Executive summary

Q2 2022

U.S. economy and office market

- Macroeconomic indicators have begun to diverge in the first half as inflation swelled to over 40-year highs and consumer confidence has cratered. Labor market fundamentals remain strong with national employment growing closer to pre-pandemic levels, and unemployment continues to gradually decline, but Federal Reserve action and market volatility have driven real GDP to decline in the second quarter and the likelihood of a recession in 2022 is growing.
- Headwinds created by the Omicron variant have largely subsided, new case counts are elevated relative to recent months but have fallen significantly from peaks at the beginning of the year.
- Fundamentals in the U.S. office market have shown indications of reaching another inflection point, as positive momentum across a number of metrics has slowed or reversed. Leasing activity has continued to grow moderately over the past two quarters, but net absorption has again flipped negative in the first half of the year.
- Flight to quality remains the dominant trend for the national office market. Building age is now the strongest predictor for performance, underscoring the capital intensiveness of the office sector as new or repositioned space has generated almost all new office demand since the pandemic.

Manulife US REIT's markets

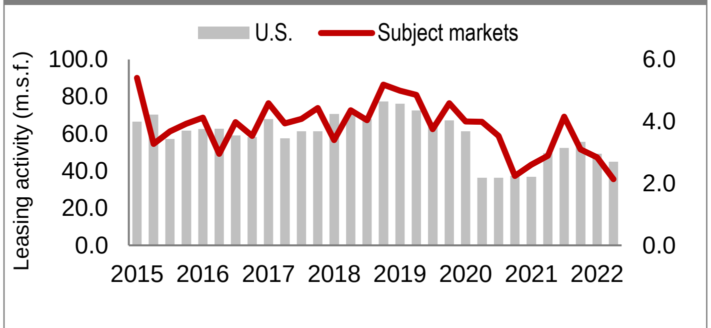
- **Atlanta:** Buckhead and Midtown continue to be the engines of growth for Atlanta's office market, both in terms of construction activity and net absorption. Corporate migration into Midtown, particularly among large technology users, has accelerated over the past 12 months.
- **Los Angeles:** Fundamentals are beginning to soften again as leasing activity slows and new sublease blocks are being added to the market. Construction pipeline concentrated outside of the CBD will begin to temper vacancy increase.
- **New Jersey:** Fundamentals are stabilizing but New Jersey's office market is still suffering from broad migration out of the Tri-State area that commenced during the pandemic. Favorable demographics and an attractive industry composition with one of the largest concentrations of the pharmaceutical sector will help maintain activity.
- **Northern Virginia:** Demand has improved over recent months leading to an inflection point in Northern Virginia office markets, which have experienced accelerating occupancy growth through the first half, and an absence of new product under construction will limit future vacancy increase.
- **Orange County:** Net absorption has trended positive year-to-date with several technology move-ins in the Irvine Spectrum submarket. Local labor market fundamentals continue to accelerate with unemployment at a 12-year low.
- **Phoenix:** Fundamentals in Chandler and Tempe are slated to improve as the pipeline declines to a historic low after multiple decades of inventory growth outpacing the U.S. average. Absorption has stabilized as new move-ins accelerate among technology users in Tempe.
- **Portland:** While the Sunset Corridor has outperformed the broader Portland metro due to its prevalence of owner-occupied corporate campuses, an aging inventory outside of recent build-to-suit product will face additional challenges in capturing demand as occupiers increasingly prioritize high-quality product.
- **Sacramento:** Economic and demographic advantages relative to other California markets will continue to stabilize Sacramento fundamentals. Office demand is showing tentative signs of improvement with sublease availability falling and leasing activity moving away from being dominated by short-term renewals.
- **Washington, DC:** The DC CBD has seen improving fundamentals in recent quarters but remains challenged by a prevalence of aging commodity product and the reluctance of government tenants to solidify return to office plans. Conversion activity of older vintage office product will help stabilize fundamentals as obsolete product is removed from inventory.

Executive summary

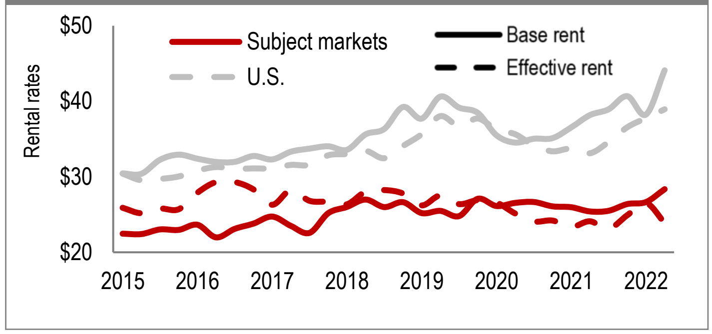
Q2 2022

MUST's subject market performance relative to U.S. average

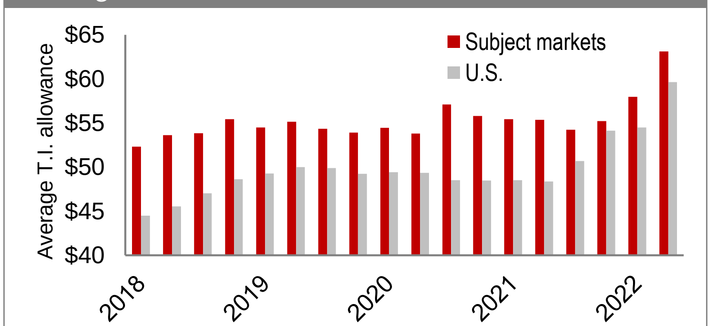
Leasing volume and average term



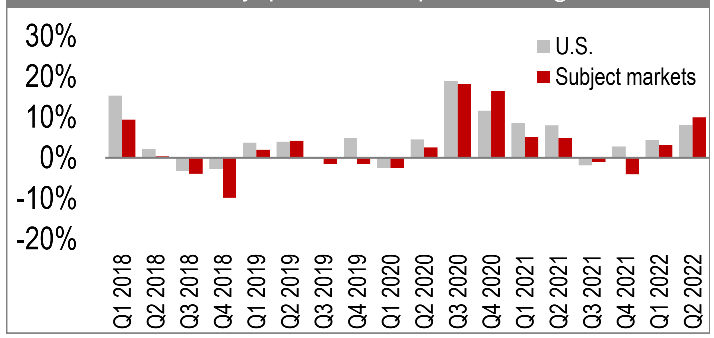
Base and net effective rental rates



Leasing concessions



Sublease availability quarter-over-quarter change



Market characteristics

Portland

- Cost-effective relocation option for Seattle and the Bay Area, one of the fastest-recovering job markets on West Coast

Sacramento

- Capital of the State of California, buffered by government presence and cost-of-living advantages

Los Angeles

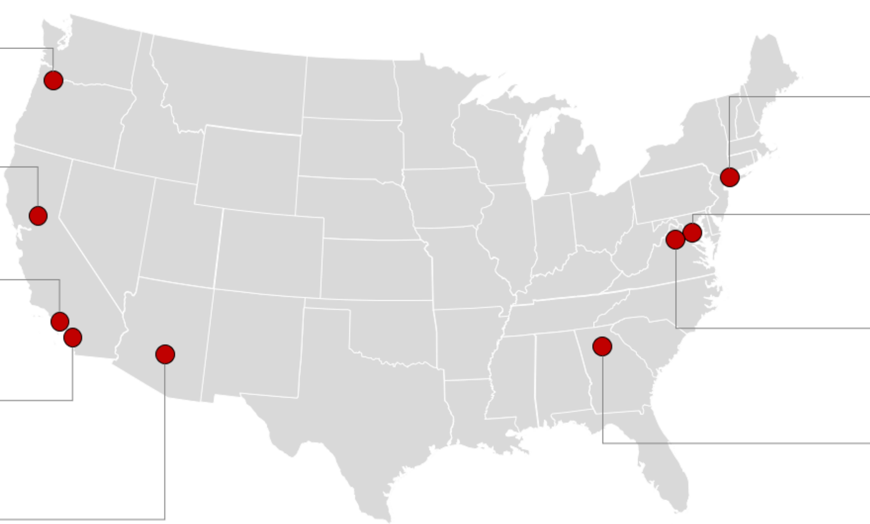
- Thriving creative industry driving strength throughout pandemic

Orange County

- Diverse economy with a high quality of life and ample work-near-home opportunities

Phoenix

- Experiencing explosive population growth and rapid expansion in tenant demand through in-migration



Northern New Jersey

- Absorbing spillover demand from New York, thriving user base of pharmaceutical and life science companies

Washington, DC

- Historically the most durable and recession-proof office market in the country.

Northern Virginia

- Diversifying tenant base given growth of tech sector, including Amazon's HQ2, Microsoft and Google expansions

Atlanta

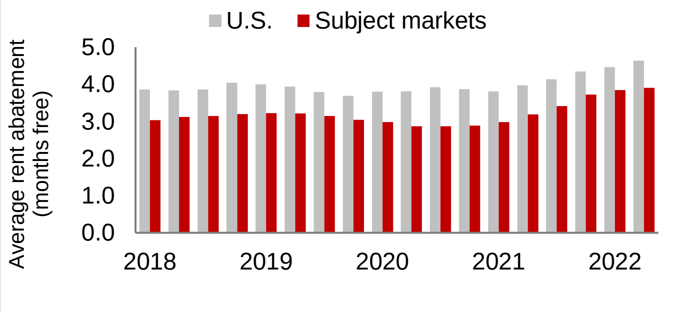
- One of the top secondary markets for technology expansion targeting educated diverse labor pool

Executive summary

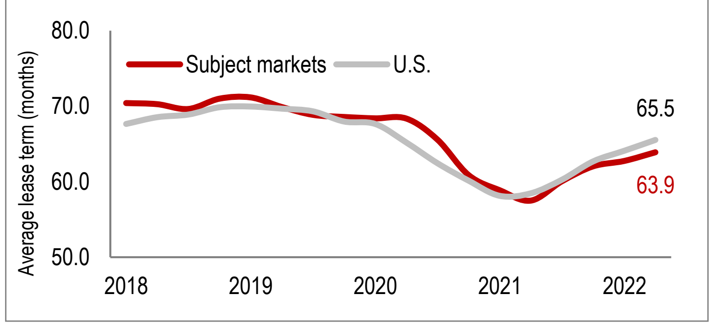
Q2 2022

Subject market performance relative to U.S. average

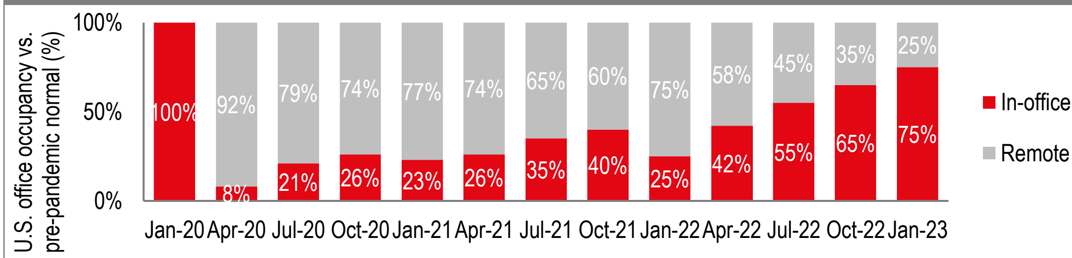
Average months of free rent



Average lease term

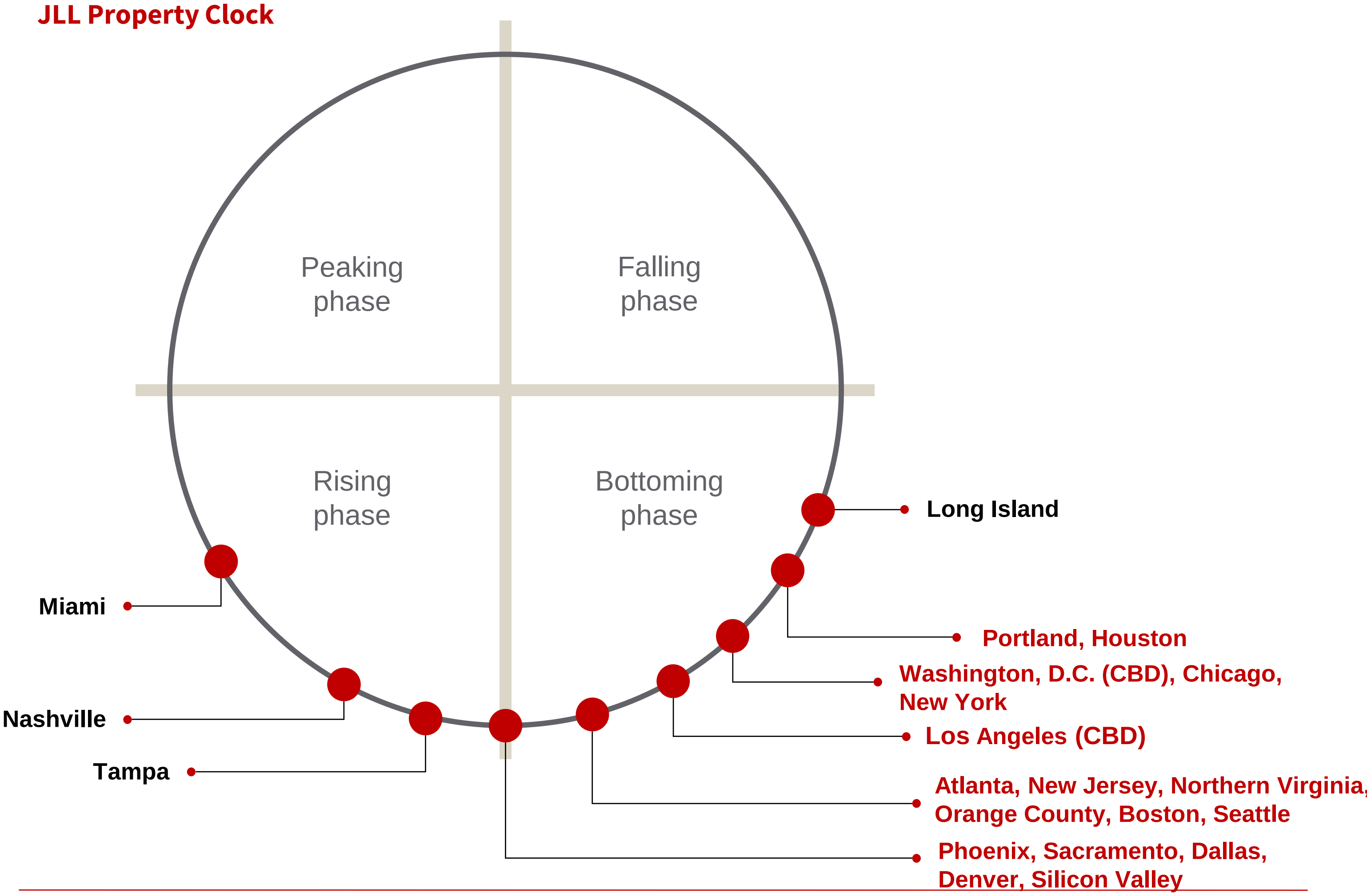


Office re-entry has reached new highs in 2022 but still not surpassing 50% of pre-pandemic levels



Market	Re-entry rate (%)
Dallas	50.6%
Los Angeles	41.5%
Washington, DC	40.1%
Chicago	38.8%
Philadelphia	38.4%
New York	38.1%
San Francisco	34.3%

JLL Property Clock



U.S. economy overview

By JLL as of 15 July 2022

- GDP fell 0.4% quarter-over-quarter in Q2 as Federal Reserve action targeting inflation has stalled the recovery.
- 40-year high levels of inflation have supplanted labor market shortages as the primary macroeconomic concern.
- Forecasted growth has been downgraded considerably over the last six months amid rate increases. Markets are currently predicting another 200 basis point increase to policy rates by the end of the year.

Though the pace of economic growth in the United States was forecasted to slow this year, an unforeseen combination of factors has driven the pace of deceleration to be faster than most expected, and several key indicators are beginning to stall or reverse course over recent months.

A combination of rapid price appreciation in equity, commodity and housing markets, mounting global supply chain constraints, and the disruption of energy markets resulting from the situation in Ukraine drove inflation to accelerate through the first and second quarter of the year, consistently registering above analyst expectations and continuing to rise with 9.1% annual growth in price levels as of the most recent release.

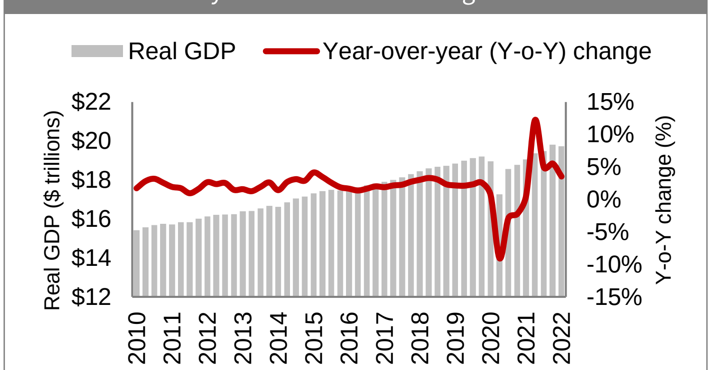
While the labor market remains strong, inching closer to full recovery with the latest employment levels just 0.6% off pre-pandemic employment, consumer sentiment has fallen to the lowest levels ever recorded, even as consumer spending continues to rise on an inflation-adjusted basis.

In efforts to combat long-term high levels of inflation, the Federal Reserve has taken an extremely hawkish stance and has already raised policy rates by 75 basis points, and have signaled willingness to raise rates again, with market experts forecasting another 200 basis points of rate hikes through the end of the year. Increases to date have been unable to slow the pace of appreciation as June inflation figures continued to accelerate.

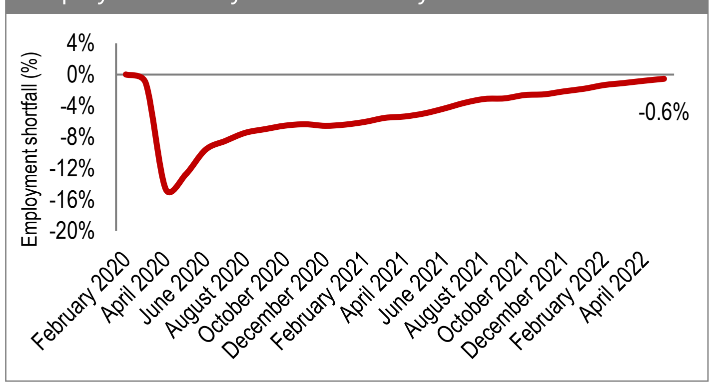
Reduced net exports amid a strengthening U.S. dollar and slowing business investment amid shifting outlooks caused GDP growth to stall in the second quarter, falling 0.4% quarter-over-quarter but still growing on an annual basis. The labor market is similarly showing signs of peaking, as net job gains have been slowing throughout 2022 and wage growth has decelerated for the past two months. The Federal Reserve has signaled willingness to tilt the economy into a recession and increase unemployment in order to mitigate inflation.

Office occupiers and commercial real estate investors are rapidly shifting their outlooks and strategies amid a dynamic macroeconomic environment. Federal Reserve policy action and waning confidence are softening the labor market and driving some occupiers to put hiring plans on hold, while the rapid increase in benchmark interest rates has had substantial impacts on capital markets activity as pricing has shifted notably, but commercial real estate remains positioned to perform favorably during a potential downturn.

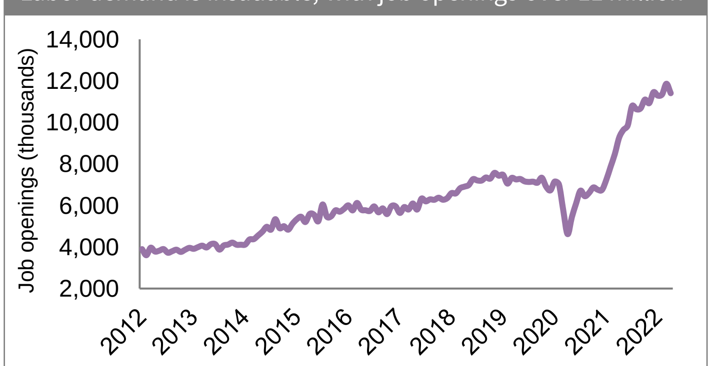
Real GDP has fully recovered but has begun to decline



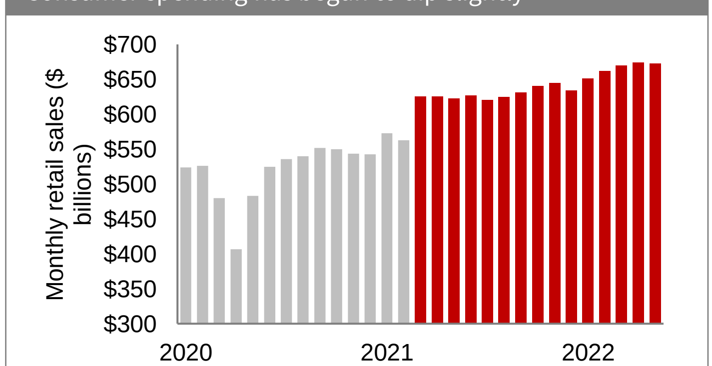
Employment nearly 100% of the way to normal



Labor demand is insatiable, with job openings over 11 million



Consumer spending has begun to dip slightly



U.S. office overview

- Positive net absorption in the fourth quarter of 2021 has again trended negative, as slower leasing activity from the past two years is leading to fewer move-ins despite record lease expirations.
- Flight-to-quality remains an accelerating force driving occupier activity. Since the outset of the pandemic, buildings delivered since 2015 have now generated 86.8 million s.f. of positive net absorption despite occupancy losses throughout all other segments of building age.
- Sublease space has begun to rise again as companies initiate hiring freezes, total sublease availability has risen to an all-time high of over 160.0 million s.f.

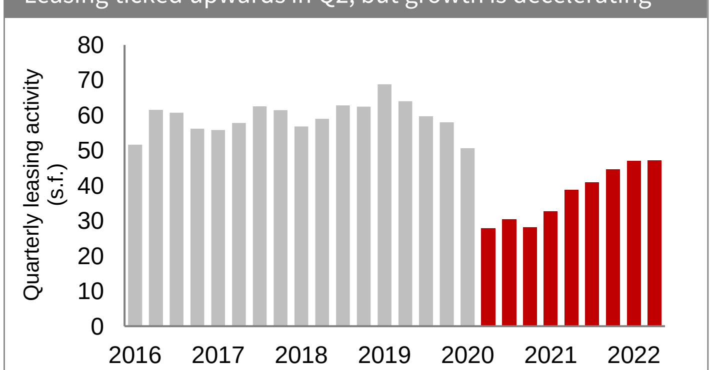
The office market continues to face a series of headwinds during the second quarter, shifting from questions over return to office earlier in the year to the impacts of the highest rate of inflation in decades. Policymakers' decisions to combat inflationary pressure through increased interest rates were in part responsible for a slowdown in capital-focused expansion, primarily but not exclusively in technology and related industries. As a result, leasing activity was effectively flat during Q2, while other fundamentals showed little change over the quarter. Continued re-assessments of space needs as a result of delayed return-to-office plans pushed sublease availability upward modestly, even as the rate of take-backs was consistent with earlier quarters. Flight to quality is intensifying, leading to widening divergence in absorption and rent growth based on building age. Innovation-heavy submarkets and micromarkets additionally remain bright spots in a bifurcated environment, witnessing inbound migration from both traditional and emerging tenants, complemented by groundbreakings of mid-sized, boutique office space as part of mixed-use developments. Moving into the second half of 2022, a record level of expirations will drive additional leasing activity, while shifting growth expectations will keep companies at the drawing board in determining their real estate strategies.

Gross leasing activity totaled 47.2 million s.f., a 0.1% increase over the quarter, as tenants both large and small in several high-growth sectors such as tech, media and creative industries put expansion plans on hold as the venture capital and funding environment cooled sharply. This brought Q2 2022 activity to 75.5% of pre-pandemic norms. Although both gateway and secondary growth markets felt this pause, the latter stayed in the lead given a shallower trough during 2020 and faster bump in 2021 and Q1 2022. In turn, secondary growth markets are registering activity at 87.3% the rate of an average 2019 quarter compared to the 65.4% recovery rate in gateway markets. Four markets – San Diego, Miami, Silicon Valley and Raleigh – experienced transaction volumes above their pre-pandemic norms, largely a result of life sciences demand and migration from financial firms. Despite uncertainty, nearly half of all deal volume was 10 years or longer, keeping the average lease term longer at a flat 8.0 years, a slight decrease from the 8.2 years seen in Q1, but well above the pandemic low of 6.7 years. At the same time, short-term expansions comprised less than 20% of activity, indicating stable rather than decrease confidence among tenants.

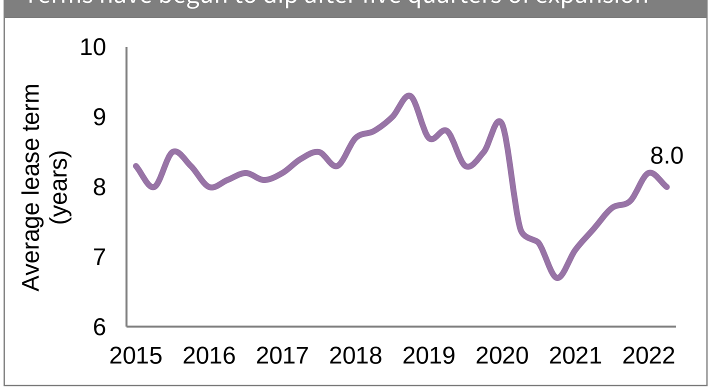
Net absorption was once again negative in Q2, with 7.8 million square feet of net occupancy loss during the quarter. This was disproportionately found in Class B and C space, which contributed 69.4% of negative net absorption despite comprising 41.7% of inventory. Although not an improvement relative to the previous two quarters, this decrease was largely attributable to relocations to new supply. Unlike leasing, flight to quality accelerated in the second quarter. Since the onset of the pandemic, new supply has registered net occupancy growth of 86.8 million square feet compared to the 246.5 million square feet of outflows in the rest of the market. This trend will continue for the foreseeable future, but the scale of the remaining pipeline will keep vacancy elevated despite intense demand for top-tier space. Combined with 11.8 million s.f. of deliveries, negative net absorption led to a 30 basis point rise in vacancy to a new high of 18.9%. As with other core metrics, vacancy is trending in different directions based on building quality, holding firm at 16.5% for buildings delivered since 2015 and increasing to 19.0% for second-generation product.

Sublease availability expanded by a further 1.3% in Q2 to a record 162.8 million s.f., marking the second quarter of growth after a dip in late 2021. Several planned dispositions larger than 100,000 square feet in mid-June drove this increase, but it was buffered by a consistent rate of

Leasing ticked upwards in Q2, but growth is decelerating



Terms have begun to dip after five quarters of expansion



U.S. office overview

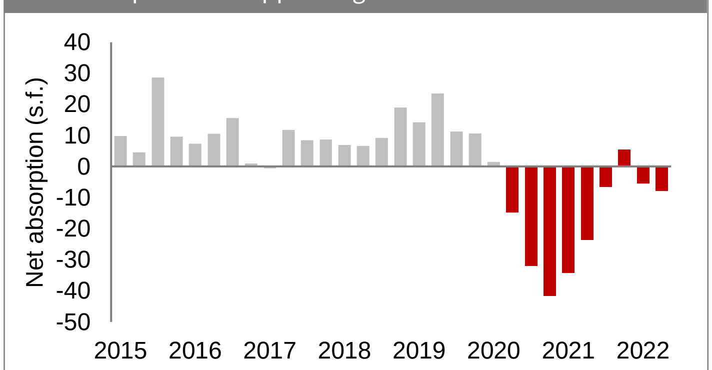
take-backs and subleasing to keep fundamentals mostly in balance. At the market level, nearly all geographies saw some level of increase to varying degrees, even those with those with previously declining totals such as Miami and Austin, where sublease space grew by 14.1% and 12.8%, respectively, in Q2. Those that did record declines were largely limited to smaller markets with minimal development pipelines, such as Sacramento (-22.4%), Fort Lauderdale (-14.8%) and Pittsburgh (-6.0%). Among larger markets, only Silicon Valley witnessed a meaningful decrease in sublease at 6%. A lack of correction in sublease space and a slower bounce-back in other areas is keeping concession packages well above historic norms, particularly for longer deals. After a full year of growth, effective rents for CBD Class A space fell by 1.9% in Q2, bringing them back below 6% of pre-pandemic levels even as asking rents barely budge. Substantial improvements in activity will need to take place for this dynamic to shift.

11.8 million s.f. of new space was delivered between April and June, bringing year-to-date completions to 26.5 million s.f., on track to repeat 2021's more than 50 million s.f. of new space. Combined with minimal groundbreakings outside of select locations, this brought the overall pipeline down to 104.3 million s.f.. The overwhelming majority of this space will be ready for occupancy by the end of 2023, providing a critical ceiling for future vacancy. Of this new space, a large share was concentrated in a select few major developments. Of note were Google's 1.1-million-square-foot Bay View Campus headquarters expansion, the second phase of Boston Properties' RTC Next development in Reston that was partially pre-leased to Volkswagen, 888 N Douglas Street in Los Angeles that will be home to Beyond Meat and L'Oreal and Block 38 in the South Lake Union neighborhood of Seattle. Even with headwinds, the largest groundbreakings in Q2 were speculative in nature: 1900 Lawrence in Downtown Denver and 1000 Olive Way in Downtown Seattle, which comprise a combined 1.2 million square feet. Capital markets in many ways led the U.S. office recovery, as investment volume over the past 12 months exceeded pre-pandemic levels, but volatility in debt markets that began in late Q1 have had more acute impacts in the second quarter. Significant pricing shifts caused many investors to place large-scale transactions on hold, after transactions of scale had comprised a large share of the growth in investment volume over the past 12 months

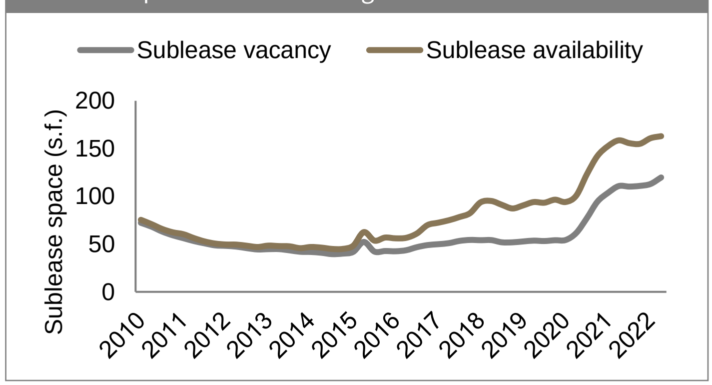
Cap rates are rising across profiles, with the average office asset seeing a 100 basis point increase to initial yields from April 1 to July 1, and almost all assets seeing pricing decline substantially from peak values in Q1. Contrary to the outset of the pandemic, sellers are more willing to capitulate to market pricing in order to clear older product, and diversified groups are more actively working towards reducing office allocations.

Intensifying sell-side pressure among diversified institutional groups and the growing prevalence of distressed transactions will maintain a degree of investment volume even as traditional core transactions experience marketing delays.

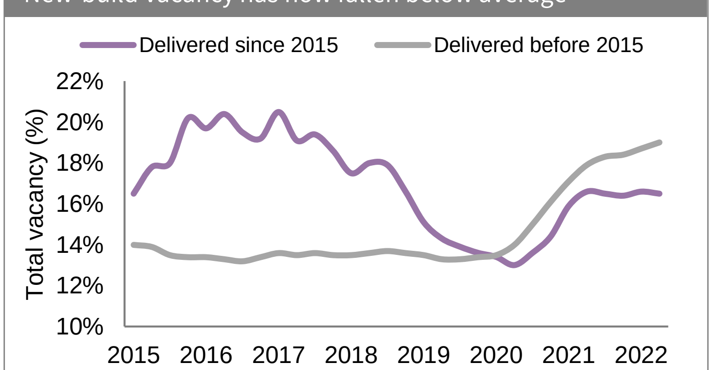
Net absorption has flipped negative in 2022



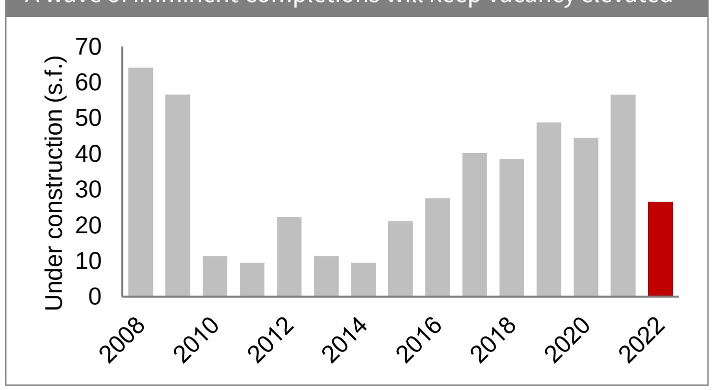
Sublease space is on the rise again



New-build vacancy has now fallen below average



A wave of imminent completions will keep vacancy elevated



Atlanta (Buckhead and Midtown)

- Metro employment has grown to 3.0% higher than the pre-pandemic peak and sustained migration has driven strong local demographics.
- Large-scale technology companies, many from out-of-market, have driven the expansion in Midtown over the recent years but have not yet placed any space on the sublease market.
- Leasing continues to accelerate in Buckhead and Midtown, growing by more than 100.0% on a rolling 12-month basis as large leases continue to be common in newly delivered space.
- Vacancies have fallen over 100 basis points through the first half of the year, but a robust pipeline remains in place and will place upward pressure on vacancy if absorption decelerates.

Office market trends

Buckhead and in particular Midtown remain the premier office submarkets in Atlanta and have been two of the fastest submarkets to rebound since the onset of the pandemic. While there was less instance of large-scale leasing above 100,000 s.f., Buckhead and Midtown have registered over 1.0 million s.f. of leasing year-to-date, 38.4% higher than the first half of 2021 as new-to-market relocations and expanding tenants in Atlanta consistently favor the submarkets.

Several large move-ins including MailChimp occupying its new 300,000 s.f. space at 760 Ralph McGill Blvd and five other 50,000 s.f. or larger tenants that collectively moved into nearly 400,000 s.f. drove substantial positive absorption of close to 500,000 s.f. in the first half of the year, recovering 64.2% of the occupancy lost during 2020-2021 at the outset of the pandemic and initial recovery. The development pipeline remains robust but moderating over the near term, as nearly 2.0 million s.f. will deliver this year prior to a slowdown in deliveries.

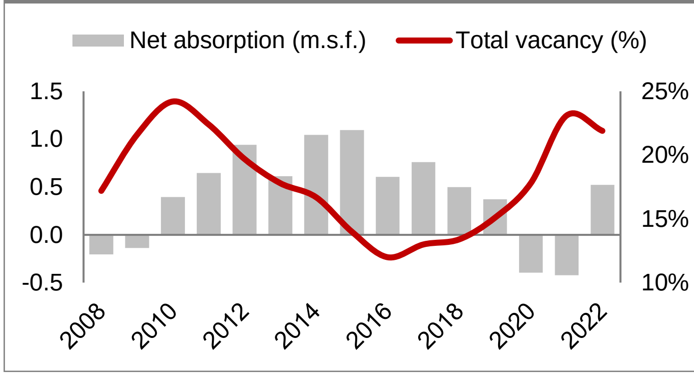
Large technology migration into Midtown has made it one of the most desirable submarkets nationally from a capital perspective over the past 12-24 months, and sales activity has continued to be robust in 2022. In addition to $272.7 million in investment volume year-to-date the Microsoft-leased Atlantic Yards in Midtown is currently under contract for over $400.0 million.

Outlook

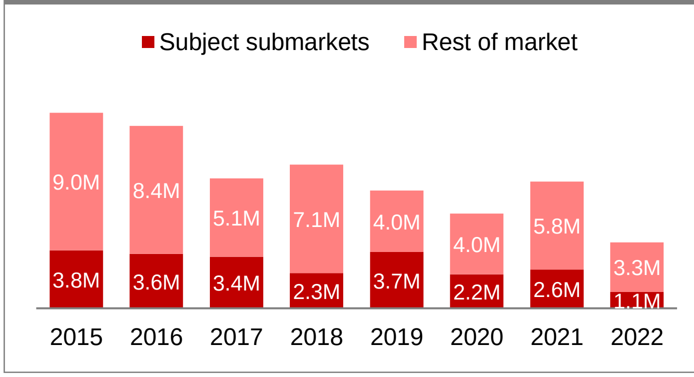
With the majority of Atlanta's newly-delivered and under construction product, Buckhead and Midtown will continue to be the centers of activity in Atlanta as tenants, particularly those relocating from other markets, seek Trophy and Class A space. Slowing expansion among large technology tenants will have a more acute impact on demand in Midtown, where eight of the ten largest leases signed in the past 12 months have been executed by technology companies. Capital markets pricing in Midtown had accelerated rapidly in recent years as large investors sought scale, but recent volatility and shifts in interest rates are driving pricing up rapidly. The sale of Atlantic Yards saw pricing decline by nearly 20.0% from peak values underwritten prior to rate increases.

Overall market statistics		Forecast
YTD net absorption (s.f.)	254,910	▲
Under construction (s.f.)	4,498,780	▶
Total vacancy (%)	21.0%	▶
Sublease vacancy (s.f.)	2,463,436	▶
Asking rent ($ p.s.f.)	$31.91	▲
Concessions	Rising	▲

Despite increase, vacancy below financial crisis levels



Buckhead/Midtown capture the majority of leasing



Class A cap rates have risen in the past quarter

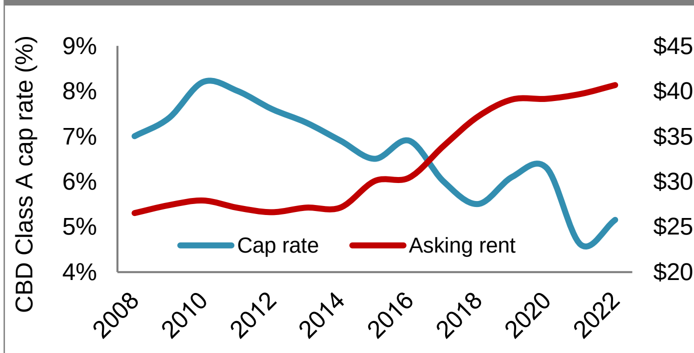


Table refers to overall market, while charts refer to Manulife submarkets

Atlanta market data

Leasing activity (Buckhead and Midtown)

Tenant	Address	Class	Lease type	Size (s.f.)
Boston Consulting Group	1075 Peachtree St NE	Trophy	Renewal	55,317
North Highland Company	3333 Piedmont Rd NE	Trophy	Renewal	48,517
WebMD	1201 Peachtree St NE	A	Renewal	41,112
Twitter	675 Ponce de Leon Ave NE	Trophy	Expansion	41,000
WPP	760 Ralph McGill Blvd NE	Trophy	New Lease	39,569
Unknown	1200 Peachtree St NE	A	New Lease	37,580
Goldman Sachs	1 Phipps Plz	Trophy	New Lease	36,000
Outreach Corporation	1055 Howell Mill Rd NW	Trophy	New to Market	32,927
Kimley-Horn & Associates	1200 Peachtree St NE	A	New Lease	30,652
Sovos Compliance	1055 Howell Mill Rd NW	Trophy	New to Market	25,543

Office sales (Buckhead and Midtown)

Building	RBA (s.f.)	Sales price ($)	Price ($ p.s.f.)	Buyer	Seller
3630 Peachtree Road (1F-17F)	436,000	$201,350,000	$462	Granite Properties	Heitman
The Pinnacle	426,978	$170,100,000	$398	STRS Ohio	Brookdale Group
Buckhead Centre	169,000	$51,500,000	$305	CP Group, Cohen & Steers	The Simpson Org
Palisades at West Paces (Condo)	76,183	$13,350,000	$175	KAGR2 Downwood LLC	Remedy Medical Properties
1450 W Peachtree Street NW	14,804	$6,450,000	$436	Braden Fellman Group	Daniel A Dodson

Active development pipeline (Buckhead and Midtown)

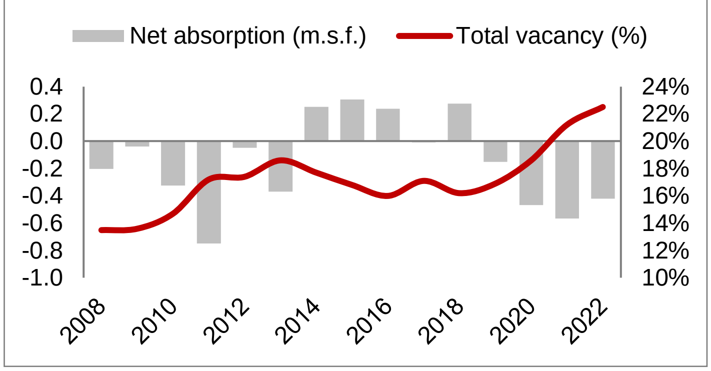
Building	Developer	Spec/BTS	Completion	RBA (s.f.)	Anchor
Midtown Union	Granite Properties	Spec	2022	588,079	Invesco
760 Ralph McGill Blvd NE	New City	Spec	2022	475,000	MailChimp
One Phipps Plaza	Simon Property Group, Inc	Spec	2022	340,000	Novelis
14th & Spring	Greenstone Properties	Spec	2022	320,089	-
Echo Street West	Rios & Clementi & Hale Studios	Spec	2023	256,637	-
Interlock Phase II	S.J. Collins Enterprises	Spec	2023	209,174	-
Garden Hills Office Building	Brand Properties	Spec	2023	165,000	-
Allied Studios	Jamestown Properties Corporation	Spec	2022	145,000	-
619 Ponce	Jamestown Properties Corporation	Spec	2024	90,000	-
1385 Collier Rd NW	Stream Realty Partners	Spec	2023	80,000	-

Los Angeles (Downtown)

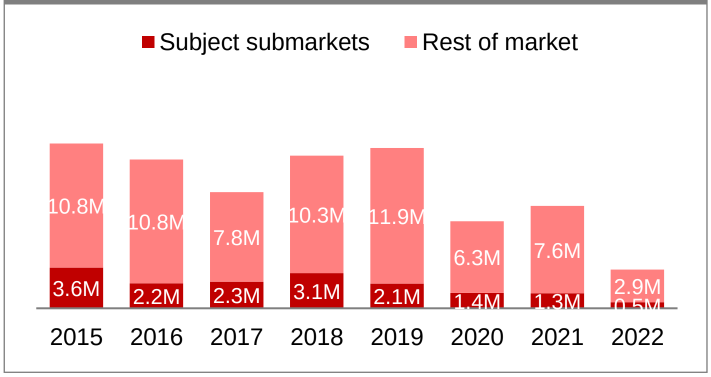
- Los Angeles and other gateway markets lag the broader recovery, with total employment still 1.8% lower than pre-pandemic levels; however, office-using industries have recovered more quickly than the broader market, growing to 0.3% higher than pre-pandemic levels.
- Leasing activity continued to slow but declines are decelerating as volume over the past six months has exceeded the second half of 2021 by 17.3%.
- Flight to quality has been intense among occupiers in Los Angeles; four out of the five largest leases signed year-to-date were in Trophy buildings
- New product is mostly coming in the form of conversions of historic assets to creative space on the fringes of Downtown rather than corporate-grade, centrally located space.
- Conversion appetite will remain high as vacancies continue to rise amid stagnant leasing activity and limited move-ins

Overall market statistics		Forecast
YTD net absorption (s.f.)	-972,882	▼
Under construction (s.f.)	4,612,251	▼
Total vacancy (%)	21.1%	▲
Sublease vacancy (s.f.)	4,288,509	▶
Asking rent ($ p.s.f.)	$46.32	▶
Concessions	Rising	▲

CBD vacancy continues to rise



Leasing activity continues to be slow in CBD



Class A cap rates are steady as rents plateau

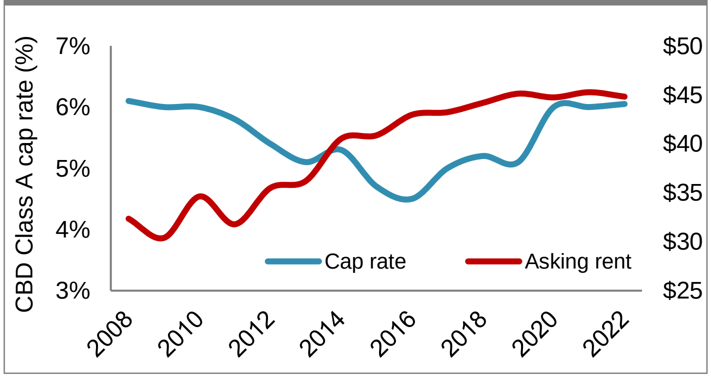


Table refers to overall market, while charts refer to Manulife submarkets

Office market trends

Downtown Los Angeles continues to see accelerating occupancy losses, as another 400,000 s.f. of occupancy loss in the first half of the year has brought net negative absorption to over 1.5 million s.f. since the outset of the pandemic. Leasing activity continues to decelerate, with volume declining 23.3% on a rolling 12-month basis.

Downtown's key legal services tenants remain committed to the market and led much of the CBD's H1 leasing activity. Most notably, Downtown law firm Buchalter renewed 87,217 s.f. at 1000 Wilshire in the Financial District. Additionally, Jackson Lewis recommitted to EY Plaza by signing a 49,508 s.f. lease, and Orrick Herrington & Sutcliffe agreed to relocate within Downtown and signed a 26,658 s.f. lease at Well Fargo Center, on Bunker Hill.

The development pipeline in Los Angeles is concentrated outside of the CBD, providing existing landlords of older vintage space an opportunity to reposition properties to capture a growing wave of demand among smaller-scale creative industry users.

Investment activity in Downtown Los Angeles remained muted in the first half of the year as just two small transactions generated $78.6 million in transaction volume, a 17.7% decline from the first half of last year as investors continue to favor the Westside, Mid-Wilshire, and LA North clusters.

Outlook

Downtown's tenant base continues to diversify as companies operating in the creative space becoming increasingly entrenched in the market. Looking ahead, the broader creative sector will remain a strong demand driver for Downtown, especially in pockets like the Arts District and the LA Fashion District, and continued diversification will act as an important counterbalance to rising inflation that has begun to derail companies' hiring plans.

Los Angeles market data

Leasing activity (Downtown)

Tenant	Address	Class	Lease type	Size (s.f.)
TCW Asset Management Company	515 S Flower St	Trophy	Renewal	129,317
Buchalter	1000 Wilshire Blvd	A	Renewal	75,000
Jackson Lewis	725 S Figueroa St	Trophy	Renewal	49,508
Bambee HR Lease	755 S Los Angeles St	C	Renewal	46,985
Accumen	601 S Figueroa St	Trophy	Expansion	44,000
Revolve Clothing	1318 E 7Th St	B	New Lease	42,248
Spaces	811 W 7th St	C	New to Market	38,383
Orrick Herrington & Sutcliffe LLP	333 S Grand Ave	Trophy	New Lease	26,658
Dykema Gossett	444 S Flower St	A	New Lease	21,750
Omega Law Group, PC	835 Wilshire Blvd	B	Relocation	14,693

Office sales (Downtown)

Building	RBA (s.f.)	Sales price ($)	Price ($ p.s.f.)	Buyer	Seller
Helix LA (Leasehold)	266,548	$52,016,842	$195	Ben Pouladian	Rising Realty Partners
120 South San Pedro Street	79,200	$26,540,000	$335	Buck Design	Brickstar Capital

Active development pipeline (Downtown)

Building	Developer	Spec/BTS	Completion	RBA (s.f.)	Anchor
The Broadway Trade Center	Waterbridge Capital LLC	Spec	2022	950,400	-
520 Mateo	Carmel Partners	Spec	2022	105,000	-

New Jersey (Hudson Waterfront and the Meadowlands)

- The employment recovery in New Jersey and the Tri-State area has lagged since the outset of the pandemic, but significant momentum over recent months has brought the unemployment rate within 0.2% of pre-pandemic levels, falling from 5.3% to 3.8% over the past six months.
- Leasing has accelerated significantly in Hudson Waterfront over the past six months as four large leases in the first quarter combined for nearly 450,000 s.f. of leasing.
- While negative absorption has slowed and vacancy rates have remained stable, significant shares of vacant space are slated to be occupied through the end of the year.
- Intense redevelopment in Jersey City will provide needed housing for employees and help to boost the proximate employee base for local employers.

Overall market statistics		Forecast
YTD net absorption (s.f.)	571,751	▲
Under construction (s.f.)	235,318	▲
Total vacancy (%)	24.1%	▼
Sublease vacancy (s.f.)	7,650,285	▼
Asking rent ($ p.s.f.)	$29.72	▲
Concessions	Rising	▲

Office market trends

Northern New Jersey and the broader Tri-State area were among the most impacted markets from a fundamental perspective at the outset of the pandemic and remain relatively sluggish in recovery, but in recent quarters there has been a notable uptick in leasing activity and a downward trend in sublease space which is beginning to stabilize fundamentals.

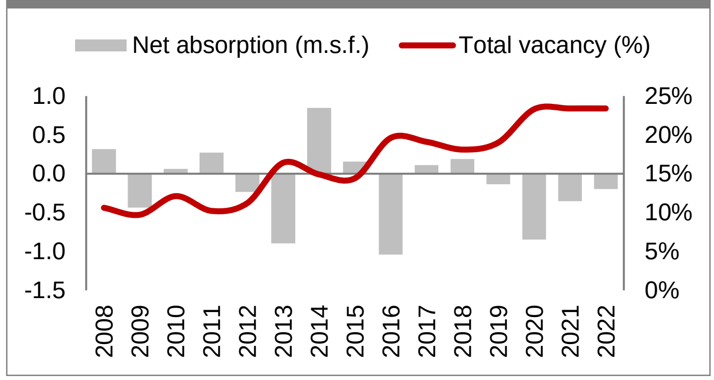
Hudson Waterfront saw its most active quarter of leasing activity since the outset of the pandemic in the first quarter of 2022, as two large new leases contributed to nearly 500,000 s.f. of leasing for the quarter. Financial services firm Lord, Abbett & Co. leased 178,000 s.f. in 30 Hudson Street, and consumer products company Collector's Universe signed a lease for 130,000 s.f. at 210 Hudson Street. Overall, leasing activity in the first half has more than doubled volume from the first half of 2021.

Due to three major trades in 2021 over $150 million, Hudson Waterfront and the Meadowlands saw an all-time high of $811.8 million in annual investment volume, and activity has remained relatively strong in the first half of 2022. Carlyle Group's net lease portfolio acquisition from iStar included roughly $126.0 million in volume allocated to the transfer of 570 Washington Blvd, and 15 Exchange Place was acquired by American Equity Partners in February for $48.0 million.

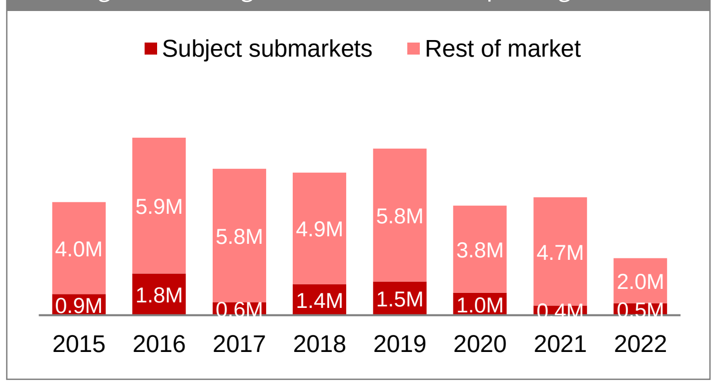
Outlook

Hudson Waterfront and the Meadowlands are beginning to see stabilized fundamental conditions as occupancy losses decelerate, but still face the macroeconomic and structural challenges of talent migration to lower-cost geographies and competition with New York City. Favorable state economic development and incentives packages have driven stabilization in the broader New Jersey market, where net absorption has flipped positive, and vacancies are beginning to fall. A limited construction pipeline will maintain lower pressure on vacancies but will also stifle new leasing activity as occupiers increasingly prioritize high-end space, which may drive technology and biotech companies to other submarkets or markets in search of office.

Hudson Waterfront vacancy stalled at 23.4%



Leasing accelerating with YTD volume surpassing 2021



Class A rent growth beginning to plateau

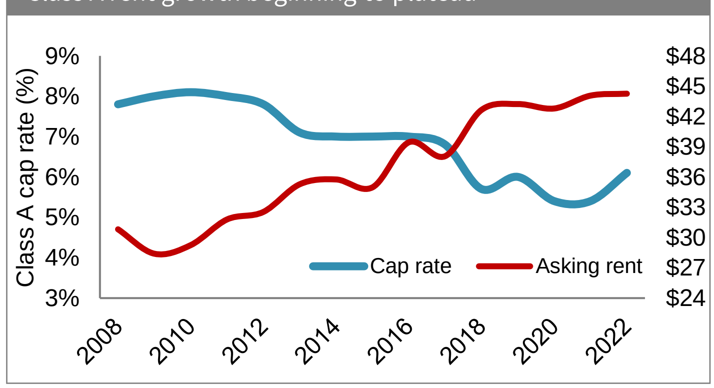


Table refers to overall market, while charts refer to Manulife submarkets

New Jersey market data

Leasing activity (Hudson Waterfront and the Meadowlands)				
Tenant	**Address**	**Class**	**Lease type**	**Size (s.f.)**
Lord, Abbett & Company	30 Hudson St	A	New Lease	178,107
Collector's Universe	210 Hudson St	A	New Lease	130,000
Mitsubishi Pharma	525 Washington Blvd	A	Renewal	55,379
Industrious Office	525 Washington Blvd	A	New Lease	37,875
Big Fish Media	101 Hudson St	A	New Lease	24,179
Kumon	301 Route 17 N	A	New Lease	21,651
Northern Trust Corporation	3 2nd St	A	Renewal	16,545
Northstar Travel Media LLC	301 Route 17 N	A	New Lease	13,195
Zim American Integrated Shipping	10 Exchange Pl	A	New Lease	13,000
Undisclosed	181-187 E Union Ave	Unclassified	New Lease	12,987

Office sales (Hudson Waterfront and the Meadowlands)					
Building	**RBA (s.f.)**	**Sales price ($)**	**Price ($ p.s.f.)**	**Buyer(s)**	**Seller**
70 Hudson Street	431,281	$300,000,000	$696	Vision Property, Hana	Spear Street Capital, PFA
Waterfront Corp. Ctr I (Leasehold)	566,215	$210,000,000	$371	SJP, David Werner, Onyx	Veris Residential
15 Exchange Place	123,792	$48,000,000	$388	American Equity Ptnrs	Hartz Mountain

Active development pipeline (Hudson Waterfront and the Meadowlands)					
Building	**Developer**	**Spec/BTS**	**Completion**	**RBA (s.f.)**	**Anchor**
Warren at Bay	Kushner	Spec	2022	112,630	-

Northern Virginia (Fairfax Center and Fairfax City)

- Strong recovery in the technology and defense sectors has buoyed Northern Virginia relative to the broader Washington, DC metro as employment has recovered more quickly in the local area.
- Renewals continue to dominate activity, accounting for 65% of volume in H1, and just one new lease was executed in the first half.
- Affordability and proximity to skilled workers remain selling points for Fairfax Center and Fairfax City, although tenants will have to navigate a market with no new supply that meets newer preferences.
- Construction pipeline in Northern Virginia has been more focused on transit-oriented submarkets, with no projects currently underway in Fairfax Center or Fairfax City.

Office market trends

Despite a slow first quarter, Fairfax Center and Fairfax City have continued to see positive leasing momentum particularly driven by government tenancy in the market, with the Fairfax County Board of Supervisors signing the largest deal year-to-date with a 47,000 expansion and renewal at Greenwood Plaza. Overall leasing activity is down slightly year-to-date compared to the first half of 2021 due to an uncharacteristically inactive first quarter, but second quarter volume reflected 32.3% growth compared to 2021.

An increased share of new and expansionary leasing drove positive absorption in the first half for the first time since the pandemic, with nearly 100,000 s.f. of occupancy gain. Contrary to the U.S. at large, positive absorption in Northern Virginia continued to trend positive and accelerate in the second quarter as further move-ins occurred and sublease space was taken from the market.

The speculative construction pipeline remains concentrated in transit-oriented micromarkets both inside and outside the Beltway, including Reston Station and RB Corridor, which may begin to create relocation pressure with aerospace, engineering and telecom occupiers amid an intensifying flight to quality.

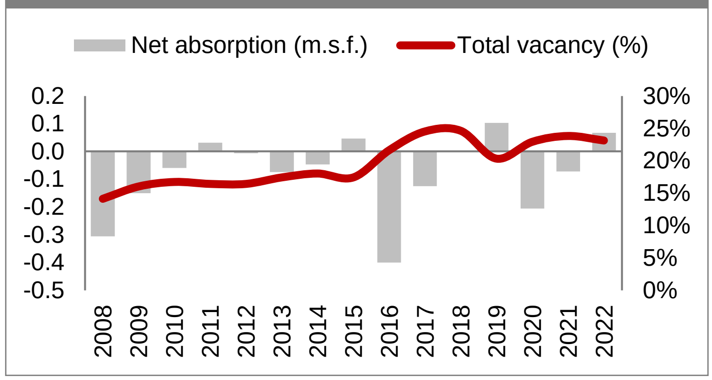
Fairfax Center and Fairfax City are not historically liquid from a capital markets perspective, with generally $200-$300 million in annual sales volume during the past cycle. The broader Northern Virginia market has experienced significant growth with $1.8 billion in sales volume in the first half more than tripling totals from H1 2021 and exceeding pre-pandemic averages, but in Fairfax Center there was only the sale of Fairfax Ridge between two private groups for $10.0 million.

Outlook

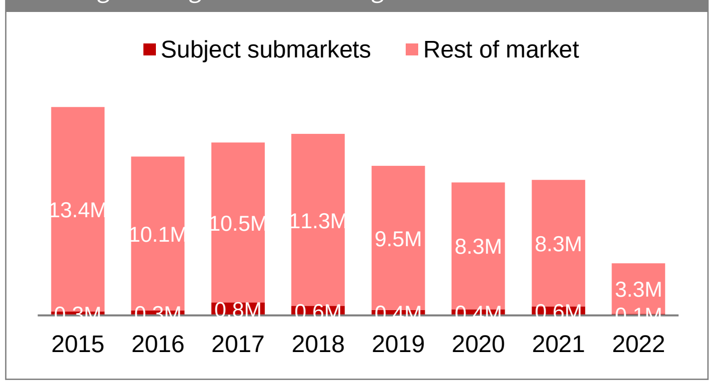
Northern Virginia's key private-sector industries such as aerospace and engineering haven't seen the same slowdown in capital availability as venture capital-backed industries such as biotechnology, providing some insulation to the recent volatility. A lack of new product under construction is helping to keep a lid on vacancy rates but could encourage tenant migration.

Overall market statistics		Forecast
YTD net absorption (s.f.)	-295,516	▼
Under construction (s.f.)	4,363,913	▶
Total vacancy (%)	22.3%	▶
Sublease vacancy (s.f.)	2,145,993	▶
Asking rent ($ p.s.f.)	$35.64	▶
Concessions	Rising	▲

Absorption has trended positive in the first half



Leasing slowing in Northern Virginia



Class A cap rates have had little movement this cycle

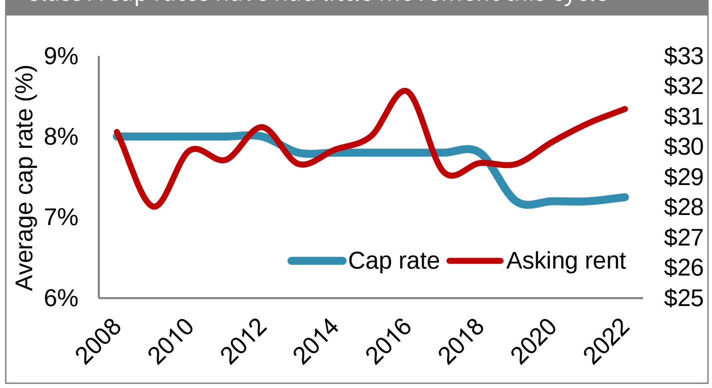


Table refers to overall market, while charts refer to Manulife submarkets

Northern Virginia market data

Leasing activity (Fairfax Center and Fairfax City)				
Tenant	**Address**	**Class**	**Lease type**	**Size (s.f.)**
Fairfax County Board of Supervisors	12015 Lee Jackson Memorial Hwy	B	Expansion	24,358
Fairfax County Board of Supervisors	12015 Lee Jackson Memorial Hwy	B	Renewal	12,274
Fairfax County Board of Supervisors	12015 Lee Jackson Memorial Hwy	B	Renewal	10,539
NVR	3701 Pender Dr	B	Relocation	10,310
CityWorth Mortgage LLC	11781 Lee Jackson Memorial Hwy	B	Renewal	10,001
Zeta Associates	10302 Eaton Pl	A	Renewal	8,800
Aerotek	4000 Legato Rd	A	Renewal	7,729
Partners Insurance	4000 Legato Rd	A	New Lease	3,658
Crawford & Company	12150 Monument Dr	A	Relocation	3,610
Chalmers Property Company	4000 Legato Rd	A	Relocation	2,595

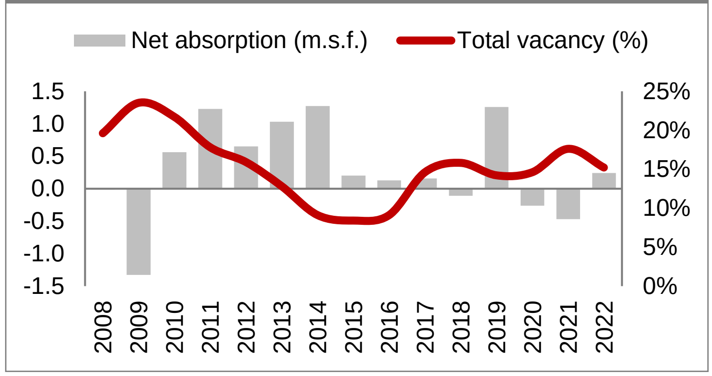
Office sales (Fairfax Center and Fairfax City)					
Building	**RBA (s.f.)**	**Sales price ($)**	**Price ($ p.s.f.)**	**Buyer**	**Seller**
Fair Oaks Business Park	290,000	$19,884,000	$69	Peterson Cos	PS Business Parks
Prosperity Plaza	96,070	$21,000,000	$219	Global Medical REIT	The Tomares Companies
Fairfax Ridge	66,812	$10,025,000	$150	AR-Razaaq Properties LLC	Stephen A Goldberg & Co
4029 Ridge Top Road	61,130	$5,000,000	$82	Azure Ridge Top LLC	Apple FCU

Orange County (Irvine)

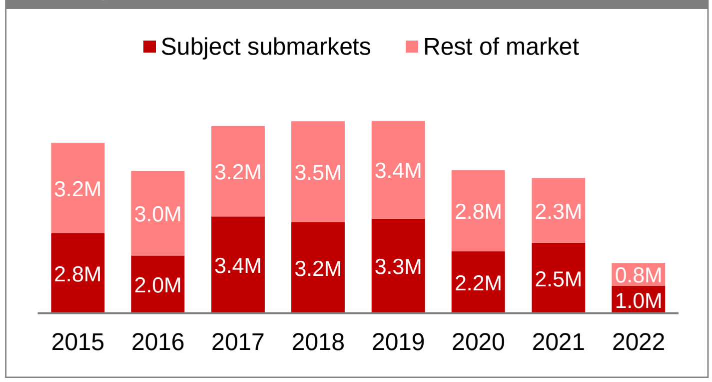
- Orange County's labor market recovery accelerated over the past six months with unemployment falling over 120 basis points to 3.5%, as office-using sectors have drawn within 0.3% of pre-pandemic employment levels.
- Leasing is beginning to accelerate, with volume over the past 12 months exceeding 2.0 million square feet for the first time since 2020. Large leasing is coming from tenants across a variety of industries, including tech, life sciences, aerospace and defense, among others.
- While capital markets activity in the broader Orange County metro has recovered to pre-pandemic levels, there has been limited product launched on the market in Irvine, slowing the recovery in that submarket.
- With all construction underway to be delivered by the end of 2022, oversupply concerns are relatively minimal compared to other Southwest markets.

Overall market statistics		Forecast
YTD net absorption (s.f.)	-3,012	▲
Under construction (s.f.)	1,298,891	▶
Total vacancy (%)	15.0%	▼
Sublease vacancy (s.f.)	1,631,100	▲
Asking rent ($ p.s.f.)	$33.48	▼
Concessions	Stable	▶

Occupancy loss remains less severe than other submarkets



Leasing recovery has decelerated in Irvine



Asking rates continue to decline

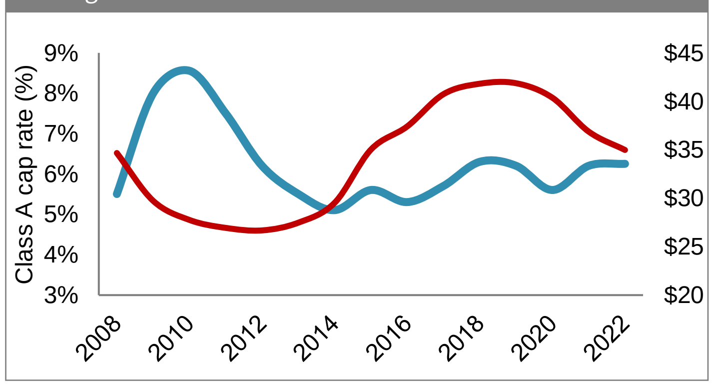


Table refers to overall market, while charts refer to Manulife submarkets

Office market trends

Orange County and in particular Irvine's diversified, and skilled tenant base and relative low density has positioned the market favorably during the pandemic compared to many peer office markets. Several technology move-ins during the first half, including Panasonic Avionics 430,000 s.f. relocation into Park Place, drove positive absorption for the first time since the outset of the pandemic. While leasing momentum continues to improve, large-scale leasing activity has slowed as tenants under 50,000 s.f. have dominated new deals year-to-date.

Accelerated net absorption coupled with a minimal existing pipeline which is slated to complete in 2022 should minimize upward pressures on vacancy over the coming quarters. While Orange County has a heightened technology presence relative to the U.S. at large, Irvine's technology presence is dominated by smaller users which are not as prone to pressures of placing space on the sublease market, which is beginning to increase in most West Coast markets.

Investment activity in Irvine has been slow to recover since the pandemic, but volume over the past 12 months has grown by over 200.0% over the previous year. Institutional capital is still selectively active on assets in Irvine and Irvine Spectrum given the concentration of technology tenancy and relatively higher share of new vintage and creative office product.

Outlook

Given its relative industry diversity compared to the Global Financial Crisis and prevalence of smaller-scale companies in recent leasing activity, Irvine is positioned favorably relative to other West Coast markets in the case of a recession. Unemployment in Orange County is currently at a 12-year low, and Irvine will continue to be one of the premier submarkets in Southern California given its concentration of key tenants in both traditional (finance, professional services) and emerging (tech, advanced manufacturing, aerospace) industries.

Orange County market data

Leasing activity (Irvine)

Tenant	Address	Class	Lease type	Size (s.f.)
Consumer Portfolio Services	19500 Jamboree Rd	A	Renewal	68,937
Wells Fargo	2030 Main St	A	Renewal	45,590
Morgan Stanley	1901 Main St	A	Renewal	44,940
Innovative Solutions	3345 Michelson Dr	A	New Lease	40,237
Behavioral Health	18401 Von Karman Ave	A	New Lease	31,837
Americor Funding	18200 Von Karman Ave	A	New Lease	31,446
Innovative Solutions	3347 Michelson Dr	A	New Lease	29,125
New York Life Insurance	2020 Main St	A	Renewal	22,539
LightBox	5201 California Ave	B	Renewal	22,120
TaxRise	19900 Macarthur Blvd	A	New Lease	21,715

Office sales (Irvine)

Building	RBA (s.f.)	Sales price ($)	Price ($ p.s.f.)	Buyer(s)	Seller
Intersect	453,975	$235,250,000	$518	MetLife, PGGM	Hines, PIMCO
Woodbridge Square Medical	36,660	$27,575,000	$752	Anchor Health Props	Boureston Development
2951-2955 Main Street	33,593	$14,850,000	$442	Propitious Irvine LLC	Ying Enterprises
8845 Irvine Center Drive	36,146	$13,750,000	$380	Spigen Inc	Tower 23 Holdings Ltd

Active development pipeline (Irvine)

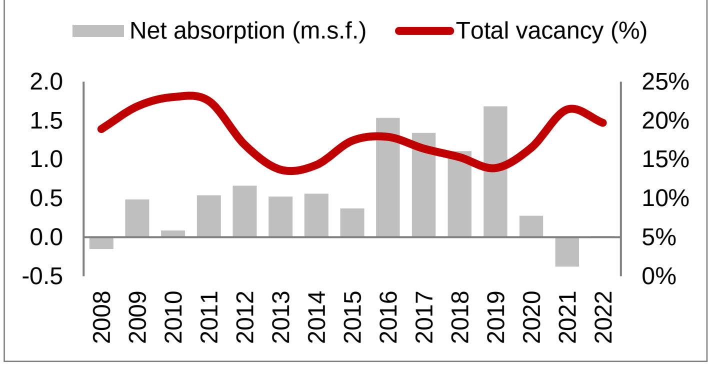
Building	Developer	Spec/BTS	Completion	RBA (s.f.)	Anchor
Spectrum Terrace (Phase 3)	Irvine Company	Spec	2022	374,256	TGS
Innovation Park	Irvine Company	Spec	2022	256,000	-
Westcorp Plaza I	TGS Management Company	Spec	2022	57,893	-

Phoenix (Tempe and Chandler)

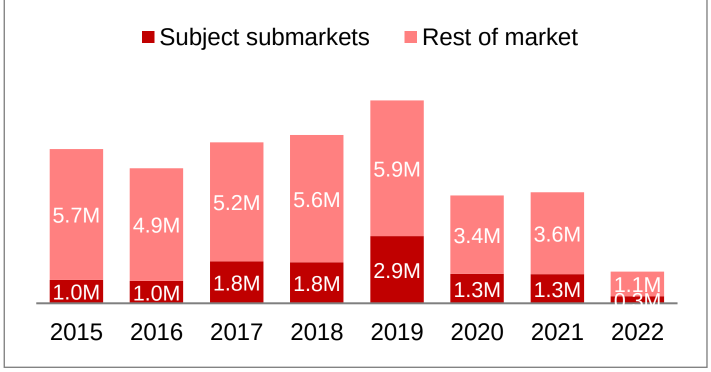
- Phoenix remains one of the fastest-recovering and tightest labor markets in the U.S. with overall employment and office-using industries exceeding pre-pandemic levels by over 2.5% and a metro-level unemployment rate of 2.6%.
- Tempe and Chandler continue to be dominant in attracting new-to-market tenants across industries, with particular strengths in finance, tech and professional services.
- Fundamentals will have a chance to stabilize amid a historical low in development activity as the tail end of a substantial construction pipeline delivered in the beginning of the year, with no additional active projects under development.
- The need for quality space will spur further new construction, but with a lag this will keep fundamentals tightening until 2024 at the earliest.

Overall market statistics		Forecast
YTD net absorption (s.f.)	143,435	▶
Under construction (s.f.)	263,766	▼
Total vacancy (%)	21.3%	▲
Sublease vacancy (s.f.)	3,574,916	▶
Asking rent ($ p.s.f.)	$28.76	▼
Concessions	Rising	▲

Vacancy is up, but mostly from new supply delivering



Leasing remains limited after surge in 2019



Rent growth has softened in recent quarters

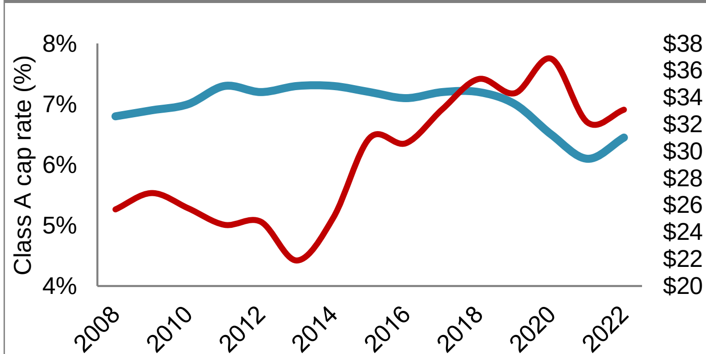


Table refers to overall market, while charts refer to Manulife submarkets

Office market trends

The conclusion of Phoenix's pre-pandemic construction boom brings major shifts in 2022 as groundbreakings decelerated following two consecutive years of negative absorption in the broader metro. Between 2014 and 2019, supply under development averaged 2.8% of existing inventory, but at this stage no product is currently under construction in Tempe and Chandler, with the remaining pipeline completed this quarter as four speculative projects delivered totaling 947,160 s.f. with over 20.0% of space preleased.

Despite the introduction of vacant first-generation space, Tempe and Chandler saw vacancy rates fall by over 100 basis points after a slew of move-ins including Amazon taking occupancy of almost 100,000 s.f. in 100 Mill and Mr. Cooper moving into 94,000 s.f. in Continuum Business & Technology Park in Chandler. While absorption remains essentially flat, occupancy growth should begin to accelerate through the end of the year as major leases executed during the pandemic begin to take occupancy, including 82,000 s.f. of space leased by Carvana and additional space that Amazon had leased in 100 Mill.

Investment activity in Phoenix, and particularly the Tempe submarket, has been strong in recent years as several new entrants targeted the Phoenix market and the innovation hub created by Arizona State University's presence in Tempe. Overall investment volume in the submarkets has grown 15.0% over the past 12 months compared to the previous year, the largest sale of the year so far has been Asana Partners' acquisition of the recently-renovated Alexander and The Johnathan in Chandler for $86.5 million.

Outlook

A tapering supply pipeline will help fundamentals recover, but many users are still adjusting workplace strategies to include hybrid work models. Despite the metro gaining 8,400 office-using roles, payroll additions may not translate into occupancy gains near-term, leaving recovery timelines questionable.

Phoenix market data

Leasing activity (Tempe and Chandler)				
Tenant	**Address**	**Class**	**Lease type**	**Size (s.f.)**
Vensure Employer Services	1475 S Price Rd	A	New Lease	96,693
Carvana Co.	1415 W 3rd St	B	New Lease	82,266
Unknown	850 W Rio Salado Pkwy	A	New Lease	32,917
Moov Technologies Inc	100 S Mill Ave	A	Relocation	31,667
KPMG	60 E Rio Salado Pkwy	A	Renewal	25,577
KB Home	58 S River Dr	A	Relocation	13,798
Array Technologies, Inc.	3133 W Frye Rd	A	Expansion	10,031
FarmOp Capital	30 E 7th St	B	Renewal	8,112
Skin & Cancer Center of Arizona	10440 E Riggs Rd	B	New Lease	8,097
MetLife	60 E Rio Salado Pkwy	A	Renewal	4,139

Office sales (Tempe and Chandler)					
Building	**RBA (s.f.)**	**Sales price ($)**	**Price ($ p.s.f.)**	**Buyer**	**Seller**
910 West Carver Road	130,270	$24,100,000	$185	Fundrise eREIT	ViaWest Properties
Ttec	56,240	$11,000,000	$196	Frind-Hardy LLC	Kimball Investment Co
West Main	78,038	$10,625,000	$136	Greenwood & Mckenzie	Stockbridge
1030 N Colorado Street	37,073	$5,800,000	$156	Justin D Moody	Helix
Kyrene Corporate Center	63,924	$5,350,000	$84	MCLB LLC	CTR Industrial Investments
Gilbert Medical Plaza	35,142	$5,350,000	$152	4901 W Bell Properties LLC	Bala Palanisamy

Portland (Sunset Corridor)

- While the overall labor market in Portland has lagged the broader national recovery and remain 1.3% below pre-pandemic levels, office-using sectors continue to benefit from migration from other high-cost West Coast markets, and those industries are now 1.0% above pre-pandemic employment levels.
- The Portland office market has been among the most impacted in the U.S. from both a fundamental and capital markets perspective, but the Sunset Corridor has consistently outperformed the remainder of the market over the past two years and retains strong fundamentals relative to other submarkets.
- With no supply currently under construction and a historical lack of spec development in the market, new supply over the short-term is likely to come through repositioning of older product and new sublease blocks being placed on the market.

Office market trends

Activity has slowed in the Sunset Corridor after nearly one million s.f. of positive absorption in 2021 with the completion of the Serena Williams Building on the Nike World Campus. The submarket saw an additional 85,000 s.f. of positive absorption thus far in 2022 with the completion of the Ambercreek renovation which has been fully leased to Microsoft.

Outside of owner-occupied product, leasing activity continues to slow in Portland, with just under 800,000 s.f. of gross leasing activity year-to-date reflecting a 51.7% decline from the first half of 2021. Sunset Corridor leasing has slowed even more sharply, and activity has been dominated by short-term renewals. Just one lease over 10,000 s.f. has been signed in the submarket so far this year, with Cisco Systems renewing 10,000 s.f. in AmberGlen 1600 for 36 months.

Sunset Corridor has seen no major new speculative construction since 2006 with development more oriented around build-to-suit projects. Vacancy should remain tempered over the short term with no additional product currently under construction.

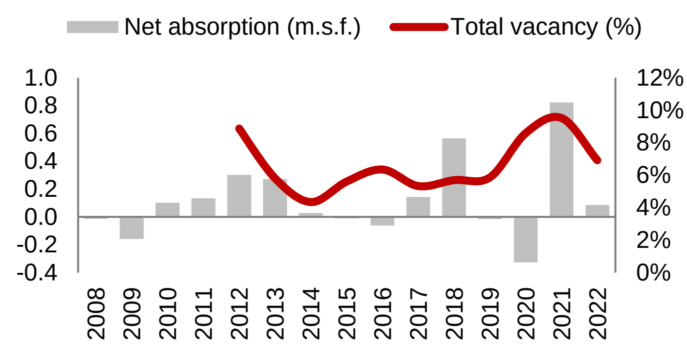
Investor activity has been subdued throughout Portland since the outset of the pandemic, but the Sunset Corridor has seen the most activity out of all submarkets. The most notable trades year-to-date have been the $36.2 million sale of the OHSU Knight Cancer Institute as well as the $38.8M sale of the William Barnhart Center.

Outlook

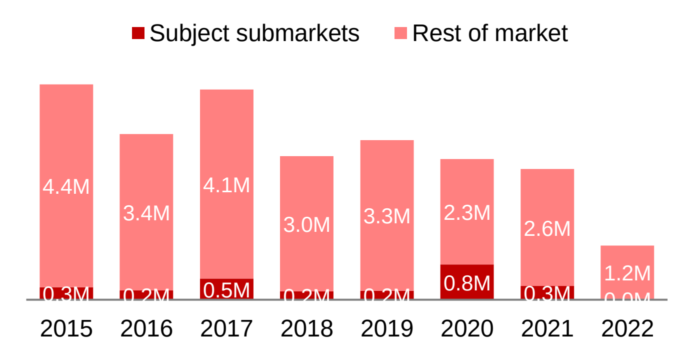
The Sunset Corridor faces the same headwinds as the broader Portland metro and may see fundamentals soften over the near term amid a rise in sublease space nationally, but the submarket remains advantaged given its cluster of critical employers in high-growth industries, and proximity to infrastructure.

Overall market statistics		Forecast
YTD net absorption (s.f.)	-805,361	▼
Under construction (s.f.)	632,524	▲
Total vacancy (%)	16.3%	▼
Sublease vacancy (s.f.)	943,699	▲
Asking rent ($ p.s.f.)	$33.92	▲
Concessions	Rising	▲

Vacancies falling amid owner-occupied deliveries



Limited leasing due to owner-user presence



Cap rates are trending upwards

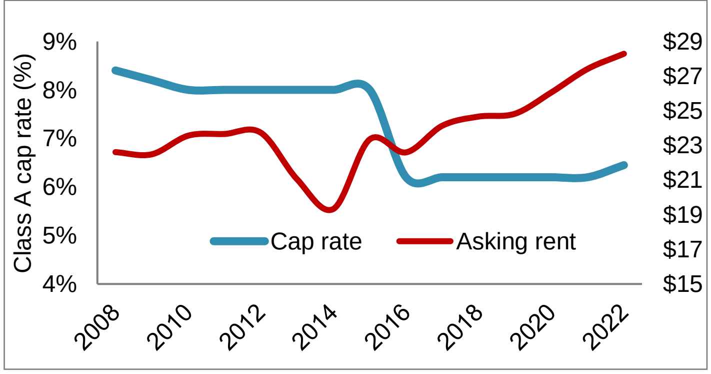


Table refers to overall market, while charts refer to Manulife submarkets

Methodology was recently shifted to include owner-occupied product, which creates material shifts in historical Sunset Corridor vacancy

Portland market data

Leasing activity (Sunset Corridor)				
Tenant	**Address**	**Class**	**Lease type**	**Size (s.f.)**
Cisco Systems	1600 NE Compton Dr	B	Renewal	10,044
Rambus	1100 NW Compton Way	B	Renewal	6,039
TenAsys	1400 NW Compton Dr	B	Renewal	5,030

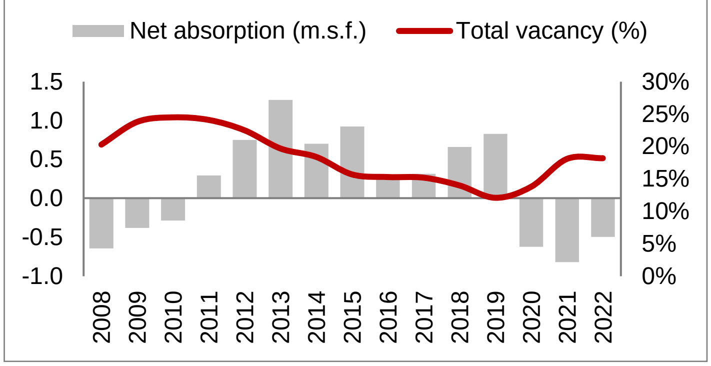
Office sales (Sunset Corridor)					
Building	**RBA (s.f.)**	**Sales price ($)**	**Price ($ p.s.f.)**	**Buyer**	**Seller**
Wells Fargo Call Center	211,863	$38,800,000	$183	Hines	Consolidated Tomoka
15700 SW Greystone Court	53,332	$36,182,500	$678	Oregon Health & Sci. Univ	Olympus Ventures

Sacramento (overall)

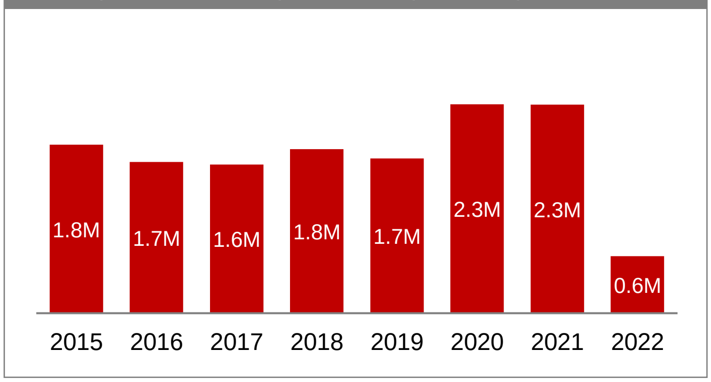
- Sacramento's status as the capital of California and lower exposure to volatile economic sectors has led to a much less severe economic contraction and faster recovery. Employment is 1.7% above pre-pandemic levels, while unemployment has fallen to 3.9%.
- Government, health and regulatory tenants remain the primary drivers of leasing activity, generating consistency in market fundamentals but limiting investment in new or upgraded office space, which has stifled demand for new-to-market relocation leasing.
- Any further increases to vacancy rates should be extremely moderate compared to other markets, given a limited supply pipeline and a more attractive sublease outlook given the market's composition of government occupiers.

Overall market statistics		Forecast
YTD net absorption (s.f.)	-495,450	▼
Under construction (s.f.)	124,471	▶
Total vacancy (%)	18.2%	▲
Sublease vacancy (s.f.)	629,534	▼
Asking rent ($ p.s.f.)	$27.60	▶
Concessions	Rising	▲

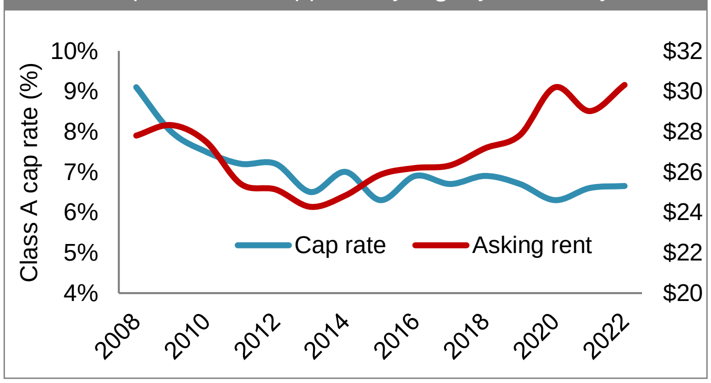
Little new supply is keeping vacancy in check



Leasing activity slowing after strength through pandemic



Class A cap rates have dipped only slightly in recent years



All data refers to overall market

Office market trends

Sacramento's counter-cyclical government, health and education-heavy office market kept fundamentals more balanced than other California markets, and relative affordability is increasingly driving migration into the metro. Leasing activity over the first half of the year, while well below pre-pandemic averages, grew 55.6% relative to the first half of 2021 as larger-scale tenants became increasingly active.

Leasing activity has shifted with a greater share of new deals compared to renewals in the first half of the year, with three of the five largest leases of H1 coming in the form of new leases, all taking space in Class A assets. With a conservative construction pipeline throughout the past cycle and many public sector occupiers, flight to quality is not as intense in Sacramento as other markets nationally and rent spreads between Class A and Class B assets have narrowed in Sacramento over the past six months despite expanding in most other office markets.

After a strong second half in 2021, investment activity has cooled off in the first half of the year with just over $150 million in volume to date, well below long-term averages for the first half. The largest sale of the first two quarters was Basin Street Properties' acquisition of Gateway Oaks I-IV in South Natomas. Sacramento office investment has yet to show meaningful momentum since the pandemic: from 2016-2019 the market consistently generated $1.0 billion in sales volume annually, but since the pandemic transaction activity remains more than 50% lower on an annualized basis, with only the second half of 2021 coming near pre-pandemic levels of activity.

Outlook

Sacramento remains well-positioned compared to other California markets due to its low reliance on venture capital-fueled growth, industry diversity, and relative affordability. An extremely moderate new construction pipeline will help fundamentals remain stable and provide opportunity for existing landlords to capitalize on flight to quality demand among private sector tenants through repositioning and other upgrades.

Sacramento market data

Leasing activity (overall)

Tenant	Address	Class	Lease type	Size (s.f.)
TechnipFMC	3805 Faraday Ave	A	New Lease	71,000
State of California	980 9th St	A	Renewal	48,073
State of California	2752 Kilgore Rd	B	Renewal	41,532
State of California	2241 Harvard St	A	New Lease	22,232
Kpff Engineering	1101 Creekside Ridge Dr	A	New Lease	22,126
Stantec	3301 C St	B	Renewal	21,824
McCarthy Building Companies	3721 Douglas Blvd	A	Blend and Extend	19,053
Westervelt Ecological Services	3636-3640 American River Dr	B	New Lease	19,000
United States Dept. of Veterans Affairs	3046 Prospect Park Dr	C	New Lease	18,414
KPMG	500 Capitol Mall	A	Renewal	16,330

Office sales (overall)

Building	RBA (s.f.)	Sales price ($)	Price ($ p.s.f.)	Buyer	Seller(s)
Gateway Oaks I-IV	316,659	$57,999,957	$183	Basin Street Properties	LOWE, The Family Office
1075 Creekside Ridge	75,550	$17,000,000	$225	Vantus Holdings LLC	Century Management
Regents Park	130,870	$16,950,000	$130	Graceada Partners	Dan Caputo Co
10811 International Drive	55,192	$13,000,000	$236	Pacific Coast Building	Crawford Development Inc
8241 E Stockton Boulevard	12,596	$9,899,500	$786	Kaiser Permanente	South Valley Centre LLC
2200 X Street	127,792	$9,500,000	$74	PAC West Diversified LP	Buzz Oates Real Estate
5 Sierra Gate Plaza	38,404	$8,585,000	$224	Abbasco Ents LP	Black Iris Properties LLC
1104 Investment Boulevard	78,286	$8,000,000	$102	Tower Investments	LBA Realty

Active development pipeline (overall)

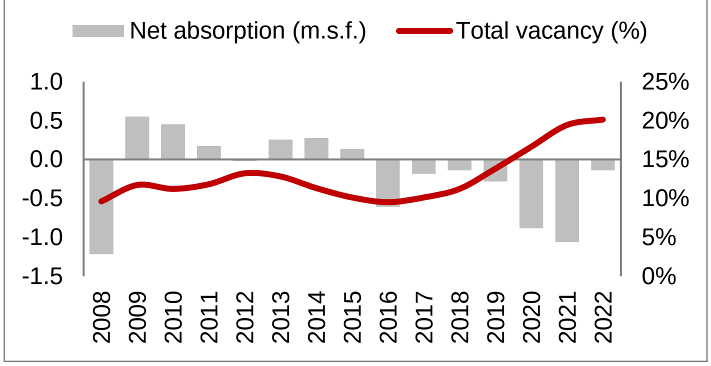
Building	Developer	Spec/BTS	Completion	RBA (s.f.)	Anchor
Richards Boulevard's State Office	State of California	Spec	2022	1,250,000	State of CA
State Resources Building	State of California	Spec	2022	838,000	State of CA
California Natural Resources Agency	State of California	Spec	2022	838,000	State of CA
Capitol Annex Expansion	State of California	Spec	2022	472,000	State of CA
California Dept. of General Services	Rudolph & Sletten	Spec	2022	360,000	State of CA

Washington, D.C. (CBD)

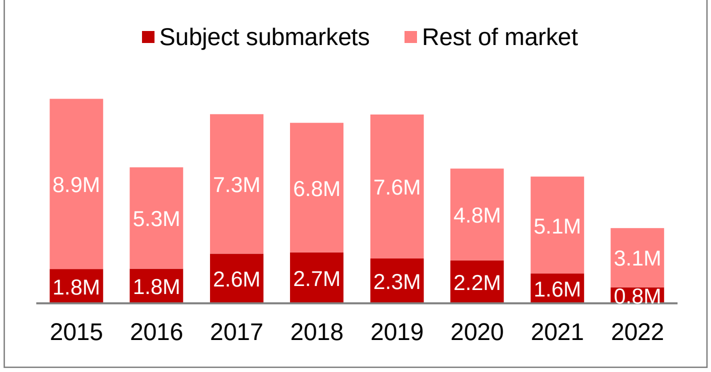
- Washington, DC's government exposure has not played as strong of a countercyclical factor as during historical downturns, with the market still lagging against the broader national recovery, though unemployment has fallen to 3.5%.
- Vacancy remains elevated and continues to increase quarter-over-quarter amid the tail end of a wave of new deliveries that are struggling to lease up amid slower demand.
- Downsizing and relocations continue to drive negative absorption through the first two quarters, but occupancy loss is decelerating. Conversions of older urban office product are becoming more frequent and helping to moderate overall inventory.

Overall market statistics		Forecast
YTD net absorption (s.f.)	-165,827	▲
Under construction (s.f.)	890,106	▼
Total vacancy (%)	18.4%	▲
Sublease vacancy (s.f.)	1,861,172	▲
Asking rent ($ p.s.f.)	$60.17	▶
Concessions	Rising	▲

Negative net absorption is decelerating rapidly



Leasing activity relatively stable in 2022



Class A cap rates begin rising amid interest rate increases

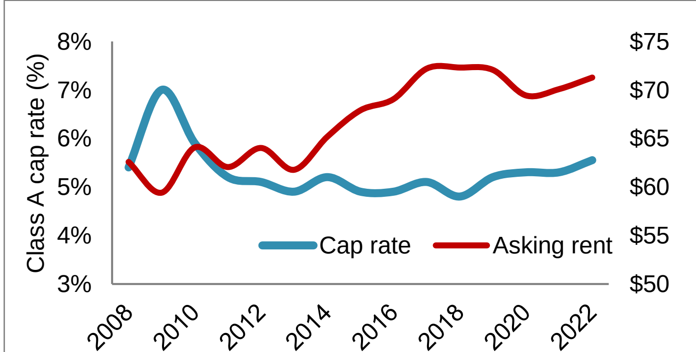


Table refers to overall market, while charts refer to Manulife submarkets

Office market trends

Fundamentals in the Washington, DC CBD appear to have turned a corner as leasing activity accelerated notably in the first two quarters of 2022, with 856,000 s.f. of gross leasing activity representing a 34.0% increase over the first half of 2021. Flight to quality is intensifying in the CBD, particularly amid a wave of new deliveries over the past five years adding significant supply of Trophy and Class A space. The Trophy and Class A segment has captured 65.7% of leasing activity so far in 2022, while in a typical pre-pandemic year that share would be below 50.0%.

While leasing activity is improving, an abundance of renewal activity, and prevalence of downsizings and relocations is driving continued negative absorption, with another 100,000 s.f. of net occupancy loss through the first two quarters. Sublease space is on the rise again with new listings pushing total sublease availability to an all-time high of over one million s.f. The largest new sublease listing was Wiley Rein's 60,000 s.f. listing at 1776 K Street NW.

Only one major speculative construction project is slated to be delivered in the CBD over the near term with the 334,000 s.f. 1700 M Street expected to deliver in 2024. Simultaneously, there are currently six Class B or Class C office assets in the CBD that are being converted to other property types, helping to regulate supply and stabilize fundamentals over the next several years.

Sales activity remains somewhat depressed in the CBD in the absence of major trophy transactions being marketed in recent years. The only significant trade in the first half of 2020 was Brookfield's sale of 1901 Pennsylvania Ave to a private investor for $71.0 million.

Outlook

The CBD of Washington, DC will continue to grapple with many of the headwinds facing other urban submarkets in gateway markets across the U.S. as re-entry continues to progress at a sluggish pace and major office occupiers emphasize growth in non-gateway markets, but a more robust pipeline of downtown office conversions will help Washington, DC reach stabilization sooner than many peers.

Washington, D.C. market data

Leasing activity (CBD)

Tenant	Address	Class	Lease type	Size (s.f.)
Bank of America	1800 K St NW	A	Renewal	61,722
FHI 360	2101 L St NW	A	Relocation	59,514
Milbank, Tweed, Hadley & McCloy	1850 K St NW	B	Renewal	53,860
Dechert	1900 K St NW	Trophy	Renewal	53,138
Bank of America	1800 K St NW	A	Relocation	48,897
Buchanan Ingersoll & Rooney	1700 K St NW	A	Expansion	43,003
Cushman & Wakefield	2101 L St NW	A	Renewal	37,723
Paralyzed Veterans Of America	1875 I St NW	B	Relocation	25,795
Lockton Companies	1801 K St NW	A	Renewal	21,761
Carr Workplaces	1717 K St NW	Trophy	Renewal	20,000

Office sales (CBD)

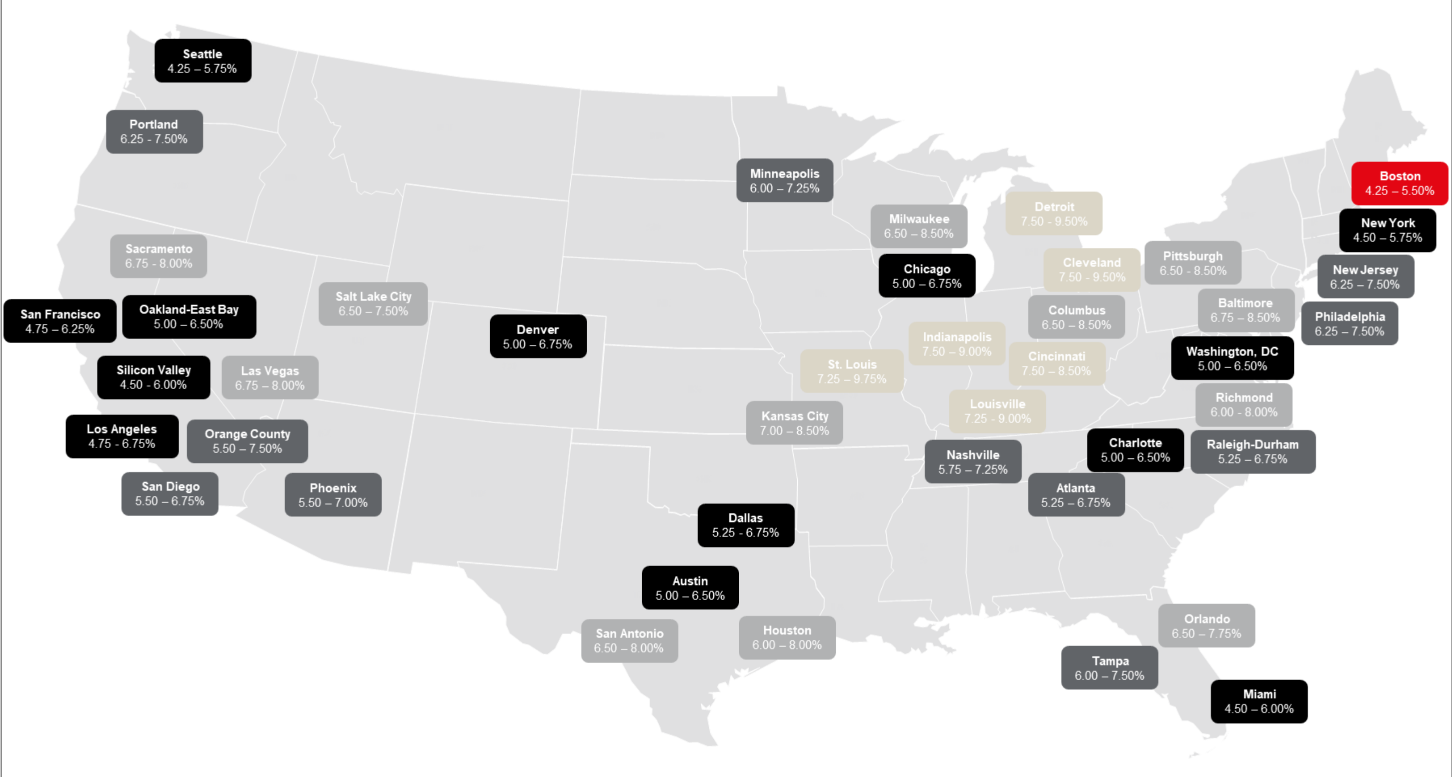
Building	RBA (s.f.)	Sales price ($)	Price ($ p.s.f.)	Buyer	Seller(s)
1901 Pennsylvania	102,000	$71,025,862	$696	Marc A Pultuskier	Brookfield AM
1900 N Street (Leasehold)	271,433	$265,000,000	$976	Commerz Real	JBG Smith, CPPIB

Active development pipeline (CBD)

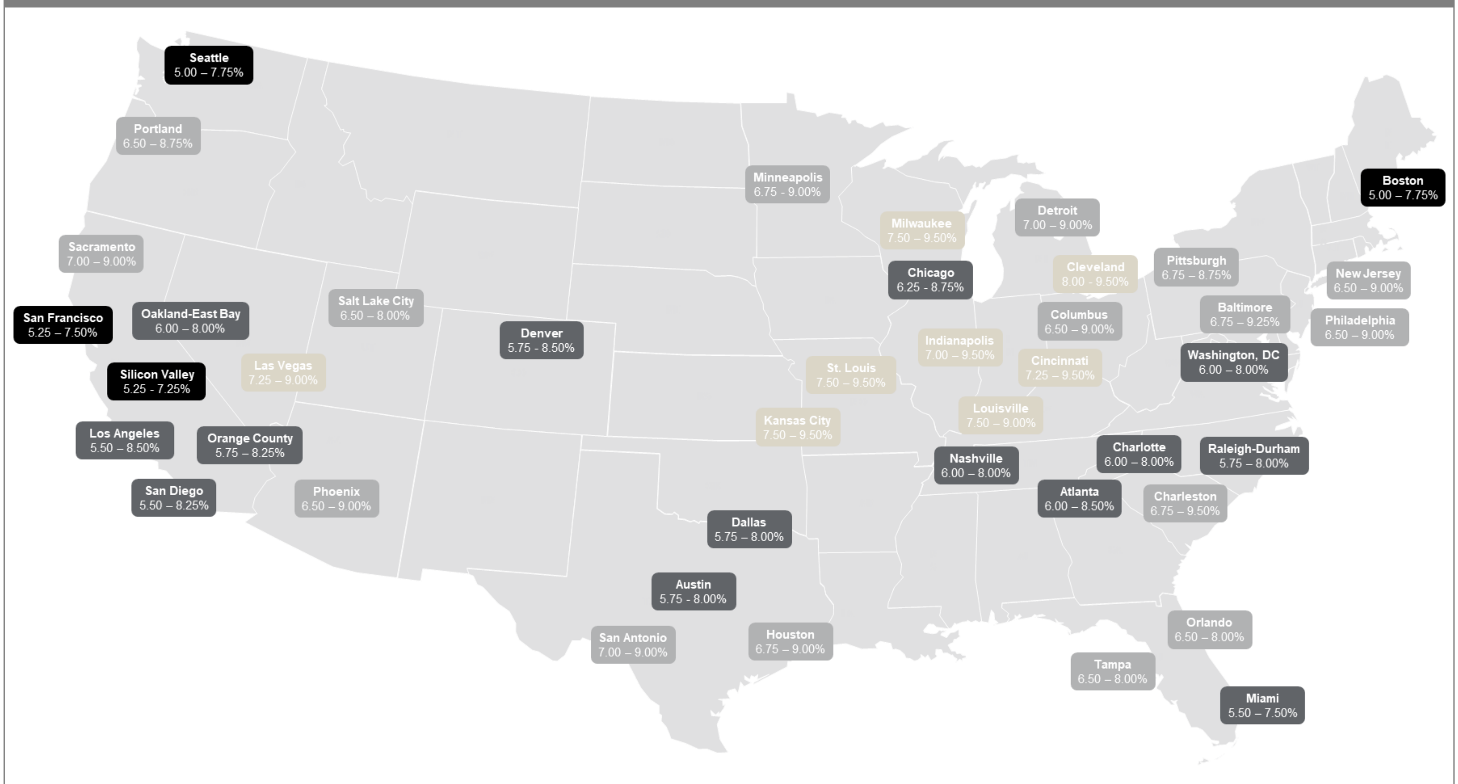
Building	Developer	Spec/BTS	Completion	RBA (s.f.)	Anchor
1700 M	Skanska	Spec	2024	334,000	Gibson Dunn & Crutcher
The Mills Building	Akridge	Spec	2022	188,000	-

Cap rates by market

CBD Class A cap rates by market



Suburban Class A cap rates by market



Methodology and terms of use

Methodology

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

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

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

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

Use and reliance

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