

U.S. economy overview

By JLL as of 15 July 2021

- U.S. economic indicators point to a robust second half of 2021, with GDP predicted to rise between 6% and 8% in one of the highest figures in decades.
- Consumer and corporate confidence are strong, encouraged by pent-up spending being unleashed into the economy.
- Employment is edging closer to a full recovery, but will need international travel and tourism to reach pre-pandemic levels.

2021 is shaping up to be one of the most robust years for the United States economy in decades. Multiple central bank and private-sector entities are forecasting GDP growth through year-end of 6% to 8%, while nearly 3.3 million new jobs have been created since the beginning of the year, bringing unemployment down to 5.9%. Making this possible has been an accelerated vaccine distribution schedule, with nearly 68% of adults having at least one dose.

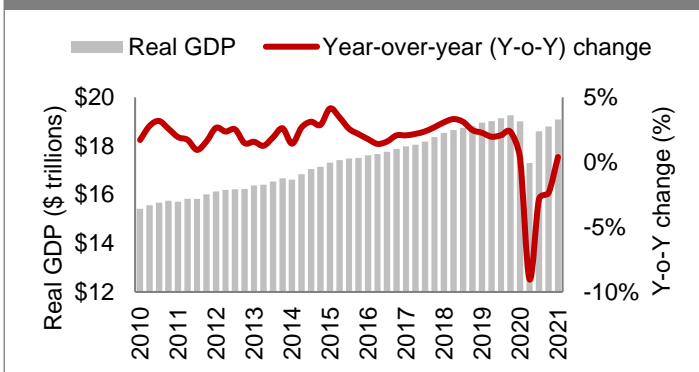
Recovery rates remain divergent by sector, however, given wide variance in interruption due to pandemic restrictions on travel and distancing requirements. While financial activities employment is only 0.8% below its pre-pandemic peak, leisure and hospitality is down by 12.9%. Most industries are between 95% and 98% recovered and are likely to approach or hit 100% by year-end, dependent upon further unlocking of travel, tourism and events.

Confidence metrics outside of the labor market are also trending upwards. Consumer confidence has jumped by 40.2 points over the first half of the year, with current readings on par with late 2019 levels. In turn, this is pushing consumer spending to new highs: retail sales hit their third consecutive month above \$620 billion in May. The CEO Confidence Index is reporting a similar level of optimism, jumping to its highest figure since 2018.

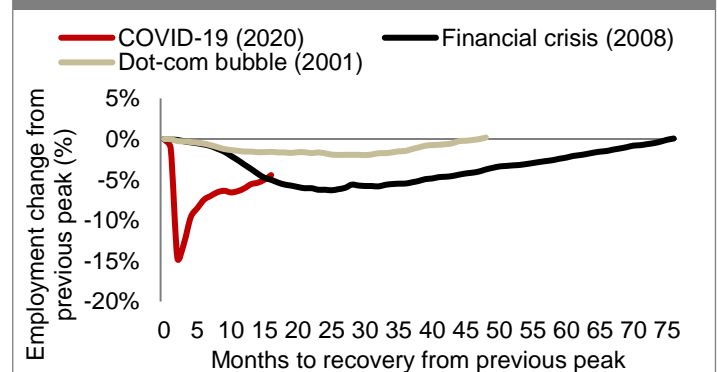
Looking forward, monetary and fiscal policy will be of particular interest. Concerns over inflation have arisen, compounded by the consumer price index spiking by 0.9% in June, up 5.4% over the year. Federal Reserve guidance suggests that this is transitory in nature, particularly given growth coming disproportionately from energy and automotive components, but it may have implications for the implementation of tighter policy in the future. Further, labor shortages also continue to hit many sectors, placing additional cost pressures on employers, while supply chains remain backlogged for many critical products.

Despite some of these challenges, the national economy is set for widespread gains throughout the remainder of the year. Additional legislative action on infrastructure stimulus is likely to yield additional gains over both the near- and longer-term, while the removal of most restrictions will open up numerous paused industries for a more holistic recovery.

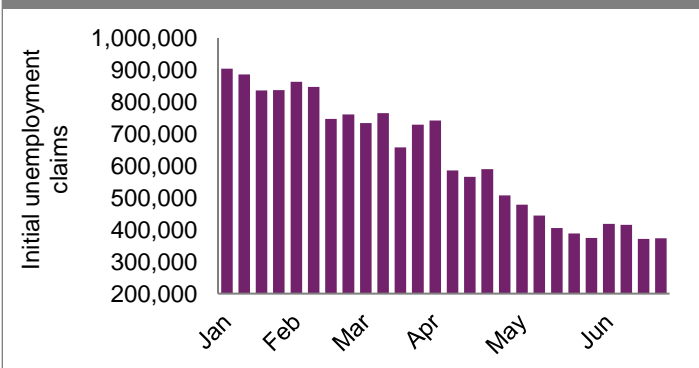
Real GDP has fully recovered as of Q1 2021



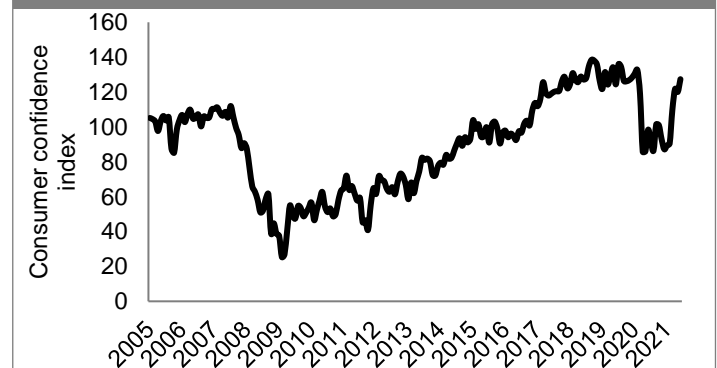
Employment is at 95.6% of pre-pandemic levels



Unemployment claims beginning to flatline at new lows



Consumer confidence is nearing 2019 highs



U.S. office overview

- Leasing volumes rose by 28.7% in Q2, spurred on by tenants becoming gradually more comfortable with making longer-term decisions.
- Net absorption was once again negative, but the rate of occupancy loss continues to slow. As a result, vacancy rose to a new high of 19.1%.
- Sublease also set a new record, but increased at a slower pace than in previous quarters. In many gateway markets, sublease inventory declined.
- A pullback in groundbreakings is bringing overall construction activity down, which will further aid in market stabilization.

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

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

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

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

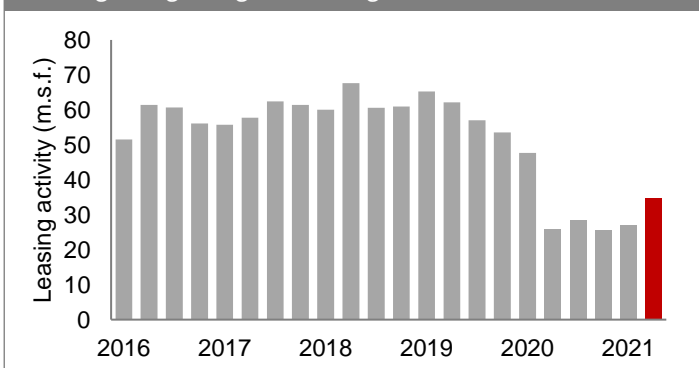
The sublease market is showing nascent signs of stabilization: despite rising to a record 158.1 million square feet, the rate of expansion of the sublease market slowed for the third consecutive quarter to just 4.5%, nearly 80% slower than at the peak of the pandemic in mid-2020. The gap between sublease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

After more than a year of uncertainty and unprecedented challenges as a result of COVID, the U.S. office market is stabilizing and slowly benefitting from the macroeconomic recovery. Falling unemployment, rising consumer spending, greater mobility and improved vaccination rates are all setting the stage for pent-up demand to be realized, particularly in gateway markets disproportionately hit by the challenges of social distancing, limited travel and density.

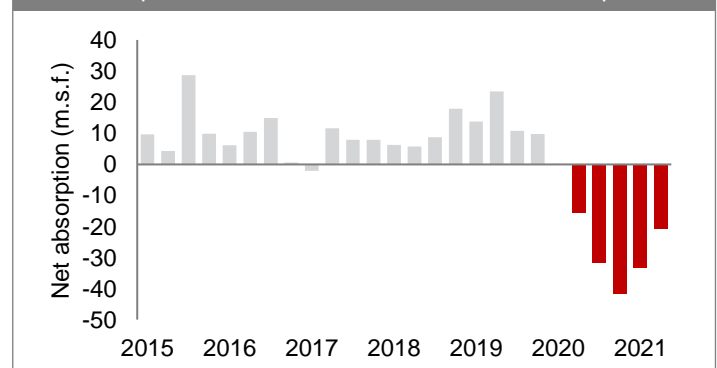
Gross leasing activity rose by 28.7% over the quarter to 34.7 million square feet in Q2, the first time that it has surpassed 30 million square feet since on the onset of COVID-19. Despite this increase, it is still 41.6% below the pre-pandemic quarterly average, underscoring the road to recovery for office leasing fundamentals. Activity rose the most in gateway markets – up 48.4% relative to Q1 2021 – but these remain the farthest from pre-pandemic levels with the exception of Seattle. On the other hand, leasing velocity in secondary “growth markets” is now 10.5% higher over the year, with Miami, Austin and Atlanta reaching their pre-pandemic levels of transaction volume in recent weeks.

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

Leasing is beginning to show signs of a rebound



Net absorption slowed for the second consecutive quarter



U.S. office overview

at 48 million square feet, staying near this figure for three quarters.

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

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

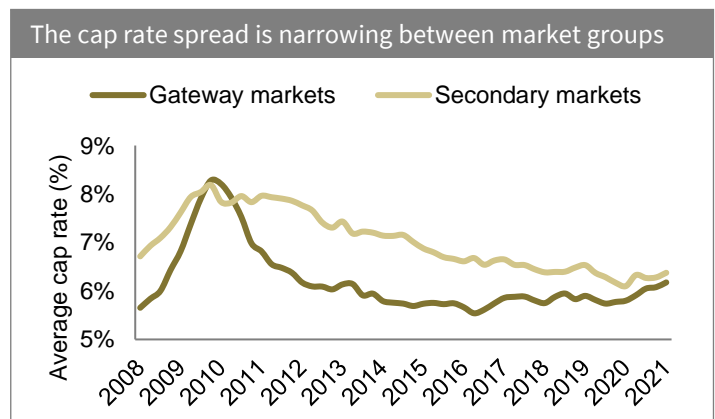
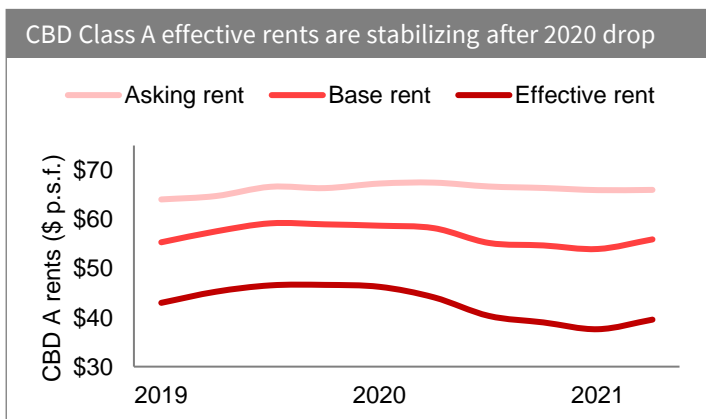
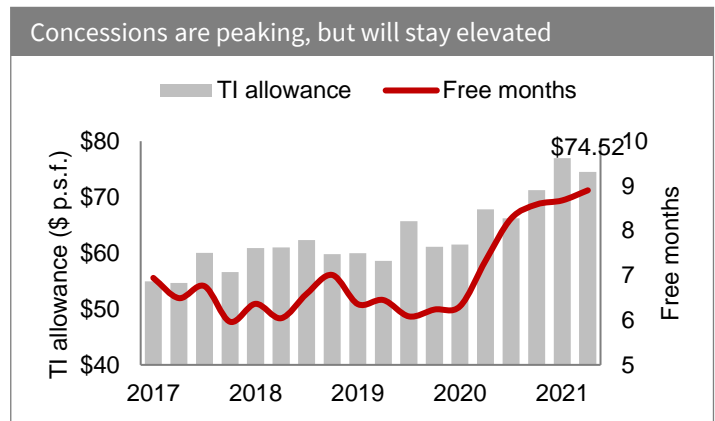
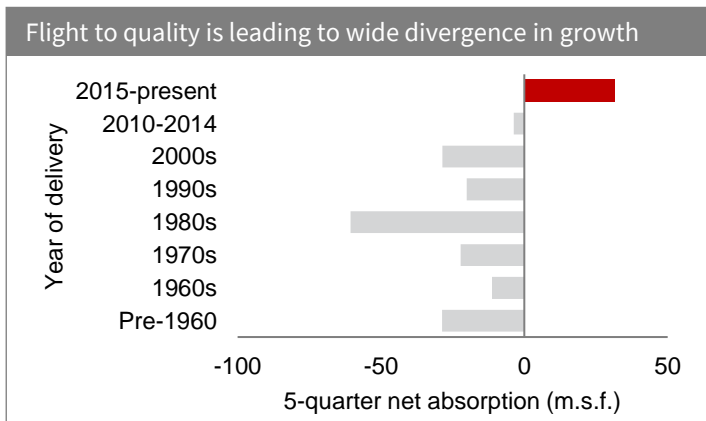
Landlords have managed to preserve average asking rents, which have barely budged throughout the course of the pandemic. Instead, they have opted to increase concessions, leading to a marked decrease in net effective rents. After rising by more than 32%, concession packages remained at Q1 levels, bringing effective rents to 14.7% below pre-pandemic levels for CBD Class A space in primary markets.

Effective rents are likely to be the last key indicator to recover, and will do so far earlier for top-quality space compared to commodity assets.

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

Developers in both gateway and secondary markets are beginning to capitalize on the need for space that meets newer tenant needs, particularly in terms of amenitization, and some are opportunistically beginning or are on the verge of starting new developments. Of the 2.1 million square feet of starts in Q2, half came from just three projects.

Investment sales were also significantly healthier in Q2, rising by 32.9% to \$25 billion and bringing year-to-date volume to \$43.8 billion, an 8% increase compared to this time last year. A 33.7% surge in sales in emerging “growth” markets – secondary cities clustered largely in the Sun Belt and Mountain West – also helped to narrow the spread in cap rates by geography to just 20 basis points, with primary and secondary markets at 6.2% and 6.4%, respectively.



Atlanta (Buckhead and Midtown)

- Among major markets, Atlanta is one of the closest to reaching pre-pandemic macro-economic levels, with particular emphasis on job creation and unemployment.
- The regional office market continues to feel the effects of rising sublease space and shifting workplace preferences, pushing vacancy to 22.6%.
- New supply and higher exposure to tech and creative users led Buckhead and Midtown vacancy to be slightly higher than the regional average.
- A slowdown in new construction will help to bring conditions into balance in the coming quarters.

Office market trends

Atlanta recorded a further 3.1 million square feet of net occupancy losses in the first half of 2021, bringing vacancy to 22.6%. Of this, 953,970 square feet (30.4%) took place in Buckhead and Midtown, leading vacancy to jump by 510 basis points to 22.6%. This is only slightly below the previous high of 24.2% and is likely to see further incremental increases before stabilizing as a result of new blocks of supply hitting the market in the coming quarters.

Headlining not only local but also national leasing headlines was Google's 396,000-square-foot expansion at 1105 W Peachtree Street NW, where it had already signed on as an anchor tenant and will be taking the remainder of the under-construction office component. Outside of this transaction, most leasing fell in the mid-size band, particularly from smaller tech and creative users in Midtown, although Spanx renewed its 93,000-square-foot headquarters in Buckhead.

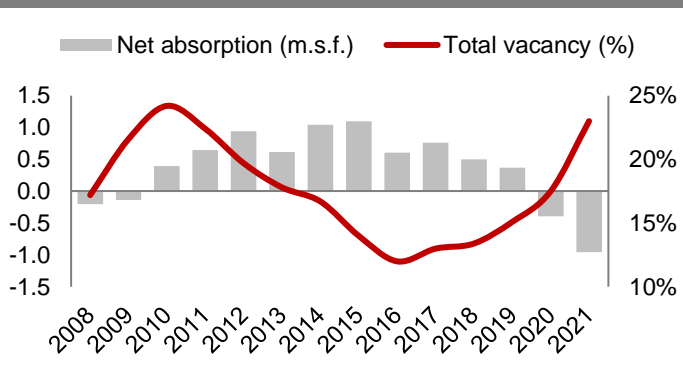
As has been the case more broadly, sales activity was relatively quiet with the exception of Blackstone's acquisition of the recently completed Anthem Technology Center from Portman and Pacific Coast for \$200 million, equivalent to \$568 per square foot. This is on par with some of the most expensive per-square-foot transactions in recent years in Atlanta, underlining sustained investor appetite for top-quality space.

Outlook

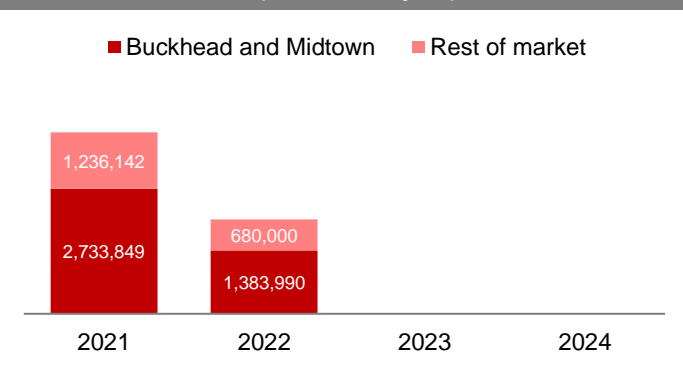
Midtown and, to a lesser extent, Buckhead remain hubs for new office development in the metro area. Of the 3.9 million square feet of space currently under construction, 61.5% is found in these two submarkets. Driving this are large-scale, anchor-led developments for major tech and financial users, most notably the under-construction 1105 W Peachtree and Midtown Union, along with the Q1 delivery of Atlantic Yards, which have been leased largely to Google, Invesco and Microsoft, respectively. Further new supply will come in the form of smaller developments in fringe urban locations such as West Midtown from developers seeking to capture demand from start-ups and media tenants. This will lead to a short-term bump in vacancy as these blocks deliver through 2022, but will also lease up faster given flight to quality.

Overall market statistics		Forecast
YTD net absorption (s.f.)	-3,138,054	▼
Under construction (s.f.)	3,970,693	▼
Total vacancy (%)	22.6%	▲
Sublease vacancy (s.f.)	2,325,599	▶
Asking rent (\$ p.s.f.)	\$30.78	▶
Concessions	Rising	▲

Vacancy is nearing previous peak



Buckhead/Midtown capture the majority of construction



Class A cap rates are relatively stable

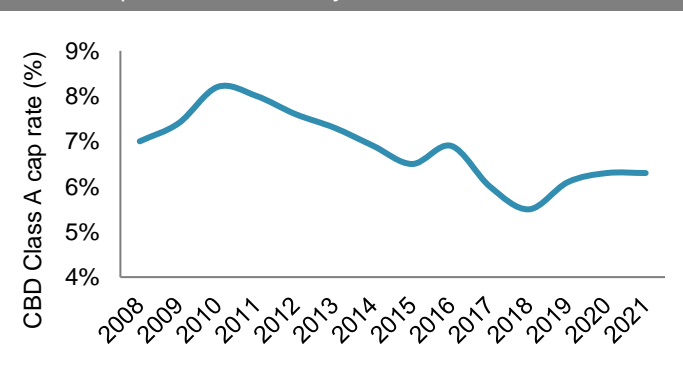


Table refers to overall market, while charts refer to Manulife submarkets

Atlanta market data

Leasing activity (Buckhead and Midtown)

Tenant	Address	Class	Lease type	Size (s.f.)
Google	1105 W Peachtree Street NW	Trophy	Expansion	396,761
Spanx	3035 Peachtree Road NE	A	Renewal	93,661
FanDuel	675 Ponce de Leon Avenue NE	Trophy	New lease	66,971
Newmark	3455 Peachtree Road NE	Trophy	Relocation	36,819
Autodesk	756 Peachtree Street NW	Trophy	New lease	25,000
Munich Reinsurance	3500 Lenox Road NE	Trophy	New lease	24,619
Dalton	889 Howell Mill Road NW	A	New lease	22,500
MessageGears	1180 W Peachtree Street NW	Trophy	New lease	22,454
USX	730 Peachtree Street NW	B	New lease	21,017
OnPay	675 Ponce de Leon Avenue NE	Trophy	New lease	20,830

Office sales (Buckhead and Midtown)

Building	RBA (s.f.)	Sales price (\$)	Price (\$ p.s.f.)	Buyer	Seller
Anthem Technology Center	352,000	\$200,000,000	\$568	Blackstone	Portman/Pacific Coast

Active development pipeline (Buckhead and Midtown)

Building	Developer	Spec/BTS	Completion	RBA (s.f.)	Anchor
1105 West Peachtree Street NW	Selig	Speculative	2021	679,153	Google, Smith Gambrell
Midtown Union	Granite	Speculative	2022	612,947	Invesco
712 West Peachtree Street NW	Portman	Speculative	2021	488,628	-
1 Phipps Plaza	Simon	Speculative	2021	340,000	-
14 th & Spring	Greenstone	Speculative	2022	312,705	-
765 Echo Street NW	Lincoln	Speculative	2022	255,338	-
Allied Studios	Jamestown	Speculative	2022	145,000	-
The Elliot	Cross-Town	Speculative	2022	58,000	-

Los Angeles (Downtown)

- Along with New York and San Francisco, Los Angeles has been one of the hardest-hit metro areas from the pandemic, with residual effects on employment and output from limited recovery in international travel and tourism.
- The dominance of traditional office users – government, finance and legal services – and separation from the sustained growth of media on the Westside and in Hollywood has left conditions stagnant in Downtown Los Angeles.
- The continued development of large-scale multifamily properties in Downtown will help to boost demand for flexible and satellite space.
- Start-up growth is likely to accelerate in the Arts District, but will be challenged by limited connectivity and distance from major tech users.

Office market trends

Although one of the hardest-hit markets economically by COVID-19, with unemployment as of May 2021 still at 10.1%, the Los Angeles office market has fared in the middle among gateway markets given a less-acute spike in sublease space. Since the onset of the pandemic, occupancy losses have totaled 8.4 million square feet (4.4% of inventory), bringing regional vacancy to 18.5%. Downtown has fared moderately better with negative net absorption of 736,963 square feet over the same time period, but pre-pandemic spottiness in demand and lower occupancy rates pushed vacancy above the market average to 19.5%.

Leasing was overwhelmingly renewals from major law firms during the first half of the year: O'Melveny & Myers, Jones Day and Skadden all renewed leases in excess of 100,000 square feet, albeit with the latter two for shorter time frames in order to delay decision-making until conditions are more certain. Of note was dairy producer Califia Farms' 27,280-square-foot entry at the Well in the Arts District, continuing a trend of smaller users moving to boutique space in the emerging submarket.

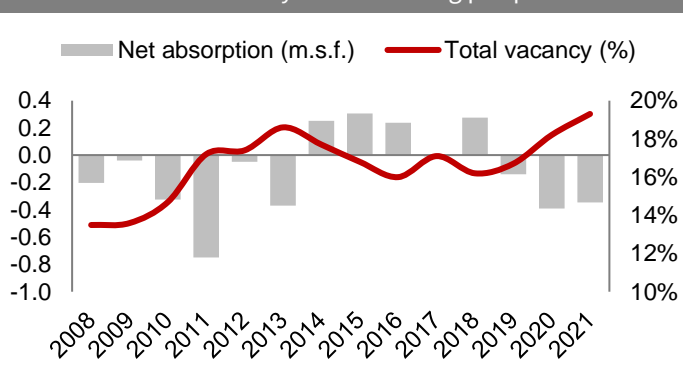
Leading investment sales in the first two quarters of 2021 was SteelWave's two-building portfolio acquisition of 500 and 540 S Santa Fe Avenue from Chalmers Equity for \$80 million, or \$564 per square foot. Formerly the headquarters of Lucky Brand, both mid-sized buildings are likely to see a bump in leasing activity as demand for mid-rise and distinctive product in urban fringe markets intensifies nationally.

Outlook

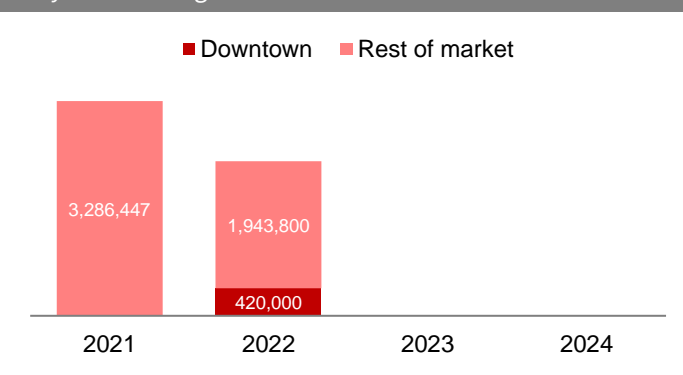
Although streaming providers continue to dominate leasing activity throughout Los Angeles as they expand to meet demand, this remains concentrated largely in the Westside and Hollywood. As a result, Downtown's recovery will be more incremental, but aided by a burgeoning local population looking to reduce commute times and working in the creative industries.

Overall market statistics		Forecast
YTD net absorption (s.f.)	-4,202,716	▼
Under construction (s.f.)	6,044,795	▼
Total vacancy (%)	18.5%	▲
Sublease vacancy (s.f.)	3,726,303	▲
Asking rent (\$ p.s.f.)	\$44.88	▶
Concessions	Rising	▲

CBD demand had already been wavering pre-pandemic



Only one building is under construction in the CBD



Class A cap rates are moderating in 2021

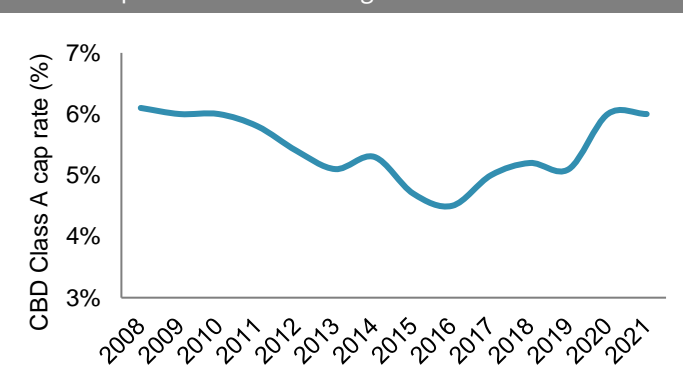


Table refers to overall market, while charts refer to Manulife submarkets

Los Angeles market data

Leasing activity (Downtown)

Tenant	Address	Class	Lease type	Size (s.f.)
O'Melveny & Myers	400 S Hope Street	A	Renewal	110,000
Jones Day	555 S Flower Street	Trophy	Renewal	109,120
Skadden	300 S Grand Avenue	Trophy	Renewal	104,000
Clark Hill	555 S Flower Street	Trophy	New lease	40,140
Nossaman	777 S Figueroa Street	Trophy	Renewal	35,000
Califia Farms	1019 E 4 th Place	A	New lease	29,440
Psomas	555 S Flower Street	Trophy	Renewal	27,280

Office sales (Downtown)

Building	RBA (s.f.)	Sales price (\$)	Price (\$ p.s.f.)	Buyer	Seller
500 S Santa Fe Avenue	91,153	\$48,000,000	\$527	SteelWave	Chalmers
540 S Santa Fe Avenue	50,675	\$32,000,000	\$633	SteelWave	Chalmers
717 W Temple Street	54,807	\$15,400,000	\$281	CCF	First City
1122 Wilshire Boulevard	16,680	\$7,400,000	\$441	Gary Dordick	Lee Lipscomb

Active development pipeline (Downtown)

Building	Developer	Spec/BTS	Completion	RBA (s.f.)	Anchor
Herald Examiner Building	Georgetown	Speculative	2022	470,000	ASU Enterprise Partners

New Jersey (Hudson Waterfront and the Meadowlands)

- New Jersey remains one of the softest markets nationally, posting a record high vacancy of 27.3% on the back of 2.9 million square feet of occupancy losses in the first half of the year.
- Hudson Waterfront and Meadowlands office dynamics are marginally better than New Jersey as a whole, but are still largely tenant-favorable.
- Mid-sized transactions were predominant, leading to incremental but modest changes in absorption and vacancy.
- Continued population and corporate flows to lower-cost geographies will place additional pressure on landlords to maintain tenancies.
- Finance and associated professional services have been responsible for most leasing so far in 2021.

Office market trends

New Jersey's office market continues to feel the dual-edged effects of trends from both before and after the onset of COVID-19. Vacancy remains among the highest nationally as large-scale corporate suburban expansion favors more affordable markets in the Sun Belt, while finance, tech, media and creative users prefer New York for talent attraction and retention purposes.

Conditions are similarly tenant-favorable in both the Hudson Waterfront and Meadowlands submarkets, albeit with slightly lower vacancy. Pandemic-induced occupancy losses have surpassed 1.4 million square feet in the Hudson Waterfront, while leasing is overwhelming in the 20,000-40,000-square-foot size bracket. Citadel, CITCO and Apprentice.io all took on more than 30,000 square feet of space, with residual activity from smaller renewals rounding out the first half of the year.

On the other hand, the Meadowlands registered two leases larger than 40,000 square feet keeping conditions more in balance: vacancy dropped slightly to 21.1%, although rents held steady. ZT Systems subleased 64,603 square feet at 200 Plaza Drive, while Michael Kors renewed its 43,353-square-foot presence at 1 Meadowlands Plaza.

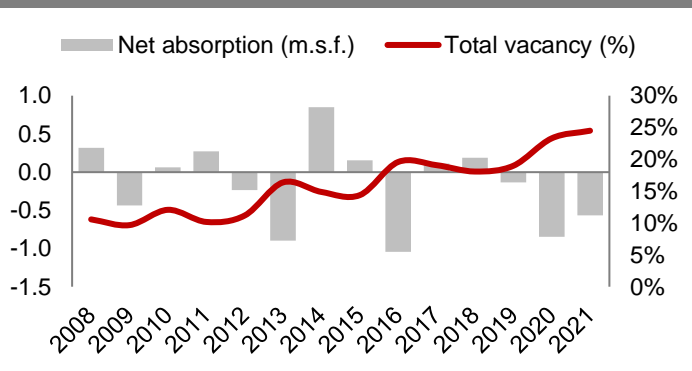
No sales of more than \$5 million took place during the first six months of the year in either submarket, in part due to three large sales taking place in early 2020. Similarly, the active development pipeline is now empty with the delivery of the Offices at Maxwell Place in May, which will help to allay additional oversupply concerns.

Outlook

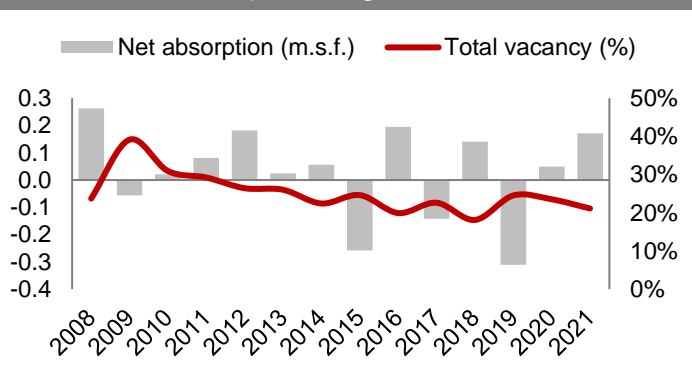
The Hudson Waterfront and the Meadowlands will remain subdued moving forward, although possibly benefitting from the need to create distributed workforce models to reduce commute times for employees as newer ways of working are introduced in the aftermath of the pandemic.

Overall market statistics		Forecast
YTD net absorption (s.f.)	-2,841,606	▼
Under construction (s.f.)	121,000	▼
Total vacancy (%)	27.3%	▲
Sublease vacancy (s.f.)	7,737,841	▲
Asking rent (\$ p.s.f.)	\$29.10	▼
Concessions	Rising	▲

Hudson Waterfront vacancy rose, but slower than in 2020



Meadowlands vacancy is holding firm



No office sales have taken place in 2021

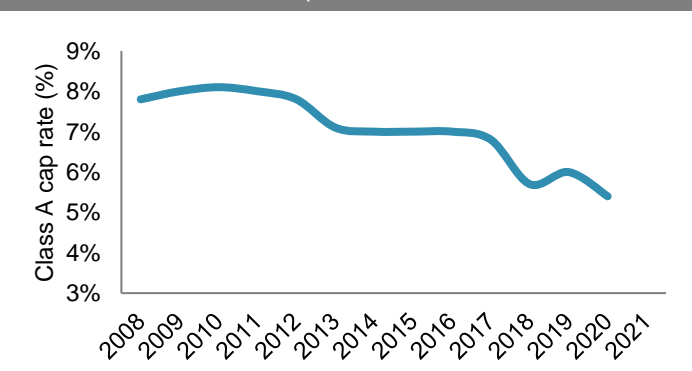


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New Jersey market data

Leasing activity (Hudson Waterfront and the Meadowlands)				
Tenant	Address	Class	Lease type	Size (s.f.)
ZT Systems	200 Plaza Drive	B	New lease	64,063
Michael Kors	1 Meadowlands Plaza	A	Renewal	43,353
Citadel	30 Hudson Street	A	New lease	37,150
CITCO	Harborside Plaza 10	A	Renewal	34,781
Apprentice.io	101 Hudson Street	A	New lease	31,960
Risk Management	Waterfront Corporate Center II	A	Renewal	29,000
Penn Jersey Advance	1 Harmon Plaza	B	New lease	19,337
BMO Capital Markets	Harborside Plaza 10	A	Renewal	14,656
Christian Dior	Harborside Plaza 5	A	New lease	12,300
New Jersey Transit	2 Hudson Place	B	New lease	11,168

Northern Virginia (Fairfax Center and Fairfax City)

- As with the U.S. as a whole, Northern Virginia experienced a slower quarter of negative net absorption in Q2 than Q1.
- Large renewals from major defense contractors kept leasing volume buoyant, but these have taken place outside of Fairfax.
- Fairfax is challenged by a lack of new product and limited transit accessibility, both of which are critical for tenant preferences in Northern Virginia.
- Small users remain the only ones transacting in these specific submarkets.
- Unlike Northern Virginia overall, occupancy barely changed in Fairfax during the first half of 2021.

Office market trends

Although benefitting from a counter-cyclical industry profile and insulation from the federal government, Northern Virginia is still experiencing residual effects from widespread remote work and large-scale return to work targeted for mid-September. Net absorption in the first half of 2021 hit -3.2 million square feet, bringing total losses since the onset of COVID-19 to almost 5.7 million square feet and vacancy to 22.5%. Unlike many markets, however, this is not a record high, as Northern Virginia experienced a wave of rightsizing in the early 2010s that brought vacancy to 25.1% in 2014.

Large leasing activity remains limited to select segments of the market, most notably the Toll Road, leaving Fairfax with sub-20,000-square-foot transactions over the course of 2021. Of note was Zeta renewing with expansion at 10302 Eaton Place, while Tiber Creek, Future Technologies and PE Systems all renewed, in most cases in the form of short-term extensions as they await further clarity over market conditions upon reopening.

Other areas of the local office market – investment sales and development – are even more subdued. Fairfax experienced only one sale larger than \$5 million: the Premier Corporate Center trading hands for \$12 million, or \$115 per square foot. Construction activity is still non-existent in the city, as developers opt for more accessible locations. With flight to quality driving occupancy trends, Fairfax’s lack of new product will make additional leasing challenging.

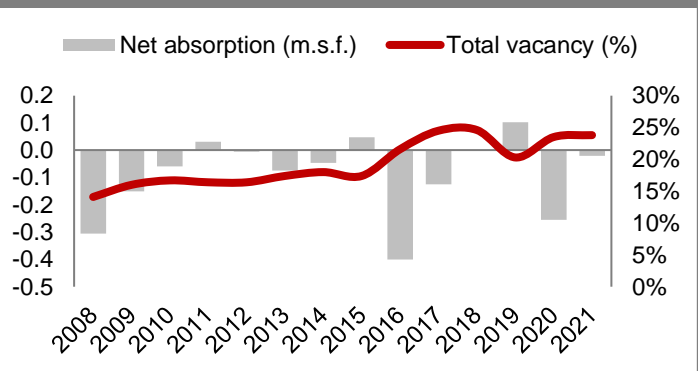
Outlook

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

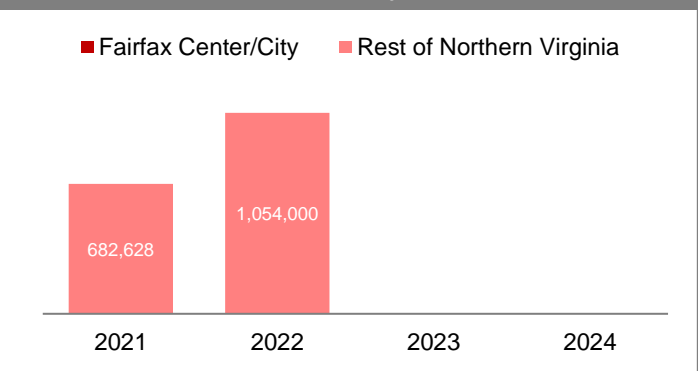
As tenants evaluate future space needs and look to prioritize health and wellness, among other amenities, the market could see a bifurcation and flight-to-quality, with newer product outperforming.

Overall market statistics		Forecast
YTD net absorption (s.f.)	-3,168,683	▼
Under construction (s.f.)	1,736,628	▼
Total vacancy (%)	22.5%	▲
Sublease vacancy (s.f.)	2,449,156	▲
Asking rent (\$ p.s.f.)	\$35.85	▶
Concessions	Rising	▲

Vacancy is stabilizing just below 24%



New construction has shifted away from Fairfax



Class A cap rates have had little movement this cycle

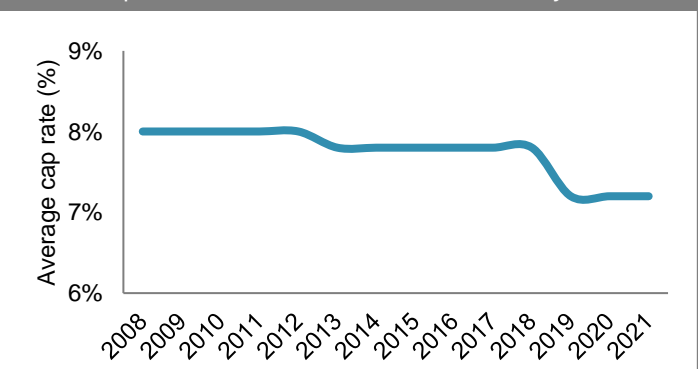


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Northern Virginia market data

Leasing activity (Fairfax Center and Fairfax City)

Tenant	Address	Class	Lease type	Size (s.f.)
Tiber Creek Consulting	12015 Lee Highway	B	Renewal	19,926
Zeta	10302 Eaton Place	A	Renewal	19,002
Product Office Solutions	11166 Fairfax Boulevard	B	New lease	15,053
Zeta	10302 Eaton Place	A	Expansion	13,740
Future Technologies	12600 Fair Lakes Circle	B	Renewal	11,281
PE Systems	10201 Lee Highway	C	Renewal	10,196

Office sales (Fairfax Center and Fairfax City)

Building	RBA (s.f.)	Sales price (\$)	Price (\$ p.s.f.)	Buyer	Seller
Premier Corporate Center	104,490	\$12,000,000	\$115	Premier	Siber Systems

Orange County (Irvine)

- Macroeconomic indicators paint to a more positive picture for Orange County than Los Angeles, with unemployment falling to 5.9% as more than 92,100 jobs have been created in the first half of the year.
- Orange County's pandemic-induced office occupancy declines currently stand at roughly 401,220 square feet, with negative net absorption slowing markedly in 2021.
- Irvine is largely in line with the county as a whole in terms of most office metrics: vacancy is only 30 basis points lower (16.5% vs. 16.8%) for Manulife submarkets than the market overall.
- Landlords are holding asking rents firm, opting instead to keep concessions elevated.
- There is no immediate supply-side concern in terms of development in Irvine specifically, as the last of the current cycle's new construction is on the verge of delivery.

Office market trends

Over the course of the pandemic, Orange County's office market has experienced a total of 401,220 square feet of negative net absorption, pushing vacancy from 13.4% to 16.8% as of Q2 2021. This has disproportionately come from a 956,000-square-foot increase in sublease availability, although the rate of growth in sublease remains below that of gateway geographies. Irvine specifically modestly outperformed the county overall, with net absorption of just -0.1% of inventory compared to the regional average of -1.2%. As a result, Irvine's vacancy rate of 16.5% remained below that of the county.

Leasing velocity also increased somewhat in the first half of 2021. CoStar's relocation to Spectrum Terrace, currently under construction, with a 114,875-square-foot anchor lease was by far the largest transaction of 2021 so far and is emblematic of the accelerating trend of flight to quality seen nationally. U.S. Bank, Alliant, Linksys and Rivian all also leased more than 40,000 square feet during the first two quarters of the year, with smaller renewals further boosting figures.

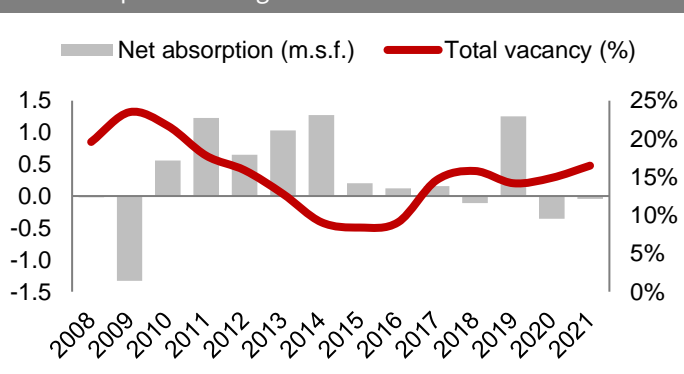
On the other hand, investment sales remained incredibly muted despite investors' search for yield and affordability. Only one deal larger than \$5 million – BLB's purchase of 40 Tesla for \$12.8 million – has been executed so far in 2021. However, this was still notable for its \$665-per-square-foot valuation, similar to much top-end sales in Newport Beach, Costa Mesa and Aliso Viejo.

Outlook

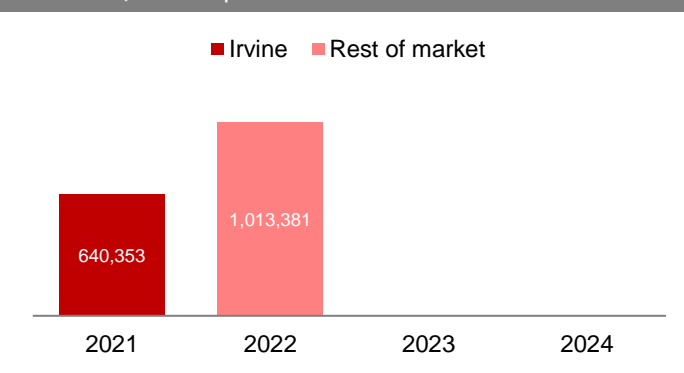
Conditions are likely to return to equilibrium faster in Irvine than the rest of Orange County, which is also expected to recover better than much of California and the U.S. overall. Supporting this remains the relatively muted pipeline, which will fully deliver upon the completion of Spectrum Terrace later this year. As a result, landlords will be able to ease concession packages heading into 2022.

Overall market statistics		Forecast
YTD net absorption (s.f.)	-1,115,439	▶
Under construction (s.f.)	1,013,381	▼
Total vacancy (%)	16.8%	▲
Sublease vacancy (s.f.)	1,727,043	▲
Asking rent (\$ p.s.f.)	\$36.48	▶
Concessions	Rising	▲

Net absorption nearing 0 after a modest 2020 decline



After 2021, no new product will deliver in Irvine



Class A cap rates unmoved in 2021 so far

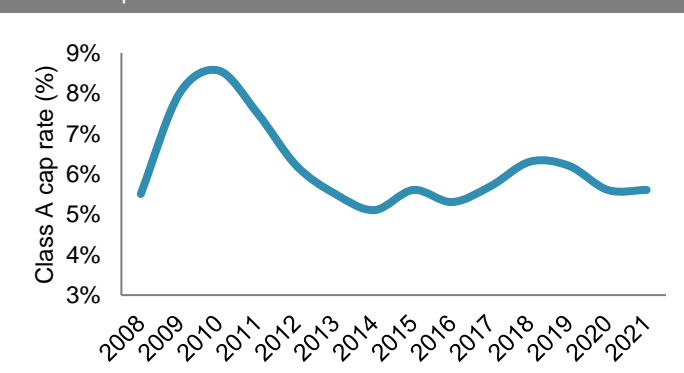


Table refers to overall market, while charts refer to Manulife submarkets

Orange County market data

Leasing activity (Irvine)

Tenant	Address	Class	Lease type	Size (s.f.)
CoStar	17600 Laguna Canyon Road	A	Relocation	114,875
U.S. Bank	3121 Michelson Drive	A	Renewal	51,915
Alliant	18100 Von Karman Avenue	A	New lease	48,944
Linksys	121 Theory	B	Renewal	44,240
Rivian	9740 Irvine Boulevard	B	New lease	43,323
Midas	48 Discovery	B	New lease	26,920
Rate Plus	1920 Main Street	A	New lease	25,514
New York Life	2020 Main Street	A	Renewal	24,041
Burnham Benefits	2211 Michelson Drive	A	Renewal	20,864
UBS	20 Pacifica	A	Renewal	20,634

Office sales (Irvine)

Building	RBA (s.f.)	Sales price (\$)	Price (\$ p.s.f.)	Buyer	Seller
40 Tesla	19,200	\$12,800,000	\$665	BLB	Quaranta/Harding

Active development pipeline (Irvine)

Building	Developer	Spec/BTS	Completion	RBA (s.f.)	Anchor
Spectrum Terrace	Irvine Company	Speculative	2021	374,205	CoStar, TGS

Sacramento (overall)

- Among West Coast markets, Sacramento has weathered the pandemic with more resilience and less volatility.
- Regional unemployment of 6.3% is modestly above the Bay Area, but well below Los Angeles (9.1%), with nearly two-thirds of lost jobs recovered.
- Health, government and associations remain the core drivers of the market from a leasing standpoint, mostly in the form of renewals.
- Two renovation projects are currently underway in the CBD, benefitting from large-scale urban renewal in recent years.
- Current construction volumes, combined with a relatively low rate of sublease expansion, bode well for recovery moving forward.

Office market trends

The Sacramento office market continues to be more stable than most of its West Coast peers as a result of generally lower volatility and foundations in government, health and non-profit tenants compared to the higher tech, media and entertainment exposure in San Francisco, Los Angeles and Seattle. As a result, vacancy is beginning to stabilize below 17.5% and has not surpassed its financial crisis peak of 24.5%, while asking rents are flat and concessions only moderately rising.

At the submarket level, Class A occupancy growth has shifted into positive territory for the Highway 50 Corridor and Point West, with only marginally negative absorption in the CBD, bringing vacancy for quality assets in these submarkets under 12%. This is aligned with leasing and investment activity concentrating in similar locations, such as the California Department of Corrections' 96,000-square-foot renewal at Lake Natoma Office Park, the largest so far this year, as well as Sutter Health at the eastern edge of Downtown Sacramento and Capital Public Radio in the heart of the CBD.

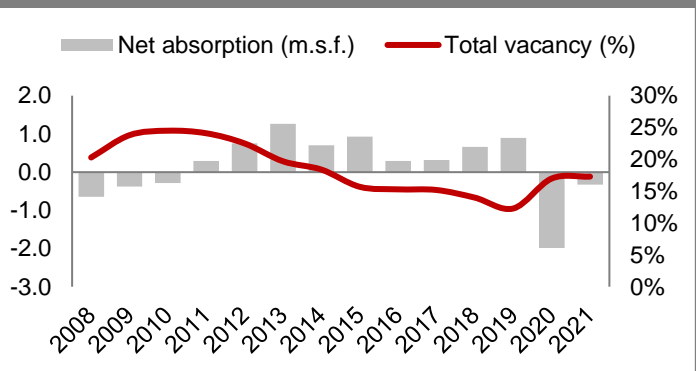
Numerous mid-sized sales helped to keep investment activity relatively buoyant in the first half of the year, as sales volumes hit \$166.1 million. Leading this were Nome's two-building acquisition of 1625 and 1747 N Market Boulevard for \$57.5 million and Kingsbarn purchasing the Olympus Corporate Center for \$45.5 million. Yields have been similarly consistent, wobbling between 6.4% and 7%.

Outlook

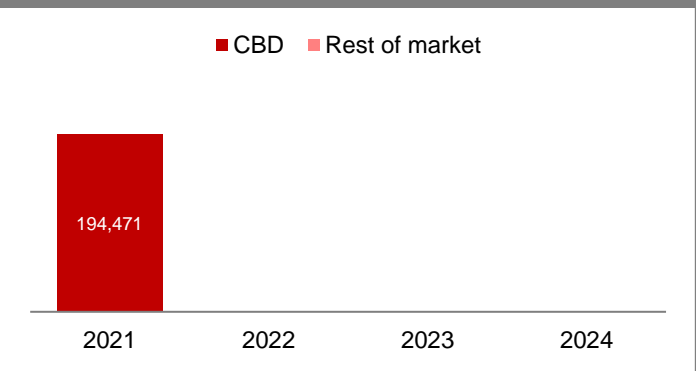
Sacramento's construction pipeline remains muted, comprised mainly of two renovations in the CBD with healthy levels of pre-leasing. In combination with a smaller increase in sublease space, inbound migration due to affordability relative to the Bay Area and a stable set of demand drivers, Sacramento will likely recover ahead of the U.S. as a whole.

Overall market statistics		Forecast
YTD net absorption (s.f.)	-324,955	▶
Under construction (s.f.)	194,471	▶
Total vacancy (%)	17.3%	▲
Sublease vacancy (s.f.)	784,507	▶
Asking rent (\$ p.s.f.)	\$25.68	▶
Concessions	Rising	▲

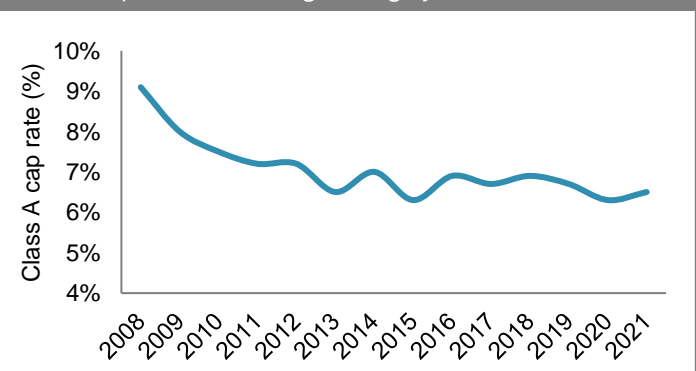
Little new supply is keeping fundamentals in check



All construction is currently in the CBD



Class A cap rates stabilizing at roughly 6.5%



All data refers to overall market

Sacramento market data

Leasing activity (overall)

Tenant	Address	Class	Lease type	Size (s.f.)
California Department of Corrections	Lake Natoma Office Park	B	Renewal	96,000
Sutter Health	1201 Alhambra Boulevard	B	Renewal	91,834
State of California	2880 Gateway Oaks Drive	A	New lease	48,808
Capital Public Radio	730 I Street	B	Relocation	32,516
California Board of Registered Nursing	1747 N Market Boulevard	A	Renewal	27,552
Social Security Administration	1610 Arden Way	B	Renewal	26,598
Child Action	10540 White Rock Road	B	New lease	22,521
California Acupuncture Board	1747 N Market Boulevard	A	Renewal	20,000

Office sales (overall)

Building	RBA (s.f.)	Sales price (\$)	Price (\$ p.s.f.)	Buyer	Seller
1625-1747 N Market Boulevard	334,152	\$57,500,000	\$172	Nome	Buzz Oates
Olympus Corporate Center	196,467	\$45,500,000	\$232	Kingsbarn	Barker Pacific/WHI
Lake Natoma Office Park	96,000	\$19,000,000	\$198	Boyd Watterson	Orton
Prospect Park	62,957	\$17,800,000	\$282	Mapletree	Sila
3050-3111 Fite Circle	121,123	\$9,500,000	\$78	Ethan Conrad	Randall
7801 Laguna Boulevard	23,000	\$6,800,000	\$295	QLQ	Karsan Elliott
Eureka Corporate Plaza	14,900	\$5,000,000	\$336	Geraldine Jackson Trust	Dominus Lex
N21	24,158	\$5,000,000	\$205	Persistent Movement	Robert Divirgillo

Active development pipeline

Building	Developer	Spec/BTS	Completion	RBA (s.f.)	Anchor
660 J Street	Sacramento Kings	Speculative	2021	124,471	Kings Partnership
730 I Street	D&S	Speculative	2021	70,000	Capital Public Radio

Washington, DC (CBD)

- DC office fundamentals continue to soften on the back of both pandemic-induced and regional circumstances despite the market's reputation for stability.
- Vacancy hit a new high of 20.9% as rightsizing and reconsiderations of future office utilization weighed on occupiers.
- Although DC has been less exposed to the sublease spike seen in other gateway geographies, multiple years of mounting vacancy make returning to balance conditions challenging.
- Growth within DC proper has been mostly in emerging rather than traditional submarkets, although the CBD's newer product will help to attract tenants.

Office market trends

Washington, DC office conditions remain extraordinarily tenant favorable, both relative to before the pandemic and compared to peer markets. Vacancy rose to 18.4% at mid-year as a result of 2.6 million square feet of negative net absorption and 432,002 square feet of newly delivered product, although the sublease market showed little signs of movement in either direction. In contrast to the sustained growth of emerging submarkets such as the Wharf, Ballpark and the Market District, the CBD as well as other core neighborhoods are posting more acute rises as the drivers of office demand continue to operate remotely and consider further rightsizing.

Similarly, demand has shown only nascent signs of a rebound. Dentons renewed at 1900 K Street NW for 126,876 square feet, followed by much smaller renewals and deals from Gensler, Development Transformations, Arabella Advisors and Womble Bond Dickinson. In almost all cases, these were short-term extensions, indicative of the continued uncertainty over office needs and the need to have employees return at scale in order to finalize space planning.

On the sales side, South Korea-based IGIS Asset Management acquired a 49% stake in Carr Properties' Midtown Center, helping to recapitalize the two-building Trophy property (home to Fannie Mae) at an estimated \$980 million, or \$1,129 per square foot.

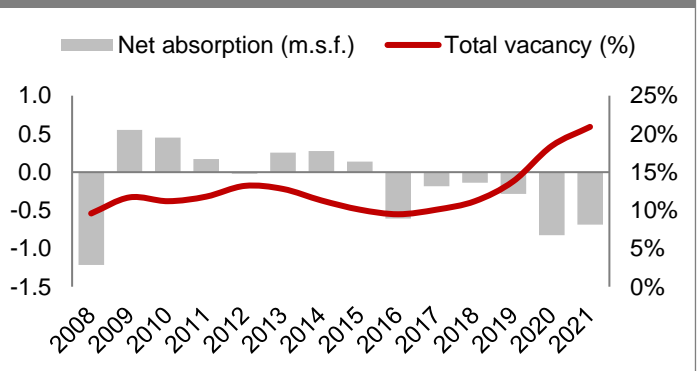
With the completion of 2100 L Street NW in Q1, only 2100 Pennsylvania Avenue NW – pre-leased by WilmerHale – is currently under construction in the CBD. As with leasing, construction is mostly occurring in emerging submarkets. This pause in development will be necessary for occupancy levels to recalibrate.

Outlook

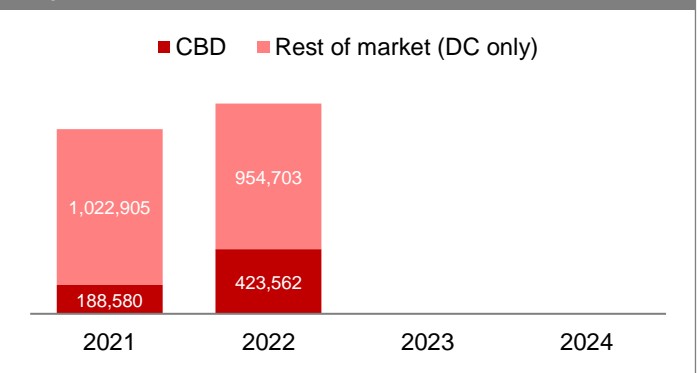
Vacancy will remain elevated in the CBD and throughout most of the DC core for the foreseeable future in the absence of key growth drivers from an office demand standpoint and a gradual re-entry to the workplace. Local policy to accelerate the repurposing of obsolete office space for residential use has gained steam and may help to alleviate vacancy rates and stem future occupancy losses.

Overall market statistics		Forecast
YTD net absorption (s.f.)	-2,608,879	▼
Under construction (s.f.)	2,476,471	▼
Total vacancy (%)	18.4%	▲
Sublease vacancy (s.f.)	2,327,740	▲
Asking rent (\$ p.s.f.)	\$59.28	▶
Concessions	Rising	▲

Vacancy hit another record high, nearing 21%



Only 2100 Penn remains under construction in the CBD



Class A cap rates see little movement without large deals

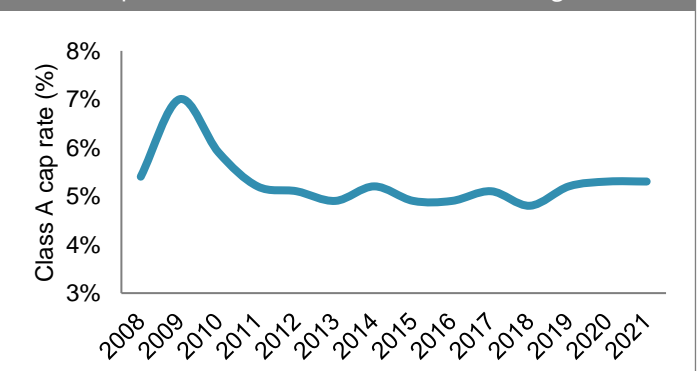


Table refers to overall market, while charts refer to Manulife submarkets

Washington, DC market data

Leasing activity (CBD)

Tenant	Address	Class	Lease type	Size (s.f.)
Dentons	1900 K Street NW	Trophy	Renewal	126,876
Gensler	2020 K Street NW	A	Renewal	47,937
Development Transformations	1625 I Street NW	A	Renewal	29,520
Arabella Advisors	1828 L Street NW	B	Relocation	27,039
Womble Bond Dickinson	2001 K Street NW	A	New lease	22,630

Office sales (CBD)

Building	RBA (s.f.)	Sales price (\$)	Price (\$ p.s.f.)	Buyer	Seller
Midtown Center	867,654	\$480,200,000	\$1,129	IGIS (49% interest)	Carr

Active development pipeline (CBD)

Building	Developer	Spec/BTS	Completion	RBA (s.f.)	Anchor
2100 Pennsylvania Avenue NW	Boston Properties	Speculative	2022	423,562	WilmerHale

Methodology and terms of use

Methodology

JLL leverages proprietary leasing data with a blend of public, government-issued and third-party sources to produce our economic and market reports.

Office inventory spans 50+ U.S. local markets and is generally limited to investment-grade assets larger than 30,000 s.f., excluding medical office and owner-occupied assets.

Net absorption is recognized upon lease commencement and/or physical move-in, not lease sign date. Vacancy is recognized upon physical move-out or lease expiration date, not the time at which space is advertised for lease.

All sources are deemed reliable, but in some cases, information cannot be independently verified.

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