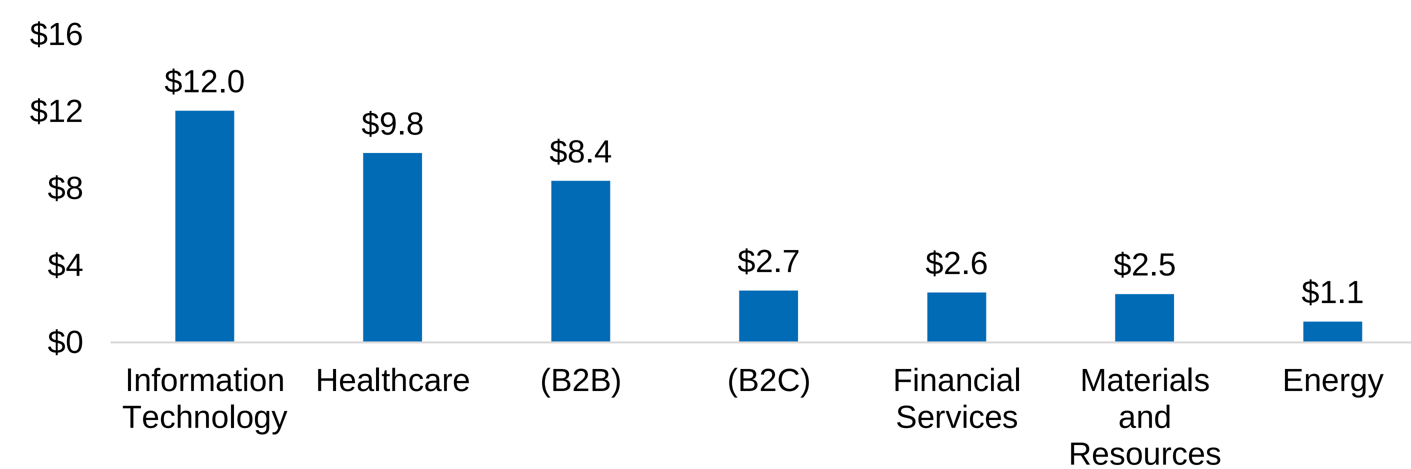
Venture Capital Deal Value ($ billions)



3Q23 VC Funding by Region ($ billions)



3Q23 VC Funding by Industry Sector ($ billions)

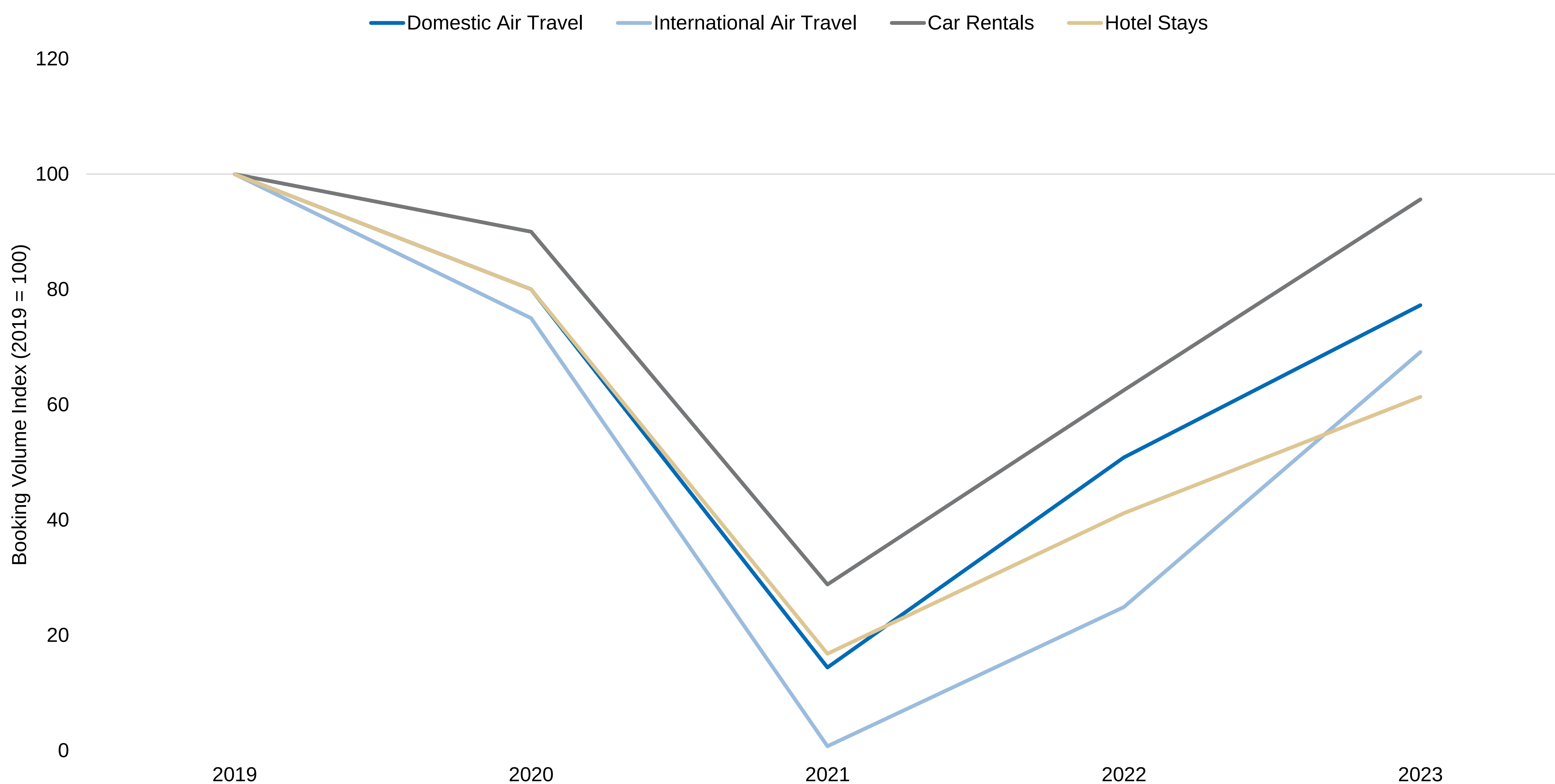


Sources: PitchBook, Newmark Research

Business Travel Recovering Well in 2023

Business travel continued accelerating in the first quarter of 2023, with very few health restrictions left in place restricting the return of in-person business meetings, conventions and tradeshows both in the United States and abroad. The return of business gatherings is an encouraging indicator for the utility of office space in the period ahead. According to data from Emburse, a global leader in spend optimization for businesses, booking volume for car rentals travel has increased dramatically and has nearly recovered to pre-pandemic levels.

Booking Volume Indexed to 2019 Baseline

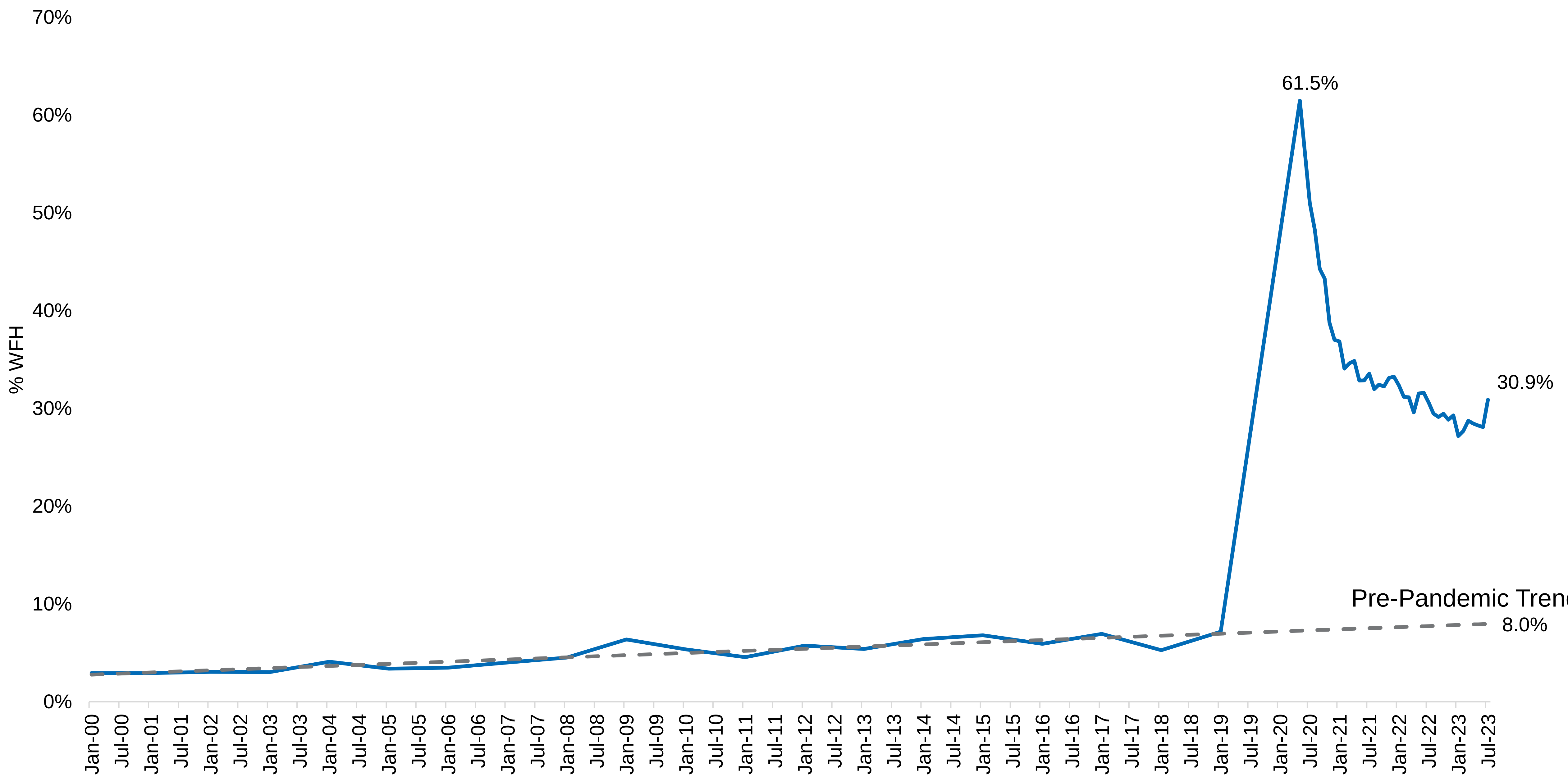


Source: Emburse Travel Trends, Newmark Research

The Pandemic Compacted Decades of WFH Transition into 3 Years

In the two decades prior to 2020, the full paid days worked by all employees averaged 5.2%. This metric grew significantly in the first quarter of 2020, reaching a maximum of 61.5% in May of 2020. Since then, this metric has declined at a decelerating pace and stands at 30.9% as of July 2023.

Share of Full Paid Days Worked 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.

Gap between Worker and Employer WFH Expectations Has Stabilized

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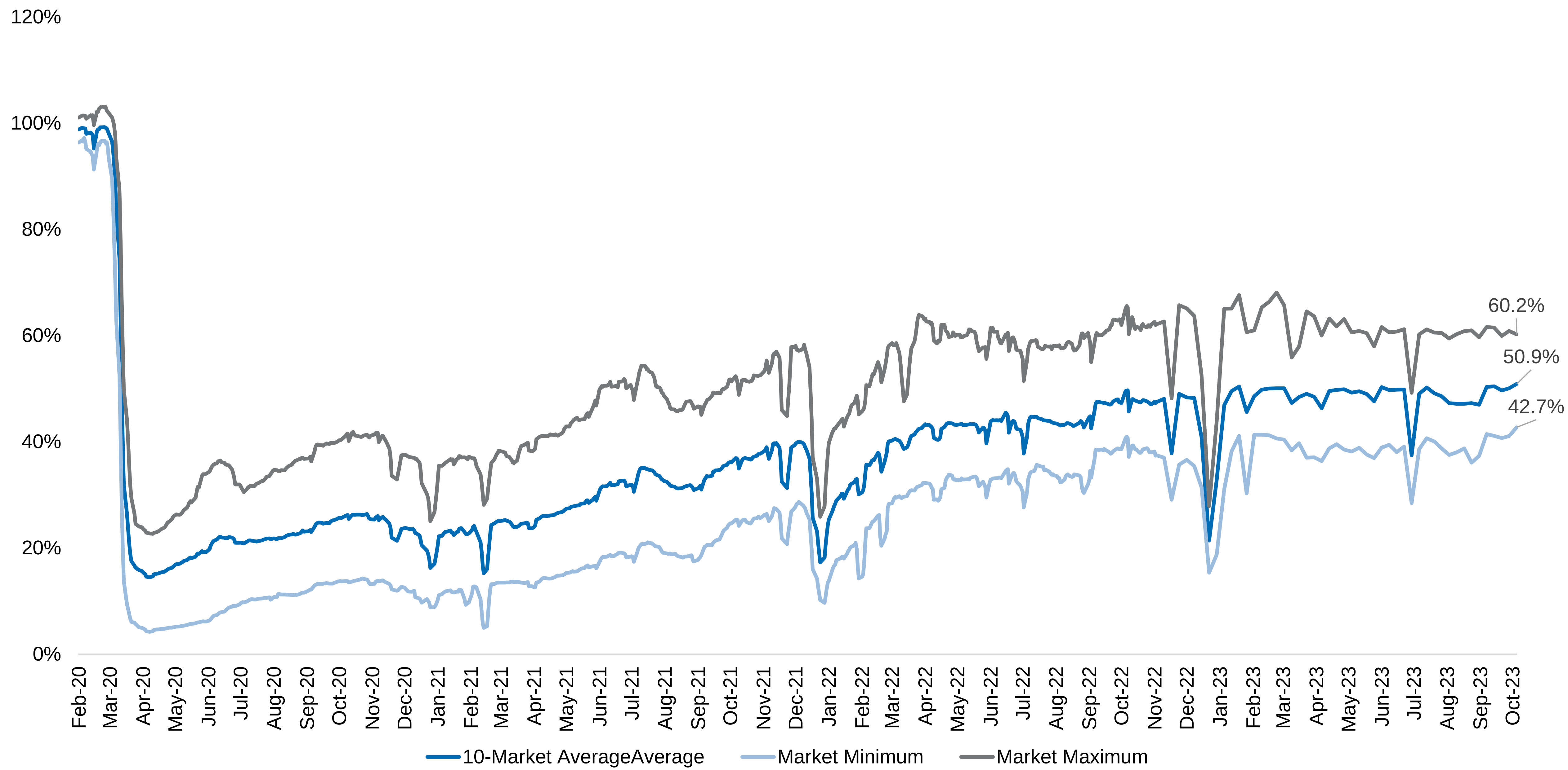
Days Worked in the Office Have Broadly Stabilized in Office-using Sectors

Return to Office Has Stabilized

Kastle Systems' office utilization has increased marginally so far in 2023. The 10-market average stands at 50.9% as of October 2023, the highest occupancy levels seen since pre-pandemic. There continues to be significant variation in daily office attendance during a given week, suggesting that peak office attendance may have been as high as 70% and pushing 80% in the markets with the most robust return to office. Regardless, there continues to be volatility in the context of the subtle upward march.

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



Source: Kastle Systems, Newmark Research

Tenants Are Still in Early Innings of Space Adjustments

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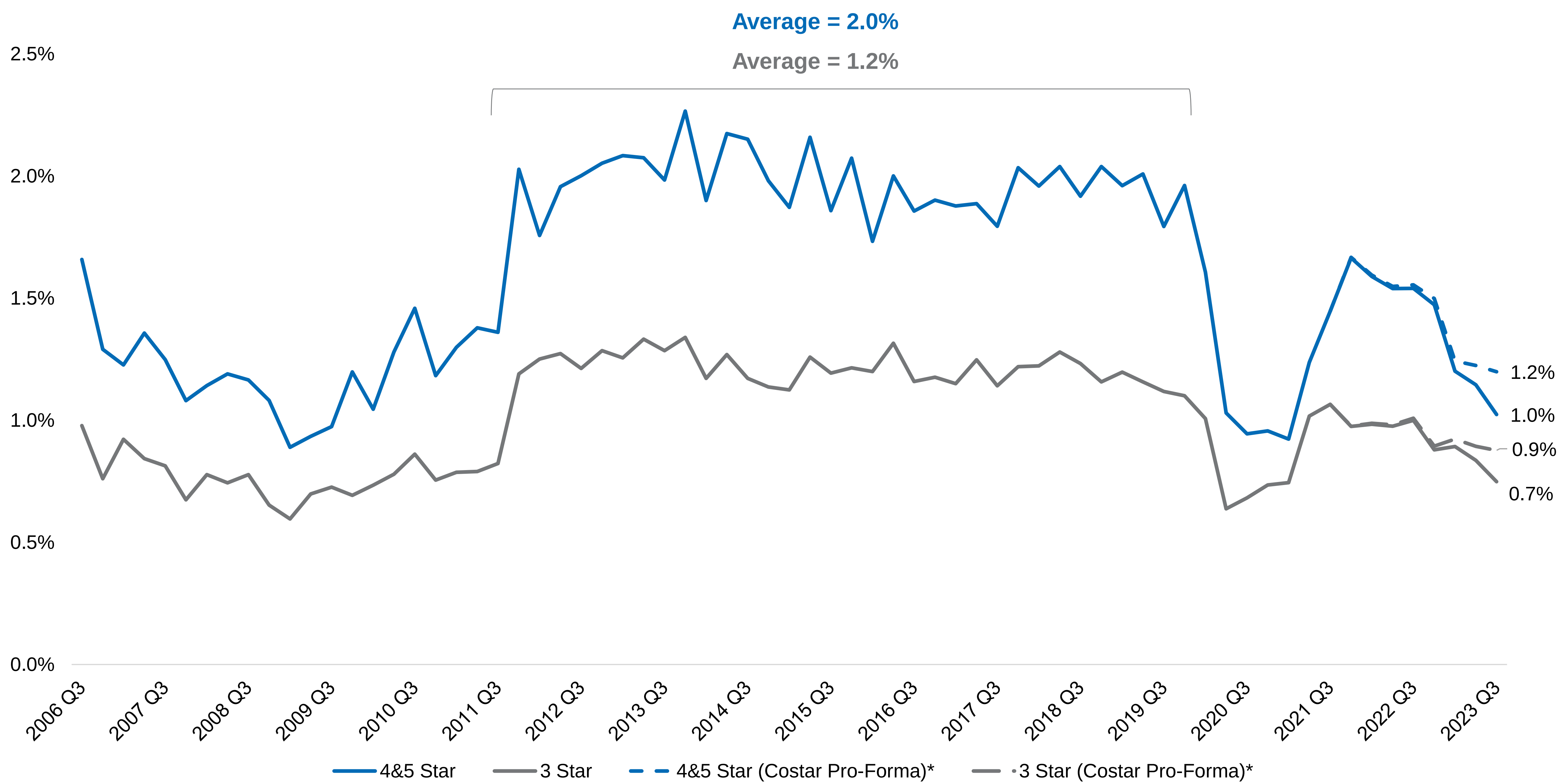
Less than a Quarter of Pre-Pandemic Leases Have Rolled in Gateway Markets

Leasing Market

Office Leasing Inches Down In 3Q23

Higher-quality buildings continued to outpace the overall market and drove a larger share of leasing activity in the third quarter of 2023. Although four- and five-star buildings only account for 38.5% of inventory, these assets captured 48.9% of leasing activity in the third quarter of 2023, a downward trend from the third quarter of 2022.

Leasing Activity as a Share of Inventory



Source: CoStar, Newmark Research
*CoStar pro-forma based on proprietary internal calculation that estimates remaining leases not captured based on analysis of historical leasing trends.

Technology Sector Leasing Has Collapsed Year-to-Date

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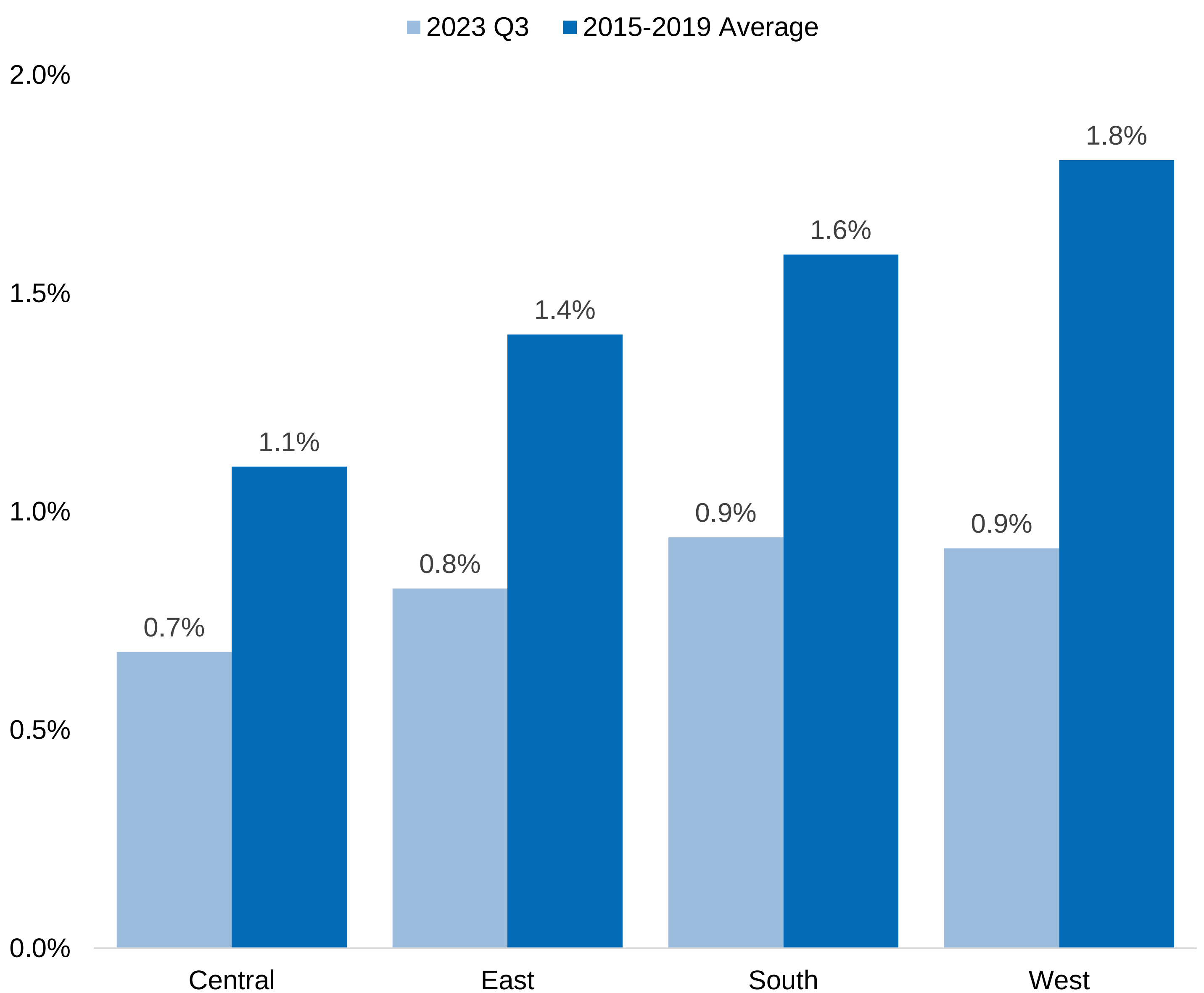
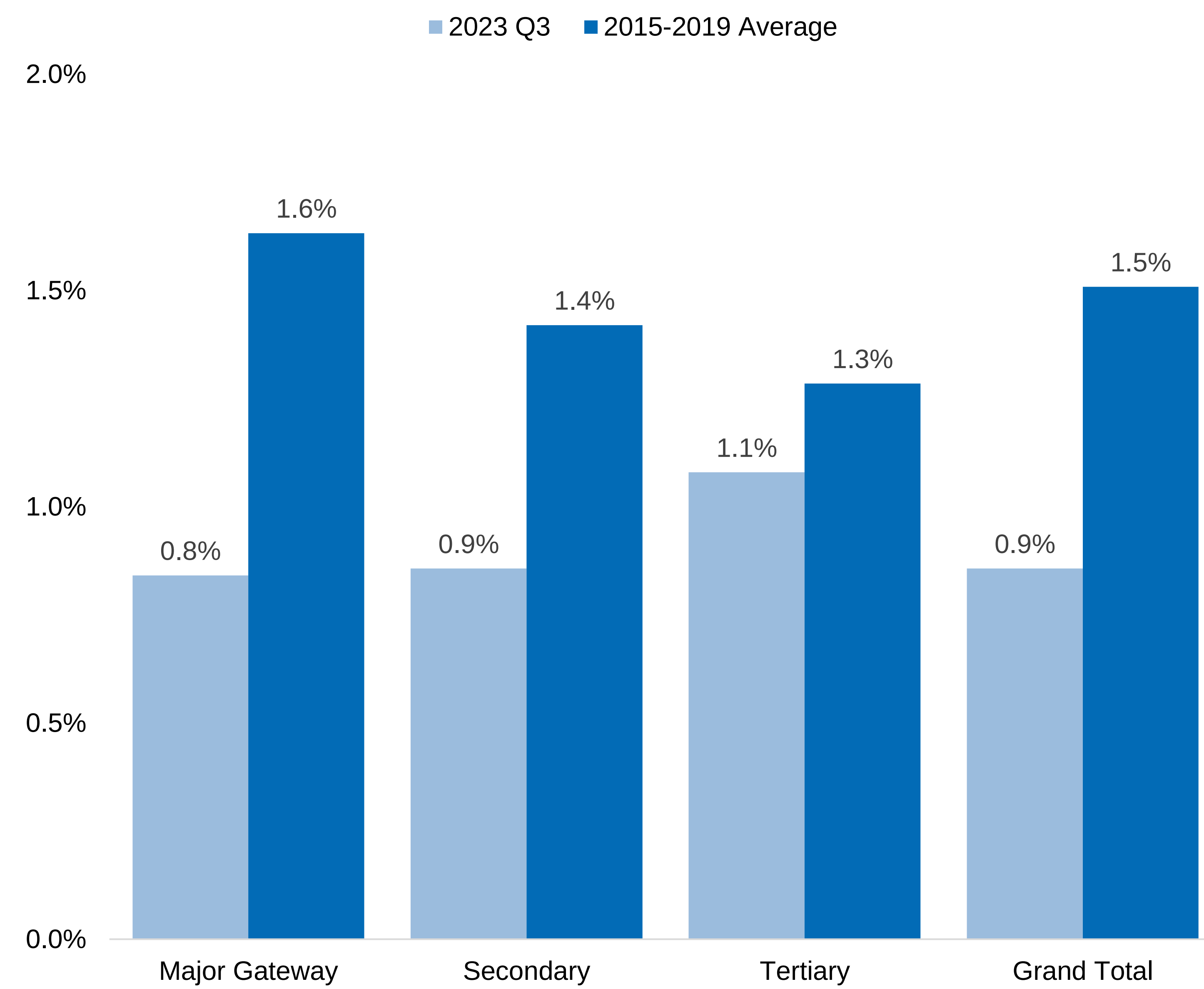
Leasing Activity Lags Pre-Pandemic Baseline

Leasing activity was again sluggish in most markets in the third quarter of 2023. Leasing momentum had been more varied prior to the onset of the pandemic, with Western and major gateway markets commanding a large share of leasing relative to inventory. In the third quarter of 2023, leasing activity as a percent of inventory was relatively even across most regions and market sizes, with tertiary markets being a notable exception.

Regional Leasing Activity as a Percent of Inventory



Market Size Leasing Activity as a Percent of Inventory



Source: CoStar, Newmark Research

Southern and Western Markets Have Greatest Leasing Activity in 3Q23

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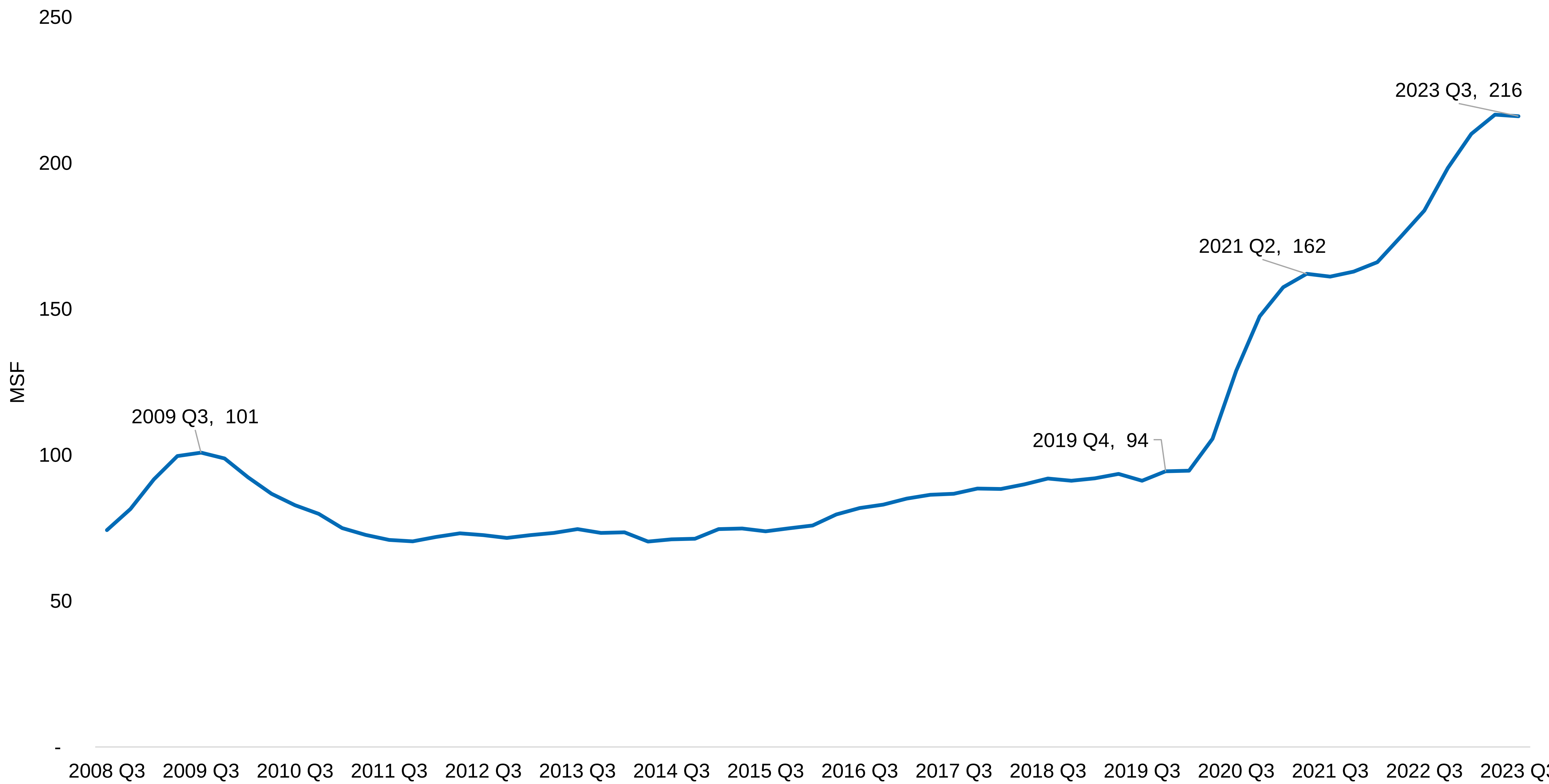
Sublease Availability High but Stable in 3Q23

Sublease availability plateaued in the third quarter of 2023, having slightly declined 0.24% from the second quarter of 2023. National square footage available for sublet is currently near an all-time high, totaling 216.1 million SF.

National Sublease Availability

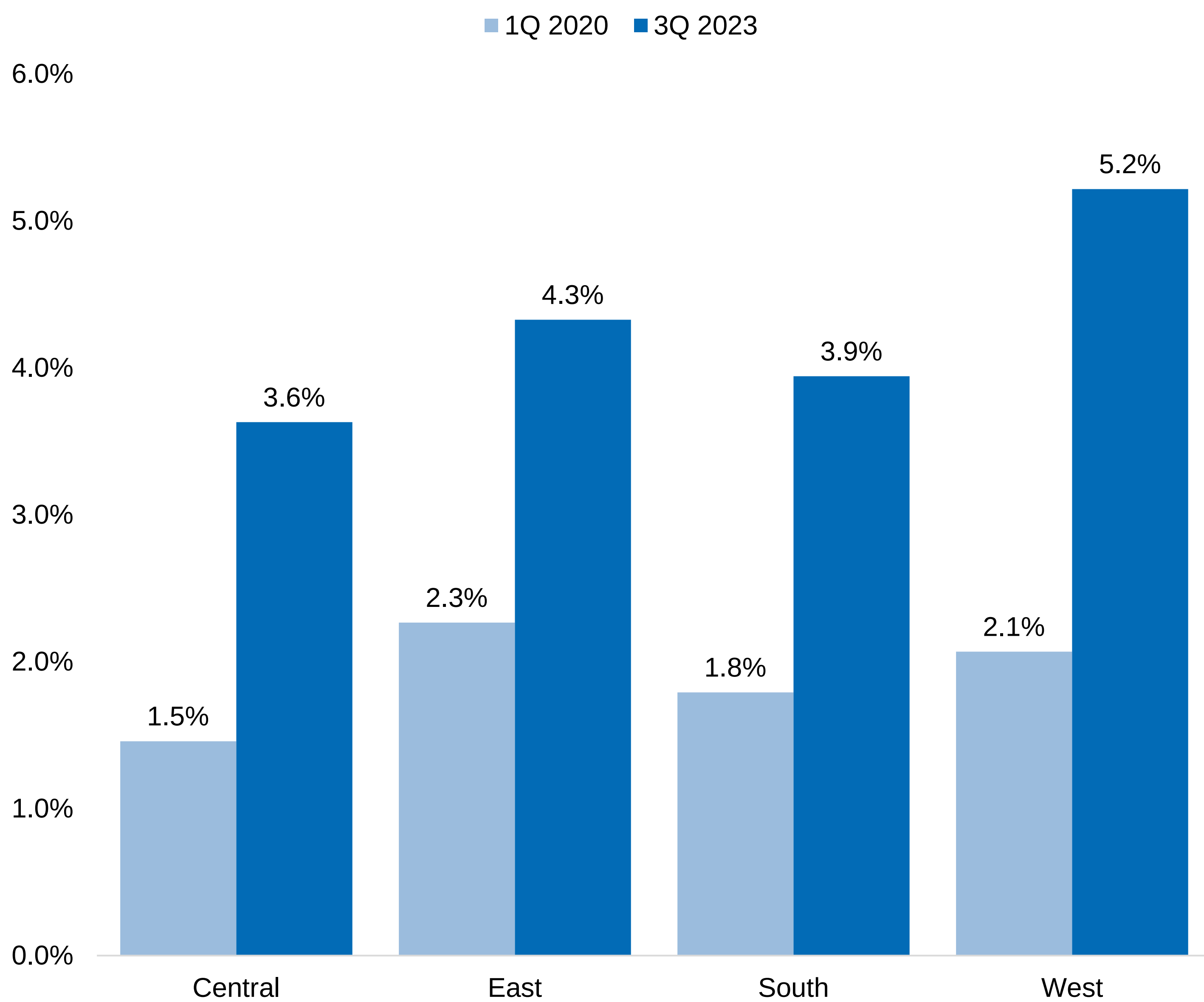


Source: CoStar, Newmark Research

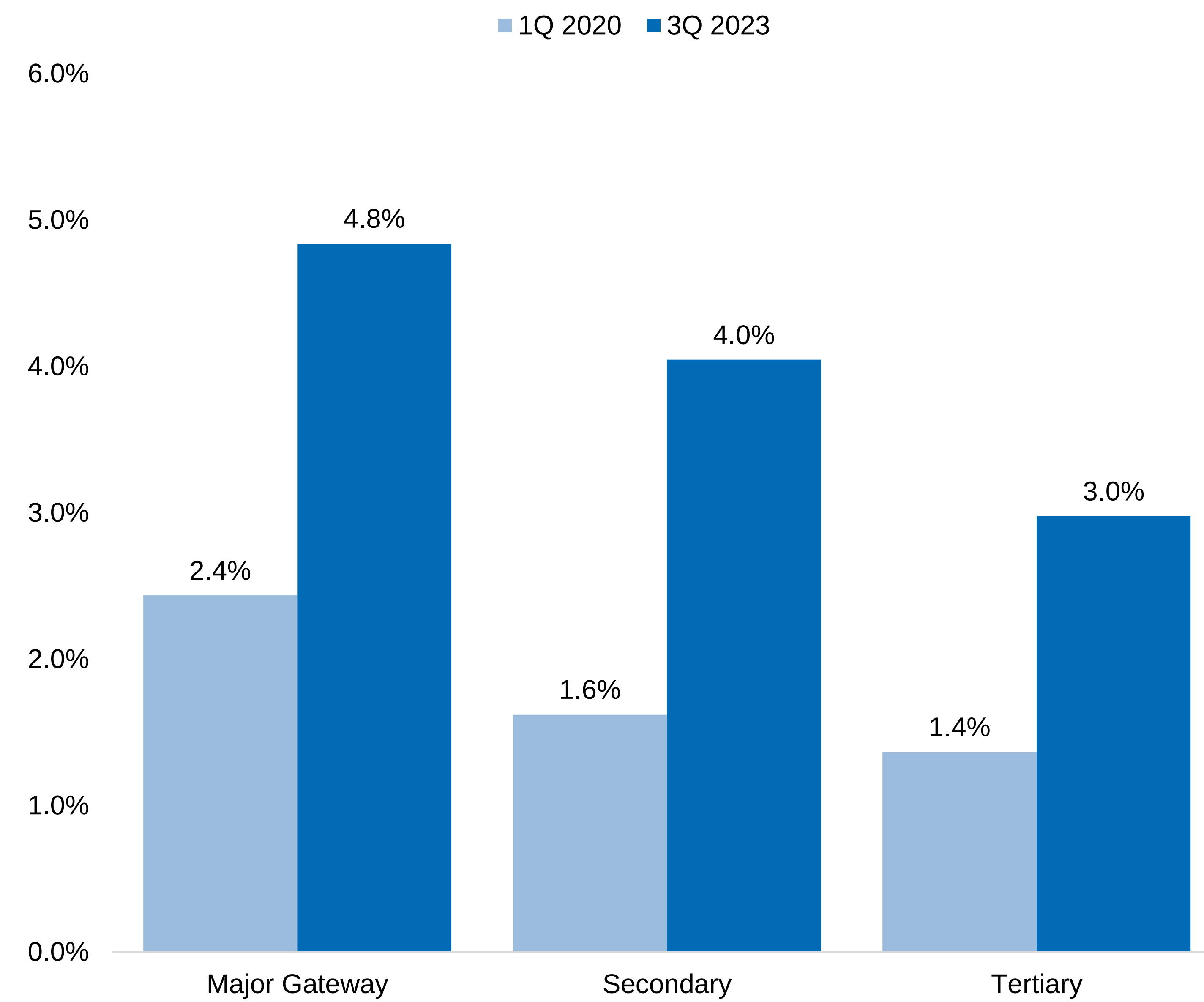
Sublease Availability Significantly Elevated above Pre-Pandemic Baseline

While sublease availability growth paused in the third quarter of 2023, it remains elevated from a historical perspective. Sublease availability is highest in Western Region markets, notably San Francisco, as well as major gateway markets more generally.

Regional Sublease Availability Rate



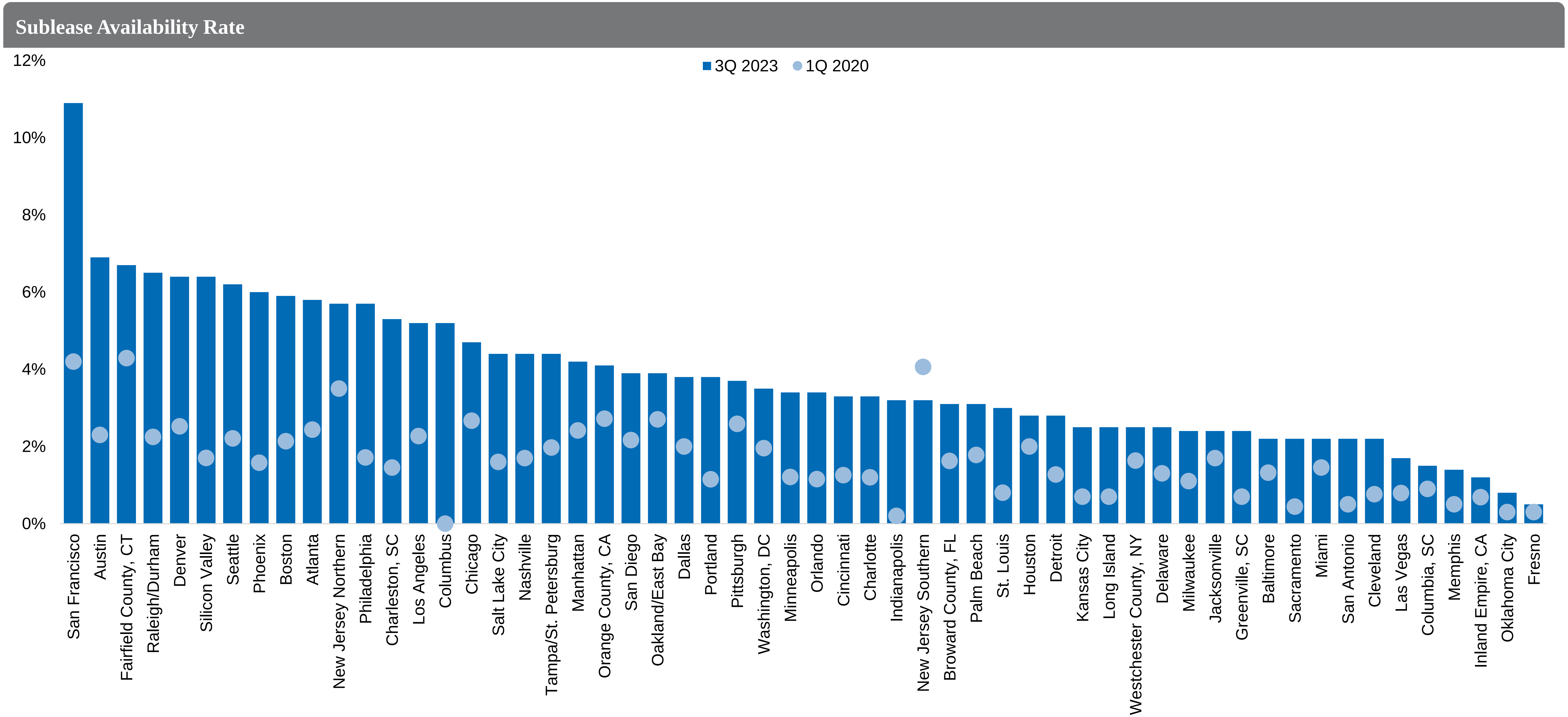
Market Size Sublease Availability Rate



Source: CoStar, Newmark Research

Sublease Availability by Market

Sublease availability remains elevated above pre-pandemic baseline levels in most U.S. markets. Larger markets exhibiting particularly challenging sublease environments include San Francisco, Austin, Fairfield County, Raleigh/Durham and Denver. Instability in the tech industry, evidenced by layoffs over the course of the year, indicates that these markets could experience greater increases in sublease availability, further softening fundamentals.

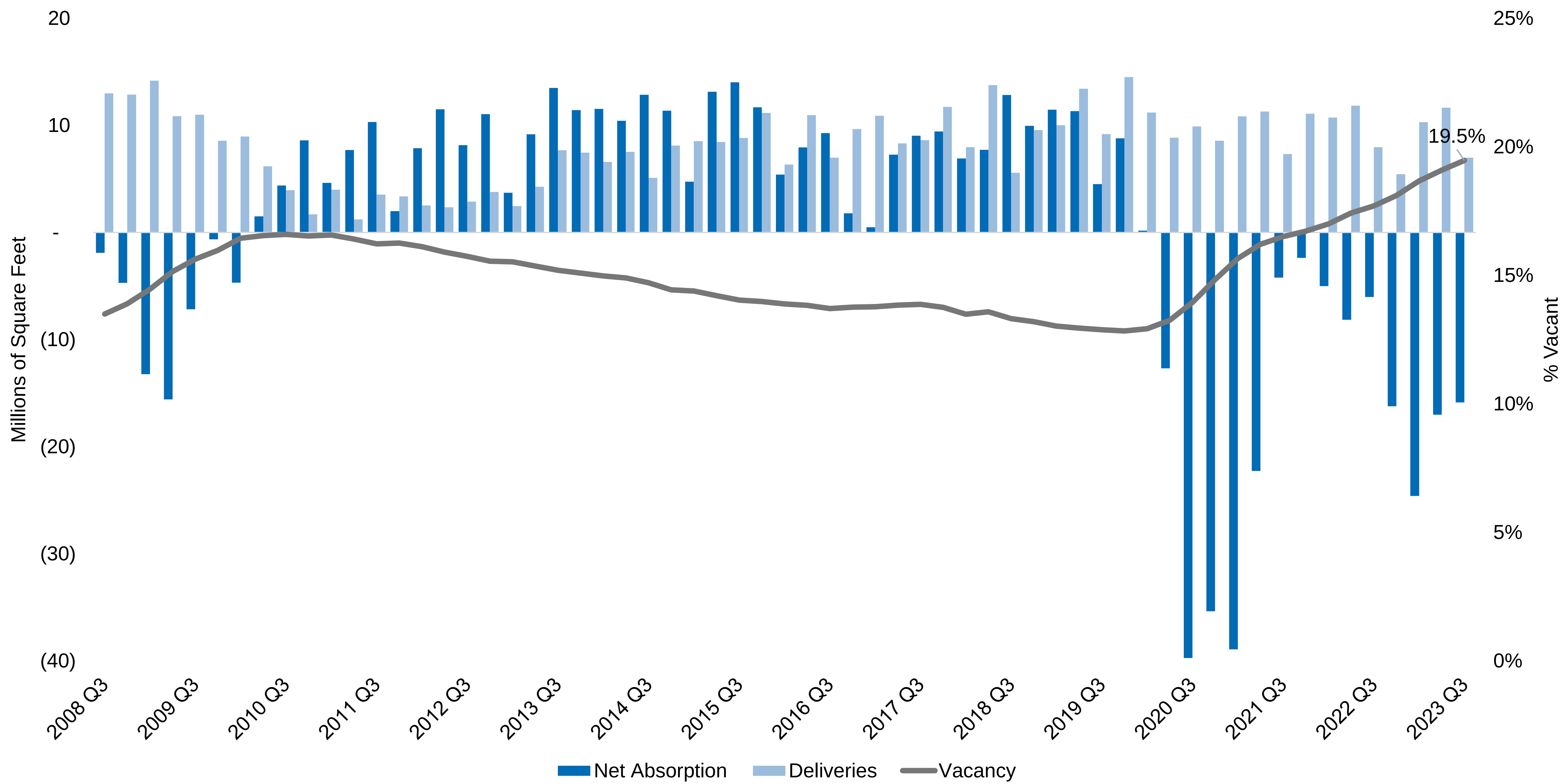


Source: CoStar, Newmark Research

Continued Vacancy Growth Driven by Greater Occupancy Losses

Net absorption, though negative, decelerated slightly in the third quarter of 2023, resulting in space givebacks totaling negative 15.9 million SF. Since the first quarter of 2020, net absorption has totaled over negative 249 million SF, significantly worse than either the Great Recession (negative 51.6 million SF) or dot-com (negative 75.7 million SF) market downturns. Despite consistent delivery of new product, the noteworthy reduction in demand has driven vacancy to its highest levels in the cycle, reaching 19.5%.

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

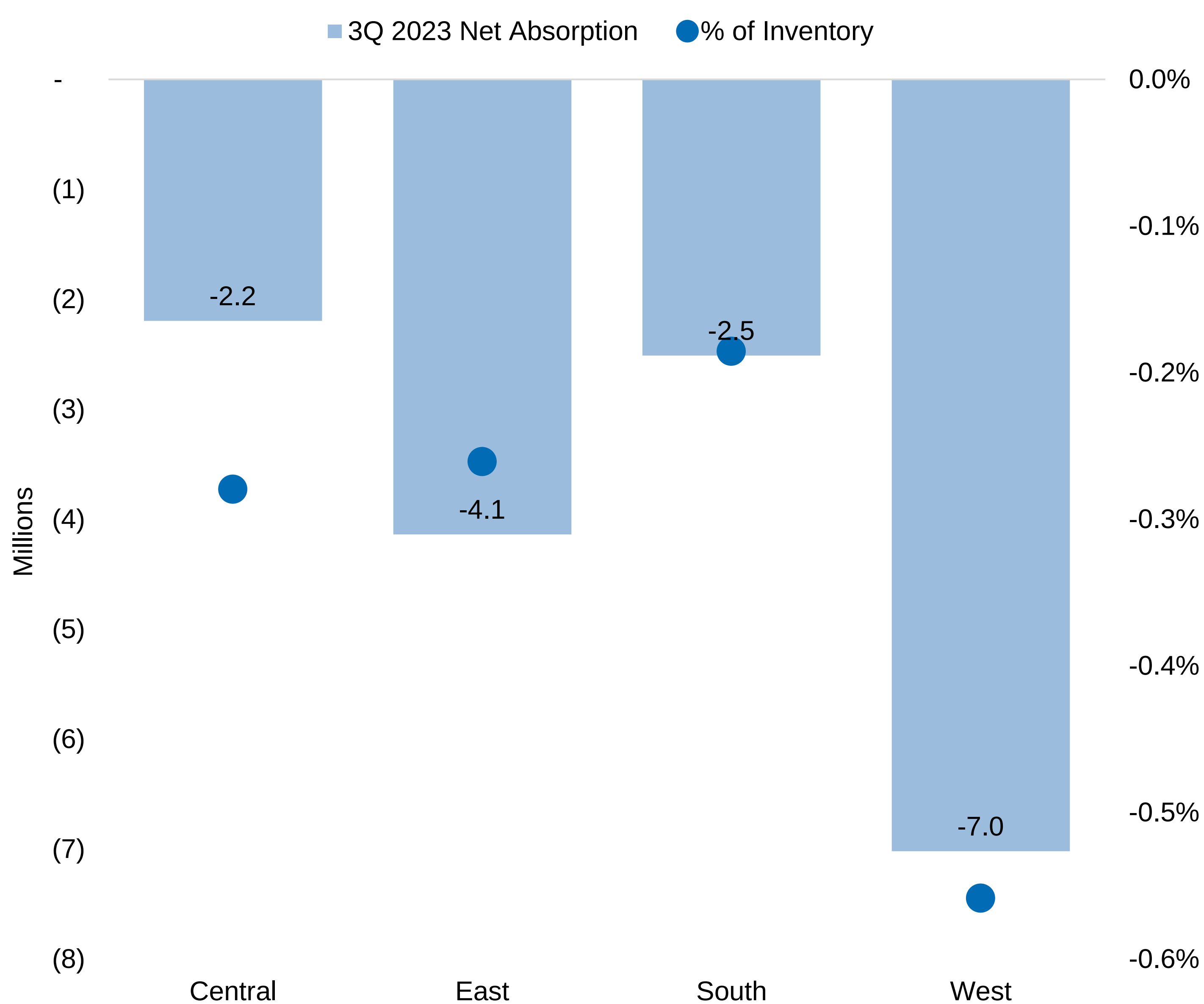


Source: CoStar, Newmark Research

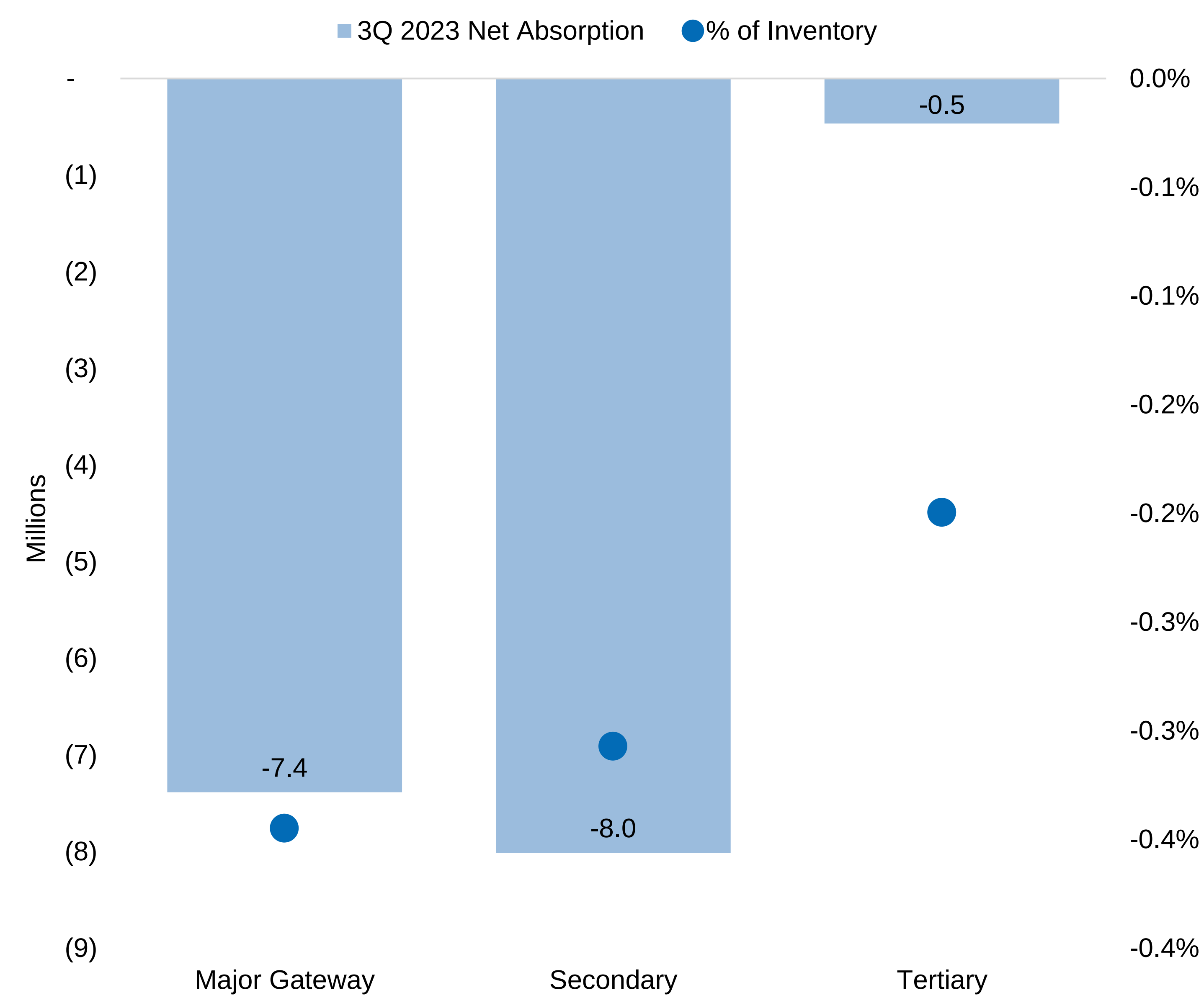
Net Absorption Contracted in 3Q23 across Region and Market Tiers

Occupancy losses continued to mount in the third quarter of 2023, driven most strongly by the Western region, where losses in the third quarter of 2023 amounted to negative 7.0 million SF. Both major gateway and secondary markets shed a comparable amount of occupancy in the quarter. The South and Sun Belt continue to perform well relative to the nation, though there were occupancy losses in the third quarter of 2023 within this region as well.

Regional Net Absorption



Market Size Net Absorption



Source: CoStar, Newmark Research

Occupied Space Contracted in 42 out of 56 Markets in 3Q23

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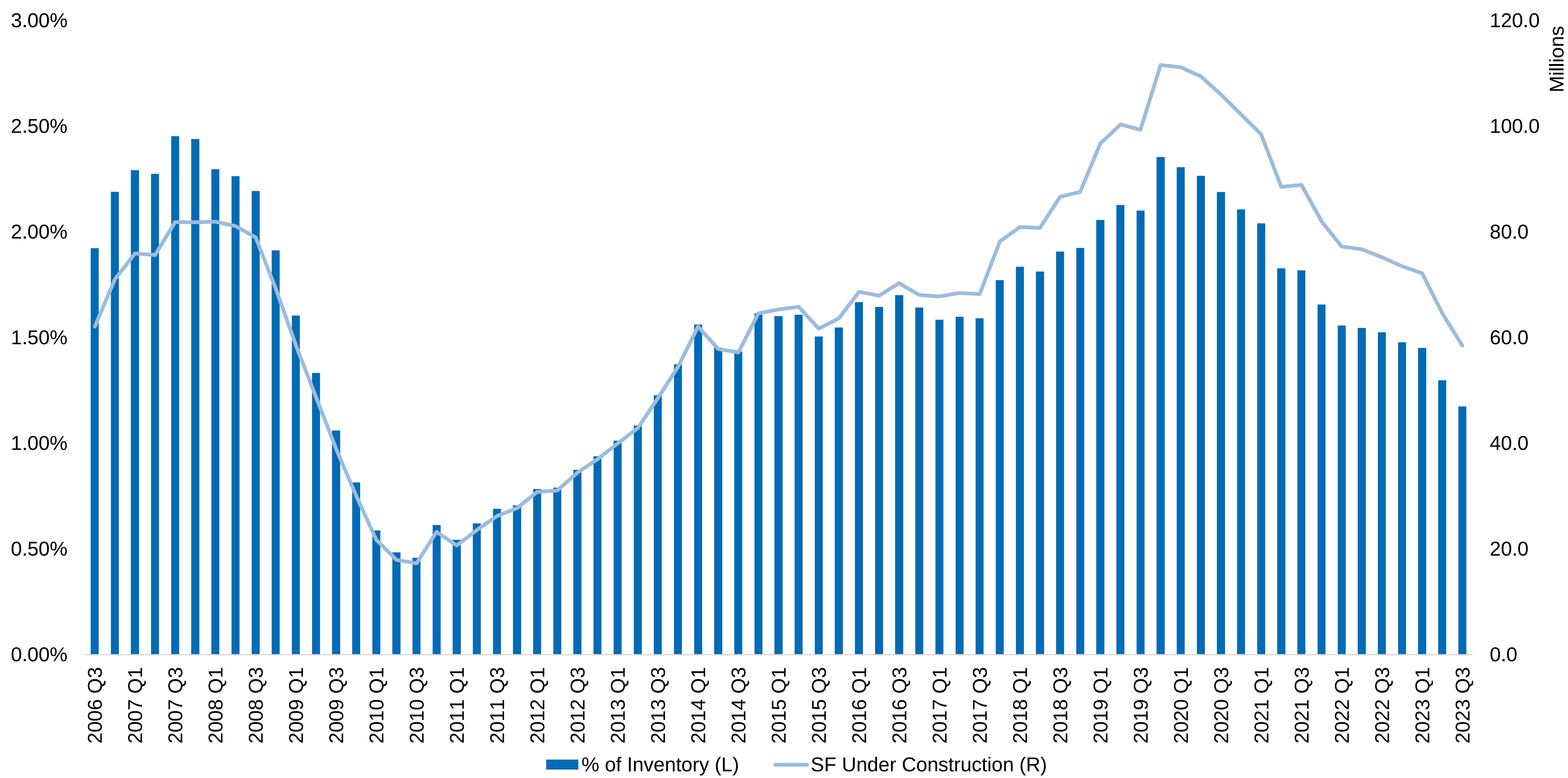
Office Construction Pipeline Contracts at Measured Pace

Office space under construction peaked in late 2019 at nearly 112 million SF but has slowed as the pandemic influenced office demand in the years since. Construction activity inched down in the third quarter of 2023 as pessimism among some discouraged new groundbreaking activity. The pipeline is expected to at best remain stable in the near term due to decreased overall demand for office space and increased economic uncertainty.

Under Construction: Percent of Inventory and Total Square Footage

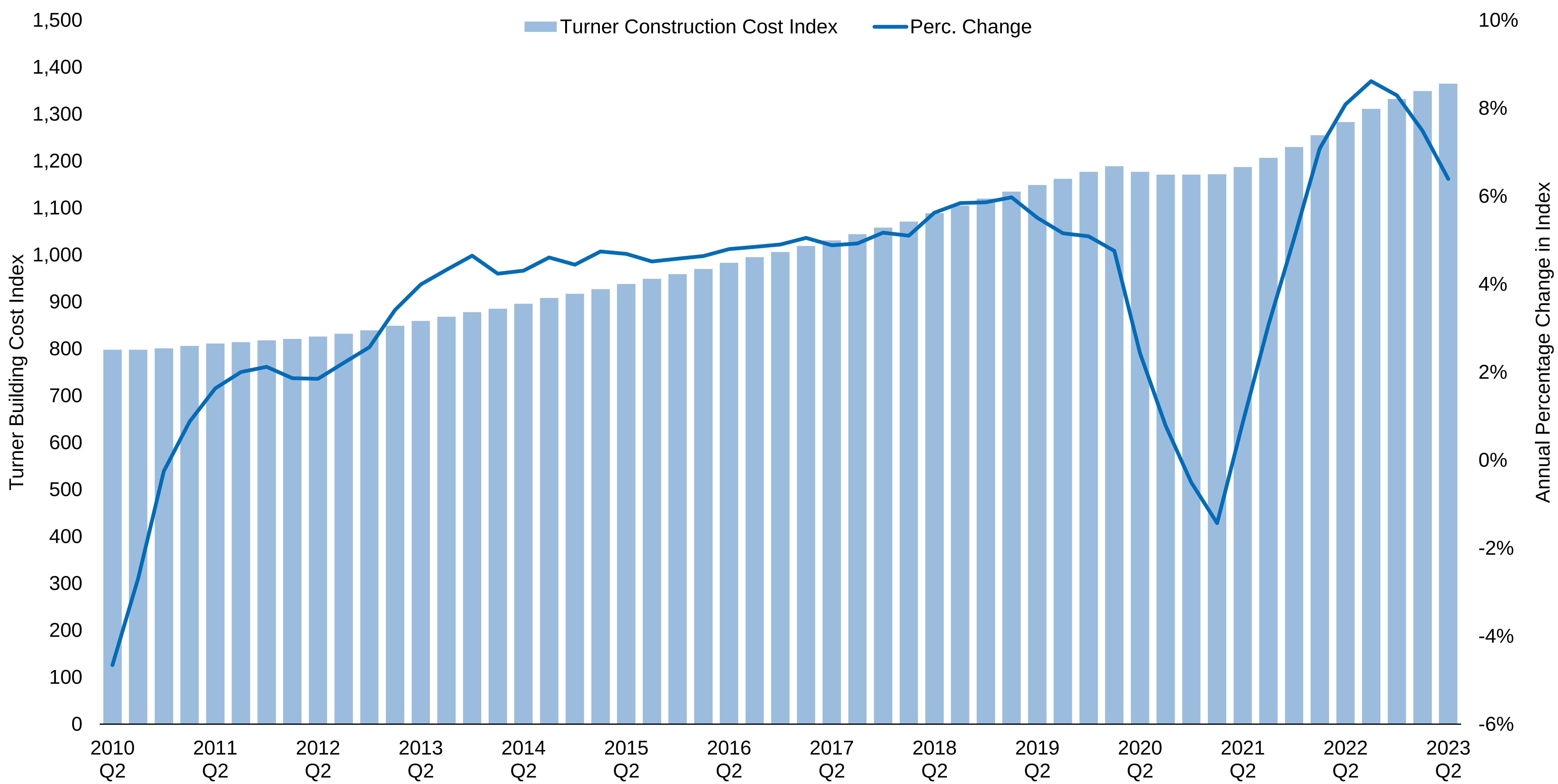


Sources: CoStar, Newmark Research

Office Construction Costs Increase in 2023

Inflationary pressures continued softening in the second quarter of 2023, but construction pricing continued to rise unabated. Construction pricing generally increased from 4.0% to 5.0% through much of the mid-2010s. While the annual growth rate of the Turner Building Cost Index slid down in the second quarter of 2023, it remains high at nearly 6.5%.

Turner Building Cost Index



Source: Turner Construction, Newmark Research

Low Construction Pipelines May Help Moderate Supply and Demand Imbalances

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Percent of Inventory Under Construction Highest in West Coast and Sun Belt Markets

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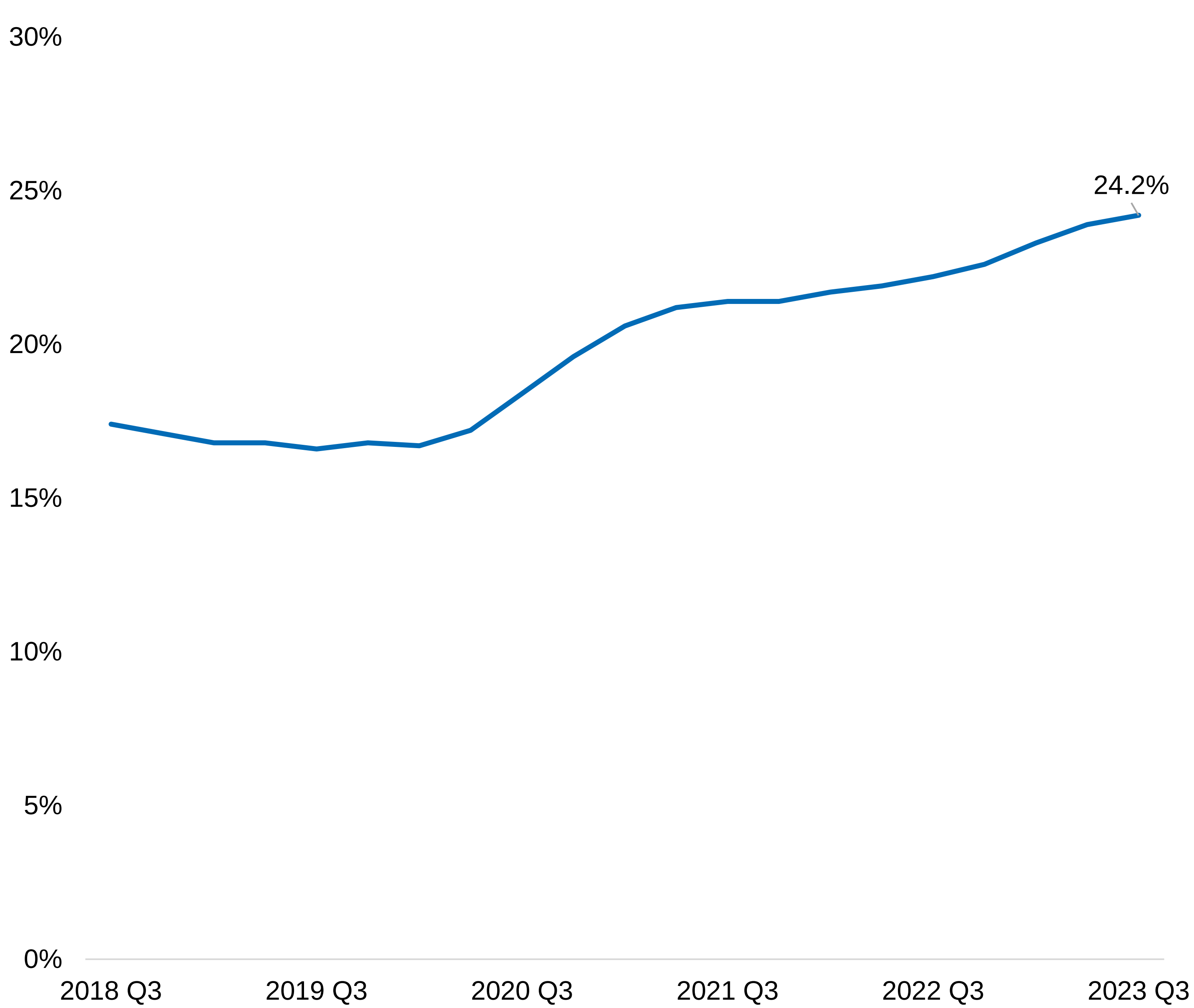
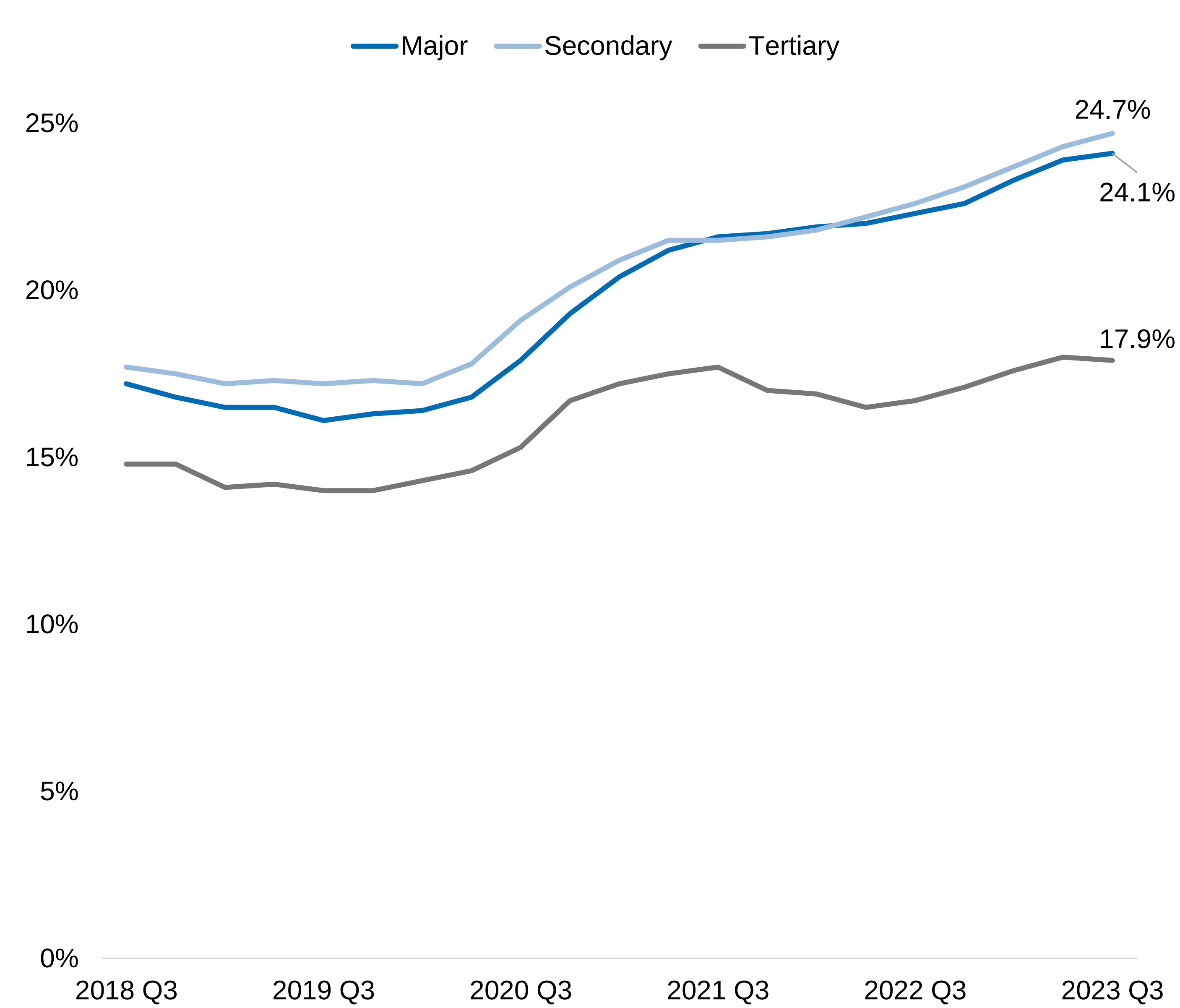
Availability Rates Have Not Yet Peaked

With the vacancy rise, overall availability rose as well in the third quarter of 2023 and is notable elevated in major and secondary markets. Prior to the fourth quarter of 2022, tertiary markets had recorded stabilizing availability levels, but renewed uncertainty has driven up availability rates alongside other fundamentals, including sublease space and vacancy.

National Office Market Availability Rate



Availability Rate Comparison By Market Size

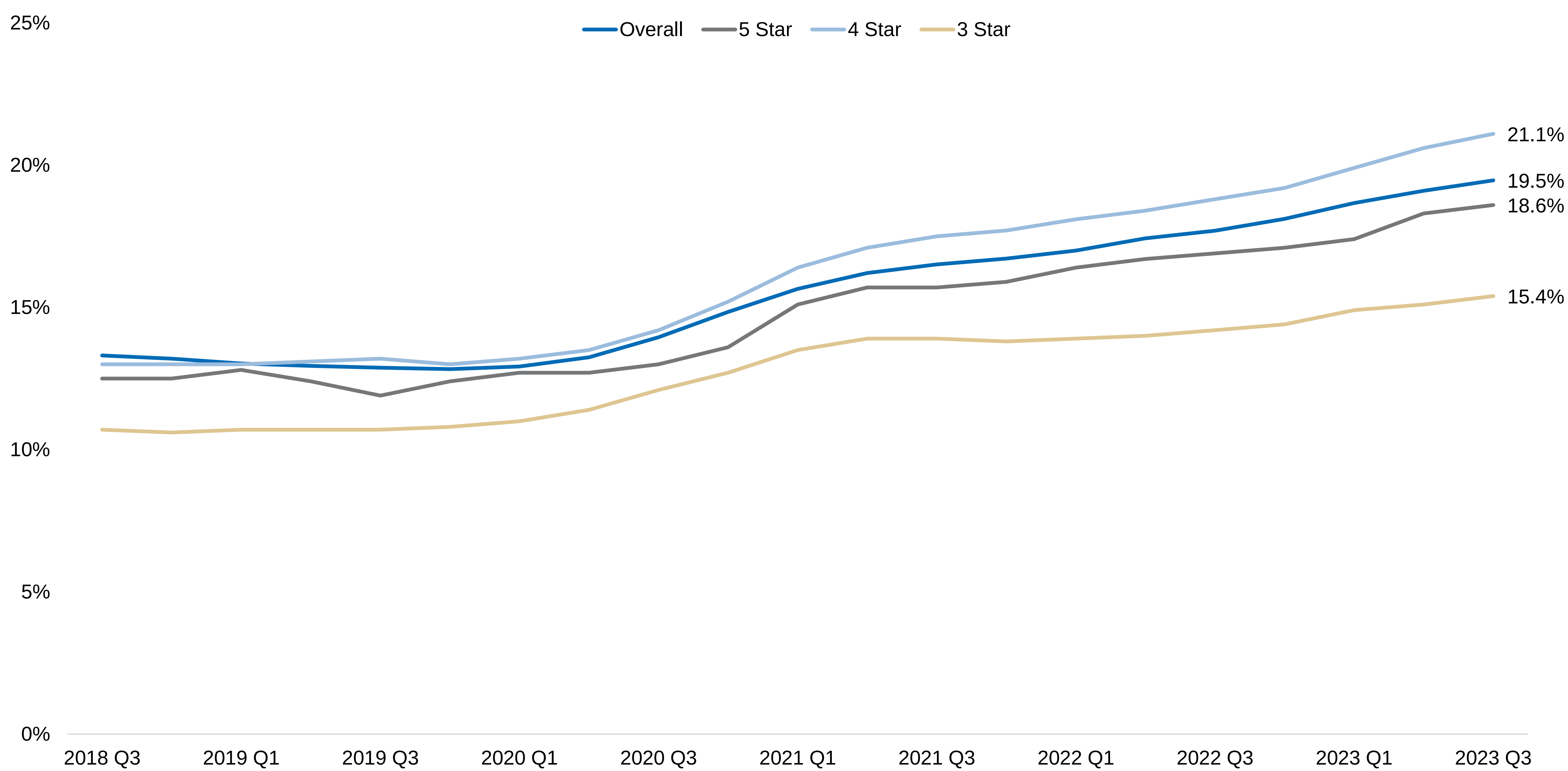


Sources: CoStar, Newmark Research

Continued Occupancy Losses and Slow but Steady Deliveries Drive Vacancy

Vacancy rates rose most notably in the quarters immediately following the onset of the pandemic but continue to marginally grow as overall demand for office space remains soft. Commodity-grade Class A space is generally the most oversupplied segment of the market.

National Office Market Vacancy Rate By Class



Source: CoStar, Newmark Research

Vacancy and Availability by Market

CBD Office Most Impacted while Suburban Office and Niche Categories Outperform

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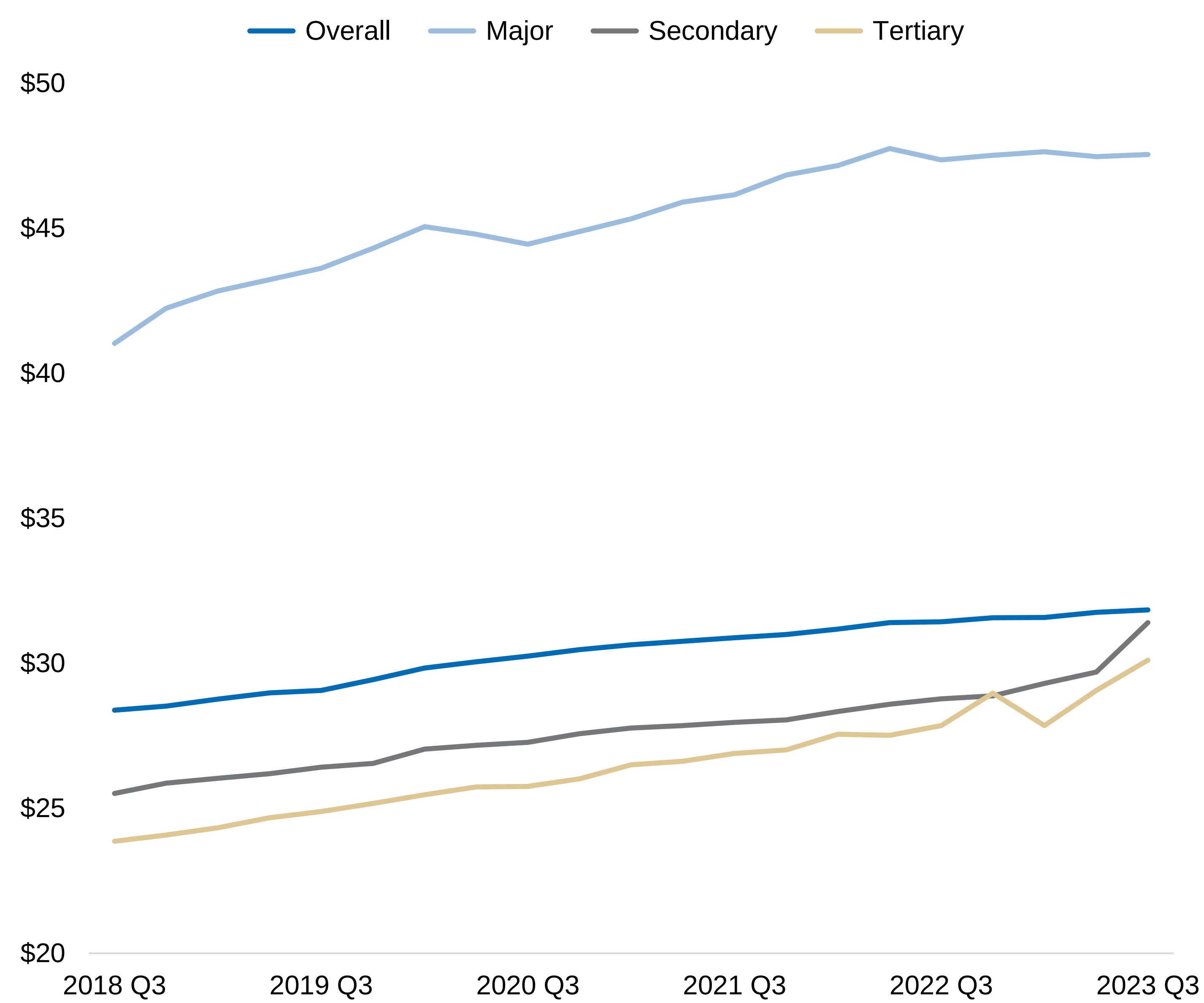
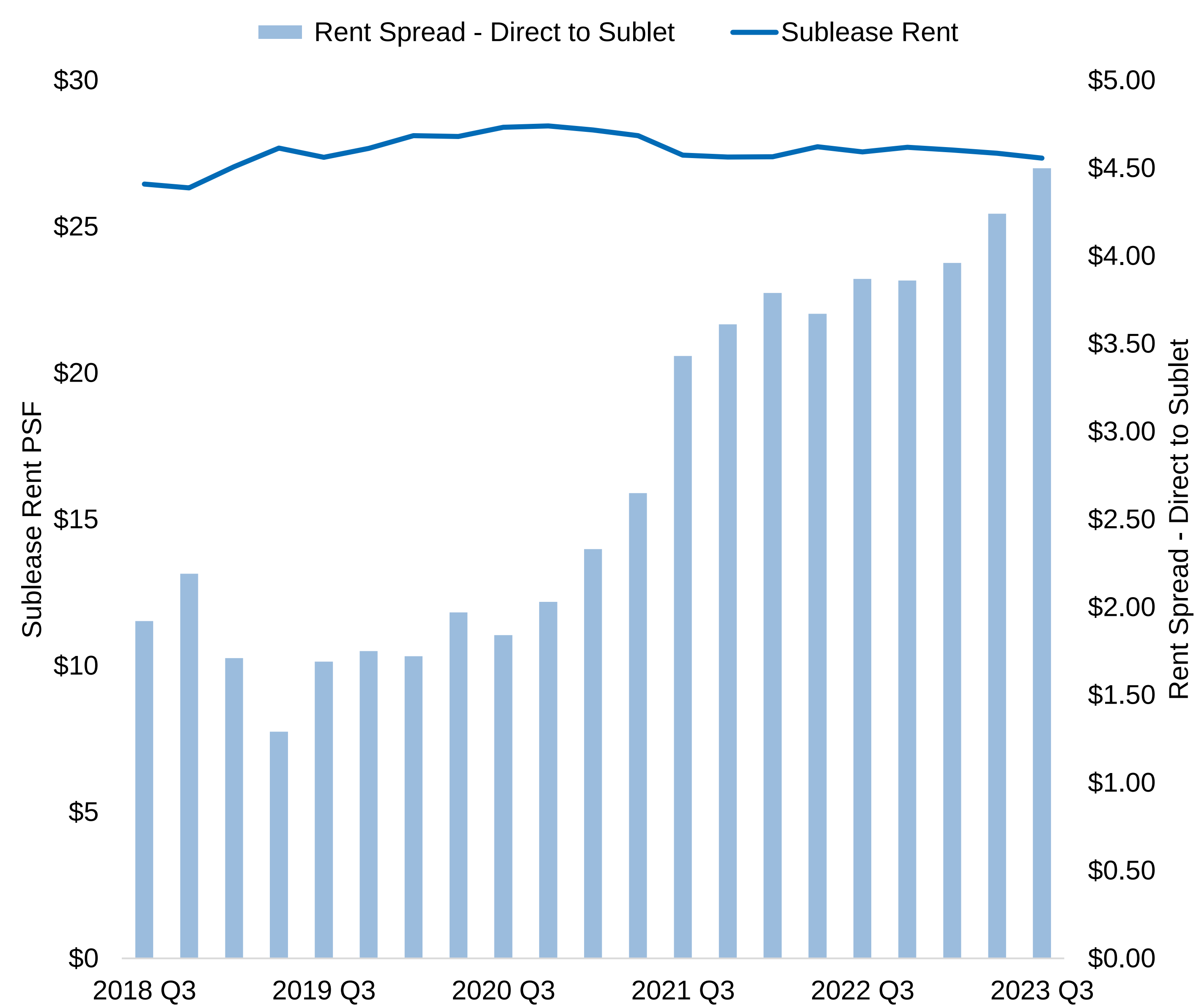
Asking Rents March On

In past cycles, asking rents have adjusted downward to account for depressed demand; however, asking rents have largely held value since the onset of the pandemic. Some rent compression is being experienced among major markets, but secondary and tertiary markets continue to appreciate. Sublease rents have been holding relatively flat for much of the last three years, which more visibly exhibits the impact of low demand. As a result, the spread between sublease space and direct space has widened to near all-time highs.

Overall Asking Rents Up 1.3% YoY in Q3, Led by Major Markets



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

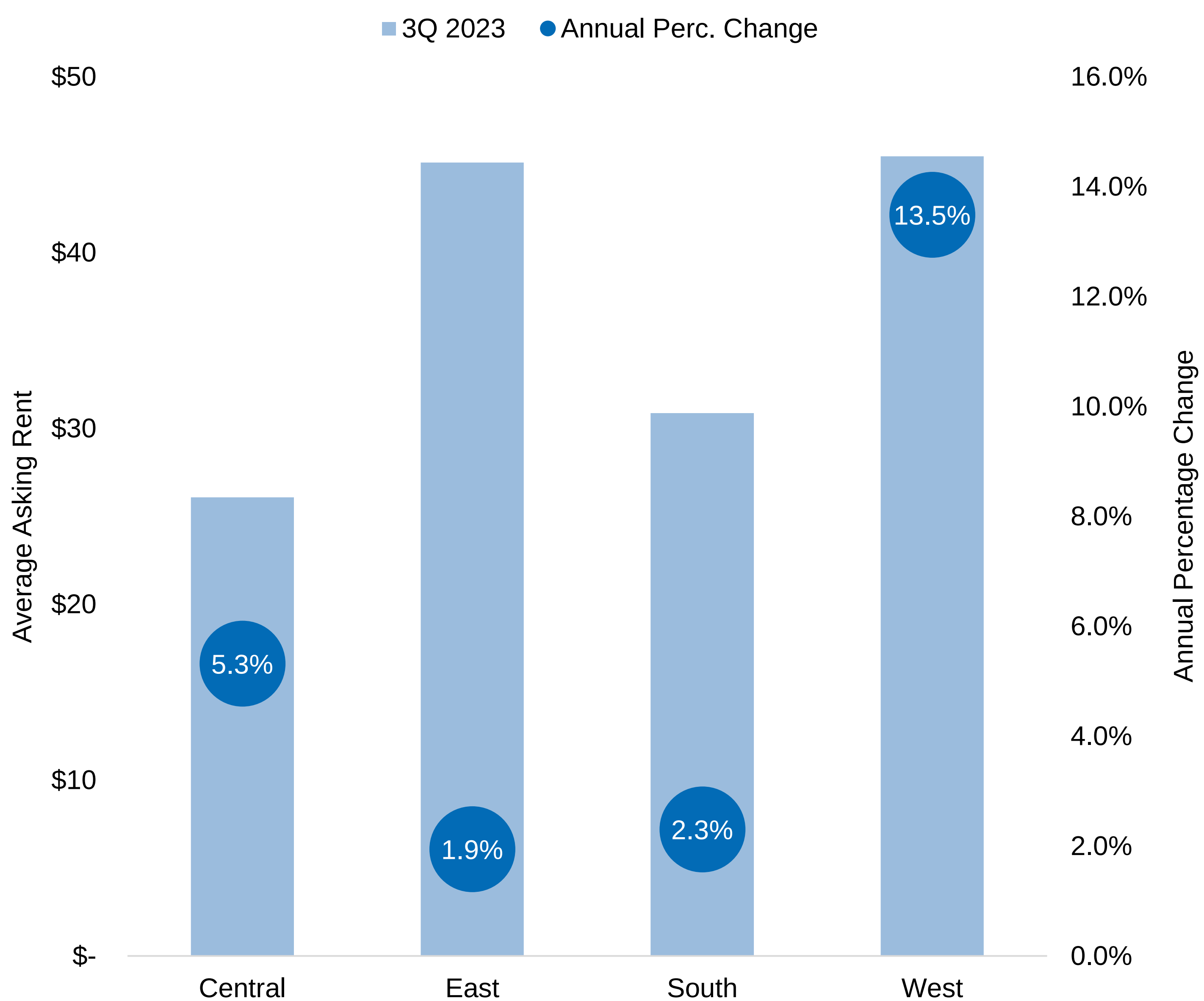


Source: CoStar, Newmark Research

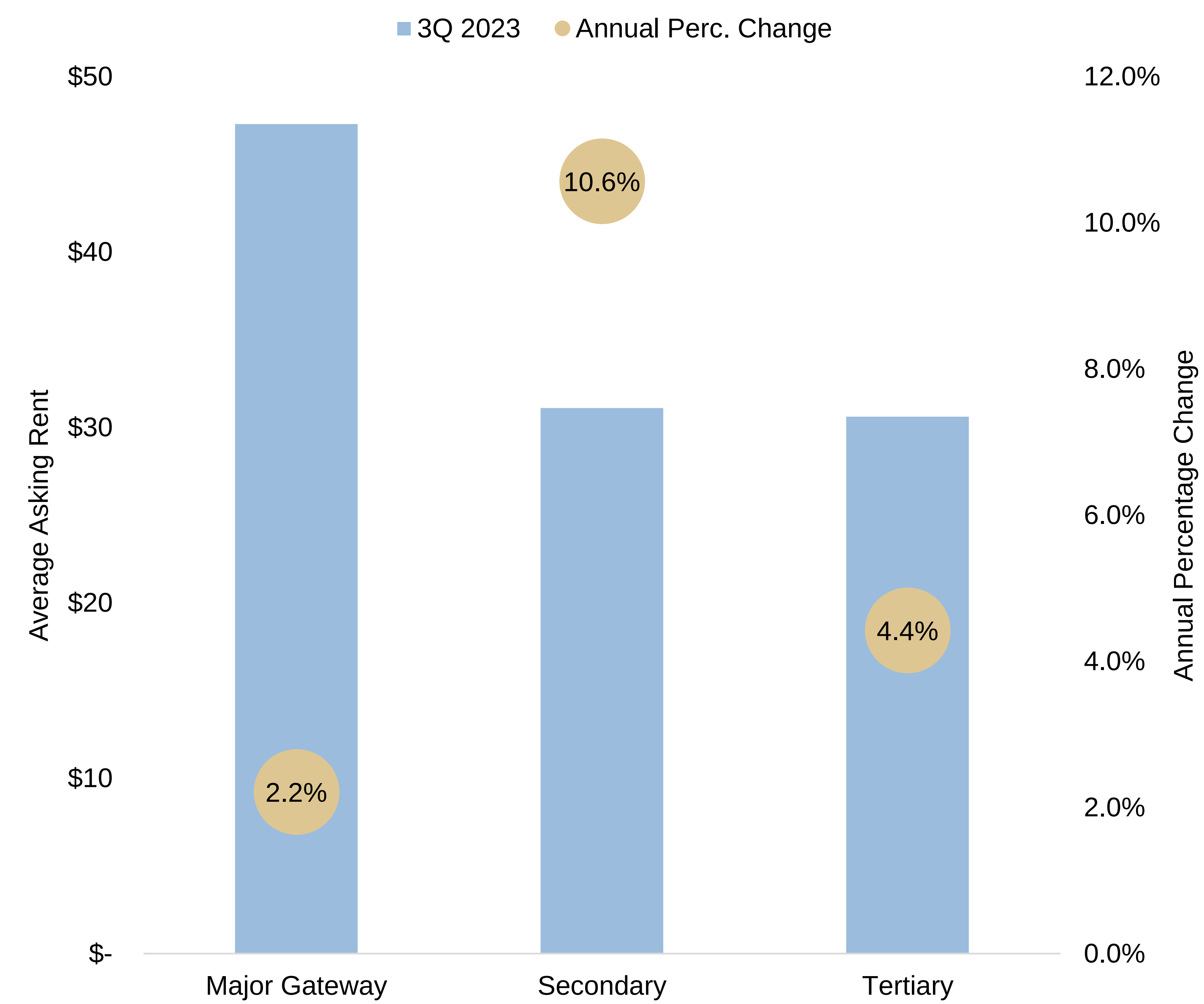
Central, West Regions and Non-Major Markets Leading in Rent Growth

Overall asking rents are most elevated in major coastal Eastern and Western markets, including San Francisco, Manhattan and Silicon Valley. The West Coast continues to experience the most aggressive rent appreciation among the four key regions, driven partly by inventory expansion and the success of secondary markets in attracting office demand in an otherwise challenging time. Effective rents are under downward pressure and modest rent compression is being felt in some markets.

Asking Rents Growing Fastest in the Central and West Regions



Non-Major Markets Experiencing the Most Rent Growth



Source: CoStar, Newmark Research

Spread Between Sublet and Direct Rents Rising in Most Markets

Institutional Core Building Rent per SF Has Broadly Grown Since 4Q19

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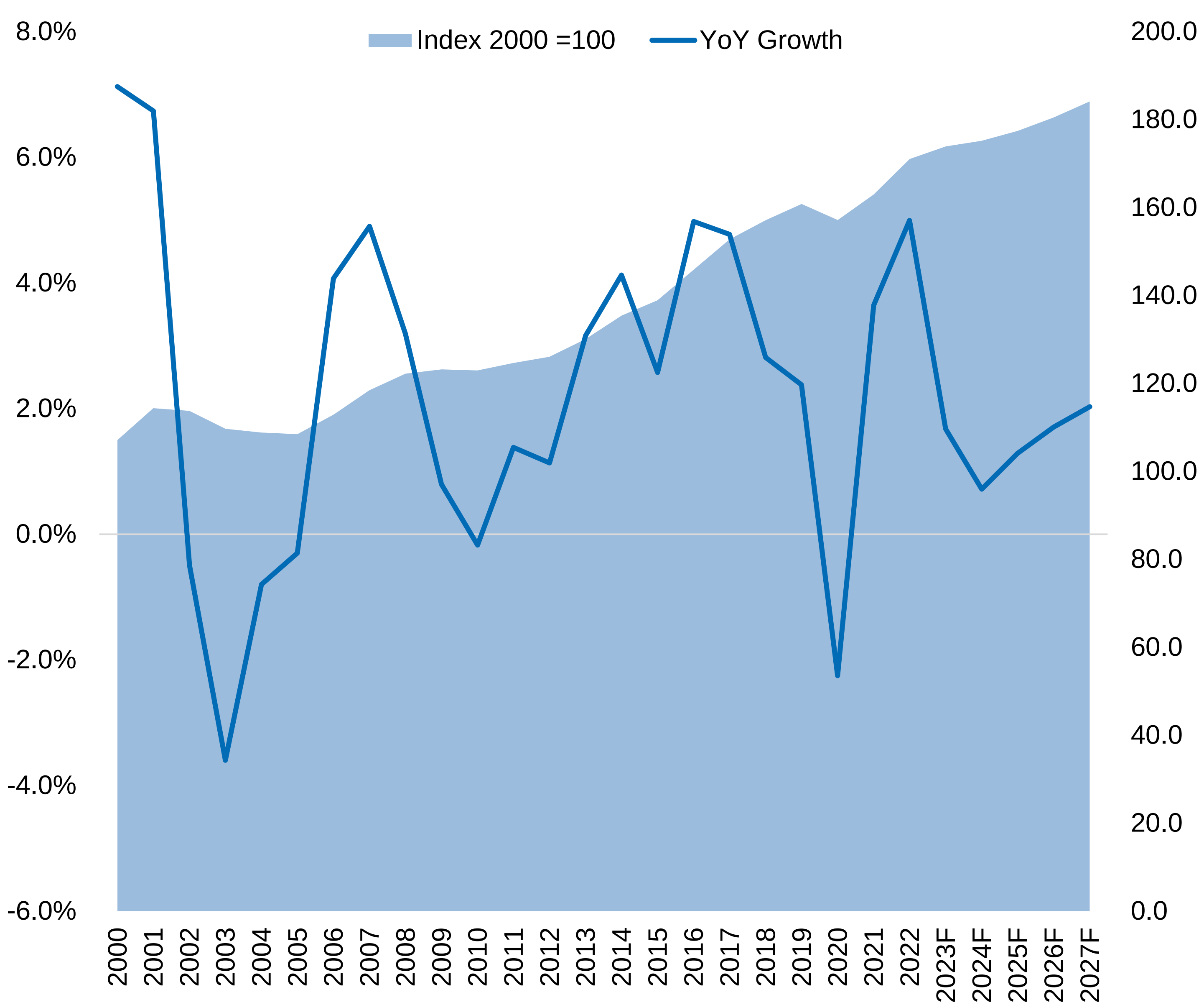
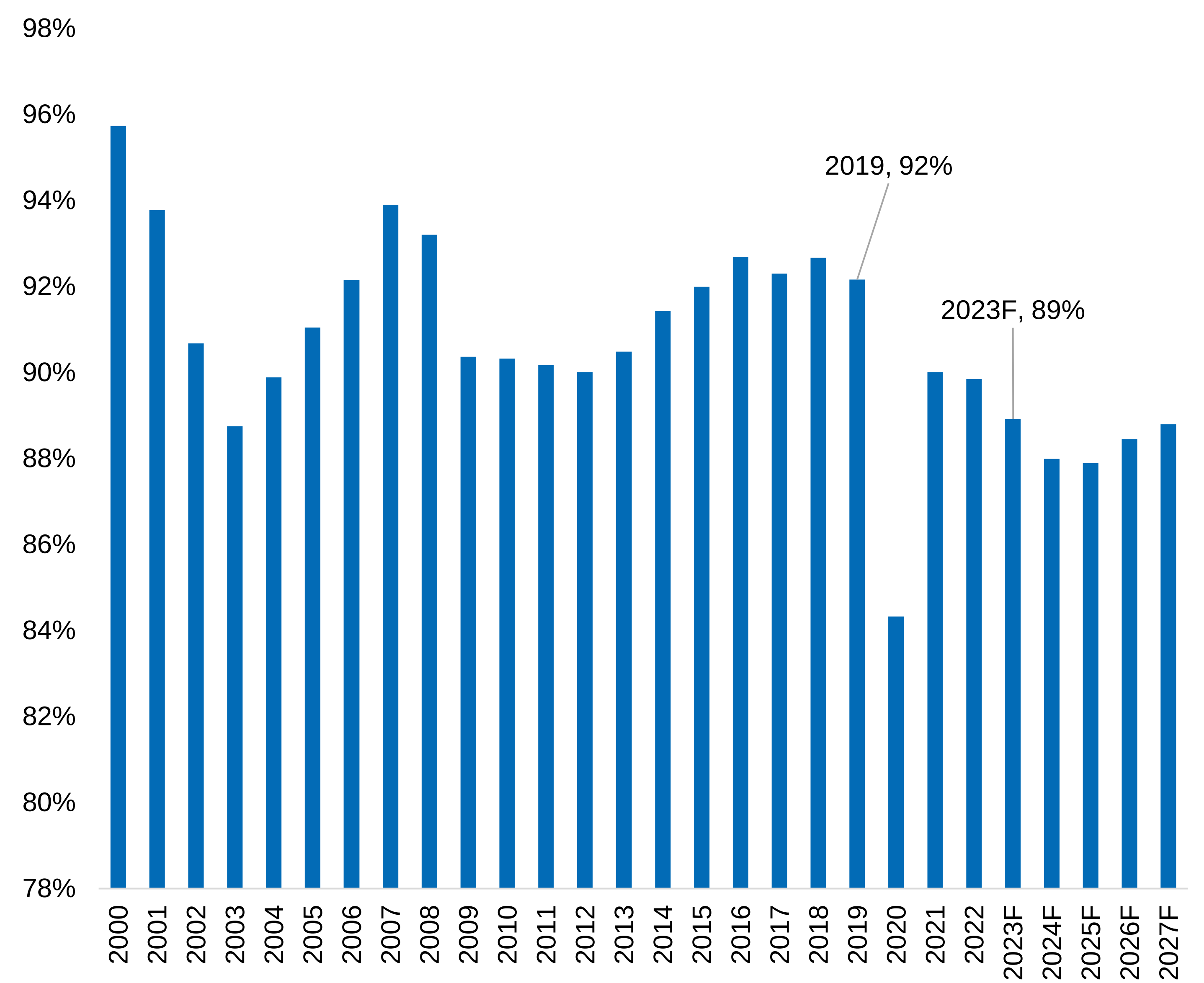
Office REITs Also Show Better than Expected Cashflow Trends

Despite the significant deterioration in overall leasing market conditions, office REITs have continued to grow their same-store NOI. Partly, this reflects disposition of underperforming assets, but this still means that the pruned portfolios are performing. Occupancies are at their lowest levels since at least 2000, but they appear to have stabilized.

REIT Same-Store NOI



REIT Same-Store Occupancy Stabilizing

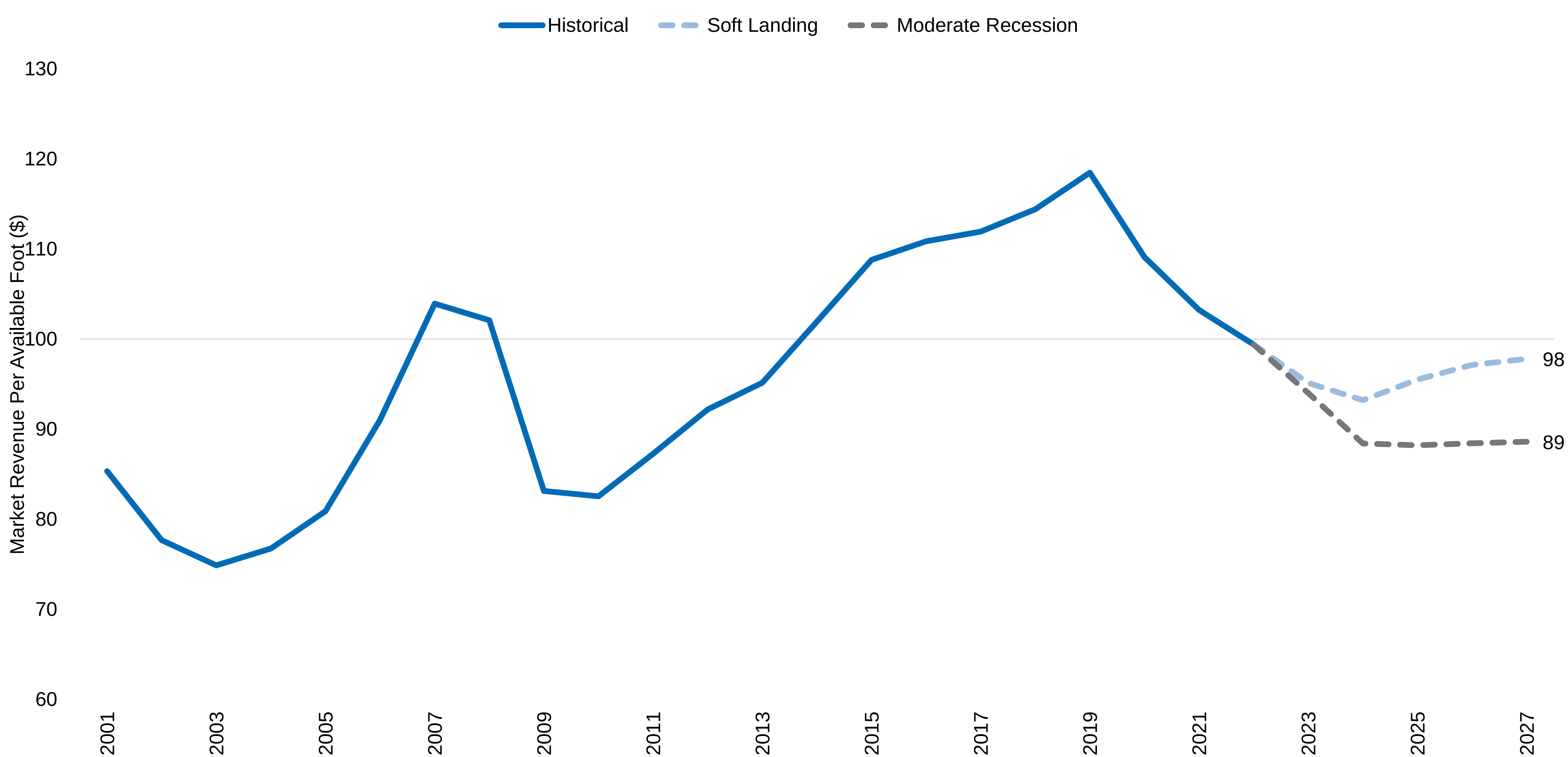


Source: Green Street data as of 11/16/2023, Newmark Research

Broad Market Fundamentals Face a Slow Recovery

Market revenue per available foot has been trending downward since 2019, and it is not expected to bottom until the end of 2024 at the earliest. A recession would result in a deeper trough and a slower rebound. Even in the event of a soft landing, the office market fundamentals with improve slowly and will only return to the previous peak through a process of eliminating large quantities of obsolescent stock. Newer, well-located properties have had a very different experience and will continue to do so.

Green Street M-RevPAF (December 2000 = 100)

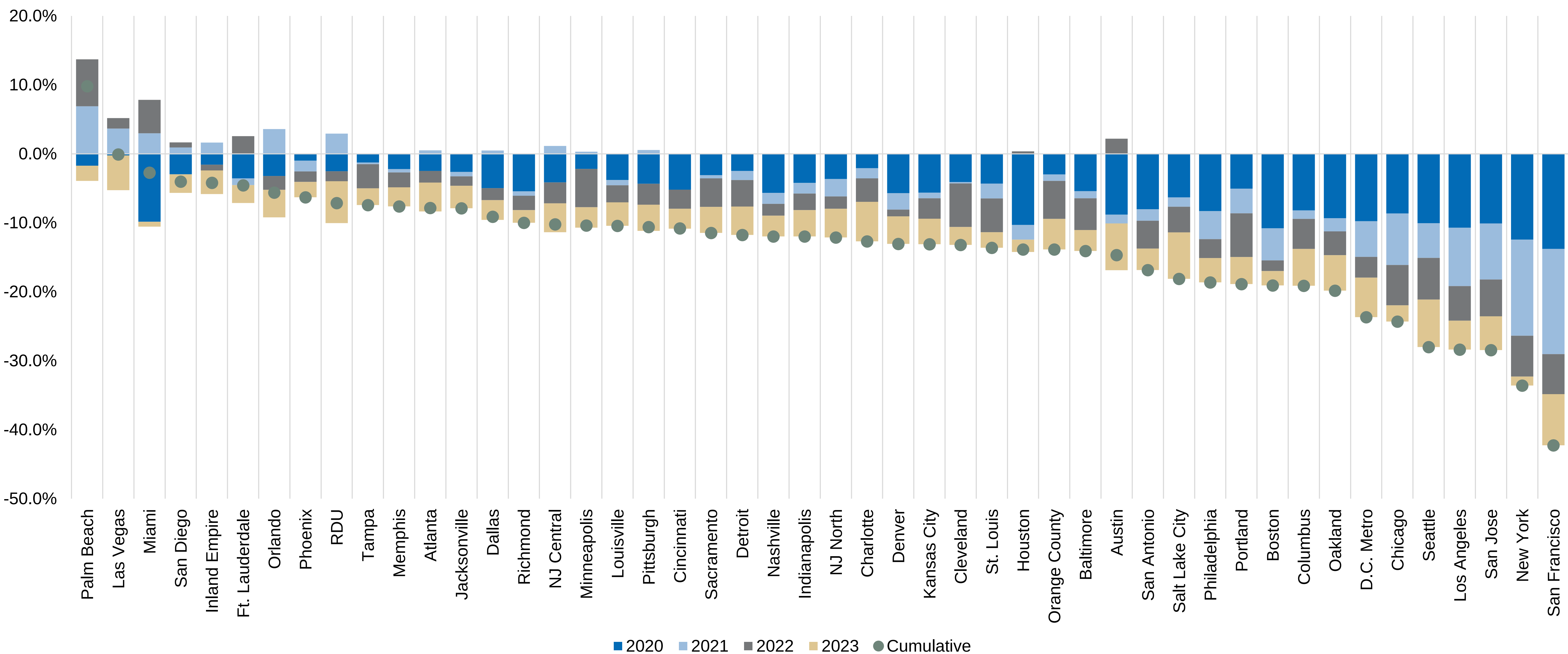


Sources: Green Street, Newmark Research as of 11/16/2023

RevPAF* Forecasted to Contract across Markets in 2023

The larger picture, however, shows that Sun Belt markets have outperformed since 2020, notably Florida markets, as well as San Diego and the Inland Empire. By far, the worst-performing market has been San Francisco, but other gateway markets have also been hard hit, including New York, San Jose, Los Angeles, Seattle, Chicago and DC.

M-RevPAF Growth by Market



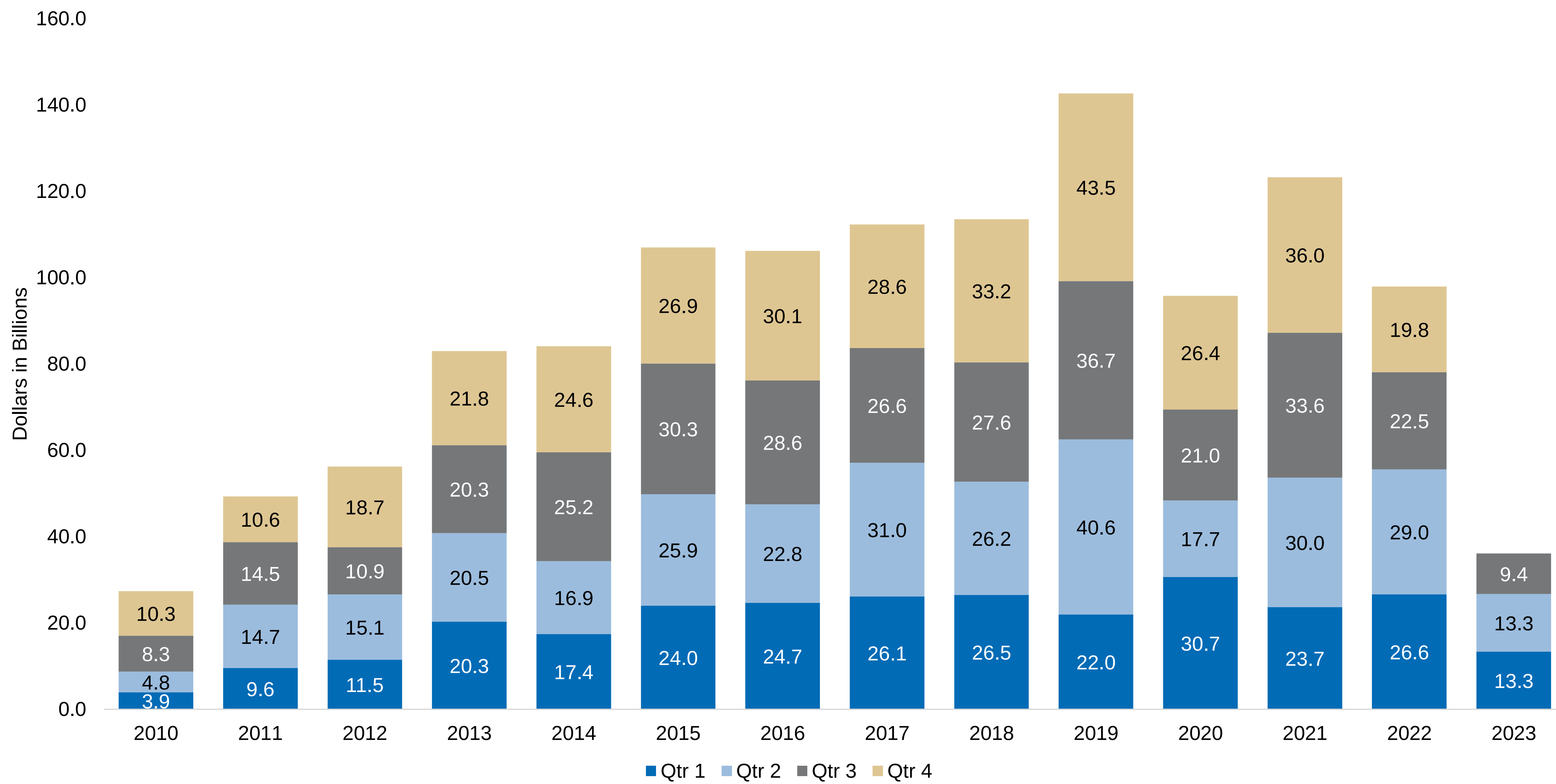
Source: Green Street data as of 11/16/2023, Newmark Research
*Market revenue per available foot combines the impact of changes in effective rents and occupancy to produce a measure of overall leasing market performance.

Debt Capital Markets

Office Debt Originations Down 54% Year over Year in First Three Quarters of 2023

While figures are preliminary, revisions would only confirm the sharp deceleration in lending activity in the office sector. Office origination volumes were the lowest since 2010. Both Suburban and CBD office buildings experienced similar declines year to date; however, CBD office originations are down 72% versus to the 2017 to 2019 average compared with negative 45% for Suburban office.

Office Debt Origination Volume*

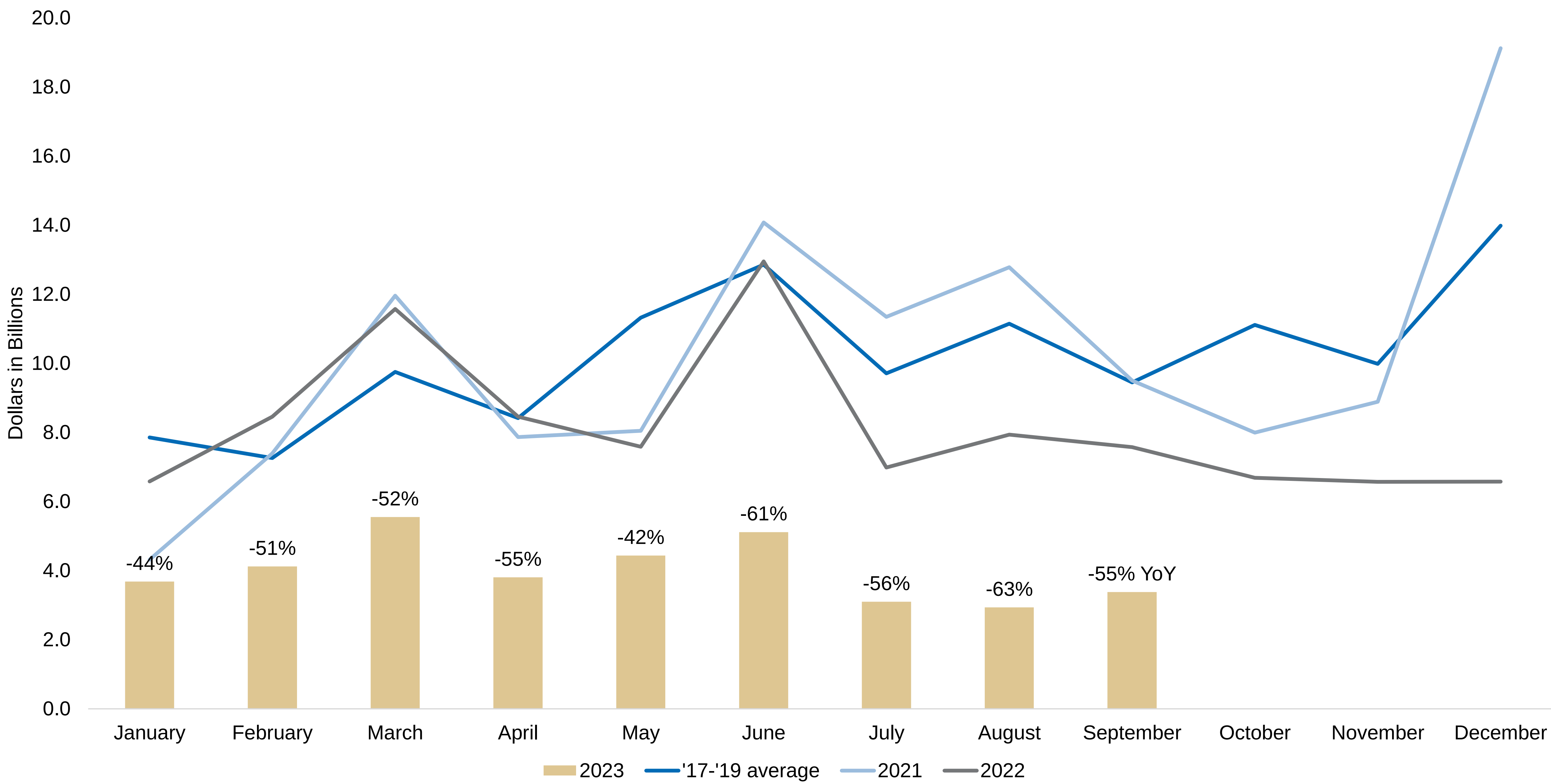


Source: RCA, Newmark Research as of 10/24/2023
* Excludes construction finance. Data is based preliminary loan sums, which are subject to future revision – potentially significant.

Monthly Originations Consistently Weak; Materially below Historical Levels

Office originations departed from the 2017 to 2019 average trend in July of 2022 and continuously weakened since then. September volume is likely to be revised upwards modestly but will remain below the June level.

Monthly Office Debt Originations Volume*

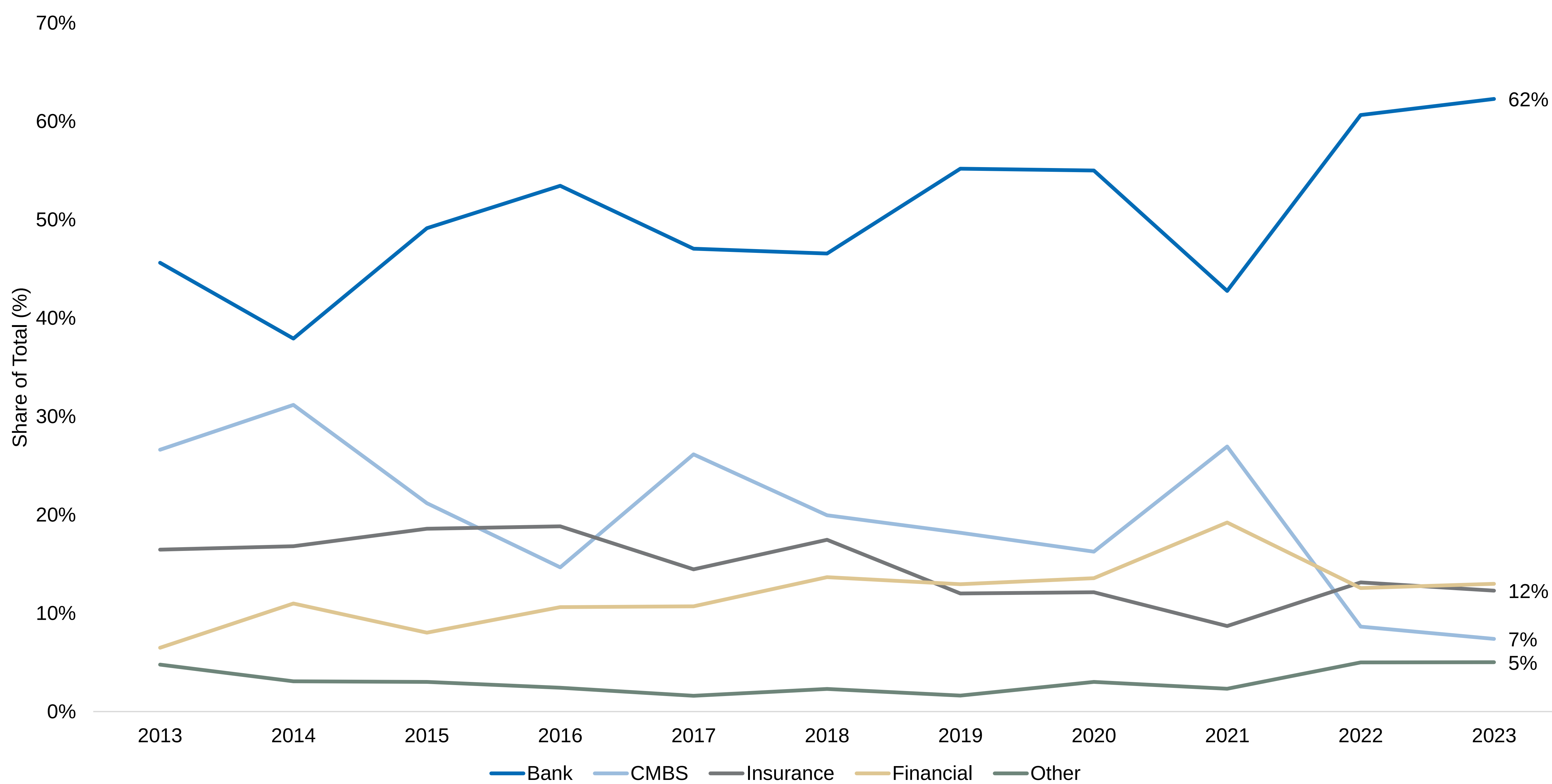


Source: RCA, Newmark Research as of 10/24/2023
* Excludes construction finance. Data is based preliminary loan sums, which are subject to future revision – potentially significant.

Office Borrowers Heavily Dependent on Bank Finance

Banks continued to dominate office property finance in the first three quarters of 2023. Securitized debt finance by contrast has fallen sharply from its recent peak in 2021 amid a depressed issuance market. Other lenders, mostly private, increased their shares sharply year to date. Insurance and debt fund lending have been stable on a share basis.

Origination Share by Lender Group



Source: RCA, Newmark Research as of 10/24/2023
* Excludes construction finance. Data is based preliminary loan sums, which are subject to future revision – potentially significant.

$397 Billion in Office Loans Mature Between 2023 and 2025

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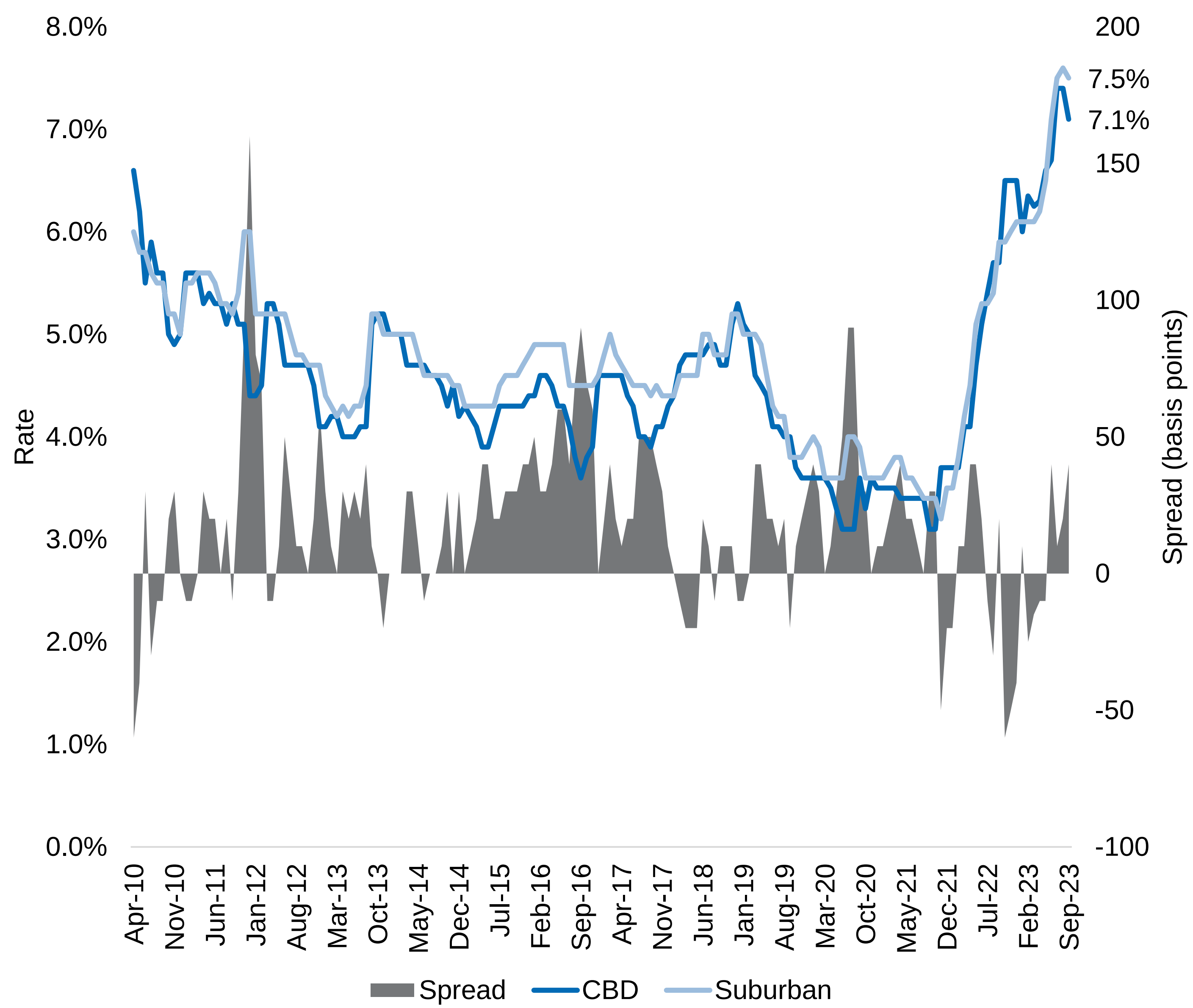
Most Maturing Office Loans Were Originated Pre-Pandemic

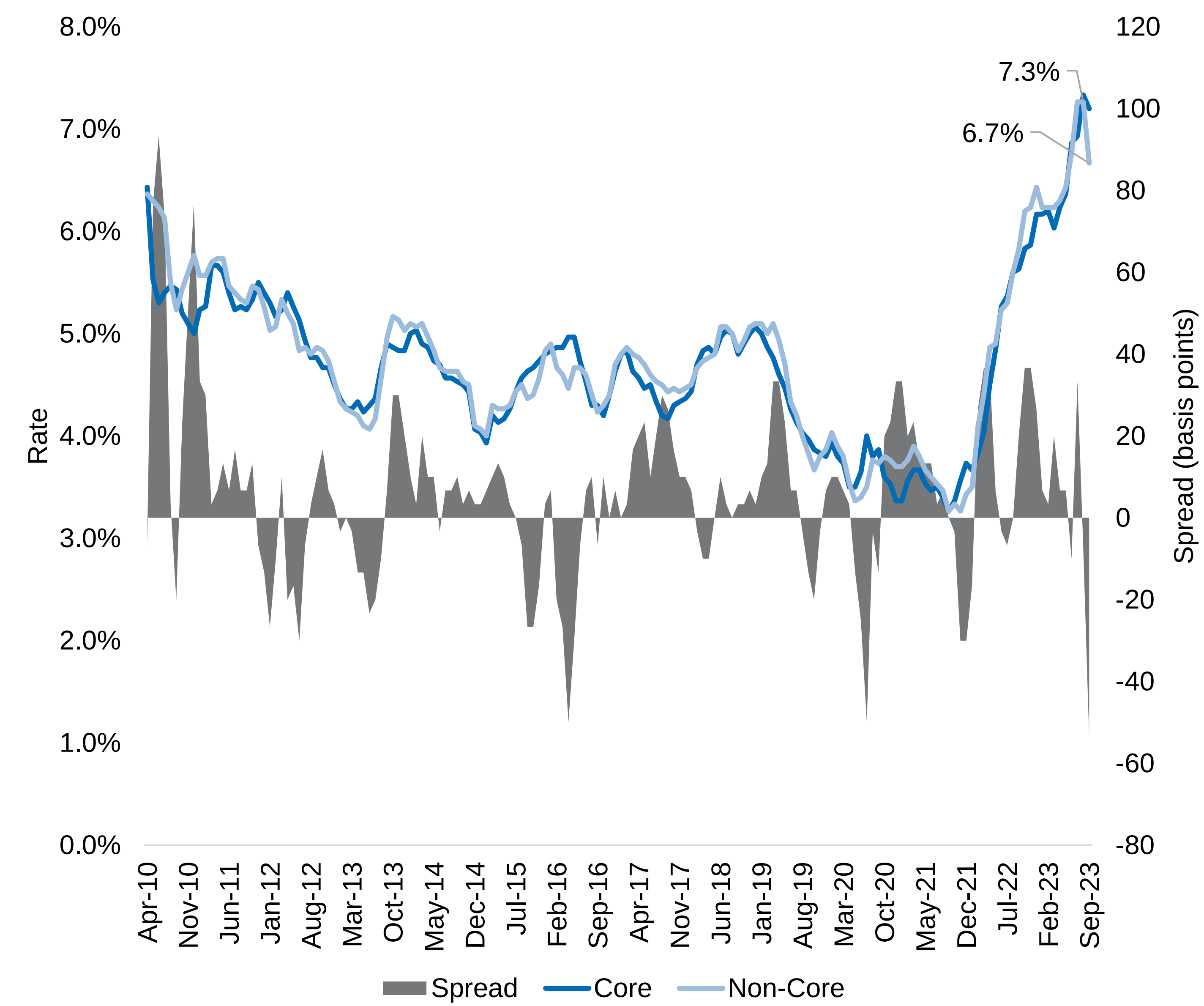
Debt Costs Have Risen Sharply across Office Market Segments

Data points were exceedingly thin in the third quarter of 2023. It is hard to believe that the cost of debt decreased from the second quarter of 2023 to the third quarter of 2023 in any holistic sense. The overall message remains that the cost of office fixed rate financing in now in the high sixes and sevens.

Fixed Rate Financing Cost: CBD vs. Suburban



Fixed Rate Financing Cost: Core vs. Non-Core



Source: RCA, Newmark Research as of 11/11/2023
Note: Excludes construction financing

Maturing Loans Face Significantly Higher Costs, Driving Payment Stress

Some Loans Will Be Able to Absorb Higher Interest Costs; Many Will Not

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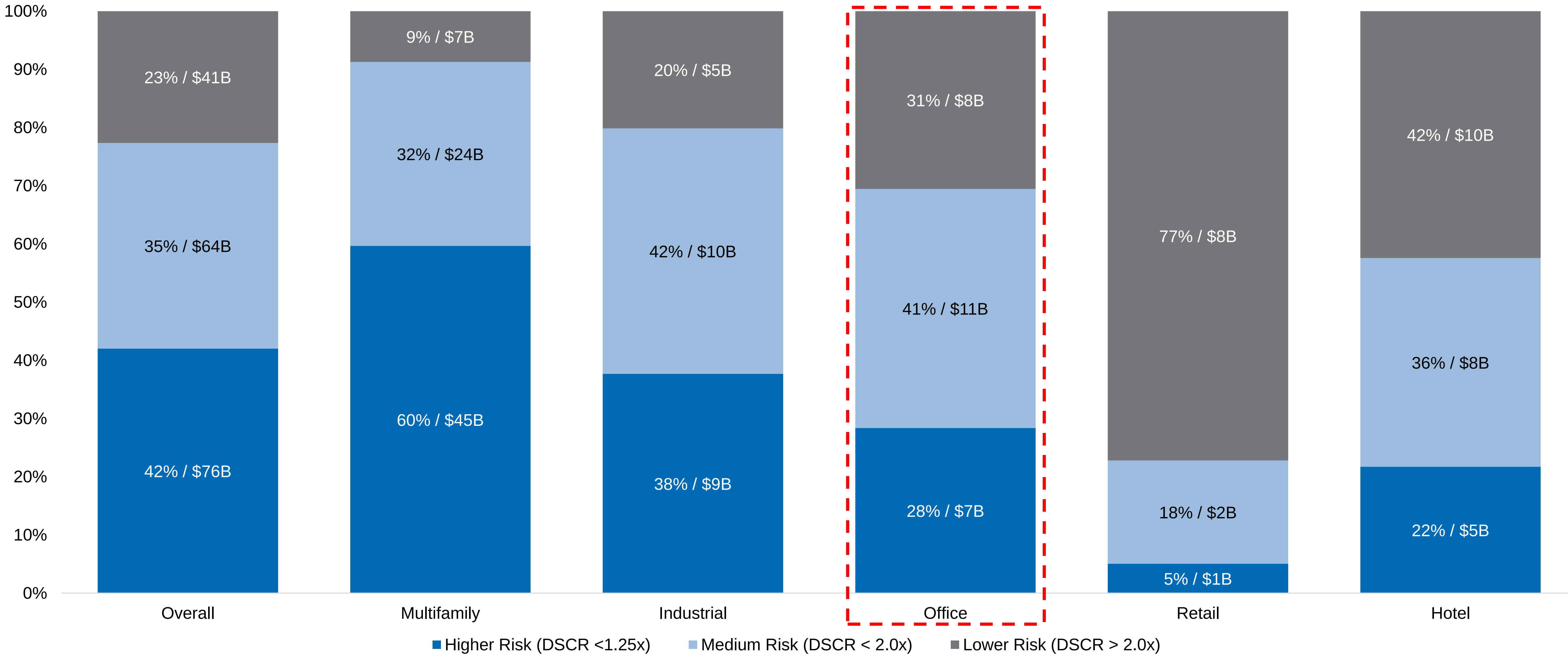
Floating Rate Loans Are an Even Better Indicator of Potential Distress

Floating rate loans are more prevalent in CRE CLO and SASB product, helping to explain their outsized role in driving DSCR risk in upcoming maturities.

DSCR Profile of Securitized CRE Debt Maturing between 2023 and 2025: Floating Rate Loans Only



Source: Trepp, Newmark Research as of 10/26/2023

Debt Service Risk Will Rise Dramatically as Fixed Rate Loans Face Market Rates

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Structural Health and Impairment in the Office Sector

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Declining Values Expose Office Sector to Distress

$1.6 Trillion of Outstanding CRE Debt is Potentially Troubled, $614 Billion of It Office

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Potential Office Distress Spread across Capital Sources

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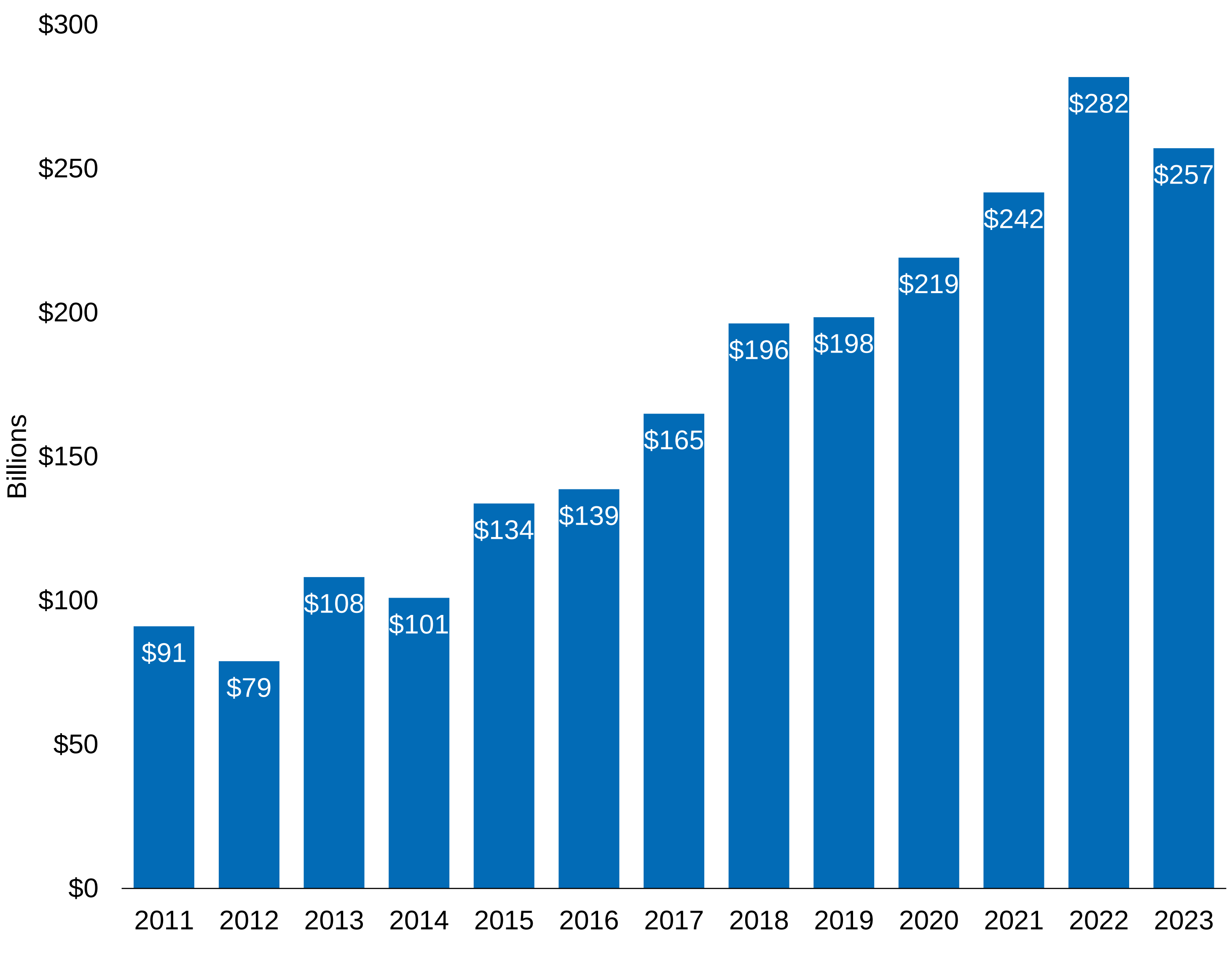
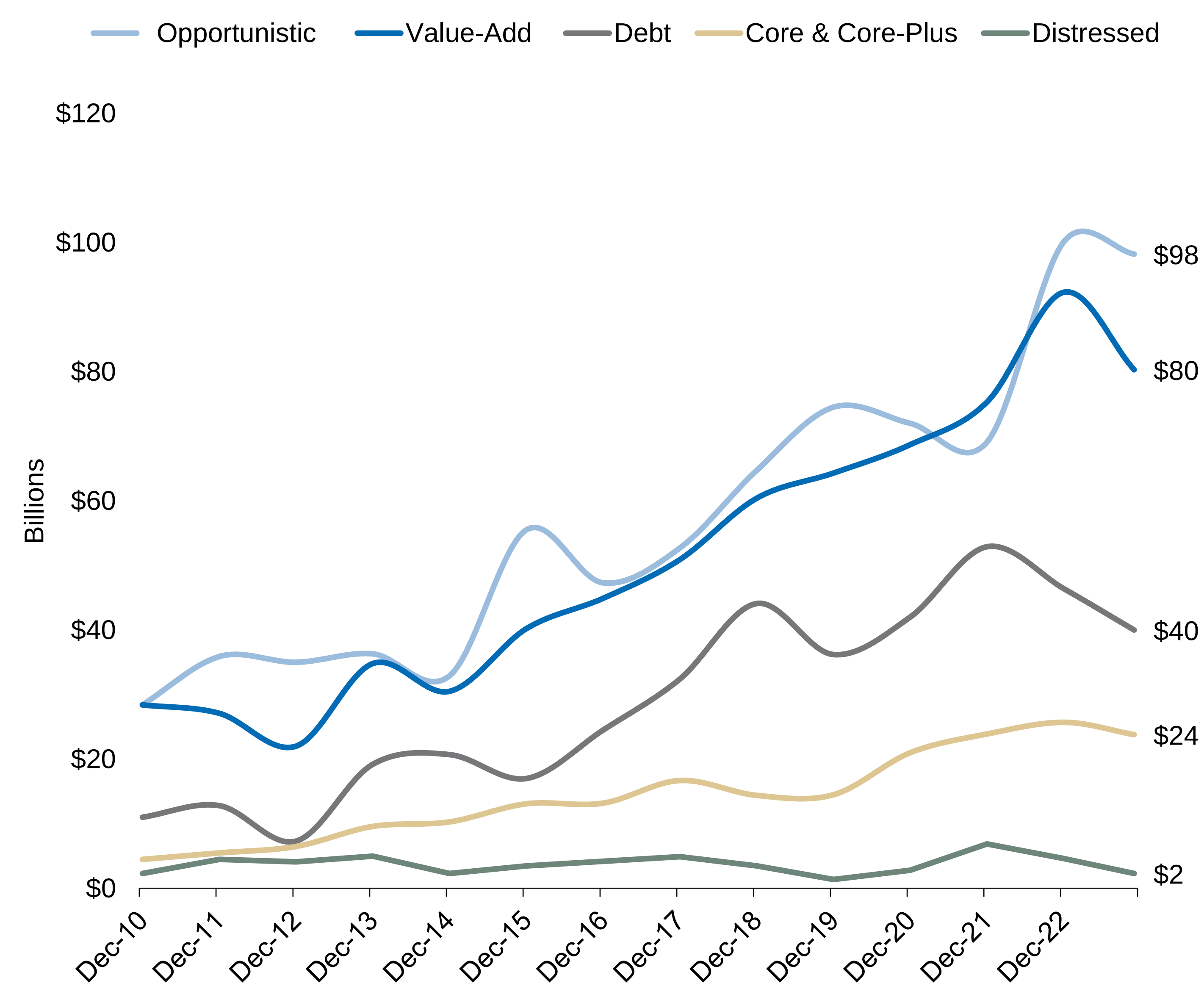
Private Equity Dry Powder Has Declined, But Still Elevated Overall

Dry powder at closed-end funds has declined 9% since the start of the year. This is mostly due to revisions to previous estimates, rather than negative developments in the third quarter of 2023. The revised picture shows that debt fund dry powder continues to moderate, while both value-add and opportunistic funds continue to have above-trend levels of dry powder, despite a sharp decline for the former since year-end 2022.

Dry Powder – Closed-End Funds



Dry Powder by Strategy*



Source: Newmark Research, Preqin as of 11/8/2023
*Not shown: Fund of funds, co-investments, and secondaries strategies

Little of the Dry Powder Appears to be Targeting Office

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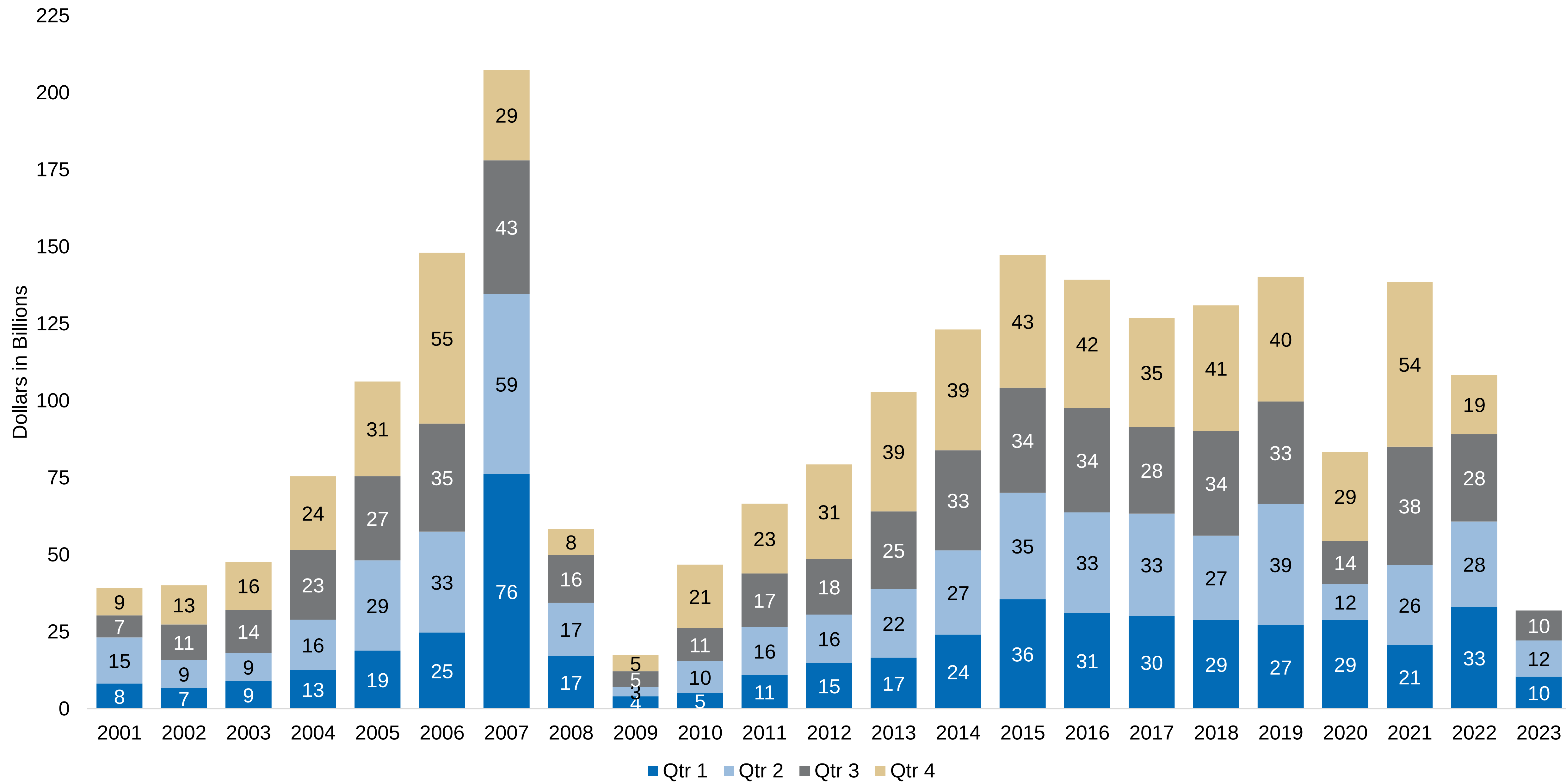
Investment Sales

Office Investment Sales Volumes Down 64% Year over Year in Year through Q323

The last time office sales were this tepid was 2010. Sales were particularly weak in the third quarter of 2023, the worst third quarter since 2009.

Office Investment Sales Volume



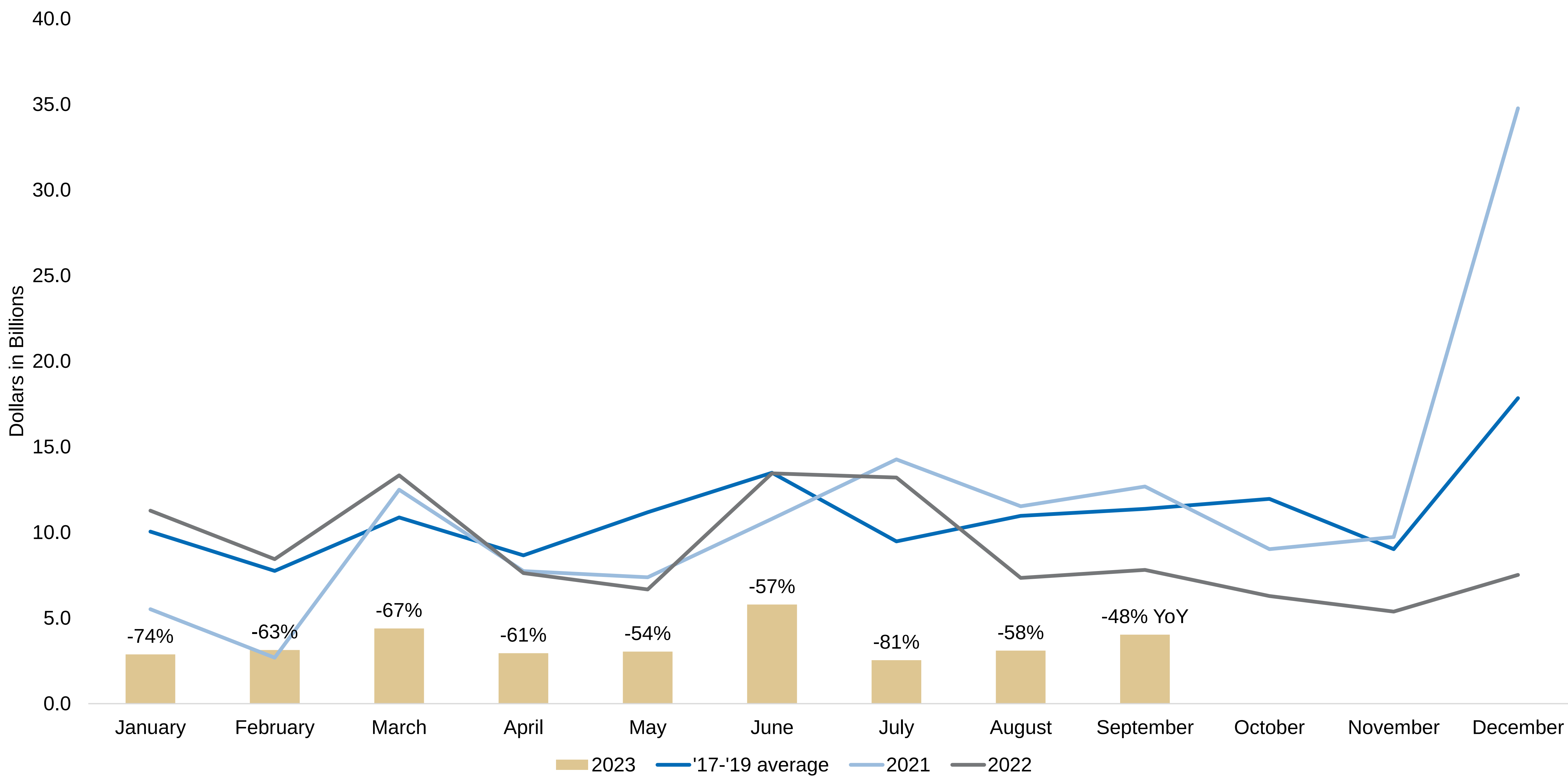
Year	Qtr 1	Qtr 2	Qtr 3	Qtr 4
2001	8	15	7	9
2002	7	9	11	13
2003	9	9	14	16
2004	13	16	23	24
2005	19	29	27	31
2006	25	33	35	55
2007	76	59	43	29
2008	17	17	16	8
2009	4	3	5	5
2010	5	10	11	21
2011	11	16	17	23
2012	15	16	18	31
2013	17	22	25	39
2014	24	27	33	39
2015	36	35	34	43
2016	31	33	34	42
2017	30	33	28	35
2018	29	27	34	41
2019	27	39	33	40
2020	29	12	14	29
2021	21	26	38	54
2022	33	28	28	19
2023	10	12	10	

Source: Newmark Research, Real Capital Analytics as of 11/11/2023

Transaction Velocity Remains Pallid, Little Indication of Year-End Resurgence

Both suburban and CBD office sales have been similarly impacted, down 67% and 63% respectively in the first three quarters of 2023 compared with the same period of 2022. CBD office sales (negative 76%) have declined somewhat more than suburban office sales (negative 59%) compared with the 2017 to 2019 period.

Office Investment Sales Volume

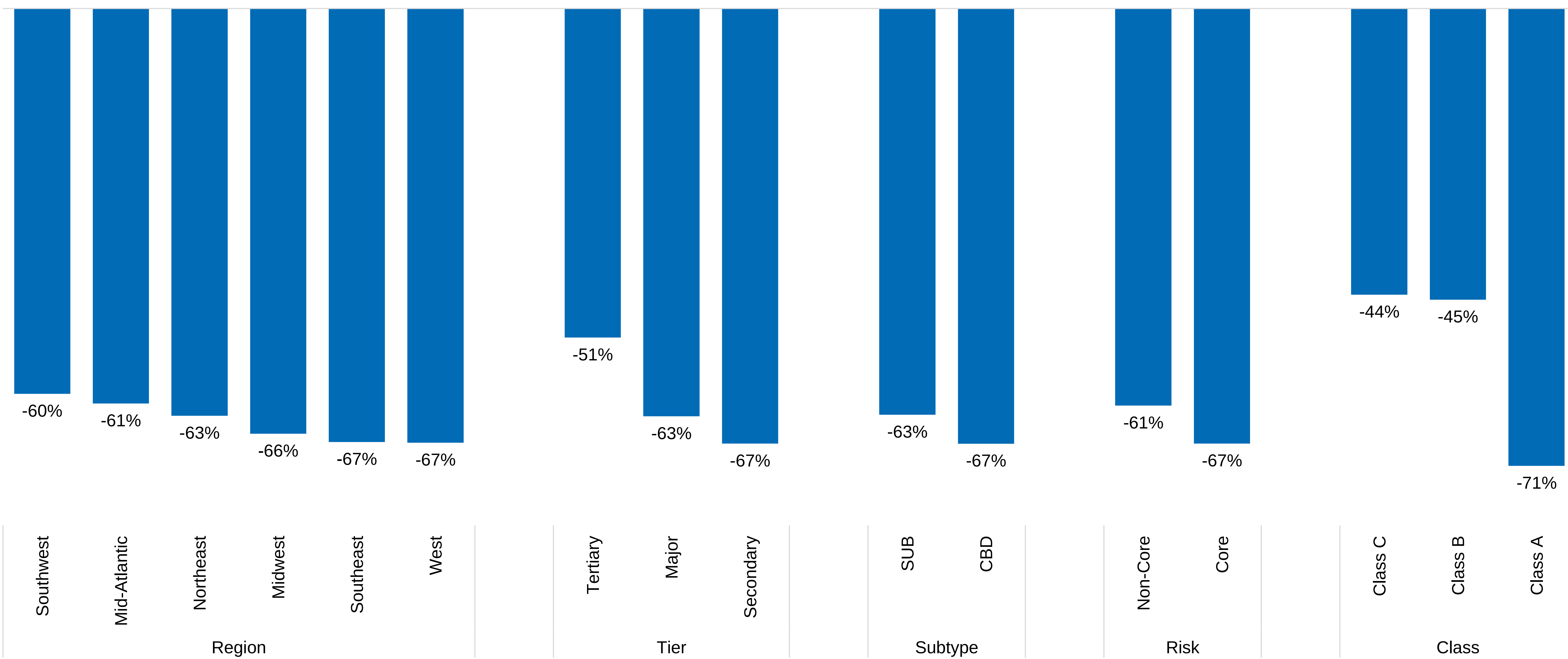


Source: Newmark Research, Real Capital Analytics as of 11/11/2023

Broad-Based Decline in Volumes in First Three Quarters of 2023

Office sales declined in the first three quarters of 2023 across every major dimension: region, market tier, subtype, risk profile and class. Southwestern and Mid-Atlantic outperformed on the slimmest margin, while the Western underperformed. Major markets outperformed secondary markets, but both underperformed tertiary markets. Curiously, Core and Class A office sales appear to have declined more sharply than their counterparts. Indeed, the Class A share of sales set a record low of 38% in the first three quarters of 2023.

Office Investment Sales: First Three Quarters of 2023

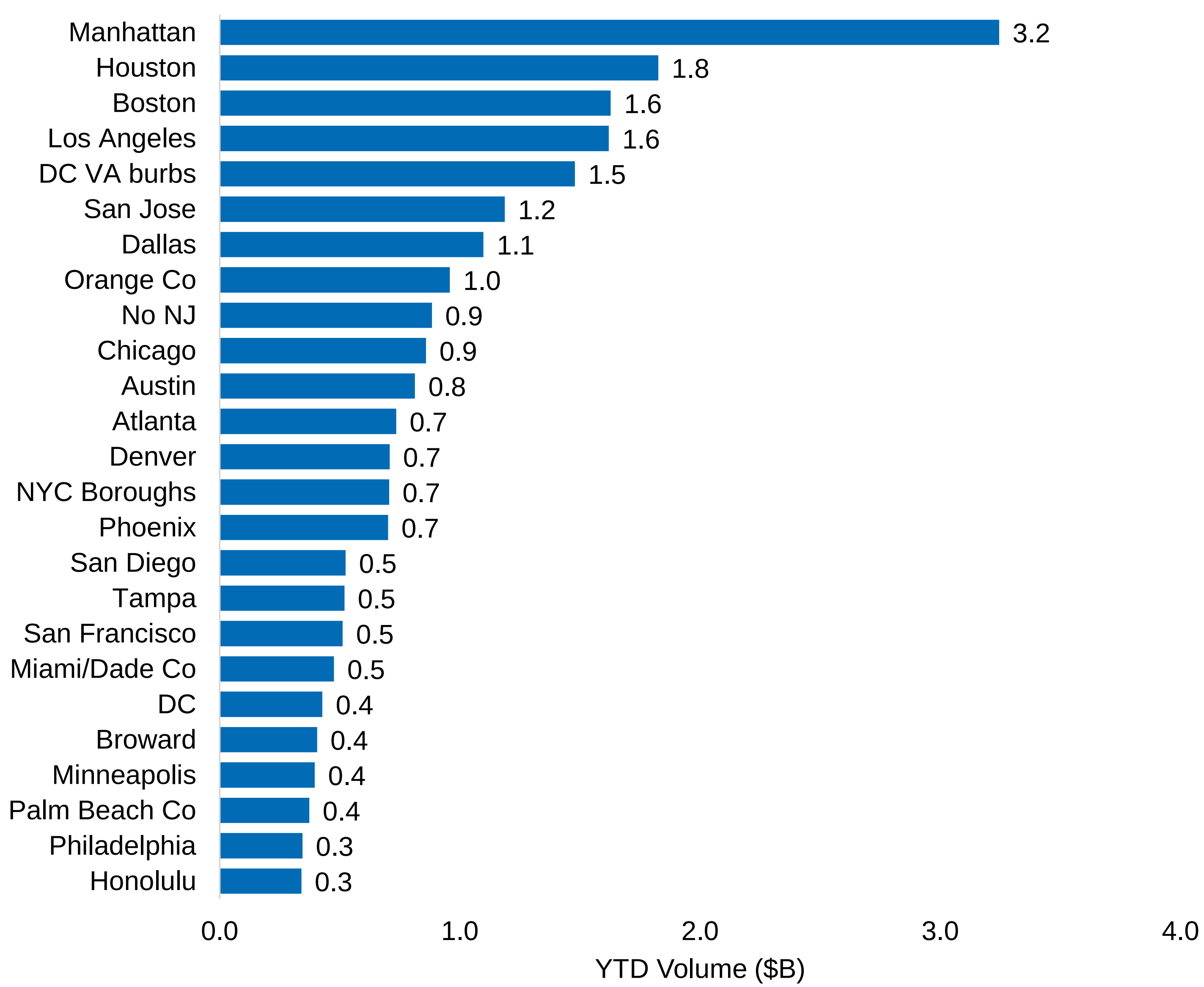


Source: Newmark Research, Real Capital Analytics as of 7/24/2023

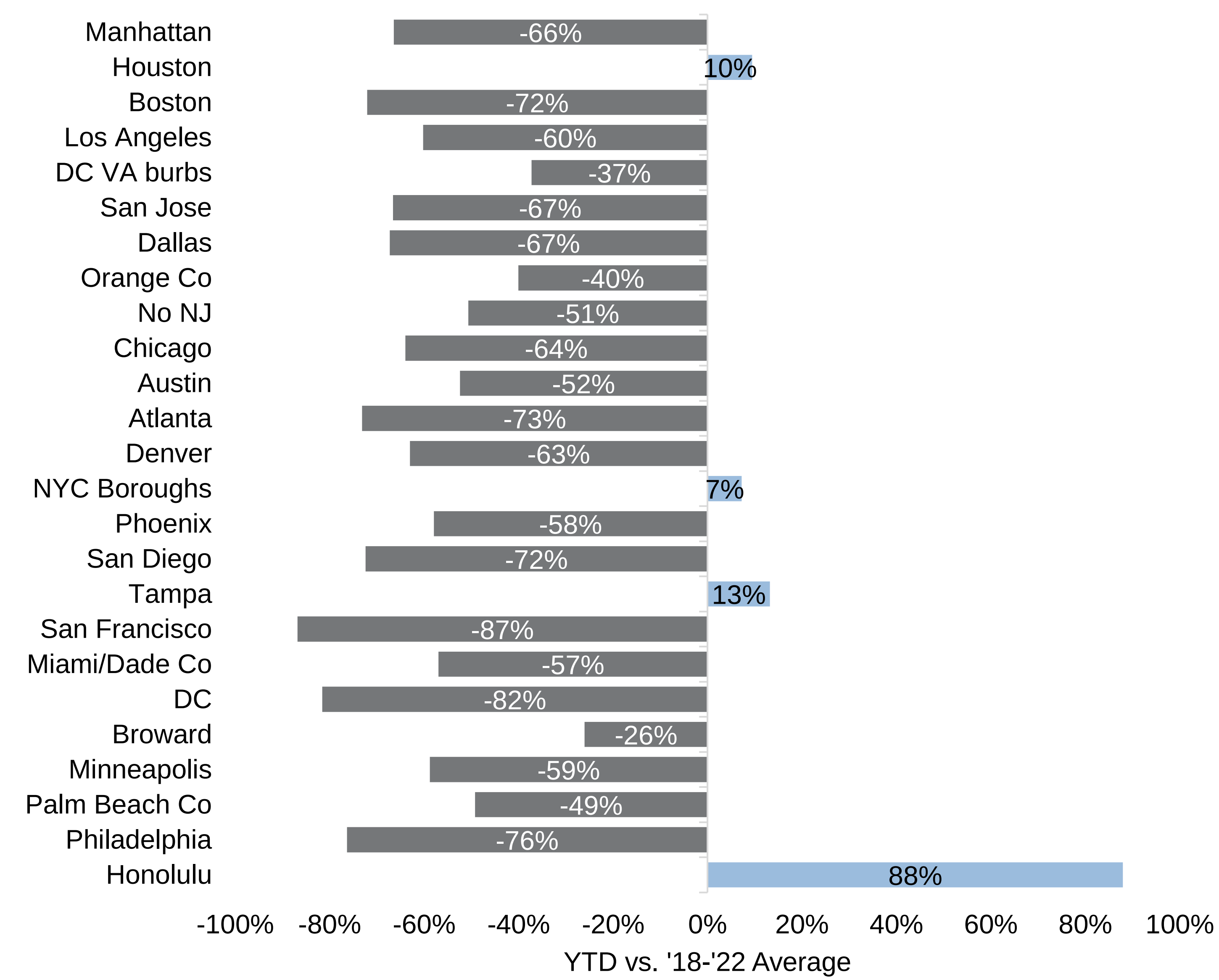
Volumes up versus Five-Year Average in 4 out of 25 Top Markets in the Year to Date

Manhattan remains the most liquid market. Markets adjacent to gateway markets, such as NYC Boroughs, DCVA suburbs, Broward County and Orange County, outperformed on the margin. Tampa, Honolulu and Houston office sales are clear positive outliers in the first three quarters of 2023.

Top 25 Office Markets by Year-to-Date Investment Sales Volume



YTD 2023 vs. 5-year Average Office Sales Volume



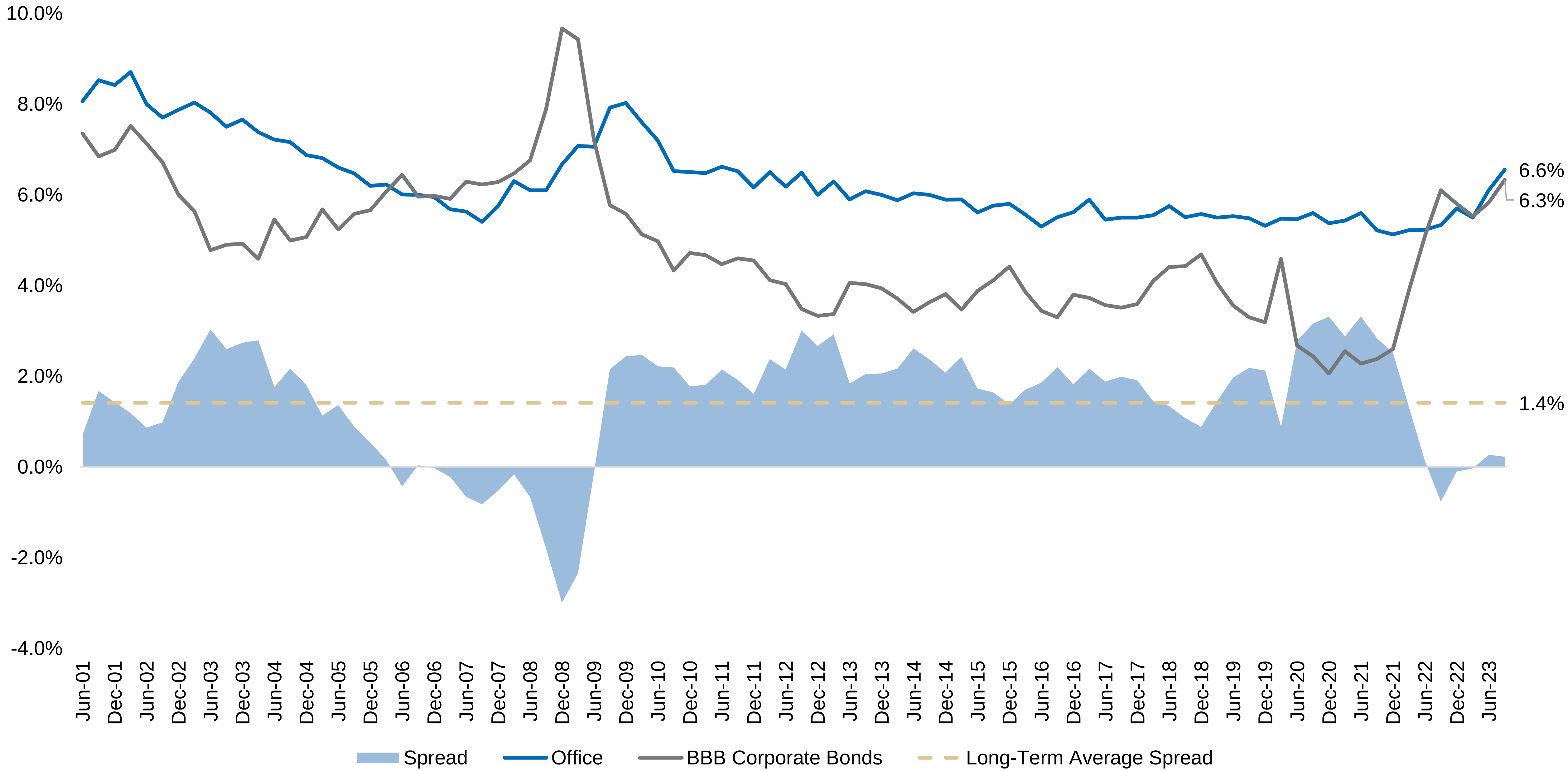
Source: Newmark Research, Real Capital Analytics as of 11/11/2023

Pricing and Returns

Cost of Capital Suggests Cap Rates Will Go (Much) Higher

The top quartile of offices traded at a cap rate of 6.6% in the third quarter of 2023. The overall average was necessarily higher. In the fourth quarter of 2021, prior to the rise in interest rates, top quartile offices traded at a 5.1% cap rate for a cumulative increase of 1.5%. At the time, a 5.1% cap rate represented a historically wide spread of 2.5% over BBB corporate credit. That spread has since withered to just 0.2% versus a long-term average spread of 1.4%. This is not an equilibrium.

Top Quartile Transaction Cap Rate*



Source: Real Capital Analytics, Federal Reserve Bank of St. Louis, Moody's as of 11/21/2023
*Quarterly

CBD and Suburban Cap Rates Converging; Major Market Yields Rising Sharply

Transaction cap rates for CBD and Suburban office have converged over the last several quarters. While the trend fits with the recent outperformance of Suburban office fundamentals, it is still important to interpret the transaction data with caution, given the sorry state of liquidity. The same is true when looking at cap rates by tier where secondary markets have declined, while major and tertiary markets yields have risen sharply. It is likely the case that CBD office and major markets were simply first to reflect changes affecting all segments.

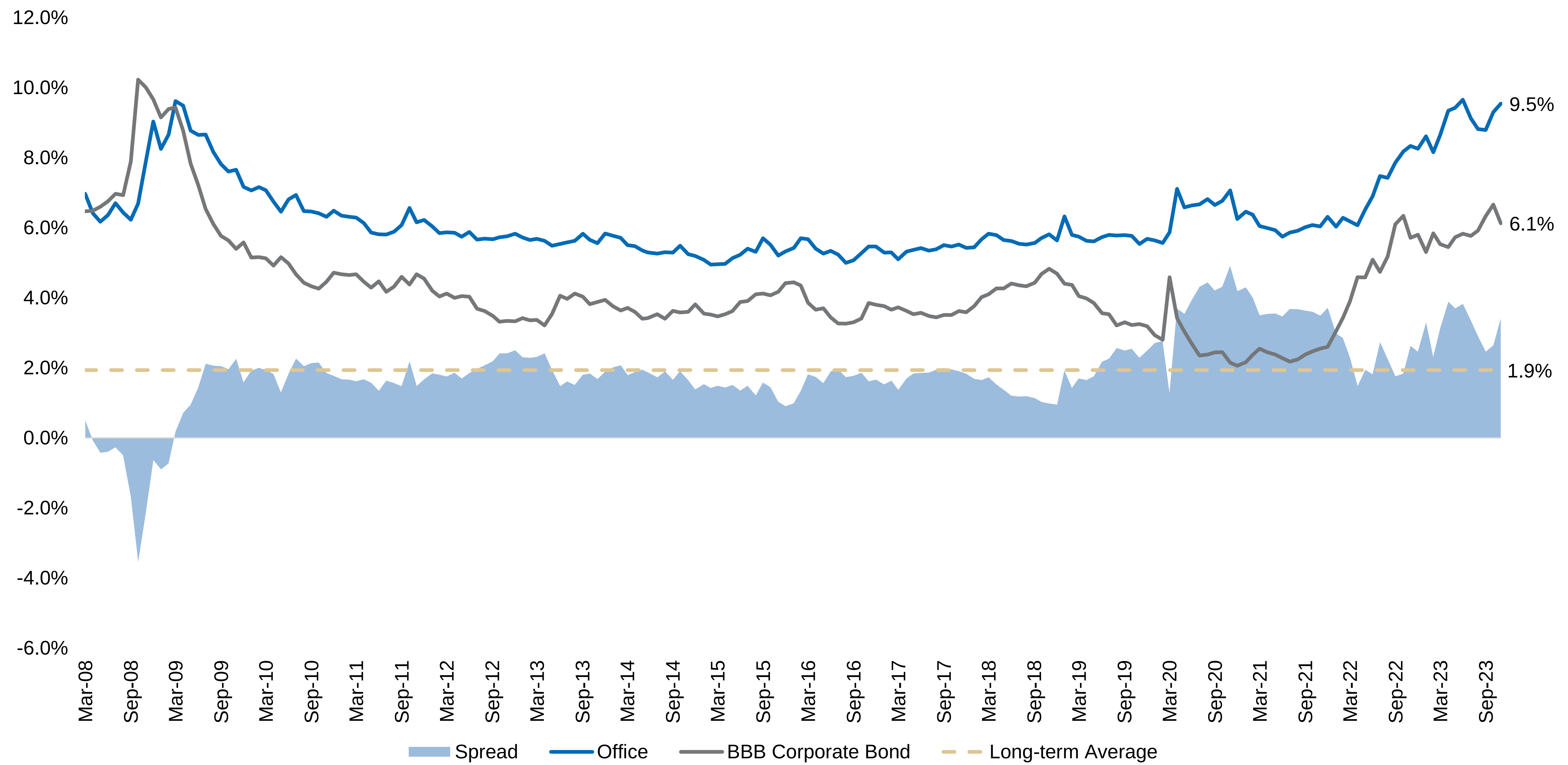
Rolling 2Q Top Quartile Office Cap Rates

Source: RCA, Newmark Research as of 11/21/2023

Public Market Pricing Has Been Much More Responsive to Changing Conditions

REIT-implied cap rates rose to 9.5% in November of 2023, up from 6.3% in December 2021 before the start of the current hiking cycle. Recently, implied cap rates have slightly lagged the corporate bond market with the result that spreads have now widened to 3.4%, well above the 1.9% long-term average. This spread is likely to contract on the margin, while remaining historically wide. Indeed, investors should demand above-average risk compensation for investing in office today and for the foreseeable future. In this context, note that a) office financing costs have gapped wider than BBB bonds and b) REIT office holdings are significantly higher quality than the overall market.

REIT-Implied Nominal Cap Rate

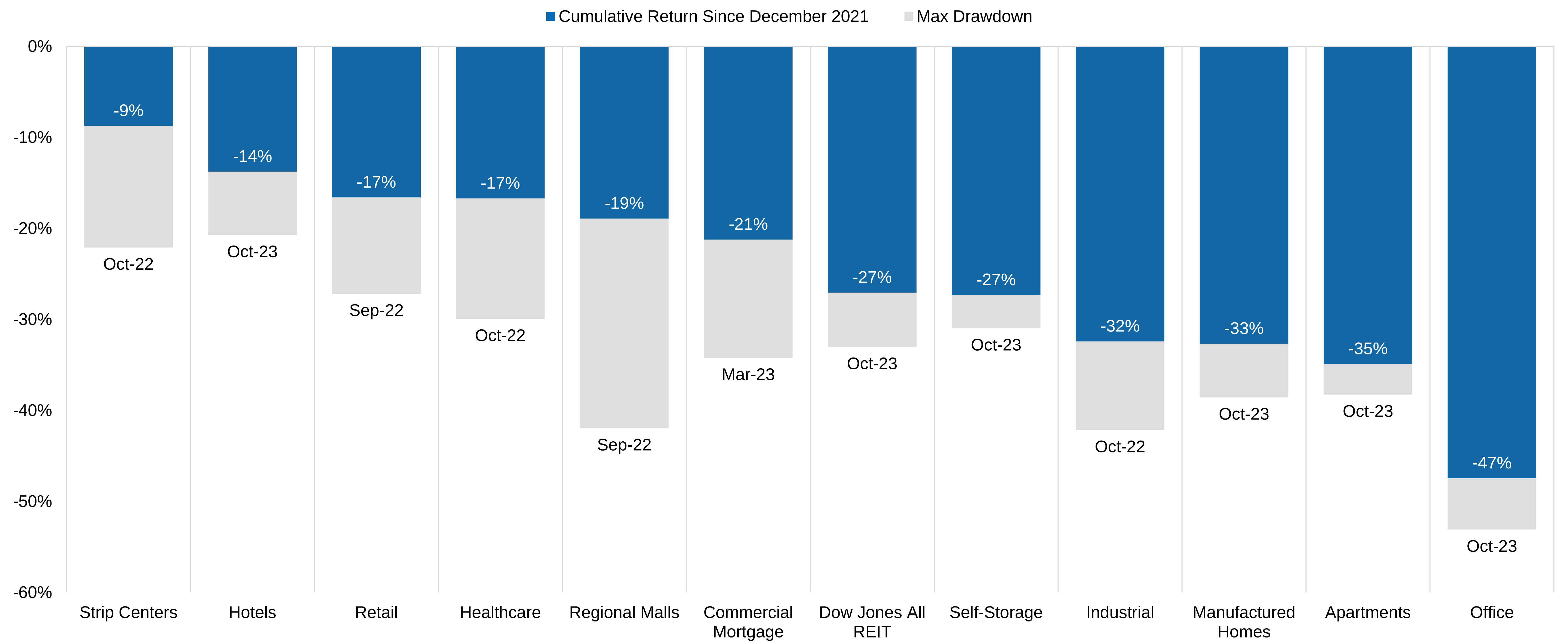


Source: Green Street, ICE BAML, Newmark Research as of 11/21/2023

Office REITs off the Bottoms, but Still Down 47% Since December 2021

REITs rebounded in the first half of 2023 but stumbled again in the third quarter of 2023 as most sectors set or retest post-2021 lows. On net, REITs have returned negative 2.7% in the year to date, led by healthcare (+6.6%), commercial mortgage REITs (+4.7%) and hotels (+1.9%). Office and apartment REITs are both the worst-performing sectors cumulatively but also set new record lows in October.

Dow Jones REIT Index Total Returns

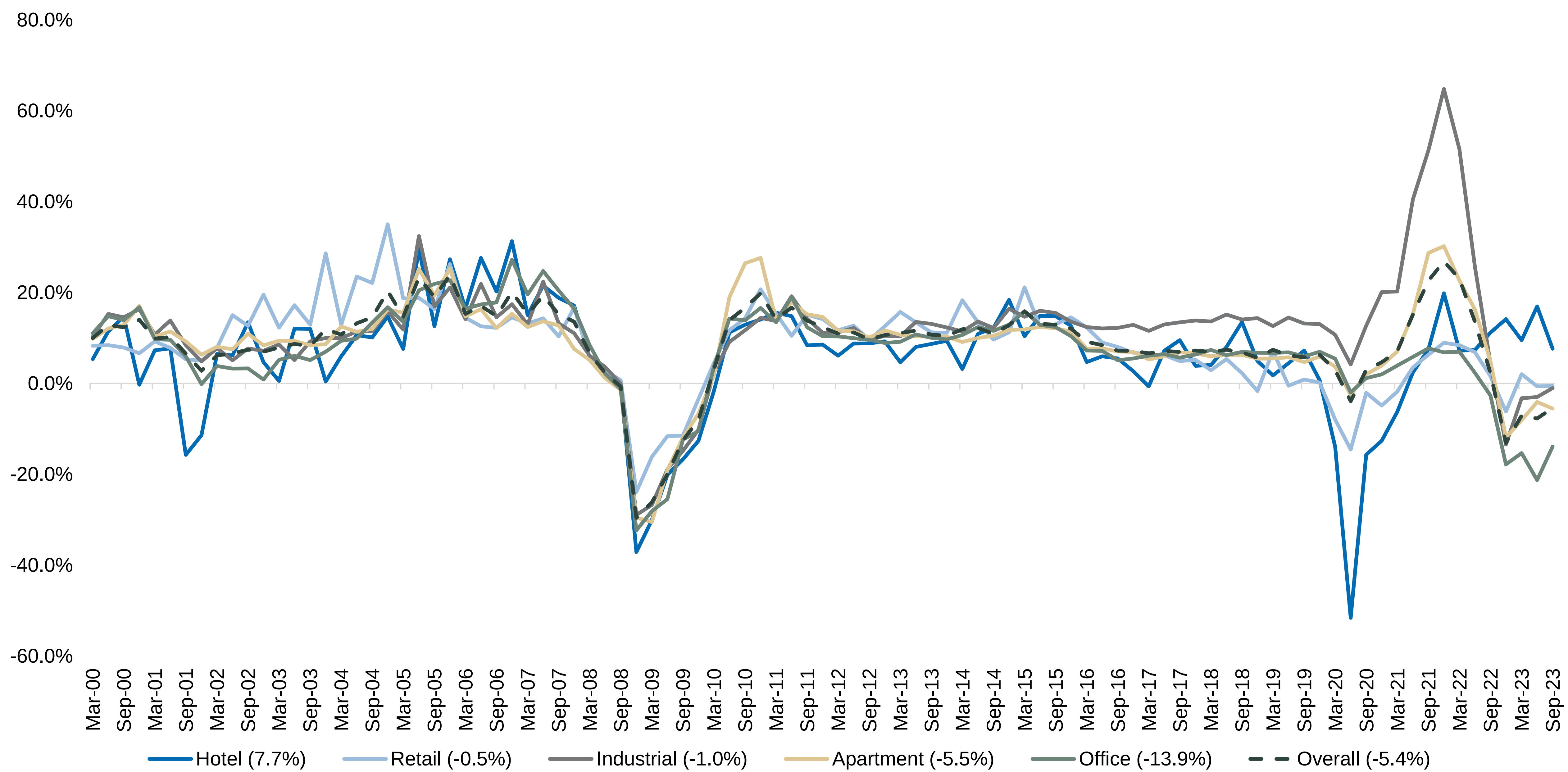


Source: Dow Jones, Moody's, Newmark Research as of 11/8/2023

Private Market Core Properties Returned Negative 5.4% Annualized in 3Q23

All major property types, with the notable exception of hotels, generated negative returns in the third quarter of 2023. Office continues to be a clear outlier to the downside as returns continued to decelerate and seem to be on a path to match the depths of the GFC. Apartment and industrial returns were negative, though far more modestly. Retail decelerated into negative territory but continues to outperform. Keep in mind that appraisal-based returns are especially unreliable in illiquid periods like the current one.

NCREIF National Property Index Quarterly Annualized Total Return

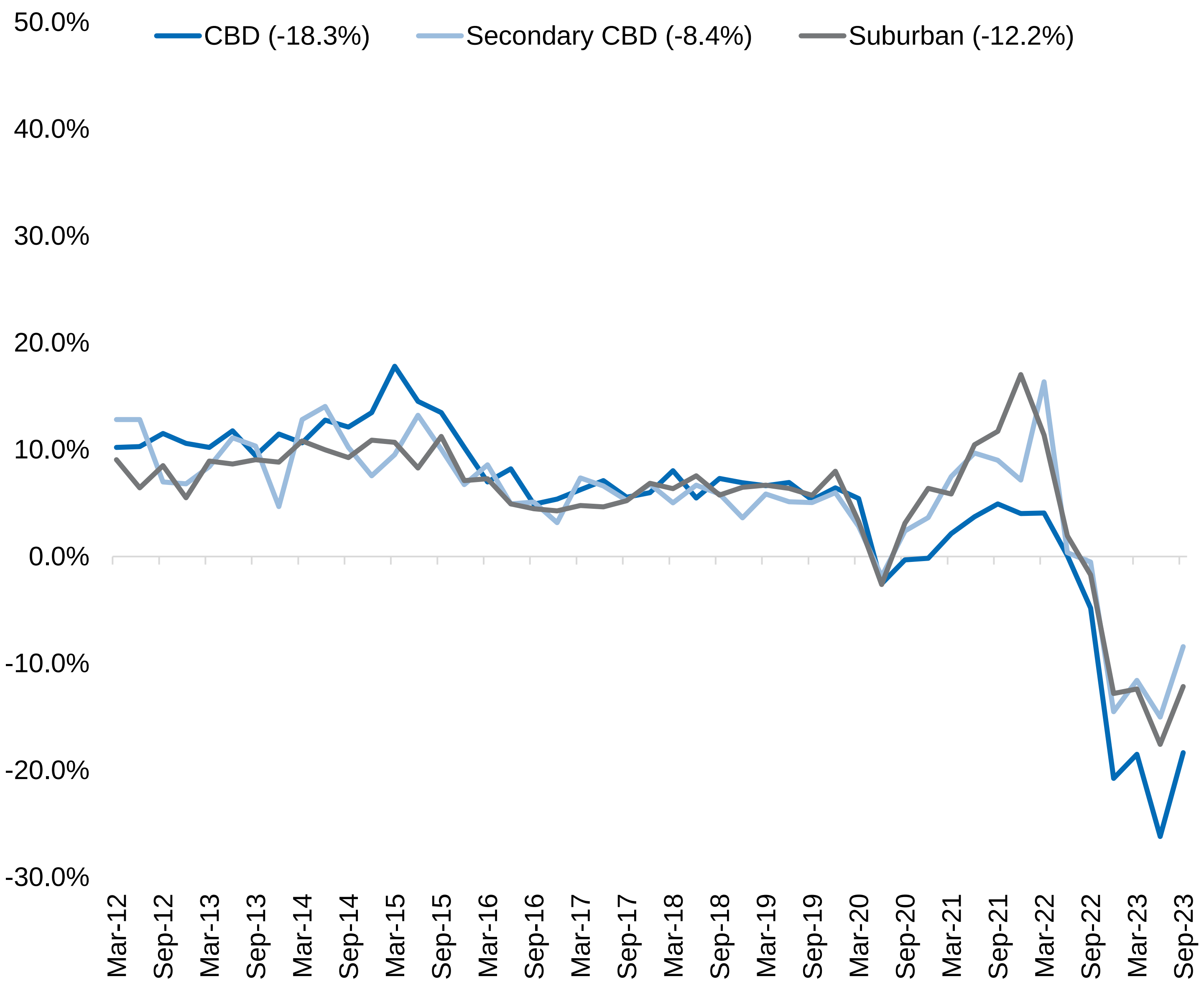


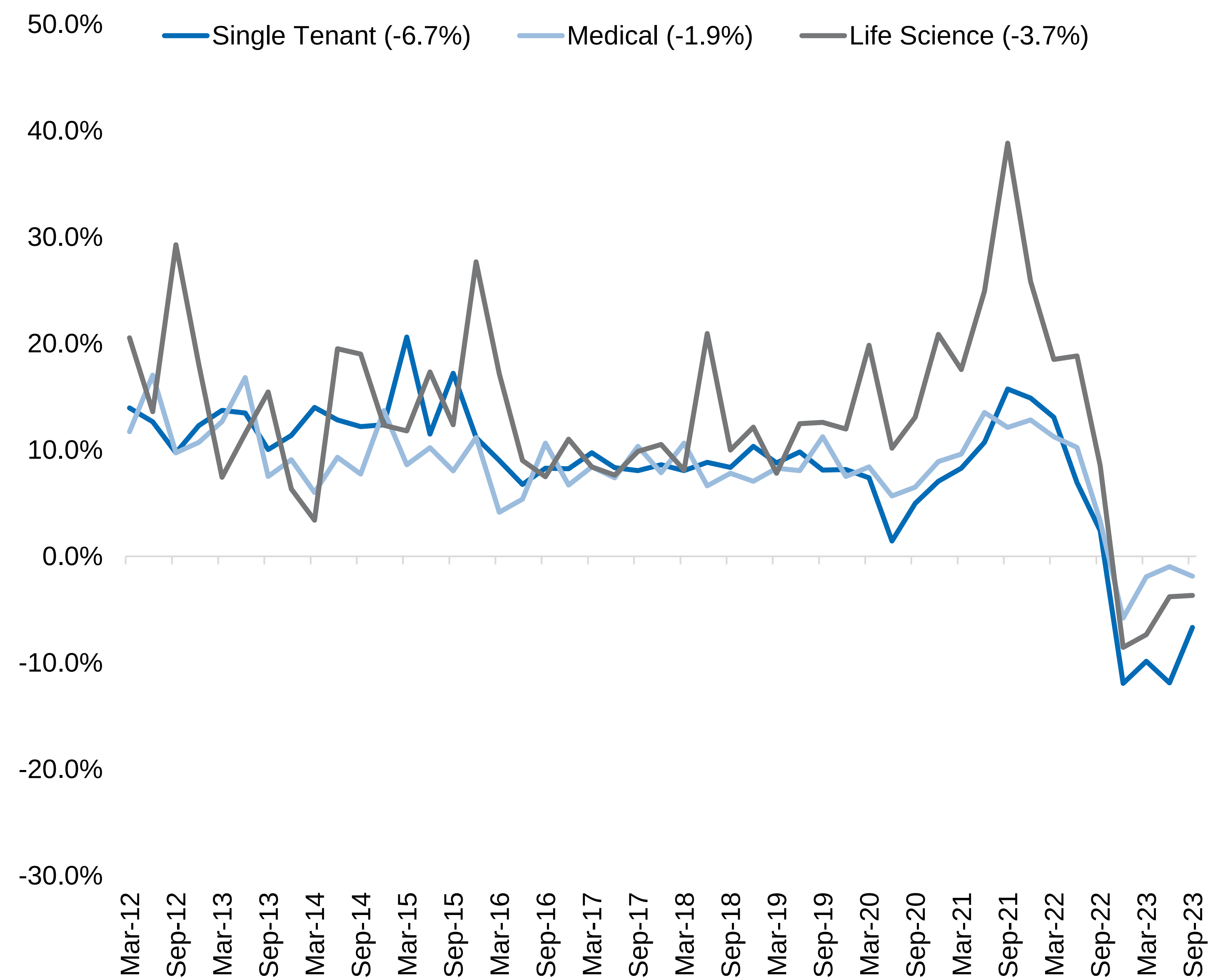
Source: NCREIF, Newmark Research as of 11/8/2023

NCREIF Office Returns Deeply Negative, but Niche Sectors Outperforming

Office values are rapidly contracting according to NCREIF in what is, if anything, a belated acknowledgement of the reality on the ground. CBD office buildings generated an annualized total return of negative 18.3% in the third quarter of 2023, while secondary CBD properties and suburban office buildings performed modestly better. In contrast, single-tenant office and, even more so, medical office and life science have been far more resilient, though returns are still negative.

NCREIF Quarterly Annualized Total Return





Source: NCREIF, Newmark Research as of 11/21/2023

NCREIF Returns Negative in 71% Of Office Markets in 3Q23, Improving from 2Q23

Office Market Statistics

National Office Market Statistics

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