

Marcus & Millichap

2023

OFFICE

*National  
Investment Forecast*



# TO OUR VALUED CLIENTS

The coming year brings the prospect of improved office sector clarity as companies calibrate their space needs to the emerging economic climate. Office space demand flattened last year as employees favored the flexibility of working from home, but 2023 could spur the market to begin another shift. The rising risk of a recession, or at least a weaker employment market, may reset market dynamics. Normally, an economic downturn erodes office space demand, but a softening economy in 2023 could deliver non-traditional results that are contrary to recent trends. If unemployment rises, office workers may find increasing value in being at the office, particularly if companies downsize their ranks. How this counterbalance between downsized space needs and an increase in “office time” will ultimately influence the sector at large will become more visible as the year progresses.

The airtight unemployment rate of the post-pandemic era pushed many companies toward a work-from-home business model, but as the employment market loosens, companies may be able to bring staffs back into the office more frequently. As has been the case since the onset of COVID-19, companies may continue to favor suburban offices and locations in smaller cities. That said, most companies will likely continue to offer staffs more flexible options. Office vacancy rates are still expected to rise in 2023, but space absorption should remain positive, particularly in suburban locations.

Office investors will continue to face a complex climate, with numerous behavioral and financial market crosscurrents. However, improved interest rate stabilization, together with a bit more clarity on the office market outlook, could begin to free investors to capitalize on emerging opportunities. To help commercial real estate investors adapt to and capitalize on the many nuances of the investment climate, Marcus & Millichap presents the 2023 National Office Investment Forecast. As always, our investment brokerage and financing specialists across the U.S. and Canada are at your disposal, providing street-level investment guidance to empower your decisions.

Thank you and here's to a successful year ahead,



**ALAN PONTIUS**  
Senior Vice President/Director  
Office Division



**JOHN CHANG**  
Senior Vice President/Director  
Research Services Division

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## National Office Market Index (NOMI)

- Destinations popular with both relocating households and businesses dominate this year's Index. Major Florida metros lead with Miami-Dade (#1), Fort Lauderdale (#3) and West Palm Beach (#4), as well as nearby Tampa-St. Petersburg (#5), Jacksonville (#8) and Orlando (#11).
- The primary gateway markets fall into the middle and lower ends of the 2023 NOMI, given severe pandemic impairments, high costs and a prolonged return-to-office process. Chicago (#25) and New York City (#29) rank higher this year due to comparatively stronger job growth, while the Bay Area markets and Washington, D.C. rank lower, due to exposure to the technology and public sectors.

## National Economy

- The economy has entered a state of recalibration, after the post-pandemic recovery. Robust fiscal and monetary policy support during the health crisis have given way to decades-high inflation that persisted throughout much of last year. Higher prices are now catching up with households and companies, and are prompting greater caution over the near-term economic growth outlook.
- Many businesses are taking measures to manage budgets ahead of an anticipated slowdown. This is leading to a pullback in hiring and some staff reductions at a time when more people are looking for additional income to help shore up household budgets.
- Current projections call for a period of job loss and a period of job growth in 2023, leading to a mild net gain for the full year. Numerous factors could affect this trajectory, including an escalation in the war in Ukraine or the occurrence of another black swan event.

## National Office Overview

- After an extended remote period, the return of some companies to in-person and hybrid schedules represented some modest positives for the office sector. That progress has since been waylaid by the slowing economy and a correcting labor market. As firms manage costs, space demand will likely be muted for the near future.
- Looking to the next growth cycle, the outlook shows the potential for improvement. Business formation applications are being filed at nearly double the average pace, which suggests that down the line new companies will need office space, backfilling some of what was relinquished.
- As the office sector faces the very likely scenario that a segment of space will remain vacant for several years, conversions of some older assets into other uses will occur. This is not a viable solution for most underutilized property, and will occur on only a select basis.

## Capital Markets

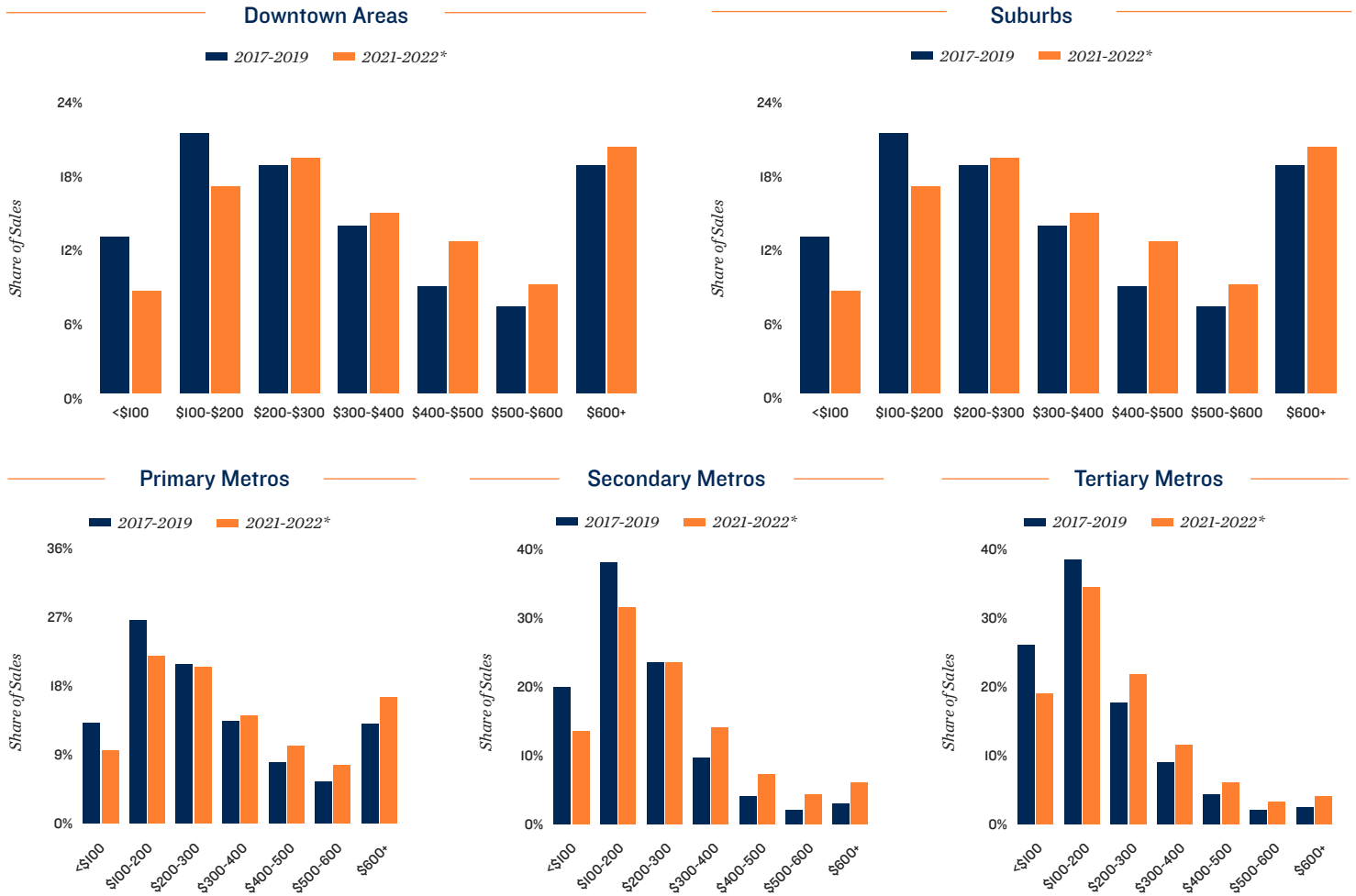
- After providing ample accommodation during the pandemic, the Federal Reserve substantially tightened monetary policy last year, in order to combat decades-high inflation. The FOMC will continue to tighten its policies until a clear trend of inflation normalization manifests.
- The speed and magnitude by which the Federal Reserve increased interest rates has notably disrupted financial markets as regulators and investors adapt to the new environment. Understanding among market participants should nevertheless improve once rates stabilize.
- A rapid upward shift in borrowing costs and a subdued tenant demand outlook have greatly complicated the financing process for offices. Many lenders have pulled back on capital availability, while higher costs of capital leave little margin for borrowers.

## Investment Outlook

- Office transactions peaked in the fourth quarter of 2021, before the omicron COVID-19 wave stalled widespread return-to-workplace plans early last year. Sales velocity continued to decline later in 2022, as remote and hybrid schedules persisted and borrowing costs radically increased.
- Overall, buyers are showing a preference for quality. When comparing trades on a price-per-square-foot basis, assets on the higher end of the scale generally represented a larger share of what changed hands in 2021 and 2022 than in the years leading up to the pandemic.
- A wide expectations gap between buyers and sellers should begin to contract once interest rates stabilize. As this process takes hold, investor interest is likely to sustain in the suburbs of secondary and tertiary markets relative to downtown areas and gateway metros.

## Flight to Quality:

### Clear Shift in Office Investment Goals Reflected in Higher Pricing Trend



## Investors Focusing on Higher-Quality Assets, Demonstrated by Higher Prices on Trades

- The COVID-19 pandemic instigated a shift in office investment toward higher-quality assets to reduce risk. Tenancy, rent collection, location and amenities could all factor into a property’s quality, among other factors. The result of this behavior has been a clear shift in the sale price of those assets that are changing hands.
- When comparing office transactions from the years leading up to the pandemic with the post-2020 period so far, a clear pattern emerges. The offices changing hands in 2021 and 2022 had higher prices per square foot than before the pandemic. This shift in the distribution of trades is a result of an investor flight-to-quality movement.
- The flight-to-quality has occurred across downtown and suburban locations, as well as in markets of all sizes – ranging from large, primary metros to small, tertiary cities. Regardless of the parameters, the same shift in the sale price distribution emerges, showing that higher-quality assets are the offices that investors are targeting now.
- Examining office trades on a square-foot-price basis helps identify the quality shift, regardless of a property’s size or class. An individual investor has limits to what they can or will consider. Whatever their selection criteria, buyers are favoring the higher-quality option in that range, represented by the higher per square foot price point.

Sales \$1 million and above \* Through 2Q

Sources: Marcus & Millichap Research Services; CoStar Group, Inc.; Real Capital Analytics

## U.S. Office Market Index

### Florida and Sun Belt Lead 2023 Index as Office Stalwarts Have Road Left to Travel

**Markets with lower costs and growing recruitment bases favored in 2023 rankings.** Destinations that have been popular with both relocating households and businesses dominate the leading echelon of this year's National Office Market Index. At the top of the pack are the major Southeastern Florida metros of Miami-Dade (#1), Fort Lauderdale (#3) and West Palm Beach (#4), as well as nearby Tampa-St. Petersburg (#5), Jacksonville (#8) and Orlando (#11). Robust in-migration and lower business operating costs have drawn employers to the state, not only for the financial savings, but also for an increasing labor pool in the next growth cycle. Similar factors contribute to the high placement of Atlanta (#6), Charleston (#7) and Austin (#9). Contrasting with this collection is Riverside-San Bernardino, which secures the second post in the 2023 NOMI. The market's minimal development has lent stability to a sizable, if somewhat static, Class B/C inventory. In a period of change for the office sector, this consistency is translating into a nationally tight vacancy rate and comparatively notable rent growth.

**Primary metros encounter further near-term hurdles.** The primary gateway markets, which generally feature the most prominent office sectors in the country, fall into the middle and lower ends of the 2023 NOMI. These historically dynamic office landscapes were severely impaired because of the pandemic, with recoveries that have failed to gain much momentum, due to high costs and a prolonged return-to-office process. The prospects of an upcoming economic downturn further delay improvements for these markets, translating into generally tepid revenue gains that weigh on their rankings. The gateway metros landing higher in the Index this year, including Chicago (#25) and New York City (#29), are on track for comparatively strong job growth, which nevertheless is failing to translate into substantial office utilization. The Bay Area markets and Washington, D.C. rank lower due to their exposure to the technology sector, which was the first to soften in late 2022, and the public sector, which is at higher risk for office space contraction.

## Index Methodology

The NOMI ranks 50 major markets on a collection of 12-month, forward-looking economic indicators and supply-and-demand variables. Markets are ranked based on their cumulative weighted-average scores for various indicators, including projected office-using job growth, vacancy construction and rents. Weighing both the forecasts and incremental change over the next year, the Index is designed to show relative supply-and-demand conditions at the market level.

Users of the Index are cautioned to keep several important points in mind. First, the NOMI is not designed to predict the performance of individual investments. A carefully chosen property in a bottom-ranked market could easily outperform a poor choice in a higher-ranked market. Second, the NOMI is a snapshot of a one-year horizon. A market encountering difficulties in the near term may provide excellent long-term prospects, and vice versa. Third, a market's ranking may fall from one year to the next, even if its fundamentals are improving. The NOMI is an ordinal Index, and differences in rankings should be carefully interpreted. A top-ranked market is not necessarily twice as good as the second-ranked market, nor is it 10 times better than the 10th-ranked market.

Market	Rank
Miami-Dade	1
Riverside-San Bernardino	2
Fort Lauderdale	3
West Palm Beach	4
Tampa-St. Petersburg	5
Atlanta	6
Charleston	7
Jacksonville	8
Austin	9
Salt Lake City	10
Orlando	11
Indianapolis	12
Las Vegas	13
Charlotte	14
Denver	15
Memphis	16
Philadelphia	17
Dallas-Fort Worth	18
Richmond	19
Nashville	20
San Diego	21
Houston	22
Milwaukee	23
Northern New Jersey	24
Chicago	25
Minneapolis-St. Paul	26
San Antonio	27
Cleveland	28
New York City	29
Baltimore	30
Raleigh	31
Sacramento	32
San Jose	33
Detroit	34
Cincinnati	35
Seattle-Tacoma	36
Louisville	37
Kansas City	38
Washington, D.C.	39
St. Louis	40
Oakland	41
Boston	42
San Francisco	43
Portland	44
Los Angeles	45
Phoenix	46
New Haven-Fairfield County	47
Orange County	48
Pittsburgh	49
Columbus	50

<sup>1</sup> See National Office Market Index Note on page 64.

## As Economy Shifts Down from High Growth Cycle, Several Potential Challenges Cloud Outlook for 2023

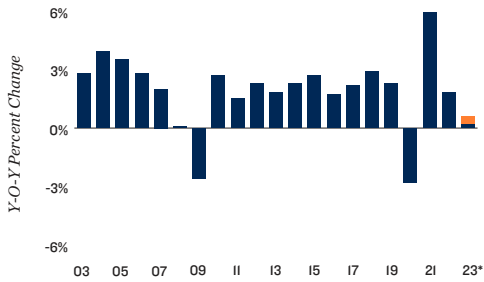
**Economy faces reset, following dynamic three-year stretch.** The economy has entered a state of recalibration after the post-pandemic recovery. Robust fiscal and monetary policy support during the health crisis helped many individuals and businesses maintain or improve their finances, propelling consumer and commercial demand well ahead of beleaguered supply networks. The result was decades-high inflation that persisted throughout much of last year and remains elevated at the start of 2023. Higher prices for everything from raw materials to finished goods and labor are now catching up with households and companies, as savings accumulated during lockdowns were drawn upon and borrowing has climbed. While some of the factors pushing inflation up are abating, such as certain blockages to the supply chain, other drivers are more structural in nature, including the availability of housing and medical care. Collectively, these considerations are set to stall GDP growth this year and are prompting greater consumer caution.

**Cautious corporate outlook poses implications for labor market.** Many businesses that are anticipating a slowdown in economic activity this year have already taken measures to manage budgets. Firms have pulled back on hiring or laid off staff at a time when more people are looking for additional income to help shore up household budgets. The labor dynamics that have characterized much of the past three years are drastically changing as a result, including among fields that traditionally use offices. Many office-based firms were able to maintain or grow operations during the pandemic by leveraging remote work, but the more traditional drivers of the current economic slowdown will lead to tempered staff gains here as well. In order to cut costs, companies may look to bring staffs back into workplaces to improve efficiency, or reduce overhead by consolidating underutilized floorplans and keeping more team members remote. While a more flexible work structure appears to be turning into the norm, there remains a wide variance in how companies are planning for the future.

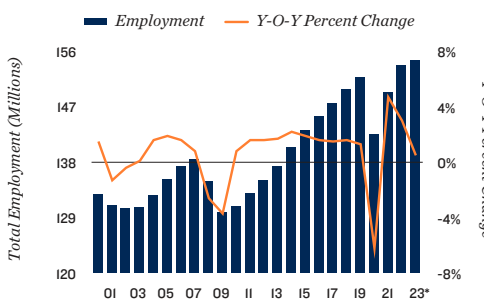
### 2023 National Economic Outlook

- **Economic headwinds paint a familiar picture.** Softening consumer sentiment last year does not bode well for spending habits in the opening stretch of 2023. This drawback, paired with greater business operating costs, will have an upstream impact on payrolls at many firms. These dynamics set conditions for a potential economic downturn that would affect higher-income professions first. This has been the case with most modern recessions, although pressures are not nearly as severe as in 2008/2009. The lockdown restrictions on many blue-collar jobs was unique to the 2020 downturn.
- **Employment outlook faintly positive, but situation is dynamic.** Current projections call for a period of job loss and a period of job growth in 2023, leading to a mild net gain in employment for the full year. Numerous factors could affect this trajectory. OPEC production cutbacks could impact domestic energy prices, while an escalation in the war in Ukraine would have global consequences. Financial markets could prove more volatile than expected, or another black swan event may manifest.
- **Cooling labor market has implications for migration.** The quieter jobs outlook is likely to raise career uncertainty among more individuals and pause some lifestyle decisions, dampening household formation. While this will not erase the ongoing migration trend to the Sun Belt, some metros may see comparatively fewer relocations this year. Markets that recorded acute living cost increases may observe some prospective residents in the retirement or remote work cohorts look to smaller cities close by.

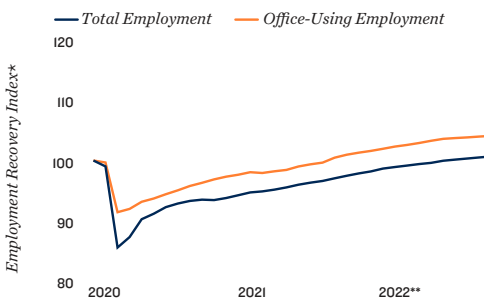
GDP Growth Trends



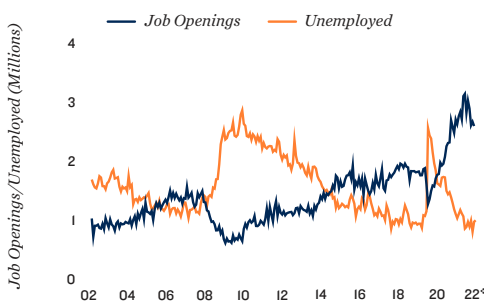
Employment Trends



Employment Recovery Index



Labor Shortage Among Traditional Office Workers



\* Forecast  
 \*\* Through November  
 † Job Openings through October, Unemployed through November  
 \* Employment Recovery Index: Feb. 2020 = 100



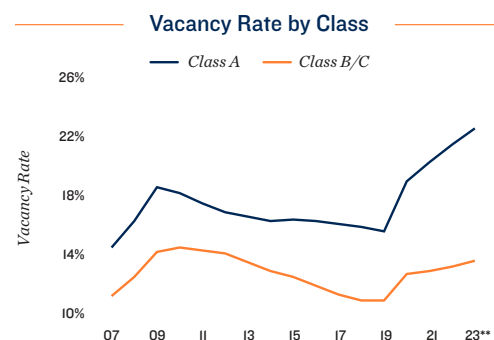
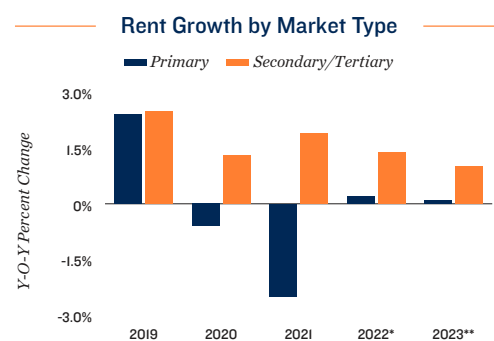
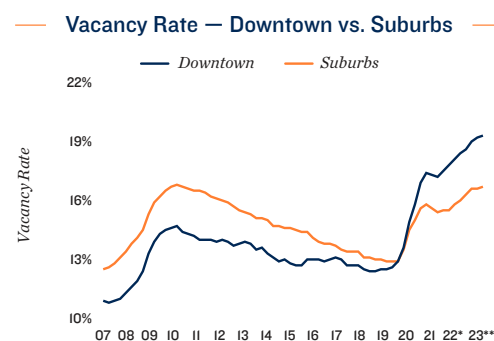
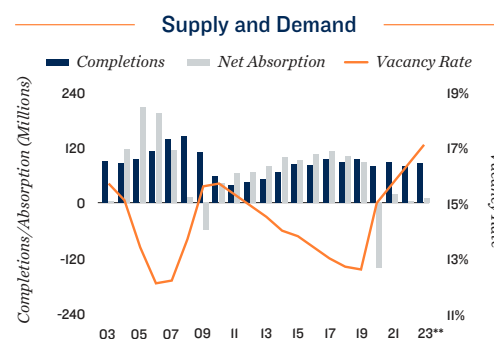
## Economic Slowdown Complicates Already Protracted Recovery

**Office sector hits major hurdle, just as it passes positive inflection point.** Despite the challenge of an extended remote period following the pandemic, there are some positives that draw modest acknowledgment. The return of some companies to in-person and hybrid schedules translated into the net absorption of 63 million square feet of office space between July 2021 and June 2022. This represented nearly a third of what was relinquished over the previous 15 months. That progress has since been waylaid by the slowing economy and a correcting labor market. As firms manage costs, space demand will likely be muted for the near future. Among companies looking for space, there is likely to be a focus on floorplans with amenities that make the office a destination unto itself. Examining just offices built since 2010, about as many new leases were signed last year as in 2019. When looking at older buildings, leasing activity last year was at its lowest point since 2007, not including 2020. However, looking beyond these short-term challenges to the next growth cycle, the outlook shows the potential for improvement. Business formation applications are being filed at nearly double the average pace, which suggests that down the line new companies will need office space, backfilling demand lost to remote/hybrid schedules and other economic hardships.

**Suburbs still generally favored.** Suburban offices continue to be the most resilient in the current environment. The relationship between suburban and downtown office vacancy inverted at the onset of the pandemic and has continued since, facilitating suburban rent growth around 2 percent. By comparison, asking rates across the nation’s major central business districts are on average still down about 4 percent from 2019 levels. Suburban offices generally offer lower costs for tenants and can provide shorter commutes, an important factor to consider amid the ongoing return-to-work process. At the same time, residential demand has improved in some downtown areas, which could herald future improvements for CBD offices. Recoveries are also varying widely by market. West Palm Beach and Las Vegas have emerged as strong office landscapes, with less availability last year than in 2019. Tech-heavy San Francisco, San Jose and Seattle-Tacoma, meanwhile, continue to lag 2019 performance by a wide mark, falling behind most other metros. These discrepancies reiterate that there is not one path forward for offices.

## 2023 National Office Outlook

- **Conversion activity picking up, but remains a niche option.** As the office sector faces the very likely scenario that a segment of space will remain vacant for several years, conversions of certain older assets into other uses will occur. While this process will remove some stock from the office landscape, the age and configuration of the building, along with the economics of the specific conversion, will be limiting factors regarding viability.
- **Delayed space decisions coming up again this year.** With an average term of about three years, some of the office leases that were signed during the early stages of the pandemic will be coming up this year, which may lead to delayed space attrition. Recent office leases have skewed toward smaller floorplans and shorter terms.
- **Despite flight-to-quality, Class A properties still challenged.** Class A fundamentals continue to be impaired by new supply, with the national vacancy rate for the segment eclipsing 16 percent all last year. Availability among Class B and C offices held about flat last year at 12.8 percent. This tier faces less construction pressure and may see some of the more challenged stock leave the market as part of the conversion process.



\* Estimate  
\*\* Forecast

## Fed's Inflation Response Compounds Challenges Facing Office Sector, Notably Constraining Capital Availability

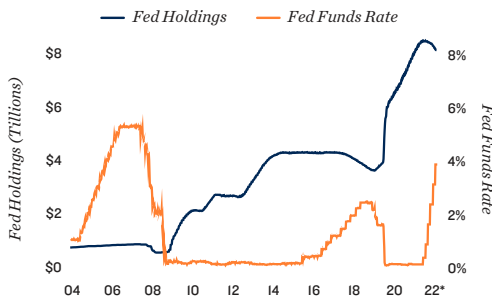
**Following rapid policy shifts, conditions should begin to solidify.** After providing ample accommodation during the pandemic, the Federal Reserve substantially tightened monetary policy last year, in order to combat decades-high inflation. The Federal Open Market Committee raised the overnight lending rate by over 400 basis points last year from a starting point of zero, the fastest pace of hikes since the early 1980s. The Fed also reduced its balance sheet in 2022, offsetting some of the debt it collected during the 2020-2021 span. Now above 4 percent, the fed funds rate is set to climb further this year, as the FOMC has clearly stated the intention to tighten policy until the committee observes a clear trend of inflation normalizing toward the central bank's 2 percent target. Given the modest deceleration observed in the closing months of 2022, the lending rate is likely to peak this year, with a subsequent downshift unlikely, unless the economic landscape significantly deteriorates. As it stands, the speed and magnitude of the rate adjustments observed so far have notably disrupted financial markets as regulators and investors adapt to the new environment. Understanding among market participants should nevertheless improve once rates stabilize.

**Capital limited for office transactions.** The combination of a rapid upward shift in borrowing costs and subdued labor dynamics affecting the short-term demand of office properties has greatly complicated the financing process for such assets. Given that employees continue to visit the office less frequently than they did before the pandemic, many lenders have pulled back on financing investment sales on such properties. Whereas CMBS comprised about a quarter of office transaction financing on average from 2015-2019, that share dropped to 15 percent for the first half of 2022. Under a reduced deal pipeline, regional and local banks have been taking on a larger share of lending. The underwriting criteria have also tightened, with constraints on debt service coverage ratios taking priority over other measures of leverage, such as LTV. When a borrower can obtain financing, the cost of that capital has increased substantially. Lending rates on commercial mortgages eclipsed 5.9 percent last year, while the average cap rate on office trades held in the mid-to high-6 percent band. This leaves little margin for borrowers, putting pressure on an already wide buyer-seller expectations gap.

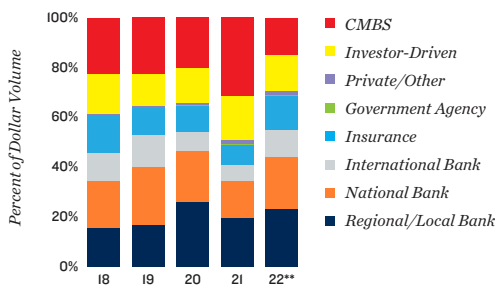
## 2023 Capital Markets Outlook

- **Lender concerns accentuate flight-to-quality among investors.** Assets with high-credit, stable tenants in place for long terms, and assets in good locations, gain an additional advantage beyond their operational appeal for investors. Such assets may more easily obtain financing, as lenders are being incredibly careful on what office properties they underwrite. Higher-quality assets may come with lower cap rates and tighter margins, however.
- **Distress remains small component of sales activity.** The sale of distressed assets across all property types as a share of total dollar volume appears to have peaked early last year, at less than 2 percent. For offices, that ratio dipped to under 1 percent by late 2022. However, as short-term loans originated in 2021 mature in the near future, the transition to a higher interest rate environment will create some refinancing challenges.
- **Fed actions doubly impact offices.** The primary method by which the Fed hopes to constrain inflation is by cooling the labor market, and thereby both consumer and commercial demand for goods and services. By pushing demand down to meet supply, prices should climb more slowly. The byproduct of this is the clear intention to raise unemployment, a dynamic that also undermines the near-term outlook for office spaces themselves.

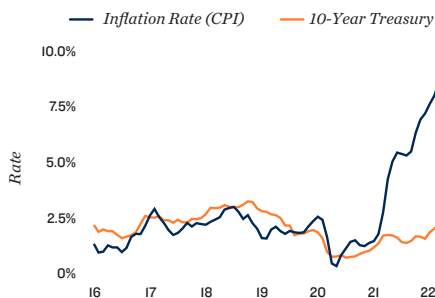
### Monetary Policy Tightening



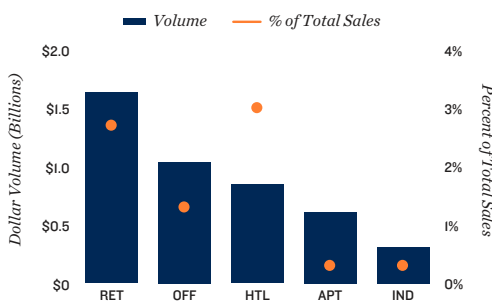
### Office Lender Composition



### Inflation Eases Back From Historic Levels



### Sales of Distressed Assets in 2022\*\*



\* Through Dec. 14

\*\* Estimate

♦ Through November

\* Year-to-date through August

## Period of Transition Underway as Investors Position for Next Growth Cycle

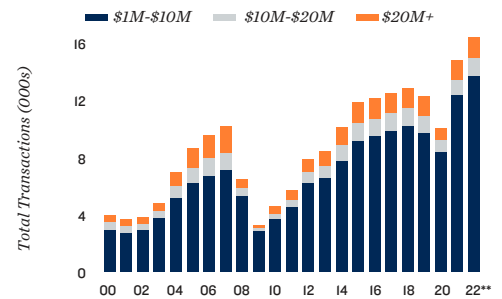
**Amid clouded outlook and market disruption, sales activity cools.** Office transactions peaked in the fourth quarter of 2021, before the omicron COVID-19 wave stalled widespread return-to-workplace plans early last year. Sales velocity continued to decline later in 2022, as it became more apparent that remote and hybrid schedules would persist and borrowing costs radically climbed. Institutions, in particular, pulled back in the second half of last year, a trend that is expected to continue, at least into the early stages of 2023. Buyers are also showing a preference for quality. When comparing trades on a price-per-square-foot basis, assets on the higher end of the scale generally represented a larger share of what changed hands in 2021 and 2022 than in the years leading up to the pandemic. Of course, these sales lag market conditions, which are more challenging today for initiating an office investment sale.

**Investors look past current hurdles to next cycle.** Entering 2023, there is a wide expectations gap between buyers and sellers of office properties. An uncertain near-term outlook for both the economy at large and office workplace practices, in particular, have fostered a broad range of viewpoints that is complicating how valuations are determined. This bid-ask spread should begin to contract once interest rates stabilize, which is expected sometime in the first half of this year. As this process takes hold, investor interest for assets in suburban settings of secondary and tertiary markets will be elevated compared to downtown areas. Suburban locations popular with relocating households are likely to gain attention from both office tenants and investors, as they look to position themselves for the next growth cycle. The prospect of a growing labor pool, lower operating costs and generally higher yields than in primary cities are all appealing factors. At the same time, while transaction velocity has slowed most notably so far in the gateway markets, opportunistic pricing options may emerge that might allow buyers to enter into office stalwart settings that are still in the earlier stages of their recoveries.

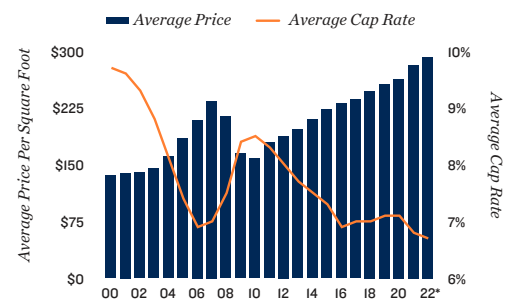
## 2023 Investment Outlook

- **Conversion may become a slightly more common reason to sell.** Given the near-term challenges facing the office sector, more owners may consider a sale to a buyer interested in conversion or redevelopment, particularly if the asset is older and has high vacancy. While the viability of conversions is limited, and does not apply to the majority of assets, the process is picking up slightly. Owners uninterested in going through the process themselves may opt to exchange with a buyer willing to put in the time and capital.
- **Investors requiring lower leverage advantaged in current environment.** Amid a challenging financial landscape, well-capitalized buyers will be more able to transact and could take advantage of current market disruption. Investors who need higher leverage, especially for assets in transition like construction loans, will be hindered by lenders' strong focus on debt service coverage ratios.
- **Medical offices continue to see investor attention.** While the trading of medical offices has declined from the peak levels observed in 2021, such properties remain a favored asset class among investors. The investment outlook is generally positive, as medical offices are broadly insulated from the remote work trend and face a large population cohort of aging individuals that will need expanded care.

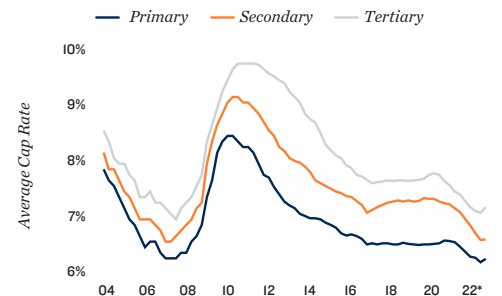
Office Transaction Activity



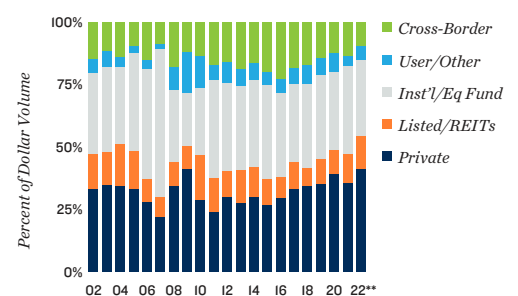
Price vs. Cap Rate



Cap Rates by Market Size



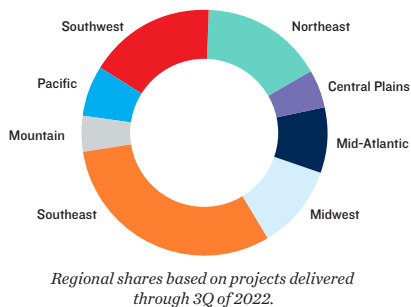
Office Buyer Composition



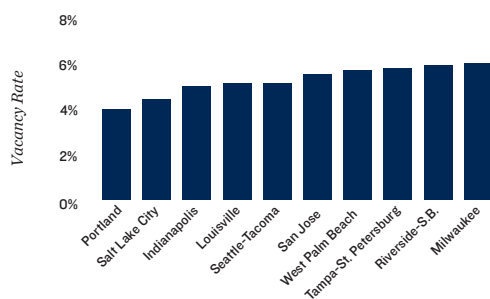
\* Estimate

\*\* Trailing 12 months through 3Q

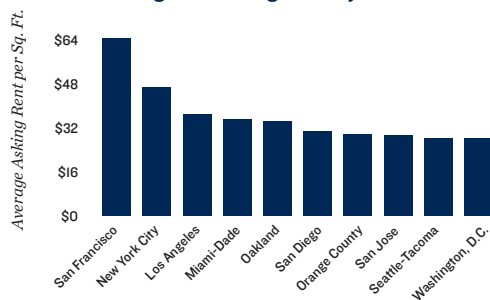
2022 MOB Completions By Region\*



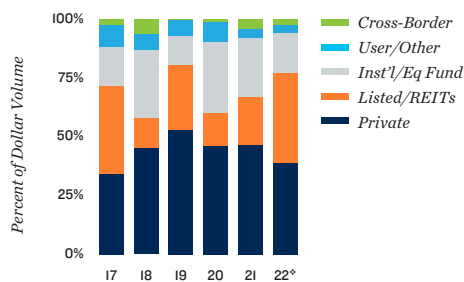
2022 Lowest Vacancy by Metro\*



2022 Highest Asking Rent by Metro\*



MOB Buyer Composition



\* Estimate  
 † Trailing 12 months through 3Q

## Growing Long-Term Health Care Needs Places Spotlight on Current Labor Shortage

**Clarity on telehealth paints positive medical office outlook.** The medical office sector entered 2023 in a strong position relative to traditional offices. Whereas the latter category continues to contend with the challenges of remote connections, the adoption of telehealth is seen as a support for medical offices. While virtual appointments now make up about 10 percent of medical office visits, these meetings are not erosive to the need for in-person procedures. Rather, a telehealth appointment can act as a relief valve during periods of increased office visitation, and allow medical practitioners to more frequently interact with their patients. This option will become increasingly important as the demand for medical care is on a long-term upward trend. About double the number of U.S. residents will turn 65 over the next decade than in the years from 2010 to 2022, a marked acceleration in the aging of the country’s population. Health care needs are projected to increase in relation to this demographic shift, a benefit to medical organizations, provided they can find the staff to meet patients’ needs.

**Labor shortages, climbing operating costs persist as headwinds.** Health care operators continue to face labor shortages, exacerbated by pandemic-induced burnout. One 2022 study found that nearly half of all health care workers anticipated leaving their employer within three years, with wage growth in other, less-stressful fields widening the door for career changes. The medical community is also aging, along with the rest of the country. As of 2017, more than half of all registered nurses were age 50 or older. An estimated 200,000 new nurses are needed each year to compensate for both greater health care demand and retirement. These dynamics could become a major growth constraint for the medical office sector. As it stands, upward pressure on pay is joining other climbing operational expenses to challenge many practices. While demand for medical office services is on an upward track, some individual tenants may face challenges in reconciling finances.

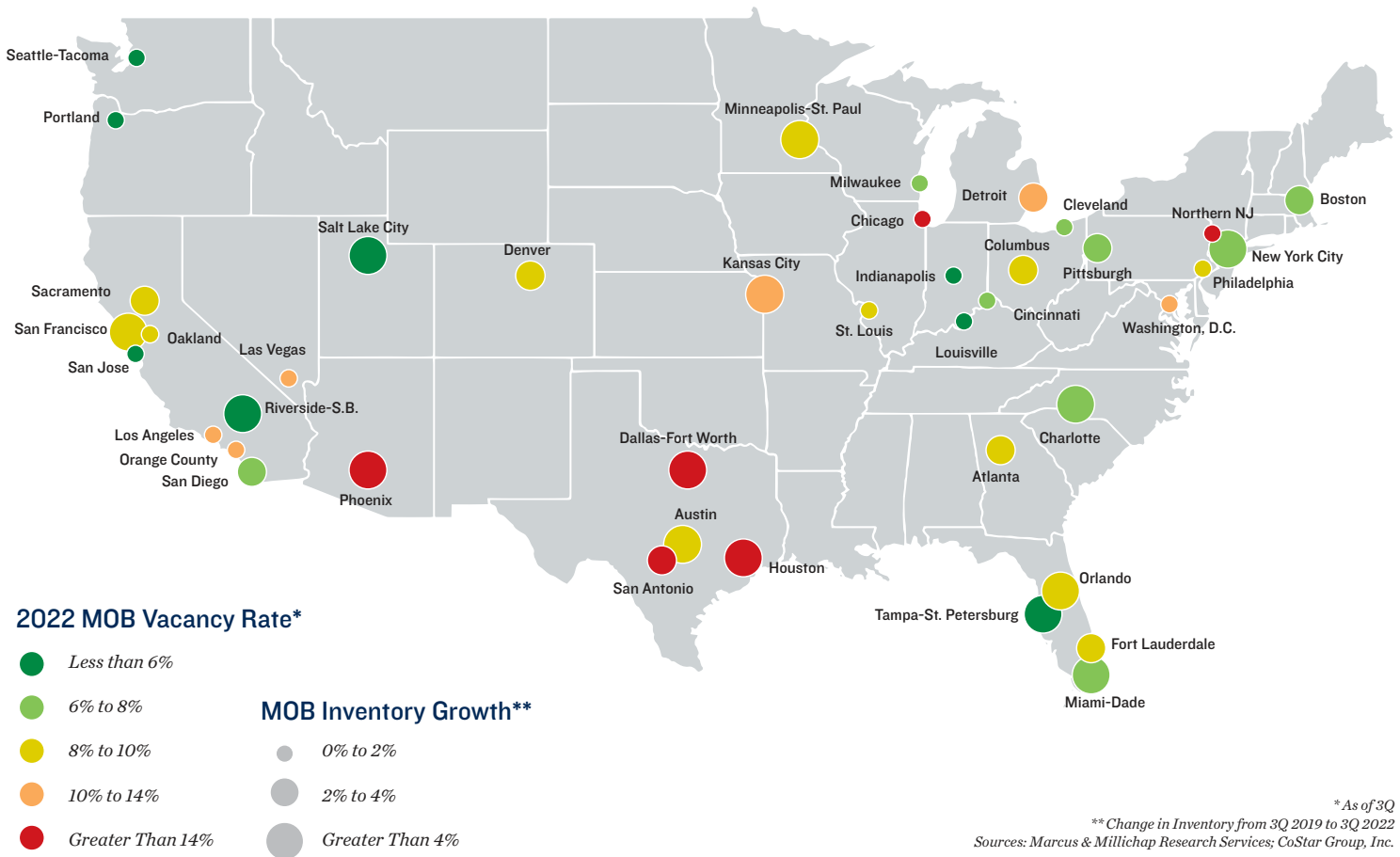
## Investment Trends

**Institutional interest softens as buyers target longer leases, inflation protections.** While active in the first half of 2022, institutions and REITs generally took a step back from medical office transactions in the latter part of last year, a trend that is likely to continue through the first three-to-six months of 2023. Private investors will take up a larger share of trading activity as a result, with buyers looking for longer leases in place, exceeding 10 years, as well as built-in inflation rent escalators of 3 percent.

**Demographics a key factor in recent investment activity.** As with health service needs, medical office investment demand has been highly influenced by demographics. Areas that continued to see strong sales momentum in late 2022 included Southeast Florida, Central Florida and Nashville. Regional move-to spots, such as Indianapolis in the Midwest and the Inland Empire in California, also stood out. Challenging financial conditions are likely to constrain deal flow more going forward, however.

**Qualities of medical office tenants and higher yields play important role in 2023.** While medical office sale prices have grown less than traditional offices in recent years, the sector nevertheless offers a brighter near-term outlook. Slightly higher yields on average, and often high-tenant credit ratings, may be deciding factors for prospective buyers in a period of tightened capital availability.

## Medical Office Vacancy Rates Favor Lower Development Markets



## 2023 Medical Office Building Forecast

9.5 million square feet



### Construction:

Following the delivery of over 10 million square feet last year, the construction pipeline for 2023 modestly retreats as approximately 1 million fewer square feet come online. Total inventory is projected to grow by 0.8 percent this year, down from the 1.2 percent average recorded from 2015-2019. Less new supply pressure, paired with ongoing demand tailwinds, should further bolster fundamentals this year.

10 basis point decrease



### Vacancy:

A slight slowdown in deliveries will help the national vacancy rate dip to 9.1 percent this year, matching the rate of decline posted in 2022. Space demand has not completely recovered from the pandemic, as medical office availability had held under 9 percent from mid-2016 to mid-2020.

1.4% increase



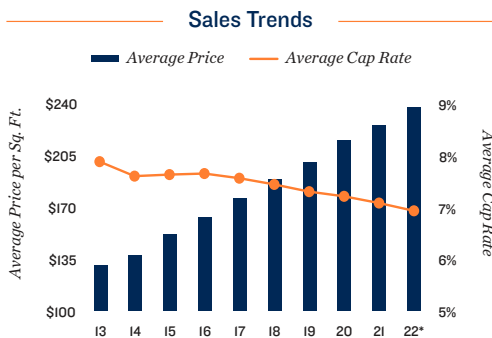
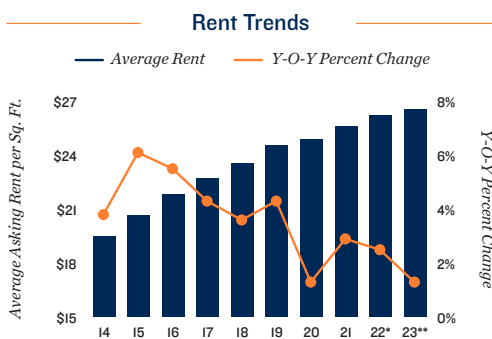
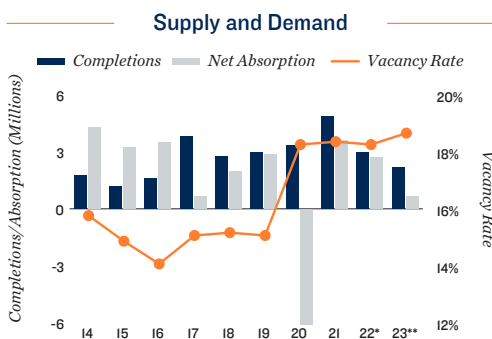
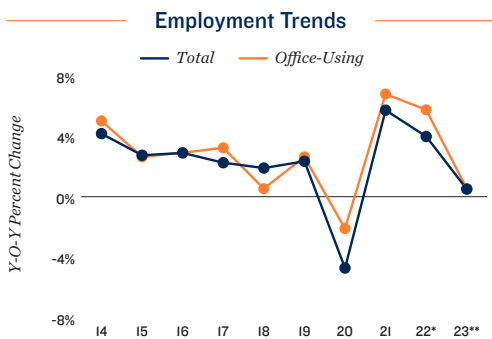
### Asking Rent:

A modest improvement in vacancy will help the average asking rent advance by a similar margin as last year. The average marketed rate will rise to \$22.74 per square foot, up 8 percent from 2019. While tenant demand is improving, greater labor and operating costs amid other economic headwinds will keep rent growth modest.

## Access to Well-Educated Talent Keeps Employers' Eyes on Atlanta as Investors Respond to Changing Landscape

**Presence of skilled labor a positive for office tenants.** Despite the dual challenges of a slowing economy and remote work adoption, Atlanta's office sector benefits from a robust local talent pipeline. Companies looking to hire skilled professionals graduating from prominent institutions, such as Georgia Tech, have recently sought offices in nearby Midtown. Firms are also targeting floorplans near Emory University, which is surrounded by a growing life science sector that includes the CDC headquarters. Furthermore, Moderna established a regional headquarters in Atlanta last year to capitalize on the metro's robust talent pool. The organization's entrance has since fostered demand for office space among companies that provide the biotech firm with supplementary services. Outside the core, demand for available office space has been improving, with vacancy across suburban locales dropping by more than 100 basis points last year. Floorplans in these areas may continue to garner interest from prospective tenants, as firms attempt to entice staff back to offices by opening satellite spaces. Shortening commute times are particularly appealing in Atlanta, as it ranked as the eighth-worst U.S. city for travel time in the 2022 Traffic Index.

**Employee preferences shift investment focus.** Office properties' proximity to well-regarded universities has provided stability in core areas like Midtown, where vacancy recently contracted by nearly 200 basis points, despite the metro's highest average asking rent. The perceived flight-to-quality ongoing in the submarket may lift investor sentiment regarding central Atlanta this year. On the other hand, suburban offices that provide employees with reduced travel times offer another potential advantage. Central Perimeter and Northwest Atlanta's large stock of newer, amenitized offices may hold investor attention this year, as properties near areas of growing residential demand have outperformed their CBD counterparts during the pandemic recovery. Specifically, the pace of suburban rent growth has nearly doubled that of the core.



### 2023 Market Forecast

- NOMI Rank** 6 Relatively strong employment growth among traditional office-using firms earn Atlanta a top spot on the Index.
- Employment** ↑ up 0.5% As the Fed aims to slow job growth to combat inflation, only about 15,000 new positions will be added this year. Of those jobs, one-third will be in traditionally office-using fields.
- Construction** ↓ 2,200,000 sq. ft. Inventory expands by 0.8 percent in 2023 as the pace of construction slows by 800,000 square feet. North Fulton is slated to add the most space among metro submarkets this year.
- Vacancy** ↑ up 40 bps Net absorption will moderate in 2023, placing upward pressure on vacancy. The rate will be pushed to 18.7 percent.
- Rent** ↑ up 1.3% Despite the rise in availability, the average asking rent climbs to \$26.55 per square foot by December. This year's gain is down slightly from 2022's increase of 2.5 percent.
- Investment** ○ Office buildings in Cobb County may receive attention from active investors, as Marietta's expanding population and comparatively lower asking rents draw companies to local floorplans.

\* Estimate; \*\* Forecast  
Sources: CoStar Group, Inc.; Real Capital Analytics

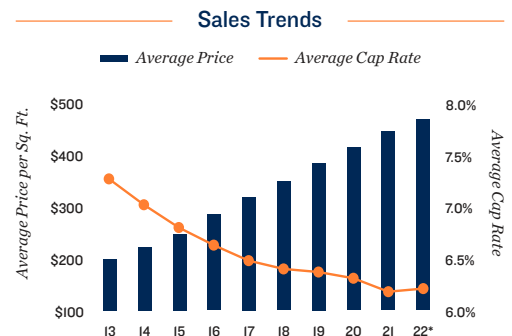
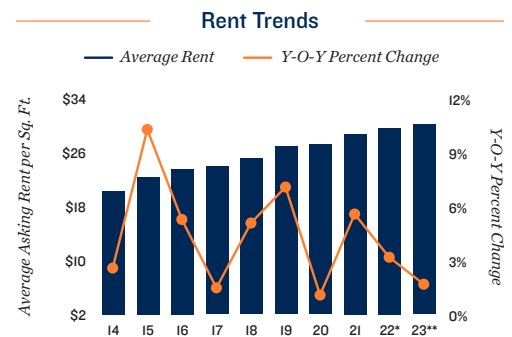
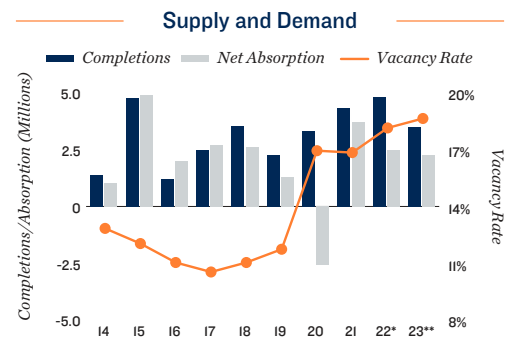
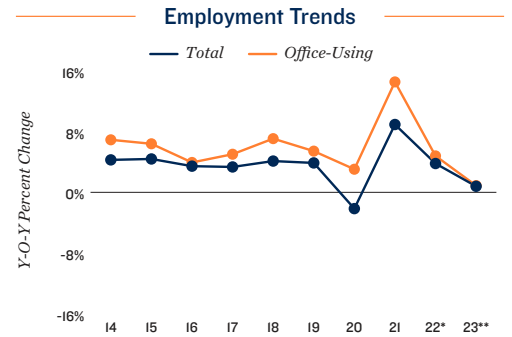
## Robust Leasing Activity Falls Short of Supply Additions; Investors Favor Tech Areas, Despite Sector Headwinds

**Net absorption remains high, but supply wave impacts fundamentals.** By the end of 2022, Austin saw the third-largest annual net absorption total among major U.S. markets, behind only New York and Atlanta. This year is expected to mark the second straight period of over 2 million square feet of net absorption. High demand for space in Austin will also facilitate growth in the mean asking rent, surpassing \$30.00 per square foot by year-end. Vacancy, however, will reach a record high as some key firms reassess their physical space needs, taking into account hybrid schedules and layoffs in the tech sector. Meta, Facebook's parent company, announced in late 2022 that it intended to sublease the 589,000-square-foot spot it was originally set to occupy downtown, serving as an example of the headwinds that a tech-heavy metro like Austin could face near term. This reduction in demand coincides with sustained high development, as builders will mark a seven-year span of annual deliveries exceeding 2 million square feet in 2023. In a potential downturn, however, some in-development projects may stall, enabling supply and demand to realign longer term.

**Investor preference for upper-tier properties influences sales metrics.** Tenants are favoring amenitized space to help draw employees back to in-person workplaces, directing investor interest toward Class A assets. This has placed upward pressure on Austin's average sale price per square foot, with the mean eclipsing \$460 last year. Buyers remain honed in on the areas dense with tech employers, such as East and North Austin, despite some sector flux. While companies like Meta are reshuffling space, several firms committed to large leases in 2022. This list includes a 126,000-square-foot sublease by TikTok in the CBD, and a 60,000-square-foot signing by PayPal in North Austin. Meanwhile, the Teacher Retirement System of Texas left its downtown office in favor of space in East Austin, showing demand persists in these locales beyond just the tech sector. Robust net in-migration may lead investors to pursue medical offices as well in 2023.

### 2023 Market Forecast

- NOMI Rank** 9 An educated labor pool and recent rapid economic growth place Austin within the top 10 on the Index this year.
- Employment** ↗ Of the 10,000 positions expected to be added in 2023, roughly up 0.8% one-third will be from traditionally office-using firms, allowing these sectors to grow by 0.9 percent.
- Construction** ↘ Local inventory will expand by 3.0 percent in 2023. Additionally, Austin has an active pipeline of 9 million square feet, with 3,500,000 sq. ft. delivery dates extending into 2025.
- Vacancy** ↗ Following a supply wave, defined by a half-decade average of 3.6 million square feet annually, vacancy will reach 18.7 percent up 50 bps.
- Rent** ↗ Despite rising availability in Austin, the metro's average asking rent will increase by the fastest pace among major Texas markets this year, reaching \$30.10 per square foot up 1.7%.
- Investment** ● Risk-averse investors may pause activity amid recessionary concerns, or switch focus to areas with limited construction pipelines, including Southwest and Central Austin.

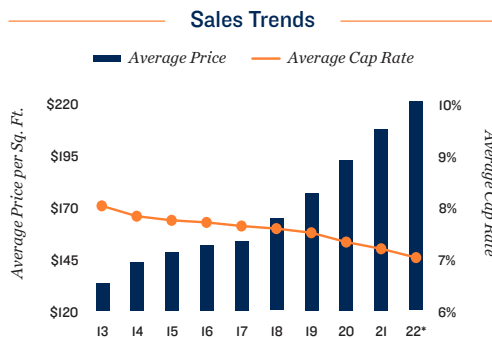
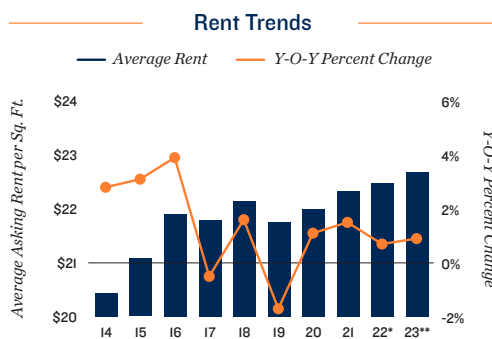
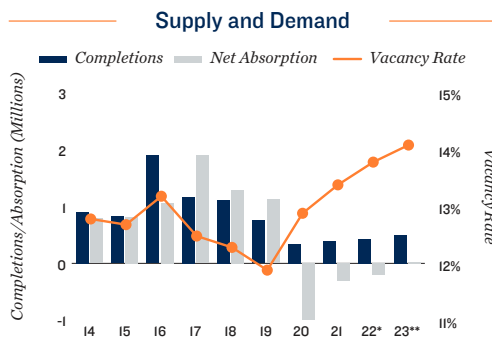
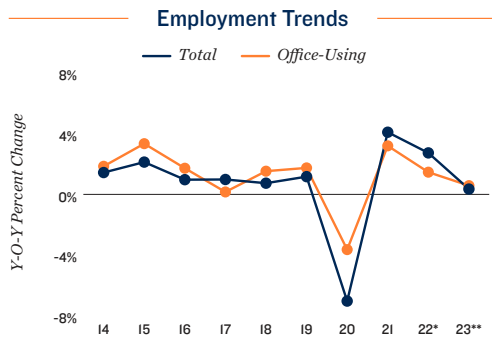


\* Estimate; \*\* Forecast  
Sources: CoStar Group, Inc.; Real Capital Analytics

## Baltimore Maintains the Tightest Office Vacancy Rate Among Major Mid-Atlantic Markets

**Moderate development activity aids office fundamentals.** Minimal supply pressure has helped limit vacancy expansion in Baltimore. Only 1.2 million square feet has been delivered since the end of 2019, compared to the metro average of 1.5 million square feet per year during the previous decade. During the recent three-year span, availability rose 190 basis points, equating to half of the national increase. The trend of rising vacancy will likely remain in the near term as a slowing economy is tempering leasing activity. However, recent news has provided signs of encouragement in the local office market. The Maryland Chamber of Commerce expanded the Baltimore Enterprise Zone last July, increasing the number of businesses that can receive economic support as new jobs are added, which may induce more company relocations and expansions. Owners may also explore converting vacant floor plans into medical office space or residential units, as traditional office-using firms continue to contemplate their future space needs. The diversification of assets would build a stronger live-work-play environment, serving as an additional long-term demand driver in the urban core.

**Investors target medical and corporate epicenters.** Investment activity remained steady in Baltimore over the past year amid a climbing interest rate environment, indicating that buyers are confident in the metro's long-term fundamentals. Relatively low vacancy, coupled with average first-year returns higher than the national benchmark, could maintain buyer activity in the market during a period of elevated borrowing costs. Class B office assets under 50,000 square feet should continue to garner attention among active investors, specifically assets in Downtown and East Baltimore neighborhoods, where the metro's prominent employers reside. The area's high concentration of world-class healthcare providers should also support medical office trading, with deal flow for these types of assets most pronounced in Ellicott City-Columbia.



### 2023 Market Forecast

- NOMI Rank** **30** Muted marketed rent growth places Baltimore in the bottom-half of rankings in the 2023 NOMI.
- Employment** up 0.4% Hiring tapers considerably from last year's pace, due to a slowing economy. Roughly 40 percent of the 5,000 new jobs created this year will come from traditionally office-using firms.
- Construction** 500,000 sq. ft. Supply additions remain well below the long-term average, as developers increase inventory by just 0.4 percent. The bulk of near-term completions are slated for Eastside Baltimore.
- Vacancy** up 30 bps At 14.1 percent, office vacancy in Baltimore will remain well below nearby metros like Philadelphia and Washington, D.C.
- Rent** up 0.9% Rent growth will be held under 1 percent for the second straight year, as tenant demand is expected to remain moderate. The average asking rate will inch up to \$22.68 per square foot.
- Investment** Assets in the BWI-Anne Arundel submarket could gain attention from active investors, as major employers like Amazon and Microsoft recently inked deals in the area.

\* Estimate; \*\* Forecast  
Sources: CoStar Group, Inc.; Real Capital Analytics




## Substantial Supply Injection Leads to Record Vacancy; Investment Subsists in Suburban Locales


One of the nation’s most robust construction pipelines tests local demand. A number of large move-ins and expansions are scheduled throughout 2023, with State Street, Moderna and InterSystems leasing nearly 1.5 million square feet alone. Nearly all of the most substantial leases are located in the core and adjacent zones, a welcome sign for submarkets still recovering from the effects of the health crisis. Availability will nevertheless climb metrowide, due to a rapid ongoing pace of development. As of late 2022, Boston’s active supply pipeline approached 17 million square feet, roughly 40 percent of which is set to finalize before the end of this year. These deliveries will compete with a large amount of available sublet space, which totaled 10 million square feet in late 2022. Nevertheless, more space is expected to be occupied than relinquished this year, indicative of demand keeping relative pace with supply. Meanwhile, new zoning restrictions being drafted by the Boston Planning and Development Agency may complicate construction in the life sciences sector in the core. In 2022, lab vacancy sat in the single digits in Boston proper and nearby locales, and will likely remain well below market average.


Buyers focus on outlying mid-tier assets. Mounting capital costs have created notable headwinds for Greater Boston’s office market, after a surge of investor activity in 2021. Urban office deals observed the most significant decline, as the rise of hybrid work has made gauging demand in the core difficult, despite a bevy of significant leases signed in the Boston and Cambridge submarkets. Trade velocity in outlying suburbs was more consistent through late 2022, with sales in Worcester County and Southern New Hampshire proceeding at comparable rates to the prior year. As economic outlooks remain in flux, investors will likely focus on high occupancy assets, with mid-tier offices commanding the most attention. Boston’s Class A stock is typically pursued by institutional actors, some of whom have paused acquisition activity amid challenges to both utilization and financing.

### 2023 Market Forecast


**NOMI Rank 42** A second consecutive year of declining rent and a weighty delivery schedule put Boston in the bottom 10 of the Index.

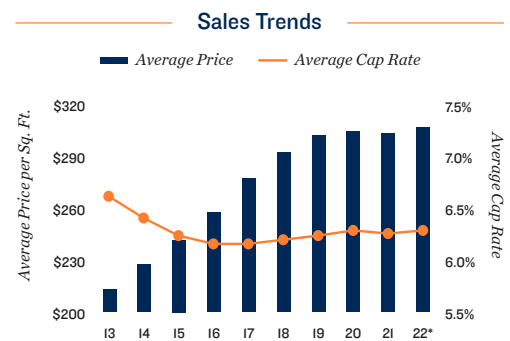
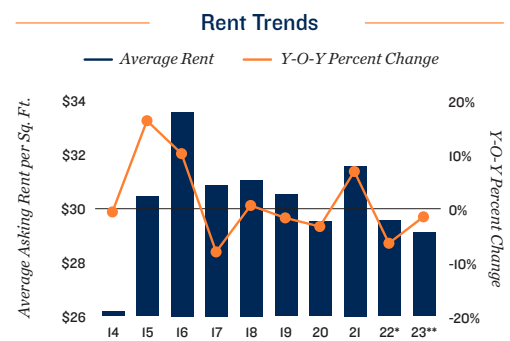
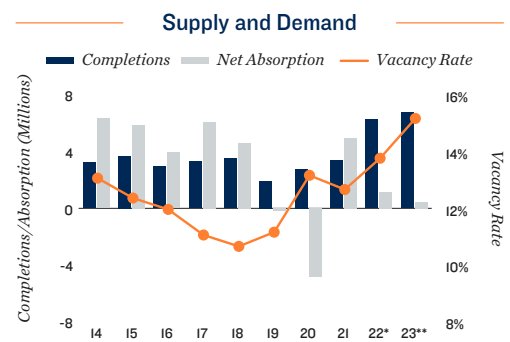
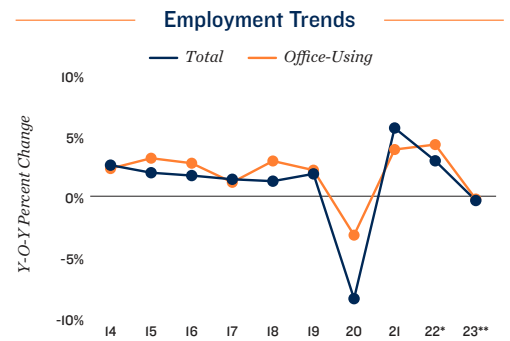
**Employment**  The metro’s employment base will undergo a minor contraction this year, with traditional office-using sectors shedding 2,000 jobs, after growing by more than 35,000 roles in 2022.  
down 0.4%

**Construction**  Developers will complete the largest amount of square footage in at least 15 years, with Greater Boston receiving the second-highest amount of space among U.S. metros in 2023.  
6,750,000 sq. ft.

**Vacancy**  A multidecade record in supply additions will push availability to 15.2 percent, the highest level since at least 2007.  
up 140 bps

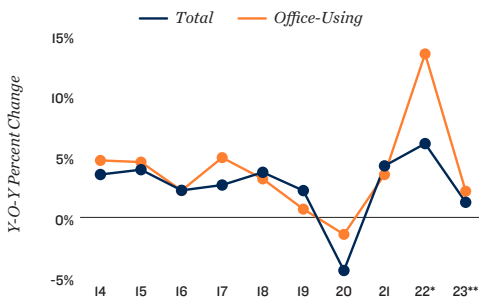
**Rent**  Competition from new floorplans, in tandem with high sublet availability, will foster considerations by property owners, bringing the mean marketed rent to \$29.10 per square foot.  
down 1.5%

**Investment**  As commuting lengths remain a central point of contention in the transition back to the office, buyers may target buildings in close proximity to MBTA transit nodes.

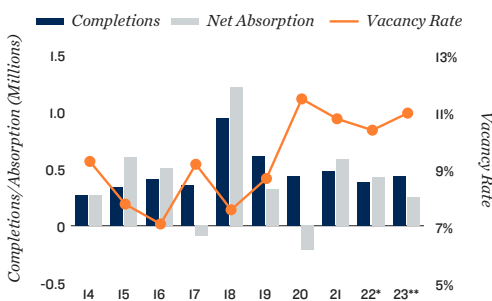


\* Estimate; \*\* Forecast  
Sources: CoStar Group, Inc.; Real Capital Analytics

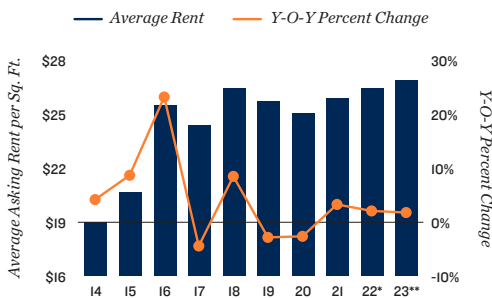
Employment Trends



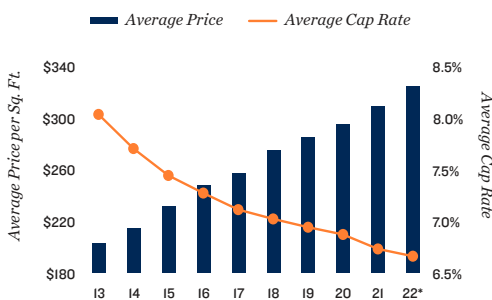
Supply and Demand



Rent Trends



Sales Trends



\* Estimate; \*\* Forecast  
Sources: CoStar Group, Inc.; Real Capital Analytics

## Downtown’s Vacancy Compression Diverges from the National Trend, Yet Investment Remains Hamstrung

**Urban Charleston’s tightening stands out.** CBD vacancy across major U.S. markets reached a record high at the end of 2022. Frequent office downsizings for smaller formats has hollowed out the urban cores of many of the country’s largest metros, contributing to suburban offices performing better overall on a national scale. However, Downtown Charleston’s availability compressed by over 400 basis points during 2022, opposing this trend. Move-ins to core offices from a long list of national firms, including Amazon and Pinnacle Bank, helped push down vacancy in the CBD to more than 300 basis points below the suburban rate. Firms contemplating expansions or relocations to the metro are likely seeing value in leasing the urban core’s mostly newer, highly-amenitized spaces — which often feature live-work-play advantages that suburban offices do not. As a whole, Charleston’s regionally discounted rents, which fall at least \$1 per square foot below both Raleigh and Charlotte, should continue to attract firms intent on establishing lower-cost operations in the Carolinas.

**Financing hurdles impede trading.** Despite having generally favorable office market conditions, elevated capital costs have forced many buyers to the sidelines, slowing investment activity in Charleston. Transactions still occurring are likely to be in northern portions of the metro and residential clusters adjacent to the Ashley and Cooper Rivers, with buyers exhibiting differing preferences dependent on locale. Class B/C assets should trade most frequently in areas north of Downtown, as the abundance of local stock here predates the 1980s. Meanwhile, investors targeting Class A offices may look to Daniel Island and West Ashley, where substantial top-tier development has taken place over the past decade. As interest rates rise, the flight-to-quality noted in these residential areas may be more prevalent than in urban corridors, bolstering buyer competition when listings become available.

### 2023 Market Forecast

- NOMI Rank** 7 Relatively tight vacancy, particularly in the urban core, translates to a top spot in this year’s Index.
- Employment** up 1.2% Hiring continues, albeit at a much slower pace than 2022. Additions by traditional office-using firms will comprise approximately 40 percent of the 5,000 positions created this year.
- Construction** 436,000 sq. ft. Stock expansion falls in line with the historical norm at 1.9 percent. Projects slated for 2023 completion are largely concentrated in Downtown Charleston.
- Vacancy** up 60 bps Although vacancy jumps to 11 percent, Charleston still boasts one of the tightest rates among markets tracked in the Index.
- Rent** up 1.8% The average asking rent rises to \$26.88 per square foot. Despite maintaining an upward rent trajectory, this year’s growth will fall 0.5 percent below the long-term mean.
- Investment** As vacancy rises across many CBDs nationwide, top-tier trophy assets in Downtown Charleston may catch the eye of additional investors, due to the locale’s recently strong performance.

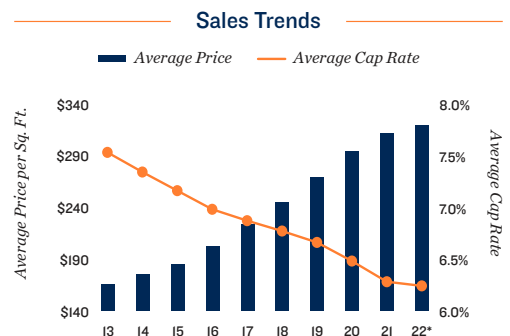
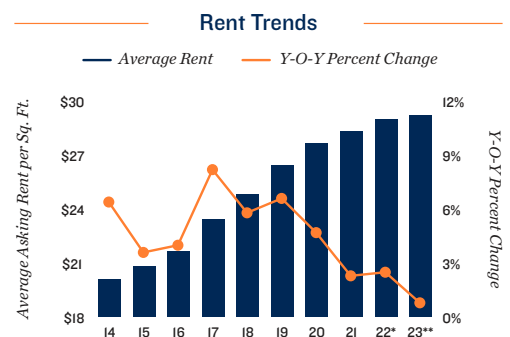
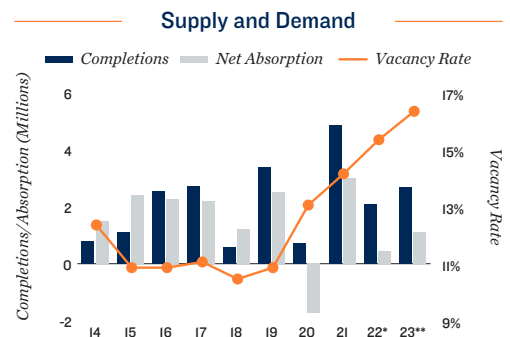
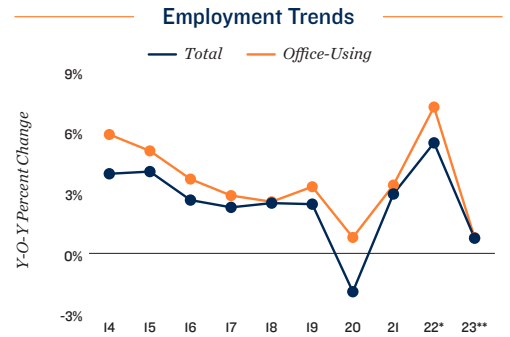
## Resilient Class B/C Demand Backstopping Office Performance; Investors More Calculated

**Bifurcated recovery more distinct.** The widespread adoption of hybrid work structures has led some of Charlotte’s firms to downsize and consolidate, often shifting to lower-cost options. This movement returned positive net absorption to the Class B/C sector last year, supporting notable asking rent growth. Recent leasing activity indicates tenant demand for these floorplans could return segment vacancy to its long-term average this year. In contrast, the Class A sector – which accounts for nearly one-half of the metro’s stock – may be challenged over the near term, despite a potential flight-to-quality among some tenants. At the tail-end of last year, vacancy in the segment was nearing 20 percent, with availability elevated in both the CBD and South Charlotte, where more than 60 percent of the metro’s Class A stock resides. Supply-side conditions are adding to the upward Class A vacancy momentum, as Charlotte is expected to record the fifth-fastest inventory growth among major U.S. markets in 2023, with over 1 million square feet of the new supply unaccounted for.

**Investors with differing strategies target offices in first-ring suburbs.** Higher financing costs are impacting private investors’ plans for office acquisitions in 2023, with some potentially considering a larger swath of lower-cost listings than in prior years. Northeast and Southwest Charlotte – areas of historically discounted Class B/C pricing – should garner interest among active buyers. Across the two locales, approximately 16 percent of Class B/C space was available at the onset of this year, suggesting opportunities to upgrade and re-tenant properties should arise for buyers willing to take on risk in exchange for higher yields. Elsewhere, active institutions should continue to maintain a preference for Midtown listings, where pricing routinely exceeds the \$400 per square foot threshold. The area’s vibrant live-work-play environment continues to attract global office-using firms, with local vacancy well below the metrowide average. This is supporting an optimistic leasing outlook that has the potential to enhance investor sentiment over the near term.

### 2023 Market Forecast

- NOMI Rank** 14 Growth in Charlotte’s traditional office-using sectors land the metro solidly within the top half of 2023’s rankings.
- Employment** ↗ Firms from traditionally office-using sectors will add 3,000 positions in 2023, amounting to roughly 30 percent of this year’s overall job creation.  
up 0.8%
- Construction** ↗ Charlotte’s office inventory is slated to expand by 2.3 percent, with the active pipeline headlined by the CBD’s 1 million-square-foot Duke Energy Tower.  
2,690,000 sq. ft.
- Vacancy** ↗ Increased development contributes to continued upward vacancy movement, lifting the overall rate to 16.4 percent.  
up 100 bps
- Rent** ↗ Historically high availability weighs on rent growth, pulling the annual pace down to a decade-low. Still, at \$29.22 per square foot, the average asking rate is on par with the national mean.  
up 0.8%
- Investment** ○ York County’s recent vacancy compression may cause investors to view local assets as more resilient investment opportunities amid a triple-digit climb across the metro.



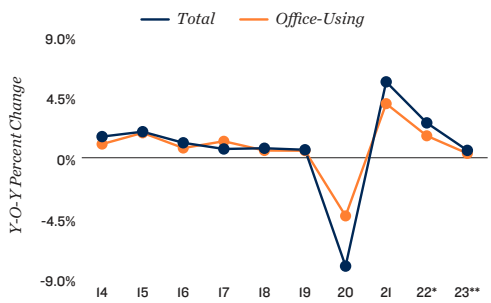
\* Estimate; \*\* Forecast  
Sources: CoStar Group, Inc.; Real Capital Analytics

## Downsizing to Quality Bolsters Urban Class A Performance, While Private Buyers Seek Suburban Locales

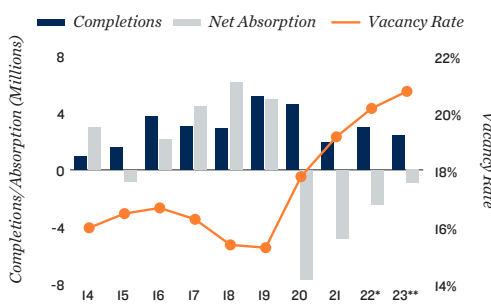
**Tenants favoring quality over quantity downtown.** Following an adaptation to pandemic working environments, hybrid schedules have held as a benchmark for worker expectations. Chicago-area employers facing upcoming lease renewal decisions are increasingly weighing this lightened office usage when evaluating their future space requirements, with some expected to shed space in favor of smaller, higher-end floorplans. This shift is starting to emerge in urban areas like Fulton Market, which closed out last year with considerable Class A vacancy compression. Further pointing to an ongoing change, the average lease size across Chicago proper fell by over 10,000 square feet from its pre-pandemic mean. Although space is continuing to be relinquished on a net basis, weighing on rents, the Class A segment within the city limits is outperforming the Class B and C echelon. Conversely, mid- and low-tier property fundamentals in Chicago suburbs remain in a strong position. Another year of positive net absorption is anticipated here, as segment vacancy holds near the 2019 mark.

**Active investors look to core-adjacent markets amid positive performance.** In an increasingly challenging environment for investors to meet required returns, many institutional firms head to the sidelines in the wake of continued economic headwinds. While this may temper local deal flow this year, it may also create opportunities for private buyers. Stronger fundamentals in suburban locales should continue to direct these investors to CBD-adjacent submarkets, such as the East-West Corridor surrounding the Oak Brook neighborhood. Here, Class B/C vacancy entered 2023 below its historical mean. Meanwhile, the locale's average asking rent nears its 2019 high, with a variety of healthcare-related businesses accounting for a significant portion of recent leasing activity. Last year, a group of assets traded at 7 percent-plus cap rates here, suggesting active buyers may be able to find opportunities during 2023 that overcome elevated financing hurdles.

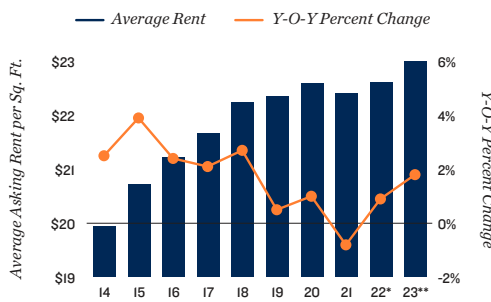
Employment Trends



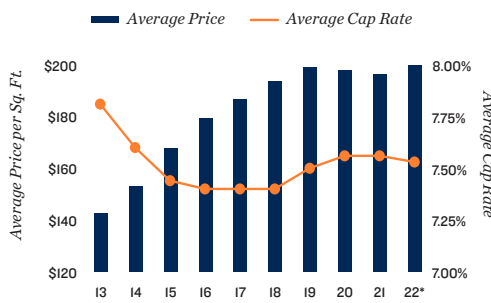
Supply and Demand



Rent Trends



Sales Trends



\* Estimate; \*\* Forecast  
Sources: CoStar Group, Inc.; Real Capital Analytics

### 2023 Market Forecast

- NOMI Rank** **25** Growth among traditional office-using firms, despite rising vacancy, puts Chicago in the middle of the pack this year.
- Employment** up 0.5% The labor pool grows by 26,000 positions this year, 4,000 of which will be traditionally office-using roles. This gain will push the metro's total job count beyond its 2019 recording.
- Construction** 2,400,000 sq. ft. Delivery volume moderates in 2023, with additions falling 1.1 million square feet short of the metro's five-year average. Fulton Market and River North will see the most new supply.
- Vacancy** up 60 bps Economic headwinds contribute to another year of negative net absorption, lifting vacancy to a new high of 20.8 percent.
- Rent** up 1.8% The average asking rent will expand at a moderate pace, reaching \$23.00 per square foot this year as a slower rate of vacancy increase permits stronger growth.
- Investment** Despite entry costs well below the metro's average price per square foot and improved rent growth, trading in the Schaumburg Area likely slows amid a vacancy over 30 percent here.

## Low Vacancy in Northern Kentucky Spreads to Cincinnati Proper; Key Firms Grow Existing Footprints

Expansions backstop downtown office performance amid vacancy headwinds. Major companies like Great American Life Insurance — recently bought and rebranded to MassMutual Ascend — and Luma Financial are continuing to expand their core Cincinnati footprints, with both companies recently leasing additional floorplans in the CBD. These organizations’ willingness to invest further in the market is providing an additional boost to a downtown that already has a vacancy rate below most other national CBDs. Elsewhere, Cincinnati may attract companies looking to reduce operating costs this year, as the metro’s average asking rent ranks as the lowest among major U.S. markets at under \$15 per square foot. Still, the metro is likely to face near-term challenges, as overall vacancy is projected to rise for a fourth consecutive year. This increase, however, will not be supply induced, as projects finalized during 2023 will increase office inventory by just 0.2 percent. The lack of upcoming completions should minimize competition for recently built properties with notable chunks of available space, and potentially aid Class A leasing velocity at a time when subsector vacancy is nearing 20 percent.

Buyers active in the market pursue opportunities on both sides of the river. Despite overall vacancy challenges, bright spots exist that should spur investment activity during 2023. The city of Newport may attract investors to Northern Kentucky as the locale has received commitments from companies like Thermo Fisher Scientific, which is planning a \$59 million expansion of its headquarters. Other nearby life science firms, such as Ethos Laboratories, are doing the same. Buyers looking for properties well suited for life science or research-based tenants may also look across the Ohio River to the CBD, where the University of Cincinnati’s Digital Futures building expanded the city’s innovation district. Meanwhile, relatively tight vacancy in the Class B/C sector will likely direct investor attention to mid-tier properties as smaller firms seek more cost-efficient options.

### 2023 Market Forecast

**NOMI Rank 35** A shrinking job market and languorous rent gains result in a bottom-half placement this year for Cincinnati.

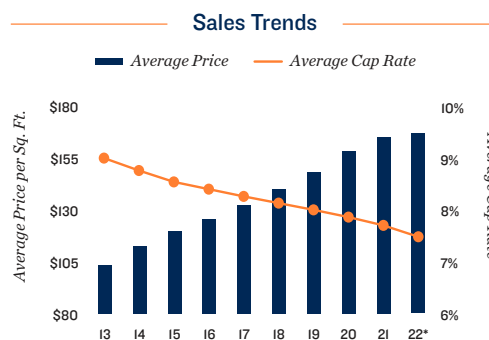
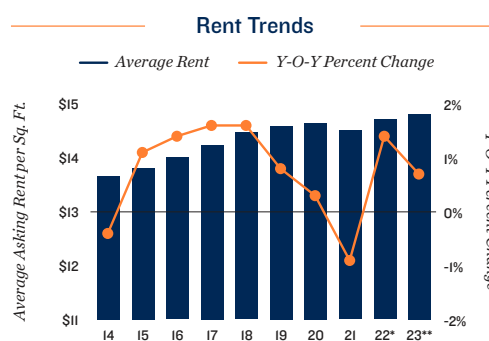
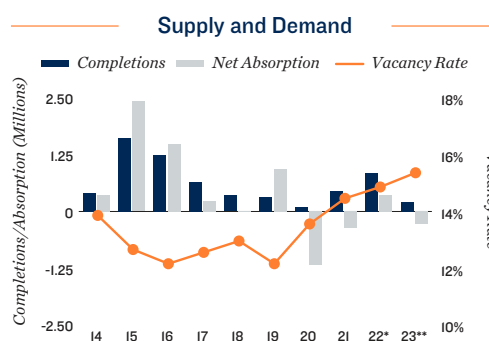
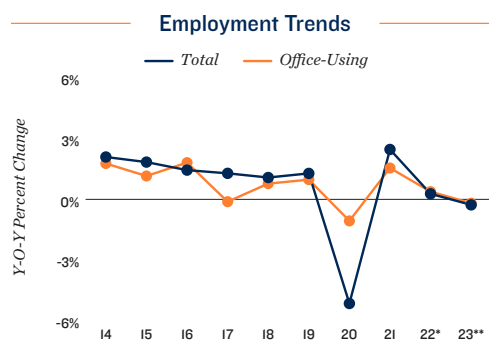
**Employment** down 0.3% Total employment in Cincinnati will contract by around 3,000 positions in 2023. The traditional office-using job count will shift slightly, falling by just 0.2 percent, or 500 roles.

**Construction** 200,000 sq. ft. The metro registers minimal inventory expansion, after 2022’s six-year high delivery slate. Upcoming deliveries are mostly spread across Butler County and Northern Kentucky.

**Vacancy** up 50 bps Availability elevates to 15.4 percent in 2023, an 11-year high, as the local vacant stock grows by nearly 500,000 square feet.

**Rent** up 0.7% The pace of rent growth moderates this year as vacancy continues its upward momentum. The year-end average asking rate will sit at \$14.80 per square foot, nearly half the national mean.

**Investment** Large-scale redevelopment projects, like the proposed conversion of the Carew Tower, paired with already-low CBD vacancy, may draw out-of-state buyers looking for urban assets.



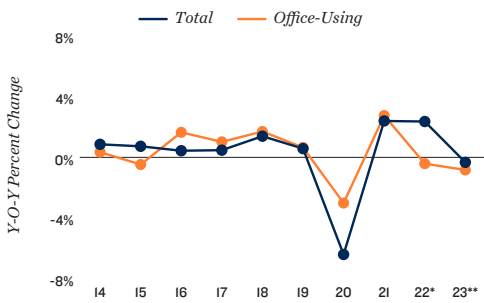
\* Estimate; \*\* Forecast  
Sources: CoStar Group, Inc.; Real Capital Analytics

## Low Availability in Cleveland Encourages Investment in Areas Expecting Company Expansions

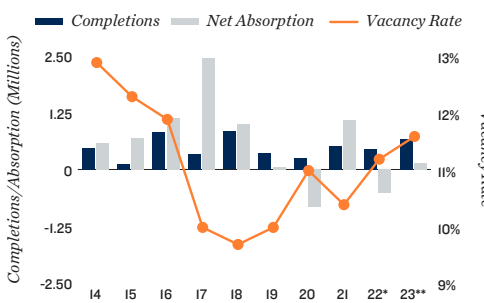
**Comparatively reduced vacancy carries through the year amid mild development.** Cleveland noted the fourth-lowest suburban vacancy rate among major U.S. markets late last year, enabling the mean asking rent in these areas to climb at the fastest annual pace in over a decade. Office performance downtown has struggled by comparison, as vacancy was still well above the pre-pandemic rate in the second half of 2022. However, Cleveland is a national leader in office conversions, which may aid availability here in the long term as obsolete space is taken off the market. New downtown development is also limited. The Sherwin-Williams Company headquarters, which is currently underway and slated for 2024, is the only major project expected in the CBD as of November 2022. Most other developments slated to come online this year outside of the urban core were fully pre-leased as of late last year. Despite national economic headwinds and local companies re-evaluating their space needs to better accommodate hybrid models, these factors will limit upward pressure on vacancy, and the rate will remain among the lowest in the country.

**Outer areas attractive to investors as leasing activity elevates here.** Traditionally of-office-using employment sectors will contract this year; however, companies have signaled a willingness to expand their physical presence in the market long term. Hana Technologies, Inc. leased 111,000 square feet of office space in Solon last year, complementing its factory in Twinsburg. This commitment may turn investor focus to Southeast Cleveland, if industry-related companies follow suit and target nearby space. Favorable rent growth and low vacancy in other suburban areas may also prompt buyers to seek out properties in outlying zones. At the same time, the notable lack of incoming supply downtown will likely aid fundamentals in the CBD, and could draw buyers looking for areas with few expected deliveries. Investors will likely be interested in the metro as Cleveland maintains the highest average cap rate in the region, providing a meaningful spread over debt costs.

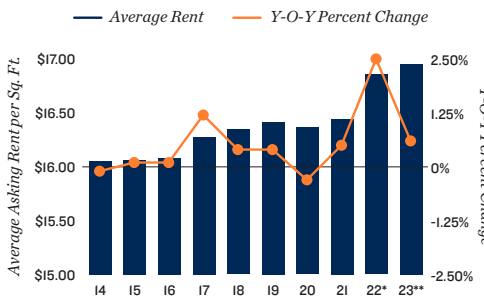
### Employment Trends



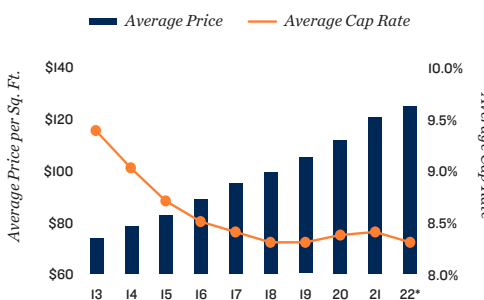
### Supply and Demand



### Rent Trends



### Sales Trends



\* Estimate; \*\* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

## 2023 Market Forecast

**NOMI Rank 28** Tight availability puts Cleveland in the middle of 2023's NOMI, despite near-term employment headwinds.

**Employment** down 0.3% Amid economic uncertainty, total local employment will dip by 3,500 positions, around 2,000 of which will be in sectors that traditionally use offices.

**Construction** 675,000 sq. ft. Total inventory will expand by 0.6 percent this year. Southeast and South Cleveland both currently have projects over 100,000 square feet underway slated for delivery in 2023.

**Vacancy** up 40 bps Availability in Cleveland will be the lowest among the three major Ohio markets, at 11.6 percent.

**Rent** up 0.6% The pace of rent growth will slow due to rising vacancy, but the average asking rate is still expected to reach \$16.95 per square foot this year, the highest on record for the metro.

**Investment** Given higher borrowing costs, the metro's regionally low mean price per square foot — particularly in Southeast Cleveland — is appealing to investors that want to take up less debt.

## Supply Wave Places Upward Pressure on Vacancy; Buyers See Opportunity in Low-Development Pockets

**Tech move-ins a bright spot amid near-term challenges.** Office demand may be stimulated by Intel’s move into New Albany, drawing supporting companies to the area. Recent tech commitments are giving greater prominence to the metro’s advanced manufacturing presence, as other industry firms have begun to seek Columbus office space for headquarters, in part motivated by Ohio’s lack of a corporate income tax. Category firms include Hyperion Companies, Inc., which announced in 2022 that it plans to relocate its headquarters to Columbus from California. After moving from New York, FlightSafety International opened a new headquarters in the market last year as well. While these relocations provide a tailwind for availability to tighten in the long term, particularly if additional companies follow suit, supply pressure will continue to stunt near-term momentum. Pre-leasing on the 1.2 million-plus square feet slated to finalize this year hovered around 62 percent as 2022 came to a close. This unclaimed space will push metro vacancy up in 2023, with potentially less pressure in Columbus East where pre-leasing is higher.

### Regionally low entry costs may foster investment in areas of limited development.

Vacancy in the CBD trended downward last year, outperforming the urban cores of all other major Ohio markets, as companies leased space while the area saw a dearth of new builds. Buyers looking to target locales with low construction, minimal vacancy fluctuation and metro-high rents may pursue assets downtown. Elsewhere, Delaware County will see a similar lack of construction activity in 2023, drawing attention to the outer submarket. Increasing investor caution, due to rising interest rates and a potential economic downturn, has highlighted Columbus’ assets that are priced opportunistically. Last year, the metro had one of the lowest average sale prices per square foot in the Midwest, yet had a mean first-year yield below several other regional markets. Risk-averse investors looking for reduced entry costs amid higher borrowing expenses may tune in.

## 2023 Market Forecast

**NOMI Rank 50** An acute rise in vacancy and declining marketed rents combine to place Columbus last in rankings this year.

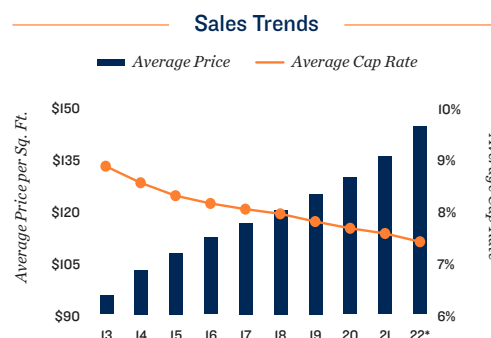
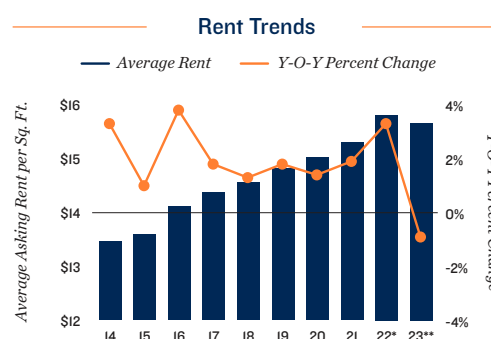
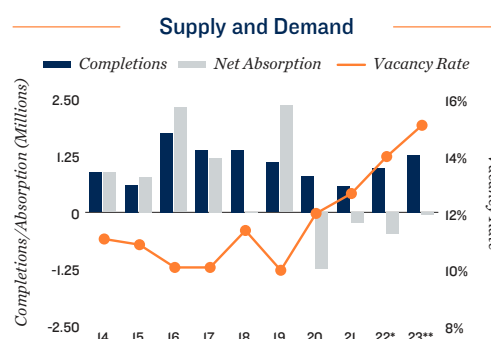
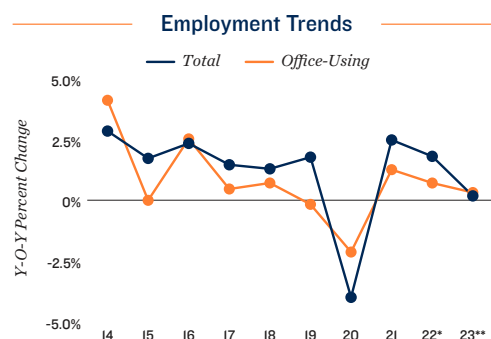
**Employment** up 0.2% Total employment will grow by 2,000 positions, aided by an increase in traditionally office-using personnel. These sectors will grow by around 900 jobs.

**Construction** 1,260,000 sq. ft. Office stock expands by 1.3 percent this year, as the metro notes the largest construction pipeline among major Ohio markets. Columbus West, in particular, has several sizable projects.

**Vacancy** up 110 bps Amid a robust delivery schedule, vacancy will shift upward to 15.1 percent in 2023.

**Rent** down 0.9% After a rapid rise in vacancy and influx of supply, the average asking rent in Columbus will fall to \$15.65 per square foot, following a record high recorded at the end of last year.

**Investment** As companies seek to reduce their physical footprints amid hybrid work schedules and cost-management needs, local private buyers may find opportunities for smaller, well-occupied assets.

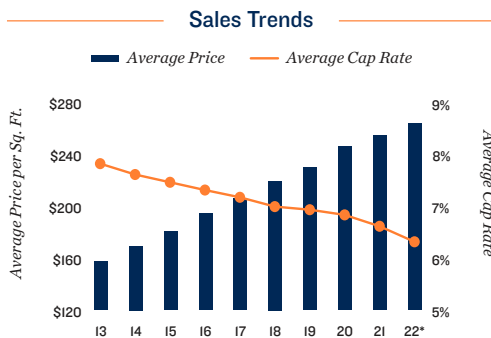
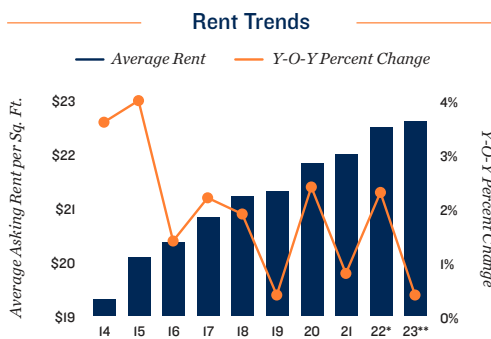
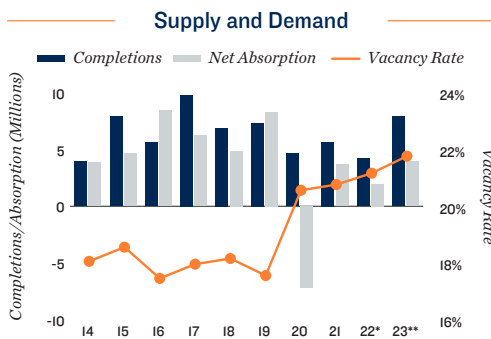
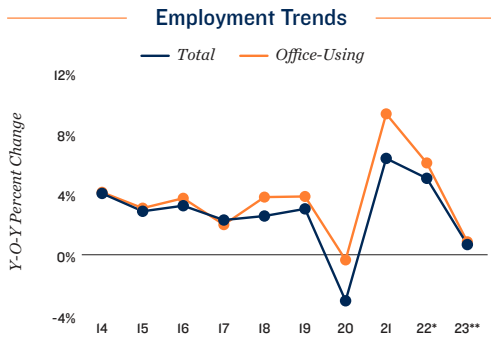


\* Estimate; \*\* Forecast  
Sources: CoStar Group, Inc.; Real Capital Analytics

## Proven Growth Metrics and Long-Standing Public Policy Keep Metro's Fundamentals Relatively Sturdy

**Favorable costs of business remain an advantage.** No corporate income tax, combined with a diverse economic ecosystem and large talent pool, has enabled the Metroplex to not only retain existing companies, but attract expanding firms. Wells Fargo is moving into Irving, Comerica Bank is building a regional headquarters in Frisco, and Estonian firm Clevon is opening a U.S. headquarters in Fort Worth. Verizon is also developing a new 2.2 million-square-foot campus in Irving, headlining the 2023 development pipeline. Completions accelerate this year to the highest annual total in half a decade, with Dallas' pipeline outpacing Fort Worth's once again. Local builders' reluctance to overdevelop has benefited office fundamentals in Fort Worth, which may allow for swifter performance recoveries on that side of the Metroplex. As the economy softens and a slow return to in-person operations continues across the country, the outlook for the office sector is uncertain, but in Dallas-Fort Worth, the picture is slightly clearer. Of the 10 major metros tracked by Kastle Systems, the Metroplex lands third in office utilization.

**Good location and amenities necessary to bring workers and investors to offices.** Many companies are relying on the amenities that Class A offices provide to help attract employees back to in-person work, making these spaces more attractive for investors with sufficient capital. The corporate-dense submarket of Las Colinas, which has a robust inventory of top-tier space, has gained additional traction, with sales velocity rising last year. Meanwhile in the surrounding suburbs, offices of various quality tiers have benefited from hybrid work schedules, as employees show a preference for shorter commutes. Yield-driven investors may be drawn to East Dallas' ample Class B/C inventory, after a second consecutive year of positive net absorption. Buyers' preferences for urban core assets may look to Preston Center and Uptown Dallas, which reported large vacancy compressions last year as the areas offer a live-work-play lifestyle for young professionals.



### 2023 Market Forecast

**NOMI Rank 18** Employment growth partly mitigates the negative impacts of high vacancy and development on Dallas-Fort Worth's ranking.

**Employment up 0.7%** Overall employment will grow by 28,000 roles this year amid a softening economy. Of the new positions added, over one-third will be jobs in traditionally office-based professions.

**Construction 7,900,000 sq. ft.** Elevated construction levels will be reported as supply additions lead the nation this year. Greater Dallas will account for the majority of new space again in 2023.

**Vacancy up 60 bps** Net absorption will gain momentum this year, but will fail to meet increased completions, pushing vacancy to 21.8 percent.

**Rent up 0.4%** A cooler economy will lead to slower rent gains as vacancy rates rise. The average asking rent will nonetheless inch up to \$22.60 per square foot in 2023.

**Investment** Properties near freeway entrances within the Mid-Cities may garner investor interest, as their ability to reduce employee commutes improves their desirability for tenants.

\* Estimate; \*\* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics




## Leasing in Northern Suburbs Backstops Fundamentals; Investor Diversity Highlights Metro's Largest Submarket


**Class A performance progresses in Northwestern Denver.** Positive net absorption and notable vacancy compression last year have transformed Broomfield into one of the metro's more desirable Class A office locales. Meanwhile, neighboring Northwest Denver also recorded positive upper-tier absorption in 2022, contributing to a vacancy rate below its pre-pandemic level. The minimal share of square footage slated for delivery in the Northwest corridor this year should further aid upper-tier fundamentals, with prospective tenants directed to the submarket's existing Class A stock. Proximity to Boulder and Denver's CBD will allow office users in these locales to pull talent from a larger workforce pool, while still offering employees higher-end amenities. Fundamentals on a marketwide scale, however, are not as positive. After the metro's vacant stock expanded by more than two million square feet last year, economic headwinds contribute to availability reaching its highest point since at least 2007. Performance this year is especially challenged in the CBD, with companies continuing to show a preference for close-in suburbs.


**Tech Center popularity continues to focus investment southeast.** Spanning Glendale to Highlands Ranch, Southeast Denver is positioned to serve as the driving force of overall transaction velocity for another year. As the metro's largest submarket by inventory, the area has been a hotbed for company relocations and corporate expansion initiatives of late, highlighted by activity in the Denver Tech Center. This growth, together with the area's broad price spectrum and higher-yielding opportunities, should attract a diverse mix of out-of-state buyers. Those with significant experience upgrading and leasing properties may consider buildings with notable vacancies, as the submarket's lower entry costs and discounted asking rents to competing coastal tech hubs provide buyers with additional capital for tenant improvements. Southeast Denver's competitive talent pool should also support positive long-term investor sentiment near the DTC.

### 2023 Market Forecast


**NOMI Rank 15** Denver lands in the top half, due to below-average development and the strong prevalence of office-using jobs in the metro.

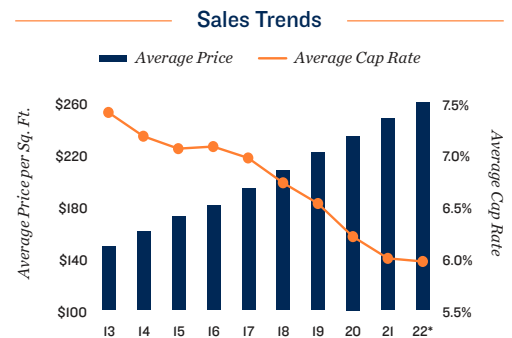
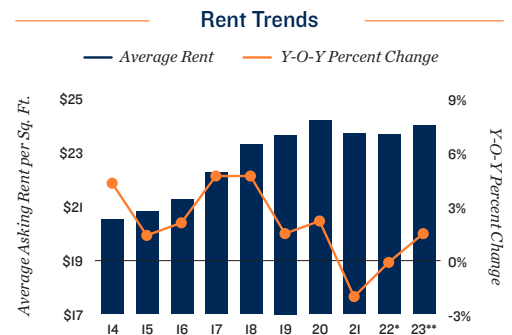
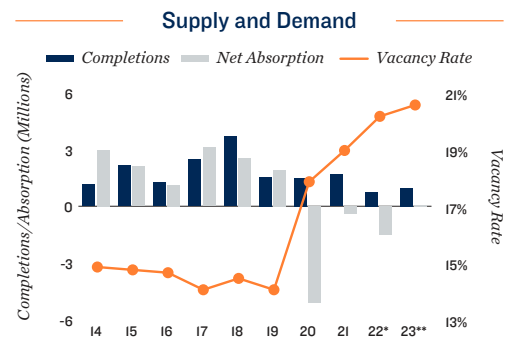
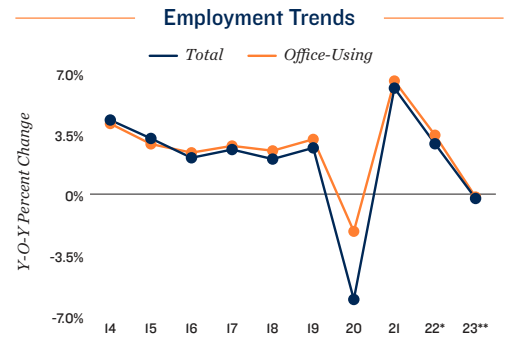
**Employment**  After notable gains made over the previous two years, hiring changes course in 2023, as the metro drops 4,000 jobs. Of these positions, roughly 800 will be in traditional office-using fields.

**Construction**  For the second consecutive year, supply additions fail to reach the 1-million-square-foot mark. Large projects in Northeast Denver along Interstate 70 highlight this year's delivery slate.

**Vacancy**  Office availability reaches 20.6 percent this year, a rate more than 300 basis points greater than the prior five-year average.

**Rent**  Following a nominal change in asking rent last year, positive net absorption supports an expansion of the metro's average rate to \$24.00 per square foot in 2023.

**Investment**  Active investors seeking centrally-located assets in areas of locally tight vacancy and higher asking rents may identify mid-to low-tier listings in the Cherry Creek neighborhood.

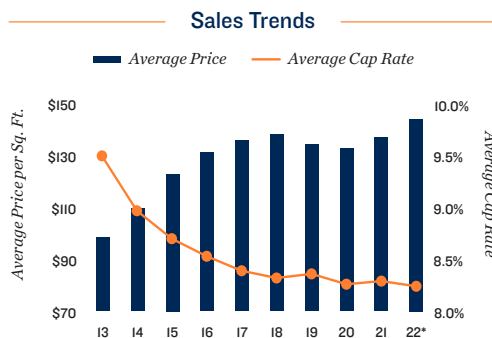
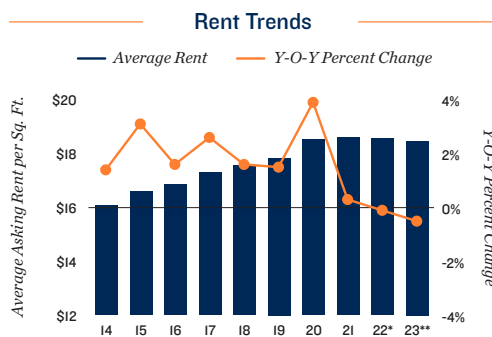
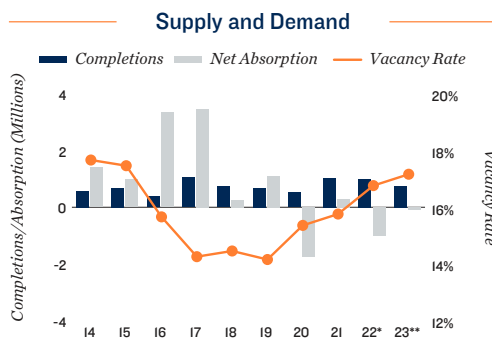
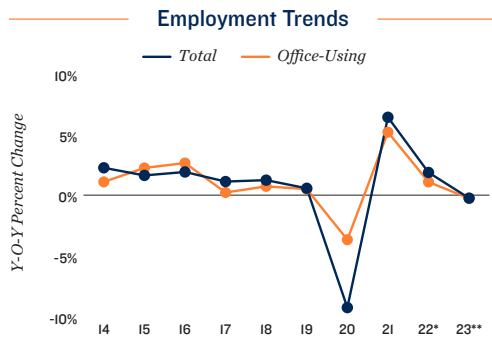


\* Estimate; \*\* Forecast  
Sources: CoStar Group, Inc.; Real Capital Analytics

## Return-to-Office Policies and Corporate Relocations Represent Positives Amid Softening Fundamentals

**Commitments downtown signal long-term economic growth potential.** Beginning at the end of January, General Motors employees throughout the metro will be required to work in-office at least three days a week. This announcement may set a precedent for other office-using companies to increase their in-person work requirements this year, potentially aiding office usage in the CBD. Additional positives are emerging in downtown. Huntington National Bank recently opened a new headquarters here, and Ford Motor Company and Google have partnered to create an innovation district at Michigan Central. These commitments may attract smaller supporting firms and startups to the CBD. Still, local vacancy is expected to elevate this year, with the number of traditional office-using positions declining. These hurdles will pose a threat to near-term rent growth; however, this situation may provide a window of opportunity for cost-conscious tenants looking to move up in quality.

**Investors identify areas poised for future industrial and tech expansions.** Despite increasingly high office vacancy in suburban areas of Detroit, certain locales are registering pockets of positive leasing activity, which may elicit activity on the part of investors this year. Traditional office-using companies have recently shown a willingness to commit to floorplans in Bloomfield Township, a trend that may spark buyer interest if this momentum continues. Elsewhere, Macomb County's tightening vacancy rate and dearth of near-term arrivals could appeal to private investors seeking stability during a period of potential economic volatility. Those with a willingness to own in more outlying parts of the metro may target Northville, where auto parts manufacturer Tenneco, Inc. plans to relocate its Chicago-based offices. In the Livingston-West Oakland area — home to Northville — pricing has recently hovered in the low- to mid-\$100 per square foot range, a further attractant to active buyers seeking lower entry costs.



\* Estimate; \*\* Forecast  
Sources: CoStar Group, Inc.; Real Capital Analytics

### 2023 Market Forecast

- NOMI Rank** **34** Higher-than-average vacancy and stagnant staff counts will place Detroit in the bottom half of the Index this year.
- Employment** down 0.2% Total employment will lessen by around 5,000 positions this year, with the traditional office-using sectors accounting for approximately 1,500 of these job losses.
- Construction** 750,000 sq. ft. The metro continues to record moderate inventory expansion during 2023, as the local office stock grows by 0.4 percent. Detroit-The Pointes will receive the largest volume of space.
- Vacancy** up 40 bps Availability will continue its upward climb in 2023, reaching 17.2 percent, one of the highest rates among Midwest markets.
- Rent** down 0.5% Rising vacancy will weigh on owners' ability to push rents, facilitating a second straight year of falling asking rates. Detroit will end 2023 with a mean marketed rent of \$18.45 per square foot.
- Investment** Compuware plans to move its headquarters from Detroit proper to Southfield, potentially highlighting North Oakland for active investors seeking areas of localized economic growth.

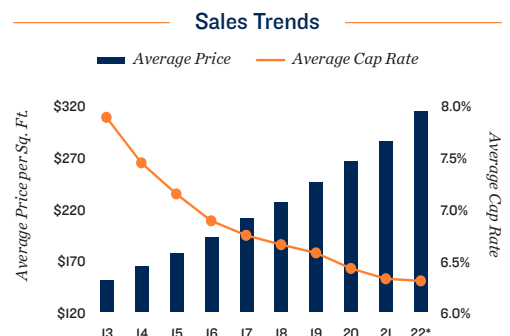
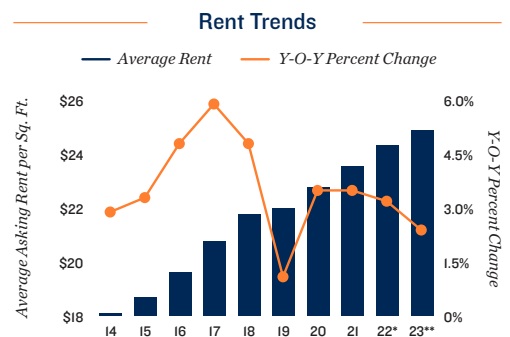
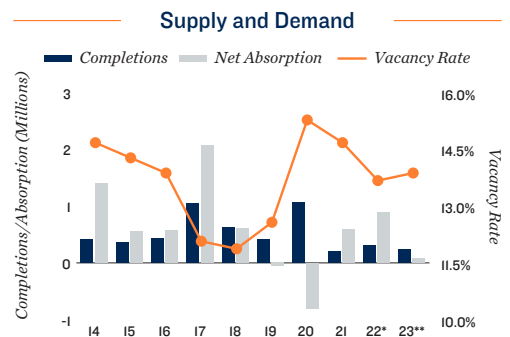
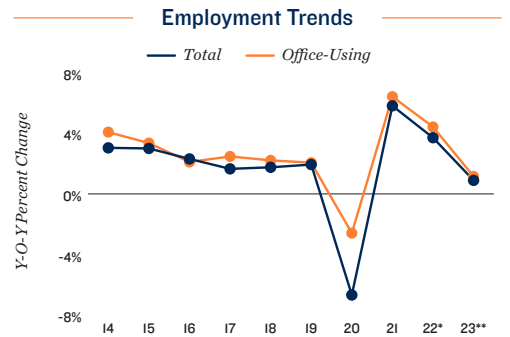
## Slow Development and Strong Pre-Leasing Activity Will Limit Upward Pressure on Vacancy in Broward County

**Regionally affordable rents may attract new firms.** Net absorption last year eclipsed 850,000 square feet for the first time since 2017, marking the third-largest annual total on record. Tenant demand is strong in the CBD, as many office-using firms are seeking high-quality floor plans in amenity-rich buildings, in an attempt to bring more employees back into the office. Suburban locales, such as Cypress Creek and Sawgrass Park, have also recorded elevated levels of leasing activity, with firms like Enhance Health and Moss Construction taking large blocks of sublease space off the market. Heading into this year, the metro’s central positioning in the region and relative affordability compared to neighboring markets could attract relocating or expanding firms looking to establish a presence in Southeast Florida. The mean asking rent in Fort Lauderdale is at least \$6 per square foot less than in West Palm Beach and Miami-Dade. Supply pressure will also be minimal, as all of the 245,000 square feet scheduled to deliver this year has already been pre-leased. Although macroeconomic headwinds are expected to temper leasing activity nationwide, local vacancy will remain below the metro’s long-term average.

**Upside potential could stoke buyer interest.** Office assets in Fort Lauderdale generally trade at lower entry costs and provide higher first-year returns on average compared to nearby markets, such as Miami-Dade and West Palm Beach. With a potential recession looming over the U.S., buyers could look to maximize their upside potential as borrowing costs have increased significantly over the past year. Transaction activity was strong in the city of Fort Lauderdale, Hollywood and Cypress Creek in 2022, where yields averaged in the mid-6 percent range. Properties in the urban core could also garner interest, as office usage rates here are outpacing many other major metros in the country. According to a survey from the Fort Lauderdale Downtown Development Authority, roughly 55 to 60 percent of office workers in the CBD were physically back in the workplace in 2022.

### 2023 Market Forecast

- NOMI Rank** 3 Minimal vacancy change and above-average employment growth enable Fort Lauderdale to rank in the top three.
- Employment** ↑ Similar to the rest of the nation, the pace of hiring slows this year, due to macroeconomic headwinds. Traditionally office-using firms are expected to add roughly 3,000 new jobs in 2023.  
up 0.9%
- Construction** ↘ Annual deliveries will fall roughly 300,000 square feet below the metro’s long-term average, as developers increase office inventory in Fort Lauderdale by just 0.4 percent this year.  
245,000 sq. ft.
- Vacancy** ↑ A slight uptick in vacancy is expected in 2023 as the U.S. economy slows. The rate will rise to 13.9 percent by year-end.  
up 20 bps
- Rent** ↑ Rent growth in Broward County is expected to outpace the national benchmark by 1.8 percent this year. The average asking rate will rise to \$24.88 per square foot.  
up 2.4%
- Investment** ● Resiliency in the health care sector during economic downturns, coupled with a sizable population in the 55 and up age cohort, may steer more buyers toward medical office assets.

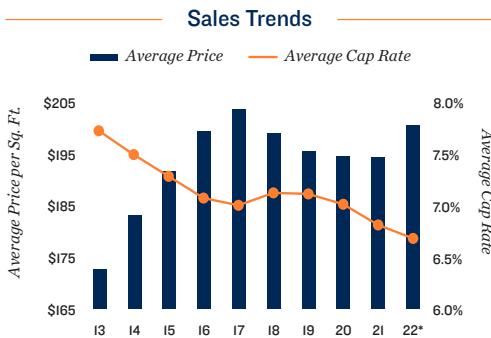
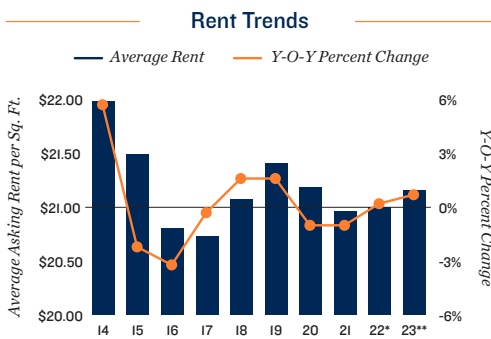
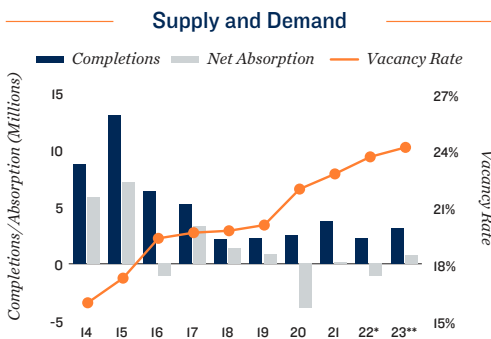
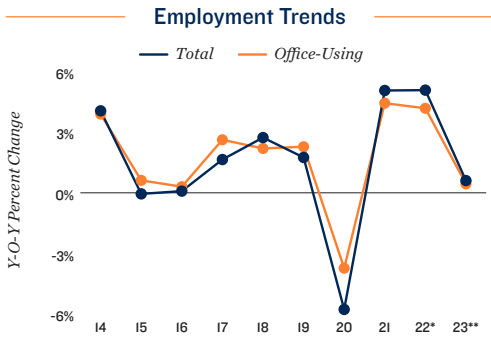


\* Estimate; \*\* Forecast  
Sources: CoStar Group, Inc.; Real Capital Analytics

## Economic Tailwinds Back Performance in the Metro's Largest Suburban Area, While Trading Activity Slows

**Western submarkets show resiliency.** Despite national economic headwinds, Southwest Houston, Katy and the Energy Corridor each entered 2023 with positive trailing 12-month net absorption totals, resulting in notable vacancy compression. Sub-5,000-square-foot leases along Interstate 10 near Memorial City made up a notable portion of office move-ins here last year, predominantly financial- and insurance-focused businesses. Overall hiring in Houston is set to stay positive in 2023, ranking fourth among all major U.S. metros. Companies continue to identify suburban areas in the low corporate tax market, creating new employment opportunities and supporting the country's strongest projected median household income growth. Despite these positive aspects, overall office space demand will continue to trail historical norms this year, as is the case nationally, translating to Houston's availability expanding to its highest point on record. Furthermore, as continued development results in additional leasing options, the metro's average asking rent will remain more than 1 percent below its 2019 mark.

**Investment retreats from record levels.** A sharp vacancy contraction in the FM 1960 submarket in early 2022 spurred elevated investment activity as other parts of the metro faced headwinds. As such, trades here accounted for a larger portion of the transaction pool than any other area, nearly one-third of which included an out-of-state buyer. Coming into 2023, however, tame leasing activity and mild rent growth may dampen investor interest as debt costs continue to challenge yield targets. For these reasons, sizable property exchanges above 100,000 square feet will likely settle, especially in the previously highly active Westchase and West Loop submarkets, as institutions re-evaluate margins. Meanwhile, last year's sales activity helped lift the metro's average price per square foot nearly back to its 2017 high. Increased lending rates and moderate deal flow this year, however, could ease this upward momentum.



\* Estimate; \*\* Forecast  
Sources: CoStar Group, Inc.; Real Capital Analytics

### 2023 Market Forecast

- NOMI Rank** 22 Continued employment growth will moderate the concern of high vacancy in Houston, enabling a middle ranking.
- Employment** ↑ Hiring activity slows down this year, with 20,000 jobs expected to be added. Traditional office-using fields increase by 3,300 positions, expanding these segments by 0.4 percent. **up 0.6%**
- Construction** ↑ Completions this year exceed 2022's count by roughly 900,000 square feet. Projects in the South Main-Medical Center submarket account for a significant portion of this new space. **3,100,000 sq. ft.**
- Vacancy** ↑ Continued development and moderate absorption perch up vacancy to a historic high of 24.2 percent by year-end. **up 50 bps**
- Rent** ↑ The average base asking rent rises to \$21.15 per square foot this year, the metro's second consecutive annual gain. Still, this measure remains more than 1 percent short of the 2019 figure. **up 0.7%**
- Investment** ○ Improving conditions in the Energy Corridor spurred institutional grade investment here last year. Persistent rising debt costs, however, may curtail this level of interest in 2023.


## Urban Core Fundamentals Progress; Investors Seek Northern Suburban Assets Amid Continued Popularity


**Pressure downtown tapers.** Indianapolis entered the year with the second-lowest office vacancy rate among major Midwest markets, as leasing activity of at least 20,000 square feet picked up in the second half of 2022. Logistics firms, in particular, are expanding. Direct Connect moved into 52,000 square feet in the CBD last November, while Spot has leased 40,000 square feet near University Park. Upcoming deliveries are also well accounted for, with strong pre-leasing among a minimal development pipeline, particularly in downtown, helping to bolster office fundamentals against other oncoming headwinds. Prospects of an economic downturn will continue to put an upper limit on leasing activity in the near term, as companies slow hiring and manage costs, placing downward pressure on space demand. Vacancy nevertheless remains 200 basis points below its post-financial crisis high, as companies planting seeds today could pay dividends down the line when the economy enters a new growth cycle and leasing becomes increasingly competitive.

**Trading positioned to remain most prominent in the north.** Sales activity across northern submarkets last year accounted for nearly half of all metrowide transactions. Investors are responding to office user and apartment renter movement, pursuing listings in areas north of Indianapolis proper, including Fishers-Castleton and Midtown-Carmel. Properties that warrant tenant improvements are at the forefront of the sales activity here, with mid- to lower-tier assets holding a competitive vacancy rate and average asking rent compared to the market mean. Furthermore, metrowide Class B/C availability was the lowest among all major Midwest markets entering the year, resting below the 10 percent mark. Despite an expected slowdown in transaction velocity this year, amid rising debt costs, active out-of-state buyers should continue to compete for listings. The North and Northeast counties represent potential areas of interest for these parties, due in part to minimal local supply growth in recent years, which is supporting tenant competition for existing space.


### 2023 Market Forecast


**NOMI Rank 12** Indianapolis ranks the highest among Midwest metros, due to comparatively low vacancy and development activity.

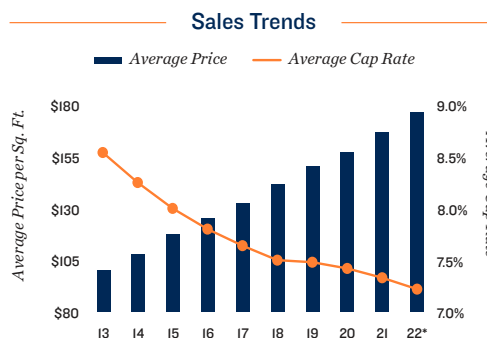
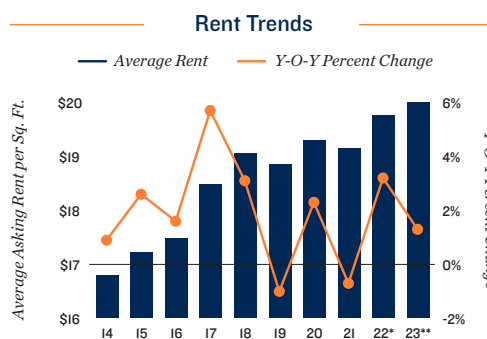
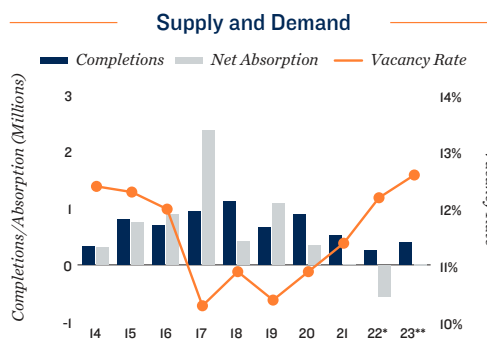
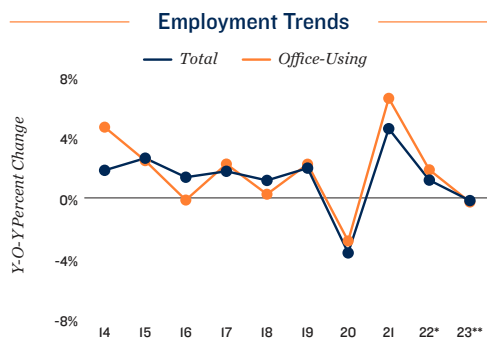
**Employment**  Strong hiring over the previous two years and economic headwinds entering 2023 contribute to a net loss of 2,000 jobs in 2023. Of these roles, 750 will be in traditional office-using fields.   
 down 0.2%

**Construction**  Delivery volume increases by 150,000 square feet on a year-over-year basis, led by a medical office building south of the IU Health Methodist Hospital.   
 400,000 sq. ft.

**Vacancy**  While not as severe as last year, negative net absorption in 2023 will contribute to vacancy reaching 12.6 percent.   
 up 40 bps

**Rent**  Expanding availability curtails the pace of rent, following last year's 3.2 percent gain. Still, the average marketed rate increases slightly to \$20.00 per square foot.   
 up 1.3%

**Investment**  Across the metro, return-sensitive public buyers may take a more cautious approach to medical office investment this year, creating opportunities for active private investors.

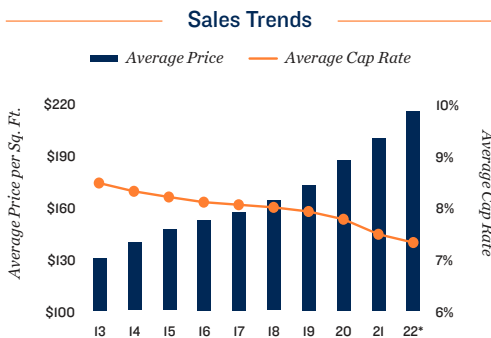
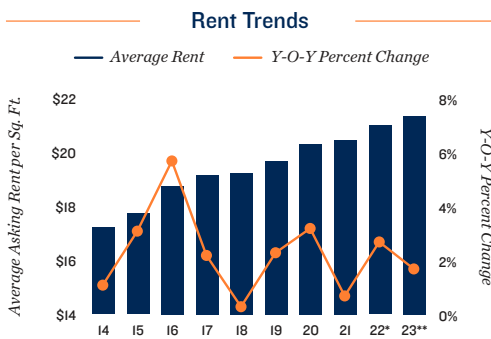
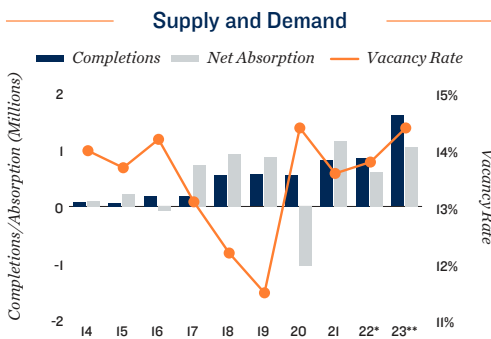
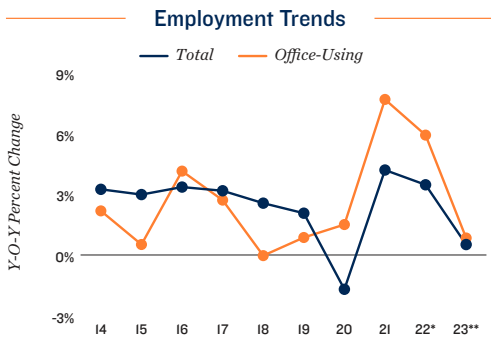


\* Estimate; \*\* Forecast  
Sources: CoStar Group, Inc.; Real Capital Analytics

## North Florida's Long-Run Outlook Improves, as an Expanding Talent Pool Draws Relocating Firms

**Office sector maintains long-term momentum.** For the second time since the pandemic recovery began, Jacksonville is poised to report an annual net absorption tally exceeding 1 million square feet in 2023. The metro's office sector backbone includes headquarters for several Fortune 500 companies, which helps underpin demand from ancillary firms. In addition, some local businesses are upgrading their office footprints to account for higher headcount targets. After starting their projects in 2019, FIS and Jacksonville Electric Authority both finalized new headquarters in the market last year. Expansions like these are becoming more prevalent as companies tap into the growing labor pool in North Florida. The metro's relatively low living costs, and quality-of-life factors, are stimulating tenacious net in-migration, making recruitment efforts less challenging for office-using firms as they plan for the future. In the near term, broader macroeconomic hurdles will constrain job growth. On the supply side, completions will double the volume from 2022, as large yearly additions become more common to meet long-term demand.

**Suburban areas positioned to retain investor demand.** Southside Jacksonville's vacancy fell to 13.8 percent in 2022, down 120 basis points from the previous year, and may hold onto some of that momentum. Home to both the largest stock of Class A office space in the metro and a wide talent pool of young professionals, the submarket is a desirable locale for many companies. Additionally, properties here have historically traded at cap rates slightly above the metrowide average, which may be advantageous during a period of high interest rates. Elsewhere, Orange Park's lower price per square foot and a 450-basis-point vacancy compression registered last year have attracted yield-driven buyers. A large stock of un-renovated buildings constructed before 1990 may lend themselves to value-add strategies. On the other hand, stability-seeking buyers with capital to pay coastal premiums may be attracted to Beaches, where vacancies and rent gains have been relatively stable.



### 2023 Market Forecast

- NOMI Rank** 8 Jacksonville claims a place in the top 10 with strong employment and rent gains, despite elevated development.
- Employment** up 0.5% Job growth falters this year amid a cooling economy; however, 4,000 new positions will be added. Of those opportunities, about 1,800 will be in traditionally office-using fields.
- Construction** 1,600,000 sq. ft. Deliveries are expected to set a new record this year, as inventory expands by 2.9 percent. The amount of space completed exceeds 1 million square feet for the first time since 2008.
- Vacancy** up 60 bps Robust net absorption is outpaced by a historical construction volume this year. As a result, vacancy will rise to 14.4 percent.
- Rent** up 1.7% An uptick in office availability, combined with a slower economy, will reduce rent gains. Nonetheless, the average asking rate will reach \$21.35 per square foot by year-end.
- Investment** Active buyers looking for urban offices will be directed to the Northbank, where fundamentals have fared better than in the Southbank, due to the access to Northside residential hubs.

\* Estimate; \*\* Forecast  
Sources: CoStar Group, Inc.; Real Capital Analytics

## Major Health Technology Firms Reshuffle Office Holdings and Consolidate Space in Kansas City

Companies finalize office commitments, emphasizing in-person work policies. Several major headquarter moves by health care-related firms were announced last year. These included Oracle’s acquisition of Cerner Corporation, and the company’s announcement that it would consolidate all local employees to its existing South Kansas City headquarters. The relinquishment of the firm’s North Kansas City office space may present vacancy headwinds for the area. Meanwhile, Blue Cross and Blue Shield has reaffirmed its downtown presence by consolidating all 1,400 local employees into a new centralized headquarters. As both large and small firms conclude their physical space reshuffle, resulting in a slight uptick in vacancy this year, companies are indicating a willingness to have in-person workers long term. Health technology firm WellSky is expanding its existing headquarters in Overland Park to accommodate employees returning to the office, with the expectation of adding new positions in the coming years. While overall metro availability will shift up this year, a mild construction pipeline and encouraging return to office momentum should help Kansas City retain one of the lowest regional vacancy rates.

Leasing in the core signals a potential redirect of investor interest. Office commitments in the CBD, particularly the large space taken up by Blue Cross and Blue Shield, foreshadow future interest in the area. A new stadium and sports district for the Kansas City Royals could further revitalize downtown. As large companies set a precedent for returning to the office and signing new leases in the urban core, other firms may follow suit, appealing to investors looking for facilities in central zones. In lieu of firm consolidations to bring all employees into one location, larger assets may become more appealing, redirecting institutional investment to the CBD. Additionally, the overall metro reported a mean cap rate above the regional average last year. A generally higher first-year yield may entice more risk-tolerant private investors amid a period of rising interest rates.

### 2023 Market Forecast

**NOMI Rank 38** Below-average growth in total employment will keep Kansas City low on the Index, despite moderate vacancy.

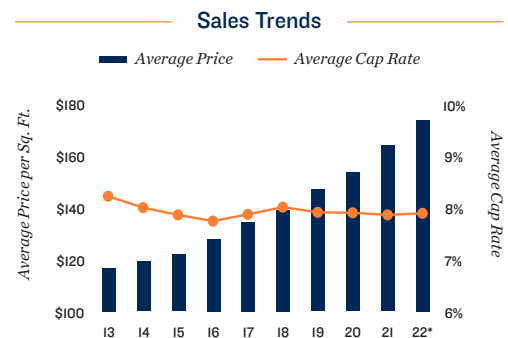
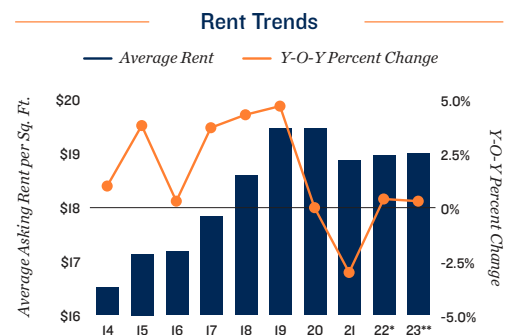
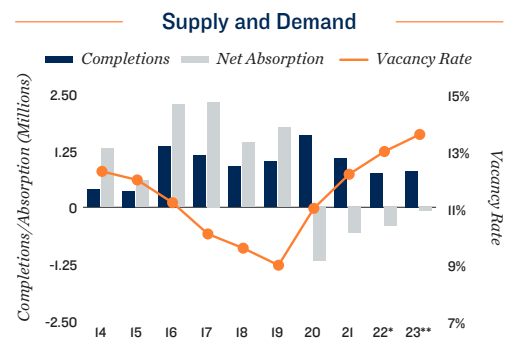
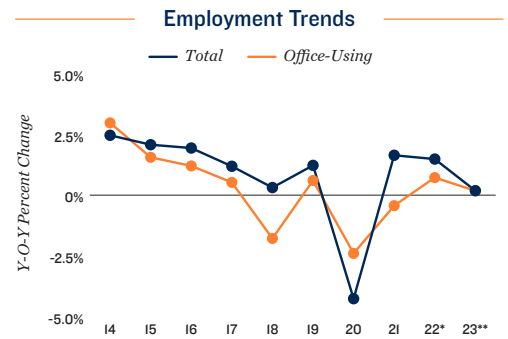
**Employment** up 0.2% Total employment in Kansas City will rise by approximately 2,000 positions this year. The metro will add around 500 traditionally office-using jobs, matching the overall rate of growth.

**Construction** 800,000 sq. ft. Deliveries will expand stock by 0.6 percent for the second consecutive year. Projects slated to come online in 2023 are concentrated in North of the River and South Johnson County.

**Vacancy** up 60 bps Net absorption will remain negative for the fourth consecutive annual period, pushing vacancy up to 13.6 percent.

**Rent** up 0.3% Kansas City’s average asking rent will inch upward this year to \$19.00 per square foot. The rate will remain below the metro high of \$19.78 per square foot achieved in 2021.

**Investment** Investors looking for newer properties may turn to Overland Park as construction and speculative projects rise in North and South Johnson counties.

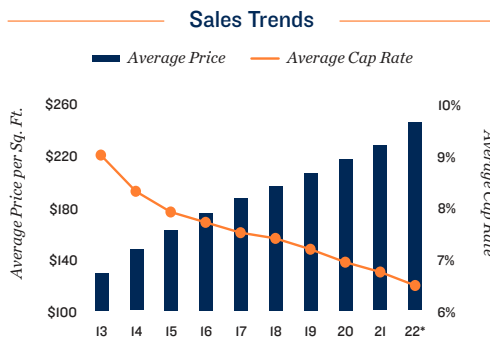
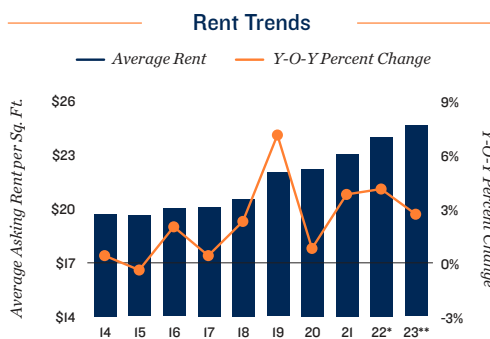
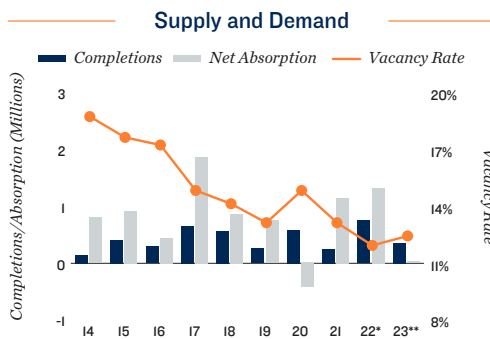
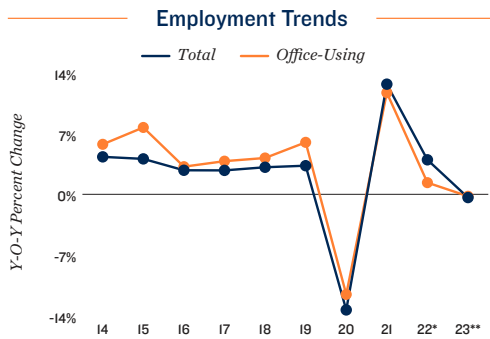


\* Estimate; \*\* Forecast  
Sources: CoStar Group, Inc.; Real Capital Analytics

## Vegas Observes Short-Term Headwinds Amid Solid Long-Term Prospects; Local Buyers More Prominent

**Office fundamentals moderate, following historic run.** Spurred by a rapidly diversifying local economy, Las Vegas' office sector has observed prolific growth in recent years. Net absorption exceeded 1 million square feet in each of the past two years, a first for the metro. Record leasing volume by square footage achieved during the third quarter of last year indicates that long-term demand remains solid, likely keeping near-term availability well below the level typical during the pre-pandemic cycle. Relatively tight operations should also be supported on the supply side, with inventory expanding by just 0.6 percent in 2023 and the pipeline narrowing further out. The recent batch of leases executed at rents notably above the market average suggests space that does come online this year should be well received, as prospective tenants appear to value amenity-rich offices. Macroeconomic headwinds and the longer-term adoption of hybrid work schedules, however, are poised to decelerate the pace of overall leasing activity as corporations re-assess staffing and physical space requirements.

**Financing hurdles shift capital landscape.** Trading activity in 2022 trailed the highs observed during the prior two years, though deal flow was stable on a quarterly basis, despite mounting capital costs. Financing headwinds could, however, impact investor appetites in 2023, with the makeup of the buyer pool already adjusting to the new conditions. Recent flux has caused some parties, specifically those based in California, to re-evaluate acquisitions outside of their home markets. As such, local investors may account for a much larger share of near-term sales velocity when compared to the historical average, increasing the number of privately-owned assets in the metro. This cohort can spot opportunities more easily, due to its heightened familiarity with the market. Local buyers should be particularly active in North and Northwest Las Vegas, while southern zones and Henderson tend to attract a more geographically diverse group of buyers.



\* Estimate; \*\* Forecast  
Sources: CoStar Group, Inc.; Real Capital Analytics

### 2023 Market Forecast

- NOMI Rank** 13 Availability well-below average will reduce the impact of a shrinking employment base, fostering Las Vegas' high ranking.
- Employment** down 0.4% Las Vegas' job count will contract by a total of 4,000 positions over the course of 2023. Office-using sectors will shrink by roughly 500 roles, losing one-sixth of the previous year's gain.
- Construction** 360,000 sq. ft. Delivery volume declines significantly, following the completion of 750,000 square feet last year. Nevertheless, more than 100,000 square feet is set to come online in Henderson.
- Vacancy** up 50 bps Space availability bumps up to 12.5 percent, the second-lowest year-end vacancy rate since the Great Recession.
- Rent** up 2.7% Supported by a third straight year of positive net absorption, asking rents maintain a stable upward trajectory. The average marketed rate will inch up to \$22.44 per square foot in 2023.
- Investment** Competition for medical office listings could remain heated among private parties, as vacancy in the subsector entered this year at a more than 15-year low.



## Availability Remains Elevated Across Los Angeles County as New Tax Disrupts Investment Activity


**Positive leasing momentum overshadowed by substantial batch of available space.**


Los Angeles County enters 2023 with all-time high vacancy and nearly 74 million square feet of office space unaccounted for, daunting conditions for the nation's fourth-largest market by stock. As companies continue to adjust their space needs to accommodate work schedules that often require employees to be in the office at least three days a week, the volume of vacant space is expected to further increase this year. Still, some silver linings exist. Downtown and West Los Angeles, the two largest submarkets by inventory, recorded several quarters of positive absorption last year, suggesting demand among professional services and tech firms is mildly improving. Furthermore, the volume of 25,000-square-foot-plus lease executions metrowide has remained consistent since the lifting of pandemic-related restrictions, with a fair number of recent commitments carrying terms of 10 years or longer. An additional aid in the metro's recovery, just one-fourth of the space slated for 2023 completion was available for lease as of late last year, suggesting supply-side pressure will be moderate over the near term.


**Transaction landscape changes.** A new tax will establish a 4.0 percent to 5.5 percent fee on all real property sales priced over \$5 million in the city of Los Angeles, impacting local and metrowide deal flow moving forward. Investors mulling a potential sale will have until April to execute a trade without being subject to the new tax. A boost in the volume of listings citywide may transpire, providing additional opportunities for active office investors seeking longer-term holds. Still, buyers will weigh the taxation that awaits at the end of a potential hold when contemplating a near-term purchase, and may choose to look outside the city. Those willing to pay a premium for assets in tech-heavy locales should gravitate to West Los Angeles, while investors seeking larger submarkets with tighter vacancy or discounted pricing may comb through Tri-Cities or Long Beach assets.


### 2023 Market Forecast


**NOMI Rank 45** Los Angeles will fall near the bottom of the Index as a large quantity of vacant space stalls rent growth.

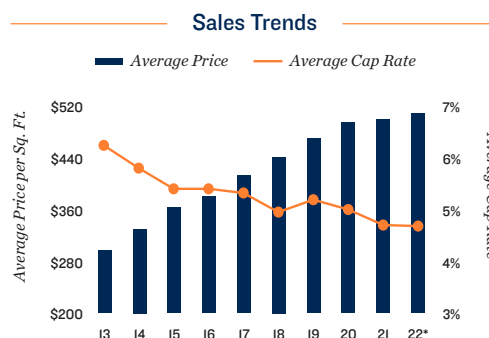
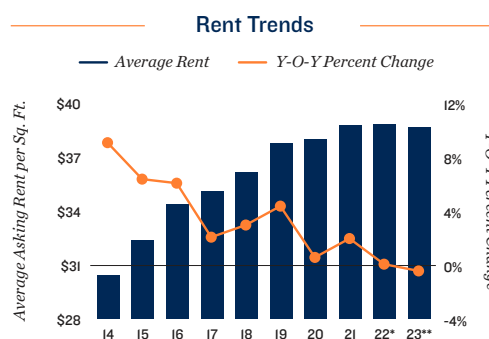
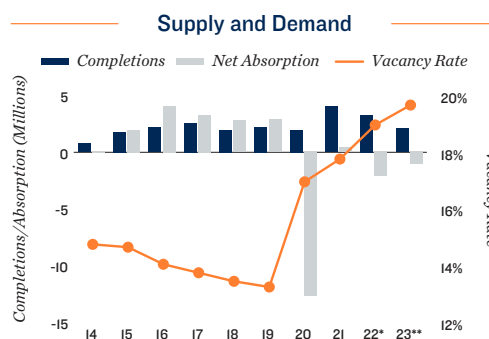
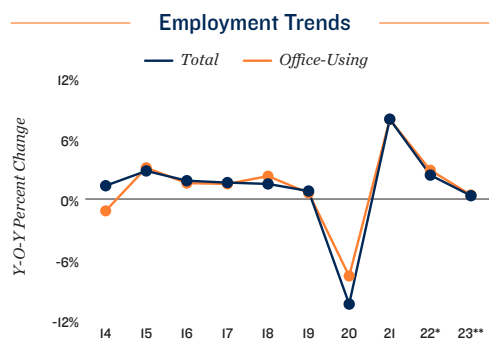
**Employment**  Hiring by office-using firms accounts for nearly one-third of the roles added in 2023. Despite positive employment growth, the year-end count trails the pre-pandemic mark by 67,000 jobs.  
up 0.3%

**Construction**  Office inventory expands by just 0.5 percent during 2023, with projects in West Los Angeles and Burbank accounting for roughly 60 percent of this year's supply additions.  
2,100,000 sq. ft.

**Vacancy**  After rising by 570 basis points over the past three years, office vacancy reaches an all-time high of 19.7 percent during 2023.  
up 70 bps

**Rent**  Record vacancy halts an 11-year stretch of positive asking rent growth. The decline, however, is moderate, placing the year-end marketed rate at an average of \$38.65 per square foot.  
down 0.4%

**Investment**  Amid historic office vacancy, investors may target struggling properties for redevelopment in the city of Los Angeles, adding to the locale's already notable adaptive reuse pipeline.

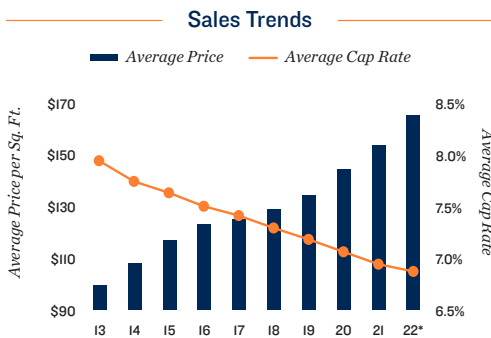
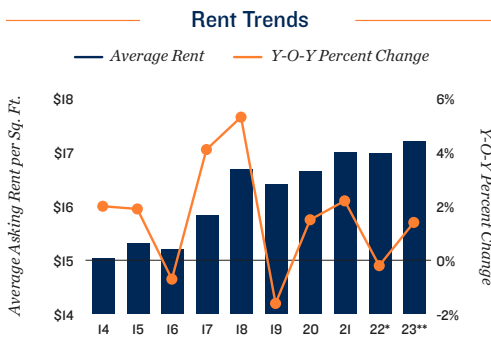
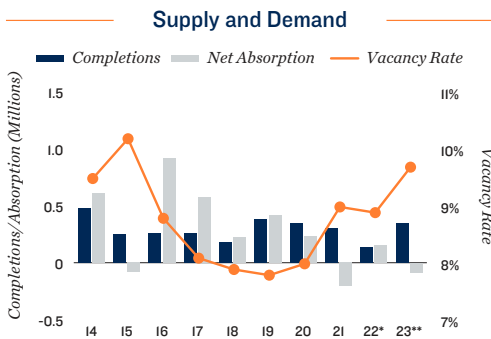
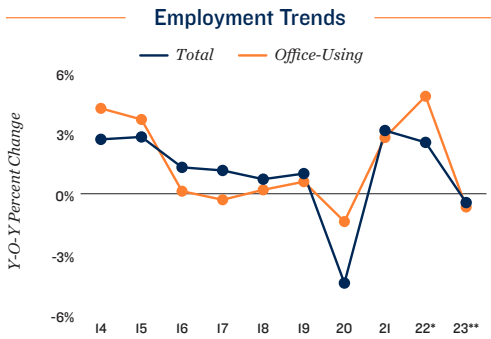


\* Estimate; \*\* Forecast  
Sources: CoStar Group, Inc.; Real Capital Analytics

## Limited Stock Growth Keeps Operations Tight; Market Performance Appeals to Coastal Investment

**Availability set to remain among lowest in nation.** A historically conservative attitude toward office development has placed Louisville in a solid position, despite current macroeconomic flux. The metro entered 2023 tied for lowest vacancy among major markets nationwide, and is anticipated to retain single-digit percentage availability at the close of the year. Leasing volume steadily increased throughout 2022, with the fourth quarter marking the most prolific three-month span in this metric since the onset of the health crisis. Louisville's geographic position as the South's gateway to the Midwest has attracted the attention of companies overseeing distribution operations. A 55,000-square-foot Publix corporate facility headlines this year's office move-ins, following the Florida-based grocer's foray into the Kentucky market. Moving forward, spillover from cargo operations at Muhammad Ali International Airport could facilitate an additional source of demand from logistics firms seeking offices near this hub.

**Metro observes surge of out-of-state investment.** Tight operations marketwide have facilitated a thriving investment environment in the face of increasing uncertainty. In 2022, the metro achieved an annual transaction velocity record prior to the end of the third quarter, with each three-month span notching successive deal flow increases, despite mounting financing headwinds. A marked jump in out-of-state investment was also seen during the same time frame, as buyers from more challenged markets were drawn to assets here. While Louisville's investor pool has historically consisted of mostly local capital sources, a majority of sales by dollar volume last year were traded to buyers from outside the metro. In addition to lower entry costs than the East Coast — where many of these investors originate — the metro offers a distinct cap rate advantage over most coastal markets, assisting with financing in an otherwise challenging time.



### 2023 Market Forecast

**NOMI Rank 37** Louisville's 2023 ranking is limited by its stagnant office-using job creation, which outweighs its low vacancy on the Index.

**Employment** down 0.4% Economic headwinds will cause traditional office-using segments to shed 1,000 positions over the course of this year. In 2022, these sectors added roughly 7,000 jobs.

**Construction** 350,000 sq. ft. Deliveries increase on an annual basis, after a record low of 135,000 square feet came online last year. Nearly all space in the active pipeline is scheduled for completion by December 2023.

**Vacancy** up 80 bps Though availability will bump up, a year-end rate of 9.7 percent makes Louisville the tightest market east of the Rockies.

**Rent** up 1.4% Tight operations allow rents to return to the historical norm of stable, steady annual increases. The mean marketed rent will end the year at \$17.20 per square foot.

**Investment** Buyers seeking high occupancy assets may look to Old Louisville, which features the lowest vacancy rate among submarkets in heavily-developed zones of Jefferson County.

\* Estimate; \*\* Forecast  
Sources: CoStar Group, Inc.; Real Capital Analytics

## Net Absorption Returns to Positive Territory; Medical Office Deal Flow is Gaining Momentum

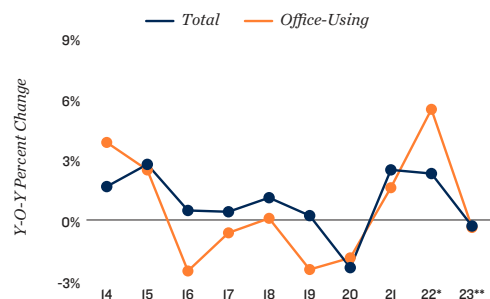
**Urban core leasing activity buoys metro office fundamentals.** Net absorption in Memphis was positive last year for the first time since the onset of the health crisis, with the metro among the relatively small group of markets that recorded vacancy compression. Robust hiring in traditionally office-using sectors — along with firms like St. Jude Children’s Research Hospital taking large blocks of space off the market — helped fuel this resurgence. Encouraging leasing activity is expected to continue, especially in the CBD, where local vacancy exited 2022 at its lowest point in more than two decades. Meanwhile, offices outside the urban core are not performing as well, with suburban vacancy nearly 300 basis points above its pre-pandemic rate. A potential economic downturn and a ramp-up in local construction activity is expected to raise overall availability slightly during 2023. Still, vacancy will hold below the historic average of 14.3 percent. Longer term, the metro could attract new or expanding firms attempting to reduce their expenses. Memphis boasts the second-largest population among mid-South markets, with local office rents nearly \$10 per square foot less than Nashville on average.

**Growing resident base supports medical office investment.** Entry costs for office assets in Memphis were nearly \$100 per square foot less on average compared to the national benchmark. The metro’s relative affordability may draw interest from a more diverse mix of active investors in 2023, especially as interest rates are projected to remain elevated in the near term. Class B/C properties will be targeted most often, as there are limited options for buyers seeking higher-tier assets. While greater capital costs and tighter underwriting will weigh on local transaction velocity this year, activity is likely in East Memphis, the metro’s largest submarket by inventory. Accelerating population growth in recent years has also elevated demand for medical office assets, with deal flow in this segment reaching an all-time high in 2022.

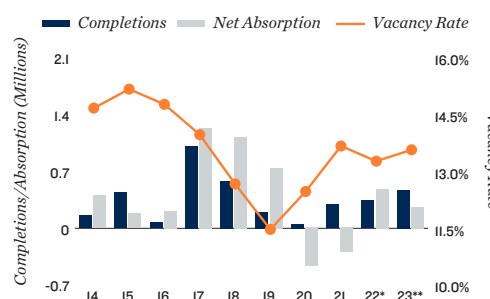
### 2023 Market Forecast

- NOMI Rank** 16 With moderate upward vacancy movement relative to 2019, Memphis earns a top-20 rank in its NOMI debut.
- Employment** ↘ A slowing economy results in the net reduction of 2,000 full-time positions in 2023. Roughly 500 jobs in traditionally office-using sectors are projected to be lost throughout the year.   
down 0.3%
- Construction** ↗ Annual supply additions will reach the highest level since 2018, as developers increase office inventory by 1 percent. Scheduled deliveries are concentrated in Downtown Memphis.   
470,000 sq. ft.
- Vacancy** ↗ Metro vacancy rises to 13.6 percent in 2023, following the 40-basis-point decrease that was recorded last year.   
up 30 bps
- Rent** ↗ Positive rent growth returns in 2023, nearly negating the 1.3 percent drop in the average asking rate recorded last year. The mean marketed rent will reach \$18.35 per square foot.   
up 1.1%
- Investment** ● Yields averaging above regional norms may draw more out-of-state investors over the next few years, once interest rates and financing conditions stabilize.

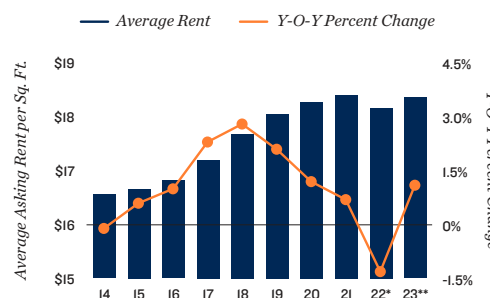
#### Employment Trends



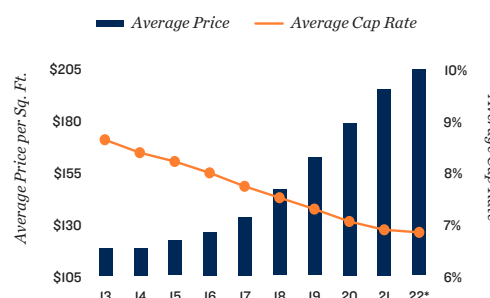
#### Supply and Demand



#### Rent Trends



#### Sales Trends

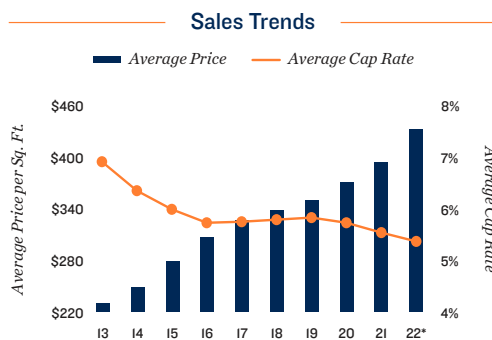
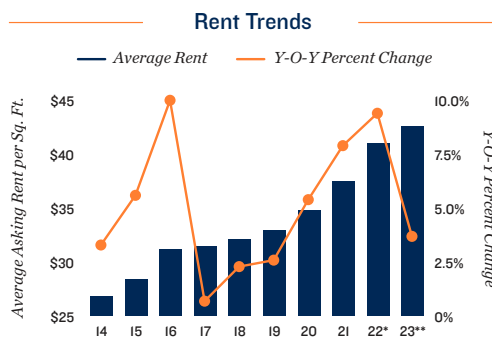
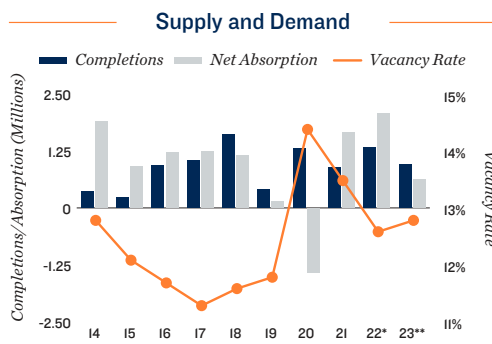
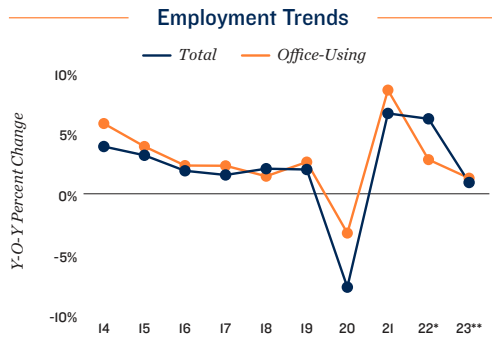


\* Estimate; \*\* Forecast  
Sources: CoStar Group, Inc.; Real Capital Analytics

## Miami Emerges as One of the Most Insulated Office Markets in the U.S., Attracting New-to-Market Firms

**Leasing activity coming off a historic level.** Annual net absorption in Miami surpassed 2 million square feet for the first time on record in 2022. This momentum has been aided by new-to-market tenants, such as Citadel, Sidley Austin, Goldman Sachs and Mindspace, taking large blocks of space off the market in prime office nodes – including Downtown, Wynwood, Brickell and the Biscayne Corridor. Asking rents surged in response to this spike in demand, growing nearly 10 percent last year on average, ranking second among all major U.S. markets. Looking ahead, the metro’s diverse talent pool, warm climate, tax benefits and trophy office product will likely continue to draw new tenants to the area over the long term, strengthening the outlook of the local market. However, a few macroeconomic headwinds are emerging. Aggressive rate hikes and Federal Reserve balance sheet reductions are expected to slow down the U.S. economy. Higher corporate costs of capital will have firms re-evaluating their hiring plans, which will moderate leasing activity in the short run, resulting in a slight vacancy increase in 2023. Still, despite the small rise, the rate will remain more than 400 basis points below the national benchmark.

**Buyers optimistic on long-term prospects.** Robust leasing activity has elevated investor interest in Miami. Despite rising borrowing costs, transaction velocity neared record levels in 2022, indicating buyers are confident in the long-term demand drivers present in the region. However, deal flow may slow in the coming quarters as interest rates are expected to remain elevated in 2023. Yield-driven investors often target listings near Miami International Airport, as local first-year returns averaged in the low-6 percent range in 2022. Buyers also seek out Class B/C assets in Northeast Dade, where vacancy was nearly 700 basis points below the market mean entering 2023. Meanwhile, institutional investors are generally more interested in the metro’s affluent neighborhoods like Downtown Miami and Brickell, where entry costs often rise above \$600 per square foot.



\* Estimate; \*\* Forecast  
Sources: CoStar Group, Inc.; Real Capital Analytics

### 2023 Market Forecast

- NOMI Rank** | Continued office-using job creation reflects robust metrics, securing the top spot for Miami-Dade in the 2023 NOMI.
- Employment** up 0.9% | The pace of hiring moderates this year, due to a slowing economy. Roughly one-third of the 12,000 new jobs added in 2023 will come from firms in traditionally office-using fields.
- Construction** 950,000 sq. ft. | Deliveries will slow in 2023, falling under 1 million square feet. Office inventory will increase by 0.9 percent, with the CBD and Miami Airport submarkets receiving the bulk of new supply.
- Vacancy** up 20 bps | Metrowide vacancy will slightly increase this year, due to a slowdown in leasing activity. The rate will rise to 12.8 percent.
- Rent** up 3.7% | Annual rent growth in 2023 will rank second among all major U.S. markets, only trailing West Palm Beach. The average asking rate is projected to reach \$42.53 per square foot by year-end.
- Investment** | Rising interest rates may place an emphasis on medical office assets in Miami, as industries in this sector are usually less susceptible to economic downturns.


## Local Companies Support a Return to Centrally-Located Workplaces; Investors Weigh Strategic Plays


**Downtown relocations bolster fundamentals in the locale.** Continued economic development efforts in the Milwaukee CBD have sparked some improvements in office performance against broader headwinds. The recent announcement of a headquarter relocation for financial services company Fiserv, Inc. is set to bring roughly 800 jobs to a new downtown location in the Westtown neighborhood. This move comes after Brookfield-based Milwaukee Tool recently expanded into downtown, adding more than 1,200 employees over a three-year period that began in 2021. Local government financial support of these projects may encourage additional companies to migrate into the urban core in the coming years. This would have a long-term positive impact for the metro’s overall office performance. The Milwaukee CBD, which was the only major urban core in the Midwest to report vacancy compression through late 2022, holds approximately one-third of the market’s stock. Property performance in other areas of the metro, however, will remain tame amid national economic headwinds, with availability continuing to expand while leasing activity holds sluggish.


**Urban properties and adjacent areas remain targets amid differing strategies.** Office assets in the metro’s downtown have become popular targets for investors seeking historic properties with value-add potential. Trades here last year averaged a price per square foot far below the market mean, while the submarket’s Class B/C vacancy was roughly 200 basis points below its pre-pandemic mark. Coupled with rising debt costs, trades of this caliber should remain a prime focus for active investors this year. Meanwhile, cash-flow-stable properties in the surrounding Milwaukee County suburbs represent a notable portion of the transaction pool, accounting for nearly half of all trades last year. Office assets here in the 20,000- to 50,000-square-foot range, with sub-\$5 million price tags, have traded to private out-of-state buyers seeking stronger yields than in their home metros.

### 2023 Market Forecast


**NOMI Rank 23** Milwaukee’s modest rise in vacancy helps place it in the middle of the Index, despite its quiet job market.

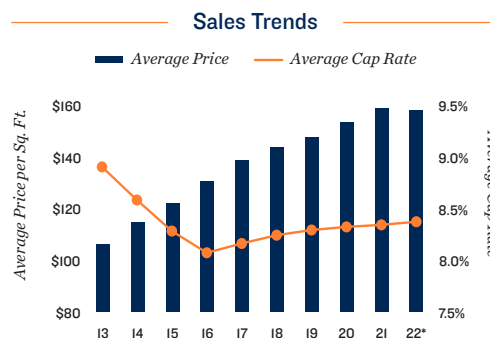
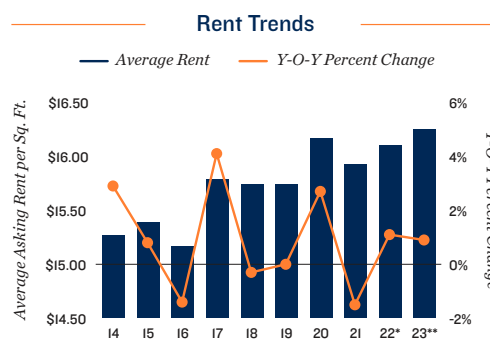
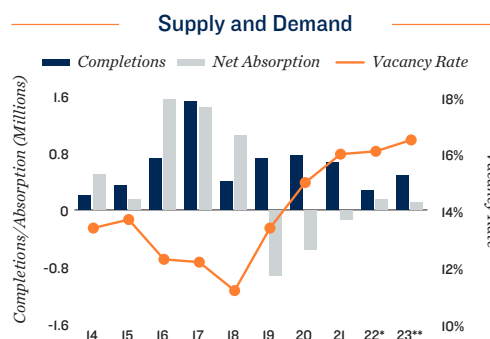
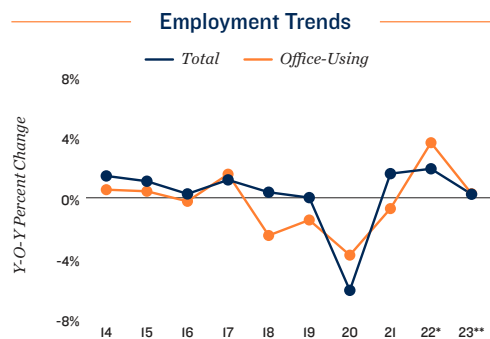
**Employment**  Payrolls increase by 2,000 positions this year, 500 of which are up 0.2% within traditional office-using industries. Still, employment remains 22,400 jobs short of the year-end 2019 mark.

**Construction**  Deliveries are set to increase in 2023, after last year reported 480,000 sq. ft. an eight-year low in completions. The bulk of new supply will deliver between Milwaukee and Waukesha counties.

**Vacancy**  Despite positive absorption for the second consecutive year, vacancy continues to expand in 2023, reaching 16.5 percent. up 40 bps

**Rent**  The pace of rent growth slows this year as the metro’s average asking rate reaches \$16.25 per square foot. This, however, will be enough for the measure to exceed its pre-pandemic mark. up 0.9%

**Investment**  Investors seeking sub-30,000-square-foot suburban assets continue to identify properties along Interstate 94 in Waukesha County, with trades typically in the \$1 to \$5 million tranche.

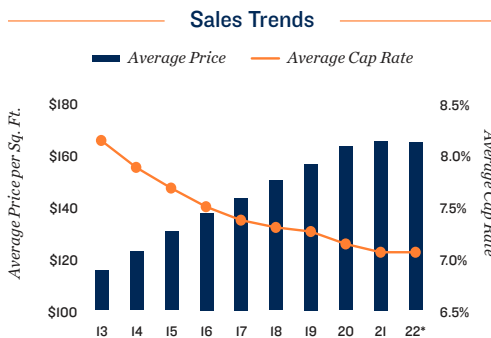
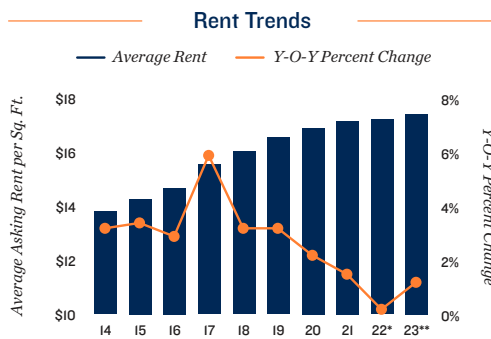
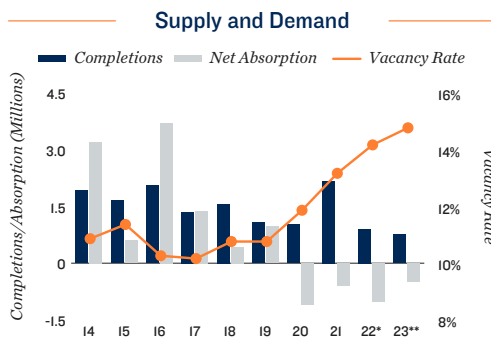
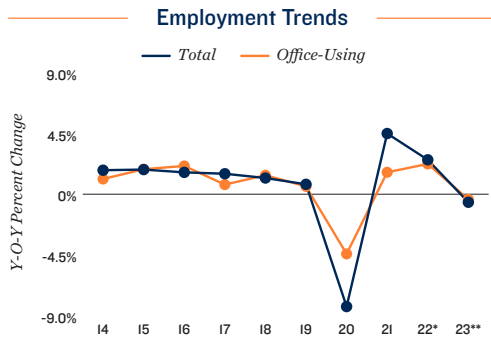


\* Estimate; \*\* Forecast  
Sources: CoStar Group, Inc.; Real Capital Analytics

## St. Paul Performance a Bright Spot; Differing Investment Expectations in Western Locales

**Central St. Paul resilient in wake of national uncertainty.** Unlike downtown Minneapolis, where demand for centralized office space continued to ease, St. Paul fundamentals strengthened substantially entering 2023. Having noted a single-digit vacancy rate for the first time since 2018, minimal supply additions since the onset of the pandemic supported Class A office leasing in St. Paul’s CBD, further aiding the submarket’s recovery. In turn, the area has reported solid rent growth in each of the last three years. Significant improvements in performance metrics here, however, could temper during the year ahead as pre-existing lease commitments are more prominent in western submarkets, including the I-494 Corridor and Central Minneapolis. Looking beyond downtown St. Paul, the marketwide construction pipeline is set to deliver the least amount of supply in 10 years. Less competition will put a lid on the magnitude of vacancy increase and sustain positive metrowide rent growth for a 12th consecutive year.

**Outlooks vary across the metro’s most traded submarkets.** Despite elevated transaction velocity in the I-394 and I-494 Corridors last year, deal flow in these submarkets may differ in 2023. Accounting for a combined two-fifths of the total transaction pool, there is a strong distinction here of trades by class cut. Positive performance of Class B/C assets in the I-394 Corridor drove investor confidence in 2022, as substantial net absorption led to notable rent growth. This should hold investors’ interest in the submarket near popular residential areas. Assets to the southwest of the cities in the I-494 Corridor, however, accounted for the majority of Class A acquisitions, with trades here averaging over the \$20 million mark. Spanning from Chanhassen to Bloomington-Richfield, Class A properties here are likely to trade at a lower clip this year as institutional investors wait for opportunities more in-line with their required returns, despite improvements in segment performance last year.



\* Estimate; \*\* Forecast  
Sources: CoStar Group, Inc.; Real Capital Analytics

### 2023 Market Forecast

**NOMI Rank 26** Despite its low supply-side pressures, job losses give Minneapolis-St. Paul a middle-of-the-pack rank in the 2023 NOMI.

**Employment** down 0.6% A reduction of 2,000 jobs in traditionally office-using fields contributes to the metro’s net loss of 12,000 positions. This will drop total market employment back below 2 million roles.

**Construction** 750,000 sq. ft. Inventory expands 0.4 percent this year, the metro’s smallest increase in over a decade. The Northwest and I-394 Corridor submarkets will see the majority of the limited development.

**Vacancy** up 60 bps Decelerating this year, annual vacancy expansion falls below the 100-basis-point mark for the first time since 2019.

**Rent** up 1.2% Although negative, the pace of net losses to occupied space is easing, which together with a minimal construction pipeline bring the average asking rate to \$17.41 per square foot.

**Investment** Despite a slowdown in trading activity, strong performance and sizable lease commitments entering the year may motivate some investors to remain active in suburban St. Paul.

## Tech Sector Headwinds Shift Availability Upward; Investors Optimistic About Metro's Long-Term Prospects

Diverse corporate ecosystem helps Nashville mitigate short-term hurdles. Of the headline leases already signed for this year, a mix of tech, legal and finance firms will combine to take a net of 1.2 million square feet off the market. This should help meter upward pressure on availability, which has remained above 15 percent since late 2020. Demand also appears steady further out, with nearly two-thirds of the active pipeline accounted for entering this year. However, a general contraction in the metro's traditional office-using sectors will subdue growth in 2023, pushing up short-term vacancy. Some major employers present in the market, such as Amazon, have also scaled back physical expansion plans as portions of the labor force shift to hybrid or remote schedules. Quarterly leasing activity holding below typical measures from 2017 to 2019 indicates that availability is unlikely to return to the pre-pandemic level in the near- to mid-term. Nevertheless, the prominent tech sector and educated labor pool that Nashville has accrued provide a solid foundation for long-term growth in upcoming expansionary cycles.

Market maintains interest from out-of-state capital. Nashville's diversifying economy has proved alluring to investors from across the country, attracting capital despite elevated vacancy. The metro achieved record annual transaction velocity last year, despite fluctuating economic outlooks and an increasingly complicated financing environment. However, deal flow is subject to softness this year, given uncertain conditions. While local investors own roughly half of the market's assets by dollar volume, during the 12 months preceding December 2022, roughly 80 percent of the sales volume involved out-of-state buyers. Much of this capital originates from gateway markets where office usage is more challenged. Private investors in this category usually focus on sub-\$10 million assets in southern Nashville proper and locales along Interstates 65 and 24, with properties of all tiers changing hands in Franklin, Lebanon and Murfreesboro.

### 2023 Market Forecast

**NOMI Rank 20** Nashville receives a top 20 ranking in the Index, exhibiting notable employment growth since the end of 2019.

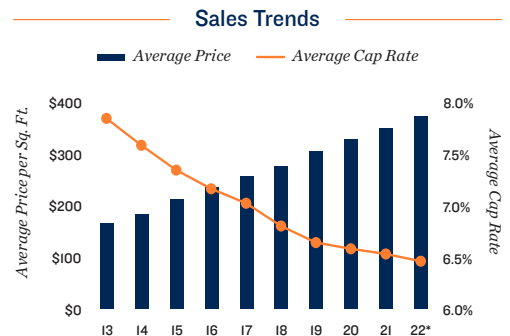
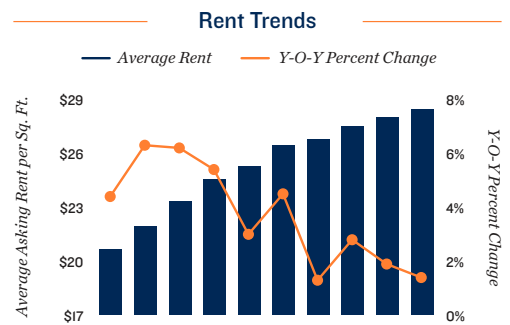
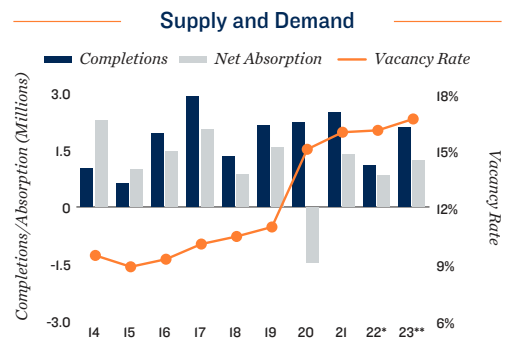
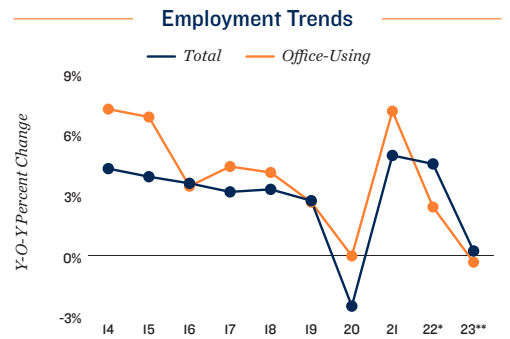
**Employment** up 0.2% Nashville's labor market will note a minor expansion of 2,500 jobs this year, though traditional office-using sectors will drop roughly 1,000 positions, representing a 0.3 percent contraction.

**Construction** 2,100,000 sq. ft. Completions once again crest above the 2-million-square-foot threshold, after 2022's seven-year low. More than 1 million square feet will come online downtown.

**Vacancy** up 60 bps Rapid stock expansion amid fluctuating outlooks will push availability to 16.7 percent, the highest level since at least 2007.

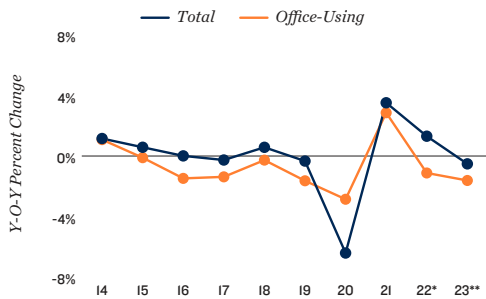
**Rent** up 1.4% Supply additions contribute to steady rent gains as quality inventory becomes available to lease. The average asking rent will end 2023 at \$28.40 per square foot.

**Investment** The metro's rapid expansion may push more investors to pursue suburban opportunities in the near future, with multiple developments underway in Franklin and Mount Juliet.

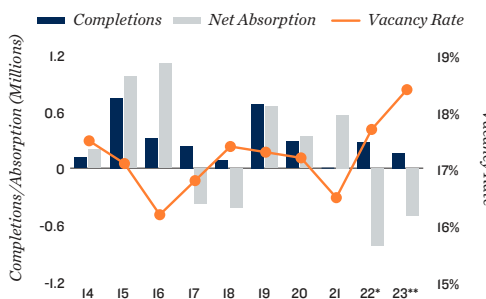


\* Estimate; \*\* Forecast  
Sources: CoStar Group, Inc.; Real Capital Analytics

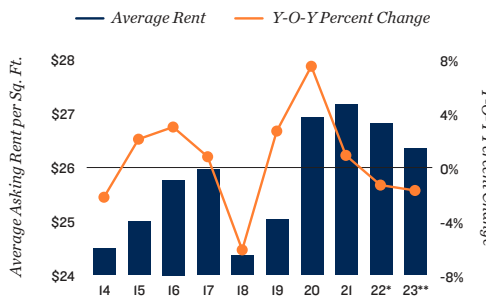
Employment Trends



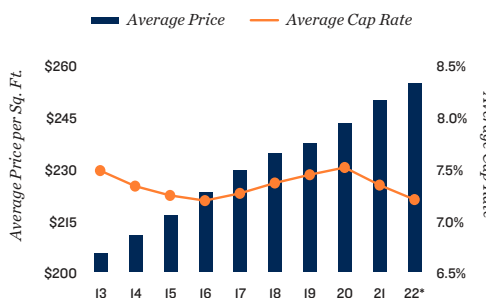
Supply and Demand



Rent Trends



Sales Trends



\* Estimate; \*\* Forecast  
Sources: CoStar Group, Inc.; Real Capital Analytics

## Tenants Show Preference for Low-Cost Space; Capital Sources Still Keen on Class B and C Assets

**Bifurcated vacancy performance favors discounted leases as metro faces headwinds.** Exiting 2022, southwestern Connecticut’s Class B and C offices boasted the lowest availability rates seen in the region in over a decade, contrasting persistently elevated Class A vacancy. The region’s high-end sector reported declining leasing activity throughout 2022 as segment availability remained in excess of 25 percent, a trend unlikely to be aided by a challenged labor market in 2023. A shrinking 20- to 34-year-old local population could frustrate expansion efforts for larger firms seeking to recruit young professionals, weighing on absorption at the higher-tier assets these organizations tend to lease. Given evident demand for the market’s low- and mid-tier space, owners of Class A offices could increase concession packages targeting traditional mid-tier property tenants, including smaller financial and law firms. Yale’s academic base has also fostered a flourishing biotech sector in core New Haven and adjacent zones, many of which could be enticed into high-end space.

**Regional investors monitor prospects amid fluctuating outlooks.** Tight operations in the mid- and lower-tier office segments have maintained buyer interest, with transaction velocity holding relatively strong compared to other nearby markets. Last year, Class B and C properties were traded at a rate nearly equivalent to pre-pandemic periods. Entering 2023, however, incoming macroeconomic headwinds – in addition to financing challenges across the office sector – could translate to some buyer attrition. On a more positive note, despite complications in the Class A segment, amenity-rich properties are still changing hands, albeit less often than in previous years. Category investors are focusing on high-occupancy assets in Fairfield County’s downtown cores, which offer proximity to major commuter railways and interstate thoroughfares. Existing properties should also see limited competition from supply additions in the near term. Excluding built-to-suit projects, the market’s active pipeline does not exceed 380,000 square feet.

### 2023 Market Forecast

- NOMI Rank 47** Strong upward vacancy pressure and sluggish hiring contribute to New Haven-Fairfield County’s low Index rank.
- Employment** down 0.5% Macroeconomic headwinds and population reduction will cost the region’s traditional office-using employment base roughly 2,850 positions this year.
- Construction** 160,000 sq. ft. Delivery volume falls more than 40 percent below the 277,000 square feet finalized in 2022. Nearly all of this year’s additions stem from speculative projects in New Haven County.
- Vacancy** up 70 bps Diminishing space demand pushes overall availability to 18.4 percent, the highest level since at least 2007.
- Rent** down 1.7% As firms recalibrate office space needs, rising vacancy will translate to a second consecutive year of declining rents, bringing the mean marketed rate to \$26.35 per square foot.
- Investment** Class B-focused buyers may pursue assets in New Haven County, which boasts lower entry costs, in addition to a stable demand base formed by Yale-linked firms.




## Upper-Tier Assets Capture Leases Amid Brisk Supply Gains; Uncertainty Mounts in Class B and C Segments


Tenants favor amenity-rich floorplans in high-traffic Manhattan locales. An ongoing, albeit protracted, recovery is underway in New York’s office sector. While the city’s hybrid workforce has been a persistent factor in restraining office usage, new leases began to outpace renewals late last year, indicating improving demand for square footage. Company preferences favor amenities to incentivize employees back to offices, which will drive prospective tenants into Class A spaces. Developers also appear confident in newer builds, as the total active pipeline exceeds 13 million square feet after new projects were initiated last year. These supply arrivals may coax some tenants to transition out of older buildings, however. In late 2022, Facebook parent Meta reoriented a planned expansion into the newly-opened 50 Hudson Yards into a consolidation move here as they vacated a previously occupied space, affirming the appeal of modern, amenity-rich stock. As larger firms recalibrate leasing strategies, well-located assets stand to benefit the most. Nearly all of 2023’s largest move-ins are in neighborhoods housing major transport nodes. Owners of older, lower-tier assets may need to increase concessions to stimulate leases in the near term.


Languorous return to office translates to investor hesitancy. Reflecting the differing performance metrics observed between asset classes, New York’s investment market has become increasingly bifurcated entering this year. Ongoing uncertainty as to the future of mid- and lower-tier assets has negatively impacted trades in this segment, with category sales decelerating throughout 2022. Class A trades increased during this period, despite growing financing headwinds, as institutional actors responded to robust tenant demand for amenity-rich leases. Moving forward, investors could be more selective in regards to location, with properties in proximity to commuter rail hubs commanding higher premiums. Vintage assets in less accessible regions of the city could face a challenging period, with eligible facilities being targeted by investors from other sectors for conversion.


### 2023 Market Forecast


**NOMI Rank 29** New York places just inside of the top 30, with continued job gains offset by a lag in office utilization and ample construction.

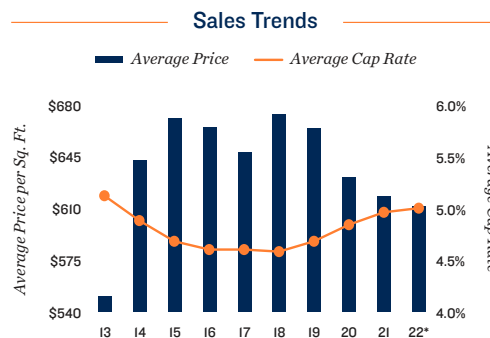
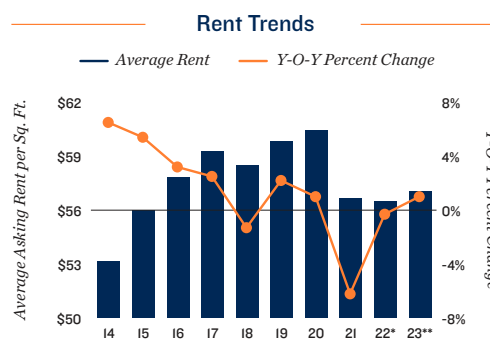
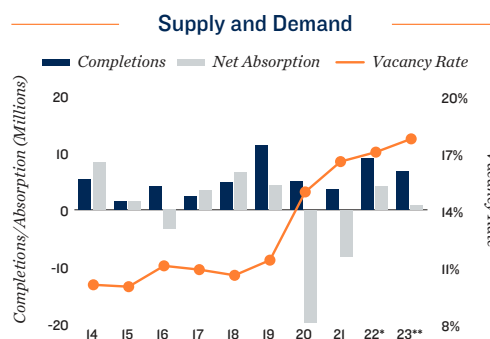
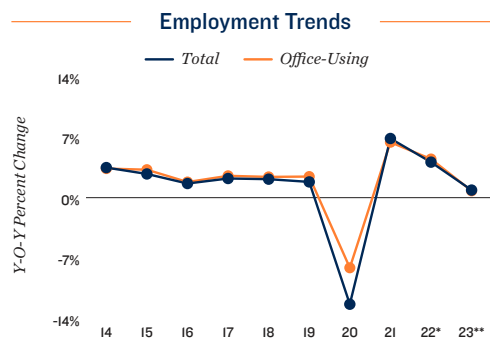
**Employment**  Employers across the five boroughs will expand staffing counts with 40,000 new positions, nearly one-third of which stem from traditional office-using firms.  
up 0.9%

**Construction**  Deliveries will slow from the 9 million-plus square feet added in 2022. Although, this year will nevertheless be the third fastest by rate of stock expansion since at least 2007.  
6,800,000 sq. ft.

**Vacancy**  Net absorption will stay positive, though the robust pace of development will drive vacancy up to 17.8 percent.  
up 70 bps

**Rent**  Healthy demand in the upper-tier segment will drive positive annual rent growth for the first time in three years. Asking rents will climb to an average of \$57.05 per square foot.  
up 1.0%

**Investment**  Investors in search of newer builds will have a number of properties to choose from this year, with most of these assets concentrated in Downtown Brooklyn and Midtown Manhattan.



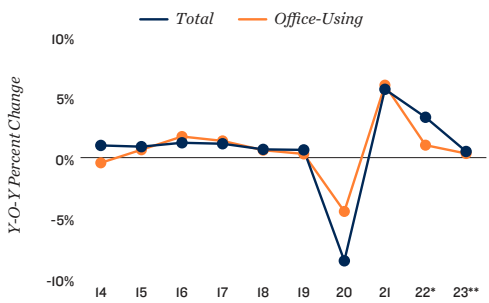
\* Estimate; \*\* Forecast  
Sources: CoStar Group, Inc.; Real Capital Analytics

## Companies Seek to Reduce Costs, but Key Indicators Suggest Tenant Willingness to Maintain Space

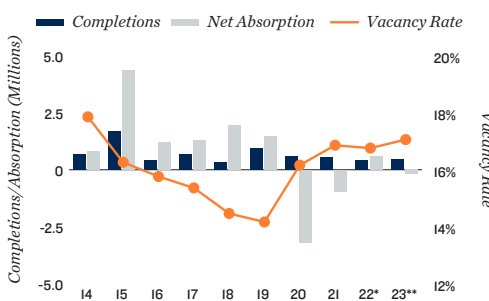
Mid-tier properties retain one of the lowest segment vacancy rates in the nation. The vacancy rate for Class B and C properties in Northern New Jersey was one of the 10 lowest among major metros in the nation last year. Rounding out 2022, the availability metric was only about 20 basis points above the record low. Companies are targeting mid-tier space more frequently as they look to minimize costs amid recessionary fears. Meanwhile, Class A vacancy has remained above 20 percent since 2019, and the luxury tier will likely continue to face headwinds in the near term. Net absorption in the segment, however, began to trend positive last year, indicating a track to recovery is underway. Additionally, two years of reduced construction and few project proposals going into 2023 will minimize the supply pressure component. Of the projects underway, approximately 50 percent of the space was pre-leased as of November 2022. Outside of private company commitments, the Transportation and Security Administration signed a lease increasing its physical footprint in the same location it had previously been subleasing, solidifying the organization's presence in the area. Tenants' willingness to keep space after a sublease ends could be a beneficial trend for the market.

Investors eye Bergen and Morris counties. Leasing preferences in 2022 magnified investor interest in suburban properties, turning eyes toward Northern New Jersey. Bergen County noted an uptick in investor activity last year — particularly around George Washington Bridge — as companies like Samsung committed to subleasing space in the area. Some momentum could carry forward this year. Morris County, despite softening fundamentals, may also interest buyers as properties can be found here in the low- to mid-\$100 per square foot range, below the metro average. Several notable move-ins, such as Morgan Stanley and Valley Bank's headquarters, may also catalyze investment in the county. Medical office transactions could also become more prevalent as the region sees a rising 65-plus population, and cap rates for these properties typically land in the 6 percent to 7 percent range.

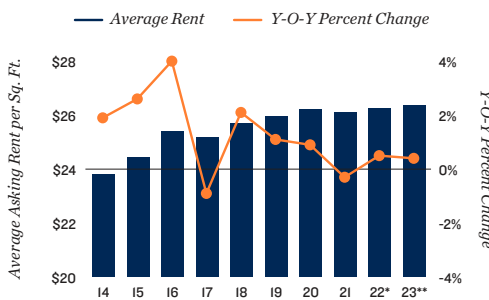
### Employment Trends



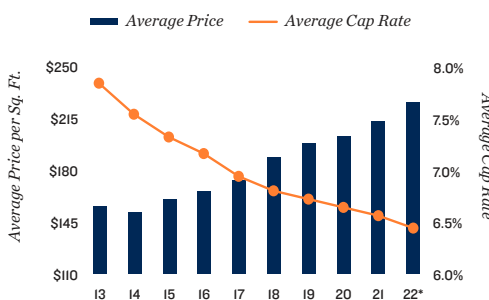
### Supply and Demand



### Rent Trends



### Sales Trends



\* Estimate; \*\* Forecast  
Sources: CoStar Group, Inc.; Real Capital Analytics

## 2023 Market Forecast

- NOMI Rank** 24 Northern New Jersey nabs a spot inside the top half of the 2023 NOMI, with low supply growth backstopping office metrics.
- Employment** ↗ Traditionally office-using employment will rise by 2,000 positions this year, contributing to the 11,000 jobs that will be added across the metro's labor sectors. **up 0.5%**
- Construction** ↗ Local inventory will expand by just 0.2 percent in 2023. Notable projects underway include the Valley Bank Headquarters in the Morristown area, which will surpass 130,000 square feet. **450,000 sq. ft.**
- Vacancy** ↗ The metro's moderate pipeline will mitigate the vacancy rise in 2023. Northern New Jersey's rate will inch up to 17.2 percent. **up 30 bps**
- Rent** ↗ For the second straight year, the average asking rent will climb, following a drop in 2021. The mean rate will elevate to \$26.35 per square foot by year-end. **up 0.4%**
- Investment** ○ Union County saw limited construction in the past decade, enabling vacancy here to be the lowest among submarkets. Assets in the area can also be found in the mid-\$200 per square foot range.

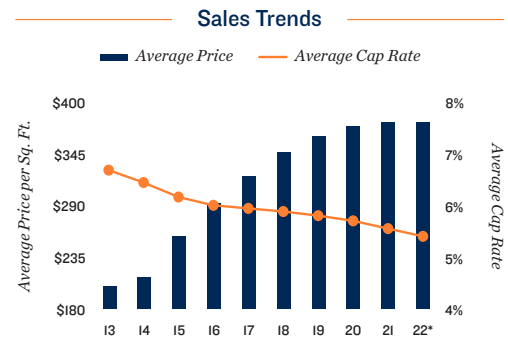
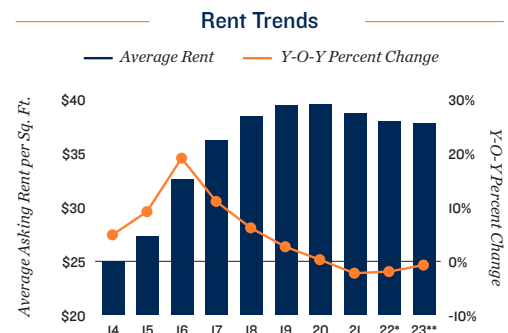
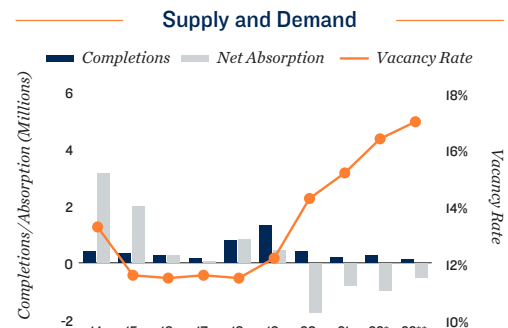
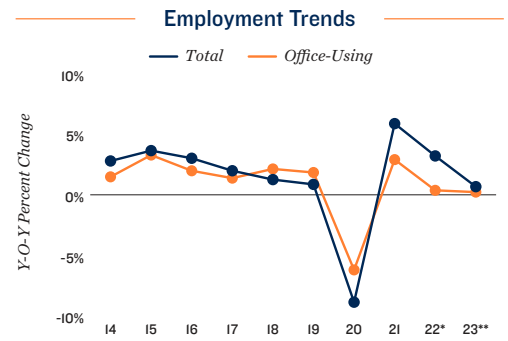
## Outer Submarkets Exceed Expectations as Lower Rents Coax Firms to Consider Office Expansions

Companies seeking to save on operating costs drawn to market's locally lower rents. An uncertain return to the office has placed upward pressure on vacancies across the country. However, within the Bay Area, less expensive office space in the East Bay may be attracting some businesses that adopt hybrid work policies for the foreseeable future. The market has recorded several notable lease commitments in recent quarters from mid- and large-sized enterprises, providing reasons for local optimism. Snowflake, a cloud-computing company, is upgrading its single-floor Dublin space to a full building lease, and biotech firm 10x Genomics is growing its Pleasanton operation. Contrasting these outer submarket expansions, other more centrally-located firms are reducing their local footprints as Downtown Oakland's mean asking rent sits around \$50 per square foot, a rate that exceeds its San Jose counterpart. Fortunately for the East Bay, completions have been sparse of late, with 2023 representing another year of minimal delivery volume. This is poised to direct prospective tenants to existing locations with available square footage, allowing for a less pronounced increase in local vacancy this year.

Inland submarkets a bright spot for investors. Stability-seeking buyers may be drawn to the southern stretch of the 880 Corridor. Here, relatively low asking rents have helped the submarket report vacancy compression of more than 200 basis points since the onset of the pandemic, momentum that could be carried into 2023. Fremont's regionally low cost-of-living has made the locale a more desirable destination for residents and employers alike. Specifically, life science firm Personalis recently tripled its office space by transferring to the city from Menlo Park. Looking eastward, both ends of the 680 Corridor may represent areas of notable investment in 2023, after recording an uptick in sales velocity last year. The stretch's robust stock of Class A space is attracting firms with more clear-cut return-to-office strategies, potentially bolstering future investor confidence.

### 2023 Market Forecast

- NOMI Rank** 41 Oakland places in the bottom 10 of the Index by way of its nominal office-using job gains relative to 2019.
- Employment** up 0.7% Oakland will sustain employment growth this year as 8,000 new positions are added. Of the jobs created, 600 are expected to be in traditional office-using fields.
- Construction** 110,000 sq. ft. Deliveries are projected to be fairly lean this year, as inventory will grow by just 0.1 percent. A 75,000-square-foot lab building in Emeryville highlights the list of near-term completions.
- Vacancy** up 60 bps Availability will rise to 17.0 percent as net absorption is expected to continue a negative trend, albeit less severe than last year.
- Rent** down 0.7% As local office space is relinquished on a net basis, the average asking rent will fall to \$37.70 per square foot. However, the Highway 4 submarket may hold onto some growth momentum.
- Investment** The 80 Corridor will remain a desirable locale for active investors as a collection of companies value proximity to UC Berkeley, which allows for a direct pipeline of young talent.



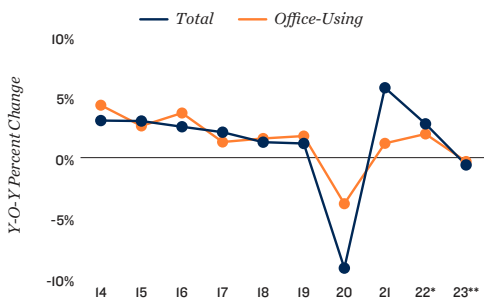
\* Estimate; \*\* Forecast  
Sources: CoStar Group, Inc.; Real Capital Analytics

## Large Corporate Tenant Roster and Regionally High Class A Vacancy Skew Metro's Property Performance

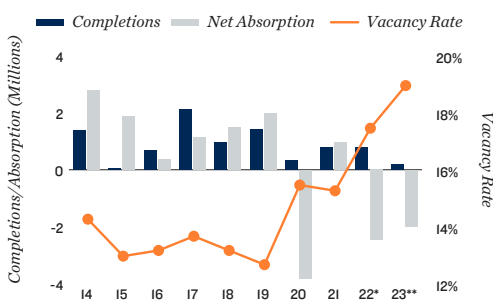
Local market conditions appear to favor prospective tenants. Home to a near record volume of available Class A stock and a roster of major corporate tenants that are grappling with their future space needs, Orange County's overall office fundamentals will be further challenged this year. For many traditional office users, long-term hybrid work adoption has set in, which is expected to prompt more of these companies to require less space once existing leases expire. Some are expected to shed square footage during 2023 as a result, while others may pass on renewals and instead opt to downsize into smaller floorplans to better meet their needs. The resulting increase in vacant stock will weigh on landlords' ability to increase rents. This, however, may represent a boon for companies wishing to downsize into higher-quality space, as marketed rates for these layouts could be reduced. Still, availability is expected to reach its highest point since 2010, despite an extremely minimal volume of near-term supply additions.

Opportunities for upside emerge from companies' cost-cutting actions. Amid rising vacancy, reasons for investor optimism still exist in Orange County. Tenant demand for lower-cost floorplans and mid-tier space has been encouraging as of late, with Class B/C availability below its long-term average at the onset of this year. Active buyers that expect additional companies to lease this space as part of cost-cutting strategies are likely to pursue listings in the metro's largest cities and most pronounced office hubs, including Irvine, Anaheim and Santa Ana. The notable volume of mid-size and larger Class B properties in these locales should attract a diverse mix of investors, with some targeting 1980s- to early 2000s-built properties that warrant amenity upgrades and interior improvements. Private investors that prefer lower-tier assets with five or fewer tenants may be attracted to West County cities, including Huntington Beach, as the submarket is home to the metro's lowest Class B/C availability.

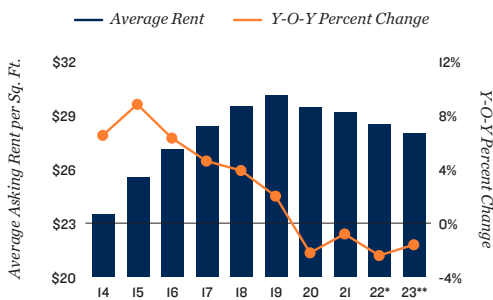
### Employment Trends



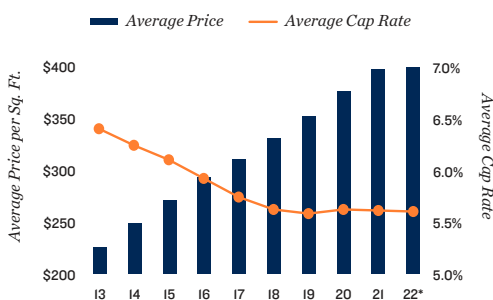
### Supply and Demand



### Rent Trends



### Sales Trends



\* Estimate; \*\* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

## 2023 Market Forecast

- NOMI Rank 48** Orange County marks one of the nation's largest jumps in vacancy this year, falling to the third-lowest NOMI position.
- Employment** down 0.6% Orange County's traditional office-using job count declines by 1,500 roles this year. Still, these sectors will account for nearly 30 percent of the metro's total employment base.
- Construction** 200,000 sq. ft. The 0.1 percent increase to office stock registered this year represents the lowest annual growth rate among major U.S. markets. Space slated for delivery is largely accounted for.
- Vacancy** up 150 bps The volume of vacant stock expands by over 2 million square feet during 2023, placing year-end availability at 19 percent.
- Rent** down 1.6% Amid rising vacancy, the average asking rent declines for a fourth straight year, with decreases likely across property tiers. At year-end, the rate will stand at \$28.00 per square foot.
- Investment** The OC Streetcar, slated for 2024 completion, may draw new office tenants to downtown Santa Ana properties. Active buyers may anticipate this and pursue listings here this year.

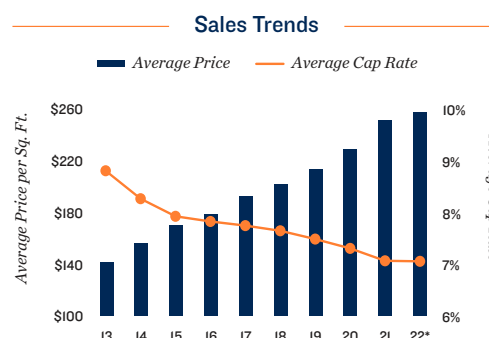
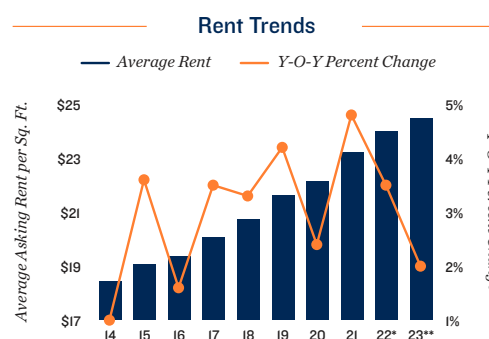
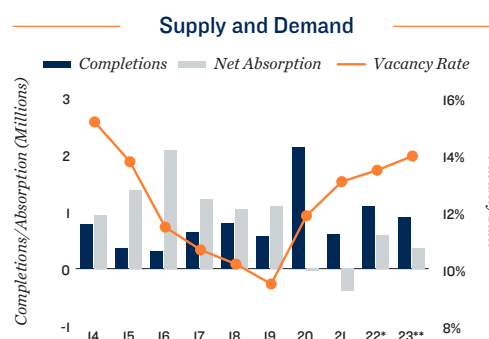
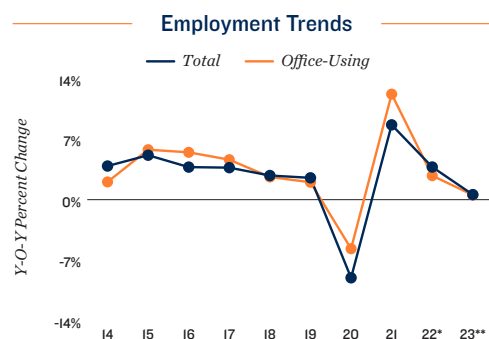
## International Firms Attracted to Central Florida; Growing Cohort of Retirees Aid Medical Office Demand

**Recovery momentum may help carry fundamentals through turbulence.** An accelerated rate of household formation during the pandemic recovery has enabled the metro to attract global office-using companies. Multiple international firms have committed to Orlando expansions, including Iceland-based Sahara, which is opening its first U.S. office in downtown, and professional services giant KPMG, which is continuing to broaden its market footprint after occupying multiple facilities over the last few years. The medical office sector is also exhibiting an encouraging performance, with tenants having absorbed a net of 700,000 square feet over the past two years combined. ScionHealth’s occupancy of 85,000 square feet in Winter Park is slated to be one of the largest move-ins this year. Additionally, AdventHealth is moving into the city of Celebration, and Sanitas Medical Center is opening a new location in Apopka. Moving forward, medical and traditional office-using companies considering an Orlando expansion or relocation will largely be directed to the metro’s existing office stock. Entering this year, roughly 80 percent of the active pipeline was accounted for, with developer reluctance to overbuild potentially curtailing the number of near-term project starts.

**Healthy medical office sector elicits buyer interest.** Since mid-2021, Orlando’s 65-plus age bracket has been growing swiftly, lifting the metro’s median age and demand for health services. Concurrently, medical office construction has risen. A decade-high volume of space was completed last year, and projects catering to medical users represent more than half of the metro’s ongoing pipeline. The thriving life science cluster at Lake Nona Medical City may stand out to investors, with cap rates historically lower than the metro average. Elsewhere, Winter Park’s older median age makes the locale a target for buyers seeking long-term stability. Other suburban areas may gain traction among active investors as health providers seek locations closer to their patient base.

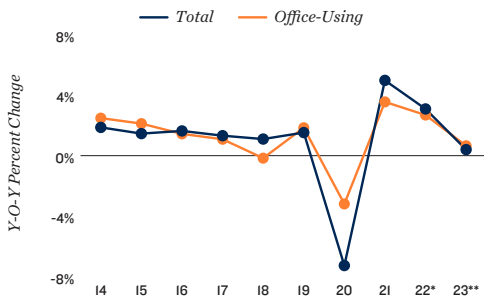
### 2023 Market Forecast

- NOMI Rank** || Nationally strong rent growth and a modest availability increase earns Orlando the 11th position in the 2023 Index.
- Employment** up 0.6% Employers are expected to add 8,000 new jobs this year amid a softening economy. Approximately one-fourth of these positions will be in traditionally office-using fields.
- Construction** 900,000 sq. ft. Completions will moderate this year as inventory expands by 1.1 percent. Still, delivery volume will exceed the 10-year average by nearly 80,000 square feet.
- Vacancy** up 50 bps Supply additions will outpace net absorption for the fourth consecutive year, pushing vacancy to 14 percent.
- Rent** up 2.0% The combination of newly-built, high-end space on the market and some positive leasing momentum will help lift the average asking rate to \$24.48 per square foot by year-end.
- Investment** Listings in Osceola County are poised to garner investor attention as local office vacancy sits at a historically low level. Population gains in Kissimmee may also attract buyers to the area.

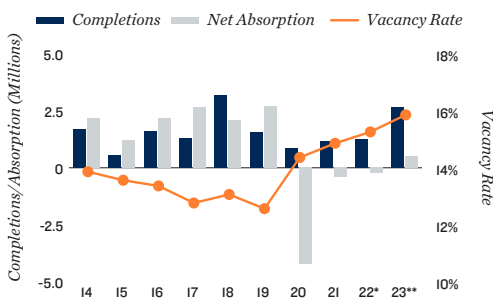


\* Estimate; \*\* Forecast  
Sources: CoStar Group, Inc.; Real Capital Analytics

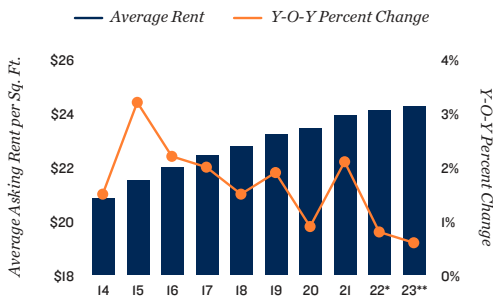
Employment Trends



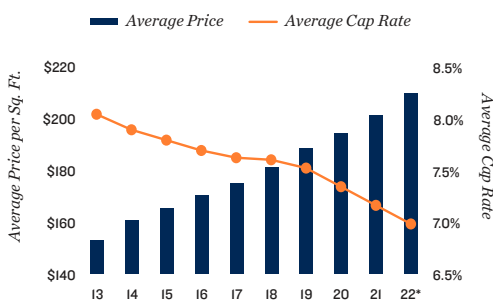
Supply and Demand



Rent Trends



Sales Trends



\* Estimate; \*\* Forecast  
Sources: CoStar Group, Inc.; Real Capital Analytics

## Thriving Healthcare Ecosystem Keeps Top-Tier Office Demand Afloat; Investment Carries on in Suburbs

**Continued medical hiring coincides with abundant lab pipeline.** Philadelphia’s Class A office performance may be improving amid a transitional period. The metro was one of only 15 major markets to observe vacancy compression in the subset during 2022, with move-ins from healthcare-related firms, such as the Children’s Hospital of Philadelphia and IQVIA, supporting the first 12-month span of positive Class A absorption since 2019. This gain bodes well for offices nearing completion, including One uCity Square and 3.0 University Place, both high-end mixed-use projects that each have sizable chunks of square footage available. Much of the remaining pipeline is also geared toward healthcare and medical research tenants, with several projects slated to bring a total 900,000 square feet of lab and office space to market by 2023. These properties should be well received, as the two sectors are expected to bolster staff counts this year, and the recent growth of the local 65-plus cohort will heighten long-term demand for health services. While overall office vacancy is slated to rise this year, medical-related move-ins from the likes of Century Therapeutics and BioLabs will assist in keeping the advance under the national pace.

**Divergent investment strategies aid overall deal flow.** Suburban offices lead trading activity in 2023, as a declining suburban vacancy rate has led buyers to view them as more resilient investments. The ongoing interest in assets located in the Horsham-Willow Grove area follows this trend, as the locale observed substantial availability compression during 2022. Meanwhile, institutions active in the market may pursue listings in King of Prussia, with a willingness to pay a premium for Class A and B properties with high-credit tenant rosters. The area features a notable inventory of larger, older offices that may provide upside via interior and amenity-related renovations. Opportunities well-suited for lab additions should be in a relatively strong position, as office-to-lab conversions have been rising in frequency, in response to the metro’s expanding medical-related roster.

### 2023 Market Forecast

- NOMI Rank** 17 Positive metrowide leasing and hiring in traditionally office-using fields contribute to Philadelphia’s 17th place ranking.
- Employment** ↑ up 0.4% Recruitment efforts continue in Philadelphia, with the creation of 12,000 positions in 2023. Over 40 percent of these additions are projected to be traditional office-using roles.
- Construction** ↑ 2,670,000 sq. ft. Developers are expected to more than double last year’s delivery volume, increasing inventory by 0.9 percent. This rate of growth represents the second-highest annual tally since 2007.
- Vacancy** ↑ up 60 bps Although exits have slowed down, speculative builds have ramped up, lifting year-end office vacancy to 15.3 percent.
- Rent** ↑ up 0.6% A fourth consecutive year of vacancy increase will impact owners’ ability to raise marketed rates. Still, the average asking rent will nudge up to \$24.25 per square foot in 2023.
- Investment** ● Leasing improvements and relatively tight Class A availability in South Burlington County and Bala Cynwyd-Narberth may stoke buyer interest in local top-tier assets.

## Tenant Demand for New, Top-Tier Spaces Frames Office Outlook; Investment Encumbered by Rising Debt Costs

**State-of-the-art offices positioned to attract firms.** The consolidation of office space by the state’s government agencies is illustrative of a larger trend taking place in The Valley. Over the past two years, the state relinquished over 750,000 square feet of office commitments, opting instead to move its 15,000 hybrid employees to its newly-built Arizona Connected Workspace late last year. Amid the office landscape’s uncertainty, tenants are doubling down on state-of-the-art buildings. This bodes especially well for Class A projects that continue to reinvest and add amenities — as well as those slated for 2023 completion — which includes Tower 3 in the Novus Innovation Corridor and Buildings A and C in Rio Yards, all top-tier offices totaling 460,000 square feet. Still, a short-term reset of the local labor market will reduce firms’ urgency for leasing space to attract recruits, likely resulting in longer periods where vacant space could sit on the market. Class B/C offices may be in a position to satiate the short-term needs of these firms, as a number of them downshift to smaller formats while temporarily reducing headcounts.

**Hurdles to debt financing shape trading activity.** Cap rate compression during the past cycle has compounded an elevated interest rate climate to intensify financing difficulties, pushing many buyers to the sidelines. This has encouraged a flight-to-quality among investors still active in the market, with buyers pursuing opportunities where the cap rate is closer to the cost of capital. Top-tier assets located in Tempe should be well-positioned as a result, with below-metro-average yields here reflective of the area’s relatively newer stock and proximity to Arizona State University’s talent pool. Still, Class A offices in the Camelback Corridor may generate interest in the coming quarters, as it was the metro’s only submarket to record top-tier vacancy compression in 2022. Amid the metro’s rising availability, Class A-targeting buyers may view local assets as more resilient investments.

### 2023 Market Forecast

**NOMI Rank 46** Despite favorable demographics, a notable drawback in space use warrants Phoenix’s placement at 46.

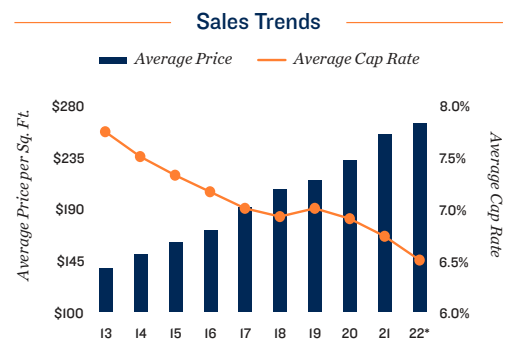
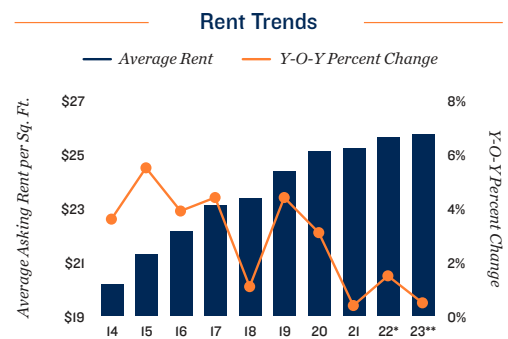
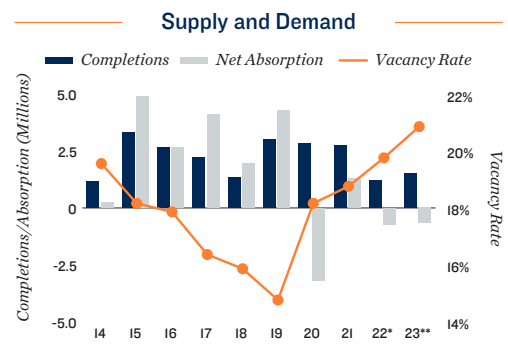
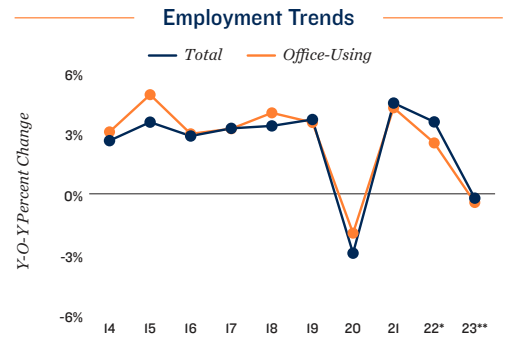
**Employment** down 0.2% A short-term reset of the labor market will materialize in the reduction of 5,000 positions this year. Over half of these job losses are projected to come from office-using sectors.

**Construction** 1,500,000 sq. ft. Rents have struggled to keep pace with construction costs, dissuading builders from starting on new projects and culminating in two consecutive years with sub-1 percent stock expansion.

**Vacancy** up 110 bps Net absorption remains negative during 2023, pushing vacancy to a decade-high of 20.9 percent.

**Rent** up 0.5% A slight uptick in supply compounds with still-frequent office move-outs to slow the pace of rent growth beneath 1 percent, nudging the average asking rate up to \$25.72 per square foot.

**Investment** Offices in the East Valley stand to gain traction, with the area’s strong residential growth continuing to draw tenant demand and contributing to the expanding local tenant roster.



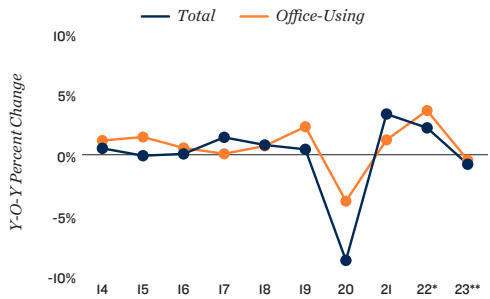
\* Estimate; \*\* Forecast  
Sources: CoStar Group, Inc.; Real Capital Analytics

## Metro Retains Stable Demand Drivers, Despite Headwinds; Tepid Supply Gains Confined to Core

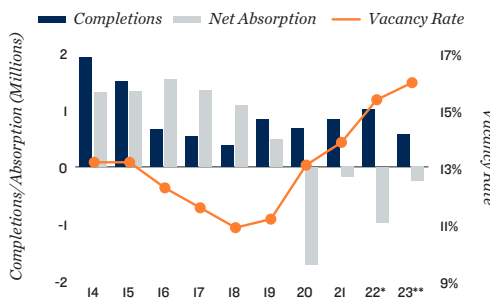
**Demand softens overall, though market is not without silver linings.** While leasing activity entered this year well above the 2020 nadir, signings have retreated after an improvement in 2021 as macroeconomic concerns are discouraging firms from expanding. With a fourth consecutive year of negative net absorption expected in 2023, availability is unlikely to return to the pre-pandemic level during the near- to mid-term. On a more positive note, supply gains will sharply decelerate through at least 2025, with an active pipeline of just over 700,000 square feet constituting roughly 0.5 percent of overall inventory. Nearly all space underway is located in the city of Pittsburgh or first-ring suburbs, indicating minimal impacts on outlying submarkets for the foreseeable future. Leasing in the core and adjacent zones will be underpinned by a robust financial services sector, with First National Bank and New York Life highlighting 2023 move-ins. Carnegie Mellon and the University of Pittsburgh also continue to foster academic partnerships in the Oakland submarket, facilitating a stable demand base here. Due in part to the area's robust medical sector, this zone was the single Allegheny County locale reporting vacancy in the single digits as of late 2022.

**Market fluctuations could lead buyers to opportune assets.** Continued uncertainty regarding the future of office usage is complicating the valuation process, generating the first average sale price decline observed in the market in more than a decade. Nevertheless, current flux will create opportunities for patient buyers. A conservative pace of development away from the core could draw investment to exurban zones, where lower entry cost properties face limited competition from new supply. In Washington County, Class A assets have changed hands in the sub-\$10 million tranche. Investors pursuing high occupancy assets will look closer to the core. Oakland and nearby neighborhoods feature numerous biotech-focused builds capitalizing on a robust academic-linked life sciences segment, drawing buyers seeking lab space and medical-focused assets.

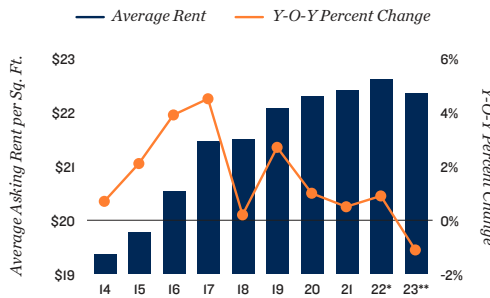
### Employment Trends



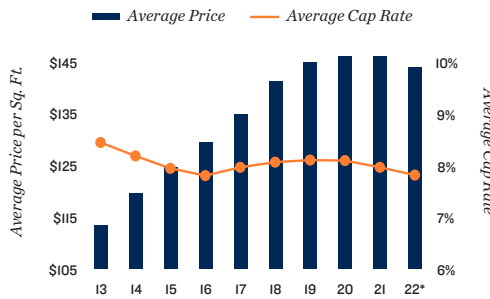
### Supply and Demand



### Rent Trends



### Sales Trends



\* Estimate; \*\* Forecast  
Sources: CoStar Group, Inc.; Real Capital Analytics

### 2023 Market Forecast

- NOMI Rank 49** Pittsburgh places 49th this year, anticipating losing nearly 1 percent of its employment base.
- Employment** down 0.8% Incoming headwinds will lead Pittsburgh's traditional office-using firms to shed 1,250 jobs in 2023, representing roughly 12.5 percent of the jobs this sector gained last year.
- Construction** 570,000 sq. ft. Deliveries fall more than 40 percent from 2022. The active pipeline is mostly characterized by select 100,000-plus-square-foot properties within Allegheny County.
- Vacancy** up 60 bps Availability increases on an annual basis for the fifth consecutive year, driving overall vacancy to 16.0 percent.
- Rent** down 1.1% Continued vacancy decompression will lead to the first year of declining rents since the aftermath of the financial crisis. The mean marketed rent will end 2023 at \$22.35 per square foot.
- Investment** Buyers anticipating the next growth cycle may target assets in Greater Downtown's the Strip Neighborhood, a popular locale for the metro's tech sector.



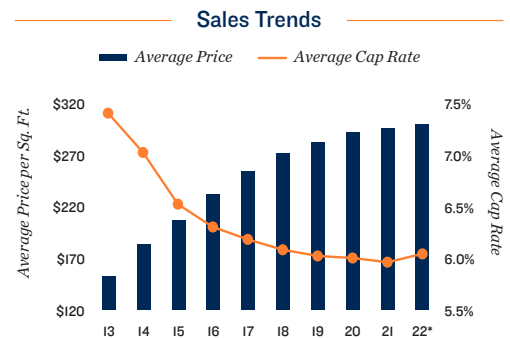
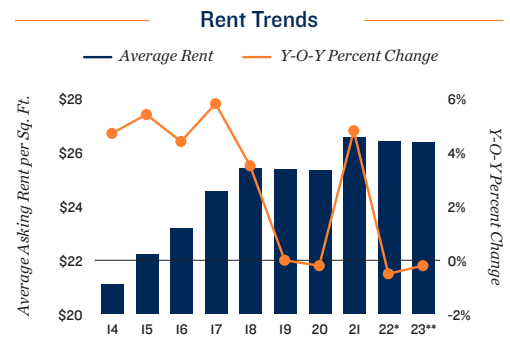
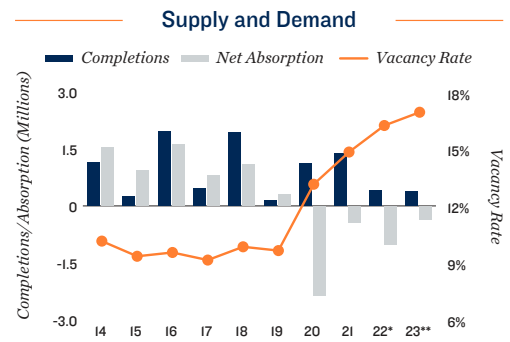
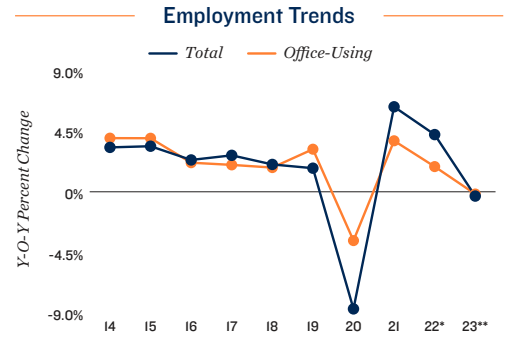
## Sports Apparel Companies Trek to Portland, Throwing a Lifeline to Local Office Market

**Firms attempt to foster new business hub in Northwest submarket.** The timeline for Portland’s office recovery, particularly in the CBD, remains obscured by the metro’s housing crisis. Nevertheless, a rising number of firms are looking to invest in the Rose City to tap into the creative acumen that birthed footwear giants like Nike and Columbia Sportswear. Apparel firms active in the sneaker industry — including Lululemon, Fila, Arc’teryx, and Allbirds — have each committed to office space in the Slabtown district of Northwest Portland during the past year, citing the area’s creative talent pool and the volume of revamped office space suitable for higher-end brands. This recent industry clustering helped contract vacancy in Northwest Portland by a record magnitude during 2022, contrasting the 140-basis-point metrowide increase. The quality of available stock here may continue to draw additional tenants to vacant floorplans, as the majority of local top-tier offices were built in 2018 and onward. Elsewhere, if downtown’s street-level conditions improve long term, the potential exists for firms like these to return to high-profile offices in the CBD.

**Lower-cost listings arise.** Nearly three years of rising overall vacancy has stalled local rent growth, with the metro’s average asking rate retreating late last year. Owing to this, 2023 may see a higher frequency of owners divesting their existing office holdings to enter into different property types. Opportunities are likely to emerge for active buyers in the CBD, where significantly discounted pricing has been frequent of late. Comparatively, assets on the Westside may command higher relative costs, a reflection of recent tenant competition and the pronounced pace of rent growth observed there during 2022. Intel, which completed a \$3 billion expansion of its DIX facility there last year, may create additional local tenant demand as third-party suppliers commit to offices nearby.

### 2023 Market Forecast

- NOMI Rank** 44 Consecutive years of receding marketed rents amid escalated availability contribute to Portland’s low ranking.
- Employment** ↘ After returning to a pre-pandemic mark in mid-2022, Portland’s employment base is set to decline by 4,000 positions this year, with 500 of those jobs being traditional office-using roles.   
down 0.3%
- Construction** ↘ A more stringent lending environment for office construction, and the hurdles surrounding the housing crisis, are exemplified by two consecutive years of 0.4 percent stock expansion.   
388,000 sq. ft.
- Vacancy** ↗ Net absorption has yet to recover since the health crisis, lifting overall vacancy up to 17.0 percent by year-end.   
up 70 bps
- Rent** ↘ Tenants will put at least 1 million square feet back onto the market this year, with slack demand for these spaces causing the average asking rent to regress to \$26.35 per square foot.   
down 0.2%
- Investment** ○ Downward trending fundamentals and a local housing shortage improve the feasibility of potential conversion projects, attracting buyers with adaptive reuse experience.



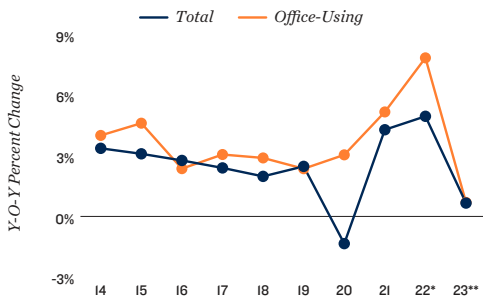
\* Estimate; \*\* Forecast  
Sources: CoStar Group, Inc.; Real Capital Analytics

## Tech Expansions Reflect Value of Physical Office Presence; Institutions Look to Bulk Acquisitions

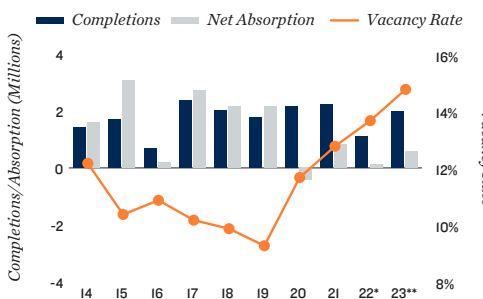
**Tenant demand dependent on sustained job growth.** Raleigh’s vacancy rate has climbed 390 basis points since March 2020, as the longer-term adoption of hybrid work formats has prompted office-using firms to reassess their local space needs. Still, the rate of vacancy expansion has begun to slow, with record office-using job creation last year — primarily in the tech and life science sectors — requiring some companies to lease additional square footage to house new hires. Google’s gradual commitment to over 100,000 square feet in Downtown Durham exemplifies this, as the tech giant has recruited hundreds of personnel to develop a local workforce suitable for its planned engineering hub. Similarly, Apple recently committed to an additional 140,000 square feet of office space near Raleigh-Durham International Airport, a precursor to the construction of its 3,000-employee campus in the Research Triangle. However, in light of both firms’ recent hiring freeze, the timelines for these larger projects may be extended, contributing to an overall slowdown in traditional office-using job creation. This moderation will coincide with a rise in speculative supply additions, suggesting office vacancy will rise over the near term.

**Multi-property dispositions prop up office landscape.** Portfolio acquisitions by institutional buyers accounted for a significant portion of transactions last year, while middle-market activity was largely hamstrung by the elevated interest rate environment. Large-scale deals may continue to support overall deal flow this year, with active investors potentially favoring West Wake County. Here, a mix of 1990s- to 2000s-built Class B offices suitable for upgrades exist, as does pricing that historically falls below the metro’s average. Other active buyers willing to pay a premium for mid- and upper-tier buildings may pursue listings in Downtown Raleigh and the Research Triangle, local office hubs that each boast world-class tenant rosters.

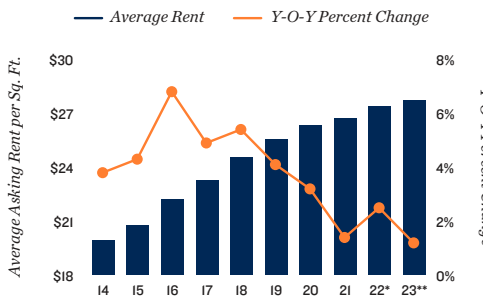
### Employment Trends



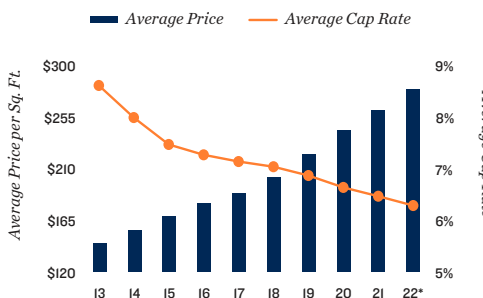
### Supply and Demand



### Rent Trends



### Sales Trends



## 2023 Market Forecast

- NOMI Rank** **31** Continued employment growth amid a strong college graduation rate helps place Raleigh 31st in the NOMI this year.
- Employment** up 0.7% Job creation tempers to 7,000 positions, after the metro added a record number of jobs last year. Roughly 30 percent of the new jobs created in 2023 will be traditional office-using roles.
- Construction** 2,000,000 sq. ft. Builders expand the metro’s office stock by 2 percent during 2023. Projects expected to finalize this year are mostly concentrated in Downtown Raleigh.
- Vacancy** up 110 bps Net absorption continues to be outpaced by supply additions, lifting the year-end vacancy rate up to 14.8 percent.
- Rent** up 1.2% Speculative deliveries expand the vacant stock, giving tenants more options to sort through. This tempers rent growth, with the average asking rate inching up to \$27.70 per square foot.
- Investment** Recent lease renewals in the Research Triangle by Credit Suisse, Scantron and Cintas foster investor confidence in localized office performance, generating competition for listings.

\* Estimate; \*\* Forecast  
Sources: CoStar Group, Inc.; Real Capital Analytics

## Corporate Commitments and Less Sublet Availability Provide Optimism for Richmond’s Office Sector

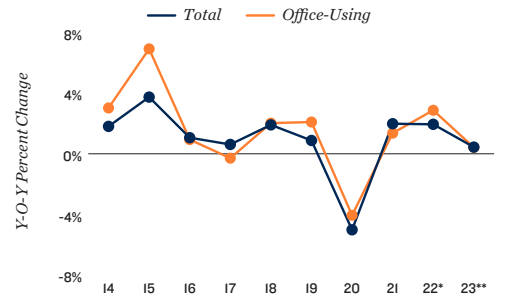
**Signs of encouragement emerge amid ongoing headwinds.** Pandemic-era working arrangements continue to negatively impact tenant demand in Richmond. Many firms, particularly call centers, have returned substantial blocks of space to the market, as a sizable share of their employees have the ability to work from home. In fact, Truist single-handedly vacated more than 500,000 square feet in 2022. However, much of this space has already been backfilled, providing encouraging signs for the local office market. Although sector conditions are softer relative to pre-health crisis recordings, local fundamentals are in better shape compared to other major office markets. Entering this year, Richmond’s vacancy rate of 13.2 percent was 320 basis points below the national benchmark. Looking ahead, the metro will likely leverage its regional affordability, proximity to multiple universities and business incentives — such as tax breaks and relocation rebates — to lure additional residents and companies to the area. Firms like CoStar, Starplast and Intact Technology all committed to growing their Richmond-based headcounts in the coming years as well, providing some stability during times of economic headwinds.

**Economic uncertainty may slow deal flow.** Regionally discounted pricing, coupled with a vacancy rate well below the national average, should help encourage investor interest for office assets in Richmond. However, rising interest rates are widening the gap between buyer and seller expectations. This could potentially press on deal flow in 2023, especially for well-capitalized owners that may feel more comfortable holding on to their assets and exiting at another time. Trading activity in 2022 was most pronounced in the Northwest portion of the metro, particularly in the West End and Innsbrook. Investors here frequently target mid-tier assets, with entry costs that average around \$190 per square foot. Buyers may also place an emphasis on medical office assets, as projections indicate steady population growth over the next few decades.

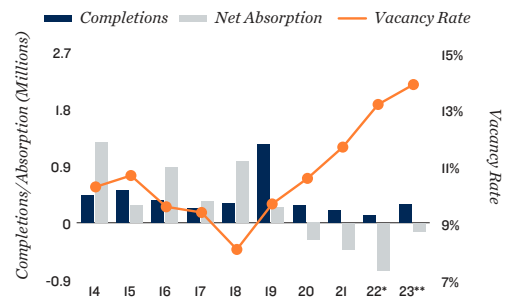
### 2023 Market Forecast

- NOMI Rank** 19 Expanding vacancy, even in the face of minimal new supply, results in Richmond’s middling ranking in its NOMI debut.
- Employment** ↑ Recessionary fears and a low unemployment rate slow the pace of hiring in Richmond relative to last year. Nearly one-third of the 3,000 jobs added in 2023 will come from office-using firms.   
 up 0.4%
- Construction** ↑ Supply additions remain limited, with office inventory expected to increase by just 0.5 percent this year. The pipeline mainly consists of medical offices in West Creek and the West End.   
 300,000 sq. ft.
- Vacancy** ↑ Economic uncertainty will temper leasing activity, resulting in vacancy rising to 13.9 percent by year-end.   
 up 70 bps
- Rent** ↑ Operators may use concessions or TI packages to boost or maintain occupancy, moderating rent growth. Still, the average asking rate will inch up to \$20.45 per square foot.   
 up 1.0%
- Investment** ○ Out-of-state investor interest may rise in Richmond due to a regionally low vacancy rate, coupled with average first-year returns that are higher than the national mean.

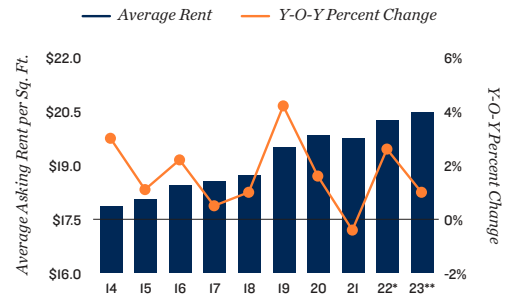
#### Employment Trends



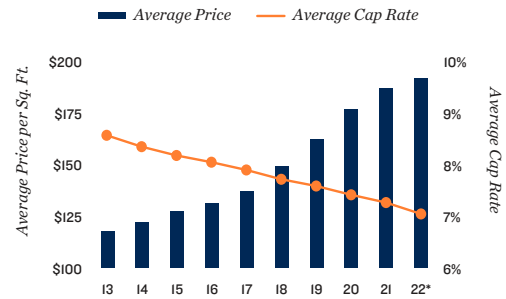
#### Supply and Demand



#### Rent Trends



#### Sales Trends

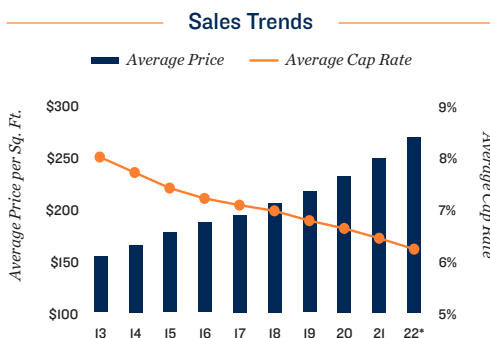
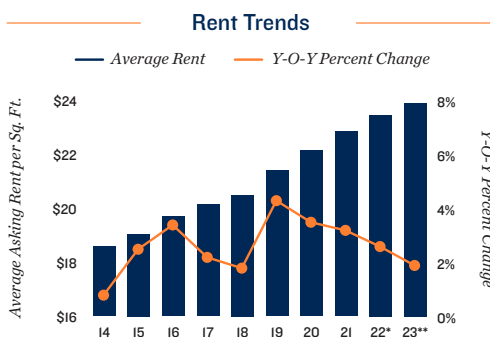
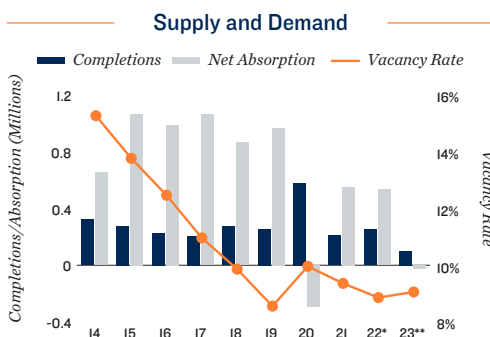
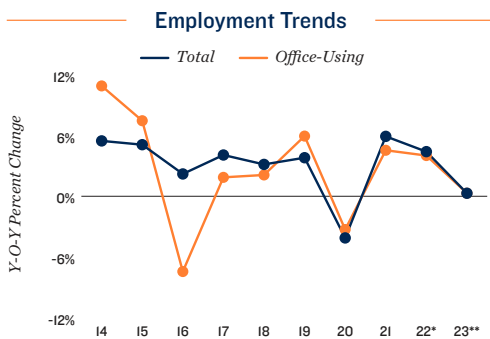


\* Estimate; \*\* Forecast  
Sources: CoStar Group, Inc.; Real Capital Analytics

## Inland Empire Remains in Elite Company as a Collection of Factors Support Moderate Vacancy Shift

**Scant pipeline steers prospective tenants to existing floorplans.** Home to the West Coast's lowest office vacancy, Riverside-San Bernardino is poised to hold strong as one of the nation's tightest major markets for another year. The metro's regionally discounted asking rents should continue to attract more smaller and mid-sized businesses intent on lowering operating costs, extending a stretch of positive Class B/C absorption. Concurrently, population growth will expand the local labor pool at a time when the traditional office-using job count sits at a record mark. The comparably lower volume of inventory per office-using employee will limit options for expanding firms and companies with upcoming lease expirations, aiding renewal activity and demand for available floorplans. Organizations seeking upper-tier space will exclusively comb through the metro's existing stock as the Inland Empire lacks speculative construction. Additionally, the metro is expected to register one of the smallest inventory gains among major U.S. markets, circumstances that bode well for the preservation of the nation's tightest Class A sector.

**Migration and warehousing trends impact investment.** On the surface, regionally discounted pricing and an office vacancy rate substantially below all other major California markets should fuel competition among active investors this year. A deeper analysis, however, reveals medical buildings and smaller traditional office properties stand to receive the most attention, as these properties' performance prospects are backed by favorable demand drivers. Metro-to-metro migration from Los Angeles County is requiring some medical tenants to lease additional office space in response to heightened demand for health services, placing medical office vacancy at a 16-year low. Similarly, Class B/C vacancy is historically tight, fueled by demand for sub-10,000-square-foot spaces. As the Inland Empire's industrial sector continues to expand, offices of this size should attract firms that historically use portions of warehouses for administrative operations.



\* Estimate; \*\* Forecast  
Sources: CoStar Group, Inc.; Real Capital Analytics

### 2023 Market Forecast

- NOMI Rank** 2 Claiming the nation's lowest vacancy rate among major U.S. metros, Riverside-San Bernardino enters the top five this year.
- Employment** ↑ up 0.3% Historically low unemployment will temper the pace of hiring in 2023. Still, the local job count rises by 5,000 roles, with about 15 percent of these being traditional office-using positions.
- Construction** ↓ 100,000 sq. ft. Developers expand the Inland Empire's office inventory by less than 0.5 percent for a third consecutive year, with medical office projects accounting for the bulk of this year's deliveries.
- Vacancy** ↑ up 20 bps Few completions and tenant demand for lower-cost space support a moderate shift in vacancy, placing the rate at 9.1 percent.
- Rent** ↑ up 1.9% The preservation of tight conditions enables the Inland Empire to register a 12th straight year of positive asking rent growth, which lifts the average marketed rate to \$23.90 per square foot.
- Investment** ○ Nationally low vacancy attracts out-of-state investors keen on entering new markets. The lack of completions over the past 10 years may steer these buyers to early 2000s-built listings.

## Government Agencies Reinforce Commitments; Investor Pool Augmented by Regionally Low Entry Costs

**In-state companies reshuffle while looking to reduce expenses.** Over the last two years, Sacramento’s completion total surpassed 2 million square feet, the most active period for supply additions since 2008. However, government-owned and occupied facilities and built-to-suit projects accounted for most of these projects, like the State of California Military headquarters and the Capitol Annex Expansion, subverting a large jump in availability and enabling positive net absorption. Similarly, in 2023, vacancy will inch up by only 40 basis points, marking the second-lowest increase among major California markets, due in part to a moderate pipeline. Sacramento will also maintain the second-lowest mean asking rent in the state through year-end. As companies evaluate their physical footprints and look to reduce expenses, the metro offers an opportunity for companies looking to stay in state, but relocate to a lower-cost metro. One such firm is SPI Energy Company, which last year announced its global headquarters’ move from Santa Clara to an existing property in McClellan Park. Solidigm, an international semiconductor firm, will also enter Sacramento in 2023, with 230,000 square feet of office and lab space.

**Investors target highly-occupied, mid-tier properties in suburban areas.** In 2022, Sacramento reported the lowest average sale price per square foot among major California metros. This, paired with regionally high first-year returns and a comparatively low vacancy rate, may draw in-state investors from more costly West Coast metros. Additionally, despite prolonged hybrid work schedules, recent leasing activity has been largely concentrated in Sacramento County, specifically Rancho Cordova and areas surrounding downtown. Consequently, investor interest may shift here and to Class B/C properties along the Highway 50 Corridor amid a dearth of speculative projects. Sparse construction prior to and during the pandemic helped the Highway 50 Corridor’s mid-tier vacancy rate drop below its year-end 2019 mark in the second half of 2022.

### 2023 Market Forecast

**NOMI Rank 32** Moderate vacancy expansion and a minimal construction pipeline places Sacramento above the bottom third this year.

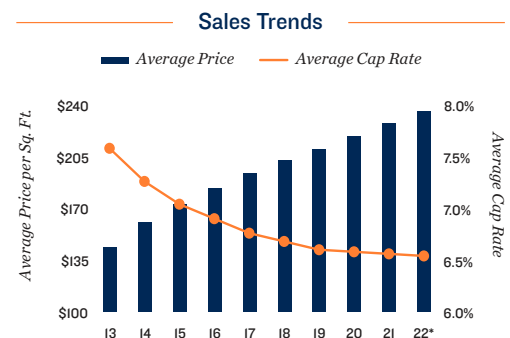
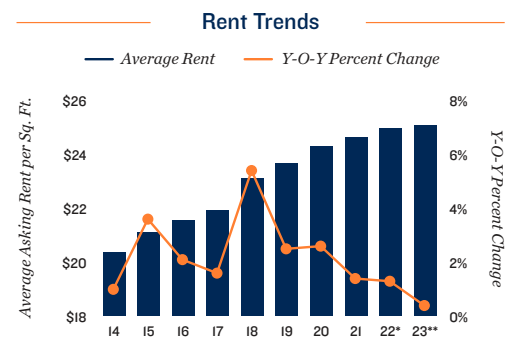
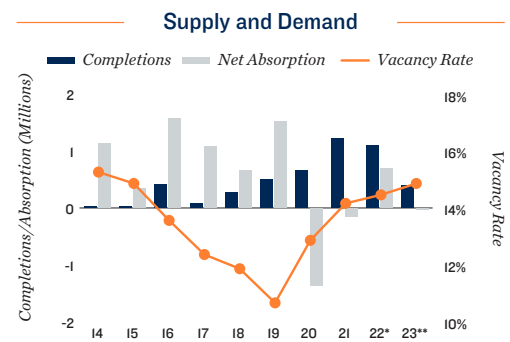
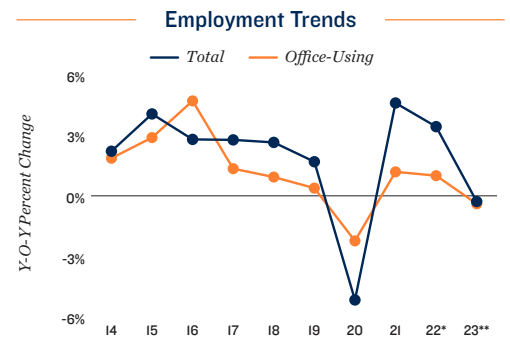
**Employment** Traditionally office-using employment will contract by around down 0.3% 800 positions this year, contributing to the overall loss of 3,000 jobs in the local workforce.

**Construction** Deliveries will be well-below last year’s completions, which 400,000 sq. ft. topped 1 million square feet. Inventory will only expand by 0.4 percent, the lowest annual change since 2018.

**Vacancy** Availability will continue its upward climb to 14.9 percent, but up 40 bps Sacramento retains the second-lowest rate in California.

**Rent** The average asking rent will rise to \$25.05 per square foot in up 0.4% 2023, a more marginal increase than the previous year’s 1.3 percent increase.

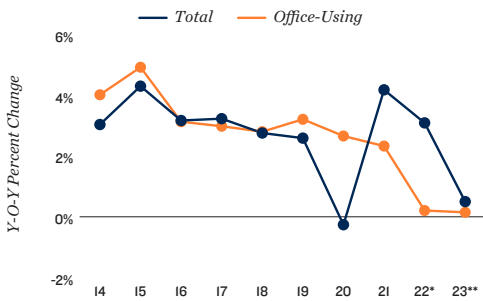
**Investment** As investor preferences shift away from Class A properties and the urban core, stabilized suburban Class B and Class C properties should see heightened deal flow.



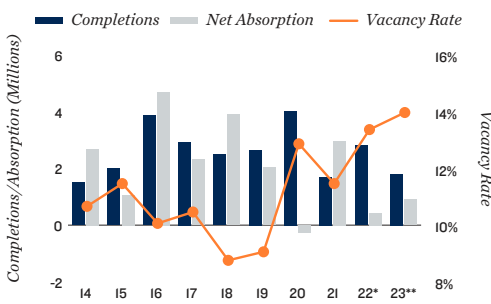
\* Estimate; \*\* Forecast  
Sources: CoStar Group, Inc.; Real Capital Analytics

## Expanding Vacancy Offset by Outer Suburban Demand; Central and Northern Submarkets Stand Out to Buyers

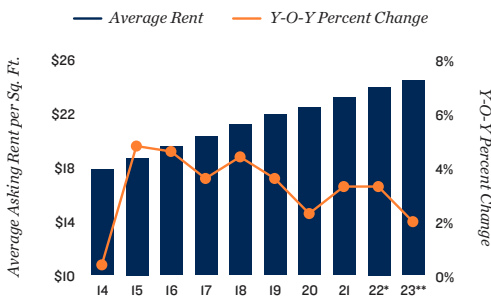
Employment Trends



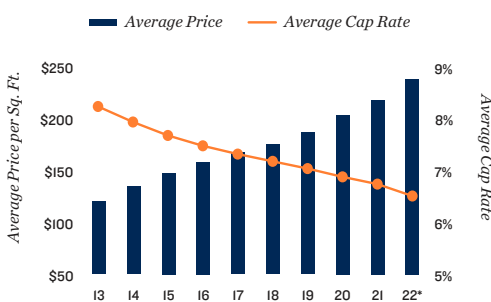
Supply and Demand



Rent Trends



Sales Trends



\* Estimate; \*\* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

**Provo remains a top target for expansionary firms.** Market fundamentals weakened last year, with availability across the Wasatch Front jumping by the third-largest margin among major U.S. metros. This year, despite continued national economic headwinds, the pace of attrition is set to slow, supported by resiliency in the metro’s largest submarket – Utah County. The Class A office segment here continues to underpin strong local fundamentals, with vacancy resting below its year-end 2019 mark. This improvement can be attributed to recently positive absorption, spearheaded by Rocky Mountain University of Health Professions’ commitment to 170,000 square feet of space proximate to SE Bay Boulevard. In conjunction with a moderate construction pipeline, strong pre-leasing activity in Utah County will help shield the existing Class A stock from new competition. This translates to in-place commitments accounting for at least 60,000 square feet of absorption in the first quarter of this year, potentially compressing the submarket’s overall vacancy below the 10 percent threshold.

**Investor preference shifts to assets well suited for medical tenants.** Contrasting sales activity from the first half of 2022, deal flow tapered during the latter portion of last year, as rising debt costs affected investors’ yield expectations. This trend will likely continue in 2023, impacting the local sales landscape. Despite this outlook, the Davis-Weber Counties and Central Valley East submarkets should record their share of transactions, spurred by recently strong property performance and both locales’ notable inventory of medical office space. Within the subsector, both submarkets boast sub-10 percent vacancy and rent growth well-above the market average. Meanwhile, metrowide medical office availability entered this year at its lowest point since 2016. Overall tight conditions in this segment and the recession resistance of most health-related tenants should stir competition among active investors for mid-tier listings in the sub-\$10 million tranche.

### 2023 Market Forecast

- NOMI Rank** 10 Salt Lake City ranks among the top 10 markets, due to steady rent growth and a solid employment base.
- Employment** ↑ Payrolls expand by 7,000 jobs in 2023, following strong hiring over the previous two years. Less than 10 percent of these new roles will be within traditionally office-using sectors.
- Construction** ↑ 1,800,000 sq. ft. Despite a smaller metrowide pipeline, Provo continues to register an elevated level of construction activity, with the area accounting for nearly one-third of this year’s supply additions.
- Vacancy** ↑ up 60 bps The pace of vacancy expansion slows substantially in 2023. Still, overall availability reaches 14.0 percent.
- Rent** ↑ up 2.0% A record volume of available office space slows the market’s rent growth trajectory this year, bringing the average asking rate to \$24.40 per square foot.
- Investment** ○ Proximity to popular residential areas and vacancy below the metro average position the South Valley to attract private investors seeking smaller properties with five or fewer tenants.


## Concentration of Recession-Resistant Industries Helps Mitigate Vacancy Concerns; Buyers Active in Northwest


Prominent public employers insulate office sector from macroeconomic shocks. San Antonio boasts a diverse office-using employment base, helmed by substantial national defense and healthcare sectors. Though the economic outlook remained fluid as of late 2022, these relatively resilient segments are expected to continue recruiting personnel into this year, limiting upward movement on vacancy. The metro’s status as the nation’s second-most prominent cybersecurity hub will facilitate an additional backstop for office demand, due to the independent nature of information security threats. Together, these factors will keep availability in the Alamo City well below other major Texas markets through the end of this year. Nevertheless, robust development activity will likely keep local vacancy significantly above the long-term average of 12.5 percent. The two-year completion total at year-end 2023 will exceed 2.5 million square feet, the most rapid pace of additions over such a span since 2009.


Active buyers pursue mid-tier listings in suburban San Antonio. Following solid deal flow in the first half of 2022, sales velocity declined precipitously during the second portion of the year as financing headwinds and fluctuating macroeconomic signals complicated the transaction process. Nevertheless, bidding activity on listed assets supported the fastest sale price growth among major Texas markets. Most buyers recently sought high-occupancy, mid-tier assets. This is an indication that investors active in the marketplace may favor well-performing, stable assets, rather than properties that require significant tenant improvements moving forward. Class B trades should be noteworthy in the North and Northwest areas of San Antonio proper, where many of the metro’s largest employers reside. These locales are also home to academic institutions — including the University of Texas at San Antonio — providing nearby employers with a sizable talent pool in which to recruit from.


### 2023 Market Forecast


**NOMI Rank** **27** Declining asking rents and new supply pressure places San Antonio at the 27th spot in the 2023 NOMI ranking.

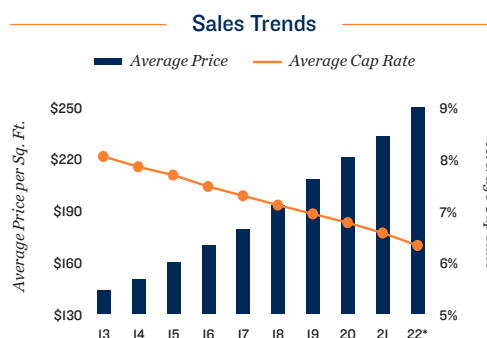
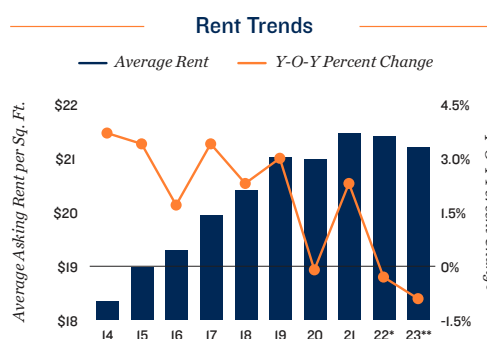
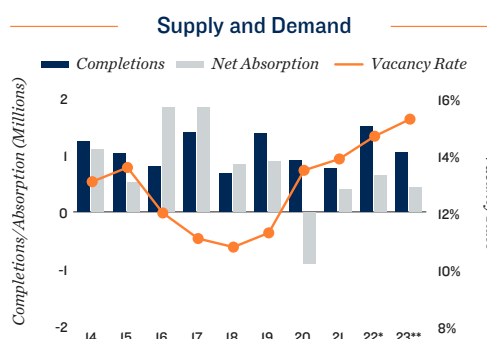
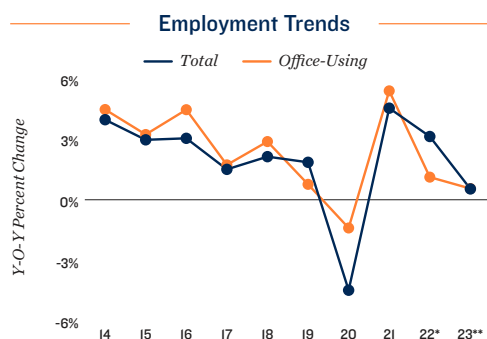
**Employment**  San Antonio’s employment market will retain positive momentum through the end of 2023, with traditional office-using sectors collectively growing by 1,500 jobs.  
up 0.5%

**Construction**  Delivery volume remains above the 1 million-square-foot mark for a second consecutive year. Roughly 360,000 square feet is scheduled to come online in New Braunfels during 2023.  
1,050,000 sq. ft.

**Vacancy**  Availability is expected to reach 15.3 percent this year, though the metro should notch positive net absorption.  
up 60 bps

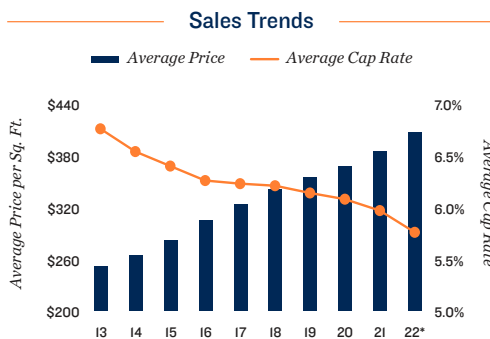
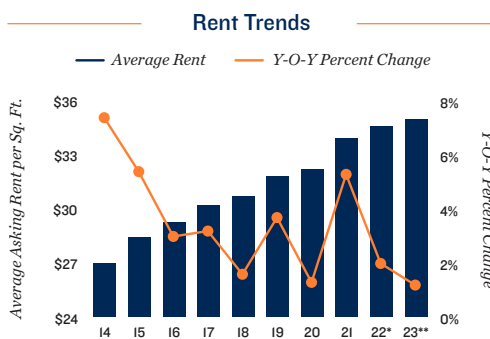
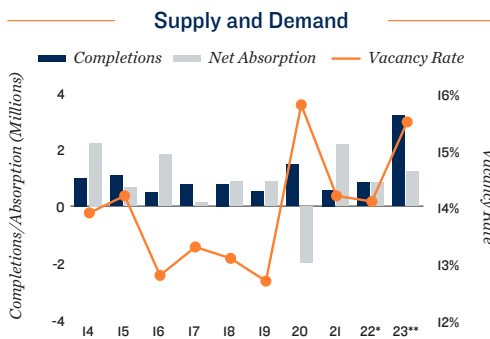
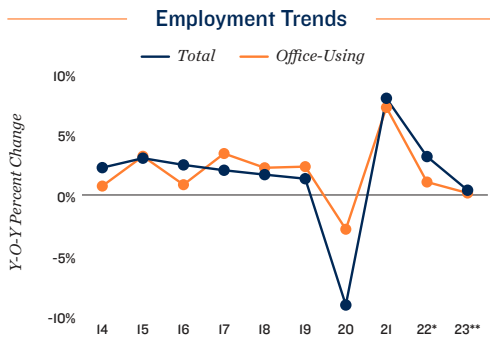
**Rent**  Rising vacancy, due to steady supply additions, will lead to another year of negative rent momentum, with the mean market rate closing out the year at \$21.20 per square foot.  
down 0.9%

**Investment**  After recording notable deal flow to close out 2022, far-out suburbs may appeal to a larger pool of active buyers focused on outlying areas of population growth and corporate expansion.



\* Estimate; \*\* Forecast  
Sources: CoStar Group, Inc.; Real Capital Analytics

## Suburban Strength Outshines CBD Challenges as San Diego Braces for Near-Term Inventory Surge



\* Estimate; \*\* Forecast  
Sources: CoStar Group, Inc.; Real Capital Analytics

**Core conditions cloud overall performance.** San Diego’s office sector enters this year notably bifurcated. Across suburban submarkets, collective vacancy is well below the long-term average. This is highlighted by steadfast tenant demand in North San Diego, which comprises the biotech strongholds of Sorrento Mesa, Torrey Pines and UTC. As the metro’s second-largest submarket by stock, the area represents one of the few locales nationwide with an office inventory larger than 25 million square feet and a vacancy rate below 10 percent. Anticipated expansions by life science firms and moderate supply pressure should preserve this standing in 2023. Elsewhere, Downtown San Diego is home to the highest CBD availability among major markets in the nation. The current active pipeline suggests vacancy here will further elevate over the near term, as 3.2 million square feet is slated for delivery in 2023, nearly 90 percent of which was available as of late last year. The Campus at Horton highlights this year’s CBD completions. However, a group of speculative projects along the downtown waterfront will also test demand for Class A space at a time when upper-tier vacancy exceeds 30 percent in the submarket.

**Upgrades and conversion projects spotlight investment strategies.** One of the West Coast’s top markets for net absorption last year, San Diego should remain an attractive option for active office investors. The success recently renovated properties have had in securing new tenants is likely to facilitate similar investment strategies moving forward. Those targeting upside potential should be most active in the I-5 and I-15 Corridors, pursuing opportunities in the traditional office hubs of Carlsbad, Scripps Ranch and Rancho Bernardo, where minimal construction activity and vacancy well below long-term averages exist. Outside of these locales, institutional buyers may pursue office-to-lab conversions in North San Diego, while private investors target properties proximate to Balboa Park that historically house law firms and other professional services companies.

### 2023 Market Forecast

- NOMI Rank** 21 San Diego falls just outside of the top 20 in the Index as annual office deliveries jump to a two-decade high in 2023.
- Employment** ↗ up 0.4% Life science and tech-related hiring enables the metro’s traditional office-using job count to rise by 0.4 percent. Overall, San Diego’s employment base will grow by 6,000 roles in 2023.
- Construction** ↗ 3,200,000 sq. ft. San Diego will stand out on a regional scale this year, as the volume of space completed exceeds the combined delivery total for the three other major Southern California markets.
- Vacancy** ↗ up 140 bps The metro registers a third straight year of positive absorption. Still, deliveries outpace demand, lifting vacancy to 15.5 percent.
- Rent** ↗ up 1.2% San Diego’s streak of positive annual asking rent growth extends to a 12th year as strong suburban performance elevates the average marketed rate to \$35.00 per square foot.
- Investment** ● Medical office vacancy sits at its lowest rate since 2005. Tight conditions and a sparse pipeline have the potential to fuel competition among active private investors for these assets.



## Flourishing Life Sciences Sector Sheds Positive Light on San Francisco’s Challenged Office Market

**Post-pandemic work strategies present headwinds.** San Francisco’s office market continues to deal with headwinds associated with the pandemic disruption. The widespread transition to remote and hybrid work schedules significantly reduced office usage rates, and many tenants like Autodesk, Slack, Salesforce, Airbnb and Lyft are subleasing existing floorplans to accommodate this new work model. These actions, paired with general uncertainty about the future, led to over 5 million square feet of negative net absorption in 2022, lifting metro vacancy to an all-time high of 21.6 percent. Although overall market conditions remain challenged, suburban locales, such as South San Francisco and San Mateo County, are in much better shape. Availability in these areas was at least 940 basis points below the market average entering this year, as many suburban office properties are catering to the growing life sciences industry. These submarkets have also recently attracted relocations from tech firms like Stripe and Zynga, who previously occupied space in the CBD. However, metrowide vacancy is expected to remain near record highs for the foreseeable future, until a significant and sustained return-to-office initiative emerges.

**Investors taking a cautious approach amid economic uncertainty.** Transaction velocity remains well below levels seen prior to the pandemic, as uncertainty about tenant demand and a challenging lending environment have kept many investors on the sidelines. These headwinds are creating large pricing gaps between buyer and seller expectations, which has slowed overall deal flow and will likely continue to do so over the coming quarters. Class A and B assets in well-performing suburban submarkets like South San Francisco and San Mateo County are garnering buyer attention, with entry costs that average around \$655 per square foot. As interest rates continue to climb, opportunistic buyers could look to high-vacancy Class C office properties, with the intention of conversion or redevelopment as they seek to maximize their upside potential.

### 2023 Market Forecast

**NOMI Rank 43** Vacancy reaching a new record high keeps San Francisco outside the top 40 in this year’s index.

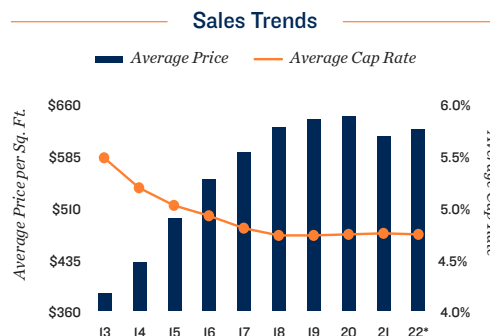
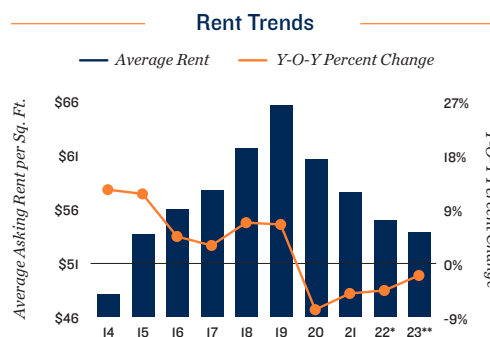
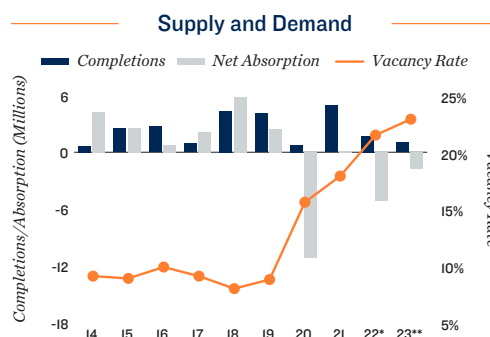
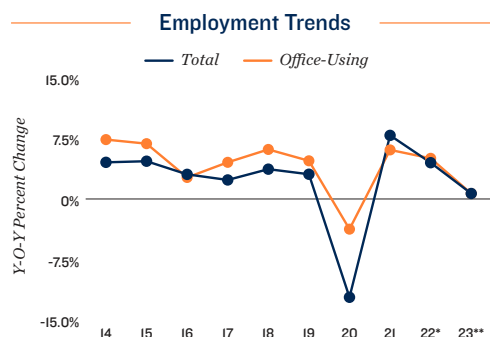
**Employment** up 0.7% Hiring slows considerably from last year’s pace, due to macro-economic headwinds. Office-using employers in San Francisco will add roughly 3,500 new positions in 2023.

**Construction** 1,050,000 sq. ft. Weakness in the office market has reduced the construction pipeline. Office inventory will increase by just 0.6 percent this year, with deliveries concentrated in San Mateo County.

**Vacancy** up 140 bps Availability continues on its upward trajectory, reaching a new record high. The rate will rise to 23.0 percent by year-end.

**Rent** down 2.0% The average asking rent in San Francisco will decrease for the fourth consecutive year, due to mild tenant demand. The mean rate is expected to fall to \$53.82 per square foot.

**Investment** Some distressed assets in the CBD may come on the market in 2023, providing value-add opportunities as local vacancy reached a record high of 26.3 percent entering this year.

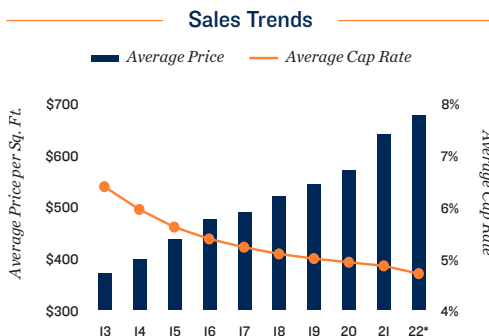
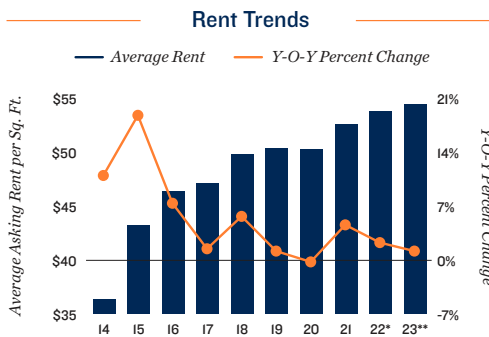
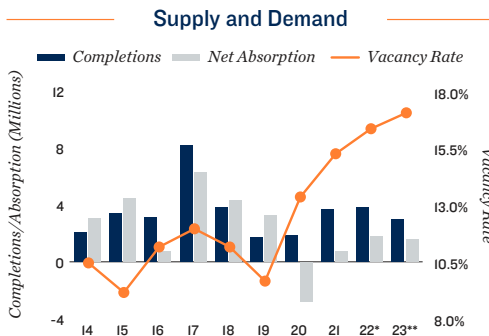
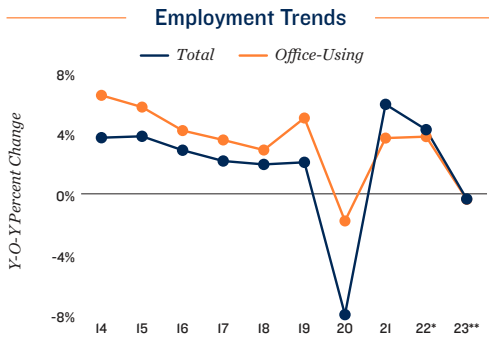


\* Estimate; \*\* Forecast  
Sources: CoStar Group, Inc.; Real Capital Analytics

## Robust Speculative Construction and a Slowing Economy Sustain Upward Pressure on Local Vacancy

**Net absorption remains in positive territory amid headwinds.** Office usage rates in the South Bay are still well below historical levels, as the metro remains largely influenced by the tech industry workforce that continues to leverage hybrid and remote work schedules. Additionally, ongoing economic uncertainty led to the announcement of hiring freezes, layoffs and a slowdown of expansion plans from some of the region's most notable employers, including Google, Apple and Meta. Many firms are reducing their office footprints in response to these headwinds, resulting in sublet space rising to an all-time high of nearly 6 million square feet entering this year. Still, San Jose's office market has held up better than neighboring markets in the region, as the Silicon Valley was the only metro in the Bay Area to record positive net absorption in 2022. Moving forward, concession usage may be on the rise due to the large amount of available space, and could potentially spur more lease transactions from tenants looking to take advantage of discounted rents. However, more than half of the 3 million square feet slated to deliver this year remains unaccounted for, and will likely continue to place upward pressure on local vacancy in the near- to mid-term.

**Economic uncertainty slows buyer activity.** Recessionary fears induced many firms to pause recruitment and terminate staff, which has negatively impacted the office sales market. This compounds the uncertainty surrounding longer-term office utilization plans, putting a weight on sector deal flow. As one of the most expensive office markets in the nation, institutions generally play a substantial role in overall transaction velocity. Trophy assets in Sunnyvale-Cupertino and Mountain View-Los Altos are frequently coveted, with these areas being home to some of the most notable employers in the region. Buyers have shown a willingness to pay a premium for properties here, as entry costs often rise above \$900 per square foot. With interest rates continuing to climb, some buyers may target outdated offices that could be converted to other asset types, such as multifamily or medical/lab space.



\* Estimate; \*\* Forecast  
Sources: CoStar Group, Inc.; Real Capital Analytics

### 2023 Market Forecast

- NOMI Rank 33** San Jose ranks 33rd in the NOMI as metrowide vacancy increases for the fourth consecutive year.
- Employment** down 0.3% Nearly 40 percent of the 4,000 jobs lost this year will come from traditionally office-using sectors, as a potential recession negatively impacts the labor market.
- Construction** 3,000,000 sq. ft. Development activity remains above the long-term average as office inventory in San Jose increases by 2.3 percent. Deliveries are concentrated in the CBD and Sunnyvale-Cupertino.
- Vacancy** up 70 bps Metro vacancy rises for the fourth consecutive year, with the rate projected to reach 17.1 percent in 2023.
- Rent** up 1.2% The average asking rate in the South Bay is projected to reach \$54.40 per square foot in 2023. San Jose is the only Bay Area metro expected to record positive rent gains this year.
- Investment** ByteDance recently committed to nearly 650,000 square feet in North San Jose, and could draw investor interest to the area if more firms follow suit and lease space nearby.


## Development Focused in Downtown Seattle and the Eastside as Investors Look North and South


**Less construction aids stretches outside central Seattle.** Tacoma and the Southend have emerged as bright spots amid a broadly beleaguered Seattle office sector. Both submarkets posted positive net absorption and contracting vacancy last year, diverging from metrowide trends. A key differentiator has been minimal construction, as development has been focused downtown and on the Eastside. That behavior holds this year, with the bulk of project deliveries slated for Lake Union, Bellevue and Redmond. These completions are designed to meet long-term, tech sector demand, although the new supply is ill-timed with the current economic cycle. While prominent leases were recently signed here by major firms, such as Meta, Amazon and Snap, immediate space needs will be outweighed by record arrivals. Some of these firms have also been relinquishing floorplans in other U.S. markets, which accentuates the potential risk for similar actions in Seattle. Operations should be more stable among Class B/C space as general economic concerns prompt many companies to look for cost-effective layouts. Rents in the Northend, Southend and Tacoma are about 30 percent below the CBD and Eastside metrics.


**Smaller locales may take trading spotlight.** The long-term investment appeal of metro offices holds, aided by an established tenant base and a strong record of sale price growth. The average per-square-foot metric nearly doubled from 2010-2019, and has advanced another 15 percent in the challenging years since. This investment demand has translated over time into substantial cap rate compression, however, which creates hurdles this year amid notably higher borrowing costs. Given constrained financing margins, well-capitalized investors may nevertheless continue to explore options in the Puget Sound this year. While the Eastside has historically been the most active submarket, last year noted a shift toward Class B and C assets to the north and south that may sustain this year, due to tighter segment operations and ample new supply pressure on Class A floorplans.


### 2023 Market Forecast

**NOMI Rank 36** The absence of rent growth and the fifth straight year of vacancy expansion place Seattle-Tacoma 36th in the rankings.

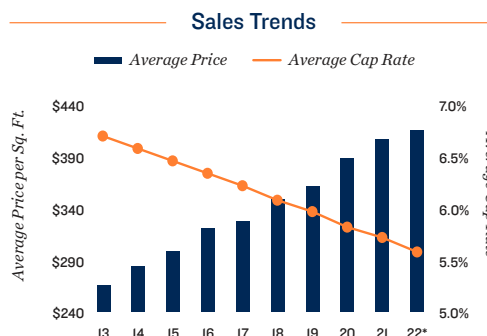
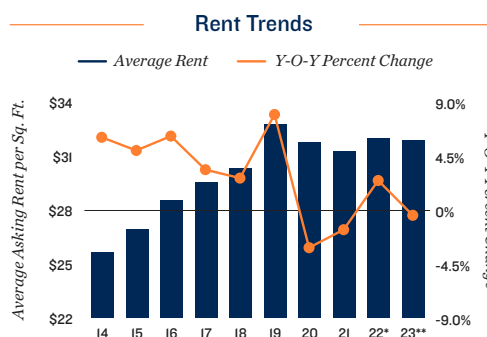
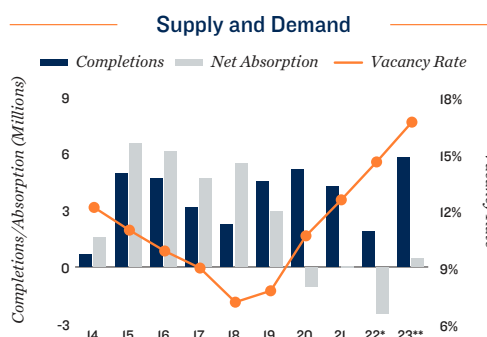
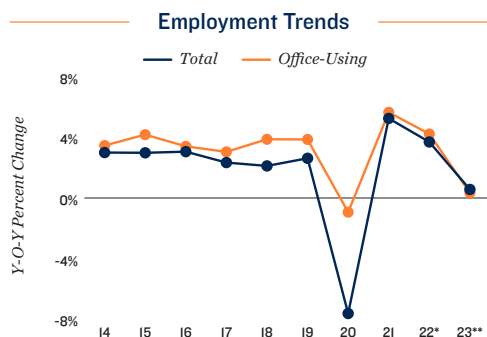
**Employment**  About one-fifth of the 12,000 jobs expected to be created by year-end are in traditional office-using fields. Segment employment will end 2023 up 9.5 percent from the 2019 level.

**Construction**  Seattle-Tacoma will post the fourth-fastest rate of inventory growth among major U.S. markets this year at 2.8 percent, representing a 15-year-plus record for the metro.

**Vacancy**  Tightening vacancy in the Southend and Tacoma is offset by increases elsewhere, lifting the metrowide rate up to 16.7 percent.

**Rent**  Mild, positive growth in Class B and C asking rents will be overshadowed by downward pressure among Class A floorplans, keeping the overall average about flat at \$31.88 per square foot.

**Investment**  Assets in Seattle's CBD and the Eastside could see interest from overseas investors, given the strong value of the dollar. The market was in the top 10 for cross-border investment last year.

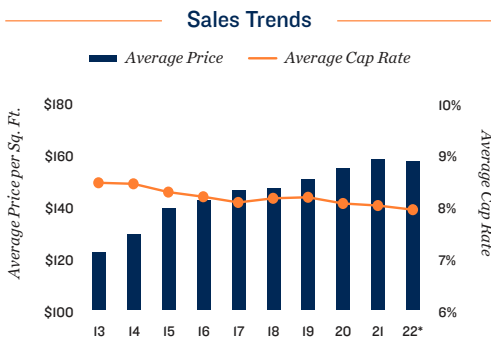
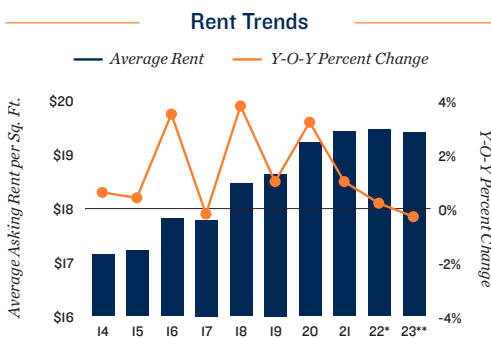
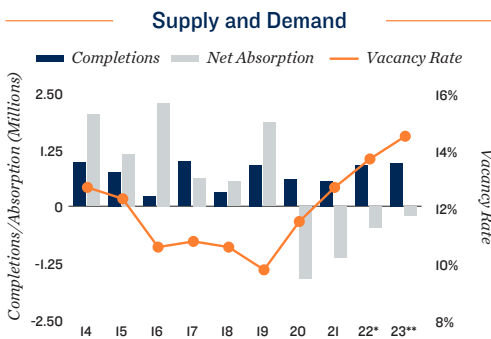
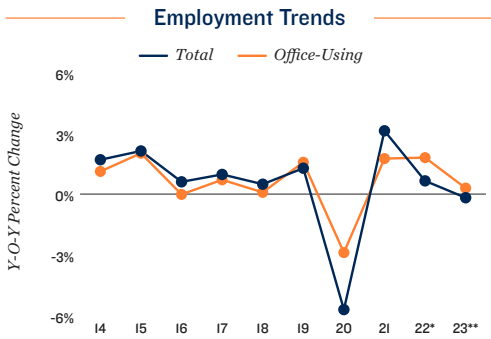


\* Estimate; \*\* Forecast  
Sources: CoStar Group, Inc.; Real Capital Analytics

## Medical Institutions Expand Downtown Footprints; Regionally High Returns an Attractant

Universities scale up in the central business district. Academic institutions have shown an interest in expanding their downtown St. Louis presence. This year, Washington University will complete its Neuroscience Research Building, accounting for more than 60 percent of the office space completed metrowide. This project is complemented by the 56,000-square-foot lease Ponce Health Sciences University signed last June as part of its new medical school located in the city. These moves have the potential to attract other healthcare-related companies to surrounding areas, specifically those looking to partner with the universities. The CBD may also attract traditional office-users looking to reduce costs, as the area offers lower asking rents than most suburban areas. In suburban locales, firms continue to re-evaluate their physical requirements, often downsizing within the same submarket amid long-term hybrid work adoption. Panera is moving its corporate headquarters to a smaller building in Fenton, while Centene Corporation has placed a large chunk of its Clayton office space up for sublease. Such moves may place upward pressure on suburban vacancy in the near term.

Major agency projects and lower entry costs present opportunities. Recent headwinds, such as hybrid work schedules and rising interest rates, may be offset in the long-run as St. Louis garners commitments from key entities. The National Geospatial-Intelligence Agency campus being built in North St. Louis is expected to be operational by 2025, and supporting organizations have already established footprints in the metro, such as the Taylor Geospatial Institute. Prominent projects like these may attract private investors that expect this activity to support demand for nearby office space. Regional buyers seeking discounted entry costs to their home markets may also be active. St. Louis' mean price point has nominally adjusted over the last four years, enabling the metro to maintain one of the highest average cap rates across major Midwest markets.



### 2023 Market Forecast

- NOMI Rank 40** Net losses in total employment, coupled with an above-average rise in vacancy, places St. Louis 40th in the 2023 Index.
- Employment** down 0.2% Despite total employment in St. Louis shrinking by 2,500 positions this year, the number of traditional office-using roles will grow by 1,000 personnel, equating to a 0.3 percent expansion.
- Construction** 950,000 sq. ft. Deliveries will expand the local inventory by 0.7 percent for the second year in a row. As of December, approximately 55 percent of space underway slated for 2023 was pre-leased.
- Vacancy** up 80 bps The metro records a fourth straight year of negative net absorption, pushing vacancy up to 14.5 percent.
- Rent** down 0.3% Vacancy reaches its highest point in more than a decade, translating to a slight decrease in the average asking rent. By the culmination of 2023, the rate will sit at \$19.40 per square foot.
- Investment** Among major submarkets, Class B/C vacancy is tightest in the CBD, where availability was sub-5 percent late last year. This standing will appeal to buyers seeking highly occupied assets.

\* Estimate; \*\* Forecast  
Sources: CoStar Group, Inc.; Real Capital Analytics

## Fundamentals Underpinned by Revived Urban Office Demand; Investor Activity Present in Outskirts

**CBD leasing activity may retain some momentum.** Noteworthy in-migration is aiding Tampa's long-term office outlook, as the metro's growing talent pool is expected to attract new corporate tenants. These companies will add to an existing roster that includes multiple Fortune 500 companies that serve as the backbone of the local economy. A reluctance by developers to overbuild this year could also aid existing office buildings, as near-term demand for space is expected to taper amid a softening economy. Recent performance suggests future demand in Florida's largest office market may be spearheaded by the core, as companies in Central Tampa absorbed 750,000 square feet of office space over the past two years. Growing demand within the central business district stems from multiple considerations. The area's sizable inventory of amenity-rich Class A office space has recently helped firms attract employees back to in-person work. Additionally, a horde of young professionals reside in locales just on the outskirts of downtown, which is quickly becoming a vast suburban sprawl, thanks to robust population growth. Rising density around Central Tampa will provide firms leasing downtown spaces with access to large talent pools, allowing these companies to be more selective when hiring.

**Yield-driven buyers look farther from the core.** As demand in Central Tampa improves, well-leased properties with cap rates below the metro average may garner active buyer interest when available. Elsewhere, locales outside the core may attract investors pursuing higher yields during a period of lifted interest rates. North Hillsborough, which reported an uptick in sales velocity last year from both private and institutional buyers, should remain a targeted suburban locale. The area's proximity to the University of South Florida gives companies with nearby operations a vast pool of young talent in which to recruit from. Additionally, the submarket's hefty vacancy rate suggests it may be a prime destination for buyers with significant renovation and re-tenanting experience.

### 2023 Market Forecast

**NOMI Rank** **5** Strong in-migration and rent growth projections solidify Tampa's ranking among the top five markets in the Index.

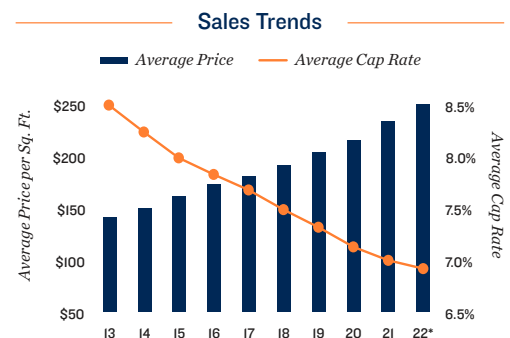
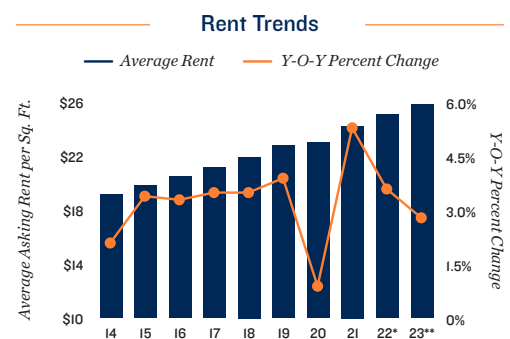
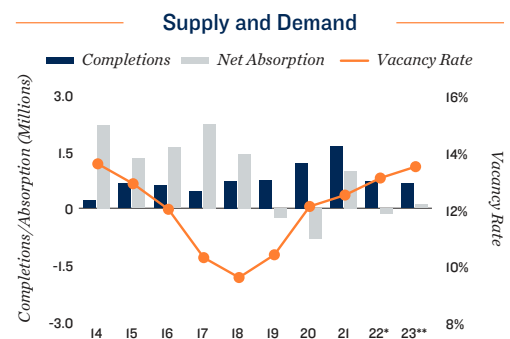
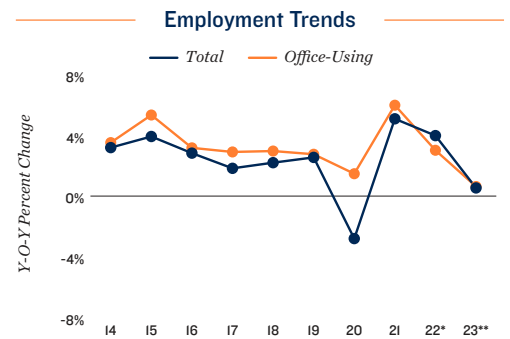
**Employment** **up 0.5%** Employment growth will slow this year as the economy softens, yet 8,000 new jobs will be added to the market. Of those positions created, 2,800 will be in traditional office-using sectors.

**Construction** **650,000 sq. ft.** For the eighth time in the past 10 years, developers increase the local office stock by less than 1 percent. The bulk of square footage underway is concentrated in the urban core.

**Vacancy** **up 40 bps** Moderate levels of construction will still outpace net absorption, pushing the vacancy rate to 13.5 percent.

**Rent** **up 2.8%** The average asking rent will rise to \$25.80 per square foot by year-end, as marketed rates continue on an uninterrupted positive year-over-year growth trend that started in 2012.

**Investment** Ten straight years of positive Class B/C absorption should draw active buyers to the segment, with Sarasota-Bradenton an attractive locale for investment, due to its low subsector vacancy.



\* Estimate; \*\* Forecast  
Sources: CoStar Group, Inc.; Real Capital Analytics

## Technology and Life Science Firms Expand in the DMV Metro Amid Macroeconomic Uncertainty

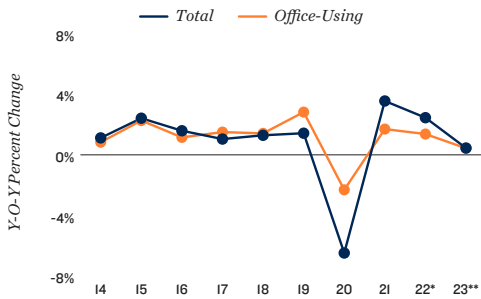
**Flight-to-quality results in net space returned to the market.** Despite a strong recovery in office-using employment in the nation's capital, tenant demand for space continues to lag behind pre-pandemic norms. Although net absorption returned to positive territory in 2022, this figure trailed new deliveries by more than 4.5 million square feet, resulting in vacancy increasing for the third consecutive year. Tenants in both the private and public sector are pushing for more space efficiency, seeking out smaller floor plans in highly-amenitized buildings, contributing to the rise in overall availability. However, firms like T-Mobile, Hughes Network Systems, In-Q-Tel, ManTech and Tetracore, Inc. are expanding their footprints, providing signs of encouragement for the local office market. Furthermore, the delivery of Amazon's HQ2 this year could create spillover demand from other tech-related firms for Class A space in high-density submarkets inside the Beltway. Several office conversions to other property types are being planned as well. While many of these projects may not come to fruition in the near term, the potential impact on vacancy could be significant, as the rate was at an all-time high entering 2023.

**Buyers target higher-end assets.** Despite the recent rise in interest rates, deal flow remained robust and neared record levels in 2022. Market volatility and increased exposure on the part of lending institutions are creating caution, however, and are likely to impact transaction velocity in the coming quarters. Tenant flight-to-quality will heighten demand for Class A assets, as properties in this segment have accounted for the majority of net absorption since the onset of the pandemic. The opening of the Metrorail Silver Line will likely draw buyer attention to the Dulles Corridor as well, while the prevalence of notable tech companies may also steer interest to National Landing and Greater Fairfax County. The growing life sciences industry in Maryland is also encouraging for investors seeking medical offices, particularly in Montgomery County and the I-270 Corridor.

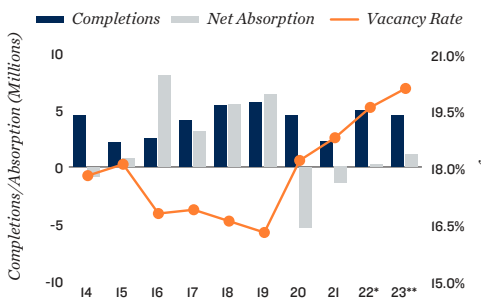
### 2023 Market Forecast

- NOMI Rank** **39** Despite a sizable employment base, muted tenant demand keeps Washington, D.C. near the bottom of the rankings.
- Employment** up 0.4% The pace of hiring will slow this year, due to macroeconomic headwinds. Nearly one-third of the 15,000 jobs added will come from traditional office-using sectors.
- Construction** 4,500,000 sq. ft. Developers will increase local office inventory by 0.9 percent this year. A pre-leasing rate approaching 85 percent should help mitigate upward pressure on availability.
- Vacancy** up 50 bps Availability will rise to 20.1 percent by year-end, the highest rate among major East Coast metros.
- Rent** up 0.5% Rent growth remains relatively flat, as many operators are expected to offer concession packages to attract new tenants. The average asking rate will inch up to \$37.80 per square foot.
- Investment** Some distressed properties may come on the market due to record-high vacancy, creating redevelopment or conversion opportunities for investors looking for upside potential.

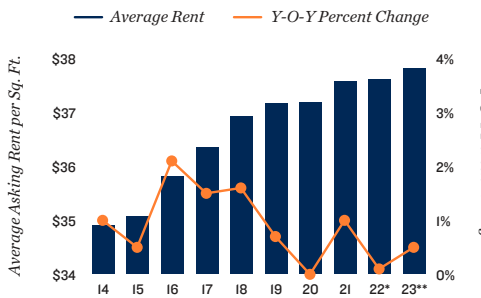
#### Employment Trends



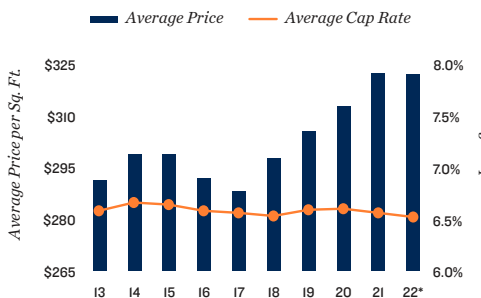
#### Supply and Demand



#### Rent Trends



#### Sales Trends



\* Estimate; \*\* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

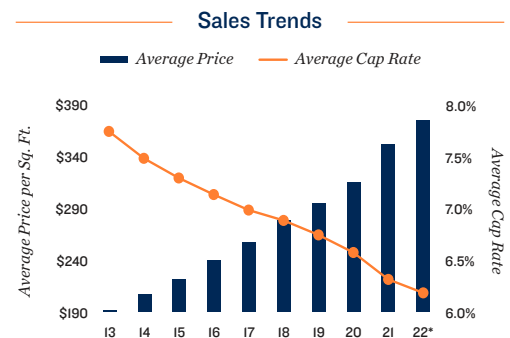
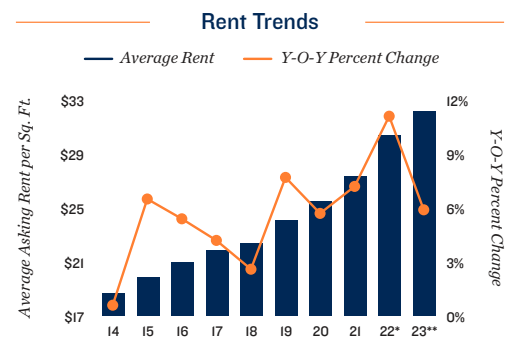
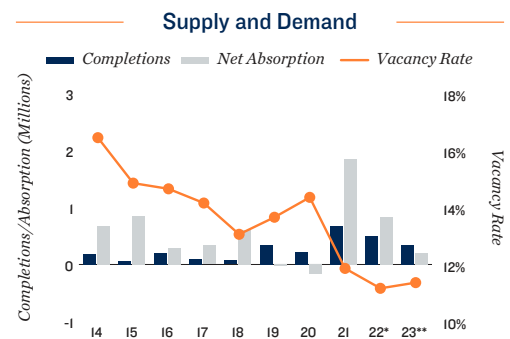
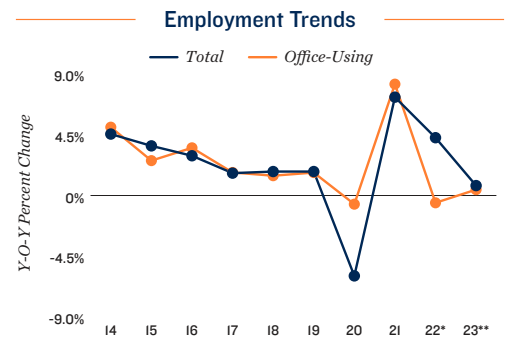
## Wall Street South Leads the U.S. in Rent Gains as Financial Services Firms Plant Flags in West Palm Beach

**Metro vacancy at an all-time low.** West Palm Beach has been the beneficiary of corporate migration, particularly from firms in the financial services industry, including BlackRock and Goldman Sachs. These relocations will enable the metro to rank among the nation's top-performing office markets for another year. At the onset of 2023, availability was at a record low of 11.2 percent, the second-tightest rate among major U.S. metros. Improved connectivity resulting from large-scale infrastructure improvements throughout South Florida, coupled with incentives from the Business Development Board of Palm Beach County, helped spur many of these expansions and relocations, and will likely continue to do so for the foreseeable future. In 2023, office fundamentals should remain healthy, despite recessionary fears as growth within the market may help lessen the impacts of a slowing national economy. Supply pressure will be minimal as well, with roughly 80 percent of the 350,000 square feet slated for delivery this year accounted for as of late 2022. Limited competition from new builds will keep vacancy near record lows, facilitating rent gains that are projected to outpace all other major markets in the nation.

**Investor interest bolstered by nation-leading fundamentals.** Standout rent growth and record-low vacancy is stimulating deal flow in West Palm Beach. While rising interest rates may slow trading activity in 2023, lower entry costs and first-year returns that are roughly 80 basis points higher than Miami-Dade on average may put an emphasis on local office properties during a period of economic uncertainty. Buyers should continue to target traditional office assets in the CBD and Boca Raton, as these submarkets are home to several of the market's largest employers. Additionally, the 55-plus age cohort accounts for nearly 40 percent of the metro's total populace. The older demographic composition and the resiliency of healthcare companies during recessionary periods is heightening demand for medical offices, particularly in North Palm Beach and Boynton-Lantana.

### 2023 Market Forecast

- NOMI Rank** 4 Robust rent growth and historically tight vacancy positions West Palm Beach among the top five markets in the Index.
- Employment** ↗ A potential recession is expected to slow employment growth up 0.7% relative to last year's gain. Of the 5,000 new jobs added in 2023, roughly 800 will be in traditionally office-using sectors.
- Construction** ↘ 350,000 sq. ft. Development falls to a three-year low, as office inventory increases by just 0.7 percent. The largest project slated for completion this year is One West Palm, delivering in the CBD.
- Vacancy** ↗ up 20 bps Despite an uptick, West Palm Beach still boasts the second-lowest vacancy rate among major U.S. metros at 11.4 percent.
- Rent** ↗ up 5.9% The pace of local rent growth remains above the metro's long-term average of 2.1 percent, as vacancy remains near record lows. The mean asking rate will rise to \$32.15 per square foot.
- Investment** ● Demand for higher-end assets could surface among active investors, in response to a flight-to-quality among firms looking to attract new talent and bring employees back into the office.



\* Estimate; \*\* Forecast  
Sources: CoStar Group, Inc.; Real Capital Analytics

**United States**

**Corporate Headquarters**

Marcus & Millichap  
23975 Park Sorrento  
Suite 400  
Calabasas, CA 91302  
(818) 212-2250  
www.MarcusMillichap.com

**Atlanta**

1100 Abernathy Road, N.E.  
Building 500, Suite 600  
Atlanta, GA 30328  
(678) 808-2700  
John M. Leonard

**Austin**

9600 N. Mopac Expressway  
Suite 300  
Austin, TX 78759  
(512) 338-7800  
Bruce Bentley III

**Bakersfield**

4900 California Avenue  
Tower B, Second Floor  
Bakersfield, CA 93309  
(661) 377-1878  
Jim Markel

**Baltimore**

One West Pennsylvania Avenue  
Suite 850  
Towson, MD 21204  
(443) 703-5000  
Brian Hosey

**Baton Rouge**

10527 Kentshire Court, Suite B  
Baton Rouge, LA 70810  
(225) 376-6800  
Jody McKibben

**Birmingham**

800 Shades Creek Parkway  
Suite 815  
Birmingham, AL 35209  
(205) 510-9200  
Jody McKibben

**Boise**

800 W. Main Street, Suite 1460  
Boise, ID 83702  
(208) 401-9321  
Adam Lewis

**Boston**

100 High Street, Suite 1025  
Boston, MA 02110  
(617) 896-7200  
Thomas Shihadeh

**Brooklyn**

One MetroTech Center, Suite 2001  
Brooklyn, NY 11201  
(718) 475-4300  
John Horowitz

**Charleston**

151 Meeting Street, Suite 450  
Charleston, SC 29401  
(843) 952-2222  
Benjamin Yelm

**Charlotte Uptown**

201 S. Tryon Street, Suite 1220  
Charlotte, NC 28202  
(704) 831-4600  
Benjamin Yelm

**Chicago Downtown**

333 W. Wacker Drive, Suite 200  
Chicago, IL 60606  
(312) 327-5400  
Joseph Powers

**Chicago Oak Brook**

One Mid-America Plaza, Suite 200  
Oakbrook Terrace, IL 60181  
(630) 570-2200  
Steven D. Weinstock

**Cincinnati**

600 Vine Street, 10th Floor  
Cincinnati, OH 45202  
(513) 878-7700  
Josh Caruana

**Cleveland**

Crown Center  
5005 Rockside Road, Suite 800  
Independence, OH 44131  
(216) 264-2000  
Grant Fitzgerald

**Columbia**

1320 Main Street, Suite 300  
Columbia, SC 29201  
(803) 678-4900  
Benjamin Yelm

**Columbus**

500 Neil Avenue, Suite 100  
Columbus, OH 43215  
(614) 360-9800  
Grant Fitzgerald

**Dallas**

5001 Spring Valley Road, Suite 100W  
Dallas, TX 75244  
(972) 755-5200  
Tim Speck

**Dallas Uptown**

3131 Turtle Creek Boulevard  
Suite 1200  
Dallas, TX 75219  
(972) 267-0600  
Tim Speck

**Denver**

1144 15th Street, Suite 2150  
Denver, CO 80202  
(303) 328-2000  
Adam A. Lewis

**Detroit**

2 Towne Square, Suite 450  
Southfield, MI 48076  
(248) 415-2600  
Steven Chaben

**Encino**

16830 Ventura Boulevard, Suite 100  
Encino, CA 91436  
(818) 212-2700  
Jim Markel

**Fort Lauderdale**

5900 N. Andrews Avenue, Suite 100  
Fort Lauderdale, FL 33309  
(954) 245-3400  
Harrison E. Rein

**Fort Worth**

300 Throckmorton Street, Suite 1500  
Fort Worth, TX 76102  
(817) 932-6100  
Mark R. McCoy

**Fresno**

6795 N. Palm Avenue, Suite 109  
Fresno, CA 93704  
(559) 476-5600  
Jim Markel

**Greensboro**

200 Centreport Drive, Suite 160  
Greensboro, NC 27409  
(336) 450-4600  
Benjamin Yelm

**Hampton Roads**

999 Waterside Drive, Suite 2525  
Norfolk, VA 23510  
(757) 777-3737  
Benjamin Yelm

**Houston**

3 Riverway, Suite 800  
Houston, TX 77056  
(713) 452-4200  
Ford Noe

**Indianapolis**

600 E. 96th Street, Suite 500  
Indianapolis, IN 46240  
(317) 218-5300  
Josh Caruana

**Inland Empire**

3281 E. Guasti Road, Suite 800  
Ontario, CA 91761  
(909) 456-3400  
Mario J. Alvarez, Jr.

**Iowa**

425 Second Street S.E., Suite 610  
Cedar Rapids, IA 52401  
(319) 333-7743  
Todd Lindblom

**Jacksonville**

5200 Belfort Road, Suite 250  
Jacksonville, FL 32256  
(904) 672-1400  
Justin W. West

**Kansas City**

7400 College Boulevard, Suite 105  
Overland Park, KS 66210  
(816) 410-1010  
David Saverin

**Knoxville**

1111 Northshore Drive, Suite S-301  
Knoxville, TN 37919  
(865) 299-6300  
Jody McKibben

**Las Vegas**

9205 W Russell Road, Suite 100  
Las Vegas, NV 89148  
(702) 215-7100  
Cameron Glinton

**Los Angeles**

1900 Avenue of the Stars, Suite 2000  
Los Angeles, CA 90067  
(213) 943-1800  
Tony Solomon

**Louisville**

9300 Shelbyville Road, Suite 1012  
Louisville, KY 40222  
(502) 329-5900  
Josh Caruana

**Manhattan**

260 Madison Avenue, Fifth Floor  
New York, NY 10016  
(212) 430-5100  
John Horowitz

**Memphis**

5100 Poplar Avenue, Suite 2505  
Memphis, TN 38137  
(901) 620-3600  
Jody McKibben

**Miami**

2916 North Miami Avenue, Suite 700  
Miami, FL 33127  
(786) 522-7000  
Harrison E. Rein

**Milwaukee**

13890 Bishops Drive, Suite 300  
Brookfield, WI 53005  
(262) 364-1900  
Todd Lindblom



**Minneapolis**

1601 Utica Avenue South, Suite 301  
Minneapolis, MN 55416  
(952) 852-9700  
Todd Lindblom

**Mobile**

208 N. Greeno Road, Suite B-2  
Fairhope, AL 36532  
(251) 929-7300  
Jody McKibben

**Nashville**

6 Cadillac Drive, Suite 100  
Brentwood, TN 37027  
(615) 997-2900  
Jody McKibben

**New Haven**

265 Church Street  
Suite 210  
New Haven, CT 06510  
(203) 672-3300  
John Horowitz

**New Jersey**

250 Pehle Avenue, Suite 501  
Saddle Brook, NJ 07663  
(201) 742-6100  
Jim McGuckin

**New Mexico**

100 Sun Avenue N.E., Suite 650  
Albuquerque, NM 87109  
(505) 445-6333  
Ryan Sarbinoff

**Oakland**

555 12th Street, Suite 1750  
Oakland, CA 94607  
(510) 379-1200  
Ramon Kochavi

**Oklahoma City**

101 Park Avenue, Suite 1300  
Oklahoma City, OK 73102  
(405) 446-8238  
Jody McKibben

**Orange County**

19800 MacArthur Boulevard  
Suite 150  
Irvine, CA 92612  
(949) 419-3200  
Jonathan Giannola

**Orlando**

300 S. Orange Avenue, Suite 700  
Orlando, FL 32801  
(407) 557-3800  
Justin W. West

**Palm Springs**

74-710 Highway 111, Suite 102  
Palm Desert, CA 92260  
(909) 456-3400  
Mario J. Alvarez Jr.

**Palo Alto**

2626 Hanover Street  
Palo Alto, CA 94304  
(650) 391-1700  
Ramon Kochavi

**Philadelphia**

2005 Market Street, Suite 1510  
Philadelphia, PA 19103  
(215) 531-7000  
Sean Beuche

**Phoenix**

2398 E. Camelback Road, Suite 300  
Phoenix, AZ 85016  
(602) 687-6700  
Ryan Sarbinoff

**Portland**

111 S.W. Fifth Avenue, Suite 1950  
Portland, OR 97204  
(503) 200-2000  
Joel Deis

**Raleigh**

101 J Morris Commons Lane, Suite 130  
Morrisville, NC 27560  
(919) 674-1100  
Benjamin Yelm

**Reno**

50 W. Liberty Street, Suite 400  
Reno, NV 89501  
(775) 348-5200  
Daniel A. Kapic

**Richmond**

4401 Waterfront Drive, Suite 230  
Glen Allen, VA 23060  
(804) 802-6900  
Benjamin Yelm

**Sacramento**

3741 Douglas Boulevard, Suite 200  
Roseville, CA 95661  
(916) 724-1400  
Daniel A. Kapic

**Sacramento Downtown**

333 University, Suite 150  
Sacramento, CA 95825  
(916) 724-1400  
Daniel A. Kapic

**Salt Lake City**

111 S. Main Street, Suite 500  
Salt Lake City, UT 84111  
(801) 736-2600  
Adam Christofferson

**San Antonio**

8200 IH-10 W, Suite 603  
San Antonio, TX 78230  
(210) 343-7800  
Bruce Bentley III

**San Diego**

12544 High Bluff Drive, Suite 100  
San Diego, CA 92130  
(858) 373-3100  
Damon Wyler

**San Francisco**

750 Battery Street, Fifth Floor  
San Francisco, CA 94111  
(415) 963-3000  
Ramon Kochavi

**Seattle**

601 Union Street, Suite 2710  
Seattle, WA 98101  
(206) 826-5700  
Joel Deis

**South Bay**

880 Apollo Street, Suite 101  
El Segundo, CA 90245  
(424) 405-3900  
Dawson Rinder

**St. Louis**

7800 Forsyth Boulevard, Suite 710  
St. Louis, MO 63105  
(314) 889-2500  
David Saverin

**Tampa**

201 N. Franklin St., Suite 1100  
Tampa, FL 33602  
(813) 387-4700  
David G. Bradley

**Tucson**

2 E Congress Street, Suite 1050  
Tucson, AZ 85701  
(520) 202-2900  
Ryan Sarbinoff

**Tulsa**

7633 E. 63rd Place, Suite 300  
Tulsa, OK 74133  
(918) 294-6300  
Jody McKibben

**Ventura**

2775 N. Ventura Road, Suite 101  
Oxnard, CA 93036  
(805) 351-7200  
Jim Markel

**Washington, D.C.**

7200 Wisconsin Avenue, Suite 1101  
Bethesda, MD 20814  
(202) 536-3700  
Brian Hosey

**Westchester**

50 Main Street, Suite 925  
White Plains, NY 10606  
(914) 220-9730  
John Horowitz

**The Woodlands**

1790 Hughes Landing Boulevard  
Suite 400  
The Woodlands, TX 77380  
(832) 442-2800  
Ford Noe

**Canada****Calgary**

602-16 Avenue Northwest  
Suite 211  
Calgary, Alberta T2M 0J7  
(587) 349-1302  
Michael Heck

**Edmonton**

10175 101 Street, Suite 1820  
Edmonton, Alberta T5J 0H3  
(587) 756-1600  
Michael Heck

**Montreal**

1000 de la Gauchetiere West  
Suite 4230  
Montreal, Quebec H3B 4W5  
(438) 844-6500  
Julien Marois

**Ottawa**

275 Bank Street, Suite 301  
Ottawa, Ontario K2P 2L6  
(613) 364-2300  
Mark Paterson

**Toronto**

200 King Street W, Suite 1210  
Toronto, Ontario M5H 3T4  
(416) 585-4646  
Mark Paterson

**Vancouver**

1111 West Georgia Street, Suite 1100  
Vancouver, British Columbia  
V6E 4M3  
(604) 638-2121  
Michael Heck

## Office Division

**Alan L. Pontius** | *Senior Vice President, Director*  
(415) 963-3000 | [al.pontius@marcusmillichap.com](mailto:al.pontius@marcusmillichap.com)

## Research Services Division

**John Chang** | *Senior Vice President, Director*  
**Peter Tindall** | *Vice President, Director of Research Operations*  
**Greg Willett** | *First Vice President, IPA Multifamily Research*  
**Luke Simurda** | *Director of Canada Research*  
**Cody Young** | *Publication Manager*  
**Jacinta Tolinos** | *Research Operations Manager*  
**Josh Craft** | *Research Associate*  
**Maria Erofeeva** | *Graphic Designer*  
**Luis Flores** | *Research Analyst II*  
**Nayomi Garcia** | *Copy Editor*  
**Jessica Henn** | *Research Associate*  
**Benjamin Kunde** | *Research Analyst II*  
**Luke Murphy** | *Research Analyst*  
**Chris Ngo** | *Data Analyst II*  
**Adam Norbury** | *Data Analyst II*  
**Benjamin Otto** | *Digital Media Coordinator*  
**Carlos Pietri** | *Research Analyst*  
**Erik Pisor** | *Research Analyst*  
**Daniel Spinrad** | *Research Analyst*  
**Musab Salih** | *Junior Data Analyst*  
**Neel Sodhi** | *Research Associate*  
**Frank Zhao** | *Research Associate*

## Contact:

**John Chang** | *Senior Vice President*  
*Director, Research and Advisory Services*  
4545 East Shea Boulevard, Suite 201  
Phoenix, Arizona 85028  
(602) 707-9700 | [john.chang@marcusmillichap.com](mailto:john.chang@marcusmillichap.com)

## Media Contact:

**Gina Relva** | *Public Relations Director*  
555 12th Street, Suite 1750  
Oakland, CA 94607  
(925) 953-1716 | [gina.relva@marcusmillichap.com](mailto:gina.relva@marcusmillichap.com)

## Senior Management Team

**Hessam Nadji** | *President and Chief Executive Officer*  
**Richard Matricaria** | *Executive Vice President, Chief Operating Officer, Western Division*  
**J.D. Parker** | *Executive Vice President, Chief Operating Officer, Eastern Division*  
**Evan Denner** | *Executive Vice President, Head of Business, MMCC*  
**Steve DeGennaro** | *Executive Vice President, Chief Financial Officer*  
**Gregory A. LaBerge** | *Senior Vice President, Chief Administrative Officer*  
**Andrew Strockis** | *Senior Vice President, Chief Marketing Officer*  
**Adam Christofferson** | *Senior Vice President, Division Manager*  
**Michael L. Glass** | *Senior Vice President, Division Manager*  
**John Horowitz** | *First Vice President, Division Manager*  
**Brian Hosey** | *First Vice President, Division Manager*  
**Ryan Nee** | *Senior Vice President, Division Manager*  
**Tim Speck** | *Senior Vice President, Division Manager*  
**John Vorsheck** | *Senior Vice President, Division Manager*

<sup>1</sup>National Office Market Index Note: Employment and office data forecasts for 2023 are based on the most up-to-date information available as of December 2022 and are subject to change.

<sup>2</sup>Statistical Summary Note: Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of December 2022. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Forecasts for employment and office data are made during the first quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.

Sources: Marcus & Millichap Research Services; American Health Care Association; Blue Yonder; Centers for Disease Control and Prevention; Centers for Medicare & Medicaid Services; Cook County Assessor's Office; CoStar Group, Inc.; Creditintell; Economy.com; Experian; Federal Reserve; Forbes; Freddie Mac; Gensler; Global Business Travel Association; Kastle Systems; Google Community Mobility Reports; Harvard Joint Centers for Housing Studies; Intel; John Burns Real Estate Consulting; major U.S. port authorities; McKinsey & Company; Moody's Analytics; Medical Group Management Association; MilwaukeeTool; Mortgage Bankers Association; National Association of Realtors; National Center for Assisted Living; National Center for Health Statistics; National Restaurant Association; Nareit; New York Times; NIC Map® Data and Analysis Service ([www.nicmap.org](http://www.nicmap.org)); NMHC; Oxford Economics; Office of the Governor Doug Ducey; Philips; Placer.ai; Portland Business Journal; Portland Monthly; Primary Care Collective; Real Capital Analytics; RealPage, Inc.; Senior Housing News; Small Business Administration; Standard & Poor's; Tech Explore; The Conference Board; The Larry A. Green Center; Thomasnet; Trepp; U.S. Bureau of Economic Analysis; U.S. Bureau of Labor Statistics; U.S. Bureau of Transportation Statistics; U.S. Census Bureau; U.S. Department of Education; U.S. Department of Labor; U.S. Transport Security Administration; U.S. Travel Association

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2023 U.S. OFFICE INVESTMENT FORECAST

2023 U.S. OFFICE INVESTMENT FORECAST

Market Name	Employment Growth <sup>2</sup>				Completions (000's of Sq. Ft.) <sup>2</sup>				Vacancy Rate <sup>2</sup>				Average Asking Rent <sup>2</sup>				Average Price per Sq. Ft. <sup>2</sup>			Market Name
	2020	2021	2022*	2023**	2020	2021	2022*	2023**	2020	2021	2022*	2023**	2020	2021	2022*	2023**	2020	2021	2022*	
Atlanta	-4.7%	5.7%	4.0%	0.5%	3,400	4,900	3,000	2,200	18.3%	18.4%	18.3%	18.7%	\$24.86	\$25.57	\$26.20	\$26.55	\$215	\$225	\$237	Atlanta
Austin	-2.1%	8.9%	3.8%	0.8%	3,300	4,300	4,800	3,500	17.0%	16.9%	18.2%	18.7%	\$27.16	\$28.69	\$29.60	\$30.10	\$413	\$445	\$468	Austin
Baltimore	-7.0%	4.1%	2.7%	0.4%	300	400	400	500	12.9%	13.4%	13.8%	14.1%	\$21.99	\$22.32	\$22.47	\$22.68	\$192	\$207	\$221	Baltimore
Boston	-8.4%	5.6%	2.9%	-0.4%	2,800	3,400	6,300	6,800	13.2%	12.7%	13.8%	15.2%	\$29.51	\$31.56	\$29.55	\$29.10	\$304	\$303	\$307	Boston
Charleston	-4.4%	4.2%	6.1%	1.2%	400	500	400	400	11.5%	10.8%	10.4%	11.0%	\$25.02	\$25.85	\$26.40	\$26.88	\$295	\$308	\$324	Charleston
Charlotte	-1.9%	2.9%	5.5%	0.8%	700	4,900	2,100	2,700	13.1%	14.2%	15.4%	16.4%	\$27.66	\$28.30	\$29.00	\$29.22	\$294	\$311	\$319	Charlotte
Chicago	-8.0%	5.6%	2.6%	0.5%	4,600	1,900	3,000	2,400	17.8%	19.2%	20.2%	20.8%	\$22.58	\$22.40	\$22.60	\$23.00	\$198	\$196	\$200	Chicago
Cincinnati	-5.2%	2.5%	0.3%	-0.3%	100	400	900	200	13.6%	14.5%	14.9%	15.4%	\$14.63	\$14.50	\$14.70	\$14.80	\$158	\$165	\$167	Cincinnati
Cleveland	-6.4%	2.4%	2.4%	-0.3%	300	500	500	700	11.0%	10.4%	11.2%	11.6%	\$16.36	\$16.44	\$16.85	\$16.95	\$111	\$120	\$125	Cleveland
Columbus	-4.0%	2.5%	1.8%	0.2%	800	600	1,000	1,300	12.0%	12.7%	14.0%	15.1%	\$15.01	\$15.29	\$15.80	\$15.65	\$129	\$136	\$144	Columbus
Dallas-Fort Worth	-3.0%	6.4%	5.0%	0.7%	4,600	5,600	4,200	7,900	20.6%	20.8%	21.2%	21.8%	\$21.82	\$21.99	\$22.50	\$22.60	\$246	\$255	\$264	Dallas-Fort Worth
Denver	-6.1%	6.1%	2.9%	-0.3%	1,500	1,700	800	1,000	17.9%	19.0%	20.2%	20.6%	\$24.16	\$23.68	\$23.65	\$24.00	\$234	\$248	\$260	Denver
Detroit	-9.3%	6.4%	1.9%	-0.2%	500	1,000	1,000	800	15.4%	15.8%	16.8%	17.2%	\$18.51	\$18.57	\$18.55	\$18.45	\$133	\$137	\$144	Detroit
Fort Lauderdale	-6.7%	5.8%	3.7%	0.9%	1,100	200	300	200	15.3%	14.7%	13.7%	13.9%	\$22.76	\$23.55	\$24.30	\$24.88	\$265	\$284	\$313	Fort Lauderdale
Houston	-5.8%	5.1%	5.1%	0.6%	2,500	3,700	2,200	3,100	22.0%	22.8%	23.7%	24.2%	\$21.18	\$20.96	\$21.00	\$21.15	\$194	\$194	\$200	Houston
Indianapolis	-3.6%	4.6%	1.2%	-0.2%	900	500	300	400	10.9%	11.4%	12.2%	12.6%	\$19.28	\$19.14	\$19.75	\$20.00	\$157	\$167	\$176	Indianapolis
Jacksonville	-1.7%	4.2%	3.5%	0.5%	600	800	900	1,600	14.4%	13.6%	13.8%	14.4%	\$20.30	\$20.45	\$21.00	\$21.35	\$187	\$200	\$215	Jacksonville
Kansas City	-4.3%	1.6%	1.5%	0.2%	1,600	1,100	800	800	11.0%	12.2%	13.0%	13.6%	\$19.45	\$18.87	\$18.95	\$19.00	\$153	\$164	\$174	Kansas City
Las Vegas	-13.3%	12.7%	4.0%	-0.4%	600	300	800	400	14.9%	13.2%	12.0%	12.5%	\$22.17	\$23.01	\$23.95	\$24.60	\$217	\$227	\$245	Las Vegas
Los Angeles	-10.4%	7.9%	2.4%	0.3%	2,000	4,000	3,300	2,100	17.0%	17.8%	19.0%	19.7%	\$37.98	\$38.75	\$38.80	\$38.65	\$494	\$498	\$508	Los Angeles
Louisville	-4.4%	3.1%	2.5%	-0.4%	300	300	100	400	8.0%	9.0%	8.9%	9.7%	\$16.64	\$17.00	\$16.97	\$17.20	\$144	\$153	\$165	Louisville
Memphis	-2.4%	2.5%	2.3%	-0.3%	0	300	300	500	12.5%	13.7%	13.3%	13.6%	\$18.26	\$18.39	\$18.15	\$18.35	\$178	\$195	\$204	Memphis
Miami-Dade	-7.7%	6.6%	6.2%	0.9%	1,300	900	1,300	1,000	14.4%	13.5%	12.6%	12.8%	\$34.73	\$37.48	\$41.00	\$42.53	\$369	\$393	\$430	Miami-Dade
Milwaukee	-6.1%	1.6%	1.9%	0.2%	800	700	300	500	15.0%	16.0%	16.1%	16.5%	\$16.16	\$15.92	\$16.10	\$16.25	\$153	\$159	\$158	Milwaukee
Minneapolis-St. Paul	-8.3%	4.5%	2.6%	-0.6%	1,000	2,200	900	800	11.9%	13.2%	14.2%	14.8%	\$16.90	\$17.16	\$17.20	\$17.41	\$163	\$165	\$165	Minneapolis-St. Paul
Nashville	-2.5%	4.9%	4.5%	0.2%	2,200	2,500	1,100	2,100	15.1%	16.0%	16.1%	16.7%	\$26.75	\$27.49	\$28.00	\$28.40	\$327	\$348	\$371	Nashville
New Haven-Fairfield County	-6.4%	3.5%	1.3%	-0.5%	300	0	300	200	17.2%	16.5%	17.7%	18.4%	\$26.91	\$27.16	\$26.80	\$26.35	\$243	\$250	\$254	New Haven-Fairfield County
New York City	-12.3%	6.8%	4.1%	0.9%	5,000	3,700	9,100	6,800	15.0%	16.6%	17.1%	17.8%	\$60.41	\$56.65	\$56.50	\$57.05	\$631	\$618	\$611	New York City
Northern New Jersey	-8.5%	5.6%	3.3%	0.5%	600	500	400	500	16.2%	16.9%	16.8%	17.1%	\$26.20	\$26.11	\$26.25	\$26.35	\$202	\$213	\$225	Northern New Jersey
Oakland	-8.9%	5.9%	3.2%	0.7%	400	200	300	100	14.3%	15.2%	16.4%	17.0%	\$39.52	\$38.67	\$37.95	\$37.70	\$373	\$378	\$377	Oakland
Orange County	-9.1%	5.8%	2.8%	-0.6%	300	800	800	200	15.5%	15.3%	17.5%	19.0%	\$29.40	\$29.16	\$28.45	\$28.00	\$376	\$397	\$399	Orange County
Orlando	-9.0%	8.6%	3.8%	0.6%	2,100	600	1,100	900	11.9%	13.1%	13.5%	14.0%	\$22.12	\$23.19	\$24.00	\$24.48	\$228	\$250	\$257	Orlando
Philadelphia	-7.2%	5.0%	3.1%	0.4%	800	1,200	1,200	2,700	14.4%	14.9%	15.3%	15.9%	\$23.41	\$23.91	\$24.10	\$24.25	\$194	\$201	\$210	Philadelphia
Phoenix	-2.9%	4.5%	3.6%	-0.2%	2,800	2,800	1,200	1,500	18.2%	18.8%	19.8%	20.9%	\$25.11	\$25.22	\$25.60	\$25.72	\$231	\$254	\$263	Phoenix
Pittsburgh	-8.7%	3.4%	2.2%	-0.8%	700	800	1,000	600	13.1%	13.9%	15.4%	16.0%	\$22.28	\$22.39	\$22.60	\$22.35	\$146	\$146	\$144	Pittsburgh
Portland	-8.7%	6.3%	4.2%	-0.3%	1,100	1,400	400	400	13.2%	14.9%	16.3%	17.0%	\$25.31	\$26.52	\$26.40	\$26.35	\$291	\$295	\$298	Portland
Raleigh	-1.3%	4.3%	5.0%	0.7%	2,200	2,200	1,100	2,000	11.7%	12.8%	13.7%	14.8%	\$26.32	\$26.69	\$27.36	\$27.70	\$242	\$260	\$278	Raleigh
Richmond	-5.0%	2.0%	1.9%	0.4%	300	200	100	300	10.6%	11.7%	13.2%	13.9%	\$19.81	\$19.74	\$20.25	\$20.45	\$177	\$186	\$191	Richmond
Riverside-San Bernardino	-4.1%	5.9%	4.4%	0.3%	600	200	300	100	10.0%	9.4%	8.9%	9.1%	\$22.14	\$22.85	\$23.45	\$23.90	\$231	\$249	\$269	Riverside-San Bernardino
Sacramento	-5.2%	4.6%	3.4%	-0.3%	700	1,200	1,100	400	12.9%	14.2%	14.5%	14.9%	\$24.28	\$24.62	\$24.95	\$25.05	\$218	\$227	\$235	Sacramento
Salt Lake City	-0.3%	4.2%	3.1%	0.5%	4,000	1,700	2,800	1,800	12.9%	11.5%	13.4%	14.0%	\$22.43	\$23.17	\$23.93	\$24.40	\$203	\$218	\$238	Salt Lake City
San Antonio	-4.5%	4.5%	3.1%	0.5%	900	800	1,500	1,100	13.5%	13.9%	14.7%	15.3%	\$20.98	\$21.46	\$21.40	\$21.20	\$221	\$233	\$249	San Antonio
San Diego	-9.1%	8.0%	3.2%	0.4%	1,500	600	800	3,200	15.8%	14.2%	14.1%	15.5%	\$32.21	\$33.92	\$34.60	\$35.00	\$367	\$385	\$406	San Diego
San Francisco	-12.2%	7.9%	4.5%	0.7%	800	5,000	1,700	1,100	15.7%	18.0%	21.6%	23.0%	\$60.54	\$57.51	\$54.90	\$53.82	\$640	\$612	\$622	San Francisco
San Jose	-8.0%	5.9%	4.2%	-0.3%	1,900	3,700	3,800	3,000	13.4%	15.3%	16.4%	17.1%	\$50.23	\$52.54	\$53.75	\$54.40	\$568	\$639	\$675	San Jose
Seattle-Tacoma	-7.6%	5.2%	3.7%	0.6%	5,100	4,200	1,900	5,800	10.7%	12.6%	14.6%	16.7%	\$31.75	\$31.23	\$32.00	\$31.88	\$388	\$406	\$415	Seattle-Tacoma
St. Louis	-5.7%	3.1%	0.7%	-0.2%	600	600	900	1,000	11.5%	12.7%	13.7%	14.5%	\$19.22	\$19.42	\$19.45	\$19.40	\$154	\$158	\$157	St. Louis
Tampa-St. Petersburg	-2.8%	5.1%	4.0%	0.5%	1,200	1,600	700	700	12.1%	12.5%	13.1%	13.5%	\$23.00	\$24.23	\$25.10	\$25.80	\$215	\$234	\$250	Tampa-St. Petersburg
Washington, D.C.	-6.5%	3.6%	2.5%	0.4%	4,500	2,200	5,000	4,500	18.2%	18.8%	19.6%	20.1%	\$37.17	\$37.56	\$37.60	\$37.80	\$313	\$322	\$322	Washington, D.C.
West Palm Beach	-6.0%	7.3%	4.3%	0.7%	200	700	500	400	14.4%	11.9%	11.2%	11.4%	\$25.48	\$27.31	\$30.35	\$32.15	\$314	\$352	\$374	West Palm Beach
<b>United States</b>	<b>-6.1%</b>	<b>4.7%</b>	<b>3.0%</b>	<b>0.5%</b>	<b>80,100</b>	<b>87,200</b>	<b>80,000</b>	<b>86,000</b>	<b>15.0%</b>	<b>15.7%</b>	<b>16.4%</b>	<b>17.1%</b>	<b>\$28.80</b>	<b>\$28.83</b>	<b>\$29.05</b>	<b>\$29.21</b>	<b>\$263</b>	<b>\$281</b>	<b>\$292</b>	<b>United States</b>

\* Estimate \*\* Forecast 2 See Statistical Summary Note on Page 64

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## ALAN L. PONTIUS

Senior Vice President, Director  
Office Division  
al.pontius@marcusmillichap.com

## EVAN DENNER

Executive Vice President, Head of Business  
Marcus & Millichap Capital Corporation  
evan.denner@marcusmillichap.com

## JOHN CHANG

Senior Vice President, Director  
Marcus & Millichap Research Services  
john.chang@marcusmillichap.com

## Offices Throughout the United States and Canada

### Research Services

4545 E. Shea Boulevard • Phoenix, AZ 85028 • 602.707.9700

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