Office Market Outlook

Prepared for Alony Hetz

March 2023

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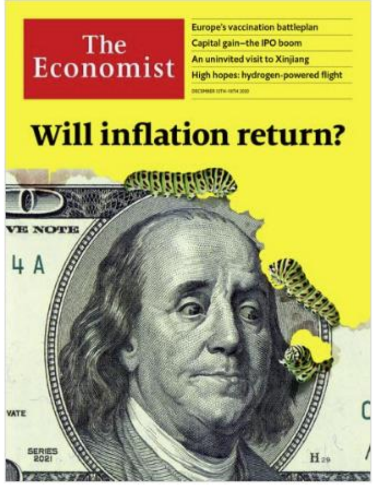
Headwinds impacting the economy and decision making

Geopolitical risks

Protracted war in Ukraine, China covid uncertainty, U.S. / China relations, and deglobalization shift.

Inflation and cost of living / operating

Inflation has peaked, but price pressure still broad based and may be difficult to stamp out. Impact to living and operating costs.



Energy crisis

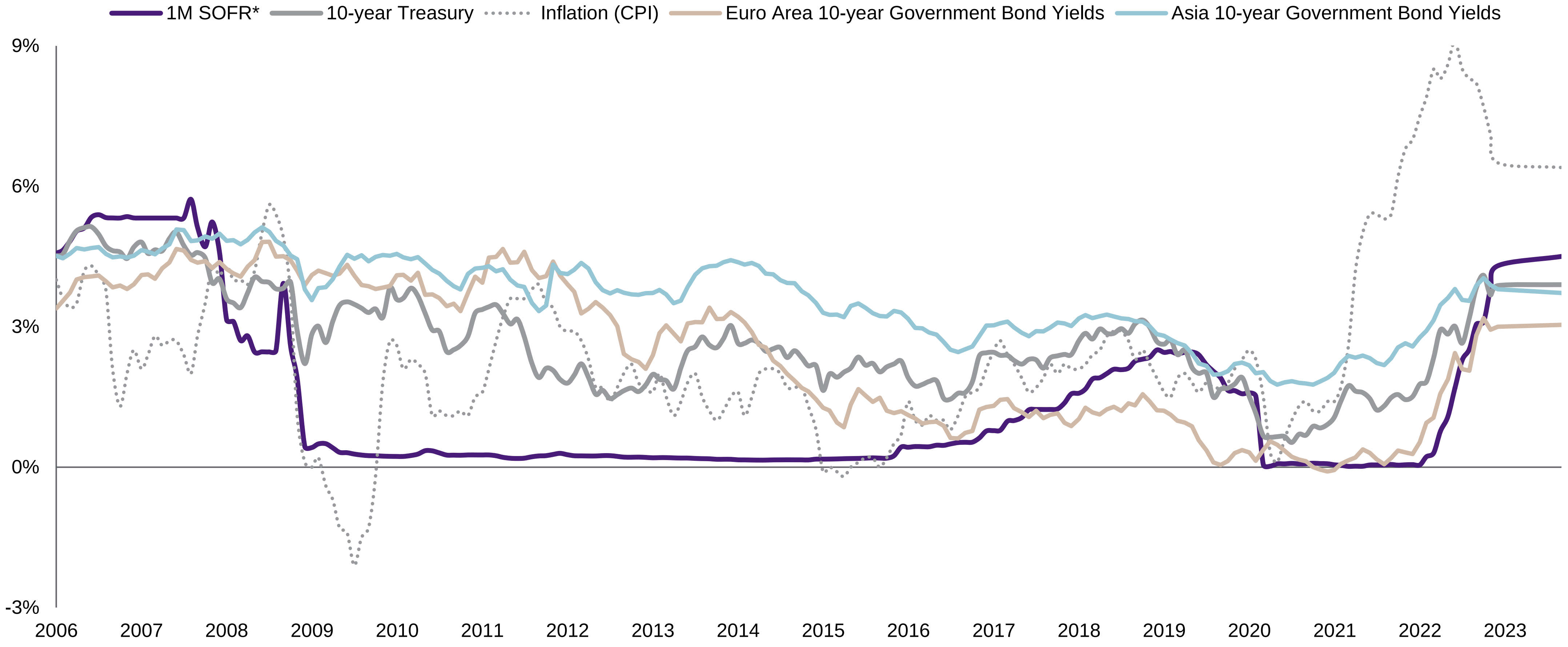
Main impact to Europe, but global implications including location decisions for energy intensive industries and transition to renewables.

Interest rates and the cost of debt

Central banks have hiked interest rates sharply to fight inflation, with more increases likely. Impact to liquidity, housing, and growth outlook.

Central banks in major economies remain hawkish despite inflation progress

Benchmark Yields, 2006-2023



Source: JLL Research; Bloomberg Finance L.P., as of January 2023; *30D LIBOR prior to Sept. 2019; U.S. is used as a global benchmark

U.S. and Europe expect recessionary pressure in H1 and improvement in late 2023

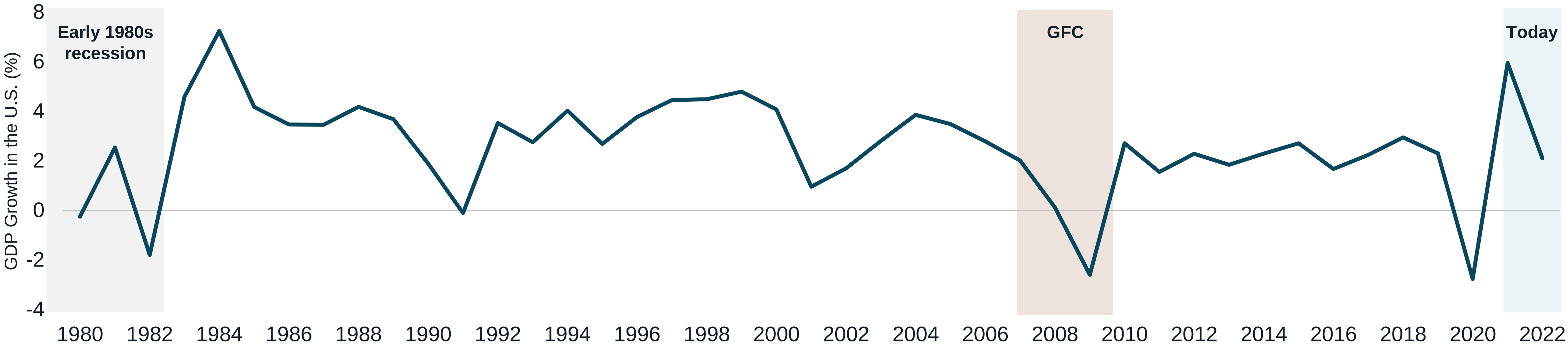
GDP growth (positive or negative), quarter on quarter

Recovery accelerating →

		Q3 2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023
Asia Pacific	Australia	▲	▲	▲	▲	▲	▲
	China	▲	▲	▲	▲	▲	▲
	India	▼	▼	▲	▲	▲	▲
	Japan	▼	▲	▼	▲	▲	▲
	Singapore	▲	▲	▼	▼	▲	▲
Europe	France	▲	▲	/	/	▲	▲
	Germany	▲	▼	▼	▲	▲	▲
	UK	▼	/	▼	▼	/	▲
North America	US	▲	▲	▲	▼	▼	▲
	Canada	▲	▼	▼	▼	▼	▲

Source: Oxford Economics, forecasts from 16.02.2023. JLL

Every cycle has its own path; Current market better positioned to rebound



Early 1980s recession

- **Iranian Revolution** and **government overspending** aggravated economy
- **Sharp rise in oil prices** and **elevated unemployment** (to almost 8%)
- **U.S. inflation** rose to record levels (13.5% in 1980)
- **Fed increased rates more than 10% in 6 months to 20%** to fight mounting inflation

Global Financial Crisis

- Loose credit and lax lending standards fueled **housing bubble**
- The Fed **increased fed funds rates to 5.25%** to curb rising housing prices over 2 years
- Triggered **credit crunch**, **distress to millions of homeowners** and exposed **systemic issues in banking system**

Today

- **Global pandemic** disrupts global supply chains and labor markets
- **Elevated inflation** (U.S. peak of 9.1% in June 2022), triggered by **supply chain issues**, **energy crisis** and **resilient labor market, wage growth**
- Hawkish Fed **tightening monetary policy at controlled pace** with **current rates at 4.5 – 4.75%**

Source: JLL Research

Demand for quality offices expected to be strong over long-term

Global themes

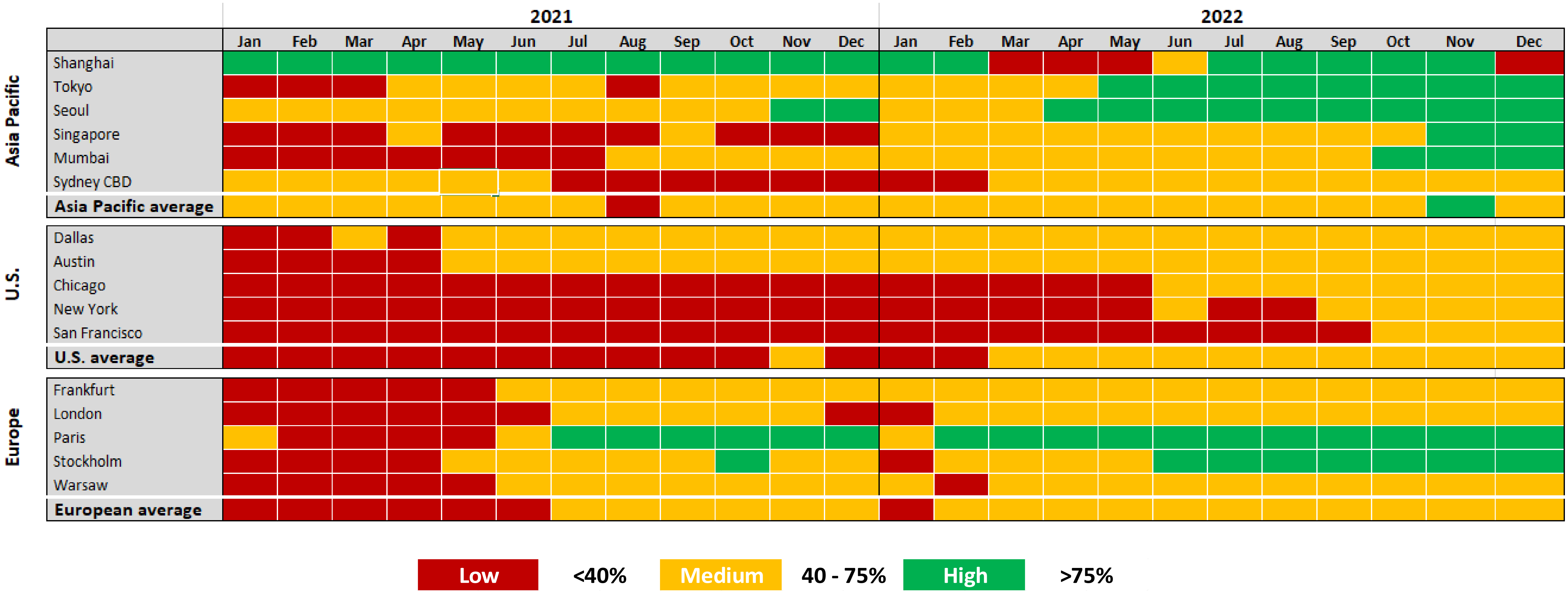
- Macro environment filtering through to decision making processes
- Flight to quality
- Location even more important
- Opportunities for retrofitting and refurbishments

Regional differences

- Return to office happening slower in the U.S. and some European markets
- Adoption of Hybrid working in most locations but with different working weeks

Source: JLL Research

The U.S. the slowest to return to the office



Source: JLL Research

Corporate management issuing stricter RTO guidance

Recent corporate return-to-office policy announcements

Disney
Employees will be required to work from the office four days per week starting in March 2023.

Salesforce
Reversing a remote-first work policy, effective January, Salesforce employees will be required to work from the office a minimum of three days per week.

Uber Technologies
Uber announced all non-remote employees must work from the office on Tuesdays and Thursdays, effective Nov. 1, 2022.

IBM
IBM Consulting announced employees located near offices or client sites are expected to work three days per week from the office.

Twitter
After laying off 50% of staff, Elon Musk issued a five day per week return-to-office mandate for remaining employees in early November.

General Motors
In early Q4, GM delayed a previously-announced three day per week in-office attendance policy which will now take effect beginning in Q1 2023 due to employee pushback.

Bank of America
In mid-October, Bank of America issued a memo stating that employees will be required to be in offices three or more days per week depending on role and function.

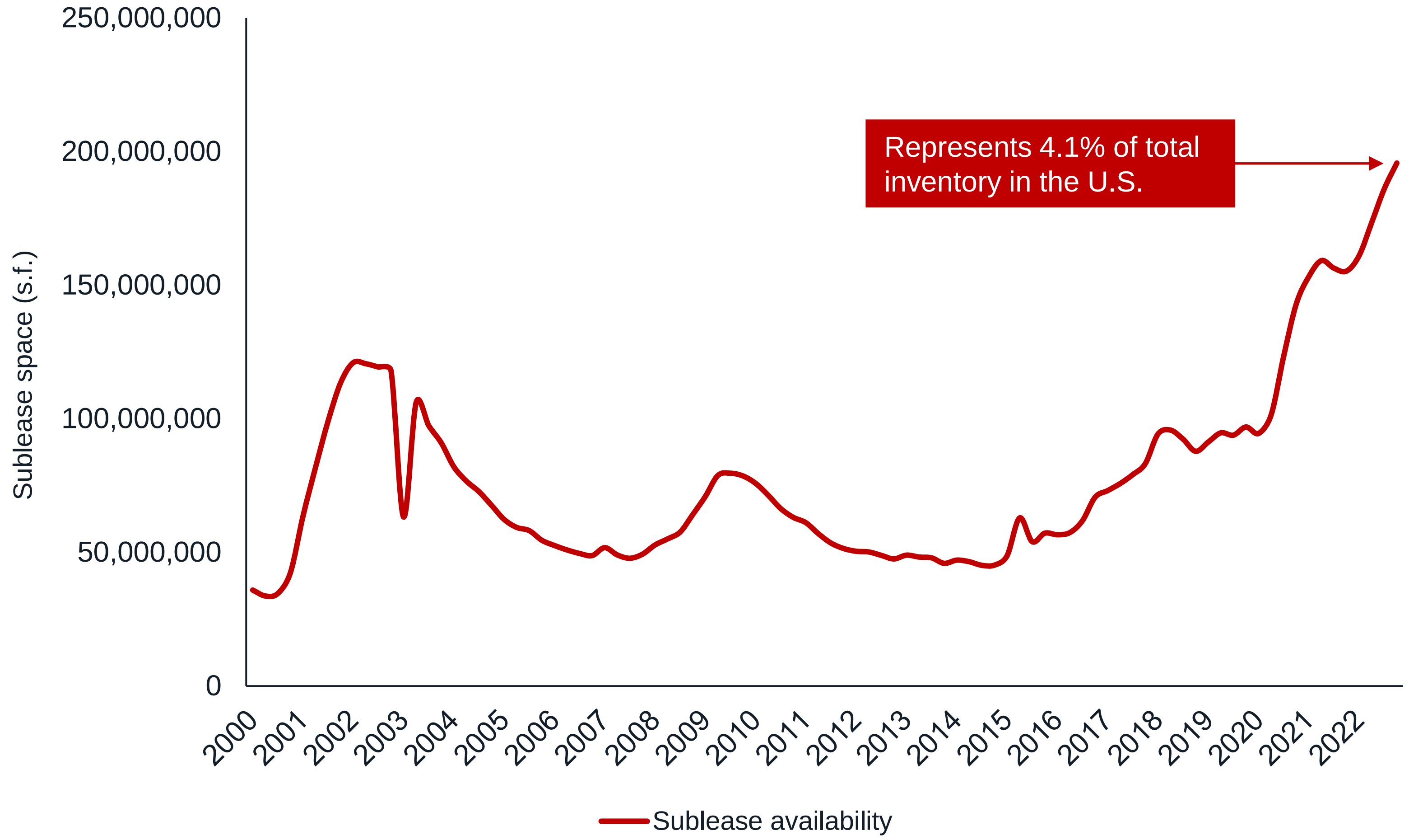
U.S. Bank
CEO Andy Cecere asked employees to return to offices three days per week, with a formal policy to follow in Q1 2023.

Pfizer Inc.
Pfizer's U.S. workforce will be required to work from the office two or three days per week beginning in January 2023.

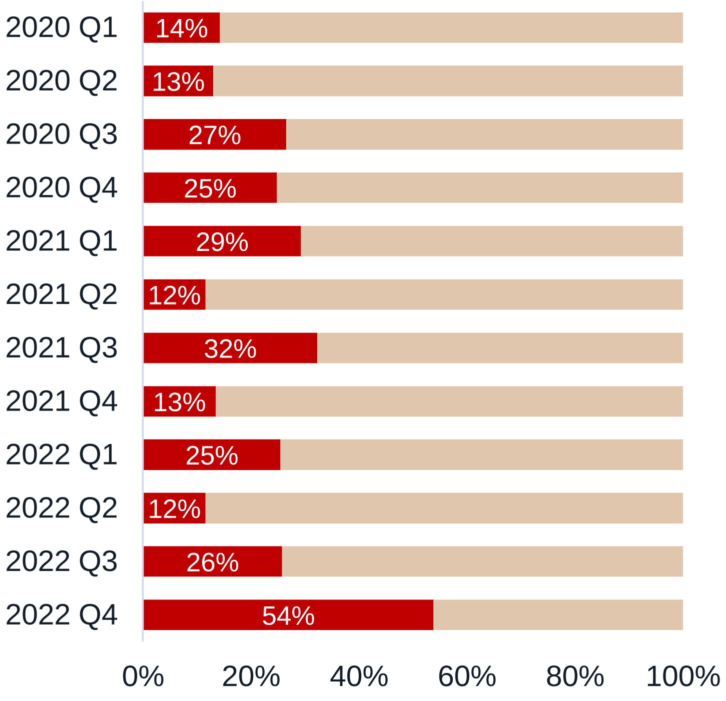
Starbucks
Announced in January, employees "within commuting distance" will be required to return to offices a minimum of three days per week starting January 31, 2023.

Source: JLL Research

Sublease availability continues to rise in the U.S., now led by tech

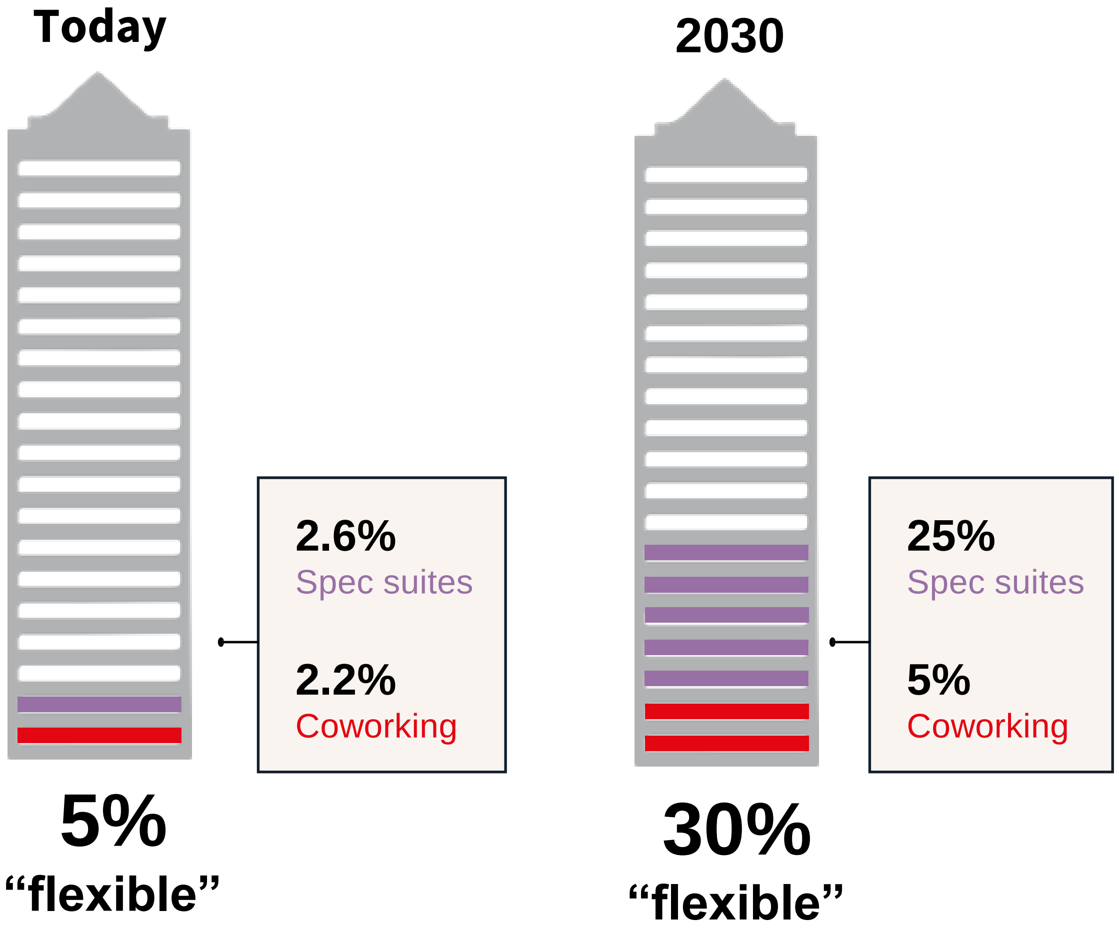


Technology sector share of new sublease additions



Source: JLL Research

Tailwinds for flex space demand remain in tact



#1 greatest disruption landlords cite is the expansion of flex models

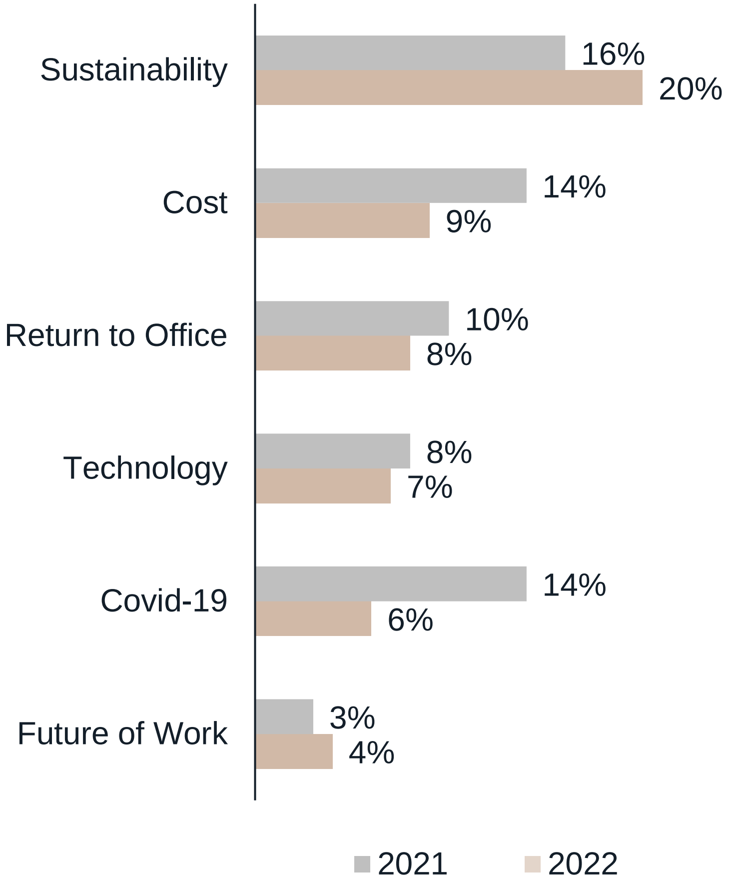
93% of JLL’s enterprise clients use flex space within their current portfolio

* 2.4% of current U.S. office inventory is controlled by independent, third-party flexible office providers (spanning all operator types, from traditional executive office suites to coworking to incubators). Approximately 3% of inventory is based in other flexible formats such as communal workspaces and spec suites that are available for terms < 3 years.

Source: JLL Research

Sustainability and broader ESG goals remain a top priority

Sustainability is the top client priority



82%

say their company's sustainability strategy will impact their real estate decisions in the next 12 months

Source: JLL Relationship Survey

Source: JLL Research

Clients focused on key outcomes

Net zero carbon

True **NZC Pathway** – a defined plan to deliver net zero carbon outcome

79% of occupiers anticipate that carbon reductions will be part of their corporate sustainability strategy by 2025

Human performance

Improvements in **productivity, engagement, collaboration, and well-being; 42%** of occupiers believe that employees will increasingly demand green and healthy spaces

Resources

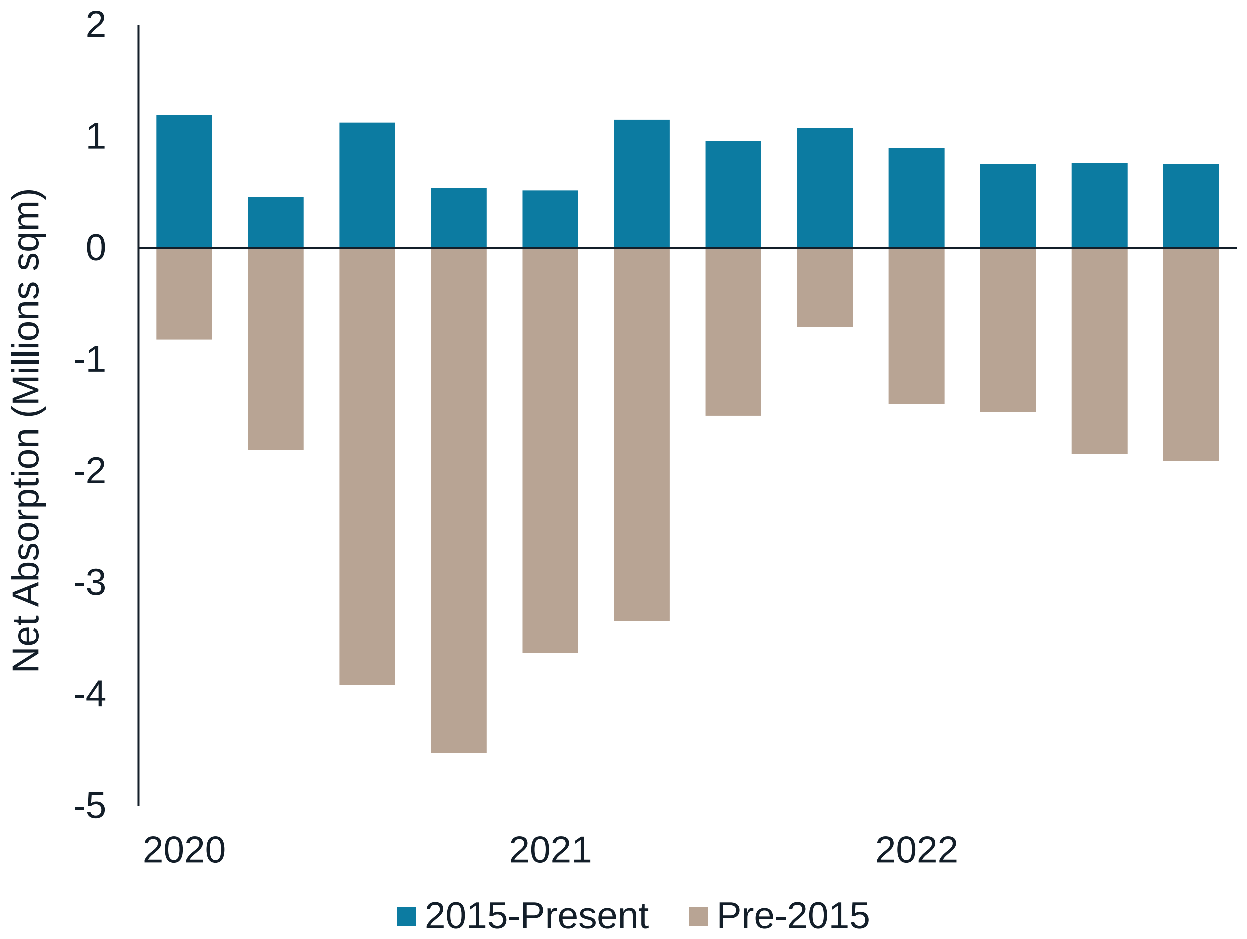
Tangible reductions in **waste, water,** and other **byproducts**

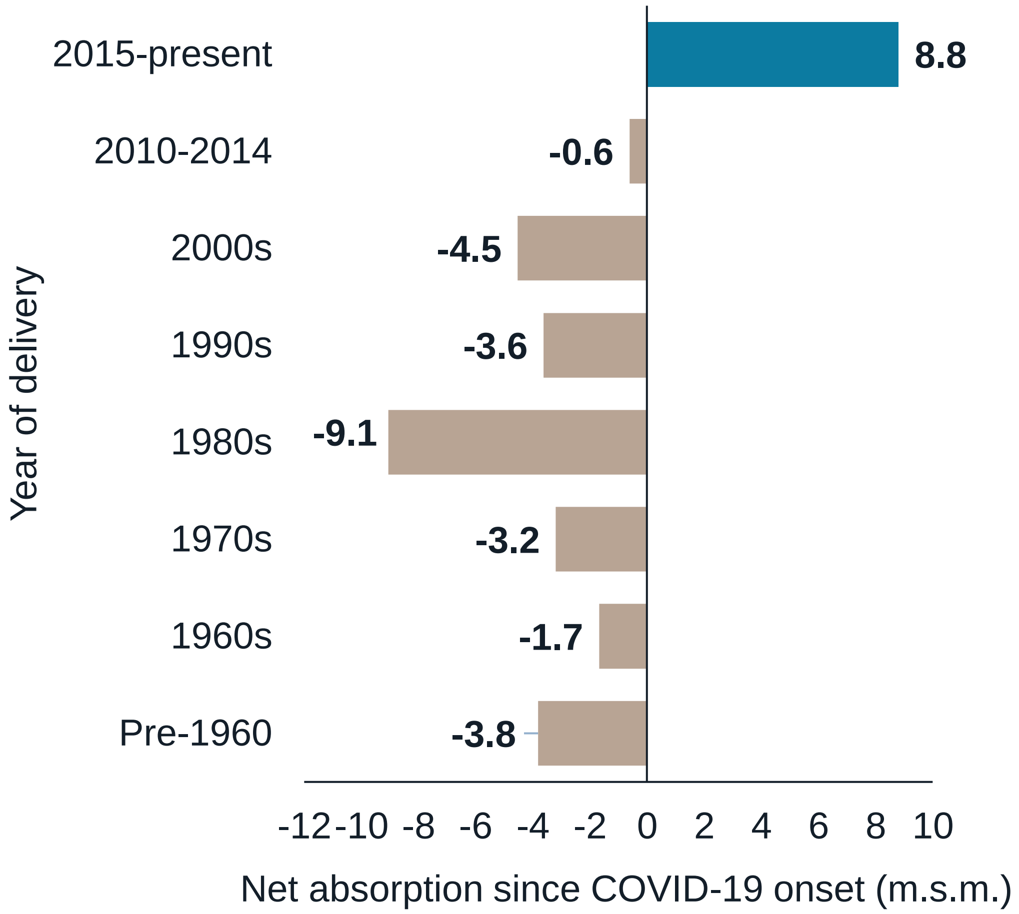
Social value

Impacts on **equity, inclusion, communities, and cities**

High-quality buildings outperform as occupiers upgrade

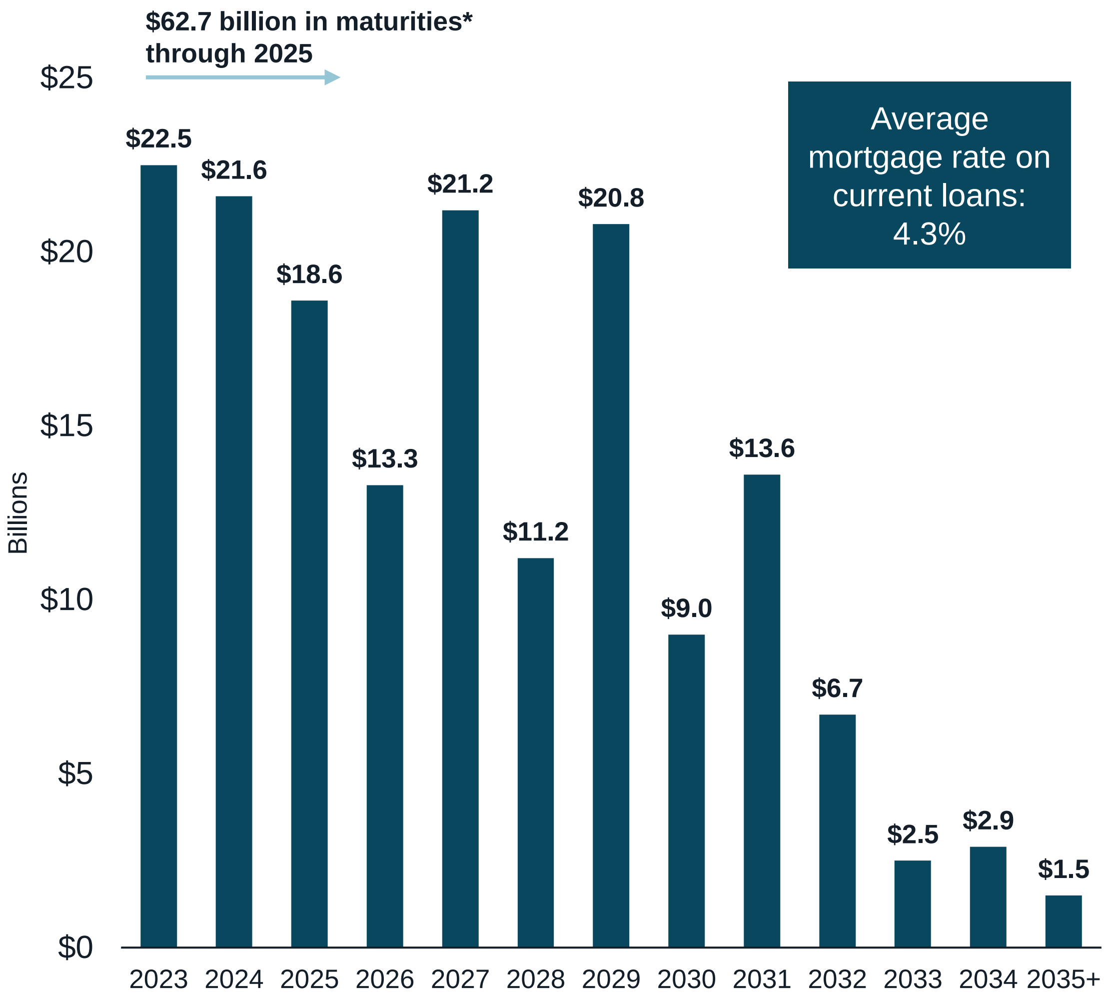
U.S. net absorption by building age, Q1 2020 – Q4 2022



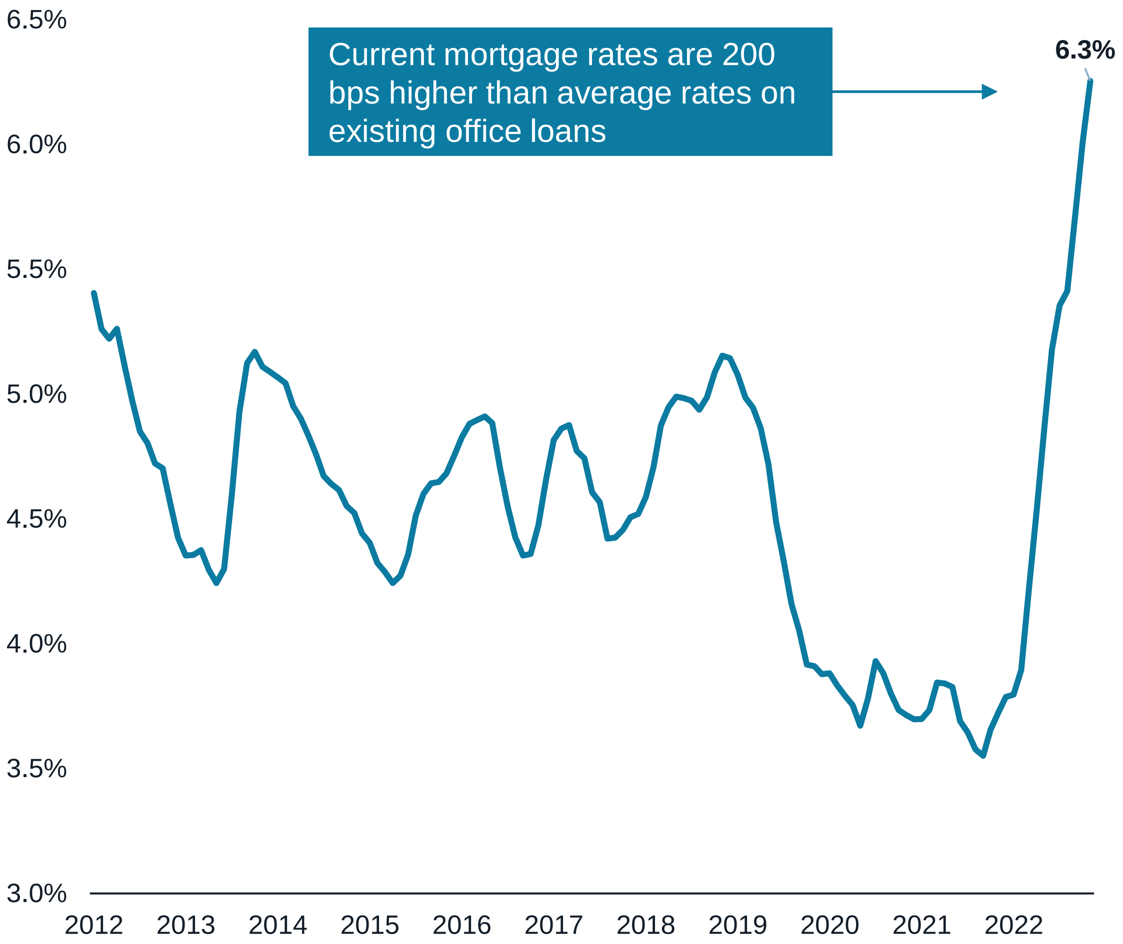


Source: JLL Research

Office loan maturities with limited refinancing options expected to catalyze forced sales and distress



Commercial Mortgage Rate



***CMBS Only**
Source: JLL Research, Trepp; Reflects U.S. market

Rising rate environment challenging buy/sell decisions

	Index			+	Spreads		=	Borrowing rates	
	Term SOFR (1M)	**5-Year treasury**	**10-Year treasury**		**A / BBB corp average**	**Real estate (10-Year)***		**10-Year**	
Current	4.56%	4.32%	4.08%		150 bps	145-215 bps		5.53%-6.23%	← **Elevated**
Nov 2021	0.04%	1.14%	1.53%		94 bps	100-140 bps		2.53%-2.93%	← **Anomaly**
2018 average	2.06% *(30D LIBOR)*	2.75%	2.91%		123 bps	120-150 bps		4.11%-4.41%	**Benchmark?**
2019 average	2.14% (30D LIBOR)	1.95%	2.14%		123 bps	135-165 bps		3.49%-3.79%	

2018 | Four interest rate increases

2019 | Three interest rate cuts

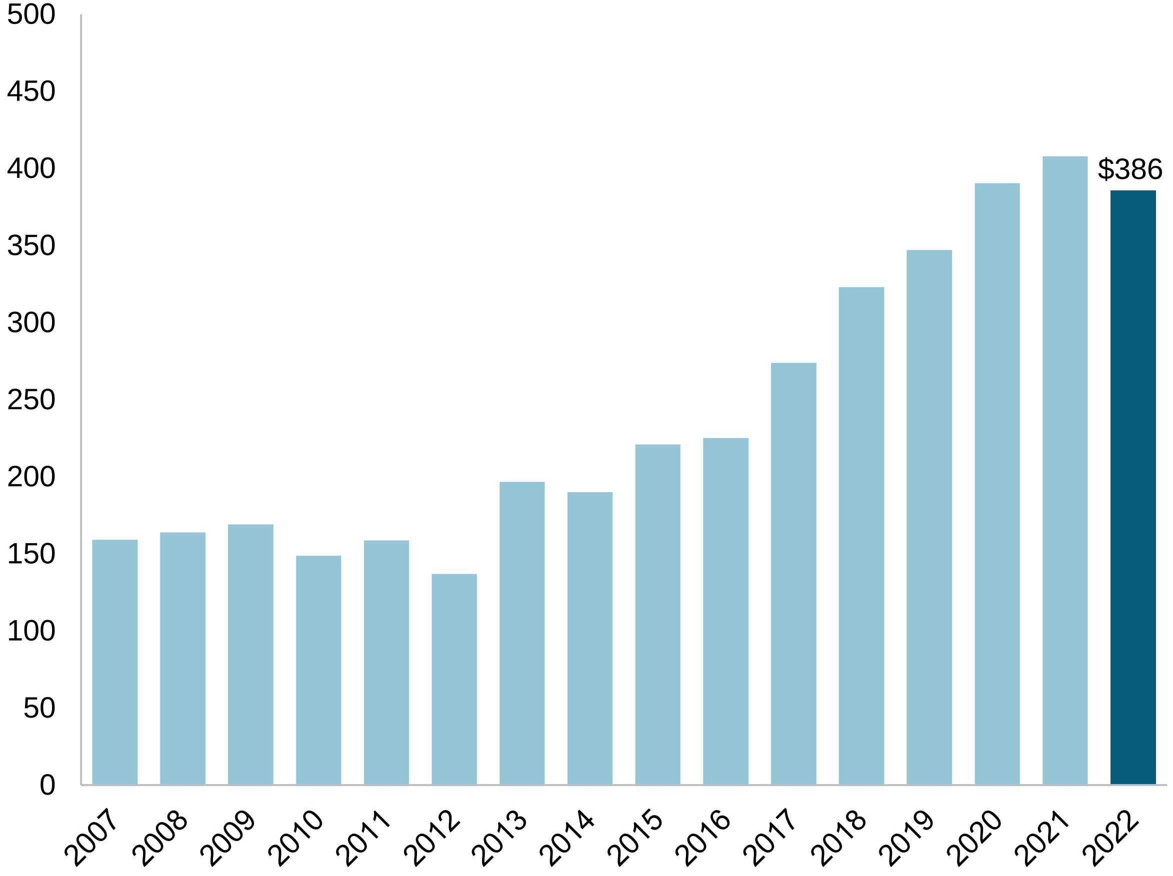
*Assumes core/core plus assets with low to moderate leverage.
Source: Bloomberg Finance L.P. (Current is as of March 2, 2023)

JLL

Slowed capital deployment impacting liquidity, but capital remains active on the sideline

Dry powder in real estate funds remains at near-record levels

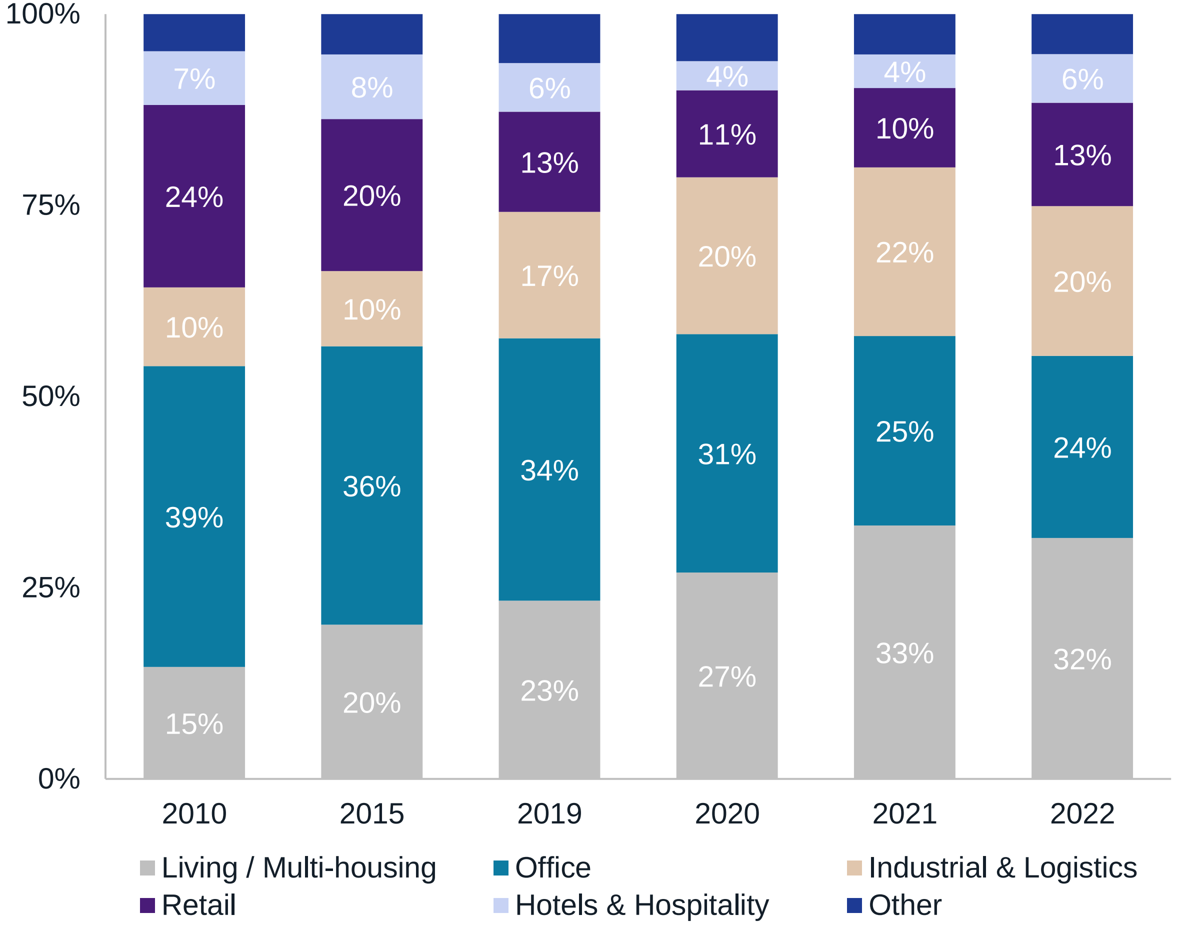
Dry powder in closed end-end funds, US$ billion



Source: JLL Research; Preqin, as of January 17th, 2023

Composition of investment shifting in favor of growth sectors

Share of investment by sector (%)



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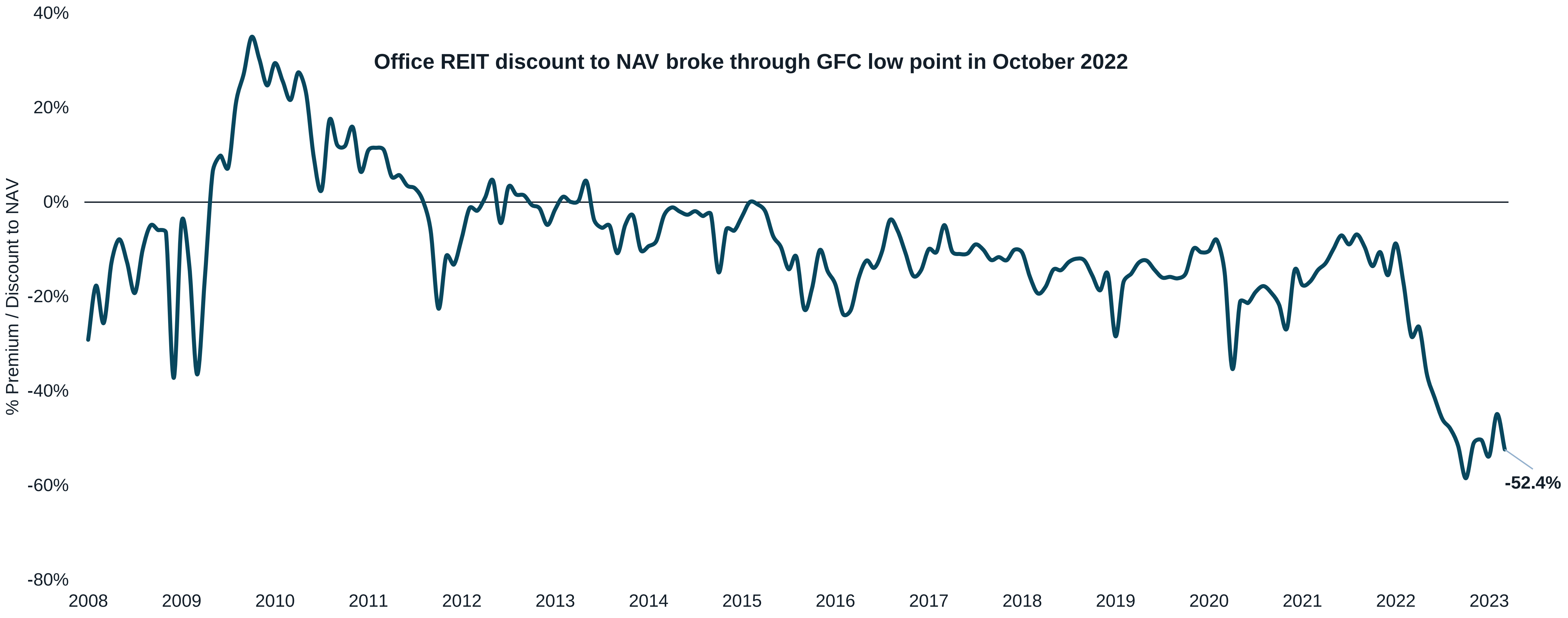
Office REITs trading at significant discount to net asset values, shaping the overall backdrop of investor sentiment



Source: JLL Research, Green Street

Washington, DC – Market Highlights

Tailwinds:

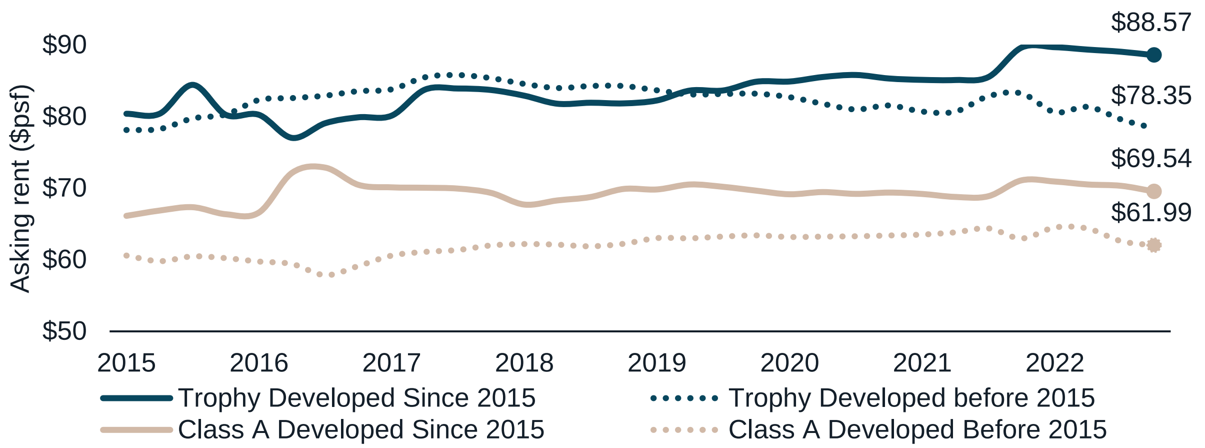
- Market performance of **newer Trophy buildings remain strong.** Trophy buildings (built 2015+) achieved rent premiums of 27.4% above newer Class A buildings in Q4 2022. Trophy vacancy is 12.2%, as compared to 19.1% and 19.9% vacancy for Class A and Class B/C buildings, respectively.
- **Employment market remains resilient** due to a strong counter-cyclical tenant base led by the federal government: The unemployment rate has returned to pre-pandemic levels at 3.5%,10 basis points below the national average and one of the lowest rates among gateway markets.
- **Planned office conversions should ease some of the over-supply of office space.** There are 14 office buildings in DC slated for conversion (3.2 million s.f. of space will be removed from the office inventory) which would reduce overall vacancy rate to 16.7%.

Headwinds:

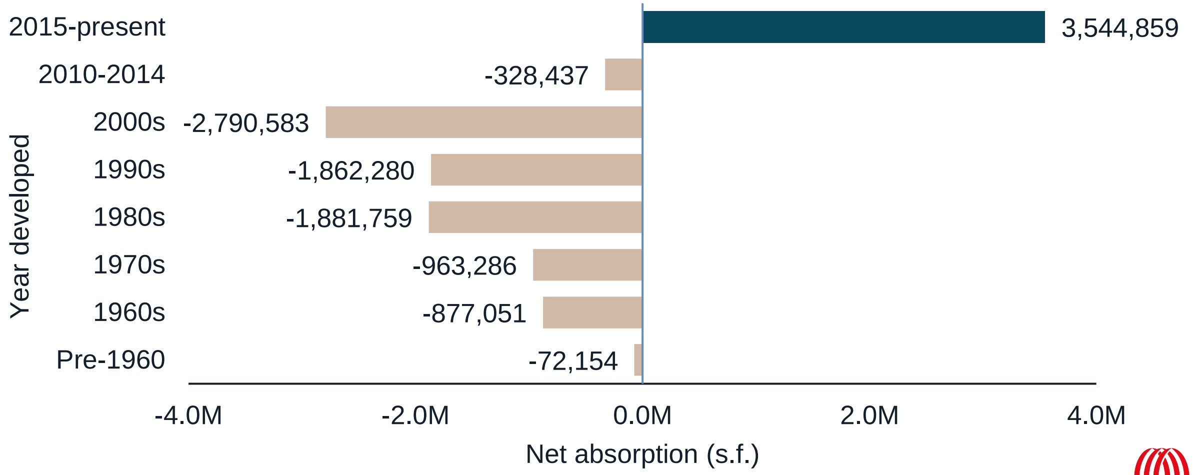
- **Total vacancy rose** by 60 basis points to 18.9% in Q4 2022, which was the highest quarterly vacancy rate in DC in decades.
- **Tenants downsizing and vacating underutilized space** has contributed to 12 consecutive quarters of negative absorption in DC. DC experienced negative absorption of 935,000 s.f. in 2022. Tenants that signed leases in 2022 downsized by an average of 27%.
- **Regional competition** for the next big tenant is high. The District's economic incentive programs have historically been less successful than those of Fairfax and Arlington Counties in attracting new office tenants to DC.

Source: JLL Research

New Trophy buildings hold onto their premium pricing



Newly-developed buildings have vastly outperformed the rest of the DC office market



Boston – Market Highlights

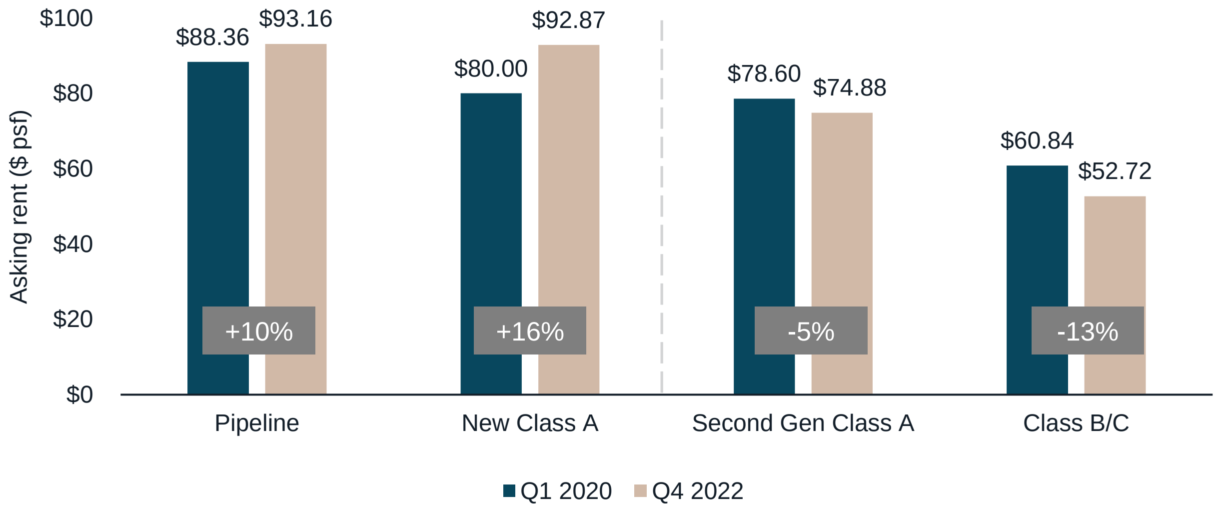
Tailwinds:

- **Demand at its highest levels** since the end of Q2 2022, as large firms are starting to come back into the market.
- **Strong base of office-using tenants**. Financial services, Professional services and Law firms make up an outsized portion of Boston's business community, and these sectors have been aggressive in return to office.
- **Decrease in new deliveries** could have a positive effect on potential leasing of existing buildings. There is only 68k square feet of available space in new deliveries in 2024, which could push prospective tenants back towards existing product.
- **Newer Class A buildings** continue to achieve higher rents across the city by double digit points over their counterparts; a **flight to quality** is also becoming prevalent from a **location** standpoint, as Back Bay and Seaport are outperforming other submarkets across all key metrics.

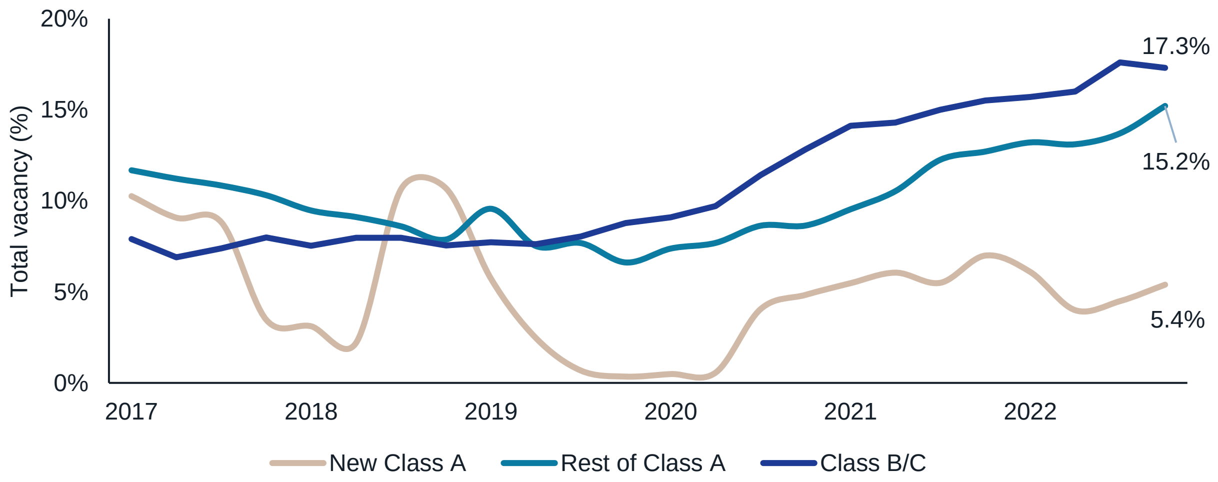
Headwinds:

- **Rise in vacancy.** Total vacancy rates across the region rose above 15% for the first time since 2011. The pullback of high growth sector leasing and slowdown in life sciences have caused concern for near-term demand.
- **Increasing sublease space.** Available sublease space in the CBD reached another post-COVID high of 3.65 million square feet as more tech companies put offices for sublease.

Average rents increasing for new Class A space



Office availability remains high; New class A buildings outperform



Source: JLL Research

Austin – Market Highlights

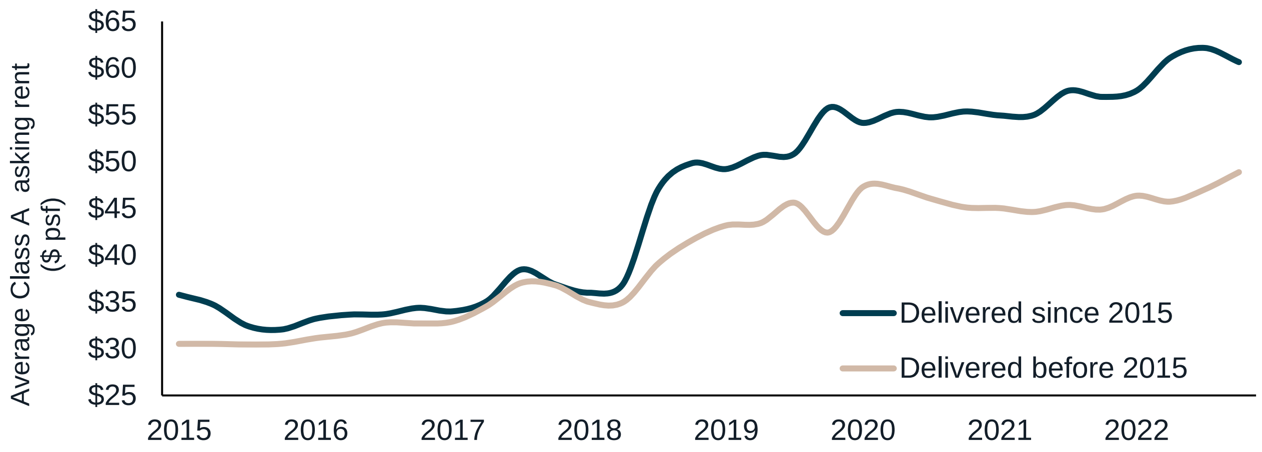
Tailwinds:

- **Market demand focused on the CBD** and the NW submarkets (Domain).
- **Trophy assets/new construction** seeing most of the significant new leasing activity. Direct vacancy of 12.9% in the CBD when accounting for pending move-ins at new construction; Total vacancy of 15.6% when including recent subleases.
- Leasing activity was largely driven by **financial services and professional & business services firm** since Q2 2022. Previously, tech represented over 30% of deals signed over 10k s.f. market wide.
    - Vista Equity Partners and Kirkland & Ellis leased up roughly half of the Republic which is currently under construction in mid 2022.
- **Class A asking rates** in CBD have continued to grow, in part due to increasing construction costs.

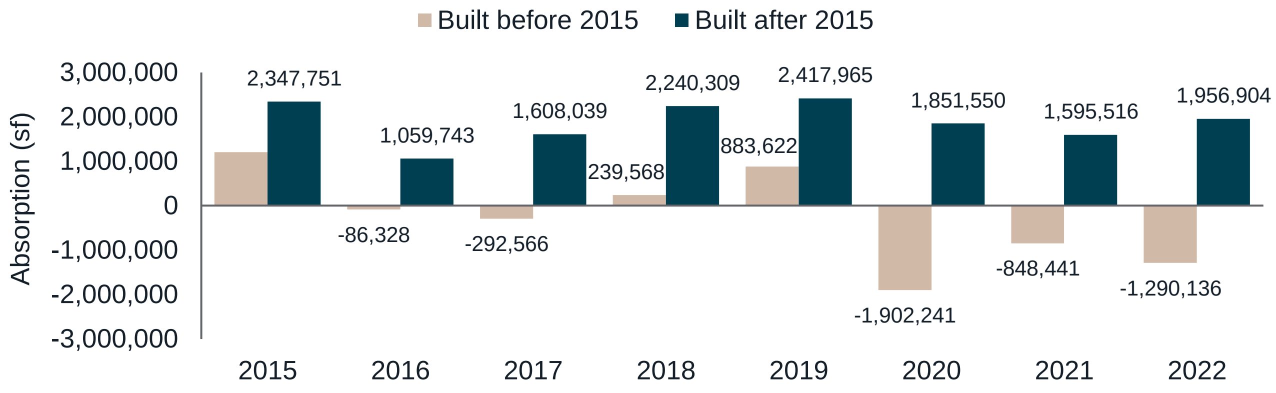
Headwinds:

- Resurgence of **additions to the sublease market in the CBD** after seeing a steady decline from Q4 2020 to Q1 2022.
- **Record level of 100k+ large block availabilities** (market wide) amid subdued leasing activity and slowdown in tech leasing in the short term.

Rent premium for new space widening as demand remains strong for best in-class space



Newer office space driving positive net absorption



Source: JLL Research

London – Market Highlights

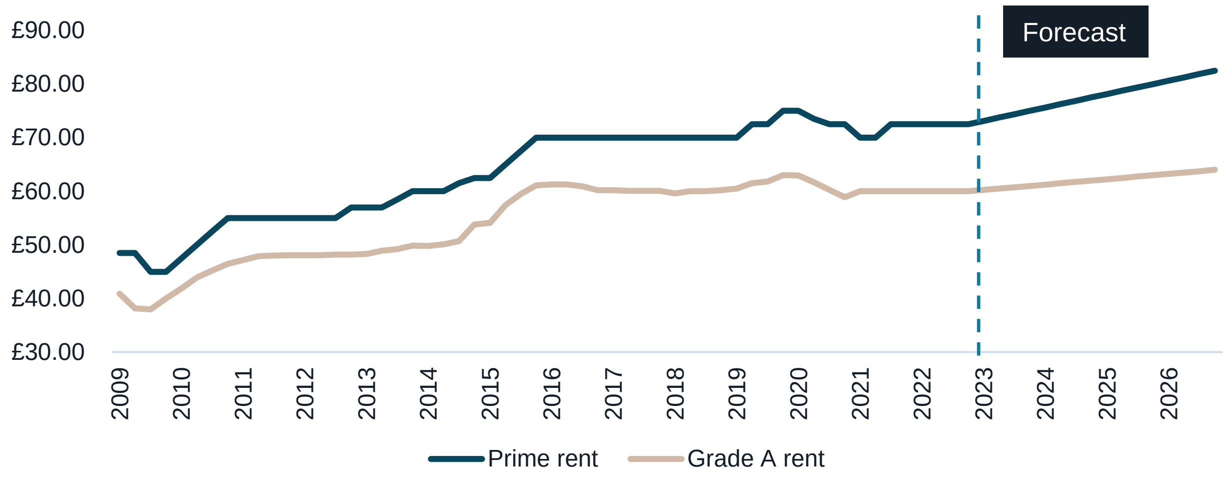
Tailwinds:

- **Flight to quality**. Occupiers continue to focus on best-in-class buildings, with almost three quarters of total space under offer focusing on pre-let, newly built or refurbished stock, above the long-term average of 68%.
- **Shortage of quality stock support growth**. The shortage of good quality stock continue to support rental growth with evidence of rental growth in West End and City submarkets, as global clients want to rightsize and consolidate headquarters office footprint.
- **Slower construction activity**. With rising construction costs and financing costs, the pipeline will continue to decline as deliveries outpace new groundbreakings.
- **Greater return to office**. London's return-to-office rates have trended upwards toward pre-pandemic levels, bringing in greater certainty around future business needs.

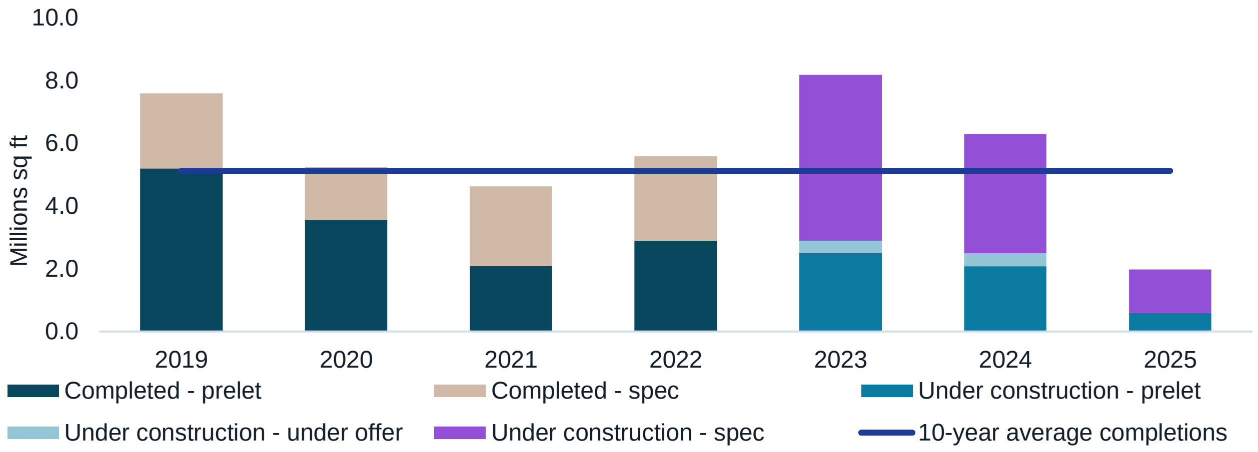
Headwinds:

- **Slowdown in leasing market**. Leasing slowed for the second consecutive quarter in Q4, as the challenging economy started to impact business sentiment. Quarterly take up reached just over 2.1 million sq ft in Q4 2022, which was 20% below the previous quarter.
- **Rising vacancy rate**. The total vacancy rate rose for the second consecutive quarter to 8.5% and remained above the long-term average of 5.4%. There was an uplift in new build supply across London as over half a million sq ft of speculative developments completed during the quarter.
- **Declining business sentiment.** Global economic headwinds and domestic political turmoil started to weaken occupier demand and subdued investor sentiment.

Divergence between Prime & Grade A rents expected to widen



Development pipeline for office continues to decline



Source: JLL Research

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