June 4, 2020

CBRE: MACRO OFFICE OVERVIEW & FORECAST

SPEAKERS | JUNE 4, 2020

Jamie Lane
Sr. Research Director, Economics & Forecasting

Intro

Matt Mowell
Sr. Macro Economist

Macro Overview

Alex Krasikov
Economist

Forecast Review

Ian Anderson
Sr. Director of Research

Sector Insights

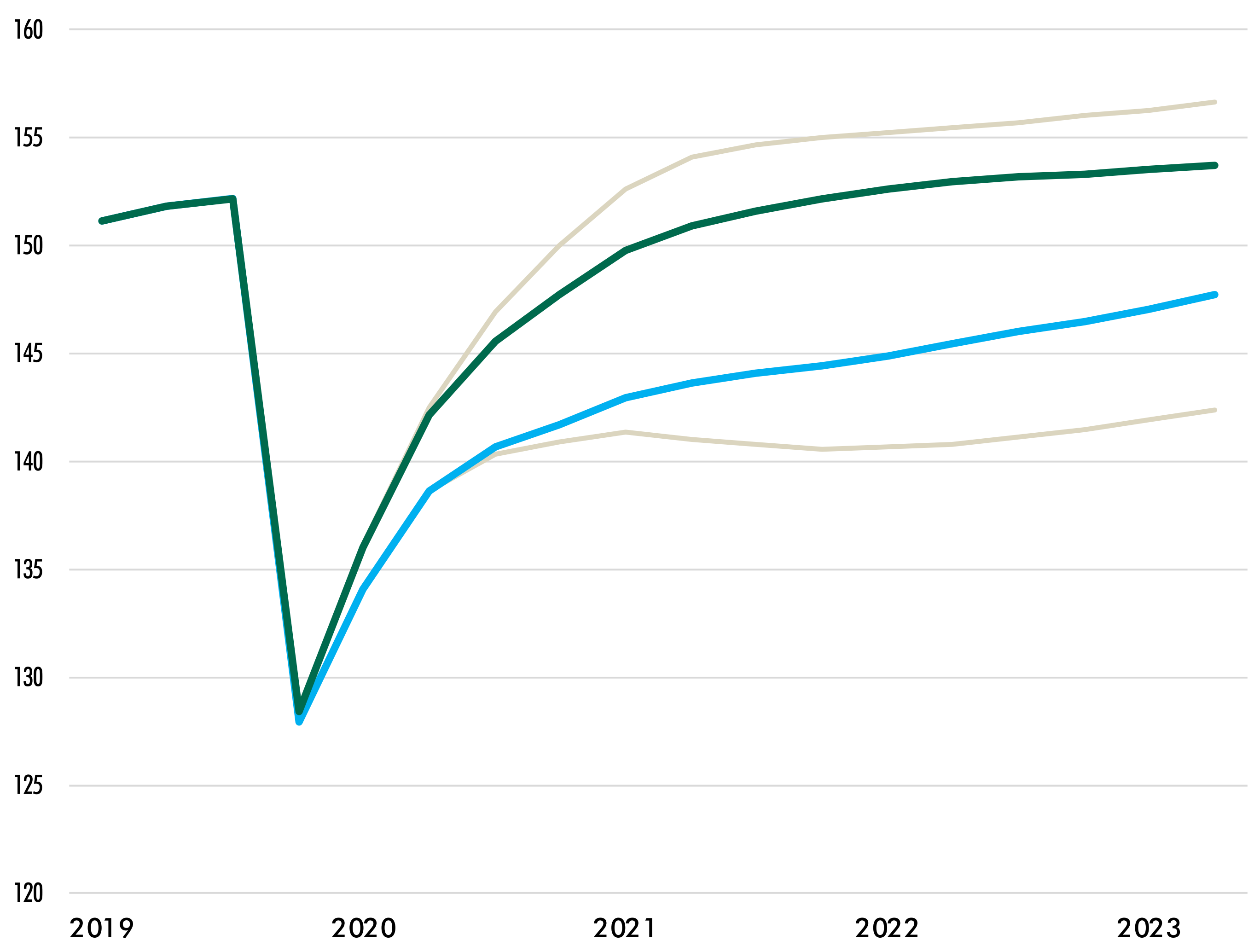
June 4, 2020

MACRO OVERVIEW

MATT MOWELL, CBRE EA
SR. ECONOMIST

CBRE

CBRE'S CURRENT FORECAST SCENARIOS ON U.S. EMPLOYMENT



UPSIDE

A swift reopening of the economy and robust stimulus unleashes a wave of pent-up demand.

BASELINE

- Gov't stimulus will keep many firms afloat.
- Improved consumer sentiment will support the recovery.

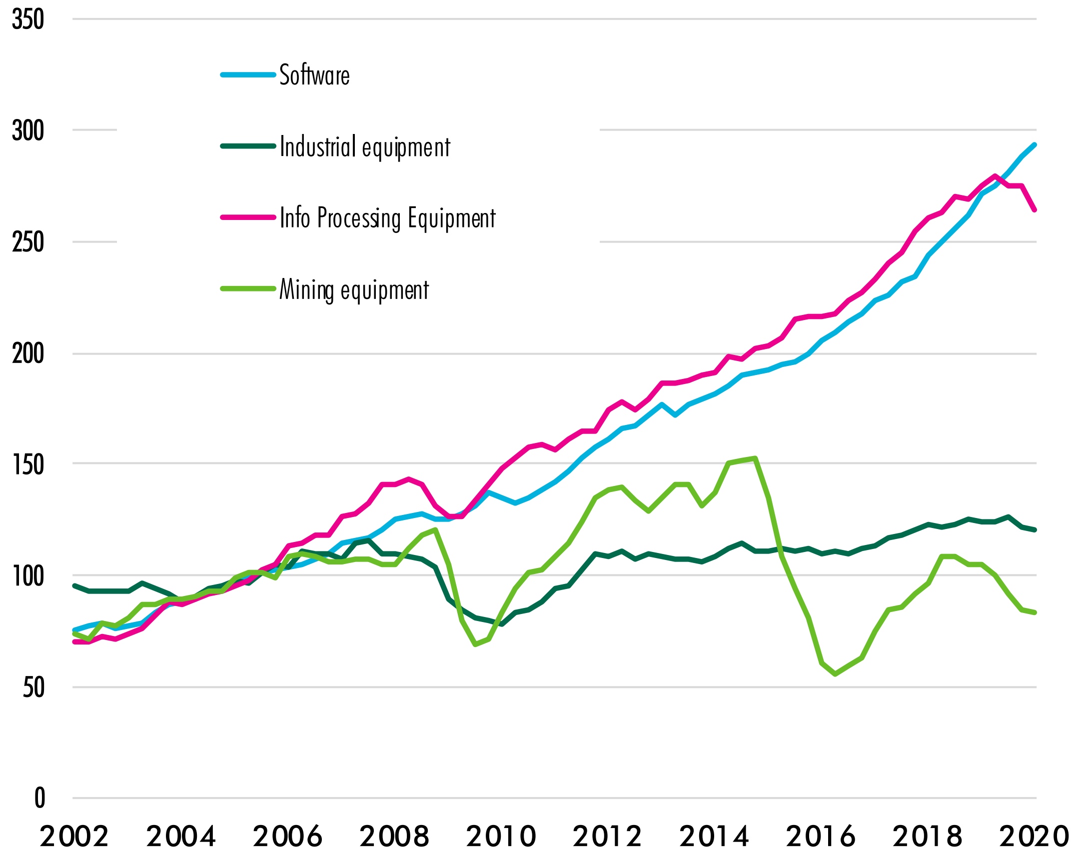
DOWNSIDE

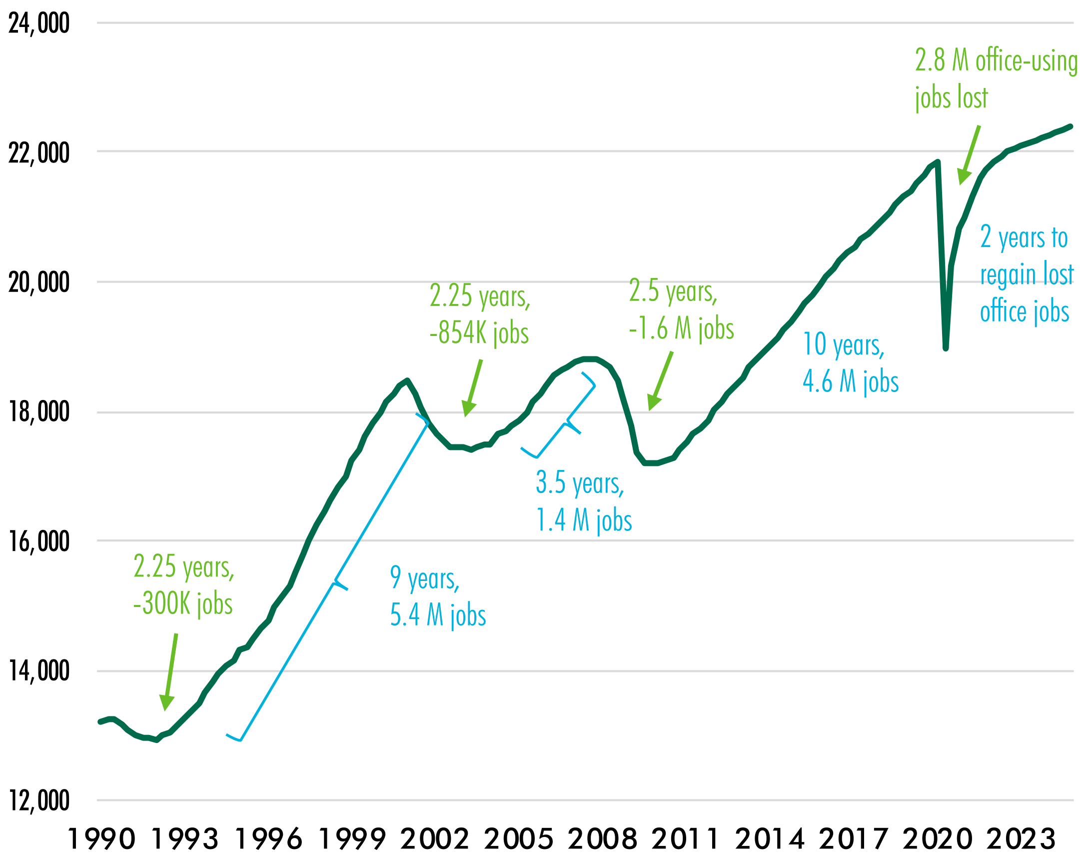
- The reopening of the economy is slow.
- Pre-virus employment levels are not regained before 2024.

SEVERE DOWNSIDE

A prolonged recession causes a wave of bankruptcies that severely stress the financial system.

KEY MACRO DRIVERS OF OFFICE DEMAND





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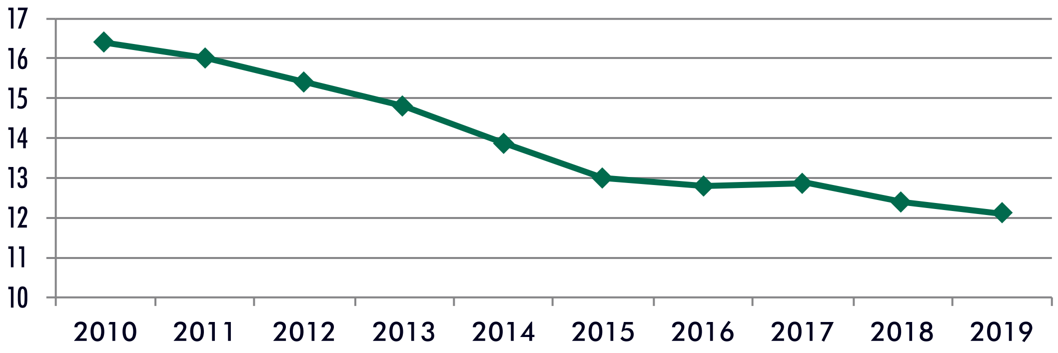
OFFICE FORECAST

ALEX KRASIKOV, CBRE EA ECONOMIST

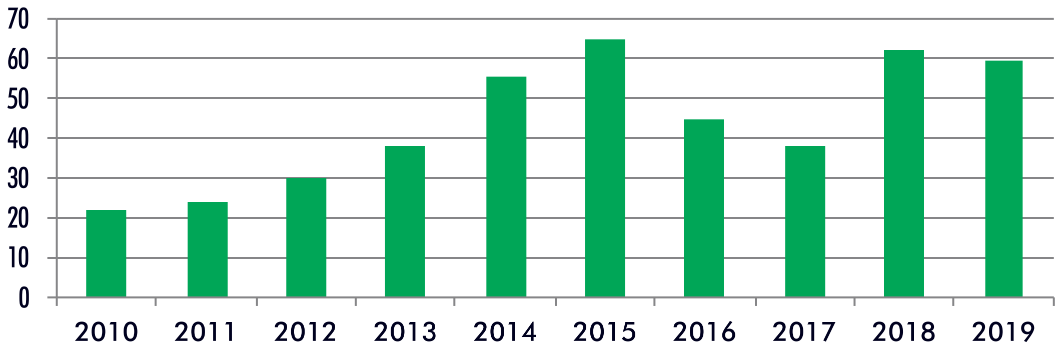
U.S. OFFICE CYCLE 2010 - 2019

2010-2019 Very Long and Balanced Cycle for Office Sector

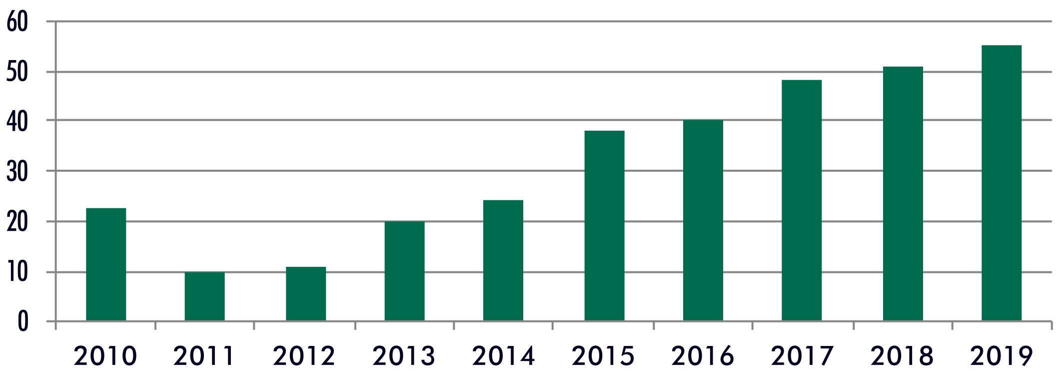
Vacancy Rate: declined by 4.4%



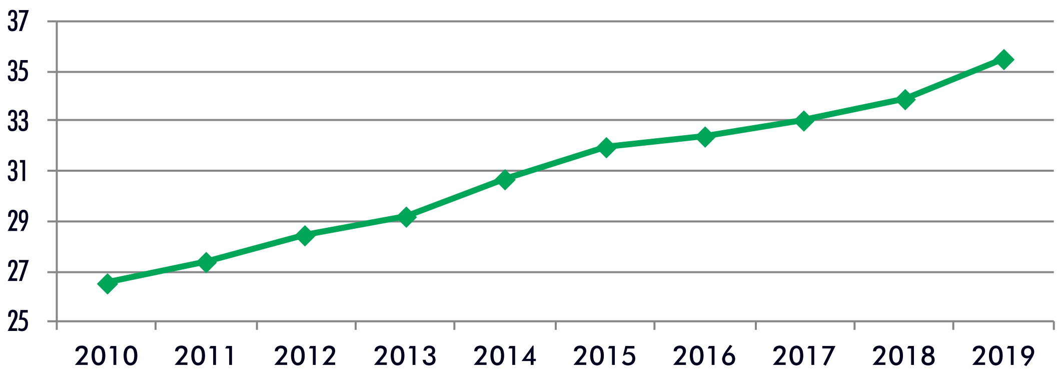
Net Absorption, office occupancy grew by 440 MSF



Multitenant Completions: 320 MSF was built



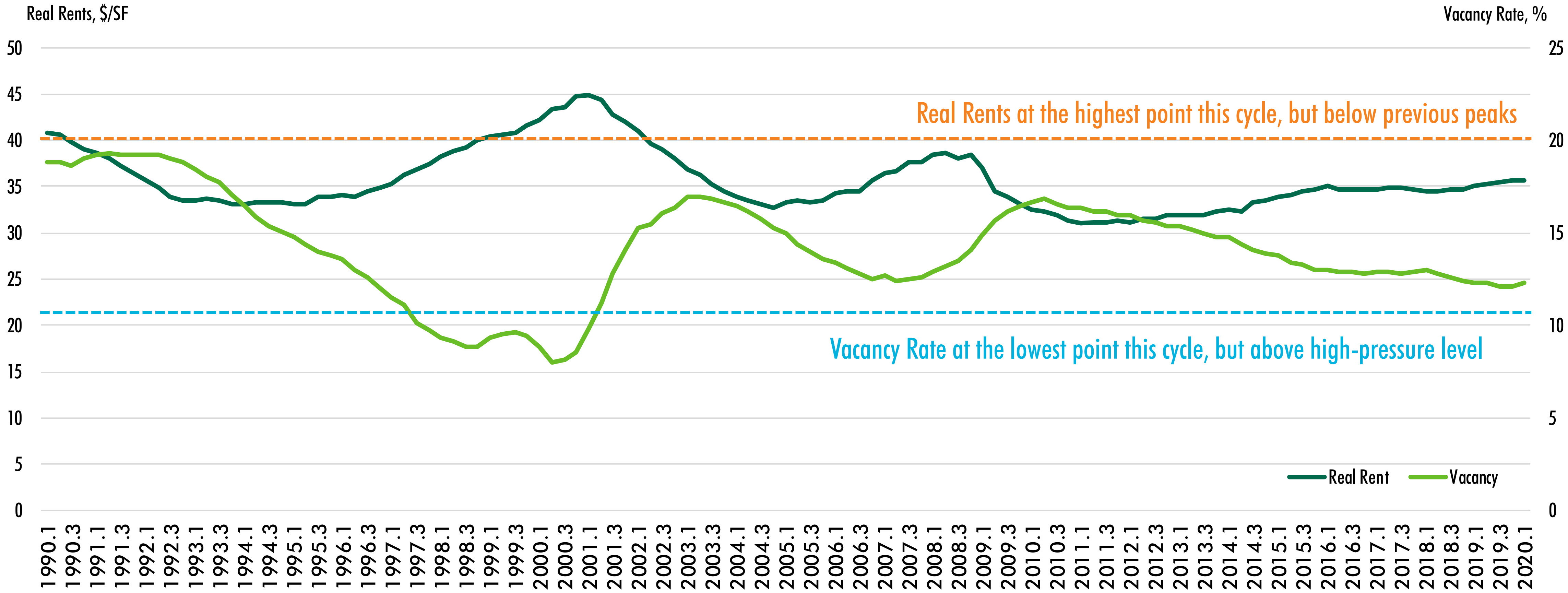
TW Rent Index, in 10 years rents increased by 27.5%



Source: CBRE Econometric Advisors, Q1 2020

U.S. OFFICE BEFORE PANDEMIC

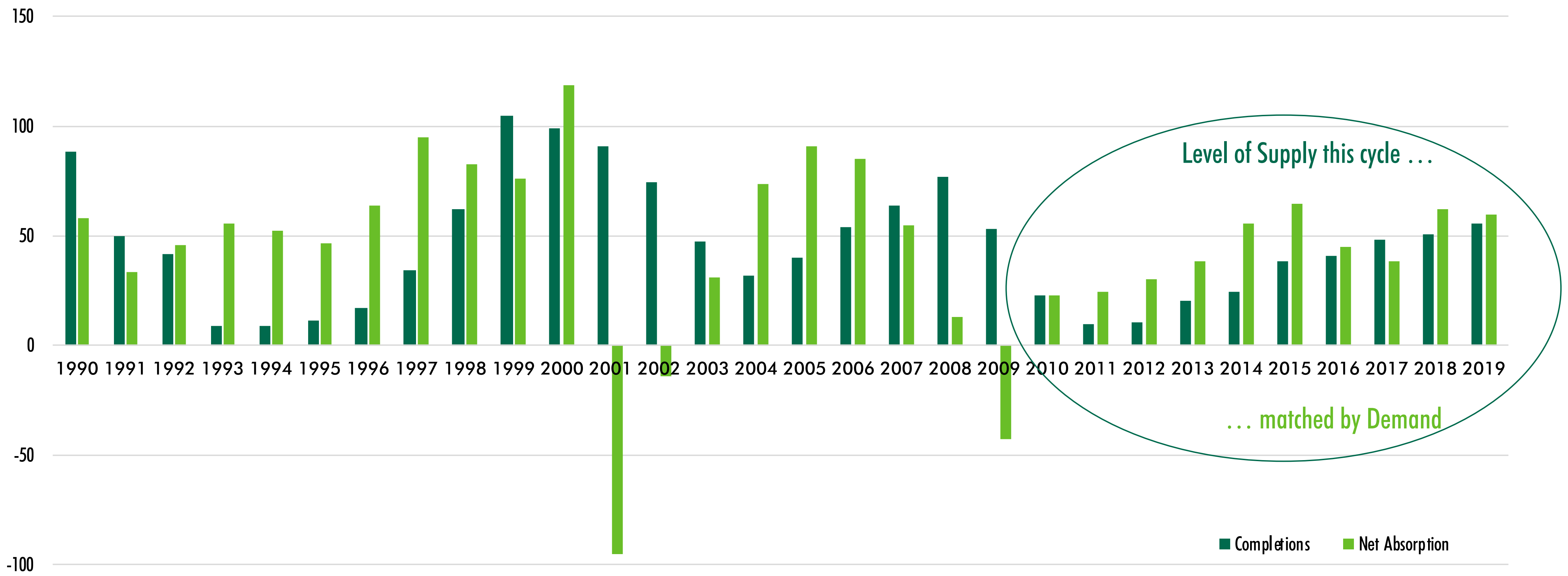
Inflation adjusted real rents and office vacancy within



Source: CBRE EA Q1 2020

U.S. OFFICE BEFORE PANDEMIC

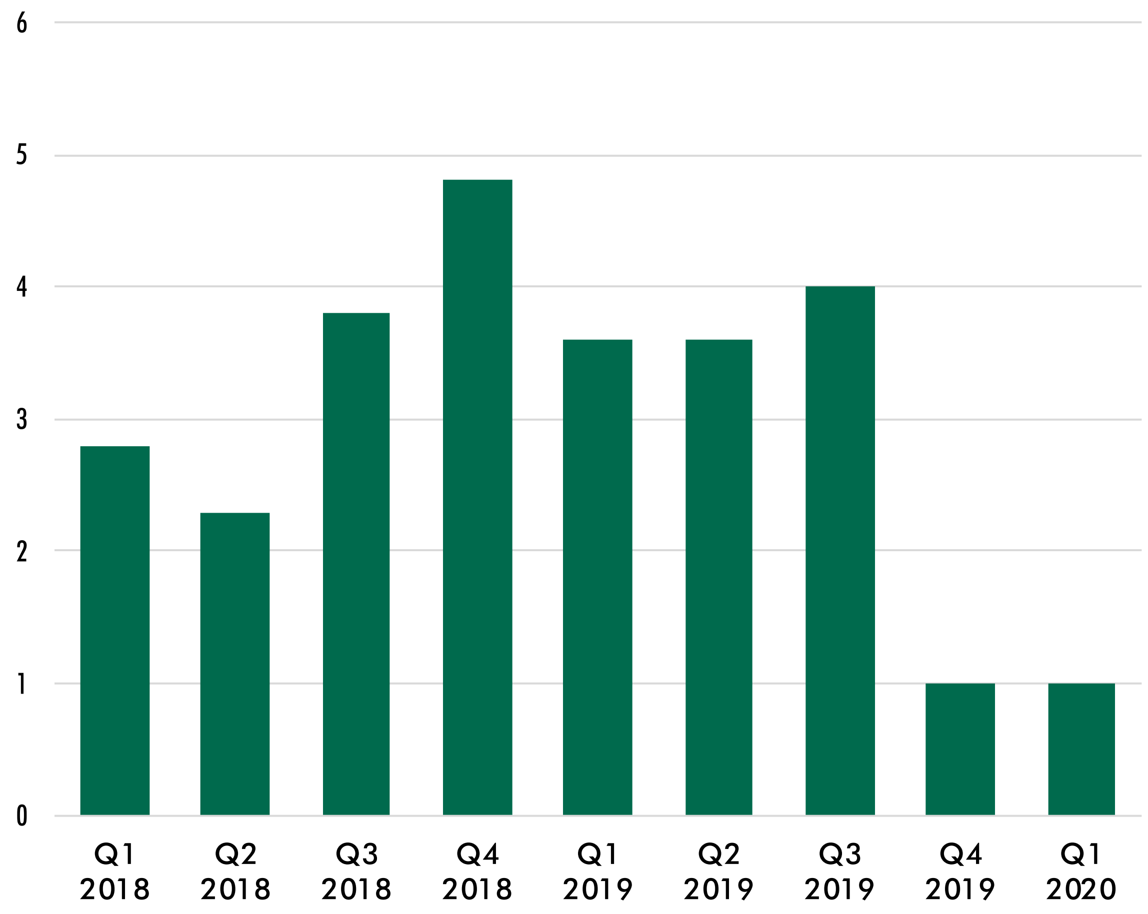
Completions and net absorption



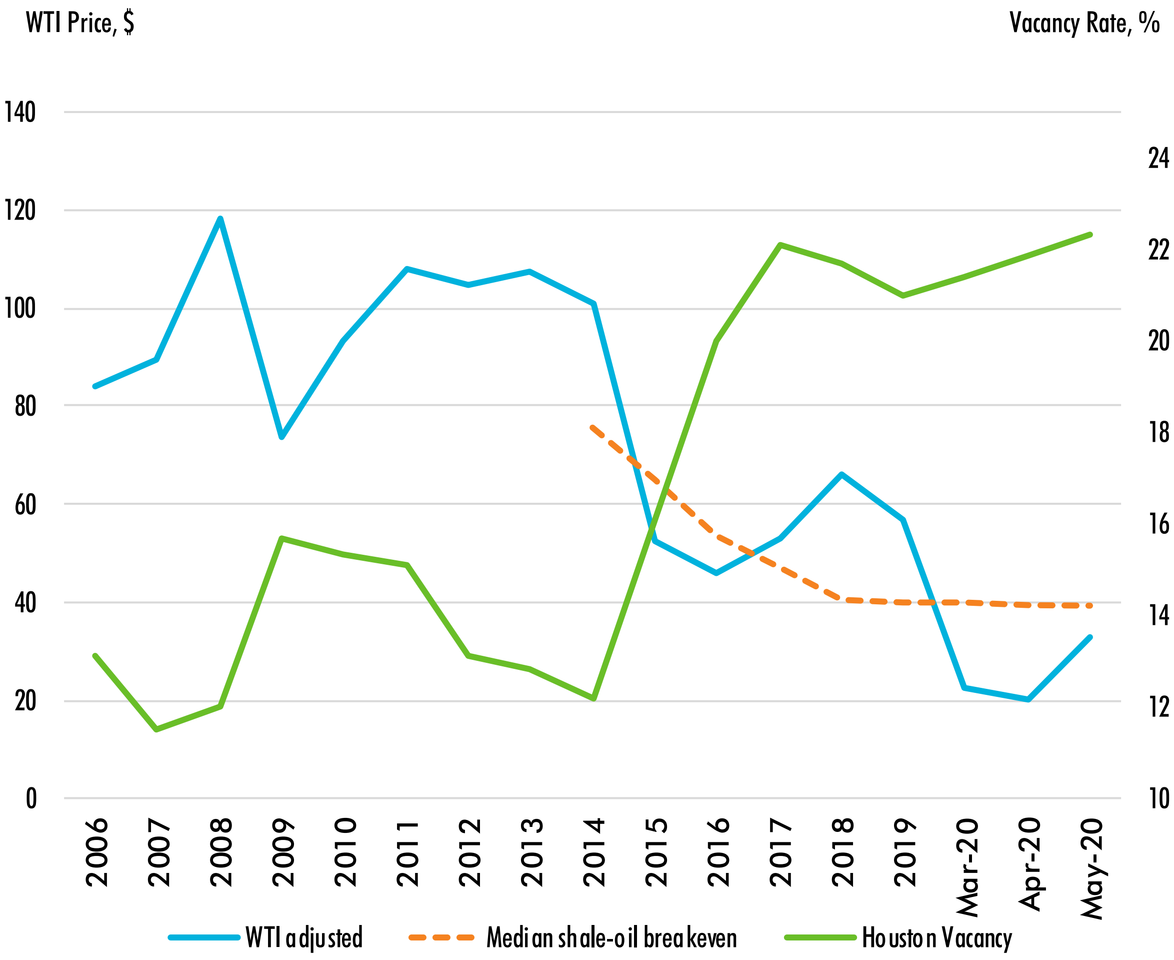
Source: CBRE EA Q1 2020

UNKNOWNS: FLEXIBLE SPACE & ENERGY SECTOR

Flexible office leasing, MSF



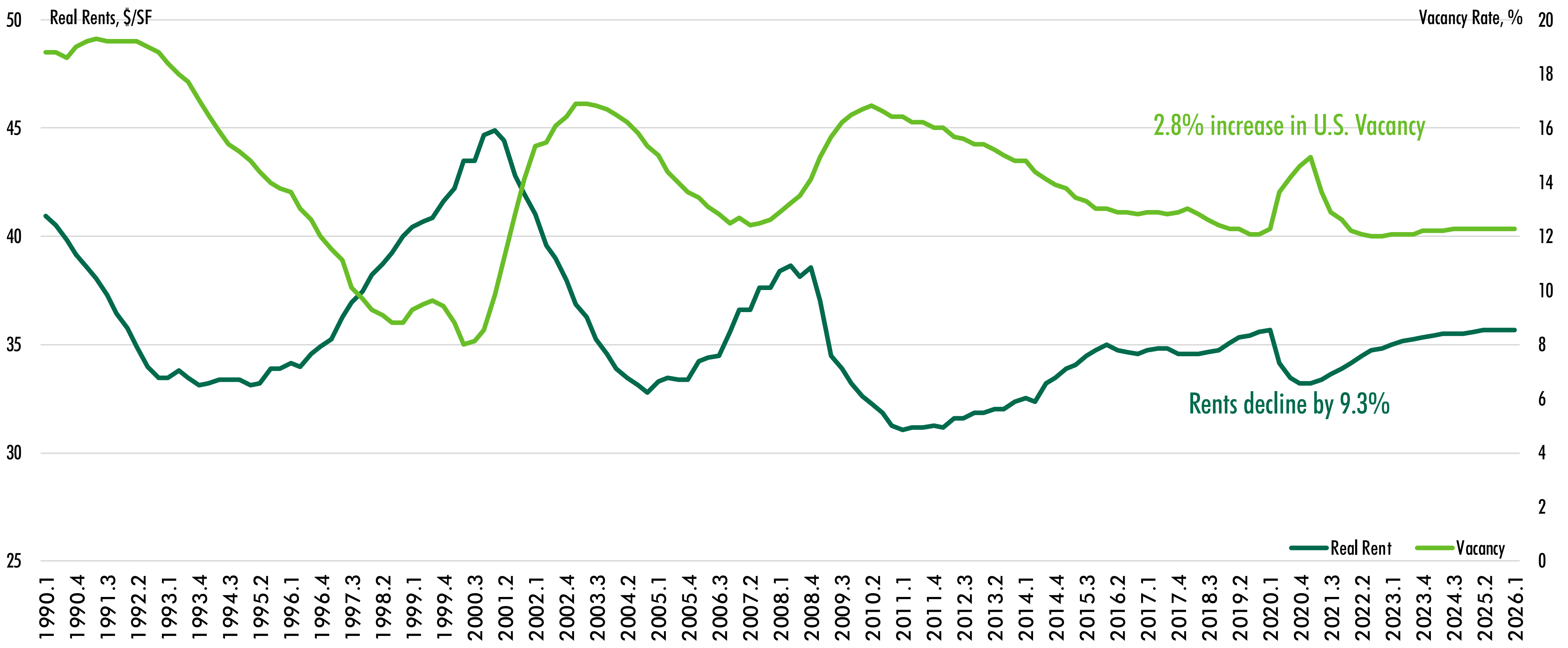
Houston office vacancy and West Texas intermediate oil price



Source: CBRE Research Q1 2020, Dow Jones & Company, Wells Fargo Investment Institute

Q1 2020 OFFICE FORECAST

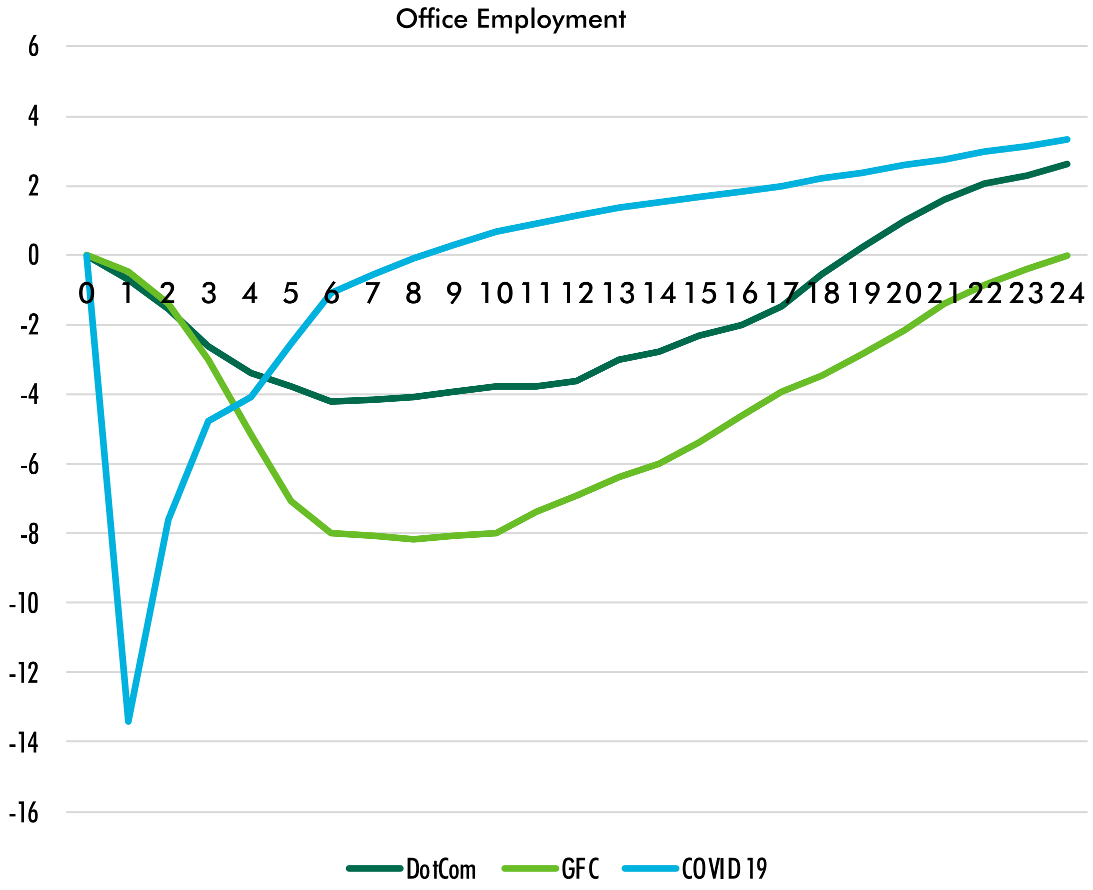
Real rent and vacancy baseline forecast

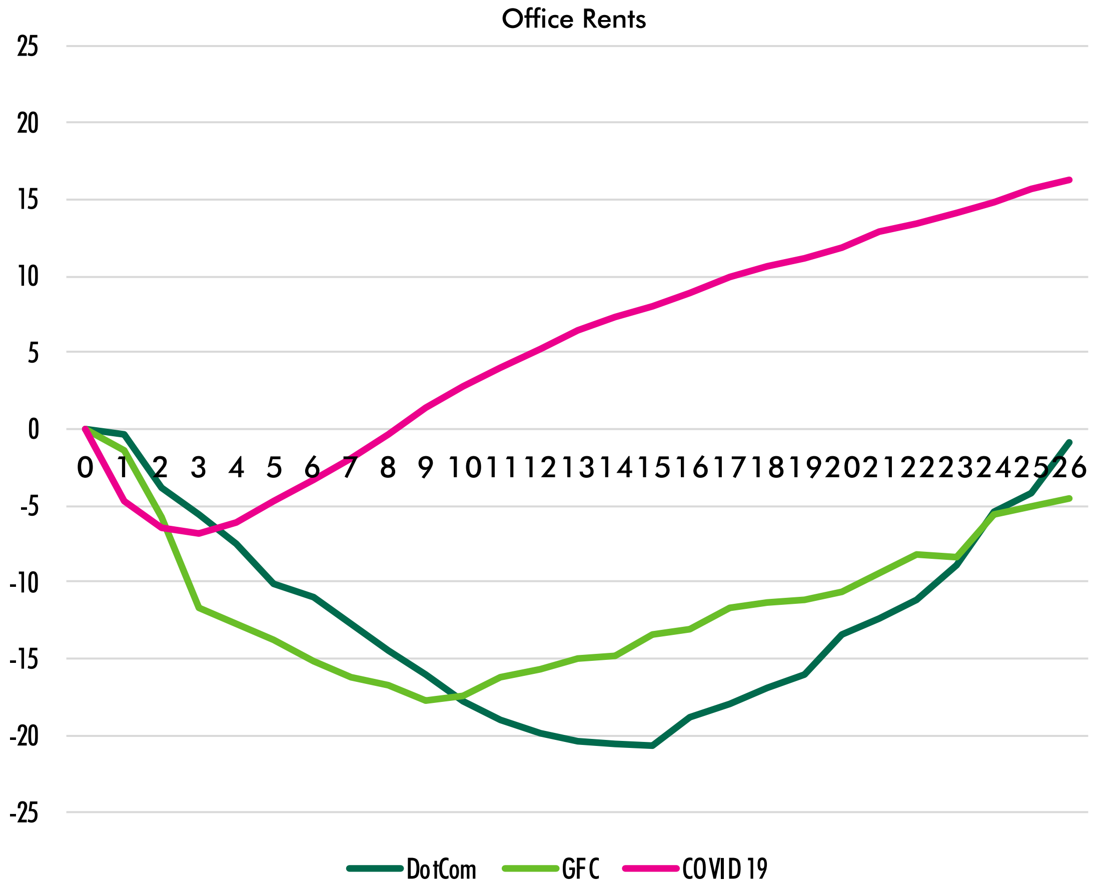


Source: CBRE EA Q1 2020

COMPARE TO PAST RECESSIONS

% change X quarters from onset of recession

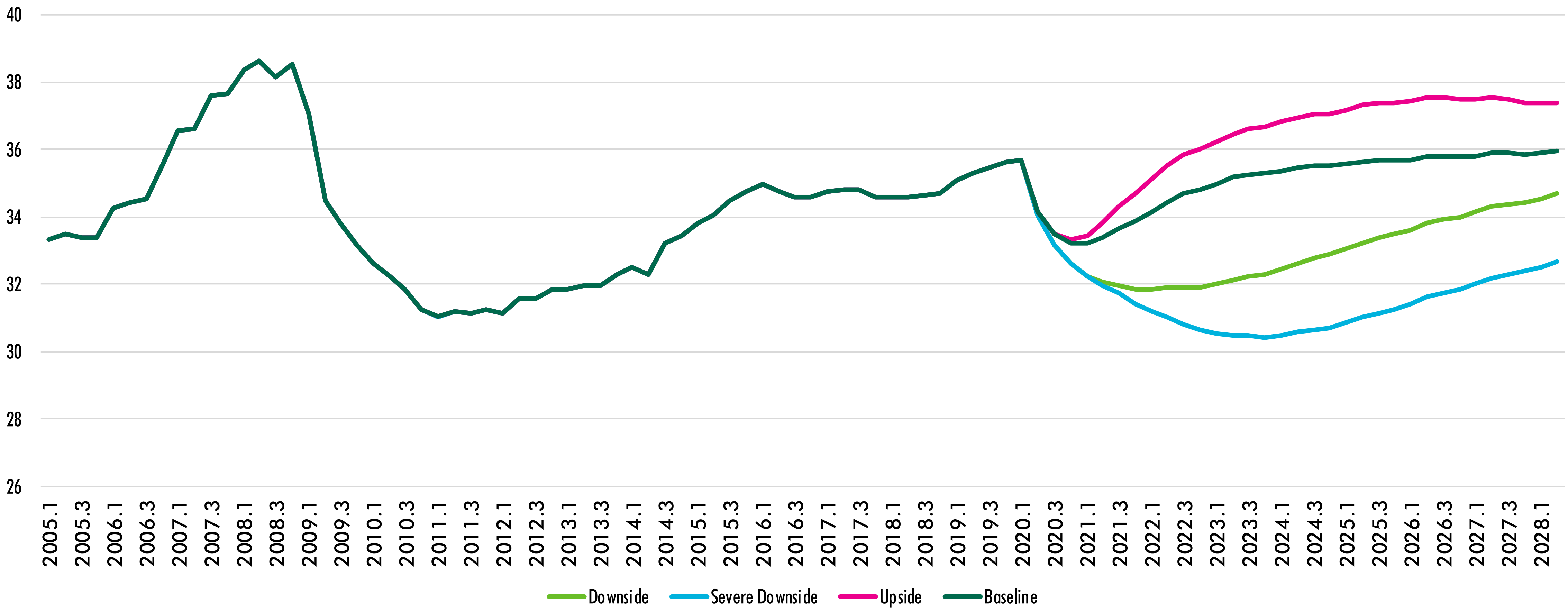




Source: CBRE EA Q1 2020

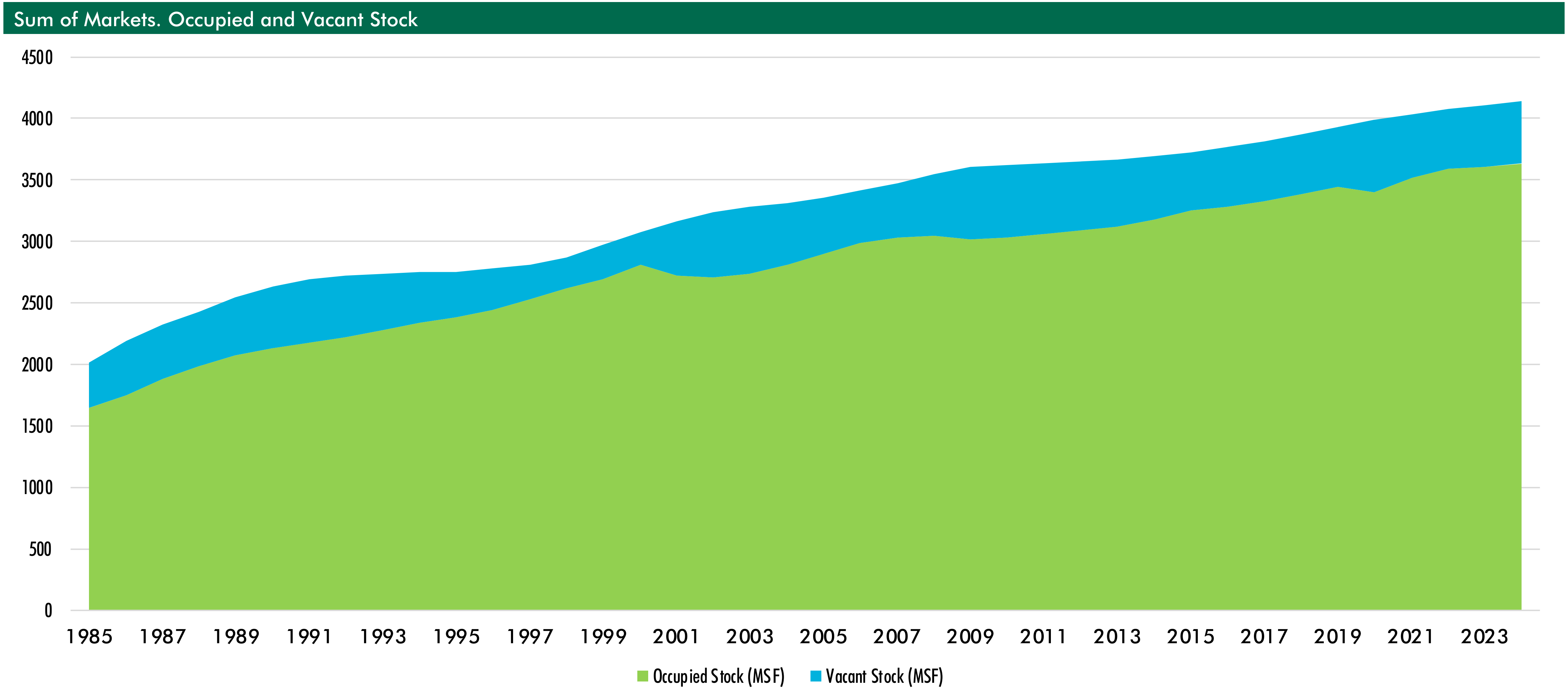
Q1 2020 OFFICE FORECAST BY SCENARIO

U.S. office real rents by scenario



Source: CBRE EA Q1 2020

VACANT STOCK



Source: CBRE EA Q1 2020

SPACE DEMAND TRENDS

Social Distancing

More space per office worker

More private offices
and partitions, less open-plan space

Duration of pandemic, will we come back to previous office densities?

Less Density = More Space Demand

Work from Home

Office productivity:
Full-time Office vs Remote Work,
Work-Life Balance?

Office a place to connect:
Company culture, social bonds, new hires?

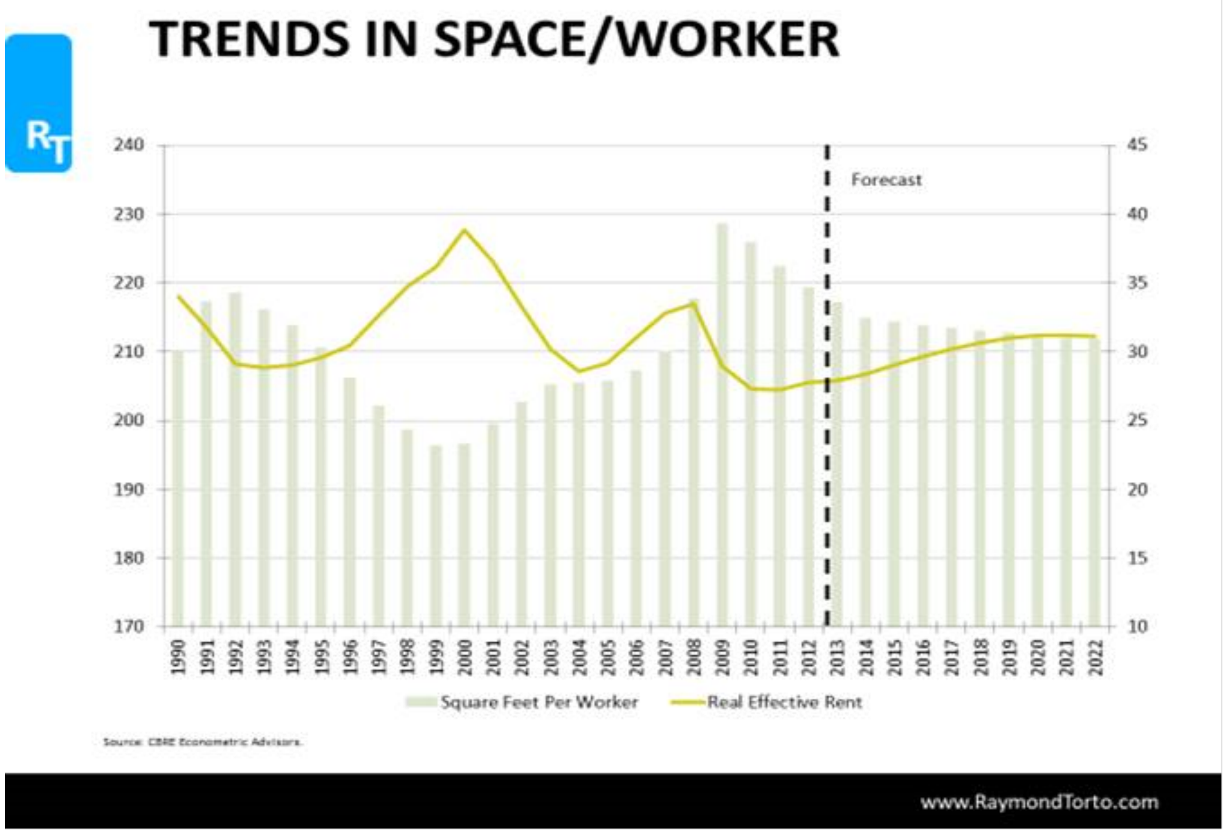
Wider outreach:
Hiring outside geographical footprint.

More Remote Work = Less Demand

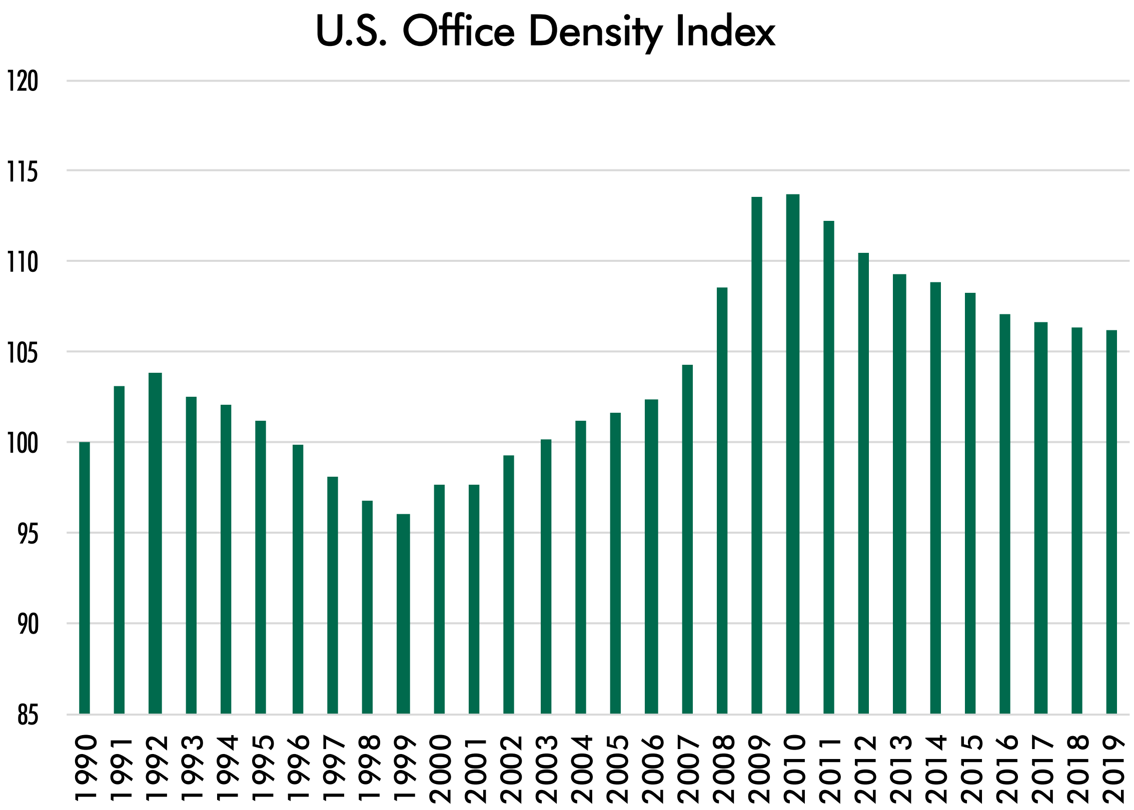
Source: CBRE EA Q1 2020

OFFICE SPACE: DENSITY

CBRE EA 2012 Forecast



Realized data



Source: CBRE EA, Raymond Torto

OFFICE SPACE: IMPLICATIONS

Will we see an effect in 2020?

Social Distancing

Office density - High Impact

Increase in space demand – Low Impact

Tenants will adjust predominantly using existing space and alternating schedules

Work from Home

Decrease in space demand – Low Impact

Tenants do not plan to vacate space due to work-from-home policies

Too many unknowns to make a change that can affect long-term growth

The main short-term impact on office demand is due to the ongoing pandemic and recession.

Source: CBRE EA Q1 2020

OFFICE SPACE: IMPLICATIONS

IMPLICATIONS?

Class A vs Class B/C

Open floor vs private offices?

High rise vs low rise?

?

Suburban vs urban core?

Residential vs commercial?

One central location vs satellite offices?

New building design and location?

National gateways vs regional centers?

Taxation and public services?

Live-work-play vs suburban lifestyle?

Source: CBRE EA Q1

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OFFICE OVERVIEW

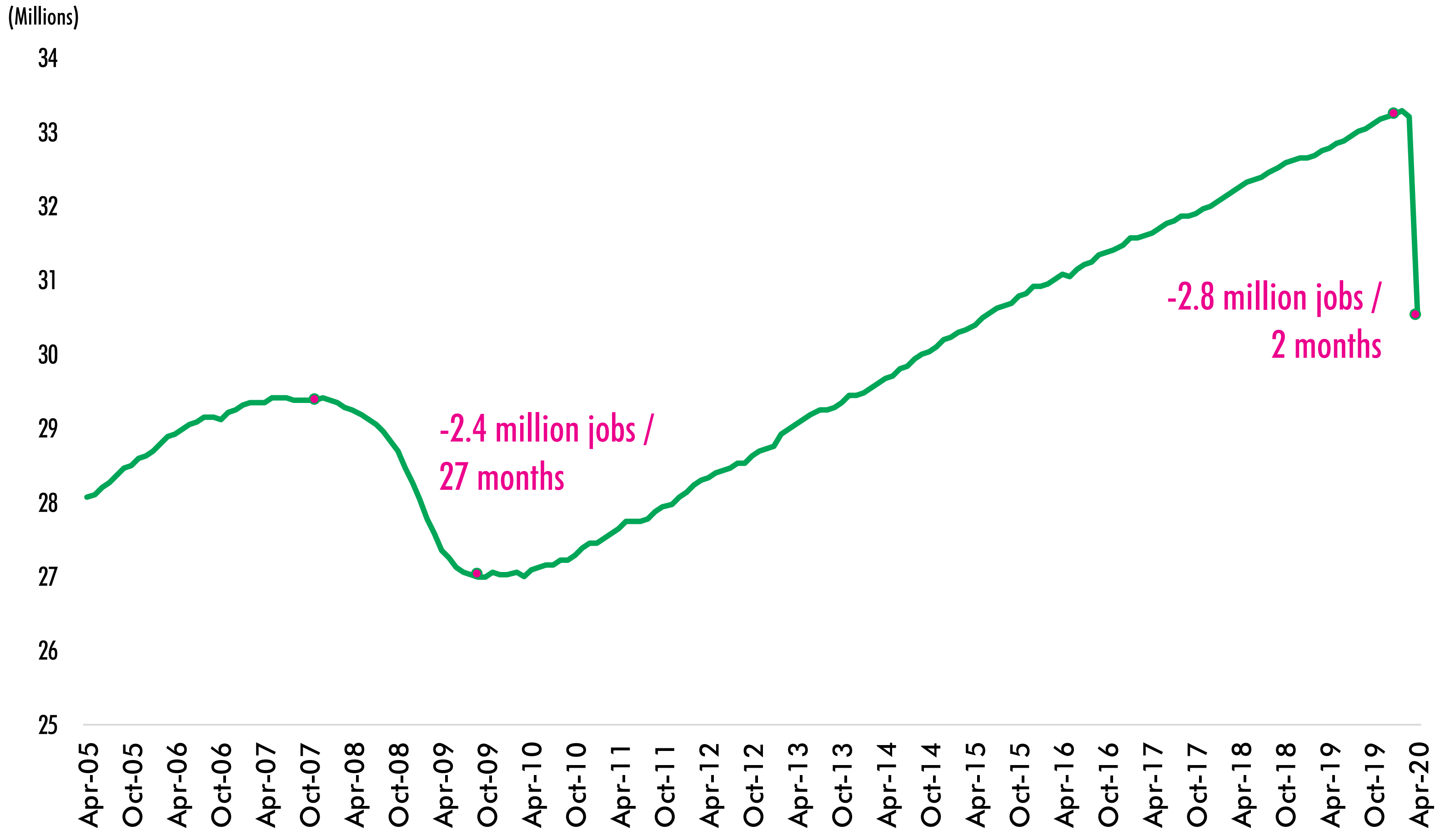
IAN ANDERSON, CBRE SR. DIRECTOR OF RESEARCH

EARLY RESILIENCE AMID UNCERTAINTY

CBRE

U.S. OFFICE-USING EMPLOYMENT DIVES

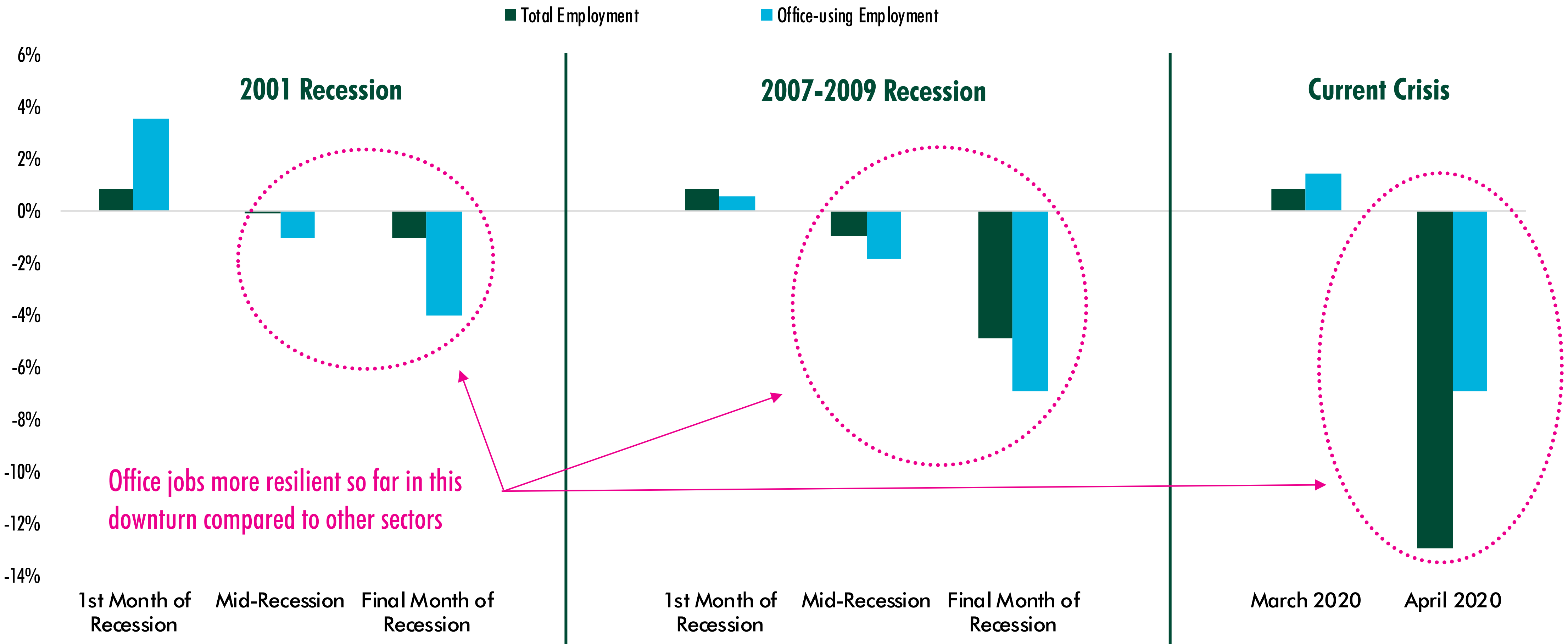
U.S. Office-using employment



Source: US BLS, CBRE Research, Q2 2020.

BUT IT'S BETTER THAN MOST INDUSTRIES

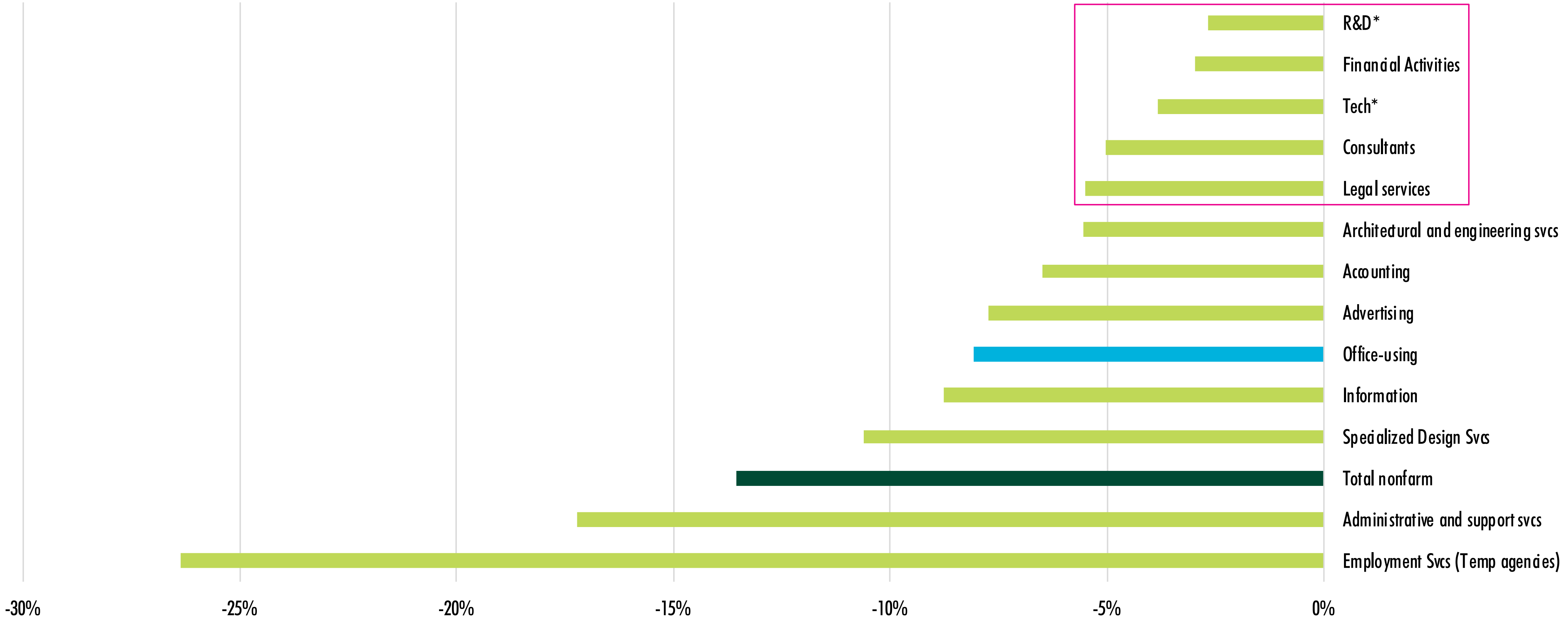
One-year changes in U.S. total office-using employment



Source: CBRE Research, US BLS, Q2 2020.

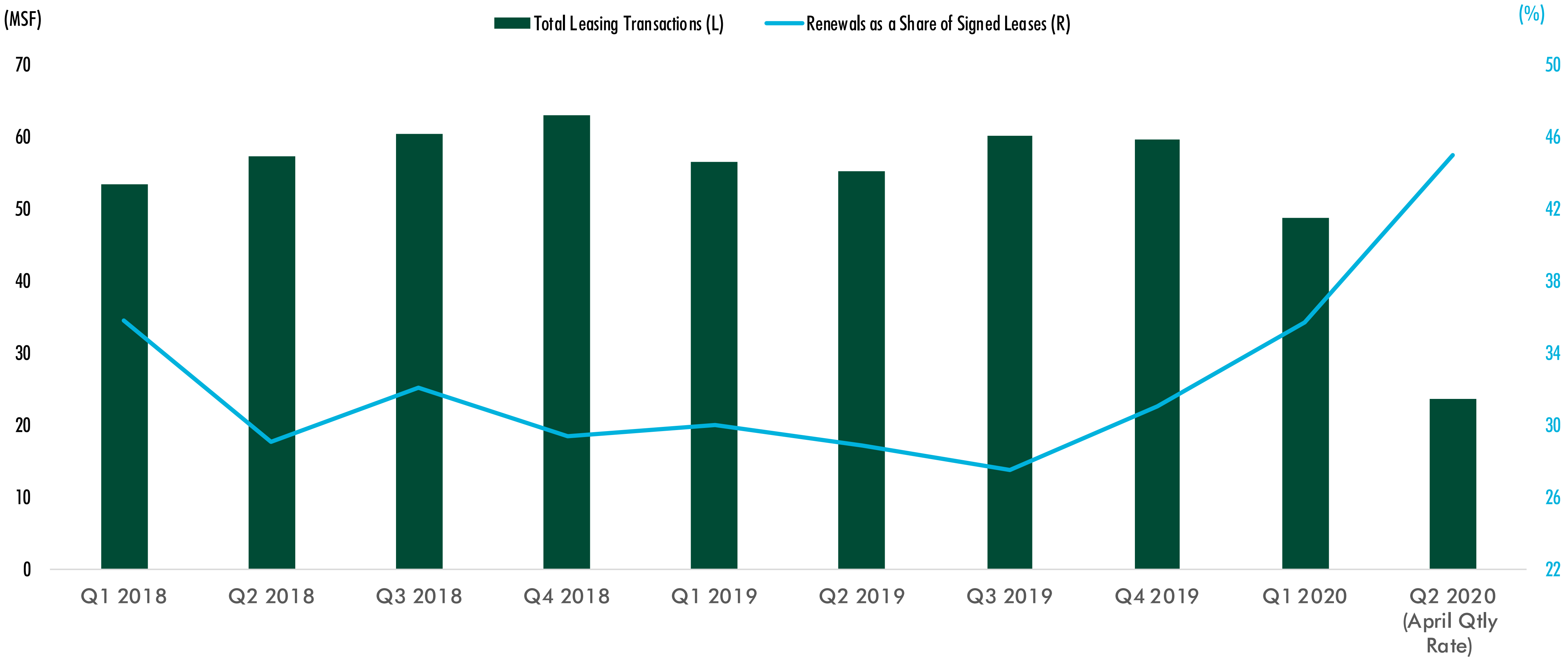
SOME OFFICE SEGMENTS ARE FARING MUCH BETTER THAN OTHERS

One-year change in U.S. office-using employment subsectors through April 2020



Source: CBRE Research, US BLS, Q2 2020. Note: "R&D" consists of Scientific Research and Development Services. "Tech" is comprised by "Computer Systems Design and Related Services" and "Data Processing, Hosting and Related Services."

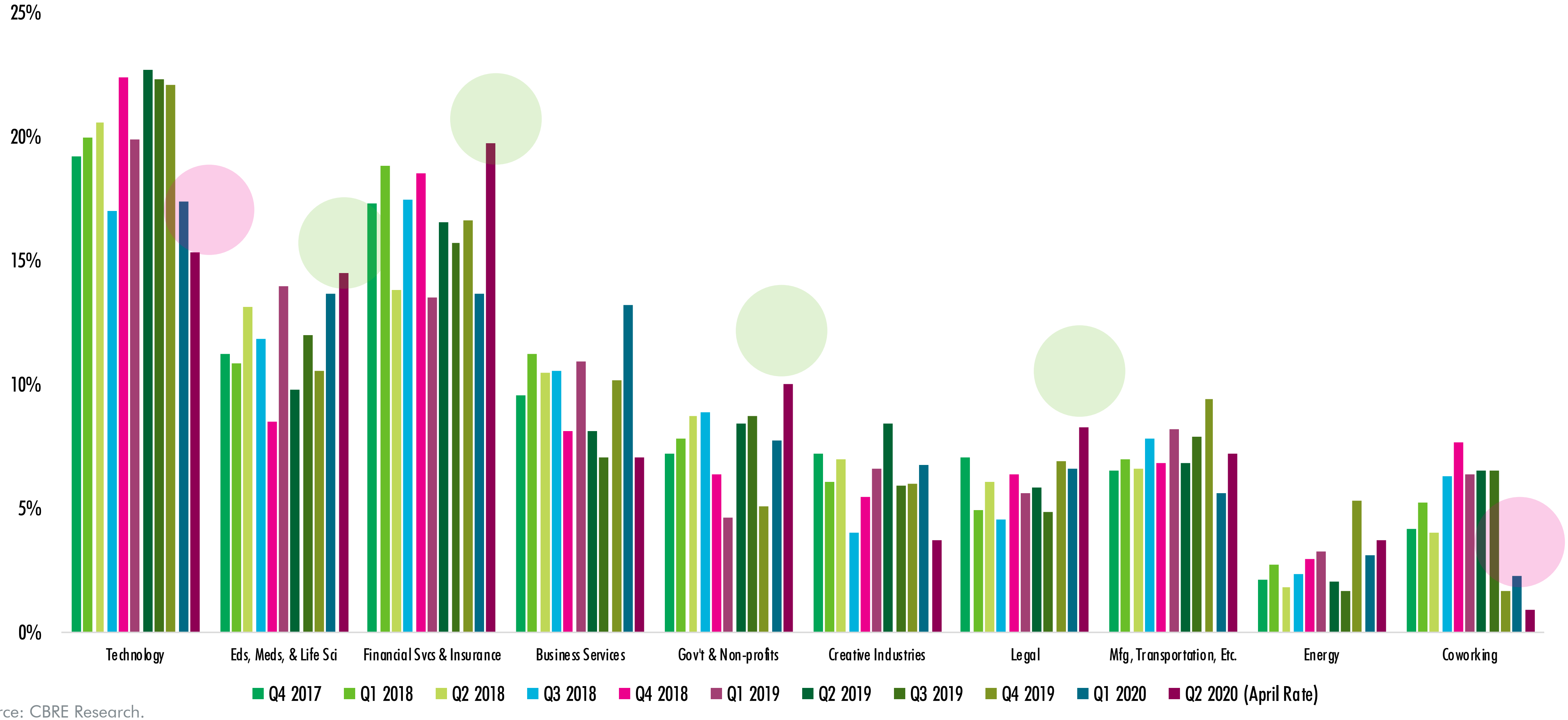
U.S. OFFICE LEASING TRANSACTIONS



Source: CBRE Research.

U.S. OFFICE LEASING BY INDUSTRY

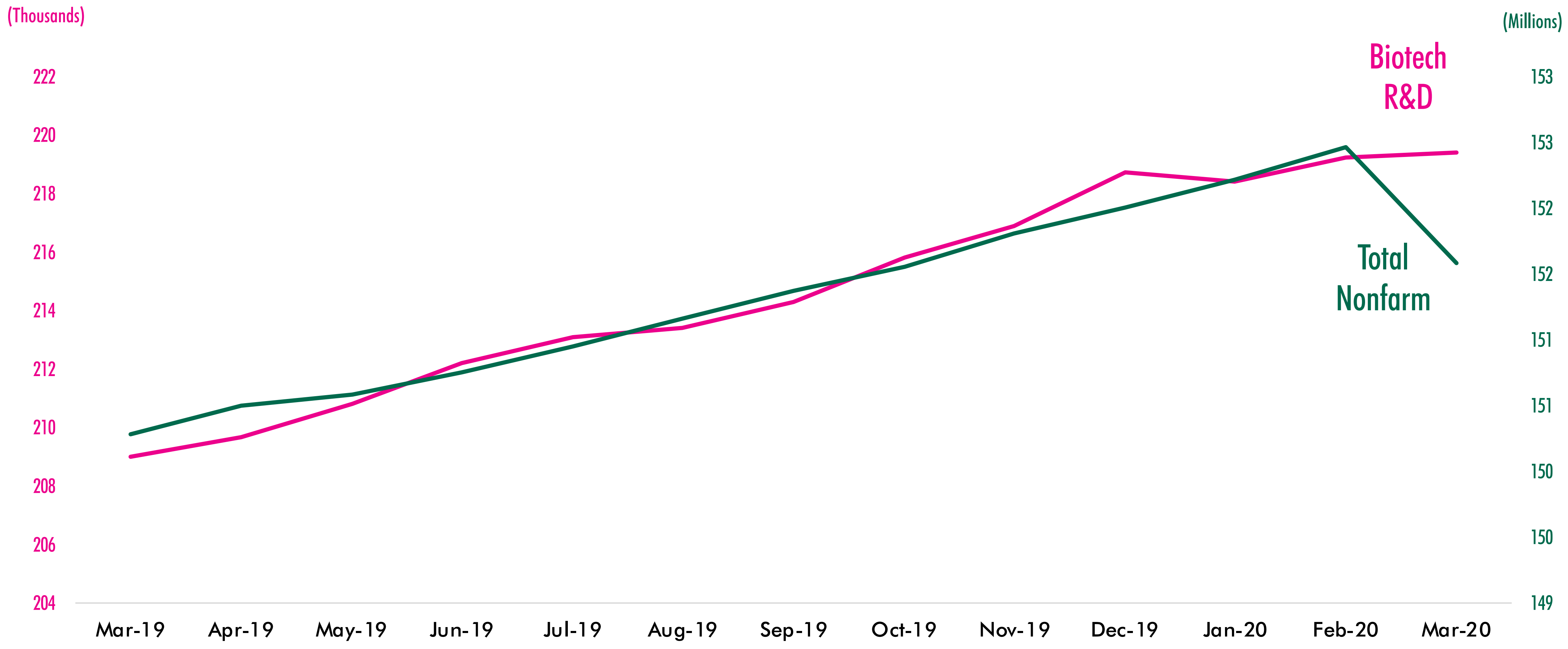
Share of Total Leasing



Source: CBRE Research.

LIFE SCIENCES RELATIVELY RESILIENT

U.S. Employment through March 2020

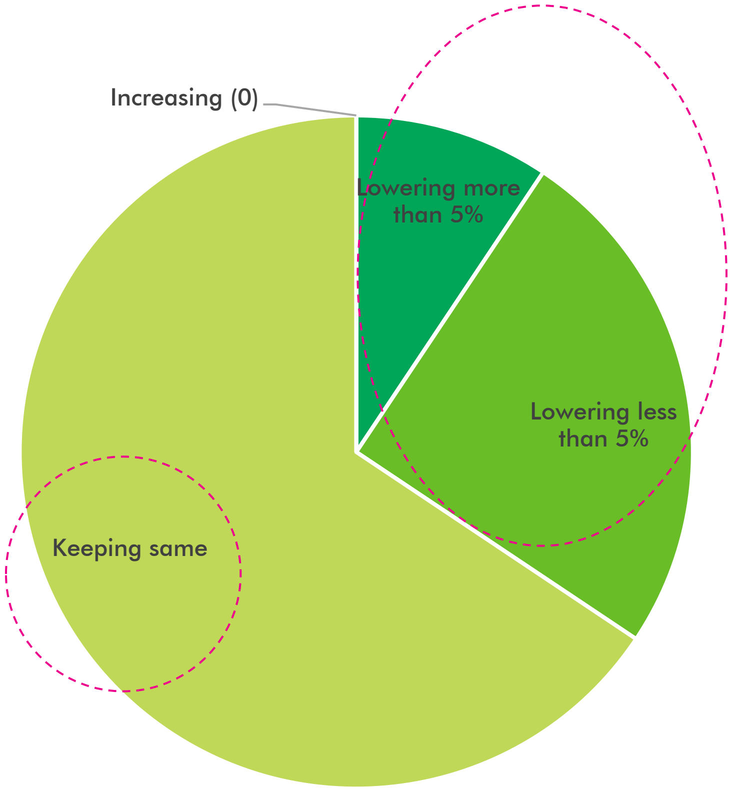


Source: US BLS, CBRE Research.

VACANCY TICKING UP AND RENTS HOLDING STEADY

Q1 2020 Quarterly Changes in Vacancy Rates for 10 Largest Markets		
MARKET	%	BPS
New Jersey	16.6	0
San Francisco	4.7	10
Washington, D.C.	16.7	10
U.S.	**12.3**	**20**
Boston	11.2	20
Los Angeles	12.6	20
Manhattan	7.9	20
Dallas/Ft. Worth	20.7	40
Atlanta	17.6	50
Chicago	17.0	70
Houston	20.0	70

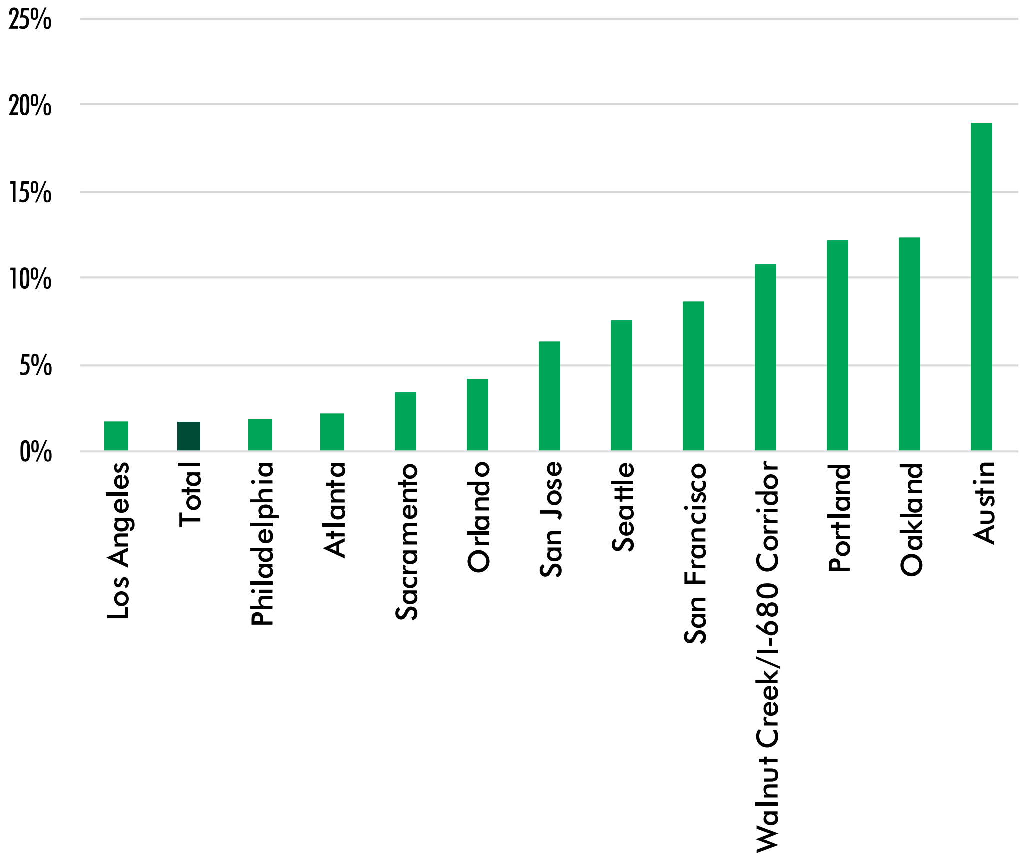
“Are you adjusting your average rent?” (May 2020)



Source: CBRE Research.

LATEST MONTHLY CHANGE IN AVAILABLE SUBLEASE SPACE- MAJOR MARKETS

Increases (March-April 2020)



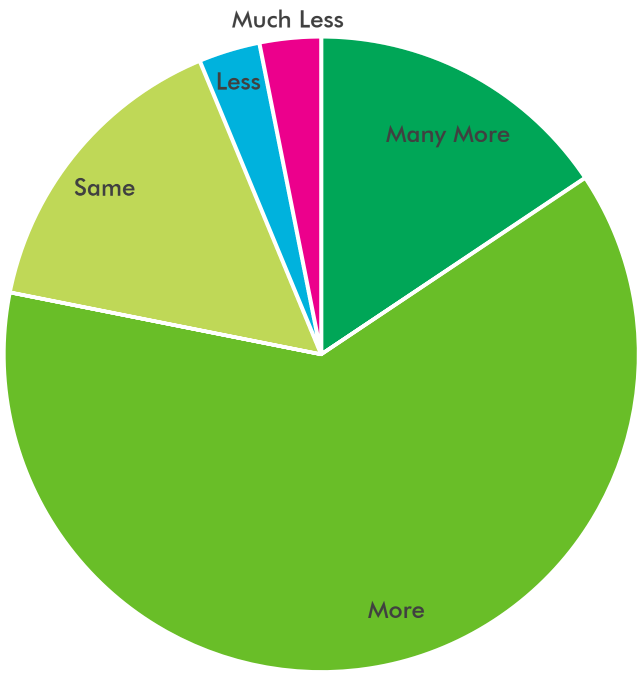
No Substantive Change (March-April 2020)

Boston
Columbus
Denver
Detroit
Ft. Lauderdale
Kansas City
Manhattan
Miami
Minneapolis/St. Paul
Phoenix
Tampa
Washington, D.C.

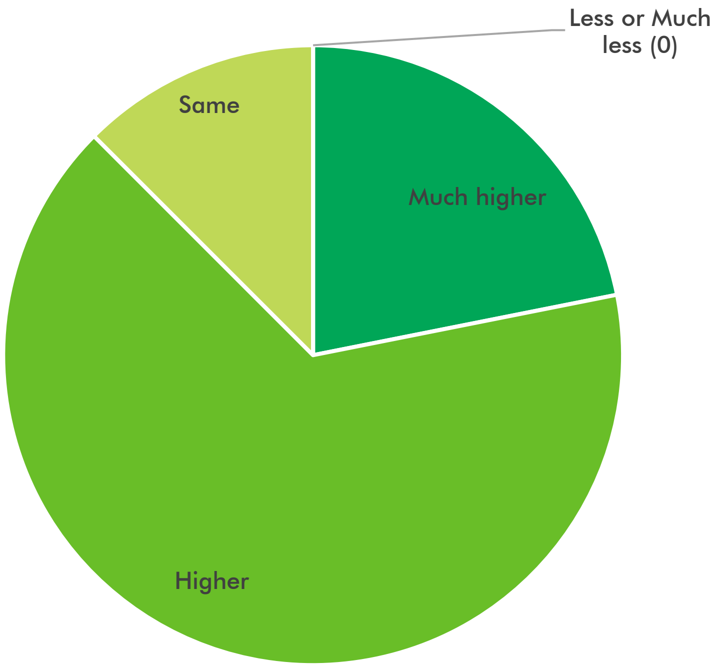
Source: CBRE Research.

INVESTOR OFFICE LEASING SENTIMENT

"How are inquiries for space and tour requests trending?"



"Do you expect inquiries and tour requests to be higher in a month?"



Source: CBRE Research.

TOO EARLY FOR THE JUDGEMENT ON OFFICES

DE-DENSIFICATION AND MORE SOCIAL DISTANCING

Source: CDC.

TAILWIND? THE FLUID OFFICE EMERGING IN THE 'BURBS


Bloomberg

Markets

Citi Eyes Offices in Suburbs to Ride Out Manhattan's Recovery

By Natalie Wong and Jennifer Surane
May 20, 2020, 12:40 PM EDT

- Finance industry scouting for space outside New York City
- Talks are preliminary as banks ponder pandemic safety

The Citigroup Inc. headquarters stands in New York. *Photographer: Victor J. Blue/Bloomberg*

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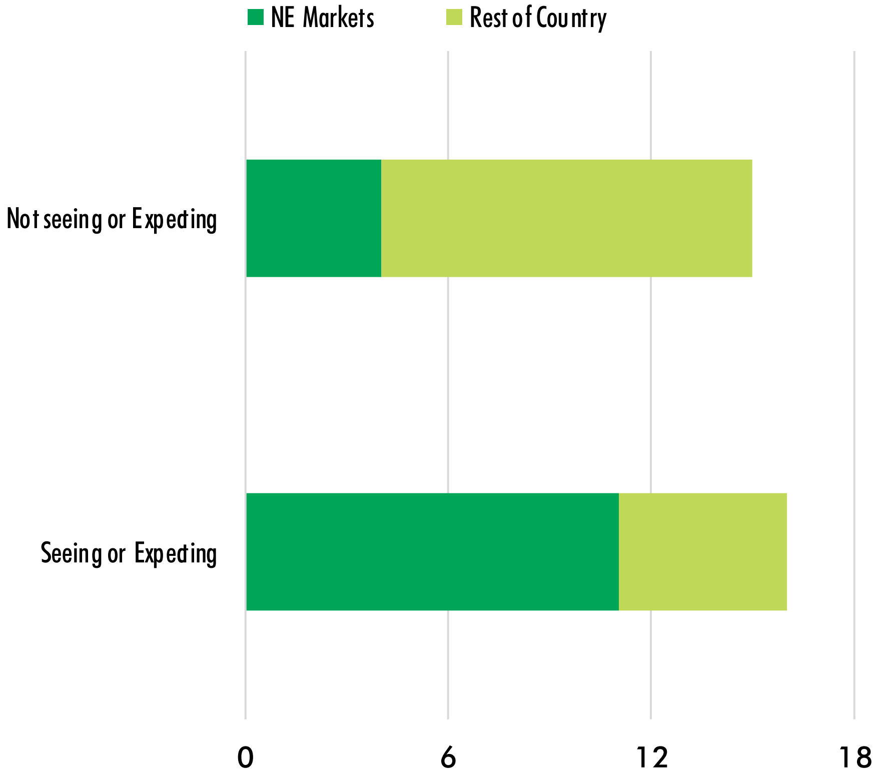
Citigroup Inc. is considering opening satellite offices outside New York City as the finance industry grapples with when it will be safe to bring workers back to Manhattan.

With the pandemic fueling anxiety about public transportation and dense

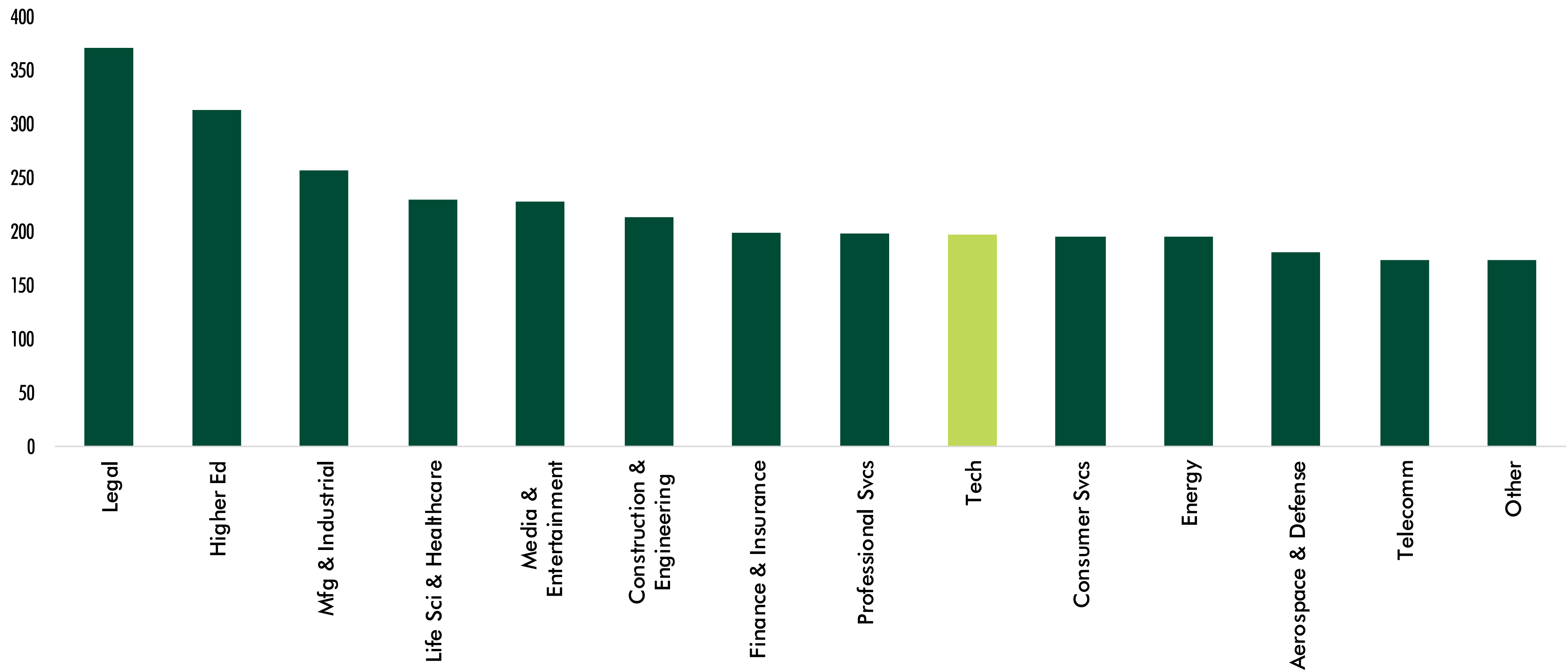
"Do you foresee any tenants opening up suburban office locations to accommodate employee flexibility?



Source: CBRE Research.

TAILWIND? HOW WILL BIG TECH ADJUST?

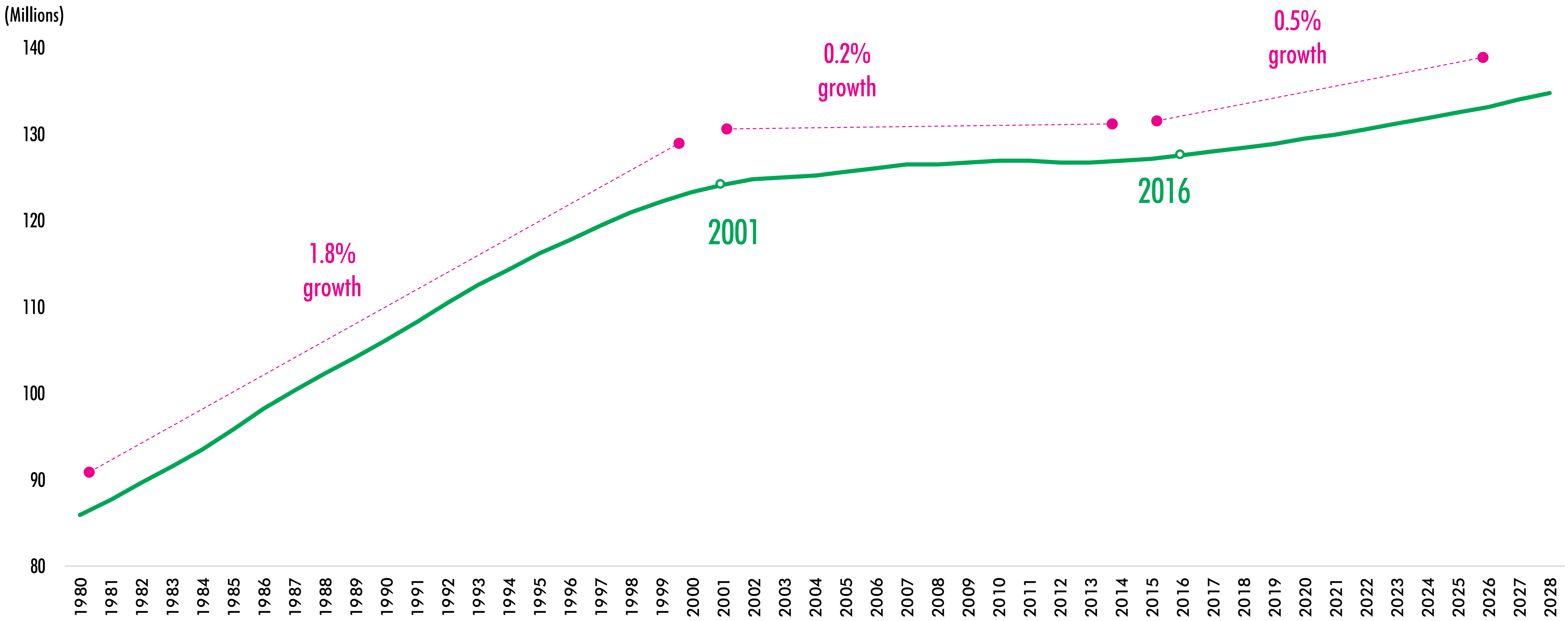
Average Seat Density (RSF/Seat)



Source: CBRE Project Management, 2018/2019.

TAILWIND: U.S. PRIME-AGE WORKING POPULATION GROWING AGAIN

Persons aged 25-54; Average annual growth rates displayed



Source: Oxford Economics, World Bank.

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Q&A

THANK YOU FOR JOINING

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