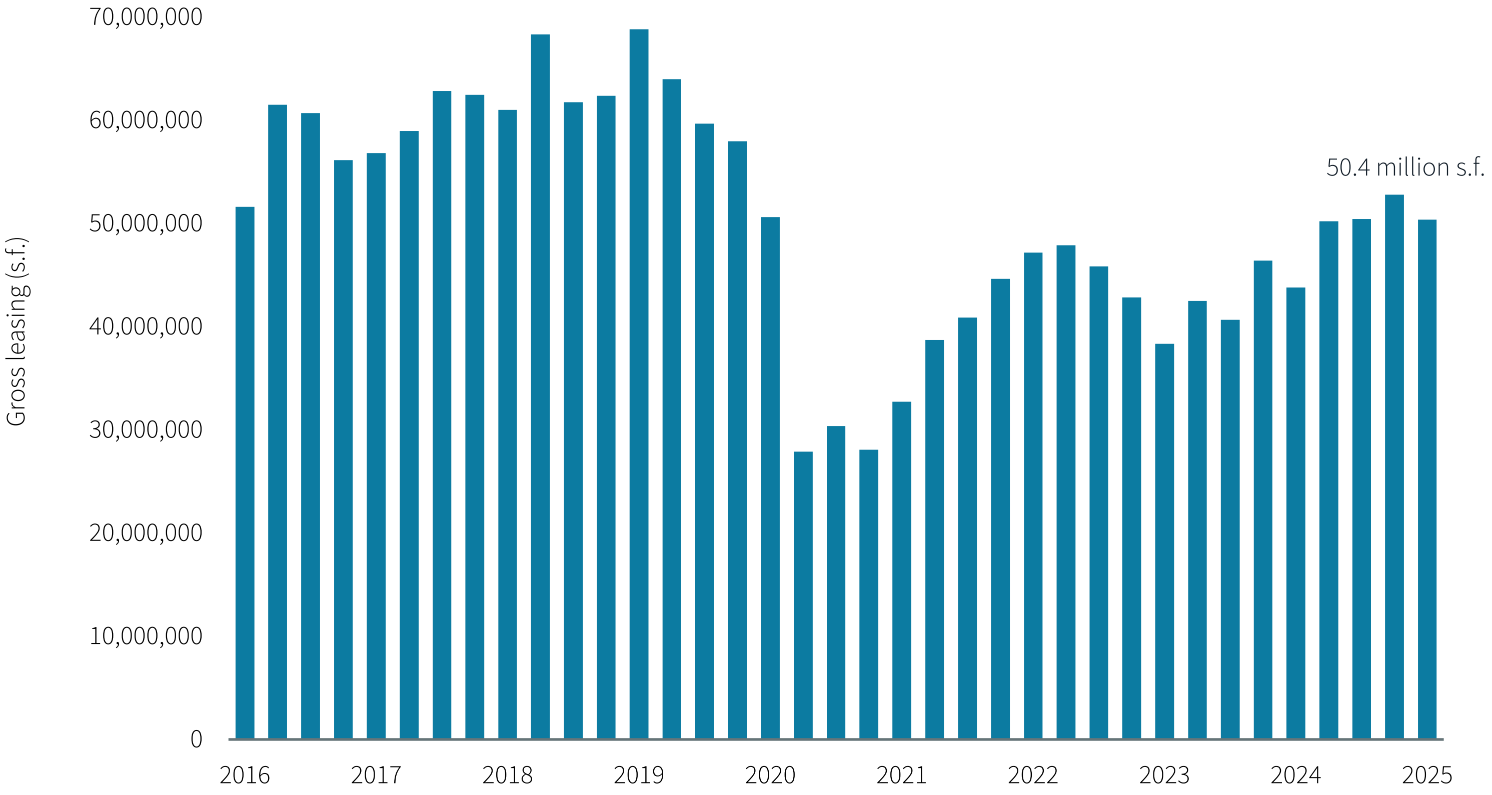
Leasing activity

- Leasing activity fell slightly from post-pandemic highs established in Q4 2024, but grew 15.3% vs. Q1 2024 to 50.4 million s.f. Over the past 12 months, office leasing has returned to 89% of pre-pandemic levels nationally. Seasonally, Q1 tends to be the least active quarter of the year for office leasing, and in six of the last eight years excluding 2020, Q1 represented the lowest quarterly volume.
- Gateway markets experienced the most significant slowdown in leasing activity in Q1, falling 10% quarter-over-quarter while the remainder of the country was largely flat. Gateway markets have reached over 80% of pre-pandemic volume in the past year, while secondary markets reached over 90% and tertiary markets are exceeding pre-pandemic averages.

Historical gross leasing activity



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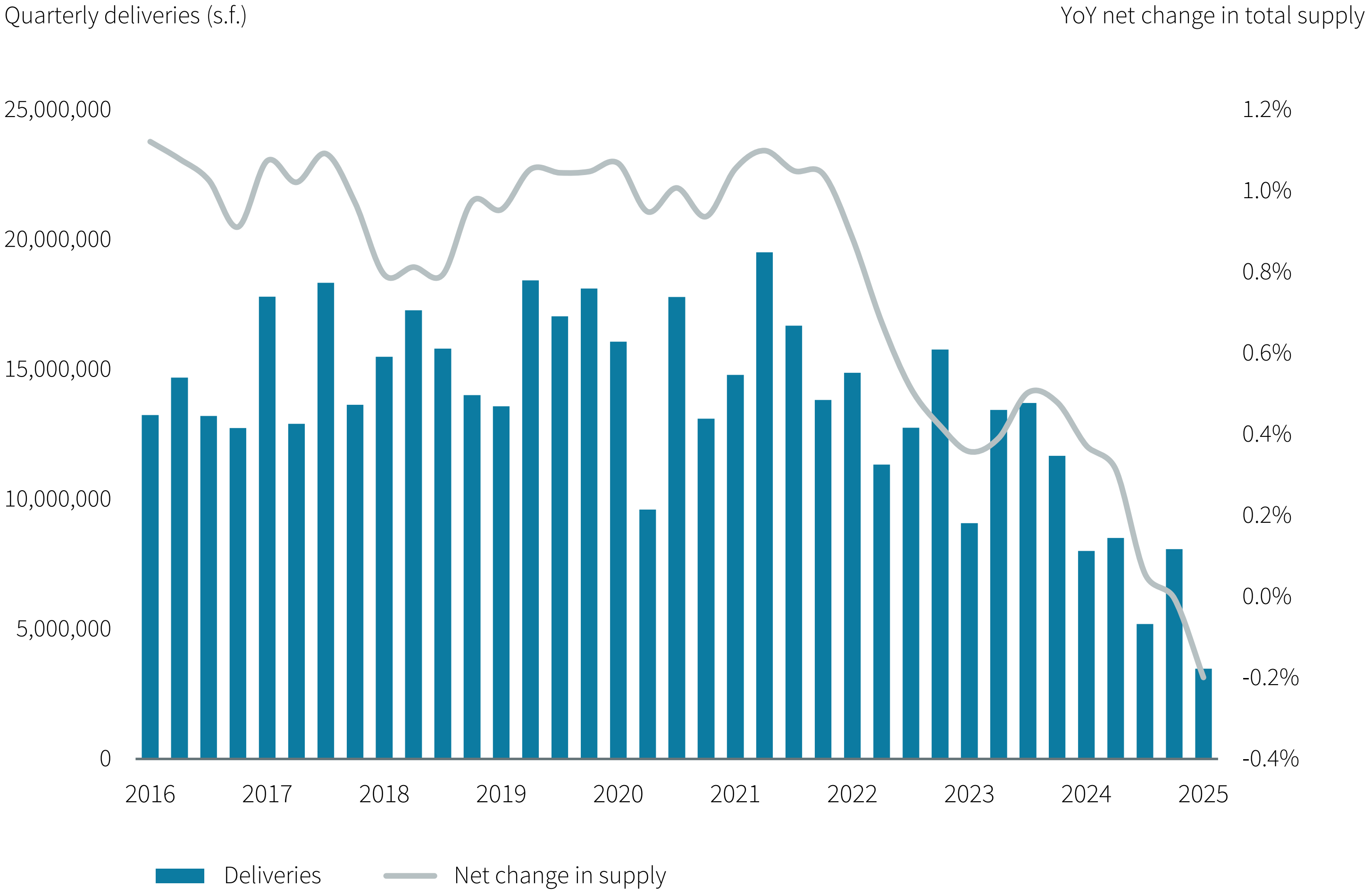
Development activity

- Just 3.5 million s.f. of new product delivered in Q1, the lowest quarterly total in over a decade as completions now begin to slow materially. Just over 1 million s.f. in this quarter's deliveries remain available for lease.
- Groundbreakings continue to be scarce, with less than 1 million s.f. breaking ground in Q1. The pipeline has now declined 78% since 2019 to 31 million s.f. nationally, and 72% of space under development is preleased.
- Conversions and redevelopments remain active in Q1, with an additional 7.5 million s.f. of buildings slated for removal. Overall inventory declined by over 11 million s.f., as more than 15 million s.f. in removal projects began this quarter, well exceeding the 3.5 million s.f. of deliveries.
- Overall inventory is expected to decline by roughly 50 million s.f. by the end of the decade based on current proposals for conversions and redevelopments in major markets. If inventory removals remain elevated and new development sees a prolonged slowdown, that number could grow.

Historical deliveries and pipeline



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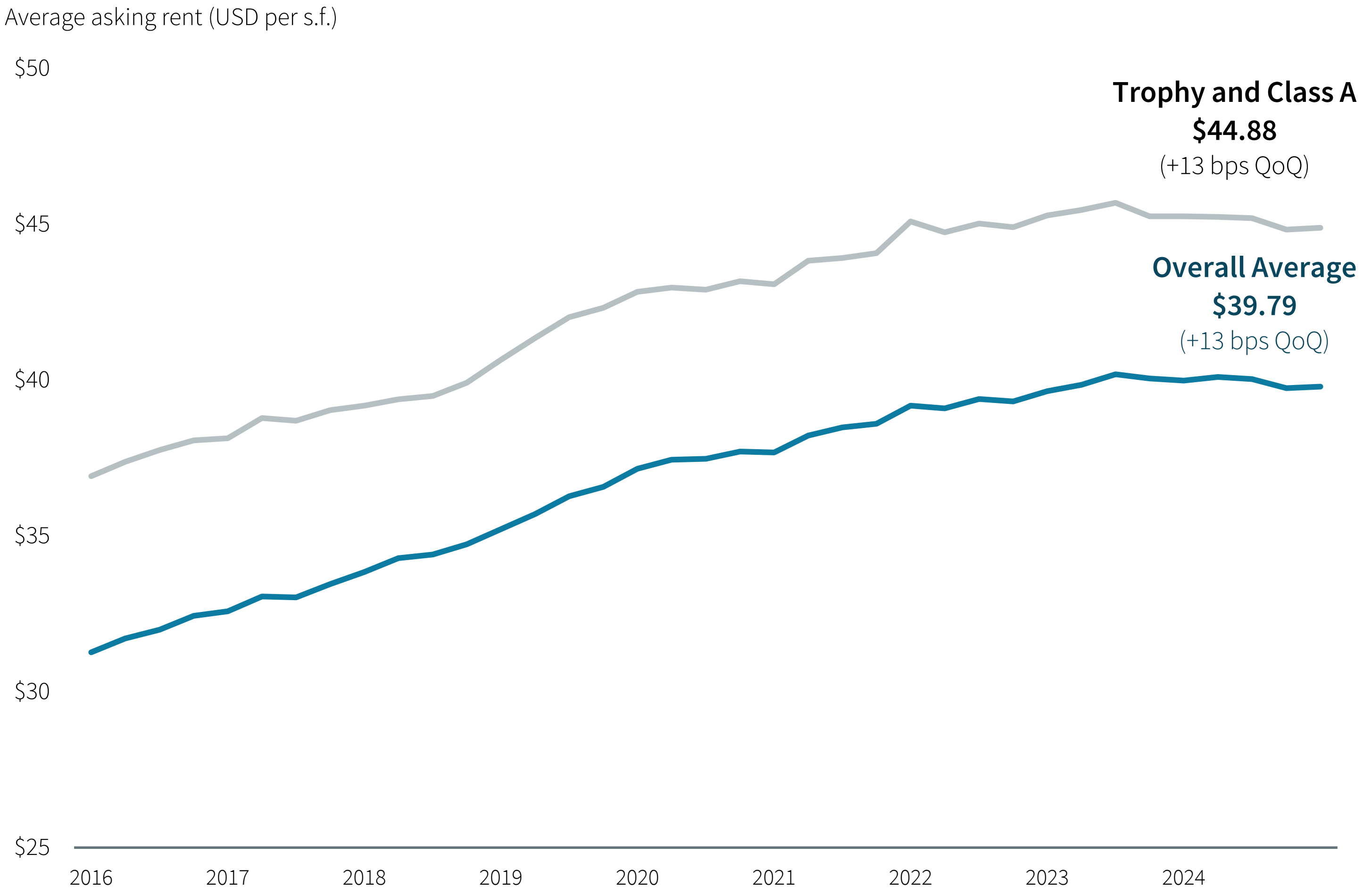
Rents

- Direct asking rents remain largely stable, growing by 0.13% quarter-over-quarter as landlords continue to maintain or increase rents in most cases, and significant discounts have been rare.
- Executed rents are strengthening, with both base rates and effective rents growing quarter-over-quarter. Effective rents are growing more quickly than base rates on average as T.I. allowances for renewals, which are becoming a dominant share of the market, continue to stabilize.
- First-generation new leasing has declined by more than 50% over the past six quarters due to a shortage of available space, while renewal volumes have grown almost 30% during that same period.
- Renewal activity is expected to remain high for the foreseeable future with relocation options, particularly upgrade options for Class A tenants, becoming more limited in some markets.

Historical direct asking rents



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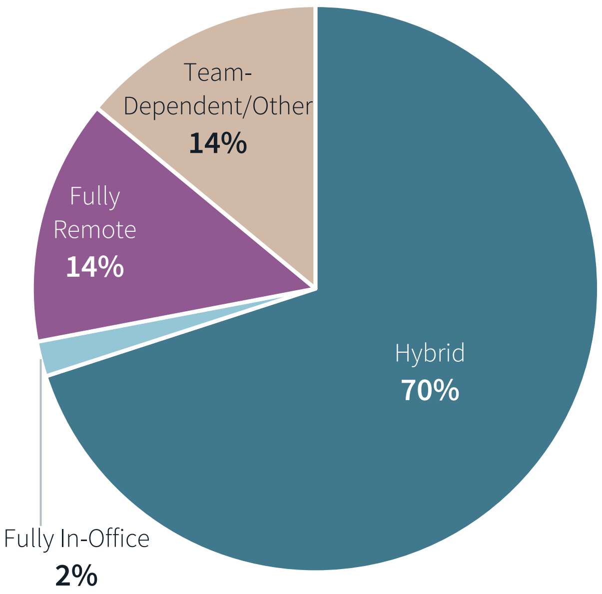
Large employers continue to increase office attendance requirements

- Aggressive top-down mandates issued to federal employees on Inauguration Day and implementation of full-time return-to-office requirements by major private-sector employers have increased office utilization rates and reduced the share of hybrid and fully remote roles.
- While large private-sector employers have largely kept policies consistent during Q1, full office requirements went into effect for federal workers, and several state governments have issued similar new policies in the wake of that change, including California, Texas, and Minnesota.
- With many of the largest employers and office tenants in the nation, including Amazon, JP Morgan, Walmart and 19 other Fortune 100 employers now requiring five days of attendance for most employees, the average requirement across the Fortune 100 index is 3.74 days per week.
- Attendance rates and average weekly requirements are expected to continue to incrementally grow over the course of 2025, underpinned by a softening labor market, which will shift more leverage to employers.

Fortune 100 Office Attendance Policies

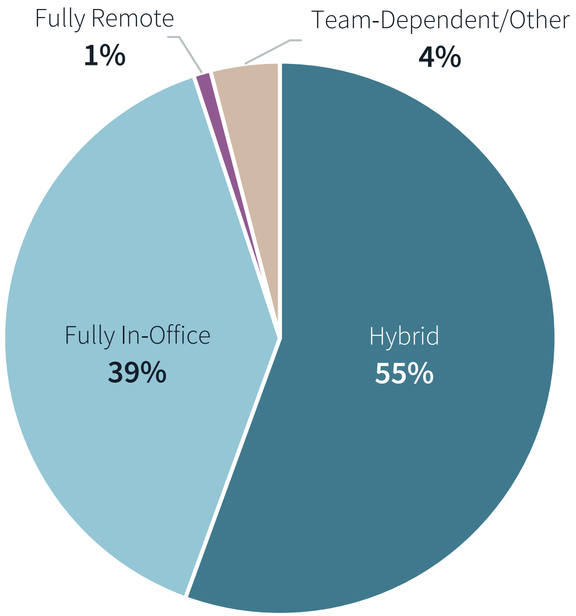
Q4 2022



Average weekly requirement:

2.2 days

Q1 2025



Average weekly requirement:

3.7 days

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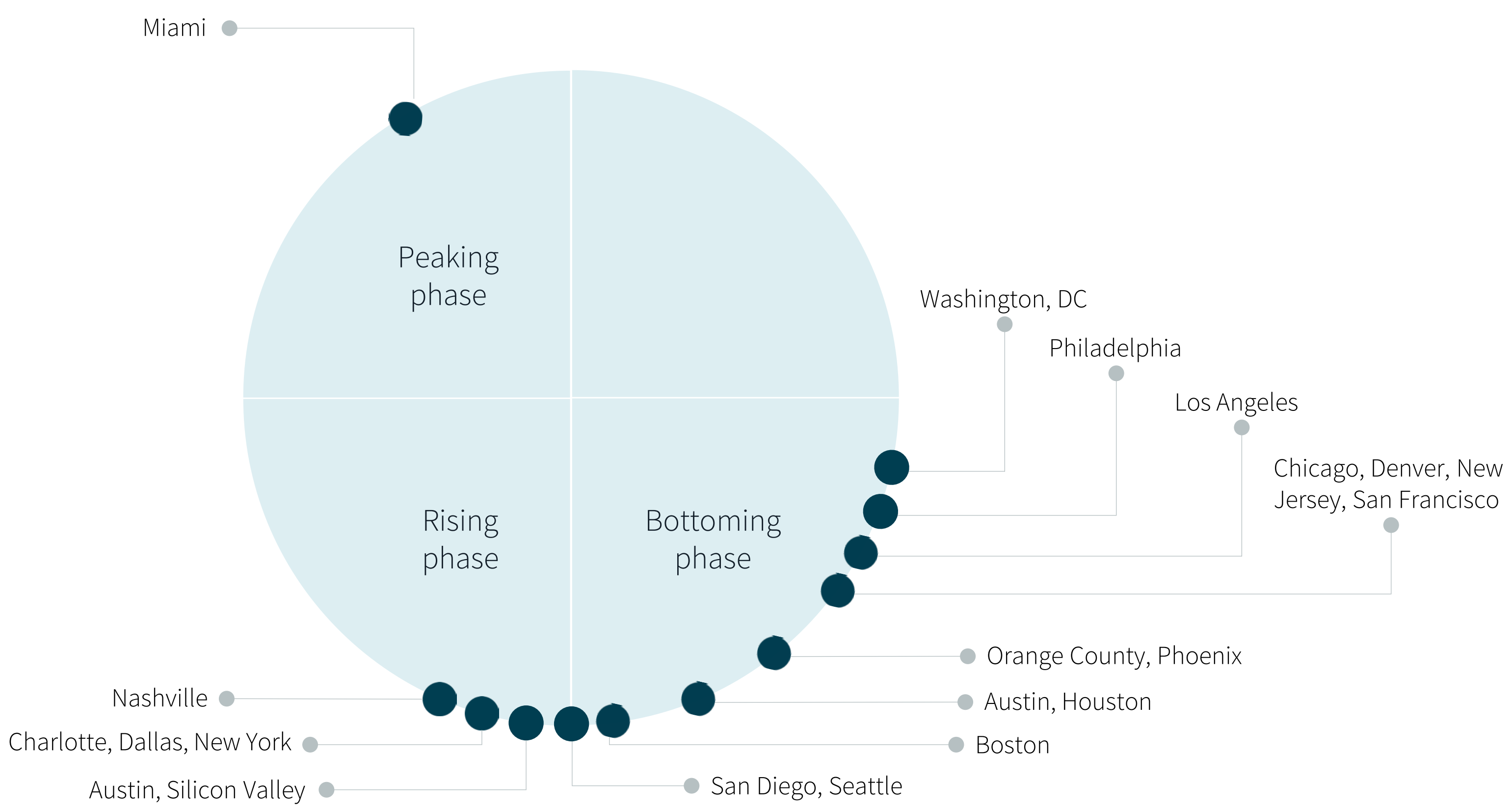
Sun Belt maintains a lead, but gateway cities trending in the right direction

- Gateway markets take diverging paths as more disjointed industry-level headwinds are emerging. The Washington, DC, market is the nexus of headwinds at the moment as the federal government has signaled aggressive footprint-cutting targets and contractors adapt to changes in agency spending. On the other hand, Manhattan continues to be one of the leading markets in the country, with another quarter of positive net absorption in Q1 after full-year occupancy growth in 2024, and leasing volume continuing to improve year-over-year.
- Generally, secondary and tertiary markets have seen a more complete recovery than gateway markets in terms of transaction volumes and rightsizing. Secondary markets have returned to more than 90% of pre-pandemic leasing activity over the past 12 months, and tertiary markets are exceeding pre-pandemic activity in the past year, with many also seeing vacancy declining.
- Sun Belt markets continue to be a beneficiary of outpaced demographic momentum and corporate migration, as companies target lower-cost labor hubs and tax advantages.

Office rental clock



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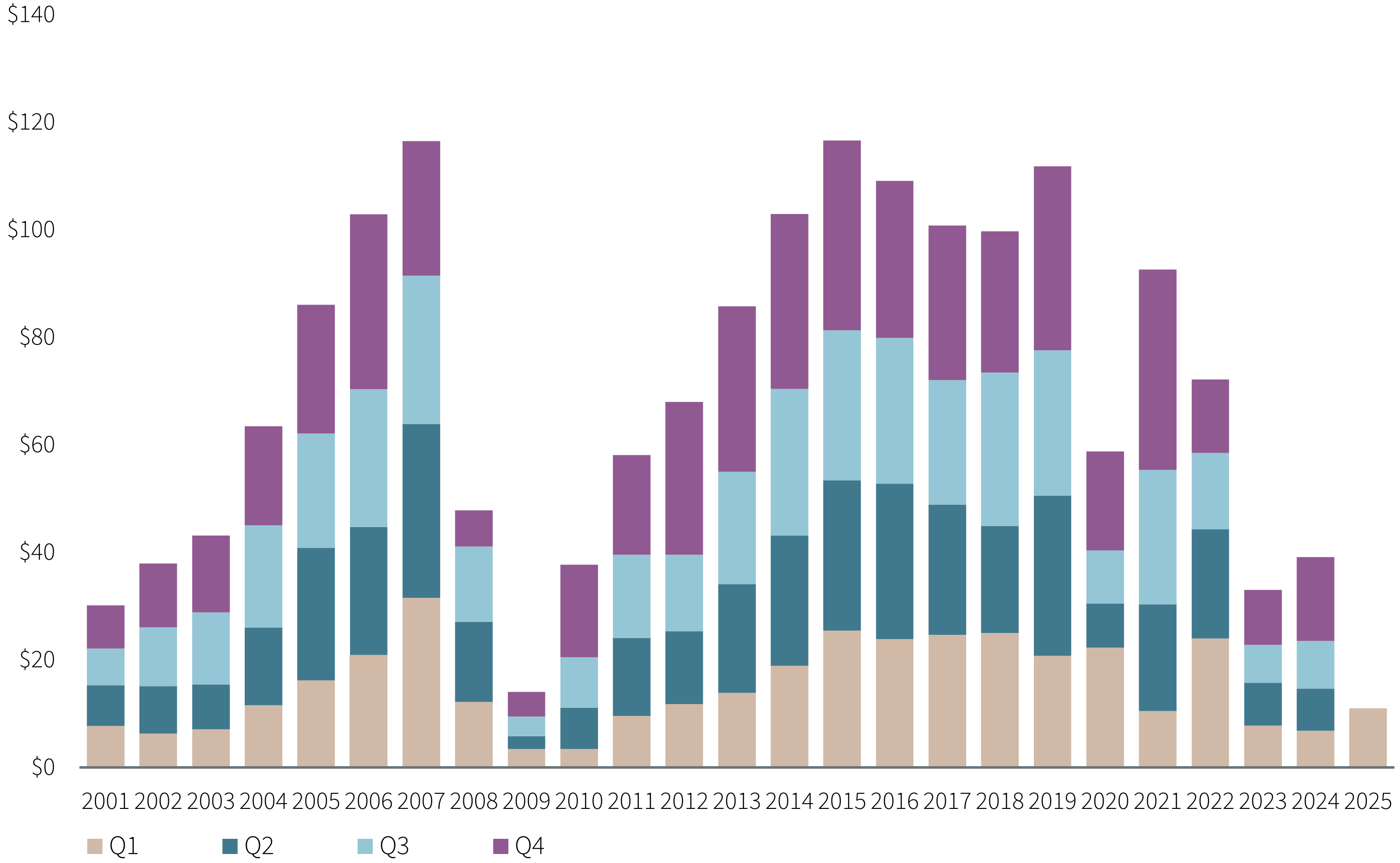
Capital markets

- Office investment volume reached $11.0 billion in Q1, growing by more than 60% compared to Q1 2024, the most significant year-over-year increase since sales began slowing in 2022.
- Office delinquency rates declined quarter-over-quarter for the first time since the distress pipeline began growing in 2022. Delinquency fell from 11.0% in December to 9.7% at the end of March, although special servicing rates did expand from 4.1% to 5.8%. Lower levels of distress will be accompanied by other improvements in landlords' ability to fund capital improvements or concessions, expanding the "transactable" market for office tenants.
- Despite the downward revisions to economic growth expectations, the more aggressive rate-cut expectations could significantly relieve pressures in the capital markets, which largely stem from valuation discounts that have been driven by surging capital costs.
- A consistent recovery in investment sales volume has been an important precursor to new development in prior cycles—typically, groundbreakings begin to accelerate within a year of a steady capital markets recovery.

Historical office transaction volumes

Transaction volumes (US$ billions)



Source: JLL Research, Real Capital Analytics
Note: Transactions above $5 million; excludes medical office, data center and lab.

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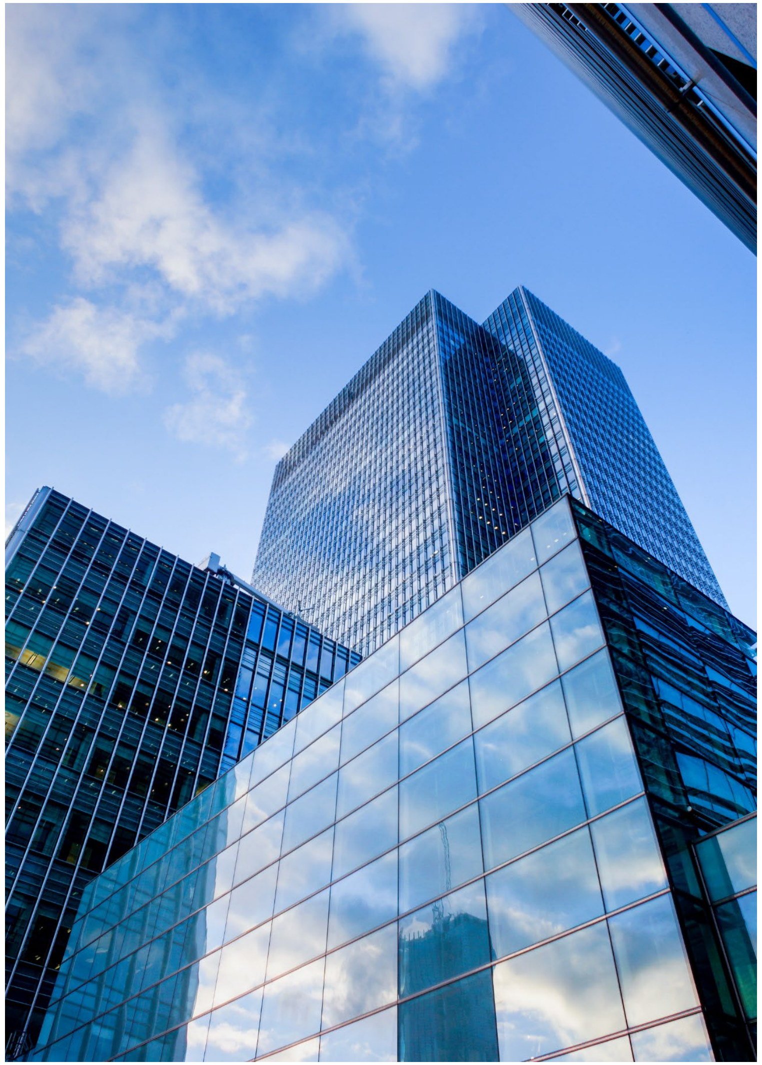
Outlook

- The occupier-led recovery of the office market appears to be continuing apace in Q1, but new risk factors stemming from macroeconomic uncertainty have emerged. S&P 500 equity prices have declined by double-digits from recent highs, and prolonged volatility in the equity market has been strongly associated with declining office leasing and an influx of sublease space over recent years.

- Still, downsizing rates have improved dramatically over the past year, and greater adoption of office attendance mandates has forced several large occupiers to enter expansion mode, indicating that the remainder of the year should see considerably less occupancy loss, and the potential for positive net absorption and declining vacancy rates in the second half of the year.

- One of the most promising signs in Q1 was a meaningful improvement in capital markets liquidity for the office sector, and tentative improvements in distress levels. More fluid capital flows and reset bases will enable more investment from landlords into concessions and upgrades for Class A buildings with limited transactability in the current environment and will signal an upcoming acceleration in new development—both of which will be critical to supporting the demand recovery as limited high-end space increasingly hampers transaction volume.



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