

OFFICE OVERVIEW: HYBRID WORK, SLOWER GROWTH FORCES CUTS

Office demand in the United States ended the year with its largest quarterly deficit since Covid vaccines became available in early 2021. Hybrid work schedules have become the norm and companies are shedding space in anticipation of slowing growth and possible recession. Negative net absorption totaled 13.6 million SF in Q4, bringing the total for the year to negative 18.6 million SF. In the nearly three years since the lockdown, the slide has totaled 131.7 million SF, representing 1.6% of inventory and more than three average years of growth. Nearly 60 million SF of new supply is slated for delivery at the end of the first quarter.

Electronically monitored U.S. and Canadian workplaces show that employee traffic remains down as much as half overall compared to January 2020. That's where the broad similarities end. The vacancy rate at the end of 2022 is 12.7% in the U.S. and 8.7% in Canada, where demand has been positive over the last four quarters. The size of the U.S. Q4 contraction was unexpected. There had been more than 25 million SF of net absorption over the previous five quarters, for example, and gross leasing volume exceeded 100 million SF in each quarter this year but with increased requirements for smaller spaces.

Going into 2023, new headwinds are emerging, including widening fears of recession as the Federal Reserve remains resolved to curb high inflation with high interest rates that have slowed the economy. The anticipation of slowing has more companies making job cuts. The effects of steep layoffs in the once space-hungry technology sector hit West Coast markets hardest. Metros posting the most negative net absorption in 2022 were San Francisco at 5.3 million SF, Los Angeles' 3.7 million SF and 2.6 million SF in San Jose. Sublease space hit a record 230 million SF and is up more than 16% since Q4 2021.

Nationwide, transaction volume has fallen and the \$231 per SF average sale price of all office properties last year was down 14.2% from 2021 and off 16.5% from the average of the prior five years. Landlords aiming to cut costs also have been zeroing in on property taxes, the single largest expense. Owner appeals of tax assessments are up as much as 40%. Reduced property tax revenues cause cities and school districts to reduce services and could have implications for the \$4 trillion U.S. municipal bond market.

Continued tenant cutbacks will make it more challenging for building owners to service their mortgages. And with about 1.2 trillion in debt backed by office properties, widening distress could send tremors through the financial system.

Despite this gloomy backdrop there was growth in some markets. Chicago and Boston led top metros with the most 2022 growth with 2.6 million SF and 2.5 million SF respectively. And demand has held up well in some market segments. Among the newest properties - those complete since 2010 - tenant growth has been positive throughout the pandemic. Since Q1 2020 these properties have averaged 20 million SF of quarterly net absorption.

| LOWEST VACANCY RATE | | HIGHEST MARKET RENT / SF ANNUAL | | HIGHEST MARKET SALE PRICE / SF | |
|---------------------|-------|---------------------------------|-------------|--------------------------------|-----------|
| FL, Orlando | 8.3% | CA, San Francisco | \$61.08 | CA, San Francisco | \$778 |
| OH, Cleveland | 8.4% | NY, New York* | \$57.36 | NY, New York* | \$673 |
| ON, Toronto | 8.9% | FL, Miami | \$46.72 | BC, Vancouver | \$498 |
| NC, Raleigh | 9.0% | MA, Boston | \$42.48 | MA, Boston | \$476 |
| FL, Miami | 9.5% | CA, Los Angeles | \$41.88 | CA, Los Angeles | \$460 |
| U.S. Index | 12.7% | U.S. Index | \$35.16 | U.S. Index | \$338 |
| Canada Index | 8.7% | Canada Index | \$26.16 CAD | Canada Index | \$286 CAD |

| MOST SF UNDER CONSTRUCTION SF | | LARGEST INVENTORY BY SF | | LOWEST MARKET CAP RATE | |
|-------------------------------|-------------|-------------------------|---------------|------------------------|------|
| MA, Boston | 17,564,423 | NY, New York* | 975,280,821 | BC, Vancouver | 3.8% |
| NY, New York* | 13,775,543 | DC, Washington | 519,827,719 | CA, San Francisco | 4.7% |
| ON, Toronto | 11,616,145 | IL, Chicago | 509,669,746 | NY, New York* | 5.4% |
| TX, Dallas-Fort Worth | 7,893,750 | CA, Los Angeles | 434,349,051 | ON, Toronto | 5.4% |
| DC, Washington | 7,280,216 | TX, Dallas-Fort Worth | 416,210,243 | CA, Los Angeles | 5.5% |
| U.S. Index | 134,209,083 | U.S. Index | 8,336,729,465 | U.S. Index | 6.9% |
| Canada Index | 19,583,109 | Canada Index | 686,904,932 | Canada Index | 6.2% |

* Please note that the statistics represented in these tables are based on CoStar defined market territories and may not all represent the geographic area the label depicts.

| MARKET | VACANCY RATE | MARKET RENT / SF | MARKET SALE PRICE / SF | SF UNDER CONSTRUCTION | INVENTORY SF | MARKET CAP RATE |
|----------------------------|--------------|------------------|------------------------|-----------------------|---------------|-----------------|
| AB, Calgary ** | 17.2% | \$1.61 | \$155 | 358,740 | 99,302,156 | 9.6% |
| AZ, Phoenix | 15.2% | \$2.34 | \$234 | 1,286,775 | 193,530,388 | 7.1% |
| BC, Vancouver ** | 4.8% | \$2.73 | \$498 | 6,450,035 | 98,357,351 | 3.8% |
| CA, East Bay | 13.0% | \$3.29 | \$356 | 110,145 | 114,984,570 | 5.8% |
| CA, Inland Empire | 6.1% | \$2.03 | \$221 | 178,388 | 77,338,007 | 7.1% |
| CA, Los Angeles | 14.6% | \$3.49 | \$460 | 3,853,928 | 434,349,051 | 5.5% |
| CA, Orange County | 12.6% | \$2.62 | \$327 | 465,355 | 158,304,525 | 6.1% |
| CA, San Diego | 11.0% | \$3.14 | \$370 | 3,869,294 | 119,384,225 | 6.2% |
| CA, San Francisco | 16.8% | \$5.09 | \$778 | 2,563,033 | 189,370,146 | 4.7% |
| CA, San Luis Obispo | 3.0% | \$2.34 | \$278 | 36,039 | 6,502,990 | 7.2% |
| CA, Santa Barbara | 6.4% | \$2.69 | \$382 | 165,641 | 12,871,889 | 6.1% |
| CA, Stockton | 4.8% | \$1.80 | \$192 | 0 | 12,952,645 | 7.5% |
| CA, Ventura | 11.2% | \$2.33 | \$257 | 0 | 21,948,673 | 7.2% |
| CO, Denver | 14.9% | \$2.41 | \$259 | 2,643,056 | 183,850,999 | 7.0% |
| DC, Washington | 15.6% | \$3.22 | \$367 | 7,280,216 | 519,827,719 | 7.1% |
| FL, Fort Myers | 4.5% | \$1.86 | \$182 | 147,340 | 21,640,519 | 7.4% |
| FL, Miami | 9.5% | \$3.81 | \$397 | 4,194,115 | 113,670,708 | 5.8% |
| FL, Naples | 5.3% | \$2.56 | \$264 | 149,060 | 10,071,818 | 7.0% |
| FL, Orlando | 8.3% | \$2.28 | \$208 | 1,371,090 | 103,060,865 | 7.4% |
| GA, Atlanta | 14.2% | \$2.31 | \$233 | 4,700,878 | 334,556,777 | 7.0% |
| GA, Savannah | 2.2% | \$1.96 | \$188 | 47,438 | 12,362,233 | 8.4% |
| ID, Boise | 4.6% | \$1.78 | \$170 | 528,976 | 33,645,878 | 8.4% |
| IL, Chicago | 15.3% | \$2.47 | \$223 | 3,130,969 | 509,669,746 | 7.5% |
| IN, Indianapolis | 9.0% | \$1.77 | \$137 | 632,303 | 110,017,548 | 8.5% |
| MA, Boston | 9.7% | \$3.54 | \$476 | 17,564,423 | 368,551,549 | 5.9% |
| MD, Baltimore | 11.6% | \$2.02 | \$182 | 1,442,317 | 151,017,485 | 8.0% |
| MI, Detroit | 12.2% | \$1.77 | \$129 | 1,400,980 | 198,725,688 | 9.1% |
| MN, Minneapolis | 10.9% | \$2.19 | \$174 | 658,250 | 202,253,787 | 7.7% |
| MO, Saint Louis | 11.0% | \$1.77 | \$133 | 1,766,747 | 145,691,771 | 8.6% |
| NC, Durham | 9.0% | \$2.24 | \$245 | 798,625 | 36,121,026 | 7.1% |
| NC, Raleigh | 9.0% | \$2.39 | \$239 | 2,586,205 | 77,666,022 | 7.1% |
| United States Index | 12.7% | \$2.93 | \$338 | 134,209,083 | 8,336,729,465 | 6.9% |
| Canada Index | 8.7% | \$2.18 CAD | \$286 CAD | 19,583,109 | 686,904,932 | 6.2% |

| MARKET | VACANCY RATE | MARKET RENT / SF | MARKET SALE PRICE / SF | SF UNDER CONSTRUCTION | INVENTORY SF | MARKET CAP RATE |
|----------------------------|--------------|------------------|------------------------|-----------------------|---------------|-----------------|
| NE, Omaha | 7.7% | \$1.98 | \$150 | 479,935 | 47,552,842 | 8.9% |
| NJ, Atlantic City | 6.7% | \$1.88 | \$153 | 5,000 | 7,512,730 | 8.8% |
| NJ, Northern New Jersey * | 13.9% | \$2.30 | \$205 | 518,141 | 155,563,760 | 8.0% |
| NJ, Trenton | 8.8% | \$2.43 | \$186 | 0 | 32,040,291 | 8.2% |
| NJ, Vineland | 8.5% | \$1.72 | \$114 | 155,905 | 31,004,291 | 9.8% |
| NV, Reno | 8.4% | \$2.04 | \$212 | 450,538 | 17,247,726 | 7.6% |
| NY, Long Island | 8.4% | \$2.55 | \$203 | 129,036 | 99,307,183 | 7.9% |
| NY, New York * | 12.6% | \$4.78 | \$673 | 13,775,543 | 975,280,821 | 5.4% |
| OH, Cincinnati | 10.0% | \$1.69 | \$111 | 195,622 | 104,321,910 | 9.4% |
| OH, Cleveland | 8.4% | \$1.60 | \$116 | 1,385,808 | 109,198,472 | 9.7% |
| OH, Columbus | 10.4% | \$1.79 | \$129 | 1,435,124 | 116,183,172 | 8.6% |
| ON, Toronto ** | 8.9% | \$2.44 | \$317 | 11,616,145 | 287,868,744 | 5.4% |
| PA, Harrisburg | 3.3% | \$1.53 | \$159 | 0 | 15,281,293 | 8.3% |
| PA, Lehigh Valley * | 10.5% | \$2.25 | \$191 | 2,178,131 | 324,190,695 | 8.0% |
| PA, Philadelphia * | 7.3% | \$2.56 | \$219 | 661,930 | 32,908,196 | 7.7% |
| SC, Charleston | 7.4% | \$1.77 | \$152 | 693,788 | 35,130,253 | 8.1% |
| SC, Greenville | 4.2% | \$1.63 | \$129 | 81,200 | 7,675,954 | 9.0% |
| SC, Spartanburg | 11.8% | \$2.53 | \$248 | 3,798,127 | 100,904,454 | 6.9% |
| TN, Nashville | 17.6% | \$2.45 | \$241 | 7,893,750 | 416,210,243 | 6.9% |
| TX, Dallas-Fort Worth | 19.1% | \$2.40 | \$233 | 5,026,543 | 349,392,815 | 7.7% |
| TX, Houston | 5.7% | \$1.88 | \$135 | 274,800 | 38,125,201 | 9.2% |
| WA, Seattle | 10.5% | \$3.21 | \$515 | 11,542,742 | 227,264,528 | 5.6% |
| WI, Madison | 5.6% | \$1.88 | \$140 | 244,800 | 38,086,219 | 9.0% |
| United States Index | 12.7% | \$2.93 | \$338 | 134,209,083 | 8,336,729,465 | 6.9% |
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** Numbers shown are in Canadian dollars (CAD)