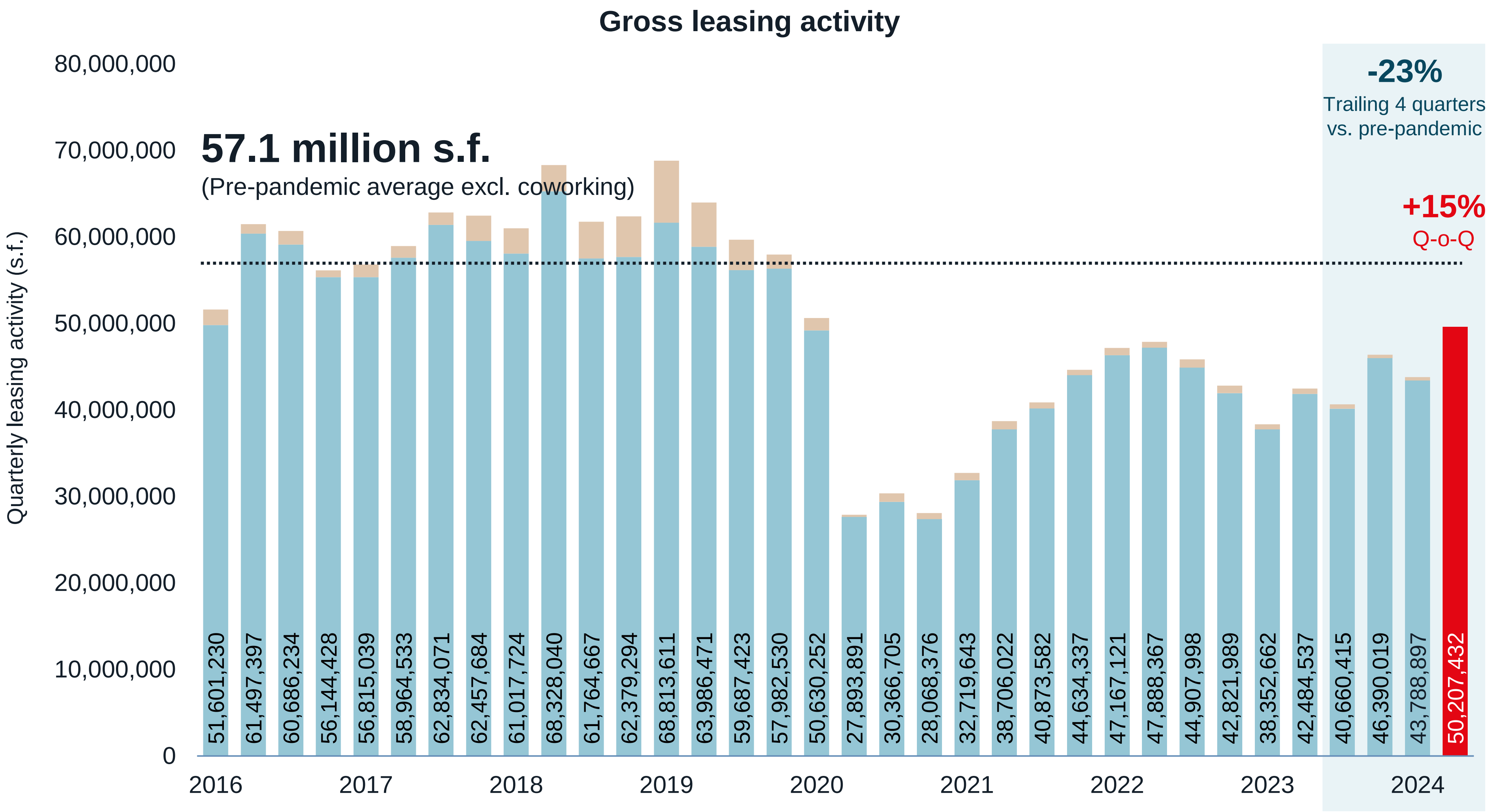
U.S. Office Market Outlook

AlonyHetz
Properties & Investments Ltd.

Prepared for Alony Hetz Capital Markets Call
Q2 2024

JLL SEE A BRIGHTER WAY

Demand - Leasing volume jumps in Q2, highest quarterly total since Q1 2020

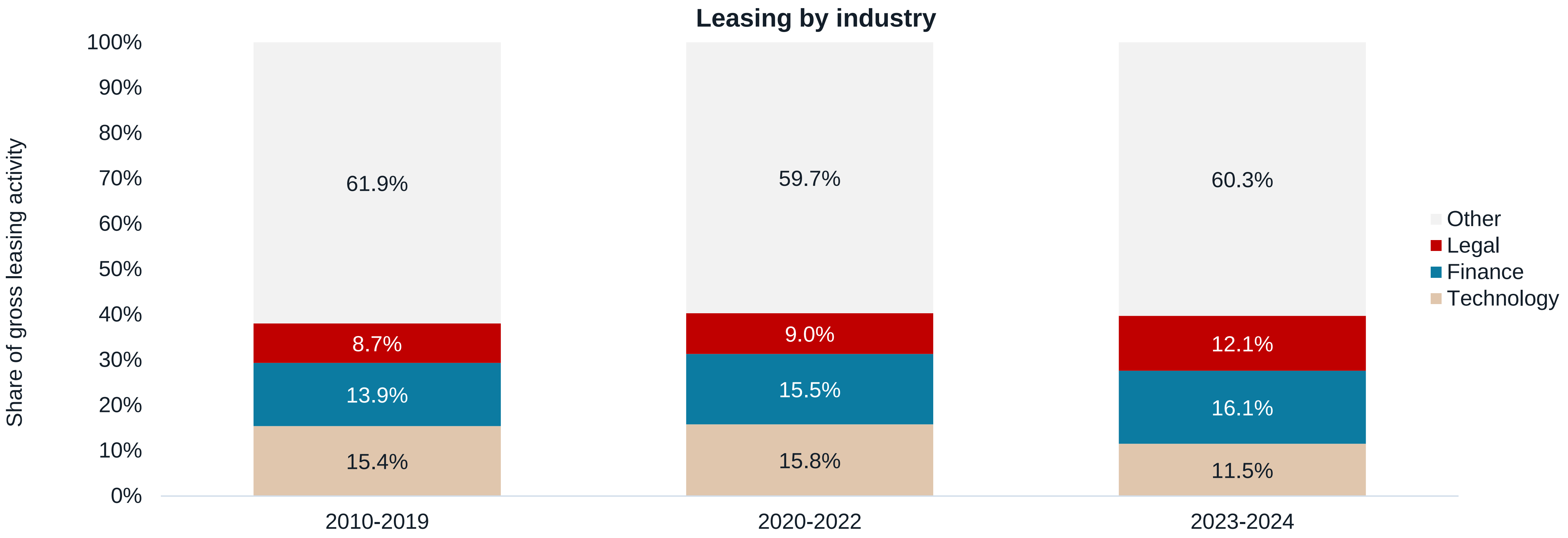


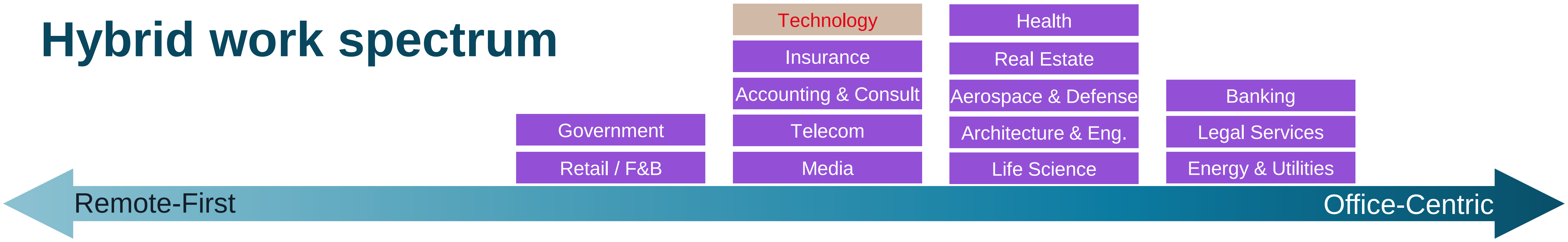
Leasing highlights

- 99% of transactions replaced with new requirements
- Larger leases recovering
- New & expansion demand growing
- Renewal probability up 15% Y-o-Y
- Flight to quality – relocating tenants choosing assets on average 27 years newer

Source: JLL Research
Note: Tan bars represent leasing volume by coworking providers and are excluded from pre-pandemic average.

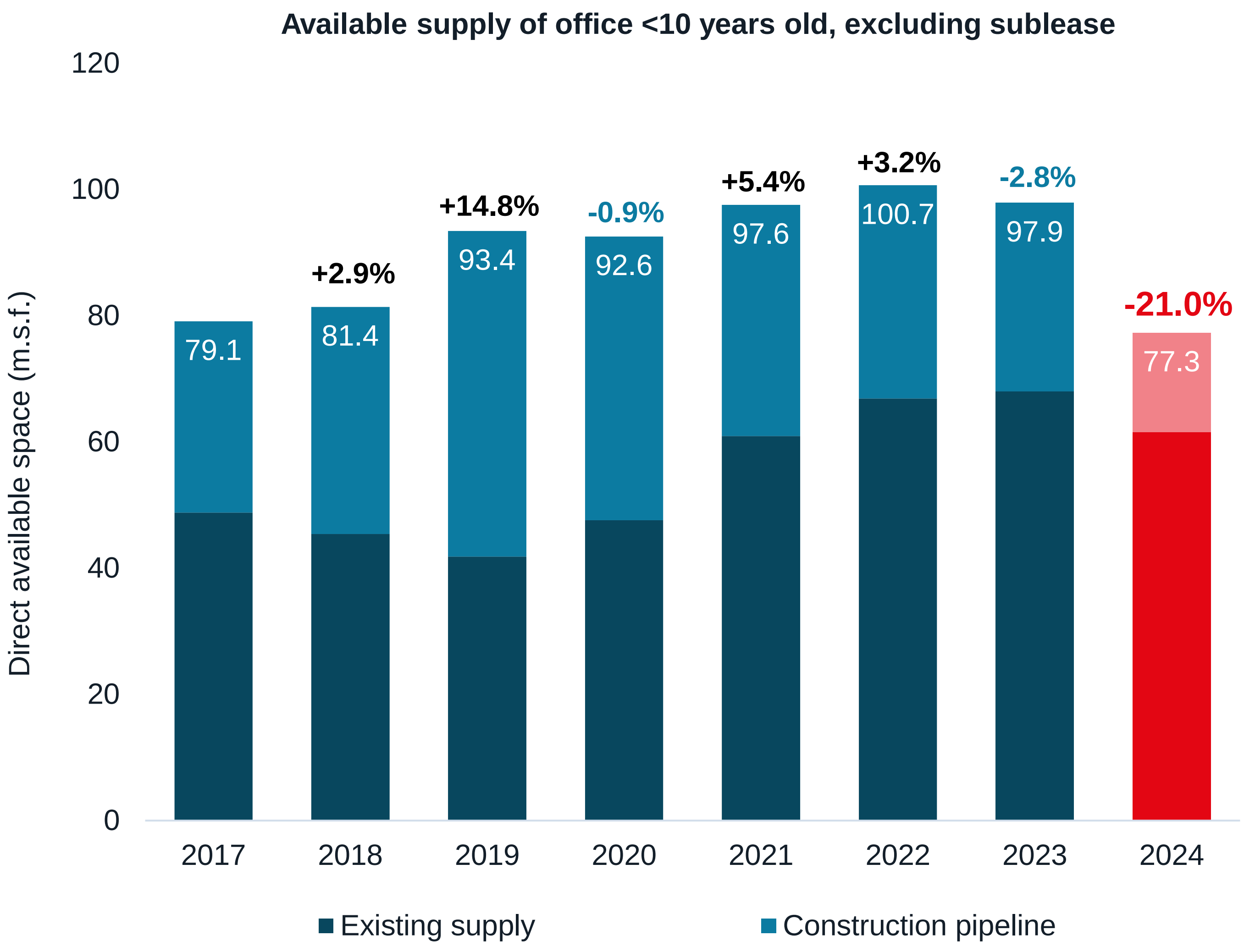
Demand - Technology sector facing delayed recovery due to slower return-to-office

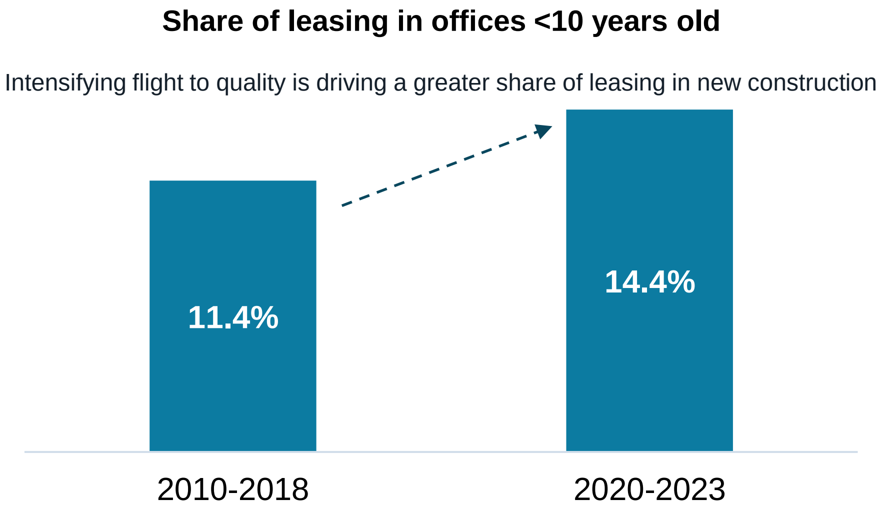


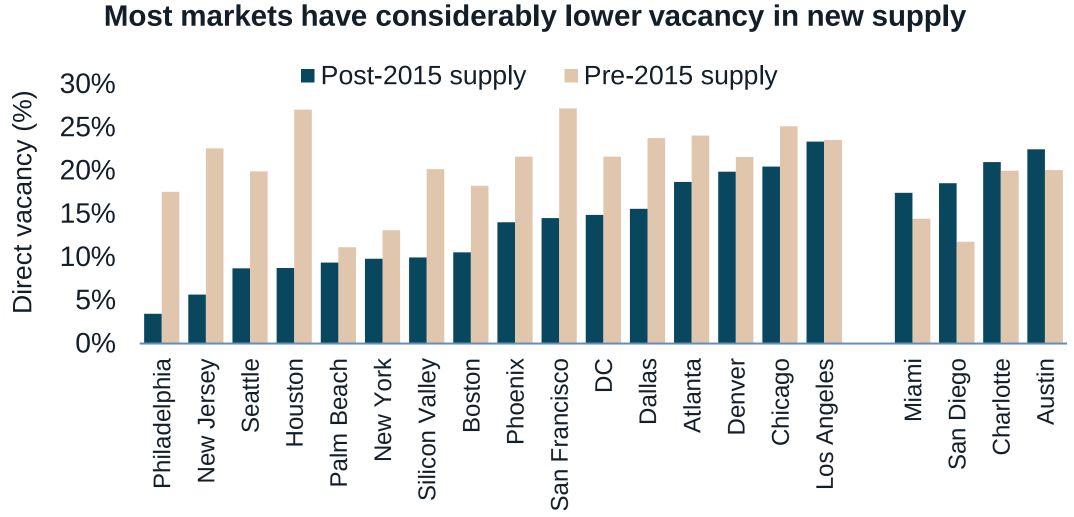


Source: JLL Research

Supply - Availability in new supply is vanishing more quickly as leasing picks up



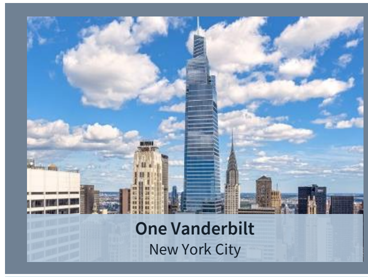




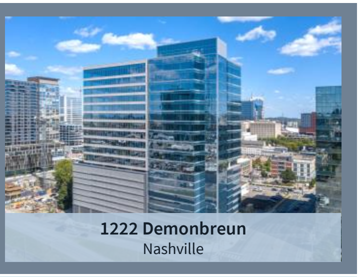
Source: JLL Research

U.S. office market stratification

Tier 1: Lifestyle / Experiential	2015+ vintage assets	255 MSF
Tier 2: Competitive	2000-2014 build assets Pre-2000, renovated in 2010+ assets	880 MSF
Tier 3: Repositionable (with capital)	1990-1999 build assets Pre-1990, renovated 1990-2009 Repositionable at right cost basis	865 MSF
Tier 4: Functionally Challenged (& some obsolescence)	Pre-1990 build, not substantially renovated since completion	544 MSF

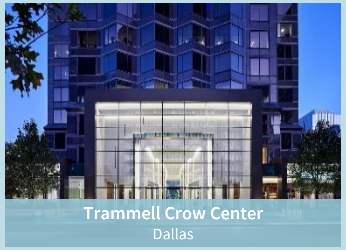

One Vanderbilt
New York City


Salesforce Tower
San Francisco


1222 Demonbreun
Nashville


One Post Office Square
Boston


Old Main Post Office
Chicago

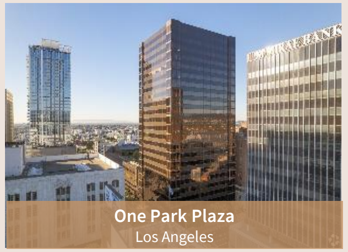

Trammell Crow Center
Dallas


Ponce Circle Tower
Miami


311 S Wacker
Chicago


Charlotte Plaza
Charlotte


Bank of America Plaza
Dallas

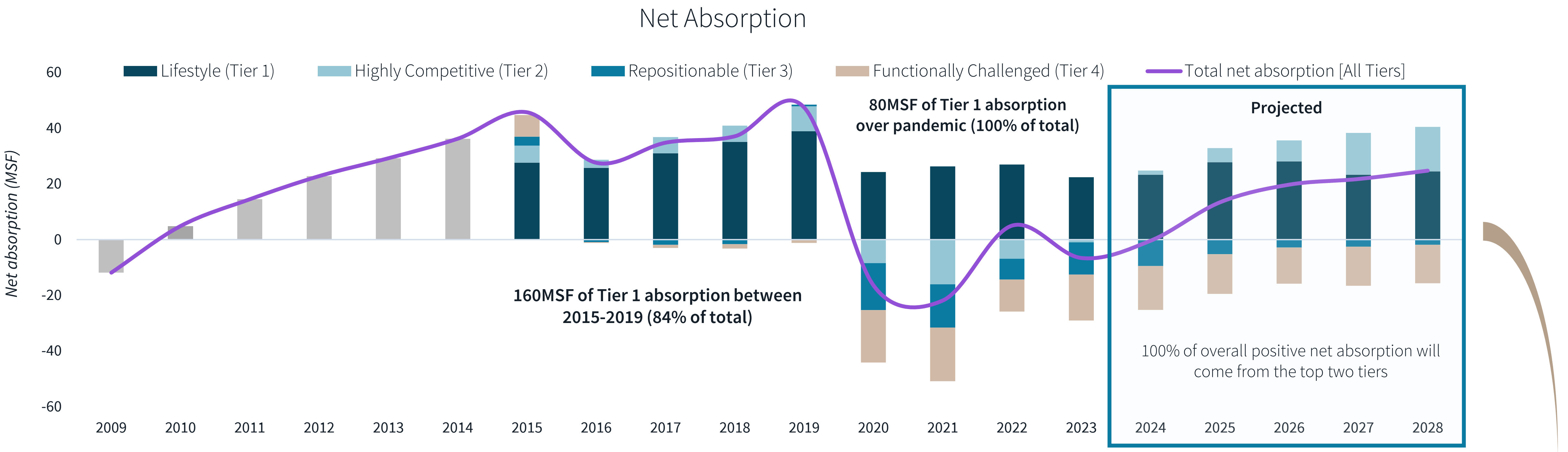

One Park Plaza
Los Angeles

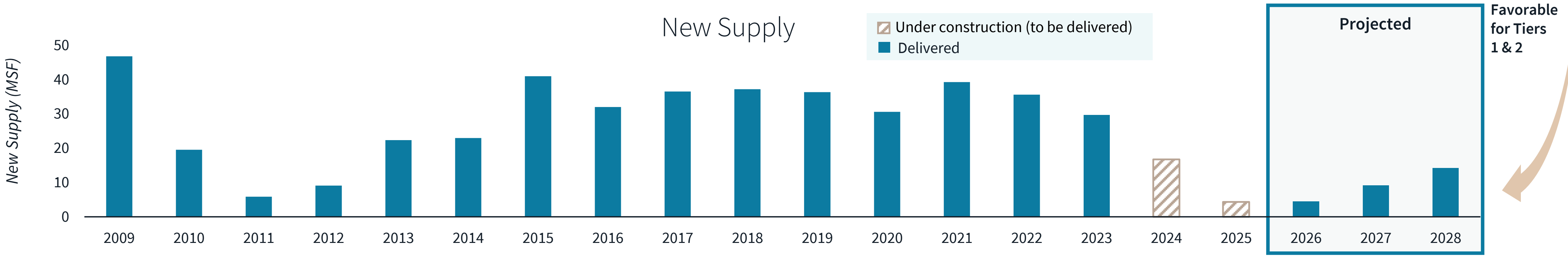

135 S Lasalle
Chicago

Source: JLL Research; Analysis reflects top 25 U.S. MSAs, office assets 100k+ s.f. totaling 2.5 billion square feet of office space

JLL

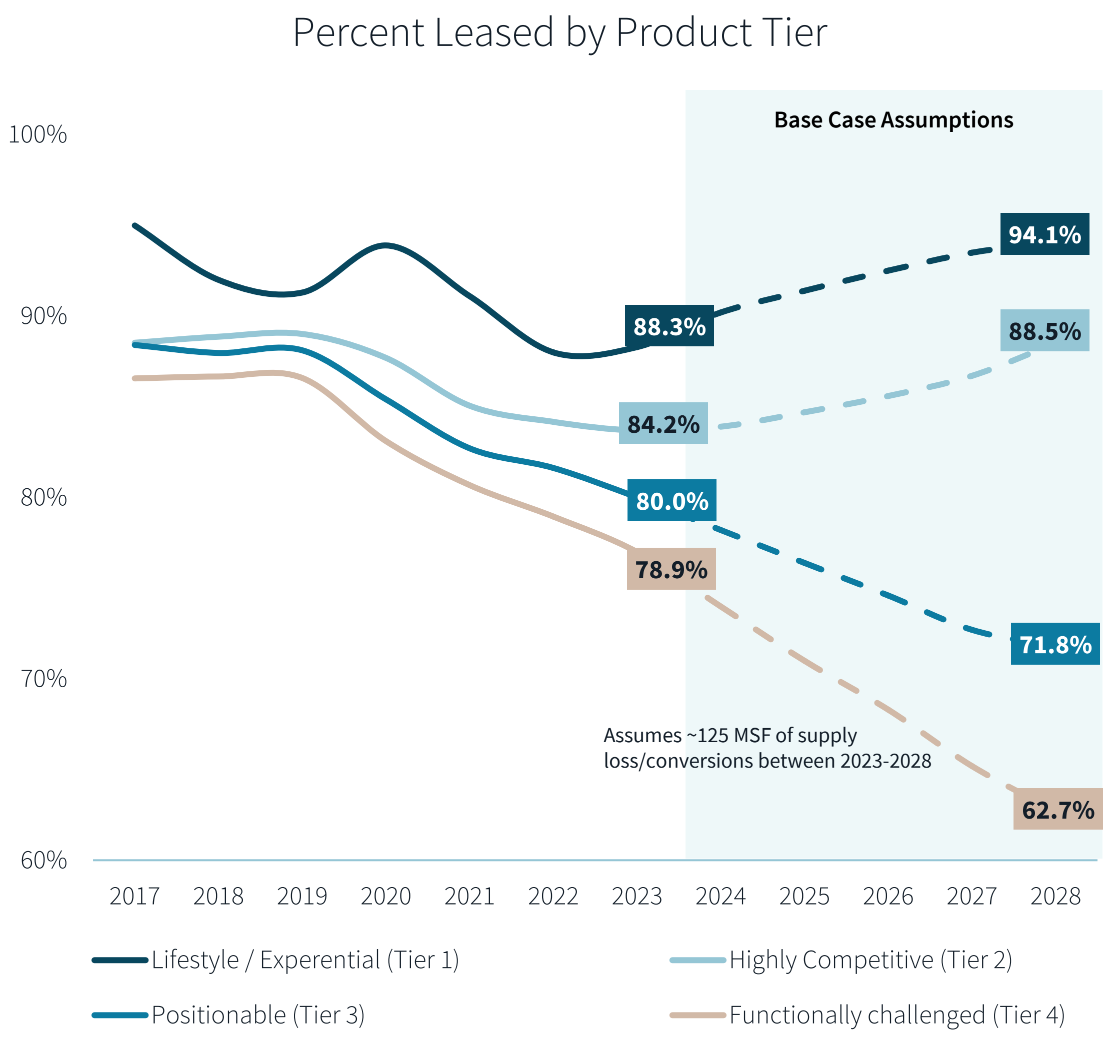
Flight to quality is not a new concept but will accelerate over the next 5 years

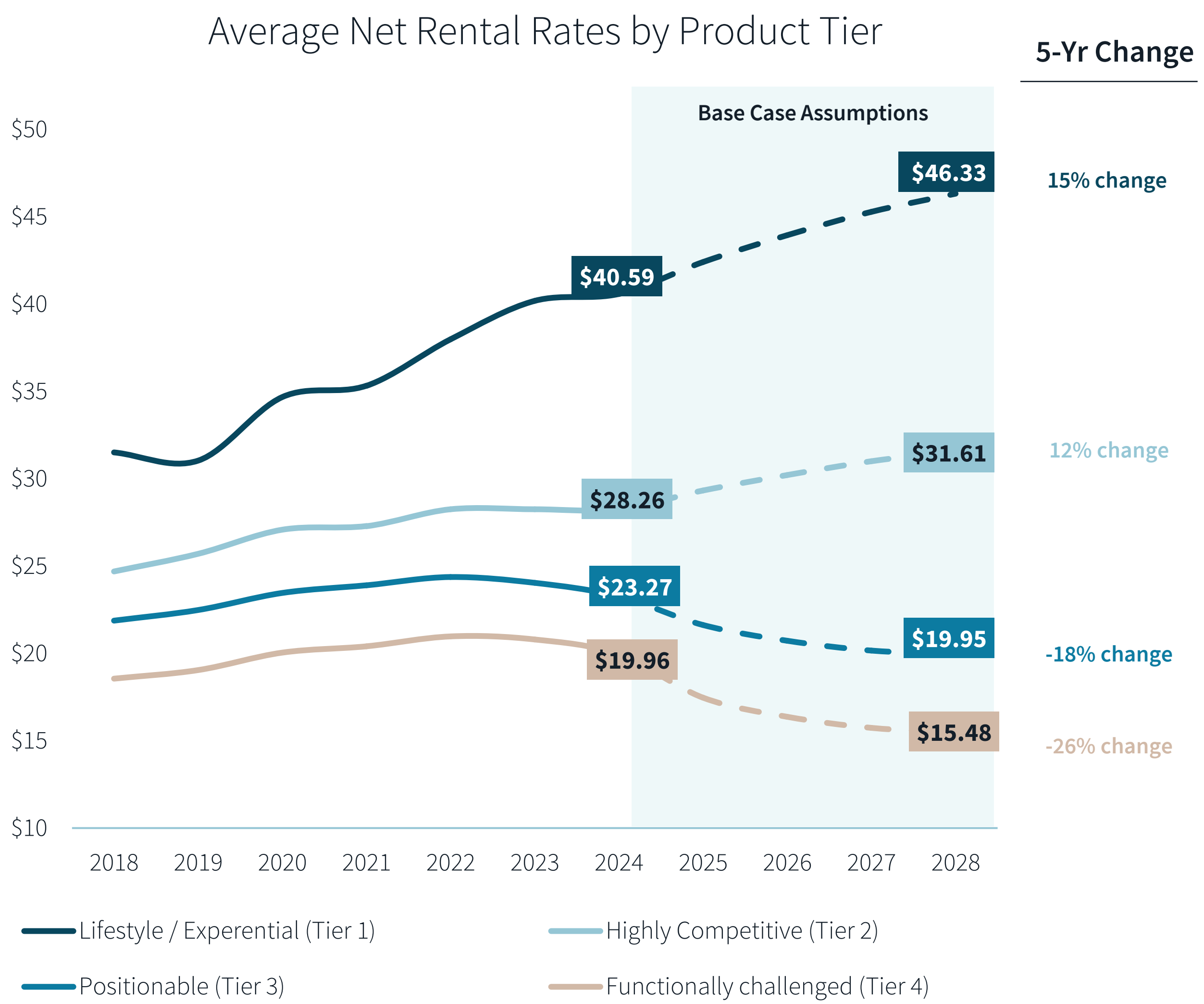




Source: JLL Research; Analysis reflects top 25 U.S. MSAs, office assets 100k+ s.f.

The next 5 years will expose the widening divergence across each product tier





Source: JLL Research; Analysis reflects top 25 U.S. MSAs, office assets 100k+ s.f.

Office capital markets themes

Overall themes

- **Capital markets adapting:** Seller financing, short sales, A/B structures, loan sales, rescue capital all occurring to enable activity
- **Flight to quality has never been stronger:** 80%+ of markets hit record rents at top end of market since pandemic; lack of supply will exacerbate this trend
- **Capitulation setting in:** Sellers / lenders are clearing product at market pricing; 46% of 2024 activity* has been lender driven (by volume), vs. 12% of the activity in 2023
- **Private / HNW investors are top bidders today:** However institutional capital has shown up on stabilized, Tier 1 and Tier 2 office in 2Q24
- **Sell side dynamics favor opportunistic buyers:** ODCE rebalancing, loan maturities and distress will continue to push product to market
- **Investors are focused on net cash flow:** capital intensity of non-stabilized office continues to be a major factor for buyers. Underwriting on exits remains conservative

Debt Market Themes

- **CPI deceleration in June has reset rate cut expectations;** one cut is likely in September, which will reduce cost of capital
- **Debt is driving everything:** cost and availability of debt capital for office, particularly Tier 3 and Tier 4 assets is stifling deal flow
- **Money Center banks**: largely on the sidelines as they work through legacy portfolio issues and distress
- **Regional banks and Life Cos:** quoting on office, but highly selective. Life cos are lower leverage and require cash flow, regional bank deals risk regulatory scrutiny
- **SASB / CMBS:** most accretive source of market debt for office product, with all in-rates in the 6-8% range. Open for higher quality, physically occupied assets
- **Debt Funds:** quoting on office, but typically double-digit cost of capital and hard to pencil acquisitions / refinancings

Update on key constituents

- **Buyer/seller profile**:
  - **Sellers**: Largely institutional, core fund and international groups
  - **Buyers**: 70% are private capital / owner-users
- **Institutional**: select groups are on offense for stabilized assets in good micro-locations. More to follow once legacy issues are resolved
- **HNW**: significant investor at scale in both core and opportunistic strategies
- **International**: interest particularly from southeast Asia, but market disconnect continues to hamper trades (e.g. lack of core product in traditional gateway markets available for purchase)
- **Public REITs:** divesting non-strategic assets, on "offense" for Tier 1 / 2 product in right micro-location that fulfills mandate
- **ODCE/core vehicles:** largely dormant until NAV = spot market

Potential opportunities

1. **Buy stabilized Tier 1 / Tier 2 at attractive basis** to take advantage of historic disruption
2. **Buy big;** market volatility and high cost of capital are thinning bid pools for $200M+ deals
3. **Buy the bottom**: in markets such as San Francisco. $300 PSF / land level pricing for product in good micro-location

**JLL Closed Deal Activity*

Market comparison

Theme	Boston	Washington, DC
Demand	• **Aggregate demand** has increased 33% year-over-year, and the number of active tenants in the market has increased for each of the last six quarters. • **Large block tenants** returning to the market has had the largest impact on the recovery, with the number of 100,000 s.f. users in the market more than doubling since the end of 2023. • **Leasing activity** has increased each of the last three quarters, a trend that is expected to continue through the rest of the year based on recent commitments (Vertex, Bain, Arrowstreet, etc.)	• **Leasing activity** trending upward in 2024. 53 leases over 10,000 s.f.. in Q2 2024; the historical quarterly average is 43 • **Sublease** additions peaked, sublease availability declined in Q2 2024 • Some modest **expansion activity** - 10-20% of lease volume coming from expansion or new tenancy • Overall **significant uncertainty** from federal tenancy and policy risk
Supply	• Less than 1 million s.f. of **new construction** will deliver in the next 18 months, with no new groundbreakings on the horizon. • Only 500,000 s.f. of space currently set for **conversion**; office to multifamily tax break program extended until end of 2025.	• **New construction** - Only 1 new Trophy building is under construction. DC pipeline has not been this low since the1980s. • **Conversions** could remove 6 million s.f. of obsolete office space from inventory
Tier 1 Outlook	• **Continued outperformance** compared to market due to supply constraints and profile of tenants in the market.	• **Availability trending downward** and **rents trending upward**, particularly in the upper stack, with no speculative new starts on the short-term horizon
Tier 2 Outlook	• Will need to compete in a market with increased optionality, but dwindling supply in Tier 1 coupled with increased demand will allow well positioned assets within Tier 2 to succeed.	• Class A+ and renovated Class A expected to capture disproportionate share of private-sector demand, but demand recovery and overall performance expected to lag.

Source: JLL Research

Key Boston Office Themes – 5 Things to Know

By the numbers

69.6 million
Existing inventory (s.f.)

2.2 million
Under construction (s.f.)

17.6%
Direct vacancy

22.2%
Total vacancy

-1,035,813
2024 net absorption (s.f.)

4 million
Sublease available (s.f.)

1 Uptick in new space requirements

- The number of tenants in the market has remained elevated since the end of 2023, and overall space required is up 28% year over year.
- Large tenants coming back to the market has helped buoy these numbers, but a 44% increase in mid-sized tenants in the market shows signs of local economic stability.

2 Where and when are tenants likely to transact

- The last time demand was this high leasing velocity hit record peaks twelve months later. We expect this wave of demand to transact more methodically due to the optionality in the market and opportunistic nature of the tenants.
- Demand continues to be over-indexed towards the Seaport and Back Bay, while vacancy continues to rise Downtown.

3 Continued market bifurcation

- New Class A buildings are outperforming the market by a wide margin, carrying a 34% rent premium over their second-generation counterparts. With supply in this cohort of buildings dwindling, we expect this trend to continue throughout 2024.
- Low-rise space accounts for half of the vacancy in Class A product, a 10% increase in relative share since 2020. Owners will need to be creative in a hyper-competitive marketplace to lease this space up.

4 The sublease market is oversaturated

- There is 4.08 million s.f. of sublease space available on the market, down from record highs in Q3 2023.
- Additions have slowed as the reality of potentially subleasing space in an oversaturated market has set in.
- Deals that are getting done are in high-end spaces with favorable terms, not dissimilar to what is happening in the direct market.

5 Vacancy rates will continue to climb in 2024 – but how high?

- Vacancy rates hit a new all-time high in the city to close out Q2 2024 at 22.8%.
- Signs are starting to point towards occupancy stabilization in the market, as there was only a 40bps increase in vacancy quarter-over-quarter.
- However, a worst-case scenario still exists involving firms choosing not to occupy space and overall economic stagnation which could push those numbers close to 25% in the next 18 months.

Source: JLL Research

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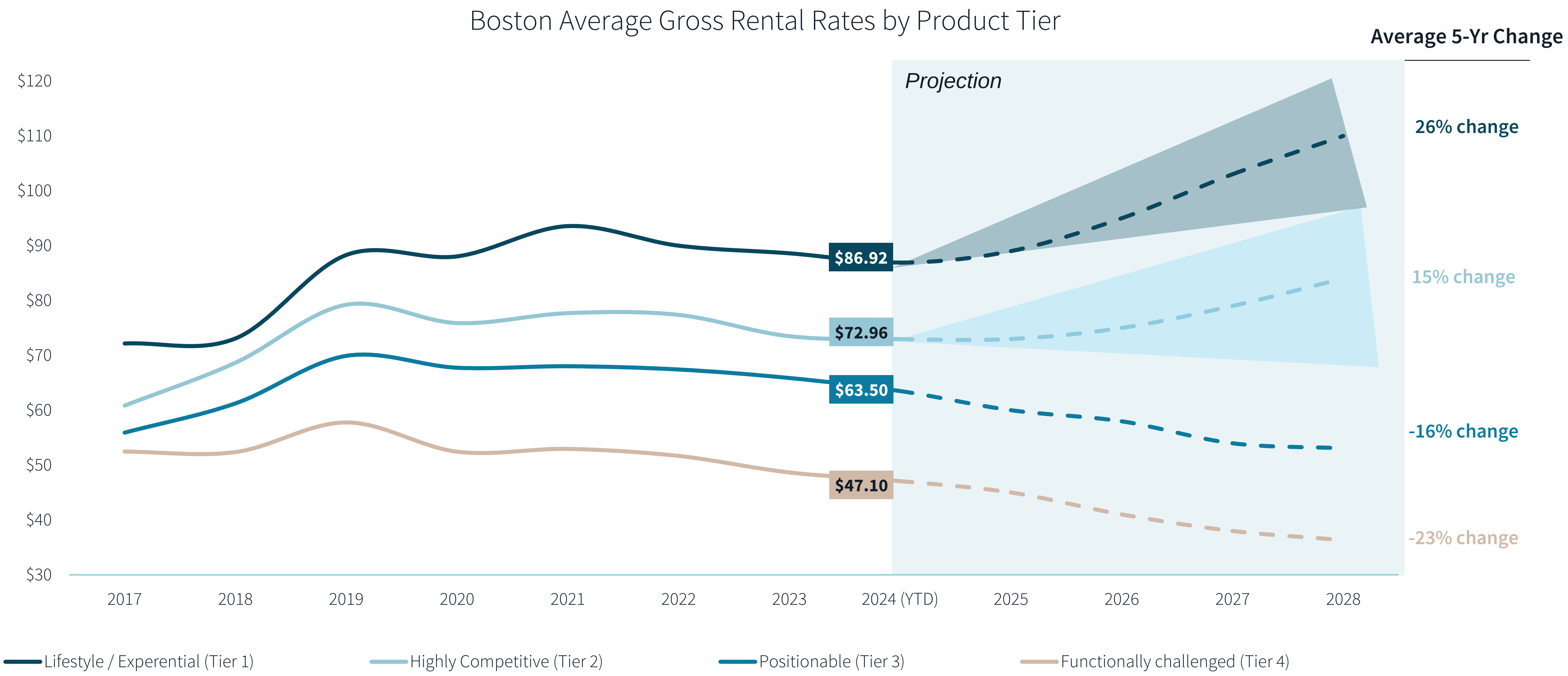
Boston forecasts – Tier 2 will follow Tier 1, but with asset nuances



Source: JLL Research

Key DC Office Themes – 5 Things to Know

By the numbers

132,995,970
Existing inventory (s.f.)

400,000
Under construction (s.f.)

18.7%
Direct vacancy

19.8%
Total vacancy

-629,413
2024 net absorption (s.f.)

3,177,347
Sublease available (s.f.)

1

Vacancy continues to rise as tenants move into smaller spaces and WeWork vacates

- DC's 19.8% vacancy rate remains historically high.
- DC had 215,000 s.f. of occupancy loss in Q2, of which 131,000 s.f. came from WeWork vacating three locations
- CBD has gained 27,000 s.f. of occupancy YTD, while East End has lost 459,000 s.f. of occupancy in 2024.

2

Bifurcated market with flight to quality at the top

- The gap between Trophy and Class C continues to widen. Trophy vacancy grew to 13.6% with the delivery of 17xM at just 10% occupied due to pending move-ins. Class C vacancy grew to 24.9% in Q2.
- Trophy asking rents were 49% above the market average.

3

Sublease availability drops to a three-year low

- Sublease availability dropped to 3.2 million s.f. in Q2.
- Several large sublease transactions, including two law firm subleases over 50,000 s.f., contributed to the drop in available sublet space.

4

Strong Q2 leasing volume, including many tenants that grew their footprints

- 53 leases over 10,000 s.f. closed in Q2, representing 2.3 million s.f.
- 32% of the Q2 leases over 5,000 s.f. grew their footprints by 10% or more, versus 29% that shrank.
- 12 tenants signed leases over 50,000 s.f., including the Federal Housing Finance Agency's 377,000-s.f. renewal at 400 7th, which was the largest deal of the quarter.
- Renewals represented 65% of leases over 10,000 s.f. signed in Q2 2024.

5

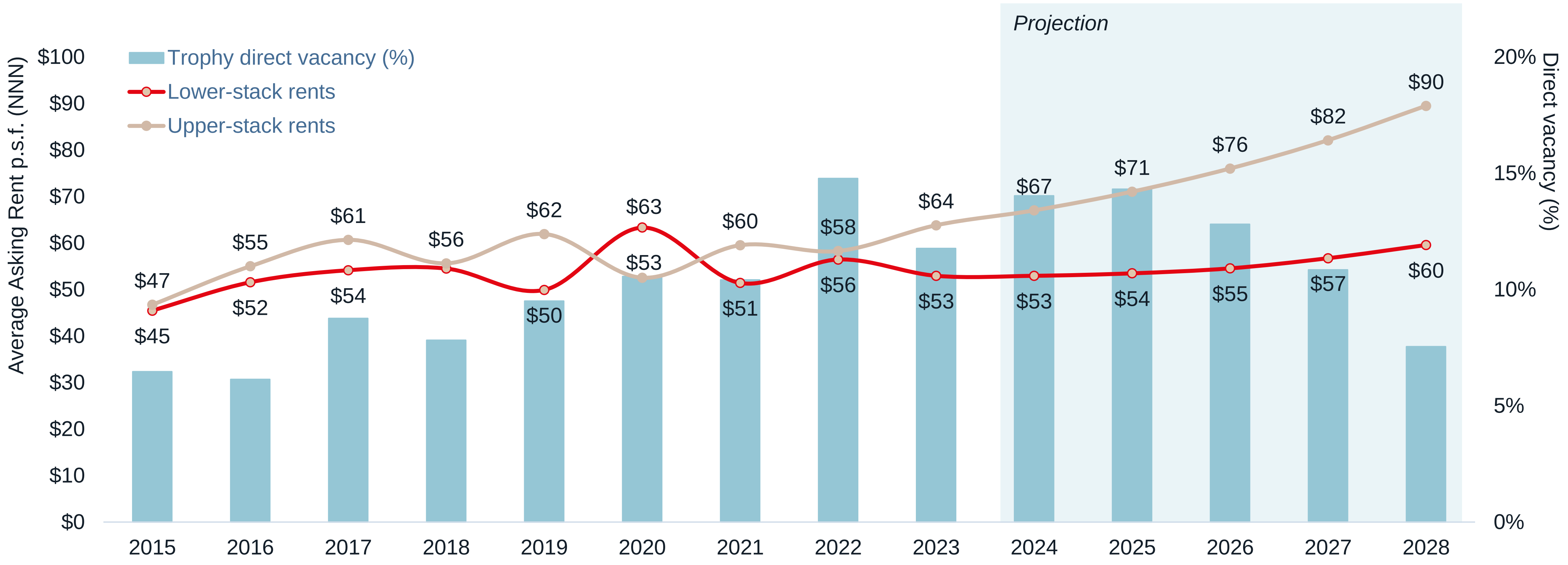
RTO rates are stabilizing, and Downtown DC is entering a period of improvement

- Badge data in June indicates that midweek attendance was 62% of pre-pandemic levels. Cell phone data confirms that office attendance in non-federal buildings was 63% of pre-pandemic levels.
- Bus and rail ridership has been steadily increasing and was at 78% of 2019 levels this quarter.
- Retail continues to grow across neighborhoods, with 75% more openings than closings since 2023.
- DC's crime rate is going down, and it's dropping faster in the East End than in the rest of the city.

Source: JLL Research

DC forecasts - With no new inventory, the gap between Trophy rents in the upper stack vs. the rest of the building will grow

Washington, DC Trophy direct vacancy and asking rents, historical and projected, 2015 - 2028



Source: JLL Research

Thank you

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