United States | Q2 2021

Research

Office Outlook

Office market primed for rebound as dynamics begin to stabilize

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Executive summary

Leasing activity rose by 28.7% in Q2 as tenants begin to finalize return-to-work plans.

Although still negative, net absorption slowed for the second consecutive quarter and is on track to stabilize by year-end.

The sublease market's expansion is stalling, aided by an accelerating rate of withdrawals from de-densifying tenants.

Phil Ryan,
Director,
U.S. Office Research

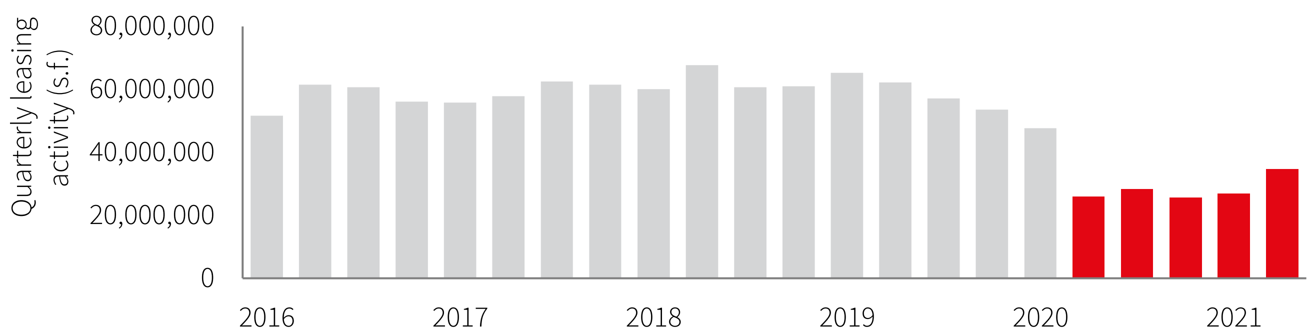
The U.S. office market is stabilizing

After more than a year of uncertainty and unprecedented challenges, the U.S. office market is stabilizing and slowly capitalizing on the macroeconomic recovery. Falling unemployment, rising consumer spending, greater mobility and improved vaccination rates are all setting the stage for pent-up demand to be realized, particularly in gateway markets disproportionately hit by the challenges of social distancing, limited travel and density. Although subdued and still challenged by delayed office re-entry and uncertain long-term space planning, office market indicators provided glimpses of the beginnings of a resurgence in Q2 2021: leasing improved meaningfully for the first time since the onset of the pandemic, while occupancy losses slowed and many tenants elected to withdraw space previously placed on the sublease market. Many of the trends that are only just emerging in Q2 are expected to accelerate in the second half of 2021, but with wide variance in performance based on asset quality and location.

Gross leasing activity rose by 28.7% over the quarter to 34.7 million square feet in Q2, the first time that it has surpassed 30 million square feet since the onset of COVID-19. Despite this increase, this is still 41.6% below the pre-pandemic quarterly average, underscoring the road to recovery for office leasing fundamentals.

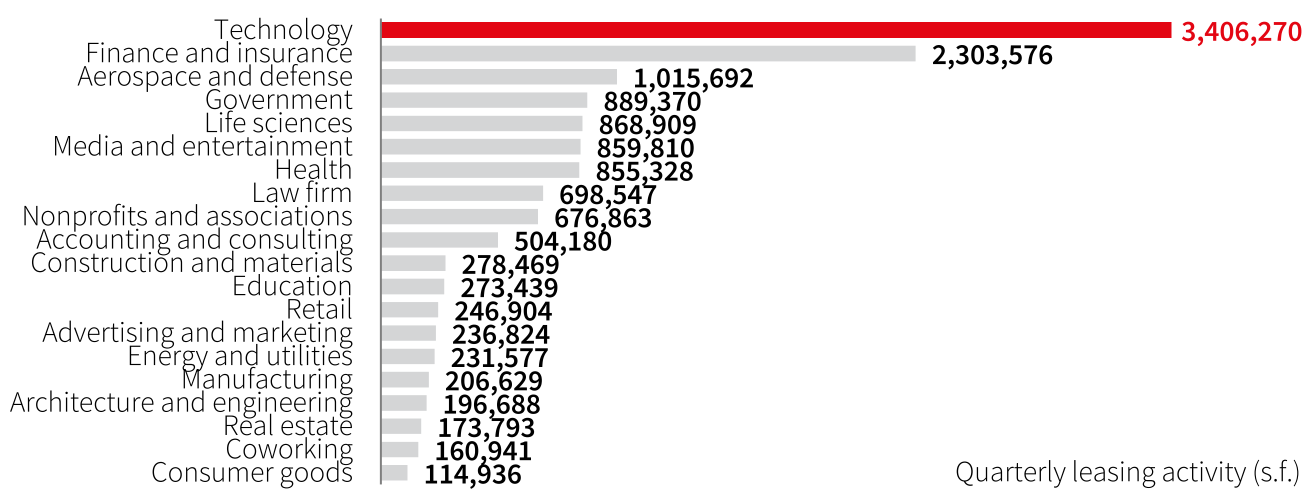
Activity rose the most in gateway markets—up 48.4% relative to Q1 2021—but these remain the farthest from pre-pandemic levels, except for Seattle. On the other hand, leasing velocity in secondary "growth markets" is now 10.5% higher over the year, with Miami, Austin and Atlanta reaching their pre-pandemic levels of transaction volume in recent weeks.

Overall transaction volume rose by 28.7% in Q2 as tenants begin to execute long-awaited deals



Source: JLL Research

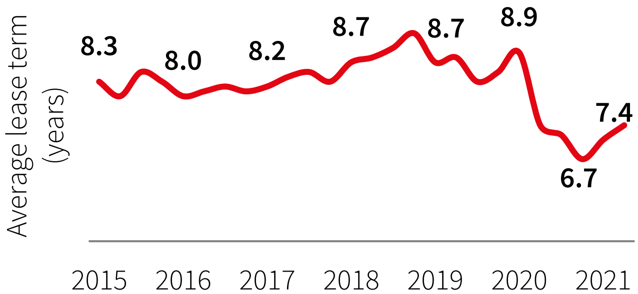
Tech maintained its leading position for leasing in Q2, driven by continued mega-cap investment



Source: JLL Research—only leases > 20,000 s.f.

Sustained demand for space from mega-cap tech companies resulted in technology once again being the primary driver of activity, followed by finance, insurance, aerospace and defense. Life sciences saw more than 860,000 square feet of space taken down and was the largest industry for backfilling space placed on the sublease market.

Average lease terms rose once again, particularly with a late-quarter liftoff given loosening restrictions



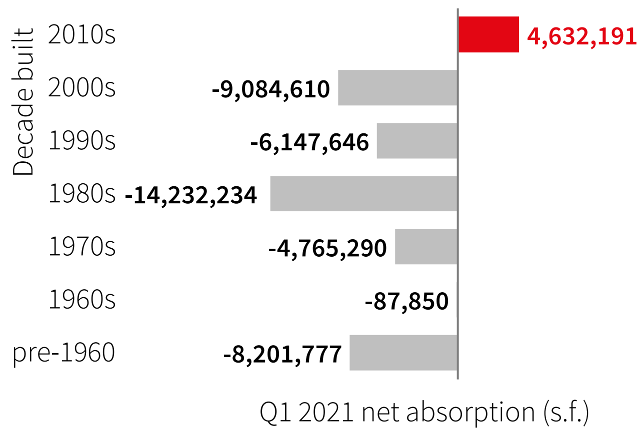
Source: JLL Research – covers all leases > 20,000 s.f.

In a sign of renewed confidence, the typical term length increased by 4.2% to 7.4 years as longer-term deals—particularly of more than 10 years—became somewhat more common. This is still below the typical range of 8.3–8.8 years in a given quarter before the pandemic and highlights shifts toward greater flexibility in lease negotiations with respect to expansion and contraction options.

Net absorption remained negative in Q2. Conditions are challenged by elevated levels of sublease space and the generally lagging nature of the office market during economic downturns. However, the 20.7 million square feet of occupancy losses recorded during Q2 represented a second consecutive slowdown in negative net absorption, demonstrating that an inflection point has arisen.

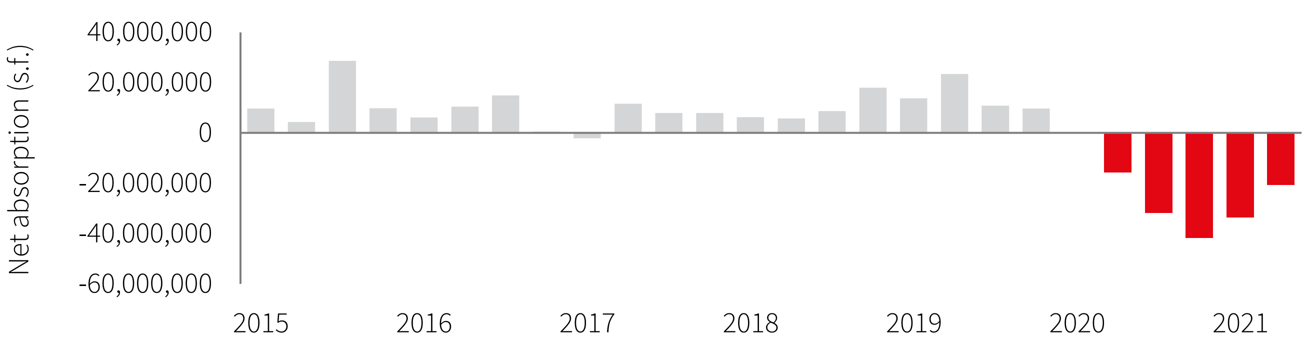
Flight to quality continues to be the dominant theme of the pandemic and has only intensified as the recovery begins in earnest. Building age is by far the greatest determiner of performance: assets delivered since 2015 have seen 31.7 million square feet of net occupancy gains over the past five quarters, contrasting with losses of 174.9 million square feet across all other building vintages.

Tenants continue to flock to top-quality assets that meet new safety and well-being needs, while aging product lags



Source: JLL Research

Although still negative, net absorption slowed considerably in Q2 as the market reached a turning point

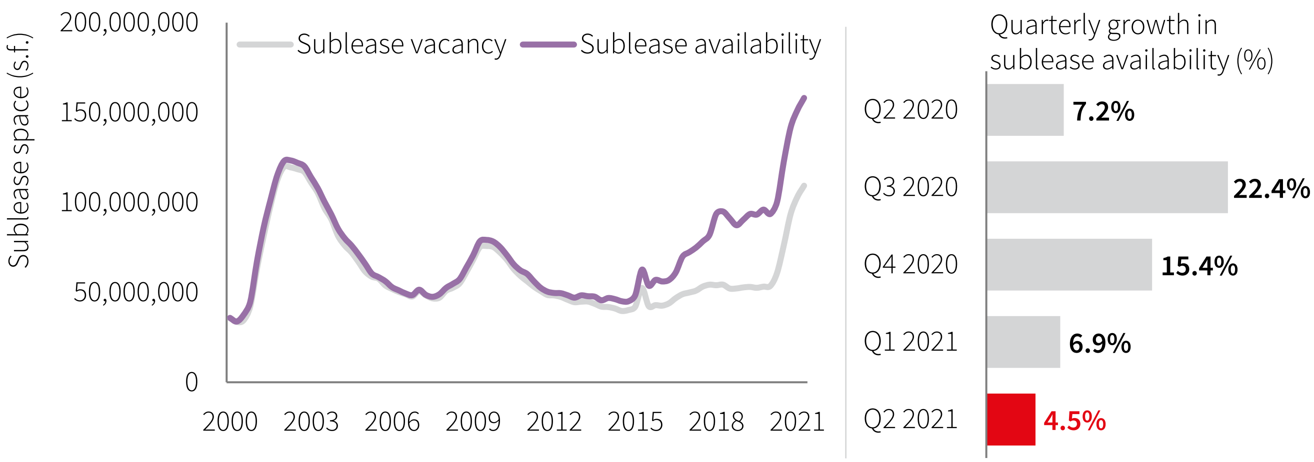


Source: JLL Research

The delivery of a number of large finance- and big tech-anchored schemes such as the Ally Charlotte Center, the Farley Building in New York, the first phase of Nashville Yards and Uber's Mission Bay headquarters aided in this growth, as did the realization of planned relocations across the country. At the same time, the pandemic-induced backlog of new development led to completions rising to 17.4 million square feet in Q2, pushing vacancy to a new high of 19.1% as the remainder of this new product has yet to be leased and relocating users struggle to backfill their old space.

The sublease market is showing nascent signs of stabilization: despite rising to a record 158.1 million square feet, the rate of expansion of the sublease market slowed for the third consecutive quarter to just 4.5%, nearly 80% slower than at the peak of the pandemic in mid-2020. The gap between sublease space being advertised and the amount of space actually being vacated has also stabilized at 48 million square feet, staying near this figure for three quarters.

As tenants start pulling blocks off the market, sublease grew at its slowest pace since the onset of COVID-19

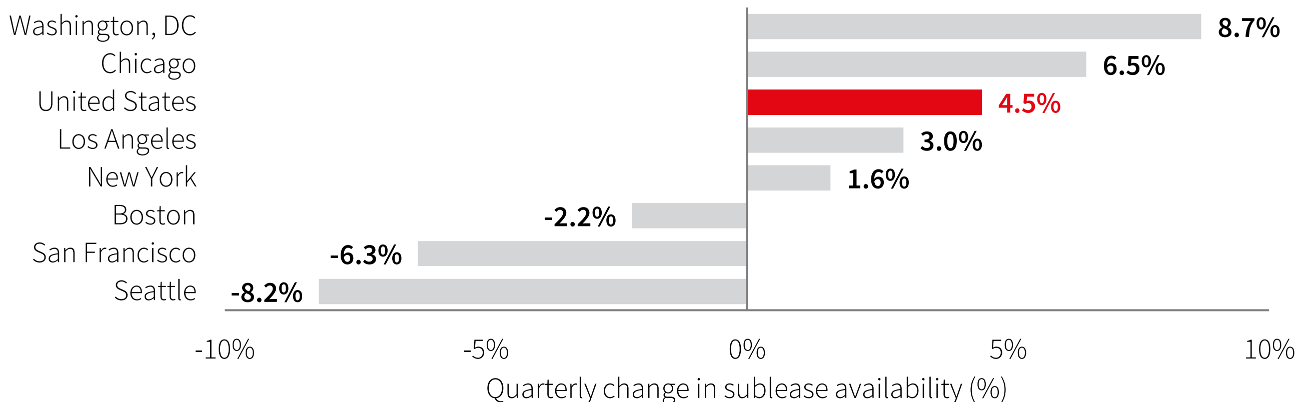


Source: JLL Research

Compared to earlier in the pandemic, the geographic and industry-specific composition of recently listed large blocks is more varied, all while largely decelerating on a weekly basis. Tech and finance in the Bay Area and New York have given way largely to suburban commodity blocks from retail and professional services back-office tenants along with alternative uses such as call centers, whose employees are increasingly being shifted to permanent work-from-home.

Importantly, the tide is turning for net changes in sublease space. Just as new listings are decreasing, the amount of sublease space being withdrawn is rising. Since the end of March, more than 5.4 million square feet of sublease space has been taken off the market. Even more critically, 81.7% of this space came from tenants taking back space to meet de-densification requirements or reduced remote work expectations rather than being backfilled by other users. This bodes well for reaching equilibrium and an improved rate of recovery in the coming months.

Most gateway markets are now seeing slower growth in sublease than the U.S. as a whole, a reverse in trendlines

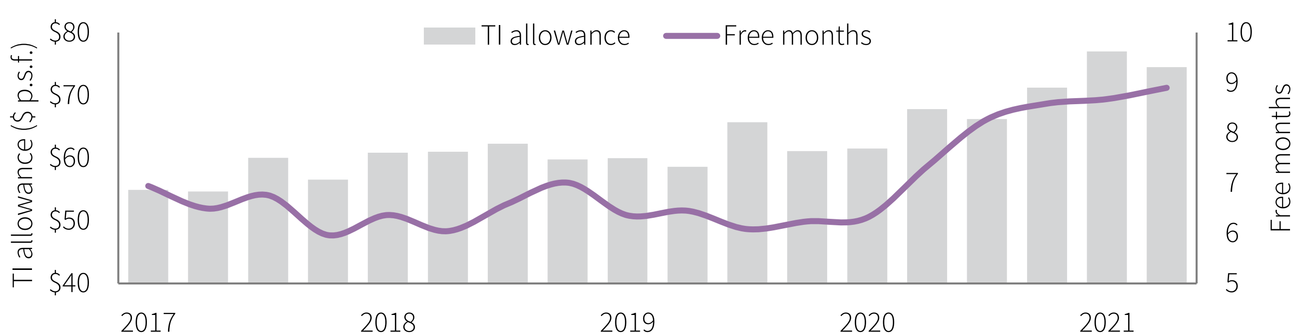


Source: JLL Research

At the market level, this change in dynamics is leading to sublease availability flatlining or even falling in certain major markets over the quarter, such as Seattle (-8.2%), San Francisco (-6.3%), Boston (-2.2%), New York (+1.6%) and Los Angeles (+3.0%). Among gateway markets, only Chicago and Washington, DC, have exceeded the national rate of quarterly sublease availability growth. Moving forward, these decreases are likely to be sustained, helping to bring down vacancy.

Landlords have managed to preserve average asking rents, which have barely budged throughout the course of the pandemic. Instead, they have opted to increase concessions, leading to a marked decrease in net effective rents. After rising by more than 32%, concession packages remained at Q1 levels, bringing effective rents to 14.7% below pre-pandemic levels for CBD Class A space in primary markets. Although a modest improvement, effective rents are likely to be the last key indicator to recover and will do so far earlier for top-quality space compared to commodity assets.

Although they remain significantly elevated, concession packages continued to stabilize in Q2



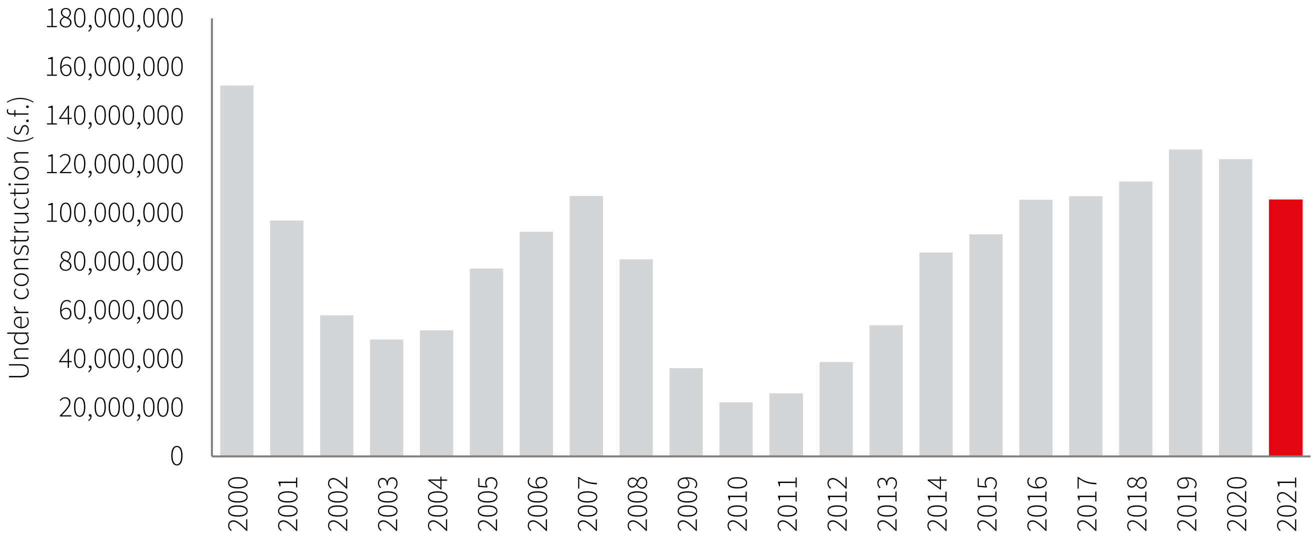
Source: JLL Research—notional 10-year term

Less disproportionate than in earlier quarters, effective rent discounts are nevertheless significantly greater for deals in excess of ten years as tenants maintain wide leverage for longer-term transactions. Factoring in tenant improvement allowances and free-month periods, effective rents are 6.9% lower than base rents for deals longer than ten years, compared to 6.0%–6.3% for 3- to 9-year deals and fractional discounts in the sub-36-month sector.

The limited number of groundbreakings given market conditions and high volume of new construction resulted in the overall pipeline falling to 105.6 million square feet, a 23% dropoff relative to Q1 2020. The pipeline will continue to pull back even with demand for new product remaining steady as the supply-and-demand imbalance remains offset, with the majority of this space to hit the market by mid-2022.

Developers in both gateway and secondary markets are beginning to capitalize on the need for space that meets newer tenant needs, particularly in terms of amenitization, and some are opportunistically beginning or are on the verge of starting new developments. Of the 2.1 million square feet of starts in Q2, half came from three projects: Artise in Bellevue, Current in Denver and 2455 Banner in Baltimore. Of note is that all three are either urban fringe or suburban mixed-use in nature rather than traditional CBD developments, representative of the responsiveness of developers to shifting tenant requirements.

Limited groundbreakings and continued deliveries are pulling back the development pipeline sharply



Source: JLL Research

Local markets

Atlanta

Strong absorption activity offset by pre-pandemic planned consolidations

- Two Trophy-class Q2 deliveries with over 65% occupancy account for 481,000 s.f. of positive absorption.
- The construction pipeline remains robust, with nearly 4 million square feet under construction; 51% of this square footage is in the Midtown submarket.
- Direct asking rents have begun to rebound following the pandemic-induced downturn, just $0.12 below their pre-pandemic peak, while concessions on signed deals remain elevated

Fundamentals	Forecast	
YTD net absorption	-3,138,054 s.f.	▲
Under construction	3,970,693 s.f.	▲
Total vacancy	22.6%	▶
Sublease vacancy	2,325,599 s.f.	▶
Direct asking rent	$30.78 p.s.f.	▶
Sublease asking rent	$24.72 p.s.f.	▶
Concessions	Stable	▶

The delivery of headquarters space for Anthem and Papa John's led to positive absorption in the Midtown and Northwest markets, respectively. However, these strong absorption figures were offset by large move-outs from SunTrust/Truist Downtown and Children's Healthcare of Atlanta in the Northlake submarket, causing market-wide quarterly absorption to settle just on the negative side of zero.

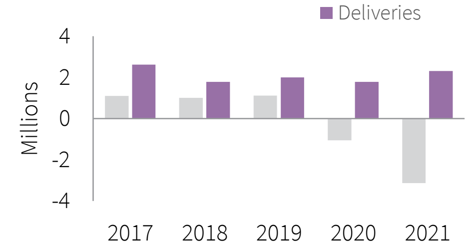
Both the Truist and CHoA move-outs were not COVID-related; SunTrust's merger with BB&T led to newly formed Truist entity locating their headquarters to Charlotte, prompting former SunTrust HQ space downtown to become redundant and leading to 328,162 s.f. of vacancy. CHOA built a new state-of-the-art office facility in Brookhaven, allowing the employees to move there from their Northlake location, incurring 90,965 s.f. of negative absorption. Discounting these two non-COVID-related negative absorption events, Atlanta showed accelerating momentum with 479,731 s.f. of total absorption, pointing towards the beginning of a recovery period following a difficult 2020.

Negative momentum in the sublease market has slowed in Q2 2021; after three straight quarters of negative triple-digit sublease absorption, the market experienced 13,291 s.f. of positive sublease absorption. However, there is still just under 5.4 million s.f. of sublease space available to lease in the market.

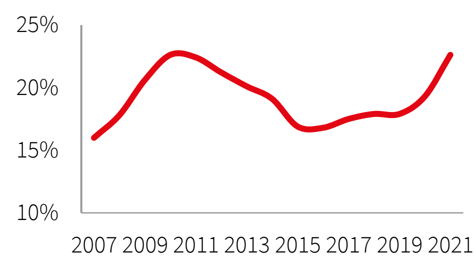
Outlook

Occupier and employee sentiment towards the COVID-19 threat is becoming increasingly optimistic as data shows high vaccination rates leading to a large decrease in the spread of the virus. This optimism has translated to strong leasing activity, with over 4 million s.f. of space leased in the Atlanta office market year to date. This leasing activity should translate to strong absorption in the second half of 2021 and first half of 2022 as tenants move into leased space.

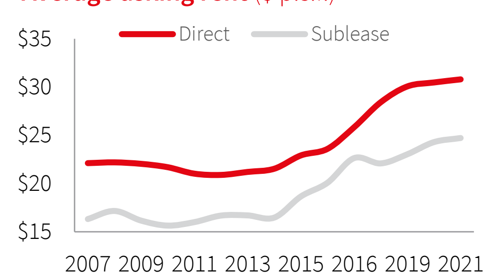
Supply and demand (s.f.)



Total vacancy (%)



Average asking rent ($ p.s.f.)



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Austin

Office market turns a corner as sublease availability shrinks significantly market wide

- Austin's inventory increased by 3% to just over 60 million s.f. Another 4.2 million s.f. is underway.
- New deliveries pushed vacancy rates up from 10.6% in Q2 2020 to 16.9% in Q2 2021.
- Austin's overall average asking rent is $49.10, down 5.3% from $51.68 in Q2 2020.

Fundamentals	Forecast	
YTD net absorption	-702,683 s.f.	▼
Under construction	4,172,201 s.f.	▶
Total vacancy	16.9%	▶
Sublease vacancy	2,052,969 s.f.	▲
Direct asking rent	$49.10 p.s.f.	▼
Sublease asking rent	$48.00 p.s.f.	▼
Concessions	Rising	▲

Austin's office environment turned in a positive direction in Q2 2021 with 43,405 s.f. of positive absorption. The primary driver of stabilization was a sharp decline in sublease availability. Peaking at 3.6 million s.f. at the beginning of the year, sublease availability declined by 29% to approximately 2.8 million s.f. at the end of the quarter. 70% of the subleases removed from the market in the past year were due to withdrawals of space as more companies decide to return to the office. For example, Workrise had put almost 50,000 s.f. on the sublease market in Q3 2020 but decided to reoccupy the entirety of their space in early 2021.

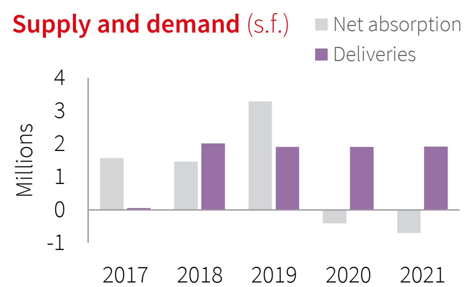
While withdrawn space was the main contributor to the decrease in availability, an increasing share of subleases removed is due to leasing activity, showcasing additional momentum in the leasing market. Specifically, tenants wary of large capital expenditures are seeking out and transacting on subleases with shorter terms and high-quality finishes. Despite the positive momentum, total vacancy increased this quarter due to new construction deliveries that have yet to be occupied by preleasing tenants. Of the 1,713,823 s.f. that delivered, approximately 43% is preleased, which will decrease vacancy in subsequent quarters.

Furthermore, Austin continues to benefit from corporate and individual migration to the metro area: of the 53 headquarters that left California in the first half of 2021, 20% of those companies chose to relocate to Austin. The continued influx of employers and employees will help drive the Austin market into the second half of 2021.

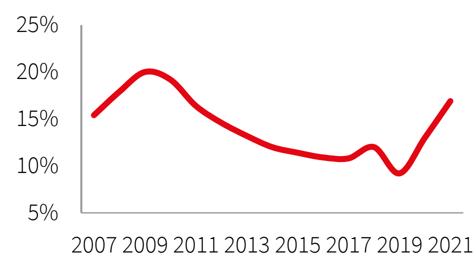
Outlook

Looking forward, an increase in vacancy is possible as only 24% of the 4.1 million s.f. under development is currently preleased. However, leasing activity has continued to rise, nearing pre-pandemic levels. The increased activity is expected to particularly benefit preleasing in new construction as the flight-to-quality trend persists. Decreasing sublease availability and renewed leasing activity provide a positive outlook for the remainder of 2021.

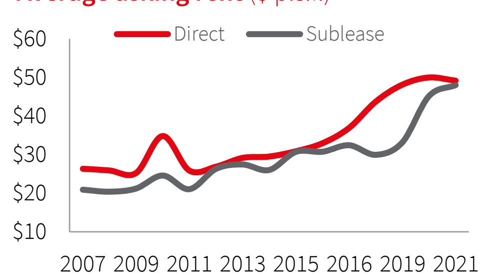
Supply and demand (s.f.)



Total vacancy (%)



Average asking rent ($ p.s.f.)



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Baltimore

Suburban build-to-suit leasing picks up as tenant migration continues eastward in Baltimore City

- The construction pipeline picked up with Weller Development breaking ground on 480,000 s.f. of office/retail product in Port Covington.
- Sublease availability continues to rise with an additional 250,000 s.f. hitting the market in Q2.
- In the largest deal of the quarter, COPT completed a build-to-suit lease with a defense contractor at National Business Park.

Baltimore has experienced over 400,000 s.f. of net occupancy loss year-to-date, the lowest first half since 2011, driven by consolidations as companies consider future real estate needs. In a continuation of Q1 tenant migration trends in Baltimore City, five major tenants – Transamerica, R2i, RBC Wealth Management and Camden Partners – signed leases to relocate out of the CBD to Harbor Point or Harbor East. Combined, these moves will result in over 130,000 s.f. of occupancy losses for the market due to an average downsize of 58.3%. Historical vacancy in these destination submarkets is much lower than the Pratt Street Corridor within the CBD, with the five-year average in Harbor East/Harbor Point commanding 9.1% vs. 16.1% within the Pratt Street Corridor.

In the largest deal of the quarter, COPT completed a build-to-suit lease with a defense contractor at National Business Park within the BWI/Anne Arundel submarket. The 183,000-s.f. development is slated for completion in Q2 2022, with occupancy expected in Q2 2023. The build-to-suit project, which will be the first new delivery in National Business Park since 2018, exemplifies the market's strong reliance on defense contractors, a tenant base which has demonstrated a counter-cyclical response amid other recent downturns.

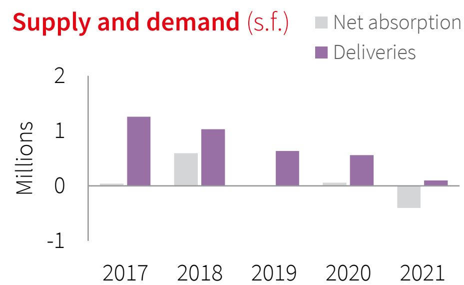
Outlook

Micromarkets that offer a strong amenity base, such as Harbor East and Harbor Point, or that offer proximity to government demand drivers, such as such as Fort Meade in Anne Arundel County, will continue to outperform the broader market as it recovers. Vacancy in these submarkets is on average 435 basis points lower than the market average. Elsewhere, dynamics will continue to increasingly shift in favor of tenants as sublease availability grows – rising 19.3% since Q1 – and large blocks of available commodity space are left behind by relocating tenants. Nonetheless, the market is seeing positive recovery signs as a whole, including an 18% increase in job postings year-over-year and touring activity continuing to increase each week, a sign of potential pent-up demand moving into the second half of the year.

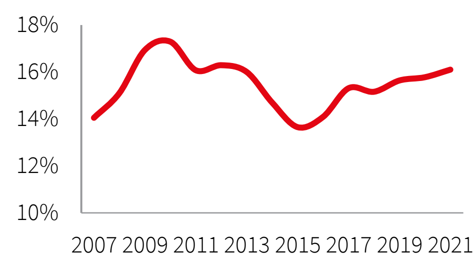
For more information, contact: Ben Caffey | Benjamin.Caffey@am.jll.com

Fundamentals		Forecast
YTD net absorption	-427.919 s.f.	▼
Under construction	680,761 s.f.	▼
Total vacancy	16.1%	▲
Sublease vacancy	768,191 s.f.	▲
Direct asking rent	$26.23 p.s.f.	▶
Sublease asking rent	$23.71 p.s.f.	▶
Concessions	Rising	▲

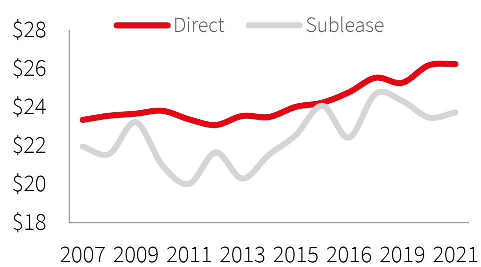
Supply and demand (s.f.)



Total vacancy (%)



Average asking rent ($ p.s.f.)



Boston

Demand and leasing activity pick up as Boston is poised to round the corner in its recovery

- 1.5 million s.f. was vacated in Q2 as occupiers continue to downsize in recent deals and large users recalibrate their space needs.
- Total demand for office space across Greater Boston rose 10% in Q2 to 7.3 million s.f. as some large tenants reengaged their searches for space. Demand is now 24% below pre-COVID levels.
- WS Development formally proposed a massive redevelopment project in the Fenway, which could include up to 1.7 million s.f. of office and lab, the largest project announced amid COVID-19.

Five quarters after COVID-19 upended the office world, Boston seems poised to turn the corner. Demand continues its upward march, ending June at 7.3 million s.f., still one-fourth below February 2020's 9.5 million s.f. For the second quarter in a row, rents remained virtually unmoved as landlords across the market are showing a reluctance to slash asking rents to engineer deals. The only segment that experienced a discernible drop in rents was CBD Class B, which fell by a further -1.8%.

WHOOP inked the biggest deal of the spring with their 121,000 s.f. lease at Related Beal's One Kenmore project in the Fenway. Despite the challenges facing the sector, 50% of the CBD's 6 million s.f. office pipeline is preleased through 2024, a hopeful indicator that high-end product will lead the recovery. Fenway Sports Group and WS, known for their transformative Seaport Square project, announced plans for 1.7 million s.f. of office and lab in place of the aging buildings surrounding Fenway Park. This is a significant bet that urban, walkable and experiential commercial spaces will be an enduring feature of Boston in the decade to come.

Pure office plays remain limited in the post-COVID environment. The only deal of note was 11 Avenue de Lafayette in Boston which was acquired (to be renovated) by Taconic and MCRE for $402 p.s.f. Separately, the office-to-lab conversion trend remains in-place in core markets. 2 Financial Center, 51 Melcher, 10-20 Channel Center, 12 Farnsworth and 33-41 Farnsworth are all in various stages of changing hands and use type, next to the Fort Point Channel. This will remove another 700,000 s.f. from office inventory for lab conversions, increasing the likelihood of a quicker bounce-back for office.

Outlook

Despite the difficulties of the past 15 months, Cambridge and the suburbs have rents above Q1 2020 levels. Elevated amounts of available space, combined with still-suppressed demand levels will ensure an occupier's market for the next few quarters. Subleases, which offer low capex, term flexibility and competitive pricing, will sustain its high uptake rates. Across the Metro, 35% of all relocation deals in 2021 were subleases, a new high.

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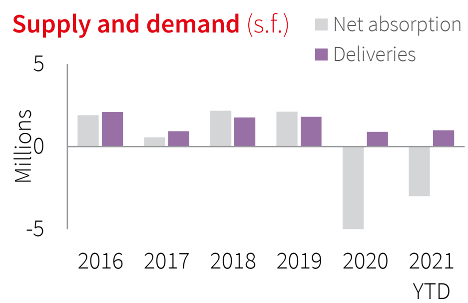
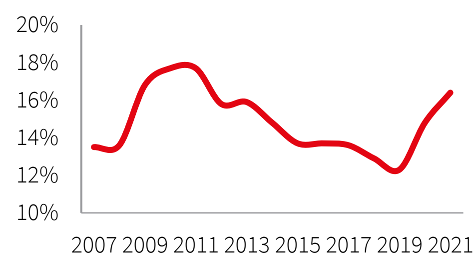
Fundamentals		Forecast
YTD net absorption	-1,535,892 s.f.	▼
Under construction	7,002,666 s.f.	▶
Total vacancy	16.4%	▶
Sublease vacancy	4,752,933 s.f.	▼
Direct asking rent	$44.19 p.s.f.	▶
Sublease asking rent	$37.40 p.s.f.	▼
Concessions	Rising	▲

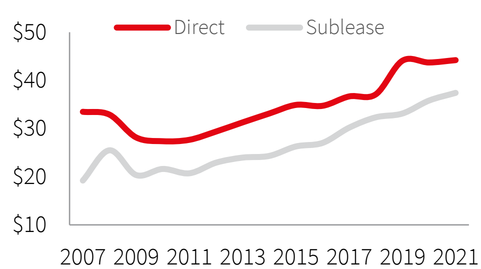
Supply and demand (s.f.)



Total vacancy (%)



Average asking rent ($ p.s.f.)



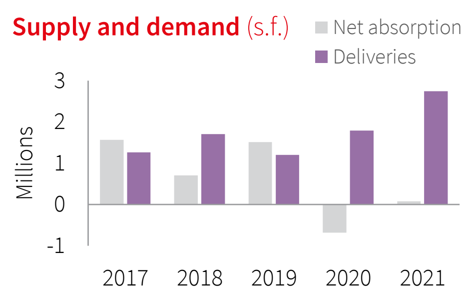
Charlotte

Largest-tenant moves and new deliveries inflate vacancy while sublease growth rate slows

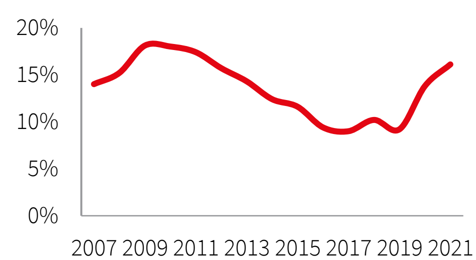
- Less than 12,000 s.f. net increase in new sublease listings in Q2 2021
- The city's mega tenants are shuffling around, causing dramatic-but-anticipated jumps in absorption and vacancy.
- Rental rate growth will accelerate through the end of 2021, as new office development pushes Class A space higher
- Uptown daytime activity recovers as first wave of corporations re-occupy space in May and June

Fundamentals	Forecast
YTD net absorption	78,641 s.f. ▲
Under construction	2,706,824 s.f. ▼
Total vacancy	16.1% ▲
Sublease vacancy	1,345,898 s.f. ▲
Direct asking rent	$32.58 p.s.f. ▶
Sublease asking rent	$27.26 p.s.f. ▼
Concessions	Stable ▶

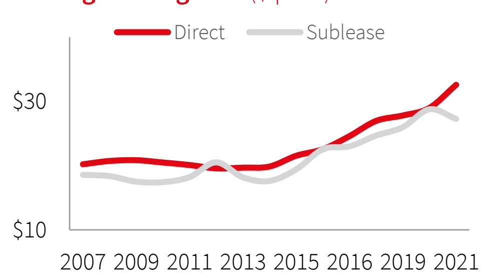
Supply and demand (s.f.)



Total vacancy (%)



Average asking rent ($ p.s.f.)



In Q2 2021, a handful of major employers announced their commitment to occupying space in the Queen City, including new-to-market USAA leasing six floors in South End, Credit Karma's expansion in Ballantyne, and Old Republic Home Protection relocating their headquarters from California to the University submarket – a move that further underscores the ongoing trend of relocations to Sun Belt cities.

While local titan Duke Energy announced this quarter a nearly 60% consolidation of their local footprint into under-construction Duke Energy Plaza, new tenants like Ally Bank and LendingTree started to settle into their own newly delivered office towers.

Overall vacancy increased by 2.8%, only 11% of which is attributable to new subleases. Long-anticipated relocations into new space of large office users like Bank of America, Ally, and Truist - as well as swing-space subleases for Lowe's and Honeywell - work together to bloat vacancy numbers. This quarter, Belk added nearly 474,000 s.f. to the available sublease pool.

Aligned with Commercial Cafe's ranking of Charlotte being the U.S. city with the fifth-most office deliveries in 2021, Q2 saw construction completions of sizable projects like The Square, Vantage West Tower, and Escent Research Park, which combined are 53% preleased.

Outlook

Leasing activity increased in Q2 2021, interestingly, with a gap in users between 10,000 s.f. and 25,000 s.f. – the size of a traditional full-floor user. Multi-floor deals continue to hover in the market, favoring new construction in the most highly-amenitized, walkable districts.

Direct asking rents increased slightly and will accelerate more quickly as office development pushes Class A space further into the mid-$40 p.s.f. range. Multiple speculative towers are lining up to break ground in South End within the next year while pioneering submarket FreeMoreWest expects nearly 500,000 s.f. in deliveries by the end of 2021.

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Chicago CBD

Market conditions improve, with full recovery of leasing activity expected in 2022

- According to JLL's Chicago Office Recovery index, which aggregates several key office metrics, commuting metrics, and employment statistics, the Chicago office market is 57% recovered in comparison to an average week in 2019.
- After rental rates declined by 2.8% over the past year, initial observations for Q2 indicate that the trend has flattened, with rents rising by 0.6% over the last quarter.
- Physical occupancy levels in offices reached their highest mark since the beginning of the pandemic, at 27.5%.

While the residual effects of the pandemic continue to impact the Chicago office market, leasing activity appears to be increasing. Transaction volume continued to trend higher in Q2. Eight new deals were executed by actively growing companies, which plan to collectively add 1,150 new jobs to Chicago. The majority (70%) of the jobs promised will come from technology companies, illustrating a recovery in the industry which added the most sublease space to the market during the pandemic. Moreover, a healthy supply of out-of-market tenants have cemented their presence in Chicago after Tiktok, FubuTV, Freight Flock, Kimberly-Clark, and Farmers Business Network all signed deals this quarter.

Despite momentum in the market, total vacancy continued to increase, reaching 17.3%, as several tenants vacated sublease space which had been nominally occupied during lockdowns.

Only one significant building traded hands in Q2, after American Realty Advisors sold Google's Midwest HQ, 1K Fulton, to Office Properties Income Trust for $668 p.s.f.. German investor Deka Immobilien is expected to close on their purchase of 210 N Carpenter, which is primarily occupied by Google, later this year for $160M or $786M p.s.f. These sales illustrate the strong investor appetite for buildings occupied with high-credit tenants, especially in the vibrant and growing Fulton Market. Seven other buildings are currently being marketed across the CBD, and their sales will provide further indicators of investor sentiment in Chicago, post-Covid.

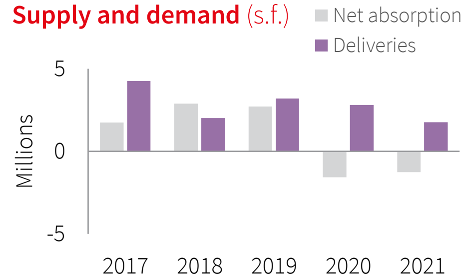
Outlook

Based on the current number of national search projects which are including Chicago in their consideration, we expect increased market activity and job growth to continue, particularly in the technology sector. Sublease availabilities have continued to generate traction this quarter and will continue to do so as more tenants enter the market seeking value and turn-key spaces. The recent bond rating upgrade by Moody's bodes well for the State of Illinois and the City of Chicago, easing some concerns on the state's financial stability. We expect physical occupancy levels to gradually increase throughout the summer, followed by more significant re-entry efforts and leasing activity in September.

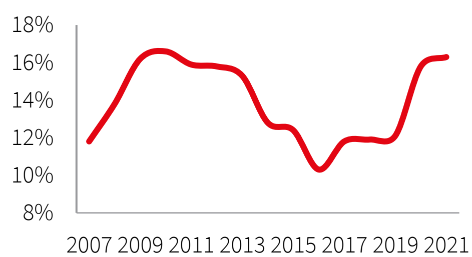
For more information, contact: Edgar Leon | edgar.leon@am.jll.com

Fundamentals		Forecast
YTD net absorption	-1,254,481 s.f.	▼
Under construction	4,682,449 s.f.	▲
Total vacancy	17.3%	▲
Sublease vacancy	3,138,525 s.f.	▲
Direct asking rent	$44.03 p.s.f.	▶
Sublease asking rent	$35.58 p.s.f.	▼
Concessions	Rising	▲

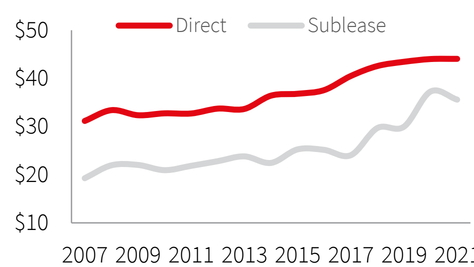
Supply and demand (s.f.)



Total vacancy (%)



Average asking rent ($ p.s.f.)



Chicago Suburbs

Lease activity momentum improves, but overall recovery not expected until 2022

- The -654,964 s.f. of YTD net absorption realized this quarter is 43% of the negative YTD net absorption captured in 2020.
- Overall market conditions are expected to plateau or marginally improve by the end of the year or early 2022
- Mid to large active tenants in the market have begun to generate interest in affordable sublease space with quality existing conditions

The pandemic continued to illustrate its residual effects on the suburban office market. While most landlords seem keen on holding to pre-COVID rental rates, they realized a slight decrease quarter-over-quarter. Likewise, market indicators such as total vacancy continue to increase, but at a slower rate than in 2020 thus indicating a potential plateau at the end of the year or early 2022. The largest vacancies came from HSBC, Omron, and Q-tech who combined vacated 186,000 s.f. of space, the first is subletting 82,000 s.f. of their total footprint. This trend has been prominent since the onset of the pandemic, but it is expected to ease as tenants finalize their workplace strategies and as employees return to the physical workplace.

Leasing activity grew slightly quarter-over-quarter after 40 deals were signed with a split between renewals and new leases. Moreover, quality Class A suburban offices generated 83% of the new leases executed this quarter. The flight to quality trend has been at the forefront since the start of the pandemic as Class A offices have accounted for 66% of the new deals executed since March 2020.

Only one building traded hands in Q2 2021 after Denver-based KORE investments purchased Rosemont Corporate Center, which was previously occupied by Cisco prior to their move to the Old Post Office in Chicago. This will be the firm's third investment in the Chicago suburbs since 2017 with buildings 3500 Lacey and 5750 Old Orchard currently in their portfolio. There are 14 building being actively marketed for sale in the suburbs. Future investor sentiment on the suburban Chicago office market will be based on the sale of these buildings.

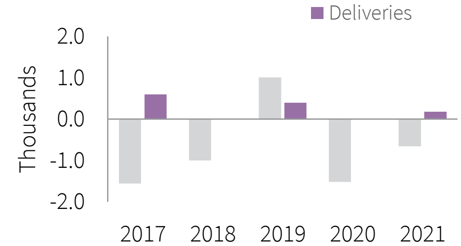
Outlook

Office occupancy generated considerable momentum after the State of Illinois and the City of Chicago eased nearly all COVID restrictions on June 11th. However, many tenants have targeted post-Labor Day as their workforce re-entry date. Expect a gradual increase in overall leasing activity, but especially from sublease availabilities as tenants have generated considerable interest in low cost and well-furnished space. Suburban home prices and sales have surged to levels last realized in 2005 especially by Millennials and downtown migrants. However, a reaction, in the form of demand for suburban office space, by CBD based companies has not gained traction in the short-term, but it may be a possibility as more CBD tenants figure out their workplace strategy.

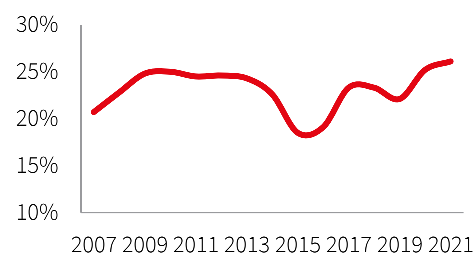
For more information, contact: Edgar Leon | edgar.leon@am.jll.com

Fundamentals	Forecast
YTD net absorption	-654,964 s.f. ▼
Under construction	587,112 s.f. ▼
Total vacancy	26.1% ▲
Sublease vacancy	1,999,428 s.f. ▲
Direct asking rent	$25.84 p.s.f. ▼
Sublease asking rent	$23.02 p.s.f. ▼
Concessions	Rising ▲

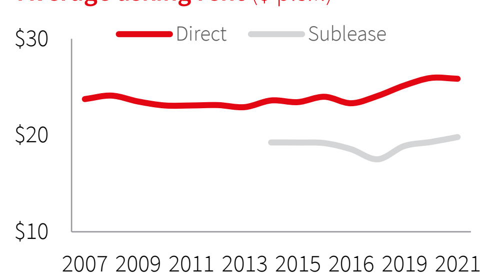
Supply and demand (s.f.)



Total vacancy (%)



Average asking rent ($ p.s.f.)



Cincinnati

Occupancy falls as activity stalls and subleases turn to direct

- Vacancy is up year-to-date with FRCH Design giving much of its space back in the CBD.
- Several construction projects are being completed including phase one of the Digital Futures development in the CBD Peripheral, the Medpace HQ and the Hubbard Radio build to suit.
- Union Institute & University closed the largest lease transaction this quarter totaling 37,413 s.f., expanding its footprint in the CBD Peripheral.

The Cincinnati office market continued its track of negative absorption in the second quarter with FRCH Design giving back 68,000 s.f. of space at 311 Elm St in the CBD submarket. While sublease space was on the rise in 2020, that trend has appeared to have stalled with sublease vacancy down 12.3% quarter over quarter. Sublease spaces are being taken off the market or turning direct, with the biggest being 130,000 s.f being at 201 E 4th Street being turned to mostly direct vacancy. As office re-entry begins some companies have started looking for more space as more companies are hiring again and need the space to fill for their new employees with also giving them more space. This is the result of increased hiring levels and also the need for greater social distancing in the office.

The quarter ended with a net loss in occupancy, but Protective Life's new space totaling 67,000 s.f. in the Northern Kentucky Riverfront submarket provided a boost to those numbers. In addition, Union Institute & University leased 37,413 s.f. at 2090 Florence Avenue. Evidence of an emerging trend of growing university leases. Build-to-suit construction projects are coming to fruition at a rapid pace with the completion of MedPace's new 230,000 s.f. headquarters being completed along with Building 1 of the Digital Future Complex, which will open in the coming weeks and house the University of Cincinnati. Construction remains particularly strong in the Kenwood submarket, which is one of the tightest, most sought-after submarkets outside of the urban center.

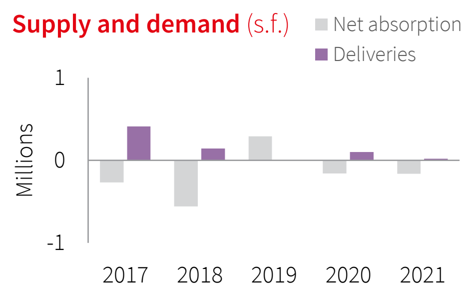
Outlook

As the United States starts to open back up, companies have started their return to the office. Subleases are starting to be taken off the market and some companies are expanding their office footprint to allow for more social distancing, which will likely set a trend for other companies looking to come back who are unsure how to proceed. Transaction velocity remained subdued in the second quarter but as the year progresses lease transactions should begin to gain traction as office re-entry accelerates and the future of office comes into focus.

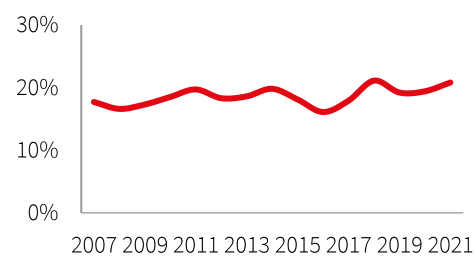
For more information, contact: Collin Fitzgerald | Collin.Fitzgerald@am.jll.com

Fundamentals	Forecast	
YTD net absorption	-163,501 s.f.	▼
Under construction	637,428 s.f.	▶
Total vacancy	20.8%	▲
Sublease vacancy	664,198 s.f.	▼
Direct asking rent	$20.13 p.s.f.	▶
Sublease asking rent	$20.24 p.s.f.	▼
Concessions	Rising	▲

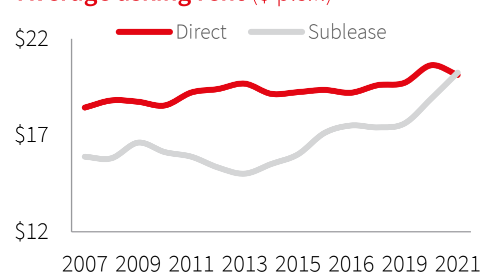
Supply and demand (s.f.)



Total vacancy (%)



Average asking rent ($ p.s.f.)



Cleveland

Vacancy increased for a fourth consecutive quarter while leasing showed signs of a rebound

- The Cleveland office market recorded its fourth consecutive quarter of negative absorption with occupancy losses totaling 263,881 s.f.
- Sublease vacancy also increased in Q2, although the net increase in sublease space added quarter-over-quarter is starting to plateau.
- Leasing activity increased meaningfully as companies accelerated re-entry plans and the future of office started to come into focus.
- Vacancy will continue to increase over the coming year, although the pace at which vacant space is added will begin to moderate.

Fundamentals	Forecast
YTD net absorption	-487,156 s.f. ▼
Under construction	0 s.f. ▲
Total vacancy	21.8% ▲
Sublease vacancy	470,258 s.f. ▶
Direct asking rent	$19.93 p.s.f. ▶
Sublease asking rent	$17.23 p.s.f. ▶
Concessions	Rising ▲

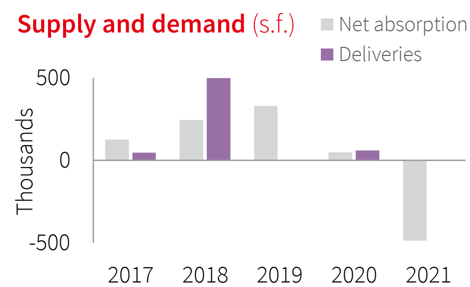
The Cleveland office market recorded its fourth consecutive quarter of negative absorption in Q2, with occupancy losses totaling 263,881 s.f. As a result, total vacancy increased to 21.8%, up from the cyclical low of 19.6% recorded during Q2 2020. Sublease vacancy also increased in Q2, although the net increase in sublease space added quarter-over-quarter is starting to plateau. Sublease vacancy now stands at 470,258 s.f. after a net increase of 28,371 s.f. in Q2. Despite a softening of market conditions, asking rents have held steady near $20 per s.f.

Leasing activity increased meaningfully in Q2 as companies accelerated re-entry plans and the future of office started to come into focus. Leasing volume totaled more than 400,000 s.f. in Q2, led by MAI Capital Management (60,000 s.f.) and CBIZ (50,000 s.f.) in the suburbs. Downtown the largest leases were signed by McCarthy Lebit (28,000 s.f.) and Javitch Block (28,000 s.f.). The average lease term increased significantly in Q2. While 12-month extensions were the norm in 2020, the average lease term in Q2 was 5 years, with several deals approaching 10 years of term. Not all companies were in expansion mode though. Several companies vacated office space and transitioned employees to a fully remote set up including JPMorgan Chase which closed a 90,000-s.f. operations center at Post Office Plaza and BrandMuscle which has 55,000 s.f. available for sublease at 1100 Superior.

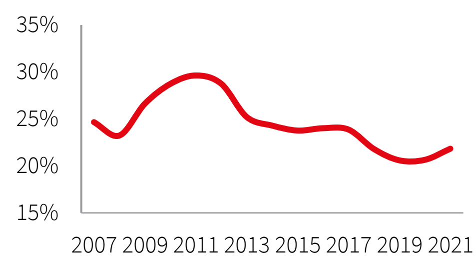
Outlook

Leasing activity will continue to pick up speed through the end of the year as employees return to the office and companies implement future workplace strategies including office-centric, hybrid and virtual. Vacancy will continue to increase over the coming year, although the pace at which vacant space is added will begin to moderate. Landlords are likely to hold on asking rents, although generous concession packages are available to credit tenants willing to sign long term leases. Recent deals have included tenant improvement allowances up to $50 per s.f. while others have included up to a half month of free rent per year of term.

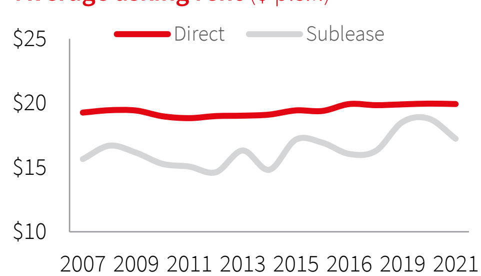
Supply and demand (s.f.)



Total vacancy (%)



Average asking rent ($ p.s.f.)



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Columbus

Flight to quality remains prevalent as leasing activity accelerates

- The first building on the CoverMyMeds campus in Franklinton delivered and sold for a record sale price at $120 million and $545 p.s.f.
- 50% of product under construction is now preleased, largely due to BMW's planned relocation to the new 124,000-s.f. building at Grandview Crossing
- Leasing activity nearly reached 600,000 s.f. in Q2 2021 with renewals accounting for just 30% of deals signed

Fundamentals	Forecast	
YTD net absorption	-827,851 s.f.	▼
Under construction	1,191,374 s.f.	▼
Total vacancy	23.4%	▲
Sublease vacancy	1,115,303 s.f.	▲
Direct asking rent	$21.62 p.s.f.	▼
Sublease asking rent	$21.17 p.s.f.	▼
Concessions	Rising	▲

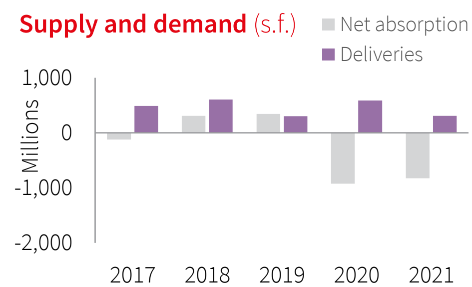
Class A space remains the market driver despite several established tenants putting large blocks on the market for sublease since the onset of the work-from-home order. This has heavily impacted market dynamics over the last 12 months with total vacancy rising 7.7%. However, leasing activity in Q2 indicates a return to normalcy is on the horizon. Total leasing has averaged roughly 300,000 s.f. per quarter since Q2 2020 with renewals accounting for 45% of activity. In Q2 2021, the leasing volume doubled to 600,000 s.f. with just 30% of activity attributed to renewals.

New product accounted for 40% of leasing activity in Q2. BMW announced it is relocating to the 124,000-s.f. speculative building under construction at the massive mixed-use development, Grandview Crossing. Arlington Gateway, which is just a few miles from Grandview Crossing, recently broke ground and announced three tenants committing to space totaling 73,000 s.f. Recently delivered product also experienced leasing activity in Q2. Goosehead Insurance (16,000 s.f.) and Jet Edge (10,000-s.f. expansion) each signed on at the Easton Urban District, while Circulo Health leased the remaining 15,000 s.f. at 875 N High St in the Short North.

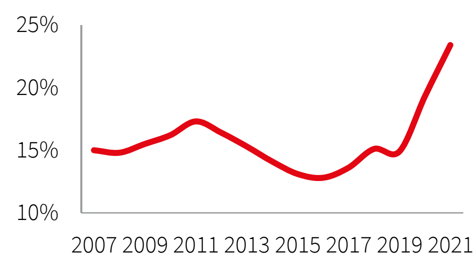
Outlook

The market experienced its fifth straight quarter of negative absorption in Q2. The CBD remains relatively stable as the suburbs continue to see large blocks of sublease space hit the market. Most recently, State Farm vacated 148,000 s.f. in New Albany. There is at least one more large block of sublease space expected to hit the market in 2021 as well, but this activity is expected to soften moving forward. Positive absorption in the CBD is mostly due to activity of CoverMyMeds. The company's first 220,000-s.f. building delivered while it vacated 95,000 s.f. at 2 Miranova in the Brewery District/River South submarket. Its newest building sold to Qatar First Investment Bank for a market record $120 million and $545 p.s.f.

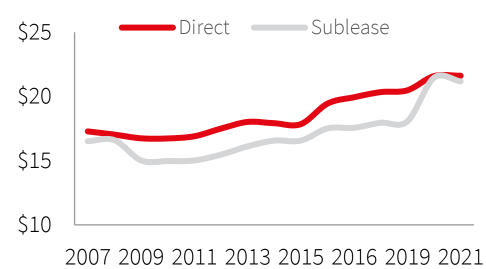
Supply and demand (s.f.)



Total vacancy (%)



Average asking rent ($ p.s.f.)



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Dallas

Return to office slows for summer, causing pandemic effects on fundamentals to linger

- While almost 50% of Dallas office workers are back in the office, many remaining firms are waiting until Labor Day to return, which also has postponed decisions on real estate
- Vacancy continued to rise, driven by an increase in direct space, with Class A accounting for 60% of the increase, countering the prior trend of the majority of vacancies being from Class B space
- Asking rental rates declined slightly from the prior quarter, showing a delayed impact of the pandemic but are still up year-over-year

The effects of the pandemic are waning in Dallas as workers return to the office and people resume activities outside the home. Many national and international corporations are targeting Labor Day for a return to the office, and summer travel is almost at pre-pandemic levels. Due to increases in tour activities and clients starting to discuss space needs, sentiment suggests that leasing activity will rapidly pick up in Q3 and Q4 2021.

For the sixth consecutive quarter, total net absorption was negative in Dallas. The -981,000 s.f. of net absorption was lower than levels seen in Q2 through Q4 2020, and sublease absorption was slightly positive for the first time since the beginning of the pandemic. Total vacancy rose by 70 basis points to 24.8%, the highest level since Q2 2010, while sublease availability increased by only 130,000 s.f. and sublease vacancy declined by 10 basis points as tenants reevaluate space needs deciding to use space opportunistically advertised for sublease.

Asking rents decreased by 20 basis points from Q1 2021 but are up 290 basis points year-over-year. Concessions are still up slightly, with rising tenant improvement allowances driven by increasing construction costs. Due to supply shortages, some tenants are seeking finished space in spec suites or subleases rather than risk construction delays.

Outlook

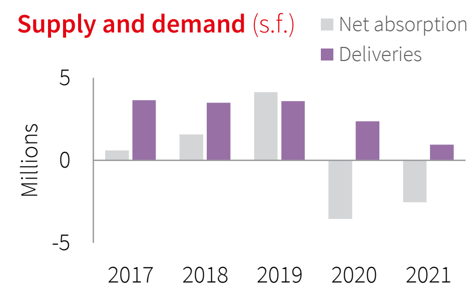
While leasing activity remains behind pre-pandemic levels, large transactions are still taking place. In Q2, insurance firm Integrity Marketing announced a move from the suburbs in Las Colinas to 100,000 s.f. in Fountain Place in the Dallas CBD, citing the potential for expansion in the building.

There are more than 24 tenants in the market looking for more than 100,000 s.f., compared with 15 a year ago, and many small relocations with the potential to expand in the coming years, which could see similar large vacancies as an opportunity. With a smaller pipeline in recent years that is roughly 45% pre-leased, these large tenants will land in existing space as well as new construction, helping to push vacancy back down in the coming quarters.

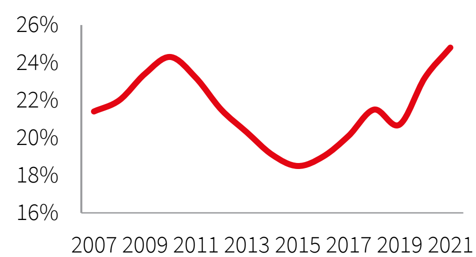
For more information, contact: Kari Beets| kari.beets@am.jll.com

Fundamentals		Forecast
YTD net absorption	-2,545,633 s.f.	▲
Under construction	3,401,973 s.f.	▲
Total vacancy	24.8%	▶
Sublease vacancy	4,291,500 s.f.	▼
Direct asking rent	$30.82 p.s.f.	▲
Sublease asking rent	$25.90 p.s.f.	▶
Concessions	Stable	▶

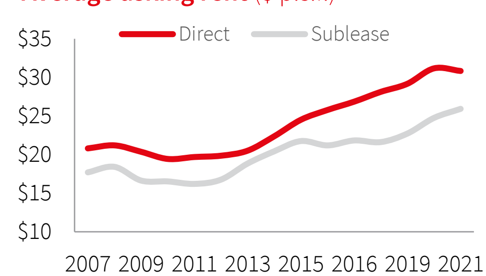
Supply and demand (s.f.)



Total vacancy (%)



Average asking rent ($ p.s.f.)



Denver

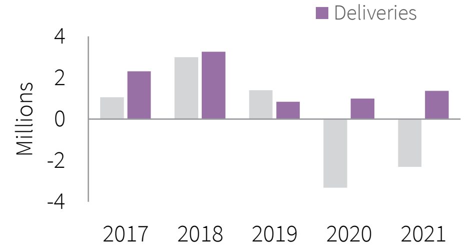
Employees begin return to offices in a market more vacant than at any point in past 16 years

- Available sublease space decreased for the first time in 15 months and closed the quarter down from its record level. Still, the market's sublease vacancy rate (3.1%) remained at a 17-year high
- Effective rents retreated as owners labor to attract and retain tenants by way of offering more free rent and larger TI allowances; asking rents slid in the CBD but ticked up across the suburban submarkets
- New construction delivering into a market with outsized available supply has led users toward a "flight to quality", chasing and signing deals in assets that would otherwise prove too pricey

Fundamentals	Forecast
YTD net absorption	-2,309,723 s.f. ▼
Under construction	833,152 s.f. ▼
Total vacancy	20.5% ▲
Sublease vacancy	3,634,363 s.f. ▶
Direct asking rent	$32.46 p.s.f. ▶
Sublease asking rent	$24.77 p.s.f. ▶
Concessions	Rising ▲

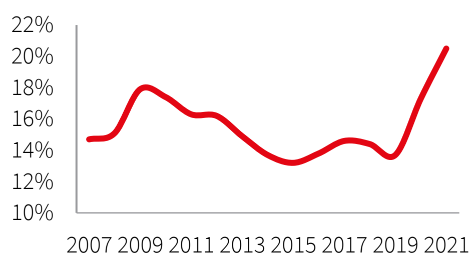
Even as office-using workers and foot traffic begin to return to pre-pandemic levels and a sense of normalcy settles in, office market fundamentals remain tenant-favorable. Occupiers are taking advantage of their leverage while looking to lease in higher-quality buildings and for increasingly longer length lease terms. Move-outs receded during Q2 (significantly when compared against the four preceding quarters), but absorption from January through June remains as deeply negative as any six-month period on record. Four net-growth leases larger than 50,000 s.f. are slated to occupy before year-end, which should help stave off worse absorption losses; nonetheless, these four identified leases are a marked drop from double-digits in years prior to 2020. Subleases still came to market this quarter, but at a far slower pace than a year ago. In an encouraging sign for office re-entry, some tenants chose to re-occupy space that they'd previously made available for sublease.

Supply and demand (s.f.)

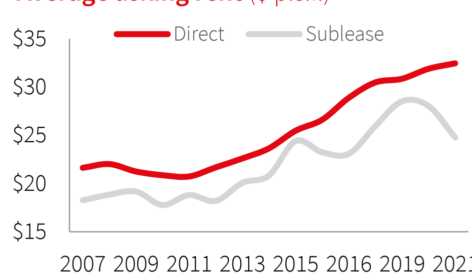


Tenant demand remains muted, but as metro area counties push above 70% vaccination rates, firms are refreshing searches for office space. While the volume of tenants actively seeking space is down 32% from February 2020, momentum improved by way of an an additional quarter-million s.f. of demand returning during the last three months. Many users are weighing right-sizing their office footprints. Uncertainty about the future of office has seen tenants pump the brakes on expansion plans. Subdued demand, coupled with 1.4 million s.f. delivered this year and another 833,000 s.f. still under construction, will lift vacancy rates over the near-term.

Total vacancy (%)



Average asking rent ($ p.s.f.)



Outlook

The lagging indicators they are, office fundamentals already reveal a turn toward a tenant-leveraged market during the quarters ahead as availability hits record levels, effective rental rates fall and absorption fights to turn positive. Denver's economic recovery is now on pace with the U.S. at large and should accelerate from here, bouncing back sooner than most other metros. What made the city so appealing pre-pandemic remains: a highly educated workforce comprised of prime-age talent and a diverse mix of industries should help cushion the blow and see us back to among the nation's most attractive metro areas during the years to come.

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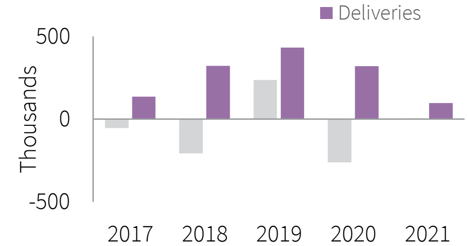
Des Moines

Office activity picking up, mainly in Western Suburbs

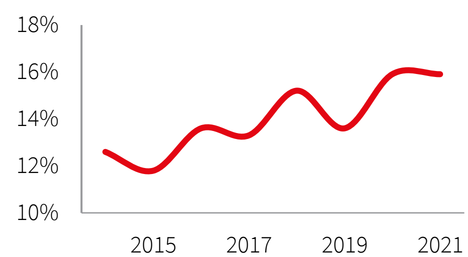
- The largest office sale was 12129 University Avenue in Clive which sold for $8.8 million ($397 p.s.f.). The property was 100% leased at the time of sale.
- This was one of seven buildings sold during the quarter. The average sale price was $2.9 million and the average size was 17,700 s.f.
- Sublease space has remained steady with 14 listed spaces in the western suburbs and five in the CBD. The average size was 11,900 s.f.

Fundamentals	Forecast
YTD net absorption	4,693 s.f. ▶
Under construction	144,000 s.f. ▶
Total vacancy	15.9% ▲
Sublease vacancy	226,419 s.f. ▶
Direct asking rent	$19.90 p.s.f. ▶
Sublease asking rent	$18.85 p.s.f. ▶
Concessions	Rising ▲

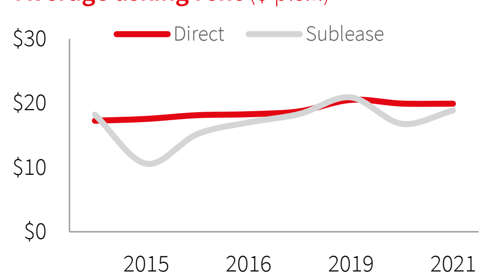
Supply and demand (s.f.)



Total vacancy (%)



Average asking rent ($ p.s.f.)



During the quarter there were 24 leases signed, which is a typical quarter for Des Moines. The average space size was 3,450 s.f. and all but three of the leases were signed in the western suburbs and Ankeny. The location of signed leases corresponds to where most office tours are occurring. Most tours are in the western suburbs, while the CBD has seen significantly less interest. At the same time, relatively few spaces are being downsized. Most tenants are choosing to either renew leases with shorter terms, relocate to a similar size space or in some cases expand.

The suburbs continue to lead with new office developments. Buildings have been constructed in areas like Prairie Trail in Ankeny, Plum Drive in Urbandale, Kettlestone in Waukee and soon Grand Avenue in West Des Moines. These properties support the fast-growing populations of Ankeny, Grimes and Waukee. This trend is expected to continue with the growth of the suburbs.

COVID-19 may have prompted some tenants to look to the suburbs rather than considering the CBD. This trend may change in the coming months as new developments downtown gain momentum. The Market District has just begun multi-phase infrastructure improvements which should be complete in 18 to 36 months. The 10-block, mixed-use district will have mid-rise office buildings incorporated into the development. Additionally, the State of Iowa awarded funds to the proposed professional soccer stadium development along MLK Boulevard on the south side of downtown. There will likely be some office properties proposed in or near the development.

Outlook

Similar to the nationwide trend, many of the larger employers in Des Moines have indicated their return to the office will be around September 1st. Downtown tenants have begun to slowly trickle back into the office and this trend should accelerate into the fall.

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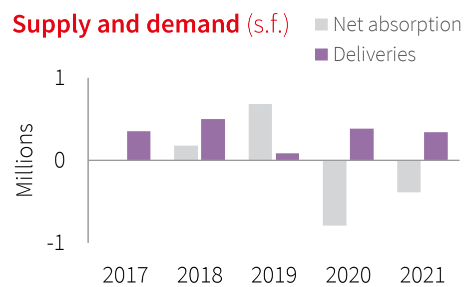
Detroit

Downtown coming back to life as office workers begin return

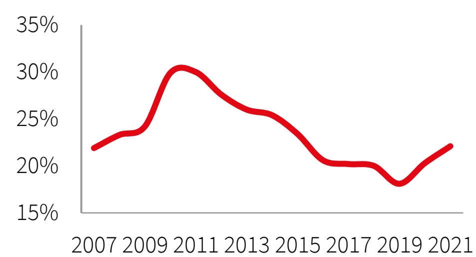
- Another quarter of negative absorption has pushed vacancy higher, though positive momentum is on the horizon with return-to-work.
- Bedrock purchased Stroh River Place downtown, adding to their already significant CBD office portfolio.
- Magna's Novi headquarters sold in May to Harbor Group International for an eye-popping $322 per s.f.
- Following Volkswagen's renewal at 3800 Hamlin Road, ownership has put the building on the market for sale.

Fundamentals	Forecast
YTD net absorption	-388,675 s.f. ▼
Under construction	1,063,753 s.f. ▶
Total vacancy	22.1% ▲
Sublease vacancy	1,222,830 s.f. ▲
Direct asking rent	$20.12 p.s.f. ▶
Sublease asking rent	$18.31 p.s.f. ▶
Concessions	Rising ▲

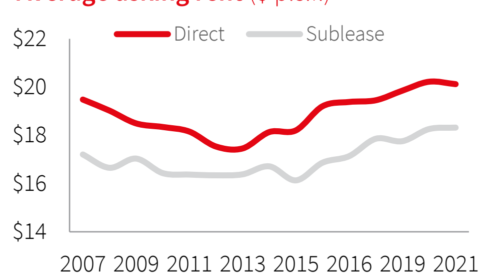
Supply and demand (s.f.)



Total vacancy (%)



Average asking rent ($ p.s.f.)



The second quarter was another stagnant leasing period in the Detroit office market. Vacancy rose to 22.1% as the market saw another quarter of negative absorption. Rent growth remains stalled, with average asking rents currently $20.12 p.s.f., up just 40 basis points year-over-year. Though there hasn't been any significant leasing activity, there is room for optimism as a return to normalcy is on the horizon. As vaccines continue to roll out, companies and office workers have begun the slow and gradual return to the office. In early June, Rocket Companies began their return-to-work plan in the CBD, bringing downtown Detroit back to life. WPP's new space in the Marquette building is complete, with their move to the CBD leaving a significant hole in the Dearborn office market. Companies like Warner Norcross + Judd and the Boston Consulting Group have reinforced their belief in the workplace by opening new offices amid the pandemic in the recently completed building at 2715 Woodward.

Sales activity was strong in the second quarter, perhaps an indicator of overall optimism in the market. Bedrock purchased Stroh River Place downtown in May, further expanding their portfolio. In the suburbs, the sale of 30020 Cabot Drive in Novi captured an eye-popping $322 per s.f. sale price, and Molina Healthcare sold its Troy headquarters after significantly downsizing their footprint in the building. Plante Moran has listed their building on Northwestern Highway for sale after consolidating in Southfield Town Center and following Volkswagen's renewal at 3800 Hamlin Road in Auburn Hills, ownership has listed the building for sale. In Ann Arbor, DTE has listed their downtown building for sale, with permanent work from home a possibility for their employees.

Outlook

With the return-to-work now in full swing in Detroit, companies who had listed space for sublease or have looked to shed space may be rethinking their plans. Work from home fatigue has set in for many, and the comfort of vaccinations alongside the desire to return to social office settings should put us on the path toward a return to pre-pandemic activity as we move into the second half of the year.

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East Bay Suburbs

Demand approaching pre-pandemic levels and could accelerate leasing momentum

- Tenant requirements represent 70% of the pre-COVID average in 2019.
- Consistent touring activity and lifted office restrictions could render positive outlook in the coming months.

Fundamentals	Forecast	
YTD net absorption	-428,653 s.f.	▼
Under construction	81,575 s.f.	▲
Total vacancy	21.2%	▲
Sublease vacancy	1,442,207 s.f.	▲
Direct asking rent	$3.06 p.s.f.	▶
Sublease asking rent	$2.36 p.s.f.	▼
Concessions	Rising	▲

New sublease availabilities resulted in another quarter of negative net absorption in the suburbs as select companies continue to exercise hybrid work models and shed excess space, causing continued right-sizing and consolidations. Some new subleases this quarter include Allergan, iTrade, and Del Monte Foods in Pleasanton, Dublin and Pleasant Hill BART, respectively, totaling roughly 100,000 s.f. Additionally, Shaklee Corporation has put their entire building on the market for lease, adding approximately 123,000 s.f. of direct available space in Pleasanton.

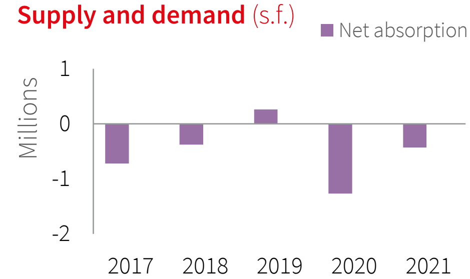
Despite increased availabilities, touring activity is approaching pre-pandemic levels and represent 70% of average requirements in 2019. As of June, there are 33 tenants actively touring the market and are focused primarily in the south end of the corridor. Also, significant deals were signed in Q2 that will add to occupancy gains in the coming months. In Pleasanton, DiaCarta and Tekion leased a combined 50,000 s.f. while Morgan Stanley and BKF Engineers renewed their leases in Downtown Walnut Creek, totaling 44,000 s.f. Deal velocity is expected to pick up with several deals in progress that are set to close by the end of the year.

Outlook

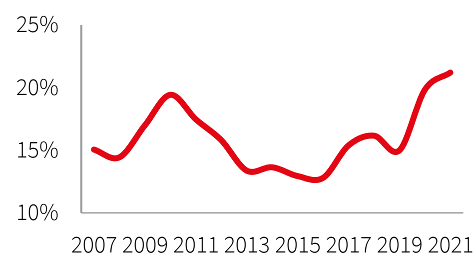
In June, COVID-19 restrictions were lifted in California, allowing most businesses to reopen at full capacity with minimal mask guidelines. Some companies may not return at full capacity and may choose a more flexible work model, potentially resulting in increased availabilities. However, it may be too early to see immediate impacts of the lifted restrictions on the market and companies may take a "wait and see" approach in the interim.

Still, touring activity has been consistent this year and landlords continue to offer higher concessions to incentivize tenants into signing deals. This, coupled with notable leases already in progress, creates an optimistic outlook for the suburban East Bay in the months to come.

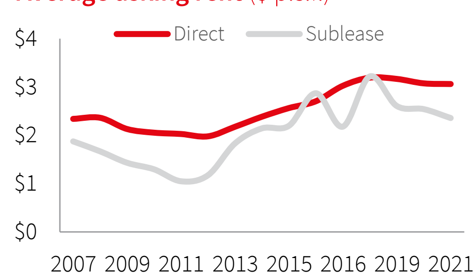
Supply and demand (s.f.)



Total vacancy (%)



Average asking rent ($ p.s.f.)



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Fort Lauderdale

Broward office market warms up with increasing leasing activity and rent growth resuming

- Office-using employment grew at 1.6% from April to May, the fastest monthly pace in a year.
- Sublease availability remains elevated even as major availabilities found sublessors. Two cruise lines listed call center space during Q2.
- Asking rents rose this quarter alongside increasing activity, while absorption remains elusive amid rampant portfolio restructuring.

Fundamentals		Forecast
YTD net absorption	-347,468 s.f.	▲
Under construction	70,860 s.f.	▶
Total vacancy	18.0 %	▶
Sublease vacancy	270,676 s.f.	▶
Direct asking rent	$37.29 p.s.f.	▶
Sublease asking rent	$34.75 p.s.f.	▼
Concessions	Rising	▲

The office market in Broward County showed signs of life in Q2 as leasing activity picked up, propelled by major sublease deals signed by Nations Benefits and Chewy. Asking rates jumped after wavering in Q1 as landlords saw more demand with employees returning to offices and firms finally implementing their new occupancy strategies. While sublease availabilities remain elevated, competition for move-in ready space is fierce. However, demand remains mostly organic and largely driven by portfolio restructuring rather than new-to-market firms as in Palm Beach and Miami.

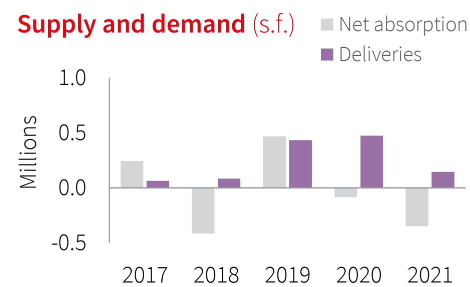
Chewy signed for 221,597 s.f. at 7600-7700 W Sunrise Boulevard and Nations Benefits took 53,049 s.f. at 1801 NW 66th Avenue, taking two large subleases off the market. However, Carnival Cruise Line and Royal Caribbean listed roughly 90,000 s.f. and 50,000 s.f. of call center space, respectively, for sublease in Miramar. Tripp Scott, AT&T, Aflac and Weiss Serota all renewed in place with minimal rightsizing. Benefytt Technologies entered the market, expanding from their Tampa roots into the Hotwire Technology Center in Cypress Creek with a 26,163 s.f. lease.

Occupancy gains remain elusive as tenant shuffling and rightsizing drive the bulk of transactions. Chewy will leave a large vacancy at DCOTA and UKG's footprint will shrink as they consolidate. The stream of finance and technology firms fleeing higher-tax states still generally look past Fort Lauderdale to Miami or West Palm Beach.

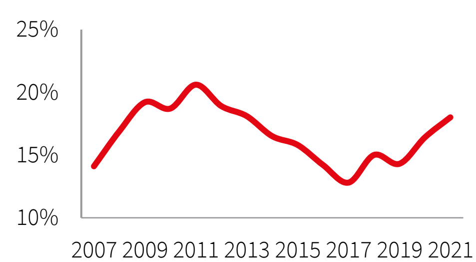
Outlook

Market fundamentals in Fort Lauderdale are returning to normal, with businesses open and restrictions mostly lifted. Total employment was back up to 95.4% of its pre-pandemic high and new unemployment claims have leveled off. Office-using employment was up 1.6% from April to May in the strongest month-over-month gain since last June. Fundamentals should continue to improve over the coming months as more offices open and hiring efforts ramp up.

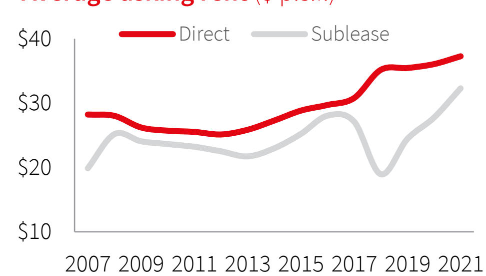
Supply and demand (s.f.)



Total vacancy (%)



Average asking rent ($ p.s.f.)



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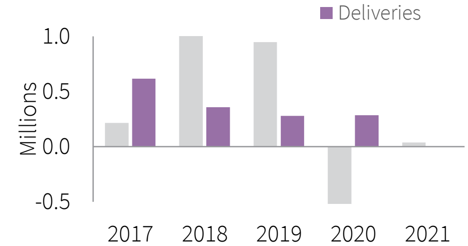
Fort Worth

Class A market driving demand as office-related employment recovers to pre-pandemic level

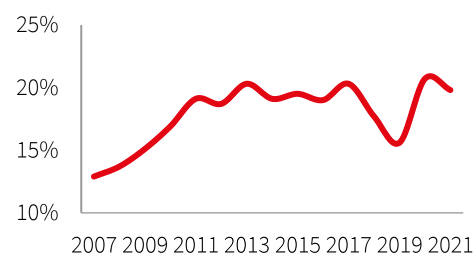
- Demand for Class A properties continues to outpace Class B, primarily from new-to-market tenants and flight-to-quality relocations.
- Sublease spaces account for 10.1% of all available space, while renewals and new transactions under 10,000 s.f. comprised the majority of leasing activity this quarter.
- An anchor tenant signed for 50% of the proposed 30,000 s.f. Triune Centre in South Forth. The building will feature the first fully-automated valet parking garage in the Dallas-Fort Worth MSA.

Fundamentals	Forecast	
YTD net absorption	38,983 s.f.	▲
Under construction	151,680 s.f.	▲
Total vacancy	19.8%	▶
Sublease vacancy	348,707 s.f.	▶
Direct asking rent	$25.79 p.s.f.	▶
Sublease asking rent	$22.94 p.s.f.	▶
Concessions	Stable	▶

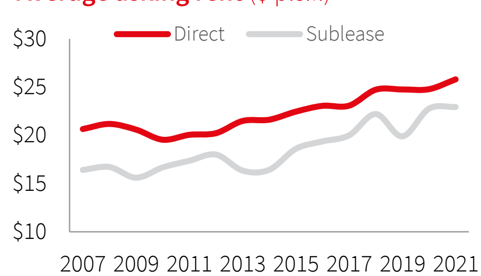
Supply and demand (s.f.)



Total vacancy (%)



Average asking rent ($ p.s.f.)



The Fort Worth office market has experienced positive net absorption through the first half of 2021, as the effects of the COVID-19 pandemic begin to subside. Class A properties continue to outperform Class B, as asking rates for both property segments have remained flat with the increased amount of available space. Recently vacated spaces from flight-to-quality relocations and tenants reassessing their space needs have created opportunities in nearly all submarkets for new tenants.

Downtown Fort Worth and the Mid-Cities submarkets accounted for most of the positive absorption this year, primarily from in-market relocations in Class A properties. The velocity of new Class B vacancies has decreased in each of the last three quarters. Class A vacancy remains highest in the Mid-Cities submarkets, primarily in large formerly single-tenant corporate campuses with vacancies prior to the pandemic.

Available subleases with more than 12 months of remaining term currently account for 10.1% of all available space, and less than 5% of vacant space. Renewals and new transactions under 10,000 s.f. comprised the majority of leasing activity this quarter. Vantage Bank Texas leased 50% of the proposed 30,000 s.f. Triune Centre in South Fort Worth as the project's anchor tenant. The building will feature the first fully-automated valet parking garage in the Dallas-Fort Worth MSA.

Outlook

As of May 2021, total employment in the Fort Worth-Arlington MSA Division remains 2.8% lower than February 2020, prior the start of the COVID-19 pandemic. However, the office-using industries (professional and business services, financial activities and information) combined have recovered, with over 100 more people employed now than prior to the pandemic. While vacancy rates have yet to match these pre-pandemic levels of office-using employment, this gap creates an opportunity for further growth for prospective tenants. Currently, existing tenants continue reentry to the office, with most continuing with their announced plans in the second half of 2021.

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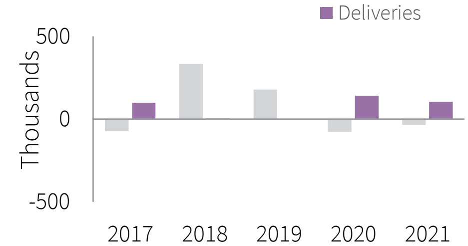
Grand Rapids

Delivery of Studio Park highlights second quarter

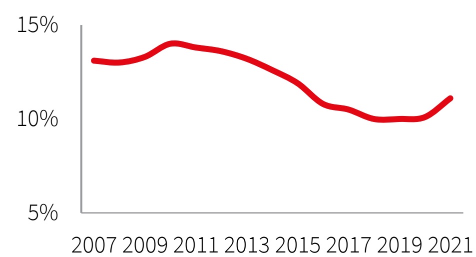
- The Studio Park development downtown delivered fully leased to Acrisure, adding 105,000 s.f. to the downtown submarket
- Pharmaceutical manufacturer Perrigo broke ground on their North American headquarters on the Medical Mile downtown.
- MCPc announced plans to occupy 1601 Madison Avenue SE in 2022, with the 60,000-s.f. building set to break ground later this summer.
- Q2 leasing activity was comprised of smaller new transactions and renewals.

Fundamentals	Forecast	
YTD net absorption	-34,149 s.f.	▼
Under construction	0 s.f.	▶
Total vacancy	11.1%	▲
Sublease vacancy	32,265 s.f.	▲
Direct asking rent	$18.86 p.s.f.	▶
Sublease asking rent	$16.77 p.s.f.	▶
Concessions	Rising	▲

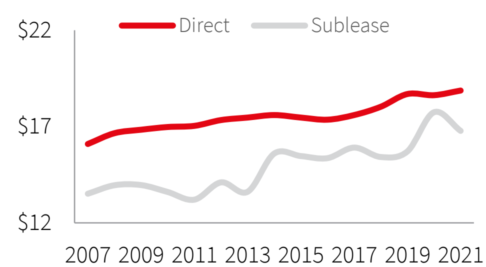
Supply and demand (s.f.)



Total vacancy (%)



Average asking rent ($ p.s.f.)



The second quarter brought a continuation of stagnant conditions in the Grand Rapids office market. The delivery of the fully leased 105,000-s.f. Studio Park development downtown helped push the Q2 absorption figure into the black, but muted leasing activity left vacancy unchanged quarter-over-quarter at 11.1% as tenants continue with a wait-and-see approach amid the pandemic. Average asking rents are $18.86 p.s.f., up 1.3% year-over-year, finally showing growth after multiple quarters of rent declines during the pandemic.

Pharmaceutical manufacturer Perrigo broke ground on their North American headquarters on the Medical Mile downtown. The 125,000-s.f. building will house corporate, management, and administrative employees and is expected to be completed in 2022. MCPc, a Cleveland-based technology company announced plans to occupy 1601 Madison Avenue SE in 2022, with the 60,000-s.f. building set to break ground later this summer. Spectrum Health detailed their plans for an 8-story, 160,000-s.f. office complex on the north side of downtown, where they will consolidate approximately 1,200 employees currently working in 26 leased offices in Grand Rapids.

Leasing activity in Q2 was comprised of smaller transactions including Principal Life Insurance renewing 5,987 s.f. at 3196 Kraft Avenue SE, Lachman Stuart taking 4,700 feet at the Waters Center and Tobin Consulting taking 2,500 s.f. at 632 West Fulton downtown.

Outlook

As companies in the region begin their phased returns to the office, we expect tour and leasing activity to pick up. Tenants who initially planned to give back or sublease space could be rethinking their strategies as work-from-home fatigue begins to set in and more employees desire a social office setting. As we move forward into the summer, it will be a welcome sight to see office submarkets reenergized as office workers return to their workspaces.

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Hampton Roads

Southside subleases drive higher vacancy while the Peninsula holds steady

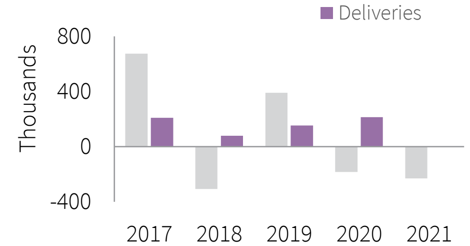
- Sublease negative absorption exceeded direct negative absorption this quarter due to Southside moveouts, while the Peninsula saw a slight decline in vacant sublease space.
- Landlords don't feel the pressure to reduce asking rents yet, but they are increasing concessions and trading improvement costs for longer terms to secure renewals that benefit both sides of the transaction
- Although economists forecast strong local economic growth in 2021, office occupancy will continue to decline through the end of the year.

Fundamentals	Forecast
YTD net absorption	-229,109 s.f. ▼
Under construction	0 s.f. ▶
Total vacancy	15.0% ▲
Sublease vacancy	251,890 s.f. ▲
Direct asking rent	$20.34 p.s.f. ▶
Sublease asking rent	$20.27 p.s.f. ▲
Concessions	Rising ▲

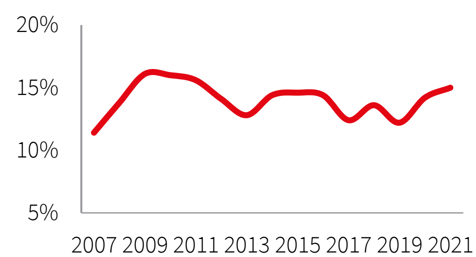
Office vacancy rose sharply over Q2, with direct vacancy up 50 basis points to 13.7% and overall vacancy up 110 basis points to 15%. The Peninsula saw only a slight occupancy decline and positive net absorption of 1,985 s.f. of sublease space. But the Southside – historically, a stronger office market with a more diverse array of occupiers – saw overall vacancy jump 150 basis points as a number of major companies vacated their space, with several large occupiers shifting to a largely or entirely work-from-home model. South University vacated one of its three full floors at Convergence Center IV and put it on the sublease market, and Towne Insurance will trade the third floor for its parent's holdings at 3 Commercial Place once space is ready. These moves and others – including several more in the Virginia Beach CBD, which saw total negative absorption of 101,000 s.f. in Q2 and where the 86,000 s.f. of vacant sublease inventory nearly equals the 89,000 s.f. of direct vacancy – led to sublease space comprising 56.5% of the Southside's total negative absorption this quarter and 51.4% of the region's.

Many landlords are benefiting from the profitable terms of leases signed in 2018 and 2019, but they are aware of the competition from rising direct and sublease vacancy and they know the importance of tenant retention in a softer market. Some are offering more generous concessions and flexible terms to retain higher face rents, and others trade higher improvement allowances for longer firm terms to offset rising construction costs.

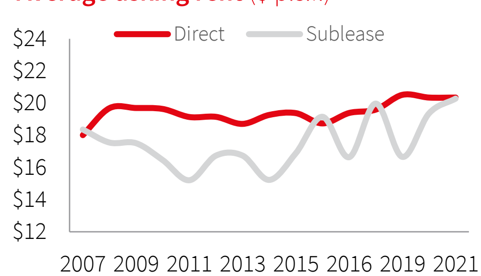
Supply and demand (s.f.)



Total vacancy (%)



Average asking rent ($ p.s.f.)



Outlook

Old Dominion University economists expect the area's economy to grow by 4.8% this year as cargo tonnage, retail sales and hotel revenue rebound and local defense spending increases by $1.3 billion over 2020. But office occupiers haven't yet finished adapting to the increase in remote working. That process and right-sizing associated with it will continue to reduce occupancy for the rest of the year, with higher office demand following economic growth in 2022.

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Houston

Options for tenants abound as more people return to the office

- The market experienced a fifth consecutive quarter of negative absorption, though occupancy losses have begun to slow.
- Total vacancy rose to 26.8%, reaching another new high for the market at mid-year.
- Flight to quality continued in absorption trends, with newer construction seeing greater leasing momentum.
- Sublease inventory climbed to 7 million s.f. as tenants evaluate and optimize their office footprints.

Houston's economic recovery is gaining momentum, with office-using sectors posting further gains in the May jobs data. While office employment is making strides to return to its previous peak, the office market continued to soften through mid-year. Total vacancy climbed 40 basis points quarter-over-quarter to 26.8%, with Greenway Plaza sustaining the largest occupancy hit following tenant relocations to other submarkets. One positive trend, however, was the rate of negative net absorption is beginning to slow. Tenants vacated nearly 589,000 s.f. more than they occupied this quarter, but there were far fewer occupancy losses in Q2 than in each of the previous four quarters.

Flight to quality continued to be a major trend as the market emerges from the pandemic, which is driving a significant disparity in metrics for the newest vintage buildings. Leasing demand has steadily trended toward high-quality buildings with upgraded infrastructure, amenities and health features. Notably, Class A office buildings built since 2014 have seen fewer occupancy losses, and as a group, had a much lower vacancy rate of 17.8% in Q2. Conversely, Class A product built before 2014 had a total vacancy rate of 29.1%. This is a major driver of new groundbreakings in the market and why some buildings are maintaining face rents despite high tenant favorability in the market.

Sublease availability rose to 7 million s.f. at mid-year, a 26.1% increase from a year ago. A notable contributor this quarter was TechnipFMC's addition of nearly 200,000 s.f. of sublease space to the Katy Freeway West submarket. The company's move to consolidate operations to its campus in Generation Park was accelerated by the COVID-19 pandemic.

Outlook

Leading indicators such as tour activity and tenant requirements are trending positively, and the balance of the year will provide more clarity on the impacts of new hybrid and remote-work strategies on the office market. As more companies return to the office in the coming months and start making real estate decisions, market conditions should slowly see improvement.

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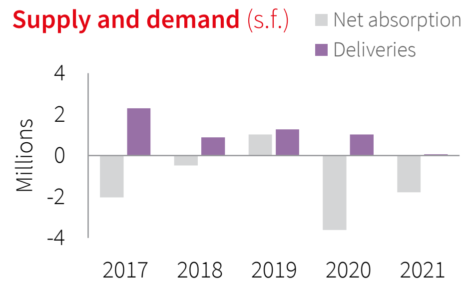
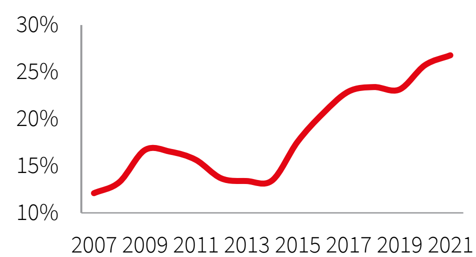
Fundamentals		Forecast
YTD net absorption	-1,777,911s.f.	▼
Under construction	3,102,829 s.f.	▶
Total vacancy	26.8%	▲
Sublease vacancy	3,127,772 s.f.	▲
Direct asking rent	$30.88 p.s.f.	▼
Sublease asking rent	$22.63 p.s.f.	▼
Concessions	Rising	▲

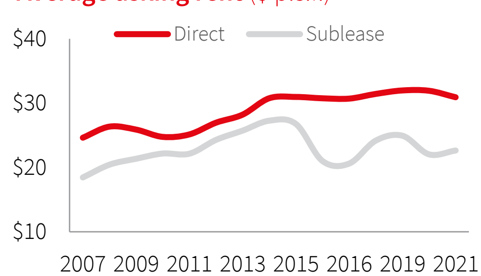
Supply and demand (s.f.)



Total vacancy (%)



Average asking rent ($ p.s.f.)



Indianapolis

Indications of an office market recovery are beginning to emerge

- The Indianapolis office market posted modest occupancy growth for the first time since Q3 2020 with Class A doing particularly well.
- New construction continues to lease quickly. The Box Factory and Union 601 delivered with tenants in place for over half the space.
- Subleases are in high demand. Done deals are on the rise and available sublease space has plateaued.
- Demand among tenants actively seeking office space is up, but the size of the requirements continues to trend down.

The Indianapolis office market began taking small steps towards recovery this quarter as companies slowly return to the office. The Indy MSA posted 25,000 s.f. of occupancy growth throughout the second quarter. This marks the first time the market has grown since the early stages of the pandemic. Class A fared even better with 116,000 s.f. of positive absorption occurring predominantly in North Meridian/Carmel and the CBD.

Pre-planned occupancies from tenants that signed deals in previous quarters were a contributing factor in this occupancy growth, as was the delivery of pre-leased new and renovated construction in downtown Indianapolis. The Box Factory and Union 601 came online with a combined occupancy rate of 55%.

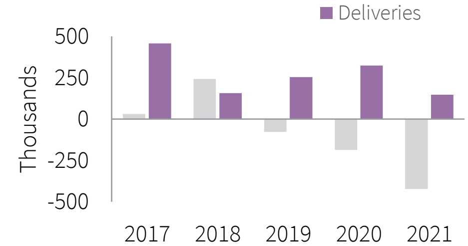
Activity among sublease spaces is also on the rise. Tenants are particularly drawn to these spaces due to the lower cost and the space being already furnished and move-in ready. Several subleases have leased before technically even hitting the market. Seven subleases were signed this quarter. Look for more to be taken down next quarter. A handful of subleases were also withdrawn as companies have decided to retake possession of their space. This is a trend to watch in the coming months.

Outlook

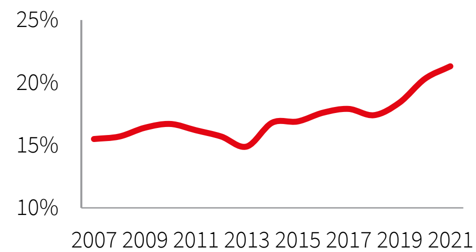
The number of active tenants seeking office space in Indianapolis is nearly double what it was one year ago and the highest it has been since May 2019. However, the average size of the requirements is down approximately 20% year-over-year. This is an encouraging sign that the market is moving towards a recovery, but also a reminder that it will be a slow process. As more and more companies began to re-enter the office there are still those moving to a fulltime work-from-home or hybrid model that requires less physical office space. Expect a few more large blocks of available space to hit the market in the coming months, but for that space to slowly get backfilled as more and more companies move forward with plans to return to the office this summer.

Fundamentals	Forecast	
YTD net absorption	-422,663 s.f.	▶
Under construction	163,000 s.f.	▼
Total vacancy	21.3%	▼
Sublease vacancy	532,071 s.f.	▶
Direct asking rent	$21.96 p.s.f.	▶
Sublease asking rent	$19.20 p.s.f.	▶
Concessions	Rising	▲

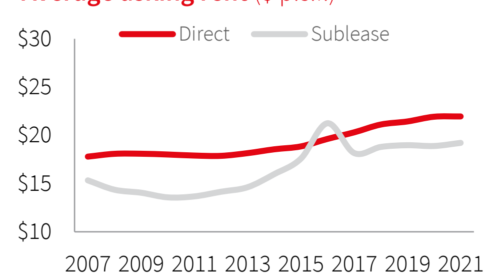
Supply and demand (s.f.)



Total vacancy (%)



Average asking rent ($ p.s.f.)



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Jacksonville

Vacancy continues its upward trajectory as signs of stabilization appear to be approaching

- Total vacancy has swelled by 320 bp since the onset of the pandemic.
- The Q2 completion of Park Place at Nocatee Building 100 marks the second delivery of the year.
- Tenant demand has yet to fully reboot, but intermittent deals are beginning to take shape.
- Average asking rate have remained steady throughout the pandemic, dropping by about $0.02 since Q1 2020.

Fundamentals	Forecast	
YTD net absorption	-328,308 s.f.	▼
Under construction	182,280 s.f.	▶
Total vacancy	18.6%	▲
Sublease vacancy	658,306 s.f.	▶
Direct asking rent	$22.00 p.s.f.	▶
Sublease asking rent	$19.87 p.s.f.	▶
Concessions	Rising	▲

Since the beginning of 2021, Fort Wade Building III in Ponte Vedra and Park Place at Nocatee have delivered and added approximately 187,000 s.f. of vacancy to the market. The supply of product in existing assets has also increased as large corporate users scale back their office presence in the market. A handful of other large corporate moveouts drove the majority of the negative absorption for the quarter, however tenants generally do appear to be more confident making real estate decisions as compared to several quarters earlier.

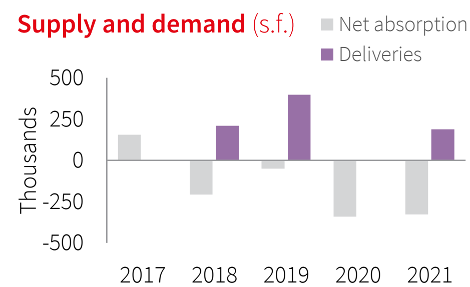
Leasing activity during Q2 was very consistent with levels seen since the onset of the pandemic at just over 200,000 s.f. The quarterly average leasing activity over the last year is approximately 53.0% of the levels seen in 2019. With few net new move-ins during Q2, momentum has been slow to rebuild in the market. That said, Dun & Bradstreet has announced that they will be moving their offices to Jacksonville from Short Hills, New Jersey and likely absorbing upwards of 100,000 s.f. of vacancy. This move further ratifies the trend of northeastern companies relocating or adding offices in Florida.

Direct rates have not budged since the onset of the pandemic with the Q2 2021 rate of $22.00 being exactly equal to the rate in Q1 of 2020. Concessions remain elevated causing effective rates to falter some compared to pre-COVID. Free rent and improvement allowance packages are being offered to help entice tenant activity.

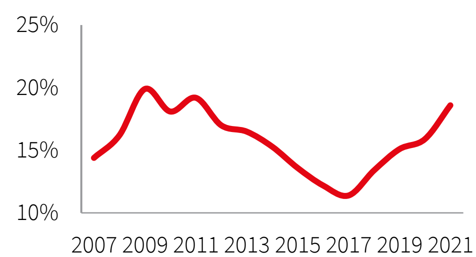
Outlook

Going forward, vacancy will likely grow at a declining pace. There are users who will likely elect to consolidate as they adopt more flexible working arrangements. Still, there remains the potential for Jacksonville to cash in on the many relocations to Florida from other states. Numerous large block availabilities in class A assets combined with a relative pricing discount to other metros and excellent quality of life make Jacksonville difficult to overlook by firms who want to be in the Sunshine State.

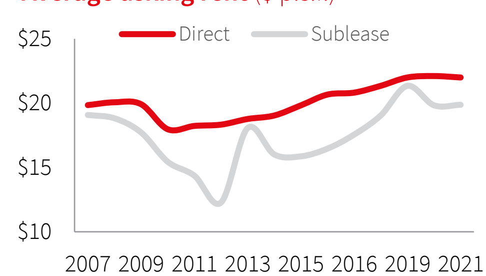
Supply and demand (s.f.)



Total vacancy (%)



Average asking rent ($ p.s.f.)



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Kansas City

Office tenants emerge from “shelter in place” to rethink their real estate

- Two large sublease blocks in the CBD and South JoCo hit the market and caused sublease vacancy to nearly double.
- Net absorption remained negative in Q2, driven largely by sublease space being vacated and tenants downsizing due to increased work from home.
- As tenants emerge from the COVID-19 shelter-in-place order and start to rethink their real estate footprint, a shift to higher quality space is taking place.

Fundamentals		Forecast
YTD net absorption	-404,071 s.f.	▲
Under construction	777,078 s.f.	▲
Total vacancy	15.6%	▶
Sublease vacancy	614,466 s.f.	▼
Direct asking rent	$22.43 p.s.f.	▶
Sublease asking rent	$18.17 p.s.f.	▶
Concessions	Rising	▲

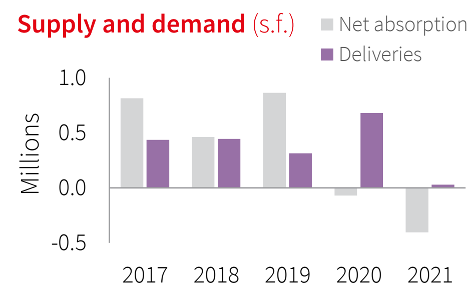
More than a year after the COVID-19 pandemic caused shut-downs in Kansas City, the office market is seeing delayed statistical effects. As life inches back to normal, several companies recently announced return to office plans. Cerner, the metro’s largest employer, announced this quarter that they will have a highly flexible, hybrid workplace model going forward. As companies emerge from the shelter-in-place order and lease terms expire, business leaders are making real estate decisions that are shifting market indicators. Evergy is downsizing within One Kansas City Place and listed up to 107,500 s.f. for sublease this quarter. SelectQuote is also downsizing and listed over 70,000 s.f. in the Overland Park Xchange building for sublease. These large sublease blocks caused the sublease vacancy rate to nearly double from Q1 to Q2. Evergy and SelectQuote exemplify a larger downsizing trend as some business functions will permanently work from home while other employees will utilize a hybrid schedule. The continued trend of downsizing coupled with moves to owner-occupied buildings while interest rates remain low is causing further negative absorption and a heightened vacancy rate at 15.6% this quarter.

Companies continue to re-evaluate their space and consider how to incentivize employees to return to the office. This quarter One Digital and Principal Insurance signed leases at the newly constructed, Class A CityPlace I, both relocations represent a move to higher quality space. First Federal Bank also signed a lease to move to the Class A, mixed-use Park Place development. Like many companies are considering, First Federal was able to embrace a work from home/hybrid model and capitalize on the tenant favorable market with a move to a high-quality asset.

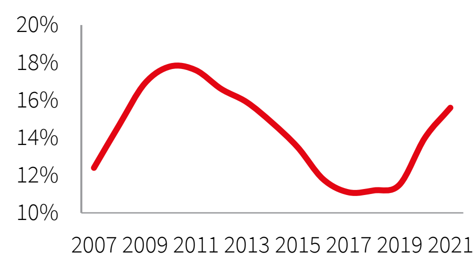
Outlook

Kansas City continues to transition back to normal as vaccinations increase, hiring accelerates, and employees return to the office. Part of this transition will involve real estate decisions that tenants have held off on for the past 18 months. The office market could continue to see negative absorption, but increased leasing in Class A assets is expected as well as stable lease rates through the end of the year.

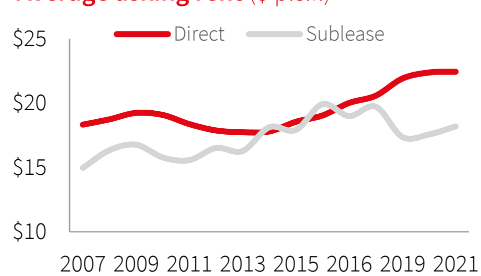
Supply and demand (s.f.)



Total vacancy (%)



Average asking rent ($ p.s.f.)



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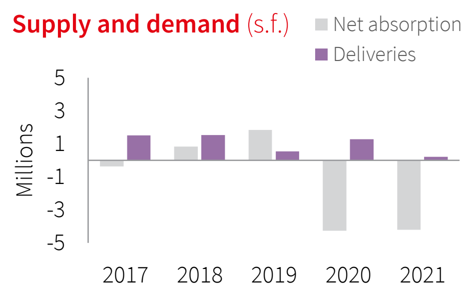
Los Angeles

Recovery gains momentum as tenants moved forward with larger requirements

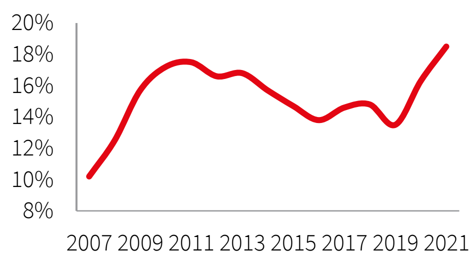
- Leasing activity improved as entertainment and tech companies closed on several large transactions.
- Sublease availability continued to increase but some tenants have begun to withdraw space previously placed on the sublease market.
- Demand for office product located in premium locations with access to a deep talent pool remained strong during Q2.
- Reported increases in touring activity reflects renewed confidence in the economic recovery and on-going re-entry efforts.

Fundamentals	Forecast	
YTD net absorption	--4,202,716 s.f.	▼
Under construction	6,329,790 s.f.	▲
Total vacancy	18.5%	▲
Sublease vacancy	3,726,303 s.f.	▲
Direct asking rent	$3.74 p.s.f.	▶
Sublease asking rent	$3.28 p.s.f.	▶
Concessions	Rising	▲

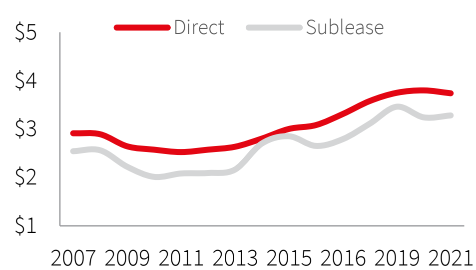
Supply and demand (s.f.)



Total vacancy (%)



Average asking rent ($ p.s.f.)



Although a significant amount of space continued to funnel back into the market as a result of givebacks tied to the pandemic-led economic downturn, stronger evidence of a recovery emerged with Q2 leasing activity moving closer to pre-pandemic levels. Nowhere else was this more evident than on the Westside, where leasing volume nearly doubled from Q1. Despite improvements in leasing activity, sublease levels remained elevated throughout the region, but some tenants began taking back large blocks of space, a trend that is likely to accelerate as employees return to the office and leasing activity picks up.

The entertainment sector, which has been investing heavily in streaming, continued to lead the recovery regionally and propelled forward some of the larger Q2 transactions. Highlighting this, streaming company Hulu will grow its presence to 351,000 s.f. at Boston Properties' Colorado Center in Santa Monica. Roku, another notable streaming platform, also signed a long-term lease agreement at Colorado Center. On the sports and entertainment talent representation side, Creative Artists Agency recommitted to 2000 Avenue of the Stars in Century City by renewing approximately 290,000 s.f. Other sectors such as tech were also active during Q2: messaging platform Snapchat, which recorded strong revenue gains over the last year, leased additional space at the Santa Monica Business Park. All these transactions further affirm the long-term importance leading companies are placing on office product located in premium locations with access to a deep talent pool.

Outlook

With well over half of the Los Angeles's population vaccinated and many companies moving forward on re-entry strategies, a clearer picture on what "back to normal" will look like is coming into focus, giving tenants confidence to move forward on stalled space requirements. This is evident in touring activity which has already reached 71% pre-pandemic levels in May and will likely grow in the months to come. Additionally, several larger tenant requirements currently in the market are providing further indications that the market is on the mend.

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Louisville

Slow start to the year in the CBD and suburban submarkets

- Galen College relocated into their new 132,000 s.f. Headquarters from 65,000 s.f on Zorn Avenue.
- The 435 Building at ShelbyHurst delivered with Dean Dorton occupying the entire fourth floor.
- Unlike previous years the bulk of the negative absorption occurred in the suburban markets.

A slow start to 2021 continued into the second quarter and overall vacancy is still on the rise. This quarter saw an additional 98,941 s.f. of negative net absorption. However, a large portion of that was due to several large space givebacks by Anthem and McKesson in the Middletown/Eastpoint submarket. Surprisingly, total sublease vacant space decreased this quarter after increasing over 100,000 s.f. since the first quarter of 2020. We expect several other sublease spaces to be reoccupied by the original tenant, which will continue to decrease the total sublease space available.

The start to the year was not unexpected given the market activity we have been tracking. Multiple groups slowed their decision-making processes while waiting for a vaccine rollout and the easing of government restrictions. Now those groups who had put decisions on pause are slowly beginning to return to the market. Most of them are at the beginning stage of a search, but we expect many to lease space over the next three to six months.

Despite limited leasing activity, the amenities battle has continued within the central business district. In a tenant-friendly environment like the one we have now, any differentiator is valuable. Recently, Heine Brothers Coffee announced plans to backfill a former Starbucks in the PNC Tower. Additionally, 500 W. Jefferson began a $16 million renovation that will include a façade upgrade, a new lobby and a rooftop terrace. These amenities are important for not only attracting new tenants, but also for workers who have the option for remote or in-person work.

Outlook

Thus far 2021 has evolved as we expected it would, which has meant a tough year for the market. The lack of new sublease space and recent touring activity indicate that the office market may be stabilizing somewhat after a turbulent past 12 months. It is our opinion that pent-up office demand will lead to an increase in leasing activity over the final six months of the year across all size ranges and within both the CBD and suburban submarkets.

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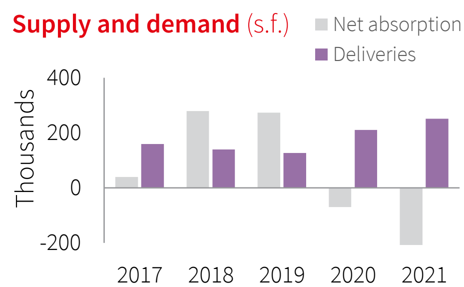
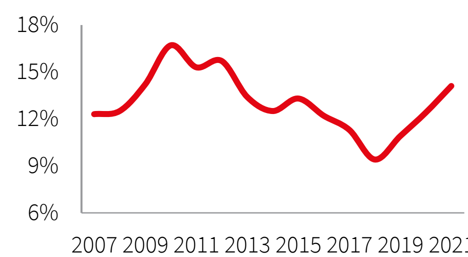
Fundamentals	Forecast
YTD net absorption	-210,429 s.f. ▲
Under construction	48,000 s.f. ▶
Total vacancy	14.1% ▼
Sublease vacancy	197,128 s.f. ▲
Direct asking rent	$18.74 p.s.f. ▶
Sublease asking rent	$15.18 p.s.f. ▶
Concessions	Rising ▲

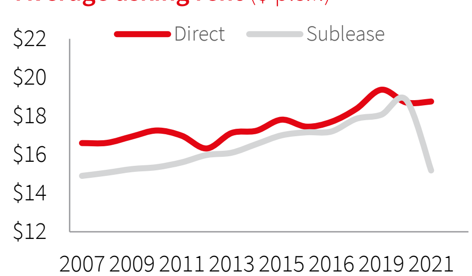
Supply and demand (s.f.)



Total vacancy (%)



Average asking rent ($ p.s.f.)



Miami

Occupancy lags market momentum while rents achieve new all-time highs

- Asking rents across Miami rose for a fourth consecutive quarter, up 2.6% from pre-pandemic levels.
- While new-to-market firms continue to secure space, delayed occupancy for hiring and relocating employees has kept absorption negative, leading to higher vacancy.
- The CBD remains the largest beneficiary of increased market activity, reflecting the prestige and pay range of new-to-market jobs.

Rent continues to climb in Miami despite rising vacancy amid new deliveries and leasing with delayed occupancy. Miami's CBD remains the driving force behind rent growth, posting 5.6% year-over-year growth, compared to just 1.6% in the suburbs. Suburban assets face a combination of more sublease space on the market, new deliveries with little preleasing and less interest from new-to-market firms, which tend to be focused on the CBD.

Pending positive absorption is still lagging market momentum as occupiers wait for build outs to complete, new employees to be hired and current employees to relocate or return to the office. Strong leasing activity suggests that positive net absorption will come to fruition late in 2021 and continue well through 2022. In the meantime, elevated vacancy is to be expected as new developments deliver vacant and rightsizing among current occupiers increases availability. Employers are likely to continue adapting to the new way of working for some time as they weigh the costs of collaboration and productivity against the savings of occupancy costs.

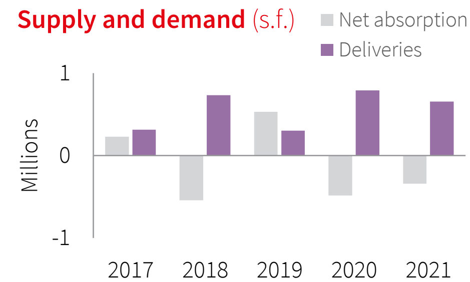
Highlights of Q2 leasing activity in Miami include Thoma Bravo's 36,000-s.f. lease at 830 Brickell, D1 Capital taking the last full floor at 2850 Tigertail and the Florida State Attorney's Office signing for 50,000 s.f. at River Landing. Point 72 leased 8,600 s.f. at 701 Brickell, in addition to the 4,280 s.f. that they leased at 360 Rosemary in West Palm Beach last quarter, a move indicative of a larger trend beginning to emerge, that will allow firms to serve both cities while attracting talent from across the South Florida region.

Outlook

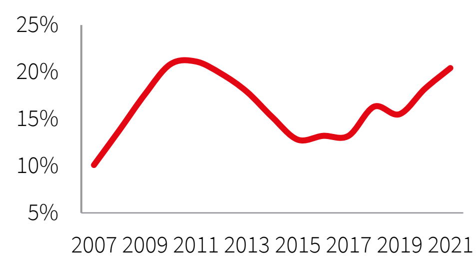
Miami continues to grow closer to its goal of becoming the "Wall Street of the South" with major financial firms setting up major operations and relocating hundreds of employees. Wynwood's blossoming tech scene is likely to take off with exponential growth as it approaches critical mass. Rent growth could slow in the near-term but will accelerate again as occupancy rises and quality space becomes scarcer.

Fundamentals		Forecast
YTD net absorption	-339,245 s.f.	▲
Under construction	1,372,171 s.f.	▲
Total vacancy	20.4%	▶
Sublease vacancy	419,320 s.f.	▶
Direct asking rent	$46.01 p.s.f.	▶
Sublease asking rent	$39.56 p.s.f.	▶
Concessions	Stable	▶

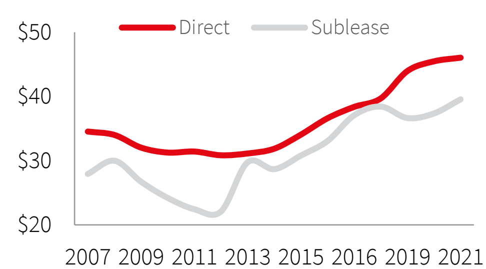
Supply and demand (s.f.)



Total vacancy (%)



Average asking rent ($ p.s.f.)



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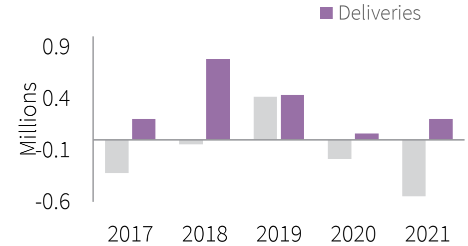
Milwaukee

June kicked off the return-to-office journey for many Milwaukee-area employers.

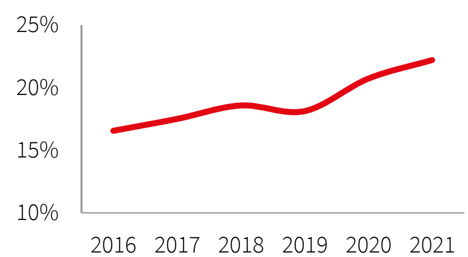
- More than seven Milwaukee area major employers reopened their offices to employees voluntarily returning to in-person work.
- The average lease term in the CBD remains above five years
- Vacant large blocks weigh on net absorption in both urban and suburban markets.

Fundamentals	Forecast	
YTD net absorption	-547,361 s.f.	▶
Under construction	666,000 s.f.	▶
Total vacancy	22.2%	▶
Sublease vacancy	440,916 s.f.	▲
Direct asking rent	$22.76 p.s.f.	▶
Sublease asking rent	$20.79 p.s.f.	▼
Concessions	Rising	▲

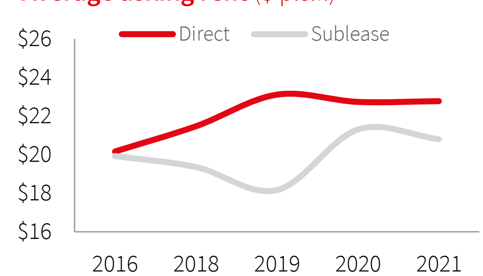
Supply and demand (s.f.)



Total vacancy (%)



Average asking rent ($ p.s.f.)



On June 1st all Milwaukee County capacity restrictions and mask mandates expired putting private businesses fully in charge of their own COVID-19 protocols. This less restrictive environment coincided with a high concentration of large employers like Northwestern Mutual Life, BMO Harris Bank and the City of Milwaukee, welcoming their employees back to the office at varying degrees of flexibility and capacity. In a survey conducted by the Milwaukee Downtown Business Improvement District through April and May 2021, an estimated 27% of the Downtown Milwaukee workforce had returned to the office. The survey forecasts that over 50% of the downtown Milwaukee workforce will have returned by September 1st this year.

As Milwaukee transitions back to the office the underlying market is experiencing a significant re-shuffling of office utilization sentiment, implying both positive and negative activity. Average lease terms are holding steady above 5 years while sub-lease availability has once again increased, currently 7.9% of total available space.

Total direct asking rents are flat year-over-year while vacancy rates have increased over the same period due to new deliveries and also historically single-tenant buildings hitting the leasing market fully vacant. An example of this trend would be United HealthCare fully vacating 124,000 s.f. at 10701 W Research Dr. in Wauwatosa as it downsizes into Honey Creek Corporate Center I. Another example is American Family Insurance which vacated 100,000 s.f. at 1402 Busse Rd., in Pewaukee. These emerging large blocks will be something that we keep our eye on.

Outlook

Almost 50% of Wisconsinites have been fully vaccinated. Bars and restaurants are coming to life once again and short-term renewals executed in 2020 are coming back around to lease expiration. We will be watching these specific occupiers' decision to either renegotiate a short-term renewal or convert to a long-term lease as a forward looking indication of market stability among tenants.

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Minneapolis-St. Paul

Negative absorption continues, but a successful vaccination program offers hope for office re-entry

- Flight to quality still reigns: 10 West End continues to attract relocations, indicative of unprecedented demand for new construction in the west suburbs.
- Signed lease terms are getting longer, indicative of growing faith in the future of office post-lockdown.
- Continuing from 2020, many institutional investors are looking to other asset classes such as industrial and multi-housing. Most local office sales in 2021 YTD have been owner-users or medical office-heavy portfolio trades, consistent with nation-wide trends.

In the second quarter alone, 2.9 million COVID-19 vaccine doses were administered to Minnesotans. An optimistic outlook for public health has prompted employers to strategize how and when to bring employees back to the office. Local surveys suggest the most common expected return date for the Twin Cities' largest occupiers is post-Labor Day, with most employees having the option of a hybrid work model to include an average of two days a week working from home.

This has been the third quarter of net negative absorption since the start of the COVID-19 pandemic in March 2020, but this is the first quarter to demonstrate signs of decelerating losses. The net negative absorption can be largely attributed to downsizing, smaller tenants letting their leases expire, and little positive absorption to counterbalance. Like last year, the plurality of signed leases have been short-term renewals. However, average lease term has grown from a median of 52 months to 66 months quarter-over-quarter.

The newest suburban spec development, Excelsior Group's 10 West End, delivered last quarter in St. Louis Park's desirable mixed-use West End micromarket. Radisson Hotel Americas is the latest tenant to sign with 36,000 s.f. Other tenants committed to the 350,000-s.f. project include architectural and engineering firm HDR and CarVal Investors. As occupiers consider re-entry strategy, an emphasis on well-designed workplace and intentional culture is most likely to excite employees about returning to the office. Quality new office developments are already rebounding to landlord-favorable conditions significantly faster than all other office classes.

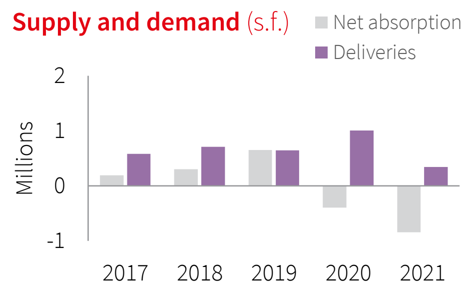
Outlook

Last quarter, Target announced plans to sublease its City Center site in the Minneapolis CBD, which will make Target the largest single sublessor in the country when its 890,000 s.f. is officially listed, likely in Q3.

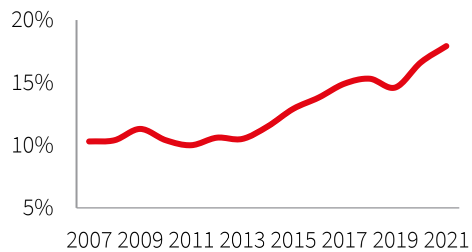
The next substantial office delivery will be RBC Gateway in early 2022. The Minneapolis CBD development anchoring the east end of Nicollet Avenue will also include a Four Seasons hotel and condos in addition to 531,000 s.f. of office, the majority of which is already pre-leased.

Fundamentals		Forecast
YTD net absorption	-868,895 s.f.	▼
Under construction	671,419 s.f.	▼
Total vacancy	17.9%	▲
Sublease vacancy	1,064,480 s.f.	▲
Direct asking rent	$28.99 p.s.f.	▼
Sublease asking rent	$25.81 p.s.f.	▼
Concessions	Rising	▲

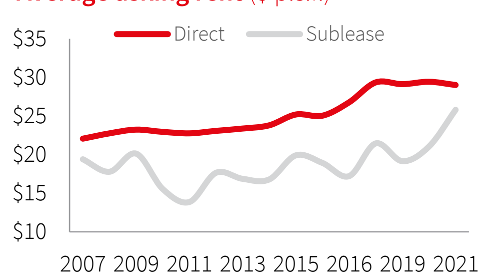
Supply and demand (s.f.)



Total vacancy (%)



Average asking rent ($ p.s.f.)



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Nashville

Urban submarkets lead the way in the region's recovery

- Urban submarkets in Nashville saw 118,228 of absorption in Q2, while suburban markets lagged behind with -67,689 s.f.
- 75% of the nearly one million s.f. of available sublease space remains in the urban core.
- Two million s.f. of office space is under development, of which 90% is in the urban core.
- Within the urban markets, Midtown contains 26% of existing supply and 51% of YTD completions.

Continuing a trend from Q1, the urban submarkets appear to be recovering from the economic downturn faster than the surrounding areas. The suburban submarkets saw more negative absorption in Q2 and an increased vacancy rate of 19.2% compared to 15.9% vacancy in the urban core. However, an uptick in lease signings in these markets indicates a possible suburban recovery later this year. While COVID-19 is still affecting business decisions as deals continue to take more time to execute, the Williamson County suburban area remains appealing to new-to-market tenants with total leasing activity just under 400,000 s.f. in 2021.

The groundbreaking of the 15-story Moore Building in Midtown is a harbinger of a broader migration of businesses from the Downtown market. Several of these tenants relocated to the recently delivered Broadwest building in Midtown and more are expected to follow. In June, Pinnacle Bank announced an upcoming relocation from its riverfront office in the heart of SoBro to a new Nashville Yards tower along the Midtown border. The delivery of new, amenity-rich Trophy buildings in Midtown combined with busy downtown tourism traffic may be factors in this emerging migration pattern.

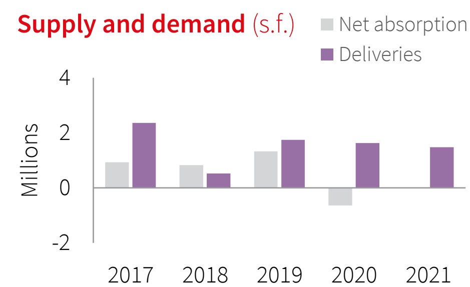
Outlook

The positive upswing throughout the first half of 2021 indicates Nashville may be on the verge of a rebound after experiencing -633,000 s.f. of absorption in 2020. Absorption is up 59% over Q1 and average asking rates are holding steady at $33.01 p.s.f. The vacancy rate may rise slightly as speculative projects are delivered in the second half of the year.

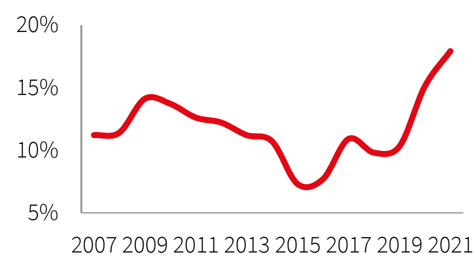
The Metro Council's approval of the Oracle River North tech hub, which includes a $175 million up-front payment for downtown infrastructure improvements, is also expected to serve as catalyst for other urban developments.

Fundamentals	Forecast
YTD net absorption	15,761 s.f. ▲
Under construction	2,001,624 s.f. ▶
Total vacancy	17.9% ▶
Sublease vacancy	982,636 s.f. ▼
Direct asking rent	$33.01 p.s.f. ▶
Sublease asking rent	$26.04 p.s.f. ▶
Concessions	Rising ▲

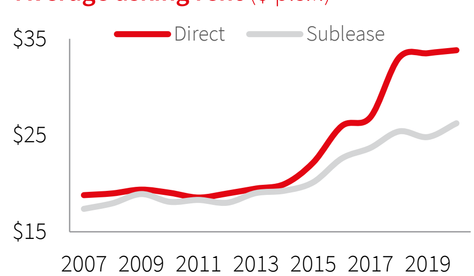
Supply and demand (s.f.)



Total vacancy (%)



Average asking rent ($ p.s.f.)



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New Jersey

Sublease space nears 18-year high, while leasing activity ticks higher during second quarter

- With 67% of New Jersey's adult residents fully vaccinated at mid-year and COVID-19 occupancy restrictions lifted, office occupiers continued to execute their re-entry plans during Q2.
- Corporate restructurings boosted the amount of sublease space to 7.7 million s.f. at mid-year, which is the highest supply since 2003.
- Rising vaccination rates and lifting of local occupancy restrictions are helping set the stage for pent-up demand to gain momentum during the second half of the year.

With the anticipation that more employees will work remotely, even after the COVID-19 pandemic is over, New Jersey companies have been pruning their real estate holdings, which had unleashed a rising tide of sublease space in the office market. This trend continued in Q2 as the Northern and Central New Jersey overall vacancy rate climbed to 27.3%, compared to 26.4% in early 2021. Excluding sublease space, the direct vacancy rate ticked only 10 basis points higher from early 2021 to 22.3%.

Consolidations and restructurings boosted the supply of sublease space in the state's office market to 7.7 million s.f. at mid-year compared to 6.4 million s.f. in early 2021. Sublease space is now at its highest level since year-end 2003, yet subleases accounted for just over 18% of total available office space, compared to a high-water mark of 40% in 2002. Among the largest sublease availabilities recently added was 215,000 s.f. from Abbvie at 5 Giralda Farms in Madison, while Eisai began marketing 118,000 s.f. at 155 Tice Blvd in Woodcliff Lake, after relocating its headquarters to the ON3 campus in Clifton/Nutley. In addition, IQVIA placed 115,000 s.f. on the market for sublease at 77 Corporate Drive – Bldg D in Bridgewater.

While life sciences, financial services and tech sectors had historically been the leading office demand drivers, healthcare companies were responsible for nearly 60% of leasing velocity in Q2. Among the largest transactions was Atlantic Health System's 533,000-s.f. lease extension and expansion at 435, 465 and 475 South Street in Morristown. In addition, QualCare signed a 145,430-s.f. renewal at 30 Knightsbridge Road in Piscataway.

Outlook

With many companies putting their long-term real estate decisions on the backburner during the COVID-19 pandemic, increased vaccination rates and lifting of occupancy restrictions are helping set the stage for pent-up demand to gain traction during the second half of the year. Nearly 4.5 million s.f. of tenant requirements were navigating the state's office market at mid-year, which was a nearly 10% increase in activity from the end of 2020. Furthermore, more than 1.9 million s.f. of deals were signed in Q2, which was the highest volume seen since Q3 2020.

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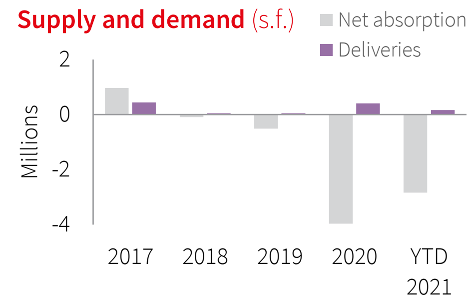
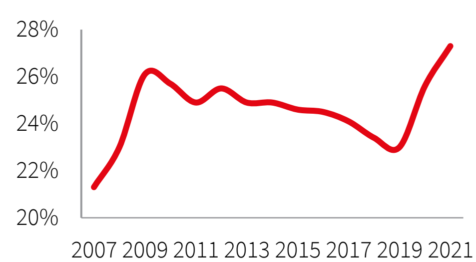
Fundamentals	Forecast
YTD net absorption	-2,841,606 s.f. ▼
Under construction	121,000 s.f. ▶
Total vacancy	27.3% ▲
Sublease vacancy	7,737,841 s.f. ▲
Direct asking rent	$29.10 p.s.f. ▼
Sublease asking rent	$24.91 p.s.f. ▶
Concessions	Rising ▲

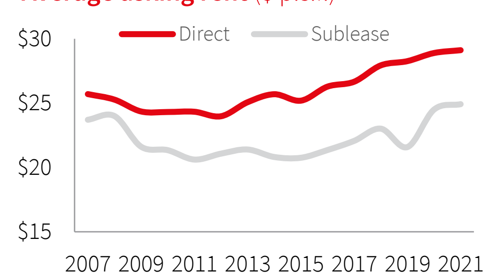
Supply and demand (s.f.)



Total vacancy (%)



Average asking rent ($ p.s.f.)



New York

Recent activity highlights dichotomy of the office market between prime and commodity product

- New York City has recovered approximately 40% of total non-farm employment losses from the trough in April 2020.
- Q2 leasing velocity within traditional office product reached approximately 2.4 million s.f., standing 15% below the previous quarter.
- The overall average asking rent registered a 5.2% decline year-over-year, pulled by the sublease market falling by 10%.

Tour velocity exceeded pre-pandemic levels in Q2 as many occupiers sought to secure higher-quality spaces in anticipation of having employees return to the workplace by September. Demand was driven by the successful vaccine rollout in New York and came amidst rapidly evolving market dynamics, reflected in the record-high volumes of monthly apartment leasing and venture-backed startup funding. The high-end segment was particularly active as well-capitalized tenants, namely sub-20,000-s.f. private equity firms, took advantage of aggressive concession packages for premium space.

Recent activity highlighted the increasing dichotomy between prime and commodity product. Nearly 80% of new leases signed were within Class A properties compared to 65% in 2019. Moreover, the Class B market saw vacancy increase by 620 bps year-over-year, while Class A vacancy rose by 500 bps. Flight to quality product was prominent within subleasing activity, with Class A product accounting for 90% of velocity. In one of the largest subleases of the quarter, Coinbase signed for 30,000 s.f. at 55 Hudson Yards as it opened its first office location in New York a few months after its IPO.

Following over a year of remote work, shifting workforce preferences signified the increasing desirability of transit-centric and highly amenitized product. One Vanderbilt was a prime testament to this, as the newly delivered property is more than 90% leased with several leases in the pipeline. Tenants upgrading their spaces included Schrodinger, which nearly doubled their footprint by leasing 109,000 s.f. at 1540 Broadway, and Empire Health, which signed for 70,000 s.f. at One Penn Plaza.

Outlook

Flexibility will become an increasingly critical component of real estate occupancy strategy, driving the adoption of non-traditional lease structures and incentives to attract tenants and posing mounting challenges for commodity product. New York City will benefit from the emerging war for talent as large occupiers and high-growth companies are drawn to its highly skilled workforce and deep talent pool. The sharp rise in recruitment has already been reflected in the high volume of Manhattan office-using job postings, which surpassed the pre-pandemic average.

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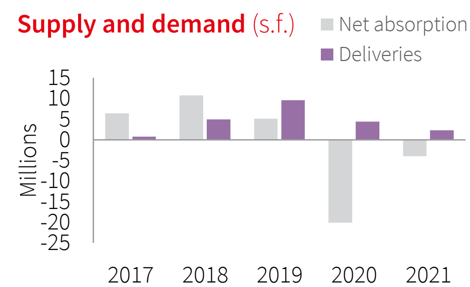
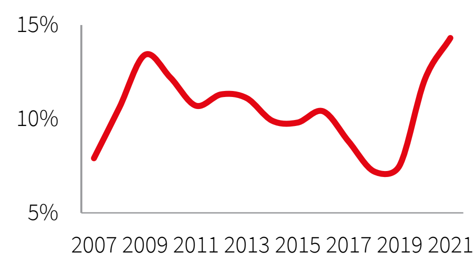
Fundamentals	Forecast	
YTD net absorption	-2,501,072 s.f.	▼
Under construction	20,262,345 s.f.	▶
Total vacancy	14.3%	▲
Sublease vacancy	18,760,922 s.f.	▲
Direct asking rent	$82.51 p.s.f.	▼
Sublease asking rent	$58.97 p.s.f.	▼
Concessions	Rising	▲

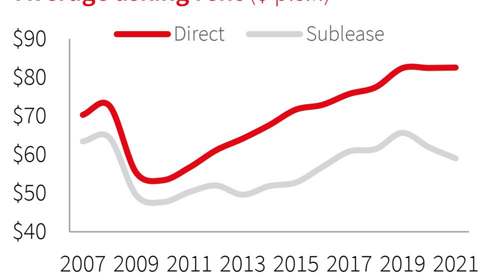
Supply and demand (s.f.)



Total vacancy (%)



Average asking rent ($ p.s.f.)



North Bay

Tenant-favorable conditions despite landlords holding face rents

- Additional vacancies were added in the 2nd Quarter, predominately concentrated in Santa Rosa.
- A tenant-favorable environment may translate into positive leasing activity in the coming months

Second quarter absorption was negative as companies continue to release space across the North Bay. Among those companies are Northern California Medical Associates and North Bay Vitreoretinal who vacated approximately 30,000 s.f. combined in Santa Rosa. Additional vacancies were represented by several small-to-mid-sized tenants scattered across Marin and Sonoma counties. However, total vacancy was virtually unchanged as absorption was slightly offset due to a few occupancies in the second quarter. II-VI Incorporated occupied approximately 40,000 s.f. at Westwind Business Park in Santa Rosa, while Intervine Inc and Adventist Health occupied a combined 20,000 s.f. at Carneros Commons in South Napa.

Tenant activity is rebounding back to pre-pandemic levels and currently represent an 80% share of tenant requirements from last March. 2020. Demand is driven mostly by local tenants in the 2,500 to 5,000-s.f. range, with a handful of large users looking for space greater than 20,000 s.f.

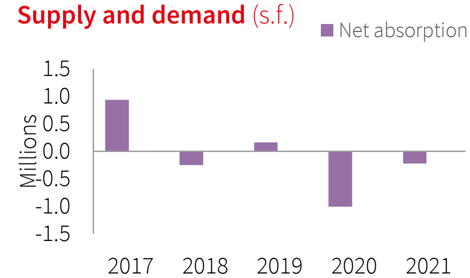
Outlook

COVID-19 restrictions were lifted in June, allowing businesses to operate at full capacity with minimal mask guidelines. While some companies are eager to return to the office, many companies are still evaluating their real estate needs and are considering hybrid work policies or flexible work schedules for a portion of their employee base. As a result, the market may see an increase in availabilities as excess space is given back or, on the other hand, companies may choose to re-occupy their space and could potentially result in occupancy gains.

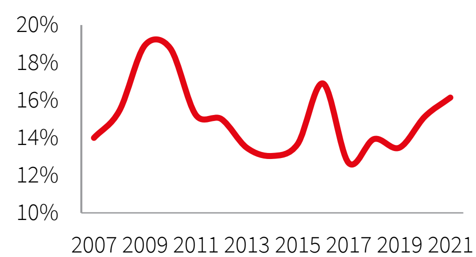
The market is in tenant-favorable conditions despite landlords holding face rents but offering higher concessions to entice tenants, be it free rent or higher tenant improvement allowance. This could translate into positive leasing activity in the coming months should demand remain steady and rents continue to stabilize.

Fundamentals	Forecast	
YTD net absorption	-222,283 s.f.	▶
Under construction	0 s.f.	▶
Total vacancy	16.1%	▲
Sublease vacancy	340,126 s.f.	▲
Direct asking rent	$2.76 p.s.f.	▶
Sublease asking rent	$2.24 p.s.f.	▶
Concessions	Rising	▲

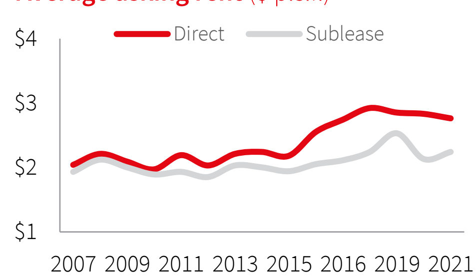
Supply and demand (s.f.)



Total vacancy (%)



Average asking rent ($ p.s.f.)



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Northern Virginia

Major re-commitments by government contractors headline leasing activity

- Occupancy loss continued but at a slower rate than a record Q1.
- Deal count was down in Q2 vs. last year, while total leasing activity remained on par with other periods during the pandemic.
- Renewals continue to drive leasing decisions, accounting for 63% of activity in Q2, but term length has started to pick up.
- 1.7 million s.f. of non-owner-occupied product is under construction across four buildings, with no new starts expected in the short-term.

Northern Virginia experienced 722,403 s.f. of net occupancy loss in Q2, a significant level, but lower than the record 2 million s.f. recorded in Q1. Vacating subleases accounted for the top three absorption drivers this quarter, led by Walmart Labs (162,000 s.f.) in Herndon. Meanwhile, leasing activity, down 33% vs. Q2 2020, was headlined by government contractors making significant re-commitments to the market. Raytheon signed a 521,366 s.f., six-year renewal in Sterling and L3Harris signed a 161,349 s.f., 10-year renewal in Reston. Renewals continue to drive leasing decisions, accounting for 63% of activity in Q2, but term length has started to pick up, averaging 96 months in Q2, a 13% increase year-over-year.

In terms of construction activity, 44679 Endicott, located in the mixed-use One Loudoun town center, delivered this quarter at 75% pre-leased. Outside of major owner-built projects such as National Landing and Capital One's Tysons campus, three non-owner-occupied buildings remain under construction: Foulger-Pratt's Tysons Central (0% pre-leased), Boston Properties' RTC Next (87% pre-leased to Fannie Mae and Volkswagen) and 1902 Reston Metro (100% pre-leased to Neustar). There were no groundbreakings in Q2, as any new starts without significant pre-leasing remain unlikely.

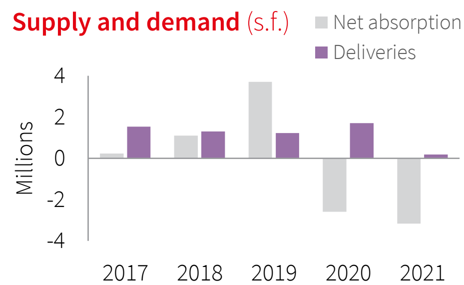
Outlook

Government contract award volume to the region remains at an all-time high, but its historical correlation to leasing activity is still on pause amid the pandemic. However, major re-commitments by large government contactors this quarter may encourage others to follow suit.

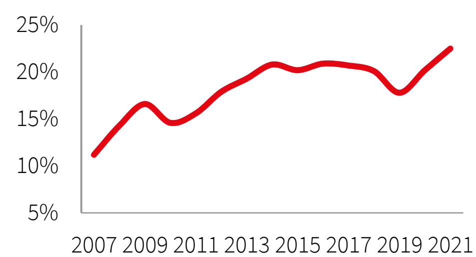
As tenants evaluate future space needs and look to prioritize health and wellness, among other amenities, the market could see a bifurcation and flight-to-quality, with newer product outperforming. The trend has already begun to materialize, as the vacancy rate of Class A product built before 2010 stands at 21.4% compared to 13.2% for properties delivered since 2010.

Fundamentals		Forecast
YTD net absorption	-3,168,683 s.f.	▼
Under construction	1,682,628 s.f.	▼
Total vacancy	22.5%	▲
Sublease vacancy	2,449,156 s.f.	▲
Direct asking rent	$35.85 p.s.f.	▶
Sublease asking rent	$29.79 p.s.f.	▶
Concessions	Rising	▲

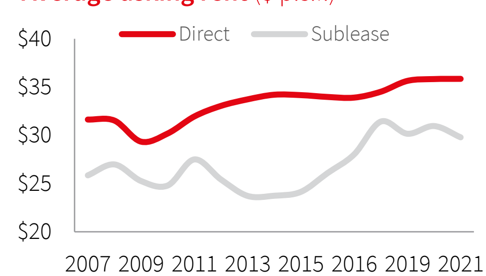
Supply and demand (s.f.)



Total vacancy (%)



Average asking rent ($ p.s.f.)



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Oakland

Oakland expecting a boost in occupancy gains as deal velocity gains traction

- Sublease availabilities increased; however, deals are in progress that will remove significant blocks from the market in Q3.
- Tenant requirements have surpassed pre-pandemic levels.
- Many companies are still evaluating their real estate needs and immediate impacts of lifted restrictions are yet to be realized.

Downtown Oakland realized negative net absorption in Q2 as companies continue to evaluate return-to-work strategies such as hybrid work models and flexible work schedules, resulting in increased sublease availabilities within the market. Mosaic Solar and Treasury Wine Estates put a combined 60,000 s.f. of sublease space on the market at 300 Lakeside, while Teecom and Delta Dental are marketing a total of 35,000 s.f. for sublease at 1333 Broadway.

Fortunately, demand for space is gaining momentum as San Francisco-based tenants explore satellite options in Oakland to be near their East Bay labor force. Zendesk is the most recent company to make their way into Oakland, leasing 10,000 s.f. of space at WeWork in The Leamington building. Meanwhile, another high-profile San Francisco tech tenant is in negotiations for 60,000 s.f. and should remove this large block from the market in Q3. Organic growth was also realized as FiveTran signed the largest lease of the year so far, with plans to expand into 80,000 s.f. at 1221 Broadway in Q4. At 1111 Broadway, Gibbs Law Group signed for 15,000 s.f. and will take occupancy in Q3. Additionally, tenant requirements have surpassed pre-pandemic levels and have increased 80% since March 2020. This, coupled with stabilizing rents, have created an active leasing market which should translate into increased leasing activity through the remainder of the year.

Outlook

Though the COVID-19 restrictions were lifted mid-June, many companies are still evaluating their future real estate needs and workplace policies. Employers are actively seeking ways to address the expectations of flexible work schedules and offer more convenient commutes. As a result, some companies that adopt hybrid work models may shed excess space, while others may re-occupy at full capacity.

The immediate impacts of the lifted restrictions are yet to be realized; however, Oakland is in a favorable position with its proximity to a strong labor pool, housing options, and major transit corridors. This, combined with steady tenant demand, could lead to strong market fundamentals by year end.

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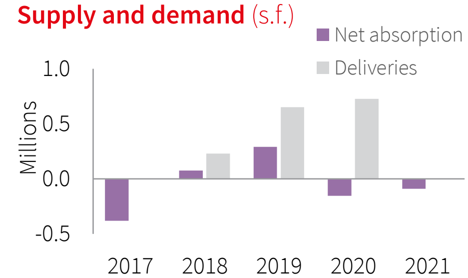
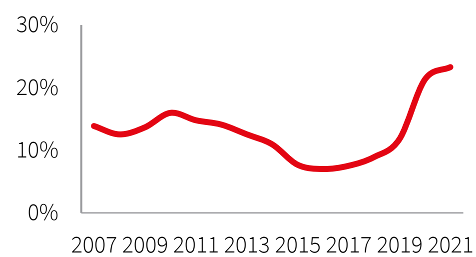
Fundamentals	Forecast
YTD net absorption	-253,542 s.f. ▼
Under construction	0 s.f. ▲
Total vacancy	23.3% ▲
Sublease vacancy	682,611 s.f. ▶
Direct asking rent	$5.06 p.s.f. ▶
Sublease asking rent	$3.89 p.s.f. ▶
Concessions	Rising ▲

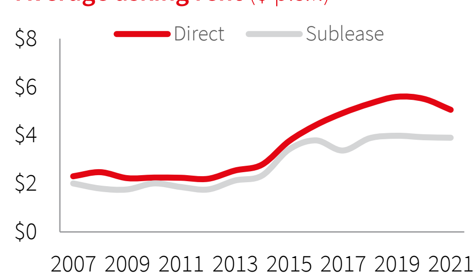
Supply and demand (s.f.)



Total vacancy (%)



Average asking rent ($ p.s.f.)



Orange County

Tenants remain cautious as consumer sentiment improves

- The number of short-term leases signed in the first half of 2020 is 50% higher than the first half of 2019, impacting Q2 2021 fundamentals.
- While total available space is on the rise, sublease Class B product, has decreased for the first time since the onset of the pandemic.
- Landlords have maintained asking rates at over $3.00 p.s.f. but actual lease rates have trended downward.
- The Orange County market is somewhat at a standstill as more and more companies confirm plans to return to the office after Labor Day.

Fundamentals	Forecast	
YTD net absorption	-1,115,439 s.f.	▲
Under construction	1,013,381 s.f.	▶
Total vacancy	16.8%	▲
Sublease vacancy	1,727,043 s.f.	▲
Direct asking rent	$3.04 p.s.f.	▼
Sublease asking rent	$2.54 p.s.f.	▼
Concessions	Rising	▲

Despite the 1.1 million s.f. of net occupancy loss through the first half of 2021, signs of resiliency remain present. Quarterly negative net absorption is at its lowest level since the onset of the pandemic, rents have managed a slight increase, and as the effectiveness of widespread vaccination rollouts become evident, companies are cementing their return-to-work strategies. Currently, Q2, which marks the one-year anniversary of the pandemic, is seeing the impact of the uptick in short-term leases signed in 2020. Transactions signed last year with a term of 12 months or less increased by 50% year-over-year and by 36% compared to the previous five-year average. Overall, smaller office spaces, less than 10,000 s.f., have been the main catalysts to the increases in availability and vacancy, which are currently at heights not seen since the last recession. Likewise, leases in this size range account for 76% of the short-term leases signed in 2020.

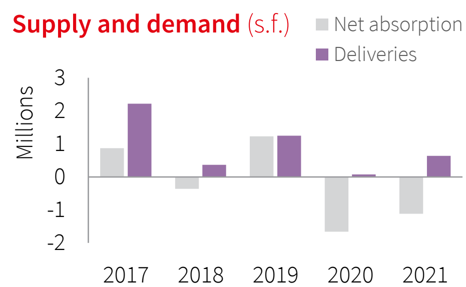
Traditional high-rise Class A buildings concentrated in the Airport Area are facing a greater challenge in retaining their tenants. Many companies are fleeing to low-rise product as well as to newer office parks like FLIGHT in Tustin, The Boardwalk in Irvine and Spectrum Terrace in the Irvine Spectrum. Q2 vacancy for Class A buildings is 20.4% while it is 13.8% for Class B buildings. Moreover, Class B sublease availability decreased, by 100,000 s.f., for the first time since the pandemic began.

Landlords have proved their faith in the market as average asking rates have remained above $3.00 p.s.f., a 2.25% decrease from Q2 2020. Still, tenants have been successful in negotiating lower rates as average take rates have decreased by 18% since Q2 2020. Moreover, concessions are on the rise, pushing effective rents further downward.

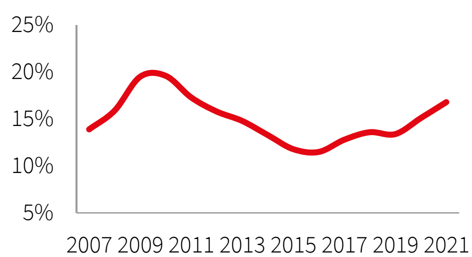
Outlook

The Orange County office market is somewhat at a standstill as landlords resist significantly lowering rents and occupiers begin to finalize their return-to-work strategies. Many local companies have confirmed some sort of re-entry by year-end. With local unemployment at 5.9%, the lowest in the region, the outlook for the second half of 2021 is looking promising.

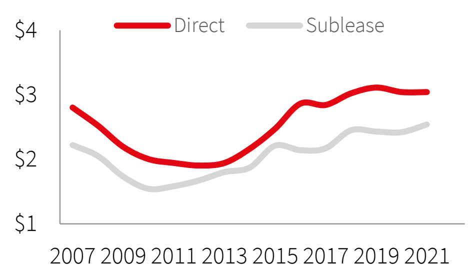
Supply and demand (s.f.)



Total vacancy (%)



Average asking rent ($ p.s.f.)



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Orlando

Occupancy losses have begun to stabilize as tenant demand slowly rebuilds

- Leasing activity in Q2 ticks back up, nearing pre-COVID levels.
- Total vacancy slightly increased by 10 bp while direct vacancy remained flat.
- Direct average asking rates have yet to see any real discount compared to pre-COVID levels.
- EA's build-to-suit development at Creative Village is the only active construction in the market.

Fundamentals		Forecast
YTD net absorption	-470,360s.f.	▶
Under construction	175,940 s.f.	▶
Total vacancy	12.8%	▶
Sublease vacancy	450,149 s.f.	▶
Direct asking rent	$25.89 p.s.f.	▶
Sublease asking rent	$24.01 p.s.f.	▶
Concessions	Rising	▲

The delivery of the 25,209 s.f. Discovery One building with HighKey as the full building tenant marked the first and only delivery of the year. The other active development project is EA's 175,940 s.f. office building at Creative Village, which is anticipated to deliver during Q1 2022. Other proposed developments throughout Lake Mary, University Area and the CBD remain on hold. Lincoln Property Company continues to seek tenants for their T2 development at Church Street Station while Ustler Developments simultaneously works to recruit for their development at Parcel X in Creative Village. Meanwhile, total availability in the market has grown approximately 440 bp since Q1. Held together, these conditions are providing an extraordinary opportunity for tenants to mobilize and upgrade to nicer space.

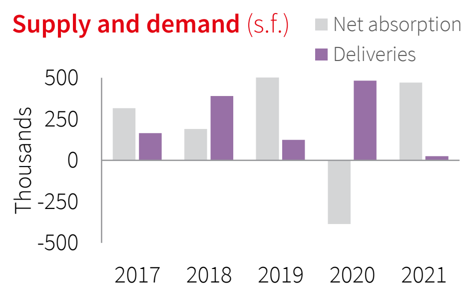
Some submarkets have begun to see signs of life as net new activity has finally taken shape. The foremost example of this from Q2 was Innovel's $16 million purchase and subsequent occupancy of the South Park Center Building J, formerly occupied by United Healthcare Group. A handful of other new leases such as Sonesta Hotels' 23,084 s.f. move into Landmark Center One helped to turn the corner and punctuate a year-long trend of significant negative absorption. Move outs, consolidations and downsizing remained central themes during the quarter, but have finally been matched with enough positive activity to ameliorate the bottom line.

Pricing has been very steady throughout the pandemic despite other fundamental shifts. Since the onset of the pandemic in Q1 2020, asking rates have changed by $0.07. True effective rates have certainly suffered as free rent and improvements have been elevated to stimulate activity.

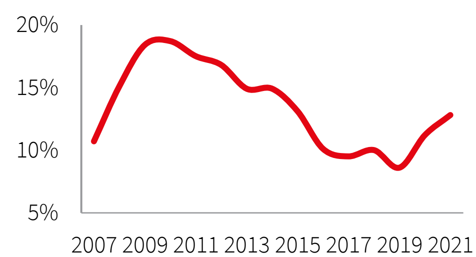
Outlook

While negative trends seen throughout the last year have begun to give way, many tenants still anticipate future downsizing and moveouts. The extent to which new company growth and in-migration continue to drive positive absorption will determine when the market fully recovers. The balance of 2021 is likely to see meager fundamental improvement, if any.

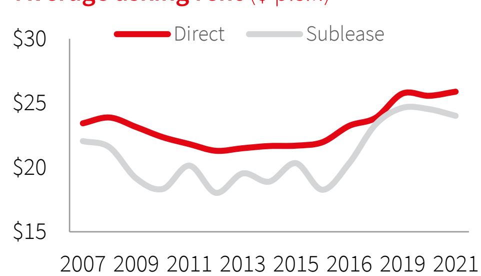
Supply and demand (s.f.)



Total vacancy (%)



Average asking rent ($ p.s.f.)



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Palm Beach

Market momentum accelerates further as financial firms enter the market in droves

- While absorption was minimal, Palm Beach is the first South Florida market to register positive absorption since the pandemic.
- Palm Beach County has recovered all but 0.6% of office-using jobs that were lost during the pandemic.
- With 360 Rosemary delivering more than 90% leased this summer, One Flagler is expected to break ground in the fall. The 257,000-s.f. waterfront office tower is rumored to be as much as 30% pre-leased.

Palm Beach's office market continues to see unprecedented activity, fueled by financial firms expanding from New York and Connecticut. Downtown West Palm Beach has been in the spotlight thanks to firms like Goldman Sachs, Elliot Management and Millennium Management signing for full floors in the CBD. Sanders Capital and Appaloosa Management joined the ranks this quarter, both taking what is likely swing space at Phillips Point as they build up their teams and prepare to expand.

While most of this activity has not yet translated to physical occupancy, CBD asking rents are up 8.3% from pre-pandemic highs among Trophy assets. Class A asking rents across Palm Beach County are up 0.6% over the same period. However, positive absorption this year has come from the suburbs, largely thanks to DiVosta Towers starting to fill up after delivering last year in North Palm Beach. The suburbs could see an influx of former CBD tenants seeking more affordable space as new-to-market firms prove to be less price sensitive.

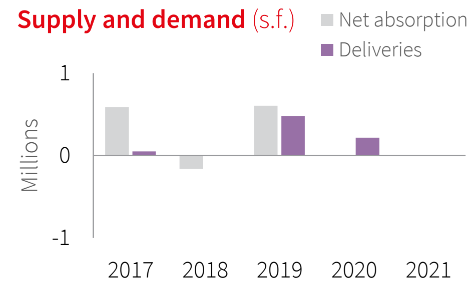
Related Companies will deliver 296,000 s.f. at 360 Rosemary early in July and is set to break ground on the 257,000 s.f. One Flagler this fall. The firm also recently acquired controlling interests in Phillips Point, CityPlace Tower and Esperanté Center and may add more office space to Rosemary Square in the coming years to accommodate the growth some new-to-market firms are anticipating.

Outlook

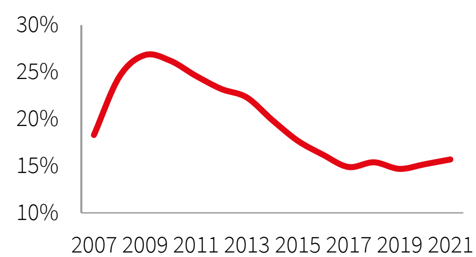
From Boca Raton to North Palm Beach, Palm Beach County has seen tremendous growth over the past year and its momentum shows no sign of abating. Every private school in the county is full, with waiting lists growing. Home prices have grown at unprecedented rates and office-using employment has recovered to 99.9% of its pre-pandemic high. As new-to-market firms begin moving and hiring employees, these trends will only accelerate.

Fundamentals	Forecast
YTD net absorption	2,184 s.f. ▲
Under construction	570,350 s.f. ▲
Total vacancy	15.7 % ▼
Sublease vacancy	260,058 s.f. ▶
Direct asking rent	$42.62 p.s.f. ▲
Sublease asking rent	$26.67 p.s.f. ▲
Concessions	Stable ▶

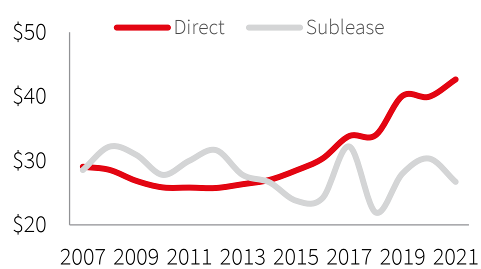
Supply and demand (s.f.)



Total vacancy (%)



Average asking rent ($ p.s.f.)



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Philadelphia CBD

Total availability reaches new high, with full re-entry likely to take until 2022

- Total available office space eclipsed 8 million square feet during the second quarter (17.3% of total inventory). Sublease availability has grown more than twice as quickly as direct availability, jumping more than 65% in a single year to a total of more than 1 million s.f.
- Leading indicators of economic activity, including transit ridership, online restaurant reservations, and pedestrian counts have all trended in the right direction coming out of the winter months, but none have yet to approach pre-pandemic levels, suggesting a drawn-out re-entry scenario for this market.

Since the onset of the pandemic in the second quarter of 2020, net vacancy has increased 340 basis points officially (as measured by total square footage leased). The lingering economic challenge for the city is the day-to-day vacancy rate created by slow re-entry into leased space by workers with remote and flexible options. The drop in official vacancy is an aggregation of trends both related and unrelated to the pandemic, including law firm rightsizings, GSA contractions, a decline in inbound demand from suburban and out of market tenants, and ongoing uncertainty around workplace utilization. The forces perpetuating lower levels of pedestrian and economic activity in the urban core are more complex, the result of corporate- and individual-level decisions (and indecision) around returning to work, and an ongoing hiatus of convention and business travel.

Major drivers of the climbing availability rate include federal government agency contractions into smaller footprint spaces that leave behind large blocks in buildings including 1650 Arch and The Wanamaker Building. Some buildings have seen positive absorption from small and midsized tenants in 2021, including One South Broad and 1600 Market, but organic growth of smaller firms is not widespread enough to offset long-planned downsizings of larger occupiers. As with most markets across the nation, direct rents have been wholly unaffected by the slowdown, though concessions have climbed to offset total tenant costs.

Outlook

Net new demand into the CBD will be overwhelmingly life sciences driven in the very near-term, which may benefit select buildings with the ability to accommodate these uses. Another source of emerging demand may stem from out-migration of tenants from higher cost markets seeking to capitalize on Philadelphia's still-fertile talent pool and comparatively inexpensive real estate. But without some bigger fish jumping into the pond, the project of achieving pre-pandemic levels of occupancy will be a slow one. If so, the city could anticipate another wave of office-to-residential conversions, albeit a smaller one than in previous market cycles given supply constraints and the surge in new multifamily construction.

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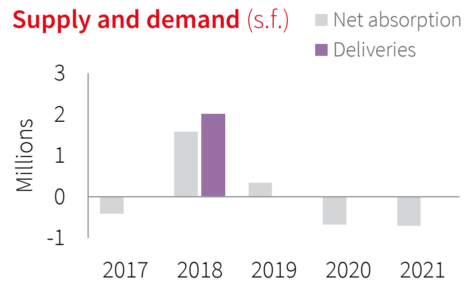
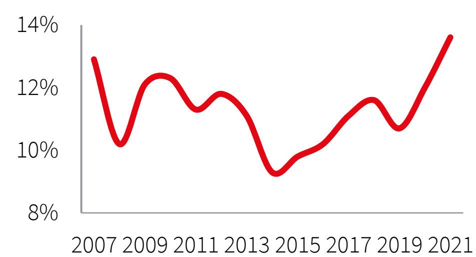
Fundamentals	Forecast	
YTD net absorption	-707,235 s.f.	▼
Under construction	308,000 s.f.	▲
Total vacancy	13.6%	▲
Sublease vacancy	625,631 s.f.	▲
Direct asking rent	$34.32 p.s.f.	▼
Sublease asking rent	$27.94 p.s.f.	▼
Concessions	Rising	▲

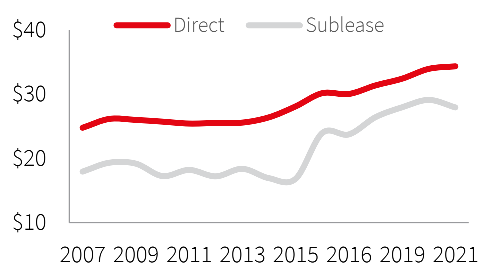
Supply and demand (s.f.)



Total vacancy (%)



Average asking rent ($ p.s.f.)



Philadelphia Suburbs

Sublease listings slowing down, suggesting nascent market stabilization

- Sublease availability grew by less than 75,000 s.f. during the second quarter, a marked slowdown after increases of 250,000 – 400,000 s.f. during other quarters throughout the height of the pandemic.
- Direct asking rents have managed to continue to inch up, achieving a new suburban high of $28.70, though concessions have increased resulting in a decline in net effective rents.
- A confluence of post-pandemic trends, including a flight to quality for office users and unprecedented space needs for lab and flex users, will accelerate investment across the suburban market.

Sublease availability saw the smallest increase since the onset of the pandemic, suggesting that in keeping with national trends, suburban occupiers are beginning to stabilize their return-to-office plans. In some cases, this will mean withdrawing previously listed subleases, while in others it will mean forgoing the listing in the first place, opting instead to plan a post-pandemic workplace within a similar footprint.

While this bodes well for future quarters, the recent trend of net negative absorption continued in Q2 as firms continued to downsize or vacate spaces, including Pet Plan at Ellis Preserve, Optum at 2500 Monroe Boulevard in Valley Forge/Norristown and XL Catlin at 505 Eagleview in Malvern. A promising counterpoint is the rise in tenant activity: touring activity is up more than 56% since the start of the year, suggesting renewed confidence on the occupier side. The nearly 1.8 million s.f. of tenants in the market will translate into higher levels of leasing activity heading into 2022.

The suburbs' role as a key node of life sciences activity also saw renewed momentum in the second quarter: Eagleview Corporate Center saw a series of renewals and expansions from established and emerging companies including Castle Creek Biosciences, Frontage Laboratories and XyloCor Therapeutics, while Discovery Labs in King of Prussia announced its biggest lease to date, a 150,000 s.f. facility for Penn's Gene Therapy Program.

Outlook

Flight to quality is a defining feature of office leasing nationwide coming out of the downturn as occupiers focus on employee health and satisfaction to retain talent and sustain office culture in a world where hybrid work models are taking hold. This will likely drive investment across the Philadelphia suburbs, both in terms of kicking off proposed construction projects and focusing investment on assets that can adapt to shifting preferences. Examples of this include the final phase of Ellis Preserve, which is set to include a 100,000 s.f. mass timber office building. Amenities will continue to play a critical role in differentiating assets as workplace habits change.

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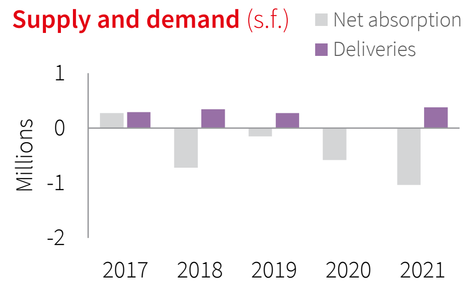
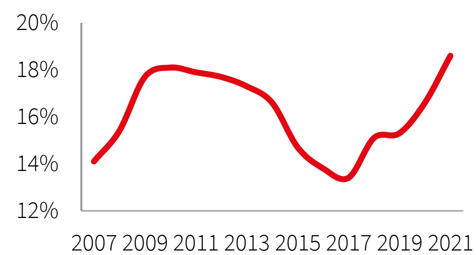
Fundamentals	Forecast	
YTD net absorption	-1,034,133 s.f.	▼
Under construction	687,333 s.f.	▶
Total vacancy	18.9%	▲
Sublease vacancy	1,343,070 s.f.	▲
Direct asking rent	$28.70 p.s.f.	▼
Sublease asking rent	$25.06 p.s.f.	▼
Concessions	Rising	▲

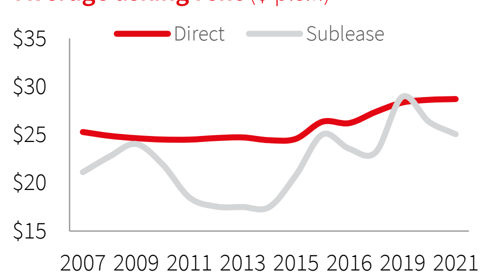
Supply and demand (s.f.)



Total vacancy (%)



Average asking rent ($ p.s.f.)



Phoenix

Corporate move-outs dominate the second quarter of 2021

- Metro Phoenix recorded more than 1.1 million s.f. of net occupancy loss during the first half of 2021.
- Class B vacancy rose 140 basis points since March and closed the quarter at 23.2%.
- Landlords have managed to largely hold average asking rents, opting to increase concessions.
- Sublease rents fell 8.7% quarter-over-quarter as the availability of cheaper Class B sublease space soared by more than 50%.

Fundamentals	Forecast	
YTD net absorption	-1,128,566 s.f.	▼
Under construction	2,117,918 s.f.	▲
Total vacancy	20.7%	▶
Sublease vacancy	2,752,264 s.f.	▶
Direct asking rent	$29.04 p.s.f.	▲
Sublease asking rent	$24.24 p.s.f.	▼
Concessions	Rising	▲

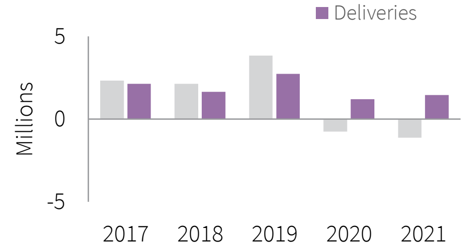
Net absorption remained negative in Q2, posting a net loss of more than 960,000 s.f. Driven by this quarter's particularly acute occupancy losses in the Southeast Market Area cluster, the market's total vacancy rate climbed 120 basis points over the last three months. It surpassed the 20% mark for the first time since Q1 2017 and now rests at a five-year high, having increased for five consecutive quarters.

Since the end of March, over 637,000 s.f. of sublease space has hit the market due to large corporate users such as the University of Phoenix (166,000 s.f.) and Infusionsoft (101,000 s.f.) making their entire buildings available for sublease. This brought the total amount of vacant sublease space to more than 2.7 million s.f., which is equivalent to 2.9% of the total base inventory and marks an annual increase of nearly 140%.

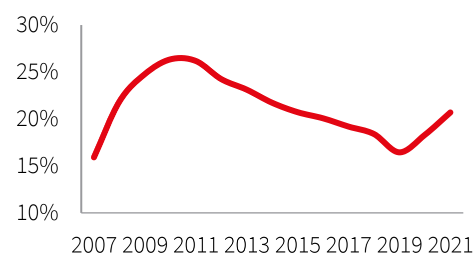
During Q2, over 331,000 s.f. of new product was brought to market, all of which came in the form of vacant space. Construction activity continued with more than 562,000 s.f. breaking ground from April through June. In the West I-10 submarket, developers broke ground on what will be the largest multi-tenant office building in the area; the 103,000-s.f. project marks the submarket's first speculative construction since 2008.

Direct average asking rates continue to climb, up $0.29 p.s.f. quarter-over-quarter to $29.04 p.s.f. During the same time, the total average asking rate dropped $0.11 p.s.f. and closed Q2 at $28.39 p.s.f. The decrease to the total average asking rate can be attributed to the nearly 542,000 s.f. of class B sublet space being added to the market during the last 90 days.

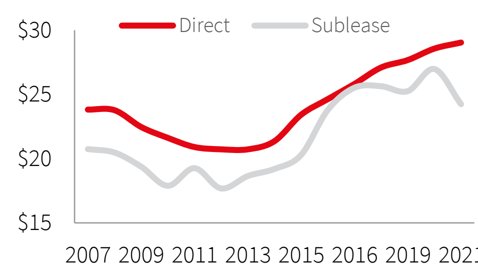
Supply and demand (s.f.)



Total vacancy (%)



Average asking rent ($ p.s.f.)



Outlook

Increasing levels of sublease space and the generally slow nature of the market during economic downturns remain challenging. Still, our business-friendly environment and diverse workforce continue to drive interest in Phoenix as one of the nation's most attractive relocation and expansion targets. Out-of-state users still perceive Phoenix as a long-term investment that is comparably affordable and boasting a rapidly growing talent pool.

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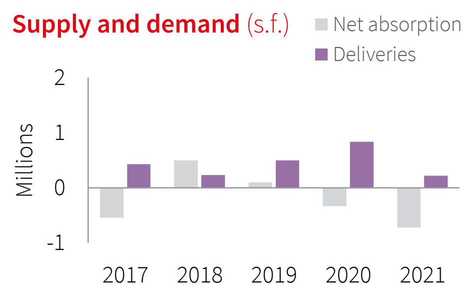
Pittsburgh

Leasing activity over the past two quarters was 45% greater than the second half of 2020

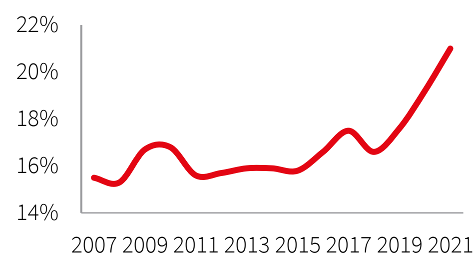
- In addition to GNC's lease at 75 Hopper, three relocations over 65,000 s.f. have been signed since the pandemic began.
- Direct asking rents remain relatively unchanged quarter-over-quarter as vacancy climbs slightly higher.
- Sales volume has steadily increased year-over-year since 2016, but the first half of 2021 has lagged the trend.
- Even as new leasing increases, net absorption remains negative as a result of decreasing footprints.

Fundamentals		Forecast
YTD net absorption	-740,811 s.f.	▼
Under construction	1,268,383 s.f.	▶
Total vacancy	21.0%	▶
Sublease vacancy	1,895,617 s.f.	▶
Direct asking rent	$26.02 p.s.f.	▼
Sublease asking rent	$22.75 p.s.f.	▶
Concessions	Rising	▲

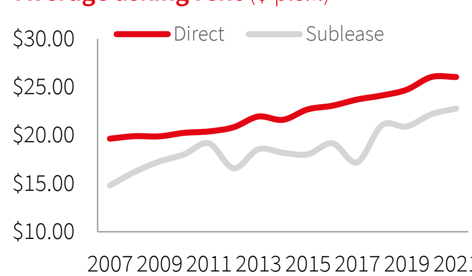
Supply and demand (s.f.)



Total vacancy (%)



Average asking rent ($ p.s.f.)



Net absorption for the year is reminiscent of the dip in 2017 when corporate right-sizing was widespread. The pandemic has accelerated further footprint reductions, and as companies return to their office, hybrid real estate strategies continue to be implemented. One recent trend resuming this year is the movement towards leasing by owner-occupiers. Since 2018, Bombardier, Philips Respironics, WABTEC and now GNC have signed leases in urban submarkets, relocating from owned locations. The preference for liquidity and flexibility, not to mention a paradigm shift towards hybrid work, has motivated office users to avoid absorbing the unnecessary risk of owning real estate as well as trying to operate a business.

Year-to-date office sales volume lags previous years as recorded sales are currently 11.5% of last year's $303 million total, suggesting investor demand is exhaling. While leasing activity has yet to fully recover to pre-pandemic levels, as the amount of leasing in the first half of 2021 is only 48% of the leasing in the first half of 2019, it is however already 45% higher than the second half of 2020. Leading up to 2020, leasing demand in Pittsburgh chased inventory, with new construction capturing the majority of activity. GNC's 76,000-s.f. lease at 75 Hopper, 3M's 53,000-s.f. lease at Rockwell Park and Aurora's 100,000-s.f. lease at 1600 Smallman are indications this trend is continuing despite economic conditions.

Outlook

Construction costs and oversaturation in primary markets have created challenges for investors to find rent growth opportunities, which presents a window for a lower cost market like Pittsburgh to become more desirable. From 2014 through 2016, investor demand peaked in downtown Pittsburgh as gateway markets commanded sub-5% cap rates, proving Pittsburgh can easily become the focus for new-to-market investment. Pittsburgh's strong foundation in innovative industries and sustained office demand in new construction, as well as within renovated buildings, exemplify the opportunity Pittsburgh can offer for investment. As the flight to quality and to new construction continues, Pittsburgh's remains attractive for further development.

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Portland

Portland is back open for business and tenants are shaping re-entry plans

- Leasing volume is up 33% year-over-year metro-wide, driven by a 40% increase in the Urban Core
- Sublease availability stabilized at 1.5 million square feet with the Urban Core's share falling to 65%
- Average asking rents in the Urban Core fell 2.1% year-over-year, with Class C asking rents falling 3.3%

Fundamentals	Forecast
YTD net absorption	-1,156,499 s.f. ▲
Under construction	876,020 s.f. ▼
Total vacancy	17.3% ▲
Sublease vacancy	540,597 s.f. ▲
Direct asking rent	$33.91 p.s.f. ▶
Sublease asking rent	$25.47 p.s.f. ▶
Concessions	Rising ▲

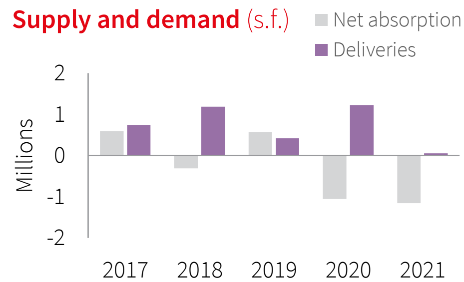
After emerging from one of the strictest lockdowns in the country, Oregon is officially open as of June 30th. While the fallout from the pandemic and last year's civil unrest will extend into 2021, there is a sense of optimism that the city has turned the corner. Leasing activity picked up considerably in Q1 2021, recording its highest total since Q4 2019, with large block leasing performing particularly well. For the most part, the mass exodus of companies leaving the urban core for the suburbs has not materialized. Umpqua Bank was the most notable move-out with a 24,000 s.f. lease at Kruse Woods V. Companies who have explored relocating have found a lack of newer high-quality Class A space and a large amenity gap that is not currently available in suburban office parks.

However, all is not rosy. 2020's freeze on new leasing activity coupled with a wave of lease expirations, resulted in the 3rd consecutive quarter where the metro registered more than half a million square feet of negative absorption. Urban Core vacancy is at its highest level on record and is set to remain elevated for the next 3-5 years with muted rent growth in the interim. While there has been a promising start to the year with large block leasing activity, the market is still waiting for small and mid-size leasing to return. All signs point to banner 2022 and 2023, benefitting both tenants and landlords alike.

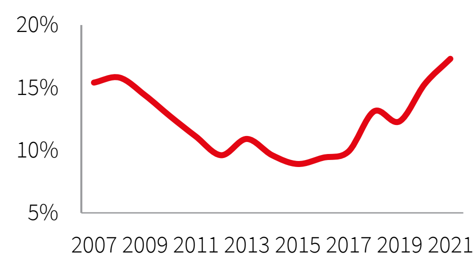
Outlook

Activity in Kruse Way is booming. The submarket is expected to realize considerable absorption in early 2022 and push vacancy to historic lows. We are already seeing considerable rent divergence between Kruse Way and the surrounding suburbs. The lack of availability in Kruse Way could force companies to consider neighboring submarkets, pushing rents higher, or simply drive tenants back to the urban core in search of higher-quality space. Sublease activity appears to be topping out with the lowest number of spaces added to the market in a year. There has also been increased leasing activity with a couple larger subleases signed in Q2 and we anticipate a rollback of spaces that were listed opportunistically to bring the sublease inventory down in the coming quarters.

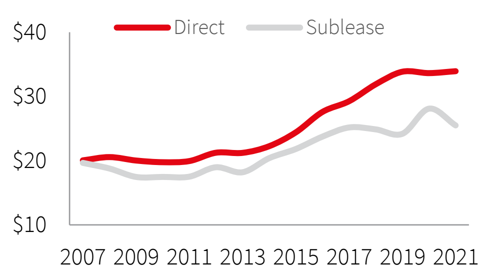
Supply and demand (s.f.)



Total vacancy (%)



Average asking rent ($ p.s.f.)



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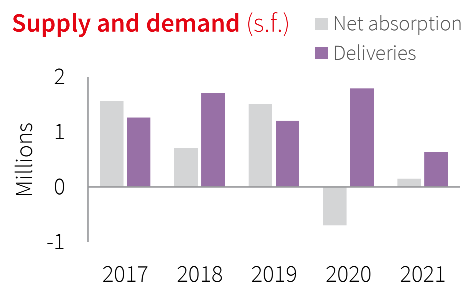
Raleigh-Durham

Leasing velocity approaching pre-pandemic levels as re-entry commences

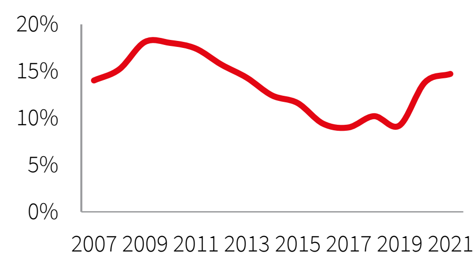
- Positive net absorption this quarter for first time since Q2 2020, matches pre-pandemic levels (Q1 2020).
- New deliveries drive vacancy slightly higher despite positive net absorption.
- High levels of occupied space available on sublease market show continued desire for flexibility, but little overall change from Q1 2021 indicates a ceiling .

Fundamentals	Forecast
YTD net absorption	151,938 s.f. ▲
Under construction	1,131,314 s.f. ▶
Total vacancy	14.7% ▶
Sublease vacancy	708,018 s.f. ▶
Direct asking rent	$29.25 p.s.f. ▶
Sublease asking rent	$23.77 p.s.f. ▶
Concessions	Stable ▶

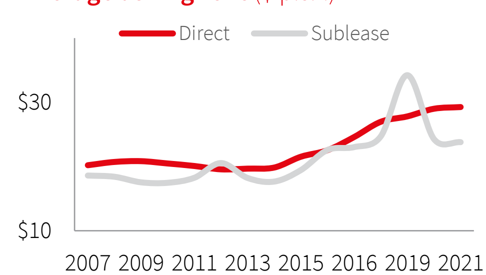
Supply and demand (s.f.)



Total vacancy (%)



Average asking rent ($ p.s.f.)



Q2 2021 marked the beginning of the recovery from the COVID-19 pandemic in North Carolina. New mask guidance from the CDC and subsequent termination of requirements in the State marked an unofficial beginning to office re-entry. As of mid-June, 51% of adults in Raleigh-Durham are fully-vaccinated, which is ahead of the national average of 46%.

Net absorption was positive for the first time since the pandemic onset and matched levels seen in Q1 2020. New deliveries drove vacancy levels higher as pre-leasing on these properties were well below average occupancy. This is likely a byproduct of COVID-19 effects on the market in addition to this market's tendency to lease around and following delivery of product. High quality new deliveries such as Tower Two at Bloc[83] are anticipated to continue driving absorption into the recovery period as companies look to attract employees back to the office.

Sublease activity remained constant this quarter as companies continue to float their occupied spaces in the market at essentially the same level as last quarter (~800,000 s.f.). As office re-entry picks up, this number is expected to decrease via a combination of sublease signings and companies deciding to re-enter the office in a hybrid or full arrangement.

Outlook

Leasing velocity should continue to increase market-wide over the rest of this year, with a continued flight to quality driving the activity of the largest occupiers. Recent and anticipated deliveries in Downtown Raleigh should spur activity in areas hit hard over the course of the pandemic.

Another sign of the continued staying power of an active market was the April announcement from a mega-cap technology company that it will be investing a minimum of $1 billion in a new campus in the Research Triangle Park. The three-year long project will likely spark increased interest in the area from companies considering a move to the sun-belt. All this will contribute to new development in the area that aims to build out RTP's amenity base and change its reputation from a work destination to an area to live, work and play.

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Richmond

Corporate consolidations taper but will make lasting impact on market this year

- Year-to-date leasing for new-space (excluding renewals and relocations) is up 108% compared to the first half of 2020
- Northrup Grumman's move out of 101 Gateway Center Pky (111,557 s.f.) contributing to the bulk of YTD negative net absorption
- The Putney building of Sauer Center's mixed-use project delivered (136,405 s.f.) with CarMax expected to take occupancy late 2021
- Vytal took down 24,000 s.f. at 1802 Semmes Ave in Manchester, the second sizeable lease in first-generation space YTD

Fundamentals	Forecast
YTD net absorption	-61,116 s.f. ▼
Under construction	163,532 s.f. ▼
Total vacancy	12.6% ▲
Sublease vacancy	253,616 s.f. ▲
Direct asking rent	$21.61 p.s.f. ▼
Sublease asking rent	$18.23 p.s.f. ▼
Concessions	Rising ▲

Anticipated givebacks in the second quarter pushed Richmond's sublease availability to nearly 1.2 million s.f., the highest levels recorded in over a decade. The largest contributor to this influx was the result of the 2019 Truist Bank merger which will consolidate personnel from it's Innsbrook and CBD operation centers (totaling 396,315 s.f.) to several existing offices downtown by 2022. These long-term subleases (>2026 expiration) now account for 40% of the total available sublease space on market and offer competitive options to landlords in the metro.

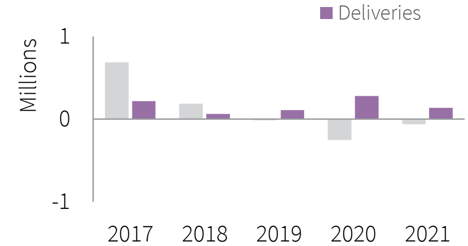
While inflating the total availability rate, these large-block, long-term givebacks will likely be reserved for sizeable requirements over 80,000 s.f. with remaining floor plates ranging from 25,000 to 40,000 s.f. leased or devised thereafter. This lease-up process could potentially take years when reflecting on the historical absorption of whole-building vacancies following the 2008 financial crisis.

Positive market indicators which appeared in the previous quarter continued in Q2 and pointed toward a more rapid recovery this cycle: rising sale volume, sublease withdraws and new-lease velocity. Foot traffic data from Placer.ai also indicated average monthly visits to urban fringe submarkets such as Manchester and Scotts addition have surpassed 2019 levels. This same data also indicated a marked recovery in the core corporate submarkets such as Innsbrook and the CBD, with foot traffic now reaching 70% of 2019 levels, nearly double the recovery from January this year.

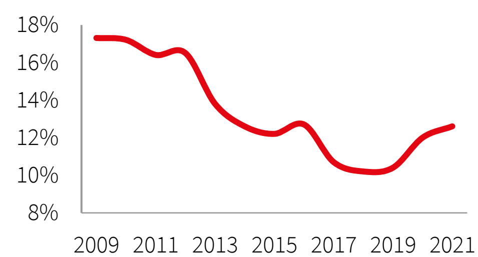
Outlook

The number of planned corporate downsizes and consolidations were tapering, but significant givebacks from this quarter and years prior have already positioned the Richmond office market as tenant-favorable near term. Concessions in highly impacted submarkets such as Innsbrook and the CBD have increased dramatically and coaxed some tenants into early renewals YTD-a trend likely to continue for the remainder of the year.

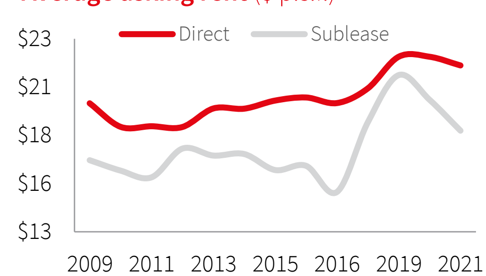
Supply and demand (s.f.)



Total vacancy (%)



Average asking rent ($ p.s.f.)



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Sacramento

Sacramento's office market inches towards recovery despite lagging effects of the pandemic

- Consecutive negative absorptions have consistently been shrinking, with Q2's absorption of -18,179 s.f. being the smallest yet.
- Overall sublease vacancy declined for the first time since Q1 2020, dropping roughly 36,000 s.f.
- Owners are capitalizing on the lull in leasing activity by making necessary updates to their buildings with hopes of remaining competitive in a post-COVID market.

Fundamentals	Forecast
YTD net absorption	-324,955 s.f. ▼
Under construction	0 s.f. ▶
Total vacancy	17.3 % ▼
Sublease vacancy	784,507 s.f. ▼
Direct asking rent	$2.14 p.s.f. ▶
Sublease asking rent	$1.91 p.s.f. ▲
Concessions	Rising ▲

The lagging effects of the CCOVID-19 pandemic are still apparent in Sacramento's office market. Q2 saw -18,179 s.f. of absorption, marking the third straight quarter of negative absorption. Despite this, the level of negative absorption has been consistently shrinking – a sign that leasing activity is slowly beginning to gain momentum. Vacancy decreased a modest 40 basis points to 17.3%, while direct asking rates held firm at $2.14 p.s.f.

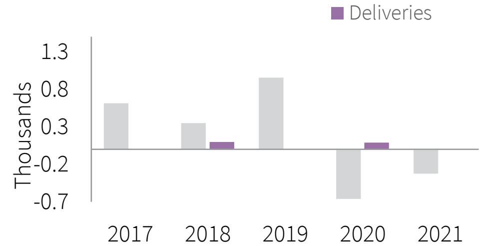
Sacramento's overall sublease vacancy fell more than 36,000 s.f. in Q2, marking the first decrease since the onset of the pandemic in Q1 2020. This comes amid companies reoccupying space and resuming efforts to re-evaluate their real estate needs as employees begin to return to the office.

Although market activity has been slow to turn around, owners haven't hesitated in making necessary improvements to their buildings to ensure they remain competitive in a post-COVID world. Nearly 200,000 s.f. is currently under renovation in downtown Sacramento. Health-centric amenities such as improved HVAC systems and open floor plans are drawing attention from occupiers looking to give their employees a safe transition back into the office. 660 J St, a 127,000 s.f. office building in downtown Sacramento, is the latest to follow this trend. The building is currently undergoing renovations to meet LEED-certification standards, as well as adding on-site amenities such as a new lobby and outdoor space.

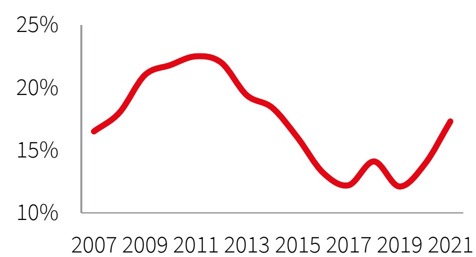
Outlook

Improved vaccination numbers and a recently lifted mask mandate will only help to spur the recovery of Sacramento's office market. Sublease vacancy should continue to fall throughout the remainder of the year as companies resume discussions about their real estate strategy. Rents will likely continue to hold steady over the coming year and vacancy will begin to stabilize as occupiers revamp their leasing efforts.

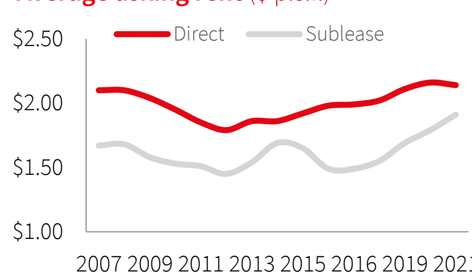
Supply and demand (s.f.)



Total vacancy (%)



Average asking rent ($ p.s.f.)



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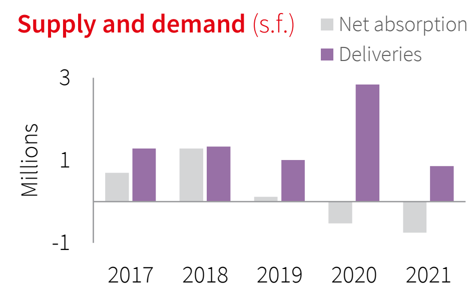
Salt Lake City

Market activity begins to pick up with increased leasing volumes

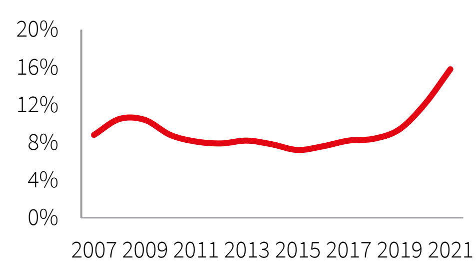
- Sublease vacancy continues to climb but at a lower percentage – up only one basis point since Q1 2021 compared to previous quarters that saw 1% increases amid the pandemic
- Concessions are starting to level off particularly for tenant improvements due to varying material costs
- Rents have topped $26 per s.f. after hovering near $25 for over a year
- 1.4 million s.f. of new office buildings are due to complete by the end of year

Fundamentals	Forecast
YTD net absorption	-751,735 s.f. ▶
Under construction	2,255,066 s.f. ▼
Total vacancy	15.8% ▲
Sublease vacancy	2,174,871 s.f. ▲
Direct asking rent	$26.02 p.s.f. ▶
Sublease asking rent	$22.43 p.s.f. ▶
Concessions	Leveling ▶

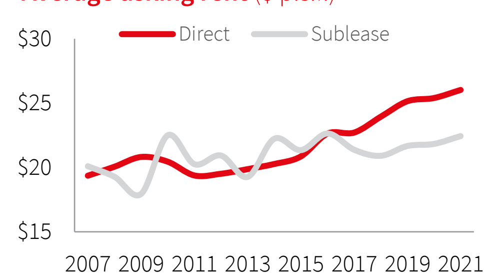
Supply and demand (s.f.)



Total vacancy (%)



Average asking rent ($ p.s.f.)



As more employees return to the workplace and companies restart their office operations, market activity is also resuming. Leasing volume for the first half of 2021 resembled 2019's strong first half after a dismal 2020. Over 1.7 million s.f. of office space has leased year to date. Top deals this quarter included Bank of America renewing close to 30,000 s.f. at the World Trade Center downtown and Steward Health Care leasing just over 25,000 s.f. at the Towers at South Towne in Sandy.

Another positive, available sublease space declined in Q2 2021 for the first time since the pandemic started: more than 100,000 s.f. of sublease space was spoken for this quarter. Additionally, multiple tenants that listed unused space for sublease in 2020 reclaimed the space this quarter. This includes Divvy, who last year had 75,000 s.f. on the market for sublease and reclaimed 50,000 s.f. of that in 2021.

Challenges remain. Large-block availability in Draper has declined considerably. This may lead tenants in the market to other submarkets or spur new construction. West Valley Lake Park faces the opposite challenge: a staggering 29.7% vacancy due to closing call centers and vacant new buildings. It leaves the submarket prime for a large campus or new uses.

Outlook

Several new office buildings are slated to be complete this year. It's good timing. Office spaces are expected to reach 85% occupancy by the end of year as more and more companies return to the workplace. As the workforce re-enters the office expect to see a priority placed on health and wellness and flexible work schedules.

The downtown office high-rise 95 State at City Creek is nearing completion and scheduled to welcome its first tenant in December of this year. Center 53 – Building 2 in Central Valley West and Innovation Pointe III in Utah County North are also due for occupancy this year.

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San Diego

With the economy reopening, tenant demand and rents show signs of recovery

- Despite negative year-to-date total net absorption, the positive net absorption gains achieved in Q2 are an improvement post COVID-19.
- New development and biotech conversions push average asking rents to new levels.
- Investor confidence coupled with strong life science growth fuels sales activity to the highest quarterly volume since 2007.
- Employees returning to the workplace has correlated with an increase in leasing activity and a decline in sublease space.

Fundamentals		Forecast
YTD net absorption	-158,857 s.f.	▶
Under construction	2,382,181 s.f.	▶
Total vacancy	14.3%	▲
Sublease vacancy	609,983 s.f.	▶
Direct asking rent	$3.25 p.s.f.	▲
Sublease asking rent	$2.73 p.s.f.	▶
Concessions	Rising	▲

The market showed signs of resilience, experiencing the first quarter of positive net absorption since Q1 2020, albeit the gains were minimal in Q2. Tenant interest remains divergent based on submarket and quality: the Class A segment posted 154,011 s.f. net absorption, indicating a flight to quality for tech firms to lure top talent, while Class B underperformed. The largest Q2 net absorption gains were in Eastgate, Del Mar Heights and Rancho Bernardo fueled by tech growth. On top of that activity, these three submarkets combined have an additional 526,000 s.f. of slated move-ins later in 2021. Q2 leasing activity continued to improve, nearly doubling since bottoming out in Q3 2020 providing further evidence of a recovery. Add to this, sublease availability at 2.5% was down 30 basis points from the peak in Q4 2020.

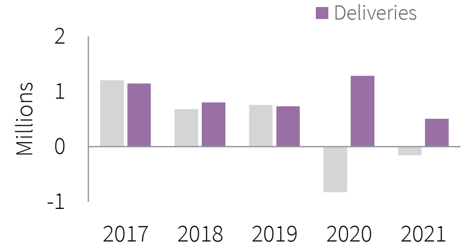
With new construction coming online and strong tenant desire to lease quality space, this has caused Class A rents to rise 3.2% year-over-year. In addition, rent growth has been robust in the UTC, Sorrento Mesa and Downtown markets as biotech lab conversions have reduced office supply by 1.1 million s.f. since 2019 and another 1.1 million s.f. scheduled in 2022.

Even with vacancy at its highest level since 2013, investor confidence is rising. Q2 saw its highest level of office sales volume since 2007, totaling $1.2 billion. This was led by a four-building Downtown portfolio that was acquired by Regent Properties for $420 million. Life science developers continue to acquire office buildings for lab redevelopments. There was another 567,000 s.f. of office product that traded, totaling $236 million, that will be converted to lab within the next two years.

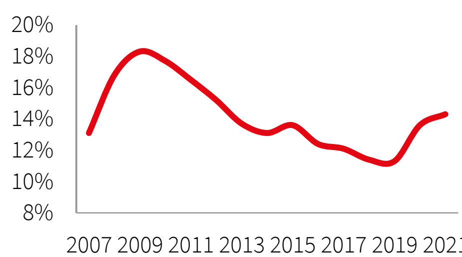
Outlook

As companies make their way back to the office and rethink their return-to-office plans, leasing activity will continue to improve as stalled requirements due to the pandemic move forward, and sublease will continue to decline. Tenant requirements in the market for office and lab space has increased by 55% year-over-year to a record high of 7.6 million s.f. which should boost future leasing and improve net absorption by year-end.

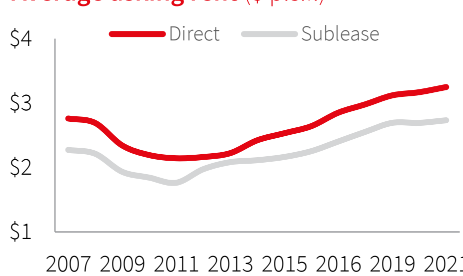
Supply and demand (s.f.)



Total vacancy (%)



Average asking rent ($ p.s.f.)



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San Francisco

Leasing activity begins to rebound as occupancy restrictions are lifted

- San Francisco realized another quarter of negative absorption as sublease space is vacated by companies looking to optimize their portfolios or run on a work from home model.
- Total availability increased by 1 million s.f. quarter-over-quarter, as new large blocks continue to hit the market.
- Venture capital funding remains healthy as early-stage companies in San Francisco received over $3.7 billion in funding, the highest quarter on record.

Fundamentals	Forecast	
YTD net absorption	-4,638,829 s.f.	▼
Under construction	1,511,674 s.f.	▲
Total vacancy	20.2%	▶
Sublease vacancy	6,700,696 s.f.	▲
Direct asking rent	$79.93 p.s.f.	▼
Sublease asking rent	$65.99 p.s.f.	▼
Concessions	Rising	▲

San Francisco reopened its economy completely on June 15, removing capacity limits indoors on all businesses. With new COVID-19 cases bottoming in the Bay Area, occupiers are beginning to regain confidence in signing new leases as rents continue to correct. Leasing activity has nearly tripled quarter-over-quarter to 1.4 million square feet and has also surpassed the figure from Q1 2020. High growth startups, such as Figma, Benchling, Forward and Amplitude Analytics, bolstered by robust venture capital funding, all signed sizeable sublease expansions within the market. Benchling's 106,000-s.f. deal for a portion of the Macys.com sublease space at 680 Folsom is the first 100,000+ s.f. relocation signed in 2021.

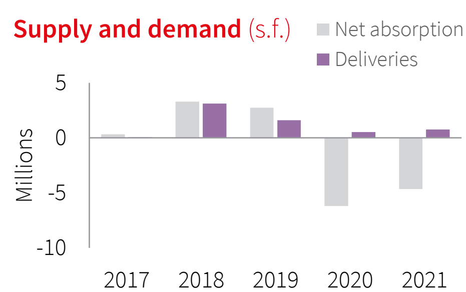
Sublease availability fell 6.3% from Q1 2021 and new additions in recent weeks have plateaued as San Francisco reopens. In addition to tenants reoccupying their subleases, high quality sublease space continues to be transacted upon at discounted rates.

After direct asking rents reached a high of $93.21 in Q4 2019, rents have fallen below $80.00 for the first time since Q3 2018. As direct availability continues to rise, landlords with current vacancies in their buildings will need to either lower rents or increase concessions in order to maintain occupancy and remain competitive with the rest of the market. Since Q1 2020, free rent and tenant improvement allowances have both nearly doubled on all new direct leases.

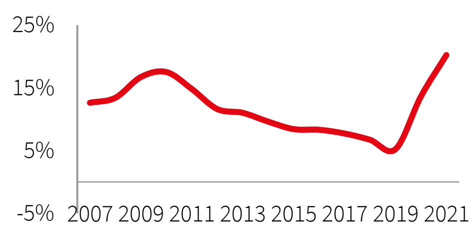
Outlook

Despite the positive leasing news, the local office market continues to face significant headwinds. San Francisco's office vacancy is now over 20%, the highest in the Bay Area and the highest it has been since 2003 after the Dot Com bust. Total availability now stands at 25% with more space to potentially come on the market should tenants with impending lease expiration dates choose to downsize or not renew.

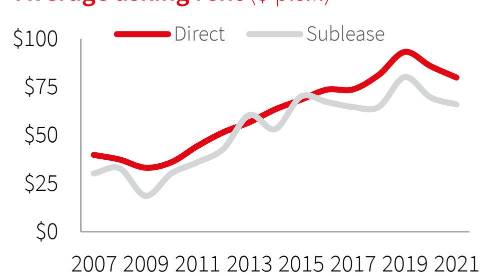
Supply and demand (s.f.)



Total vacancy (%)



Average asking rent ($ p.s.f.)



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Alexander Quinn | alexander.quinn@am.jll.com

SF Mid-Peninsula

Mid-Peninsula market stabilizes and shows signs of subtle growth

- Leasing activity in Q2 surpassed 350,000 s.f., a 9% increase from Q1, with new leases accounting for 65% of deals signed.
- Despite the increase in square feet leased this quarter, total vacancy remained relatively stagnant compared to Q1 and is still roughly 4% higher than pre-pandemic levels.
- Burlingame Point delivered five pre-leased buildings totaling over 800,000 s.f. which drove positive absorption this quarter.

The June re-opening of California and widespread availability of vaccines have greatly contributed to the subtle growth in leasing activity the Peninsula experienced in Q2. This quarter reflected rising demand as more companies returned to the office on June 15th and solidified their office-centric work models.

Quarterly change in vacancy was marginal, less than 1%, demonstrating the stabilization of vacating tenants. Verkada pre-leased a 116,000 s.f. office development in Downtown San Mateo set to deliver in 2022. This deal was the largest this quarter and indicates the continued importance of the Peninsula as a hub for technology companies. Some other notable deals this quarter are IXL Learning, renewing for 66,000 s.f., and an undisclosed tenant taking 62,000 s.f. in San Mateo. Together these deals make up 245,000 s.f. of future occupied Peninsula office space, demonstrating subtle growth amidst the high vacancy in San Mateo.

While the Mid-Peninsula realized a marked increase in absorption, almost all this growth can be attributed to the delivery and occupation of Burlingame Point (800,000 s.f.). Positive tenant sentiment is further displayed by a consistent sublease vacancy rate quarter-over-quarter, only accounting for 2.8% of the total vacancy rate. Average asking rents in the Peninsula have risen 1.1% since Q1 but remain $0.55 (p.s.f.) lower than pre-pandemic levels. The Central county experienced the largest jump in rents this quarter 2.7% where South country direct asking rents declined marginally from $9.09 to $9.06 FSG.

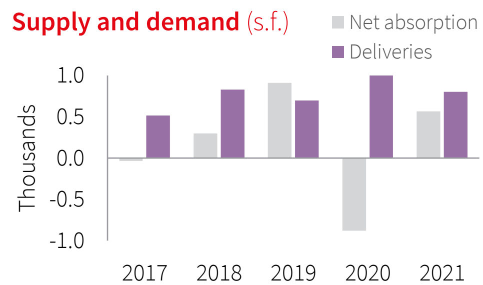
Outlook

As large campuses gradually share their return to office plans, and more workers transition to a hybrid work model, tenant confidence will improve. There are currently 1.8 million s.f. of active office tenant requirements in the Peninsula, indicating companies are expressing interest in securing office space for their employees. Additionally, Kilroy will deliver the Stripe pre-leased buildings at Oyster Point next quarter, which will provide more than 400,000 s.f. of positive absorption for the Peninsula. While office supply is expanding, it is important to note the growing presence and demand for life science lab space, specifically in Redwood City and San Carlos.

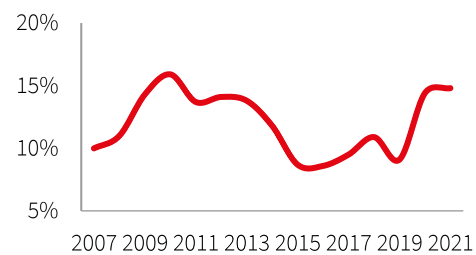
For more information, contact: Alanna Duffy | Alanna.Duffy@am.jll.com

Fundamentals	Forecast
YTD net absorption	566,299 s.f. ▲
Under construction	2,098,925 s.f. ▼
Total vacancy	14.8 % ▼
Sublease vacancy	939,233 s.f. ▼
Direct asking rent	$5.57 p.s.f. ▶
Sublease asking rent	$4.84 p.s.f. ▶
Concessions	Stable ▶

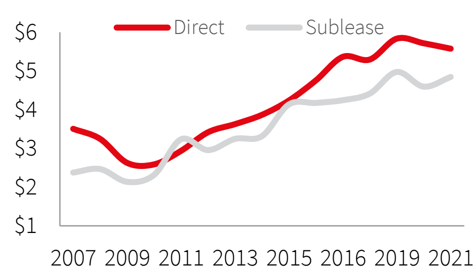
Supply and demand (s.f.)



Total vacancy (%)



Average asking rent ($ p.s.f.)



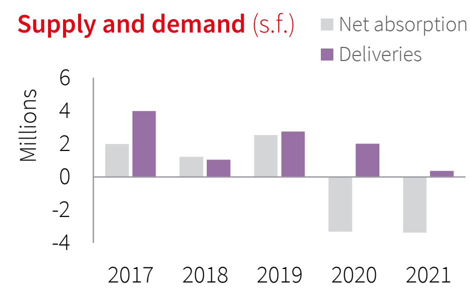
Seattle/Puget Sound

Despite elevated vacancy, leading indicators signal an optimistic outlook for H2 2021

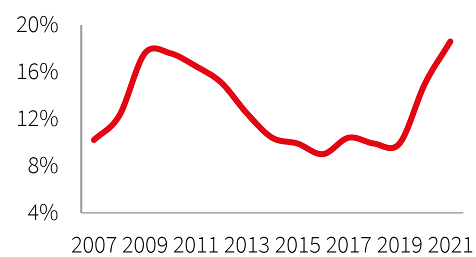
- Market-wide vacancy reached an all-time high of 18.6%, but occupancy will rebound in the coming quarters as office re-entry picks up and several large blocks of space become occupied.
- Regional demand is returning as major occupiers lead the way back to the office, resulting in an 80.6% increase in active requirements from Q4 2020 to Q2 2021.
- Sublease availabilities reversed course in Q2, falling 8.2% as several “opportunistic” sublease availabilities were withdrawn and tenants committed to reoccupy space.

Fundamentals	Forecast
YTD net absorption	-3,376,614 s.f. ▶
Under construction	6,373,874 s.f. ▶
Total vacancy	18.6% ▼
Sublease vacancy	4,651,392 s.f. ▼
Direct asking rent	$46.15 p.s.f. ▶
Sublease asking rent	$38.50 p.s.f. ▼
Concessions	Rising ▲

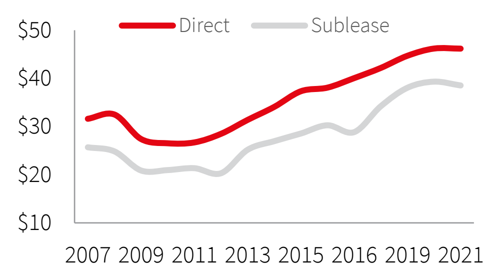
Supply and demand (s.f.)



Total vacancy (%)



Average asking rent ($ p.s.f.)



With one of the country’s most successful vaccine roll-outs, the impending relaxation of business restrictions has revealed a clear path back to the office. This led to the announcement of tenant re-entry timelines that feel much more definitive than those announced early in the pandemic. While the post-winter optimism feels validated, some statistical indicators are still lagging behind and feel contradictory in certain cases. Vacancy continued to climb last quarter to an all-time high of 18.6%, but tour activity is nearing pre-pandemic levels and active office requirements have increased substantially over the last two quarters. The lag in data seen early in the pandemic is happening again, but in the opposite direction.

After hitting an all-time high of 5.8 million s.f. in Q1 2021, some positive momentum is starting to form on the sublease availability front. Tenants have started withdrawing sublease space in anticipation of reoccupying this fall and very few new spaces came to market this quarter. With 5.4 million s.f. still on the market, there is a long way to go, but for the first time in a year, sublease availability went down quarter over quarter. Leasing activity is up 15.8% year-over-year, 78% of which landed on the Eastside. Large tech companies continue to ride the eastward momentum fueled by the impending light rail expansion and ensuing deepening of the talent pool.

While the 6.4 million s.f. under construction represents the highest development volume since late 2016, 71.2% is already pre-leased. Two projects, The Artise (604,500 s.f., fully pre-leased) and The Eight (528,700 s.f.), both in the Bellevue CBD, broke ground in Q2. Six projects totaling 1.1 million s.f. are set to deliver in the second half of this year.

Outlook

While some businesses will begin implementing re-entry plans over the summer, it may take until the start of the 2021 school year for many to fully reoccupy. As life returns to Puget Sound cities in the coming months, expect leasing velocity to follow suit. Investors have made big bets on a variety of asset profiles throughout the region amidst the pandemic and it’s finally time for the expectations of a speedy recovery to be put to the test.

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Silicon Valley

Positive quarterly absorption sets the stage for office market recovery

- Over 400,000 s.f. of new-to-market leasing activity has taken place in Q2 2021.
- Leasing activity picked up in this quarter, but the availability rate hit a record high.
- Several key office deliveries leased to big tech drove the office market's positive net absorption.
- Rental rates remained flat quarter-over-quarter, but the total average asking rate is up 2.9% year-over-year.

California fully reopened in mid-June after a 15-month public health restriction came to an end. As more employees return to the workplace, market activity is also resuming. Silicon Valley's office leasing volume was 700,000 s.f., more than triple the average quarterly rate over the past year. Despite this increase, it is still 51.9% below the pre-pandemic quarterly average, underscoring that leasing activity has a ways to go to get back to normal.

Many companies have reconsidered their office space needs in a post-pandemic world. NetApp sold its headquarters to Tishman Speyer in Sunnyvale and signed the largest lease this quarter: 303,000 s.f. at 700 Santana Row in San Jose. The office investment market remains robust in the Valley. Top deals this quarter include NetApp's 702,375 s.f. headquarters transaction in Sunnyvale and Lane Partners purchased Oracle's trophy tower at 488 Almaden Blvd (379,960 s.f.) in Downtown San Jose.

Big tech companies that filled large office buildings have helped stabilize the Silicon Valley office market. Net absorption bounced back to positive levels in the second quarter to 129,015 s.f. Occupancy gains in the second quarter are attributed directly to several new deliveries preleased to, or owned by, tech companies including 520 Almanor Ave in Sunnyvale, 750 Moffett Blvd in Mountain View and LinkedIn building 1 at 800 Middlefield Rd in Mountain View total 697,788 s.f. However, office availability rate jumped to 16.6%, at a record high in last 10 years.

Outlook

Although some of the large tech tenants have been on hold since the start of the pandemic, there are still 2.3 million s.f. of active office requirements in the Silicon Valley market. Development activity remains strong at 6.8 million s.f. with 72.7% preleased.

The first half of 2021 in the venture capital and IPO markets continue to be robust. In the venture capital market, Silicon Valley firms received $17 billion in investment. On the IPO side, 20 Silicon Valley-based companies went public, adding more than $50 billion to the region's market cap.

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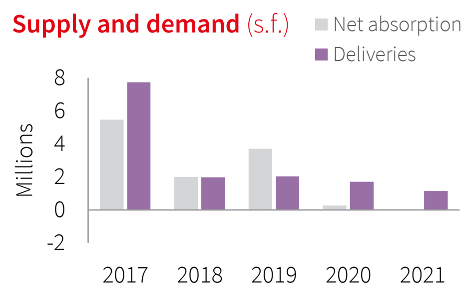
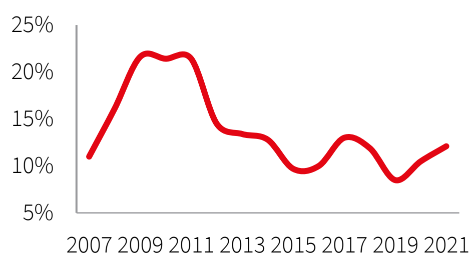
Fundamentals		Forecast
YTD net absorption	-23,882 s.f.	▲
Under construction	6,694,255 s.f.	▼
Total vacancy	12.1 %	▲
Sublease vacancy	1,476,934 s.f.	▼
Direct asking rent	$5.44 p.s.f.	▶
Sublease asking rent	$4.82 p.s.f.	▼
Concessions	Stable	▶

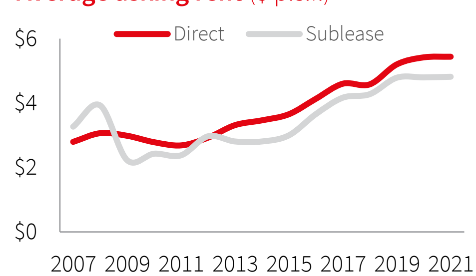
Supply and demand (s.f.)



Total vacancy (%)



Average asking rent ($ p.s.f.)



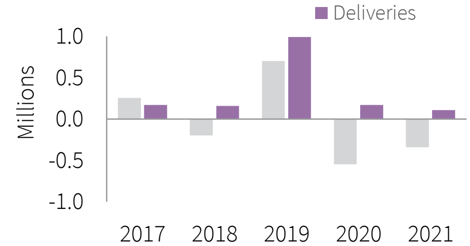
St. Louis

Tenants chart their re-entry course for second half of 2021

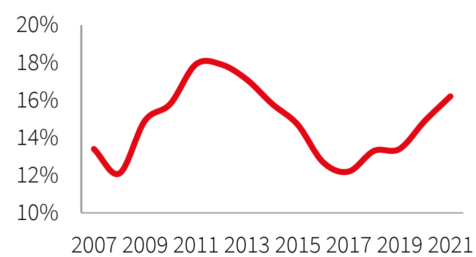
- Sublease asking rates continue to lower due to an abundance of available space and are approaching pre-pandemic levels.
- Users begin to set firm dates for full office re-entry in Q3 2021, an encouraging sign on the path to recovery from the pandemic.
- Downtown is at the forefront of office re-entry. Two large users occupied space this quarter.
- An increase in leasing activity appears on the horizon as vaccination rates rise and more tenants re-enter the market.

Fundamentals		Forecast
YTD net absorption	-338,935 s.f.	▶
Under construction	1,057,585 s.f.	▼
Total vacancy	16.2%	▶
Sublease vacancy	551,248 s.f.	▲
Direct asking rent	$23.58 p.s.f.	▶
Sublease asking rent	$18.93 p.s.f.	▼
Concessions	Increasing	▲

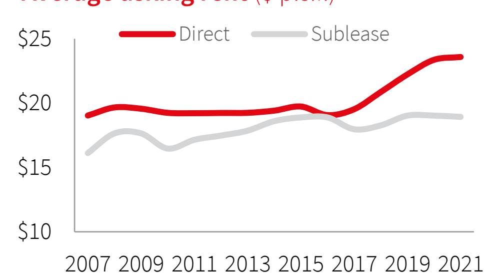
Supply and demand (s.f.)



Total vacancy (%)



Average asking rent ($ p.s.f.)



The St. Louis office market continued to see occupancy loss for the fifth straight quarter since the start of the COVID-19 pandemic. Although nearly twice as many move outs occurred as those taking occupancy, leasing activity is starting to pick up. Asking rates remained stable, but owners are providing additional concessions which helped keep the direct vacancy rate flat at 15%. Two users commenced move-ins of over 30,000 s.f. this quarter. Scale Ai had the largest move-in at 8421 St John Industrial Drive occupying 43,000 s.f., and Spark Coworking occupied 30,000 s.f. of space at 6 Cardinal Way continuing the promising trend for downtown office space.

Sublease space has remained a focal point throughout the pandemic. After a full calendar year of remote work, many users are re-assessing their plans of transitioning to a remote model and have begun withdrawing sublease offerings. Still, sublease availability increased by 8.5% and remains over one million s.f. Supply increases suppressed sublease asking rates as they decreased by 3.4% to $18.93 p.s.f. The decline brings sublease asking rates below $19.00 p.s.f. for the first time since the start of the pandemic and close to the pre-pandemic rate of $18.54 p.s.f. in Q1 2020.

Outlook

As more firms initiate re-entry plans there is optimism that leasing activity will begin to accelerate to pre-pandemic levels in the second half of 2021. In addition, several large move-ins are pending in the months to come which will help to stabilize vacancy.

COVID-19 vaccination rates are approaching 50% in St. Louis County with St. Louis city lagging slightly behind at 39.1%. As vaccination levels continue to rise companies are finalizing there back to office plans with several setting this summer as the projected 100% occupancy period. Many large users in the St. Louis area have already reopened their office to full capacity including St. Louis based Maritz who re-occupied its 2-million-s.f. campus in June. More are announcing re-entry plans each week.

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Suburban Maryland

Vacancy reaches record-high as negative absorption returns

- Suburban Maryland experienced 375,000 s.f. of net occupancy loss in Q2, driving market vacancy to a record-high 22.3%, a 340 basis-point increase versus last year.
- Trophy product experienced 70,000 s.f. of occupancy gains in Q2 as the flight to quality trend continues.
- Leasing volume was down 30% this quarter compared to Q2 2020, while renewals accounted for over 50% of the volume. Demand is likely to increase in the latter half of the year due to pent-up demand.

300,000 s.f. of occupancy gains in Q1 2021 were offset by 375,000 s.f. of net occupancy loss in Q2 and drove the total vacancy rate in Suburban Maryland to a record-high 22.3%, a 340 basis-point jump versus the prior year. Occupancy gains in Trophy product, especially within Bethesda CBD, helped mitigate some of this loss as the flight to quality trend continues. Nearly 200,000 s.f. of Trophy product has been absorbed so far in 2021.

Not surprisingly, leasing activity dropped 30% versus the prior year and tenants continue to opt for renewals. Renewals accounted for 56% of total leasing volume in Q2. Federal agencies remain active, highlighting the region's non-cyclical tenant base. The USCPS renewed for 126,500 s.f. in the Bethesda CBD and the GSA executed a new lease for 27,000 s.f. in Frederick. Volume has yet to return to pre-pandemic levels, but likely will accelerate into the latter half of 2021 due to pent-up demand and short-term extensions executed early in the pandemic.

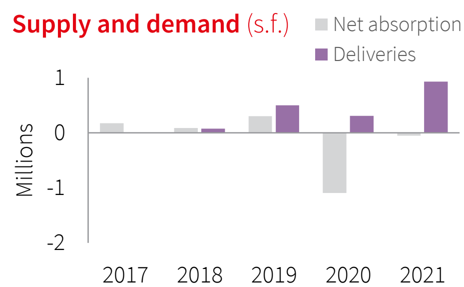
Looking ahead, Avocet Tower is expected to deliver next quarter and will add an additional 383,000 s.f. of Trophy product to Bethesda CBD and is currently 100% available. The new Marriott headquarters remains on track to deliver in 2022 and will mark the end of the current construction cycle which has added 1.8 million s.f. since 2018. We expect Trophy product to see future occupancy gains as financial firm ProFunds and coworking provider Industrious commence leases later this year and tenants continue to gravitate to premier product as economics remain favorable.

Outlook

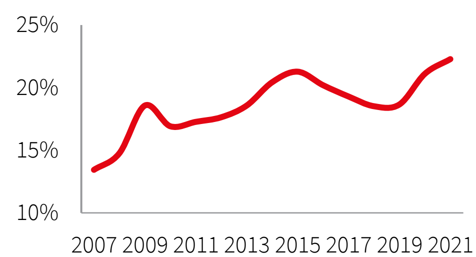
The continued flight to quality in the office sector will likely have an impact on the region's life sciences sector. Owners of commodity, obsolete office product have been encouraged to consider office-to-lab conversions to take advantage of the market's current supply-demand imbalance. As Suburban Maryland's life sciences sector continues to grow, the need for lab space has become urgent. Given high vacancy rates and lack of viable lab product, conversions will likely pick up as market dynamics demand.

Fundamentals	Forecast
YTD net absorption	-50,984 s.f. ▶
Under construction	1,049,911 s.f. ▼
Total vacancy	22.3% ▶
Sublease vacancy	818,774 s.f. ▼
Direct asking rent	$31.40 p.s.f. ▶
Sublease asking rent	$27.82 p.s.f. ▶
Concessions	Rising ▲

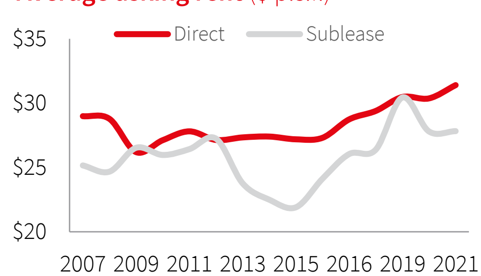
Supply and demand (s.f.)



Total vacancy (%)



Average asking rent ($ p.s.f.)



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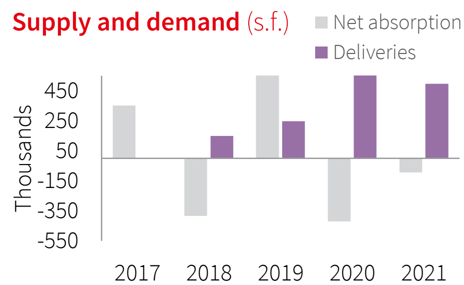
Tampa Bay

Positive quarterly absorption sets the stage for office market recovery

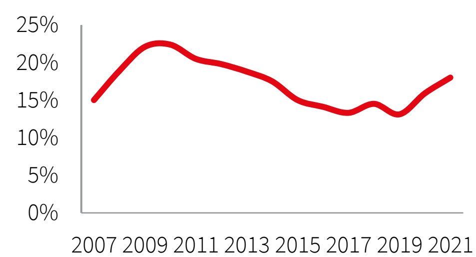
- Half a million s.f. delivered in Q2, with most tenants not occupying until late 2021 or early 2022.
- The pace of new sublease space hitting the market has slowed in comparison to the height of the pandemic.
- More than 300,000 s.f. of new-to-market leasing activity has taken place over the past six months.

Fundamentals	Forecast	
YTD net absorption	-93,452 s.f.	▲
Under construction	582,000 s.f.	▲
Total vacancy	18.0%	▶
Sublease vacancy	1,089,752 s.f.	▶
Direct asking rent	$29.66 p.s.f.	▶
Sublease asking rent	$29.49 p.s.f.	▶
Concessions	Stabilizing	▶

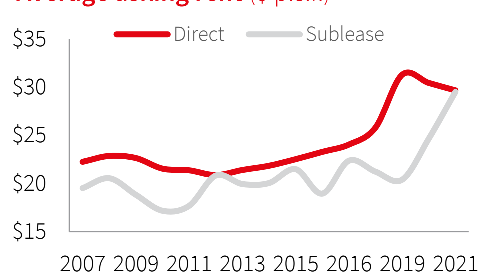
Supply and demand (s.f.)



Total vacancy (%)



Average asking rent ($ p.s.f.)



Total vacancy rose to historic levels in Q2. However, most of the new vacant space can be directly attributed to the 497,787 s.f. that was completed this quarter at SkyCenter One, Midtown West and The Lofts at Midtown, all in the Westshore submarket. Fortunately, over 30% of that space is leased with tenants scheduled to move in over the next six to nine months. New vacant spaces coming to the market, especially in the form of sublease, have slowed significantly in Q2. This trend is expected to continue as many companies look to have the bulk of their workforce return to office around Labor Day.

Despite significant tenant move-outs in the suburban submarkets, absorption trended positive for Q2. Even as companies such as Citi, AdventHealth and Chase were vacating their spaces across the Tampa Bay region, Industrious took possession of two spaces in the St. Petersburg CBD and Tampa CBD accounting for nearly 80,000 s.f. of positive absorption alone. With interest in the Tampa Bay area at an all-time high, this trend of incremental positive absorption is likely to continue.

Average direct asking rents are down 2.5% year-over-year predominately due to re-pricing in delivered and under-construction inventory. However, since that re-pricing in Q2 2020, asking rents have remained flat, decreasing only $0.42 from Q4 2020. In contrast, sublease asking rates are up and almost in line with the direct market. This is due to the bulk of vacant sublease space, approximately 85%, being in Class A assets or buildings that were build-to-suits.

Outlook

Total vacancy is anticipated to rise in the short term as the remaining construction projects are projected to deliver in the latter half of this year. In addition, known tenant move outs in Westshore and I-75/I-4 Corridor will further push vacancy. While fundamentals may be strained over the next three-to-six months, confidence is rising for the latter half of 2021 going into 2022.

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Washington, DC

Despite continued market challenges, signs of momentum appear

- Sublease availability is now flat compared to Q4 2020 as tenants have removed 1.4 million s.f. of sublease availability since January 2021.
- DC experienced over 500,000 s.f. of occupancy loss in Q2 as 315,000 s.f. of positive gains in Trophy space offset nearly 560,000 s.f. of loss in Class B space. On the year, Class B has experienced nearly 2.5 million s.f. of occupancy loss, driven largely by government relocations.
- Generous concessions continue to draw tenants from within the region to DC. In Q2 top-tier consulting firm BCG finalized its long-awaited lease and will relocate to the East End in Q1 2023.

Despite experiencing 2.6 million s.f. of net occupancy loss through the first half of 2021, there are positive signs of momentum for the DC market. Sublease availability, now at 3.3 million s.f., has increased 30% since Q1 2020, but has remained flat since the end of 2020. Nearly 1.4 million s.f. of sublease availability has been removed from the market since January 2021, a sign that tenants are reevaluating space needs as office occupancy increases. As re-entry continues, decision makers are appearing more optimistic, with tour activity back to 80% of May 2020 levels. Although this increase has not yet correlated with an increase in transactions, the market could see the results of this pent-up demand in the latter half of 2021 and into early 2022.

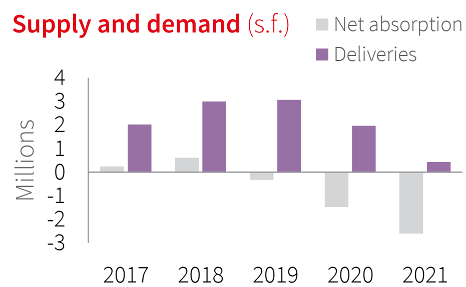
The Boston Consulting Group's 97,000-s.f. lease at 655 15th Street NW dominated leasing activity headlines in Q2 as the firm's much-anticipated relocation from Bethesda was finalized, a major win for Downtown DC. DC-based technology firm Enovational will relocate within the East End and take the top six floors of 1400 L St, Meridian's redevelopment which has been vacant since its delivery in Q3 2020. Relocations accounted for over 40% of leasing transactions in Q2 and the average term length decreased by 20% compared to a year ago as tenants continue to "kick the can" on longer-term decisions. Although direct asking rents have held steady for the duration of the pandemic, concessions have continued to increase. Net effective rents for Trophy and Class A transactions have dropped over 12% in the 15 months since COVID, compared to the 15-month pre-COVID period.

Outlook

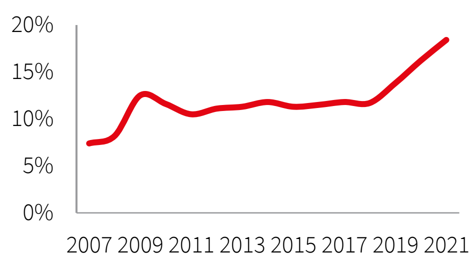
New development remains on pause and the construction pipeline remains under 60% leased. RMR Group kicked off its redevelopment of 20 Massachusetts Avenue NW, a 430,000 s.f. project that will integrate a 270-room hotel with nearly 200,000 s.f. of Class A office space. Although just one example, this mixed-use approach could help alleviate some of the vacancy overhang over time, especially in the downtown core submarkets (CBD, East End, Capitol Hill), where total vacancy now exceeds 20%.

Fundamentals	Forecast
YTD net absorption	-2,608,879 s.f. ▼
Under construction	2,476,471 s.f. ▼
Total vacancy	18.4% ▲
Sublease vacancy	2,327,740 s.f. ▼
Direct asking rent	$59.00 p.s.f. ▼
Sublease asking rent	$43.45 p.s.f. ▼
Concessions	Rising ▲

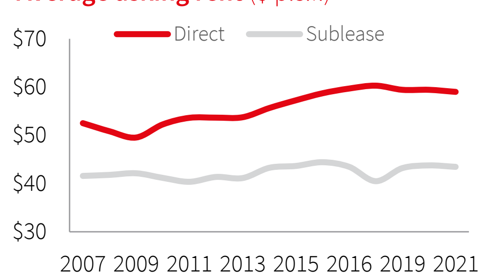
Supply and demand (s.f.)



Total vacancy (%)



Average asking rent ($ p.s.f.)



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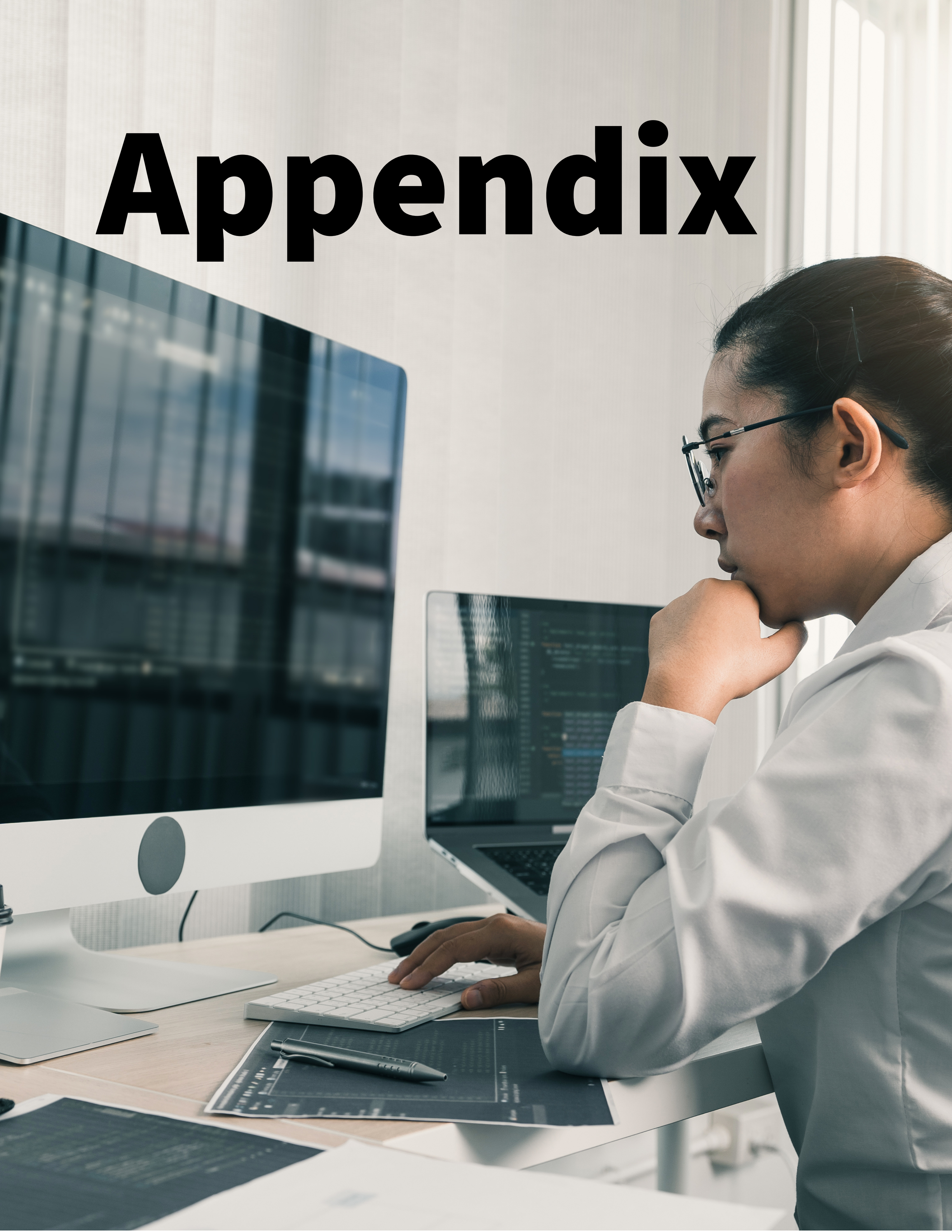
Appendix

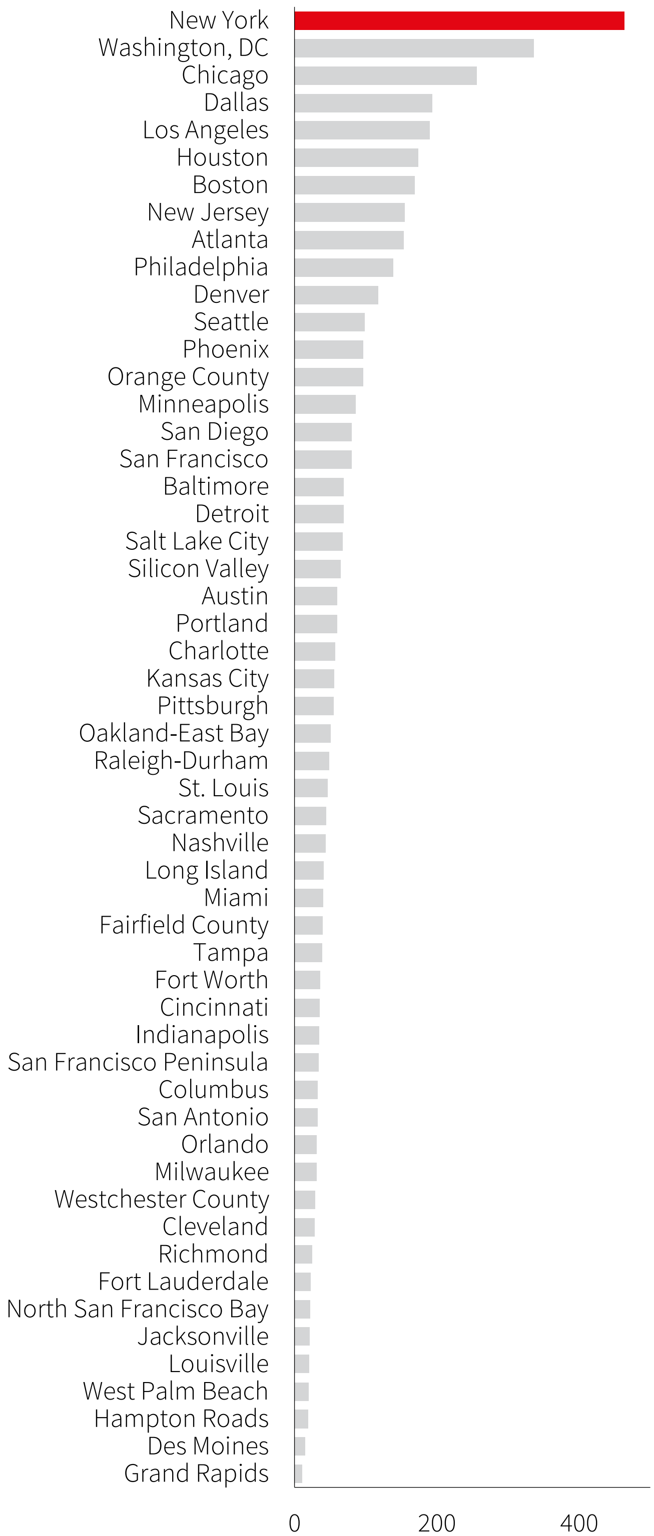


United States office statistics

Market totals (CBD and Suburban)	Inventory (SF)	Quarterly total net absorption (Including Subleases)	YTD total net absorption (Including Subleases)	YTD total net absorption (% of Inventory)	Total vacancy (s.f.)	Total vacancy (%)	Current quarter direct average marketed rent ($p.s.f.)	Quarterly percent change	YTD Completions / deliveries (s.f.)	Under construction (s.f.)	Under const. (% of inventory)
Atlanta	153,485,789	-60,604	-3,138,054	-2.0%	34,636,444	22.6%	$30.78	0.1%	2,309,402	3,970,693	2.6%
Austin	60,185,983	43,405	-702,683	-1.2%	10,191,449	16.9%	$49.10	-0.7%	1,921,680	4,172,201	6.9%
Baltimore	69,243,046	-258,352	-427,919	-0.6%	11,135,549	16.1%	$26.23	-0.5%	98,640	680,761	1.0%
Boston	168,559,089	-1,535,892	-3,016,167	-1.8%	27,699,314	16.4%	$44.19	0.8%	978,546	7,002,666	4.2%
Charlotte	57,010,321	71,581	78,641	0.1%	9,197,226	16.1%	$32.58	0.1%	2,745,649	3,515,014	6.2%
Chicago	256,235,282	-958,075	-1,908,639	-0.7%	53,159,535	20.7%	$34.70	-0.1%	1,948,193	3,449,561	1.3%
Cincinnati	35,187,666	-76,795	-163,501	-0.5%	7,318,486	20.8%	$20.13	-2.6%	20,505	637,428	1.8%
Cleveland	28,414,364	-278,757	-505,256	-1.8%	6,220,798	21.9%	$19.94	-0.7%	0	0	0.0%
Columbus	32,522,406	-194,755	-827,851	-2.5%	7,613,793	23.4%	$21.62	-0.3%	311,243	1,191,374	3.7%
Dallas	194,052,164	-980,822	-2,575,633	-1.3%	48,159,645	24.8%	$30.82	-0.2%	960,497	3,401,973	1.8%
Denver	117,980,660	-643,371	-2,309,723	-2.0%	24,185,105	20.5%	$32.46	1.0%	1,371,386	833,152	0.7%
Des Moines	15,201,715	63,944	4,693	0.0%	2,421,876	15.9%	$19.90	1.8%	98,000	144,000	0.9%
Detroit	68,919,744	-178,021	-388,675	-0.6%	15,199,978	22.1%	$20.12	-0.1%	340,510	1,063,753	1.5%
Fairfield County	39,648,461	-142,784	-98,954	-0.2%	10,150,777	25.6%	$37.97	0.5%	0	593,800	1.5%
Fort Lauderdale	22,397,446	-122,055	-347,468	-1.6%	4,024,810	18.0%	$37.29	3.6%	145,983	70,860	0.3%
Fort Worth	35,756,448	122,531	111,924	0.3%	7,090,309	19.8%	$25.79	2.0%	0	151,680	0.4%
Grand Rapids	10,974,058	60,053	-34,149	-0.3%	1,212,836	11.1%	$18.86	3.7%	105,000	0	0.0%
Hampton Roads	19,401,750	-219,173	-229,109	-1.2%	2,910,348	15.0%	$20.15	-1.2%	0	0	0.0%
Houston	173,721,813	-588,844	-1,777,911	-1.0%	46,485,195	26.8%	$30.88	-0.4%	70,000	3,102,829	1.8%
Indianapolis	34,622,400	25,126	-422,663	-1.2%	7,381,905	21.3%	$21.96	0.3%	146,791	163,000	0.5%
Jacksonville	21,346,295	-164,078	-412,523	-1.9%	3,970,674	18.6%	$22.00	-0.5%	187,751	182,280	0.9%
Kansas City	55,609,626	-336,362	-404,071	-0.7%	8,649,064	15.6%	$22.43	0.0%	30,000	777,078	1.4%
Long Island	40,796,929	-158,388	-395,306	-1.0%	6,305,312	15.5%	$28.64	-0.5%	0	0	0.0%
Los Angeles	189,697,612	-1,962,135	-4,202,716	-2.2%	35,164,256	18.5%	$44.85	0.2%	207,847	6,329,790	3.3%
Louisville	20,730,719	-98,941	-210,429	-1.0%	2,928,626	14.1%	$18.74	-0.6%	251,001	48,000	0.2%
Miami	40,258,862	-89,261	-339,245	-0.8%	8,220,521	20.4%	$46.01	1.0%	656,591	1,372,171	3.4%
Milwaukee	31,479,285	-232,893	-547,361	-1.7%	6,973,318	22.2%	$22.76	-0.7%	202,047	666,000	2.1%
Minneapolis	86,501,312	-25,817	-868,895	-1.0%	15,484,292	17.9%	$28.99	2.3%	344,244	671,419	0.8%
Nashville	43,781,212	50,539	15,761	0.0%	7,832,444	17.9%	$33.01	-1.9%	1,479,345	2,001,624	4.6%
New Jersey	155,252,446	-1,424,102	-2,841,606	-1.8%	42,412,878	27.3%	$29.10	0.1%	163,100	121,000	0.1%
New York	463,812,114	-3,951,059	-2,501,072	-0.5%	66,220,531	14.3%	$82.51	0.2%	2,290,248	20,262,345	4.4%
North Bay	22,012,368	-24,733	-222,283	-1.0%	3,552,432	16.1%	$32.51	0.0%	0	0	0.0%
Oakland-East Bay	50,796,190	-192,841	-513,557	-1.0%	9,318,885	18.3%	$43.69	-3.2%	0	81,575	0.2%
Orange County	96,231,764	-318,611	-1,115,439	-1.2%	16,168,675	16.8%	$36.60	0.8%	640,353	1,013,381	1.1%
Orlando	31,526,840	2,707	-470,360	-1.5%	4,030,946	12.8%	$25.89	0.6%	25,209	175,940	0.6%
Philadelphia	138,813,243	-959,119	-2,513,879	-1.8%	24,168,006	17.4%	$28.40	0.5%	378,000	1,054,599	0.8%
Phoenix	96,374,748	-960,090	-1,128,566	-1.2%	19,972,023	20.7%	$29.04	1.0%	1,457,698	2,117,918	2.2%
Pittsburgh	55,213,811	-140,694	-740,811	-1.3%	11,612,049	21.0%	$26.02	0.0%	220,642	1,268,383	2.3%
Portland	59,748,222	-648,291	-1,156,499	-1.9%	10,329,348	17.3%	$33.91	0.9%	58,908	876,020	1.5%
Raleigh-Durham	48,881,822	295,945	151,938	0.3%	7,165,531	14.7%	$29.25	0.9%	642,320	1,971,335	4.0%
Richmond	24,791,943	-76,790	-61,116	-0.2%	3,132,030	12.6%	$21.61	-1.1%	136,305	163,532	0.7%
Sacramento	44,370,758	-18,179	-324,955	-0.7%	7,691,301	17.3%	$25.67	-1.8%	0	194,471	0.4%
Salt Lake City	67,936,431	-430,784	-751,735	-1.1%	10,705,061	15.8%	$26.02	2.2%	861,539	2,255,066	3.3%
San Antonio	32,185,254	-101,574	-258,257	-0.8%	5,672,259	17.6%	$26.69	-3.2%	322,355	743,626	2.3%
San Diego	80,735,010	11,611	-158,857	-0.2%	11,544,571	14.3%	$38.95	1.4%	648,768	2,382,181	3.0%
San Francisco	80,126,633	-2,377,425	-4,638,829	-5.8%	16,163,756	20.2%	$79.93	-2.7%	760,073	2,072,483	2.6%
SF Peninsula	33,789,511	749,668	566,229	1.7%	4,994,361	14.8%	$67.70	2.3%	802,303	2,098,925	6.2%
Seattle	98,466,710	-870,666	-3,376,614	-3.4%	18,318,541	18.6%	$46.15	-0.1%	365,897	6,373,874	6.5%
Silicon Valley	64,574,041	129,015	-23,882	0.0%	7,803,183	12.1%	$65.29	3.6%	1,133,514	6,792,660	10.5%
St. Louis	46,405,879	-191,206	-338,935	-0.7%	7,495,164	16.2%	$23.58	-1.3%	108,750	1,057,585	2.3%
Tampa	38,588,632	61,468	-93,452	-0.2%	6,943,162	18.0%	$29.66	-2.4%	497,787	582,000	1.5%
Washington, DC	336,357,609	-1,609,569	-5,852,192	-1.7%	70,329,014	20.9%	$42.68	-0.2%	1,559,871	5,209,010	1.5%
West Palm Beach	20,315,425	27,995	2,184	0.0%	3,198,503	15.7%	$42.62	1.2%	0	570,350	2.8%
Westchester County	28,920,037	1,197,187	1,092,702	3.8%	6,609,656	22.9%	$30.01	0.4%	0	0	0.0%
United States totals	4,339,949,898	-20,689,133	-53,313,725	-1.2%	827,475,750	19.1%	$37.46	1.0%	30,004,491	105,631,366	2.4%

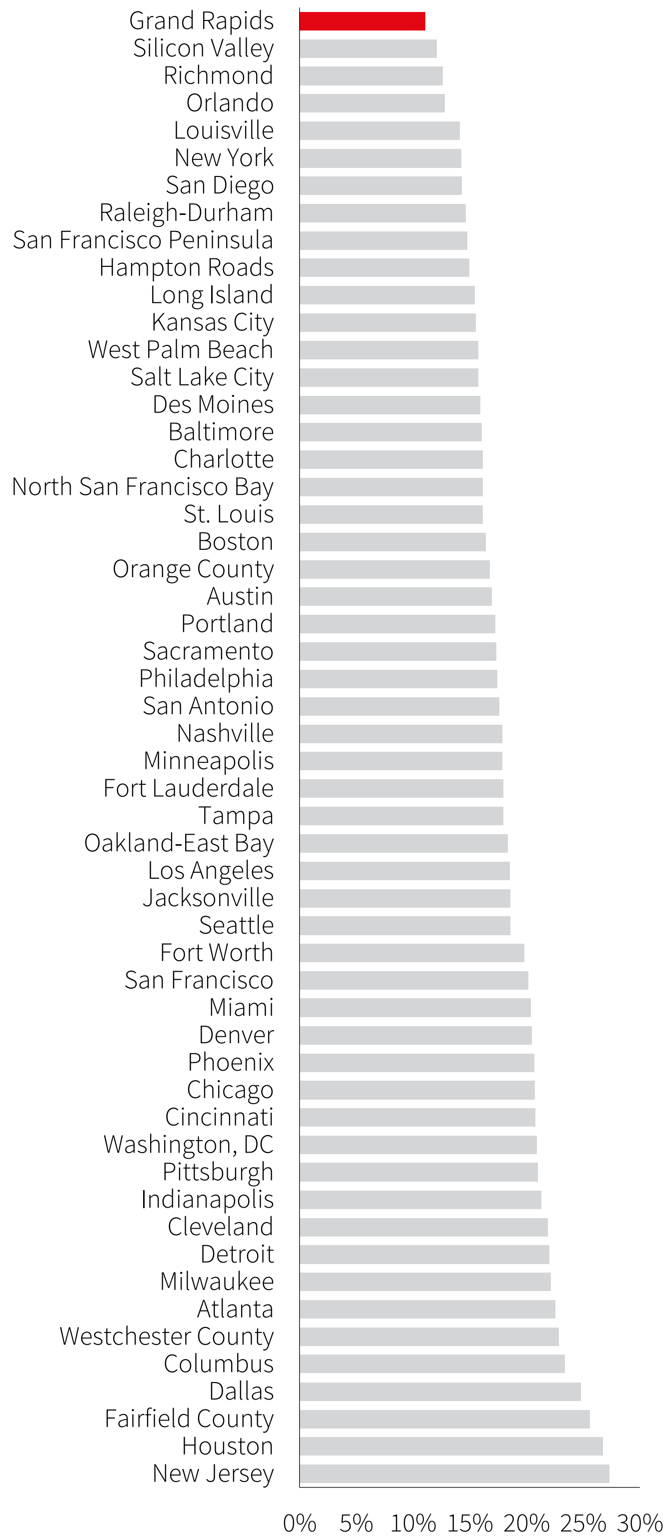
Source: JLL Research

Inventory
Square feet (millions)



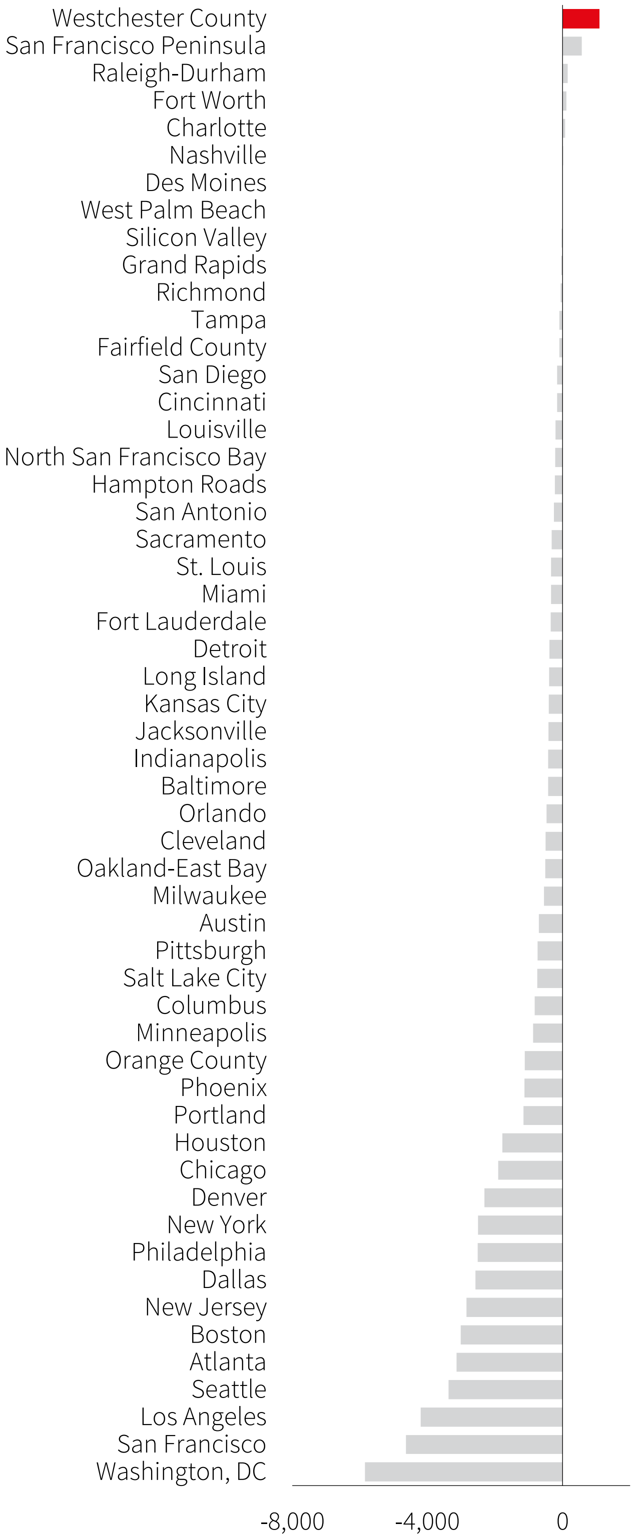
Source: JLL Research

Total vacancy rates (including sublease)
Vacancy rate (%)



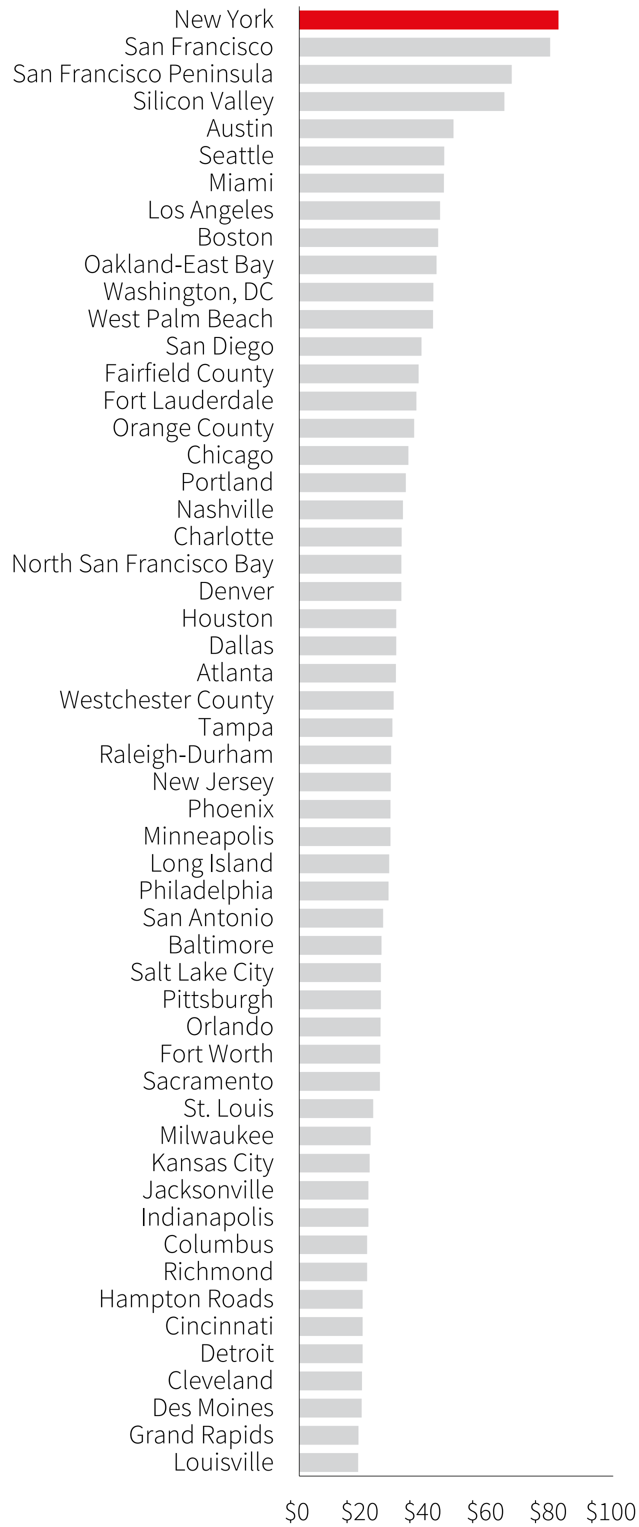
Source: JLL Research

YTD total net absorption (including sublease)
Square feet (thousands)



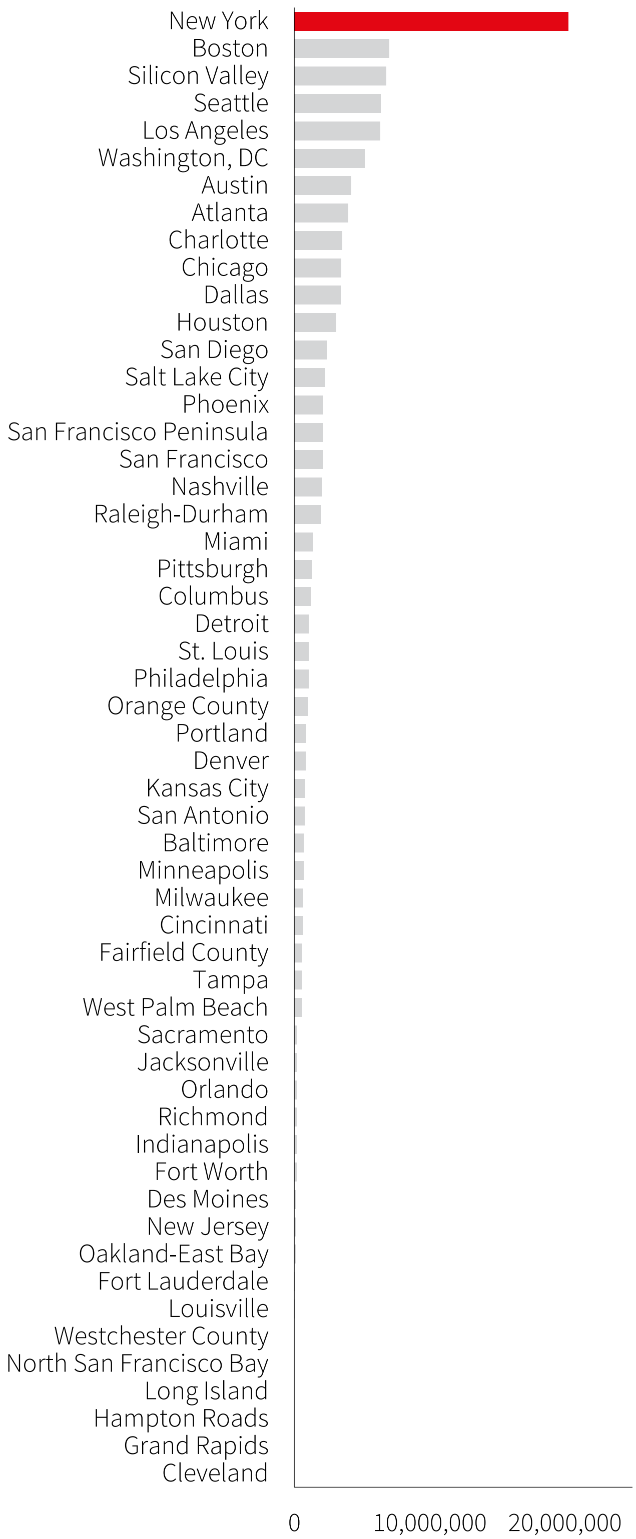
Source: JLL Research

Marketed rents
$ per square foot



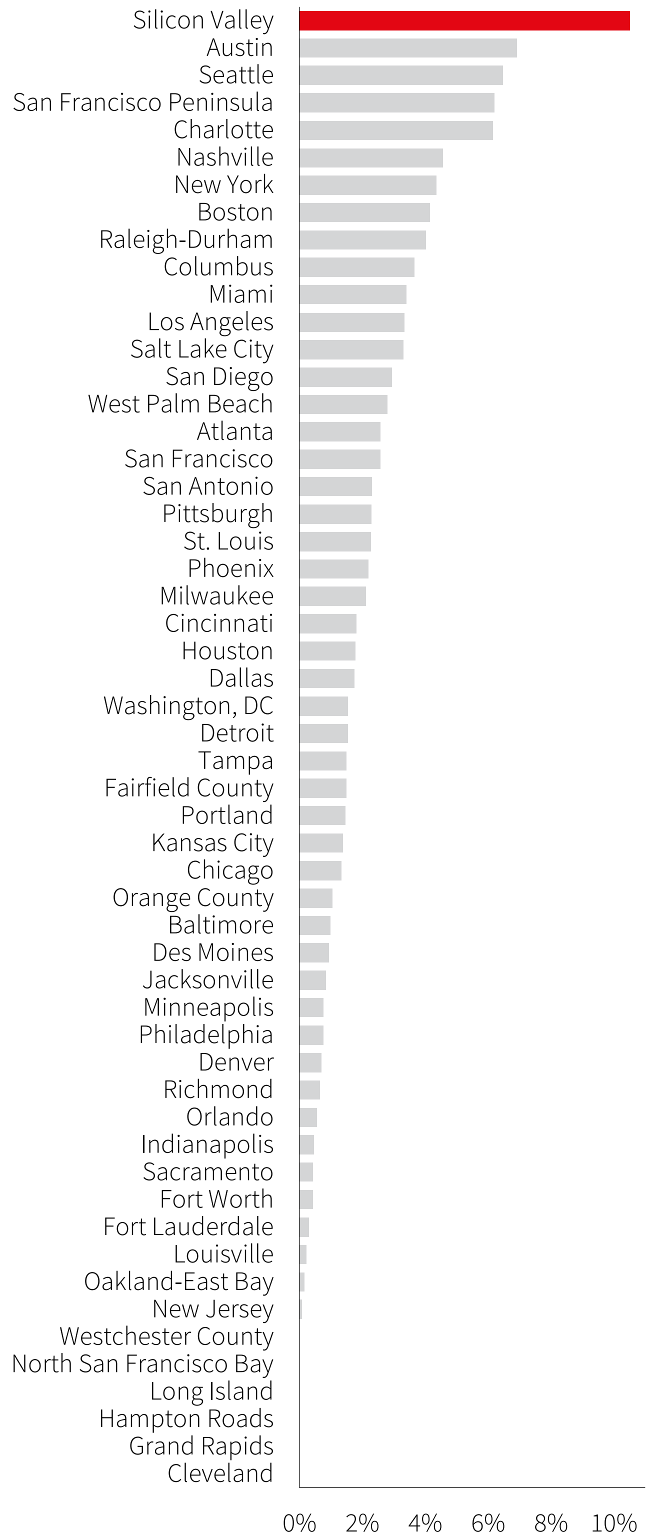
Source: JLL Research

Under construction
Square feet



Source: JLL Research

Under construction as % of inventory



Source: JLL Research

For any questions or comments, please reach out to:

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