CommercialEdge

National Office Report

December 2023

Loan Maturities Vex Office Investors

- Office loan defaults are set to rise. Demand for office space is down, expenses are up, and values have dropped with the prospect of large numbers of loans maturing over the next few years.

- An analysis of loan data from CommercialEdge shows that nearly $150 billion of office loans are maturing by the end of next year, and more than $300 billion will mature by the end of 2026. Yet the risk these maturing loans pose varies by location, with maturing loans generally concentrated in primary markets, urban submarkets and Class A properties.

- Eight markets account for half of all maturing loan volume through the end of 2024. Manhattan leads the way ($19.8 billion), followed by Los Angeles ($10.3 billion), Chicago ($10.1 billion), Washington, D.C. ($8.6 billion), Houston ($8.1 billion), Boston ($7.9 billion), San Francisco ($6.6 billion) and Atlanta ($6.5 billion). In a few of these markets, the amount of loans maturing before the end of next year accounts for more than a quarter of all office loan volume. Chicago's maturities represent 26.4% of all loans, Houston's 29.7% and Atlanta's 28.8%. Urban markets will account for $176.9 billion, or nearly 60%, of loans maturing by the end of 2026. Similarly, $203.2 billion, or more than two-thirds of loans maturing through 2026, serve as collateral for Class A or A+ properties.

- Demand for office space has partially rebounded in recent quarters, but most metrics indicate utilization has plateaued at around 50-60% of pre-pandemic levels. Many tenants have downsized footprints, and although some companies are taking a tougher stance on return-to-office policies, we remain a couple of years away from a post-pandemic equilibrium. Weakened demand has given tenants increased leverage in lease negotiations, often getting landlords to pay for improvements and amenities. Other costs, such as insurance and maintenance, have also been increasing, depleting net operating income. Consequently, delinquencies are rising. According to Trepp, 6.1% of office CMBS loans were delinquent in November, up from 1.7% in November of 2022.

- The path forward for interest rates will be a big determinant in the level of distress and delinquencies. Banks will also play a role, both in their willingness to work out extensions and in their determinations as to how much exposure to offices they want. Investor demand for offices remains low and is unlikely to improve in the near term.

Listing Rates and Vacancy: Seattle Vacancy Rate Continues Upward Climb

- The national average full-service equivalent listing rate was $37.73 in November, according to CommercialEdge, a decrease of 0.9% year-over-year and down four cents over the previous month.
- The national vacancy rate was 18.2%, an increase of 190 basis points year-over-year.
- Tech markets have perhaps been hit the hardest in recent years, first by remote work and more recently by the industry-wide downturn that began at the end of 2022. Seattle has seen vacancies rise sharply since the pandemic. The market vacancy rate in November was 22.3%, increasing 430 basis points over the last year. This includes a 4.5% sublease rate, third highest among the top markets covered by CommercialEdge, behind only San Francisco and the Bay Area. After exiting or letting leases expire across millions of square feet, Microsoft reportedly will give up more than 400,000 square feet in Bellevue's Lincoln Square North tower.

Listings by Metro

Market	Nov-23 Listing Rate	12-Month Change	Total Vacancy	12-Month Change	Top Listing	Price Per Square Foot
National	$37.73	-0.9%	18.2%	190 bps		
Boston	$45.31	20.7%	10.6%	170 bps	Kendall Center - 255 Main Street	$126.34
New Jersey	$34.56	4.8%	19.4%	190 bps	10 Exchange Place	$55.30
Atlanta	$31.32	3.4%	17.4%	-330 bps	300 Colony Square	$52.00
Philadelphia	$31.98	3.1%	14.3%	140 bps	Two Liberty Place	$53.50
Seattle	$38.29	2.0%	22.3%	430 bps	1208 Eastlake Avenue East	$94.00
Denver	$30.33	1.3%	21.0%	230 bps	1144 Fifteenth Street	$63.50
Detroit	$21.32	1.0%	25.7%	500 bps	One Campus Martius	$39.13
Twin Cities	$26.34	0.8%	17.8%	340 bps	Lake Calhoun Center	$40.93
Tampa	$28.40	0.8%	13.9%	-300 bps	Water Street Tampa - Thousand & One	$61.50
Phoenix	$27.63	-0.3%	19.2%	370 bps	Camelback Collective	$55.00
Chicago	$27.73	-0.6%	18.3%	-110 bps	Innovation and Research Park	$75.00
Houston	$29.95	-1.1%	25.4%	-90 bps	Texas Tower	$60.90
Austin	$41.36	-1.1%	21.2%	300 bps	Indeed Tower	$83.77
Los Angeles	$41.60	-1.2%	16.9%	210 bps	2000 Avenue of the Stars	$118.20
Washington DC	$40.88	-1.6%	18.5%	420 bps	455 Massachusetts Ave NW	$76.00
Bay Area	$54.41	-2.4%	20.3%	410 bps	325 Lytton Avenue	$159.00
Orlando	$23.89	-2.8%	17.1%	120 bps	Heritage Park	$42.00
Nashville	$30.24	-3.1%	16.6%	-120 bps	Three Thirty Three	$44.38
San Diego	$42.20	-3.5%	17.7%	320 bps	One La Jolla Center	$70.20
Dallas	$27.64	-3.9%	18.9%	70 bps	17Seventeen McKinney	$67.42
Manhattan	$70.78	-5.3%	17.4%	250 bps	One Vanderbilt	$252.00
Charlotte	$32.12	-6.1%	15.7%	310 bps	Rotunda Building, The	$46.42
Miami	$46.52	-6.3%	14.1%	190 bps	701 Brickell	$120.00
Portland	$28.15	-6.8%	15.9%	30 bps	12th & Morrison	$47.01
San Francisco	$62.18	-7.2%	24.2%	510 bps	Sand Hill Collection - The Quad	$195.60

Source: CommercialEdge. Data as of November 2023. Listing rates are full-service or "full-service equivalent" rates for spaces available as of report period. National listing rate is an average of the top 50 markets.

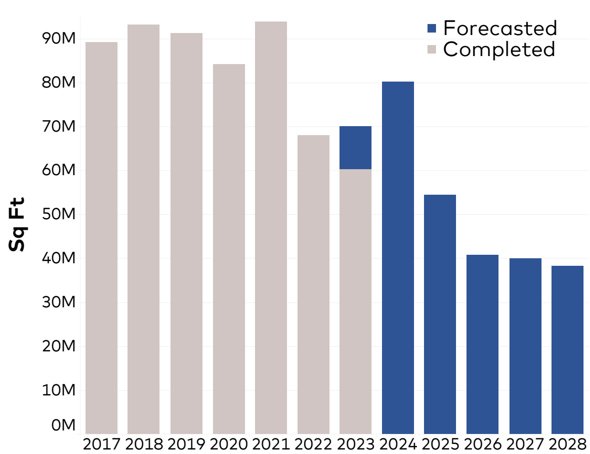
Supply:
Dallas Leads Nation in Starts in 2023

- Nationally, 99.6 million square feet of office space is under construction, representing 1.5% of stock. Life science and Sun Belt markets have the most active pipelines, but activity has eased even in those segments.

- Office starts have slowed greatly in 2023, with 36.5 million square feet commencing development through the end of November, according to CommercialEdge. This is down more than 40% from the level of starts seen through the same period in 2021 and 2022.

- Dallas has led the nation in starts this year, with more than 3 million square feet of office space beginning construction (including owner-occupied properties). The market has an array of projects underway—from medical office buildings such as the 400,000-square-foot Baylor Scott & White MOB in Frisco to Wells Fargo's new campus currently being built in Las Colinas. Including the TIAA Tower begun last December in The Star, a mixed-use development also housing the Dallas Cowboys' headquarters and training facilities, nearly 4 million square feet been have started in the past 12 months.

National New Supply Forecast



Source: Yardi Matrix. Data as of November 2023.
Data in this chart includes owner-occupied properties.

Supply Pipeline (by metro)

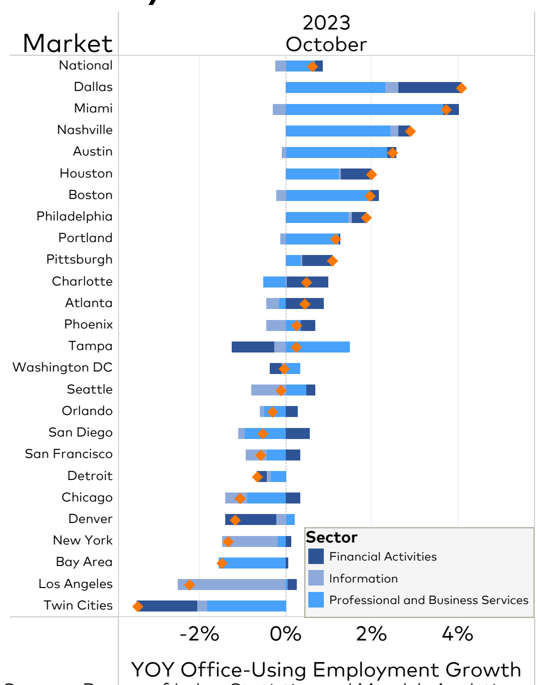
Market	Under Construction	Under Construction % Stock	Plus Planned % Stock
National	99,598,737	1.5%	4.8%
Boston	13,501,748	5.5%	10.4%
San Diego	5,159,858	5.4%	9.6%
Austin	5,013,061	5.4%	23.7%
Nashville	3,146,010	5.4%	13.6%
Seattle	6,594,613	4.7%	12.9%
San Francisco	6,857,489	4.3%	12.3%
Miami	2,845,432	4.0%	13.4%
Charlotte	2,826,102	3.6%	9.0%
Bay Area	4,422,667	2.1%	8.8%
Philadelphia	3,097,007	1.7%	4.7%
Atlanta	3,023,341	1.5%	3.7%
Denver	2,476,865	1.5%	5.7%
Dallas	3,876,273	1.4%	8.3%
Orlando	806,337	1.2%	4.8%
Houston	2,678,380	1.1%	2.2%
Manhattan	4,785,725	1.0%	2.2%
Washington DC	3,575,669	1.0%	3.6%
Portland	554,164	1.0%	2.6%
New Jersey	1,725,898	0.9%	2.3%
Los Angeles	2,209,303	0.8%	3.5%
Tampa	357,954	0.5%	3.7%
Chicago	1,384,463	0.4%	3.3%
Detroit	524,000	0.4%	0.9%
Twin Cities	485,444	0.4%	2.8%
Phoenix	503,721	0.3%	3.4%

Source: CommercialEdge. Data as of November 2023. Table does not include owner-occupied properties.

Office-Using Jobs: Miami Growth Decelerates

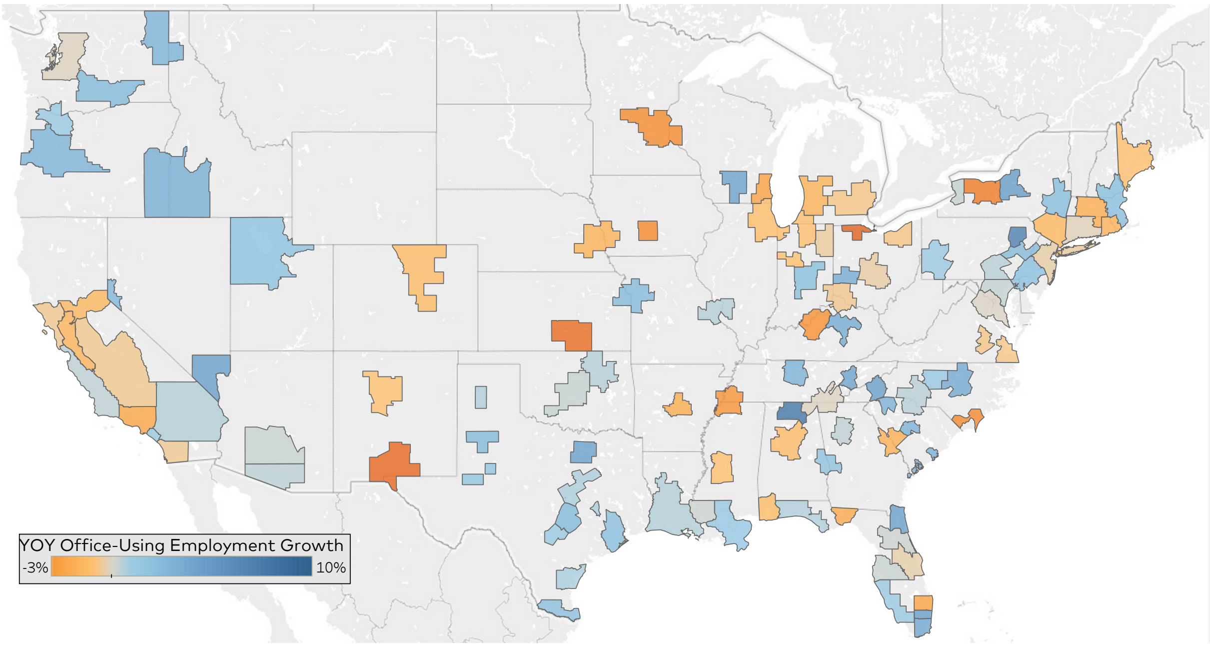
- Office-using sectors of the employment market added 5,000 jobs in the month of November, increasing only 0.4%.
- Metro-level data for October shows office-job growth decelerating in even the hottest markets. As an example, Miami has been one of the fastest-growing office employment markets in recent years, and at 3.7% year-over-year is among the top markets in October. Yet weaknesses are beginning to appear. Miami has a minuscule unemployment rate of 1.6%, less than half the national average of 3.7%, but the tight labor market leaves little slack to add office jobs through routes other than the in-migration of workers and businesses. And despite headlines around relocations into the market since the beginning of the pandemic, the total size of the labor force is roughly what it was pre-COVID. Miami has 4.0% of stock under construction, meaning that absorption may be an issue if job growth continues to slow.

Growth by Sector



Sources: Bureau of Labor Statistics and Moody's Analytics

Office-Using Employment Growth



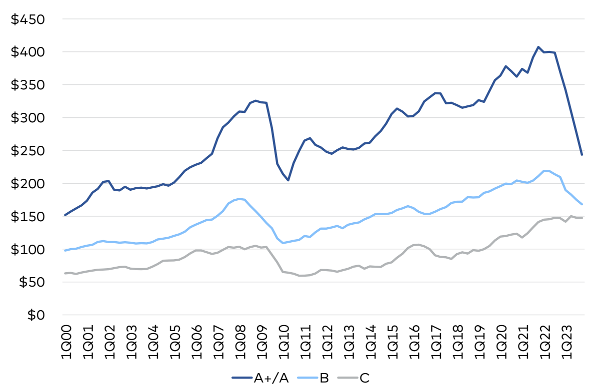
Sources: Bureau of Labor Statistics and Moody's Analytics

Transactions:
San Diego Prices Hold Steady

- CommercialEdge recorded $30.1 billion of office sales through November, with properties trading at an average of $193 per foot.

- The average sale price has been dropping in nearly every market. San Diego has held steady, with prices rising slightly, from $410 per foot last year to $412 in 2023. The largest transaction so far this year was Rexford's sale-leaseback acquisition of defense and transportation contractor Cubic Corp.'s headquarters in San Diego. The campus will be partially redeveloped into industrial space after Cubic relocates.

Asset Class (price PSF)



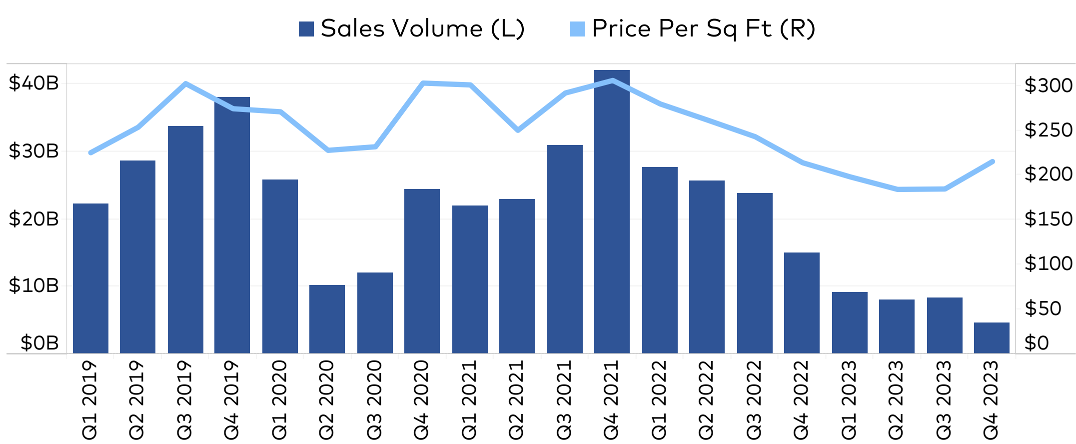
Source: CommercialEdge; 12-month moving average.
Does not include unpublished and portfolio transactions.

Sales Activity

Market	YTD Sales Price PSF	YTD Sales (Mil, as of 11/30)
National	$193	$30,114
Los Angeles	$267	$1,960
Washington, D.C.	$243	$1,896
Manhattan	$574	$1,871
Dallas–Fort Worth	$224	$1,863
Boston	$306	$1,497
Houston	$127	$1,252
New Jersey	$144	$1,211
Bay Area	$331	$1,059
Chicago	$102	$992
Miami	$356	$962
Austin	$410	$945
Phoenix	$190	$937
Denver	$252	$878
San Francisco	$325	$635
Tampa	$160	$628
Minneapolis	$197	$583
Philadelphia	$136	$541
Atlanta	$155	$540
San Diego	$412	$539
Detroit	$130	$326
Nashville	$269	$236
Orlando	$182	$226
Seattle	$267	$226
Portland	$187	$211
Charlotte	$155	$199

Source: CommercialEdge. Data as of November 2023. Sales data for unpublished and portfolio transactions is estimated using sales comps.

Quarterly Transactions



Source: CommercialEdge. Data as of November 2023.

Definitions

This report covers office buildings 25,000 square feet and above. CommercialEdge subscribers have access to more than 14,000,000 property records and 300,000 listings for a continually growing list of markets.

CommercialEdge collects listing rate and occupancy data using proprietary methods.

- *Listing Rates*—Listing Rates are full-service rates or "full-service equivalent" for spaces that were available as of the report period. CommercialEdge uses aggregated and anonymized expense data to create full-service equivalent rates from triple-net and modified gross listings. Expense data is available to CommercialEdge subscribers. National average listing rate is for the top 50 markets covered by CommercialEdge.
- *Vacancy*—The total square feet vacant in a market, including subleases, divided by the total square feet of office space in that market. Owner-occupied buildings are not included in vacancy calculations.

A and A+/Trophy buildings have been combined for reporting purposes.

Stage of the supply pipeline:

- *Planned*—Buildings that are currently in the process of acquiring zoning approval and permits but have not yet begun construction.
- *Under Construction*—Buildings for which construction and excavation has begun.

Supply pipeline figures do not include owner-occupied properties unless otherwise noted.

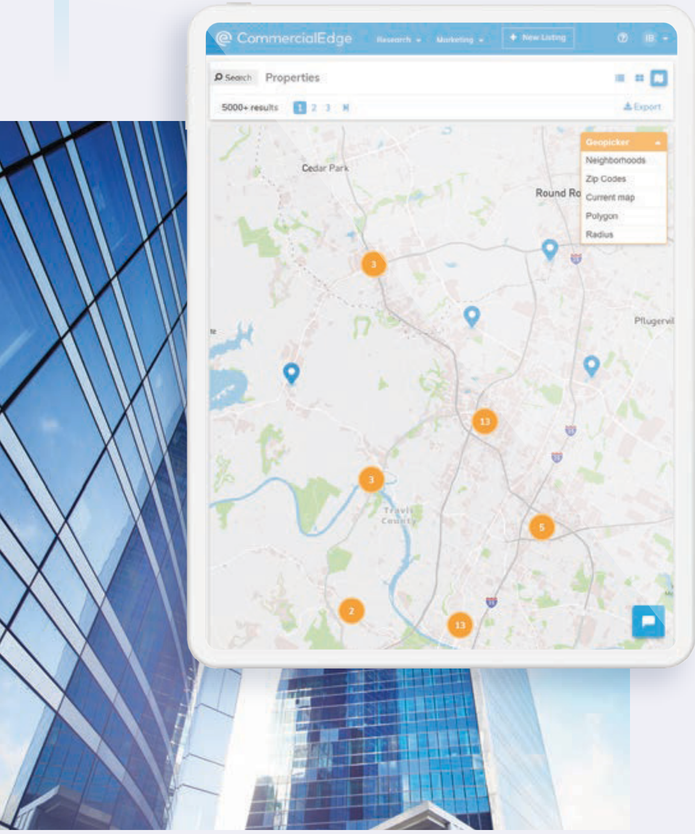
Office-Using Employment is defined by the Bureau of Labor Statistics as including the sectors Information, Financial Activities, and Professional and Business Services. Employment numbers are representative of the Metropolitan Statistical Area and do not necessarily align exactly with CommercialEdge market boundaries.

Sales volume and price-per-square-foot calculations for portfolio transactions or those with unpublished dollar values are estimated using sales comps based on similar sales in the market and submarket, use type, location and asset ratings, sale date and property size.

CommercialEdge

Reliable commercial real estate data, built up over more than a decade of extensive research. Powered by Yardi.

CommercialEdge provides the office segment's most comprehensive market intelligence service and listing management platform, sustaining data-driven decisions.



Key features:

- Continually growing nationwide coverage with 162 markets currently included
- Researched and verified data, powered by a team of 400 experienced property research specialists
- Exhaustive property reports featuring data points such as ownership, leases, sales, debt, taxes and more
- Building and portfolio performance overview with current average rents, vacancy rates and maturing leases
- Extensively researched tenant data with an accuracy rate two to three times higher than the industry average
- Real-time market trends based on actual transactional and leasing data with Yardi Market Insight
- Dedicated tools, including automated competitive building sets, broker tour books and dedicated property webpages
- Access to the CommercialEdge Listing Network — including CommercialCafe, PropertyShark, Point2 and CommercialSearch

Capitalize on comprehensive commercial real estate research
Nationwide property and listing data all in one place, specifically engineered for CRE professionals.

The data presented in this report is provided by CommercialEdge.
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