CBRE

Econometric Advisors

Q4 2023
U.S. Office Overview & Outlook

REPORT

February 15, 2024

Executive Summary

- Office fundamentals remain relatively unchanged from last quarter. We continue to expect a slow down in growth which, coupled with remote and hybrid work, will continue to embolden footprint reductions.

- Our Baseline calls for nominal rents to decline 3.0%, reaching a trough in Q2 2025. Rents will return to pre-pandemic levels in 6.75 years (from Q1 2020) under our Baseline forecast. Vacancy is expected to peak at 20% in Q2 2025 and is expected to stay elevated and hover above 18% until H2 2027.

- However, real asking rent is down 15.4% since the start of the pandemic, on par with the 16.4% drop during the Global Financial Crisis (GFC). And we expect real rent to drop 21.5% at trough compared with Q1 2020.

- The near-term supply pipeline is slowing down, and those premiere projects moving forward will support the continued flight to quality. We expect office construction to pull back in the mid-term and stay muted in the long run. The annual completion rate for the next decade is expected to be 0.4%, much lower than the long-term average of 1.6%.

- Prime assets in Live-Work-Shop submarkets will continue to benefit from the flight-to-quality trend. The lack of supply will further bolster the prime segment's performance, and we expect this trend will only intensify as more occupiers adopt more formal sustainability goals.

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Macroeconomy

2024 CBRE Econometric Advisors' Economic Forecast Brief

- Continued economic growth paired with the 'Fed pivot' suggests that the U.S. economy is heading toward a 'soft landing'. But regardless of whether GDP has a '+' or '-' sign in front of it, the pace of growth will likely be much more modest than in recent quarters. A key reason for the slowdown is that consumers are unlikely to repeat their strong showing in 2023 as most households have less cash on hand and overall credit growth is slowing. Further, the business sector is a mixed bag. Interest rate sensitive sectors, such as autos and housing, are holding steady. Currently, many large corporates appear skeptical about growth prospects in 2024. The greatest investment is centered around technology and the potential productivity boost it can bring.

- This cautious tone from firms is filtering into the labor market. Although conditions remain tight the demand for labor is rebalancing from its heights of 2021 when the job openings rate hit 8%—nearly double pre-COVID levels. Today the openings rate is down to 5.6%. This trend coincides with slower wage growth and inflation. Our Baseline forecast expects that progress on inflation is enough to halt the Fed's tightening cycle, but it probably will not quickly return to the Fed's 2% target either. This suggests that interest rates will remain elevated relative to past cycles. Other uncertainties confronting inflation and financial markets include an array of conflicts and elections around the world.

- On a positive note, the latest data suggests we will get a mix of continued economic growth amid easing interest rates and financial conditions. This is good news for both real estate fundamentals and capital markets. Regarding the latter, some leading indicators suggest this thaw is beginning and cap rates are likely near their peak for most sectors.

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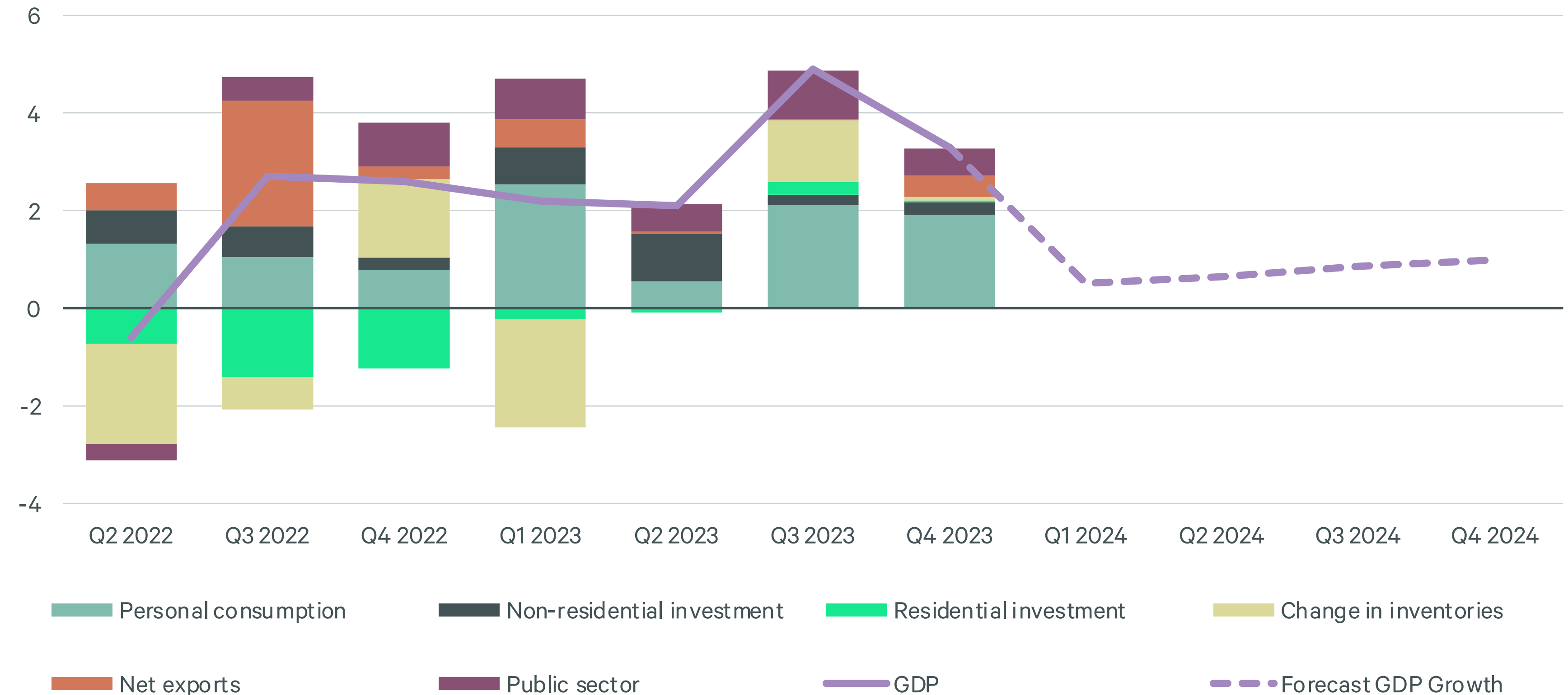
What will drive the slowdown in growth?

Most key economic indicators suggest that the U.S. economy is on the path for a 'soft landing' rather than a very moderate recession. We do expect that the pace of economic growth will slow this year relative to 2023. Key reasons include:

- The U.S. consumer was a key factor in 2023's sturdy performance but we doubt there is enough spending power, especially amongst lower-income households, to drive outsized growth.
- Inventory growth contributed to GDP during H2 2023, but their cyclical nature suggests they will likely be a drag on growth in H1 2024.
- Perhaps the most uncertain component of growth is the public sector. Government stimulus continues to circulate throughout the economy and has contributed to growth during the past six quarters.

Annualized Quarterly GDP Growth (%)



Source: Bureau of Economic Analysis, CBRE Econometric Advisors

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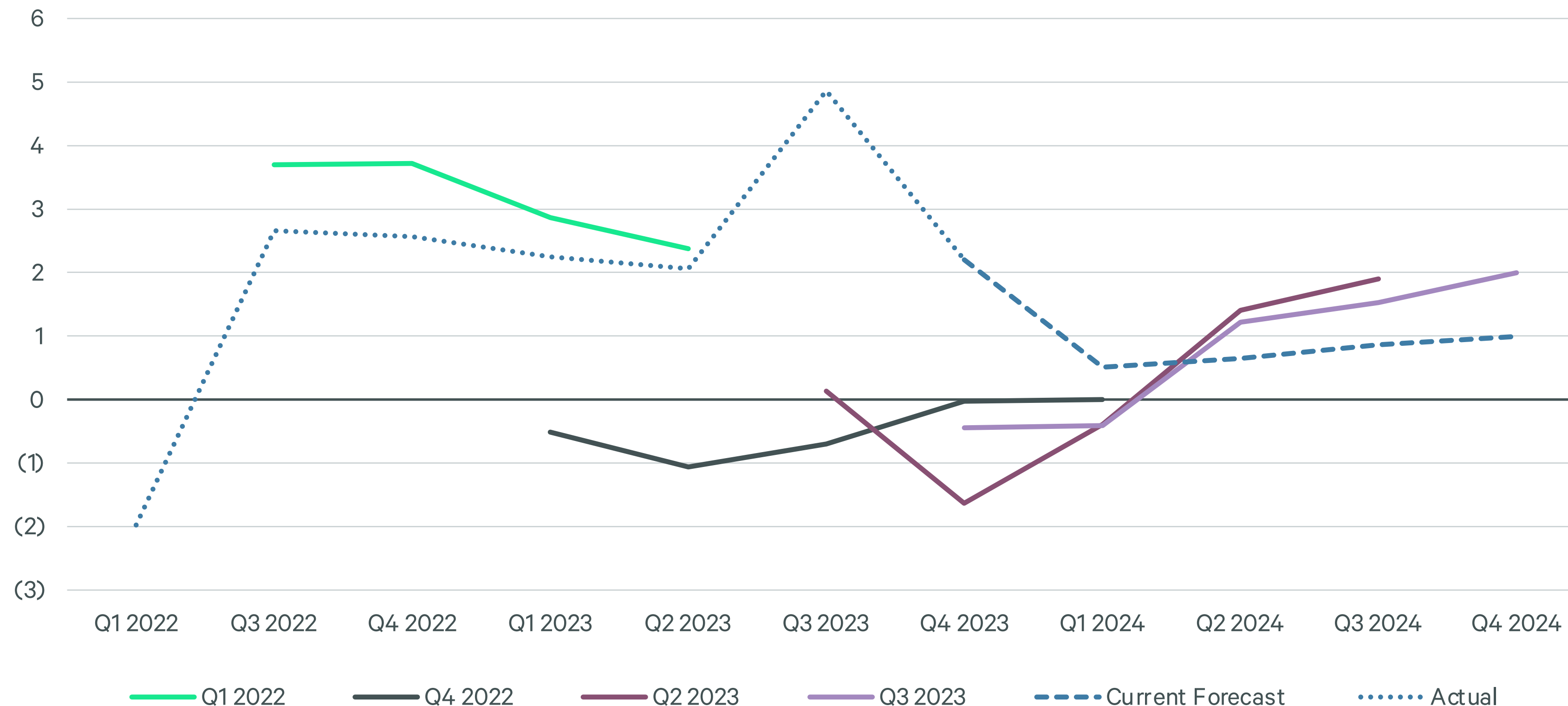
How our outlook has changed

- CBRE EA's macro-outlook has undertaken a data dependent evolution in recent years, tracking the rise and fall of inflation and a very dramatic tightening cycle.

- Concerns surrounding tighter financial conditions began to weigh on our economic outlook during H2 2022. This stance was emboldened by a string of bank failures in early 2023. However, monetary policy was balanced enough to quell the banking crises, allow for a benign decline in inflation, and maintain growth. This disconnect was a key driver of our forecasting error in recent quarters.

Annualized Quarterly GDP Growth (%) by Forecast Vintage



Source: CBRE Econometric Advisors

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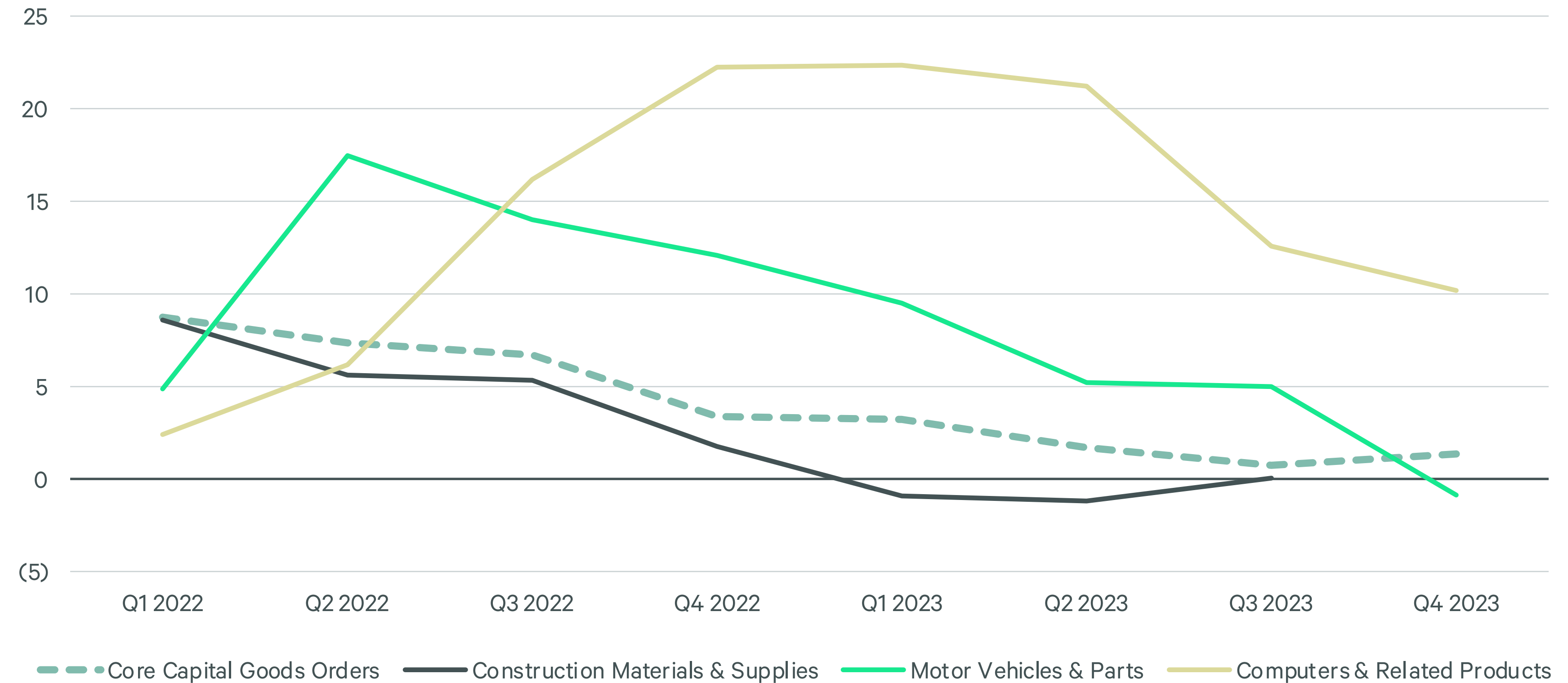
Technology is driving business orders

- Core capital goods orders, a reliable barometer of economic health, are settling at a lower range as supply chains are normalizing.
- Capital goods orders in the auto space have slowed dramatically and are now beginning to contract. This reflects the post-COVID rebalancing but also higher interest rates weighing on sales. Similar factors have influenced orders for construction products.
- High-tech is a clear winner as investments in AI and other productivity enhancing tools are driving orders (and equity market performance).



Source: U.S. Census

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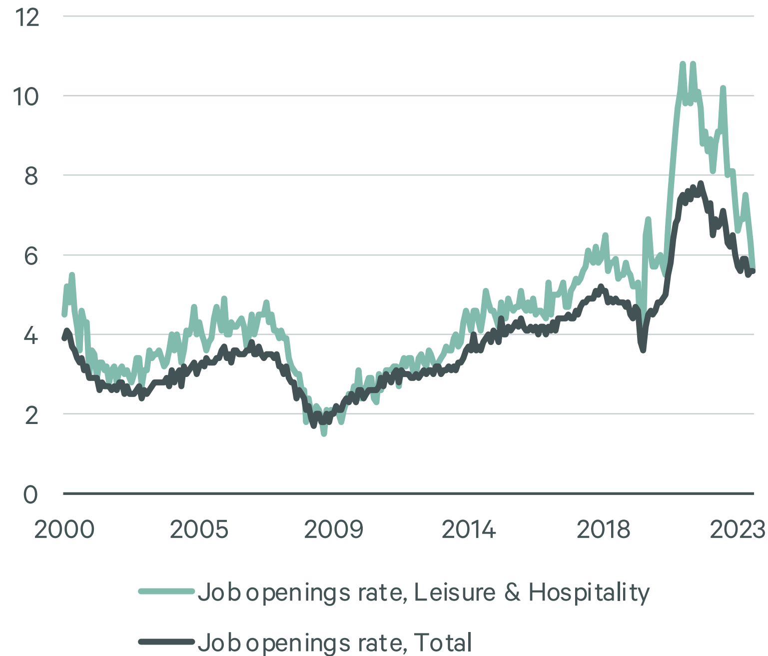
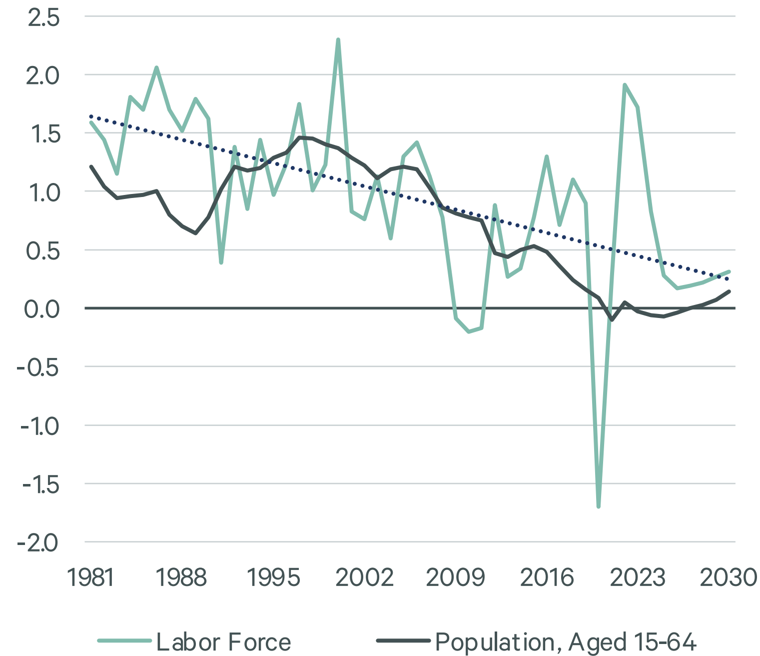
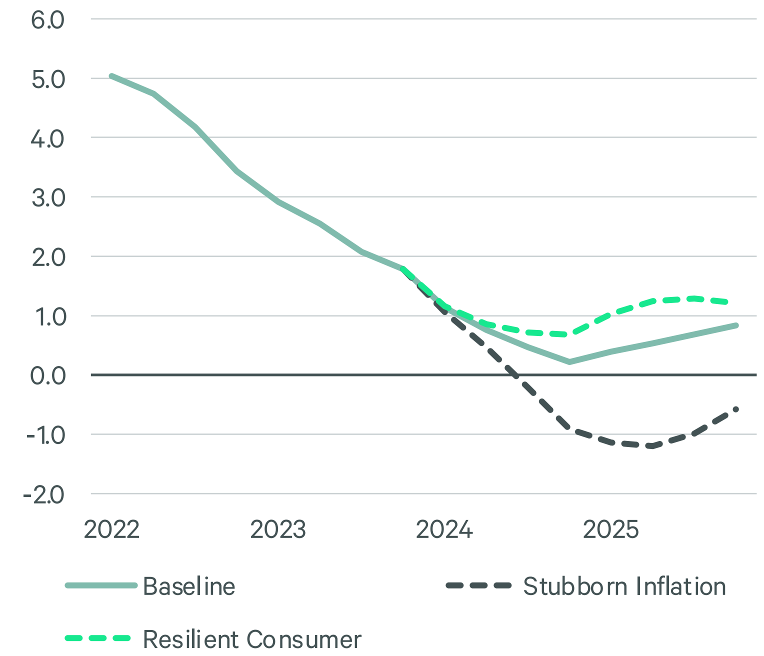
Demand for labor is moderating but remains healthy



Source: U.S. Bureau of Labor Statistics



Source: U.S. Bureau of Labor Statistics, U.S. Census Oxford Economics



Source: U.S. Bureau of Labor Statistics, CBRE Econometric Advisors

- The job openings rate continues to fall. Interestingly, openings within the once over-heated hospitality sector are now on a par with the broader labor market.
- Future hiring will be constrained by limited labor force growth, as the growth of the working-age population is expected to stall in coming years.
- Because the surplus supply of labor is already so thin, job growth would only be marginally better within our Upside, or 'Resilient Consumer' scenario. There is much more room to fall should stubborn inflation keep interest rates elevated long enough that growth eventually stalls.

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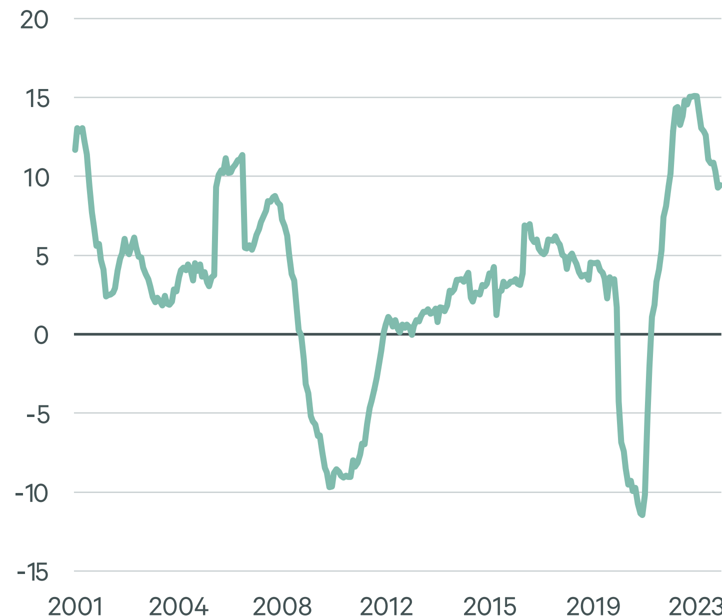
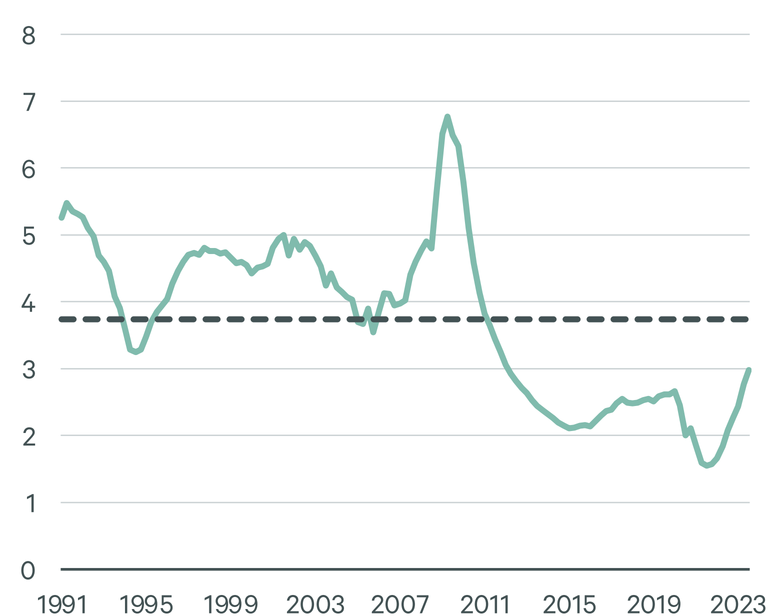
The labor market is supporting consumption

Source: U.S. Census, CBRE Econometric Advisors



Source: Federal Reserve, CBRE Econometric Advisors



Source: Federal Reserve, CBRE Econometric Advisors

- Consumer services (e.g., dining out, travel, recreation) has driven the boom in consumption. Our upgraded economic outlook for 2024 now expects spending growth on discretionary services will continue this year—albeit an acceleration is unlikely.
- It is unlikely U.S. consumers will maintain spending via borrowing due to very high credit costs. Indeed, the pace of credit growth is decelerating. Also, some consumers are struggling with their existing debt load. Although credit card delinquencies remain below average, they are quickly trending upward.

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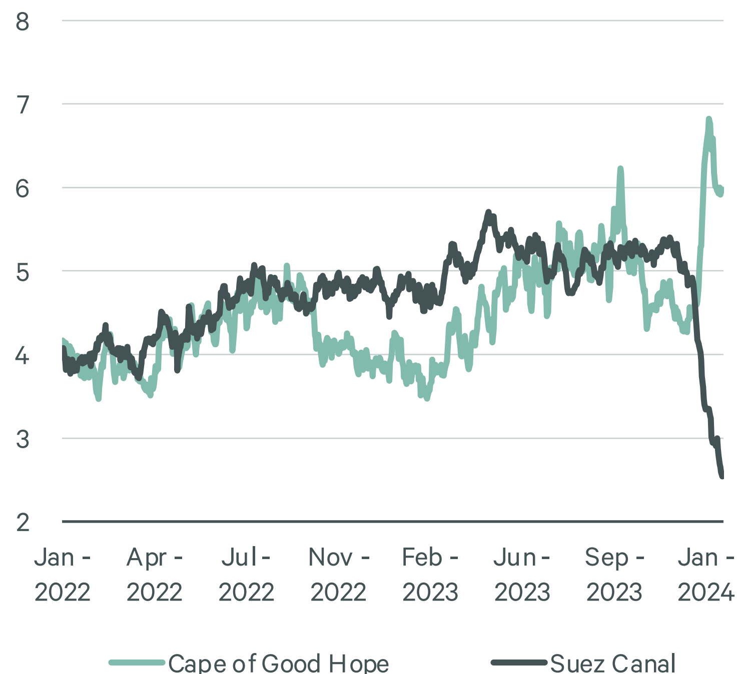
Conflicts and politics could impact U.S. inflation



Source: Port Watch/IMF

Source: Shanghai Shipping Exchange

Source: Peterson Institute for International Economics, CBRE EA

- Shelling of commercial ships in the Red Sea is forcing trade to divert away from the Suez Canal and travel around Africa. This has the effect of putting upward pressure on shipping costs, as shown by Shanghai Freight Index. Presently, the risk to the U.S. economy is manageable but the backdrop is a cause for concern.
- There are some domestic policy risks for U.S. inflation in the medium term. Presently, both leading 2024 U.S. Presidential candidates support more trade barriers. Donald Trump is considering a 60% tariff on all imports from China. Reportedly, these goods account for just 2% of the CPI index; however, such a dramatic tariff could have a significant one-off impact on U.S. inflation.

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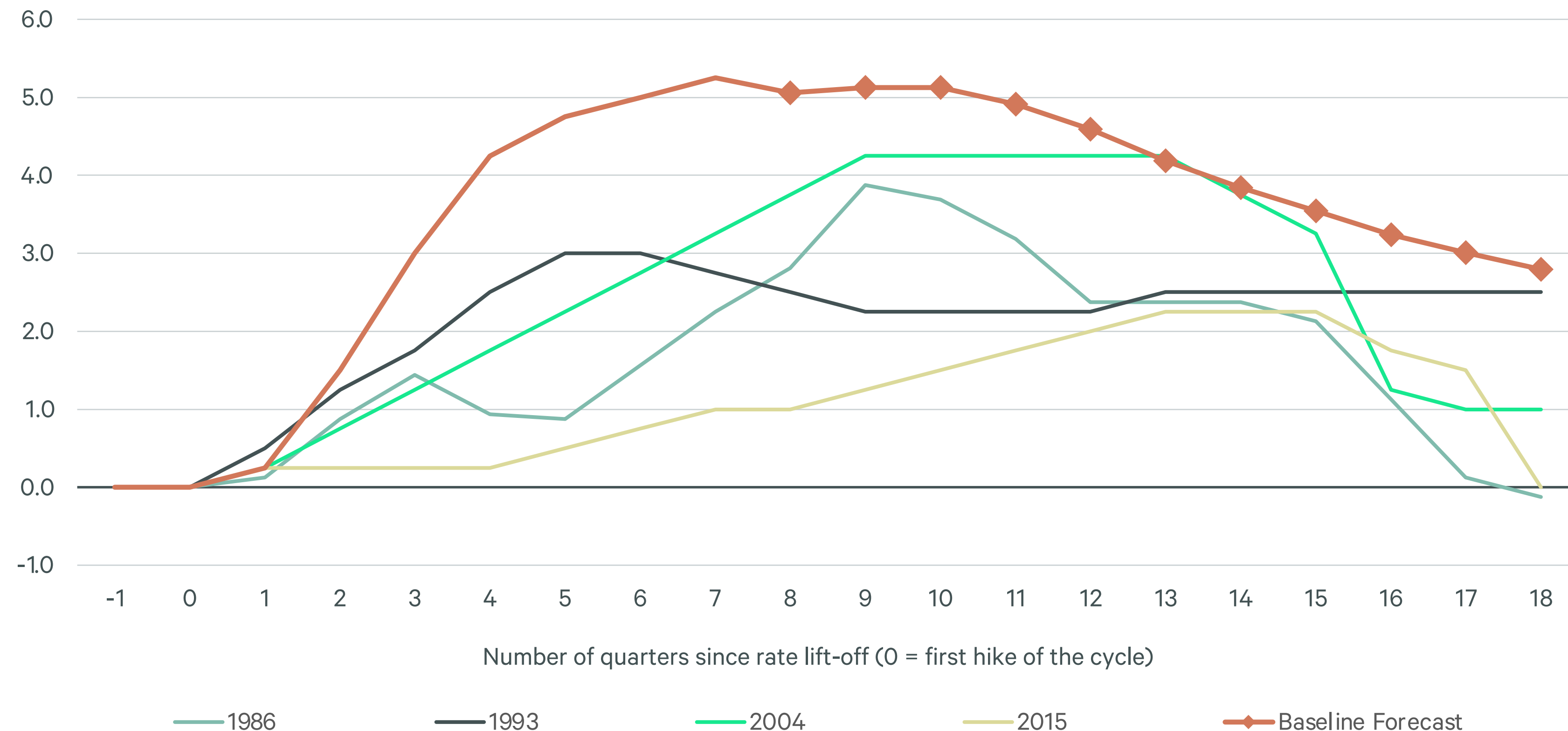
Policy rates are likely to stay higher than past cycles

– Easing Y-o-Y inflation suggests the Federal Reserve will take a pause on future hikes. But they are also unlikely to make significant cuts in the very near term. Rather, the Committee will wait until inflation shows clear signs of progressing toward its 2% target. We believe the first cut will occur in May 2024.

– CBRE EA expects that the Fed Funds Rate will remain relatively heightened compared with previous tightening cycles. This 'higher-for-longer' outlook will have implications for CBRE EA's cap rate and value growth forecast. Presently, the conviction that rates have peaked has sparked a spirit of cautious optimism across real estate capital markets.

Change In Fed Funds Rate From Beginning of Each Tightening Cycle (Percentage Points)



Source: The Federal Reserve, CBRE Econometric Advisors

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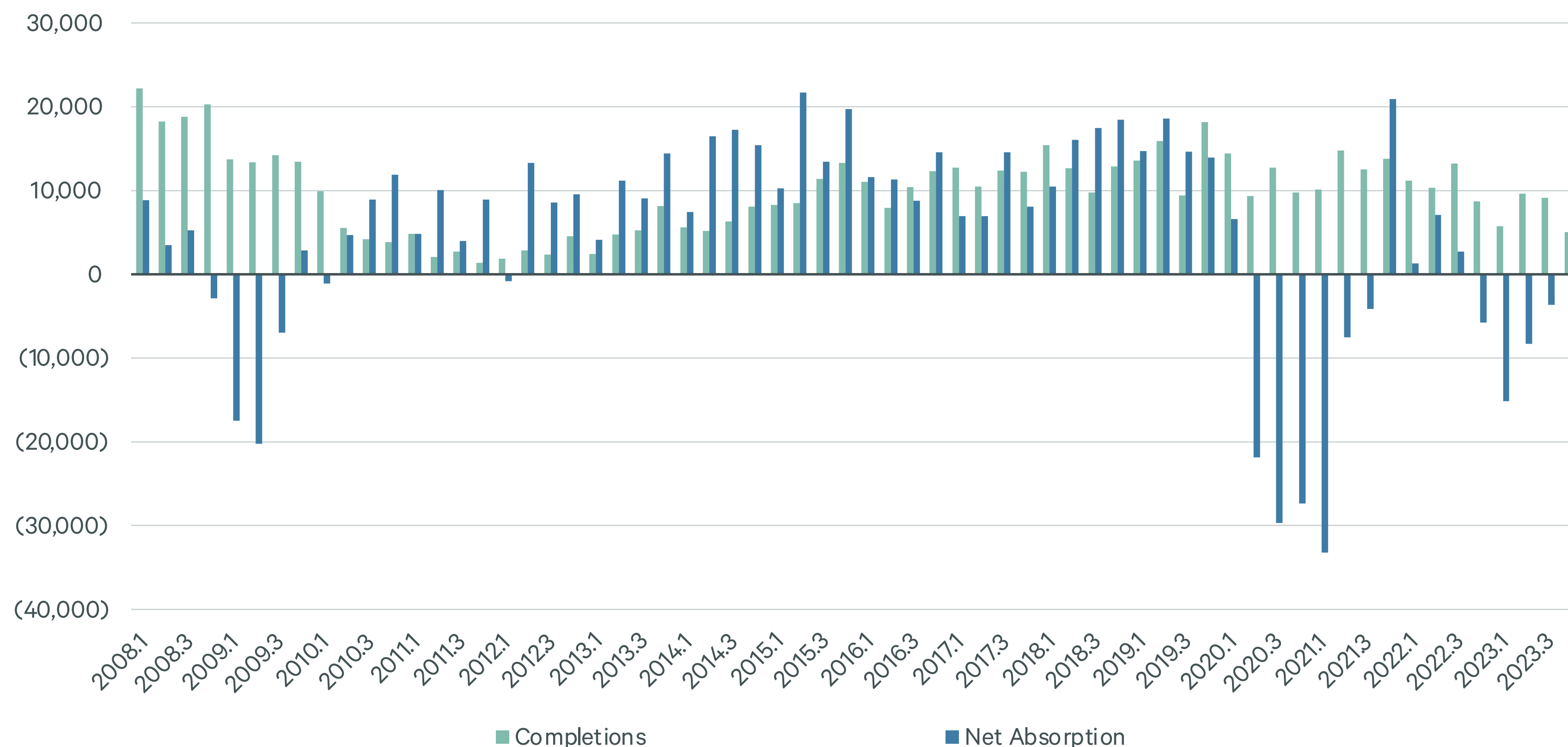
Market Fundamentals

Net absorption remains negative in Q4, albeit improved from last quarter

- The overall office Sum of Markets* recorded net absorption of -2.9 million sq. ft. (MSF) in Q4 2023, improved from last quarter's -3.6 MSF.
- The trailing four-quarter net absorption number remained negative at -30.0 MSF. However, net absorption has been improving since the start of this year.
- Construction levels reduced significantly, with 5.0 MSF delivered in Q4 and another 51.9 MSF still underway and expected to deliver in the next two years.



Source: CBRE Econometric Advisors, Q4 2023

*Our office Sum of Markets is based on 52 U.S. markets

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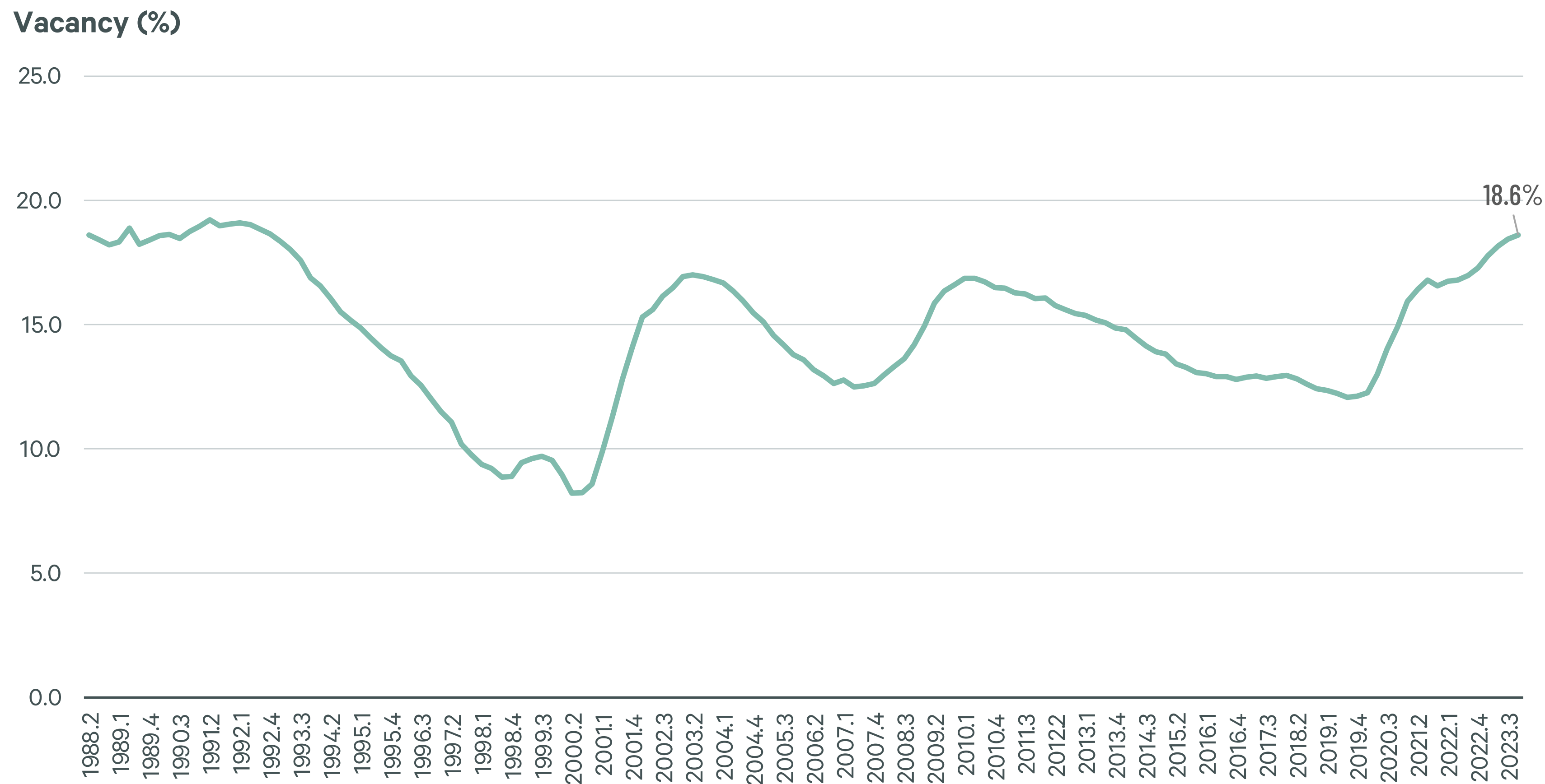
Vacancy increased again and is approaching the highs of the early ‘90s

- The overall office vacancy rate increased 20 bps to 18.6% in Q4 2023, 175 bps higher than the peak (16.9%) during the GFC.
- Vacancy is up 1.3 percentage points year-over-year (Y-o-Y) and 6.3 percentage points from Q1 2020.
- Vacancy is expected to climb further due to uncertainty in the overall economy and the continued downsizing of many companies.
- The market is considered a tenant-friendly market with a vacancy rate significantly above the long-run average (1990 to 2019) of 14.3%.



Source: CBRE Econometric Advisors, Q4 2023

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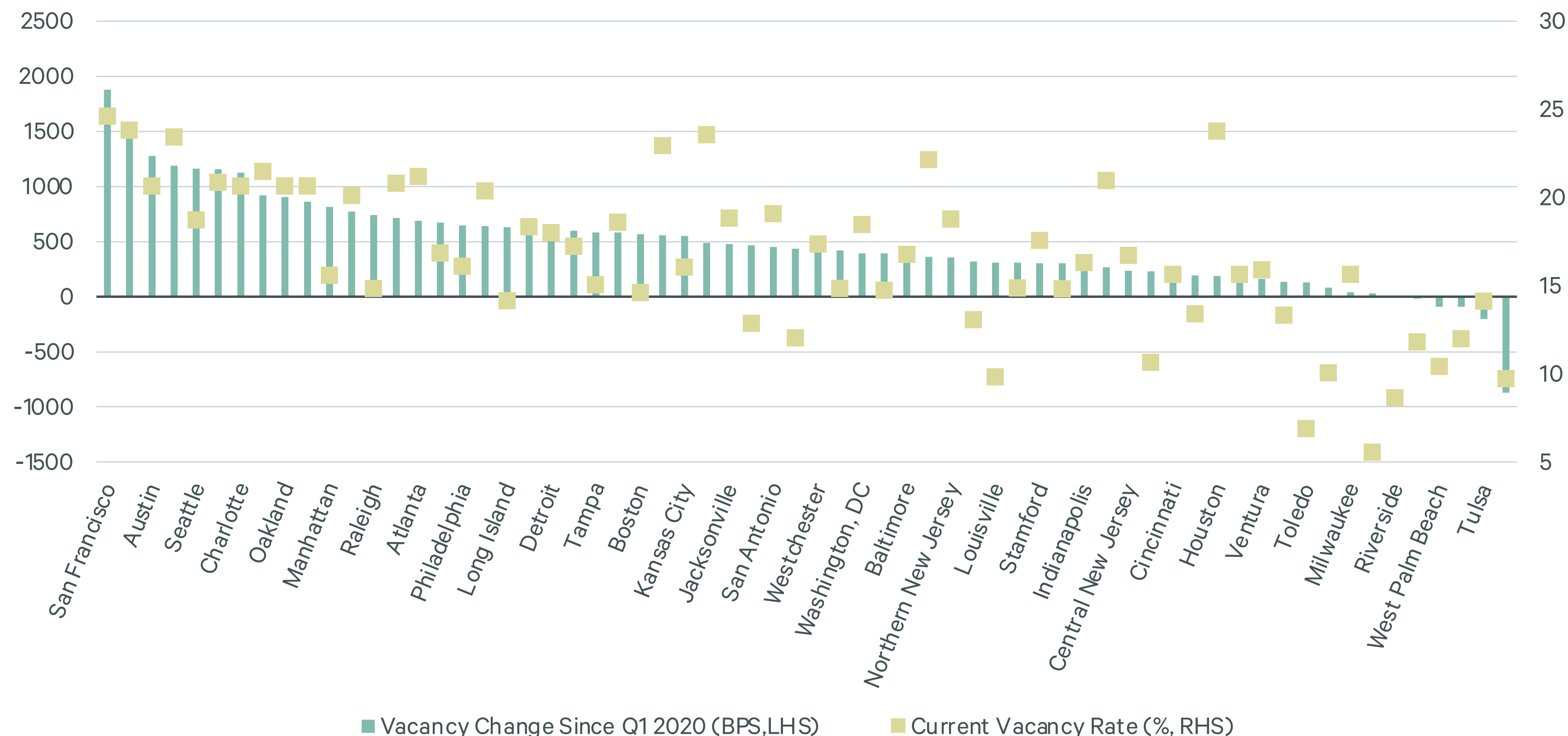
Very few markets have avoided vacancy disruption

- Large gateway metros (like San Francisco, Manhattan, Seattle and LA) along with markets with strong supply (like Charlotte and Austin) contributed the most to recent vacancy increases.
- Vacancy increased by more than 1,000 bps since Q1 2020 in San Francisco, Salt Lake City, Charlotte, Austin, Portland, San Jose and Seattle.
- Vacancy increased in 58 out of 64 markets since Q1 2020.
- Those with vacancy recovered to pre-pandemic levels are mostly small Sun Belt markets.
- Only five markets have a vacancy rate below 10% as of this quarter.



Source: CBRE Econometric Advisors, Q4 2023

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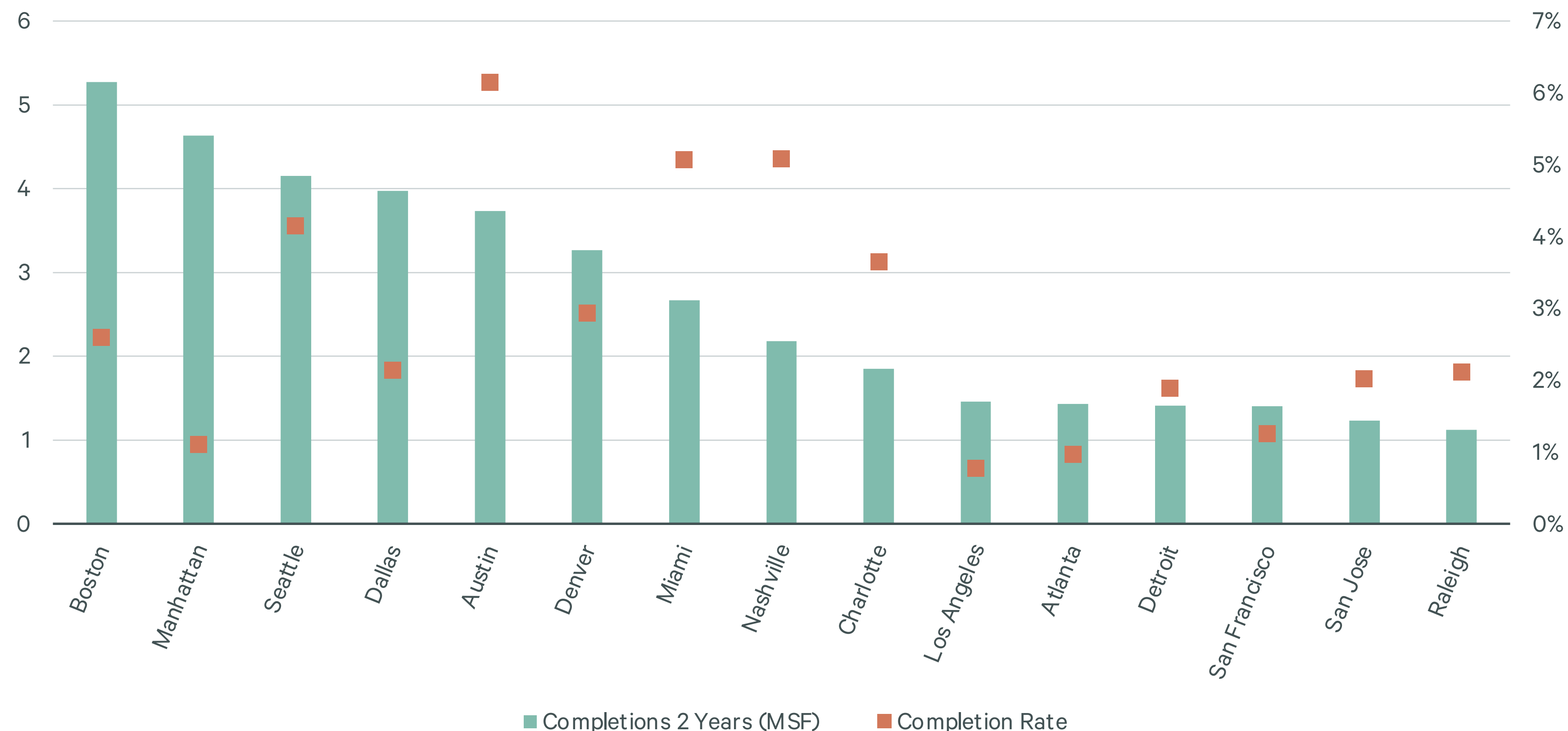
Near-term supply headwinds are a growing concern in some key markets

- The top 15 markets for space currently under construction are expected to deliver 39.8 MSF in the next two years, representing 73.5% of national completions.
- Projected completions in Austin, Miami and Nashville represent more than 5% of existing stock. Austin is highest with 6.1% of its stock scheduled to be completed in the next two years.
- This represents a significant headwind and over-supply risk, especially as the national employment picture is expected to cool in 2024.
- However, Austin is the leader in job growth projections, an indication that demand growth should blunt the impact of this incoming supply.

Scheduled Completion for the next 2 Years (MSF)



Source: CBRE Econometric Advisors, Q4 2023

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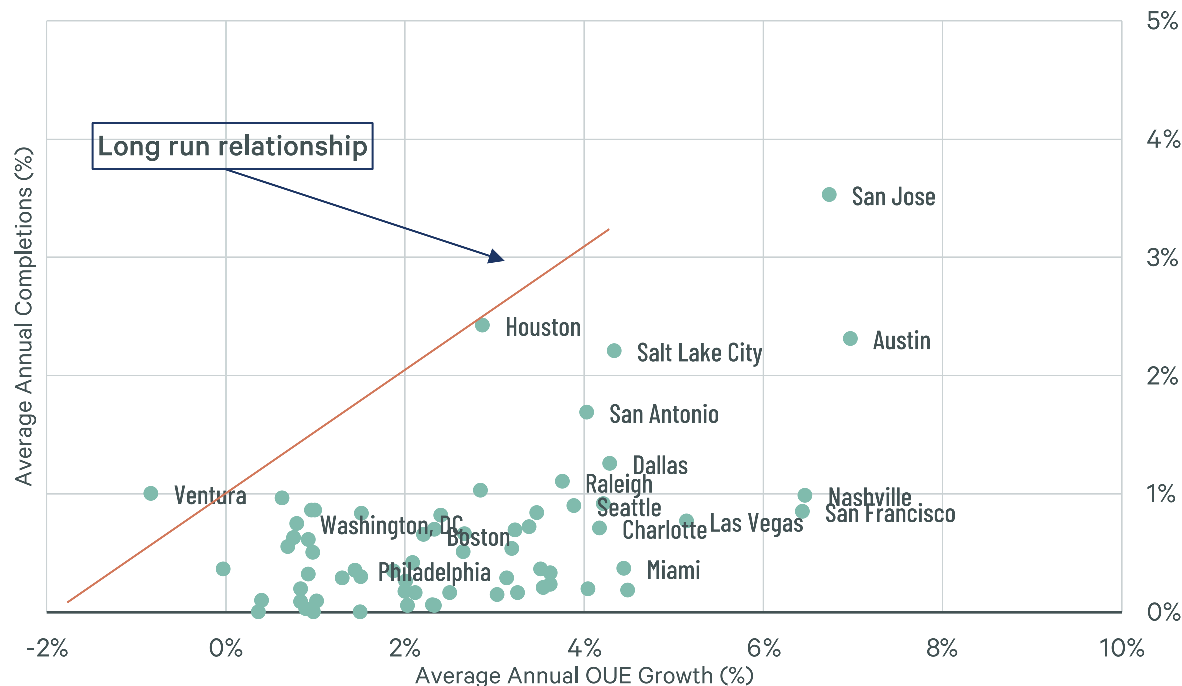
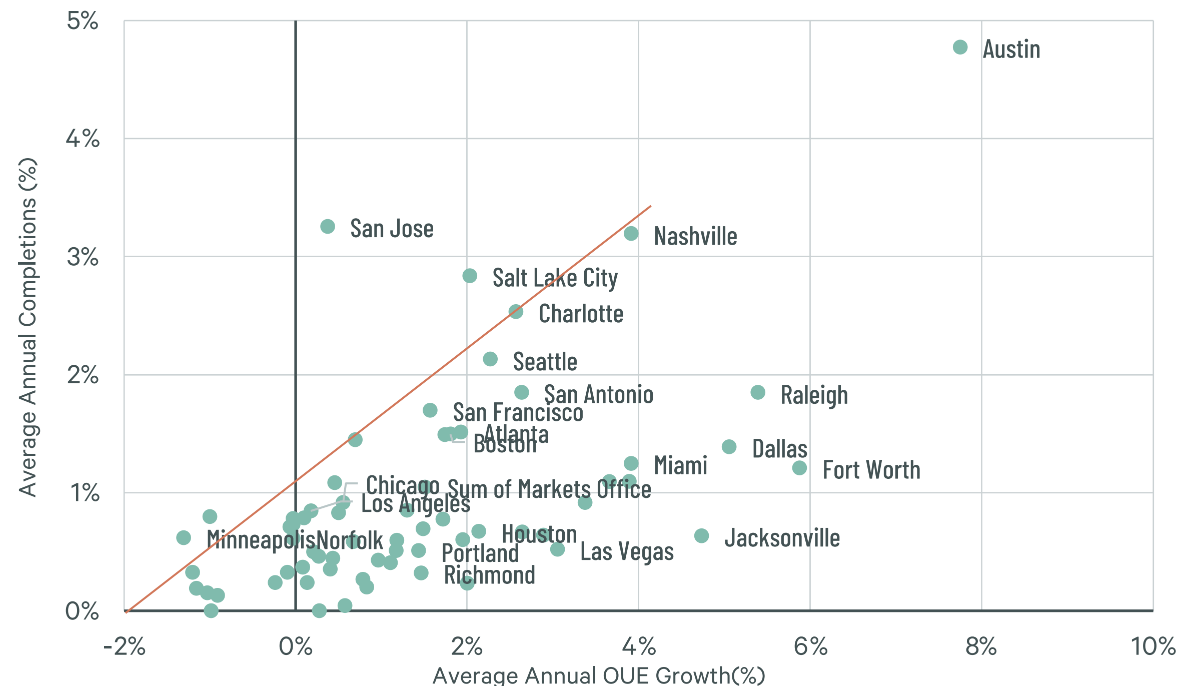
More markets show risk of over-supply, even before considering remote work impact

2012 Thru 2015 (Expansion)



Source: CBRE Econometric Advisors, Q4 2023

2020 Thru 2023 (Contraction)



Source: CBRE Econometric Advisors, Q4 2023

- The left-hand side graph shows how markets' supply (completion rate) and demand (office-using employment growth) looked during the expansionary period from 2012-2015. The right-hand side graph shows those same supply & demand dynamics from 2020-2023. The orange line shows the long-term relationship between supply and demand for all U.S. markets.
- Compared with that expansion, notably more markets have shifted toward and even past the 'over supplied' line. And this doesn't even take into account the structural changes of hybrid work, which would push even more markets past equilibrium.

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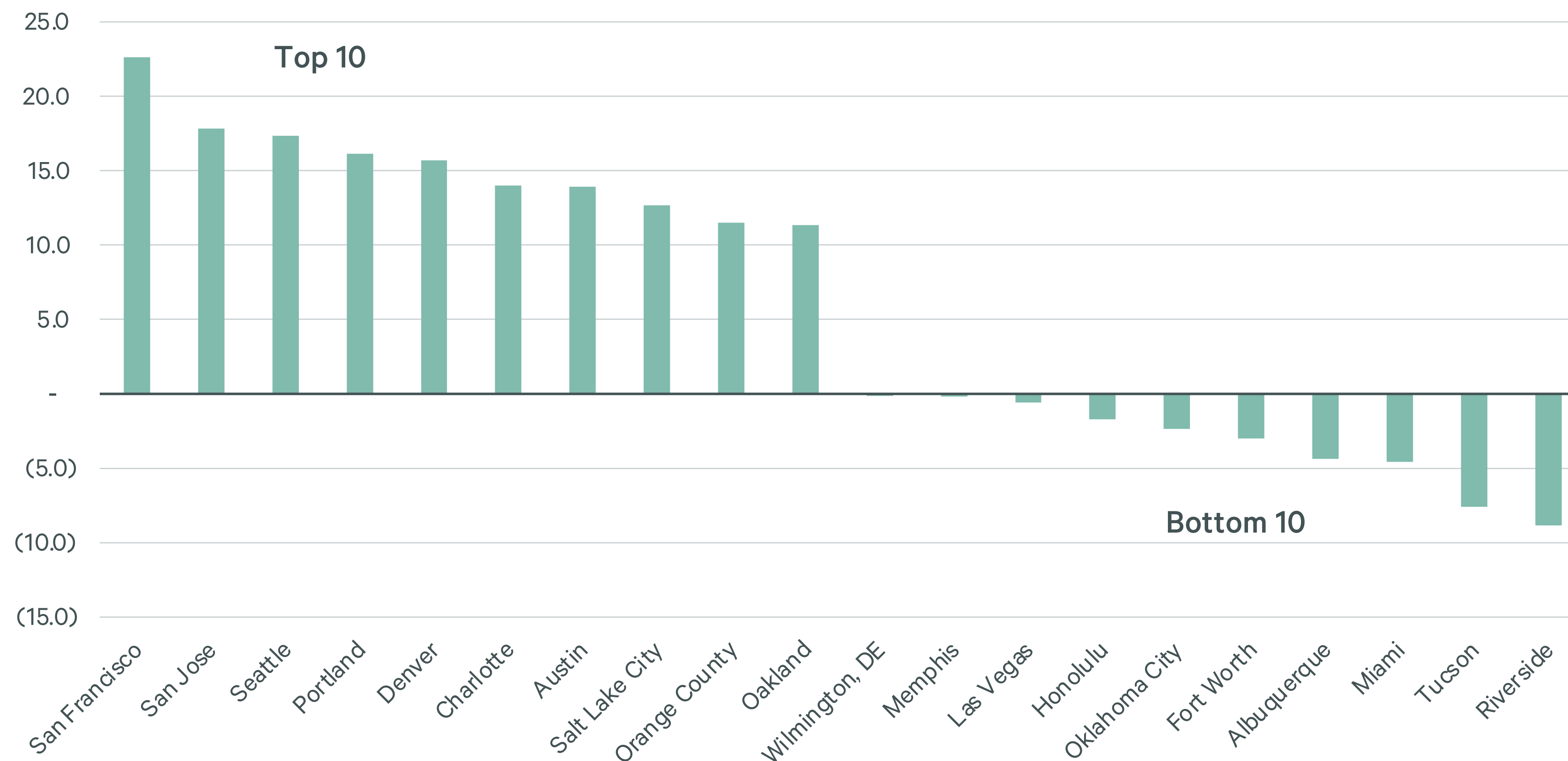
Few downtowns have recovered to pre-pandemic occupancy levels

- From Q1 2020 to Q4 2023, Downtown Sum of Markets vacancy increased from 10.5% to 18.9%, an increase of more than 8 percentage points. Suburban increased from 13.2% to 18.4%, an increase of only 5.2 percentage points.
- 30 downtowns experienced increases of more than five percentage points since the onset of the pandemic. Fourteen downtowns saw increases of more than 10 percentage points.
- The top five downtown vacancy increases since Q1 2020 lie in San Francisco, San Jose, Seattle, Portland and Denver; San Francisco experienced an increase of more than 20 percentage points, from 4.4% to 27.1%.
- Only 10 downtowns have recovered to pre-pandemic vacancy levels. These are mostly smaller and warmer markets.

Selected Markets and their Downtown Vacancy Increase (%) Since Q1 2020



Source: CBRE Econometric Advisors, Q4 2023

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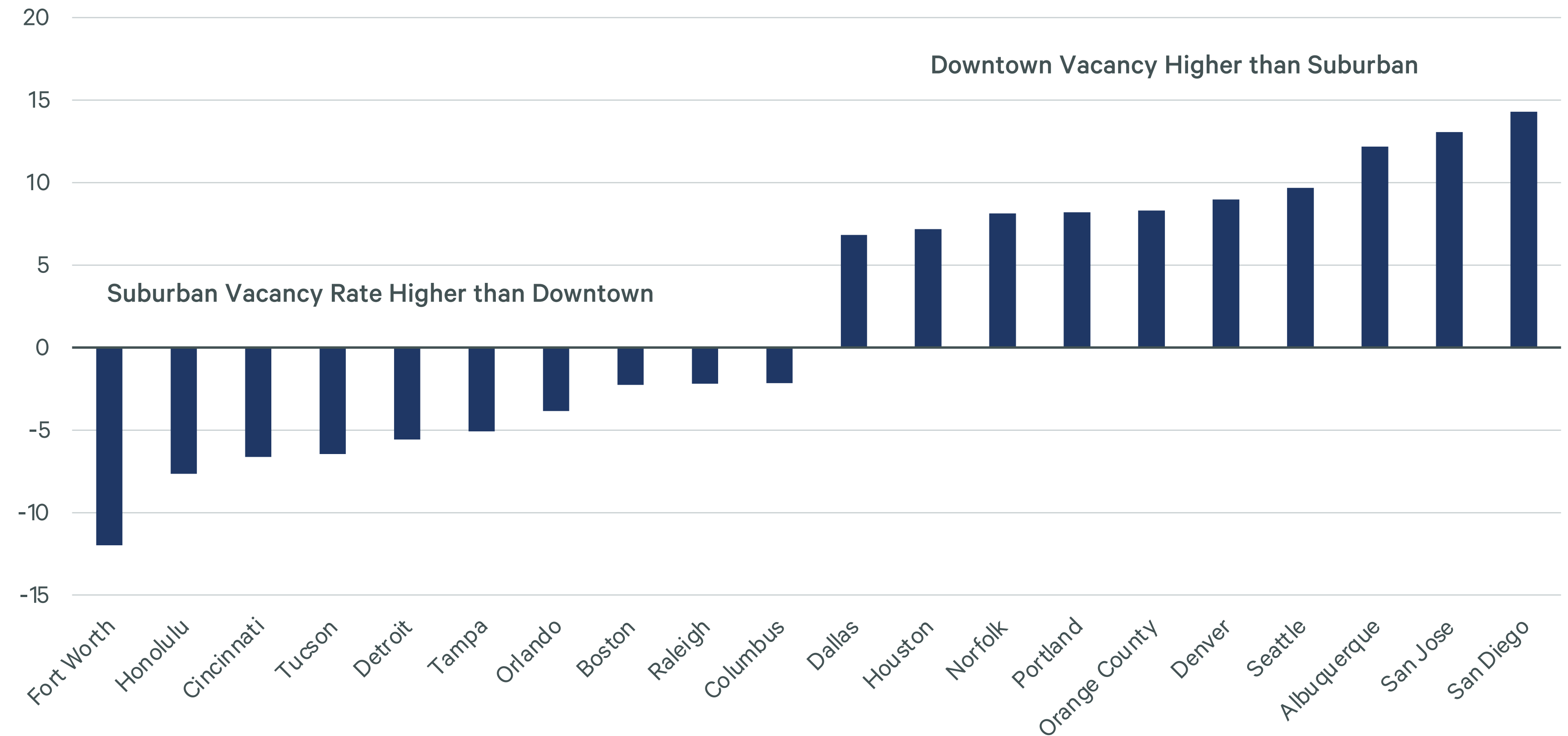
Most downtown vacancy rates are higher than respective suburbs

- Most markets' (37) downtown vacancy rates as of Q4 2023 are higher than their suburban rates, with the gap more pronounced in larger metros.
- The largest positive gaps (downtown vacancy higher than suburban) are in San Diego (14.3 percentage points), San Jose (13.0 percentage points) and Albuquerque (12.2 percentage points).
- 22 U.S. markets have a downtown vacancy rate exceeding 20%.



Source: CBRE Econometric Advisors, Q4 2023

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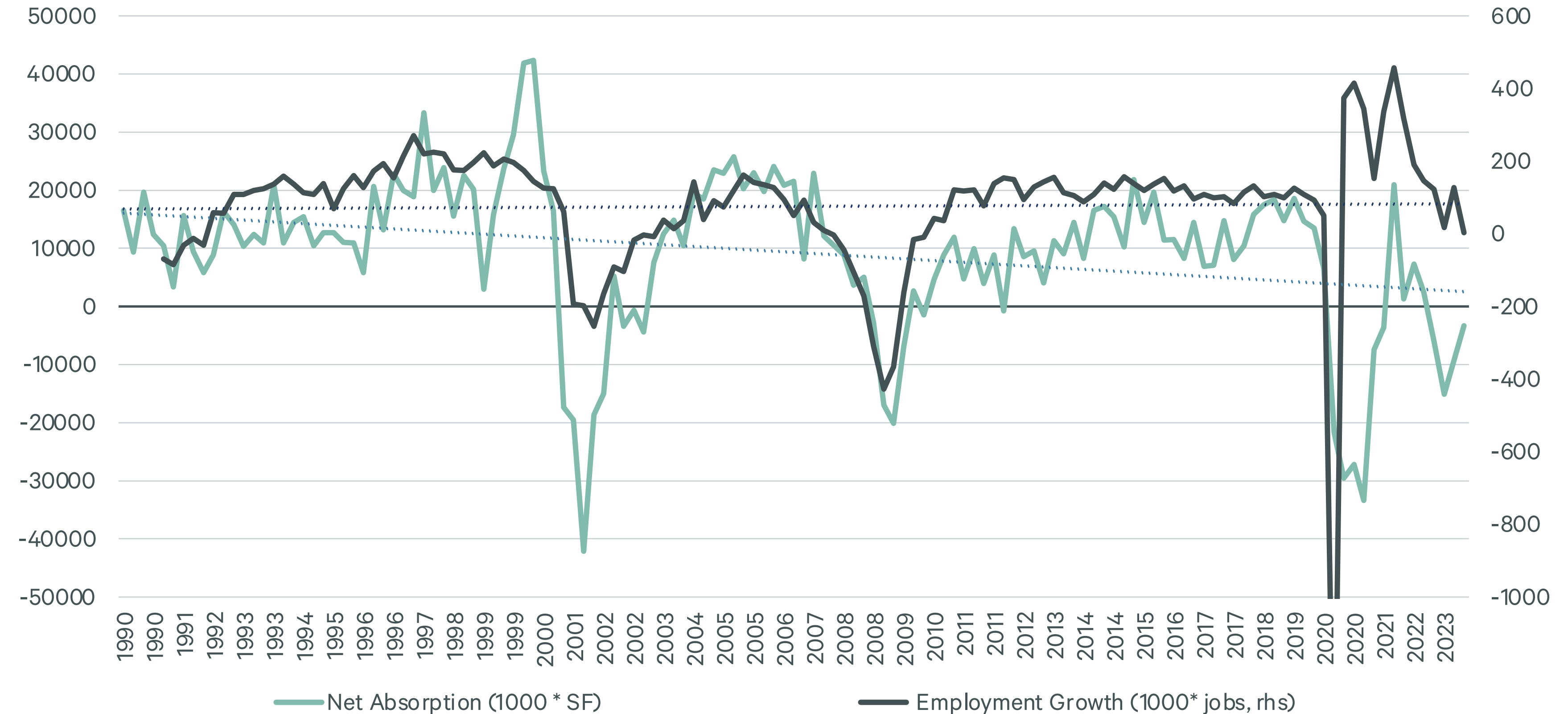
Shifting relationship between office demand and office jobs

- Office-using employment growth has been relatively stable. However, net absorption has been showing a downward trend for decades.
- The widening gap between the two trendlines speaks to the long-shifting relationship between office jobs and office demand.
- This shift has been thrown into high gear thanks to remote and hybrid work norms since the pandemic.



Source: CBRE Econometric Advisors, Q4 2023

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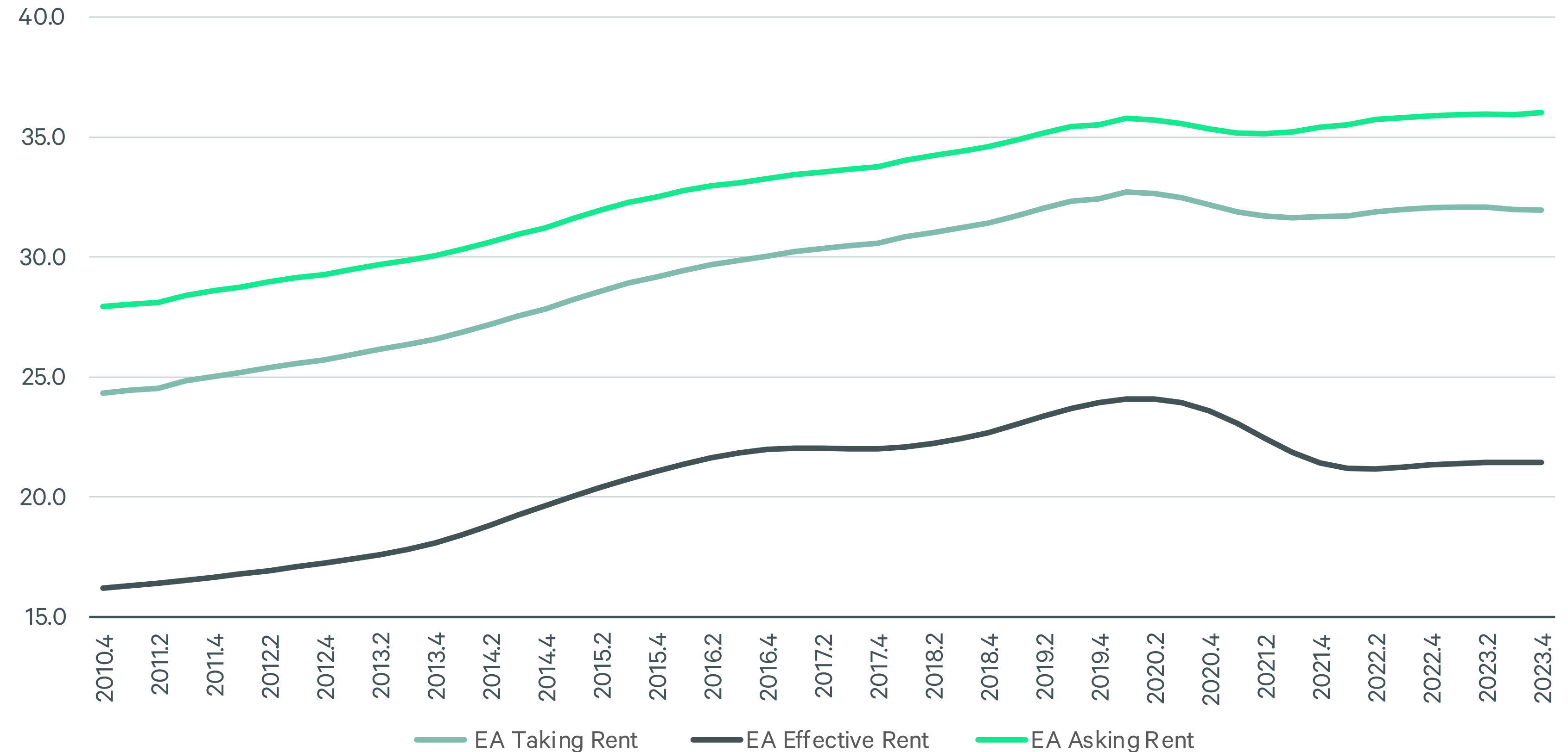
Effective rent showing more declines than asking and taking

- Asking rent dropped slightly during 2020 and 2021 but is now 0.7% higher than Q1 2020 levels.
- Taking rent, on the other hand, is now 2.3% lower than in Q1 2020.
- Effective rents are down 10.9% compared with pre-pandemic levels.
- The EA Effective Rent series takes TI, free rent, rent escalation and a discount rate into account.



Source: CBRE Econometric Advisors, Q4 2023

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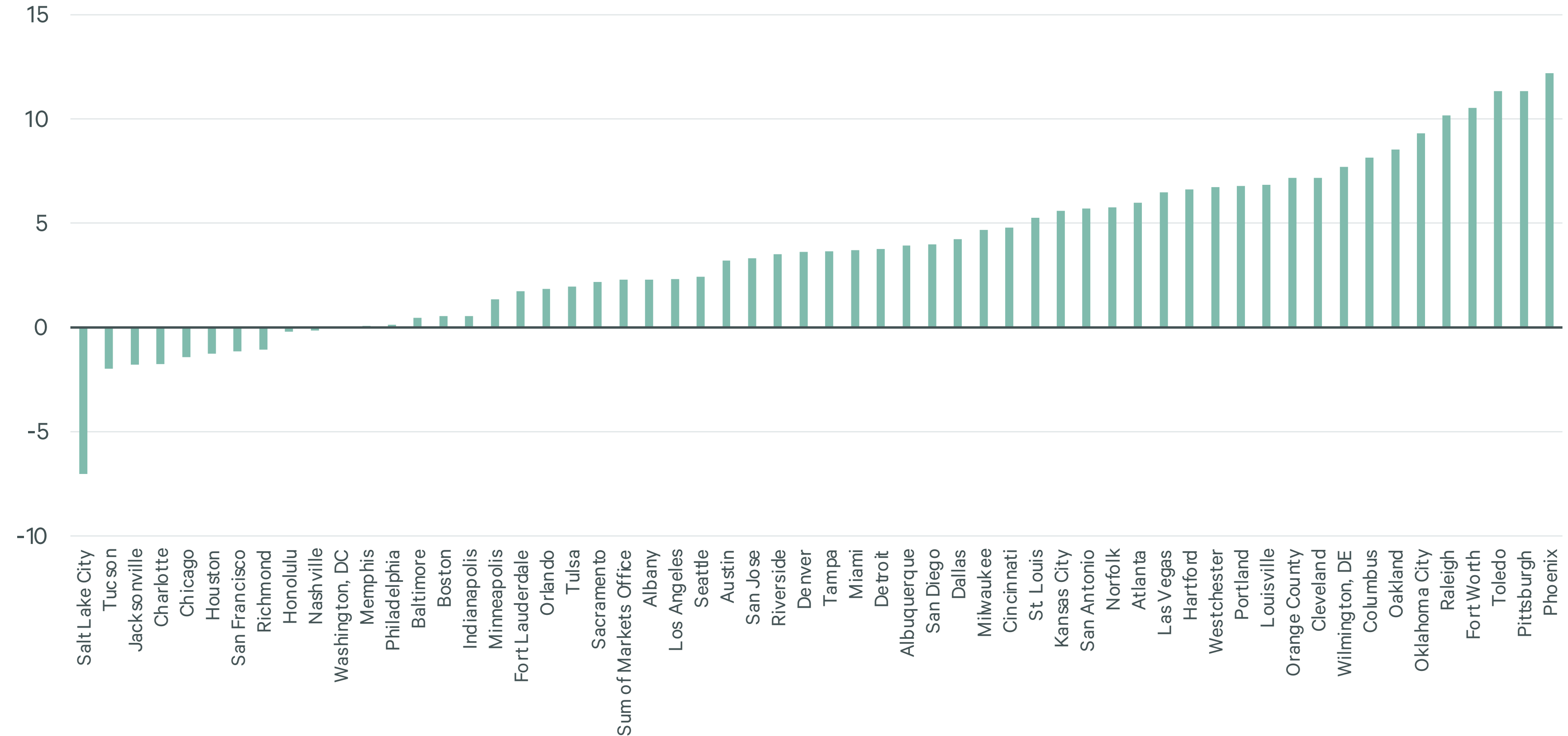
Flight to Quality

The current office classification system is obsolete...

- Most markets' Class A vacancy rates are now higher than Class B/C.
- Only 11 markets' current Class B/C vacancy rates are higher than Class A. That number was 33 pre-pandemic.
- Nationally, the Class A vacancy rate sits at 19.5% and the Class B/C vacancy rate sits at 17.2%. In Q1 2020, Class A was at 12.0% and Class B/C was at 12.7%.
- The under-performance of Class A buildings in so many markets is counter-intuitive given the flight-to-quality trend, but this just confirms that the current classification system is not detailed enough to separate top-quality buildings from the commodity Class A stock.

Current Vacancy Rate Comparison as of Q4 2023 (%)



Source: CBRE Econometric Advisors, Q4 2023

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Commodity office buildings are being left behind

- The hardest-hit buildings are those that contributed the most (top 10% of buildings) to vacancy increases from Q1 2020 to present. More than 65% of these buildings were built between 1980 and 2010. The building boom of the 1980s created a new class of commodity stock – one that is exclusively feeling the pain of the new hybrid normal.
- More than half of buildings seeing stinging occupancy losses are Class A. This again indicates that the current classification systems are missing the nuances between prime assets, which are performing, and A-minus buildings, which are experiencing the bulk of the sector's post-pandemic pain.

Source: CBRE Econometric Advisors, Q4 2023

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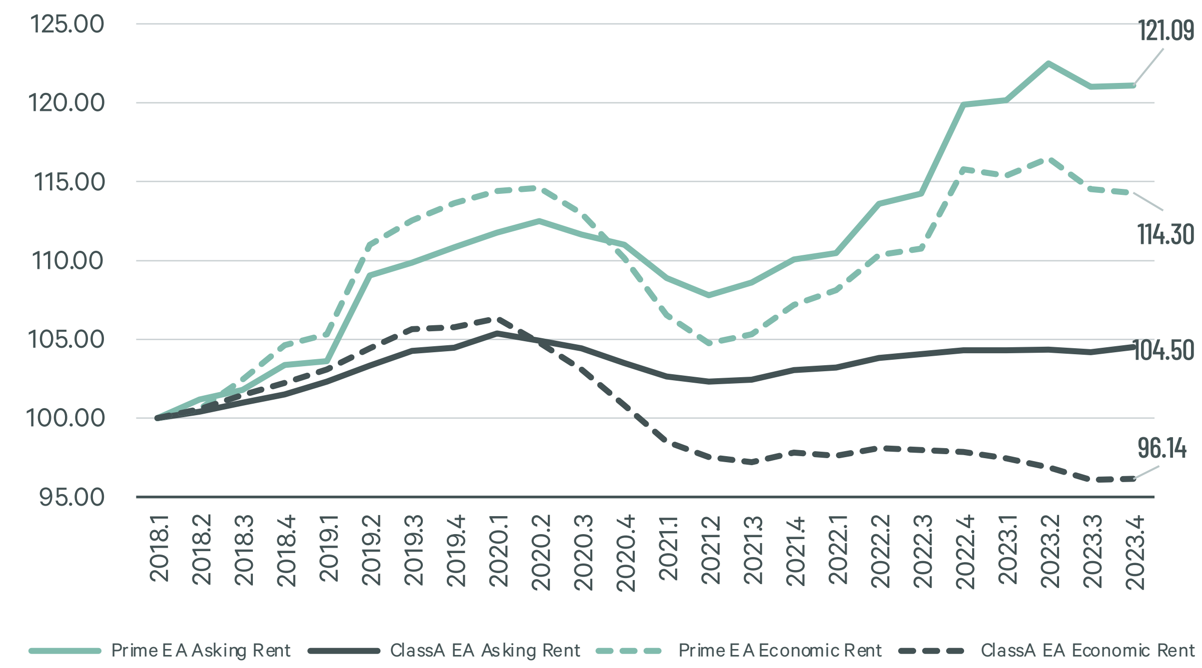
Prime office outperforms Class A



Source: CBRE Econometric Advisors, Q4 2023

EA Economic Rent : EA Asking Rent * Occupancy Rate

- EA's new prime office data series examines the top 16 markets' prime office performance since 2018.
- Unlike Class A, which comprises more than 60% of total stock, prime buildings in these 16 markets represent 8.9% of market stock and about 2.3% of the total building count. That's about 7.2% of Class A buildings by count and 13.5% by sq. ft.
- The vacancy rate gap between Prime and Class A currently sits at 500 bps.
- The rent gap between prime and Class A widened significantly since 2018. Factoring in vacancy, Class A economic rents are down 4% since 2018. Conversely, Prime economic rents are up 14%.

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The flight to Live-Work-Shop submarkets

- In the current office environment, being in a quality building might not be enough. Employers are trying to offer the best environment not just inside the building but also OUTSIDE the building.
- The orange dots in this chart represent the average quarterly net absorption rate since Q1 2020 for the broader market.
- Live-Work-Shop submarkets have significantly higher net absorption rates than their respective markets (especially Charlotte and Chicago), indicating strong demand from occupiers and clear bifurcation within the market.

Source: CBRE Econometric Advisors, Q4 2023

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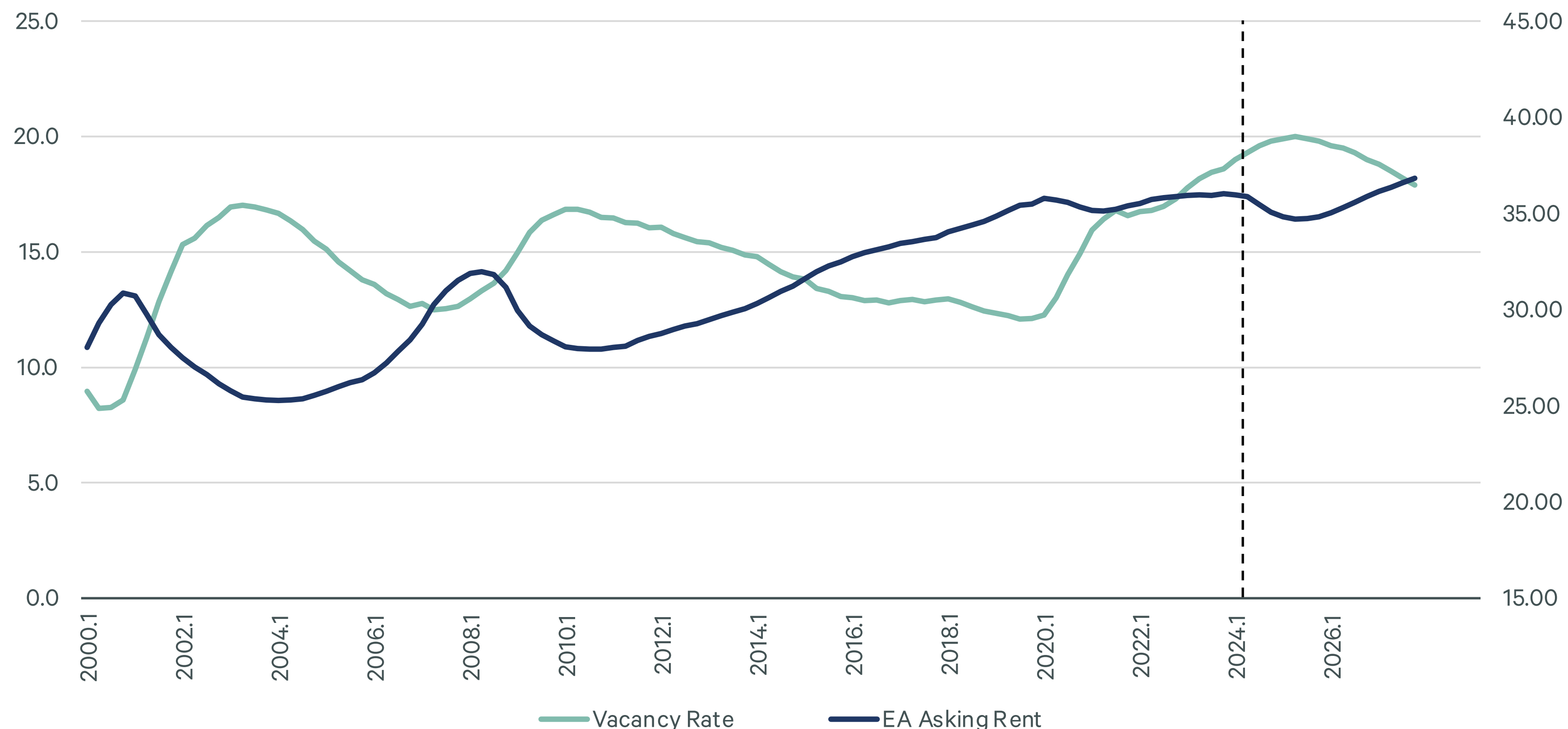
U.S. Office Forecasts

Office fundamentals expected to deteriorate further in 2024

- Asking rents fall 3%, cumulatively (from Q1 2020 to Q2 2025).
- Vacancy peaks at 20.0% in Q2 2025.
- We continue to expect a material slowdown in growth as consumers lose their firepower.
- Stable job growth coupled with limited new supply will rebalance markets beginning in late 2025.
- Full recovery to pre-pandemic rent levels will occur by Q4 2026 (6.75 years).

Baseline Forecast



Source: CBRE Econometric Advisors, Q4 2023

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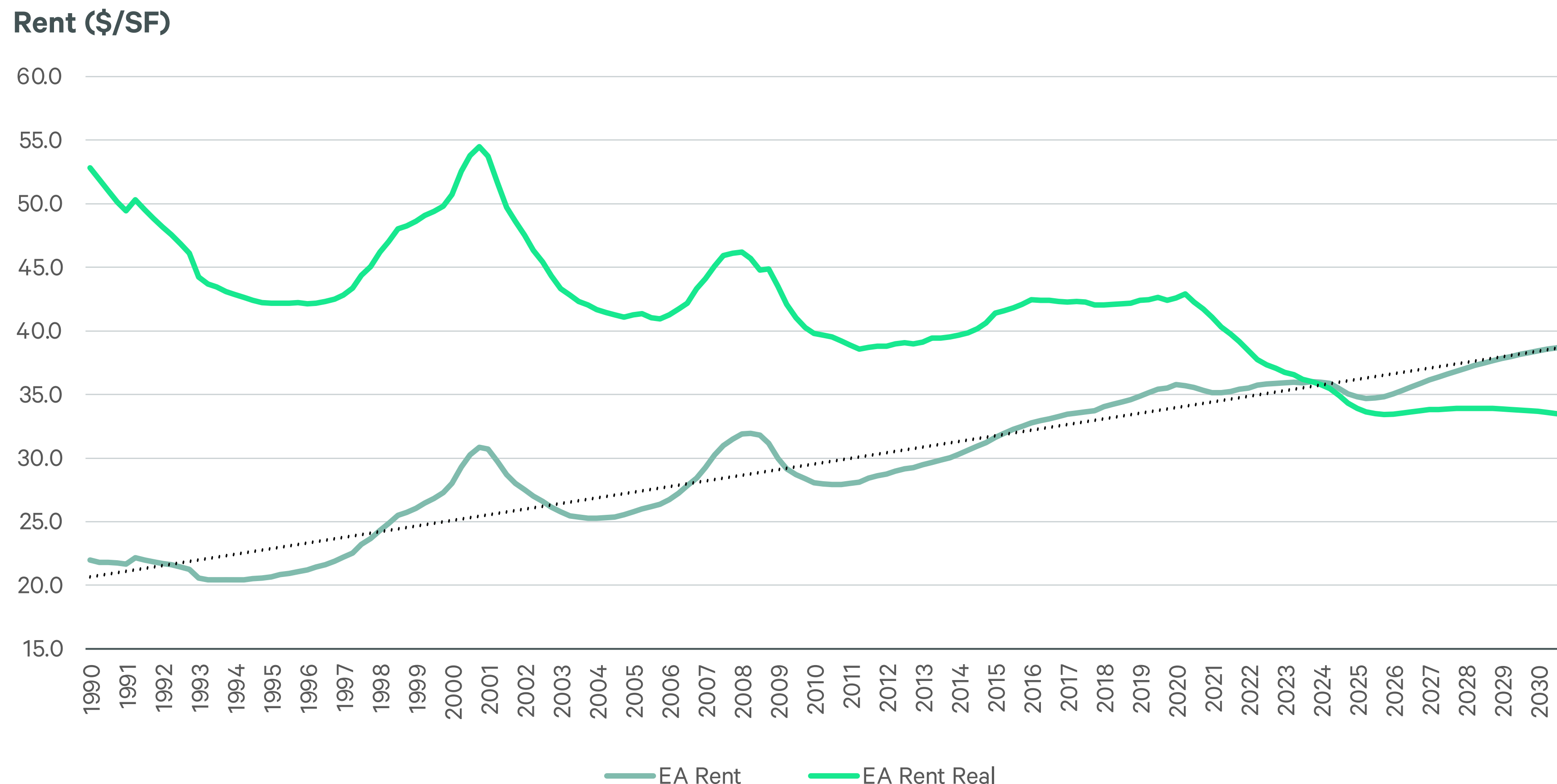
Asking rent decline remains muted compared with past cycles

- Nominal rent has barely changed compared with Q1 2020. However, real asking rent is down 15.4% since the start of the pandemic, on par with the drop during the GFC (16.4%). And we expect real rents to drop 21.5% compared with Q1 2020.
- The rent recovery timeline remains at 6.75 years with cumulative nominal rent decline revised to 3.0%.
- Effective rents will likely be further tempered by rising tenant improvement allowances and rent-free periods.



Source: CBRE Econometric Advisors, Q4 2023

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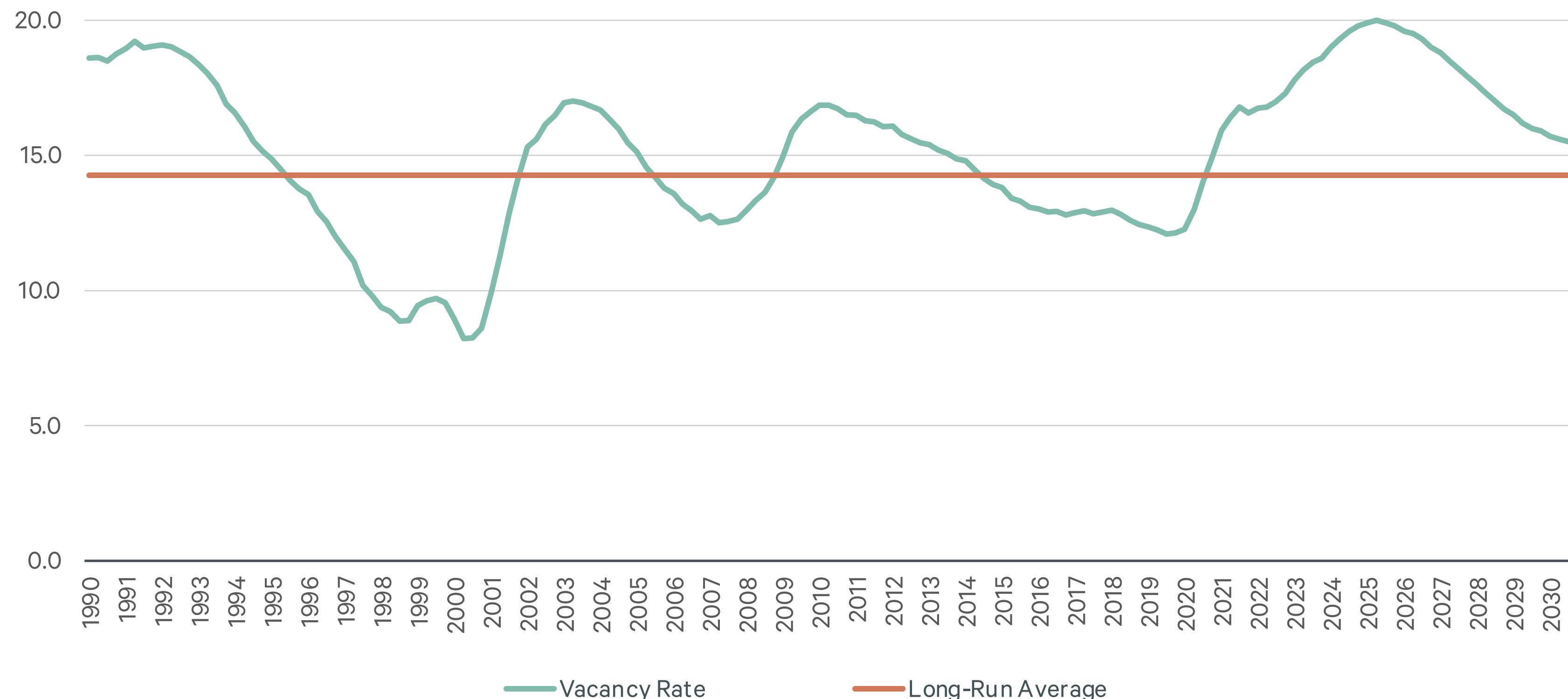
Supply & demand search for balance in the long run

- Oncoming new supply and continued weakened demand are expected to increase the vacancy rate over the next few quarters, which is expected to peak in Q2 2025 around 20%.
- The vacancy rate is expected to hover above 18% until H2 2027.
- Supply and demand dynamics vary a great deal between markets and submarkets.
- Many markets expect longer-term structural vacancy to remain higher than historical trends.
- Much of this is driven by the structural shift of remote work and occupiers continuing to consolidate footprints into higher-quality buildings.



Source: CBRE Econometric Advisors, Q4 2023

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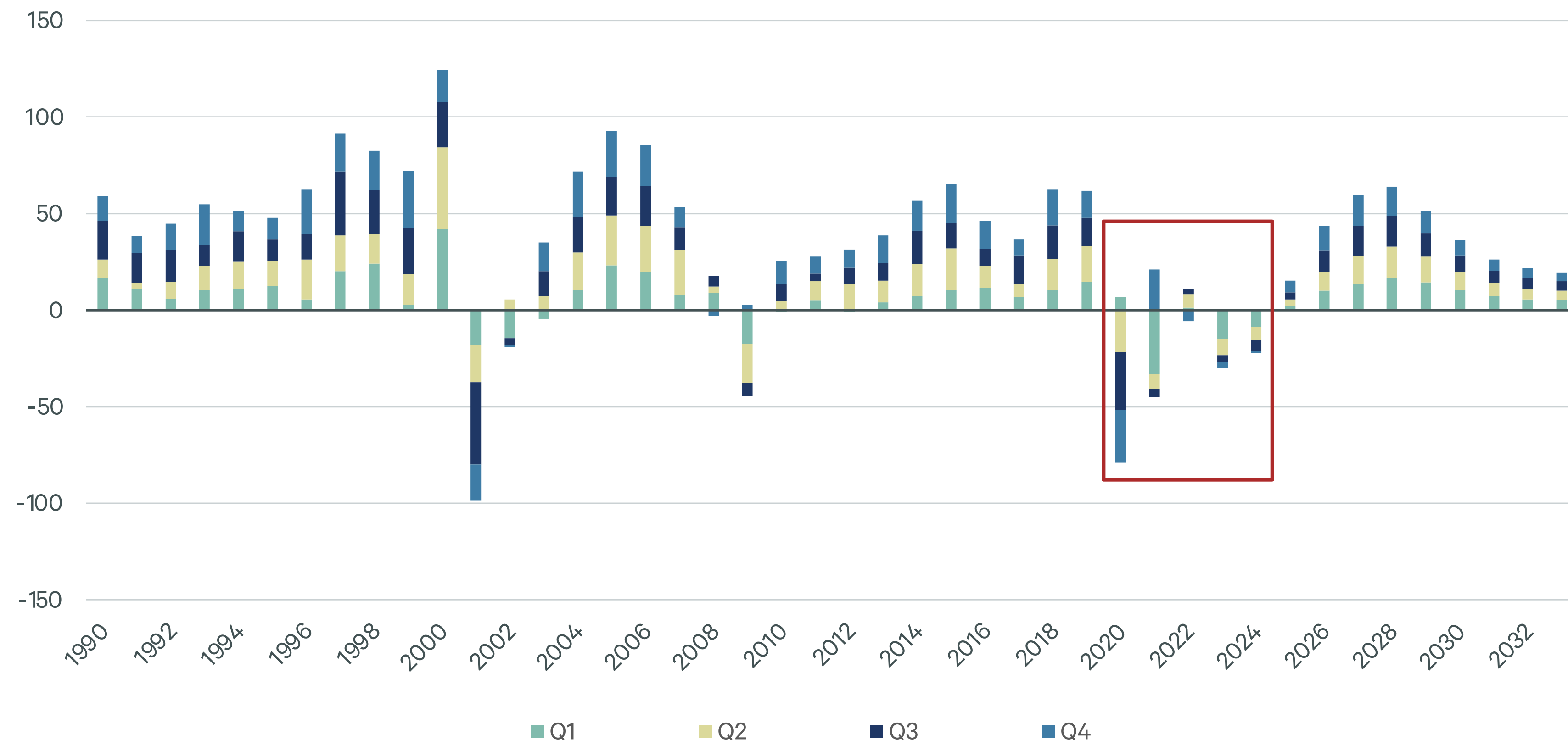
Leasing and absorption slow to return

- Q4 net absorption improved to -2.9 MSF but remained negative for the fifth consecutive quarter.
- 2023's annual net absorption reached -30 MSF. For comparison, annual net absorption in 2020, 2021 and 2022 was -72 MSF, -24 MSF and 5 MSF, respectively.
- We expect 2024 to be another year of negative net absorption, albeit better than 2023.
- Leasing activity will improve in Q1 2025 as the macro economy improves. However, footprint consolidations due to remote and hybrid work will continue to weigh on absorption.
- Slowing employment growth will also weigh on office leasing in the long run.



Source: CBRE Econometric Advisors, Q4 2023

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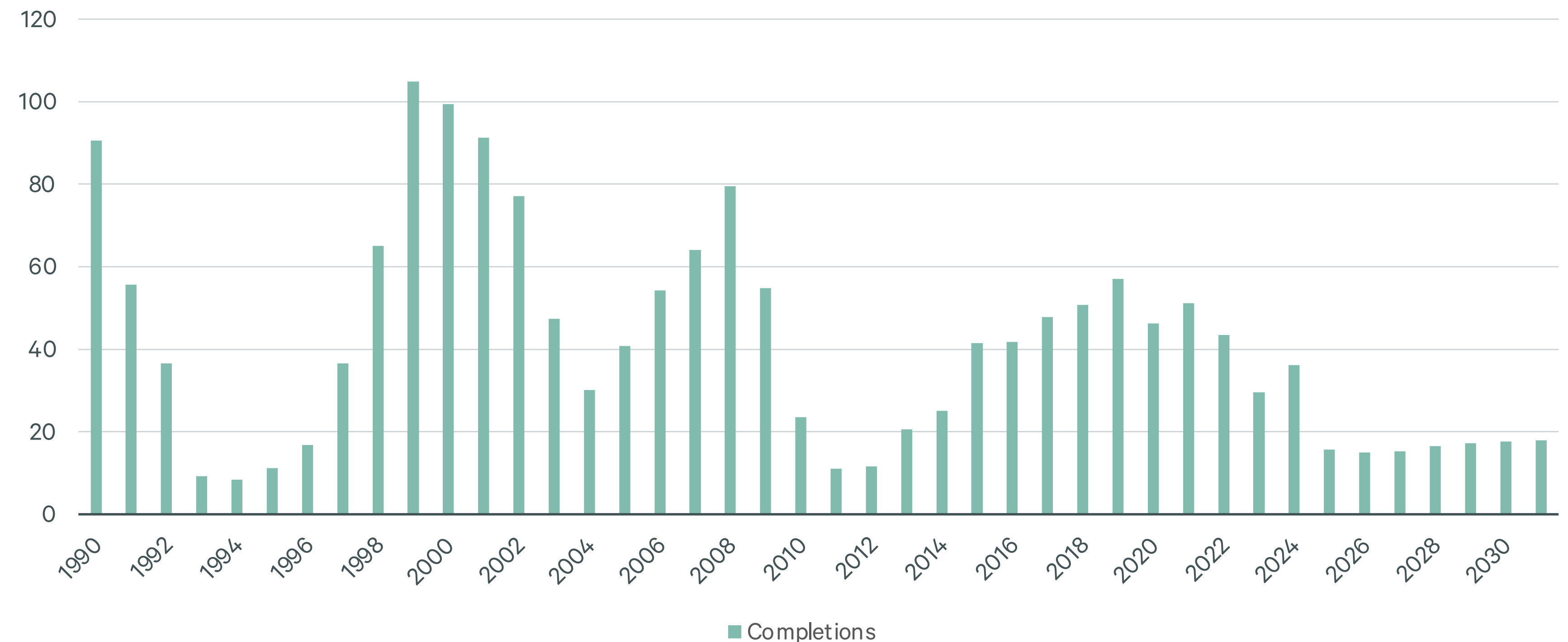
Developers pull back, but demand for new, high-quality space will support some new development

- Supply forecasts for the next eight quarters are based on property-level construction pipeline data.
- Except for a few properties already moving ahead, we expect developers to pull back over the medium term. The long-term completion rate is expected to be 0.4% compared with 1.6% from 1990 to 2020.
- Driven by a flight to quality, we expect the continued trend of developing higher-quality space with careful attention to providing the building amenities that tenants demand.
- Unlike in past cycles, supply doesn't accelerate to the same extent in later years as remote and hybrid work has a lasting impact.



Source: CBRE Econometric Advisors, Q4 2023

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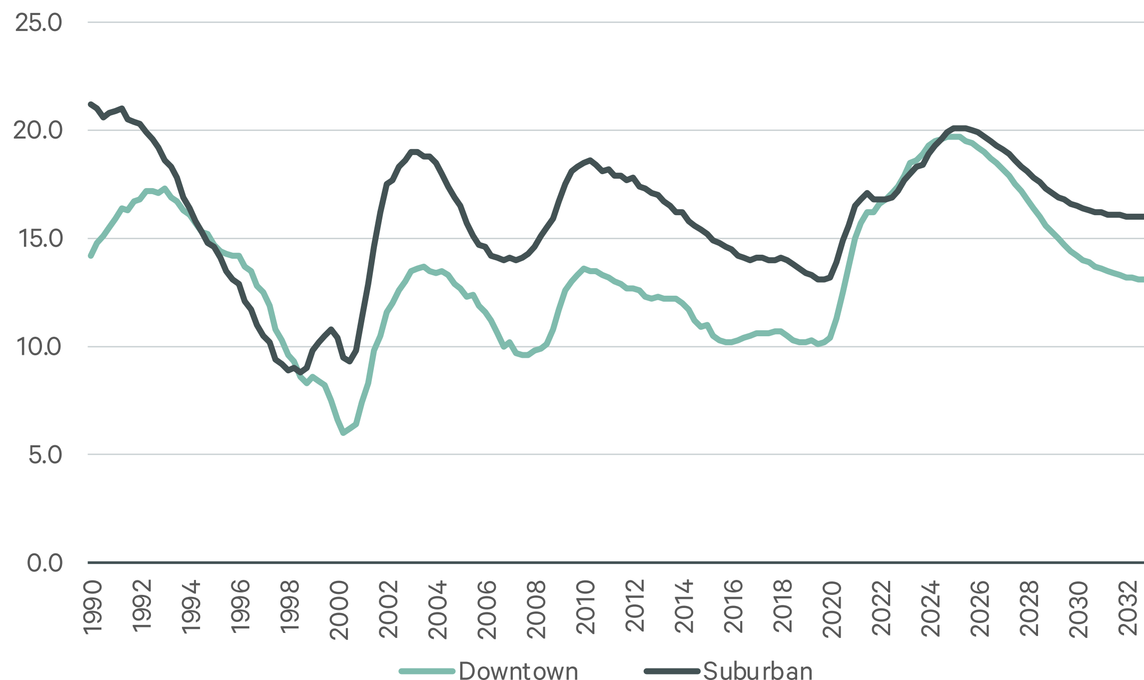
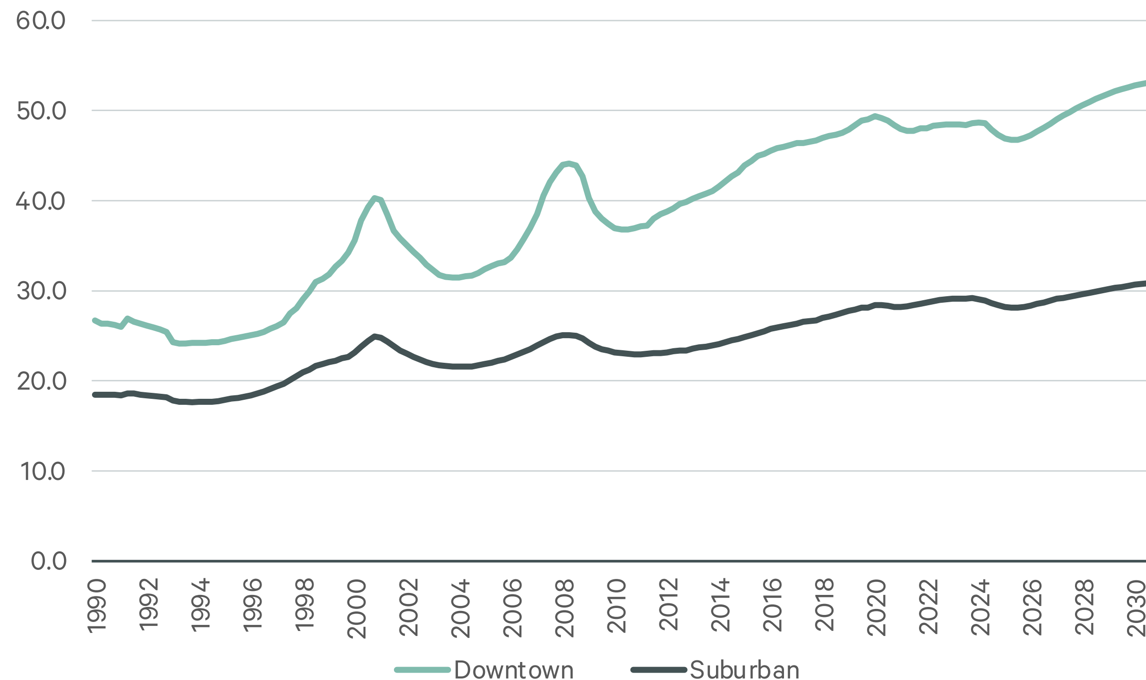
Downtowns are expected to perform better in the long run



Source: CBRE Econometric Advisors, Q4 2023

- Downtown and suburban vacancy rates increased 30 bps and 10 bps, respectively, this quarter. The downtown vacancy rate now exceeds suburban by 50 bps in Q4 2023.
- The downtown vacancy rate has increased 850 bps while suburban only increased 520 bps. During the GFC, both downtown and suburban increased around 400 bps.
- This speaks to the impact of remote and hybrid work, which, to date, has put more pressure on downtown markets.



Source: CBRE Econometric Advisors, Q4 2023

- Downtown rental rates declined 1.6% while suburban showed a 2.8% increase compared with pre-pandemic levels.
- However, downtowns are expected to outperform in the mid- to long term.
- As the flight to quality intensifies, occupiers will continue to cluster around downtowns where most prime buildings are located and where talent resides.

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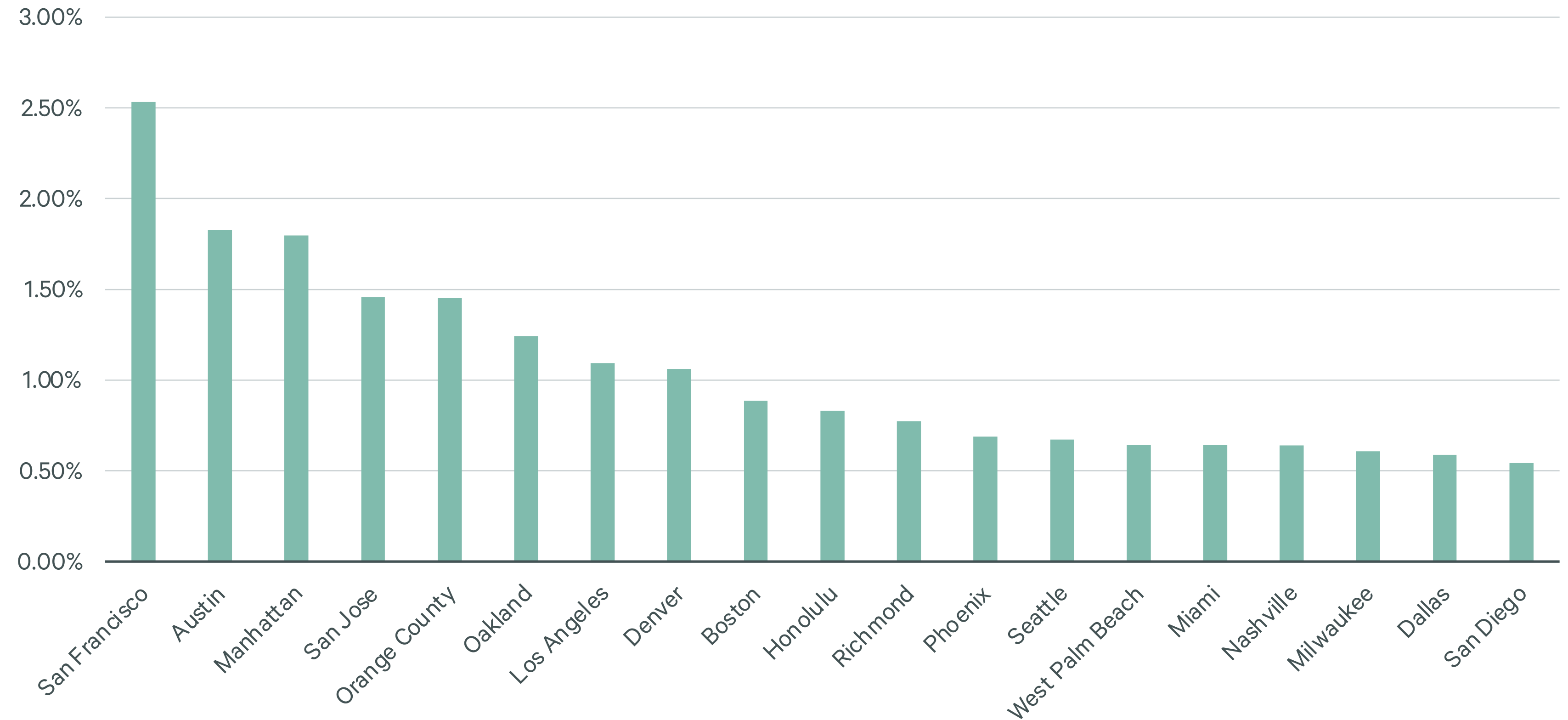
Despite hybrid work impact, job growth still drives market performance

- This rent growth is tied to strong office-using job gains, offsetting the reduction in space per employee associated with remote work. The lack of supply in certain markets will also help rent growth.
- Markets such as Miami are benefiting from new-to-market tenants moving away from gateway cities. Markets such as Austin will continue to benefit from high office-using employment growth.
- San Francisco and Manhattan are driven by rent mean–reverting to trend.
- Even these 'leading' markets are expected to see rent growth far below historical averages and notably below that of other product types.



Source: CBRE Econometric Advisors, Q4 2023

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Now vs. then: comparing past downturns

- The supply pipeline presents a modest headwind. It is more severe in certain markets and submarkets.
- A total of 51.9 MSF is expected to be delivered over the next two years for the Sum of Markets*.
- The consistent demand for high-quality office space is expected to buoy the performance of these newer Class A properties with modern amenities and good locations – leaving a performance gap between them and commodity office stock.
- Even in our Downside scenario, cumulative rent decline is notably more moderate than during prior downturns, though inflation-adjusted rent decline is very much in line.

Hybrid Work Puts Pressure on What Would Otherwise be a Mild Downturn in Occupancy

	Current Forecast Ranges (Baseline to Downside)			2008 Global Financial Crisis	2001 .com
Cumulative Rent Decline	3.0%	to	5.2%	11.3%	18.1%
Peak Vacancy	20.0%	to	22.2%	16.9%	17.0%
Total Change in Vacancy	+770 bps	to	+980 bps	+390 bps	+840 bps
# Quarters Peak-to-Trough	21	to	22	10	11
# Years to Recovery	6.75	to	9	7	6.25
Supply (MSF delivered during cycle peak)		197 MSF (2019-2022)		159 MSF (2007-2010)	292MSF (2000-2003)
Additional sq. ft. of Vacant Space Added to the Market	349 MSF	to	441 MSF	158 MSF	292 MSF

Source: CBRE Econometric Advisors, Q4 2023

* Sum of Markets does not include Albany, Louisville, Memphis, Milwaukee, Norfolk, Oklahoma City, Pittsburgh, Raleigh, Richmond, San Antonio, Toledo and Tulsa.

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EA Scenarios

'Baseline' Scenario

- The Baseline Scenario assumes that economic growth will persist into 2024, albeit at a moderated pace relative to H2 2023. This expansion will ultimately be driven by a steady labor market that will guide the economy toward a soft landing.
- Although recent CPI reports indicate an uptick in some components, we believe inflation overall will continue to trend downward. Some components of inflation, such as consumer services, could remain stubbornly higher than goods prices. Inflation would hit to the Fed's target rate by 2025.
- The combination of peaking inflation and softer economic growth suggests that the Fed is done hiking this cycle. The Baseline Scenario expects the first rate hike will be in May 2024.

Y-o-Y Change (%); 10-Year Treasury Displays Quarterly Yields

	GDP	Employment	CPI	US 10-Year
2021 Q1	1.6	(5.4)	1.9	1.3
2021 Q2	12.0	8.6	4.8	1.6
2021 Q3	4.7	4.7	5.3	1.3
2021 Q4	5.4	4.6	6.8	1.5
2022 Q1	3.6	5.0	8.0	1.9
2022 Q2	1.9	4.7	8.6	2.9
2022 Q3	1.7	4.2	8.3	3.1
2022 Q4	0.7	3.4	7.1	3.8
2023 Q1	1.7	2.9	5.8	3.6
2023 Q2	2.4	2.5	4.1	3.6
2023 Q3	2.9	2.1	3.6	4.1
2023 Q4	2.8	1.8	3.2	4.4
2024 Q1	2.4	1.1	2.8	4.0
2024 Q2	2.0	0.8	2.7	3.7
2024 Q3	1.1	0.5	2.3	3.6
2024 Q4	0.8	0.2	2.2	3.6
2025 Q1	1.0	0.4	2.1	3.5
2025 Q2	1.3	0.5	2.1	3.5
2025 Q3	1.6	0.7	2.0	3.4
2025 Q4	1.9	0.8	2.0	3.4

Source: Oxford Economics, CBRE Econometric Advisors

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'Stubborn Inflation' Scenario

- In this scenario, inflation shows signs of escalation in early 2024 prompting the Fed to tighten further, holding Treasury yields above 4% during 2024. This change causes a retrenchment across financial markets and firms shelve expansion plans. The labor market rolls over by H2 2024, which will eventually allow CPI to fall below our Baseline view in 2025.
- The 'Stubborn Inflation' Scenario will have a disproportionate impact on the commercial real estate sector, which leans on regional banks as a key source of financing. With the key driver of this scenario being higher interest rates the impact on cap rates and valuations would be quite negative.

Y-o-Y Change (%); 10-Year Treasury Displays Quarterly Yields

	GDP	Employment	CPI	US 10-Year
2021 Q1	1.6	(5.4)	1.9	1.3
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2023 Q3	2.9	2.1	3.6	4.1
2023 Q4	2.8	1.8	3.2	4.4
2024 Q1	2.2	1.1	3.3	4.3
2024 Q2	1.5	0.5	3.1	4.4
2024 Q3	(0.0)	(0.2)	2.6	4.5
2024 Q4	(0.9)	(0.9)	2.4	4.6
2025 Q1	(0.9)	(1.1)	1.8	4.2
2025 Q2	(0.7)	(1.2)	1.7	4.1
2025 Q3	(0.1)	(1.0)	1.7	4.1
2025 Q4	0.7	(0.6)	1.7	4.1

Source: Oxford Economics, CBRE Econometric Advisors

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‘Resilient Consumer’ Scenario

- The more upbeat scenario is driven by consumers continuing to surprise on the upside but with limited impact on inflation. Thus, the economy gets the benefit of more activity without the tax of higher interest rates. In fact, dissipating inflation would encourage the Fed to cut quicker than our Baseline outlook. It should be noted that this scenario would not yield significantly stronger job growth given the labor market is already quite tight.
- More clarity around the path of interest rates provides some relief for rate sensitive sectors, such as real estate. The benefit to real estate would be two-pronged with lower rates supporting greater deal volume and stronger economic growth supporting healthier fundamentals and NOI growth.

Y-o-Y Change (%); 10-Year Treasury Displays Quarterly Yields

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2021 Q1	1.6	(5.4)	1.9	1.3
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2024 Q2	2.2	0.9	2.5	3.5
2024 Q3	1.5	0.7	2.2	3.3
2024 Q4	1.4	0.7	2.1	3.4
2025 Q1	1.9	1.0	2.4	3.6
2025 Q2	2.2	1.2	2.4	3.7
2025 Q3	2.2	1.3	2.4	3.7
2025 Q4	2.0	1.2	2.4	3.7

Source: Oxford Economics, CBRE Econometric Advisors

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‘Severe Downside’ Scenario

- In this scenario the U.S. economy is shocked by a major exogenous event. There could potentially be an unknown financial threat triggered by the continued uptick in interest rates. This event would not take hold immediately but rather begin to bite as rates drift higher in early 2024.
- Such an event would trigger a severe recession in coming quarters analogous to the *Global Financial Crisis*. A key feature of this scenario would be lasting economic scarring as households, firms and the financial system struggles to regain its footing.

Y-o-Y Change (%); 10-Year Treasury Displays Quarterly Yields

	GDP	Employment	CPI	US 10-Year
2021 Q1	1.6	(5.4)	1.9	1.3
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2023 Q4	2.8	1.8	3.2	4.4
2024 Q1	0.9	0.4	3.0	4.3
2024 Q2	(1.0)	(1.1)	2.7	4.4
2024 Q3	(3.2)	(2.5)	2.1	4.2
2024 Q4	(4.3)	(3.7)	1.8	4.0
2025 Q1	(3.2)	(3.6)	1.4	3.9
2025 Q2	(2.1)	(3.1)	1.5	3.8
2025 Q3	(1.4)	(2.6)	1.5	3.6
2025 Q4	(0.3)	(1.9)	1.6	3.6

Source: Oxford Economics, CBRE Econometric Advisors

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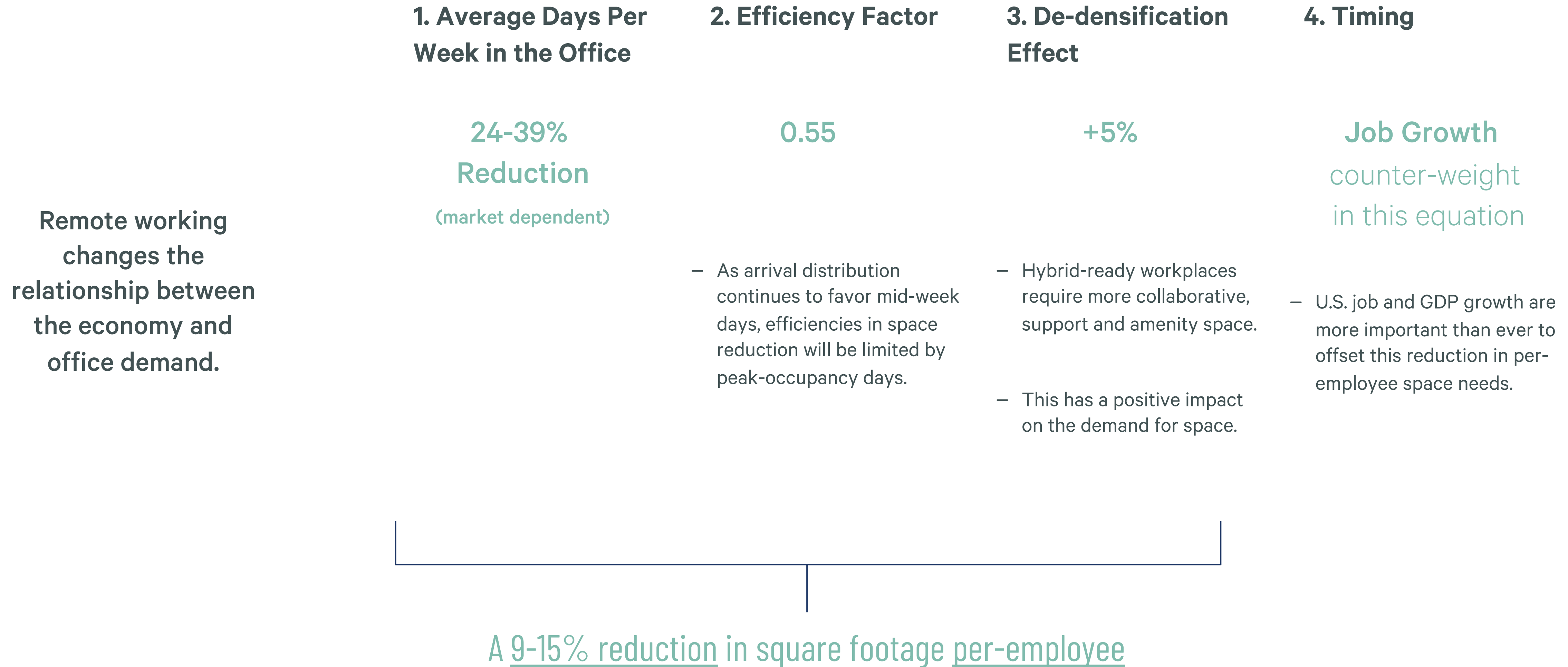
Remote Work

On top of macro factors, the office sector faces structural issues



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Thank you.

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