RETURN OFFICE

FALL 2023

TRANSWESTERN

REAL ESTATE SERVICES

ANOTHER LABOR DAY HAS **COME AND GONE** WITHOUT THE **HOPED-FOR BUMP** IN **RETURN-TO-OFFICE RATES**

Why Your Workforce Doesn't Want To Go Back To Work
— Forbes, 2/2023

Companies Tell Employees to Get Back to the Office But No One Seems to be Listening
— GlobeSt, 5/2023

Even Zoom is calling employees back to the office
— Bloomberg, 8/2023

Another Labor Day Came And Went Without A Spike In Office Occupancy
— Bisnow, 9/2023

Back-to-Office Battles Underscore a Change in Workplace Authority
—New York Times, 5/2023

Employers want everyone back in the office—for real this time
— Marketplace.org, 4/2023

Exclusive: JPMorgan employees gripe about Dimon's return-to-office edict
—Reuters, 4/2023

CEOs thought the return to office debate was over. It looks like they were wrong
— CNBC, 5/2023

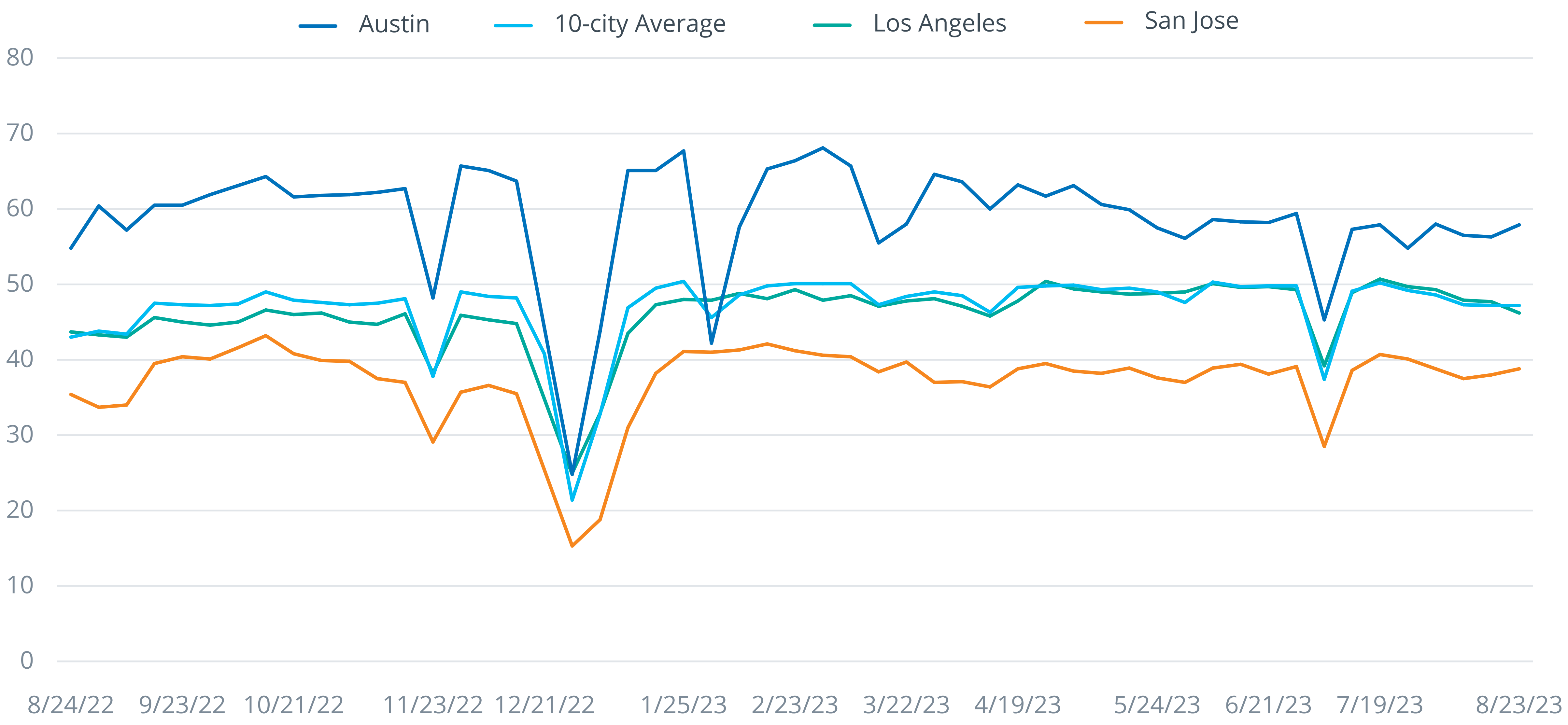
Source: Transwestern

Return-to-office rate is hovering around 50%

Since the onset of COVID, the most widespread measure of tracking the return to office has been Kastle's "Back to Work Barometer." The barometer uses a 100% benchmark for its pre-COVID level, which does not necessarily reflect a true 100% attendance rate, due to its small sample size of included buildings and cities, as well as the speculation that office attendance was rarely 100% even prior to 2020.

Among the 10 metropolitan areas tracked by Kastle, Austin has had the highest average return to office rate over the last twelve months. Only Austin and nearby Houston have been able to crack the 60% barrier in any given week. Los Angeles is the city hewing closest to the 10-city average, while San Jose has the lowest rate of return.

BACK TO WORK BAROMETER | SELECTED CITIES VS. AVERAGE

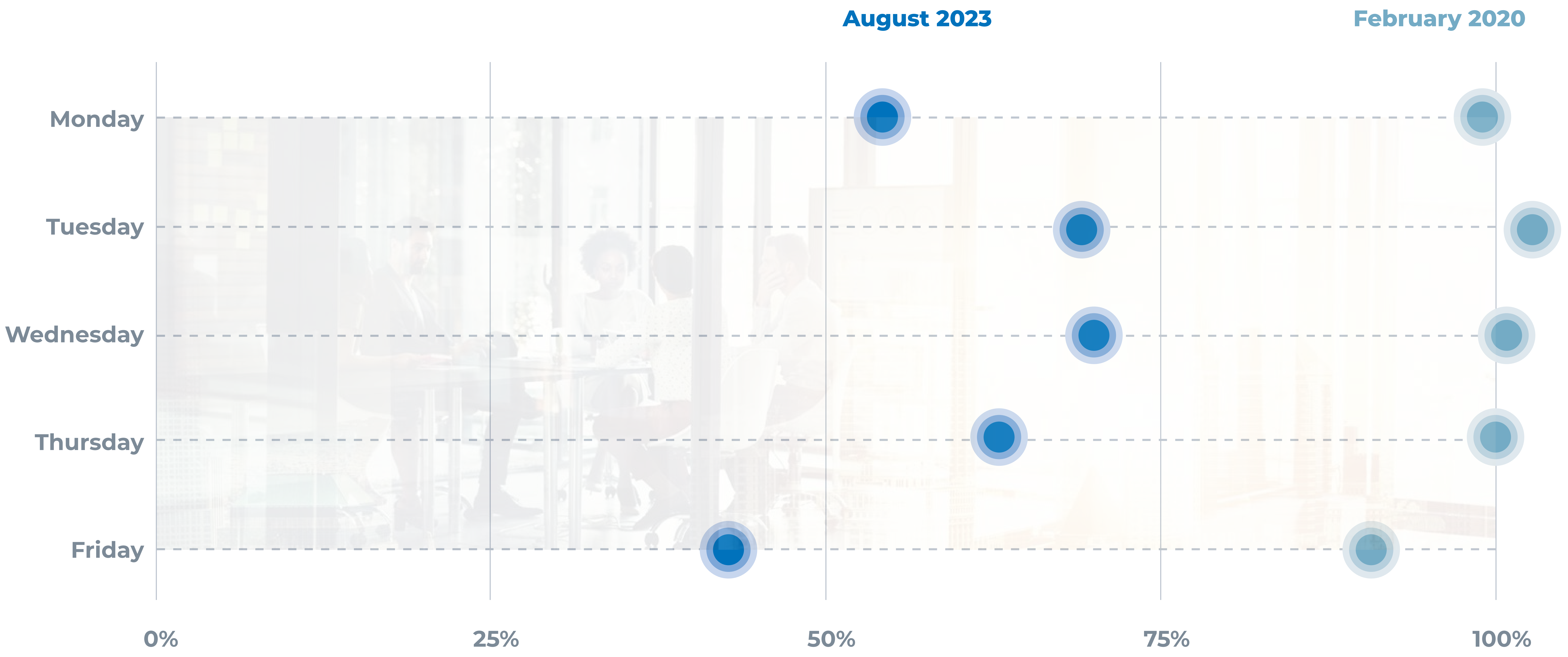


	Year Ago	Now	12 mo average
US Average	**43.0%**	**47.2%**	**46.9%**
Austin, TX	54.8%	57.9%	59.0%
Houston, TX	55.1%	60.9%	58.0%
Dallas, TX	50.9%	54.0%	51.5%
Chicago, IL	42.5%	50.6%	47.8%
Los Angeles, CA	43.7%	46.2%	46.2%
New York, NY	35.3%	40.6%	45.0%
Washington, DC	37.9%	41.0%	43.8%
San Francisco, CA	38.5%	41.9%	41.4%
Philadelphia, PA	36.2%	39.6%	40.3%
San Jose, CA	35.4%	38.8%	37.4%

Source: Kastle

Some days are seeing greater activity

Friday was the weakest attendance day pre-pandemic and has remained so. Monday attendance has also dropped off heavily, while Tuesday and Wednesday have seen the strongest resumption of in-office work.



Source: Kastle

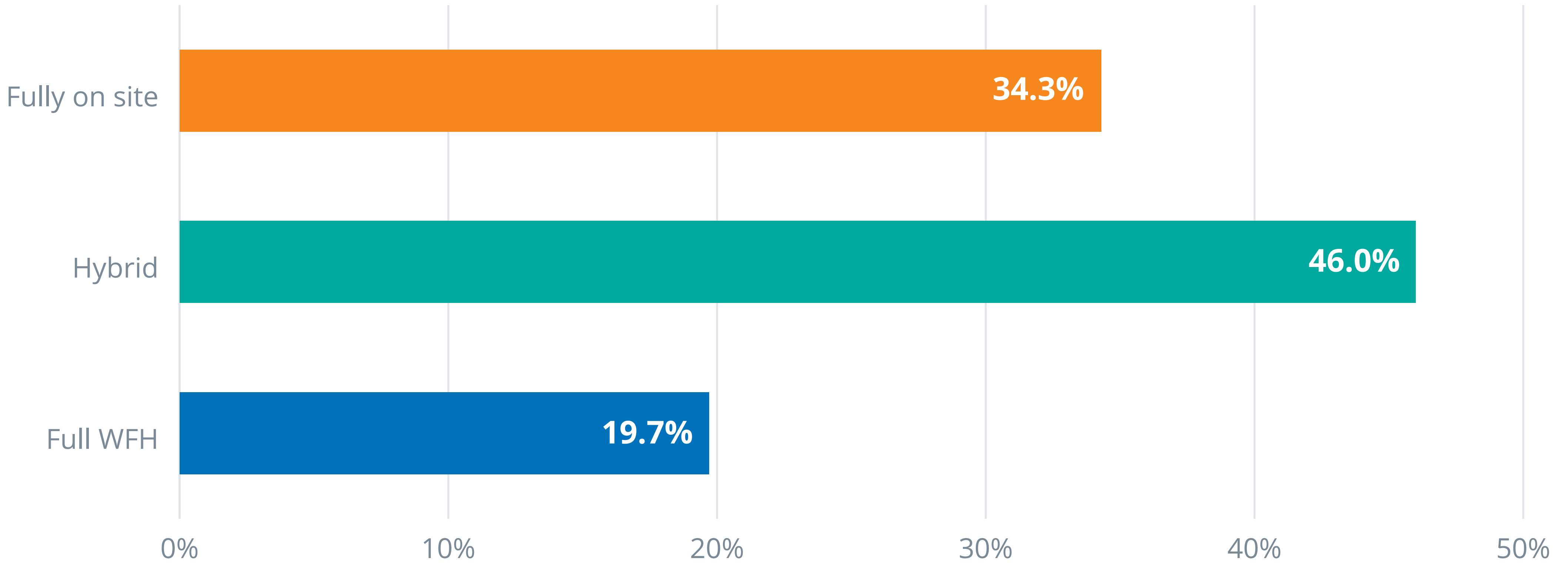
Return to the office hinges on a number of factors

The share of people required to be in the office full time dropped to 42% globally in Q2 2023, according to The Flex Report, down from 49% in Q1, while the share of offices with hybrid work arrangements hit 30%, compared with 20% in Q1.

Even with the ability to work from home, workers are coming to the office. About 80.3% of employees with work-from-home capabilities were either fully on site or hybrid as of August 2023 (WFH Research).

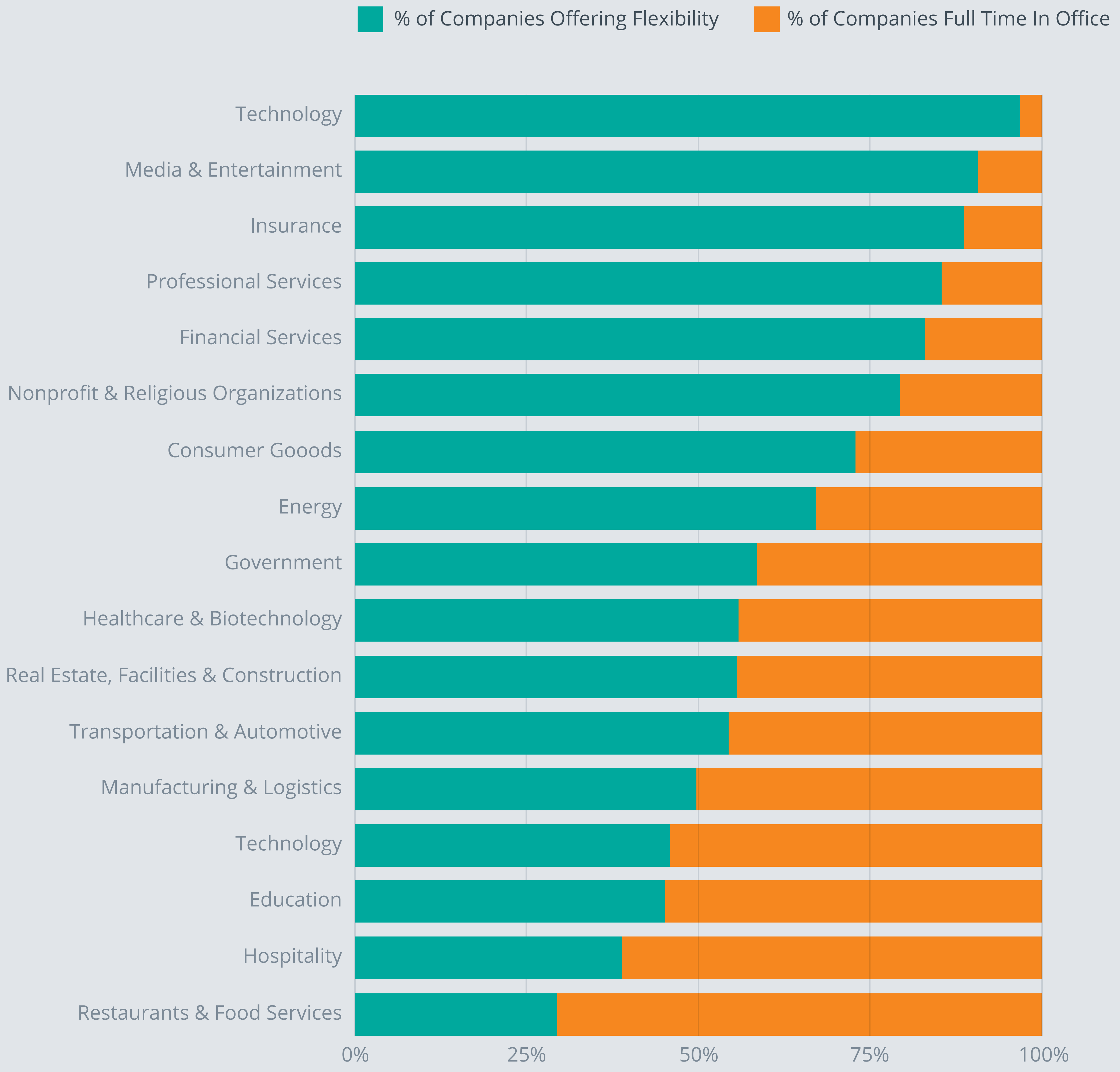
In most industries, including the heaviest office-using sectors, at least 50% of companies are offering some measure of flexibility.

WORKING ARRANGEMENTS OF THOSE ABLE TO WFH MAY TO AUGUST 2023



Source: Scoop; Barrero, Jose Maria, Nicholas Bloom, and Steven J. Davis, 2021. "Why working from home will stick," National Bureau of Economic Research Working Paper 28731

HOW FLEXIBLE IS EACH INDUSTRY?



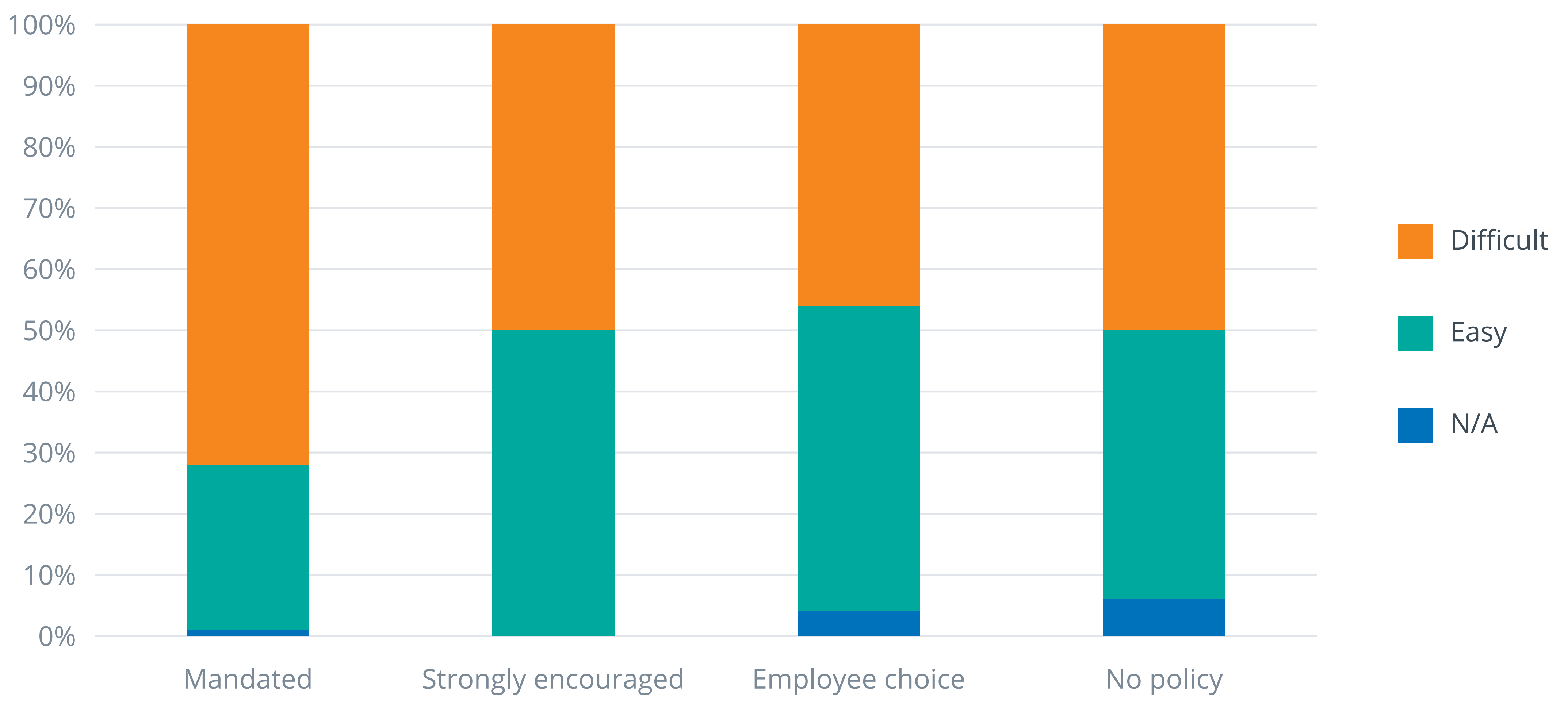
Workers want a say in the matter

The Conference Board survey found that organizations with mandated on-site work policies experience a much greater difficulty retaining workers than those giving employees a choice.

One factor keeping people at home is commute time, which adds hours and expense to an existing workday. Before the pandemic, 38% of American workers spent an hour or more commuting each day. Workers in dense cities experienced longer commutes — 59% of workers in the New York MSA spent more than an hour commuting each day.

Child care is another consideration. The American Rescue Plan Act, created during the Pandemic to support struggling childcare programs, is ending, and its closure would create difficulty for parents who were relying on these programs.

DIFFICULTY IN RETAINING WORKERS



Encouraging, rather than mandating, may be the best way to attract workers into the office.

— Altus Group, 2023

Source: The Conference Board

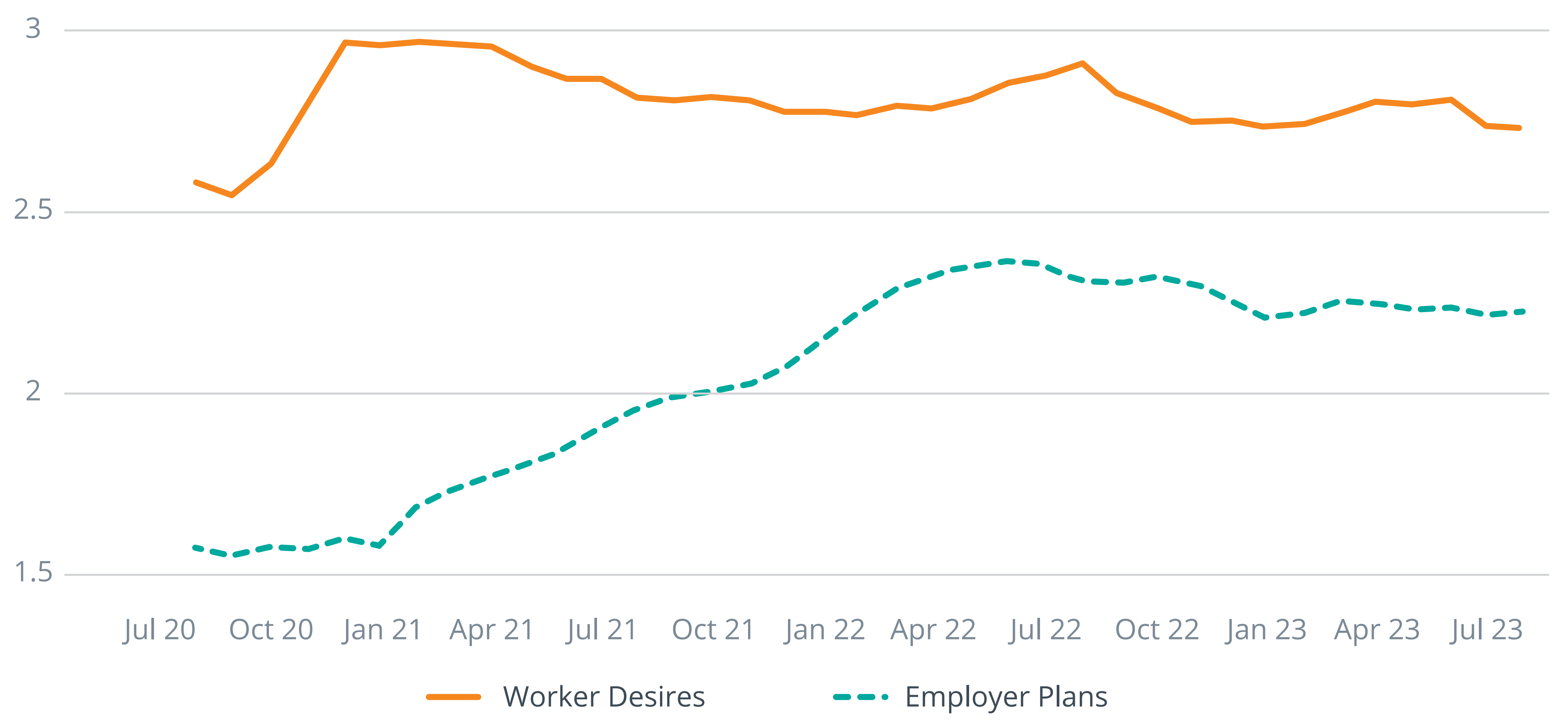
Employers and workers seem to have similar desires, but gap persists

There is still a small discrepancy between how often employers would like employees to come into the office, and how often employees want to be there.

The gap has been holding fairly steady at about half a day, with employers wanting workers in-office about 2.75 days a week, and workers preferring 2.25 days on site.

A mandated return to office policy could be used to trigger a "soft layoff" — if a company chooses to use non-returning workers as an opportunity to restructure or trim its workforce (Dan Schawbel, Workplace Intelligence, August 2023).

AVERAGE DAYS PER WEEK WORKING FROM HOME AFTER THE PANDEMIC ENDS: WORKERS ABLE TO WFH



Source: Barrero, Jose Maria, Nicholas Bloom, and Steven J. Davis, 2021. "Why working from home will stick," National Bureau of Economic Research Working Paper 28731

Company policies vary widely

Required number of days in office

5 Days

- X
- Goldman Sachs
- JPMorgan Chase & Co.

4 Days

- salesforce
- BlackRock
- Disney
- Morgan Stanley

3 Days

- amazon prime
- Google
- Meta
- gm
- Microsoft

2 Days

- The J.M. Smucker Co
- Walmart
- zoom

"...it's probably not going to work out for you at Amazon..."

Andy Jassy, CEO, Amazon, August 2023

To employees who are not on site at least three days a week

Source: Transwestern Research

What drives workers to come back to the office?

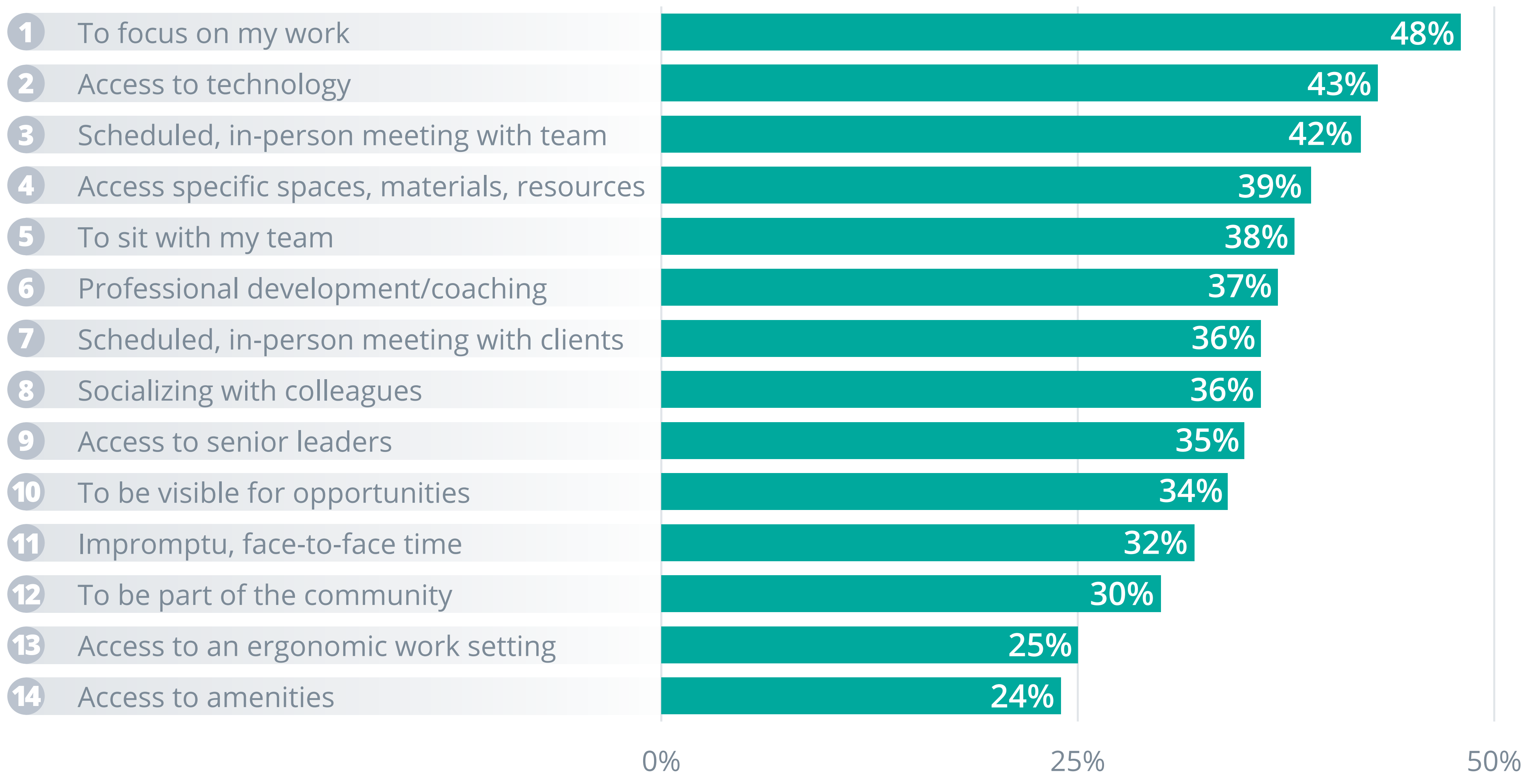
Gensler's US Workplace Survey, conducted in 2022, cited three "surprising" reasons to return to the office:

1. Shift in top reason for coming in – **"to focus on my work."** Previously it was **"working with my team, connecting, and socializing."**

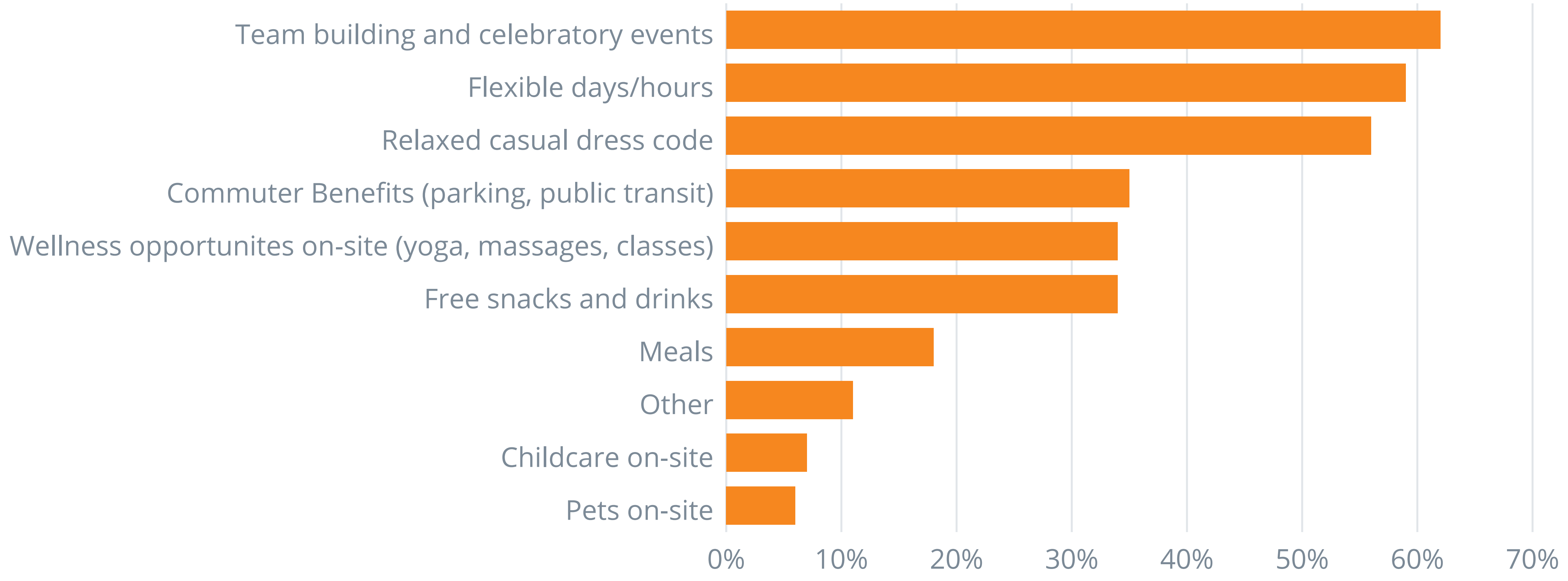
2. **Employees are feeling the need to be in the office more often** to maximize productivity.

3. **Incentives** are also helping draw reluctant workers back to the office environment.

THE TOP REASONS EMPLOYEES SAY THEY COME TO THE OFFICE IS TO FOCUS ON THEIR WORK



WHICH IN-OFFICE INCENTIVES DOES YOUR ORGANIZATION PROVIDE?



Source: Gensler, The Conference Board

What workers want varies by age (but everyone wants coffee)

The Gensler survey found that most US employees are working in offices that have not been redesigned since the pandemic.

Survey results suggested that a **new mix of experiences** would entice more workers back, though those desired experiences vary by generation. When asked to describe the ideal mix for their company's office environment, younger workers preferred more amenity-rich spaces and hospitality-infused experiences, while older workers preferred corporate and business-like environments.

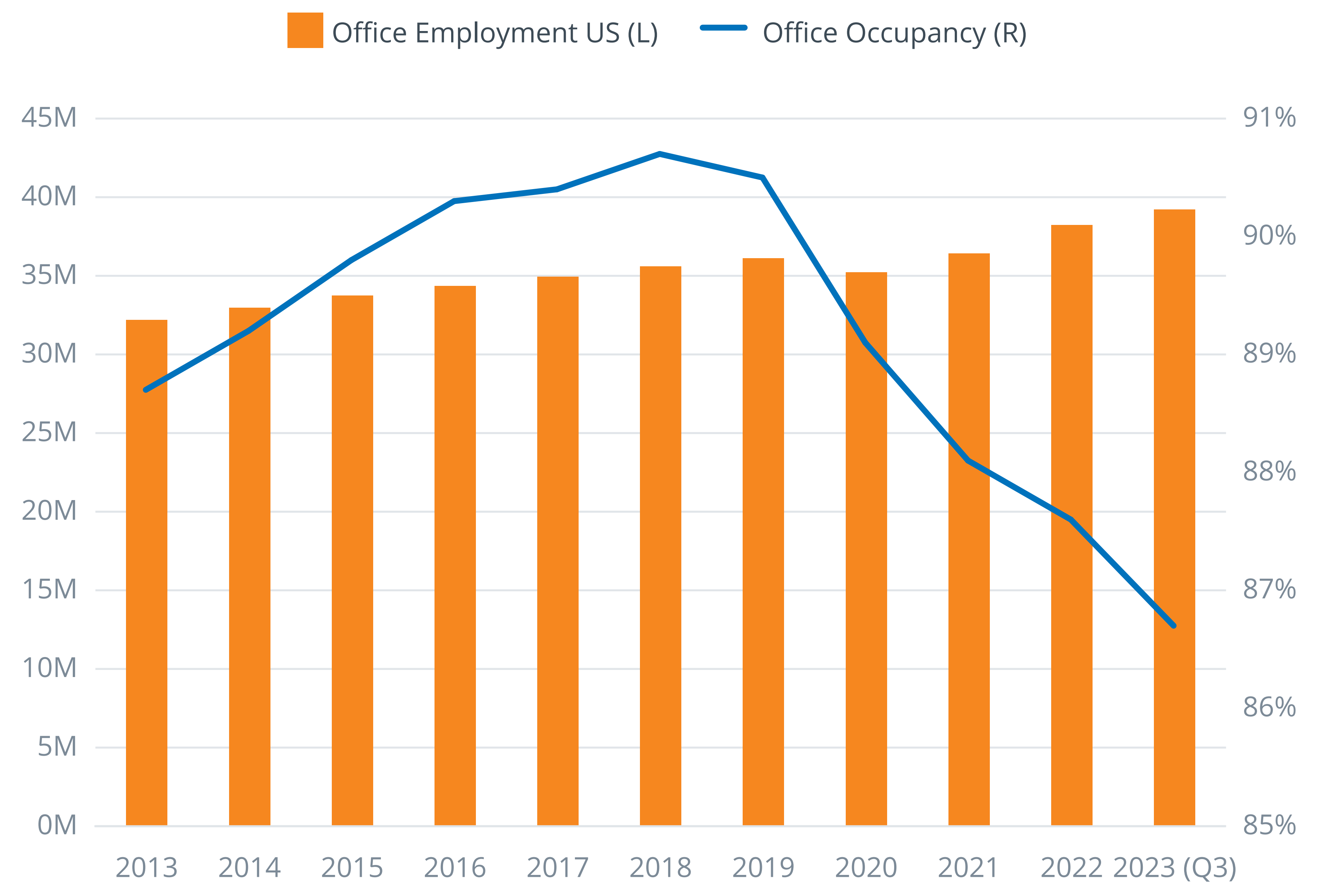
Rank	Gen Z	Millennial	Gen X	Baby Boomer
1	Coffee Shop	Coffee shop	Coffee shop	Corporate
2	Boutique Hotel	Boutique Hotel	Corporate	Coffee shop
3	Club House	Club House	Boutique Hotel	Residential
4	Corporate	Residential	Residential	Library
5	Residential	Corporate	Club House	Conference Center
6	Conference Center	Library	Library	Club House
7	Creative Lab	Conference Center	Conference Center	Boutique Hotel
8	Library	Creative Lab	Creative Lab	Creative Lab

Source: Gensler

Employment is still growing in traditional office sectors

Office-using jobs have surpassed their pre-pandemic level. There are currently 39.2 million “office jobs” — meaning jobs in traditionally office-using industries — in the United States, representing growth of 8.6% since 2019.

However, amid fluctuating workplace strategies, the correlation between office-using job growth and demand for office space has weakened.

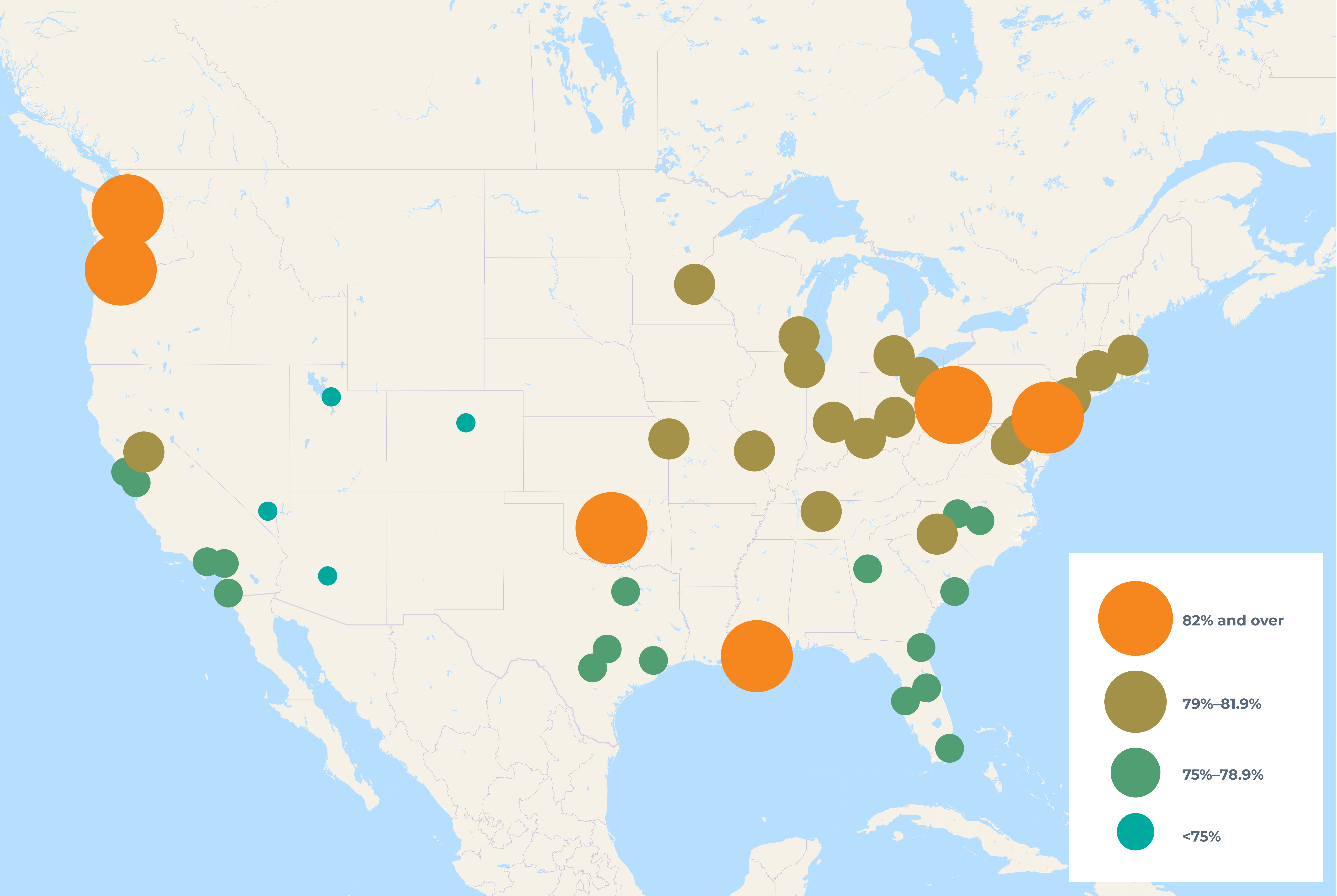


Source: CoStar, Lightcast, Transwestern

Plenty of people are still going into the office

Considering the 2023 level of 39.2 million "office jobs," an **estimated 31.3 million of these employees (79.7%) are currently working in a physical office** at least part of the time.*

Average in-person, in-office work rates in the top 50 U.S. markets vary widely, from nearly 84% in the Philadelphia and Pittsburgh MSAs to less than 74% in the Denver and Salt Lake City metro areas.



*This number differs from Kastle's return to office rate in that it is including any workers who come to the office at least 1-2 days a week. In contrast, Kastle's data reflects individual key swipes within its particular building set. The 79.7% estimate is more relevant for consideration of space needs as it presumes any workers coming to the office at least part time will require office space

Source: Lightcast

Additional employees will need additional space

Jobs in traditionally office-using industries are forecast to increase another 6.9% by 2028, translating to an additional 2.7 million positions.

Assuming the current in-office percentages for each metro stay the same, we can forecast a potential 33.4 million workers that will require office space in 2028.

MSA	Industry Total	In Office (2023)	WFH (2023)	% In-Office	2028 In-Office Forecast*
United States	**39,212,223**	**31,263,768**	**7,948,456**	**79.7%**	**33,420,238**
Largest MSAs by Total In-Office Workforce					
New York-Newark-Jersey City, NY-NJ-PA	2,819,581	2,281,149	538,432	80.9%	2,444,702
Los Angeles-Long Beach-Anaheim, CA	1,842,482	1,453,629	388,854	78.9%	1,517,330
Chicago-Naperville-Elgin, IL-IN-WI	1,241,051	1,015,115	225,936	81.8%	1,029,116
Dallas-Fort Worth-Arlington, TX	1,275,956	996,543	279,412	78.1%	1,104,018
Washington-Arlington-Alexandria, DC-VA-MD-WV	1,045,107	828,103	217,004	79.2%	849,113
San Francisco-Oakland-Berkeley, CA	914,783	718,865	195,918	78.6%	776,900
Atlanta-Sandy Springs-Alpharetta, GA	913,303	717,373	195,930	78.5%	770,003
Boston-Cambridge-Newton, MA-NH	880,158	716,382	163,776	81.4%	769,436
Miami-Fort Lauderdale-Pompano Beach, FL	826,186	649,171	177,016	78.6%	680,400
Houston-The Woodlands-Sugar Land, TX	820,253	641,035	179,218	78.2%	683,929
Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	743,369	622,875	120,494	83.8%	631,073
MSAs with Largest In-Office Percentage					
Pittsburgh, PA	265,884	222,949	42,935	83.9%	221,883
Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	743,369	622,875	120,494	83.8%	631,073
Portland-Vancouver-Hillsboro, OR-WA	327,007	273,438	53,569	83.6%	288,191
New Orleans-Metairie, LA	126,017	104,707	21,310	83.1%	107,786
Oklahoma City, OK	151,749	125,958	25,791	83.0%	132,021
Seattle-Tacoma-Bellevue, WA	730,059	604,982	125,077	82.9%	668,761
Chicago-Naperville-Elgin, IL-IN-WI	1,241,051	1,015,115	225,936	81.8%	1,029,116
Detroit-Warren-Dearborn, MI	543,314	443,160	100,154	81.6%	451,456
Boston-Cambridge-Newton, MA-NH	880,158	716,382	163,776	81.4%	769,436
Indianapolis-Carmel-Anderson, IN	272,538	221,776	50,762	81.4%	230,532

*2028 in-office forecast was determined by multiplying the Lightcast 2028 jobs forecast by the current (2023) percentage of people who are working in an office at least 1-2 days per week.

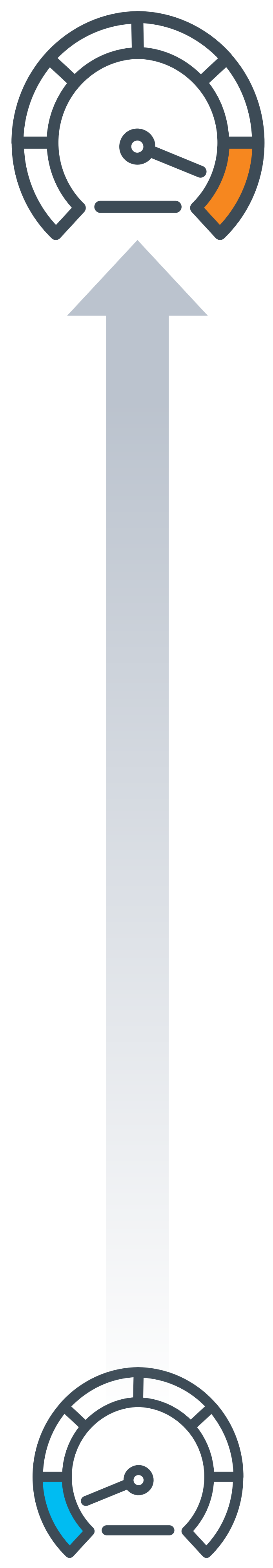
Source: Lightcast

Full recovery will take time

Based on current assumptions and projections, most major US markets will take more than ten years to get back to the full pre-pandemic in-office head count.

The fastest recovery will be seen mainly in secondary markets.

Projections could change depending on economic progress, recession scenarios, and other factors.



Metro	In office: 2033 Forecast vs 2019 Actual
US	**96%**
Austin-Round Rock-Georgetown, TX	136%
Seattle-Tacoma-Bellevue, WA	113%
Salt Lake City, UT	109%
Dallas-Fort Worth-Arlington, TX	108%
Nashville-Davidson—Murfreesboro—Franklin, TN	104%
Raleigh-Cary, NC	104%
Charleston-North Charleston, SC	99%
Riverside-San Bernardino-Ontario, CA	98%
Charlotte-Concord-Gastonia, NC-SC	98%
Orlando-Kissimmee-Sanford, FL	98%
San Francisco-Oakland-Berkeley, CA	95%
Denver-Aurora-Lakewood, CO	94%
Atlanta-Sandy Springs-Alpharetta, GA	94%
San Diego-Chula Vista-Carlsbad, CA	93%
Houston-The Woodlands-Sugar Land, TX	93%
New York-Newark-Jersey City, NY-NJ-PA	93%
Miami-Fort Lauderdale-Pompano Beach, FL	93%
Las Vegas-Henderson-Paradise, NV	91%
San Antonio-New Braunfels, TX	91%
New Orleans-Metairie, LA	89%
Los Angeles-Long Beach-Anaheim, CA	87%
Phoenix-Mesa-Chandler, AZ	86%
Sacramento-Roseville-Folsom, CA	86%
Washington-Arlington-Alexandria, DC-VA-MD-WV	84%
St. Louis, MO-IL	84%
Detroit-Warren-Dearborn, MI	83%
Chicago-Naperville-Elgin, IL-IN-WI	83%
Minneapolis-St. Paul-Bloomington, MN-WI	78%
Milwaukee-Waukesha, WI	77%

Source: Lightcast

How is the "flight to quality" manifesting?

The quality of workplace experience is a key driver in influencing employees' decisions to work in the office (Gensler, March 2023)

- **Experimentation and differentiation will continue**, with different industries requiring different work environments.
- **Being together in person matters** — for focus, learning, development and growth.
- **If the space works well, people want to be there:** destination, not obligation.
- **The flight to quality is real,** and must support the need for community and access to amenities, as well as workplace needs.
- **Access to outdoor space is a must** — for provision of health and well-being benefits.

Source: Gensler

Large occupiers are seeking new and upgraded space

Since 2020, roughly 30% of new leases have been signed in buildings that were built or renovated in 2020 or later. When looking at leases larger than 50,000 SF, the number rises to more than 40%.

With only a few exceptions, the largest leases since the pandemic began have been signed in brand new or newly-renovated assets.

Type	Sign Date	Tenant	Sf Leased	Class	Building Address	Metro	Year Built / Renovated
Direct	1/1/22	Sherwin-Williams	1,000,008	A	1 Frankfort Ave	Cleveland	2024
Direct	9/1/20	Amazon	941,168	A	117 106th Ave	Seattle	2023
Direct	11/1/20	PG&E	902,098	A	300 Lakeside Dr	East Bay/Oakland	1960 / 2021
Direct	3/1/22	Centene	770,000	B	2405 Governor Hunt Rd	Charlotte	2023
Direct	8/1/20	Facebook	740,000	A	390 Ninth Ave	New York City	2020
Direct	9/1/20	Amazon	671,580	A	555 108th Ave NE	Seattle	2023
Direct	9/1/21	Kirkland & Ellis	662,400	A	333 W Wolf Point Plz	Chicago	2023
Sublease	9/1/22	ByteDance	647,934	B	1199 Coleman Ave	South Bay/San Jose	2021
Direct	6/1/23	Department of Citywide Administrative Services	630,000	A	110 William St	New York City	1957 / 1999
Direct	1/1/21	Amazon	630,000	A	1 Boston Wharf Rd	Boston	2024
Direct	3/1/21	Amazon	600,000	A	10627 NE 8th St	Seattle	2023
Direct	6/1/22	Takeda Pharmaceuticals	600,000	A	585 Third St	Boston	2026
Direct	1/1/23	Citadel	585,000	A	350 Park Ave	New York City	1961 / 2012
Direct	12/1/21	Meta	574,165	A	400 W 6th St	Austin	2023
Direct	4/1/22	AstraZeneca	570,000	B	290 Binney St	Boston	2024
Direct	8/1/22	Google	537,000	A	100 Caribbean Dr	South Bay/San Jose	2023
Direct	4/1/21	Amazon	500,000	A	201 Platform Way N	Nashville	2023
Direct	10/1/22	Maryland Department of Health	463,000	B	300-400 N Greene St	Baltimore	1980
Direct	9/1/21	Moderna	462,000	A	325 Binney St	Boston	2023
Direct	8/1/22	KPMG	455,739	A	385 9th Ave	New York City	2023
Direct	2/1/21	Anduril	449,206	A	1375 Sunflower Dr	Orange County (CA)	2022 / 2019
Direct	5/1/21	Bandwidth	440,575	A	2201 Edwards Mill Rd	Raleigh/Durham	2023
Direct	9/1/20	State Farm	429,200	A	240 Perimeter Center Pky	Atlanta	2021
Direct	11/1/21	MSG Entertainment	428,723	B	2 Penn Plz	New York City	1968 / 2023
Direct	5/1/23		420,000	A	229 Washington St	Philadelphia	2024
Direct	6/1/20	Vistra	403,150	A	1925 W John Carpenter Fwy	Dallas-Fort Worth	1987 / 2018
Direct	5/1/20	Zions Bancorporation	402,605	A	7860 S Bingham Junction Blvd	Salt Lake City	2022
Direct	7/1/23	Wells Fargo	400,000	A	401 W Las Colinas Blvd	Dallas-Fort Worth	2025
Direct	8/1/23	Wells Fargo	400,000	A	401 W Las Colinas Blvd	Dallas-Fort Worth	2025

Source: CoStar, Transwestern Research

Newest buildings are recovering the fastest

Availability in the newest assets is decreasing much more rapidly than in older assets. Properties delivered since the pandemic have seen availability shrink while older assets are seeing the greatest increase.

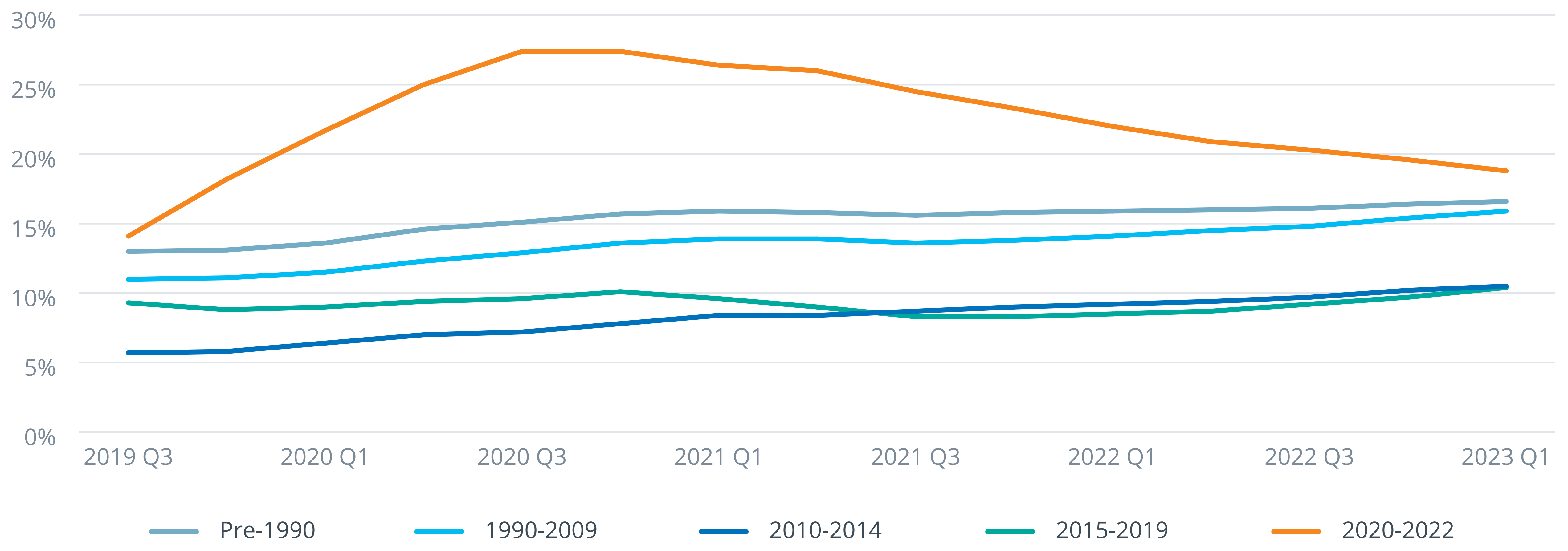
Likewise, net absorption is much stronger in the newest buildings than in any other vintage subset.

Demand is clearly higher for new and trophy space, but not everyone is trading up. While some tenants are taking advantage of high availability and lowered rents in the most desirable assets, others are using the opportunity to leverage a better deal on older / Class B space.

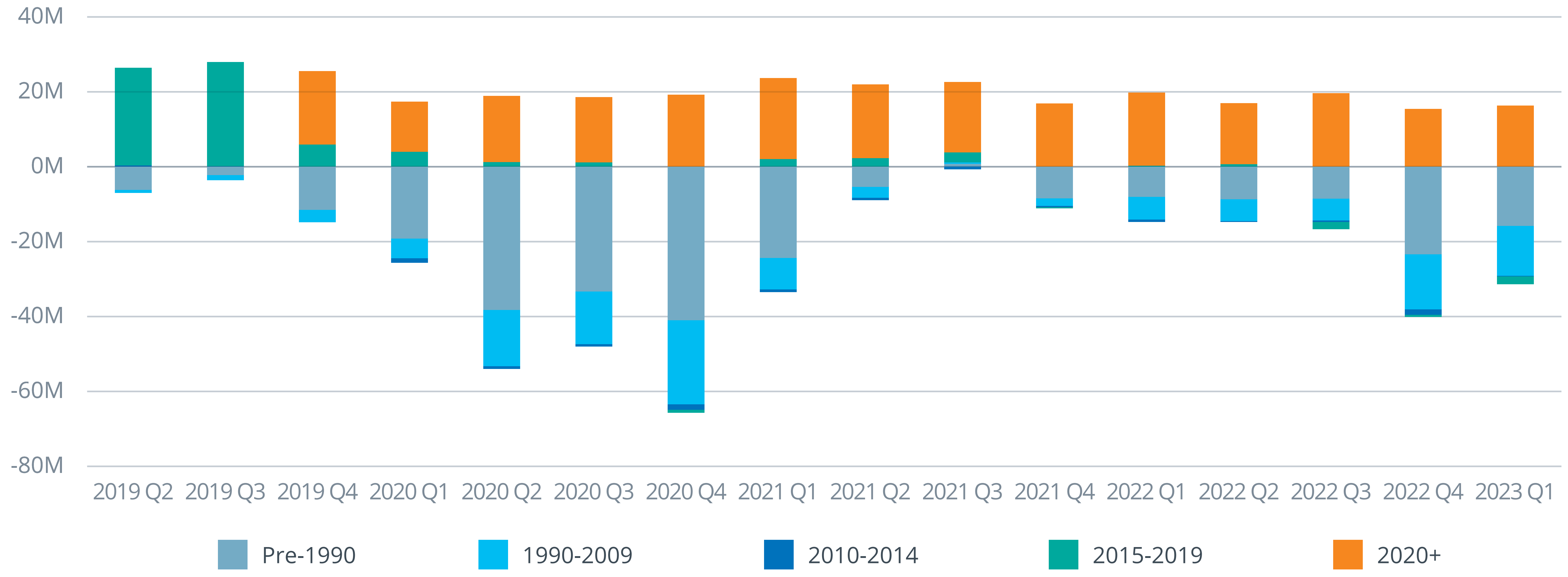
Owners who invest in Class B might be the next in line once the largest "quality" spaces are filled up — but those who are hoping to benefit from the overflow might need to enhance their spaces as well:

- Updating of obsolete space
- Conversion of "me space" (private offices) to "we space" (conference, collaborative areas)
- Addition of amenities
- Flexibility in leasing terms
- Adaptive reuse

AVAILABILITY BY YEAR BUILT



NET ABSORPTION BY YEAR BUILT



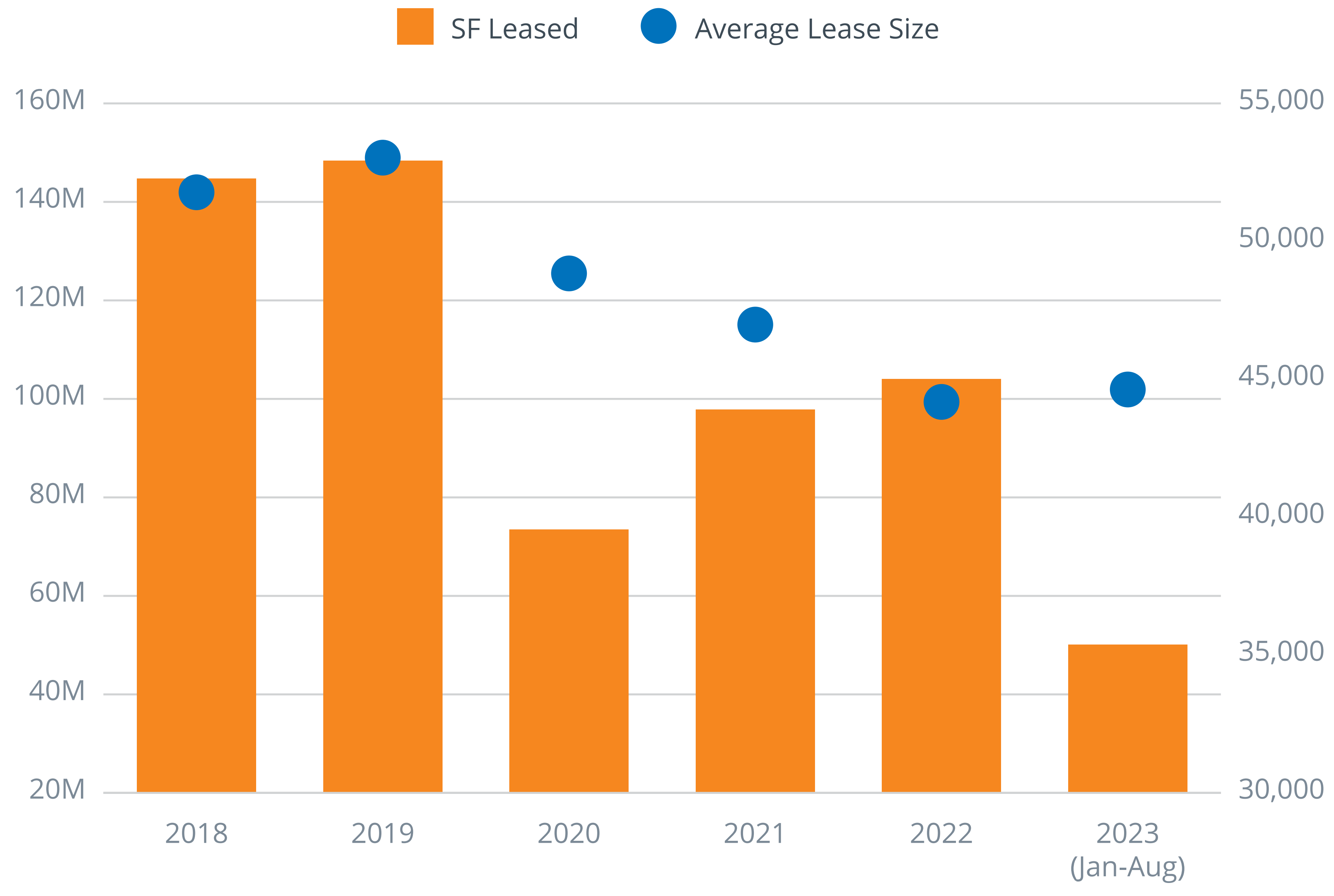
Source: CoStar, Transwestern Research (leases over 20,000 SF)

Deal size is shrinking

Leasing has improved from its 2020 bottom, but is still well below immediate pre-pandemic levels.

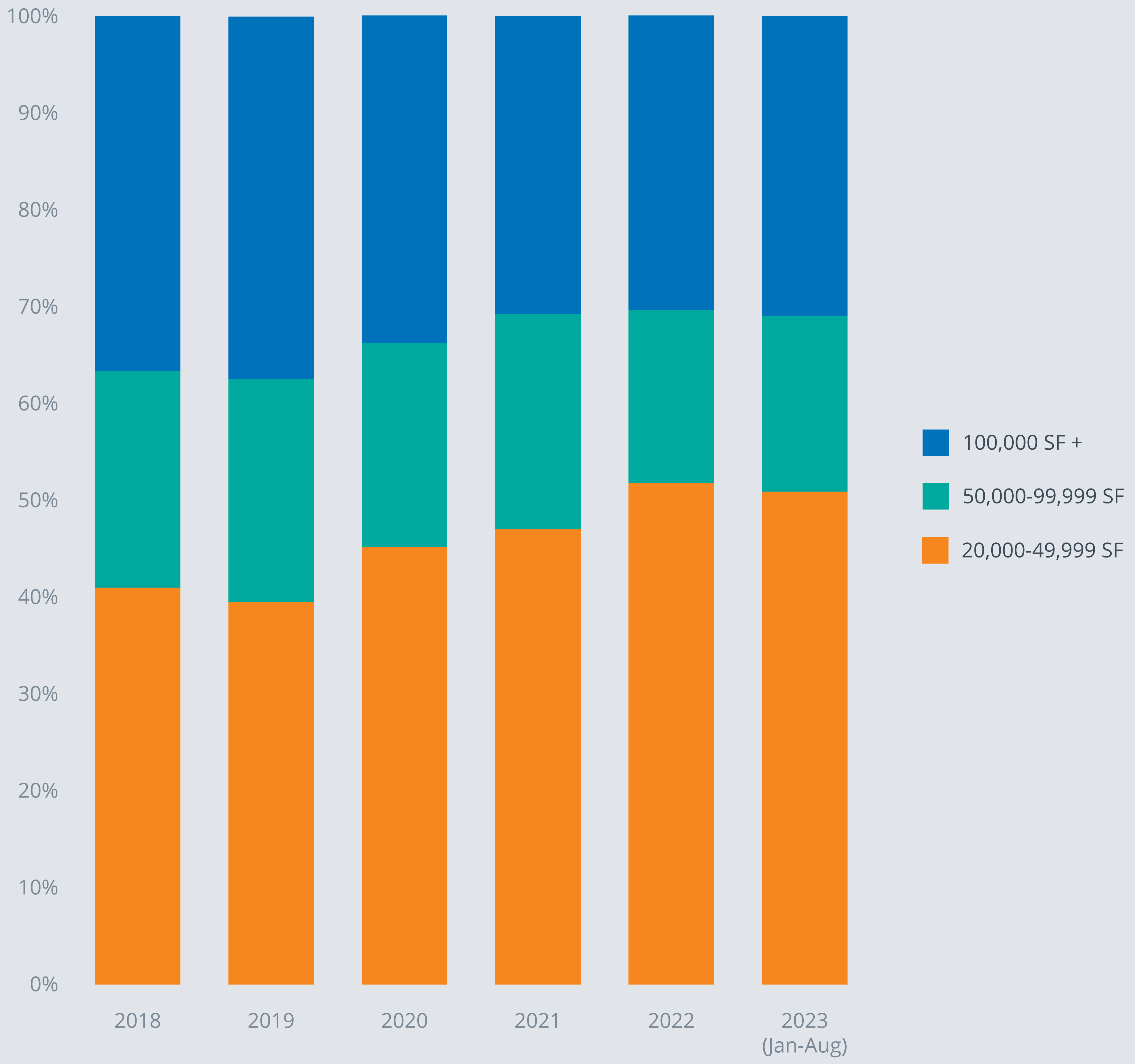
In 2018 and 2019, roughly 60% of new leasing activity was for deals of 50,000 SF or more. Since 2022, that number has shifted to less than 50%.

The average new lease size has decreased from 53,000 SF in 2019 to 44,600 SF in 2023, a decline of nearly 16%.



Source: CoStar, Transwestern Research [leases 20,000 SF and over]

LEASED SF BY SIZE



Office construction starts are down

Since the pandemic, construction starts have averaged just 17.0 MSF per quarter, peaking at 20.7 MSF in early 2021. For comparison, construction starts in the five years prior to the pandemic averaged 27.2 MSF per quarter.

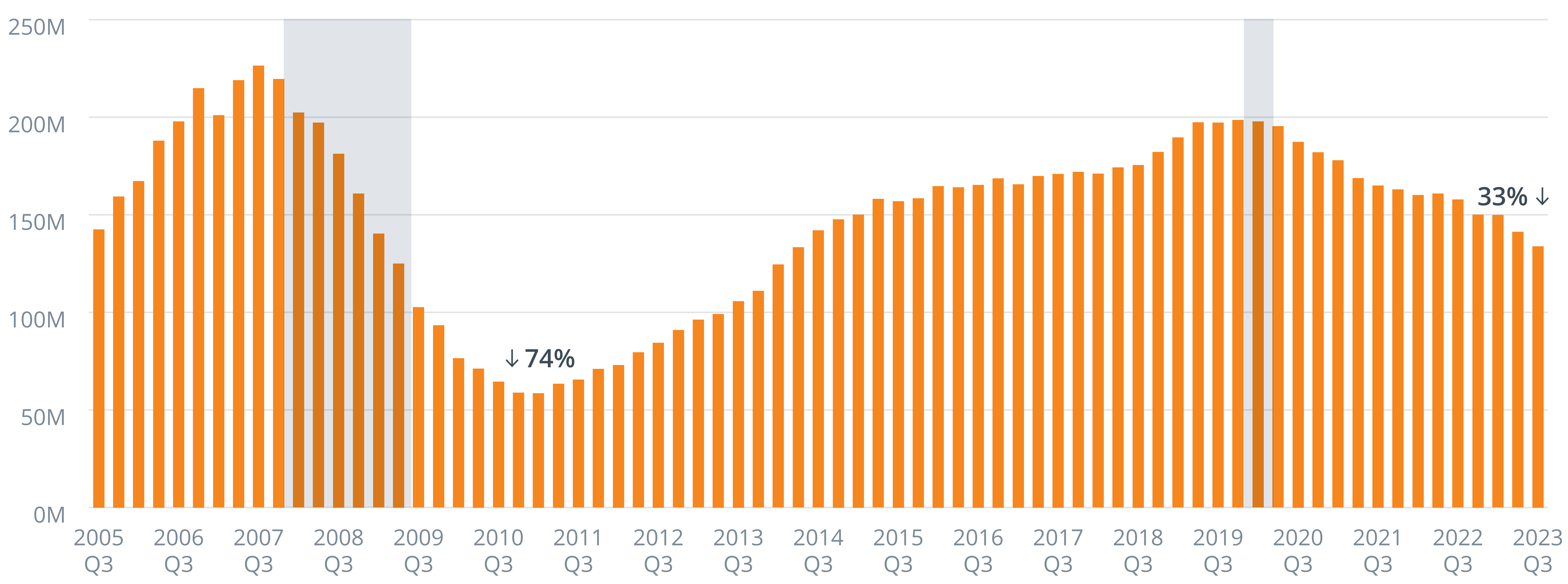
The four-quarter rolling average has decreased in eleven of the last fourteen quarters, constrained by economic uncertainty and the rising cost of capital.

There is about 133.9 MSF of office construction underway across the US. This level is about 33% below the immediate pre-COVID level of 198.5 MSF, which represented a cycle peak. Currently, construction is on par with the mid-2014 level.

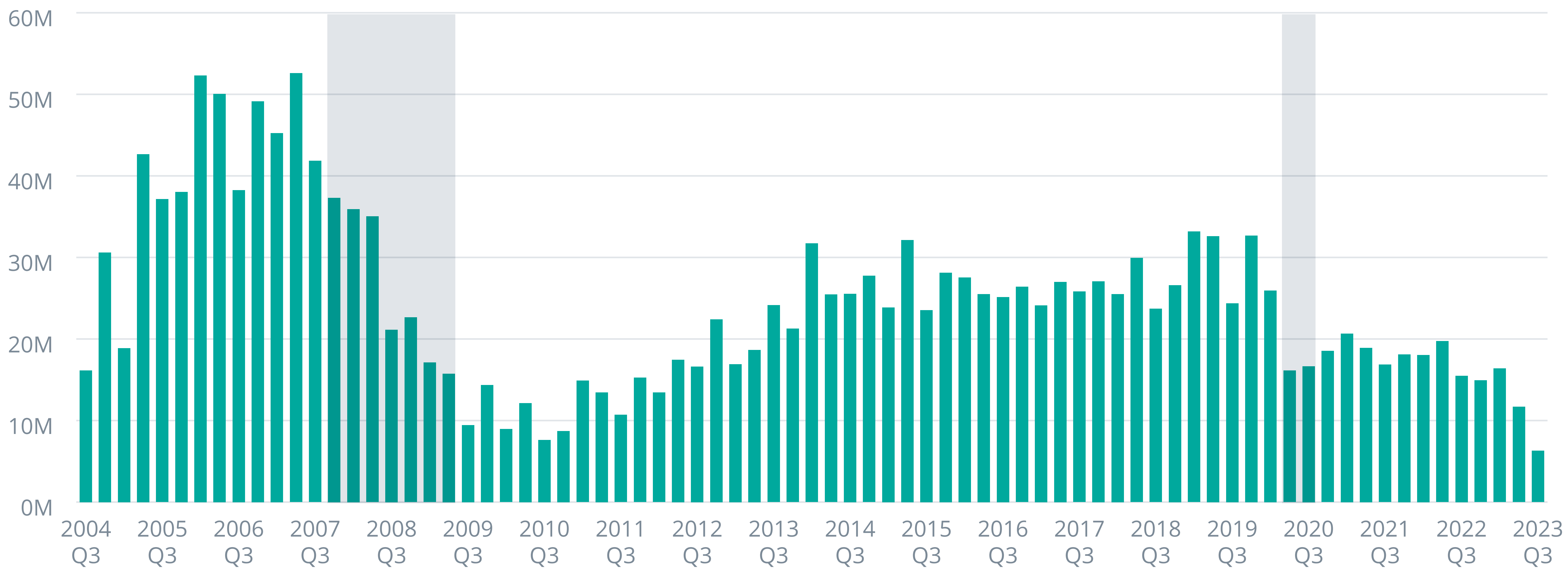
While construction levels have dropped sharply since the onset of COVID, the decrease is relatively mild compared to the period following the 2007 Financial Crisis, when construction fell off by nearly 75% over 15 quarters.

New construction could be further hampered by increased operating costs, necessitating rents that are well above current market levels in order to get a reasonable return.

UNDER CONSTRUCTION | U.S. OFFICE



CONSTRUCTION STARTS | U.S. OFFICE



Source: CoStar

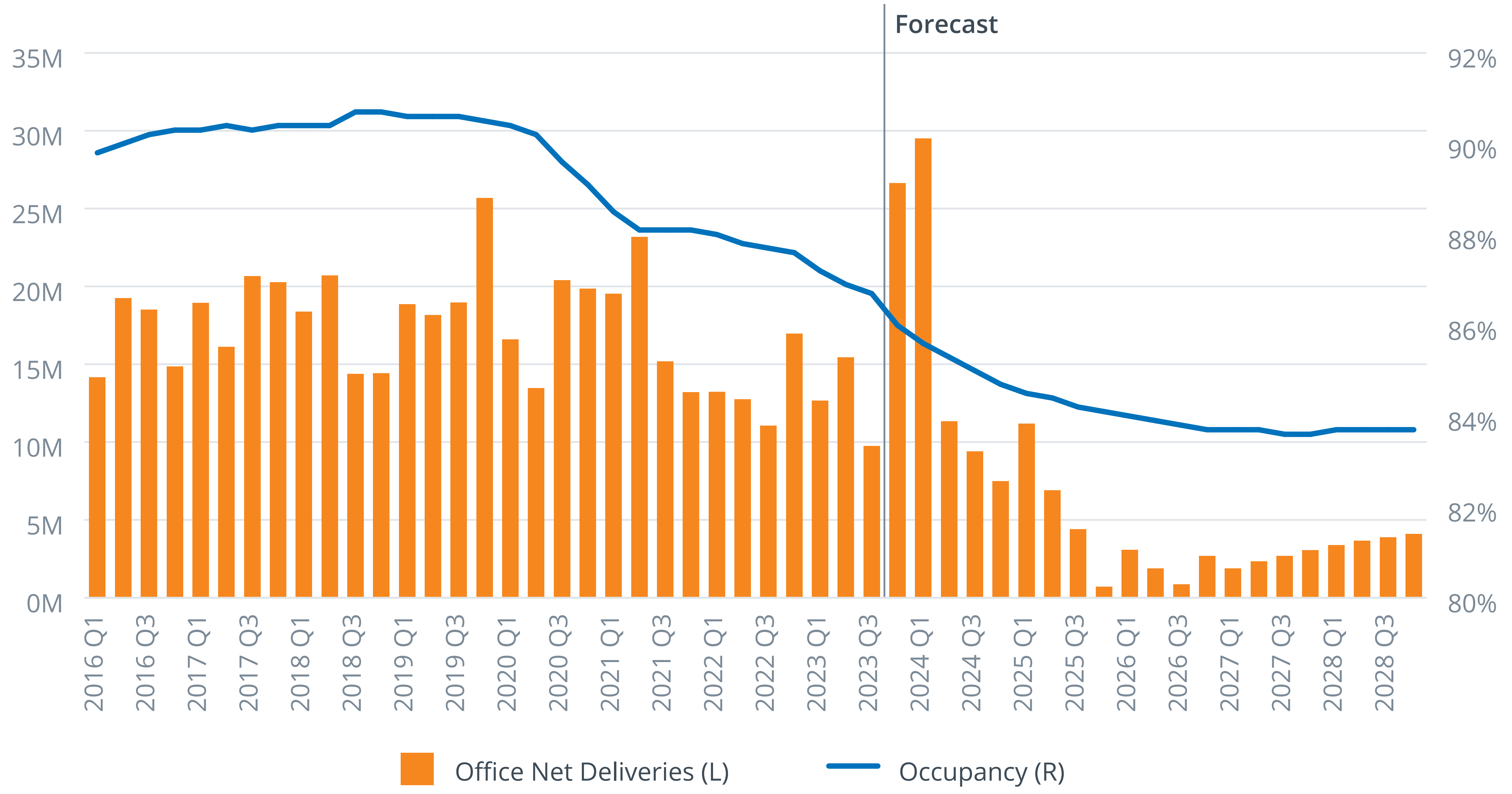
Occupancies and construction will find an equilibrium

The diminished construction pipeline will keep delivery levels subdued over the next several years.

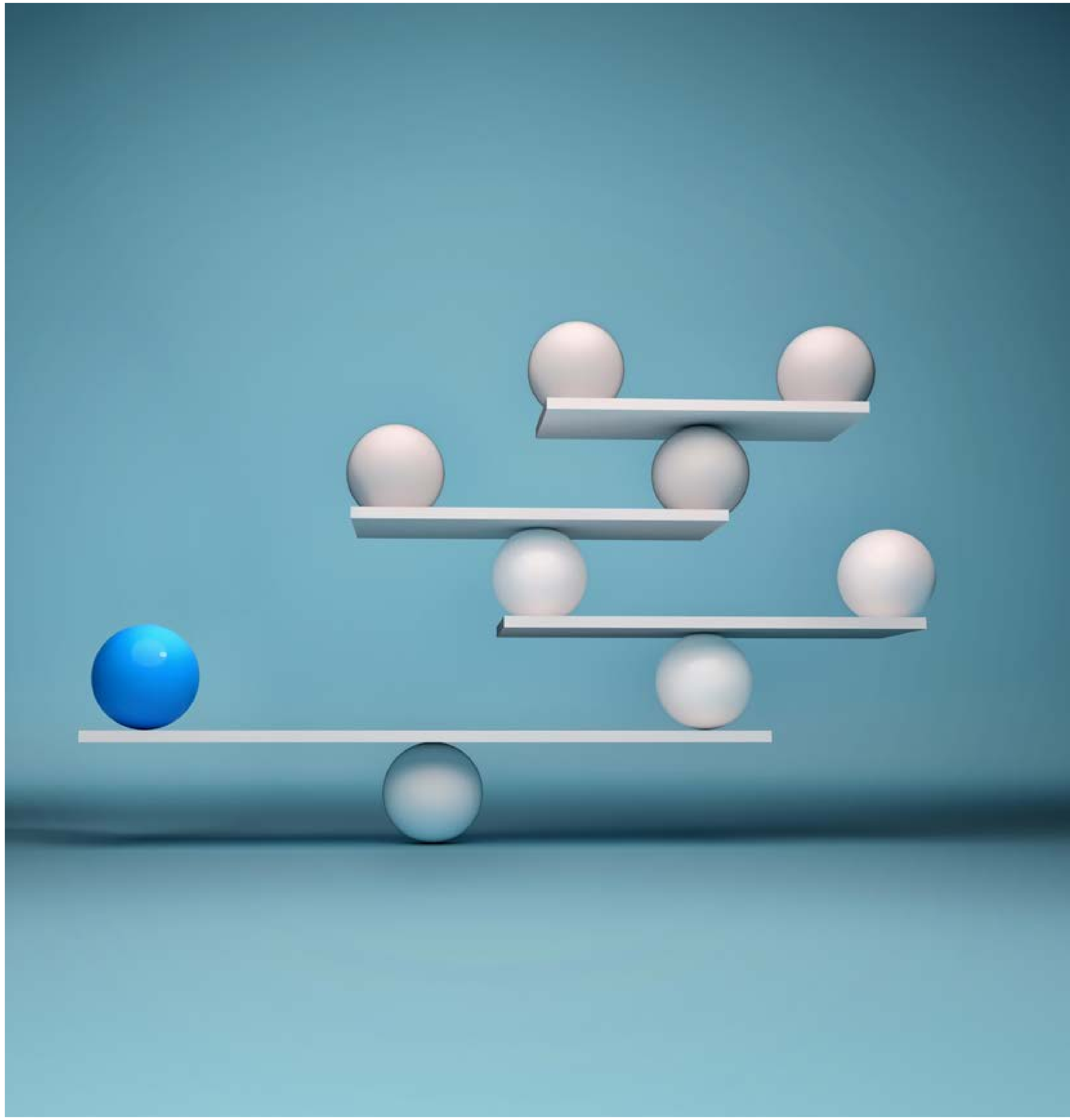
Along with the lower construction levels, further decrease in occupancies (leased, occupied space) is projected. This is separate from the change in employees who are physically utilizing space day to day.

Office design is leaning toward more collaborative spaces and less personal space, meaning a redesign but not necessarily a shrinking footprint.

Occupancy levels should stabilize in the mid-80% range over the next few years.



Source: CoStar



TRANSWESTERN
REAL ESTATE SERVICES

Transwestern can help create spaces where people want to be

Owners can move forward by exploring the potential of existing buildings

Adaptive Reuse

Conversions

Creatively position assets to attract and retain tenants

Make improvements including amenities and quality of service

Users have the opportunity to save money while utilizing space more effectively

New product will require strategies that deliver flexibility and market differentiation

Source: Transwestern

Appendix: Slide 8 Policies

Required Number of Days in Office

5

Twitter/X: company reversed an earlier decision to embrace fully remote work

Goldman Sachs: did away with Summer Fridays

JP Morgan Chase: managing directors must attend five days a week, most other employees must attend three days a week

4

BlackRock: allowing one day/week work from home

Disney: workers have petitioned against the four-day workweek

Comcast: was previously requesting three days, now four days on site

Salesforce: asking three to four days per week. In June 2023 was offering charitable donations for any in-office day

Morgan Stanley: limit of 90 remote days per year. Per CEO, remote work is not an employee choice

3

Amazon: reportedly using ID badges to track attendance. Some staffers being forced to relocate to a different hub or face losing their jobs. Employees have staged walkouts

Apple: reportedly threatening to take action if employees don't oblige. Company is using badge tracking for attendance.

Google: badge tracking, factoring attendance into performance reviews, re-evaluating approvals for remote work

Citigroup: badge tracking at some offices

General Motors: salaried workers must attend three days a week minimum, but some flexibility depending on job and department

Meta: in a reversal from the full-time remote plan, managers will review attendance; non-compliance could result in disciplinary action or termination.

Starbucks: was initially one-two days for office workers, but employees failed to meet the request, prompting the new mandate

Microsoft: remote work allowed 50% of the time

2

Zoom: Initially workers could choose fully remote; now employees who live within 50 miles must attend two days a week

Walmart: closing some offices, requiring relocation for employees or a severance option

Smuckers: requires 22 "core weeks" in office, averaging out to 6 days per month or 25% of total work time

Source: Transwestern Research

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