



## INDEPENDENT MARKET RESEARCH REPORT

An independent review of office markets  
As of June 7<sup>th</sup>, 2021

**United States Office Market**

**and**

**The Boca Raton, FL Market**

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# National Overview – United State of America

## Introduction

In March of 2020, a novel coronavirus called COVID-19 quickly became a global pandemic and governments around the world began to respond. All businesses that were not considered “essential” shut-down and social distancing practices were implemented across the board. By May, some states had started to open up non-essential services, but cases began to surge in those areas by the summer. In the fall, some states that had appeared to have a better control on the disease began to see a resurgence.

At the end of 2020, Pfizer and Moderna had developed and released vaccines using a new mRNA technology and began inoculating essential workers. By March of 2021, a third vaccine, developed by Johnson & Johnson, had been approved and distribution had begun. While these vaccines are being rolled out at various stages across the country and are mostly offered towards people who are over 65 or have underlying health conditions, some experts believe most of the adult population could be vaccinated by the beginning of summer 2021. At this time, however, the CDC is continuing to encourage people to wear masks and social distance until we pass the “herd immunity” threshold and more is understood about the several COVID-19 variants. Despite this, the vaccine rollout has boosted confidence and expectations for a “return to normal, and in response, some states have fully re-opened while others are holding on to most restrictions or relaxing them a much slower pace.

Needless to say, these events have impacted the commercial real estate market in numerous ways. While not all property types were affected equally, each have had its own set of unique challenges and opportunities with some faring better than others. In this report, we explore the impact in response from top to bottom, from the government's response, the state of the economy, to financial market activity and then explore the nuances of the major property sectors.

## Federal Response

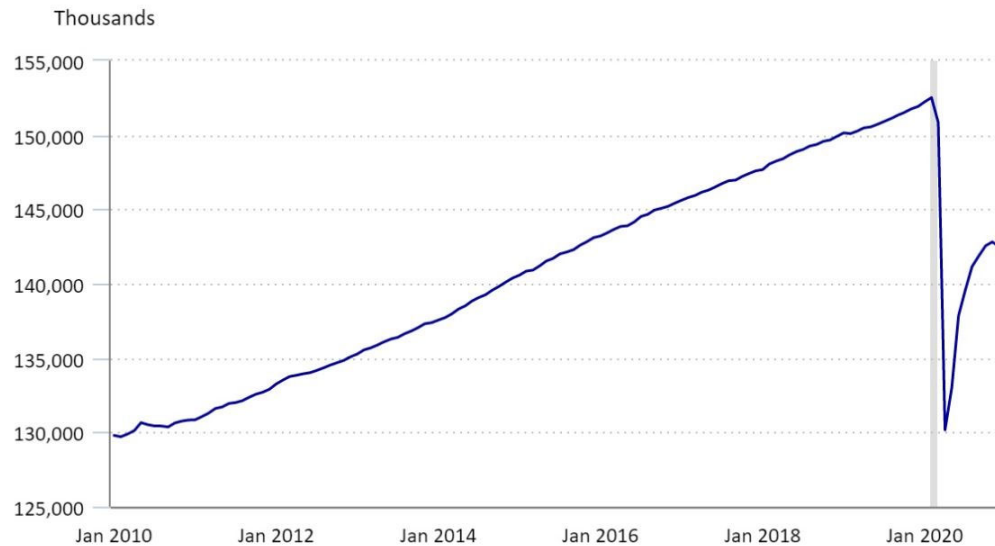
The Government response to the arrival of COVID-19 has been unprecedented—in timing and scope. From aggressive easing of monetary policy to the largest fiscal stimulus package ever enacted the government has acted aggressively to support economic activity. For a complete review of economic policies implanted in the U.S. since the arrival of COVID-19 follow this [link](#).

## Economic Impact

The recession that began in March 2020, triggered by the COVID-19 pandemic, was short and steep. In the second quarter of 2020, real (inflation-adjusted) gross domestic product (GDP) collapsed at a record 31.4% annual pace, only to bounce back at a record 33.4% annual rate in the third quarter. In the final quarter of 2020, the pace of recovery had slowed substantially as the pandemic worsened again, and for year-end 2020 the GDP remained 2.5% below its peak in fourth quarter of 2019. Now that vaccines are being rolled out, albeit with some caveats like an increasing number of people skipping the second dose, and a robust economic stimulus passed in March, things are turning around. In fact, the GDP grew at a rate of 6.4% in the first quarter of 2021 and is expected to reach 7% for the entire year.

Employment, a key driver of demand for space, experienced a turbulent 2020 as the economy shed more than 22 million jobs in March and April, and then added 12.5 million jobs between May and November. In December 2020, however, the economy lost a net of 140,000 jobs as COVID-driven shutdowns led to a decline in employment of approximately 500,000 jobs in the leisure and hospitality sector (other sectors experienced modest gains that month). At the end of first quarter 2021, the unemployment rate fell to 6% and 916,000 jobs were added in the last month of the quarter alone. While things are certainly turning around, there are still about 8 million fewer people counted as employed than there were in February 2020, and the labor force is down by about 4 million.

The chart below depicts the change in total nonfarm employment, seasonally adjusted, January 2010 through December 2020.



Source: U.S. Bureau of Labor Statistics

As more Americans become vaccinated, job numbers continue to improve, and the economic stimulus encourages spending and raises consumer confidence, more and more parts of the country will start to open back up. Still, the impacts of the pandemic will be felt for quite some time sometime and certain property types, such as retail and hospitality, may take longer to recover than others. On top of this, other parts of the world such as Europe are a few months behind the U.S., or, like India, are still struggling to get the virus under control and it is unclear at this point when their lockdown will end.

Further considerations include:

- U.S. Consumer Confidence rose to a 14-month high in April 2021 due to increased vaccinations and the additional fiscal stimulus, which allowed more businesses and services to reopen. As consumers are seeing a light at the end of the tunnel, growth this year is expected to be the best in nearly four decades.
- U.S. retail sales jumped 9.8% in March 2021, exceeding the Dow Jones estimate of 6.1%, and on the heels of a 2.7% decline in February 2021. Driving this were the freshly issued stimulus checks and new unemployment filings dropping to 576,000, by far the best week since the beginning of the pandemic.
- Stimulus checks coupled with a vaccine rollout proved to be a lucrative combination. For first quarter 2021 the Dow Jones Industrial Average was up 6.17%; the S&P 500 sailed past 4,000 for the first time on April 1, 2021, experiencing a quarterly jump of 5.77%; and the NASDAQ was up 2.78%.
- Despite an accelerating economy, and rising inflation, the Federal Reserve is not ready to alter their easy money policy just yet. For the time being, the U.S. Central Bank decided to keep its interest rates anchored near zero and is purchasing \$120 billion in bonds each month.
- For the first quarter of 2021, U.S. commercial real estate activity sank sharply, dropping 28.2% in a year-over-year comparison, according to Real Capital Analytics (RCA). With that said, commercial property sales dropped for four consecutive quarters, but increased vaccinations are expected to increase deal activity through the near term. Growth was primarily driven by the hotel sector as weaker trends for the office, industrial, and retail sectors were a drag on the index.

The economy continues to recover from the impacts of the COVID-19 pandemic and the economic crisis that followed. Social distancing rules have been relaxed, or eliminated entirely in some places across the country, as things return to “normal.” Despite this, it is important to take in mind that data lags, and although markets are coming more into focus, we are still trying to accurately determine the pandemic’s full effects on the commercial real estate market. In other sections of the report we will discuss these effects and impacts on the immediate market and subject property in as much detail as possible. Therefore, we ask that you consider the following points:

- Early in the COVID-19 pandemic, most non-essential businesses shut down, causing significant disruption in the economy. As things are opening back up, some of business are not returning or are returning in a different capacity.
- Certain property types have been more heavily impacted than others, with some asset classes benefiting from the COVID environment. Generally, cap rates and price growth remain relatively flat across the board.
- Investment activity picked up significantly in the first quarter, with a clear flight to quality, but at the same time, delinquencies are on the rise and more properties are requiring special servicers.

With this, businesses will begin to fully resume normal activities, as risk and fear of infection decrease, and the economy will begin to grow more rapidly.

## Economic Conditions & Current Trends

In 2020, the U.S. economy contracted for the first time since 2009, when GDP shrank by 2.5% during the height of the Great Recession. Last year was also the worst year for economic growth since 1946 when the economy shrank by 11.5% as the nation transitioned into the post-war period. While this recession’s low point was unusually low, the GDP bounced back from the trough of this recession much faster than it recovered from the Great Recession and spent the second half of the year on the mend.

This year started off sprinting with real GDP growth hitting a 6.4% annualized rate for the first quarter of 2021 and a double-digit gain expected at the end of second quarter. Growth was primarily driven by consumers, but business investment and homebuilding also contributed. Another key component was the pent-up savings households amassed during the pandemic. Right now, there is an estimated \$2.3 trillion in pent-up savings which amounts to over 10% of GDP. As such, Moody’s has revised their GDP outlook to nearly 7% for 2021 and about 5% for 2022. The trade balance was the largest drag on the economy as the U.S. economy is well ahead of most of the rest of the world, excluding China and southeast Asia. While inflation is picking up, and nearing its 2% target, its increase is likely just consumer demand bouncing back, as inflation was essentially flat last year during the pandemic. Inflation levels are expected to moderate later this year as headwinds die down.

Outside the U.S., the future is starting to look brighter as well. The International Monetary Fund (IMF) is forecasting a global expansion of 6%, up from its earlier 5.5% estimate in January, which would be the fastest expansion since the early 1980s. This expansion is expected to taper a bit in 2022 to 4.4%, up from an estimated 4.2% earlier this year. The IMF warned, however, that the economic recovery will likely be uneven. Rebounds will be slower in poorer countries that can’t afford massive government stimulus and for those dependent on tourism. They have also promoted equal vaccine distribution rollout to poorer countries in order to minimize further global economic damage.

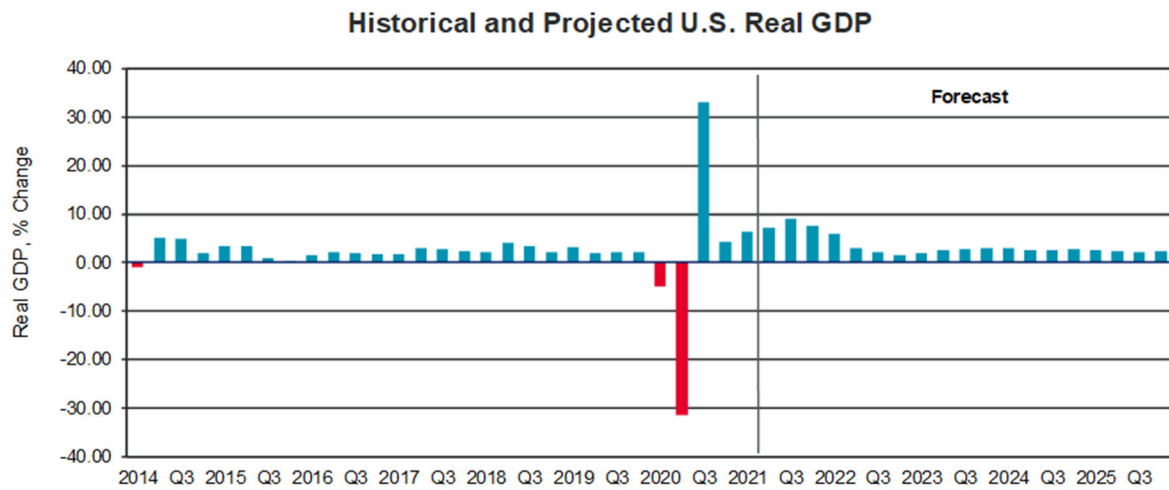
Even after a year into the pandemic, CRE participants are still trying to understand market impacts, and accurately assessing risk remains difficult. Proceeding through these uncertain times, the reader is asked to consider some key events that affect the uncertainty:

- In March 2020, the Coronavirus Aid Relief and Economic Security, or CARES Act, was passed by Congress and signed by President Trump. The bill was intended to provide emergency assistance and health care for individuals, families and businesses affected by the COVID-19 pandemic. Totalling \$2 trillion, the bill was unprecedented in size and scope, dwarfing the \$831 billion stimulus act passed in 2009, and amounting to 10% of total 2019 US GDP.

- On Friday December 11th, the first COVID-19 vaccine, produced by Pfizer and the German company BioNTech, was granted Emergency Use Authorization (EUA) by the FDA. Then, on Monday, December 14th, another vaccine by Moderna, a Massachusetts based firm, was also granted EUA. On February 27, 2021 the Johnson & Johnson vaccine was also approved by the FDA for emergency use and is currently being used as a third vaccine to help fight the pandemic.
- The Consolidated Appropriations Act, 2021 is a \$2.3 trillion spending bill that combines \$900 billion in stimulus relief with a \$1.4 trillion omnibus spending bill for the 2021 federal fiscal year. The bill was passed by both houses on December 21<sup>st</sup> and then signed into law by President Trump on December 27. It is one of the largest spending measures ever enacted, surpassing the CARES Act, and the first bill passed to address the pandemic since March 2020.
- On January 20, 2021, the U.S. death toll from COVID-19 surpassed the 400,000 mark, as per Johns Hopkins data. It took a little over a month for the death toll to jump by 33%, with 100,000 casualties in 36 days. A month later, on February 22, 2021 the COVID-19 death toll surpassed 500,000. While vaccine rollouts are underway, new more contagious, and possibly more deadly strains, are raising concerns.
- On March 11, 2021 President Biden signed the American Rescue Plan Act of 2021 (ARP) into law. The bill is a \$1.9 trillion economic stimulus designed to speed up the recovery from the health effects and the ongoing recession. Key elements of the Act include extending expanded unemployment benefits, \$1,400 direct payments to certain individuals, emergency paid leave for over 100 million Americans, extending 15% food stamp benefits as well as funding for vaccines, education and housing.
- In addition to ARP, President Biden has two other proposed parts to his Build Back Better Plan that have not yet been passed. They include, the American Jobs Plan, designed to rebuild America's infrastructure and to create jobs; and the American Families Plan, which aims to invest in childcare and education.
- By the end of April 2021, the Biden Administration had achieved its goal of 200 million coronavirus vaccinations during the President's first 100 days in office. More than half of all U.S. adults have now received at least one shot, and 80% of adults over 65 have been partially or fully vaccinated.

The economy continues to recover despite fear of inflation and bond yields on the rise. With COVID infections trending downwards and vaccinations on the rise, the economy is expected to grow throughout the rest of 2021.

The following graph displays historical and projected U.S. real GDP percentage change (annualized on a quarterly basis) from first quarter 2014 through first quarter 2021:



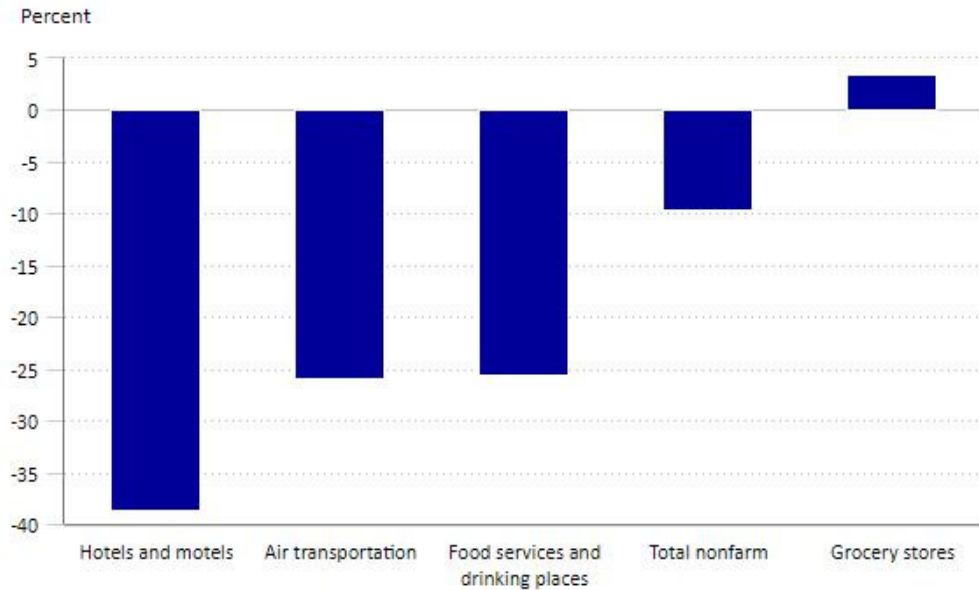
Further points regarding current economic conditions are as follows:

- Through first quarter 2021, GDP increased 6.4%, according to the Bureau of Economic Analysis' advanced estimate. This occurred in direct response to increases in spending on services and goods, as the national economy continued to show signs of recovery behind increased vaccinations and mass reopening of businesses and activities across the nation. Over the last three quarters, the U.S. economy has grown and the Federal Reserve plans to keep interest rates near zero to help encourage more spending by the population. As we enter second quarter 2021, states and cities will continue to ease restrictions and plan to fully reopen as the COVID-19 situation improves. Furthermore, GDP is expected to continue increasing as the nation recovers from the fiscal strain brought on by the pandemic, but the risk of inflation is a concern.
- Commercial and multifamily mortgage loan originations decreased 18% in fourth quarter 2020 (latest data available) when compared to the fourth quarter of 2019, according to the Mortgage Bankers Association's Quarterly Survey of Commercial/Multifamily Mortgage Bankers. Loan originations in the fourth quarter of 2020 were 76% higher than third quarter 2020.
- Commercial mortgage-backed securities (CMBS) have been spurred by measured investment sales activity and stable credit spreads. Commercial Mortgage Alert data indicates that U.S. CMBS issuance through April 2021 is 8% higher when compared to CMBS issuance during the same period in 2020. As of April 2021, Commercial Mortgage Alert data indicates that U.S. CMBS issuance sits at \$21.6 billion.

## Employment

The COVID-19 pandemic caused massive short-term disruptions to the U.S. economy and labor market; however, the long-term impacts remain uncertain. As the pandemic became a threat in the United States, total nonfarm employment dropped from 152.5 million to 137.8 million between February and June 2020, for a loss of 14.7 million and a 9.6% decrease in employment. While all sectors were hit by the pandemic, the leisure and hospitality sector was hit particularly hard. Employment in hotels and motels decreased 38.6%, whereas jobs in air transportation declined 25.9%. Jobs in the restaurants and bars decreased 25.6%.

The chart below depicts the percent change in employment for selected industries, February through June 2020

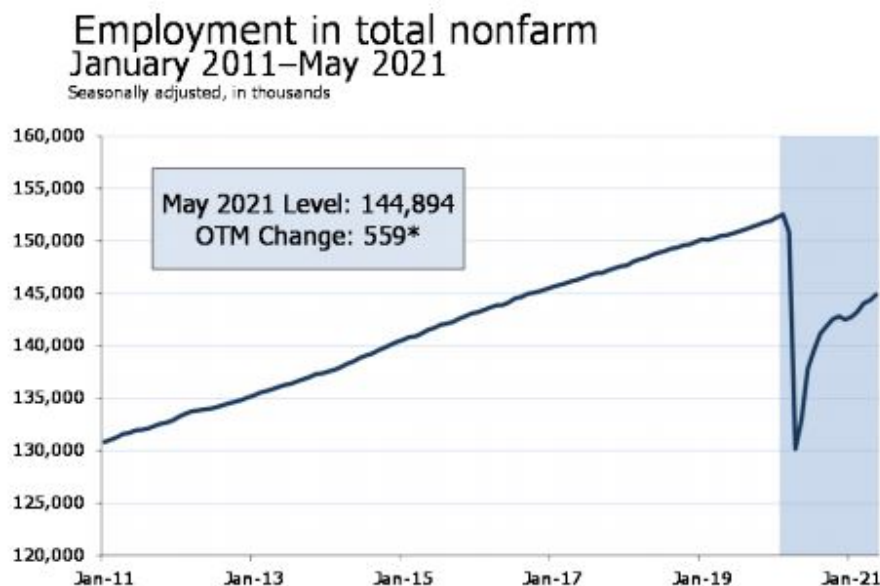


Source: U.S. Bureau of Labor Statistics

Teleworking became more common as a result of the pandemic. In August 2020, 24.3% of all employments reported having teleworked at some point in the prior month of the pandemic.

The U.S. economy is creating jobs again, since the low point in April 2020. As May 2021, the national economy has recovered 14.7 million jobs, or two-thirds of 22.4 million jobs lost in March and April 2020. Average hourly earnings of all employees on private sector payrolls increased \$0.15 or 5% in May. Over the year, hourly earnings increased 2%. In May, average weekly hours held at 34.9 hours for a third consecutive month.

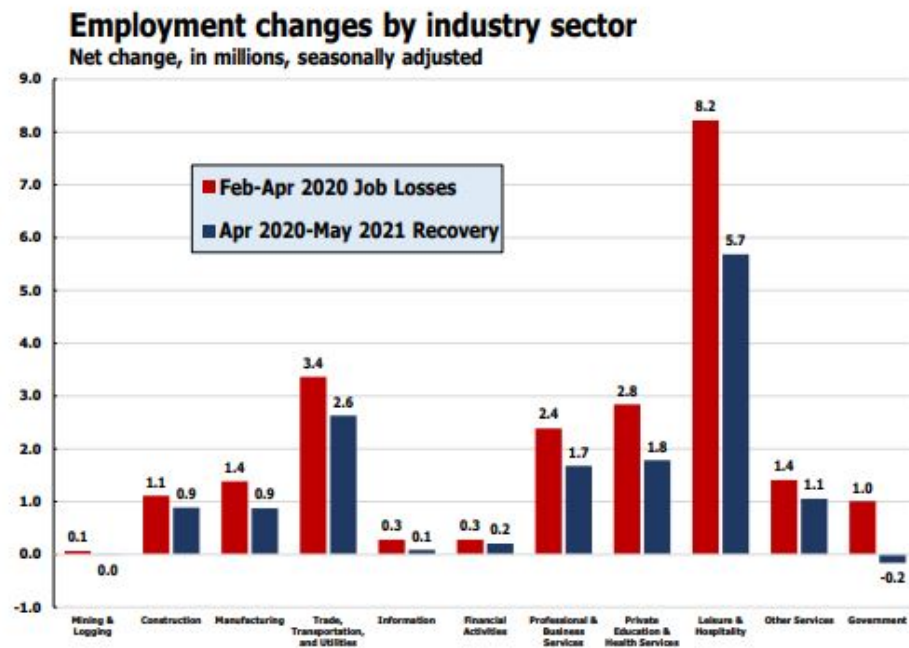
The chart below depicts the change in total nonfarm employment, seasonally adjusted, January 2011 through May 2021.



Source: U.S. Bureau of Labor Statistics

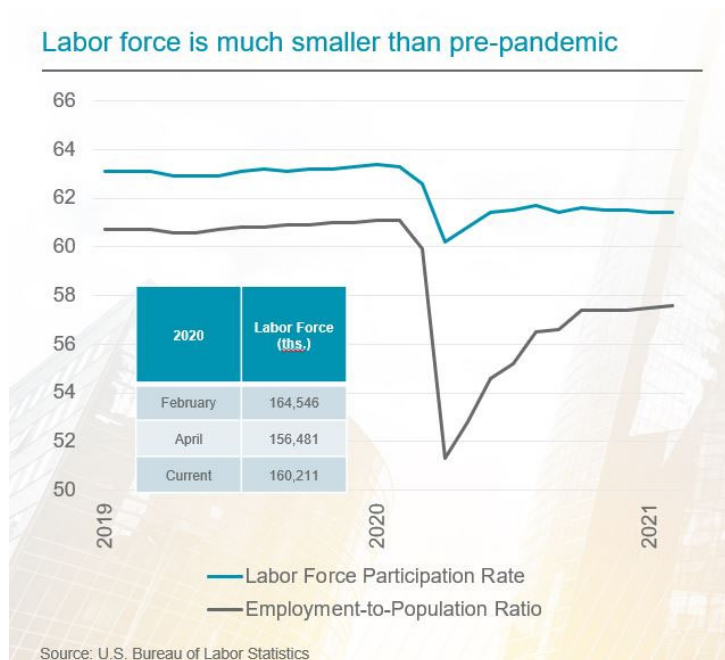


The chart below depicts the change in total nonfarm employment by industry sector, seasonally adjusted, February 2020 through May 2021.



Source: U.S. Bureau of Labor Statistics

Despite the rebound in jobs, the labor force has not reached pre-COVID levels, according to the Bureau of Labor Statistics. The graph below reflects the reduction in the labor force as result of the pandemic.



## Financial Markets

Financial markets have recovered dramatically from the distressed conditions of March and April of 2020 when there was a real prospect of a second Great Financial Crisis. In response to this threat, monetary policymakers around the globe responded with a kitchen sink approach combining rate cuts, quantitative easing, loan guarantees and even direct lending. These actions in combination with strong fiscal commitments in the early stages of the crisis rapidly led to a broadening recovery in financial conditions. This recovery began first in the large-cap equity and investment grade credit market and has subsequently spread to small and medium- cap public equities as well as higher risk tranches within the fixed income universe. Over the last twelve months, the large-cap S&P 500 (27.7%), equally-weighted S&P 500 (+28.5%), mid-cap S&P 400 (+34.2%) and small-cap S&P 600 (+41.9%) indices have all generated extraordinary total returns. Similarly, AAA bond yields are currently down 29 bps year-over-year. Yields have similarly declined for BBB (-53 bps), BB (-43 bps) while yields CCC and lower have declined a whopping 447 bps.

These developments have also filtered into private market valuations and financing costs further blunting the cash flow consequences of the pandemic recession. This has manifested in the form of historically low levels of bankruptcies in Europe and fewer liquidations in the United States, though there has been a significant increase in reorganizations, which under the circumstances is a sign of the U.S. bankruptcy system working. The more common experience, at least among companies with public market financing access, has been extremely attractive access to liquidity.

Sentiment across financial markets has continued to improve in recent weeks. The election was a significant source of uncertainty, and so its passing has provided has catalyzed an upward movement in equities and treasury yields. Beyond that, there seems to be a consensus that the election outcome was market favorable: more predictable politics and more fiscal stimulus under a Biden presidency but little prospect for large increases in regulation or taxation under divided government. As important as developments are, they have since been overshadowed by the announcement of favorable Phase III trial results from a growing number of consortiums. In response, treasury yields have continued to drift upwards reflecting a stronger growth outlook as have equities, particularly virus-exposed sectors, including REITs. These positive factors have enabled financial markets ostensibly to look past the more troubled near-term economic outlook as controls are re-imposed around the world in response to worsening pandemic conditions.

## CRE Capital Markets

### Debt

The commercial real estate debt markets were greatly disrupted in the opening months of the pandemic. Banks exited the market in response to more difficult financing conditions, large concurrent draw on revolvers by their corporate clients and reticence to make additional commitments given necessary increases in loan loss provisions in the future. A side effect of this was that credit became much tighter for banks' repo line clients, notably debt funds. This happened at the same time as yields spiked dramatically in commercial real estate securitization market. The combination meant that debt funds' business models and funding sources were disrupted. Moreover, no new loans were likely to be made with the goal of securitization as a backlog of properties built up on lender balance sheets. While life insurance companies remained active (very) selectively, elevated corporate bond yields were competing for asset allocation dollars. The only segment of the market that remained consistently active were the government sponsored enterprises.

CRE debt market conditions have since improved immensely as recovering conditions in corporate debt markets extended into real estate. The CMBS issuance market has been active both for conduit and SASB deals with executions at or near pre-COVID spreads for investment grade tranches and an increasingly active market for high yield tranches. At the same time, issuance volumes have been restrained by weak demand for retail and hospitality properties. Life insurance companies have also become increasingly active though focused on a narrower deal

profile compared to pre-COVID; lower leverage, industrial, multifamily, and select office properties with high quality cash flows. Similar to the CMBS market, executions are largely either comparable or below pre-COVID levels for deals fitting the target profile.

As the broader liquidity crunch in the banking system unwound and collateral valuations increased for real estate loans generally, repo market financing has reopened for debt funds and mortgage REITs. They have since emerged as the pre-eminent providers of higher leverage and transitional loans, though like other groups, they are primarily focused on favored sectors. The GSE's have continued to be the most active lenders in the market, offering executions below pre-crisis pricing. The FHFA has announced that the GSE's will be subject to lower lending caps and will have higher requirements to focus on mission-driven lending, i.e. affordable housing, in 2021. The biggest hole in the debt markets continues to be the bank market. Banks are focused on selective credit profiles, sponsorship and minimizing syndication risk. Foreign banks have been somewhat more active compared to domestic, though the former represent a small fraction of the market. In the fourth quarter, bank lending has increased but still with a long road to full recovery. With corporate lending rates at or near all-time lows, real estate may become a more attractive lending sector for these banks as 2021 progresses. The absence of the bank market has been felt particularly in the construction financing market.

## Equity

Commercial real estate equity transaction activity slowed sharply as lockdowns were enacted across the country before bottoming in May. The slowdown was broad-based across geographies, product types, transaction structures and capital groups. Since June, activity has begun to recover, facilitated by a combination of factors: 1) improving economic conditions 2) more liquid debt markets 3) amelioration of some existing portfolio operating issues and 4) adaptations to remote due diligence processes. Transaction activity reaccelerated sharply in the fourth quarter, improving from down 52% year-over-year (YOY) in the third quarter to down 17% YOY in the fourth. Despite this late year rally, transaction activity was down 32% for the full year compared to 2019.

Development sites were the only product type that experienced positive volume growth in 2020. Of the major property types, industrial has proven the most resilient (-15%) followed by multifamily (-28%). Retail (-45%) and hotels (-58%) have fared worst with office (-41%) in between. Activity accelerated across the major product types in the fourth quarter, both compared to the third quarter and on a year-over-year basis. Sales of multifamily and industrial product were increased compared to 2019 while office and retail sales – still down – improved comparatively.

Volumes have fallen across regions but have held up comparatively better in the Midwest (-17% YOY), Southeast (-20%) and Mid-Atlantic (-25%) compared to the West and Northeast (down 36%-38%). This relative performance carried into the fourth quarter in which sales increased YOY in the Midwest and Southeast.

Owner/users, foreign and private capital saw the smallest declines in acquisition volumes in 2020 while institutions and REITs have been less active on a year-over-year basis. Among institutional investors, the institutional investment managers (e.g. Brookfield, JPMorgan, Clarion etc.) have been most active (down 17% YOY).

Even under the best conditions, it can be difficult to separate signal from noise when looking at transaction cap rates. Ongoing low liquidity conditions present particular challenges, making it all the more important to balance transaction data with on the ground observations. With those caveats, we offer the following observations:

- Industrial assets, particularly warehouses have remained well-bid. Transaction cap rates have increased modestly, but this seems to be due to idiosyncratic factors in the data sample. Reports from the field consistently reflect cap rate compression of 20-30bps compared to pre-COVID with particularly premia for credit tenancies.
- Multifamily yields have also been under downward pressure as transaction cap rates have continued to gently compress. This is consistent with recent deal commentary: the declining cost of debt in many cases has more than offset potential cash flow hits from higher vacancies and lower rent growth. This has been particularly true for suburban apartments and markets in the southeast and southwest.

- Suburban office cap rates have been stable overall but with significant variation underneath. There is little appetite for older, multi-tenant commodity suburban office whereas newer, better amenitized suburban-urban office product seems to be the most resilient sector within office particularly when coupled with credit tenancy and low upcoming lease renewal.
- CBD office activity has been significantly limited to some of the most attractive properties. Even so, there has been some evidence of rising cap rates for the sector as a whole. However, there is significant variation at the asset level with core properties with stable cash flows exhibiting relatively minor yield adjustments.
- Retail cap rates face significant upward pressure amid a deeply uncertain outlook, especially for lower quality malls. Strip centers which had previously been relatively resilient has experienced rising cap rates, but this trend has been centered on non-core properties whereas grocery anchored assets have been more resilient.

Overall, yields have remained remarkably stable relative to the size of the social and economic disruption. While price adjustments are warranted and indeed unavoidable, these are set to be driven mostly by cash flow impacts without significant amplification through valuations. In this, the recession and recovery differ significantly from every prior downturn. This can be attributed to aggressive actions by policymakers. Indeed, commercial real estate cap rates are actually near historic highs compared to a range of other financial market benchmarks, including 10Y treasury yields, corporate debt and equity multiples.

## Industry Responses

### Office

The fourth quarter of 2020 saw the pace of recovery slow as uncertainty over the election and a rise in COVID-19 cases led to more caution. Some businesses that had been reopened over the summer were closed again in the fall and many of the programs that were part of the spring stimulus program were phased out. By the end of the quarter there was greater clarity about the political environment and, most importantly, vaccinations were found to be effective leading to a rise in optimism that the end of the pandemic was in sight. But the flare up of the pandemic had already left its mark on office markets across the nation.

**Absorption falls even more.** After a steep decline of 2.9 million jobs (-8.6%) in March and April, office-using employment rebounded throughout the balance of the year, adding back 1.6 million jobs from May through December. This still leaves a deficit of 1.2 million jobs below the level of February 2020, reflected in a sharp drop in office occupancy. In Q4 2020, net absorption totaled negative 43 million square feet (msf), the third consecutive quarter of negative absorption. In the three quarters prior, a total of negative 103 msf came back to the market, the largest three-quarter decline in occupancy we have ever recorded. A record 74 of the 87 markets tracked by Cushman & Wakefield recorded negative absorption in Q4 and 15 of these markets had negative 1.0 msf or more of negative absorption.

**Sublease space rises.** As 2020 unfolded, we saw a sharp increase in the amount of sublease space available in the office market. Compared to the end of 2019, with 62.6 msf of sublease space on the market, the volume of such space had nearly doubled to 111.9 msf only one year later—the largest amount of sublease available since Q3 2003. Sublease space had risen to 13.4% of all available space, up from 9.1% a year ago and the highest share since the dot com bust from 2001 to 2003. San Francisco is experiencing the greatest impact from sublease space as it accounted for more than half (51.8%) of all the space on the market. Other markets experiencing a high level of sublease space include Midtown South Manhattan (40.9%), San Mateo County, CA (33.7%), Puget Sound, OR (33.5%), and Austin (29.3%). An increase in sublease space tends to be a precursor to declines in asking rents; the surge in 2020 suggests we will see rising downward pressure on rents in 2021.

**Vacancy continues to surge.** As demand for space was falling, the volume of new supply continued to increase as projects under construction were completed. The fourth quarter saw 13.0 msf of space delivered, the most for

the year. This increase along with the decline in absorption led to a surge in vacancy across the nation. The national vacancy rate jumped from 14.4% in Q3 to 15.5% in Q4, the largest increase in a single quarter since Q1 2002. A year ago, the national vacancy rate was 12.9%.

Markets that have experienced substantial declines in occupancy are among those with the largest increase in vacancy, including Midtown South Manhattan (+380 basis points [bps] from Q3 to Q4), San Francisco (+300 bps), Boston (+290 bps), and Seattle (+240 bps). A total of 78 markets reported a higher vacancy rate in Q4 than in Q3.

## Outlook

- After a surge in Q3 2020, the economy slowed in Q4 2020 as the pandemic worsened while fiscal policy was on hold. With effective vaccines now being distributed and with more fiscal stimulus on the way, confidence should rise and it is only a matter of time before the pace of growth accelerates again. We expect the recovery in the U.S. to continue through 2021, with strength backloaded in the second half of the year.
- Vacancy is likely to rise further as the impact of job losses continues to be felt and the remote working dynamic works its way through the office sector. However, as the economy picks up so too will office leasing activity—a critical step in determining where the office leasing fundamentals will ultimately settle in.
- Asking rents are likely to decline in the next few quarters as owners face pressure from a rising volume of sublease space. Cushman & Wakefield anticipates that it will be a couple of years before national rental rates begin to appreciate again in the aggregate.

## Industrial

Despite the global pandemic causing economic turbulence in 2020, the U.S. industrial market finished the year remarkably strong with much of its resiliency hinging on the acceleration of e-commerce. In the fourth quarter, the market finished the year with the strongest single quarter of absorption since Q4 2014, absorbing 89.8 million square feet (msf). This brought the year-to-date (YTD) total to 268.4 msf of absorption, surpassing the 240.9 msf reported at year-end 2019 by 11.4%.

New leasing activity managed to surpass 100 msf for the 20<sup>th</sup> consecutive quarter at 178.8 msf. This brought the YTD total to 659.1 msf, a new record high for YTD leasing activity and the first time that new leasing has surpassed 600 msf by year-end. This is also the fifth year in a row that new leasing activity has exceeded 500 msf. More than half of the U.S. markets tracked by Cushman & Wakefield—43 of 80—posted YOY increases in new leasing activity.

New supply at the fourth quarter of 2020 totaled 352.9 msf YTD—a 5.7% increase YOY and the most space ever delivered as reported by Cushman & Wakefield. On a quarterly basis, the market saw 97.3 msf delivered in the fourth quarter of 2020—a little over 5 msf shy of the record quarter of 2019 that saw 102.3 msf, the strongest quarter ever reported. Supply has continued to outpace overall demand since 2019, and by year-end 2020, supply surpassed demand by a little over 84 msf. Even so, vacancy rates remained tight across markets. Of the 80 markets tracked by Cushman & Wakefield, 54 markets produced over 1.0 msf of new industrial construction by year-end 2020.

The U.S. industrial vacancy rate in the fourth quarter of 2020 saw a 30-basis point (bp) uptick YOY, coming in at 5.2%. Vacancy remained flat quarter-over-quarter and that vacancy rate is still 60 bps below the 10-year historical average of 6.6% for all product types. Despite vacancy increasing slightly YOY, the market welcomed the new quality space available as demand surged in the second half of the year. The rise in vacancy is alleviating some—but certainly not all—of the pressure on the supply constrained markets.

The continued tight market conditions and solid demand brought on another quarter of YOY rent growth at Q4 2020, increasing 4.6% from the fourth quarter 2019. At \$6.76 per square foot (psf), Q4 2020 becomes a new record high rental rate for the U.S. industrial market. Warehouse/distribution rents rose 5.6% during the same period to \$6.22 psf.



The current industrial construction pipeline as of Q4 2020 has reached 360.7 msf, another new record high for the market. Of the industrial product under construction, 337.1 msf (93.5%) will be warehouse/distribution product. Despite the brief pause developers took towards the end of Q1 and into Q2, the pipeline has now expanded 5.8% over Q3 2020, the most recent quarter to hold the title of record high pipeline, and about 6.6% over Q3 2019.

## Outlook

- Solid demand will continue. Net absorption will continue to exceed 200 msf in 2021.
- Supply is expected continue to outpace demand in the coming quarters. Industrial supply is likely to produce around 40% more space than can be absorbed, bringing quality space to the market for occupiers to consider.
- New supply will place upward pressure on overall vacancy with the rate rising 30-to-50 bps to between 5.5% and 5.7% in the next couple quarters.
- Asking rents will continue to increase with positive YOY growth, but new supply and more modest demand will be headwinds that moderate the pace of overall rent growth.

## Multifamily

The forecasted economic recovery to 2019 GDP levels by mid-2021 is projected to filter through to multi-housing roughly a year later with projections for a true rebound in effective rent growth rates and vacancy by Q3 2022, at which point effective rent growth is set to peak at 4-5% before normalizing to 2-3% annually by 2025. Recovery will be stratified and uneven with urban Gateway submarkets experiencing a sharper downturn in 2021 and a sharp bounce back in a few years. On the other hand, suburban submarkets among secondary metros have outperformed while overall rents nationally pulled back in 2021. A handful of markets stood out and made effective rent gains in 2020 such as Inland Empire, Boise, Sacramento, Tucson, Las Vegas, Phoenix, Jacksonville, Indianapolis, Columbus, Tampa, and Columbus etc. Several of these markets along with various others such as Inland Empire, Norfolk, and Sacramento are projected to post effective rent gains in 2021.

Various analyses on 2020 migration help explain shifting housing demand during the pandemic. According to U-Haul data, which is based upon more than two million one-way truck rentals annually, Tennessee, Texas, Florida, Ohio, and Arizona ranked highest in terms of net gain in movers during the year.

Multifamily transaction volume dipped 28% from 2019 to 2020 while that of C&W only decreased by 8%. The most active markets were Dallas, Atlanta, Phoenix, Los Angeles, and Denver, which supplanted major Gateways such as New York and San Francisco. Another shift in 2020 was the number of off-market deals, which ramped up as sellers and buyers waded back into the market in Q3 and Q4. Q4 2020 proved to be a resurgence period as approximately \$57 billion in assets transacted nationally, catching up to Q4 2019 levels. C&W brokered nearly \$12 billion in multifamily transaction volume for the year and \$5.5 billion occurred in Q4.

Multifamily cap rates continued to compress in 2020 and price appreciation has persisted (+8% YOY), particularly for suburban garden-style product (+9%), as the pandemic amplified multifamily and industrial attractiveness as investments among commercial real estate product types. Throughout 2020, demand for multifamily acquisitions exceeded the supply of multifamily assets available to purchase. The market paused in second quarter 2020 and entered into a wait-and-see mode and a period of price discovery while multifamily distress remained limited through year end in terms of loan performance. We anticipate the dearth of for-sale product to turn a corner in 2021 as owners repair their rent rolls and witness more sales data points as the market continues to be tested.

COVID-19 related stimulus will play a direct role in the multifamily industry's performance in early 2021 with directly relevant components such as an unprecedented \$25 billion rental assistance program. Pandemic unemployment insurance now expires on March 14<sup>th</sup> and the CDC eviction moratorium was extended to the end of January. Estimates on renter back rent that was due by end of January range anywhere from \$34 billion (National Council of State Housing Agencies) to \$70 billion (Moody's Analytics). The Census Housing Pulse indicates that 3 million

renters (5%) are not paying rent; another 9 million (17%) are behind on rent; and, 11% indicate they have no confidence they will be able to pay March rent, all as of February 15. The extent of these impacts remains to be seen in terms of a potential wave of evictions once the moratorium ceases. Class C assets have suffered the most as lower-income households have borne the brunt of job losses in 2020.

As C&W Residential Property Management and NMHC's Rent Payment Tracker data indicates, rent collections among Class A and B product have held relative to the magnitude of the pandemic. Per Cushman & Wakefield data, January delinquency rates (calculated as dollar rent unpaid versus dollar rent billed) stand at 8.6%, up from a low of 6.3% in April. Class A has outperformed at 6.0% compared to Class B (9.8%) and Class C (13.1%). Class C's lagging performance tracks with the economic fallout for those in the retail and service sectors.

## Outlook

Current forecasts point to overall vacancy recovering to 2019 levels in mid-2023 and effective rents sometime thereafter. The pace of recovery is liable to be uneven across markets and product types. Fast growing sunbelt markets are likely to recover more quickly both in terms of occupancy and rents. The same is true for suburban product in general. Class A properties should be able to recover occupancy but at the expense of effective rents.

## Retail

Retail has been among the most challenged commercial real estate product types. Throughout 2020, a total of 160 million square feet came back to the market, the largest annual decline in shopping center occupancy ever recorded. Despite vacancy rising 80 basis points during 2020, ending the year at 7.2%, average asking rents were flat year-over-year. Two primary factors are at work. First, landlords have dropped rents, at least for the short term. Second, higher quality space returning to the market has had the effect of lifting overall average asking rents, if only temporarily—and indeed, a significant amount of quality space have become vacant in the market. Prior to COVID-19, only approximately 20% of available retail space was in more expensive Class A properties. As of Q4 2020, the metric stands at about 40%.

Retailer challenges vary by category, and that variability is reflected in the performance of retail shopping center types. Retail categories that were deemed essential and exempted from initial lockdowns have tended to be the most active in leasing space. Grocery stores, which are overwhelmingly community/neighborhood and power center tenants, have consistently reported strong year-over-year sales increases with many chains gearing up for growth. Likewise, categories like home improvement (typically active in power centers) have been stronger performers as consumers increasingly focused on home-related spending. Other categories benefitted from initial surges in consumer spending in the first months of the pandemic, though that spending has since moderated. They include sporting goods, consumer electronics and office supplies, all of which tend to be active in power centers.

While power centers benefitted from these retail categories, they do face the potential to lose some big box tenants, depending on the category—and big box vacancies are often more difficult to backfill than smaller inline vacancies. However, leasing by smaller format grocery, discounters and off-price apparel seeking quality power center space should help offset some of these potential losses. Burlington has announced that they are doubling the number of new stores, albeit with smaller footprints. Additionally, the fitness sector could become a strength for these centers over time. Though the health of club/gym industry faces challenges today, wellness is expected to be a major growth driver post-pandemic.

Among all shopping center types, lifestyle centers have faced the most significant headwinds as they have traditionally focused on a mix of mid-and-upscale apparel, entertainment and food and beverage tenants. But as is the case across all retail real estate, the impacts will play out differently based on class and location. Class A properties, for example, will see fewer strategic closures and will be better positioned to land new tenants. And lifestyle centers located in markets that fully open sooner—or that offer cheaper rents—will see fewer small business failures.

Demand for e-commerce and delivery services has led to skyrocketing growth for those sectors, more than doubling in some categories like e-groceries. As a result, finding omnichannel equilibrium—the right mix between stores and online penetration—will remain a high priority for retailers and a key to determine future success.

The pandemic has also decelerated many of the trends that had been driving leasing demand by food and beverage, experiential retail, and entertainment retailers. Most of these categories are expected to come back strongly given the pullback in leasing has little to do with long-term consumer preferences. There are concerns, however, that 30% of restaurants, especially mom and pop owned, will fail. Even so, activity is expected to remain muted for the first half of 2021.

## Outlook

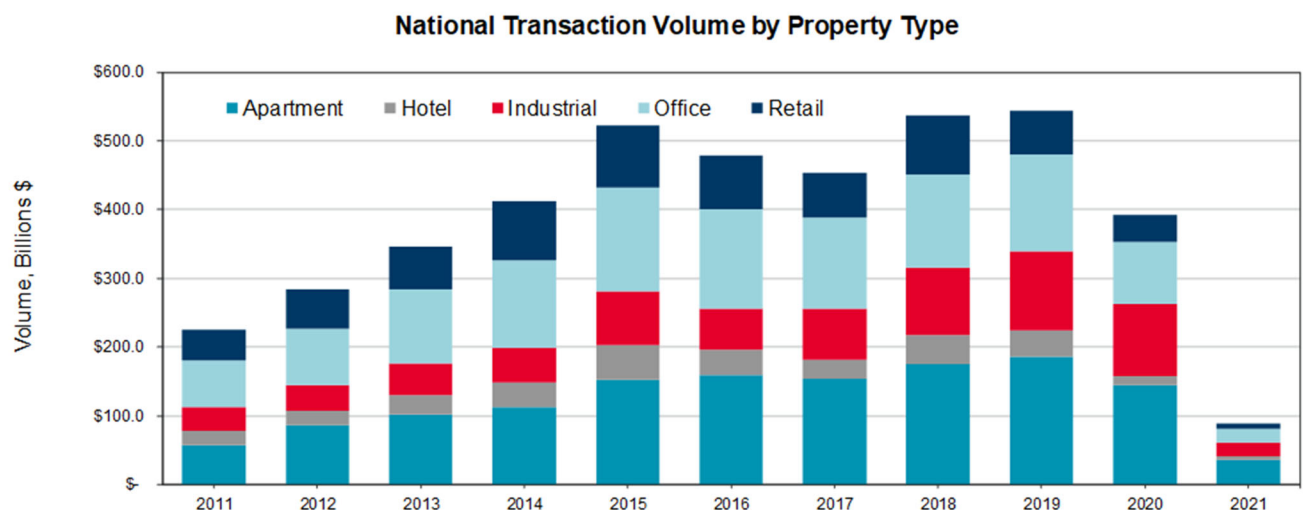
Retail leasing is expected to be strongest among categories that suffered little to no impact by lockdowns, that focus on necessity items, that are value-oriented in their consumer offerings, and that are benefitting from pandemic-related shifts in consumer behavior. Convenience, discount/dollar, drug/grocery, hardware, mass merchandisers/superstores, off-price apparel, pet supplies and warehouse stores all fit into this group. These categories—with the addition of fast food and quick service restaurants—are expected to be among the most active in seeking opportunistic growth opportunities.

## U.S. Real Estate Market Implications

The commercial real estate markets sales volume totaled approximately \$96.7 billion through first quarter 2021 and pricing for commercial real estate sat at \$152 per square foot. Through first quarter 2021, deal activity fell by 28% in a year-over-year comparison and pricing for commercial real estate increased 7.8%, according to Real Capital Analytics.

Throughout the first quarter of 2021 the retail sector saw the largest decrease in transaction volume, falling by 42%. Industrial transaction activity was down 41% during the first quarter and totaled approximately \$19.6 billion in transaction volume. The apartment sector saw year-over-year transaction volume fall by 12%, while the office sector dropped by 36% over the same time period. The only sector to see an increase in transaction volume in a year-over-year comparison was the hotel sector. In the hotel sector, sales volume rose by 13% from first quarter 2020 and totaled roughly \$5.6 billion in transaction volume through the end of first quarter 2021.

The following graph compares national transaction volume by property type from 2011 through 2021:



Source: Real Capital Analytics



According to PricewaterhouseCoopers (PwC) Real Estate Investor Survey average cap rates for all property types increased in ten survey markets, decreased in 20, and held steady in five through first quarter 2021 (in a quarterly comparison). For the year, 67% of the market averages are higher today than they were a year ago with 17 markets posting double-digit increases. Given current market conditions, each sector of the commercial real estate market is feeling the effects of the pandemic and the national regional mall market recorded the largest increase in their average overall cap rate, climbing 112 basis points from first quarter 2020. Additionally, for all markets, the average cap rate change is a three basis-point decline over last quarter.

The following chart displays overall cap rate analysis of six distinct property classes during first quarter 2021, and compares them to the same time last year:

Overall Cap Rate Analysis			
First Quarter 2021			
Asset Class	Q1 2021	Q1 2020	Basis Point Change
CBD Office	5.70%	5.45%	25
Suburban Office	6.02%	6.36%	-34
National Warehouse	4.80%	4.79%	1
National Apartment	5.04%	5.14%	-10
National Regional Mall	7.35%	6.23%	112
National Net Lease	6.16%	6.16%	0

Source: PwC Real Estate Investor Survey and Cushman & Wakefield Valuation & Advisory

Notable points for the U.S. real estate market include:

- Annual price growth in the six major metro areas fell 7.7% in the first quarter of 2020 according to RCA, while annual price growth in the non-major metros decreased by 2.4% in a year-over-year comparison.
- Approximately 50% of participants in the PwC Real Estate Investor Survey believe that current market conditions favor buyers in the national net lease market and investor demand has increased in the industrial net lease sector especially. Additionally, quick-service restaurants and sale leasebacks have benefited from the COVID-19 pandemic, but investors believe headwinds will continue in the net lease sector with fewer investment opportunities available through the near term.
- The national regional mall market recorded the largest yearly cap rate shift, climbing 112 basis points to 7.4%. At 7.6%, the Chicago office market fell by 13 basis points from the previous year and is still the highest, while the Manhattan office market, at 5.1%, holds the lowest cap rate, rising 28 basis points from the first quarter 2020. Over the next six months, surveyed investors foresee overall cap rates holding steady in 24 markets but expect cap rates to increase in seven markets.

## Conclusion

In the second quarter 2020, the country witnessed its worst drop in GDP on record. For second quarter this year, we expect that GDP growth may be in the double digits. Still, while the economy is in much better shape than it was at this same time last year, it is still too early to tell exactly how long some of the effects of the pandemic will last, or how deep they may run. Every property type is handling the effects of the pandemic in a unique way and are looking for ways to adapt to the post-COVID environment that is rapidly approaching.

Below are notes regarding the outlook for the U.S. national real estate market in 2021 and beyond:

- While there is light at the end of the tunnel, commercial property sales have declined year-over-year for four consecutive quarters. While there may be more declines in the near future, they are expected to taper off in the coming months and quarters.

- Early on in the pandemic, distressed properties were attracting buyers looking to take advantage of discounted sales. A year later, however, distressed properties are not as certain as they once were as new inflows of distressed properties peaked in the second quarter of 2020 and have dropped every quarter since.
- Inflation fears are on the rise, but the conditions that led to periods of high inflation in the 1970s and late 1980s/early 1990s, such as oversupply, do not exist today. Most economists are expecting that CPI will grow at a relatively low rate of 2.3% through 2023, significantly lower than the double digits experienced in the 1970s.

In addition to the above, factors listed in the following table have been considered in the valuation of the subject property and have an impact on the selection of all investor rates.

## Investment Considerations

Before determining the appropriate risk rate(s) to apply to the subject, a review of recent market conditions, particularly in the financial markets, is warranted. The following subsection(s) provide(s) a review of these trends, ending with a summary of the investment considerations impacting the subject property. The trends are based upon the appraiser's market research, discussions with participants in the market, and the relative position of the subject property within its market.

The Commercial Real Estate (CRE) market is driven by investor demand and strong liquidity. Since its onset in March 2020, the COVID-19 pandemic has had a dramatic effect on both of these factors as the market navigated actual and perceived impact. We observed asset classes experiencing various impacts, both positive and negative. We observed that asset values can fall significantly in short periods of time if either demand or liquidity, often in conjunction with many other factors, change significantly. As we have throughout the pandemic, Cushman & Wakefield is closely monitoring the latest developments resulting from the COVID-19 pandemic and recovery. The reader is cautioned to consider that values and incomes can change more rapidly and significantly than during standard market conditions. Furthermore, the reader should be cautioned and reminded that any conclusions presented in this appraisal report apply only as of the effective dates indicated. While we have valued the property based on current market trends and participant expectations, the appraiser makes no representation as to the effect on the subject property of any event disruptive to these trends and expectations subsequent to the effective date of the appraisal.

### Overview

The recession that began in March 2020, triggered by the COVID-19 pandemic, was short and steep. In the second quarter of 2020, real (inflation-adjusted) gross domestic product (GDP) collapsed at a record 31.4% annual pace, only to bounce back at a record 33.4% annual rate in the third quarter. In the final quarter of 2020, the pace of recovery had slowed substantially as the pandemic worsened again, and for year-end 2020 the GDP remained 2.5% below its peak in fourth quarter of 2019. Now that vaccines are being rolled out, albeit with some caveats like an increasing number of people skipping the second dose, and a robust economic stimulus passed in March, things are turning around. In fact, the GDP grew at a rate of 6.4% in the first quarter of 2021 and is expected to reach 7% for the entire year.

Employment, a key driver of demand for space, experienced a turbulent 2020 as the economy shed more than 22 million jobs in March and April, and then added 12.5 million jobs between May and November. In December 2020, however, the economy lost a net of 140,000 jobs as COVID-driven shutdowns led to a decline in employment of approximately 500,000 jobs in the leisure and hospitality sector (other sectors experienced modest gains that month). At the end of first quarter 2021, the unemployment rate fell to 6% and 916,000 jobs were added in the last month of the quarter alone. While things are certainly turning around, there are still about 8 million fewer people counted as employed than there were in February 2020, and the labor force is down by about 4 million.

As more Americans become vaccinated, job numbers continue to improve, and the economic stimulus encourages spending and raises consumer confidence, more and more parts of the country will start to open back up. Still, the

impacts of the pandemic will be felt for quite some time sometime and certain property types, such as retail and hospitality, may take longer to recover than others. On top of this, other parts of the world such as Europe are a few months behind the U.S., or, like India, are still struggling to get the virus under control and it is unclear at this point when their lockdown will end.

Further considerations include:

- U.S. Consumer Confidence rose to a 14-month high in April 2021 due to increased vaccinations and the additional fiscal stimulus, which allowed more businesses and services to reopen. As consumers are seeing a light at the end of the tunnel, growth this year is expected to be the best in nearly four decades.
- U.S. retail sales jumped 9.8% in March 2021, exceeding the Dow Jones estimate of 6.1%, and on the heels of a 2.7% decline in February 2021. Driving this were the freshly issued stimulus checks and new unemployment filings dropping to 576,000, by far the best week since the beginning of the pandemic.
- Stimulus checks coupled with a vaccine rollout proved to be a lucrative combination. For first quarter 2021 the Dow Jones Industrial Average was up 6.17%; the S&P 500 sailed past 4,000 for the first time on April 1, 2021, experiencing a quarterly jump of 5.77%; and the NASDAQ was up 2.78%.
- Despite an accelerating economy, and rising inflation, the Federal Reserve is not ready to alter their easy money policy just yet. For the time being, the U.S. Central Bank decided to keep its interest rates anchored near zero and is purchasing \$120 billion in bonds each month.
- For the first quarter of 2021, U.S. commercial real estate activity sank sharply, dropping 28.2% in a year-over-year comparison, according to Real Capital Analytics (RCA). With that said, commercial property sales dropped for four consecutive quarters, but increased vaccinations are expected to increase deal activity through the near term. Growth was primarily driven by the hotel sector as weaker trends for the office, industrial, and retail sectors were a drag on the index.

Right now, over 100 million people have been vaccinated, COVID infection rates are dropping around the country, and some areas of the country are back up and running, while others expect to be by the middle of the summer. Despite this, most people are still telecommuting, social distancing remains the norm, and conferences remain online. Most lockdowns and stay-at-home orders have been lifted, but many businesses are still taking precautions by asking customers to wear masks and checking temperatures. Considering this, it is important to take in mind that data lags, and we are still trying to accurately determine the pandemic's effects on the commercial real estate market. In other sections of the report, we will discuss these effects and impacts on the immediate market and subject property in as much detail as possible. Therefore, we ask that you consider the following points:

- Early in the COVID-19 pandemic, most non-essential businesses shut down, causing significant disruption in the economy. As we move through the winter months, many businesses that reopened over the late spring and summer may now be forced to shut down once again or drastically change the way they operate and function.
- Certain property types have been more heavily impacted than others, with some asset classes benefiting from the COVID environment. Generally, cap rates and price growth remain relatively flat across the board, but there has been compression in some property types.
- Investment activity remains muted in first quarter 2021, but it appears we have turned a corner on distressed properties as RCA reports that more distress was resolved than came on to the market. Despite this, distressed loans, primarily across the office, retail, hotel, and apartment sectors, will continue to have a negative impact.

Wide scale vaccinations started at the end of 2020, and we expect a large majority of the population to be vaccinated by mid-year with the hopes of reaching herd immunity, as everyone 16 and older is now eligible to receive a vaccine. With this, businesses will begin to fully resume normal activities, as risk and fear of infection decrease, and the economy will begin to grow more rapidly.

## Economic Conditions & Current Trends

In 2020, the U.S. economy contracted for the first time since 2009, when GDP shrank by 2.5% during the height of the Great Recession. Last year was also the worst year for economic growth since 1946 when the economy shrank by 11.5% as the nation transitioned into the post-war period. While this recession's low point was unusually low, the GDP bounced back from the trough of this recession much faster than it recovered from the Great Recession and spent the second half of the year on the mend.

This year started off sprinting with real GDP growth hitting a 6.4% annualized rate for the first quarter of 2021 and a double-digit gain expected at the end of second quarter. Growth was primarily driven by consumers, but business investment and homebuilding also contributed. Another key component was the pent-up savings households amassed during the pandemic. Right now, there is an estimated \$2.3 trillion in pent-up savings which amounts to over 10% of GDP. As such, Moody's has revised their GDP outlook to nearly 7% for 2021 and about 5% for 2022. The trade balance was the largest drag on the economy as the U.S. economy is well ahead of most of the rest of the world, excluding China and southeast Asia. While inflation is picking up, and nearing its 2% target, its increase is likely just consumer demand bouncing back, as inflation was essentially flat last year during the pandemic. Inflation levels are expected to moderate later this year as headwinds die down.

Outside the U.S., the future is starting to look brighter as well. The International Monetary Fund (IMF) is forecasting a global expansion of 6%, up from its earlier 5.5% estimate in January, which would be the fastest expansion since the early 1980s. This expansion is expected to taper a bit in 2022 to 4.4%, up from an estimated 4.2% earlier this year. The IMF warned, however, that the economic recovery will likely be uneven. Rebounds will be slower in poorer countries that can't afford massive government stimulus and for those dependent on tourism. They have also promoted equal vaccine distribution rollout to poorer countries in order to minimize further global economic damage.

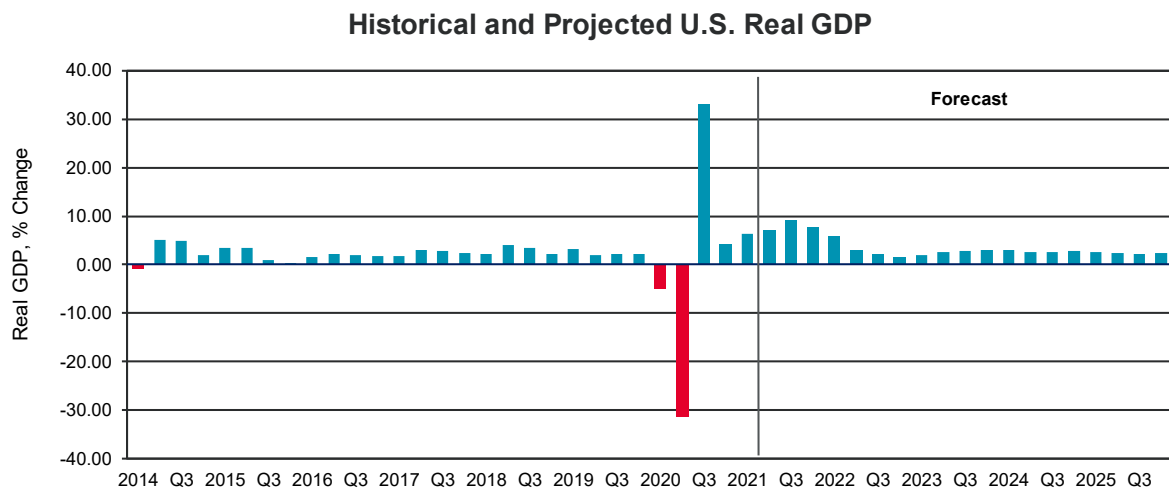
Even after a year into the pandemic, CRE participants are still trying to understand market impacts, and accurately assessing risk remains difficult. Proceeding through these uncertain times, the reader is asked to consider some key events that affect the uncertainty:

- In March 2020, the Coronavirus Aid Relief and Economic Security, or CARES Act, was passed by Congress and signed by President Trump. The bill was intended to provide emergency assistance and health care for individuals, families and businesses affected by the COVID-19 pandemic. Totalling \$2 trillion, the bill was unprecedented in size and scope, dwarfing the \$831 billion stimulus act passed in 2009, and amounting to 10% of total 2019 US GDP.
- On Friday December 11th, the first COVID-19 vaccine, produced by Pfizer and the German company BioNTech, was granted Emergency Use Authorization (EUA) by the FDA. Then, on Monday, December 14th, another vaccine by Moderna, a Massachusetts based firm, was also granted EUA. On February 27, 2021 the Johnson & Johnson vaccine was also approved by the FDA for emergency use and is currently being used as a third vaccine to help fight the pandemic.
- The Consolidated Appropriations Act, 2021 is a \$2.3 trillion spending bill that combines \$900 billion in stimulus relief with a \$1.4 trillion omnibus spending bill for the 2021 federal fiscal year. The bill was passed by both houses on December 21<sup>st</sup> and then signed into law by President Trump on December 27. It is one of the largest spending measures ever enacted, surpassing the CARES Act, and the first bill passed to address the pandemic since March 2020.
- On January 20, 2021, the U.S. death toll from COVID-19 surpassed the 400,000 mark, as per Johns Hopkins data. It took a little over a month for the death toll to jump by 33%, with 100,000 casualties in 36 days. A month later, on February 22, 2021 the COVID-19 death toll surpassed 500,000. While vaccine rollouts are underway, new more contagious, and possibly more deadly strains, are raising concerns.

- On March 11, 2021 President Biden signed the American Rescue Plan Act of 2021 (ARP) into law. The bill is a \$1.9 trillion economic stimulus designed to speed up the recovery from the health effects and the ongoing recession. Key elements of the Act include extending expanded unemployment benefits, \$1,400 direct payments to certain individuals, emergency paid leave for over 100 million Americans, extending 15% food stamp benefits as well as funding for vaccines, education and housing.
- In addition to ARP, President Biden has two other proposed parts to his Build Back Better Plan that have not yet been passed. They include, the American Jobs Plan, designed to rebuild America's infrastructure and to create jobs; and the American Families Plan, which aims to invest in childcare and education.
- By the end of April 2021, the Biden Administration had achieved its goal of 200 million coronavirus vaccinations during the President's first 100 days in office. More than half of all U.S. adults have now received at least one shot, and 80% of adults over 65 have been partially or fully vaccinated.

The economy continues to recover despite fear of inflation and bond yields on the rise. With COVID infections trending downwards and vaccinations on the rise, the economy is expected to grow throughout the rest of 2021.

The following graph displays historical and projected U.S. real GDP percentage change (annualized on a quarterly basis) from first quarter 2014 through first quarter 2021:



Further points regarding current economic conditions are as follows:

- Through first quarter 2021, GDP increased 6.4%, according to the Bureau of Economic Analysis' advanced estimate. This occurred in direct response to increases in spending on services and goods, as the national economy continued to show signs of recovery behind increased vaccinations and mass reopening of businesses and activities across the nation. Over the last three quarters, the U.S. economy has grown and the Federal Reserve plans to keep interest rates near zero to help encourage more spending by the population. As we enter second quarter 2021, states and cities will continue to ease restrictions and plan to fully reopen as the COVID-19 situation improves. Furthermore, GDP is expected to continue increasing as the nation recovers from the fiscal strain brought on by the pandemic, but the risk of inflation is a concern.

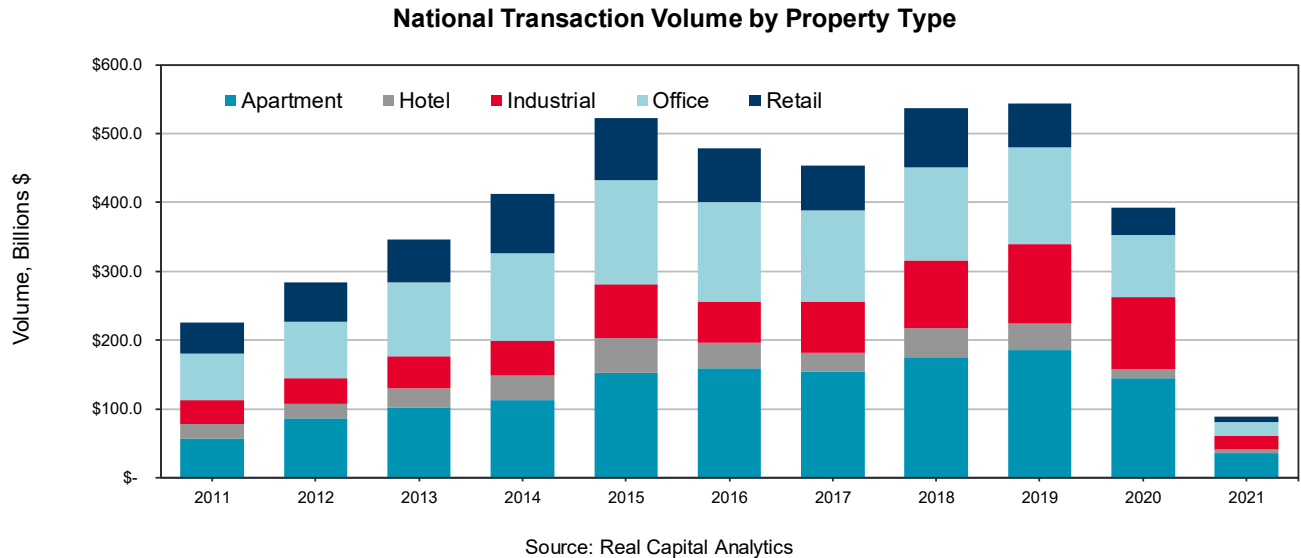
- Commercial and multifamily mortgage loan originations decreased 18% in fourth quarter 2020 (latest data available) when compared to the fourth quarter of 2019, according to the Mortgage Bankers Association's Quarterly Survey of Commercial/Multifamily Mortgage Bankers. Loan originations in the fourth quarter of 2020 were 76% higher than third quarter 2020.
- Commercial mortgage-backed securities (CMBS) have been spurred by measured investment sales activity and stable credit spreads. Commercial Mortgage Alert data indicates that U.S. CMBS issuance through April 2021 is 8% higher when compared to CMBS issuance during the same period in 2020. As of April 2021, Commercial Mortgage Alert data indicates that U.S. CMBS issuance sits at \$21.6 billion.

## U.S. Real Estate Market Implications

The commercial real estate markets sales volume totaled approximately \$96.7 billion through first quarter 2021 and pricing for commercial real estate sat at \$152 per square foot. Through first quarter 2021, deal activity fell by 28% in a year-over-year comparison and pricing for commercial real estate increased 7.8%, according to Real Capital Analytics.

Throughout the first quarter of 2021 the retail sector saw the largest decrease in transaction volume, falling by 42%. Industrial transaction activity was down 41% during the first quarter and totaled approximately \$19.6 billion in transaction volume. The apartment sector saw year-over-year transaction volume fall by 12%, while the office sector dropped by 36% over the same time period. The only sector to see an increase in transaction volume in a year-over-year comparison was the hotel sector. In the hotel sector, sales volume rose by 13% from first quarter 2020 and totaled roughly \$5.6 billion in transaction volume through the end of first quarter 2021.

The following graph compares national transaction volume by property type from 2011 through 2021:



According to PricewaterhouseCoopers (PwC) Real Estate Investor Survey average cap rates for all property types increased in ten survey markets, decreased in 2020, and held steady in five through first quarter 2021 (in a quarterly comparison). For the year, 67% of the market averages are higher today than they were a year ago with 17 markets posting double-digit increases. Given current market conditions, each sector of the commercial real estate market is feeling the effects of the pandemic and the national regional mall market recorded the largest increase in their average overall cap rate, climbing 112 basis points from first quarter 2020. Additionally, for all markets, the average cap rate change is a three basis-point decline over last quarter.



The following chart displays overall cap rate analysis of six distinct property classes during first quarter 2021, and compares them to the same time last year:

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National Net Lease	6.16%	6.16%	0

Source: PwC Real Estate Investor Survey and Cushman & Wakefield Valuation & Advisory

Notable points for the U.S. real estate market include:

- Annual price growth in the six major metro areas fell 7.7% in the first quarter of 2020 according to RCA, while annual price growth in the non-major metros decreased by 2.4% in a year-over-year comparison.
- Approximately 50% of participants in the PwC Real Estate Investor Survey believe that current market conditions favor buyers in the national net lease market and investor demand has increased in the industrial net lease sector especially. Additionally, quick-service restaurants and sale leasebacks have benefited from the COVID-19 pandemic but investors believe headwinds will continue in the net lease sector with fewer investment opportunities available through the near term.
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## Conclusion

In the second quarter 2020, the country witnessed its worst drop in GDP on record. For second quarter this year, we expect that GDP growth may be in the double digits. Still, while the economy is in much better shape than it was at this same time last year, it is still too early to tell exactly how long some of the effects of the pandemic will last, or how deep they may run. Every property type is handling the effects of the pandemic in a unique way and are looking for ways to adapt to the post-COVID environment that is rapidly approaching.

Below are notes regarding the outlook for the U.S. national real estate market in 2021 and beyond:

- While there is light at the end of the tunnel, commercial property sales have declined year-over-year for four consecutive quarters. While there may be more declines in the near future, they are expected to taper off in the coming months and quarters.
- Early on in the pandemic, distressed properties were attracting buyers looking to take advantage of discounted sales. A year later, however, distressed properties are not as certain as they once were as new inflows of distressed properties peaked in the second quarter of 2020 and have dropped every quarter since.
- Inflation fears are on the rise, but the conditions that led to periods of high inflation in the 1970s and late 1980s/early 1990s, such as oversupply, do not exist today. Most economists are expecting that CPI will grow at a relatively low rate of 2.3% through 2023, significantly lower than the double digits experienced in the 1970s.

In addition to the above, factors listed in the following table have been considered in the valuation of the subject property and have an impact on the selection of all investor rates.

## National Office Market

### Overview

Prior to the current market disruption brought on by the COVID-19 pandemic, the U.S. economy had officially begun its eleventh consecutive year of growth in the second half of 2019; a new record for the longest economic expansion in history. Economic growth beat market expectations during the fourth quarter of 2019, and the unemployment rate hit a 50-year low as it reached 3.5%. In March 2020, circumstances changed drastically with the rapid spread of COVID-19 that caused people around the globe to start quarantining and practicing social distancing. This led to many businesses closing, either temporarily or permanently, and pushed the U.S. economy, as well as most other economies around the world, into a deep recession.

Entering 2020 on a stable, if not strong economic footing, the novel coronavirus has clearly had a severe impact on the economy. Keeping in mind that a majority of the information in this report contains the latest concrete data available (typically as of 4Q 2020), events have been changing rapidly, and the latest statistical information available has been provided, as available. The commercial real estate sector is not the stock market. It is slower moving and leasing fundamentals do not swing wildly from day to day. That said, the economy is still struggling to gain its footing, and this impacts the real property markets.

Economists expected the U.S. economy to return to growth during the second half of the year, however, COVID-19 infections are still rising and recovery remains sluggish. The last three months 2020 displayed an improving economy as U.S. Gross Domestic Product rose by 4% between October and December but things are not yet back to normal as millions are still unemployed. In preparation for the holiday season, states and localities reinforced restrictions on social gatherings in order to slow the spread of the virus as people travel across the country. With two vaccines approved by the Food and Drug Administration, recovery should accelerate over the near term but the United States is struggling to ramp up the distribution of the vaccines due to a lack of resources and logistical problems.

While the speed of the recovery remains uncertain, the nation will need to show signs of progress heading into 2021. The key to how rapidly the economy recovers will be the distribution of the COVID-19 vaccines, business and consumer confidence. If businesses and households are confident that they can engage in normal activities without facing the threat of infection, growth will accelerate. But if concerns remain elevated, it will take longer for the economy to fully recover. Furthermore, there are questions if Operation Warp Speed, the federal effort to deliver vaccines, can administer the vaccine fast enough to the population as states differ on how to distribute the vaccines. A new variant of the coronavirus, that has been found in Colorado and California, coming into the United States could also delay recovery.

The following summarizes key points regarding employment, according to the Bureau of Labor Statistics:

- Overall unemployment rates have risen as the global pandemic has forced over 30 million Americans into unemployment. Through January 2021, the national unemployment rate, at 6.3% and declined by 3.5 percentage points from the April 2020 highs.
- Total nonfarm payroll employment rose by 49,000 in January 2021 in the U.S. The number of unemployed persons fell to 10.1 million in November. Despite declines over the past several months, the number of unemployed person trended downward in January but is 5.7 million higher than February 2020.



- In the office-using industries, employment in the professional & business services sector increased in January 2021 by 97,000 jobs. The financial activities industry and the information industry changed little in January 2021.
- Job growth is a critical component of determining demand for office space. The national U.S. unemployment rate has gradually declined since 2009, and office-using employment has been one of the biggest gainers during this expansion period. The sharp decline in office employment in the first half of 2020 continues to impact the commercial office markets, but participants are encouraged by the more recent gains noted above.

## National Office Market Statistics

### Vacancy

Through fourth quarter 2020, the national office market overall vacancy rate was 15.5%, rising from 12.9% in at the end of 2019. This is the highest national vacancy rate since third quarter 2014. Employment in the office-using sector changed during the global pandemic, as many employees have either been forced to work from home or given limited access to their respective offices. The U.S. economy is in an unprecedented time, and it is difficult to speculate on the demand for office space heading into 2021 due to the concerns of COVID-19. However, we recap some observations as follows:

- Although the West office market registered the lowest overall vacancy rate through third quarter, with an overall vacancy rate of 14%, the West has seen the largest jump in overall vacancy from first quarter 2020, rising by 310 basis points through the fourth quarter. Additionally, overall vacancy rate is 320 basis points higher than fourth quarter 2019 as the impact of the COVID had an impact on the tech-dominated office markets along the West Coast, namely those in San Francisco and the San Jose areas.
- The South office market ended 2020 with an overall vacancy rate of 16.6%, the highest out of all U.S. regions; however, the gradual population and corporate migration to the Sunbelt that has been accelerated by COVID-19 is supporting a higher level of stability in many markets here than in Coastal areas.
- The major markets with the lowest vacancy rate include Puget Sound-Eastside (8.1%), Inland Empire (9%), Sacramento (10.4%), Raleigh/Durham (10.2%), Boston (9.5%) and San Mateo County, CA (11%).
- Of the 87 markets tracked by Cushman & Wakefield, 78 saw vacancy increase from the third quarter 2020 to fourth quarter 2020.

### Construction

Through fourth quarter 2020, approximately 48.7 million square feet of office space were delivered, the largest amount being in the South, with over 19.4 million square feet. Despite a slowdown in demand for office space in 2020, deliveries of new construction which began pre-COVID have continued during the year and the first half of the year saw roughly 23.2 million square feet. Fourth quarter 2020 displayed increased construction activity from the previous quarter and saw 12.9 million square feet in new office inventory. The pipeline of new construction is likely to not see all projects finished during the year as COVID-19 forced delays and shutdowns of construction sites earlier this year in many areas. At the end of the year almost 123.8 million square feet were under construction.

Notable construction information is as follows:

- The Midtown Manhattan has the largest amount of new office product under construction at roughly 10.3 million square feet through fourth quarter 2020. Boston came in second with nearly 9.1 million square feet under construction and San Jose rounded out the top three markets in construction activity, at 7.1 million square feet. The delivery of large amounts of speculative inventory during the pandemic will not bode well for occupancy and rents in these markets; the exception being Boston where the thriving life sciences sector is buoying the office market.

- As construction progress is completed, tightening of lending for speculative office development should result in a decreasing pipeline over the near term.

## Asking Rent

Asking rents are lagging real-time market softness. After reaching a new record high at the end of 2019, at \$33.14 per square foot, the national average asking rent has climbed to \$35.10 per square foot even with a lack of demand and an increasing national overall vacancy rate. Through the end of 2020, the national weighted average asking rent increased 5.6% year-over-year and was up significantly since bottoming eight years ago in the second quarter of 2011. In addition, major markets like, San Francisco, San Mateo County, Midtown Manhattan, Midtown South Manhattan, Downtown Manhattan and Washington D.C., continue to record asking rents above \$50.00 per square foot, on an annual basis. Furthermore, asking rents in 58 markets increased from third quarter 2020 and asking rents are expected to decline over the next few quarters with the amount of sublease space currently on the market. These statistics are somewhat misleading however, as landlords, brokers and market participants report that real-time effective rents are flat or falling in most markets. We attribute the rise in average rents to the large amounts of new construction (started pre-COVID) which were delivered during the year with top-of-market asking rents. Looking forward to 2021, Cushman & Wakefield expects average asking rents to begin to drop with weakened demand and rising sublease activity.

Further considerations include:

- Prior to the COVID-19 pandemic, the West region of the country experienced the fastest rent growth on an annual basis and asking rents continued to increase, rising 8.2% since the end of 2019. Additionally, within the CBD national office market, the New York Midtown market ended the year with the highest average asking rent in the U.S., at \$77.06 per square foot. San Francisco commands the second highest average asking rent in the U.S., at \$75.11 per square foot, and New York Midtown South ended the quarter with the third highest average asking rent at \$72.70 per square foot. A sharp increase in sublease space and a lack of demand from office tenants will also contribute to downward pressure on rents in that market.
- The Northeast region office market was the most expensive in the United States, with overall average asking rent at \$45.33 per square foot, reflecting a 4.1% increase from fourth quarter 2019. The West region office overall average asking rent, at \$39.81 per square foot, is the second highest out of the four U.S. office market regions, with the South and Midwest at \$30.41 per square foot and \$25.62 per square foot trailing by a distinct margin.
- Compared to a year ago, 20 of 86 markets saw a decline in rents. Given the current environment, vacancy rates will rise over the coming quarters which will lead to downward pressure on effective rents, which are a lagging indicator.

## Absorption

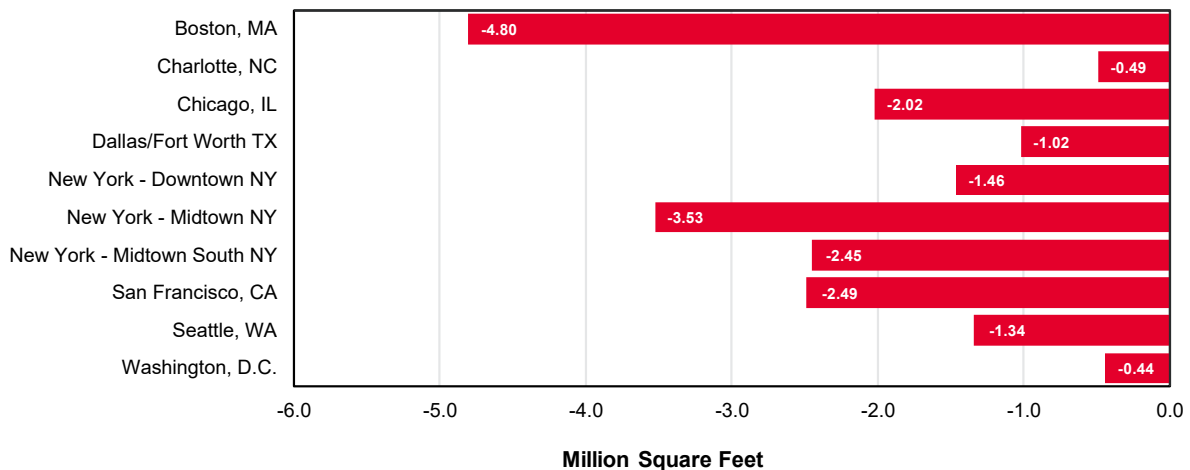
Absorption continued to trend negatively, with the market losing approximately 42.8 million square feet through the end of the year. This is the third consecutive quarter of negative absorption, attributed to the decline in employment in response to the global health crisis. The unemployment rate has trended downward over the last several months, but a rising number of cases in the United States will continue to disrupt the recent improvement as the nation enters into the new year. As Americans return to work looking ahead to 2021, all eyes will be on net absorption and employment in office-using industries – the main driver of office demand. Further considerations are as follows:

- All four U.S. office market regions recorded negative absorption through at the end of 2020. The largest amount of negative absorption came out of the Northeast. The Northeast totaled almost 16.5 million square feet in negative absorption, while the West, South and Midwest regions lost approximately 14.3 million square feet, over 9.6 million square feet and nearly 4.9 million square feet of occupancy, respectively, through the end of the year.

- Through fourth quarter 2020, 74 office markets reported negative absorption and 15 markets totaled at least one million square feet in negative absorption due to a lack of office demand during the coronavirus pandemic. Major markets such as Boston, Midtown Manhattan and San Francisco witnessed considerable declines during the quarter. In fact, the Boston office market saw roughly 4.8 million square feet return to market through fourth quarter. The approved COVID-19 vaccines by Moderna and Pfizer/BioNTech will likely improve economic conditions and assist in the recovery from the recession brought on by the virus as we move into 2021.

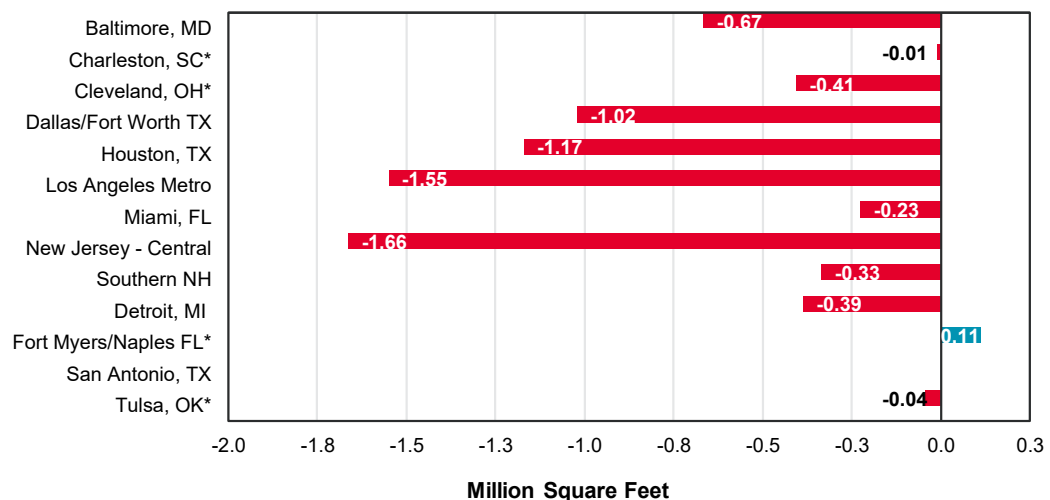
The following charts highlight the national office absorption trends for the major markets in the United States in fourth quarter 2020, segmented between the CBD and suburban office markets:

### OVERALL NET ABSORPTION NATIONAL COMPARATIVE CBD



Source: Cushman & Wakefield Research; compiled by C&W V&A

### OVERALL NET ABSORPTION NATIONAL COMPARATIVE SUBURBAN



\* represents a C&W alliance office

Source: Cushman & Wakefield Research; compiled by C&W V&A

There are currently two opposing forces at work on office absorption;

- The first is the gain in space due to the immediate need for more square-feet per employee, reflecting physical distancing in consideration of COVID. The pendulum is swinging back after years of densification.
- The second is the loss in space due to the permanent stay-at-home workforce.

While there will be some offset, the latter definitely reflects the sentiment of the day. Companies are delaying repopulation of office space and considering alternatives that result in a reduced footprint overall.

## National Office Investment Sales Market

As shown in the comparative absorption exhibits, overall net absorption impacts the selection of preferred investment markets for office building investors. Historically, investors targeted the best quality assets in core markets during a recovery phase and have gradually shown an inclination to move “down the food chain” in terms of quality and market location. This shift occurs where there is less competition and better yield potential over the near-term as capital flows to risk-adjusted opportunity. There is no doubt, however, that during the COVID-19 recession, some core markets are facing headwinds from the challenge of physical distancing, delivery of new speculative inventory, and social unrest.

### Sales Volume

Office transactions (total dollar volume) have been at healthy levels as the economy has expanded over recent years. From 2009 through 2015, investors gained confidence in the office market and sales volume experienced consistent year-over-year growth. Sales volume for office product reached its cyclical peak in 2015 due, in part, to unusual activity in the early part of year, where falling cap rates and ease of finance from the commercial mortgage-backed securities (CMBS) market helped drive sales activity. Sales volume declined on an annual basis in both 2016 and 2017, however office investment activity has been at elevated levels and investment during these years was at a higher than average pace. In fourth quarter 2020, office sales volume dropped by approximately \$13.6 billion from fourth quarter 2019, to reach roughly \$27.6 billion.

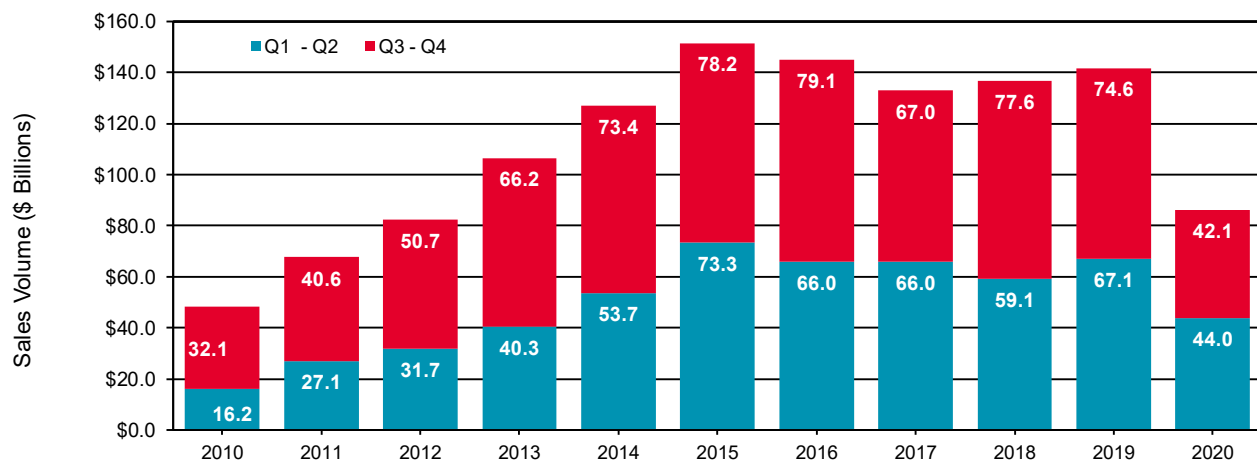
Further considerations are as follows:

- Following a challenging start to 2020 as the novel coronavirus swept across the globe, deal volume was front loaded in the first two months of 2020 and cooled in March. Over the next three months, COVID-19 continued to cause deal volume to shrink and the office market posted its lowest second quarter volume since 2010, at \$12.4 billion.
- Sales volume six months through 2020, at \$44 billion, dropped 34.4% from the first half of 2019. Sales volume totaled nearly \$42.1 billion in the second half of 2020 and fell 43.5% from second half of 2019. For the year, sales volume in the national office market totaled approximately \$86.1 billion, down 39.2% in a year-over-year comparison.
- Underwriting the space markets has become extremely difficult and investors are pricing a level of risk well above that which most owners are willing to accept. As a result, sales have stagnated due to a significant bid-ask spread.
- 2020 proved to be a challenging year for the office market as activity declined by 40%. According to Real Capital Analytics, over 4,000 properties traded during the year, falling by 34% from the previous year. Most recently, 1918 8th Avenue in Seattle, WA sold for \$588.7 million, approximately \$881 per square foot. Newmark was the sales broker on that transaction.

- The downturn is prompting companies to consider monetizing owner-occupied real estate to raise cash. This can be accomplished in the form of a sale lease-back. On the buyer side, a new, long-term net lease investment provides predictable, durable income that investors are seeking during this period of increased uncertainty. For those reasons, we expect sale leasebacks to make up a sizeable percentage of office sales as the recovery continues.

The following table provides an historical view of sales volume in the first and second half of the year from 2010 through 2020:

### NATIONAL OFFICE TOTAL SALES VOLUME 2010 - 2020



Source: Real Capital Analytics, Inc.

### Overall Capitalization Rates

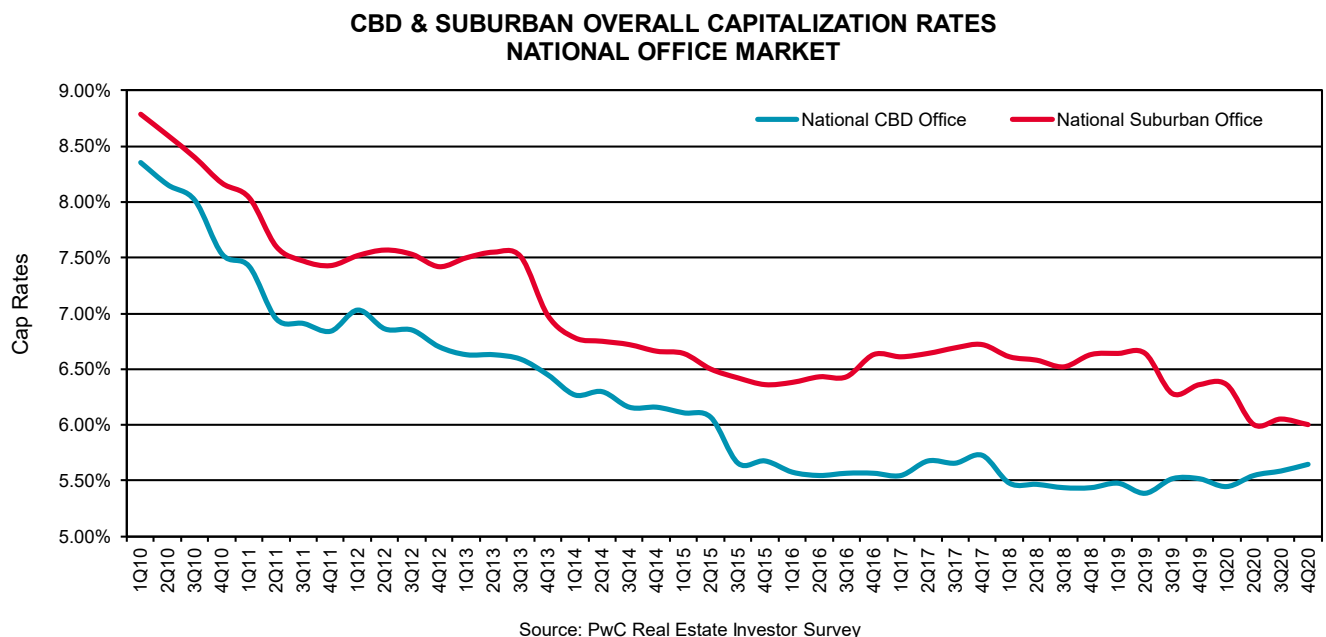
The office sector has generated and sustained investor demand over the past few years, driving down overall cap rates. Typically, CBD properties in major markets have been the primary contributor to the office sector's momentum, although suburban office markets have also exhibited a downward trend since 2009 due to increased investor interest. The performance of an individual CBD office market can be inconsistent, top-tier CBD's are outperforming the country while smaller downtown areas are struggling. Average overall cap rates remain lower for most CBD markets than for its suburban counterparts since higher barriers to entry and a lack of land for new development tend to keep supply and demand more balanced in a market's CBD. As a result, CBD assets typically achieve higher rental rates.

The PwC Real Estate Investor Survey and the National Council of Real Estate Investment Fiduciaries (NCREIF) methodologies offer unique perspectives on capitalization rate trends. The PwC Real Estate Investor Survey calculates its data based on a personal survey of major institutional equity real estate market participants. In contrast, NCREIF looks at data from appraisals included in their benchmark property return index. The index contains quarterly performance data for unlevered investment-grade income-producing properties that are owned by, or on behalf of, exempt institutions.

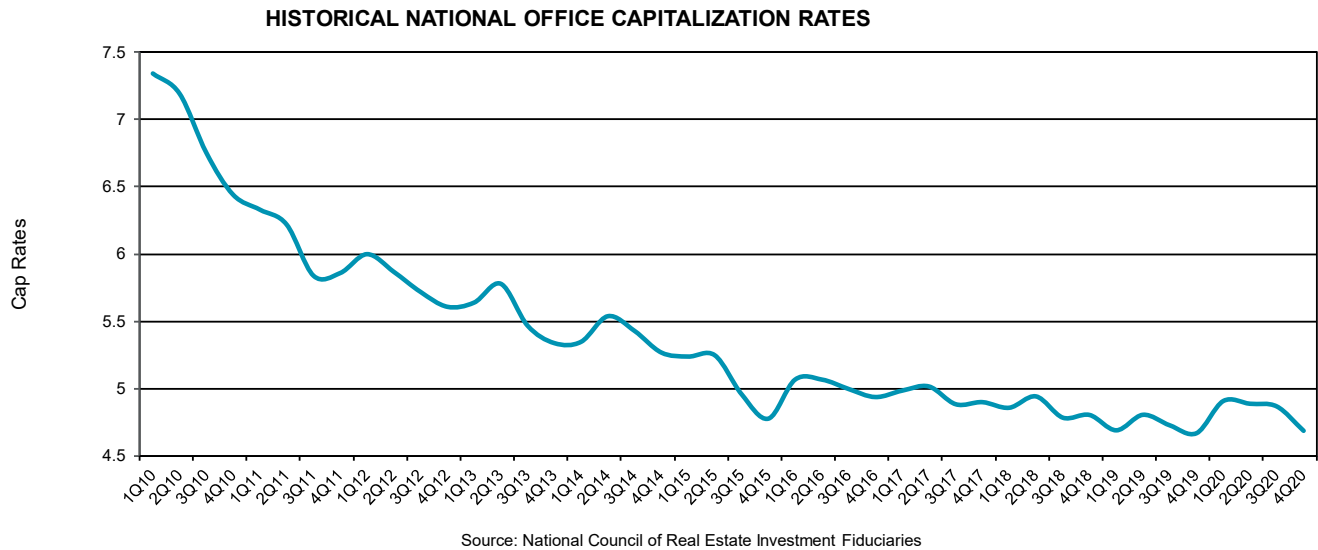
The following points detail the PwC Real Estate Investor Survey and NCREIF capitalization rate trends:

- The PwC Real Estate Investor Survey shows that as of fourth quarter 2020, the national CBD OAR, at 5.65%, rose 0.06 percentage points on a quarterly basis and 0.13 percentage points on an annual basis. The suburban OAR, at 6% in fourth quarter 2020, dropped 0.05 percentage points over previous quarter and fell 0.36 percentage points from the previous year. The COVID-19 pandemic has prompted more interest in suburban hubs, potentially hub and spoke model with urban office location as a brand and collaboration center with suburbs hosting back office work, less dense space that is closer to home and easier to flex work.
- The NCREIF reported that cap rates fluctuated over the last 12 months in response to the general interest rate environment. At 4.69% as of fourth quarter 2020, the national office cap rates dropped 18 basis points over the previous quarter and rose two basis points on a year-over-year basis. There is still a lack of empirical data to increase rates, but there are numerous issues creating upward pressure, and we are starting to see indications that investment rates are and will be ticking up for some properties. However, as of this writing investors had not materially changed their rate criteria for Class A space. Instead, price discount is reflected in underwriting softer market leasing assumptions in the early years of cash flow analysis.

The following graph reflects national trends for CBD and suburban overall capitalization rates as surveyed by the PwC Real Estate Investor Survey:



The following graph reflects national historical cap rate trends as reported by NCREIF:



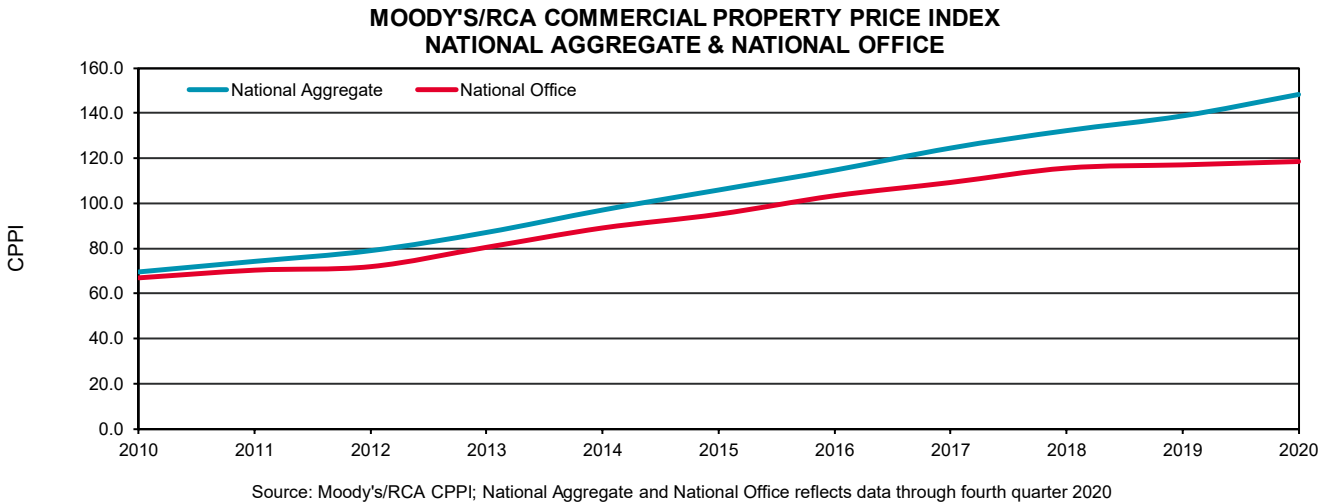
## Moody's/RCA Commercial Property Price Index

The Moody's/RCA Commercial Property Price Index (CPPI) measures the change in price of commercial real estate and reflects the empirical results of direct investments over time. Developed by MIT's Center for Real Estate in conjunction with a consortium of firms including Moody's and RCA, the index tracks price changes based on closed transactions, and implements advanced repeat-sale regression (rsr) analytics to gauge performance in current and prior periods.

The following points are for consideration regarding the Moody's/RCA CPPI:

- As of December 2020, the national aggregate index was 148.3. The national aggregate index grew 6.9% from December 2019 and increased 4.7% in fourth quarter 2020.
- The national office index increased 1.2% from 117.3 in December 2019 to 118.7 in December 2020. Compared to the previous quarter (September 2020), the national office index increased by 2.4%.
- Both the national office index and the national aggregate index have exhibited continued growth during the last economic expansion cycle. The national office index ended the quarter 80.8% above the low recorded in May 2010, while the national aggregate index has increased 117.4% during the same period.

The graph below displays the CPPI from December 2010 to December 2020 (most recent data available):



## Sale Price Per Square Foot

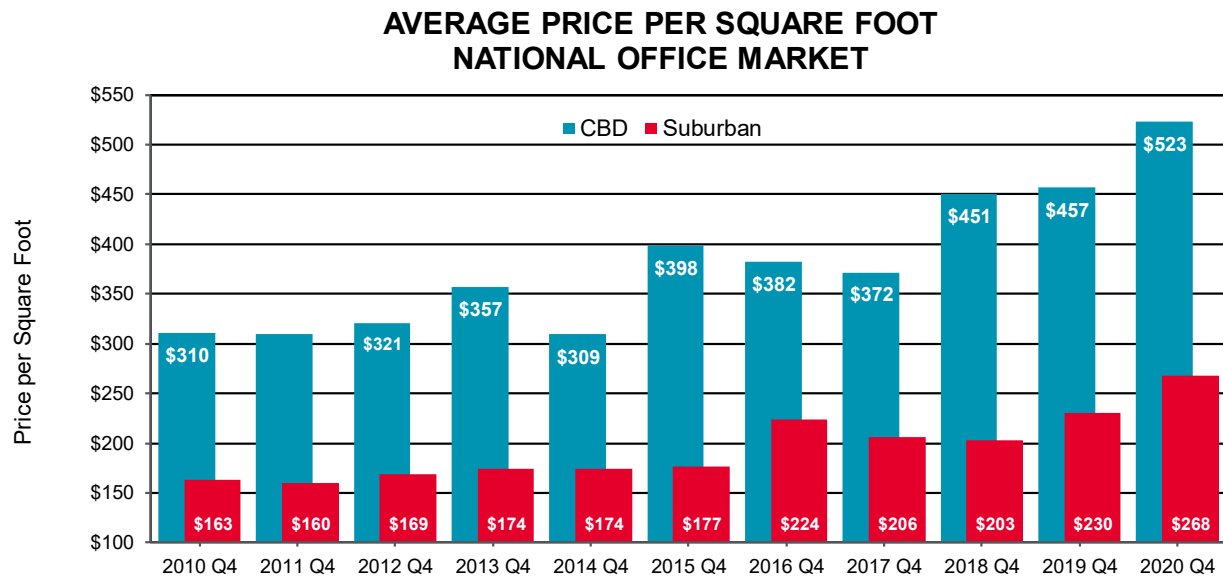
Historically, office pricing has not experienced the same dramatic fluctuations as seen with sales volume trends. This was, in large part, due to sellers holding out and waiting for market fundamentals to improve. At the end of 2020, the CBD and suburban markets grew in terms of price per square foot on an annual basis.

The following points provide details regarding sale price per square foot:

- The CBD average price per square foot, at \$523 as of fourth quarter 2020, decreased by 14.5% from the same point in 2019 (\$457). On a quarterly basis, the CBD price climbed 61.4%. While these metrics are somewhat skewed due to a lack of transactions, they do reflect the negative bias buyers are exhibiting to CBD assets.
- The suburban average price per square foot, at \$268 as of fourth quarter 2020, is 16.3% higher than in fourth quarter 2019 (\$230). On a quarterly basis, the suburban price per square foot increased 13.1%. This reflects a growing preference for suburban properties, particularly those in 'urban suburban' locations or corporate sale lease-backs.
- The 10-year period, from 2011 through fourth quarter 2020, compound annual growth rate (CAGR) for the CBD is 6%, under the last five-year compound annual growth rate at 6.1%. The suburban 10-year CAGR is 5.5% while the five-year CAGR is 9.4%.

The following graph reflects the national office average price per square foot from fourth quarter 2010 to fourth quarter 2020 (based on Real Capital Analytics data):





Source: Real Capital Analytics

## National Office Market Summary

The U.S. economic expansion ended in response to the effects of COVID-19 causing shutdowns of non-essential businesses, mass layoffs and rising unemployment. On a positive note, the national office market was relatively well positioned going into the recession, as demand during this cycle tightened office markets across the United States (although we recognize the national market performance is “average” and does not apply to all markets across the board). As of fourth quarter 2020, asking rents have eclipsed from the record highs set in 2019 and capitalization rates stayed near record lows despite a drop in demand for office space. The office market has experienced high levels of construction activity over the last 12 months, continuing the trends of recent years. However, these stats are lagging real time market softness and we expect levels to deteriorate looking ahead to 2021. Demand in office markets has continued to decline through the end of the year, with 74 markets recording negative absorption. In the first half of 2021, U.S. office fundamentals are likely to get worse before getting better, and economic recovery from the COVID-19 pandemic will be a primary driver determining positive or negative performance. Most recently, COVID-19 vaccines produced Pfizer and Moderna have been approved the Food and Drug Administration and have started to be administered to those eligible to receive the vaccine, like healthcare workers and those aged 65 and older. Employment in office-using industries has risen since the beginning of the global health crisis but have far to go before reaching pre-crisis levels.

Following are notes regarding the outlook for the U.S. national office market in 2020 and beyond:

- Demand for office space is facing headwinds as business struggle with uncertainty about their space needs moving forward. In order to combat these headwinds, firms have prioritized renewals or subleasing office space as employees have opted work-from-home scenarios. Sublease space increase by 53% in North America through the first three quarters of 2020, climbing to 105.7 million square feet at the end of third quarter 2020. This total surpasses the Great Financial Crisis peak but remains below Dot-Com Recession levels. At the end of third quarter, the overall sublease vacancy rate sits at 1.8%, up from 1.2% at the end of 2019. Renewals have increased during 2020 and a third of 2020 renewals are for one-year or shorter terms. This tsunami of sublease space is likely to have a substantial negative impact on markets like San Francisco and San Jose.

- Technology-driven markets continue to represent a large presence within the national office market, and it is the tech sector is more important than ever to commercial real estate. However, what was the hottest sector in the county is quickly becoming one of the most negatively impacted due to the COVID-19 pandemic. Many tech companies have implemented mandatory or optional work-from-home plans extending into 2021 and beyond; and there are mixed signals about the likelihood of a permanent retreat from office space in this sector.
- Co-working and flexible office space was a growing sector within the office market. More than five million square feet of this subtype came online in each of the past three years. Yet prior to COVID-19, there was already weakness in the sector despite very favorable economic conditions. Now, COVID-19 is accelerating an expected shakeout in the sector that will ultimately reduce the overall coworking footprint. High density, working with strangers, and inaccessible spaces are contributing factors. On a positive note, co-working may ultimately play a key role for remote workers as survivors in the sector pivot toward attracting larger, more established corporate users that need flexibility.
- A trend to watch in the national office market is a potential shift in demand away from the urban core towards less dense, suburban office space. While it is too early into the cycle to determine if this is a true shift, it may prove to be an acceleration of a trend that was already in progress.
- The office lab sector is thriving during the COVID-19 pandemic as the world focuses on developing a vaccine for COVID-19. The U.S. lab market accounts for 2% of the national office inventory and is heavily concentrated in the Boston, San Diego and San Francisco Bay area office markets. Since 2016, employment in this sector has risen faster than U.S. office employment and requires personnel to be located onsite, moving away from the developing trend of work from home.

Clearly, the national office market will face an uphill battle over the next one to two years. Yet when a devastating event occurs, there is often an initial overreaction. When we consider that the one of the greatest challenges for business is talent retention, and that the modal worker age is 26 years old, the needs of those younger workers become a priority. Young workers not necessarily want, nor have the space, to work at home full time or even in suburban environments. Even so, an increasing number of companies are opting to let employees work remotely or allowing employees to come into the office a few days a week, but a return to a strong economy would benefit young workers and the overall office market.

Instead, we expect the future of office demand to be shift towards of a total work ecosystem, balancing home, office, and third places. But on balance, we do not believe a permanent, fundamental evaporation of office demand is underway. The social aspects of being in an office, with a space to collaborate with peers, is important. A wide distribution of the approved vaccines will also help to alleviate a broad fears of communal areas and put upward pressure on space needs. While the ultimate picture could take shape over a variety of office strategies that will vary based on the length of the U.S. economic recovery, at this point in time we do not anticipate long-term net changes in office sector demand across the real estate spectrum.

# South Florida Regional Analysis

## Introduction

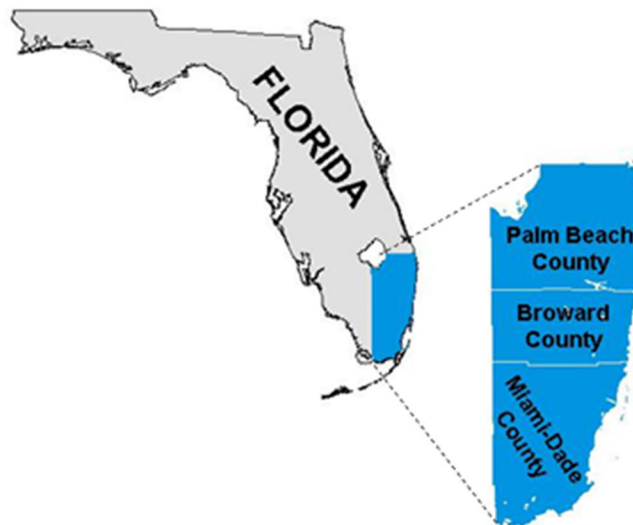
The Miami-Fort Lauderdale-West Palm Beach Core-Based Statistical Area, which is synonymous with the South Florida region (South Florida), consists of the Miami-Miami Beach-Kendall, Fort Lauderdale-Pompano Beach-Deerfield Beach, and West Palm Beach-Boca Raton-Boynton Beach Metropolitan Divisions. The core-based statistical area covers Miami-Dade, Broward and Palm Beach Counties. South Florida has a population of 6.2 million and ranks as the eighth most populous CBSA in the nation (Miami-Dade, Broward and Palm Beach Counties are the most populous counties in Florida). The region's distinction as the southernmost metropolitan area within the nation's contiguous states and its proximity to Latin America has spurred its growth as a significant international gateway.

International trade has led to tremendous growth, as South Florida is home to hundreds of Latin American headquarters for major U.S. and global multinational companies. Additionally, with the unrest in Colombia, as well as Venezuela, many of South American residents have relocated to South Florida in the last six months to 12 months. The Port of Miami, positioned in Biscayne Bay, is strategically located and a valuable resource to the state and country. Hundreds of corporations, from media companies to consumer electronics manufacturers, have stationed their Latin American headquarters in and around Miami, a testament to the shipping and export power of the region.

## Map

The following map portrays the South Florida region within the state of Florida.

### MIAMI-FORT LAUDERDALE-WEST PALM BEACH, FL CORE BASED STATISTICAL AREA (CBSA)



Source: Cushman & Wakefield Valuation & Advisory

## COVID-19 Impacts

As the economy started to recover from the initial impacts of the COVID-19 pandemic and the economic crisis that unfolded, there has been another surge in infections, exacerbated by the onset of winter. Social distancing remains the norm, conferences are online, and property tours are kept to a minimum. Some jurisdictions have re-instituted varying degrees of stay at home orders or lockdowns. In light of this, it is important to take in mind that data lags, and we are still trying to accurately determine the pandemic's effects on the commercial real estate market. In other

sections of the report we will discuss these effects and impacts on the immediate market and subject property in as much detail as possible. Therefore, we ask that you consider the following points:

- Early in the COVID-19 pandemic, most non-essential businesses shut down, causing significant disruption in the economy. As we enter the fall and winter months, many businesses that reopened over the late spring and summer may now be forced to shut down once again or drastically change the way they operate and function.
- Certain property types have been more heavily impacted than others, with some asset classes benefiting from the COVID environment. Generally, cap rates and price growth remain relatively flat across the board.
- Investment activity picked up significantly in the third quarter, with a clear flight to quality, but at the same time, delinquencies are on the rise and more properties are requiring special servicers.

Wide scale vaccinations began in first quarter 2021, and we expect a significant part of the population to be vaccinated by the end of the year. With this, businesses will begin to fully resume normal activities, as risk and fear of infection decrease, and the economy will begin to grow more rapidly.

## Current Trends

Prior to the onset of the COVID-19 pandemic, the economic expansion in the South Florida region was maturing. Overall job growth began moderating, reflecting some residual effects of the maturing expansion and slow economic growth in Latin America. Nevertheless, inflows of businesses and prime working age individuals continued to bolster the economy. Like job creation, population growth was a major factor contributing to South Florida's economic expansion as the steady flow of both overseas and domestic migration boosted numbers. South Florida's international appeal is the main driving force, as international migration accounted for three quarters of the growth over the past year, per local demographers. The growing population fueled the housing market with international home buying activity remaining strong. International growth, consumer spending, business confidence, housing recovery and population growth allowed the region to continue outperforming both the state and national averages.

However, the economic disruption caused by the COVID-19 pandemic resulted in significant job loss in most sectors. Between March and April, the region shed 415,000 jobs as the pandemic set in by mid-March. Total non-farm employment measured 2,316,400 jobs in April 2020. As of April 2021, total non-farm employment measured 2,572,200 jobs, improving 11% compared to April 2020 and reclaiming 62% of the jobs lost between March and April; however, remaining below pre-pandemic levels. Nevertheless, due to the impacts of the COVID-19 pandemics, South Florida has seen over 20 firms relocate from the northeast to Miami and West Palm Beach/Isle of Palm Beach, with the latter acquiring many hedge funds to relocate to the region

Further considerations are as follows:

- Of the three counties in the South Florida region, Miami-Dade County added the second-most jobs year-over-year as of April 2021, behind Tampa (adding 103,400 jobs, increasing 10%). Broward County added third-most jobs, adding 78,000 jobs (increasing 10.6%). Palm Beach County added the fourth-most jobs, adding 74,400 jobs, increasing 13.7%. This is nice contrast to the massive layoffs and disruptions that was evident in every sector of the economy as citizens, businesses and governments closed to moderate the spread of the virus. Tourism was hit the hardest as hotels were emptied and travel was halted as stay-at-home orders were implemented. The region's cruise ship industry, with PortMiami as the world's busiest harbor for cruise ships, was stunted as no-sail orders were enforced. However, three cruise lines will restart operations in Florida in July and August of this year.

- On May 5, 2021, CDC released the next two phase of the Framework for Conditional Sailing Order (CSO) for cruise ships operating or seeking to operate in U.S. waters. CDC published technical instructions for cruise ships operators preparing to conduct simulated (“trial”) voyages in advance of restricted passenger voyages under a COVID-19 Conditional Sailing Certificate. With the issuance of these next two phases, cruise ship operators now have all the necessary requirements and recommendations they need to start simulated voyages before resuming restricted passenger voyages and apply for a COVID-19 conditional sailing certificate to begin to begin sailing with restricted passenger voyages. CDC may adjust these requirements and recommendations based on public health considerations and other factors.
- According to the American Hotel and Lodging Association, Florida lost more than 100,000 direct-hotel supported jobs by mid-April. According to a survey by AAA Consumer Pulse, COVID-19 impacted 2020 travel plans for 76% of Floridians. The leisure and hospitality sector shed 481,900 jobs between March and April 2020, of which 34% percent were jobs in South Florida. By April 2021, the employment situation in the sector improved in South Florida, recouping 65% of the lost; however on a year-over-year basis the sector is still down 163,500 jobs from pre-pandemic levels.
- South Florida’s housing market continues to boom through the COVID-19 pandemic as homebuyers flock from cities in the north with a new ability to do their jobs remotely from anywhere. High demand is met with limited supply, especially at the wealthier end of the market. According to local real estate professionals, COVID-19 has accelerated peoples move to Florida. The South Florida region is experiencing unprecedented demand from all over the country, but notably New York, New Jersey and Connecticut – high taxed areas. The demand is driven by housing prices, space to spread out, quality of life, weather and tax saving. For example, tax rates have increased in suburban Illinois making South Florida very attractive to residents in that part of the country.

## Demographic Characteristics

Given South Florida’s mild winter weather, the area has long been a popular retirement destination. As such, South Florida’s median age of 41 years is three years older than the national average. South Florida’s level of affluence and educational attainment typically trends close to the national average. However, both income and educational attainment levels vary considerably by county, with Palm Beach County having the area’s highest levels and Miami-Dade County having the lowest. Overall, 30% of the region’s population holds a bachelor’s degree or better and approximately 24% of households have annual incomes of greater than \$100,000.

The chart below provides some demographic comparisons between South Florida and the nation:

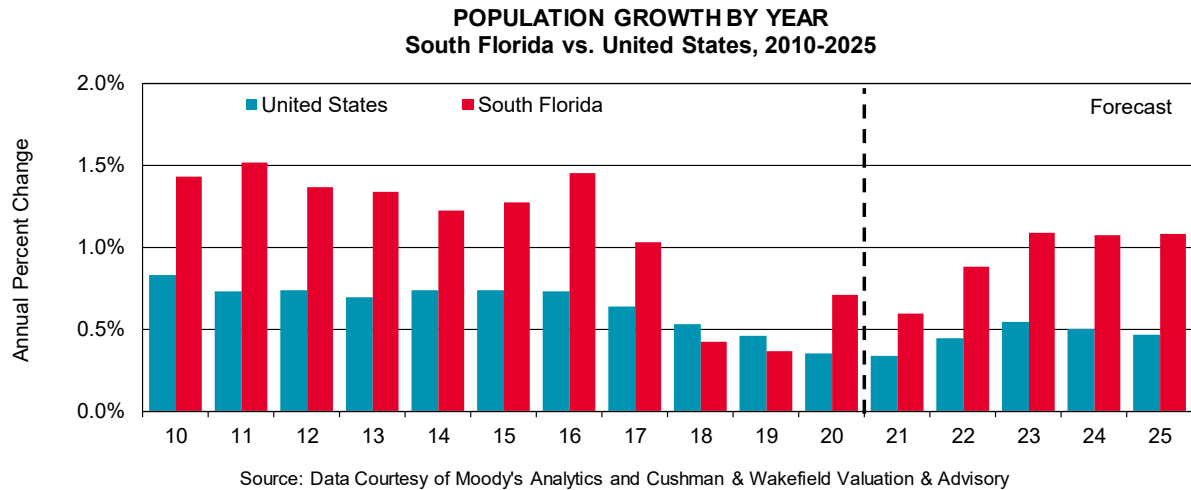
Demographic Characteristics South Florida vs. United States 2020 Estimates		
Characteristic	South Florida	United States
Median Age (years)	41	38
Average Annual Household Income	\$87,356	\$90,941
Median Annual Household Income	\$57,822	\$62,990
<i>Households by Annual Income Level:</i>		
<\$25,000	22.0%	19.6%
\$25,000 to \$49,999	22.0%	20.8%
\$50,000 to \$74,999	18.0%	17.7%
\$75,000 to \$99,999	12.2%	13.2%
\$100,000 plus	25.8%	28.7%
<i>Education Breakdown:</i>		
< High School	14.9%	12.7%
High School Graduate	27.0%	27.4%
College < Bachelor Degree	26.9%	29.0%
Bachelor Degree	19.6%	19.2%
Advanced Degree	11.6%	11.8%

Source: © 2020 Experian Marketing Solutions, Inc. •All rights reserved•  
Cushman & Wakefield Valuation & Advisory

## Population

Florida remains among the nation's most populous states, ranking third behind California and Texas. Recent estimates by the U.S. Census report Florida's population increased 1.1% between July 1, 2019 and July 1, 2020 to over 21.7 million (adding 240,808 new residents). According to the U.S. Census, Florida had the highest level of net domestic migration between July 1, 2017 to July 1, 2018, with an increase of 132,602. Since 2010, Florida has gained a total of 1.3 million people from net domestic migration and an additional 1.1 million from net international migration. Demographers conclude most new residents populate the larger counties, including the three most populous – Miami-Dade, Broward, and Palm Beach. South Florida's population increased 0.1%, adding 8,121 new residents between July 2019 and July 2020. With approximately 6.2 million residents, the CBSA is the seventh largest in the nation, accounting for roughly 30.0% of the state's population. Population trends in South Florida are influenced by several factors, including international migration and natural increase.

The following graph compares population growth trends in South Florida to the U.S.



Miami-Dade County is the most populous with 44% of the region's population, followed by Broward and Palm Beach Counties with 31.7% and 24.3%, respectively. Miami-Dade and Broward Counties are among the most populated in Florida and have a sizeable number of births in addition to a substantial number of foreign immigrants. However, Palm Beach County is projected to outpace the other two counties in annualized population growth through 2025, as depicted in the following table:

Annualized Population Growth by County South Florida 2010-2020						
Population (000's)	2010	2020	Forecast 2021	Forecast 2025	Compound Annual Growth Rate 10-20	Compound Annual Growth Rate 21-25
United States	309,327.1	329,484.1	330,605.8	337,122.7	0.6%	0.5%
<b>South Florida</b>	<b>5,583.4</b>	<b>6,210.0</b>	<b>6,247.2</b>	<b>6,508.8</b>	<b>1.1%</b>	<b>1.0%</b>
Miami-Dade County	2,507.0	2,731.5	2,743.9	2,830.7	0.9%	0.8%
Broward County	1,752.8	1,966.1	1,977.5	2,057.2	1.2%	1.0%
Palm Beach County	1,323.6	1,512.4	1,525.8	1,620.8	1.3%	1.5%

Source: Data Courtesy of Moody's Analytics, Cushman & Wakefield Valuation & Advisory

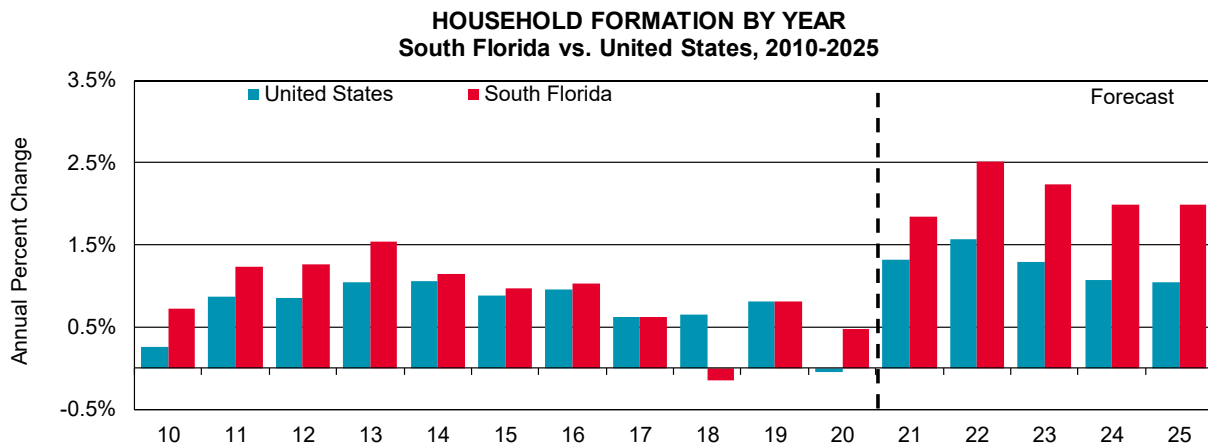
Palm Beach County had a population base of 1.13 million people in 2000, which increased to 1.42 million in 2010, 1.69 million in 2020 and is projected to increase to 1.91 million by 2030 and 2.13 million in 2040 and 2.39 million according to the Florida Department of Transportation projections (note individual statistics for Boca Raton were not available). This represents a 13.4 percent increase in the population from 2020 to 2030 and an increase of 26.7 percent to 2040 and an increase of 41.5 percent to 2050 from 2020 levels.

## Households

Typically, household formation trends alongside population growth and tends to top the national average. Between 2010 and 2020, household formation growth measured 0.9%, nearly on par population growth over the same time period. By comparison, household formation for the national average measured 0.8% on average per year. Through 2025, household formation in South Florida is projected to increase, measuring 2.2%, surpassing the projected population growth rate of one percent. Household formation for the nation is projected to increase at an average annual rate of 1.2%.

There's been a slight shift in demographics, especially in Broward County, where there's been above-average growth in school-age population indicating new family formation. Since 2010, residents younger than 20 years increased 4.2% in Broward County, compared to the 1.1% decline of the national average.

The following graph compares historical and projected growth trends in household formation between South Florida and the U.S. overall.



Source: Data Courtesy of Moody's Analytics and Cushman & Wakefield Valuation & Advisory

## Gross Metro Product

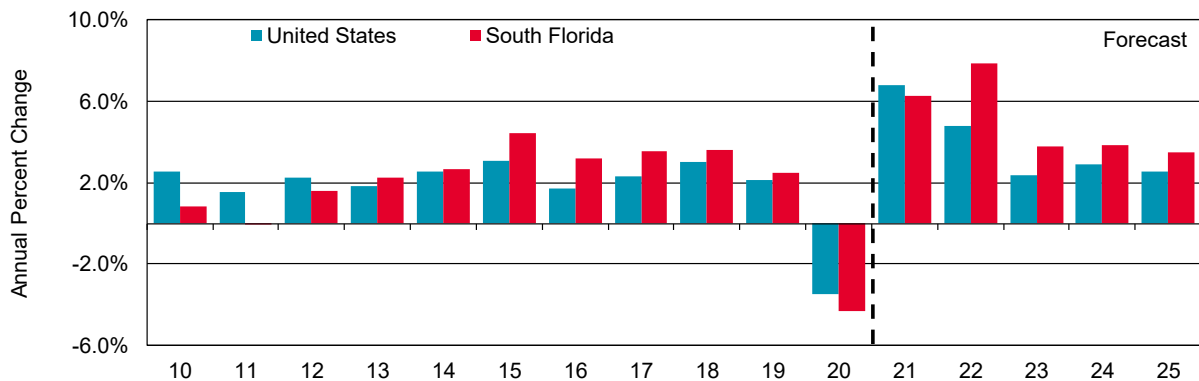
The Florida economy topped \$1 trillion in GDP in 2018, a major milestone for the state. The booming economy brings new businesses and corresponding jobs, along with new residents sparking more consumer spending and other benefits that boosts economic growth. Because of the state's high gross domestic product, Florida's economy surpasses Saudi Arabia, Switzerland, the Netherlands and Argentina. If Florida were a country, it would be the 17<sup>th</sup> largest economy in the world. The Florida economy measured \$1.1 trillion in GDP in 2019, according to the U.S. Bureau of Economic Analysis. As of the fourth quarter of 2020, the state's GDP measured over \$1.1 trillion.

According to the most recent U.S. Bureau of Economic Analysis, South Florida's gross metro product (GMP) increased 1.7% in 2019 to \$327.1 billion (the most current data available). South Florida's economy tops all other metros in the state and growth still outpaces the national average. The regional economy is among the world's top 40 economies. Trade, tourism and financial services are the major contributors to growth.

Between 2010 and 2020, GMP in the South Florida region grew at an annual rate of 1.9%, trending slightly ahead of the 1.7% annual growth rate of the national average. Through 2025 GMP is project to increase, averaging 4.7% growth per year. The national GDP is expected to increase 3.1% annually through 2025.



### REAL GROSS PRODUCT GROWTH BY YEAR South Florida vs. United States, 2010-2025



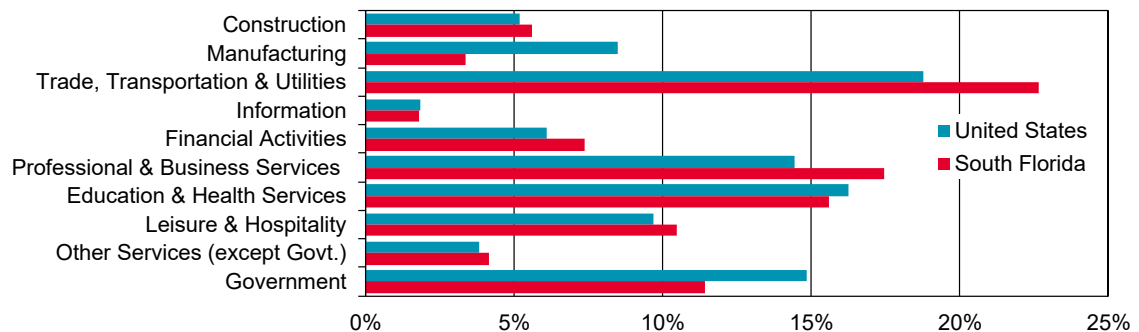
Source: Data Courtesy of Moody's Analytics and Cushman & Wakefield Valuation & Advisory

## Employment Distribution

South Florida's Trade, Transportation and Utilities sector accounts for 22.7% of the market's total employment base, compared to 18.8% for the national average. International trade supports over 105,000 jobs and remains one of the key industries in the local economy with the highest paying wages. Trade is the most important industry in South Florida, followed by tourism. Efforts have been underway to further diversify the local economic base by bolstering the healthcare and biomedical industries in South Florida. These two industries promise a significant contribution to the regional economy in the long-term.

The graph below depicts South Florida's employment base.

### EMPLOYMENT BY SECTOR South Florida vs. United States 2021 Estimates



Source: Data Courtesy of Moody's Analytics and Cushman & Wakefield Valuation & Advisory

## Major Employers

The South Florida region is home to five *Fortune 500* corporations – Lennar (129), AutoNation (145), World Fuel Services (147), Carrier Global (171) and Ryder System (357) – and many Fortune 1000 companies. The region's largest employers are national and multinational corporations spanning a variety of industries including healthcare, retail, and technology.

Below is a table that outlines South Florida's top employers by CBSA.

Largest Employers South Florida		
Employer	Submarket	# Employees
Publix Super Markets	West Palm Beach	38,241
Tenet Healthcare Corp.	West Palm Beach	6,136
NextEra Energy/Florida Power & Light Co.	West Palm Beach	4,005
Tenet Healthcare Corp.	Fort Lauderdale	18,000
HCA East Florida Division	Fort Lauderdale	15,000
Memorial Healthcare System	Fort Lauderdale	11,500
Publix Super Markets	Miami	32,940
Baptist Health Systems of Southern Florida	Miami	23,000
America Airlines	Miami	13,500

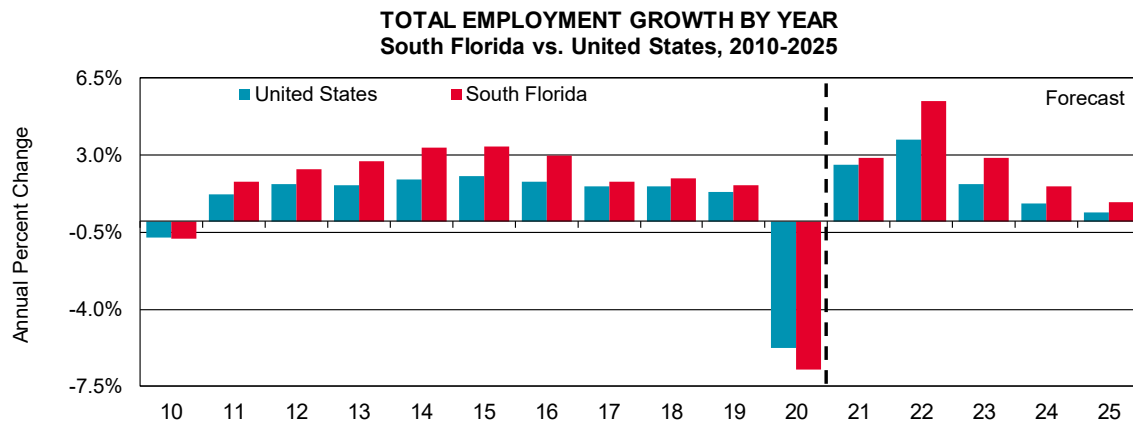
Source: Data Courtesy of Moody's Analytics;  
compiled by Cushman & Wakefield Valuation & Advisory

## Employment Growth

According to the Florida Agency for Workforce Innovation, the South Florida region lost 255,800 jobs over the 12-month period ending April 2021, increasing 11%. Prior to the COVID-19 pandemic, South Florida typically outpaced the national average employment growth and continued in April 2021 with the national average increasing 10.9% over the year. Note: the year-over-year growth reflects the impacts of global COVID-19 pandemic when employment growth contracted abruptly due to mitigation efforts to stop the spread of the virus. As previously mentioned, mass layoff and furloughs occurred as businesses shutdown. The Florida Agency for Workforce Innovation reports that South Florida's total non-agricultural employment in April 2021 was 2,572,200.

Between 2010 and 2020, annual employment growth average 1.5% per year in the South Florida region. Through 2025, employment growth is projected to measure 2.7% per year.

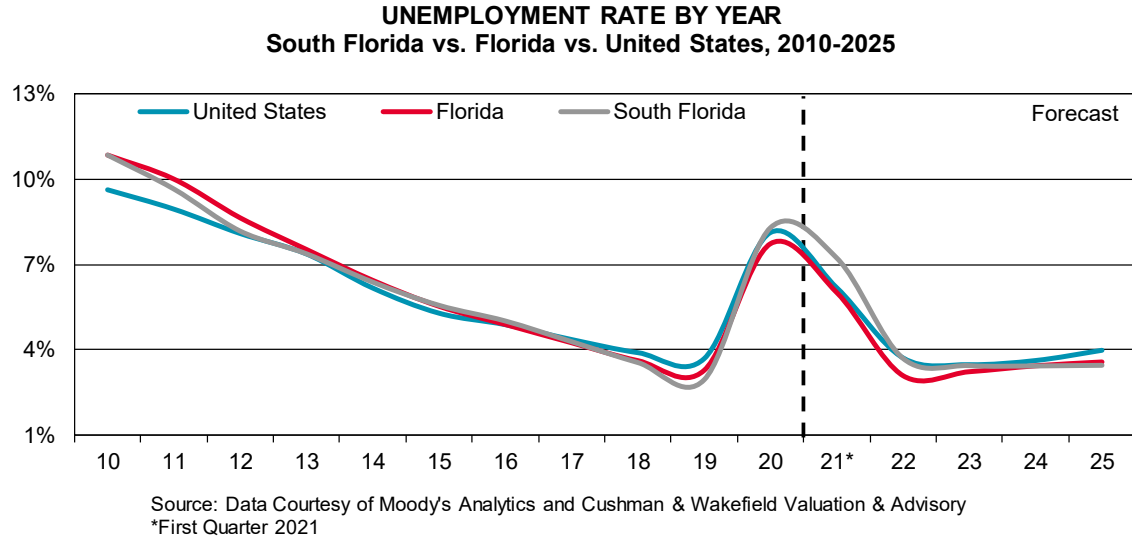
The following chart illustrates employment growth for South Florida and the United States:



## Unemployment

The unemployment rate in South Florida measured 5.9% in April 2021, decreasing one half percentage point from the previous month's rate of 6.4%. Year-over-year, unemployment increased 7.5 percentage points. At 6.9%, Miami-Dade County has the highest unemployment rate in the tri-county region. Broward County followed with an 5.3% unemployment rate, while Palm Beach County had the lowest unemployment rate of 4.7%.

The following chart illustrates unemployment trends in South Florida and the United States:



## Conclusion

Like the rest of the country, the South Florida economy continues to wrestle with the impacts of COVID-19. The immediate negative effects on jobs, particularly tourism-related jobs, has been significant. The full effects of the pandemic remain unknown; however, all major sectors that significantly add to the economy are trending positively on a year-over-year basis. The State of Florida moved into Phase 3 of reopening in late 2020, lifting restaurant/bar capacity limits and suspending fines for mask violations. With the state's reopening, local economists project South Florida's long-term prospects remain favorable. Strong global ties and international character remain significant driving forces in the region and remain major catalyst in moving the economy forward. Each county lures prominent national and international companies as South Florida is a thriving destination for international business – the strategic position, multicultural workforce and numbers connection to international markets. The region is poised to continue capitalizing on foreign investment and benefit from the anticipated growth in international trade due to the Panama Canal expansion. PortMiami is already one of eight Post-Panamax harbors in the country and Port Everglades is being dredged. These deep-water ports can handle the largest vessels that can navigate through the expanded Panama Canal.

# Palm Beach County Office Market Analysis

## Market Characteristics

Palm Beach County, with 23.4 million square feet of office space, contains the smallest amount of office inventory among the three counties within the South Florida region. Palm Beach is segmented into five submarkets: West Palm Beach (CBD), South Palm Beach, Suburban West Palm Beach, North Palm Beach and Boca Raton. The Central Business District (CBD) encompasses over 3.2 million square feet of office space. The Non-CBD submarkets, which contain 20.2 million square feet, are geographically segmented into the remaining four submarkets. Please note: V&A's YTD numbers may differ with those of Research (in the MarketBeat), due to quarterly revisions pertaining to Absorption, Leasing and Construction. **The subject property is located within the Boca Raton office submarket.**

The following map provides the approximate location of each submarket:

### WEST PALM BEACH OFFICE MARKET



Source: Microsoft Virtual Earth

### OFFICE SUBMARKETS

1. West Palm Beach CBD
2. South Palm Beach
3. North Palm Beach
4. Boca Raton
5. Suburban Palm Beach

## COVID-19 Impacts

As the economy started to recover from the initial impacts of the COVID-19 pandemic and the economic crisis that unfolded, there has been another surge in infections, exacerbated by the onset of winter. Social distancing remains the norm, conferences are online, and property tours are kept to a minimum. Some jurisdictions have re-instituted varying degrees of stay at home orders or lockdowns. In light of this, it is important to take in mind that data lags, and we are still trying to accurately determine the pandemic's effects on the commercial real estate market. In other sections of the report we will discuss these effects and impacts on the immediate market and subject property in as much detail as possible. Therefore, we ask that you consider the following points:

- Early in the COVID-19 pandemic, most non-essential businesses shut down, causing significant disruption in the economy. As we enter the fall and winter months, many businesses that reopened over the late spring and summer may now be forced to shut down once again or drastically change the way they operate and function.
- Certain property types have been more heavily impacted than others, with some asset classes benefiting from the COVID environment. Generally, cap rates and price growth remain relatively flat across the board.
- Investment activity picked up significantly in the third quarter, with a clear flight to quality, but at the same time, delinquencies are on the rise and more properties are requiring special servicers.

Wide scale vaccinations began first quarter 2021, and we expect a significant part of the population to be vaccinated by the end of the year. With this, businesses will begin to fully resume normal activities, as risk and fear of infection decrease, and the economy will begin to grow more rapidly.

## Current Trends

Prior to the onset of the COVID-19 pandemic, the Palm Beach County office market was working through an excess supply left on the market as tenants reassessed their needs. Overall vacancy declined year-over-year, as healthy leasing activity continued to boost absorption and weigh on vacancy. Tenant demand remained strong through the first quarter, especially in the Boca Raton submarket which garnered the most attention. However, by mid-March, the pandemic had set in and mitigation efforts were enforced to stop the spread of the virus. Shelter-in-place policies were enforced causing businesses to temporarily close, thus impacting the job market. According to revised statistics by the U.S. Bureau of Labor Statistics, West Palm Beach-Boca Raton-Delray Beach CBSA shed 103,700 jobs, decreasing 16% (of which roughly 11% were office-using jobs) between March and April 2020. As of March 2021, the region had recouped 70% of the jobs lost; however remaining below levels reported in March 2020 (down 30,800 jobs or 4.7%). Office-using jobs fared well, recouping all of the lost jobs; however the financial services sector remains below levels reported year-over-year (down 300 jobs or 0.7%).

The list below highlights current trends:

- At 15%, overall vacancy increased 90 basis points year-over-year.
- Overall asking rents increased 2.3% year-over-year to \$38.68 per square foot, whereas Class A direct asking rents decreased 1.2% year-over-year to \$46.30 per square foot.
- Leasing activity measured 386,000 square feet during the first three months of 2021, with the CBD receiving the lion's share of the activity. Most of the new leasing comes from the influx of tenants migrating from the Northeast and other parts of the country.

## Vacancy

Overall vacancies measured over 3.5 million square feet at the end of the first quarter, equating to a vacancy rate of 15%. Class A vacancy increased 280 basis points over the year to 15.9% as new office space was delivered coupled with tenant move-outs over the past 12 months. Vacancy for Class B assets decreased 30 basis points over the year to 14.7% remained unchanged year-over-year at 15.4%.

The following table provides a statistical summary of the market:

Office Market Statistics by Submarket Palm Beach County First Quarter 2021								
Market/Submarket	Office Inventory	Overall Vacancy Rate	Direct Vacancy Rate	YTD Constr. Compl.	YTD Overall Abs.	Under Constr.	Overall Wtd Avg Class A Rent	Overall Wtd Avg Asking Rent
<b>PALM BEACH CBD</b>	<b>3,244,715</b>	<b>16.9%</b>	<b>16.6%</b>	<b>0</b>	<b>32,273</b>	<b>808,552</b>	<b>\$60.83</b>	<b>\$50.25</b>
Suburban West Palm Beach	3,513,026	15.8%	15.6%	0	(23,879)	0	\$43.34	\$35.74
North Palm Beach	3,471,980	17.2%	16.7%	0	(46,255)	0	\$47.53	\$39.18
South Palm Beach	1,705,219	11.3%	11.2%	0	31,637	44,444	\$30.00	\$24.77
Boca Raton	11,514,705	14.2%	12.9%	0	(13,307)	0	\$41.41	\$36.92
<b>PALM BEACH NON-CBD TOTAL</b>	<b>20,204,930</b>	<b>14.7%</b>	<b>13.9%</b>	<b>0</b>	<b>(51,804)</b>	<b>44,444</b>	<b>\$42.84</b>	<b>\$36.43</b>
<b>PALM BEACH COUNTY TOTAL</b>	<b>23,449,645</b>	<b>15.0%</b>	<b>14.3%</b>	<b>0</b>	<b>(19,531)</b>	<b>852,996</b>	<b>\$46.30</b>	<b>\$38.68</b>

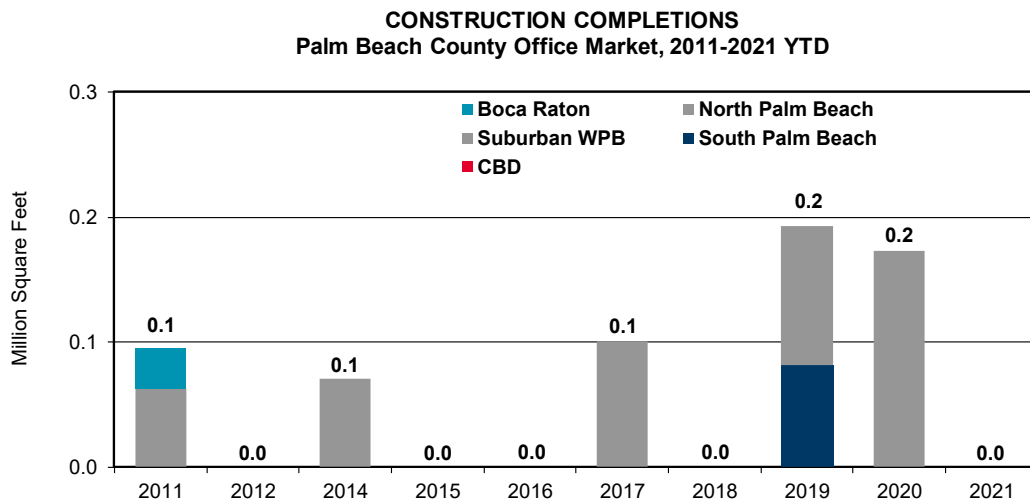
Source: Cushman & Wakefield Research; compiled by C&W V&A

## Construction

No new office space was delivered during the first quarter 2021; however, roughly 853,000 square feet of projects remain in the pipeline. Approximately 173,000 square feet of new office product was delivered to the market in 2020. The lack of new construction bolstered the local office market, but tight market conditions, particularly the severe lack of premium office space, warranted new construction.

According to real estate professionals, some office tenants were focusing on adaptive reuse of functionally obsolete industrial and retail buildings as demand for creative “brick and beam” space grew.

The following graph summarizes construction completions by year:

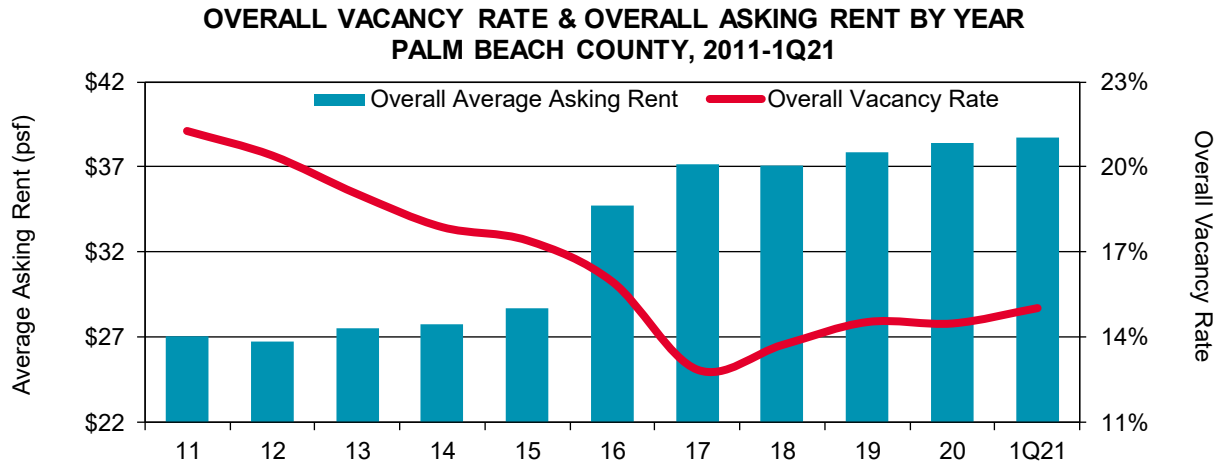


Source: Cushman & Wakefield Research; compiled by C&W V&A

## Asking Rents

At \$38.68 per square foot, the overall average asking rents increased 2.3%, or \$0.86 over the year. Class A assets recorded a decrease of 1.2% (or \$0.54) year-over-year to \$46.30 per square foot, down from the historic highs posted in 2019. Class B assets experienced an increase of 3.4% over the year to \$33.05 per square foot; however, remaining unchanged quarter-over-quarter.

The following graph portrays annual overall vacancy rates and asking rents since 2011:



Source: Cushman & Wakefield Research; compiled by C&W V&A

## Demand Analysis

### Leasing Activity

Lease transactions measured approximately 386,000 square feet during the first quarter, representing the highest quarterly amount since first quarter 2020 and surpassing the five-year average of 377,000 square feet. Over 100,000 square feet was leased in the CBD. As previously mentioned, the Palm Beach office market is experiencing an influx of new tenants, mostly from the Northeast (particularly New York), relocating to the county. In 2020, leasing activity measured over 1.2 million square feet, slow compared to the 1.7 million square feet leased in 2019. Leasing activity slowed significantly during the second and third quarters of 2020, responding to the economic disruption caused by the COVID-19 pandemic; however, activity picked up in the fourth quarter through first quarter 2021. Despite the slack in leasing, the North Palm Beach and Boca Raton continue to garner the most attention in the suburban markets.

The table below lists the most significant leases signed in 2020:

Notable Office Market Lease Transactions			
Palm Beach County			
First Quarter 2021			
Property	Submarket	Tenant	Size (sf)
360 Rosemary Avenue	West Palm Beach CBD	NewDay USA	53,324
1515 N Flagler Drive	West Palm Beach CBD	State of Florida Offices of the Attorney General*	32,215
3301 Quantum Boulevard	Boynton Beach	NYU School of Medicine	26,716

\*Renewals not included in leasing statistics

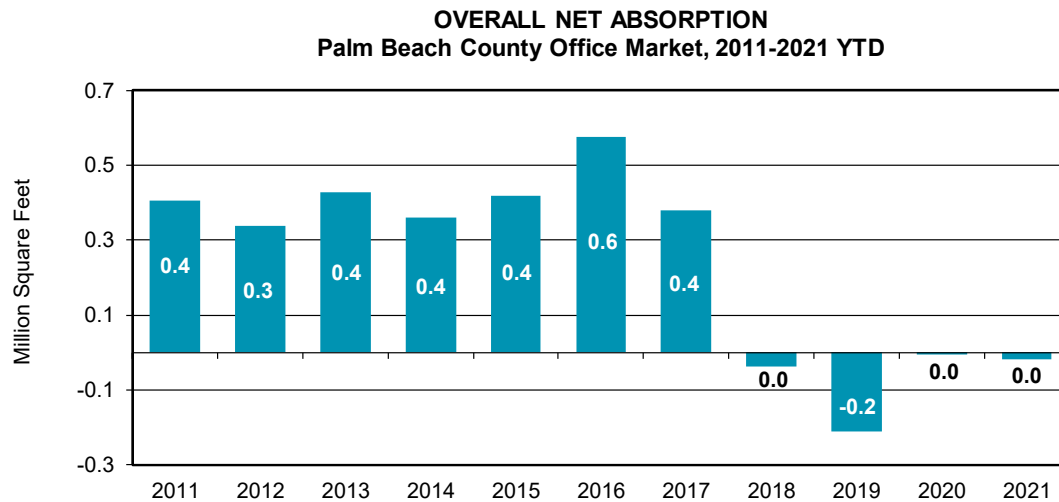
Source: Cushman & Wakefield Research; compiled by C&W V&A

### Absorption

Overall net absorption turned negative in the fourth quarter 2020 and remained so through first quarter 2021. At the end of first quarter, tenants returned 19,500 square feet of office space to the Palm Beach office market. The North Palm Beach submarket experienced the greatest return, giving back nearly 46,300 square feet. Alternatively, the CBD saw an 32,300 square foot increase in occupancy.



The following chart highlights overall net absorption by year:



Source: Cushman & Wakefield Research; compiled by C&W V&A

## Demand Forecast

Cushman & Wakefield's office market forecasts are derived using a regression model developed by our Research staff. The model is based on trends in historical occupancy and rental rate movements as well as factors such as employment growth, new construction and absorption tendencies.

The demand analysis results are presented in the table below. Highlights of the analysis include:

- Economic data suggests total office-using employment is forecast to resume, increasing 2.6% over the year in 2021, adding 4,400 jobs, following the significant job loss caused by the pandemic in 2020. In 2022, employment growth is projected to measure 4.7%, the addition of 8,200 jobs.
- Growth in office inventory will be tepid with development activity ramping up in 2021, when 940,200 square feet of new office produce is expected to come online.
- Overall vacancy is projected to increase, peaking near 20% in 2021 as both negative absorption and new inventory are projected.

The following table outlines details of the demand analysis for the Palm Beach County office market.

## Office Market Forecast

### West Palm Beach, FL



	2015	2016	2017	2018	2019	2020F	2021F	2022F
<b>Employment</b>								
Total Office-using Employment	163,500	169,800	171,600	173,800	175,200	170,600	175,000	183,200
Growth Rate	2.6%	3.9%	1.1%	1.3%	0.8%	-2.6%	2.6%	4.7%
Net New Office-using Jobs	4,200	6,300	1,800	2,200	1,400	(4,600)	4,400	8,200
<b>CBD</b>								
New Supply	0	0	0	0	0	0	880,200	0
Occupied Space	2,603,900	2,629,200	2,829,000	2,768,600	2,663,800	2,626,100	2,643,700	2,695,800
Vacant/Available	560,000	534,700	334,900	395,300	500,100	537,900	1,400,500	1,348,400
Overall Vacancy Rate	17.7%	16.9%	10.6%	12.5%	15.8%	17.0%	34.6%	33.3%
Net Absorption	8,800	25,300	199,800	(60,400)	(104,800)	(37,700)	17,600	52,100
Asking Rents, Average	\$34.62	\$37.61	\$41.17	\$47.48	\$49.90	\$50.49	\$52.19	\$49.38
Growth Rate	0.5%	8.7%	9.4%	15.4%	5.1%	1.2%	3.4%	-5.4%
Asking Rents, Year-end	\$34.84	\$40.33	\$41.50	\$48.86	\$49.62	\$50.49	\$51.84	\$46.64
Growth Rate	0.8%	15.8%	2.9%	17.7%	1.6%	1.8%	2.7%	-10.0%
<b>Non-CBD</b>								
New Supply	0	0	101,000	0	193,200	217,400	60,000	0
Occupied Space	16,412,600	16,730,500	17,332,200	17,191,300	17,327,900	17,222,400	16,966,500	17,170,900
Vacant/Available	3,457,400	3,139,500	2,638,700	2,779,700	2,836,300	3,159,200	3,475,100	3,270,700
Overall Vacancy Rate	17.4%	15.8%	13.2%	13.9%	14.1%	15.5%	17.0%	16.0%
Net Absorption	300	317,900	601,700	(141,000)	136,600	(105,500)	(255,900)	204,400
Asking Rents, Average	\$27.55	\$31.59	\$34.77	\$34.74	\$35.97	\$35.90	\$34.41	\$33.25
Growth Rate	4.3%	14.7%	10.0%	-0.1%	3.6%	-0.2%	-4.1%	-3.4%
Asking Rents, Year-end	\$27.84	\$32.98	\$35.05	\$34.51	\$36.19	\$35.56	\$33.81	\$33.13
Growth Rate	4.1%	18.5%	6.3%	-1.5%	4.9%	-1.8%	-4.9%	-2.0%
<b>Total Market</b>								
Inventory	23,033,900	23,033,900	23,134,900	23,134,900	23,328,100	23,545,500	24,485,800	24,485,800
New Supply	0	0	101,000	0	193,200	217,400	940,200	0
Occupied Space	19,016,500	19,359,800	20,161,300	19,959,900	19,991,700	19,848,500	19,610,200	19,866,700
Vacant/Available	4,017,400	3,674,200	2,973,600	3,175,000	3,336,400	3,697,000	4,875,600	4,619,100
Overall Vacancy Rate	17.4%	16.0%	12.9%	13.7%	14.3%	15.7%	19.9%	18.9%
Net Absorption	9,100	343,200	801,500	(201,400)	31,800	(143,200)	(238,300)	256,500
Asking Rents, Average	\$28.51	\$32.45	\$35.61	\$36.36	\$37.97	\$38.06	\$38.97	\$38.02
Growth Rate	3.4%	13.8%	9.7%	2.1%	4.4%	0.3%	2.4%	-2.4%
Asking Rents, Year-end	\$28.82	\$34.05	\$35.78	\$36.30	\$38.20	\$37.73	\$38.99	\$37.08
Growth Rate	3.5%	18.2%	5.1%	1.5%	5.2%	-1.2%	3.3%	-4.9%

Notes: Numbers in the table may not add to totals due to rounding. Figures are reported in square feet and are year-end. Asking rents are full service.

Source: Moody's Analytics, Cushman & Wakefield Research

Palm Beach County had a population base of 1.13 million people in 2000, which increased to 1.42 million in 2010, 1.69 million in 2020 and is projected to increase to 1.91 million by 2030 and 2.13 million in 2040 and 2.39 million according to the Florida Department of Transportation projections (note individual statistics for Boca Raton were not available). This represents a 13.4 percent increase in the population from 2020 to 2030 and an increase of 26.7 percent to 2040 and an increase of 41.5 percent to 2050 from 2020 levels.

## Conclusion

Office market conditions in Palm Beach County were expected to improve through 2020 as tenants continue to look to the county for their relocation and expansion needs. However, this market, like everywhere else, was impacted by the COVID-19 pandemic, causing office-using employment declines resulting in slow demand. Strong rent growth was also in the forecast to prompt more development activity as developers were ready to move forward with proposed projects, but the full scope of the pandemic short and long-term effects on commercial real estate remain unknown. Nevertheless, the Palm Beach office market fared better than initially expected in 2020, with steady vacancy, positive absorption and increasing rents.

## Boca Raton Office Submarket

### Introduction

Data for the following analysis of the Boca Raton Office market is provided by Cushman & Wakefield Florida Research.

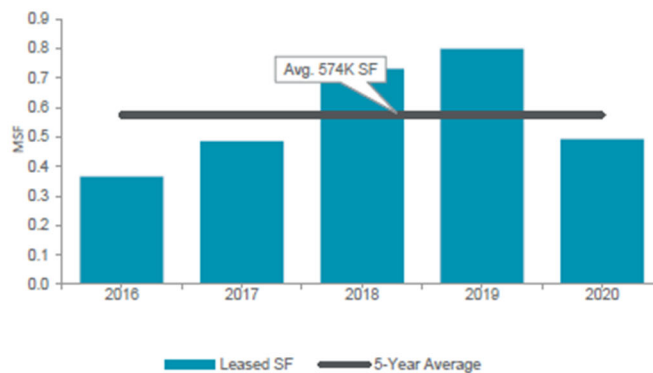
### Boca Raton Office Market

Boca Raton is the largest submarket in Palm Beach County with approximately 11.5 million square feet (msf) of rentable office space.

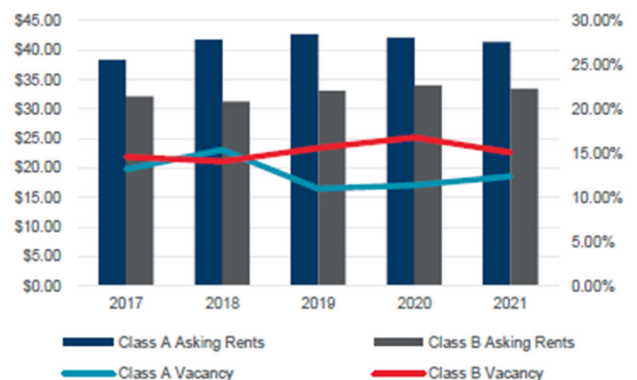
- Due to its close proximity to I-95 and central location within South Florida, this submarket is an attractive alternative for tenants looking outside of Palm Beach's urban core.
- Boca Raton has several corporate headquarters including ADT, Office Depot, and Orange Theory Fitness.
- Overall rent growth slightly decreased year-over-year (YOY) by 0.4% to finish the first quarter at \$36.92 psf; Class A rent decreased by -1.4% to \$41.41 psf, and Class B remained stable with a +0.1% rise to \$33.45 psf.
- Top tier space in sought after Class A buildings now have asking rents above \$60.00 PSF, full service.
- Overall vacancy in Boca Raton increased by +70 bps over the year with rate of 14.2% at the end of the first quarter; Class A overall vacancy increased by +190 bps YOY to 13.3% while Class B decreased by -190bps YOY to 15.1%.
- New leasing activity in the first quarter reached over 88,000 sf, down 52.1% compared to the first three months of 2020.

The largest lease in the first quarter was a 6,500-sf transaction at 902 Clint Moore Rd signed by Nextus Billing Solutions.

#### ANNUAL LEASING ACTIVITY



#### VACANCY VS. RENT CLASS A & B



The following table presents quarterly gross leasing within the Boca Raton market over the past two years.

QUARTERLY GROSS LEASING BOCA RATON 1<sup>ST</sup> QUARTER 2021

The following table presents the most recent large leases in the Boca Raton market.

RECENT LARGE LEASES BOCA RATON 1<sup>ST</sup> QUARTER 2021

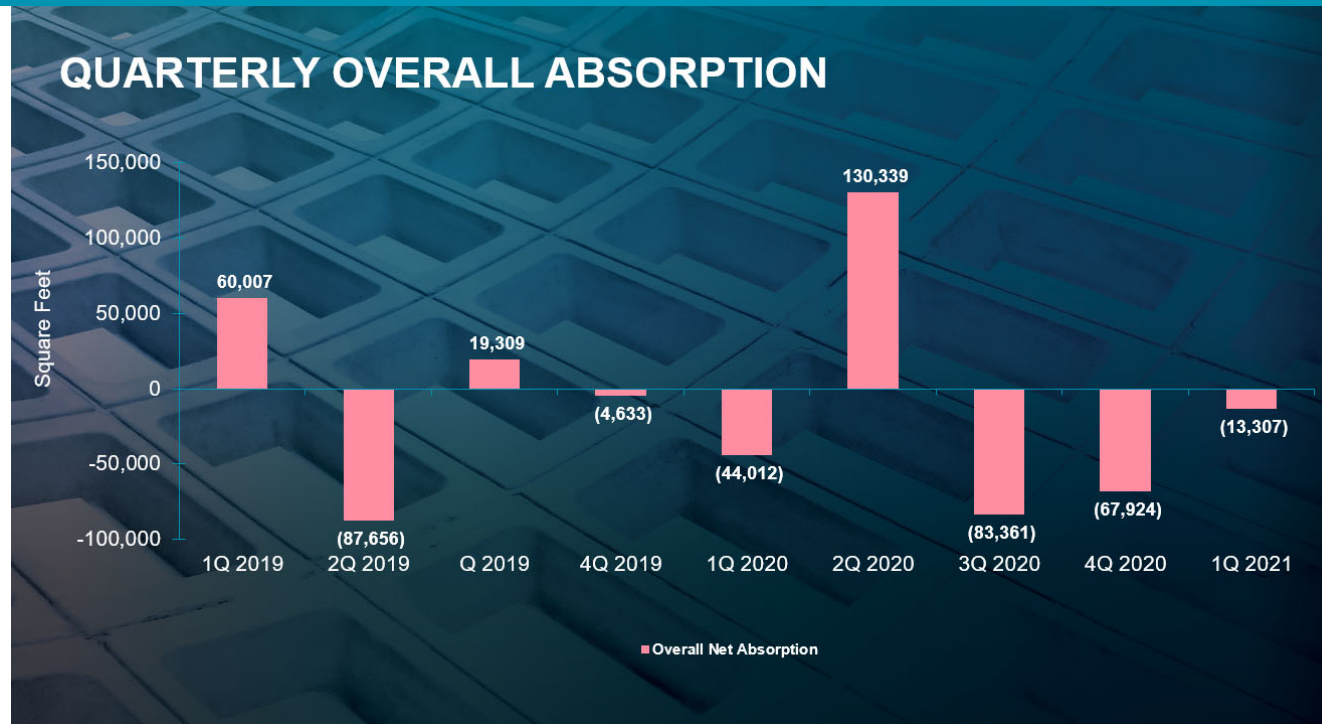
### 1Q 2020 – 1Q 2021 LARGEST LEASES

Prime Deals, Private & Public Sectors

Submarket	Address	Tenant	Leased SF	Transaction Type
Northwest Boca Raton	4950 Communication Ave	Baptist Health South Florida	37,982	New Lease
Northwest Boca Raton	4800 T Rex Ave	Conduent Patient Access Solutions LLC	31,046	Renewal
Northwest Boca Raton	4950 Communication Ave	TMS Help	30,123	Renewal
Glades Road	3600 FAU Boulevard	4Ocean	25,538	New Lease
Northwest Boca Raton	5300 Broken Sound Boulevard	Misfits Gaming	18,200	New Lease
Northwest Boca Raton	901 Yamato Road	Melsner Electric, Inc.	15,172	New Lease
Glades Road	1800 N Military Trail	Waste Management	14,913	New Lease
Northwest Boca Raton	4800 T Rex Ave	Just Play Products LLC	13,993	Renewal
Federal Highway Corridor	1200 N Federal Highway	Visonamics	11,990	Renewal
Northwest Boca Raton	750 Park of Commerce Blvd	Media Direct, Inc	11,882	New Lease

The following chart reflects historically quarterly absorption in the Boca Raton submarket.

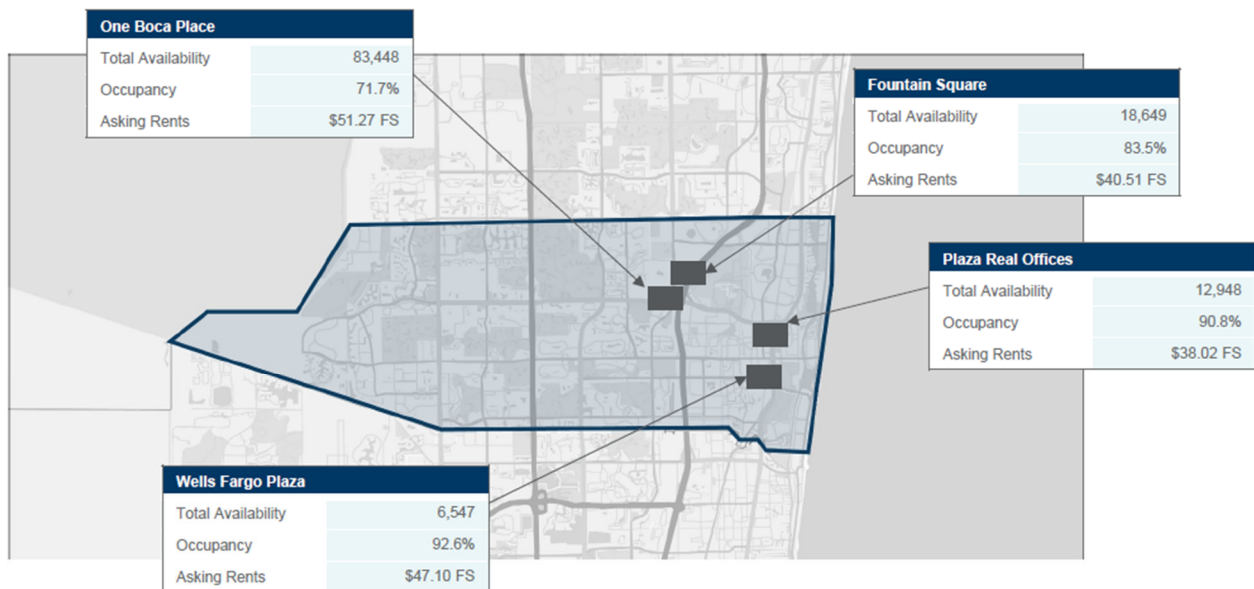
## HISTORICAL QUARTERLY OVERALL NET ABSORPTION BOCA RATON



The following map reflects current asking rents and occupancies in select buildings in the submarket.

## SUBMARKET SNAPSHOT

## SUBMARKET SNAPSHOT





## New Construction Activity

There has been no significant new office construction in the submarket over the past five years, with only one office building that was constructed in 2019 in the submarket and is located at 4955 Technology Way in Boca Raton. This was an owner-user built-to-suit office building for The Geo Group that consists of 106,957 square feet. There are currently no new office buildings under construction in the Boca Raton submarket.

## Boca Raton Submarket Office Conclusion

The submarket has experienced a recent increase in the vacancy rate of 70 basis points over the past year due to the lingering effects of the COvid-19 pandemic. However, as the market is anticipated to be the net beneficiary of in-migration into the region and has remained hub of skilled white collar population, as the local and national economy continue to improve, the submarket is anticipated to benefit from this in-migration, as well as increased economic activity.

## Boca Raton Office Investment Sales Market

According to Costar, 112 office sale transactions closed in the 12 months ending June 18, 2020, with a total volume of \$1.0 billion, averaging a price of approximately \$227 per square foot. The buildings total 4.872 million square feet. The average cap rate for these sales transactions have been 5.6 percent. The following graphics illustrate a summary of the recent transactions within the submarket.

Sales Volume	Search	Lowest	Highest
Transactions	112	-	-
Sales Volume	\$1B	\$185K	\$81M
Properties Sold	95	-	-
Sold SF	4.9M	504	491K
Average SF	43.5K	504	491K

Sales Price	Search	Lowest	Highest
Cap Rate	5.6%	5.2%	8.1%
Sale Price/SF	\$227	\$59	\$2,230
Average Sale Price	\$11.6M	\$185K	\$81M
Sale vs Asking Price	-8.4%	-21.4%	0.1%
% Leased at Sale	94.4%	0%	100.0%

Source: CoStar

## Subject Property

### Location and Description

The subject property is located within the City of Boca Raton, Palm Beach County, Florida. Generally, the boundaries of the immediate area are Yamato Road to the north, the Palm Beach County-Broward County borderline to the south, Interstate 95 to the east and Jog Road to the west. The Town Center Mall is located adjacent to the subject property to the west. Other local landmarks include Florida Atlantic University and the Palm Beach Community College campuses located northeast of the subject property and Lynn University to the north. The Boca Raton municipal airport is also located approximately one mile northeast of the subject. The Central Business District of Palm Beach is 26 miles north of the subject property. Boca Raton does not have a “Central Business District”; however, Boca Raton does have a large amount of office space, and the area located northeast, near the Yamato Road and Interstate 95 interchange would be the epicenter of the office submarket.

The subject property consists of one, ten-story, multi-tenant office building that contain a total of 190,459 square feet of rentable area and a five-story 435 space parking garage situated on a 1.72-acre site. The subject site consists of the footprint of the office building parcel and the parking garage parcel and the subject contains a perpetual easement to utilize the 274 surface parking spaces on the adjacent lot. The subject property was previously part of a larger site and the site was condominiumized over the past year and the subject building footprints consist of condominium units within this One Town Center larger site. The subject property is located on the northwest corner of Town Center Road and South Military Trail. The improvements were completed in 1991 and are in good condition. The property is currently 94.7 percent leased by 21 tenants at an average contract rent of \$33.12 per square foot.

### Transportation and Connectivity

Local area accessibility is generally good, relying on the following transportation arteries:

Local:	The subject is located on the west side of South Military Trail and the south side of Town Center Road, a secondary roadway in the local area. The subject is located 0.25 miles south of Glades Road, a main arterial in the local area that intersects with Military Trail 0.5 miles to the northeast. Glades Road traverses from the Atlantic Ocean, west to its terminus at the Everglades. Military Trail is a north/south arterial that traverses throughout northern Broward County and Palm Beach County. Other north/south routes include Andrews Avenue and Jog Road to the west and other east/west routes include West Palmetto Park Road to the south and Yamato Road to the north.
Regional:	Interstate 95 is a limited access, multi-lane expressway that provides north/south travel within the subject neighborhood and along the eastern corridor of Florida and the east coast of the United States. Interstate 95 can be accessed at the Glades Road interchange located 0.5 miles northeast of the subject. The Florida Turnpike is a limited access toll-road that provides north/south travel from South Florida to Central Florida and can be accessed at the Glades Road interchange located 2.5 miles northwest of the subject.

The subject neighborhood is served by Palm Tran, Palm Beach County’s public bus transportation service, with regularly scheduled bus service within the subject neighborhood and county. The Tri Rail system, a regional light



commuter rail service that runs north/south generally parallel to interstate 95 and utilizes the CSX rail lines, has a station located northeast of the subject at the Yamato Road and Interstate 95 interchange. The Tri Rail system provides light rail service throughout the tri county area, from Miami in the south to the town of Mangonia Park in northern Palm Beach County.

## Nearby and Adjacent Uses

The subject's local area is composed primarily of commercial and retail development that essentially surrounds the subject property. Glades Road is a heavily commercialized pocket comprised of retail, office, lodging and other various commercial uses. The area extends from the Interstate 95 interchange of Glades Road west to Andrews Avenue. This commercial pocket is supported by the single and multi-family residential neighborhoods which surround the area.

## Local Area Characteristics

Boca Raton is a hub of highly skilled, affluent, white-collar professionals. The city has transformed from a retirement and bedroom community to a dynamic center of business activity. In general, the City of Boca Raton is regarded by many as a model city, influenced to a great extent by the Arvida Corporation's residential and commercial village concept.

Residential development in the neighborhood comprises a variety of golf course communities such as Arvida's Broken Sound Country Club, Woodfield Country Club, Saint Andrews Country Club, The Polo Club, Bocaire Country Club and Boca West. Additional residential communities include Pheasant Walk, Glen Oaks, Santa Barbara and Timber Creek. The residential base is well established, with a variety of single-family, condominiums, and multi-family housing, most of which caters to an upper-income population base.

Recent development around the park includes the Boca Village located on the south side of Yamato Road nearly adjacent to the northeast corner of the subject property. Boca Village is a 63,000 square foot retail center which has provided much needed retail space to the area. Directly east of the subject and adjacent to the Boca Village retail center; Butters Construction and Development was to construct two projects consisting of three buildings, the first known as Boca Village Corporate Center I & II and was proposed to be a two building 200,000 square foot Class A office complex, with the buildings slated to be the first LEED Certified Green Buildings in Boca Raton. Only one building was completed in 2008 totaling 100,000 square feet, and is registered with the U.S. Green Building Council awaiting LEED certification. The second building, which is to be a mirror image of the first, has been placed on hold. The second project, Boca Village Executive Center, was completed in 2007 and offers 55,996 square feet of Class A office condominiums.

South of the subject, the State of Florida completed a \$67 million link between Spanish River Boulevard and I-95, about midway between the Spanish River overpass and Yamato Road. The new interchange will divert FAU traffic directly to the campus instead of flowing into the congested Glades Road interchange. Construction began in 2015 and was completed in 2017.

South of the subject on the east side of Interstate 95 is the Boca Raton Airport. The Boca Raton Airport, also known as Boca Raton Army Airfield, was established in 1936. Prior to World War II, the airport was selected to house a military airfield for various geographic and practical reasons. Because of Florida's subtropics climate, military operations were able to continue year round without snow or low temperatures being a deterrent. The proximity to the Atlantic Ocean and Gulf of Mexico also provided ideal location for flight training, along with the flat terrain which was ideal for inexperienced pilots. With the population being approximately less than 1,000 in Boca Raton during the early 1940's, the United States government was able to dedicate thousands of acres of land for military use

without having to relocate a large number of people. During 1946, post World War II, the military inactivated their use of the airport and part of the air base was developed into Florida Atlantic University during the 1950's.

## Florida Atlantic University

Florida Atlantic University's main campus spans 850 acres and is located directly south of the subject property in Boca Raton. FAU is a public, research university that has seven campuses throughout the tri-county area (Miami-Dade, Broward and Palm Beach) and an enrollment of 28,000 students. FAU is currently developing Innovation Village, a housing, recreation and retail complex that will include student residence halls, shopping and dining establishments and a 30,000-seat, open-air football stadium. The stadium was completed in 2011, while construction has begun for the housing component and planning continues for the retail area associated with Innovation Village. In the next decade, the resident student population on the Boca Raton campus is expected to exceed 5,000. Two important neighboring projects, a student recreation/fitness center and the Marleen and Harold Forkas Alumni Center, have already opened.

### TOWN CENTER MALL

The Town Center Mall, a SIMON property, is located west of Military Trail, at Glades Road. It remains the only regional mall within the Boca Raton area, featuring high-end retail since its opening in 1990. Town Center at Boca Raton features approximately 220 specialty stores with anchors including Bloomingdale's, Macy's, Neiman Marcus, Nordstrom, Saks Fifth Avenue and Sears. The mall's newest addition is a lifestyle center called the Terrace at Town Center. Crate & Barrel (which opened in September 2007) anchors the expansion with a two-level store. Anthropologie, Chico's, The Walking Co., Sleep Number by Select Comfort, Coldwater Creek, Easy Spirit, and Lilly Pulitzer also opened in the expansion.

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**Competitive Market Survey – Micro Market**

In order to gain a better understanding of the market conditions specific to the subject property, we conducted a survey of those buildings that would be considered most competitive to the subject.

**Micro Market Snapshot**

We have identified office buildings with the following characteristics as the being directly competitive with the subject.

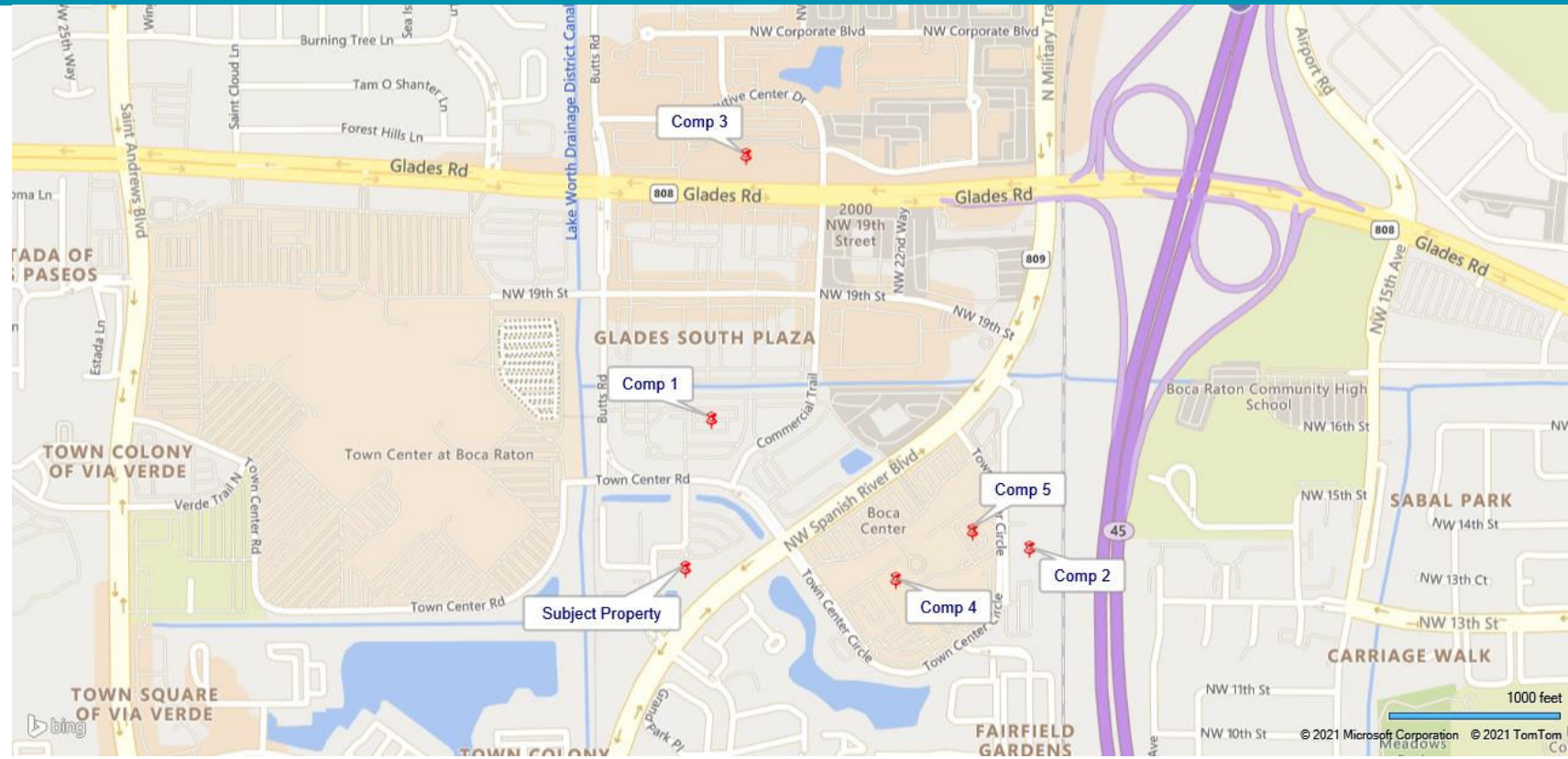
- 10 story, Class A office product in the Boca Raton submarket

The following table summarizes rental activity for comparable space in similar properties in the market.

## OFFICE RENT COMPARABLES

PROPERTY INFORMATION														
NO.	Property Name Address, City, State	CLASS	SIZE (NRA)	YEAR BUILT	YEAR RENOVATED	STORIES	PARKING / 1,000 SF	AVAILABLE SIZE (NRA)	TERM (yrs.)	INITIAL RENT/SF	RENT STEPS	LEASE TYPE	OCCUPANCY	COMMENTS
S	Subject Property	A	187,635	1990	2007	10	4.00							
1	The Plaza 5355 Town Center Road Boca Raton,	A	145,344	1986	1999	11	4.00	45,300	3 to 10	\$40.00 - \$45.00	3.0%	<u>Net</u>	81%	This property is located to the north of the subject property.
2	1800 Boca Center 1800 North Military Trail Boca Raton,	A	141,750	2008	N/A	4	4.00	53,790	Neg.	\$35.00 - \$38.00	3.0%	<u>Net</u>	90%	This property is located to the southeast of the subject property and is adjacent to the western side of I95.
3	One Boca Place 2255 Glades Road Boca Raton,	A	277,390	1986	2018	4	4.00	83,448	5 to 10	\$34.00	3.0%	<u>Net</u>	72%	This property is located to the north of the subject property. This property was renovated in 2018.
4	Boca Center Tower I 5200 Town Center Circle Boca Raton,	A	119,832	1986	2000	6	4.00	45,398	3 to 5	\$38.00 - \$40.00	3.0%	<u>Net</u>	95%	This property is located to the southeast of the subject property. This property was renovated in 2000.
5	Boca Center Tower II 5100 Town Center Circle Boca Raton,	A	98,904	1989	2000	6	4.00	38,904	Neg.	\$38.00	3.0%	<u>Net</u>	97%	This property is located to the southeast of the subject property. This property was renovated in 2000.
STATISTICS														
Low			98,904	1986	1999	3	4.00	38,904	3	\$34.00			72%	
High			277,390	2008	2018	5	4.00	83,448	10	\$45.00			97%	
Average			156,644	1991	2004	4	4.00	53,368	6	\$38.00			87%	
Compiled by Cushman & Wakefield Regional, Inc.														

## COMPARABLE RENTAL LOCATION MAP



## Discussion of Comparable Asking Rents

We analyzed asking rental rates in competitive buildings in the marketplace. These are all located in buildings similar in class to the subject and in the subject's competitive market. The comparables exhibit a range in rents from \$34.00 to \$45.00 per square foot, with an average of \$38.00 per square foot.

Rent escalation clauses vary, with most having annual percentage increases ranging from three percent. All of these are triple net leases in which the tenant is required to pay a prorated share of operating expenses.

Based on discussions with local Office Brokers with Cushman and Wakefield of Florida, they indicated tenant improvements for office properties on new deals range from \$20.00 to \$75.00 per square foot and renewal deals range from \$5.00 to \$30.00 per square foot. Based on conversations with market participants and leasing agents in the market, tenant improvement allowances have increased since the beginning of the Covid-19 pandemic due to increases in costs throughout the region and shell costs are currently being underwritten between \$70.00 to \$75.00 per square foot (depending on the size of the space and other lease terms).

Based on conversations with brokers active in the market, rent abatements are commonplace in terms of new office leases. The current rule of thumb within the market is half a month of free rent for every year of lease term or slightly less.

The standard leasing commission for new leases in the market is 6.0 percent of the scheduled rental income for new leases and 3.0 percent of scheduled rental income for renewals. On new leases, the leasing broker is entitled to a full commission. On renewing leases, the leasing broker is entitled to one half of the full commission.

## Analysis of Comparable Restaurant Leases

The following table summarizes rental activity for comparable restaurant space in competing buildings in the market.

RESTAURANT LEASE COMPARABLES									
PROPERTY INFORMATION			LEASE INFORMATION						
NO.	Property Name Address, City, State	SIZE (NRA)	TENANT NAME	LEASE DATE	TERM (yrs.)	INITIAL RENT/SF	RENT STEPS	LEASE TYPE	COMMENTS
1	Boca Raton Mall Restaurant Space	7,363	Confidential	8/1/201	10.0	\$42.31	10% increase in Yr 6	<u>Net</u>	This is restaurant space located within a high end shopping center in eastern Boca Raton.
2	Boca Raton Mall Restaurant Space	5,561	Confidential	4/21	10.0	\$40.00	3.00% per annum	<u>Net</u>	This is restaurant space located within a high end shopping center in eastern Boca Raton.
3	Boca Raton Mall Restaurant Space	12,530	Confidential	7/21	10.0	\$30.00	10% increase in Yr 6	<u>Net</u>	This is restaurant space located within a high end shopping center in eastern Boca Raton.
4	Boca Raton Mall Restaurant Space	5,175	Confidential	5/20	9.0	\$50.00	10% increase in Yr 6	<u>Net</u>	This is restaurant space located within a high end shopping center in eastern Boca Raton.
5	Boca Raton Mall Restaurant Space	5,449	Confidential	1/20	8.0	\$45.14	Flat	<u>Net</u>	This is restaurant space located within a high end shopping center in eastern Boca Raton.
STATISTICS									
Low		5,175		1/20	8	\$30.00			
High		12,530		7/21	10	\$50.00			
Average		7,216		10/20	9	\$41.49			

Compiled by Cushman & Wakefield Regional, Inc.

## Discussion of Restaurant Lease Comparables

We analyzed recent leases negotiated in competitive buildings in the marketplace. The comparables range in size from 5,175 square feet to 12,530 square feet. These are all located in buildings similar in class to the subject and in the subject's competitive market. The comparable leases have terms ranging from 8 to 10 years. The comparables exhibit a range in rents from \$30.00 to \$50.00 per square foot, with an average of \$41.49 per square foot.

## Market Trends

As reflected by the following table, market trends reflect increasing rental rates over the past decade for Class A product in the Boca Raton market.

COMPETITIVE MICRO MARKET TRENDS - CLASS A OFFICE PRODUCT BOCA RATON										
Period	No. of Buildings	Inventory Square Feet	Vacant Available Sq. Ft.	Percent Vacant Available	Net Absorption Sq. Ft.	Average Asking FS Rent PSF	Deliveries		Under Construction	
							No. of Bldgs.	Rentable Sq. Ft.	No. of Bldgs.	Rentable Sq. Ft.
1Q2021	48	5,612,204	696,704	12.4%	(49,403)	\$41.88	0	0	0	0
2020	48	5,609,354	588,842	10.5%	79,743	\$42.44	0	0	0	0
2019	49	5,651,119	578,368	10.2%	(9,447)	\$42.91	0	0	0	0
2018	50	5,647,830	760,683	13.5%	64,353	\$42.03	0	0	0	0
2017	50	5,828,733	728,651	12.5%	148,777	\$38.81	0	0	0	0
2016	50	5,828,733	774,116	13.3%	15,793	\$40.57	0	0	0	0
2015	50	5,828,733	993,182	17.0%	65,012	\$33.96	0	0	0	0
2014	50	5,828,733	1,027,283	17.6%	38,004	\$32.79	0	0	0	0
2013	50	5,828,733	1,388,515	23.8%	100,653	\$32.24	0	0	0	0
2012	50	5,828,733	1,342,508	23.0%	(1,420)	\$32.68	0	0	0	0
2011	50	5,828,733	1,454,351	25.0%	81,304	\$33.38	0	0	0	0

Source: Cushman & Wakefield of Florida Research

The local Boca Raton office submarket has been considered a desirable office submarket for several decades with an assortment of office using tenants gravitating to the market. The eastern portion of the submarket has historically catered to financial service and law firms, while the Glades Road corridor around I-95 has historically catered to a wide variety of office using company's, particularly those that draw from a larger employee base due to the proximity of I-95 to much of the office using product. The northern portion of the market is centered around Yamato Road and consists of a higher amount of engineering and tech related firms based on this area being the historical location of IBM's headquarters. This wide mix of office users and has made the Boca Raton submarket, the premier office submarket in the county. This trend is anticipated to continue into the future as the market continues to rebound from the Covid-19 pandemic.

## Subject's Competitive Market Position

The subject is considered a Class A office property by market participants based on its quality, condition and tenancy. Most of the local inventory was developed in the 1980's and 1990s. The subject is considered to have a good location within the submarket near I-95 and based on its recent renovation it is considered a prime office asset and is considered to be a top choice in the market for office users in Boca Raton.

## Micro Market Outlook and Conclusions

The Boca Raton submarket is supported by a variety of existing and future demand generators, such as desirable "lifestyle" amenities, a highly skilled labor force, and proximity to I-95, FAU and the Town Center Mall. The local area consists of a high income community with an assortment of single family and multifamily options for residents and is considered one of the more desirable residential communities in the market. There have been no new



speculative office properties in the market and due to the land constraints in the market and the lack of available development parcels in the market with most recent land transactions being for multifamily development in the local market due to the desirability of the local area. As continued office demand will be fueled by in-migration and the lack of new supply is anticipated to benefit the market, as it rebounds from the effects of the Covid-19 pandemic, as the economy continues to open in 2021 and in 2022. Occupancy and rental rates should continue to outperform Palm Beach County averages. Considering these factors, the overall outlook for the submarket, as well as the subject property within the competitive set, is good on both long and short-term horizons.

## SWOT ANALYSIS

### Strengths

- The primary market area has recorded significant rent increase in recent years with growth or stability projected.
- The Boca Raton Submarket is in a renewed growth phase with multi-family, and amenity construction underway.
- The submarket benefits from high-income demographics in the immediate area.
- The local area includes Town Center Mall, FAU and downtown Boca Raton, all major demand generators.
- The property is of good quality and is in good condition owing to a recent renovation to common areas.
- There is no new speculative office construction in the immediate area.
- Near-term lease expiration risk is low.

### Weaknesses

- A significant portion of the subject's rent roll is leased below market.
- The subject is located off of Military Trail.

### Opportunities

- The property has significant upside through renewing below-market rents to market.
- Continued in-migration of office using firms and employees from the northeast U.S., particularly New York is anticipated to continue in the near term.

### Threats

- The potential for increases in office investment rates due to increases in the anticipation that the Federal Reserve will increase borrowing rates over the next several years.

Respectfully submitted,

**CUSHMAN & WAKEFIELD REGIONAL, INC.**



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## Addenda Contents

Addendum A: Assumptions and Limiting Conditions

Addendum B: Terms & Definitions

## Addendum A: Assumptions and Limiting Conditions

## Assumptions and Limiting Conditions

"Report" means the consulting report and conclusions stated therein, to which these Assumptions and Limiting Conditions are annexed.

"Property" means the subject of the Report.

"Cushman & Wakefield" means Cushman & Wakefield, Inc. or its subsidiary that issued the Report.

"Appraiser(s)" means the employee(s) of Cushman & Wakefield who prepared and signed the Report.

The Report has been made subject to the following assumptions and limiting conditions:

- No opinion is intended to be expressed and no responsibility is assumed for the legal description or for any matters that are legal in nature or require legal expertise or specialized knowledge beyond that of a real estate appraiser. Title to the Property is assumed to be good and marketable and the Property is assumed to be free and clear of all liens unless otherwise stated. No survey of the Property was undertaken.
- The information contained in the Report or upon which the Report is based has been gathered from sources the Appraiser assumes to be reliable and accurate. The owner of the Property may have provided some of such information. Neither the Appraiser nor Cushman & Wakefield shall be responsible for the accuracy or completeness of such information, including the correctness of estimates, opinions, dimensions, sketches, exhibits and factual matters. Any authorized user of the Report is obligated to bring to the attention of Cushman & Wakefield any inaccuracies or errors that it believes are contained in the Report.
- The opinions are only as of the date stated in the Report. Changes since that date in external and market factors or in the Property itself can significantly affect the conclusions in the Report.
- The Report is to be used in whole and not in part. No part of the Report shall be used in conjunction with any other analyses. Publication of the Report or any portion thereof without the prior written consent of Cushman & Wakefield is prohibited. Reference to the Appraisal Institute or to the MAI designation is prohibited. Except as may be otherwise stated in the letter of engagement, the Report may not be used by any person(s) other than the party(ies) to whom it is addressed or for purposes other than that for which it was prepared. No part of the Report shall be conveyed to the public through advertising, or used in any sales, promotion, offering or SEC material without Cushman & Wakefield's prior written consent. Any authorized user(s) of this Report who provides a copy to, or permits reliance thereon by, any person or entity not authorized by Cushman & Wakefield in writing to use or rely thereon, hereby agrees to indemnify and hold Cushman & Wakefield, its affiliates and their respective shareholders, directors, officers and employees, harmless from and against all damages, expenses, claims and costs, including attorneys' fees, incurred in investigating and defending any claim arising from or in any way connected to the use of, or reliance upon, the Report by any such unauthorized person(s) or entity(ies).
- Except as may be otherwise stated in the letter of engagement, the Appraiser shall not be required to give testimony in any court or administrative proceeding relating to the Property or the Report.
- The Report assumes (a) responsible ownership and competent management of the Property; (b) there are no hidden or unapparent conditions of the Property, subsoil or structures that render the Property more or less valuable (no responsibility is assumed for such conditions or for arranging for engineering studies that may be required to discover them); (c) full compliance with all applicable federal, state and local zoning and environmental regulations and laws, unless noncompliance is stated, defined and considered in the Report; and (d) all required licenses, certificates of occupancy and other governmental consents have been or can be obtained and renewed for any use on which the value opinion contained in the Report is based.
- The physical condition of the improvements considered by the Report is based on visual inspection by the Appraiser or other person identified in the Report. Cushman & Wakefield assumes no responsibility for the soundness of structural components or for the condition of mechanical equipment, plumbing or electrical components.
- The forecasted potential gross income referred to in the Report may be based on lease summaries provided by the owner or third parties. The Report assumes no responsibility for the authenticity or completeness of lease information provided by others. Cushman & Wakefield recommends that legal advice be obtained regarding the interpretation of lease provisions and the contractual rights of parties.

- The forecasts of income and expenses are not predictions of the future. Rather, they are the Appraiser's best opinions of current market thinking on future income and expenses. The Appraiser and Cushman & Wakefield make no warranty or representation that these forecasts will materialize. The real estate market is constantly fluctuating and changing. It is not the Appraiser's task to predict or in any way warrant the conditions of a future real estate market; the Appraiser can only reflect what the investment community, as of the date of the Report, envisages for the future in terms of rental rates, expenses, and supply and demand.
- Unless otherwise stated in the Report, the existence of potentially hazardous or toxic materials that may have been used in the construction or maintenance of the improvements or may be located at or about the Property was not considered in arriving at the opinion of value. These materials (such as formaldehyde foam insulation, asbestos insulation and other potentially hazardous materials) may adversely affect the value of the Property. The Appraisers are not qualified to detect such substances. Cushman & Wakefield recommends that an environmental expert be employed to determine the impact of these matters on the opinion of value.
- Unless otherwise stated in the Report, compliance with the requirements of the Americans with Disabilities Act of 1990 (ADA) has not been considered in arriving at the opinion of value. Failure to comply with the requirements of the ADA may adversely affect the value of the Property. Cushman & Wakefield recommends that an expert in this field be employed to determine the compliance of the Property with the requirements of the ADA and the impact of these matters on the opinion of value.
- If the Report is submitted to a lender or investor with the prior approval of Cushman & Wakefield, such party should consider this Report as only one factor, together with its independent investment considerations and underwriting criteria, in its overall investment decision. Such lender or investor is specifically cautioned to understand all Extraordinary Assumptions and Hypothetical Conditions and the Assumptions and Limiting Conditions incorporated in this Report.
- Subject to applicable laws and regulations (including the Singapore Securities and Futures Act, Chapter 289 of Singapore) its sole and exclusive remedy for any and all losses or damages relating to this agreement or the report shall be limited to two millions dollars (\$2.0 million). In the event that the Client, or any other party entitled to do so, makes a claim against Cushman & Wakefield or any of its affiliates or any of their respective officers or employees in connection with or in any way relating to this engagement or the report, the maximum damages recoverable from Cushman & Wakefield or any of its affiliates or their respective officers or employees shall be subject to applicable laws and regulations (including the Singapore Securities and Futures Act, Chapter 289 of Singapore) limited to two million dollars (\$2.0 million) and under no circumstances shall any claim for consequential damages be made.
- If the Report is referred to or included in any offering material or prospectus, the Report shall be deemed referred to or included for informational purposes only and Cushman & Wakefield, its employees and the Appraiser have no liability to such recipients. Cushman & Wakefield disclaims any and all liability to any party other than the party that retained Cushman & Wakefield to prepare the Report.
- Any estimate of insurable replacement cost/insurable value, if included within the agreed upon scope of work and presented within this report, is based upon figures derived from a national cost estimating service and is developed consistent with industry practices. However, actual local and regional construction costs may vary significantly from our estimate and individual insurance policies and underwriters have varied specifications, exclusions, and non-insurable items. As such, we strongly recommend that the Client obtain estimates from professionals experienced in establishing insurance coverage for replacing any structure. This analysis should not be relied upon to determine insurance coverage. Furthermore, we make no warranties regarding the accuracy of this estimate.
- Unless otherwise noted, we were not given a soil report to review. However, we assume that the soil's load-bearing capacity is sufficient to support existing and/or proposed structure(s). We did not observe any evidence to the contrary during our physical inspection of the property. Drainage appears to be adequate.
- Unless otherwise noted, we were not given a title report to review. We do not know of any easements, encroachments, or restrictions that would adversely affect the site's use. However, we recommend a title search to determine whether any adverse conditions exist.
- Unless otherwise noted, we were not given a wetlands survey to review. If subsequent engineering data reveal the presence of regulated wetlands, it could materially affect property value. We recommend a wetlands survey by a professional engineer with expertise in this field.
- Unless otherwise noted, we observed no evidence of toxic or hazardous substances during our inspection of the site. However, we are not trained to perform technical environmental inspections and recommend the hiring of a professional engineer with expertise in this field.

- Unless otherwise noted, we did not inspect the roof nor did we make a detailed inspection of the mechanical systems. The appraisers are not qualified to render an opinion regarding the adequacy or condition of these components. The client is urged to retain an expert in this field if detailed information is needed.
- By use of this Report each party that uses this Report agrees to be bound by all of the Assumptions and Limiting Conditions, Hypothetical Conditions and Extraordinary Assumptions stated herein.



## Addendum B: Terms & Definitions

## Terms and Definitions

### Office

**Existing Office inventory-** In general, includes existing competitive buildings but does not include 85% or greater owner-occupied, government, retail, industrial, medical or, educational buildings. Inventory base square footage includes all competitive buildings that are classified as office. In the case of medical, note that medical tenants in an office building do not preclude the building's inclusion in statistics. The rule is that a medical building is built for the purpose of housing solely medical occupants and is often in an area dominated by medical uses such as hospitals or clinics. On average, the national minimum standard for inclusion in statistics is 20,000 square feet and while this may vary slightly by market, each market is required to incorporate a minimum threshold.

**Class A-** most prestigious buildings competing for premier office users with above average rents. High quality standards, well-located. Typically steel and concrete construction, built or renovated after 1980, quality tenants, excellent amenities & premium rents

**Class B-** buildings competing for wide range of office users with average rents. These buildings do not compete with Class A space. Typically built or renovated after 1960, with fair to good finishes & for a wide range of tenants.

**Class C-** buildings competing for tenants requiring functional space at below market rents.

**CBD-** Central Business District – typically a geographical area which includes the downtown office core of a metropolitan area or division.

**Non-CBD/Suburbs-** Everything in a market that is outside the CBD. Should always be referred to as suburban or suburbs.

**Trophy Buildings-** Building set distinguished by quality and location that merits its own rating superior to standard Class A properties. Internationally, these may also be referred to as “prime assets” and rents in such buildings may be referred to as “prime rents.” In cases where trophy assets are not tracked separately, the Class A inventory in the functional CBD is the next best proxy for such trends.

### General Statistical Terminology and Definitions

**Asking rental rate** (annual or monthly, gross or triple net, depending upon space use type) – The annual or monthly cost per square foot offered by the landlord or sub-landlord for leasing space, weighted by the amount of available space. Reported quarterly, gross, for all classes or subtypes.

**Direct asking rent-** rents quoted through the building landlord

**Sublet asking rent-** rents quoted through the master tenant

**Direct vacant space-** Space that is offered directly through the landlord that is free and clear of any current lease obligations. In order for inclusion in statistics, this space must be vacant or will be vacant by the end of the current reporting quarter. If the space does not meet that criteria, the space may be available, but should be out of statistics. Examples of such space include the leasing office, conference areas, or retail space that is available within the building such as sundry shops or dry cleaners.

**Sublease vacant space-** The same statistical rules apply to sublease space as to direct space. The difference is that sublease space is encumbered by a lease obligation. Sublease space may be offered through the tenant with the lease obligation, through the tenant's broker, or even through the landlord. It should be noted that even though space may be offered as a sublease, the space may actually be re-leased as direct space because the landlord decides to forgive the current lease obligation and draw up a new lease instead. For this reason, when sublease space is marked as “leased,” one should find out if the space was actually leased as a sublease.

**Available space-** Space that is considered “on the market” whether vacant or not. See Availability Rate below.

**Overall vacant space-** The sum of direct available space and space available for sublease and new space.

**Overall vacancy rate-** The calculation used to determine the percent of overall space (direct + sublease + new) that is vacant:

$$\text{Vacancy (\%)} = \text{Overall vacant space divided by Inventory}$$

**Direct vacancy rate-** The calculation used to determine the percent of direct space that is vacant:

$$\text{Direct Vacancy (\%)} = \text{Direct vacant space divided by Inventory}$$

**Sublet vacancy rate-** The calculation used to determine the percent of sublease space that is vacant:

$$\text{Sublease Vacancy (\%)} = \text{Sublease vacant space divided by Inventory}$$

**Availability rate\*** - percent available on market regardless whether vacant or AIF (Available in the Future) - indicate timeframe available, i.e. 6 months.

**Direct absorption-** The net change in direct occupied space over a given period of time (excludes sublease space by definition) and is counted upon date of lease signing. However, for leases over a certain relevant size threshold for the market, direct absorption may be counted upon occupancy date and is calculated on a calendar year for each quarter and is not revised after the current year if it was determined to be correct at the time.

**Sublet absorption-** The net change in sublease occupied space over a given period of time and is counted upon date of lease signing. However, for leases over a certain relevant size threshold for the market, direct absorption may be counted upon occupancy date and is calculated on a calendar year for each quarter and is not revised after the current year if it was determined to be correct at the time.

**Overall absorption-** The net change in direct + sublease (overall) occupied space over a given period of time and is counted upon date of lease signing. However, for leases over a certain relevant size threshold for the market, direct absorption may be counted upon occupancy date and is calculated on a calendar year for each quarter and is not revised after the current year if it was determined to be correct at the time.

**Leasing activity-** The sum of all square footage underlying any leases over a period of time. This includes pre- leasing activity as well as expansions. It does not include renewals. Like absorption, leasing activity is calculated on a calendar year for each quarter and is not revised after the current year if it was determined to be correct at the time.

**Pre-Leasing activity-** The sum of all square footage underlying leases over a period of time for buildings that are under construction, under renovation or that have been proposed.

**Lease renewal-** Occurs when a lease on space expires and the tenant decides to stay in that space and extend the term either by using a new lease document or addendum to the tenant's prior lease agreement. It is C&W's policy to exclude renewals from leasing activity and from net absorption. If a tenant remains in the building but moves to another space within the building, this is leasing activity. If the tenant chooses to remain in the space, but takes additional space (expands), the expansion portion is considered leasing activity and should be counted separately from the total renewal (which should include the original space plus the expansion).

**Under construction-** Industrial and office square footage that are being built and have not received certificates of occupancy (C of O). Projects which are beyond site preparation (concrete slab poured and construction is actively progressing). For C&W statistical purposes, these buildings will not be completed by the last day of the reporting quarter.

**Under renovation-** Office and industrial buildings that are undergoing renovation, rehabilitation or conversion and require a certificate of occupancy to be habitable.

**Construction completions-** Commercial properties that have received certificates of occupancy for the first time in the building's history. Tenancy may not have taken place.

**Build to Suit:** a method of leasing property whereby the landlord builds to suit the tenant (according to tenant's specifications). The cost of construction is figured in to the rental amount of the lease, which is usually for a long term.

**Speculative:** a building constructed for lease or sale but without having a tenant or buyer before construction begins

**Renovation completions-** Commercial properties that have received their certificates of occupancy after undergoing renovation, rehabilitation or conversion.

**Proposed construction-** Industrial and office square footage that is planned for development at a future date and will not begin construction by the last day of the current reporting quarter. In order for a building to qualify as being proposed, a site plan must be in place and the building must be actively marketed by the landlord or landlord's agent.

**Sales activity-** Includes both user and investment sales of existing buildings. In other words, user office buildings that aren't in our statistics in the first place, are not tracked. However, leased buildings that become sold to a single occupant remain in statistics until after the end of the year and are taken out at the beginning of the next year. Investment sales are sales to entities that will lease or sell the building to others and are income-producing assets. Contrary to office building user sales, industrial building user sales are considered part of the inventory.

**Cap Rate-** A rate used to convert income to value. The percentage used to determine the value of income property through capitalization. The rate reflects the relationship between one years' income or an annual average of several years' income and the corresponding capital value over the same timeframe.

The calculation for calculating direct capitalization rates is:

$$\frac{\text{Income}}{\text{Rate}} = \text{Value} \quad \text{or} \quad \frac{\text{Income}}{\text{Value}} = \text{Rate}$$

A low direct capitalization rate usually denotes a lower risk property, and the higher the direct capitalization rate usually denotes a higher risk property, which usually brings a higher rate of return, if managed properly. Higher capitalization rates can also lead to lower rates of return in certain circumstances. Typically, a lower quality building has a higher capitalization rate than a Class A building.