

OFFICE OVERVIEW: MARKETS PLAGUED BY CHRONIC WEAK DEMAND

The general fear of Covid has long subsided and hospitalizations are 92% down from the peak. But remote work and hybrid schedules seem entrenched despite companies get-tough return-to-office measures. North American office occupancy remains stuck at roughly half the levels prior to Covid. Other downturns have shaken demand for office space but never so fundamentally as the fallout from the coronavirus lockdown.

In the United States, tenants shed 15.4 million SF of space in the third quarter bringing the year's negative net absorption total to 55 million SF. That is equal to record losses through September of the first year of the pandemic and was unexpected as this year's contraction follows two years of improved demand.

Canadian markets are mixed and less stressed. Vancouver posted more than 2 million SF of net absorption in the last 12 months, but Toronto office demand is in the red by one million SF. Vacancy rates are 5.5% in Vancouver and 9.2% in Toronto, the nation's largest office market.

Total occupancy in the United States is at its lowest level since 2017, despite a 12% increase in office-using workers. Leasing activity this year is 15% below pre-pandemic levels. New leases average 20% less space. Additionally, the quantity of occupied but available space is more than 50 million SF above its historical norm, having risen steadily since mid-2020. Calculated in the aggregate, today's users require about 440 million square feet less than current employment levels suggest. This has sent the ratio of needed space per worker plummeting to 8% below what it was entering 2020, accelerating a decade-long trend of shrinking space-per-worker requirements. Stagnant demand is likely to linger and space-per-worker requirements may shrink further, recent market dynamics suggest. This is consistent with two trends: Large tenants are reducing their footprints when existing leases fall in, and the flight to quality by many users skews the composition of the prospective tenant toward those with smaller requirements.

First-generation premium buildings have seen consistently positive net absorption. These typically offer unique benefits to tenants, including top-tier locations, designs and amenities, more natural light and better environmental performance. Since early 2020, these properties have seen an average of 14 million SF of positive net absorption per quarter. On the other hand, a similar number of older properties have found little appeal. Buildings representing only about 15% of leased, non-medical inventory account for over 120 million SF of negative net absorption just in the past 12 months.

There could be much more pain to come for landlords as the balance of pre-2020 leases - still a majority - approach expiration. Also, there are 215 million SF of sublease availability, a breathtaking amount that has risen more than 130% since the end of 2019. The current total is nearly 80% above its previous peak during the Great Recession.

This extreme polarization is prolonging uncertainty about the future of the sector. If tenant leasing behavior holds to its recent form, the fallout could be quite severe outside the narrow slice of inventory that is still attracting occupancy.

| LOWEST VACANCY RATE | | HIGHEST MARKET RENT / SF ANNUAL | | HIGHEST MARKET SALE PRICE / SF | |
|---------------------|-------|---------------------------------|-------------|--------------------------------|-----------|
| BC, Vancouver | 5.5% | CA, San Francisco | \$56.16 | CA, San Francisco | \$637 |
| CA, Inland Empire | 5.9% | NY, New York* | \$56.04 | NY, New York* | \$589 |
| FL, Orlando | 8.7% | FL, Miami | \$47.88 | BC, Vancouver | \$504 CAD |
| FL, Miami | 8.9% | CA, Los Angeles | \$42.00 | WA, Seattle | \$449 |
| NY, Long Island | 9.0% | MA, Boston | \$41.88 | MA, Boston | \$423 |
| U.S. Index | 13.4% | U.S. Index | \$35.04 | U.S. Index | \$298 |
| Canada Index | 8.9% | Canada Index | \$26.64 CAD | Canada Index | \$270 CAD |

| MOST SF UNDER CONSTRUCTION SF | | LARGEST INVENTORY BY SF | | LOWEST MARKET CAP RATE | |
|-------------------------------|-------------|-------------------------|---------------|------------------------|------|
| MA, Boston | 16,895,942 | NY, New York* | 979,604,647 | BC, Vancouver | 4.0% |
| ON, Toronto | 10,546,516 | DC, Washington | 523,120,941 | CA, San Francisco | 5.7% |
| WA, Seattle | 9,934,383 | IL, Chicago | 512,231,086 | ON, Toronto | 5.8% |
| NY, New York* | 9,713,554 | CA, Los Angeles | 439,418,063 | NY, New York* | 6.3% |
| TX, Dallas-Fort Worth | 7,875,483 | TX, Dallas-Fort Worth | 423,704,877 | CA, Los Angeles | 6.5% |
| U.S. Index | 114,664,588 | U.S. Index | 8,421,746,724 | U.S. Index | 8.0% |
| Canada Index | 17,020,751 | Canada Index | 688,722,947 | Canada Index | 6.8% |

* 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 ** | 16.6% | \$1.73 | \$131 | 495,190 | 98,822,877 | 11.0% |
| AZ, Phoenix | 16.0% | \$2.44 | \$221 | 1,033,834 | 197,327,910 | 8.0% |
| BC, Vancouver ** | 5.5% | \$2.76 | \$504 | 4,477,879 | 97,083,508 | 4.0% |
| CA, Bakersfield | 8.7% | \$2.00 | \$161 | 13,993 | 16,077,728 | 9.5% |
| CA, East Bay | 13.9% | \$3.20 | \$312 | 53,730 | 115,658,402 | 6.7% |
| CA, Fresno | 7.9% | \$1.78 | \$183 | 188,793 | 28,872,348 | 9.1% |
| CA, Inland Empire | 5.9% | \$2.13 | \$202 | 254,540 | 77,529,742 | 8.1% |
| CA, Los Angeles | 15.1% | \$3.50 | \$394 | 3,376,237 | 439,418,063 | 6.5% |
| CA, Orange County | 13.4% | \$2.58 | \$287 | 200,396 | 158,754,870 | 7.1% |
| CA, San Diego | 11.3% | \$3.19 | \$337 | 3,688,308 | 119,616,732 | 7.1% |
| CA, San Francisco | 20.5% | \$4.68 | \$637 | 2,991,066 | 190,087,977 | 5.7% |
| CA, San Luis Obispo | 4.0% | \$2.35 | \$258 | 120,000 | 6,684,676 | 8.2% |
| CA, Santa Barbara | 7.0% | \$2.76 | \$358 | 165,641 | 12,837,949 | 6.9% |
| CA, Stockton | 6.5% | \$1.82 | \$169 | 0 | 12,981,167 | 8.7% |
| CA, Ventura | 11.3% | \$2.32 | \$228 | 0 | 21,943,631 | 8.4% |
| CO, Denver | 16.2% | \$2.44 | \$229 | 3,855,215 | 184,883,285 | 8.1% |
| DC, Washington | 16.2% | \$3.24 | \$329 | 4,056,445 | 523,120,941 | 8.2% |
| FL, Fort Myers | 4.9% | \$2.03 | \$177 | 31,000 | 21,621,029 | 8.2% |
| FL, Miami | 8.9% | \$3.99 | \$344 | 4,385,965 | 114,872,276 | 6.7% |
| FL, Naples | 4.3% | \$2.74 | \$245 | 117,348 | 10,300,673 | 8.0% |
| FL, Orlando | 8.7% | \$2.34 | \$189 | 1,174,662 | 104,340,198 | 8.5% |
| GA, Atlanta | 15.0% | \$2.35 | \$212 | 2,683,222 | 336,904,847 | 8.0% |
| GA, Savannah | 1.7% | \$2.08 | \$187 | 43,936 | 12,552,141 | 9.4% |
| ID, Boise | 7.1% | \$1.80 | \$156 | 242,592 | 34,595,209 | 9.6% |
| IL, Chicago | 16.3% | \$2.48 | \$197 | 1,704,753 | 512,231,086 | 8.7% |
| IN, Indianapolis | 9.7% | \$1.80 | \$124 | 1,677,256 | 109,545,279 | 9.8% |
| KS, Lawrence | 12.8% | \$1.84 | \$124 | 0 | 3,291,232 | 10.5% |
| KS, Topeka | 6.6% | \$1.51 | \$116 | 11,447 | 11,586,667 | 10.0% |
| LA, Baton Rouge | 6.2% | \$1.67 | \$110 | 23,871 | 28,004,293 | 11.4% |
| MA, Boston | 11.2% | \$3.49 | \$423 | 16,895,942 | 377,107,680 | 6.8% |
| MD, Baltimore | 11.8% | \$2.05 | \$156 | 1,323,529 | 152,405,626 | 9.5% |
| MI, Detroit | 11.8% | \$1.80 | \$120 | 1,544,445 | 200,647,896 | 10.2% |
| MN, Minneapolis | 11.2% | \$2.23 | \$161 | 797,880 | 201,246,353 | 8.8% |
| MO, Kansas City* | 11.9% | \$1.82 | \$128 | 1,227,585 | 128,271,116 | 9.4% |
| United States Index | 13.4% | \$2.92 | \$298 | 114,664,588 | 8,421,746,724 | 8.0% |
| Canada Index | 8.9% | \$2.22** | \$270** | 17,020,751 | 688,722,947 | 6.8% |

| MARKET | VACANCY RATE | MARKET RENT / SF | MARKET SALE PRICE / SF | SF UNDER CONSTRUCTION | INVENTORY SF | MARKET CAP RATE |
|---------------------------|--------------|------------------|------------------------|-----------------------|---------------|-----------------|
| MO, Saint Louis | 10.8% | \$1.79 | \$120 | 1,579,324 | 147,385,810 | 9.8% |
| NC, Durham | 10.5% | \$2.29 | \$229 | 201,159 | 36,872,035 | 8.1% |
| NC, Raleigh | 10.3% | \$2.45 | \$220 | 1,990,242 | 78,488,819 | 8.1% |
| NE, Lincoln | 7.2% | \$1.59 | \$120 | 153,932 | 18,603,637 | 10.0% |
| NE, Omaha | 6.8% | \$2.03 | \$135 | 1,316,935 | 48,700,126 | 10.4% |
| NJ, Atlantic City | 6.1% | \$1.90 | \$140 | 0 | 7,601,487 | 10.1% |
| NJ, Northern New Jersey * | 14.2% | \$2.32 | \$188 | 369,812 | 156,728,025 | 9.1% |
| NJ, Trenton | 9.3% | \$2.42 | \$161 | 38,000 | 31,470,117 | 9.7% |
| NJ, Vineland | 4.4% | \$1.51 | \$109 | 0 | 2,835,747 | 10.2% |
| NV, Reno | 9.7% | \$2.03 | \$195 | 257,786 | 17,548,814 | 8.6% |
| NY, Long Island | 9.0% | \$2.61 | \$187 | 147,478 | 99,438,338 | 8.9% |
| NY, New York * | 13.5% | \$4.67 | \$589 | 9,713,554 | 979,604,647 | 6.3% |
| OH, Cincinnati | 10.1% | \$1.71 | \$100 | 91,000 | 104,800,256 | 10.8% |
| OH, Cleveland | 9.9% | \$1.61 | \$98 | 1,353,099 | 112,807,646 | 11.5% |
| OH, Columbus | 10.5% | \$1.82 | \$115 | 1,209,669 | 118,989,765 | 9.9% |
| ON, Toronto ** | 9.2% | \$2.47 | \$304 | 10,546,516 | 286,676,780 | 5.8% |
| PA, Harrisburg | 8.3% | \$1.54 | \$118 | 171,740 | 37,801,098 | 10.8% |
| PA, Lehigh Valley * | 7.7% | \$1.82 | \$105 | 157,575 | 31,949,472 | 11.3% |
| PA, Philadelphia * | 11.1% | \$2.30 | \$171 | 3,280,870 | 328,021,481 | 9.3% |
| PA, Pittsburgh | 11.7% | \$1.85 | \$117 | 721,821 | 142,045,377 | 10.0% |
| SC, Charleston | 8.2% | \$2.57 | \$198 | 486,723 | 33,561,137 | 8.9% |
| SC, Greenville | 8.5% | \$1.89 | \$137 | 477,800 | 35,065,162 | 9.4% |
| SC, Spartanburg | 4.3% | \$1.74 | \$117 | 3,200 | 7,792,490 | 10.3% |
| TN, Nashville | 12.2% | \$2.60 | \$227 | 3,773,862 | 102,155,473 | 7.8% |
| TX, Dallas-Fort Worth | 17.9% | \$2.50 | \$224 | 7,875,483 | 423,704,877 | 7.9% |
| TX, Houston | 18.7% | \$2.44 | \$206 | 4,679,773 | 354,660,915 | 8.9% |
| WA, Seattle | 13.3% | \$3.15 | \$449 | 9,934,383 | 231,784,664 | 6.5% |
| WI, Madison | 6.3% | \$1.93 | \$125 | 529,813 | 38,417,261 | 10.5% |
| United States Index | 13.4% | \$2.92 | \$298 | 114,664,588 | 8,421,746,724 | 8.0% |
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** Numbers shown are in Canadian dollars (CAD)